

Pilgrim Triton Master Plan Fiscal Impact and Market Analysis

Prepared by Hatch Associates Consultants, Inc.

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HATCH

Table of Contents

1. Introduction	3
2. Executive Summary	5
3. Site Context	12
4. Development Alternatives	14
5. Retail Market Demand	17
6. Office Market Demand	23
7. Development Feasibility	30
8. Retail Impacts	35
9. Fiscal Impacts	41

1. Introduction

The City of Foster City (City) has received a proposal to modify Phase C of the Pilgrim Triton Master Plan to allow for the development of 68 townhomes, replacing current Phase C entitlements of 172,943 square feet of commercial and 17 townhomes. To inform the rezoning proposal, the City has directed Hatch Associates Consultants, Inc. (Hatch) to prepare a fiscal impact and market analysis comparing the applicant's proposal, current entitlements, as well as a mixed-use alternative discussed below. The subject analysis addresses the following:

- The economic viability of existing and planned retail within the Pilgrim Triton Master Plan in light of the property owner's requested conversion of planned office to residential
- The long-term market and development feasibility of Class A and/or Class B office space at the subject property or an alternate mixed-use scenario
- The fiscal impact to the City's General Fund from the proposal compared to the existing intended use at the subject property and an alternative mixed-use scenario.

Phase C comprises approximately 3.5 acres of the 20-acre Pilgrim Triton Master Plan. Table 1 presents three development alternatives considered in this analysis:

1. The applicant's proposal for 68 for-sale townhomes.
2. Current entitlements, allowing for 17 townhomes and approximately 173,000 square feet of commercial space. It is assumed that ground floor retail represents approximately 4,500 square feet in leasable area while office uses account for the remaining floor area.
3. A mixed-use alternative, prepared by Hatch at the City's request, which provides for 44 for-sale townhomes, 26 for-sale flats, 116,000 square feet of office, and 4,500 square feet of ground floor commercial. The objective of the mixed-use alternative is to determine if there is a viable alternative to converting the entire site to residential. Note that the mixed-use alternative generates fewer AM and PM peak trips than the current entitlements.

Table 1 – Phase C Alternatives

	Alternative 1	Alternative 2	Alternative 3
	Applicant Proposal	Current Entitlements	Mixed-Use Alternative
Residential units			
Townhomes	68	17	44
Flats	0	0	26
Total residential	68	17	70
Commercial square feet			
Office	0	168,400	116,000
Retail	0	4,500	4,500
Total commercial	0	172,900	120,500
Source: Hatch, City of Foster City			

The primary conclusions from the market and financial analysis are:

- *Market demand:* By 2040, long-term job growth in Foster City is projected to support demand for up to 500,000 square feet of office, net of the projected supply. The Phase C site has the potential to accommodate unmet Class A office demand,¹ although rents would need to be less than Class A averages to attract tenants to this particular location. Growth in citywide retail expenditure potential is projected to support demand for up to approximately 110,000 square feet of neighborhood retail uses through 2040. The site is capable of capturing a modest share of neighborhood retail demand (5,000 square feet above existing plan area retail in the next ten years, and up to 11,000 square feet over the following 10 to 15 years).
- *Financial feasibility:* Despite market demand, commercial rents currently achievable at the subject site do not support the costs of new development. Hatch evaluated the financial feasibility of the Phase C site as currently zoned and a mixed-use alternative that accommodates 70 residential units in addition to 120,000 gross square feet of commercial. Both scenarios are found to result in negative returns based on current construction costs and market rents. While not currently feasible, the mixed-use scenario is more likely than the as-zoned scenario to achieve feasibility over the next ten years, as the residential component can pay for the nearly all of the land basis while achieving investor thresholds, thus reducing carrying costs and rent thresholds for the commercial component.
- *Retail impacts:* Neighborhood retail demand by the plan area's residents and workers is projected to be less under the applicant's proposal than both current entitlements and the mixed-use alternative, particularly for eating and drinking facilities. However, citywide demand for neighborhood retail would be capable of supplementing internal demand in affected retail categories. The retail district would benefit from marketing and management resources to help reach a broader catchment area.
- *Fiscal impacts:* The build-out of each development alternative – the applicant's proposal, current entitlements and the mixed-use alternative – generates a positive net fiscal impact on the Foster City General Fund in comparison to the uses that existed prior to the master plan's approval. However, the net fiscal surplus is less under the applicant's proposal (\$834,000) relative to current entitlements (\$959,000). The mixed-use alternative is projected to generate the largest surplus (\$1,030,000).

¹ Class A buildings refer to the top-tier of office buildings within a market area, based on quality and competitiveness. Class A buildings command higher rents and higher sales prices per dollar of net income relative to Class B and C buildings.

2. Executive Summary

This section presents a brief summary of the findings of the report. The detailed analysis is presented in the body of the report.

2.1. Office Market

Hatch evaluated market demand for office development at the subject site through 2040 based on regional job growth, the extent of the development pipeline and the locational attributes of the Phase C site. The findings indicate that **unmet demand for office space in Foster City is projected to range from approximately 80,000 square feet to 500,000 square feet through 2040 (the planning horizon of the 2040 General Plan)**. Given the limited availability of sites zoned for office in Foster City, **Phase C has the potential to absorb unmet demand for office space over the long term (10 to 25 years)**. The timing of unmet demand will depend on the pace of regional job growth and absorption of the County's extensive regional development pipeline.

Demand Projection

Table 2 presents two scenarios of regional job growth based on projections by the Association of Bay Area Governments (ABAG) and the California Department of Transportation (CDOT). Projections range from 70,000 jobs to 90,000 jobs added in San Mateo County by 2040. Foster City's share of countywide job growth reflects its share of the commercial development pipeline. Approximately 85 percent of new jobs in Foster City are likely to require office, R&D or lab space based on trends in the City's industry composition. The pipeline of planned and proposed life sciences campuses is anticipated to account for approximately 5,400 of total projected office jobs. Remaining office job growth projected by ABAG (base projection) or CDOT (upper projection) is converted to space demand. Hatch accounted for the planned office supply and excess vacancy to arrive at unmet demand for new office space in Foster City through 2040.

Table 2 - Office Demand Projection

Supportable office space	Base	Upper	
2017-40	ABAG	CDOT	Units
San Mateo County job growth	70,000	90,000	jobs
Foster City share	10%	10%	
Foster City job growth	7,000	9,000	jobs
Office/R&D employment share	85%	85%	
Office employment growth	6,000	7,700	jobs
Life sciences campuses	5,400	5,400	jobs
Non-campus	600	2,300	jobs
Supportable square feet (non-campus)	150,000	575,000	sq. ft.
(less) excess vacancy/projected supply	<u>-71,000</u>	<u>-71,000</u>	sq. ft.
Net supportable office square feet	79,000	504,000	sq. ft.
Source: Hatch, Association of Bay Area Governments (ABAG), California Department of Transportation (CDOT).			

Subject Site's Market Potential

Office buildings are traditionally grouped into three classes: Class A, Class B and Class C. According to Building Owners and Managers Association International, the classes distinguish buildings by quality and competitiveness as follows:

- **Class A** buildings represent the highest quality buildings in terms of building systems and finishes, amenities, market prestige, visibility, access and location. Due to their competitive advantages, Class A buildings command higher rents and higher sales prices per dollar of net income. They also tend to attract larger, investment-grade tenants, making buildings in this group easier to finance.
- **Class B** buildings represent the next tier of office buildings. They generally offer average to good quality building systems, finishes and amenities. Buildings in this category may include older buildings previously classified as Class A, as well as newly constructed buildings located in less desirable locations. Class B buildings command lower rents relative to Class A buildings and are perceived as riskier projects to finance. Class B buildings attract a range of tenants seeking average to good quality office space without paying the premium associated with Class A space.
- **Class C** buildings represent the lowest tier of office buildings, often consisting of older Class B buildings. They command the lowest rents in the market area meeting minimum standards of building functionality. Note that newly built projects almost never fall in this category.

Hatch considered market support for both Class A and Class B buildings on the subject site, and concluded that over the long term (10 to 25 years), **Class A development is the more viable development option, given the greater likelihood of securing financing and achieving the buildout of the zoned commercial area.** Demand is healthy for both Class A and Class B space in the market area, but Class B demand is concentrated among smaller tenants (less than 5,000 square feet). Class B tenant requirements would not support more than 100,000 square feet of commercial uses on the site, while Class A buildings in the range of 100,000 to 170,000 square feet are common in the market area (albeit in downtown, Caltrain-served locations). As mentioned, Class B development is less likely to be financed, due to the greater risk perceived by investors. One exception is an owner-occupied building financed through a small business loan, but the building size would be far less than the maximum area allowed by current zoning.

While Class A space is the more viable development option from a market demand perspective, it is not without its challenges. Brokers interviewed for this report indicate that the subject site will be disadvantaged in attracting tenants compared to buildings with access to Caltrain and downtown amenities. As a result, Class A office on the subject site would need to offer reduced rents compared to most Class A sites in the market area, while upholding similar standards of building construction, finishes and amenities. In other words, while market demand exists, the long-term viability of Class A office on the site requires market conditions to tighten further such that rents achievable on the site support the costs of new construction. The feasibility section of this analysis addresses this issue in greater detail.

2.2. Retail Market

Hatch analyzed market support for retail uses on the subject site, with a focus on neighborhood-serving retail, including restaurants, convenience retail and personal services. Per Hatch's discussions with local brokers, the plan area presents a number of challenges as a retail location including lack of visibility and limited foot and vehicle traffic. On the other hand, the site's mixed-use, town square setting has potential to serve as a gathering place for the larger community. Considering these strengths and weaknesses,

Hatch estimates that over the next 10 years **the Phase C site can support up to 5,000 square feet of retail above existing uses at the Plaza, 100 Grand and the Waverly (for a total of 24,200 retail square feet in the plan area)**. The 5,000 square feet supportable in Phase C would represent 15 percent of projected citywide demand, net of the projected supply. Additional space could be incorporated to accommodate growth beyond 2026, depending on the site's remaining development capacity and the extent of new market entrants.

Citywide Demand Projection

Citywide demand for neighborhood retail is driven by growth in local day and evening populations and their associated retail expenditures. In Hatch's analysis of retail demand, Foster City is apportioned a share of projected growth in local spending by retail category, based on recent trends in citywide sales relative to demand. Hatch estimates that new retail uses can recapture up to 15 percent of demand in eating and drinking categories that is currently spent outside of the City (referred to as spending leakage). As shown in Table 3, total growth in local retail spending represents a need for up to 51,000 square feet of retail development in Foster City by 2026 and up to 108,000 square feet by 2040, based on typical sales productivity of newly built space (\$350 to \$600 per square foot, ranging by category). Foster City's development pipeline includes approximately 39,000 square feet of retail space (net of demolitions). After accounting for the redevelopment of Charter Square, the effective net increase in supply is estimated to be approximately 16,000 square feet. Therefore, market support remains for up to approximately 36,000 square feet of retail over the next ten years. A modest share of citywide demand (15 percent) has been apportioned to Pilgrim Triton, understanding that most growth in retail demand will flow to sites with superior visibility and access. If these sites do not materialize, unmet demand is more likely to flow outside of Foster City or to existing centers than support additional development in less competitive locations.

Table 3 - Retail Demand Projection

	Cumulative square feet	
	By 2026	By 2040
Supportable retail – Citywide		
Growth-driven	35,500	92,300
Restaurant leakage	<u>15,800</u>	<u>15,800</u>
Total supportable retail	51,300	108,100
(less) projected supply	<u>(15,600)</u>	<u>(15,600)</u>
Net remaining	35,700	92,500
<u>Pilgrim Triton</u>		
Share of remaining supply	15%	12%
Supportable square feet	5,000	11,000
Source: Hatch		

2.3. Development Feasibility

Using current construction costs and current market rents, Hatch evaluated the development feasibility of the subject properties as currently zoned and a mixed-use alternative that accommodates 70 residential units and approximately 120,000 gross square feet of commercial space. As might be expected, the

development proceeds from the residential components both as currently zoned and in the mixed-use scenario showed positive returns; however, the commercial development negated the value as commercial development proceeds indicated a net loss under both mixed-use and as-zoned alternatives (Table 4 and Table 5).

While developers and investors have different return on cost thresholds, a pro forma profit estimate of 12 percent of costs is typically sufficient to justify investment. The as-zoned alternative currently results in a negative 13 percent return on costs while the mixed-use alternative produces a zero percent return. Under the currently zoned scenario, office lease rates would need to increase to approximately \$5.50 per square foot to achieve a 12 percent return on costs, approximately 30 percent higher than current asking rents for similar Class A space (estimated at \$4.25 per square foot, full service). Under the mixed-use alternative, office lease rates would need to increase slightly less to \$5.10 per square foot to justify investment, approximately 20 percent higher than current asking rents for similar space. While neither scenario is currently viable, the mixed-use alternative is more likely to be feasible in the near-term, due to the lower rent threshold of the commercial component. Based on the market analysis, there remains potential long-term demand for office in Foster City and at this site.²

This pro forma analysis reflects development profit at a single point in time under current market conditions based on relatively conservative construction costs and revenue expectations. If market conditions in Foster City improve, development feasibility would increase, meaning that over the long-term, one or both the scenarios may achieve feasibility. Moreover, factors such as design or cost efficiencies, or a reduction in the parking standard could also increase development feasibility.

Table 4: Development Program as Currently Zoned and Development Proceeds

	Building Square Feet		Housing Units		Total	Revenues		
	Gross	Net Saleable	Market Rate	Affordable		Gross Value	Net Profit	% Return
Commercial	170,000	150,000				\$75,002,000	(\$17,619,000)	-19%
Residential*	28,900	28,900	14	3	17	\$14,292,000	\$3,815,000	27%
Totals	198,900	178,900	14	3	17	\$89,294,000	\$(13,804,000)	-13%
Per Saleable ft ²						\$499	\$(77)	

*Residential building area based on massing study prepared by Hatch.

Table 5: Development Mixed-Use Program and Development Proceeds

	Building Square Feet		Housing Units		Total	Revenues		
	Gross	Net Saleable	Market Rate	Affordable		Gross Value	Net Profit	% Return
Commercial	120,450	105,000				\$54,877,000	(\$8,740,000)	-14%
Residential	92,800	92,800	56	14	70	\$59,458,000	\$8,326,000	16%
Totals	13,250	197,800	56	14	70	\$14,335,000	\$(414,000)	0%
Per Saleable ft ²						\$578	\$(2)	

² In this analysis, “near-term” is defined as likely to occur within the next 10 years assuming the continuation of historical economic cycles in the Bay Area. “Long-term” refers to a 10- to 25-year horizon.

Assigning the Land Sales Price to the Residential Program

Over the next ten years, the mixed-use scenario is more likely than the as-zoned scenario to achieve feasibility due to the fact that the residential component of the mixed-use alternative can support a sizable share of the total land cost. Hatch estimates that the residential component can currently carry up to \$7.6 million of the estimated \$9.8 million land acquisition price while maintaining a 12 percent return on costs for this component of the project. A marginal increase in home prices or slight decrease in construction costs, and the residential component could feasibly support the entire land basis. This would reduce the rent threshold further for the commercial component and would allow lower carrying costs for the developer until office becomes financially feasible.

In conclusion, long-term office market demand projections indicate commercial could become feasible by 2040. Meanwhile, under the mixed-use scenario, the proceeds from residential development would significantly offset the property owner's outstanding investment in the subject properties, reducing their carrying costs.

2.4. Retail Impacts

Hatch undertook a comparison of the projected retail expenditure potential of the plan area's population upon build-out of the alternatives and the total sales required to sustain the plan area's existing and planned retail uses. The purpose of this analysis was to assess the impacts that the proposed change in land use could have on the viability of existing retail space within the master plan area. For retail categories represented in the plan area (eating and drinking facilities, personal services and educational programs), Hatch sought to determine 1) the share of total retail sales that can be satisfied through internal demand and 2) whether there is sufficient citywide demand to support existing and planned retail space in cases where internal demand is insufficient. Note that the focus of this analysis is on the overall health of the retail district; impacts to individual business are not addressed.

Plan Area Expenditure Potential

Table 6 shows the annual expenditure potential of the plan area's service population at buildout according each development program. As shown in Table 6, the applicant's proposal is estimated to result in slightly lower aggregate retail expenditure potential relative to current entitlements, owing to a 60 percent reduction in the plan area's projected workforce population at build-out. The mixed-use alternative enhances aggregate spending potential in neighborhood retail categories relative to current entitlements. This is due to the fact that the mixed-use alternative involves a smaller reduction in the workforce population at build-out. Per Hatch's massing study, the mixed-use alternative also includes two housing units above the applicant's proposal, which results in the mixed-use alternative having the largest residential population of the three alternatives.

Table 6 - Plan Area Expenditure Potential

	Alt. 1	Alt 2	Alt. 3
	Applicant Proposal	Current Entitlements	Mixed-Use Alternative
Total Households	781	730	783
Total Workers	359	875	718
Neighborhood retail demand			
Convenience Goods ¹	\$7,588,000	\$8,098,000	\$8,326,000
Food and Beverage			
Full Service	\$1,602,000	\$1,823,000	\$1,831,000
Limited Service	\$1,572,000	\$1,873,000	\$1,852,000
Services ²	\$4,229,000	\$3,995,000	\$4,303,000
Total	\$14,992,000	\$15,788,000	\$16,312,000
Sources: Hatch, US Bureau of Labor Statistics, International Council of Shopping Centers.			
¹ Grocery, drug and miscellaneous retail.			
² Education, health and personal services.			

Plan Area Sales Threshold

Hatch estimated sales thresholds for retail categories represented in the plan area based on standards of sales productivity per square foot for newly built space. Even assuming a relatively aggressive capture rate of internal demand (15 percent to 20 percent), **in most retail categories retailers must generate at least half of their total sales from beyond the plan area.** The capture rates of citywide demand that would be required are generally modest (under 5 percent), indicating that citywide demand is sufficient to supplement internal spending by plan area residents and workers. **Under the applicant's proposal, eating and drinking facilities, particularly limited service establishments, would be required to increase their capture of citywide demand in order to offset reduced aggregate demand within the plan area.** Personal services would see a limited impact. Educational programs may in fact see their required share of citywide demand reduced due to slightly greater internal spending on their services.

Enhancing Retail

In Hatch's survey, plan area retailers report having difficulties attracting customers from outside the plan area due the area's limited visibility, limited foot and vehicle traffic and inconvenient parking. Some tenants expressed concern that replacing office and retail with additional residential could further limit the area's appeal as a retail district. The most frequently cited concerns include the loss of daytime foot and vehicle traffic, potential constraints on parking and greater difficulty attracting a critical mass of complementary retailers. Given the need to expand the plan area's catchment area to reach a sustainable level of sales, it is critical for the long-term success of the retail in the plan area that efforts are made to enhance retail conditions, regardless of which development alternative is selected. One possible course of action is to form a business improvement district funded by property owners that is charged with managing and marketing the retail district, with a focus on appealing to a customer base beyond the plan area.

2.5. Fiscal Impacts

The update to the previous fiscal impact report shows a considerable increase in the fiscal benefit received by the Foster City General Fund through the build-out of the Pilgrim Triton Master Plan. The bulk of the increase has to do with the increase in property values since 2008.

The applicant's proposal generates an annual net surplus to Foster City's General Fund that is approximately \$126,000 less than the surplus expected under current zoning, or a decrease of 11 percent. Still, while the net fiscal impact of the applicant's proposal is lower than current zoning at full build out, it represents an additional \$834,000 to the General Fund annually.

