bae urban economics

Richmond Hilltop Specific Plan Market Study

Prepared for the City of Richmond

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bae urban economics

San Francisco
2560 9th St., Suite 211
Berkeley, CA 94710
510.547.9380

Sacramento
803 2nd St., Suite A
Davis, CA 95616
530.750.2195

Los Angeles
448 South Hill St., Suite 701
Los Angeles, CA 90013
213.471.2666

Washington DC
1140 3rd St. NE, 2nd Floor
Washington, DC 20002
202.588.8945

New York City
234 5th Ave.
New York, NY 10001
212.683.4486

www.bae1.com

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EXECUTIVE SUMMARY

The following Market Study provides an assessment of demographic and real estate market trends in Richmond, California, to inform the preparation a Specific Plan that will re-envision an approximately 143-acre site that consists of the Hilltop regional shopping mall in Richmond and areas immediately surrounding it to the south and east. The Specific Plan will guide the development of the site to support the City's General Plan vision to promote the transformation of the Plan Area from a low-intensity auto-oriented retail center to a higher intensity, mixed use regional destination. This study includes an evaluation of potential demand for residential, retail, office, industrial/flex, and hotel uses, as well as the potential for regional-serving entertainment and recreation uses. For each use, the following analysis provides information on the implications of the real estate market findings to inform the planning process.

Key Findings and Implications

Key findings from the market study and the resulting implications for the Specific Plan are as follows.

Demographic and Economic Findings and Implications

- Richmond has a strong population base that can provide potential support for new retail, entertainment, and recreation opportunities in the Plan Area.
- Esri Tapestry segment information for Richmond indicates that the City has a large base of consumers living in family households and households with children. These households may provide support for new specialty retail, eating and drinking establishments, and other family-oriented entertainment and recreation establishments.
- The City's younger population base could help to support new forms of specialty and experiential retail, or the places consumers seek out to spend their discretionary time and discretionary dollars. Specialty and experiential retail offer immersive shopping experiences that help foster a unique "sense of place." A new and distinctive family-friendly retail node in the Plan Area would likely be very attractive to Richmond residents.
- The City's rich racial and ethnic diversity, with a high proportion of Hispanic and Latino residents, supports specialty food retail, including ethnic markets and eating and drinking establishments.
- Low household incomes among Richmond residents may present a challenge for attracting regional-serving retail, entertainment, and recreation uses to the Plan Area. Regional-serving uses may gravitate toward higher-income areas elsewhere in Contra Costa or Alameda County.

- Richmond does not currently serve as a node for office-based employment, which suggests potential challenges for office development in the Plan Area.

Residential Market Findings and Implications

- Competitive market-rate rents and low rental vacancies indicate potential demand for multifamily rental development in the Plan Area.
- Significant recent growth in residential sale prices in Richmond indicates strong demand for for-sale housing in Richmond, including single-family homes, condominiums, and townhouses.
- Although Richmond has a relatively strong market for condominiums and townhomes, demand for these product types is focused in waterfront areas with access to amenities, in areas that are perceived as relatively safe communities.
- There is strong demand for affordable housing throughout Richmond and the region, including in the Plan Area.
- Market-rate residential development in the Plan Area is likely to target the top end of the market for each product type in order to achieve rents and sale prices that are high enough to cover the cost of new construction. As a result, new market-rate homes will likely be priced at levels that are not affordable to moderate-income and lower-income households. Strategies to target the production of housing for lower-income and moderate-income households will be necessary to accommodate the full spectrum of housing needs across income ranges in the Plan Area.
- Providing a range of housing types in the Plan Area at a mix of price points, including multifamily rental housing, condominiums, and townhomes, could address demand from various segments of the community.
- Attracting market-rate residential development to the Plan Area is likely to require implementation of placemaking strategies to complement residential uses, create a safe community feel, and provide dining and entertainment for new residents. These strategies will be particularly important for for-sale housing types in order to achieve the sale prices necessary to attract new development.
- The Plan Area offers a large site with the potential for a mix of uses that can create a sense of place with a mix of complementary uses that will support demand for new residential development.

Retail Market Findings and Implications

- Population growth in general will generate new retail spending power that can potentially be captured in the Plan Area. Attracting additional residents to the Plan Area may be critical for attracting new retailers to the site, and therefore early phases of implementation of the Specific Plan should focus on residential development rather than new retail.

- Noting the lack of nearby full-scale grocery stores, some residential real estate brokers suggested that there may be demand for a grocery store in the Plan Area, which could be further supported by new residential growth.
- E-commerce is disrupting the retail sector, resulting in the need for less physical space and more efficient use of existing space. Given this environment, only the most compelling sites will be attractive to retail developers or retail tenants. As such, it is critically important to refine how and where to build new retail space within the Plan Area. Future initiatives should also explore how the City's zoning code and development standards can be revised to better support the flexible demands of today's retailers.
- Overall, retail uses in the Plan Area will have a greater chance of success if developable sites offer good visibility, clear and unobstructed signage, and are easily directly accessible from a high-traffic volume arterial or collector street. Sites that are 'mid-block' or located on minor streets are not as attractive to retail developers or retail tenants. Retail developers of neighborhood and community centers prefer sites that are '100 percent' corners on the 'going home side' of the street, meaning that the site is on the corner of two high-traffic volume arterials and also located on the side that returning commuter traffic travels along. These sites will be of most value to future retailers and should therefore be prioritized for future retail uses.

Office Market Findings and Implications

- Richmond is not an established office market and office rents are currently too low to support new speculative office development. However, small-scale office uses within a larger mixed-use project may be feasible by targeting tenants serving local residents and businesses in the future.
- Office tenants prefer physical settings that offer an 'urban' feel, even if situated in a suburban location. The completion of a walkable and amenity-rich mixed-use development project in the Plan Area will greatly improve the area's attractiveness as a potential office location.

Industrial/Flex Market Findings and Implications

- Richmond is strategically located to capture industrial demand spurred by the Port of Richmond, the Port of Oakland, and the growing demand for last-mile warehouse and distribution space regionwide.
- Many industrial tenants now prefer contemporary facilities with a modest-to-high level of amenities to retain and attract skilled workers.

- Vacancy rates for industrial and flex space are historically low, indicating that the market would be receptive to new industrial or flex product in the Plan Area.'
- Although market trends suggest relatively strong demand for industrial space in Richmond, some industrial uses could potentially be incompatible with existing and future residential uses in the Plan Area. Industrial tenants typically seek locations separated from residential uses in order to avoid conflicts arising from truck traffic and emissions, noise, and vibrations. Additionally, conflicts between residential uses and industrial uses can hamper the operation of industrial businesses, making industrial operations less viable over time.
- The Plan Area may be an appropriate location for new smaller-scale industrial/flex, Research and Development (R&D), and PDR uses. Businesses in these industries can provide high-quality job opportunities for City residents.

Hotel Market Findings and Implications

- There are currently two planned hotels in the Plan area. New hotels in Richmond may be able to secure a competitive position in the local market relative to the existing lodging inventory by offering a more modern aesthetic and amenities.
- Richmond currently serves primarily as an economy hotel market with limited business travel. Ensuring that the Plan Area includes a mix of uses and amenities that would support a higher-end hotel property could be critical to attracting a different category of hotel to the Plan Area, if desired.
- Hotels in Richmond may seek to increase leisure travel stays in part by enhancing connections with local and regional attractions and experiences.

Entertainment Uses Findings and Implications

- Due to low population densities and low incomes surrounding the Plan area, the Plan area is not currently an attractive location for new region-serving entertainment or retail. However, the development of a new high-quality mixed-used project with a significant residential component should drastically increase the population density in the Plan area and may help to build additional support for retail and entertainment uses in the future. Because of this, attracting these types of uses to the Plan Area might rely on attracting a significant amount of residential development to the Plan Area during earlier phases of implementation.
- There is unmet demand for drinking places that serve alcoholic beverages in Richmond, such as a craft brewery. Given this significant and unmet existing demand, a brewpub with a full restaurant would be an ideal type of establishment within the Plan Area due to its focus on on-site sales of both food and beverages.

INTRODUCTION

The City of Richmond is in the process of preparing a Specific Plan to re-envision an approximately 143-acre site that consists of the Hilltop regional shopping mall and areas immediately surrounding it to the south and east. The Specific Plan will guide the development of the site to support the City's General Plan vision to promote the transformation of the Plan Area from a low-intensity auto-oriented retail center to a higher intensity, mixed use regional destination. The overarching goal of the Specific Plan is to develop a comprehensive plan to guide future development that will attract people, businesses, and investments.

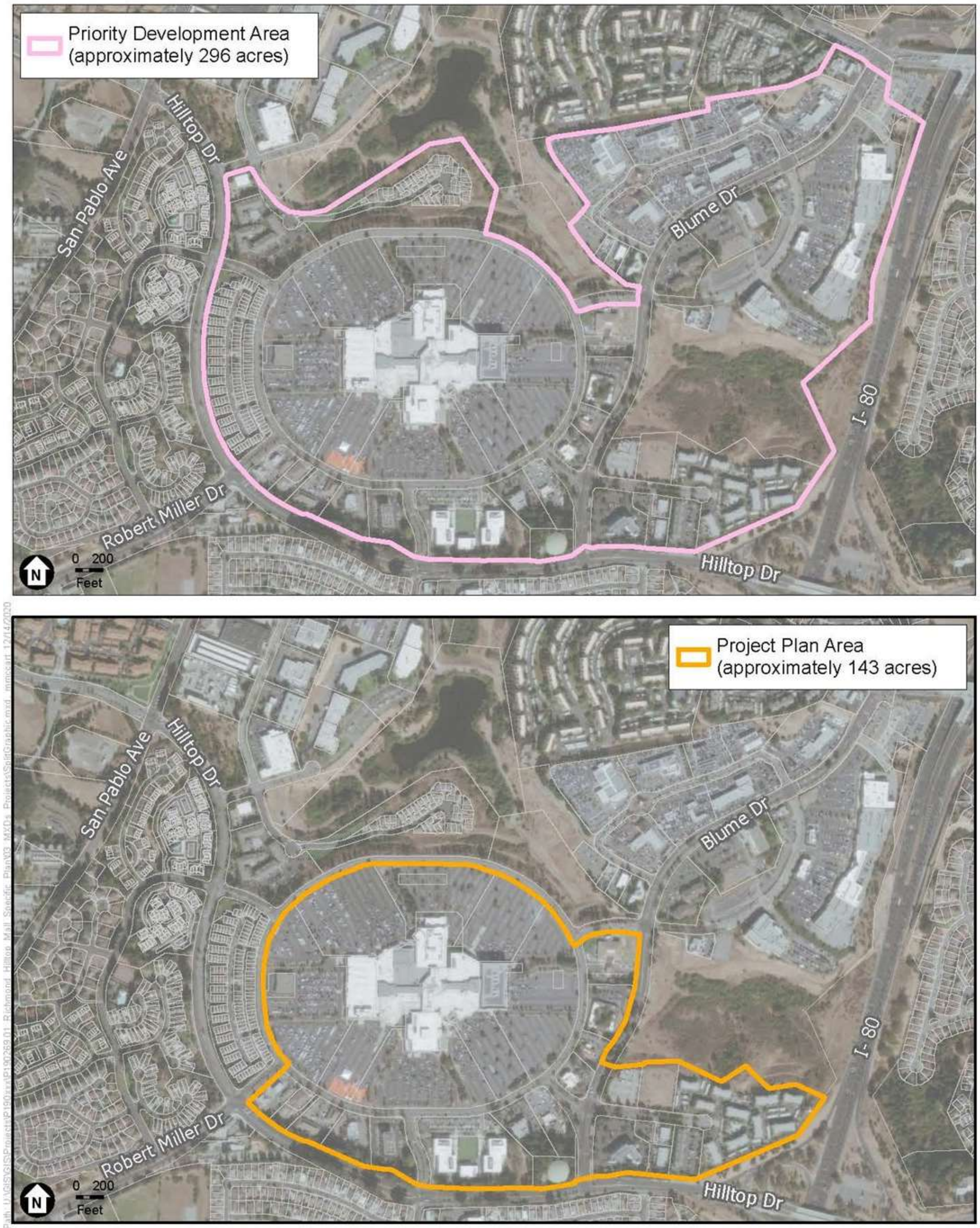
Study Purpose

This Market Study provides information on demographic and real estate market trends in Richmond, and the Plan Area specifically, to assess the market demand for new development in the Plan Area. This includes an evaluation of potential demand for residential, retail, office, industrial/flex, and hotel uses, as well as the potential for regional-serving entertainment and recreation uses. For each use, the following analysis provides information on the implications of the real estate market findings to inform the planning process.

