THE MARKET FOR RETAIL, RESIDENTIAL, AND OFFICE SPACE IN DOWNTOWN SANTA ROSA

A Set of Four Reports
Including Executive Summary

to

The City of Santa Rosa

from

GRUEN GRUEN + ASSOCIATES
Urban Economists, Market Strategists and Land Use/Public Policy Analysts

December 2005

C1178

THE MARKET FOR RETAIL, RESIDENTIAL, AND OFFICE SPACE IN DOWNTOWN SANTA ROSA: EXECUTIVE SUMMARY

A Report to

The City of Santa Rosa

from

GRUEN GRUEN + ASSOCIATES
Urban Economists, Market Strategists & Land Use/Public Policy Analysts

December 2005

C1178

APPLYING KNOWLEDGE
CREATING RESULTS
ADDING VALUE

	Page
INTRODUCTION AND PURPOSE	1
PRINCIPAL FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS – RETAIL	2
Taxable Sales Trends	2
Retail Taxable Sales Trends in All of Santa Rosa	2
Retail Taxable Sales Trends in Downtown	2
Santa Rosa Plaza and Share of Downtown Sales	3
Downtown Advantages and Disadvantages	3
Primary Demand Sources and Competing Supply Options	4
Forecast Demand for Additional Retail Space in Downtown	4
Enhance the Shopping Environment and Tenanting Strategy	5
Encourage Additional Development Sites and Increase in the Stock of Building Space	6
Cooperate with Santa Rosa Plaza to Enhance Competitive Position and Linkages	6
PRINCIPAL FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS – RESIDENTIAL	8
Primary Advantages	8

TABLE OF CONTENTS, CONTINUED Page

Primary Disadvantages………………………………………………………………. 8

Primary Geographic Market Area…………………………………………………. 9

Primary Sources of Demand……….………………. 9

Supply…………………………………………………………... 9

Estimated Potential Housing Demand from Existing Market Area Households……... 9

Estimated Potential Housing Demand from Additional Newly Formed Households.. 9

Total Estimated Demand for Housing from Existing and New Additional Households.. 10

Share of Potential Demand Obtainable in Downtown……………...………………... 10

PRINCIPAL FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS – OFFICE………………………………………………………………………………. 11

Relevant Geographic Market Area……………………...……………..…………… 11

Inventory Characteristics…………………………………………………………….. 11

Geographic Origins and Types of Downtown Office Space Users…………………... 11

Primary Advantages…………………………………..………………………… 11

Primary Disadvantages……………………………...…………………………….. 12

Supply Conditions…………………………………………………………………… 12

TABLE OF CONTENTS, CONTINUED Page

Future Supply…………………………………………………………………… 12

Employment Forecast for Santa Rosa……………………………………………….. 12

Employment Office Space Density………………...………………………………… 13

Office Space Demand for All of Santa Rosa Attributable to Net Employment Growth………………………………………………………………………………… 13

Replacement Demand and Total Demand…………………………………………… 13

Estimated Capture of Future Demand Depends on Market Responsive Product Features and Enhancement of Downtown…………………………………………... 13

CONCENTRATE DEVELOPMENT AND ENCOURAGE LINKAGES OF MIX OF USES THROUGH BENEFICIAL USE OF OPPORTUNITY SITES………… 14

PARKING……………………………………………………………………………... 16

Parking is an Integral Use……………………………………………………………. 16

The Problems Effective Parking Policies Must Address……………………………... 16

Parking Policy Recommendations……………………………………………………. 16

HEIGHT LIMITATION……………………………………………………………… 17

INTRODUCTION AND PURPOSE

This executive summary summarizes the assessment and forecast that Gruen Gruen + Associates ("GG+A") conducted of the market for retail, residential, and office uses in Downtown Santa Rosa. The City of Santa Rosa commissioned the Downtown market studies in conjunction with a program to formulate a Downtown Plan. The primary purpose of the studies was to forecast the potential market demand for retail, residential, and office uses in the Downtown and to identify potential strategic actions that would facilitate the Downtown realizing the forecast potential.

A synthesis of the market analysis suggests that arresting the decline in Downtown's market shares of retail and office uses and bolstering the Downtown's nascent residential market share to create a sustainable Downtown requires policies that consider the interaction and sequencing of uses. This executive summary identifies the need for a concentration and linkage of uses and a sequencing of uses to attract mutually reinforcing beneficial development, redevelopment, and property enhancements. This executive summary also identifies policy tools to facilitate the needed rebranding of the Downtown as a favorable location for retail, cultural, and restaurant uses, market rate housing, and office uses whose space users are attracted to the Downtown because of its dynamic, unique mixed-use environment.

Unlike the traditional model of smaller central city development, office space development will not be the initial catalyst for the rebranding of Downtown. Instead, recommended actions would start a time-phased program aimed at encouraging the creation of an increasingly magnetic or customer-attracting specialty mixed-use agglomeration. Such a Downtown activity center will attract households to live, shop, recreate, and work in the Downtown. The addition of retailing and housing uses will be mutually reinforcing and will stimulate office space demand.

The forecasts of market potential presented for retail, residential, and office uses in the Downtown assume the successful rebranding of the Downtown to arrest its declining shares of market demand for retail and office uses and to boost its share of market rate housing.

PRINCIPAL FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS - RETAIL

Taxable Sales Trends

We analyzed taxable sales trends as part of the assessment of the strengths and weaknesses of the Downtown retail base, to identify the relative position of the Downtown in the context of the wider market area, and to search for demand opportunities. The decline in general retail and business to business sales in the Downtown relative to the City as a whole shows that the Downtown has been affected by the same downward shifts in traditional retail and office uses that have been noted in many other smaller-sized central cities. The Downtown has not shared in taxable sales growth proportionally, as much of the growth in retail, office, and residential uses has occurred outside of the Downtown.

Retail Taxable Sales Trends in All of Santa Rosa

From 1996 through 2005, adjusted for inflation, citywide retail sales increased at an average annual rate of 2.1 percent, or $33.1 million. Total sales increased from $1.4 billion to $1.7 billion. The categories with the highest growth in retail sales for all of Santa Rosa were (a) building materials, (b) apparel stores, (c) other retail sales such as sporting goods, florist/nursery, and miscellaneous retail, and (d) furniture and appliances.

Retail Taxable Sales Trends in Downtown

Downtown retail sales in 2005 are about the same as the sales level in 1996 at approximately $300.5 million. Department store sales remain the largest source of sales at approximately $91 million or 30 percent of total sales. Department store sales declined at an annualized rate of nearly two percent, or $2.3 million or seven percentage points, the highest amount and share of decline in any category. Other retail store sales, while flat, remained the second highest source of Downtown sales. Apparel store sales grew strongly, shifting from the fourth to the third largest source of sales. Restaurant sales declined slightly to 12.9 percent of total sales at $38.9 million. The highest annualized percentage decline in sales was attributable to the furniture and appliances category. Food markets and drug stores sales increased at an annualized rate of nearly three percent, to $9.4 million, up from $7.3 million in 1996. It is unusual for sales in a convenience category like food and drug sales to increase in a Downtown while sales in a comparison good or destination category like furniture decline. This finding could be explained by a large proportion of the Downtown labor base doing more convenience shopping during the workday or on their way home from work, and the closure of stores and leakage of furniture sales to locations on Santa Rosa Avenue.

Four sectors accounting for approximately 76 percent of Downtown taxable retail sales comprise only 37 percent of total sales for the City as a whole: (1) department stores, (2) other retail stores, (3) apparel, and (4) restaurant and liquor. While furniture and appliances, grocery and drug stores, building materials, and automobile-related sales comprise slightly less than 20 percent of Downtown sales, such categories generate approximately 42 percent of sales for all of Santa Rosa. Sales in three of the four leading Downtown categories declined relative to sales of those categories in the City as a whole. Apparel sales have consistently increased, an exception to the general trend.

Santa Rosa Plaza and Share of Downtown Sales

Santa Rosa Plaza sales of approximately $190.9 million constitute 63 percent of the approximately $300 million sales in the Downtown. Adjusted for inflation, Santa Rosa Plaza sales today are approximately the same as its sales in 1996. While sales per square foot are the same for 1996 and 2005 at $274, sales in 2005 represent a rebounding from the recessionary, downward trend following 2001. Non-department store space generates much higher sales per square foot productivity than department store space.

Apparel sales in Santa Rosa Plaza make up over 95 percent of Downtown apparel sales. Other retail stores sales attributable to Santa Rosa Plaza comprise over one half of Downtown sales in this category. While Santa Rosa Plaza's share of the restaurant and furniture and appliances sales categories has increased significantly since 1996, sales only comprise 14 percent and 15 percent respectively of total Downtown restaurant and furniture and appliances sales.

Downtown Advantages and Disadvantages

The primary existing or potentially cultivated advantages for retail space in the Downtown include:

- Geographic centrality within a community with increasing purchasing power due to growth in the number of households and household income;
- Relatively convenient accessibility;
- A pedestrian scale and ambiance in the Downtown; and
- Proximity to a relatively large employment base.

Primary disadvantages of the Downtown include:

- Much of the growth in the community has occurred away from the Downtown with a resulting shift of the major retail base and consumer shopping patterns;
- The Downtown currently lacks a positive image and a critical base of synergistic retail, cultural, and other attractions needed to induce multi-purpose trips from a

wide area or frequent visitation;

- The Downtown is relatively disjointed with relatively weak linkages;

- A parking shortage; and

- Security and safety concerns and the presence of homeless discourage visitation to the Downtown.

Primary Demand Sources and Competing Supply Options

Primary sources of demand for retail space in the Downtown not located in Santa Rosa Plaza include employees who work in the Downtown and Santa Rosa residents who live near the Downtown. The Santa Rosa Plaza trade area includes the City of Santa Rosa and extends into Sonoma, Mendocino, and Lake counties. Younger-aged shoppers are attracted to Santa Rosa Plaza. Santa Rosa Plaza generates limited spillover sales to the rest of the Downtown.

Significant retail agglomerations are located in commercial corridors within approximately two to three miles of the Downtown. These agglomerations, such as the community and power center, big-box retail facilities (including Santa Rosa Marketplace) along Santa Rosa Avenue, the Coddingtown Mall with ample parking located about 2.3 miles north of the Downtown, and the 286,000-square-foot Montgomery Village located about 1.9 miles east of the Downtown, "block" penetration by the existing Downtown base of retail into household demand located further away from the Downtown.

Many of the users attracted to the Downtown, excluding the space available at Santa Rosa Plaza, are independent, local entrepreneurs. Barnes and Noble, Starbucks, and Peet's Coffee & Teas, however, are examples of the relatively few national chains that have elected to operate in the Downtown outside of Santa Rosa Plaza and are doing well.

Forecast Demand for Additional Retail Space in Downtown

We focus on the demand for additional space because the current retail supply throughout the City is typically substantially leased.

The population of Santa Rosa is forecast to increase by 8,900 people between 2005 and 2010 and 6,400 people between 2010 and 2015. Multiplying the forecast population by the estimated 2005 per capita sales of the types of goods found in a healthy Downtown for Santa Rosa of $9,025, increased an annual rate of two percent, results in forecast increased sales expenditures or retail demand for all of Santa Rosa of $235.5 million between 2005 and 2010 and $241.8 million between 2005 and 2015

Multiplying the estimated total Citywide demand by the current share of Downtown sales to total sales for all of Santa Rosa of 19.6 percent results in an estimate of added expenditure potential or retail demand in Downtown of $46.2 million between 2005 and 2010 and $47.2 million between 2010 and 2015. This demand estimate is predicated on the Downtown maintaining its share of the retail market, which in turn assumes the successful rebranding of the Downtown.

Based on this assumption that Downtown arrests its slide and maintains its market share of 19.6 percent of expenditures on retail goods and services in Santa Rosa, using a $300-per–square-foot minimum sales threshold produces an estimate of additional supportable space in the Downtown between 2005 and 2010 of 154,000 square feet. The forecast increase in expenditure potential due to household and income growth translates into additional space demand in the Downtown of approximately 157,000 square feet of space between 2010 and 2015. Between 2005 and 2015, using the $300-per square-foot sales threshold produces an estimate of a total of 311,000 square feet of additional supportable space.

Using a higher sales threshold of $350 per square foot and the same capture rate of 19.6 percent of sales produces an estimate of added supportable space demand for the Downtown between 2005 and 2010 of 132,000 square feet. Using the $350-per-square-foot sales threshold assumption for estimating the increase in supportable space demand between 2010 and 2015 produces an estimate of 135,000 square feet of space. Between 2005 and 2015, added supportable retail demand in the Downtown is estimated to total 267,000 square feet of space.

Enhance the Shopping Environment and Tenanting Strategy

Achieving the Downtown's retail market potential will require improving the shopping environment, including an adequate amount of conveniently located parking and contemporary space to accommodate the requirements of retail users, and an enhanced perception of safety and security. As the competition from on-the-ground store space and "etailing"/cyberspace increases, it will be increasingly important for shopping and working in the Downtown to be perceived as fun, safe, and hassle free.

To preserve and enhance the strength of Downtown, it will be necessary to increase the core area's selection of dining and entertainment options. Eating and drinking places are frequently a major component of the enhancement of mixed-use agglomerations like Downtown Santa Rosa. Because of high costs for water and wastewater connection fees and other development costs associated with opening new restaurant facilities, the Downtown has been under-supplied with eating and drinking establishments. A variety of additional food uses, including take-out restaurants, which typically have lower parking requirements than full-service restaurants, would serve both the employment- and household-based markets. Eating and drinking places provide lunch- and dinner-time traffic that can support retail tenants and appeal to office tenants.

Encourage an "urban centric" high-end grocery retailer such as Whole Foods to locate

Downtown. Attraction of a Whole Foods, for example, would demonstrate the improving cachet and locational image of the Downtown, and given the expected growth in housing, the large employment base, and the geographic centrality, Downtown could likely support a high-end food store such as a Whole Foods. Our discussions with the tenant representation broker for Whole Foods suggest that Whole Foods would like to locate Downtown if it can obtain an appropriately located and sized site with adequate parking. An increasing proportion of consumers shop for groceries closer to their workplaces or on their way home from work. A high margin and important category for grocery stores includes prepared or take-out foods for employees of area businesses or catering services to businesses.

Specialty accessory and home furnishing stores should be encouraged to bolster this category Downtown. A high-end camera store that gives assistance for new digital camera buyers is another example of an appropriate business that is likely to be market responsive.

Downtown already includes movie theaters and brew pubs. Additional entertainment and cultural opportunities, particularly those that occur in the night-time, would enrich the image of the Downtown as more than just a place to work or shop and are less likely to create the traffic and parking impacts that major day-time draws would be expected to encourage. Complementary uses to day-time activities would encourage shared parking.

A successful, sustainable Downtown is more than a shopping center. A mixed-use land use pattern, including services, will help to create a dynamic environment and encourage multi-purpose visits. Health-care related products and personal services (e.g., optical, chiropractor, dentist, outpatient clinic, salon and spa) and business services (e.g., insurance, mortgage brokerage, tax services, or bank branches) tend to cater to demand specific to the "neighborhood" and would benefit from the ample nearby workforce and the anticipated new residents.

**Encourage Additional Development Sites
and Increase in the Stock of Building Space**

Development in the Downtown must be augmented and linkages tightened to create a magnetic critical mass of stores, restaurants, and other attractions. By linkages we refer to connecting and integrating sub-areas of the Downtown with significant street-level activity and uses that spillover benefits to adjoining properties. While an increase in building space will create more "internal" competition in the Downtown, an increase in internal competition will be more than offset by maintaining and improving the Downtown's position in the wider marketplace.

Cooperate with Santa Rosa Plaza to Enhance Competitive Position and Linkages

The City should encourage Santa Rosa Plaza, the major component of the Downtown retail base, to alter its physical environment and tenant mix to adapt to changing consumer shopping patterns. The midline department stores that make up the anchors of the mall are in long-term secular decline. This suggests the eventual opportunity to replace one or more of these stores with a truly exciting set of specialty retail uses (such as clothes, electronics, services, eateries) appealing to the Generation Y market to which the mall has already begun to merchandise, or a Kohl's or Target. Opportunities may also arise to incorporate residential, cultural, entertainment or restaurant uses that enhance the linkages with adjoining properties.

PRINCIPAL FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS - RESIDENTIAL

The results of the market research suggest potential demand from two primary types of households would support the development of significantly more new housing between 2005 and 2015 than has been built Downtown in recent decades. The following describes the types of households likely to be attracted, the primary geographic area from which households will be attracted, and the advantages that should be emphasized and the disadvantages of Downtown as a housing location that should be mitigated to appeal to the target households. Also presented are estimates of (a) the number of households having the demographic and income characteristics likely to make them candidates for new housing Downtown and (b) the number of housing units the existing and forecast future additional target market households could potentially support in the Downtown.

Primary Advantages

The primary advantages of the Downtown as a housing location include:

- Geographic centrality and accessibility to Highway 101 and Highway 12 and therefore accessibility to employment centers within the region, in addition to Downtown workplaces;
- Proximity to restaurants, retail, civic, and cultural uses;
- The ambiance and vitality of an urban environment; and
- The potential for the enhancement of the Downtown to help produce housing value appreciation in which pioneering households will most benefit.

Primary Disadvantages

The primary disadvantages of the Downtown as a housing location relate to the following:

- The Downtown historically has not had a highly desirable image as a residential location;
- Concerns about safety and security and the presence of homeless; and
- The lack of an established market for new market-rate housing uses. Market rate housing products are pioneering uses in a Downtown that does not yet have a firmly established image as a preferred residential location.

Primary Geographic Market Area

The primary market area from which households are likely to be attracted include the City of Santa Rosa and Sonoma County.

Primary Sources of Demand

Primary demand sources for housing products built Downtown will include single or dual income households or divorced individuals with few or no children living at home. One housing consumer market is characterized as younger, smaller-size households with one or more employed members. A second potential housing consumer market is characterized as an older, empty-nester households (i.e., children have moved out of the household) seeking to trade down from older, single-family homes they no longer wish to maintain or need, and who for lifestyle or social reasons desire to move from their existing single-family neighborhoods.

Supply

The supply of new housing is relatively limited in the Downtown. The more significant projects recently completed or under construction are low to mid-rise developments, ranging in size from 26-units to 80-units. Several larger-scale developments are planned or proposed.

Estimated Potential Housing Demand from Existing Market Area Households

To estimate demand, we identified the number of households with the demographic and income characteristics likely to make them candidates for Downtown housing. Including households without children living at home with incomes above $75,000 and assuming an annual move or turnover rate of 8.5 percent results in an estimate of potential demand of over 1,000 Santa Rosa households and almost 3,900 Sonoma County households, including the 1,000 Santa Rosa Households. Including households between the ages of 25-years and 34-years and between 55- years and 75-years with incomes above $75,000 suggests potential demand county-wide of approximately 1,550 households, of which about 470 households would reside in Santa Rosa. This estimate also assumes a movement or turnover rate of 8.5 percent.

Estimated Potential Housing Demand from Additional Newly Formed Households

Assuming an age and income distribution similar to the existing distribution, the household growth forecast by Association of Bay Area Governments suggests additional annual demand from households without children and incomes greater than $75,000 within Sonoma County of 475 households, of which 138 would be in Santa Rosa.

Between 2005 and 2015, Sonoma County is forecast to add approximately 1,900 households headed by a person aged 25-34 or 55-74 with incomes greater than $75,000, or on average

190 households per year. Of the additional households forecast for the County, 610 are estimated to reside in Santa Rosa. This translates into an additional 61 households per year.

Total Estimated Demand for Housing from Existing and New Additional Households

Using demand from the 25- to 34-years and 55- to 75-years-old age category as a lower bound and demand from the household without children category as an upper bound, we estimate a range of housing demand of 530 to 1,194 units per year for all of Santa Rosa, and 1,743 to 4,361 units per year for all of Sonoma County (including the 530 to 1,194 Santa Rosa units).

Share of Potential Demand Obtainable In Downtown

The size or scale of the potential demand sources suggest that even a small capture rate would support the development of significantly more new housing than has been built in prior recent decades in Downtown. If, for example, housing built Downtown captured three percent of the potential demand from the primary demand sources within Sonoma County, this would equate to 52 to 131 units per year. Based on the synthesis of our interviews, field research, and a quantitative estimate of potential demand sources, we estimate in our professional judgment that on average, assuming the mitigation of the identified locational disadvantages, it would not be unreasonable for the market to support approximately 50 to 100 units per year of housing in Downtown Santa Rosa.

The Downtown currently appeals more to the younger household market than to older, empty-nester households. Older households are typically more sensitive than younger households to the image and security disadvantages that apply to Downtown. Older households have more housing choices, including the option to remain in their existing suburban locations.

As the Downtown becomes branded as a desirable residential location, the amount of demand, especially from the potential empty-nester housing market, can be expected to increase. The City should focus on mitigating the disadvantages associated with the Downtown and encouraging initial housing developments to be well-designed, well-built, and accompanied or soon followed by the addition of other new uses and attractions that signal an improving image and an exciting future for the Downtown.

PRINCIPAL FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS - OFFICE

Relevant Geographic Market Area

When searching for office space, prospective users will typically consider alternative locations within the City of Santa Rosa. The primary locations users consider include Downtown Santa Rosa, Fountaingrove Executive Center, Stony Point Office Park, and Santa Rosa Business Park as well as several other smaller office space nodes.

Inventory Characteristics

At 1.2 million square feet of office space, the Downtown remains the largest submarket with approximately 30 percent of the total office space in the primary market area. Approximately 11 percent of the Downtown inventory is vacant with about 88 percent of the vacant Class A space centered in two buildings.

Geographic Origins and Types of Downtown Office Space Users

Office buildings in the Downtown tend to attract most users expanding from within the Downtown or relocating from within the Santa Rosa office market. Users attracted to office space in the Downtown tend to be concentrated in the government, financial, insurance and real estate, legal, and business service sectors. Most private sector office space users in the Downtown tend to be relatively small (under 10,000 square feet of space).

Primary Advantages

Important comparative advantages for the Downtown submarket include:

- Geographic centrality and accessibility to Highway 101 and Highway 12;
- Proximity to restaurants, retail and support service uses, and civic and cultural uses;
- The ambiance and vitality of an urban environment; and
- A critical base of office space and users and their labor sources that benefit from proximity to each other.

Lower rents for older office product relative to competing newer product is also an advantage for attracting smaller, cost-sensitive users.

Primary Disadvantages

The primary disadvantages for the Downtown as an office location include:

- The functional obsolescence of some of the office space;

- A parking shortage and higher cost of parking compared to office locations outside of Downtown; and

- Security and safety concerns and the presence of homeless add friction not found in competing locations.

Supply Conditions

- Growth in office employment and new development has occurred proportionally less in the Downtown than other submarkets for office space outside of the Downtown.

- Downtown Santa Rosa experienced an increasing proportion of the market's vacant space, with vacant space in the Downtown increasing from 21.6 percent of all vacant space in 2003 to nearly 28 percent of the total vacant space in all of the submarkets.

- For the approximately 306,000 square feet of space in Downtown classified as Class A, 17 percent of the space is vacant.

- Rents today in the Downtown are not significantly higher than those prevailing when the last set of buildings were built in the 1980s. Given the higher construction costs associated with contemporary development, rents have not been high enough to support feasible development of significant new high-rise office space.

Future Supply

While the Santa Rosa market has experienced a slowdown in office construction due to the supply-demand imbalance, new office space is under construction or planned. An additional 215,000 square feet of office space is under construction or planned for development in the most desirable and strongest Fountaingrove submarket. An 18,000-square-foot office building is planned for the Downtown.

Employment Forecast for Santa Rosa

- The services and information sectors are forecast to account for 54 percent of the 18,100 net added jobs forecast in Santa Rosa.

