

# CHAPTER FOUR

## ECONOMY

### INTRODUCTION

This chapter describes and explains current economic trends in the Grass Valley Planning Area and provides technical input to policy issues during the General Plan Update process.

The purpose of this report is to provide market analysis of the Grass Valley region to inform the City's update of its *General Plan*. This report describes and explains current economic trends in the Grass Valley Planning Area, and uses this market analysis to provide technical input to policy issues raised by the Steering Committee during the *General Plan* update process.

The background necessary to address specific policy issues is provided first in the following sections:

- Overview of the Nevada County/Grass Valley economy;
- Development trends in Grass Valley; and
- Competitiveness of the Grass Valley Planning Area.<sup>1</sup>

The remaining sections of this chapter address the following three questions that relate to the potential effects of General Plan policy decisions on the local economy:

- When will the lack of developable land supply suggest the need for annexations?
- What is the potential for “Big Box” retail development, and what economic effects could such development have?
- What is the current “jobs-housing balance” for the area, and what are its economic effects?

### OVERVIEW OF NEVADA COUNTY/GRASS VALLEY ECONOMY

The Grass Valley Planning Area has been a regional employment and commercial center for western Nevada County for decades, accounting for half of all jobs and over a third of retail sales in the County. As the western Nevada County area has grown, Grass Valley has maintained its dominance, particularly as a manufacturing center. Grass Valley will continue to dominate the job market and account for a high percentage of retail sales for the foreseeable future, given the lack of development alternatives elsewhere in western Nevada County. This chapter includes a review of jobs (with a focus on services and manufacturing jobs, in which the greatest changes are evident); population and labor force; and local and regional retail for the Grass Valley Planning Area and Nevada County.

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<sup>1</sup> The term Planning Area includes both incorporated and unincorporated areas, unless otherwise noted.

## JOBS

The Grass Valley Planning Area accounted for 51 percent of total jobs in the County in 1994, including all types of employment, such as wage and salary employment and self-employment.<sup>2</sup> According to 1995 U.S. Bureau of Economic Analysis (BEA) data, there were 37,895 full- and part-time jobs in the County in 1995 (see Table 4-1). The Grass Valley Planning Area accounted for about 18,400 of these jobs.<sup>3</sup>

	Jobs	Percent
Ag. serv., forestry, fishing	564	1.5%
Mining	246	0.6
Construction	3,391	8.9
Manufacturing	3,210	8.5
Transportation and public utilities	922	2.4
Wholesale trade	747	2.0
Retail trade	7,731	20.4
Finance, insurance, and real estate	3,342	8.8
Services	13,083	34.5
Government	4,659	12.3
Total non-farm employment	37,895	100.0

Source: U.S. Bureau of Economic Analysis Regional Economic Information System

Since 1995, according to current Employment Development Department (EDD) data, job growth in the County has been about 7.5 percent. Using this factor, it is estimated that total County jobs stand at almost 41,000 in 1998, and jobs in Grass Valley at almost 20,000. These jobs include full- and part-time employment, in addition to self-employment.

Over the past three decades, the share of County jobs in services industries has increased steadily, from 25 percent in 1970 to 34 percent in 1995. The Grass Valley Planning Area accounts for about half of these service jobs. The manufacturing employment share in the County increased from 7.5 percent of total jobs in 1970 to 10 percent in 1980, and has declined

<sup>2</sup> *Market Analysis and Development Forecasts for Nevada County*, Recht Hausrath and Associates, April 4, 1994.

<sup>3</sup> Based on our 1994 analysis, taking into account available information about recent trends in manufacturing and services employment.

slightly on average since then. The Grass Valley Planning Area accounts for roughly two-thirds of manufacturing jobs in the County.

From 1983 to 1991 in Nevada County, yearly gains in “wage and salary jobs” averaged over six percent. When the recession hit in 1991-92, the County experienced a net loss of about 130 jobs, with a loss of 310 manufacturing jobs made up by continuing increases in service-producing industries. From 1993 to 1998, the yearly net job increase has averaged slightly less than two percent.<sup>4</sup>

Strikingly, in Nevada County a high percentage of jobs are proprietor jobs (i.e. self-employment). In 1995, there were about 25,000 wage and salary jobs. The remaining 13,000 jobs were proprietor jobs: about 34 percent of the total. Other California counties have a much smaller percentage of self-employment. For comparison, in 1995 Placer County had 25 percent, Yuba County 16 percent, and Sierra County 22 percent. This high percentage of self-employment has remained roughly constant for the past decade in Nevada County. Although no data is available, the share may be smaller for the Grass Valley Planning Area, due to a higher prevalence of larger companies in the area when compared to the County as a whole.

The number of jobs in the fifty largest employers in the County has decreased since October 1994, from 5,379 to 4,982, a loss of about 400 jobs. In particular, employment falling in the electrical manufacturing category had a loss of 549 jobs, from 1,267 down to 718 jobs, although “Top 50” specialty manufacturing increased during this period from 318 to 586 employees, a gain of 268 jobs.<sup>5</sup> Much of this loss was due to layoffs at Tektronix/Grass Valley Products.

