

SANTA CRUZ DOWNTOWN PLAN EXPANSION PROJECT

Real Estate Market Overview
December 2021



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The Economics of Land Use

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DOWNTOWN PLAN EXPANSION PROJECT

ECONOMICS SCOPE OF WORK

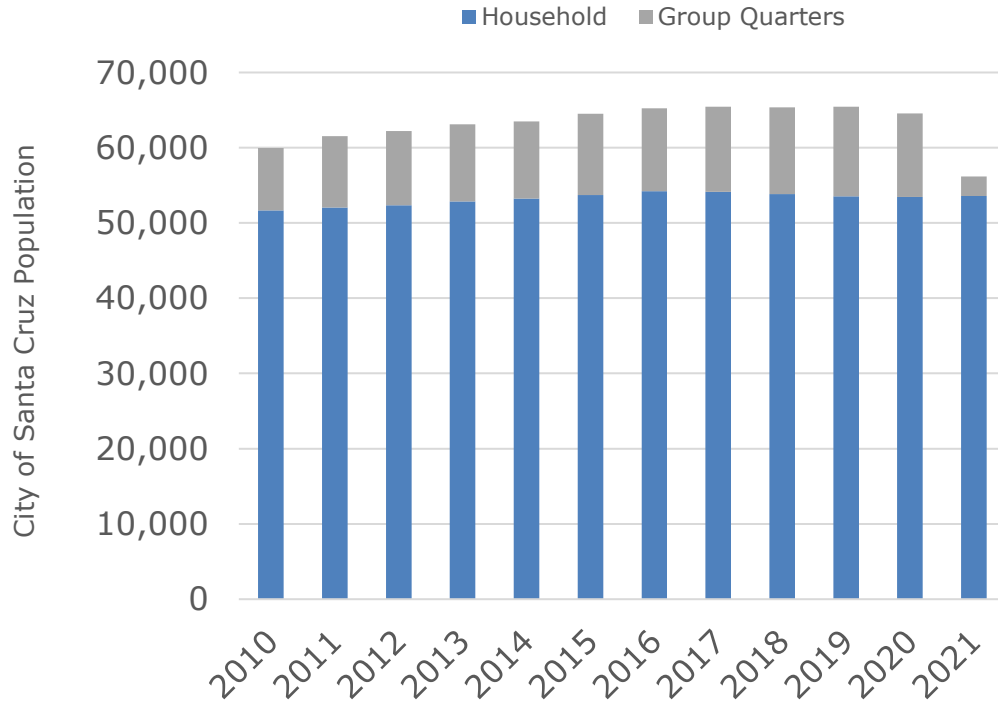
- Real Estate Market (Ongoing)
 - Population and housing
 - Employment and industry trends
 - Real estate development trends
 - Real estate market performance
- Financial Feasibility (Next Steps)
 - Project prototypes
 - Development cost factors
 - Real estate value potential
 - Required returns



Photo credit: CoStar Group

SANTA CRUZ SOCIOECONOMIC TRENDS

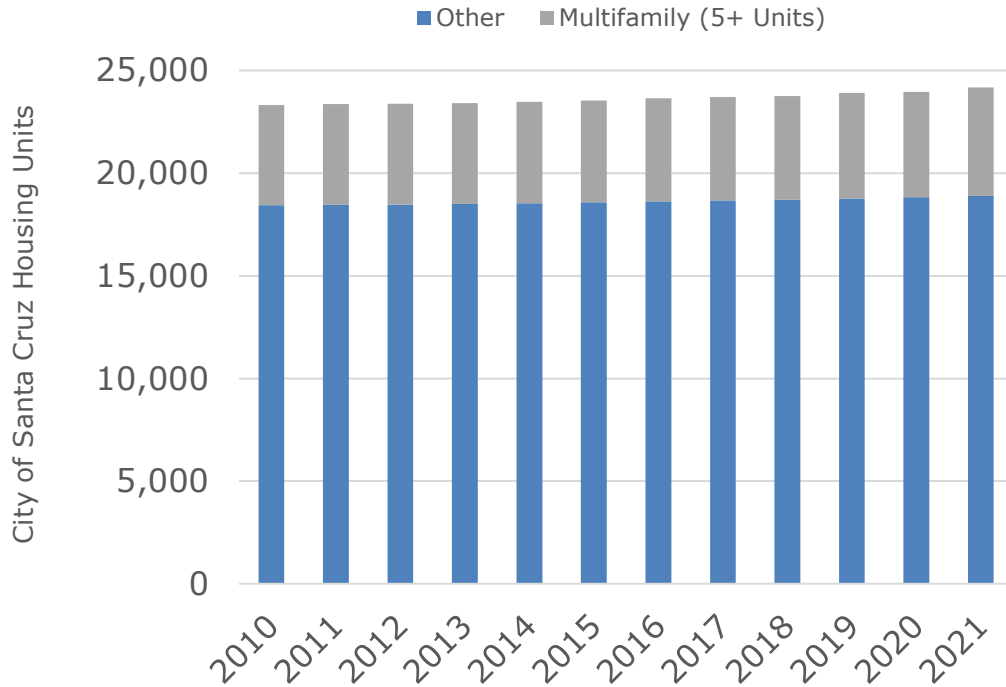
POPULATION TREND – CITY OF SANTA CRUZ



- Citywide population increase of 4,600 (7.7%) from 2010 to 2020
- About 40% of population growth (~1,800) occurred in households (vs. dorms)
- The pandemic led to a significant reduction in the local student population
- Household population increased between 2020 and 2021 (January data)