The mixed-use alternative developed by the Hatch team yields a net surplus of \$1.18 million or an additional \$200,000 per year over the applicant's proposal (or \$70,000 per year more than the currently zoned program). This is due to the fact that the mixed-use alternative incorporates 60 percent of the zoned commercial program with the applicant's full residential program, yielding a slightly denser alternative. While the analysis shows that traffic impacts would remain below those of the currently zoned program, the mixed-use program does in fact represent an increase in the service population of the site by 85 people above the applicant's proposal and 50 people over the currently zoned program.

The difference between the development scenario generating the least revenue to Foster City's General Fund (the applicant's) and the development scenario generating the most revenue to the City (mixed-use) is equivalent to \$1.7 million in revenue over the course of 10 years in present value terms.

The currently zoned and mixed-use scenarios support a greater General Fund surplus for three primary reasons. First, total variable General Fund revenues (such as licenses, permits and fees) supported by each additional resident or worker in the plan area are greater than the projected marginal change in City service costs. In other words, each additional plan area resident or worker contributes to the General Fund surplus. Since the as-zoned and mixed-use scenarios have larger service populations upon build-out than the applicant's proposal, these alternatives generate more revenues in categories dependent on population growth. Second, the total assessed value (and associated property tax revenue) of the plan area is estimated to be greater under the mixed-use and as-zoned alternatives compared to the applicant's proposal. This is due to the fact that total building area is greater under these scenarios, which compensates for higher values per square foot supported by residential uses. Finally, the as-zoned and mixed-use scenarios add retail space to the plan area, which will contribute additional sales tax revenues to the City (assuming the tenant mix resembles the Plaza more than the service-oriented retail at 100 Grand).

This fiscal analysis compares revenues and costs of the plan area assuming the full build-out of the development alternatives. As the market and feasibility analysis indicates, commercial uses on the Phase C site are not currently viable and may not be viable for another ten to fifteen years. Therefore, the factors that advantage the as-zoned and commercial alternatives from a fiscal perspective – population, assessed values, and taxable sales– will not be achieved as long as commercial uses remain unbuilt.

3. Site Context

The Pilgrim Triton Master Plan is a 20-acre mixed-use development approved in 2008, as illustrated by Figure 1. The plan area is divided into four phases:

- **Phase A (The Plaza)** was completed in 2012 and contains 307 apartments and approximately 10,000 square feet of ground floor commercial;
- **Phase B (The Triton)** is currently under construction with 220 apartments, 20 townhomes and 5,000 square feet of ground floor commercial. A parcel entitled for 53,000 square feet of commercial remains undeveloped.
- **Phase C** (the subject of this report) is entitled for 173,000 square feet of commercial and 17 townhomes. The property currently contains 38,000 square feet of single-story commercial, which would be demolished if the property is redeveloped.
- **Phase D** contains three distinct parcels. The 100 Grand project, with 166 residential units and 6,000 SF of ground floor commercial, has been built. An application for a 9,400 square foot expansion of the existing Family Dental building on Foster City Boulevard has been submitted. The remaining parcel, 550 Pilgrim, contains approximately 13,500 square feet of office which has been retrofitted for use by a professional services firm. This parcel is entitled to an additional 26,000 square feet of commercial development, which would require the densification of the existing office building.

Figure 1 - Map of Plan Area



Source: City of Foster City

The four phases of the Pilgrim Triton Master Plan currently allow for the development of up to 730 residential units and 296,000 square feet of commercial space (office and retail). Table 7 reviews the development status of the plan area. Phase C contains the 17 residential units remaining to be built and more than half of the area's unbuilt commercial space.

Table 7 - Plan Area Development Status (Current Entitlements)

	Residential Units	Commercial Square Feet
Entitlements	730	296,000
Existing Development		
Retain	-	13,500
To Demolish (Phase C)	-	38,803
New Construction	473	16,057
Approved / Under Construction	240	14,400
Net Remaining		
Phase A	-	-
Phase B	-	53,000
Phase C	17	172,943*
Phase D	-	26,100
Total	17	261,443
Source: City of Foster City		
* Assumes 38,800 square feet of existing commercial uses in Phase C will be demolished.		

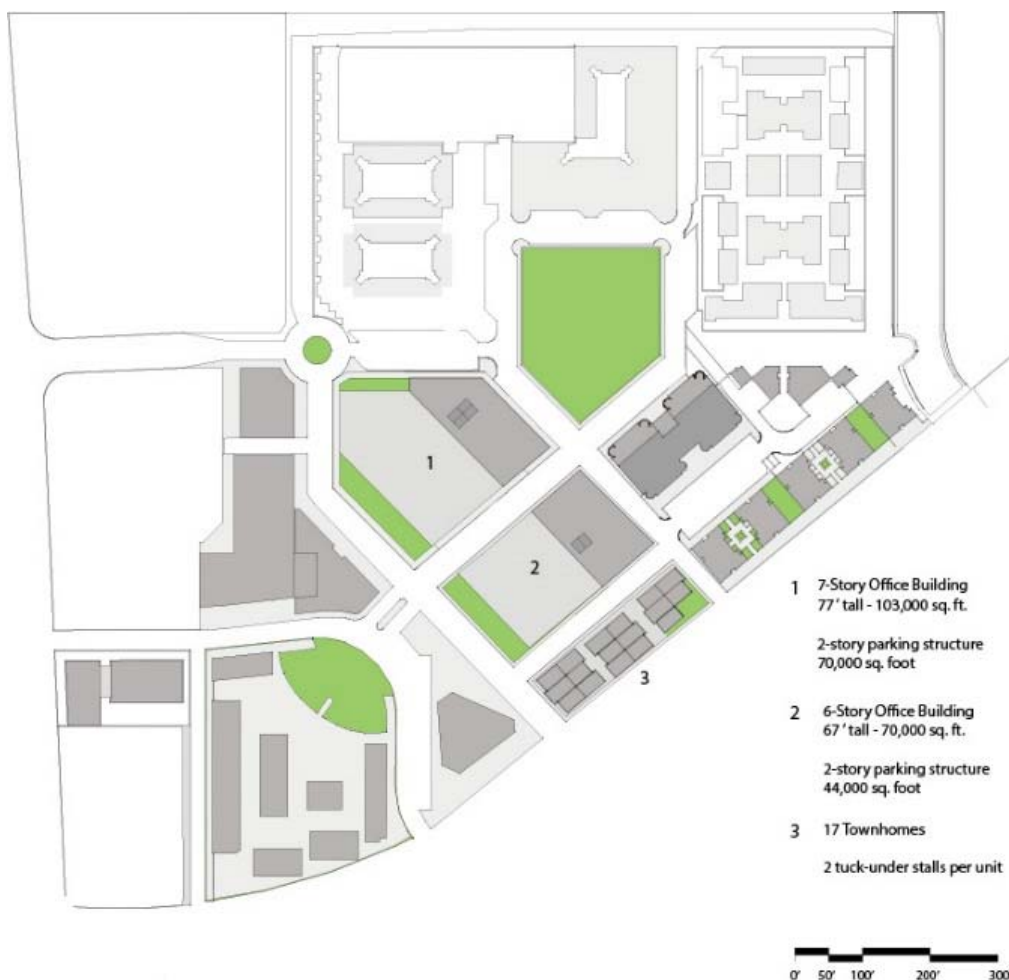
4. Development Alternatives

This report compares the market feasibility and fiscal impacts of three development alternatives for Phase C of the Pilgrim Triton Master Plan:

1. The **applicant's proposal** for 68 for-sale townhomes.
2. **Current entitlements**, allowing for 17 townhomes and approximately 173,000 square feet of commercial space. It is assumed that ground floor retail represents approximately 4,500 square feet in leasable area while office uses account for the remaining floor area.
3. A **mixed-use alternative**, prepared by Hatch at the City's request, which provides for 44 for-sale townhomes, 26 for-sale flats, 116,000 square feet of office, and 4,500 square feet of ground floor commercial. The objective of the mixed-use alternative is to determine if there is a viable alternative to converting the entire site to residential. The alternative is designed to comply with the existing height requirements, setback requirements and parking requirements of the master plan. Although the mixed-use alternative adds residential units, it is estimated to have a reduced impact on traffic relative to current entitlements due to the reduction in commercial space. Figure 2 presents a site plan for the mixed-use alternative in comparison to current entitlements.

Figure 2 - Current Entitlements versus Mixed-Use Alternative

Current Entitlements



Mixed-Use Alternative

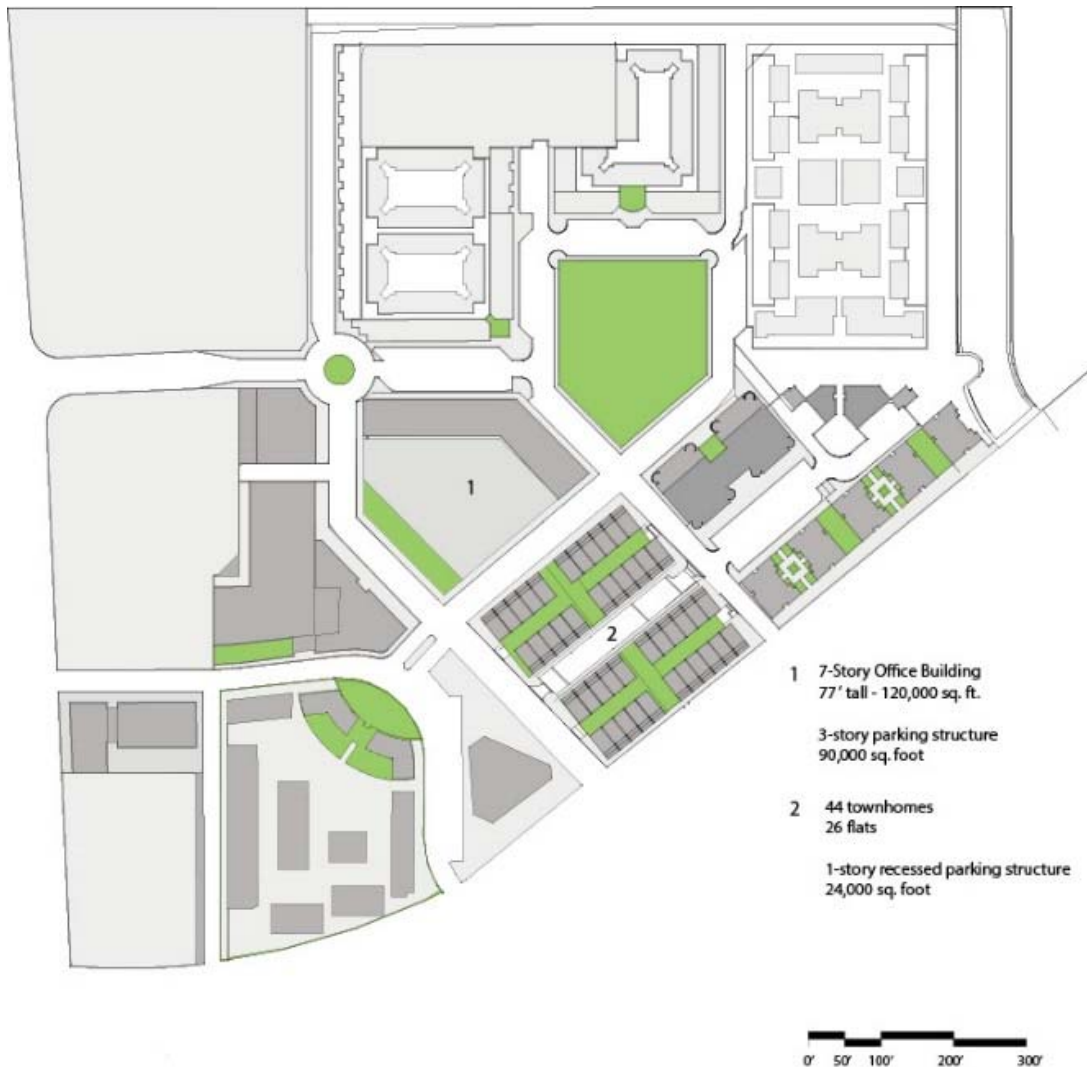


Table 8 compares the buildout of the Pilgrim Triton Master Plan under the three development alternatives for Phase C. The applicant's all-residential proposal would result in an approximately 60 percent reduction in total commercial space relative to current entitlements, while the mixed-use alternative results in a 20 percent reduction in commercial area. The number of plan area workers upon build-out is projected to be 359 under the applicant's proposal, 875 under current entitlements and 718 under the mixed-use alternative. The number of plan area residents upon build-out is projected to be 2,031 under the applicant's proposal, 1,898 under current entitlements and 2,036 under the mixed-use alternative.

Table 8 - Summary of Development Alternatives

	Alternative 1	Alternative 2	Alternative 3
	Applicant Proposal	Current Entitlements	Mixed-Use Alternative
Phase C			
Residential			
Townhomes	68	17	44
Flats	0	0	26
Apartments	0	0	0
Total residential	68	17	70
Commercial			
Office	0	168,443	115,950
Retail	0	4,500	4,500
Total commercial	0	172,943	120,450
Master Plan			
Residential			
Townhomes	88	37	64
Flats	0	0	26
Apartments	693	693	693
Total residential	781	730	783
Commercial			
Office	102,000	270,443	217,950
Retail	21,057	25,557	25,557
Total commercial	123,057	296,000	243,507
Demographics			
Total Residents	2,031	1,898	2,036
Total Workers	359	875	718
Source: Hatch, Sares Regis, City of Foster City			

5. Retail Market Demand

The purpose of the following section is to evaluate the viability of retail development at the subject site based on retail market trends, the site's locational attributes, the extent of the competitive supply and the projected growth in local retail expenditure potential.

5.1. Retail Market Trends

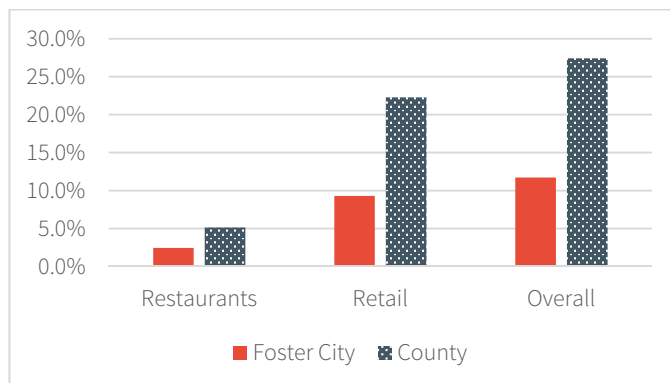
As shown in Table 9, retail conditions in San Mateo County are strong, with vacancy below historical trends. As has been documented in prior studies prepared on behalf of the City, Foster City is under-retailed compared to the county overall. There are just 17 square feet of retail per capita in Foster City versus 40 square feet per capita countywide.

Table 9 - Retail Market Overview (December 2016)

	Foster City	San Mateo
Inventory	578,500	30,809,900
Share of County	1.9%	
Asking Rates PSF (NNN)	\$3.40	\$2.70
Vacancy	4.2%	2.4%
Square feet per capita	17	40
Source: CoStar		

Figure 3 compares existing taxable retail sales in Foster City and San Mateo County to aggregate household income in each jurisdiction. Taxable sales are reported by the California Board of Equalization, while aggregate income is estimated by the United States Census. This comparison indicates that **approximately half of local retail expenditure potential is flowing outside the City**. Part of the sales leakage is unavoidable due to Foster City's proximity to regional shopping malls and big box stores located in the City of San Mateo. Bearing in mind regional competition, there is greater opportunity for Foster City to recapture sales in local-serving retail categories including restaurants, convenience retail (grocery, drug stores) and personal services as opposed to comparison goods (apparel, furniture and general merchandise).

Figure 3 - Taxable Sales as Share of Aggregate Income (Q1 2015)



Source: California Board of Equalization, American Community Survey Five-Year Estimates (2010-2015)

5.2. Existing Supply

The Urban Land Institute defines the typical trade area for convenience retail center as a one-mile radius. Table 10 identifies competitive shopping centers within a one-mile drive of the site. The largest are Marketplace at Metro Center, which is anchored by Safeway and CVS Pharmacy, and the Costco/Orchard Supply power center. The limited vacancies at nearby centers are reflective of typical rates of turnover in tenants as opposed to an oversupply of retail space.

Table 10 - Retail Supply within One-Mile Drive and Elsewhere in Foster City

	Driving Distance (miles)	Rentable Square Feet	Available Square Feet
Nearest to Site (<1 mile)			
The Plaza	-	8,100	-
100 Grand	-	6,100	2,400
1000 Metro	0.4	8,000	-
Costco/Orchard Supply	0.5	160,600	-
Marketplace Metro Center	0.8	<u>92,900</u>	<u>3,500</u>
Subtotal		275,700	5,900
Remaining Foster City Retail ¹		<u>302,800</u>	<u>18,400</u>
Total Foster City		578,500	24,300
Source: CoStar, Google Maps			
¹ Includes retail centers located slightly farther from the site, such as Marlin Cove (1.2 miles)			

5.3. Projected Supply

Per Table 11, retail projects totaling 47,400 square feet are under construction in Foster City. Taking into account the demolition of existing space, these projects represent a net increase in inventory of 38,600 square feet, or six percent of the existing supply. The retail pipeline consists of the following projects:

- **Foster Square** – the commercial component of a 15-acre mixed-use project at Foster City Boulevard and Civic Center Drive. Of 30,000 square feet of retail space, approximately half has been leased, primarily to eating and drinking facilities. Similar to the Pilgrim Triton Master Plan, Foster Square’s retail faces a plaza that is envisioned as a community gathering place.
- **The Triton** – part of Phase B of the Pilgrim Triton Master Plan, consisting of 5,000 square feet of ground floor retail. Marketing of the ground floor commercial space has not yet commenced. The retail falls within the “Triton Park” retail zone of the master plan which prioritizes traditional retail uses (food, shopping and entertainment) over “quasi-retail” uses, such as professional services.
- **1297 Chess Boulevard** – involves the redevelopment of an 8,800 square foot, vacant restaurant with an 11,700 square foot restaurant and retail building, representing a net increase of 2,900 square feet. The building is fully leased, primarily with limited service eating and drinking facilities. The project is adjacent to an approved, 121-room extended stay hotel.

Table 11 - Retail Development Pipeline

	Rentable SF	% Leased	Rentable SF
Under Construction			
The Triton	5,000	-	5,000
Foster Square	30,700	50%	30,700
1297 Chess Boulevard	11,700	100%	2,900
Subtotal – Construction	47,400		38,600
¹ Net of demolition. Source: City of Foster City, CoStar, Hatch.			

The City is also projected to lose retail inventory through the redevelopment of the 55,000 square foot Charter Square Shopping Center. Charter Square’s closure means that expenditure potential historically captured by the shopping center will be available to support retail development elsewhere in the City. Sales at the center, reported to be approximately \$11 million as of 2013, are significantly less than what newly built replacement space would generate. Vacancy is also reported to have increased since sales were last reported. According to data published by the Urban Land Institute (ULI) and the International Council of Shopping Centers (ICSC), personal service and miscellaneous retailers need to generate approximately \$400 per square foot to support the cost of newly built space. Applying this benchmark to current sales at Charter Square, Hatch estimates that Charter Square represents the equivalent of approximately 23,000 square feet of newly built space (Table 12).

Table 12 - Newly Built Space Supported by Charter Square Retail Sales

	Factor
Charter Square Gross Leasable Square Feet	55,000 SF
Charter Square Sales (2016\$)	\$10.9 million
Estimated 2016 sales ¹	\$9.3 million
Sales per square foot – newly built space	\$400 per SF
Supportable Replacement Square Feet	23,000 SF
¹ Assumes vacancy at Charter Square has increased by approximately 15% since 2013. Sources: City of Foster City, Bay Area Economics, ULI, ISCS, Hatch.	

As shown in Table 13, the projected net increase in retail space, including construction and demolition, is approximately 16,000 square feet. This estimate reduces the total pipeline by the equivalent amount of newly built space that is supported by existing sales at Charter Square.

