

Administrative Draft Report

Kammerer Urban Design Study Market Analysis

The Economics of Land Use



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City of Elk Grove

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Table of Contents

1.	Introduction and Summary of Findings	1
	Summary of Findings and Recommendations	2
	Report Organization	3
2.	Key Characteristics of Urban Style Employment Centers	5
	Key Characteristics.....	5
3.	Study Area Context.....	13
4.	Socio-Economic and Demographic Overview	23
	Population Trends and Characteristics	24
	Employment Trends	25
	Commute Patterns	33
	Housing Trends.....	36
	Civic Amenities	38
5.	Commercial Real Estate Market Analysis	41
	Office—Class A/B	41
	Medical Office	42
	Light Industrial/R&D Flex	43
	Retail	44
	City and Regional Demand Projections and Capture Rate Scenarios	45
6.	Kammerer Study Area Competitive Position.....	51
7.	Findings and Recommendations	57
	Key Findings	57
	Recommendations.....	59

List of Tables

Table 2-1	Urban-Style Employment Centers Case Study	7
Table 3-1	Development Context Summary	16
Table 4-1	Elk Grove Employment Growth, 2000-2015.....	27
Table 4-2	Estimated 25 Largest Employers in Elk Grove (2018)	30
Table 4-3	Driving Distance and Times to Kammerer Road	36
Table 5-1	Commercial Real Estate Trends Snapshot	42
Table 5-2	City of Elk Grove Capture of Projected Regional Demand Scenarios	45
Table 5-3	Elk Grove Capture Rate Range	47

List of Maps

Map 2-1	Regional Employment and Innovation Centers: Future and Existing	11
Map 3-1	Primary Study Area Development Context	15
Map 4-1	Elk Grove Employment Density (2018).....	28

List of Figures

Figure 3-1	SEPA Proposed Development Impact Fees	16
Figure 3-2	Valley Rail Existing and Future Service Plan	19
Figure 3-3	Capital SouthEast Connector.....	21
Figure 4-1	City of Elk Grove Population Growth.....	24
Figure 4-2	City of Elk Grove Employment Growth.....	25
Figure 4-3	Demographic Snapshot	26
Figure 4-4	Top Employment Growth Industry Sectors in Elk Grove (2000-2015)	27
Figure 4-5	U.S. Unemployment Claims	32
Figure 4-6	City of Elk Grove High Risk Jobs	33
Figure 4-7	City of Elk Grove Inflow & Outflow	34
Figure 4-8	Elk Grove Worker Destinations.....	35
Figure 4-9	Average Annual Median Sales Price.....	37
Figure 6-1	SWOT Analysis Summary	52

1. Introduction and Summary of Findings

Reader's Note: This report is being prepared as the world seeks to address the coronavirus disease of 2019 (COVID-19) pandemic, an unprecedented public health crisis that has endangered vulnerable populations and caused sudden and dramatic shifts in our economic and social behavior. Since the economic effect has been both significant and abrupt, the pandemic may potentially have implications for some of the conclusions described herein. However, given that the length and severity of the pandemic is still unknown, the specific economic implications will depend on how the crisis and fiscal response unfold over the next six to eighteen months. The economic impacts may dissipate over the long-term, but the exact pace and timeframe for recovery remains uncertain, as do any structural changes to the real estate market and economy. Additional discussion regarding the potential ramifications of the pandemic on analytical assumptions is provided later in this report.

The City of Elk Grove (City) is undertaking efforts to develop a major employment center along the Kammerer Road corridor. The City engaged a multidisciplinary team to prepare an Urban Design Study that will examine characteristics of Kammerer Road both currently and as planned in context with Lent Ranch, the SEPA Employment Areas, and the City's 23 acres along Kammerer Road to identify potential alterations to the General Plan, Zoning, SEPA Special Planning Area, Capital SouthEast Connector, and other applicable plans that will affect the establishment of an urban-style employment center. As part of this multidisciplinary team, EPS has prepared the enclosed market study to inform the Vision Plan and to help develop conceptual land use plans for the project area by evaluating the viability of urban-style employment centers and related uses and developing recommendations regarding the appropriate scale and mix of uses that will inform the land use plan.

The Kammerer Road Corridor is positioned within the City's Southeast Policy Area and South Study Area and is currently designated for a high concentration of employment generating uses. As part of the Kammerer Road Urban Design Study, the City wishes to evaluate the viability of developing a high intensity, urban style employment center along the Kammerer Road Corridor at the southern end of the City. Like other urban-style employment centers elsewhere in the nation, the City envisions a mix of uses (both horizontally and vertically) that include employment-generating uses, experiential retail and entertainment amenities, convenience retail, hospitality and conference center facilities and housing. With the anticipated construction of the Capital SouthEast Connector Expressway along the existing Kammerer Road alignment, the Kammerer Road Corridor is envisioned as a major contributor to the City's economic development and diversification goals.

The objective of this market analysis is to provide an assessment of the real estate market, economic, and social conditions needed to maximize opportunities for successful implementation of the desired style of development along the Kammerer Road corridor.

As such, this report does not offer a full analysis of real estate market supply and demand characteristics—it is understood that the available supply of commercial zoned property in and surrounding the Study Area far surpasses anticipated employment growth over the next several decades. This Study therefore instead focuses on identifying the prevailing real estate market characteristics and economic development initiatives that will be critical to supporting land use planning efforts and maximizing the potential absorption of desired uses in the Study Area.

Summary of Findings and Recommendations

Key Findings	
1	Successful urban-style employment centers throughout the nation include a number of common land use characteristics that the City should seek to replicate.
2	Land use regulations that encourage density and desired urban amenities are important to achieving the land use objectives of a more intense urban environment.
3	Integration of housing products is a particularly critical element of successful urban style employment centers and plans for Study Area development should include a significant housing component.
4	Demographic and socioeconomic characteristics make the City an attractive location.
5	The City has demonstrated sustained employment growth over the last 15 years.
6	While unemployment rates in the City are low, and Elk Grove residents are employed in a diversity of industries, most Elk Grove residents work outside the City.
7	The commercial real estate market in the City is not overbuilt, with strong lease rates and low vacancy rates, but is challenged by market fundamentals limiting the viability of speculative development.
8	Based on current 20-year demand projections, the supply of developable land for nonresidential uses in Elk Grove is anticipated to outpace demand.
9	Development of the Study Area offers key opportunities for the City to capitalize on growing sectors and potentially attract major institutional users through offering shovel ready development opportunities with key connections to major employment centers.
10	Development of the site will also need to overcome challenges associated with the project's geographic location at the southern end of the Sacramento MSA, development feasibility limitations, and competition from elsewhere in the Region.
11	The project's location along the planned Capital SouthEast Connector presents both an opportunity for and challenges to Project development.
12	The COVID-19 pandemic also presents major challenges to Study Area development, which may be partially mitigated by associated opportunities.

Recommendations

- 1 To maximize capture, the City should develop a strong and unique brand and identity for the Study Area that serves to set it apart from other existing and planned employment centers.
- 2 The City should continue ongoing efforts to attract institutional uses or other major employment users to anchor the site.
- 3 The City should work with property owners to continue the careful management of the supply of nonresidential real estate, while also seeking to provide space to accommodate new users.
- 4 Full absorption of the Study Area land uses is a long-term prospect, and the City should plan for metered development and absorption that may take upwards of 25-30 years.
- 5 Kammerer Area development should include integration of housing products.
- 6 Planning for Kammerer should include a keen focus on placemaking elements as part of an overarching economic development strategy.
- 7 Design of the Capital SouthEast Connector should respond to the dual objectives of improving mobility and accommodating Study Area livability.
- 8 The City should seek to reduce upfront infrastructure cost burdens and prepare site for investment.

Report Organization

Following this introductory chapter summarizing key findings, the remainder of this report is organized into the following chapters:

- **Chapter 2** offers an overview of key characteristics of urban style employment centers and identifies similar development proposals throughout the region.
- **Chapter 3** provides a detailed overview of the Kammerer Area, identifying the existing site, development, and policy context that will shape future development along the Kammerer Corridor.
- **Chapter 4** presents a comprehensive socioeconomic and demographic overview of the City, offering a synopsis of its position in the regional economy as such characteristics inform prospects for Kammerer Area development.
- **Chapter 5** provides an overview of the City's nonresidential real estate market and offers estimates of projected demand for office, industrial, and retail land uses in the City over the next 20 years.
- **Chapter 6** analyzes the Study Areas competitive position utilizing a strengths, weaknesses, opportunities and threats analysis (SWOT analysis) associated with Kammerer development based on the analysis in the preceding chapters.
- The outcomes of the SWOT analysis shape the real estate market and economic development recommendations and conclusions offered in **Chapter 7**.

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2. Key Characteristics of Urban Style Employment Centers

The City envisions transforming the Kammerer Area into an urban-style employment center at the southern end of the City. Case study analysis of similar developments throughout the nation reveal that the driving characteristics of this style of urban development include several key features relating to land use mix and density, public realm improvements, transit and parking, and relationship to other major employment centers. This chapter offers a high-level summary of these features to set the stage for related real estate market findings and recommendations. Also profiled in this chapter are other projects throughout the Sacramento Region that meet some or all of the characteristics of urban style employment centers and therefore inform the competitive landscape for a similar project in the Kammerer Area.

Key Characteristics

EPS conducted case study analysis of multiple projects throughout the nation that represent a cross section of urban style employment centers, including Addison Circle in Texas, Reston Town Center in Virginia, King of Prussia District Town Center in Pennsylvania, Pentagon Park in Minnesota, and Downtown Westminster in Colorado (see **Table 2-1**). While the characteristics of these districts vary significantly by geography, local economic dynamics, and local context, there are certain cross cutting themes that emerge that contribute to the success of the district, both in terms of placemaking and the related success of the project from a real estate market standpoint. Key features common to successful developments of this nature are profiled below.

Development Program

Successful urban-style employment centers typically include both a horizontal and vertical mix of uses that includes employment generating uses, experiential retail and entertainment amenities, convenience retail (grocery/pharmacy) hospitality and conference center facilities, and housing.

Most urban-style employment centers utilize a form-based code with minimum FARs that vary by location with densities increasing towards the center of the planning area and many do not place any height restrictions on development. Residential density minimums are typically 20 units per acre. Lower density industrial/flex uses are typically positioned on the edges of the planning area.

Integration of a variety of residential uses at various densities is a particularly critical component of successful districts. The provision of a variety of housing is vital to economic development goals, as it is an important resource in attracting workforce capital and associated employment opportunities. Employers contemplating locating in a certain locale must be assured that their employees can access desirable housing at appropriate price points. In addition, residential uses serve to bolster demand for retail amenities, which play an important role in activating the District. Finally, housing can serve to bolster development feasibility for mixed-use projects, with higher-value residential development serving to underwrite less feasible retail and office products.

Parks and Public Spaces

Most districts integrate a central park and public space that can be used by workers, residents, and visitors alike. The space can host weekly farmers markets, concerts, festivals, holiday events, and other events that provide community gathering spaces.

Access to Alternative Modes of Transportation

Bus rapid transit and/or commuter rail, bicycle and pedestrian improvements are typical, including links to larger regional trail and bicycle networks. Best practices include infrastructure to accommodate ride-, bike-, scooter-, and car-sharing.

Parking

Minimum FARs will discourage surface parking. Districtwide parking strategies (e.g., offsite parking structure) can help individual projects minimize costs associated with structured parking.






Access to Larger Job Markets

Urban style employment centers in a suburban context tend to benefit from access to larger job markets, with major employment centers and business districts typically located within 10-20 miles.

Rental Premiums

Successful urban-style employment centers are typically able to secure rental premiums ranging from 15 to 50 percent over traditional suburban development with vacancy rates falling between 1 to 10 percentage points lower than traditional suburban development. Developers also benefit from lower land acquisition values as compared to major employment centers in an urban context.

Table 2-1 Urban-Style Employment Centers Case Study

Item	Illustration	Description	Density	Transit Access	Access to Other Job Markets	Anchor Users/Tenants	Parking
Addison Circle Addison, TX		In an "edge city" this project comprises 142 acres of vacant land developed into over 2,400 residential units and 625,000 square feet of commercial with a 8.5-acre centrally-located park.	No height restrictions, tallest building stands at 10 stories	- Park-and-ride bus station - Has a preserved legacy rail and built station, but no connection to DART yet, anticipated 2035	- 15 miles north of Dallas	Addison Conference & Theatre Center Aerotek Cyxtera USAA Real Estate Gehan Homes LTD.	Privately run structures shared by all uses and free street parking.
Reston Town Center Reston, VA		A multi-phased development that's been progressing since the 1990s, comprising more than 2.3 million square feet of commercial space, 2,200 residential units, and a town square park on approximately 180 acres. Phase 3 is anticipated to include about 5.1 million square feet of commercial space and 3,700 residential units	18 story buildings. Newest development is a 17-story office with an estimated FAR of 12.0	- Washington Metro access anticipated for 2020	- 21 miles west of Washington, D.C.	Verisign, Inc. Balducci's Microsoft Bechtel Corp. Northrop Grumman Corp. Google Fannie Mae	More than 7,000 spots in vertical structures and street parking. A mix of parking-only structures and parking above commercial uses. Garage parking is free for the first hour, M-F after 5 PM, and on weekends.
King of Prussia District Town Center Prussia, PA		This project is a 138-acre former golf course is redeveloping into 2,500 residential units, office space, a hospital, medical office, hotel, and a linear park. The site is adjacent to a regional mall that is also redeveloping.	Future plans include buildings up to 11 stories	- Future King of Prussia Rail extension of existing Norristown High Speed Line - Access to regional bike trail	- 19 miles northwest of Philadelphia	CSL Behring Brandywine AT&T Corporate Office Children's Hospital of Philadelphia PennDOT (future) Main Line Health (future)	Free surface parking
Pentagon Park Edina, MN		Edina is in the process of redeveloping of a 42-acre suburban office park into approximately 900,000 square feet of office, 425 hotel rooms, 60,000 square feet of retail, a public plaza and park, and housing. 28 acres of the site is entitled for housing at 30-40 units per acre.	Entitled for 14 stories.	- Access to regional bike trail	- 11 miles southwest of Minneapolis - 10 miles west of Minneapolis-Saint Paul International Airport	NA - in process	Planned vertical structures shared by all uses and street parking.
Downtown Westminster Westminster, CO		Redevelopment of city area containing a failing 105-acre regional mall into a downtown-like space; development goals include 2.0 million square feet of commercial, 2,300 residential units, and 18 acres of parks and public spaces.	- No height restrictions - Minimum FAR for non-res. and mixed use is 0.75 - Minimum residential density is 16 units per acre	- BRT - Access to regional bike trail - Future FasTracks commuter rail station	- 12 miles northwest of Denver - 20 miles southeast of Boulder	Alamo Drafthouse and Cinema JCPenney Market Hall Remainder of commercial TBD	Employing a "park-once" parking district strategy with vertical public garage shared by all uses and street parking.

Source: ULI; NAIOP; project websites; EPS.

case study

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Anchor Tenants

The presence of a major anchor user can catalyze absorption of employment center uses. Often the presence of a major institutional user (education, medical, etc.) is a major factor in terms of generating technology transfer opportunities and spin off employment as well as producing a workforce with employer-desired skills and attributes. Where institutional users are not present, “micro-institutions” or an agglomeration of related industry users may emerge to drive the growth of employment.

Regional Employment and Innovation Centers: Future and Existing

Planned employment and innovation centers within the Region are on an upswing with existing smaller developments and a multitude of large developments in various stages of the planning process as shown below in **Map 2-1**. These employment and innovation centers comprise almost 16.0 million square feet of prospective nonresidential space that will serve the Region with office, R&D, light industrial, and retail space and some with residential uses. If all of these projects come to fruition, the additional space would consume 40 percent of projected office space demand, or 15 percent of total nonresidential projected square footage demand.

