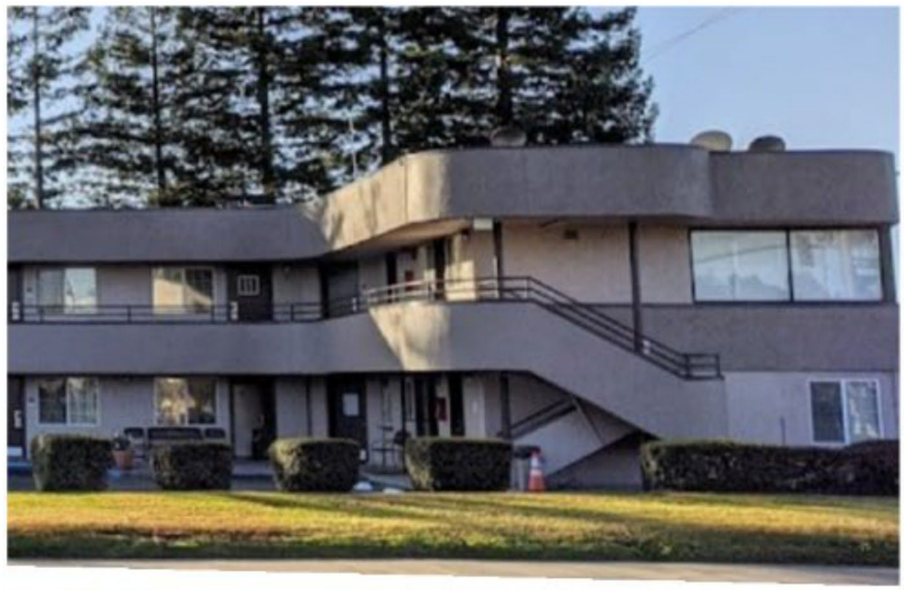
Public Review Draft | May 2025

SOUTH SANTA ROSA SPECIFIC PLAN

MARKET DEMAND ANALYSIS



City of Santa Rosa

Prepared for:

City of Santa Rosa

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As a subconsultant to 4LEAF, Inc.

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Chapter 1: Introduction and Study Overview

This Report evaluates economic and market trends that will inform the land use policies and alternatives to be considered as part of the City of Santa Rosa's (City) South Santa Rosa Specific Plan. It has been prepared for the City by Economic & Planning Systems, Inc. (EPS) as part of a multidisciplinary consultant team led by 4LEAF, Inc. EPS will supplement this economic report by producing an Infrastructure Financing Strategy Report for inclusion in the Specific Plan.

This report provides an analysis of economic and market data based on publicly available information from a variety of sources as well as proprietary data sources such as CoStar Group. The work complements other studies completed as part of this planning effort, including the South Santa Rosa Existing Conditions & Opportunities Report, The Priority Development Profile (PDA) Report, and the Affordable Housing / Anti-Displacement Strategy Report, each led by 4LEAF, Inc.

This Report does not incorporate input from the community at large, nor is it intended to reflect or address the opinions or preferences of Santa Rosa or Sonoma County residents. Community and stakeholder outreach activities are being conducted as part of the broader Specific Plan study process, as reflected in separate deliverables from the 4LEAF consultant team that will result in input for future policies for economic growth.

Study Scope and Purpose

Baseline economic and market trends provide important information on where the Plan Area is headed under "business-as-usual" conditions. They can also help ensure that future land use alternatives being considered as part of the South Santa Rosa Specific Plan are realistic and achievable from an economic perspective. While this report is not intended to resolve critical land use and policy issues, it can inform decisions and direction on questions to be addressed in subsequent phases of the Specific Plan process, including but not limited to the following:

- **Economic Development:** What economic sectors have the potential to contribute to the type of economic development sought by the City, including addressing the needs of underserved populations and fostering growth in targeted industries?
- **Land Use (Re-) Development Feasibility:** What are the market prospects facing various real estate development and investment projects, particularly in locations that might be targeted for growth and/or change (as identified in subsequent phases of the Specific Plan process)?
- **Economic and Fiscal Impacts of Land Use Policy:** What are the economic and fiscal implications of various policies or land use regulations being considered as part of the Specific Plan process?

As a baseline study, the information provided herein is not intended as deterministic in terms of the type, amount, or location of land use that should be considered going forward. Future development patterns will be influenced by a variety of factors, some external to the Specific Plan, and others that have and will continue to be directly shaped by local land use policies. Additionally, this study represents a broad-based overview of economic trends and conditions; a more comprehensive and/or detailed analysis of growth opportunities in specific sectors or how to address challenges among underserved groups is to be conducted as part of parallel or subsequent Specific Plan study efforts.

Study Area Geography

The South Santa Rosa Specific Plan Area (Plan Area) stretches along Santa Rosa Avenue and U.S. 101 from the southeastern portion of the City at California Highway 12 toward the northern border of the City of Rohnert Park at Roberts Lake Road. The Plan Area traverses City limits, with nearly 75 percent of the area in Unincorporated Sonoma County. Land use in the City's portion of the Plan Area is predominantly automobile-oriented, containing a density of retail and eating establishments. Meanwhile, land use in the County's portion of the Plan Area is more sporadic, with nodes of industrial business parks and small residential communities among stretches of undeveloped land.

The greater Santa Rosa area is located in the center of Sonoma County, the heart of California's beer and winemaking culture and one of the state's most visited tourist destinations. Beyond the vibrant urban core of Sonoma County, the region boasts rich natural recreation amenities, including numerous state and regional parks, rivers, and shorelines.

Key Findings

The following summarizes the key findings from this analysis of trends affecting the Plan Area's land use prospects and growth opportunities. The Plan Area has numerous physical and socioeconomic assets that can be leveraged to promote development patterns and growth opportunities that might be prioritized in the Specific Plan process. These include a central location in the economic and population core of Sonoma County, strategic location along U.S. Highway 101 and proximity to the inner San Francisco Bay Area, a growing housing stock, abundant land development opportunities, rich natural and recreational amenities, and location among one of California's most vibrant tourism destinations, among other attributes.

1. ***While the Plan Area is a relatively fast-growing jobs center and residential community, it is also less affluent than the city and county as a whole.***

   The Plan Area, a nearly 1,920-acre area spanning southern Santa Rosa and unincorporated Sonoma County, is both a regional job center and residential community. The flow of residents and workers to and from the Plan Area is contained chiefly within Sonoma County: roughly 60 percent of the jobs are held by county in-commuters while a similar portion of its employed residents commute out to other county jurisdictions. The Plan Area's job and population growth rate has outpaced Santa Rosa, Sonoma County, and California over the past decade. But the Plan Area's median household income is roughly 60 percent of the city and county and has not kept up with inflation over the last decade, indicating that residents are not equally benefiting from broader Bay Area economic growth.

2. ***In response to regional housing shortages, the southern portion of Santa Rosa that includes the Plan Area has delivered numerous residential projects over the past decade, both***

market rate and deed-restricted affordable, and is well positioned to continue this growth trajectory.

The residential real estate market in and near the Plan Area has delivered substantial market rate and affordable housing development, foreshadowing an increasingly diverse demographic mix. The product types include a diverse mix of entry-level and "trade-up" single-family attached and detached for-sale homes as well as garden-style "walk-up" and 100 percent deed-restricted affordable rental apartments of varying densities. Additionally, the City is currently processing roughly 650 units of pipeline residential projects of all types in southeastern Santa Rosa near the Plan Area, further emphasizing the effect of regional housing shortages in the local market. The Plan Area appears well positioned to respond to growth pressures given its relative abundance of undeveloped and underutilized land that is likely more cost-effective than surrounding areas.

3. ***While Industrial and Flex building space represents the predominant non-residential land use in the Plan Area and exhibits strong market demand indicators, growth in supply appears to have been limited by land, infrastructure, and other development constraints.***

   The Industrial and Flex market accounts for about 47 percent of the nonresidential space in the Plan Area, with about two-thirds of the building space located in unincorporated areas of the County. While Plan Area lease and occupancy rates suggest strong demand, the building stock is relatively old and there has been minimal new development despite significant growth elsewhere in the city and county. While a variety of factors have likely hampered expansion of these uses in the Plan Area, a lack of appropriately zoned land as well as infrastructure constraints are likely leading contributors. The Specific Plan process presents an opportunity to further assess and optimize the economic role of these uses in the Plan Area going forward, as well as delineate and address constraints to further investment.

4. ***The Plan Area retail market has experienced strong supply growth over the last decade, but current occupancy and rent indicators suggest the sector is more likely to benefit from the re-positioning of existing centers and clusters rather than a substantial increase in development.***

   The retail market accounts for about 36 percent of the non-residential space in the Plan Area, with about 88 percent of the building space located in the City of Santa Rosa. With its convenient location and a focus on daily shopping needs, the Plan Area's retail sector grew by 9 percent from 2013 to 2023, substantially surpassing growth in both the City and County. But lease and occupancy rates have weakened in recent years, in part due to pandemic and other related consumer trends, and it is unclear when or if market trends recover enough to justify significant expansion in space. In fact, some Plan Area retail centers or location may be ripe for redevelopment into more vibrant mixed-use projects, potentially incorporating residential uses.

