

# Exhibit 5

# Franklin Boulevard Mercado Assessment

*presented to*

City of Sacramento, CA



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# ACKNOWLEDGEMENTS

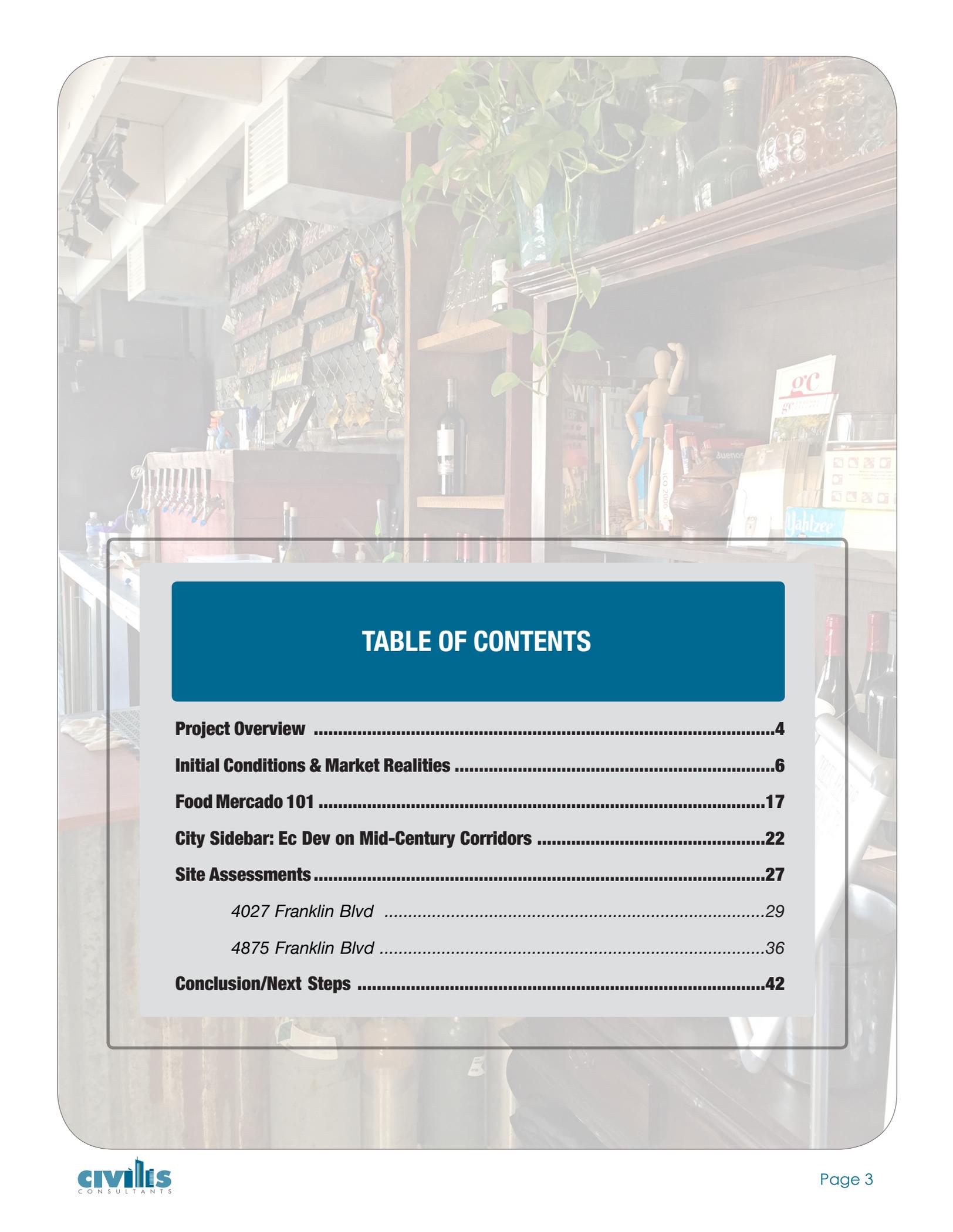
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This work was completed through the collaborative efforts of the following:

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*Intended Use. This report is intended to be used for preliminary conceptual Mercado planning only. All information and financial estimates should be confirmed and further refined through architecture and engineering services, city staff reviews, and contractor estimates. Please note, market conditions and code requirements are subject to change without notice. All square footages and building sketches contained in this report are approximate and not to scale.*



## TABLE OF CONTENTS

<b>Project Overview .....</b>	<b>4</b>
<b>Initial Conditions &amp; Market Realities .....</b>	<b>6</b>
<b>Food Mercado 101 .....</b>	<b>17</b>
<b>City Sidebar: Ec Dev on Mid-Century Corridors .....</b>	<b>22</b>
<b>Site Assessments .....</b>	<b>27</b>
<i>4027 Franklin Blvd .....</i>	<i>29</i>
<i>4875 Franklin Blvd .....</i>	<i>36</i>
<b>Conclusion/Next Steps .....</b>	<b>42</b>

## PROJECT OVERVIEW

In fall of 2017, the City of Sacramento, CA and the The Historic Monterey Trail District invited Civilis Consultants to visit South Sacramento to assist with a preliminary assessment of how to form a Latin food-based Mercado on Franklin Blvd. As a part of this visit, the following was undertaken:

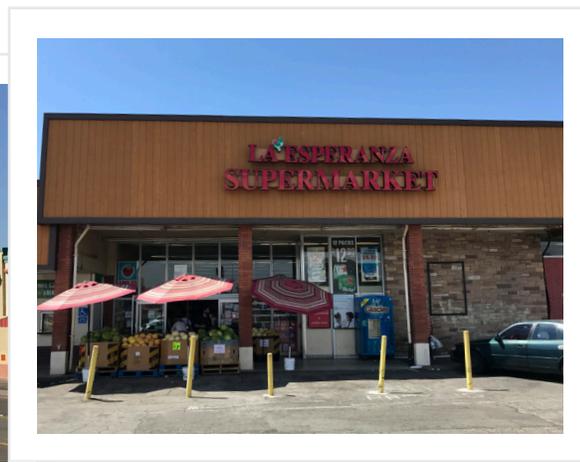
- **Mission.** In order to hone in on the community's goals and potential mission focus for this project, City Councilmember Schenirer, County Supervisor Kennedy, and the Historic Monterey Trail Association board were interviewed.
- **Capacity Assessments.** It takes a village to start a food incubator. Ultimately there will need to be an entity to oversee development and/or run the Mercado, training will need to be conducted for participants, and funding will need to be raised. Possible partners engaged during our visit included La Familia, California Capital, and the recently organized community development corporation formed by Franklin Blvd.
- **Initial Code/Zoning/Policy Review.** Public sector processes, such as parking requirements, conditional use triggers, design review, impact fees, and outdoor food permits are all examples of interactions that have significant financial consequences for project viability. To better understand the climate for development and regulatory challenges for a project, interviews



*Images from Franklin Blvd!*



**Franklin Blvd**



**Franklin Blvd**

were held with both the private and the public sector, including a developer, a land-use attorney, an architect, and city staff in the planning and building departments at the city.

- **Site Reviews.** Two potential sites for a Mercado were examined in-depth during the visit, one at 4875 Franklin Blvd and the structures on the Bokan family holdings that range from 4107- 4207 Franklin Blvd. Additionally, the area around St Patrick's Thrift Store at 5960 Franklin Blvd was included during our tour and will be discussed in brief detail in the conclusion section of this report.

This assessment will distill the information learned during these investigations and be combined with Civilis Consultants' experience in the formation of the Portland Mercado. The result, contained in these pages, is an overview of what it will take to develop a Latin food-based incubator on Franklin Blvd. Included will be general information on opening a successful Mercado and specific information on how that may fit on Franklin Blvd. Also, you will find a preliminary breakdown of how much it could cost to develop, operate, and finance a market on two sample sites on Franklin Blvd. And lastly, we will provide some takeaways for the city on how to further catalyze economic opportunity for the diverse communities that inhabit the areas around mid-century corridors in greater Sacramento.

## INITIAL CONDITIONS & MARKET REALITIES

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Whenever the world of construction intersects with the world trying to close equity gaps, we have a particular type of land use approach that I call “Social Goal Development”. In short, Social Goal Development implies we are trying to use physical infrastructure in a way that provides access to economic opportunity for a specifically targeted group or focused mission. That could mean creating a “Soul District” to highlight African American businesses, as they are doing in Portland, OR. Or, it could mean providing space for established, but still small, businesses to purchase rather than rent. Or, it could mean creating a Franklin Blvd Mercado to provide food business start-up opportunities to Latino immigrant entrepreneurs.

By definition, Social Goal Developments are some of the most challenging construction projects to undertake because they must offer some sort of financial subsidy while still being subject to the open market in terms of costs and regulation, including permits, fees, taxes, utilities, construction materials, labor, contractors, etc. And, once they are built, these projects are exposed to cash flow challenges because they must offer economic opportunity in the form of some sort of subsidization, which generally means they operate on razor-thin financial margins.

To be successful at delivering on mission in a cash flow challenged environment, Social Goal Development must, at every iteration of decision-making, work backward from initial conditions and market realities to ensure financial health and viability.

So let’s look more closely at conditions and realities for a Franklin Blvd Mercado.

### INITIAL CONDITIONS: MERCADO SOCIAL GOALS

After recent discussions about placing a Mercado on Franklin Blvd, it seems there are three clear areas of mission focus for the project: 1) Provide Latino immigrant entrepreneurs with opportunities to open food-based businesses on Franklin Blvd; 2) Develop an authentic Latino experience that is a draw for all Sacramentans; and 3) Create a project that cross pollinates with surrounding establishments, improving sales for businesses in the area near the Mercado.

These goals immediately inform many development parameters, as you can see below.

- *Dramatic and Appealing Exterior.* Franklin Blvd is a busy street with fast-moving traffic, which makes it difficult to draw the attention of passersby. Add to that the fact that buildings are recessed from the street, and we have a lot of businesses that are essentially invisible. To counteract this invisibility, the Mercado will have to be particularly eye-catching, creating drama, visual interest, and activity at the street level.

➤ *Indoor/Outdoor.* Because most buildings are recessed, the best way to draw the eye and get customers' attention is to do something outside, especially if it involves people. Because people are pack animals, they are wired to go do and see what others do. For a Mercado in an arterial environment, visibility is best achieved by placing food vendors outside, and creating a festive outdoor seating environment that bleeds into the indoor seating environment.



*Blur the Edge Between Interior & Exterior*

- *Site Requirements.* The concept as described on the previous page is essentially a market hall organized around food. Ideal space for a site then will be wider and shallower as opposed to narrow and deep. And, a site with a reasonable amount of paved parking in front for visible outdoor dining is essential.
- *Overall Project Budget.* Because this project will provide economic opportunity while still being subject to the open market to build, decision making in regards to site selection, design, and operations must always keep cost control as a top priority.
- *Interior Demising.* To provide a wide variety of opportunity to a mix of food entrepreneurs as outlined in the mission focus, an ecosystem of spaces should be offered that range from temporary retail day tables, to food carts, to 10'x10' outdoor stalls, to stand-alone spaces from 250-700 SF in size.
- *Interior Finish.* The most meaningful subsidies for retail and restaurant tenants come in two forms: the first is rent reduction, and the second is tenant improvements. When interviewing low-income entrepreneurs, one of their most frequently listed barriers to entry is the pile of cash required to complete tenant improvements in a space. For a Mercado then, it will be necessary to deliver very warm shell space that is move-in ready. And, there will need to be rent subsidization relevant to the entrepreneur's level of experience and need.

