Vernon Street Study Area

Vision Feasibility

November 2005

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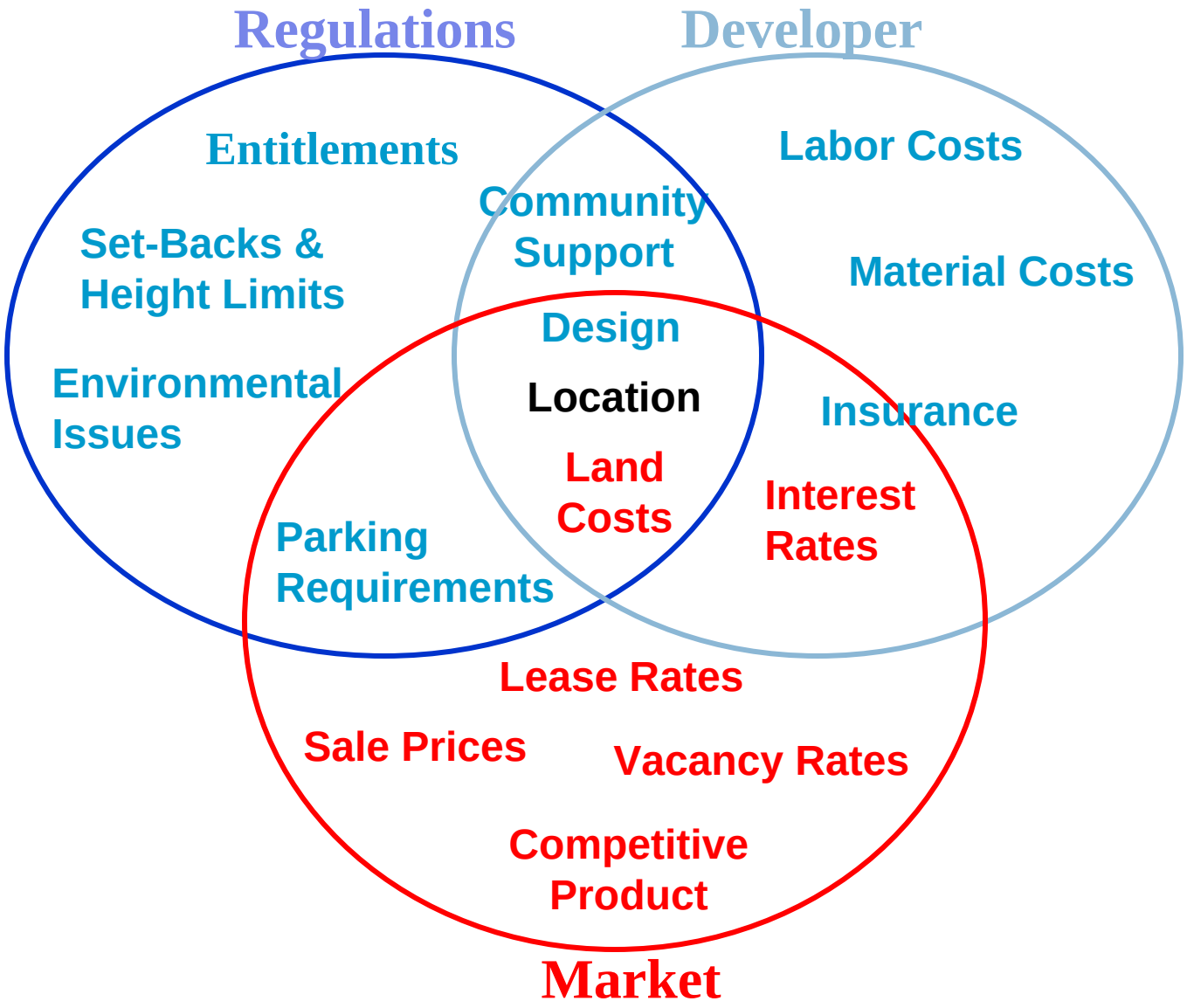
Tonight's Agenda

- Market trends
- Findings from developer, property-owner and business-owner interviews
- Development opportunity sites
- Development process
- Feasibility analysis of hypothetical projects
- Implications for success

Market Trends

- Demographic
- Economic
- Retail
- Office
- Residential

The Market Influences Project Feasibility



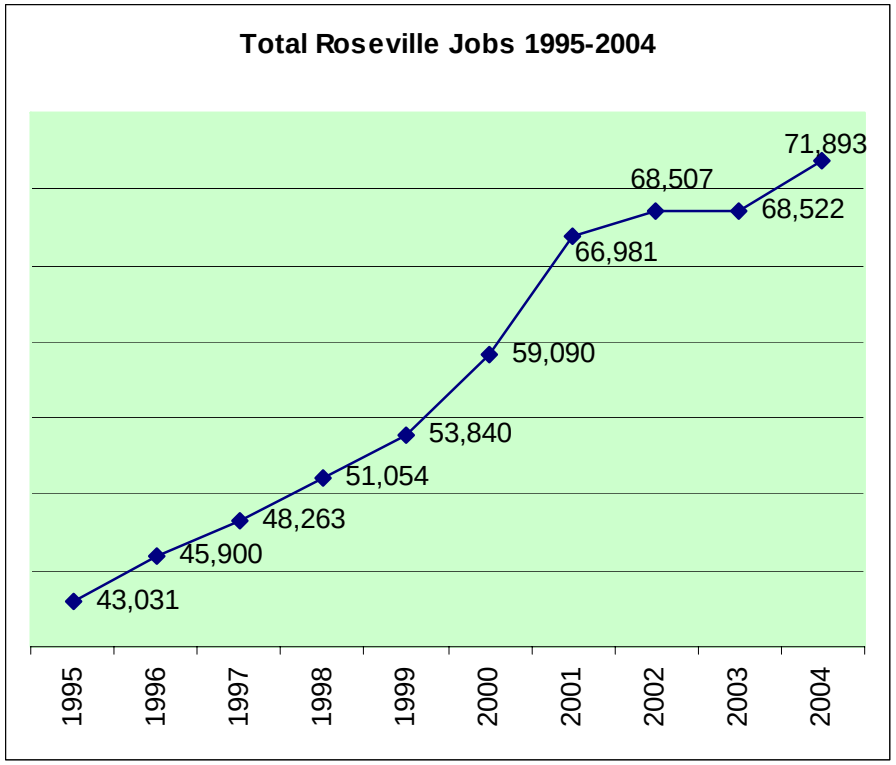
Roseville's Economy Drives Revitalization

As a job center Roseville accounts for 50% of jobs in the county.

