4 ECONOMICS

A complete understanding of economic trends and projections serves as a foundation for the General Plan Update. This chapter begins with a summary of the local policies and plans related to Novato's economy. This chapter then discusses local employment and resident labor force trends, summarizes projections for the housing market and analyzes characteristics of the office, industrial and retail market in Novato. The chapter concludes with a supportable, square-feet analysis that examines the leakage of sales to neighboring communities and identifies the potential for Novato to recapture leaked sales and support additional retail space.

A. Regulatory Framework

1. Novato General Plan

The existing General Plan includes an Economic Development and Fiscal Vitality chapter that addresses Novato's economy. The chapter establishes the following seven objectives:

1. Foster economic development;
2. Maximize the capacity for employment-generating uses in areas designated for non-retail business;
3. Encourage businesses, particularly targeted businesses that provide a variety of employment opportunities;
4. Retain and attract businesses;
5. Revitalize the Downtown area;
6. Encourage sustainable local economic activity; and
7. Focus future City policymaking on the relationship between workplace uses and Novato's fiscal condition.

The Economic Development and Fiscal Vitality chapter includes many policies and programs to implement these objectives.

2. City of Novato Strategic Plan 2010-2014

Novato's economy is addressed in the Sustainable Community section of the Community Strategic Plan. As it relates to the local economy, the Community Strategic Plan includes the following vision statements:

1. A community with a stable economy and a strong, diverse tax base;
2. A community with a vibrant, lively and dynamic Downtown;
3. A community that provides residents with a full spectrum of jobs and housing so that those living here may be locally employed, and those working here are able to afford local housing; and
4. A community that is a tourist destination.

The Community Strategic Plan includes a number of objectives to help realize this vision.

3. Downtown Novato Specific Plan

The Downtown Novato Specific Plan includes a Mission Statement and a series of goals that relate to the City's economy in a number of ways. The Mission Statement states that Downtown should be Novato's thriving multi-faceted economic hub; should serve as a social, cultural, historical and cultural center; and should attract people for commerce and community affairs from Novato and the surrounding region. Economy-related goals include encouraging more Downtown promotions, extending business hours, initiating a local marketing campaign and drawing in more businesses, among others.

4. Economic Development Strategy

Novato prepared the Economic Development Strategy in 2005 to focus City efforts on key ways to support and expand the local economy. The Economic Development Strategy focuses on three goals:

1. Improve organizational effectiveness and efficiency;
2. Broaden the City's economic base, enhance revenues and balance expenditures with revenues; and
3. Revitalize the Downtown.

The Economic Development Strategy recommends 17 specific strategies to achieve these goals. Suggested strategies include streamlining the permit approval process, preparing a plan for the Redwood Boulevard corridor and selling certain City-owned sites in the Hamilton area, among many others.

B. Local Employment

This section discusses employers located in Novato and Marin County. Employment patterns of Novato residents are discussed in Section C below.

1. Major Employers

Novato's largest employers include BioMarin Pharmaceuticals (850 employees), the Novato Unified School District (771 employees) and the Fireman's Fund Insurance Company (750 employees). The city's top 14 employers comprise a mix of industries, ranging from medical and professional services to public agencies and large retailers (see Table 4-1).

The Buck Institute for Research on Aging, with approximately 272 employees, also represents a major Novato employer. An independent 501(c)(3) nonprofit organization, the Institute has a $38 million annual operating budget, and recently completed a new stem cell research center, partially funded by the California Institute for Regenerative Medicine.

2. Employment by Sector

Novato benefits from a gradually expanding economy, with rising employment and growing industry diversification. Novato generates approximately 20% of Marin County's economic value, and saw jobs gains over the past decade and in a broad array of sectors. Health care, private education and professional/scientific services lead the way. Specifically, Sutter Health significantly expanded its presence in Novato and purchased two, 100,000 square foot buildings adjacent to Novato's hospital in order to accommodate its needs to expand medical office space.

Biotechnology is also thriving in Novato. BioMarin has spawned startups with former executives launching Raptor Pharmaceuticals and most recently Ultragenyx; MarinBiologic also launched in Novato. In 2012, the Buck Institute completed a 60,000 square foot expansion project on its 488 acre Novato campus. Expansion in these sectors reflects job growth in well-paying, high skilled jobs offsetting losses in retail and finance/insurance industries.[1]

According to the Association of Bay Area Governments, Novato is home to about 24,200 employed residents and the city provides approximately 20,900 jobs. Jobs are concentrated in Health, Educational and Recreational Services (31 percent) and Financial and Professional Services (30 percent). Retail jobs comprised about 12 percent of all jobs in Novato. Overall, the Marin County job concentrations in the various sectors were similar to those found in Novato (see Table 4-2).

TABLE 4-1 MAJOR EMPLOYERS, NOVATO, 2013[a]

Company/Organization	Number of Employees	Industry Type
BioMarin Pharmaceuticals[b]	850	Pharmaceuticals
Novato Unified School District	771	School District
Fireman's Fund	750	Insurance
Novato Community Hospital	289	Hospital
Buck Institute for Research on Aging	272	Medical Research
Frank Howard Allen, Realtors[b]	248	Real Estate
W. Bradley Electric	230	Electrical Contractors
Brayton Purcell LLP	209	Legal Services
Bank of Marin[b]	197	Banking
City of Novato	187	Government
Cagwin & Dorward[b]	182	Landscape Contracting
Costco Wholesale[c]	120	Retail
Safeway[c]	120	Food Sales
Target[c]	100	Retail

[a] This list represents the largest businesses and organizations based in Novato, employing at least 100 people. In 2013, over 3,100 businesses were registered as businesses within the City of Novato.
[b] Novato-based employers with multiple locations in Marin County. On October 29, 2013, Frank Howard Allen was acquired by Coldwell Banker Residential Brokerage.
[c] Number of employees working at Novato locations estimated using building size and data from the U.S. Energy Information Administration, Commercial Buildings Energy Consumption Survey, 2003.
Sources: North Bay Business Journal Book of Lists, 2013; Novato Unified School District, 2013; Buck Institute for Aging, 2013; City of Novato, 2013.

[1] City of Novato Economic Report 2011; Marin Economic Forum.

TABLE 4-2 **JOBS BY SECTOR IN NOVATO AND MARIN COUNTY, 2010**

	Number of Employees	Percent of Total
Novato		
Agriculture and Natural Resources	71	<1%
Manufacturing, Wholesale and Transportation	1,363	7%
Retail	2,510	12%
Financial and Professional Services	6,268	30%
Health, Educational, and Recreational Services	6,418	31%
Other Jobs	4,263	20%
Total	20,893	100%
Marin County		
Agriculture and Natural Resources	749	1%
Manufacturing, Wholesale and Transportation	5,845	5%
Retail	14,242	13%
Financial and Professional Services	28,071	25%
Health, Educational, and Recreational Services	37,595	34%
Other Jobs	24,231	22%
Total	110,733	100%

Source: Association of Bay Area Governments, Projections Preferred Scenario v20, May 24, 2013.

TABLE 4-3 **JOB PROJECTIONS IN NOVATO AND MARIN COUNTY, 2010 TO 2035**

	2010	2015	2020	2025	2030	2035	Total Change 2010-2035	% Change 2010-2035
Novato								
Agriculture and Natural Resources	71	73	74	71	68	66	(5)	**(7%)**
Manufacturing, Wholesale and Transportation	1,363	1,389	1,416	1,246	1,097	944	(419)	**(31%)**
Retail	2,510	2,523	2,537	2,538	2,540	2,544	34	**1%**
Financial and Professional Services	6,268	6,572	6,891	7,187	7,497	7,855	1,587	**25%**
Health, Educational, and Recreational Services	6,418	6,690	6,973	7,111	7,251	7,432	1,014	**16%**
Other Jobs	4,263	4,532	4,818	4,883	4,949	5,032	769	**18%**
Total	**20,893**	**21,779**	**22,709**	**23,037**	**23,402**	**23,873**	**2,980**	**14%**
Marin County								
Agriculture and Natural Resources	749	765	782	750	720	693	(56)	**(7%)**
Manufacturing, Wholesale and Transportation	5,845	5,896	5,948	5,304	4,731	4,143	(1,702)	**(29%)**
Retail	14,242	14,334	14,448	14,459	14,471	14, 502	260	**2%**
Financial and Professional Services	28,071	29,950	31,971	33,398	34,893	36,658	8,587	**31%**
Health, Educational and Recreational Services	37,595	39,318	41,124	42,005	42,906	44,069	6,474	**17%**
Other Jobs	24,231	24,957	25,725	25,911	26,100	26,311	2,080	**9%**
Total	**110,733**	**115,231**	**119,996**	**121,828**	**123,820**	**126,377**	**15,643**	**14%**

Source: Association of Bay Area Governments, Projections Preferred Scenario v20, May 24, 2013.