## **INITIAL CONDITIONS: REGULATORY ENVIRONMENT**

It makes sense to pursue the adaptive reuse of an existing structure for a Mercado on Franklin Blvd because, when done correctly, projects can come in for less than, or equal to, building new. Additionally, it is almost always greener to reuse a structure than to tear it down and build new. Lastly, Franklin Blvd does not currently attract market rate new construction, which means there might be financing hurdles to launching a newly built project.

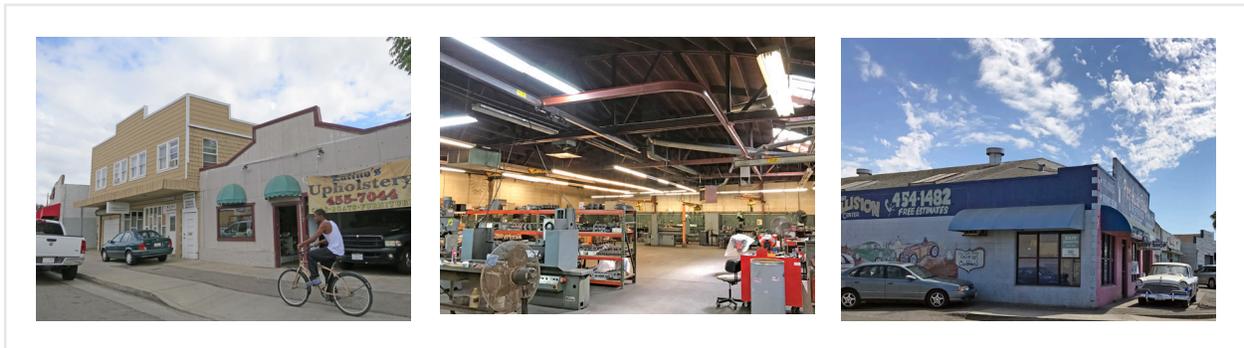
There are two broad regulatory areas that will definitely impact a Mercado housed in an existing building. The first area of regulation is *zoning*, which governs items like parking minimums and allowed uses in a district. The second area of regulation is *building code*, especially if you are going to renovate an existing structure. Because adaptive reuse involves repurposing something that is already a part of the existing fabric of the city, it means that it is subject to the “Existing Building” track of the building code manual, which involves many judgement calls on the part of the public sector.

When doing reuse projects in economically challenged markets, a developer’s most important job is to avoid triggering expensive fees and upgrades, or those that don’t actually generate any additional rent from tenants. (Retail tenants pay higher rent for wood floors and glass roll-up doors, not for a filled-in curb cuts and water meters.)

Remember, commercial buildings are valued on their revenue stream, so if an improvement expenditure doesn’t increase rent, it won’t make financial sense for a landlord to do it. And if small improvements are expensive and difficult to undertake, then any sort of improvement project that a business might undertake will be quashed as well.

In general, Sacramento’s land use processes are heavily skewed toward greenfield development and new construction, which creates the unintended consequence of making renovation difficult because everything becomes an exception to a “build-new” rule, adding months and months to projects and increasing costs. Everything from design review, to conditional use, to parking minimums can make or break a single project.

#### BUILDING GEMS ON FRANKLIN BLVD (YES — WITH HIDDEN BOW TRUSS CEILINGS)



In this type of zoning & building code environment, it’s absolutely critical to assemble your adaptive reuse team and marshal your forces before taking your development to the city. In other words, you need to build a complete case for your project before submitting it for code and zoning review, anticipating all of the possible triggers that could impact the project, presenting how you wish the city to interpret your approach.

Wending your way through zoning and building code in a manner advantageous to the Mercado should be considered as early as site selection because the buildings that are likely to trigger the least amount of expensive upgrades are more valuable than the ones that will require a lot of work. Process, fee, code, and zoning considerations for this project include the following:

- *Change of Use.* Every building is given an occupancy designation under building code in the city. If a building upgrades its occupancy, then it can trigger expensive building code upgrades. The occupancy designations that are most important to a Mercado project are **B**, **M** and **A**. **B** and **M** are roughly equivalent occupancies. **B** is designated for office and a special form of small restaurant, and **M** is mercantile, or retail use. **A** is assembly occupancy, which is used for larger restaurants, movie theaters, churches—places where large numbers of people congregate. In general, for the Mercado, a site that can transition to a market hall without upgrading occupancy would be ideal. If the Mercado is upgrading occupancy, then you should choose a building that is already in decent shape in terms of seismic stability, ADA accessibility, sprinklers, and energy efficiency, as these are the types of expensive improvements that can be required when upgrading occupancy (more information on these below).
- *Site Improvements.* When buildings are being upgraded, sometimes cities will require that projects pay for improvements in the public right of way, which can range from simple sidewalk repairs to new traffic lights. It all depends upon project location and impact. Franklin Blvd's most obvious improvements triggered by a Mercado are sidewalk improvements. There are currently no required dedications in the public realm that the city was able to identify.
- *Conditional Use.* Most zoning code contains use-based regulations. In other words, zoning code governs what kind of uses are allowed in a certain place. If a project proposes to do something that is not clearly outlined as an approved use, then it is either outlawed, or allowed after a special review, which is called “conditional use”. This process takes time and requires additional fees. And, it means that the project gets routed to every bureau for review, so a long “wish list” of items to improve can arise out of conditional use. An obvious trigger for conditional use in Sacramento is outdoor vending of any type. On first blush, it appears that outside vending is allowed without further regulation if the items being sold are also carried by the business establishment inside. If, on the other hand, outdoor vendors are separate entities, and you have more than two of them in a parking lot, it is considered an “outdoor market” and requires director level conditional use approval. If the Mercado wishes to have more than two food carts outside, it would trigger this conditional use process.
- *Design Review.* Many cities use design review as a process to ensure that buildings meet a base level of design standards. What triggers design review varies from jurisdiction to jurisdiction. In Sacramento, the way it was described to me informally by many people interviewed was: “Once you touch the outside of

*the building, you pretty much trigger some form of design review.*” Designs can either be exempt, require a staff review, or a full commission hearing. The lower the level of review, the lower the fees, and the less time it takes.

*“If design review is merely adding more beige stucco buildings with stacked stone accents, the process is not improving the economic performance of retail districts.”*

- *Parking Minimums.* The parking minimum rules on Franklin Blvd (primarily zoned C2), allow for a new use to take over a space from an equivalent use without requiring new parking. In general, the interpretation of what an equivalent use is tends to be pretty generous, for instance seeming to allow a switch from an auto body shop to a retail use or restaurant use without requiring more parking than whatever was existing there. But, a switch from industrial or storage to retail or restaurant could require more parking. For a Mercado, creating a food cart pod will subtract from the existing parking space total, creating challenges under parking minimum code. Additionally, it's possible that adding new HVAC capacity or a larger trash enclosure on a lot could further remove parking, and then trigger minimum challenges. It's very important to be careful to do nothing that triggers assembly designation under zoning code (different than assembly occupancy under building code, cited above in “Change of Use”) because it would require parking minimums of 1 space per 100 SF of commercial square footage. Having a banquet hall or an outdoor event venue are examples of uses that would trigger huge parking ratio requirements under zoning code. Under Sacramento zoning rules, parking space sharing is allowed only on the same lot or on contiguous lots under the same ownership. Soon, they are going to allow it on contiguous lots under different ownership.
- *Stormwater.* Generally, if a site is already covered with an impermeable surface, like paving, it is not subject to requiring a full stormwater management and implementation plan, which can be very expensive to create and build. If the Mercado is sited in a place with paved surface conditions, it should be able to avoid this category of improvements.
- *Seismic.* One of the most expensive building upgrades required under CA building code is that structures must be able to withstand an earthquake. Several events trigger seismic upgrades, including change of use, or spending more than 50% of the building's value on the hard construction costs of a renovation. If a landlord is going to finish a space to move-in ready condition, it can make sense then to separate the permitting into a core and shell permit first, and then

do the tenant improvements in a separate permit. The easiest way to mitigate this expense is to choose a building that is constructed from concrete and/or steel because, even if it is a little bit older, it most likely will need more modest upgrades to meet seismic standards.

- *ADA.* Making buildings compliant with the Americans with Disabilities Act can be a very expensive upgrade for certain types of renovation projects. This is not likely to be a huge issue for the Mercado since most of the buildings on Franklin Blvd are one story, at grade, and built during an era in which access should not present a problem (unlike multi-story, turn-of-the-century buildings, for example). And, since most sites will require extensive water, sewer, and plumbing work to built out kitchens, creating ADA compliant restrooms and access should not really cost the project any additional amount.
- *Sprinklers.* While there are scenarios where sprinklers may not be required for a future Mercado, it is likely to be required for the project. There is the additional wrinkle that much of Franklin Blvd is in the privately held Fruitridge Vista Water Company. In order to sprinkle the building, the project would have to request a fire tap from the district, and it's unpredictable how much that might cost and what additional water infrastructure work the district might request. If adding sprinklers is required, exploring these costs and developing a relationship with the water district early on will be of paramount importance. Another way out of this expense is to select a site with existing sprinkler infrastructure.
- *Energy Efficiency.* It is likely the project will be required to improve insulation throughout the structure. The more insulated the existing structure, the better in terms of controlling construction costs for the project. Kitchen equipment and HVAC systems in the project would be new, so there shouldn't be any issues with these.
- *Impact Fees.* These include assessments to support parks, school, sewer, transportation infrastructure, etc. For adaptive reuse, estimates for impact fees ranged from about 2-3% of project construction costs.
- *New Water Service/Meter.* For any future site, investigating the size of water service to the site and its appropriateness for the intended Mercado use would be useful. If new service, or new meters are required, it can add to costs, from a low to medium level in terms of scale.
- *Grease Trap.* Restaurant uses in many cities in the US need to add grease traps for waste water that goes into the sewer system, and



*Building for Prepared Food Is Costly*

Sacramento is one of those cities! This will be an expense for the Mercado. Whether this is one large grease trap, or multiple small ones, will be a question for a next iteration of site-specific development planning.

- *Exiting.* Depending upon the ultimate occupancy designation and layout of the Mercado, either 2 or 3 exits may be required in case of emergency. Some sites, because of their lot line and footprint configuration, cannot easily accommodate exiting requirements. It's important to get a handle on this prior to going too far down the path of planning and development for a particular site.

Throughout the development process, the Mercado owner should be adding to this list, and constantly iterating on the proforma to mitigate expensive upgrades or those that do not achieve more in tenant rent.

## **MARKET REALITIES: FRANKLIN BLVD**

Adaptive reuse and renovation of existing structures is a particular form of development that involves working within the existing fabric of a community. To be successful when working within existing fabric, it's essential that projects respond to their surroundings in terms of use and design. It's also essential that they take into account the state of the market in which they will be developing.

There is a tendency on busy streets to pretend that each parcel is an island, not impacted by anything else. Nothing could be further from the truth. Every business and every building impacts every business and every building around it. To be successful working within existing fabric, this is a lesson that must be taken to heart!

