CITY OF PACIFICA

BEACH BOULEVARD PROPERTY DEVELOPMENT EVALUATION

PREPARED FOR

CITY OF PACIFICA

170 Santa Maria Avenue
Pacifica, CA 94044
www.cityofpacifica.org

PREPARED BY

LELAND CONSULTING GROUP

610 SW Alder Street, Suite 1008
Portland, OR 97205
www.lelandconsulting.com

People Places Prosperity

February 2011

Contents

List of Figures

List of Tables

Executive Summary

This report evaluates the redevelopment opportunities available to the City of Pacifica, California at its Beach Boulevard Property and presents a recommended redevelopment concept. Leland Consulting Group was engaged by the City to evaluate the property—a three-acre, City-owned site that is located in central Pacifica at 2212 Beach Boulevard and overlooks the Pacific Ocean. The firm's recommendations are based on a site visit, a review of its position in the surrounding neighborhood and regional market, interviews with City staff, past plans by the City, and the principles of real estate development. The recommendations are intended to be both ambitious and attainable; Leland Consulting Group's goal has been to establish a development concept that meets the City's goals and can also be implemented despite the challenging development and lending conditions present today and anticipated in the future.

This report assumes that the City's existing pump station will remain on site due to the considerable cost of relocating it, and that the existing parking lot along Beach Boulevard will remain due to Coastal Commission requirements, resulting in a total site area of 3.0 acres.

Although it is difficult to forecast how real estate development will change as a result of the dramatic economic events of the immediate past, the fundamentals of land use provide a clear path for determining the long-term viability of different property types at a given location. The property (sometimes referred to as the Waste Water Treatment Plant or WWTP site) has good ocean views and proximity to desirable local amenities, such as nearby retail, the Sharp Park Golf Course, and Pacifica Pier. Its primary revenue potential revolves around its relationship to the ocean.

Lodging, dining, and housing are the uses best able to create value from this site's geographic location and position in the neighborhood, since they all benefit and derive value from ocean views and easy access to the water. A very limited amount of non-restaurant retail is also appropriate for the site, though this use should be minimized since retail requires high visibility, excellent auto access, and a full season of customer exposure—conditions that can only be met at the property's northeast and to a lesser degree at the southeast corner.

Thus, the recommended development concept, shown in Figure 1, is led by a boutique hotel and restaurant on Site 1, and housing (townhouses or two- to three-story apartments) on Site 2. The uses on Site 3 are to be determined. This site could be built out as additional housing in a format similar to Site 2, or it could possibly host a City Hall or civic complex. The "active corners" shown in Figure 1 indicate the locations where retail is more likely to be viable—due to higher visibility and accessibility, and proximity to other retailers—and will support the City's goal of a main street environment on Palmetto Avenue. The total retail area should be approximately 3,000 square feet or less—enough space for several small stores that will create energy at the corners and sidewalk level.

Figure 1. Beach Boulevard Property with Recommended Development Concept

Source: Leland Consulting Group, City of Pacifica.

The redevelopment would function as a source of community pride and a signal to developers, retailers and tourists in the broader region that Pacifica is an up-and-coming beach community open to fresh new ideas. The site has the potential to both enhance the experience along Pacifica's beachfront face, and on the emerging Palmetto "main street."

Leland Consulting Group recommends that the City pursue the following next steps in order to redevelop the site:

- Complete additional analyses regarding the site's physical attributes, namely the pump station and the low grade area at the center of the property. The City should determine if there are ways to mitigate the vibrations caused by the pump station, or if it can be moved cost-effectively. The City should determine whether the low grade area can be filled or improved to support the recommended uses.
- Refine the development plan if necessary, while being careful not to overdesign: the selected development teams will naturally design and refine the plan as they move forward with development.
- Prepare to rezone the site to correspond to the set of uses recommended above. The City need not finalize the zoning changes until developers have been selected for the hotel and housing projects.
- Have the property reappraised based on the development concept outlined in this report, in order to establish a baseline price at which land could be transferred to developers. The actual price may be higher or lower than this price, depending on the conditions of the transfer.
- Prepare and distribute a Request for Qualifications (RFQ) to the development community for the hotel and housing sites, following the process outlined in this report.

Introduction

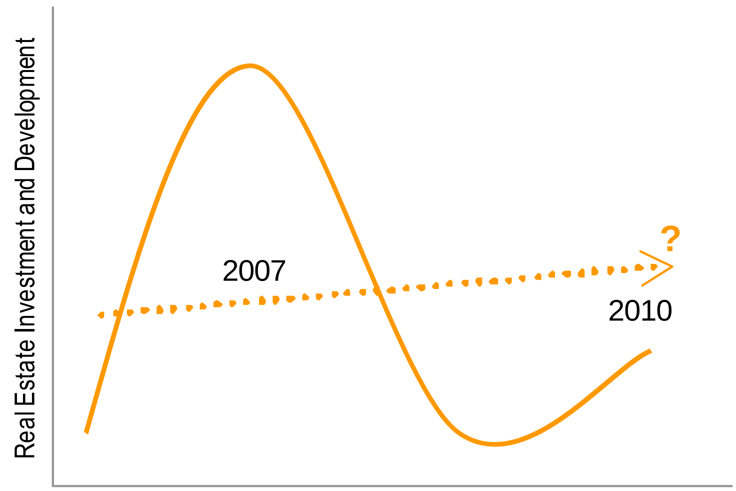
Leland Consulting Group (LCG) was retained to provide the City of Pacifica with a redevelopment evaluation for the City's Beach Boulevard Property located at 2212 Beach Boulevard. This report analyzes current market conditions and recommends an array of uses based on the geographic location of the site, its place in the surrounding neighborhood, and Leland Consulting Group's experience and knowledge regarding real estate fundamentals. This report serves to further a conversation amongst the leadership and residents of the City of Pacifica concerning the best ways to redevelop the site. While the recommended development concept identifies specific uses within the site, it is also a framework that is flexible and can be adapted to meet changing conditions. In other words, while the specifics can change, principles will remain applicable. The findings are grounded in market realities, while also taking into consideration the City's view that this site has the potential to serve as unique oceanfront site and a catalyst for the redevelopment of Palmetto Avenue.

Forecasting in the Fog

Figure 2 shows the difficultly of "forecasting in the fog:" pre-crash data shows a red-hot market in which all real estate products—ranging from single-family homes to commercial real estate—were funded and leased quickly, while post-crash data shows just the opposite. Neither can be relied upon to accurately predict long-term trends, and thus, determining the precise pace or timing of redevelopment in Pacifica and most other markets is very difficult.

The future market realities are almost certainly somewhere between the 2007 peak and the current trough. This principle is likely to be true with respect to measurements such as annual housing starts, commercial real estate absorption, rent and lease rates, and other metrics in Pacifica and the greater Bay Area.

Figure 2. Forecasting in the Fog



Source: Leland Consulting Group

The downturn and eventual upturn—expected in 2011, 2012, or potentially later—will be "lumpy" however. Traditional lending institutions are hesitant to make loans to developers, and when they do, the parameters of the loan are often prohibitive. Many households have seen serious wealth depletion, as much of the household worth depends on the value of single-family homes, access to home equity loans, retirement accounts and other funds related to the value of financial markets. No one knows when these forces will return to a state of normalcy and exactly what the "new normal" will be. Some markets—defined geographically or by real estate product type—will fare much better than others. For example, the apartment market is in most cases seen as a more desirable area for investment at the moment than single-family homes—which are in most areas overbuilt.

Similarly, in retail, some stores will fare better than others or even be more profitable than before. Sales among fast casual restaurants are up. Movie theaters are doing well as consumers redefine leisure as dinner and a movie rather than a week long vacation abroad.

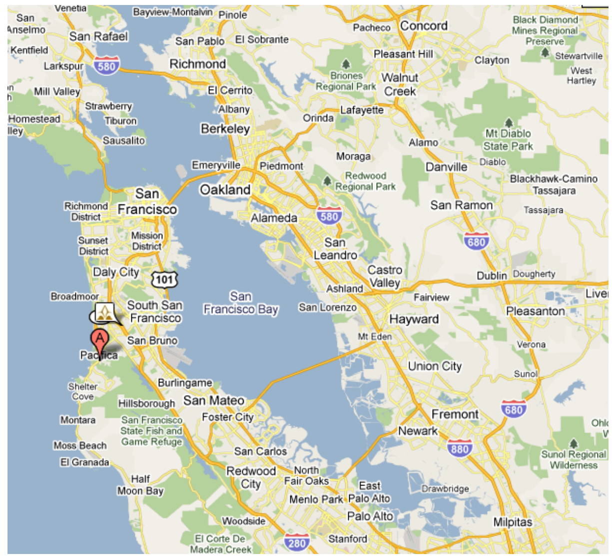
In summary, Pacifica should take a long view of real estate redevelopment, hope for the best, but also plan to be patient with the still-struggling economy.

