CHAPTER
4

Economic Conditions

This chapter provides information on San Rafael's economy, with a focus on the Downtown Precise Plan Area, including employment and real estate market trends, and evaluates future demand for new residential and non-residential development in the Precise Plan Area.

In this chapter

Jobs and Employment Trends

San Rafael serves as a significant employment node within Marin County, with jobs across a range of industry sectors. The Downtown Precise Plan area accommodates a relatively modest share of the City's overall employment, accounting for approximately 15 percent of total employment in San Rafael, but serves a unique role within the City's economy, with a high concentration of arts, entertainment, and restaurant uses, along with a range of office-based businesses.

Jobs by Place of Work

There are approximately 6,700 persons employed in the Downtown Precise Plan area, out of 44,000 workers citywide[1]. San Rafael is a major job center for Marin County, accounting for over one-third of the County's workers by place of work (see Table 4.1). The mix by industry sector in the Precise Plan area is similar to the industry mix in the City and County, with the highest proportion of jobs (approximately one-fifth) is in education, health, and social services industries, and over 10 percent in each of the following sectors: retail trade; professional, scientific, management, administrative, and waste management services; and arts, entertainment, recreation, accommodation, and food services.

Compared to the City and County overall, the Downtown Precise Plan area has a high concentration of workers in finance, insurance, real estate, rental, and leasing as well in arts, entertainment, recreation, accommodation, and food services. Employment in the Precise Plan area consists of a comparatively low proportion of construction and manufacturing employment.

The largest concentration of Downtown workers by occupation is in office-related or retail and food service-related occupations, including management, sales, office and administrative support, finance, and food services. Together, these occupations account for well over half of Downtown employment. These same occupations are also strongly present in the City and County, albeit at a slightly lower level of concentration.

As shown in Figure 4.1 on the next page, the number of jobs in Downtown San Rafael showed a modest increase between 2005 and 2015, with fluctuations during this period in tandem with macroeconomic trends such as the Great Recession. The increase in employment during this period has coincided with decreases in vacancies and increases in rents for commercial space, as San Rafael has experienced relatively little commercial construction activity in recent years (discussed in more detail below). It is possible that a lack of new commercial construction has limited the pace of recent employment growth in San Rafael, while future employment growth could depend on new construction to provide the space needed to accommodate additional workers.

1. Much of the discussion in this and following sections is based on recently released data from the Census Transportation Planning Package for 2012-2016, based on the American Community Survey. Based on an assessment of various sources, this source was deemed to have the best coverage of workers and employed residents. This assessment will be the subject of a forthcoming memorandum.

Industry	Downtown San Rafael (a) #	%	City of San Rafael #	%	Marin County #	%
Agriculture, Forestry, Fishing, Hunting, and Mining	40	0.6%	140	0.3%	860	0.7%
Construction	120	1.8%	2,905	6.7%	8,450	6.6%
Manufacturing	160	2.4%	2,060	4.7%	5,555	4.4%
Wholesale Trade	155	2.3%	1,160	2.7%	3,130	2.5%
Retail Trade	815	12.2%	4,910	11.3%	14,260	11.2%
Transportation, Warehousing, and Utilities	100	1.5%	1,770	4.1%	3,365	2.6%
Information	185	2.8%	1,470	3.4%	3,680	2.9%
Finance, Insurance, Real Estate, Rental, and Leasing	780	11.7%	3,310	7.6%	10,320	8.1%
Professional, Scientific, Mgmt., Admin., & Waste Mgmt. Svcs.	1,215	18.1%	7,305	16.8%	22,680	17.8%
Educational, Health and Social Services	1,295	19.3%	8,530	19.6%	26,875	21.1%
Arts, Entertainment, Recreation, Accomm. and Food Svcs.	910	13.6%	3,485	8.0%	13,110	10.3%
Other Services (Except Public Administration)	580	8.7%	3,320	7.6%	9,670	7.6%
Public Administration	340	5.1%	3,200	7.3%	5,390	4.2%
Armed Forces	0	0.0%	4	0.0%	165	0.1%
Total (b)	**6,695**	**100.0%**	**43,569**	**100.0%**	**127,510**	**100.0%**

Notes:

Estimates are based on data from American Community Survey (ACS) and the Census Transportation Planning Package (which is in turn based on special tabulations of ACS data). Data subject to sampling error, especially for smaller estimates.

(a) For the purposes of analyzing workers, Downtown San Rafael is defined as three Traffic Analysis Zones (TAZs) that encompass most of the non-residential properties in the Downtown area: 00101619, 00101627, and 00101637.

(b) Totals may differ slightly from other sources due to independent rounding.

Table 4.1: Workers by Industry, 2012-2016

Sources: Census Transportation Planning Package, 2012-2016 five-year sample data, Table A202104; BAE, 2019.

Table 4.2: Top Five Downtown Worker Occupational Categories, 2012-2016

Sources: Census Transportation Planning Package, 2012-2016 five-year sample data, Table A202106; BAE, 2019.

Occupation of Downtown Workers	Downtown San Rafael Number	Downtown San Rafael Percent	City of San Rafael Number	City of San Rafael Percent	Marin County Number	Marin County Percent
Management	905	13.5%	5,365	12.3%	16,375	12.8%
Sales and Related	900	13.4%	4,955	11.4%	14,530	11.4%
Office and Administrative Support	885	13.2%	5,670	13.0%	14,765	11.6%
Business & Financial Operations Specialists	580	8.7%	2,860	6.6%	8,520	6.7%
Food Preparation and Serving Related	560	8.4%	2,055	4.7%	7,080	5.6%
All Other Occupations	2,869	42.8%	22,645	52.0%	66,250	52.0%
Total (b)	**6,699**	**100.0%**	**43,550**	**100.0%**	**127,520**	**100.0%**

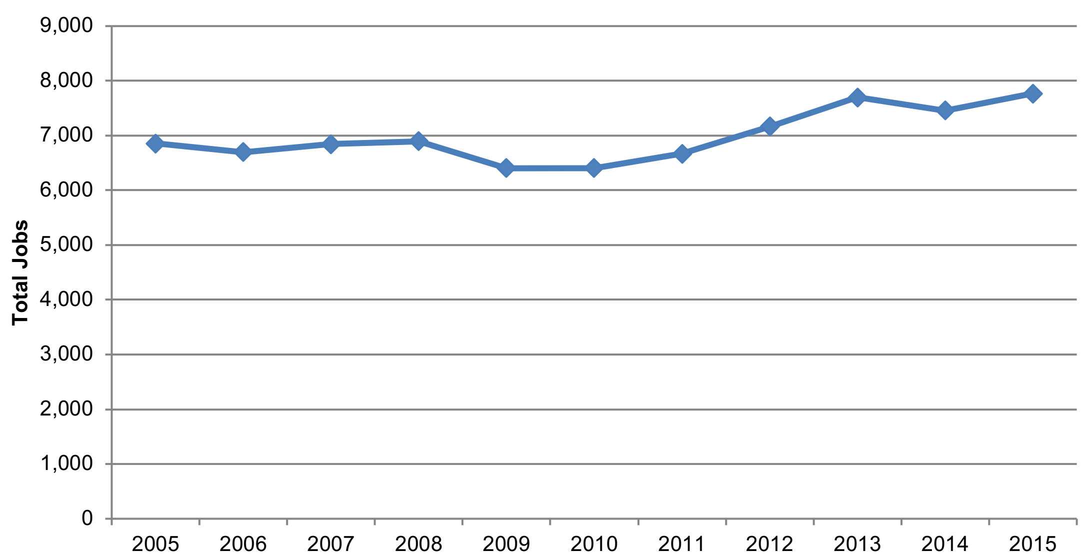
Notes:

(a) For the purposes of analyzing workers, Downtown San Rafael is defined as three Traffic Analysis Zones (TAZs) that encompass most of the non-residential properties in the Downtown area: 00101619, 00101627, and 00101637.

(b) Totals may differ slightly from other sources due to independent rounding.

Figure 4.1: Job Trends by Workplace Geography for Downtown San Rafael

Source: Local Employment and Housing Dynamics, U.S. Census Bureau.



***Note**: Due to source data limitations, the geography covered by the chart in Figure 4.1 varies somewhat from that used in the discussion previously. Furthermore, the methodology for counting jobs is not consistent between the source for this chart and the previous tables.*

Thus, the jobs numbers shown in this chart, while internally consistent and thus useful for showing a trend, should not be compared directly to those based on the American Community Survey and Census Transportation Planning Package.

Venture-Funded Start-Up Activity-

Employment growth in San Rafael, including the Downtown Precise Plan area, has many drivers. One driver of particular importance in the Bay Area region is venture capital-backed enterprises. Companies in San Rafael receive a small share of the region's venture capital. As shown in Table 4.3, fourteen San Rafael-based companies raised just over $97.4 million in angel, seed, and venture capital. This is less than one percent of venture capital raised in the Bay Area during the same time period, however. San Rafael companies that raised private equity in multiple rounds include Byte Foods, EQIS, Ekho, and The Peak Beyond. Start-up firms, particularly those involved with services, software, gaming, and cloud computing typically occupy office space and seek locations with onsite or nearby amenities. Enhancing the vitality of San Rafael's Downtown will position the City to retain and attract more technology and other innovative start-up enterprises.

Business	Funding Type	Funds Raised	Announced Date	Business Description
Byte Foods	Venture	$ 10,400,000	9/27/2018	Manufactures smart vending machines and refrigerators
Centriq Technology Inc	Venture	$ 1,225,000	8/31/2018	Smart home platform
EQIS	Venture	$ 500,000	8/28/2018	Wealth management fintech
MODit 3D Inc.	Pre-Seed	$ 1,300,000	1/15/2018	Smart, automated quality control for manufacturing via 3D scanning
Byte Foods	Seed	$ 1,000,000	11/30/2017	Manufactures smart vending machines and refrigerators
Tablet Command	Venture	$ 314,999	11/14/2017	Tablet based incident and tactical command software
Portico.ai	Seed	$ 600,000	9/28/2017	Employee training through speech recognition & artificial intelligence
Centriq Technology Inc	Venture	$ 4,800,000	6/23/2017	Smart home platform
Nomadic	Seed	$ 6,000,000	6/12/2017	Immersive entertainment, walkable VR adventures
The Peak Beyond	Seed	$ 278,000	5/2/2017	Developer of interactive smart tables for cannabis dispensaries
Byte Foods	Seed	$ 5,500,000	12/28/2016	Manufactures smart vending machines and refrigerators
The Peak Beyond	Funding Round	$ 222,000	9/1/2016	Developer of interactive smart tables for cannabis dispensaries
Worktap	Angel	$ 1,600,000	4/28/2016	Cloud-based on-boarding and engagement
EQIS	Private Equity	$ 15,000,000	2/17/2016	Wealth management fintech
EQIS	Venture	$ 6,210,000	7/17/2015	Wealth management fintech
Ekho	Venture	$ 1,200,000	5/12/2015	Digital advertising development platform
Endurance	Seed	$ 20,000	4/1/2015	Development and sales of lasers, robots, & drones
Telltale Games	Series D	$ 40,000,000	2/24/2015	Develops and publishes interactive episodic video game series
Endurance	Seed	$ 200,000	1/11/2015	Development and sales of lasers, robots, & drones
New Momentum	Venture	$ 950,000	11/5/2014	Develops and provides SaaS based online brand protection
Galcon	Grant	$ 63,095	10/1/2014	Manufacturer of smart monitoring and control irrigation solutions
Ekho	Seed	$ 50,000	10/1/2014	Digital advertising development platform
Total		**$ 97,433,094**		

Table 4.3: Job Venture Capital-Funded Companies 2014-2019 YTD

Source: Crunchbase Inc.; BAE, 2019.

Employed Residents

The San Rafael Downtown Precise Plan area has limited housing relative to the amount of commercial and institutional space, and accordingly has far fewer employed residents than workers. As shown in Table 4.4, there are approximately 1,200 employed residents in the Downtown area, compared to 6,700 jobs.

Downtown shows a high concentration of employed residents in education, health, and social services; this sectoral group accounts for nearly one-fourth of Downtown's employed residents, a higher concentration than citywide or countywide. Relative to the City and County, Downtown also shows a high concentration of employed residents that work in the retail trade and manufacturing industries, which account for 19 percent and 14 percent of employed residents that live in the Downtown Precise Plan area. Downtown has lower proportions of employed residents in finance, insurance, real estate, rental, and leasing jobs or professional, scientific, management, administrative, and waste management services jobs sectors than San Rafael as a whole or the County.

Table 4.4: Employed Residents by Industry, 2012-2016

Sources: Census Transportation Planning Package, 2012-2016 five-year sample data, Table A102105; BAE, 2019.

	Downtown San Rafael (a)		City of San Rafael		Marin County	
Industry	**#**	**%**	**#**	**%**	**#**	**%**
Agriculture, Forestry, Fishing, Hunting, and Mining	0	0.0%	110	0.4%	780	0.6%
Construction	50	4.1%	1,750	6.0%	6,430	5.1%
Manufacturing	165	13.6%	1,395	4.8%	5,905	4.6%
Wholesale Trade	30	2.5%	485	1.7%	3,080	2.4%
Retail Trade	230	19.0%	2,995	10.2%	12,265	9.6%
Transportation, Warehousing, and Utilities	35	2.9%	770	2.6%	3,695	2.9%
Information	24	2.0%	985	3.4%	4,785	3.8%
Finance, Insurance, Real Estate, Rental, and Leasing	20	1.7%	2,330	8.0%	13,175	10.4%
Professional, Scientific, Mgmt., Admin., & Waste Mgmt. Svcs.	70	5.8%	5,540	18.9%	25,695	20.2%
Educational, Health and Social Services	290	24.0%	5,790	19.8%	26,610	20.9%
Arts, Entertainment, Recreation, Accomm. and Food Svcs.	145	12.0%	3,690	12.6%	12,050	9.5%
Other Services (Except Public Administration)	50	4.1%	2,415	8.2%	8,000	6.3%
Public Administration	100	8.3%	1,020	3.5%	4,485	3.5%
Armed Forces	0	0.0%	10	0.0%	220	0.2%
Total (b)	**1,209**	**100.0%**	**29,285**	**100.0%**	**127,175**	**100.0%**

Note:

(a) For the purposes of analyzing employed residents, Downtown San Rafael is defined as two Traffic Analysis Zones (TAZs) that encompass most residential properties in the Downtown area and minimize the capture of non-Downtown residential properties: 00101627 and 00101637.

(b) Totals may differ slightly from other sources due to independent rounding.

Employed residents of Downtown San Rafael are much more strongly concentrated in office and administrative support occupations than residents of San Rafael or Marin County overall. Nearly one-fourth of the employed residents in the Downtown Precise Plan area are in office and administrative support occupations, in contrast to only nine to ten percent city- and countywide (see Table 4.5). The top occupational category for the City and the County is management, followed by sales and related occupations, which is also ranked second for Downtown.

