



MINUTES

April 23, 2024

ECONOMIC DEVELOPMENT ADVISORY COMMITTEE MEETING

1:30 p.m.
Civic Center Meeting Rooms 1 & 2
311 Vernon Street
Roseville CA

1. CALL TO ORDER

Chair Scott Alvord called the Economic Development Advisory Committee meeting to order at 1:33 p.m.

2. SILENT ROLL CALL

Committee Members Present:

Chair Scott Alvord, Councilmember
Stephen Clark, Roseville Area Chamber of Commerce Representative
Eric Avery, Industry Representative
Michael Tronnes, Industry Representative
Angela Tsukiji, Industry Representative
Jeff Richardson, Industry Representative
Naaz Alikhan, Industry Representative

Chair Scott Alvord introduced the Economic Development Advisory Committee's newest Board Member, Roseville Area Chamber Representative Stephen Clark.

3. PUBLIC COMMENTS

Roseville resident John Freitas introduced himself and inquired if the City of Roseville Information Technology (IT) Department had a representative at the meeting.

Economic Development Director Melissa Anguiano advised there is not an IT representative present in this meeting.

4. MINUTES

4.1. Approval of Minutes from January 23, 2024, meeting

Approve the Draft Minutes of the January 23, 2024, Economic Development Advisory Committee meeting.

No Public Comments received.

Motion by Jeff Richardson, seconded by, Michael Tronnes to approve the Minutes of the January 23, 2024, meeting.

The motion passed by the following vote:

Ayes: Jeff Richardson, Michael Tronnes, Eric Avery, Angela Tsukiji, Chair Scott Alvord

Noes: None

Abstain: Naaz Alikhan, Stephen Clark

Absent: None

Minutes of the January 23, 2024, meeting approved.

5. STAFF REPORTS

5.1. Development Forecasts - Long Range Planning

Senior Planner Lauren Hocker provided an informational update on the 2024 Future Residential Permit Forecast (10 year forecast) and the 2024 Commercial Data (remaining unbuilt as of 2024) for the City and provided the attached handout.

No Public Comments received.

6. ROUNDTABLE

6.1. Roundtable

Committee Members and Staff provided updates and information on relevant industry trends and projects, for information only.

Eric Avery provided information regarding the commercial real estate market and provided the group with details from a Sacramento area real estate report for 2024 Quarter 1.

Michael Tronnes provided information regarding local healthcare security and safety measures. He also provided his update of the recent Legislature meeting Cap-to-Cap in Washington DC.

Angela Tsukiji provided information about local and regional home sales trends.

Jeff Richardson discussed the importance in prioritizing safety and security in the retail industry and updated the group regarding foot and car traffic at the mall.

Naaz Alikhan provided information regarding retail in downtown areas and multi-use development ideas.

Stephen Clark provided information regarding the Sacramento International Airport's retail spaces, parking, and international flight availability.

Chair Scott Alvord provided updates on the Placer Valley Business Summit at The Grounds in Roseville and the International Council of Shopping Centers Conference in Las Vegas in May 2024.

Mike Isom, Development Services Director, provided updates regarding the City of Roseville's Development Services Department's recent career fair and recruiting efforts.

Helen Dyda, Public Information Officer, provided details about the Pleasant Grove Boulevard widening project, the Roseville Parkway Extension, and the Roseville Soccer Complex.

Wayne Wiley, Economic Development Project Manager, advised that United Pacific Railroad's largest train, "The Big Boy" is coming to Roseville in mid-July with an anticipated 1,000+ visitors.

Bill Chaplin, Electric Economic Development & Partnership Manager, announced that Roseville Electric Utility recently received the Diamond level of the RP3 designation. The American Public Power Association's Reliable Public Power Provider (RP3) program recognizes utilities that demonstrate high proficiency in reliability, safety, workforce development, and system improvement.

Melissa Anguiano, Economic Development Director, provided updates on the recent City Council approved Economic Development trip to Germany to visit various businesses.

Gina McColl, Economic Development Analyst, discussed the plans for the May 1, 2024, Broker's Forum meeting at the Venture Lab.

7. ADJOURNMENT

Meeting was adjourned at 2:55 p.m.

