



County of Santa Cruz

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COUNTY ADMINISTRATIVE OFFICE

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SUSAN A. MAURIELLO, J.D., COUNTY ADMINISTRATIVE OFFICER

January 12, 2000

Agenda: January 25, 2000

Board of Supervisors
County of Santa Cruz
701 ocean Street
Santa Cruz. California 95060

REPORT AND RECOMMENDATIONS ON REUSE STUDY OF THE COUNTY'S FREEDOM BOULEVARD SITE

Dear Board Members:

The purpose of this report is to transmit the commercial reuse study prepared by Keyser Marston Associates, Inc. (KMA) for the County's Freedom Boulevard site and to provide you with our recommendations related to this report. County and City staff have met with the KMA consultant to review the findings and to discuss related issues. Due to several factors including the economics associated with the reuse of the site, estimated relocation costs for the County facilities, and uncertainty regarding the State's role in the administration of current and future Court facilities, staff from both jurisdictions have agreed that it not feasible to proceed with this project at this time.

BACKGROUND

As you are aware, the County and the City of Watsonville have jointly funded the reuse study by KMA as a first step in determining the feasibility of relocating County offices to a downtown Watsonville site. The reuse study provides the County and the City with an analysis and conclusions regarding the marketability and value of the Freedom Boulevard property, with a focus on determining alternative mixes of use for the property, and the economic value associated with each use. KMA's primary objective was to determine the most feasible and highest value use for the property.

The KMA reuse study (Attachment 1) discusses both residential and commercial development at the Freedom Boulevard site. Pages 9 and 10 of the report set out the estimated land proceeds from a reuse of the property and discuss three potential

development programs for the County. The report concludes that:

- there does not appear to be a notable difference in achievable land price - approximately \$3.1 million - between residential and commercial use of the County's property based on KMA's review of current activity and interest;
- the best approach is to sell the 10.44 acre site to a local or regional housing developer for residential development;
- development programs that mix commercial and residential uses reduce the value of the property since they restrict the market of potential users and increase the complexity of the development; and,
- the net proceeds from a reuse of the Freedom property for either commercial or residential purposes would be in the range of \$2.7 to \$2.9 million due to the costs for demolition and potential tenant relocation costs.

The report's conclusions on the marketability and potential value of the site are based on a thorough analysis of the activity in the Watsonville area and the interest expressed by commercial and residential developers. The report points out that the site is one of the few sites of its' size in the area although lack of direct freeway access and close proximity to a residential neighborhood somewhat limit its' commercial use. Similarly, the proximity of Freedom Boulevard and the need to provide for an adequate buffer area for residences somewhat reduces the potential income from a residential development.

Notwithstanding the development potential for the site, the estimated proceeds of approximately \$2.9 million to the County from the reuse of the site for either commercial or residential purposes does not provide adequate income to offset the relocation costs of the County and Court facilities as discussed below.

RELOCATION COSTS FOR COUNTY FACILITIES TO DOWNTOWN WATSONVILLE

County and Court services are currently housed in approximately 38,000 square feet of space at the Freedom Boulevard site with adequate surface parking. The various services operating at the Freedom site include the Health Services Agency South County Clinic, the pharmacy and related health programs, the Watsonville Superior Court, District Attorney, Probation, and Agricultural Extension.

To determine the feasibility of a relocation of these functions to downtown Watsonville, we have developed a preliminary cost estimate which is shown in Table 1. The cost estimate assumes the duplication of the existing amount of square footage currently at the Freedom site. Square footage costs average the estimated construction costs for

REUSE STUDY OF THE COUNTY'S
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office space and higher cost specialty functions such as courts and health clinics. The cost estimate also assumes the need for replacement parking in a parking structure given the land constraints in downtown Watsonville. Finally, the estimate does not include the cost for land which is unknown at this time.

TABLE 1

Replacement Cost Estimate for County Complex at Freedom Boulevard

Total Square Footage of 35,000 @ \$200/ square foot	\$7,000,000
Garage parking - 1 space per 300 square feet @ \$18,000/ space	\$2,088,000
Total Costs Excluding Land	\$9,088,000
Less	
Income From Reuse of Freedom Complex Per KMA Study	\$2,900,000
Offset From Watsonville 1991 RDA Agreement	\$2,000,000
Total Offsets	\$4,900,000
Net Difference Not Including Land	\$4,188,000

The net difference in costs to the County for the relocation of the County facilities at this time is approximately \$4.2 million, excluding land costs. If additional square footage is included and any potential site mitigations are factored in, the estimate would significantly increase, further reducing the fiscal viability of this project.

FUTURE ADMINISTRATION OF COURT FACILITIES

Certain developments relative to the future administration of trial court facilities have raised some uncertainty regarding the County's future role and financial responsibility for court facilities.

The State's Task Force on Court Facilities, which was established as part of the Trial Court Funding Act of 1997, is charged with the responsibility to develop court facility guidelines, assess the adequacy of current court facilities throughout the State, and determine the appropriate entity and financing structure for court facilities in the future. The Task Force has recently recommended that the State consultants develop a master trial court facility plan for each County. In addition, a subcommittee of the Task Force has recommended that the trial court facilities become the financial responsibility of the State or the Administrative office of the Courts (AOC) and that the AOC be responsible for all court related capital project review.

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Although there are many unresolved issues relative to the Task Force's preliminary recommendations, the Task Force is clearly moving in the direction of transferring responsibility for court facilities to the State. This would be consistent with the State's assumption of financing responsibility for court operations that was approved in 1997 and the position supported by the California State Association of Counties (CSAC). Until these issues are resolved at the State level, we do not believe that proceeding with the relocation of the Watsonville Court, which is one of the largest components of the South County office relocation project, is advisable.