5. ***Ultimately, future demand for residential and commercial real estate space in the Plan Area will be driven by its ability to capture regional population and job growth, an outcome that can by heavily influenced by the vision, guidance, and policies embodied in the Specific Plan.***

   Santa Rosa is the population and jobs center in Sonoma County with nearly 40 percent of the county's jobs and 35 percent of the county's population located within the city. The future of the Plan Area's residential and commercial real estate markets will depend on the city's ability to capture growth. The Plan Area has a fair amount of undeveloped and underutilized land that could be potentially leveraged for future residential and/or commercial growth, given the appropriate policy alignment.

Next Steps

As noted, this baseline report is designed to inform the South Santa Rosa Specific Plan. Economic projections provide a starting point for discussion on jobs and their nature, and the amount and type of housing to prioritize in the future. The Plan Area's growth trajectory depends not only on regional forces and projections, but also on City and County land use, policy, and priorities. The information provided in this Market Demand Report will help inform appropriate implementation actions and identify areas that will require more detailed future analysis.

Chapter 2: Socio-Economic Overview

This chapter describes the Plan Area's socio-economic position and trends, including demographic characteristics, employment and commute patterns, and projected growth. This local and regional economic and demographic landscape informs a more detailed analysis of housing and commercial real estate markets provided in subsequent chapters.

Regional Economic Indicators

Figure 1 shows the Plan Area's socio-economic position relative to Santa Rosa, Sonoma County, and California. Overall, population and employment metrics reveal the Plan Area as a vibrant and relatively fast-growing collection of residential and commercial neighborhoods that are nonetheless less affluent than the City and County as a whole. This profile suggests that, while the Plan Area is well-positioned for continued growth, strategies will be necessary to improve the economic prospects of its residents. These and other key metrics are summarized below.

The Plan Area accounts for about 6 percent of the City of Santa Rosa's total population, while its jobs represent about 10 percent of the City total. In other words, the Plan Area stands out as a jobs center, as further evidenced by its high ratio of jobs to housing units. The Plan Area's jobs housing ratio (i.e., the number of jobs per home) is 1.6, large relative to Sonoma County and California and 1.5 times larger than the nearly "balanced" Santa Rosa.[1]

The Plan Area is also outpacing Santa Rosa, Sonoma County, and California in population and employment growth. Jobs and population in the Plan Area have grown at ten-year rates of 16 and 10 percent, respectively. As detailed in subsequent sections of this report, the Plan Area has an abundance of available land, which has attracted strong interest from residential developers, and is a regional retail market, with large anchor tenants such as Costco, Target, and Best Buy. Both of these factors have largely driven the Plan Area's growth over the last decade.

The Plan Area is a relatively low-income community compared to surrounding regions and has not equally benefitted from the economic growth of the broader Bay Area during the 2010s. The median household income in the Plan Area is much lower than the City, County, and State at

$60,700 in 2022. Moreover, the median household income declined in real (inflation-adjusted) terms by seven percent from 2011 to 2021, meaning that the incomes of at least half of Plan Area households have not kept up with inflation, and many more households have likely seen very little growth in earnings. This could suggest that resident workers are primarily engaged in lower-paid service-related and goods-producing work, where earnings are generally slow to increase over time. It is important to note that income growth in the Plan Area may have been negatively impacted by the economic effects of the COVID-19 pandemic, which disproportionately disrupted lower-paid work.

[1] A balanced jobs-housing ratio (i.e., one housing unit per every job) is not necessarily an optimal metric that all cities should aspire to. An optimal balance between jobs and housing will invariably depend on a jurisdiction's unique characteristics and its role in the broader economy.

Figure 1: Local and Regional Socio-Economic Overview

Geography	Population (2022)	Employment (2021)	Jobs-Housing Ratio (2021)	Median Household Income (2022) [1]
Plan Area				
Amount	11,500	6,488	1.6	$60,700
% of City Total	6%	9%	155%	66%
10-Year % Growth	10%	16%	8%	-7%
Santa Rosa				
Amount	178,221	69,552	1.0	$92,604
% of County Total	36%	37%	114%	93%
10-Year % Growth	7%	1%	-5%	20%
Sonoma County				
Amount	488,436	187,182	0.9	$99,266
10-Year % Growth	1%	8%	8%	23%
California				
Amount	39,356,104	16,490,147	1.2	$91,905
10-Year % Growth	5%	12%	7%	17%

[1] Ten-year percent changes reflect real (inflation-adjusted) median household incomes.

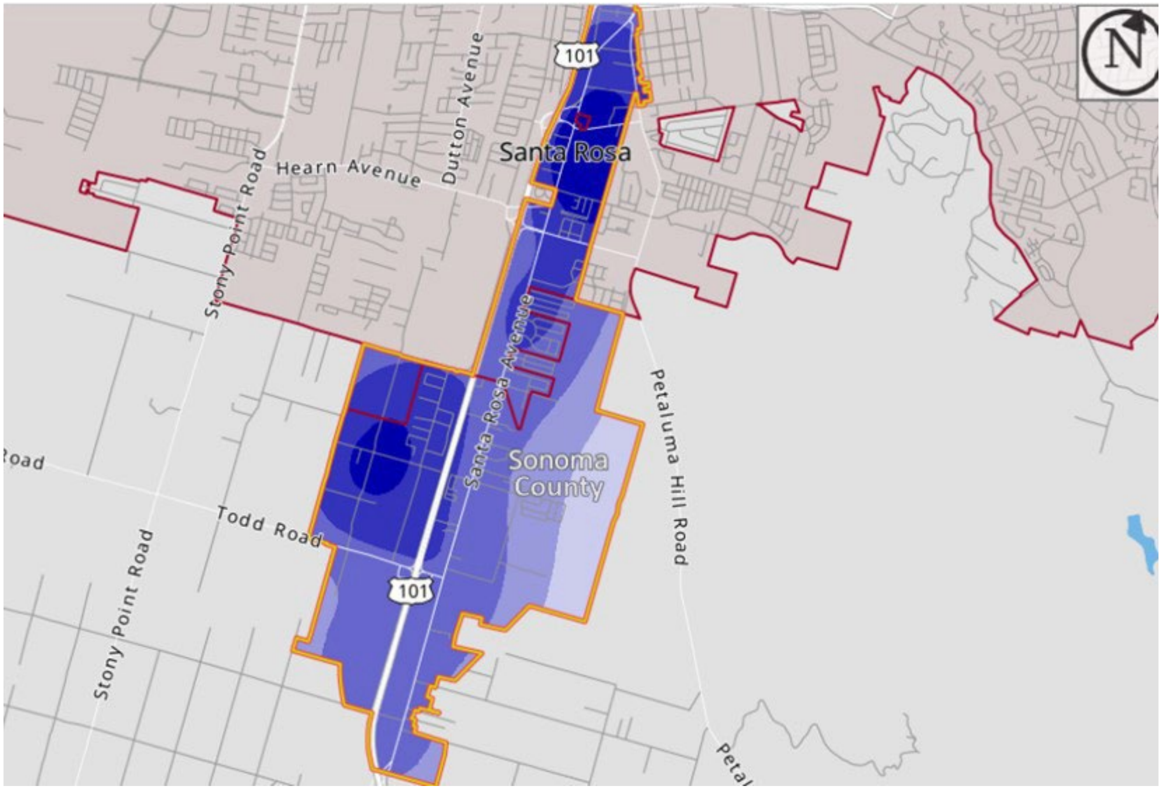
Sources: U.S. Census Bureau, ESRI; Analysis by Economic & Planning Systems, Inc.

Plan Area Employment Nodes

A key consideration of the Specific Plan is how current economic conditions will continue to manifest themselves geographically throughout the Plan Area. **Chapter 4** provides detail on the existing geographical distribution of commercial real estate in the Plan Area (i.e., by City and County boundaries). While the geographical distribution of jobs in the Plan Area generally correlates with commercial building space, it provides further insight into the location of labor-intensive versus land-intensive employment nodes.

Figure 2 shows the major employment concentrations in the Plan Area, with darker colors corresponding to greater job density. Employment concentrates largely in the northern part of the Plan Area (in City jurisdiction) and in the center-west section of the Plan Area (mostly in unincorporated Sonoma County), with the highest densities near the intersections of Santa Rosa Avenue and Colgan Avenue, and Standish Avenue and West Robles Avenue.

Figure 2: Economic Geography of the Plan Area



Note: Red line indicates Santa Rosa City limits

Image and Source: U.S. Census Bureau; Analysis by Economic & Planning Systems, Inc.