Table 13 - Retail Pipeline Net of Charter Square

	Rentable Square Feet
Retail Pipeline (net of demolition)	38,600
(less) Charter Square replacement need	<u>-23,000</u>
Net Projected Retail Space	15,600

5.4. Projected Retail Demand

The following section estimates the capacity for additional retail development in Foster City in the near term (10 years or less) and through 2040. The analysis considers the potential for Foster City to recapture existing retail leakage and future growth in demand for neighborhood retail categories, such as eating and drinking facilities and personal services. Existing leakage is determined by comparing potential sales versus actual sales by category. In consideration of regional competition, only leakage in eating and drinking spending categories is considered in the projection. Growth in trade area expenditure potential is estimated based on projected growth in the City's resident and worker populations and their respective discretionary incomes.

As shown in Table 14, Foster City is projected to add approximately 3,000 residents and 7,000 workers by 2040. Residential population growth is based on projections prepared by Foster City's Community Development Department. Job growth is based on growth for San Mateo County projected by the Association for Bay Area Governments (ABAG) and Foster City's share of the countywide commercial development pipeline (discussed in Section 6 of this report).

Table 14 - Demographic Assumptions

Factor	Residents	Workers
Population Growth		
2016	33,200	16,100
2026	34,500	18,700
2040	36,300	23,100
Real Income Growth	0.50%	0.50%
Source: ABAG, California Department of Transportation, Foster City		

Hatch built a retail demand model to calculate existing leakage and growth in expenditure potential by retail category, Foster City's capture of total expenditure potential and the retail space that this level of sales can support. The model accounts for average household retail and worker expenditures less estimated retail spending outside of Foster City. The model is included in the Appendix of this report. **The model indicates that through 2026 (10 years), Foster City's share of resident and worker spending is capable of supporting 51,300 square feet of additional space.** Per Table 15, discounting the retail pipeline, net supportable retail uses are estimated at 35,700 square feet by 2026 and 92,500 square feet by 2040.

Table 15 - Citywide Retail Demand Projection (Cumulative)

	Cumulative Square Feet	
	2026	2040
Growth in retail square feet		
Convenience Retail	16,700	43,900
Eating and Drinking Places	24,900	39,300
Personal and Other Services	<u>9,700</u>	<u>24,900</u>
Total square feet supported	51,300	108,100
Net pipeline	<u>(15,600)</u>	<u>(15,600)</u>
Remaining Square Feet	35,700	92,500
Source: Hatch		

5.5. Potential for Retail Development in Phase C

Hatch contacted local brokers to seek their opinions on the opportunity to develop retail uses on the subject site. The conclusions from the survey of local brokers are:

1. Initial phases of retail development in the plan area have struggled to attract and retain traditional retail tenants due to the lack of visibility and limited foot and vehicle traffic
2. Retail spaces facing Triton Park have the greatest potential for traditional neighborhood-serving retail including restaurants, cafes and personal services. Less visible locations, such as the ground floor commercial at 100 Grand, have tended to attract “quasi-retail” uses, including professional and educational services
3. Triton Park has the potential to function as a gathering place for public events such as movie nights, farmers markets, etc. Activating the park could help establish the area as a retail destination
4. On the other hand, Foster Square (under construction) proposes a similar retail concept and is viewed as a superior retail site due to its location, parking and access
5. The most frequently mentioned advantages of the site are:
 - Proximity to Highway 92 and Foster City Boulevard
 - Existing leakage and future growth in the trade area
 - Location within a relatively dense, mixed-use community and potential to activate plaza
6. The most frequently mentioned disadvantages of the site are:
 - The lack of visibility from Foster City Boulevard, including limited signage
 - Internal location with little vehicle traffic
 - The lack of an anchor tenant and destination retail within the plan area
 - Competition with Foster Square
 - Conditional use permits required for certain tenants that exceed 2,000 square feet
7. To be competitive, retail in Phase C would need to provide adequate street parking or adjacent structured parking, as well as signage and wayfinding that extends to Foster City Boulevard.

Site Capture

In consideration of the challenges and opportunities of the site, Hatch applies a capture rate of 15 percent to the Phase C site. This capture rate reflects the fact that most retail growth in the trade area will gravitate toward higher visibility locations. Per Table 16, this share represents a maximum of 5,000 square feet of retail above existing uses in the plan area by 2026. Over the long term (10 to 25 years), growth in expenditure potential could support additional retail development. However, long-term retail growth in the plan area would be limited by the site's remaining development capacity as well as the extent of new market entrants elsewhere in the City.

Table 16 - Site Capture of Citywide Retail Projection

	Cumulative Square Feet	
	2026	2040
Net Supportable Retail Square Feet (Citywide)	35,700	92,500
Pilgrim Triton		
Estimated Share	15%	12%
Square Feet	5,000	11,000
Source: Hatch		

Tenant Categories

The size of the current and projected retail offering at Pilgrim Triton positions the plan area as a neighborhood-serving retail cluster. A retail cluster of this type generally serves a customer base within a short drive (five to ten minutes) from the site. As such, likely tenants include a mix of convenience retail, personal services and eating and drinking facilities that are complementary to existing retailers within the plan area. Table 17 presents a list of example tenants by category that would potentially locate within the plan area. While some of these tenant types are already located in the plan area, similar establishments can be added in later years to accommodate growth in local spending.

Table 17 - Example Neighborhood Retail Tenants

Convenience Wine / liquor store Specialty foods Florist Stationary/ office supplies Eating and Drinking Café* Full service restaurant* Fast casual / limited service restaurant* Wine bar Desserts / ice cream	Fitness Gym/fitness center** Yoga** Other fitness (martial arts / cycling) Personal Services Cleaner/ tailor Salon/ barber* Skin care / massage Shoe repair Pet care	Professional Services Tax preparation Insurance* Bank / credit union Medical Dental Chiropractic Eye care Physical therapy Education Tutoring * Child care*
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*Represented in plan area.

** Represented in apartment amenities.

6. Office Market Demand

The purpose of the following section is to evaluate the viability of office development at the subject site through 2040 based on office market trends, the site's locational attributes, the extent of the planned and proposed office supply, and the projected growth in office demand through 2040.

6.1. Office Market Trends

Table 18 provides an overview of current office market conditions in Foster City and San Mateo County. Market conditions in San Mateo County are peaking, with asking rates at their highest levels in over 15 years. Countywide vacancy is also below the historical average, at 7.8 percent (9.7 percent excluding owner-occupied buildings). Office vacancy in Foster City (9 percent) exceeds the countywide average due in part to the relocation of Sony to San Mateo in 2013 (325,000 square feet). A greater portion of Foster City's office inventory is concentrated in owner-occupied facilities relative to the county overall.

Table 18 - Office Market Conditions (December 2016)

	Foster City			San Mateo County		
	Inventory	Vacancy	\$/SF	Inventory	Vacancy	\$/SF
Total	3,901,495	9.0%	\$61	50,719,052	7.8%	\$58
Non-Owner						
Class A	1,878,566	14.9%	\$61	16,787,246	13.5%	\$59
Class B/C	647,454	11.1%	\$53	23,277,756	7.0%	\$55
All	2,526,020	13.9%	\$59	40,065,002	9.7%	\$57
Owner %	35%			21%		
Source: CoStar						

Foster City Market Capture

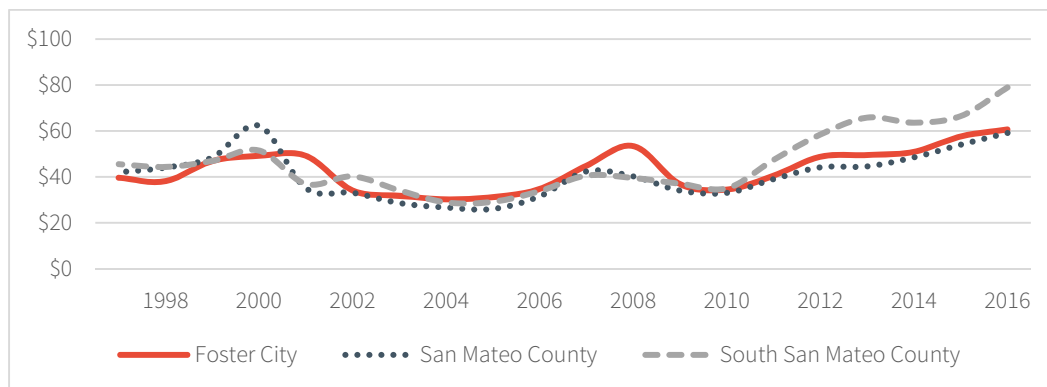
Despite strong countywide demand during the current economic cycle, absorption in Foster City has been muted, while submarkets to the south have grown their market shares. The County's southern submarkets, extending from Downtown Redwood City to East Palo Alto, have captured approximately two-thirds of total net office absorption and three-quarters of net absorption of non-owner occupied space over the past five years (Table 19). In contrast, Foster City has captured only 2 percent of net absorption, well below its historical share. Gilead's newly built, 207,000 SF office at 309 Velocity Way is the only recent addition to the City's office inventory. Excluding this facility, net absorption has been negative over the five-year period. This is due in part to recent reductions in the local presence of Sony and Visa, adding upwards of 500,000 square feet to the available supply.

Asking rents in southern San Mateo County have also increased sharply relative to the county overall, particularly for sites near Caltrain (Figure 4). If this trend continues, it presents an opportunity for Foster City to recapture demand by appealing to tenants facing rising rents in southern submarkets.

Table 19 - Average Annual Absorption of Office Space

	Foster City		South County		Countywide Absorption
	Absorption	Share %	Absorption	Share %	
2012-16					
Non-owner	(30,110)		351,359	74%	473,477
Owner	41,400	16%	129,481	51%	251,627
Overall	11,290	2%	480,840	66%	725,104
1997-2011					
Non-owner	55,225	10%	165,852	29%	575,945
Owner	31,181	13%	33,392	14%	247,117
Overall	86,405	10%	199,244	24%	823,062
Source: CoStar					

Figure 4 - Direct Asking Rates (Full Service) for Class A, Non-Owner-Occupied Office Space



Source: CoStar

Mid-Size Office Development Activity

Consistent with overall market trends, development activity in Phase C's size category (50,000 square feet to 180,000 square feet) has been predominantly concentrated in southern San Mateo County submarkets and/or in proximity to transit. Since 2010, 19 buildings between 50,000 and 180,000 square feet have been built or approved countywide, excluding buildings associated with large corporate campuses (e.g., Facebook, Genentech and Google). Eight of these buildings have been leased by tenants with a total size requirement across multiple buildings that exceeds Phase C's allowable commercial area. The remaining eleven buildings belong to standalone developments or a cluster of buildings occupied by distinct tenants with a total size requirement that could be met by Phase C (Table 20). Recently built projects in this mid-size category have had success securing tenants including OpenText (108,000 square feet; software) and Goodwin Procter (100,000 square feet; law). As shown, all but one of these projects are located within one mile of Caltrain; all but two are within a half mile of Caltrain. Projects near Caltrain have achieved a significant rent premium of \$1 to \$2 per square foot, enhancing the financial feasibility of new construction.

In contrast, brokers have had difficulty leasing similarly sized office buildings in Foster City owing in part to the submarket's distance from Caltrain. For example, it has taken three years to re-lease two buildings vacated by Sony at Metro Center (143,000 square feet each). Although asking rents at Metro Center are significantly below prevailing downtown rents, approximately half of each building remains available as of December 2016.

Table 20 - Buildings 50,000 SF - 180,000 SF approved, under construction or built in San Mateo County since 2010

	Total	Total SF	Distance to Caltrain	
			<1 mi.	<0.5 mi.
Standalone building	7	588,279	6	5
Building cluster ¹				
Multi-tenant ²	4	459,813	4	4
Mini-campus ³	8	905,689	5	3
Source: CoStar, Hatch.				
¹ Excludes buildings within large corporate campuses (Facebook, Genentech).				
² Primary tenant occupies less than 180,000 square feet.				
³ Primary tenant occupies more than 180,000 square feet across multiple buildings.				

6.2. Existing Supply

As shown on Table 21, vacant office space in Foster City currently totals approximately 350,000 square feet. Including occupied space that is also for lease, available space in Foster City totals approximately 650,000 square feet, with large blocks available at Parkside Towers, Metro Center and Bayside Towers. Visa's decision to downsize its headquarters and lease out one of its four campus buildings has added another large block of space to the available supply. Remaining availabilities are scattered in smaller blocks of space of less than 25,000 square feet per building. In the near term, large availabilities listed below represent a source of competition for new office development catered to similarly sized tenants.

Table 21 - Current Vacancies and Near-Term Availabilities at Existing Buildings (December 2016)

Name/ Address	Rentable Area Sq. Ft.	Current Vacancy Sq. Ft.	Sq. Ft. Available (Near-Term)		
			Direct	Sublet	Total
Visa Campus (Bldg. 4)	196,307	-	196,307	0	196,307
Parkside Towers	399,422	56,478	46,162	52,038	98,200
Bayside Towers (Bldg. 2)	130,837	5,377	72,407	8,091	80,498
Metro Center Tower	394,086	46,147	65,249	14,562	79,811
Metro Center I	142,669	54,143	54,142	13,034	67,176
Metro Center III	<u>142,667</u>	<u>140,698</u>	<u>65,423</u>	<u>0</u>	<u>65,423</u>
Building Subtotal	1,405,988	302,844	499,690	87,725	587,415
% of Subtotal	100%	22%	36%	6%	42%
Foster City Total	3,901,495	351,134	552,013	98,668	650,681
% of Foster City	100%	9%	14%	3%	17%
Source: Costar					

6.3. Projected Supply

San Mateo County's lab, office and R&D pipeline includes approximately 3 million square feet under construction, 15 million square feet approved, and 11 million square feet proposed. Brokers estimate that approximately half of office space under construction has been leased. Approved office and R&D projects include the Landing at Oyster Point in South Francisco (2.25 million square feet) and Meridian 25 in San Carlos (530,000 square feet).

Foster City's pipeline represents approximately 10 percent of the total lab, office and R&D pipeline in the County. Per Table 22, the bulk of Foster City's commercial pipeline is concentrated in single-user lab and R&D buildings to be occupied by biotechnology firms Gilead and Illumina. The only standalone office building is the proposed 9,400 square foot expansion of the Family Dental Building to be located in Phase D of the plan area. If existing office uses in Phase C are demolished, the City's office inventory outside the Gilead and Illumina campuses is projected to decline.

Table 22 - Foster City Office, Lab and R&D Pipeline

	UC	Planning	Total	Net of Demo
Standalone Office				
Family Dental		9,400	9,400	9,400
Triton Phase C (demo)				-38,800
Subtotal		9,400	9,400	-29,400
Life Sciences Campuses				
Lincoln Center - Illumina	320,000	235,000	555,000	555,000
Gilead				
357 Lakeside Drive	231,000		231,000	202,000
324 Lakeside Drive	357,000		357,000	267,000
North Campus		396,735	396,735	396,735
South Campus		209,680	209,680	209,680
Chess-Hatch		800,000	800,000	800,000
Subtotal	908,000	1,641,415	2,549,415	2,430,415
Source: City of Foster City				

6.4. Projected Growth in Office Demand

This section estimates growth in office demand through 2040, based on Foster City's share of countywide employment growth, as summarized in Table 23. Projections of countywide growth from 2016 to 2040 range from 70,000 jobs per the Plan Bay Area Draft Preferred Scenario (August 2016) prepared by ABAG to 90,000 jobs per the California Department of Transportation (CDOT). Foster City's 10 percent share of countywide growth aligns with its share of the commercial development pipeline as well as its share of countywide job growth from 2002-2014 per the U.S. Census. Note that the share of growth assigned to Foster City in Hatch's model significantly exceeds the share assigned by ABAG in its most recent

projections. The higher share assumed in this analysis is intended to account for growth associated with the Gilead and Illumina campuses, which may not be fully captured in ABAG's projections.

Of total job growth in Foster City, between 6,000 and 7,700 jobs are likely to require office, lab or R&D space based on historical trends. Approximately 5,400 jobs will be generated through the 2.2 million square foot pipeline of life sciences space (assuming an employment density of 450 square feet of life sciences space per worker). Outside the life sciences campus expansions, 600 to 2,300 office jobs are projected through 2040.

This level of employment growth would support demand for 150,000 square feet to 575,000 square feet of office space. Approximately 71,000 square feet can be accommodated through excess supply and planned development. Therefore, regional demand may support up to 504,000 square feet of new office development in Foster City over the long-term (by 2040). The timing and size of new development will depend on the pace of regional job growth, the requirements of growing firms and the competitive position of available development sites within the City.

Table 23 - Projected Office Demand

Supportable office space	Base	Upper
2017-40	ABAG	CDOT
San Mateo County job growth	70,000	90,000
Foster City share	10%	10%
Foster City job growth	7,000	9,000
Office/R&D employment share	85%	85%
Office employment growth	6,000	7,700
Life sciences campuses	5,400	5,400
Non-campus	600	2,300
Supportable SF (non-campus)	150,000	575,000
Excess vacancy/projected supply	-71,000	-71,000
Net supportable office square feet	79,000	504,000
Source: Hatch, Association of Bay Area Governments (ABAG), California Department of Transportation (CDOT).		

6.5. Potential for Office Development in Phase C

Hatch conducted interviews with local brokers regarding the subject site's locational attributes that could contribute or detract from the viability of office at this location. The primary conclusions from the survey of local brokers are:

1. As an office location, Foster City has historically attracted greatest interest from larger corporate campuses such as Visa, Illumina and Gilead (350,000 square feet and above). Tenants whose size requirements match the development capacity of Phase C (up to 173,000 square feet) tend to prefer transit-served sites in a downtown environment. Attracting these tenants to a location

farther from Caltrain will be challenging and may require significant incentives including discounts in rent and/or generous tenant improvement packages.

2. Past efforts to attract office tenants to the plan area have not been successful. The subject site has been actively marketed to office developers and end-users off-and-on for over ten years. The adjacent, 53,000 square foot commercial site has been actively marketed to office developers and end-users for over three years.
3. There are limited developable sites zoned for office in the City other than the potential redevelopment of older Class B and C buildings over the long-term (10 to 25 years).
4. There is significant demand for smaller blocks of space (less than 5,000 square feet) throughout the County. However, it is difficult to finance new construction that caters to this market segment.
5. At the current time, the office market in Foster City is neither over-supplied nor under-supplied. There may be a long-term market opportunity for new office development as existing availabilities are absorbed.
6. The tenants most likely to express interest in Phase C are biotechnology, software and professional services firms.
7. The most frequently mentioned advantages of the site are:
 - Access to Highway 92
 - Regional growth in office demand and long-term constraints on supply
 - Proximity to life sciences cluster anchored by Gilead
8. The most frequently disadvantages of the site are:
 - Lack of visibility from major thoroughfares
 - Lack of expansion space
 - Distance to Caltrain
 - Tenants in size category prefer downtown environment.

Market Opportunities

In consideration of the feedback from local brokers and projected regional growth dynamics, there is a long-term market opportunity for office development on the site (10 to 25 years). Potential long-term uses for the site include:

1. Class A office building of up to 173,000 square feet with a major credit tenant occupying 50 percent or more of the total building area. Rents would need to be competitively priced to attract tenants in this category, who have tended to select downtown sites with few exceptions.
2. Owner-occupied Class B building for a mid-sized, local company (e.g., construction or professional services firm). The building could be financed through a small business assistance loan. The building requirement is likely to be less than the maximum building area allowed by current zoning, up to 60,000 square feet.
3. Class B office space designed to attract office tenants generally less than 25,000 square feet. There is currently strong market demand countywide for smaller office spaces. However, this building type would be difficult to finance without a credit-worthy anchor tenant. As with the owner-occupied building, the building area for this use would be less than the development capacity of the site, likely in the range of 40,000 square feet to 100,000 square feet.

