



Draft Report

**Downtown San Mateo Market Analysis
Update**

San Mateo, California

Prepared for

City of San Mateo

Submitted by

AECOM

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Section I. Introduction

In 2007, AECOM (formerly Economic Research Associates) completed a *Downtown San Mateo Market Analysis* report for the City of San Mateo Planning Department. A number of issues were identified in that report, including a concern over excessive retail depths in the City's Downtown core.

Since then, the economy has experienced a recession and there have been recent attempts by Downtown property owners to allow office tenants on the ground floor. In response, the City retained AECOM Economics to examine conditions in Downtown and possible policies related to ground floor office uses. This report includes a targeted update of the analysis provided in the 2007 report, as well as additional stakeholder interviews and jurisdictional surveys of comparable cities to assess the potential of allowing office tenants on the ground floor within the Downtown's Required Retail Frontage area.

Scope of Work

Our scope of work for this assignment included the following tasks:

- Update key population and economic trends since the last study;
- Update retail market trends, including vacancy rate, lease rates, and absorption;
- Project future retail demand and analyze leakage to other geographic areas;
- Conduct 12 to 15 stakeholder interviews to provide context and insight to retail trends;
- Confirm storefront depth requirements for retail tenants;
- Identify the market potential for conversion of ground floor retail to office;
- Interview between 5 and 10 other jurisdictions to understand their approach to ground floor office conversion;
- Estimate and compare sales tax revenue for retail and office uses and employment generated by each use; and
- Based upon our research, develop recommendations related to a City policy around ground floor office conversion.

Report Outline

This report is organized into seven sections. Immediately following this Introduction and Executive Summary, we highlight updated information on key population and economic trends in Section II. In Section III, we describe key retail market trends, and in Section IV present a summary of our interviews. Section V focuses on our analysis related to the retail storefront conversion issue, and in Section VI we discuss key recommendations and findings. Section VII is an Appendix that contains all of the detailed (and relevant) tables from the previous report that have been updated with new data.

Section II. Population and Economic Trends

In this section, we review key population and economic trends in San Mateo.

Population Trends

For the past decade, San Mateo has experienced steady population growth, which is projected to continue into the foreseeable future. While the city's population growth rate has historically been more volatile than that of San Mateo County, the city's overall growth has kept pace with that of the county. Between 2000 and 2012, the population growth rate of the city has been more than double that of the county). San Mateo remains one of the county's largest cities and is expected to remain an attractive location, particularly for employees in the tech industries (see **Table 1**).

Economic Trends

Similar to national trends, after a period of significant growth and expansion, the San Mateo county regional economy experienced a decline in jobs between 2007 and 2010, when the number of non-farm jobs decreased from 338,000 to 313,000 (approximately 7.5 percent). The California economy, comparatively, experienced a decline in jobs of over 8 percent. Since then, the number of jobs has started to increase, indicating the beginning of a recovery in both the county and state.

Similarly, according to the most recent unemployment data from May 2012, the unemployment rate in San Mateo county was significantly lower than that of the state, at 6.8 percent compared to 10.4 percent in California, which is a trend that was consistent throughout the "Great Recession."

The city experienced a similar decrease in jobs, but remains an important part of the county's regional economy. The services industry, which includes the information, professional and business services, has long been San Mateo County's largest employment sector, accounting for over half of the county's non-farm jobs. While services have provided a stable employment base, the county's retail trade sector has notably decreased. Between 2000 and 2010, retail trade sector employment has decreased 17 percent. This is in part due to the recession as well as a growth in online sales.

Employment estimates based on 2009 ABAG and Department of Finance projections indicate that the city, however, already a strong employment center, is expected to maintain employment growth amounting to the creation of 1.5 jobs for every new County resident between 2010 and 2035. The city is expected to add 1.4 jobs for every new resident over the same time period. Its prime location between

Silicon Valley and San Francisco positions San Mateo well for continued steady population growth and increases in economic opportunities in the future.

Table 1 Projected Population and Employment

	2000	2010	2015	2020	2025	2030	2035	CAGR ¹ '10-'35	Absolute Growth '10-'35
Population									
Burlingame	28,001	28,784	28,700	29,700	30,300	30,600	30,900	0.3%	2,116
Foster City	28,767	30,542	29,700	29,700	29,700	29,700	29,600	-0.1%	-942
Millbrae	20,671	21,521	21,700	22,100	22,700	23,100	23,500	0.4%	1,979
Redwood City	75,218	76,766	76,500	79,200	81,600	83,200	84,800	0.4%	8,034
San Carlos	27,664	28,393	28,200	29,000	29,400	29,400	29,300	0.1%	907
San Mateo	92,270	97,106	96,000	99,100	102,200	104,600	107,000	0.4%	9,894
Six City Total	272,591	283,112	280,800	288,800	295,900	300,600	305,100	0.3%	21,988
Total San Mateo County	708,384	719,467	735,025	751,480	765,495	776,862	786,730	0.4%	67,263
Employment									
Burlingame	28,180	22,890	23,709	25,034	26,754	28,917	30,706	1.2%	7,816
Foster City	18,480	14,510	14,668	15,197	15,843	16,317	16,861	0.6%	2,351
Millbrae	7,020	7,050	7,355	7,913	8,584	9,258	9,858	1.3%	2,808
Redwood City	57,980	51,230	52,754	54,915	57,718	59,969	61,925	0.8%	10,695
San Carlos	19,590	15,930	16,258	17,156	18,237	19,213	20,035	0.9%	4,105
San Mateo	50,840	45,450	47,061	50,403	53,970	56,774	59,260	1.1%	13,810
Six City Total	182,090	157,060	161,805	170,617	181,106	190,448	198,645	0.9%	41,585
Total San Mateo County	386,590	346,320	357,852	379,257	404,496	426,148	445,661	1.0%	99,341

¹ Compounded annual growth rate, which is the year over year average growth rate.

Source: 2000, 2010 Population Estimates from 2010 Census; 2015-2035 Estimates from Department of Finance 2012 Population Projections; Employment Projections based on ABAG Projections (2009) and adjusted downwards to reflect overestimation of ABAG projections compared to DOF

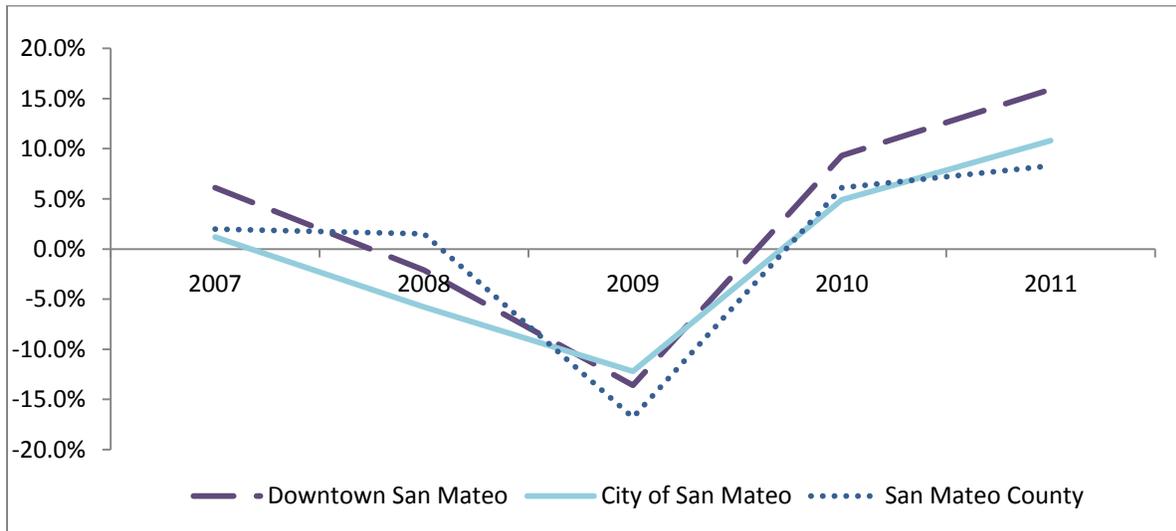
Section III. Retail Market Analysis

In this section, we examine retail market conditions.

Taxable Retail Sales

While the economic recession has heavily affected the state, county and city of San Mateo, the rates of recovery across the three economies as well as between different sectors has varied considerably. The city, county, and Downtown San Mateo all experienced declines in retail sales tax ranging from 15 to 17 percent between 2007 and 2009. However, Downtown San Mateo has demonstrated a faster recovery compared to the city and the county, with two-year growth between 2009 and 2011 of 26 percent, compared to 16 percent in the city and 15 percent in the county. The Downtown area has been surprisingly resilient, particularly for restaurant sales tax. Between 2009 and 2010 when the city and county declined in this particular sector, Downtown San Mateo experienced an 8.2 percent increase in revenue from eating and drinking places. When the state, county, city and Downtown area are compared, it is clear that the Downtown has experienced a much faster and steeper rebound from the recession than the other jurisdictions. Notable exceptions to the recovery include *Food Stores, Home Furnishings & Appliance, Apparel Stores, and Other Retail*, many of which are included in Downtown San Mateo's retail frontage.

Figure 1 Retail Store Sales Tax Growth Rate (year over year), 2007-2011



Source: City of San Mateo, AECOM

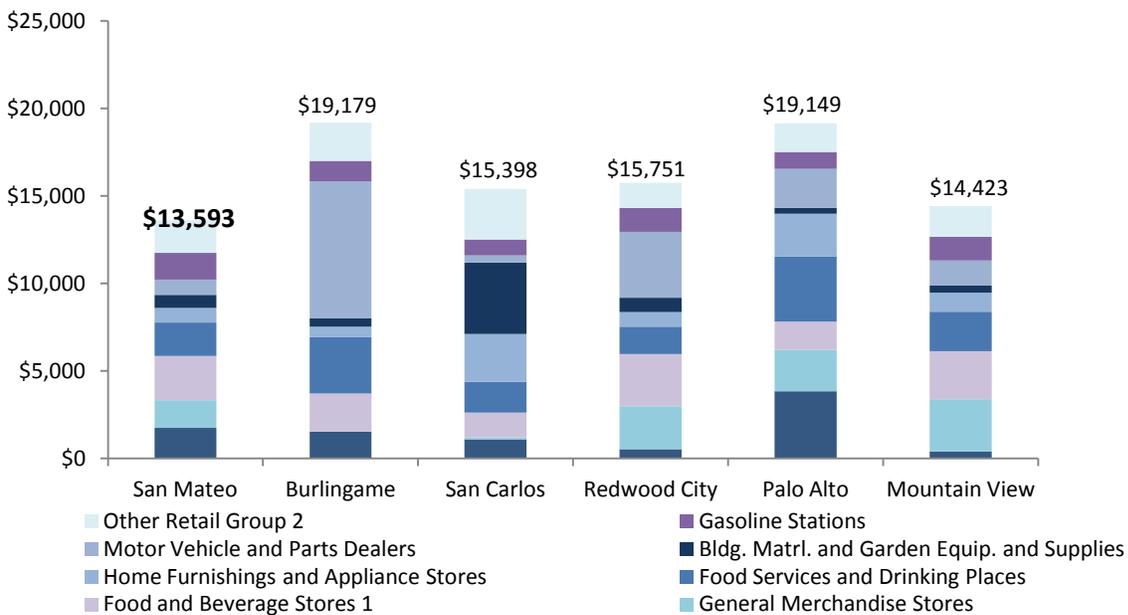
Retail Sales Tax Cross-City Comparison

In order to understand how San Mateo compares to nearby cities, we evaluated the retail sales tax trends in San Mateo with Burlingame, San Carlos, Redwood City, Palo Alto, and Mountain View (Foster City and Millbrae data is not available through the Board of Equalization due to city size). These cities were selected to present a range of conditions throughout the Peninsula retail and office markets.

Compared with similar cities on the Peninsula, San Mateo’s per capita sales tax revenue (Figure 2) is significantly lower than Burlingame, San Carlos, Redwood City, Palo Alto and Mountain View. As the largest of these cities (in terms of population), San Mateo receives roughly similar amounts of retail store related sales tax as Redwood City, Palo Alto and Mountain View, all smaller jurisdictions. San Mateo’s per capita sales tax revenue and composition is most similar to Mountain View. Both Palo Alto and Burlingame’s per capita revenue is roughly 40 percent higher than San Mateo’s.

In terms of gross sales tax revenue, the City’s two largest sales tax generating sectors (Table 2), *Clothing and Clothing Accessories* and *Food Services and Drinking Places*, while significantly more robust than most comparable cities, is lower than sales for that sector in Palo Alto.

Figure 2 Per Capita Retail Store Sales in Comparable Cities



Source: California Board of Equalization, US Census, 2010, AECOM

Table 2 Taxable Sales in Comparable Cities (2010)

(Dollars in thousands)	San Mateo	Burlingame	San Carlos	Redwood City	Palo Alto (Santa Clara County)	Mountain View (Santa Clara County)
Clothing and Clothing Accessories Stores	\$169,211	\$43,794	\$30,876	\$40,889	\$246,447	\$29,421
General Merchandise Stores	153,540	108	3,280	187,411	152,591	220,575
Food and Beverage Stores	82,097	20,971	13,323	76,448	34,648	67,764
Food Services and Drinking Places	183,963	92,579	50,066	121,109	240,320	167,678
Home Furnishings and Appliance Stores	81,463	17,038	77,852	63,631	156,708	80,100
Bldg. Matrl. and Garden Equip. and Supplies	73,800	14,054	115,734	62,166	21,497	29,951
Motor Vehicle and Parts Dealers	\$84,440	\$225,289	\$11,941	\$289,563	\$143,835	\$106,301
Gasoline Stations	147,021	33,608	25,369	104,324	62,232	100,910
Other Retail Group	174,942	60,834	79,915	108,199	102,576	126,254
Total Taxable Retail Sales	\$1,150,478	\$508,276	\$408,356	\$1,053,741	\$1,160,855	\$928,955
Total County Share of Respective County	\$7,846,274 14.7%	\$7,846,274 6.5%	\$7,846,274 5.2%	\$7,846,274 13.4%	\$17,695,858 6.6%	\$17,695,858 5.2%

Note: Thousands of Dollars

Taxable retail store sales does not include business to business sales conducted outside of retail stores or sales of home businesses

Source: California Board of Equalization

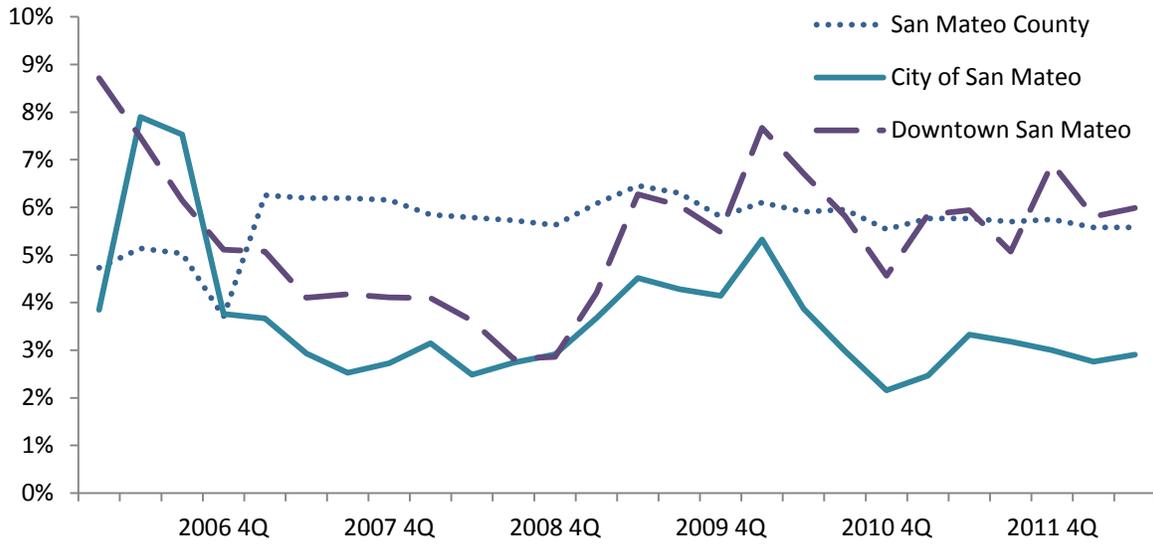
Retail Market Trends

Despite the recent economic recession, San Mateo’s retail and office markets have remained healthy, with high occupancy rates and relatively high lease rates.