3. Employment Projections

Table 4-3 provides ABAG employment projections for Novato and Marin County. ABAG anticipates Novato will add 2,980 jobs through 2035, a 14 percent gain. The data show particular expansion among Financial and Professional Services and Health, Education and Recreational Services sectors. ABAG expects these categories to grow by 25 percent and 16 percent, respectively, over 25 years, the largest gains among all industries. The Retail category is expected to grow by just 1 percent, while the Agriculture and Natural Resources and Manufacturing, Wholesale and Transportation categories are projected to decline.

Similar to Novato, Marin County jobs are concentrated in Health and Educational and Financial and Professional Services. Between 2010 and 2035, the largest job increases in the county are also projected to occur in these sectors. The total number of jobs in the county is expected to increase by 14 percent.

4. Jobs/Housing Ratio

A healthy jobs/housing ratio increases opportunities for residents to work locally, decreasing congestion and commute time, and improving workers' productivity and quality of life. Moreover, a strong and diversified local job base supports fiscal health, helping local governments endure fluctuations in different segments of the regional and national economies. For example, the municipal finances of "bedroom communities" with a limited amount of local employment were hit particularly hard by the downturn in the housing market and the corresponding decline in property tax revenue.

Economists and land use planners often use the region as a benchmark for a healthy jobs/housing ratio, based on the notion that Bay Area employers generally draw their workforce from within the region.[2] ABAG estimates that the region had approximately 1.30 jobs per household in 2010, and projects this ratio to grow to 1.36 jobs per household by 2035.

As shown in Table 4-4, Novato's jobs/housing ratio is lower than the regional figure, indicating a deficit of employment opportunities for residents. ABAG estimates the City had 1.03 jobs per household in 2010, and expects jobs to grow to 1.12 jobs per household in 2035. The jobs/housing ratio is slightly higher for Marin County.

[2] Due largely to high home prices in the region, workers have increasingly been forced to "super-commute" from homes outside the Bay Area to local jobs. However, these workers still represent a relatively small share of total jobs in the Bay Area.

TABLE 4-4 POPULATION, HOUSEHOLD, AND JOB PROJECTIONS, 2010 TO 2035

	2010	2015	2020	2025	2030	2035	Total Change 2010 - 2035	% Change 2010 - 2035
Novato								
Population	51,904	52,526	53,163	53,963	54,699	55,669	3,765	7%
Households	20,279	20,472	20,679	20,878	21,070	21,255	976	5%
Jobs	20,893	21,779	22,709	23,036	23,402	23,873	2,980	14%
Jobs/Housing Ratio	*1.03*	*1.06*	*1.10*	*1.10*	*1.11*	*1.12*		
Marin County								
Population	252,409	256,714	261,126	266,453	271,981	278,593	26,184	10%
Households	103,210	104,657	106,164	107,605	109,103	110,543	7,333	7%
Jobs	110,733	115,231	119,996	121,828	123,820	126,377	15,643	14%
Jobs/Housing Ratio	*1.07*	*1.10*	*1.13*	*1.13*	*1.13*	*1.14*		
Bay Area								
Population	7,150,739	7,461,933	7,786,673	8,133,885	8,496,622	8,888,709	1,737,970	24%
Households	2,608,023	2,720,444	2,837,710	2,952,969	3,072,910	3,188,342	580,319	22%
Jobs	3,385,300	3,669,996	3,987,140	4,089,203	4,196,576	4,346,711	961,411	28%
Jobs/Housing Ratio	*1.30*	*1.35*	*1.41*	*1.38*	*1.37*	*1.36*		

Sources: Association of Bay Area Governments, Projections Preferred Scenario v20, May 24, 2013; City of Novato Community Development Department, 2013.

TABLE 4-5 **CIVILIAN RESIDENTS AGED 16 YEARS AND OLDER BY OCCUPATION, NOVATO, MARIN COUNTY AND BAY AREA, 2011**

	Novato		Marin County		Bay Area	
Occupation[a]	**Number**	**% of Total**	**Number**	**% of Total**	**Number**	**% of Total**
Management, Business, Science, and Arts Occupations	10,931	43%	64,076	51%	1,556,464	45%
Service Occupations	4,614	18%	18,586	15%	564,886	16%
Sales and Office Occupations	6,511	25%	28,321	23%	804,540	23%
Natural Resources, Construction, and Maintenance Occupations	2,212	9%	8,202	7%	256,415	7%
Production, Transportation and Material Moving Occupations	1,354	5%	5,596	4%	284,323	8%
Total Employed Residents	**25,622**	**100%**	**124,781**	**100%**	**3,466,628**	**100%**

[a] The U.S. Census defines the Labor Force as all employed persons, both civilian and in the armed unemployed persons who had been looking for work within the past four weeks, and were available to start a job, as well as those who were on temporary layoff from a job.
Sources: U.S. Census Bureau, 2007-2011 American Community Survey.

C. Resident Labor Force Trends

This section describes the types of jobs held by Novato residents and discusses the commute-to-work patterns of Novato residents and workers.

1. Occupations and Labor Force Participation

Table 4-5 provides data on the occupations of Novato's residents (contrasting with jobs located in Novato, discussed in Section B) as well as unemployment rates. According to the 2007-2011 American Community Survey, management, business, science and arts occupations are the most common occupations for Novato residents.

Approximately 43 percent of employed residents held these jobs, compared to 51 percent in the county, and 45 percent for the Bay Area. At the same time, Novato residents held slightly more service, sales and office and construction jobs compared to the other geographies.

In August 2013, an estimated 6.0 percent of Novato residents in the labor force were unemployed. This figure is higher than the county's 5.0 percent and the Bay Area's unemployed rate of 6.6 percent.

2. Commute-to-Work Patterns

A key issue facing many suburban Bay Area communities is the pattern of out-commuting by residents to other locations for work, and the simultaneous in-commuting of workers to local jobs. These in- and out-commute patterns negatively affect the local quality of life through traffic congestion, time spent traveling and air quality and greenhouse gas emissions. Many cities and regions address this issue by seeking to establish a local job base that parallels residents' skills and occupations.

As shown in Table 4-6, Novato showed a generally equal balance between the number of employed residents (26,325) and local jobs (24,655) in 2008. Moreover, over 35 percent of Novato's employed residents worked in the city, a generally favorable ratio compared to many Bay Area suburbs. For example, 44 percent of San Rafael's employed residents, 24 percent of Sunnyvale's employed residents, and 35 percent of Walnut Creek's employed residents worked in their respective cities. Another 20 percent of Novato's employed residents worked in San Rafael, nearly 12 percent in San Francisco, and nearly 5 percent in large cities located in Sonoma County.

Table 4-6 also shows that in 2008 over 37 percent of Novato jobs were held by residents, again a positive indicator of a good jobs/housing balance. In comparison, 28 percent of San Rafael jobs, 20 percent of Sunnyvale jobs, and 18 percent of Walnut Creek jobs were held by local residents.

D. Residential Real Estate

Chapter 3, Population and Housing, summarizes housing stock characteristics, sales prices, rental trends and housing affordability in Novato. This section discusses the outlook for the housing market in Novato, focusing on the demand for different housing types resulting from projected economic trends.

After a prolonged economic recession and weak residential real estate market, Novato housing prices and sales volume began to recover in 2012. Underlying strengths in the Novato market suggest that the City can expect a continued recovery over the near-term to medium-term. Factors that support long-term demand for housing include a high quality of life, solidly-performing school district, relative proximity to various employment centers along the Highway 101 corridor and an expanding local job base. The planned SMART rail line may further bolster the city's appeal.

As the market continues to rebound, Novato will likely see more production of higher-density product types, including townhomes and condominiums. These product types began to gain market acceptance in the last housing cycle, as shown by building permit trends. This trend will be particularly pronounced around Novato's Downtown and, potentially, the proposed SMART stations.

TABLE 4-6 NOVATO COMMUTE PATTERNS, 2008

Novato Residents to Place of Work[a]	Number	Percent	Novato Workers from Place of Residence[a]	Number	Percent
Novato	*9,280*	*35.3%*	*Novato*	*9,280*	*37.6%*
Unincorporated Areas and Small Cities in California[b]	5,988	22.7%	Unincorporated Areas and Small Cities in California[b]	5,480	22.2%
San Rafael	5,290	20.1%	Other Large Cities in California[c]	2,545	10.3%
San Francisco	3,030	11.5%	San Rafael	2,150	8.7%
Other Large Cities in California[c]	2,050	7.8%	Petaluma	1,880	7.6%
Petaluma	675	2.6%	Rohnert Park	1,150	4.7%
Oakland	435	1.7%	Santa Rosa	875	3.5%
Santa Rosa	360	1.4%	San Francisco	725	2.9%
Rohnert Park	205	0.8%	Vallejo	560	2.3%
Out of State	60	0.2%	Out of State	55	0.2%
Total	**26,325**	**100.0%**	**Total**	**24,655**	**100.0%**
Novato Residents Out-Commuting	**17,045**	**64.7%**	**Novato Workers In-Commuting**	**15,375**	**62.4%**

[a] Workers 16 years and over; includes those who worked at home.
[b] "Unincorporated and Small Cities in California" include Census Designated Places (CDPs) and cities with populations of less than 50,000.
[c] "Other Large Cities in California" include CDPs and cities with population of 50,000 or more..
Source: US Census, American Community Survey 2006-2008, Census Transportation Planning Package (CTPP).