Location and Site Context

The Plan Area is located within the Hilltop Priority Development Area (PDA) and situated south of Richmond Parkway, between San Pablo Avenue and Interstate 80. Figure 1 below shows a map of the Plan Area and the Priority Development Area. Most of the Plan Area is comprised of the Hilltop Mall site and parking lot. Other existing uses in the Plan Area include various small commercial buildings, schools, a multifamily rental complex, and two hotels. Outside of the Plan Area, much of the surrounding development consists of single-family homes and multifamily developments. There are two large commercial centers northeast of the Plan Area.

Figure 1: Plan Area and Priority Development Area Maps



SOURCE:ESRI, 2019; ESA, 2020

Richmond Hilltop Mall Specific Plan

Figure 1
Plan Areas

ESA

DEMOGRAPHIC AND ECONOMIC OVERVIEW

This section provides an overview of demographic and employment characteristics in Richmond. This information is useful for identifying potential opportunities, challenges, and issues for the City to consider as it develops the Richmond Hilltop Specific Plan. The analysis draws on data from the US Census Bureau and Esri Business Analyst. Because there are a limited number of residents and households currently living within the Plan Area, most of the information in this section is presented for Richmond and Contra Costa County.

Population and Households

The City of Richmond added approximately 13,000 residents between 2010 and 2021, outpacing the rate of growth in Contra Costa County overall. As shown in Table 1, the 2020 US Census reports that, as of 2020, Richmond had a population of 116,902 residents, an increase of 12 percent from 2010. Meanwhile, Contra Costa County grew slightly more slowly during this period, with a population increase of 11 percent. Both Richmond and Contra Costa County experienced a slower rate of household growth than population growth between 2010 and 2020, with a seven percent increase in households in Richmond and an eight percent increase in households in Contra Costa County. Both Richmond and Contra Costa County also experienced an increase in the average household size during this period, which is consistent with the faster rate of population growth relative to household growth. As of 2020, the average household size in Richmond was 2.95 persons per household, larger than the City's average in 2010 (2.83 persons per household) and larger than the 2020 average for Contra Costa County (2.84 persons per household).

The Priority Development Area (PDA) has relatively few residents and households and experienced a slower rate of growth than the City overall between 2010 and 2020. According to the 2020 US Census, there were 1,323 residents and 586 households in the PDA as of 2020, a ten percent increase in population and a four percent increase in households compared to 2010. The average household size in the PDA was smaller than the Citywide average at 2.26 persons per household. It should be noted that the PDA is larger than the Plan Area itself (see Figure 1 above), and has more residents and households than the Plan Area.

Table 1: Population and Households, 2010-2020

Population	2010	2020	Change, 2010-2020 Number	Percent
Richmond Hilltop Priority Development Area	1,205	1,323	118	9.8%
City of Richmond	103,701	116,448	12,747	12.3%
Contra Costa County	1,049,025	1,165,927	116,902	11.1%

Households	2010	2020	Change, 2010-2020 Number	Percent
Richmond Hilltop Priority Development Area	563	586	23	4.1%
City of Richmond	36,093	38,677	2,584	7.2%
Contra Costa County	375,364	407,029	31,665	8.4%

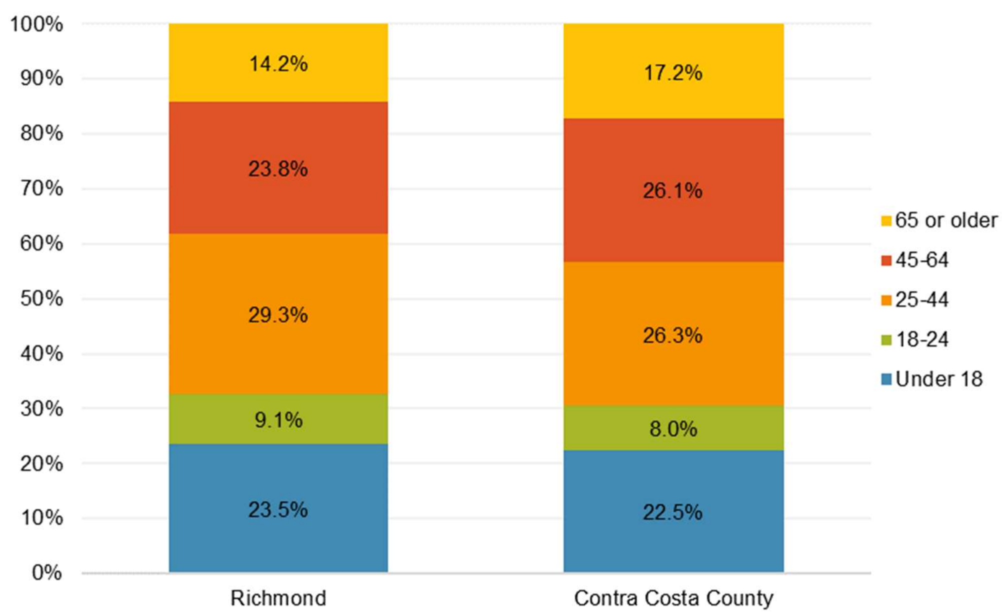
Avg. Household Size	2010	2020
Richmond Hilltop Priority Development Area	2.14	2.26
City of Richmond	2.83	2.95
Contra Costa County	2.77	2.84

Sources: Esri Business Analyst, 2021; BAE, 2022.

Age Distribution

Richmond's population skews younger than that of Contra Costa County as a whole. As of 2021, the Richmond population had a median age of 36.3 years, while the County population had a median age of 39.7 years. The City has a slightly larger share of children under age 18 and a larger share of residents between ages 18 and 44 than the County (see Figure 2). The County has a large percentage of seniors aged over 65 years, at 17 percent of the population, compared to 14 percent of the population in the City.

Figure 2: Age Distribution, 2021

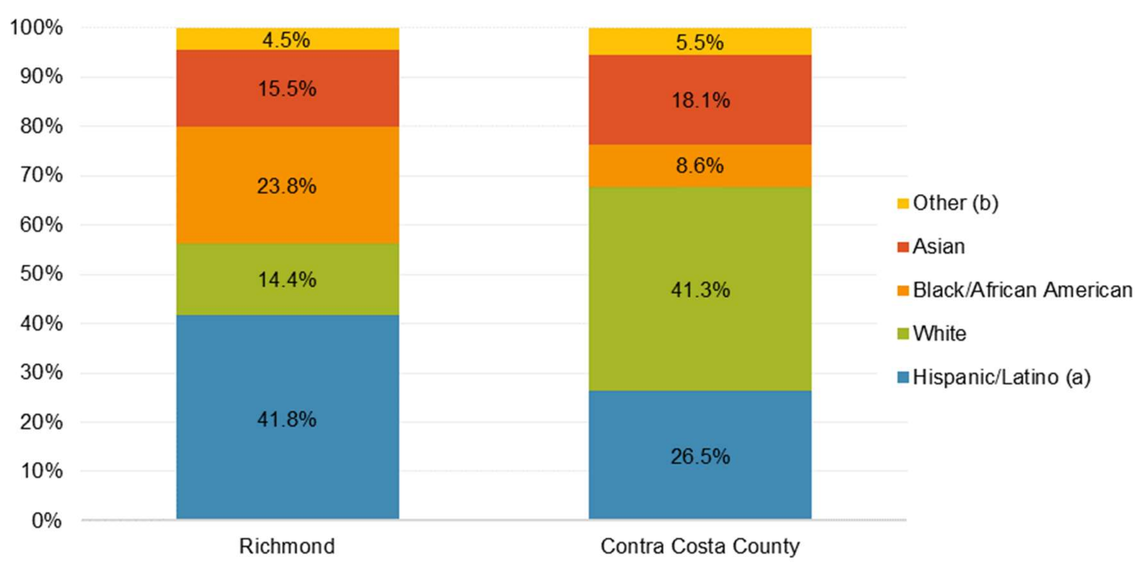


Sources: Esri Business Analyst, 2021; BAE, 2022.

Race and Ethnicity

The City is markedly different from the County with respect to the racial and ethnic composition of the population. As shown in Figure 3, Hispanic/Latino residents comprise the largest racial and ethnic group in Richmond, making up approximately 42 percent of the City's population as of 2021. Richmond has a much larger proportion of Hispanic/Latino residents than the County, where approximately 26 percent of residents are Hispanic or Latino. Notably, Black/African American residents make up nearly one-quarter of the Richmond population, while this group makes up less than ten percent of the County population. The largest racial/ethnic group in Contra Costa County is non-Hispanic/Latino White residents, who account for 41 percent of the population. In Richmond, non-Hispanic/Latino White residents comprise approximately 14 percent of the population.

Figure 3: Racial and Ethnic Distribution, 2021



Notes:
(a) Includes all races for those of Hispanic/Latino background.
(b) Includes Native American, Native Hawaiian/Pacific Islander, Other, and Two or More Races.

Sources: Esri Business Analyst, 2021; BAE, 2022.

Household Tenure

Unlike the County where over two-thirds of households own their homes, Richmond has a nearly even split of renter and owner households. As shown in Table 2, Richmond is almost evenly split in terms household tenure, with 51 percent owner households and 49 percent renter households. In the County, the majority of households are owner households (67 percent). Between 2010 and 2021, household growth in Richmond was driven primarily by the growth in renter households. This is in contrast to the County, where the number of new owner households far outnumbered the number of new renter households gained between 2010 and 2021.

Table 2: Household Tenure, 2010-2021

	2010		2021		2010-2021 Change	
City of Richmond	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**
Owner-Occupied	18,692	51.7%	19,257	51.0%	565	3.0%
Renter-Occupied	17,456	48.3%	18,529	49.0%	1,073	6.1%
Total Occupied Housing Units	**36,148**	**100.0%**	**37,786**	**100.0%**	**1,638**	**4.5%**

	2010		2021		2010-2021 Change	
Contra Costa County	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**
Owner-Occupied	251,904	67.1%	269,438	67.3%	17,534	7.0%
Renter-Occupied	123,460	32.9%	130,814	32.7%	7,354	6.0%
Total Occupied Housing Units	**375,364**	**100.0%**	**400,252**	**100.0%**	**24,888**	**6.6%**

Sources: Esri Business Analyst, 2021; BAE, 2022.

Educational Attainment and Household Income

Overall, Richmond has lower levels of educational attainment and lower household incomes than Contra Costa County as a whole. As of 2021, the median household income in the County was $108,209, compared to $69,561 in the City of Richmond (see Table 3). Richmond residents also collect lower incomes on a per capita basis, at $33,628 compared to $53,833 in the County. Two-thirds of Richmond households earn less than $100,000 whereas over half of County households earn more than $100,000. Nearly one quarter of County households earn more than $200,000, while the same is true for less than ten percent of City households. Data on educational attainment, shown in Table 4, aligns with these findings on household incomes. Richmond has a smaller share of residents age 25 and over with a high school diploma (80 percent) than the County (90 percent) and 30 percent of the population in Richmond holds a bachelor's degree or higher, compared to 44 percent in Contra Costa County.

Table 3: Household Income Distribution, 2021

Income Category	City of Richmond Number	City of Richmond Percent	Contra Costa County Number	Contra Costa County Percent
Less than $35,000	9,211	24.4%	60,343	15.1%
$35,000-$49,999	4,579	12.1%	31,077	7.8%
$50,000-$74,999	6,106	16.2%	50,294	12.6%
$75,000-$99,999	5,212	13.8%	43,195	10.8%
$100,000-$200,000	9,065	24.0%	120,563	30.1%
$200,000 or more	3,614	9.6%	94,780	23.7%
Total Households (a)	**37,787**	**100.0%**	**400,252**	**100.0%**
Median HH Income	**$69,561**		**$108,209**	
Per Capita Income	**$33,628**		**$53,833**	

Note:
(a) Totals may not match totals in other tables due to independent rounding.

Sources: Esri Business Analyst, 2021; BAE, 2022.

Table 4: Educational Attainment, 2021

Educational Attainment	City of Richmond Number	City of Richmond Percent	Contra Costa County Number	Contra Costa County Percent
Less than 9th Grade	8,008	11.0%	40,069	5.1%
9th to 12th Grade, No Diploma	6,882	9.4%	35,805	4.6%
High School Graduate (incl. Equivalency)	15,144	20.8%	132,798	17.0%
Some College, No Degree	14,876	20.4%	159,441	20.4%
Associate Degree	5,961	8.2%	65,063	8.3%
Bachelor's Degree	14,408	19.7%	214,770	27.5%
Graduate/Professional Degree	7,693	10.5%	131,819	16.9%
Total Population Age 25+	**72,972**	**100.0%**	**779,765**	**100.0%**
Population 25+ High School Graduate (incl. Equivalency) or Higher (%)	**79.6%**		**90.3%**	
Population 25+ with Bachelor's Degree or Higher (%)	**30.3%**		**44.4%**	

Sources: Esri Business Analyst, 2021; BAE, 2022.

