MARKET ANALYSIS FOR SONOMA COUNTY AIRPORT SMART STATION AREA SPECIFIC PLAN AND PROGRAM EIR

Prepared for:
Sonoma County, PRMD
Metropolitan Planning Group

Submitted by:
LAND ECON GROUP

Date	January 25, 2017
Project #	2016.045

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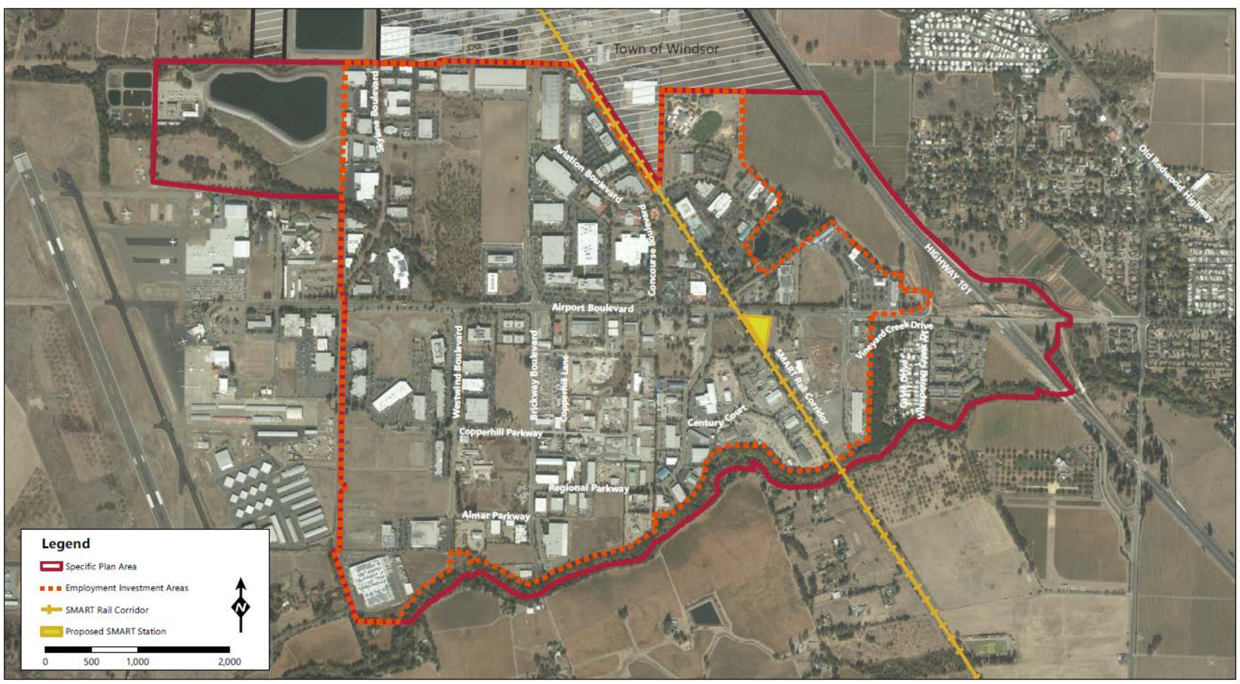
I. Introduction

This market analysis assesses future market demand for commercial, industrial, office, retail, and housing uses within the Project Area.[1] The County of Sonoma selected the Metropolitan Planning Group (M-Group), an urban planning and design firm specializing in services to municipalities in Northern California, for this Specific Plan update. Land Econ Group (LEG) is serving as the real estate and land planning economics sub-consultant on the M-Group team. LEG has formulated this market analysis to serve the long-term planning and economic development interests of the county. The market study informs the development of land use plans and policies that will guide the growth and transformation of the project area over the next two decades. This market analysis was prepared by the principals of LEG with William "Bill" Lee serving as chief author/analyst and Tanya Chiranakhon serving as primary researcher and contributing analyst.

Sonoma County is the northernmost county within the nine-county San Francisco Bay Area. It is one of California's most beautiful counties, with a dramatic coastline, extensive vineyards and many vibrant communities. On the other hand, it shares the challenge of many California counties of a critical shortage of affordable housing.

Figure 1: Specific Plan Area



The Specific Plan Area is located east of the Charles M Shultz-Sonoma County Airport (STS), north of Mark West Creek, south of the Town of Windsor and west of Highway 101 (Figure 1). The primary east-west roadway of this area is Airport Boulevard. Immediately south of where Airport Boulevard crosses the freight railroad tracks the new SMART rail station is being constructed for joint passenger and freight rail use. This airport station is the northern terminus of the SMART system for the first phase of its

[1] Historic demand and market activity are reported in detail in the attached Appendix to the market study.

development, which will run two car trains south to Downtown San Rafael with several intermediate stations by spring of 2017. SMART has acquired approximately $42 million in federal and other grant funds to extend the system south to Larkspur near the ferry terminal, and that section is expected to open by 2018. The final phase of development will extend the system north to Cloverdale and includes intermediate stations in Windsor and Healdsburg, but the timing of the final phase will depend upon funding. Once the northern extension is operational, the SMART train will likely evolve beyond being primarily a commuter system to provide tourist recreational services as well.[2]

Market Study Overview

The Market Study is presented in six chapters, beginning with an Introduction and Executive Summary, followed by detailed analyses from Chapter III through Chapter VI. The analyses present forecasts of industrial space demand, commercial space demand (divided into office, retail and hotel uses), and housing demand. To highlight the results for each chapter, and clarify the methodology used for the forecasts, analyses in Chapter III through Chapter VI have been organized into the following subsections:

1. **Projection**: Located at the beginning of the chapter to provide an immediate summary of the forecast findings.

2. **Market Trends and Conditions**: Following the "Projection" summary, the "Market Trends and Conditions" subsection details the characteristics of the market that are driving demand for industrial, commercial, and residential development.

3. **Assumptions and Methodology**: The final subsection of each analysis chapter outlines the assumptions that were made and the methodology that was employed to produce forecasts for industrial, commercial, and residential development.

[2] Source: Sonomamarintrain.org supplemented by LEG assessment on tourism potential

II. Executive Summary

Employment Investment Areas (EIAs) are significant centers of economic activity that can be enhanced by local-serving retail, pedestrian and bicycle access improvements, focused growth around transit hubs and last-mile transportation solutions. Planning for Employment Investment Areas provides an opportunity to increase travel options for commuters, focus new jobs in locations accessible to the region's workforce and allow employees to walk to daytime destinations. The Market Study presented in this report serves to assess and summarize the market demand and feasibility of various land uses in the Sonoma County Airport SMART Station EIA.

The Sonoma County economy is experiencing a period of expansion, as is the Bay Area generally. The businesses within the Airport Employment Investment Area (EIA) are benefitting from this expansion. An online survey was conducted in April and May of 2016 to solicit input from employers and property owners located in the EIA about their business outlook, opportunities and constraints, amenities, and desired services within the immediate area. A total of 64 survey responses were submitted. The responses are detailed in Appendix A and summarized here. Nearly 90 percent of EIA employers surveyed consider their business climate "Very Strong or Moderately Strong," and over two-thirds expect to add employees over the next two years. Both the survey results and the longer-term market forecasts[3] indicate solid demand for all land uses in the two decades ahead.

The conclusions of this market analysis, presented as net new units or square footage, are summarized in the tables below. The market demand figures shown in Table 1 are the midpoint of the high and low demand estimates for land use over the next 20 years. Table 2 also compares employment growth by industry over the next 20 years with associated average annual income by industry.

Table 1: Summary of Market Analysis for the Specific Plan Area

	Estimated Market Demand by Five-Year Period				Total
Midpoint of High and Low Demand Estimates	2015-20	2020-25	2025-30	2030-35	2015-35
Industrial & Warehousing (SF)	489,967	27,566	374,301	306,246	1,446,120
Office Space (SF)	193,046	103,948	140,455	114,917	552,365
Retail Space (SF) [1]	-	-	15,000	12,000	27,000
Hotel Demand (rooms)	85	-	100	-	185
Market Rate Apartments (units) [2]	164	200	231	213	808
Affordable Housing (non-market) [2,3] (units)	21	25	29	27	101

1 - Retail space demand includes a "lag" while utilization of current vacancy and space is optimized, and employment and population growth is realized

2 - Apartment demand is represented as the average of projected demand (market rate: 678 to 938 units, and affordable: 85 to 117 units)

3 - Affordable housing is a policy issue and not a market analysis of output. The numbers presented a suggested for planning and policy evaluation

Source: Land Econ Group

[3] Based on the most recent data available from ABAG projections and ESRI Business Analyst forecasts.

Table 2: Summary of EIA Employment Projections with Associated Average Annual Wages

	Employment Change 2015 - 35			May 2015 Wages	
	Countywide	**EIA**	**EIA Share**	**Mean Wage/Hour**	**Annual Salary**
Employment Category	**39,690**	**4,352**	**11.0%**		
Agriculture & Natural Resources	-510	1	-0.3%	$ 13.51	$ 28,101
Construction	3,480	522	15.0%	$ 28.59	$ 59,467
Manufacturing & Wholesale	7,636	1,222	16.0%	$ 18.16	$ 37,773
Retail	2,630	5	0.2%	$ 17.06	$ 35,479
Transportation & Utilities	1,123	146	13.0%	$ 16.87	$ 35,090
Information	460	46	10.0%	$ 45.27	$ 94,162
Financial & Leasing	-100	250	NA	$ 35.03	$ 72,862
Professional & Managerial Services	9,980	948	9.5%	$ 54.28	$ 112,902
Health & Educational Services	9,850	690	7.0%	$ 32.51	$ 67,612
Arts, Recreation & Other Services	10,210	408	4.0%	$ 26.71	$ 55,557
Government	3,790	114	3.0%	$ 31.10	$ 64,688

Source: ABAG Projections 2013 adjusted by LEG and BLS May 2015 Santa Rosa Metro Area Wage Data

III. Economic and Demographic Overview

Sonoma County Population

As of 2015, Sonoma County had a population just over 496,000 people, an increase of 26,500 from ten years prior. The county's annual growth rate has been moderate at just over 0.5 percent, which is slower than California's growth rate of 0.75 percent per year, according to population data from the California Department of Finance, Demographic Research Unit. Two-thirds of the net countywide population increase over the last decade occurred in the cities closest to this Specific Plan Area, Santa Rosa and Windsor.

The income and education levels in Sonoma County are near the California State average but well below the nine-county Bay Area average. The average 2015 household income in Sonoma County was $84,800 compared to $87,200 for the State and $109,600 for the Bay Area. In Sonoma County 33 percent of the population over age 25 attained a bachelor's degree or higher as compared to 31 percent statewide and 44 percent for the Bay Area.

In unincorporated Sonoma County, the white population constituted 59 percent of residents according to the 2010 Census, down from 76 percent in 2000. The Asian population doubled from 3% to 6% of total population in the unincorporated county over this same period. Unincorporated Sonoma County has seen a steady rise in the Hispanic population as well, which grew from 17 percent of total population to 22 percent between the 2000 and 2010 decennial Census. Compared to the Bay Area, unincorporated Sonoma County is similarly diverse. According to the 2015 Census estimates for the 9-county Bay Area, 54 percent of the population was white, while nearly 25 percent of the population identified as Asian, and 23 percent identified as Hispanic or Latino.