E. Office and Industrial Real Estate Market

This section describes the office and industrial real estate market in Novato. Included in this section are an overview of the market, a description of five key subareas within the city and a discussion of the future outlook for the market. Included in the market outlook is an analysis of supportable office and industrial space in Novato by 2035.

1. Market Overview

Interviews with local brokers indicate that Novato has historically served as an attractive option for southern Marin County employers looking to expand to larger floorplates while maintaining a presence in the county. As an example of this process, a start-up firm may begin in a 5,000-square-foot space in Sausalito, expand to 30,000 square feet in San Rafael and then relocate to a 45,000-square-foot facility in Novato over its lifespan. Novato has successfully maintained this role as an expansion zone for Marin County employers due to its availability of land, access to affordable workforce housing and lower office lease rates.

The City of Novato Economic Development Department reports that Novato contains approximately 3.4 million square feet of office space, with a vacancy rate of 18 percent as of October 2013. This rate represents a drop from a high of 21 percent one year prior, and remains in line with countywide trends, which show vacancies slowly decreasing over the last 12 months from 14 to 13 percent. The average asking lease rate in Novato during this time period was approximately $2.00/square-foot/month on a triple-net basis (NNN).[3]

In comparison, Marin office submarkets closer to San Francisco are showing an increase in vacancies from 10 percent to 12 percent over the last twelve months but they have higher lease rates than Novato. The Southern Marin submarket, defined by NAIBT Commercial as Sausalito, Tiburon, and Mill Valley, has a vacancy rate of 12 percent and an average asking rate of $3.16/square-foot per month. Central Marin, encompassing Corte Madera, Greenbrae, and Larkspur, has a 7 percent vacancy rate and an average asking rate of $3.58/square-foot.

Compared to Novato's office market, local brokers report that the City's industrial market remains more stable, thanks to the limited amount of industrial space in Novato. There is approximately 1.1 million square feet of industrial space with a vacancy rate of 4 percent and 1.5 million square feet of flex and specialty space with a vacancy rate of 7 percent. Lease rates average approximately $1.30/square foot for industrial space and $1.20/square foot for flex space.

2. Novato Subareas and Comparables

The Novato office market is organized around five main subareas, shown in Figure 4-1: Hamilton Landing, Bel Marin Keys, Rowland Plaza, Central Novato and Northern Novato.

a. Hamilton Landing

With approximately 460,000 square feet of predominately Class B space, Hamilton Landing contains some of Novato's prime office properties. Lease rates are among the highest in the city, ranging from $2.35 to $2.50/square-foot, and the current vacancy rate is 34 percent. Major tenants in the area include Smith & Hawken, Take-Two Interactive, ImageMovers Digital and a division of Disney.

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[3] All commercial lease rates expressed as monthly, triple-net. Under a "triple-net" lease, the lessee pays taxes, insurance and maintenance fees in addition to rent.

b. Bel Marin Keys

Bel Marin Keys primarily includes Class B and C office space, as well as industrial and office/industrial flex properties. In October 2013, vacancies were around 7 percent and lease rates averaged approximately $1.25/square-foot. Tenants include a mix of small professional office users, services and semi-industrial uses.

Bel Marin Keys also contains the majority of Novato's industrial property inventory. BioMarin Pharmaceuticals, one of Novato's largest employers with 365 jobs, occupies approximately 300,000 square feet of office, manufacturing, and lab space in the area.

c. Rowland Plaza

Rowland Plaza, just north of the Vintage Oaks shopping center, has four primary Class B office buildings: 75 Rowland Way, with 80,000 square feet; 88 Rowland Way, with 58,000 square feet; 100 Rowland Way, with 53,000 square feet; and 101 Rowland Way, with 62,000 square feet. As October 2013, the vacancy rate was 25 percent, and lease rates were $2.25 to $2.40/square foot. In addition to this space, Sutter Medical also owns and currently occupies the Golden Gate Plaza buildings further north along Rowland Way.

d. Central Novato

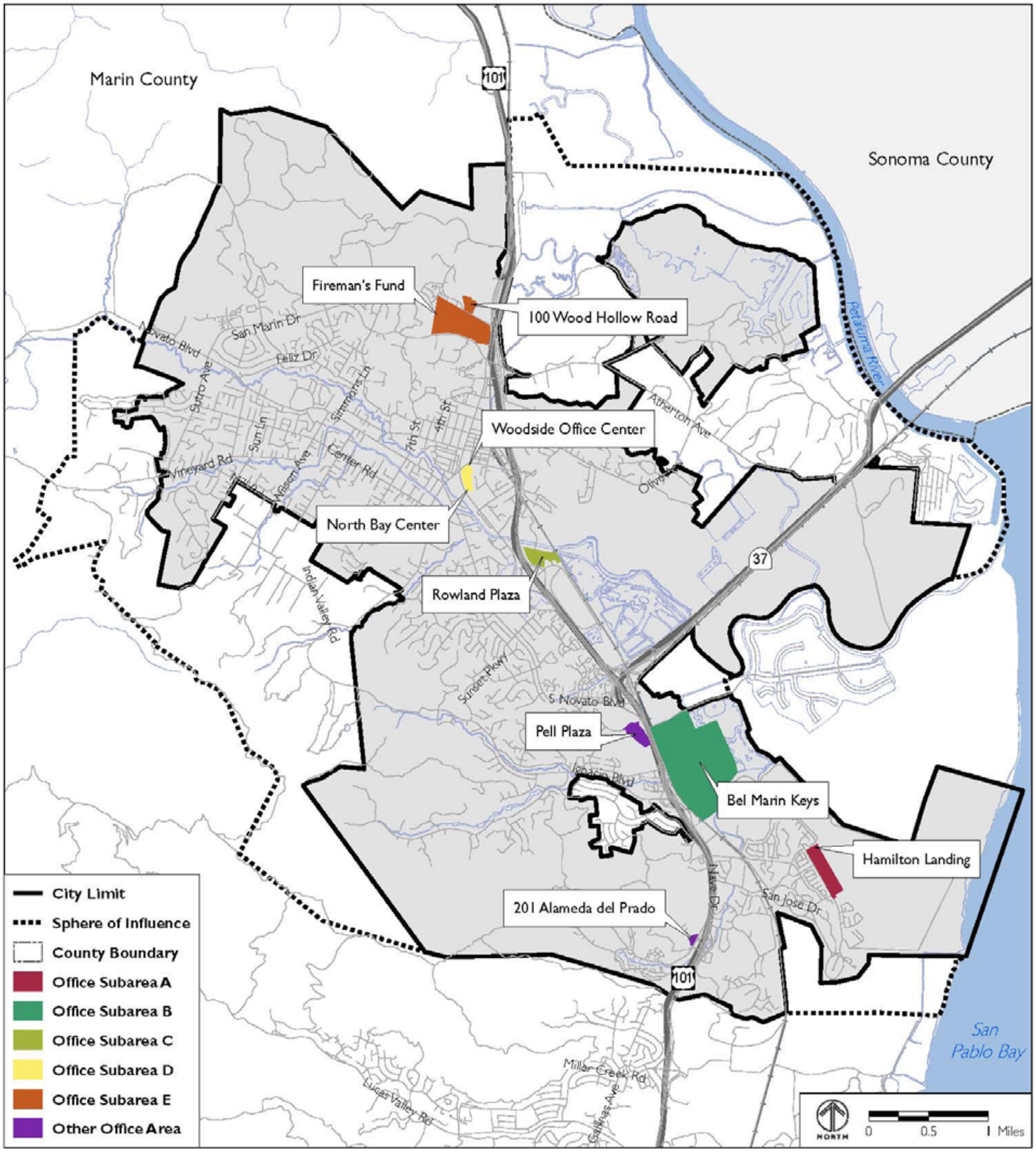
Central Novato's main office properties include the Woodside Office Center and the North Bay Center, which collectively contain 134,000 square feet of space. The Woodside Office Center contains 89,000 square feet. There is a current vacancy rate of 24 percent and asking rate of $2.35/square foot. The North Bay Center has 45,000 square feet and a vacancy rate of 20 percent. The lease rate is $2.10/square-foot. Downtown Novato also contains a small amount of aging Class B and C office space mixed in with retail uses, generally ranging from 3,000 to 10,000 square feet, with a few larger buildings. There is a 6 percent vacancy rate for Downtown commercial space with lease rates ranging from $1.30 to $1.90/square-foot.

e. Northern Novato

The Northern Novato submarket is dominated by the Fireman's Fund campus, containing 714,000 square feet of Class A office space. With a lease extending to 2018, Fireman's Fund effectively acts as the lessor, subleasing space in smaller increments with asking rates ranging from $1.75 to $2.25/square foot. The current vacancy rate is 38 percent.