SUMMARY AND RECOMMENDATION

Based on the information regarding the reuse potential of the Freedom Boulevard site presented in the Keyser Marston, Inc. study, and our preliminary relocation cost estimates, we believe that the relocation of our County and Court facilities to a downtown site would require significant additional subsidy from the County and that the project does not appear to be economically viable at this time. In addition, the uncertainty regarding the State's role and financial responsibility for Court facilities in the near future needs to be resolved prior to a further determination of the viability of this project. As previously indicated, both County and City staff concur in this matter.

In closing, I want to extend my appreciation to Robert Wetmore, the primary consultant for KMA, Inc., and Jan Davison, Director of the Housing and Economic Development Department for the City of Watsonville for their time and expertise on this project.

It is therefore Recommended that your Board accept and file this report on the reuse study for the County's Freedom Boulevard site.

Very truly yours,



Susan A. Mauriello,
County Administrative Officer

cc. Carlos Palacios, City Manager, City of Watsonville
Jan Davison, Director, City of Watsonville Housing and Economic Development
Auditor-Controller
County Counsel
Superior Court
Real Property Division of Public Works
Robert Wetmore, Keyser Marston Associates, Inc.

ATTACHMENT 1

REPORT ON FREEDOM BOULEVARD PROPERTY

Prepared by Keyser Marston Associates, Inc.
November, 1999

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A" VISORS IN:
REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT
FISCAL IMPACT
INFRASTRUCTURE FINANCE
VALUATION AND
LITIGATION SUPPORT

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To: County Administrative Office
County of Santa Cruz

From: Robert J. Wetmore, CRE

Date: November 22, 1999

Subject: Freedom Boulevard Property

Consistent with our agreement with the County, we are providing this memorandum report, which conveys our findings in respect to the property owned by the County on Freedom Boulevard in Watsonville.

The purpose of the assignment is to assist the County and the City of Watsonville in defining and evaluating alternative development options for the property with a view to the possible relocation of County facilities, clearance of the site, and conveyance of the property to a developer. Proceeds from the sale of the property could be used by the County to fund the relocation of County facilities in downtown Watsonville.

The work program has included the following elements:

- Review of development activity in the local market
- Collection and analysis of building permit, demographic, and retail sales data
- Field survey of residential and retail developments in Watsonville
- Discussions with members of the real estate community in Watsonville and Santa Cruz
- Review of land sales provided by the Santa Cruz County Assessor's Office
- Contacts with potential retailers and retailer representatives to ascertain potential interest in the site
- Discussions with residential builders active in Watsonville.

Property

Based on site data from the County Department of Public Works, the site consists of approximately 10.44 acres of land. It consists of two parcels. The first is approximately 9.16 acres and is the location of the South County Center. It has four single story buildings housing municipal court and justice agencies; human resources; health clinic; and agricultural extension. The square footage of structures is approximately 35,000 square feet.

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Subject: Freedom Boulevard Property

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The eastern area of the site is currently undeveloped and unused. The northern portion of the site is a commercial parcel of approximately 1.28 acres that contains a structure of approximately 6,000 square feet that accommodates a video store, with storage uses to the rear of the parcel. The County leases this portion of the site to Mr. Matt Wittkins. The lease was renewed in 1996 and terminates on April 30, 2002.

The property has 800 feet of frontage on Freedom Boulevard, a heavily trafficked local commercial arterial that does not directly connect to Highway 1.

To the north of the site are a cemetery and a physical rehabilitation center. Crestview Drive bounds the site on the south. Madison Street bounds the site to the east.

Immediately to the east of the site, across Madison Street, is a residential neighborhood consisting of single and multiple family dwellings in good to excellent condition. Single family properties are currently being marketed in the low to high \$200,000~ in this neighborhood.

The topography of the site is generally level, with a minor grade differential from the eastern to western portions of the site occurring approximately at the midpoint from Freedom Boulevard to Madison Street. Toxic studies are not available for the portion of the site that accommodates County facilities. A Level 1 Environmental Assessment of the commercial parcel indicated possible surface contamination from a previous auto wrecking business that occupied the site. County staff have not noted any existing adverse environmental conditions.

It is assumed that the current PB (Public Building) and CT (Thoroughfare Commercial) zoning designations could be amended to allow alternative developments of the property.

The following are our conclusions as to the suitability of the property for alternative uses:

- The property is well-suited for commercial uses due to frontage on a major arterial and the virtual absence of sites of comparable size in Watsonville, Santa Cruz, Capitola, or in the unincorporated portions of Santa Cruz County. However, the site is somewhat "interior" to Watsonville, without immediate access to Highway 1; this factor tends to limit the site to retailers that can serve the Watsonville market rather than the larger regional market.
- The property is also well-suited for residential uses due to the shortage of residential land in the market area (includes Watsonville and Santa Cruz) and proximity to a good quality residential neighborhood. A limitation for residential use is the commercial character of Freedom Boulevard and the need to buffer the site from that influence.

Commercial Development Potential

The major retail concentrations in Watsonville are as follows:

- Downtown Watsonville is the historic center of the city and has served both as a comparison goods and convenience goods destination. The 1989 Loma Prieta earthquake had a major negative impact on downtown, and revitalization of the downtown has been an important priority of the City. Gottschalk's department store opened in downtown in the summer of 1995. Latinos are the primary source of market support for downtown Watsonville.

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- North Main and Green Valley include Watsonville Square, Pajaro Hills, and Orchard²²² Supply/Crossroads Shopping Centers. The Overlook Center recently opened at Main Street with Target, Lucky, Savon Drug, and Staples as the major tenants. Centers on North Main and Green Valley have had above average rents and sales performance in Watsonville, and the initial performance of stores at the Overlook Center is described as strong by one of the key retailers.
- Freedom Boulevard includes the Freedom Center, the K-Mart/Walgreen center, Cabrillo Center, Alta Vista Center, and the Crestview Center (opposite the County's property). In general, performance at these centers has been weaker than for those on North Main and Green Valley due to difficulty in drawing trade from outside Watsonville. In addition, much of the new housing development in Watsonville will be more readily served by retailers on North Main than on Freedom Boulevard.

