



bae urban economics

EXISTING ECONOMIC CONDITIONS

SAN RAFAEL 2040 STEERING COMMITTEE

JULY 10, 2019

San Rafael, California

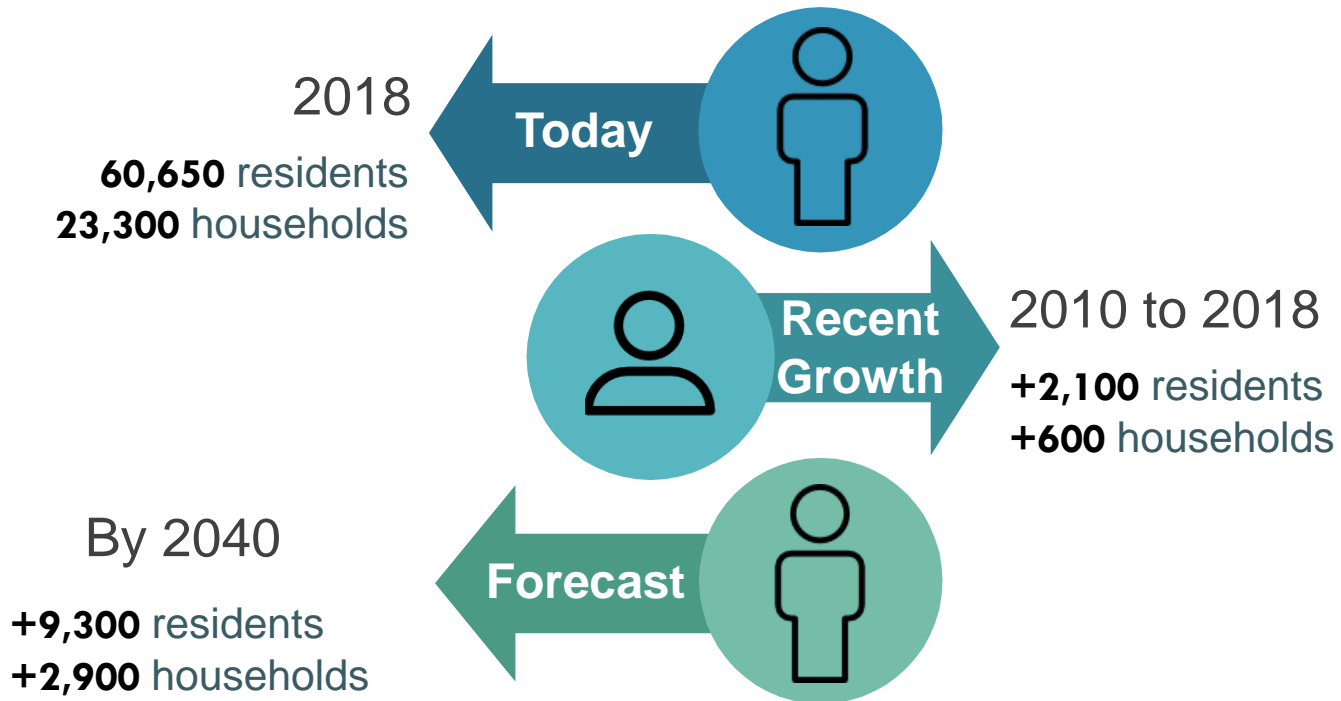
AGENDA

- Demographic and Economic Information
- Real Estate Market Conditions and Trends
- Questions