Areas to consider for Franklin Blvd's market realities as they pertain to a Mercado include its nature as a mid-century arterial, its current characteristics as a commercial district, including the identity it is projecting, demographics, uses, rents, and the general market for real estate development.

### ***Mid-Century Arterial***

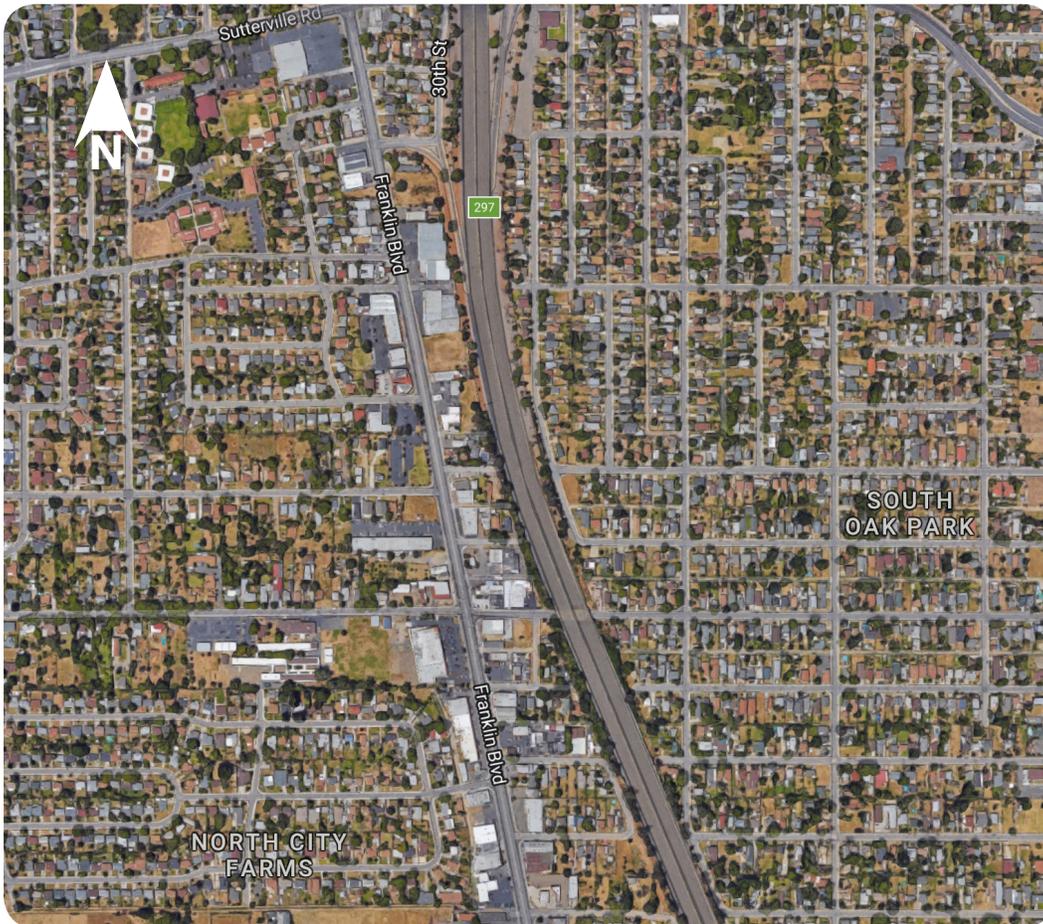
Franklin Blvd, a commercial street in first-ring suburban areas of the city. I dub these types of retail districts "Mid-Century Arterials" because they are an odd mix of urban meets suburban from the era in which they were built—just as car culture was taking hold.

The residential areas surrounding these types of commercial streets are definitely urban in form, with smaller lots, grid structures, and sidewalks. The residential areas often abut directly adjacent to the commercial areas, another urban characteristic.

The commercial areas have smaller lot sizes, as well. And, they feature much smaller buildings than what we might traditionally think of as suburban commercial form. Stand-alone buildings with small setbacks that generally sport front or side parking lots are very common in Mid-Century Arterial districts.

The road is what contributes to the suburban feel of these districts. It is usually a big, fast-moving street with few crossings, no on-street parking, and minimal street greenery.

You can see this urban/suburban pattern in the area surrounding Franklin Blvd in the satellite photo below:



Summary of Mid-Century Arterial characteristics, as compared to newer suburban land-use patterns:

- Small commercial lots with residential directly adjacent.
- Structures set closer to the street.

- Small-scale, stand-alone buildings.
- Modest-sized strip centers.
- Compact parking located to the front, rear or sides of buildings.
- Higher building density.
- Tenants are local.
- Service, office, light industrial, and auto uses typically dominate.
- Busy, fast-moving street with no on-street parking.
- Lack of street trees and greenery.

The good news about Mid-Century Arterial districts is that they tend to remain robust in terms of occupancy rates because their space sizes are small enough to be rentable to local start-up businesses. And, since their buildings are close to the street, they provide some visibility for smaller, unknown establishments to catch the attention of passersby.

For this reason, it is common for Mid-Century Arterials to become hubs for businesses that seek either low rent, or don't need retail street appeal, such as auto repair, low-capital retail and restaurant start-ups, and professional service office uses.

Generally, these districts are some combination of the above! And, this mix absolutely represent the future of these districts—being unique, quirky, one-of-a-kind hubs of commercial activity. And the Mercado can be a vibrant part of that!

### ***Franklin Blvd Commercial Landscape***

There are several themes that are recurrent on Franklin Boulevard. First, it has a lot of automobile-focused uses, primarily centered upon repair and service for cars and, to a lesser degree, the retail sale of automobile accoutrement. There is a large collection of restaurants on the street, with community treasures such as El Novillero and La Esperanza. There are a mix of local retailers and service businesses, mostly concentrated in the northern section of the street, which has the best collection and density of smaller, retail-focused buildings. As you head further south, the land use patterns get less concentrated and less consistently commercial with religious uses, school/community uses, residential, and light to heavy industrial.

Rents on the street vary, depending on location and type of use. Generally, for small, local retail spaces, the range was roughly \$12-18/SF/Year. The type of lease tends to be some version of a gross lease. Generally, it does not seem that Landlords are passing through all NNN expenses, even if they are charging some additional rent.

Franklin Blvd is very centrally located, a desirable feature of most Mid-Century Arterial districts. It is generally easy to access from both freeways and major surface streets within the city.

The overall feel of the boulevard is mixed commercial/industrial in nature, and it sports a fair amount of deferred maintenance. This is a common occurrence in lower rent mid-century arterials due, in part, to the following:

- The regulatory environment makes it difficult to make modest, incremental upgrades.
- The preponderance of out-of-town property owners.
- The large number of light industrial, storage, or auto-focused uses that don't generally feel the need to address curb appeal.

Currently, there is little activation at street-level, whether it be eye-catching buildings/architecture, striking paint/color schemes, great storefront windows, dramatic building lighting, or outdoor seating. As a project, the Mercado should help model this sort of execution for other businesses on the street.

Franklin Boulevard has the added challenge of having east-west connectivity issues because it runs nearly parallel to the Highway 99 freeway. This requires east-west travelers to access the street only via major roads. It also means that, over time, Franklin Blvd will not be able to easily draw bikers or walkers from residential neighborhoods to the east, because there is no direct access for them over the freeway without making a significant detour.

In terms of the type of investment it is attracting as a commercial area, the district does not typically support market-rate new construction projects. Widespread reinvestment in existing structures is not occurring either.

The surrounding neighborhood is very diverse, with its reported demographic breakdown being nearly even between African American, Latino, Asian American and White. The highest disposable income can be found in the Curtis Park neighborhood to the north.

## LEASE TYPES

**NNN:** Tenant pays their own utilities and their share of property taxes, property maintenance, and property insurance as a form of additional rent. Most common in retail/restaurant leasing.

**Gross:** Tenant pays their own utilities. Owner pays for property taxes, maintenance, and insurance. Most common in under-performing retail districts.

**Full Service:** Tenant pays for phone/data. Owner pays for utilities, property taxes, maintenance, and insurance. Most common in high-rise, class A office space.

And, lastly, it is considered to be a prime destination for Latino, particularly Mexican, goods and services in the greater Sacramento area.

The street's diversity, its proximity to the city center, its current range of market offerings for the Latino community all bode well for a Mercado concept succeeding on the street.

## FOOD MERCADO 101

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Organizationally, in order to move forward with creating a food incubator for start-up entrepreneurs, there are four broad areas to consider, which are listed below:

1. *Build/Manage.* Getting a project built, and then managing a functioning Mercado, especially for the first 5 years, will be a large undertaking. Understanding what combination of organizations (or what single entity) is going to oversee the construction and management of the project is important to identify early on so that there is continuity across the project. Developing institutional knowledge is really important to get through the entire arc of a construction project: vision, fundraising, building, and tenanting.
2. *Tenant Advisory Group/Training.* If a project has identified a group for targeted economic intervention (in this case, Latino start-up entrepreneurs), then it's essential to start gathering an advisory group together of those who will benefit from such a project. They are invaluable for feedback throughout all the stages of project development, they keep the mission focused and on point, and the advisory group helps bring potential entrepreneurs to the table. Additionally, it's important to work with this group, in conjunction with other technical assistance providers, to develop the process by which tenants will be trained, evaluated, and selected.
3. *Funding.* What combination of grants, loans, and sweat equity is going to be needed to get a project off the ground? In Social Goal Development, there is a fundamental tension between mission and cash flow. The tenants who require the most subsidy meet mission most strongly, but also create the biggest cash flow challenges. Understanding how the project is likely to be funded will inform the ultimate tenanting strategy. Or, conversely, understanding how you want to tenant the project and the amount of subsidy they will require will inform the ultimate funding strategy. The more grants that are required, the longer the development cycle will likely be.
4. *Site Selection.* While there is a fair amount of conceptual work that can be completed without a site to focus upon, the real progress happens when everyone is focused on a site. It makes the entire process tangible. It's much easier to get people on board and make progress when there is a real place, versus a theoretical idea. In selecting sites, there are three key criteria: 1) Is the site offered at a price and for terms that can support Social Goal Development? 2) How much does the site mitigate the upgrade triggers outlined on pages 9-12? And, 3) How much will the project cross pollinate with surrounding uses to uplift everyone's sales and the overall identity of the street?

## Baseline Food Mercado

Before diving into the two specific sites identified for review and analysis to house a food-focused Mercado, it's valuable to consider what is involved in having a minimum baseline Mercado in terms of number and size of spaces, types of uses, and layout considerations.

### Uses

*Prepared Meals.* Lunch and dinner, then ancillary prepared food items, are the name of the game for a small food-based Mercado. The ability to segue into retail successfully is very dependent upon the traffic at the Mercado, and the nature of the demographics surrounding the Mercado. The more the district draws from locals in the Latino community, the more it can support food-based retail and retail in general. In low-Latino demographics, very little retail can be supported. It's important to note that generally, for the baseline Mercado, performance for vendors with typical grocery offerings can be tough, such as those opening a traditional verdulería or carnicería.

So, for a baseline Mercado, an ecosystem around all prepared food should be the focus for the permanent spaces. You can introduce retail through day tables and booths during events and on weekends in outdoor/indoor seating areas.

