

MEMORANDUM

To: Samantha Rotstein, City Ventures
From: Darin Smith and Jenny Lin
Subject: Economic Analysis for Round Barn Village; EPS #141137
Date: December 9, 2014

The Economics of Land Use



Economic & Planning Systems, Inc. (EPS) has been retained by City Ventures to provide economic consulting services pertinent to City Ventures' interest in developing the Round Barn Village project in the City of Santa Rosa. City Ventures is exploring the potential to re-entitle land currently zoned for office park uses in favor of a mixed-use project featuring residential, retail, and cultural uses. EPS is specifically tasked with conducting a high-level market analysis of the uses currently allowed under the General Plan (i.e., office park) to determine the prospects for development of that use. This technical memorandum is intended to assess whether the City's existing land supply may be sufficient to accommodate expected growth, and allow a re-entitlement of Round Barn Village from office park to a mixed-use project.

The methodology EPS has undertaken to provide economic analysis for the Project explores the supply of land and vacant buildings that can accommodate future employment growth in relevant industries. EPS then uses data on development and absorption from the past 10 years to estimate the demand for future commercial development in the City, including typical office park uses (office, flex, and industrial) and others (retail, hotels, etc.). Comparing the estimated capacity of relevant land and buildings to the potential demand for new development, EPS concludes that the City is likely to have an adequate supply of "office park" land and buildings under projections based on recent trends, even if the Round Barn site is used for other purposes with a limited commercial component.

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EPS Findings

In November and December 2014, EPS received and reviewed a variety of studies and data on the City of Santa Rosa and the County of Sonoma. From these materials, EPS has formulated the following opinions.

Land Supply and Building Capacity

- Santa Rosa has 962 acres of land developable for “office park” type uses, including office, flex, and industrial space (779.64 acres of industrial land and 182.61 acres of office space).¹ These figures were provided by the City’s Planning Division and reflect the City’s current General Plan, and includes land in the City’s Downtown as well as outlying commercial development areas such as (and including) the subject site.
- At present, 125 acres of the relevant land supply is undeveloped, vacant, or inactive, but assumed to be usable for office, flex, and industrial development. This figure was provided by the City’s Planning Division.
- The City has an estimated 22.4 million square feet of office, flex, and industrial development currently in place. This figure is provided by CoStar, and reflects a wide range of buildings including owner-occupied space as well as multi-tenant space.
- The average density of existing office, flex, and industrial development in Santa Rosa is estimated at a 0.61 Floor Area Ratio (FAR). This figure represents the existing relevant building supply (22.4 million square feet) divided by the developed relevant land supply provided by the City (837 acres).
- According to City Ventures, the 40-acre Round Barn Village site has numerous easements and other restrictions that limit its development capacity to 340,000 square feet. Combined with the remaining 85 acres of undeveloped land, if developed at the estimated Citywide average density (0.61 FAR), the 125 acres of total undeveloped land would have capacity for 2.6 million square feet of new development, or a total of 25.0 million square feet including existing space.
- In addition to this capacity for new construction, the City has roughly 1.8 million square feet of vacant office, flex, and industrial space. Some of this space may be appropriate and attractive for new tenants, while other portions of this space may be functionally obsolete but could represent opportunities for tear-downs and redevelopment. As such, EPS considers this vacant space to be part of the supply of space to accommodate future job growth. While some of these buildings, if torn down, could be replaced with higher density uses, EPS has conservatively assumed that the density will remain constant on these parcels with vacant buildings.
- Combining the undeveloped land capacity with the vacant existing space, EPS concludes that the City of Santa Rosa has capacity for roughly 4.4 million square feet of office, flex, and industrial tenants not currently existing in Santa Rosa.

¹ Email from Amy Nicholson, City of Santa Rosa, Community Development Division, November 12, 2014.

- If the 40-acre subject site is re-entitled for residential and mixed-use development that includes roughly 40,000 square feet of commercial industrial uses (as planned by City Ventures) rather than its estimated full potential for 340,000 square feet, the City's capacity for future office park uses would be reduced by 300,000 square feet, leaving capacity for 4.1 million square feet of relevant uses on undeveloped land and in existing vacant space.

Demand Projections

- Recent trends indicate that roughly 140,000 square feet of new office, flex, and industrial space have been absorbed each year. This figure is based on CoStar data for the last five and seven years.
- The City of Santa Rosa reports an average of 144,500 square feet of total commercial development permitting annually over the past 10 years (the most data available), including retail and hotels as well as office, flex, and industrial uses.²
- If the recent development permitting and absorption trends continue at 140,000 square feet annually through 2035 (21 years), the City would need 2.9 million square feet of office, flex, and industrial development by 2035. This figure is less than the amount of capacity estimated to exist in the City's total relevant land supply and existing building vacancies, whether or not the Round Barn site is re-entitled for other uses. Put another way, at the recent levels of absorption (140,000 square feet per year), it would take 13 years to absorb the existing 1.8 million square feet of vacant space in Santa Rosa even if no further development occurred.
- These calculations assume many factors remain as they currently are, including average employment densities and building densities, and that most existing office, flex, and industrial buildings remain in place for another 20 years rather than being replaced by higher density uses. While this may be possible, EPS has observed general trends of intensification and redevelopment that suggest at least some greater efficiency of development is likely in the future. For example, the average amount of space per office worker globally has dropped to 150 square feet or less, from 225 square feet in 2010.³

