EXISTING ECONOMIC CONDITIONS

Technical Background Analysis for the San Rafael 2040 General Plan Update

October 2019

Abstract

This report addresses the state of San Rafael's economy, including salient characteristics of the residential, office, retail, industrial, and hospitality market. The data will be used to help inform policy decisions and programs in General Plan 2040.

bae urban economics

INTRODUCTION

This technical background memorandum provides information on San Rafael's economy, including employment and real estate market trends, and evaluates future demand for new residential and non-residential development in the City. A separate report will be prepared addressing fiscal conditions, and the economic and fiscal implications of different land uses.

JOBS AND EMPLOYMENT TRENDS

San Rafael serves as a significant employment node within Marin County, with a net inflow of workers from other cities. The City accommodates a sizable share of the County's overall employment, accounting for approximately one-third of total employment in Marin County.

Jobs by Place of Work

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 1). There are approximately 43,500 jobs in the city.[1] By industry, employment in San Rafael is concentrated in education, health, and social services (20 percent), professional, scientific, management, administrative, and waste management services (17 percent), and retail trade (11 percent). Compared to the County overall, the City has a high concentration of jobs in public administration and in transportation, warehousing, and utilities industries. More than half of the countywide jobs in public administration and transportation, warehousing and utilities industries are located within San Rafael.

[1] Throughout this document, there are references to population and employment data for the "city"—unless otherwise specified, such data is for the incorporated area only, and excludes unincorporated areas with a San Rafael address such as Marinwood, Santa Venetia, Los Ranchitos, and Country Club.

Table 1: Workers by Industry, City of San Rafael and Marin County, 2012-2016

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

Note:
(a) Figures for San Rafael represent workers employed within San Rafael incorporated city limits, per US Census Bureau estimates.
(a) Totals may differ slightly from other sources due to independent rounding.
Sources: Census Transportation Planning Package, 2012-2016 five-year sample data, Table A202104; BAE, 2019.

With respect to occupations, most of the city's workers are employed in sales and office occupations (24 percent), service occupations (20 percent) and management, business, and financial occupations (19 percent). Together, these occupations account for well over half of the City's employment. These same occupations are similarly highly concentrated in the County (see Table 2).

Table 2: Worker Occupational Categories, City of San Rafael and Marin County, 2012-2016

	City of San Rafael (a)		Marin County	
Worker Occupation	**Number**	**Percent**	**Number**	**Percent**
Sales and Office Occupations	10,625	24%	29,295	23%
Service Occupations (b)	8,715	20%	26,325	21%
Management, Business, and Financial Occupations	8,225	19%	24,895	20%
Education, Legal and Arts Occupations	4,720	11%	16,445	13%
Natural Resources, Construction, and Maintenance Occupations	3,830	9%	10,165	8%
Production, Transportation, and Material Moving Occupations	2,805	6%	6,530	5%
Computer, Engineering, and Science Occupations	2,365	5%	7,375	6%
Health Practitioners and Technicians	2,265	5%	6,395	5%
Armed Forces	0	0%	95	0%
Total Workers (c)	**43,550**	**100%**	**127,520**	**100%**

Notes:
(a) Figures for San Rafeal represent workers employed within San Rafael incorporated city limits, per US Census Bureau estimates.
(b) Service occupations include protective services, food preparation and serving, building and grounds cleaning, healthcare support, and personal care services.
(c) Totals may differ slightly from other sources due to independent rounding.
Sources: Census Transportation Planning Package, 2012-2016 five-year sample data, Table A202106; BAE, 2019.

Venture-Funded Start-Up Activity

Employment growth in San Rafael 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, though the City's share of regional venture capital spending is approximately proportionate to the City's share of the region's population. As shown in Table 3, 14 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, or approximately equivalent to San Rafael's share of the Bay Area population. 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, in particular, will position the City to retain and attract more technology and other innovative start-up enterprises.

Table 3: Venture Capital-Funded Companies 2014-2019 YTD

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**		

Source: Crunchbase, Inc.; BAE, 2019

Employed Residents

As shown in Table 4 below, San Rafael varies somewhat from Marin County with respect to typical resident industries of employment. Education, health, and social services industries employ the largest share of City residents (20 percent), followed by professional, scientific, management, administrative, and waste management services (19 percent), arts, entertainment, recreation, accommodation, and food services (13 percent) and retail trade (10 percent). Relative to the County, the City has much higher concentrations of employed residents that work in the retail trade, construction, other services, and arts, entertainment, recreation, accommodation, and food services industries. Conversely, the City has a lower share of employed residents in finance, insurance, real estate, rental, and leasing (eight percent) compared to the county (ten percent).

Table 4: Employed Residents by Industry, City of San Rafael and Marin County, 2012-2016

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

Note:
(a) Data for San Rafael reflect estimates for employed persons that live within San Rafael incorporated city limits, per Census Bureau estimates.
(b) Totals may differ slightly from other sources due to independent rounding.
Sources: Census Transportation Planning Package, 2012-2016 five-year sample data, Table A102105; BAE, 2019.

Employed residents in San Rafael are much more strongly concentrated in service occupations than employed residents in Marin County overall. Nearly one-fourth of the employed residents in the City work in service occupations, compared to 16 percent of employed residents countywide (see Table 5). In Marin County, management, business, and financial occupations employ the largest share of residents (24 percent), followed by sales and office occupations (22 percent).

Table 5: Employed Resident Occupational Categories, City of San Rafael and Marin County, 2012-2016

Resident Occupation	City of San Rafael (a)		Marin County	
	Number	**Percent**	**Number**	**Percent**
Sales and Office Occupations	6,135	21%	28,020	22%
Service Occupations (b)	6,860	23%	19,750	16%
Management, Business, and Financial Occupations	5,620	19%	30,935	24%
Education, Legal and Arts Occupations	3,855	13%	19,570	15%
Natural Resources, Construction, and Maintenance Occupations	2,105	7%	7,165	6%
Production, Transportation, and Material Moving Occupations	1,755	6%	5,655	4%
Computer, Engineering, and Science Occupations	1,765	6%	8,560	7%
Health Practitioners and Technicians	1,190	4%	7,395	6%
Armed Forces	10	0%	125	0%
Total (c)	**29,295**	**100.0%**	**127,175**	**100.0%**

Notes:
(a) Data for San Rafael reflect estimates for employed persons that live within San Rafael incorporated city limits, per Census Bureau estimates.
(b) Service occupations include protective services, food preparation and serving, building and grounds cleaning, healthcare support, and personal care services.
(c) Totals may differ slightly from totals in other tables due to independent rounding.
Sources: Census Transportation Planning Package, 2012-2016 five-year sample data, Table A102107; BAE, 2019.

Commute Flows

The City of San Rafael has a strong employment base that depends on substantial in-commuting of workers from communities outside the City. As shown in Table 4 below, there are approximately 29,300 employed residents in the City, compared to 44,000 jobs. Roughly one-fourth of workers in San Rafael also live within San Rafael City limits (see Table 6), while another four percent (roughly) live in unincorporated San Rafael, in communities like Lucas Valley-Marinwood and Santa Venetia. Most of the City's other workers commute from other communities within Marin County or from neighboring counties such as Sonoma County and Contra Costa County. A large majority of employed San Rafael residents work within Marin County, with nearly 40 percent working within the City itself. Of those San Rafael residents that do not work in Marin County, most work in San Francisco. More than 18 percent of San Rafael's working residents work in San Francisco, with the remainder employed in locations scattered throughout the Bay Area and beyond.

Table 6: Commute Flows, City of San Rafael, 2012-2016

Places of Residence for San Rafael Workers (a)

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%*
Novato	*4,725*	*10.8%*
San Anselmo	*995*	*2.3%*
Santa Venetia	*870*	*2.0%*
Larkspur	*830*	*1.9%*
Fairfax	*645*	*1.5%*
Lucas Valley-Marinwood	*630*	*1.4%*
Tamalpais-Homestead Valley	*465*	*1.1%*
Corte Madera	*455*	*1.0%*
Mill Valley	*365*	*0.8%*
All Other Marin County	*3,290*	*7.6%*
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**	**130.5%**

Places of Work for San Rafael Employed Residents (a)

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%*
Novato	*2,030*	*6.9%*
Mill Valley	*1,150*	*3.9%*
Corte Madera	*1,025*	*3.5%*
Larkspur	*880*	*3.0%*
Sausalito	*550*	*1.9%*
Kentfield	*490*	*1.7%*
San Anselmo	*485*	*1.7%*
Tiburon	*315*	*1.1%*
Strawberry	*275*	*0.9%*
All Other Marin County	*1,616*	*5.5%*
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) Data for San Rafael workers reflect estimates for people that work within San Rafael incorporated city limits, per Census Bureau estimates. Data for San Rafael residents reflect estimates for employed persons that live within San Rafael incorporated city limits, per Census Bureau 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 totals in other tables due to independent rounding.

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.

[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).