DEMOGRAPHICS



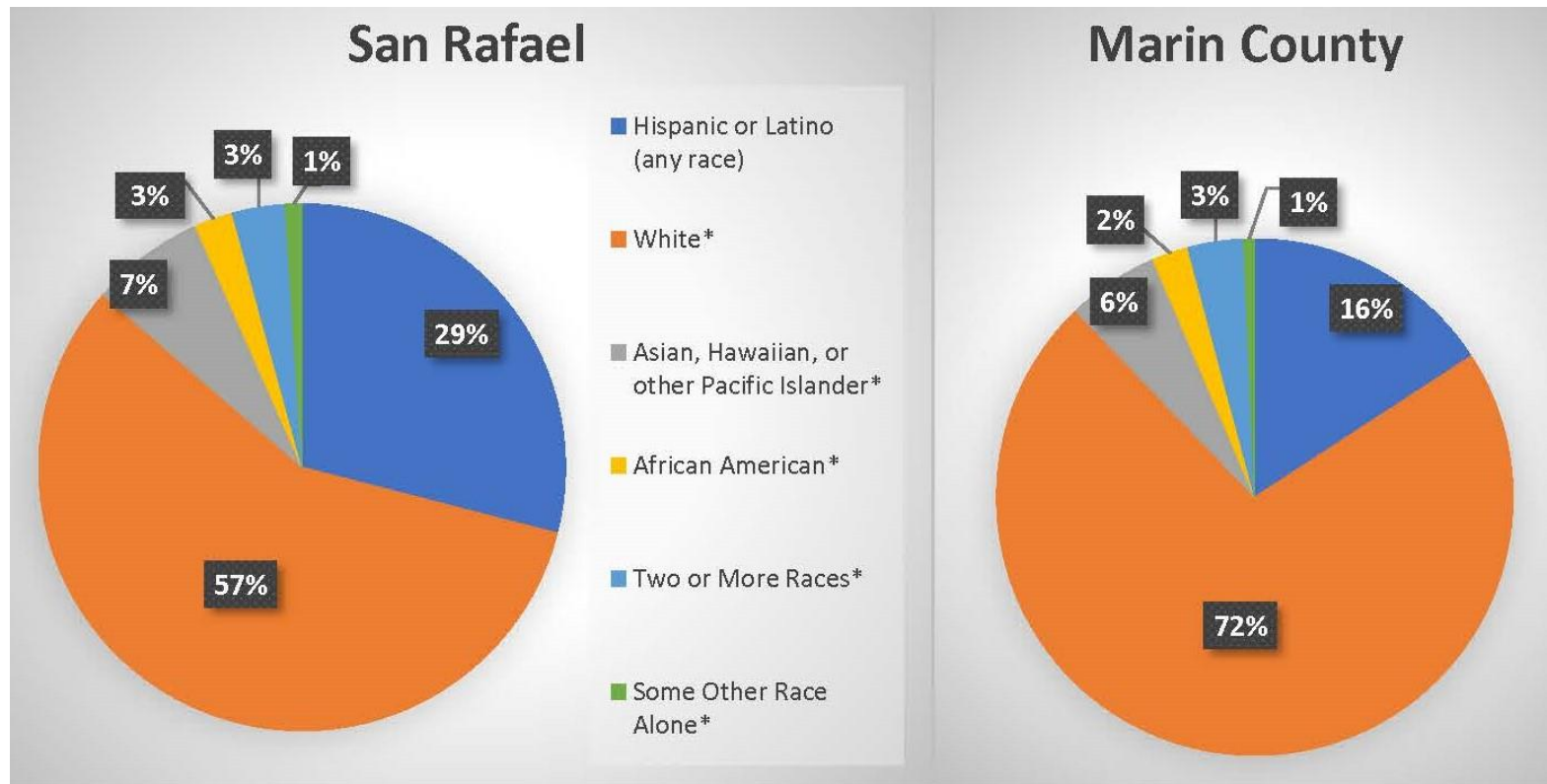
POPULATION



Sources: CA Department of Finance; ABAG; Esri; BAE 2019.

RACE AND ETHNICITY

San Rafael is a diverse community with a higher proportion of Hispanics than Marin County



Indicates Non-Hispanic

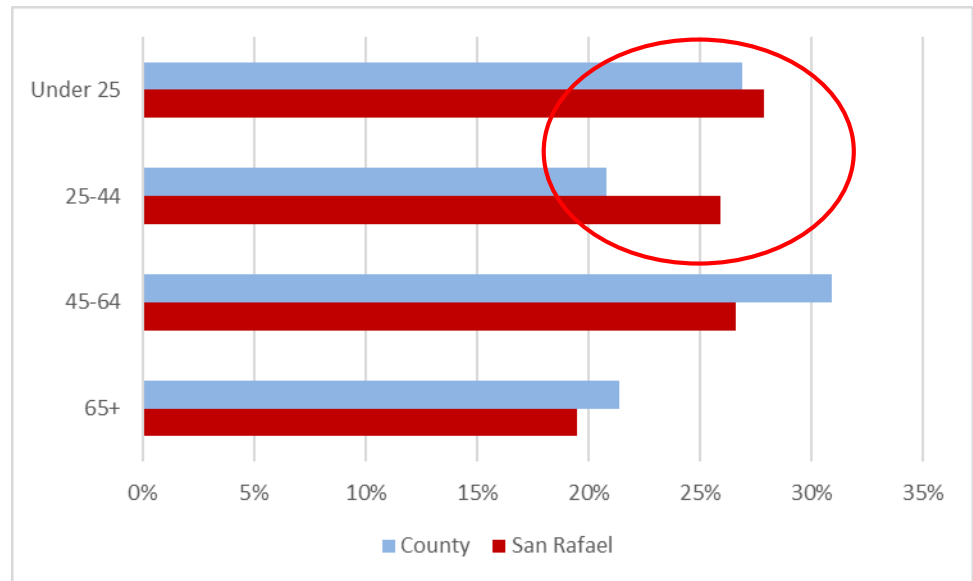
KEY DEMOGRAPHIC DATA

San Rafael's population is younger than the County's with a higher percentage of youth and young adults:

Median Age 2018

San Rafael 41.9

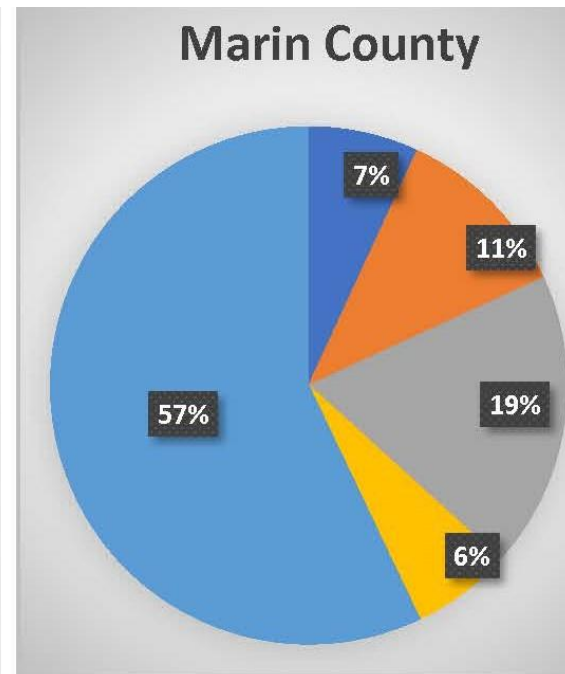
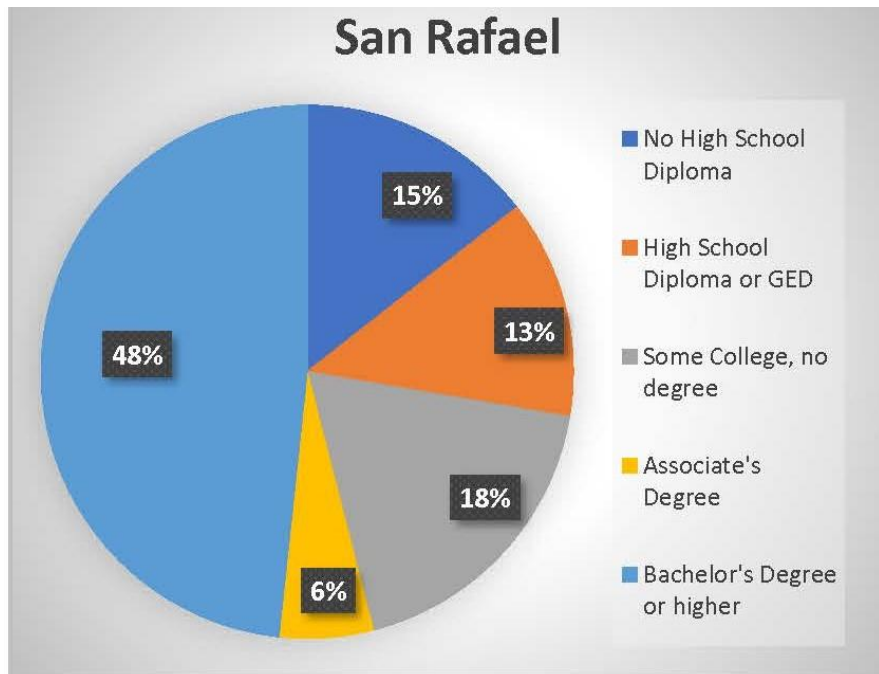
Marin County 46.7