Sonoma County as a whole has a higher percentage of elderly residents than the state and Bay Area; this population group is also growing faster than that of either the Bay Area or California as a whole. The 65 and older group represents 17 percent of the Sonoma County population, compared to 14 percent for the Bay Area and 13 percent for the state. From 2010 to 2020, this age group is projected to increase by 45 percent in Sonoma County compared to 41 percent for the Bay Area and 37 percent for California. Demographic data referenced above are from ESRI estimates based on US Census Data.

Employment

Over this past ten years, total employment in the county has grown at about the same pace as the population. In 2005, the county had 191,300 jobs and by 2015 the number had reached 203,000, an increase of 11,700. However, this growth has not been smooth. Due to the recession, the number of jobs fell 22,400 from 2007 to 2010. Although the total number of jobs in 2015 is higher than ten years ago, employment in construction, manufacturing, information services and financial activities is still below 2005 levels (Table 3). The industry sectors that enjoyed the fastest job growth over the ten years were education and health services which added 10,400 jobs and leisure and hospitality services which rose by 4,100.

Table 3: Sonoma County Employment Growth

	2005	2007	2009	2011	2013	2015	Percent of Total 2015	2005 - 2015 Abs Change	CAGR
Total Employment (Farm + Non-Farm)	191,300	195,700	176,700	175,400	187,200	203,000	100.0%	11,700	0.6%
Annual Change	1,600	1,600	-14,300	2,000	8,400	6,000			
Annual Percentage Change	0.9%	0.8%	-7.7%	1.2%	4.9%	3.1%			
Farm	5,800	5,800	5,800	5,800	6,300	6,000	3.0%	200	0.3%
Non-Farm	185,500	189,900	170,900	169,600	180,900	197,000	97.0%	11,500	0.6%
Mining, Logging and Construction	14,400	14,700	10,000	8,800	10,100	11,700	5.8%	-2,700	-2.1%
Manufacturing	23,500	22,000	20,200	20,200	20,100	21,800	10.7%	-1,700	-0.7%
Wholesale Trade	7,300	7,800	6,800	6,600	7,400	7,500	3.7%	200	0.3%
Retail Trade	23,800	24,100	21,500	22,000	23,700	24,600	12.1%	800	0.3%
Transp, Warehsg and Utils	3,700	4,500	4,000	3,800	4,100	4,300	2.1%	600	1.5%
Information	3,700	3,000	2,600	2,500	2,600	2,700	1.3%	-1,000	-3.1%
Financial Activities	9,800	9,300	7,800	7,600	7,400	8,000	3.9%	-1,800	-2.0%
Professional and Business Services	20,400	23,000	18,300	18,100	19,300	20,700	10.2%	300	0.1%
Educational and Health Services	21,800	23,100	24,300	25,000	27,900	32,200	15.9%	10,400	4.0%
Leisure and Hospitality	20,500	21,000	20,100	20,500	22,800	24,600	12.1%	4,100	1.8%
Other Services	6,200	6,400	6,100	6,100	6,600	7,000	3.4%	800	1.2%
Government	30,400	31,100	29,200	28,400	28,900	31,800	15.7%	1,400	0.5%

Source: California Employment Development Department, Labor Market Information Division

Sonoma County's high ranking in the Economic Development Board's Quality of Place Index[4], its mild climate and the good availability of shops, restaurants and health services make it attractive to the retirement age population. The growth of the retirement population is likely driving job growth in the health services sector. Tourism, much of it related to Sonoma County's world-class wine industry, brings in income from outside the region and drives job growth in the leisure and hospitality sector[5]. The Sonoma, Russian River, and Dry Creek Valleys offer many exceptional wines and unmatched scenic beauty.

Charles M Shultz-Sonoma County Airport (STS)

Due to its proximity the success of Charles M. Shultz-Sonoma County Airport (STS), and its planned expansion, will influence demand for future land use in the Specific Plan Area. Originally known as the Santa Rosa Army Air Field, STS opened in 1942 as a training airfield for the Fourth Air Force. With the conclusion of World War II, it was deactivated in 1946 and eventually converted to a civilian airport. Numerous carriers provided commuter and regional service to San Francisco, San Jose, Reno and Los Angeles with varying degrees of success. Scheduled air service ceased in 2001. In 2007, Alaska Airlines resumed scheduled service with flights to Seattle-Tacoma, Los Angeles and Portland. Recently a second carrier, Allegiant Air, began non-stop service from STS to Phoenix and Las Vegas.

[4] The EDB ranks Sonoma County 109 against a California average of 100 in a composite index that includes air quality, percentage of high school grads, commute times, health insurance coverage and employment in culture and recreation.

[5] Regional economies can be divided into Basic and Support Sectors. The Basic Sector earns income from outside the region, and its growth is the stronger influence in driving overall economic growth.

With the county economy recovering from the recession and increased service frequency, passenger volume at STS jumped by 17 percent from 2010 to 2011. Since 2011, the annual increase has been modest, as indicated in data provided by Alaska Airlines. The introduction of a new air carrier and a new destination is estimated to increase passenger volume to approximately 54,000 in 2016 over the 2015 level of 50,000.

Air cargo volume at STS totaled nearly 1.4 million pounds in 2011, when there was a significant Federal Express presence. However, the consolidation of FedEx operations into Marin County has contributed to a substantial fall-off in cargo volume at STS to less than 400,000 pounds in 2015. At current modest passenger and cargo volumes, STS does not have a major impact on land use in the Specific Plan Area, however as the county economy and STS aviation activity grows, the compatibility of development in the Specific Plan Area and STS's activities will likely emerge as an issue of importance.

The Employment Investment Area (EIA)

A large majority of the land in the Specific Plan Area has been designated by the Association of Bay Area Governments (ABAG) as the Sonoma County Airport Employment Investment Area (EIA). According to ABAG's description, "Employment Investment Areas are significant centers of economic activity that can be enhanced by local-serving retail, pedestrian and bicycle access improvements, focused growth around station areas, and last mile transportation solutions. Planning for Employment Investment Areas provides an opportunity to increase travel options for commuters, focus new jobs in locations accessible to the region's workforce—including transit dependent households—and allow employees to walk to daytime destinations, such as restaurants and coffee shops, that today would require auto trips."

According to the Sonoma County Economic Development Board, in 2015 the EIA contained approximately 385 employers—including private businesses, government agencies and non-profit organizations—with 7,683 employees. The employers are generally small: only 130 firms had ten or more employees and only 45 had over 50 employees. The largest employers, each with over 200 employees, include: La Tortilla Factory, L-3 Sonoma EO Inc., Tri Vascular Technologies, Inc., and the Sonoma County Water Agency. American AgCredit recently completed its headquarters office in the center of the EIA and is consolidating 500 employees from scattered locations into this building. When it reaches capacity, this facility will make American AgCredit the largest EIA employer, and increase employment in the EIA to more than 8,000.

The highest employment concentrations within the EIA are in the following sectors: manufacturing including wine production (1,479 employees), retail trade including those in the wine industry (1,032 employees), public administration (973 employees), professional and technical services (869 employees), construction (704 employees), health care and social assistance (603 employees) and wholesale trade (489 employees). Approximately 40 percent of EIA employees work in offices. When the AgCredit consolidation is completed, the office employment percentage will approach 44 percent.

According to the Sonoma County Economic Development Board, the EIA generates an estimated $2.2 billion in annual revenue, led by wholesale trade ($933 million), manufacturing ($346 million), retail trade ($258 million), construction ($250 million) and professional and technical services ($161 million). Viewed within the context of the Sonoma County industrial economy, the EIA provides an important location for the future growth of the manufacturing and wholesale distribution sectors.

IV. Industrial Space Demand Forecast

The airport area is one of the few industrial areas within the county. The addition of the SMART station and the growth of the Charles M. Shultz-Sonoma County Airport will support additional demand for office and industrial land in the EIA. Countywide, the expansion of the SMART system and cannabis industry present potentially significant sources of job growth in associated sectors that demand industrial space (e.g. utilities, transportation, manufacturing, warehousing, and distribution). While the updated Specific Plan will be designed to accommodate long-term demand for development for approximately two decades, the demand will come in waves correlated to economic cycles.

Projection

The analysis estimates that the Specific Plan Area can support the construction of approximately 1.2 to 1.7 million square feet of industrial space over the next 20 years. This translates into demand for 110 to 156 acres of industrial land based on current industrial land development density in the EIA[6].

Market Trends and Conditions

Sonoma County currently has 24.4 million square feet of industrial space, of which 22.9 million square feet are occupied. This equates to a current vacancy rate of only 5.6 percent. As detailed in Table 4 below, the amount of occupied industrial space, which is the best indicator of demand, has grown from 20.4 million square feet in 2004 to 23.0 million square feet by mid-year 2016. The total net gain was 2.6 million square feet of industrial space for an average annual net gain of 228,000 square feet over this eleven and one-half year period. A year-by-year examination of the data indicates that occupancy increased from 2004 to 2006 and then decreased from 2006 to 2009 before resuming an upward trend.

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[6] The current FAR for industrial space in the EIA is 0.23. A slightly denser FAR of 0.25 is used in this analysis to reflect greater land use efficiency with new industrial construction.

Table 4: Sonoma County Industrial Space Market Trend

(thousands of square feet)

	Inventory (SF)	Vacant (SF)	Occupied (SF)	Vacancy Rate
2004	22,749	2,327	20,422	10.2%
2005	22,765	1,742	21,023	7.7%
2006	24,109	2,020	22,089	8.4%
2007	23,892	2,476	21,416	10.4%
2008	24,006	2,840	21,166	11.8%
2009	24,150	3,564	20,586	14.8%
2010	24,176	3,541	20,635	14.6%
2011	24,107	3,159	20,948	13.1%
2012	24,173	3,297	20,876	13.6%
2013	24,184	2,667	21,517	11.0%
2014 - 4th Quarter	24,156	1,848	22,308	7.7%
2015 - 4th Quarter	24,351	1,409	22,942	5.8%
2016 - 2nd Quarter	24,410	1,368	23,042	5.6%
Change 2004 - 2016(2)	1,661	(959)	2,620	
Avg Annual - 11.5 Years	144		228	

Source: Keegan & Coppin Company, Inc.

The North Corridor Submarket, which as noted includes the airport area, Windsor, and Healdsburg now has 5.68 million square feet of occupied industrial space, as shown in Table 5 below. Its share of the county's total industrial space has climbed steadily, from 23.6 percent in 2011 to 24.6 percent in 2016. Over the past five years the North Corridor has absorbed 678,000 square feet of industrial space, 36.8 percent of the county's total absorption of 1.89 million square feet.

Table 5: North Corridor Industrial Market Performance

	Total Occupied Space (1,000 SF)			Annual Growth in Occupied Space (Net Absorption)		
2nd Quarter	Sonoma County	North Corridor	North Corridor Share	Sonoma County	North Corridor	North Corridor Share
2011	21,151	5,002	23.6%			
2012	20,759	4,890	23.6%	(392)	(112)	28.6%
2013	21,414	5,210	24.3%	655	320	48.9%
2014	22,066	5,520	25.0%	652	310	47.5%
2015	22,522	5,389	23.9%	456	(131)	NA
2016	23,043	5,680	24.6%	521	291	55.9%
Total				1,892	678	35.8%

Note: North Corridor includes the airport area, Windsor and Healdsburg

Source: Keegan & Coppin Company, Inc.