Pacifica

Place in the Region

The City of Pacifica overlooks the ocean and hugs the Pacific coast of California along Highway 1, south of San Francisco. It is a City that evolved from a collection of beach communities, rather than radiating out from a central downtown location, which presents certain challenges to the local retail and office market. The City has distinct neighborhoods served by their own neighborhood retail centers, with no real downtown or "Main Street." It is well positioned within easy access to the entire major metropolitan area which receives local, national and international tourism, but it has not marketed itself effectively to take advantage of this proximity to capture tourism spending like other communities such as Half Moon Bay have done. According to a recent appraisal conducted in the City:

Figure 3. Map of the Region



> "Pacifica functions as a bedroom community with no industrial employment and only a minimum level of service employment. Pacifica residents primarily commute to jobs in San Francisco or the more urban areas of San Mateo County.
>
> Pacifica's main access to the developed area of San Francisco Peninsula and the greater Bay Area is provided by Highway 1 which connects to Interstates 280, 101, 80 and State Route 35. Highway 1 is a four lane freeway (two lanes in each direction) extending through the northern half of the City. At Sharp Park Road, the highway proceeds with unregulated access southward across Devil's Slide, past the unincorporated coastal cities of Montara and Moss Beach and through the City of Half Moon Bay. Commuting residents travel north through Pacifica across the coastal range to Interstate 280 or proceed southward past Devil's Slide to Half Moon Bay and then east on the two lane Highway 92 to the bay-fronting cities of the peninsula."[1]

Traffic

Average annual daily traffic counts from 2009, acquired from Caltrans, range from 32,000 to 46,000 in Pacifica along Highway 1 in the vicinity of the Sharp Park neighborhood. The property, however, is located several blocks west of Highway 1 and is bounded by local, residential streets carrying far fewer trips. State Route 35 has average annual daily traffic counts in the range of 17,000 to 20,000 in Pacifica. Interstate 280, which merges with Highway 1 just 5 miles north of the property in Daly City experiences average annual daily traffic counts upwards of 200,000 near the junction with Route 1 South.

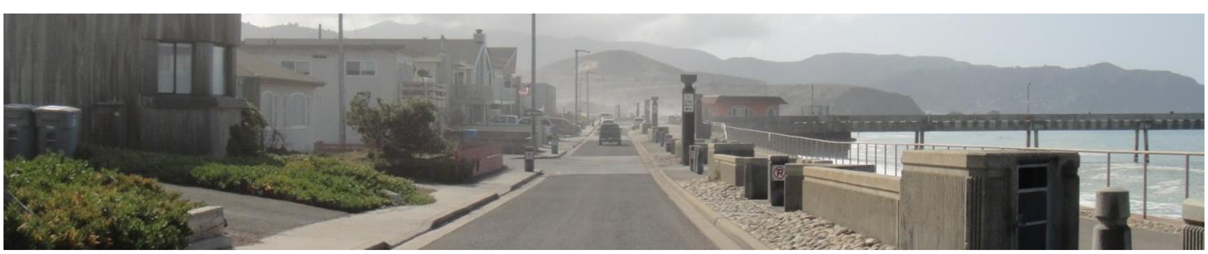
[1] *Appraisal of: Various City of Pacifica Properties*, June 2007, CBP

Neighborhood: Existing Conditions

The Beach Boulevard Property is one of three City owned properties located in the West Sharp Park neighborhood. It lies adjacent to the Pacific Ocean, with unobstructed ocean views. As seen in Figure 4, the site is near several local amenities including the Pacifica Pier and Sharp Park Golf Course. The City is developing a streetscape design program for Palmetto Avenue, and the General Plan has suggested that retail along Palmetto could develop into a "main street" over time, although the majority of the existing retail is scattered elsewhere throughout the City. Two other City owned properties are located in this neighborhood. The Hilton Way Library is located directly across Palmetto Avenue from the property and the current City Hall is located several blocks north on Santa Maria near a cluster of retail. The *2007 Appraisal of Various City Properties* concluded that the highest and best use and inherent value of all three properties is in their redevelopment potential, not in the existing buildings. The 2007 appraisal concluded that the most suitable use for the property would be redevelopment into a mixed use property. The Appraisal described the neighborhood as follows:

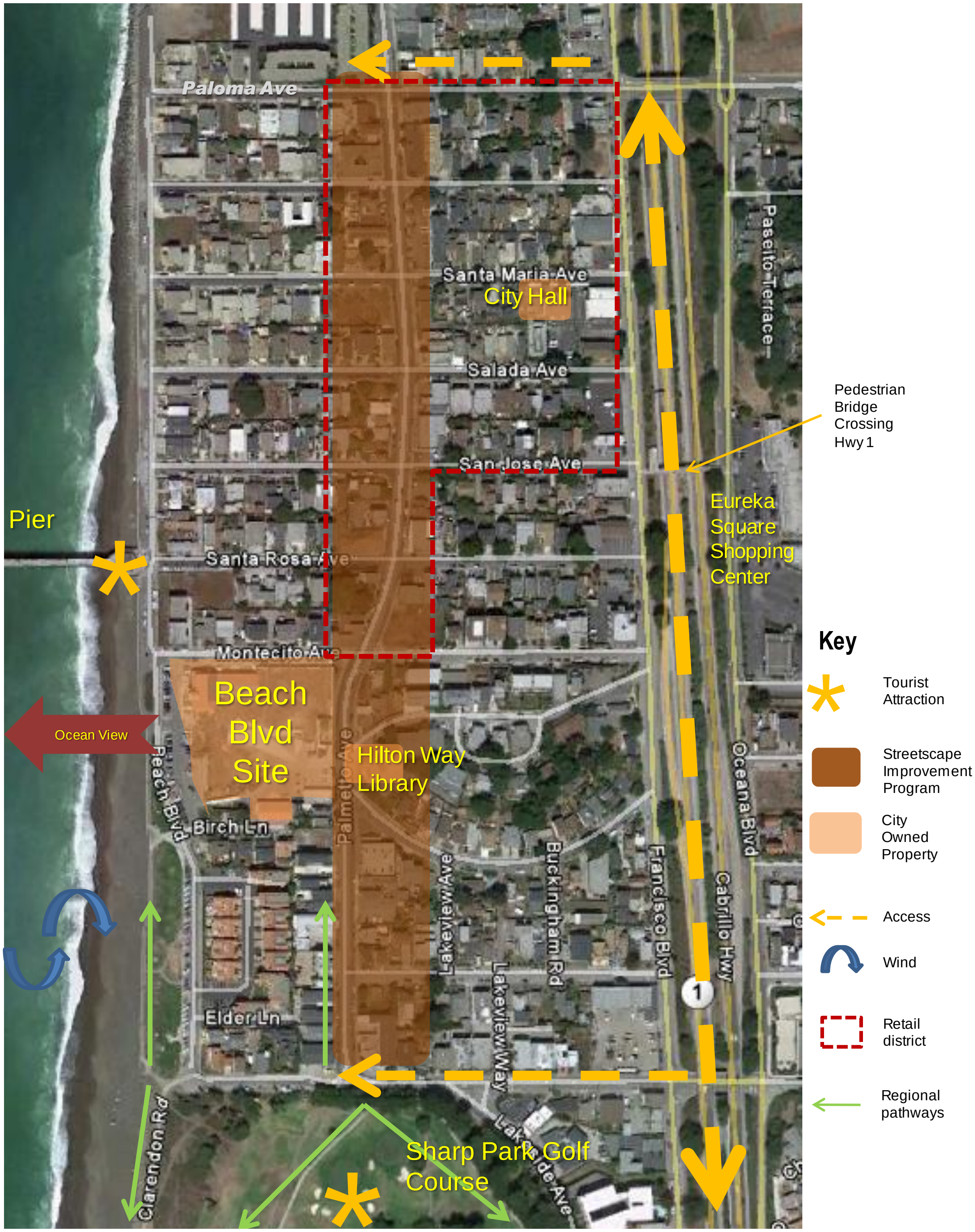
> "The West Sharp Park neighborhood is predominantly residential in character, with commercial development concentrated along Palmetto Avenue and Francisco Boulevard. The residential development includes single family homes and condominiums dating from the 1950s and 1960s. Many of these developments appear weathered due to their proximity to the Pacific Ocean and its potentially harsh climate patterns. This neighborhood is also characterized by many public uses such as the Ingrid B. Lacy School, located along Palmetto Avenue, just north of Paloma Avenue. The southern portion of the neighborhood contains several City government administrative offices, meeting chambers and physical plants. Additionally, the municipal Pier, which is a popular fishing destination, is located on Beach Boulevard at Santa Rosa Avenue.
>
> Commercial development in the neighborhood generally consists of standalone retail shops along Palmetto Avenue and Francisco Boulevard. The southern portion of Palmetto Avenue primarily supports restaurants, coffee shops, bait and tackle shops, salons and professional services. Northern Palmetto Avenue supports heavier commercial uses such as auto services, appliance vendors, plumbing services, and sheet metal and heating services. However, there is a neighborhood strip shopping center on the east side of Palmetto Avenue between Paloma Avenue and Santa Maria Avenue."[2]

There is a network of regional trails in Pacifica including surfaced trails, beach access, dirt paths and walking routes along City streets, some of which can be accessed from the site. Public transit also passes by the site. It is considered to have good access to Highway 1, within a few blocks from either Paloma Avenue to the north or Clarendon Road just south of the site. The Eureka Square Shopping Center sits on the east side of Highway 1 and the Palmetto Avenue shopping area a few blocks to the north. The site also includes part of a small public parking lot which serves visitors to the beach and Pacifica Pier.