Only 12 percent of total employment in the County is attributable to these large firms. The vast majority of firms are in the 1-19 employee class: 2,411 out of 2,600 firms in the County (93 percent), with only 21 establishments having more than 100 employees in 1995. About half of all wage and salary employment is in small firms; roughly two-thirds of total employment is accounted for by small firms and self-employment.<sup>6</sup> The percentage of employment at large firms is probably higher in the Grass Valley and Nevada City areas, perhaps as high as one-third of all jobs in the Grass Valley Planning Area.

Retail sector jobs were the lowest-paying wage and salary jobs in 1995, with average pay per employee of about \$14,000. The services sector was second lowest, with \$17,000. Manufacturing was highest, with an average salary of \$35,000. Manufacturing had 13 percent of total wage and salary employment but 22 percent of total payroll. Conversely, the retail and services sectors had 65 percent of total employees and 52 percent of total payroll.<sup>7</sup>

### **Manufacturing Employment**

It is estimated that manufacturing jobs accounted for 11 percent of total jobs within the Grass Valley Planning Area in 1995, for about 2,000 jobs. Starting with Litton Engineering

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<sup>4</sup> California Employment Development Department.

<sup>5</sup> “Employee counts for Nevada County Top 50 Private Sector, For Profit Employers,” based on *Nevada County Business News* figures as compiled by John Walker, Publisher, *The Union*; “Top Fifty Employers,” *Nevada County Business News*, July/August 1998, p.4.

<sup>6</sup> County Business Patterns, 1995.

<sup>7</sup> Ibid.

Laboratories in 1954, later Grass Valley Group (bought out by Tektronix in 1973), the Grass Valley/Nevada City area has become known for its video-tech workforce. Over time, a concentration of video-tech industry companies has developed. Layoffs during and after the recession in the early 90's have reduced Tektronix/Grass Valley Products (GVP) employment from over 1,000 to less than 400. The remaining workforce is now located outside the Grass Valley Planning Area, in Nevada City. The downsizing of Tektronix/GVP has spurred the creation of a number of companies started by former employees, some of which are in the video electronics manufacturing subsector, and some of which are ancillary industrial companies.

There are now about 60 high-tech companies in the Grass Valley/Nevada City area, of which at least 22 are spinoff companies from Tektronix/Grass Valley.<sup>8</sup> In addition to a video technology cluster, these companies include circuit board printing and modem manufacturing. The area has also begun to attract research and design centers for larger companies such as National Semiconductor, 3Com (formerly US Robotics), ZF Microsystems (based in Palo Alto), and FlashPoint (based in San Jose). These "design shop" jobs are usually classified as electronics manufacturing, though little physical production may be done on site. Since the beginning of 1998, nine small high tech companies have opened in the region, seven from outside the video technology cluster, as the electronics manufacturing base has continued to diversify.

As the electronics manufacturing subsector has downsized slightly and begun to diversify, manufacturing of other durable goods has increased slightly. Much of this consists of an increase in the fabricated metal products subsector, but there has also been an increase in industrial machinery and equipment. Some of these durable goods manufacturing enterprises are suppliers of the existing electronics manufacturing base. For example, Serra Corporation and LANmark Circuits provide metal work and circuit boards, respectively, to the switcher assembly process at Lighthouse Digital Systems.<sup>9</sup>

As for nondurable goods manufacturing, this sector has remained fairly steady, at about 350 jobs in the County, largely in printing/publishing and food products. Printing/publishing is a growth subsector in the United States and relies heavily on computer technology, which suggests a potential for growth in Nevada County.

### **Services Employment**

Services sector employment in the County consists of roughly 13,000 full- and part-time jobs. About 8,000 of these jobs are wage and salary jobs, and about half of these payroll employees work in either health services or hotel/lodging places. While services employment is continuing to grow in the Grass Valley area, it is proportionately less strong than it is in the County. The primary concentration of service sector employment in the Grass Valley Planning Area is probably two-fold: health services relating to the large retirement-age population, and business and engineering services consumed by manufacturing sector companies. The hotel/lodging industry supported by tourism also provides a significant share of service employment in the Grass Valley Planning Area.

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<sup>8</sup> "Tech magnet Grass Valley spawns a riot of startups and spinoffs," *Sacramento Bee* "Inside Business" Cover Story, May 18th, 1998.

<sup>9</sup> "A Shining Light", Nevada County Business News, July/August 1998, p.3.

## **POPULATION AND LABOR FORCE**

According to the California Department of Finance (DOF), the population of the City of Grass Valley was 9,475 at the beginning of 1998. Although the number of housing units in the City increased more than eight percent since 1990, the population of the incorporated area increased slightly less than five percent, as a continuing aging of the population (due in part to the continuing influx of retirement households) has decreased average household size from 2.12 to 2.05 persons per household. The DOF projections are roughly consistent with the annexation of about 100 housing units plus 278 single family and multifamily building permits issued and finalized since 1990.

The population of the Planning Area in 1993 was estimated at 15,222 by Menkin/Lucero & Associates.<sup>10</sup> Since then, population growth in the incorporated area has been flat. Thus the 1998 population of the Grass Valley Planning Area is estimated at 16,000 and is probably not more than 17,000. Assuming that the Planning Area currently holds 16,500 residents, the incorporated area accounts for 57 percent of total residents in the Planning Area.