The minimum number of prepared food spaces needed to create a destination and critical mass of offerings is about 9, of which 5 or 6 of these should be producing food that would be considered a meal. The remaining vendors can include lighter food uses, such as a coffee shop, an ice cream/shaved ice stand, smoothie/fruit stand, or a bar.

In terms of tenant background, it might be advantageous to include a few experienced operators in larger spaces to serve as mentors and examples.

*Commercial Kitchen.* A commissary space can be an important component of a food incubator. It allows a concept like a Mercado to meet more of its mission goals because it provides subsidized commercial kitchen space for the most nascent of food entrepreneur—those creating small batches for wholesale or direct retail sales.

Housing a commercial kitchen requires more ongoing management time, but it also helps with grant fundraising, both for construction and ongoing operations. Additionally, a commercial kitchen dovetails nicely with the overall market because it is an easy



Interior Portland Mercado

place for vendors to produce new and/or wholesale product, and it provides a possible pipeline of people who can move up and fill vacant spaces in the future.

## Spaces

Generally some mix of indoor/outdoor vendors is desirable. It's important though that the outdoor spaces not outnumber the indoor offerings, or it can be hard to get people to frequent the interior of the building.

The outdoor vendors should be housed in something that draws the eye, is colorful, and attractive. It would be highly advantageous for a Mercado to buy its own outdoor venues, and I recommend food carts, which are much cheaper than food trucks, and they can be organized to create an intimate area that is human scaled when adjacent to a seating area. If the Mercado buys carts and rents them as space, the Mercado can control the overall experience and also prevent vendors from driving off with infrastructure, which can leave a hole in the outdoor experience! The right interior/exterior ratio depends upon the ultimate size of the building and number of vendors. At a minimum, two carts outside with seven interior vendors would give a project the needed nine prepared food vendors. However, on a busy street like Franklin Blvd, having as many as four food carts outside would create a critical mass of activity that will draw attention and bring more customers to the project. People buying food and eating it outside are the best sign for a restaurant that exists!



*Food Carts Are Human Scaled!*

Food carts that are about 8' x 16' fit well into traditional parking spaces.

Indoor spaces can be either enclosed or open. In an open-air model, they might be tucked in and around a space, with some demising walls, but feel more besprinkled around the interior and less that they are fitting into defined rooms. These kinds of spaces generally don't have ceilings.

Alternatively, a collection of more traditionally demised spaces, with or without lids, can be arranged around a common market hall. The walls that face the market hall would have large openings/glass.

Interior space sizes should range from about 250 SF to 750 SF.

Additionally, the site configuration that's ideal is a building that is wider than it is deep, and which is recessed from Franklin Blvd. In front of the building should be a paved parking area. The wall of the building facing the street should be retrofitted with glass roll-up doors that can be opened, creating an open wall; this visually draws people into the interior of the project and naturally creates the opportunity for a blurred indoor/outdoor seating area. (Again, the Mercado should always be doing what it can to showcase people on the street having a good time.)

## *Development Considerations*

The following section contemplates additional areas for consideration when developing a food incubator:

- *Security.* Public safety officers should be consulted throughout the design phase of the project to plan for and mitigate theft, loitering, and illicit activities from occurring on the site.
- *Commercial Kitchen Access.* One of the biggest issues with a commercial kitchen can be items leaving the kitchen on their own. Cameras should be installed, and alarmed ingress/egress that requires key code access for any entry or exit are the types of interventions that keep items from going missing.
- *Management.* The more mission-oriented the focus of the Mercado, the more ongoing management it will require. Skills for management include being able to wheel and deal to keep tenants in business and in spaces, and having an aptitude for the detail oriented skills needed for kitchen access and time management. Also, a talent for planning, holding, and attracting events is important, because these can drive traffic and sales at the Mercado.
- *Patient Capital.* It would be very difficult to create a Mercado in a space without some fundamental subsidies related to the site, such as: 1) rent-free access until construction is complete and spaces are occupied; 2) a minimum of a one-year period of reduced or free rent for the Mercado to get its legs; and, 3) a long-term lease and option to purchase. For these reasons, either a public sector or agency-owned building, or a private building/business that can benefit from the brand and traffic a successful Mercado would bring are the most likely candidates for site offerings.



*People May Not Sit Outside in Winter at Night*

- *Seasonal Rent.* After one full year of operation, the Mercado should assess sales and seasonality in order to determine whether it would make sense to move tenants to a seasonal rent schedule, charging a higher rent during high season and lower rent during low season.
- *Social Enterprise Bar.* The alcohol concession for the project could be held by a social enterprise bar owned by the developer, who would run it as a non-profit, plowing the profits back into the Mercado to help subsidize it. If that is too heavy a lift, consider some sort of revenue sharing for an alcohol vendor, based on sales, not profits.

## CITY SIDEBAR: EC DEV ON MID-CENTURY CORRIDORS

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In the process of assessing how a Mercado might come to pass on Franklin Blvd, it became clear that there are some larger lessons to consider from the perspective of catalyzing economic development on mid-century corridors in Sacramento. In other words, what can the city be doing with its toolkit to create more opportunity for development and site intensification in a way that benefits the diverse mix of entrepreneurs on these arterials?

The best way to tackle this question is by working backward from what needs to happen on these corridors to improve economic performance, and then rewarding the type of behavior the city wants to see, rather than punishing what the city doesn't want!

### How Do You Improve Mid-Century Corridors?

As discussed on page 12 and 14, mid-century corridors are essentially urban form in terms of block structure, sidewalks, lot sizes, and housing density. But, these districts have a suburban road going through them, which really impacts the commercial districts that call these roads home.

To improve these corridors, you basically have to heal this suburban/urban divide and allow the arterial to respond appropriately to its small lot, dense building, local business environment. The recipe for more economic success on corridors includes the following:

- **Active Uses.** The more space that is occupied by a collection of uses that tell a great story from the street during an 18-hour period every day, the more cross pollination will happen between businesses, the more safe the district will feel, and the wider the trade area it will serve.
- **Buildings That Pop.** Most of the buildings on Franklin Blvd are close enough to the street to be highly visible and are close enough to each other to create a real district identity. Unfortunately, most of the buildings have a large amount of deferred maintenance, are inward facing, or are just plain invisible. Introducing operable windows or roll-up doors, vibrant multi-colored paint schemes, architectural building lights, and colorful murals are all ways to build district brand and create frameworks for tenant success.
- **Show, Don't Tell.** Every business should pretend signs are illegal, and that words don't exist, and then figure out how to show consumers what their business is about and why we might want to connect with them. Brick & mortar establishments of every type—medical, legal, professional service, retail, and restaurant—are going to become more about experience, and less about the commodity on offer. A big part of Show, Don't tell on mid-century corridors means getting some activity going outside, It also means having compelling

storefront windows that are appropriately lit and transparent so everyone can see them, creating an effective 24/7 advertisement for businesses and an attractive district in the evening.

- **Role of the Road.** The slower the traffic, the better it is for business, especially smaller local business because they get noticed. The more attractive the road, the better it is for business, because we make judgements about businesses just based on the environment where they are located. Roads with on-street parking are better for business, because it's easier to pull over and explore, especially when these corridors have constrained parking lots. Road diets, road beautification, and complete streets projects are all great for business!
- **Site Intensification.** Inevitably, on mid-century arterials, there are buildings that were constructed during an era of maximum parking, that are set so far back from the street, they go unnoticed and are no longer considered desirable as retail locations (pretty much every old K-mart big box, for instance). Or some buildings just have more parking than is needed. In order to tackle these larger sites, developers should be encouraged to fill in around these existing buildings, over time, intensifying the site. An example of a project like this on Portland, OR's former Highway 99 is shown on page 26].

## Incentivize Incremental Improvement

When you have a district that is generating low rents, it doesn't support new construction. That means you are in the business of improving what you have—buildings, businesses, and parking lots. In order to do that, it has to be cheaper and easier to rehabilitate a building than to build new. And, it has to be possible to bring in active uses without requiring more parking infrastructure, for example. If it's impossible to make small exterior changes without triggering design review, economic improvement is going to be difficult. If it's impossible to put a few food carts outside without requiring a conditional use permit, economic improvement is going to be difficult. If it's impossible to convert a few parking spaces into an outdoor seating area for a restaurant without triggering parking minimums, economic improvement is going to be difficult.

Essentially, the public sector should be using its toolkit to entice building owners and businesses to improve their buildings and land as outlined above. Thoughts on ways to change or leverage Sacramento's land use processes to meet economic development goals include:

- **Fee & Tax Structure.** If a simple improvement project triggers greenfield-scale impact fees, requires all new utility upgrades, or tacks on street improvements, then rehabilitation will not happen because places with economic challenges cannot support these fees. In places with low rents that don't support market-

rate new construction, you want to encourage investment, which means temporarily waiving or reducing fees.

- **Abolish Parking Minimums.** The private sector is more than capable of determining whether a site has the minimum threshold of parking required for a business or a development. The market will sort it out, and you will get more active uses on these streets as a result. If you retain parking minimums, they will remain an impediment to improvement because mid-century corridors are constrained parking environments, with a lot of small parking lots and small lot sizes. Parking minimums prevent food cart pods, take away the possibility of outdoor seating areas, they stop meaningful site intensification, and they prevent even simple steps to beautify and green the hard edge between sidewalk and parking lot.

Below, please find an example of a small auto body shop building that was converted into a mix of micro-restaurant spaces. Notice, the parking in front of the auto use was changed into an outdoor seating area. This is exactly the sort



of conversion that brings about economic improvement in a district, but it is one that simply can't happen if a city legislates parking minimums. In the restaurant example pictured above, the lack of off-street parking has not impacted business in the least. It is a popular lunch and dinner spot that remains a destination from a wide trade area even though it has no off-street parking.

- **Conditional Use.** Use-based code is going to become increasingly difficult to administer as we move into an era of blended everything—is maker space industrial, how do you categorize a distillery, how do we regulate a food cart pod, is an internet retailer with a storefront wholesale or retail? The tendency is to tighten use restrictions on mid-century corridors that feel past their prime, when in fact the opposite is what should happen. These corridors, and the unique buildings on them, are natural petri dishes for entrepreneurship that appeal to a wide variety of Sacramentans. Having a mix of dynamically changing uses should be a hallmark of these corridors, making them places that are on the front line of social, economic, and retail change. This means dialing back the sorts of things that might trigger conditional use, particularly in existing buildings!
- **Prize Activity.** Any use that upgrades a building from an inactive use to an active use should be encouraged. Taking space from storage to retail, or industrial to restaurant, should trigger special waivers and incentives because the more outward facing and active the mix of business on the street, the stronger the brand associations it will make with the neighborhood and with customers, improving overall economic health.
- **Encourage Unique Vision!** Rather than punish what you don't want to see with design review, what about providing services that small retail and restaurant businesses need to be more successful—great color consulting, store layout assistance, merchandising help, and window display training. The goal is to encourage a lot of small, fun, unique, diverse projects that collectively serve to create an authentic and distinct district identity. (The picture below right was a great remodel of a vacant restaurant on Auburn Blvd in Citrus Heights, CA.)
- **Intentionality.** Consider how to weight programs and benefits to boost outcomes for long-time residents, long-time property owners, and communities of color. If economic development efforts don't incorporate equity goals from the outset, long-time stakeholders will be displaced and not participate directly in the benefits that come with economic renewal.