The city’s retail market today has vacancy rates of less than 3 percent (based on an examination of larger retail spaces), compared to over 5 percent in the county. Downtown San Mateo has a corresponding vacancy rate of approximately 6 percent, which may vary from the actual rate due to the preponderance of smaller retail spaces which are not counted within this data. We estimate based upon an analysis of existing vacancy and inventory that the actual vacancy rate may be closer to 10 percent.

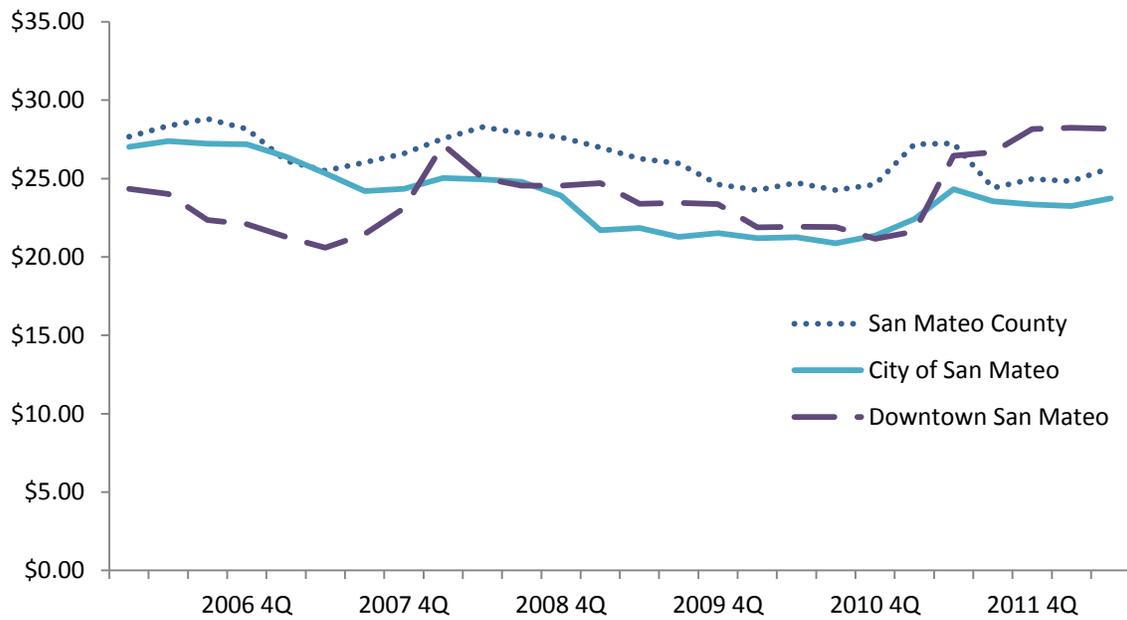
Average lease rates for the city are roughly 90 percent that of the county average, although the Downtown has enjoyed periods of higher rents relative to citywide and county rates. Retail lease rates have remained fairly stable throughout the recession in the city, county, and downtown areas.

Figure 3 Vacancy Rates for San Mateo Retail



Source: CoStar

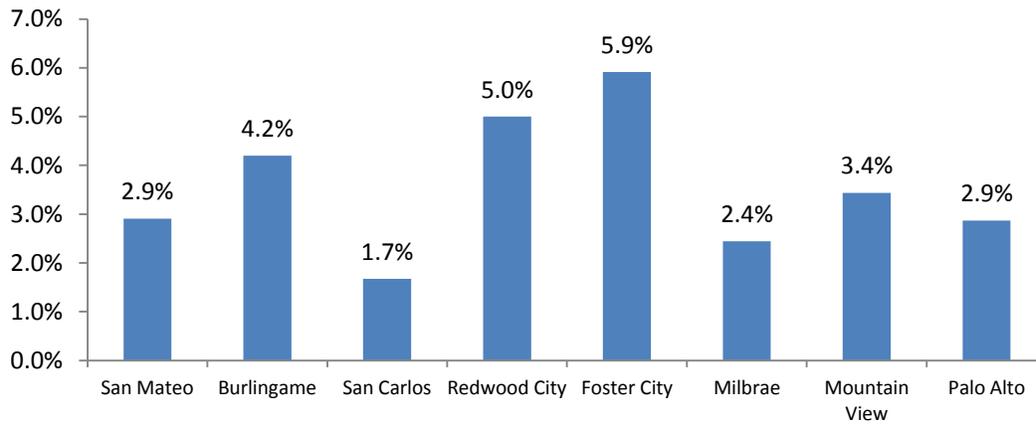
Figure 4 Triple Net Lease Rate Trend (per SF) for San Mateo Retail



Source: CoStar

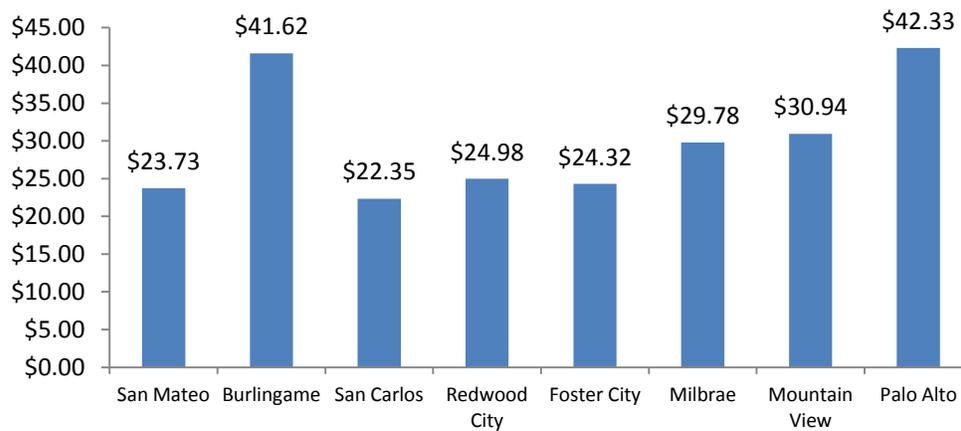
Compared to other cities, San Mateo’s retail vacancies are similar to those in Palo Alto and Millbrae, and about half that of Foster City. San Mateo’s average retail rents are similar to those in San Carlos, Redwood City, and Foster City, and approximately 50 percent of Palo Alto and Burlingame, although Downtown San Mateo rents are higher and more similar to Millbrae and Mountain View. While San Carlo’s vacancy rate is the lowest of any of the comparable cities (1.7 percent), both Redwood City and Foster City currently have some of the highest retail vacancy rates among the comparable cities.

Figure 5 Vacancy Rates for Comparable Cities Retail, QTD 2012



Source: CoStar

Figure 6 Trends in Per SF Lease Rates for Comparable Cities (NNN)



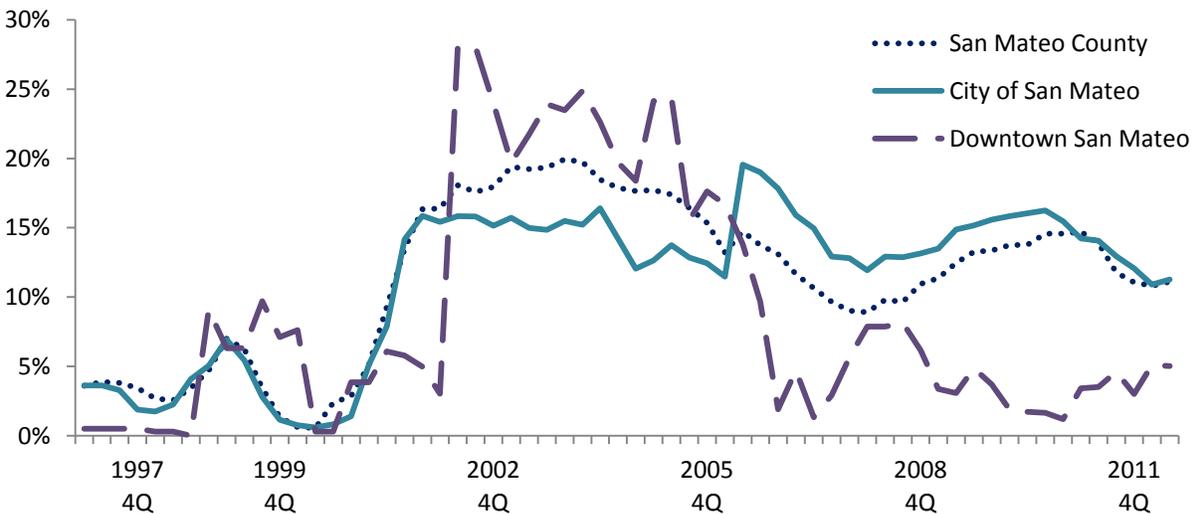
Source: CoStar

Office Market Trends

The city's office market vacancy rate hovers just over 11 percent, similar to county office vacancy rates. Average office lease rates citywide are roughly 90 percent of the county average. While the Downtown area has a number of submarkets, with rents per square foot ranging from \$1.50 to greater than \$3.00, office brokers suggested that certain parts of the Downtown office market can charge up to a 20 percent premium over average county rents. This is reflected in the leasing data which shows Downtown rents significantly above those of the city and county for office space. By all accounts, the Downtown area is an appealing office market with potential for greater office space development.

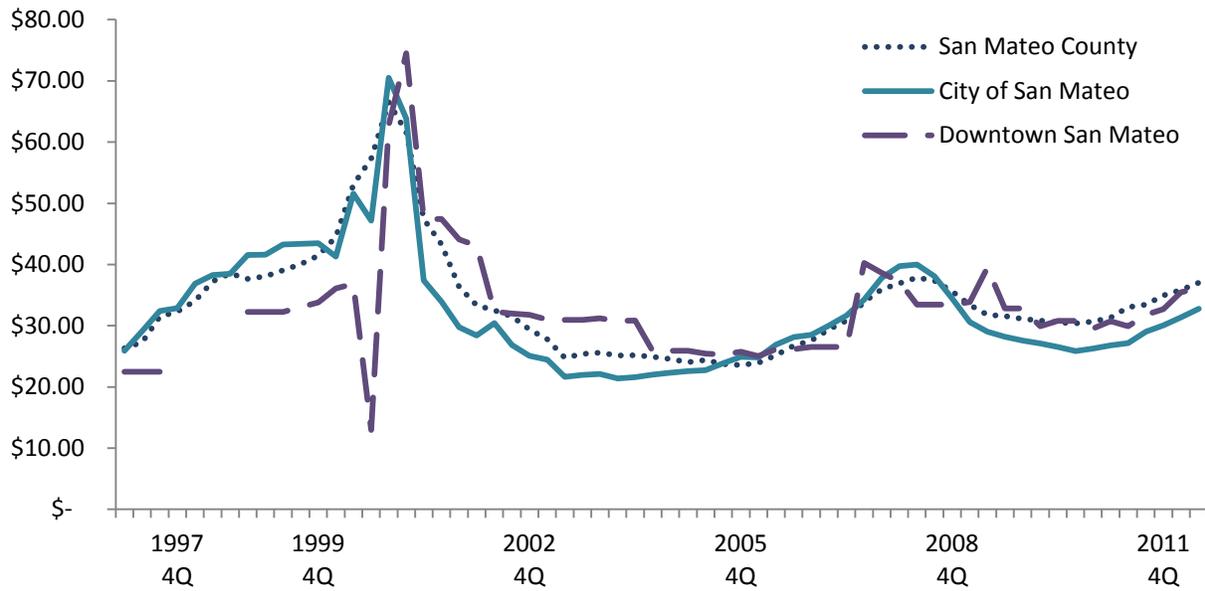
Relative to other cities, San Mateo's citywide office vacancy rates are on the higher end of the range. San Carlos has the highest office vacancy rate at 14 percent, while the Palo Alto office market vacancy rate is below 5 percent. As in retail, Palo Alto is able to charge a premium for its office location, with office lease rates fifty percent over San Mateo rates.

Figure 7 Vacancy Rates for San Mateo Office



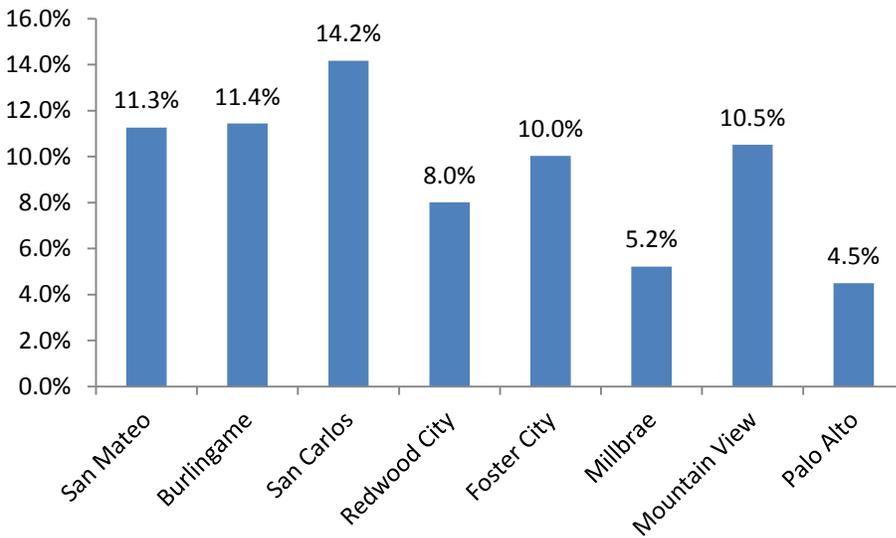
Source: CoStar

Figure 8 Average Annual Full Service Lease Rate (per SF) Trend for San Mateo Office



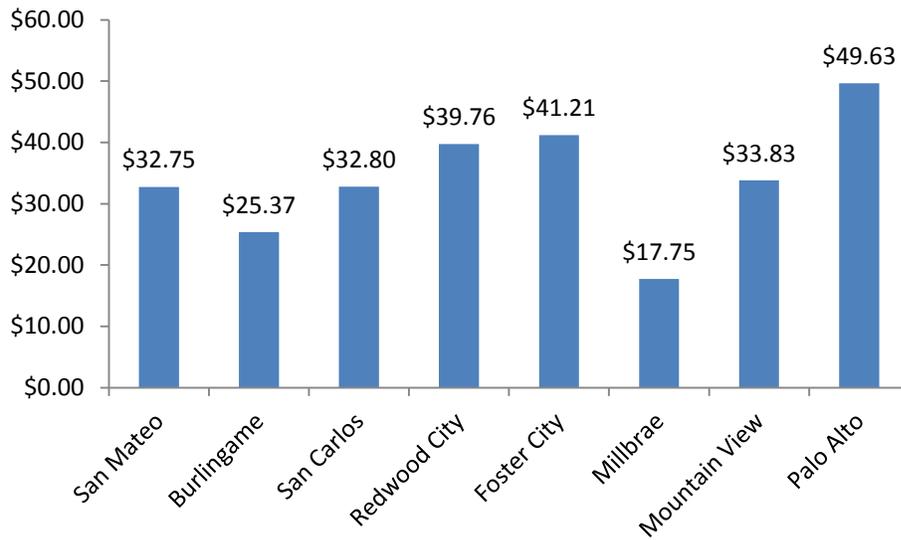
Source: CoStar

Figure 9 Office Vacancy Rate for Comparable Cities, QTD 2012



Source: CoStar

Figure 10 Average Annual Full Service Office Lease Rate (per SF) for Comparable Cities, QTD 2012



Source: CoStar

Future Retail Demand

Based on population and real income growth, retail demand in the City of San Mateo is expected to grow by approximately 179,000 square feet between 2010 and 2020 and an additional 181,000 square feet between 2020 and 2030. Most of the demand is expected to be in *Clothing and Accessories*, *General Merchandise*, *Food Services and Drinking Places*, and *Other Retail*.