Jobs by Industry

The manufacturing and transportation and warehousing industry sectors play a large role in Richmond's economy and together account for more than one-fourth of the total jobs in the City. In terms of total employment, manufacturing is the largest industry sector in Richmond, accounting for over 15 percent of citywide jobs as of 2021 (see Table 5). Notably, 13 percent of jobs in Richmond are in the Transportation and Warehousing industry sector, compared to just three percent of the jobs in Contra Costa County. Richmond accounts for 43 percent of the total Transportation and Warehousing jobs in Contra Costa County, demonstrating the City's strong competitive advantages in this sector. As shown in Table 6, the City's largest employer is Chevron, which employs approximately 3,260 workers. Other employers among the City's ten largest employers include a mix of public agencies, Kaiser Permanente, and federal and private firms engaged in delivery and logistics. Although the Retail Trade industry sector accounts for a similar share of the total jobs in the City and County, at 15 and 14 percent, respectively, the City has a disproportionately low share of jobs in typical office-using sectors such as Information (one percent), Financial Activities (four percent) and Professional and Business Services (eight percent). In Contra Costa County, these three office-using sectors account for approximately 22 percent of jobs countywide.

Table 5: Employment by Industry, 2021

	City of Richmond		Contra Costa County	
Industry	**Number**	**Percent**	**Number**	**Percent**
Natural Resources and Mining	23	0.1%	2,588	0.7%
Utilities	70	0.2%	1,394	0.4%
Construction	1,471	4.1%	18,180	4.8%
Manufacturing	5,391	15.2%	30,623	8.0%
Wholesale Trade	2,007	5.7%	13,992	3.7%
Retail Trade	5,270	14.8%	55,020	14.4%
Transportation/Warehousing	4,619	13.0%	10,768	2.8%
Information	418	1.2%	7,241	1.9%
Financial Activities	1,546	4.4%	32,001	8.4%
Professional and Business Services	2,995	8.4%	45,498	11.9%
Education and Health Services	4,969	14.0%	78,796	20.7%
Leisure and Hospitality	2,156	6.1%	40,281	10.6%
Other Services	1,806	5.1%	21,725	5.7%
Public Administration	2,498	7.0%	21,105	5.5%
Unclassified	278	0.8%	1,824	0.5%
Total Employment (a)	**35,517**	**100.0%**	**381,036**	**100.0%**

Note:
(a) Totals may not match totals in other tables due to independent rounding.

Sources: Esri Business Analyst, 2021; BAE, 2022.

Table 6: Major Employers, City of Richmond, 2021

Employer	Number
Chevron Refinery	3,264
West Contra Costa Unified School District	1,658
Kaiser Foundation Hospitals	1,596
United Parcel Service	1,332
Social Security Administration	1,259
Amazon.com Services	1,055
The Permanente Medical Group	1,051
U.S. Postal Service	1,047
Contra Costa County	844
City of Richmond	860
Total, Principal Employers	**13,966**

Sources: City of Richmond Finance Dept., 2021; BAE, 2022.

Tapestry Segmentation

Esri's tapestry segmentation leverages robust data on the demographic and socioeconomic characteristics of U.S. households to develop tailored profiles of different geographies based on their residential characteristics and consumer traits. This data source is often used in the retail industry to better understand the attitudes, interests, habits, and spending patterns of consumers in a given market area. Esri's Tapestry system classifies U.S. neighborhoods into 67 unique market segments based on a combination of demographic characteristics and data mining of consumer databases and surveys. These 67 market segments are classified into 14 different LifeMode groups based on their common experiences or significant demographic traits. LifeMode groups can be used to differentiate households based on their consumer preferences and likely consumer behavior patterns.

Table 7: Top Three Esri Tapestry Segmentation LifeMode Groups by Total Adult Population, City of Richmond, 2021

LifeMode Group	Total Adult Population	% of Total Adult Pop.
Next Wave	23,414	28.3%
Middle Ground	18,145	21.9%
Sprouting Explorers	17,031	20.6%
Subtotal, Top 3 LifeMode Groups	**58,590**	**70.7%**
Total Adult Population	**82,856**	**100.0%**

Sources: Esri Business Analyst; BAE, 2022.

According to Esri's Tapestry system, approximately 70 percent of adults in Richmond live in households in the "Next Wave", "Middle Ground", and "Sprouting Explorers" LifeMode Groups, as shown in Table 7. The following is a summary of the primary characteristics that help define these three LifeMode Groups, according to Esri.[1]

Next Wave

The Next Wave LifeMode group can be described as urban denizens. Esri's Tapestry system describes this group as having the following characteristics:

- Urban dwellers; young, hardworking families.
- A large share is foreign born and speak only their native language.
- Young, or multigenerational, families with children are typical.
- Most are renters in older multiunit structures, built in the 1960s or earlier.
- Hardworking with long commutes to jobs, often using public transit to commute to work.
- Spending reflects the youth of these consumers, focus on children (top market for children's apparel) and personal appearance.
- Also a top market for moviegoers (second only to college students) and fast food.
- Partial to soccer and basketball.

Middle Ground

Esri describes Middle Ground as "Millennials in the middle". Esri's Tapestry system describes this group as having the following characteristics:

- Lifestyles of thirtysomethings.
- Millennials in the middle: single/married, renters/homeowners, middle class/working class.
- Urban market mix of single-family, townhome, and multiunit dwellings.
- Majority of residents attended college or attained a college degree.
- Householders have traded their landlines for cell phones, which they use to listen to music, read the news, and get the latest sports updates on their favorite teams.
- Online all the time: use the internet for entertainment (downloading music, watching YouTube, finding dates), social media (Facebook, Twitter, LinkedIn), searching for employment.
- Leisure includes nightlife (clubbing, movies), going to the beach, some travel and hiking.

Sprouting Explorers

Spouting Explorers are young, Hispanic and Latino homeowners with families. Esri's Tapestry system describes this group as having the following characteristics:

- Young homeowners with families.
- Multilingual and multigenerational households with children who represent second-, third-, or fourth-generation Hispanic and Latino families.

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[1] See: https://doc.arcgis.com/en/esri-demographics/data/tapestry-segmentation.htm#ESRI_SECTION2_D34B7970D92941D5A32339D6E31C29CE

- Neighborhoods feature single-family, owner-occupied homes built at city's edge, primarily built after 1980.
- Hardworking and optimistic, most residents aged 25 years or older have a high school diploma or some college education.
- Shopping and leisure also focus on their children—baby and children's products from shoes to toys and games and trips to theme parks, water parks, or the zoo.
- Children enjoy playing video games on personal computers or handheld or console devices.
- Many households have dogs for domestic pets.

Implications for Plan Area

- Richmond has a strong population base that can provide potential support for new retail, entertainment, and recreation opportunities in the Plan Area.
- Esri Tapestry segment information for Richmond indicates that the City has a large base of consumers living in family households and households with children. These households may provide support for new specialty retail, eating and drinking establishments, and other family-oriented entertainment and recreation establishments.
- The City's younger population base could help to support new forms of specialty and experiential retail, or the places consumers seek out to spend their discretionary time and discretionary dollars. Specialty and experiential retail offer immersive shopping experiences that help foster a unique "sense of place." A new and distinctive family-friendly retail node in the Plan Area would likely be very attractive to Richmond residents.
- The City's rich racial and ethnic diversity, with a high proportion of Hispanic and Latino residents, supports specialty food retail, including ethnic markets and eating and drinking establishments.
- Low household incomes among Richmond residents may present a challenge for attracting regional-serving retail, entertainment, and recreation uses to the Plan Area. Regional-serving uses may gravitate toward higher-income areas elsewhere in Contra Costa or Alameda County.
- Richmond does not currently serve as a node for office-based employment, which suggests potential challenges for office development in the Plan Area.

REAL ESTATE MARKET CONDITIONS

This chapter provides information on real estate market conditions and trends in the Plan Area, Richmond, and Contra Costa County. The following subsections provide information on the market for-sale residential, rental residential, retail, office, industrial/flex, and hotel uses to provide insight on the potential demand for future development in the Plan Area.

Residential

Although more than half of all housing units in Richmond are single-family homes, Richmond also has a sizable inventory of multifamily units. As shown in Table 8, of the 40,125 housing units in Richmond approximately 56 percent are single-family detached units while 38 percent are multifamily units. In Contra Costa County overall, roughly two-thirds of the housing units are single-family detached units, while just 24 percent are multifamily units. Richmond has a greater diversity of multifamily building sizes than the County, with 16 percent of housing units in multifamily family buildings with 2 to 4 units, and 22 percent in multifamily buildings larger than five units. The County's multifamily housing stock, by comparison, consists primarily of units in structures of larger than five units, with just seven percent of total housing units in structures of two to four units. Notably, both the City and County have relatively low shares of single-family attached units (i.e., townhomes), accounting for just six and eight percent of housing units, respectively.

Table 8: Housing Stock Characteristics, 2021

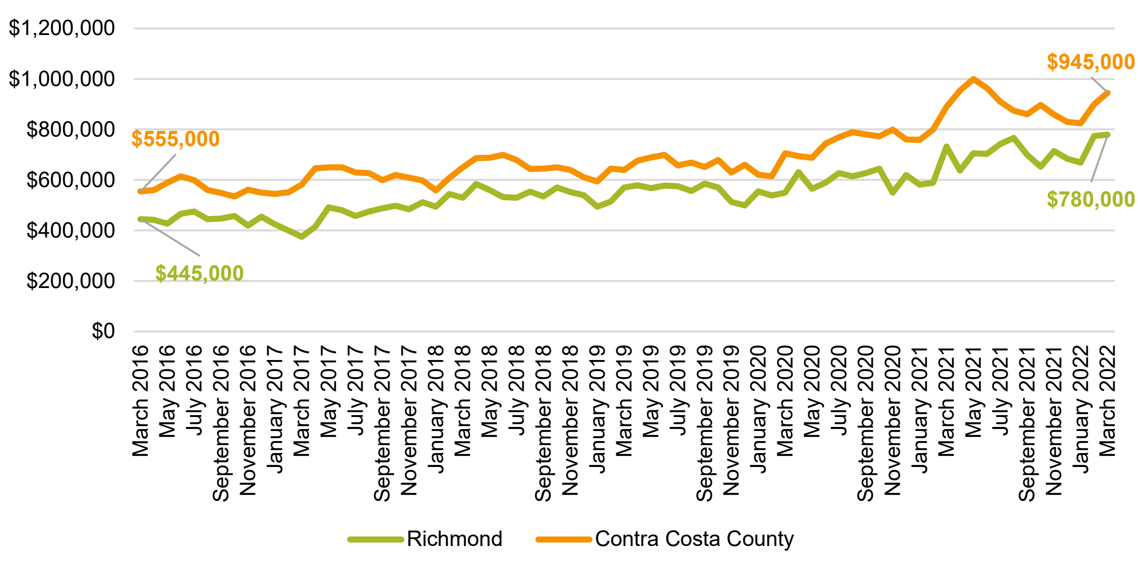
	City of Richmond		Contra Costa County	
Type of Residence	**Number**	**Percent**	**Number**	**Percent**
Single Family Detached	22,255	55.5%	280,271	66.6%
Single Family Attached	2,389	6.0%	32,162	7.6%
Multifamily 2-4 Units	6,363	15.9%	28,972	6.9%
Multifamily 5+ Units	8,955	22.3%	72,062	17.1%
Mobile Home	163	0.4%	7,284	1.7%
Total Housing Units	**40,125**	**100.0%**	**420,751**	**100.0%**
Single Family Housing Units	**24,644**	**61.4%**	**312,433**	**74.3%**
Multifamily Housing Units	**15,318**	**38.2%**	**101,034**	**24.0%**

Sources: Department of Finance, Table 2: E-5 City/County Population and Housing Estimates, 1/1/2021; BAE, 2022.

For-Sale Residential Market
This subsection provides information on the for-sale residential market in Richmond, including information on both the single-family market and the market for condominiums and townhomes.

Single-Family Market Conditions
Single-family home sale prices have increased substantially in Richmond over the past several years, indicating strong demand. As shown in Figure 4 below, the median home single-family sale price in Richmond was $780,000 in March 2022, up from $445,000 in March 2016, a 75 percent increase. Despite these price increases, Richmond remained a comparatively affordable single-family home market relative to other locations within Contra Costa County. As of March 2022, the median single-family home sale price was $945,000 in Contra Costa County overall, up 70 percent from March 2016. Single-family home sale prices in both Richmond and Contra Costa County reflect significant increases throughout the COVID-19 pandemic. The median single-family home sale price in Richmond increased by 33 percent between March 2016 and February 2020 and by 45 percent between February 2020 and March 2022.