Hatch considered market support for the above Class A and Class B building types on the subject site, and concluded that over the long term (10 to 25 years), **Class A development is the more viable development option, given the greater likelihood of securing financing and achieving the buildout of the zoned commercial area.** Class B tenant requirements would not support more than 100,000 square feet of commercial uses on the site, while Class A buildings in the range of 100,000 to 170,000 square feet are common. As mentioned, Class B development is less likely to be financed, due to the greater risk perceived by investors (with an owner-occupied building financed through a small business loan being the one exception).

Note that market demand does not imply financial feasibility. Section 7 addresses the financial feasibility of office uses at the subject site.

7. Development Feasibility

As part of evaluating the proposed rezone, Hatch estimated the potential development proceeds for the subject properties as currently allowed under the master plan and under a mixed-use scenario. The mixed-use option is designed to achieve at least 120,000 gross square feet of commercial and 70 total for-sale residential units. The mixed-use scenario remains below the projected AM and PM peak traffic as currently allowed under the master plan. The analysis informs the relative development feasibility as currently allowed versus a mixed-use alternative under the current construction cost environment and market conditions. Note that Hatch has not modeled the development feasibility of the proposed 68 townhomes as it is assumed that the proposed project is economically feasible.

7.1. Methodology

Hatch developed static pro formas using prevailing development costs and revenues for like product on the Peninsula. A static pro forma estimates development proceeds based on stabilized occupancy³, and, in the case of for-sale residential, on sell out of all units. A static pro forma does not discount returns over time but essentially estimates the development profit at a single point in time under current market conditions.

Sources

Development Costs Assumptions

Hatch contacted local developers and used construction cost reports (RS Means Square Foot Costs) to estimate prevailing development costs for office, residential, and parking in San Mateo County. Hatch also contacted the Chief Building Official to estimate permit costs, including park in-lieu fee payments. The estimates used herein are based on average costs, assuming a luxury product, standard union labor, and green construction. Actual construction costs can vary from project to project based on labor market, site conditions, and a host of other factors. As such, Hatch applied conservative assumptions as to finishes, parking costs, soft costs, and financing assumptions, recognizing that the construction markets are currently tight, allowing for higher contractor margins. Hatch has not analyzed the long-term inflationary pressures of the construction industry in San Mateo County but rather estimated reasonable costs based on recent developments in the area.

Table 24: Construction Costs Assumptions

Construction Costs	Number	Unit	Sources
Construction Costs for Development Scenarios (per Gross Square Foot)			
Residential (Townhomes)	\$235	/SF	Developers, Chief Building Official Foster City / R.S. Means
Residential (Townhomes over flats)	\$250	/SF	Developers, Chief Building Official Foster City / R.S. Means
Office (including \$50 SF Tenant Allowance)	\$300	/SF	Developers, Chief Building Official Foster City / R.S. Means

³ A building reaches stabilized occupancy when for-sale buildings sell out and commercial buildings reach the average vacancy rate of the surrounding market area.

Parking Costs (Hard Costs Only)	Number	Unit	Sources
On-Street Parking	\$2,000	/Space	Developers, Chief Building Official Foster City / R.S. Means
Tuck-Under Parking (Garage)	\$20,000	/Space	Developers, Chief Building Official Foster City / R.S. Means
Structured Parking (Stand-alone)	\$24,000	/Space	Developers, Chief Building Official Foster City / R.S. Means
Podium Parking	\$26,500	/Space	Developers, Chief Building Official Foster City / R.S. Means
Half Level Parking	\$30,000	/Space	Developers, Chief Building Official Foster City / R.S. Means

Residential Pricing Assumptions

The home price range of \$740 to \$780 per square foot assumed in the model reflects current asking prices for new condominium units in Foster City. Per the master development agreement, 20 percent of residential units are assumed to be sold at affordable prices. Eighty percent of the below market-rate units are allocated to moderate-income households, and the remainder to low-income households. Maximum sale prices for low- and moderate-income units are set in accordance with income limits for affordable units in San Mateo County.

Table 25: Residential Pricing Assumptions

Condo Residential Pricing	Number	Unit	Sources
Flats	\$740	/SF	New Townhouse Sales in Foster City
Townhomes	\$780	/SF	New Townhouse Sales in Foster City
Inclusionary Housing / In-Lieu Fee			
Inclusionary stock requirement	20%	of Units	
Low-Income Sales Price (2 Bdrm)	\$246,000	Per Flat	City of San Mateo - County BMR Max Price
Low-Income Sales Price (3 Bdrm)	\$279,000	Per Townhouse	City of San Mateo - County BMR Max Price
Moderate-Income Sales Price (3 Bdrm)	\$366,000	Per Townhouse	City of San Mateo - County BMR Max Price

Commercial Revenue Assumptions

Hatch used prevailing lease rates and sales prices for office in the Central County region for conventional office uses not proximate to a Caltrain station. According to market data published by CoStar and Aviston Young, asking rents in Foster City generally range from \$4.25 per square foot to \$5.25 per square foot (full-service) for Class A space. Based on feedback from local brokers, Hatch has assumed that office rents in the plan area would fall at the lower range of Class A office rents in Foster City (\$4.25 per square foot, full-service). The lease rate assumed is comparable to the rate negotiated by Qualys, Inc. in October 2016 for approximately 75,000 square feet at 919 Metro Center, after accounting for differences in tenant allowances and operating costs. The assumed lease rate for ground floor retail (\$2.50) reflects the current asking rate for ground floor commercial space at Parkside Towers.

Table 26 – Commercial Revenue Assumptions

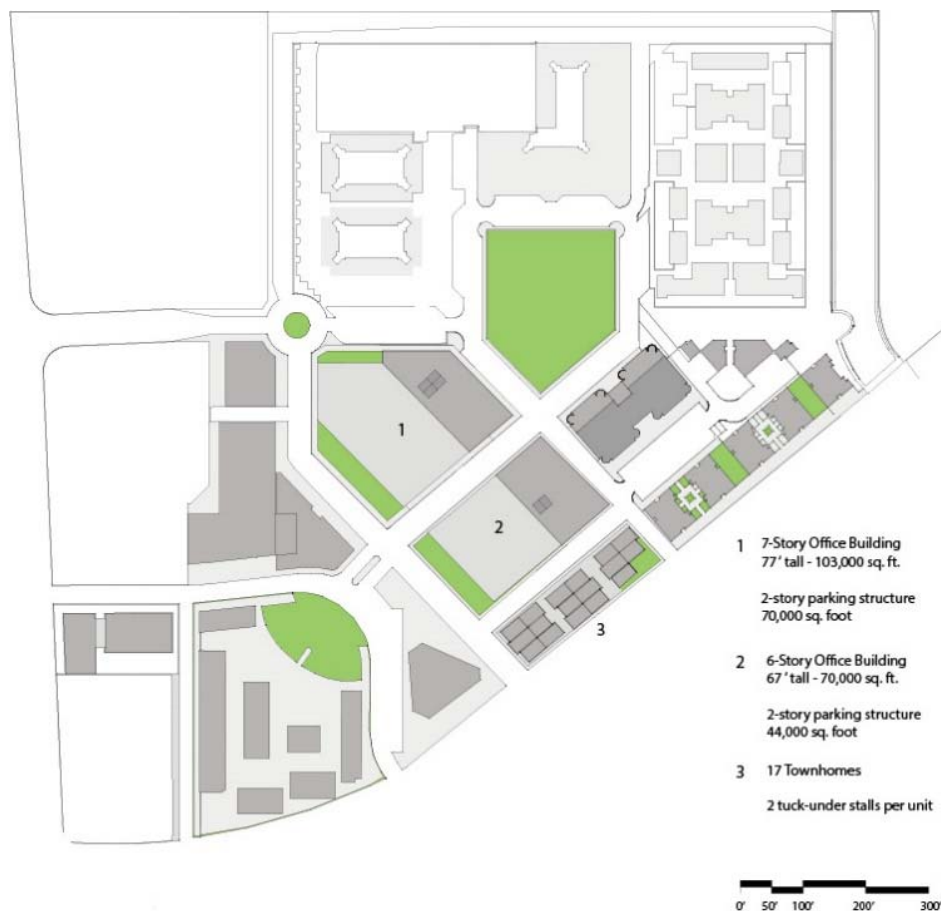
Assumption	Value		Sources
Retail Lease Rate	\$2.50	/SF/mo./ NNN	CoStar
Office Lease Rate	\$4.25	/SF/mo./ Full Service	CoStar / Avison Young
Retail Capitalization Rate	6.25%	Class B	Korpacz Investor Report / Avison Young
Office Capitalization Rate	6.25%	Class B	Korpacz Investor Report / Avison Young

7.2. Development Scenarios

Zoned Scenario

As currently zoned, the subject properties can accommodate up to 173,000 square feet of commercial and 17 residential units. For purposes of this analysis, Hatch evaluated a 170,000 square foot commercial building with 4,500 square feet of ground floor retail. The office building is designed with a standalone three-story parking structure to reduce construction costs. The high parking standard of 1 space per 300 commercial square feet results in a parking requirement of approximately 503 spaces, necessitating a significant parking structure.

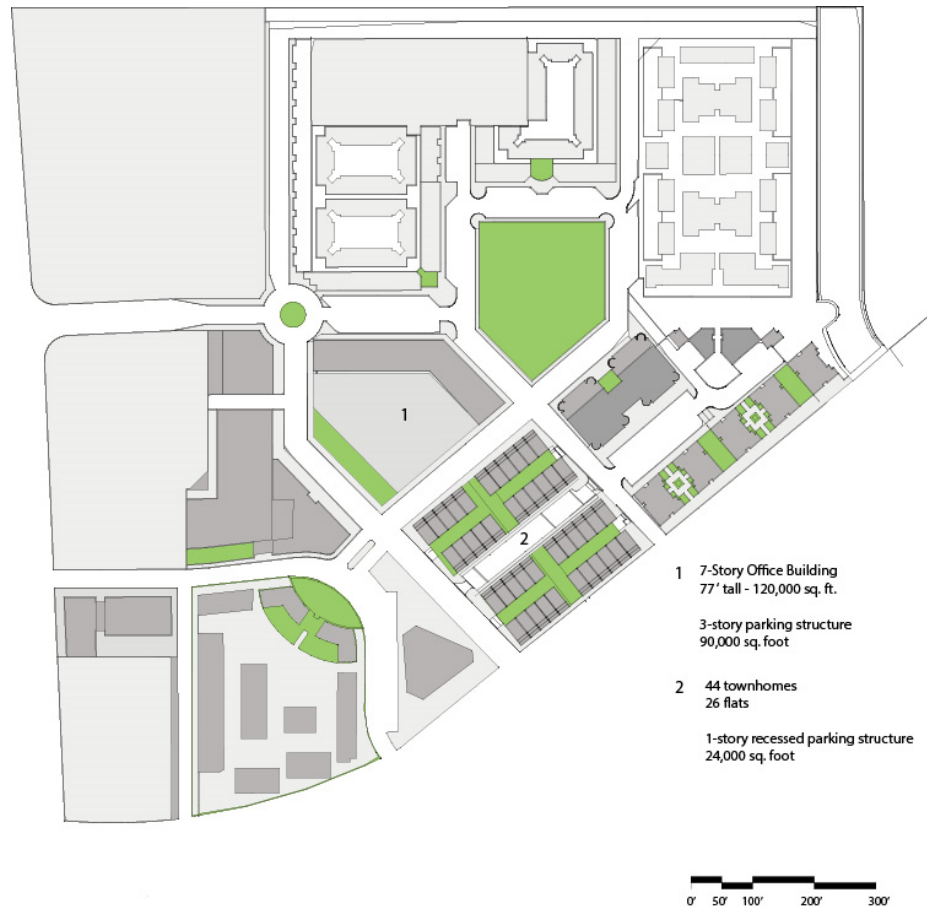
Figure 5: Zoned Scenario Site Plan



Mixed-Use Scenario

The mixed-use scenario conforms to the existing set-back, height, parking, inclusionary housing, and traffic standards set in the master plan but reduces the commercial space to approximately 120,000 gross square feet. Remaining land is dedicated to 70 townhouse over flats. The flats have individual entrances from the townhomes but buyers share the partially submerged parking garage which could accommodate individual storage areas.

Figure 6: Mixed-Use Scenario Site Plan



Per the development agreement requirements, the BMR units provide a similar mix of flats and townhomes to the overall market rate housing program. As stated previously, the mixed-use scenario is below the current traffic generation projections for the currently zoned uses. Put simply, this alternative would generate less AM and PM traffic than the current zoning at buildout.

7.3. Development Feasibility Findings

Findings by Use

The development feasibility analysis indicates a considerable financing gap for commercial office at the subject property. Achievable lease rates for the subject property are estimated at \$4.25 per leasable square foot, full service when lease incentives are included. To achieve a 12 percent return on costs, lease rates

would need reach upwards of \$5.50 a square foot at the site, considering prevailing construction costs. At the same time, the for-sale residential shows sufficient returns to justify new construction ranging from 16 percent return on costs to 27 percent based on the land sales price.

Existing Zoning

Under the existing zoned scenario the 17 townhomes result in a gross profit of approximately \$3.8 million or approximately 27 percent return on total costs. However, the commercial shows a gross loss of approximately \$17.6 million for a **total development net loss of approximately \$13.8 million**. The high parking costs to accommodate approximately 500 structured parking spaces combined with lower rents compared to those achievable near Caltrans stations result in a negative return on investment. Office rents would need to reach approximately \$5.50 per leasable square foot to justify investment.

Mixed-Use Development Scenario

Under the mixed-use alternative, the residential program generates approximately \$8.3 million or approximately 16 percent return on total costs. The residential program includes 56 market rate and 14 moderate and low-income below market rate units on site. While the commercial component is smaller, it shows a considerable loss of \$8.7 million. This scenario results in a **total negative return of approximately \$400,000**, which is well below the investment threshold (12 percent return on costs). However, the lease rate threshold for overall profitability is considerably less under the mixed-use alternative at approximately \$5.10 per square foot. As a result, the mixed-use alternative is more likely than the as-zoned scenario to achieve feasibility over the next 10 to 15 years as the market matures.

In addition, the residential program of the mixed-use scenario could reduce considerably the land carrying costs. The original land basis is estimated at \$9.8 million. **The residential component in the mixed-use scenario can support up to approximately \$7.6 million in land costs.** A marginal increase in home prices or slight decrease in construction costs, and the residential component could cover the entire land cost while achieving an acceptable return. This would allow lower carrying costs for the developer until office becomes financially feasible. Note that the market will need to mature sufficiently to justify investment and as such, may mean the site remains in its current condition for another 10 years.

8. Retail Impacts

The following section evaluates the impacts of the proposed change in land use on the viability of existing and planned retail space within the master plan area. To address this question, Hatch applies a two-step approach. First, the purchasing power of residents versus the at-work spending of office workers is compared to understand the net retail implications to on-site retail under the residential, commercial and mixed-use alternatives. Second, local purchasing power supported by the build-out of each alternative is compared to the estimated sustainable level of retail sales needed to maintain a healthy retail environment.

The purpose of this retail analysis is to estimate aggregate demand for retail goods and services by plan area residents and workers for the different development alternatives, in the context of the total sales needed to sustain the plan area's retail uses. At this stage, the analysis does not attempt to estimate losses to individual businesses located within the plan area. Instead, the analysis focuses on standard retail categories that are used by statistical agencies to report consumer expenditures and retail sales. These categories include, for example, food stores, personal care services and limited service restaurants. Sales performance benchmarks are meant to reflect average performance for the retail categories. Actual capture rates and sales requirements in the plan area will vary based on many factors, such as ownership structure, market segment, operating margins, etc.

8.1. Plan Area Retail Space

As shown in the table below, the plan area presently contains approximately 14,000 square feet of ground floor commercial uses (excluding residential amenities), with an additional 5,000 square feet under construction. In terms of total rentable area, the plan area is one of the smallest retail clusters in the City. Traditional retail and personal service uses are concentrated at the Plaza, while quasi-retail uses, including professional and educational services, are found at 100 Grand. Approximately 2,400 square feet at 100 Grand remains to be leased; another 5,000 square feet of space is under construction at the Triton (Waverly). Marketing of the Triton commercial space has not commenced, but given the site's location facing Triton Park, it is likely that tenants will more closely resemble those at the Plaza versus 100 Grand.

Table 27 - Retail Supply in Plan Area

	The Plaza	100 Grand	The Triton	Total
Occupied square feet				
Limited Service Restaurant	2,300	-	-	2,300
Full Service Restaurant	3,000	-	-	3,000
Personal Services	1,000	-	-	1,000
Education	-	2,600		2,600
Professional Services	1,700	1,100		2,800
Total Occupied	8,000	3,700		11,700
Vacant square feet	-	2,400	-	2,400
Under construction square feet	-	-	5,000	5,000
Total retail square feet	8,000	6,100	5,000	19,100
Sources: Sares Regis, Thompson Dorfman				

8.2. Change in Retail Expenditure Potential

This section analyzes the total retail expenditure potential of plan area residents and workers upon build-out. The process for estimating expenditure potential is twofold. First, the total resident and worker population is estimated based on typical density factors for residential, retail and office uses. Household incomes are estimated for residents based on estimated housing costs by housing type (including affordable units). The Consumer Expenditure Survey administered by the United States Bureau of Labor Statistics (BLS) is used to determine household spending by retail category as a percentage of income. Worker spending is estimated on a per capita basis according to a national survey of office workers published by the International Council of Shopping Centers (ICSC). The appendix to this study provides calculations of expenditure potential by development scenario. The model indicates that expenditure potential for neighborhood-serving retail is greater under the mixed-use alternative and current entitlements compared to the applicant's proposal. Aggregate expenditure potential for neighborhood retail exceeds the applicant's proposal by approximately \$1.3 million under the mixed-use alternative and by \$800,000 under current entitlements. Service commercial (personal, professional and educational) is the only neighborhood-serving category in which the applicant's proposal would support greater expenditure potential relative to current entitlements.

Table 28 – Annual Retail Expenditure Potential by Development Alternative Upon Buildout

	Alt. 1	Alt 2	Alt. 3
	Applicant Proposal	Current Entitlements	Mixed-Use Alternative
Neighborhood-serving			
Convenience Goods ¹	\$7,588,000	\$8,098,000	\$8,326,000
Food and Beverage			
Full Service	\$1,602,000	\$1,823,000	\$1,831,000
Limited Service	\$1,572,000	\$1,873,000	\$1,852,000
Services ²	\$4,229,000	\$3,995,000	\$4,303,000
Subtotal - neighborhood	\$14,992,000	\$15,788,000	\$16,312,000
Other categories			
Transportation ³	\$8,740,000	\$7,973,000	\$8,709,000
Comparison Retail ⁴	\$9,873,000	\$10,572,000	\$10,855,000
Entertainment	\$974,000	\$1,026,000	\$1,059,000
Subtotal - Other Categories	\$19,586,000	\$19,571,000	\$20,624,000
Total expenditure potential	\$34,578,000	\$35,359,000	\$36,936,000
Sources: Hatch, US Bureau of Labor Statistics, International Council of Shopping Centers.			
¹ Grocery, drug and miscellaneous retail.			
² Education, health and personal services.			
³ Gas stations, motor vehicle sales and repairs.			
⁴ General merchandise, clothing, furniture, electronics and other specialty goods.			

8.3. Sales Requirements of Existing Businesses

This section compares projected spending upon build-out of the plan area to the total estimated sales required for existing businesses to operate sustainably. Sales targets are estimated for existing food, personal service and educational space, summarized in Section A of Table 29. Professional services and vacant space are not considered in this component of the analysis.