Impact of Marijuana Industry on Industrial Space Demand

The price and availability of industrial land is poised to be heavily impacted by the cannabis industry due to recent changes in state and local regulations as well as the possible legalization of recreational marijuana use in California in the November, 2016 elections. The Medical Marijuana Regulation and Safety Act ("MMRSA"), consisting of AB 243 (Wood), AB 266 (Bonta) and SB 643 (McGuire), was signed into law by Governor Brown on October 9, 2015. This legislation constructs a comprehensive framework for the regulation of commercial cannabis, covering a broad array of topics including cultivation, delivery, transportation, manufacturing, environmental standards and enforcement, general enforcement, advertising and labeling, employer/workplace restrictions, appellation/organic standards, fees and taxation, safety standards, criminal penalties, and tracking and tracing systems. The County is in the process of implementing regulations to allow these uses, which will predominantly be allowed within industrial and agricultural lands.

The Sonoma County Economic Development Board (EDB) recently published an Economic Impact Report[7] to highlight insights into the potential economic opportunities, potential threats, and policy recommendations related to the cannabis industry in Sonoma County for the Board of Supervisors. The study process included the formation of a Task Force that investigated the potential impact of cannabis legalization on industrial land inventories. The report includes several findings based on interviews with:

- Executive Director of the Sonoma County Growers Alliance, a community group focused on issues important to Sonoma County cannabis patients, cultivators, and the community.

- Senior Real Estate Advisor and Partner with Keegan & Coppin Company, Inc., a prominent real estate firm operating in Sonoma County.
- Director of Economic and Research for Vicente Sederberg LLC, a law firm with expertise in the cannabis industry

Key findings published in the EDB's cannabis report include:

- The California Growers Association estimates that California cultivates approximately 60 percent of the nation's cannabis.

- In the past 18 months, there has been a rush in Sonoma County to find cultivation locations.

- Vicente Sederberg LLC advised that cannabis cultivation accounts for over 3.7 million square feet of industrial space in Denver, where legalization has already occurred. Lease rates for lower-class warehouse space in North Denver climbed dramatically between 2010 and 2015 in part because cannabis industries often pay inflated rents because fewer landlords are willing or able to work with the industry due to federal regulations affecting loans issued by financial institutions. Keegan & Coppin confirms that similar conditions affect Sonoma County real estate transactions involving the cannabis industry.

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[7] Sonoma County Economic Development Board. (10/07/2016). *Sonoma County Cannabis Economic Impact Task Force Report.*

- Keegan & Coppin, Company, Inc. has been involved in lease and purchase transactions totaling about 200,000 square feet for the marijuana industry in the past year in Sonoma County. The firm claims it is currently working on lease and purchase agreements on an additional 60,000 to 80,000 square feet of industrial space.

- The supply of properties available for use by cannabis industry is limited as a many property owners are not interested in leasing to the cannabis industry, zoning regulations prohibit cannabis-related industries within 600 feet of schools and 300 feet of residences, and federally backed loans often state that subject properties cannot be used for any activity which violates United States law (cannabis continues to be listed as a Schedule I Narcotic.

While reliable market forecasts for the of the cannabis industry on industrial real estate are currently not available, the expectations of those in the industrial real estate industry are that cannabis production and distribution will increase the demand for industrial and warehousing property in Sonoma County.

Assumptions and Methodology

In forecasting demand for industrial land in Sonoma County and the Specific Plan Area, LEG has made the following calculations. A graphical summary of the forecast methodology is provided below and the computations are detailed in Table 6:

1. ABAG employment forecast for Sonoma County
2. ABAG forecast adjusted to incorporate increase demand due to cannabis legalization
3. ABAG forecast further adjusted to incorporate utilities and transportation job growth due to SMART system growth countywide.
4. ABAG forecast narrowed to industrial occupations (not office, retail, etc.)
5. Jobs converted to industrial space using a space per job factor
6. Industrial demand inflated for market equilibrium vacancy rate
7. Minor amount of existing, older industrial space is removed to reflect redevelopment to higher land value generating uses
8. New demand is adjusted to add replacement
9. Industrial demand shown as total & annual average
10. Annual EIA absorption of county demand forecast

1. ABAG Jobs Forecast for Sonoma County. The Association of Bay Area Governments (ABAG), Projections 2013, includes detailed employment forecasts for Sonoma County. Our industrial space demand forecasts use ABAG Projections 2013 as the starting point.

2. Cannabis and SMART Station Adjustment to ABAG Forecast. To reflect the cannabis-related demand, we increased the employment in the manufacturing and wholesale distribution sector by 1.2 percent per year for the next 10 years and 1.1 percent per year for the following 10 years. Because of the expansion of the SMART train system throughout the county, employment in the transportation and utilities sector has also been increased by these rates. These increases deviate from the ABAG 2013 forecast, which show little or no increase in these sectors over the next 20 years.

3. Industrial Occupations Adjustment. LEG estimated the percentage of employment in each of the sectors that would use industrial space based on four decades of market analysis experience. The percentages were 30 percent for the construction sector, 95 percent for the manufacturing and warehousing sector, and 65 percent for the transportation and utilities sector. These percentages were applied to the ABAG employment estimates by sector with the percentage increases described above then applied to the manufacturing & wholesale trade and transportation & utilities sectors.

4. Conversion of Jobs to Industrial Space Demand. Based on LEG's research on industrial demand in urban and rural markets, a net space per employee factor of 652 square feet is assessed to be appropriate for Sonoma County industrial demand forecasting. Applying this factor to the projected number of countywide employees yields a net industrial space requirement of 22.52 million square feet in 2015, which agrees with the Keegan & Coppin survey result of 22.52 million for the same year. The 2015 requirement then grows to 25.58 million in 2025 and 28.41 million by 2035.

5. Space Demand Adjusted for Vacancy Rate. The market equilibrium vacancy rate is estimated at eight percent for the Sonoma County industrial market based on vacancy trends illustrated in Table 4 above.[8] This is the vacancy rate where supply and demand are in approximate balance; and it's above the current vacancy rate of 5.6 percent, which indicates an undersupply situation. The gross industrial space required to accommodate employees is then divided by 92 percent to reflect the gross amount of industrial space required with an eight percent vacancy rate. With this vacancy built in, the total amount of industrial space square footage required is then 24.47 million in 2015, growing to 27.80 million in 2025 and 30.88 million in 2035.

6. Total Countywide Demand adjusted for Existing Space. The difference in the total amount of industrial space required is calculated to determine the demand growth for each decade. The demand growth is 3.32 million square feet from 2015 to 2025 and 3.08 million square feet from 2025 to 2035.

7. New Countywide Demand Adjusted for Replacement Demand. The construction requirement per decade will exceed these numbers because a small fraction of the existing industrial building inventory, primarily smaller and older buildings, will be demolished for redevelopment. The replacement demand percentage is estimated at eight percent per decade. This replacement demand is then estimated to be 1.96 million square feet from 2015 to 2025 and 1.62 million square feet from 2025 to 2035.

8. Countywide Forecast for Industrial Space Summed. The total construction requirement is then the sum of the growth demand plus the replacement demand. The countywide industrial construction demand is therefore 5.28 million square feet from 2015 to 2025 and 4.69 million square feet from 2025 to 2035 for a total of 9.97 million square feet for the 2015 to 2035 timeframe.

9. Total Demand Countywide Converted to Average Annual Demand. The average annual countywide industrial demand over this 20-year planning horizon is then 499,000 square feet, which is more than double the 228,000 square feet per year average achieved during the past eleven and one half years. An

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[8] While the industrial vacancy rates for late 2015 and early 2016 are roughly 5.5%, pre-recession vacancy rates were closer to 7.5%; as industrial demand spurs new industrial construction the vacancy rate is expected to rest higher than the prevailing (low) rate shown in 2015 and 2016. The most recent Keegan & Coppin Company estimates of industrial vacancy for 3Q, 2016 indicate a vacancy rate estimate of 1.9% for the "North Corridor" that includes the Airport Area, Windsor, and Healdsburg. This estimate highlights the acute undersupply of industrial land in the vicinity of the Specific Plan.

explanation for this shift in demand is that the economic climate has been significantly dampened over the last decade due to a severe recession, and new sources of demand—such as the cannabis industry—have emerged.

10. Average Annual Demand Converted to EIA Absorption Rate. During the past five years, the North Corridor Submarket captured 36 percent of the countywide demand. LEG's forecast for the next two decades is that the Specific Plan Area will capture a low of one-third to a high of nearly one-half of the submarket demand or 12 to 17 percent of the countywide demand. The 20-year demand forecast for the Specific Plan Area is then rounded to between a low of 1.2 million square feet and a high of 1.7 million square feet.

The conclusion of this analysis is that Sonoma County has sufficient market demand to support the construction of approximately 10 million square feet of industrial and warehouse space over the next two decades. This is broken down into 5.3 million square feet demanded between 2015-2025 and 4.7 million demanded between 2025-2035. At a floor area ratio (FAR) of 0.25 (the current FAR for industrial space in the EIA is 0.23), the 10 million square feet of demand translates to 229 acres. For the Specific Plan Area, the 1.2 to 1.7 million square feet translates into demand for 110 to 156 acres over the next 20 years. M-Group estimates that the current vacant or underutilized industrial acreage in the Specific Plan Area is approximately 138 acres.[9]

[9] The vacant and underutilized acreage is estimated using a combination of land designated in the assessing record as "vacant" or "open space/agricultural", combined with an on the ground site analysis to verify activity on each lot. The estimate does not account for land that may not be developable (due to physical or financial constraints) because of verified environmental resources. Land affected in this regard will be identified through the preparation of the Specific Plan Environmental Impact Report.

Table 6: Specific Plan Area Industrial Demand Forecast

					Change		Total
	Factors	2015	2025	2035	2015 - 25	2025 - 35	2015 - 35
Estimated Industrial Employment	**Percentage**						
Construction	30%	3,465	4,215	4,509	750	294	1,044
Manufacturing & Wholesale	95%	28,234	31,811	35,489	3,577	3,678	7,255
Transportation & Utilities	65%	2,841	3,200	3,570	360	370	730
Total Industrial Space Using Employment		34,540	39,226	43,568	4,687	4,342	9,028
Estimated Industrial & Warehouse Space Demand in Sonoma County (SF)							
Net Space per Employee in Square Feet	652	22,519,754	25,575,602	28,406,319	3,055,848	2,830,717	5,886,565
Add Vacancy Allowance @	8%	24,477,993	27,799,568	30,876,434	3,321,574	3,076,866	6,398,440
Add Replacement Demand @ 8% per Decade					1,958,239	1,616,563	3,574,803
Gross SF per Employee		709	709	709			
Total Countywide Industrial & Warehouse Space Construction Demand					5,279,814	4,693,429	9,973,243
Specific Plan Area Market Share of Countywide Demand (SF)							
Low Share @	**12%**				**633,578**	**563,212**	**1,196,789**
High Share @	**17%**				**897,568**	**797,883**	**1,695,451**
Specific Plan Area Market Share of Countywide Demand (Acres at FAR 0.25)							
Low Share @	**12%**				**58**	**52**	**110**
High Share @	**17%**				**82**	**73**	**156**

Source: Land Econ Group

V. Demand for Commercial Uses – Office, Retail and Hotel

Office Space Demand Forecast

Projection

The office space demand forecast for the Specific Plan Area ranges from 440,000 square feet to 665,000 square feet over the 20-year planning time horizon.