Figure 4: Median Single-Family Unit Sale Price, Richmond, and Contra Costa County, March 2016-March 2022



Sources: Redfin, 2022; BAE, 2022.

Real estate brokers interviewed for this study indicated that Richmond is an increasingly attractive market for single family units, particularly for entry-level single-family homebuyers. Homebuyers that are priced out of cities like Berkeley, Oakland, and El Cerrito are looking to Richmond as a more affordable option. Brokers indicated that homebuyers looking in

Richmond may also consider Vallejo or Vacaville. Brokers noted that while Richmond has had a strong single-family market since the summer of 2020, in line with national trends, recent interest rate hikes are beginning to price out buyers, which may drive down sale prices overall.

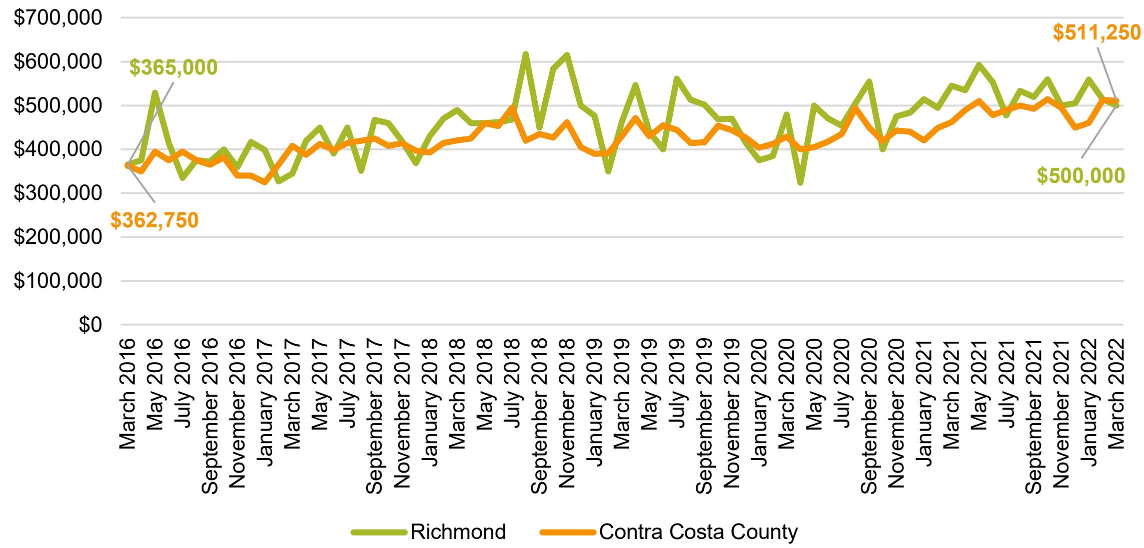
Condominium and Townhome Market Conditions

Richmond has a moderately strong market for condominium and townhome sales, with median condominium and townhome sale prices that have tended to be similar to the countywide median over the past several years. Most of the condominiums in Richmond are clustered in the Marina Bay neighborhood, which is located along the Richmond Marina approximately five mile south of the Plan Area, and the Brickyard Cove neighborhood, which is located approximately six miles southeast of the Plan Area in Point Richmond, near Miller/Knox Regional Shoreline Park. The the City's townhomes are primarily located in the Marina Bay. There are other small clusters of condominiums and townhomes west of the Hilltop Mall site as well as elsewhere in the City.

As of March 2022, the median sale price for condominiums was $500,000 in Richmond, comparable to the median in Contra Costa County overall ($511,250), as shown in Figure 5. Condominiums in the Brickyard Cove and Point Richmond areas tend to sell for higher than the citywide median. These locations provide easy access to the shops and restaurants in central Point Richmond, which offers an authentic, safe, walkable, and amenity-rich community, and are adjacent to open space at the Miller/Knox Shoreline Park. Some of these homes also offer views of the San Francisco Bay. Condominium sale prices in both Richmond and Contra Costa County overall have increased steadily over the past several years, including during the COVID-19 pandemic, albeit at a slower pace than the rate of increase in single-family home sale prices. Among condominiums recently sold in the Brickyard Cove and Marina Bay areas, the median sale price was approximately $590 per square foot.

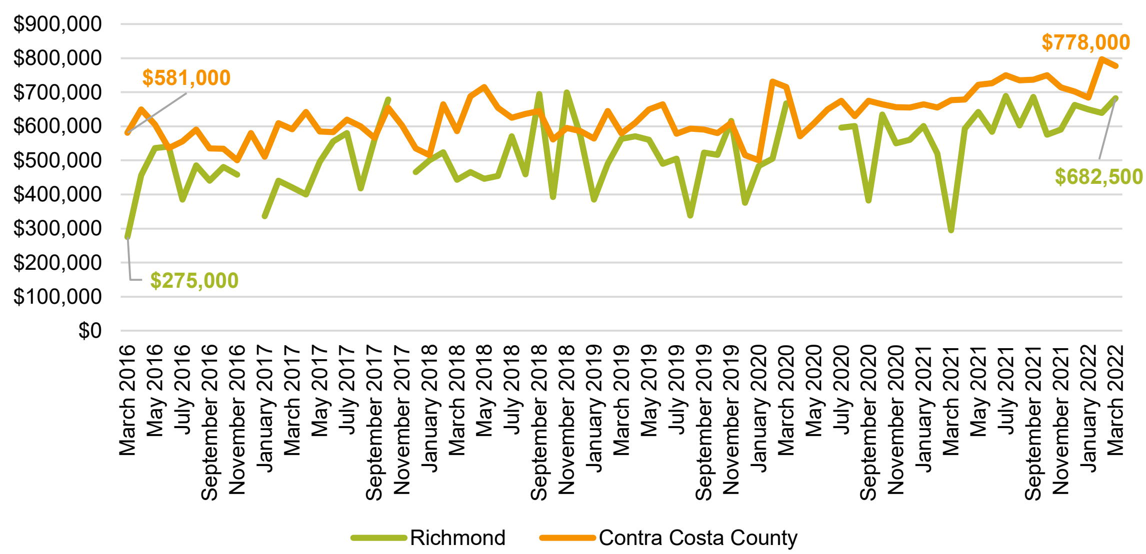
As of March 2022, the median townhome sale price in Richmond was $682,500, slightly lower than the Contra Costa County median of $778,000, as shown in Figure 6. Townhomes in Richmond are primarily located in the Marina Bay neighborhood, and the townhomes in this area tend to sell for slightly more than townhomes elsewhere in Richmond. The townhomes in Marina Bay are relatively new and provide easy access to the freeway and open space. Many also offer Bay views and most are a short walk away from the Bay Trail. Brokers suggest townhomes could be a good fit for residential development in the Plan Area and would complement existing development there, potentially commanding relatively high prices. Among townhomes recently sold in the Marina Bay area, the median sale price was approximately $580 per square foot.

Figure 5: Median Condominium Sale Price, Richmond and Contra Costa County, March 2016-March 2022



Sources: Redfin, 2022; BAE, 2022

Figure 6: Median Townhome Sale Price, Richmond and Contra Costa County, March 2016-March 2022



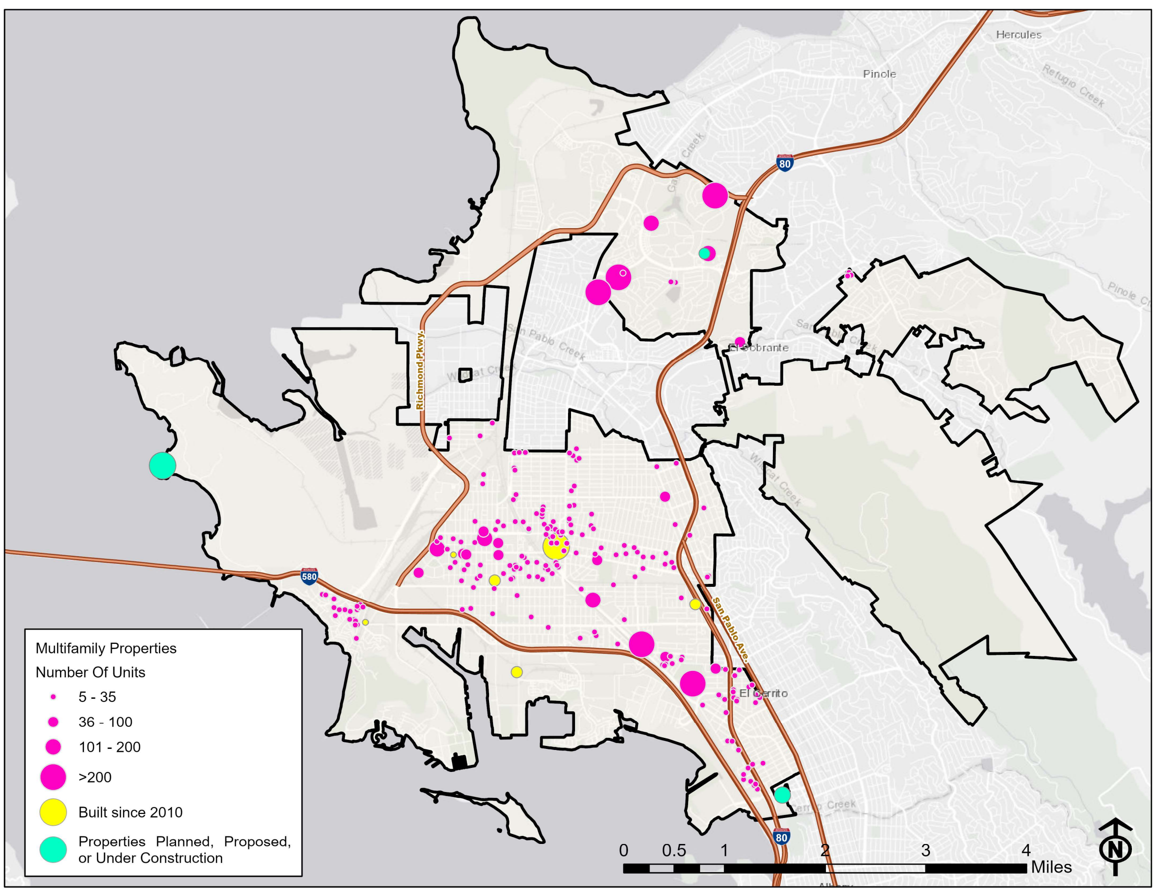
Note: Median townhome sale prices in Richmond are not available from Redfin for all months in the time period shown in the figure. Months for which data are unavailable are shown as a break in the green line in the chart.
Sources: Redfin, 2022; BAE, 2022

Multifamily Rental

Plan Area Context

Figure 7 shows a map of multifamily rental properties with five or more units in Richmond. There are several large apartment complexes near Hilltop Mall, including The Tides and Heritage Park immediately adjacent to the mall, and the Westridge and Baycliff apartment buildings nearby along Robert Miller Drive. Many of the multifamily rental properties that have been built in Richmond since 2010 are affordable developments, such as the Terraces at Nevin, Mireflores Senior Apartments, Harbour View Senior Apartments, and Lillie Mae Jones Plaza. Exceptions include The Point, which is located in the center of Point Richmond, and Artisan Cove, a live/work development near the Richmond Ferry Landing and the Marina Bay neighborhood. While none of the apartment buildings near the Plan Area were built after 2010, there is one proposed multifamily rental development in the Plan Area.

Figure 7: Geographic Distribution of Multifamily Rental Properties in Richmond



Source: Costar, 2022; BAE, 2022.

Multifamily Rental Market Conditions
While Richmond has a diverse and varied rental market, the Plan Area may offer potential as a strong location for new multifamily rental development. As shown in Table 9, Richmond had a low 3.6-percent multifamily rental vacancy rate as of the fourth quarter of 2021, similar to the vacancy rate in Contra Costa County overall. According to data from Costar, the average asking monthly rent was $1,834 as of the fourth quarter of 2021, lower than the $2,004 average asking monthly rent in the County but higher than the average asking monthly rent in Richmond in the fourth quarter of 2020. However, it should be noted that the data shown in Table 9 reflect an average across market-rate and affordable properties, as well as across newer and older developments, and therefore may significantly underestimate the rental rates for new market-rate units.

As noted above, multifamily rental developments in and near the Plan Area include The Tides Apartments and Heritage Park. According to data from Costar, the effective rents at The Tides complex average $2,580 per month. Amenities at The Tides complex include a pool, fitness center, and shared barbeques. The property has a security gate, which contributes to a perception of safety at the complex, and has good freeway access. It is also newer than most of the market-rate multifamily developments in Richmond, constructed in 2004. These data indicate that a well-positioned multifamily rental property in the Plan Area could potentially command rents that are high enough to make new development feasible. Heritage Park is an affordable development.