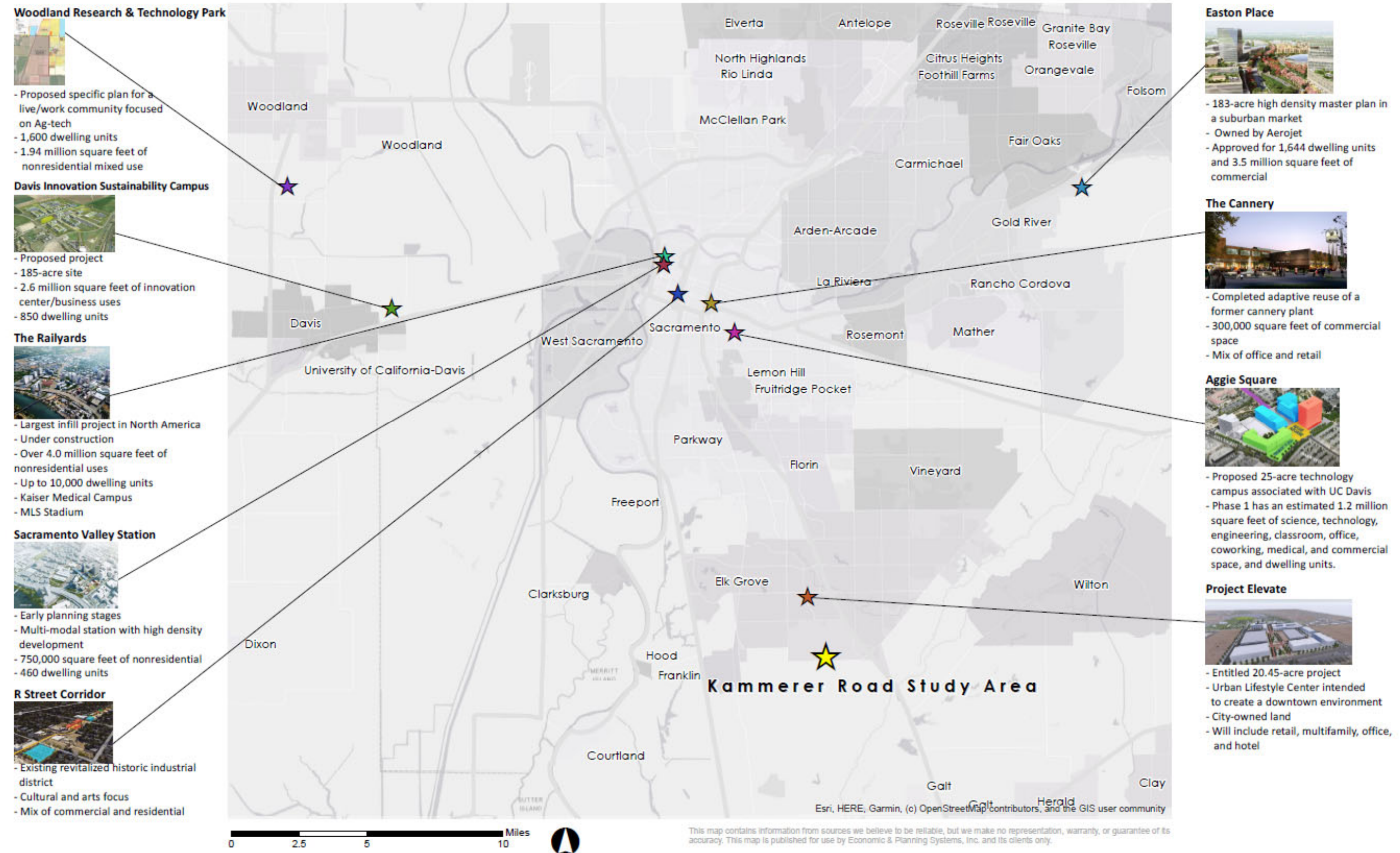
The 16.0 million square feet of planned employment and invocation center space is a significant amount of nonresidential development space within the Region, many with specific attributes that create access to a niche market or other locational characteristics that will influence the ability for those districts to capture Regional demand. These attributes include access to alternate modes of transportation including transit; cultural, recreational, and food amenities; collaborations with institutional partners; large anchor tenants; prominent labor pools; and/or central locations:

- Woodland Research & Technology Park’s proximity to UC Davis and a regionally significant concentration of seed and other agriculture research and development companies will offer an advantage in terms of capturing future agriculture technology and related uses.
- Davis Innovation Sustainability Campus, as a UC Davis mixed use investment featuring research & development, laboratory, prototyping, and advanced manufacturing with housing and recreational uses, this project will likely capture life science users for collaborations with the University.
- SVS, Railyards, R Street Corridor, and The Cannery are centrally located near transit, cultural and food amenities, and prominent labor pools and will capture employers seeking a central business district presence.
- Aggie Square is located near transit, cultural and food amenities and will take advantage of the science and technology collaboration with UC Davis.

- Easton Place will be a direct competitor with the Study Area in terms of urban development in a suburban context.
- Project Elevate will take advantage of the central location within Elk Grove, potentially offering early indications of the acceptance for more high intensity development in the City.

It is important to note that these projects are all at various stages of the development and entitlement process, and not all may come to fruition. **Map 2-1** is intended to provide an overview of these proposals both to illustrate related employment and innovation center trends, as well as identifying the competitive landscape for Kammerer Area development over the next several decades.

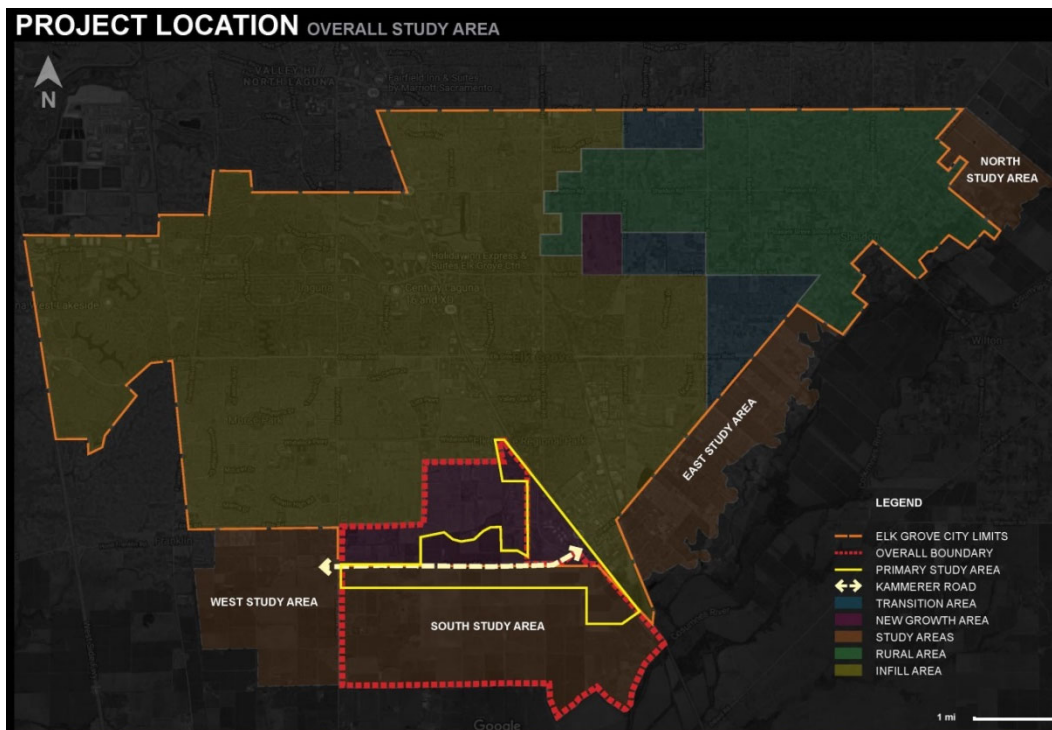
Map 2-1 Regional Employment and Innovation Centers: Future and Existing



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3. Study Area Context

For purposes of the Kammerer Urban Design Study, the City defined a project area boundary comprising 4,500 acres situated on the southern boundary within the City, as depicted in the map below (Overall Boundary or Kammerer Area). The project area boundary includes the Southeast Policy Area (SEPA), the last large scale development area within the urbanized portion of Elk Grove, as well as portions of the City's Sphere of Influence located south of SEPA. The focus of the Kammerer Urban Design Study is the Primary Study Area, an approximately 3-mile long ("Study Area") corridor occupying approximately 1,300 acres.



Source: Torti Gallas + Partners

The City is the last non-rural community in the southern portion of Sacramento County and is an approximately 30-minute drive from Downtown Sacramento to the north and 40-minute drive south to the City of Stockton. The City is generally considered to be part of the greater Sacramento region and economy but is also influenced by the Stockton region to the south. The Study Area's location in the southern portion of the City underscores the influence and interconnectedness of the City to both the Sacramento and Stockton regions.

Currently, Kammerer Road is a two-lane undivided rural road extending from State Route 99 west to Bruceville Road. As described more fully below, the City, in partnership with Sacramento County and the Capital SouthEast Connector Joint Powers Authority (JPA) intends to widen Kammerer Road to a limited access four-lane expressway facility connecting to Interstate-5 to the west and to the communities of Rancho Cordova, Folsom and El Dorado Hills to the northeast.

Development Context

Future development in and near the Primary Study Area will be influenced by the existing policy context as well as planned development adjacent or within the Primary Study Area. North, east, and west of the Kammerer Area, existing development includes single family residential, light industrial, and Emerald Lakes Golf Course. The area surrounding the Primary Study Area is mostly undeveloped. The Primary Study Area is partially located within the SEPA, where potential future development includes the Souza Dairy site and Bruceville Meadows. Included in the Study Area and east of SEPA is the Lent Ranch development area. Enveloped by SEPA and the Study Area, but not included in either plan area is the Sterling Meadows development. Planned development projects influencing the Primary Study Area are identified in **Map 3-1** below and discussed in detail in the sections to follow.

Table 3-1 Development Context Summary

Item	Description	Total Acreage	Planned Land Use		Project Status
			Resid. Units	Commercial Acres	
PROJECT					
SEPA	Strategic Plan				
Souza Dairy	SFR, MFR, Village Center Commercial	369	1,100	20	Entitled
Bruceville Meadows	SFR and MFR	114	320	-	Entitled
SEPA Subtotal		483	1,420	20	
Lent Ranch	Hotel and commercial	295	-	36	Ratified
Sterling Meadows	SFR	199	1,176	-	Entitled
South Study Area	Conceptual Activity Center and residential upon annexation	1,200	-	-	Early planning stages
TOTAL		2,177	2,596	56	

SEPA

In 2014, the City adopted the Southeast Policy Area (SEPA) Strategic Plan. SEPA is designed as an “employment-oriented development,” focusing predominantly on providing “for a range of job opportunities that are supported by a balanced mix of locally oriented retail uses and residential densities. The SEPA will be a regional destination for both employment activities and sports and entertainment.”

The SEPA Strategic Plan includes a Community Plan (part of the General Plan), a Special Planning Area, and infrastructure master plans for water, sewer, drainage, and transportation. In February 2019, the City adopted development impact fees for drainage, parks, and trails (see **Figure 3-1**). The proposed SEPA impact fees for drainage and parks and trails, separately are comparable to, if not lower than, drainage and park fees for other master and specific planned communities within the region, such as Folsom Ranch in Folsom and Spring Lake in Woodland.

Figure 3-1 SEPA Proposed Development Impact Fees

Item	Proposed Drainage Fee by Sub-Area (per gross acre)							Proposed Park & Trail Fee (per DU/Acre)	
	North Sub-Shed	Basin 4	Basin 5	Basin 6	Basin 7	Basin 8	LRSP Phase 3	Park	Trail
Land Use									
Single Family	\$28,328	N/A	N/A	\$26,965	\$20,734	N/A	\$22,573	\$10,739	\$9,691
Multifamily	\$47,113	\$30,735	\$36,392	\$44,838	\$34,428	\$40,191	\$42,048	\$7,757	\$7,001
Commercial	\$47,113	\$30,735	\$36,392	\$44,838	\$34,428	\$40,191	\$42,048	\$1,782	\$7,894
Office	\$47,113	\$30,735	\$36,392	\$44,838	\$34,428	\$40,191	\$42,048	\$3,222	\$14,281
Industrial	\$47,113	\$30,735	\$36,392	\$44,838	\$34,428	\$40,191	\$42,048	\$933	\$4,133

Source: City of Elk Grove.

The land plan for SEPA includes continuing existing residential development by providing residential uses to the north and office and industrial uses along State Route 99 and the Kammerer Corridor. SEPA also includes a site for an approximately 20-acre Village Center, bounded on the north side by higher density residential development. The Village Center site is centrally located in the plan area, approximately one mile north of Kammerer Road near future Bilby Road. In 2019, the City completed construction of a sewer lift station and force main for service of the SEPA area and the construction of two miles of arterial roadways (Big Horn Boulevard from Whitelock Parkway to Bilby Road, and Bilby Road from Bruceville Road to Shed C) with water, drainage, and sewer trunk lines and joint trench. Per the SEPA FEIR, the sewer shed is anticipated to serve the Primary Study area that is north of Kammerer Road and east of the Sterling Meadows boundary. The total cost of this investment was over \$34 million dollars. Additional backbone infrastructure improvements will be needed to serve the employment areas within SEPA.

Currently approved projects within SEPA include the Souza Dairy and Bruceville Meadows site. The employment uses and the backbone infrastructure for the employment area within SEPA are not yet constructed.

Souza Dairy

The Souza Dairy site is a 370-acre entitled project located just north of the Study Area and within SEPA. This project has 1,100 single family residential lots and 11 lots slated for high density multifamily residential and commercial development, including the Village Center. The project also includes a future school, eight parks, and future stops for light rail or bus rapid transit. The Souza Dairy project was the first approved development within SEPA back in 2015. This project approvals include a Tentative Subdivision Map and accompanying conditions of approval, as well as a Development Agreement that vests the approvals for 20 years (ending in September 2035). The timing of development of the site is currently unknown.

Bruceville Meadows

The Bruceville Meadows project is the second approval in the SEPA, located on the far west end adjoining Bruceville Road. The site includes approximately 320 large lot single family residential units, as well as a future multifamily site. This project is located outside of the Study Area.

Lent Ranch

The 295-acre Lent Ranch Special Planning Area is located in the Study Area at the northwest corner of Kammerer Road and State Route 99 and planned to include regional retail, office, and entertainment uses. The Lent Ranch Special Planning Area was originally entitled for a 1.3 million square foot regional mall and nearly 1 million square feet of additional power center retail. The mall began construction in 2007 but was left unfinished due to the Great Recession. The partial construction has since been demolished and a portion of the site was sold to the Wilton Rancheria Casino. A large

commercial and entertainment project, the Wilton Rancheria Casino recently broke ground and will include:

- 302 hotel suites and guest rooms.
- Spa and Fitness.
- Restaurants.
- Ballroom, conference, and entertainment.
- Retail outlet stores.
- Movie theater.
- Casino.

The balance of the Lent Ranch Special Planning Area remains undeveloped.

Sterling Meadows

The Sterling Meadows project is a residential subdivision approved by the City in 2008, which is in construction with a variety of single-family residential product types. The project is located northeast of Lent Ranch, north of the Study Area, outside of SEPA.

In 2018, the City approved an extension to the Development Agreement for the project. In exchange for extending the vested life of the project, the City received 23± gross acres of land (18± acres net developable), entirely fronting Kammerer Road and adjacent to Lotz Parkway. This acreage is the only City-owned portion of the Kammerer Corridor. As the only section of the Study Area of which the City has control, this 23-acre parcel will be an important element of the Kammerer Urban Design Study.

