

The Economics of Land Use



Administrative Draft Report

Sharp Park Specific Plan Market Demand Study

Prepared for:

City of Pacifica

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1. INTRODUCTION AND KEY FINDINGS

This report provides an overview of demographic and real estate market conditions and trends relevant to the preparation of the Sharp Park Specific Plan. It has been prepared by Economic & Planning Systems, Inc. (EPS) as part of a multi-disciplinary team led by Dyett & Bhatia and retained by the City of Pacifica (City) to guide and focus development and placemaking objectives in the Specific Plan area.

The Specific Plan area surrounds Palmetto Avenue and Beach Boulevard between Paloma Avenue and Clarendon Road. A potential addition to the boundary includes adjacent area east of Highway 1 (see **Figure 1**). In line with the City's economic development priorities, the current planning effort for Sharp Park is focused on exploring the market and placemaking potential for Palmetto Avenue, which is easily accessible from Highway 1 and just a block from the beach. Palmetto Avenue is positioned to serve as the City's "Main Street" and to attract resident- and visitor-serving destinations and activities, including restaurants and hotels, as well as mixed-use residential development as appropriate. In support of these broader goals, this Study is focused on select market trends and land uses most appropriate for the Specific Plan area.

Figure 1 Sharp Park Specific Plan Map



Sharp Park Overview

Located just 15 miles south of San Francisco along the Pacific Ocean, the Sharp Park Specific Plan area is well-positioned to transition into the City's central node of activity. The Specific Plan area currently consists primarily of residential uses but also contains concentrations of other land uses, such as general commercial, hotel, public and community uses, and residential and commercial mixed uses. Both City Hall and the Sharp Park Library branch fall within the Specific Plan boundaries.¹

While subsequent sections of this Study provide additional context on the residential, retail, hotel, and office markets in Pacifica and the Specific Plan area, this section provides a general overview of the commercial context. Currently there are approximately twenty offices located in the Sharp Park area that provide a range of personal and professional services, including legal, financial, real estate, or counseling services. In addition, seven exercise studios/gyms and fourteen beauty salons can be found in the Sharp Park area.

The Eureka Square Shopping Center east of Highway 1, one of eleven retail centers in Pacifica, is located in the Specific Plan area. The shopping center is anchored by Oceana Market, a local grocery store, and contains a number of smaller retailers, including restaurants, a bank, and personal care services. Oceana Market is the only grocery store currently located in the Sharp Park area.



Chit Chat Cafe at the Pier

In the Sharp Park area, EPS was able to identify seven active restaurants, compared with about 35 in the City as a whole: Raymond's Chinese Cuisine, El Grano De Oro, El Toro Loco, Dinosaurs, Go Sushi, Pacifica Thai Cuisine, and Bunny Vietnamese. Two of the eateries are located on Palmetto Avenue, three are on Francisco Boulevard, and the remaining two operate out of the Eureka Square Shopping Center.² The Sharp Park Specific Plan area also contains four cafes: Chit Chat Cafe at the Pier, Cafe Pacifica, Saltwater Bakery, and Cafe Perfect Pour. Two of the cafes are on Palmetto Avenue, one is on Beach Boulevard, and the last cafe is located on Clarendon Road.

¹ City of Pacifica, 2019. Dyett & Bhatia, 2019.

² IBI data and Google Maps.

There are a few approved and proposed projects in the Specific Plan area, including the 1567 Beach Blvd. condominiums, the 2105-2115 Beach Boulevard duplex, and the four mixed-use projects clustered around Palmetto Avenue.³ As the City continues to evaluate potential future visions for the Specific Plan area, the Key Findings below are intended to inform discussion in support of the broader goals defined in the Sharp Park Specific Plan.



Palmetto Avenue

³ City of Pacifica, 2019. Dyett & Bhatia, 2019.

Key Findings

The key findings are organized to highlight current conditions and trends by land use category, followed by implications for future market demand.

Residential Market Conditions and Trends

- 1. The residential inventory in the City of Pacifica has grown relatively slowly (less than 1 percent per year since 2010) despite steadily increasing rents, home values, and low vacancies. These two trends suggest pent up demand for housing in the City, paralleling broader trends in the region.***

During the past decade, Pacifica's population grew 0.9 percent per year, and between 2010 and 2017, the City added approximately 173 new residential units. Meanwhile, housing prices (both rents and for-sale) have been steadily increasing, while the average vacancy rate has declined less than five percent. Of the City's rental households, approximately 36 percent are considered to be "overpaying," which is defined as paying more than 30 percent of household income for housing. These trends are consistent with regional patterns, reflecting the high demand for housing in the San Mateo County region and the Bay Area generally.

- 2. The Sharp Park Specific Plan area is more dense than other areas of the City, with a greater than average share of the City's multifamily and rental products. In the context of the Specific Plan, this suggests that the Sharp Park area may be an appropriate neighborhood for new mixed-use or multifamily development opportunities, building on the existing urban form and context.***

Of the approximately 14,581 residential units in Pacifica, about 78 percent are single-family. In comparison, there are currently an estimated 924 residential units in the Specific Plan area, representing about 6 percent of the City's total residential supply, a relatively large proportion when compared to the size of the Specific Plan area (1.3 percent of the City's land area). Additionally, the Sharp Park area contains a relatively large percentage of the City's multifamily units (16 percent) and a small percentage of its single-family units (3 percent). Finally, rental units represent approximately 69 percent of total residential units in the Specific Plan area compared to about 32 percent of total residential supply Citywide.

Retail, Hotel and Commercial Market Conditions and Trends

- 3. The location of Pacifica, and of the Sharp Park Specific Plan area within the city, presents an opportunity to support the creation of a mixed-use environment that will draw both visitors and local residents alike. With targeted public investments in the Sharp Park Specific Plan area, retail opportunities are likely to emerge from new local small businesses and incremental and fine-grained improvements to existing properties with a focus on creating a differentiated experience that provides residents and visitors with a unique sense of place.***

The performance of the City's retail market in general is affected by national changes in consumer behavior (e.g., online sales), as well as regional competition, and the Specific Plan area is particularly susceptible to competitive trends due to a predominance of large format retailers elsewhere in the County such as Daly City and San Bruno (e.g., Serramonte). Going forward, the existing competitive supply in the broader San Mateo market, combined with national trends in the consumer behavior, represents a significant market hurdle for any new national brand retail development in the Specific Plan area. However, targeted public investments that improve the overall attractiveness of the Sharp Park Specific Plan area may signal to local entrepreneurial retailers and restaurateurs that the Sharp Park neighborhood is an important area of focus and a future activity node for residents and visitors.



Mixed-Use Building on Francisco Boulevard and Carmel Avenue

- 4. There are currently six hotels in the City of Pacifica with an average occupancy rate of approximately 60 percent, suggesting that the existing hotel inventory is generally meeting the demand for hotel rooms. To support another hotel at this average occupancy rate, the prospective hotel will need to carefully consider its target market, price point, amenities and other unique features.**

Pacifica is currently served by six hotels with a total of 276 rooms. Several of the hotels are clustered in the Rockaway Beach area. There is one 25-room hotel located within the Sharp Park Specific Plan area. The average daily rate for all six hotels is \$216 and ranges from \$165 to \$284. The average rate for the hotel located within the Sharp Park area is \$173. A future hotel(s) will need to differentiate itself from the existing supply, most likely as a highly amenitized development, in order to be successful.

- 5. One-third of the City's office inventory of office space is located in the Specific Plan area. Despite this concentration and stable occupancy rates, there has been little to no office development activity in the Specific Plan area or the City overall relatively low rent appreciation.**

Office rents in the City are below County averages due to a high concentration of employment and high-quality office development in other cities. Despite low vacancy rates (less than 1 percent Citywide) office rents of approximately \$20 per square foot per year are not sufficient to stimulate new development. By comparison the average office rent in the County is \$64 per square foot per year

- 6. Demand for office space is closely tied to employment growth in those industry sectors that typically require office space, and demand for office space in the Specific Plan area will depend on the business location decisions of employers.**

An analysis of the current and projected distribution of jobs in the County indicates that much of the employment growth will be in the information, health, and financial/professional sectors of industry. With projected job growth, very limited commercial real estate vacancies, and relatively low commercial rents, there may be opportunities for new commercial development in the Specific Plan area. At current rents, speculative commercial development is likely infeasible, but a build-to-suit user who wants to be located in Pacifica may find the Sharp Park Specific Plan area to be an attractive option, particularly if support retail (e.g., café/restaurant uses) is enhanced.

2. RESIDENTIAL MARKET CONDITIONS AND TRENDS

This Chapter presents an overview of Pacifica’s demographic conditions and housing market dynamics.

Demographics

According to the U.S. Census Bureau, there were 14,000 households within the City of Pacifica in 2017 with an average household size of 2.77 persons. In addition, 65 percent of Pacifica’s current population is between the ages of 18 and 64. The City’s residents are well-educated with 44 percent of the population over 25 holding a bachelor’s degree or higher.