	Downtown San Rafael		City of San Rafael		Marin County	
Occupation	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**
Office and Administrative Support	270	22.2%	2,705	9.2%	12,370	9.7%
Sales and Related	115	9.5%	3,430	11.7%	15,650	12.3%
Production	105	8.6%	880	3.0%	2,570	2.0%
Management	95	7.8%	3,855	13.2%	21,350	16.8%
Personal Care and Service	95	7.8%	1,340	4.6%	5,415	4.3%
All Other Occupations	534	44.0%	17,085	58.3%	69,820	54.9%
Total (b)	**1,214**	**100.0%**	**29,295**	**100.0%**	**127,175**	**100.0%**

Note:

(a) For the purposes of analyzing employed residents, Downtown San Rafael is defined as two Traffic Analysis Zones (TAZs) that encompass most residential properties in the Downtown area and minimize the capture of non-Downtown residential properties: 00101627 and 00101637.

(b) Totals may differ slightly from totals in other tables due to independent rounding.

Table 4.5: Top Five Downtown Employed Resident Occupational Categories, 2012-2016

Sources: Census Transportation Planning Package, 2012-2016 five-year sample data, Table A102107; BAE, 2019.

Commute Flows

Over 60 percent of persons working in Downtown San Rafael live within Marin County, with over one-quarter coming from within San Rafael itself (see Table 4.6). Only a very small percentage lives within the Downtown area itself. The remaining workers commute in from a variety of other locations. Aside from Marin County, Sonoma County provides the most workers, accounting for approximately 10 percent of all Downtown San Rafael workers.

Table 4.6: Commute Flows, Downtown San Rafael, 2012-2016

Sources: 2012-2016 five-year sample data from Census Transportation Planning Package Table A302100 and American Community Survey 2012-2016; BAE, 2019.

Places of Residence for Downtown San Rafael Workers (a)			Places of Work for Downtown San Rafael Employed Residents (b)		
	Workers			Employed Residents	
Place of Residence (c)	**Number**	**Percent**	**Place of Work** (c)	**Number**	**Percent**
Alameda County, CA	280	4.2%	Alameda County, CA	15	1.2%
Contra Costa County, CA	451	6.7%	Contra Costa County, CA	10	0.8%
Marin County, CA	**4,164**	**62.1%**	**Marin County, CA**	852	**70.1%**
San Rafael	*1,860*	*27.8%*	*San Rafael*	*410*	*33.7%*
Downtown San Rafael (b)	*104*	*1.6%*	*Downtown San Rafael (a)*	*104*	*8.6%*
Other San Rafael	*1,756*	*26.2%*	*Other San Rafael*	*306*	*25.2%*
Napa County, CA	-	0.0%	Napa County, CA	0	0.0%
San Francisco County, CA	390	5.8%	San Francisco County, CA	225	18.5%
San Mateo County, CA	95	1.4%	San Mateo County, CA	0	0.0%
Santa Clara County, CA	15	0.2%	Santa Clara County, CA	0	0.0%
Solano County, CA	263	3.9%	Solano County, CA	0	0.0%
Sonoma County, CA	689	10.3%	Sonoma County, CA	45	3.7%
All Other Locations	353	5.3%	All Other Locations	68	5.6%
Total Workers (d)	**6,700**	**100.0%**	**Total Employed Residents** (d)	**1,215**	**100.0%**

Notes:

Estimates are based on data from American Community Survey (ACS) and the Census Transportation Planning Package (which is in turn based on special tabulations of ACS data). Data subject to sampling error, especially for smaller estimates.

(a) For the purposes of analyzing workers and evaluating Downtown San Rafael as a place of work, Downtown San Rafael is defined as three Traffic Analysis Zones (TAZs) that encompass most of the non-residential properties in the Downtown area: 00101619, 00101627, and 00101637.

(b) For the purposes of analyzing employed residents and evaluating Downtown San Rafael as a place of residence, Downtown San Rafael is defined as two Traffic Analysis Zones (TAZs) that encompass most residential properties in the Downtown area and minimize the capture of non-Downtown residential properties: 00101627 and 00101637.

(c) Due to limitations of the available source data, the County-level data are only inclusive of incorporated places and census-designated places (CDPs) for all counties except Marin and San Francisco. Data for those two counties are all-inclusive.

(d) Totals may differ slightly from other sources due to independent rounding.

Of the approximately 1,200 employed residents in Downtown San Rafael, over 70 percent work within Marin County, with one-third working within San Rafael itself. Less than 10 percent work Downtown. Outside of Marin County, San Francisco is the major destination, providing the workplace for approximately 19 percent of Downtown residents.

As shown in Table 4.7, commute patterns for persons working in San Rafael are similar to those for the Downtown, with 57 percent of workers commuting from within Marin County and San Rafael, and with Sonoma County as the next most common county of residence.

Also mirroring the pattern for Downtown, a large majority of employed San Rafael residents work within Marin County, with nearly 40 percent working within the City itself. Over 18 percent of San Rafael's working residents work in San Francisco, with the remainder employed at locations scattered throughout the Bay Area and beyond.

Places of Residence for San Rafael Workers

Place of Residence	Workers Number	Workers Percent
Alameda County, CA	1,955	4.5%
Contra Costa County, CA	4,040	9.3%
Marin County, CA	24,890	57.1%
San Rafael	*11,620*	*26.7%*
Napa County, CA	665	1.5%
San Francisco County, CA	2,225	5.1%
San Mateo County, CA	350	0.8%
Santa Clara County, CA	70	0.2%
Solano County, CA	2,490	5.7%
Sonoma County, CA	5,920	13.6%
All Other Locations	960	2.2%
Total Workers (b)	**43,565**	**100.0%**

Places of Work for San Rafael Employed Residents

Place of Work (a)	Employed Residents Number	Employed Residents Percent
Alameda County, CA	1,115	3.8%
Contra Costa County, CA	447	1.5%
Marin County, CA	**20,436**	69.8%
San Rafael	*11,620*	*39.7%*
Napa County, CA	25	0.1%
San Francisco County, CA	5,325	18.2%
San Mateo County, CA	289	1.0%
Santa Clara County, CA	234	0.8%
Solano County, CA	95	0.3%
Sonoma County, CA	675	2.3%
All Other Locations	644	2.2%
Total Employed Residents (b)	**29,285**	**100.0%**

Note:

Estimates are based on data from American Community Survey (ACS) and the Census Transportation Planning Package (which is in turn based on special tabulations of ACS data). Data subject to sampling error, especially for smaller estimates.

(a) Due to limitations of the available source data, the County-level data for place of work are only inclusive of incorporated places and census-designated places (CDPs) for all counties except Marin and San Francisco. Data for those two counties are all-inclusive.

(b) Totals may differ slightly from other sources due to independent rounding.

Table 4.7: Commute Flows, City of San Rafael, 2012-2016

Sources: 2012-2016 five-year sample data from Census Transportation Planning Package Table A302100 and American Community Survey 2012-2016; BAE, 2019.

Retail Trends

Since 2009, retail sales in San Rafael, Marin County, and the Bay Area have increased as the economy grew out of the last recession. On an inflation-adjusted basis, taxable retail sales[2] increased 22 percent between 2009 and 2017 in San Rafael, with an increase of 15 percent for Marin County and 25 percent for the nine-county Bay Area region. However, sales levels peaked in San Rafael and the County in 2014, with small declines between 2014 and 2017, while sales levels in the Bay Area have been flat. The decreases in San Rafael and Marin County may reflect increasing impacts of online shopping on local retail sales.

Although the Downtown Precise Plan area accounts for an estimated 35 percent of the City's retail square footage, according to data from CoStar provided below, the Precise Plan area accounts for a substantially lower proportion of citywide taxable sales. This low share is accounted for by the large-format retailers that are located outside of the Downtown Precise Plan Area along Highway 101 to the north, along Highway 101 and Francisco Boulevard West to the south, and along Interstate 580 and Francisco Boulevard East also to the south.

Table 4.8: Taxable Retail Sales Trends, 2009-2017

Sources: CA State Board of Equalization; CA Department of Tax and Fee Administration; CA Department of Finance; CA Department of Industrial Relations; U.S. Bureau of Labor Statistics; BAE, 2019.

Sales in 2017 $000 (a) (b)

Year	San Rafael	Marin County	Bay Area
2009	$1,200,683	$3,392,368	$80,039,705
2010	$1,268,956	$3,523,709	$83,372,542
2011	$1,356,940	$3,692,044	$88,453,843
2012	$1,416,221	$3,852,129	$93,415,336
2013	$1,500,071	$4,045,052	$97,755,086
2014	$1,535,739	$4,086,263	$99,461,555
2015	$1,516,794	$4,078,750	$99,609,859
2016	$1,471,195	$3,979,868	$99,006,337
2017	$1,461,443	$3,903,138	$99,806,052
% Change 2009-2017	22%	15%	25%
% Change 2014-2017	-5%	-4%	0%

Notes:

(a) Retail sales have been adjusted to 2017 dollars based on the Bay Area Consumer Price Index, U.S. Bureau of Labor Statistics.

(b) Analysis excludes all non-retail outlets (business and personal services) reporting taxable sales.

2. The State of California publishes annual reports reporting taxable sales by city, county, and statewide. Nontaxable items include most food for consumption at home, prescriptions, and some other items. Sales are reported here in inflation-adjusted 2017 dollars (last year for which data are available).

In 2018, Downtown San Rafael reported approximately $265 million in taxable sales, out of a total of $1.6 billion for the entire city. On an inflation-adjusted basis, taxable sales declined by 15 percent between 2009 and 2018, even as sales citywide increased by 14 percent. As a result, Downtown's share of taxable sales in the City has declined from 19 percent in 2009 to 14 percent in 2018.

While taxable sales overall have declined in Downtown, taxable sales in restaurants in Downtown have increased, especially in the core area Business Improvement District.[3] As a result, restaurants have become a more important component of the Downtown retail mix. The other key major sector reported for Downtown is general consumer goods, which covers a broad range of retail subsectors, excluding automotive-related businesses, food and drug stores, and building materials outlets. However, inflation-adjusted taxable sales in the general consumer goods sector have declined over the last decade, reflecting a general trend of sales moving to online.

Note: *Taxable sales as shown here include all businesses reporting taxable sales in San Rafael, not just retail and food services. Data for Downtown not available for retail and food services only; citywide, retail and food service sales account for approximately 80 percent of total taxable sales. Sales have been adjusted to 2018 dollars based on the Bay Area Consumer Price Index, U.S. Bureau of Labor Statistics. Data reported are from HdL, and the areas covered are not exactly coterminous with the Precise Plan Area, but most of the businesses in the plan area are within the reporting geography.*

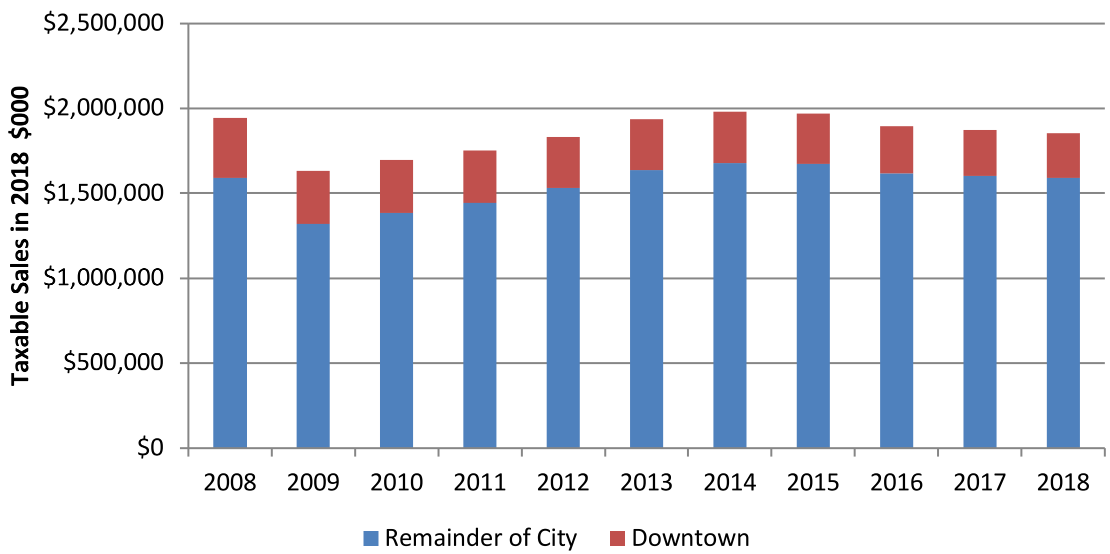


Figure 4.2: Taxable Sales in Downtown San Rafael, 2009-2018

Sources: The HdL Companies; CA State Board of Equalization; CA Department of Tax and Fee Administration; CA Department of Finance; U.S. Bureau of Labor Statistics; BAE, 2019.Labor Statistics; BAE, 2019.

3. Due to confidentiality rules for reporting sale tax data, actual taxable sales data for specific sectors Downtown cannot be reported.

Real Estate Market Trends

This section provides information on real estate market trends in San Rafael and the Downtown Precise Plan area, including inventory characteristics, pricing trends, and vacancy rates. The information provided in this section provides insight into the potential demand for future development of residential, office, retail, industrial, and hotel uses in the Downtown Precise Plan area over the planning period for the Downtown Precise Plan.

Multifamily Rental Market

Multifamily Market Context

The Downtown Precise Plan area has a large number of multifamily rental units, which constitute the majority of the housing stock within the Precise Plan boundaries. While CoStar tracks a total of 545 multifamily rental units in the Precise Plan Area, the total number of units in the Plan Area is somewhat higher than the number tracked by CoStar, in part because many of Downtown San Rafael's existing rental housing stock is in mixed-use buildings with retail on the ground floor and apartments on the second floor. Outside of Downtown, major concentrations of multifamily rental residential are found in the Canal, Gerstle Park, Montecito/Happy Valley, Marinwood, and Terra Linda neighborhoods.

Multifamily Rental Market Conditions

San Rafael has a strong multifamily rental market, including in the Downtown Precise Plan Area, with low vacancy rates and relatively high rents, particularly for new developments and those that have been recently renovated. Among properties tracked by Costar, the average multifamily asking rent in the Downtown Precise Plan Area has steadily increased over the past ten years, from $1,725 per unit per month in 2010 to $2,605 per unit per month in the first quarter of 2019. The average multifamily rent also increased citywide over the past ten years with an average asking rent of $2,194 per month in the first quarter of 2019. During the same period, multifamily rental vacancy rates decreased to less than five percent both citywide and in the Plan Area, signifying strong demand.

Moreover, units in newer multifamily rental properties command rents that are significantly higher than the average for the City and the Precise Plan area. Among the three newest multifamily rental buildings in the Precise Plan area – G Square, Lofts at Albert Park, and San Rafael Town Center – monthly asking rents averaged $3,418 per unit, $3,142 per unit, and $2,503 per month, respectively, as of the first quarter of 2019.

Excluding these buildings, the average multifamily rent in the Precise Plan would be $1,896 per unit per month in the first quarter of 2019. Online listings for available multifamily rental units indicate that recently renovated projects in the Downtown Precise Plan Area rent at rates that are similar to the rental rates for newer properties.