Sales thresholds are estimated based on industry-specific benchmarks of sales performance per square foot. For example, it was determined that limited service eating and drinking facilities must generate an average of \$450 per square foot to operate sustainably in newly built space. Based on the gross leasable area in the plan area today, the annual sales requirement for existing businesses in this category is approximately \$1 million. The primary sources for sales productivity are the Urban Land Institute, International Council of Shopping Centers and HdL Companies.

As shown in Section B of Table 29 aggregate spending power of residents and workers for goods and services in categories represented within the plan area exceeds the sales requirements of existing businesses. However, plan area businesses cannot be expected to capture 100 percent of demand of the plan area's population. Hatch estimates that in total, existing retailers can capture between 15 percent to 20 percent of internal demand for the categories of goods and services offered in the plan area. After taking into account the capture of internal retail spending, the analysis finds that businesses would be

required to draw from a larger trade area to meet their sales targets. The sales gap represents roughly 65 percent of total sales for limited service eating and drinking facilities, 80 percent for full service restaurants, 45 percent for personal services and 60 percent for education programs. The exact size of the sales gap varies by development scenario. As illustrated, relative to current entitlements, the sales gap is greater under the applicant's proposal for eating and drinking facilities and personal services but less for educational programs. Limited service eating and drinking facilities would experience the greatest increase in total sales that must be captured from outside the plan area (approximately \$60,000 per year).

The implication is that with reduced spending potential in the plan area, retailers will need to increase their capture of citywide expenditure potential. Section C of Table 29 compares the sales gap in each retail category to a metric of citywide demand. For eating and drinking facilities, the metric is current retail leakage, which amounts to \$46 million currently spent by residents outside the City (including limited- and full-service establishments). In the remaining categories, citywide demand is represented by the total resident expenditure potential for the category. (Detailed sales data from the California Board of Equalization are not available to determine spending leakage of educational and personal services, because their revenues are not taxable.) The results demonstrate that the applicant's proposal would require a modest increase in the capture rate of citywide demand for eating and drinking facilities in the plan area, particularly for limited service establishments. Personal services and educational programs would experience very little change in their required capture of citywide demand.

Table 29 - Expenditure Potential versus Sales Requirements

	F&B Limited Service	F&B Full Service	Personal Services	Education
A. Sales Targets				
A1. Square Feet	2,276	3,000	999	2,566
A2. Sales /SF Benchmark	\$450	\$500	\$350	\$350
A3. Sales Target	\$1,020,000	\$1,500,000	\$350,000	\$900,000
B. Plan Area Expenditure Potential vs. Target (Build-Out)				
B1. Plan Area Demand				
Proposal	\$1,572,000	\$1,602,000	\$1,221,000	\$1,749,000
Entitlements	\$1,873,000	\$1,823,000	\$1,250,000	\$1,595,000
Mixed-Use	\$1,852,000	\$1,831,000	\$1,305,000	\$1,743,000
B2. Plan Area Capture				
% of Plan Area (B1)	20%	15%	15%	20%
Proposal	\$310,000	\$240,000	\$183,000	\$352,000
Entitlements	\$370,000	\$273,000	\$188,000	\$321,000
Mixed-Use	\$366,000	\$275,000	\$196,000	\$350,000
B3. Sales Shortfall (A3-B2)				
Proposal	\$710,000	\$1,260,000	\$167,000	\$548,000
Entitlements	\$650,000	\$1,227,000	\$162,000	\$579,000
Mixed-Use	\$654,000	\$1,225,000	\$154,000	\$550,000
C. Citywide Capture Requirement				
C1. Citywide Demand	\$21,110,000	\$25,197,000	\$23,907,000	\$31,324,000
C2. Basis	Leakage	Leakage	Gross	Gross
C3. Capture Requirement¹				
Proposal	3.4%	5.0%	0.7%	1.8%
Entitlements	3.1%	4.9%	0.7%	1.8%
Mixed-Use	3.1%	4.9%	0.6%	1.8%
Sources: Hatch, American Community Survey, California Board of Equalization				
¹ Capture of citywide demand required to meet plan area sales shortfall (line B3).				

8.4. Potential for Impacts on Existing and Planned Retail

Hatch contacted ground-floor commercial tenants located within the plan area to solicit their feedback on the impacts that proposed changes to the master plan could have on retail conditions. The primary conclusions from discussions with existing retail tenants are:

1. Consistent with the findings of the retail expenditure analysis, operators of eating and drinking facilities in the plan area are concerned that their sales would suffer if the applicant's proposal is approved, while a representative from one of the educational/ enrichment programs in the plan area sees a potential benefit due to the growth in the residential population.
2. Operators of eating and drinking facilities report having struggled to attract customers from outside the plan area due to the area's internal location and lack of visibility from Foster City Boulevard. The planned office development was a key selling point in their decision to locate in area and invest in the

build-out of their facilities. They contend that they would not have chosen to locate in the area had they known that the office entitlements would be replaced with residential uses.

3. Some tenants expressed concerns with the impact that the substitution of office and retail for additional residential could have on the overall retail environment, including:
 - Impacts on the identity of the district as a mixed-use, “live-work-play” community
 - Reduced potential to attract destination retailers that complement the existing retail
 - Parking constraints if townhome guests and residents prefer to occupy street parking
 - Loss of daytime foot and vehicle traffic.

8.5. Enhancing Retail

The above analysis indicates that retail uses in the plan area cannot rely solely on the internal spending power of the plan area’s population. Under all scenarios, retailers are required to draw a significant share of their customers from outside the plan area to be sustainable. The applicant’s proposal to replace office entitlements with lower-density residential is projected to reduce aggregate internal spending upon build-out in certain retail categories, particularly eating and drinking facilities, relative to current entitlements. In this case, affected businesses would need to expand their share of citywide retail demand, in order to compensate for reduced spending by plan area residents and workers.

To date, plan area retailers have found it challenging to attract customers due the area’s limited visibility, limited foot and vehicle traffic and inconvenient parking. Nevertheless, retailers report selecting the plan area because they believe in the master plan’s vision for a neighborhood-serving retail district. Realizing the master plan’s vision requires proactive efforts involving the City, property owners and existing retailers to enhance retail conditions. Courses of action could include:

- Develop a parking management plan that ensures convenient parking is available for retail customers
- Activate Triton Park with public events such as farmers’ markets, movie nights, etc.
- Fill existing and future vacancies with destination retailers capable of drawing customers to the district
- Form a property-based business improvement district to manage and market the retail district.

9. Fiscal Impacts

The purpose of this section is to quantify the net fiscal impact of the overall master plan in the context of proposed land use changes to the subject property. Hatch builds on the fiscal impact analysis performed by Economic Research Associates in 2008 to evaluate the fiscal impacts to the City of Foster City's General Fund of the proposed change in use. Hatch has updated the original fiscal impact analysis to account for the current service population (population and employment) and more recent assessment and taxable sales information.

Four fiscal impact scenarios for the Pilgrim Triton Master Plan are considered (Table 30):

1. Alternative 1: The proposed land use change considering 68 townhomes instead of the estimated 172,000 square feet of office space.
2. Alternative 2: The development program as is currently zoned.
3. Alternative 3: The mixed-use development program as prototyped above.
4. Alternative 4: The uses of the site in 2008 before the approval of the master plan.

The purpose of including a pre-development scenario is to create a baseline of the benefits and impacts of subsequent development in the area as a way to normalize and measure each development alternative.

Table 30: Development Program Alternatives as modelled in Hatch Analysis

	Alternative 1 Applicant Proposal	Alternative 2 Current Entitlements	Alternative 3 Mixed-use Alternative	Alternative 4 Pre-Development Uses 2008
SF Commercial	102,000	270,443	217,950	123,625
SF Retail	21,057	25,557	25,557	
Rental Units	693	693	693	
For Sale Units	88	37	90	-
Residential Units	781	730	783	-
Net Fiscal Impact Calculation	Alt 1 - Alt 4	Alt 2 - Alt 4	Alt 3 - Alt 4	
Source: Hatch, City of Foster City				

All monetary figures included in this section are in constant 2016 dollars unless otherwise noted. All budgetary assumptions are based on the Foster City 2016-2017 General Budget and were corroborated with city staff where necessary. Projections assume that the current economic and political conditions in the region remain constant.

All conclusions in this section refer to projections of full buildout and full occupancy of each respective program. Program feasibility is discussed in Section 7.

9.1. Findings

This update to the previous fiscal impact report shows a considerable increase in the fiscal benefit received by the City's General Fund through the build-out of the Pilgrim Triton Master Plan. The bulk of the increase has to do with the increase in property values in the project area since the 2008 study.

At full build-out, the applicant's proposal is estimated to yield an annual reduction in the expected revenue to Foster City's General Fund of approximately \$126,000 or a net decrease of 11 percent compared to current zoning. There are two important caveats to this conclusion. First, this report calculates the fiscal impact of the development program at buildout and with full occupancy of the program. Section 7 explains the overall feasibility and challenges with this development scenario. Secondly, while the net fiscal impact of the applicant's proposal is lower than the current zoning at full build out, it still represents an additional \$834,000 to the General Fund annually relative to the predevelopment baseline.

The mixed-use alternative developed by the Hatch team had the highest fiscal surplus with a net fiscal benefit of \$1.18 million or \$1 million over the predevelopment baseline. This is due to the inclusion of 60 percent of the zoned commercial program with the applicant's full residential program yielding a slightly denser alternative. While the analysis shows that traffic impacts would still remain below those of the currently zoned program, the mixed-use program does, in fact, represent an increase in the service population of the site by 85 more people than the applicant's proposal and 50 people over the currently zoned program.

Overall, the net fiscal impacts of all development program alternatives lie within a 20 percent margin of each other, with the applicant's proposal representing the lower end of the spectrum and the mixed-use alternative representing the top.

Table 31: General Fund Annual Impact at Full-Buildout

Description	Alternative 1 Applicant Proposal	Alternative 2 Current Entitlements	Alternative 3 Mixed-use Alternative	Alternative 4 Pre- Development Uses 2008
Estimated Annual Revenues Generated from Project	\$1,697,090	\$1,837,501	\$1,914,727	\$192,846
Estimated Annual Costs Generated from Project	\$713,479	\$728,094	\$734,962	\$42,915
Gross Annual Impact on City of Foster City General Fund	\$983,611	\$1,109,407	\$1,179,766	\$149,932
Net Annual Impact on City of Foster City General Fund	\$833,680	\$959,475	\$1,029,834	\$-
Source: City of Foster City, California Department of Finance, ABAG, Hatch				

9.2. Methodology

Service Population

In following the methodology of the previous analysis Hatch calculated the service population associated with each development program alternative. The Hatch team incorporated figures of household formation in Foster City published by the Association of Bay Area Governments (last updated in 2010) in order to calculate the marginal service population of each alternative.

These calculations showed that, while the differences in service population numbers are marginal, the mixed-use alternative would generate the largest increase in the service population in the area; over 2,500 people above the predevelopment uses. Additionally, the applicant's proposal represents a reduction in the overall service population of 386 service population units (or about 12 percent below current zoning projections).

Table 32: Service Populations Assumptions

	2015	Source	Note
Residents	33,477	US Census	
Employees	19,900	Bay Area Census	(a)
Service Population	43,427	Bay Area Census	(b)
Households	12,377	US Census	
Density			
Average Household Size (people per household)	2.6	US Census	
Notes			
(a) The Association of Bay Area Governments Projections 2010 provides job estimates by city for the region. The jobs estimates are based on projected annual job growth of 1.7 percent per year and 2010 estimates.			
(b) The service population is the sum of all Foster City residents plus one-half of total employment in 2015			

Table 33: Service Population by Development Alternative

	<i>Alternative 1 Applicant Proposal</i>	<i>Alternative 2 Current Entitlements</i>	<i>Alternative 3 Mixed-use Alternative</i>	<i>Alternative 4 Pre- Development Uses 2008</i>
Total Residential Population				
Residential Units	781	730	783	0
Average Household Size	2.6	2.6	2.6	2.6
On Site Residents	2,031	1,898	2,036	-
Total on-site Employee Population				
New Office Space	102,000	270,443	217,950	295,318
Employees per 1,000 sf of space	3	3	3	2
Expected Employees	306	811	654	591
Retail Space				
New Retail Space	21,057	25,557	25,557	-
Employees per 1,000 sf of space	2.5	2.5	2.5	2.5
Expected Employees	53	64	64	0
TOTAL SERVICE POPULATION				
On site Residents	2,031	1,898	2,036	-
Employees	359	875	718	591
TOTAL Persons Served	2,210	2,336	2,395	295
NET Persons Served	1,915	2,040	2,099	-

9.3. General Fund Revenues

Property Tax Revenues

Hatch updated the previous model's property tax assumptions in order to match current revenue received by the Estero Municipal Improvement District. This update to the model also included calculating Property Taxes in lieu of Motor Vehicle License Fees (VLF) established by the Vehicle License Fees (VLF) for Property Tax Swap in 2004.

The economics team conducted interviews with local brokers and developers in order to calculate property values for the different residential typologies of each respective development alternative. In the instance of the applicant's development program, the team consulted the applicant and verified with local brokers in order to arrive at the estimated valuation. In the case of the rental units, the model used a weighted average of the assessed value of units at the One Hundred Grand and Plaza developments (\$310,000 per rental unit). This figure is kept constant for all three development options.

The mixed-use calculations of the model use a lower price per square foot than the applicant's proposal and the currently zoned townhouses in order to account for the higher density of the product and the fact that it sits on a semi excavated parking podium. Additionally, this analysis also accounts for smaller units under the mixed-use alternative. As a result, for-sale residential units in the mixed-use scenario are priced 15 percent below comparable units in both the zoned scenario and applicant's proposal.

Table 34: Foster City Property Tax Breakdown for Tax Rate Area 020-003

Account		Incremental Factor 2016-17	ERAF Shift *	Post-ERAF Factor
100	GENERAL COUNTY TAX	0.2158%		
1001	FREE LIBRARY	0.0315%		
23891	ESTERO MUNI IMPROVEMENT DISTRICT	0.2597%	10.09%	0.2335%
30870	SAN MATEO CITY ELEM GENL PUR	0.2265%		
40870	SAN MATEO HIGH GENRL PURPOSE	0.1574%		
60870	SM JR COLLEGE GEN PUR	0.0617%		
79020	BAY AREA AIR QUALITY MANAGEMENT	0.0019%		
79450	COUNTY HARBOR DISTRICT	0.0032%		
79600	SMC MOSQUITO & VECTOR CONTROL DISTRICT	0.0017%		
79730	PENINSULA HOSPITAL DISTRICT	0.0084%		
79994	COUNTY EDUCATION TAX	<u>0.0321%</u>		
		1.0000%		
* Education Revenue Augmentation Fund				

Table 35: VLF (Motor Vehicle in-lieu of Property Tax)

2016-17		
Local Combined Roll- Foster City		9,326,797,156
VLF		3,381,141
VLF Revenue Per \$1000		0.36252

Table 36: Property Tax Revenues by development program

	Alternative 1 Applicant Proposal	Alternative 2 Current Entitlements	Alternative 3 Mixed-use Alternative	Alternative 4 Pre-Development Uses 2008
SF Commercial	102,000	270,443	217,950	123,625
For Sale Units	88	37	90	0
Rental Units	693	693	693	0
Commercial Gross Value (a)	\$55,590,000	\$147,391,000	\$118,783,000	\$39,551,243
For Sale Value/per unit (b)	\$1,092,000	\$1,092,000	\$994,500	\$-
Rental Unit Value/per unit (c)	\$310,000	\$310,000	\$310,000	
Rental Unit Gross Value (d)	\$214,830,000	\$214,830,000	\$214,830,000	\$-
For Sale Units Gross Value	\$96,096,000	\$40,404,000	\$89,505,000	\$-
TOTAL Development Value	\$366,516,000	\$402,625,000	\$423,118,000	\$39,551,243
Post ERAF Property Tax to Foster City	\$856,000	\$940,000	\$988,000	\$92,000
VLF Revenue Foster City	\$133,000	\$146,000	\$154,000	\$14,000
TOTAL Revenue Foster City	\$989,000	\$1,086,000	\$1,142,000	\$106,000
NET Property Tax Revenues	\$883,000	\$980,000	\$1,036,000	\$-
NOTES				
(a) Commercial gross values are calculated from their total capitalized value once development become feasible. See pro forma analysis for base assumptions.				
(b) For-sale units in the applicant's proposals and current zoning are assumed to be 1500 sf. Mixed-use program townhomes are assumed to be an average of 1326 sf.				
(c) Weighted Average of assessed value per unit at One Hundred Grand and the Plaza.				
(d) An assumption of \$740/sf in town homes on a parking podium and \$780/sf for townhomes with at-grade tuck under parking, per Hatch's research.				
Source: City of Foster City, California Department of Finance, ABAG				

Table 37: Property Transfer Tax Revenue

	Alternative 1 Applicant Proposal	Alternative 2 Current Entitlements	Alternative 3 Mixed-use Alternative	Alternative 4 Pre-Development Uses 2008
For Sale Housing Units	88	37	90	0
Average Value per Unit	\$1,092,000	\$1,092,000	\$994,500	0
Number of Years Between Property Turn-Over	7	7	7	7
Total Annual Value of Property Turn-Over	\$13,728,000	\$5,772,000	\$12,786,429	\$-
Estimated Real Property Transfer Tax Revenue	\$7,550	\$3,175	\$7,033	\$-
NET Property Transfer Tax Revenue	\$7,550	\$3,175	\$7,033	\$-

Sales Tax Revenues

This analysis maintains the previous report's Sales Tax accounting methodology with updated tax rates. This analysis focuses on sales per square foot of retail. The previous report's sales per square foot factor was escalated using the Bureau of Labor Statistics' Consumer Price Index in order to reflect current value terms. Sales tax revenue figures assume full buildout of Pilgrim Triton Master Plan and include revenue from currently zoned retail. Note that all retail sales tax revenues attributed to the applicant's proposal reflect revenues supported by the retail located in other phases of the plan area, in contrast to the mixed-use and currently zoned alternatives, which include both on-site and plan area sales.

Table 38: Sales Tax Revenues

	Alternative 1 Applicant Proposal	Alternative 2 Current Entitlements	Alternative 3 Mixed-use Alternative	Alternative 4 Pre-Development Uses 2008
Retail Area	21,057	25,557	25,557	0
Vacancy	8%	8%	8%	8%
Adjusted Area	19,372	23,512	23,512	-
Sales / SF	\$275	\$275	\$275	\$275
Taxable Sales	\$5,331,683	\$6,471,094	\$6,471,094	\$-
Sales Tax Revenue	\$50,651	\$61,475	\$61,475	\$-
NET Sales Tax Revenue	\$50,651	\$61,475	\$61,475	\$-
Source: City of Foster City, California Board of Equalization, Bureau of Labor Statistics				

Per Capita General Fund Revenues

Finally, Hatch calculates the proportional revenues that the General Fund receives per additional person served, meaning each additional resident associated with each development program plus half of the total workers. This methodology is only applied to the relevant city revenues and excludes property, sales, and transient occupancy taxes since these sources are directly related to specific land uses. The result is approximately \$320 of annual revenue to the City of Foster City for each addition to the service population.

Table 39: Foster City General Fund Revenues per Person Served

	FY-2016-2017	Per Person Served
City		
Sales Taxes	n/a	\$-
Transient Occupancy Taxes	n/a	\$-
Franchise Taxes	1,196,600	\$27.55
Real Property Transfer	n/a	\$-
Licenses and Fees	6,360,800	\$146.47
Motor Vehicle in-lieu	3,303,000	\$76.06
Charges for current services	1,462,370	\$33.67
Fines and forfeitures	57,300	\$1.32
Interest and Rentals	n/a	\$-
Other	n/a	\$-
City and General Fund Subtotal	\$12,380,070	\$285.08
District Taxes		
Property Taxes	n/a	\$-
Intergovernmental	n/a	\$-
Interest and Rentals	n/a	\$-
District and General Fund Subtotal	n/a	\$-
Special Recreation		
Program Revenues	\$1,218,800	\$28.07
Rents and Concessions	\$300,000	\$6.91
General Fund (Special Recreation) Subtotal	\$1,518,800	\$34.97
Total Revenues	\$13,898,870	\$320.05
Source: City of Foster City		

Table 40 groups all the preceding revenue tables and compares the expected revenue of each development scenario. Over 60 percent of the incoming revenue is made up of property taxes and license fees, both of which favor the denser, mixed-use alternative. However, all three of the development alternatives lie within a 10 percent variance of each other. Revenues for each of the development scenarios reflect on-site uses within Phase C as well as the zoned uses of the remaining phases.