City has averaged 5.9% annual job growth in past 10 years

By 2012, 37,000 new jobs

- 14,000 new jobs in retail, food service and personal services will create demand for **3.8 million SF of retail space**.
- 13,600 office jobs will create demand for **2.8 million SF of office and R&D space**.
- 8,300 institutional jobs will create demand for **2.4 million SF of institutional space**.



Demographic Trends

- Well educated population
- High incomes
- Low poverty
- Owner-occupied homes
- Study Area is more diverse, less educated and has lower household incomes than the Retail Trade Area or Roseville

Table 4: Residential Demographics: Roseville, Study Area, Retail Trade Area

	Study Area	Retail Trade Area (a)	Roseville
Population (2004)	NA	NA	103,609
Population (2000)	3,356	16,853	79,921
Population Growth (1990 - 2000)			123%
Total Households	1,422	6,621	30,783
Average Household Size	NA	2.55	2.35
Average Family Size	NA	3.13	3.03
Households with Children	NA	35.8%	36.4%
Owner Occupied	56.8%	58.1%	69.5%
Education			
High school Graduate or Higher	70%	71%	90.9%
Bachelor's Degree or Higher	6%	14%	31.4%
Race & Ethnicity			
White	76.0%	81.6%	86.0%
Black	1.0%	1.0%	1.3%
Asian	1.0%	2.0%	4.3%
Some Other Race	14.9%	10.9%	4.9%
2+ races	5.0%	4.5%	3.5%
Hispanic (b)	38.0%	23.0%	11.5%
Income			
Aggregate Household Income ($millions)	$44	$329	$2,153
Median Household Income	$31,632	$43,442	$57,367
Median Family Income	$35,345	$48,421	$65,929
Percapita Income	$11,962	$19,576	$27,021
Families below Poverty Level (%)	15.0%	10.6%	3.4%

Source: Census 2000, MJC 2005

Notes: a) census tracks included in this core analysis include Track 208 Block 2; Track 209.01 Block 2; 209.02 Block 2, 3 & 4; Track 210.03 Block 1 & 2, Track 210.08 Block 1

Retail Market

Roseville Retail

- One of the most robust markets in California.
- In 2003 retail sales/capita totaled $36,241 in Roseville, and just $12,804 for California.
- Between 1999 and 2003, total retail sales increased by 46% after adjusting for inflation. Per-capita retail sales increased by 15%.

Roseville retail real estate

- Market is very strong
- Low vacancy 2.0%
- Strong rents $2.75/SF
- Higher sales prices $367/SF

Recent New Supply

- In 2003, Roseville added 500,000+ SF of new retail space
- No new retail in the Study Area

Projected Demand

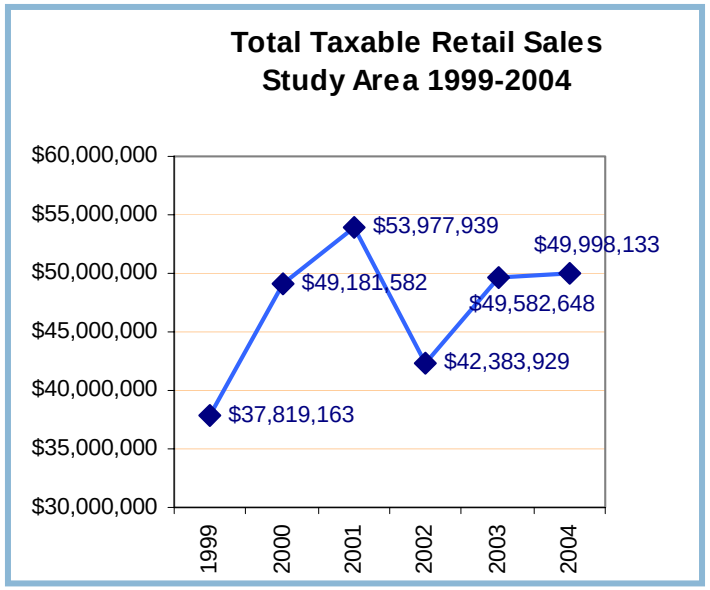
- Population growth will increase demand for retail goods and stores.
- New demand will support 3.7 million square feet of retail (through 2012)

Study Area retail

- In 2004, Study Area had $50 million in taxable retail sales, 1.5% of City total of $3.2 billion
- Study Area captures 23% of market potential in retail sales from primary retail trade area.

Study Area retail real estate

- Market is soft
- Some vacancy
- Low rents $1.04/SF
- Median sale price is $200/SF



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Office Market

Future Office Demand

- Tied to job growth and interest rates.
- Roseville will add 1,400 new office jobs/year through 2012 which will create demand for 280,000 SF/year.

Conditions for Development

- An office market with less than eight percent vacancy is primed for additional office development.
- Lease rates of $3/sq. ft. will encourage speculative office development.

Roseville Office Market

- Low office vacancy of 10.3%
- Good lease rates of $2.10/SF

Study Area Office Market

- Lease rate is good: $1.81/SF
- Median sales price is strong: $281/SF

Study Area Office Sales (2003-2005)

	Median Sales Price/SF	Median Size	Median Sales Price	(n)
2005	$281	2,880	$775,000	7
2004	$152	6,250	$686,250	8
2003	$141	900	$170,000	5

Source: DataQuick, 2005; MJC 2005

Office Market Overview

Location	Leasable SF	Vacant SF	Vacancy Rate	2005 2Q Net Absorption	YTD Net Absorption	Lease Rate	Under Construction	Market Share
Suburban Sacramento	34,743,574	4,605,305	13.3%	532,985	618,595	$1.65	1,291,243	100.0%
Roseville/Rocklin	4,568,437	470,062	10.3%	238,771	314,536	$2.10	743,586	13.1%
Citrus Heights/Fair Oaks	1,056,649	92,165	8.7%	-1,675	-15,437	$1.40	0	3.0%
Study Area Zip Code: 95678	NA	20,272	NA	NA	NA	$1.81	101,680	NA

Source: CB Richard Ellis; MJC 2005

Multi-Family & Condos

Roseville will add 11,500 households by 2015.