The Downtown Precise Plan Area has experienced very little multifamily rental construction activity over the past ten years. CoStar reports a total of ten new units delivered between the first quarter of 2009 and the first quarter of 2019. San Rafael City staff report that the actual number of new units constructed during this period may be slightly higher than the figure reported by CoStar but even a revised figure would be fewer than 20 units.

Several factors for this lack of housing production emerged from discussions with Downtown Precise Plan stakeholders. Parcels in the Downtown Precise Plan area are generally small and in diverse ownership, making assembly of sites difficult and expensive. In addition, many long-time owners do not wish to sell their property. The difficulty of parcel assemblage, coupled

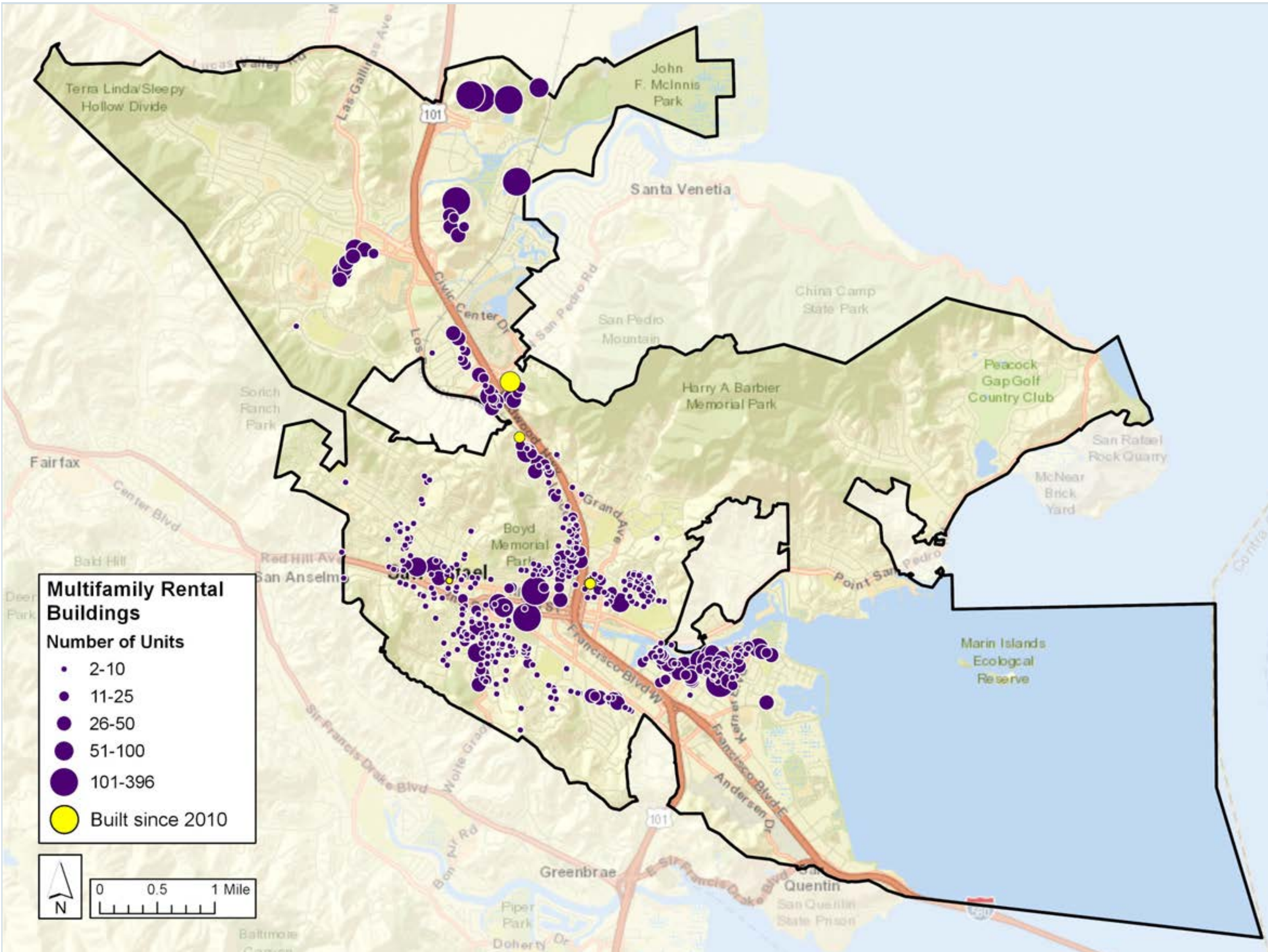


Figure 4.3. Geographic Distribution of Rental Multifamily in Sn Rafael

Sources: CoStar; BAE 2019.

with lengthy planning and environmental reviews, discourage multifamily developers locally, as well as developers active elsewhere in the region, from entering the downtown market.

Further, the structure of the City's inclusionary housing requirements may be working against new multifamily rental housing. The threshold for the 20 percent affordable requirement is 20 or more units, which is often not financially feasible under current market conditions even in the strongest rental submarkets in the region (such as San Francisco and the Peninsula). Construction cost escalations have recently out-paced rental rate increases, creating a squeeze on project margins and rendering many infeasible.

National and Regional Multifamily Trends

Millennials and Immigrants are primary drivers of multifamily rental demand

Households formed by Millennials (born 1985 to 2004) and immigrants are primary drivers of household growth. The Joint Center for Housing Studies at Harvard University reports that millennials are moving into prime housing-formation age which expands the demand for housing units[4] . Due to high housing costs and other factors such as student debt, Millennials have tended to be renters rather than homeowners although surveys show that Millennials desire to own their home in the future. New immigrants have also been a driver of household demand by entering the market to replace native born households that have migrated out of the region,

Table 4.9: San Rafael Multifamily Rental Real Estate Market Snapshot, Q1 2019

Sources: CoStar; BAE, 2019.

Multifamily Summary	Downtown San Rafael	City of San Rafael	Marin County
Vacancy Rate	4.2%	3.6%	3.2%
Avg. Asking Rents, Q1 2018 - Q1 2019			
Avg. Asking Rent, Q1 2018	$2,499	$2,144	$2,399
Avg. Asking Rent, Q1 2019	$2,605	$2,194	$2,492
% Change Q1 2018 - Q1 2019	4.2%	2.3%	3.9%
Under Construction (units), Q1 2019	0	15	15
Deliveries (units), Q1 2009 - Q1 2019	10	108	428

Notes:

Universe is units in market-rate and market-rate/affordable mixed income buildings only.

(a) First quarter 2019 data current as of March 25, 2019.

4. The State of the Nation's Housing 2018, Joint Center for Housing Studies of Harvard University, Figure 14

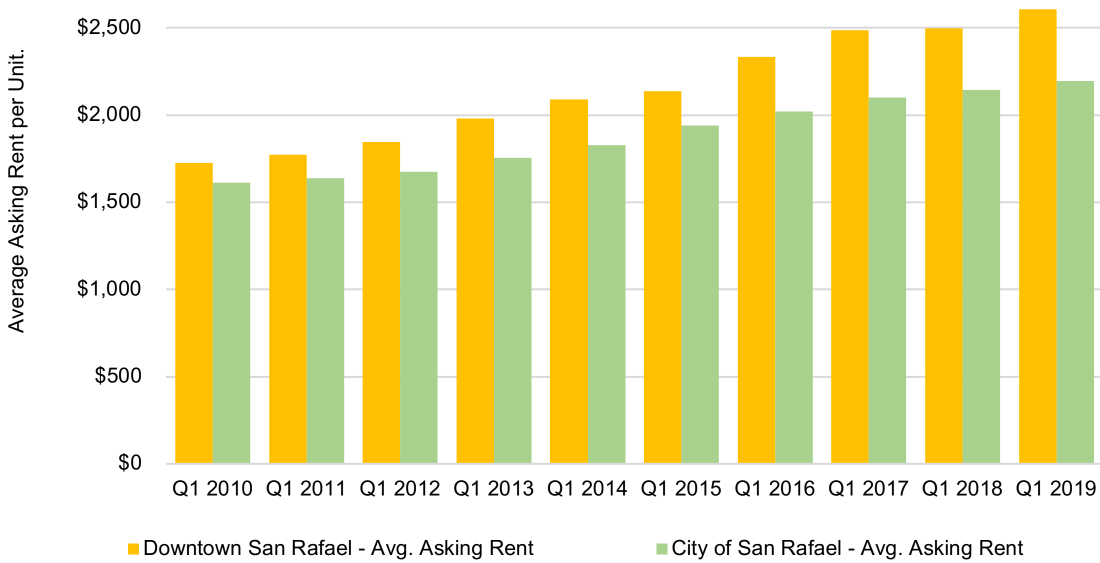


Figure 4.4: San Rafael Multifamily Rental Trends, 2010-2019

Sources: CoStar; BAE, 2019.

***Note**: Universe is units in market-rate and market-rate/ affordable mixed income buildings only.*

(a) First quarter 2019 data current as of March 25, 2019.

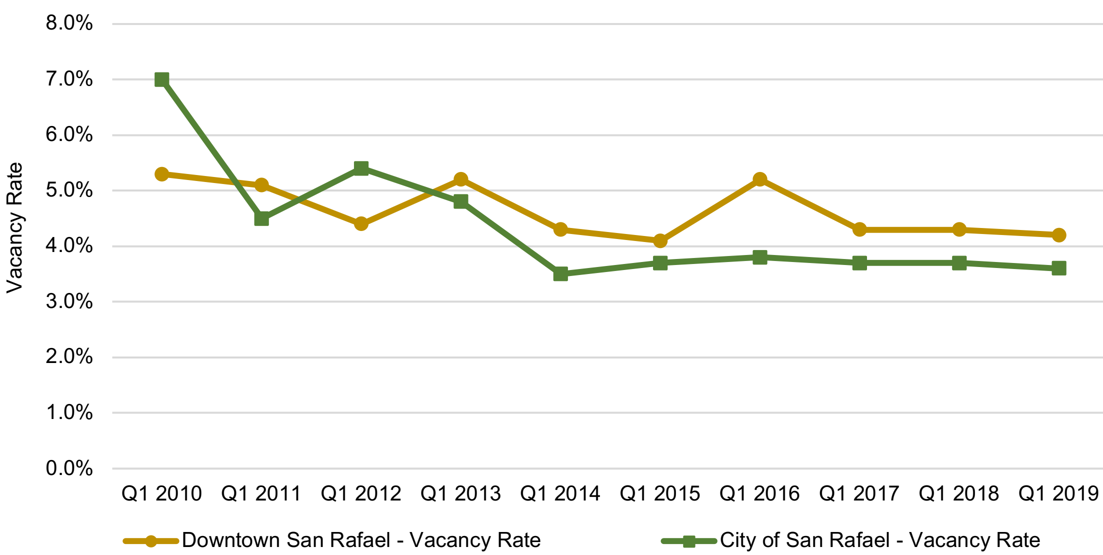


Figure 4.5: San Rafael Multifamily Vacancy Trends, 2010-2019

Sources: CoStar; BAE, 2019.

***Note**: Universe is units in market-rate and market-rate/ affordable mixed income buildings only.*

(a) First quarter 2019 data current as of March 25, 2019.

New market-rate multifamily developments are being targeted to the top of the market with luxury amenities
Primarily due to high construction costs that require top end rents to achieve project feasibility, developers have targeted the upper end of the rental residential market by building luxury, Class A multifamily rental projects. This has been particularly true in the Bay Area which has some of the highest construction costs in the nation coupled with an influx of high-paying technology jobs.

Both younger and older renter households have many shared apartment amenity preferences
Renters are seeking apartments in locations where one can walk to restaurants, retail, and entertainment. Along with standard amenities such as storage, fitness center, pool, and clubrooms, developers are now expanding apartment amenities to include pet-oriented facilities (dog park or pet wash stations), bike storage and repair rooms; yoga studios, secure package delivery rooms, fast speed WiFi in common areas, smart security systems, electric car charging stations, rideshare waiting areas at front entries, rooftop gardens, and sustainable energy and water systems.

There is a severe housing shortage in the region
Since the recovery from the Great Recession began in 2010, the Bay Area has generated approximately 722,000 jobs but has produced only 106,000 units of housing, creating a severe housing shortage with escalating rents and home prices[5]. This may eventually negatively impact the ability of the Bay Area to sustain its economic prosperity.

According to an Urban Land Institute survey of residents, approximately 74 percent of Millennials living in the Bay Area are considering moving out of the region within the next five years[6]. Access to talent and a deep labor pool is a key factor in business location decisions and a key competitive advantage of the Bay Area.

Implications for Multifamily Rental Residential in San Rafael

- Downtown San Rafael offers a walkable environment with retail, entertainment, and other amenities that are attractive to today's renters.
- Increasing rents and low vacancy rates indicate demand for new rental residential in the City and its downtown.
- San Rafael may need to consider policies to facilitate residential development in the Precise Plan area, such as incentives for parcel assembly and streamlining elements of the development review process. Despite high rental rates for new multifamily rental units, residential developers can achieve comparable or higher rents in other Bay Area cities and may be hesitant to pursue complex projects in San Rafael under current market conditions.
- New apartment developments with contemporary design and amenities will attract skilled labor and support the City's efforts to grow jobs locally.
- Due to high local construction costs, developers of market-rate multifamily rental projects will target the top end market.
- The City maintains a robust Below Market Rate (BMR) program that requires developers to include affordable housing units in their residential projects. In projects of two to ten units, developers are required to set aside 10 percent of units as affordable. Projects of 11 to 20 units require as 15 percent set-aside, and projects larger than 20 units require a 20 percent set-aside. In rental projects, half of the affordable units must be made affordable to very low-income households and the other half to low-income households.

5. See CASA COMPACT: A 15-Year Emergency Policy Package to Confront the Housing Crisis in the San Francisco Bay Area January 2019, page 1.
6. Bay Area in 2015: A Survey of the Views on Housing, Transportation, and Community in the Greater San Francisco Bay Area, Urban Land Institute, 2016.

The City Council may permit a developer to pay a fee in lieu of providing affordable units on site; the fee is equal to the projected cost of constructing the affordable units. These requirements are substantial in comparison to those enacted by other jurisdictions in the region, and the costs associated with them may make some projects infeasible.

For-Sale Residential Market

For-Sale Market Conditions

San Rafael has a strong for-sale residential market, located almost entirely in locations outside of the boundaries of the Precise Plan area. Due to the limited for-sale inventory in the Plan area, there is a minimal amount of data on recent single-family home and condominium sales within the Plan area. According to data from ListSource, a private data vendor that compiles data from the County Assessor, there were a total of four home sales in the Precise Plan area between April 1, 2018 and March 31, 2019, all of which were sales of condominiums, with a median sale price of $680,000. Three of the homes sold during this period were constructed in 1981 and the remaining home sold was constructed in 1994, reflecting the lack of new residential construction in the Precise Plan area.