Table 7: Taxable Retail Sales Trends, 2009-2017

Sales in 2018 $000 (a) (b)

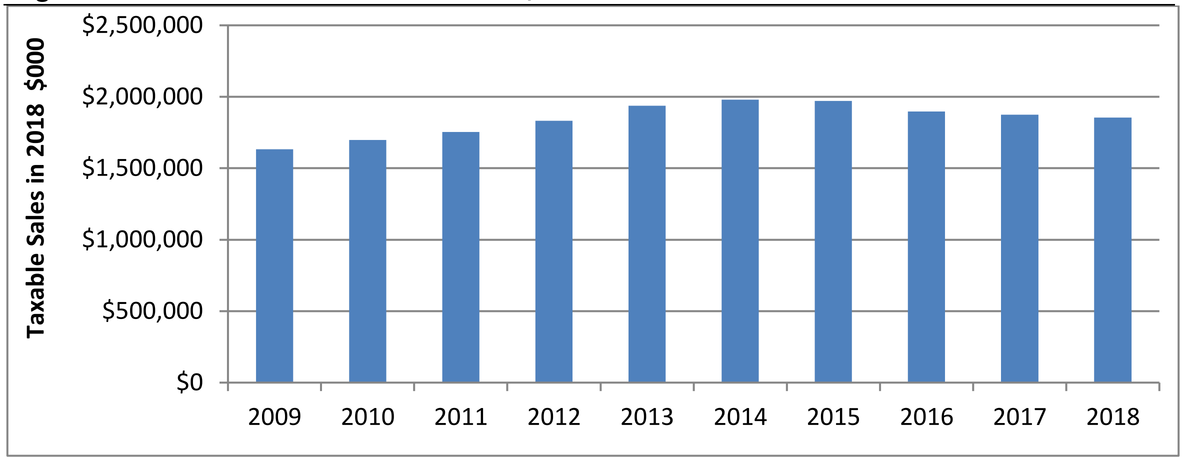
Year	San Rafael	Marin County	Bay Area
2009	$1,247,090	$3,523,485	$83,133,294
2010	$1,318,002	$3,659,903	$86,594,948
2011	$1,409,386	$3,834,744	$91,872,644
2012	$1,470,959	$4,001,017	$97,025,903
2013	$1,558,050	$4,201,396	$101,533,387
2014	$1,595,097	$4,244,200	$103,305,812
2015	$1,575,419	$4,236,396	$103,459,848
2016	$1,528,057	$4,133,693	$102,832,999
2017	$1,517,929	$4,053,997	$103,663,624
% Change 2009-2017	22%	15%	25%
% Change 2014-2017	-5%	-4%	0%

Notes:
(a) Retail sales have been adjusted to 2018 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.

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

In 2018, San Rafael reported approximately $1.9 billion in taxable sales. Three industry groups (autos and transportation, building and construction, and general consumer goods) together accounted for 74 percent of this total. On an inflation-adjusted basis, taxable sales increased by 14 percent between 2009 and 2018. However, this growth was entirely attributable to absolute gains in three industry groups: autos and transportation, building and construction, and restaurants and hotels. The remaining four major industry groups, including food and drugs, fuel and service stations, business and industry, and general consumer goods, all experienced declines in inflation-adjusted taxable sales between 2009 and 2018.

Figure 1: Taxable Sales in San Rafael, 2009-2018



Notes: Sales have been adjusted to 2018 dollars based on the Bay Area Consumer Price Index, U.S. Bureau of Labor Statistics.

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.

REAL ESTATE MARKET TRENDS

This section provides information on real estate market trends in San Rafael, 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 over the planning period for the General Plan Update.

Residential Market Overview

As shown in Table 8, approximately 55 percent of housing units in San Rafael are single family homes (both attached and detached), while 42 percent are multifamily units. Multifamily housing in San Rafael is commonly provided in smaller buildings containing less than 50 units, which account for approximately one-third of the housing stock. Units in multifamily buildings with 50 or more units make up approximately 8 percent of the housing stock.

Table 8: San Rafael Housing Units by Type of Structure, 2019

Type of Residence	Number	Percent
Single Family Detached	11,253	47%
Single Family Attached	1,993	8%
Multifamily 2-4 Units	2,128	9%
Multifamily 5 to 9 Units	2,065	9%
Multifamily 10 to 19 Units	1,916	8%
Multifamily 20 to 49 Units	2,042	9%
Multifamily 50 or More Units	1,941	8%
Mobile Homes and Other (a)	476	2%
Total	**23,814**	**100%**

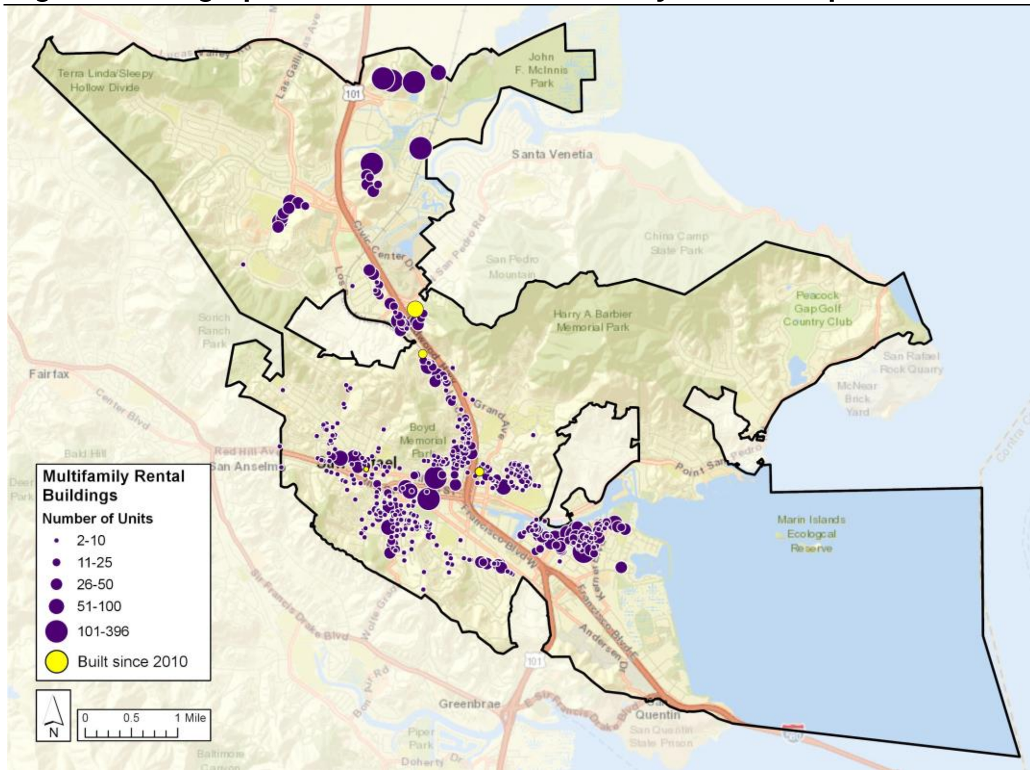
Note:
(a) Includes standard mobile homes and boats, RVs, vans, and other vehicles that serve as a primary residence.
Sources: ACS, 2013-2017; BAE, 2019.

Multifamily Rental Market

San Rafael has a strong multifamily rental market, with low vacancy rates and relatively high rents, particularly for new developments and those that have been recently renovated. Among properties tracked by CoStar, CoStar reports that the average market-rate multifamily rent has steadily increased over the past ten years with an average asking rent of $2,194 per month in the first quarter of 2019. The multifamily rent reported by CoStar may underestimate the actual average market-rate rent in multifamily properties in San Rafael, in part because the data from CoStar do not differentiate between market-rate rents and affordable rents in mixed-income buildings. Consequently, for market-rate buildings in San Rafael that include affordable units pursuant to the City's inclusionary ordinance, the average rent that CoStar reports would be based on both the market-rate and affordable rents. CoStar may also report lower average multifamily rents than other sources, as well as lower rents than are prevalent among current multifamily rental listings, because CoStar provides rent estimates for some multifamily buildings that do not have any available units for rent. Buildings that do not have units available may be skewed toward lower-cost buildings because tenants in these buildings tend to remain in their current units to avoid moving to higher-cost housing, potentially resulting in lower rates of unit turnover in buildings with lower rental rates.

The multifamily rental market is particularly strong in Downtown San Rafael, where average rents consistently exceed the citywide and countywide averages. Outside of Downtown, major concentrations of multifamily rental residential exist along the Highway 101 Corridor, in the Canal, Gerstle Park, Montecito/Happy Valley, Marinwood, and Terra Linda neighborhoods (see Figure 2).

Figure 2: Geographic Distribution of Multifamily Rental Properties in San Rafael



Sources: CoStar; BAE 2019.

Multifamily Rental Market Conditions

Rental rate and occupancy trends between 2010 and 2019 demonstrate that the market in Marin County is strengthening. As of the first quarter of 2019, the average asking rent was $2,492 per month in Marin County and $2,194 per month in San Rafael, according to data from CoStar, as discussed above. Although the overall average asking rent in San Rafael is currently below the county average, units in newer multifamily rental properties in San Rafael command rents that are significantly higher than the average for the County. Among the three newest multifamily rental buildings in the City – G Square, Prospect Hill, and 33 North – monthly asking rents averaged $3,803 per unit as of the first quarter of 2019. Online listings for available multifamily rental units show that recently-renovated projects also have rental rates that are similar to the rental rates for newer properties. Occupancy rates further demonstrate solid demand for rental housing in Marin County and San Rafael. As shown in Figure 4, the average vacancy rate in the City has largely tracked the county average since 2010. As of the first quarter of 2019, the average vacancy rate was just 3.2 percent in Marin County and 3.6 percent in San Rafael, signifying strong demand.