Market Trends and Conditions

From 2004 through 2015, Sonoma County experienced a net increase of 2.8 million square feet of office space, bringing the countywide inventory to the current total of 14.3 million square feet. Over this period, as measured by the growth in occupied space, the county has absorbed 2.5 million square feet of space (see Table 7 below for details). With the Northern California economy in the midst of a strong up-cycle, the office vacancy rate has dropped from a high of 23.3 percent at the end of 2010 to 16.4 percent at the end of 2015. Over this five-year period, the occupied space increased from 10.6 million to 12.0 million square feet, for a total absorption of 1.4 million square feet or an average of 284,000 square feet per year. Over the entire eleven-year period, which spans both recession and expansion, the countywide absorption averaged 214,000 square feet of office space per year.

Table 7: Sonoma County Office Space Market Trend

(thousands of square feet)

	Inventory (SF)	Vacant (SF)	Occupied (SF)	Vacancy Rate
2004	11,500	1,973	9,527	17.2%
2005	11,395	2,363	9,032	20.7%
2006	12,893	2,760	10,133	21.4%
2007	13,615	2,579	11,036	18.9%
2008	13,841	2,771	11,070	20.0%
2009	14,041	3,205	10,836	22.8%
2010	13,786	3,210	10,576	23.3%
2011	13,796	3,133	10,663	22.7%
2012	13,828	3,124	10,704	22.6%
2013	14,165	3,081	11,084	21.8%
2014 - 4th Quarter	13,902	2,447	11,455	17.6%
2015 - 4th Quarter	14,335	2,346	11,989	16.4%
Change 2004 - 2015	2,835	373	2,462	
Avg Annual	247		214	

Source: Keegan & Coppin Company, Inc.

The North Corridor Submarket Area, as defined by Keegan & Coppin, Inc., includes the Airport area, Windsor and Healdsburg. The Specific Plan Area is part of this submarket. As shown in Table 8 below, this submarket has accounted for 332,000 square feet of office space of the 1.36 million square feet absorbed in the county over the past four years for a 24 percent share of the overall countywide market.

Table 8: North Corridor Market Share of Sonoma County Office Space Market

	Total Occupied Space (1,000 SF)			Annual Growth in Occupied Space (Net Absorption)		
4th Quarter	Sonoma County	North Corridor	North Corridor Share	Sonoma County	North Corridor	North Corridor Share
2011	10,627	1,755	16.5%			
2012	10,770	1,764	16.4%	143	9	6.3%
2013	11,170	1,800	16.1%	400	36	9.0%
2014	11,455	1,781	15.5%	285	(19)	NA
2015	11,989	2,087	17.4%	534	306	57.3%
Total				1,362	332	24.4%

Note: North Corridor includes the airport area, Windsor and Healdsburg

Source: Keegan & Coppin Company, Inc.

As detailed in Table 9, with the market tightening and vacancy rates decreasing, the asking rents for office space are increasing. For prime, Class A office space, the average asking rent was $1.88 per square foot during the first quarter of 2016 countywide, up from $1.82 six months prior. For Santa Rosa, asking rents for Class A office space were $1.83 per square foot, up from $1.72 in the third quarter of 2015.

Table 9: Sonoma County Office Space Market Rents and Vacancies

	Inventory (SF)	Occupied (SF)	Six Month Net Absorption (SF)	Vacancy Rate	Avg Asking Rent (All Classes)	Avg Asking Rent (Class A)
2015 3rd Quarter						
Sonoma County	13,137,492	11,137,192	NA	15.2%	$1.59	$1.82
Santa Rosa	7,865,956	7,126,556	NA	9.4%	$1.60	$1.72
Petaluma	2,843,592	2,323,215	NA	18.3%	$1.69	$1.97
Rohnert Park/Cotati	2,427,944	1,687,421	NA	30.5%	$1.51	NA
2016 1st Quarter						
Sonoma County	13,189,990	11,398,949	261,757	13.6%	$1.62	$1.88
Santa Rosa	7,999,391	7,287,445	160,889	8.9%	$1.71	$1.83
Petaluma	2,843,592	2,456,863	133,649	13.6%	$1.83	$2.01
Rohnert Park/Cotati	2,347,007	1,654,640	-32,781	29.5%	$1.41	NA

Source: Cushman & Wakefield

Assumptions and Methodology

LEG has made the following calculations to prepare the office demand forecast in the EIA. A graphical summary of the forecast methodology is provided below and the detailed computations are shown in Table 10:

1. ABAG employment forecast for Sonoma County
2. ABAG forecast narrowed to office occupations (not industrial, retail, etc.)
3. Office jobs converted to office space demand using a space per job factor
4. Gross office demand is adjusted to exclude unusable space (hallways, etc.).
5. Net office space demand adjusted for market equilibrium vacancy rate
6. Small amount of existing office space removed for redevelopment
7. New demand is adjusted to add replacement
9. Office demand shown as total & annual average
10. Annual EIA absorption of county demand forecast

1. ABAG Jobs Forecast for Sonoma County. The Association of Bay Area Governments (ABAG), Projections 2013, includes detailed employment forecasts for Sonoma County. Our industrial space demand forecasts use ABAG Projections 2013 as the starting point.

2. ABAG Forecast Narrowed to Office Occupations. We focused on industry sectors that use office space and estimated the percentage of employment in each that would utilize private office space. The percentages were estimated to be 85 percent for information sector, 90 percent for financial and leasing, 95 percent for professional and management services, 30 percent for health and education services and 15 percent for government agencies using leased private space. These percentages were applied to the ABAG employment forecast by industry sector for 2015, 2025 and 2035 and then combined to arrive at a total estimated office employment for each of those years.

3. Jobs Converted to Gross Office Space Demand. LEG's experience with office space market studies in urban and rural environments indicates that an appropriate net office space per employee factor of 225 square feet is appropriate for Sonoma County. Applying this space per employee factor, LEG forecasts that a net office space requirement in Sonoma County of 10.97 million square feet in 2015, growing to 12.67 million in 2025 and 13.97 million by 2035.

4. Gross Office Demand Reduced to Remove Unusable Space. The net square footage is typically about 84 percent of gross building square footage in office buildings with the difference represented by lobby space, elevator core, stairwell and restrooms. The net space required to house employees is therefore divided by 0.84 to arrive at the gross space requirement, which grows from 13.06 million square feet in 2015 to 15.08 million by 2025 and 16.63 million by 2035.

5. Space Demand Adjusted for Vacancy Rate. The market equilibrium vacancy rate is estimated at 10 percent for the office market.[10] This is the vacancy rate where supply and demand are in approximate

[10] Historic vacancy rates throughout the county range between approximately 17% and 20%, however, given the high rate of demand for office space, the estimated equilibrium rate is expected to be lower. Office vacancy rate is expected to remain higher than the industrial vacancy rate given historical trends. This long term assumption of 10% for office vacancy is corroborated by Keegan & Coppin Company estimates on office vacancy estimates for 3Q,

balance. Gross office space required to accommodate employees is divided by 90 percent to reflect countywide demand with a 10 percent vacancy rate. With this vacancy built in, the amount of office square footage required is 14.51 million in 2015, 16.76 million in 2025 and 18.47 million in 2035.

6. Existing Space Removed to Show New Demand. The difference in the total amount of office space required is then calculated to determine the demand growth for each decade. For example, the demand growth is 2.24 million square feet from 2015 to 2025 and 1.72 million square feet from 2025 to 2035.

7. New Countywide Demand Adjusted to Add Replacement. The construction requirement per decade will exceed these numbers because a small fraction of the existing office inventory, primarily smaller and older buildings, will be demolished for redevelopment. Based upon experience with metropolitan office markets where detailed demolition data has been available, the replacement demand percentage is slightly less than 0.5 percent of the standing inventory per year. For this analysis, a five percent per decade replacement demand is applied. This replacement demand is then estimated to be 757,700 square feet from 2015 to 2025 and 837,900 square feet from 2025 to 2035.

8. Countywide Forecast for Office Space Summed. The construction requirement is then the sum of the growth demand plus the replacement demand. The countywide office construction demand is therefore 2.97 million square feet from 2015 to 2025 and 2.55 million square feet from 2025 to 2035 for a total of 5.52 million square feet for the 2015 to 2035 timeframe.

9. Total Demand Countywide Converted to Average Annual Demand. The average annual countywide demand over the 20-year planning horizon is 276,000 square feet, 29 percent higher than the 214,000 square feet achieved during the past eleven years (which included a difficult recession) but less than the 284,000 square feet average achieved during the past four years (a period of economic expansion).

10. Average Annual Demand Converted to Realistic Absorption Rate in the EIA. From the absorption history of the past four-year, the North Corridor Submarket captured 24 percent of the countywide demand. LEG's forecast for the next two decades is that the Airport Specific Plan Area will capture a low of one-third to a high of one-half of the submarket demand or eight to twelve percent of the countywide new space demand. The demand estimate is then rounded to between a low of 440,000 square feet and a high of 665,000 square feet.

The conclusion of this analysis is that Sonoma County has sufficient demand to support the construction of approximately 5.5 million square feet of office space over the next two decades. The breakdown is 2.97 million square feet for 2015-2025 and 2.55 million for 2025-2035. Most of the construction will take place during the real estate up-cycles, and little or no construction is expected during the down-cycles. The demand forecast for the Specific Plan Area ranges from a low of 440,000 square feet to a high of 665,000 square feet over the 20-year planning time horizon. This forecast range accommodates shifts in demand resulting from emerging trends affecting office space demand, such as telecommuting, shared-space offices, and uncertainty as to the amount of future competition that will emerge.

2016, which cites a rate of 9.4% for the "North Corridor" that includes the Airport Area, Windsor, and Healdsburg. Source: Keegan & Coppin Company, Inc. (2016) *Total Existing Office Vacancy Estimates. 3Q 2016, Sonoma County*

Table 10: Specific Plan Area Office Demand Forecast

	Factors	2015	2025	2035	Change 2015 - 25	Change 2025 - 35	Total 2015 - 35
Estimated Office Employment	**Percentage**						
Information	85%	2,627	2,941	3,018	315	77	391
Financial & Leasing	90%	7,272	7,191	7,182	(81)	(9)	(90)
Professional & Management Services	95%	25,337	30,790	34,818	5,453	4,028	9,481
Health & Educational Services	30%	9,024	10,632	11,979	1,608	1,347	2,955
Government	15%	4,511	4,757	5,079	246	323	569
Total Office Employment		48,770	56,310	62,075	7,541	5,765	13,306
Estimated Office Space Demand in Sonoma County (SF)							
Net Space per Employee in Square Feet	225	10,973,138	12,669,750	13,966,875	1,696,613	1,297,125	2,993,738
Building Net to Gross SF Ratio @	84%	13,063,259	15,083,036	16,627,232	2,019,777	1,544,196	3,563,973
Add Vacancy Allowance @	10%	14,514,732	16,758,929	18,474,702	2,244,196	1,715,774	3,959,970
Add Replacement Demand @ 5% per Decade					725,737	837,946	1,563,683
Gross SF per Employee		298	298	298			
Total Countywide Office Construction Demand					2,969,933	2,553,720	5,523,653
Specific Plan Area Market Share of Countywide Demand (SF)							
Low Share @	**8%**				**237,595**	**204,298**	**441,892**
High Share @	**12%**				**356,392**	**306,446**	**662,838**

Source: Land Econ Group

Retail Space Demand Forecast

Projection

LEG estimates a retail space demand of approximately 15,000 square feet following a near-term lag due to available efficiencies within existing retail space, growing to a 2035 demand of 26,000 square feet.