Citywide, home sale prices have increased steadily over the past several years as the market has recovered from the recession, with a citywide median home sale price of $975,000 in 2018, indicating a robust for-sale housing market (this average includes both condominium and single-family home sales). Home sale price trends in San Rafael generally mirrored countywide trends between 2005 and 2018, with the San Rafael median remaining slightly lower than the median for Marin County throughout this period (see Figure 4.6). The median home sale price in San Rafael may be lower than the countywide median in part because of the relatively high share of condominium sales in the San Rafael - 32 percent of all home sales in the City between April 2018 and April 2019.

During this period, the median sale price for condominiums sold in San Rafael was $638,000, while that for single-family homes was $1.16 million. These data indicate robust demand for ownership housing in San Rafael, some of which could potentially be captured in the Downtown Precise Plan Area.

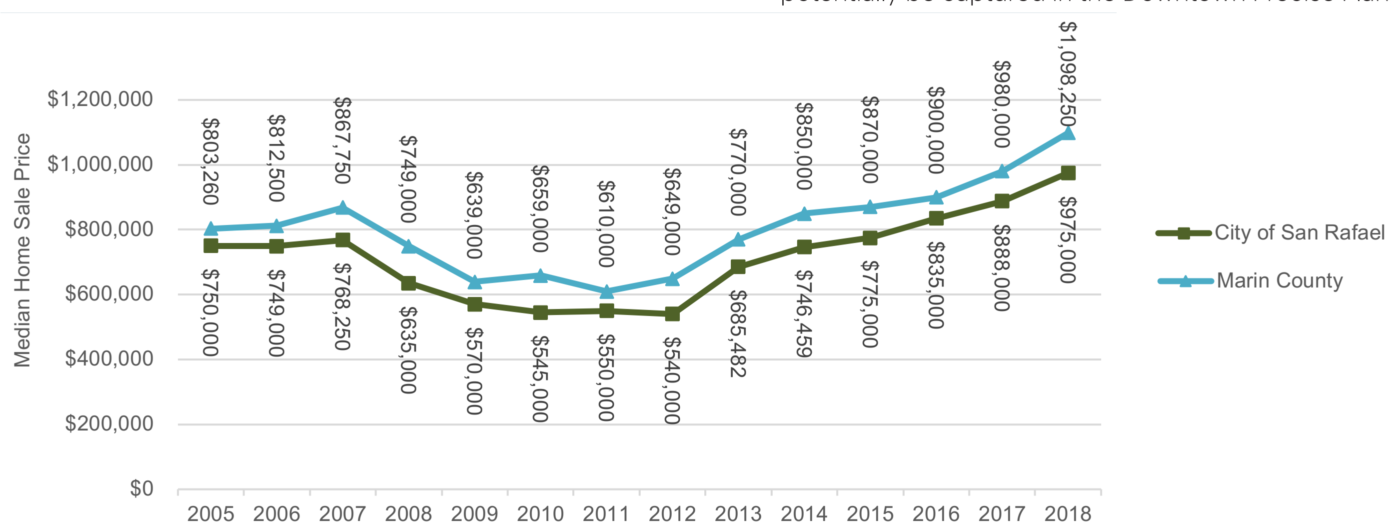


Figure 4.6: Median Home Sale Price, San Rafael and Marin County, 2005-2018

Sources: CoStar; BAE, 2019.

Office Market

Office Market Context

As discussed above, San Rafael is a significant employment node in Marin County, due largely to the strong presence of BioMarin, Autodesk, the County Civic Center, and various smaller office-based businesses in the city. BioMarin currently occupies a significant portion of the office space in downtown San Rafael. The company has applied for City approval to construct an additional 207,000 square feet adjacent to its current location on Second Street. In addition to the larger companies such as BioMarin and Autodesk, demand for office space in San Rafael is generated by a mix of smaller high-tech companies and companies that offer professional services to local businesses and residents.

San Rafael serves as a primary office node within Marin County, accounting for 43 percent of all office space countywide. The office market in Marin County consists of a number of submarkets with varying demand for office space, which is generally reflected in vacancy, lease, and absorption rates. San Rafael's office inventory totals approximately 5.4 million square feet of office space, 1.6 million of which is located within the Downtown Precise Plan boundary, according to data from Costar (see Table 4.10). San Rafael serves as a primary office node within Marin County, accounting for 43 percent of all

Table 4.10: San Rafael Office Real Estate Market Snapshot, Q1 2019

Sources: CoStar; BAE, 2019.

Office Summary	Downtown San Rafael	City of San Rafael	Marin County
Inventory (sf), Q1 2019 (a)	**1,563,012**	**5,356,187**	**12,406,461**
Occupied Stock (sf)	1,483,350	4,897,905	10,652,703
Vacant Stock (sf)	79,662	458,282	1,753,758
Vacancy Rate	5.1%	8.6%	14.1%
Avg. Asking NNN Rents			
Avg. Asking Rent (psf/mo), Q1 2018	$2.89	$2.87	$3.06
Avg. Asking Rent (psf/mo), Q1 2019	$2.92	$2.91	$3.18
% Change, Q1 2018 - Q1 2019	1.0%	1.4%	3.9%
Net Absorption			
One-Year Net Absorption (sf), Q1 2018 - Q1 2019	(18,422)	3,214	(94,614)
Ten-Year Net Absorption (sf), Q1 2009 - Q1 2019	234,419	541,465	(22,900)
New Deliveries (sf), Q1 2009 - Q1 2019	**266,028**	**341,916**	**386,740**
Under Construction (sf), Q1 2019	**0**	**17,091**	**17,091**

Note:

(a) First quarter 2019 data current as of March 25, 2019.

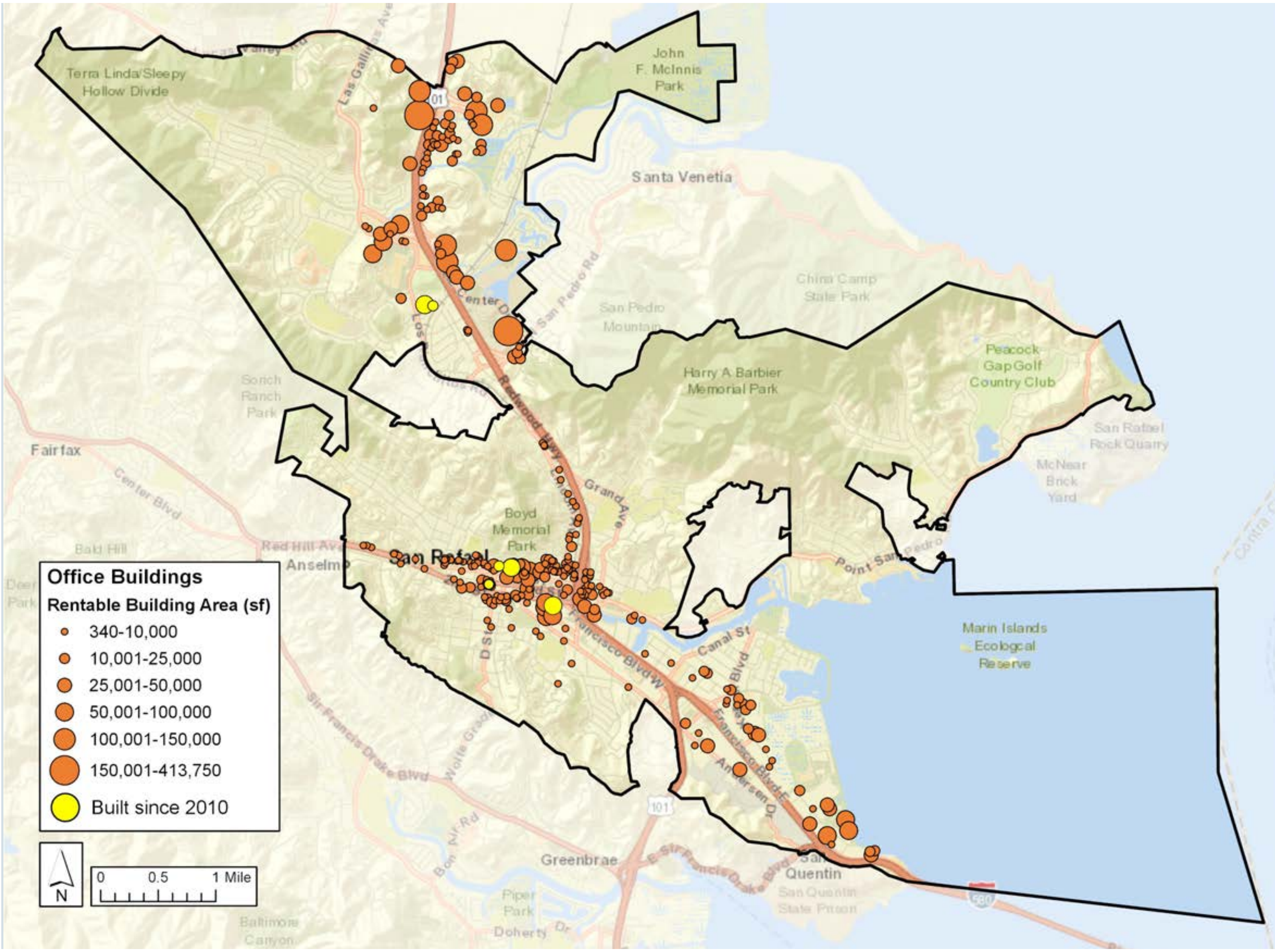


Figure 4.7. Geographic Distribution of Office Inventory in San Rafael

Sources: CoStar; BAE 2019.

office space countywide. The geographic distribution of San Rafael's office inventory is shown in Figure 4.7.

Office Market Conditions

Office real estate market trends indicate potential demand for new office in Downtown San Rafael. Asking rents for office space in the Precise Plan have demonstrated small but steady increases during the past several years, recovering from decreases between 2011 and 2013, and are currently similar to the 2010 average in the Plan Area and the 2019 citywide average, at $2.92 per square foot per month (see Figure 4.8).

Meanwhile, office vacancy rates in the Plan Area have decreased substantially since 2010, and as of the first quarter of 2019 had a 5.1 percent vacancy rate, indicating healthy demand for office space in the Downtown area. Vacancy rates also decreased citywide during this period but remain higher than in the Plan Area at 8.6 percent.

While the average asking rent for office space in San Rafael and the Precise Plan area is lower than the rent needed to support new construction, the market may be stronger for new, Class A office space in the area. According to a local broker, there is strong demand among small and mid-sized professional services firms to locate in Downtown San Rafael. These prospective tenants are attracted to Downtown's strong transportation connectivity and pedestrian amenities relative to other Marin County submarkets.

However, current office spaces in Downtown San Rafael are older and smaller than what most prospective office tenants are seeking. This limits what existing spaces can command in asking rent, driving down the average rent. As of the first quarter of 2019, CoStar tracked 549,001 square feet of Class A office space in the Precise Plan Area, 73 percent of which is in the San Rafael Corporate Center on Lindaro Street and Lincoln Avenue south of Second Street. This property was recently purchased by BioMarin, which occupies most of the square footage, and CoStar does not provide asking rent data for this property.

As of the first quarter of 2019, Costar tracked 549,001 square feet of Class A office space in the Precise Plan Area, 73 percent of which is in the San Rafael Corporate Center on Lindaro Street and Lincoln Avenue south of Second Street. This property was recently purchased by BioMarin, which occupies most of the square footage, and CoStar does not provide asking rent data for this property.

The only Class A property in the Precise Plan area for which Costar does provide asking rent data has a total of 518 square feet of space available. While this space has an asking rent of $2.45 per square foot per month, this rent is not likely to be representative of the rent that a property owner would achieve from a larger, more traditional office space. The Precise Plan area has a low 1.2 percent vacancy rate among Class A office properties, potentially indicating strong demand for additional high-quality office space in the area. A local office broker noted that rents for existing Class A product are approximately $4.00 per square foot (on a full-service basis), and that new, turnkey space could command even higher rents.

Local brokers suggest that new office space be concentrated near the eastern end of Downtown to maximize connectivity to the Downtown San Rafael SMART Station and the freeways. Most prospective tenants are seeking between 2,000 and 5,000 square feet, though firms with larger space needs could be attracted to Downtown and have very limited options in existing buildings. For that reason, brokers recommend that new office developments utilize a 10,000-square-foot floorplate divisible to 2,000 square feet.

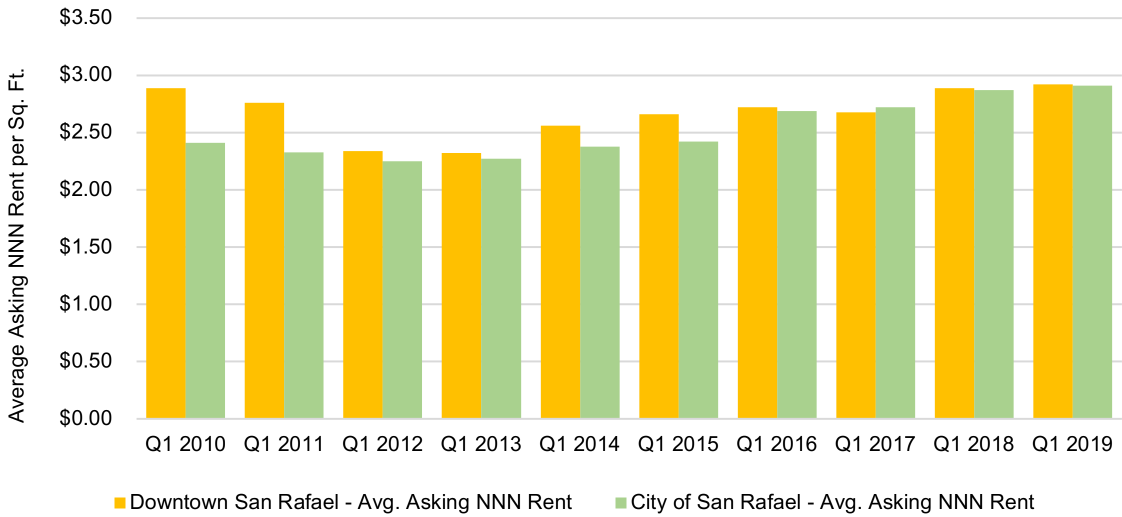


Figure 4.8: San Rafael Office Rental Trends, 2010-2019

Sources: CoStar; BAE, 2019.