Sources: Esri; BAE 2019.

EDUCATIONAL ATTAINMENT

San Rafael has fewer residents that have completed a Bachelor's degree or higher than Marin County



*Both Charts represent educational attainment for the population over 25 years of age

INCOME

San Rafael's median household income is lower than Marin County's and slightly below the region:

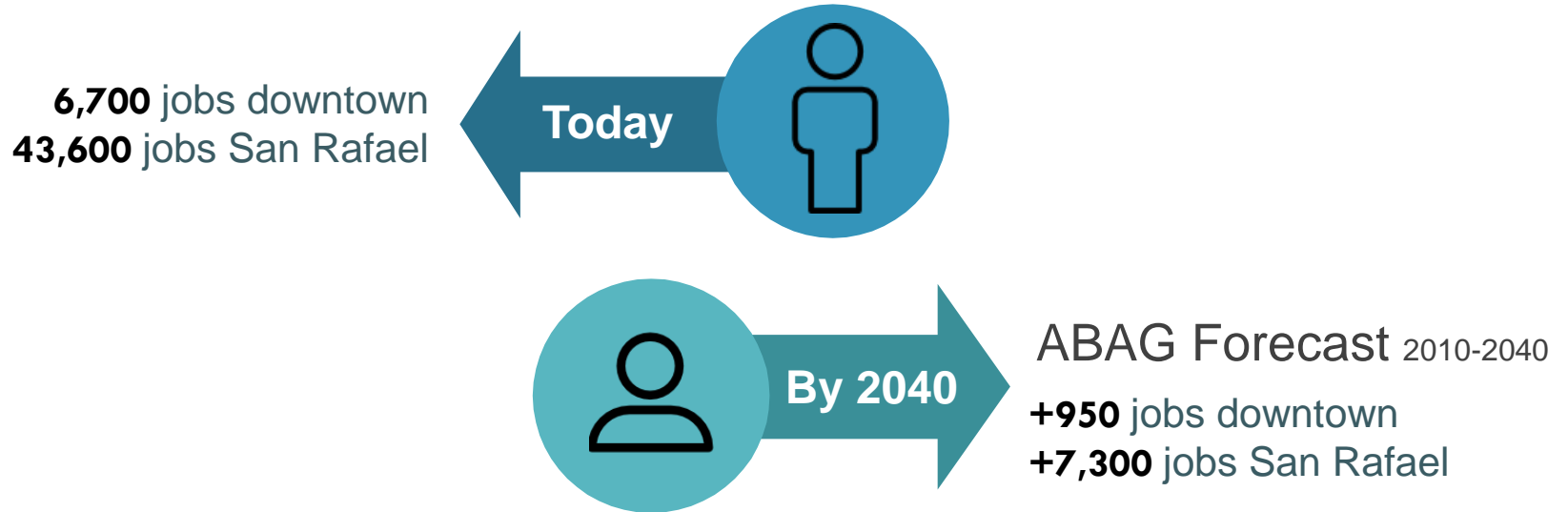


Sources: Esri; BAE 2019.

ECONOMY



EMPLOYMENT



Sources: ABAG; BAE 2019.

Note: "downtown" = Downtown Priority Development Area.

EMPLOYMENT BY SECTOR

San Rafael serves as a significant employment node within Marin County, with jobs across a range of industry sectors.

75% of jobs downtown is in these 5 sectors

Industry	Downtown San Rafael (a)		City of San Rafael		Marin County	
	#	%	#	%	#	%
Educational, Health and Social Services	1,295	19.3%	8,530	19.6%	26,875	21.1%
Professional, Scientific, Mgmt., Admin., & Waste Mgmt. Svcs	1,215	18.1%	7,305	16.8%	22,680	17.8%
Arts, Entertainment, Recreation, Accomm. and Food Svcs.	910	13.6%	3,485	8.0%	13,110	10.3%
Retail Trade	815	12.2%	4,910	11.3%	14,260	11.2%
Finance, Insurance, Real Estate, Rental, and Leasing	780	11.7%	3,310	7.6%	10,320	8.1%
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%
Information	185	2.8%	1,470	3.4%	3,680	2.9%
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%
Construction	120	1.8%	2,905	6.7%	8,450	6.6%
Transportation, Warehousing, and Utilities	100	1.5%	1,770	4.1%	3,365	2.6%
Agriculture, Forestry, Fishing, Hunting, and Mining	40	0.6%	140	0.3%	860	0.7%
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%

Sources: US Census Transportation Package; BAE 2019.