Condos

- 34% of households will be able to afford a condo and not a single family home.
- 3,900 new condos per year through 2015, or 390 units/year.

Multifamily

- 54% of households will not earn enough to afford a condo or a home and will rent.
- 6,000 multi-family units by 2015, or 600 units/year.

Table 13: New Roseville Households & Housing Demand (2015)

New households that can afford:	New Households (2015)	Percent (a)
A single family home	1,612	14%
A condominium	3,915	34%
To rent	5,988	52%
New Households	11,515	100%

Source: Census, 2000; DataQuick, 2005; MJC 2005

Notes: (a) assumes that current levels of affordability persist

Current Condo Market

- Strong demand, good market
- Young families, seniors, empty-nesters, urban singles
- Strong median sales prices:
  - $285/SF for 1BR/1BA or $242,500
  - $305/SF for 2BR/2BA or $310,000
  - $270/SF for 3BR/2BA or $326,750

Current Multi-family Market

- Strong multi-family market
- Vacancy rate is 5.7 %
- Median Rent is $1,036/month
- Median Sale Price $266/SF

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Key Informant Interviews

Developers, Business-owners, Property-owners

- Downtown Assets
- Challenges
- Opportunity Sites
- Recommendations

Insights: Downtown Assets

Developers and business owners identified a number of key assets which strengthen the Study Area:

(by order or priority)

- City Hall
- The Post Office
- The Community's and City's interest in and progressive attitude towards strengthening and revitalizing the downtown.
- Walkability, revitalized streetscape and entertainment venues.
- New economic activity, demographic and market trends.
- Royer Park and Dry Creek
- Easy access to Interstate 80
- Traffic congestion on I-80 keeps people from wanting to visit Sacramento and is turning our downtown into an entertainment, shopping and dining destination.
- History, historic character, museums and the locomotive
- Theaters and the arts

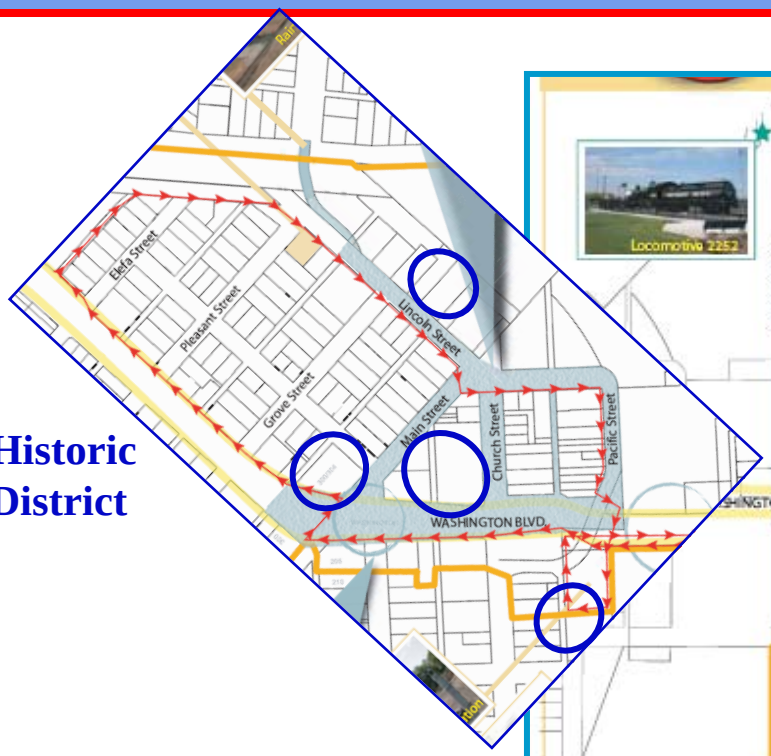
Insights: Downtown Challenges

(By priority order)