[2] *Appraisal of: Various City of Pacifica Properties*, June 2007, Carneghi-Blum & Partners

Figure 4. Beach Boulevard Site and Area Analysis



Source: Pacifica General Plan, 2010, Google Maps, Leland Consulting Group

The Beach Boulevard Site

The property is located at 2212 Beach Boulevard and features sweeping views of and direct access to the Pacific Ocean, which lies just across Beach Boulevard. The total site area is 131,337 SF or 3.0 acres. This area excludes a pump station facility, which is expected to remain on the site because of the high costs of relocating it. The improvements are approximately 34 to 40 years old, and are in fair condition. A 2007 appraisal commissioned by the City valued the property at $7,880,000, excluding the land containing the pump station, and considered the value to be in redevelopment, not restoration of the existing buildings. Other important attributes of the site are summarized below and illustrated in Figure 5:

- **Ocean Views and Access**. The views and unobstructed access to the Ocean are the property's greatest source of value.
- **Streets.** Palmetto is an emerging main street; Beach Boulevard is a one-way street running south; Montecito is a two-way neighborhood street to the north of the property; other streets in the vicinity are neighborhood streets.
- **Nearby Retail**. A sprinkling of retail can be found near the property, including a bookstore and bait shop on the corner of Palmetto and Montecito. An organic grocery store, pottery studio and medical supply store can be found to the south of the site. While these retailers do suggest some of the basic building blocks of a pedestrian-oriented main street retailing strip, there is a long way to go to fulfilling that goal. While great retail can activate a street and project, vacant retail sucks energy from the neighborhood and is a significant financial drag on new development. Thus, very limited retail is probably appropriate. The most important corner to activate—and most desirable, from a retailer's point of view—is the northeast corner of the property, at Palmetto and Montecito.
- **Pump Station**. A small pump station building (approximately 6,000 square foot), which serves nearby properties and is part of the City's sanitary sewer system, is located along the north edge of the property. Ideally, the pump station would be moved elsewhere in order to make room for redevelopment on the subject site. However, a preliminary cost estimate indicated that the cost to remove the pump station would be $15.8 million, which is probably cost prohibitive. Thus, the pump station will remain on site unless its removal and relocation will help the City to achieve other goals beyond redevelopment of the property. A need to expand the pump facility or replace it due to obsolescence, inefficiency, or other factors might be such motivating consideration. A second issue is the vibration and (minimal) sounds generated by the pump station. Those meeting in the adjacent Council Chambers building can feel low level vibrations caused by the pump station. While the current situation is tolerated by the City and other users, private developers of hotel, conference, or other facilities, may well be unwilling to accept it. At the very least, they will discount their offering prices for the land accordingly. The City should analyze whether and how these vibrations can be mitigated so that they do not deter new development.
- **Council Chambers and Thickening Buildings.** The City Council currently meets in the Council Chambers building on the site. The building is in fair condition, but is probably not worth the cost of renovating and would inhibit the property from realizing its full development potential if left on site.

Figure 5. Beach Boulevard Property: Existing Conditions and Nearby Uses

Source: Leland Consulting Group

- **Thickening Building.** The thickening building is located along the south edge of the site. While it has some interesting architectural features, it is probably not worth the cost of renovating, and would impede redevelopment if left on site.
- **Topography and Flooding.** The site has a low point near the middle of the site, which could either be filled, or could theoretically facilitate the construction of below-grade structured parking there which would provide parking for most or all the uses above. However, this site is prone to flooding during winter storm surges, so this report assumes that below-grade parking is not feasible; considerable further analysis would be needed if the City wishes to pursue a below-grade parking option.

Zoning and Municipal Regulatory Context

The property is zoned P-F, Public Facilities, while most of the properties along Palmetto Avenue are zoned C-1, Neighborhood Commercial, which allows for commercial and high density residential uses. The C-1 zone allows for residential development above ground floor commercial at a density of one unit per 2,000 square feet of lot area, or approximately 22 dwelling units per acre, with a maximum height of 35 feet. A zone change from P-F to C-1 would match the character of the surrounding neighborhood and adjacent parcels and allow for a type of development that would better conform to the State Coastal Commission requirements to promote beach access, and allow commercial uses within the area. However, the C-1 zone's requirements for retail and mixed-use may be too onerous and expensive for developers to build in this location. Therefore, a new zone or mix of zones may be needed.

Additionally, the City of Pacifica requires that all new residential units that contain eight or more residential units dedicate a minimum of 15 percent of the units to below market rate (BMR) households. Density bonuses for affordable rental projects range from 25 to 50 percent, depending upon the income category.

Demographic and Economic Overview

Pacifica's Demographics

The tables and figures below highlight the following characteristics about the Pacifica area's demographics:

- **Slow Growth Rate.** The population of Pacifica is projected to grow by only 0.33 percent annually over the next five years, mostly due to geographical constraints and the fact that the City is already almost entirely built out. This is slightly lower than the regional rate of 0.44 percent. The 2010 estimate shows only 3 percent of the housing units in Pacifica are vacant, further indicating that the growth is constrained by the amount (lack) of available housing.

- **Income Growth to Outpace Population Growth.** Many of the residents found in Pacifica are professionals who are entering their peak earning years. The median household income is projected to increase from 2010 to 2015, from $91,134 to $105,114, outpacing the 2015 projected regional median household income of $96,684.

- **One and Two-Person Households.** Over half of the households (or more than 7,000 households) in Pacifica consist of one and two person households. One and two person households are the most likely to choose "urban" housing options such as condominiums, apartments, or townhouses. This represents a very large market for the types of urban housing that could be provided on the site, even before considering households that live elsewhere but would consider relocating to Pacifica. Suburban communities tend to have fewer 1 and 2 person households and larger household sizes compared to central cities, but Pacifica is fairly close to the numbers seen throughout the Bay Area.

- **Homeownership.** At 65 percent owner occupied housing units, Pacifica has a higher rate of homeownership than the region, which only has a 50 percent homeownership rate.

- **Older Housing Stock.** As of 2000, 88 percent of the housing units in the area were built before 1969, indicating both an older housing supply and limited new development.

Table 1. Sociodemographics of Pacifica

Sociodemographic	Pacifica	10 Mile Radius
Total Population, 2010 (estimate)	39,240	875,371
Total Population, 2015 (projected)	39,896	895,020
2010-2015 Annual Growth Rate (estimate)	0.33%	0.44%
1 & 2 Person Households	54%	58%
Households, 2010 (estimate)	14,249	306,589
Average Household Size, 2010 (estimate)	2.74	2.81
Housing Units, 2010 (estimate)	14,668	322,438
Owner Occupied Housing Units	65%	50%
Renter Occupied Housing Units	32%	45%
Vacant Housing Units	3%	5%
Median Household Income, 2010 (estimated)	$91,134	$82,159
Median Household Income, 2015 (projected)	$105,114	$96,684
Per Capita Income, 2010 (estimated)	$38,390	$38,057
Median Age, 2010 (estimated)	40.8	39
Housing Units Built 1969 or earlier, 2000	88%	91%

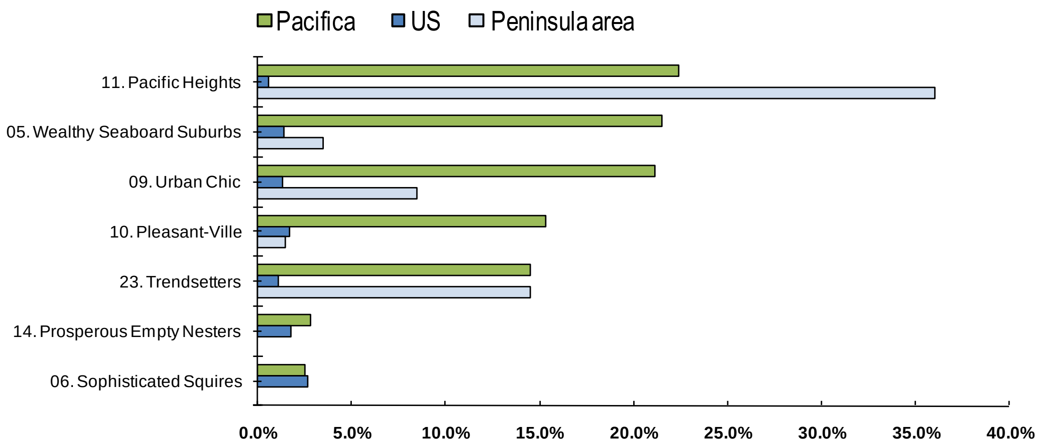
Source: ESRI, Leland Consulting Group

Tapestry Segments – Psychographic Groups

This section highlights Pacifica's "tapestry segments"—groups of people that reside in a given area, described on the basis of their lifestyles, hobbies and pursuits, purchasing preferences, age, income, and numerous other attributes. The tapestry segment classification system was developed by ESRI, Inc. and is based on data generated by the U.S. Census and other public and private data sources. Compared to raw demographic data, tapestry segments often provide more personal insights into the people in a community, and suggest what types of events, retail, or amenities residents are looking for. In addition to quantitative measures of different populations, they also gauge residential and consumer preferences, interests, and lifestyle choices, and are of great use to government officials, planners, real estate developers, and others who shape the urban environment.

Over 60 percent of the households in Pacifica fall within just three tapestry segments. The top three tapestry segments within Pacifica each make up over 20 percent of the population. A brief description highlighting key characteristics can be found in Figure 6 below. The complete tapestry segment descriptions are included in the appendix. The top segment found in both Pacifica and the Peninsula Area (a 10 mile radius from Pacifica) is Pacific Heights. This group, which makes up about 36 percent of households in the area, a greater share than the 22 percent found within Pacifica. Wealthy Seaboard Suburbs and Urban Chic segments are found in a much larger percentage of the households in Pacifica than the Peninsula Area. The Peninsula Area also holds higher percentages of other segments not shown here.

Figure 6. Tapestry Segments in Pacifica, the Region, and United States



Source: ESRI, Leland Consulting Group.

Figure 7. Characteristics of Key Tapestry Segments

Pacific Heights	• Three fourths include families, average size of 3.61 • Highest percent of Asian and Pacific Islanders • Median age of 39.1 • Education is important, more than 60 percent hold bachelor's or graduate degree • Median net worth is $234,222 • 68 percent homeownership • Travel at home and abroad • Health conscious	
Wealthy Seaboard Suburbs	• Older established affluent neighborhoods • Two-thirds are married couples, more than half have no children • Median age 42.9 • 23 percent collect retirement income • Median net worth of $466,382 • Hire professionals for property services, top market for remodels • Coffee aficionados • Take nice vacations at home and abroad	
Urban Chic	• More than half are married couples, fewer than half of whom have children • Median age of 42.4 • Higher proportion of single parents and singles and shared households • Well educated, 80 percent have attended college, more than half hold a bachelor's or graduate degree • 55 percent receive additional income from investments • 27 percent of housing is in multifamily units • Focus on lifestyle, travel extensively, visit museums and performances • Active and health conscious • Tech-savvy	

Land Use Fundamentals

The uncertainty of current market conditions makes it more important than ever to examine the best uses for a site based on sound land use fundamentals. Table 2 shows the fundamental conditions that need to be present within an area or site in order for given urban land uses to be successful. These land use fundamentals, and their application to the site, are discussed in greater detail in the following sections.