Also in Northern Novato, 100 Wood Hollow Road contains 125,000 square feet of Class B office space, with a current vacancy rate of 38 percent and lease rate of $2.35/square foot. The Buck Center for Aging campus includes 249,000 square feet in four buildings, and capacity to build an additional 106,000 square feet in two buildings.

In addition to these main subareas, Pell Plaza and 150 and 201 Alameda del Prado represent stand-alone properties that fall just outside of Novato's submarkets. Pell Plaza, a 165,000-square-foot office facility on the western side of the Highway 37/Highway 101 intersection, currently has approximately 62,000 square feet available with asking rates of $2.25/square-foot. 150 and 201 Alameda del Prado are fully-leased properties that contain 65,000 square feet of office space and 30,000 square feet of industrial space.



Source: Bay Area Economics, 2009

FIGURE 4-1

NOVATO OFFICE MARKET SUBAREAS

3. Outlook for Office and Industrial Markets

a. Office

The current economic climate will continue to depress office absorption and lease rates in Novato in the short term (i.e. up to three years). In particular, the city's large floorplate buildings, which historically served as an attractor for Marin County companies looking to expand, now prove more difficult to lease. In the medium- and long-term (i.e. five or more years), however, Novato will continue to serve as the Marin County destination for more mature companies looking for larger facilities. The City's current office stock could satisfy much of this demand.

As another subcomponent of the local market, brokers report that more activity exists among smaller tenants seeking 1,000 to 3,000 square feet of space. While space in large buildings contributes to the City's high vacancy rates and depresses rents throughout Novato, there appears to be demand for more divisible Class A facilities with greater access to amenities in Downtown Novato and more options for smaller professional users. Proposed projects such as 999 Grant Avenue (20,000 square feet) speak to this demand segment. In the short-term, brokers state that these properties, if properly designed for flexibility and divisibility, can be successfully leased up at low rates (i.e. up to $1.75/square-foot), bringing in some tenants who would normally seek Class B space. As the commercial credit market begins to loosen, office condominiums could also satisfy the needs of smaller users.

As another positive demand factor, the planned SMART stations in Novato will also increase the city's attractiveness as a location for new office space, in both large and small formats. Various studies show that well-designed facilities within walking distance to stations can expect a premium on lease rates.[4] In addition, shuttle systems can be established for major employment centers that are farther from the stations, such as the Fireman's Fund campus and Hamilton Landing.

b. Industrial

The outlook for industrial property in Novato appears mixed. As the current inventory shows relative stability and low vacancy rates, one commercial broker reported that Novato could support a measured addition of new industrial space. However, another broker stated that new industrial development would have a difficult time supporting local land values, and that any new flex-space facility would require a more office-heavy design in order to be financially feasible. Echoing this sentiment, another broker reported that Sonoma County has absorbed much of the North Bay's demand for industrial properties, due to higher land values in Marin.

These comments suggest that a measured amount of new industrial facilities could occur in Novato in the medium- to long-term, targeting higher value R&D uses, rather than more logistics-oriented firms. In the short-term, however, Novato can expect little to no new development of industrial space, given the economic climate.

c. Supportable Office and Industrial Space

Table 4-7 shows estimates for supportable office and industrial space in Novato by 2035, based on employment projections generated by ABAG.

Appendix A, Tables A-1 through A-3, contain the detailed methodology and notes behind this analysis.

[4] Parsons Brinckerhoff, 2001, *The Effect of Rail Transit on Property Values: A Summary of Studies.*

ABAG employment projections suggest that Novato will add approximately 1,700 office-based jobs and will lose approximately 175 industrial-based jobs by 2035, based on assumptions regarding the share of new jobs in office and industrial space within each industry. These jobs translate into demand for approximately 481,000 square feet of office space and no additional square feet of industrial space.

The City of Novato Economic Development Department estimates ongoing vacancies of 656,000 square feet of office space and 140,000 square feet of industrial and flex space in Novato. In addition, the City of Novato reports that no new office space is currently in the development pipeline. Subtracting vacancies and pipeline projects from gross demand suggests that there is no additional supportable demand for office or industrial space in the City through 2035. Despite employment growth projections in most job categories, existing office and industrial space vacancies, will be available to absorb the increased demand. Altogether, the inventory of existing office and industrial space accounts for 165 percent of the total projected new demand for office and industrial space through 2035.

TABLE 4-7 **ESTIMATED SUPPORTABLE OFFICE AND INDUSTRIAL SPACE, NOVATO, 2010-2035**

	2010	2035	Total Change 2010-2035	Gross Supportable (SF)[c]	Less Vacancy[d]	Less Planned and Proposed[e]	Net Supportable (SF)
Total Jobs[a]	20,893	23,873	+2,980				
Office Jobs[b]	8,332	10,021	+1,689	481,365	(656,000)	0	0
Industrial Jobs[b]	1,798	1,623	(175)	(0)	(140,000)	0	0
Total							

[a] Association of Bay Area Governments Sustainability Communities Strategy, Preferred Scenario, v20, May 24, 2013.
[b] Based on BAE estimates of the percent of employees in different job sectors who work in office and industrial space.
[c] Assumes an employee density of: 285 SF per office employee
400 SF per industrial employee
[d] Based on vacancies reported by the City of Novato Economic Development Department, October 2013. Industrial space includes flex and specialty space.
[e] As reported by the City of Novato.
Sources: SCAG Employee Density Summary Report, 2001; BAE, 2008; Association of Bay Area Governments, Projections, 2013; City of Novato, 2013.

F. Retail Market

This section describes the retail market in Novato, focusing on neighborhood shopping centers, Downtown Novato and the Vintage Oaks shopping center. This section includes an analysis of taxable sales in Novato and provides an estimate of the amount of additional square feet of retail that Novato can support by 2035.

1. Market Overview

Novato's retail inventory totaled 2.2 million square feet of space in 196 buildings, according to a Sperry Van Ness Report. An estimated 103,000 square feet is vacant for a city wide retail vacancy rate of 4.6 percent. The city has seen little new commercial construction over the last three years, adding Circle/Umpqua Bank (20,000 square feet) and Peet's Coffee (8, 015 square feet), both in 2012. Of space leased in 2010, the average annual triple net rental rates have hovered in the $21 to $22 per square foot range.

a. Neighborhood Shopping Centers

Novato's local-serving retail space is primarily oriented around fourteen neighborhood shopping centers distributed throughout the City. The location of these centers is shown in Figure 4-2. These centers total 850,000 square feet and have an average vacancy rate of 8.8 percent. Vacancies, however, are concentrated in three centers:

- The Square Shopping Center: 32,600 square feet
- Pacheco Plaza: 16,000 square feet
- San Marin Plaza: 7,200 square feet

Of the 14 centers surveyed, 12 were built prior to 1990. The two new centers are the Village at Novato, which opened in 2006 and is anchored by Trader Joe's, and Hamilton Marketplace which opened in 2008 and is anchored by Safeway. Other grocery stores include a second Safeway, Lucky Supermarket, Paradise Foods, Whole Foods, and Grocery Outlet.