- Finance, insurance, and real estate employment is forecast to increase by 728 jobs between 2005 and 2010 to comprise five percent of total employment.

- The proportion of employment in Sonoma County attributable to Santa Rosa is forecast to increase by almost two percentage points, from 39 percent in 2005 to almost 41 percent of total County employment.

Employee Office Space Density

- The amount of office space allocated per worker is continuing to decline as a result of productivity and cost-reducing improvements. However, because the Downtown is likely to attract smaller space users that cannot be as efficient as larger users, the forecast of office space demand assumes a typical density ratio of 215 square feet of space per employee.

**Office Space Demand for All of Santa Rosa
Attributable to Net Employment Growth**

- Between 2005 and 2015, approximately 2,330 office space workers are forecast to be added in all of Santa Rosa. This employment growth is forecast to translate into average annual demand for office space of 53,000 square feet for a total of 526,000 square feet of space in all of Santa Rosa.

Replacement Demand and Total Demand

- Given the limited new development activity in Downtown since the 1980's, replacement demand (i.e. the need to replace obsolete or inefficient facilities) is likely to account for at least as much demand as net employment growth. Accordingly, we estimate that between 2005 and 2015 the total average annual demand for office space in Santa Rosa will be approximately 106,000 square feet of space.

**Estimated Capture of Future Market Demand Depends Upon
Market Responsive Product Features and Enhancement of Downtown**

The review of office space supply suggests that given the significant amount of vacant space and relative competitive strength of the Fountaingrove submarket in particular, it will be important that new development in the Downtown capitalize on the existing and potential comparative advantages of the location. A new office product differentiated in terms of design, floor plate size, and amenities and product development commensurate with the image of a premier office agglomeration in terms of site planning, landscaping, well-planned parking, and signage will allow the developer of new space to compete for space users on factors other than price. A differentiated product model could include smaller floor plates with more direct light and control of HVAC at the "cell level" rather than floor level, designed for the smaller users that comprise the bulk of the Santa Rosa office market. The product will need to provide an option for office space users who would otherwise not locate in or which might move out of the Downtown.

Office space users are likely to include financial, insurance and real estate sector firms and professional and business services firms. For the Downtown, target finance, insurance and real estate, business, healthcare, and professional service firms serving local rather than basic (non-local, export) markets that benefit from proximity to a large and growing residential base. The resurgence of the local economy will create demand for office space that provides locational, display, and amenity advantages to professional service and financial and real estate firms serving local rather than basic (non local, export) markets.

Providing a user-friendly (safe, convenient, relatively hassle-free) workplace environment while offering the tenanting, experiential attractions, and environment of a mixed-use activity center would capitalize upon and enhance the Downtown's comparative strengths.

Assuming that because of the enhancement of the Downtown's retailing, restaurant, cultural, and residential base the Downtown becomes a preferred place for office workers and office space decision makers, we estimate that the Downtown can stabilize its long-term declining share of new office space growth. Assuming Downtown captures 30 percent of potential city-wide additional demand results in an estimate of average annual demand of approximately 32,000 square feet of space.

CONCENTRATE DEVELOPMENT AND ENCOURAGE LINKAGES OF MIX OF USES THROUGH BENEFICAL USE OF OPPORTUNITY SITES

As indicated above, the primary challenge for the Downtown is to accomplish a rebranding to arrest its decline in market shares and to become a sustainable, desirable, mixed-use environment. To do so requires strengthening the concentration of the mix of retail, cultural, restaurant, market-rate housing and office uses identified above. Improving the retail, cultural, and restaurant base will be needed to attract and reinforce market rate housing and then attract new and encourage the retention and expansion of existing office space users.

Encourage the concentration of major office functions in the core area of the Downtown. By concentrating new office development and redevelopment in the core area, a critical mass of office uses and uses that support office uses will tend to create agglomerational advantages and enhance locational values.

Again, the office sector, however, is unlikely to be the initial catalyst for the improvement of the downtown. The office sector will be strengthened by activities first attracted and designed to bring excitement and interest to the Downtown and that will help to expand the attraction of the Downtown to office space users and their workers and visitors. One example would be the encouragement of additional restaurants and other food uses. Such uses would also appeal to Downtown shoppers and households.

To increase the penetration into the office workforce, residents, and visitors to the Downtown, additional retail development and cultural attractions should be encouraged to integrate within and increase the linkages between core retailing locations such the Santa Rosa Plaza and Fourth Street. Encourage opportunities for simultaneous expansion of specialty retailing and unique service attractions adjoining the core areas. For example, to tie together the planned mixed-use redevelopment (including garage) of the City-owned former White House Department store site (Located at Third and E Streets) and Fourth Street while adding new uses and attractions to the Downtown, encourage the redevelopment of the block including the library (The Sonoma County Library is located across Third Street from the White House site) to include an enhanced library with modern performance space (for book readings, music, art shows, etc.), a high-end grocery retailer such as Whole Foods, and residential uses to which the enhanced library, Whole Foods, and proximity to workplaces and Fourth Street retailing would appeal. The proximity of an enhanced library and high-end grocery store emphasizing prepared foods and catering will also provide support to nearby office uses.

As indicated above, the importance of strengthening Santa Rosa Plaza suggests its location as a priority opportunity site to expand the Santa Rosa Plaza to capture additional retail demand forecast to apply to the Downtown and to enhance the pedestrian linkage between Santa Rosa Plaza and sales spillover to the Fourth Street retail corridor. We label the action of strengthening and opening up Santa Rosa Plaza so that it generates spill-over to adjoining properties as a priority because of the likelihood of increased competition from the planned upgrading of Coddingtown Mall, an 827,000 square-foot center located not far from the Downtown. The owner of Santa Rosa Plaza has recently purchased a 50 percent interest in Coddingtown Mall.

The under-utilized Post Office site located at Second and E Streets has previously been identified as an opportunity site for catalytic redevelopment. The costs of relocating the post office and market and development cost factors have suggested, however, that redevelopment would not currently be sufficiently profitable to bear the associated extraordinary costs. As the Downtown is branded as a desirable location, the Post Office site will hold potential for the development of office or residential uses.

The importance of the development of market rate housing for smaller, younger professional households, and older, empty-nester households without children living at home does not reside only in their potential expenditures on retailing, service, and restaurant uses. The importance of attracting these households relates as well to the image or cachet they bestow upon the Downtown. Railroad Square adjoining the core of the Downtown is already becoming well positioned to capture demand for attached townhouse, row house, and low- to mid-rise rental apartment and condominium products. The residential neighborhoods adjoining the Downtown can also expect to be enhanced through remodeling and small-scale infill development as proximity to the Downtown becomes a positive amenity as the result of added retailing, restaurant and cultural attractions.

PARKING

Parking is an Integral Use

Parking is an integral land use that has been found to be under-supplied relative to demand. The interviews and review of supply suggest that partly because of the parking shortage, those retail, residential, and office buildings that control on-site parking rather than relying solely upon access to public parking derive competitive advantages over those properties without parking in attracting space users and consumers. The need, however, to provide parking on land for private development reduces land values and increases the rent threshold needed to support feasible private development.

The Problems Effective Parking Policies Must Address

Effective parking policies must therefore strike a balance between convenient parking and the maintenance of the relatively dense urban fabric that makes the Downtown core unique, while recognizing the impact parking has on development feasibility and land values. The demand for parking is a "derived demand". That is, parking is not an end in itself; it allows access to workplaces, shops, housing, civic, and cultural or recreational attractions. One problem that policy must reflect is as the Downtown becomes highly attractive, the demand for parking increases at the same time the cost of supplying parking increases (as the result of land cost increases and conversion of land for parking to more intensive, primary uses). The second problem that policy should reflect is that the inconvenience, congestion, and reduced accessibility associated with a parking shortage will divert trips by consumers and visitors to competing locations and discourage the attraction or retention of office and retail space users and housing consumers. The third problem is that until the Downtown becomes sufficiently desirable and provides agglomerational advantages so that people and businesses are willing to pay the higher costs of parking associated with the Downtown, obtainable rents will not be sufficient to support high assessments or high in-lieu parking fees (in-lieu fees are not currently imposed and the total assessment amount under the current Enterprise Fund is fixed). Imposing high costs on property owners will tend to discourage expansion and new development, while encouraging existing owners to maintain the status quo.

Parking Policy Recommendations

In the long run, property owners should pay their fair share of parking costs that bestow benefits upon property owners and the Downtown. To encourage establishment of a critical mass of attractions and encourage beneficial new development and property expansion and remodeling, it would be appropriate for the City to consider subsidizing public parking. Options for funding public parking facilities are under investigation by another consultant. Designs for future additional parking facilities should avoid to the extent practical "dead space" that all-parking buildings would create on an adjoining sidewalks and surrounding property.

HEIGHT LIMITATION

GG+A was not charged in the phase of work commissioned to complete a real estate economic analysis of alternative development scenarios. The review of recently built office, retail, and residential buildings and interviews suggest that the scale of developments that are most feasible to construct and operate are buildings fewer than five stories in height. Based on our interviews and recent relevant analysis, given the current rents and sales prices prevailing in the Downtown, higher development costs and associated market and other risks, developments above 10-stories in height will not be as feasible and support as high of land values and returns as lower-scale developments.

At the current stage in the evolution of the Downtown, we do not recommend a general "across the board" increase in the height limit above 10-stories. Raising the height limit could cause stagnation, or even worse, unsuccessful projects that would discourage subsequent, profitable and land-value enhancing development. The risks of stagnation or infeasible projects could occur, for example, if raising the height limit causes landowners to raise their reservation prices, or the minimum amounts for which they would sell their properties. An increase in reservation prices would raise the rent or sales prices threshold needed for developers to amortize and obtain acceptable returns on development costs. The catch 22 is that the higher rents or sales prices needed to offset the increased costs and risks of high-rise development are unlikely to be obtained in the absence of new uses and attractions initially encouraged in the Downtown because of lower rents and sales prices the lower cost developments of under 10-stories can support. As described above, an across the board increase in the height limit would likely act to slow feasible private development in two ways: The expectations of greater density would cause landowners' expectations about obtainable land prices to increase. The higher rent threshold needed to pay the increased land prices to support feasible development and associated increased risks would also serve to deter development. Given that the City should encourage development to occur while a window of opportunity exists to arrest and reverse Downtown's relative decline, a general policy of raising height limits would be counter-productive.

As part of a development agreement, in the absence of a request for subsidies and upon assurance of prompt commencement and completion of successful projects above 10-stories, the City could consider making exceptions to the height limit. In essence, the City could use as a development incentive tool the extension of the height limit for pioneering developments of beneficial uses in cases where the developers already control the land and are prepared to build promptly rather than simply remarket the land with the height extension. Thus, the granting of a height extension exception should be offered only temporarily, on an individualized basis, upon findings that the proposed development will add to the concentration of uses in the core area and spillover benefits to adjoining uses and properties.

THE POTENTIAL DEMAND FOR RETAIL SPACE IN DOWNTOWN SANTA ROSA

A Report to

The City of Santa Rosa

from

GRUEN GRUEN + ASSOCIATES
Urban Economists, Market Strategists & Land Use/Public Policy Analysts

December 2005

C1178

APPLYING KNOWLEDGE
CREATING RESULTS
ADDING VALUE

Chapter		Page
I	INTRODUCTIONS, FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS……..……………………………..……..……	1
	INTRODUCTION AND PURPOSE	1
	WORK COMPLETED.	1
	REPORT ORGANIZATION	1
	PRINCIPAL FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS…………...	2
	Taxable Sales Trends.	2
	Retail Taxable Sales Trends in All of Santa Rosa.	2
	Retail Taxable Sales Trends in Downtown………………………………	2
	Santa Rosa Plaza and Share of Downtown Sales	3
	Downtown Advantages and Disadvantages.	3
	Primary Demand Sources and Competing Supply Options	4
	Forecast Demand for Additional Retail Space in Downtown.	4
	Enhance the Shopping Environment and Tenanting Strategy….………..	5
	Encourage Additional Development Sites and Increase in the Stock of Building Space…...	6

Chapter	**TABLE OF CONTENTS, CONTINUED**	Page

	Cooperate with Santa Rosa Plaza to Enhance Competitive Position and Linkages …………………………………………………………………..	7
II	HISTORICAL TAXABLE SALES TRENDS IN CITY OF SANTA ROSA AND THE DOWNTOWN . . . . ….…………………..	8
	INTRODUCTION …………………………………..	8
	TAXABLE SALES TRENDS ………………..	8
	DOWNTOWN TAXABLE SALES TRENDS..	11
	DOWNTOWN TAXABLE SALES IN THE CONTEXT OF TAXABLE SALES FOR ALL OF THE CITY OF SANTA ROSA……. . . . .…………………	12
	RETAIL TAXABLE SALES TRENDS FOR ALL OF SANTA ROSA.	13
	Shifts in Shares of Total Sales for All of the City of Santa Rosa	15
	RETAIL TAXABLE SALES FOR DOWNTOWN …………………...	16
	DOWTOWN TAXABLE RETAIL SALES IN THE CONTEXT OF TAXABLE RETAIL SALES FOR ALL OF THE CITY OF SANTA ROSA ………………………………………………………………	18
	SANTA ROSA PLAZA’S CONTRIBUTION TO DOWTOWN TAXABLE RETAIL SALES BASE……………………….……………	20
	PER CAPITA SALES………………………………………………..	23

Chapter **TABLE OF CONTENTS, CONTINUED** Page

Chapter		Page
III	THE COMPETITIVE POSITION OF DOWNTOWN SANTA ROSA……………………………………………………………………	26
	INTRODUCTION……………………………………………………	26
	FACTORS THAT ENCOURAGE DEMAND OR PRIMARY ADVANTAGES………………………………………………………..	26
	FACTORS THAT CONSTRAIN DEMAND OR PRIMARY DISADVANTAGES………………………………………………	27
	SOURCES OF DEMAND AND COMPETING SUPPLY OPTIONS..	27
IV	POTENTIAL ADDITIONAL RETAIL DEMAND AND AMOUNT OF SUPPORTABLE SPACE. ………………………………………	29
	INTRODUCTION………………………………………………….	29
	FORECAST OF POTENTIAL ADDITIONAL RETAIL DEMAND...	30
	FORECAST ADDITIONAL SUPPORTABLE SPACE DEMAND…..	31

LIST OF TABLES

Table No.		Page
II-1	Summary of Annualized Growth and Shift in Share of Total Taxable Sales for Santa Rosa between 1996 and 2005 …………….…………….	9
II-2	Summary of Annualized Growth and Shift in Share of Total Taxable Sales for Downtown Santa Rosa Sales between 1996 and 2005 …………	11
II-3	Comparison of Share of Taxable Sales by Economic Category in 1996 and 2005: Downtown and City of Santa Rosa……………………..	12
II-4	Summary of Annualized Growth and Shift in Share of Total Retail Taxable Sales for Santa Rosa between 1996 and 2005…………. ……….	14
II-5	Summary of Annualized Growth and Shift in Share of Total Retail Taxable Sales for Downtown Santa Rosa between 1996 and 2005………	16
II-6	Comparison of Share of Retail Taxable Sales in 1996 and 2005: Downtown and City of Santa Rosa…………………………………...	18
II-7	Summary of Annualized Growth and Shift in Share of Total Retail Taxable Sales for Santa Rosa Plaza between 1996 and 2005…………….	20
II-8	Estimate of Santa Rosa Plaza Sales Per Square Foot (Adjusted for Inflation, Constant 2005 Dollars)……….…………………………….....	21
II-9	Comparison of Share of Retail Taxable Sales in 1996 and 2005: Downtown and Santa Rosa Plaza……………………………...……...	22
II-10	Per Capita Taxable Retail Sales for City of Santa Rosa by Sector (Adjusted for Inflation, Constant 2005 Dollars)………...……………….	25
IV-1	Estimate of Additional Retail Demand Based on Downtown Share of Forecast Total City of Santa Rosa Sales…………………………………	30
IV-2	Forecast Growth in Amount of Supportable Square Feet of Retail Space in Downtown Santa Rosa, 2005-2015…………………………………...	31

CHAPTER I

INTRODUCTIONS, FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

INTRODUCTION AND PURPOSE

This report summarizes the assessment and forecast that Gruen Gruen + Associates ("GG+A") conducted of the market for retail uses in Downtown Santa Rosa. The City of Santa Rosa commissioned the Downtown market study in conjunction with a program to formulate a Downtown Plan. The primary purpose of the study summarized in this report is to forecast the potential market support for retail uses and to identify potential strategic actions that would facilitate the Downtown realizing the forecast potential.

WORK COMPLETED

To accomplish the study objectives, GG+A analyzed a variety of data sources and conducted primary research. To gain insight into the consumer motivations and market factors affecting Downtown businesses we interviewed retail property owners, retail developers, and real estate brokers and leasing agents. We analyzed historical trends in retail sales in the Downtown and in the City of Santa Rosa as a whole. GG+A forecast retail purchasing power within the City of Santa Rosa based on projections of household growth and increases in real household income. We forecast the sales potential of the Downtown based on historical capture rates of sales expenditures for all of Santa Rosa and an assessment of Downtown's existing and likely future competitive advantages and disadvantages within the City. We converted the sales expenditure or retail demand forecast for the Downtown into estimates of potentially supportable additional retail space.

REPORT ORGANIZATION

Chapter II presents an analysis of historical taxable sales trends in the City of Santa Rosa as a whole and the changing role of the Downtown within the context of the City's retail base. Chapter III presents an assessment of the competitive position of Downtown Santa Rosa, and an identification of the principal consumer groups attracted to retail uses in the Downtown and sources of competition. Chapter IV presents estimates of retail expenditure potential and the potential demand for retail space in the Downtown.

PRINCIPAL FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Taxable Sales Trends

We analyzed taxable sales trends as part of the assessment of the strengths and weaknesses of the Downtown retail base, to identify the relative position of the Downtown in the context of the wider market area, and to search for demand opportunities. The decline in general retail and business to business sales in the Downtown relative to the City as a whole shows that the Downtown has been affected by the same downward shifts in traditional retail and office uses that have been noted in many other smaller-sized central cities. The Downtown has not shared in taxable sales growth proportionally, as much of the growth in retail, office, and residential uses has occurred outside of the Downtown.

Retail Taxable Sales Trends in All of Santa Rosa

From 1996 through 2005, adjusted for inflation, citywide retail sales increased at an average annual rate of 2.1 percent, or $33.1 million. Total sales increased from $1.4 billion to $1.7 billion. The categories with the highest growth in retail sales for all of Santa Rosa were (a) building materials, (b) apparel stores, (c) other retail sales such as sporting goods, florist/nursery, and miscellaneous retail, and (d) furniture and appliances.

Retail Taxable Sales Trends in Downtown

Downtown retail sales in 2005 are about the same as the sales level in 1996 at approximately $300.5 million. Department store sales remain the largest source of sales at approximately $91 million or 30 percent of total sales. Department store sales declined at an annualized rate of nearly two percent, or $2.3 million or seven percentage points, the highest amount and share of decline in any category. Other retail store sales, while flat, remained the second highest source of Downtown sales. Apparel store sales grew strongly, shifting from the fourth to the third largest source of sales. Restaurant sales declined slightly to 12.9 percent of total sales at $38.9 million. The highest annualized percentage decline in sales was attributable to the furniture and appliances category. Food markets and drug stores sales increased at an annualized rate of nearly three percent, to $9.4 million, up from $7.3 million in 1996. It is unusual for sales in a convenience category like food and drug sales to increase in a Downtown while sales in a comparison good or destination category like furniture decline. This finding could be explained by a large proportion of the Downtown labor base doing more convenience shopping during the workday or on their way home from work, and the closure of stores and leakage of furniture sales to locations on Santa Rosa Avenue.

Four sectors accounting for approximately 76 percent of Downtown taxable retail sales comprise only 37 percent of total sales for the City as a whole: (1) department stores, (2) other retail stores, (3) apparel, and (4) restaurant and liquor. While furniture and appliances, grocery and drug stores, building materials, and automobile-related sales comprise slightly less than 20 percent of Downtown sales, such categories generate approximately 42 percent of sales for all of Santa Rosa. Sales in three of the four leading Downtown categories declined relative to sales of those categories in the City as a whole. Apparel sales have consistently increased, an exception to the general trend.

Santa Rosa Plaza and Share of Downtown Sales

Santa Rosa Plaza sales of approximately $190.9 million constitute 63 percent of the approximately $300 million sales in the Downtown. Adjusted for inflation, Santa Rosa Plaza sales today are approximately the same as its sales in 1996. While sales per square foot are the same for 1996 and 2005 at $274, sales in 2005 represent a rebounding from the recessionary, downward trend following 2001. Non-department store space generates much higher sales per square foot productivity than department store space.

Apparel sales in Santa Rosa Plaza make up over 95 percent of Downtown apparel sales. Other retail stores sales attributable to Santa Rosa Plaza comprise over one half of Downtown sales in this category. While Santa Rosa Plaza's share of the restaurant and furniture and appliances sales categories has increased significantly since 1996, sales only comprise 14 percent and 15 percent respectively of total Downtown restaurant and furniture and appliances sales.

Downtown Advantages and Disadvantages

The primary existing or potentially cultivated advantages for retail space in the Downtown include:

- Geographic centrality within a community with increasing purchasing power due to growth in the number of households and household income;
- Relatively convenient accessibility;
- A pedestrian scale and ambiance in the Downtown; and
- Proximity to a relatively large employment base.

Primary disadvantages of the Downtown include:

- Much of the growth in the community has occurred away from the Downtown with a resulting shift of the major retail base and consumer shopping patterns;
- The Downtown currently lacks a positive image and a critical base of synergistic retail, cultural, and other attractions needed to induce multi-purpose trips from a

wide area or frequent visitation;

- The Downtown is relatively disjointed with Santa Rosa Plaza, the bisection of Courthouse Square into roadways and park space, government office buildings, and ground-floor office or service use space serving to break up ground-floor retail linkages and continuity;

- A parking shortage; and

- Security and safety concerns and the presence of homeless discourage visitation to the Downtown.

Primary Demand Sources and Competing Supply Options

Primary sources of demand for retail space in the Downtown not located in Santa Rosa Plaza include employees who work in the Downtown and Santa Rosa residents who live near the Downtown. The Santa Rosa Plaza trade area includes the City of Santa Rosa and extends into Sonoma, Mendocino, and Lake counties. Younger-aged shoppers are attracted to Santa Rosa Plaza. Santa Rosa Plaza generates limited spillover sales to the rest of the Downtown.

Significant retail agglomerations are located in commercial corridors within approximately two to three miles of the Downtown. These agglomerations, such as the community and power center, big-box retail facilities (including Santa Rosa Marketplace) along Santa Rosa Avenue, the Coddingtown Mall with ample parking located about 2.3 miles north of the Downtown, and the 286,000-square-foot Montgomery Village located about 1.9 miles east of the Downtown, "block" penetration by the existing Downtown base of retail into household demand located further away from the Downtown.

Many of the users attracted to the Downtown, excluding the space available at Santa Rosa Plaza, are independent, local entrepreneurs. Barnes and Noble, Starbucks, and Peet's Coffee & Teas, however, are examples of the relatively few national chains that have elected to operate in the Downtown outside of Santa Rosa Plaza and are doing well.

Forecast Demand for Additional Retail Space in Downtown

We focus on the demand for additional space because the current retail supply throughout the City is typically substantially leased.

The population of Santa Rosa is forecast to increase by 8,900 people between 2005 and 2010 and 6,400 people between 2010 and 2015. Multiplying the forecast population by the estimated 2005 per capita sales of the types of goods found in a healthy Downtown for Santa Rosa of $9,025, increased an annual rate of two percent, results in forecast increased sales expenditures or retail demand for all of Santa Rosa of $235.5 million between 2005 and 2010 and $241.8 million between 2005 and 2015.