Figure 3 shows the distribution of jobs among the 2 sections of the Plan Area and associated changes between 2011 and 2021, the latest year for which reliable data is available.[2] As shown, a slightly higher proportion of Plan Area jobs are located within City limits (56 percent) compared to the unincorporated County 44 percent). The largest industry in the Plan Area altogether (i.e., in each jurisdiction within the Plan Area) is Retail Trade, which has grown significantly in the last decade (the next chapter discusses the role of Retail in the Plan Area's commercial real estate market). Jobs in unincorporated Sonoma County have grown the most at 32 percent over the 10 -year period compared to 6 percent for jobs in Santa Rosa and 16 percent in the Plan Area overall. The growth of jobs in the Plan Area has been driven mainly by the growth of the Administration and Support, Waste Management and Remediation, and Retail Trade sectors. Other prominent sectors in the Plan Area include Construction, Accommodation and Food, and Wholesale Trade.

[2] It is important to note that the COVID-19 pandemic significantly disrupted labor markets worldwide. Although Sonoma County nonfarm employment was 95 percent recovered to pre-pandemic levels by the end of 2021, data shown may not reflect full potential employment of the Plan Area.

Figure 3: Distribution of Jobs in the Plan Area

Item	Total (2021)	Share of Total	Percent Change (2011 - 2021)	Top Three Industries		
				Industry	Jobs (2021)	Percent Change (2011 - 2021)
City of Santa Rosa	3,615	56%	6%			
				Retail Trade	1,504	9%
				Construction	409	-6%
				Accommodation and Food Services	229	-23%
Unincorporated Sonoma County	2,873	44%	32%			
				Administration & Support, Waste Management and Remediation	595	85%
				Retail Trade	493	28%
				Wholesale Trade	263	-12%
Total	**6,488**	**100%**	**16%**			

Source: U.S. Census Bureau; Analysis by Economic & Planning Systems, Inc.

Commute Patterns

The commute patterns of the Plan Area's residents and workers illustrate its interdependence with the rest of Sonoma County and Northern California/Bay Area. In particular, they show how both the labor market (i.e., the jobs in the area) and the labor force (i.e., the employed residents) of the Plan Area primarily serve the communities of Sonoma County. In other words, the Plan Area serves as a home and employment center for the County's workforce. Secondarily, the Plan Area shares a small bi-directional commute flow with neighboring Bay Area regions and acts as a viable labor market for residents of the Greater Sacramento area in addition to Lake and Mendocino counties.

As shown in **Figure 4**, the Plan Area has nearly 4,000 employed residents and 65 percent work in Sonoma County: 27 percent work in Santa Rosa specifically, 21 percent work in other major communities along the U.S. 101 corridor (e.g., Petaluma, Rohnert Park, and Cotati), and 17 percent work elsewhere in the County. An additional 15 percent of employed residents in the Plan Area work in proximate Bay Area regions, with 8 percent working in the East Bay Area (i.e., Alameda and Contra Costa Counties) and 7 percent working elsewhere in the North Bay Area (i.e., Marin, Napa, and Solano Counties). Fewer Plan Area employed residents work in either San Francisco (4 percent) or the Peninsula/South Bay Area region (5 percent).

At the same time, the Plan Area is a regional job center for Sonoma County residents, employing over 6,000 workers in total. About 60 percent of workers employed in the Plan Area live in

Sonoma County, with 30 percent living in Santa Rosa, 17 percent living in other major communities along the U.S. 101 Corridor, and 14 percent living elsewhere in the County. An additional 14 percent of workers live in the East Bay or elsewhere in the North Bay, indicating a bi-directional commute flow between the regions and the Plan Area. Furthermore, about 500 workers commute to the Plan Area from Mendocino and Lake counties and the Sacramento area, making for a noticeably larger in-flow of workers compared to out-commuters to the same areas. Finally, a very small percentage of workers commute from San Francisco and the Peninsula/South Bay Area.

Figure 4: Plan Area Origin/Destination Commute Patterns

Where Plan Area Residents Work (2021)			Where Plan Area Workers Live (2021)		
Destination	Amount	Share of Total	Origin	Amount	Share of Total
Total Sonoma County	2,574	65%	Total Sonoma County	3,691	61%
Santa Rosa	1,071	27%	Santa Rosa	1,830	30%
U.S. 101 Corridor [1]	815	21%	U.S. 101 Corridor	1029	17%
Other Sonoma County	688	17%	Other Sonoma County	832	14%
East Bay [2]	296	8%	Other North Bay	441	7%
Other North Bay [3]	290	7%	East Bay	409	7%
Peninsula / South Bay [4]	184	5%	Greater Sacramento	256	4%
San Francisco	145	4%	Mendocino / Lake Counties	232	4%
Greater Sacramento [5]	109	3%	Peninsula / South Bay	198	3%

Mendocino / Lake Counties	28	1%	San Francisco	77	1%
All Other Locations	316	8%	All Other Locations	705	12%
Total	**3,942**	**100%**	**Total**	**6,009**	**100%**

[1] Includes Cotati, Cloverdale, Healdsburg, Petaluma, and Rohnert Park cities, the town of Windsor cities, and the Larkfield-Wikiup community

[2] Includes Alameda and Contra Costa counties

[3] Includes Marin, Napa, and Solano counties

[4] Includes San Mateo and Santa Clara counites

[5] Includes Placer, Sacramento, and Yolo counties

Source: U.S. Census Bureau; Analysis by Economic & Planning Systems, Inc.

The overall in/out commute flow of the Plan Area exhibits a "crisscross" pattern between residents and in-commuters. As shown in **Figure 5**, only about 240 people both live and work in the Plan Area, amounting to about 4 percent of Plan Area in-commuters and 6 percent of employed residents. This commute pattern is common among job-dense communities across California, and could reflect a mismatch between skills, earnings, and affordability, and other idiosyncratic factors such as community preferences.

Figure 5: Plan Area Commute Flow

Item	Amount	Share
Employed Residents		
Employed in Plan Area	239	6%
Employed Elsewhere	3,703	94%
Total	**3,942**	**100%**
Plan Area Workers		
Living in Plan Area	239	4%
Living Elsewhere	5,770	96%
Total	**6,009**	**100%**

Plan Area Workers	6,009
Employed Residents	3,942
Net Flow	**2,067**
As a % of Total Workers	34%

Source: U.S. Census Bureau; Analysis of Economic & Planning Systems, Inc.

Chapter 3: Local Housing Market Trends

A scarcity of housing can impede growth and economic development opportunities, underscoring the importance of housing in shaping the future of the Plan Area. Other reports prepared as part of this study process have provided a comprehensive overview of the Plan Area's housing stock and demographic composition. This chapter discusses housing from a real estate market perspective.

The Plan Area contains an eclectic mix of land uses as well as a significant amount of underutilized land which has been attractive to residential developers. Many residential projects have been built in Santa Rosa over the past decade, especially in the southern portion of the City surrounding the Plan Area. The market performance for single-family and multifamily residential is further described below.

Single-Family Market Performance

Figure 6 shows data on sales of single-family detached homes in the Plan Area, Santa Rosa, and Sonoma County from April 2023 to April 2024. The median sale price of a home in the Plan Area was approximately $140,000 less than in Santa Rosa and $260,000 less than in Sonoma County, mirroring the income disparities noted in **Chapter 2**. Similarly, the median size of a home in the Plan Area is comparatively less at 1,270 square feet compared to 1,627 square feet and 1,742 square feet for Santa Rosa and Sonoma County, respectively. Importantly, the sale price per square foot increases with home size across the 3 locations (all things equal, value per square foot usually declines with size). This trend can be attributable to a variety of inter-related factors, including, local market preferences, a premium for larger homes in Sonoma County, and/or lower quality housing in the Plan Area (e.g., older, poorly maintained, or inferior construction).

Still, the demand for detached housing in Santa Rosa and the Plan Area is strong. As shown in **Figure 7**, median prices for homes sold in Santa Rosa, as well as in the 95407 ZIP code (which includes the vast majority of the Plan Area, as well as a large portion of City and Unincorporated County land) have grown faster than Sonoma County, at 80 percent and 99 percent over the past decade, respectively, compared to 77 percent for the County. This trend likely reflects tightening housing shortages in the County (and California overall) over this period, particularly for lower cost, entry level housing.

Figure 6: Snapshot of Recently Sold Single-Family Homes

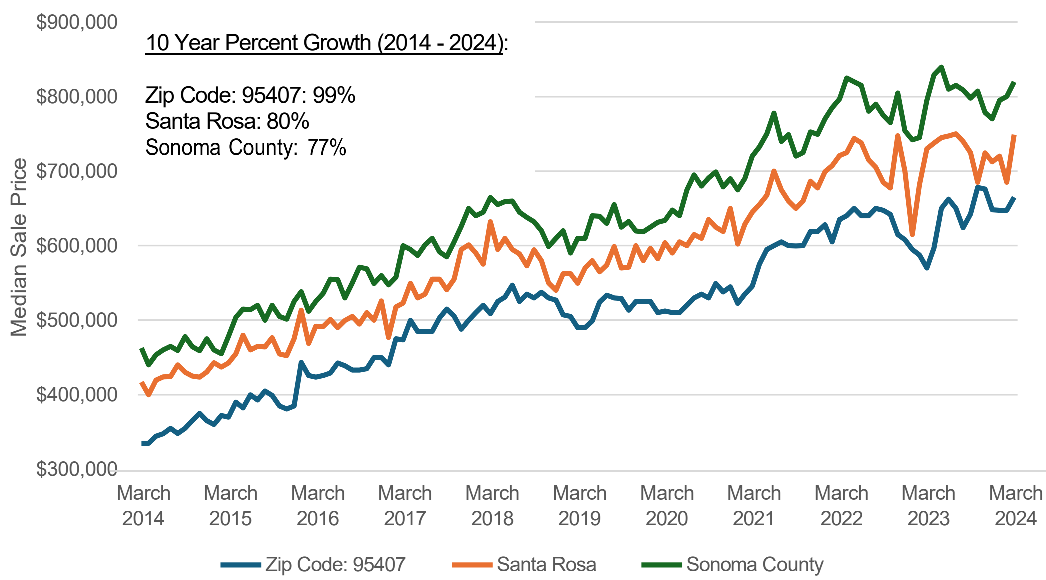
Item (as of April 2024)[1]	Specific Plan Area	Santa Rosa	Sonoma County
Number of Sales	16	263	
Median Sale Price	$618,500	$760,000	$877,500
Median Home Size (Square Feet)	1,270	1,627	1,742
Median Price per Square Foot	$474	$483	$537
Median Year Built	1986	1977	1982

Note: Data excludes other single-family home types like condominiums and mobile homes.