South Study Area

The South Study Area is a conceptual development component included in the February 2019 adopted General Plan upon approval of annexation. This area comprises the lands south of the City and Kammerer Road from State Route 99 to Bruceville Road. The conceptual land use program calls for the creation of an “activity district” along Kammerer, with an activity node near State Route 99. South of the activity district would be residential neighborhoods. The City of Elk Grove defines Activity Districts as areas that are, “intended to include higher densities and intensities of retail, services, employment, and residential uses. Activity Districts should be linked and supported by an interconnected network of streets and open spaces, with residential uses located within walking distance, facilitating options such as transit, biking, and walking for access to services and to the Residential Neighborhood District areas.”

Approximately 1,200 acres of the South Study Area (approximately 1,200 acres) were recently added to the City’s Sphere of Influence (SOI). This SOI includes two properties (the Wakeman and Feletto properties). With the SOI approved, the landowners are interested in beginning the land planning process with an intent of seeking annexation in the coming decade.

The portion of the Study Area south of Kammerer Road is in the South Study Area.

Transit Access

City residents and workers have access to various forms of mass transit, including: SacRT Light Rail connecting Elk Grove to Sacramento, Rancho Cordova, and Folsom; Elk Grove’s e-Tran bus with connections within the City, up to Downtown Sacramento, and the Light Rail station in Rancho Cordova; and the Amtrak San Joaquin’s Train bus extension connecting Elk Grove to the Sacramento or Lodi Amtrak train stations.

Existing transit access near Kammerer Road is currently limited with no direct access to these transportation options. The nearest transit access is the e-Tran with stops located at Bruceville and Bilby roads or Promenade Parkway. The closest Light Rail station is more than 6 miles away and Amtrak is accessible via a bus extension, which is located approximately 8 miles away.

A future line of SacRT Light Rail is planned to connect Cosumnes River College along the Big Horn Boulevard corridor into the Lent Ranch Area of SEPA.

An additional proposed future transit improvement is the Valley Rail expansion project of the Altamont Commuter Express (ACE train), which would directly connect Elk Grove to Downtown Sacramento, the Sacramento International Airport to the north and Merced, Stockton, Oakland, San Jose to south, and the cities in between as shown below in **Figure 3-2**. A station is planned along Cosumnes River Boulevard (with the ability to transfer to light rail) and a second station may be planned in the future at Kammerer Road. The estimated timeframe for the updated and improved rail line from Elk Grove to San Jose by train is about 1.5 hours.

Figure 3-2 Valley Rail Existing and Future Service Plan



Source: acerail.com.

In 2018 CalSTA awarded the Valley Rail project \$500.5 million to fund a series of new stations, track improvements, and equipment to increase connectivity. An EIR for the project is currently being prepared by San Joaquin Regional Rail Commission and San Joaquin Joint Powers Authority for the Valley Rail expansion. The Valley Rail extensions have a projected completion within the next 10 to 20 years.

Capital SouthEast Connector

Future development along the Kammerer Corridor will be shaped by the planned 34-mile Southeast Capital Connector. The Capital SouthEast Connector will be an expressway facility traversing the Primary Study Area, linking Elk Grove to El Dorado Hills with connections at Interstate 5, Highway 99, and Highway 50 with 4 continuous lanes and a multi-use path for pedestrians and bicyclists. The project is intended to provide regional congestion relief by linking Interstate 5, Highway 99 and Highway 50 via the existing Kammerer and Grantline Road alignments from Elk Grove, through Rancho Cordova, and to the community of El Dorado Hills.

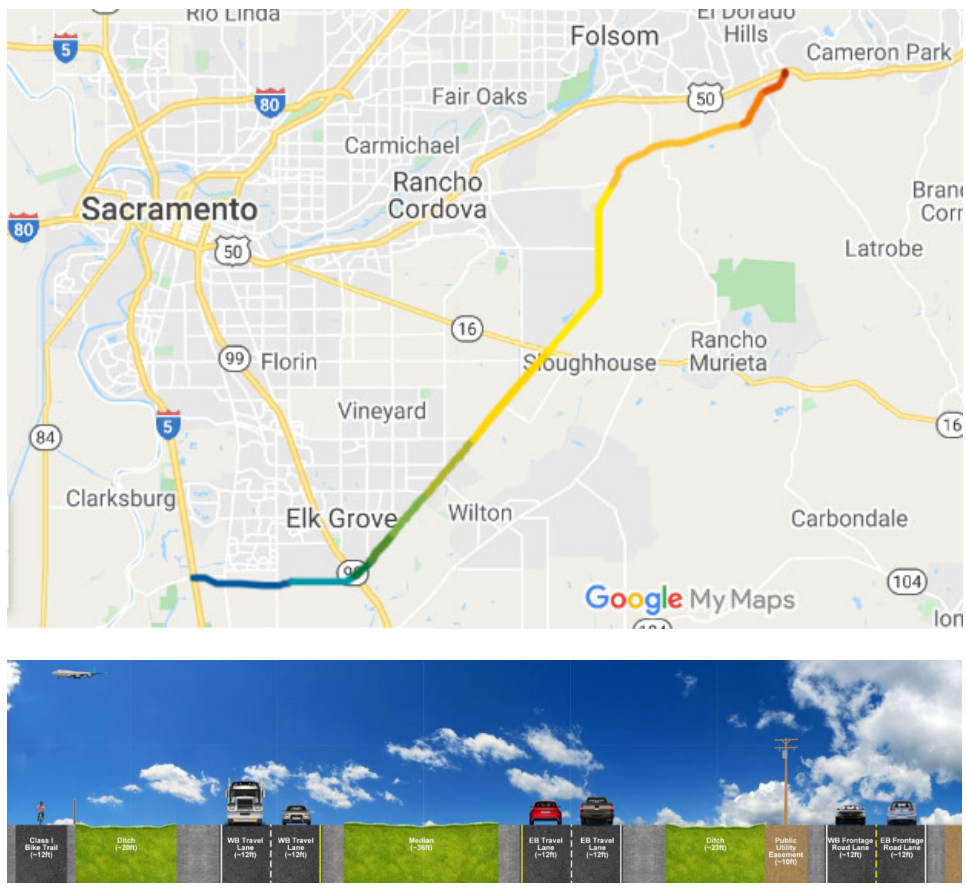
The first phase of construction of the Capital SouthEast Connector is divided into distinct segments, as shown in **Figure 3-3** and described below:

- Segment A will connect I-5 at the Hood Franklin Road exit to CA-99 and Grant Line Road along Kammerer Road. This segment of the project is planned to expand Kammerer Road to four lanes instead of two through the Study Area with a railroad grade separation between I-5 and Bruceville Road and a multi-use path adjacent to the west-bound travel lane. The current interchange at I-5 and Hood Franklin will be modified. In total, segment A is approximately 6.5 miles in length. These sections are currently in the preliminary engineering and environmental documentation phase. See the cross-section in **Figure 3-3** for a depiction of Segment A.
- Sections B and C run along Grant Line Road from Waterman Road to Bradshaw Road, Bond Road, and Calvine Road through the area of Sheldon. In total, these segments are approximately 7 miles in length. Section D also runs along Grant Line Road from Calvine Road and the CA-16 highway at the Grant Line Road exit and then on to White Rock Road.
- Sections D3 and E1 are treated as one project area. Section D3 runs along White Rock Road, located between Prairie City Road and the El Dorado/Sacramento County line. Section E1 runs along White Rock Road from the Sacramento/El Dorado County line to Latrobe Road. These two sections are currently in the final design stage.
- Section E2 runs along White Rock Road, from Latrobe Road to US-50 at the Silva Valley Parkway interchange and is expected to begin environmental review in 2020. Section E3 is the major connector to El Dorado Hills located at the Silva Valley Parkway interchange and US-50 highway, which is completed.

When the Southeast Capital Connector is completed, it will provide major improvements to regional circulation, connecting the southern portion of the Elk Grove community, and particularly the Study Area, to other major employment centers in Rancho Cordova and

Folsom. However, as a major expressway, the facility will impact key urban design elements of the Study Area, potentially limiting access and increasing the automobile-oriented nature of the Study Area. The ultimate design and relationship of the facility to the surrounding land uses will have major impacts on the development of the Study Area.

Figure 3-3 Capital SouthEast Connector



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4. Socio-Economic and Demographic Overview

Situated at the southern end of the Sacramento Metropolitan Area, the City of Elk Grove is an established community that has grown rapidly since incorporating in 2000. Upon incorporation, the City was home to approximately 73,000 residents—that number has grown to approximately 170,000 as of 2019. Much of this growth occurred before the Great Recession—the City’s population increased at an average annual growth rate of 7 percent between 2000 and 2010. Economic conditions resulted in slower growth between 2008 and 2013, but recent development trends suggest a return to higher rates of growth as the economy and real estate market continues to recover from the lows experienced during the Great Recession. The effects of the COVID-19 pandemic on these development trends remain to be determined.

Currently the second largest City in Sacramento County and the Sacramento-Arden-Arcade Metropolitan Statistical Area (MSA), the City has historically been considered a bedroom community with the majority of its residents commuting outside of the City. The built environment is generally characterized by low- to medium-density residential neighborhoods as well as traditional suburban office parks and commercial centers.

Higher than average incomes, low unemployment rates, and affordable home prices earned the City the titles of second-best city for homeownership in California, best Sacramento suburb for young couples, and the fastest-growing city for millennial home ownership in California by WalletHub, a personal finance website. In addition, Elk Grove was voted one of America’s Top 10 Most Dynamic Small Cities by Point2Homes in 2019, based on the following factors: human capital (increases in population and immigration levels); education and culture (increases in residents holding higher-education degrees, increases in school enrollment levels, and growth in arts and entertainment employment); economic activity (city’s GDP, declines in unemployment and poverty, increases in incomes and job opportunities, growth in the number of registered patents and companies on the active market); and housing (home prices appreciation, and increases in building permits).

The following sections offer additional detail regarding key demographic, socioeconomic and lifestyle qualities of the City, providing context regarding current and projected population characteristics, employment, commute patterns as well as civic amenities and other lifestyle traits that will shape the viability of urban style development in the Study Area.

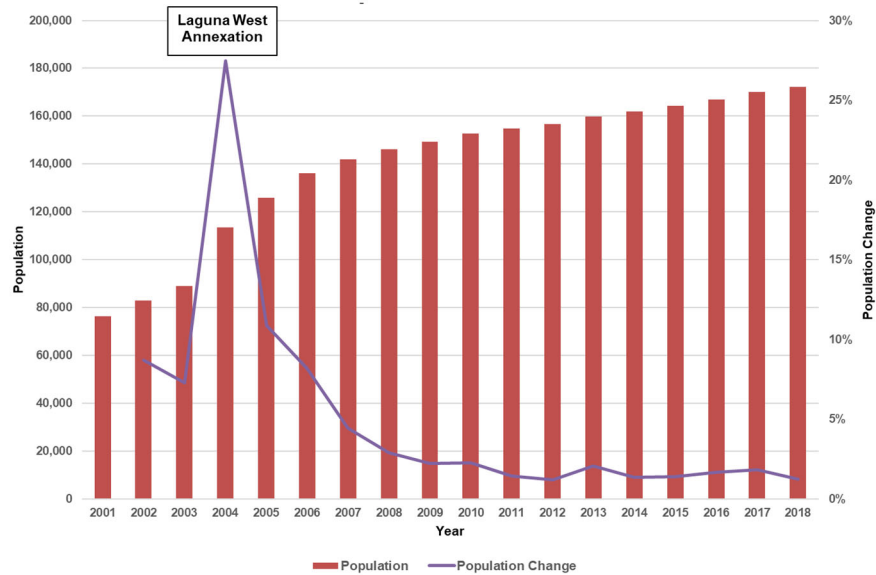
Population Trends and Characteristics

The City of Elk Grove is an ethnically diverse, young, and family-friendly community, comprising approximately 7 percent of the Sacramento Region’s (the “Region”) population and households.¹ As discussed above, the City has experienced steady population growth since incorporating in 2000, demonstrating rapid growth between 2000 and 2010 (though a portion of that growth is attributable to the annexation of the Laguna West area in 2003) and slower, though still steady, growth through 2018.

The City’s population is swiftly approaching 170,000 people within the 2019 estimates (see **Figure 4-1**). Overall, Elk Grove has an average of more persons per household in the City compared to the Region, as well as a lower median age, both of which indicate a community of younger families.

This indication is confirmed within the City’s Tapestry Segments classifications, with the majority falling into the categories of “Boomburbs,” “Up and Coming Families,” and “Soccer Moms.”²

Figure 4-1 City of Elk Grove Population Growth



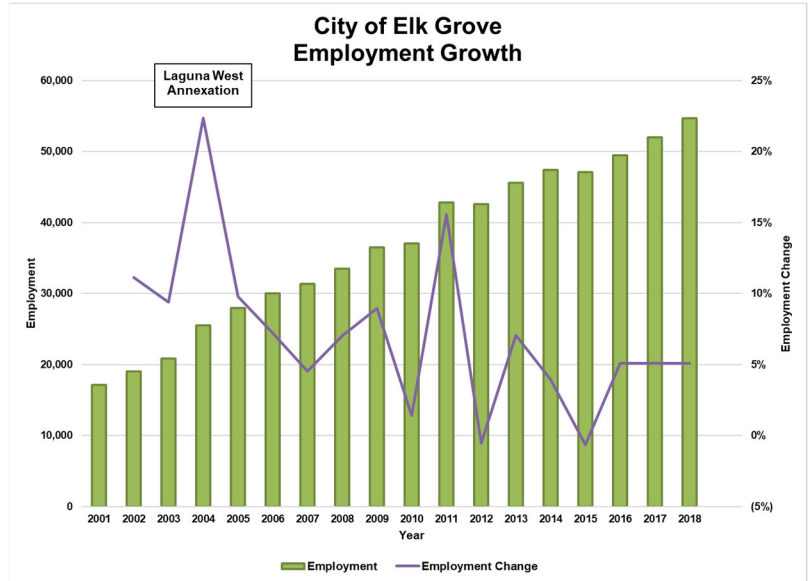
These segments comprise a combination of young married couples, families, and single-parent families in their 30s with college degrees that earn approximately \$64,000 to \$105,000 annually. See **Figure 4-2** below.

¹ The SACOG-defined Sacramento Region comprises the six counties of El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba.

² Esri’s Tapestry Segmentations classifies U.S. neighborhoods into 67 segments based on their socioeconomic and demographic composition.

There is a higher proportion of people living in the City of Elk Grove ages 25+, who hold a bachelor’s, Graduate, or Professional degree, than in the Region. The average household income for the City of Elk Grove in 2019 is estimated to be \$114,181 with a median of \$93,140. These figures are considerably higher than the Region, which has an estimated average household income of \$93,950 and a median of \$68,936. Overall, Elk Grove households land in higher income brackets than the Region, in Elk Grove only about 39 percent of households earn less than \$75,000 annually, whereas more than half of households in the Region earned less than \$75,000 annually.

Figure 4-2 City of Elk Grove Employment Growth



School Performance

One of the largest school districts in the State, EGUSD is rated #2 best school district in Sacramento County per Niche.com and #7 in the Region, which gave EGUSD an overall grade of an A- based on academics, teachers, clubs and activities, diversity, college prep, and health and safety. EGUSD fell below Davis Joint Unified School District in Yolo County and Rocklin Academy Family of Schools, Placer Union High School District, Roseville Joint Union High School District, Rocklin Unified School District all located in Placer County and Folsom-Cordova Unified School District located in Sacramento County.