Table 3 San Mateo County and City Retail Demand Forecast, 2010-2020

(Dollars are in Thousands)

	2010		2020		Growth in Demand from 2010 to 2020			
	Population	719,467	751,480	Market Area Demand Growth and San Mateo Capture				
Real Income Adjustment	1.000	1.072						
	Per Capita (thousands)	Total Market Area Demand		Gain in Sales	Annual Sales/SF	Gain is Sq Ft	City of San Mateo Market Share	Sq Ft
Clothing and Clothing Accessories Stores	\$1.74	\$1,252,396	\$1,402,630	\$150,234	\$350	429,239	10.0%	42,924
General Merchandise Stores	\$1.58	\$1,136,412	1,272,733	136,321	\$350	389,488	10.0%	38,949
Food and Beverage Stores	\$0.84	\$607,629	680,519	72,889	500	145,779	10.0%	14,578
Food Services and Drinking Places	\$1.89	\$1,361,585	1,524,916	163,332	400	408,329	10.0%	40,833
Home Furnishings and Appliance Stores	\$0.84	\$602,939	675,266	72,327	\$350	206,648	5.0%	10,332
Bldg. Matrl. and Garden Equip. and Supplies	\$0.76	\$546,223	611,746	65,523	\$350	187,209	5.0%	9,360
Motor Vehicle and Parts Dealers	\$0.87	\$624,977	699,947	74,970	NA	NA	NA	
Gasoline Stations	\$1.51	\$1,088,159	1,218,691	130,532	NA	NA	NA	
Other Retail Group	\$1.80	\$1,294,817	1,450,139	155,323	\$350	443,779	5.0%	22,189
Total Retail Stores	\$11.84	\$8,515,137	\$9,536,588	\$1,021,451		2,210,472	8.1%	179,165
Total Retail and Restaurant Demand in City of San Mateo								179,165

Source: AECOM

Table 4 San Mateo County and City Retail Demand Forecast, 2020-2030

(Dollars are in Thousands)

	2020		2030		Growth in Demand from 2020 to 2030			
	Per Capita (thousands)	Total Market Area Demand			Market Area Demand Growth and San Mateo Capture			
					Gain in Sales	Annual Sales/SF	Gain in Sq Ft	City of San Mateo Market Share
San Mateo County Population		751,480	776,862					
Real Income Adjustment		1.072	1.150					
Clothing and Clothing Accessories Stores	\$1.74	\$1,402,630	\$1,554,762	\$152,132	\$350	434,663	10.0%	43,466
General Merchandise Stores	\$1.58	1,272,733	1,410,776	138,043	\$350	394,409	10.0%	39,441
Food and Beverage Stores	\$0.84	680,519	754,329	73,810	\$500	147,621	10.0%	14,762
Food Services and Drinking Places	\$1.89	1,524,916	1,690,312	165,395	\$400	413,489	10.0%	41,349
Home Furnishings and Appliance Stores	\$0.84	675,266	748,507	73,241	\$350	209,259	5.0%	10,463
Bldg. Matrl. and Garden Equip. and Supplies	\$0.76	611,746	678,097	66,351	\$350	189,575	5.0%	9,479
Motor Vehicle and Parts Dealers	\$0.87	699,947	775,865	75,918	NA	NA	NA	
Gasoline Stations	\$1.51	1,218,691	1,350,873	132,182	NA	NA	NA	
Other Retail Group	\$1.80	1,450,139	1,607,424	157,285	\$350	449,386	5.0%	22,469
Total Retail Stores	\$11.84	\$9,536,588	\$10,570,945	\$1,034,357		2,238,400	8.1%	181,429
Total Retail and Restaurant Demand in City of San Mateo								181,429

Source: AECOM

Retail Leakage

As a whole, San Mateo loses over 4 percent of its annual retail sales to other areas. The key leakage sectors are motor vehicles, building materials and supplies, and food and beverage stores. Leakage in the Motor Vehicles, Building Materials and Supplies sectors are likely due to insufficient land and too-small lot sizes to accommodate these uses. With the presence of Draeger’s Supermarket, Trags Market, and a few specialty ethnic grocery stores, the Downtown area is already well served with food and beverage stores, and is unlikely to be a successful location for either motor vehicle or building material sales.

San Mateo does capture a disproportionate amount of clothing sales, likely due to the success of major shopping centers with big box and national chain rental such as Hillsdale and Bridgepointe shopping centers, so it is not a factor relevant to Downtown San Mateo.

The success of Downtown restaurants certainly contributes to the city’s overall competitiveness in the food services and drinking place sector.

Table 5 San Mateo Retail Sales and Demand Comparison

(Dollars are in Thousands)

	Sales in City of San Mateo	City of San Mateo Resident Demand	Excess Capture vs. Leakage
City of San Mateo Population	97,106		
San Mateo County Population	718,614		
Motor Vehicle and Parts Dealers	\$84,440	\$151,006	-44.1%
Home Furnishings and Appliance Stores	\$81,463	\$89,766	-9.3%
Bldg. Matrl. and Garden Equip. and Supplies	\$73,800	\$94,561	-22.0%
Food and Beverage Stores	\$82,097	\$206,319	-60.2%
Gasoline Stations	\$147,021	\$126,384	16.3%
Clothing and Clothing Accessories Stores	\$169,211	\$80,456	110.3%
General Merchandise Stores	\$153,540	\$138,710	10.7%
Food Services and Drinking Places	\$183,963	\$172,871	6.4%
Other Retail Group	\$174,942	\$141,868	23.3%
Total Retail Stores	\$1,150,478	\$1,201,942	-4.3%

Source: AECOM

Complimentary and Compatible Retail

Based on stakeholder interviews and an evaluation of existing businesses in Downtown San Mateo, a number of retail sectors have been identified as compatible and complimentary.

- A more diverse mix of restaurants, with greater use of outdoor space and patio dining;
- Additional furniture stores, building on the small existing cluster;
- Specialty clothing retailers; and
- Additional evening and nighttime entertainment options.

In addition to supporting retail sector development, it is important to note that encouraging development of a larger office market will also fuel retail demand and growth. Further development in Downtown, in conjunction with additional investment in larger office buildings near the Downtown core provide the potential to significantly increase demand for service and entertainment retail targeted at a young professional crowd.

Section IV. Stakeholder Interviews

As part of this assignment, AECOM interviewed approximately 10 stakeholders to understand different perspectives related to issues addressed within this report. We interviewed a diverse group of individuals affiliated with the Downtown including retail tenants, residents, property owners, and commercial brokers. Our interviews focused on a number of issues including:

- Trends in retail and office uses in Downtown San Mateo retail and office trends in the past five years;
- Strengths, opportunities and challenges of Downtown San Mateo;
- Retail depth requirements;
- Types of retail tenants that could be viable in Downtown San Mateo; and
- Future issues and trends.

In this section, we summarize the input we received during the interviews. We have included the full range of viewpoints in cases where there were different opinions.

It is important to understand that the comments below came from stakeholders as opinions and are not necessarily verified through our market research. In fact, many of the comments below are not in agreement and do provide differing viewpoints.

Office Market Trends

We asked the stakeholders about trends in the office market in Downtown San Mateo, including San Mateo's strengths and challenges with respect to attracting office users.

- San Mateo is becoming an incubator for start-up IT companies, and technology companies are the largest office tenant group in Downtown San Mateo. There are many start-up companies with relatively few employees.
- The San Mateo regional office market has been "booming" in recent years. The office market in Downtown San Mateo has also improved. The convenience of the train station and Downtown restaurants and other amenities are key reasons for the strong office demand for Downtown San Mateo.
- San Mateo and Foster City account for a high percentage of the regional San Mateo office inventory. Property owners in Downtown San Mateo can charge a 20 percent premium over average office rents for San Mateo County.

- There are only two traditional Class A office buildings in Burlingame and San Mateo. All other office buildings are smaller.
- The majority of office demand is for spaces that are greater than 10,000 square feet, although there are very few spaces of this size.
- Office rents are \$1.50 to \$3 per square foot depending on ownership of building, taxes, and size. There is a premium for larger spaces.

Retail Market Trends

We also asked stakeholders about the perceptions related to the strength and weaknesses of the retail market in Downtown San Mateo. As noted in the introduction to this section, there are a wide variety of opinions related to this topic.

- Many higher quality restaurants have located in Downtown San Mateo in recent years, increasing the diversity of restaurant offerings.
- During the recession, many downtown tenants asked for rent concessions, which were granted during that time, but rents are now starting to increase again.
- The average size of most retail tenants is 800 to 1200 square feet.
- There is a trend towards more “hip” restaurants, such as Curry Up Now, the new noodle shop, etc., which are supported by “dot com” employees.
- Restaurants are generally performing well in Downtown San Mateo, and most seem to do well through the economic downturn.
- The dinner business is better than the lunch business for most restaurants. The lunch business could use a boost from increased employment in Downtown San Mateo.
- There are some long-term retail vacancies in Downtown San Mateo. Some of these may be too large for typical retail tenants. These spaces have experienced significant demand for office from technology companies and dental offices.
- The Draper University development is likely to create demand for new types of retail in Downtown San Mateo.
- The “dot com” boom resulted in a number of office tenants in ground floor spaces, which created demand for Downtown retail.
- Downtown retail capacity may be too large for current demand. There is 800,000 to 900,000 square feet of retail area in Downtown San Mateo, and demand is for around 600,000 to

700,000 square feet. It might be better for retailers if there was a more consolidated Downtown area.

- There are approximately 130 restaurants in Downtown San Mateo.
- The customer base for restaurants in Downtown San Mateo includes Downtown office workers, Foster city, biotech company employees (e.g. Gilead), and Redwood Shores corporate offices.
- Restaurants require relatively high tenant improvement budgets as well as free rent deals.
- Retail rents range from \$1.75 to \$3.75 per square foot, depending on submarket location, condition, block, and sizes.

Downtown San Mateo Strengths and Challenges

In our interviews, we discussed overall strengths and challenges of Downtown San Mateo. As can be seen from the comments below, the opinions are not necessarily consistent, and in some cases, what one person views as a strength may be viewed by another as a challenge.

Strengths

- San Mateo is more successful than many other downtown areas in the region.
- Downtown San Mateo has great character.
- There are many vibrant restaurants.
- Downtown functions as both destination retail as well as neighborhood retail for local residents.
- Downtown offers many amenities to office tenants. Many of the technology companies located in San Mateo are started by venture capitalists living in San Mateo but staffed by employees in San Francisco. Downtown San Mateo is well located between San Francisco and Silicon Valley.
- San Mateo zoning is more lenient than most downtowns, particularly compared to Burlingame, Palo Alto, and Menlo Park.
- San Mateo allows restaurants without much more parking or other requirements.

Challenges

- It is difficult for developers to develop in Downtown San Mateo. Due to Measure H height restrictions and the cost of building materials, projects are not financially feasible. Developers have few options in Downtown.
- Buildings are old and expensive to re-tenant.
- There is not enough residential development in Downtown San Mateo, and it is extremely difficult to develop residential projects.

- Many retail spaces are too large for the current demand. While some people want property owners to drop rents to remove vacancies, this would devalue the property and image of San Mateo and would result in increased dollar or discount stores.
- The retail spaces are too deep for current retail demand.
- Many property owners are family trusts or absentee landlords that are not committed to San Mateo and have not invested in their buildings.
- Technology companies can start out in San Mateo, but have to leave due to a lack of larger office spaces.
- Parking is often cited as a problem. Some people feel that there is enough sporadic daytime parking, but not enough long term all-day parking. Others indicated that increased signage could help people find existing parking.
- There needs to be more evening entertainment beyond the movie theater to entice office workers to spend money in Downtown after hours.
- The lunch business could be stronger.
- There is a need to reinvent the Downtown, as it is falling behind other cities that have actively planned and created a vision for change by attracting young professionals.
- There is a need to accommodate more young professionals in the Downtown, and they will bolster the demand for additional types of retail.
- Downtown San Mateo lacks outdoor seating and a central gathering place for events.

Retail Tenants Possible for Downtown San Mateo

- Restaurants are the most successful business type for San Mateo and should continue to be encouraged.
- Due to trade area restrictions by national chains, clothing and apparel stores are difficult to attract, since there is no existing cluster of stores and national chains are difficult to attract due to Hillsdale Shopping Center and Burlingame Avenue.
- Service retail does well in Downtown San Mateo.
- There is a niche of furniture and household goods stores which could be built upon.
- There might be a market for specialty boutique clothing stores (e.g. targeting active older adults or other demographics).

Sub Areas of Downtown

- Fourth Avenue is generally the most successful street in Downtown San Mateo and is very strong. It tends to have bigger lots more parking, better traffic flow, and is more appealing than other areas.
- Third Avenue has experienced more and longer term vacancies. The western end of Third Avenue has had particular problems, likely due to the two vacant sites on the corner of Third Avenue and El Camino.
- Rents are very strong on B Street around the movie theater, and this area is particularly vibrant, with considerable foot traffic and activity.

Retail Depth Requirements and Ground Floor Office Policy Issue

We asked stakeholders about current retail depth requirements and about their opinions related to the current policy question of ground floor office conversion in Downtown San Mateo. We heard a number of different opinions about the street frontage portion of the ground floor, although fairly consistent responses related to the back portion of retail areas.