Unemployment in the City of Grass Valley reached a high of 12 percent in 1992 and has dropped to 8 percent in 1998. The labor force living in the City has increased from 4,100 to 4,700 people since 1990, continuing to make up about 11 percent of the County workforce. Meanwhile, the County has regained its high of about 41,200 in the labor force in 1997, as unemployment increased from 4.8 percent in 1990 (the lowest point in the last fifteen years) up to 6.1 percent in 1997.<sup>11</sup> Based on labor participation rates for the City with an adjustment for an estimated higher rate of labor force participation in the unincorporated portion of the Planning Area, the labor force living in the Planning Area is roughly 8,000.

## **LOCAL- AND REGIONAL-SERVING RETAIL**

In 1970, the City of Grass Valley was responsible for 44 percent of taxable sales revenues in the County, despite having only 20 percent of its population. That share has declined somewhat over time, as relative levels of development elsewhere in the County have increased. Nevertheless, the City has continued to account for about thirty percent of total taxable revenues each year since 1980, even as its share of County population has declined to 11 percent.<sup>12</sup>

Nevada County as a whole is still somewhat underserved by retail, given its population and average household income. Per capita taxable sales in the County have declined in real terms since 1990, from \$9,000 (in 1997 dollars) to \$8,400 per capita, a pattern reflected statewide.

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<sup>10</sup> *Sewer District Sphere of Influence Population and Housing Projection Analysis 1990 to 2020*, Menkin/Lucero Associates, 1/27/93, p. 11.

<sup>11</sup> California Employment Development Department, 1983-97 employment and industry report.

<sup>12</sup> For this and remainder of section, the following data sources are used: U.S. Census Bureau (1970, 1980, and 1990 population data); *Taxable Sales in California (Sales and Use Tax)*, California Board of Equalization, 1965, 1970, 1975, 1980, 1985, 1990-1996; California Department of Finance (population estimates since 1990).

However, per capita taxable sales are substantially higher in the City of Grass Valley itself, due to its status as a commercial center for western Nevada County. Grass Valley has averaged about \$22,000 per year (1997 dollars) in per capita taxable sales, substantially higher than Auburn (\$15,000), Marysville (\$14,000), Truckee (\$13,000), or Sacramento (\$10,000), and comparable to Roseville (\$22,000). It is estimated that inclusion of the unincorporated area of the Planning Area would only lower this per capita sales estimate to about \$20,000.<sup>13</sup>

In 1996, about 40 percent of taxable sales in the City were in two areas: auto and auto-supply sales, and general merchandise (including sales at J.C. Penney, KMart, and Sears). These two areas are particularly important as indicators of the City's regional role for the County. The City has a strong share of most other categories of County retail spending. In effect, almost every category of retail spending appears to attract from outside the City and its Planning Area. However, anecdotal evidence suggests that there is also substantial "leakage," or spending by residents of the Planning Area that occurs outside the area, particularly for discount warehouse items, general merchandise, and apparel.

According to the Grass Valley Downtown Association, occupancy levels have been increasing steadily in the downtown area since the recession, and there has been some new development in the area. There are 230 stores currently operating in downtown, with a concentration on personal services (beauty/barber, financial/legal, medical/dental, and real estate); entertainment-related uses (restaurants and other entertainment); gift and antique shops; computer stores; and home design/accessories.<sup>14</sup> Vacancy rates for retail are as low as one percent, according to the Grass Valley Downtown Association, although office/professional space is at eight percent.<sup>15</sup> A number of commercial buildings are on the market at the moment, although not all are vacant.<sup>16</sup>

Meanwhile, vacancies at some major shopping centers in the area (Pine Creek and Fowler) have dropped to less than five percent.<sup>17</sup> Shopping centers in the Planning Area include major grocery and department stores (including Raley's, Albertson's, Sears, and JC Penney) as well as other outlets carrying comparison-shopping goods. High-performing commercial retail is particularly concentrated in the Glenbrook area, although as noted previously the taxable sales data does not include retail in this area.

## **DEVELOPMENT TRENDS IN THE CITY OF GRASS VALLEY**

Table 4-2 shows development trends since 1991 in the City of Grass Valley, by residential and nonresidential development type. Residential development has been relatively steady but slow, with a drop in production in the early part of the decade due to the recession and a moratorium

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<sup>13</sup> Based on an estimate of \$103 million in retail sales from the Glenbrook area of the Planning Area (\$323 million for the entire Planning Area), and a Planning Area population estimate of 16,500.

<sup>14</sup> MaryAnn Mueller, Grass Valley Downtown Association, 8/12/98.

<sup>15</sup> *Ibid.*

<sup>16</sup> "Recent Transactions," Coldwell Banker/Grass Roots Realty website, <http://www.concourse.net/bus/cbgrr-comm/sales.html>; "Commercial and Investment Property," Network Real Estate website, <http://www.nccn.net/~network/invest.html>.

<sup>17</sup> Interviews: Charles Fowler, developer of the Fowler Center, 8/24/98; Mike Stump, property manager, Pine Creek Shopping Center, 9/1/98.

on wastewater hookups. Office and commercial development has outpaced industrial development during this period. Some industrial development has occurred in the Loma Rica industrial area, outside the City limits, but the industrial development trend largely reflects a loss and then regaining of jobs during the period (as described above).