From 2010 to 2017, both Pacifica and San Mateo County grew in terms of population, employed residents, and jobs (see **Figure 2**). In this time frame, Pacifica’s population grew 6 percent. The growth in population was outpaced by the growth in both employed residents and jobs at 8 percent and 14 percent, respectively. The same growth trends experienced in the City are also seen in the County-level data. From 2010 to 2017, San Mateo County experienced an 8 percent increase in population, a nearly 18 percent increase in employed residents, and a substantial 26 percent growth in the number of jobs.

Figure 2 Historical Growth in Pacifica and San Mateo County

Geography	Historical Growth			Percent Change	Annual Growth Rate
	2010	2015	2017		
<u>Pacifica</u>					
Population	36,900	38,700	39,200	6.2%	0.9%
Employed Residents	19,200	20,700	20,800	8.3%	1.1%
Jobs	4,200	4,800	4,800	14.3%	1.9%
<u>San Mateo County</u>					
Population	704,400	748,800	763,500	8.4%	1.1%
Employed Residents	321,400	369,000	378,200	17.7%	2.3%
Jobs	316,500	388,000	399,100	26.1%	3.3%

Source: Census LEHD OnTheMap; American Community Survey 5-year Estimates

Going forward, ABAG projects that Pacifica will continue to experience relatively modest growth relative the county. Specifically, Pacifica’s population over the next two decades is estimated to increase 6 percent, compared with a 15 percent increase in the County of San Mateo (see **Figure 3**). The City’s annual population growth rate between 2020 and 2040 is estimated to be 0.3 percent, compared with 0.7 percent at the County-level. While the number of employed residents is projected to decrease one percent, the number of jobs within the City is expected to

grow 15 percent over the next two decades, similar to the 18 percent growth that is predicted for the County.

The relatively small projected growth in population suggests that Pacifica is a stable city, as is reflected in the housing inventory. As the region’s economy continues to grow over the next few decades, Pacifica is expected to experience this growth through an increase in the number of jobs and employed residents. While these projections can be used to illustrate how residential and job-oriented development in different parts of the region are connected, the information is not intended to be a substitute for the local planning process.⁴

Figure 3 Projected Growth in Pacifica and San Mateo County

Geography	Projected Growth ¹		Percent Change	Annual Growth Rate
	2020	2040		
<u>Pacifica</u>				
Population	39,500	41,800	5.8%	0.3%
Employed Residents	20,800	20,500	-1.4%	-0.1%
Jobs	4,900	5,600	14.3%	0.7%
<u>San Mateo County</u>				
Population	779,600	895,800	14.9%	0.7%
Employed Residents	382,300	410,500	7.4%	0.4%
Jobs	409,100	483,000	18.1%	0.8%

[1] Based on annual growth rates calculated from ABAG projections

Source: Census LEHD OnTheMap; American Community Survey 5-year Estimates; Association of Bay Area Governments.

Household Incomes and Housing Affordability

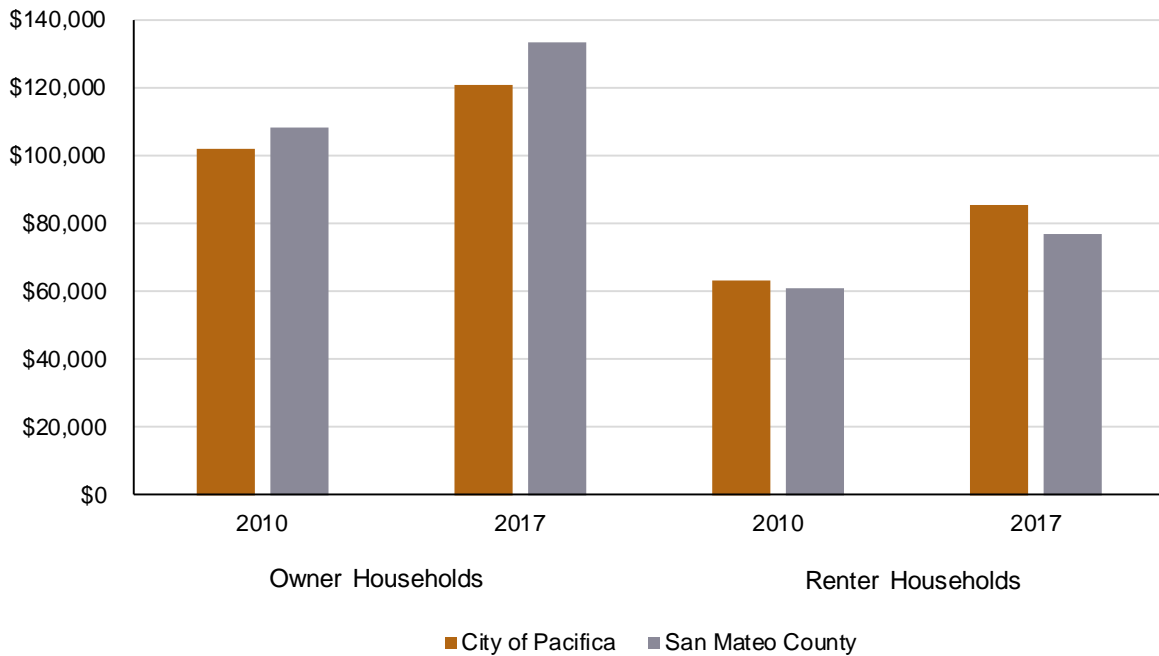
Housing markets in general, and rental housing in particular, are heavily influenced by household incomes, particularly the wages and salaries of the working population. The median household income in the Specific Plan area is \$104,000, similar to Pacifica’s median household income of

⁴ ABAG states that the projections are not prescriptive: it does not mandate changes to local zoning rules, general plans or processes for reviewing development projects; nor is the Plan an enforceable direct or indirect cap on development locations or targets in the region. Instead, the Plan, and by extension the projections as presented in this document, reflect a more collaborative approach and regional dialogue on the interrelated nature of job growth, housing markets and open space preservation.

\$107,000 and the County's median income of \$106,000. As a reference point, the median household income in the State of California is \$67,200.⁵

Household incomes for Pacifica homeowners increased by approximately 18.5 percent between 2010 and 2017 (not adjusted for inflation) and by 35 percent during the same period for Pacifica renters, as shown in **Figure 4**. When adjusted for inflation, household incomes for homeowners increased by 6 percent between 2010 and 2017, while incomes for renters increased by 20 percent.⁶ The median household income in Pacifica is comparable to the median income in the County.

Figure 4 Median Household Income in Pacifica and San Mateo County



Source: U.S. Census Bureau, 2013-2017 5-Year American Community Survey

According to the California Department of Housing and Community Development, an “overpaying” household is a household that pays 30 percent or more of its household income on housing costs. Using Census-reported data for households spending 30 percent or more of household income on housing costs, **Figure 5** shows that approximately 31 percent of Pacifica households are “overpaying” for housing (29 percent of owners and 36 percent of renters). Not surprisingly, of renter households earning between \$20,000 and \$50,000 per year, 100 percent of households are overpaying.

⁵ U.S. Census Bureau; American Community Survey, 2013-2017 Five-year Estimates; ESRI Business Analyst

⁶ Figures in October 2018 dollars, adjusted for inflation using the Bureau of Labor Statistics Consumer Price Index for San Francisco-Oakland-San Jose.

Figure 5 City of Pacifica Overpaying Households

Household Income	Owner Households			Renter Households		
	Total Households in Income Category	Overpaying Households	Overpaying Households as a % within Income Category	Total Households in Income Category	Overpaying Households	Overpaying Households as a % within Income Category
Less than \$20,000	347	42	12%	521	96	18%
\$20,000 to \$34,999	696	429	62%	354	354	100%
\$35,000 to \$49,999	593	266	45%	356	356	100%
\$50,000 to \$74,999	1,065	556	52%	715	528	74%
\$75,000 or more	<u>6,884</u>	<u>1,456</u>	21%	<u>2,355</u>	<u>225</u>	10%
Total	9,585	2,749	29%	4,301	1,559	36%