BAN BEIGE!



VANPORT PROJECT, MID-CENTURY ARTERIAL EXAMPLE OF SITE INTENSIFICATION—RETAIL, OFFICE, AND BACK-OF-LOT ROW HOUSES

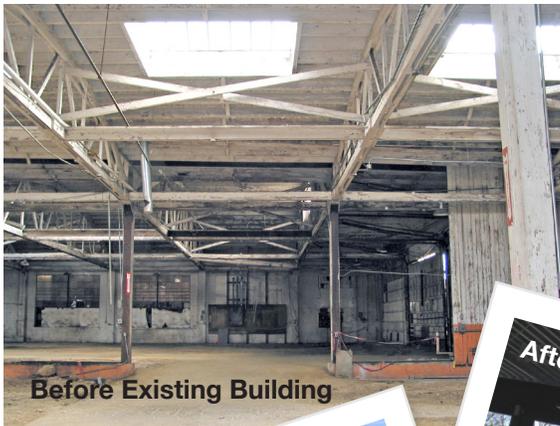


**DEV PHASES**

**Phase 1: Existing Building Renovation**

**Phase 2: New 3-Story Mixed-Use Office/ Retail Building Constructed**

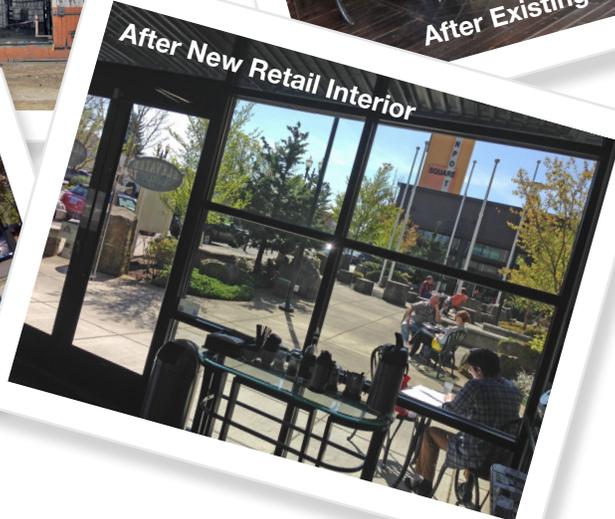
**Phase 3: Row Houses Built Near Existing Residential, Away from Busy Road**



Before Existing Building



After Existing Building



After New Retail Interior



After Row Houses

## SITE ASSESSMENTS

The two sites selected for further analysis are pictured below. The first one is owned by the Bokan family at 4027 Franklin Blvd. The second one is 4875 Franklin Blvd, which is controlled by the family that owns La Esperanza. The two buildings are pictured below:



*Bokan Family Building*



*La Esperanza Structure*

In analyzing each property, a building program and layout were created, and then very preliminary proforma numbers were developed based on the building program. This first pass looks at the three large financial hurdles in any sort of development:

1. Can you afford to build it?
2. Does it generate sufficient cash flow to stay in business?
3. Can you move to permanent financing? (Or, in this case, a steady state lease.)

## Assumptions

In building a model to assess potential investment in a Mercado on Franklin Blvd, the following assumptions were used:

- There are four food carts on the exterior.
- A mix of hood vented and non-hood vented space is offered on the interior. Pricing for individual spaces varies depending upon the type of space. Hood vented interior space is more expensive per month because it comes with a built out kitchen, so the subsidy is largely in the buildout.

- A commercial kitchen serving low-income food entrepreneurs is built into each project. The projections for revenue for this start very modestly.
- A social enterprise bar would be started. Initially, the bar would require one bar manager and roughly three employees, be open from 11 am to 11 pm, and would generally require two bartenders per day to run, each working 6 hour shifts. The bar manager would work some of the shifts and fill in during busy times. Under this sort of model, it's reasonable to assume a bar might generate in the ballpark of \$50,000 in profit, which I show has being split between the Mercado and the operators in the financials on a 50%-50% basis.
- Operating expenses were estimated at \$6/SF/Year and a fee for property management of 4% of gross revenue are budgeted. Any market-specific management and assistance to tenants will need to be paid for out of grant funds.
- Utilities in the common areas will be passed through to tenants, who also will pay their own utility costs.
- The project will be developed with the following structure: the Mercado will master lease the space from an owner and will develop and sublease space to tenants. In these scenarios, the Mercado will not pay rent until 6 months after it receives a certificate of occupancy. The proforma does account for the project taking care of operating expenses and maintenance after a certificate of occupancy is issued, but does not pay rent until 6 months afterward. This means that the Landlord would receive no rent from the space during development and for 6 months after construction, approximately 1.5 years.
- The rent paid by the Mercado to its landlord will be replacing market rent for a larger warehouse space on Franklin Blvd: \$.60/SF/Year, Gross, which converts to \$7.20/SF/Year. However, the Mercado will be leasing as a NNN tenant, so with operating expenses estimated at \$2/SF/Year, a gross lease at \$7.20/SF/Year translates to a NNN lease at \$5.20/SF/Year. This is the number I used for the Mercado's long-term rent obligation. The Mercado will be responsible for property insurance, property taxes, and building maintenance on the structure as a part of its NNN lease.
- There is some projected revenue from temporary retail in interior/exterior vendor retail kiosks and stalls. These are rented by the day at \$15/day and only suppose use 6 days a month on the interior and 4 days per month on the exterior. There is a lot of room for revenue growth in these kinds of spaces if they are successful.
- I show second exiting that is more than half the length of the longest diagonal on the front face of the building. It's possible, depending upon the ultimate occupancy designation for the Mercado by the city, that the project would require a third exit. That is not accounted for in any sketches.

## 4027 Franklin Blvd

The Bokan family holdings include all of the properties, encircled below by the dotted blue line.



The first step with this site was to determine which property was the most suitable for redevelopment. The northernmost building of approximately 9,000 SF was selected because:

- Steel framing makes it less subject to expensive seismic upgrades.
- Soaring ceiling height would make a gorgeous market hall.
- Its clear span space has no posts, so it's easy to lay out and reconfigure in the future. (See the photo on the next page.)
- It already has a wall of 3 giant roll-up doors, which just need to be swapped out for glass roll-up doors.

- It has the largest parking area of all of the buildings for outdoor activities, special events, food cart pod, and indoor/outdoor seating.
- It is adjacent to ABC Tile, which is one of the largest purveyors of tile in Sacramento. Contractors and DIY people are a perfect customer base for a Mercado.
- Starting the Mercado on the northern end of these holdings allows the family to concentrate the high-activity uses in one part of their holdings, create some retail synergy and energy, and then move toward upgrading their other buildings to more active uses over time.



*Clear Span Would Make a Great Market Hall*

**Northern Most Building  
4027 Franklin Blvd**



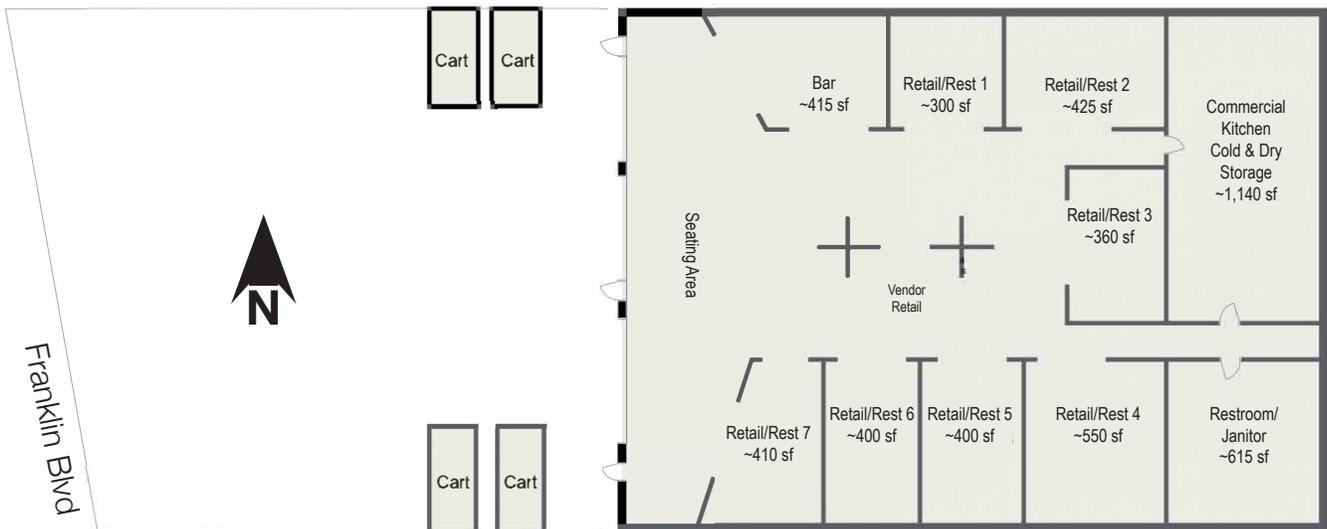
### ***Building Program***

One of the biggest challenges in laying out any sort of market hall is that there is a huge amount of space dedicated to retail circulation and shared seating, which is not necessarily generating revenue. (In market-rate projects, Landlords do try to recoup this shared benefit through higher rents and load factors—the prorated share of rent for common areas. In Social Goal Development, it is not as easy to do this.) If you try to make the spaces bigger to attract more rent, you lose the intensity of activity that comes from a mix of smaller spaces, and the price point becomes out of reach for mission goals.

Below, please note the preliminary building program and sketched layout for a Mercado in the 9,000 SF building located at 4027 Franklin Blvd. One of the biggest challenges is the amount of loss, which is about 60%. This means that only 40% of the space is rentable. This building loss is not atypical of market halls, which usually have about 40%-60% loss. This site has a loss of rentable SF on the larger side because the property is deeper than it is wide, and it's a little bit large to lay out the smaller, incubator-sized spaces. A market hall concept with a wide, shallow building closer to about 7000 SF would result in a lower level of space loss.

This Mercado features roll-up doors along the Franklin Blvd face. It envisions the bar in the NW corner so that the seating can be sectioned off to meet with liquor licensing requirements, which could wrap around interior/exterior. The seating area should be pushed up toward the front face of the building so that indoor/outdoor gathering spaces can be created to draw attention to the project and so that it contributes a convivial atmosphere on the street.

BUILDING PROGRAM/LAYOUT MERCADO AT 4027 FRANKLIN BLVD



**Cash Flow: Income Generation & Expense Estimates**

On the next page are estimates of revenue generation for this building program, incorporating the financial assumptions outlined previously on pages 27 and 28. And, there are back-of-the-envelope estimates for real estate operating expenses, as well.