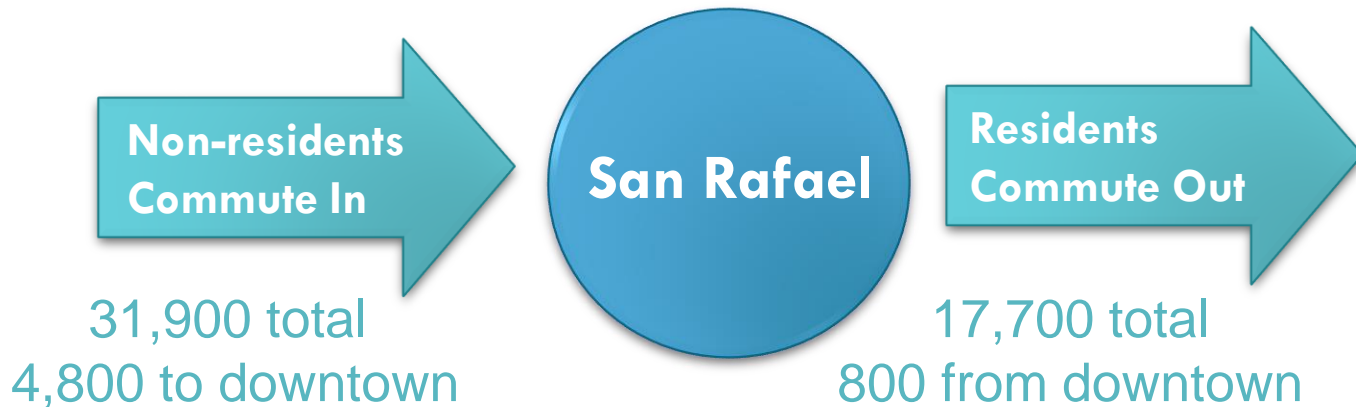
VENTURE-FUNDED START-UP ACTIVITY

One driver of economic activity in the Bay Area is venture capital-funded start-ups. San Rafael has seen a small share of this, 14 firms raised \$97.4M over the past five years.

<u>Business</u>	<u>Funding Type</u>	<u>Funds Raised</u>	<u>Announced Date</u>	<u>Business Description</u>
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		

OVERALL COMMUTE FLOWS

The City experiences heavy daily commute flows and this traffic on freeways & major arterials drives the desirability of retail locations:



About 11,600 people live and work in San Rafael.

Sources: US Census Transportation Package; BAE 2019. Note: this data source is one of three sources of commute data and is used here to be consistent with other employment data presented in this analysis.

COMMUTE FLOWS — SAN RAFAEL

Most commuting is within Marin County, but a significant share is within San Rafael itself.

Places of Residence for
San Rafael Workers

Place of Residence	Workers	
	Number	Percent
Alameda County, CA	1,955	4.5%
Contra Costa County, CA	4,040	9.3%
Marin County, CA	24,890	57.1%
<i>San Rafael</i>	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%

27%

Places of Work for
San Rafael Employed Residents

Place of Work (a)	Employed Residents	
	Number	Percent
Alameda County, CA	1,115	3.8%
Contra Costa County, CA	447	1.5%
Marin County, CA	20,436	69.8%
<i>San Rafael</i>	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%

Sources: US Census Transportation Package; BAE 2019.

Note: this data source is one of three sources of commute data and is used here to be consistent with other employment data presented in this analysis.

COMMUTE FLOWS – DOWNTOWN

Most commuting in and out of Downtown is even more concentrated within Marin County.

Places of Residence for
Downtown San Rafael Workers (a)

Place of Residence (c)	Workers	
	Number	Percent
Alameda County, CA	280	4.2%
Contra Costa County, CA	451	6.7%
Marin County, CA	4,164	62.1%
<i>San Rafael</i>	1,860	27.8%
<i>Downtown San Rafael (b)</i>	104	1.6%
<i>Other San Rafael</i>	1,756	26.2%
Napa County, CA	-	0.0%
San Francisco County, CA	390	5.8%
San Mateo County, CA	95	1.4%
Santa Clara County, CA	15	0.2%
Solano County, CA	263	3.9%
Sonoma County, CA	689	10.3%
All Other Locations	353	5.3%
Total Workers (d)	6,700	100.0%

62%

Places of Work for
Downtown San Rafael Employed Residents (b)

Place of Work (c)	Employed Residents	
	Number	Percent
Alameda County, CA	15	1.2%
Contra Costa County, CA	10	0.8%
Marin County, CA	852	70.1%
<i>San Rafael</i>	410	33.7%
<i>Downtown San Rafael (a)</i>	104	8.6%
<i>Other San Rafael</i>	306	25.2%
Napa County, CA	0	0.0%
San Francisco County, CA	225	18.5%
San Mateo County, CA	0	0.0%
Santa Clara County, CA	0	0.0%
Solano County, CA	0	0.0%
Sonoma County, CA	45	3.7%
All Other Locations	68	5.6%
Total Employed Residents (d)	1,215	100.0%

Sources: US Census Transportation Package; BAE 2019.

Note: this data source is one of three sources of commute data and is used here to be consistent with other employment data presented in this analysis.