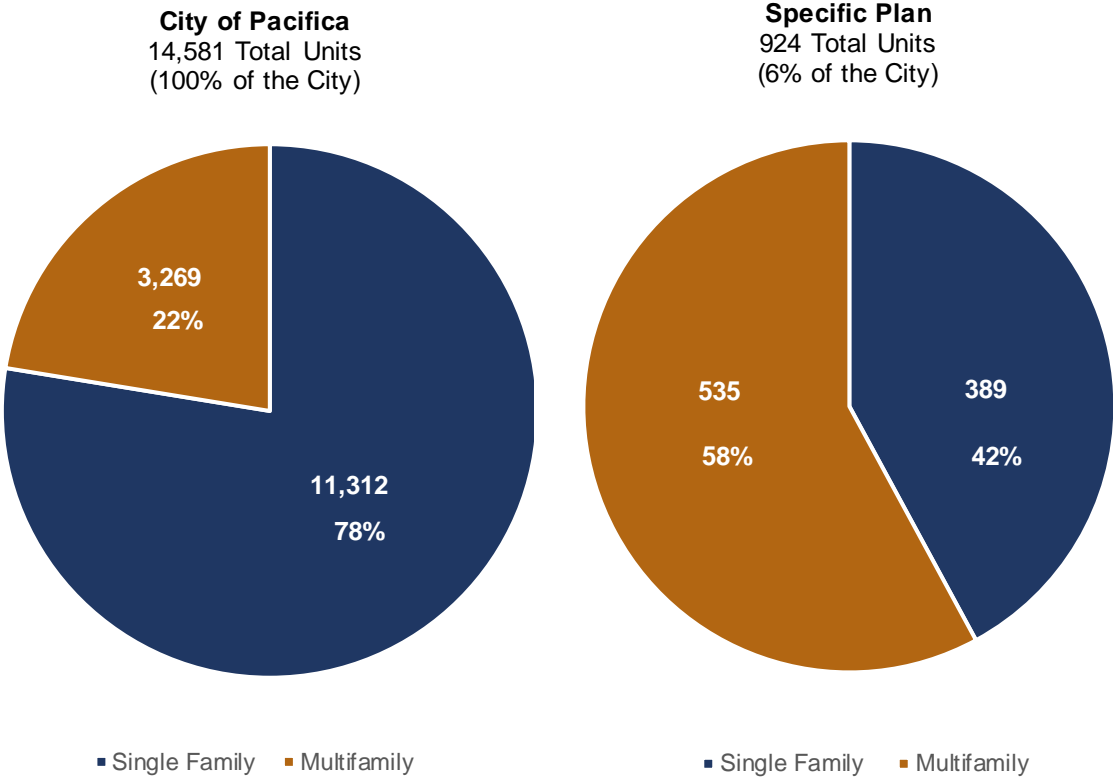
Note: An overpaying household is a household that pays 30 percent or more of its household income on housing costs

Source: U.S. Census Bureau, 2013-2017 5-Year American Community Survey

Residential Inventory

The City of Pacifica contains a total of 14,581 occupied and vacant residential units, comprised of approximately 11,310 single-family units and 3,270 multifamily units (see **Figure 6**)⁷. Within the Sharp Park Specific Plan area, there are a total of 924 units, including 389 single-family units and 535 multifamily units. The number of units located within the Specific Plan boundaries represents 6 percent of the total units within the City. Broken down by unit type, the single-family units located within the Specific Plan area represent 3 percent of the single-family units within the City. In contrast, a significantly higher percentage of the multifamily units in Pacifica are located within the Specific Plan (16 percent).

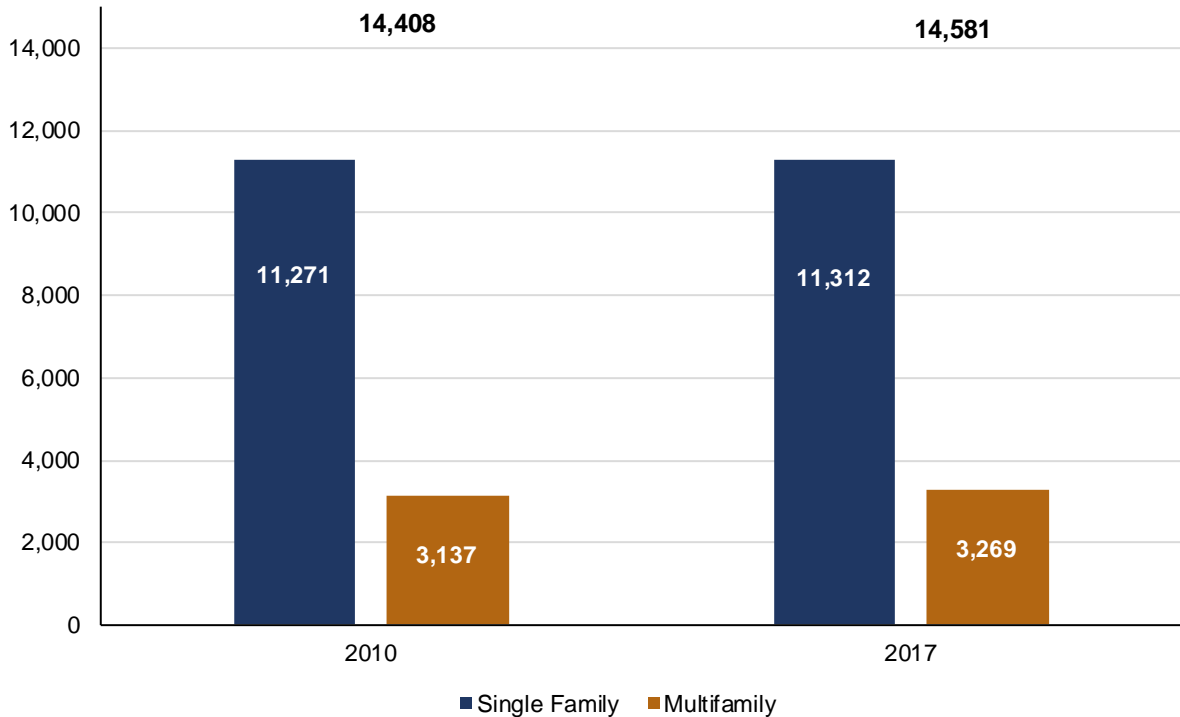
Figure 6 City of Pacifica and Specific Plan Housing Inventory (Occupied and Vacant)



⁷ U.S. Census Bureau; American Community Survey, 2013-2017 Five-year Estimates; ESRI Business Analyst

The City of Pacifica’s housing stock has grown slightly between 2010 and 2017, with more growth in multifamily units than single-family units. **Figure 7** illustrates the number of 2010 units broken down by single-family and multifamily compared with 2017 units.

Figure 7 City of Pacifica Housing Units 2010 v. 2017 (Occupied and Vacant)



Source: U.S. Census Bureau, 2013-2017 5-Year American Community Survey

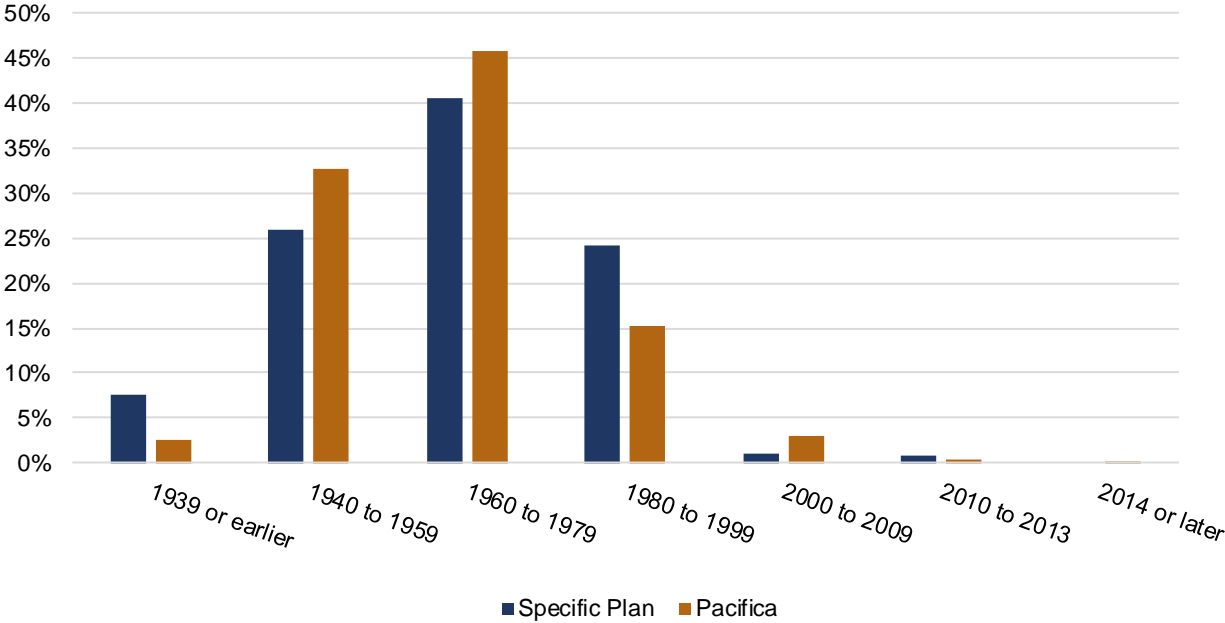
Age and Class of Inventory

The age and vintage of the residential stock can also provide useful insight into the state of the market. Available data suggest that that there has been very little new development in the City over the past twenty years (see **Figure 8**).

Only 3.6 percent of the housing stock in the City area was built within the past two decades. The Specific Plan area is similar in this regard with only 2 percent of the housing inventory built in the last two decades.

Approximately 98 percent of the Specific Plan area’s units and 96 percent of the City’s units were built before 2000. The majority of homes in the Specific Plan (66 percent) and the City (79 percent) were constructed between 1960 and 1979. 24 percent of homes in the Specific Plan area were built from 1980 to 1999, compared with 15 percent of homes in the City. Given the timing and the large proportion of rental homes in the Specific Plan area, this suggests that the Specific Plan area saw an increase in residential construction during the 1980s when it was favorable to have income property in terms of tax policy. In addition to single-family and multifamily units, **Figure 8** also includes other types of housing structures such as mobile homes.