- Current buildings are between 80 to 120 feet, which is far too large. Downtown San Mateo was built to have 1200 to 1500 square feet of retail space, with an additional 600 to 800 square feet in a back room for office or storage. The depth of current retail demand has shrunk because of a decreased need for both storage and retail related office space.
- The average depth requirement for most retail is 60 feet, with some tenants requiring as little as 40 feet. The average tenant size is 800 to 1200 square feet.
- Spaces are too large to lease to retail. Many large spaces between 1,000 and 2,000 square feet cannot be rented.
- There is interest in leasing the back portion for office tenants, but this may be financially and physically challenging.
- There should be a reversal of the zoning code back to the old policy, to allow for a percentage of retail on the ground floor, with the option of either office in the back area or some minimal street frontage. It is too complicated to convert the back areas of retail spaces to offices due to building code requirements for office.
- Allowing the conversion of the back of retail spaces to office would only benefit a few property owners. The City should consider a policy based on a percentage of total area, regardless of street frontage.

- Street-fronting office on the ground floor will harm the pedestrian scale and vibrancy of Downtown, and the City shouldn't allow the market to dictate policy.
- Ground floor office will harm other surrounding retailers.
- Smaller retail spaces have greater marketability.
- While the concept of office in the back areas of ground floor retail space sounds reasonable, there are still concerns about parking and impact on residents and quality of life that need to be addressed.
- People like the traditional downtown feel of San Mateo, and this needs to be protected.
- There needs to have a policy that will provide clarity to developers and property owners.
- Property owners want maximum flexibility regarding use in order to maximize rental income.
- The City should allow more office in the Downtown, as there is a need to bring in younger professional employees to help improve and support the retail in Downtown.
- The City should be clear about what is a permitted use versus a conditional use. Conditional use permits do not transfer to property values so can be problematic for investors.
- The City needs a fast, nimble, and clear process for developers and property owners.
- It is better to have some office use with energetic young tenants and employees than vacant spaces.

Section V. Storefront Depth / Office Conversion Issues

In this section we address the specific issues related to retail store depth requirements and ground floor office conversion issues, including an analysis of San Mateo's retail inventory that might be appropriate for conversion, the relative retail spending generated by office versus retail users, and cases studies of the approach that other cities have taken with respect to this issue.

Required Storefront Depth

Downtown retail properties currently average 50 feet wide by 80 to 120 feet deep. Based on interviews with retailers and brokers, as well as benchmark comparisons such as the proposed Bay Meadows II retail site, this floor plan is significantly more than retailers currently need. Retail depths of 40 to 60 feet are preferred given today's retail market conditions. The proposed Bay Meadows II retail building measures just over 45 feet deep. These depths are approximately half of what existing buildings in Downtown San Mateo offer. Brokers even noted that depending on the retailer, depths as shallow as 10 to 20 feet could be sufficient. The excessive depths of the retail spaces in San Mateo limit potential tenants and likely suppress rents per square foot.

Downtown Market Conversion Potential

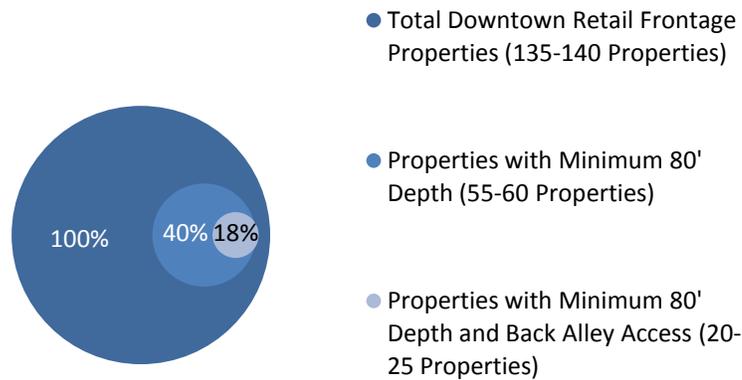
We examined the market potential for Downtown properties to convert to office use in the back area of ground floor retail spaces. This amount of space that could be converted depends on a number of factors including building depth, potential access to a back alley, and the feasibility of conversion.

We estimated the number of properties that might be affected by a change in current zoning based upon the following assumptions:

- There are currently 135 to 140 total properties located on Downtown San Mateo's retail frontage zones.
- Based on typical retail depths indicated during stakeholder interviews and benchmark research, we established a maximum retail depth of 60 feet (which may be conservative).
- For an open plan office space, which is typical of startup technology companies, minimum depths of 20 feet are necessary. Traditional office spaces with private offices and conference rooms typically require much greater depths. Therefore, based on these spatial requirements, a minimum depth of 20 feet for office space has been established as the basis for conversion.
- Thus, a building would need a minimum total depth of 80 feet to be eligible for rear conversion from retail to office.

- An estimated 40 percent of properties in the retail frontage zones are a minimum of 80 feet deep.
- Per the California Building Code, occupant loads greater than 49 employees require two total exits. Under 50 employees, a work place is allowed a single exit. In the event of a second exit, access to a rear alley would be necessary. An estimated 18 percent of buildings have a viable back alley access.
- Given that most start-up technology companies will have fewer than 50 employees, a second entrance will not be necessary for the majority of ground floor office users.
- During the stakeholder interviewees, a number of interviewees expressed concern that although a building may be appropriate for retail-to-office conversion, the costs associated with the conversion would be prohibitive. For the purposes of this study, the costs associated with conversion have not been taken into consideration. However, it should be noted that the conversion potential indicated in our analysis only represents buildings that meet physical criteria for conversion, but that even over the long term, conversion rates would not likely be so high.

Figure 11 Market Potential for Rear Conversion to Office Space



Source: AECOM

Case Studies of Comparable Cities

As part of our research, we surveyed six other nearby cities to understand how they approach the issue of ground floor office. We also identified contextual differences in market conditions that help explain rationale for policies.

The cities that were surveyed generally indicated that while retail on the ground floor is almost always the strong preference, there are circumstances when ground floor office is considered and allowed. However, the degree to which it is allowed, and the types of restrictions placed on ground floor office in the downtown vary significantly by city. In some cities there are blanket restrictions or allowances, while others, such as Lafayette have parsed off blocks where office is allowed. Some cities, notably Mountain View and San Jose, have just recently responded to high retail vacancy rates by allowing an increase in ground floor office.

For the most part, all cities agree that allowing office on the ground floor of their typically retail-oriented downtown cores is just one part of the solution to reducing vacancy rates and maintaining downtown vibrancy. Almost all cities cited an increase in effort to develop larger office and residential products adjacent to the downtown core to support retail. Many of the cities have downtown core areas that are significantly smaller and/or more consolidated than Downtown San Mateo where they have been able to create separate sub areas for zoning and allow more flexibility outside of their major downtown street.

A summary of the cities surveyed and their approaches towards ground floor office is included in Table 6 and in the narrative below.

Redwood City

In May 2012, Redwood City responded to vacancy rates of more than 20 percent in its downtown by proposing an amendment to its Downtown Precise Plan. The amendment aims to increase flexibility for ground floor properties within the downtown area, by allowing a broader range of uses beyond traditional retail. The amendment allows tenants to apply for a 5 year conditional use permit, with the option to extend annually if vacancy rates remain above 10% (40,000 square feet of space). Should the vacancy rate drop below 10 percent, tenants would not be able to extend their permit. This strategy allows Redwood City to tie ground floor office space to market conditions, making downtown Redwood City more responsive to fluctuations in the market. It is expected that increasing office space in downtown will also increase demand for sustaining existing and attracting new retail.

Redwood City's current retailers include bakeries, furniture, and apparel stores. In order to protect its primary retail street, Broadway, a maximum office conversion limit is set to 40 percent for the Broadway block.

San Jose

In April 2012, San Jose's City Council responded to street-level vacancies in its downtown of 30 percent by approving an ordinance easing restrictions on office tenants in its downtown. The new ordinance allows limited types of office tenants in ground floor spaces of mixed use and commercial buildings, replacing an earlier policy which restricted ground floor tenants to retailers. The new policy does include restrictions on office location. Office tenants are not allowed on corner suites, existing retail tenants may not be replaced by office tenants, and the amount of office space per block is restricted.

San Jose's policy includes a sunset clause, which allows the policy to revert back to retail-only if retail begins to suffer as a result. In conjunction with trying to revitalize its downtown through ground floor office, San Jose is also working to add up to 10,000 new residents to its downtown core area.

Mountain View

Mountain View reported a very strong retail market in its immediate downtown, particularly in its three-block historic core. A low retail vacancy rate combined with an increase in adjacent office and residential areas has allowed the City to prioritize and protect ground floor retail shopping and restaurant experience in the historic core. The City did note that while retail is prioritized, ground floor office is technically allowed, although heavily discouraged through a provisional use process which requires hearings and parking in-lieu fees.

The City acknowledges that the presence of a few key economic drivers have allowed it to invest in extensive beautification and pedestrian infrastructure in its downtown, preserving a vibrant retail corridor.

Lafayette

Lafayette's core downtown retail district consists of a primary street, Mount Diablo Boulevard, with several side streets. In the core area along Mount Diablo Boulevard, only retail or general personal services and restaurants are currently allowed. Some small allowances for ground floor office space are made along the side street off of Mount Diablo, but these are only allowed via a use permit. It is

understood that the current constraints are working quite well for Lafayette, and that allowing additional office would detract from the downtown pedestrian environment.

Lafayette is currently in the process of amending its Downtown Specific Plan in order to allow pedestrian-oriented retail banks on the ground floor of the retail corridor. This is expected to be approved by late June 2012.

Pleasanton

The City of Pleasanton has historically allowed any office use in ground floor spaces in Downtown, including Main Street, the major retail area in Downtown. However, there are several differences between Pleasanton and San Mateo that are important to consider.

Downtown Pleasanton is fairly built out and very successful, with Main Street as the primary retail street. Before May 2012, the City allowed office uses on the ground floor. In May 2012, the City adopted a policy that limits financial institutions in ground floor spaces. The code amendment contains the following provisions:

- Financial institutions are permitted by right on the second floor.
- If financial institutions are locating within the Central Commercial (CC) zoning area, are locating on a ground floor street frontage on Main Street, and are located within the Downtown revitalization area, then they require a conditional use permit. If they do not meet all three of these criteria, then they are automatically permitted.
- The Planning Commission reviews all conditional use permits, and is required to discourage more than one financial institution on the ground floor within any block and to encourage retail stores on corner properties.

There are several contextual factors to consider when evaluating this policy:

- There is quite a bit of available office space in the region, including Hacienda Business Park and other areas, which limits office demand in Downtown.
- Retail vacancies are less than five percent in Downtown Pleasanton. The overall vacancy is less than 10 percent in Downtown.
- Most offices naturally gravitate towards second story or off-Main Street locations, since that is where most office product has been built. Main Street was purposely designed and built for small retail tenants, with most retail spaces between 750 and 900 square feet, which do not appeal to office users. There is also no parking available on Main Street, but off-Main Street office buildings in Downtown do provide parking, so there is more suitable alternative.
- Main Street is the focus of the retail in Downtown Pleasanton (compared to San Mateo where it is more dispersed throughout several blocks).

City staff did indicate that the issue of ground floor uses in the Downtown has been considered for many years, and that every several years, the City examines the current policy. Property owners have resisted any attempt to constrain their property value through more limited uses. During the code amendment process, many people did raise the issue trying to limit personal service uses such as nail salons and spas in ground floor retail spaces, although this issue has not yet been addressed.

Palo Alto

A number of years ago, the Palo Alto City Council restricted ground floor uses in specific areas of the downtown to key pedestrian serving uses including eating and drinking, retail, and personal services. There are a few specific policy measures which are important to note:

- If there is an existing office use on the ground floor, the space can remain an office space if there is a change in tenancy. Most of these spaces are non-conforming, suboptimal retail spaces, and there are currently very few of these in the main downtown area.
- The ground floor retail policy applies to University Avenue and some parts of the first blocks of the streets that run perpendicular to University Avenue.
- During the past three to four years, the City has relaxed restriction on parallel streets, particularly Hamilton and Lytton.
- They frequently get project proponents challenging them on the definition of office versus retail.
- For medical office, they require that the sales or retail portion of the practice be located in the pedestrian facing area, with the offices in back.
- They worked closely with Speck Design, who wanted to locate in an area that had ground floor retail restrictions, but also allowed office, to create a retail storefront at the pedestrian facing space with offices facing the back. These are typically handled on a case by case basis.
- There are currently projects under construction that will provide increased office opportunities in the downtown, with retail on the ground floor and offices above.
- The policy has seemed to result in a fairly stable situation in the downtown that allows opportunity for office users while protecting the pedestrian retail environment.

Table 6 Summary of Peninsula Cities' Approaches to Ground Floor Office

City	Approach to Downtown Ground Floor Uses
Redwood City	<ul style="list-style-type: none"> Amending Downtown Precise Plan to allow 5 year conditional use permits for office on ground floor
San Jose	<ul style="list-style-type: none"> Approved ordinance allowing office on ground floor of downtown (April 2012)
Mountain View	<ul style="list-style-type: none"> Retail preferred in historic downtown. Ground floor office technically allowed, but heavily discouraged through provisional use process.
Lafayette	<ul style="list-style-type: none"> Almost no office allowed on ground floor along main street Limited office allowed on side streets with use permit New amendment would allow retail banks in downtown
Pleasanton	<ul style="list-style-type: none"> Office is allowed in ground floor spaces in downtown. A code amendment was just adopted in May 2012 restricting the conditions under which financial institutions can locate in ground floor spaces. Retail and restaurants are focused on Main Street, which was designed with very small spaces specifically for retail. Significant office inventory exists in downtown outside of Main Street, in the Hacienda Business Park, and in other nearby areas.
Palo Alto	<ul style="list-style-type: none"> Stable downtown retail corridor, plans to add additional office space on second floor Office restricted on primary retail corridor as well as side streets In limited cases, office on ground floor is allowed offices with a retail component are allowed as long as retail component faces the street

Source: Various City Agencies.

Sales Tax Revenue Analysis for Ground Floor Conversion

In order to assess whether or not there would be a significant fiscal impact to the City associated with a conversion in ground floor space, we analyzed potential sales tax revenue with and without ground floor retail to office conversion for three scenarios:

- Hypothetical ground floor retail space – We analyzed the difference in retail sales tax revenue for a hypothetical retail space in a single property measuring 50’ wide by 100’ deep.
- Current vacant spaces – We analyzed the total sales tax revenue potential for vacant retail spaces in the Downtown San Mateo Retail Frontage Area (as of May 2012).
- Entire Downtown San Mateo Retail Frontage Area – We estimated the total sales tax revenue potential for all Downtown San Mateo properties within the Retail Frontage area.

For all of these scenarios, we estimated retail sales tax with and without ground floor conversion. The first scenario, a single building, was analyzed using estimates as described on page 24 at the beginning of this section. Our methodology for the other two scenarios is described as follows.

Analysis of Currently Vacant Spaces

As of May 2012, there were 78,351 square feet of vacant retail available in the Downtown retail frontage streets. Drawing on building parameters identified in the Downtown Conversion Potential section, 12 out of the 20 vacant properties would be eligible for rear office conversion. There is an estimated 28,000 square feet, or 36 percent of the total vacant Downtown, that would be available for office conversion.

Assuming retail sales per square feet of \$300 for spaces less than 60 feet deep and \$225 for retail spaces deeper than 60 feet total (reflecting a weighted average that is lower due to the declining sales per square foot for spaces with greater depths), the potential retail sales tax revenue associated with the *currently vacant* retail spaces within the Downtown frontage area is just over \$212,000.