Multiplying the estimated total Citywide demand by the current share of Downtown sales to total sales for all of Santa Rosa of 19.6 percent results in an estimate of added expenditure potential or retail demand in Downtown of $46.2 million between 2005 and 2010 and $47.2 million between 2010 and 2015. This demand estimate is predicated on the Downtown maintaining its share of the retail market, which in turn assumes the successful rebranding of the Downtown.

Based on this assumption that Downtown arrests its slide and maintains its market share of 19.6 percent of expenditures on retail goods and services in Santa Rosa, using a $300-per–square-foot minimum sales threshold produces an estimate of additional supportable space in the Downtown between 2005 and 2010 of 154,000 square feet. The forecast increase in expenditure potential due to household and income growth translates into additional space demand in the Downtown of approximately 157,000 square feet of space between 2010 and 2015. Between 2005 and 2015, using the $300-per square-foot sales threshold produces an estimate of a total of 311,000 square feet of additional supportable space.

Using a higher sales threshold of $350 per square foot and the same capture rate of 19.6 percent of sales produces an estimate of added supportable space demand for the Downtown between 2005 and 2010 of 132,000 square feet. Using the $350-per-square-foot sales threshold assumption for estimating the increase in supportable space demand between 2010 and 2015 produces an estimate of 135,000 square feet of space. Between 2005 and 2015, added supportable retail demand in the Downtown is estimated to total 267,000 square feet of space.

Enhance the Shopping Environment and Tenanting Strategy

Achieving the Downtown’s retail market potential will require improving the shopping environment, including an adequate amount of conveniently located parking and contemporary space to accommodate the requirements of retail users, and an enhanced perception of safety and security. As the competition from on-the-ground store space and “etailing”/cyberspace increases, it will be increasingly important for shopping and working in the Downtown to be perceived as fun, safe, and hassle free.

To preserve and enhance the strength of Downtown, it will be necessary to increase the core area’s selection of dining and entertainment options. Eating and drinking places are frequently a major component of the enhancement of mixed-use agglomerations like Downtown Santa Rosa. Because of high costs for water and wastewater connection fees and other development costs associated with opening new restaurant facilities, the Downtown has been under-supplied with eating and drinking establishments. A variety of additional food uses, including take-out restaurants, which typically have lower parking requirements than full-service restaurants, would serve both the employment- and household-based markets. Eating and drinking places provide lunch- and dinner-time traffic that can support retail tenants and appeal to office tenants.

Encourage an "urban centric" high-end grocery retailer such as Whole Foods to locate Downtown. Attraction of a Whole Foods, for example, would demonstrate the improving cachet and locational image of the Downtown, and given the expected growth in housing, the large employment base, and the geographic centrality, Downtown could likely support a high-end food store such as a Whole Foods. Our discussions with the tenant representation broker for Whole Foods suggest that Whole Foods would like to locate Downtown if it can obtain an appropriately located and sized site with adequate parking. An increasing proportion of consumers shop for groceries closer to their workplaces or on their way home from work. A high margin and important category for grocery stores includes prepared or take-out foods for employees of area businesses or catering services to businesses.

Specialty accessory and home furnishing stores should be encouraged to bolster this category Downtown. A high-end camera store that gives assistance for new digital camera buyers is another example of an appropriate business that is likely to be market responsive.

Downtown already includes movie theaters and brew pubs. Additional entertainment and cultural opportunities, particularly those that occur in the night-time, would enrich the image of the Downtown as more than just a place to work or shop and are less likely to create the traffic and parking impacts that major day-time draws would be expected to encourage. Complementary uses to day-time activities would encourage shared parking.

A successful, sustainable Downtown is more than a shopping center. A mixed-use land use pattern, including services, will help to create a dynamic environment and encourage multi-purpose visits. Health-care related products and personal services (e.g., optical, chiropractor, dentist, outpatient clinic, salon and spa) and business services (e.g., insurance, mortgage brokerage, tax services, or bank branches) tend to cater to demand specific to the "neighborhood" and would benefit from the ample nearby workforce and the anticipated new residents.

Encourage Additional Development Sites and Increase in the Stock of Building Space

Development in the Downtown must be augmented and linkages tightened to create a magnetic critical mass of stores, restaurants, and other attractions. By linkages we refer to connecting and integrating sub-areas of the Downtown with significant street-level activity and uses that spillover benefits to adjoining properties. While an increase in building space will create more "internal" competition in the Downtown, an increase in internal competition will be more than offset by maintaining and improving the Downtown's position in the wider marketplace.

Cooperate with Santa Rosa Plaza to Enhance Competitive Position and Linkages

The City should encourage Santa Rosa Plaza, the major component of the Downtown retail base, to alter its physical environment and tenant mix to adapt to changing consumer shopping patterns. The midline department stores that make up the anchors of the mall are in long-term secular decline. This suggests the eventual opportunity to replace one or more of these stores with a truly exciting set of specialty retail uses (such as clothes, electronics, services, eateries) appealing to the Generation Y market to which the mall has already begun to merchandise, or a Kohl's or Target. Opportunities may also arise to incorporate residential, cultural, entertainment or restaurant uses that enhance the linkages with adjoining properties.

CHAPTER II

HISTORICAL TAXABLE SALES TRENDS IN CITY OF SANTA ROSA AND THE DOWNTOWN

INTRODUCTION

This chapter presents an overview of historical trends in taxable sales in the City of Santa Rosa as a whole. Chapter II then presents a summary of the growth and shifts in the share of taxable sales of the Downtown relative to sales in Santa Rosa as a whole. This chapter then reviews retail sales trends for the City as a whole, Downtown Santa Rosa, and Santa Rosa Plaza, a regional mall located in the Downtown. We review taxable sales trends to provide an information base about the relative strengths of the retailing base in Santa Rosa and Downtown and an indication of the share of market demand or retail expenditures the Downtown captures.

TAXABLE SALES TRENDS

Table II-1 presents changes in the City of Santa Rosa's taxable sales for fiscal years 1996 and 2005. MBIA MuniServices is the source of the data. Note that Table II-1 includes taxable sales generated by non-retail sources, including transportation, construction, business to business, health and government, and other miscellaneous categories.

TABLE II-1

Summary of Annualized Growth and Shift in Share of Total Taxable Sales for Santa Rosa Between 1996 and 2005[1]

Economic Category	Taxable Sales 1996 $	Proportion of Total Taxable Sales 1996 %	Taxable Sales 2005 $	Proportion of Total Taxable Sales 2005 %	Change in Proportion of Total Sales Percentage Points	1996-2005 Annualized Growth in Taxable Sales $	1996-2005 Annualized Growth in Taxable Sales %
General Retail[2]	896,411,100	38.8	1,047,133,600	37.0	(-1.8)	16,746,944	1.7
Food Products[3]	334,533,700	14.5	378,910,300	13.4	(-1.1)	4,930,733	1.4
Transportation[4]	584,318,800	25.3	792,367,500	28.0	2.7	23,116,522	3.4
Construction[5]	210,894,400	9.1	366,826,000	13.0	3.9	17,325,733	6.3
Business to Business[6]	261,677,900	11.3	220,973,100	7.8	(-3.5)	(-4,522,755)	(-1.6)
Miscellaneous[7]	24,867,600	1.1	23,349,400	0.8	(-0.3)	(-168,689)	(-0.6)
Total	2,312,703,500	100.0	2,829,559,900	100.0		57,428,489	2.3

[1] In constant 2005 dollars and assuming a one percent sales tax rate for the City of Santa Rosa; for fiscal years 1996 and 2005.
[2] Includes apparel stores, department stores, furniture/appliance, drug stores, recreation products, florist/nursery and miscellaneous retail.
[3] Includes restaurants, food markets, liquor stores, and food processing equipment.
[4] Includes auto parts/repair, new auto sales, used auto sales, service stations and miscellaneous vehicle sales.
[5] Includes wholesale building materials and retail building materials including construction/farm equipment, plumbing & electric, buildings materials store, hardware stores, and paint/glass/wallpaper.
[6] Includes office equipment, electronic equipment, business services, energy sales, chemical products, heavy industry, light industry and leasing.
[7] Includes health and government, miscellaneous other and account adjustments.

Sources: City of Santa Rosa; MBIA MuniServices; Gruen Gruen + Associates.

Adjusted to 2005 constant dollars to take into account the effects of inflation, between fiscal years 1996 and 2005, taxable sales in all categories in Santa Rosa increased at an average annual growth rate of 2.3 percent, or $57.4 million per year from $2.3 billion in 1996 to $2.8 billion in 2005. General retail sales grew at an average annual rate of 1.7 percent, or $16.7 million, from nearly $900 million to $1.0 billion in 2005. As a proportion of total sales, sales in the general retail category declined by 1.8 percentage points to 37 percent of total taxable sales. The transportation category represents the second largest sources of sales. Sales from automotive-related uses that comprise the transportation category have grown at an annualized rate of 3.4 percent, or $23.1 million, from nearly $600 million in 1996 to nearly $800 million in 2005. Transportation sales increased by 2.7 percentage points to 28 percent of total taxable sales in Santa Rosa. Sales in the food products category, including restaurants, grocery stores, liquor stores, and food processing equipment, grew at an annualized rate of 1.4 percent or nearly $5.0 million per year, from $334.5 million to $378.9 million. Food sales declined from 14.5 percent in 1996 to 13.4 percent of total Santa Rosa taxable sales in 2005. The construction category including sales attributable to wholesale and retail building materials grew at a far higher rate than sales in the other categories. Construction sales increased at an average annual rate of 6.3 percent or $17.3 million annually, from $210.9 million in 1996 to $366.8 million in 2005. The proportion that construction sales comprise of total sales increased from 9.1 percent to 13.0 percent. Business to business sales, including office equipment, electronic equipment, business services, leasing, chemical products, and heavy and light industry, is the major category to experience a decline in sales. Sales in the business to business category declined at an average annual rate of 1.6 percent or $4.5 million to $220.9 million, down from $261.7 million in 1996. Business to business sales now comprise less than eight percent of total taxable sales.

DOWNTOWN TAXABLE SALES TRENDS

Table II-2 shows the annualized growth and shifts in taxable sales in the Downtown.

TABLE II-2

Summary of Annualized Growth and Shift in Share of Total Taxable Sales for Downtown Santa Rosa Sales Between 1996 and 2005[1]

Economic Category	Downtown Taxable Sales 1996 $	Proportion of Total Taxable Sales 1996 %	Downtown Taxable Sales 2005 $	Proportion of Total Taxable Sales 2005 %	Change in Proportion of Total Sales Percentage Points	1996-2005 Annualized Growth in Taxable Sales $	1996-2005 Annualized Growth in Taxable Sales %
General Retail[2]	237,464,900	70.0	228,309,100	68.7	(-1.3)	(-1,017,311)	(-0.4)
Food Products[3]	47,483,900	14.0	48,174,600	14.5	0.5	76,744	0.2
Transportation[4]	14,359,200	4.2	19,992,800	6.0	2.2	625,956	3.7
Construction[5]	10,621,000	3.1	19,599,100	5.9	2.6	997,567	7.0
Business to Business[6]	27,658,500	8.1	13,469,000	4.1	(-4.0)	(-1,576,611)	(-4.7)
Miscellaneous[7]	1,818,600	0.5	2,672,400	0.8	0.3	94,867	4.4
Total	**339,406,100**	**100.0**	**332,217,000**	**100.0**		**(-798,789)**	**(-0.2)**

[1] In constant 2005 dollars and assuming a one percent sales tax rate for the City of Santa Rosa; for fiscal years 1996 and 2005.
[2] Includes apparel stores, department stores, furniture/appliance, drug stores, recreation products, florist/nursery and miscellaneous retail.
[3] Includes restaurants, food markets, liquor stores, and food processing equipment.
[4] Includes auto parts/repair, new auto sales, used auto sales, service stations and miscellaneous vehicle sales.
[5] Includes wholesale building materials and retail building materials including construction/farm equipment, plumbing & electric, buildings materials stores, hardware stores, and paint/glass/wallpaper.
[6] Includes office equipment, electronic equipment, business services, energy sales, chemical products, heavy industry, light industry and leasing.
[7] Includes health and government, miscellaneous other and account adjustments.

Sources: City of Santa Rosa; MBIA MuniServices; Gruen Gruen + Associates.

Adjusted into constant 2005 dollars to take into account the effects of inflation, total taxable sales in the Downtown slightly decreased from $339.4 million in fiscal year 1996 to $332.2 million in fiscal year 2005. While general retail sales decreased by 1.3 percentage points due to a decline in sales of about $1.0 million on an annualized basis, retail sales still make up the preponderance of total sales at nearly 69 percent of total sales. Food products comprise the second largest source of sales at 14.5 percent, up from 14.0 percent in 1996. Food sales increased at a nominal annualized rate of 0.2 percent to $48.1 million. Transportation sales grew at an annualized rate of 3.7 percent, from $14.3 million to nearly $20.0 million. Transportation sales increased by 2.2 percentage points to six percent of total Downtown sales. Construction sales grew at the highest rate of seven percent or nearly $1.0 million on an annualized basis to $19.6 million. Construction sales increased by 2.6 percentage points to nearly six percent of total Downtown sales. Business to business sales declined at an annualized rate of nearly 5.0 percent or $1.6 million. Business to business sales declined by four percentage points, from 8.1 percent to 4.1 percent of total sales.

DOWNTOWN TAXABLE SALES IN CONTEXT OF TAXABLE SALES FOR ALL OF CITY OF SANTA ROSA

Table II-3 presents the proportion of Downtown sales to all taxable sales in Santa Rosa from 1996 to 2005.

TABLE II-3

Comparison of Share of Taxable Sales by Economic Category in 1996 and 2005: Downtown and City of Santa Rosa[1]

Economic Category	Downtown Santa Rosa		All of Santa Rosa		Downtown as Share of All of Santa Rosa		
	1996 %	2005 %	1996 %	2005 %	1996 %	2005 %	Percentage Point Shift %
General Retail[2]	70.0	68.7	38.8	37.0	26.5	21.8	(4.7)
Food Products[3]	14.0	14.5	14.5	13.4	14.2	12.7	(1.5)
Transportation[4]	4.2	6.0	25.3	28.0	2.5	2.5	0.0
Construction[5]	3.1	5.9	9.1	13.0	5.0	5.3	0.3
Business to Business[6]	8.1	4.1	11.3	7.8	10.6	6.1	(4.5)
Miscellaneous[7]	0.5	0.8	1.1	0.8	7.3	11.4	4.1
Total	100.0	100.0	100.0	100.0	14.7	11.7	(3.0)

[1] In constant 2005 dollars and assuming a one percent sales tax rate for the City of Santa Rosa; for fiscal years 1996 and 2005.
[2] Includes apparel stores, department stores, furniture/appliance, drug stores, recreation products, florist/nursery and miscellaneous retail.
[3] Includes restaurants, food markets, liquor stores, and food processing equipment.
[4] Includes auto parts/repair, new auto sales, used auto sales, service stations and miscellaneous vehicle sales.
[5] Includes wholesale building materials and retail building materials including construction/farm equipment, plumbing & electric, buildings materials store, hardware stores, and paint/glass/wallpaper.
[6] Includes office equipment, electronic equipment, business services, energy sales, chemical products, heavy industry, light industry and leasing.
[7] Includes health and government, miscellaneous other and account adjustments.

Sources: City of Santa Rosa; MBIA MuniServices; Gruen Gruen + Associates.

The share of taxable sales Downtown relative to the City as a whole has declined by three percentage points, from 14.7 percent to 11.7 percent. The proportion of sales that general retail sales in the Downtown comprise of all of Santa Rosa has shifted downward by 4.7 percentage points to under 22 percent of total sales. While the percentage point decline is the largest of any category, the retail category is the only category that makes up over 13 percent of total sales.

Food products, the second largest source of Downtown taxable sales relative to the City's total sales declined by 1.5 percentage points to make up 12.7 percent of total City sales. Transportation or automotive-related sales remained constant at 2.5 percent of total sales for all of Santa Rosa. Downtown construction sales comprising wholesale and retail building materials increased slightly to 5.3 percent of total sales for the City. Business to business sales in the Downtown declined by 4.5 percentage points, from 10.6 percent of total sales for the City to 6.1 percent of total sales.

The decline in general retail and business to business sales in the Downtown relative to the City as a whole shows that the Downtown has been affected by the same downward shifts in traditional retail and office uses that have been noted in many other smaller-sized central cities. The Downtown has not shared in taxable sales growth proportionally, as much of the growth in retail, office, and residential uses has occurred outside of the Downtown.

RETAIL TAXABLE SALES TRENDS FOR ALL OF SANTA ROSA

Table II-4 presents retail sales by type of business for the City of Santa Rosa for fiscal years 1996 and 2005.

TABLE II-4

Summary of Annualized Growth and Shift in Share of Total Retail Taxable Sales for City of Santa Rosa Between 1996 and 2005[1]

Retail Category	Total Taxable Sales 1996 $	Proportion of Total Taxable Sales 1996 %	Total Taxable Sales 2005 $	Proportion of Total Taxable Sales 2005 %	Change in Proportion of Total Sales Percentage Points	1996-2005 Annualized Growth in Taxable Sales $	1996-2005 Annualized Growth in Taxable Sales %
Department Stores[2]	355,598,800	24.5	368,168,500	21.1	(-3.4)	1,396,633	0.4
Other Retail Stores[3]	246,474,900	17.0	312,052,400	17.9	0.9	7,286,389	2.7
Apparel Stores[4]	96,196,300	6.6	141,698,700	8.1	1.5	5,055,822	4.4
Restaurants & Liquor[5]	200,577,200	13.8	227,367,500	13.0	(-0.8)	2,976,700	1.4
Furniture & Appliances[6]	150,986,700	10.4	185,729,000	10.6	0.2	3,860,256	2.3
Food Markets and Drug Stores[7]	160,079,500	11.0	175,129,800	10.0	(-1.0)	1,672,256	1.0
Building Materials[8]	103,305,500	7.1	216,628,100	12.4	5.3	12,591,400	8.6
Business Services[9]	136,041,800	9.4	120,778,600	6.9	(-2.5)	(-1,695,911)	(-1.2)
Total	1,449,260,700	100.0	1,747,552,600	100.0		33,143,544	2.1

[1] In constant 2005 dollars and assuming a one percent sales tax rate for the City of Santa Rosa; for fiscal years 1996 and 2005.
[2] Includes department stores.
[3] Includes recreation products, florist/nursery and miscellaneous retail.
[4] Includes apparel stores.
[5] Includes restaurants and liquor stores.
[6] Includes furniture/appliances.
[7] Includes food markets and drug stores.
[8] Includes retail building materials including building materials stores, hardware stores, and paint/glass/wallpaper.
[9] Includes office equipment, electronic equipment and business services.

Sources: City of Santa Rosa; MBIA MuniServices; Gruen Gruen + Associates.

Note that the total retail sales have also been put into 2005 constant dollars, or in other words, include the effect of inflation. From 1996 through 2005, adjusted for inflation, retail sales increased at an average annual rate of 2.1 percent, or $33.1 million. Total sales increased from $1.4 billion to $1.7 billion. The categories with the highest growth in retail sales were (a) building materials (8.6 percent annualized growth to $1.5 million per year to $215.6 million), (b) apparel stores (4.4 percent annualized growth or $5.0 million to $141.7 million), (c) other retail sales such as sporting goods, florist/nursery, and miscellaneous retail (2.7 percent annualized growth or $7.3 million annualized growth to $312.0 million), and (d) furniture and appliances (2.3 percent or $3.9 million annualized growth to $185.7 million).

Slower growing categories included: (a) restaurants and liquor (1.4 percent or nearly $3.0 million annualized growth to $227.3 million), and (b) grocery and drug store sales (one percent or $1.7 million to $175.1 million). Department store sales were nearly flat at 0.4 percent or $1.4 million annualized growth to $368.2 million. Business services, including office and electronic equipment was the only category to experience a decline in sales to $120.8 million.

Shifts in Shares of Total Sales for All of City of Santa Rosa

Table II-4 above shows that sales in the building materials category for all of Santa Rosa experienced the largest increase in the share of total sales of any category. Building materials increased by over five percentage points to 12.4 percent of total sales, climbing to the fourth largest source of sales. Apparel stores sales increased by the second most percentage points, by 1.5 percentage points to 8.1 percent of total sales. Sales in department stores experienced the largest decrease in the share of total sales of any category. While the department stores category declined by 3.4 percentage points, department stores sales remain the highest share of total City retail sales at 21 percent. As a percentage of total sales, other retail sales grew by nearly one percentage point to 18 percent. Restaurants and liquor sales remain the third largest source of total sales at 13 percent, down slightly from 13.8 percent in 1996. Furniture and appliances sales have slightly increased as a share of total sales to 10.6 percent. Conversely, the food and drug store category declined by one percentage point to 10 percent of total sales. Business services also declined in importance over the period.

RETAIL TAXABLE SALES FOR DOWNTOWN

For fiscal years 1996 through 2005, Table II-5 shows the annualized growth in taxable retail sales in the Downtown for the same categories reviewed for the City as a whole.

TABLE II-5

Summary of Annualized Growth and Shift in Share of Total Retail Taxable Sales for Downtown Santa Rosa Between 1996 and 2005[1]

Retail Category	Downtown Taxable Sales 1996 $	Proportion of Total Taxable Sales 1996 %	Downtown Taxable Sales 2005 $	Proportion of Total Taxable Sales 2005 %	Change in Proportion of Total Sales Percentage Points	1996-2005 Annualized Growth in Taxable Sales $	1996-2005 Annualized Growth in Taxable Sales %
Department Stores[2]	112,019,600	37.3	90,954,700	30.3	(-7.0)	(-2,340,544)	(-1.9)
Other Retail Stores[3]	68,350,000	22.7	69,135,200	23.0	0.3	87,244	0.1
Apparel Stores[4]	33,732,400	11.2	51,726,700	17.2	5.0	1,999,367	4.9
Restaurants & Liquor[5]	40,243,900	13.4	38,902,000	12.9	(-0.5)	(-149,100)	(-0.4)
Furniture & Appliances[6]	23,300,600	7.8	16,401,400	5.5	(-2.3)	(-766,578)	(-2.9)
Food Markets and Drug Stores[7]	7,289,200	2.4	9,359,000	3.1	0.7	229,978	2.8
Building Materials[8]	4,973,100	1.7	12,653,500	4.2	2.5	853,378	10.9
Business Services[9]	10,598,100	3.5	11,333,200	3.8	0.3	81,678	0.7
Total	300,506,900	100.0	300,465,700	100.0		(-4,578)	(-0.1)

[1] In constant 2005 dollars and assuming a one percent sales tax rate for the City of Santa Rosa; for fiscal years 1996 and 2005.
[2] Includes department stores.
[3] Includes recreation products, florist/nursery and miscellaneous retail.
[4] Includes apparel stores.
[5] Includes restaurants and liquor stores.
[6] Includes furniture/appliances.
[7] Includes food markets and drug stores.
[8] Includes retail building materials including building materials stores, hardware stores, and paint/glass/wallpaper.
[9] Includes office equipment, electronic equipment and business services.

Sources: City of Santa Rosa; MBIA MuniServices; Gruen Gruen + Associates.

In constant 2005 dollars, to take into account the effects of inflation, Downtown sales have stayed the same since 1996 at approximately $300.5 million. Department store sales remain the largest source of sales at approximately $91 million or 30 percent of total sales. Department store sales declined at an annualized rate of nearly two percent or $2.3 million or seven percentage points, the highest amount and share of decline in any category.