SANTA CRUZ SOCIOECONOMIC TRENDS

HOUSING TREND – ALL HOUSING UNITS – CITY OF SANTA CRUZ

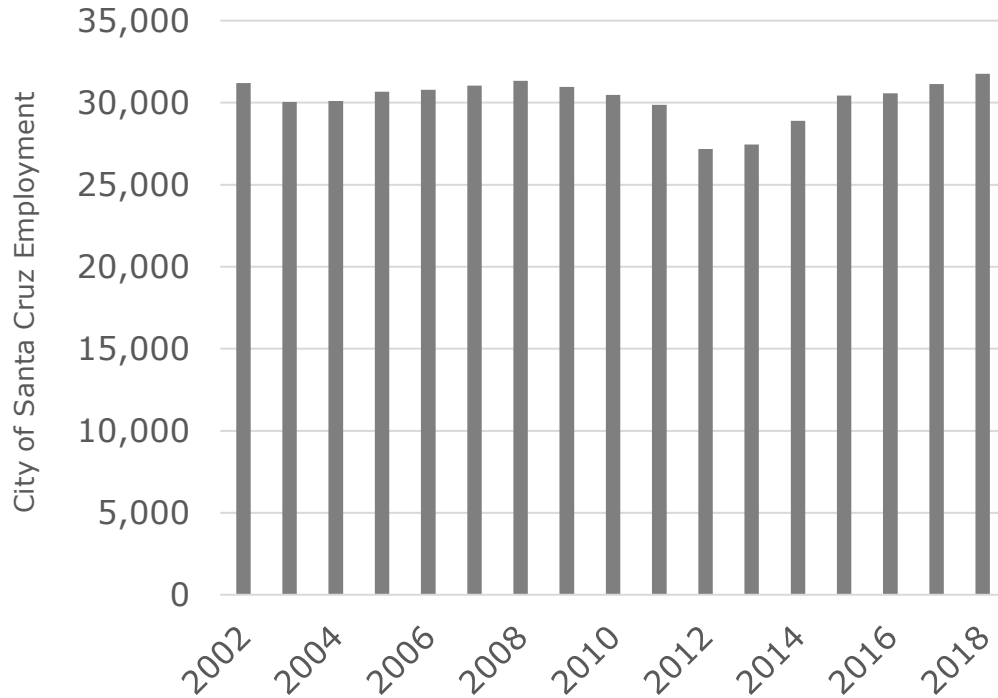


- Housing (including rental and for sale) increased by about 850 units (3.7%) between 2010 and 2021
- Almost 50% of new units are in larger multifamily projects (5+ units)
- Housing vacancy decreased from over 7% to less than 6%*
- Household size remained stable at about 3.4 persons per unit