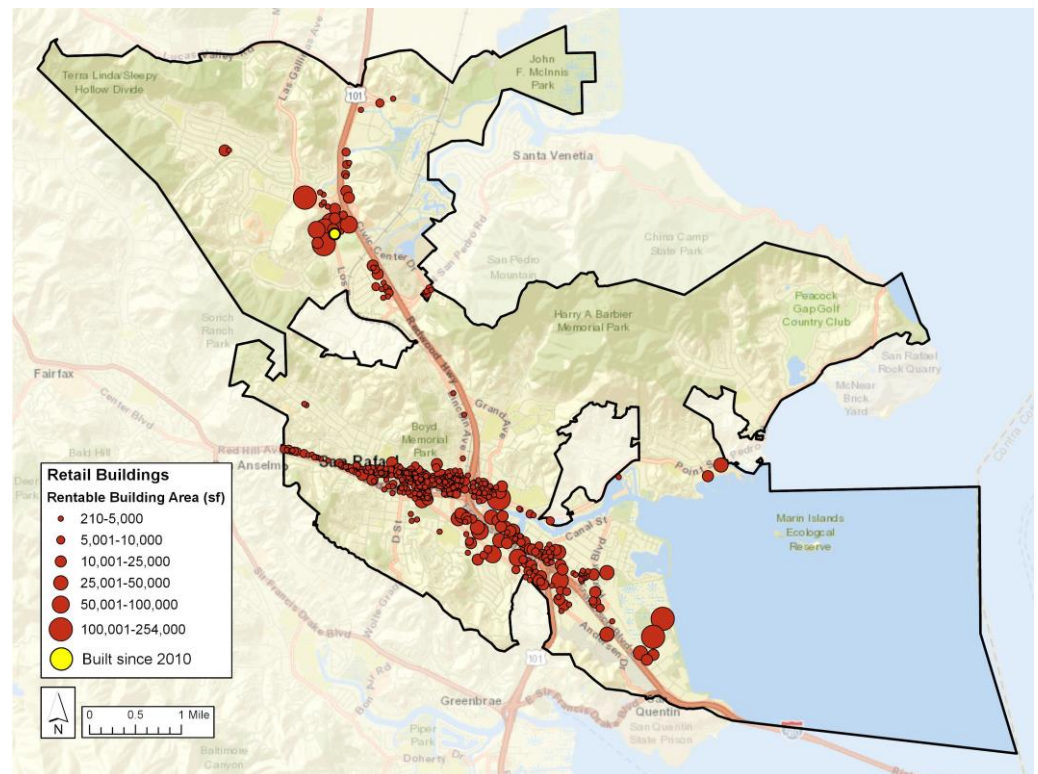
RETAIL TRENDS



RETAIL INVENTORY

The City's total inventory of 4.9M sq. ft. of retail space with 35% of this space in Downtown (1.7M sq. ft.)

- **Vacancies are low:**
 - 2.2% downtown (37,900 vacant sq. ft.)
 - 1.9% Citywide
- **Very little new retail delivered 2009-2019**
- **Retail rents, asking, monthly per sq. ft.:**
 - Citywide: \$2.24 monthly per sq. ft.
 - Downtown: \$2.27 modified gross basis
- **Affluent market area supports retail**
- **Retail buying power strengthened by increases in population and employment**



RETAIL GRAVITY - DOWNTOWN



'Gravity side of the trade area' is the general direction from which residents and daytime workers enter and exit the area

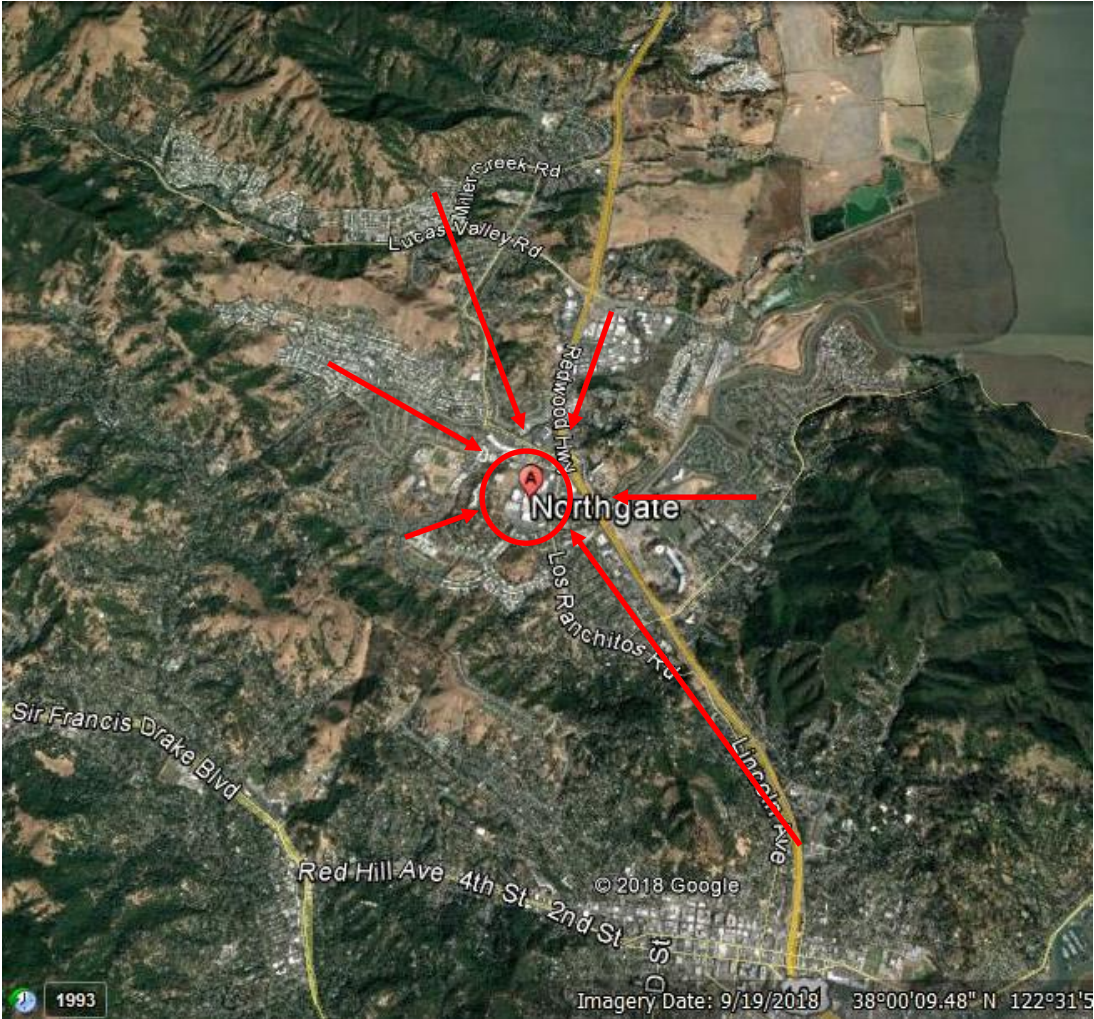
DOWNTOWN RETAIL INVENTORY

Most retail space is in Pre-War buildings with less than 5,000 square feet.