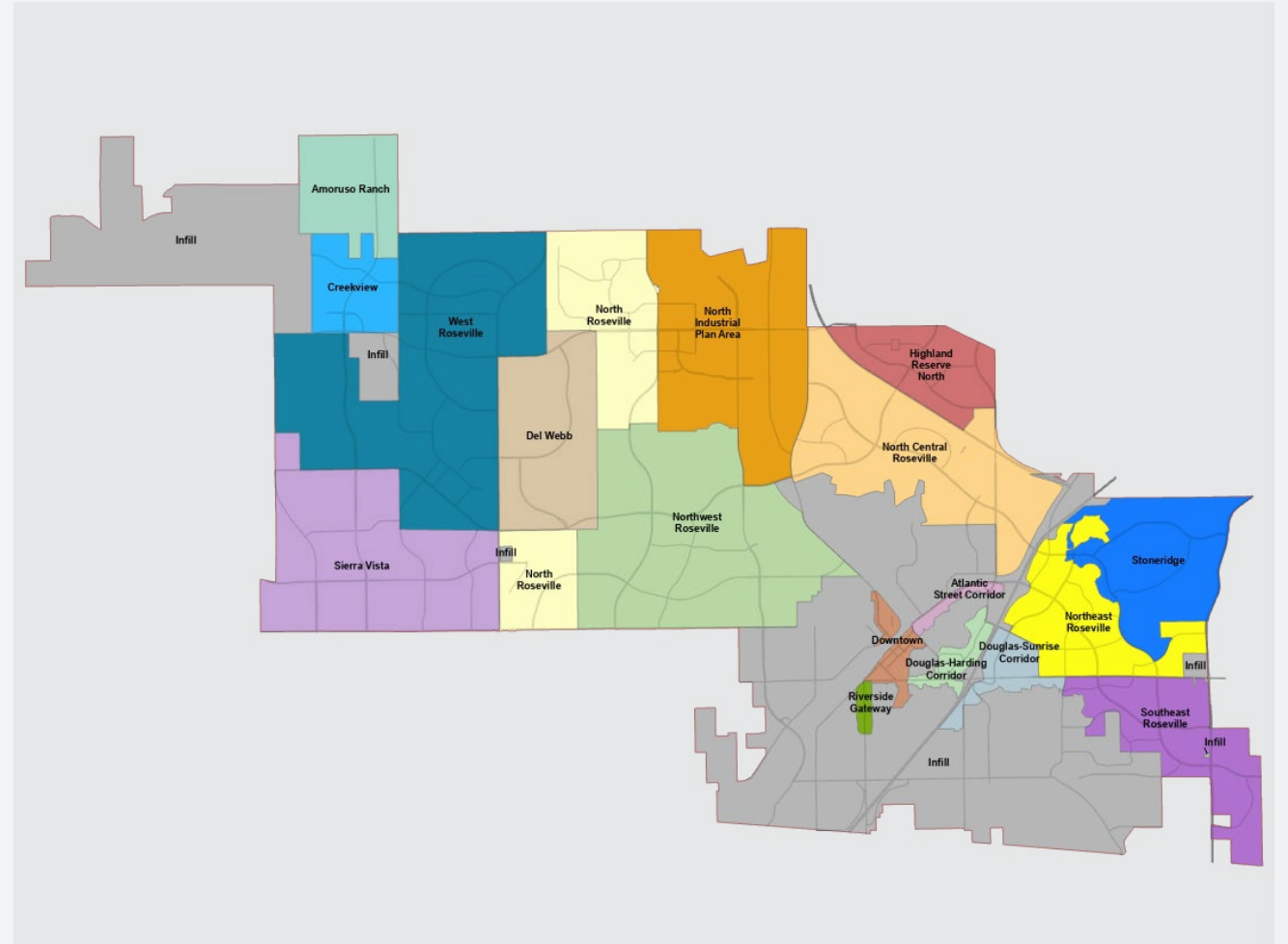


Development Forecast

Lauren Hocker, Senior Planner
Development Services Department

Background

- City of Roseville is a planned growth city
- Specific Plans are the main planning tool
- Residential units are allocated to all parcels
- We track units constructed and remaining, by Specific Plan