If retail spaces deeper than 80 feet were converted such that space beyond the 60 foot depth (i.e. 20 feet or more) were rented to office tenants, the resulting retail sales tax revenue associated with the revised retail and office space, as well as their associated employees, would equal roughly \$110,000. Thus, the conversion of ground floor retail in the rear of buildings deeper than 80 feet could result in a net sales tax revenue loss of roughly \$102,000 (Table 7), assuming a hypothetical scenario where 100 percent of vacant spaces were converted. It is important to note that this is only a net retail loss assuming that the retail spaces with greater depths can be leased for retail, which is somewhat unlikely as evidenced by the long term vacancies for deep retail spaces. Also, it is unlikely that all 28,000 square feet of vacant retail spaces will be converted all at once. Per our discussion on the following page, we would assume that a small percentage would likely be converted over the next five years.

It is important to note that the retail sales per square foot averages used (\$300 and \$225) are not averages for restaurants, but rather for non-restaurant retail tenants. Sales per square foot for restaurant tenants tend to be significantly higher.

Entire Downtown Retail Frontage Area

At the Downtown level, assuming 40 percent of the downtown retail square footage is sized to qualify for conversion, the difference in retail sales tax revenue to the City with and without office conversion (based on a 0% vacancy rate) would be just under \$571,000. Additionally, while the tables suggest that

a conversion of ground floor retail to office would result in a net loss to the City, the tables assume that the currently vacant retail space is leased.

Findings from Analysis

Based upon our retail sales tax analysis, we have developed two key findings:

- First, the scale of the resulting difference in sales tax revenue to the City resulting from ground floor conversion is relatively modest (see Table 7). If the conversion hypothetically occurred in all eligible Downtown retail frontage ground floor spaces, the difference in annual sales tax revenue would be around \$570,000. However, due to the timing of leases, required investment, and number of properties held by trusts and absentee landlords in Downtown San Mateo, we estimate that it would be extremely unlikely for more than 10 to 20 percent of properties to convert within the next five years. The resulting decrease on an annual basis then would be no more than \$100,000, if not less. Given that the potential decrease in tax revenue is so modest, we do not recommend using sales tax revenue as a key consideration in the development of a policy to address conversion or maintenance of the ground floor retail space within the retail frontage areas.
- Second, property owners and possibly retail tenants can benefit from the flexibility created from the conversion. By allowing landlords the option to convert the back area of ground floor retail spaces to office, there is likely to be a benefit to both landlords – who can charge higher rents per square foot for the more valuable retail spaces in the front areas and still generate office rent from the back areas, and tenants – who generate more sales per square foot, with lower overhead costs (see Figure 12).

Table 7 Difference between Retail-Only and Retail and Office Conversion Sales Tax Revenue

	Hypothetical Single Retail Space	Existing Vacant Retail Space	Downtown Retail Frontage Space
Retail Only Sales Tax Potential	\$11,588	\$212,318	\$1,995,440
Retail With Office Conversion Sales Tax Potential	\$9,120	\$109,732	\$1,424,667
Maximum Net Annual Loss in Sales Tax	\$2,500	\$103,000	\$571,000
Estimated Likely Net Annual Loss in Sales Tax (in next five years)	n/a	\$10,000- \$21,000	\$57,000 - \$114,000

Source: AECOM

Figure 12 Hypothetical Sales per SF with Ground Floor Office Conversion (\$/Sq Ft of Downtown Ground Floor RETAIL Area)



Source: AECOM

Equivalent Sales Tax Generation

The City asked AECOM to examine the amount of office space that would be required to generate the same amount of sales tax revenue as an equivalent retail space.

For a typical Downtown retail property, 50' wide by 100' deep, or 5,000 square feet, 288 office employees would be required to generate an equivalent amount of retail sales tax as a retail store. Assuming an average office occupant load of 100 square feet per employee, 288 office employees would require 28,800 square feet of office space, 5.75 times that of the original retail space. Therefore, it is important to the tax base to maintain ground floor retail.

Table 8 Number of Office Employees Required to Generate Similar Levels of Sales Tax Revenue

	Hypothetical Retail Space	Existing Vacant Retail Space	Total Downtown Retail Space
Total Square Footage	5000	78351	721000
Total Retail Sales Tax Potential	\$11,500	\$210,939	\$1,982,750
Retail spend by employee		\$6,760	
City of San Mateo Sales Tax Allocation		1.00%	
Total Retail Sales Tax Generated per Office Employee		\$68	
Total Number of Office Employees Required to Generate Equivalent Sales Tax Revenue	171	3,141	29,518
Occupant Load (sq ft/employee)		100	
Total Office Space Required for Employees (sq ft)	17,142	314,079	2,951,834
Difference in Required Office Space to Generate Equal Amounts of Sales Tax Revenue for the City of San Mateo(Retail - Office)	(12,142)	(235,728)	(2,230,834)

Source: AECOM

Other Issues

AECOM was also asked to examine two additional issues: multiplier effects and employee origin.

Given the focus of this study on the impacts of proposed ground floor office on downtown San Mateo, including the multiplier effects associated with retail spending would misrepresent the scale of impact, as such multipliers are typically more relevant at county levels. Additionally, given the findings of the retail versus office comparison, including multiplier effects will only serve to enhance minor differences between the two scenarios. For these reasons, the impact of retail multipliers has been omitted from this report.

Available reports and data sources with employee commute and residence patterns do not have sufficient detail regarding industry categories to identify the number of employees in a given industry that would be San Mateo residents.

Section VI. Recommendations and Findings

Recommendation

The primary recommendation of this study is that allowing for the rear conversion of retail space (deeper than 60') to office will not have a significant negative impact on City revenue, but will allow for a number of benefits. Benefits include the continued preservation of the vibrant pedestrian retail environment, greater flexibility for property owners, the attraction and retention of new office tenants, and the potential to attract a greater mix of retail tenants.

Stakeholder interviews and benchmark studies indicated that retail spaces as shallow as 20 feet deep can be successful depending on tenant type. However, we would recommend 60 feet as a more reasonable retail depth to use for an office conversion policy, which would result in a policy requiring a minimum of 80 feet of space for conversion, with 60 feet for retail and 20 feet for office. Proposed conversion spaces that would create retail spaces less than 60 feet in depth may be considered on a case by case basis through a conditional use permit process.

Specific Findings

Specific findings are as follows:

- The San Mateo economy has weathered the economic recession better than most. Key economic metrics such as job growth, unemployment, and retail and office market performance all indicate that San Mateo, including its Downtown, is relatively healthy and is well positioned for strong economic growth over the next several years.
- Downtown San Mateo is particularly well-positioned given its location between San Francisco and Silicon Valley, Caltrain access, and the number of restaurants and entertainment venues in Downtown San Mateo.
- Retail rates in Downtown San Mateo have performed higher than the city average, as well as many peer cities on the Peninsula.
- However, despite San Mateo's relatively strong performance, there are under-performing retail businesses and existing vacancies in Downtown. The size of ground floor retail space is often cited as the key reason for underperformance and vacancy. Retail depths of greater than 40 to 60 feet are generally too large for most retail tenants and has resulted in properties that do not take full advantage of the retail potential.
- In general, most stakeholders have indicated support for an ordinance allowing rear conversion of ground floor retail to office space. This report is similarly supportive of this direction.
- It should be noted, however, that for some buildings, there may be a number of physical and logistical issues with rear retail conversion to office. Large investment in ground floor retail for

conversion may trigger expensive code compliance requirements, which landlords indicated would be prohibitively expensive.

- While rear conversion of ground floor retail to office space is one solution, it is clear that there is a need to provide larger scale office opportunities in or adjacent to Downtown San Mateo. A larger office inventory near Downtown would provide additional market support for retail. A greater number of office employees in the tech sector would also likely shift the type of retail demand in Downtown towards younger, more active offerings, which would help the Downtown maintain its vibrancy.
- The retail frontage requirement for ground floor spaces should be protected, as over time, conversion of street frontage ground floor retail spaces can result in a less vibrant and less active pedestrian environment.
- Of particular importance are corner retail spaces. These larger retail opportunities should be preserved, without any office on the ground floor.

Retail Subareas

One of our findings of the case study review is that most other cities are protecting ground floor street frontage retail spaces in much smaller areas, along one or two key streets. Downtown retail uses in comparable cities tend to be much more consolidated than in San Mateo, making ground floor office more justifiable on side streets adjacent to the main retail corridor. Because retail in San Mateo is spread out over many blocks, it is difficult to identify specific sub areas.

While there are specific subareas within Downtown San Mateo that are relatively weaker retail areas and may benefit from some ground floor office, these areas are fairly small, dispersed throughout the Downtown on a block by block basis, and not consolidated, so it would be very difficult and somewhat arbitrary to designate a separate policy for specific subareas. Therefore, we do not recommend separate policies for subareas within the Downtown Retail Frontage area.

Section VII. Appendix

Updated Tables

Table 9 San Mateo County Employment Growth

Employment Category	1990	1995	2000	2005	2010	CAGR 1990-2010
Civilian Labor Force	370,400	367,200	398,200	361,000	374,900	0.1%
Civilian Employment	360,600	351,700	386,800	345,600	342,100	-0.3%
Civilian Unemployment	9,700	15,500	11,400	15,400	32,800	6.3%
Civilian Unemployment Rate	2.6%	4.2%	2.9%	4.3%	8.8%	6.2%
Total, All Industries	302,800	305,700	375,800	327,500	315,000	0.2%
Total Farm	2,600	2,600	2,900	1,900	1,800	-1.8%
Total Nonfarm	300,200	303,000	372,800	325,600	313,300	0.2%
Goods Producing (Manufacturing, etc)	46,800	42,900	55,600	45,100	39,100	-0.9%
Trade, Trans. & Utilities	82,800	81,500	90,500	74,800	68,700	-0.9%
Wholesale Trade	18,200	16,900	15,100	11,600	11,400	-2.3%
Retail Trade	37,100	33,900	39,700	35,800	33,000	-0.6%
Transportation, Warehousing & Utilities Services ¹	27,600	30,700	35,800	27,400	24,400	-0.6%
Government	137,300	146,600	194,300	173,700	174,200	1.2%
	33,400	32,100	32,500	32,100	31,200	-0.3%

¹Services category includes the Information, Professional and Business Services, Educational and Health Services, Leisure and Hospitality, and Other Services Categories.

Source: State of California, Department of Employment Development

Table 10 San Mateo Area Population Growth¹

	1990	1995	2000	2005	2010	2011	2012	1990-2012	
								CAGR	Absolute Growth
Burlingame	26,666	27,198	28,001	27,825	28,784	28,888	29,106	0.40%	2,440
Foster City	28,176	28,046	28,767	29,595	30,542	30,660	30,895	0.42%	2,719
Millbrae	20,414	20,795	20,671	20,359	21,521	21,625	22,069	0.35%	1,655
Redwood City	66,072	69,376	75,218	74,621	76,766	77,299	78,244	0.77%	12,172
San Carlos	26,382	27,022	27,664	27,428	28,393	28,494	28,719	0.39%	2,337
San Mateo	85,619	89,223	92,270	93,396	97,106	97,557	98,298	0.63%	12,679
Subtotal	253,329	261,660	272,591	155,300	283,112	284,523	287,331	0.57%	34,002
Total San Mateo County	649,623	673,274	705,052	700,350	718,614	722,372	729,443	0.53%	79,820

¹Data for 1990 is as of April of that year. All other data is as of January of that year.

Table 11 San Mateo County Taxable Retail Store Sales

Sales Tax Categories (1995 - 2008)	1995	2000	2005	2006 ¹	2007	2008	CAGR 2000- 2008	Restructured Sales Tax Categories (2009-2010) ²	2009	2010	CAGR 2009- 2010
Apparel Stores	\$235,642	\$349,256	\$365,474	\$398,192	\$425,086	\$472,321	3.85%	Clothing and Clothing Accessories Stores	568,905	595,402	4.66%
Gen. Merchandise & Drug	1,022,653	1,235,496	1,247,946	1,313,029	1,363,715	1,287,235	0.51%	General Merchandise Stores	950,724	1,026,497	7.97%
Food Stores	307,827	405,860	408,881	411,438	430,879	436,383	0.91%	Food and Beverage Stores	501,724	508,941	1.44%
Eating & Drinking Places	660,637	980,888	1,111,150	1,158,608	1,245,105	1,279,611	3.38%	Food Services and Drinking Places	1,226,275	1,279,295	4.32%
Furnishing & Appliances	283,887	486,075	513,133	512,423	535,371	541,919	1.37%	Home Furnishings and Appliance Stores	630,587	664,299	5.35%
Bldg Materials & Farm Eqmt	387,557	748,217	929,948	908,205	846,050	762,664	0.24%	Bldg. Matrl. and Garden Equip. and Supplies	713,094	699,781	-1.87%
Auto Dealers & Supplies	1,047,656	1,860,891	1,657,293	2,544,725	1,579,609	1,238,307	-4.96%	Motor Vehicle and Parts Dealers	\$1,063,294	\$1,117,487	5.10%
Service Stations	452,098	801,639	827,759	-	1,008,460	1,055,256	3.50%	Gasoline Stations	804,551	935,284	16.25%
Other Retail Stores	1,038,739	1,728,622	1,433,535	1,476,523	1,564,706	1,348,031	-3.06%	Other Retail Group ³	996,613	1,019,288	2.28%
Total Retail and Food Services ⁴	\$5,436,696	\$8,596,944	\$8,495,119	\$8,723,143	\$8,998,981	\$8,421,727		Total Retail and Food Services	\$7,455,767	\$7,846,274	
Annual Growth (yoy)	6.0%	14.4%	5.0%	2.7%	3.2%	-6.4%		Annual Growth (yoy)	-11.5%	5.2%	

¹ Auto Dealers & Supplies includes Service Stations for 2006

² For County Sales Tax, Other Retail Group includes Health and Personal Care Stores, Sporting Goods, Hobby, Book, and Music Stores, Miscellaneous Store Retailers, Nonstore Retailers

³ According to the BOE, pre-2009 sales tax categories are not comparable to 2009 NAICS categories. Despite similar names, the two groups of categories contain different industry subsets which were reclassified in 2009. Total Retail Sales Categories

⁴ Total Retail and Food Services between 2008 and 2009 are not comparable due to the recategorization between the two years.