Year Built	Buildings		Square Footage	
	Number	Percent	Number	Percent
Before 1,949	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%

Rentable Bldg. Area (sf)	Buildings		Square Footage	
	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%

RETAIL GRAVITY - NORTHGATE



PER CAPITA RETAIL SPENDING

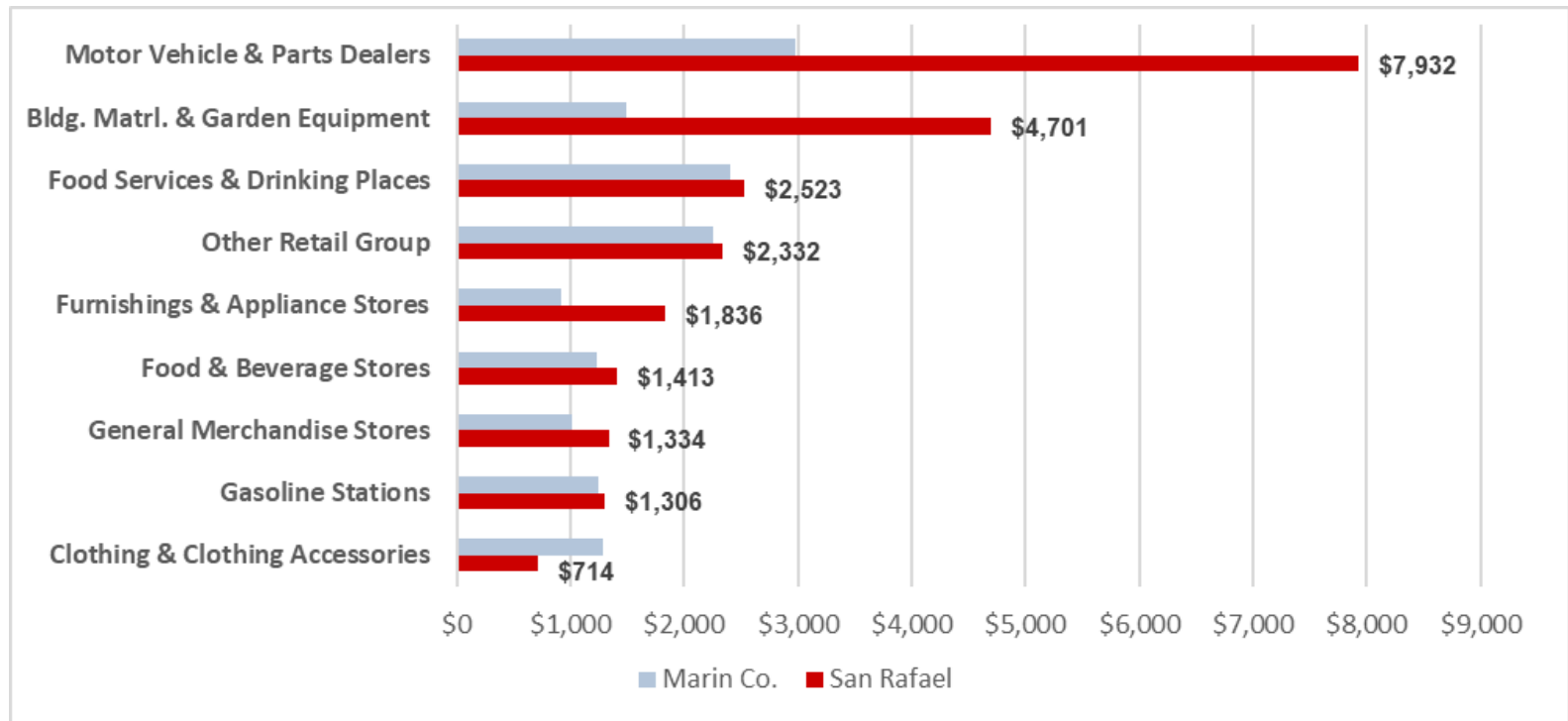
San Rafael gets a significant inflow of annual taxable retail sales:



Sources: State Board of Equalization; BAE 2019.