***Note**: First quarter 2019 data current as of March 25, 2019.*

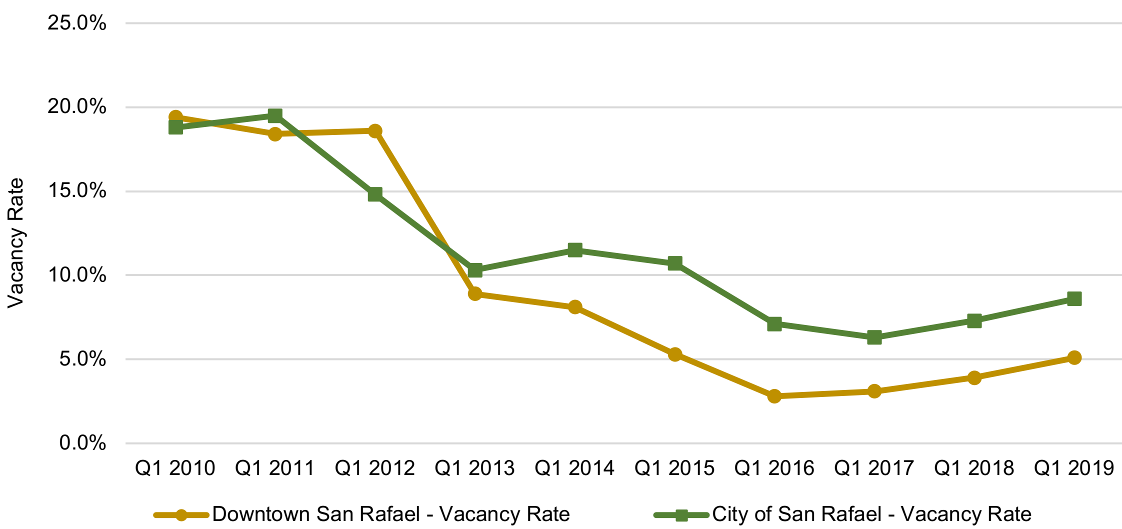


Figure 4.9: San Rafael Office Vacancy Trends, 2010-2019

Sources: CoStar; BAE, 2019.

***Note**: First quarter 2019 data current as of March 25, 2019.*

National and Regional Office Market Trends

Demand for State-of-the-Art, Sustainable Workplaces

There has been a notable increase in the number of office property owners and developers renovating or developing their office space into LEED certified structures, often at the gold or platinum levels. Two factors drive this increase in interest in sustainable office space: (i) implementing design and building system features that qualify a structure for LEED certification can result in significant operational savings over the life of the building; and (ii) building users and tenants can market their sustainable office space as a positive feature to attract employees. Younger workers, particularly in knowledge-based sectors but not exclusively, seek to work for companies whose values align with their own and environmental sustainability is one such important value. Locally within the Downtown Precise Plan area, the San Rafael Corporate Center is a certified LEED Gold office property.

Demand for Building, Site and Neighborhood Amenities

During the current economic expansion, there has been a significant shift in tenant location preferences to urban core or high-amenity and transit-rich suburban locations. Office workers increasingly demonstrate a preference for workplace locations that offer proximity to public transportation, bicycle and pedestrian access, attractive retail and service offerings, and entertainment options. In response to this shift in preferences among workers, companies are more often seeking office locations that offer more urban-style amenities instead of opting for traditional suburban office parks.

Higher Employment Densities in Office Space

During the current economic expansion, office tenants have preferred office space with open floor plans to both encourage interaction among employees as well as accommodate more employees in their office space to reduce real estate costs. As a result, owners of existing properties have had to open up their building interiors as part of building renovation programming. This trend has also led to increased employment densities with the gross square feet of office per employee falling from 275 or 250 square feet per employee to 225 to 250 per employee. In many cases, this ratio has reached 200 square feet per employee.

Affordable Housing and Office Tenant Retention and Recruitment

Lack of affordable housing is frequently cited by employers as a barrier to retaining and recruiting employees[7]. Employees at lower and median levels of compensation have to search for affordable housing in communities that require a long commute to the workplace. Companies based in the Bay Area frequently expand their operations in other regions with skilled labor and a lower cost of living in order to expand their employment base. The lack of affordable housing is widely considered a major barrier over the long-term to continued economic growth in the region.

7. See, for example the following articles cited in Solving the Housing Crisis Is Key to Inclusive Prosperity in the Bay Area published by the Bay Area Equity Atlas, 2018: George Avalos, "Silicon Valley Job Boom Unleashes Challenges That Could Choke Growth," The Mercury News, April 7, 2016, https://www.mercurynews.com/2016/04/07/silicon-valley-job-boom-unleashes-challenges-that-could-choke-growth/.35 Adam Nagourney and Conor Dougherty, "The Cost of a Hot Economy in California: A Severe Housing Crisis," The New York Times, July 17, 2017, https://www.nytimes.com/2017/07/17/us/california-housing-crisis.html?_r=0.36 Annie Sciacca, "Bay Area Restaurants Struggle to Keep Workers as Living Costs Rise," East Bay Times, August 15, 2016, http://www.eastbaytimes.com/2016/05/12/bay-area-restaurants-struggle-to-keep-workers-as-living-costs-rise/.37 Ashley Stewart and Silicon Valley Business Journal staff, "Why Silicon Valley Tech Workers Are Packing Their Bags for Seattle," Silicon Valley Business Journal, March 21, 2017, https://www.bizjournals.com/sanjose/news/2017/03/21/silicon-valley-tech-workers-seattle-housing-costs.html.38 Josh Lipton and Morgan Brasfield, "Silicon Valley Techies Are Fleeing to Seattle," CNBC, March 20, 2017, https://www.cnbc.com/2017/03/17/silicon-valley-tech-talent-fleeing-to-seattle.htm

Downtowns Well Positioned Against Traditional Business Parks

Many suburban downtowns, including Redwood City, Walnut Creek, Santa Rosa, Mountain View, and San Leandro, have seen strong demand for office space as a result of these cities having BART and Caltrain stations and robust nearby amenities, including retail, open spaces, cultural and recreation facilities, and other common amenities.

Response by Business Park Owners and Developers.

Owners of existing suburban business park and commercial property owners and developers in the San Francisco Bay Area (and elsewhere) have taken steps to reposition existing office assets to respond to these trends and shifts in demand. In general, these strategies aim to better integrate suburban office development into the surrounding area through mixed-use development and the addition of public spaces, bicycle paths, and pedestrian networks. Elements of a repositioning strategy can also include the construction of additional housing, particularly housing affordable to local workers, and expanding the mix of retail and entertainment options. Implementation of some or all of these strategies may be necessary for San Rafael to continue to capture a significant portion of future employment growth in the North Bay.

Implications of Office Market for San Rafael

- Vacancy rates for office space (all classes) in Downtown San Rafael are significantly lower than for the City as a whole and Marin County, indicating potential support for new Class A office space.
- Brokers report strong demand for office space in San Rafael, with a lack of supply to meet small to mid-size tenants' needs, indicating potential support for new construction.
- Only a nominal amount of new office space is under construction. This likely reflects the unwillingness of developers and lenders to pursue projects on a speculative basis (with no anchor tenant in hand prior to commencing construction) since reported rental rates are not high enough to justify new construction. However, BioMarin has approval for an additional 72,000 of office/R&D space at its existing location at the San Rafael Corporate Center and has submitted plans for 207,000 square feet of office/R&D on Lindaro Street. Major employers like BioMarin often generate 'spin-off' businesses that typically cluster in the same location to reduce the costs of attracting employees by drawing from the same labor pool. These clusters often attract other companies that specialize in related support functions, attracting additional employment to the area. Accordingly, BioMarin's expanding presence in the Precise Plan Area could generate additional demand for office space in the area in addition to the space that BioMarin directly occupies.
- Historic downtown San Rafael provides an authentic urban environment with retail and entertainment that is attractive to today's workforce.
- The recently opened SMART passenger rail service from downtown San Rafael to the Sonoma County airport is a major mobility enhancement that will be further strengthened when the under-construction extension to Larkspur is completed. This transportation improvement will be attractive to current and prospective employers.
- To retain and attract new office tenants, the City should consider ways it can increase its stock of affordable housing.

Retail Market

Retail Market Context

San Rafael is home to several of the County's major shopping centers and districts, including its downtown shopping and entertainment district, Northgate Mall, Montecito Plaza and retail/service commercial businesses between Anderson Drive and Interstate 580 and along Francisco Boulevard East east of Interstate 580 (including a Home Depot and Target on Shoreline Parkway). San Rafael has a retail inventory that totals approximately 4.9 million square feet, slightly more than one-third of which (1.7 million square feet) is located in Downtown Precise Plan Area (according to data from CoStar; see Table 4.11).). The Montecito Plaza shopping center, located east of Highway 101, accounts for 130,500 square feet, or 7.5 percent, of Downtown's retail inventory.

Other major retail nodes in Marin County include a major regional and specialty centers in Corte Madera, Marin County Mart in Larkspur, destination retail in Sausalito, and a specialty center in Novato. Marin County offers a variety of shopping opportunities and retail experiences, and San Rafael competes to some extent, particularly with respect to regional and specialty offerings, with these other retail clusters.

Table 4.11: San Rafael Retail Real Estate Market Snapshot, Q1 2019

Sources: CoStar; BAE, 2019.

Retail Summary	Downtown San Rafael	City of San Rafael	Marin County
Inventory (sf), Q1 2019 (a)	**1,732,985**	**4,923,472**	**13,013,890**
Occupied Stock (sf)	1,695,083	4,846,868	12,768,536
Vacant Stock (sf)	37,902	76,604	245,354
Vacancy Rate	2.2%	1.6%	1.9%
Avg. Asking NNN Rents			
Avg. Asking Rent (psf), Q1 2018	$2.16	$2.24	$2.83
Avg. Asking Rent (psf), Q1 2019	$2.91	$2.37	$3.05
% Change, Q1 2018 - Q1 2019	34.7%	5.8%	7.8%
Net Absorption			
One-Year Net Absorption (sf), Q1 2018 - Q1 2019	91	(13,822)	67,379
Ten-Year Net Absorption (sf), Q1 2009 - Q1 2019	(3,402)	18,838	468,164
New Deliveries (sf), Q1 2009 - Q1 2019	**0**	**17,340**	**100,921**
Under Construction (sf), Q1 2019	**0**	**0**	**8,700**

Note:

(a) First quarter 2019 data current as of March 25, 2019.

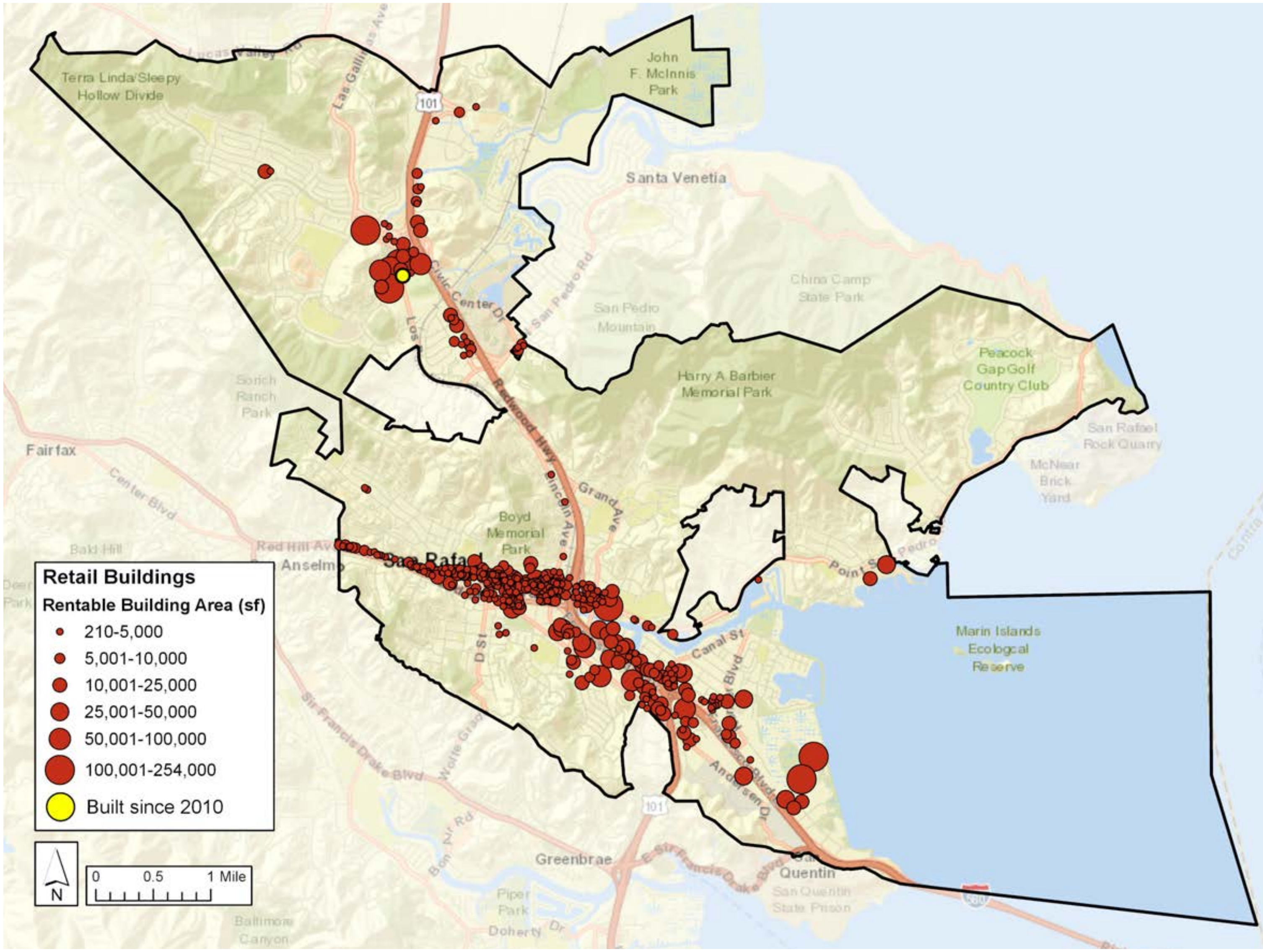


Figure 4.10. Geographic Distribution of Existing Retail Inventory in San Rafael

Sources: CoStar; BAE 2019.

Retail Market Conditions

The retail real estate market in San Rafael and the Downtown Precise Plan area is characterized by low vacancy rates and increasing rental rates, indicating strong market support for retail space. As of the first quarter of 2019, the average asking retail rent in the Precise Plan Area was $2.91 per square foot per month, reflecting a 35-percent increase since 2018 and an even more significant increase compared to asking rents between 2010 and 2017 (see Figure 4.11).

The recent increase in rent has coincided with decreases in the retail vacancy rate, reflecting a general upward trend over several recent quarters. The Plan area has a low 2.2-percent retail vacancy rate, while San Rafael overall has a low 1.6-percent retail vacancy rate, according to data provided by CoStar (see Figure 4.12). Retail real estate market trends in the Plan area and City mirror trends countywide, where retail rents have increased sharply over the past few years while vacancy rates have decreased to less than two percent. Low retail vacancies and increasing retail rents in the Plan Area, City, and County indicate potential unmet demand for additional retail space locally and countywide, which could potentially be captured in the Plan area. The affluence of the San Rafael trade area supports spending on retail goods and services.