Despite strong multifamily rental market fundamentals, San Rafael has seen very little multifamily construction activity over the past ten years. CoStar reports a total of only 108 market-rate units in three buildings constructed between the first quarter of 2009 and the first quarter of 2019.[3] Although there are several macroeconomic factors that contribute to the overall low level of housing production in the City, discussions with stakeholders revealed that developers face major site assembly challenges in the downtown area. Parcels in the Downtown Precise Plan area are generally small and have diverse ownership, which makes assembling sites large enough for multifamily development very difficult and expensive. In addition, many long-time owners in the downtown area simply do not wish to sell their properties. The difficulty of parcel assemblage—coupled with high development costs, entitlement risks, and lengthy planning and environmental reviews—discourages local multifamily developers, as well as developers active elsewhere in the region, from entering the downtown market. Elsewhere in the city, the supply of vacant land zoned for multi-family housing is limited. Much of the potential is on under-developed commercial land, where housing is a permitted use.

Finally, it is possible that the structure of the City's existing inclusionary housing program is adversely impacting development feasibility of market-rate multifamily projects. Construction cost escalations in the Bay Area have significantly out-paced rental rate increases in recent years, creating a squeeze on project margins and rendering many projects infeasible. In such a high construction cost environment, projects subject to a 20 percent affordable requirement may not be financially feasible even in the strongest rental submarkets in the region (such as San Francisco and the Peninsula). For example, even cities such as Palo Alto, Mountain View, and Menlo Park, all of which are located in one of the strongest multifamily rental markets in the country, implement a 15 percent inclusionary requirement. Furthermore, in contrast to some cities that allow developers to opt out of providing inclusionary units by paying a fee, which is often substantially less expensive than providing the units, the City of San Rafael requires developers to provide inclusionary on site unless City Council approves an in-lieu fee payment or other alternative, and the in-lieu fee option is costly and generally discouraged.

[3] Since the CoStar data only covers market-rate units in market-rate and mixed-income properties, the total actual number of units constructed in the City during this period was likely higher. CoStar is not a reliable data source for tracking affordable units, or units in smaller multifamily properties. As mentioned previously, a large share of San Rafael's housing stock is contained in multifamily properties with less than 50 units.

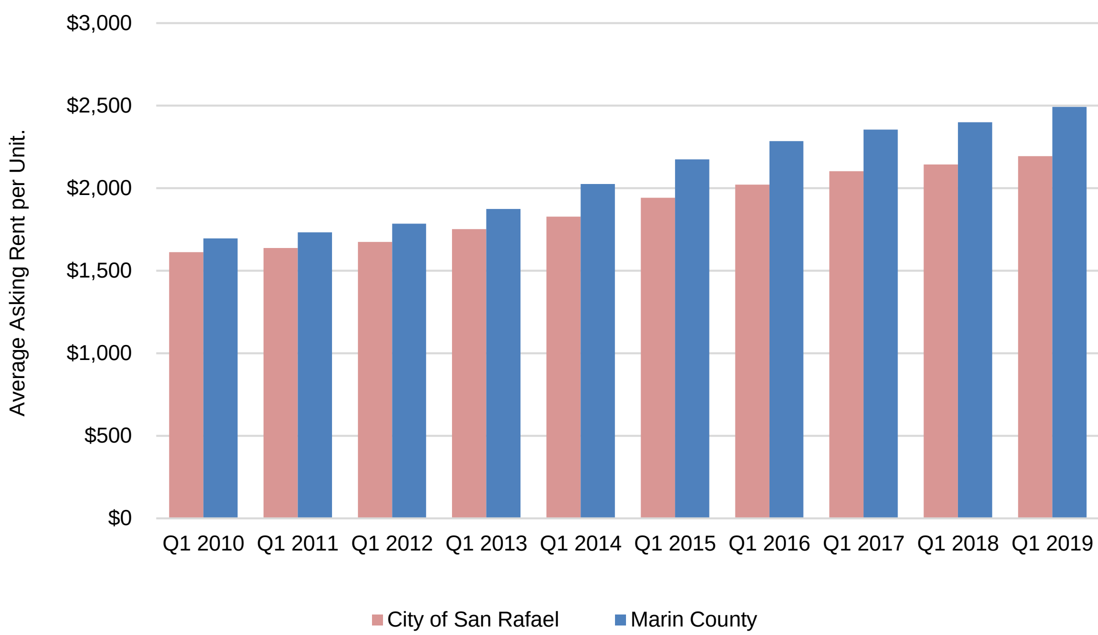
Table 9: San Rafael Multifamily Rental Real Estate Market Snapshot, Q1 2019

Multifamily Summary	City of San Rafael	Marin County
Inventory (units), Q1 2019 (a)	**6,755**	**16,873**
Occupied Units	6,510	16,329
Vacant Units	245	544
Vacancy Rate	3.6%	3.2%
Avg. Asking Rents, Q1 2018 - Q1 2019		
Avg. Asking Rent, Q1 2018	$2,144	$2,399
Avg. Asking Rent, Q1 2019	$2,194	$2,492
% Change Q1 2018 - Q1 2019	2.3%	3.9%
Under Construction (units), Q1 2019	15	15
Deliveries (units), Q1 2009 - Q1 2019	108	428

Notes:
Universe is units in market-rate and market-rate/affordable mixed income buildings only. Average rental rates shown include affordable units in mixed-income (market-rate and affordable) buildings, which may result in an underestimate of the average market-rate rent.
(a) First quarter 2019 data current as of March 25, 2019.

Sources: CoStar; BAE, 2019.

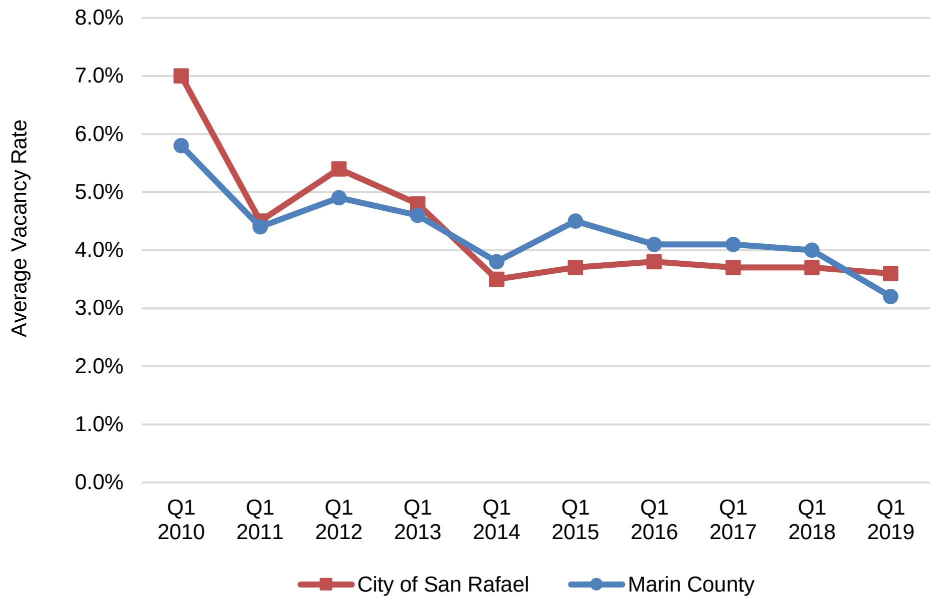
Figure 3: San Rafael Multifamily Rent Trends, 2010-2019



Notes:
Universe is market-rate units in market-rate and market-rate/affordable mixed income buildings only. Average rental rates shown include affordable units in mixed-income (market-rate and affordable) buildings, and rents for occupied as well as vacant units, which may result in an underestimate of the average market-rate rent.
(a) First quarter 2019 data current as of March 25, 2019.

Sources: CoStar; BAE, 2019.

Figure 4: San Rafael Multifamily Vacancy Trends, 2010-2019



Notes:
Universe is market-rate units in market-rate and market-rate/affordable mixed income buildings only.
(a) First quarter 2019 data current as of March 25, 2019.

Sources: CoStar; BAE, 2019.

National and Regional Multifamily Trends

Millennials and immigrants are primary drivers of household growth and therefore housing demand. As reported by the Joint Center for Housing Studies at Harvard University, the Millennial generation (born 1985 to 2004) is moving into prime household-formation age, which has implications for multifamily housing demand.[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 and are projected to account for a substantial share of household growth in the coming decade.

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.

[44] *The State of the Nation's Housing 2018*, Joint Center for Housing Studies of Harvard University, Figure 14.

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 are key factors in business location decisions and a key competitive advantage of the Bay Area.