Table 9: Multifamily Rental Market Overview, Q4 2021

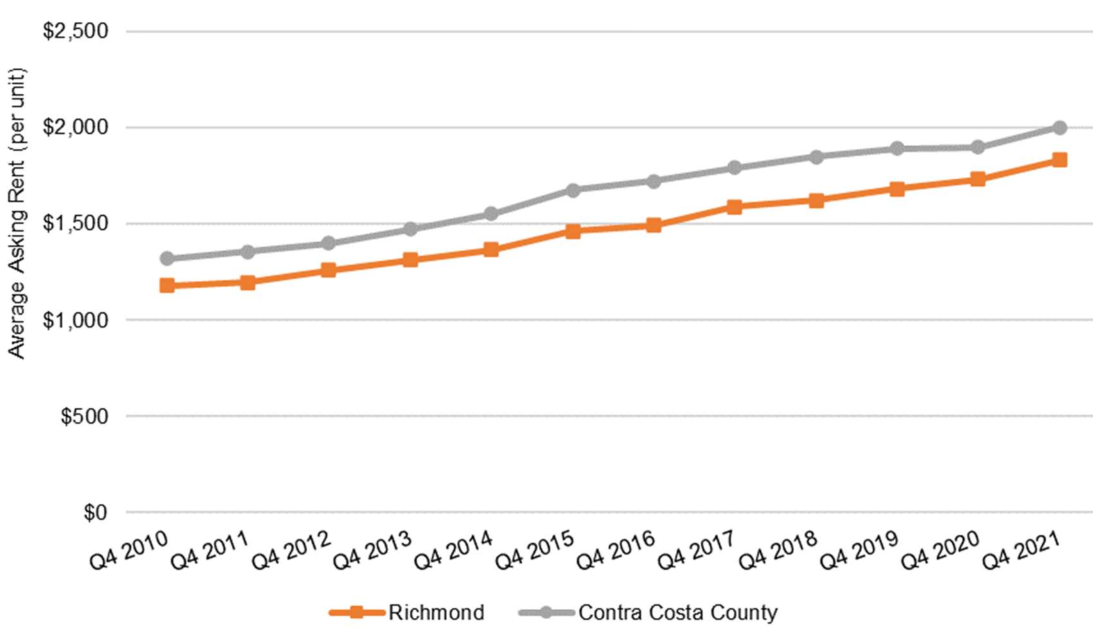
Multifamily Residential, All Rent Types	City of Richmond	Contra Costa County
Inventory (units), Q4 2021	7,789	61,387
Inventory (% of County)	12.7%	100.0%
Vacancy Rate	3.6%	3.3%
Avg. Asking Rents (units), Q4 2020 - Q4 2021		
Avg. Asking Rent, Q4 2020	$1,732	$1,901
Avg. Asking Rent, Q4 2021	$1,834	$2,004
% Change Q4 2020 - Q4 2021	5.9%	5.4%
Avg. Asking Rents (psf), Q4 2020 - Q4 2021		
Avg. Asking Rent (psf), Q4 2020	$2.14	$2.35
Avg. Asking Rent (psf), Q4 2021	$2.27	$2.48
% Change Q4 2020 - Q4 2021	6.1%	5.5%
New Deliveries (units), Q1 2010-Q4 2021	559	5,440
New Deliveries (% of County)	10.3%	100.0%
Under Construction (units), Q4 2021	0	2,574
Under Construction (% of County)	0.0%	100.0%

Sources: CoStar, 2022; BAE, 2022

Asking Rents and Vacancy
While multifamily rents in Richmond tend to be slightly lower than the countywide average, this may be attributable in part to the large number of rent-restricted affordable developments in Richmond rather than lower rents for market-rate units. As Figure 8 shows, since Q4 2010, average asking monthly rents in Richmond have increased at a similar rate to the rate of increase in Contra Costa County, at approximately four percent annually, with the average rent in Richmond remaining slightly lower than the countywide average throughout this period. As of the fourth quarter of 2021, the average monthly asking rent in Richmond was $1,834 per unit, $170 below the average asking rent in Contra Costa County ($2,004 per unit). Notably, the growth in rent between 2010 and 2021 in both the City and County outpaced the average annual inflation rate of 2.8 percent during the same period, suggesting increasing demand for multifamily rentals in both geographies.

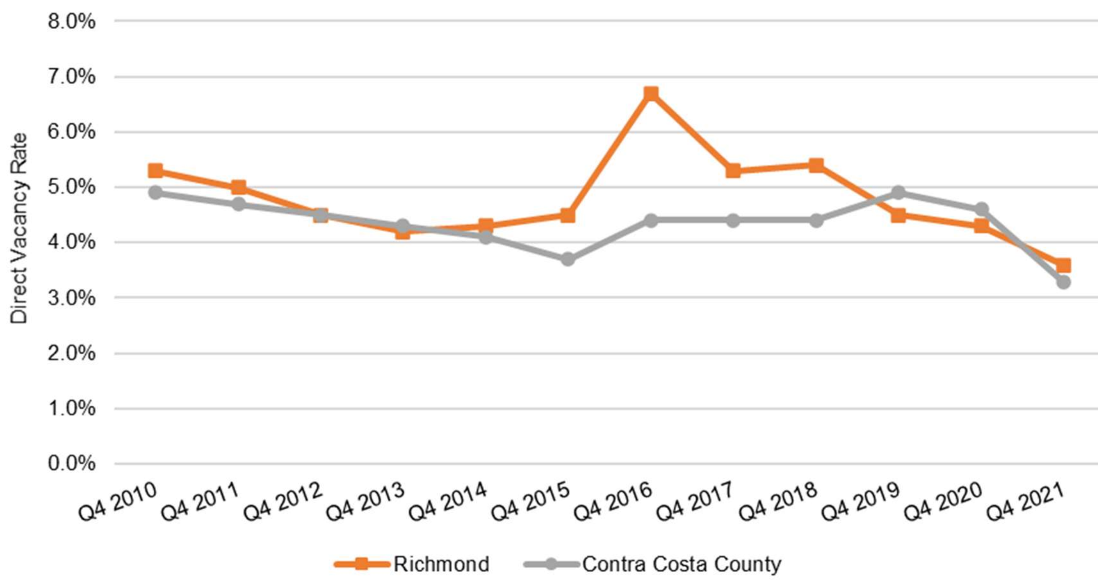
Declines in vacancy rates since 2010 in both Richmond and Contra Costa County also indicate growth in demand for rental units, and as of the fourth quarter of 2021 the vacancy rate in both the City (3.6 percent) and the County (3.3 percent) was the lowest of any point since 2010 (see Figure 9). While the vacancy rate increased significantly in Richmond in 2016, this increase coincided with new multifamily deliveries being added to Richmond's inventory, as shown in Figure 10, and therefore likely reflected conditions as new units were leased up, rather than a decrease in demand.

Figure 8: Average Asking Monthly Rent, Q4 2010 - Q4 2021



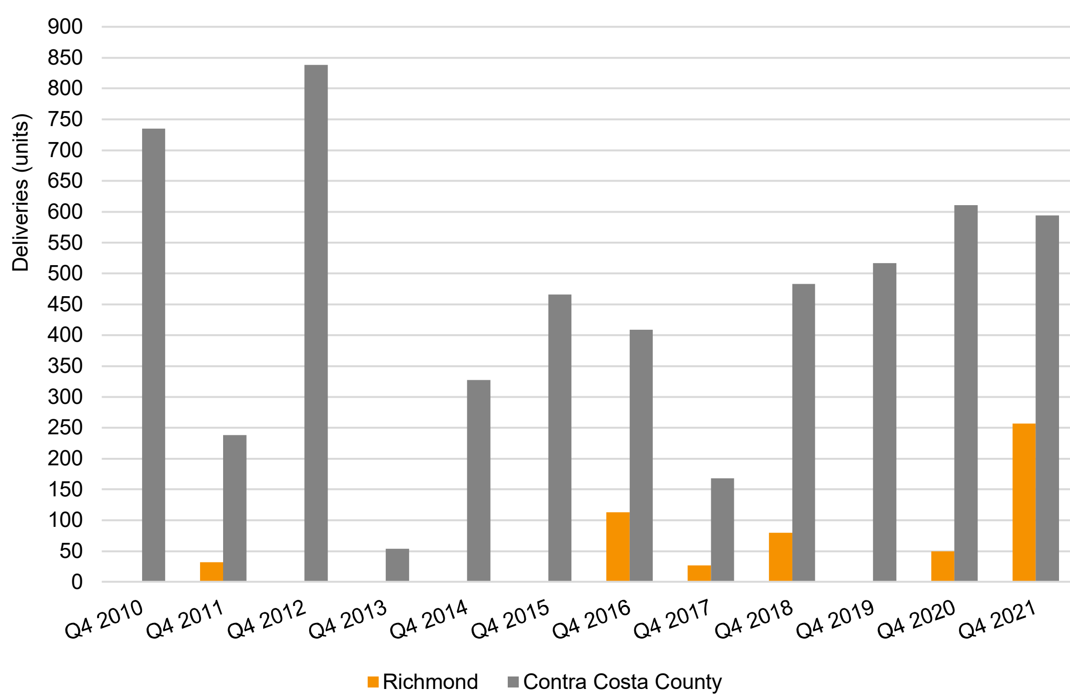
Sources: CoStar, 2022; BAE, 2022.

Figure 9: Vacancy Rate, Q4 2010 - Q4 2021



Sources: CoStar, 2022; BAE, 2022.

Figure 10: Deliveries, Q4 2010 - Q4 2021



Sources: CoStar, 2022; BAE, 2022.

National and Regional Market Trends

Although home sales remain strong, increasing interest rates could begin to temper demand. The Joint Center for Housing Studies at Harvard University reports that home sale volumes remained strong through 2021 despite a historically tight supply of homes on the market, increasing home prices at the fastest pace in over ten years. Historically low interest rates contributed to significant price increases throughout much of the period following the start of the COVID-19 pandemic. These trends were seen throughout communities in the Bay Area. However, increases in mortgage interest rates in 2022 could limit prospective homebuyers' purchasing power and moderate the pace of home sale price increases in the near term.

Young adults are increasingly entering the homeownership market, increasing demand for for-sale housing at a variety of sizes and price points. While Millennials had previously formed households at slower rates than previous generations, many in this age group have now formed independent households. Although a sizable share of Millennials continues to rent their homes, many have purchased homes or are currently entering the homeownership market for the first time, driving up demand for a range of unit types.

Despite cooling down as a result of the pandemic in 2020, rental demand in urban areas stabilized in 2021. The Joint Center for Housing Studies at Harvard University reports that although rental demand in urban areas was negatively impacted by the pandemic, rental demand in suburban markets increased. Correspondingly, demand for higher-end units, which tend to be located in urban areas, also declined in 2020 before recovering in the first quarter of 2021. By contrast, demand for moderate- and lower-quality apartments remained strong and by the first quarter of 2021, asking rents grew at a faster rate than before the pandemic.

Construction of new multifamily units is expected to peak in 2022, depending on the effects of supply chain and construction delays. In 2020, there were 405,000 multifamily units delivered nationwide, according to Fannie Mae. The number of new deliveries declined slightly in 2021 to 386,000 units, although it is expected exceed 600,000 units in 2022. Similarly, according to the Joint Center for Housing Studies at Harvard University, starts of multifamily unit construction will exceed 400,000. One critical factor that may prevent multifamily construction from meeting these projections are construction delays related to permitting and entitlement backlogs, the lack of materials, the increasing price of materials, and the lack of available labor. According to the National Multifamily Housing Council's Construction Survey in September 2021, over 93 percent of respondents indicated experiencing delays with the vast majority citing at least one of these factors as the reason for the delay.

Millennials are primary drivers of multifamily rental demand. Households formed by Millennials (born 1985 to 2004) are primary drivers of household growth. Due to high housing costs and other factors such as student debt, many Millennials have tended to be renters rather than homeowners, although increasing numbers of Millennials have entered the homeownership market. Notably, whereas immigrants previously formed a significant portion of multifamily rental demand, international immigration fell by nearly 50 percent between 2016 and 2019, which will likely cause a drag on household growth in the long term.

New market-rate multifamily developments are being targeted to the top of the market with luxury amenities. Primarily due to high construction costs that require top end rents to achieve project feasibility, developers have targeted the upper end of the rental residential market by building luxury, Class A multifamily rental projects. This has been particularly true in the Bay Area which has some of the highest construction costs in the nation coupled with an influx of high-paying technology jobs. Nonetheless, rising single-family home prices may cause some tenants to opt for newer rental units with more amenities.