[1] Data reflects homes sold from April 2023 to April 2024.

Source: Redfin; Analysis by Economic & Planning Systems, Inc.

Figure 7: Single-Family Price Trends



Source: Redfin; Analysis by Economic & Planning Systems, Inc.

New Development

Figure 8 lists the most recently built and under-construction single-family projects in and near the Plan Area over the last 5 years. The vast majority of new single-family projects have been common-interest subdivisions (i.e., communities with common areas and facilities) of detached and attached homes, much like what has been built in the outer East Bay (e.g., Pleasanton and Livermore), the northern San Joaquin Valley (e.g., Mountain House and Tracy), and more locally like in Rohnert Park's University District. It is likely that the recent rise in home prices over the last decade, as noted above, has been mainly due to the developments listed below, as well as others in different parts of Santa Rosa.

Figure 8: New Single-Family Developments Since 2019

Project Name	In/Outside Plan Area	Type	Developer	Units [1]
Grove Village	Outside (Southern Santa Rosa)	Detached	City Ventures	136
Paseo Vista	Outside (Southern Santa Rosa)	Attached	W. Marketing	128
Village Station	Outside (Southern Santa Rosa)	Attached	Blue Mountain Communities	110
Taylor Mountain Homes	Inside (City Portion)	Attached	Taylor Mountain Homes	98
Meadow Creek	Outside (Southern Santa Rosa)	Detached	Ryder Homes	78
Stony Village	Outside (Southern Santa Rosa)	Detached	City Ventures	43
Total				**593**

[1] Counts reflect units delivered or planned in additonal phases.

Source: The Gregory Group; Analysis by Economic & Planning Systems, Inc.

Figure 9 shows the façade of a two-unit attached complex at Paseo Vista by W. Marketing on Dutton Avenue in Santa Rosa, while **Figure 10** shows the façade of a single detached unit at Meadow Creek by Ryder Homes on Ryder Drive in Santa Rosa. The Paseo Vista homes are emblematic of attached developments that have occurred over the last five to 10 years in the outer Bay Area and Sacramento Valley, geared toward empty nesters, retirees, and first-time homebuyers exploring ownership opportunities because of high multifamily rents and being priced out of the detached home market. The Meadow Creek homes are emblematic of a housing product that is targeted toward slightly wealthier first-time homebuyers and existing homeowners looking to "trade up" for a new product.

Figure 9: Paseo Vista by W. Marketing

Image: W. Marketing

Figure 10: Meadow Creek by Ryder Home

Image: Ryder Homes

Multifamily Market Performance

As shown in **Figure 11**, the multifamily market in the Plan Area has performed on par or better than in Santa Rosa and Sonoma County over the past decade. For example, the current average monthly rent per unit in the Plan Area is slightly greater than in Santa Rosa and slightly less than in Sonoma County. Further, the multifamily rental vacancy rate in the Plan Area is only one percentage point above Santa Rosa and Sonoma County, most likely due to the ongoing lease-up of recent apartment deliveries. Lastly, 404 units have been delivered in the Plan Area over the last decade, increasing its multifamily stock by 18 percent, a slightly faster growth rate than experienced by Santa Rosa (12 percent), or Sonoma County (13 percent). But it's worth noting that a large proportion of the Plan Area deliveries, almost 40 percent, were deed-restricted units.

Figure 11: Multifamily Market Trends

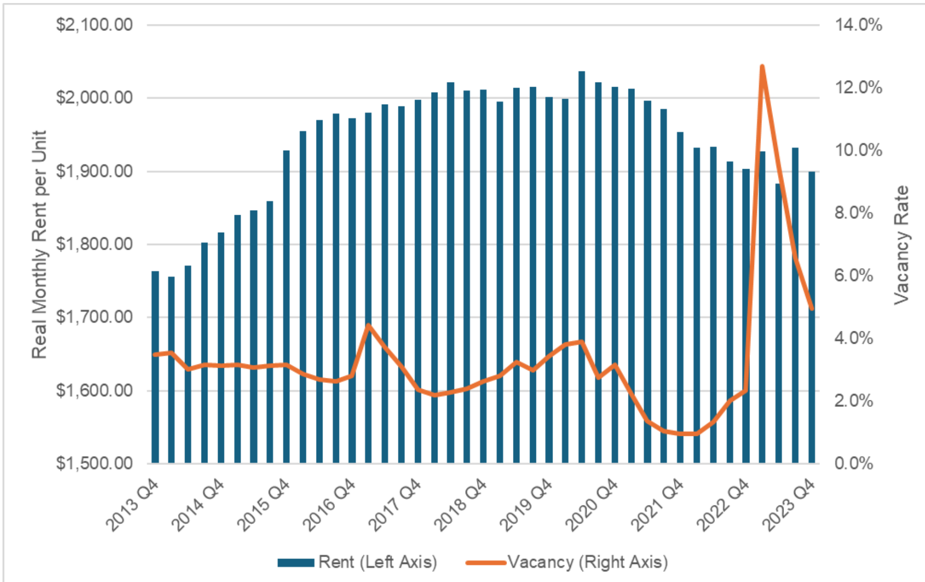
Item (as of Q4 2023)[1]	Specific Plan Area	Santa Rosa	Sonoma County
Performance			
Average Monthly Rent per Unit	$1,872	$1,856	$1,886
Vacancy Rate	6%	5%	5%
Inventory			
Units	2,275	22,843	42,197
Average Bulding Size	38	17	18
Growth Q4 2013 - Q4 2023			
Net New Inventory (Untis)	404	2,753	5,526
Growth Rate	18%	12%	13%

[1] Data shown reflect existing market-rate and deed-restricted affordable housing

Source: CoStar Group; Analysis by Economic & Planning Systems, Inc.

Vacancy and rent trends in the Plan Area provide further evidence for strong demand for rental housing in the Plan Area. As illustrated by **Figure 12**, real (adjusted for inflation) rents increased from 2013 until just before the pandemic, when they began to decline, much like elsewhere in California. However, real multifamily rents stabilized in 2022, indicating that they grew at rates similar to inflation, which has been high since 2021. While the vacancy rate for multifamily properties in the Plan Area increased by over 10 percentage points at the end of 2022, this is likely due to new deliveries, such as the 248-unit market-rate apartment project, Brix 235, within Santa Rosa City limits, and the 96-unit affordable housing project, Cedar Grove Apartments in Unincorporated Sonoma County. Anecdotal reports suggest these new units have been well received in the market (e.g., strong absorption rates).

Figure 12: Real Monthly Multifamily Rent and Vacancy in the Plan Area



New Development

Figure 13 shows the locations of the 12 multifamily rental projects built in and around the Plan Area over the past decade.[3] **Figure 14** lists the 12 projects and their associated statistics. Most recently built multifamily rental projects in the area can be characterized as modern 2- to 3-story garden-style "walk-up" apartments with surface parking. Five of these developments are market rate, and the remaining seven are deed-restricted affordable housing.[4] Many of the market-rate rental projects reflect higher end offerings with amenities such as community clubhouses, fitness studios, and pool/hot tub facilities.

The average density of the new Plan Area projects is about 30 dwelling units per acre, a number inflated by two outliers, 38 Degrees North and Tierra Springs (a deed-restricted affordable project), which were each built at more than 60 dwelling units per acre. Excluding 38 North and Tierra Springs, the average density among recently built projects is 23 dwelling units per acre, more typical for multi-story, surface-parked apartment projects in suburban markets. It is important to note that these outliers are more consistent with what's recently been built in Santa Rosa's Downtown, which includes multiple projects built at similar densities, as well as 888 4th Street, a 6-story project built at more than 100 dwelling units per acre.

[3] The circle in the map represents a two-mile radius from the center of the Specific Plan Area.