Table 2. Land Use Fundamentals

Land Use	Fundamentals for Success
Urban Housing (such as condominiums, apartments, or townhouses)	• Critical mass: adjacent residential neighborhoods and urban amenities (schools, parks, retail, and services) • Safety • Large share of 1 and 2 person households within market area • Easy access to employment centers • Above-average incomes
Retail	• Visibility. Thousands of customers must pass and see the site on a daily basis. Daily traffic volumes of approximately 20,000 are desirable for most national retailers. • Accessibility. Must be very easy to get to; daily-shopping or convenience retail should be on the “way home” (right) side of the street. • Central location vis-a-vis target markets. For example, grocery anchored centers should be within approximately one mile of 10,000 residents. • Manageable competitive environment. Most retailers will avoid an area if competitors are already located there. • Demographic match. Retailers choose sites located near their “target market” customers. • Anchor tenants. Retail developments are often “anchored” by one tenant (for example, a high-profile department store) who then attracts other tenants. • Sense of place, safety, cleanliness. • Contiguity. Urban retail must be continuous, or many shoppers will stop and turn back. • Parking capacity

Office	• Easy access to clients • Accessibility to workforce and executive residences; offices tend to be sited near the center of a metro region • “Address status” • Proximity to suppliers and collaborator firms • Parking capacity • Proximity to support services: banking, food, hotels, and other services • Access to intra- and inter-regional transportation connections such as freeways, high capacity transit, and airports.
Lodging	• Visitor amenities and attractions • Easy access to major thoroughfares • Co-location with other hotels • Visibility • Parking capacity
Restaurant	• Proximity to other retailers and restaurants • View or attraction • Parking capacity

Housing

Trends in Urban Housing

Strong interest in urban housing has come back in the past two decades, along with a dramatic increase in the share of one and two person households, who are the majority of urban residents.

Nationally, the dramatic growth in urban housing continued through the past decade—but stopped abruptly along with virtually all other real estate development, beginning with the onset of the recession in 2007. Over the long term, most demographers forecast that the fundamental drivers of urban housing—particularly very strong interest in diverse and interesting urban neighborhoods across many segments of society, smaller households, and aversions to long commutes—will return.

Regional Housing Needs

The State of California requires each Council of Governments to distribute state-identified housing needs for its region. A Regional Housing Needs Assessment (RHNA) must be conducted every seven years, the last of which covers a period of time from 2007-2014. Pacifica has met nearly three quarters of the need, but not in the moderate to low income categories. The General Plan Housing Needs survey concluded that there was a remaining need of 311 housing units for moderate to extremely low income levels.[3] Current inclusionary zoning mandates that any developments with 8 or more units built within Pacifica include 15 percent affordable units restricted for occupancy by very low, lower or moderate income households.

[3] *Pacifica General Plan, Existing Conditions and Key Issues*, Dyett & Bhatia, July 2010.

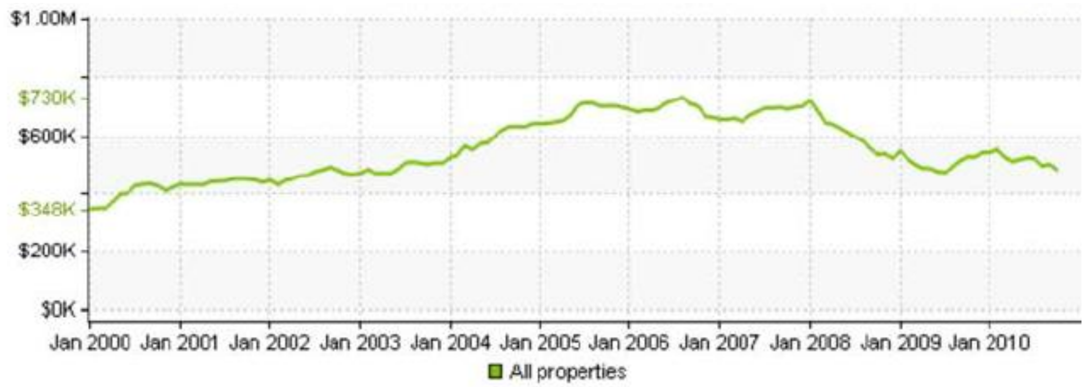
Existing Housing in Pacifica

Pacifica has a mix of housing, most of it built during the 1950s and 1960s. Some rehab and infill development has occurred in the last decade. As seen in Table 1, 80 percent of the housing was built prior to 1969, according to the 2000 Census. Due to the age and the weathering effects of the Pacific Ocean, much of the housing stock is in need of repair and remodeling.

Housing prices in Pacifica reached the low point of the recession in mid-2009, according to data collected by real estate web site trulia.com. The July to September 2010 median sale prices for all properties was $481,000 with a year-over-year decline of 8.4 percent. Prices saw a slight increase in early 2010, probably due to the homebuyer tax credit. Current prices have dropped to levels seen in 2003. Prices in 2005, at the beginning of the housing bubble, were near their peak with an overall median sales price of $700,000. They hovered around this price point through 2008. Current prices reflect a 31 percent decrease since that highest plateau in the housing bubble five years ago.

Housing development has slowed significantly since the bursting of the bubble, and development will continue to remain slow until prices begin to rise, and inventories of unsold and vacant homes are filled. When this takes place, housing developers are likely to show significantly more interest in the Beach Boulevard Property, and pay higher price premium's for the City's land.

Figure 8. Median Sales Price in Pacifica, 2000 – 2010



Source trulia.com, October, 2010

Table 3. Median Sales Price, Pacifica Historical Trends

Number of Bedrooms	July 2010 - Sep 2010	Year-on-Year	3 months prior	1 year prior	5 years prior
1 bedroom	-	-	-	-	-
2 bedrooms	$369,000	1.80%	$370,000	$362,500	$588,000
3 bedrooms	$493,744	-6.00%	$520,000	$525,000	$702,500
4 bedrooms	$640,000	3.60%	$563,450	$617,500	$750,000
All properties	**$481,000**	**-8.40%**	**$520,000**	**$525,000**	**$700,000**

Source: Trulia.com, October, 2010

Retail

Trends in Retail

2010 was a very, very challenging year for retailers, retail developers, and commercial property owners, as demonstrated by the sharp drop in consumer spending, the bankruptcy of the nation's second largest mall operator, General Growth Properties, and a wide variety of store closures.

In the short term, the name of the game is to keep existing stores open, operating, and profitable by using every tool available. In the long term, though, there will be opportunities to help existing retailers expand, attract new shops and fill vacant spaces, and eventually to develop vacant or underdeveloped properties. For the moment, however, Leland Consulting Group recommends that cities and developers anticipate less new retail development in their projects than might have been programmed five years ago. As Pacifica reflects on the conditions of its retail centers and its strategy going forward, it is important to remember the fundamentals of retail. According to the Urban Land Institute, these fundamentals are:

- **Central Location.** Stores should be conveniently located relative to their target markets. For example, office supply stores will naturally locate in downtowns or office clusters near their customers. Home and garden stores geared towards large-lot homes will not. Careful analysis of target markets will reveal which retailers are right for the area. In a community as small as Pacifica, there is a geographic distinction between the retail areas, but they are all primarily neighborhood and community retail centers that provide convenience goods to their specific neighborhoods and some tourists.
- **High Visibility.** Retailers almost always seek locations where they are likely to be seen by thousands of passers-by every day. Most retail that is hidden will struggle. This principle may be important on some of Pacifica's less-traveled streets, like Beach Boulevard and the neighborhood streets surrounding the property. Because restaurants are such unique destinations and can benefit so much from views, they are an exception to this rule.
- **Easy Access.** Shoppers should be able to get to stores easily, whether by car, transit, foot, bike, or other mode. In suburban locations, most access to the retail center or district is by car.
- **Continuity.** Pedestrian-oriented retail destinations and districts should feature continuous retail or active frontages. When storefronts are empty, shoppers turn around. The property is not in a location with a continuous retail façade, making it a difficult location for retail.

For most visitors, retail and events create a very significant and lasting impression for visitors from within the region and beyond. The first stages of urban retail redevelopment usually involve small, local retailers occupying rehabilitated historic spaces. Most towns have vacancies that should be refilled, rehabilitated, and re-tenanted before new retail construction will occur. In later years, retail can be integrated as a supporting component of new mixed use projects, with housing as the lead component.

Regional Retail

The San Francisco market saw effective retail rents decline 6.9 percent year-over-year through the third quarter of 2010. Vacancy in San Mateo County rose 40 basis points in the first half of 2010, mostly attributable to reduced demand at smaller community shopping centers. Effective rents declined in San Mateo County by almost 11 percent to $28.94 per square foot, after peaking in late 2008.[4]

Figure 9. San Francisco Metro Area Retail Market

Market	Vacancy		Rents	
	Vacancy Rate	Y-O-Y Basis Change	Effective Rents (psf)	Y-O-Y % Change
San Francisco	4%	-	$28.88	-7%
Marin County	4%	-10	$28.77	-4%
San Mateo County	5%	30	$28.94	-8%

Source: Retail Research, Marcus & Millichap, San Francisco Metro Area, Third Quarter 2010

Pacifica's Retail

Current commercial activity in Pacifica mostly consists of local-serving retail centers and older shopping centers aimed at tourist-serving retail, including restaurants and gift shops. However, Pacifica suffers from very significant retail leakage as most residents tend to shop elsewhere in the region, primarily in Daly City, which has several big box stores and larger regional shopping centers.