* *DOF-reported vacancy presented here includes second homes*

SANTA CRUZ SOCIOECONOMIC TRENDS

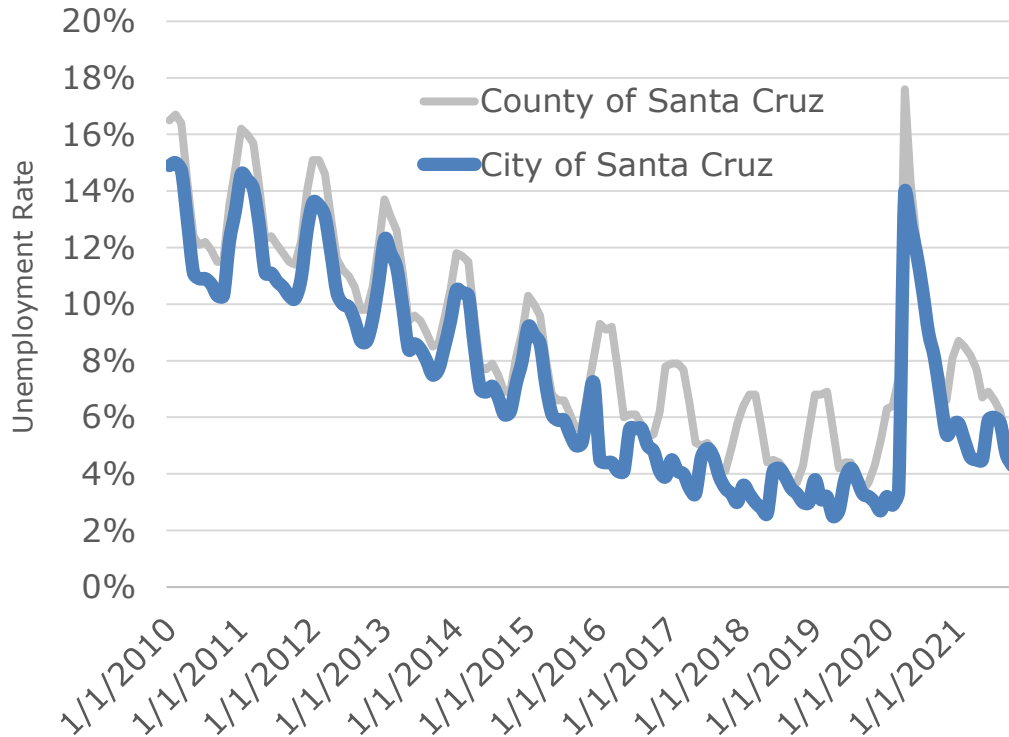
EMPLOYMENT TREND – CITY OF SANTA CRUZ



- Employment has recovered from the 2008 recession, with job counts eclipsing the 2008 peak in 2018
- Since 2008, notable job gains in:
 - Accommodation & Food Services (1,500 jobs)
 - Manufacturing (650 jobs)
 - Arts, entertainment & recreation (500 jobs)
 - Professional, scientific & technical services (350 jobs)
 - Retail (250 jobs)
- Job losses observed in public administration, information (publishing, software), wholesale trade, education, and construction

SANTA CRUZ SOCIOECONOMIC TRENDS

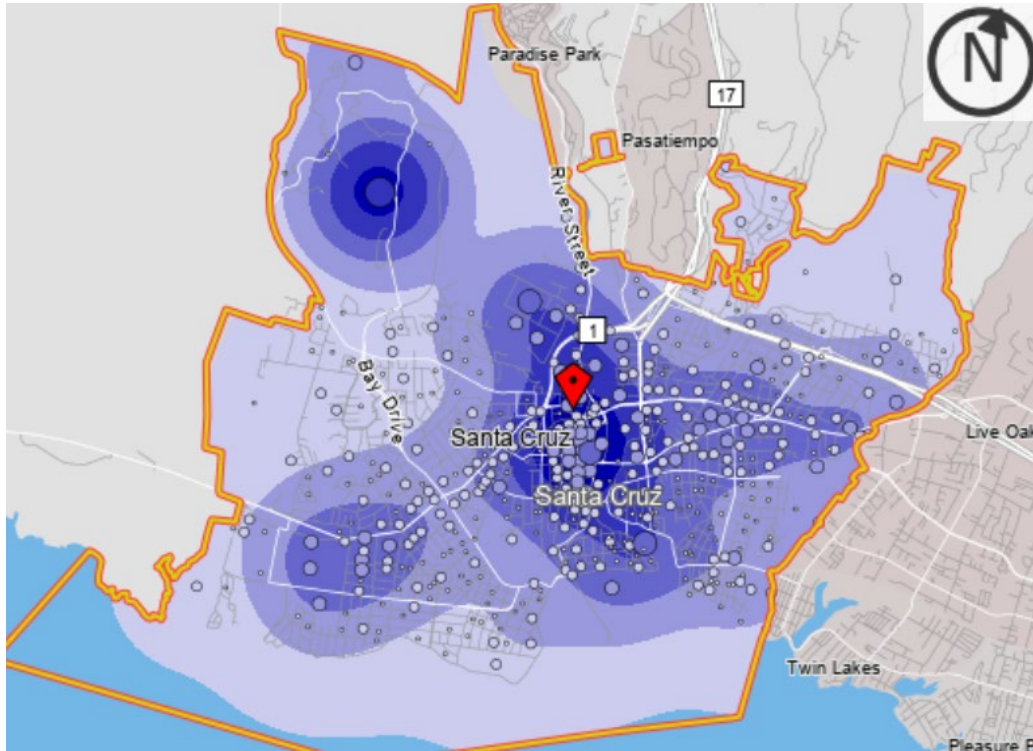
UNEMPLOYMENT TREND – CITY AND COUNTY LABOR FORCE



- The Covid-19 Pandemic had a dramatic impact on unemployment in Santa Cruz, but the effect has subsided in recent months
- Unemployment in the City spiked to 14% in April 2020, slightly below the 18% rate countywide
- City employment recovered rapidly, and unemployment has hovered around 4% –6% since November 2020