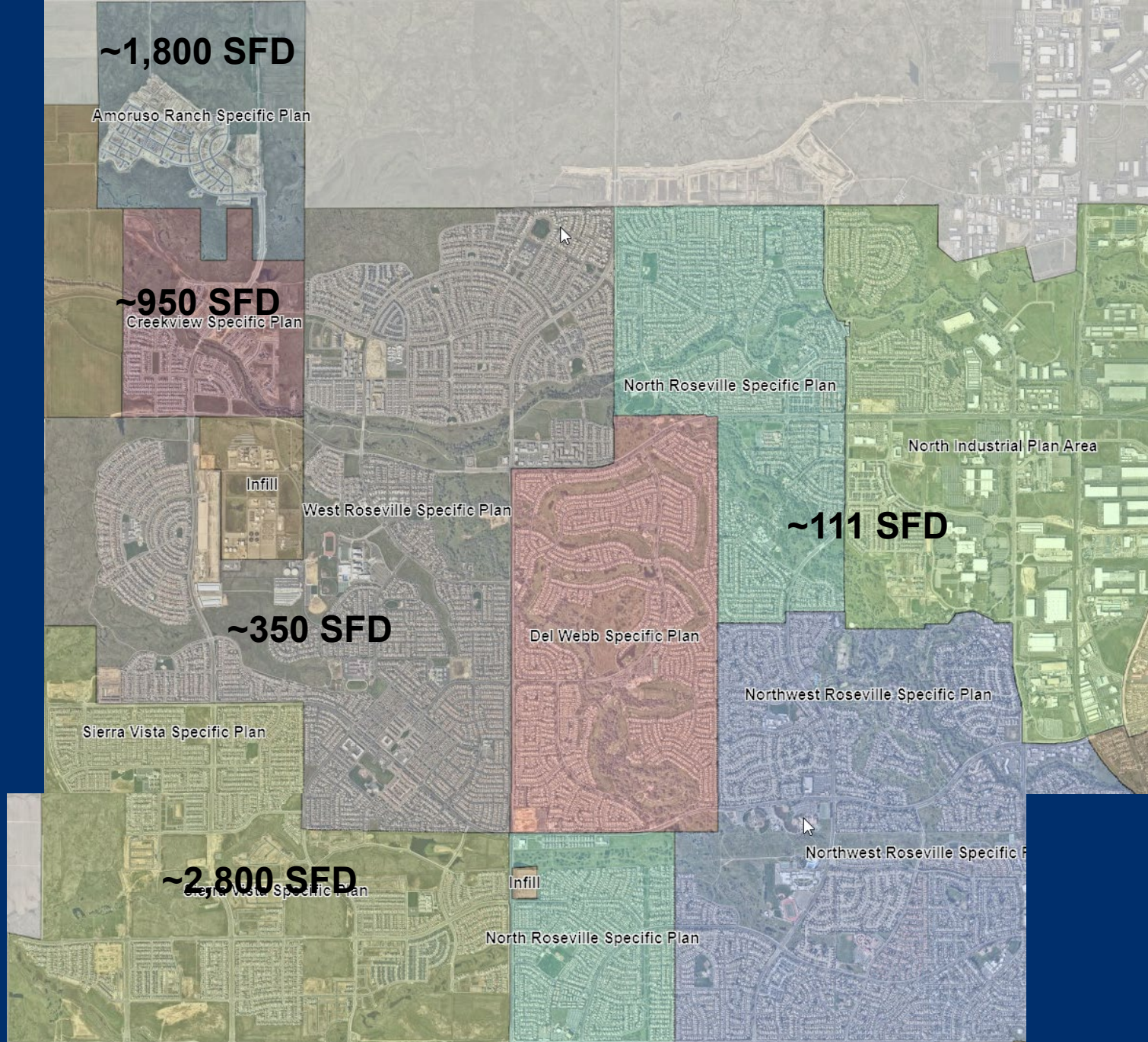


Development Forecasting

The following information is used to develop the forecast:

- Average production is 950 single-family units annually
- Housing production trends
- Known housing applications

The purpose of the forecast is to show general trends



**Citywide
~6,700 units remain**

Questions

Contact:

**Lauren Hocker, Senior Planner
Planning Division**

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**Gina McColl, Economic Development Analyst
Economic Development Department**