Conclusions

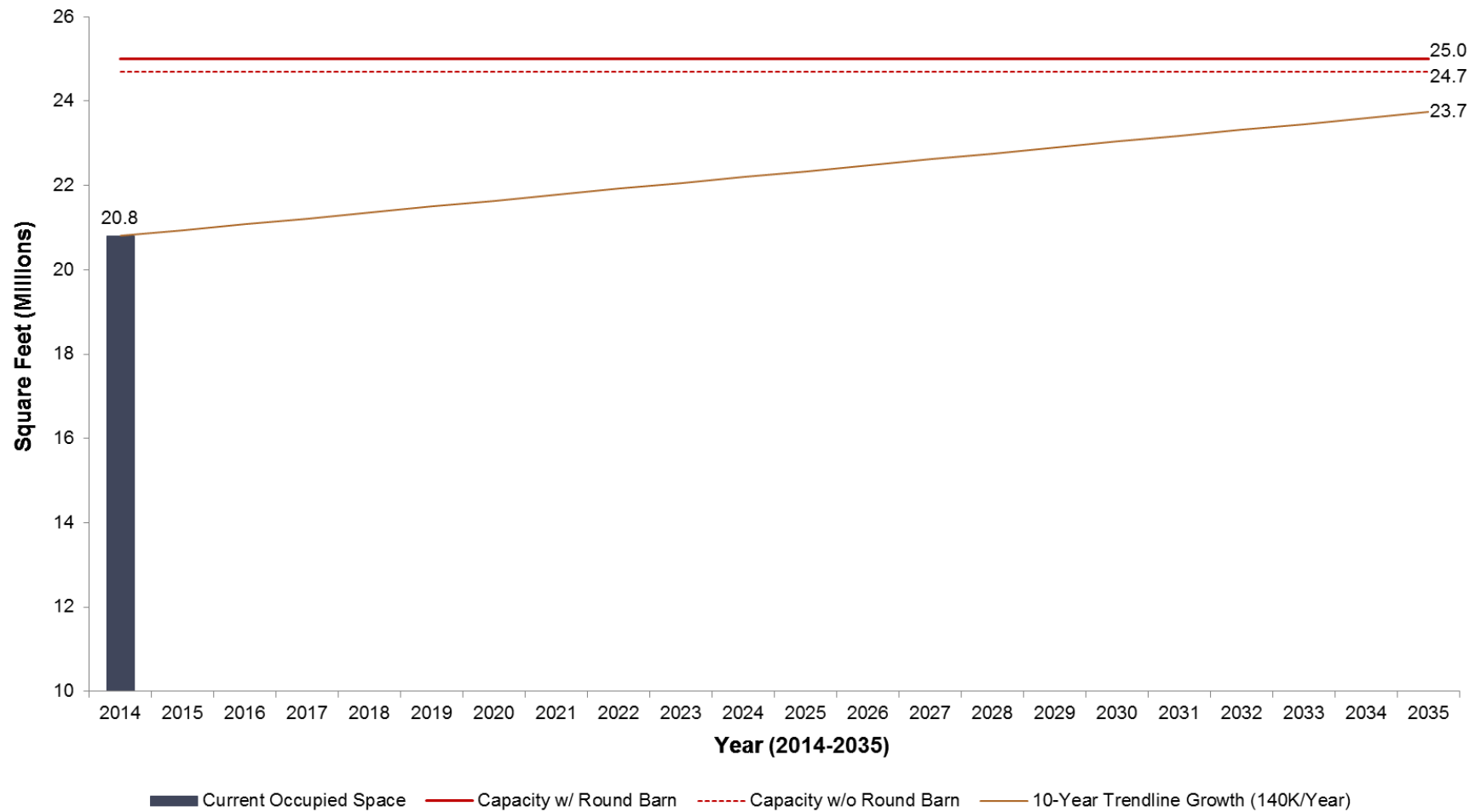
- It is very difficult to predict with certainty the number of jobs, building square feet, or land acres that may be required to accommodate future growth in a given City. Dynamic factors including general market conditions, competition from other jurisdictions, evolving commute patterns (including telecommuting and planned transit services), evolving employment densities (generally moving toward fewer square feet per office worker, for instance), and other considerations make such predictions very challenging.
- With this caveat, however, EPS's analysis suggests that the capacity of land and existing buildings in Santa Rosa's current General Plan is likely to provide significant space for future job growth in the City. Reducing the relevant land supply by 40 acres would

² City of Santa Rosa, Building Division.