## INCOME GENERATION, MERCADO AT 4027 FRANKLIN BLVD

### INCOME CALCULATION

Interior Unit Descriptions	Rent in \$/SF/Year	Monthly Rent	Lease Type	Annual Income
Bar	\$ 18.00	\$ 622.50	Gross*	\$ 7,470.00
Retail/Rest 1	\$ 18.00	\$ 450.00	Gross	\$ 5,400.00
Retail/Rest 2		\$ 1,000.00	Gross	\$ 12,000.00
Retail/Rest 3	\$ 18.00	\$ 540.00	Gross	\$ 6,480.00
Retail/Rest 4		\$ 1,375.00	Gross	\$ 16,500.00
Retail/Rest 5		\$ 1,000.00	Gross	\$ 12,000.00
Retail/Rest 6		\$ 1,000.00	Gross	\$ 12,000.00
Retail/Rest 7		\$ 1,000.00	Gross	\$ 12,000.00
Retail Kiosk (8@ \$15/day, 6 days/mo)		\$ 720.00	Full Svc	\$ 8,640.00
Commercial Kitchen/Storage		\$ 1,500.00	Full Svc	\$ 18,000.00
		<b>Subtotal Interior \$ 9,207.50</b>		<b>\$ 110,490.00</b>

Exterior	# of Stalls	Charge/Mo/Unit	Total/Mo.	Annual Income
Event Market Stands (4 days per month)	8	\$ 15.00	\$ 480.00	\$ 2,400.00
Food Carts (rental per month)	4	\$ 700.00	\$ 2,800.00	\$ 33,600.00
Exterior/Interior Event	n/a	\$ 0.00	\$ 0.00	\$ 0.00
			<b>Subtotal Exterior \$ 3,280.00</b>	<b>\$ 36,000.00</b>

Other Income	Total Profit	Annual to Mercado
Social Enterprise Bar Profits	\$ 50,000.00	\$ 25,000.00
		<b>Subtotal Bar \$ 25,000.00</b>

*1 manager, 3 employees*  
*split btwn company/mercado*

**TOTAL ALL INCOME \$ 171,490.00**

\* Assumes tenants will pay for own utilities and prorated share of project common utilities.

Above, you can see there is the potential for more income from the social enterprise bar, events (which are currently budgeted at zero), stalls and day tables rentals. All of these items represent significant opportunity to increase income. (When initially running numbers, it's generally good to be conservative on income and high on costs. Always work from a more realistic, worst case scenario than vice versa!)

Below are the numbers estimating expenses for the real estate operations. Remember, these do not include any ongoing Mercado management and operations funds. This is strictly to operate the Mercado as a real estate investment.

## EXPENSE ESTIMATES, MERCADO AT 4027 FRANKLIN BLVD

### OPERATING EXPENSES

Operating Expenses and Maintenance*	\$/SF/Year	Annual
Taxes, insurance, maintenance	\$6.00	\$ 54,000.00
Property management fee		\$ 6,859.60
		<i>4% of gross revenue/too small for prop man company</i>
	<b>TOTAL ANNUAL \$</b>	<b>\$ 60,859.60</b>

\* Pays only for property management. Assumes grant fundraising for ongoing management and assistance.

The numbers on the previous page are important because they not only are needed to assess your Net Operating Income (NOI), but they are the very basis upon which appraisers value rental commercial real estate, which is by looking at its revenue stream. So let's look at NOI and overall cash flow performance for the property.

## NET OPERATING INCOME & VALUE

NOI is calculated by subtracting a vacancy factor, deferred maintenance, and all operating costs from gross income. Essentially, NOI is what is left over to pay a mortgage after everything else is settled up.

NOI is a very important number in real estate not just because of cash flow, but because it is the number that is used to value real estate investments, called the income approach to value. To determine this value, the NOI is divided by a capitalization rate, which is a percentage rate that reflects the value of money at any given time. Because you are dividing by a decimal, the lower the rate, the higher the value. (Note, the capitalization rate is often referred to as a "cap rate".)

Below, you can see our monthly NOI is ~\$7,800, and we have generated about \$1.3 million in building value with that revenue stream.

### NOI AND RESULTING VALUE, MERCADO AT 4027 FRANKLIN BLVD

<b>ANNUAL NET OPERATING INCOME (NOI)</b>		
<b>Effective Gross Annual Income</b>		
Interior Rental Income \$		110,490.00
Exterior Rental Income \$		36,000.00
Social Enterprise Bar Income \$		25,000.00
<b>Effective Gross Annual Income</b>	<b>\$</b>	<b>171,490.00</b>
<b>Operating Expenses and Maintenance</b>		
Operating Expenses and Maintenance \$		(60,859.60)
Vacancy Rate 5% \$		(8,574.50)
Deferred Maintenance 5% \$		(8,574.50)
<b>Total Annual OE+M</b>	<b>\$</b>	<b>(78,008.60)</b>
<b>Net Operating Income (NOI)</b>	<b>\$</b>	<b>93,481.40</b>
Monthly NOI	\$	7,790.12
<b>Value at 8% Cap Rate</b>	<b>\$</b>	<b>1,168,517.50</b>
<b>Value at 7% Cap Rate</b>	<b>\$</b>	<b>1,335,448.57</b>
<b>Value at 6% Cap Rate</b>	<b>\$</b>	<b>1,558,023.33</b>

Now that monthly NOI is known, we can consider how much can be spent on recurring expenses such as rent or loans, if the project is cash flow neutral (not making or losing money). As shown below, if the Mercado pays the base rent from our assumptions (\$5.20/SF/Year, NNN), that would take up \$3,900 per month, which leaves us about \$3,200 left to pay toward a development loan. (Working backward, that would give us about \$500,000 at 6% interest amortized over 25 years.)

## CASH FLOW, MERCADO AT 4027 FRANKLIN BLVD

### MONTHLY CASH FLOW

#### INCOME

Net Operating Income Per Month	\$	7,790.12
<b>NOI/month</b>	<b>\$</b>	<b>7,790.12</b>

#### EXPENSES

	Rent to Landlord	\$ (3,900.00)
	Development Loan/Month	\$ (3,221.51)
<b>Loans and Rent/month</b>	<b>\$</b>	<b>(7,121.51)</b>

**TOTAL MONTHLY CASH FLOW \$ 668.61**

### *Project Costs & Value*

The last area to consider financially is the overall cost to build the project. This helps to quantify the magnitude of fundraising this project will require. And, it allows us to compare the construction costs with the actual value generated by the income stream. It is very common for there to be a big gap between the two values when trying to complete Social Goal Development projects, especially if it involves any sort of rent subsidy or build-out subsidy to tenants.



*Social Goal Development Has Razor Thin Margins*

## PROJECT COSTS/VALUE, MERCADO AT 4027 FRANKLIN BLVD

### TOTAL PROJECT COST AND VALUE GENERATION

#### PROJECT COSTS

Project Hard Costs	\$ 1,125,000.00	<i>(\$125/SF, rough, first pass estimate)</i>
Project Soft Costs	\$ 337,500.00	<i>(30% of hard costs)</i>
Restaurant Buildouts — 5 small	\$ 500,000.00	<i>(\$100,000/space)</i>
4 Food Carts	\$ 120,000.00	<i>(\$30,000/cart)</i>
Commercial Kitchen Buildout	\$ 300,000.00	<i>Estimate from PDX Mercado</i>
Rent During Development	\$ 0.00	<i>Assuming offered for free</i>
Net Lease Up Costs	\$ 30,429.80	<i>6 months after development</i>
<b>TOTAL PROJECT COSTS</b>	<b>\$2,412,929.80</b>	

#### EQUITY

Developer cash equity	\$ 0.00
<b>TOTAL EQUITY</b>	<b>\$ 0.00</b>

#### FUNDRAISING TO DEVELOP

Development Loan	\$ 500,000.00
Grants	\$ 1,912,929.80
<b>FUNDS NEEDED TOTAL</b>	<b>\$2,412,929.80</b>

#### RECURRING CHARGES

Development Loan	\$ 3,221.51	<i>6% interest, 25 Year Amortization</i>
Monthly Rent to Landlord	\$ 3,900.00	<i>Current rent minus operating expenses (\$2/SF/Year)</i>
<b>TOTAL RECURRING CHARGES</b>	<b>\$ 7,121.51</b>	

#### TOTAL PROJECT VALUE

<b>7% cap rate</b>	<b>\$1,335,448.57</b>
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In summary, this is roughly a \$2.5 million dollar project to build, but its revenue stream makes it worth about \$1.3 million. In a market rate lending scenario, that means the most you could hope to borrow would be 75% of \$1.3 million, which is \$975,000. But, the Mercado doesn't have the cash flow to cover that sort of loan payment. The most it could cover from cash flow would be a loan with payments of about \$3,200/month, so that reduces borrowing capacity.

Essentially, these numbers mean that the Mercado is going to have to raise about \$1.9 million outside of traditional lending. It's usually better with Social Goal Development to fundraise grants or forgivable loans to build projects so that they preserve flexibility in terms of cash flow after they are complete. Many non-profits have leveraged themselves to the hilt to get projects built and then fall quickly into bankruptcy because their cash flow cannot support the loans hanging over their head. Fund development will be an important part of next steps for any Mercado project on private property.

## 4875 Franklin Blvd

The building at 4875 Franklin Blvd is south of the previous site, and is controlled by the family that owns La Esperanza's many businesses on the street, including a beloved bakery. The subject property is shown in the photo below, circled by the blue dashed line.

This is a stand-alone building of approximately 9,100 SF, zoned C2 and R1. (There is a land-locked R1 zoned parcel to the east of the building, so it has the unusual distinction of having a split zone. Whether that could be changed, or how the R1 property could be used has not been explored for this report.)

The building is recessed with off-street parking, necessary for the creation of any sort of outdoor seating area or food cart pod. It is constructed of concrete, in the late seventies or early eighties, so there is a good chance it wouldn't require extensive upgrades if seismic retrofitting is required. It is not clear span space on the interior, having posts that will need to be worked around. Like the Bokan family holdings, the area immediately surrounding this potential location is rife with active, engaging uses that could cross pollinate with a Mercado.