Many department store brands such as Sears, Macy's, Robinson's and Lord & Taylor have lost much of their magnetism and are fighting to survive the competition from specialty stores and efficient, lower-margin discount and category killer retailers. Junior departments used to be the training ground and source of future demand, but other specialty and value formats are attracting the younger shopper. Department stores have gone to part time labor to cut costs, but the part-timers lack the training to provide the service that warrants the higher prices found in department stores. The mid-line department stores are not attracting the increasingly bi-modal income groups. A high percentage of those in the middle income category shop at Target, Kohl's, and Ross Dress for Less rather than at Sears, Macy's and Robinson's.

Other retail store sales remained the second highest source of Downtown sales. Other retail stores sales were essentially flat at $69.1 million or 23 percent of total Downtown sales. Apparel store sales shifted from the fourth to the third largest source of sales. Apparel stores sales increased at annualized rate of nearly five percent or $2.0 million to 17 percent of total sales at $51.7 million. Restaurant and liquor sales declined slightly to 12.9 percent of total sales at $38.9 million. The highest annualized percentage decline in sales was attributable to the furniture and appliances category. Sales in furniture and appliances declined at an annualized rate of nearly three percent or $766,600 to $16.4 million. The closure of Showplace North on the northwest corner of Fifth Street and Mendocino and a warehouse furniture store along Wilson Street in Railroad Square could partially account for the sales decline. Food markets and drug stores sales increased at an annualized rate of nearly three percent, to $9.4 million, up from $7.3 million in 1996. Building materials sales, while only 4.2 percent of total sales, have experienced the highest annualized growth rate of nearly 11 percent to $12.6 million. This is due to large growth in sales of retail building materials. It is unusual for building materials sales to increase in a Downtown. The sales increase could be attributable to building material stores located in Railroad Square or at other locations at the edge of Downtown.

DOWNTOWN TAXABLE RETAIL SALES IN CONTEXT OF TAXABLE RETAIL SALES FOR ALL OF CITY OF SANTA ROSA

Table II-6 indicates the share of taxable retail sales in the Downtown relative to the City has declined from 20.7 percent in fiscal year 1996 to 17.2 percent in fiscal year 2005.

TABLE II-6

Comparison of Share of Retail Taxable Sales in 1996 and 2005: Downtown and City of Santa Rosa[1]

Retail Category	Downtown Santa Rosa		All of Santa Rosa		Downtown as Share of All of Santa Rosa	
	1996 %	2005 %	1996 %	2005 %	1996 %	2005 %
Department Stores[2]	37.3	30.3	24.5	21.1	31.5	24.7
Other Retail Stores[3]	22.7	23.0	17.0	17.9	27.7	22.2
Apparel Stores[4]	11.2	17.2	6.6	8.1	35.1	36.5
Restaurant & Liquor[5]	13.4	12.9	13.8	13.0	20.1	17.1
Furniture & Appliances[6]	7.8	5.5	10.4	10.6	15.4	8.8
Food Markets & Drug Stores[7]	2.4	3.1	11.0	10.0	4.6	5.3
Building Materials[8]	1.7	4.2	7.1	12.4	4.8	5.8
Business Services[9]	3.5	3.8	9.4	6.9	7.8	9.4
Total	100.0	100.0	100.0	100.0	20.7	17.2

[1] In constant 2005 dollars and assuming a one percent sales tax rate for the City of Santa Rosa; for fiscal years 1996 and 2005.
[2] Includes department stores.
[3] Includes recreation products, florist/nursery and miscellaneous retail.
[4] Includes apparel stores.
[5] Includes restaurants and liquor stores.
[6] Includes furniture/appliances.
[7] Includes food markets and drug stores.
[8] Includes retail building materials including building materials stores, hardware stores, and paint/glass/wallpaper.
[9] Includes office equipment, electronic equipment and business services.

Sources: City of Santa Rosa; MBIA MuniServices; Gruen Gruen + Associates.

Four sectors accounting for approximately 76 percent of Downtown taxable retail sales comprise only 37 percent of total sales for the City as a whole: (1) department stores, (2) other retail stores, (3) apparel, and (4) restaurant and liquor. While furniture and appliances, grocery and drug stores, building materials, and automobile-related sales comprise slightly less than 20 percent of Downtown sales, such categories generate approximately 42 percent of sales for all of Santa Rosa.

Sales in three of the four leading Downtown categories declined relative to sales of those categories in the City as a whole. Apparel sales have consistently increased, an exception to the general trend. Restaurant and liquor sales, after reaching a low in 2004, have grown slightly since then.

Given the growth of big box apparel retailers located outside the Downtown, the increase in the share of apparel sales in the Downtown relative to the City as a whole indicates particular strength in this Downtown sector. The decline in the Downtown share of furniture and appliance sales could be explained by the opening outside of Downtown of general merchandise and category-killer stores like Target. Therefore, specialty accessory and home furnishing stores should be encouraged to help bolster this category Downtown. The recent opening of Black Sea Gallery and Via Diva are examples of specialty stores that will help bolster the furnishing and appliance category.

SANTA ROSA PLAZA'S CONTRIBUTION TO DOWNTOWN TAXABLE RETAIL SALES BASE

Table II-7 shows an estimate of the annualized growth in taxable retail sales attributable to the Santa Rosa Plaza, an approximately 698,000-square-foot regional shopping mall located in Downtown Santa Rosa. The Plaza was renovated and expanded in 1993. Anchor department store tenancies include Macy's, Mervyn's and Sears.

TABLE II-7

Summary of Annualized Growth and Shift in Share of Total Retail Taxable Sales for Santa Rosa Plaza Between 1996 and 2005[1]

Retail Category	SR Plaza Taxable Sales 1996 $	Proportion of Total Taxable Sales 1996 %	SR Plaza Taxable Sales 2005 $	Proportion of Total Taxable Sales 2005 %	Change in Proportion of Total Sales Percentage Points	1996-2005 Annualized Growth in Taxable Sales $	1996-2005 Annualized Growth in Taxable Sales %
Department Stores[2]	112,019,600	58.8	90,954,700	47.7	(-11.1)	(-2,340,544)	(-1.9)
Other Retail Stores[3]	36,553,700	19.2	35,256,200	18.5	(-0.7)	(-144,167)	(-0.4)
Apparel Stores[4]	32,830,100	17.2	49,599,400	26.0	8.8	1,863,256	4.7
Restaurants & Liquor[5]	5,015,000	2.6	5,479,700	2.9	0.3	51,633	1.0
Furniture & Appliances[6]	1,799,200	0.9	2,465,000	1.3	0.4	73,978	3.6
Food Markets & Drug Stores[7]	607,300	0.3	480,600	0.3	0.0	(-14,078)	(-2.1)
Building Materials[8]	0	0.0	0	0.0	0.0	0	0.0
Business Services[9]	1,764,700	0.9	6,607,600	3.5	2.6	538,100	15.8
Total	190,589,600	100.0	190,843,200	100.0		28,178	1.5

[1] In constant 2005 dollars and assuming a one percent sales tax rate for the City of Santa Rosa; or fiscal years 1996 and 2005.
[2] Includes department stores.
[3] Includes recreation products, florist/nursery and miscellaneous retail.
[4] Includes apparel stores.
[5] Includes restaurants and liquor stores.
[6] Includes furniture/appliances.
[7] Includes food markets and drug stores.
[8] Includes retail building materials including building materials stores, hardware stores, and paint/glass/wallpaper.
[9] Includes office equipment, electronic equipment and business services.

Sources: City of Santa Rosa; MBIA MuniServices; Gruen Gruen + Associates.

From fiscal year 1996 through fiscal year 2005, adjusted for inflation, Santa Rosa Plaza sales have increased slightly to $190.9 million. The growth in apparel stores sales at an annualized rate of nearly five percent or nearly $1.9 million per year to $35.6 million to 26 percent of total sales partially offset the decline in department store sales. Department store sales have declined from 59 percent of total sales to 47.6 percent of total sales to $90.9 million. This equates to an average annual decline of almost two percent or $2.3 million. Other retail stores sales have slightly declined to $35.3 million or 18.5 percent of total sales. Restaurant sales have grown at an average annual rate of one percent to nearly three percent of total Santa Rosa Plaza sales at $5.5 million. Business services have grown the most rapidly and constitute a small but increasing share of the Plaza's sales. While furniture sales have grown at a high rate of 3.6 percent, this sales category only makes up 1.3 percent of total sales or nearly $2.5 million.

Table II-8 presents estimates of total sales, sales per square foot, and annual percentage change for the Santa Rosa Plaza, from fiscal year 1996 through fiscal year 2005, adjusted for inflation. Unadjusted for inflation, sales grew at an average annual rate of 7.4 percent, from $220 per square foot to $274 per square foot.

TABLE II-8

Estimate of Santa Rosa Plaza Sales Per Square Foot
(Adjusted for Inflation, Constant 2005 Dollars)

Year	Total Sales $	Sales Per Square Foot[1] $	Annual Percentage Change %
1996	190,951,800	274	
1997	178,068,700	255	-6.7
1998	185,165,200	265	4.0
1999	187,628,600	269	1.3
2000	188,502,200	270	0.5
2001	201,007,400	288	6.6
2002	194,234,900	278	-3.4
2003	183,636,200	263	-5.5
2004	184,031,000	264	0.2
2005	190,929,500	274	3.7

[1] Santa Rosa Plaza is approximately 698,000 square feet.

Sources: City of Santa Rosa; MBIA MuniServices; Gruen Gruen + Associates.

The sales figures in Table II-8 are presented in constant 2005 dollars, or in other words, include the effects of inflation. While sales per square foot are the same for 1996 and 2005 at $274, sales in 2005 represent a rebounding from the recessionary, downward trend following 2001. Non-department store space generates much higher sales per square foot productivity than the department store space. Based on our interview with a representative of Mervyn's, we estimate sales per square foot of $210 to $221, an above average productivity for the chain.

Santa Rosa Plaza sales of approximately $190.9 million constitute 63 percent of the approximately $300 million sales in the Downtown. Table II-9 shows that sales from department stores operating in the Plaza comprise 100 percent of department store sales in Downtown.

TABLE II-9

Comparison of Share of Retail Taxable Sales in 1996 and 2005: Downtown and Santa Rosa Plaza[1]

Retail Category	Downtown Santa Rosa		Santa Rosa Plaza		Santa Rosa Plaza as Share of Downtown	
	1996 %	2005 %	1996 %	2005 %	1996 %	2005 %
Department Stores[2]	37.3	30.3	58.8	47.6	100.0	100.0
Other Retail Stores[3]	22.7	23.0	19.2	18.5	53.5	51.0
Apparel Stores[4]	11.2	17.2	17.2	26.0	97.3	95.9
Restaurant & Liquor[5]	13.4	12.9	2.6	2.9	12.5	14.1
Furniture & Appliances[6]	7.8	5.5	0.9	1.3	7.7	15.0
Food Markets & Drug Stores[7]	2.4	3.1	0.3	0.3	8.3	5.1
Building Materials[8]	1.7	4.2	0.0	0.0	0.0	0.03
Business Services[9]	3.5	3.8	0.9	3.5	16.7	58.3
Total	99.9	100.0	99.9	100.1	63.4	63.5

[1] In constant 2005 dollars and assuming a one percent sales tax rate for the City of Santa Rosa; for fiscal years 1996 and 2005.
[2] Includes department stores.
[3] Includes recreation products, florist/nursery and miscellaneous retail.
[4] Includes apparel stores.
[5] Includes restaurants and liquor stores.
[6] Includes furniture/appliances.
[7] Includes food markets and drug stores.
[8] Includes retail building materials including building materials stores, hardware stores, and paint/glass/wallpaper.
[9] Includes office equipment, electronic equipment and business services.

Sources: City of Santa Rosa; MBIA MuniServices; Gruen Gruen + Associates.

Apparel sales in Santa Rosa Plaza make up over 95 percent of Downtown apparel sales. Other retail stores sales attributable to Santa Rosa Plaza comprise over one half of Downtown sales in this category. While Santa Rosa Plaza's share of the restaurant and furniture and appliances sales categories has increased significantly since 1996, sales only comprise 14 percent and 15 percent respectively of total Downtown restaurant and furniture and appliances sales. As would be expected, grocery and drug stores attributable to Santa Rosa Plaza comprise a small (five percent) share of total Downtown sales.

PER CAPITA SALES

To further evaluate the relative strength and dynamics of Santa Rosa's retail sales, Table II-10 (next page) adjusts for the growth in Santa Rosa population by presenting estimated per capita sales for the same selected retail categories. To derive per capita sales estimates, we divided the sales revenues estimates (produced by dividing sales tax receipts by one percent) by the estimated population of Santa Rosa for the years 1996 through 2005. The source of the population estimates is the State of California Department of Finance.

Lower per capita sales tend to indicate that some local potential demand within the community is lost to retailers outside the community as some local income is spent outside the community. Higher per capita sales than would be expected to occur given the expenditure or purchasing power of community residents suggests that community retailers capture more sales from shoppers outside the community than lost through leakage. According to Keegan & Coppin Company, Inc. Santa Rosa's retail inventory includes about 77 percent of the regional-serving retail space in Sonoma County.[1] Given the high share of regional-serving retail space and that per capita sales of $18,107 are 68 percent higher than the estimated $10,756 per capita sales for Sonoma County as a whole Santa Rosa's retail base probably attracts more dollars from outside the community than it leaks to retail supply sources outside of Santa Rosa.

Per capita sales in Santa Rosa have decreased at a faster rate than overall sales. This suggests that population growth has outpaced retail expenditures. This pattern likely reflects the recessionary period following 2001 and an escalation of housing costs, which reduces disposable income. Considering the effects of inflation, total per capita sales slightly decreased from $18,376 in 1996 to $18,107 in 2005. Until the recessionary period following 2001, however, per capita sales grew every year. The increase of annualized sales following 2001 are not as robust as they were in the mid-to-late 1990's due to recessionary downward pressures on the retailing sector that were not limited to Santa Rosa.

Between 1996 and the peak year of 2001, per capita sales grew 12 percent. Santa Rosa experienced an increase in per capita sales in the following retail categories: (a) Other retail stores (sales peaked in 2001), (b) apparel (highest sales level achieved in 2005), building materials (highest sales level achieved in 2005), and automotive related (sales peaked in 2001).

Per capita sales decreased in the department stores and business services categories. Per capita sales have been relatively stable or flat in the furniture and appliances, restaurants and liquor, and food markets and drug stores categories. The decline in per capita sales in the restaurant category could reflect an insufficient local supply of restaurants to respond to obtainable demands.

The results of the analysis of historic sales tax receipts suggest particular retail strengths in

[1] Total Existing Retail Vacancy Estimates First Quarter 2004 Sonoma County Breakdown by Type of Retail Location, Keegan & Coppin Company, Inc.

apparel and building materials and the potential to bolster the other retail stores, restaurants, and furniture and appliances categories.

TABLE II-10

Per Capita Taxable Retail Sales for City of Santa Rosa by Sector
(Adjusted for Inflation, Constant 2005 Dollars)

Retail Category	1996 $	1997 $	1998 $	1999 $	2000 $	1996-2000 %	2001 $	2002 $	2003 $	2004 $	2005 $	2001-2005 %
Department Stores	2,825	2,809	2,953	3,089	2,958	4.7	2,996	2,843	2,521	2,443	2,356	-21.4
Other Retail Stores	1,958	1,980	1,958	2,069	2,208	12.8	2,289	2,183	2,140	2,120	1,997	-12.8
Apparel Stores	764	765	775	823	812	6.3	865	859	841	891	907	4.9
Restaurants & Liquor	1,594	1,591	1,532	1,530	1,485	-6.8	1,525	1,510	1,490	1,490	1,455	-5.0
Furniture & Appliances	1,200	1,306	1,327	1,365	1,378	14.8	1,387	1,250	1,191	1,236	1,189	-14.3
Food Markets and Drug Stores	1,272	1,275	1,251	1,259	1,199	-5.7	1,228	1,210	1,163	1,168	1,121	-8.7
Building Materials	1,676	1,766	1,759	2,173	2,154	28.5	2,205	1,969	1,932	2,186	2,347	6.4
Automobile Related	4,643	4,678	4,701	5,078	5,418	16.7	5,571	5,288	5,083	5,228	5,071	-9.0
Business Services	2,246	2,266	2,469	2,316	2,723	21.2	2,375	1,845	1,533	1,466	1,516	-36.2
Other	198	188	186	206	187	-5.6	191	184	165	168	149	-22.0
Total	18,376	18,624	18,912	19,908	20,523	11.7	20,630	19,140	18,080	18,396	18,107	-12.3

Sources: City of Santa Rosa; MBIA MuniServices; Gruen Gruen + Associates.

CHAPTER III

THE COMPETITIVE POSITION OF DOWNTOWN SANTA ROSA

INTRODUCTION

To gain insight into the potential demand for retail space in the Downtown, GG+A staff inspected the Downtown, conducted interviews with property owners, developers, real estate brokers, and merchants. We synthesized the results of the inspections and interviews into the following sections:

- Factors That Encourage Demand or Primary Advantages;
- Factors That Constrain Demand or Primary Disadvantages; and
- Principal Sources of Demand and Competing Supply Options.

FACTORS THAT ENCOURAGE DEMAND OR PRIMARY ADVANTAGES

The site inspections and interviews suggest the primary existing or potentially cultivated advantages for retail space in the Downtown:

- Geographic centrality within a community with increasing purchasing power due to growth in the number of households and household income;

- Relatively convenient accessibility provided by connections to Highway 101 via Third Street and Highway 12 via E Street;

- A pedestrian scale and ambiance in the Downtown; and

- Proximity to a relatively large employment base, including law firms and other businesses and professional service providers and government offices. According to the "Santa Rosa Main Street Business Inventory" compiled by the Center for Regional Economic Analysis, the Downtown includes 1,319 businesses including 277 professional services establishments and 238 finance, insurance, and real estate establishments.[2] Based on data we obtained from Claritas, Inc., a national demographic information vendor for a broader area of Downtown, the Downtown employment attributable to the finance, insurance and real estate sector, legal and business and government sectors alone is estimated to total 6,483 workers. Claritas estimates a total Downtown employment of approximately 13,750 workers.

[2] Santa Rosa Main Street Business Inventory" compiled by Robert Eyler, Ph.D., Director, Center for Regional Economic Analysis, Undated, Page 4.

FACTORS THAT CONSTRAIN DEMAND OR PRIMARY DISADVANTAGES

The factors most discouraging potential demand or primary disadvantages include the following:

- Much of the growth in the community has occurred away from the Downtown with a resulting shift of the major retail base and consumer shopping patterns to Santa Rosa Avenue;

- The Downtown currently lacks a positive image and a critical base of synergistic retail, cultural, and other attractions needed to induce multi-purpose trips from a wide area or frequent visitation. Downtown is active primarily during business hours Monday through Friday;

- The Downtown is relatively disjointed with Santa Rosa Plaza, the bisection of Courthouse Square into roadways and park space, government office buildings, and ground-floor office or service use space serving to break up ground-floor retail linkages and continuity;

- A parking shortage. It is an American truism that wherever the commercial agglomeration, the amount or placement of parking is almost always a major tenant complaint. In this case, however, the Downtown has been found to contain a significant parking shortfall relative to demand that the planned development of the parking structure on the White House department store site is intended to ameliorate;[3] and

- Security and safety concerns and the presence of homeless discourage visitation to the Downtown.

SOURCES OF DEMAND AND COMPETING RETAIL LOCATIONS

The interviews suggest the primary sources of demand for retail space in the Downtown not located in Santa Rosa Plaza include employees who work in the Downtown and Santa Rosa residents who live near the Downtown.

Some destination retailers in the Downtown attract customers from a relatively wide area. Overall, the current geographic market penetrated by Downtown space other than the Santa Rosa Plaza is limited by the relative lack of attractions and the surrounding competing shopping alternatives. Significant retail agglomerations are located in commercial corridors within approximately two to three miles of the Downtown. These agglomerations, such as the community and power center, big-box retail along Santa Rosa Avenue, the 930,000-square-foot, 91 percent leased Coddingtown Mall with ample parking located about 2.3 miles

[3] See for example, Downtown Mixed Use Opportunity Sites Analysis, Seifel Consulting, Inc. March 2002, Page 4, citing Wilbur Smith Associates "Downtown Parking District Master Plan and Study Update"; See also "Draft Environmental Impact Report for the City of Santa Rosa Downtown Mixed-Use Project", November 2003, Michael Brandman Associates, Page 2-1.

north of the Downtown, and the 286,000-square-foot Montgomery Village located about 1.9 miles east of the Downtown "block" penetration by the existing Downtown base of retail into household demand located further away from the Downtown. Over the past few years, the nearly fully leased Montgomery Village has attracted Ann Taylor, Chico's, J Jill, Coldwater Creek, Talbot's, and Sharper Image. Many of these retailers were first catalog retailers who then combined internet sales via web sites ("clicks") with call centers and are entering a new distribution channel (bricks and clicks) via lifestyle or Main Street formats that include a combination of (a) higher-quality and commanding design and architectural features, (b) convenient parking arrangements, (c) proximity to an affluent residential customer base, and frequently (d) branded specialty retailers, restaurants, and entertainment uses. The secure and relatively hassle free ambiance and branded tenant mix of lifestyle centers respond unusually well to the preferences of affluent, older customers. Simon Property Group purchased a 50 percent interest in Coddington Mall from its long-time owner. The property is expected to be enhanced with added capital available from Simon.

The Santa Rosa Plaza trade area includes the entire City of Santa Rosa and also penetrates beyond the City into Sonoma County and portions of Mendocino and Lake Counties. The recent additions of Abercrombie & Fitch, Aeropostale, Bebe Sport, and Apple Computer stores have served to extend the trade area. The interviews and review of leasing information suggest that younger-aged shoppers are attracted to the mall with 25 percent of shoppers 17-years-old and younger and almost another 25 percent between the ages of 18-years and 34-years-old. The interviews suggest that Santa Rosa Plaza generates limited spillover sales to the "main street" portions of Downtown and that little interaction occurs between the shopping venues in these areas and the mall.

Many of the users attracted to the Downtown, excluding the space available at Santa Rosa Plaza, are independent, local entrepreneurs. Barnes and Noble, Starbucks, and Peet's Coffee & Teas, however, are examples of the relatively few national chains that have elected to operate in the Downtown outside of Santa Rosa Plaza. The interviews and inspections suggest that these users are doing well and that sales have increased in the past several years. The Downtown tends to appeal mostly to smaller entrepreneurs attracted to the lower rents prevailing in the Downtown relative to supply alternatives on Santa Rosa Avenue. For example, several restaurants (e.g., Flavor and Tahini Grill) have recently opened at Downtown locations.

CHAPTER IV

POTENTIAL ADDITIONAL RETAIL DEMAND AND AMOUNT OF SUPPORTABLE SPACE

INTRODUCTION

To estimate the potential demand for retail goods and services in the Downtown, we first estimate the growth in the population and income of Santa Rosa residents. We then multiply the resulting total income or potential purchasing by the estimated per capita expenditures on the kinds of retail goods and services found in the Downtown. We do so to derive an estimate of total potential retail demand for the City as a whole. The current per capita sales estimates also reflect sales contributions made by workers and visitors who do not live in Santa Rosa. Based on the interviews, field research, and analysis of historic sales trends, we estimate that Downtown will be able at the minimum to capture a share of future spending potential commensurate with the share it currently captures. If the competitive strength of the Downtown is enhanced through the implementation of the future Downtown Plan and the attraction of additional residents and office workers, this would help assure that the Downtown maintains or even improves its capture rate or market share.

We focus on the demand for additional space because the current retail supply throughout the City is typically substantially leased. According to data provided by Keegan & Coppin Company, Inc., in 2004, the City of Santa Rosa included 7,842,000 square feet of retail space, 96 percent of which was leased. Regional-serving developments such as the 565,000-square-foot Santa Rosa Marketplace, 172,300-square-foot Santa Rosa Town Center, Coddingtown Mall, and Montgomery Village had less than a three percent vacancy rate. The Santa Rosa Plaza was reported to have a vacancy rate of 3.6 percent or 25,000 square feet of space. Our site inspections of the core of the Downtown suggest limited vacancy in ground floor space.