The difference between the development scenario generating the least revenue to Foster City's General Fund (the applicant's) and the development scenario generating the most revenue to the City (mixed-use) is equivalent to \$1.7 million in revenue over the course of 10 years in present value terms.

Table 40: Annual General Fund Revenues by Supported by the Plan Area at Full-Buildout

	<i>Per Person Served</i>	<i>Alternative 1 Applicant Proposal</i>	<i>Alternative 2 Current Entitlements</i>	<i>Alternative 3 Mixed-use Alternative</i>	<i>Alternative 4 Pre-Development Uses 2008</i>
City					
Sales Taxes	See Table 38	\$50,651	\$61,475	\$61,475	\$-
Transient Occupancy Taxes	n/a				
Franchise Taxes	\$27.55	\$60,893	\$64,356	\$65,983	\$8,137
Real Property Transfer	See Table 37	\$7,550	\$3,175	\$7,033	\$-
Licenses and Fees	\$146.47	\$323,690	\$342,099	\$350,750	\$43,256
Motor Vehicle in-lieu	\$76.06	\$168,084	\$177,643	\$182,136	\$22,461
Charges for current services	\$33.67	\$74,417	\$78,650	\$80,639	\$9,945
Fines and forfeitures	\$1.32	\$2,916	\$3,082	\$3,160	\$390
Interest and Rentals	\$-	\$-	\$-	\$-	\$-
Other	\$-	\$-	\$-	\$-	\$-
City and General Fund Subtotal	\$285.08	\$688,201	\$730,481	\$751,175	\$84,189
District Taxes	\$-				
Property Taxes	See Table 36	\$989,000	\$1,086,000	\$1,142,000	\$106,000
Intergovernmental	\$-				
Interest and Rentals	\$-				
District and General Fund Subtotal	\$-	\$989,000	\$1,086,000	\$1,142,000	\$106,000
Special Recreation	\$-				
Program Revenues	\$7.00	\$15,469	\$16,349	\$16,763	\$2,067
Rents and Concessions	\$2.00	\$4,420	\$4,671	\$4,789	\$591
General Fund (Special Recreation) Subtotal	\$9.00	\$19,889	\$21,020	\$21,552	\$2,658
Total Revenues	\$294.08	\$1,697,090	\$1,837,501	\$1,914,727	\$192,846
NET General Fund Revenue		\$1,504,244	\$1,644,655	\$1,721,881	\$-
Source: City of Foster City, California Department of Finance, ABAG, Hatch					

9.4. General Fund Expenditures

Hatch calculates proportional expenditures incurred by the General Fund per each additional person served, based on expenditures by department for fiscal year 2016-2017. Consistent with the prior fiscal analysis, a portion of expenditures are assumed to be unaffected by population growth; the variable portion (identified in Table 43) is used to extrapolate per capita expenditures. The exception to this approach is for police and street maintenance costs, which consider the specific service needs of the plan area, as described below. A detailed comparison of General Fund expenditures under each development alternative is presented at the close of this section in Table 44.

Police Expenditures

As shown in Table 41, the Hatch team updated the labor cost inputs of the police expenditures component of the previous report. While the necessity for two additional sworn officers remained the same, the average salary was increased in order to match current salaries. This results in additional expenditures of approximately \$450,000 associated with all three development scenarios; a 40 percent increase from previous projections and the single largest expenditure in this fiscal impact model.

Table 41 - Additional Police Expenditures Assumptions per Annum at Present

Description	Existing	Police Department Estimate
Total Sworn Officers	37	2
Total Persons Served	43,427	2032
Officers/Person Served	0.0009	0.0009
Average Cost per Sworn Officer	\$196,100	209,092
Costs for Sworn Officers	\$7,255,700	\$418,184
Training/Equipment per Police Officer	\$6,000	\$16,000
Total Training/Equipment Costs	\$222,000	\$32,000
Subtotal Officer Costs	\$7,477,700	\$450,184
One-time Costs Hiring Per officer		
TOTAL Officer Expenditures		\$450,184
Source: City of Foster City		

Street Maintenance Expenditures

As shown in Table 42, street maintenance costs are based on the average maintenance cost per lane mile and the length of the public streets located in the plan area. Under all development scenarios, the build-out of the plan area will result in fewer publicly maintained line miles than the pre-development baseline.

Table 42: Additional Street Maintenance Expenditures Assumptions per Annum at Present

Description	Existing/Costs
Total City Maintained Street Miles	120.24
Total City Street Maintenance Costs	\$1,200,381
Average Cost Per Lane Mile	\$9,983.21
Predevelopment lane Miles	0.859
Post-development lane miles	0.634
Source: City of Foster City, Hatch	

Variable Share of General Fund Expenditures

Table 43: Citywide General Fund Expenditures Fiscal Year 2016-2017

Administration	FY-2016-2017	% Variable	Net
Council / Board	\$331,966	25.0%	\$82,992
City / District Manager	\$1,180,731	25.0%	\$295,183
City Clerk	\$529,624	25.0%	\$132,406
City Attorney	\$354,724	25.0%	\$88,681
Administrative Services	\$334,000	25.0%	\$83,500
Human Resources	\$453,703	25.0%	\$113,426
Financial Services	\$1,111,822	50.0%	\$555,911
Property Tax Administration	\$184,500	50.0%	\$92,250
Subtotal	\$4,481,070		\$1,444,348
Parks and Recreation (City General Fund Divisions)			
Parks Maintenance	\$4,606,434	25.0%	\$1,151,609
Rec Administration	\$1,842,193	25.0%	\$460,548
Subtotal	\$6,448,627		\$1,612,157
Police Services			
Officer Costs			
Administrative Expenditures	\$4,146,024	25.0%	\$1,036,506
Crossing Guards	\$21,600	25.0%	\$5,400
Subtotal	\$4,167,624		\$1,041,906
Fire Services			
Administration	\$1,191,477	50.0%	\$-
Subtotal	\$1,191,477		\$-
Community Development			
Advance Planning	\$200,061	25.0%	\$50,015
Building Safety, Code, Plan Check	\$1,248,348	0.0%	\$-
Current Planning	\$550,260	0.0%	\$-
Ordinance Enforcement	\$243,795	75.0%	\$182,846
Planning Administration	\$478,407	25.0%	\$119,602
Subtotal	\$2,720,871		\$352,463
Public Works (General Fund Divisions)			
Administration and Engineering	\$864,763	50.0%	\$432,382
Subtotal	\$864,763		\$432,382
Library Services (General Fund)			
Library Services (General Fund)	332,721	50.0%	\$166,361
Subtotal	\$332,721		\$166,361
Total	\$20,207,153		\$5,049,616
Source: City of Foster City			

Total General Fund Expenditures by Development Option

Table 44: General Fund Expenditures by Development Option

Description	Per Person Served	Alternative 1 Applicant Proposal	Alternative 2 Current Entitlements	Alternative 3 Mixed-use Alternative	Alternative 4 Pre-Development Uses 2008
Administration					
Council / Board	\$1.91	\$4,223	\$4,463	\$4,576	\$564
City / District Manager	\$6.80	\$15,021	\$15,876	\$16,277	\$2,007
City Clerk	\$3.05	\$6,738	\$7,121	\$7,301	\$900
City Attorney	\$2.04	\$4,513	\$4,769	\$4,890	\$603
Administrative Services	\$1.92	\$4,249	\$4,491	\$4,604	\$568
Human Resources	\$2.61	\$5,772	\$6,100	\$6,255	\$771
Financial Services	\$12.80	\$28,289	\$29,898	\$30,654	\$3,780
Property Tax Administration	\$2.12	\$4,694	\$4,961	\$5,087	\$627
Subtotal	\$33.26	\$73,500	\$77,681	\$79,645	\$9,822
Parks and Recreation (City General Fund Divisions)					
Parks Maintenance	\$26.52	\$58,603	\$61,936	\$63,503	\$7,831
Rec Administration	\$10.61	\$23,436	\$24,769	\$25,396	\$3,132
Subtotal	\$37.12	\$82,040	\$86,706	\$88,898	\$10,963
Police Services					
Officer Costs	See Table 41	\$450,184	\$450,184	\$450,184	
Administrative Expenditures	\$23.87	\$52,746	\$55,746	\$57,155	\$7,049
Crossing Guards	\$0.12	\$275	\$290	\$298	\$37
Subtotal	\$23.99	\$503,205	\$506,220	\$507,637	\$7,085
Fire Services					
Administration	\$-	\$-	\$-	\$-	\$-
Prevention	\$-	\$-			
Training and Operations					
Subtotal	\$-	\$-	\$-	\$-	\$-
Community Development					
Advance Planning	\$1.15	\$2,545	\$2,690	\$2,758	\$340
Building Safety, Code, Plan Check	\$-				
Current Planning	\$-				
Ordinance Enforcement	\$4.21	\$9,305	\$9,834	\$10,083	\$1,243
Planning Administration	\$2.75	\$6,086	\$6,432	\$6,595	\$813
Subtotal	\$8.12	\$17,936	\$18,956	\$19,436	\$2,397
Public Works (General Fund Divisions)					
Administration and Engineering	\$9.96	\$22,003	\$23,255	\$23,843	\$2,940
Lagoon & Levees	\$-	\$-	\$-	\$-	\$-
Streets	See Table 42	\$6,329	\$6,329	\$6,329	\$8,576
Subtotal	\$9.96	\$28,332	\$29,584	\$30,172	\$11,516
Other					
Library Services (General Fund)	\$3.83	\$8,466	\$8,947	\$9,174	\$1,131
Subtotal	\$3.83	\$8,466	\$8,947	\$9,174	\$1,131
Total	\$116.28	\$713,479	\$728,094	\$734,962	\$42,915
NET General Fund Expenditures		\$670,564	\$685,179	\$692,047	\$-

APPENDIX TABLES

RETAIL MARKET DEMAND MODEL

Retail Market Appendix Table 1

Leakage Analysis based on Taxable Sales Data (2015) - Foster City and San Mateo County

Source: California Board of Equalization and U.S. Census

	Foster City		San Mateo County			
Aggregate Income (U.S. Census)	\$1,835,688,200		\$35,094,960,800			
Annual Taxable Sales (2015)		% of Income¹		% of Income¹		
Retail and Food	\$204,184,522	11.1%	\$10,301,196,798	29.4%		
All Outlets	\$260,791,092	14.2%	\$15,478,010,287	44.1%		
Quarterly Sales (Q1 2015)		% of Income²		% of Income²	Foster City	
Motor Vehicle and Parts Dealers	Confidential	Confidential	\$465,514,653	5.3%	Ann. Leakage³	Capture⁴
Home Furnishings and Appliance Stores	\$6,304,971	1.4%	\$183,644,016	2.1%	-\$13,203,086	66%
Building Material and Garden Equipment and Supplies	\$1,621,463	0.4%	\$224,535,206	2.6%	-\$40,492,588	14%
Food and Beverage Stores	\$3,951,299	0.9%	\$144,973,002	1.7%	-\$14,526,820	52%
Gasoline Stations	\$6,162,487	1.3%	\$214,500,621	2.4%	-\$20,229,003	55%
Clothing and Clothing Accessories Stores	\$38,266	0.0%	\$176,232,166	2.0%	-\$36,719,159	0%
Food Services and Drinking Places	\$11,180,755	2.4%	\$451,055,166	5.1%	-\$49,649,121	47%
Other Retail + General Merchandise	\$24,548,426	5.3%	\$544,874,394	6.2%	-\$15,807,791	86%
Total Retail and Food Services	\$53,807,667	11.7%	\$2,405,329,224	27.4%	-\$288,024,999	43%
All Other Outlets	\$13,754,602	3.0%	\$1,125,575,044	12.8%	-\$180,480,339	23%
Total All Outlets	\$67,562,269	14.7%	\$3,530,904,268	40.2%	-\$468,505,338	37%

¹ Percent of annual aggregate income

² Percent of average quarterly aggregate income

³ Annual figure. Includes taxable sales only.

⁴ Foster City share of local expenditure potential.

Retail Market Appendix Table 2

Expenditure Potential Assumptions - Foster City

Core Assumptions			
Real Income Growth			0.50%
Population Growth	2016	2026	2040
Residents	33,201	34,463	36,310
Workers	16,100	18,713	23,100

Hatch/CDOT

Foster City CDD

Hatch/ ABAG

Baseline Spending Factors

	Residents ¹	Workers ²
per capita income:	\$57,520	

Retail Category	% hh income	2016 per capita
Transportation		
Motor Vehicle and Parts Dealers	5.8%	\$0
Gasoline Stations	2.7%	\$0
Convenience Retail		
Food and Beverage Stores	4.7%	\$1,033
Health and Personal Care Stores	0.8%	\$610
Misc. Store Retailers	1.1%	\$331
Comparison Retail		
General Merchandise Stores	3.6%	\$1,510
Home Furnishings and Appliance Stores	0.8%	\$0
Electronics Stores	0.5%	\$388
Building Material and Garden Equipment and Supplies Dealers	1.2%	\$0
Clothing and Clothing Accessories Stores	2.0%	\$519
Sporting Goods, Hobby, Book, and Music Stores	0.6%	\$150
Food and Beverage		
Full Service	1.3%	\$592
Limited Service	1.2%	\$734
Services		
Personal Services	1.1%	\$221
Education	1.7%	\$0
Health Services	1.2%	\$0
Entertainment	0.9%	\$220

¹ U.S. Bureau of Labor Statistics Consumer Expenditures Survey and ESRI Business Analyst.
Adjusted downward to account for spending at work based on ICSC figures.

² Office Worker Spending in a Digital Age survey prepared by International Council of Shopping Centers (ICSC 2012). Adjusted for inflation.

Retail Market Appendix Table 3

Neighborhood Retail Growth Projection 2017-2026

	Growth	Leakage ¹	Total	Foster City Capture ²	Total	Sales/SF ³	Supportable SF
Convenience Retail							
Food and Beverage Stores	\$11,904,000	\$0	\$11,904,000	50%	\$5,952,000	\$600	9,900
Health and Personal Care Stores	\$3,513,000	\$0	\$3,513,000	45%	\$1,580,850	\$500	3,200
Misc. Store Retailers	\$3,175,000	\$0	\$3,175,000	45%	\$1,428,750	\$400	3,600
Food and Beverage							
Full Service	\$4,431,000	\$23,777,000	\$28,208,000	20%	\$5,641,600	\$500	11,300
Limited Service	\$4,792,000	\$25,872,000	\$30,664,000	20%	\$6,132,800	\$450	13,600
Services							
Personal Services	\$2,711,000	\$0	\$2,711,000	45%	\$1,219,950	\$350	3,500
Education	\$2,969,000	\$0	\$2,969,000	45%	\$1,336,050	\$350	3,800
Health Services	\$2,138,000	\$0	\$2,138,000	45%	\$962,100	\$400	2,400
Total							51,300
(less) Foster Square							(30,700)
(less) Waverly							(5,000)
(less) Chess Drive							(2,900)
add Charter Square Sales Equivalent ⁴							21,000
Net supportable neighborhood retail square feet							33,700
Pilgrim Triton	15%	share (Hatch assumption)					5,000

¹ Only retail leakage in eating and drinking facilities categories is considered.

² Based on City's existing capture rate per Appendix Table 1. Assumes 15% capture of retail leakage for eating and drinking facilities.

³ Based on sales reported by category in California Retail Analytics by HdL (2014), Dollars and Cents of Shopping Centers by ULI (2008), and Pacific Malls Index by ICSC (2016).

⁴ See Appendix Table 5.

Retail Market Appendix Table 4

Neighborhood Retail Growth Projection 2017-2040

	Growth	Leakage ¹	Total	Foster City Capture ²	Total	Sales/SF ³	Supportable SF
Convenience Retail							
Food and Beverage Stores	\$31,255,000	\$0	\$31,255,000	50%	\$15,627,500	\$600	26,000
Health and Personal Care Stores	\$9,474,000	\$0	\$9,474,000	45%	\$4,263,300	\$500	8,500
Misc. Store Retailers	\$8,381,000	\$0	\$8,381,000	45%	\$3,771,450	\$400	9,400
Food and Beverage							
Full Service	\$11,803,000	\$23,777,000	\$35,580,000	25%	\$8,895,000	\$500	17,800
Limited Service	\$12,843,000	\$25,872,000	\$38,714,000	25%	\$9,678,500	\$450	21,500
Services							
Personal Services	\$7,107,000	\$0	\$7,107,000	45%	\$3,198,150	\$350	9,100
Education	\$7,583,000	\$0	\$7,583,000	45%	\$3,412,350	\$350	9,700
Health Services	\$5,461,000	\$0	\$5,461,000	45%	\$2,457,450	\$400	6,100
Total							108,100
(less) Foster Square							(30,700)
(less) Waverly							(5,000)
(less) Chess Drive							(2,900)
add Charter Square Sales Equivalent ⁴							21,000
Net supportable neighborhood retail square feet							90,500
Pilgrim Triton		12%	share (Hatch assumption)				11,000

¹ Only retail leakage in food and beverage is considered.

² Based on City's existing capture rate per Appendix Table 1. Assumes 15% capture of retail leakage for eating and drinking facilities.

³ Based on sales reported by category in California Retail Analytics by HdL (2014), Dollars and Cents of Shopping Centers by ULI (2008), and Pacific Malls Index by ICSC (2016).

⁴ See Appendix Table 5.

Retail Market Appendix Table 5

Newly Built Space Equivalent of Charter Square Shopping Center

Charter Square Gross Leasable Area	55,000
Charter Square Sales (2013) ¹	\$10,600,000
Sales 2016\$	\$10,900,000
Vacancy Adjustment ² 10%	\$9,800,000
Average Sales Per Square Foot - Newly Built Space ³	\$475
Effective Loss of Newly Built Inventory	21,000

¹ City of Foster City, Bay Area Economics.

² Sales adjusted downward to account for additional vacancies that have occurred since 2013.

³ Weighted average of sales per square foot assumptions, Appendix Tables 3 and 4.

OFFICE MARKET DEMAND MODEL

Office Appendix Table 1
Office Growth Projection
Source: Hatch analysis

Assumptions

225 sf/emp office occupied
10% vacancy office
250 sf/emp office adjusted for vacancy

2,430,415 life science pipeline City of Foster City
450 sf/emp life science

Supportable office space		lower	upper
2017-40		ABAG	DOF
County Job Growth	See Appendix Table 2	70,900	90,500
Foster City Job Growth			
Share	Pipeline share, Appendix Table 4	10%	10%
Jobs		7,000	9,000
Office/R&D share ¹	Historical share of job growth ¹	85%	85%
Office employment growth		6,000	7,700
Life sciences jobs	Per pipeline, emp. density	5,400	5,400
Non-campus		600	2,300
Supportable office SF	250 SF/ emp	150,000	575,000
Projected supply	City of Foster City, Costar	71,000	71,000
Net supportable office SF		79,000	504,000

¹ U.S. Census Longitudinal Employer Household Dynamics 2002-2014.