b. Regional Shopping Centers

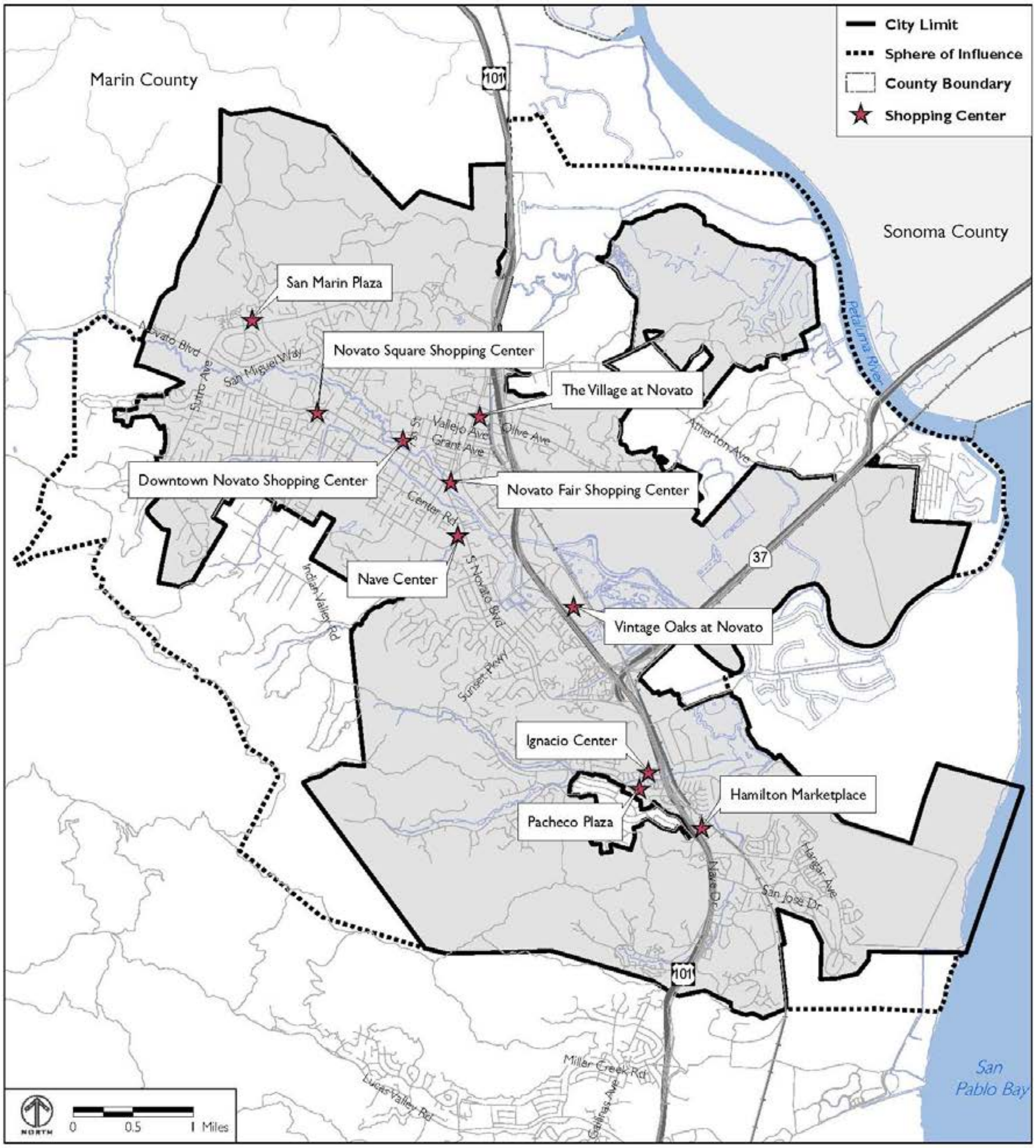
i. Vintage Oaks

Vintage Oaks is Novato's only regional shopping center, located just north of the Redwood Highway and Highway 37 intersection. The 620,000 square foot center hosts a mix of tenants that includes Costco, Target, Macy's Furniture, Ross and nearly 50 other retailers and restaurants. Vacancy here is very low at 0.5 percent (2,900 square feet of available space).

As shown in Table 4-8, local shopping centers range in size from 20,000 to 134,000 square feet, and are anchored by a variety of grocery and drug stores.

Interviews with local retail brokers indicate that Novato's strongest centers, such as Novato Fair Shopping Center and Hamilton Marketplace, perform well, with low vacancy rates. The Village at Novato is expected to perform well, once it is fully tenanted, due to the presence of strong anchors and supporting stores such as Trader Joe's, Starbucks and Pharmaca. Even less successful centers, such as the Nave Center and the Downtown Novato Shopping Center, feature relatively low vacancies.

However, some of Novato's neighborhood centers do show opportunities for improvement. The Square Shopping Center, for example, has a 42 percent vacancy rate and relatively low lease rates.



Source: Bay Area Economics, 2009

FIGURE 4-2

NOVATO SHOPPING CENTERS

TABLE 4-8 NOVATO SHOPPING CENTERS

Name and Address	Total SF[a]	Available SF	Vacancy Rate	Annual Lease Rate ($/SF)	Year Built	
LOCAL SHOPPING CENTERS						
Downtown Novato Shopping Center 1707-1761 Grant Ave.	105,781	5,000	4.7%	$21.00	1966	Lucky's, CVS , Noah's Bagels, Crabtree & Evelyn, U.S. Bank, Creekside Bakery
Nave Shopping Center 1535 South Novato Blvd.	121,692	1,200	1.0%	$16.08	1974	Grocery Outlet, Post Office, Pini Hardware, Bike Shop, Acu-puncture Clinic, California Grill, Cleaners
Novato Fair Shopping Center 928 Diablo Ave.	133,862	5,850	4.4%	$30.00	1962	Safeway, Rite Aid, Dollar Tree, Pet Food Express, Anytime Fit-ness, Radio Shack
Pacheco Plaza[a] 366 Ignacio Blvd.	71,670	16,041	22.4%	N/A	1967	Paradise Foods, Woodlands Pet Food, Boca Pizzeria, Video Place, Taki's Restaurant
San Marin Plaza[a] 101-199 San Marin Dr.	70,257	7,198	10.2%	$15.60	1984	Harvest Market, Starbucks, Tuesday Morning, Mary's Pizza Shack, China Village, and Urban Escape Fitness.
Novato Square Shopping Center[c] 2045 Novato Blvd.	78,272	32,583	41.6%	$15.00	1974	CVS, Oasis Natural Foods, Planet Beach Tanning, Salon, JJ's Pizza
Ignacio Center 467-479 Entrada Dr.	32,839	1,970	6.0%	$21.84	1968	Dollar Tree, Hardware Store, Bike Hut, Red Boy Pizza, Techs to Go, Valley Floral
The Village at Novato 7514 Redwood Blvd.	20,043	1,892	9.4%	N/A	2006	Trader Joe's Starbucks, Pharmaca
Hamilton Marketplace 5720 Nave Dr.	89,525	3,087	3.4%	N/A	2008	Safeway, Jamba Juice, Peet's Coffee, Wells Fargo, Pet Food Ex-press, Toast Café, Pasta Moto, Beauty Island Salon
Rowland Plaza 44 Rowland Way.	35,377	0	0.0%	N/A	1989	CineMark Century Theaters
6100 Redwood 6090-6100 Redwood Blvd.	24,837	0	0.0%	N/A	1978	Back in Motion Spinal Decompression, Good & Fresh Buffet, Picket Fence Quilts
Tresch-Triangle Shopping Center **1559 S Novato Blvd.**	21,506	0	0.0%	N/A	1963	Discount Vitamins, Genesis Dollar Store, Marin Treks, Beauty Center Salon
7049 Redwood **7049 Redwood Blvd.**	21,296	0	0.0%	N/A	1988	Marin Tile Company, North Bay Artworks, Pacific Mortgage
Del Prado Square **500-530 Alameda Del Prado**	20,433	0	0.0%	N/A	1981	Farmers Insurance, Postal Annex, Round Table Pizza
REGIONAL SHOPPING CENTER						
Vintage Oaks at Novato 100-200 Vintage Way	620,379	2,900	0.5%	N/A	Early 1990's	Costco, Target, Macy's Furniture Store., Old Navy, Sephora, Hop Monk, Francesca's Marshalls, Anne Taylor Loft, Sports Authori-ty, Bath & Body Works, Panera Bread

c. Downtown

Novato's retail inventory also includes Downtown, which has a mix of local-serving stores and eateries along Grant Avenue. In general, Grant Avenue remains a modest retail node for Novato, with the easternmost blocks of the avenue beginning to fulfill the area's potential as a specialty goods, entertainment and dining destination. Although the street has benefited from streetscape improvements, major vacancies such as 1107 Grant Avenue (the former Pini Hardware site), and assorted smaller vacancies that emerged with the economic downturn, detract from the vibrancy of Grant Avenue, especially west of Redwood Boulevard.

2. Outlook for Retail Market

Novato is well served by neighborhood shopping centers, with a range of price points and locations targeting various segments of the community. Although some older centers could benefit from renovations and re-tenanting, the city's centers generally enjoy relatively low vacancies. Whole Foods on DeLong Avenue represents a key supplement to the City's local-serving retail supply. In addition, Paradise Food at Pacheco Plaza has established another important retail node for southeastern Novato.

Meanwhile, Grant Avenue continues to suffer from low lease rates and high vacancies, with only the eastern part of the corridor showing signs of improvement. Viable future businesses for the Grant Avenue corridor include specialty goods, entertainment and dining to serve residents on the weekends and evenings and local employees during the workday. The Retail Supportable Square Foot Analysis in Section H below presents additional estimates of the amount and type of new retail space that Novato could support in upcoming years.

G. Retail Sales Analysis

This section provides a detailed review of taxable retail sales trends in Novato.

1. Distribution of Taxable Sales

Table 4-9 shows taxable sales trends for Novato, Marin County and the State of California, with all figures adjusted to 2011 dollars. Both Marin and California data are included as benchmarks to evaluate the performance of Novato outlets.

According to the California State Board of Equalization's *Taxable Sales in California During 2011,*[5] taxable sales in the City of Novato totaled 675.6, with 586.9 million (or 87 percent of the total) in taxable retail sales.[6] By Comparison, Marin County had a total of 4.0 billion in taxable sales in 2011, with 77 percent (or $3.1 billion) in retail sales.

The data indicate that the city receives a major portion of its taxable sales from two store categories: General Merchandise Stores and Gasoline Stations. Together, these two categories make up almost 42 percent of total taxable retail sales occurring in Novato. In 2011, General Merchandise stores alone made up almost 26 percent of all taxable retail sales.