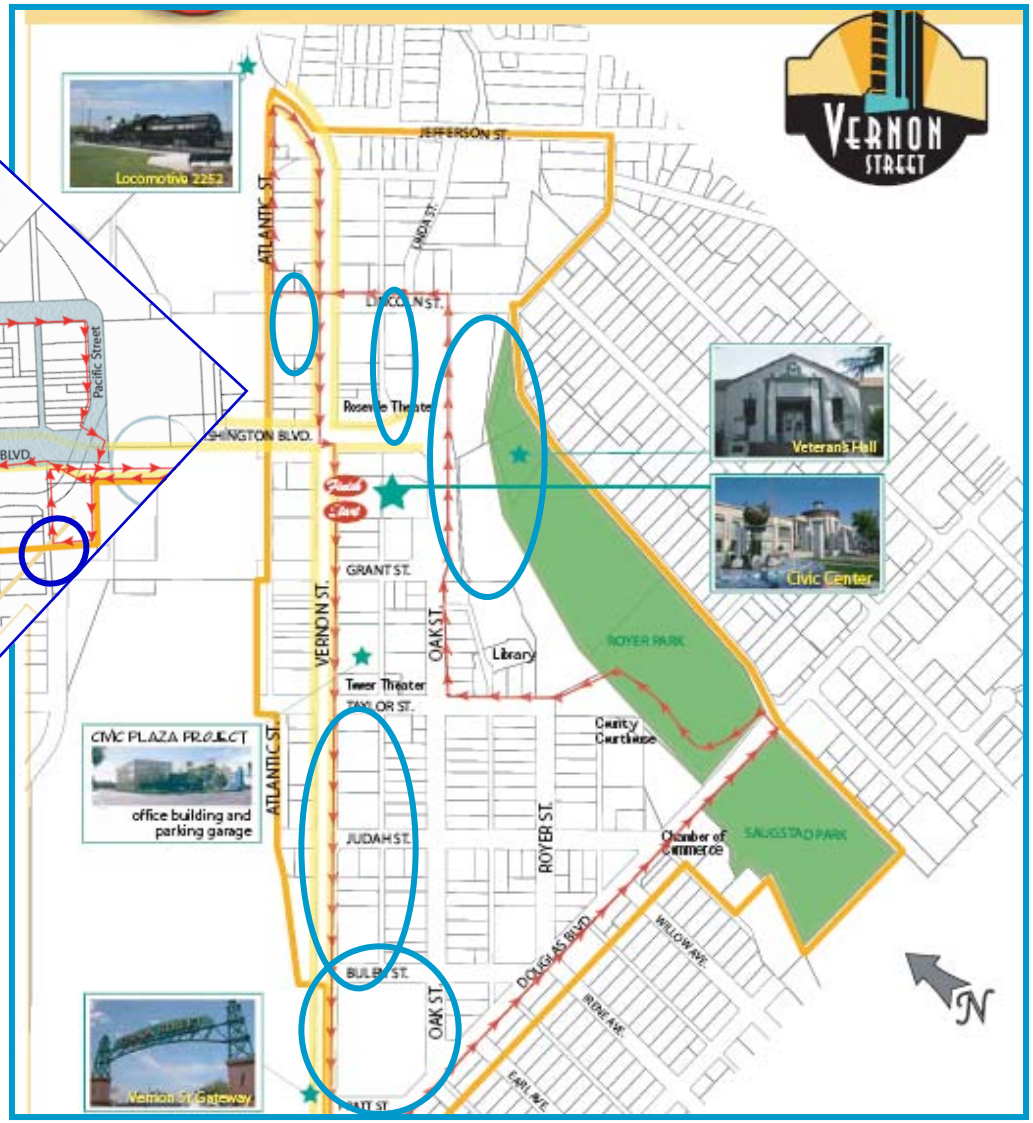
1. Development uncertainties: such as toxics, sewage connections, level of community support
2. Difficult to be the first developer taking a risk, no one wants to be the first project.
3. Competing developments in green field sites. Especially the new retail "main street" development.
4. Problems with current lot size
   - Relatively few sites are big enough for effective mixed-use development.
   - Small lot sizes attract small developers and small contractors who have trouble paying prevailing wages.
   - Long thin lots don't lend themselves well to effective retailing. Some stores should be combined to create more useful retail.
5. Difficulty of Infill development
   - Most properties on Vernon Street need infrastructure upgrades.
   - The cost of development is high for rehab of existing structures. Rehab projects often have hidden costs that make them more risky.
   - Low rents can make projects difficult to finance, and banks require a large equity stake by the developer.
6. Parking requirements are too high and inhibit some needed types of businesses (restaurants, entertainment, cafes).
7. Most projects are, and will continue to be, owner/occupied. City must work with owner/occupants on improvements: for example, façade and building upgrades.
8. Current retail mix and quality.
9. Historic structures can be challenging.
10. Access issues from Vernon Street to the Historic District and from highway 80 to Vernon Street through Riverside drive, which is run down.
11. Some property owners are holding out for a "big cash-out" and do not maintain or invest in their properties.
12. Many owner's have only one property, and have limited interest, knowledge, and/or power to redevelop their property and turn around the district.

Insights: Opportunity Sites

Vernon Street & Historic District



Historic District



Vernon Street

Insights: Needed Physical Changes

(By priority order)

1. **Meeting places** – cafés, quality restaurants with outdoor seating, coffee shops and/or book stores.
2. **A central plaza** or public space surrounded by restaurants, cafes, entertainment uses.
3. **Better connections** between Royer Park, Dry Creek and downtown.
4. A **focused retail core** – that starts with key corners and builds from them.
5. **More pedestrian friendly qualities** -- close some side streets to create public spaces, plazas, provide for outside dining, etc.
6. Build upon and improve the **historic character** and design.
7. **Public restrooms**
8. **Public parking** off of the main retail corridor (e.g. along Atlantic and/or Oak Street).
9. **Sewage line upgrade** on Vernon Street.

Insights: Needed New Businesses

Needed new businesses

1. Quality restaurants
2. Cafes
3. More downtown residential
4. Bookstores
5. Unique stores that are not found at the malls
6. Live music venues
7. More arts involvement: art lofts, galleries, festivals, etc.