Office Appendix Table 2
Employment Growth Projections

Source: ABAG, DOF, CalTrans, Hatch

(a) Association of Bay Area Governments

i. Based on Foster City Job Growth

2010-2040 Job Growth	ABAG 2016	6,000
2010-2016 Growth	Foster City CDD	1,485
Foster City jobs 2017-40		<u>4,515</u>

ii. Based on Regional Job Growth

San Mateo Jobs Projected 2040	ABAG 2016	475,300
San Mateo Jobs 2016E	Current Employment Statistics	404,400
Net Job Growth San Mateo County 2017-2040		<u>70,900</u>
Foster City jobs 2017-40	10.0% pipeline/historical share	7,090

(b) California Department of Transportation

Bay Area Job Growth 2017-40	CDOT 2016	843,800
San Mateo Share (CDOT)	10.7% CDOT 2016	90,500
Foster City jobs 2017-40	10.0% pipeline/historical share	<u>9,050</u>

ABAG 2016 = Draft Preferred Scenario 2016

CDOT 2016 = County-Level Economic Forecast for 2016

Office Appendix Table 3

Characteristics of Buildings 50,000 - 180,000 SF Built or Planned in San Mateo County Since 2010 ¹

Source: Costar (December 2016)

<i>Project Name</i>	<i>City</i>	<i>Building Area</i>	<i>Asking Rent</i>	<i>Major Tenants</i>	<i>Status</i>	<i>Year Built</i>	<i>Distance to CalTrain</i>
A. Single Buildings							
2075 Broadway St	Redwood City	116,000	\$78	Private foundation	Proposed	2018	0.2
405 E 4th Ave	San Mateo	60,000		n/a	Proposed	2018	0.2
1250 Grundy Ln	San Bruno	68,000		SF Police Credit Union	Under Construction	2017	0.9
601 Marshall St	Redwood City	133,100	\$83	Goodwin Procter (law)	Under Construction	2018	0.3
550 Allerton St	Redwood City	76,647	\$75	n/a	Under Construction	2017	0.3
889 Winslow St	Redwood City	75,569	\$81	Balsam Hill Christmas Tree Co. (e-commerce)	Under Construction	2017	0.1
				McKinsey (consulting)			
				Bessemer Venture Partners (finance)			
4085 Campbell Ave	Menlo Park	58,963		Hogan Lovells (law)	Existing	2013	2.7
				Jones Lang LaSalle (real estate)			
B. Multiple Buildings ¹							
Bay Meadows							
Station 1	San Mateo	95,000	\$57	n/a	Proposed	2018	0.1
Station 2 ²	San Mateo	189,000		n/a	Proposed	TBD	0.1
Station 3	San Mateo	174,000	\$57	OpenText (software)	Under Construction	2017	0.1
Station 4 ²	San Mateo	210,000		Survey Monkey (software)	Under Construction	2017	0.1
Station 5	San Mateo	95,000	\$57	n/a	Proposed	2018	0.1
400-450 Concar ³							
Building 1	San Mateo	95,813		n/a	Under Construction	2017	0.1
Building 2 North	San Mateo	107,072		Medallia (software)*	Under Construction	2017	0.1
Building 2 South	San Mateo	101,922		Medallia (software)*	Under Construction	2017	0.1
Crossing 900 ³							
Building A ²	Redwood City	212,988		Box (software)*	Under Construction	2015	0.1
Building B	Redwood City	121,012		Box (software)*	Existing	2015	0.1
The Science Center at Oyster Point ³							
180 Oyster Point ²	South San Francisco	115,888		ThermoFisher Scientific (biotechnology)	Existing	2009	0.9
200 Oyster Point	South San Francisco	88,999		ThermoFisher Scientific (biotechnology)	Existing	2010	0.9

Office Appendix Table 3**Characteristics of Buildings 50,000 - 180,000 SF Built or Planned in San Mateo County Since 2010 ¹**

Source: Costar (December 2016)

<i>Project Name</i>	<i>City</i>	<i>Building Area</i>	<i>Asking Rent</i>	<i>Major Tenants</i>	<i>Status</i>	<i>Year Built</i>	<i>Distance to CalTrain</i>
Commonwealth Corporate Center ³							
Building 1	Menlo Park	124,612		Dell EMC (computer storage)	Existing	2016	3.3
Building 2	Menlo Park	135,308		Dell EMC / Facebook sublease	Existing	2016	3.3
Clearview Businesss Park ³							
Building 6	San Mateo	110,876		GoPro (electronics)	Existing	2016	3.0
Buildings 1-5 ²	San Mateo	267,124		GoPro and Solar City (energy)	Existing	1972+	3.0

¹ Additions to large corporate campuses (Genentech, Facebook, and Verily/Google) excluded.² Building falls outside parameters. Included to reflect entire project.³ Mini-campus. Single tenant occupies multiple buildings totaling more than 180,000 SF.

Office Appendix Table 4**Office/R&D Development Pipeline**

Source: San Francisco Business Times (August 2016) and City of Foster City

City	Project	Status	Office/R&D SF
Brisbane	Sierra Point Biotech Campus	A	540,000
Brisbane	Opus Center Sierra Point	A	448,000
Brisbane	The Baylands	P	7,000,000
Burlingame	Burlingame Point	A	767,000
Burlingame	225 California Dr.	A	45,000
Burlingame	988 Howard Ave.	A	23,000
Burlingame	Peninsula Wellness Center	P	200,000
Burlingame	SFO @ Technology Center	P	238,162
East Palo Alto	University Square	UC	214,000
East Palo Alto	University Plaza Phase II	P	230,000
Foster City	Gilead office	Complete	314,524
Foster City	Gilead lab	Complete	215,318
Foster City	Gilead labs	UC	231,000
Foster City	Gilead labs	UC	357,000
Foster City	Lincoln Centre Campus Phase I	UC	320,000
Foster City	Lincoln Centre Campus Phase II	A	235,000
Foster City	Gilead Master Plan Remaining	A	606,415
Foster City	Family Dental Expansion	P	9,400
Foster City	Gilead Sciences	P	800,000
Menlo Park	Menlo Gateway Project Phase I	UC	200,000
Menlo Park	Menlo Gateway Project Phase II	A	500,000
Menlo Park	Commonwealth Corporate Center	UC	260,000
Menlo Park	Facebook campus expansion	A	960,000
Menlo Park	1300 El Camino Real	A	210,000
Menlo Park	300-500 El Camino Real	P	144,000
Menlo Park	Alma Station	P	25,000
Millbrae	The Gateway at Millbrae Station	P	150,000
Millbrae	BART TOD Site 1	P	270,000
Redwood City	601 Marshall St.	UC	129,000
Redwood City	550 Allerton St.	UC	69,000
Redwood City	815 Hamilton St.	UC	60,000
Redwood City	1020 Alma St.	UC	25,000
Redwood City	Stanford University RWC	A	1,600,000
Redwood City	2075 Broadway	A	66,786
Redwood City	Harbor View Plaza	P	1,000,000
Redwood City	Broadway Plaza	P	420,000
Redwood City	851 Main St.	P	86,000
Redwood City	W. L. Butler HQ	P	23,100
San Bruno	Police Officers Credit Union	P	67,850
San Carlos	Meridian 25	A	528,520

Office Appendix Table 4**Office/R&D Development Pipeline**

Source: San Francisco Business Times (August 2016) and City of Foster City

San Mateo	400 450 Concar	UC	276,400
San Mateo	Bay Meadows Station 4	UC	210,000
San Mateo	San Mateo Executive Park	UC	100,000
San Mateo	221 S El Camino Real	UC	32,500
San Mateo	Bay Meadows Station 3	UC	174,000
San Mateo	Bay Meadows II	A	400,000
San Mateo	Central Park South	A	33,000
San Mateo	Franklin Templeton HQ	A	241,900
South San Francisco	The Cove at Oyster Point Phase 1	Complete	247,000
South San Francisco	The Cove at Oyster Point Phase 2	UC	230,000
South San Francisco	The Cove at Oyster Point Phase 3	UC	336,000
South San Francisco	The Cove at Oyster Point Phase 4	A	165,000
South San Francisco	Genesis-South San Francisco	UC	150,000
South San Francisco	Genentech Master Plan	A	2,600,000
South San Francisco	The Landing at Oyster Point	A	2,250,000
South San Francisco	Gateway of Pacific	A	1,200,000
South San Francisco	Genesis-South San Francisco Phase	A	400,000
South San Francisco	494 Forbes Blvd.	A	326,020
South San Francisco	475 Eccles Blvd.Campus	A	262,200
South San Francisco	213-217 E. Grand Ave.	A	281,670
South San Francisco	Centennial Village	A	143,000
South San Francisco	328 Roebling Road	A	105,000

Totals	<u>County</u>	<u>Foster City</u>	<u>Share</u>
Under Construction	3,373,900	908,000	27%
Approved	14,937,511	841,415	6%
Proposed	10,663,512	809,400	8%
Total	25,601,023	2,558,815	10.0%

FINANCIAL FEASIBILITY MODEL

Feasibility Appendix Table 1: Commercial as zoned

Development Program			Pro Forma Analysis	
	<u>Number</u>	<u>Unit</u>	Development Costs	
Site Size	128,841	Square Feet	<i>Land Costs</i>	
Floor Area Ratio	1.32	Coverage	<i>Land Costs Subtotal</i>	\$8,116,990
Building Height	90	Feet	<i>Hard Costs</i>	
Commercial Square Feet			Site Development	\$2,576,822
Gross Commercial Sq. Ft.	170,000	Sq. Ft.	Parking Costs	\$11,412,000
Common Area/Circulation	15,500	Sq. Ft.	Office Construction Costs	\$51,000,000
Net Leasable Office Sq. Ft.	150,000	Sq. Ft.	Retail Construction Costs	\$1,350,000
Net Retail Sq. Ft.	4,500	Sq. Ft.	<i>Sub Total (rounded to '000)</i>	<i>\$66,339,000</i>
Parking			<i>Soft Costs</i>	
Parking to Meet Standard	503	Spaces	Architecture and Engineering	\$4,975,425
Parking Provided	503	Spaces	Building/Permitting/Impact Fees	\$1,020,000
On-Street Parking	30	Spaces	Construction Loan	\$4,410,118
Structured Parking	473	Spaces	Construction Loan Points	\$525,014
Subterranean Parking	-	Spaces	Interim Taxes	\$866,037.19
			Overhead/Development Fee/Other	\$2,344,067.81
			Contingency	\$4,023,983.08
			<i>Sub Total (rounded to '000)</i>	<i>\$18,165,000</i>
Summary of Assumptions			Total Development Cost (Rounded to '000)	\$92,621,000
Construction Costs			Development Feasibility	
Land Costs	\$63.00	Per Lot Sq. Ft.	Office	
Structured Parking Costs	\$24,000	Per Space	Annual Leasing Revenue (Net Sq. Ft.)	\$7,650,000
Site Development	\$20.00	Per Lot Sq. Ft.	Less Vacancy	(\$765,000)
Development Cost (including TI)	\$300	Per Sq. Ft.	Less Operating Expenses	(\$1,734,000)
Operating Costs			Less Broker Fees	(\$382,500)
Retail/Office Broker Fees	5.0%	Of Lease	<i>Net Annual Office Revenue</i>	<i>\$4,768,500</i>
Retail Management Expenses	\$0.15	Per Gross Sq. Ft.	Retail	
Office Full Service Lease Costs	\$0.85	Per Gross Sq. Ft.	Annual Leasing Revenue	\$135,000
Stabilized Retail/Office Vacancy Rate	10%	of Net Sq. Ft.	Less Vacancy	(\$13,500)
Soft Costs			Less Management Expenses	(\$8,100)
Architercture and Engineering	7.5% of Total Construction Costs		Less Broker Fees	(\$6,750)
Permitting and Devlpmnt Impact Fees	\$ 6.00	/Sq. Ft.	<i>Net Annual Retail Revenue</i>	<i>\$106,650</i>
Contingency	5.0% of toal development costs		Capitalized Value (rounded to '000)	\$75,002,000
Interest Rate	7.0%	of capitalized value	Revenue	\$75,002,000
Term of Construction	24	Months	Net Revenue/ (Loss)	(\$17,619,000)
Development Standards			Return on Development Costs	-19%
Office Parking Ratio	3.33	Spaces Per 1,000 SF		
Retail Parking Ratio	3.33	Spaces Per 1,000 SF		
Office Revenues				
Office Lease Rate (Full Service)	\$4.25	Per Net Sq. Ft. Per Month		
Office Capitalization Rate (Class A+)	6.50%			
Retail Revenues				
Average Retail Lease Rate	\$2.50	Per Sq. Ft. Per Month NNN		

Feasibility Appendix Table 2: Townhomes as Zoned

Development Program			Pro Forma Analysis	
	Number	Unit	Development Costs	
Site Size (assumes the entire purchase price)	26,842	Square Feet	<i>Land Costs (all land costs assigned)</i>	
Floor Area Ratio	1.08	Coverage	<i>Land Costs Subtotal</i> \$ 1,691,039	
Building Height	46	Except for Hillsdale Props.	<i>Hard Costs</i>	
Residential			Site Development \$ 536,838	
<i>Square Footage</i>			Parking Costs \$ 1,038,000	
Total Living Area Square Feet	28,900	Living Area Sq. Ft.	Residential Construction Costs \$ 6,791,500	
Average Unit Size	1,700	Square Feet	<i>Sub Total (rounded to '000)</i> \$ 8,366,000	
Total Units	17	Units	<i>Soft Costs</i>	
Affordable Housing	3.0	Units	Architecture and Engineering \$ 627,450	
Market Rate Unit	14.0	Units	Building/Permitting/Impact Fees \$ 1,241,000	
Unit Mix and Sizes	Number	Sales Price	Construction Loan \$ 1,001,379	
3-Bdrm Townhomes (1,700)	14	\$1,326,000	Construction Loan Points \$ 131,544	
3-Bdrm Low Income BMRTH (1,700)	1	\$279,000	Insurance \$ 334,640	
3-Bdrm Moderate Income BMR TH (1,700)	2	\$366,000	Overhead/Development Fee/Other \$ 341,021	
Parking			Contingency \$ 602,152	
Structured Parking	34	Spaces	<i>Sub Total (rounded to '000)</i> \$ 4,280,000	
Podium Parking			Total Development Cost (rounded to '000) \$ 14,337,000	
Tuck-Under Parking	34	Spaces	Development Feasibility	
On-Street Parking	9	On-Street Spaces	Residential	
Summary of Assumptions			<i>Sales Revenue</i>	
Construction Costs			Market Rate Units \$ 18,564,000	
Land Costs	\$63	Per Lot Sq. Ft.	Below Market Rate Units \$ 1,011,000	
Site Development	\$20	Per Lot Sq. Ft.	<i>Gross Sales Revenue</i> \$ 19,575,000	
Building Construction Costs	\$235	Per Sq. Ft.	<i>Less Marketing Expenses</i>	
Operating Costs/Sales Expenses			Marketing Expenses \$ (783,000)	
Condo Broker Fees	4%	Of Unit Price	<i>Total Marketing Expenses</i> \$ (783,000)	
Soft Costs			Net Residential Revenue (rounded to '000) \$ 18,792,000	
Architercture and Engineering	7.5% of Total Construction Costs		Revenue	
Interest Rate	7.25% of 70% of Project Value		Developer / Investor Profit \$ 4,455,000	
Term of Construction and Sales	18 Months		Return on Total Development Costs 31.1%	
Residential Absorption Period	3 Months			
Permitting and Devlpmnt Impact Fees	\$73,000 /Unit			
Defect liability insurance	4% of Total Construction Costs			
Other developer overhead (legal, account, etc	510% of total development costs			
Contingency	5% of total development costs			
Parking Standards				
Condo Residential Parking Ratio	2.5 Spaces per Residential Unit			
Flat Parking Requirement	2.5 Spaces per Residential Unit			

Feasibility Appendix Table 3: Hybrid Option (office and retail)

Development Program			Pro Forma Analysis	
	<u>Number</u>	<u>Unit</u>	Development Costs	
Site Size	65,866	Square Feet	<i>Land Costs</i>	
Floor Area Ratio	1.83	Coverage	<i>Land Costs Subtotal</i>	
Building Height	90	Feet	\$0	
Commercial Square Feet			<i>Hard Costs</i>	
Gross Commercial Sq. Ft.	120,450	Sq. Ft.	Site Development	\$1,317,318
Common Area/Circulation	10,950	Sq. Ft.	Parking Costs	\$8,500,000
Net Leasable Office Sq. Ft.	105,000	Sq. Ft.	Office Construction Costs	\$36,135,000
Net Retail Sq. Ft.	4,500	Sq. Ft.	Retail Construction Costs	\$1,350,000
Parking			<i>Sub Total (rounded to '000)</i>	<i>\$47,302,000</i>
Parking to Meet Standard	330	Spaces	<i>Soft Costs</i>	
Parking Provided	330	Spaces	Architecture and Engineering	\$3,547,650
On-Street Parking	10	Spaces	Building/Permitting/Impact Fees	\$722,700
Structured Parking	320	Spaces	Construction Loan	\$2,420,076
Subterranean Parking	-	Spaces	Construction Loan Points	\$384,139
Summary of Assumptions			Interim Taxes	\$609,453
Construction Costs			Overhead/Development Fee/Other	\$1,649,581
Land Costs	\$0.00	Per Lot Sq. Ft.	Contingency	\$2,831,780
Podium Parking	\$26,500	Per Space	<i>Sub Total (rounded to '000)</i>	<i>\$12,165,000</i>
Site Development	\$20.00	Per Lot Sq. Ft.	Total Development Cost (Rounded to '000)	
Development Cost (including TI)	\$300	Per Sq. Ft.	\$59,467,000	
Operating Costs			Development Feasibility	
Retail/Office Broker Fees	5.0%	Of Lease	Office	
Retail Management Expenses	\$0.15	Per Gross Sq. Ft.	Annual Leasing Revenue (Net Sq. Ft.)	\$5,355,000
Office Full Service Lease Costs	\$0.85	Per Gross Sq. Ft.	Less Vacancy	(\$535,500)
Stabilized Retail/Office Vacancy Rate	10%	of Net Sq. Ft.	Less Operating Expenses	(\$1,228,590)
Soft Costs			Less Broker Fees	(\$267,750)
Architecture and Engineering	7.5% of Total Construction Costs		<i>Net Annual Office Revenue</i>	<i>\$3,323,160</i>
Permitting and Development Impact Fees	\$6.00	/Sq. Ft.	Retail	
Contingency	5.0% of total development costs		Annual Leasing Revenue	\$135,000
Interest Rate	7.0%	of capitalized value	Less Vacancy	(\$13,500)
Term of Construction	18	Months	Less Management Expenses	(\$8,100)
Development Standards			Less Broker Fees	(\$6,750)
Office Parking Ratio	3.33	Spaces Per 1,000 SF	<i>Net Annual Retail Revenue</i>	<i>\$106,650</i>
Retail Parking Ratio	3.33	Spaces Per 1,000 SF	Capitalized Value (rounded to '000)	
Office Revenues			\$54,877,000	
Office Lease Rate (Full Service)	\$4.25	Per Net Sq. Ft. Per Month	Revenue	
Office Capitalization Rate	6.25%		\$54,877,000	
Retail Revenues			Net Revenue/ (Loss)	
Average Retail Lease Rate	\$2.50	Per Sq. Ft. Per Month NNN	(\$4,590,000)	
			Return on Development Costs	
			-8%	

Feasibility Appendix Table 4: Hybrid Alternative (Townhomes over flats with partially submerged parking)