Figure 8 City of Pacifica and Specific Plan Housing Stock by Year Built (Occupied and Vacant)¹



[1] In addition to single family and multifamily units, other types of housing structures such as mobile homes are also included in this figure.

Source: ESRI Business Analyst, U.S. Census Bureau, 2013-2017 5-Year American Community Survey

Amount and Tenure

As shown in **Figure 9**, there are approximately 14,100 occupied residential units in Pacifica and approximately 890 occupied units in the Specific Plan area, representing approximately 6 percent of the City’s occupied residential supply. The Specific Plan area has a much higher percentage of rental units compared with the City. Close to 32 percent of the City’s housing is occupied by renters compared to more than 69 percent in the Specific Plan area. In looking at San Mateo County as a whole, the City’s proportion of rental units is still lower than that of the County, where 40 percent of total units are rental units.

Figure 9 Housing Tenure

Tenure	Specific Plan Area [1]		City of Pacifica		San Mateo County	
	Occupied Units	% of Total	Occupied Units	% of Total	Occupied Units	% of Total
Owner	273	30.8%	9,602	68.2%	156,400	59.7%
Renter	<u>613</u>	<u>69.2%</u>	<u>4,478</u>	<u>31.8%</u>	<u>105,396</u>	<u>40.3%</u>
Total	886	100.0%	14,080	100.0%	261,796	100.0%
Percent of Citywide Total	6%		100%		1859%	

[1] Estimate from ESRI Business Analyst, using 2013-2017 ACS data

Source: U.S. Census Bureau, 2013-2017 5-Year American Community Survey

Figure 10 illustrates that of the City's residential inventory, 73 percent of the City's occupied units are single-family detached units and another 5 percent are single-family attached. Meanwhile, roughly one-fifth (20 percent) of the occupied units are part of multifamily structures consisting of three or more units. Available data suggests that the Specific Plan area is significantly more dense than the City overall, with about half of the units consisting of multifamily structures. Within the Specific Plan area, only 37 percent of all housing units (occupied and vacant) are single-family detached.⁸

Figure 10 Citywide Housing Stock by Tenure and Type/Size of Structure

Units in Structure	Total Occupied Units		Renter-Occupied Units		Rental Units as % of Total
	Number	Percent	Number	Percent	
Citywide					
Single Family (Detached)	10,282	73%	1,443	32%	10.2%
Single Family (Attached)	682	5%	222	5%	1.6%
2 Units	257	2%	146	3%	1.0%
3 or 4 Units	557	4%	523	12%	3.7%
5 to 9 Units	674	5%	601	13%	4.3%
10 or More	1,569	11%	1,502	34%	10.7%
Mobile Home or Other (RVs, Vans, Boats, etc.)	<u>59</u>	<u>0%</u>	<u>41</u>	<u>1%</u>	<u>0.3%</u>
Total	14,080	100%	4,478	100%	31.8%
Specific Plan Area [1]	886		613		69.2%
Share of Citywide	6.3%		13.7%		

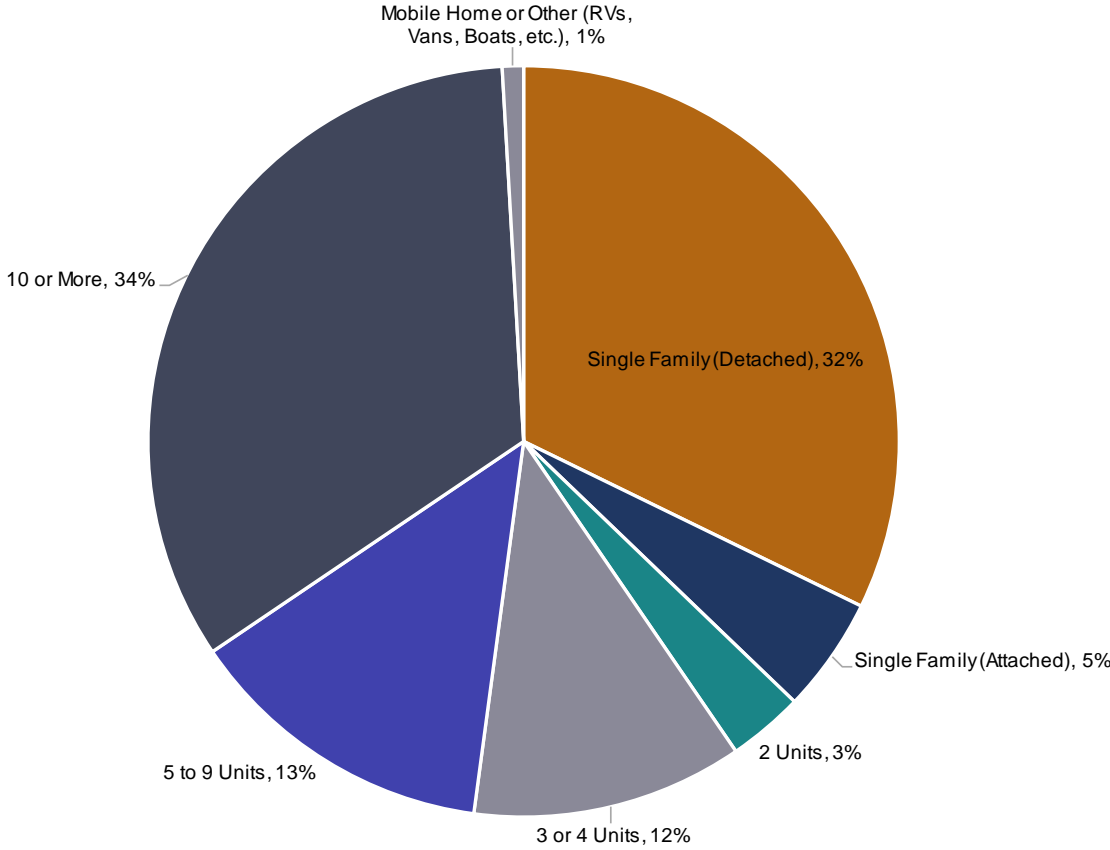
[1] Estimate from ESRI Business Analyst, using 2013-2017 ACS data

Source: U.S. Census Bureau, 2013-2017 5-Year American Community Survey

⁸ Estimate from ESRI Business Analyst, using 2013-2017 ACS data

Looking more closely at the rental market, a relatively large proportion is accommodated within single-family units. Specifically, single-family units make up about 37 percent of the rental stock (32 percent in detached and 5 percent in attached), as illustrated in **Figure 10** and **Figure 11**.

Figure 11 Composition of the Rental Housing Market in Pacifica



Source: U.S. Census Bureau, 2013-2017 5-Year American Community Survey

Rent and Occupancy Trends

Within San Mateo County and Pacifica, rent trends vary by unit type and unit size. Generally, rents per square foot are the highest for studios and the lowest for the largest units, as shown in **Figure 12**. Drilling down to the Specific Plan Area, at \$2,322 per unit, average rent in the Specific Plan area is lower than in the City as a whole as well as lower than in the County. Additionally, the rent in the Specific Area Plan is \$3.26 per square foot, which is similar to rent in the City and County, \$3.52 and \$3.50 per square foot, respectively.