FORECAST OF POTENTIAL ADDITIONAL RETAIL DEMAND

Table IV-1 shows the forecast of potential additional retail demand for Downtown Santa Rosa.

TABLE IV-1

Estimate of Additional Retail Demand Based on Downtown Share of Forecast Total City of Santa Rosa Sales

		2005 \#	2010 \#	2015 \#	Growth in Population 2005-2010 \#	Growth in Population 2010-2015 \#
Population		155,300	164,300	170,700	**8,900**	**6,400**
		Total Potential Sales Expenditures			Potential Growth in Sales Expenditures	
	Sales Per Capita, 2005 $	2005 $	2010[2] $	2015[2] $	2005-2010 $	2010-2015 $
All of Santa Rosa	9,025[1]	1,401,583,000	1,637,085,000	1,877,871,000	**235,502,000**	**240,786,000**
Estimated Share for Downtown @ Capture Rate of 19.6 Percent	1,780[1]	274,710,000	320,869,000	368,063,000	**46,159,000**	**47,194,000**

[1]Excludes the following categories: building materials, automobile related, business services, and other. Table II-6, which shows sales making up 17.2 percent of total City sales, includes building materials, automobile-related, and business services, and other retail sales. The 19.6 percent shown here reflects the exclusion of these categories.
[2]Assumes a two percent annual growth in per capita sales, based on historic growth trends in absolute sales, estimated future income growth, and enhancement to retail base.

Sources: City of Santa Rosa; MBIA MuniServices; Association of Bay Area Governments; Gruen Gruen + Associates.

Based on population forecasts for Santa Rosa from the Association of Bay Area Governments, the population of Santa Rosa is forecast to increase from 155,300 in 2005 to 164,300 in 2010 and 170,700 in 2015. This equates to an increase of 8,900 people between 2005 and 2010 and 6,400 people between 2010 and 2015. Multiplying the forecast population by the estimated 2005 per capita sales produces a base year sales expenditures or purchasing power estimate for the relevant categories of $1.4 billion. The 2010 and 2015 estimates of $1.6 billion and $1.9 billion reflect multiplying the forecast added population by the per capita sales figure increased an annual rate of two percent. This results in forecast increased sales expenditures or retail demand for all of Santa Rosa of $235.5 million between 2005 and 2010 and $241.8 million between 2005 and 2015.

Multiplying the estimated total Citywide demand by the current share of Downtown sales to total sales for all of Santa Rosa of 19.6 percent results in an estimate of added expenditure potential or retail demand in Downtown of $46.2 million between 2005 and 2010 and $47.2 million between 2010 and 2015. The 19.6 percent market share or capture rate estimate is derived based on Downtown sales of $276,479,000 in all categories other than automobile related, building materials, business services, and other retail sales compared to total City-wide sales of 1,410,145,900 in these categories.

FORECAST ADDITIONAL SUPPORTABLE SPACE DEMAND

Table IV-2 presents an estimate of the range of space that the forecast added sales expenditure could support.

TABLE IV-2
Forecast Growth in Amount of Supportable
Square Feet of Retail Space in Downtown Santa Rosa, 2005-2015

	2005	2010	2015	Change 2005-2010	Change 2010-2015
Potential Downtown Demand Assuming an 19.6% Capture Rate	$274,710,000	$320,869,000	$368,063,000	$46,159,000	$47,194,000
Total Supportable Square Feet with Sales Threshold of $300 per Square Foot	915,700	1,069,563	1,226,876	153,863	157,313
Total Supportable Square Feet with Sales Threshold of $350 per Square Foot	784,886	916,769	1,051,609	131,883	134,840

Sources: City of Santa Rosa; MBIA MuniServices; Gruen Gruen + Associates.

In order to convert estimates of expenditure potential or retail demand into estimates of potential on-the-ground retail space, an assumption must be made about the average sales per square foot required to amortize development costs and provide an acceptable return on investment The estimates of supportable space demand presented in Table IV-2 reflect the assumption that a *new* retail development would need to generate at least $300 pet square foot in sales in order to be a financially feasible venture. This assumption is based on a synthesis of our interviews, analysis of the historic sales data, sales per square foot productivity of the Santa Rosa Plaza, and rents for better quality, located space in Downtown. Typically retailers can pay rent equivalent to five percent to eight percent of sales. A $2.00 per square foot prevailing monthly rent would suggest potential sales capability of $300 to $480 per square foot. We also use a higher sales threshold of $350 per square foot to estimate supportable space demand and provide for obtainable rents that would support high quality development, tenanting, and property maintenance and higher land or property purchase prices.

Based on the estimated capture rate of expenditures on retail goods and services of 19.6 percent, using a $300-per-square-foot minimum sales threshold produces an estimate of additional supportable space in the Downtown between 2005 and 2010 of 154,000 square feet of space. The forecast increase in expenditure potential due to household and income growth translates into additional space demand for the Downtown of approximately 157,000 square feet between 2010 and 2015. Between 2005 and 2015, using the $300-per square-foot sales threshold produces an estimate of a total of 311,000 square feet of additional supportable space in the Downtown.

Using a higher sales threshold of $350 per square foot and the same capture rates produces an estimate of added supportable demand in the Downtown between 2005 and 2010 of 132,000 square feet. Using the $350-per square foot sales threshold assumption for estimating the increase in supportable space demand for the Downtown between 2010 and 2015 produces an estimate of 135,000 square feet of space. Between 2005 and 2015, added supportable retail demand in the Downtown is estimated to total 267,000 square feet, using a $350 per square foot minimum threshold. To put this estimated range of supportable demand in perspective, according to "Santa Rosa's Existing Land Use Survey", the two blocks of Fourth Street between Mendocino and E Streets and including a portion of retail along 5th Street contain approximately 192,000 square feet of space. The estimated demand equates to about 38 percent of the size of Santa Rosa Plaza.

THE POTENTIAL DEMAND FOR HOUSING UNITS IN DOWNTOWN SANTA ROSA

A Report to

The City of Santa Rosa

from

GRUEN GRUEN + ASSOCIATES
Urban Economists, Market Strategists & Land Use/Public Policy Analysts

December 2005

C1178

APPLYING KNOWLEDGE
CREATING RESULTS
ADDING VALUE

Chapter		Page
I	INTRODUCTION AND CONCLUSIONS……..……………………	1
	INTRODUCTION..	1
	WORK COMPLETED.	1
	REPORT ORGANIZATION	1
	PRINCIPAL FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS………. . . . . ……………………………..	2
	Primary Advantages………………………………………………….	2
	Primary Disadvantage……………………………………………….	2
	Primary Geographic Market Area……………………………………….	2
	Primary Sources of Demand……………………………………………	3
	Supply…………………………………………………………….	3
	Estimated Potential Housing Demand from Existing Market Area Households……………………………………………………………	3
	Estimated Potential Housing Demand from Existing Market Area Households from Additional Newly Formed Households …………….	3
	Total Estimated Demand for Housing from Existing and Additional Households…………………………………………………………….	4
	Share of Potential Demand Obtainable in Downtown ………………….	4
II.	PRIMARY MARKET AREA AND SOURCES OF DEMAND AND SUPPLY…………………………………………………………...	5

	PRIMARY ADVANTAGES AND DISADVANTAGES FOR DOWNTOWN HOUSING USES..........................………………...…...	5
	PRIMARY GEOGRAPHIC MARKET AREA…………….…………..	7
	PRIMARY SOURCES OF DEMAND…………………………………	7
	CHARACTERISTICS OF NEW OR PLANNED RESIDENTIAL DEVELOPMENTS IN DOWNTOWN SANTA ROSA………..	7
III.	THE ESTIMATED SIZE OR SCALE OF POTENTIAL MARKET DEMAND FOR HOUSING UNITS IN DOWNTOWN……….	11
	ESTIMATE OF RESIDENT TURNOVER…..……………………….	12
	ESTIMATE OF POTENTIAL DEMAND FOR NEW HOUSING IN THE DOWNTOWN……………………..……………………….	13
	Estimated Household Income Necessary to Support New Housing….….	13
	Estimate of Demand from Existing Households…………………… . . .	14
	Estimate of Demand from Additional New Households……………….	15
	Total Estimated Demand for Housing from Existing and New Additional Households.…………………………………………………	16
	SHARE OF POTENTIAL DEMAND OBTAINABLE IN DOWNTOWN…………….…………………………………………...	18

LIST OF TABLES

Table No.		Page
II-1	Comparison of Housing and Income Characteristics for Downtown and All of Santa Rosa………………………………………………………..	6
II-2	Demographic Comparison of Expanded Downtown and Santa Rosa: 2000………..	6
II-3	Current Major Downtown Residential Projects………………………..…	8
III-1	Number of Households With and Without Children Under Age 18 in Santa Rosa and Sonoma County…………………...……………………	11
III-2	Age of Householder in Santa Rosa: 2000 …………………………….....	12
III-3	Estimated Residential Turnover in Sonoma County: 2003…………...….	12
III-4	Estimated Household Income Necessary to Support New Market Rate Housing.……………………………………………………………….	13
III-5	Estimated Annual Demand from Existing Households in Santa Rosa and Sonoma County ……………………………………………………...	14
III-6	Projected Household Growth in Santa Rosa and Sonoma: 2005-2015……………………………….	15
III-7	Projected Growth in Households Without Children and Incomes Greater than $75,000 and Households Headed by a Person Aged 25-34 or 55-74 and Incomes Greater than $75,000…………………………….	16
III-8	Estimated Demand from Existing and Additional Households in Santa Rosa and Sonoma County: 2005-2015…………………………………..	17

CHAPTER I

INTRODUCTION AND CONCLUSIONS

INTRODUCTION

Gruen Gruen + Associates (GG+A) conducted the market reconnaissance summarized in this report to estimate the demand for housing units in Downtown Santa Rosa. This report provides an information base for the preparation of a Downtown Plan for Santa Rosa.

WORK COMPLETED

To complete the market reconnaissance, we inspected the Downtown and surrounding area. We conducted interviews with local and regional real estate brokers, developers, and property owners and planners with the City of Santa Rosa and the Executive Director of Santa Rosa Main Street. We directed these interviews at obtaining information and insights on:

- The relevant primary geographic market within which new housing development would compete for consumers;
- The types of consumers likely to be attracted to housing uses built in the Downtown;
- The relative advantages and disadvantages and image of the Downtown as a housing location; and
- Characteristics of new or proposed downtown housing developments.

We analyzed relevant demographic characteristics of the primary geographic market area to identify the size or scale of the potential market area households with the kinds of characteristics likely to be attracted to new housing product in the Downtown.

REPORT ORGANIZATION

Chapter II describes the primary market area from which households are likely to be attracted, the primary advantages and disadvantages of Downtown for housing uses, and the type of households that will be attracted to Downtown Santa Rosa. Chapter II also describes characteristics of new and planned residential projects in Downtown Santa Rosa.

Chapter III describes the number of households in Santa Rosa and the County with the characteristics of those households likely to be attracted to new housing located in the Downtown. Chapter III presents estimates of city-wide and county-wide annual demand from turnover of existing households and growth of new households. Chapter III also presents estimates of the amount of potential total demand that Downtown could potentially capture.

PRINCIPAL FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Primary Advantages

The primary advantages of the Downtown as a housing location include:

- Geographic centrality and accessibility to Highway 101 and Highway 12 and therefore accessibility to employment centers within the region, in addition to Downtown workplaces;
- Proximity to restaurants, retail, civic, and cultural uses;
- The ambiance and vitality of an urban environment; and
- The potential for the enhancement of the Downtown to help produce housing value appreciation in which pioneering households will most benefit.

Primary Disadvantages

The primary disadvantages of the Downtown as a housing location relate to the following:

- The Downtown historically has not had a highly desirable image as a residential location;
- Concerns about safety and security and the presence of homeless; and
- The lack of an established market for new market-rate housing uses. Market rate housing products are pioneering uses in a Downtown that does not yet have a firmly established image as a preferred residential location.

Primary Geographic Market Area

The primary market area from which households are likely to be attracted include the City of Santa Rosa and Sonoma County.

Primary Sources of Demand

Primary demand sources for housing products built Downtown will include single or dual income households or divorced individuals with few or no children living at home. One housing consumer market is characterized as younger, smaller-size households with one or more employed members. A second potential housing consumer market is characterized as an older, empty-nester households (i.e., children have moved out of the household) seeking to trade down from older, single-family homes they no longer wish to maintain or need, and who for lifestyle or social reasons desire to move from their existing single-family neighborhoods.

Supply

The supply of new housing is relatively limited in Downtown. The more significant projects recently completed or under construction are low to mid-rise developments, ranging in size from 26-units to 80-units. Several larger-scale developments are planned or proposed.

Estimated Potential Housing Demand from Existing Market Area Households

Including households without children living at home with incomes above $75,000 and assuming an annual move or turnover rate of 8.5 percent results in an estimate of potential demand of over 1,000 Santa Rosa households and almost 3,900 Sonoma County households, including the 1,000 Santa Rosa Households. Including households between the ages of 25-years and 34-years and between 55- years and 75-years with incomes above $75,000 suggests potential demand county-wide of approximately 1,550 households, of which about 470 households would reside in Santa Rosa. This estimate also assumes a movement or turnover rate of 8.5 percent.

Estimated Potential Housing Demand from Additional Newly Formed Households

Assuming an age and income distribution similar to the existing distribution, the household growth forecast by Association of Bay Area Governments suggests additional annual demand from households without children and incomes greater than $75,000 within Sonoma County of 475 households, of which 138 would be in Santa Rosa.

Sonoma County is forecast to add between 2005 and 2015 approximately 1,900 households headed by a person aged 25-34 or 55-74 and incomes greater than $75,000 or on average 190 households per year. Of the additional households forecast for the County, 610 are estimated to reside in Santa Rosa. This translates into an additional 61 households per year.

Total Estimated Demand for Housing from Existing and New Additional Households

Using demand from the 25- to 34-years and 55- to 75-years-old age category as a lower bound and demand from the household without children category as an upper bound, we estimate a range of housing demand of 530 to 1,194 units per year for all of Santa Rosa, and 1,743 to 4,361 units per year for all of Sonoma County (including the 530 to 1,194 Santa Rosa units).

Share of Potential Demand Obtainable In Downtown

The size or scale of the potential demand sources suggest that even a small capture rate would support the development of significantly more new housing than has been built in prior recent decades in Downtown. If, for example, housing built Downtown captured three percent of the potential demand from the primary demand sources within Sonoma County, this would equate to 52 to 131 units per year. Based on the synthesis of our interviews, field research, and quantitative estimate of potential demand sources, we estimate in our professional judgment that on average, assuming the mitigation of the identified locational disadvantages, it would not be unreasonable for the market to support approximately 50 to 100 units per year of housing in Downtown Santa Rosa.

The Downtown currently appeals more to the younger household market than to older, empty-nester households. Older households are typically more sensitive than younger households to the image and security disadvantages that apply to Downtown. Older households have more housing choices, including the option to remain in their existing suburban locations.

As the Downtown becomes branded as a desirable residential location, the amount of demand, especially from the potential empty-nester housing market, can be expected to increase. The City should focus on mitigating the disadvantages associated with the Downtown and encouraging initial housing developments to be well-designed, well-built, and accompanied or soon followed by the addition of other new uses and attractions that signal an improving image and an exciting future for the Downtown.

CHAPTER II

PRIMARY MARKET AREA AND SOURCES OF DEMAND AND SUPPLY

PRIMARY ADVANTAGES AND DISADVANTAGES FOR DOWNTOWN HOUSING USES

The review of demographic and housing data, interviews, and review of new or proposed developments suggest the primary advantages and disadvantages and locational image of the Downtown for housing uses. The primary advantages include:

- Geographic centrality and accessibility to Highway 101 and Highway 12 and therefore accessibility to employment centers within the region, in addition to Downtown workplaces;
- Proximity to restaurants, retail, civic, and cultural uses;
- The ambiance and vitality of an urban environment; and
- The potential for the enhancement of the Downtown to help produce housing value appreciation in which pioneering households will most benefit.

The primary disadvantages of the Downtown as a housing location relate to the following:

- The Downtown historically has not had a highly desirable image as a residential location;
- Concerns about safety and security and the presence of homeless; and
- The lack of an established market for new market-rate housing uses. Market rate housing products are pioneering uses in a Downtown that does not yet have a firmly established image as a preferred residential location.

Housing statistics provided by the City support these findings. As shown on Table II-1, the Downtown includes a much higher proportion of renters and multi-family units than the City as a whole, with a much older housing stock, lower median rent, and lower median household income than the City as a whole.

TABLE II-1

Comparison of Housing and Income Characteristics for Downtown and All of Santa Rosa

	Downtown[1]	Santa Rosa
Housing Tenure		
Proportion of Households That Own Units	13%	58.5%
Proportion of Households That Rent Units	87%	41.5%
Median Contract Rent	$643[1]	$784
Housing Unit Use Mix		
Single-Family[2]	22%	74%
Multi-Family	78%	26%
Age of Housing		
Built Prior to 1950	65%	11%
Built Between 1950 and 1990	30%	73%
Built Between 1990 and 2000	5%	16%
Median Family Income	$43,194[1]	$59,659

[1] City furnished data on rent and income applies to Census Tract 1520 only. The boundaries of this Census Tract are generally highway 101, College Avenue, Brookwood Avenue, and Sonoma Avenue.
[2] Single family housing unit category includes mobile homes for Santa Rosa as a whole.

Source: City of Santa Rosa

Table II-2 shows that the households within one mile of the Downtown include a higher proportion of younger-aged (28.7 percent versus 20.1 percent 34-years and under) and smaller-sized households (2.48 persons per household for Downtown compared to 2.63 persons per household for all of Santa Rosa) than the City as a whole.

TABLE II-2

Demographic Comparison of Expanded Downtown and Santa Rosa: 2000

	Downtown[1]	Santa Rosa
Population	19,509	147,595
Households	7,844	56,066
Households with age of householder Under 25	7.9%	4.3%
Households with age of householder 25-34	20.8%	15.8%
Households with age of householder 35-54	43.1%	44.3%
Households with age of householder 55-74	17.3%	22.0%
Households with age of householder 75 or over	10.9%	13.6%

[1]Based on a one mile radius around the intersection of 3rd Street and E Street

Sources: 2000 Census, Claritas Demographic Trend Report.

The Downtown currently captures a higher proportion of younger-aged households than older, empty-nester households. The Downtown does not currently have the image or branding sufficient to induce a high proportion of empty-nester households to leave their existing homes or choose Downtown over other housing locations.

PRIMARY GEOGRAPHIC MARKET AREA

The geographic market area for housing uses is more extensive today than in the past. This is because of the increase in the number of two-adult worker households in which the members may be employed in differing communities. In addition, some households seeking new products will search a wider geographic area because of limited supply of new housing products in substantially built-out mature communities, or as a result of residential growth controls. Our interviews and field research suggest that the primary market area is likely to include the City of Santa Rosa and Sonoma County.

PRIMARY SOURCES OF DEMAND

The interviews and review of new supply suggest primary demand sources for housing products built Downtown will include single or dual income households or divorced individuals with few or no children living at home. One housing consumer market is characterized as younger, smaller-size households with one or more employed members. A second potential housing consumer market is characterized as older, empty-nester households (i.e., children have moved out of the household) seeking to trade down from older, single-family homes they no longer wish to maintain or need, and who for lifestyle or social reasons desire to move from their existing single-family neighborhoods.

Note that we have purposefully used the term “empty-nester”, as opposed to “senior” to define this second potential demand niche. We do so because the interviews and our prior research suggest that the move out of children from the household, rather than simply the aging of the heads of the household, provided the motivation for a different type of housing product and location. Because people between the ages of 50-years and 75-years are typically a great deal more active than those between 80-years and 90-years of age, the housing preferences of “empty-nesters” tend to differ from those of “seniors.”

CHARACTERISTICS OF NEW OR PLANNED RESIDENTIAL DEVELOPMENTS IN DOWNTOWN SANTA ROSA

Table II-3 shows the residential projects either under construction, approved, or planned for the Downtown.

TABLE II-3

Current Major Downtown Residential Projects

Project Name	Address	Units	Type	Unit Types & Sizes	Projected Rent per Square Foot or Sale Price $	Parking	Amenities	Status
Santa Rosa Canners	3 West 3rd Street	80	Single Family Attached, Live/Work, Multi-Family	15 2-story lofts (900 sf) 17 2-story townhomes (1,200 sf) 48 3 BR condo (2,000 sf)	Pricing not yet established	On-site, Internal	High ceilings, outdoor decks, skylights, historic reuse elements elevator building	Proposed
Moore Center	615 Healdsburg Avenue	80	Multi-Family	60% 1BR 40% 2BR 750-1300 sf	2.00 ($1,500 to $2,600 per month)	1 space per unit; gated, at-grade lot	Granite countertops, recessed lighting, crown molding, soundproofing	Under Construction
The Burbank	810 7th Street	26	Single Family Attached	5 studios (650 sf) 21 2 BR units (940 to 1,200 sf)	$269,000 for studios; $397,000 - $430,000 for 2 bdrm units, excluding view premium	29 spaces, on-site private garage	Views with no orientation onto highway; Elevator; Quite location but highly accessible to core of Downtown	Under Construction Completion date: August 2006
The Rises[1]	D Street between 2nd and 3rd	118	Multi-Family			34 spaces		Planned
Railroad Square Terrace	123 4th Street	29	Single Family Attached	Two-story townhouses, 780-940 square feet 26 one-bedroom and 3 two-bedroom units	$1,300 to $1,650 per month ($1.67 to $1.76 PSF)	32 spaces in private garage		Recently completed. Expects to lease up within 90 to 120 days.
Mixed Use Parking Garage[2]	710 3rd Street	183	Single Family Attached	1 and 2 BR, 1,100 sf average	$459,000	1 space per unit in garage		Planned
620 3rd Street[3]		100	Condominium	Above 10 stories, for sale				Planned
	TOTAL	616						

[1]The developer of this proposed project is still negotiating with the City and did not provide information on the project. No further information was available from the City.
[2]Information from the City and the *Santa Rosa Press Democrat*.. Developer did not provide any further information.
[3]Project is at a very preliminary phase of the planning process; no further information available at this time.

Sources: City of Santa Rosa; John Stewart; Hugh Futrell; Santa Rosa Press Democrat; Frank Howard Allen Realtors; Gruen Gruen + Associates.

Approximately 616 units are conceived, proposed, or under construction. Of the 616 units identified on Table II-3, 27 percent or 109 of the units are rental while the remainder are for-sale product. The largest, 80-unit multi-family rental product is under construction. The Moore Center is expected to rent units at $2.00 per square foot or $1,300 to $2,600 per month. Units range in size from 750 square feet to 1,300 square feet with 60 percent of the units consisting of one-bedroom and 40 percent of the units consisting of two-bedrooms. The developer indicated the project will be ready for marketing by Fall 2006. It is expected to lease up within six to nine months. The project is expected to attract young professionals who work in Santa Rosa and cannot afford or do not wish to purchase for-sale housing units. The development will include ground floor commercial space.

A smaller, 29-unit rental development in Railroad Square has recently been completed. The units range from 780 square feet to 940 square feet. Twenty-six of the units contain one bedroom, while three units contain two bedrooms. On-site parking for 32 spaces is provided. The developer expects the units to be substantially rented within 90 to 120 days. The estimated rents range from $1,300 to $1,650 per month or approximately $167 to $1.75 per square foot. The rents obtained to date have been at the high end of the expected range. The project has appealed to younger, smaller households who work in the Downtown or have been attracted to the ambiance and amenities available in Railroad Square, including the restaurants, night club, lively street scene, and historic architecture.