National and regional stores represented in Watsonville include Albertson's, Lucky, Longs, Staples, Target, Orchard Supply Hardware, Big 5 Sporting Goods, Kmart and Gottschalk's. An 18,000 square foot Tropicana Foods store at the Crestview Center serves the Latino market.

KMA reviewed the market for commercial retail uses in Watsonville in November 1995 as part of an evaluation of the competitive impacts of the then proposed Overlook Shopping Center. The conclusions are still largely valid due to the absence of significant demographic and competitive changes in the trade area. As part of that work, we identified the trade area, expenditure patterns, loss of sales to surrounding retail concentrations and potential for new space in the community. These were the salient conclusions:

The primary trade area for convenience goods (food, drugs, liquor) includes the City of Watsonville and the areas surrounding it, including the unincorporated areas of Pajaro and Freedom. In 1995 this area was estimated to have a total population of 46,300 persons, of which 33,800 were within the city limits. A secondary trade area contained an estimated 32,700 persons. Total spending for these goods within the trade areas was \$125 million versus actual sales of \$100 million, for a loss of sales (export) to other communities of about \$25 million. Much of the sales loss for convenience goods is concentrated in the foods segment, which accounts for most convenience sales. Much of this sales outflow is anticipated to have been rectified by the opening of Lucky's at the Overlook Center.

The primary trade area for comparison goods (apparel, general merchandise, the specialty group, home furnishings and appliances) included the southern portion of Santa Cruz County and the northern portion of Monterey County and totaled 79,100 persons, with a secondary trade area of 20,500 persons. Total spending for these goods within the trade areas was \$170 million versus actual sales of \$64 million, for a loss of sales to other communities of about \$105 million. The loss of sales was shared among all the components of comparison goods, of which general merchandise stores accounted for nearly half; much of this shortfall is anticipated to be rectified by the new Target store. Both City staff and retailers have commented on the virtual absence of electronics and appliance dealers in Watsonville, which appears to offer opportunities for stores such as Best Buy. We caution that it is typically not possible for smaller communities to avoid exporting significant retail sales, since these communities rarely can support the full range of retail establishments such as major discount and department stores, and the full range of specialty outlets that are frequently anchored by the majors.



Table 1 shows the distribution of retail sales in Watsonville by type of outlet compared to similar distributions for the state, Santa Cruz County, and Sacramento County (chosen for illustrative purposes since Sacramento is relatively self-contained, with moderate personal income). As indicated, Watsonville is relatively weak in apparel sales, general merchandise sales, home furnishings and appliance sales, and relatively strong in building material and automotive sales.

Review of sales of specific major retailers in Watsonville indicates that results for several retailers are weak, with little/no year-to-year gains in recent years.

The key issue in respect to commercial development of the County's property on Freedom Boulevard is the ability to attract major tenants. As part of this work, we identified a roster of 33 retailers that could be candidates for the County's property. (In some instances, we stretched the criteria to include, for example, Trader Joe's and Copeland's Sports, which must be rated distant "long shots.")

The retailers are identified on Table 2, which indicates the type of retailer, typical store size, current representation in Watsonville, Santa Cruz, and Capitola, and comments about their site selection criteria. We contacted twelve retailers that did not have representation in Watsonville, with results shown on Table 3. As indicated, we received positive responses from three stores: a home improvement store, a discount general merchandise retailer and a discount food store of 50,000 square feet with a strong corporate affiliation that requested confidentiality. Two of the stores would take the entire site. The food retailer would take about half the site.

- ◆ The general merchandise retailer wishes to expand to Santa Cruz County to complement other stores in northern California and typically does well in trade areas of this size.
- ◆ The home improvement retailer is not currently represented in northern California.

Caution is required in reviewing the positive responses, in that they are highly preliminary, are subject to corporate review, and could change if a site cannot be conveyed soon. In addition, the site size of 10.4 acres is at the margin of acceptability to the larger users, who frequently want sites of about 12 acres.

In sum, the prospects of attracting a major user(s) to the County's site appear fair to good

As part of the assignment, we reviewed land values associated with commercial use in Watsonville through contact with the office of the County Assessor. Commercial land sales are shown on the top of Table 4. As indicated, parcels that comprise the Overlook Shopping Center transacted in 5/94 for \$6.81 per square foot of land. Pad sales to Target and Lucky were in the range of \$6.48 to \$7.05 per square foot in 9/97. Much higher prices were paid by 7-I 1 and McDonald's, which is typical for these small users. Another site on Main Street, for hotel development, transacted at \$5.86 per square foot in 5/98. There is no market evidence that the value of commercial sites in Watsonville has trended upward in the last several years, according to the Assessor's Office. A commercial broker active in locating sites similar in size to the County's property in markets similar to Watsonville reported to this office that land prices to major users have generally been in the range of \$4.50 to \$6.50 per square foot,

TABLE 1

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COUNTY OF SANTA CRUZ
FREEDOM BOULEVARD PROPERTY
Composition of Taxable Retail Sales

Calendar Year 1997

Store Type	State (\$000's)	Sacramento County (\$000's)	Santa Cruz County (\$000's)	Watsonville (\$000's)
Apparel	\$ 11,530,373	\$ 351,076	\$ 66,108	\$ 7,209
General Merchandise & Drug	\$ 36,525,845	\$ 1,536,577	\$ 272,029	\$ 34,618
Specialty	\$ 33,826,628	\$ 1,335,040	\$ 225,275	\$ 31,836
Food Stores	\$ 15,924,286	\$ 644,514	\$ 134,433	\$ 19,933
Eating Places	\$ 28,253,848	\$ 949,013	\$ 229,329	\$ 32,477
Home Furnishings/Appliances	\$ 9,632,898	\$ 457,570	\$ 64,042	\$ 2,936
Building Materials	\$ 15,642,903	\$ 593,405	\$ 190,459	\$ 37,182
Automotive	\$ 57,339,036	\$ 2,050,389	\$ 359,252	\$ 76,005
Other	\$ 8,157,286	\$ 309,558	\$ 83,374	\$ 10,092
Total	\$ 217,248,677	\$ 8,227,142	\$ 1,624,301	\$ 252,288