SANTA CRUZ SOCIOECONOMIC TRENDS

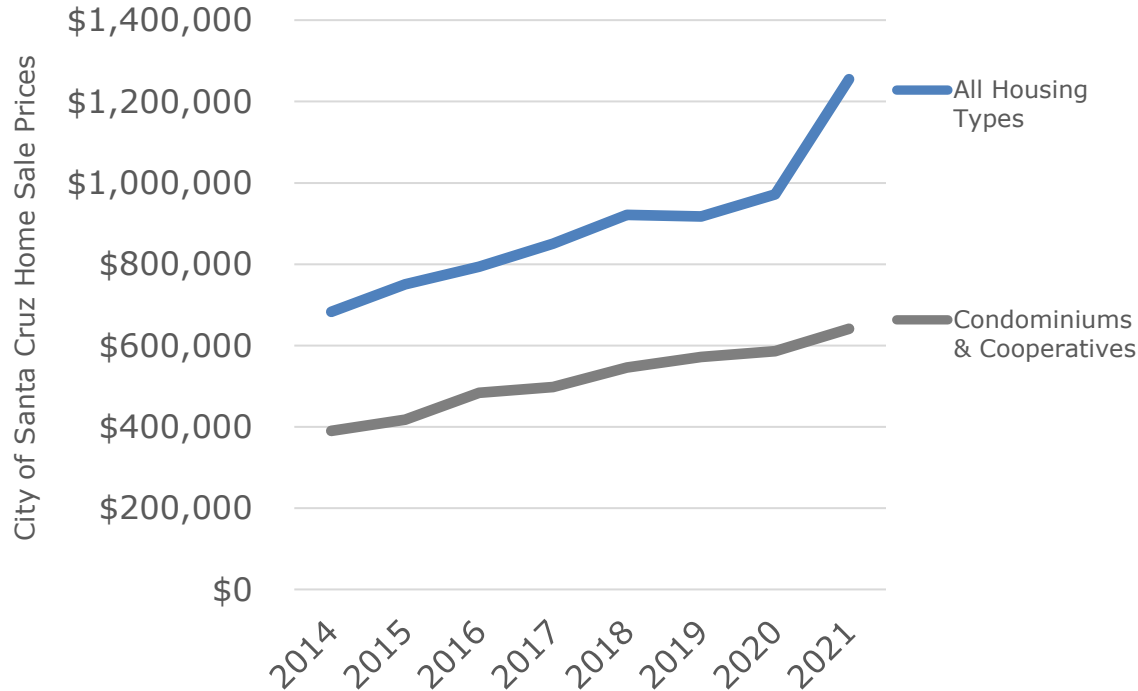
EMPLOYMENT CENTERS – CITY OF SANTA CRUZ



- Santa Cruz employment concentrations:
 - UC Campus
 - Downtown
 - Westside
 - Soquel / Water Street corridors
- Top industries by employment:
 - Education
 - Accommodation & food service
 - Retail
 - Health care

REAL ESTATE MARKET CONDITIONS

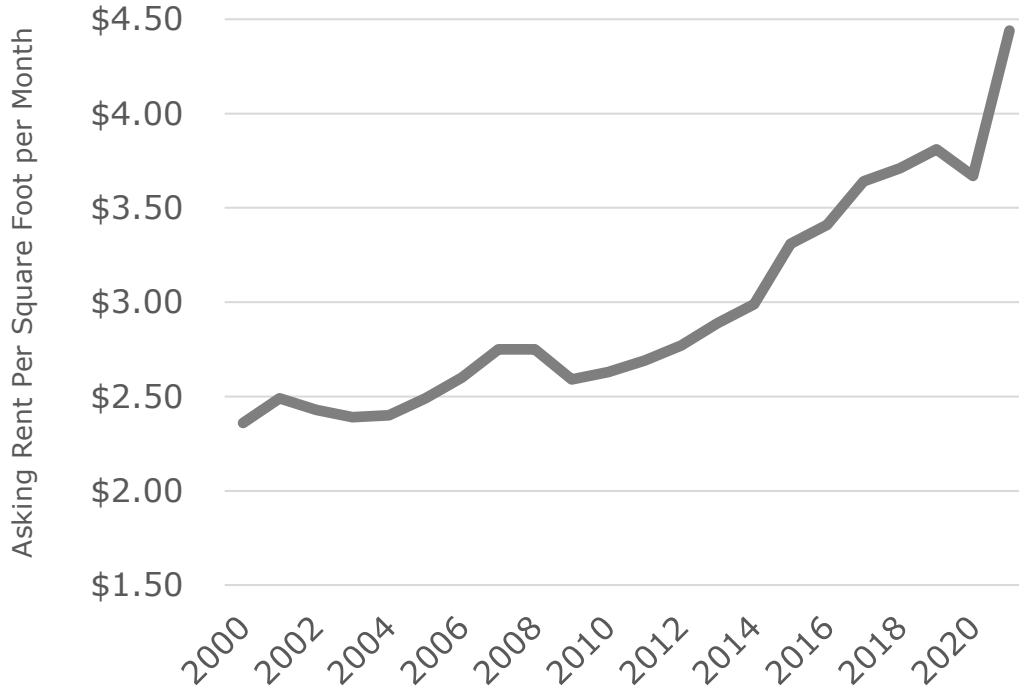
FOR-SALE RESIDENTIAL MEDIAN SALE PRICE – CITY OF SANTA CRUZ



- Steady increase in home prices since 2014
- Home prices are up nearly 85% since 2014
- Notable 30% jump in home prices 2020 to 2021
- Condominium prices increased less, about 65% from 2014 to 2021