> "Pacifica evolved from several separate beach communities resulting in a number of related but dispersed neighborhoods each with unique characteristics. This growth pattern has also resulted in a string of small shopping centers and commercial areas. Additionally, the City's topography featuring coastlines and hills and valleys create natural boundaries that tend to separate the City into different submarkets. These various submarkets often operate as mini trade areas with a consumer base that represents a subset of the entire City. …Sharp Park and Fairway Park neighborhoods are served by the Eureka Square Center. This is an important factor to consider when assessing the viability of different types of retail Citywide."[5]

The General Plan also notes that the market position and orientation of Pacifica's retail has remained relatively static and that vacancy rates tend to be around 5 to 8 percent in Pacifica compared to 3 percent for Northern San Mateo County. Minimal new retail development has occurred over the past decade. The most recent projects have mostly occurred in the Manor neighborhood along Palmetto Avenue, including a new McDonalds and a Walgreens. The General Plan includes a retail leakage analysis which reports that the City is experiencing retail leakage in nearly all retail categories to retailers outside the City. Food stores represent the only category of retail which captures a surplus of sales.

> "Based on the number of households and the City's median household income, a total of $320 million of potential sales exist within the City for retail goods and services. However, the City's retail stores generate $165 million in taxable sales, representing only 52 percent of the retail spending power of the City's households."

[4] *Retail Research, San Francisco Metro Area*, Marcus & Millichap, Third Quarter 2010
[5] *Pacifica General Plan*, Existing Conditions and Key Issues, Dyett & Bhatia, July 2010

Palmetto Avenue

Pacifica experiences leakage in nearly every retail category, which means that there is potential for adding or renovating retail in Pacifica, but it will have to occur over time and will have to start in areas with healthy existing retail. In addition, while the scale of leakage is significant, it is not atypical for cities located at the edge of metropolitan areas, since retailers prefer sites that are nearer to the center, and thus by definition, closer to more households. Infill and redevelopment of Pacifica's existing centers in its most central locations will help to strengthen the retail community and could create a destination for locals and tourists. Most of the recent and planned developments that have occurred in Pacifica are along Palmetto Avenue, two in the Manor neighborhood and several others extending north along Highway 1.

As the General Plan notes:

> "One area that may have potential to expand its function as a traditional downtown retail district is Palmetto Avenue. The City is currently working on a Streetscape Plan along Palmetto Avenue between Clarendon Road and Paloma Avenue which will provide guidelines related to redevelopment. In addition, most of the recent mixed-use projects and proposals in the City have centered along Palmetto."

> "Continued public and private investments can contribute to the development of Palmetto Avenue into a downtown retail district. 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. This type of development may be particularly well-suited to capture retail sales in areas where the City is currently experiencing significant leakage, such as restaurants, apparel, and home improvement. However, unlike formulaic retail such as grocery-anchored shopping centers…, this type of retail tends to grow organically and can take many years to fully materialize."

Office Market

New office and employment space are among the toughest uses to attract to small, emerging downtowns. Almost all significant office and employment development takes place near the center of metropolitan regions or along major transportation corridors within major metropolitan areas, where employers can take advantage of existing transportation and other infrastructure, easy access by the regional pool of skilled employees, and nearby customers, suppliers, and collaborators. It is important that executives, sales staff, other employees, and customers have easy access. In addition, new office development often requires significant parking, which drives up the cost in urban locations.

One exception for Pacifica is new and existing public-sector employment, including the City, County, and other local public agencies. Such organizations often consider downtowns for new office buildings, and can locate a significant number of employees there. The potential consolidation of civic departments into new office space offers a viable tenant option for the property, and could further efforts to establish Palmetto as a “Main Street.”

Like retail, most new office users in Pacifica will first move into existing buildings, residential conversions, or other vacant spaces. These employers will tend to be small, professional, local-serving, “commercial office” users, such as insurance agents, banks, title companies, lawyers, architects, doctors, and dentists who can often fill first-floor retail spaces—though they rarely create the same amount of street-level activity as good retailers.

Regional Office Market

Regional office trends suggest that new private-sector office space is not a good fit for the subject site in the short or medium terms. Marcus & Millichap expects that the office market in suburban areas of San Mateo and most other counties will remain weak, with vacancy expected to surge past 20 percent by year end.[6] CB Richard Ellis (CBRE), a national brokerage firm, believes that asking rates have reached equilibrium with the overall rate holding steady for a third consecutive quarter in the San Francisco Peninsula Market, which primarily covers cities located between US 101 and I-280 on the western side of the bay. However, Class A asking rates are down 30 percent compared to the peak reached at the end of 2007.[7] The CBRE report also noted that there are currently no construction projects underway in any of the submarkets. Thus, even if office or other employment uses were a good fit for the site, the City would face very significant hurdles to attracting office development in the short and medium terms.

[6] *Office Research, San Francisco Metro Area*, Marcus & Millichap, San Francisco Metro Area, Second Quarter 2010
[7] *Marketview* San Francisco Peninsula Office, Third Quarter 2010, CBRE

Figure 10. San Francisco Peninsula Office Market

Submarket	Net Rentable Area				Avg. Asking Rate					
	SF	% of Peninsula Submarket	Total Vacancy %	Total Availability %	Class A	Class B	Class C	Q3 Net Absorption	YTD Net Absorption	Under Construction
North County Subtotal	**9,215,817**	**21%**	**15%**	**17%**	**$2.45**	**$1.96**	**$1.66**	**62,730**	**-98,108**	**0**
Daly City	1,030,086	2%	7%	7%	$2.60	$2.05	$1.65	8,802	-4,851	0
South San Francisco	2,830,405	7%	19%	20%	$2.50	$2.10	$1.70	5,290	-8,528	0
Brisbane	1,139,229	3%	21%	25%	$2.60	$2.05	$1.65	47,853	-44,778	0
San Bruno	1,581,461	4%	16%	16%	$2.20	$1.95	$1.65	-27,233	-60,369	0
Millbrae	158,683	0%	1%	1%	$2.20	$1.95	$1.65	1,615	1,615	0
Burlingame	2,475,953	6%	14%	15%	$2.25	$1.85	$1.65	26,403	18,803	0
Central County Subtotal	**20,814,703**	**48%**	**18%**	**20%**	**$2.72**	**$2.20**	**$1.66**	**363,824**	**450,253**	**0**
San Mateo	6,838,199	16%	19%	23%	$2.50	$2.15	$1.60	78,088	94,337	0
Foster City	3,250,548	8%	9%	10%	$2.95	$2.25	$1.60	10,532	123,954	0
Belmont	838,533	2%	27%	27%	$2.60	$2.30	$1.65	26,067	32,237	0
San Carlos	617,278	1%	46%	53%	$2.60	$2.30	$1.65	57,709	-76,219	0
Redwood City/Redwood Shores	9,270,145	21%	18%	19%	$2.75	$2.20	$1.75	191,428	275,944	0
South County Subtotal	**13,337,513**	**31%**	**8%**	**13%**	**$5.68**	**$3.41**	**$3.05**	**17,903**	**480,093**	**0**
Menlo Park	3,988,487	9%	10%	15%	$6.50	$3.00	$2.90	-31,219	214,111	0
Palo Alto/East Palo Alto	9,349,026	22%	8%	12%	$5.25	$3.55	$3.15	49,122	265,982	0
San Francisco Peninsula Total	**43,368,033**	**100%**	**14%**	**17%**	**$3.28**	**$2.82**	**$1.89**	**444,457**	**832,238**	**0**

Source: Marketview San Francisco Peninsula Office, Third Quarter 2010, CBRE

Lodging and Restaurants

Hotels and restaurants generally fall under the same fundamentals as retail locations, in terms of benefitting from visibility, proximity to other retailers and amenities and parking needs. However, these venues stand apart in their ability to become an attraction or a destination in their own right, capable of generating increased visitation to an area which could spin off other compatible development. CBRE noted in its recent office market report that leisure and hospitality saw an increase in jobs with hotels and other lodging places adding 1,200 jobs year-over-year in the Peninsula submarket, indicating that the tourism industry in the area, which is fundamentally very strong, may be starting to recover from the recession.[8]

The General Plan includes a section on the lodging industry and states that, "the addition of another mid-level hotel in the City is likely to draw customers away from the existing hotels rather than increase demand."[9] The Plan suggests, and Leland Consulting Group concurs, that other lodging market segments would complement the current supply found in Pacifica by adding a different type of product. These complementary products include:

- **Boutique Hotel.** Mid-sized hotel, providing a unique brand and atmosphere, distinctive theme or design, high service level, and distinctive experience. Boutique hotels differentiate themselves by delivering a unique and memorable experience rather by competing on the basis of lowest cost. Boutique hotels, as the name suggests, are often smaller than large name-brand hotels. This hotel could be approximately 50 rooms, though they can be significantly larger in other settings where demand is very strong.
- **Bed and Breakfast.** Small scale facility, ranging in size from four to twelve rooms and often located in historically significant buildings.
- **Luxury or Resort Hotel.** Serves as a destination. Usually found in close proximity to other amenities such as a golf course or coastal access. The Rockaway Quarry site was mentioned as a potential site for this type of hotel. Also has the potential to create synergies with the Palmetto Avenue commercial area.