Calendar Year 1997 Percent Distribution

Store Type	State	Sacramento County	Santa Cruz County	Watsonville
Apparel	5.3%	4.3%	4.1%	2.9%
General Merchandise & Drug	16.8%	18.7%	16.7%	13.7%
Specialty	15.6%	16.2%	13.9%	12.6%
Food Stores	7.3%	7.8%	8.3%	7.9%
Eating Places	13.0%	11.5%	14.1%	12.9%
Home Furnishings/Appliances	4.4%	5.6%	3.9%	1.2%
Building Materials	7.2%	7.2%	11.7%	14.7%
Automotive	26.4%	24.9%	22.1%	30.1%
Other	3.9%	3.8%	5.1%	4.0%
Total	100.0%	100.0%	100.0%	100.0%

Note: 1997 data are most recently available full-year statistics from State Board of Equalization.

TABLE 2

County of Santa Cruz
 Freedom Boulevard Site
 Major Retail Stores

Store	Type	Typical Building Size	Now In Watsonville?	Now In Santa Cruz?	Now In Capitola?	Comment
Albertson's	Grocery	40,000 - 60,000	Yes	No	Yes	Freestanding or in centers. Now owned by American Stores.
Auto Parts Club	Auto Parts	30,000	No	No	No	Needs 350,000 population in market area.
Bed Bath & Beyond	Home Furnishings	30,000 - 85,000	No	No	No	Freestanding or in centers.
Best Buy	Electronics	28,000 - 58,000	No	No	No	Needs market area of 200,000.
Big 5 Sporting Goods	Sports Goods	10,000 - 25,000	Yes	No	Yes	Needs 125,000 population in 5 miles. Freestanding or in centers.
Circuit City	Electronics	15,000 - 45,000	No	Yes	No	Not a prospect for County property with SC store.
Comp USA	Electronics	16,000 - 58,000	No	No	No	Needs 500,000 population in market area.
Computer Cii	Electronics	20,000 - 25,000	No	No	No	Needs 500,000 population within 10 miles of site.
Copeland's Sports	Sporting Goods	7,000 - 55,000	No	No	No	Prefers strong primary markets, university with athletics.
Fry's	Electronics	114,000 - 150,000	No	No	No	Generally located in stronger metro markets.
Home Depot	Home Improvement	100,000 - 135,000	No	No	No	Freestanding or in centers. Salinas, Gilroy, 41st Avenue (pending)
Kmart	Discount	65,000 - 190,000	Yes	No	No	Not a prospect for County property - existing Watsonville location.
Levit	Home Furnishings	25,000 - 60,000	No	No	No	Operating in Chapter 11.
Lowe's	Home Improvement	85,000 - 160,000	No	No	No	Freestanding or in centers. Recently acquired Eagle Hardware.
Lucky's	Grocery	43,000 - 63,000	Yes	Yes	Yes	Lucky Stores new prototype combines a supermarket format with Sav-On Drugs under one roof, 65,000 SF. Lucky's is now owned by American Stores.
New Leaf	Grocery	12,000 - 16,000	No	Yes	Yes	Local chain with five stores.
Office Depot	Office Supply	30,000	No	No	No	May merge with Staples. Freestanding or in centers.
Office Max	Office Supply	25,000	No	Yes	No	Freestanding or in centers.
Orchard Supply Hardware	Home Improvement	40,000 - 60,000	Yes	No	Yes	Freestanding or in centers. Owned by Sears.
Petco	Warehouse	12,000 - 20,080	No	No	No	Prefers location with 200,000 - 400,000 SF tenants. In Morgan Hill and Los Gatos
PetsMart	Warehouse	40,000	No	Yes	No	Wants 200,000 population within 5 miles.
PriceCostco	Warehouse	100,000 - 135,000	No	Yes	No	Not a prospect for County site with SC store.
REI	Sporting Goods	12,500 - 60,000	No	No	No	Freestanding or in centers. Wants mid to high income trade area.
Ross Dress For Less	Discount Apparel	24,000 - 35,000	No	Yes	Yes	New prototype Dress for Less is 28,000 SF. Freestanding or in centers.
Safeway	Grocery	59,000 - 89,000	No	Yes	No	Located in heavily populated urban and suburban areas.
Sam's Club	Warehouse	100,000 - 130,000	No	No	No	Safeway's new prototype is 55,000 SF.
Sportsmart	Sporting Goods	42,000	No	No	No	Wants 200,000 population within 5 miles.
Staples	Office supply	6,000 - 35,000	Yes	Yes	No	Prefers centers anchored by major discount chains.
Target	General Mdse.	100,000 - 190,000	Yes	No	No	Wants TA of 175,000 people.
The Good Guys	Electronics	10,000 - 40,000	No	No	No	Not a prospect for County site.
Trader Joe's	Grocery	8,000 - 10,000	No	No	Yes	Needs trade area population of 250,000.
Wal-Mart	Discount	40,000 - 60,000	No	No	No	Wants 100,000 pop. in 5 mi. radius. Prefers upper income TA.
Whole Foods	Grocery	24,000 - 53,000	No	No	No	Testing smaller neighborhood module of 40,000 SF.
						Wants 150,000 pop. in 1 mile radius, 200,000 in 5 mile radius.
						Trade areas with highly educated population.