[4] It is important to note that the City of Santa Rosa and Sonoma County each have inclusionary zoning ordinances (IZO), which require that new market-rate residential development projects include a certain percentage of housing units at rents or sale prices that are affordable to lower income households. While alternative means of compliance often exist for IZOs, any new market-rate development in Santa Rosa or Sonoma County likely contains some percentage of deed-restricted affordable units.

Figure 13: Map of New Multifamily Projects in South Santa Rosa and Unincorporated Sonoma County

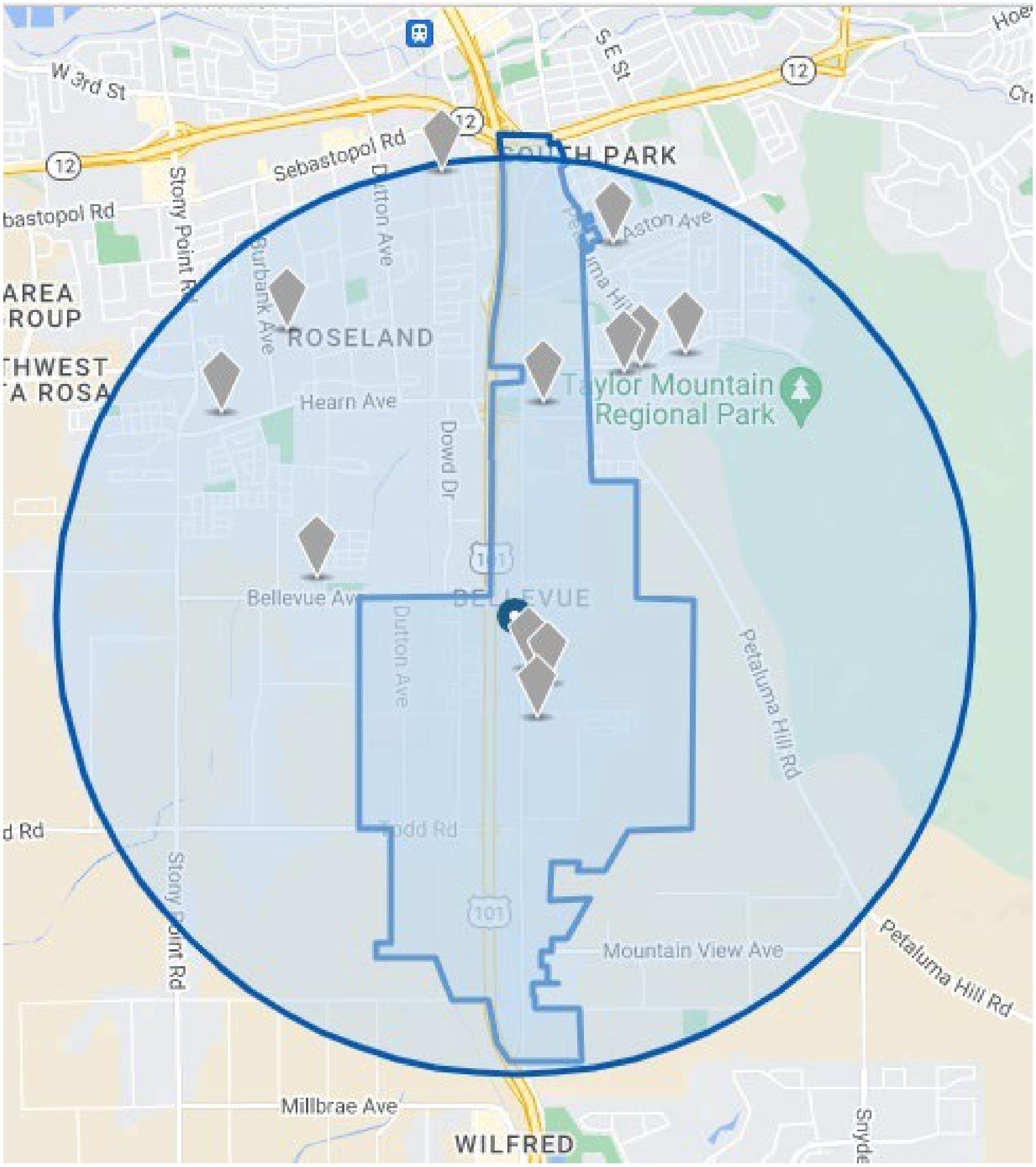


Image: CoStar Group

Figure 14: New Multifamily Developments Since 2013 [Southern Santa Rosa]

Project Name	In/Outside Plan Area	Rent Type	Configuration	Units [1]	Density (Units Per Acre)
38 Degrees North	Outside (Southern San Rosa)	Market-Rate	Garden-Style	292	61
Brix325	Inside (City Portion)	Market-Rate	Garden-Style	248	30
Stony Oaks Apartments	Outside (Southern San Rosa)	Affordable	Garden-Style	142	32
Colgan Creek	Outside (Southern San Rosa)	Market-Rate	Townhome-Style	130	29
Tierra Springs	Outside (Southern San Rosa)	Affordable	Garden-Style	99	63
Cedar Grove	Inside (County Portion)	Affordable	Garden-Style	96	23
Crossroads Apartments	Outside (Southern San Rosa)	Affordable	Garden-Style	79	35
Bella Vita Apartments	Inside (County Portion)	Market-Rate	Garden-Style	60	20
Sonoma Garden Apartments	Inside (County Portion)	Affordable	Garden-Style	60	15
Orchard Commons	Outside (Southern San Rosa)	Affordable	Garden-Style	46	24
The Crossings at Aston	Outside (Southern San Rosa)	Affordable	Townhome-Style	26	14
Farmstead at Lia Lane	Outside (Southern San Rosa)	Market-Rate	Townhome-Style	20	10
Total				**1,298**	**31**

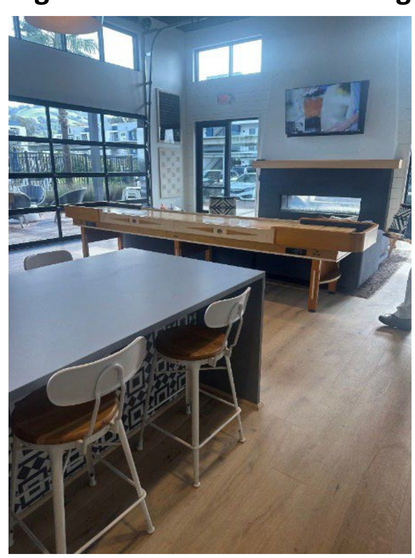
[1] Counts reflect units delivered or planned in additional phases.

Source: CoStar Group; Analysis by Economic & Planning Systems, Inc.

Figure 15 shows 38 Degrees North on Kawana Springs Road in the southeastern corner of Santa Rosa, and **Figure 16** shows a resident clubhouse at the development. The project, currently undergoing a second phase of construction and approved for a third, represents the typical external aesthetic and amenity offerings of mid-scale, modern products. The success of this project could represent a positive harbinger for higher density market-rate rental housing developments in the Plan Area and provide a positive signal to investors going forward.

Figure 15: 38 Degrees North

Figure 16: Clubhouse at 38 Degrees North



Images: EPS

Projected Growth

Santa Rosa is undergoing significant residential development, including within its southeastern sector near the designated Plan Area, and local planning activity suggests this trend will continue. The City is managing nearly 650 housing units in in the area (out of 5,400 units citywide) that have been approved, including multifamily rentals and single-family homes. In addition to outpacing Santa Rosa and Sonoma County in the growth of population and employment, the housing market of the Plan Area is expanding at a high rate relative to regional projections.

Pipeline Projects

As of March 2024, nearly 650 units are in the development pipeline in the Southeastern portion of the City (where most of the Plan Area is located) and have been approved. As shown in **Figure 17**, six projects are proposed to be multifamily rental developments and four to be single- family. The first- and second-largest projects in the development pipeline—at 154 and 147 units, respectively—are Santa Rosa Avenue Apartments, a 5-story 100 percent affordable rental project with surface parking, located inside the Plan Area; and Mosaic Apartments, a proposed market-rate development just outside of Plan Area boundaries at the intersection of Colgan Avenue and Petaluma Hill Road.

Finally, not shown is the Todd Creek area, an undeveloped site of roughly 282 acres in Unincorporated Sonoma County roughly bordered by the avenues of Winterhaven (north), Bellevue (west), and East Robles/Magnolia (south), and the City's urban growth boundary to the east. Developers have expressed interest in building a subdivision with upwards of 1,000 single-family homes, a neighborhood shopping center, and open space.

Figure 17: Residential Development Pipeline for South Santa Rosa

Project Name	In/Outside Plan Area	Project Type	Units	Density (Units Per Acre)
Santa Rosa Avenue Apartments	Inside	Multifamily	154	40
Mosaic Apartments	Outside	Multifamily	147	30
Bennett Valley Road	Outside	Multifamily	62	33
Kawana Meadows	Outside	Single-Family	62	2
Penstemon Place	Outside	Single-Family	59	6
Kawana Meadows Lots 4A And 70	Outside	Multifamily	53	18
Avenue 3111 Storage & Apartments	Inside	Multifamily	48	19
38 Degrees North Phase 3	Outside	Multifamily	30	23
Holly Hock Subdivision Plan 2	Outside	Single-Family	16	8
The Terraces At Mt. Taylor	Outside	Single-Family	11	6
Total			**642**	**10**

Source: CoStar Group; Analysis by Economic & Planning Systems, Inc.