Implications for Multifamily Rental Residential in San Rafael

- Downtown San Rafael is an attractive location for new multifamily residential since it offers a walkable environment with retail, entertainment, and other amenities that are sought by today's renters.
- Similarly, new multifamily residential in the Northgate area would be attractive due to adjacent or nearby retail amenities.
- Increasing rents and low vacancy rates indicate demand for new rental residential in the City.
- 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 and local regulations.
- 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 likely target the top end of the market, making it challenging to produce housing for moderate income renters.
- The City maintains a robust Below Market Rate (BMR) program that requires developers to include affordable housing units in their residential projects. In projects

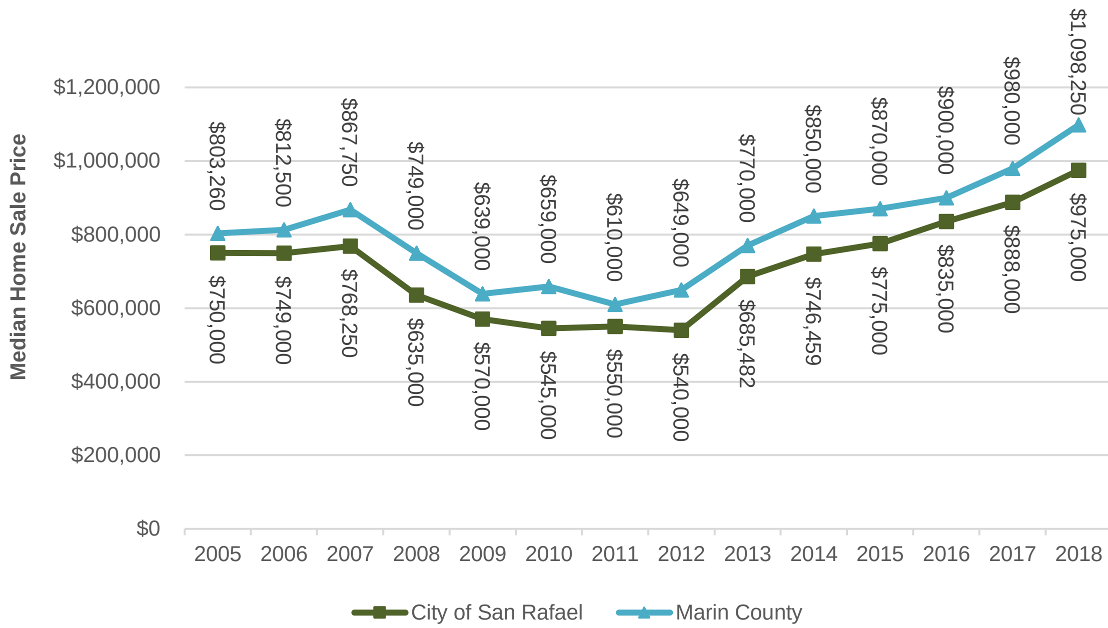
[5] See CASA COMPACT: A 15-Year Emergency Policy Package to Confront the Housing Crisis in the San Francisco Bay Area January 2019, page 1.
[6] *Bay Area in 2015: A Survey of the Views on Housing, Transportation, and Community in the Greater San Francisco Bay Area*, Urban Land Institute, 2016.

of two to ten units, developers are required to set aside ten percent of units as affordable. Projects of 11 to 20 units require a 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. 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. This practice is discouraged, however, and the high cost of the in-lieu fee serves as a disincentive that prevents many developers from pursuing the in-lieu fee option. 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

San Rafael has a strong for-sale residential market. 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 5). 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 San Rafael, which accounted for 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 the median home sale price for single-family homes sold in San Rafael was $1.16 million. These data indicate that there is robust demand for ownership housing in San Rafael.

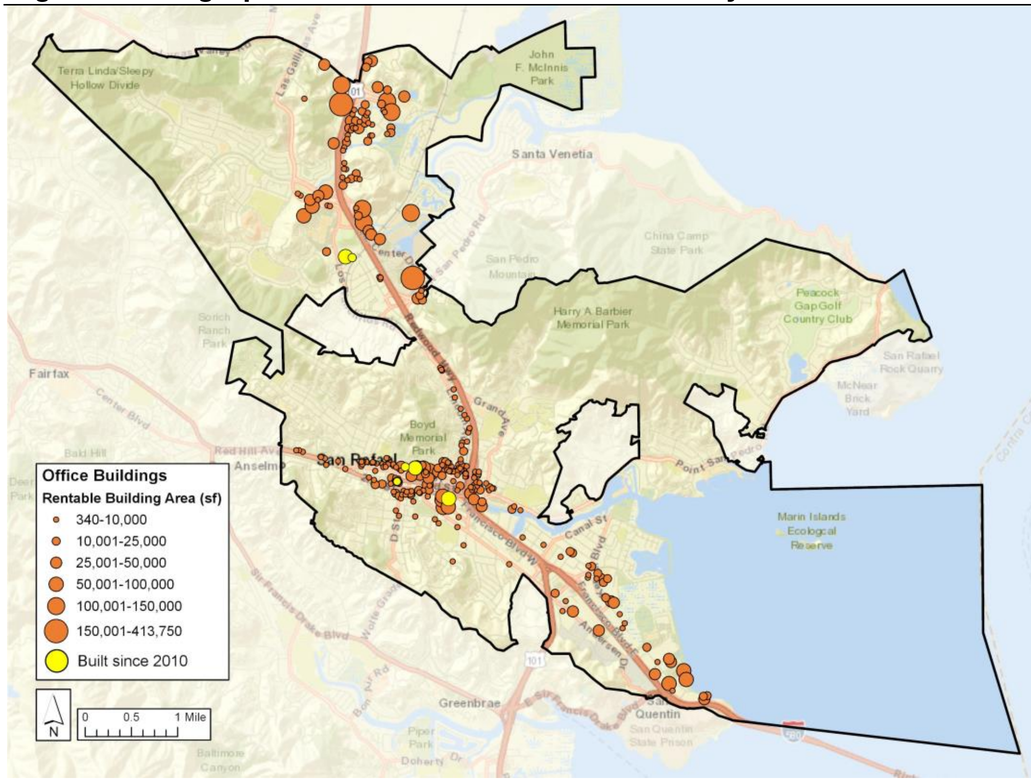
Figure 5: Median Home Sale Price, San Rafael and Marin County, 2005-2018



Office Market

As discussed above, San Rafael is a significant employment node in Marin County, largely due to the strong presence of BioMarin, Autodesk, the County Civic Center, Northgate business centers, 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 2nd 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. The geographic distribution of San Rafael's office inventory is shown in Figure 6. As shown, office properties are primarily clustered in the downtown area and various areas along the Highway 101 Corridor.

Figure 6: Geographic Distribution of Office Inventory in San Rafael



Sources: Sources: CoStar; BAE, 2019.

Office Market Conditions

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, accounting for 43 percent of all office space countywide (see Table 10). The City's office rents tend to be lower than the county average. As of the first quarter of 2019, average triple-net asking rents were $2.91 per square foot per month in San Rafael and $3.18 per square foot per month in Marin County.[7] While the average asking rent for office space in San Rafael is lower than the countywide average, San Rafael accounted for almost all the new office space that was constructed in Marin County between 2009 and 2018, indicating strong demand for additional high-quality office space in the City. Office vacancy rates in San Rafael have also decreased substantially since 2010, and as of the first quarter of 2019, the office vacancy rate was much lower in San Rafael (8.6 percent) than in Marin County as a whole (14.1 percent).

[7] Triple net refers to lease agreements in which the tenant is responsible for real estate taxes, insurance, and maintenance, as well as rent and utilities.

While the average asking rent for office space in San Rafael is currently lower than the rent needed to support new construction, conversations with local brokers suggest that the market for newer office space in the City is robust. According to a local broker, prospective tenants are attracted to the City's strong transportation connectivity and pedestrian amenities relative to other Marin County submarkets, and there is a strong demand among small and mid-sized professional services firms to locate in areas such as downtown. However, most available office spaces in downtown San Rafael are older and smaller than what most prospective office tenants are seeking. This suggests that long-term vacancies may be a consequence of physical space characteristics, not an indicator of weak demand generally. A local office broker noted that rents for existing Class A product are approximately $4.00 per square foot (on a full-service basis). New, turnkey space could command even higher rents.

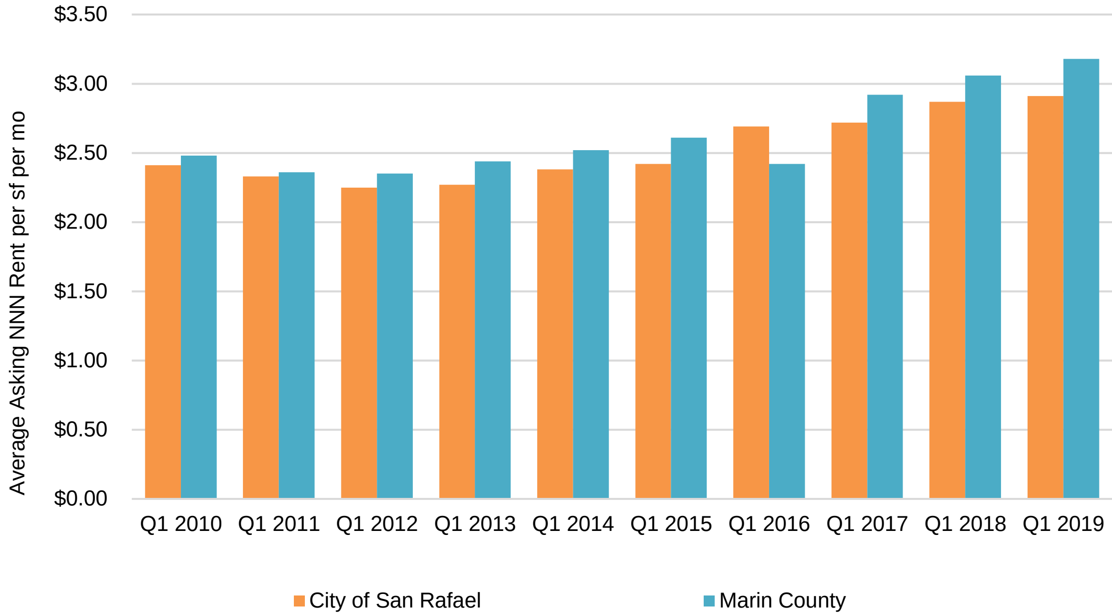
Local brokers suggest that there are opportunities for new office space, particularly at the eastern end of Downtown. Most prospective tenants are seeking between 2,000 and 5,000 square feet, although firms with larger space needs could also be attracted to Downtown but would have very limited options in existing buildings. For this reason, brokers recommend that new office developments utilize a 10,000-square-foot floorplate divisible to 2,000 square feet.