Despite the strong market fundamentals reported in the CoStar data, local brokers and others familiar with the local business community report challenges with the retail sector in Downtown San Rafael. Multiple stakeholders emphasize that businesses in the Downtown area operate primarily during weekdays, with a lack of activity on weekends and during the evening. This limits Downtown's appeal to retailers and restauranteurs who seek an "alive after five" environment, as well as its appeal to residents as a destination for a downtown experience. Stakeholders mentioned a need to reduce restrictions for uses that are active on weekends and in evenings, as well as a need for additional residents Downtown to support businesses during these times and additional family-friendly places to gather. Many stakeholders reported that issues related to homelessness hamper the Downtown's ability to attract retail tenants and patrons. One stakeholder reported a need for a collaborative, coordinated marketing effort and events to encourage people to spend time Downtown. One broker noted that Downtown San Rafael lacks a clear identity, and as result prospective retailers, seeking to tap into particular consumer segments, do not have a clear picture of what Downtown San Rafael can offer them.

The retail inventory in the Downtown Precise Plan area is fairly old, with over half of the area's retail buildings and nearly half of its retail square footage having been constructed before 1950, as shown in Table 4.12. These older buildings offer smaller spaces and floor plates as well, as shown in Table 4.13 where nearly 60 percent of the area's retail inventory is in buildings with less than 5,000 total square feet. These older spaces may not be suitable for many prospective tenants, particularly as the tenant mix has shifted over time, generating demand for different types of retail space.

Brokers indicate that the largest sources of demand for Downtown retail space are, and will likely continue to be, restaurants, coffee shops, breweries, and boutique fitness (e.g. small gyms and yoga studios), and other service retail. Few spaces in Downtown's existing retail inventory have the size, layout and utilities (e.g. electrical capacity, plumbing, ventilation) these prospective tenants seek. Upgrading existing spaces to tenant specifications may prove cost prohibitive for many landlords and tenants with rents at current levels. To the extent that new development in the Downtown area includes retail space, these spaces should be designed to accommodate these uses.

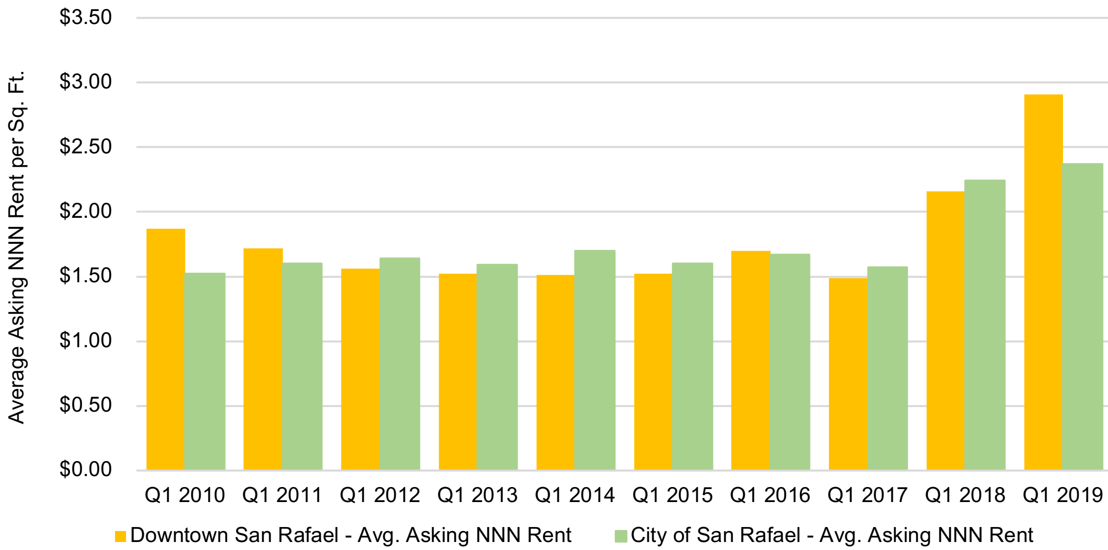


Figure 4.11: San Rafael Retail Rental Trends, 2010-2019

Sources: CoStar; BAE, 2019.

***Note**: First quarter 2019 data current as of March 25, 2019.*

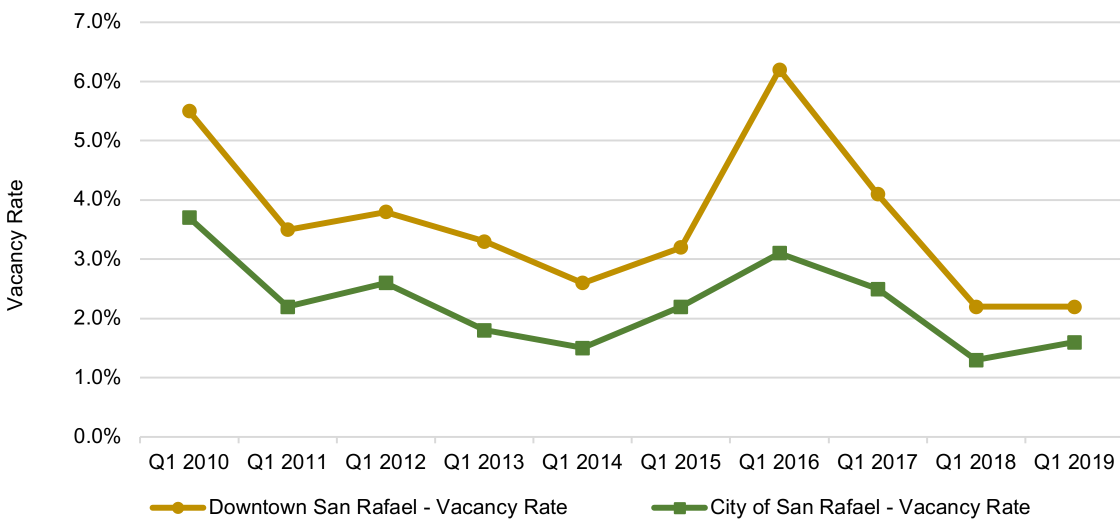


Figure 4.12: San Rafael Retail Vacancy Trends, 2010-2019

Sources: CoStar; BAE, 2019.

***Note**: First quarter 2019 data current as of March 25, 2019.*

Table 4.12: Retail Inventory by Year Built, Downtown San Rafael

Sources: CoStar; BAE, 2019.

	Buildings		Square Footage	
Year Built	**Number**	**Percent**	**Number**	**Percent**
Before 1949	138	52.5%	822,679	47.4%
1950 - 1989	84	31.9%	660,645	38.1%
1990 or Later	3	1.1%	52,279	3.0%
Unknown	38	14.4%	200,342	11.5%
Total	**263**	**100.0%**	**1,735,945**	**100.0%**

Table 4.13: Retail Inventory by Building Size, Downtown San Rafael

Sources: CoStar; BAE, 2019.

Rentable	Buildings		Square Footage	
Bldg. Area (sf)	**Number**	**Percent**	**Number**	**Percent**
Less than 4,999	156	59.3%	452,363	26.1%
5,000 - 9,999	66	25.1%	465,203	26.8%
10,000 - 24,999	35	13.3%	514,719	29.7%
25,000 - 49,999	5	1.9%	173,160	10.0%
50,000 - 99,999	0	0.0%	0	0.0%
100,000 or Larger	1	0.4%	130,500	7.5%
Total	**263**	**100.0%**	**1,735,945**	**100.0%**

National Retail Market Trends

Downtowns to Malls to Big Box back to Downtowns and Town Centers.

Over the past sixty years as the United States became more auto dependent, downtown shopping districts gave way to suburban shopping including enclosed malls and strip shopping centers. Downtowns struggled to retain and attract retailers. Over the past twenty-five years, the retail market evolved yet again with department stores giving up market share to big box retailers that focus on value (e.g., Costco, Best Buy, Walmart, Staples, and Target) and consequently the number of viable shopping malls and centers has contracted. During this same period, many downtowns have staged a revival with mixed-use redevelopment and urban shopping and entertainment districts as consumers sought more authentic urban experiences; however, while downtown retail centers have shown strength, they have not replaced stronger suburban regional shopping centers.

Suburban communities for their part are now faced with repurposing underperforming centers and malls. Many have sought to create denser, more walkable mixed-use centers as they compete for new residents and jobs with urban centers and other suburbs[8]. This has led to suburban cities planning 'town centers' and 'urban villages' that include a large retail component along with other commercial uses and residential development. The "North San Rafael Town Center" envisioned in San Rafael's General Plan 2020 is an example of this concept.

8. See Dunham-Jones, Ellen and Williamson, June, Retrofitting Suburbia: Urban Design Solutions for Redesigning Suburbs, 2011; and Urban Land Institute, Creating Great Town Centers and Urban Villages, 2008.

Lifestyle and Hybrid Centers.
With respect to so-called lifestyle and hybrid commodity-specialty projects, Urban Land Institute's Professional Real Estate Development manual states: "Early lifestyle centers successfully combined desirable retail shops with appealing architecture and a variety of outdoor settings spawning the lifestyle center. [...] These early centers were, in part driven by a trend in which small specialty retailers faced a shortage of high quality specialty retail space at the same moment that regional mall failures were accelerating."[9]

The dominant new commodity retail and shopping center formats had, in fact, left small store specialty retailers with few reliable anchors, and developers with no clearly defined shopping center template to replicate, spawning the ill-defined and somewhat chaotic lifestyle center concept. Most malls failed to function as places conducive to social interaction and connection to community. Retail designer Roy Higgs has noted a "[n]eed to create a powerful and different sense of place. This is especially true of mixed-use developments where, very often, it is the space between the buildings that requires more design attention. As lifestyle projects proliferated, more and more frequently, they failed to incorporate a well-designed sense of place, the absence of which had helped hasten the demise of many malls."[10] With its historic building stock and diversity of uses, downtown San Rafael provides a sense of place and provides an environment for social interaction.

Higgs also notes that hybrid commodity-specialty projects "are generally a risky option for a shopping center developer because the elements of price and convenience that underlie optimal commodity shopping center development generally weaken the elements of better product and place-making essential to well-executed specialty retail centers. Likewise, the higher costs and place-making principles central to specialty retail degrade the price/convenience equation essential to commodity retailers."

Multi-channel and Omnichannel Retailing.
With the advent of e-commerce, retail is undergoing rapid changes as sticks and bricks retailers compete with e-retailers such as Amazon and eBay. While there were early fears that physical stores would be obsolete, and many retailers disappeared or suffered sharp decline in sales, the best performing retailers have adapted and are promoting sales through multiple channels, including physical stores, retail websites, social media, and other media (often referred to as "omnichannel retailing").[11]

This trend is characterized by retailers creating a seamless shopping experience regardless of whether consumers are shopping online, from portable devices, from catalogs, or in a store. Physical retailers – Macy's, Target, and Walmart are good examples— have established robust e-commerce portals and utilize their stores as fulfillment centers for online order pick-up and returns. Meanwhile retailers such as Amazon, Warby Parker, Allbirds, and Bonobos that were exclusively e-commerce are now "clicks to bricks" retailers, having opened physical stores to further expand their sales.[12] The consensus among retail analysts is that retailers with "brick and mortar" stores will continue to be the foundation of omnichannel retailing since stores provide a sensory experience of the offered goods as well as convenience.

9. Peiser, Richard and Hamilton, David, Professional Real Estate Development, Third Edition, Urban Land Institute, 2012.

10. Higgs Roy, Now Trending: Design of the Times, Chain Store Age, August 15, 2015.

11. Retail Systems Research, Inc., Gaming Google: The Growing Importance of Omniretail, March 2011.

12. E-commerce Retailers Plan 850 Physical Stores in the Next 5 Years, JLL, Inc. Retail Research Point of View, 2018.

Branding Retail as 'Local'
The primary goal of hyper-localization is to drive traffic from virtual shopping environments to bricks-and-mortar shopping environments. Strategies aimed at combining opportunities both to experience and to buy a product are employed because consumers have more of a connection, and by extension, will be more likely to purchase products they can see, touch, and try. Likewise, a hyper-local marketing strategy must emphasize sourcing, service, and shopping. The correlation between experience and purchasing is the reason REI offers free classes, Williams Sonoma has cooking demonstrations, local bookstores have authors reading from their latest works, and Costco offers free samples.

The most successful hyper-local strategies combine a robust merchandise mix, stellar service, an immersive environment, and the right mix of price and convenience. Ultimately, retailers who are able to balance the seemingly opposing forces of cost, convenience, and customization on the same plane will be the most compelling in today's rapidly evolving retail world. Something to watch is whether this marketing strategy will evolve further into local or chain players offering unique, region-specific goods, like etsy.com in a bricks-and-mortar format.

Ground Floor Retail Challenges
Ground floor retail in a mixed-use project can enliven a street and create a "sense of place," but success can be challenging in a suburban environment. Zoning codes may require ground floor retail in contexts that lack the scale and critical mass of residents, workers, and visitors necessary to attract and sustain retailers, leading to persistent vacancies. Ground floor retail is especially likely to struggle in areas with limited pedestrian or vehicular traffic.

To increase the viability of ground floor retail and attract a creditworthy tenant, developers must be thoughtful about visibility, access, space size, and configuration. However, as ground floor retail is rarely a major value generator in a mixed-use development, some developers choose not to prioritize such considerations and simply assume the space will remain vacant long term. Even developers who prioritize the success of ground floor retail in their projects may struggle to meet formula retailers' size and configuration standards given site dimensions and competing demands on ground floor space, such as podium parking.

Implications of Retail Market for San Rafael

- Despite the disruptions in the macro retail environment with major retailers closing stores, San Rafael has enjoyed tightening vacancy rates and rising rental rates, indicating demand by businesses selling retail goods and services.
- Retail in downtown San Rafael is supported by strong spending power by local residents and employees.
- Downtown San Rafael is on both sides of Highway 101 at the center of its trade area, generating high traffic volumes on its east-west thoroughfares, providing the visibility that many retailers rely on to drive sales.
- Downtown San Rafael provides an authentic town center experience that is difficult to replicate and can be further improved through the Precise Plan to support existing and new retailers.
- Downtown continues to face challenges within the retail sector, which include lack of activity during evenings and weekends, issues related to homelessness, and a lack of a coordinated marketing effort and strong identity for the Downtown.

- Existing retail spaces are fairly old and may be unsuitable for the type of tenants that are currently seeking space Downtown, particularly restaurants. Facilitating upgrades and renovations to existing spaces and ensuring that new spaces meet the needs of the tenants that want to locate Downtown could draw additional tenants to the Downtown area.
- The addition of family-friendly gathering places and support for businesses that will be active during evenings and weekends could enhance Downtown's image as an experiential retail destination.
- Permitting additional housing and office development downtown will add buying power to the local consumer spending base and help enliven the downtown, particularly during evenings and weekends.

Industrial/Flex Market

Industrial Market Context

While the City of San Rafael provides a significant amount of the industrial and flex space inventory in Marin County, the Downtown Precise Plan area currently serves a relatively limited role in the local and regional industrial and flex space real estate market. San Rafael's inventory of industrial and flex space totals 4.2 million square feet, accounting for more than half of the industrial/flex inventory in Marin County, according to data from Costar.

Only 1.3 percent of San Rafael's industrial/flex inventory (57,554 square feet) is located in the Precise Plan Area. Other clusters of industrial space in San Rafael are located at Highway 101 and Smith Ranch Road, between Anderson Road and Interstate 580 south of downtown, and along Francisco Boulevard East parallel to Interstate 580 towards the San Rafael-Richmond Bridge, as shown in Figure 4.13.