Regional Growth Projections and Demand Prospects

As detailed above, the housing market in and around the Plan Area has been strong for both single-family and multifamily development. For instance, multifamily development in the Plan

Area has outpaced Santa Rosa and Sonoma County over the last decade. The growth of housing in and near the Plan Area indicates the presence of advantageous development economics, including the high demand for living in the area. Meanwhile, the proliferation of numerous new 100 percent deed-restricted affordable housing projects indicates that the Plan Area is a competitive location for Low Income Housing Tax Credit (LIHTC) funding, which may reflect the presence of educational opportunities (i.e., school districts), retail amenities, and job and transit proximity. From an investment perspective, developable land in the Plan Area is more plentiful and likely more affordable than in the rest of Santa Rosa or County and, as such, can provide a platform for continued growth.

As an illustrative example of growth potential, The Final Blueprint of Plan Bay Area 2050, the Metropolitan Transportation Commission's (MTC) long-range projection for the nine-county Bay Area, suggests the Greater Santa Rosa area has the potential to grow by about 10,000 housing units by the year 2050.[5] **Figure 18** shows the Plan Area's potential capture of these units based on two scenarios, as described below:

- **Baseline Fair-Share Allocation:** This scenario assumes the Plan Area will maintain its proportional share of housing units in Greater Santa Rosa over the next 25 years (about 7 percent). Under this outcome the Plan Area would see development of about 750 additional housing units by 2050.
- **Baseline "Plus" Scenario:** This scenario growth assumes a capture rate of 50 percent over Baseline, which represents a capture rate of slightly more than 10 percent of Greater Santa Rosa growth. Under this outcome, the Plan Area would see development of about 1,100 additional housing units by 2050.

Figure 18: Plan Area Housing Projections

Item	Assumption / Factor		Amount
Plan Bay Area Projections for Greater Santa Rosa			
Projected Housing Units in 2050			95,344
Housing Supply in 2015			84,817
Projected Growth			10,527
Plan Area Projections			
Baseline Housing Units Projection	7%	Fair-Share Allocation [1]	**750**
Baseline "Plus" Projection	50%	Increase over Baseline	**1,125**

[1] Reflects the Plan Area's share of housing units in Greater Santa Rosa

Source: Metropolitan Transportation Commission; Analysis by Economic & Planning Systems, Inc.

[5] Greater Santa Rosa represents a collection of MTC's transportation analysis zones in and surrounding the City of Santa Rosa.

As noted above, the Plan Area has grown by at least 400 multifamily units over the last decade, so both above projections are conservative, given the Plan Area's current rate of growth and on-going planning activity. Indeed, from a land availability perspective, the Plan Area is well positioned to continue outpacing Santa Rosa and Sonoma County in terms of housing growth. The Plan Area's exact growth trajectory cannot be known with certainty but can be influenced by the policies and land use direction of the South Santa Rosa Specific Plan effort, as well as other planning initiatives, market changes, catalytic projects, and other factors.

Ultimately, the broader Santa Rosa metropolitan area is a highly desirable location, and the City of Santa Rosa, in particular, offers a unique mix of urban, suburban, and rural amenities. Santa Rosa features regional retail nodes (like in the Plan Area) and a growing Downtown that is gaining more dense multifamily development. Furthermore, Santa Rosa is strategically located in Sonoma County and part of a dynamic regional economy, and provides a strong foundation for continued growth.

Chapter 4: Commercial Real Estate Conditions and Trends

This chapter describes the current conditions, trends and demand prospects facing commercial real estate sectors in the Study Area. Specifically, it evaluates the economic performance of the area through its retail, office, industrial/flex, and lodging offerings over the past decade. The commercial real estate sectors more broadly can be viewed as a physical manifestation of the local economy, and its success will be critically linked to the policy guidance provided by the South Santa Rosa Specific Plan.

Overview

The growth and market position of the area's four major commercial sectors highlights the broader economic forces shaping the Specific Plan Area and their performance relative to other geographies (i.e., the City of Santa Rosa and Sonoma County). **Figure 19** provides an overview of the primary commercial real estate sectors in the Specific Plan Area in terms of total inventory. As shown, the Plan Area contains nearly 6 million square feet of commercial real estate, with most space distributed between the Industrial/Flex and Retail land uses.

Figure 19 also shows the distribution of commercial real estate space across the Plan Area (i.e., in City or Unincorporated County limits). While Unincorporated Sonoma County has a greater diversity of land use types, the total distribution across jurisdictions is roughly equal. Santa Rosa contains 51 percent of commercial real estate space in the Plan Area compared to 49 percent for Unincorporated Sonoma County. The following sections describe the market dynamics for each land use.

Figure 19: Commercial Real Estate Overview

Product Type	Square Footage (2023)	Share of Total [1]	Percent of Space Located In:	
			City of Santa Rosa	Unincorporated Sonoma County
Industrial / Flex	2,745,941	47%	31%	69%
Retail	2,131,154	36%	88%	12%
Specialty	668,703	11%	22%	78%
Lodging [2]	246,000	4%	57%	43%
Office	92,389	2%	20%	80%
Total	**5,884,187**	**100%**	**51%**	**49%**

[1] Total may not sum due to rounding.
[2] Assumes 500 SqFt Per Room.

Source: CoStar Group; Analysis by Economic & Planning Systems, Inc.

Industrial and Flex Market

The Industrial and Flex market, which includes warehouses, is a crucial component in the future policy guidance of the Specific Plan and comprises the Plan Area's single most abundant commercial land use at 2.7 million square feet of inventory. As shown in **Figure 19**, about two-thirds of Industrial and Flex space in the Plan Area is in Unincorporated Sonoma County.

The Plan Area is a significant regional industrial hub primarily for warehousing and industrial parks. As shown in **Figure 20**, the area is comprised mainly of warehouse space but also includes a mix of food processing, manufacturing, showrooms, and auto service-related facilities (e.g., window tinting, brake and wheel services). Warehousing properties appear heavily tenanted by suppliers of wholesaling and retailing building/home improvement materials (e.g., roofing, lumber, garden and landscape, kitchen). Local tenant listings from CoStar Group also indicate the presence of construction contractors.

The Plan Area is also home to many industrial business parks, including regional facilities such as the Industry West Business Park and Todd Road Industrial Park in the unincorporated Plan Area and the Oak Manor Industrial Area in Santa Rosa. Additional information from CoStar Group indicates that more than half of Industrial and Flex properties in the Plan Area support multiple tenancy, as do half of warehouse properties in particular.

Figure 20: Plan Area Industrial/Flex Building Space by Type

Product Type	Square Feet of Inventory	Percent of Total
Warehouse	1,259,075	46%
Unspecified	389,247	14%
Service	298,297	11%
Food Processing	254,946	9%
Showroom	176,595	6%
Manufacturing	87,811	3%
Distribution	86,941	3%
Light Manufacturing	75,679	3%
Light Distribution	35,653	1%
Refrigeration/Cold Storage	30,897	1%
Truck Terminal	27,200	1%
R&D	23,600	1%
Total	**2,745,941**	**100%**

Source: CoStar Group; Analysis by Economic & Planning Systems, Inc.

Industrial and Flex properties in the Plan Area are mainly composed of older building stock. **Figure 21** shows that 89 percent (or 149 total) of Industrial and Flex properties in the Plan Area were built before 1990, with most new properties being warehouses. The abundance of older Industrial and Flex properties in the Plan Area may limit its attractiveness/suitability for modern and specialized industrial uses (e.g., fulfillment and cold storage facilities). That said, facilities supporting light- to moderately-intensive industrial uses, including warehousing (particularly of dry goods), wholesaling, and light manufacturing, are typically highly sought-after regardless of age or improvements as many tenants do not require modern improvements or amenities.

Figure 21: Plan Area Industrial/Flex Building Space by Type and Period Built

Industrial / Flex Property Type	Total Properties	Properties Built Before 2000		Properties Built After 2000	
		Count	Percent of Total	Count	Percent of Total
Warehouse	88	78	89%	10	11%
Service	42	39	93%	3	7%
Food Processing	7	5	71%	2	29%
Manufacturing	7	6	86%	1	14%
Showroom	7	6	86%	1	14%
Distribution	5	5	100%	0	0%
Light Manufacturing	4	4	100%	0	0%
Light Distribution	3	2	67%	1	33%
Truck Terminal	2	2	100%	0	0%
R&D	1	1	100%	0	0%
Refrigeration/Cold Storage	1	1	100%	0	0%
Total	167	149	89%	18	11%

Source; CoStar Group; Analysis by Economic & Planning Systems, Inc.

Market Performance

The Plan Area's Industrial and Flex market performance over the last decade has been mixed. In terms of current lease rates and vacancy rates, the Plan Area is on par with Santa Rosa and Sonoma County, as shown in **Figure 22**. But the Plan Area has not added any new Industrial or Flex inventory over the last decade, compared to 4 percent and 6 percent growth rates for Santa Rosa and Sonoma County, respectively. The average building size is also much smaller in the Plan Area than in Santa Rosa and Sonoma County.