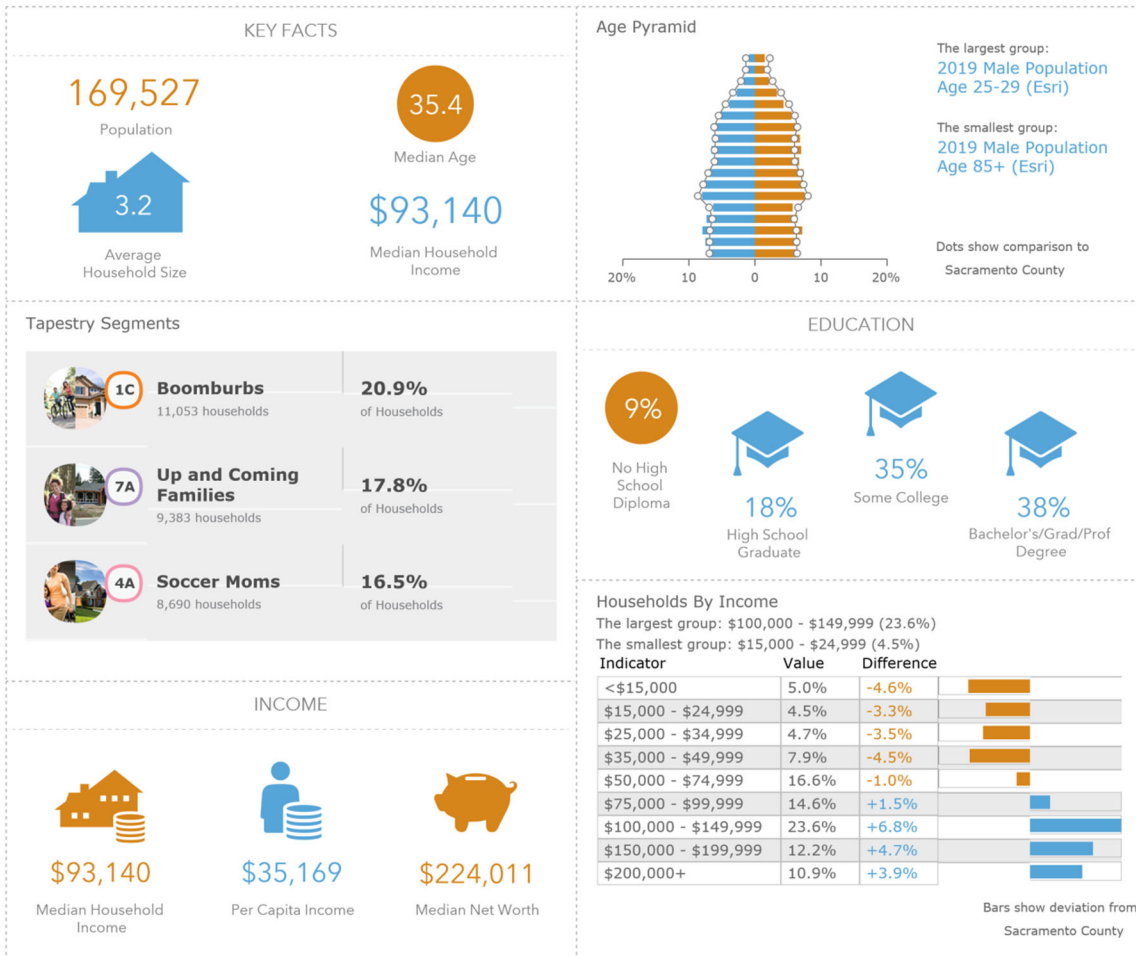
Employment Trends

Like population, employment in the City has increased since the City’s incorporation in 2000 (see **Figure 4-3**). Overall, employment increased from approximately 15,700 in 2000 to 54,600 in 2018, a gain of almost 39,000 jobs over 18 years.

The annual rate of the employment changes has been much more volatile than the population changes, ranging from approximately a 0.6 percent decrease to an almost 16 percent increase (excluding the change from 2003 to 2004 when Laguna West was annexed).³ Overall, employment growth has outpaced percentage increases in

³ Note that the employment estimates in 2016 and 2017 were calculated using estimates for 2015 and 2018, assuming a constant rate of employment growth for the intervening years.

Figure 4-3 Demographic Snapshot



Source: This infographic contains data provided by Esri. The vintage of the data is 2019, 2024.

population, growing at an average annual rate of 7 percent, as compared to an average annual growth rate of 5 percent for population.

This trend is attributable to substantial growth in specific sectors and employers. Based on analysis of employment and establishment data produced by the National Employment Time Series (NETS) database and further analysis conducted by EPS and City staff, **Table 4-1** identifies total employment growth by NAICS sector between 2000 and 2015 (the most current year for which NETS data was available). As shown, the City experienced positive employment growth across most sectors, with growth in the Manufacturing; Retail Trade; Administrative and Waste Services; Educational Services, Health Care and Social Assistance; and Accommodation and Food Services sectors driving overall employment growth. Sectors that have remained strong and steady include construction, wholesale trade, and real estate and rental and leasing. **Figure 4-4** exhibits the top industry sectors that accounted for more than 90 percent of the employment growth between 2000 and 2015. **Map 4-1** displays the spatial distribution of employment throughout the City.

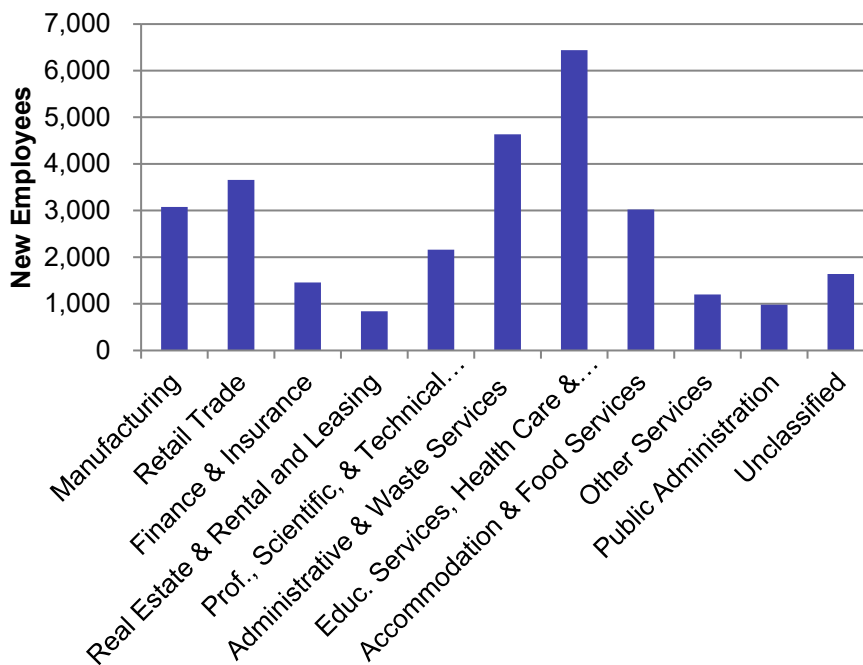
Table 4-1 Elk Grove Employment Growth, 2000-2015

NAICS Code	Industry	Employment				
		2000	2015	Growth 2000-2015	Average Annual Pct.	Pct. Of Total Growth
11	Agriculture, Forestry, Fishing and Hunting	101	93	(8)	(0.5%)	(0.0%)
21	Mining	20	4	(16)	(10.2%)	(0.1%)
22	Utilities	10	18	8	4.0%	0.0%
23	Construction	1,202	1,836	634	2.9%	2.0%
31-33	Manufacturing	739	3,817	3,078	11.6%	9.8%
42	Wholesale Trade	556	1,141	585	4.9%	1.9%
44-45	Retail Trade	3,230	6,887	3,657	5.2%	11.7%
48-49	Transportation and Warehousing	412	881	469	5.2%	1.5%
51	Information	742	936	194	1.6%	0.6%
52	Finance and Insurance	453	1,912	1,459	10.1%	4.6%
53	Real Estate and Rental and Leasing	406	1,247	841	7.8%	2.7%
54	Professional, Scientific, and Technical Services	725	2,886	2,161	9.6%	6.9%
55	Management of Companies & Enterprises	1	33	32	26.3%	0.1%
56	Administrative and Waste Services (56)	606	5,241	4,635	15.5%	14.8%
61-62	Educational Services, Health Care and Social Assistance	3,238	9,677	6,439	7.6%	20.5%
71	Arts, Entertainment, and Recreation	314	681	367	5.3%	1.2%
72	Accommodation and Food Services	1,409	4,432	3,023	7.9%	9.6%
81	Other Services	1,127	2,326	1,199	4.9%	3.8%
92	Public Administration	403	1,384	981	8.6%	3.1%
99	Unclassified	1	1,641	1,640	63.8%	5.2%
	Total	15,695	47,073	31,378	7.6%	100.0%

2000_2015

Source: City of Elk Grove, Walls & Associates, JACOBS, and EPS.

Figure 4-4 Top Employment Growth Industry Sectors in Elk Grove (2000-2015)



Map 4-1 Elk Grove Employment Density (2018)

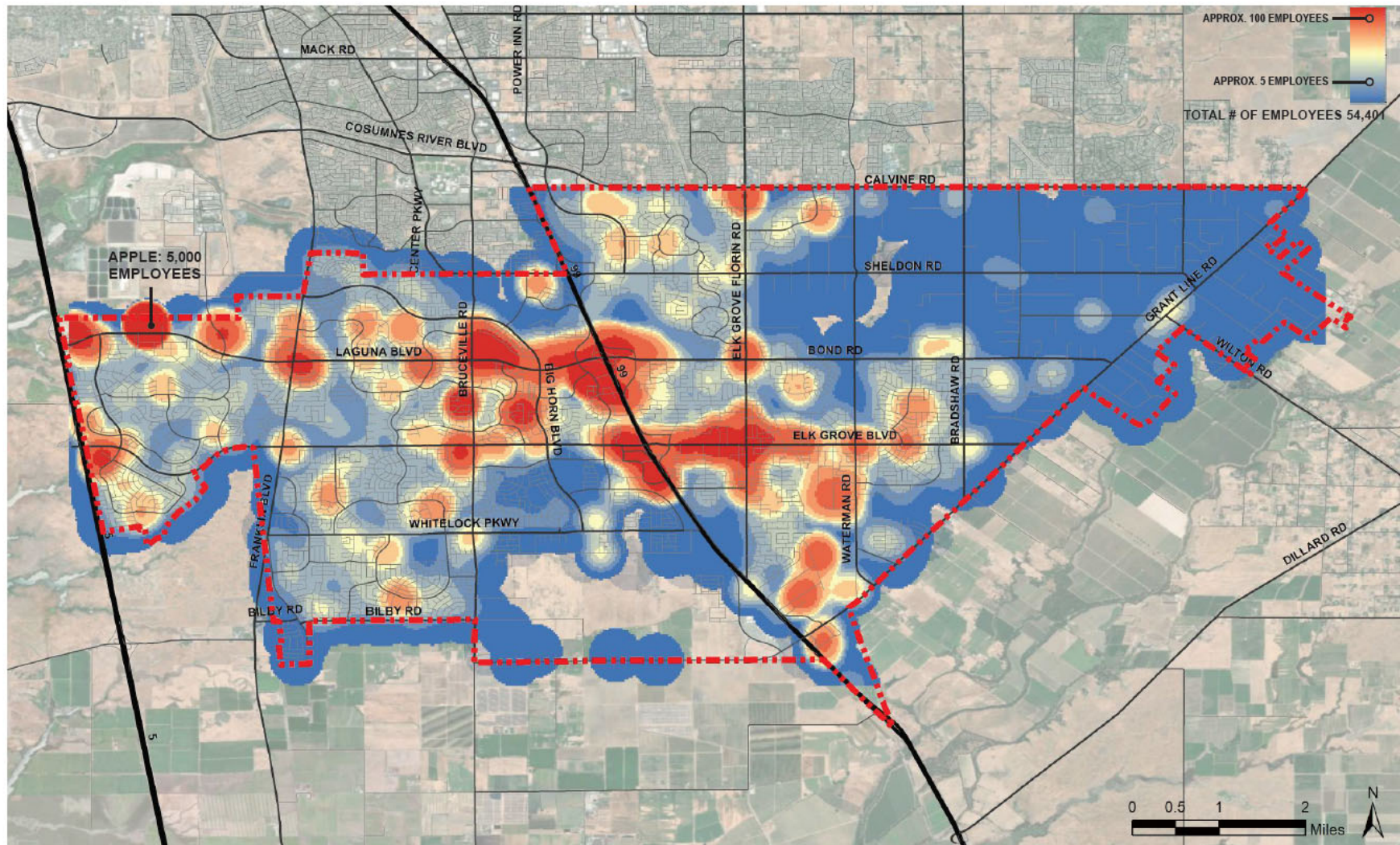


Table 4-2 offers estimates of the total employment associated with the City's largest 25 employers, current as of 2018. These estimates reflect the NETS data analysis discussed above, as well as updates based on data provided by the City and other third-party sources. As shown, the City's 25 largest employers accounted for approximately 32 percent of the total City employees in 2018, and the City's top 2 employers account for over 9,000 jobs:

- **Apple, Inc.** Apple, Inc. has operated a manufacturing facility in Elk Grove since 1992. Accurate estimates of total employment are difficult to obtain, and the precise nature of work conducted at the facility is unknown. However, over the last several years, Apple, Inc. has continued to expand its Elk Grove campus and purchased an office building, which will house approximately 100 employees, near its existing campus. In October 2018, the Sacramento Business Journal reported that the number of Apple employees in Elk Grove had increased from 1,200 in 2011 to over 5,000 by 2017.
- **Elk Grove Unified School District.** The EGUSD steadily added employees at its existing facilities, including the district headquarters over the last several years, opened a new school in the City in 2017, and anticipates another new school to open in 2020. The EGUSD currently operates approximately 36 facilities (schools and administrative offices) in the City, contributing to substantial growth in the Educational Services sector.

Other major employment growth in Elk Grove is attributable to the expanding healthcare industry and the City's attempts to attract State users:

- **Healthcare.** Major employers in the healthcare industry include Kaiser, UC Davis, Dignity Health (currently designing a 200,000-square-foot hospital in Elk Grove), and Eden Home Health.

In addition, California Northstate University (CNU) is planning a 250-bed teaching hospital and medical center on an 11-acre site, which is estimated to create 24,000 new jobs, and is projected to open by 2022. CNU is also anticipated to open a new 320-student college of dental medicine by August 2020. The college will be at the main campus but will also include a 14,570-square-foot clinic.

- **State of California.** According to the Sacramento Bee, there were approximately 12,000 workers for the State of California living in Elk Grove as of 2017 making up about 16 percent of the City's labor force. There are a number of State offices currently located in Elk Grove, including the California Correctional Health Care Services, the California Department of Fair Employment and Housing, and the California Office of Traffic Safety.

Table 4-2 Estimated 25 Largest Employers in Elk Grove (2018)

Company [1]	Employees
1 Apple, Inc.	5,000
2 Elk Grove Unified School District	4,263
3 CA Correctional Health Care Services	1,731
4 Raley's	889
5 Walmart	681
6 Kaiser Foundation Hospitals	524
7 Autozone, Inc. (Alldata)	400
8 City of Elk Grove	398
9 County of Sacramento	337
10 State of California	313
11 Elk Grove Auto Group	312
12 Universal Custom Display	285
13 Cosumnes CSD [2]	272
14 Sutter Medical Foundation	250
15 Kohl's Corporation	246
16 Target	200
17 Home Depot	200
18 Cardinal Healthcare	200
19 United States Postal Service	184
20 Decorative Specialties	165
21 Maita Auto Group	164
22 Frontier Communications Corporation	160
23 Starbucks	156
24 F Radich Motors	150
25 CVS Health Corporation	148
Total Estimated 25 Largest Employers	17,628
Total Estimated City Employees	54,627
25 Largest Employers Percent Of Total	32%

Source: City of Elk Grove, Walls & Associates, JACOBS, and EPS.

[1] The following three companies included in the 25 Largest Employers list in the 2016 Analysis are no longer among the 25 largest employers: Dignity Health, Farmers & Merchant Bancorp, and Schneider National. Employment estimates were revised downward for the first two employers following additional research, and Schneider National is no longer in business.

[2] Corrected 2016 Analysis to include Fire Department employees. Obtained 2018 numbers from Cosumnes CSD in 2018/19. Deducted an estimated 20 employees at 2 Galt fire stations.