TABLE 3

COUNTY OF SANTA CRUZ
FREEDOM BOULEVARD PROPERTY

Results of Contacts With Retailers

<i>Store</i>	<i>Results</i>	<i>Comments By Retailers/Representatives</i>
Home Furnishings	Negative	None
Electronics	Negative	None
Electronics	Negative	None
Electronics	Negative	Demographics not acceptable.
Home Improvement	Negative	Stores in Salinas, Gilroy , Santa Cruz.
Home Improvement	Positive	Want to be in this market. Would take entire site.
Grocery	Negative	No present plans for this area. Demographics not enough upscale.
Office Supply	Negative	Area can't support a major office supply store in addition to Staples.
Pets	Negative	Needs strong promotional retailer as co-tenant.
Apparel	Negative	None
Discount	Positive	Want to expand to SC County to complement stores in Gilroy and Salinas. Would take entire site.
Discount Food Warehouse	Positive	Interested in Watsonville and this site.

TABLE 4

COUNTY OF SANTA CRUZ
 FREEDOM BOULEVARD PROPERTY
 Residential and Commercial Land Sales

Commercial						
Location	Date	Purchaser	Land Area	Price	Price/SF Land	Comment
1975 Main Street	5/94	DBO Development	22.3 Acres	\$ 6,000,000	\$ 6.18	Overlook Shopping Center
1465 Main Street	9/97	Lucky Stores	6.0 Acres	\$ 1,842,000	\$ 7.05	Pad Sale to Lucky
1415 Main Street	9/97	Dayton Hudson Corporation	8.64 Acres	\$ 2,440,000	\$ 6.48	Pad Sale to Target
1461 Main Street	10/97	Southland Corporation	.92 Acres	\$ 850,000	\$ 21.21	Pad Sale To 7-11
1459 main Street	8/98	System Capital RE Corp.	.72 Acres	\$ 850,000	\$ 27.10	Pad Sale to McDonald's
Main Street	5/98	Patel Paresh & Bina	1.47 Acres	\$ 375,000	\$ 5.86	Hotel Site

Residential											
Location	Date	Purchaser	Land Area	#Lots	Price	Condition	Price/ SF Land	Price/ Lot	Average Lot Size (SF)	Price/ SF Lot	
Clarissa Drive/ Green Valley Road (Creekside II)	10/98	Holcomb Corporation	15.74 Acres	43	\$3,000,000	Partially Finished Lots	\$ 4.38	\$69,767	6,000	\$ 11.63	
Harkins Slouth Road East of Ohlone Pkway. (Horiion Hill)	3/99	Duc Housing Partners	20.1 Acres	111	\$5,883,000	Unimproved With Tentative Map	\$ 6.72	\$53,000	3,500	\$ 15.14	

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The County's site is inferior to the site for the Overlook Shopping Center, which is in a stronger commercial setting and has superior regional access. But the County's property is one of the few commercial sites of this size that can be assembled in Watsonville and the neighboring communities, the effect of which is to increase the supportable land price. If offered for bid, we conclude that a price between \$6 and \$7 per square foot might be obtained for the cleared site, resulting in proceeds in the range of \$2.7 million to \$3.2 million.

Residential Development Potential

Residential trends in Watsonville mirror the differences between the southern and northern portions of Santa Cruz County:

- The economy of the southern portion of the County is dominated by agriculture, food processing and small scale industry, with, however, a growing representation of emerging high technology firms that have been drawn to the area by favorable occupancy costs. The Enterprise Zone and the relatively low wage profile of the local work force are also inducements to industry. The availability of land for development is, however, a key constraint to growth.
- The economy of north County reflects ties to the University of California and industries in Silicon Valley, with a population that is affluent and highly educated. Tourism is an important element in the economic base of north County.

The differences noted above are reflected in the income characteristics of the population. According to data from Claritas, Inc. 1997 per capita incomes were as follows: Watsonville, \$13,200; City of Santa Cruz, \$21,800; Capitola, \$24,500; Santa Cruz County, \$24,200. Incomes in Watsonville are the lowest in the County and unemployment is highest. Another characteristic of the local market is that more than half the population is Latino.

The key factor defining conditions in the residential market in Santa Cruz County has been the absence of development sites and low levels of new construction in recent years. Table 5 shows building permit activity for new residential construction in Santa Cruz County and the City of Watsonville since 1990. As indicated, in the last 9 + years a total of 5,046 new dwelling units were permitted in the County. Only 831 were permitted in the City of Watsonville. Average housing production in the County has been 536 units/year; in the City, 88 units/year. These amounts are far below the amounts necessary even to replace dilapidated stock. Only 30 units of single family detached housing have been built annually in Watsonville over the period.

Table 6 shows basic characteristics of the housing stock in communities in Santa Cruz County. As indicated, Watsonville accounts for 11,200 of the County's 96,100 dwelling units, with single family detached units accounting for roughly half of the units.

The Watsonville home market has traditionally been characterized by much lower home prices than have obtained elsewhere in the County. According to data from the California Association of Realtors, median home prices in Watsonville in May 1999 were \$196,000, compared to \$282,500 in the County. The communities of Aptos, Santa Cruz, and Scotts Valley all have median home prices in excess of \$300,000.

Prices have risen significantly in Watsonville, registering a 7.7% annual increase from May 1998 to May 1999. There is very little availability of either rental or for-sale housing, with especially severe pressure on the stock of low and very low-income rental housing.