[5] 2011 is the most recent calendar year for which taxable retail sales by store type is available for both the City of Novato and Marin County.

[6] Total taxable sales figures are composed of both taxable sales at other outlets, including manufacturing and wholesale sales. Retail sales figures do not include sales of nontaxable items, such as resale items, food for home consumption and prescription medications.

In comparison, the County receives only 9 percent of taxable retail sales in this category. The presence of Costco and Target in Novato account for this difference. With a limited number of competing locations in the trade area, these stores draw shoppers from southern Sonoma County and throughout Marin County. Gasoline stations stores make up another 16 percent of the City's total taxable retail sales, higher than the 12 percent share reported for the County.

Other important taxable sales categories for Novato include Food Services and Drinking Place, Motor Vehicle & Parts Dealers, and Other Retail Stores. Other Retail includes a broad range of retailers with varying store formats, including sporting goods, office supply and book stores, and florists, among others.

2. Taxable Sales Trends

Table 4-9 also shows taxable retail sales trends between 2000 and 2011. In absolute terms, Novato fared well compared to the County but performed significantly below State standards. Over this eleven-year period, Novato experienced an inflation-adjusted decrease in taxable retail sales of 11 percent. In comparison, taxable retail sales in the County declined by 18 percent, and declined statewide by 4 percent.

Novato's largest gains appeared in the Gasoline Stations (145 percent), [7] Clothing & Clothing Accessory (32%) and Food & Beverage (20 percent) categories. The City lost sales in Building Material and Garden Equipment (-39 percent), Other Retail stores (-34 percent), General Merchandise (-31 percent), and Motor Vehicle & Parts Dealers (-27 percent), similar to countywide and statewide trends. The City lost sales tax revenue in Home Furnishings & Appliances (-14 percent), while the County experienced a slight decline in this category and the State increased sales by 34 percent. Other notable differences were much stronger gains statewide in Clothing & Clothing Accessories (78 percent) and Food Service & Drinking Places (19 percent).

Examining these trends on a per capita basis accounts for population growth, allowing measurement of sales on an equal basis. As shown in Table 4-9, Novato experienced a decline of 18 percent in per capita taxable sales between 2000 and 2011. The county saw a slightly greater decline of 20 percent, while California as a whole experienced a 14 percent decrease.

[7] The large increase in taxable sales from Service Stations is due to rising gas prices over this period.

TABLE 4-9 **TAXABLE RETAIL SALES TRENDS IN NOVATO, MARIN AND CALIFORNIA, 2000 TO 2011, IN $1,000'S**

	Novato				Marin County				California			
Retail Sales Category	**2000**	**2011**	**2011 % Total**	**% Change 00-11**	**2000**	**2011**	**2011 % Total**	**% Change 00-11**	**2000**	**2011**	**2011 % Total**	**% Change 00-11**
Total Taxable Sales[a]												
Clothing & Clothing Accessory	$28,574	$37,654	6.4%	31.8%	$177,892	$280,098	8.9%	57.5%	$16,639,557	$29,600,057	8.3%	77.9%
General Merchandise	$217,985	$150,949	25.7%	-30.8%	$615,006	$273,199	8.7%	-55.6%	$59,356,910	$48,219,018	13.6%	-18.8%
Food & Beverage	$40,816	$48,970	8.3%	20.0%	$243,490	$266,823	8.5%	9.6%	$23,798,006	$23,606,132	6.6%	-0.8%
Food Services & Drinking Places	$70,823	$72,617	12.4%	2.5%	$472,774	$445,433	14.5%	-5.8%	$45,929,042	$54,755,944	15.4%	19.2%
Home Furnishings and Appliance	$14,896	$12,882	2.2%	-13.5%	$242,539	$240,698	7.7%	-0.8%	$17,605,149	$23,578,090	6.6%	33.9%
Building Material and Garden Equipment	$27,810	$17,113	2.9%	-38.5%	$364,948	$254,092	8.1%	-30.4%	$29,126,576	$26,064,428	7.3%	-10.5%
Motor Vehicle & Parts Dealers[b]	$99,213	$72,938	12.4%	-26.5%	$722,507	$523,483	16.7%	-27.5%	$73,472,538	$53,303,501	15.0%	-27.5%
Gasoline Stations	$38,390	$94,060	16.0%	145.0%	$236,992	$371,618	11.9%	56.8%	$32,650,288	$55,210,076	15.5%	69.1%
All Other Retail Stores	$120,134	$79,710	13.6%	-33.6%	$755,346	$468,827	15.0%	-37.9%	$73,223,985	$41,180,792	11.6%	-43.8%
Retail Stores Total	**$658,640**	**$586,893**	**100.0%**	**-10.9%**	**$3,831,493**	**$3,134,271**	**100.0%**	**-18.2%**	**$371,802,052**	**$355,518,038**	**100.0%**	**-4.4%**
Per Capita Taxable Sales[c]												
Clothing & Clothing Accessory	$600	$725	6.4%	-6.1%	$719	$1,107	8.9%	-3.8%	$491	$791	8.3%	61.0%
General Merchandise	$4,577	$2,905	25.7%	-15.9%	$2,487	$1,080	8.7%	-18.3%	$1,752	$1,288	13.6%	-26.5%
Food & Beverage	$857	$942	8.3%	-16.5%	$985	$1,054	8.5%	-9.6%	$703	$631	6.6%	-10.2%
Food Services & Drinking Places	$1,487	$1,397	12.4%	-3.7%	$1,912	$1,760	14.5%	-5.5%	$1,356	$1,463	15.4%	7.9%
Home Furnishings and Appliance	$313	$248	2.2%	-14.3%	$981	$951	7.7%	-9.0%	$520	$630	6.6%	21.2%
Building Material and Garden Equipment	$584	$329	2.9%	-1.9%	$1,476	$1,004	8.1%	0.7%	$860	$696	7.3%	-19.0%
Motor Vehicle & Parts Dealers	$2,083	$1,403	12.4%	9.9%	$2,922	$2,069	16.7%	-8.9%	$2,169	$1,424	15.0%	-34.3%
Gasoline Stations	$806	$1,810	16.0%	67.5%	$958	$1,469	11.9%	34.5%	$964	$1,475	15.5%	53.0%
All Other Retail Stores	$2,522	$1,534	13.6%	-21.1%	$3,055	$1,853	15.0%	-16.5%	$2,162	$1,100	11.6%	-49.1%
Retail Stores Total	**$13,828**	**$11,293**	**100.0%**	**-5.8%**	**$15,494**	**$12,386**	**100.0%**	**-7.7%**	**$10,976**	**$9,499**	**100.0%**	**-13.5%**

[a] All sales dollars are $1,000's. All figures for Novato and Marin County are inflated to 2011 dollars using the San Francisco-Oakland-San Jose Consumer Price Index (CPI) for all Urban Consumers; figures for California are inflated using the CPI calculated by the CA Department of Finance.
[b] Includes health & personal care stores; sporting goods, hobby, book & music stores; florists; office supplies & stationery stores; gift, novelty and souvenir stores; used merchandise; other miscellaneous store retailers; and non-store retailers (electronic and mail-order retailers, kiosks and street vendors, vending machine operators, sales through infomercials, door-to-door sales and home delivery).
[c] Population based on CA Department of Finance estimates.
Sources: CA State Board of Equalization, 2013; Consumer Price Index, 2013; CA Department of Finance, 2013; City of Novato Community Development Department, 2013.

3. Comparison to Other Communities

Table 4-10 summarizes Novato's per capita taxable sales compared to nearby cities for and the Bay Area for 2011. This analysis excludes Auto Dealers/Auto Supply stores and Service Stations, which are both atypical retail outlets, to examine retail activity on a more fine-grained level.

For the purposes of this analysis, the Bay Area serves as a benchmark of potential taxable sales per capita, assuming the region is a relatively closed retail system, with limited sales "leaking" of being "injected." The similarity between Novato and Bay Area household incomes also makes the region an effective comparison measure for this analysis.

The data suggest that while Novato is performing at or above regional sales benchmarks in several categories, the City is lacking sales in others. As a key strength, General Merchandise outlets in Novato experience more than two times the Bay Area taxable sales per capita figure. In fact, due to the presence of Target and Costco, Novato outperforms all comparison cities with the exception of Corte Madera. Corte Madera's strong sales in this category can be attributed to the Nordstrom's and Macy's at the Village at Corte Madera. Novato food stores also outpace the Bay Area benchmark, due largely to the City's slightly higher household incomes.

Notable under-performing categories in Novato include Home Furnishings & Appliances and Building Materials & Garden Equipment. Local taxable sales in these stores are less than half the regional benchmarks, and significantly lower than sales in Corte Madera, San Rafael and Santa Rosa, all cities with regional shopping centers.

