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Urban and Regional Planners

M E M O R A N D U M

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To: Patrick Streeter and Clare Hartman, City of Santa Rosa  
From: Andrew Hill  
Re: Barriers to Downtown Development and Strategies to Address Them  
Date: November 12, 2019

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Dear Patrick and Clare:

As part of an initial phase “deep dive” into existing conditions in the Downtown Station Area, the consultant team undertook an analysis of recent data and trends and conducted small group interviews with a range of stakeholders, including downtown business owners and advocates, major landowners, and real estate developers. The purpose of this exercise was to develop an understanding of barriers to downtown development and strategies that could address them. This memo summarizes the key findings of that exercise, discussing the economic barriers, process barriers, and regulatory barriers identified before presenting a set of strategies that can help to address them.

### **ECONOMIC BARRIERS**

The Downtown Station Area Specific Plan was adopted in 2007, just before the onset of the Great Recession, when the bursting of the housing bubble in the US triggered a global financial crisis. Between 2007 and 2010, housing production dropped dramatically throughout the Bay Area, and while the region as a whole saw a rebound starting in 2012, even today housing production has not yet returned to pre-recession levels. Compared to other parts of the Bay Area, housing production in Napa and Sonoma Counties did not rebound as quickly following the end of the Great Recession, and the situation was exacerbated with the devastating loss of homes in the North Bay Fires of 2017. Today in Santa Rosa, the number of building permits issued annually is trending upward, thanks to efforts by the City to implement the Housing Action Plan, streamline the entitlement process, and stimulate housing construction with an array of fee reductions, and there are more units under construction in the city (year to date) than the market has seen since 2014. However, much of this permitting activity and all of the construction is for single-family housing outside of the Downtown Station Area.

Approximately 65 percent of the existing housing stock in the Downtown Station Area is multi-family housing, and given its central location, proximity to transit, and concentration of jobs, it makes sense to promote new higher density multi-family housing in the Downtown Station Area. The principal challenge for multi-family residential development, however, has to do with the rents and sales prices that the market will bear downtown. Achievable rent or sales price is one of the key factors used by developers and lenders in evaluating the feasibility of new residential development. Available data indicates that average rent per square foot in Santa Rosa is significantly below that

in benchmark Bay Area communities and slightly below that in the neighboring Sonoma County communities of Rohnert Park and Petaluma. In the larger context of rising construction costs in the Bay Area, this means that developers are more attracted to other communities where the margins are better and the profits are higher. Even within Santa Rosa, average citywide rents are so similar to those downtown that there is no fiscally compelling reason for a developer to incur the higher costs associated with infill development downtown. Further, existing multi-family development downtown is largely in small developments of four units or less with relatively few larger multi-family buildings that offer an indication of comparable rents for that type of construction. This tends to discourage institutional investors such as insurance companies and pension funds that have significant capital to invest in large-scale real estate developments.

Today, the Downtown Station Area has about 9.5 percent of the office space in Sonoma County, and the area around Courthouse Square is well established as a regional center for financial and government offices. Going forward, it is reasonable to assume it will capture a commensurate share of new office development if the city is able to provide housing that is attractive and affordable to a growing workforce. The biggest challenges for non-residential development downtown relate to retail, particularly given the rapid evolution of that sector with the rise of e-commerce. Across the nation, the demand for physical retail space is declining as consumers chose to buy more online while at the same time demonstrating a preference for “experiential retail” that offers more than just goods for sale. Nearly half of the existing non-residential square-footage in the Downtown Station Area is retail space, which means the area is particularly susceptible to this trend.

The best performing retail in the Downtown Station Area today is located at the Santa Rosa Plaza Mall and in Railroad Square, where commercial rents are well above the citywide average, an indicator of relatively healthy retail performance. Santa Rosa Plaza is a regional retail draw with national and international chains in a traditional mall format, while the Railroad Square commercial district offers a unique blend of local retailers in an historic setting. To the extent that these areas continue to offer differentiated retail experiences, they represent the best potential for successful retail in the future, although they will need to compete with downtown Healdsburg, Windsor and Petaluma - other well-amentized retail destinations in the county that offer free parking and easy access. Overall, in the context of a competitive regional retail landscape and evolving consumer preferences, new retail growth in the Downtown Station Area is likely to be the result of incremental improvements to existing properties with a focus on creating a differentiated experience that provides shoppers with a unique sense of place.

Addressing these economic challenges will require a multi-faceted strategy that closes the competitive gap between downtown Santa Rosa and other Bay Area communities and incentivizes downtown development by building on the unique assets of the Downtown Station Area. Elements of this strategy are identified at the end of this memo.

## **PROCESS BARRIERS**

Extended project approval timelines or uncertainty in the application process adds both risk and cost for developers. By contrast, when the steps in the process and the requirements for project approval are clear, developers are better able to manage costs and ensure project feasibility. In small

group interviews, real estate developers active in Santa Rosa indicated that lengthy City review and permitting process had been a barrier to downtown development; however, they were unanimous in their praise for process improvements put in place recently by the City. These improvements include the Resilient City Development Measures adopted into the Zoning Code to fast-track housing development following the Tubbs and Nuns fires of October 2017. The measures allow most residential uses by-right throughout the Downtown Station Area, with the exception of properties located east of E Street that were not included in the 2007 Plan. Further, design review for new development and major remodels is delegated to the Zoning Administrator, with the exception of projects located in the H- combining district. These measures have streamlined design review and reduced timelines by up to 70 percent. The City has also set up an Expedited Permitting Program, cutting time for planning, engineering and building review from 18 to 6 months.