TABLE 5

COUNTY OF SANTA CRUZ
FREEDOM BOULEVARD PROPERTY

Housing Production: Santa Cruz County and City of Watsonville

Year	Santa Cruz County			City of Watsonville			Watsonville % County		
	Single Family	Multi-Family	Total	Single Family	Multi-Family	Total	Single Family	Multi-Family	Total
1990	405	146	551	58	90	148	14.3%	61.6%	26.9%
1991	318	116	434	34	27	61	10.7%	23.3%	14.1%
1992	291	365	656	28	75	103	9.6%	20.5%	15.7%
1993	279	67	346	7	59	66	2.5%	88.1%	19.1%
1994	425	91	516	31	18	49	7.3%	19.8%	9.5%
1995	358	79	437	26	21	47	7.3%	26.6%	10.8%
1996	372	135	507	34	4	38	9.1%	3.0%	7.5%
1997	517	216	733	19	52	71	3.7%	24.1%	9.7%
1998	453	186	639	33	112	145	7.3%	60.2%	22.7%
1999 (Jan. - May)	124	103	227	13	90	103	10.5%	87.4%	45.4%
Total Units	3542	1504	5046	283	548	831			
Average Annual Housing Production	376	160	536	30	58	88			

TABLE 6

COUNTY OF SANTA CRUZ
FREEDOM BOULEVARD PROPERTY

Population and Housing, Santa Cruz County

<i>Area</i>	<i>Population</i>	<i>Total Units</i>	<i>SF Detached Units</i>	<i>SF Attached Units</i>	<i>Multi-Family Units</i>	<i>Mobile Homes</i>
Capitola	11,100	5,408	1,914	471	2,252	771
Santa Cruz	54,600	20,490	11,576	1,586	6,922	406
Scotts Valley	10,600	4,121	2,285	349	690	797
Watsonville	37,200	11,164	5,769	1,320	3,141	934
Unincorporated	136,800	54,944	39,536	3,800	7,380	4,228
Total	250,300	96,127	61,080	7,526	20,385	7,136

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Homes in Watsonville are much less expensive than elsewhere in the County and in the surrounding metropolitan areas (Bay Area, Silicon Valley, Monterey). As a result, there has been an influx of buyers from north County and elsewhere seeking to purchase relatively affordable housing in Watsonville. Alternative locations for significant housing development in Santa Cruz County are few; there is virtually no subdivision land available in any of the other communities. As development of Ford Ord proceeds, Watsonville will be particularly well positioned to absorb a share of the regional demand for housing resulting from pressures originating south of the community.

The focus of this review is market rate residential development, since a subsidized development would not support positive land value and assist the County in funding the replacement of the facilities currently located on-site. The private market development would most likely be single family units, although a townhouse project could also be accommodated. There is little precedent for stacked condominiums in this market and no reason why the County should mandate this concept for its site. Any development involving attached dwelling units poses risks to the builder from lawsuits by homeowners associations, which partially accounts for the preference by builders to construct detached homes.

Detached units can be developed in relatively dense configuration to support a significant build-out of housing and the highest feasible land price. A low density project would not maximize housing development and would result in significantly lower land proceeds since lower density for this site would not result in significantly higher sales prices.

As part of this assignment, we surveyed the two subdivisions that were actively marketing in Watsonville. The results are shown on Table 7:

- Creekside II by the Holcomb Corporation has completed the first 12 of 43 dwelling units, selling all the units within one month within a range of \$250,000 to \$280,000. The unit pricing equates to \$150 to \$165 per square foot. Access to the development is somewhat complex and the 6,000 square foot lots are steeply sloping and largely unusable. Many buyers are reported to be from Santa Cruz.
- Green Valley Highlands is a 70 unit project of the Barnett Company that has nearly completed sell-out. Three plans have recently been marketed, ranging from a 1,612 square foot 3 bedroom 2 ½ bathroom unit to a 2,115 square foot 4 bedroom 2 ½ bathroom unit. Lots in this development average 3,800 square feet. Pricing is in the range of \$140 to \$165 per square foot. Recent absorption has been rapid, but units in this project have not been put on the market on a timely basis. Many of the buyers are described as residents of Watsonville.

We have also reviewed prices of single family homes that have been sold through the multiple listing service from mid-1998, as shown on Table 8. The sales are of newer single family detached and attached residences. As noted, newer single family detached residences in Watsonville have been selling at an average price of \$242,900 and median price of \$235,490, which equates to a price per square foot of about \$150. Detached units have been selling at an average price of \$192,800 and median price of \$195,000, which equates to a price per square foot in the range of \$141.

There is increased activity in the homebuilding market in Watsonville, with several projects in the planning or under construction. Most of the activity is focused on the Landmark properties, comprising a 172 acre site (108 acres of which are developable) between Harkins Slough

TABLE 7

COUNTY OF SANTA CRUZ
FREEDOM BOULEVARD PROPERTY

Characteristics of Subdivisions Now Marketing In Watsonville

Name/ Location	# Units	Type	Typical Lot Size	Current Pricing	SF	Price Range/ SF	Absorption/Buyer Profile
Creekside II Clarissa Drive/ Green Valley Road	43	SFDU	6,000 SF (Sloping)	\$250,000-\$280,000	1,500-1,900	\$150-\$165	First phase of 12 units sold within one month. Many buyers from Santa Cruz. \$60,000 HH Income Many are young couples/diverse occupations.
Green Valley Highlands Hope Drive/ Green Valley Road	70	SFDU	3,800 SF	\$270,000-\$300,000	1,600-2,100	\$140-\$165	Strong demand. Units not delivered on timely basis. Many local Watsonville buyers. Young families.
Under Construction Horizon Hill Harkins Slough Road East of Ohlone Pkway.	111	SFDU	3,500 SF	Pro Forma ed at mid \$200,000's one year ago	1,700-2,100	Low \$140's/SF one year ago (could be \$160/SF today).	Many buyers would not be current Watsonville residents.

TABLE 8

COUNTY OF SANTA CRUZ

FREEDOM BOULEVARD PROPERTYRecent Residential Sales in Watsonville/Newly Constructed Units

	<u>SF Detached</u>	<u>Condo./ Townhomes</u>
High	\$ 299,900	\$ 204,000
Low	\$ 209,500	\$ 179,500
Average	\$ 242,900	\$ 192,800
Median	\$ 235,490	\$ 195,000
Price/SF		
High	\$ 182	\$ 163
Low	\$ 137	\$ 125
Average	\$ 156	\$ 132
Median	\$ 150	\$ 141

Note:

Sales occurring in Watsonville from mid-1998 to present,
properties seven years or newer for SF, twelve years or
newer for townhomes.