Figure 12 Rent Trends in Specific Plan Area, Pacifica, and San Mateo County

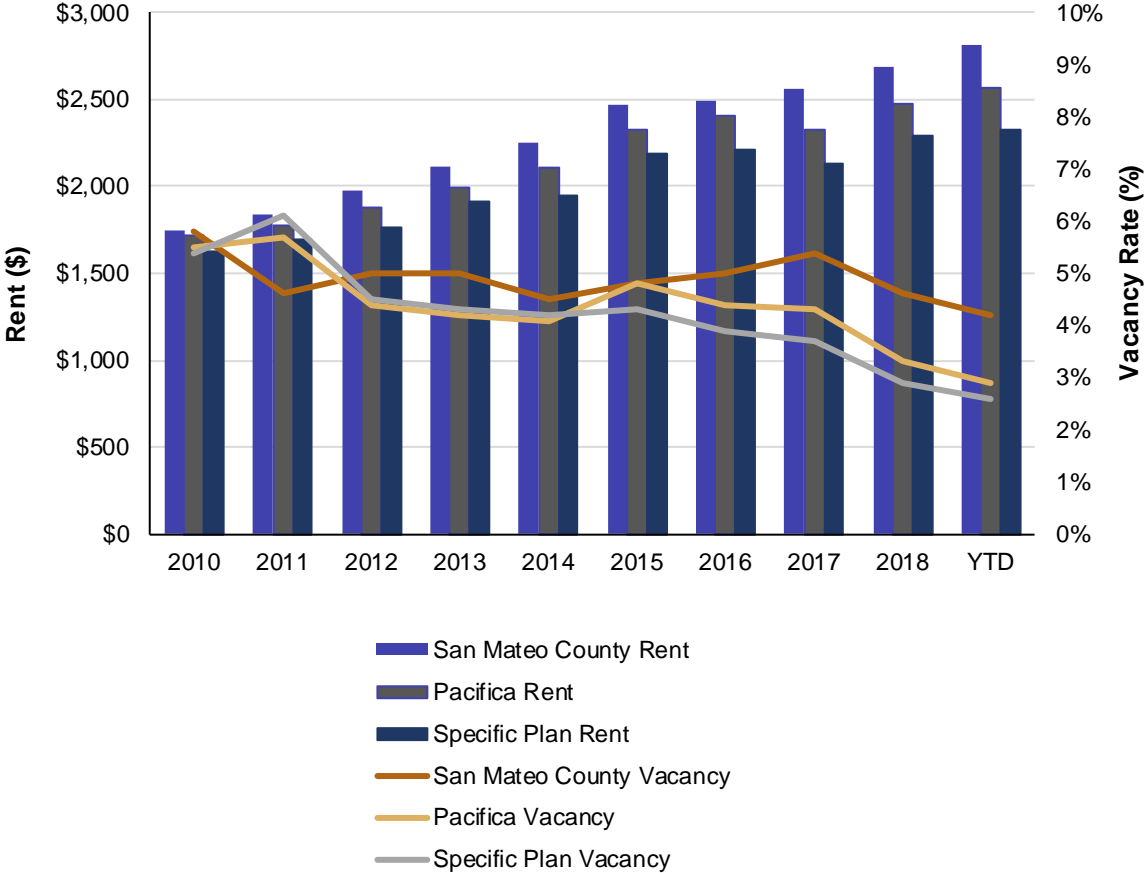
Item	Rent / Unit			Rent / Sq.Ft.			Occupancy Rate		
	Specific Plan Area	Pacifica	San Mateo County	Specific Plan Area	Pacifica	San Mateo County	Specific Plan Area	Pacifica	San Mateo County
All	\$2,322	\$2,567	\$2,810	\$3.26	\$3.52	\$3.50	97%	97%	96%
Studio	\$1,069	\$2,570	\$1,965	\$2.59	\$5.88	\$4.22	100%	97%	96%
1 Bedroom	\$2,244	\$2,276	\$2,528	\$3.36	\$3.62	\$3.70	98%	97%	96%
2 Bedrooms	\$2,593	\$2,995	\$3,238	\$3.11	\$3.31	\$3.32	97%	97%	96%
3 Bedrooms	\$2,106	\$2,458	\$4,041	\$2.14	\$1.62	\$3.09	98%	97%	95%
4+	N/A	N/A	\$3,797	N/A	N/A	\$2.49	N/A	N/A	95%

Source: CoStar 2019

The Specific Plan area, Pacifica, and San Mateo County have experienced similar multifamily rental trends in the past nine years, although the Specific Plan area has slightly lower rents than the City as a whole and the County. For example, in 2010, Pacifica's rents averaged \$1,713 per unit, while the Specific Plan area's rents were \$1,623 per unit. In 2018, rents in Pacifica increased to an average of \$2,476 per unit and rents in the Specific Plan area rose to \$2,295 per unit (see **Figure 13**). Rents in the Specific Plan area, the City, and the County have steadily increased since 2010, with the exception of a slight decrease in 2017.

From 2010 to YTD, the vacancy rate for all three geographies decreased, though there were a few fluctuations in between. On average, the vacancy rate in the Specific Plan has been slightly lower than the vacancy rate in the City, and in turn, the rate in the City has been lower than that of the County. The shared trend of increasing rents coupled with decreasing vacancy across all three geographies implies a robust multifamily market in the region.

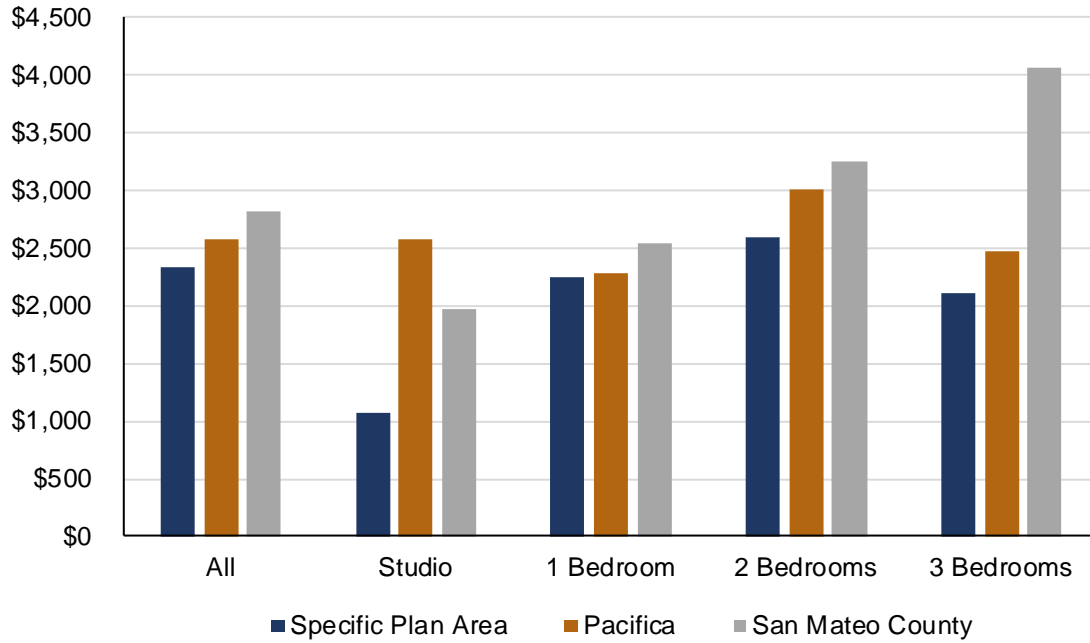
Figure 13 Comparison of Vacancy and Average Rents, All Units (2010 – YTD)



Source: CoStar 2019

Figure 14 shows the average rent by unit mix. As of 2019, studios in the Specific Plan area rent for much less than studios in the City and County. Within the Specific Plan area and City, 3-bedroom units rent for less than in the County. The other units (containing 1 or 2 bedrooms) tend to have fairly similar rents across all three geographies.

Figure 14 Average Rent by Unit Mix



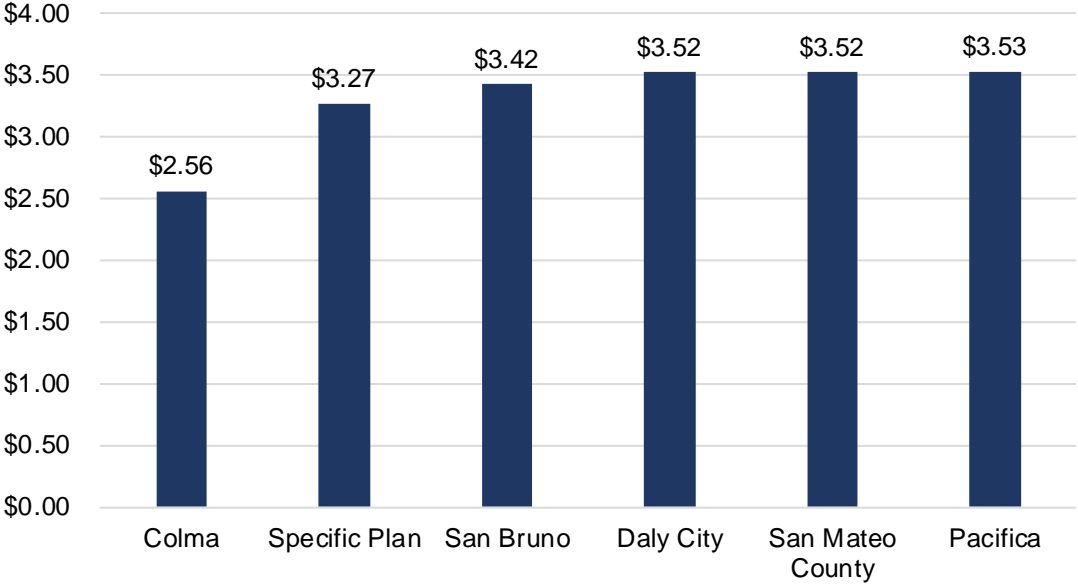
Source: CoStar 2019

As noted previously, the rents shown in the preceding tables are reported by CoStar based on the inventory that CoStar tracks and may not reflect the rents that are being charged for single-family homes or units in smaller buildings. As an alternative data point that includes the broader rental market, the median rent listed on Zillow for single-family homes and condominiums was around \$3,900 per unit per month in 2019.⁹ For multifamily apartment complexes, the median listed rent was \$2,800 per unit per month.

The following section evaluates rents across a range of dimensions, including location in the City and size of unit. A useful starting point is to compare rents in Pacifica to rents in nearby cities, including San Bruno and Daly City. **Figure 15** illustrates that Pacifica’s average rent per square foot of \$3.53 is very similar to the rents in nearby cities such as Daly City and San Bruno. The only exception is Colma, which has a lower average rent per square foot at \$2.56. Pacifica’s proximity to major employment centers and the high demand for housing in the Bay Area allows the City to command relatively high rents for housing.

⁹ Zillow is an online resource that tracks the buying, selling, renting, financing, and remodeling of more than 110 million U.S. homes. Zillow’s database includes homes for sale, homes for rent and homes not currently on the market, as well as home values, rents, and other home-related information.