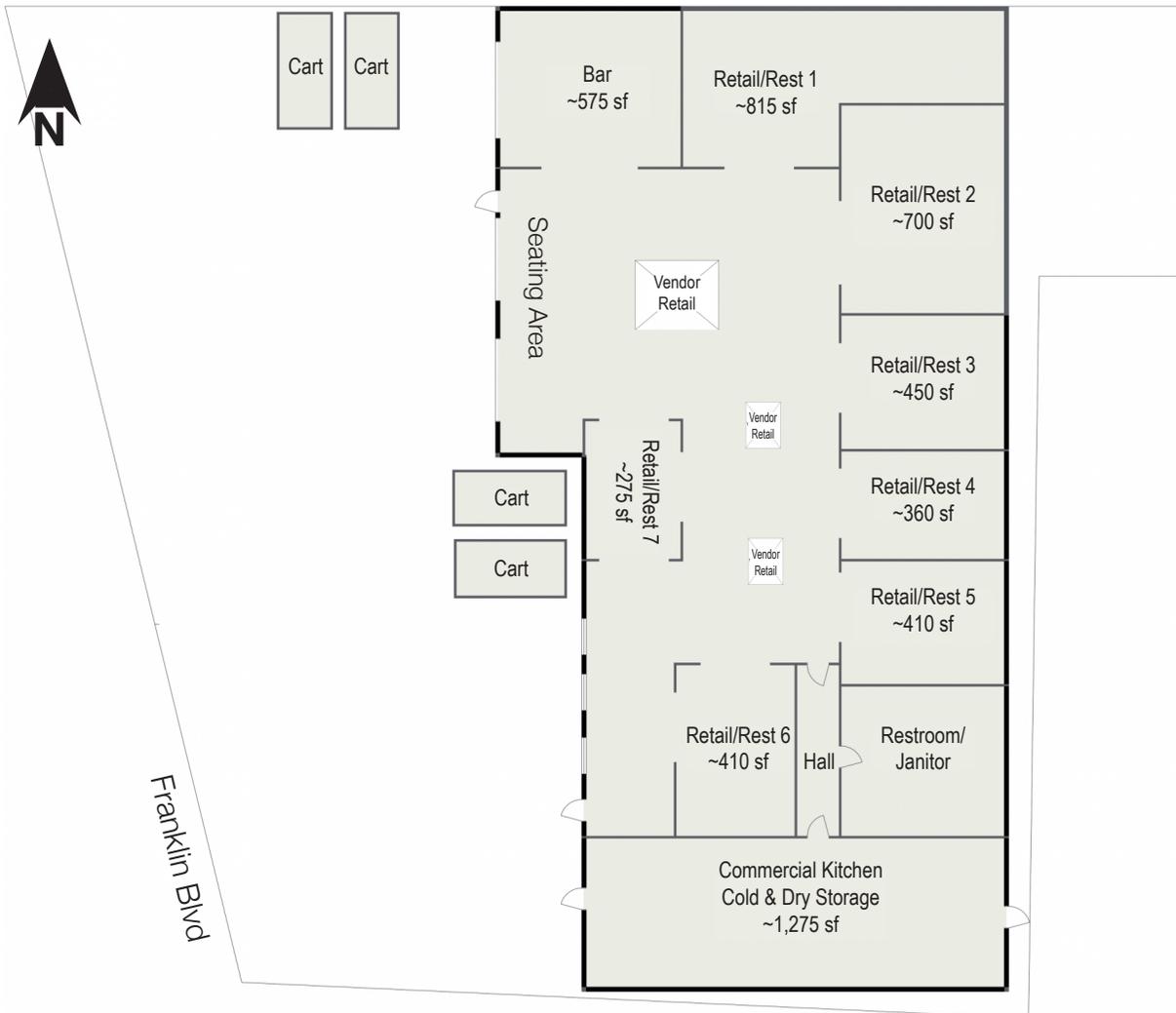


## Building Program

While this site is similar in size to the previous location, its dimensions being wide and deep allow for a slightly more efficient layout of space. The Bokan family building had about 60% loss, while this one has about 54%. In other words, 54% of the space is not rentable square footage.

One of the challenges with laying out this space was deciding where to concentrate the outdoor seating. Ultimately, locating the commercial kitchen near the side street for easy access informed moving the seating area to the north, where roll-up doors could be installed. The south Franklin face would need lower windows cut into the facade. See the building program and floorplan below. (Note, this layout was not designed around the existing network of posts.)

BUILDING PROGRAM/LAYOUT MERCADO AT 4875 FRANKLIN BLVD



This site envisions the bar in the NW corner, similar to the last site, so that cordoned off seating that meets with liquor licensing requirements could wrap around the interior/exterior. The market seating area would run along the interior and exterior areas of the roll-up doors. It also contains one fewer hood vented interior space than the other site because it has a two larger spaces.

### Cash Flow: Income Generation & Expense Estimates

Below the revenue numbers are a bit higher than the previous site because there is more rentable space. These numbers take into account the same assumptions outlined on pages 27 and 28. And, on the following page, there are also estimates for real estate operating expenses.



Start a Social Enterprise Bar

Just like the other option, there is potential upside for the social enterprise bar to contribute more, to earn more from events, which are currently budgeted at zero, and to earn more rent from regular festivals with stalls and day tables to rent by the day. All of these items represent significant opportunity to increase income.

## INCOME GENERATION, MERCADO AT 4875 FRANKLIN BLVD

### INCOME CALCULATION

Interior Unit Descriptions	Rent in \$/SF/Year	Monthly Rent	Lease Type	Annual Income
Bar	\$ 18.00	\$ 862.50	Gross*	\$ 10,350.00
Retail/Rest 1		\$ 1,500.00	Gross	\$ 18,000.00
Retail/Rest 2		\$ 1,400.00	Gross	\$ 16,800.00
Retail/Rest 3	\$ 18.00	\$ 675.00	Gross	\$ 8,100.00
Retail/Rest 4	\$ 18.00	\$ 540.00	Gross	\$ 6,480.00
Retail/Rest 5		\$ 1,000.00	Gross	\$ 12,000.00
Retail/Rest 6		\$ 1,000.00	Gross	\$ 12,000.00
Retail/Rest 7	\$ 18.00	\$ 412.50	Gross	\$ 4,950.00
Retail Kiosk (8@ \$15/day, 6 days/mo)		\$ 720.00	Full Svc	\$ 8,640.00
Commercial Kitchen/Storage		\$ 1,500.00	Full Svc	\$ 18,000.00
<b>Subtotal Interior</b>		<b>\$ 9,610.00</b>		<b>\$ 115,320.00</b>

Exterior	# of Stalls	Charge/Mo/Unit	Total/Mo.	Annual Income
Event Market Stands (4 days per month)	8	\$ 15.00	\$ 480.00	\$ 2,400.00
Food Carts (rental per month)	4	\$ 700.00	\$ 2,800.00	\$ 33,600.00
Exterior/Interior Event	n/a	\$ 0.00	\$ 0.00	\$ 0.00
<b>Subtotal Exterior</b>			<b>\$ 3,280.00</b>	<b>\$ 36,000.00</b>

Other Income	Total Profit	Annual to Mercado
Social Enterprise Bar Profits	\$ 50,000.00	\$ 25,000.00
<b>Subtotal Bar</b>		<b>\$ 25,000.00</b>
<b>TOTAL ALL INCOME</b>		<b>\$ 176,320.00</b>

\* Assumes tenants will pay for own utilities and prorated share of project common utilities.

1 manager, 3 employees  
split btwn company/mercado

## EXPENSE ESTIMATES, MERCADO AT 4875 FRANKLIN BLVD

### OPERATING EXPENSES

Operating Expenses and Maintenance*	\$/SF/Year	Annual
Taxes, insurance, maintenance	\$6.00	\$ 54,600.00
Property management fee		\$ 7,052.80 <small>4% of gross revenue/too small for prop man company</small>
<b>TOTAL ANNUAL</b>		<b>\$ 61,652.80</b>

\* Pays only for property management. Assumes grant fundraising for ongoing management and assistance.

## NET OPERATING INCOME & VALUE

Next up is the NOI calculation, which helps us look at overall cash flow get a sense of building value as dictated by revenue (the income approach to value). As you can see below, the project's NOI is a bit larger than the last site's, so it's overall value is just a slightly higher, but they are similar in magnitude.

## NOI AND RESULTING VALUE, MERCADO AT 4875 FRANKLIN BLVD

### ANNUAL NET OPERATING INCOME (NOI)

#### Effective Gross Annual Income

Interior Rental Income	\$	115,320.00
Exterior Rental Income	\$	36,000.00
Social Enterprise Bar Income	\$	25,000.00
<b>Effective Gross Annual Income</b>	<b>\$</b>	<b>176,320.00</b>

#### Operating Expenses and Maintenance

Operating Expenses and Maintenance	\$	(61,652.80)
Vacancy Rate 5%	\$	(8,816.00)
Deferred Maintenance 5%	\$	(8,816.00)
<b>Total Annual OE+M</b>	<b>\$</b>	<b>(79,284.80)</b>

<b>Net Operating Income (NOI)</b>	<b>\$</b>	<b>97,035.20</b>
Monthly NOI	\$	8,086.27

<b>Value at 8% Cap Rate</b>	<b>\$</b>	<b>1,212,940.00</b>
<b>Value at 7% Cap Rate</b>	<b>\$</b>	<b>1,386,217.14</b>
<b>Value at 6% Cap Rate</b>	<b>\$</b>	<b>1,617,253.33</b>

This project is generated between \$1.2 million and \$1.6 million in value.

Because monthly NOI is a little higher for this site, around \$8,000/month, this project has roughly \$3,500 left to spend on a development loan after paying \$3,900 in rent. If you have \$3,500 to spend on a loan, that would obtain roughly \$550,000 in development funds at 6% interest amortized over 25 years.

### CASH FLOW, MERCADO AT 4875 FRANKLIN BLVD

#### MONTHLY CASH FLOW

**INCOME**

	Net Operating Income Per Month \$	8,086.27
<b>NOI/month</b>	<b>\$</b>	<b>8,086.27</b>

**EXPENSES**

	Rent to Landlord \$	(3,943.33)
	Development Loan/Month \$	(3,543.66)
<b>Loans and Rent/month</b>	<b>\$</b>	<b>(7,486.99)</b>

**TOTAL MONTHLY CASH FLOW \$ 599.27**

### *Project Costs & Value*

Again, the final area to consider financially for the site is the overall cost to build the project, and the income approach to value for the project.

As shown on the following page, developing this site is roughly a \$2.33 million dollar project, but results in a building value of \$1.38 million if considering it as a leased investment. In a market rate lending scenario, the your maximum ability to borrow would be roughly 75% of \$1.38 million, which is \$1,035,000. But, the Mercado doesn't have the cash flow to cover that sort of loan payment. So back to our previous calculation, the most it could cover from cash flow would be a loan with payments of about \$3,500 per month, which results in development funds of about \$550,000.

The gap between the development loan and the cost to build the project is about \$1.78 million.

## PROJECT COSTS/VALUE, MERCADO AT 4875 FRANKLIN BLVD

### TOTAL PROJECT COST AND VALUE GENERATION

#### PROJECT COSTS

Project Hard Costs	\$ 1,137,500.00	<i>(\$125/SF, first pass estimate)</i>
Project Soft Costs	\$ 341,250.00	<i>(30% of hard costs)</i>
Restaurant Buildouts — 4 small	\$ 400,000.00	<i>(\$100,000/space)</i>
4 Food Carts	\$ 120,000.00	<i>(\$30,000/cart)</i>
Commercial Kitchen Buildout	\$ 300,000.00	<i>Estimate from PDX Mercado</i>
Rent During Development	\$ 0.00	<i>Assuming offered for free</i>
Net Lease Up Costs	\$ 30,826.40	<i>6 months of operating expenses</i>
<b>TOTAL PROJECT COSTS</b>	<b>\$2,329,576.40</b>	

#### EQUITY

Developer cash equity	\$ 0.00
<b>TOTAL EQUITY</b>	<b>\$ 0.00</b>

#### FUNDRAISING TO DEVELOP

Development Loan	\$ 550,000.00
Grants	\$ 1,779,576.40
<b>FUNDS NEEDED TOTAL</b>	<b>\$2,329,576.40</b>

#### RECURRING CHARGES

Development Loan	\$ 3,543.66	<i>6% interest, 25 Year Amortization</i>
Monthly Rent to Landlord	\$ 3,943.33	<i>\$7.2/SF/YR minus operating expenses of \$2/SF/Year</i>
<b>TOTAL RECURRING CHARGES</b>	<b>\$ 7,486.99</b>	

#### TOTAL PROJECT VALUE

7% cap rate	<b>\$1,386,217.14</b>
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## CONCLUSION/NEXT STEPS

Franklin Blvd is a great location for a food-based Mercado that will offer new avenues of economic opportunity for the Latino community, and serve to draw customers to Franklin Blvd, raising the street's profile within the broader Sacramento community.