The Resilient City Development Measures were established as a short-term measure and are set to expire on May 11, 2021. Beyond that, the challenge will be for the City to continuously improve development application procedures to ensure they provide reliability for developers to effectively support project delivery. This will require support from elected and appointed City officials to move catalytic projects forward without “watering them down,” as well as efforts from staff to ensure that all departments are equally proactive in shepherding projects through the approval process. Additionally, continuing to market process improvements and demonstrate their effectiveness can help combat any perception in the wider Bay Area development community that Santa Rosa is not open for business.

## **REGULATORY BARRIERS**

Regulatory barriers to downtown development include elements of the 2007 Plan itself, as well as other City regulations that are not calibrated to the objectives of the Plan in a way that facilitates implementation.

Small group interviews with stakeholders identified a perception among developers that the 2007 Plan is unnecessarily restrictive and complex, especially given current market constraints and the feasibility of developing certain housing product types. For example, the Plan identifies seven different subareas downtown, as well as six different street typologies and three corridor types, each of which have separate and overlapping requirements. This makes it challenging to clearly understand what requirements apply to a given property without careful cross-checking of requirements. Further, certain requirements seem arbitrarily restrictive, such as the requirement in the Park and Gardens subarea that buildings be a minimum of two stories and a maximum of three, leaving little flexibility for design. In the same vein, the pervasive requirement for ground floor retail is not linked to market demand, resulting in a requirement that negatively affects the feasibility of development.

Stakeholders also cited other requirements in City ordinances as barriers, including parking requirements in the Zoning Code, inclusionary housing provisions from the Housing Allocation Plan Ordinance, and development impact fees. In fact, the City is already taking action to address

these concerns. In August 2018, the City Council approved implementation of the Downtown High-Density Residential Incentive Program, an aggressive fee reduction program that reduces impact fees and defers water and wastewater fees for higher density projects that break ground downtown before August 2023. The City has also eliminated development impact and utility connection fees for units that are 750 square feet or less and reduced fees for units between 750 and 1,200 square feet. Amendments to the Housing Allocation Plan Ordinance are anticipated for adoption this fall with a view to providing additional regulatory and financial incentives and alternative compliance measures to maximize production of affordable housing units. Nevertheless, what this points to is a gap between the vision of the 2007 Plan and the effectiveness of actions put in place to implement that vision.

One other regulatory consideration has to do with the City's Cultural Heritage Survey (CHS). Originally completed in 1977 and updated in 1989, the CHS identifies six historic districts and seven historic buildings in the Downtown Station Area; however, the last update to the CHS was completed 30 years ago, and since that time a number of properties in the planning area have become "age-eligible" for historic designation, meaning they are over 50 years old and require some level of evaluation to determine whether or not they are historically significant. A comprehensive update to the CHS that considered "age-eligible" properties and applies current best practices for evaluation would provide more certainty for downtown development and streamline the project approval process.

## **STRATEGIES FOR ADDRESSING BARRIERS TO DEVELOPMENT**

The following represents a preliminary set of strategies to address the barriers discussed above. These strategies are intended to inform the Draft Preferred Plan Concept and will be developed further for the Draft Specific Plan Update.

- Continue working to attract developers of high-density housing projects to Downtown Santa Rosa with a combination of reduced fees and streamlined processing times that provide a competitive advantage. While development costs will remain dominated by high Bay Area construction costs, doing everything possible to keep City-imposed costs (impact fees, exactions, development conditions, approval processes) within a market-reasonable range is an important step for catalyzing development.
- Leverage City-owned properties in key locations downtown for demonstration projects that "prove" the market for higher density multi-family development, with a view to catalyzing similar projects and attracting institutional capital. Pursuing a public-private partnership can be a vehicle for realizing "pioneer" multifamily residential projects that otherwise would not be financially feasible without public subsidy and support.
- Create and attract jobs in higher average wage industries to stimulate demand for market rate housing downtown. This can help address the deficit in achievable rents as compared to other Bay Area communities and attract more interest from the real estate development community. In parallel, an affordable housing and anti-displacement will be needed to protect vulnerable residents. Housing within reach for a full range of income demographics is an essential ingredient for a successful downtown.

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- Cultivate sense of place. Adding rooftops downtown will build demand for retail and restaurants and support vitality. Art and culture have an important role to play as well, as evidenced by the successful programming of the square in Downtown Windsor. Visitor-serving and employment-oriented uses, including hotels, offices, and maker spaces, can help ensure vitality throughout the day, the week, and the year.
- Provide clear standards for new development downtown, coupled with flexibility to encourage creativity and innovation in project design. As a rule of thumb, regulate only what needs to be regulated and let the market decide on other aspects. Map-based standards and graphics tell a story efficiently.
- Ensure that the implementing actions in the plan are sufficient to achieve the goals. It's not enough to include a policy that seeks to attract a grocery store. To be effective, that policy needs to be built on an understanding of the factors that drive the site-selection decisions of food retailers and a strategy for addressing them.
- Set up for implementation with a parking management strategy, an infrastructure financing plan, actions for CEQA streamlining, and a targeted evaluation of potentially historic resources in areas where development is most likely to occur.