REAL ESTATE MARKET CONDITIONS

MULTIFAMILY RENTAL APARTMENT ASKING RENTS – CITY OF SANTA CRUZ

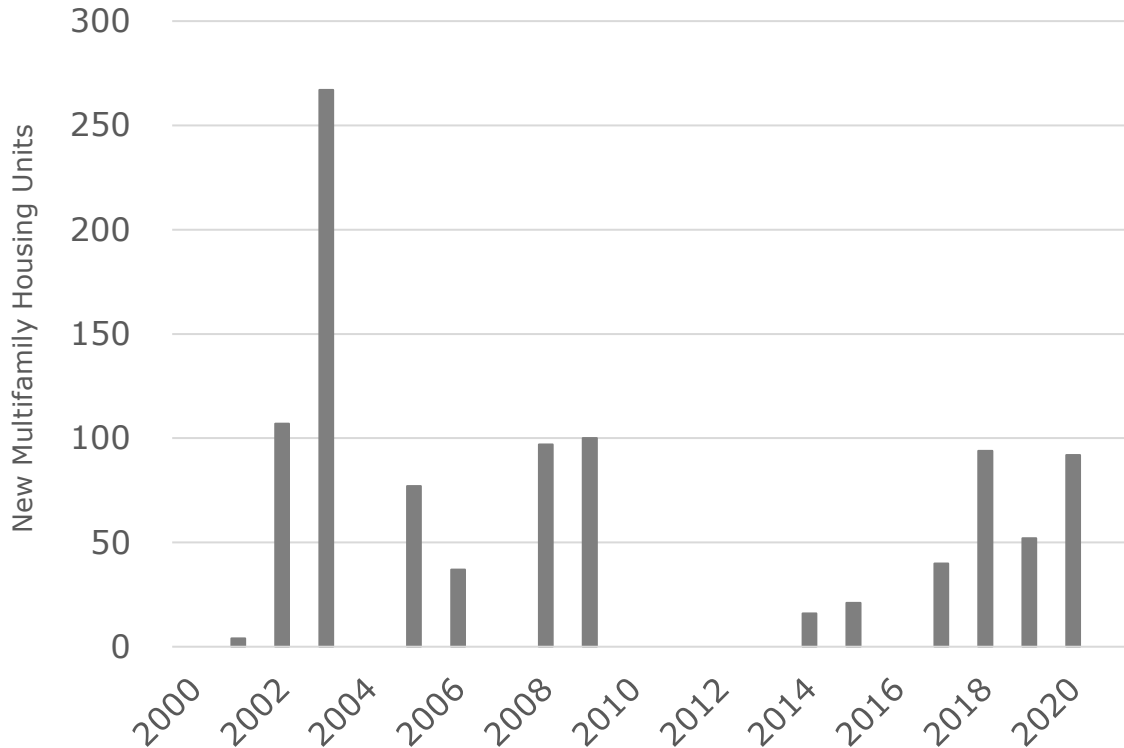


- Increasing apartment rents since 2000, with minor dips during recessionary periods (2002–3, 2009 and 2020)
- Notable 20% jump in asking rents from 2020 to 2021
- Even with new deliveries, multifamily rental vacancy remains very low at about 3%*

**Vacancy reported by CoStar Group includes multifamily rentals only*

REAL ESTATE MARKET CONDITIONS

MULTIFAMILY RENTAL UNITS – DEVELOPMENT TREND



- Roughly 1,000 new multifamily rental units citywide since 2000
- Rental projects include:
 - Chestnut Street Apts* (96 units; 2002)
 - Pacific Shores* (206 units; 2003)
 - The Breakers (73 units; 2005)
 - The Tannery* (100 units; 2009)
 - FIVE55 (94 units; 2018)
 - Water Street Apartments* (41 units; 2019)
 - Nanda on Pacific (79 units; 2020)

* Fully or partially affordable. Public funding provided by City/RDA.

REAL ESTATE MARKET CONDITIONS

NEW MID-RISE MULTIFAMILY RESIDENTIAL EXAMPLES

FIVE55 (555 Pacific) 2018

- 94 Units & 5,000 square feet (SF) of retail
- 97,200 SF on 0.8 Acres (118 DU/AC & FAR=2.8)
- 100 parking spaces (1.06 parking stalls / unit)
- 36 Studios (440 SF) and 58 1-bed (630 SF)
- Rents from about \$2,300 to \$3,100 (\$4.95 PSF)
- Currently no residential vacancy
- Residents generally are young professionals and students

Nanda on Pacific (1547 Pacific) 2020

- 79 Units & 4,500 square feet (SF) of retail
- 78,000 SF on 0.6 Acres (135 DU/AC & FAR=3.1)
- 16 Studios (421 SF), 43 1-bed (673 SF) & 20 2-bed (1,045 SF)
- Rents from about \$2,500 to \$4,300 (\$4.85 PSF)
- Current residential vacancy of about 3%
- Residents generally are young professionals and students



REAL ESTATE MARKET CONDITIONS

MULTIFAMILY RESIDENTIAL DEVELOPMENT PIPELINE

Anton Pacific (Pacific & Laurel) – Under Construction

- 205 Units & 11,000 square feet of retail
- 205,000 SF in 7 stories
- 48 Studios (500 SF), 98 1-bed (750 SF) & 59 2-bed (950 SF)