This section is going to look at conclusions for the two selected sites and then offer ideas for next steps to get a Mercado off the ground.



*Franklin Blvd : Perfect Spot for Mercado*

The Mercado also represents a secondary opportunity for the City of Sacramento to learn more first hand about the economics and land use patterns of its Mid-Century Arterial commercial environments, allowing the city to consider how it can change it's toolkit to make investment and upgrades like a Mercado easier and speedier in the years to come.

### Site Conclusions

The two sites selected for review in this report—4875 Franklin Blvd and 4027 Franklin Blvd—are equivalent in many ways, such as:

- They are a similar size.
- At first blush, their characteristics indicate that they may be able to accommodate a Mercado without some expensive building code upgrades.
- They are both owned by long-time business and property owners on Franklin Blvd who have a vested interest in seeing the street improve.
- They are both surrounded by a robust assortment of active uses, so the installation of a Mercado would have a multiplier effect.

While they both would do a perfectly good job of housing a Mercado, if I had to rank the sites, I would place 4027 Franklin Blvd slightly ahead of 4875 Franklin Blvd for three reasons:

- The space is clear span, making it easy to layout, configure, and reconfigure over time without having to work around post placement.
- The face of the building already has the cutouts for 3 roll-up doors, without requiring any saw cutting to open up the front face of the building.
- The high ceilings make for a very grand open seating area.

Please note, the site at St Patrick's Thrift Store at 5960 Franklin Blvd was briefly considered, as well. Ultimately, it was not included in this round of review because it is surrounded by social services, religious, and office uses, negating any retail cross pollination. And, while the location is proximate to a potential lunch crowd from the Campbell's manufacturing site, it would be less likely to serve as a neighborhood gathering spot if it was oriented on that customer base.

### *Financing*

The \$1.7 million dollars in fundraising needed to launch a Sacramento Mercado should not seem daunting! As a comparison, the Portland Mercado obtained over \$1.7 million in grants, \$200,000 in New Market Tax Credits, and \$900,000 in loans as well as a rent-free 5 year start-up period for the Mercado in order to launch.

It may seem like there is a big gap with these sites, but this project is right in the ballpark of a realistic Social Goal Development project.

Below are the funding sources for the Portland Mercado as shared by Nathan Teske when working at Hacienda CDC.

#### FUNDRAISING

- ✓ \$789,000 from the Federal HHS Administration for Children and Families (OCS-CED)
- ✓ \$900,000 in loans and \$202,000 in grants from the Portland Development Commission (PDC)
- ✓ \$261,000 from the Federal Economic Development Administration of the Dept of Commerce
- ✓ Over \$200,000 in equity from a New Market Tax Credit deal
- ✓ \$250,000 from the Murdock Charitable Trust
- ✓ Over \$500,000 in other Mercado specific program and capital grant funding, including . . .

This first pass of development numbers indicates that getting a Mercado up and running on either of these sites is absolutely doable, and warrants further exploration by the Franklin Boulevard Business District, and the City and County of Sacramento.

## *Ideas for a Jump Start*

If the goal is to start a truly permanent, brick & mortar Mercado, you have to be careful that in the early stages you don't overshadow the interior with a fantastic choice of outdoor eating options, because it can become difficult to lure people into the building, rendering the investment in that infrastructure less valuable. So a balance between indoor and outdoor uses is essential.

Having said that, it is worth considering whether it would be possible to create a Mercado that meets a subset of goals with just a food cart pod, such as:

- **Mercado Teaser.** The four food carts that would be used in the final Mercado could be purchased right away and placed somewhere on Franklin Blvd for rent to vendors. To avoid stormwater and environmental upgrades, that pod would have to be located on a paved surface. Furthermore, the issue of losing 4 parking spaces on that surface would have to be dealt with in terms of parking minimum requirements. By soft launching the exterior portion of the Mercado right away, you could proof up the concept, have something concrete to demonstrate for fundraising, and you would develop the core skills needed to launch a larger Mercado: organizing acquisitions, installation, training, and tenanting.
- **Mercado Lite.** You could abandon brick & mortar all together and buy to rent 8 -10 food carts and create a pod on a paved site on the street. It could really focus on being a lunch/dinner spot with an amazing outdoor area, fire pit, etc. And, it could even incorporate some outdoor activity, such as ping pong, bocci ball, or miniature golf. Pictured below, after hours, is a beer food cart and temporary mini golf installation on a parking lot in Portland, OR.



*Beer Cart and Mini Golf  
Parking Lot Installation After Hours*

## Next Steps

On page 17, in “Food Mercado 101”, I listed the four broad areas that have to be covered in terms of creating a Mercado, and that will serve as the inspiration on where to focus next:

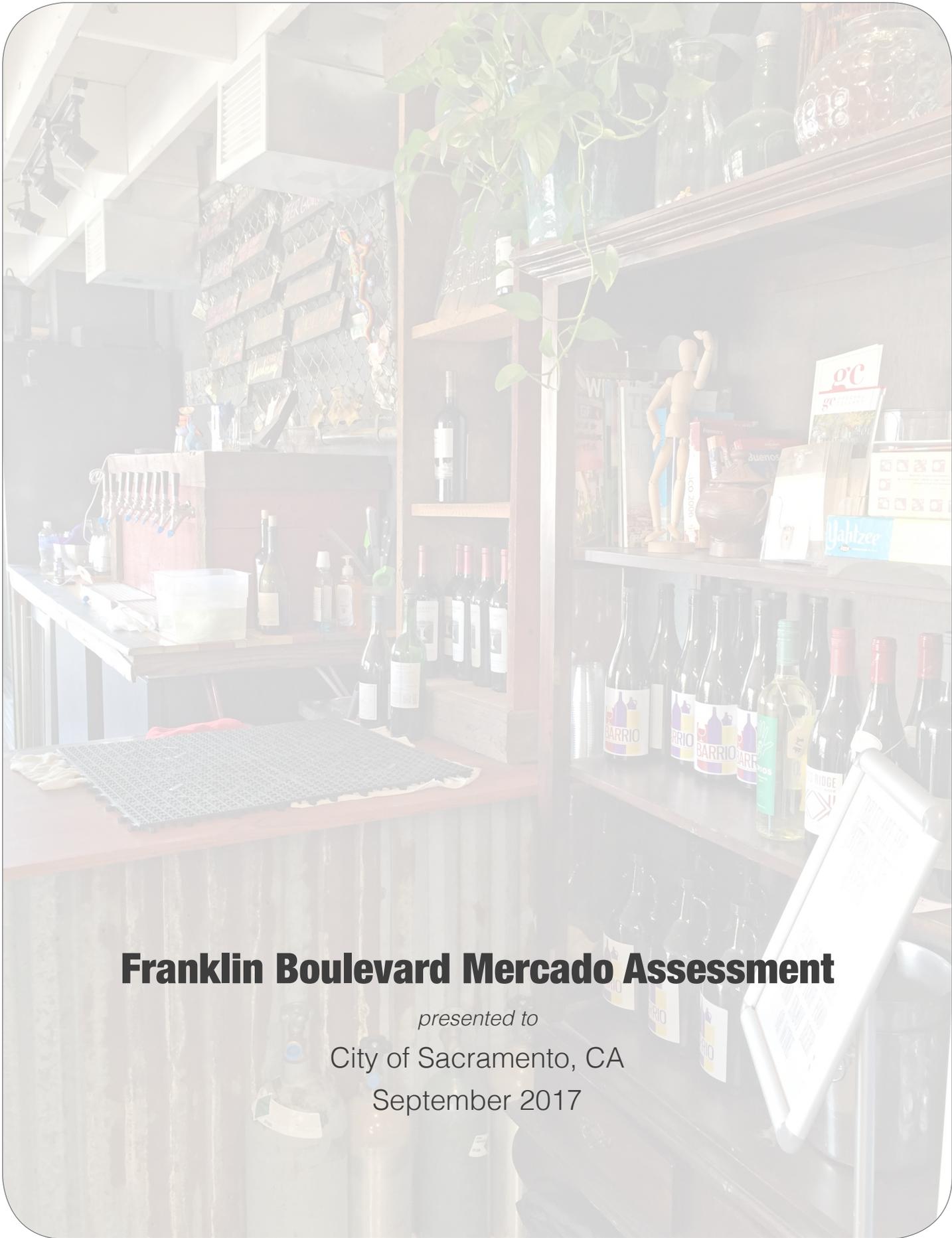
1. *Organization to Build/Manage.* All development, and particularly Social Goal Development, involves thousands of iterations, and at each stage, decisions are made that chart the exact course of the project. It is very difficult to keep that complicated process on track and moving forward without oversight by an organization, person, or formal committee that will be consistent over the arc of the project. The institutional knowledge and understanding that comes from marking each and every one of those decisions at each inflection point is critical to achieving a successful project. To move the Sacramento Mercado forward, interested stakeholders should absolutely make a decision about where they would like this project to live organizationally and commit to that. The CDC developed by the Franklin Boulevard Business District does seem like a natural fit.

You should also start assembling your informal development advisory team. This is the group that will help keep you from making expensive mistakes. In the early phases for quick check-ins, or at critical inflection points, I would want a group of go-to people who will give you the straight scoop as follows: architect, contractor, restaurateur/commercial kitchen operator (this is really important as you make decisions for retail kitchen buildouts and equipping a commercial kitchen), Latino community organizer, engineer, broker, and pr/marketing expert. Note, do not take advantage of these folks! Be clear about what time they have to donate and respect that.

The final element I would begin considering is whether you want to go the route of hiring a fee-based developer to assist with the project, and at what stage you might bring that person on board. Although it's too early for that now, it wouldn't hurt to canvass who is out there in your local market, how they can assist you, and what their fees might be so you can plan and fundraise for it in the future, as needed.

2. *Tenant Advisory Group/Training.* Whatever group Social Goal Development is supposed to serve needs to be involved early and often in the project. In this case, Latino immigrant entrepreneurs interested in opportunities for food entrepreneurship, either renting a cart, opening a space, or using the kitchen for food production, should be engaged to assess their level of interest, to understand their wants and needs, and for ongoing support and advise. For the Portland Mercado, an asamblea was formed for this purpose and they were involved in decision-making at all major inflection points and assisted with political and fundraising efforts.

3. *Fund Development.* It's never too early to start considering what types of funds might be available within the Sacramento region to get moving forward on a Mercado. Preliminary work should include obtaining modest grants to pay for employee time overseeing the Mercado, as well as funding or partnerships to gather some of the documentation needed to attract lenders and large grantors. Examples of needed studies might include a market study and a Latino outreach project. On the latter, Portland State University Masters of Urban Planning students completed a broad study for the Portland Mercado, which won a national award, and provided the Mercado with in-depth outreach into Latino communities in the greater region, especially those involved in small commerce throughout the area. This group of people activated by the PSU study formed the basis for the *asamblea* advisory group in Portland.
4. *Site Selection.* Choose which direction you wish to move forward with—a full brick & mortar option, or some of the food cart based options—and begin the next iteration of planning. This includes selecting a site, refining a sketch/building program, updating development and operational numbers, and beginning the assembly of the regulatory case for the City.



# Franklin Boulevard Mercado Assessment

*presented to*  
City of Sacramento, CA  
September 2017