In addition to these significant employment drivers, several employers of note have recently announced plans to move to or expand operations in Elk Grove:

- **PDM Steel Service Centers** moved their headquarters from Stockton to Elk Grove in 2017 and employs an estimated 19 managers and administrators.
- In 2018, San Leandro-based **Mi Rancho** announced that they are expanding with a factory in Elk Grove that is estimated to employ 250 people.
- **Amazon** is constructing a 111,500-square-foot distribution center in the City.

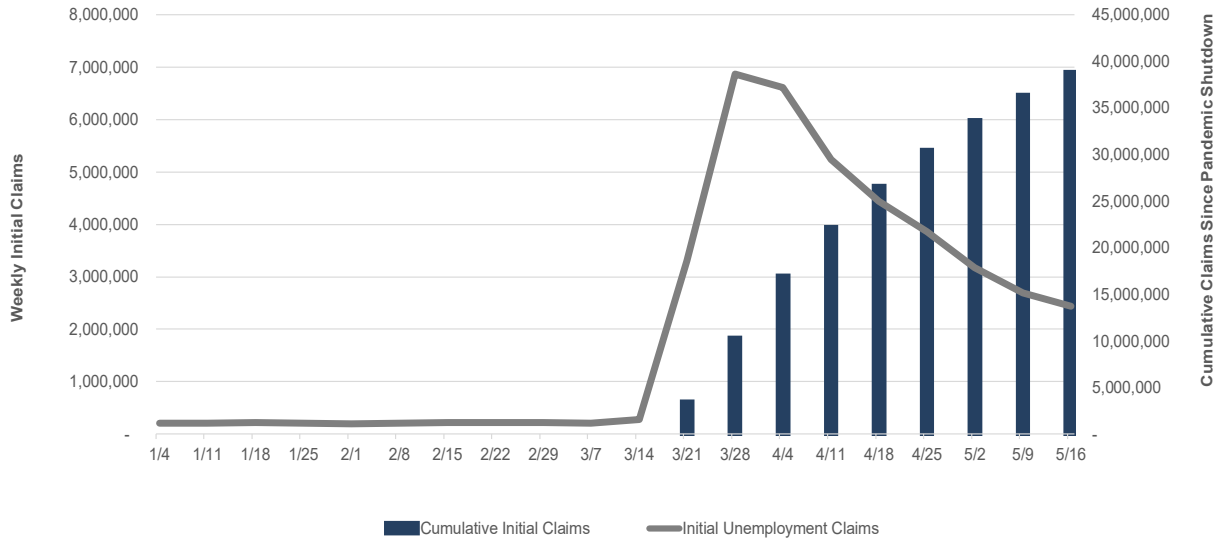
The City is also undertaking several significant economic development initiatives that may shape future employment dynamics, including promotion of the technology sector. The City has adopted a program that incentivizes tech startups to move and stay in the City. The Startup Elk Grove Incentive Program is designed to give businesses a one-time grant of up to \$10,000 in addition to a year-long membership to a co-working space or business incubator paid for by the City. The program also offers funding for established startups, called a "Scaleup" that need help expanding their operations. The Scaleup program will provide \$30,000 - \$150,000 in loans or grants to help cover business costs. Since inception, the program has provided subsidies to two startups, including \$47,500 to InnoGrove, a collaboration and coworking center, and \$75,000 to Sensor Transport, a shipping technology company.

It is important to note that home-based businesses in Elk Grove experienced a significant amount of growth from 2001 to 2011, as of 2018 home-based business account for 14 percent of total employment in Elk Grove. However, the U.S. Census does not include self-employed and sole proprietor-workers. If someone works from home for another business, the work destination is counted as where the employer is located.

COVID-19 Impact on Employment

As we prepare this analysis, the COVID-19 pandemic is completely shattering the business-as-usual model, with vastly curtailed mobility, structural changes in spending activity, surges in unemployment, and increased uncertainty and stresses for businesses and communities. Nationwide, unemployment has reached Depression Era levels (see **Figure 4-5**).

Figure 4-5 U.S. Unemployment Claims

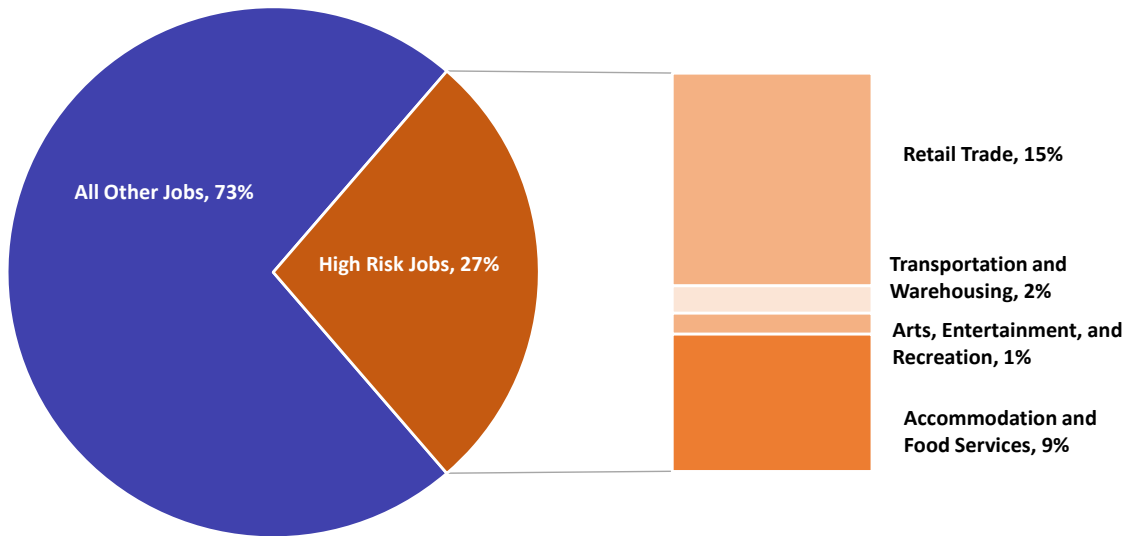


Source: Federal Reserve Bank of St. Louis.

In Elk Grove, the average annual unemployment rate in 2019 was 3.1 percent. Since the onset of the pandemic the unemployment rate has substantially increased to 13.3 percent.

According to the Brookings Institute, the industries at highest risk from COVID-19 are mining, transportation, employment services, travel arrangements, and leisure and hospitality. Assessing the data from the employment study, **Figure 4-6** below estimates the percentage of jobs in Elk Grove that are at the highest risk.

Figure 4-6 City of Elk Grove High Risk Jobs



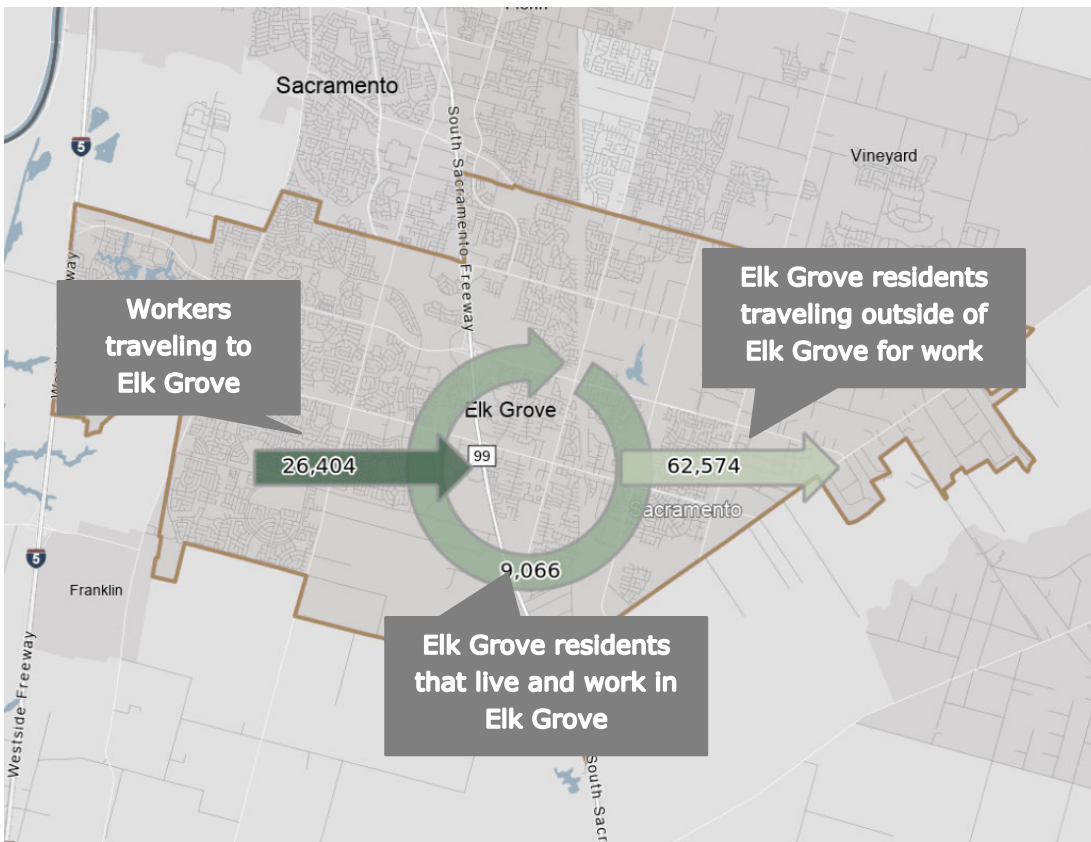
Source: City of Elk Grove; Walls & Associates; JACOBS; EPS.

Commute Patterns

Pre-COVID-19 low unemployment rates (below 3.5 percent) and high civilian labor force participation, over 68,000 of the City’s residents were employed. With demonstrated employment growth in the City generating nearly 55,000 jobs and a jobs-housing ratio of approximately 1.0, there is a disconnect as only a small percentage of Elk Grove residents work in the City, with almost 90 percent of resident-workers traveling outside of the City for work. In addition, an estimated 74 percent of workers in Elk Grove travel from outside of the City to work in Elk Grove. **Figure 4-7** below demonstrates the inflow and outflow of residents and workers.

Employment Destinations

Before the COVID-19 circumstances that shifted many to a work from home model, Elk Grove had a large percentage of residents commuting outside of the City for work (see **Figure 4-7 and Figure 4-8**). The primary employment destination for out-commuting Elk Grove workers is the City of Sacramento and surrounding areas, where approximately 41 percent of Elk Grove’s employed residents work, likely in large part attributable to the number of State workers living in Elk Grove. This dynamic also likely affects the number of commuters to the City of Rancho Cordova, which offers a significant cluster of State agency employment destinations as well as other major regional employers and West Sacramento, home of the California State Teachers Retirement System (CalSTRS), the Department of General Services, and other state agencies. Interestingly, there is a higher percentage of Elk Grove residents traveling to the Greater Bay Area (San Francisco, Oakland, San Jose, Santa Clara, and Vacaville) for work, at 5 percent, **Figure 4-7 City of Elk Grove Inflow & Outflow**

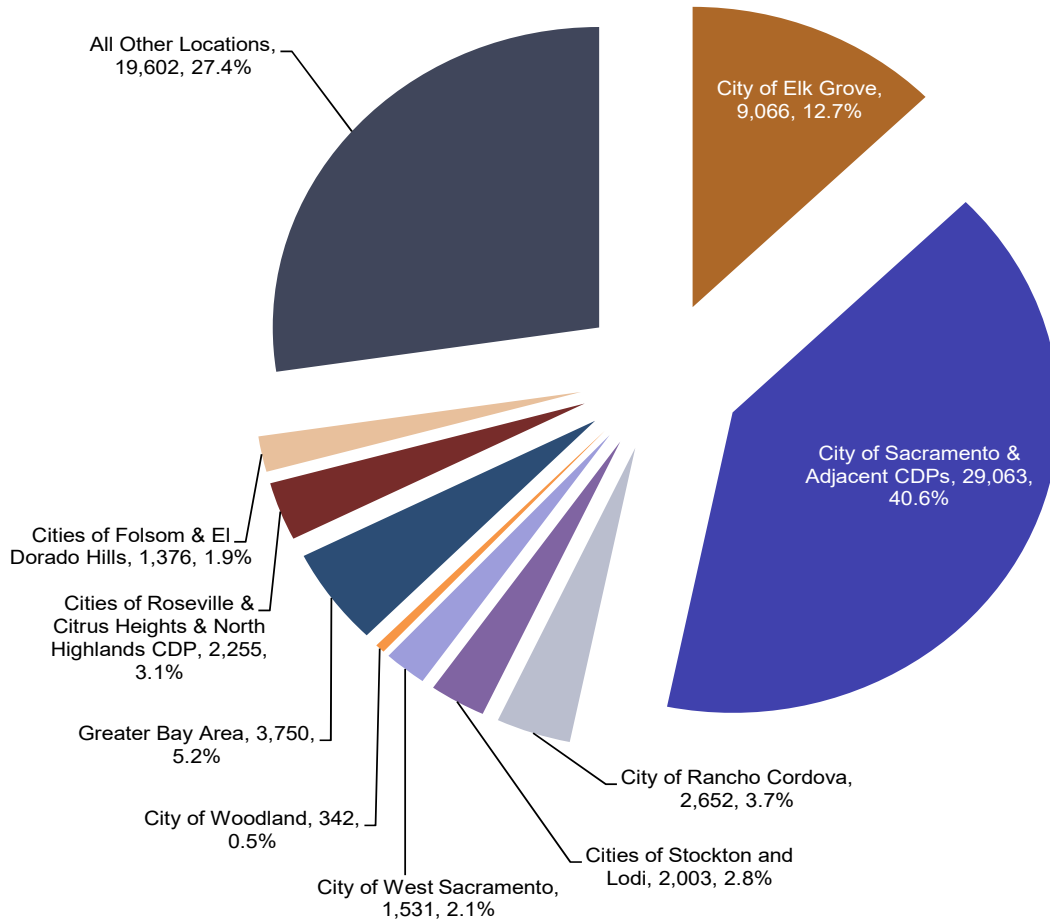


Source: U.S. Census OnTheMap 2017 Survey Data, accessed in 2019.

Please note that NETS tracks small establishment-based employees in addition to the larger establishments, which accounts for the difference from the U.S. Census OnTheMap figures.

than to the cities of Roseville and Citrus Heights, at 3 percent.⁴ In addition, according to the U.S. Census 6.1 percent of residents in Elk Grove worked from home in 2018.

Figure 4-8 Elk Grove Worker Destinations



Commute Drive Times

Given the propensity for Elk Grove workers to work outside the City, typical commute times are generally above the Region’s average at approximately 33.5 minutes per day (one-way) with the majority traveling via single occupancy vehicles (77 percent). Approximately 12 percent of the resident workers carpool, a modest amount take advantage of public transportation (3 percent), and very few walk, bike, or taxi (1 percent). The remainder work from home. With consideration to the need for the

⁴ The percentage of Elk Grove residents traveling to the Greater Bay Area for work is likely higher than the estimated 5 percent, as the data pulled lists only the top 25 locations and additional Bay Area cities are likely lumped into the “All Other Locations” category.

Study Area development to connect to these other major employment destinations, **Table 4-3** below presents estimated drive times from nearby jurisdictions to Elk Grove (as well as a few Bay Area cities mentioned above) during a typical weekday commute time. Ranging from about 20 minutes to 50 minutes, these estimated drive times necessarily do not reflect completion of the Capital Southeast Connector, which is anticipated to significantly reduce commute times to Eastern Sacramento County and El Dorado County, as well as relieve pressure on north and eastbound routes.