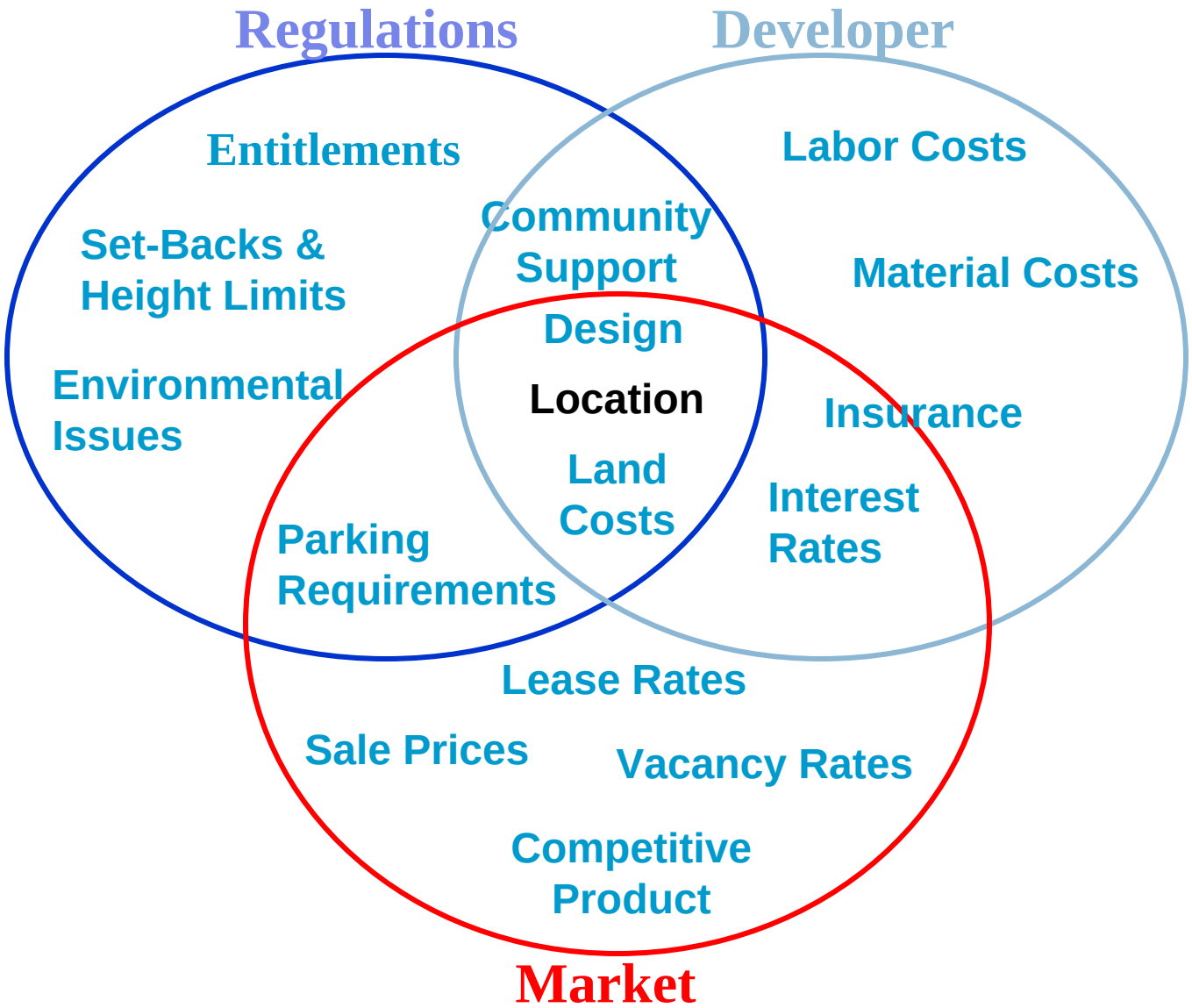
Insights: Needed City Actions

- Allow more residential, mixed-use and live-work development in both districts to improve development feasibility.
- Improve permitting process time and predictability.
- Continue to proactively purchase properties that are key to achieving vision.
  - City could work with property owners/developers to consolidate lots. Many lots are too small.
  - Continue to work with developers to address risks in reuse and redevelopment of key sites.
- Proactively attract unique retail to fill vacant store fronts with higher quality businesses.
- Provide off-site parking, and/or reduced parking requirements to improve project feasibility and speed revitalization (especially for restaurants).
- Build better partnerships between businesses community, City and property owners focused on improving retail mix and downtown.
- Educate small business owners and property owners about the potential up-side of upgrading property.