Year	SF (units)	MF (units)	Office (s.f.)	Commercial (s.f.)	Industrial (s.f.)
1991	8	11	27,651	-	-
1992	30	22	8,804	75,754	9,039
1993	16	17	7,270	15,422	-
1994	35	-	-	-	-
1995	31	5	-	-	-
1996	36	-	16,948	19,449	3,580
1997	47	4	44,425	17,336	25,783
1998 (to 7/17/98) Issued, not finaled	16	-	-	108,138	10,000
Total	244	139	106,834	262,018	48,402
Yearly average	31	17	13,000	33,000	6,000

Sources: Grass Valley Building Dept.; Hausrath Economics Group.

## **RESIDENTIAL**

There are about 4,760 housing units in the City in 1998. The housing stock is about 40 percent multi-family, with the remainder primarily in single family detached dwellings, although recent construction has included a high percentage of townhome construction. In 1990, only 41.2 percent of units were owner-occupied. Based on a population estimate of 16,500, the Planning Area (including the incorporated area) has between 7,000 and 8,000 housing units, with a higher percentage of owner-occupied units.

### **Single-Family Units**

Building permits issued for single-family units have totaled 244 since 1990, for an average of 31 units per year. Some of these units have replaced existing units. About 15 percent of total units constructed during this period were townhouses. Activity was highest in recent years, at up to 47

units in 1997. Roughly 40 units are expected this year. Anecdotal evidence from brokers suggests that single-family detached units are scarce, while townhouses aimed at the retirement market are available for development in subdivision projects. The average sales price per housing unit (multifamily and single-family included) was \$158,000 per unit in the first half of 1997.<sup>18</sup> Prices for townhomes in the Morgan Ranch and Carriage House subdivisions, aimed at the retirement market, range from \$160,000 to \$250,000. Single family detached housing on larger parcels at Morgan Ranch is also aimed at the retirement market and can go for as high as \$300,000 per unit. Meanwhile, housing aimed at a younger market is being developed more slowly.

Single family housing in the unincorporated portion of the Planning Area and nearby is being developed as well, although permit data is not yet available. According to residential construction companies, units are speculatively built, occupy larger parcels of about an acre each and can sell for up to \$400,000. However, there is not very much growth in this housing product type.

### **Multifamily Units**

Only 139 multifamily units have been permitted since 1990, despite increasing demand for quality units and falling vacancy rates. The lack of supply relative to demand may be due to several reasons. First, the City lacks a supply of appropriately zoned sites. Second, the City's distance from a large metropolitan area suggests that multifamily developers are less likely to seek opportunities here. Third, land prices may be too high, reflecting speculation by landowners that rents will increase enough that buyers will soon be willing to pay more. Rents for two-bedroom, two-bath apartments range from \$675 to \$725 for market rate units, with variation depending on neighborhood and quality of stock.<sup>19</sup> Rents may begin to rise soon, because occupancy rates are not expected to decrease.

Multifamily housing does not appear to be well represented in the unincorporated portion of the Planning Area, although no data is yet available.

## **NONRESIDENTIAL**

Office, commercial, and industrial land use types often coexist in the same area or the same building. Corporate business park areas such as Whispering Pines and Spring Hill are particular examples of this. As the U.S. economy continues to follow a trend of outsourcing and technological change, traditional zoning categories are becoming less indicative of industry categories and more indicative of functions within industries. In other words, both goods-producing and service-producing industries now occupy industrial, commercial, and office/professional space. Thus, zoning to anticipate employment trends has become more difficult.

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<sup>18</sup> Nevada County Economic Research Council website: <http://www.otan.dni.us/gsierra/erc/housing.htm>.

<sup>19</sup> Interview: Bruce Ivy, Bruce Ivy Construction, 8/24/98.

## **Commercial**

Commercial land uses include warehouses, retail and wholesale stores, offices, personal services, and some service-related establishments such as auto repair shops, as described in the section on taxable sales, above. Portions of buildings constructed for goods-producing companies that store or sell products on site are also classified under this category.

The City has issued and finalized building permits for about 260,000 square feet of commercial space in the last seven years, with commercial uses dominating nonresidential development in the City. In large part, this reflects the continuing trend elsewhere in the U.S. towards growth in the retail trade and services sectors. To a lesser extent, it reflects a moderate amount of warehousing growth and expansion of storage space for one or two manufacturing companies.

## **Industrial**

Building permits issued under the “industrial” land category in Grass Valley have included manufacturing and some research and development (R&D) space. Since 1991, the City has issued permits for about 70,000 square feet of industrial space. This relatively low rate of development is consistent with a loss and gaining back of manufacturing jobs.

## **Office**

About 107,000 square feet of office space has been added since 1990, substantially more than industrial space. According to permit data, much of this office space is associated with administration sections of high-tech uses, which also require industrial and/or commercial space on site. Traditional office users are still able to find separate office space. Some of these traditional office tenants (such as law and accountancy firms) have located in Whispering Pines and Spring Hill.