The Burbank is a for-sale product development expected to be completed in August 2006. This development includes five studios averaging 650 square feet of space and 21 two-bedroom units ranging in size from 940 to 1,200 square feet. The elevator building offers views without orientation to Highway 101, and a quiet location with easy accessibility to the core of Downtown. The studio units are estimated to have base prices of $269,000 or $412 per square foot. The base prices without considering view premiums for the two bedroom units are estimated to range from $397,000 to $430,000 per unit or $358 to $422 per square foot. The initial marketing suggests that some empty-nesters will be attracted because of the larger unit sizes, views, and quiet but accessible location as well as younger, smaller professional households. The units are expected to be sold-out prior to completion of construction

Santa Rosa Canners is a proposed 80-unit project including townhouse, loft, and condo units that range from 900 to 2,000 square feet. Parking will be provided on-site. The marketing agent for the project expects an absorption rate of approximately six units per month. The project is expected to attract empty nesters and first-time buyers without children primarily from within Sonoma County. The 15 loft units are designed to be live-work spaces, and approximately 40 percent of the buyers are expected to work from home.

The 183 one- and two-bedroom condominium units proposed by Monahan Pacific for the mixed-use parking garage development on the site of the former White House Department store now owned by the City are expected to average 1,100 square feet. Sales prices are estimated at $459,000 per unit ($417 per square foot). Monahan Pacific's other proposed downtown project, The Rises, adjacent to the former White House Department Store site, would include 118 units. Negotiations with the City have not been completed. A developer has indicated conceptual plans to develop a 100-unit condominium, high-rise development at 620 East Third Street. This project is just in the beginning of the planning process.

CHAPTER III

THE ESTIMATED SIZE OR SCALE OF POTENTIAL MARKET DEMAND FOR HOUSING UNITS IN DOWNTOWN

To make an estimate of the size or scale of the potential market demand suggested by the interviews and review of supply, we first consider a basic demographic determinant of demand related to the characteristics of the primary demand sources. Table III-1 presents estimates of the number and percentage of households with- and without- children living at home in Santa Rosa and Sonoma County.

TABLE III-1

Number of Households With and Without Children Under Age 18 in Santa Rosa and Sonoma County

	With Children		Without Children		Total	
	#	%	#	%	#	%
2000						
Santa Rosa	18,848	33.6	37,188	66.4	56,036	100.0
Sonoma County	59,796	34.7	112,607	65.3	172,403	100.0
2004						
Sonoma County, 2004	56,093	31.7	120,944	68.3	177,037	100.0
Sonoma County, Change, 2000-2004[1]	-3,703	-6.2	8,337	7.4	4,634	2.7

[1]2004 American Community Survey estimates not available for City of Santa Rosa.

Sources: U.S. Census Bureau, 2000 Census and 2004 American Community Survey; Gruen Gruen + Associates.

In both Santa Rosa and Sonoma County as a whole, less than 35 percent of households had children under the age of 18 in 2000. Between 2000 and 2004, the estimated number of households with children declined by approximately six percent while the estimated number of households without children increased by approximately seven percent, compared to an approximately three percent overall household growth. Thus, households without children constitute an increasing majority of households in Sonoma County. Because downtown housing tends to be more attractive to households without children, this demographic trend suggests the potential for increasing demand for Downtown housing product.

Table III-2 shows the number and proportion of households that were headed by a householder between 25 and 34 years or between 55 and 74 years in 2000.

TABLE III-2

Age of Householder in Santa Rosa: 2000

Age	Households #	Households %
25-34	8,853	15.8
55-74	12,337	22.0
25-34 and 55-74	21,190	37.8
All Ages	56,036	100.0

Sources: Census 2000, Gruen Gruen + Associates.

In 2000, Santa Rosa included 8,853 households headed by a householder between 25-years and 34-years-old and 12,337 households headed by a householder between 55-years and 75-years-old. Together, these two age groups account for nearly 40 percent of all households in Santa Rosa.

ESTIMATE OF RESIDENT TURNOVER

Table III-3 shows annual turnover estimates of residents in Sonoma County in 2003.

TABLE III-3

Estimated Resident Turnover in Sonoma County: 2003

	Age 25-34		Age 55-74		Ages 25-34 and 55-74		All Ages	
	#	%	#	%	#	%	#	%
Did not move in last year	39,215	75.7	72,991	94.8	112,206	87.1	393,850	87.5
Moved in last year	12,581	24.3	3,597	4.7	16,178	12.6	56,486[1]	12.5
Moved within county	9,088	17.5	1,907	2.5	10,995	8.5	37,926	8.4
Moved from different county in state	2,393	4.6	1,690	2.2	4,083	3.2	14,444	3.2
Moved from different state	1,100	2.1	0	0.0	1,100	0.9	3,474	0.8
TOTAL RESIDENTS	51,796	100.0	77,009	100.0	128,805	100.0	450,336	100.0

[1]The Census Bureau estimates that 642 people moved to Sonoma County from abroad in 2003. Of these estimated people, none were in the age groups under consideration.

Sources: U.S. Census Bureau, 2004 American Community Survey; Gruen Gruen + Associates

Analysis of the data suggests that approximately 24 percent of residents age 25 to 34-years-old and five percent of residents age 55 to 74-years-old move in any given year. Of these, most move within the County or the State. Although two-thirds of younger and older age residents moved within the County, those aged 25-34 are more likely to move within the County. Overall, of residents within these two age categories, 8.5 percent of them moved from within the County.

ESTIMATE OF POTENTIAL DEMAND FOR NEW HOUSING IN THE DOWTOWN

Estimated Household Income Necessary to Support New Housing

Table III-4 shows the estimated household income needed to support new market-rate housing in Downtown Santa Rosa, assuming a monthly housing cost of $2,000 (the average amount of rent expected to be obtained for the Moore Development reviewed above in Chapter II and the amount of the monthly payment estimated to be associated with a $420,000 sales price for a housing unit available, for example, at the Burbank project).

TABLE III-4

Estimated Household Income Necessary to Support New Market-Rate Housing

	Renter- and Owner- Occupied Units
Estimated Monthly Rent or Mortgage Costs	$2,000[1]
Necessary Income Assuming 1/3 of Household Income Spent on Housing[2]	$72,700

[1]Based on $2.00 per square foot rent and an average apartment size of 1,000 square feet or a $420,000 unit sale price assuming a 30 year mortgage, 20 percent down payment, and six percent interest rate.

[2]The 2004 American Community Survey reports a median monthly rent of 24 percent of household income and median monthly owner costs of 28.5 percent of household income in Sonoma County. We conservatively assume that households attracted to new housing in the Downtown spend one-third of their income on housing, given that we are forecasting demand for new housing.

Sources: U.S. Census Bureau, American Community Survey 2004; Santa Rosa Press Democrat; Hugh Futrell LLC; Moore Center; Gruen Gruen + Associates.

Based on information about sales prices and rents for new or planned projects in Downtown Santa Rosa, approximately $72,700 or more in household income is needed to support monthly housing costs of $2,000 estimated to apply to examples of new rental or for-sale housing projects in the Downtown. This assumes that one-third of household income is spent on housing costs. This also assumes that households with annual incomes of $72,700 will have sufficient savings or access to other resources to make the necessary down-payment.

Estimate of Demand from Existing Households

Table III-5 shows the estimated annual demand for housing from turnover of existing households in Santa Rosa and Sonoma County.

TABLE III-5

Estimated Annual Demand from Existing Households in Santa Rosa and Sonoma County

	Existing Households		Potential Annual Demand from Turnover of Existing Households[1]	
	Santa Rosa #	Sonoma County #	Santa Rosa #	Sonoma County #
Households Without Children	37,188	112,607	3,161	9,572
Estimated Households Without Children and Incomes Greater Than $75,000[2]	12,421	45,718	1,056	3,886
Households Aged 25-34 or 55-74	21,190	64,932	1,801	5,519
Households Aged 25-34 or 55-74 With Incomes Greater than $75,000	5,513	18,276	469	1,553

[1]Assumes an 8.5% annual turnover rate.
[2]Based on proportion of family households without children earning more than $75,000. The Census Bureau does not report total households without children by income. Family households account for approximately half of all households without children.

Sources: U.S. Census Bureau, Census 2000; Gruen Gruen + Associates.

Drawn from Census 2000 data, Table III-5 shows estimates of potential demand from two overlapping demographic groups: households without children living at home, and households headed by a person between the ages of 25 and 34 or 55 and 74. Based on our estimates of the income necessary to afford new market rate housing in the Downtown, we count only demand from households earning $75,000 per year or more. The estimates assume that 8.5 percent of existing Santa Rosa or Sonoma County households move in any particular year. Multiplying this movement rate by the estimated number of households with no children and incomes greater than $75,000 suggests potential county-wide annual demand of nearly 3,900. Annual turnover among Santa Rosa households without children and with income greater than $75,000 is estimated to total over 1,000 or approximately 27 percent of the total potential demand originating from within Sonoma County.

Using age rather than presence of children to estimate demand yields a potential demand of over 1,500 households in all of Sonoma County, of which nearly 500 households would reside in all of Santa Rosa. Annual city-wide demand for housing from turnover of existing households in Santa Rosa is estimated to range from 500 to 1,000 households.

Estimate of Demand from Additional New Households

Demand will also arise from the addition of new households in Santa Rosa and Sonoma County. Table III-6 shows a forecast of this second basic determinant of demand, household growth for Sonoma County and Santa Rosa. The data presented in Table III-6 is based on projections of the number of households Association of Bay Area Governments (ABAG) expects to reside in Santa Rosa and Sonoma County in 2015.

TABLE III-6

Projected Household Growth in Santa Rosa and Sonoma County: 2005-2015

	Households 2000 #	Estimated Households 2005 #	Projected Households 2010 #	Projected Households 2015 #	Change 2005-2015 #	Change 2005-2015 %	Average Annual Growth 2005-2015 #
Santa Rosa	56,036	60,250	63,480	66,470	6,220	10.3	622
Sonoma County	172,403	182,500	193,160	200,430	17,930	9.8	1,793

Sources: U.S. Census Bureau, Census 2000; Association of Bay Area Governments, Projections 2005; Gruen Gruen + Associates.

Between 2005 and 2015, ABAG forecasts household growth of 9.8 percent for Sonoma County, or an average annual increase of nearly 1,800 households to 200,430 households in 2015. Household growth of 10.3 percent or 6,220 households in Santa Rosa is expected to account for 622 households per year or 35 percent of total household growth in Sonoma County.

The ABAG forecast does not provide information on the demographic make-up of the additional households. Table III-7 presents an estimate of the amount and proportion of the forecast additional households in the primary age groups likely to be attracted to Downtown housing.

TABLE III-7

Projected Growth in Households Without Children and Incomes Greater than $75,000 and Households Headed by a Person Aged 25-34 or 55-74 and Incomes Greater than $75,000

	Projected Household Growth All Households 2005-2015	Households Without Children and Incomes Greater than $75,000				Households Headed by a Person Aged 25-34 or 55-74 and Incomes Greater than $75,000			
		Existing Households		Projected Additional Households 2005-2015	Potential Average Annual Demand	Existing Households		Projected Additional Households 2005-2015	Potential Average Annual Demand
	#	#	%	#	#	#	%	#	#
Santa Rosa	6,220	12,421	22.2	1,381	138	5,513	9.8	610	61
Sonoma County	17,930	45,718	26.5	4,751	475	18,276	10.6	1,901	190

Sources: U.S. Census Bureau, Census 2000; Association of Bay Area Governments, Projections 2005; Gruen Gruen + Associates.

In 2000, approximately 22 percent of households in Santa Rosa and 27 percent of households in Sonoma County had no children and incomes greater than $75,000. If we assume that the same proportion of additional households forecast for 2005-2015 have these characteristics, then Santa Rosa would add 1,381 households with no children and incomes greater than $75,000, at an average annual rate of 138 households per year. Sonoma County would add 4,751 households or on average 475 households per year, including households within Santa Rosa.

Making the same assumption about the age composition of additional households, we estimate that Sonoma County will add 1,901 households headed by a person aged 25-34 or 55-74 and incomes greater than $75,000 between 2005 and 2015, at a rate of 190 households per year. Of the additional households, 610 are estimated to be in Santa Rosa, which can expect to add 61 households per year in this age and income group.

Total Estimated Demand for Housing from Existing and New Additional Households

Table III-8 shows the estimated demand between 2005 and 2015 for housing from estimated existing and additional households with the demographic and income characteristics associated with primary sources of demand for housing in the Downtown.

TABLE III-8

Estimated Demand from Existing and Additional Households in Santa Rosa and Sonoma County: 2005- 2015

	Households Without Children and Incomes Greater than $75,000			Households Headed by a Person Aged 25-34 or 55-74 and Incomes Greater than $75,000		
	Average Annual Demand from Existing Households[1]	Average Annual Demand From Additional Households	Average Annual Total Demand	Average Annual Demand from Existing Households[1]	Average Annual Demand From Additional Households	Average Annual Total Demand
Santa Rosa	1,056	138	1,194	469	61	530
Sonoma County	3,886	475	4,361	1,553	190	1,743

[1]Assumes an 8.5% annual turnover rate

Sources: U.S. Census Bureau, Census 2000; Association of Bay Area Governments, Projections 2005; Gruen Gruen + Associates.

Between 2005 and 2015, we forecast an average annual demand of nearly 1,200 units in all of Santa Rosa from households without children and income greater than $75,000. Including households within Santa Rosa, potential demand from the same type of households in all of Sonoma County is estimated at 4,361 per year. We estimate that demand from households aged 25-34 or 55-74 with incomes greater than $75,000 would average 530 per year in Santa Rosa, and 1,743 in Sonoma County, including Santa Rosa households.

Because these two demographic categories overlap, they do not represent separate components of demand, but rather different estimates of demand for the likely market niches. Using demand from the age category as a lower bound and demand from the household without children category as an upper bound, we estimate a range of housing demand of 530 to nearly 1,200 units per year for all of Santa Rosa, and 1,743 to 4,361 units per year for all of Sonoma County. The estimate for Sonoma County includes the households estimated to reside in Santa Rosa. Note that demand from the formation of additional households in Sonoma County is relatively small compared to the existing area households with the demographic and income characteristics that make them potential candidates for new housing.

SHARE OF POTENTIAL DEMAND OBTAINABLE IN DOWNTOWN

The size or scale of the potential demand sources suggest that even a small capture rate would support the development of significantly more new housing than has been built Downtown in recent decades. If, for example, housing built Downtown captured five percent of potential demand within Santa Rosa from the primary demand sources groups profiled above, this would equate to 27 to 60 housing units per year. If Downtown Santa Rosa housing projects captured three percent of the potential demand from the primary demand sources within Sonoma County, this would equate to 52 to 131 units per year. Based on the synthesis of our interviews, field research, and quantitative estimate of potential demand sources, we estimate in our professional judgment that on average, assuming the mitigation of locational disadvantages cited in Chapter II, it would not be unreasonable to expect that the market could support approximately 50 to 100 units per year of housing in Downtown Santa Rosa.

The Downtown currently appeals more to the younger household market than to older, empty-nester households. Older households are typically more sensitive than younger households to the image and security disadvantages that apply to Downtown. Older households have more housing choices, including the option to remain in their existing suburban locations. As the Downtown becomes branded as a desirable residential location, the amount of demand, especially from the potential empty-nester housing market, can be expected to increase. The City should focus on mitigating the disadvantages associated with the Downtown and encouraging initial housing developments to be well-designed, well-built, and accompanied or soon followed by the addition of other new uses and attractions that signal an improving image and an exciting future for the Downtown.

THE POTENTIAL DEMAND FOR
OFFICE SPACE IN DOWNTOWN SANTA ROSA

A Report to

The City of Santa Rosa

from

GRUEN GRUEN + ASSOCIATES
Urban Economists, Market Strategists & Land Use/Public Policy Analysts

December 2005

C1178

APPLYING KNOWLEDGE
CREATING RESULTS
ADDING VALUE

Chapter | **TABLE OF CONTENTS** | Page

Chapter		Page
I	INTRODUCTION AND PRINCIPAL CONCLUSIONS……..………	1
	INTRODUCTION..	1
	WORK COMPLETED.	1
	REPORT ORGANIZATION	2
	PRINCIPAL FINDINGS AND CONCLUSIONS……….	2
	Relevant Geographic Market Area……………………..………………..	2
	Inventory Characteristics…………………………………………...…...	2
	Geographic Origins and Types of Downtown Office Space Users……	3
	Primary Advantages..…………………………..	3
	Primary Disadvantages.……………….	3
	Supply Conditions . . . .…………………………………….	3
	Future Supply……………………..... . . . .……………………	4
	Employment Forecast for Santa Rosa…………………………………...	4
	Employee Office Space Density………………………..………………....	4
	Office Space Demand For All of Santa Rosa Attributable to Net Employment Growth…………………………………………………...	4

TABLE OF CONTENTS, CONTINUED

Chapter		Page
	Replacement Demand and Total Demand…...……………..……………	5
	Estimated Capture of Future Market Demand Depends Upon Market Responsive Product Features and Enhancement of Downtown………...	5
II	THE MARKET FOR OFFICE USES IN SANTA ROSA AND THE COMPETITIVE POSITION OF THE DOWNTOWN SUBMARKET	6
	THE RELEVANT GEOGRAPHIC MARKET ………………………	6
	GEOGRAPHIC ORIGINS AND TYPES OF DOWNTOWN OFFICE SPACE USERS…...…………………………………………..	9
	COMPETITIVE POSITION OF DOWNTOWN…...…………………	9
	Primary Advantages……………………………………………………..	9
	Primary Disadvantages………..…………………………………………	9
III.	OFFICE SPACE SUPPLY CONDITIONS …………………...……….	11
	SUPPLY TRENDS…………………………………………………......	11
	FUTURE SUPPLY OF OFFICE SPACE…………………………..…..	14
IV.	FORECAST OF EMPLOYMENT GROWTH DETERMINANTS OF DEMAND FOR OFFICE SPACE…………………………………….	16
	INTRODUCTION…………………………………………………….	16
	HISTORICAL EMPLOYMENT TRENDS…………………………..	16

Chapter **TABLE OF CONTENTS, CONTINUED** Page

Chapter		Page
	EMPLOYMENT FORECAST FOR SANTA ROSA…………………..	17
	Proportion Employment in Santa Rosa Comprises of Sonoma County Employment…………………………………………………………….	19
V.	TRENDS IN OFFICE SPACE WORKER DENSITIES………………	21
VI.	ESTIMATES OF THE AMOUNT OF BUILDING SPACE REQUIRED TO ACCOMMODATE FORECAST EMPLOYMENT GROWTH …………………………………………..	24
	INTRODUCTION…………………………………………………….	24
	REPLACEMENT DEMAND POTENTIAL…………………………..	25
	ESTIMATED CAPTURE OF FUTURE MARKET DEMAND DEPENDS ON MARKET RESPONSIVE PRODUCT FEATURES AND ENHANCEMENT OF DOWNTOWN………………………...	26
A	APPENDIX A: TRENDS IN SONOMA COUNTY EMPLOYMENT BY INDUSTRY SECTOR…………………………………………..	27

LIST OF TABLES

Table No.		Page
II-1	Office Market Space by Santa Rosa Submarket: Third Quarter 2005……	7
II-2	Rental Rates for Primary Santa Rosa Office Submarkets………. ……….	8
III-1	Santa Rosa Office Market Inventory and Vacancy Rate by Submarket: Third Quarter 2003 and Third Quarter 2005……………………………	11
III-2	Santa Rosa Total Office Market Space by Type of Space: Third Quarter 2005………………………………………………………………..	12
III-3	Class A Office Space in Santa Rosa Downtown: Third Quarter 2005….	13
III-4	Estimated Change in Office Space Rents………………………………..	14
III-5	Amount of Office Space Planned or Under Construction in Santa Rosa...	15
IV-1	Forecast Employment by Economic Sector in Santa Rosa: 2005-2015…..	17
IV-2	Forecast Shares of Employment in Santa Rosa by Economic Sector: 2005-2015	19
IV-3	Employment in Santa Rosa and Sonoma County: 2005-2015	20
VI-1	Projected Net Additional Workforce and New Office Space Demand for All of Santa Rosa: 2005 to 2015.	25
A-1	Total Employment by Industry Sector in Sonoma County: 1990, 2001 and 2004………………………………………………………………..	27
A-2	Annual Growth Rates of Employment by Industry Sector in Sonoma County: 1990-2004…………………………………………………...	28

CHAPTER I

INTRODUCTION AND PRINCIPAL CONCLUSONS

INTRODUCTION

This report summarizes the results of the market research and analysis Gruen Gruen + Associates (GG+A) conducted to estimate the office space demand potential for Downtown Santa Rosa given present and forecast future market conditions and the competitive position of the Downtown.

WORK COMPLETED

To provide a framework for the demand-supply forecast and assessment of the potential for the Downtown to capture office space demand, GG+A completed the following primary tasks:

1. Conducted field research and interviews with real estate brokers, office space developers, and office building owners. We directed these interviews toward gaining information and insights needed to define the relevant primary market area and to identify:

    - the likely origins and types of prospective users,
    - the alternative locations prospective users typically consider, and
    - the relative advantages and disadvantages of the Downtown as an office location;

2. Identified the Downtown's competitive position within the relevant primary market area;

3. Studied office space supply conditions for the Downtown in the context of the primary Santa Rosa market area;

4. Forecast the demand for office space by:

    - analyzing historic employment trends by economic sector for Sonoma County,
    - forecasting employment growth by economic sector for Santa Rosa based on a synthesis of ABAG's forecast employment for Santa Rosa and Sonoma County, and an analysis of historical employment trends, and interviews,
    - using GG+A's Spacewalk ™ model and market-based assumptions about worker-office space density ratios to convert the forecast employment growth into estimates of building space demand,

- estimating the share of forecast office space demand produced by net employment growth in office space sectors the Downtown can potentially capture, and
- considering the demand for office space generated by the need to replace obsolete facilities; and

5. Synthesized the tasks summarized above to reach conclusions about the potential for the Downtown to capture demand for office space and the amount of space likely to be in demand over the next 10 years.

REPORT ORGANIZATION

The research and analysis on which we base the conclusions and recommendations is presented in the following chapters. Chapter II presents the definition of the primary market area within which the Downtown will compete for office space users and describes the primary competing geographic submarkets as well as the likely geographic origins of potential office space users. Chapter II also describes the competitive position of Downtown Santa Rosa. Chapter III reviews office space supply conditions in Santa Rosa and Downtown. Chapter III also identifies future office space supply conditions. Chapter IV reviews historical employment growth trends. It also presents a forecast of employment for Santa Rosa. Chapter V presents a summary of the findings on office space worker to space density trends. Chapter VI presents GG+A's forecast of office building space demand generated by the forecast of future employment for Santa Rosa and the need to replace obsolete space. It then presents estimates of the share of demand the Downtown could capture.

PRINCIPAL FINDINGS AND CONCLUSIONS

Relevant Geographic Market Area

When searching for office space, prospective users will typically consider alternative locations within the City of Santa Rosa. The primary locations users consider include Downtown Santa Rosa, Fountaingrove Business Center, Stony Point Office Park, and Santa Rosa Business Park as well as several other smaller office space nodes.

Inventory Characteristics

At 1.2 million square feet of office space, the Downtown remains the largest submarket with approximately 30 percent of the total office space in the primary market area. Approximately 11 percent of the Downtown inventory is vacant with about 88 percent of the vacant Class A space centered in two buildings.

Geographic Origins and Types of Downtown Office Space Users

Office buildings in the Downtown tend to attract most users expanding from within the downtown or relocating from within the Santa Rosa office market. Users attracted to office space in the Downtown tend to be concentrated in the government, financial, insurance and real estate, legal, and business service sectors. Most private sector office space users in the Downtown tend to be relatively small (under 10,000 square feet of space).