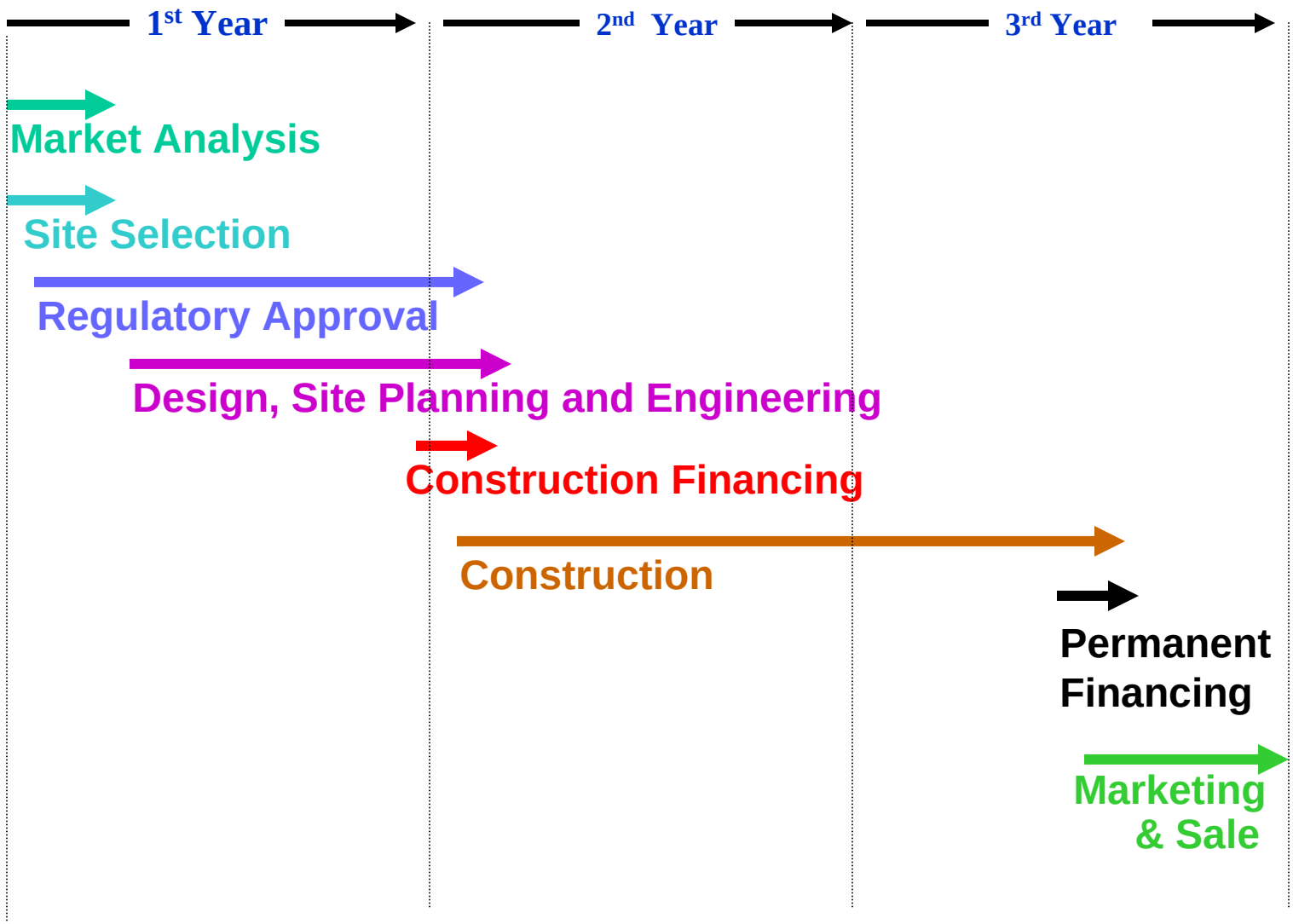
Development Process

- Feasibility Factors
- Development Timeline
- What Developer Risk and Want
- Feasibility Analysis
- Cost Estimates

Factors Influencing Feasibility of a Specific Project



The Development Process



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What the Developer Risks and Wants

Developers Take Risks

- Developers risk their money in their projects.
- Banks typically finance 60 to 80 percent of a project, with equity investors and the developer covering the remainder.
- Many banks require the developer to personally secure the construction loan with non-project assets
- The developer pays for up-front costs: site control, feasibility analysis, conceptual design plans, and the entitlement process for building approvals.
- Most developers do not see a return on their investment for at least three years, as the developer takes the last money out of a project, after the bank, contractor, architect and others have been paid.

Required Return

- Internal rate of return of at least 16%, preferably 18 to 20%.
- Office development is most risky so developers require a 25% IRR for office development.

Market and Feasibility Analyses

Market Analysis

- Area rents, lease rates
- Area vacancy rates
- Sales prices
- Competitive supply
- Amenities and design requirements

Feasibility Analysis

- Hard and soft costs
- Interest rates (construction and “take out” loans)
- IRR (Internal Rate of Return) and CAP rate calculation

Project Costs

Hard costs

- Land or building purchase
- Demolition (existing structures and infrastructure)
- Site work (landscaping, curbs, sidewalks, etc.)
- Project construction (buildings & parking)
- Environmental mitigation
- City taxes
- Construction escalation (5%)
- Construction contingency (10%)

Soft costs

- Architect, structural, mechanical & electrical engineers, the feasibility study, geo tech and soils, and testing & special inspections
- Cost estimator
- Environmental assessment
- Construction interest, fees, title & recording
- Permanent financing, including origination fees, title & recording
- Legal & sales expenses
- Permits: planning fees, building permit fees, public facilities fees, water and sewer connection fees, traffic mitigation fees, etc.
- Construction manager and project manager
- Other: fire, liability & course of construction insurance, condo liability insurance, property tax, accounting and management set-up
- Soft cost contingency (5%)

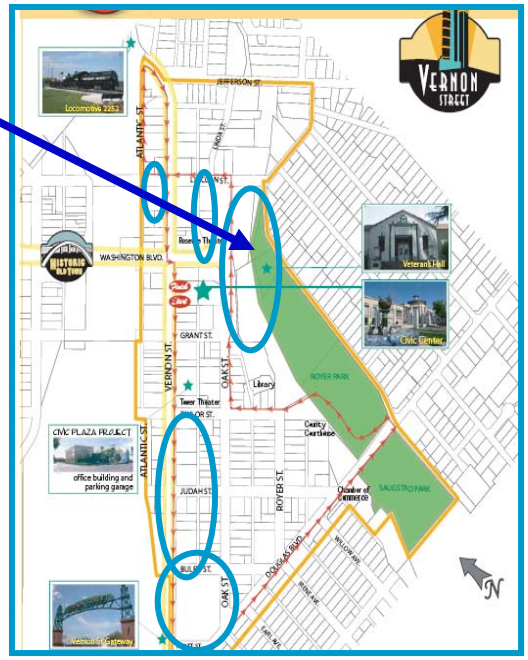
Determining Financial Feasibility

Internal Rate of Return (IRR)

- The IRR tells the developer the average annual rate of return for a project spread over the development, construction and holding period. This cash flow summary is adjusted to reflect the time value of money.
- Desirable IRR is 16- 24 percent

Dry Creek Site
Project Feasibility

- City-owned property
- Current use: surface parking lot
- Amenities: excellent access to downtown, Dry Creek and Royer Park
- Site size: 78,592 SF
- Land Use: Central Business District and Open Space
- Zoning: Community Commercial & Open Space/Floodway
- Height Limit: 50 Ft (5 story)
- Floor Area Ratio: 3.0 (3 times the floor space as the site size)



Dry Creek Site: Assumptions

- Land purchase price: $35 per square foot from City.
- Project must include a park and plaza owned, developed and maintained by Developer.
- Current parking would be lost (but with mixed-use, many spaces would be available during the day).
- Use new Riverside parking requirements.
- Conforms to current zoning requirements.
- The shape of the site and its proximity to Dry Creek may result in atypical construction, site and engineering costs.
- The analysis includes a 10% construction escalation, a 10% construction contingency and a 5% soft cost contingency.
- Construction loan: Interest rate of 7%, 16 month term, loan to value ratio of 70%
- Sales price assumptions:

Sales Price Assumptions Cost/SF		
	Dry Creek Site	1 Mile Radius
Condos	$350	$305
Retail	$200	$200
Restaurants	$450	$509
Office	$280	$281