The lack of Novato stores in these categories, and the relative proximity of shopping options in San Rafael (e.g. Home Depot) and Corte Madera (e.g. Crate & Barrel, Z Gallerie, West Elm) account for the City's heavy sales leakage. Novato's major Home Furnishings/Appliances outlets include Macy's Furniture Store, CTW Designs (interior design wholesaler and retailer), and Soundvision (home entertainment system designer). Primary taxable sales generators in the Building Materials category include Novato Builders Supply and Pini Hardware.

Clothing & Clothing Accessory stores in Novato also perform below the Bay area standard, achieving only $725 per capita in taxable sales, compared to $987 for the region. Again, multiple offerings in San Rafael's Northgate Mall and the Village and Town Center in Corte Madera are responsible for drawing apparel sales from Novato. Novato's strongest apparel retailers include Marshall's, Ross and Old Navy.

Novato outlets in the Food Services and Drinking Places category generate $1,397 per capita in taxable sales, relative to a $1,781 for the Bay Area. All other comparison cities except Santa Rosa show higher per capita sales in this category. Once more, these trends point to retail leakage as residents spend their dining dollars in other communities. The city's main sales generators in this category include the Wildfox Restaurant, Moylan's Brewery, Chevy's and Boca.

TABLE 4-10 **PER CAPITA TAXABLE RETAIL SALES IN NOVATO, COMPARABLE CITIES AND BAY AREA, 2011**

	Novato	Petaluma	Corte Madera	San Rafael	Santa Rosa	Bay Area
Clothing & Clothing Accessory	$725	$1,051	$13,607	$670	$978	$987
General Merchandise	$2,905	$579	$4,372	$1,002	$2,125	$1,300
Food & Beverage Stores	$942	$1,102	$1,593	$1,302	$997	$689
Food Services and Drinking Places	$1,397	$1,561	$4,223	$1,862	$1,370	$1,781
Home Furnishings and Appliances	$248	$277	$3,853	$1,855	$987	$807
Building Material and Garden Equipment	$329	$493	$748	$3,179	$935	$768
All Other Retail Stores	$1,534	$1,417	$8,717	$2,492	$1,545	$1,277
Total[a]	**$8,080**	**$6,480**	**$37,111**	**$12,362**	**$8,936**	**$7,610**

[a] "Auto Dealers and Auto Supplies" and "Service Stations" Groups excluded from per capita sales totals to more accurately compare intercity retail sales performance.

Sources: California State Board of Equalization, 2013; California Department of Finance, 2013; City of Novato Community Development Department, 2013.

4. City of Novato 2013 Retail Market Analysis

In 2013, the City completed a retail sales tax leakage study which estimated the amount of sales tax leakage for the city. The study estimated a retail leakage of $169.4 million in sales, with the largest leakage in Home Furnishings & Appliance Stores ($36.6 million) followed by Building Materials & Garden Equipment ($35.1 million). Other significant sales tax leakages occurred in Motor Vehicles & Part Dealers (($34.6 million), Food Services & Drinking Places ($20.9 million) and Clothing & Clothing Accessory Stores ($19.9 million).

5. Summary of Findings

The analysis indicates that while Novato is experiencing a decrease in total taxable sales, sales are declining at a greater rate on a per capita basis. While Novato's pattern is more positive than Marin County as a whole, the City falls well below statewide trends, which show smaller decreases in sales on an absolute and per capita basis.

The reasons for this pattern are not fully evident. As one factor, statewide household incomes have grown by 26 percent since 2000, a higher rate than Marin County's 19 percent income growth and Novato's 18 percent income growth.

Additionally, Marin County and Novato may be leaking sales due to growing levels of online shopping. The Public Policy Initiative of California reports that broadband connectivity is correlated to income. Marin County and Novato both have higher incomes than California as a whole, which point to the possibility of more online purchases. As of 2011, 93 percent of California households with household income of $80,000 or more, had home access to a broadband connection, compared to only 58 percent of California households with household income under $40,000.[8]

These sales trends may also be related to the fact that the Bay Area economy was at a peak in 2000 due to the "dot-com" boom, which boosted the region more than California as a whole, and therefore inflated taxable sales in this year.

As a final potential factor, the high cost of housing in Marin may require households to dedicate a greater share of household income for rent and mortgage payments, leaving less disposable income for retail goods.
Comparisons of per capita sales with Marin County and other neighboring communities suggest that Novato is in fact leaking sales in key categories including Home Furnishings and Appliances, Building Materials, Food Services and Drinking Places, and Clothing & Clothing Accessory stores. This leakage is the result of attractive shopping options located in nearby communities and the absence of these options in Novato.

H. Retail Supportable Square Feet Analysis

This section examines the potential for Novato to recapture some of its leaking sales and support additional retail space in the city. Due to the large supply of neighborhood shopping centers in Novato, and the apparent leakage in comparison goods, this analysis focuses exclusively on community- and regional-oriented retail.

1. Methodology

The supportable square feet analysis includes three primary steps, outlined below:

[8] http://www.ppic.org/content/pubs/survey/S_611MBS.pdf.

Step 1: Estimate Total Potential Sales by 2035. This step estimates the *maximum* taxable sales that Novato can expect by 2035. Total potential sales are made up of two components:

- A net addition in sales from current residents by recapturing leakage; and
- A rise in sales due to local population growth through 2035.

Table 4-11 presents the results from Step 1, and Appendix A, Table A-4 contains the detailed calculations. The analysis suggests that Novato population has the potential to generate up to approximately $117 million in taxable sales by 2035.

TABLE 4-11 POTENTIAL TAXABLE SALES IN NOVATO BY 2035

Business Type	Net Additional Sales by Recapturing Current Leakage	Sales from New Residents	Total Potential Sales
Apparel	$14,006,000	$4,204,000	$18,211,000
General Merchandise	$0[a]	$4,102,000	$4,102,000
Specialty and Other Retail	$0[a]	$7,038,000	$7,038,000
Food Services and Drinking Places	$20,476,000	$6,685,000	$27,161,000
Home Furnishings and Appliances	$29,837,000	$3,612,000	$33,449,000
Building Material and Garden Equipment	$23,412,000	$3,813,000	$27,225,000
Total	**$87,731,000**	**$29,455,000**	**$117,187,000**

[a] No sales are recaptured because Novato currently experiences a sales "injection" in these categories, and is not leaking sales.
Sources: California State Board of Equalization; Association of Bay Area Governments; California Department of Finance, 2013; BAE, 2008; City of Novato Community Development Department, 2013.

Step 2: Estimate Capture of Total Potential Sales. Novato is unlikely to retain all the potential sales calculated in Step 1. While local-serving retail (e.g. grocery stores, drug stores) can expect to capture as much as 90 percent of all potential sales in a community, regional-oriented retail generally experiences lower capture rates, depending on the competitive supply in the area. Shoppers are often willing to travel within a 10-mile radius for regional retail, and select their destination according to center design and amenities, store diversity, quality of tenants, availability of parking, value and other factors.

By applying various capture rates by store category to the total potential sales estimated in Step 1, this analysis calculates the taxable sales that could occur in Novato. Table 4-12 illustrates various capture rates by store category under low, medium and high scenarios, and the resulting taxable sales in Novato. The analysis suggests that Novato can capture between $50 million and $82 million in taxable sales by 2035.

Step 3: Convert Captured Sales into New Retail Space. Captured taxable sales are then converted into retail space based on taxable sales/square-foot data from HdL, a private firm that analyzes sales tax data for local governments in California. As shown in Table 4-13, this analysis indicates that Novato can support between 126,000 and 204,000 square feet of new retail space by 2035.

2. Summary of Findings

Given the current economic climate and particularly challenging conditions for retailers, Novato should expect a gradual growth of retail stores. Even during this economic downturn, certain retailers continue to lay the groundwork for future expansion, identifying potential sites and underserved markets and capitalizing on competing store closures. The analysis points to additions in key store categories that Novato could support by recapturing leakage and serving new households. These key categories include Apparel, General Merchandise, Specialty and Other Retail, Eating and Drinking Places, Home Furnishing and Appliances and Building Materials and Farm Implements.

a. Apparel

As noted above, Novato experiences significant leakage in the Apparel category, with sales likely lost to regional shopping centers in San Rafael and Corte Madera. By recapturing these dollars and adding population, the analysis suggests that Novato could add 16,000 to 30,000 square feet of apparel space by 2035. Apparel stores vary in size significantly, ranging from 5,000 square feet (e.g. Limited, Forever 21) to 25,000 square feet (e.g. Ross). Considering this range, Novato could support the addition of one large format apparel store or up to five smaller format retailers.

b. General Merchandise

Novato currently experiences an injection in General Merchandise Sales, thanks to the Costco and Target. As such, there is no leakage to be recaptured from the current population. However, as the City's population grows, it will support additional space. This analysis indicates that population growth through 2035 will support between 8,000 to 11,000 square feet in the General Merchandise category. This level of space is in line with smaller format General Merchandise stores.

c. Eating and Drinking Places

By recapturing leaking sales and through population growth, this analysis finds that Novato can support between 19,000 and 36,000 square feet of additional space in the Eating and Drinking category. Restaurants with table service generally range from 3,000 to 8,000 square feet, suggesting Novato could add roughly 4 to 7 outlets by 2035.

d. Home Furnishings and Appliances

This category includes electronics, furniture, household goods, and appliance stores, and is a major source of retail leakage for Novato. Store formats range from 10,000 square feet for smaller retailers (e.g. Z Gallerie) to 45,000 square feet for volume electronics and appliance dealers (e.g. Best Buy). The analysis indicates support for 32,000 to 60,000 square feet of retail space in this category, which translates into a total of 3 to 6 small format stores, or one larger format outlet and one or two smaller format stores.