Primary Advantages

Important comparative advantages for the Downtown submarket include:

- Geographic centrality and accessibility to Highway 101 and Highway 12;
- Proximity to restaurants, retail and support service uses, and civic and cultural uses;
- The ambiance and vitality of an urban environment; and
- A critical base of office space and users and their labor sources that benefit from proximity to each other.

Lower rents for older office product relative to competing newer product is also an advantage for attracting smaller, cost-sensitive users.

Primary Disadvantages

The primary disadvantages for the Downtown as an office location include:

- The functional obsolescence of some of the office space;
- A parking shortage and higher cost of parking compared to office locations outside of Downtown; and
- Security and safety concerns and the presence of homeless add friction not found in competing locations.

Supply Conditions

- Growth in office employment and new development has occurred proportionally less in the Downtown than other submarkets for office space outside of the Downtown.
- Downtown Santa Rosa experienced an increasing proportion of the market's vacant

space, with vacant space in the Downtown increasing from 21.6 percent of all vacant space in 2003 to nearly 28 percent of the total vacant space in all of the submarkets.

- For the approximately 306,000 square feet of space in Downtown classified as Class A, 17 percent of the space is vacant.

- Rents today in the Downtown are not significantly higher than those prevailing when the last set of buildings were built in the 1980s. Given the higher construction costs associated with contemporary development, rents have not been high enough to support feasible development of significant new high-rise office space.

Future Supply

While the Santa Rosa market has experienced a slowdown in office construction due to the supply-demand imbalance, new office space is under construction or planned. An additional 215,000 square feet of office space is under construction or planned for development in the most desirable and strongest Fountaingrove submarket. An 18,000-square-foot office building is planned for the Downtown.

Employment Forecast for Santa Rosa

- The services and information sectors are forecast to account for 54 percent of the 18,100 net added jobs forecast in Santa Rosa.

- Finance, insurance, and real estate employment is forecast to increase by 728 jobs between 2005 and 2010 to comprise five percent of total employment.

- The proportion of employment in Sonoma County attributable to Santa Rosa is forecast to increase by almost two percentage points, from 39 percent in 2005 to almost 41 percent of total County employment.

Employee Office Space Density

- The amount of office space allocated per worker is continuing to decline as a result of productivity and cost-reducing improvements. Because the Downtown is likely to attract smaller space users that cannot be as efficient as larger users, the forecast of office space demand assumes a typical density ratio of 215 square feet of space per employee.

Office Space Demand for All of Santa Rosa
Attributable to Net Employment Growth

- Between 2005 and 2015, approximately 2,330 office space workers are forecast to be added in all of Santa Rosa. This employment growth is forecast to translate into average annual demand for office space of 53,000 square feet for a total of 526,000 square feet of space in all of Santa Rosa.

Replacement Demand and Total Demand

- Given the limited new development activity in Downtown since the 1980's, replacement demand (i.e. the need to replace obsolete or inefficient facilities) is likely to account for at least as much demand as net employment growth. Accordingly, we estimate that between 2005 and 2015 the total average annual demand for office space in Santa Rosa will be approximately 106,000 square feet of space.

Estimated Capture of Future Market Demand Depends Upon Market Responsive Product Features and Enhancement of Downtown

The review of office space supply suggests that given the significant amount of vacant space and relative competitive strength of the Fountaingrove submarket in particular, it will be important that new development in the Downtown capitalize on the existing and potential comparative advantages of the location. A new office product differentiated in terms of design, floor plate size, and amenities and product development commensurate with the image of a premier office agglomeration in terms of site planning, landscaping, well-planned parking, and signage will allow the developer of new space to compete for space users on factors other than price. A differentiated product model could include smaller floor plates with more direct light and control of HVAC at the "cell level" rather than floor level, designed for the smaller users that comprise the bulk of the Santa Rosa office market. The product will need to provide an option for office space users who would otherwise not locate in or which might move out of the Downtown.

Office space users are likely to include financial, insurance and real estate sector firms and professional and business services firms. For the Downtown, target finance, insurance and real estate, business, healthcare, and professional service firms serving local rather than basic (non-local, export) markets that benefit from proximity to a large and growing residential base. The resurgence of the local economy will create demand for office space that provides locational, display, and amenity advantages to professional service and financial and real estate firms serving local rather than basic (non local, export) markets.

Providing a user-friendly (safe, convenient, relatively hassle-free) workplace environment while offering the tenanting, experiential attractions, and environment of a mixed-use activity center would capitalize upon and enhance the Downtown's comparative strengths.

Assuming that because of the enhancement of the Downtown's retailing, restaurant, cultural, and residential base the Downtown becomes a preferred place to office workers and office space decision makers, we estimate that the Downtown can stabilize its long-term declining share of new office space growth. Assuming Downtown captures 30 percent of potential city-wide additional demand results in an estimate of average annual demand of approximately 32,000 square feet of space.

CHAPTER II

THE MARKET FOR OFFICE USES IN SANTA ROSA AND THE COMPETITIVE POSITION OF THE DOWNTOWN SUBMARKET

THE RELEVANT GEOGRAPHIC MARKET

Interviews with knowledgeable real estate brokers, office space developers, and office building owners and a review of supply and tenanting trends indicate that when searching for office space, prospective users will typically consider alternative locations within the City of Santa Rosa. The primary locations users consider include Downtown Santa Rosa, Fountaingrove Business Center, Stony Point Office Park, and Santa Rosa Business Park as well as several other smaller office space nodes. For example, accounting and law firms which could not obtain suitable space in the Downtown are moving out of the downtown to new space in Fountaingrove. Another law firm formerly in the Downtown moved to space at the Stony Point Office Park. An internet services provider which started operations in the Downtown, previously moved its operations to the Northpoint Corporate Center. A commercial real estate services firm is relocating from Santa Rosa Business Park to the Downtown.

Table II-1 identifies the primary Santa Rosa office submarkets and the respective shares of the total amount of office space in Santa Rosa. Orion Partners, Ltd. is the source of this data.

TABLE II-1

Office Market Space by Santa Rosa Submarket: 3rd Quarter 2005[1]

Submarket	Estimated Office Space Inventory		Total Vacant Space	Vacancy Rate
	# Square Feet	% of Total Space	# Square Feet	%
Downtown	1,226,872	29.6	131,642	10.7
Santa Rosa Business Park	417,143	10.1	53,619	12.9
Fountaingrove	299,397	7.2	24,995	8.3
Stony Point	436,090	10.5	48,685	11.2
Other[2]	1,770,566	42.70	205,751	11.6
Total Santa Rosa	4,150,068	100.0	464,692	11.2

[1] Does not include office space in airport area. This submarket, which attracts the types of price-sensitive uses that do not derive the same kind of benefits from the personal interaction the Downtown provides professional and financial service firms, is not primary competition to the Downtown. The airport area is far from the Downtown and includes vacant office space for large, high-tech users that is difficult to divide for smaller users.

[2] Includes office building space of approximately 610,000 square feet in northwest, 426,000 square feet in the northeast, 141,000 square feet of office space within Santa Rosa Corporate Center and 554,000 square feet in southwest Santa Rosa.

Sources: Orion Partners Ltd.; Gruen Gruen + Associates.

The Downtown submarket contains approximately 1.2 million square feet of office space. It remains the largest submarket, comprising nearly 30 percent of the total office space in Santa Rosa. Approximately ten percent or 132,000 square feet of the Downtown inventory is vacant. Santa Rosa Business Park at Dutton and College Avenue is a well-established, centrally located, nearly built-out office park with multiple access points to Highway 101. The Santa Rosa Business Park contains approximately 417,000 square feet or 10 percent of the total Santa Rosa office space inventory. The vacancy rate for this submarket is approximately 13 percent with 53,600 square feet of vacant space.

According to Orion Partners, the Fountaingrove submarket includes approximately 300,000 square feet of Class A office space. Located in northeast Santa Rosa near affluent residential neighborhoods as well as restaurants, hotels, and golf and tennis clubs, the Fountaingrove submarket includes the highest quality office space in the most prestigious location within Santa Rosa. The office space in Fountaingrove comprises about seven percent of the total office space inventory in Santa Rosa and has the lowest vacancy rate of about eight percent.

According to Orion Partners, the Stony Point submarket contains approximately 436,000 square feet of office space or 10.5 percent of the total office space inventory in Santa Rosa. The vacancy rate in this submarket is approximately 11 percent. This submarket is located in the west side of Santa Rosa, in a less desirable residential area than the Fountaingrove submarket. The project is located near support services. The quality of the available office space is nearly commensurate with that of Fountaingrove.

We have included in the other category smaller submarkets northwest and southeast of the Downtown. The largest agglomeration of office space within these smaller submarkets is the Santa Rosa Corporate Center, a 110-acre business park with one- and two-story office buildings. The five-building, 136,000-square-foot Lakes development is located within the Santa Rosa Corporate Center. These projects are located in the southern part of Santa Rosa and have good access to Highway 12 and Highway 101 and support services. This submarket also includes industrial space. Based on data provided by Orion Partners, we estimate the "other" category also includes approximately 610,000 square feet in northwest, 426,000 square feet in the northeast, and 554,000 square feet in southwest Santa Rosa.

Table II-2 shows the estimated annual rental rates by submarket with which office space Downtown primarily competes.

TABLE II-2

Rental Rates for Primary Santa Rosa Office Submarkets[1]

Submarket	Estimated Monthly Rental Rates[2] $ Per Square Foot
Downtown	1.90
Santa Rosa Business Park	1.70
Fountaingrove	2.75
Stony Point	1.91
Santa Rosa Corporate Center (The Lakes development)	1.85
Other[1]	1.54-1.89

[1] Includes office space in northwest, northeast, and southeast Santa Rosa.
[2] Full service rates.

Sources: Orion Partners Ltd.; Gruen Gruen + Associates.

Consistent with having the best locational image and quality of new office space in Santa Rosa, as well as the lowest vacancy rate, Fountaingrove commands the highest monthly rents in the Santa Rosa office market at $2.75 per square foot. The rents for Stony Point and Downtown are comparable at approximately $1.90 per square foot. The average rents of $1.70 per square foot for office space in the Santa Rosa Business Park are lower than those in Stony Point or Downtown Santa Rosa. This reflects the fact that the Santa Rosa Business Park contains older buildings and more single-story product than Stony Point or the Downtown. The interviews suggest Stony Point rents have been adversely affected by management changes and supply competition. Rents in the Lakes project in the Santa Rosa Corporate Center average $1.85 per square foot. As reviewed in Chapter III, the relatively large amount of vacant space and increase in the supply has kept a lid on rental rate growth.

GEOGRAPHIC ORIGINS AND TYPES OF DOWNTOWN OFFICE SPACE USERS

The interviews and review of supply suggest that office buildings in the Downtown tend to attract most users expanding from within the Downtown or relocating from within the Santa Rosa office market. Users attracted to office space in the Downtown tend to be concentrated in the government, financial, insurance and real estate, legal, and business service sectors. Most private sector office space users in the Downtown tend to be relatively small (under 10,000 square feet of space), and typically range in size from 1,000 to 5,000 square feet. As described below, the appeal of the Downtown for these users relates to the proximate restaurants and other support services and the vitality of an urban environment, including the benefit the Downtown provides for personal interaction.

COMPETITIVE POSITION OF DOWNTOWN

In order to estimate the potential penetration or capture rate of the future demand for additional office space, we studied the competitive position of the Downtown submarket.

Primary Advantages

Our field research and interviews suggest that important comparative advantages for the Downtown submarket include:

- Geographic centrality and accessibility to Highway 101 and Highway 12;
- Proximity to restaurants, retail and support services uses, civic, and cultural uses;
- The ambiance and vitality of an urban environment; and
- A critical base of office space and users and their labor sources that benefit from proximity to each other.

Lower rents for older office product relative to competing newer product is also an advantage for attracting smaller, cost-sensitive users.

Primary Disadvantages

The primary disadvantages for the Downtown as an office location include:

- The functional obsolescence of some of the office space. Much of the office building inventory in the Downtown has been surpassed by newer buildings such as those built in Fountaingrove in terms of building design, HVAC, telecommunication, electrical, security and life safety systems;

- A parking shortage and higher cost of parking compared to office locations outside of Downtown which offer on-site parking as part of the rental cost; and

- Security and safety concerns and the presence of homeless add friction not found in competing locations like Fountaingrove.

As shown in Chapter III, because of lower land costs and construction costs, the ability to provide parking at no additional cost to businesses, and other relative advantages, competing locations outside the Downtown captured nearly all of the added demand, in contrast with the forecast presented in the Santa Rosa Core Area Development Plan in 1991. While that Plan forecast up to 1,000,000 square feet of office space demand in the decade of the 1990s, very little office space has been built in the Downtown since the 1980s.

CHAPTER III

OFFICE SPACE SUPPLY CONDITIONS

SUPPLY TRENDS

We review below the office space inventory and market trends for Santa Rosa and the primary submarkets within Santa Rosa. Growth in office employment and new development has occurred proportionally less in the Downtown than in Fountaingrove, Stony Point, and other submarkets for office space outside of the Downtown.

Drawn from data provided by Orion Partners, Ltd. on individual submarkets, Table III-1 shows the total space and vacant space by submarket for the third quarters of 2003 and 2005.

TABLE III- 1

Santa Rosa Office Market Inventory and Vacancy Rate by Submarket: Third Quarter 2003 and Third Quarter 2005

Submarket	2003 Total Space Square Feet #	2003 Total Vacant Space Square Feet #	2003 Total Vacant Space %	2005 Total Space Square Feet #	2005 Total Vacant Space Square Feet #	2005 Total Vacant Space %
Downtown	1,226,872	76,958	6.3	1,226,872	131,642	10.7
Santa Rosa Business Park	417,143	33,891	8.1	417,143	53,619	12.9
Fountain-Grove	299,387	34,312	11.5	299,397	24,995	8.3
Stony Point	436,090	32,476	7.4	436,090	48,685	11.2
Other[1]	1,770,566	177,039	10.0	1,770,566	205,751	11.7
Total	4,150,068	354,676	8.5	4,150,068	464,692	11.2

[1]Other category covers submarkets including Santa Rosa Corporate Center, and nodes of office space in northeast, northwest, and southwest Santa Rosa.

Sources: Orion Partners, Ltd.; Gruen Gruen + Associates.

The data as of the date of the third quarter report show that the Santa Rosa office space inventory tracked by Orion Partners has not increased since 2003. (Several recently added office space buildings may not be included in the third quarter inventory report. These include a mixed-use project including approximately 23,700 square feet at 200 4th Street, a nearly 36,000-square-foot build-to-suit building for American Home Shield at 1244 Apollo Way, and a nearly 39,000 square foot building at Fountaingrove Business Center). The total vacancy rate for the period shown, however, has increased from 8.5 percent to 11.2 percent. This equates to negative absorption (i.e., a decline in the amount of occupied space) of approximately 110,000 square feet. Except for Fountaingrove, all other submarkets experienced negative space absorption and increasing vacancy. Downtown Santa Rosa experienced an increasing proportion of the market's vacant space with vacant space in the Downtown increasing from 21.6 percent of all vacant space in 2003 to 28 percent of the total vacant space in all of the submarkets. Fountaingrove is the only submarket to experience positive absorption of over 79,000 square feet. The vacancy rate increased the most at the Santa Rosa Business Park to nearly 13 percent. The vacancy rate at Stony Point and the other submarket category also increased to become higher than the vacancy rate for the Downtown.

Table III-2 compares the amount of Class A and Class B space and the vacancy rate by type of space in the primary competitive submarkets.

TABLE III-2

Santa Rosa Total Office Market Space by Type of Space: 3rd Quarter 2005[1]

Submarket	Class A Office Space		Class B Office Space	
	Total # Square Feet	Vacancy Rate %	Total # Square Feet	Vacancy Rate %
Downtown	306,432	16.8	920,440	7.7
Santa Rosa Business Park	160,150	13.5	256,993	8.2
Fountaingrove	299,397	8.3	NA	NA
Stony Point	436,090	11.2	NA	NA
Other[2]	472,274	25.7	1,298,292	6.5
Total Santa Rosa	1,674,343	16.5	2,475,725	7.1

[1] Does not include office space in airport area.
[2] Includes office space in northwest, northeast, and southeast Santa Rosa and Santa Rosa Corporate Center. Vacancy rate is highest because of one large vacancy in northwest submarket included in the other category due to building sale and tenant relocation at end of 2004.

Sources: Orion Partners Ltd.; Gruen Gruen + Associates.

The inventory of approximately 4,150,000 square feet for the submarkets identified in Table III-2 is approximately 11.2 percent vacant. The Class B vacancy rate is approximately eight percent or less in the submarkets with Class B space. For the approximately 306,000 square feet of space in Downtown classified as Class A, 17 percent of the space is vacant. With the exception of the most desirable submarket of Fountaingrove, the vacancy rates for Class A space in all other submarkets is 11 percent or higher. The Class A vacancy rates reported in Table III-2 suggest a high intensity of competition for office space users for Class A space[4]. Table III-2 also shows that only approximately 25 percent of the Downtown space inventory is Class A. Considerably more Class A space is available in the newer, smaller submarkets of Fountaingrove and Stony Point than in the Downtown.

[4] A five percent vacancy rate provides for sufficient mobility such that traditionally office market conditions would be considered strong enough to warrant new development when vacancy rates declined to less than five percent. Given the relatively persistent vacancy rates above five percent and the need for some companies to replace obsolete to inefficient facilities, vacancy rates between five and 10 percent have become more commonly accepted.

Table III-3 shows the space Orion Partners. Ltd. classifies as Class A by building for Downtown Santa Rosa.

TABLE III-3

Class A Office Space in Santa Rosa Downtown: 3rd Quarter 2005

Location	Rentable Space # Square Feet	Vacant Space # Square Feet	Occupancy Rate %	Monthly Rental Rate $ per Square Foot
111 Santa Rosa	71,979	19,510[1]	72.9	2.20
418 B Street	14,500	0	100	N/A
409 Mendocino	10,000	0	100	N/A
401 Mendocino	25,470	0	100	N/A
641 Fourth Street	7,000	0	100	N/A
50 Old Courthouse Square	55,530	3,291	94.1	1.85
438 First Street	34,340	750	97.8	1.95
100 B Street	46,413	2,418	94.7	1.90
655 First Street	5,000	0	100	N/A
90 E Street	36,200	25,500	29.6	2.35
Total	306,432	51,469	83.2	2.05

[1] Reflects vacant sublease space of 8,869 square feet.

Sources: Orion Partners Ltd.; Gruen Gruen + Associates.

Two buildings, 111 Santa Rosa Avenue and 90 E Street, account for 87 percent of the vacancy in the Downtown stock of office space classified as Class A. Built in 1986, the 36,200-square-foot 90 E Street Building was 100 percent leased in 2003, but became substantially vacant in 2004 when a major tenant moved out of the building to space in a competing submarket. The nearly 72,000-square-foot 111 Santa Rosa Building was 20 percent vacant in 2003. Its vacancy level has increased further to 27 percent. The 111 Santa Rosa Building is the largest office building in the Downtown. Built in 1989, it is also the most recently built significant office building in the Downtown. The development includes underground parking for 59-cars and a surface parking lot. The 111 Santa Rosa Avenue and 90 E Street buildings have the highest rents in the Downtown, comparable to the rents for space in the Fountaingrove submarket. The high vacancy rates suggest that older buildings cannot command the same rent as newer, higher-quality buildings outside of Downtown.

The approximately 46,000-square-foot 100 B Street Building adjoins a municipal parking garage. Its current monthly rent of $1.95 per square foot is only five cents per square foot higher than when it opened in 1988. The high vacancy of approximately 34,000 square feet that the 438 First Street Building had in 2003 was filled when First Community Bank moved its administration and branch office to this project earlier this year. This building was opened in 1987. The other relatively large building in Downtown, now known as 50 Old Courthouse Square, was formerly occupied by Eureka Bank. The building was built in 1971.

The review of the Class A inventory in the Downtown shows that a limited amount of Class A space exists and that the larger buildings tend to include some parking on-site or adjoin public parking facilities. The Downtown Class A space is much older than the newer Class A buildings in Fountaingrove or Stony Point. Much of the growth in office employment and development has shifted from Downtown to suburban locations. Limited construction activity has occurred in the Downtown since the end of the 1980s. Rents today are not significantly higher than those prevailing when the last set of buildings were built in the 1980s. Given the higher construction costs associated with contemporary development, rents have not been high enough to support feasible development of significant new high-rise office space.

Table III-4 shows that despite the increase in vacancy rate, asking rents have increased since 2003 in the primary submarkets.

TABLE III-4

Estimated Change in Office Space Rents

Submarket	2003 Monthly Rents $ Per Square Foot	2005 Monthly Rents $ Per Square Foot	Change in Rents %
Downtown	1.20 – 2.25	1.40 – 2.35	4.4
Santa Rosa Business Park	1.58 – 1.75	1.60 – 1.85	5.7
Fountaingrove	2.00	1.60 - 2.15	7.5
Stony Point	1.72 – 2.00	1.80 – 2.00	4.7

Sources: Orion Partners, Ltd.; Gruen Gruen + Associates.

Asking rents in the Downtown, however, have increased the least of any submarket. Rents in Fountaingrove have increased the most. This finding can be explained by Fountaingrove having the lowest amount of vacant space in the most desirable location, while the Downtown has the largest amount of vacant space.

FUTURE SUPPLY OF OFFICE SPACE

While the Santa Rosa market has experienced a slowdown in office construction due to the supply-demand imbalance, new office space is under construction or planned. Table III-5 shows that an additional 215,000 square feet of office space is under construction and planned for development in the Fountaingrove submarket.

TABLE III-5

Amount of Office Space Planned or Under Construction in Santa Rosa

Name of Project/Location	Total Space # Square Feet	Status	Monthly Rent $ per Square Foot
Fountaingrove Business Center	215,000	Recently Completed/ Under Construction: 80,000 Planned: 135,000	2.50
528 B Street	18,000	Planned	May sell or rent to as condominium units.

Sources: Orion Partners, Ltd.; Keegan & Coppin Company, Inc.; Gruen Gruen + Associates.

In addition to additional development at the Fountaingrove Business Center, several smaller buildings are also proposed outside of Downtown. This potential additional supply includes medical complexes and smaller, mixed-use projects that include some office space. An approximately 18,000-square-foot office building is planned for development on an 8,000-square-foot lot on B Street near the Fifth Street municipal parking facility.

CHAPTER IV

FORECAST OF EMPLOYMENT GROWTH
DETERMINANTS OF DEMAND FOR OFFICE SPACE

INTRODUCTION

The Association of Bay Area Governments (ABAG) employment forecast for Santa Rosa, described below, our interviews, and an analysis of historical employment trends for Sonoma County provide the framework for GG+A's employment forecast for Santa Rosa and our estimate of the demand for office space presented in Chapter VI. Our review of the relevant literature and interviews confirm that the need for and use of office space, unlike industrial space consumption, tends to be generated by employment growth. While demand for industrial space relates more to the volume of inventory and shipments processed than the number of workers needed to do the processing, office space demand tends to be more closely associated with the need for labor. In Chapter V, we present the results of our research concerning workers to space density trends. In Chapter VI, we use GG+A's Spacewalk™ model to convert the results of the employment forecast into an estimate of office space demand for Santa Rosa. We then estimate the share of potential office demand obtainable in the Downtown. The next sections of Chapter IV provide perspective on the employment base of Sonoma County and Santa Rosa.

HISTORICAL EMPLOYMENT TRENDS

Appendix A shows the total employment by industry sector in Sonoma County for 1990, 2001, and 2004. We present these years because it gives a long-term trend and shows the peak year 2001 for employment in the County. The Sonoma County economy has evolved in favor of services, but employment has declined since 2001. Manufacturing employment has been particularly hard hit. Information, services, and finance, insurance, and real estate employment associated with the rise of office space have been affected by the downturn.