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Key Takeaways

- The market vacancy rate increased 61 basis points **quarter-over-quarter** and has risen 127 basis points year-over-year to 20.8 percent, its highest level since Q3 2012.
- Quarterly net absorption of -352,465 square feet recorded accelerating occupancy losses compared to the previous two quarters. In addition, the State of California will be vacating 289,784 square feet in South Natomas next **quarter**.
- Downtown Class A asking rents dropped 1.0% quarter-over-quarter to \$3.35/SF, its lowest level since Q3 2021. Regional average asking rents recorded modest gains, inching up to \$2.15/SF.
- Quarterly sales volume of \$29.1 million was one of the lowest quarterly volumes on record. The average price per square foot of \$133/SF decreased 10.2% year-over-year while the average cap rate of 6.71% compressed slightly from the second half of last year.



Sluggish Sales Volume and Tepid Leasing Activity Amidst Rising Vacancy Rises

The office market in Sacramento saw a notable vacancy rate increase to start 2024, nearing a **record high**. The first quarter of 2024 experienced accelerated occupancy losses and minimal leasing activity. Despite positive net absorption Downtown and some tenants starting to expand, vacancy is expected to rise higher next quarter and through the rest of this year, driven by the State of California's relocation into the Richards Boulevard Office Complex. Regional average asking rents increased slightly, driven by gains in Class B properties, although Downtown Class A rents decreased. Sales volume was remarkably low, with limited transactions and bottoming prices. Several conversion opportunities are emerging as the market struggles but whether these become a reality remains to be seen. Despite **challenges**, there are signs of potential recovery, including increased office utilization, new coworking spaces, and increased tenant activity in certain submarkets, hinting at potential stabilization by 2025.

Market Indicators



Historic Comparison

| | 24Q1 | 23Q4 | 23Q1 |
|---|------------|------------|------------|
| Total Inventory SF | 57,325,999 | 57,579,495 | 57,696,541 |
| New Supply SF | 0 | 0 | 20,000 |
| Net Absorption SF | -352,465 | -140,817 | -464,299 |
| Overall Vacancy | 20.8% | 20.2% | 19.5% |
| Under Construction SF | 0 | 0 | 0 |
| Overall Asking Lease Rates (FSG) | \$2.15 | \$2.14 | \$2.13 |

Market Fundamentals



Sacramento's office market vacancy rate increased 61 basis points quarter-over-quarter to 20.8% and is now less than one percentage point away from the record high last seen in Q4 2011. Occupancy losses mounted in the first quarter of 2024 with -352,465 square feet of net absorption after moderating throughout the second half of 2023. With additional large-scale move outs planned and modest downsizing still occurring, it is likely net absorption will stay negative through the rest of the year.

Recent Transactions



Renewal/Expansion
500 Capitol Mall
Downtown | 25k SF



Renewal/Expansion
81 Blue Ravine Rd
Folsom | 20k SF



Expansion
1111 Howe Ave
Howe/Fulton/Watt Ave
16k SF



Renewal
202 Cousteau Pl
Davis | 16k SF



Investment Sale
2260 Douglas Blvd
Roseville | \$153/SF



Investment Sale
901 H St
Downtown | \$105/SF

Absorption & Demand

Occupancy losses accelerated in the first quarter of 2024. Sutter Health vacated the remainder of its 308,000 square foot building at 9100 Foothills Blvd in Roseville. FEMA moved out of 38,000 square feet at 2995 Prospect Park Drive as Highway 50 East's quarterly net absorption totaled -77,900 square feet, pushing the submarket's vacancy rate up to 33.0%. HDR moved from 24,000 square feet at 2379 Gateway Oaks in South Natomas to a 27,000 square foot space in 1 Capitol Mall. A future move by CapRadio to 30,000 square feet in 730 I Street will no longer occur. In the largest occupancy of the quarter, Sacramento County moved into 3707 Kings Way in the Howe/Fulton/Watt Ave submarket. The regional vacancy rate is inching closer to the record high. With the State of California vacating nearly 300,000 square feet next quarter, the vacancy rate will rise substantially by mid-year with potential stabilization occurring in the latter half of the year. One positive occurrence during the quarter was Downtown recording 74,012 square feet of net absorption in Class A properties. Additionally, Buchalter, Taylor Morrison, and Highlands Community Charter School signed expansions this quarter.