Figure 15 Average Rent per Square Foot by City



Source: CoStar 2019

3. COMMERCIAL REAL ESTATE CONDITIONS AND TRENDS

This Chapter provides an overview of Pacifica’s commercial real estate sector, focusing on the types of uses that currently exist or might be appropriate in the Specific Plan area. Nonresidential development, including both visitor-serving (e.g., retail and hotel) and employment-serving (e.g., office or flex space), will play a critical role in furthering the economic development objectives of the Specific Plan area. These land uses can also be highly synergistic with the residential market, helping to create a vibrant mixed-use district where the community can live, work, and play.

Pacifica Economic Overview

Pacifica currently functions as primarily a “bedroom” community serving employment centers in San Francisco and along the Peninsula. In fact, only 13 percent of Pacifica’s employed residents work locally, with the rest commuting to other jurisdictions (see **Figure 16**). While the percentage of residents who work in Pacifica is low, and demonstrates the opportunity to create more jobs for local residents, Pacifica’s place of work pattern is not out of step with that of San Mateo County as a whole, illustrating the regional nature of commuting and employment dynamics in the Bay Area.

According to the U.S. Census Bureau, the most common place of work for Pacifica residents was elsewhere in San Mateo County (36 percent) and in San Francisco (36 percent).

Figure 16 Place of Work for Workers 16 Years and Older, Pacifica and San Mateo County

Geography	Employed Residents	Worked in Place of Residence	Worked Outside Place of Residence
Pacifica	22,000	13%	87%
San Mateo County	389,000	19%	81%

Source: U.S. Census Bureau; American Community Survey, 2013-2017 Five-year Estimates

A city’s jobs-to-households ratio reflects the relative balance between jobs and housing in a community. In theory, a jobs-to-households ratio of one would eliminate the need for commuting. More realistically, a balance means that in-commuting and out-commuting are matched, leading to efficient use of the transportation system, particularly during peak hours, and more local job opportunities for residents.

In Pacifica, the ratio of jobs to households in 2017 was 0.34 (See **Figure 17**). This means that today there are approximately three households for every job in Pacifica. Regional connections to jobs outside the City, then, are an essential component of Pacifica’s economic stability. In

contrast to Pacifica, San Mateo County has more jobs than households, with 1.52 jobs per household.

Figure 17 Jobs per Households Ratio, Pacifica and San Mateo County

Geography	Jobs	Households	Jobs per Households
Pacifica	4,725	14,080	0.34
San Mateo County	399,024	261,796	1.52

Source: U.S. Census Bureau; American Community Survey, 2013-2017 Five-year Estimates; Census LEHD OnTheMap 2017

In terms of which industries these jobs fall into, the three largest industries in Pacifica are currently Accommodation and Food Services, Educational Services, and Health Care and Social Assistance. These three industries make up 49 percent of all jobs in Pacifica, as estimated by the U.S. Census (see **Figure 18**). In comparison, the largest industry in San Mateo County is Professional, Scientific, and Technical Services, followed by Accommodation and Food Services, and Health Care and Social Assistance. In the County, these top three industries make up 34 percent of all jobs, which shows that the County's distribution of jobs is somewhat more diversified than the City's.

Given the current largest industry in the City is Accommodation and Food Services and that the City is interested in growing its visitor and resident serving sectors, the current job market could function as a foundation from which to expand this sector of the local economy.

Figure 18 Pacifica Employment Levels

Industry	Pacifica		San Mateo County	
	Estimated Number of Jobs	Distribution	Estimated Number of Jobs	Distribution
Accommodation and Food Services	899	19%	38,271	10%
Educational Services	727	15%	22,149	6%
Health Care and Social Assistance	723	15%	39,857	10%
Retail Trade	626	13%	34,260	9%
Construction	478	10%	18,780	5%
Public Administration	224	5%	8,980	2%
Professional, Scientific, and Technical Services	207	4%	56,011	14%
Other Services (excluding Public Administration)	205	4%	15,587	4%
Manufacturing	170	4%	27,565	7%
Administration & Support, Waste Management	108	2%	27,020	7%
Arts, Entertainment, and Recreation	108	2%	6,534	2%
Finance and Insurance	84	2%	16,200	4%
Real Estate and Rental and Leasing	72	2%	7,053	2%
Utilities	24	1%	686	0%
Transportation and Warehousing	19	0%	23,298	6%
Information	19	0%	34,749	9%
Wholesale Trade	17	0%	13,190	3%
Agriculture, Forestry, Fishing and Hunting	10	0%	1,512	0%
Management of Companies and Enterprises	5	0%	7,254	2%
Mining, Quarrying, and Oil and Gas Extraction	0	0%	68	0%
Total	4,725	100%	399,024	100%

Source: Census LEHD OnTheMap 2017

In looking at projections for future job growth in Pacifica, Plan Bay Area 2040 projections suggest that employment in Health, Recreational, and Educational Services will increase by 25 percent over the next two decades. In addition, the Finance and Professional Services sector is projected to increase by 19 percent. The projected employment figures for San Mateo County also show significant growth in the Finance and Professional Services category as well as the Health, Recreational, and Educational Services industry. In both cases, employment will likely occur in office settings and would present an opportunity for the City to examine its office market for potential growth.

In contrast with the County, which is projected by Plan Bay Area to experience a decrease in employees in the Agriculture and Manufacturing industries, the City shows either no growth, as in the case of Agriculture, or even positive growth, as with manufacturing. Thus, despite Pacifica's current role as a "bedroom" community, the employment that does exist within the City appears to be relatively stable with no large decreases in any given industry expected over the next few decades. Plan Bay Area does not provide estimates under the category "Accommodation and Food Services." The projects do note that potential tourism-related industries, such as those in Recreational Service or Retail, are projected to grow in conjunction with the County.

Commercial Real Estate Overview

The success of the commercial real estate market will depend on the City's ability to capture future job growth, which itself hinges on a range of conditions, including the availability of housing that is attractive and affordable to a growing work force. It is also linked to the City's ability to attract residents and visitors who seek shopping, dining, and cultural amenities.

Figure 19 provides an overview of the commercial real estate sectors in the Specific Plan area and the City in terms of total inventory. Of the real estate product types shown for the Specific Plan area, retail space represents the predominant land use in terms of square feet, followed by office, industrial/flex space, hotel, and other.

Figure 19 Overview of Specific Plan Area and Pacifica Commercial Real Estate Sector

Real Estate Product Type	Pacifica		Specific Plan Area		% of City Total
	Amount (Sq. Ft.)	Distribution	Amount (Sq. Ft.)	Distribution	
Office	175,250	9%	58,195	19%	33%
Retail	1,059,149	54%	222,529	71%	21%
Industrial/Flex	157,308	8%	21,479	7%	14%
Hotel ¹	334,945	17%	10,206	3%	3%
Other ²	<u>219,115</u>	<u>11%</u>	<u>1,600</u>	<u>1%</u>	<u>1%</u>
Total	1,945,767	100%	314,009	100%	16%

[1] The City of Pacifica contains 276 hotel rooms, including the 25 hotel rooms within the Specific Plan area

[2] Uses that are categorized as "Other" include assisted living centers, storage facilities, and other miscellaneous uses

Source: CoStar 2019

In comparison to the distribution found in the City, the City contains significantly more hotel square footage as well as square footage in the “other” category, which includes uses such as storage and assisted living. The Specific Plan area contains 33 percent of the City’s office square footage as well as 21 percent of the City’s retail square footage. Only 14 percent of Pacifica’s industrial/flex space and 3 percent of Pacifica’s hotel square footage is located within the Specific Plan area.

The comparatively high proportion of Pacifica’s retail and office square footage located in the Specific Plan area demonstrates that a significant amount of commercial activity in Pacifica occurs within the Specific Plan boundaries. A further description of the market dynamics in retail, hotel and office real estate sectors in Pacifica and the Specific Plan area is provided below.

Retail Market

The performance of the City’s retail market in general is affected by both national changes in consumer behavior (increasing online sales), as well as local dynamics. Commercial activity in the Sharp Park area is primarily concentrated along Palmetto Avenue, Francisco Boulevard, and Oceana Boulevard. There is a mix of restaurants, retail, grocery, and services (banks, exercise studios, beauty salons). The current retail landscape presents both opportunities and challenges for future success.

Regional and National Retail Dynamics

Retail is a dynamic industry that is constantly evolving. Over the last decade, traditional retail formats, in particular department store-anchored shopping malls, have struggled in most locations.

The City of Pacifica’s retail supply is mostly located in the traditional community shopping center format rather than centered around malls containing regional or national stores. In other words, these neighborhood shopping centers are anchored by tenants that cater to the needs of local residents. Larger regional retailers have locations in nearby cities with larger populations. For example, Serramonte Center in Daly City has a large concentration of regional and national retailers, serving a large proportion of the residents south of San Francisco including those from Pacifica.

As Pacifica’s market is primarily local-serving, the national retail market trends are still relevant as consumers shift away from brick-and-mortar stores, but Pacifica’s focus in growing its retail is to draw local residents as it already is or tourists from other areas, rather than to draw shoppers from other cities in for daily shopping needs.