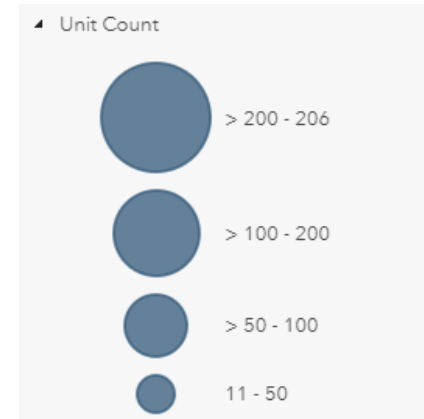
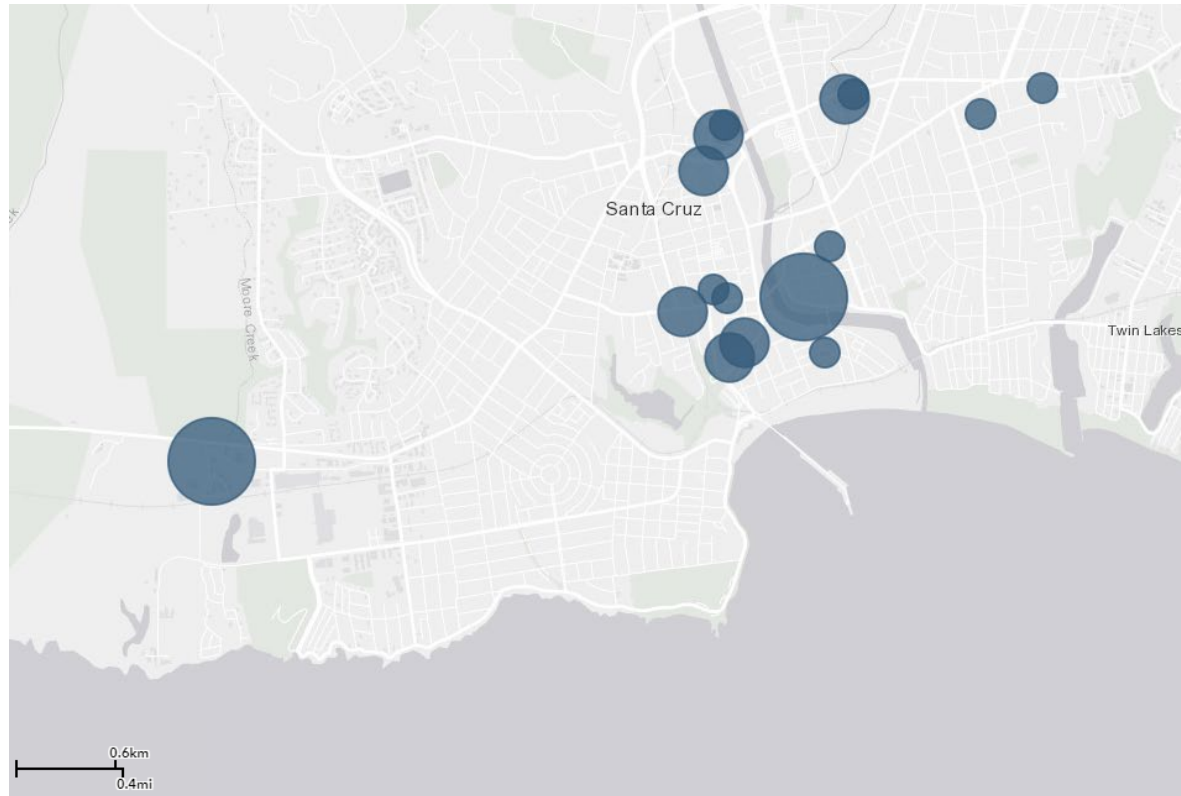


Additional Pipeline (Planned Future Development)

- 530 Front Street – 170 units
- Metro Pacific Station
 - North ~94 units (affordable)
 - South ~85 units (affordable)
- Library Mixed Use Project – 100+ units
- Center Street/Calvary Church – 65 units
- 350 Ocean Street – 63 units (affordable)
- 908 Ocean – 398 units (small ownership units)
- 130 Center – 233 units (single room occupancy)
- 2120 Delaware – 248 units
- 190 West Cliff – 89 units (condominiums).
- 1800 Soquel – 32 units

REAL ESTATE MARKET CONDITIONS

RECENT MULTIFAMILY RENTAL DEVELOPMENT (COMPLETED AND UNDER CONSTRUCTION)



- Notable clustering of new multifamily residential rental projects around the Santa Cruz downtown area

REAL ESTATE MARKET CONDITIONS

OFFICE MARKET



- Office rents have climbed 12% over their previous peak in 2012
- Only about 22,000 square feet of new office has been delivered since 2012
- Office vacancy has fallen from over 10% in 2010 to under 6% in 2021
- Pandemic-related work-from-home conditions create ongoing uncertainty in the office market

REAL ESTATE MARKET CONDITIONS

OFFICE DEVELOPMENT EXAMPLES



Rittenhouse Building

- 64,000 SF built in 2008
- 4 stories including ground-level retail
- Vacant for ~6 years until it was leased to tech tenant Looker Data Sciences
- Looker (acquired by Google in 2019) now occupies the entire building