Sacramento Office Market Annual Net Absorption & Vacancy Rate

Annual Market Net Absorption, Overall Market Vacancy Rate, Downtown Class A Vacancy Rate | 2015 - 2024



Source: Colliers Sacramento Research

Rents

Regional average asking rents increased 1.1% year-over-year to \$2.15/SF, driven by gains in Class B properties. Landlords are largely holding firm on asking rates while offering additional concessions in the form of free rent and tenant improvement allowance. Downtown Class A rents slid 0.6% during the quarter to \$3.35/SF, its lowest level since Q3 2021. Suburban Class A asking rents held at \$2.30/SF while Suburban Class B rents increased 0.8% quarter-over-quarter to \$1.81/SF. However, Suburban Class B rents have fallen 5.6% over the last three years while Suburban Class A rents have risen 3.3% over that same period. Davis/Woodland recorded the highest year-over-year asking rent change at 13.4%, followed by Midtown at 10.2%, and Elk Grove with 7.2%. Campus Commons' overall asking rents declined 5.6% year-over-year despite Class A asking rents hitting \$3.25/SF. Highway 50 East's average asking rent of \$1.76/SF decreased 2.3% year-over-year amidst record high vacancy rates. El Dorado, West Sacramento, and Carmichael/Fair Oaks also recorded annual asking rent declines of 3.0% or more.

Sacramento Office Average Asking Rates

Average Asking Rates (\$/SF FSG) - Downtown Class A, Suburban Class A & B, Market Overall | Q1 2021 - Q1 2024



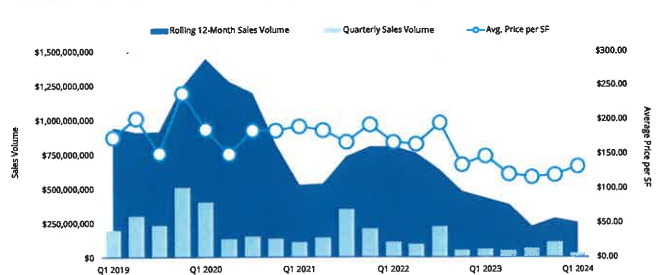
Source: Colliers Sacramento Research

Sales

Regional sales volume of \$29.1 million was one of the lowest quarterly sales volumes on record and the lowest quarterly total since Q1 2013. The four-quarter trailing sales volume of just \$253.3 million decreased 41.3% year-over-year and was nearly \$1 billion less than the 2019 annual total of \$1.25 billion. With only 12 quarterly transactions, the average price of \$133/SF declined 10.2% year-over-year. The largest sale of the quarter was the \$7.2 million acquisition of 2260 Douglas Blvd in Roseville, which is being converted into office condo units. In Downtown, 901 H Street sold for \$5.4 million (\$105/SF) at a 7.0% cap rate. Clutch occupied the 78,000 square foot building at 3249 Quality Drive in the Highway 50 East submarket after acquiring it from VSP last quarter. The building will be occupied by Clutch along with Frequency Coworking, event space, and MinervaVerse. Renaissance Tower at 801 K Street in Downtown is on the market for sale. The 28-story, 60% vacant building, last acquired for \$80 million in 2016, is expected to be sold at a significant loss and could garner attention for a residential conversion.

Sacramento Office Sales Activity

Quarterly Sales Volume, Rolling 12-Month Sales Volume, Average Quarterly Price per SF | Q1 2019 - Q1 2024