## **COMPETITIVENESS OF THE GRASS VALLEY PLANNING AREA**

The high quality of life in the Grass Valley area has attracted retirement housing development and played an important role in the decisions of numerous companies to locate in the area. The access to national forests, clean and green environment, short commutes, the high quality school system, temperate climate, relative proximity to the Sacramento area, and Grass Valley’s small town character have all combined to make the area competitive for residential and nonresidential development. Nevertheless, population and job growth have been slow to recover from the effects of the recession, and the area continues to be remote from the larger Sacramento regional economy.

One important effect of this high quality of life has been high employment retention during cyclical swings in manufacturing. Engineers residing in the area do not appear to leave even when they are laid off; instead, they start up small companies or become consultants. Small companies continue to predominate in the County, making up 94 percent of establishments in 1994 and 1995. Of 180 manufacturing companies in the County, the bulk of which are located within the Grass Valley Planning Area, 154 have less than 20 employees. The predominance of

small companies indicates the role of the area as a business incubator for technology firms which can thrive without the proximity to larger regional markets.

Another effect of this high quality of life is the continued competitiveness of the area for residential development, particularly for commuters to Placer and Sacramento Counties, and retirement households from outside the area. Although Sacramento and Placer Counties are competing for a larger share of the retirement housing market, Grass Valley and Nevada County will continue to offer a niche product for those seeking a more remote, less developed, and “greener” environment. The retirement and commuter population, in turn, bolster the growing retail and service economies of the Planning Area, creating lower-paid jobs and spurring demand for affordable multifamily housing.

As for cost factors, development and rental of office/professional, high-end manufacturing, and R&D space in the Grass Valley area is very competitive with Sacramento and Placer areas, which are seen as the primary competing locations for these uses. Due to a combination of locational factors, land speculation, and to a lesser extent, the unavailability of flat parcels, lower-rent industrial uses such as repair facilities, some light industrial uses, warehousing, and wholesaling are not as able to find appropriately priced space. The apparent low demand for these uses reflects these market factors.

Despite its competitiveness for certain kinds of jobs, the Grass Valley Planning Area is not poised for a dramatic expansion of employment. It is particularly competitive for jobs in the declining goods-producing sectors of construction and manufacturing. Furthermore, the high-tech workforce is limited and appears to be growing slowly, if at all, and most of the manufacturing subsectors are reliant upon it for growth. Competing for other kinds of core employment may be limited until the development of Placer County makes Grass Valley more proximate to the urban area.

## **RESIDENTIAL DEVELOPMENT**

### **Single Family Units**

Although single family products vary and the demand for each is different, overall demand for single family units does not appear to be high. The rate of townhouse sales (aimed at the retirement market) has been slow and steady for the last few years, while resale homes in the area often stay on the market for a while. Thus, there is probably a greater supply of homes at the moment than there is demand, although certain types of housing product may be less available than others. A higher end housing product aimed at two-income families with professional/technical jobs in the area may find favor in the future market, depending on the continued good health of the Nevada County and Sacramento/Placer region economies. Demand from commuters is likely to grow faster than demand from those working inside the County, since the prognosis for the Sacramento regional economy is strong, though Nevada County is also projected to grow appreciably.<sup>20</sup>

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<sup>20</sup> Department of Finance projections; Bureau of Labor Statistics.

## **Multifamily Units**

Because of a large and growing service/retail economy, which can be expected to increase faster than other components of the economy, demand for low-cost housing will continue to grow. Apartment developers are likely to begin looking for sites to develop new apartments soon. The potential for development of multifamily housing may be constrained by the availability of appropriately zoned land within the City limits.

## **NONRESIDENTIAL DEVELOPMENT**

Based on a 1994 market analysis, the dominance of the County by the Grass Valley Planning Area is expected to continue in industrial land uses. The market appears to indicate that newer uses will be heavily focused on R&D, design, and high-end light manufacturing, with warehousing and low-rent industrial being bid out of the market. Commercial uses will continue to be strong, as space is available and the service and retail sectors of the economy can be expected to grow over the next decade. Goods-producing sectors are less likely to expand, due to the structural changes in these industries and the limited labor force.

### **Commercial Retail**

Because Grass Valley is the center of retail for the County, it is a desirable location for retail business. The County is projected to grow from 89,000 residents in 1998 to more than 128,000 in 2010, a 44 percent increase and one of the highest growth rates in the state. Projected growth from 2010 to 2020 will add another 27,600 residents. Although some of this growth will be in the eastern portion of the County, the majority will be in the western portion, which is drawn to the Grass Valley area for its shopping.

The cost of development and rents in the area is not being driven up by competition from other uses, and is therefore probably commensurate with expected profits. Rents range from \$0.90 to \$1.80 in shopping centers, and are somewhat lower in the downtown area. Retail buildings are selling for prices ranging from \$70 to \$100 per square foot, which is a moderate price level indicating solid if unspectacular earnings for retail tenants.

### **Wholesale and Warehouse**

Land prices in the area have tended to make things difficult for wholesale and warehouse uses, which can get rents in the 50- to 60-cent range in Sacramento and parts of Placer County.<sup>21</sup> Because Grass Valley does not have the locational advantages of these areas, and because land prices tend to necessitate rents in the low 85-cent range or higher, the City of Grass Valley is not generally competitive for warehousing or wholesale uses.

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<sup>21</sup> Interview: Clark Gordon, Coldwell Banker/Grass Roots Realty, 7/27/98.