Table 10: San Rafael Office Real Estate Market Snapshot, Q1 2019

Office Summary	**Downtown San Rafael** (a)	**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), Q1 2018	$2.89	$2.87	$3.06
Avg. Asking Rent (psf), Q1 2019 (b)	$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 - Q4 2018	545	(41,330)	(100,104)
Ten-Year Net Absorption (sf), Q1 2009 - Q4 2018	268,693	465,079	(92,623)
New Deliveries (sf), Q1 2009 - Q4 2018	**266,028**	**341,916**	**395,395**
Under Construction (sf), Q1 2019 (a)	**0**	**17,091**	**17,091**

Notes:
(a) Data for Downtown San Rafael include all office properties in the Costar inventory within the Downtown San Rafael Precise Plan Area boundary.
(b) First quarter 2019 data current as of March 25, 2019.
Sources: CoStar; BAE, 2019.

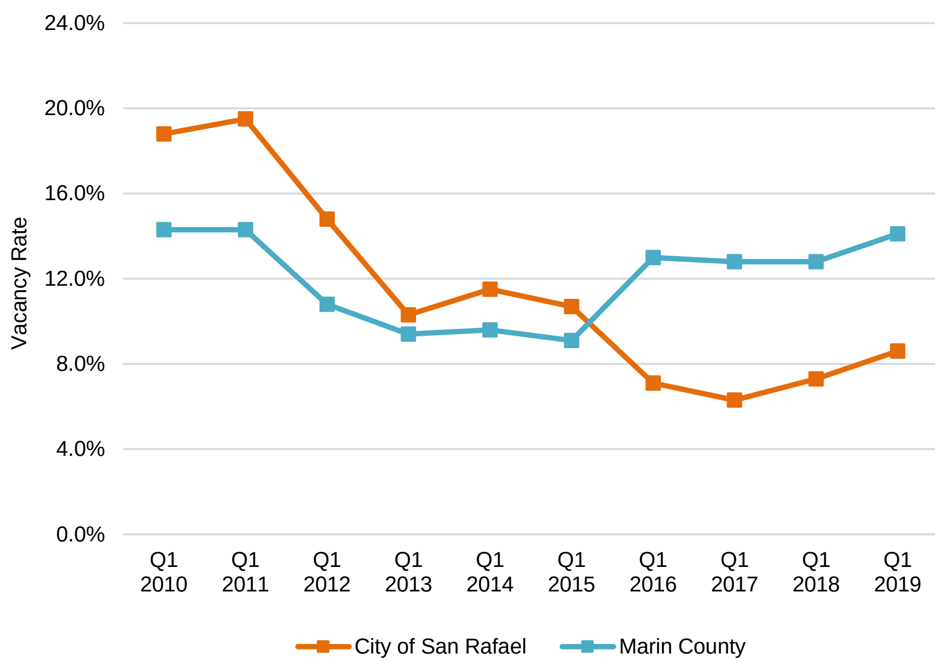
Figure 7: San Rafael and Marin County Office Rent Trends, 2010-2019



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

Sources: CoStar; BAE, 2019.

Figure 8: San Rafael and Marin County Office Vacancy Trends, 2010-2019



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

Sources: CoStar; BAE, 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 in San Rafael's downtown, 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.[8]

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[8] 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

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 to continued long-term economic growth in the region.

Downtowns are 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 or Caltrain stations and robust nearby amenities, including retail, open spaces, cultural and recreation facilities, and other common amenities.

Implications of Office Market for San Rafael

- 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 currently under construction. This likely reflects the unwillingness of developers and lenders to pursue projects on a speculative basis (with no credit-worthy 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 in turn attract other companies that specialize in related support functions, which generates additional employment in the area. Accordingly, BioMarin's expanding presence in the City could stimulate future additional demand for office space in the downtown 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.
- To support the marketing of traditional office parks, the City could work with property owners to provide more amenities, including housing, and strengthen mobility options.
- 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 is attractive to current and prospective employers. The potential for new office development in the City can be strengthened by both

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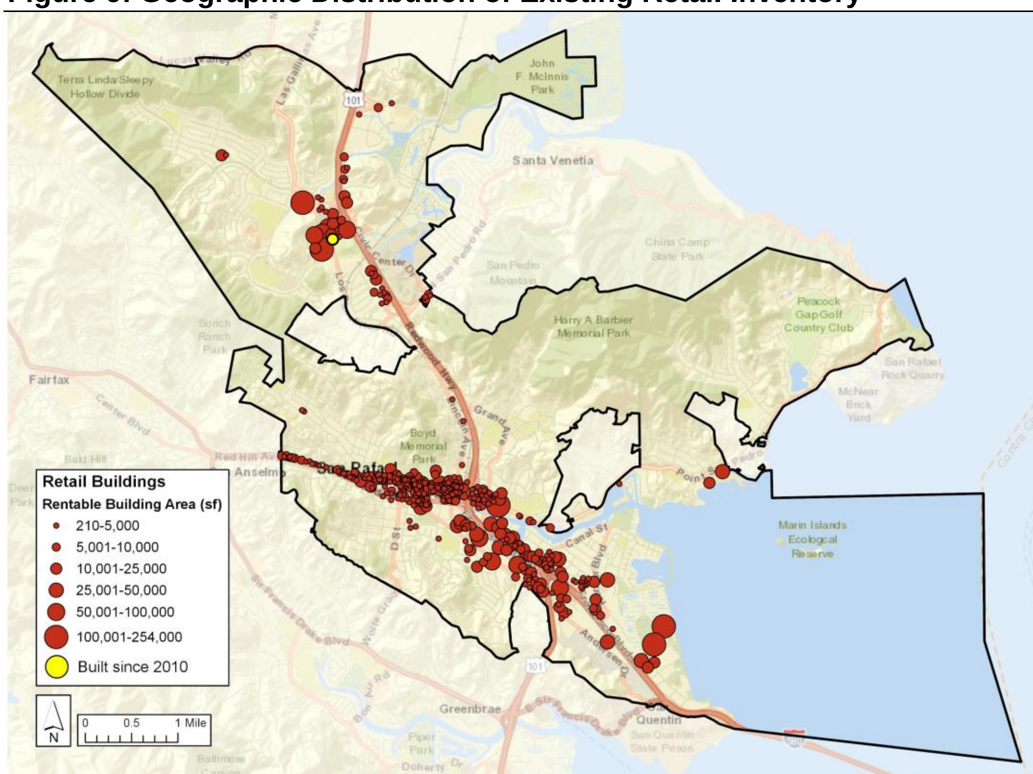
Business Journal, March 21, 2017, https://www.bizjournals.com/sanjose/news/2017/03/21/silicon-valley-tech-workers-seattle-housing-costs.html.38 Josh Lipton and Morgan Brasfield, "Silicon Valley Techies Are Fleeing to Seattle," CNBC, March 20, 2017, https://www.cnbc.com/2017/03/17/silicon-valley-tech-talent-fleeing-to-seattle.htm facilitating office development near the SMART station and enhancing pedestrian and bicycle connections between the SMART station and existing office nodes.

- To retain and attract new office tenants, the City should consider ways it can increase its stock of affordable housing.

Retail Market

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 the total inventory in Marin County (see Table 12). Outside of San Rafael, the major retail nodes in Marin County include regional and specialty centers in Corte Madera, Marin Country 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.

Figure 9: Geographic Distribution of Existing Retail Inventory



Most of the City's 4.9 million square feet of retail space is contained in older strip centers, retail storefronts, and freestanding buildings. As shown in Table 11, just 1.4 million square feet of the City's leasable retail space is located within major shopping centers of more than 30,000 square feet. The Northgate Mall, which contains approximately 756,000 square feet, accounts for more than half of this space. Most of the City's remaining shopping centers are neighborhood centers anchored by supermarket, drug, discount, and/or large-specialty stores. As of August 2019, the retail vacancy rate in existing shopping centers was much higher than the citywide average, although vacancies were primarily concentrated in one shopping center undergoing substantial renovations (Marin Square Shopping Center).