TAXABLE RETAIL SALES BY CATEGORY

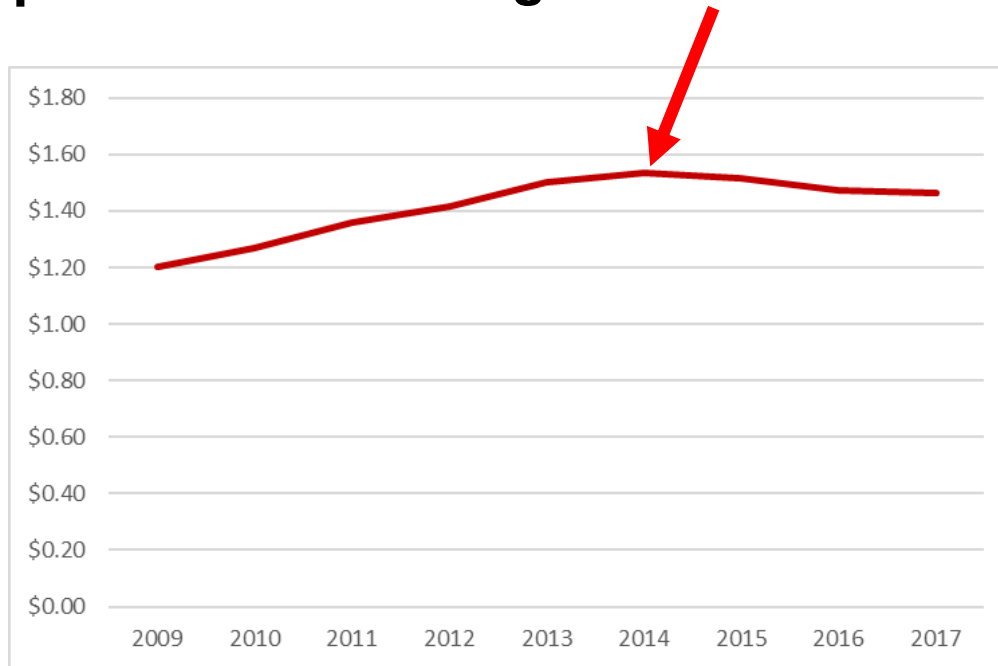
Motor Vehicle & Parts Dealers along with Building Materials and Garden Equipment show large injections of spending:



Sources: State Board of Equalization; BAE 2019.

RETAIL SALES TRENDS

While taxable retail sales recovered from the Great Recession, sales in San Rafael have declined on an inflation-adjusted basis starting in 2014:



Sources: State Board of Equalization; BAE 2019.

MACRO RETAIL TRENDS

- Retail Amenities
- Urbane suburbs
- Commodity versus specialty retail
- Rise of restaurants & entertainment
- Multichannel/Omnichannel retail
- The future of auto dealerships
- Ground floor retail challenges



These trends influence the degree to which San Rafael can ultimately enhance its downtown retail sector

URBANE SUBURBS

- The character, quality and offerings of a downtown play a significant role in advancing employment and population growth
- Many suburban communities are taking steps to strengthen their historic downtowns or promote the development of town centers
- San Rafael's downtown is an authentic 'urbane' environment



AMENITIES & EVENTS

Retail center owners are shifting to provide amenities such as food trucks, pop-up retail, outside events, gardens, outdoor seating, and play areas to encourage shoppers to linger and spend more dollars locally.



Food trucks



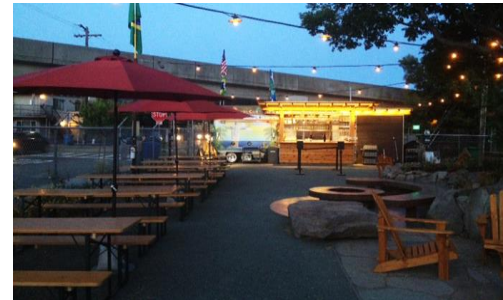
Farmers Market @ Marin
Country Mart, Larkspur CA



Pop-up retail @
Reston VA



Eco-garden at the Willows, Concord CA



Westbrae Biergarten, Berkeley CA

RETAIL AMENITIES

Key Points:

Investment in renovations that provide amenities and events programming can result in higher sales and sales tax revenues.

Cities and owners have partnered to permit creative renovations that enhance retail center attractiveness and performance.

Cities can offer greater flexibility in number, size, and design of signage and design of wayfinding programs.

Land freed up by revised parking standards and/or shared parking can be used to provide amenities and activity spaces.



COMMODITY VERSUS SPECIALTY RETAIL

- **Commodity or 'convenience' retail:**

- Frequently purchased goods & services
- Consumers seek best price and most convenient location
- Little or no emotional attachment – no sense of place
- Neighborhood centers aggregate commodity retailers



COMMODITY VERSUS SPECIALTY RETAIL

■ Specialty retail:

- Discretionary purchases made during scarce 'free time'
- Consumers seek a quality, enjoyable shopping environment
- Specialty centers combine unique combination of 'products' and 'sense of place'



OMNICHANNEL RETAIL

Retail shopping across multiple channels with a consistent and seamless experience:

- Online sales now 10% of total (per 2018 Census data)
- Online sales of frequent online customers 51% of sales (per 2016 UPS survey)
- Strong generational differences
- Retailers adopting 'showroom' formats
- Retail consolidation and shrinkage
- "Clicks to Bricks" online retailers moving into storefronts



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:

- Lack of project scale/critical mass
- Lack of pedestrian/vehicular traffic
- Providing adequate parking
- Accommodating formula retailers’ site and space configuration requirements



THE FUTURE OF AUTO DEALERSHIPS

Auto dealerships will survive but must to adapt to a rapidly changing auto-retail environment.

- Profit margins are declining: average US dealership operating profit 8.9% in 2015 and 1.7% in 1Q2018 (per McKinsey January 2019)
- Digital channels increase pricing transparency
- Parts and service and vehicle financing increasingly contribute to profits
- Auto parts more expensive with gains in technology
- Shared vehicles = more miles = more servicing
- Higher demand for used cars
- Electric cars require less servicing
- Dealers needs to adapt with focus on higher-end vehicles with higher level of in-store customer service
- Total number of dealerships and number of dealership groups will likely decline