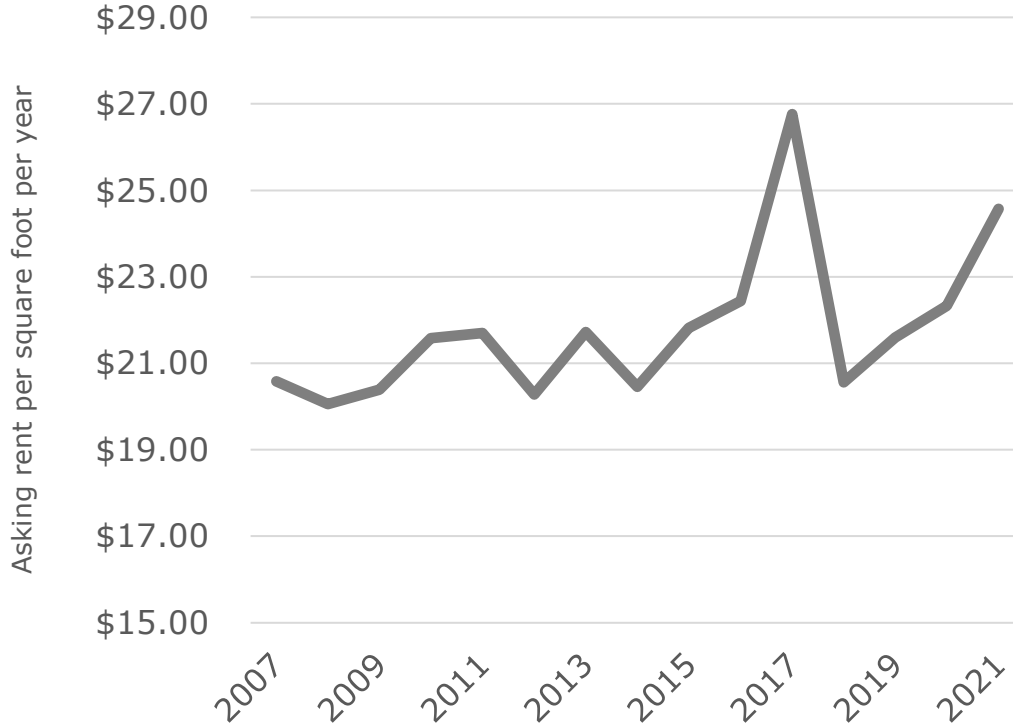


Office at 100 Panetta

- 15,200 SF built in 2014
- 3 stories with onsite parking
- On the market asking \$5.5M (\$360/SF)

REAL ESTATE MARKET CONDITIONS

RETAIL MARKET



- Retail rents have generally trended upward since the 2008 recession, peaking in 2017 before falling to about \$25
- Less than 40,000 SF of retail has been delivered citywide since 2012
- Vacancy dipped below 2% from 2016 to 2018 and now is reported at about 3% (actual likely higher)
- Pandemic conditions pose ongoing challenges for retail and restaurant businesses

REAL ESTATE MARKET CONDITIONS

RETAIL DEVELOPMENT EXAMPLES



Ground floor retail at FIVE55

- 5,000 square feet in 4 distinct retail spaces
- Retail spaces from 750 to 1,450 SF
- Tenanting includes a Big Basin Vineyards Tasting Room, Café Iveta, and Current eBikes



Ground Floor at Nanda on Pacific

- 4,357 SF – Divisible challenging to do so
- Vacant since building delivery/available
- Currently courting brewpub/taproom tenants
- Lack of outdoor seating cited as an issue for most interested users

THE EXPANSION AREA

OVERVIEW

- “South of Laurel” area of downtown is situated between the downtown core and beach boardwalk areas
- Existing uses include a mix of residential and commercial development, some of which dates to the early to mid 20th century
- Notable recent development projects include:
 - Renovation of The Mill (2008)
 - Pacific Blue Inn (2009)
 - Warriors temporary arena (2012)
 - FIVE55 multifamily residential (2018)



THE EXPANSION AREA

OPPORTUNITIES

- The Warriors along with development partners wish to establish a permanent home for the team
- Private sector master planning underway for redevelopment of the temporary arena and adjacent areas to create a sports/entertainment mixed-used use district
- Anchor use is a new arena with seating for 3,200 to 3,800 and programming for 200 days per year
- Preliminary development concept for 1,000 housing units, up to 250,000 SF office and ground level retail, restaurant and entertainment on about 7 acres



ENTERTAINMENT-ANCHORED DISTRICTS

CASE STUDY: LANSING LUGNUTS STADIUM

Sports Facility Anchor – Minor League Ballpark

- City-owned stadium; home of Oakland A's High-A Affiliate
- Location: Downtown Lansing, Michigan
- Stadium Capacity: 11,000 seats; includes 18 suites
- Stadium Year Built: 1996; renovated in 2015
- Stadium Cost: \$16M (\$13.5M renovation)

Surrounding Neighborhood – “Stadium District”

- **Multifamily Development** – Two mixed-use multifamily projects (a 50-unit project built in 2007 and an 84-unit project) built in 2016. Both projects received public financing through redevelopment and the State's economic development arm. One of the projects overlooks the outfield of the stadium and includes an event venue.
- **Commercial Development** – The popularity of the Lugnuts and increase in downtown residents contributed to new commercial uses proximate to the ballpark, including a distillery, brewpub, and smaller scale restaurants and bars.



ENTERTAINMENT-ANCHORED DISTRICTS

CASE STUDY: GREATER NEVADA FIELD

Sports Facility Anchor – Minor League Ballpark

- Home of the Reno Aces (Arizona Diamondbacks AAA Affiliate) and home field for 1868 (MLS club) for three seasons (until the club disbanded in 2021)
- Location: Reno, Nevada
- Stadium Capacity: 9,100 capacity (6,500 fixed seats)
- Stadium Year Built: 2009 (renovated in 2021)
- Stadium Cost: \$50M (\$600,000 renovation)

Surrounding Neighborhood – “Freight House District”

- **Adjacent Commercial Development** – The Freight House District, attached to the Reno Aces Stadium, features a sports bar overlooking the field, a restaurant/music venue, beer garden, and a Mexican restaurant. The project has been successful (on and outside of game days), owing to its proximity to downtown, nearby hotels, and the Truckee river.