Source: California Board of Equalization

Table 12 Per Capita Retail Store Sales in San Mateo County

(Dollars in Thousands)

Sales Tax Categories (1995 - 2008)	1995	2000	2005	2006 ³	2007	2008	CAGR 2000- 2008	Restructured Sales Tax Categories (2009-2010)	2009	2010	CAGR 2009- 2010
San Mateo County Population	673,274	705,052	700,350	699,347	701,838	707,820			713,818	718,614	
Apparel Stores	\$350	\$495	\$522	\$569	\$606	\$667	3.79%	Clothing and Clothing Accessories Stores	\$797	\$829	3.96%
Gen. Merchandise & Drug ¹	1,564	1,805	1,835	1,934	2,001	1,873	0.46%	General Merchandise Stores	\$1,332	\$1,428	7.25%
Food Stores ²	1,372	1,727	1,751	1,765	1,842	1,850	0.86%	Food and Beverage Stores ²	\$2,109	\$2,125	0.76%
Eating & Drinking Places	981	1,391	1,587	1,657	1,774	1,808	3.33%	Food Services and Drinking Places	\$1,718	\$1,780	3.63%
Furnishing & Appliances	422	689	733	733	763	766	1.32%	Home Furnishings and Appliance Stores	\$883	\$924	4.64%
Bldg Materials & Farm Eqmt	576	1,061	1,328	1,299	1,205	1,077	0.19%	Bldg. Matrl. and Garden Equip. and Supplies	\$999	\$974	-2.52%
Auto Dealers & Supplies	1,556	2,639	2,366	3,639	2,251	1,749	5.01%	Motor Vehicle and Parts Dealers	\$1,490	\$1,555	4.40%
Service Stations	671	1,137	1,182	-	1,437	1,491	3.45%	Gasoline Stations	\$1,127	\$1,302	15.47%
Other Retail Stores	1,543	2,452	2,047	2,111	2,229	1,904	3.11%	Other Retail Group ^{1 4}	\$1,438	\$1,461	1.59%
Total Per Capita Retail and Food Services	\$9,035	\$13,397	\$13,351	\$13,706	\$14,108	\$13,186		Total Per Capita Retail and Food Services	\$11,893	\$12,378	
Annual Growth (yoy)	17.8%	12.7%	5.0%	2.7%	2.9%	-6.5%		Annual Growth (yoy)	-9.8%	4.1%	

¹ Adjusted from taxable sales by 3% to reflect non taxable drug sales

² Adjusted taxable sales by 3 times to reflect total food store sales

³ Auto Dealers & Supplies includes Service Stations for 2006

⁴ For County Sales Tax, Other Retail Group includes Health and Personal Care Stores, Sporting Goods, Hobby, Book, and Music Stores, Miscellaneous Store Retailers, Nonstore Retailers

Source: California Board of Equalization

Table 13 City of San Mateo Taxable Retail Store Sales

(Dollars in Thousands)

Sales Tax Categories (1995 - 2008)	1995	2000	2005	2006	2007	2008	CAGR 1998-2008	Restructured Sales Tax Categories (2009-2010)	2009	2010	CAGR 2009-2010
Apparel Stores Gen.	\$70,465	\$113,191	\$115,202	\$123,179	\$124,507	\$145,238	5.05%	Clothing and Clothing Accessories Stores	167,393	169,211	3.70%
Merchandise & Drug	226,250	294,731	278,143	281,645	286,476	236,531	-1.03%	General Merchandise Stores	156,023	153,540	3.67%
Food Stores	47,840	62,865	67,673	68,989	72,114	71,892	2.86%	Food and Beverage Stores	82,651	82,097	-4.40%
Eating & Drinking Places	100,022	145,792	166,439	171,186	183,165	190,039	5.13%	Food Services and Drinking Places	177,138	183,963	-0.67%
Furnishing & Appliances	79,987	129,163	103,054	92,516	95,641	85,506	-2.13%	Home Furnishings and Appliance Stores	78,583	81,463	17.59%
Bldg Materials & Farm Eqmt	30,071	98,300	101,610	101,246	96,192	85,537	2.74%	Bldg. Matrl. and Garden Equip. and Supplies	77,194	73,800	1.09%
Auto Dealers & Supplies	109,594	124,421	127,743	120,369	118,546	97,262	-2.15%	Motor Vehicle and Parts Dealers	\$81,431	\$84,440	-1.59%
Service Stations	63,590	83,540	107,434	127,305	146,599	154,355	9.18%	Gasoline Stations	125,023	147,021	3.85%
Other Retail Stores	158,410	299,374	219,624	230,076	221,017	203,214	-1.47%	Other Retail Group	173,412	174,942	0.88%
Total City of San Mateo	\$886,229	\$1,351,377	\$1,286,922	\$1,316,511	\$1,344,257	\$1,269,575	1.33%	Total City of San Mateo	\$1,118,849	\$1,150,478	2.83%
Annual Growth (yoy)	6.6%	6.4%	2.4%	2.3%	2.1%	-5.6%		Annual Growth (yoy)	-11.9%	2.8%	
Total San Mateo County	\$5,436,696	\$8,596,944	\$8,495,119	\$8,723,143	\$8,998,981	\$8,421,727	2.45%	Total San Mateo County	\$7,455,767	\$7,846,274	5.24%
Share of County	16.3%	15.7%	15.1%	15.1%	14.9%	15.1%	-1.10%	Share of County	15.0%	14.7%	-2.29%

Note: Taxable retail store sales does not include business to business sales conducted outside of retail stores or sales of home businesses

³ According to the BOE, pre-2009 sales tax categories are not comparable to 2009 NAICS categories. Despite similar names, the two groups of categories contain different industry subsets which were reclassified in 2009. Total Retail Sales Categories

Source: California Board of Equalization

Table 14 City of San Mateo Share of San Mateo County Taxable Retail Store Sales

Sales Tax Categories (1995 - 2008)	1995	2000	2005	2006	2007	2008	CAGR 1998-2008	Restructured Sales Tax Categories (2009-2010)	2009	2010	CAGR 1998-2008
Apparel Stores	29.9%	32.4%	31.5%	30.9%	29.3%	30.7%	0.39%	Clothing and Clothing Accessories Stores	29.4%	28.4%	-1.29%
Gen. Merchandise & Drug	22.1%	23.9%	22.3%	21.5%	21.0%	18.4%	-2.39%	General Merchandise Stores	16.4%	15.0%	-3.96%
Food Stores	15.5%	15.5%	16.6%	16.8%	16.7%	16.5%	0.71%	Food and Beverage Stores	16.5%	16.1%	-0.50%
Eating & Drinking Places	15.1%	14.9%	15.0%	14.8%	14.7%	14.9%	0.41%	Food Services and Drinking Places	14.4%	14.4%	-0.47%
Furnishing & Appliances	28.2%	26.6%	20.1%	18.1%	17.9%	15.8%	-5.70%	Home Furnishings and Appliance Stores	12.5%	12.3%	-6.19%
Bldg Materials & Farm Eqmt	7.8%	13.1%	10.9%	11.1%	11.4%	11.2%	-0.70%	Bldg. Matrl. and Garden Equip. and Supplies	10.8%	10.5%	-1.29%
Auto Dealers & Supplies	10.5%	6.7%	7.7%	4.7%	7.5%	7.9%	-0.87%	Motor Vehicle and Parts Dealers	7.7%	7.6%	1.33%
Service Stations	14.1%	10.4%	13.0%		14.5%	14.6%	1.31%	Gasoline Stations	15.5%	15.7%	1.11%
Other Retail Stores	15.3%	17.3%	15.3%	15.6%	14.1%	15.1%	-2.60%	Other Retail Group	17.4%	17.2%	-0.69%
Total City of San Mateo	16.3%	15.7%	15.1%	15.1%	14.9%	15.1%	-1.10%	Total City of San Mateo	15.0%	14.7%	-2.29%

Source: California Board of Equalization

Table 15 City of San Mateo Downtown Taxable Retail Store Sales

(Dollars in Thousands)

	2007	2008	2009	2010	2011	CAGR 2007-2011
Eating & Drinking Pl	651	682	667	721	783	4.75%
Service Station	214	231	188	313	396	16.69%
Other Retail Stores	294	262	224	218	223	-6.69%
Food Stores	177	156	130	121	125	-8.40%
Home Furnishings & Appliance	134	122	110	108	101	-6.87%
Bldg. Matr. & Farm	134	119	95	87	90	-9.48%
Drug Stores	52	52	52	52	54	0.77%
Apparel Stores	57	48	42	42	40	-8.59%
Auto Dealers & Auto	19	17	17	21	22	3.71%
Packaged Liquor Stores	11	12	11	13	8	-8.08%
General Merchandise	0	0	0	1	1	75.59%
Total Downtown San Mateo	\$1,743	\$1,701	\$1,536	\$1,697	\$1,843	1.40%
Annual Growth		-2.5%	-9.7%	10.5%	8.6%	
Total City of San Mateo	\$886,229	\$931,232	\$1,012,749	\$1,112,453	\$1,270,167	9.42%
Share of County	0.20%	0.18%	0.15%	0.15%	0.15%	-7.33%

Source: City of San Mateo Planning Department, 2012

Table 16 California State Taxable Retail Store Sales

(Dollars in Thousands)

Sales Tax Categories (1995 - 2008)	2000	2005	2006 ¹	2007	2008	CAGR 2000- 2008	Restructured Sales Tax Categories (2009-2010) ²	2009	2010	CAGR 2009- 2010
Apparel Stores	\$12,847,372	\$18,712,125	\$19,829,416	\$20,855,890	\$22,120,094	7.03%	Clothing and Clothing Accessories Stores	\$25,641,272	\$27,267,430	6.34%
Gen. Merchandise & Drug	45,829,364	56,787,153	59,264,894	59,897,350	56,425,472	2.63%	General Merchandise Stores	44,921,639	46,323,804	3.12%
Food Stores	18,374,398	21,128,469	21,864,179	22,461,059	21,504,308	1.99%	Food and Beverage Stores	22,546,285	22,787,407	1.07%
Eating & Drinking Places	35,461,731	46,412,847	49,229,418	51,658,575	52,051,404	4.91%	Food Services and Drinking Places	49,921,543	51,282,453	2.73%
Furnishing & Appliances	13,592,904	17,388,704	17,383,449	16,720,852	17,199,187	2.99%	Home Furnishings and Appliance Stores	21,865,358	22,492,004	2.87%
Bldg Materials & Farm Eqmt	22,488,577	36,152,218	36,163,326	32,656,324	26,647,007	2.14%	Bldg. Matrl. and Garden Equip. and Supplies	23,978,313	24,750,865	3.22%
Auto Dealers & Supplies	81,937,244	112,167,922	115,154,535	70,779,978	54,540,171	-4.96%	Motor Vehicle and Parts Dealers	44,488,199	47,355,568	6.45%
Service Stations	-	-	-	47,084,940	52,015,249		Gasoline Stations	39,077,835	45,226,491	15.73%
Other Retail Stores	56,536,107	67,058,687	70,177,355	64,910,134	54,815,535	-0.39%	Other Retail Group ²	38,774,163	23,171,898	-40.24%
Total Retail and Food Services ⁴	\$287,067,697	\$375,808,125	\$389,066,572	\$387,025,102	\$357,318,427		Total Retail and Food Services	\$311,214,606	\$310,657,920	
Annual Growth (yoy)	12.3%	7.3%	3.5%	-0.5%	-7.7%		Annual Growth (yoy)	-12.9%	-0.2%	

¹ Auto Dealers & Supplies includes Service Stations for 2006

² For County Sales Tax, Other Retail Group includes Health and Personal Care Stores, Sporting Goods, Hobby, Book, and Music Stores, Miscellaneous Store Retailers, Nonstore Retailers

³ According to the BOE, pre-2009 sales tax categories are not comparable to 2009 NAICS categories. Despite similar names, the two groups of categories contain different industry subsets which were reclassified in 2009. Total Retail Sales Categories

⁴ Total Retail and Food Services between 2008 and 2009 are not comparable due to the recategorization between the two years.

Source: California Board of Equalization

Table 17 San Mateo County Retail Market, 2006-2012 QTD

Period	# Bldgs	Total RBA	Total Vacant SF	Total Vacant %	Total Avail SF	Total Avail %	Occupied SF	Occupied %	Total Net Absorption	Total Gross Absorption	Total Average Rate
2012 QTD	3,354	32,984,990	1,840,505	5.6%	2,346,031	7.1%	31,144,485	94.4%	(4,446)	155,178	\$25.69/nnn
2011 4Q	3,341	32,932,962	1,892,976	5.7%	2,274,999	6.9%	31,039,986	94.3%	13,230	204,947	\$24.97/nnn
2010 4Q	3,342	32,902,373	1,822,879	5.5%	2,262,476	6.9%	31,079,494	94.5%	86,051	170,320	\$24.63/nnn
2009 4Q	3,365	33,062,013	1,919,361	5.8%	2,329,974	7.0%	31,142,652	94.2%	44,014	353,249	\$24.63/nnn
2008 4Q	3,372	33,008,065	1,857,157	5.6%	2,205,595	6.7%	31,150,908	94.4%	159,452	361,502	\$27.62/nnn
2007 4Q	3,366	32,843,362	2,020,224	6.2%	2,430,153	7.4%	30,823,138	93.8%	26,993	302,224	\$26.60/nnn
2006 4Q	3,355	32,408,693	1,199,037	3.7%	1,568,534	4.8%	31,209,656	96.3%	426,896	639,651	\$28.15/nnn

Source: CoStar

Table 18 City of San Mateo Retail Market, 2006-2012 QTD

Period	# Bldgs	Total RBA	Total Vacant SF	Total Vacant %	Total Avail SF	Total Avail %	Occupied SF	Occupied %	Total Net Absorption	Total Gross Absorption	Total Average Rate
2012 QTD	550	5,370,980	156,191	2.9%	268,060	5.0%	5,214,789	97.1%	(8,468)	18,900	\$23.73/nnn
2011 4Q	547	5,359,046	160,883	3.0%	260,981	4.9%	5,198,163	97.0%	9,625	40,428	\$23.34/nnn
2010 4Q	547	5,353,454	115,467	2.2%	240,264	4.5%	5,237,987	97.8%	44,564	54,264	\$21.35/nnn
2009 4Q	548	5,397,651	223,646	4.1%	344,480	6.4%	5,174,005	95.9%	7,345	19,681	\$21.53/nnn
2008 4Q	549	5,400,291	157,156	2.9%	203,425	3.8%	5,243,135	97.1%	(9,279)	21,070	\$23.92/nnn
2007 4Q	548	5,394,505	147,056	2.7%	161,173	3.0%	5,247,449	97.3%	(10,986)	25,528	\$24.35/nnn
2006 4Q	548	5,394,505	203,004	3.8%	213,474	4.0%	5,191,501	96.2%	203,244	256,542	\$27.18/nnn