Industrial Market Conditions

Although current data on asking rents for industrial/flex space in San Rafael are not available from CoStar, the low vacancy rates for industrial/flex space citywide (1.2 percent) and throughout Marin County (3.8 percent) indicate strong demand for this type of space locally and regionally. While the vacancy rate in the Precise Plan Area is relatively high, all of the vacant inventory in the Plan area is in one 8,371-square foot property, and therefore the vacancy rate is not indicative of weak real estate market demand.

Additionally, while the Precise Plan Area and San Rafael recorded sizable negative net absorption—also typically an indicator of weak demand—over the past year, this was largely driven by the demolition of a single 38,000-square-foot building in the Precise Plan Area. Prior to that demolition, industrial occupancy had held relatively steady for at least ten years. Thus, this negative net absorption does not necessarily signal weak demand for industrial space, but it may underscore that industrial properties in Downtown San Rafael are targets for demolition, potentially in anticipation of redevelopment to higher value uses. Over the past ten years, the only new construction of industrial or flex space in Marin County has consisted of a small 8,325-square foot property in San Rafael, potentially indicating a shortage of modern industrial/flex space in the County.

Asking rents for industrial space in Marin County are reported by CoStar to have fallen by slightly over 17.1 percent (from $1.38 monthly per square foot on a triple net basis to $1.17 monthly per square foot) from the first quarter of 2018 to the first quarter of 2019, however, reported average asking rents are subject to large changes when only a few properties make up the vacant inventory. Cushman and Wakefield indicate that first quarter average asking rental rates in Central San Rafael are $1.44 monthly per square foot on a triple net basis, the highest quoted rate in Marin County.

While these trends suggest relatively strong demand for industrial and flex space in San Rafael, this type of use may be better suited for areas of the City other than the Downtown Precise Plan area. Large- or medium-scale industrial and flex uses could potentially be incompatible with existing and future residential uses in the downtown area. Additionally, these types of uses typically require a large, single-story floor plan on large site that accommodates truck access and loading requirements, and therefore are often incompatible with a transit-oriented development environment.

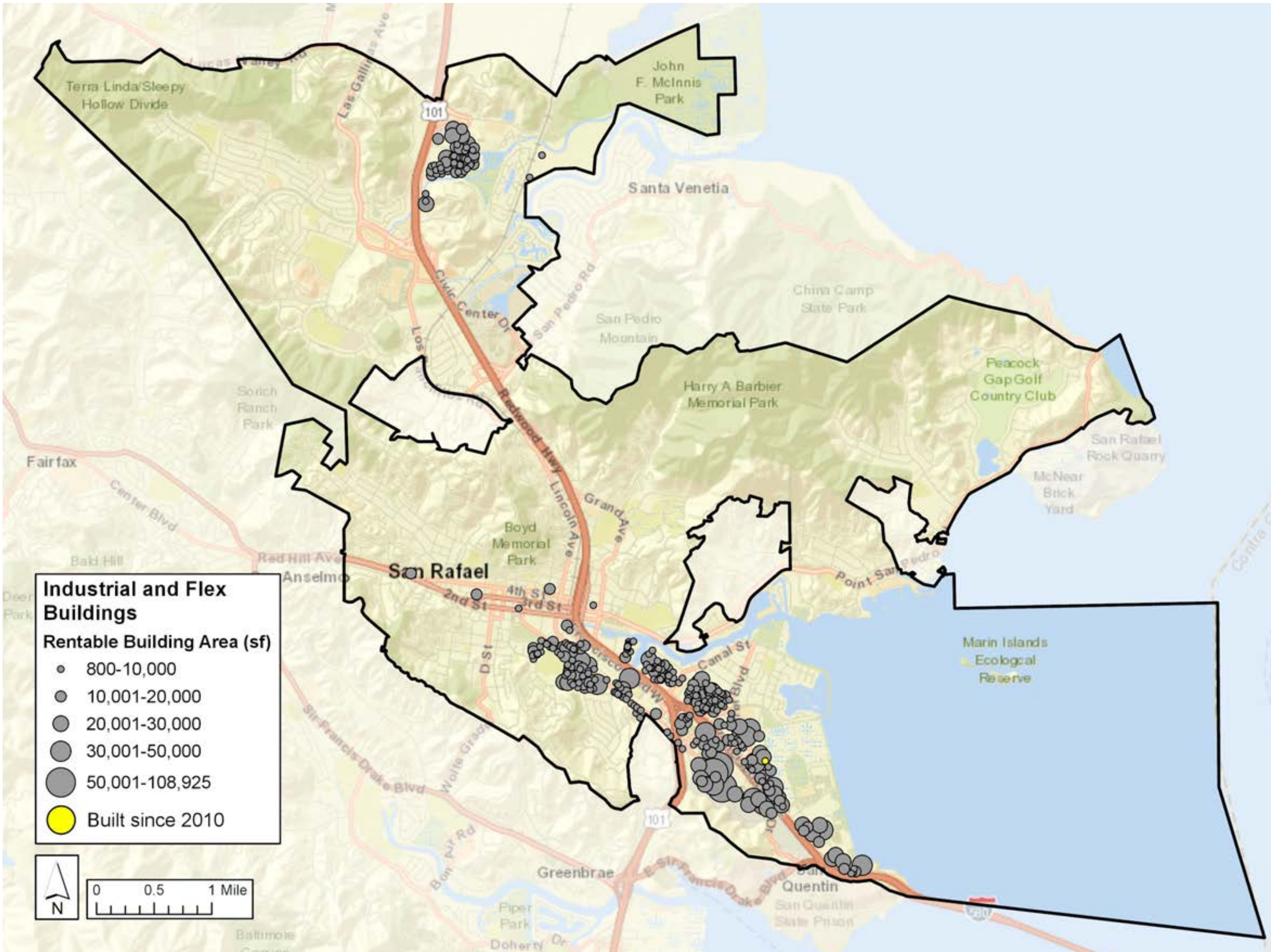


Figure 4.13. Geographic Distribution of Existing Industrial Inventory in San Rafael.

Sources: CoStar; BAE 2019.

Table 4.14: San Rafael Industrial/ Flex Real Estate Market Snapshot, Q1 2019

Sources: CoStar; BAE, 2019.

Industrial and Flex Summary	Downtown San Rafael	City of San Rafael	Marin County
Inventory (sf), Q1 2019 (a)	**57,554**	**4,207,520**	**8,210,822**
Occupied Stock (sf)	49,183	4,156,893	7,901,805
Vacant Stock (sf)	8,371	50,627	309,017
Vacancy Rate	14.5%	1.2%	3.8%
Avg. Asking NNN Rents			
Avg. Asking Rent (psf), Q1 2018	N/A (b)	N/A (b)	$1.38
Avg. Asking Rent (psf), Q1 2019	N/A (b)	N/A (b)	$1.14
% Change, Q1 2018 - Q1 2019	N/A (b)	N/A (b)	-17.4%
Net Absorption			
One-Year Net Absorption (sf), Q1 2018 - Q1 2019	(38,000)	(14,704)	(143,959)
Ten-Year Net Absorption (sf), Q1 2009 - Q1 2019	(40,177)	54,651	(55,237)
New Deliveries (sf), Q1 2009 - Q1 2019	0	8,325	8,325
Under Construction (sf), Q1 2019	0	0	0

Notes:

(a) First quarter 2019 data current as of March 25, 2019.

(b) Data not available from Costar.

National Industrial Trends

Location Criteria

Industrial developers, end users, and tenants typically seek large parcels with desirable topography (e.g., flat and with minimum potential for flood or other hazards), access to major interstate freeways and connecting arterials that avoid residential uses, access to other transportation modes such as freight rail, airports, or water (depending on nature of industrial activity), and access to workforce.

Flex Space

Flex space is typically developed at a low density (0.24 floor area ratio) to permit parking and truck movement. Office space comprises between 15 and 25 percent of total floor area with the remainder in high-bay configuration for warehouse, assembly, or R&D use. Flex space can accommodate a wide range of industrial sectors for businesses not requiring customized facilities. Flex space can also be attractive to technology or bioscience firms that are moving from a start-up or incubation phase to growth and expansion as well as PDR enterprises.

Warehouse
Logistics centers are a growing and evolving segment of the industrial sector that will continue to drive warehouse demand. With online retailers shifting to same-day deliveries and the proliferation of chain convenience stores, distributors are seeking smaller facilities (70,000 to 100,000 square feet compared to larger centers of up to one million square feet) at sites closer to major urban markets. The market for large facilities is also changing. Ceiling clear height requirements are moving from 20 to 25 feet to up to 80 to 100 feet. For all new or rehabilitated warehouse space, developers and tenants require highly energy efficient buildings in locations with excellent transportation connectivity.

Implications of Industrial Market for San Rafael

- While demand for industrial uses is high, location of this use in downtown San Rafael would not be appropriate due to the generally low intensity of this use. Industrial uses generally have fewer employees per 1,000 square feet than most other commercial land uses and do not activate the street as other commercial would such as office, hotel, and retail.
- Downtown San Rafael is also not a suitable location for industrial uses because industrial tenants typically seek locations separated from residential uses to avoid conflicts arising from truck traffic, noise, and vibrations.
- To the extent that the City of San Rafael has a goal of preserving existing industrial uses in and around the Precise Plan area, policies should generally discourage or disallow residential uses on or adjacent to existing industrial sites. Industrial properties tend to have relatively low values, creating an incentive for redevelopment to higher-value residential uses when allowed. Additionally, conflicts between residential uses and industrial uses can hamper the operation of industrial businesses, making industrial operations less viable over time.
- Due to its central location in Marin County and access to both Highway 101 and Interstate 580, "last-mile" distribution uses would be attracted to San Rafael if appropriate buildings and/or undeveloped parcels of sufficient size were available. However, most commercial areas of San Rafael are built out, requiring redevelopment of existing properties. These factors limit opportunities for new industrial.
- Many industrial spaces are used for PDR uses, including service commercial (e.g., auto repair, construction material suppliers, and home improvements), that seek low-cost locations and facilities.

Lodging Market

Lodging Market Context

San Rafael's lodging inventory consists of nine properties with a total of 792 rooms. Smith Travel Research (STR), a private data vendor that tracks performance trends in the lodging industry, distinguishes hotel properties by "class," based on the average room rates associated with the property's brand. As shown in Table 4.15, San Rafael's hotel inventory includes properties that range in scale from "Economy" (the most affordable class) to Upper Upscale Class (the second most expensive class). It also includes four independent (non-brand) lodging facilities. The City does not have any luxury class properties. Though none of the existing hotels in San Rafael are within the Downtown Precise Plan area, the City has received a proposal to construct a 140-room Marriot hotel on Fifth Avenue in the Precise Plan area. The City has also received a proposal to construct a 184-room Hampton Inn and Suites outside of the Precise Plan area, which would be located directly east of I-580 in the Canal area. These hotels would be the first constructed in San Rafael in the past 12 years; most of the lodging facilities in San Rafael are over 30 years old.

With the exception of the Embassy Suites and Panama Hotel, all of the existing lodging properties in San Rafael are clustered around the I-580/US 101 corridor, as shown in Figure 4.14. The Embassy Suites property is located slightly east of 101 near the Marin County Fairgrounds and adjacent to the Autodesk property. The Panama Hotel is a small bed and breakfast inn located west of 101 and just outside of the southern edge of the Downtown Precise Plan area boundary.

Within a relatively short distance of San Rafael, major regional attractions that drive visitation and hotel room demand include San Francisco and the Napa and Sonoma wine region as well as numerous attractions in western Marin County such as Muir Woods, Muir Beach, the Marin Headlands, and Stinson Beach. While San Rafael hotels likely benefit somewhat from these attractions, other locations within the region provide better proximity to these attractions and are therefore more competitive for hotel room stays.

However, San Rafael is home to several local drivers of visitation and hotel room demand that may support continued or increasing demand for lodging in San Rafael over the planning period of the Downtown Precise Plan. These include local companies, such as BioMarin and Autodesk, Dominican University of California, the Mill Valley Film Festival, the Marin County Fair, and Mission San Rafael Arcángel. Individuals familiar with the local area report that business travel is the primary driver of hotel room demand in San Rafael.

Table 4.15: Lodging Inventiry, 2019

Sources: STR; BAE, 2019.

Name	Class	# of Rooms	Year Opened
Embassy Suites by Hilton San Rafael Marin County	Upper Upscale	236	1990
Four Points by Sheraton San Rafael Marin County	Upscale	235	1970
Extended Stay America San Rafael Francisco Boulevard East	Economy	112	2007
Motel 6 San Rafael	Economy	68	1958
Villa Inn	Independent	60	1955
Travelodge San Rafael	Economy	32	1978
North Bay Inn	Independent	19	2005
Marin Lodge	Independent	17	1947
Panama Hotel	Independent	13	1984

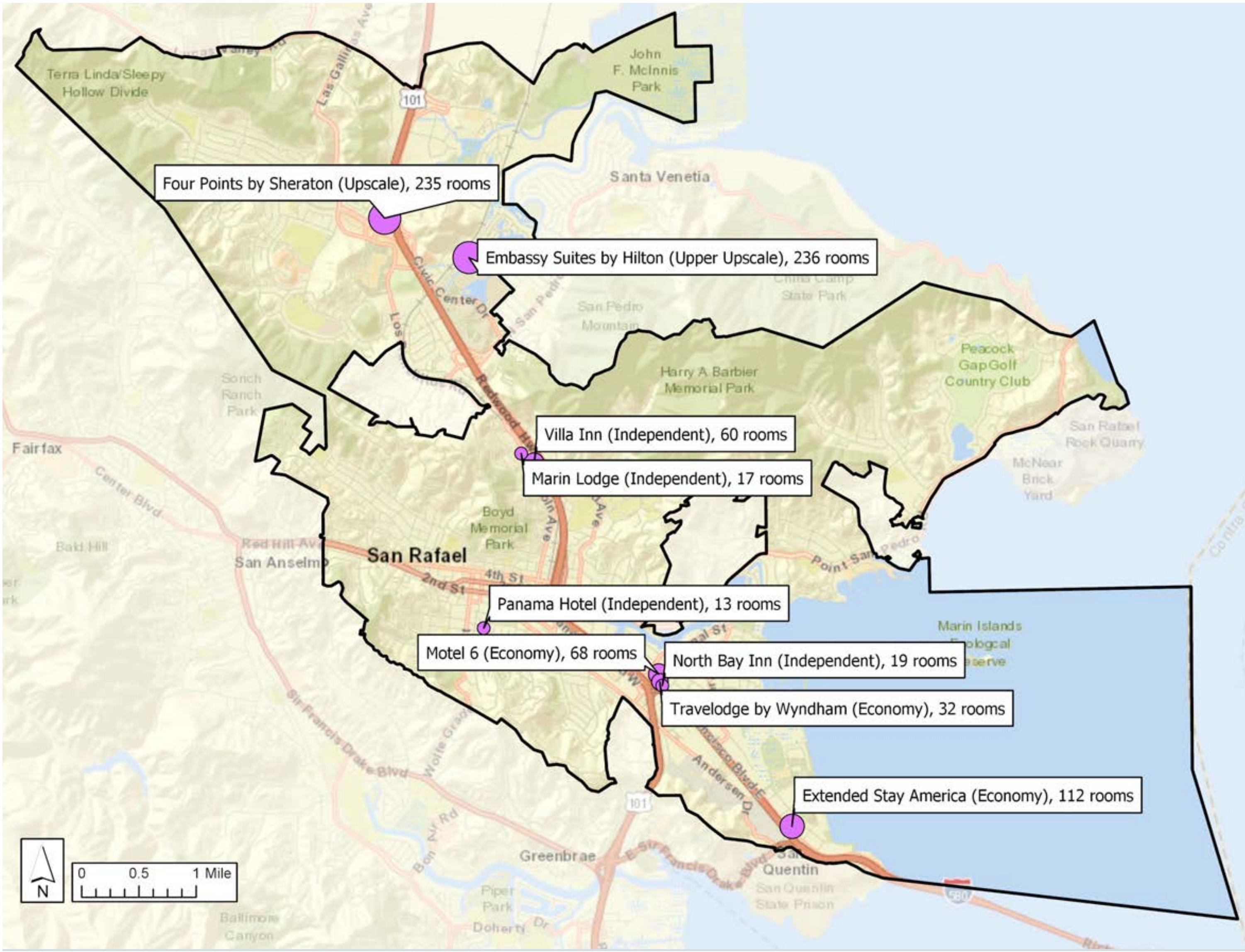


Figure 4.14. Location of Lodging Properties in San Rafael.