Table 4-3 Driving Distance and Times to Kammerer Road

Location	To Kammerer Road	
	Miles	Minutes [1]
Downtown Sacramento	19.2	29
Rancho Cordova	20.5	39
Davis	32.2	43
Stockton	35.1	43
Roseville	35.5	53
Folsom	28.5	53
San Francisco	105.0	110
San Jose	109.0	125

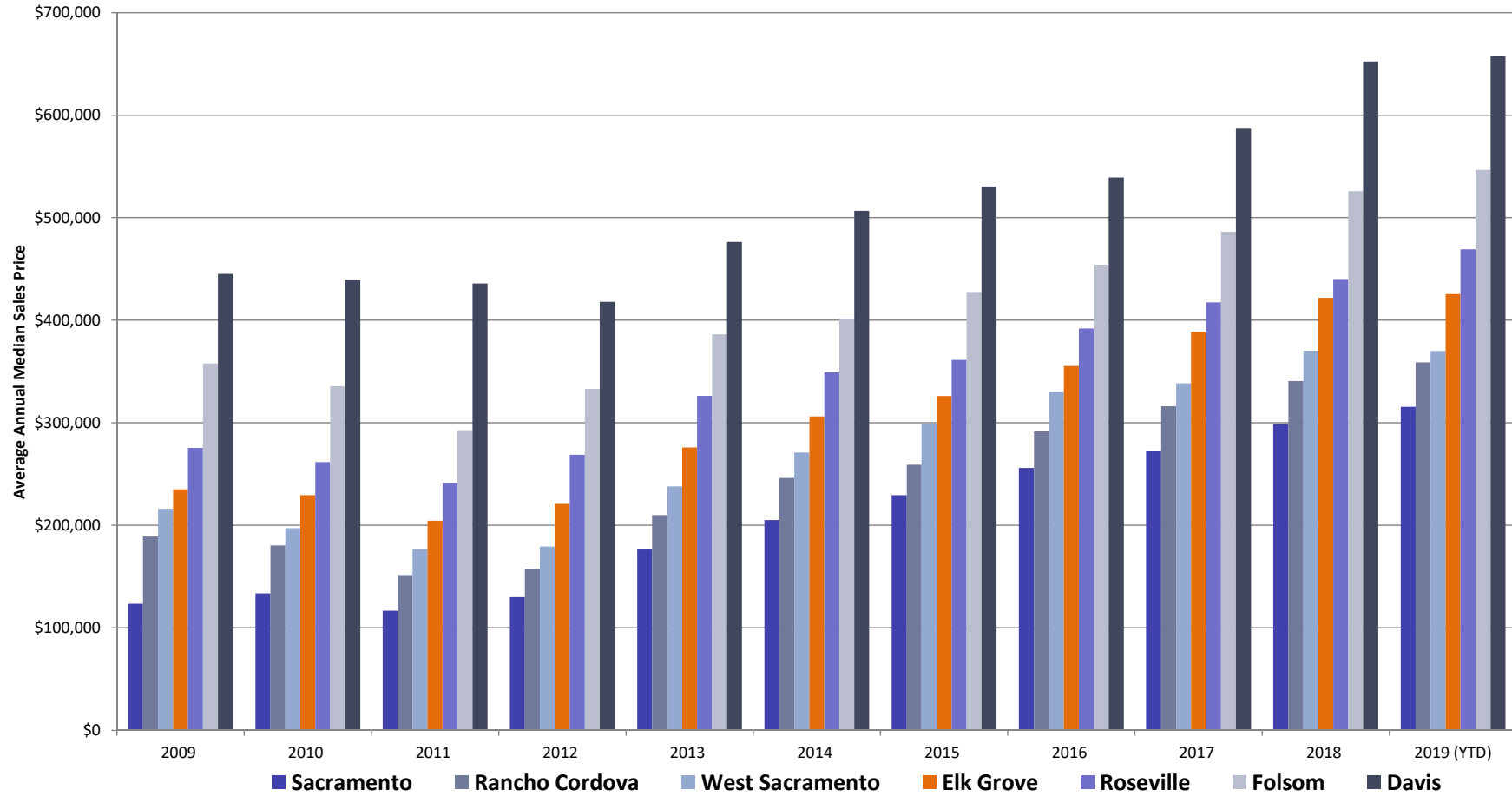
Source: googlemaps; EPS.

[1] Estimated for 8:30 AM on an average weekday.

Housing Trends

Over the past ten years, single family home prices in the City experienced an average annual growth rate of 6.8 percent, increasing from prices in the \$200,000s up to the \$400,000s. The average median sales price in Elk Grove for 2018 was \$412,800, which lands in the middle to upper range within the Region as shown in comparison to some adjacent communities in **Figure 4-9**. As shown, housing in the City is price competitive with other high-quality suburban destinations such as Roseville, Rocklin, Folsom, and Davis.

Figure 4-9 Average Annual Median Sales Price



Source: Zillow; EPS.

Multifamily inventory in Elk Grove has more than doubled since 2000 with the addition of over 3,300 units with an average annual growth of 5.5 percent. While rents are higher than the Region as a whole, the average annual change in price has increased at a slower pace in Elk Grove than the Region, increasing at about 2.5 percent per year since 2000, while the Region is averaging a 3.0 percent annual increase.

To help meet increased demand for housing within the City of Elk Grove, a multitude of housing projects are on the horizon, including the afore-mentioned Souza Dairy property, which has been entitled for approximately 1,100 single family units of varying densities and 11 lots for high density multifamily residential and commercial, Bruceville Meadows, which is entitled for approximately 320 large-lot residential units, and Sterling Meadows, which is entitled for over 1,176 residential units. Moreover, there are two proposed multifamily apartments in the pipeline with over 350 units by KF Properties (Toscano and Laguna Main Street).

Civic Amenities

As a counter to its long-standing reputation as a predominantly suburban, bedroom community, the City is undertaking significant initiatives to elevate civic and urban amenities and to bolster important quality of life elements of the Elk Grove community. This section outlines several key initiatives that are intended to materially affect the attractiveness of the City to employers and residents alike, and to test market reception for higher density, urban concepts in a suburban context.

- **District 56.** Currently under construction, District 56 is the City's new community civic center, which at buildout, will comprise a community center, veteran's hall, senior center, public library, children's museum, nature center, open space, in addition to the \$42 million aquatic center completed in 2019.
- **Project Elevate.** Project Elevate is another City-led project on 20 acres of City-owned property located just north of District 56. Project Elevate envisions a pedestrian-friendly, mixed-use area comprising retail, dining, entertainment, office, residential, and hotel uses, which the City sees as an "elevation" of their retail and entertainment offerings. The proposed concepts for this project focus on mixed use lifestyle center-type developments similar to Santana Row in San Jose, California and the Mosaic District in Fairfax, Virginia.



- **Old Town Elk Grove.** In addition, the City of Elk Grove is encouraging the revitalization of Old Town Elk Grove by promoting adaptive reuse and infill, as well as sponsoring public entertainment events. D&S Development is cultivating a new development and two adaptive reuse projects in Old Town Elk Grove. These projects include a new 90-unit mixed use project with apartments above ground floor retail and two conversions of historic buildings into retail/restaurant with outdoor space.



Other lifestyle initiatives include City efforts to enhance the local food, beer, and wine scene. The City established a Brewery and Winery Incentives and Assistance Program to provide technical and financial assistance to wineries and breweries that want to locate or expand in Elk Grove. This program is starting to pay off as the City now boasts 5 local breweries and 3 wineries, including the recent additions of Christopher Cellars and the Hungry Pecker.

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5. Commercial Real Estate Market Analysis

Relating socioeconomic and demographic characteristics to the performance of commercial real estate market provides a context to determine viable land use categories and economic development strategies. This section provides an overview of commercial real estate indicators to provide a baseline understanding of real estate market performance in terms of inventory, absorption, vacancies, and lease rates. Specifically, this section evaluates market performance indicators for office, industrial/R&D flex, and retail uses within Elk Grove and the SACOG Region. The SACOG Region comprises six counties including El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba. EPS then uses SACOG's projected employment for the Region to evaluate the potential future demand of commercial space while considering various absorption scenarios for the City of Elk Grove. A Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis summarizes the assessment of the Study Area within the context of the Regional market.

Office—Class A/B

Elk Grove's office inventory has had little growth since 2008 with no new inventory over the past 4 years and accounts for only 2 percent of the total Sacramento Region inventory. Comparatively, Elk Grove's population accounts for almost 7 percent of the Region's population. The bulk of Elk Grove's recent office space absorption occurred in 2012 and 2017 from the addition of the State Department of Correctional Health Care Services into the market. Vacancy in the Region has experienced decreasing rates with Elk Grove's vacancy rates consistently lower than those in the Region including a huge decline in the past 4 years. Office lease rates in Elk Grove have had minimal appreciation but are consistently higher than the average rates obtained in the Region as a whole. Local commercial real estate brokers have noted that Elk Grove's lease rates remain in the top 10 percent in the Region and vacancy is consistently low as a result of the lack of new space as shown in **Table 5-1**. Elk Grove has been successful in terms of managing their supply and as a result their office lease rates are higher than Roseville, Rancho Cordova, on par with Folsom and their vacancy is lower than the neighboring markets. In February 2020, Pappas Investments filed an application to build a 146,000 square foot office building on the southeast corner of Big Horn Boulevard and Longleaf Drive; no tenant has been named. The status of this project is unknown.

Elk Grove has difficulty attracting big employers due to various deterrents to their market. Users generally prefer a central location, close to amenities (restaurants, experiential retail, parks, culture), with easy access to labor markets, such as Downtown Sacramento and Roseville. Additional obstacles in the Elk Grove market are real estate cost factors: rents are too high for a fringe location and construction costs are too high to build speculatively. For Elk Grove to attract new office users, a concerted effort to substantially reduce development costs will be required.

COVID-19 will present further challenges to and potential opportunities for office development in Elk Grove. Demand for office space may be reduced by the emergence of more viable remote working arrangements for many office workers. However, social distancing best practices are likely to lead to more space per employee (reversing recent trends to the contrary), which may partially counteract reductions in total space demand. New investments in building technology are likely to arise, such as improved building filtration systems, touchless elevators, and other investments designed to improve sanitation and reduce potential exposure to pathogens. In this regard, new office construction that can offer these improvements may be advantaged over existing building stock with less of an ability to adapt. Furthermore, lower- to mid-rise construction prototypes that offer alternatives to using elevators may also gain favor over high-rise construction, offering a potential advantage for suburban locales over their Central Business District counterparts.

Table 5-1 Commercial Real Estate Trends Snapshot

Item	Elk Grove	Downtown Sacramento	Rancho Cordova	Folsom	Roseville	Stockton
Office (Class A & B)						
Inventory (Sq. Ft.)	1,861,973	15,043,921	7,194,609	4,347,332	8,233,472	6,075,332
Vacancy %	5.2%	7.4%	15.6%	5.3%	10.3%	6.3%
Lease Rates	\$2.06	\$2.98	\$1.76	\$2.07	\$1.93	\$1.17
Industrial and R&D Flex						
Inventory (Sq. Ft.)	3,483,164	4,173,601	10,437,680	969,574	5,458,874	47,657,785
Vacancy %	5.2%	1.0%	3.3%	9.2%	3.0%	6.2%
Lease Rates	\$0.46	\$0.61	\$0.69	\$1.15	\$0.70	\$0.48
Medical Office						
Inventory (Sq. Ft.)	450,902	38,685	261,113	419,443	2,025,483	1,260,767
Vacancy %	2.0%	0.0%	4.2%	10.1%	5.8%	8.4%
Lease Rates	\$1.77	NA	\$1.00	\$2.01	\$1.75	\$1.28

snap

Medical Office

Over the past five years medical office has been booming on a national level with trends pointing to a shift from hospital visits to outpatient uses. Healthcare providers are focusing on integrated services in a campus setting, as can be seen from examples of urban office campus projects in the Region, such as the Kaiser Permanente medical complex in the Railyards and Dignity Health in Folsom Ranch. To accommodate these integrated services, medical office users are generally seeking a minimum of 10,000-20,000 square feet with typical sites comprising 50,000-70,000 square feet that are 3 to 4 stories tall.

In Elk Grove there has been no new medical office inventory since 2007. Existing medical office space has low vacancy and comparable lease rates to those in the Region. Substantial demand exists in Elk Grove, evidenced by major investments from Dignity Health and CNU as well as expansion plans from Kaiser in South Sacramento to

accommodate growth in Elk Grove. Moreover, Elk Grove's workforce is suitable for a concentration of medical users. A barrier to the future medical office market includes the absorption of existing and future demand by Dignity Health, CNU, and others. Another hurdle is the high cost of development in Elk Grove, as healthcare providers are very sensitive to development cost drivers.

Medium and long-term trends for medical office users are difficult to predict because the effects of COVID-19 remain to be fully understood. During the pandemic, many doctors and patients adopted virtual appointments, and it is difficult to predict whether these trends will be permanent. Structural elements that bolster demand for medical office space, such as aging communities, remain in place. Like office space, improvements in building design and technology are expected to emerge as best practices to limit the spread of infectious disease are established. This dynamic will again likely bode well for newer development over existing facilities.

Light Industrial/R&D Flex

Elk Grove's industrial/light industrial/R&D flex inventory offers little in the way of viable vacancies and is fast-approaching full occupancy as there has been very little growth in supply over the past 10 years. Local brokers have expressed that Elk Grove will need to add new industrial and R&D flex supply in order to attract new users with the caveat that the market may not attract enough interest to build speculatively. Speculative industrial development in Elk Grove faces feasibility challenges, with lease rate appreciation needed to justify construction costs, as industrial/R&D Flex lease rates in Elk Grove are lower than the Region as whole. Local commercial brokers focusing on industrial uses expressed that within the industrial community there are negative perceptions of the high development impact fees in the City of Elk Grove.

While the City does not have direct access to Highway 50 and Interstate 80, it does have access to Interstate 5 and State Route 99 (Highway 99), and connections to Highway 50 will be improved by the planned Capital SouthEast Connector Facility, which will connect Interstate 5 and Highway 99. With consideration to the existing transportation network and land use capacity, industrial uses in the City have tended to focus more on regional users serving the community, including sales and service type uses as opposed to the large format super-regional warehousing and distribution uses (such as those locating at Metro Airpark). These types of users are typically seeking between 5,000 and 30,000 square feet on sites served by needed infrastructure and located on the periphery of the City to facilitate fleet circulation, which could bode well for the Study Area location relative to other areas of the City given its location at the edge of the City. However, traditional industrial uses such as manufacturing and warehouse distribution may not be a desirable element of the Study Area land use plan.

Development of R&D/Flex space is likely more appropriate for the Kammerer Study Area, but also presents unique challenges because users generally need highly specialized space. Companies typically use R&D/flex space to create new products and improve existing ones, which means the site specifications need to fit the exact type of use, which

can vary from wet lab space, which is lacking on a regional level, to wide open indoor space to test vehicles. A relationship with an institutional user such as a university, healthcare provider, etc. could bolster the development of this land use type by providing prospects for synergies between the institutional users and spinoff users. This land use type requires space for truck traffic and parking and is typically located on the fringe in a more suburban context, but relatively high employment densities mean that both onsite and offsite amenities are important for this user.

COVID-19 is expected to generate significant changes for industrial real estate demand but impacts pertinent to the Kammerer Study Area are likely to be more muted. Last-mile facilities offering logistics, cold storage, warehousing and distribution are expected to see increases in demand as trends towards ecommerce are accelerated by shelter-in-place orders, longer-term social distancing practices and resulting longer-term behavioral shifts in preference for delivery services. There may be some movement in terms of reshoring manufacturing facilities to improve supply chain resilience for future disasters, but the robustness of this trend remains to be seen as the structural economic dynamics that shifted manufacturing outside the United States remain in place.

Demand for R&D/Flex facilities may be restrained by near-term economic effects, but over the medium and longer term, the specialized nature of these facilities will bolster demand for R&D/Flex products, as alternatives (i.e., remote working) are less viable for these users. Medical research and pharmaceutical related R&D space is expected to do particularly well in a post-COVID environment.