Market Trends and Conditions

Improving Retail Performance in Santa Rosa and Sonoma County

Sonoma County currently has 10.5 million square feet of retail space with a very low vacancy rate of 3.5 percent, and the average asking triple net rent[11] is $18.60 per square foot.[12] According to sales tax collections compiled by the California State Board of Equalization, total countywide retail sales increased from $4.4 billion in 2009 to $5.5 billion in 2013, a 25 percent increase in five years. While population has increased as well, the retail sales increase has been much faster causing per capita sales to grow from an estimated $10,957 to $13,437 over the same five-year period. The climb in sales volume, low vacancy rate, and healthy lease rate all indicate a strong market for retail space as the county economy moves out of the recent recession.

[11] Net of maintenance, taxes and insurance

[12] Cushman & Wakefield

Santa Rosa has experienced a similar pattern of retail sales growth. Because of Coddingtown Mall, Santa Rosa Plaza and the concentration of automobile dealerships along Santa Rosa Avenue, the city's per capita retail store sales is considerably higher than the county as a whole. For 2013, it was $16,435 compared to $13,437 for the county.

Interest Indicated by Employers

As highlighted in the EIA Profile and presented in Appendix A, a large majority of employers would like to see more stores and services in the EIA. Almost 77 percent responded that they "Strongly Agree" or "Agree" that additional stores and services are needed. Nineteen percent responded that they "Neither Agree nor Disagree" and less than five percent do not agree that additional services are needed.

Of the respondents that would like to see additional stores and services, the most desired were full-service restaurants (79 percent of respondents), and grocery stores or convenience markets (67 percent of respondents). Forty two percent of survey respondents would like to see bars or drinking places. Coffee shops and fast food restaurants were desired by almost 30 percent of respondents. Other facilities of interest included a hotel, parks and open space, healthier food options, bank, barbershop, beauty salon, florist, pharmacy and dry cleaner.

Retail Space within the Specific Plan Area

The EIA currently has a considerable amount of retail space, including the Kaffe Mocha & Grill Building, the Mi Burrito Building, Carl's Junior on the north side of Airport Boulevard and a Starbucks, a Chevron station and the Vineyard Creek Market on the south side. Total retail and restaurant space adds up to an estimated 36,000 square feet with 15-20 percent vacancy and less than intense utilization of the occupied space. In addition, the Airport Stadium 12-Screen cinema provides approximately 37,000 to 38,000 square feet of entertainment space that serves a local and regional market—a portion of the cinema is available for short-term rental as event space. In total the EIA has approximately 73,000 square feet of retail, restaurant and entertainment space; however, the utilization appears less than intense because of large vacant areas and spacious restaurants. Existing retail space is primarily located in the Airport Business Park approximately one third of a mile east of the SMART Station, and accessible from 101.

Challenges and Opportunities

The EIA, a suburban-style business park designed several decades ago, faces challenges in providing effective retail and other services space. If the retail and restaurant services are centralized in one location, it would only be within walking distance of a small percentage of EIA employees. To reach a centralized retail destination, a large majority would need to drive and park. Once in their car, it becomes very convenient to drive out of the EIA for food and other services.

If the services are decentralized, for example if a cafeteria or restaurant is provided in each building or cluster of buildings located for employee convenience, the choices are limited and become repetitive over time. Retail shops and restaurants benefit from agglomeration into one complex, and the decentralized approach lacks this advantage. Decentralized services and food options would result in employees bringing lunches or driving off campus with greater frequency; thus, the total amount of retail space supportable within the EIA will be less than with the centralized approach.

Since peak demand for retail and food service in a business park occurs during the weekday lunch hour, the operator must have the space, tables, service staff and parking available to accommodate peak conditions. Businesses must also generate sufficient revenue during those weekday lunches to cover operating cost and amortize land and construction costs. Few restaurant operators are able succeed serving one meal per day during the workweek.

However, there are some opportunities for improved retail performance. Looking ahead, the positive factors are as follows:

- Employers are upbeat about the next several years and employment within this EIA is projected to increase.
- As the county moves out of recession, retail sales per person is growing in the county as a whole and in the city of Santa Rosa.
- The SMART station within the EIA may become a focal point for activity and investment.
- If the Specific Plan encourages residential and hotel development around the SMART station, demand outside of lunch-hour service could increase as a result.

Assumptions and Methodology

Considering the market conditions discussed above, the following assumptions and methodology for conducting the retail space demand analysis are summarized below:

1. Per Capital Retail Sales in Sonoma County
2. Countywide per capita sales refined to appropriate retail categories for the SPA
3. Demand adjusted to incorporate employee and population growth
4. Retail spending capture rate assigned to projected employees and population
5. Retail spending capture rate assigned to outsiders shopping in the EIA
6. Total sales converted to sales per square foot, or retail demand

1. Per Capital Retail Store Sales in Sonoma County. The average per capita retail sales in Sonoma County is used to estimate retail demand generated by each employee and resident in the Specific Plan Area. This analysis recognizes that only a minor portion of this sales figure is spent near their place of employment, with the balance associated with their place of residence or spent online.

2. Refine Retail Categories by Site Location. The nature of the project location limits the effective demand in the convenience retail group consisting of general merchandise stores (drug and convenience stores), food and beverage stores (grocery stores, liquor stores and wine shops) and food service and drinking places (restaurants, coffee shops and bars).

3. Incorporating Employment and Population Growth. Within the EIA, employment is projected to increase from 7,500 to 10,500 in the 2015 to 2035 timeframe. Informed by the residential market analysis, the number of residents within the Specific Plan Area could increase from 630 to 2,230 over this same period. This growth in employment and population will generate increased demand for retail business.

4. Assign Retail Capture Rate to Employees and Residents. Different capture rates for each retail sector are assigned to employees and residents to estimate sales generated by EIA employees and Specific Plan Area residents into the future (Table 11).

5. Capture Rate Refined for Outside Sales. A factor is added to reflect sales to outsiders not working within the EIA or living in the Specific Plan Area.

6. Total Sales Converted to Sales Per Square Foot to Define Retail Space Demand. The sum of sales generated by employees, residents and outsiders is then divided by a sales per square foot per year factor of $550, reflecting reasonable retail performance, to determine supportable retail square footage.

Local employers would like to see more retail shops and restaurants added to provide increased choices for their employees. Currently, the EIA has sufficient retail and restaurant space based on existing square footage, to serve employees, residents, and outsiders in the near term (estimated to be 10 years). With increased employment, and the possibility of increased population growth in the Specific Plan Area over the next 20 years, there is the potential to add between 15,000 and nearly 27,000 square feet of retail space in the area. LEG assumes that optimizing current retail space and occupying vacant retail space within the EIA will create a lag in demand from retail developers in the near term until sufficient employment and population growth within the Specific Plan Area occurs to create increased demand for retail businesses.

Table 11: Specific Plan Area Retail Demand Forecast

(thousands of dollars)

		2015			2035		
EIA Employment			**7,500**			**10,500**	
	Annual Per Capita Sales 1	Total Sales	SPA % Capture	SPA Annual Sales	Total Sales	SPA % Capture	SPA Annual Sales
General Merchandise Stores	$ 1.99	$ 14,923	0.0%	$ -	$ 20,892	2.0%	$ 418
Food & Beverage Stores	$ 3.48	$ 26,074	8.0%	$ 2,086	$ 36,503	10.0%	$ 3,650
Food Services & Drinking Places	$ 1.66	$ 12,441	18.0%	$ 2,239	$ 17,418	19.0%	$ 3,309
Specific Plan Area Residents			**630**			**2,230**	
	Annual Per Capita Sales 1	Total Sales	SPA % Capture	SPA Annual Sales	Total Sales	SPA % Capture	SPA Annual Sales
General Merchandise Stores	$ 1.99	$ 1,253	0.0%	$ -	$ 4,437	2.0%	$ 89
Food & Beverage Stores	$ 3.48	$ 2,190	2.5%	$ 55	$ 7,753	3.5%	$ 271
Food Services & Drinking Places	$ 1.66	$ 1,045	5.0%	$ 52	$ 3,699	6.0%	$ 222
Subtotal Specific Plan Area Residents and Employees				$ 4,432			$7,960
Additional Sales to Non-Local @ 85% of Local Demand				$ 3,767			$6,766
Total Retail Store Sales				$ 8,200			$14,725
Sales per SF per Year				550			550
Specific Plan Area Supportable Retail SF				**14,909**			**26,773**

[1] Based on data from the California Board of Equalization

Supportable Hotel Development

Projection

Considering that the Specific Plan Area offers a concentration of employers, a new SMART station, an airport and a freeway interchange, plus the possibility of serving wine-based tourism, LEG believes that up to two additional hotels can be supported. The number of additional supportable rooms within the Specific Plan Area ranges from a low of 120 to a high of 250 over the next two decades.

Market Trends and Conditions

Sonoma County Lodging

Sonoma County has approximately 100 lodging establishments with a total of over 6,100 rooms[13]. Over three-quarters of these hotel properties are independently operated establishments of under 100 rooms. In addition to the hotel inventory, there are many homes available for vacation rental from local rental offices and on-line sites such as Vacation Rental by Owner (VRBO) and Airbnb. New hotel developments over the past 10 years have concentrated in the more cost effective limited service or select service properties. Examples include the Hampton Inn and Suites, a Super 8, a Holiday Inn Express, and the Hilton Garden Inn that is located in the Charles M. Shultz-Sonoma County Airport EIA.

With the rebound of the Northern California economy and accelerated hotel demand growth, a number of new hotels are being proposed or developed in the county:

- A 100-room full service Holiday Inn Hotel with 2,650 square feet of meeting rooms and a full service restaurant is under construction in Windsor on Old Redwood Highway just east of the SR 101 northbound off-ramp. This hotel is scheduled to open by October of 2016[14].

- A 39-room boutique hotel has been proposed by the Piazza Hospitality Group in Healdsburg.

- The Graton Rancheria Resort and Casino, located in Rohnert Park west of SR-101, is adding a 200-room hotel which when completed will also include 20,000 square feet of event and convention space.

- Kenwood Investment proposed a 59-room boutique hotel in Downtown Sonoma on W. Napa St.

- The Hotel Sebastopol proposal in Sebastopol includes 66 rooms and several amenities.

- Plans for the Courthouse Square Hotel project in Santa Rosa includes between 50 and 60 rooms.

If all these projects proceed to completion, approximately 400 new hotel units will be added to the Sonoma countywide inventory.

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[13] Sonoma County California Hotel Market, HVS, July 2015

[14] Town of Windsor Community Development Department Major Project List – January 2016 and Windsor Chamber of Commerce on the opening date.

