

Development Prototype Feasibility

The Economics of Land Use



presented to

City of Santa Cruz Corridors
Committee

presented by

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Corridor Opportunity Site Analysis

- Corridors currently a mix of commercial buildings of varied age and condition.
- Overall development intensity is below 25 percent site coverage (balance mostly committed to private parking).
- 78% of parcels located directly on the Soquel Avenue corridor study area were deemed to have high likelihood of development within the 30-year time frame.
- Due to generally small parcels, parcel assembly will be needed to create feasible development sites.
- Substantial development capacity created by new zoning suggests a 30 year period of redevelopment.

Market Conditions: Residential

- Rental rates for new multi-family units at \$3.50 (or above) per square foot, indicating strong demand.
- For Sale (condominium) prices for new mixed-use in corridor area average \$500 per square foot.
- The recent condominium developments with ground-floor retail/office:
 - 1804 Mission
 - 1111 Ocean
 - 2030 N Pacific
- Rental housing market highly cyclical, downturns will occur over the coming decades, dampening construction.

Market Conditions: Retail

- Commercial rents for space with on-site parking average an estimated \$2 per square foot (NNN)
- Commercial rents are generally below threshold to justify new construction.
- Market opportunities may exist for commercial owner-occupants or national chain retailers.
- Current retail rents may increase as surrounding development takes place and supply is constrained.
- Retailers put high value on on-site parking or adjacent on-street parking.

Recent Mixed-Use Projects (Condos & Retail)

- 1804 Mission:
 - 70% residential/30% retail use-mix with estimated monthly retail rents at \$1.70/SF
- 1111 Ocean:
 - 80/20 use-mix with monthly retail rent estimate at \$1.60/SF
- 2030 N Pacific:
 - 95/5 use-mix with office/retail space demanding average monthly rents of \$2.10/SF
- Condominium sale prices of these properties average \$471 per square foot

Financial Analysis of Site Development Options

- Successful revitalization/transformation of the commercial corridors depends on the **financial feasibility** of new, more intensive development.
- Consultant Team prepared “pro forma” financial analyses for development prototypes.
- Pro forma financial analysis reveals that development feasibility depends upon sufficiently high rents or sale prices and affordable land assembly costs.
- Current land prices and the need to displace existing low intensity commercial uses create a financial “hurdle” for new development.
- Need for “structured” on-site parking creates an additional cost “hurdle”.

Feasibility Issues, continued

- Podium parking is far more expensive than surface parking; current market may not support this added cost.
- Rents for multi-tenant retail uses in mixed use buildings may not cover new construction costs.
- Small parcels limit project size and flexibility; easier to attract developers with larger (assembled) parcels.

Policy Implications

- New Corridor zoning regulations provide capacity consistent with market opportunities.
- Implementation measures should recognize the multi-decade time-frame for Corridor redevelopment.
- City should offer incentives to create larger sites.
- Consider policies and programs that reduce parking cost:
 - Public parking facilities
 - Reduced parking standards
 - Shared parking opportunities
- Alternative work spaces (live/work lofts):
 - Reduced traffic and parking needs
 - Vitalize street fronts

Site 1 – Key commercial corner, 1.4 acres, four parcels

- **Parcels A & B** provide comparison of two-parcel development of 18 units with podium parking:
 - Determined to be feasible
 - Podium structure allows for optimum density
- **Parcel C & D**, Boutique Hotel containing 46 rooms:
 - Good location for hotel
 - Feasibility dependent on attracting operator
 - Combining parcels improves attractiveness and feasibility
- **Parcel D**, mixed use of 14 residential units and 6,600 square feet of retail, with surface parking:
 - Determined to be feasible

Site 2, triangle site, 1.03 acres, 41 res. units

- Likely infeasible at proposed size and at current rent levels:
 - Unique design may create higher construction cost
- Reduced proportion of podium parking could improve feasibility:
 - On-street parking availability and opportunity for “shared parking”
- Incorporate live/work spaces could strengthen potential for ground floor retail and commercial space
- Interior space could be used as public space to serve adjacent “Rail Trail”:
 - Value (higher rent) premium possible
 - Opportunity for public funding

Site 3, Existing Safeway site, 3.1 acres four parcels and street ROW

- **Scenario A**, Safeway relocates, four new mixed use buildings constructed:
 - Determined to be feasible if land price is in average range
 - Site should be considered as one development, creating opportunities for shared parking and access
- **Scenario B**, Safeway rebuilds, roof-top parking:
 - Grocery chains generally have specific requirements for store replacement/expansion
 - Rooftop parking is expensive and may not be supported by the current market economics