## **Commercial Office**

Commercial office space ranges widely in character and use type. For the most part, traditional office tenants will find moderately priced space available in downtown, where the vacancy rate for office/professional space is about 8 percent.<sup>22</sup> Developing higher-quality business park space in Whispering Pines and the Spring Hill area can be quite competitive compared to Sacramento and Bay Area locations, with rents averaging substantially less than \$2 per square foot.

## **High-Tech R&D/Office and Electronic Manufacturing**

From the perspective of video-tech and other high-tech companies, relatively low-priced R&D/office space available in the area in combination with the local high-tech workforce which has grown since the days of the Grass Valley Group, have continued to make the area attractive to these users. With the provision of adequate land supply for these uses and maintenance of a high quality of life, the region is likely to retain this competitive edge.

A short term constraint to growth exists because the size of the high-tech workforce is limited, and not growing rapidly. Recent postings for engineering jobs in the \$80,000/year salary range at Tektronix/GVP and National Semiconductor have gone unfilled for months. Attracting more members of the high-tech labor force, now that in 1998 most of this workforce is employed, appears to be a large short-term constraint on this subsector.<sup>23</sup> Because the economy of the area is not large, and high-paid employment tends to be confined to manufacturing and ancillary services dominated by male workers, spousal employment (particularly for women) is one reason for the hesitance of engineers to relocate. Also, despite the high quality of life factors in the area, attracting engineers has become more difficult as the area, traditionally populated by individuals of European descent, is perceived as ethnically homogeneous, making the area less attractive to engineers of non-European descent.

## **Other Durable Goods Manufacturing**

Some durable goods manufacturers, as noted previously, are suppliers to the existing R&D and electronic manufacturing sector. Proximity is an advantage, and their comparable rents elsewhere would be somewhat higher. However, space for these users is more limited than for their higher-rent, comparable high-tech manufacturing. Ensuring that the Planning Area can continue to support these ancillary uses will be a factor in continuing to attract their upscale counterparts in the long term.

Meanwhile, manufacturing firms unrelated to the electronics industry, such as Alpine Air (specialty foods) and Sonic Technologies (electronic insect deterrence products), are on the rise and may need space to grow in the future. The primary limitation at the moment for these light industrial users may be the need for unit-by-unit development in a relatively conservative development environment, in combination with high land prices due to speculation.

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<sup>22</sup> MaryAnn Mueller, Grass Valley Downtown Association, fax 8/12/98.

<sup>23</sup> Interview: Scott Robertson, CPA, 9/3/98.

## **NEED FOR ANNEXATIONS**

Current land supply in the incorporated area is probably adequate for the next 10 years, but would constrain growth after that time. Zoning decisions may have more immediate economic effects.

Without annexation, vacant developable land in the City will likely see increasing prices due to constrained supply at the end of the next decade. Rates of development have been low, as discussed below, and it is difficult to predict the extent to which development activity will pick up. As early as 2010 the remaining developable land within the incorporated area (about 580 acres) could begin to act as a constraint on demand, primarily because land outside the incorporated area cannot typically be provided with the sewer infrastructure needed for many kinds of development. The effect would be rising prices and competition for remaining parcels.

However, if rezoning for multifamily and office/retail does not occur, certain kinds of growth may be constrained before 2010. The most predictable impact, given the small supply of land zoned for multifamily residential development, is a continued lack of affordable housing opportunities for lower-income workers. This impact would be exacerbated by the growing service sector, as discussed previously.

## **RESIDENTIAL LAND**

Including what is left to build in the Morgan Ranch subdivision, there are an estimated 355 vacant residentially zoned lots remaining in the City, for a total of 275 acres of developable residential land and an estimated total of 1,247 residential units.<sup>24</sup> If development were to increase by 25 percent over the rate of the past seven years (from 48 units per year to 60 units per year), by 2015 residential development would begin to be significantly constrained; only five years of developable residential land would be available. The prices of land could be expected to increase even before this time, as good parcels become scarce.

The character of remaining parcels varies substantially. Some parcels are in fairly attractive locations. They are easy to develop, are large enough to support a number of single family units, or have characteristics valued by home buyers such as proximity to desirable areas of downtown or access to open space and “green” areas. On the other hand, most parcels are dispersed and do not lend themselves to land assembly and efficient development by commercial developers, and many parcels probably are not particularly attractive to developers or buyers. Thus, residential parcels are likely to be developed unit by unit, which increases development costs relative to other locations both within and outside Nevada County.

Multifamily development, as described above, will also begin to occur as the service economy grows in the region. Apartments are scarce and in great demand. Only 34 acres of land is zoned for multifamily development within the City limits, and what is available is subject to some speculation by landowners. Continued demand pressures suggest that increased development likely will occur in the near future.

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<sup>24</sup> *Vacant Land Inventory*, Appendix A to 1995/2015 CIP Update (Draft), City of Grass Valley, 7/98, p. 3-4.