TABLE 4-12 **CAPTURE OF POTENTIAL TAXABLE SALES IN NOVATO**

Business Type	Total Potential Sales	Low Scenario		Medium Scenario		High Scenario	
		Capture Rate	Local Sales	Capture Rate	Local Sales	Capture Rate	Local Sales
Apparel	$18,211,000	35%	$6,373,850	50%	$9,105,500	65%	$11,837,150
General Merchandise	$4,102,000	65%	$2,666,300	75%	$3,076,500	85%	$3,486,700
Specialty and Other Retail	$7,038,000	35%	$2,463,300	50%	$3,519,000	65%	$4,574,700
Food Services and Drinking Places	$27,161,000	35%	$9,506,350	50%	$13,580,500	65%	$17,654,650
Home Furnishings and Appliances	$33,449,000	35%	$11,707,150	50%	$16,724,500	65%	$21,741,850
Building Material and Garden Equipment	$27,225,000	65%	$17,696,250	75%	$20,418,750	85%	$23,141,250
Total	**$117,186,000**		**$50,413,200**		**$66,424,750**		**$82,436,300**

Sources: CA State Board of Equalization; Association of Bay Area Governments; CA Department of Finance, 2013; BAE, 2008; City of Novato Community Development Department, 2013.

TABLE 4-13 **SUPPORTABLE NEW RETAIL SPACE**

Business Type	Taxable Sales per SF[a]	Supportable New Square Feet: Low Scenario	Medium Scenario	High Scenario
Apparel	$400	16,000	23,000	30,000
General Merchandise	$320	8,000	10,000	11,000
Specialty and Other Retail	$700	4,000	5,000	7,000
Food Services and Drinking Places	$500	19,000	27,000	36,000
Home Furnishings and Appliances	$370	32,000	46,000	60,000
Building Material and Garden Equipment	$380	47,000	54,000	61,000
Total		**126,000**	**165,000**	**204,000**

[a] SF = square feet. Based on HdL Retail Store Taxable Sales Estimates 2007, inflated to 2012 dollars.
Sources: California State Board of Equalization; Association of Bay Area Governments; HdL, 2007; California Department of Finance, 2013; BAE, 2008; City of Novato Community Development Department, 2013.

e. Building Materials and Garden Equipment

The category shows the greatest potential addition of retail space, ranging from 47,000 to 61,000 square feet. Large format outlets such as Home Depot and Lowe's typically range from 110,000 to 160,000 square feet, indicating that Novato may not be able to support a large retailer in in this category.

3. Competitive Supply

In reviewing these findings, it is important to consider the proposed and new retail space in surrounding communities.

a. Petaluma

In Petaluma, a total of approximately 1.0 million square feet of new or proposed retail space is planned to open within the next five years. One recently completed, project is East Washington Place, located at East Washington Street and Highway 101. The shopping center opened in July 2013 and has a total of 335,155 square feet of retail, anchored by a 135,000 square foot Target store. Other tenants include Dicks Sporting Goods, TJ Maxx/ Home Goods, Sprouts Farmers Market, Ulta Beauty, BevMo, Chipotle, and Five Guys Burgers & Fries.

Terranomics Retail Services estimates that the opening of the Target store at East Washington Place in addition to the planned development of a Target store at Shoreline Center in San Rafael (discussed in more detail below) is expected to impact Target in Novato by 20 to 25 percent in the first three years. Sales at Novato's Target are likely to come back to show as little as a 10 percent hit after three years. Sales increases in Novato may be heavily dependent on population growth there.

Other developments in Petaluma include Deer Creek Village (315,000 square feet of retail and office space), and the proposed "Riverfront" project. Deer Creek Village will be anchored by a 135,000 square foot Friedman's Home Improvement Store, scheduled to open in March 2014. As currently proposed, the Riverfront project includes 273 residential units, 90,000 square feet of commercial space, and a 120-room hotel.

b. San Rafael

Northgate Mall, originally built in the 1960's, was recently redeveloped. The renovated 273,130 square foot regional shopping center is anchored by Macy's and Kohl's and includes a free-standing Right Aid and a collection of smaller retail outlets such as H&M, The Gap, Forever 21, Express, and Pacific Sun.

San Rafael is in the process of developing a new Target Store; the 138,500 square foot. general merchandise store will be located on a 16 acre vacant lot with 503 parking spaces. The property is located at the end of Shoreline Parkway and is adjacent to, and east, of the Home Depot store. The project is currently under construction and is scheduled to be complete in October of 2013. While Costco's proximity to Novato's Target may continue to draw some shoppers from the San Rafael area, older and higher-income households in southern Marin County are not deemed a big market for Costco.

4. Location and Format for New Retail

In terms of a possible location for new retail in Novato, the city is largely built out, and any major new project will likely require significant redevelopment. Regional-serving retailers place a high priority on freeway visibility and easy access from an off-ramp. Moreover, many retailers prefer to co-locate with other stores to boost customer attraction, and therefore need larger sites to accommodate the stores and requisite parking.

Considering these factors, an emerging retail product type that may have potential in Novato is a small-scale "lifestyle center," which offers high-quality merchandise, services and restaurant/entertainment venues in a contemporary setting. Lifestyle centers are smaller than regional malls, built around open-air designs, and lack traditional department store anchors. Like traditional downtowns, lifestyle centers can consist of ground floor retail uses with residential and office uses overhead. San José's Santana Row and Emeryville's Bay Street serve as a local example of this format. Corte Madera's Town Center also contains lifestyle elements.

Whereas anchor stores have served as the draw in traditional malls, lifestyle center developers aim to create semi-public spaces for people to gather and socialize. The underlying theory behind lifestyle centers is that people stay longer with an enjoyable setting, and longer stays promote more spending. Lifestyle centers often feature plazas, fountains and other landscape elements and attempt to recreate a village square or marketplace atmosphere. Many relate to the urban context in which they are built by incorporating familiar local architectural styles. Whether through the use of building materials or a comfortable integration into the surrounding street grid, well-designed lifestyle centers try to offer a sense of authenticity generally lacking in the design and construction of strip centers or malls. Layouts vary, with some developers placing retailers in a horseshoe configuration and others using building clustered along an attractive and walkable pedestrian streetscape.

With over 160 lifestyle renters currently in existence, there is considerable diversity in what developers describe as a lifestyle center. Lifestyle centers vary considerably in gross leaseable area (GLA) from less than 100,000 square feet to over 1.0 million square feet. The median GLA of all lifestyle centers is 325,000 square feet, with most centers between 190,000 and 500,000 square feet; recent centers tend to be larger. The median GLA of centers built since 2001 is 386,500 square feet, with most ranging between 230,000 and 575,000 square feet. The trend toward larger retail centers is expected to continue in coming years, with the median GLA of proposed lifestyle centers standing at 500,000 square feet.

A lifestyle center in Novato would target an underserved niche in the San Rafael-Petaluma stretch of Highway 101. As this corridor primarily offers traditional shopping malls and power centers, a well-designed lifestyle center could attract shoppers through unique amenities, a well-conceived mix of tenants and pedestrian-oriented shopping environment.

With this concept in mind for Novato, opportunities for major new retail developments are largely limited to a reorganization of the Vintage Oaks Shopping Center and Rowland Boulevard and the reuse of industrial facilities off North Redwood Boulevard.

In addition to a major new center, a measured amount of new retail space could also occur in Downtown Novato. In particular, eateries should form the foundation of retail activity on Grant Avenue, and should mainly look to serve local residents and employees, rather than a regional market. The success of Grant Avenue retailers depends on their level of service, the quality and distinctiveness of merchandise, entertainment and urban design amenities and the overall attractiveness of the corridor.

A newly-developed major retail center on North Redwood Boulevard could actually draw more shoppers and sales to Downtown. This dynamic occurs in communities such as Walnut Creek and San Mateo, where traditional downtown environments flourish alongside regional shopping centers. If a new center is developed on North Redwood Boulevard, the City and local merchants must continue to enhance their efforts to establish Downtown as a dining/shopping environment and Novato's core. Examples of strategies to promote Downtown as a unique and attractive location could include community events, street improvements, buy-local campaigns, promotions by local merchants, and business assistance programs. The City, Chamber of Commerce and other stakeholders have already implemented some of these initiatives.