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Road to the north, Highway 1 to the southeast, and West Beach Street to the southwest. This area now has road access, water and sewer service. The site is currently zoned Multiple Residential-Medium Density (RM-2) and Environmental management Open Space – Private land (EM-OS). Within the Landmark area, the following residential developments are emerging:

1. Horizon Hill is a project of DUC Housing Partners and will consist of a 111 unit single family subdivision on 20.1 acres (gross) at Harkins Slough Road, east of Ohlone Parkway. Average lot sizes are 3,500 square feet. Buyers are anticipated by the developer to be from the County market (not predominantly local). Unit sizes will be in the range of 1,700 to 2,100 square feet. Prices are anticipated in the mid to upper \$200,000'~.
2. Bay Breeze is a 114 unit small-lot subdivision by San Benito Homes at the southwest corner of Harkins Slough Road and Ohlone Parkway.
3. Stone Creek is a 120 unit 100% affordable apartment complex by AHDC, Inc.
4. In addition, the Franceschi Property and Mine Property, if developed for single family housing, could support about 500 units. No specific development projects are now being processed for these properties.

In addition to the Landmark properties, there is significant development potential for the Franich property, which was recently annexed to the southeast quadrant of Watsonville. This project, now in the planning stage by Clarum Corporation, would consist of 175 single family detached and 170 multi-family units. The multi-family units will be low-income units by a non-profit builder.

Although there are prospects for increased home building in Watsonville, it appears likely that the proposed projects will not be entering the market at one time. In addition, increased activity in the market could result in higher market awareness of housing opportunities in Watsonville, which could increase absorption.

The support for new market rate housing in Watsonville is largely dependent upon regional growth rather than projected increase in the population in Watsonville. The Association of Monterey Bay Area Government (AMBAG) projects population growth in the County at a rate of about 3,100 new residents per year through 2005. The annual increase in Watsonville is projected at 660 new residents per year (in addition, there will be gains through annexations, but these increases do not result in a net demand for housing). If 30% of the demand is met by single family units, in accord with trends in housing production in Watsonville between 1990 and 1999, less than 100 units of single family housing would be required to serve this market annually. Within the region, the forecasted increase in population should result in an annual demand for approximately 700 single family units.

Pricing of the County's land for residential development is based on two approaches, evaluation of comparable residential land sales, and the income (residual approach). In addition, we have referred to experience in valuing subdivision land in other markets.

In the Watsonville market, there have been two significant sales of residential subdivision land in recent years, as shown on the bottom of Table 4. In both instances, the data were confirmed by the developers.

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The first sale was the purchase of 15.74 acres for 43 lots by Holcomb Corporation for development of Creekside II for \$3 million in 10/98. The developer purchased partially finished lots from another developer. The land price was \$4.38 per square foot of land, nearly \$70,000 per lot, and \$11.63 per square foot of lot. The lot price represented about 25% of the sales prices of the homes based on current pricing; this ratio is very representative of sales of developed lots to builders in markets in Northern California.

The second sale was the purchase of 20.1 acres of land by DUC Housing Partners. The land was unimproved but had a Tentative Map. The land price of \$5,883,000 equated to \$6.72 per square foot of land, \$53,000 per lot, and \$15.14 per square foot of lot area. The developer indicates that the terms of the transaction included provisions highly favorable to the seller, and that therefore the effective land price requires a significant downward adjustment (perhaps 20%.)

We have also developed an estimate of the potential value of the site for residential use through evaluation of the development economics of the site for this use, as shown in Tables 9 and 10. In this analysis, the costs of development (excluding land) and developer profit are deducted from gross sales revenue to yield an estimate of the residual amount attributable to the land. This amount is the purchase price for the property that would be affordable by a developer.

The assumed density of development in this analysis is 9 dwelling units per acre, which could readily be achieved at this site for single family detached housing. A lower density project would not result in significantly higher sales prices and would result in significantly lower land value. Average lot size would be about 3,500 square feet. A 10% deduction in the number of units has been assumed to take into account mitigation that could be required to shield the project from traffic on Freedom Boulevard. The resulting unit count for the development is therefore 85 dwelling units.

The units would be a mix of three and four bedroom units, weighted heavily towards three bedroom units, with an average unit size of 1,700 square feet.

Table 9 shows the gross sales revenue from development of the site for residential. In developing this table, pricing assumptions were as follows:

- ◆ Market rate units would sell in the range of \$145 per square foot (\$246,500). This estimate is somewhat below the pricing in other subdivisions in Watsonville, to take into account the commercial influence from proximity to Freedom Boulevard, which will constrain attainable sales prices.
- ◆ Per the City of Watsonville's inclusionary housing ordinance, 10% of the units would be marketed to low income households (households with incomes at 90% of income levels established by HUD for Santa Cruz County) and 15% of the units would be marketed to households of average income. Pursuant to the ordinance, the low income units would sell for \$167,800 and the average income units for \$209,600.

As indicated in Table 9, gross revenue from sale of the units would be \$20,100,000, which equates to \$236,300 per unit.

Table 10 shows a calculation of residual land price, in which development costs and profit requirements are deducted from gross sales revenue to yield a residual land value. An inset

TABLE 9

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COUNTY OF SANTA CRUZ
 FREEDOM BOULEVARD PROPERTY
 Hypothetical Residential Project/Sales Volume

<i>Overall Specifications</i>	
# Units	85
3 Bdrm.	64
4 Bdrm.	21
Average SF	1,750
Gross SF	148,750
Lot Size (SF)	3,500
Pricing	
Market Rate Units	63
Low Income Units	9
Average Income Units	13

Sales Volume

Market Rate Units

# Units	63
Average SF	\$ 1,750
Sales Price/SF	\$ 145
Sales Volume	\$ 15,990,000

Low Income Units

# Units	9
Income Limit	\$ 49,780
Monthly Payment/Mortgage	\$ 1,162
Mortgage Principal	\$ 151,000
Affordable Price	\$ 167,800
Sales Volume	\$ 1,426,000