Steady Demand Growth

Since the recession, the growth in demand for hotel rooms in Sonoma County has been strong. The average annual occupancy rate climbed from 67 percent in 2012 to 76 percent in 2015, and the average room rate climbed from $117 to $149 over the same period. The revenue per available room (RevPAR)—a measure that incorporates the effective room rate and occupancy rate—climbed from a low of $67 in 2009 to $98 in 2014. These figures are based on surveys by Smith Travel Research (STR) from 2016.

The most reliable statistical indicator of countywide hotel demand growth is transient occupancy tax (TOT) revenue collected by all cities and the unincorporated areas of the county. Total Sonoma County transient occupancy tax revenue climbed from nearly $18 million in 2009 to over $30 million in 2014 (Table 12), an increase of 69 percent over five years. Based on the first six months of collections in 2015, the full year estimated total is projected to exceed $34 million—nearly double the 2009 collection amount.

Table 12: Transient Occupancy Tax Collection for Cities and County

(thousands of dollars)

	Unincorp County	Santa Rosa	Sonoma	Rohnert Park	Healdsburg	Petaluma	Windsor	Other Cities[1]	County Total	Percentage Change
2009	$ 70,556	$ 30,457	$ 19,907	$ 16,035	$ 15,403	$ 11,948	$ 10,386	$ 372	$ 17,841	-13.0%
2010	77,055	32,119	20,703	17,516	17,832	12,503	11,459	405	19,324	8.3%
2011	87,931	34,276	23,787	18,395	20,900	13,731	13,110	424	21,637	12.0%
2012	94,709	38,618	26,326	20,560	23,067	15,657	14,147	469	23,778	9.9%
2013	107,836	43,607	31,209	24,717	25,573	16,616	15,622	530	27,048	13.8%
2014	118,983	48,897	35,554	28,248	27,484	19,170	16,976	598	30,129	11.4%
2014 Q1&2	46,947	20,599	13,963	12,558	11,524	8,921	7,669	254	12,472	- -
2015 Q1&2	56,588	23,701	14,732	14,113	12,930	9,500	7,575	289	14,203	13.9%

[1] Includes Sebastopol and Cloverdale

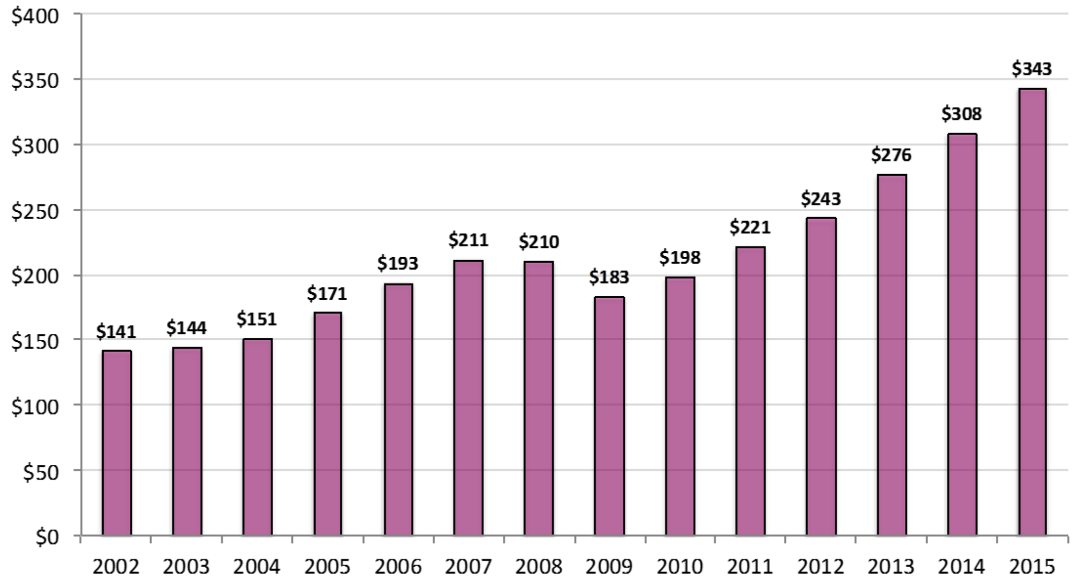
Source: Sonoma County Tourism Development

Assumptions and Methodology

Based on data from Sonoma County Tourism Development, LEG forecasts that countywide hotel room revenue will reach $439 million by 2025 and $535 million by 2035. By dividing transient occupancy tax collections in each jurisdiction by local tax rates, the room revenue, which is the most direct measure of hotel demand possible, can be calculated. The total countywide room revenue determines the market size in which the Specific Plan Area will compete for market share. As illustrated in Figure 2, hotel room revenue in the county is estimated to reach $343 million in 2015, up from $183 million in 2009 during the trough of the recession. This represents an 87 percent increase over five years. In forecasting forward, we applied fairly conservative annual growth rates of 2.5 and 2.0 percent for the next two decades respectively, which reflects the influence of vacation rentals.

Supportable hotel rooms are estimated by dividing annual room revenue forecasts by the required revenue per available room (RevPAR) per night. According to STR, Sonoma County reached a RevPAR of $98.24 in 2014. In forecasting demand, LEG applied a RevPAR of $125 to reflect the high cost of new hotel development in Sonoma County, and to allow existing properties to achieve solid financial performance before new construction is encouraged.

Figure 2: Sonoma County Hotel Room Revenue History (millions of dollars)



Source: Sonoma County Tourism Development

LEG estimates that Sonoma County as a whole is able to support a total of 7,500 hotel rooms in 2015, which exceeds the current inventory (6,100 rooms) combined with projects in the development pipeline (400 rooms), by 1,000 rooms.

By 2025 and 2035, supportable rooms countywide are forecast to climb to 9,600 and 11,700 respectively. Much of this potential demand growth will likely be concentrated in the Sonoma Valley area but development sites in the valley are scarce. Consequently, the Specific Plan area, which is an employment center that features a new SMART station, an airport, a freeway interchange, and is near wine-based tourism destinations, is expected to capture some of this countywide demand for hotel rooms. LEG believes that up to two additional hotels can be supported within the EIA, providing between 120 and 250 rooms over the next two decades.

VI. Housing Demand Forecast

Projection

Sonoma County and regional policy encourage higher density housing development in areas served by rail transit. Although the Specific Plan Area is currently zoned for commercial and industrial uses, housing may be considered as a potential land use alternative due to the benefits of locating housing near this major job center with access to transit. The housing demand forecast focuses on areas within a half-mile of the Airport Boulevard SMART Station.

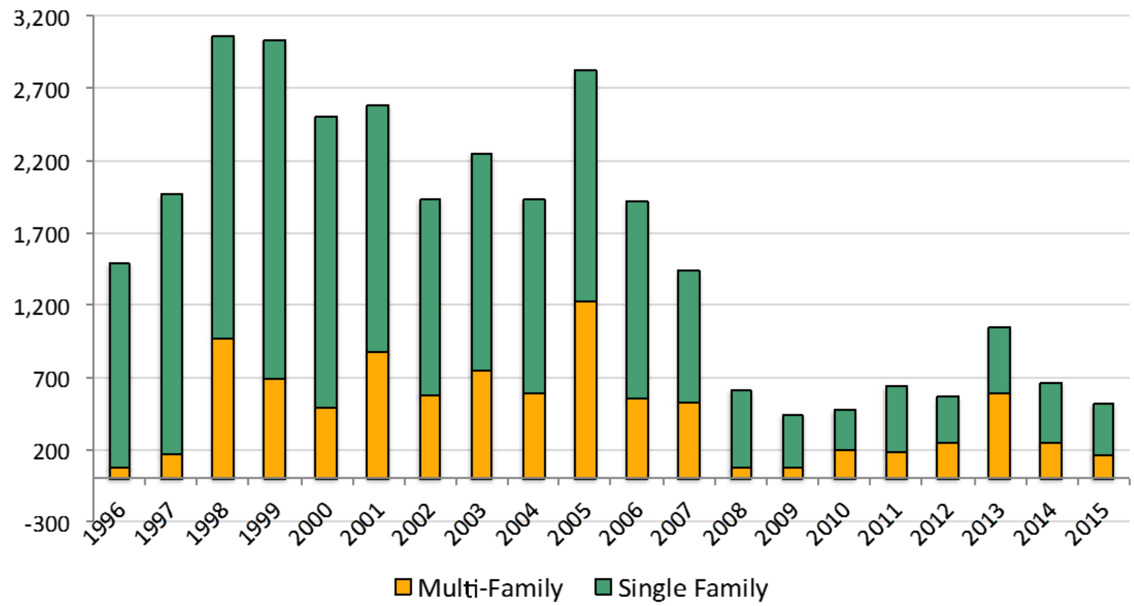
The estimated twenty-year apartment housing demand in the Specific Plan Area ranges from 680 units to 940 units, equivalent to a capture rate of 6.5 to 9.0 percent of total construction demand across Sonoma County. This capture rate is based on the suitability of the project area for additional housing, the available amenities within the area, including proximity to employment centers, major transportation routes and hubs. The capture rate also reflects the availability of land for housing development over the next 20 years Using the same percent share, LEG considers that between 33 and 46 affordable units are needed in the EIA to 2023 based on the most recent RHNA allocation of affordable units for the Sonoma County unincorporated territory (equivalent to quantified objectives for affordable housing stated in the Sonoma County Housing Element). Forecasting to 2035, LEG estimates that an additional 50 to 69 affordable units are needed in the EIA. Thus the total affordable housing demand is forecast at 85 to 117 affordable units. Inclusionary zoning policies designed to support increased affordable housing development may augment the market-based forecast for affordable housing development.

Market Trends and Conditions

Historic Housing Market Performance

The Sonoma County housing market, as measured by building permits, has fluctuated considerably over the past two decades. As illustrated in Figure 3, an average of 640 multi-family units were constructed across all of Sonoma County annually from 1996 through 2005. However, this number dropped to only 283 units per year countywide from 2006 through 2015. This second decade spanned the recession that lasted from 2008 through 2010. Over this 20-year period, multi-family units constituted 29 percent of all units built in the county; this percentage grew from 27 percent between 1996 and 2005 to 34 percent from 2006 to 2015.