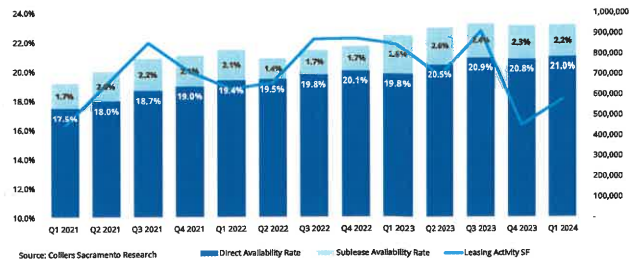
Source: Colliers Sacramento Research

Availability

The regional availability rate held at 23.2% in the first quarter, increasing 73 basis points year-over-year. The direct availability rate of 21.0% increased 119 basis points year-over-year and ticked up 19 basis points during the quarter. The sublease availability rate of 2.2% declined 15 basis points quarter-over-quarter and recorded its fourth consecutive decrease, falling 278,242 square feet in the last year. Leasing activity recovered slightly from its anemic end of 2023 to 580,005 square feet. But with tenant demand slowing considerably in the last six months and upward pressure on availability, the vacancy rate looks poised to increase further throughout 2024. Delta Dental will be vacating 72,000 square feet at 11185 International Drive in the Highway 50 East submarket in Q4 2024 after laying off 137 workers as a result of the loss of a state contract. One intriguing opportunity is the new availability at the Ice Blocks in Midtown. The 34,000 square foot space on the third and fourth floors is being vacated by the coworking concept Spaces.

Sacramento Office Availability Rate & Leasing Activity

Regional Direct Availability Rate, Sublease Availability Rate, Quarterly Leasing Activity | Q1 2021 - Q1 2024

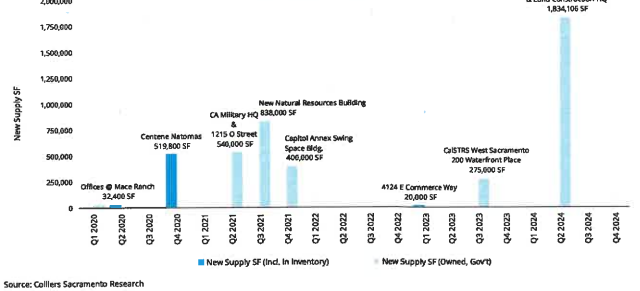


Development

The State of California's Richards Boulevard Office Complex, totaling 1.25 million square feet will be completed next quarter. This delivery will lead to vacancies in both State-owned and leased space. The State of California is also renovating four owned buildings downtown totaling 993,000 square feet which will be done in the next two years. Conversion opportunities are coming into focus as the office market struggles. Including the State's three buildings on Capitol Mall potentially being converted to apartments, there are 1.53 million square feet of existing office space currently being evaluated for conversions to alternative uses in the region. In the Railyards, Kaiser Permanente could start construction on its 310-bed hospital later this year. The \$1.5 billion development on 17.4 acres could kickstart additional construction in the Railyards, which has recently welcomed the new 345-unit apartment project, The A.J., at 6th & Railyards Blvd. At the doorstep to downtown, CalPERS sold 301 Capitol Mall to The Shingle Springs Band of Miwok Indians for \$17 million. CalPERS purchased the famed hole in the ground for \$70 million in 2006 and last proposed a 700,000 square foot office tower with Hines on the site in 2019.

Sacramento Office Development Pipeline

Quarterly Delivery Schedule | 2020 - 2024



Forecast

The region's largest employer, the State of California, is committing to returning state workers back to the office this year. Over the first three months of the year, 11 departments have been notified that employees must return to the office at least twice a week starting this spring. The departments include the Employment Development Department, Health and Human Services, Environmental Protection Agency, and eight departments within the California Natural Resources Agency, impacting roughly 19,000 employees alone. Newsom's office later ordered all state workers to be back in the office starting in mid-June. Despite this positive shift, the State of California's leased footprint across the region is decreasing while it moves into owned buildings. By the end of March 2024, the State of California leased 7.9 million square feet across Sacramento, which is down 8.5% (732k SF) since Q1 2020 and 5.7% (480k SF) below Q1 2023.

The Sacramento office market might have reached its bottom point, and some data points prompt a discussion of a future recovery in the next year. For example, coworking operator Regus is on track to open four new locations across the Sacramento region this year totaling roughly 40,000 square feet. In addition, Outlet Coworking opened a new 18,500 square foot location in Roseville this year. Class A buildings on Capitol Mall are seeing increased tenant activity resulting in encouraging net absorption so far this year and some local tenants are starting to expand. Furthermore, the number of Americans working from home declined 10.6 percentage points from March 2021 to October 2023. In addition, 64% of CEOs believe there will be a full return to the office in three years' time. As companies look to build culture and consistency in the workplace, the return to the office should help stabilize a battered market by the start of 2025, but there will be considerable challenges to be overcome through the remainder of the year.