ENTERTAINMENT-ANCHORED DISTRICTS

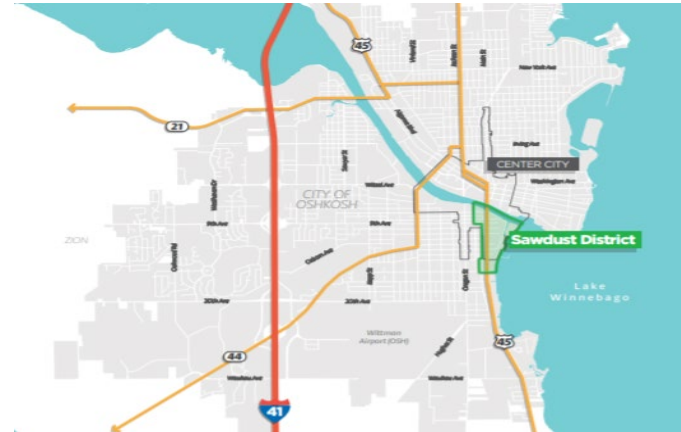
CASE STUDY: OSHKOSH ARENA

Sports Facility Anchor – G-League Basketball Arena

- Home of the Wisconsin Herd (G-League Affiliate for the Milwaukee Bucks)
- Location: Oshkosh, Wisconsin
- Stadium Capacity: 3,500 seats
- Stadium Year Built: 2017
- Stadium Cost: \$15M

Surrounding Neighborhood – “Sawdust District”

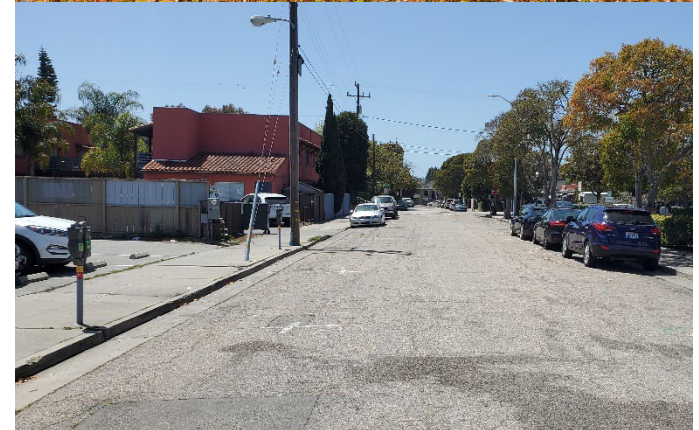
- **Adjacent Commercial Development** – Arena project includes restaurant and team store in the facility. Limited investment in adjacent properties has occurred so far, though large-scale redevelopment projects along Lake Winnebago may catalyze future development.
- Master planned development overseen by City’s Redevelopment Authority. Largely privately funded arena is part of larger plan for new housing and commercial development. The arena has faced financial challenges and received additional tax incentives from City.



THE EXPANSION AREA

OPPORTUNITIES

- **Residential** – The Santa Cruz housing market has evolved over the past 5 to 10 years, with new multifamily housing projects downtown exhibiting healthy rents and strong leasing activity. **New housing is the primary market-based development opportunity in the expansion area.**
- **Office** – With minimal office development in recent decades and local employment at a 20-year high, build-to-suit office development may allow successful growing local companies, particularly high-value tech employers, to stay in Santa Cruz. **New office should be encouraged but may or may not be developed in the near term.**
- **Retail** – Small-format retail and new restaurant space in mixed-use buildings could be difficult to fill, but a new arena with sufficient around-the-calendar programming could drive demand for a modest-sized entertainment district nearby. **New ground level retail should be encouraged, but planning should allow for flexible tenanting of ground floor space.**



THE EXPANSION AREA

ADDITIONAL CONSIDERATIONS

- **Infrastructure** – Redevelopment of existing uses will require infrastructure upgrades and accommodation of existing public facilities. For example, the pump station located near the arena likely needs to be incorporated into arena project design. Public funding/financing for infrastructure may be required to encourage redevelopment.
- **Community Benefits** – New development is required to contribute to public improvements and to meet policy requirements for community advancement. Development impact fees include a childcare fee and public safety fee. The City also recently has increased the inclusionary affordable housing requirement on market rate housing development.
- **Existing Land Uses** – A major arena project will require redevelopment of existing uses, and cooperation among property owners including public and private entities. Existing uses include parking lots, commercial space, and residential real estate. Redevelopment of occupied existing uses can be costly, because site acquisition costs reflect usable space and because of tenant/resident lease buyouts and/or relocation requirements.
- **Opportunity Zone** – The entire Downtown Extension Study Area is within a federally designated “Opportunity Zone.” OZs seek to spur economic development by providing tax incentives. The OZ status of the Plan Area marginally increases investment potential in the near term.



City of Santa Cruz Pump Facility on the San Lorenzo River



Opportunity Zone
Source: HUD

EPS

REAL ESTATE ECONOMICS

PUBLIC FINANCE

LAND USE & TRANSPORTATION

ECONOMIC DEVELOPMENT & REVITALIZATION

FISCAL & ECONOMIC IMPACT ANALYSIS

HOUSING POLICY

PUBLIC PRIVATE PARTNERSHIPS (P3)

PARKS & OPEN SPACE ECONOMICS