Development Program			Pro Forma Analysis	
	Number	Unit	Development Costs	
Site Size (assumes the entire purchase price)	89,817	Square Feet	<i>Land Costs (all land costs assigned)</i>	
Floor Area Ratio	1.03	Coverage	<i>Land Costs Subtotal</i> \$ 9,808,029	
Building Height	46	Except for Hillsdale Props.	<i>Hard Costs</i>	
Residential			Site Development \$ 1,796,342	
<i>Square Footage</i>			Parking Costs \$ 4,270,000	
Total Living Area Square Feet	92,800	Living Area Sq. Ft.	Residential Construction Costs \$ 23,200,000	
Average Unit Size	1,326	Square Feet	<i>Sub Total (rounded to '000)</i> \$ 29,266,000	
Total Units	70	Units	<i>Soft Costs</i>	
Affordable Housing	14	Units	Architecture and Engineering \$ 2,194,950	
Market Rate Unit	56	Units	Building/Permitting/Impact Fees \$ 5,110,000	
Unit Mix and Sizes			Construction Loan \$ 3,922,742	
3-Bdrms Flats (1,200)	20	\$888,000	Construction Loan Points \$ 416,206	
3-Bdrm Townhomes (1,400)	36	\$1,092,000	Insurance \$ 1,170,640	
3-Bdrm Low Income BMR Flat (1,200)	2	\$279,000	Overhead/Development Fee/Other \$ 1,227,296.93	
3-Bdrm Low Income BMRTH (1,400)	1	\$279,000	Contingency \$ 2,165,391.72	
3-Bdrm Moderate Income BMR Flat (1,200)	4	\$366,000	<i>Sub Total (rounded to '000)</i> \$ 16,208,000	
3-Bdrm Moderate Income BMR TH (1,400)	7	\$366,000	Total Development Cost (rounded to '000) \$ 55,282,000	
Parking			Development Feasibility	
Structured Parking	-	Spaces	Residential	
Podium Parking			<i>Sales Revenue</i>	
Subterranean Parking	140	Spaces	Market Rate Units \$ 57,072,000	
On-Street Parking	35	On-Street Spaces	Below Market Rate Units \$ 4,863,000	
Summary of Assumptions			<i>Gross Sales Revenue</i> \$ 61,935,000	
Construction Costs			<i>Less Marketing Expenses</i>	
Land Costs	\$63	Per Lot Sq. Ft.	Marketing Expenses \$ (2,477,400)	
Site Development	\$20	Per Lot Sq. Ft.	<i>Total Marketing Expenses</i> \$ (2,477,400)	
Building Construction Costs	\$250	Per Gross Sq. Ft.	Net Residential Revenue (rounded to '000) \$ 59,458,000	
Operating Costs/Sales Expenses			Revenue	
Condo Broker Fees	4%	Of Unit Price	Developer / Investor Profit \$ 4,176,000	
Soft Costs			Return on Total Development Costs 7.6%	
Architercture and Engineering	7.5% of Total Construction Costs			
Interest Rate	7.25% of 70% of Project Value			
Term of Construction and Sales	18 Months			
Residential Absorption Period	8 Months			
Permitting and Devlpmnt Impact Fees	\$73,000 /Unit			
Defect liability insurance	4% of Total Construction Costs			
Other developer overhead (legal, account, etc)	3% of total development costs			
Contingency	5% of total development costs			
Parking Standards				
Condo Residential Parking Ratio	2.5	Spaces per Residential Unit		
Flat Parking Requirement	2.5	Spaces per Residential Unit		

Feasibility Appendix Table 5: Development Assumptions and Sources

Construction Costs			
	Number	Unit	Sources
Demolition and Site Preparation Costs	\$20.00	/Lot SF	
Construction Costs for Development Scenarios (per Gross Square Foot)			
Residential (Townhomes)	\$235	/SF	Developers, Master Building Inspector Foster City / R.S. Means
Residential (Townhomes over flats)	\$250	/SF	Developers, Master Building Inspector Foster City / R.S. Means
Office (including \$50 SF Tenant Allowance)	\$300	/SF	Developers, Master Building Inspector Foster City / R.S. Means
Parking Costs (Hard Costs Only)			
On-Street Parking	\$ 2,000	/Space	Developers, Master Building Inspector Foster City / R.S. Means
Tuck-Under Parking (Garage)	\$ 20,000	/Space	Developers, Master Building Inspector Foster City / R.S. Means
Structured Parking (Stand-alone)	\$ 24,000	/Space	Developers, Master Building Inspector Foster City / R.S. Means
Podium Parking	\$ 26,500	/Space	Developers, Master Building Inspector Foster City / R.S. Means
Subterranean Parking	\$ 30,000	/Space	Developers, Master Building Inspector Foster City / R.S. Means
Soft Costs			
	Number	Unit	Sources
Architecture & Engineering	7.5%	of Hard Costs	RS Means
Permitting Development Fees (See Devt Fees)	\$ 73,000	/Unit	Master Building Inspector (includes parking)
Permitting Development Fees (See Devt Fees)	\$ 6	/Gross Sq. Ft.	Master Building Inspector (includes parking)
Financing Costs			
Construction Loan	70%	Loan to Costs	Hatch
Interest Rate	7.00%	per Year	Hatch
Term of Construction	24	Months	Hatch
Loan Points	1%	of Loan Value	Hatch
Drawdown Factor	0.60	of Loan Value	Hatch
Property Taxes	1.12%	of Total Costs	City of Foster City
Defect Liability Insurance (Condo Only)	4%	of Hard Costs	Hatch
Contingency	5%	of Total Costs	Hatch
Overhead/Development Fee/Other	3%	of Total Costs	Hatch
Site Program			
	Number	Unit	Sources
Site Size	155,683	SF	Master Plan
Common Area Assumption			
Condo Residential Parking Ratio	2.50	/ Residential Unit	Master Plan
Office Parking Ratio	3.33	/ 1000 SF	Master Plan
Retail Parking Ratio	3.33	/ 1000 SF	Master Plan
Retail Height	12	Feet	Master Plan

Feasibility Appendix Table 5: Development Assumptions and Sources

Condo Residential Pricing			
	Number	Unit	Sources
Baseline Price	\$740	/SF	New Townhouse Sales in Foster City
Average Condominium Size	1,326	/SF	
Average Condominium Price	\$981,029	/Unit	
<i>Inclusionary Housing / In-Lieu Fee</i>			
Inclusionary stock requirement	20%	of Total Units	
Low-Income Sales Price (2 Bdrm)	\$246,000	Per Flat	City of San Mateo - County BMR Max Price
Low-Income Sales Price (3 Bdrm)	\$279,000	Per Townhouse	City of San Mateo - County BMR Max Price
Moderate-Income Sales Price (3 Bdrm)	\$366,000	Per Townhouse	City of San Mateo - County BMR Max Price
Revenue Assumptions			
	Number	Unit	Sources
Average Retail Lease Rate	\$2.50	/SF/mo./NNN	Co-Star
Average Office Lease Rate	\$4.25	/SF/mo./Full Service	Co-Star / Avison Young Quarterly Market Report
Retail Capitalization Rate	6.25%		Korpacz Investor Report (Class B location)/ Avison Young Qtr.
Office Capitalization Rate	6.25%		Korpacz Investor Report (Class B location) / Avison Young Qtr.
Operating Costs Assumptions			
	Number	Unit	Sources
Condo Broker/Marketing Fees	4%	of Unit Price	Hatch
Retail/Office Broker Fees	5%	of Lease	Hatch
Office Full Service Lease Costs	\$1.00	/Gross Sq. Ft.	Full Service Lease Costs
Retail/Office Management Expenses	\$0.15	/Gross Sq. Ft.	NNN Lease Costs
Stabilized Residential Vacancy Rate	5%	of Net Sq. Ft.	Co-Star
Stabilized Retail/Office Vacancy Rate	10%	of Net Sq. Ft.	
Developer Thresholds			
	Number	Unit	Sources
Land Costs	\$ 63	/Lot Sq. Ft.	Estimated Sales Price

RETAIL EXPENDITURE POTENTIAL MODEL

Retail Impacts Appendix Table 1

Core Assumptions

Household Incomes	
<i>Townhome Unit Income</i>	
Average Unit Value ¹	\$1,010,000
Mortgage Term ²	30 years
Interest rate ²	5.50% /year
Down payment ²	20%
Annual housing payment	\$55,100
Housing cost share of income ²	25%
Implied owner income	\$220,400
Discretionary spending adjustment ³	0.8
<i>Flat Unit Income</i>	
Average Unit Value ¹	\$760,000
Mortgage Term ²	30 years
Interest rate ²	5.50% /year
Down payment ²	20%
Annual housing payment	\$41,400
Housing cost share of income ²	25%
Implied owner income	\$165,600
Discretionary spending adjustment ³	0.9
<i>Rental Unit Income</i>	
Apartment Rent (market) ¹	\$3,400 /month
Housing cost share of income	30%
Household income	\$136,000
Income limit - affordable units	\$83,725
Affordable share	20%
Weighted average HH income	\$125,500
Discretionary spending adjustment ³	1.0
¹ Prevailing sales price/ market rents in Foster City. For-sale averages include BMR units. ² Typical lending terms. ³ Discretionary spending adjusted downward to based on analysis of Consumer Expenditure survey data showing reduced discretionary spending as percentage of income for higher-income households. The adjustment is applied to the assumed share of income spent on retail goods and services.	

Retail Impacts Appendix Table 1

Core Assumptions

Worker Households/ Commuting Patterns

Core Assumptions

Workers Per Household

Townhome	1.7 Hatch ¹
Flat	1.3 Hatch ¹
Apartment	1.0 US Census ¹

% Residents who work in Foster City² 8.10%

¹ Foster City averages one worker per household per U.S. Census.

Ratio increased for higher income households based on household income.

² U.S. Census Longitudinal Household-Employer Dynamics Survey.

Development Scenarios

	Applicant	Mixed Use	Entitlements
<u>Total Plan Area</u>			
Townhomes	88	64	37
Flats	0	26	0
Apartments	693	693	693
Office (SF)	102,000	217,950	270,443
Office (Workers)	306	654	811
Retail (SF)	21,057	25,557	25,557
Retail (Workers)	53	64	64
<u>Phase C</u>			
Townhomes	68	44	17
Flats	0	26	0
Apartments	0	0	0
Office (SF)	0	115,950	168,443
Retail (SF)	0	4,500	4,500

Retail Impacts Appendix Table 2

Expenditure Potential Factors

	Household Expenditure Potential - Foster City ²				Worker Exp. Potential ³	
	Household Income % ¹	Per HH Townhome	Per HH Flat	Per HH Apartment	Per Worker Office	Per Worker Retail
<u>Transportation</u>						
Motor Vehicle and Parts Dealers	5.8%	\$10,206	\$8,627	\$7,265	\$0	\$0
Gasoline Stations	2.7%	\$4,830	\$4,083	\$3,438	\$0	\$0
	8.5%	\$15,036	\$12,710	\$10,702	\$0	\$0
<u>Convenience Retail</u>						
Food and Beverage Stores	5.6%	\$8,100	\$7,030	\$6,014	\$1,080	\$767
Health and Personal Care Stores	1.3%	\$1,213	\$1,138	\$1,017	\$669	\$278
Misc. Store Retailers	1.4%	\$1,941	\$1,704	\$1,467	\$371	\$107
	8.3%	\$11,254	\$9,872	\$8,497	\$2,120	\$1,152
<u>Comparison Retail</u>						
General Merchandise Stores	4.9%	\$5,942	\$5,300	\$4,606	\$1,636	\$794
Home Furnishings and Appliance Stores	0.8%	\$1,464	\$1,238	\$1,042	\$0	\$0
Electronics Stores	0.8%	\$742	\$703	\$631	\$447	\$56
Building Material and Garden Equipment and Supp	1.2%	\$2,032	\$1,717	\$1,446	\$0	\$0
Clothing and Clothing Accessories Stores	2.4%	\$3,331	\$2,914	\$2,504	\$580	\$177
Sporting Goods, Hobby, Book, and Music Stores	0.8%	\$1,109	\$967	\$829	\$175	\$13
	10.9%	\$14,620	\$12,839	\$11,058	\$2,838	\$1,039
<u>Food and Beverage</u>						
Full Service	1.9%	\$2,212	\$1,980	\$1,724	\$654	\$242
Limited Service	1.9%	\$2,034	\$1,854	\$1,630	\$791	\$414
	3.7%	\$4,246	\$3,834	\$3,354	\$1,445	\$655
<u>Services</u>						
Personal Services	1.3%	\$1,895	\$1,644	\$1,406	\$249	\$66
Education	1.7%	\$3,009	\$2,543	\$2,142	\$0	\$0
Health Services	1.2%	\$2,167	\$1,831	\$1,542	\$0	\$0
	4.2%	\$7,070	\$6,018	\$5,089	\$249	\$66
<u>Entertainment</u>						
	1.1%	\$1,470	\$1,285	\$1,104	\$251	\$43

¹ Bureau of Labor Statistics Consumer Expenditure Survey.

² Local expenditure potential for households calculated by multiplying spending factor by household income. A discretionary income adjustment is made for high-income households (see Appendix Table 1). Household spending is also reduced to account for spending near work by residents who commute out of the City.

³ International Council of Shopping Centers (ICSC) survey of suburban office workers (2012). Spending by clerical workers used as a proxy for retail workers.

Retail Impacts Appendix Table 3

Expenditure Potential By Scenario¹

	Applicant			Mixed-Use			Entitlements		
	Households	Workers	Total	Households	Workers	Total	Households	Workers	Total
	781	359	1,140	783	718	1,501	730	875	1,605
<u>Transportation</u>									
Motor Vehicle and Parts Dealers	\$5,932,449	\$0	\$5,932,449	\$5,911,805	\$0	\$5,911,805	\$5,411,933	\$0	\$5,411,933
Gasoline Stations	\$2,807,438	\$0	\$2,807,438	\$2,797,669	\$0	\$2,797,669	\$2,561,112	\$0	\$2,561,112
	<u>\$8,739,887</u>	<u>\$0</u>	<u>\$8,739,887</u>	<u>\$8,709,474</u>	<u>\$0</u>	<u>\$8,709,474</u>	<u>\$7,973,045</u>	<u>\$0</u>	<u>\$7,973,045</u>
<u>Convenience Retail</u>									
Food and Beverage Stores	\$4,880,253	\$371,007	\$5,251,260	\$4,868,632	\$755,726	\$5,624,357	\$4,467,152	\$925,361	\$5,392,513
Health and Personal Care Stores	\$811,326	\$219,343	\$1,030,669	\$811,821	\$455,288	\$1,267,109	\$749,484	\$560,308	\$1,309,792
Misc. Store Retailers	\$1,187,395	\$119,143	\$1,306,537	\$1,185,104	\$249,465	\$1,434,568	\$1,088,395	\$307,713	\$1,396,108
	<u>\$6,878,974</u>	<u>\$709,492</u>	<u>\$7,588,466</u>	<u>\$6,865,557</u>	<u>\$1,460,478</u>	<u>\$8,326,035</u>	<u>\$6,305,031</u>	<u>\$1,793,382</u>	<u>\$8,098,412</u>
<u>Comparison Retail</u>									
General Merchandise Stores	\$3,714,536	\$542,466	\$4,257,002	\$3,709,728	\$1,120,892	\$4,830,620	\$3,411,478	\$1,377,782	\$4,789,260
Home Furnishings and Appliance Stores	\$851,002	\$0	\$851,002	\$848,041	\$0	\$848,041	\$776,335	\$0	\$776,335
Electronics Stores	\$502,314	\$139,742	\$642,056	\$502,785	\$295,969	\$798,753	\$464,487	\$366,165	\$830,652
Building Material and Garden Equipment and Suppl	\$1,181,019	\$0	\$1,181,019	\$1,176,909	\$0	\$1,176,909	\$1,077,395	\$0	\$1,077,395
Clothing and Clothing Accessories Stores	\$2,028,658	\$186,721	\$2,215,379	\$2,024,475	\$390,497	\$2,414,972	\$1,858,762	\$481,525	\$2,340,287
Sporting Goods, Hobby, Book, and Music Stores	\$672,356	\$54,156	\$726,512	\$670,884	\$115,113	\$785,996	\$615,804	\$142,547	\$758,351
	<u>\$8,949,884</u>	<u>\$923,085</u>	<u>\$9,872,970</u>	<u>\$8,932,821</u>	<u>\$1,922,470</u>	<u>\$10,855,291</u>	<u>\$8,204,262</u>	<u>\$2,368,019</u>	<u>\$10,572,280</u>
<u>Food and Beverage</u>									
Full Service	\$1,389,656	\$212,823	\$1,602,479	\$1,388,065	\$443,125	\$1,831,190	\$1,276,862	\$545,787	\$1,822,649
Limited Service	\$1,308,373	\$263,843	\$1,572,216	\$1,307,745	\$543,837	\$1,851,582	\$1,204,627	\$668,037	\$1,872,664
	<u>\$2,698,029</u>	<u>\$476,666</u>	<u>\$3,174,695</u>	<u>\$2,695,810</u>	<u>\$986,962</u>	<u>\$3,682,772</u>	<u>\$2,481,489</u>	<u>\$1,213,824</u>	<u>\$3,695,313</u>
<u>Services</u>									
Personal Services	\$1,140,917	\$79,625	\$1,220,542	\$1,138,181	\$166,972	\$1,305,153	\$1,044,289	\$206,040	\$1,250,328
Education	\$1,748,860	\$0	\$1,748,860	\$1,742,774	\$0	\$1,742,774	\$1,595,414	\$0	\$1,595,414
Health Services	\$1,259,302	\$0	\$1,259,302	\$1,254,920	\$0	\$1,254,920	\$1,148,811	\$0	\$1,148,811
	<u>\$4,149,079</u>	<u>\$79,625</u>	<u>\$4,228,704</u>	<u>\$4,135,876</u>	<u>\$166,972</u>	<u>\$4,302,848</u>	<u>\$3,788,513</u>	<u>\$206,040</u>	<u>\$3,994,553</u>
<u>Entertainment</u>	\$894,578	\$78,999	\$973,577	\$892,710	\$166,776	\$1,059,485	\$819,592	\$206,158	\$1,025,750

¹ Calculated by multiplying build-out populations (Table 1) by spending factors (Table 2).

Retail Impacts Appendix Table 4

Required Capture of Citywide Demand

	F&B Limited Svc	F&B Full Service	Personal Services	Education
Square Feet ¹	2,276	3,000	999	2,566
Sales /SF Benchmark ²	\$450	\$500	\$350	\$350
Sales Target	\$1,020,000	\$1,500,000	\$350,000	\$900,000
<u>Expenditure Potential³</u>				
Applicant	\$1,572,000	\$1,602,000	\$1,221,000	\$1,749,000
Entitlements	\$1,873,000	\$1,823,000	\$1,250,000	\$1,595,000
Mixed Use	\$1,852,000	\$1,831,000	\$1,305,000	\$1,743,000
Plan Area Capture ⁴	20%	15%	15%	20%
<u>Sales Gap</u>				
Applicant	\$710,000	\$1,260,000	\$167,000	\$548,000
Entitlements	\$650,000	\$1,227,000	\$162,000	\$579,000
Mixed Use	\$654,000	\$1,225,000	\$154,000	\$550,000
Citywide Demand	\$21,110,000	\$25,197,000	\$23,907,000	\$31,324,000
Basis	Leakage ⁵	Leakage ⁵	Gross ⁶	Gross ⁶
<u>Citywide Capture Requirement</u>				
Applicant	3.4%	5.0%	0.7%	1.8%
Entitlements	3.1%	4.9%	0.7%	1.8%
Mixed Use	3.1%	4.9%	0.6%	1.8%

¹ Total occupied square feet in plan area.

² Based on sales reported by category in California Retail Analytics by HdL (2014), Dollars and Cents of Shopping Centers by ULI (2008), and Pacific Malls Index by ICSC (2016).

³ Impacts Appendix Table 3.

⁴ Hatch assumption.

⁵ See Retail Market Appendix Table 1 for leakage estimate.

⁶ Gross citywide demand calculated using citywide aggregate income (Retail Market Table 1) and spending factors derived from the BLS Consumer Expenditure Survey (Retail Market Table 2)