Sacramento | Q1 2024 | Office | Market Statistics

| Submarket/ Class | Total Inventory SF | Direct Availability Rate | Sublease Availability Rate | Availability Rate | Vacancy Rate | Vacancy Rate Previous | Net Absorption Current | Net Absorption YTD | Under Construction | Deliveries YTD | Avg Direct Asking Rate (F5G) |
|---------------------|-----------------------|--------------------------------|----------------------------------|----------------------|-----------------|--------------------------|------------------------------|--------------------------|-----------------------|-------------------|------------------------------------|
| Downtown | | | | | | | | | | | |
| A | 5,320,037 | 20.2% | 0.2% | 20.5% | 17.5% | 18.9% | 74,012 | 74,012 | 0 | 0 | \$3.35 |
| B | 3,492,709 | 25.6% | 1.1% | 26.7% | 25.3% | 24.9% | -12,691 | -12,691 | 0 | 0 | \$2.89 |
| C | 1,330,427 | 8.3% | 0.0% | 8.3% | 16.7% | 15.8% | -12,864 | -12,864 | 0 | 0 | \$2.24 |
| TOTAL | 10,143,173 | 20.5% | 0.5% | 21.0% | 20.1% | 20.6% | 48,457 | 48,457 | 0 | 0 | \$3.07 |
| Suburban | | | | | | | | | | | |
| A | 14,729,793 | 28.4% | 4.9% | 33.3% | 28.4% | 25.9% | -358,992 | -358,992 | 0 | 0 | \$2.30 |
| B | 23,609,812 | 19.8% | 1.9% | 21.7% | 19.1% | 19.0% | -40,375 | -40,375 | 0 | 0 | \$1.81 |
| C | 8,843,221 | 13.0% | 0.2% | 13.2% | 13.4% | 13.5% | -1,555 | -1,555 | 0 | 0 | \$1.63 |
| TOTAL | 47,182,826 | 21.1% | 2.5% | 23.7% | 20.9% | 20.1% | -400,922 | -400,922 | 0 | 0 | \$1.97 |
| Total | | | | | | | | | | | |
| A | 20,049,830 | 26.2% | 3.7% | 29.9% | 25.5% | 24.2% | -284,980 | -284,980 | 0 | 0 | \$2.52 |
| B | 27,102,521 | 20.5% | 1.8% | 22.3% | 19.9% | 19.7% | -53,066 | -53,066 | 0 | 0 | \$1.95 |
| C | 10,173,648 | 12.4% | 0.2% | 12.6% | 13.8% | 13.8% | -14,419 | -14,419 | 0 | 0 | \$1.70 |
| TOTAL | 57,325,999 | 21.0% | 2.2% | 23.2% | 20.8% | 20.2% | -352,465 | -352,465 | 0 | 0 | \$2.15 |