Average Income Units

# Units	13
Income Limit	\$ 62,225
Monthly Payment/Mortgage	\$ 1,451
Mortgage Principal	\$ 188,630
Affordable Price	\$ 209,600
Sales Volume	\$ 2,672,000

Total Sales Volume	\$ 20,088,000
Per Unit	\$ 236,329
Per SF	\$ 135.05

TABLE 10

COUNTY OF SANTA CRUZ
FREEDOM BOULEVARD PROPERTY

Hypothetical Residential Development/Residual Land Value

	<u>Amount</u>	<u>Comment</u>
Sales Volume	\$ 20,088,000	Per Table 9.
Less Development Costs		
Directs		
Site Development	\$ 1,132,560	At \$2.50/SF of site.
Construction	\$ 10,040,625	At \$65-\$70/SF
Subtotal/Directs	\$ 11,173,185	
Indirects		
Architecture & Engineering	\$ 335,196	At 3.0% of Directs
Permits & Fees	\$ 1,164,457	Per inset table.
Legal & Accounting	\$ 111,732	At 1.0% of Directs
Taxes During Construction	\$ 111,732	At 1.0% of Directs
Sales & Marketing	\$ 1,004,400	At 5.0% of Sales
Financing	\$ 938,297	1 Yr., 9.0%, 1.25 Years
Contingency	\$ 335,196	At 3.0% of Directs
Subtotal/Indirects	\$ 4,001,010	
Total/Directs & Indirects	\$ 15,174,195	
Developer Profit @ 12% of Cost	\$ 1,820,903	
Total/Cost and Profit	\$ 16,995,098	
Land Residual	\$ 3,100,000	

Per SF Site	\$ 6.84
Per SF/Lot	\$ 10.42
Per Unit	\$ 36,471
% of Sales Volume	15.4%

Detail/Permits & Fees

Building Permits	\$ 265,000
Fire Impact	\$ 29,750
Parks and Recreation	\$ 58,459
Public Facilities	\$ 59,500
Sanitary Sewer	\$ 102,383
Storm Drain	\$ 50,112
Traffic Impact	\$ 135,065
Ground Water Impact	\$ 76,521
Water Connection	\$ 100,580
School Facilities	\$ 287,088
Total Fees	\$ 1,164,457



Prepared By Keyser Marston Associates, Inc.

Source: Keyser Marston Associates, Inc., City of Watsonville (Fee Schedules)

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table provides an estimate of fees that would be paid to the city per the schedule of development fees provided by the City of Watsonville.

As indicated, total development costs are estimated at \$15,200,000 (before land). Developer profit is estimated at \$1,820,000. The sum of cost and profit is therefore \$17,000,000. With \$20,100,000 in sales volume, the residual available for land is estimated at \$3,100,000.

As indicated, the analysis results in an estimate of land value for residential use as follows:

Site Value - \$3,100,000
Value Per Square Foot of Site - \$6.84
Value Per Lot - \$36,500
Value Per Square Foot of Lot - \$10.42

As noted, the value estimate from the financial analysis is somewhat lower than those indicated by the comparable sales, which have been in the range of \$53,000 to \$70,000 per lot and \$11.63 to \$15.14 per square foot of lot. In our view, the indicated price is a reasonable estimate of what could be obtained in the market for the property. The land value would be equivalent to 15% of the sales prices of the units.

We have discussed the potential development of the site with Holcomb Development and the DUC Housing Partnership. One of the developers appears moderately interested in the property, with concerns regarding the interface with Freedom Boulevard. The other is enthusiastic about pursuing development of the property regardless of frontage conditions.

Land Proceeds to the County

The estimates provided above for the value of the County's land are as follows, for cleared sites:

Commercial - \$2.7 to \$3.2 million
Residential - \$3.1 million.

For planning purposes, these estimates should be regarded as identical.

To convey a cleared site, the seller (County) will need to demolish the existing improvements and buy out the lease on the commercial parcel. Demolition costs are roughly estimated at \$200,000. The cost of buying out the commercial lease two years before expiration of its scheduled termination on April 30, 2002 is **also** likely in the range of \$200,000, depending on the terms of the lease to the tenant and the income actually received from the rental of storage space on the property. The estimate reflects what appear to be the likely market terms for the lease of the building and storage.

Therefore, estimates of gross proceeds need to be reduced by about \$400,000 to take into account the costs noted above. If toxics remediation is required, this cost would also be an expense of the seller.

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Alternative Development Programs

There appear to be three potential development programs available to the County for this property.

1. *The first would consist of sale (or lease) of the property for commercial use, in all likelihood to one or two users.* With this option, the prospects for successful disposition are rated fair to good. A significant drawback to this approach is that if a major user that would take the entire site could not be found, there would be complexities resulting from parcelization of the property and phased disposition. In addition, introduction of a major user such as a home improvement center could negatively impact (or be perceived to negatively impact) the adjacent residential neighborhood.
2. *The second would consist of the sale of the property for residential use (we would not recommend leasing the property for residential development).* With this option, the prospects for successful disposition to a local or regional housing developer are rated good to excellent. We have not identified any significant drawbacks to this approach. There is strong demand for housing in Watsonville and that demand should persist through market cycles due to the shortage of residential land in the market area.
3. *The third would consist of a mixed commercial/residential concept.* We have significant concerns about this approach. First, it would involve complexity in the melding of the commercial with the residential in respect to uses, phasing, and planning issues. Second, reduction of the site available for the commercial would restrict the market of potential users. Third, with a relatively minor amount of commercial space in the project, securing suitable tenancies consistent with the residential development would be difficult. Fourth, the entire package could be viewed as unduly complex by entities (local, regional home builders) that would develop the housing.

There does not appear to be a notable difference in achievable land price between residential and commercial use of the County's property. The effect of development programs that mix uses and involve significant complexity would be to reduce the value of the property and prospects for successful marketing.