Table 11: Major San Rafael Shopping Centers

Shopping Center Name	Leasable SF	Anchor Tenant(s)	Retail Vacancy Rate (a)
Northgate Mall	755,677	Macy's, Kohls, Century Theatres, HomeGoods	9%
Montecito Plaza	130,500	Trader Joes, Pier 1 Imports, Rite Aid	9%
Northgate Shopping Center I	115,000	Safeway, Walgreens, Big 5 Sporting Goods	0%
Marin Square Shopping Center	82,000	Ross, Vacant (Anchor)	58%
Northgate Shopping Center III	71,268	CVS, Michaels	7%
Shamrock Center	62,500	Sprouts, Staples	0%
Graham Center	62,001	Office Depot, Dollar Tree	5%
Joseph B. Rice Center	36,251	n/a	0%
Harbor Center	34,500	n/a	0%
Marinwood Shopping Center	33,514	Marinwood Market	0%
Subtotal	**1,383,211**		**10%**

Notes:
List includes shopping centers within the Downtown Precise Plan boundary, such as Montecito Plaza, as well as shopping centers elsewhere in San Rafael.
(a) Retail vacancies current as of August 14, 2019.

Sources: CoStar; BAE, 2019.

The retail inventory in San Rafael that is not located in one of the shopping centers listed in Table 11 includes a diverse range of retail uses in freestanding and mixed-use buildings. These include: approximately 1.6 million square feet of retail uses within the Downtown Precise Plan Area, not including the Montecito Plaza shopping center; the City's various automobile dealerships, which collectively account for over 300,000 square feet of space; and big-box retail spaces that include Target, Home Depot, Best Buy, and the former Orchard Supply Hardware space, which also collectively account for over 300,000 square feet. Additional retail spaces, comprised mostly of freestanding buildings, are located in the Canal neighborhood, near the Northgate Mall, and along 4th Street west of the Downtown Precise Plan Area boundary.

Retail space in the City's development pipeline includes a proposed Costco Warehouse Center that would be located at the Northgate Mall on the site of the existing Sears buildings. The current proposal would consist of approximately 147,000 square feet, but would also include demolition of existing retail space, resulting in minimal net change to the amount of retail square footage in San Rafael.

Retail Market Conditions

The retail real estate market in San Rafael is characterized by both low rental rates and low vacancy rates. As of the first quarter of 2019, the average asking retail rent in the City was $2.37 per square foot per month on a triple net basis[9], well below the county average of $3.05 per square foot per month (see Figure 10). The average asking retail rent in downtown San Rafael was much closer to the county average, at $2.91 per square foot per month. Year over year, the average asking retail rent in downtown San Rafael increased by 35 percent between 2018 and 2019. The recent increase in rent has coincided with decreases in the retail vacancy rate. Downtown San Rafael has a low 2.2-percent vacancy rate, while the City has an even lower 1.6-percent retail vacancy rate, indicating potential market support for new retail space. Retail real estate market trends in the downtown area mirror trends countywide, where retail rents have increased sharply while vacancy rates have decreased to less than two percent in recent quarters. Low retail vacancies and increasing retail rents in the City and County indicate possible unmet demand for additional retail space locally, which could potentially be captured in the City.

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.

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. However, few spaces in Downtown's existing retail inventory have the size, layout and utilities (e.g., electrical capacity, plumbing,

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[9] CoStar reports retail rents on a triple net basis. Many retail property owners, however, offer space on a modified gross basis.

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.

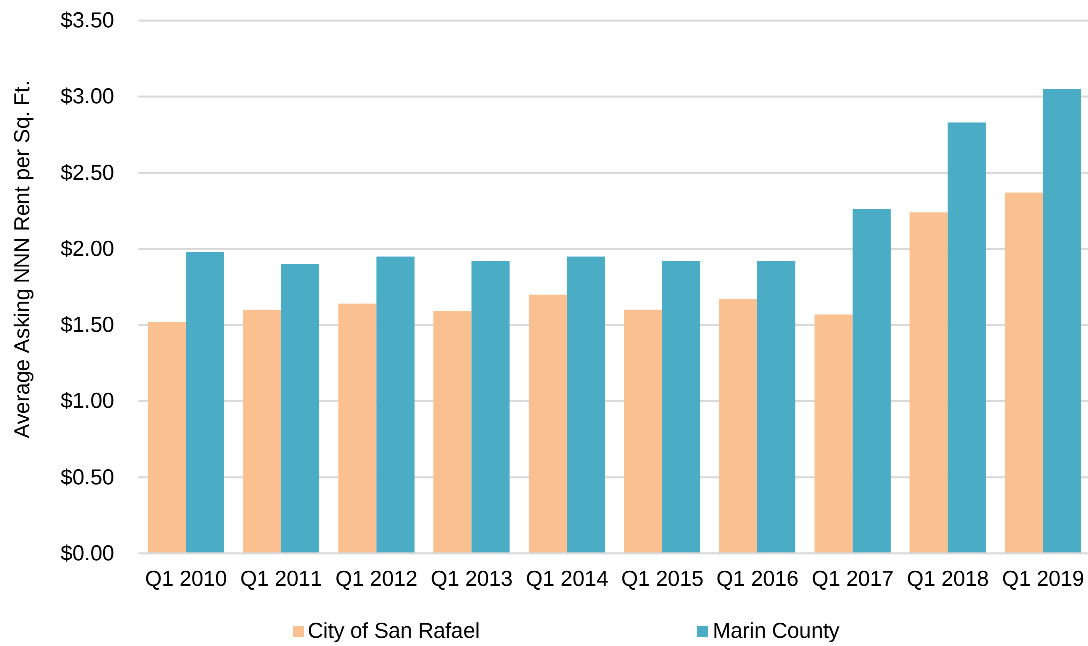
Table 12: San Rafael Retail Real Estate Market Snapshot, Q1 2019

Retail Summary	Downtown San Rafael (a)	City of San Rafael	Marin County
Inventory (sf), Q1 2019 (b)	**1,735,945**	**4,923,472**	**13,013,890**
Occupied Stock (sf)	1,698,043	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 - Q4 2018	34,142	50,505	97,496
Ten-Year Net Absorption (sf), Q1 2009 - Q4 2018	(24,730)	(31,977)	240,884
New Deliveries (sf), Q1 2009 - Q4 2018	**0**	**17,340**	**100,921**
Under Construction (sf), Q1 2019	**0**	**0**	**8,700**

Note:
(a) Data for Downtown San Rafael include all retail properties in the Costar inventory within the Downtown San Rafael Precise Plan Area boundary, including Montecito Plaza and any other shopping centers shown in Table 11 above that fall within the Precise Plan boundary.
(a) First quarter 2019 data current as of March 25, 2019.

Sources: CoStar; BAE, 2019.

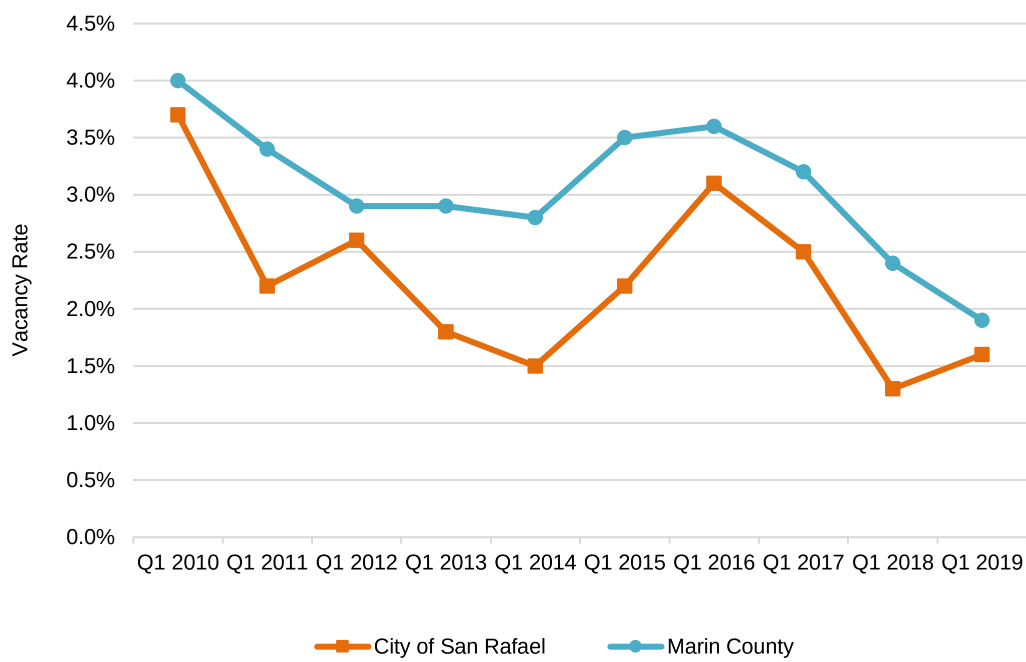
Figure 10: San Rafael Retail Rent Trends, 2010-2019



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

Sources: CoStar; BAE, 2019.

Figure 11: San Rafael Retail Vacancy Trends, 2010-2019



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

Sources: CoStar; BAE, 2019.

National and Regional Retail Market Trends

Town Center and Downtowns to Malls, Malls to Power Centers and Big Boxes, and 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 and town centers 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.[10] 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.

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."[11]

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

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[10] 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.

[11] Peiser, Richard and Hamilton, David, *Professional Real Estate Development*, Third Edition, Urban Land Institute, 2012.

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."[12] With its historic building stock and diversity of uses, downtown San Rafael provides a sense of place and provides an environment for social interaction, and has the potential to function, in essence, as a lifestyle center for the community.

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." As part of the 2040 General Plan process, the City should evaluate options for positioning the City's retail nodes and shopping centers with a recognition of the distinction between the type of retail environments that are conducive to commodity retail and the environments that are most conducive to specialty retail.