The Eureka Shopping Center is located to the East of Highway 1 in the Sharp Park Specific Plan area.

Local Market Dynamics

Because of Pacifica's natural landscape and evolution from several beach communities, rather than being organized around a town center, the City's retail sector is relatively dispersed within a string of small shopping centers and commercial areas that tend to serve their respective submarkets.

Overall, the City has experienced a small amount of growth in retail space over the last decade (e.g. roughly 1.5 percent from 2009 through 2019).¹⁰ This is in part attributable to the national decline in retail sales, but also at play is that the population is able to meet its retail needs through existing retailers within Pacifica as well as in the surrounding cities in which major retailers are located.

Three of the City's top 25 sales tax generators are currently located within the Specific Plan area (see **Figure 20** below). Two are located within the Eureka Square Shopping Center, Oceana Market and City Arms.

¹⁰ CoStar indicates an increase of 14,843 sq. ft. of retail between Q4 2009 and Q2 2019. The CoStar data presented in this Report provide net increases in inventory and may mask redevelopment or tear-down/rebuild projects.

Figure 20 Pacifica Top 25 Sales Tax Generators (Q1 2019)

Retail Name	Located within Specific Plan Area
7 Eleven ¹	X
Ace Hardware	
City Arms	X
Coast Highway Shell	
Devils Slide Taproom	
Dollar Tree	
Eddies 76 Service	
Grocery Outlet	
McDonalds	
Moonraker	
Nicks Restaurant	
Oceana Market	X
O'Reilly Auto Parts	
Pacifica 76	
Pacifica Alliance	
Pacifica Chevron	
Pet Food Express	
Quik Stop Market	
Rite Aid	
Ross	
Safeway	
Toast Catering & Event Management	
Uoyaketei Japanese Restaurant	
Viva Italiano Pizza	
Walgreens	

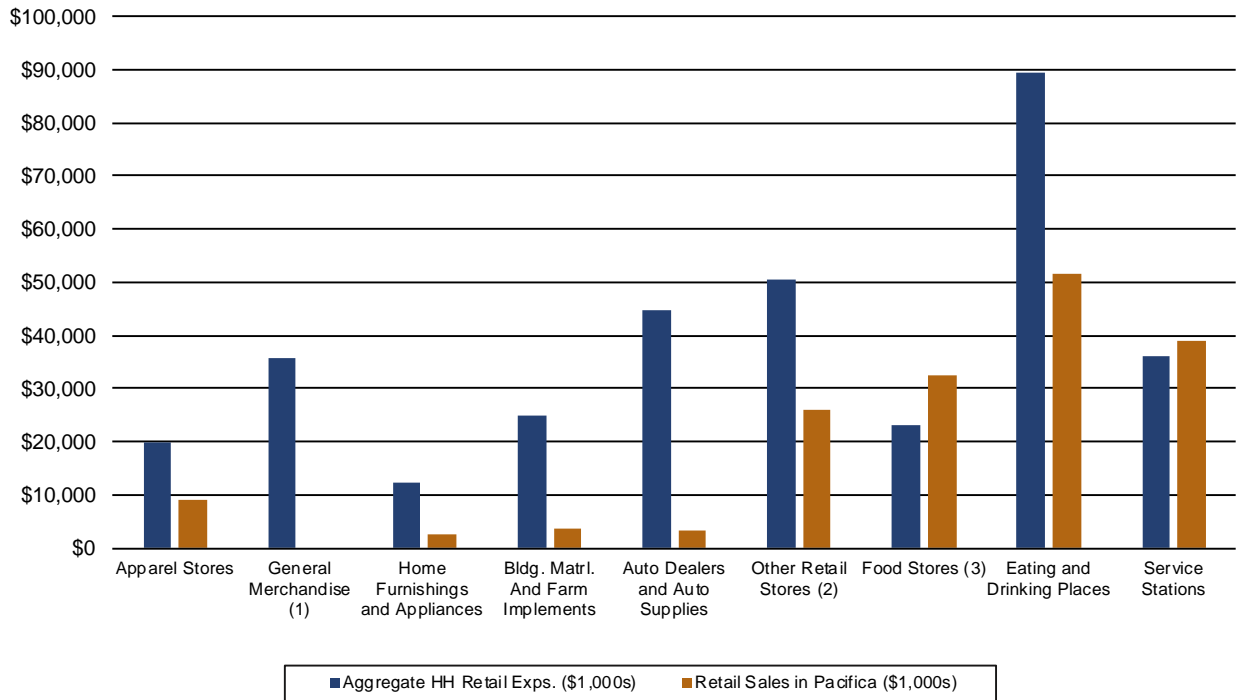
[1] 7 Eleven has multiple locations in the City of Pacifica, one of which is located within the Specific Plan boundaries.

Source: City of Pacifica, HdL Companies

Pacifica has relatively weak per-capita retail sales, likely the result of competitive retail clusters in Daly City and Colma. Based on household and income data, a gain of \$337 million of additional potential retail sales could be theoretically supportable within the City. In 2016, the City's retail stores generated \$167 million in taxable sales, representing only 48 percent of the retail spending power. A large proportion of the City's retail sales potential is lost to retailers outside of the City as Pacifica residents travel to other jurisdictions for their shopping needs. This leakage occurs in nearly all retail categories, the only exceptions being food stores and service stations. In particular, the category for restaurants, eating and drinking places, shows the largest gap between household expenditures and sales in Pacifica (see **Figure 21**). This suggests that there is opportunity for the City to capture more of residents' eating and drinking spending.

One area that may have potential to expand its function as a traditional downtown retail district is Palmetto Avenue. If successful in providing a unique and more diverse shopping experience than currently available in Pacifica, Palmetto Avenue may help the City capture more of the local expenditure potential without drawing sales away from existing retailers.

Figure 21 Retail Sales and Estimated Household Demand, 2016



- (1) Sales for this category are not published because of the limited number of retailers. In order to maintain the sales of individual retailers confidential, the sales for this category are included in Other Retail Stores.
- (2) Includes specialty stores; packaged liquor stores; second-hand merchandise; fuel and ice dealers; mobile homes, trailers, campers; boat, motorcycle, and plane dealers; and business and personal services.
- (3) Typically, only 35% of grocery purchases are taxable. SBE sales tax has been adjusted to reflect total retail sales.

Source: BLS Expenditure Survey 2016-2017, CA Board of Equalization Taxable Sales 2016.

The Specific Plan area’s retail market inventory comprises 22 percent of Pacifica’s inventory and 0.7 percent of the San Mateo County inventory, as shown in **Figure 22**.

There is approximately 222,000 square feet of retail inventory. The average triple-net (NNN)¹¹ lease rate for retail space in the Specific Plan area (\$23.20) is slightly lower than that of the City and significantly lower than that of the County. The difference in rents commanded in the Specific Plan area and City versus the County reflects high-profile retail centers located in the County which are drawing much higher commercial retail rents.

¹¹Triple-net (NNN) lease is a common lease structure for retail and other commercial uses (except Class A Office) where the tenant is responsible for paying all operating expenses associated with a property, including real estate taxes, building insurance, and common area maintenance.