Figure 3: Residential Units Permitted in Sonoma County including the Cities



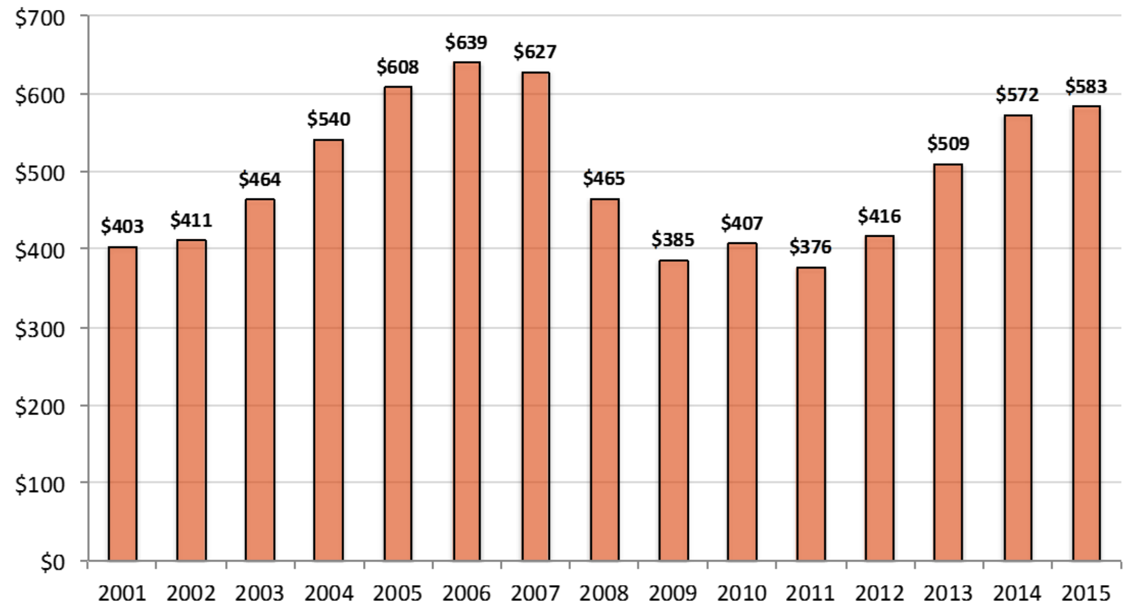
Source: US Census Bureau

In terms of unit mix, rents, and rents per square foot, apartment projects of over 50 units in Sonoma County are the best market indicators for future apartment or mixed-use development in the Specific Plan Area.

As the Sonoma County economy pulled out of the recent recession, rents climbed. The average apartment rent in the projects surveyed by REAL ANSWERS, a Novato-based market research firm specializing in rental apartment, was $1,174 per month in 2009 and 2010. By 2015, it climbed nearly 50 percent to $1,746. This rate of increase occurred across all unit types except studio apartments, which saw a 40 percent increase, and three bedroom townhouses, which rose by 32 percent. A detailed examination of the inventory by unit type indicates that the core of the market is two-bedroom units, accounting for 50 percent of the surveyed inventory. Another 43 percent were one-bedroom units with the remaining seven percent being studios, lofts and three-bedroom units.

Sales prices in the county, including both existing and new homes, suffered greatly from the recession. As illustrated in Figure 4 below, the average sales price of all for sale units fell from a peak of $636,000 in 2006 to only $376,000 in 2011, a decline of over 40 percent. It has climbed back to $590,000 as of August 2016 but is still well below the previous peak. If the price of single family homes continues to climb in the county, more households will likely be priced out of the market and diverted into multi-family rentals.

Figure 4: Average Sales Price of Sonoma County Homes (thousands of dollars)



Source: Bay Area Real Estate Services Inc.

Assumptions and Methodology

This market analysis focuses on rental apartment development because of the proximity of the Specific Plan Area to the SMART station and the freeway, the trend of growing rental percentage from 43 percent in 2010 to 62 percent in 2015 in the Specific Plan Area[15], and the Sonoma County 2014 Housing Element states that "the need to develop more rental housing throughout Sonoma County and its cities is acute."

The apartment market analysis includes the following analytical steps; associated calculations are shown in Table 13 below:

1. ABAG population forecast for Sonoma County
2. ABAG forecast adjusted for declining household size due to long-term countywide trends
3. Number of households estimated using population forecast and household size
4. Housing demand is inflated to reflect a 5% vacancy rate
5. New housing demand is adjusted to add replacement demand
6. Multi-family share of demand estimated using long-term trends
7. Rental share of demand estimated using long-term trends
8. Affordable housing demand forecast using job growth

1. ABAG Population Forecast for Sonoma County. The analysis started with ABAG's Projection 2013 population forecast for Sonoma County. This projection appears reasonable based upon long-term historical growth patterns.

[15] ESRI Business Analyst 2016 based upon Census data.

2. ABAG Forecast Adjusted for Declining Household Size. From that population forecast, LEG projected a modestly declining average household size. This is in contrast to ABAG's forecast of increasing household size. The dominant long-term trend for most urban and semi-urban areas is for household size to decline. Considering the high cost of land, increasing housing cost, and the county's appeal for second homes and elderly populations, we expect the average household size for Sonoma County as a whole to continue to decline, with more consistent decline in urbanized areas and in the urban periphery.

3. Number of Households (Housing Demand) Projected. The number of households in Sonoma County in the future was estimated by dividing the forecast of county population by the estimated average household size.

4. Countywide Housing Demand Adjusted for Vacancy Rate. For the housing market to function, an equilibrium vacancy rate of five percent is built into the analysis to determine the number of units needed in 2015, 2025 and 2035. The current vacancy rate is under three percent[16] indicating a supply deficit, however market forces, including increasing rents and new construction are projected to correct this unstable condition to reach a more reasonable vacancy rate of 5 percent. The forecast shows an increase in the housing unit projection by decade to account for an increase in the pace of housing development over time.

5. Countywide Housing Demand Adjusted to Add Replacement. To this household growth generated demand, a replacement demand factor of two percent of the housing stock per decade was added based on LEG's experience in urban and rural housing markets. The estimated number of housing units in the Specific Plan currently is 310 according to 2015 Census estimates.

6. Multi-Family Share of Demand Projected. The multi-family share of this demand was estimated to be 38 percent from 2015 to 2025, and 42 percent from 2025 to 2035, based on long-term building permit trends.

7. Rental Share of Multi-Family Demand Projected. The rental apartment share of multi-family demand is estimated at 62 percent for 2015 to 2025 and 60 percent from 2025 to 2035.

8. EIA Absorption Rate. LEG reviewed the residential development projects currently in the pipeline in Santa Rosa and Windsor to gain a sense of the market interest in the EIA vicinity.[17] This analysis yielded a housing demand forecast for the EIA of between 678 and 938 units over the next 20 years.

9. Affordable Housing Demand. Both the Regional Housing Need Allocation (RHNA) for the Sonoma County Unincorporated territory and the quantified objective for affordable housing stated in the Sonoma County Housing Element indicate that 507 units of affordable housing—divided between 110 extremely low-income, 110 very low-income, 127 low-income, and 160 moderate-income housing units—are needed for the planning period between 2015 and 2023 countywide. Applying the EIA market rate housing share to this countywide projection for affordable housing demand, between 33 and 46 units of affordable housing are estimated to be required in the EIA area spread across extremely low, very low, low, and moderate income ranges to 2023. An additional 50 to 69 affordable units are needed

[16] Digitale, R. (December 29, 2016). *Year in Review: Sonoma County homebuyers, renters strained as housing costs soar.* The Press Democrat

[17] Websites City of Santa Rosa and City of Windsor

in the EIA between 2023 and 2035, yielding a total affordable housing demand over the next 20 years of 85 to 117 units across extremely low, very low, low, and moderate income levels.

Table 13: Specific Plan Area Housing Demand Forecast

				Change		Total
	2015	**2025**	**2035**	**2015 - 25**	**2025 - 35**	**2015 - 35**
Sonoma County						
Population	496,253	531,653	570,253	35,400	38,600	74,000
Households	190,135	205,271	222,755	15,136	17,484	32,620
Population HH Ratio	2.61	2.59	2.56			
Housing Units Needed @ 5% Vacancy	200,142	216,075	234,479	15,933	18,404	34,337
Estimated Replacement Demand @ 2% Per Decade				4,003	4,322	8,324
Total Housing Construction Needed in Sonoma County				19,936	22,725	42,661
Multi-family Share				38%	42%	40%
Multi-family Demand Countywide				7,576	9,545	17,120
Rental Apartment Share of Multi-family				62%	60%	61%
Countywide Rental Apartment Demand				4,697	5,727	10,424
Specific Plan Area Market Share of Apartment Demand						
Low Share	6.5%			**305**	**372**	**678**
High Share	9.0%			**423**	**515**	**938**

Source: Land Econ Group

Housing Development Feasibility Testing

To evaluate the near and intermediate term likelihood of either apartment development on vacant property, or mixed-use redevelopment on improved commercial property in the vicinity of the SMART station, LEG conducted preliminary feasibility testing. Two hypothetical projects were tested; the first is an apartment development, and the second is a mixed-use redevelopment with residential, retail and restaurant uses. The feasibility testing of these two hypothetical projects are presented in Appendix B.

APPENDIX A: BUSINESS OUTLOOK AS REFLECTED BY SURVEY

An online survey was conducted in April and May of 2016 to solicit input from employers and property owners located in the EIA about their business outlook, opportunities and constraints, and amenities and services desired. A total of 64 employers submitted survey responses. The responses are summarized below and presented in Table A. 1 through Table A. 8. The survey instrument is attached in back.

Employment Growth, Facilities Expansion and/or Relocation Plans

Over 60% of the businesses that responded to the survey have been located in the EIA for over 10 years and nearly a quarter for over 20 years. For most of these businesses (77% of survey respondents), the Sonoma County Airport EIA is their headquarters location.

Table A. 1: Survey Question - How long has your business been at the current location - the Sonoma County Airport Area?

	Response Percent
Less than 2 years	3.1%
2 to 5 years	12.5%
6 to 10 years	23.4%
11 to 20 years	37.5%
More than 20 years	23.4%

Source: Airport Specific Plan/SMART Station Area Plan Local Business Survey

Table A. 2: Survey Question – Is this your headquarters location?

	Response Percent
Yes	76.6%
No	23.4%

Source: Airport Specific Plan/SMART Station Area Plan Local Business Survey

In terms of business outlook at this location, nearly 90% of survey respondents indicated “Very Strong” or “Moderately Strong.” 11% expressed a “Neutral” business outlook and none indicated a weak outlook. Employment changes expected over the next two years is roughly in line with the business outlook. Approximately 70% of respondents expect to increase employment at this location, with 28% indicating an increase of more than 10% and 41% indicating an increase of up to 10%. The remaining respondents indicated that they expect no employment change in the next two years. None indicated any reduction in employment. In summary, the business outlook within the Sonoma County Airport EIA is strongly positive.

Table A. 3: Survey Question – What is your business outlook at this location?

	Response Percent
Very strong	53.1%
Moderately strong	35.9%
Neutral	10.9%
Moderately weak	0.0%
Very weak	0.0%

Source: Airport Specific Plan/SMART Station Area Plan Local Business Survey

Table A. 4: Survey Question – Over the next two years, do you expect changes in employment at this location?

	Response Percent
Increase employment by more than 10%	28.1%
Increase employment by up to 10%	40.6%
No employment change	31.3%
Reduce employment by up to 10%	0.0%
Reduce employment by more than 10%	0.0%

Source: Airport Specific Plan/SMART Station Area Plan Local Business Survey

Over the next five years, 67% of survey respondents indicated that they do not expect their land and facility needs to change. Approximately 30% anticipate a need to expand their facilities, with 22% planning to expand at the current site and 8% planning to relocate to a larger site and facility. Only 1.6% anticipated a need to reduce their facility size. Another 1.6% may move their business out of the Sonoma County Airport area. None indicated that they plan to cease business operation.

Table A. 5: Survey Question – Over the next five years, are your land and facilities needs likely to change?