Retail

Elk Grove's retail market has maintained low vacancy rates and positive net absorption over the past 6 years. Average lease rates are much higher than the Region as a whole and inventory has steadily increased. In today's market the presence of retail proximate to other land use types is an integral piece of attracting and maintaining users. Local brokers have noted that retail has the ability to change the behavior of other commercial real estate users into locating nearby, especially lifestyle centers that contribute to quality life amenities, though those lifestyle centers are seriously threatened by COVID-19.

Overall, retail uses are likely to experience the most dramatic and potentially long-lasting effects of COVID-19. Bricks and mortar retail has long been on the decline as consumption patterns have shifted to ecommerce, a trend accelerated by the current circumstances, as noted earlier. The most successful retail developments of the past decade have focused on providing experiential uses focused on dining, entertainment, fitness, and other user experiences. However, shelter in place orders have summarily curtailed demand, and it is unclear how quickly consumers will return as those orders are lifted but social distancing norms prevail. Furthermore, the sudden nature of the COVID-19 pandemic, coupled with associated severe and sudden economic declines, is expected to have a long-term impact on consumer expenditure behavior. As consumers spend less

and save more, demand for retail experiences as well as goods and services is likely to suffer.

City and Regional Demand Projections and Capture Rate Scenarios

Within the current context of the COVID-19 pandemic, projecting likely capture rates for future land uses is particularly challenging, as the long-term structural impacts on land use demand are unknown, and available data to inform potential real estate performance are all based on a pre-COVID paradigm.

Despite these current data and real estate market limitations, it is important to understand the potential range of nonresidential land use demand in the Kammerer Study Area. EPS therefore utilized regional growth projections to establish a bracketed range of potential capture rate scenarios to evaluate the scale of nonresidential development that the City might absorb, a portion of which could be located within the Study Area. As more is understood regarding the structural impacts and economic outcomes associated with COVID-19, the City may wish to revisit these capture rate scenarios.

EPS estimated future Regional demand for nonresidential land use using SACOG's projected employment by sector for the Region for 2040 as shown in **Table 5-2**.⁵ While the development timeframe of the Study Area is forecasted beyond the 2040 employment projection, a 20-year projection of employment is the maximum most sources will provide. Even a 20-year projection is merely an estimate, as employment industries and land uses are constantly changing with technology.

Table 5-2 City of Elk Grove Capture of Projected Regional Demand Scenarios

Item	Projected Regional Land Use Demand		Scenario 1: Elk Grove Employment Projections			Scenario 2: Elk Grove Historical Absorption			Scenario 3: Upside Demand Projections		
			% of Regional	Square		% of Regional	Square		% of Regional	Square	
				Feet	Acres		Feet	Acres		Feet	Acres
Land Use											
Office	39,542,896	3,242.1	7.4%	2,940,329	241.1	7.1%	2,799,852	229.6	15.0%	5,931,434	486.3
Retail	12,816,646	1,226.0	13.2%	1,690,709	161.7	6.7%	863,044	82.6	13.2%	1,690,709	161.7
Industrial/Flex	39,546,716	2,837.1	1.1%	434,339	31.2	2.8%	1,112,213	79.8	5.0%	1,977,336	141.9
Medical	12,874,691	1,055.6	15.6%	2,014,371	165.2	6.1%	783,475	64.2	15.6%	2,014,371	165.2
Other	2,666,639	218.6	0.9%	22,778	1.9	NA	NA	NA	2.0%	53,333	4.4
Total	107,447,587	8,579.3		7,102,526	601.0		5,558,585	456.1		11,667,183	959.4

Source: EPS.

demand

⁵ SACOG's employment estimates and projections by sector per their 2012-2035 Projections for 2036. As of the date of this report, the updated 2040 projections do not break down employment by sector; therefore, distribution by sector for 2040 was calculated using the SACOG distribution for growth between 2012 and 2036.

Using industry standards for assumptions regarding Floor-Area-Ratios (FARs) and the amount of square feet per employee by land use type, EPS projected the quantity of real estate space for both the City and the Region. EPS evaluated three separate capture rate scenarios to bracket the range of demand for nonresidential land uses in the City:

- Scenario #1: Elk Grove's projected land use demand by type as a percentage of the Region's projected land use per SACOG data.
- Scenario #2: Elk Grove's percentage of historical absorption by land use type within the Region per CoStar data.
- Scenario #3: An upside/best-case scenario for each land use category taking into consideration the above two scenarios, discussions with local industry experts, and the potential to maximize Elk Grove's capture of these uses.

Note that these scenarios focus on capture rate scenarios for the City as a whole. EPS has not conducted a detailed supply and demand analysis that apportions demand within the City specifically to the Kammerer site. The City understands that full development of the Kammerer Area will require a long-term buildout, and the capture rate scenarios discussed herein are intended to offer an order of magnitude range of potential Citywide demand that will then inform the Kammerer Urban Design Study in terms of overall scale and mix of land uses.

Office

The projected Regional demand for office space using SACOG employment data is close to 40.0 million square feet. Scenario #1 shows that SACOG projects Elk Grove's office market will account for 7.4 percent of the Region's office space growth. This percentage closely matches Elk Grove's historical capture of office space of 7.1 percent, which is used to estimate total demand for Scenario 2. Scenario 3 establishes an upside/best case scenario assuming that Elk Grove is able to outperform SACOG's projections and historical performance.

Based on these three capture rate scenarios, EPS estimates that demand for office space in Elk Grove will range from 2.8 to 5.9 million net square feet, as shown in **Table 5-3**. This net building square footage calculates out to between roughly 230 and 490 gross acres of land, including an allowance for space for roads, utilities, etc. The projected office space demand would be a 150-320 percent increase over the existing 1.9 million square feet of space currently in the market.

Table 5-3 Elk Grove Capture Rate Range

Item	Range of Demand	
	Square Feet	Acres
Land Use		
Office	2,800,000 - 5,931,000	229.6 - 486.3
Medical Office	783,000 - 2,014,000	64.2 - 165.2
Retail	863,000 - 1,691,000	82.6 - 161.7
Industrial/Flex	434,000 - 1,977,000	31.2 - 141.9
Other	23,000 - 53,000	1.9 - 4.4
Total	4,903,000 - 11,666,000	409.4 - 959.4

Medical Office

The projected Regional demand for medical office space using SACOG employment data is close to 12.9 million square feet. Applying the same method as above, Scenario #1 shows that SACOG projects Elk Grove's medical office market will account for 15.6 percent of the Region's medical office space growth, a substantial increase over the 6.1 percent represented by Elk Grove's historical capture and used to estimate space demand for Scenario #2. CoStar currently tracks Elk Grove as having 450,900 square feet of medical office space; however, this figure does not include institutional healthcare providers such as Kaiser. SACOG is projecting that Elk Grove will account for 15.6 percent of the Regional growth for medical uses, however historical absorption is less than half of that figure. SACOG's aggressive projection likely includes medical projects that are already included in the planning pipeline such as CNU and Dignity Health, which if built as planned, would account for 1.5 million square feet of projected demand for medical office space demand. This means the majority of projected demand may already be accounted for and absorbed by CNU and Dignity Health, not leaving much additional room for other users.

Scenario 3, therefore, reflects SACOGs projection as the upside/best-case scenario.

Based on this analysis, EPS estimates that total demand for medical office space in the City will range from 783,000 to 2.0 million net square feet, or approximately 60 to 165 gross acres of land for medical office being absorbed over the next 20 years.

Retail

The projected Regional demand for retail space using SACOG employment data is about 12.8 million square feet. In Scenario #1, SACOG projects Elk Grove's retail market will account for only 13.2 percent of the Region's growth in retail space. Scenario #2 shows that Elk Grove has captured an average of 6.7 percent of the Region's historical retail space absorption. Scenario #3 examines the above percentages as well as an

upside/best-case scenario for demand of future retail space using the 13.2 percent capture rate.

Applying the same method as above, Elk Grove's total projected demand for retail space ranges from approximately 863,000 to 1.7 million net building square feet, which translates to roughly 80-160 gross acres of land over the next 20 years. This is a 13 percent to 26 percent increase over existing retail space. The projected demand is calculated based on SACOG's projection of Elk Grove's projected 13.2 percent share of retail growth in the Region and their historical absorption of 6.7 percent of the Region's retail.

Please note that a 20-year retail projection is uncertain as the retail market environment continues to change with frequent announcements of national retail store bankruptcies, closures, and consolidations. COVID-19 will assuredly generate further distress and tumult in this sector. Pre-COVID, despite the volume of store closures, the dollar amount of retail spending had actually continued to grow steadily, based on several factors, including e-commerce trends.

In addition, retail research group, Cowen and Company, as well as the Urban Land Institute (ULI), noted a change in spending patterns in the retail landscape, with consumers shifting from purchasing material items to spending more on experiential retail, such as restaurants, grooming services, and health and wellness services.⁶ For those consumers purchasing material items, preferences for the types of retail outlets were also shifting from traditional department store retailers (such as JCPenney, Sears, and Macy's) to fast fashion retailers (such as Forever 21 and H&M).⁷ ⁸ In addition, consumer preferences for retail center types were also shifting from large, enclosed malls to "lifestyle centers," mixed-use buildings in urban settings, and "main streets."⁹

The national retail market turbulence predated COVID-19, and the after-effects of the pandemic only exacerbate already existing uncertainties regarding tenanting and absorption forecasting. It should, however, be noted that retail has adapted and persisted since the earliest days of commerce and as new retail tenants, concepts, and formats continue to emerge and establish their presence, it remains to be seen how future demand for retail space will evolve.

Industrial/R&D Flex

The projected Regional demand for all industrial/R&D flex space using SACOG employment data is close to 40.0 million square feet. In Scenario #1 SACOG projects Elk Grove's industrial/R&D flex market will account for only 1.1 percent of the Region's

⁶ Cowen and Company, "Retail's Disruption Yields Opportunities—Store Wars!" dated April 6, 2017, https://distressions.com/wp-content/uploads/2017/04/Retail_s_Disruption_Yields_Opportunities_-_Ahead_of_the_Curve_Series_Video_-_Cowen_and_Company.pdf (accessed December 2017).

⁷ CNNMoney, "200 Gap and Banana Republic stores closing," dated September 6, 2017, <http://money.cnn.com/2017/09/06/news/companies/gap-banana-republic-stores-closing/index.html> (accessed December 2017).

⁸ ULI, "Emerging Trends in Real Estate—United States and Canada—2018."

⁹ Ibid.

growth in industrial/R&D flex space. Scenario #2 shows that Elk Grove has captured an average of 2.8 percent of the Region's historical industrial/R&D flex space absorption. Scenario #3 examines the above percentages as well as an upside/best-case scenario for demand of future industrial/R&D flex space using a 5 percent capture rate.

SACOG's projection of Elk Grove's role in total industrial/R&D flex employment as a percent of the Region is minimal and the City's percentage of historical absorption is nominal. Calculating Elk Grove's projected demand of industrial/R&D uses (using employment density factors reflecting the likely predominance of R&D/Flex uses within the Project Area) based on these percentages and adding in an upside/best-case scenario gives an estimated demand of light industrial/R&D flex space ranging from approximately 434,000 to 2.0 million net square feet of space over the next 20 years. This net square footage calculates to about 30-140 gross acres of land.

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6. Kammerer Study Area Competitive Position

The section above bracketed the potential range of nonresidential land use demand in the City over the next 20 years based on Regional growth projections, historical performance, and an upside/best case scenario that assumes the City is able to outperform current projections and historical performance.

This section evaluates the Study Area's ability to attract new users and to help the City to meet upper end absorption estimates by maximizing capture of employment generating uses through application of a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis. The SWOT analysis was informed by the socioeconomic and real estate trends presented earlier and developed with consideration of input from City policymakers and staff, real estate industry experts, and community input.

The SWOT analysis focuses on specific attributes of the Study Area that either facilitate or impede City objectives for the site – in some cases certain attributes of the site fall into multiple categories (e.g., present both opportunities and threats). Outcomes of the SWOT analysis are then used to shape key recommendations and policies established by this study.

Figure 6-1 summarizes the key attributes identified as part of the SWOT analysis, each of which is discussed in greater detail below.

Figure 6-1 SWOT Analysis Summary

<p>STRENGTHS</p> <ul style="list-style-type: none"> • Existing quality and character of Elk Grove • Connections to both Sacramento and Stockton MSAs • Study Area offers a large land are that can be master planned • Emergence of strong healthcare sector • Healthy commercial real estate supply 	<p>WEAKNESSES</p> <ul style="list-style-type: none"> • Site positioned at the southern end of the City and Sacramento MSA • Untested market for high-density development • Costs to build outpace achievable lease rates • Lease rates are high for non-central area • Lack of access to transit options • Perceived high development fees
<p>OPPORTUNITIES</p> <ul style="list-style-type: none"> • City owned property • Build on existing and emerging healthcare sector growth • Potential to offer space for institutional users • Labor force characteristics • Build on Project Elevate • Wilton Rancheria Casino • Capital SouthEast Connector • Reduce GHG emissions by offering employment opportunities near where people already live • Strengthen connections to Stockton and other major employment centers • Respond to post-COVID-19 trends 	<p>THREATS</p> <ul style="list-style-type: none"> • Number of similar proposed projects in Region • Capital SouthEast Connector • Diverse property ownership • High construction costs continue to grow • Land costs • Anti-density trends as a response to COVID-19 • Shifts in office and retail space demand due to COVID-19 and other factors

Strengths

Strengths of the Study Area include attributes specific to the site itself, as well as economic and real estate characteristics of the City that create an investment-ready environment. These qualities include:

- **Existing quality and character of Elk Grove.** The City offers unique quality of life benefits that have contributed to impressive population growth since its incorporation in 2000. Good schools, neighborhoods, parks, open space and other amenities have created an attractive community that continues to appeal to many homebuyers. The existing strength of the Elk Grove community and its quality of life appeal can be leveraged in efforts to develop the Kammerer Study Area.
- **Connections to both Sacramento and Stockton MSAs.** The City generally, and the Kammerer Study Area specifically, have significant economic linkages to both Sacramento and Stockton, which offers additional opportunities to attract employees and employers with linkages to either Sacramento, Stockton, or both regions.

- **Study Area offers a large land area that can be master planned.** The scope and scale of the Study Area allows the City to develop a Master Plan that gives due consideration to the critical elements of an urban-style employment center, including attention to scale, land use adjacencies, infrastructure design and integration of housing and key public realm improvements. A well-thought-out, intelligent, accessible, and balanced master plan will help the City identify development requirements, streamline entitlements, and identify needed implementation actions and increments that will facilitate attracting private sector investment.
- **Emergence of strong healthcare sector.** Private sector investments by healthcare providers and teaching institutions (Kaiser, UC Davis, Dignity Health, and the future CNU hospital and medical center) signal the strength of the healthcare sector in the City. Expansion of this sector offers base sector job growth potential for the City that will facilitate attraction of labor resources with ancillary benefits in terms of attracting future related employers.
- **Healthy commercial real estate supply.** A key advantage for commercial development in Elk Grove is that the City has been successful in managing their commercial real estate supply, avoiding overbuilding of commercial space that results in high vacancies and depressed lease rates. This bodes well in terms of their current supply, which has low vacancy and high lease rates and points to the need for more space.

Weaknesses

Weaknesses of the site present challenges that will have to be mitigated in order to attract new private investment. These challenges include:

- **Site positioned at the southern end of the City and Sacramento MSA.** The Study Area site is not centrally located, which decreases access to the region's labor force, transit, and amenities. A more central regional location would be able to attract workers from Roseville, Folsom, Carmichael, and elsewhere throughout the region to offer a broader and more diverse talent pool. New employers may be reticent to locate in an area at the fringe of the Sacramento MSA, unless the City can also leverage proximity to Stockton and other employment centers as a competitive advantage.
- **Untested market for high-density development.** The City's built environment is generally characterized by low density, traditionally suburban-style development. Development of the Study Area envisions an untested high intensity concept that has not been tested in the market, increasing developer risk and associated return requirements.
- **Costs to build outpace achievable lease rates.** High construction costs limit the feasibility of new speculative construction in the City and elsewhere in the Region. While lease rates in the City are fairly strong relative to other suburban areas of the region, they are not sufficiently high to justify new construction. The City's commercial real estate market benefits from not being overbuilt, but this dynamic

results in constrained supply. Without new supply, the ability to attract new users to the market may be restricted, and new construction may be limited to owner-users.