Table 4. Hotels in the City of Pacifica

Property	Number of Rooms	Average Daily Rate
Best Western Lighthouse Hotel	97	$214
Sea Breeze Motel	20	$92
Pacifica Motor Inn	43	$129
Holiday Inn Express & Suites Pacifica	38	$169
Americas Best Value Inn Pacifica	32	$112
Pacifica Beach Hotel	52	$150
Total	**282**	**$144**

Source: Pacifica General Plan, Existing Conditions and Key Issues, Dyett & Bhattia 2010

Restaurant

A destination restaurant would be a complimentary use with lodging facilities, provide an amenity for guests and an attraction for locals and tourists, and activate surrounding streets. Restaurants benefit from a view or other attraction, like the ocean and Pacifica Pier, or guests staying at a nearby hotel.

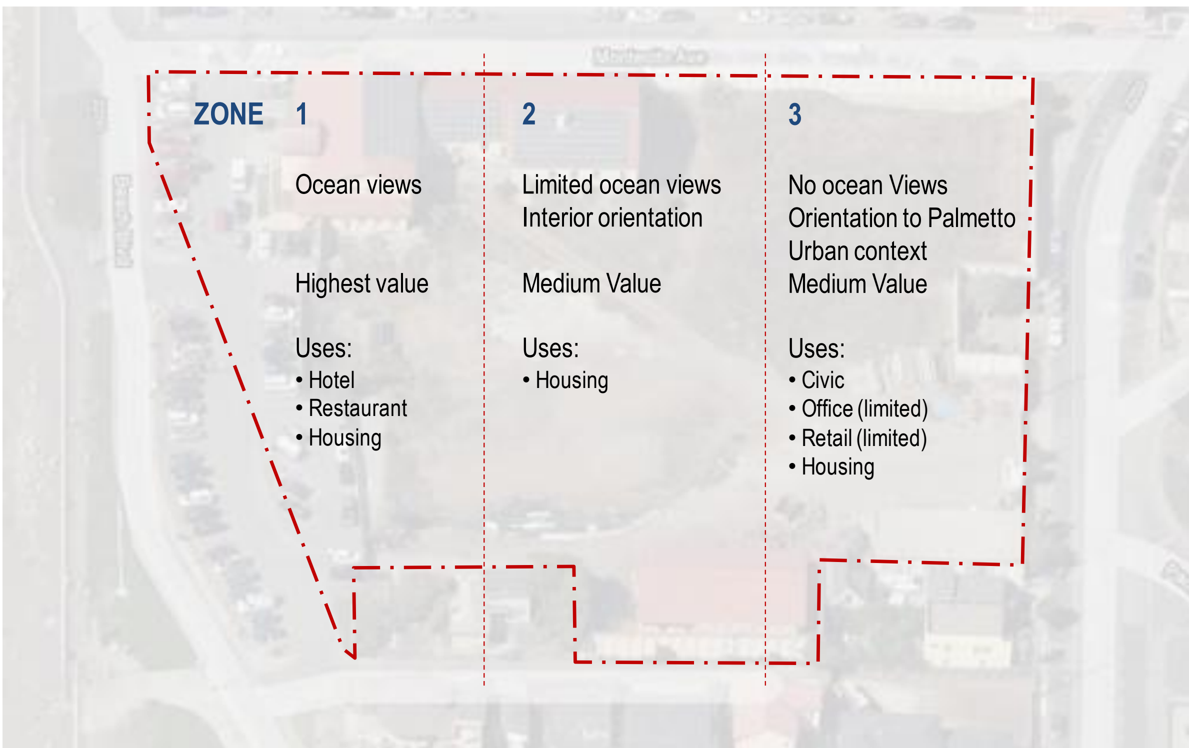
[8] *Marketview* San Francisco Peninsula Office, Third Quarter 2010, CBRE
[9] *Pacifica General Plan*, Existing Conditions and Key Issues, Dyett & Bhatia, July 2010

Development Program

Development Zones

Figure 11 below shows the site's three "zones" or "bands" of development that are based on the land use fundamentals and site-specific conditions outlined above. Excellent ocean views and beachfront access, which are the site's defining assets, mean that Zone 1 is likely to have the highest land values, and be appropriate for hotel, restaurant, or housing uses. Zone 2 is oriented towards the interior, with fewer views, and is best suited for housing. Zone 3 is oriented towards Palmetto Avenue and could host civic (e.g. City Hall), commercial (limited retail and office), or housing. This general diagram is refined with further detail and specificity in the development programs below. The City should bear in mind that, while the details associated with the development program are likely to change somewhat, the principles illustrated by the development zones will remain constant.

Figure 11. Development Zones



Source: Leland Consulting Group

Development Area

Table 5 below shows the size of the entire Beach Boulevard Property, and the net developable area (just over two acres) that can be redeveloped into new uses. Based on the findings of the City's appraisal and other research, Leland Consulting Group recommends that two of the buildings currently on the site, (Council Chambers, and the thickening building) be demolished to make room for redevelopment. By contrast, the existing pump station will almost certainly remain for the foreseeable future for the reasons outlined in this report.

Table 5. Beach Boulevard Property: Site and Developable Areas

	Property Component	Area	
		Acres	SF
A	**Total Site Area**	**3.2**	**137,428**
B	**Undevelopable Area**		
C	Pump site area (remains)	0.1	6,091
D	Existing Parking (remains)	0.4	16,450
E	**Total**	**0.5**	**22,541**
F	**Gross Developable Area**		
G	Existing Improvements (to be removed)		
H	Office building (Council Chambers)	0.1	6,329
I	Thickening building	0.1	5,520
J	Subtotal	0.3	11,849
K	Vacant	2.4	103,038
L	**Total** (J + K)	**2.6**	**114,887**
M	**Right of Way** (new road)	**0.6**	**24,000**
N	**Net Developable Area** (L - M)	**2.1**	**90,887**

Source: Leland Consulting Group, Appraisal of Various City of Pacifica Properties", June 2007, Carneghi-Blum & Partners.

Recommended Development Program

Based on the considerations described in this report and consultation with City staff, Leland Consulting Group created the development program and concept plan illustrated below for the Beach Boulevard Property. The development program divides the property into three development sites, whose uses are guided by the development zones concept outlined above. Site 1 should be developed as a boutique hotel with a restaurant and Site 2 should be developed as housing. The third pad has been named the "Future Development Site," since there are at least two development options that could be implemented there: housing with retail, or civic uses (which could include a City Hall) and retail. The development concept is illustrated in Figure 12 below, and quantified in the tables that follow. All the concepts outlined here should be subjected to more refined physical and financial analysis, and other actions such as rezoning, before the City begins to move ahead to implement them.

Figure 12. Development Concept Diagram

Source: City of Pacifica, Leland Consulting Group.

The development concept features the following additional elements and characteristics:

- **Scale.** The scale of the projects should reach a maximum of two or three stories in height, which is in keeping with the scale of the surrounding neighborhood. Larger-scale development will be more difficult to develop on this site, since it will require structured or underground parking, and thus higher cost and development complexity.
- **Public Street.** A new two-way public street that runs east-west across the property. Due to the size of the site, and the fact that Beach Boulevard is a one-way street running south, which limits access, this street should probably be a two-way street, in order to provide better access to new development on the site. Leland Consulting Group recommends that the street feature sidewalks on both sides, and on-street parking on one or both sides. The street will facilitate connectivity, access to all the parcels, and eliminate any large "superblocks" from the site.

Figure 13. Primary Recommended Uses: Housing, Civic, and Boutique Hotel

- **Boutique Hotel.** As stated above, Leland Consulting Group recommends a small boutique hotel (with a unique brand, and attractive, thoughtfully designed interiors, high-quality service, etc.) in order to open up a new market for Pacifica and to differentiate the property from other nearby motels and hotels. The presence of viable markets for weekend getaways, business travel, retreats, and other uses suggests such a hotel can succeed at this site.
- **Ocean View Restaurant.** A restaurant is recommended on Beach Boulevard in order to take advantage of stunning views of the beach and Pacific Ocean.
- **Housing.** The housing on site should comprise a high-quality, urban, beachside village, with very attractive common spaces and walkways. This is a setting with both urban and suburban characteristics, so one and two-person households will tend to be drawn to this site to a greater degree than large family households. The housing types appropriate for this concept will be high-quality townhouses, duplexes, and potentially some low-scale (two and three-story) apartments. At this scale (between 20 and 24 dwelling units per acre) approximately 16 housing units can be built on Site 2. Houses should present attractive facades and stoops to the street and walkways to reinforce the community feel. The architecture could range from traditional cottage to modern, based on the preferences of the developers and architects selected. Parking should be provided in driveways, garages, and on-street. Some examples of housing are shown in the figures below.
- **Future Development Site (Site 3).** The most straight-forward use for this site is housing, similar in nature to the housing site described above, with a small amount of retail on the northeast corner of the site. An alternative use is a new City Hall or other civic use. Because several options remain for this site, this report leaves the ultimate disposition of this portion of the property open for further analysis and discussion. About 20 housing units could be accommodated on this site. Housing along Montecito and Palmetto will need to be carefully designed because of those streets' urban nature, and in order to create a sense of separation and security for the units located there. Regardless of the other land uses developed on the rest of the site, retail on the northeast corner should be very modest in size for the reasons outlined immediately below. A new City Hall or other civic use would have the potential to front onto Palmetto Avenue, and along with the limited retail described below, could demonstrate a civic presence and reinforce the desired main street feel along Palmetto. The development programs quantified below assume a City Hall of approximately 26,000 square feet, a figure which was created through a space needs analysis commissioned by the City. Development on the other sites will benefit from easier access to the water, and thus this parcel can be preserved for future development while the others are built out.
- **Retail.** A very modest amount of retail (1,000 to 3,000 square feet, or between one and three small retailers) could be included on the corners along Palmetto to help activate the site and support the

"Main Street" concept along Palmetto. These retail "nodes" are called out on the development concept maps. This amount of space might be filled by a combination of the following tenants: coffee shop, deli or sandwich shop, tourist gift shop (if there is enough tourist traffic), salon, art store, or other similar tenants that reflect this location's role as both a community center and destination for some beach-goers. This is not a classic high-volume retail location since visibility from drive by traffic is much higher elsewhere. While Palmetto has some scattered retail sites, there is not a consistent "main street" environment with one or more blocks of contiguous, double-loaded retail spaces, or one or more anchor stores that consistently draw shoppers on evenings and weekends. Requiring or expecting too much retail (for example, 10,000 square feet or more) will challenge the economic feasibility of the project, since developers will risk either high vacancies or significantly lower rents, and financing will be very difficult. It will probably be cost prohibitive to build the recommended amount of retail by itself (without the adjacent housing or civic uses) because of mobilization (the costs associated with initiating construction on site) and start up costs, and the economies of scale that come from larger development efforts. In addition, a physical plan that thoughtfully integrates the different uses will be better than stand-alone pads. Thus, retail should be incorporated into the overall development that takes place on Sites 1 and 3, rather than being built by itself.