	Response Percent
Will need to expand and relocate to a larger site and facility	7.8%
Will expand facility at current site	21.9%
No change expected	67.2%
Will need to reduce facility size	1.6%
May move out of the Sonoma County Airport area	1.6%
May cease operation	0.0%

Source: Airport Specific Plan/SMART Station Area Plan Local Business Survey

Opportunities and Constraints

The arrival of the Sonoma Marin Area Rail Transit (SMART) Station with train service is seen as having a positive impact on 39% of the businesses that responded to the survey. About 30% of respondents indicated they “Agree” and 9% “Strongly Agree” that the arrival of the station and train service will be helpful to their business. The businesses encompass 10 industries, from Agriculture or Forestry to Manufacturing to Professional Services, and every business size, from Micro (under 10 employees) to Very

Large (over 100 employees). Just over half are neutral and about 9% do not believe the station and train service will be helpful to their business.

Table A. 6: Survey Question – Would you agree or disagree with the following statement? The arrival of the Sonoma Marin Area Rail Transit (SMART) Station with train operation will be helpful to my business.

	Response Percent
Strongly agree	9.4%
Agree	29.7%
Neither agree nor disagree	51.6%
Disagree	4.7%
Strongly disagree	4.7%

Source: Airport Specific Plan/SMART Station Area Plan Local Business Survey

A significant number of respondents expressed concern about traffic congestion, particularly on Airport Boulevard and Aviation Boulevard, and lack of pedestrian amenities as constraints on their business. Suggestions were made to widen Airport Boulevard, add traffic signals, extend sidewalks and crosswalks for pedestrian access and safety, and provide shuttle service to the future SMART station.

Additional Facilities and Services Desired

The vast majority of survey respondents would like to see more stores and services in the Sonoma County Airport Business Park Area. Almost 77% responded that they “Strongly Agree” or “Agree” that additional stores and services are needed. A further 19% responded that they “Neither Agree nor Disagree” and less than 5% do not agree that additional services are needed in the business park.

Of the respondents that would like to see additional stores and services, the most-desired was full-service restaurants, requested by 79% of respondents; and grocery stores or convenience markets, requested by 67% of respondents. About 42% of survey respondents would like to see bars or drinking places. Coffee shops and fast food restaurants were desired by almost 30% of respondents.

Table A. 7: Survey Question – Would you agree or disagree with the following statement? Additional stores and services are needed in the Sonoma County Airport Business Park Area.

	Response Percent
Strongly agree	34.4%
Agree	42.2%
Neither agree nor disagree	18.8%
Disagree	3.1%
Strongly disagree	1.6%

Source: Airport Specific Plan/SMART Station Area Plan Local Business Survey

Table A. 8: Survey Question – If additional stores or services are needed, what types of services are most desired?

	Response Percent
Strongly agree	34.4%
Agree	42.2%
Neither agree nor disagree	18.8%
Disagree	3.1%
Strongly disagree	1.6%

Source: Airport Specific Plan/SMART Station Area Plan Local Business Survey

Survey respondents also expressed a need for the following facilities and services:

- Hotel
- Parks and open space
- Healthier food options
- Upscale restaurant for business clientele
- Conveniences such as banks, barbershop, beauty salon, copy shop, florist, pharmacy, dry cleaners

ON-LINE SURVEY FOR EMPLOYMENT INVESTMENT AREA (EIA) PROFILE

Name of Business:
Type of Business:

1. Please classify your business in accordance to the standard North American Industry Classification System (NAICS).

    a) Agriculture or Forestry
    b) Mining or Oil and Gas Extraction
    c) Utilities
    d) Manufacturing
    e) Wholesale Trade
    f) Retail Trade
    g) Transportation and Warehousing
    h) Information
    i) Finance and Insurance
    j) Real Estate and Rental and Leasing
    k) Professional, Scientific and Technical Services
    l) Management of Companies and Enterprises
    m) Administrative and Support and Waste Management and Remediation Services
    n) Educational Services
    o) Health Care and Social Assistance
    p) Arts, Entertainment and Recreation
    q) Accommodation
    r) Food Services and Drinking Places
    s) Other Services (except Public Administration
    t) Public Administration

2. How long has your business been at the current location – the Sonoma County Airport Area?

    a) Less than 2 years
    b) 2 to 5 years
    c) 6 to 10 years
    d) 11 to 20 years
    e) More than 20 years

4. Is this your headquarters location?

    a) Yes
    b) No

3. How many full and part-time employees does your business have at this location?

    a) Full time
    b) Part-time

5. Please classify your business at this location by number of employees.
   a) Micro or under 10 employees
   b) Small or 11 to 25 employees
   c) Medium or 26 to 50 employees
   d) Large or 51 to 100 employees
   e) Very Large or over 100 employees

6. Please provide your business outlook at this location.
   a) Very strong
   b) Moderately strong
   c) Neutral
   d) Moderately weak
   e) Very weak

7. Over the next two years, do you expect changes in employment at this location?
   a) Increase employment by more than 10 percent
   b) Increase employment by up to 10 percent
   c) No employment change
   d) Reduce employment by up to 10 percent
   e) Reduce employment by more than 10 percent

8. Over the next five years, are your land and facilities needs likely to change?
   a) Will need to expand and relocate to a larger site and facility
   b) Will expand facility at current site
   c) No change expected
   d) Will need to reduce facility size
   e) May move out of the Sonoma County Airport area
   f) May cease operation

9. Would you agree or disagree with the statement – Proximity to the Sonoma County Airport is important for my business.
   a) Strongly agree
   b) Agree
   c) Neither agree nor disagree
   d) Disagree
   e) Strongly disagree

10. Would you agree or disagree with the statement – The arrival of the Sonoma Marin Area Rail Transit (SMART) Station with train operation will be helpful for my business.
   a) Strongly agree
   b) Agree
   c) Neither agree nor disagree
   d) Disagree

e) Strongly disagree

11. Would you agree or disagree with the statement – Additional stores and services are needed in the Sonoma County Airport Business Park Area

a) Strongly agree
b) Agree
c) Neither agree nor disagree
d) Disagree
e) Strongly disagree

12. If additional stores or services are needed, please indicate the type of services most needed.

a) Coffee shop
b) Fast food restaurant
c) Full service restaurant
d) Grocery store or convenience market
e) Bar or drinking place
f) Other please specify

13. Please prove any comments you have concerning the needs of this Sonoma County Airport Business Park Area:

APPENDIX B: PRELIMINARY FEASIBILITY TESTING OF APARTMENT DEVELOPMENT AND MIXED-USE REDEVELOPMENT

This feasibility testing compared the pro forma development economics of two hypothetical projects, assumed to be located near the SMART Station and the existing residential neighborhood, and therefore not affected by the Airport safety requirements. The purpose of the feasibility tests presented herein is to help guide the preparation of land use alternatives

The first is an apartment development on vacant land on a hypothetical parcel of 4.2 acres. It is assumed to contain 100 units at 24 units per acre with an average unit size of 960 square feet. Parking is provided at grade at 1.8 spaces per unit.

The second is a mixed-use redevelopment project also of 4.2 acres on property that has retail improvements on it. This project is assumed to contain 150 units at 36 units per acre plus 18,000 square feet of ground floor retail or restaurant space. The average unit size in this project is assumed to be slightly smaller at 920 square feet. This project is assumed to provide 300 parking space for the residential and retail development, and 150 of the parking spaces are in a podium under the apartments. Both of these projects can be viewed as the initial phase of a multi-phased project.

The feasibility comparison is between each project's residual land value and the asking price for comparable land. Residual land value is the land value that the project is able to afford based upon its expected revenue streams after development cost, financing cost, operating cost and the required developer's return have all been taken into account. If the project's residual land value is higher than the typical asking price for comparable land, then it is most likely feasible. If the two land values are close, then design improvements and value engineering may bring the project across the feasibility threshold. If the residual is well below that of land asking price, then it is likely not feasible.

Sample Project 1

Since the first project is assumed to be developed on vacant land, LEG researched the current asking price of vacant urban land in the Santa Rosa and Windsor vicinity. Nine parcels were identified, and they ranged in price from $10 to $23 per square foot with an average of $17 per square foot[18].

A detailed development pro forma was prepared covering the first twelve years of the project's construction and operation. This pro forma includes land area, number of units, net building square footage, gross building square footage, average unit size, average monthly rent, average rent per square foot, average annual percentage rent increase, number of parking spaces, parking cost per space, building construction cost per square foot, site work cost, direct and indirect construction cost, construction interest rate, takeout financing rate, project capitalization rate, absorption schedule, operating cost, terminal value at the end of the analysis and the developer's internal rate of return. The key assumptions include:

[18] LoopNet

- Average per square foot rent of $2.05 and per unit rent of $1,968 with availability in 2017.
- Direct building construction cost of $175 per square foot and surface parking per space cost of $2,500.
- Indirect construction cost including contingency of 17 percent of direct construction cost.
- Apartment operating cost at 30 percent of operating revenue.
- A developer's internal rate of return of 15 percent.

This pro forma analysis indicates that Sample Project 1 has a residual land value of approximately $20 per square foot, which is above the $17 per square foot average land price. The conclusion is that near-term apartment development on vacant land near the SMART station is probably feasible and likely to take place.

Sample Project 2

Sample Project 2 assumes the redevelopment of an existing retail commercial area. Therefore, the research of comparable sites focused on retail properties listed for sale. We identified seven retail parcels that included retail improvements[19]. Since our perspective is to view these as land parcels for redevelopment, the total asking price including land and building is divided by the land area to compute the per square foot land cost. These seven properties had an average asking price of $54 per square foot of land.

A second pro forma was prepared for Sample Project 2 considering all of the variables as Project 1. However, key assumptions differ somewhat:

- The project density has increased from 24 to 36 apartment units per acre.
- Mixed-use retail or restaurant space of 18,000 square feet has been added.
- Average rent per square foot has increased by 12 percent to $2.30, and average rent per unit has climbed to $2,112 with slightly smaller units.
- Rather than 2017, the project is first available in 2019.
- Direct building construction cost has grown to $188 per square foot, an increase of 7.4 percent over Project 1.
- Surface parking cost per space cost remains at $2,500, but parking cost in a podium structure is estimated to be $18,000 per space.

[19] LoopNet

- Indirect construction cost including contingency is still 17 percent of direct construction cost.

- Apartment operating cost remains at 30 percent of operating revenue.

- The developer's internal rate of return is still 15 percent.

This pro forma analysis indicates that Sample Project 2 is able to support a residual land value of $54 per square foot, which is approximately the land cost of acquiring shopping centers for redevelopment. This analysis suggests that in the intermediate term, if apartment rents climb by another 12 percent but construction cost do not quite keep pace, the redevelopment of retail centers with low floor area ratio (FAR) into mixed-use apartments over ground floor retail is within the realm of feasibility. The housing market demand forecast, which looks ahead for the next two decades, reflects the likelihood that commercial shopping center property will be redeveloped into mixed-use transit villages in the vicinity of the SMART station.

Amenities to Enhance Market Success

For a new apartment community to appeal to renters (and, particularly, millennials), the following are some features and amenities that developers should consider:

- Parking

- Electric Car Charging Stations

- High Speed Internet and WiFi

- State of the Art Fitness Center

- Dog Grooming/Washing Facility and Outdoor Pet Run

- Smart technology to controls thermostat, lights and locks.

- Business Center and Work from Home Space

- Laundry Facility or Service and Dry Cleaners

- A pool area and outdoor social spaces are important, as is security for the complex and bike parking with access to trails.