The lack of development and smaller building plates in the Plan Area reinforces the notion that the primary demand segments in the Plan Area are from non-specialized industrial uses such as wholesaling and the warehousing of dry goods (i.e., uses that don't require highly finished or amenitized facilities). There may also be issues related to land use policy and availability of infrastructure that have challenged new development.

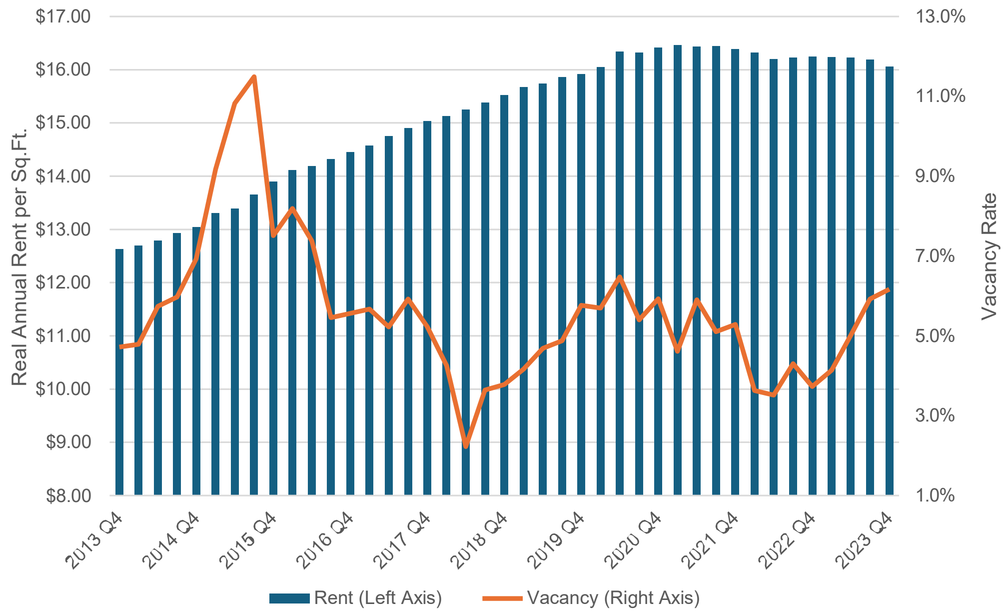
Figure 22: Industrial/Flex Market Trends

Item (as of Q4 2023)	Specific Plan Area	Santa Rosa	Sonoma County
Performance			
Rent per Square Foot	$15.97	$16.04	$16.43
Vacancy	6%	6%	7%
Inventory			
Square Feet	2,745,941	14,174,488	36,049,052
Average Building Size	12,713	16,218	20,072
Growth Q4 2013 - Q4 2023			
Net New Inventory	0	513,354	2,144,786
Growth Rate	0%	4%	6%

Source: CoStar Group; Analysis by Economic & Planning Systems, Inc.

Still, the demand for existing Industrial and Flex Space in the Plan Area has been consistently strong. As shown in **Figure 23**, real (inflation-adjusted) annual rents exhibited a continuous increase through the 2010s and stabilized at the beginning of 2021. This indicates that the increased industrial demand in the Plan Area drove rents to outpace inflation in the 2010s, and the stabilization indicates that rents have more recently grown at a pace comparable to inflation, which has been high since 2021. This further implies that lease rates for Industrial and Flex properties have grown rapidly in nominal (unadjusted for inflation) terms because of the high demand for existing industrial stock in the Plan Area. The demand for Industrial and Flex properties in the area is likely influenced by its strategic location near Highway 101 and California State Route 12, as well as its prime location within the urban economic core of Sonoma County.

Figure 23: Real Annual Industrial/Flex Rents and Vacancy in the Plan Area



Source: CoStar Group; Analysis by Economic & Planning Systems, Inc.

Retail

Retail is the second-most abundant commercial land use in the Plan Area, with 2.1 million square feet of inventory. As shown in **Figure 19**, the vast majority of retail inventory in the Plan Area is located within the City's boundaries.

The Plan Area is a major regional retail node, containing key large-format shopping outlets (e.g., "big box") and restaurant chains, including Target, Costco, Best Buy, REI, Applebee's, and In-N-Out—virtually all of which are in City limits. The Plan Area also has an abundance of strip malls and neighborhood centers that are not anchored by a major retailer. Other significant retail land uses in the Plan Area include automotive services (e.g., oil change centers and tire shops), fueling stations, and used car dealerships—a significant portion of which is located in Unincorporated Sonoma County.

Market Performance

The Plan Area's retail market has performed well over the last decade, with strong growth and an orientation that serves the daily shopping and dining needs of Santa Rosa residents. As shown in **Figure 24**, current retail market lease rates in the Plan Area are $26.83 per square foot annually and are on par with the County but below Santa Rosa, consistent with more premium retail establishments in its Downtown which includes a regional mall. Meanwhile, the Plan Area has added about 187,000 net square feet of retail space over the last decade, growing by more than double the pace of the City and County.

The Plan Area serves as a significant sales tax contributor for Santa Rosa. Information from Avenu Insights, Santa Rosa's sales tax consultant, indicates that as of the first quarter of 2023, the Best

Buy and Costco outlets in the Plan Area are among the top 25 sales tax remitters citywide. Furthermore, the Plan Area abuts a major auto center featuring 9 out of the top 25 sales tax remitters citywide, reflecting the broader area's significance for the City's tax base.

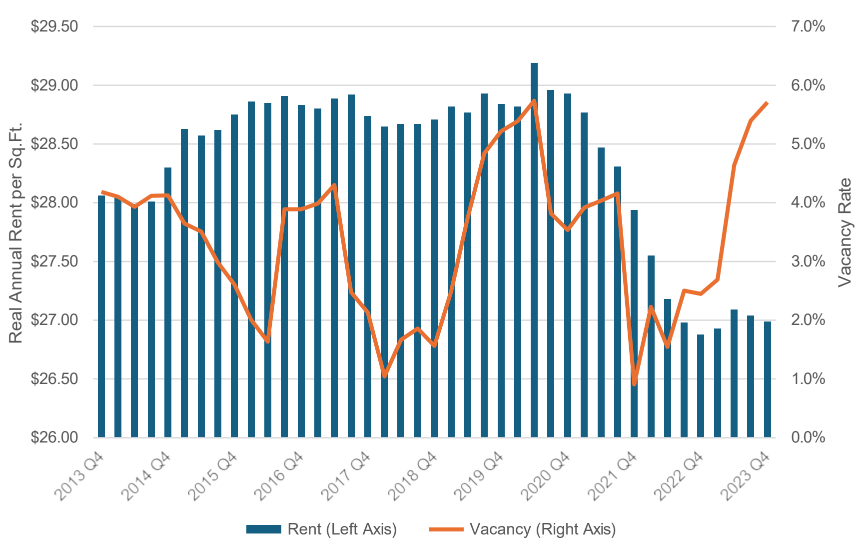
Figure 24: Retail Market Trends

Item (as of Q4 2023)	Specific Plan Area	Santa Rosa	Sonoma County
Performance			
Rent per Square Foot	$26.83	$28.18	$26.80
Vacancy Rate	6%	4%	4%
Inventory			
Square Feet	2,131,154	11,140,366	25,099,931
Average Bulding Size	11,158	10,600	9,039
Growth Q4 2013 - Q4 2023			
Net New Inventory (Square Feet)	187,322	442,620	900,179
Growth Rate	9%	4%	4%

Source: CoStar Group; Analysis by Economic & Planning Systems, Inc.

Plan Area retail vacancies, on the other hand, are slightly higher than in the City and the County and began to increase in 2023, as shown in **Figure 25**, opposite broader statewide and national retail trends. The Plan Area has roughly 120,000 square feet of vacant retail space, more than half of which is attributable to the departures of Bed, Bath, and Beyond and Tuesday Morning in 2023, both home furnishing and decoration retailers. Other availabilities in the area mainly consist of smaller vacant spaces in power centers and other neighborhood commercial strips.

Figure 25: Real Annual Retail Rents and Vacancy in the Plan Area



Source: CoStar Group; Analysis by Economic & Planning Systems, Inc.

The uptick in retail vacancies in the Plan Area in part reflect statewide and national trends in certain consumer goods, particularly building materials, furniture, and electronics stores. Specifically, many of these retailers have seen a decline in market share as the retail industry as a whole undergoes significant transformation. Specifically, e-commerce is becoming a preferred method of consumption for certain goods and services (e.g., electronics and clothing), while post-pandemic consumption patterns primarily influenced by high inflation have reduced the demand for home improvement, furnishings, and decor.[6] Meanwhile, grocery and personal health stores, restaurants, and drinking places are becoming the preferred "in-person" retail outlets.