Both younger and older renter households have many shared apartment amenity preferences. Renters are seeking apartments in locations where one can walk to restaurants, retail, and entertainment. Along with standard amenities such as storage, fitness center, pool, and clubrooms, developers are now expanding apartment amenities to include pet-oriented facilities (dog park or pet wash stations), bike storage and repair rooms; yoga studios, secure package delivery rooms, fast speed WiFi in common areas, smart security systems, electric car charging stations, rideshare waiting areas at front entries, rooftop gardens, and sustainable energy and water systems. CBRE also notes on-demand dining, grab-and-go kiosks, convenient grocery, and co-working spaces are also increasingly incorporated into new multifamily buildings and represent a new frontier in amenities[2].

Implications for Hilltop Specific Plan

- Competitive market-rate rents and low rental vacancies indicate potential demand for multifamily rental development in the Plan Area.
- Significant recent growth in residential sale prices in Richmond indicates strong demand for for-sale housing in Richmond, including for single-family homes, condominiums, and townhouses.
- Although Richmond has a relatively strong market for condominiums and townhomes, demand for these product types is focused in waterfront areas with access to amenities, in areas that are perceived as relatively safe communities.
- There is strong demand for affordable housing throughout Richmond and the region, including in the Plan Area.
- Market-rate residential development in the Plan Area is likely to target the top end of the market for each product type in order to achieve rents and sale prices that are high enough to cover the cost of new construction. As a result, new market-rate homes will likely be priced at levels that are not affordable to moderate-income and lower-income

[2] *Multifamily Innovation Watch: Amenities for the 2020s.* CBRE and Streetsense, Pages 16-17.

households. Strategies to target the production of housing for lower-income and moderate-income households will be necessary to accommodate the full spectrum of housing needs across income ranges in the Plan Area.

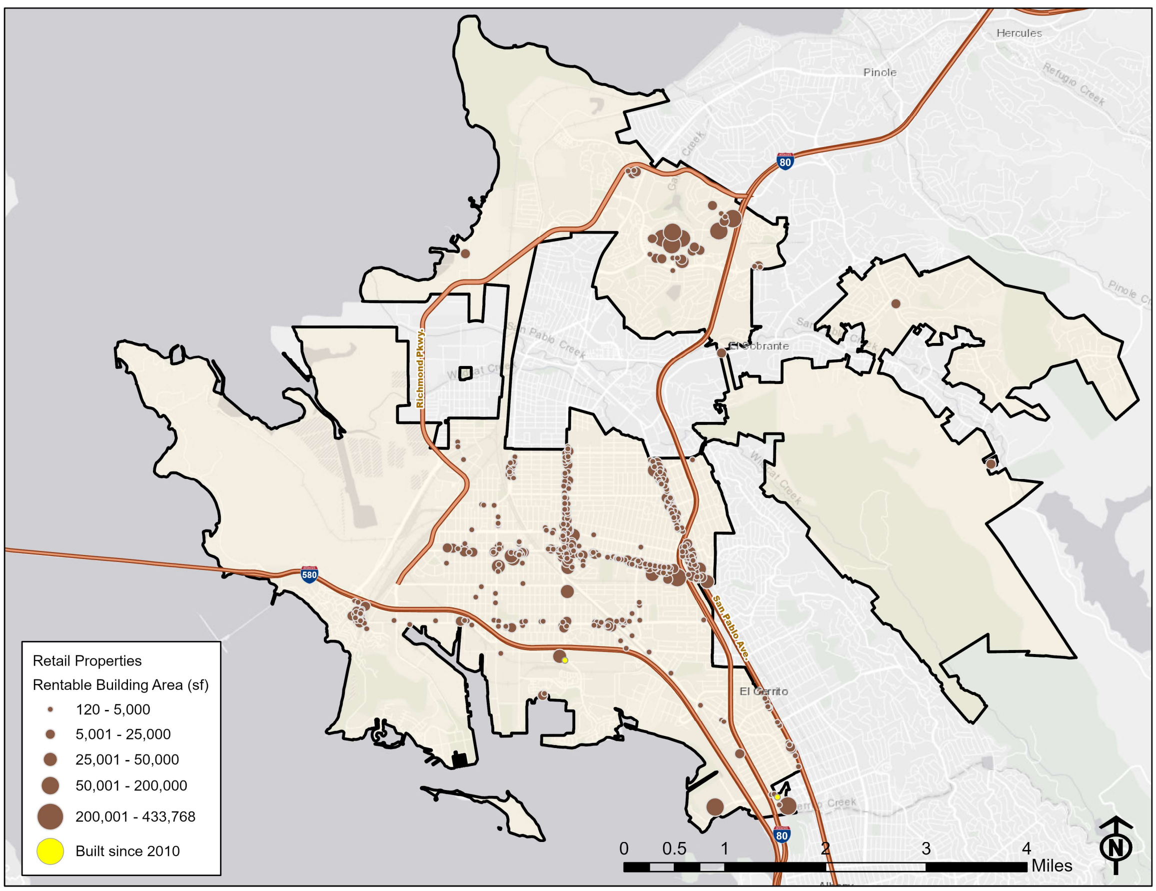
- Providing a range of housing types in the Plan Area at a mix of price points, including multifamily rental housing, condominiums, and townhomes, could address demand from various segments of the community.
- Attracting market-rate residential development to the Plan Area is likely to require implementation of placemaking strategies to complement residential uses, create a safe community feel, and provide dining and entertainment for new residents. These strategies will be particularly important for for-sale housing types in order to achieve the sale prices necessary to attract new development.
- The Plan Area offers a large site with the potential for a mix of uses that can create a sense of place with a mix of complementary uses that will support demand for new residential development.

Retail

Plan Area Context

Figure 11 is a map showing the location and size of retail properties in Richmond. The Hilltop mall area in the north part of the City has the largest retail buildings and represents a significant cluster of retail in Richmond, although most of the existing space includes the Hilltop mall, which is now permanently closed except for a Walmart, which has a long term lease. According to real estate brokers with commercial listings in the area, rents in the Hilltop area are lower than rents in the City's primary retail corridors. The primary retail corridors in Richmond are along 23rd Street down to the intersection with Carlson Boulevard, along MacDonald Avenue between 23rd Street and I-80, and along San Pablo Avenue towards the El Cerrito City limits.

Figure 11: Geographic Distribution of Retail Properties in Richmond



Source: Costar, 2022; BAE, 2022.

Retail Market Conditions

Richmond's retail inventory totals approximately 4.4 million square feet, representing 9.4 percent of the total retail space in Contra Costa County (see Table 10). However, the City's inventory includes the 1.2-million-square-foot Hilltop Mall, which is now mostly vacant. The high retail vacancy rates in both the PDA (54.2 percent) and the City (21.7 percent) reflect the recent closure of the Hilltop Mall. Generally, retail space in the City commands lower rents than retail space in the County overall. However, commercial real estate brokers noted that retail rents are higher than shown in the table below in certain portions of the City near downtown and along San Pablo Avenue. As of the fourth quarter of 2021, the average triple net asking retail rent citywide was $1.71 per square foot per month, representing an eleven percent decrease since the fourth quarter of 2020. In the County, the average NNN asking rent was $1.91 per square foot per month, while the retail vacancy rate was 6.9 percent, according to data provided by CoStar.

Table 10: Retail Market Summary, Q4 2021

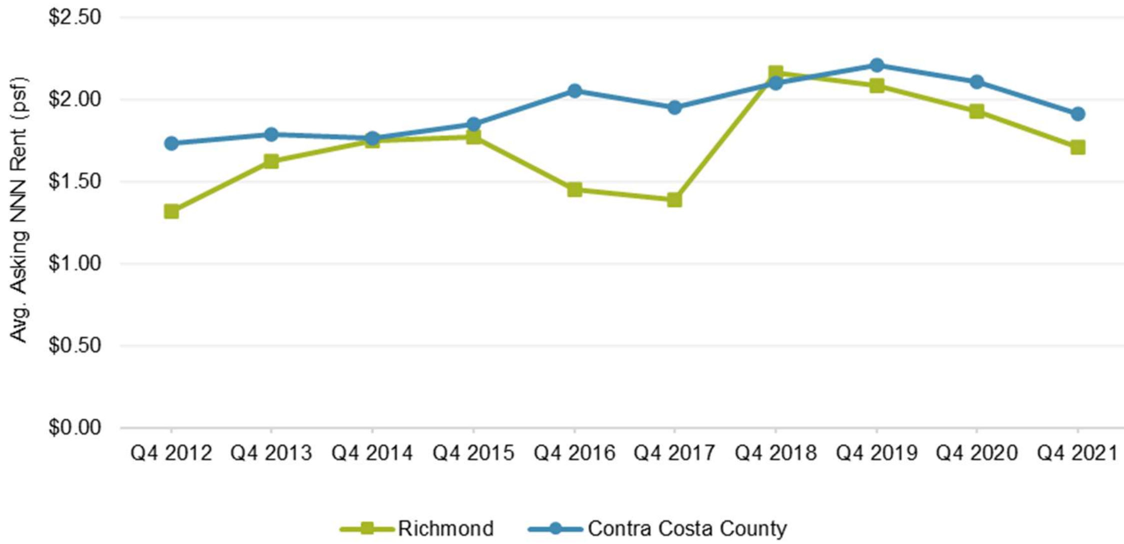
Retail	Richmond Hilltop Priority Development Area (PDA)	City of Richmond	Contra Costa County
Inventory (sf), Q4 2021	1,700,039	4,444,680	47,238,872
Inventory (% of County)	3.6%	9.4%	100.0%
Vacancy Rate	54.2%	21.7%	6.9%
Avg. Asking NNN Rents (psf)			
Avg. Asking Rent (psf), Q4 2020	n.a.	$1.93	$2.11
Avg. Asking Rent (psf), Q4 2021	$1.65	$1.71	$1.91
% Change Q4 2020 - Q4 2021	n.a.	-11.4%	-9.5%
Total Net Absorption (sf)			
Net Absorption (sf), Q1 2010-Q4 2021	-872,025	-797,100	1,622,548
Net Absorption (sf), Q1 - Q4 2021	-549,541	-553,086	-516,969
New Deliveries (sf), Q1 2010 - Q4 2021	0	6,705	2,616,132
New Deliveries (% of County)	0.0%	0.3%	100.0%
Under Construction (sf), Q4 2021	0	0	139,990
Under Construction (% of County)	0.0%	0.0%	100.0%

Sources: CoStar, 2022; BAE, 2022

Asking Rents and Vacancy

Figure 12 shows the trends in average NNN asking rents in Richmond and Contra Costa County since the fourth quarter of 2012. Overall, average retail rents in Richmond have been more volatile than in the County but have followed a similar overall trend. In Richmond, average NNN asking rents peaked during the fourth quarter of 2018 at $2.16 per square foot per month, just above the average NNN asking rent in the County that same quarter ($2.10 per square foot per month). As of the fourth quarter of 2021, the average NNN asking rent in the City was $1.71 per square foot per month, roughly ten percent below the average NNN asking rent reported in the County ($1.91 per square foot per month).

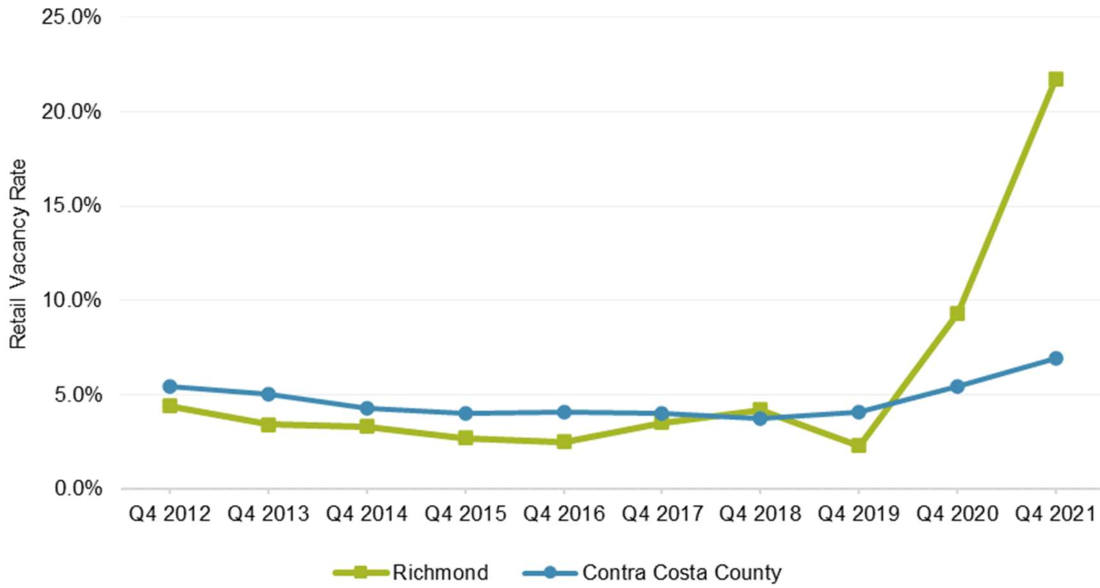
Figure 12: Richmond and Contra Costa County Retail Rent Trends, Q4 2012-Q4 2021



Sources: CoStar, 2022; BAE, 2022.