- **Lease rates are high for non-central area.** Here again, the City's strength in terms of avoiding an oversupply can also create weaknesses. Low supply in the City pushes lease rates higher, to levels that outpace what many users would be willing to pay for an area outside a Central Business District or other more centralized location with better access to a large labor pool and amenities.
- **Lack of access to transit options.** Currently, the site does not have sufficient access to transit. Developing transit connections to Light Rail, Amtrak, and other commuter rail will be a critical element to attracting new users and residents.
- **Perceived high development fees.** Many real estate brokers and professionals cite high development fees in the City of Elk as a deterrent to new investments. A strong perception persists in the development community that Elk Grove is a very expensive city in which to develop.

Opportunities

The strengths and weaknesses highlighted above offer several opportunities for the City to maximize the success of Study Area development.

- **City owned property.** City owned property within the Study Area offers the City the opportunity to enter into a public-private partnership that can set the stage for the Study Area and serve as a proof of concept for future projects. City ownership offers the City the unique opportunity to solicit development proposals and offer property disposition scenarios positioned to maximize project success.
- **Build on existing and emerging healthcare sector growth.** With a burgeoning health care sector in Elk Grove and throughout the region, the City has the opportunity to encourage spinoff research and startup collaborations with CNU and other providers.
- **Potential to offer space for institutional users.** The Study Area offers the opportunity to offer large parcels of land that can accommodate major institutional users. Through master planning, entitlement streamlining, infrastructure planning and extension, the City can offer unique shovel-ready investment opportunities.
- **Labor force characteristics.** Elk Grove's resident population is young and well educated, but a large majority of resident workers are currently traveling outside of the City for employment.
- **Build on Project Elevate.** With the potential of urban-style-retail-lifestyle-center Project Elevate located a little over 3 miles away, the Study Area has the opportunity to be the equivalent of San Francisco's Financial District to Project Elevate's Union Square. Like the City owned site, Project Elevate may serve as a proof of concept for urban style development in a suburban context.

- **Wilton Rancheria Casino.** A local broker specializing in office space discussed the value of specialized retail in attracting large office users by comparing the site to Thunder Valley Casino. The addition of Thunder Valley Casino has attracted large Class A office users and additional experiential retail.
- **Capital SouthEast Connector.** The Capital SouthEast Connector gives the Study Area an opportunity to more easily draw workers from Rancho Cordova, Folsom, and El Dorado Hills.
- **Reduce GHG emissions by offering employment opportunities near where people already live.** As communities begin to implement SB 743, projects that reduce vehicle miles traveled will increasingly be incentivized. Development of the Study Area as an employment destination offers an opportunity to reduce vehicle emissions by creating jobs in an existing housing center, negating the need for long commutes.
- **Strengthen connections to Stockton and other major employment centers.** Study Area development can offer a high quality and highly amenitized community with access to employment opportunities in both the Sacramento and Stockton regions, as well as the Bay Area (via transit investments). The Study Area is unique in its ability to connect to 3 major metropolitan areas.
- **Respond to post -COVID-19 trends.** As detailed in the section to follow, there are a number of threats associated with post-pandemic trends and shifts in the real estate market. However, the Study Area is well positioned to capitalize on associated opportunities. Anecdotal evidence suggests that the Sacramento Region may capture significant new residents relocating from the Bay Area, improving labor force resources. Development in the Study Area will be able to incorporate and integrate the latest technology and design that responds to hygiene and sanitation concerns (e.g., distancing, building ventilation and filtration systems). Furthermore, public space has become ever more important to urban dwellers, and entitlement of the Study Area offers a unique opportunity to respond to our changing relationship with the public realm.

Threats

Threats to Study Area development are those circumstances that could derail efforts to develop a high-density employment center at the site. Many of these threats are largely circumstances outside the City's control that will need to be monitored and mitigated to maximize Study Area Success.

- **Number of similar proposed projects in Region.** A key threat that the Project faces is the number of projects proposed in the Region that will seek to attract similar users. As shown in **Map 3-1**, there are a multitude of employment and innovation centers in various stages of planning in the area with the potential addition of close to 16.0 million square feet of space. Total demand for these uses is not expected to match the currently planned supply, and the Study Area will have to ensure differentiated offerings that provide a competitive advantage against these other development opportunities.

- **Capital SouthEast Connector.** The Capital SouthEast Connector offers key opportunities in terms of improving inter-regional connections that improve mobility and access. However, the design of the expressway should be of utmost concern to the City – major transportation infrastructure can have severely negative impacts on the livability of adjacent communities.
- **Diverse property ownership.** The Study Area comprises parcels owned by several different private parties with potentially diverging development interests and intents. City proposals to develop a high intensity, high density project as opposed to more traditional suburban style housing may face significant resistance from some property owners.
- **High construction costs continue to grow.** The cost of construction continues to increase, and in many cases is exacerbated by COVID-related supply chain challenges. High construction costs will continue to be a barrier to speculative development – in particular, high density speculative development in an untested market.
- **Land costs.** In many cases, development in the City is occurring on property where the landowner has a very low basis in the land. Local brokers indicate that new development in the City is challenged by high land acquisition costs that further impede development feasibility.
- **Anti-density trends as a response to COVID-19.** The COVID-19 pandemic may result in a shift in consumer preferences from high-density urban style living to lower density, single family housing. These consumer preferences may be driven in part by hygiene concerns as well as the desire for more space as residents are required to shelter in place.
- **Shifts in office and retail space demand due to COVID-19 and other factors.** While trends related to retail and office demand were undergoing significant -pre-pandemic shifts, the COVID-19 pandemic could usher in an entirely new commercial real estate paradigm. While the permanent outcomes of the pandemic will not be known for months or years, many employers are poised to adopt remote work on a long term or permanent basis. Bricks and mortar retailers offering experiential environments have been particularly challenged by the pandemic. These trends could drastically change the demand for both office and retail space.

The SWOT analysis presented above helps to frame the competitive position of the site relative to other similar projects planned throughout the Region. While the site is challenged by its location outside of major employment centers with more limited access to labor resources, the City does have certain opportunities to improve the capture of future employment generating uses. Outcomes of the SWOT analysis documented above provide the foundation for the recommendations established in the subsequent chapter.

7. Findings and Recommendations

EPS has developed findings and recommendations based on the City's objectives for the Study Area and EPS's examination of current and projected area demographics, real estate market dynamics, pipeline supply, and other economic factors. It is important to note that these recommendations are intended as general, conceptual recommendations designed to assist the site master planning process. It is expected that final land use plans for the site will vary somewhat from the recommendations offered herein, as site and infrastructure design as well as City land use policy considerations and community engagement processes will likely result in departures from the land use concept outlined herein. Site planning processes should ultimately seek to maximize land use flexibility to allow for potential modifications as determined by future market dynamics and considerations.

Key Findings

1. ***Successful urban-style employment centers throughout the nation include a number of common land use characteristics that the City should seek to replicate.*** The City's built environment is generally characterized by low density, suburban style development. Attention to elements that have helped other urban style employment centers to succeed will be critical to the success of a higher intensity development within this suburban context. Important attributes include offering a thoughtful mix of residential, retail, entertainment, tourist, and employment generating uses.
2. ***Land use regulations that encourage density and desired urban amenities are important to achieving the land use objectives of a more intense urban environment.*** Elimination of height restrictions and implementation of a form-based code are key elements to maximizing density and creating the ideal land use mix that responds to market fundamentals. Thoughtful integration of parks and open space as well as access to transit are critical amenities needed to attract consumers looking for a more urban environment.
3. ***Integration of housing products is a particularly critical element of successful urban style employment centers and plans for Study Area development should include a significant housing component.*** Housing plays a critical role in bolstering labor resources (providing housing for the types of employees desired by employers), supporting retail uses, and importantly, potentially underwriting less feasible commercial concepts.

- 4. Demographic and socioeconomic characteristics make the City an attractive location.** Higher than average incomes, low unemployment rates, high quality schools and public spaces have helped the City to achieve impressive growth rates over the last decade. This population growth, particularly the growth of younger families, contributes to a diverse and skilled labor force.
- 5. The City has demonstrated sustained employment growth over the last 15 years.** Overall employment growth was driven by growth in Manufacturing, Retail Trade, Administration and Waste Services, Educational Services, Health Care and Social Assistance, and Accommodation and Food Services. Key employers include Apple, Inc., the Elk Grove Unified School District and the State of California. The expanding healthcare industry and a variety of associated employers are also key drivers of employment growth. The City, however, has struggled to attract a diversified set of base sector employers beyond Apple and the State of California.
- 6. While unemployment rates in the City are low, and Elk Grove residents are employed in a diversity of industries, most Elk Grove residents work outside the City.** Nearly 90-percent of the City's resident-workers travel outside the City for work, even though the City's jobs-housing ratio is approaching 1.0. This finding reflects a disconnect in the City's jobs-housing balance – the relationship between employment opportunities in the City and jobs occupied by City residents.
- 7. The commercial real estate market in the City is not overbuilt, with strong lease rates and low vacancy rates, but is challenged by market fundamentals limiting the viability of speculative development.** Lease rates relative to high construction costs are insufficient to justify speculative construction activity, which results in a paucity of available large floor plate space needed to attract new anchor, base sector employment uses. The City has struggled to attract major new employers due in part to its role and location in the regional economy.
- 8. Based on current 20-year demand projections, the supply of developable land for nonresidential uses in Elk Grove is anticipated to outpace demand.** EPS estimates that demand for nonresidential space in Elk Grove will range from 5.6 to 11.7 million net square feet, only a fraction of the total development potential of the Study Area. Development in the Study Area will have to compete with many similar development concepts proposed throughout the Sacramento Region that will vie to attract similar users.
- 9. Development of the Study Area offers key opportunities for the City to capitalize on growing sectors and potentially attract major institutional users through offering shovel ready development opportunities with key connections to major employment centers.** The site offers the City the opportunity to develop a progressive urban employment center well positioned to attract new residents and employers alike. Existing labor resources in the City suggest that attracting new employers can help to improve the City's jobs-housing balance and reduce greenhouse gas emissions by better linking residents to employment opportunities.

10. Development of the site will also need to overcome challenges associated with the project's geographic location at the southern end of the Sacramento MSA, development feasibility limitations, and competition from elsewhere in the Region. The Project site will have to overcome these challenges in order to maximize absorption and introduce a new development typology into the Elk Grove market.

11. The project's location along the planned Capital SouthEast Connector presents both an opportunity for and challenges to Project development. The Capital SouthEast Connector will provide critical connections to other major employment centers in the Region, improving regional mobility and allowing the City to expand its available pool of labor resources. However, as a large expressway facility, the design of the Connector through the Study Area will be of utmost importance, as the scale of the facility will have a major influence on the Study Area built environment.

12. The COVID-19 pandemic also presents major challenges to Study Area development, which may be partially mitigated by associated opportunities. The sudden shift to remote working brought about by COVID-19 is likely to have long-lasting effects on the demand for office space. Major shifts in the retail landscape are also expected. However, the project area will be well positioned to offer new real estate product types that can respond to rapidly shifting consumer preferences by incorporating the latest developments in building technology and design.

Recommendations

The City should position the Kammerer Study Area for a long-term buildout and take assertive steps to maximize Regional capture. Building off of the findings offered above, specific recommendations are detailed in the section to follow.

1. To maximize capture, the City should develop a strong and unique brand and identity for the Study Area that serves to set it apart from other existing and planned employment centers. Maximizing absorption and achieving the level of development scale that will be needed for a successful project will require an intensive marketing and branding effort that targets specific potential users and offers space suitable for their needs. The Kammerer area should become a destination neighborhood district with a mix of uses attracting residents, employees, shoppers, and tourists. This branding and market effort, however, must still allow the City to cast a wide net in terms of its pursuit of new employment generating users. User preferences and needs are changing rapidly, and a successful project seeks to establish a unique identity while also prioritizing flexibility to respond to changing market conditions.

- 2. The City should continue ongoing efforts to attract institutional uses or other major employment users to anchor the site.** City efforts to diversify employment offerings and attract major institutional users such as State of California offices and CNU are well established and ongoing. Development of the Study Area offers a unique opportunity to attract specific users that would prefer an urban-style environment but that may not be able to afford Central Business District lease rates.

The presence of a major anchor user can catalyze absorption of employment center uses. Often the presence of a major institutional user (education, medical, etc.) is a major factor in terms of generating technology transfer opportunities and spin off employment as well as producing a workforce with employer-desired skills and attributes. Where institutional users are not present, “micro-institutions” or an agglomeration of related industry users may emerge to drive the growth of employment uses.

- 3. The City should work with property owners to continue the careful management of the supply of nonresidential real estate, while also seeking to provide space to accommodate new users.** The City should continue to avoid the overentitlement and over-construction of commercial real estate (namely office) such that key market fundamentals (low vacancy, healthy lease rates) are maintained. Development feasibility concerns limiting speculative development may act as a natural constraint in this regard. These considerations need to be balanced with the anecdotal reports that the absence of available and large floorplate office space has deterred new users from coming to the Sacramento Region.

- 4. Full absorption of the Study Area land uses is a long-term prospect, and the City should plan for metered development and absorption that may take upwards of 25-30 years.** With planned supply of employment uses poised to outpace projected demand over the next 2 decades, the City should plan for a long-term buildout of the Kammerer community. Initial development should target strategic sites where the City can control outcomes (i.e., the City’s 23-acre parcel) and radiate outward from initial catalytic investments. Entitlement of the project should seek to maximize flexibility in uses such that development can respond to market conditions as they evolve over the coming decades.

- 5. Kammerer Area development should include integration of housing products.** Housing is a critical element of successful urban style employment center development and the City should plan to integrate housing products serving a mix of housing types and household incomes. Housing provides important support for site retail and entertainment uses, is critical to accommodate desired labor resources, and as a generally more financially viable real estate product, can serve to “bring along” less feasible commercial products. Housing is a critical element to creating the desired “destination district” that supports creation of an “18-hour environment.”

- 6. Planning for Kammerer should include a keen focus on placemaking elements as part of an overarching economic development strategy.** “Place-based” economic development strategies recognize the value that workers place on living in a well-connected, balanced community with access to desirable amenities, housing and jobs. Workers increasingly place a premium on shorter commutes, necessitating thoughtfully planned communities with a strategic balance between housing and employment as well as integration of transit connections, lifestyle amenities, and attractive public spaces.
- 7. Design of the Capital SouthEast Connector should respond to the dual objectives of improving mobility and accommodating Study Area livability.** Presenting both an opportunity for and challenge to Study Area development, the City should seek to ensure that the design of the SouthEast Connector does not sacrifice quality of community for improved access and mobility.
- 8. The City should seek to reduce upfront infrastructure cost burdens and prepare site for investment.** Development costs and the financial feasibility of development present some of the biggest challenges facing Study Area development. Planning for Study Area development should seek to improve developer certainty in terms of needed infrastructure investments and available funding resources by developing a comprehensive strategy to fund those costs. This strategy should include approaches to identifying and advance-funding key infrastructure segments that are needed to accommodate catalytic site development.

Again, please note that these recommendations are intended to encourage maximum flexibility for the City to accommodate buildout of the Study Area over the long term. Assertive efforts to create a unique site identity, reduce costs and improve certainty, and to ensure development of a quality community will be critical to maximizing the City’s capture of the desired employment-generating uses.

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