The recession is not the only explanatory factor for downward shifts in office employment and demand for office space. The downturn also reflects trends that will continue even after economic activity accelerates. These trends include the international output gap; that is, the fact that the capacity and resources available to supply the world with many goods and services exceeds the aggregate demand at present prices. The high standard of living and high housing costs associated with a Santa Rosa location put pressure on manufacturers and other goods-producing sectors faced with global competition as the result of the internationalization of markets. The global information explosion makes it more practical for firms to expand in overseas locations. The increase in home offices and technological advancements that permitted many firms to replace secretaries with voice mail and middle level managers and associates with electronic tools and software also puts downward pressure on employment growth.

EMPLOYMENT FORECAST FOR SANTA ROSA

Because employment data by appropriate economic sector is unavailable for the individual geographic areas making up the primary market area of which the Downtown is a part, we used the analysis of historical employment, our interviews, and our review of ABAG's employment forecasts for Sonoma County and the City of Santa Rosa to prepare the employment forecast for 2005 through 2015 by economic sector for Santa Rosa summarized in Table IV-1.

TABLE IV-1

Forecast Employment by Economic Sector in Santa Rosa: 2005-2015

Economic Sector	2005 #	2010 #	2015 #	Change 2005- 2015 #	Annual Growth %
Agriculture	2,703	2,757	2,813	110	0.4
Mining	174	176	178	4	0.2
Construction	6,191	6,735	7,328	1,137	1.7
Manufacturing	11,074	11,813	12,601	1,527	1.3
Transportation, Warehousing, & Utilities	1,744	1,833	1,926	182	1.0
Wholesale Trade	2,965	3,306	3,686	721	2.2
Retail Trade	10,813	11,649	12,549	1,736	1.5
Finance, Insurance & Real Estate	4,534	4,884	5,262	728	1.5
Services & Information	33,398	37,971	43,171	9,773	2.6
Government	13,604	14,654	15,787	2,183	1.7
TOTAL	87,200	95,778	105,301	18,101	1.9

Sources: Association of Bay Area Governments; Gruen Gruen + Associates.

Between 2005 and 2015, Santa Rosa employment is forecast to increase at an average annual rate of 1.9 percent for a total of 105,301 jobs. According to the ABAG projections, in 2005 Santa Rosa will have approximately 87,200 jobs. GG+A used this total employment as a base for 2005 on which to estimate employment growth until 2015. We assumed an initial employment mix based on the respective shares each industry sector made up of total employment for Sonoma County in 2004. We then forecast the annual employment growth rate for each sector based on a judgmental synthesis of historical trends, the interviews, and our review of ABAG's forecasts for Sonoma County and the City of Santa Rosa subregional study area.

Santa Rosa is forecast to continue to evolve in favor of services employment. Services and information employment is forecast to grow at the highest rate of 2.6 percent (and a higher rate than ABAG forecast for Sonoma County as a whole or the Santa Rosa subregional study area) and the most at over 9,700 jobs to over 43,000 jobs. This equates to 54 percent of the forecast 18,100 net added jobs.

Given the retail demand potential described in a separate report, we estimate retail employment will increase at a rate of 1.5 percent (ABAG estimates a 1.2 percent rate of change for 2000 through 2010 for the Santa Rosa subregional study area), for total added jobs of 1,700. We forecast manufacturing employment growth of 1.3 percent, the same rate that applies to the 1990 through 2004 period for Sonoma County as a whole[5]. This employment growth rate equates to about 1,100 added manufacturing jobs in Santa Rosa between 2005 and 2015. We forecast the next largest job creation in the construction sector. Construction employment is forecast to increase at an average annual rate of 1.7 percent. This rate is consistent with the rate of growth ABAG forecasts for the construction sector for Sonoma County between 2005 and 2015. For the sector most associated with consumption of office space, finance, insurance and real estate, we forecast a growth rate of 1.5 percent for a total of 728 jobs between 2005 and 2015. This growth rate assumption compares to a 1.4 percent ABAG estimate for Sonoma County and 1.8 percent for a combined financial and professional service jobs for the Santa Rosa subregional study area. (Professional service jobs growth is incorporated into our services job growth estimate). We forecast the second highest rate of growth to apply to the wholesale trade sector. A job growth rate of 2.2 percent translates into a total of 721 additional jobs to nearly 3,700 jobs. Government employment is forecast to increase at a rate of 1.7 percent or 2,200 total added jobs to nearly 16,000 jobs.

[5] Given the competitive pressures on the manufacturing sector, it would not be surprising if employment growth turns out to be lower than forecast.

Table IV-2 shows the proportion that each sector is forecast to comprise of the Santa Rosa employment base.

TABLE IV-2

Forecast Shares of Employment in Santa Rosa by Economic Sector: 2005-2015

Economic Sector	2005 %	2010 %	2015 %
Agriculture	3.1	2.9	2.7
Mining	0.2	0.2	0.2
Construction	7.1	7.0	7.0
Manufacturing	12.7	12.3	12.0
Transportation, Warehousing, & Utilities	2.0	1.9	1.8
Wholesale Trade	3.4	3.5	3.5
Retail Trade	12.4	12.2	11.9
Finance, Insurance & Real Estate	5.2	5.1	5.0
Services & Information	38.3	39.7	41.1
Government	15.6	15.3	15.0
TOTAL	100.0	100.0	100.0

Source: Gruen Gruen + Associates

The GG+A employment forecast suggests a high degree of stability in the local employment base. The local economy is forecast to continue, albeit slowly, to evolve in favor of services and information with over 40 percent employment in these sectors. Employment in the finance, insurance, and real estate sector is forecast to remain stable at about five percent of total employment. Similar to national trends, manufacturing employment is forecast to decline as a proportion of total employment at 12 percent. Manufacturing is forecast to remain the third largest source of employment after the services and government sectors. Retail trade employment is forecast to decrease slightly from 12.4 percent in 2004 to 11.9 percent in 2015. Wholesale trade employment is forecast to slightly increase its share of total employment to 3.5 percent while transportation, warehousing, and utilities are forecast to only slightly decrease their shares of total employment to 1.8 percent, down from two percent. Government employment is also forecast to remain stable at about 15 percent of total employment. Construction employment is also estimated to remain stable at seven percent of total employment. The relatively stable employment mix is consistent with long term trends and the ABAG forecasts for the County and Santa Rosa.

Proportion Employment in Santa Rosa Comprises of Sonoma County Employment

Table IV-3 shows that GG+A forecasts that the proportion of employment in Sonoma County attributable to Santa Rosa will increase by almost one percentage point between 2005 and 2015, from 38.6 percent to almost 39.4 percent of total County employment.

TABLE IV-3

Employment in Santa Rosa and Sonoma County: 2005-2015

	2005 #	2010 #	2015 #	Change 2005-2015 #
Santa Rosa	87,200	95,778	105,301	18,101
Sonoma County	225,965	246,680	267,035	43,545
Santa Rosa's Share of Total Sonoma County Employment	38.6%	38.8%	39.4%	0.8 percentage points

Sources: Association of Bay Area Governments; California Department of Employment Development; Gruen Gruen + Associates.

The increasing share of employment that Santa Rosa is forecast to comprise of total County employment reflects that Santa Rosa is expected to remain the dominant center of commerce, retailing, and government in Sonoma County.

CHAPTER V

TRENDS IN OFFICE SPACE WORKER DENSITIES

As indicated above, the amount of office space demanded primarily depends upon the number of added office workers (estimated in Chapter VI) and the associated employment densities (number of square feet of office space per employee) estimated in this chapter.

The revolutionary globalization and information explosion shifts have required firms to become increasingly productive and cost efficient in order to succeed. Both private and public sector office space users have focused on lowering occupancy costs by reducing staff, investing in technology, and changing interior office layouts to accommodate increasing numbers of employees in less space. An example of this was reported in a February 1, 2004 issue of *Office Times*.

> "Firms cut costs by cutting … cubicles." Executives at Cisco Systems, Sun Microsystems, Hewlett-Packard and Intel say they have reduced their building needs by hundreds of thousands of square feet – or expect to do so in the near future – by eliminating offices for many of their employees. "This is a pretty important trend," said Mark Gulan, vice president of real estate and workplace resources for San Jose-based Cisco Systems. "We will actually be able to use significantly less space." "Over the next three to five years," he added, "the company could cut out 15 percent to 20 percent from its real estate costs. Part of this is accomplished by moving employees out of fixed cubicles and putting them into shared-space or equipping them for totally mobile work environments."

According to a June 2000 article by a member of the furniture manufacturer Haworth on changing office space standards, "(m)ost large organizations now routinely measure costs and other performance data about their space… . Along with more use of user-moveable furniture . . . there is a higher degree of interest in overall workplace cost control. The 'lean and mean' movement also caused many organizations to pare office sizes down as far as possible to save real estate costs."[6] According to Torto Wheaton Research, the average amount of space per worker has decreased from 215 square feet since 1991 to now average 201 square feet.[7] Torto Wheaton Research expects that "the trends of increasing efficiency seen since the early 1990s will continue in the coming decade."[8] The average space density is expected to decline further to 195 square feet as cubicles are shrinking from 12 square feet down to eight square feet. Telecommuting, office hoteling, and offshoring will also contribute to continuing reductions of the amount of office space allocated per worker. Based on a review of case studies and benchmarking, a 2002 GSA Office of Government-

[6] Voss, Judy, "Revisiting Office Space Standards", Haworth, June 2000, Page 5.

[7] Torto Wheaton Research, "Looking for 'Shadow Space'" Volume 4, Number 33, August 25, 2003, Page 1.

[8] Ibid.

wide policy report on space use entitled "Real Property Performance Results, 2001-2002" recommended a governmental standard of 200 square feet per person.

Research by the International Facility Management Association (IFMA) also shows a long term, ongoing trend of reducing average amounts of space per worker. The continuous decrease of average space allocated per worker since 1994 are summarized as follows:

- Decline of 17 percent of space for executives and upper management from 289 square feet in 1994 to 239 square feet in 2002;
- Decline of 15 percent of space for senior managers, from 200 square feet to 169 square feet;
- Decline of 16.5 percent of space for middle managers, from 151 square feet to 126 square feet;
- Decline of 16 percent for senior professionals, from 115 square feet to 97 square feet;
- Decline of 12 percent for technical professionals from 90 square feet to 79 square feet;
- Decline of five percent for senior clerical personnel from 81 square feet to 79 square feet; and
- Decline of four percent for general clerical staff from 69 square feet to 66 square feet.[9]

In the press release on the findings, the IFMA President is quoted as follows: "The shrinking office is not a myth, but a reality, and a clear sign of the economic times. . . . . As companies have been forced to downsize their workforces and tighten their belts many also have had to examine the productivity level and dollar value of each square foot of space they own. This might mean more workers sharing less space as they parcel off some of their real estate assets."[10]

A October 22, 2004 Sacramento Business Journal article reviewing CoreNet's recent research summarized in a report entitled "The Vision Enabling Work in a Networked World"[11], cites a Gallup Organization survey that only seven percent of companies have workers spending 25 percent to 50 percent of their time in unassigned office space. By 2010, 21 percent of companies will have their employees working remotely up to half the time".

[9] International Facility Management Association, Benchmarks II, Benchmarks III, and Project Management Benchmarks.

[10] "IFMA Research Shows Office Space Shrinking", June 10, 2004, Page 2.

[11] The Vision Enabling Work in a Networked World, November 2003, CoreNet Global, Corporate Real Estate Network.

We contacted architects, developers and real estate brokers to ascertain estimates of typical worker to space density ratios. Gensler & Associates, the large architectural, workplace planning, and interior design firm, uses a planning benchmark of 180 square feet to 200 square feet per person.

LaSalle Investment Advisors uses an assumption of 200 square feet per person to account for expansion space, storage space, and increases in meeting rooms, but acknowledges that the trend is toward increasing number of worker to space densities. Local brokers and developers estimate worker density ratios range from 175 square feet to 225 square feet, excluding call center uses. Call center uses have much higher densities but because of their parking requirements would not locate in Downtown.

Based on a synthesis of the interviews and a review of the literature, for estimating office space demand over the next 10 years, because the Downtown is likely to attract smaller space users which cannot be as efficient as larger users, we assume a typical density ratio of 215 square feet of space per employee.

CHAPTER VI

ESTIMATES OF THE AMOUNT OF BUILDING SPACE REQUIRED TO ACCOMMODATE FORECAST EMPLOYMENT GROWTH

INTRODUCTION

The need for efficient workspace generates demand for building space. GG+A's Spacewalk™ model was used to convert GG+A's forecast of employment into an estimate of future demand for office space in all of Santa Rosa. GG+A's Spacewalk™ model converts employment growth by economic sector into an estimate of relevant demand for different kinds of space. Firms within a specific economic sector do not use the same type of space for all their workers. Therefore, the GG+A Spacewalk™ model assigns employment within various economic sectors to occupational categories that correspond to the types of space most likely to be used. For example, while most manufacturing firms primarily demand industrial space, managers of manufacturing companies also use office space while products are typically stored in warehouse/distribution space. The amount of space primarily depends upon the number of added workers and the associated employment densities (number of square feet of space per employee).

A basic input into the model is an estimate of the percentage and amount of space the employees of a specific firm type utilize. These basic inputs are based on the percentage of the employees that are in various kinds of occupations. That is, it is necessary to estimate the occupational makeup of an industry in order to tie employment to space. We made this estimate from a synthesis of our interviews, prior GG+A research, and data drawn from the United States Department of Labor.

We distributed the employment forecast for Santa Rosa by industry across the varying occupational categories. We then made judgments concerning the type of space used by employees of differing occupational make-ups within the economic sectors and employment densities of for office space. We used GG+A's Spacewalk™ model to carry out the calculations needed to relate employment densities by occupation within the economic sectors to produce estimates of office space building demand for Santa Rosa.

Based on GG+A research described in Chapter V, we used an employee density figure of 215 square feet per office employees for the period 2005 to 2015. Table VI-1 presents for all of Santa Rosa the resulting estimate of workers forecast to be added that will use office space from 2005 to 2015.

TABLE VI-1

Projected Net Additional Workforce and New Office Space Demand for All of Santa Rosa: 2005 to 2015[1]

	2005 – 2010	2010 – 2015	2005-2015
Total Added Workers	1,120	1,210	2,330
Space Demand (Square Feet)	253,000	273,000	526,000
Space Demand Per Year (Square Feet)	51,000	55,000	52,600

[1] Space demanded has been increased by five percent to reflect vacancy to permit mobility in the market. Office Employment Density = 215 square feet per employee.

Source: Gruen Gruen + Associates

For the period 2005 to 2010, about 1,100 office space-using workers are estimated to be added within the City of Santa Rosa. This forecast employment growth is estimated to result in average annual demand of about 51,000 square feet, for a total of approximately 253,000 square feet of office space. Between 2010 and 2015, approximately 1,210 office space workers are forecast to be added in Santa Rosa. This employment growth is forecast to translate into demand for office space within Santa Rosa of 55,000 square feet per year for a total of 273,000 square feet. In total, between 2005 and 2015, approximately 2,330 office space workers are forecast to be added in all of Santa Rosa. This employment growth is forecast to translate into average annual demand for office space of 53,000 square feet, for a total of 526,000 square feet of space in all of Santa Rosa.

REPLACEMENT DEMAND POTENTIAL

The above forecast represents a quantitative estimate of new office space demand arising from additional net employment growth. Demand also arises from the need to replace obsolete or inefficient space. Development of corporate campuses and office building space today frequently includes a significant amount of space used for employees that have moved from existing obsolete facilities that companies wish to replace. Our interviews suggest that some office users attracted to submarkets outside the Downtown outgrew their former spaces and expanded, relocated, or consolidated scattered operations. The forecast does not separately reflect the important source of replacement demand. Given that the interviews suggest a great deal of movement from within the market and that firms have moved out of the Downtown because of an inability to find suitable space for current or expected future requirements, we estimate that replacement demand will be at least equal to the forecast net new demand. That is, demand for office space in all of Santa Rosa will be at least 53,000 square feet per year on average. Accordingly, we estimate that average annual demand for office space attributable to both net office employment growth and the need to replace facilities in all of Santa Rosa will be approximately 106,000 square feet of space.

ESTIMATED CAPTURE OF FUTURE MARKET DEMAND DEPENDS UPON MARKET RESPONSIVE PRODUCT FEATURES AND ENHANCEMENT OF DOWNTOWN

The review of office space supply suggests that given the significant amount of vacant space and relative competitive strength of the Fountaingrove submarket in particular, it will be important that new development in the Downtown capitalize on the existing and potential comparative advantages of the location. A differentiated new office product in terms of design, floor plate size and amenities and product development commensurate with the image of a premier office agglomeration in terms of site planning, landscaping, well-planned parking and access area and signage will allow the developer of new space to compete for space users on factors other than price. A differentiated product model could include smaller floor plates with more direct light and control of HVAC at the "cell level" rather than floor level, designed for the smaller users that comprise the bulk of the Santa Rosa office market. The product will need to provide an option for office space users who would otherwise not locate in or which might move out of the Downtown.

Office space users are likely to include financial, insurance and real estate sector firms and professional and business services firms. For the Downtown, target finance, insurance, and real estate, business, healthcare, and professional service firms serving local rather than basic (non-local, export) markets that benefit from proximity to a large and growing residential base. The resurgence of the local economy will create demand for office space that provides locational, display, and amenity advantages to professional service and financial and real estate firms serving local rather than basic (non-local, export) markets.

Providing a user-friendly (safe, convenient, relatively hassle-free) workplace environment while offering the tenanting, experiential attractions, and environment of a mixed-use activity center would capitalize upon and enhance the Downtown's comparative strengths.

Assuming that because of the enhancement of the Downtown's retailing, restaurant, cultural, and residential base the Downtown becomes a preferred place to office workers and office space decision makers, we estimate that the Downtown can stabilize its long-term declining share of new office space growth. Assuming Downtown maintains its share of the office market and captures 30 percent of potential city-wide additional demand results in an estimate of average annual demand of approximately 32,000 square feet of space.

APPENDIX A

TRENDS IN SONOMA COUNTY EMPLOYMENT BY INDUSTRY SECTOR

Table A-1 presents historical employment in Sonoma County by economic sector.

TABLE A-1

Total Employment by Industry Sector in Sonoma County: 1990, 2001 and 2004

Industry Sector	1990		2001		2004	
	#	%	#	%	#	%
Agriculture	5,600	3.9	7,000	3.6	5,900	3.1
Mining	500	0.3	300	0.2	300	0.2
Construction	10,400	7.2	13,700	7.0	13,600	7.1
Manufacturing	20,200	13.9	30,400	15.5	24,300	12.7
Wholesale Trade	4,900	3.4	6,000	3.1	6,500	3.4
Retail Trade	20,200	13.9	24,100	12.3	23,600	12.4
Transportation, Warehousing, Utilities	3,500	2.4	4,000	2.0	3,900	2.0
Finance, Insurance & Real Estate	8,700	6.0	10,400	5.3	10,000	5.2
Information	2,800	1.9	4,500	2.3	4,200	2.2
Professional & Business Services	11,700	8.1	20,000	10.2	19,700	10.3
Education & Health Services	13,700	9.5	22,900	11.6	22,600	11.8
Leisure & Hospitality Services	13,700	9.5	18,700	9.5	20,200	10.6
Other Services	4,900	3.4	6,800	3.5	6,400	3.4
Government	24,100	16.6	28,000	14.2	29,500	15.5
Total	144,900	100.0	196,700	100.0	190,800	100.0

Sources: California Employment Development Department; Gruen Gruen + Associates.

In 1990, services made up approximately 30.5 percent of total employment in the County. By 2001, services comprised approximately 35 percent of total employment. Services employment comprised the same proportion of total employment in 2004. Professional and business services, the services sector most associated with the consumption of office space, grew from eight percent to over 10 percent of total employment. Employment in the other sector associated with office space, finance, insurance and real estate, peaked in 2001. The share of employment that finance, insurance and real estate comprise of total employment has gradually declined to 5.2 percent of total employment, from six percent in 1990. The shares of employment the following sectors make up of total employment have remained relatively stable: agriculture (three percent to 3.1 percent), mining (0.3 to 0.2 percent), construction (approximately seven percent), wholesale trade (approximately three percent), transportation, warehousing and utilities (two percent), and information (approximately two percent). Manufacturing employment increased from 13.9 percent to 15.5 percent in 2001, and then following the downsizing of telecommunications and high technology manufacturing, 12.7 percent of total County employment. Consistent with productivity enhancements in retailing, retail employment has declined from nearly 14 percent in 1990 to approximately 12 percent in 2004. Government employment has ranged from 16.6 percent in 1990 to 14.2 percent at the peak of total County employment in 2001 to 15.5 percent of employment in 2004.

Table A-2 shows the employment growth rates for the 1990 to 2001 period, the 2001 to 2004 period, and the overall 1990 to 2004 period.

TABLE A-2

Annual Growth Rates of Employment by Industry Sector in Sonoma County: 1990-2004

	Annual Growth Rates		
Industry Sector	1990-2001 %	2001-2004 %	1990-2004 %
Agriculture	2.0	-5.5	0.4
Mining	-4.5	0.0	-3.6
Construction	2.5	-0.2	1.9
Manufacturing	3.8	-7.2	1.3
Wholesale Trade	1.9	2.7	2.0
Retail Trade	1.6	-0.7	1.1
Transportation, Warehousing, Utilities	1.2	-0.8	0.8
Finance, Insurance & Real Estate	1.6	-1.3	1.0
Information	4.4	-2.3	2.9
Professional & Business Services	5.0	-0.5	3.8
Education & Health Services	4.8	-0.4	3.6
Leisure & Hospitality Services	2.9	2.6	2.8
Other Services	3.0	-2.0	1.9
Government	1.4	1.8	1.5
Total	2.8	-1.0	2.0

Sources: California Employment Development Department, Gruen Gruen + Associates.

Over the 1990 to 2004 period, annual employment growth averaged two percent. Professional and business services had the highest growth rate of 3.8 percent. Since 2001 employment growth in this sector has been negative. Education and health services and leisure and hospitality services also have high long term growth rates, although the employment growth rate has been negative since 2001 for education and health services. Information employment also has a high long-term growth rate of 2.9 percent, but this sector has had a negative 2.3 percent growth rate since 2001. With the exception of mining, employment growth in all other sectors have ranged between one and two percent since 1990. Since 2001 employment declined in construction, manufacturing, retail trade, transportation warehousing and utilities, finance, insurance and real estate, information, professional and business services, educational and health services, and other services.

Gruen Gruen + Associates (GG+A) is a firm of economists, sociologists, statisticians and market, financial and fiscal analysts. Developers, public agencies, attorneys and others involved in real estate asset management utilize GG+A research and consulting to make and implement investment, marketing, product, pricing and legal support decisions. The firm's staff has extensive experience and special training in the use of demographic analysis, survey research, econometrics, psychometrics and financial analysis to describe and forecast markets for a wide variety of real estate projects and economic activities.

Since its founding in 1970, GG+A has pioneered the integration of behavioral research and econometric analysis to provide a sound foundation for successful land use policy and economic development actions. GG+A has also pioneered the use of economic, social and fiscal impact analysis. GG+A impact studies accurately and comprehensively portray the effects of public and private real estate developments, land use plans, regulations, annexations and assessments on the affected treasuries, taxpayers, consumers, other residents and property owners.

San Francisco:
(415) 433-7598
E-mail: sf@ggassoc.com

Deerfield:
(847) 317-0634
E-mail:midwest@ggassoc.com

www.ggassoc.com

APPLYING KNOWLEDGE, CREATING RESULTS, ADDING VALUE