## **NONRESIDENTIAL LAND**

There are 305 acres of vacant nonresidential land in the City limits, in addition to vacant buildings on a sewer system at the old Tektronix/GVP site (outside the City limits). Brokers estimate the time to build out this land, given current and expected levels of demand, at approximately 10 years. However, assuming the rate of development doubles (from 52,000 to 104,000 square feet per year), the estimated 2.44 million square feet of potential nonresidential construction on this vacant land would take until about 2015 to reach the point at which only five years of supply would be left.<sup>25</sup>

Nonresidential development will begin to increase somewhat beyond the level of the past eight years, as occupancy rates have increased and most of the recovery from the recession has occurred. After another decade without annexation, the character of nonresidential development could become more one-dimensional as higher-rent industrial and commercial uses begin to crowd out other users. However, this effect is not likely to be seen before 2010, unless levels of development are substantially higher than indicated by current population projections and the best information available about economic trends in the region and state. The industrial and office/commercial land uses are discussed separately below.

### **Industrial**

It is unlikely that industrial growth rates of the 1980's will be reached again in the near future, though the area can expect some rate of continued growth due to its high-tech base. There are large uncertainties for growth in high-tech industry. Nationally, total goods-producing employment is expected to continue its decades-old decline, though electrical manufacturing is projected to decline less.<sup>26</sup> This trend has been reflected in the Nevada County economy. On the positive side, with adequate telecommunications high-tech businesses have many location options and have been lured out of congested metropolitan areas by the high quality of life in the Sierra foothills. Indeed, the State projects strong high-tech job growth for the "Golden Sierra Consortium" of counties, including Placer and Nevada, over the next several years. But the volatility of this fast-changing sector will continue to make projections difficult. The Grass Valley area has only recently begun to reflect the booming economies of the greater Sacramento region and the San Francisco Bay Area. Meanwhile, economic growth in the Bay Area is entering a projected slowdown, and may be dramatically affected by the collapse of Asian markets, with repercussions for the larger Northern California economy.

### **Office and Commercial**

The prognosis for growth in office and commercial development is more positive and more certain. Nationally, the retail and service sectors will expand to account for up to 82 percent of the U.S. economy by 2005. A similar expansion has been occurring in Nevada County, and the Grass Valley Planning Area will maintain its role as a retail and services center for the western

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<sup>25</sup> The City of Grass Valley has estimated 2.44 million square feet of remaining non-residential development on 305 acres, which assumes an average floor-area ratio of 0.18.

<sup>26</sup> *Report on the American Workforce*, U.S. Department of Labor, 1994, p. 27.

part of County. Demand will continue to grow due to population growth associated with retirees and commuters, as well as business services to serve the local industrial base. These national trends and local factors will continue to drive most nonresidential development.

**Potential Annexation Areas**

A typical effect of land scarcity that would be caused by a failure to annex is to increase prices for land, which can drive low-rent users away. This can result in a less diverse economy that is more susceptible to economic fluctuations. It can also lead to increased commuting as affordable housing becomes scarcer. These effects will become significant sometime after the next decade without annexation. In the event that annexation is delayed until 2010, likely affected land uses include multifamily and affordable single family housing, durable goods manufacturing other than electronics manufacturing, other light industrial uses (such as certain service establishments), and warehousing.

There are four areas being currently considered for annexation by the City, as shown in Table 4-3.

<b>TABLE 4-3 ANNEXATION AREAS, ACREAGE BY ZONING TYPE</b>		
Loma Rica Ranch	Total Acreage	450+
	Corporate Business Park	115
	Open Space	165
	Recreation	50
	Residential	122
North Star Mine	Total Acreage	760+
	Corporate Business Park	123
	Industrial/Services	117
	Central Business District	20
	Public (Schools)	13
	Open Space	175
	Residential	312
Kenny Ranch	Total Acreage	500+
Glenbrook	Total Acreage	560

Source: City of Grass Valley

Annexation of the Loma Rica Ranch area, which appears to be most likely to be annexed first, would create buildout potential for an additional 1.7 million square feet of nonresidential space (assuming a 0.35 floor-to-area ratio) and a further 360 single-family units (assuming 3 units per acre). Given levels of existing vacant land in the City discussed above, this annexation would increase potential nonresidential land supply by 71 percent, and potential residential units by at least 30 percent.

The character of Loma Rica Ranch land is quite different from that within the City limits (or within Glenbrook). It is more remote from the traditional City center; it provides the possibility of higher coverage due to flatter parcels; and development there would be aimed at different nonresidential and residential markets than are currently targeted by developers. The area would support larger uses for which there are few appropriate sites within the City, or the same type of uses currently occupying the Whispering Pines and Spring Hill areas. The likely residential product is more akin to the high-end single family subdivisions being developed in the unincorporated areas outside of Nevada City than to Morgan Ranch, discussed previously.

In summary, annexation of Loma Rica Ranch or another area by 2010 would guarantee that land supply would not constrain development within the City for at least five years, depending on future rates of development. This finding assumes concurrent provision of adequate wastewater service to any annexed area. For nonresidential development, larger land parcels may attract new types of uses, though local demand for larger parcels has not been demonstrated to date. More opportunities would be available for growth of existing uses and the existing incorporated area would build out more slowly. For residential development, annexed areas would probably capture some of the higher-end housing being developed elsewhere in the County. Residential vacant land in the existing incorporated area would also build out more slowly. In all cases annexation would ease land speculation somewhat, reducing land costs per building square foot. Citywide growth would still be constrained by the broader market factors affecting the Grass Valley Planning Area, including continued slow demand and relative remoteness from the Sacramento regional economy.