³ <http://www.officingtoday.com/2013/08/what-shrinking-offices-mean-for-your-business-center/>

eliminate a portion of this growth capacity, but should still yield enough space to accommodate employment growth through 2035 based on recent absorption trends. This finding is illustrated on **Figure 1** on the following page.

Figure 1
Summary of Office Space Supply and Demand Projections
Economic Analysis for Round Barn Village; EPS #141137



Sources: City of Santa Rosa; City Ventures; CoStar; Economic and Planning Systems, Inc.

MEMORANDUM

To: Charity Wagner, City Ventures

From: Darin Smith and Walter Kieser

Subject: Economic Analysis Update for Round Barn Village;
EPS #141137

Date: July 11, 2017

The Economics of Land Use



In December 2014, Economic & Planning Systems, Inc. (EPS) provided to City Ventures a technical memorandum pertinent to City Ventures' interest in developing the Round Barn Village project in the City of Santa Rosa. City Ventures was exploring the potential to re-entitle land currently zoned for office park uses in favor of a mixed-use project featuring residential, retail, and cultural uses. EPS concluded that the City could accommodate a combined 4.1 million square feet of new office and industrial uses in existing vacant buildings and on appropriately zoned developable land, even without the capacity provided on the Round Barn Village site. Based on the CoStar and City-provided long-term trends of absorption at roughly 140,000 square feet per year for office and industrial space, this 4.1 million square feet of capacity could meet nearly 30 years worth of demand, and far exceeded the expected demand through the planning horizon year of 2035. Developing the Round Barn Village site for a mixed-use project was not considered to represent a material diminution of the City's ability to meet future commercial and industrial development needs.

The City is now considering the project (slightly revised) at the Planning Commission and City Council levels, and EPS has been asked to provide responses to the following issues raised by City staff:

1. Update regarding general market conditions

In 2014, EPS worked with City staff to determine that the General Plan land supply for office and industrial uses summed to 24.7 million square feet of building capacity, excluding the Round Barn Village site. This figure included the 20.6 million square feet of occupied space, plus 1.8 million square feet of then-vacant space, and another 2.3 million square feet of future space on undeveloped land. Since December 2014, CoStar data regarding Santa Rosa real estate indicates that vacancies for office and industrial space have decreased to 1.2 million square feet,

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while 273,000 square feet of new space has been developed. For both office space and industrial space, the inventory has grown slightly while vacancies have decreased – from roughly 8 percent combined in late 2014 to roughly 5 percent in the second quarter of 2017. As vacancies have decreased, rent rates have increased, by roughly 9 percent for office space and by 25 percent for industrial space. These data indicate that the 2.5 years since the previous EPS study have seen improved market conditions in Santa Rosa – not surprising considering that the previous period included several years of significant economic recession.

Despite the market improvements, the pace of new construction has not increased from long-term trends. Over the past 2.5 years, new office and industrial construction has summed to 273,000 square feet, or 110,000 square feet per 12-month period. This reflects a slower pace than the previous seven-year trend at 140,000 square feet as calculated by CoStar. Though existing vacancies have diminished and rents increased, these indicators have not yet led to an increased pace of new development. For this reason, EPS maintains our previous conclusion that the supply of developable land remains adequate for the continuation of long-term demand and development trends.

2. Update to address the influence of the cannabis industry

In 2015, Santa Rosa adopted an interim cannabis regulation and in 2016, the State of California voters approved Proposition 64, legalizing marijuana production and consumption for recreational use. These changes have generated new interest in cannabis production facilities, which anecdotally have been increasing demand for industrial space throughout the State, including in Santa Rosa. Local stakeholders have indicated that a significant factor in the improved industrial market (decreasing vacancies and increasing rents) can be attributed to the cannabis industry. EPS acknowledges these effects but cannot state with certainty whether they will remain as concerns or trends in Santa Rosa. Forces including the federal Department of Justice's position on cannabis laws, the potential role of "Big Tobacco" in cannabis production, competition from other jurisdictions, and others may increase demand for cannabis production and distribution or may largely eliminate it from Santa Rosa. For this reason, EPS does not recommend that a land use policy decision should be predicated on an assumed continuation of very recent short-term trends related to the cannabis industry.

3. Change of plan effects on previous findings

Since EPS's initial analysis in 2014, City Ventures has altered their plans for the Round Barn Village site. Previously, the plan included residential, retail, and cultural uses. The revised plan is for roughly 200 housing units, plus permanently conserved open space on over half of the site, but no longer involves commercial or cultural uses. **Given that the previous plan assumed only 40,000 square feet of commercial/industrial uses on the Round Barn Village site and represented less than 0.2 percent of the City-wide land and building capacity summing to nearly 25 million square feet,** EPS does not consider this change to materially impact the conclusions of our previous analysis.