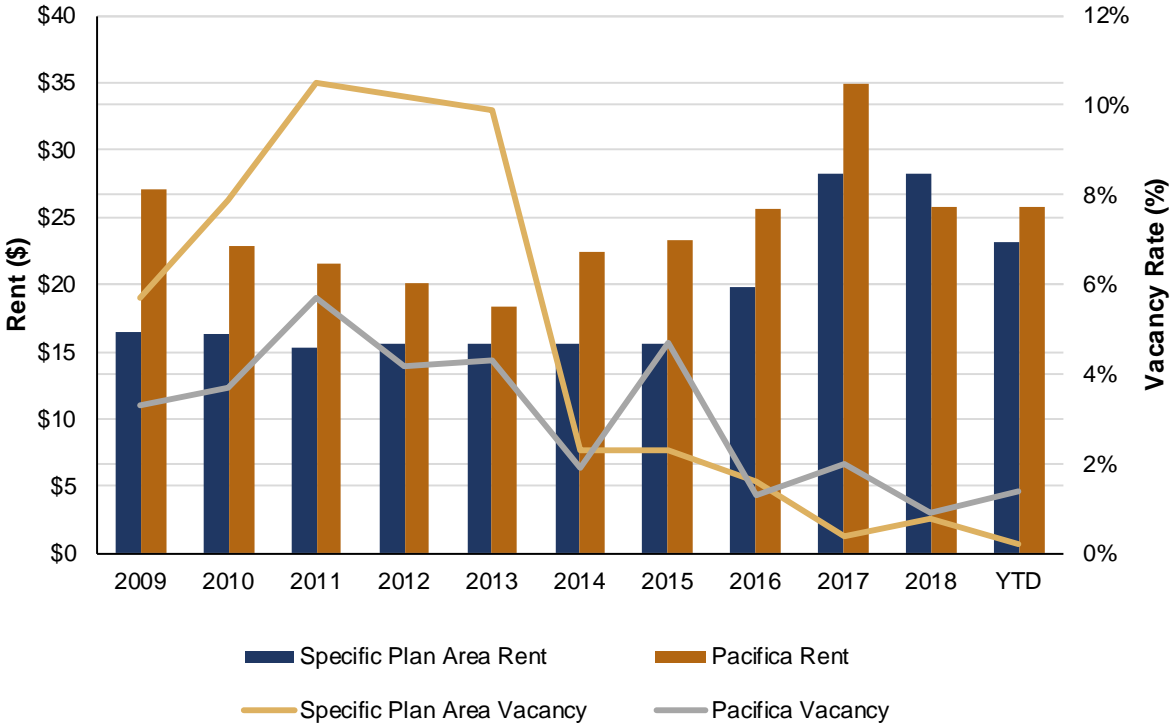
Figure 22 Retail Building Space Trends

Item (as of Q2 2019)	Sharp Park Specific Plan	Pacifica	San Mateo County
Performance			
NNN Rent per Sq. Ft.	\$23.20	\$25.80	\$42.00
Vacancy	0.2%	1.1%	1.6%
Inventory			
Square Feet	222,529	1,020,367	31,357,058
Share of City	21.8%	100.0%	N/A
Share of County	0.7%	3.3%	100.0%
Growth Q4 2009 - Q2 2019 Including Pipeline			
Net New Inventory	4,812	14,843	906,779
% of Total Inventory	2.2%	1.5%	2.9%

Source: CoStar 2019

Looking at the past decade, rents in the Specific Plan area rose significantly from \$16 to \$28 between 2015 and 2018, but decreased in 2019 (YTD) to \$23. The rent trends within the Specific Plan area mirror those of the City as a whole (see **Figure 23**). The volatility observed between 2017 and 2019 is more a reflection of the small market area and small sample of available space at specific points in time than a clear trend. As of September 2019, prices in both the Specific Plan area and Pacifica are still higher than they were in the years following the Great Recession. In 2009, vacancies reached a high of over 10 percent in the Specific Plan area and nearly 6 percent in the City. The vacancy rate has greatly improved since, tracking rent escalation in both geographies.

Figure 23 Retail Vacancy vs. Rent



Source: CoStar 2019

Hotel Market

Pacifica’s coastal location coupled with the City’s accessibility off of scenic Highway 1 provides it with exposure to a number of visitors to the County’s coast, State parks, and other attractions. However, the city is not currently a well-known tourist destination and primarily services pass-through travelers on their way to a primary destination elsewhere in the County or region.

The current demand for hotel rooms in Pacifica is served by six hotels with a total of 276 rooms (see **Figure 24**). The average daily rate for all six hotels is \$216 and ranges from \$165 to \$284. The average rate for the hotel located within the Sharp Park area is \$173. This range in prices suggests a wide variation in the quality of hotels. A majority of these hotels is clustered around Rockaway Beach. There is one hotel within the Sharp Park Specific Plan area, Americas Best Value Inn located on Francisco Boulevard.

Figure 24 Inventory and Average Rates of Pacifica Hotels

Property	Number of Rooms	Average Daily Rate ¹				Average
		In-Season Weekday	In-Season Weekend	Off-Season Weekday	Off-Season Weekend	
Wyndham Lighthouse Hotel	97	\$274	\$274	\$232	\$232	\$253
Sea Breeze Motel	20	\$160	\$170	\$160	\$170	\$165
Inn at Rockaway	44	\$199	\$199	\$154	\$224	\$194
Holiday Inn Express & Suites Pacifica	38	\$224	\$291	\$184	\$209	\$227
Americas Best Value Inn Pacifica	25	\$218	\$218	\$128	\$128	\$173
Pacifica Beach Hotel	52	\$254	\$299	\$239	\$239	\$284
Total/Average	276					\$216

[1] In-Season is assumed to be mid-July and Off-Season is assumed to be end of February.

Source: Conversations with staff from respective hotels; individual hotel websites; Hotels.com

Pacifica’s occupancy rate of approximately 60 percent suggests that these existing six hotels within the City are sufficiently meeting the demand for hotel rooms. Indeed, the number of hotels has remained consistent over the past decade, though two of the hotels have changed ownership. The Best Western Lighthouse Hotel is now the Wyndham Lighthouse Hotel, and the Pacifica Motor Inn was renovated by a new owner as Inn at Rockaway. Pacifica’s occupancy rate suggests that the possibility of a new hotel would likely need to draw visitors in through additional amenities or other unique features.

Office Market

The Specific Plan area office sector functions within a successful County market that is primarily anchored in neighboring cities. Within this context, Pacifica has a relatively small market share, with about 0.3 percent of the County’s inventory, as shown in **Figure 25**. Rents in the City are much lower than the County average. This reflects the older inventory present in Pacifica; no new office developments have occurred in the past ten years. However, the City’s vacancy rates are at nearly at zero percent, which attests to low turnover and long-standing tenants. More specifically, rents are approximately \$20 per square foot in the region and vacancies are between 0 percent (Specific Plan area) and 0.7 percent (Pacifica).

Figure 25 Office Real Estate Trends

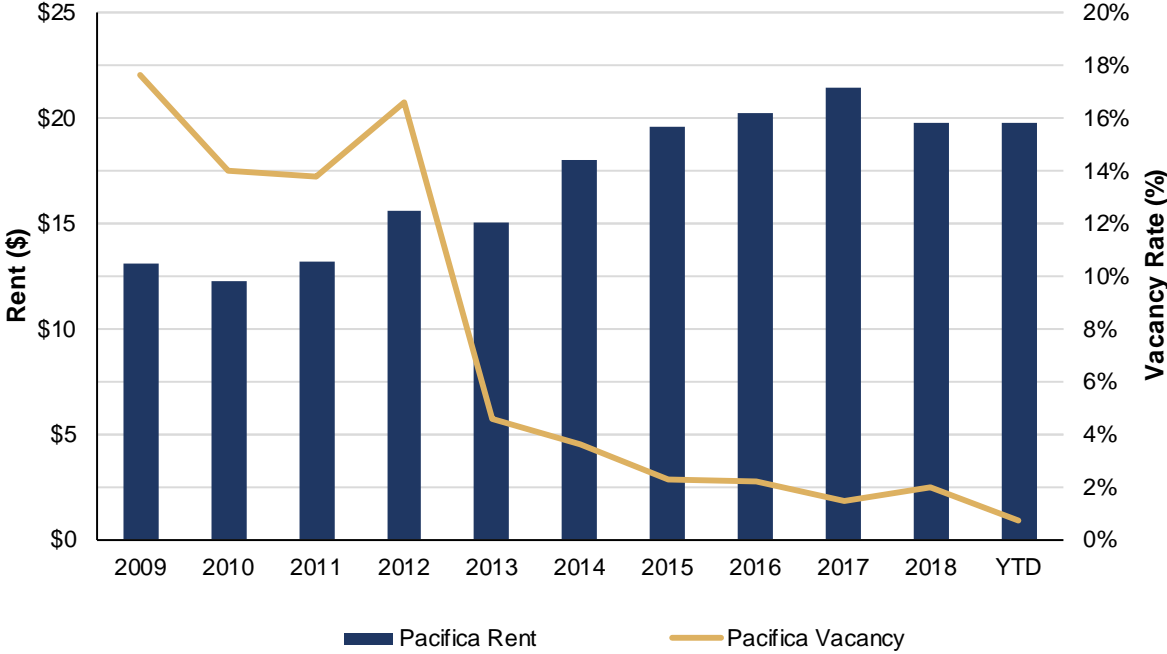
Item (as of Q2 2019)	Sharp Park Specific Plan	Pacifica	San Mateo County
Performance			
Gross Rent per Sq. Ft.	N/A	\$19.80	\$63.86
Vacancy	0.0%	0.7%	5.8%
Inventory			
Square Feet	58,195	175,250	53,329,533
Share of City	33.2%	100.0%	N/A
Share of County	0.1%	0.3%	100.0%
Growth Q4 2009 - Q2 2019			
Including Pipeline			
Net New Inventory	0	0	8,339,558
% of Total Inventory	0.0%	0.0%	15.6%

Source: CoStar 2019

Over the past decade, office rents in the City have risen from below \$15 per square foot to nearly \$20. During the same time period, vacancy rates have plummeted from approximately 18 percent to 0.7 percent (see **Figure 26**). Due to the small inventory and very little turnover in office tenants, data on office rents within the Specific Plan area is unavailable. If the office rents in the Specific Plan are similar to those across the City, as with retail rents, it can be assumed that the rents in the Specific Plan are also approximately \$20 per square foot.

Given the current lower rents and low vacancy in the City, the City is in a unique position to expand its commercial office inventory. If pursued, this growth could be achieved either by the redevelopment of existing properties or construction of new buildings. The comparatively higher rents in the County illustrate the level of rent that is possible to achieve in the broader region with new construction. In addition, these higher rents reflect the return that is needed to support construction costs in the Bay Area. Ultimately, additional studies would be required to further explore the feasibility of new office development in Pacifica.

Figure 26 Office Vacancy vs. Rent



Source: CoStar 2019