## **“BIG BOX” RETAIL MARKET**

Big box retail stores are defined as national chain discount retail outlets ranging in size from 90,000 to 200,000 square feet, usually with single-story layouts and extensive surface parking. These establishments typically conduct strong advertising and promotional programs. Examples include discount department stores, such as Kmart, WalMart, and Target; specialty retailers (sometimes known as “category killers”) such as Home Depot, Toys R Us, and Crown Books; and warehouse clubs, such as Costco, Sam’s Club and Pace. Big box retailers tend to locate in power centers, or shopping centers consisting of several big box retailers, having the following market area characteristics:

- Extends in all directions up to seven miles in major markets and up to ten miles in smaller markets;
- Contains 60,000 to 70,000 households with an average household income above \$35,000; and
- Contains 200,000 or more residents.<sup>27</sup>

According to the Center for Economic Development at California State University, Chico, the 10-mile radius trade area for Grass Valley contained about 23,000 households with a median income of \$37,500 in 1990. The 2001 forecast projects 27,500 households and population of 68,000, with little change in average household income. In short, the area does not look ready

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<sup>27</sup> Urban Land Institute, p. 18.

for mass development of big box on a scale enabling the Grass Valley Planning Area to compete with Auburn or Roseville for this type of retail sales. However, development of one or two large retailers in the area could occur, as evidenced by Home Depot's bid to develop in the Glenbrook area.

Smaller "big box" prototypes, such as Tandy's Computer City Express, are beginning to emerge as some of the larger markets have become saturated, and retailers turn their attention to secondary and tertiary markets. For example, national home office supply chains such as Office Max and Staples have begun to target rural areas. With its high rate of small business and proprietors' employment, the western Nevada County area can expect interest from these retailers in the future.

Studies on the economic effects of larger big-box retailers done in the northeast and midwestern United States have shown an overall net benefit on local taxable sales, though with significant negative effects on competing existing retailers. The extent to which large retail uses benefit the local economy depends, in part, on the extent to which the area in question is already capturing spending from outside its boundaries. Study of a proposed Wal-Mart in Auburn showed that if total sales were attributable to recapture of leakage, there could be net economic benefits of more than \$20 million yearly. A more comprehensive study of Wal-Marts in Iowa showed an average net retail sales increase of \$9 million annually, with annual sales of \$20 million annually netted against an estimated average of \$11 million to existing merchants.

Because local conditions are so important in determining the effects of big box retail on a local economy, it is speculative to draw any conclusions about the overall impact of such a store on the Grass Valley economy. As Grass Valley is already a regional center for the County, it is possible that a large retail store would have a relatively modest net benefit to the area. On the other hand, a survey of existing spending patterns among residents and businesses in the area might reveal untapped markets that could be exploited by new retail without significant impacts on existing businesses.

## **JOBS-HOUSING BALANCE**

The concept of a "jobs-housing balance" refers to the idea that when jobs and housing are in rough proportion, there is little need for commuting, congestion and pollution are reduced, and quality of life is maintained. It is possible to compare total jobs and total housing within an area; if an imbalance of too many jobs or too much housing is found, it is reasonable to assume that providing more opportunities for workers to live locally, or residents to work locally, commuting would be reduced.

However, the best measure of the extent to which a local economy affects commuting patterns is the ratio of jobs to employed residents within an area. Furthermore, even with parity between jobs and employed residents, substantial in- and out-commuting may still occur due to the many factors that affect the places people choose to live and work. The goal of land use policy in affecting the balance of jobs and housing should be to ensure that market factors that would naturally tend to work towards such balance are not hindered.

As an employment center for Nevada County, the Grass Valley Planning Area has substantially more jobs than it has employed residents. As noted in previous sections, the area currently has about 20,000 full- and part-time jobs (including self-employment) and about 16,500 residents, including a labor force of roughly 8,000 people. The current jobs-to-employed residents ratio is thus more than 2:1. This high ratio is not by itself reason for concern regarding the availability of sufficient housing, since the Planning Area is an employment center for the County. County-to-County commute data from the 1990 Census suggests that nearly all of the in-commuting to the Planning Area is from nearby areas within the County; for example, only 1,072 Placer County residents and 233 Yuba County residents worked in Nevada County.

The only local land use policy measure likely to reduce commuting both from outside the Planning Area and outside the County is an increase in land supply for multifamily and affordable single-family housing. Employees in lower-paying service sector jobs have difficulty finding affordable housing locally: vacancies are very low and only 34 acres remain undeveloped and zoned for multifamily use.

Commuting out of Nevada County to Placer and Sacramento was nearly 8,000 in 1990, and probably continues to increase. A substantial portion of this County-level commuting originates from the Grass Valley Planning Area: about 3,600 more commuters traveled south along Highway 49 to jobs in Placer and Sacramento counties than commuted in from those counties in 1990 (5,000 out, 1,400 in). However, the high level of out-commuting does not appear to be a function of unavailability of nonresidential land as a constraint on job production, since the Planning Area has substantially more jobs than employed residents. Rather, it is caused by the attractiveness of the area as a residential location for those with jobs outside the County. Local land use policy is unlikely to affect the level of out-commuting, and it will probably continue to increase to the extent allowed by Highway 49 capacity.