Submarkets

| | | | | | | | | | | | |
|-----------------------|-------------------|--------------|-------------|--------------|--------------|--------------|-----------------|-----------------|----------|----------|---------------|
| Downtown | 10,143,173 | 20.5% | 0.5% | 21.0% | 20.1% | 20.6% | 48,457 | 48,457 | 0 | 0 | \$3.07 |
| Highway 50 East | 9,406,472 | 32.8% | 1.5% | 34.3% | 33.0% | 32.6% | -77,900 | -77,900 | 0 | 0 | \$1.76 |
| Roseville | 6,341,247 | 18.5% | 5.0% | 23.5% | 21.9% | 19.2% | -200,781 | -200,781 | 0 | 0 | \$2.11 |
| South Natomas | 3,324,666 | 33.2% | 0.8% | 34.1% | 22.7% | 20.3% | -71,484 | -71,484 | 0 | 0 | \$2.18 |
| Folsom | 2,518,275 | 23.0% | 3.3% | 26.3% | 14.4% | 14.5% | 1,711 | 1,711 | 0 | 0 | \$2.28 |
| Midtown | 2,185,787 | 14.1% | 0.1% | 14.2% | 15.1% | 14.9% | -6,376 | -6,376 | 0 | 0 | \$2.63 |
| North Natomas | 2,873,703 | 15.7% | 16.8% | 32.5% | 30.8% | 31.2% | 10,750 | 10,750 | 0 | 0 | \$1.75 |
| Rocklin | 1,353,377 | 15.3% | 0.7% | 16.0% | 9.9% | 9.6% | -4,692 | -4,692 | 0 | 0 | \$1.93 |
| Highway 50 West | 2,293,474 | 18.3% | 2.4% | 20.7% | 17.5% | 17.4% | -710 | -710 | 0 | 0 | \$1.63 |
| Point West | 2,254,774 | 23.2% | 0.3% | 23.5% | 21.0% | 19.6% | -21,427 | -21,427 | 0 | 0 | \$1.95 |
| South Sacramento | 1,160,275 | 13.7% | 0.0% | 13.7% | 6.5% | 6.7% | 2,401 | 2,401 | 0 | 0 | \$1.64 |
| Davis/Woodland | 1,204,172 | 13.0% | 4.2% | 17.2% | 11.7% | 10.8% | -10,225 | -10,225 | 0 | 0 | \$2.67 |
| El Dorado | 1,451,583 | 20.5% | 0.4% | 21.0% | 20.6% | 20.4% | -3,938 | -3,938 | 0 | 0 | \$1.87 |
| Elk Grove | 1,175,637 | 4.5% | 1.3% | 5.8% | 4.7% | 4.0% | -8,171 | -8,171 | 0 | 0 | \$2.75 |
| West Sacramento | 1,748,487 | 18.4% | 0.0% | 18.4% | 17.6% | 17.7% | 2,359 | 2,359 | 0 | 0 | \$2.70 |
| Campus Commons | 994,035 | 15.9% | 1.2% | 17.2% | 15.9% | 15.6% | -3,669 | -3,669 | 0 | 0 | \$2.22 |
| Howe/Fulton/Watt Ave | 3,220,615 | 19.1% | 0.7% | 19.8% | 18.2% | 19.1% | 28,344 | 28,344 | 0 | 0 | \$1.65 |
| Citrus Heights | 845,416 | 10.3% | 0.1% | 10.4% | 10.1% | 10.2% | 673 | 673 | 0 | 0 | \$1.43 |
| East Sacramento | 748,736 | 5.2% | 0.0% | 5.2% | 4.3% | 2.4% | -14,136 | -14,136 | 0 | 0 | \$2.40 |
| Rio Linda/N Highlands | 793,214 | 12.0% | 0.0% | 12.0% | 15.2% | 14.8% | 0 | 0 | 0 | 0 | \$1.20 |
| Auburn/Lincoln | 654,018 | 6.2% | 0.0% | 6.2% | 6.2% | 2.9% | -21,616 | -21,616 | 0 | 0 | \$1.29 |
| Carmichael/Fair Oaks | 634,863 | 16.3% | 0.3% | 16.7% | 22.8% | 22.5% | -2,035 | -2,035 | 0 | 0 | \$1.25 |
| Total | 57,325,999 | 21.0% | 2.2% | 23.2% | 20.8% | 20.2% | -352,465 | -352,465 | 0 | 0 | \$2.15 |

Sacramento Quarterly Comparisons and Totals

| | | | | | | | | | | | |
|---------|------------|-------|------|-------|-------|-------|----------|------------|---|--------|--------|
| Q1 2024 | 57,325,999 | 21.0% | 2.2% | 23.2% | 20.8% | 20.2% | -352,465 | -352,465 | 0 | 0 | \$2.15 |
| Q4 2023 | 57,579,495 | 20.8% | 2.3% | 23.2% | 20.2% | 20.1% | -140,817 | -1,184,793 | 0 | 20,000 | \$2.14 |
| Q3 2023 | 57,703,800 | 20.9% | 2.4% | 23.3% | 20.1% | 19.7% | -300,399 | -1,043,976 | 0 | 20,000 | \$2.15 |
| Q2 2023 | 58,014,110 | 20.5% | 2.6% | 23.0% | 19.7% | 19.5% | -279,278 | -743,577 | 0 | 20,000 | \$2.14 |
| Q1 2023 | 57,696,541 | 19.8% | 2.6% | 22.5% | 19.5% | 18.8% | -464,299 | -464,299 | 0 | 20,000 | \$2.13 |

FOR MORE INFORMATION
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