Figure 14. Housing Examples

- **Multiple Parcels.** Dividing the entire property into smaller parcels, in keeping with their intended final use, will facilitate their sale and development. Since most developers have expertise with one or perhaps two development types—for example, hotel, or housing, or office—the City can create multiple partnerships with the individual developers best able to execute that particular project. In addition, pieces of the project can move forward even if others are still in negotiation. Finally, when coordinated appropriately, multiple developers should deliver projects that are related but architecturally diverse, resulting in an area that feels like a true neighborhood or community, not just one new "project."
- **Parking.** As is typically the case, development on each of the sites is expected to handle its own parking needs on site. The hotel will be surface parked, with additional parking available on-street; residents will park in driveways, garages, and on-street; parking for small retailers will be on-street; and any civic use would be mostly surface parked on the site. There is a potential opportunity for the surface parking to be shared between the hotel and potential civic offices, since a hotel's peak demand for parking takes place in the evenings and on weekends, and office parking demand tends to peak during the day. The benefits of shared parking are that it decreases the amount of land needed, the costs of development, and thus increases the plan's chances for financial success. However, parking demand at civic offices does not necessarily match traditional offices, since citizens are often invited to attend evening meetings and workshops. Thus, the potential for shared parking is less. However, due to the potential to save money and decrease the demand for surface parking area, the City should consider and potentially study further the opportunities for shared parking. All surface parking at the site should be located in the interior of the site. This will allow all active uses to take place at or close to the sidewalk and reinforce the urban character of downtown Pacifica. Interior parking will also

facilitate sharing, and can be used as a buffer for noise and vibration caused by the pump station. Existing parking along Beach Boulevard will be retained, as required by the Coastal Commission.

- **Below-grade Area.** The below-grade area in the center of the property should either be filled, or, pending further civil, planning, and financial analysis, be built out as structured parking. An engineering study should evaluate the ability of fill in this below-grade area to support the hotel, housing, and other uses identified here. A structured parking solution would be quite expensive and would probably require a reevaluation of this development program.

The tables below quantify the elements of the development program described above. Some numbers have been rounded for ease of display, and thus some totals shown below do not sum correctly due to rounding.

Table 6. Development Program

Land Uses	Site Area (acres)	Site Area (sf)	Building type	Parking type	FAR	Avg. Floors
1. Hotel / Restaurant	0.7	30,000	2 floors	Surface	0.70	2.0
2. Housing	0.7	29,500	2 and 3 floors	Surface & garage	0.80	2.0
3. Future Development Site	0.8	33,800	TBD	Surface	0.80	2.0
Total	**2.1**	**93,300**				

Table 7. Site 1: Illustrative Boutique Hotel with Restaurant Program

Site Area	**30,000**
Site Summary	
Floor Area Ratio (FAR)	0.70
Gross Building Area	21,000
Number of floors	2.0
Building footprint	11,000
Surface parking area	20,000
Building Uses	
Hotel Rooms and Common Area	18,000
Number of Rooms	50
Restaurant Area (sf)	3,000
Gross Building Area	21,000
Surface Parking Area	**20,000**
Parking spaces	56
Parking ratio (per room)	1.1

Table 8. Site 2: Illustrative Housing Program

Site Area	30,000
Density (du/acre)	24.0
Housing Units	16.0
Parking (surface & garage)	
Ratio	2.0
Spaces	32

Table 9. Site 3: Illustrative Housing or City Hall Programs

Site Area	34,000
Site Summary	
Floor Area Ratio (FAR)	0.80
Gross Building Area	27,000
Number of floors	2.0
Building footprint	14,000
Surface parking area	20,000
Housing with Retail Option	
Density (du/acre)	24.0
Housing Units	19.0
Retail (sf)	1,000
Potential Civic Uses	
City Hall /City Offices	26,000
Retail (sf)	1,000
Gross Building Area	27,000
Parking spaces	58
Surface parking area	20,000

1. Per the City of Pacifica's space needs analysis; see Table 12.

Sources, this page: Leland Consulting Group, Urban Land Institute, City of Pacifica.

Public-Private Partnership Development Process

Once the City has established one or more development concepts as desirable outcomes for the subject property, Leland Consulting Group recommends that the City follow the development process outlined below.

The City should expect to sell, rather than lease, each of the sites on the property that will be built by private developers (through the process outlined here), particularly the hotel and housing sites. When properties are leased, this typically happens through a long-term ground lease, usually for 60 to 100 years. Ground leases have several disadvantages. They deter development and investment, since the developers and owners will only own the property for a defined period of time, and the resale value diminishes sharply as the end of the time period approaches. Leases introduce additional layers of complexity in terms of legal and practical rights and responsibilities that many smaller cities are not prepared to take on. In most cases, ground leases are not compatible with owner-occupied housing, of the type recommended for the site. Some property owners find leases appealing because they can create a long-term revenue stream. However, several new revenue streams can also be generated through property sales as well, through the initial sale and through greater property taxes. The property taxes on the vertical development should be higher due to greater private sector confidence and investment, and of course, the owner will also pay taxes on the land. Ground leases are only common in a handful of very high-demand and low (land) supply markets throughout the United States; for example, central Honolulu and Waikiki Beach.

Developer Solicitation: Issue Request for Qualifications (RFQ) and Opportunity Marketing. The RFQ should include plans produced to this point (particularly this document), a description of the land and other assets that the public sector is bringing to the table, a market assessment including local demographics, a description of the RFQ selection criteria, process, and lead agency, and related information. The lead agency can also get the word out by running advertisements, web marketing, making phone calls to selected developers, and other means. The goal of the RFQ is to solicit submittals from a large pool of qualified applicants. Applicants should demonstrate their capabilities and experience on similar projects (mixed use, public-private partnerships, affordable components) in the past. When local developers are unable to demonstrate this capacity, local and national developers can team.

The project team strongly recommends pursuing an RFQ process versus a Request for Proposals (RFP) process, due to a number of disadvantages posed by the RFP process. First, RFPs often become “beauty contests” in which the selected development team is chosen because they have created the best-looking renderings. The problem is that teams will be pressured at this stage to overdesign and overpromise, with too little understanding of the market, site, City goals, and public input. RFP submittals are almost never built as submitted. Second, the expense of preparing an extensively thought-through and illustrated RFP severely limits the pool of developers since developers will think long and hard before committing many thousands of dollars on a long-odds gamble. At this point, the City should be seeking the biggest pool possible. Third, a detailed RFP shortcuts public input and involvement, which is a critical component for successful development.

Developer Selection. An advisory committee and public agency staff choose the preferred developer based on the selection criteria established above.

Negotiation and Planning Phase 1: Memorandum of Understanding (MOU). The first stage of negotiation and project planning for the public-private partnership is an MOU, an agreement that is legally non-binding, but which nonetheless lays out the roles and responsibilities of the parties. MOU discussions should be conducted alongside additional concept planning, informed by plans already completed, but also subject to change based on the expertise and vision of the development team. Roles and responsibilities for the property may include purchase prices, phased transfer terms, additional public or private investments, zoning or regulatory changes, development build out targets, shared revenue agreements, goals for uses, densities, or targets, or other terms.

Negotiation and Planning, Phase 2: Development and Disposition Agreement (DDA). At this stage, based on the MOU, the parties involved in the property should begin to feel confident that they will be able to achieve their goals via the public-private partnership. Public goals often include quality of development, density, mix of uses, and affordability; the private sector often is committed to these goals but places more emphasis on achieving a strong return on investment. More detailed analysis and planning by all parties should bear out the expectations thus far. If these conditions are met, then the partners and their legal teams can begin to transfer the roles and responsibilities outlined in the MOU to a legally-binding DDA (or other similar contract).

Implementation. A signed property DDA will trigger a series of actions, with the most important being land (or option) transfers, public and private infrastructure investments, regulatory changes, etc. The development team will then begin to build the project.

Appendices

Property Value of Waste Water Treatment Plant

There has been a significant decrease in real estate values, both in Pacifica and nationwide, since the market peak in 2007. As discussed in this report, various indicators of market strength, such as housing prices in Pacifica and regional office rents, have dropped by as much as 20 to 30 percent in the past three years. Thus, it is reasonable to assume that the value of the Beach Boulevard Property will also be less in the short term, and perhaps long term as well. Table 10 reflects a potential value range for the property, assuming a diminution of value of between 20 and 30 percent. This is not intended to be an official estimate of value; such an estimate can only be supplied by a certified appraiser.