Figure 13 shows retail vacancy rate trends in Richmond and Contra Costa County since 2012. As shown, retail vacancy rates remained stable during the period from 2012 to 2019, averaging less than five percent in most quarters in both Richmond and the County. However, largely due to the closure of the Hilltop Mall, the vacancy rate in Richmond increased to nearly 10 percent in 2020 and exceeded 20 percent in 2021. In Contra Costa County, the average retail vacancy rate has hovered just below 7 percent since the beginning of 2021.

Figure 13: Richmond and Contra Costa County Retail Vacancy Trends, Q4 2012-Q4 2021

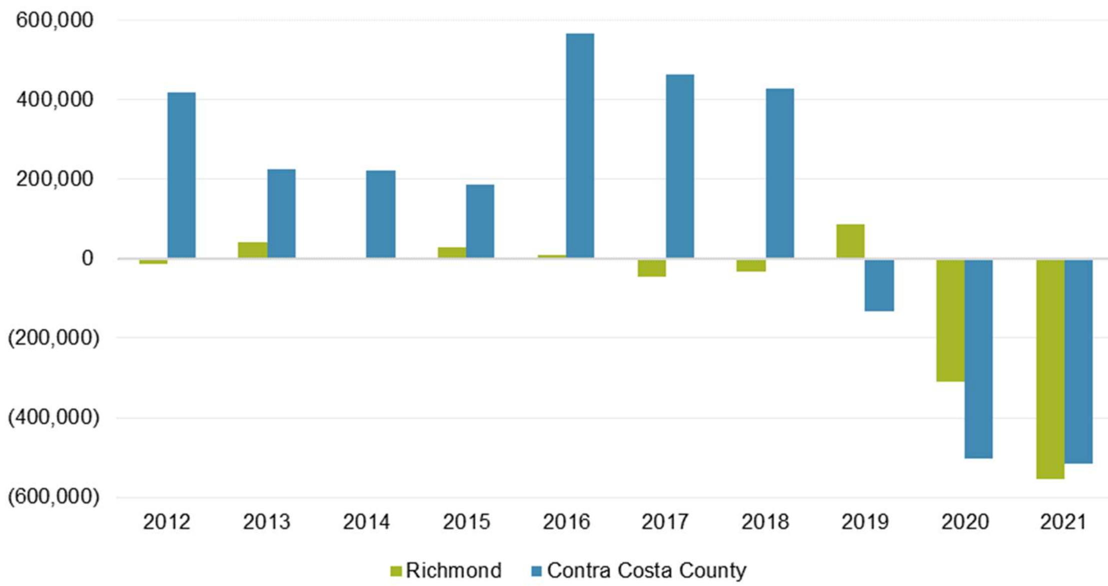


Sources: CoStar, 2022; BAE, 2022

Delivery and Absorption Trends

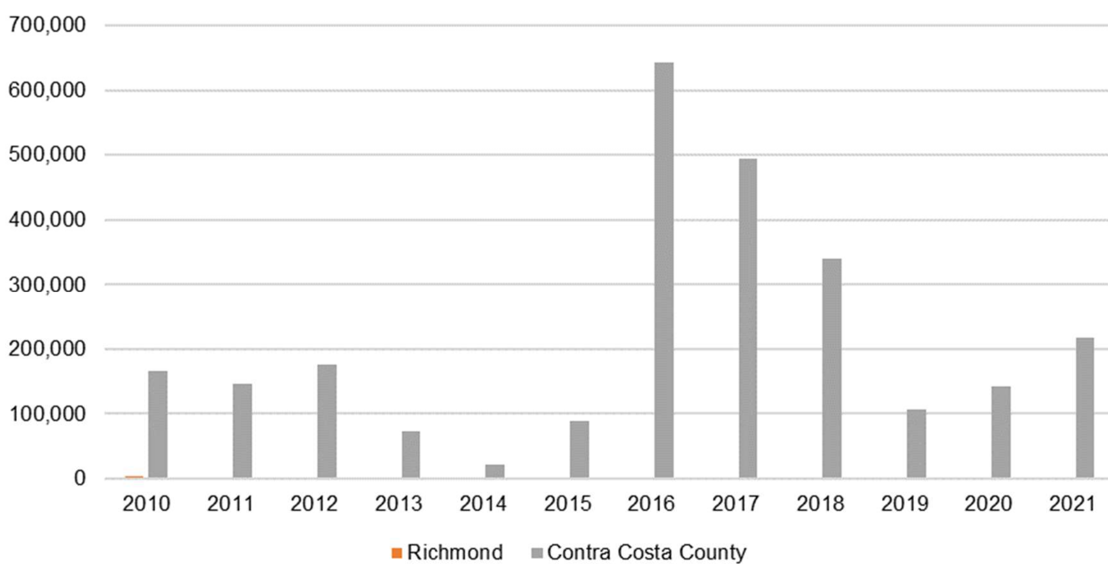
Although the County has added more than 2.6 million square feet to its total retail inventory since 2010, a negligible amount of this new development occurred in Richmond (see Figure 15). The City also experienced significant net negative absorption totaling 797,100 square feet between 2010 and 2021. This is in contrast to the County, which experienced significant positive net absorption of 1.6 million square feet during the same period. As shown in Figure 14, most of the negative net absorption in the County during 2020 and 2021 can be attributed to the net negative annual absorption in Richmond resulting from the closure of the Hilltop Mall. In the portions of the County outside of the City of Richmond, net retail absorption was positive in 2021.

Figure 14: Richmond and Contra Costa County Net Annual Absorption, 2012-2021



Sources: CoStar, 2022; BAE, 2022

Figure 15: Richmond and Contra Costa County Deliveries, 2010-2021



Sources: CoStar, 2022; BAE, 2022

National and Regional Market Trends

Evolution of Malls and Shopping Centers. Over the past twenty-five years, the retail market has evolved with department stores giving up market share to big box retailers that focus on value (e.g., Costco, Best Buy, Walmart, Staples, and Target). Consequently, the number of viable shopping malls and centers has contracted. Suburban communities have in turn been faced with repurposing underperforming centers and malls, such as the Hilltop Mall in the Plan Area. Many of these underperforming centers are being transformed into denser, more walkable mixed-use centers. [3]

Impacts of E-Commerce. The retail environment has changed significantly since the advent of e-commerce and e-retailers such as Amazon and eBay. Many "sticks and bricks" retailers that compete directly with e-retailers have suffered declines in sales and have been forced to close physical locations or, in some cases, to file for bankruptcy. However, despite these changes, the consensus among retail analysts is that retailers with "brick and mortar" stores will continue to be the foundation of retail since physical stores provide a sensory experience of the offered goods as well as convenience.

Multi-channel and Omnichannel Retailing. With the advent of e-commerce, the best performing retailers have adapted to the new normal and are promoting sales through multiple channels, including physical stores, retail websites, social media, and other media (often referred to as "omnichannel retailing") [4]. This trend is characterized by retailers creating a seamless shopping experience regardless of whether consumers are shopping online, from portable devices, from catalogs, or in a store. Physical retailers – Macy's, Target, and Walmart are good examples— have established robust e-commerce portals and utilize their stores as fulfillment centers for online order pick-up and returns. Meanwhile retailers such as Amazon, Warby Parker, Allbirds, and Bonobos that were exclusively e-commerce are now "clicks to bricks" retailers, having opened physical stores to further expand their sales[5].

Ground Floor Retail Challenges. The implication for new retail development in today's climate is that a project's location and characteristics must be highly compelling in order to succeed. Ground floor retail in a mixed-use project can enliven a street and create a "sense of place," but success can be challenging in a suburban environment. Zoning codes may require ground floor retail in contexts that lack the scale and critical mass of residents, workers, and visitors necessary to attract and sustain retailers, leading to persistent vacancies. Ground floor retail is especially likely to struggle in areas with limited pedestrian or vehicular traffic. To increase the viability of ground floor retail and attract a creditworthy tenant, developers must be

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[3] See Dunham-Jones, Ellen and Williamson, June, *Retrofitting Suburbia: Urban Design Solutions for Redesigning Suburbs*, 2011; and Urban Land Institute, *Creating Great Town Centers and Urban Villages*, 2008.
[4] Retail Systems Research, Inc*., Gaming Google: The Growing Importance of Omniretail*, March 2011.
[5] *E-commerce Retailers Plan 850 Physical Stores in the Next 5 Years*, JLL, Inc. Retail Research Point of View, 2018.

thoughtful about visibility, access, space size, and configuration. However, as ground floor retail is rarely a major value generator in a mixed-use development, some developers choose not to prioritize such considerations and simply assume the space will remain vacant long term. Even developers who prioritize the success of ground floor retail in their projects may struggle to meet formula retailers' size and configuration standards given site dimensions and competing demands on ground floor space, such as podium parking.

Implications for Hilltop Specific Plan

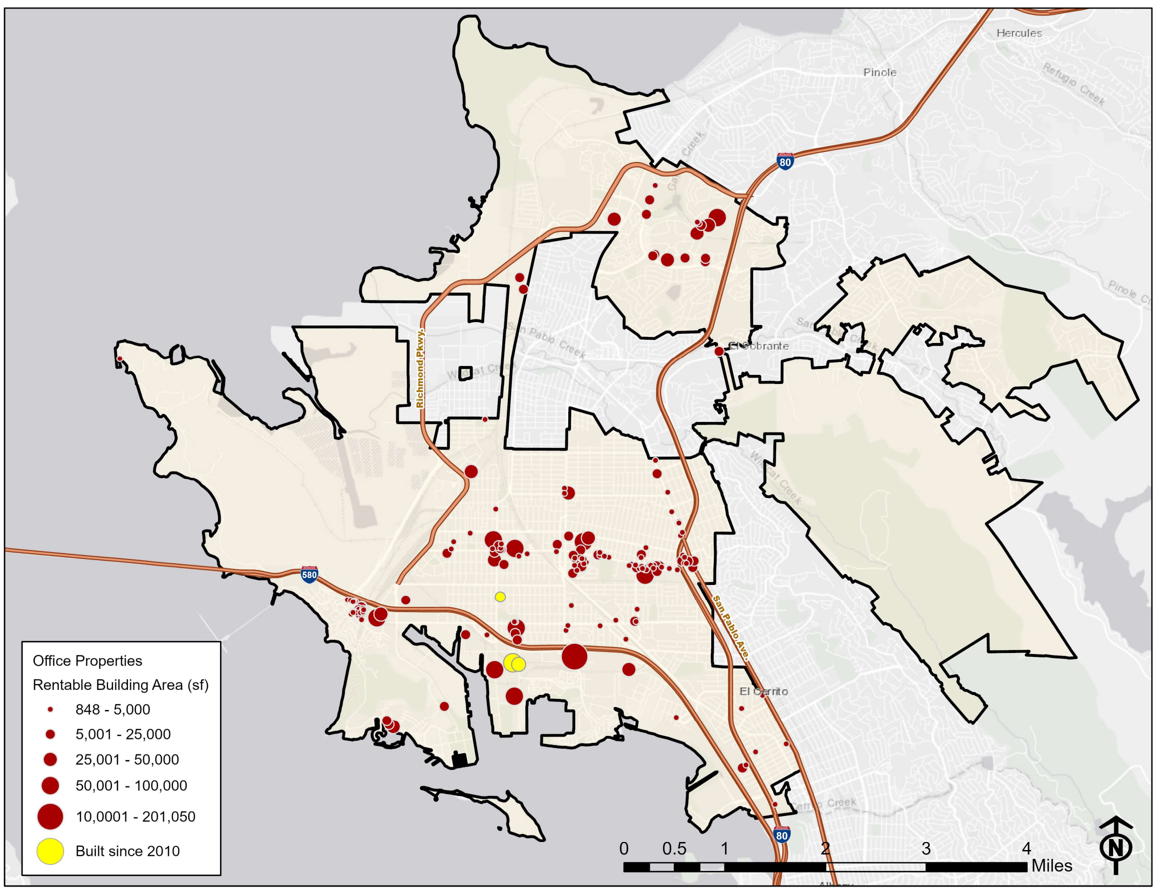
- Population growth in general will generate new retail spending power that can potentially be captured in the Plan Area. Attracting additional residents to the Plan Area may be critical for attracting new retailers to the site, and therefore early phases of implementation of the Specific Plan should focus on residential development rather than requiring new retail.
- Noting the lack of nearby full-scale grocery stores, some residential real estate brokers suggested that there may be demand for a grocery store in the Plan Area, which could be further supported by new residential growth.
- E-commerce is disrupting the retail sector, resulting in the need for less physical space and more efficient use of existing space. Given this environment, only the most compelling sites will be attractive to retail developers or retail tenants. As such, it is critically important to refine how and where to build new retail space within the Plan Area. Future initiatives should also explore how the City's zoning code and development standards can be revised to better support the flexible demands of today's retailers.
- Overall, retail uses in the Plan Area will have a greater chance of success if developable sites offer good visibility, clear and unobstructed signage, and are easily directly accessible from a high-traffic volume arterial or collector street. Sites that are 'mid-block' or located on minor streets are not as attractive to retail developers or retail tenants. Retail developers of neighborhood and community centers prefer sites that are '100 percent' corners on the 'going home side' of the street, meaning that the site is on the corner of two high-traffic volume arterials and also located on the side that returning commuter traffic travels along. These sites will be of most value to future retailers and should therefore be prioritized for future retail uses.