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. According to 2019 estimates from the U.S. Census Bureau, e-commerce sales now account for nearly eleven percent of all retail sales in the United States. While there were early fears that physical stores would be obsolete, and many retailers disappeared or suffered a 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") [13]. 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[14]. 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.

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

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[12] Higgs Roy, *Now Trending: Design of the Times*, Chain Store Age, August 15, 2015.
[13] Retail Systems Research, Inc., *Gaming Google: The Growing Importance of Omniretail*, March 2011.
[14] *E-commerce Retailers Plan 850 Physical Stores in the Next 5 Years*, JLL, Inc. Retail Research Point of View, 2018.

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 San Rafael is supported by the high spending power of residents, residents of nearby communities, and workers.
- 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. The addition of family-friendly gathering places and support for businesses that will be active during evenings and weekends should enhance Downtown's image as an experiential retail destination.

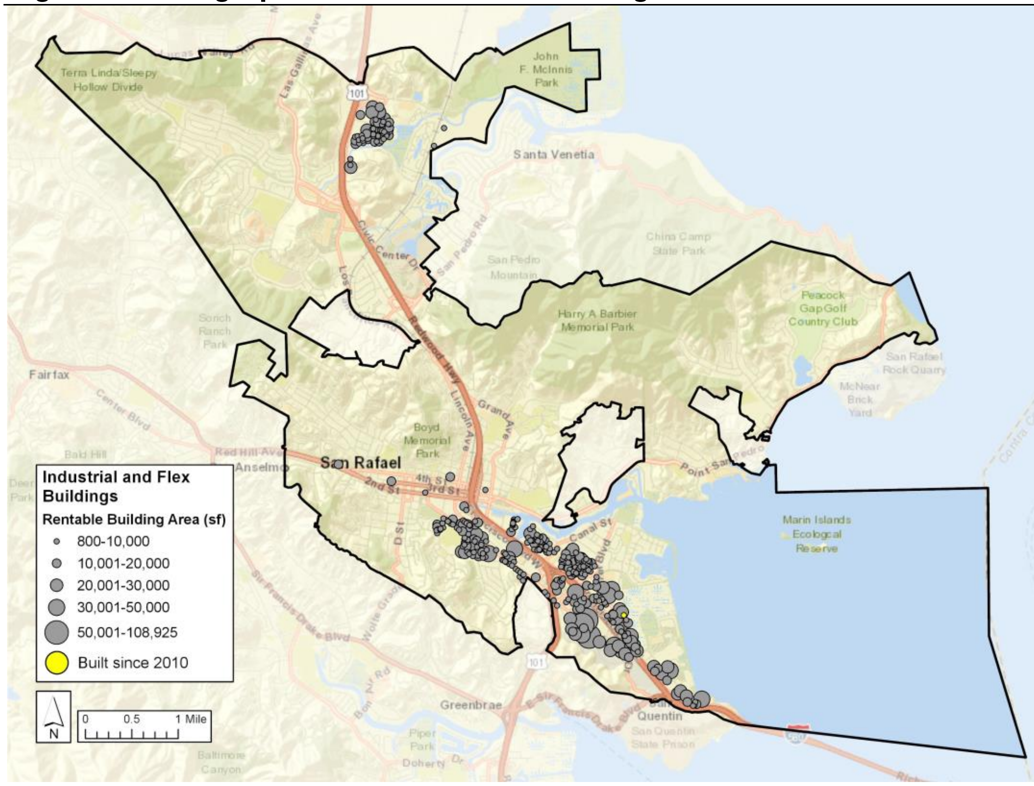
- Downtown continues to face challenges within the retail sector, which include lack of activity during evenings and weekends, a relatively small population and employment base within Marin County, issues related to homelessness, and a lack of a coordinated marketing effort and strong identity for the Downtown. Competition for local retail and restaurant spending from other cities within Marin County, such as Larkspur, Corte Madera, San Anselmo, and Mill Valley, compound these challenges.
- Existing retail spaces are fairly old and may be unsuitable for the type of tenants that are currently seeking space Downtown, particularly restaurants. While these challenges may not inhibit tenanting of retail spaces in some markets, the need for improvements in these spaces, coupled with the other challenges within the retail sector in San Rafael as cited above, serves as a disincentive for retail tenants to occupy these spaces. 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.
- 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.
- The City should encourage renovations and upgrades to existing shopping centers, such as the Northgate Center, to boost their competitiveness and attract additional shoppers.
- Potential redevelopment of the Northgate Center could potentially consist of an urban village with a mix of community-serving retail and residential uses, either in addition to the Costco that has been proposed on the site or without the proposed Costco. The site could also potentially support a lifestyle center, though this type of specialty experiential retail would compete with San Rafael's Downtown, which already faces challenges due to competition from experiential retail in other Marin County cities, as noted above. Because the overall demand for experiential retail in Marin County is somewhat limited, the City may need to focus efforts to attract specialty experiential retail within Downtown San Rafael rather than at the Northgate Center. However, the Northgate area could include an urban village with community-serving retail uses along with residential uses that would help to support the retail on the site. If the City were to also approve the proposed Costco on the site, the Costco would provide commodity retail in a warehouse format that would attract shoppers from throughout Marin County and beyond. This type of retail use is distinct from the retail uses in Downtown San Rafael and any community-serving retail uses that could be included in an urban village at the Northgate Center, and therefore could complement other retail offerings in the City. To integrate a Costco at the back of the Northgate site, the City would need to undertake careful site planning to distinguish the Costco from the urban village portion while integrating it terms of connectivity.

- For underperforming shopping centers, the City could encourage mixed uses, including new multifamily rental and for-sale housing.
- While the City appears to have sufficient off-street parking in City-owned garages within the Downtown area, many people that visit Downtown businesses prefer to park on the street, and therefore some Downtown business owners have expressed concerns that reducing on-street parking would have a negative effect on Downtown businesses. To address these concerns, any plans that would reduce on-street parking in Downtown San Rafael should consider the potential impact that reducing parking might have on businesses in the area and incorporate measures to mitigate any potential negative impacts. This could include building on the City's existing wayfinding measures that help to direct visitors to public parking garages in the Downtown area.
- A small amount of ancillary supporting retail uses in industrial areas, such as coffee shops, casual and to-go restaurants, and food trucks, could help to support the existing industrial uses in these areas.

Industrial/Flex Market

The City of San Rafael provides a significant amount of the industrial and flex space inventory in Marin County. 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. The major clusters of industrial space in San Rafael include Northgate Business Park, between Anderson Road and Interstate 580 south of downtown, and along Francisco Boulevard East parallel to Interstate 580 towards the San Rafael-Richmond Bridge (see Figure 12).

Figure 12: Geographic Distribution of Existing Industrial in San Rafael



Sources: CoStar; BAE 2019.

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. There were only 28,586 square feet of industrial/flex space added to the inventory between 2009 and 2018, 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 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 fluctuations when only a few properties make up the vacant inventory. Cushman and Wakefield indicate that first quarter average asking industrial 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.

These trends suggest a potential need for additional industrial and flex space in San Rafael, although land availability is quite limited. Contemporary industrial/flex uses typically require large floor plates and large sites to accommodate truck access and loading requirements, which may be hard to accommodate. Industrial uses are typically not compatible with residential uses and industrial tenants are often hesitant to lease space in close proximity to residential neighborhoods.

Table 13: San Rafael Industrial/Flex Real Estate Market Snapshot, Q1 2019

Industrial and Flex Summary	City of San Rafael	Marin County
Inventory (sf), Q1 2019 (a)	**4,207,520**	**8,210,822**
Occupied Stock (sf)	4,156,893	7,901,805
Vacant Stock (sf)	50,627	309,017
Vacancy Rate	1.2%	3.8%
Avg. Asking NNN Rents		
Avg. Asking Rent (psf), Q1 2018	N/A (b)	$1.38
Avg. Asking Rent (psf), Q1 2019	N/A (b)	$1.14
% Change, Q1 2018 - Q1 2019	N/A (b)	-17.4%
Net Absorption		
One-Year Net Absorption (sf), Q1 2018 - Q4 2018	13,240	(113,180)
Ten-Year Net Absorption (sf), Q1 2009 - Q4 2018	(11,188)	(161,129)
New Deliveries (sf), Q1 2009 - Q4 2018	8,325	28,586
Under Construction (sf), Q1 2019 (a)	0	0

Notes:
(a) First quarter 2019 data current as of March 25, 2019.
(b) Data not available from CoStar.

Sources: CoStar; BAE, 2019.

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 Production Distribution and Repair (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 in the City is high, 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.
- Potential demand for industrial space in San Rafael may include demand from non-industrial tenants, such as fitness studios and houses of worship, which may be interested in some of the smaller spaces in the City's industrial inventory. The City should carefully evaluate whether these types of uses should be allowed in industrial areas. Similar to residential uses, these non-industrial uses may conflict with industrial uses and have a negative impact on the operation of adjacent industrial operations. In addition, the City may want to preserve the industrial nature of these properties to better support an industrial employment base and to support businesses that might generate business-to-business sales tax revenue. However, in some cases the City may want to allow these uses in industrial areas to enable owners of industrial properties to rent obsolete industrial spaces to non-industrial tenants, provided that the tenants are unlikely to have an adverse impact on industrial operations at nearby properties.
- Locate industrial uses in low intensity areas. 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.
- 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. The City could consider land use policies to preserve its industrial inventory through discouraging redevelopment.
- Address the potential for certain industrial sites near high-quality transit (e.g., Downtown) to convert to non-industrial uses (office, residential).