Source: CoStar

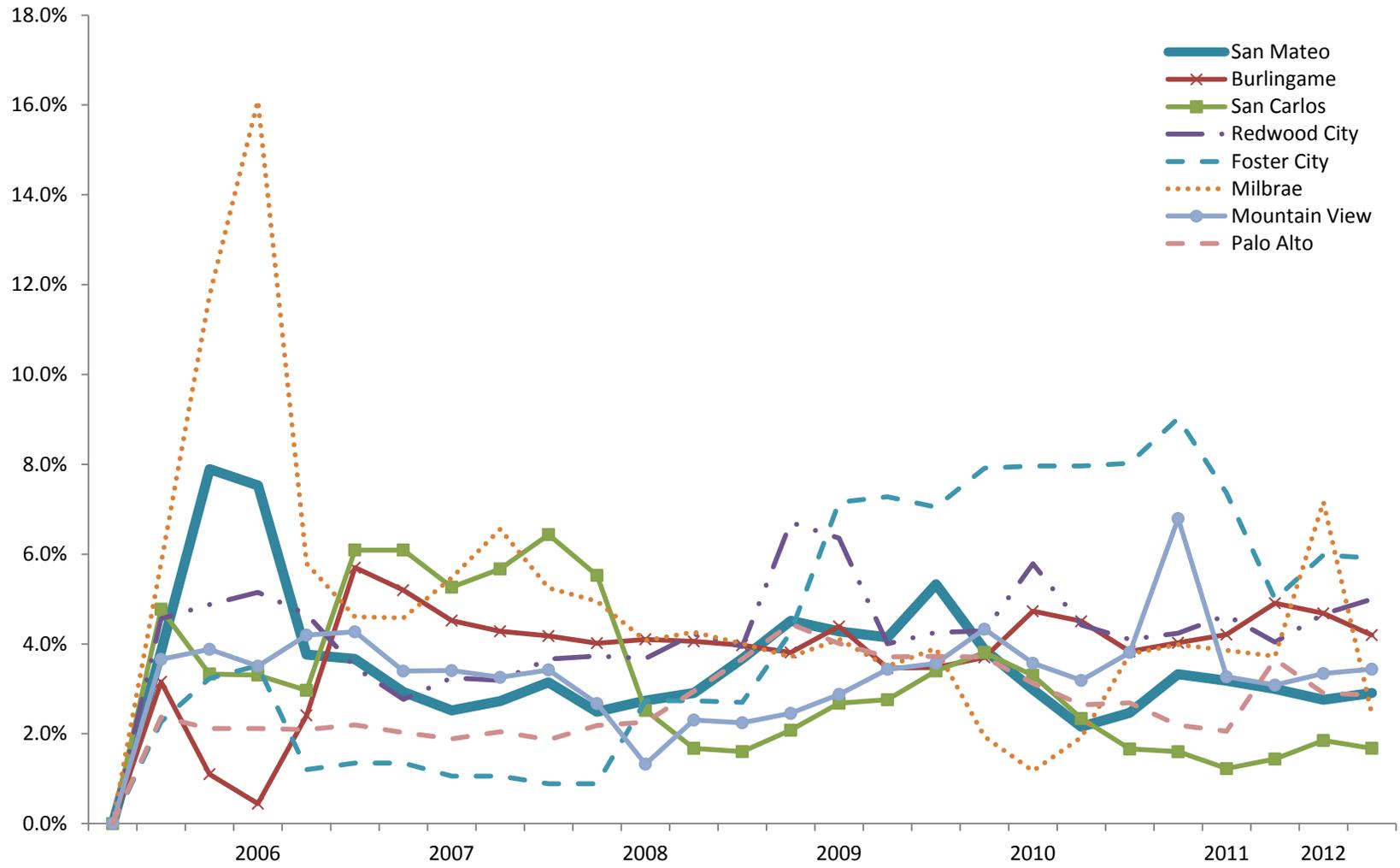
Table 19 Downtown San Mateo Required Retail Frontage Area Retail Market, 2006-2012 QTD

Period	# Bldgs	Total RBA	Total Vacant SF	Total Vacant %	Total Avail SF	Total Avail %	Occupied SF	Occupied %	Total Net Absorption	Total Gross Absorption	Total Average Rate
2012 QTD	102	826,841	49,475	6.0%	94,925	11.5%	777,366	94.0%	(1,798)	15,000	\$28.17/nnn
2011 4Q	101	821,091	56,810	6.9%	85,014	10.4%	764,281	93.1%	(15,188)	3,800	\$28.15/nnn
2010 4Q	101	821,091	37,494	4.6%	97,761	11.9%	783,597	95.4%	10,284	10,284	\$21.15/nnn
2009 4Q	101	821,091	44,986	5.5%	113,809	13.9%	776,105	94.5%	4,619	6,384	\$23.37/nnn
2008 4Q	101	821,091	23,456	2.9%	48,746	5.9%	797,635	97.1%	(300)	3,500	\$24.55/nnn
2007 4Q	101	821,091	33,725	4.1%	33,725	4.1%	787,366	95.9%	556	6,040	\$23.10/nnn
2006 4Q	101	821,091	41,966	5.1%	46,716	5.7%	779,125	94.9%	8,501	26,641	\$22.09/nnn

Note: CoStar only includes properties greater than 20,000 square feet. This excludes many of the smaller properties in Downtown San Mateo, and under represents the vacancy rate

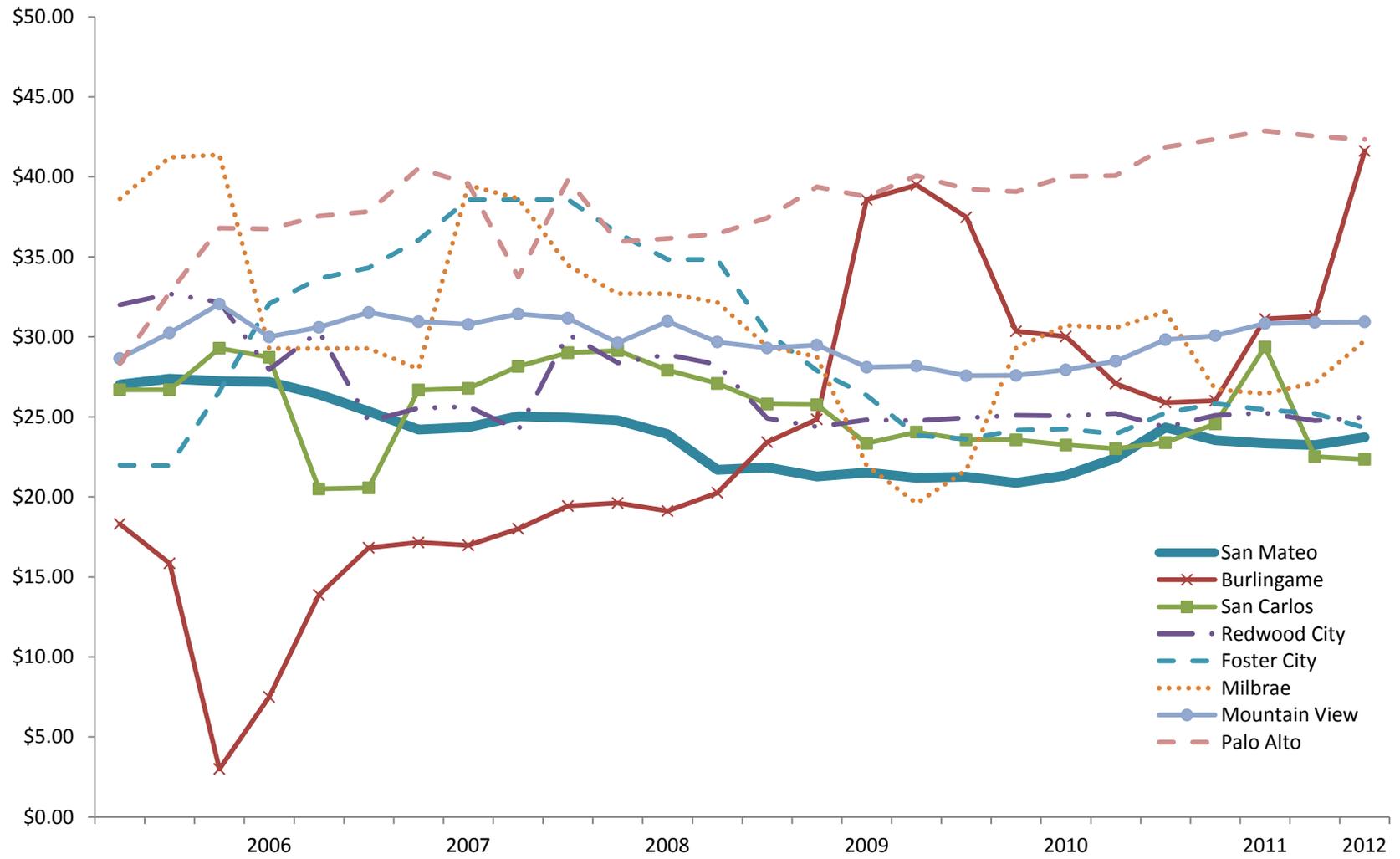
Source: CoStar

Figure 13 Retail Vacancy Rates of Comparable Cities, 2006-2012 QTD



Source: CoStar

Figure 14 Triple Net Lease Rate Trend for Comparable Cities



Source: CoStar

Table 20 San Mateo County Office Market, 1997-2012 QTD

Period	# Bldgs	Total RBA	Total Vacant SF	Total Vacant %	Total Avail SF	Total Avail %	Occupied SF	Occupied %	Total Net Absorption	Total Gross Absorption	Total Average Rate
2012 QTD	1,677	47,801,050	5,306,402	11.1%	6,911,757	14.5%	42,494,648	88.9%	(141,333)	608,605	\$37.02/fs
2011 4Q	1,667	47,765,517	5,285,278	11.1%	6,639,950	13.9%	42,480,239	88.9%	294,752	1,116,345	\$34.97/fs
2010 4Q	1,668	47,845,377	6,968,947	14.6%	8,743,213	18.3%	40,876,430	85.4%	(4,483)	1,334,685	\$30.70/fs
2009 4Q	1,679	47,833,954	6,389,413	13.4%	8,290,974	17.3%	41,444,541	86.6%	(63,364)	613,142	\$31.12/fs
2008 4Q	1,672	47,612,078	5,214,523	11.0%	7,136,642	15.0%	42,397,555	89.0%	(211,341)	729,573	\$35.64/fs
2007 4Q	1,660	46,650,921	4,203,087	9.0%	5,551,382	11.9%	42,447,834	91.0%	260,391	1,306,533	\$35.93/fs
2006 4Q	1,660	46,686,475	6,116,314	13.1%	6,369,354	13.6%	40,570,161	86.9%	390,805	1,285,106	\$27.57/fs
2005 4Q	1,658	46,447,304	7,131,092	15.4%	7,524,876	16.2%	39,316,212	84.6%	505,228	1,367,529	\$23.57/fs
2004 4Q	1,652	46,413,702	8,190,853	17.6%	-	-	38,222,849	82.4%	115,628	1,131,010	\$24.58/fs
2003 4Q	1,647	46,392,447	9,253,716	19.9%	-	-	37,138,731	80.1%	173,887	1,339,809	\$25.58/fs
2002 4Q	1,629	44,742,671	8,030,749	17.9%	-	-	36,711,922	82.1%	(31,086)	1,460,703	\$29.41/fs
2001 4Q	1,616	43,199,431	7,055,688	16.3%	-	-	36,143,743	83.7%	(73,835)	2,031,252	\$36.33/fs
2000 4Q	1,575	38,436,522	1,089,896	2.8%	-	-	37,346,626	97.2%	10,183	845,834	\$66.53/fs
1999 4Q	1,550	36,260,291	486,943	1.3%	-	-	35,773,348	98.7%	1,034,332	2,137,928	\$41.44/fs
1998 4Q	1,520	34,189,240	1,609,759	4.7%	-	-	32,579,481	95.3%	255,174	1,280,502	\$37.66/fs
1997 4Q	1,487	31,607,230	1,084,616	3.4%	-	-	30,522,614	96.6%	128,166	349,694	\$32.28/fs

Source: CoStar

Table 21 City of San Mateo Office Market, 1997-2012 QTD

Period	# Bldgs	Total RBA	Total Vacant SF	Total Vacant %	Total Avail SF	Total Avail %	Occupied SF	Occupied %	Total Net Absorption	Total Gross Absorption	Total Average Rate
2012 QTD	309	8,641,633	973,613	11.3%	1,397,756	16.2%	7,668,020	88.7%	(33,924)	200,437	\$32.75/fs
2011 4Q	305	8,624,878	1,041,430	12.1%	1,225,837	14.2%	7,583,448	87.9%	75,668	251,242	\$30.04/fs
2010 4Q	306	8,668,888	1,341,742	15.5%	1,542,056	17.8%	7,327,146	84.5%	67,007	317,993	\$26.25/fs
2009 4Q	307	8,673,935	1,352,366	15.6%	1,795,162	20.7%	7,321,569	84.4%	(35,624)	227,889	\$27.59/fs
2008 4Q	307	8,673,935	1,139,880	13.1%	1,428,589	16.5%	7,534,055	86.9%	(22,595)	174,985	\$34.48/fs
2007 4Q	307	8,673,935	1,111,631	12.8%	1,433,341	16.5%	7,562,304	87.2%	10,040	551,559	\$37.81/fs
2006 4Q	307	8,675,985	1,548,126	17.8%	1,711,297	19.7%	7,127,859	82.2%	77,425	274,513	\$28.52/fs
2005 4Q	308	8,703,711	1,082,908	12.4%	1,223,746	14.1%	7,620,803	87.6%	34,917	275,975	\$24.93/fs
2004 4Q	307	8,690,044	1,046,238	12.0%	-	-	7,643,806	88.0%	190,495	367,572	\$22.33/fs
2003 4Q	306	8,688,521	1,345,696	15.5%	-	-	7,342,825	84.5%	(55,705)	177,522	\$22.10/fs
2002 4Q	305	8,490,889	1,286,186	15.1%	-	-	7,204,703	84.9%	57,193	259,442	\$25.06/fs
2001 4Q	305	8,355,725	1,325,409	15.9%	-	-	7,030,316	84.1%	67,398	282,297	\$29.76/fs
2000 4Q	299	7,665,930	107,627	1.4%	-	-	7,558,303	98.6%	(43,922)	65,306	\$70.53/fs
1999 4Q	296	7,296,929	84,069	1.2%	-	-	7,212,860	98.8%	119,976	307,909	\$43.49/fs
1998 4Q	295	7,273,756	366,774	5.0%	-	-	6,906,982	95.0%	(69,309)	373,341	\$41.57/fs
1997 4Q	294	7,150,193	133,764	1.9%	-	-	7,016,429	98.1%	110,653	140,185	\$32.86/fs