Dry Creek Feasibility Analysis

Dry Creek Condominium Mixed-Use Project (Parking on Site)				
	Large Project	Medium Project	Small Project	Very Small Project*
Open Space/ Plaza (SF)	15,000	30,000	40,000	40,000
Total Stories	3.4	3.4	3.3	1.9
Floor Area Ratio	250%	192%	214%	169%
Development Mix	196,758	150,793	119,708	65,310
Total Residential (Units)	100	80	60	25
Office Space (SF)	0	0	0	0
Retail Space (SF)	15,000	8,000	8,000	8,000
Restaurant (SF)	10,000	8,000	8,000	8,000
Parking Spaces	162	122	99	59
Development Cost	$37,374,414	$30,169,939	$24,542,834	$15,418,599
Land Costs*	$2,850,720	$2,850,720	$2,850,720	$2,850,720
Construction Costs	$25,600,908	$20,192,506	$16,157,411	$9,504,346
Soft Costs	$9,022,786	$7,226,713	$5,634,703	$3,163,533
Developer Equity	$11,212,324	$9,050,982	$7,362,850	$4,625,580
Rate of Return	23%	16%	9%	Loss
Feasibility	**Feasible**	**Possible**	**Infeasible**	**Infeasible**

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Dry Creek Feasibility Analysis

- Project is feasible because of residential condos.
- Retail decreases feasibility slightly, restaurant improves it and office is virtually neutral.
- Feasibility is heavily influenced by parking, FAR requirements and land costs.
  - The low land cost of this project (because land is undeveloped) significantly improve feasibility. Most new projects on Vernon Street and in the Historic Old Town will have higher land costs because most of the available land is improved with structures.
  - A developer owned and managed public plaza is possible because of the relatively low land cost.
  - Neither a one nor a two story mixed-use project is feasible on the site given land costs and parking requirements.
  - Current FAR limits development to an average of 3 stories, even though the height limit would accommodate up to 5 stories.

Dry Creek: Impact of Parking Scenarios

Dry Creek Condominium Small Mixed-Use Project			
	Parking Requirement Standards		
	Riverside	Current Downtown	In-Lieu Fee
Open Space/ Plaza	40,000	36,000	36,000
Total Stories	3.3	3.0	2.1
Floor Area Ratio	214%	296%	210%
Development Mix	119,708	119,900	85,000
Total Residential Units	60	60	60
Office Space	0	0	0
Retail Space	8,000	0	8000
Restaurant	8,000	4,000	8,000
Parking Spaces	99	134	55, $14,500/space
Development Cost ($1,000)	$24,542,834	$22,412,548	$23,319,815
Land Costs*	$2,850,720	$2,850,720	$2,850,720
Construction Costs	$16,157,411	$14,453,868	$14,441,148
Soft Costs	$5,634,703	$5,207,960	$6,127,948
Developer Equity	$7,362,850	$6,723,764	$6,995,945
Rate of Return	9%	Loss	19%
Feasibility	**Infeasible**	**Infeasible**	**Feasible**

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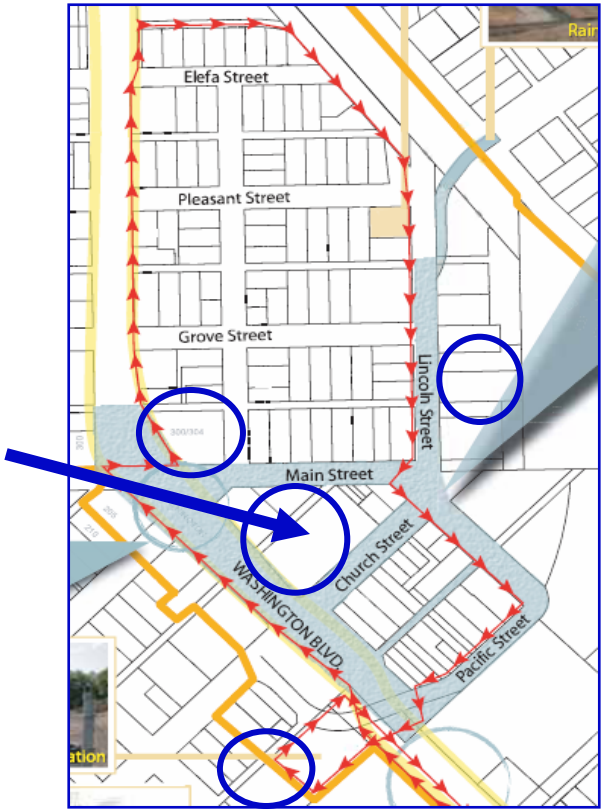
Parking Implications

- A small project on this site is not feasible given current parking and FAR requirements.
- An in Lieu fee is an effective way of managing parking for the site and encouraging a more modest development on this relatively thin site.
- A Parking In-Lieu Fee offers a number of advantages:
  - **Shared parking.** Public parking facilities allow shared use among different sites whose peak parking demand occur at different times. This means that fewer spaces must be built: only one space need be built for every 1.5 in-lieu spaces awarded.
  - **Better Urban Design.** By reducing the quantity of on-site parking, in-lieu fees can allow Roseville to shape a more pedestrian-friendly environment. In addition, public parking facilities can be activated by ground floor retail.
  - **More flexible and effective land use.** In-lieu fees allow developers to develop otherwise undevelopable sites for the proposed use. Lots that are too small or where providing all required parking spaces on site would be difficult or prohibitively expensive can be developed because the in-lieu fee allows for off-site parking.
  - **Fewer Variances.** When faced with a difficult site or a use with high parking requirements, developers often request a variance from the parking requirement, which creates an unearned economic benefit granted to some developers but denied to others.
  - **Historic Building Reuse**. In-lieu parking fees allow adaptive reuse of historic buildings, many of which were built without parking and cannot now accommodate parking on site. In-lieu fees allow a building owner to request a change of use for the building without building the required parking on site.