Figure 25 also shows real rents declining significantly in 2020, stabilizing by the end of 2022. This substantial decline is likely partially attributable to the effects of the pandemic in conjunction with high inflation.[7] The stabilization seen in the graph indicates that nominal rents grew at rates on par with inflation by 3 to 4 percent on a year-over-year basis, likely driven by new leases or lease renewals for successful and sought-after properties in the Plan Area. Therefore, despite the recent uptick in vacancies, the demand for retail in the Plan Area appears to have stabilized, although for a historically narrower type of retail (i.e., automotive, convenience, grocery- and personal health-oriented stores and premium sporting goods retailers (i.e., REI, Sports Basement, and The Golf Mart).

Going forward it appears that the Plan Area retail sector is more likely to benefit from the re-positioning of existing retail centers and clusters rather than a substantial increase in supply. Indeed, the substantial decline in lease rates combined with pockets of vacancies may make new retail development challenging from an investment perspective. Alternatively, some centers/location may be ripe for redevelopment into more vibrant mixed-use projects, potentially incorporating residential uses.

Other Land Uses

Other commercial land uses in the area include Lodging, such as motels and hotels, Offices for various businesses, and Specialty and Health facilities, including nursing facilities and self-storage. These uses make up nearly a fifth (17 percent) of commercial real estate space in the Plan Area.

Specialty

The Specialty land use is third most abundant in the Plan Area and reflects a mix of properties made up mostly of self-storage facilities in terms of sheer square footage, as detailed in **Figure 26**.[8] Other major uses in the area include waste management and recycling facilities.

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[6]The decline in home improvement and furnishings sector in part reflects a national trend attributable to a saturation in these segments during the pandemic, followed by retraction in consumer spending post pandemic.

[7] It is important to note that declining real rents don't necessarily mean rents are decreasing in nominal terms. In the context of this section of the report, EPS's interpretation of a decline in real rents is that nominal rents are growing at rates lower than inflation.

[8] The specialty category represents a collection of facilities that do not conform to major land use designations, as reported by CoStar Group.

Recology, a major waste management company in the Bay Area and Pacific Northwest, has a collection site within the Plan Area. Information from CoStar Group indicates that no new Specialty facilities have been constructed over the last fifteen years. Most of the Plan Area's Specialty land uses are in Unincorporated Sonoma County, as shown in **Figure 19**.

Figure 26: Plan Area Specialty Space by Type

Product Type	Square Feet of Inventory	Percent of Total
Self-Storage	551,114	82.4%
Recycling Center	61,567	9.2%
Cemetery/Mausoleum	22,595	3.4%
Contractor Storage Yard	8,073	1.2%
Car Wash	8,000	1.2%
Skilled Nursing Facility	6,463	1.0%
Cement/Gravel Plant	3,923	0.6%
Utility Sub-Station	2,915	0.4%
Shelter	2,177	0.3%
Parking Lot	1,876	0.3%
Total	**668,703**	**100.0%**

Source: CoStar Group; Analysis by Economic & Planning Systems, Inc.

Lodging

Lodging is the Plan Area's fourth-most abundant land use, with 246,000 square feet of inventory. Lodging is nearly evenly split between Santa Rosa and Unincorporated Sonoma County. Properties in the Plan Area are mostly economy hotels or motels geared primarily toward business and family travel through Sonoma County.

As shown in **Figure 27**, the performance of the Plan Area's lodging market has trailed Santa Rosa and Sonoma County in terms of daily rates but is on par with respect to occupancy levels and new inventory added over the last decade. Compared to the City and the County, the average daily rate in the Plan Area highlights that its lodging market is mostly smaller format travel inns with limited amenities, emphasizing short-term, affordable stays. The contrast between the Plan Area and Sonoma County more broadly reflects the County's status as a major visitor destination in California.

The growth in the Plan Area's lodging inventory over the last decade is attributable to the construction of La Quinta Inn, an upper midscale hotel along Highway 101 in Santa Rosa, which opened in 2020 to capture the area's growing visitor and tourist clientele. La Quinta Inn, along with other recently opened hotels outside the Plan Area, has helped the City of Santa Rosa recoup transient occupancy tax losses from the pandemic and the 2017 Tubbs fire that destroyed more than 200,000 square feet of lodging space citywide.

Figure 27: Lodging Market Trends

Item (as of Q4 2023)	Specific Plan Area	Santa Rosa	Sonoma County
Performance [1]			
Average Daily Rate	$125.99	$171.13	$216.04
Occupancy	63%	61%	61%
Inventory [2]			
Square Feet	246,000	1,215,500	3,956,000
Average Building Size	27,333	40,517	31,397
Growth Q4 2013 - Q4 2023			
Net New Inventory	50,000	247,500	937,500
Growth Rate	20%	20%	24%

Source: CoStar Group; Analysis by Economic & Planning Systems, Inc.

[1] Rates are expressed as twelve-month averages
[2] Assumes 500 SqFt Per Room.

Office

The Plan Area's Office market represents the least abundant commercial land use with roughly 92,000 square feet of inventory. Information from CoStar Group indicates that the stock of Office space in the Plan Area comprises a mix of office-using tenants, primarily engaged in construction management, wholesaling, and equipment rental and dealing. It is likely that the Office market is connected to the Plan Area's Industrial and Flex market and has an ancillary role. That said, the slight presence and the lack of newly constructed inventory suggests a lack of demand for traditional professional service office use in the Plan Area and faces competition from nearby professional service centers elsewhere in Santa Rosa, Petaluma, and San Rafael.

Growth Prospects

More than any factor, the growth of the Plan Area's commercial real estate market depends on its ability to capture regional employment. As an illustrative example of growth potential using Plan Bay Area 2050 projections, the labor market of the Greater Santa Rosa has the potential to grow by about 12,800 jobs by 2050. **Figure 28** shows the Plan Area's potential capture of commercial real estate from regional job growth based on two scenarios, as described below:

- **Baseline Fair-Share Allocation:** This scenario assumes the Plan Area will maintain its proportional share of jobs in Greater Santa Rosa over the next 25 years (about 6 percent).

Under this outcome the Plan Area would see development of about 688,000 additional commercial square feet by 2050, given the current overall average job density the Plan Area (i.e., 900 square feet per job).

- **Baseline "Plus" Scenario:** This scenario growth assumes a capture rate of 50 percent over Baseline (equaling a roughly 1,150 job increase). Under this outcome, the Plan Area would see development of about 1,032,000 additional commercial square feet by 2050, given the current overall average job density the Plan Area (i.e., 900 square feet per job).

These projections assume that future commercial development will progress in a manner consistent with current job densities, on average. If the City adopts a policy of lower density commercial development in the Plan Area (i.e., more square feet per job), then this projection could increase. Likewise, this projection could decrease if the City wishes future commercial real estate in the Plan Area to be developed at higher densities. Also, it is important to note that the Plan Area grew by almost 900 jobs from 2011 to 2021, so the actual job increase by 2050 will likely be much larger, given the current pace of growth.

Figure 28: Plan Area Commercial Real Estate Projections

Item	Assumption / Factor		Amount
Plan Bay Area Projections for Greater Santa Rosa			
Projected Employment in 2050			120,479
Employment in 2015			107,702
Projected Growth (Jobs)			12,777
Plan Area Projections			
Baseline 2050 Employment Projection	6%	Fair-Share Allocation [1]	**764**
Projection of Commrecial Square Feet	900	Average Sq.Ft. per Job [2]	**688,023**
Baseline 2050 "Plus" Employment Projection	50%	Increase over Baseline	**1,147**
Projection of Commrecial Square Feet	900	Average Sq.Ft. per Job	**1,032,035**

[1] Reflects the Plan Area's share of employment in Greater Santa Rosa
[2] Reflects the Plan Area's current overall job density (commercial square feet per job)

Source: Metropolitan Transportation Commission; Analysis by Economic & Planning Systems, Inc.

The Plan Area is experiencing significant growth in housing development, which, if sustained, could add additional pressures on commercial development, particularly Retail including grocery stores and various dining establishments. Because of the recent increase in vacancies, however, the Retail market in the Plan Area could have surplus inventory, so any future demand for retail space could be satisfied by existing stock before more is built. The potential for growth in population and housing may spur the demand for other land uses that rely on local labor supply (e.g., industrial). However, the growth in housing over the last decade has not led to any significant increases in industrial inventory or employment.

While this report does not provide policy prescriptions, the future of the Industrial market may need to be firmly coordinated with the current pace of residential development. On the one hand, if the City wishes to continue the pace of residential development, there may be an increasing need to mitigate potential land use conflicts with industrial uses. Therefore, future land-use decisions will need to balance the economic benefits of industrial uses with the health, safety, and social needs of residents. At this time, it is difficult to predict whether industrial-focused land use policies could spur additional growth in the market (a lack of new inventory and declining employment in key industrial employment sectors suggest limited interest from the commercial investment community). There could be an opportunity for commercial investors to convert existing industrial properties to accommodate tenants requiring more specialized industrial amenities (e.g., advanced manufacturing and life sciences). However, conversion would require significant investment to update current infrastructure. Ultimately, the financial feasibility of such an investment will depend on the broader planning context, which will in turn be affected by the success of the Specific Plan process.