Source: CoStar

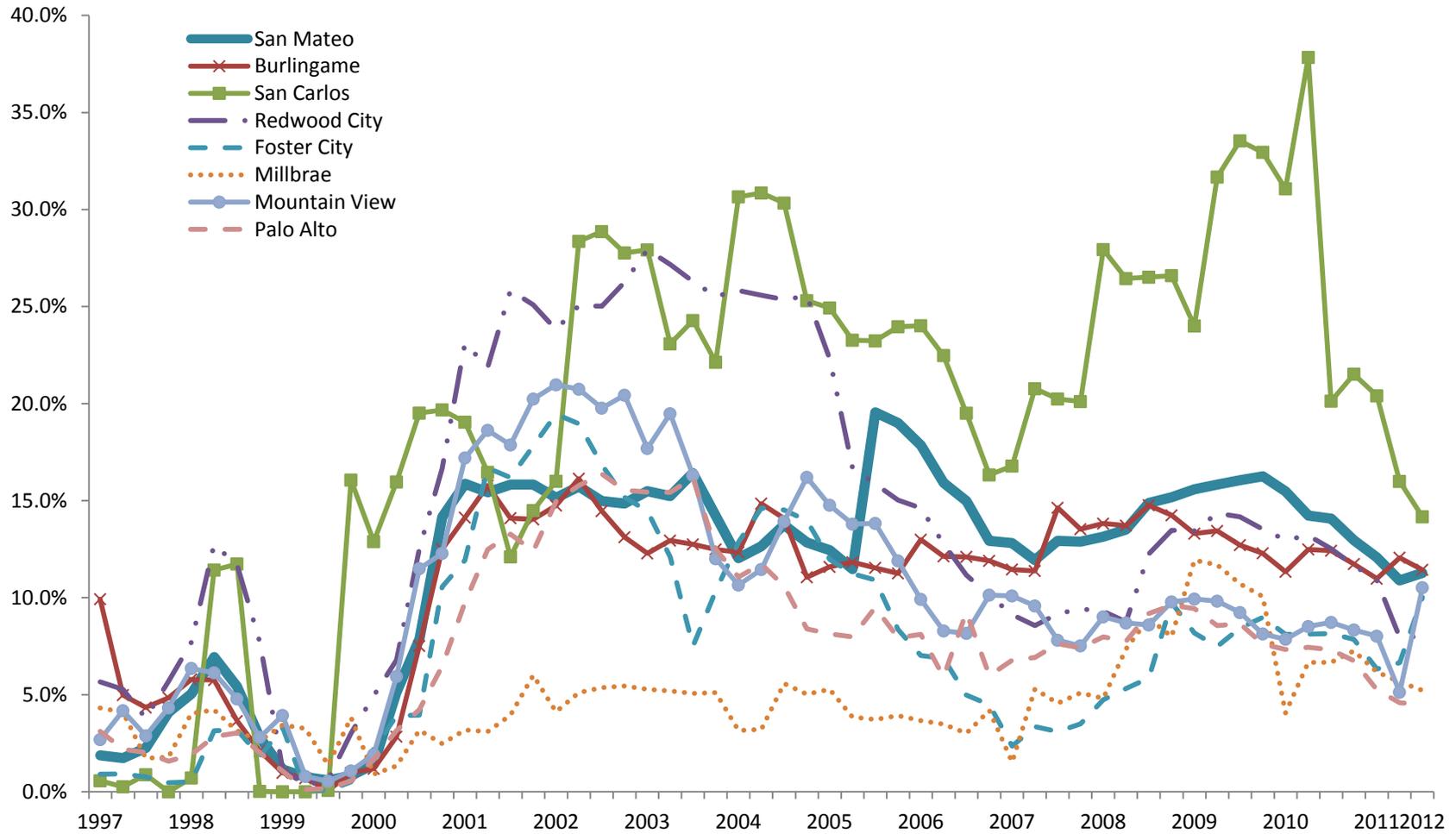
Table 22 Downtown San Mateo Required Retail Frontage Area Office Market, 1997-2012 QTD

Period	# Bldgs	Total RBA	Total Vacant SF	Total Vacant %	Total Avail SF	Total Avail %	Occupied SF	Occupied %	Total Net Absorption	Total Gross Absorption	Total Average Rate
2012 QTD	14	253,602	12,745	5.0%	18,398	7.3%	240,857	95.0%	203	658	\$36.09/fs
2011 4Q	14	253,602	7,617	3.0%	13,578	5.4%	245,985	97.0%	4,064	4,064	\$32.74/fs
2010 4Q	14	253,602	3,000	1.2%	7,232	2.9%	250,602	98.8%	1,194	1,194	\$29.57/fs
2009 4Q	14	253,602	9,352	3.7%	12,864	5.1%	244,250	96.3%	2,991	2,991	\$32.81/fs
2008 4Q	14	253,602	15,621	6.2%	15,621	6.2%	237,981	93.8%	5,010	5,478	\$33.43/fs
2007 4Q	14	253,602	14,309	5.6%	12,860	5.1%	239,293	94.4%	(6,932)	568	\$38.64/fs
2006 4Q	14	253,602	4,848	1.9%	4,848	1.9%	248,754	98.1%	19,639	19,939	\$26.55/fs
2005 4Q	14	253,602	44,679	17.6%	44,679	17.6%	208,923	82.4%	(5,290)	710	\$25.76/fs
2004 4Q	14	253,602	46,615	18.4%	-	-	206,987	81.6%	3,374	11,100	\$25.92/fs
2003 4Q	14	253,602	59,541	23.5%	-	-	194,061	76.5%	1,100	1,100	\$31.23/fs
2002 4Q	14	253,602	60,798	24.0%	-	-	192,804	76.0%	10,243	14,021	\$31.78/fs
2001 4Q	13	167,602	8,360	5.0%	-	-	159,242	95.0%	1,325	3,725	\$44.09/fs
2000 4Q	13	167,602	6,460	3.9%	-	-	161,142	96.1%	(5,960)	0	\$62.75/fs
1999 4Q	13	167,602	11,923	7.1%	-	-	155,679	92.9%	4,333	8,058	\$33.82/fs
1998 4Q	13	167,602	15,220	9.1%	-	-	152,382	90.9%	(15,220)	2,050	\$32.26/fs
1997 4Q	13	167,602	826	0.5%	-	-	166,776	99.5%	0	0	-

Note: CoStar only includes properties greater than 20,000 square feet. This excludes many of the smaller properties in Downtown San Mateo, and under represents the vacancy rate

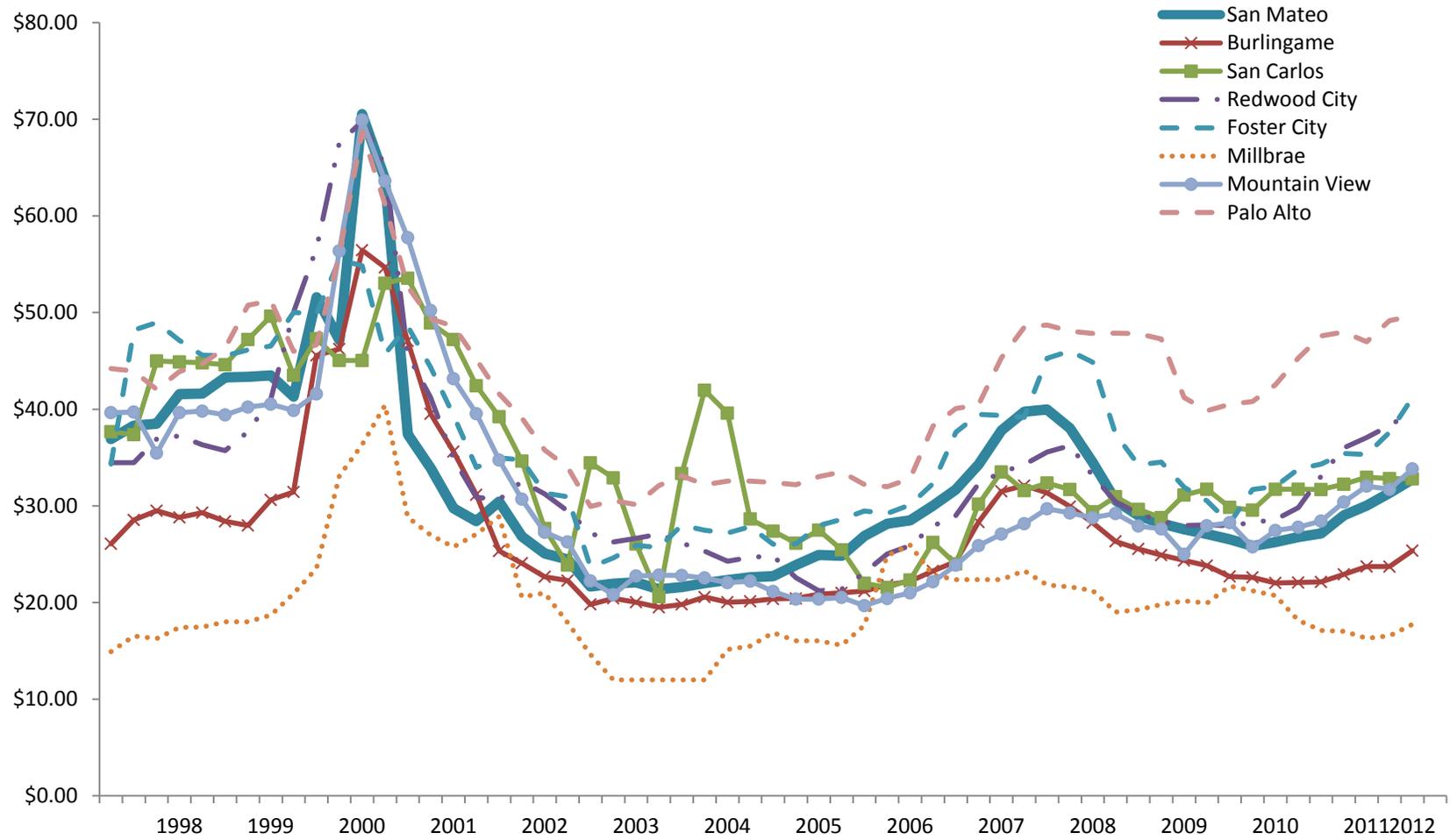
Source: CoStar

Figure 15 Office Vacancy Rates of Comparable Cities, 1997-2012 QTD



Source: CoStar

Figure 16 Average Lease Rate for Comparable Cities, 1997-2012 QTD



Source: CoStar

Table 23 Downtown San Mateo Ground Floor (Retail) Vacancies in Retail Frontage Area, May 2012

Vacant Properties In Retail Frontage Zone	Area	Depth (ft)	Width (ft)	Retail Spaces with Depths <60'	Retail Spaces with Depths ≥60'	Retail Spaces with Depths <80'	Retail Spaces with Depths ≥80'	Eligible for Office Conversion (1=Y, 0=N)	Available Office Space (sq ft) (behind 60' of retail frontage)
Y	850	65	13.1	-	850	850	-	0	-
Y	850	90	9.4	-	850	-	850	1	283
Y	950	90	10.6	-	950	-	950	1	317
Y	1,100	33	33	1,100	-	1,100	-	0	-
Y	1,126	34	33	1,126	-	1,126	-	0	-
Y	1,500	75	20.0	-	1,500	1,500	-	0	-
Y	2,050	50	41.0	2,050	-	2,050	-	0	-
Y	2,400	75	32.0	-	2,400	2,400	-	0	-
Y	2,500	80	31.3	-	2,500	-	-	1	625
Y	2,600	115	22.6	-	2,600	-	2,600	1	1,243
Y	2,642	115	23.0	-	2,642	-	2,642	1	1,264
Y	2,700	60	45.0	-	-	2,700	-	0	-
Y	3,700	115	32.2	-	3,700	-	3,700	1	1,770
Y	4,195	55	76.3	4,195	-	4,195	-	0	-
Y	4,600	110	41.8	-	4,600	-	4,600	1	2,091
Y	5,200	100	52.0	-	5,200	-	5,200	1	2,080
Y	6,342	115	55.1	-	6,342	-	6,342	1	3,033
Y	8,431	100	84.3	-	8,431	-	8,431	1	3,372
Y	10,000	170	58.8	-	10,000	-	10,000	1	6,471
Y	14,615	100	146.2	-	14,615	-	14,615	1	5,846
Total in Downtown Retail Frontage Zone	78,351			18,622	67,180	26,072	59,930	12	28,395

Source: City of San Mateo, AECOM

Table 24 Retail-Only Sales Tax Potential for Downtown San Mateo

	Hypothetical Retail Space	Existing Vacant Retail Space in Retail Frontage	Total Downtown Retail Space
Downtown Ground Floor Space Allocation			
Square Footage	5,000	78,351	721,000
Space Allocated to Retail	5,000	78,351	721,000
Retail Spaces 0-60' Deep	-	18,622	432,600
Retail Spaces >60' Deep	5,000	67,180	288,400
Downtown Retail Spend			
Retail Sales per Square Foot (0-60' deep)		\$300	
Retail Sales per Square Foot (Buildings >60' deep)		\$225	
Total Retail Sales (Non-Downtown Employees)	\$1,125,000	\$20,702,100	\$194,670,000
Retail Sales Tax Allotted to City of San Mateo		1%	
Sales Tax to the City of San Mateo (from Retail Sales-Non-Downtown Employees)	\$11,250	\$207,021	\$1,946,700
Additional Retail Spend by Downtown Retail Employees			
Average Sq Ft per Retail Employee		500	
Total Retail Employees	10	157	1,442
Annual Downtown Retail Spend by Retail Employees ¹		\$3,380	
Total Retail Employee Sales	\$33,800	\$529,653	\$4,873,960
Sales Tax to the City of San Mateo (from Retail Sales- Downtown Retail Employees)	\$338	\$5,297	\$48,740
Total Retail Sales Tax To City of San Mateo	\$11,588	\$212,318	\$1,995,440

¹ ICSC's 2012 report on Office Worker Spending notes that average spending for office workers near their place of work is \$130/month; \$6,760 per year. Retail spending for retail employees near their place of work was set at half of this amount.

Source: AECOM

Table 25 Retail with Office Conversion Sales Tax Potential

	Hypothetical Retail Space	Existing Vacant Retail Space in Retail Frontage	Total Downtown Retail Space
Downtown Ground Floor Space Allocation			
Square Footage	5,000	78,351	721,000
Space Allocated to Retail	2,400	26,072	432,600
Retail Spaces 0-60' Deep	2,400	18,622	302,820
Retail Spaces 61-79' Deep	-	7,450	129,780
Downtown Retail Spend			
Retail Sales per Square Foot (0-60' deep)		\$300	
Retail Sales per Square Foot (Buildings >60' deep)		\$225	
Total Retail Sales	\$720,000	\$7,262,850	\$120,046,500
Retail Sales Tax Allotted to City of San Mateo		1%	
Sales Tax to the City of San Mateo (from Retail Sales by Non-Downtown Employees)	\$7,200	\$72,629	\$1,200,465
Additional Retail Spend by Downtown Retail Employees			
Average Sq Ft per Retail Employee		500	
Total Retail Employees	5	52	865
Annual Downtown Retail Spend by Retail Employees ¹		\$3,380	
Total Retail Employee Sales	\$16,224	\$176,247	\$2,924,376
Sales Tax to the City of San Mateo (from Retail Sales- Downtown Retail Employees)	\$162	\$1,762	\$29,244
Downtown Ground Floor Office Conversion			
Office Space Conversion (>60' in Buildings >80' Deep)	2,600	52,279	288,400
Average Sq Ft per Office Employee		100	
Total Office Employees	26	523	2,884
Additional Retail Spend by Downtown Ground Floor Office Employees			
Annual Downtown Retail Spend by Office Employees ¹		\$6,760	
Total Office Employee Sales	\$175,760	\$3,534,060	\$19,495,840
Sales Tax to the City of San Mateo (from Retail Sales- Downtown Office Employees)	\$1,758	\$35,341	\$194,958
Total Retail Sales Tax To City of San Mateo	\$9,120	\$109,732	\$1,424,667

¹ ICSC's 2012 report on Office Worker Spending notes that average spending for office workers near their place of work is \$130/month; \$6,760 per year. Retail spending for retail employees near their place of work was set at half of this amount.

Source: AECOM

List of Interviewees

The following stakeholders were interviewed as part of the market analysis. The stakeholders were identified and initially contacted by the City of San Mateo as part of this project.

- Clark Funkhouser – Cassidy Turley
- Steve Spieller – B Street and Vine Restaurant
- Karen Wandvik – The Tan Group / Park Village Associates
- Todd Oliver – Terranomics
- Tony Musich – Third Avenue Musich
- Bill Meyer – Tadaaki Chigusa
- Mike Draeger – Draeger’s Supermarkets Inc., / Colliers International
- Anne Kuhre – San Mateo United Home Owner’s Associations
- Maxine Turner – Resident
- Bruce Bean – The Trafton Group

The following stakeholders were contacted but AECOM was unable to schedule interviews:

- Dan Shalit – Village Builders
- Sarah McCaffree - AVOS