Another appraisal should be conducted in order to establish the property's value at such time as the City has clarified its plan for the property (whether the development concept outlined in this report or a modified plan), completed the engineering analysis for the pump station and below-grade area, and completed other analysis identified in this report or desired by the City. The City should convey its plan, this report, and any additional analyses to the appraiser tasked with completing the future appraisal, since development context has an important influence on property value. While an appraisal of value is useful, it is also important to note that the City may transfer the Beach Boulevard Property to one or more developers for less than its market value. This could be done in order to incentivize a certain kind of development, or make an ambitious development proposal more financially viable.

Table 10. Appraisal Value Reduced to Reflect Potential Current Conditions

Property	Land Area		2007 Appraised Value	Reduced Value	
	SF	Acres		20%	30%
Old WWTP	131,337	3.02	$7,880,000	$6,304,000	$5,516,000

Source: Appraisal of Various City of Pacifica Properties, Pacifica, CA, Carneghi-Blum & Partners, June 2007

Pump Station

A recent estimate from the City of Pacifica concludes that the cost to relocate the Sharp Park Pump Station would total $15,868,750. This cost more than doubles the appraised value of the property, making it financially infeasible to remove the pump station. It will have to remain and the negative impacts such as noise and vibration be mitigated.

Zoning Context

The appraisal recommended rezoning the property to C-1 Neighborhood Commercial. C-1 requires a commercial use on the ground floor and allows residential development above the ground floor at a density of one unit per 2,000 square feet, with a 35 foot height limit. Permitted uses include: retail, personal services, business and administrative offices, art galleries, and visitor-serving commercial uses (as specified by the Coastal Commission). Conditionally permitted uses include: motels and restaurants among others. Parking requirements are shown in Table 11.

Table 11. C-1 Neighborhood Commercial, Parking Requirements

Use	# Parking Spaces Required	per	unit
Residential			
Studio	1	1	per unit
1 BR	1.5	1	
2BR+	2	1	
Guest space	1	4	per every 4 units
Commercial			
Motels	1	1	per unit
Motels	1	1	manager
Standard Commercial	1	300	per 300 SF gross leasable area

Source: Appraisal of: Various City of Pacifica Properties", June 2007, Carneghi-Blum & Partners.

Table 12. Pacifica Departmental Space Needs and Parking Requirements

Department	Proposed		Current	
	NSF	Staff	NSF	Staff
City Council and Committees	3,763	-	3,005	-
City Administration	2,539	8	1,262	5
City Attorney	722	3	739	2
Finance and MIS	4,033	8	739	7
Parks, Beaches & Recreation	1,708	8	2,507	7
Planning & Economic Development	2,793	11	1,672	10
Public Works & Engineering	1,724	6	2,258	5
Shared & Public Spaces	5,045	-	1,192	-
Total Department NSF	**22,327**	**44**	**13,374**	**36**
Building Grossing Factor 15%	3,349		4,448	
Total Gross SF	**25,676**		**17,822**	

	Spaces needed	SF/Space	SF Needed
Parking Required	58	400	23,200

Source: City of Pacifica

Tapestry Segments – Full Description

Pacific Heights

Demographic

Upscale neighborhoods in Pacific coastal cities best describe Pacific Heights. More than three-fourths of the households include families, primarily married couples with or without children. The average family size for this market is 3.61. Less than one percent of U.S. households, this segment has the highest percentages of Asian and Pacific Islander populations. The median age is 39.1 years.

Socioeconomic

At 62 percent, labor force participation is slightly below the national average, as is unemployment, at 11.4 percent. Most Pacific Heights households include more than one worker. The median household income is $80,486. Education remains a priority for these first- and second-generation Americans. More than 60 percent of the residents aged 25 years and older have attended college; more than one in three hold a bachelor’s or graduate degree. College and graduate school enrollment is slightly higher than the national average. Most households earn income from wages or salaries; 44 percent receive income from investments. The median net worth is $234,222.

Residential

Pacific Heights households are found in the high-rent districts of California and Hawaii. These small, affluent neighborhoods have a median home value of $494,759, more than three times that of the national value. The homeownership rate is 68 percent. Residents prefer single-family homes or townhomes. Most live in densely populated urban centers near their jobs in homes built before 1980.

Preferences

Pacific Heights residents keep in touch with family living overseas; they call frequently and travel abroad to visit. Residents will usually go to Las Vegas or visit Disneyland during the year. They read mystery books and listen to music on their MP3 players. They also rent foreign films, movies, comedies, and dramas on DVD to watch on their giant screen TVs. Their favorite TV shows are detective dramas. They read general editorial and entertainment magazines. They listen to contemporary hit, adult contemporary, all-news, or urban radio, usually during their commutes. Baseball is their favorite sport to watch, listen to, and play. To keep their homes looking first-rate, Pacific Heights residents spend for home improvement and remodeling projects. Most households own an imported vehicle, usually a Toyota or Honda that they will drive for several years. They belong to an auto club and rent cars when they travel. They shop regularly at Wal-Mart, Target, JC Penney, and wholesalers for essentials but will also often shop at upscale retailers. These residents are health conscious; they take vitamins and exercise regularly at a health club. When grocery shopping, they buy organic, low-sodium, and low cholesterol products. They eat nutrition bars as a healthy snack.

Wealthy Seaboard Suburbs

Demographic

Wealthy Seaboard Suburbs are older, established, affluent neighborhoods characteristic of U.S. coastal metropolitan areas. Two-thirds of the population aged 15+ years is married; more than half of the married couples have no children. The median age is 42.9 years. Ethnic diversity is low; most residents are white.

Socioeconomic

Wealthy Seaboard Suburbs neighborhoods are affluent; the median household income is $100,409. Income is derived from a variety of sources; approximately 60 percent of the households receive supplemental income from interest, dividends, and rental properties; 23 percent collect retirement income. More than half of those who work hold professional or management positions. The median net worth is $466,382, more than four times that of the U.S. median of $97,724.

Residential

Wealthy Seaboard Suburbs neighborhoods are located primarily along the California, New York, New Jersey, and New England coasts. Three-fourths of the housing units were built before 1970. Single-family structures comprise 89 percent of the households, with a median home value of $427,591. The vacancy rate is 5 percent. Slow to change, Wealthy Seaboard Suburbs homeowners are the least likely to have moved in the last five years. This segment ranks in the top five for residents who commute out of state to work.

Preferences

Not do-it-yourselfers, these residents hire lawn and maintenance services to care for their property and contractors to remodel their homes. The top market for remodeling expenditures, this segment spends more than $5,000 a year on home improvements. A typical resident holds a home equity line of credit, holds life insurance policies worth $500,000 or more, uses a brokerage firm, owns stocks, and donates to charities or nonprofits. They love to shop, especially at Macy’s, Nordstrom, and warehouse stores. They also shop online and by phone from high-end catalogs. They drink coffee at home and on the road. They shop for milk and coffee at convenience stores, grind their own coffee beans, and visit coffee houses as well as Dunkin’ Donuts and Starbucks. Wealthy Seaboard Suburbs residents take nice vacations such as all-inclusive international packages, cruises, and beach trips in the U.S. or abroad. They also go to Las Vegas and Atlantic City. They go saltwater fishing, skiing, and ice skating and attend the theater. They read two or more daily newspapers; biographies; and epicurean, travel, business, and finance magazines. They listen to classical music, jazz, all-news, and sports radio programs. Cable movie channels are favorites, but residents will watch one or two drama series shows each week. This is a top segment for watching home shopping channels.

Urban Chic

Demographic

Urban Chic residents are professionals who live a sophisticated, exclusive lifestyle. More than half of these households are married-couple families, similar to the U.S. proportion. Fewer than half of them have children. Unlike the United States, there is a smaller proportion of single parents and a higher proportion of singles and shared households. The median age of 42.4 years is older than the U.S. median of 36.9 years, while the diversity index of 52 is lower than the U.S. figure of 61.

Socioeconomic

A median household income of $89,317 and a median net worth of $324,280 enable residents of Urban Chic neighborhoods to live in style. They are well-educated; more than half of residents aged 25 years and older hold a bachelor's or graduate degree; 80 percent have attended college. They work in a variety of occupations, especially professional, management, and sales positions in the scientific and technical services, educational services, and health care industry sectors. Twenty percent of these households earn income from self-employment ventures; 55 percent receive additional income from investments.

Residential

Major concentrations of Urban Chic neighborhoods are found in urban areas on the northern and southern California coasts and along the east coast. These neighborhoods parallel the United States for housing type and homeownership. Homes range in age from pre-World War II to post-2000, and types from high-rises to single-family houses. Sixty-three percent of the housing is single-family; 27 percent is apartments in multi-unit buildings. The rate of homeownership is 67 percent. The median home value is $554,159, more than three and one-half times the U.S. median.

Preferences

Urban Chic residents focus more on their lifestyle than ambience. They travel extensively, visit museums, attend dance performances, shop at upscale stores, and do volunteer work. To stay fit, they downhill ski; go backpacking, hiking, and biking; practice yoga; do aerobics; play tennis; and lift weights. They buy natural or organic food and take a multitude of vitamins and dietary supplements. They drink imported wine and truly appreciate a good cup of coffee. These busy, tech-savvy residents use PCs extensively. This is a top segment to own an Apple computer. They go online to arrange travel; get the latest news; check their investment portfolios; trade stocks; and buy books, clothes, flowers, and tickets to concerts and sports events. They use credit cards, often charging more than $700 a month. They also own shares in stocks, tax-exempt funds, mutual funds, and money market funds. They will occasionally use a financial planner or brokerage firm. Urban Chic is one of Tapestry's top segments for radio listening; these residents tune in to classical music, all-talk, and public radio. They are also avid readers of newspapers; books; and general editorial, news and entertainment, business, and home service magazines. They seldom watch TV; however, their favorite channels broadcast news programs and documentaries.