Old Town Opportunity Site

- Privately owned site
- Current use: parking, gym, vacant buildings
- Amenities: access to historic district
- Site size: 75,805 SF



Historic District Assumptions

- Land purchase price is $75/SF, because the property is improved with existing buildings and parking on site.
- Project conforms to current zoning requirements, except for use of new Riverside parking requirements.
- The analysis includes a 10% construction escalation, a 10% construction contingency and a 5% soft cost contingency.
- Construction loan: Interest rate of 7%, 16 month term, loan to value ratio of 70%
- Sale price assumptions

Sales Price Assumptions Cost/SF

	Old Town Site	1 Mile Radius
Condos	$325	$305
Retail	$180	$200
Restaurants	$350	$509
Office	$250	$281

Feasibility Analysis

Historic District: Condominium Mixed-Use Project			
	Large Project (riverside parking)	**Large Project (In Lieu Fee)**	**Median Project (In Lieu Fee)**
Total Stories	2.9	3.0	1.8
Floor Area Ratio	265%	303%	101%
Development Mix	200,895	208,700	121,000
Total Residential (Units)	125	178	100
Office Space (SF)	0	0	0
Retail Space (SF)	2,000	2,000	4,000
Restaurant (SF)	2,000	2,000	2,000
Open Space/ Plaza (SF)	6,891	6,891	6,891
Parking Spaces	152	107	63
Development Cost ($1,000)	$40,223,933	$13,478,486	$33,799,179
Land Cost*	$6,064,400	$6,064,400	$6,064,400
Construction Cost	$24,628,572	$32,684,934	$19,033,112
Soft Cost	$9,530,962	$14,152,410	$8,701,667
Developer Equity	$12,067,180	$15,870,523	$10,139,754
Rate of Return IRR)	4%	20%	Loss
Feasibility	**Infeasible**	**Feasible**	**Infeasible**

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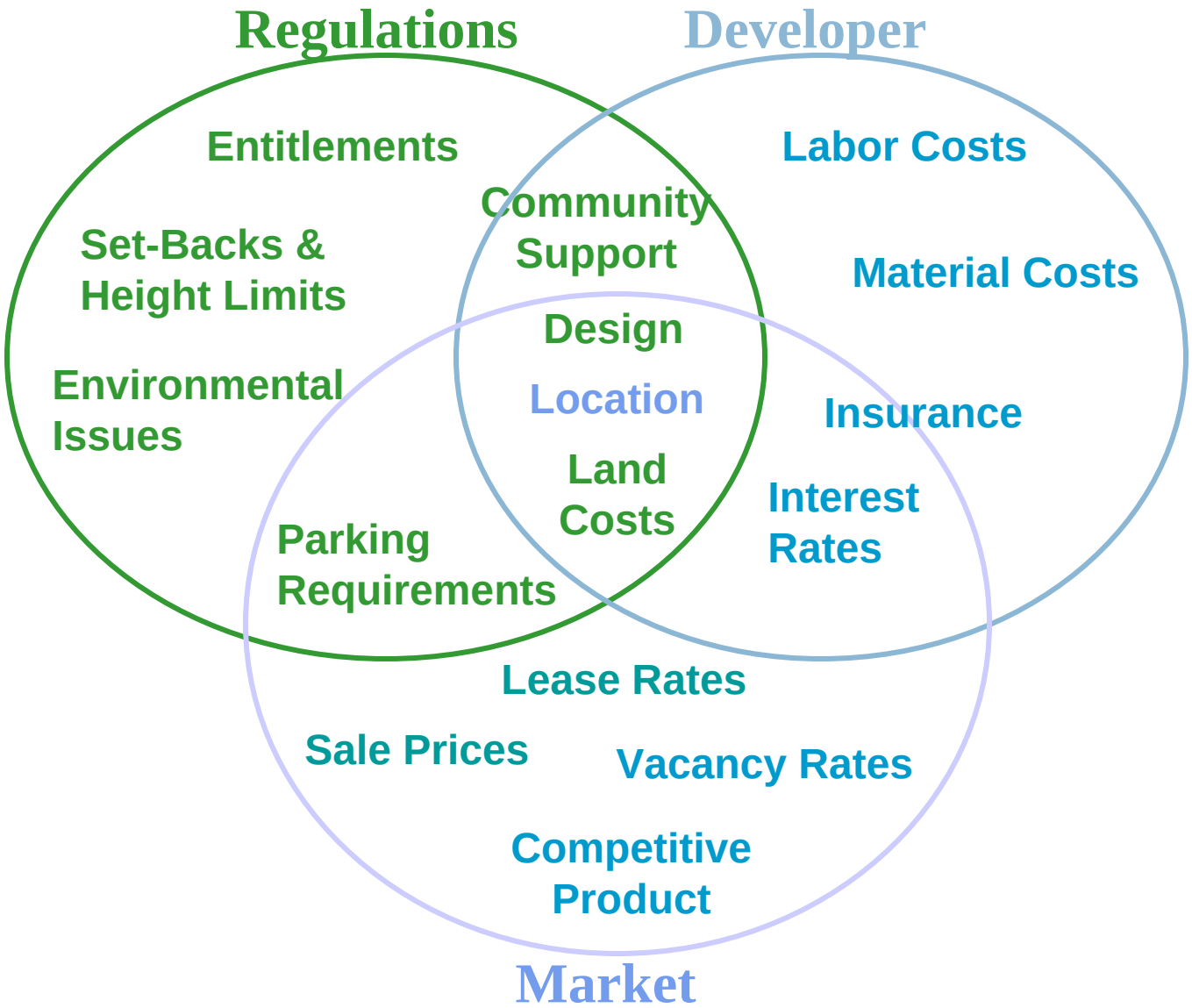
Feasibility Analysis Implications

- Development will be more difficult to encourage in Historic Old Town because residential, retail and restaurant condo prices are lower than on Vernon Street.
- This particular site, while large and desirable, is also relatively expensive due to existing buildings and parking on the site.
- Parking regulations, height limits and the floor area ratio are all key features that the City can control to improve project feasibility.
- Ultimately revitalization will likely occur at a slower pace in Old Town than along Vernon Street.
- Additional investments in public infrastructure (streetscape, parking facilities, sewage and water hookups) may ultimately improve the speed of revitalization in Old Town.

What factors can we Influence?



Thoughts & Findings

- Good demand for additional retail, office and residential over next 12 years.
- Study area has good demographics.
- Allow mixed-use to improve feasibility of development in downtown.
- Improve retail mix through proactive retail recruitment and by working with property owners.
- Attract development and new business with public investments and a sure entitlement process.
- Revisit current parking and FAR regulations through Specific Plan.