Lodging Market

San Rafael's lodging inventory consists of nine properties with a total of 792 rooms. 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 14, 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.

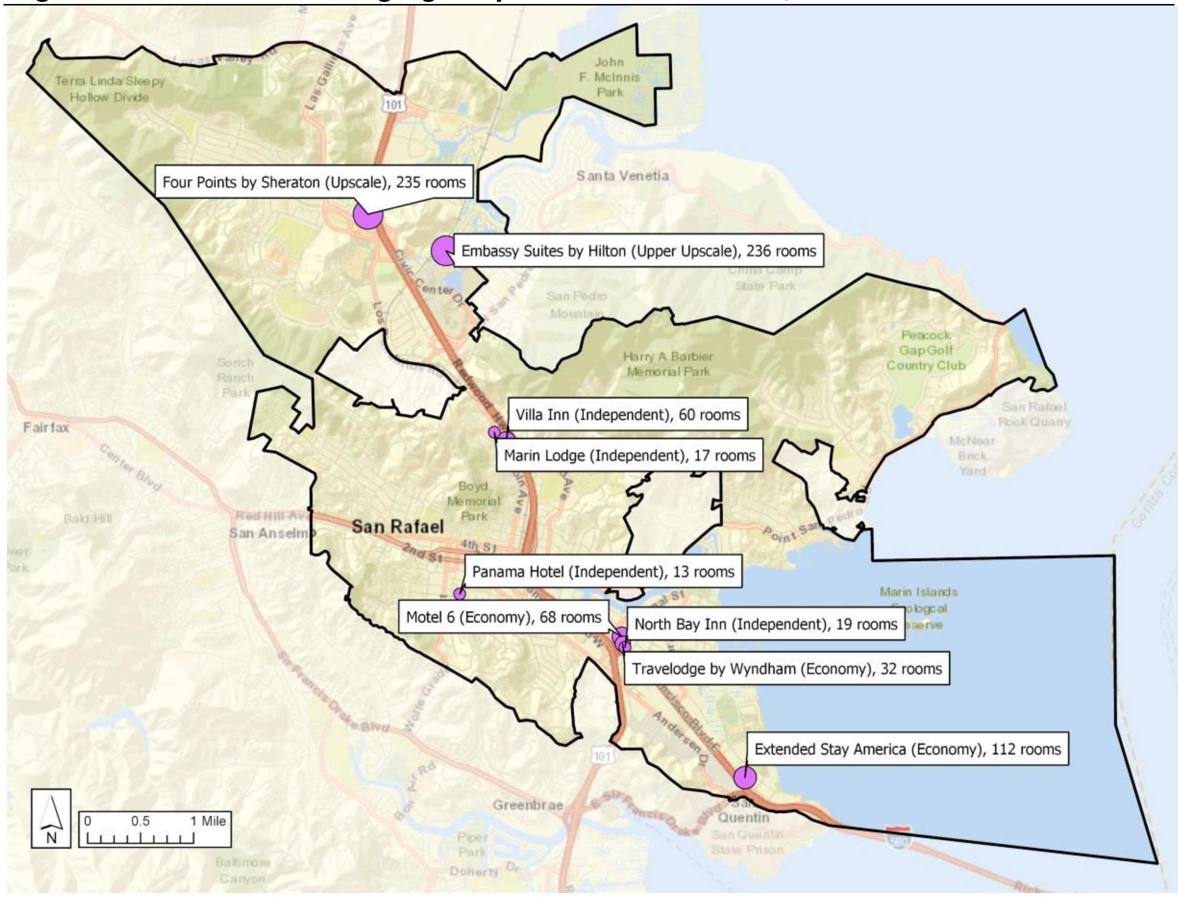
Table 14: Lodging Inventory, City of San Rafael, 2019

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

Source: STR; BAE, 2019.

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 13. 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.

Figure 13: Location of Lodging Properties in San Rafael, 2019



Source: STR; BAE, 2019.

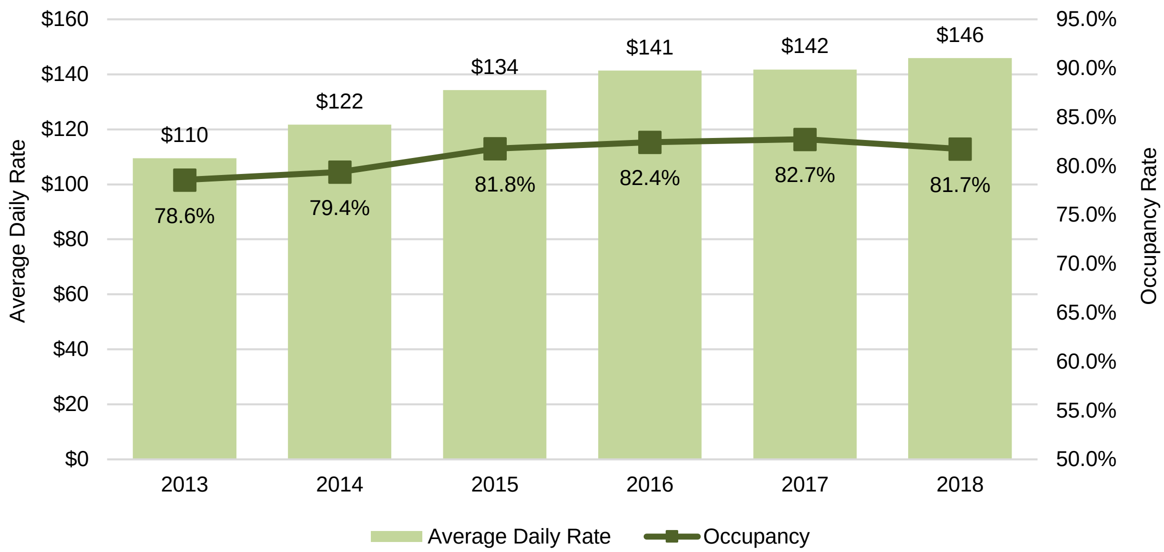
Within a relatively short distance of San Rafael, major regional attractions that drive visitation and hotel room demand include San Francisco and the Napa and Sonoma wine region as well as numerous attractions in western Marin County such as Muir Woods, Muir Beach, the Marin Headlands, and Stinson Beach. 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.

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 14, 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.

Figure 14: Average Daily Rate and Occupancy Trends, San Rafael, 2013-2018

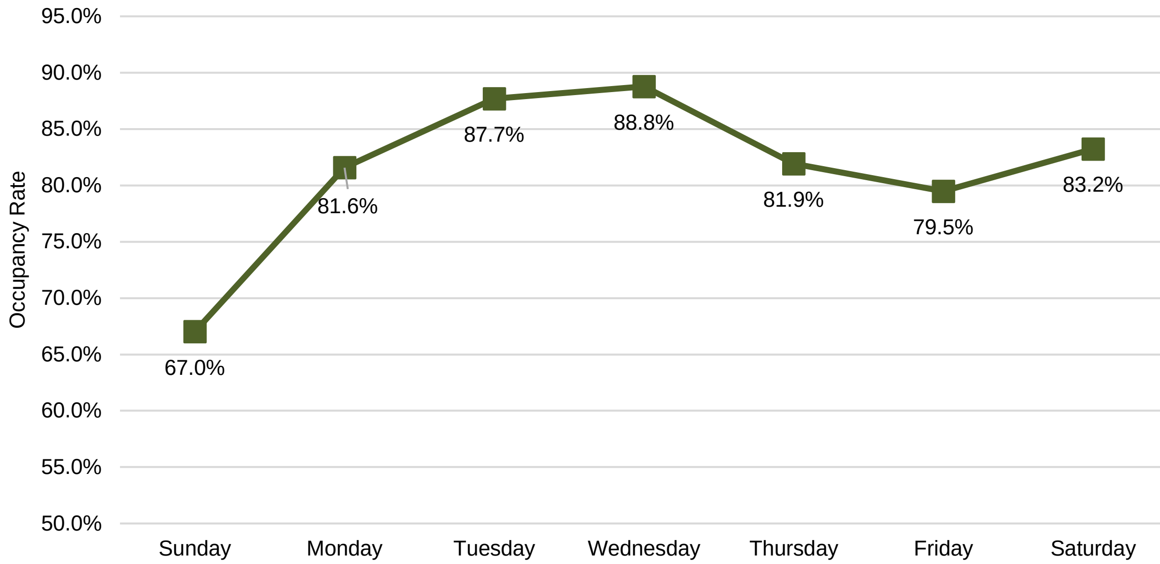


Note:
Five San Rafael hotel properties participate in STR hotel occupancy and room rate surveys. These include three economy class hotels (Motel 6 San Rafael, Extended Stay America, and Travelodge), one upscale class hotel (Four Points by Sheraton) and one upper-upscale class hotel (Embassy Suites).

Source: STR; BAE, 2019.

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 15 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.

Figure 15: Occupancy by Day of the Week, San Rafael, May 2018 - April 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).

Source: STR; BAE, 2019.

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 segments 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.

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 downtown 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 downtown and reducing demand at hotels further north in San Rafael.
- New hotels in San Rafael 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 mix of 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.