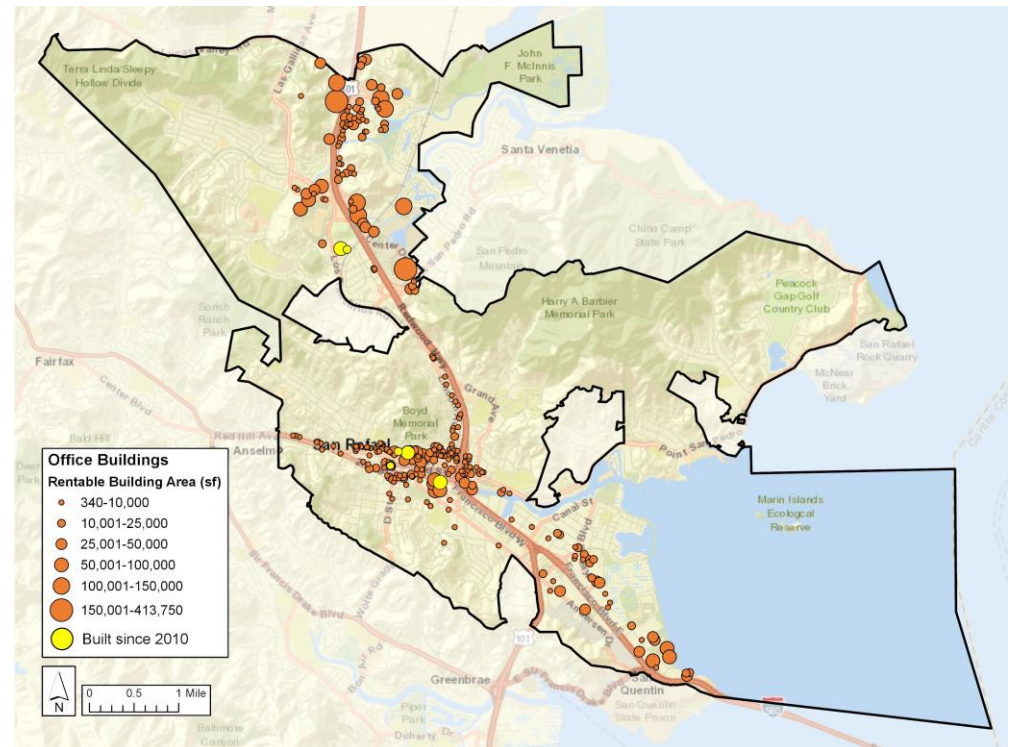
OFFICE TRENDS



OFFICE INVENTORY

The City's inventory comprises **5.4M sq. ft. of office space** with **1.6M sq. ft. downtown.**

- **Vacancies are low:**
 - 8.6% Citywide
 - 5.1% downtown (79,7000 vacant sq. ft.)
- **New office in Corporate Center downtown accounts for most new office delivered 2009-2019**
- **Office rents, monthly per sq. ft.:**
 - Class A: approaching \$4.00/full service
 - Class B: \$3.25 to \$3.50/full service
- **Brokers report strong demand by tenants seeking 2,000 to 5,000 sq. ft.**
- **Brokers positive towards new office near SMART**
- **Spinoff potential from Bio-Marin**





OFFICE TRENDS

- Shift to transit centers – BART/Caltrain
- Demand for state-of-the-art, sustainable workplaces
- Demand for building, site, and neighborhood amenities
- Higher employment densities and open floor plans
- Access to affordable housing and office tenant retention and recruitment

INDUSTRIAL TRENDS



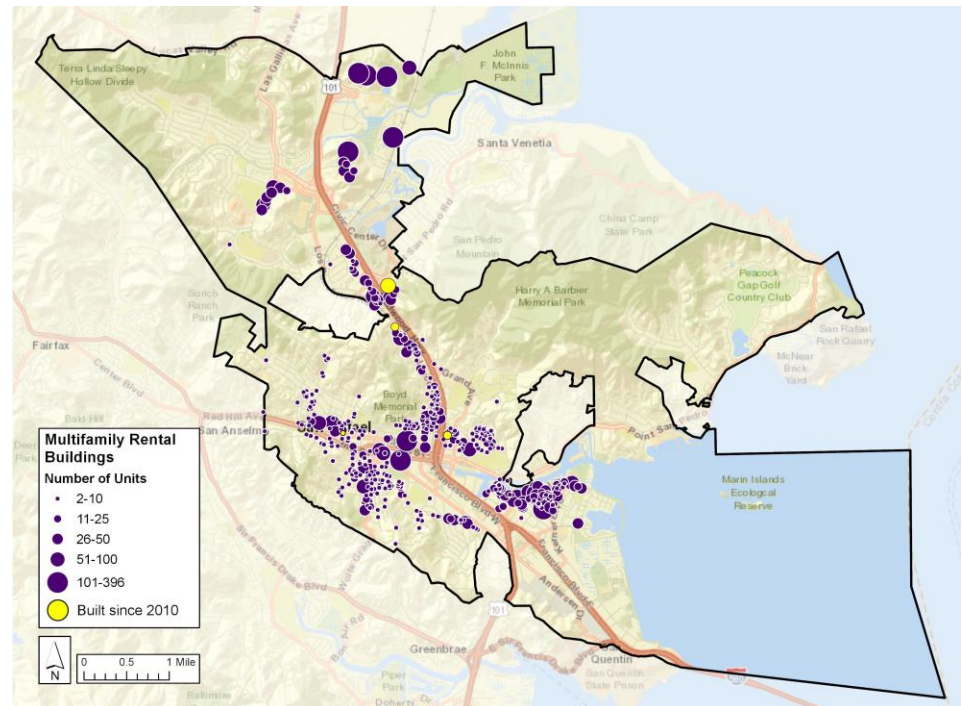
RESIDENTIAL TRENDS



MULTIFAMILY RENTAL INVENTORY

Downtown San Rafael has approximately 545* units out of the City's total inventory of 6,755* multifamily rental units

- **Vacancies are modest:**
 - 3.6% Citywide
 - 4.2% downtown (23 units vacant)
- **Very few new rental units delivered 2009-2019**
 - 108 units citywide
 - <20 units downtown
- **Rental rates, average monthly**
 - \$2,605 downtown
 - \$2,194 citywide
- **Demand for additional multifamily, especially with amenities and walkability**



* Number of units is higher than shown. These data are from CoStar Group which may not track all multifamily rental inventory. Data are presented here to show vacancy and average asking rental rates.

THANK YOU!



QUESTIONS