Sources: CoStar; BAE 2019.

Occupancy and Average Room Rates

The San Rafael hotel market has maintained relatively steady occupancy and average daily room rates (ADR) in recent years. As illustrated in Figure 4.15, the market recorded modest gains in occupancy accompanied by a surge in average daily room rates (ADR) between 2013 and 2016. Growth has slowed since 2016, with ADR holding in the low-to-mid $140s and the occupancy rate hovering around 82 percent.

Demand for hotel rooms in San Rafael tends to be higher during the week than on weekends, indicating that business travel is the primary source of hotel demand in the area, while leisure travel constitutes a smaller portion of demand. Figure 4.16 shows the average daily occupancy rates among STR-tracked hotels in the year spanning from May 2018 through April 2019. Occupancy rates are relatively strong throughout the week, peaking at nearly 90 percent on Tuesday and Wednesday nights. However, occupancy rates on Saturday nights are also relatively high, averaging 83 percent, indicating that leisure travel constitutes a portion of lodging demand in San Rafael.

National Lodging Market Trends

Business, leisure, and events drive hotel room demand
There are three primary sources of demand for hotel rooms, as well as related services such as meeting and event space. One of the largest sources of demand for hotels is from local business activity, for both individual business travel and business-related meetings, and most of this demand is associated with office-based employment. Leisure travelers, including tourists, represent another major source of demand, with group travel and events making up the third category of demand, including social, educational, non-profit, family, and others. Generating demand in all three segments are major businesses, educational and medical institutions, convention centers, and sports complexes, as well as tourist attractions.

Hotel room demand is heavily impacted by economic cycles
All of the sources of hotel room demand cycle with the general economy, and the currently strong and growing regional economy has led to increased occupancy and room rates throughout much of the Bay Area. The long-term planning horizon of the Precise Plan will span multiple economic cycles, causing fluctuations in market support for new hotel development over time.

Impact of Private Rentals
Private home rentals through online platforms such as Airbnb and VRBO have become increasingly prominent in the market for overnight accommodations. Private rentals typically offer a different type of accommodation and experience than traditional lodging options and therefore serve different segment of the demand for overnight accommodations to an extent. However, many travelers consider both private lodging and traditional lodging when planning overnight stays, potentially creating competition between the two types of accommodations. While research is mixed on the effect that private rentals have on more traditional lodging options, over the long term private home rentals may absorb a portion of the demand for traditional lodging, including in San Rafael.

Enhanced demand for experience-oriented stays
Some hotels operators are taking on an enhanced role in connecting guests to experiences, both at the hotel itself and in the local area, as part of their hotel stay. These experiences can range from social events and informal communal spaces within the hotel to offering classes and providing tours of local attractions.

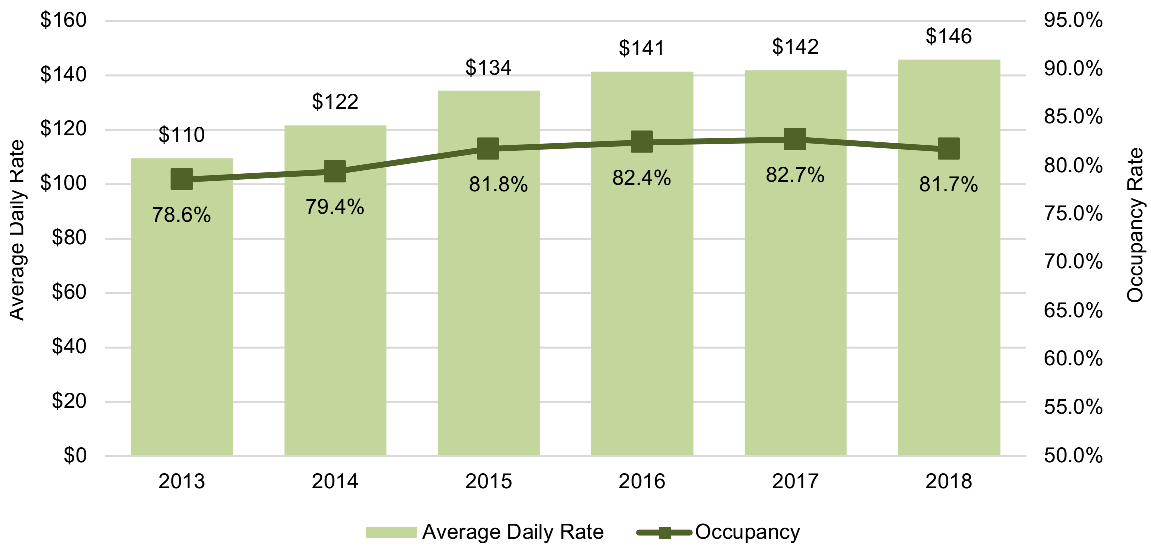


Figure 4.15: Average Daily Rate and Occupancy Trends, San Rafael, 2013-2018

Sources: STR; BAE, 2019.

Note*: Five San Rafael hotel properties participate in STR hotel occupancy and room rate surveys. These include three economy class hotels (Motel 6 San Rafael, Extended Stay America, and Travelodge), one upscale class hotel (Four Points by Sheraton) and one upper-upscale class hotel (Embassy Suites).*

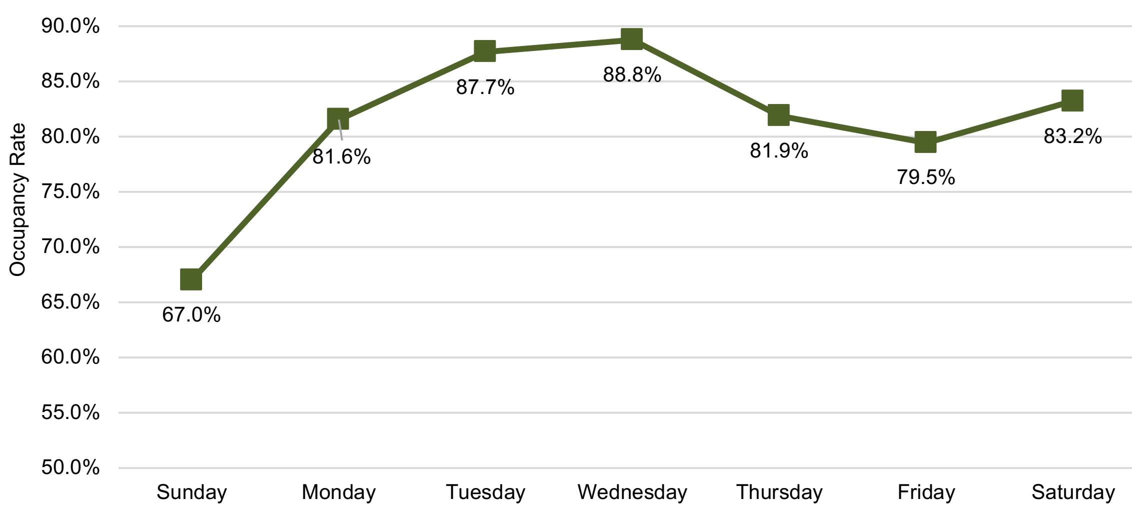


Figure 4.16: Occupancy by Day of the Week, San Rafael, May 2018 - April 2019

Sources: STR; BAE, 2019.

Note*: Five San Rafael hotel properties participate in STR hotel occupancy and room rate surveys. These include three economy class hotels (Motel 6 San Rafael, Extended Stay America, and Travelodge), one upscale class hotel (Four Points by Sheraton) and one upper-upscale class hotel (Embassy Suites).*

Focus on health & well-being
Many hotels have developed well-being strategies to enable guests to maintain healthy habits during their stay, including enhancing fitness centers and offering fitness classes.

Labor shortages in tight labor markets with high housing costs
Tight labor markets have increased competition for hotel workers in markets throughout the United States, while markets with high housing costs face increasing challenges in attracting and retaining employees.

Implications of Lodging Market for San Rafael

- San Rafael may be poised to experience increases in hotel room demand, particularly in the Precise Plan area, as BioMarin continues its expansion, potentially generating additional business-related travel. On a citywide level, increases in demand associated with BioMarin's expansion may counteract decreases in demand related to Autodesk reducing its local presence. However, these shifts in the City's employment base may have differential impacts on specific hotels, increasing demand for hotels in and near the Plan Area and reducing demand at hotels further north in San Rafael.
- New hotels in San Rafael, including in the Downtown Precise Plan Area, may be able to secure a competitive position in the local market relative to the existing lodging inventory, most of which is over 30 years old, by offering a more modern aesthetic and amenities.
- Hotels in San Rafael may seek to increase leisure travel stays in part by enhancing connections with local and regional attractions and experiences. Consistent with this trend, operators may be increasingly attracted to Downtown San Rafael, as it offers travelers an authentic downtown environment with restaurants, art, and entertainment options.
- Increasing the availability of affordable housing could be critical to the local hotel industry's ability to attract and retain employees in San Rafael's high-cost housing market.

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Economic Conditions: Key Findings

Looking to the future, San Rafael's downtown is well positioned to capture new residential, office, and retail growth based upon the following findings and observations drawn from its economic existing conditions:

Authentic Urban Environment

Downtown San Rafael offers an urban experience at a scale that is attractive to both existing and prospective residents, shoppers, and office employees. The downtown's sizeable stock of historic buildings gives it character and authenticity.

Retail Center of Gravity

Downtown is at the center of San Rafael's retail gravity with high traffic flows along Second and Third Streets, Highway 101, and other collector roads connecting to many of the City's residential neighborhoods, making it a convenient destination for shopping and entertainment.

SMART Service

The recent inauguration of SMART train service enhances the marketability of downtown by offering a new mobility option for both downtown residents and workers. Office brokers interviewed for this study have confirmed that office tenants strongly prefer a downtown location with amenities and multiple transit alternatives. Indeed, office vacancy rates downtown are lower than the citywide average (5.1 percent and 8.6 percent, respectively).

Residential Developer Preferences

Bay Area developers of multifamily residential seek transit-rich locations to give their projects a competitive edge and potentially higher rents.

Strong Household income in Market Area

While household income in San Rafael is close to the Bay Area median, the City is located in central Marin County which is one of the most educated and affluent counties in the nation, making it desirable for retailers.

Daytime Worker Population

The Census estimates that there are approximately 6,700 persons who work in Downtown San Rafael and the relocation and expansion of BioMarin to the downtown adds to the overall spending power of downtown workers.

Millenial Housing Preferences

More millennials (persons born between 1985 and 2004) having been moving into prime household formation age, generating demand for additional housing; renters prefer apartments that offer a rich set of amenities, including walkability to retail, restaurants, and entertainment.

Lodging and Hospitality

There are no existing hotels in downtown San Rafael and the City's last hotel opening was in 2007. New hotels may be able to secure a competitive position in the local market due to the obsolescence of the City's inventory with seven out of nine properties being 30 years old. There now is a proposal for a Marriot Hotel on Fifth Avenue. Adding a hotel to downtown will fill a gap in its existing mix of retail, office, and residential uses and a hotel will serve as an important amenity.

At the same time, downtown San Rafael faces challenges that the Precise Plan should address to realize the downtown's full potential, including:

Imbalance of Daytime Workers and Downtown Residents

There are far more daytime workers (6,700) in the Downtown Precise Plan area than employed residents who live there (1,200). This results in many businesses not staying open in the evening, resulting in fewer San Rafael residents patronizing the downtown.

Through Traffic and One-Way Streets

Second and Third Avenues in the Downtown Precise Plan area are one-way streets and support high through-traffic volumes. These two corridors are generally not pedestrian friendly and the street environment they create is not supportive of ground floor retail. B, C, and D Streets are also one-way but do not support as high traffic volumes as Second and Third Streets. The effect of so many one-way streets is that prospective patrons of downtown businesses are forced to drive several blocks out of their way if they miss an address or are seeking parking near a business destination. As part of the Downtown Precise Plan process, the City should consider reverting B, C, and D Streets back to a two-way configuration to make vehicular circulation easier and more convenient to prospective shoppers.

Small Parcels and Building Floor Plates

The Downtown Precise Plan area is comprised of many small parcels with nearly 60 percent of retail square feet contained in older buildings with less than 5,000 total square feet floor area. While in many cases smaller storefronts are attractive to small retailers and independent retailers offering goods and services, the age of the building stock often presents barriers to change in use due to code upgrade requirements and lack of ventilation to accommodate restaurant and entertainment uses. With retail and office rental rates at current levels, it is often not economically feasible to undertake a rehabilitation or adaptive reuse of these buildings. Small parcel sizes in Downtown makes it difficult to assemble sites for new infill development at an economically efficient scale and is one contributory factor to the lack of new housing development in the area.

Affordable Housing Requirements

The level and structure of the City's inclusionary housing requirements may be working against new multifamily rental housing in the Downtown Precise Plan area. The affordable housing requirement is 20 percent for a residential multifamily project with 20 or more units, which is often not financially feasible under current market conditions – even in the strongest rental sub-markets in the region (such as San Francisco and the Peninsula). Construction cost escalations have recently out-paced rental rate increases, creating a squeeze on project margins and rendering many proposed projects infeasible.

Public and Private Investment

The Downtown Precise Plan gives San Rafael the opportunity to formulate a plan and roadmap for new public and private investment in the downtown area. As seen in other similar communities in the Bay Area with historic downtowns, a combination of public and private investment in infrastructure can lead to a virtuous cycle of additional private investment and vitality as rents and property values increase in response to the positive impacts of these initial investments.


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