Office

Plan Area Context

Compared to retail, Richmond has a relatively small office market comprising less than six percent of the County's office inventory. Much of Richmond's office development is located between Macdonald and Barrett Avenues between Richmond Parkway and I-80 (see Figure 16). The largest office buildings are located along or just south of I-580 and include institutional uses like the Department of Public Health, the Richmond Police Department, and the Kaiser Permanente School of Allied Health Sciences. There is some office development clustered in the Plan Area, including immediately to the south of the mall, and to the northeast of the mall. These include a medical office building, a bank, and small professional services firms.

Figure 16: Geographic Distribution of Office in Richmond



Source: CoStar, 2022; BAE, 2022.

Office Market Conditions

According to CoStar data, there is 39 million square feet of office space in the County, 2.2 million square feet of which is located in Richmond (see Table 11). The PDA represents just 12 percent of the City's office inventory and less than one percent of the countywide inventory. Between 2012 and 2021, approximately 83,816 square feet of new office space was constructed in Richmond, accounting for one-third of the total office space constructed in Contra Costa County during this period. As of the fourth quarter of 2021, the average gross office asking rent was $2.18 per square foot per month in Richmond, well below the average asking rent for office space in Contra Costa County ($3.02 per square foot per month). Meanwhile, the office vacancy rate was lower in Richmond (5.7 percent) than in Contra Costa County overall (12.8 percent), indicating there is moderate demand for office space in Richmond even despite the pandemic.

Table 11: Office Market Summary, Q4 2021

Office	Richmond Hilltop Priority Development Area	City of Richmond	Contra Costa County
Inventory (sf), Q4 2021	260,380	2,213,135	38,963,646
Inventory (% of County)	0.7%	5.7%	100.0%
Vacancy Rate	22.6%	5.7%	12.8%
Avg. Asking Office Gross Rents (psf)			
Avg. Asking Rent (psf), Q4 2020	$2.09	$2.05	$3.06
Avg. Asking Rent (psf), Q4 2021	$2.10	$2.18	$3.02
% Change Q4 2020 - Q4 2021	0.5%	6.3%	-1.3%
Total Net Absorption (sf)			
Net Absorption (sf), Q1 2012-Q4 2021	-6,583	128,826	-1,133,926
Net Absorption (sf), Q1 - Q4 2021	-114	-12,195	-662,549
New Deliveries (sf), Q1 2012 - Q4 2021	0	83,816	255,754
New Deliveries (% of County)	0.0%	32.8%	100.0%
Under Construction (sf), Q4 2021	0	0	40,100
Under Construction (% of County)	0.0%	0.0%	100.0%

Sources: CoStar, 2022; BAE, 2022

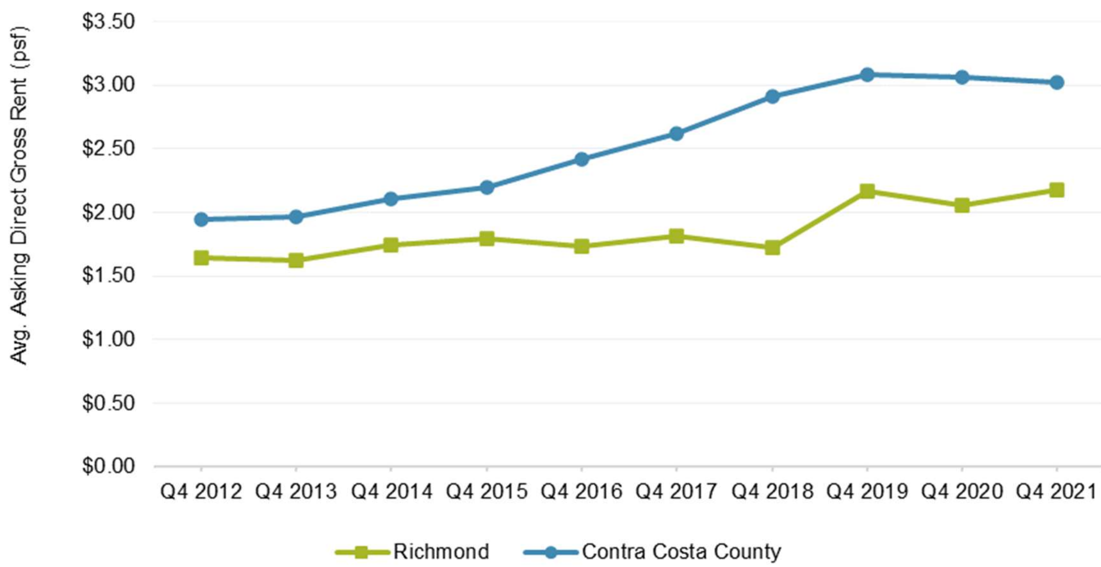
Asking Rents and Vacancy

Figure 17 shows the trends in average gross asking rents for office space in Richmond and Contra Costa County between 2012 and 2021. Average asking rents in the County have historically been higher than in the city, with the data from Q4 2016 onwards showing a widening gap between the rents in the County and the rents in the City.

Despite Richmond having much lower office rents, the office vacancy rate in the City is notably low compared to the vacancy rate in the County (see Figure 18). The City saw its office vacancy rate fall to just 2.8 percent at the end of the fourth quarter of 2017, down from 6.6

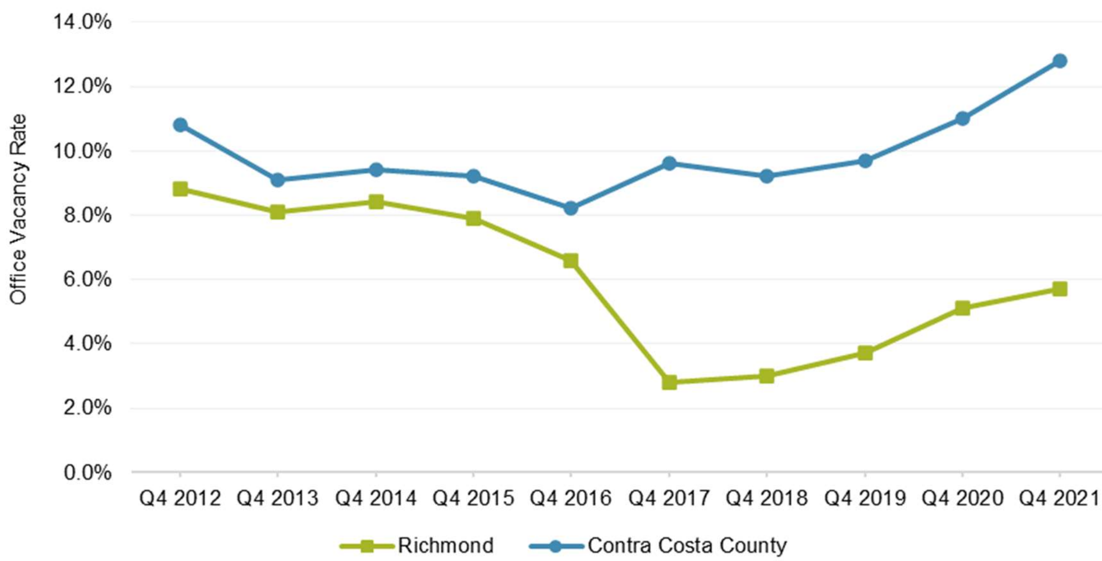
percent in the fourth quarter of 2016. Richmond maintained an office vacancy rate below five percent until the end of the fourth quarter of 2020 despite the pandemic, suggesting that the City is likely capturing some demand from smaller or cost sensitive firms seeking more affordable office spaces. As of the fourth quarter of 2021, the office vacancy rate was just 5.7 percent in Richmond, compared to 12.8 percent in Contra Costa County. Between 2012 and 2021, the office vacancy rate in Contra Costa County ranged from 7.8 percent in Q1 2016 to 13.5 percent in Q3 2021. In Richmond, the office vacancy rate ranged from a low of 2.8 percent in Q4 2017 to a high of 8.9 percent in Q1 2014.

Figure 17: Richmond and Contra Costa County Office Rents, Q4 2012-Q4 2021



Sources: CoStar, 2022; BAE, 2022.

Figure 18: Richmond and Contra Costa County Office Vacancy Rate, Q4 2012-Q4 2021



Sources: CoStar, 2022; BAE, 2022.

Inventory and Net Absorption

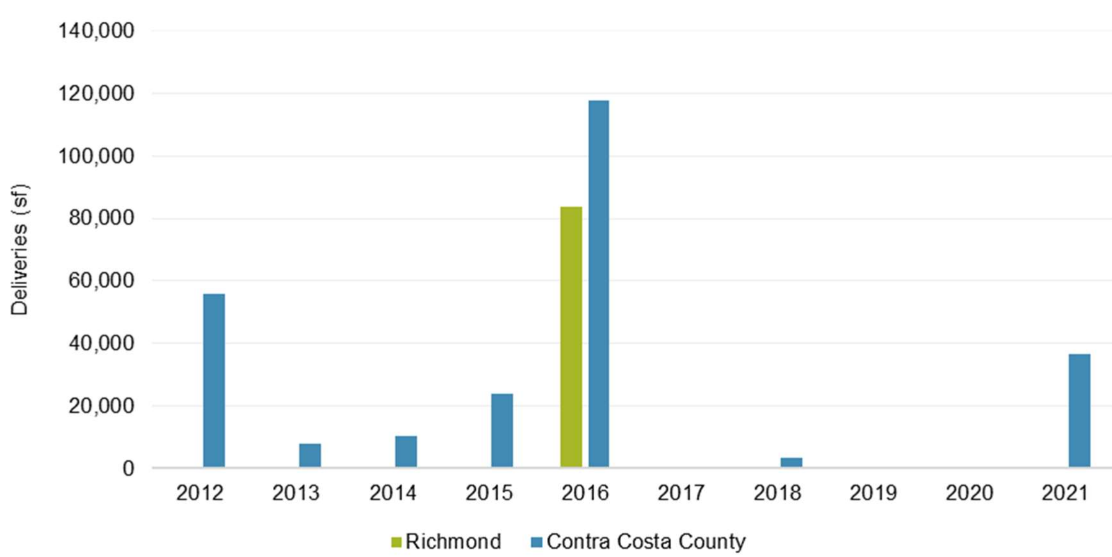
Between 2012 and 2021, approximately 83,800 square feet of new office space was delivered in Richmond, accounting for nearly one-third of the total deliveries countywide. This is disproportionately high compared to the City's current share of the total existing countywide office inventory (5.7 percent). Net absorption was also positive in Richmond during the 10-year period between 2012 and 2021, which is in stark contrast to the net negative absorption of 1.1 million square feet in the County. As shown in Table 12, the office inventory in Contra Costa County decreased by nearly one million square feet between 2012 and 2021, despite the County seeing new office deliveries during this period (see Figure 19). This indicates that the negative net absorption trend in the County was largely driven by a decline in the County's office inventory, likely due to redevelopment activity and/or conversions.

Table 12: Office Inventory and Net Annual Absorption, 2012-2021

	City of Richmond	Contra Costa County
Office Inventory (sf)		
Q4 2012	2,128,202	39,940,795
Q4 2017	2,212,018	38,996,184
Q4 2021	2,213,135	38,963,646
Net Change in Office Inventory, Q4 2012 - Q4 2021	**84,933**	**-977,149**
Total New Office Deliveries, 2012-2021	**83,816**	**255,754**
Annual Net Absorption (sf)		
2012	-17,062	512,652
2013	14,982	660,086
2014	-5,669	-195,330
2015	10,391	-58,189
2016	106,250	317,670
2017	84,992	-1,110,647
2018	-5,076	120,834
2019	-15,021	-204,300
2020	-32,766	-514,153
2021	-12,195	-662,549
Total Net Absorption, 2012-2021	**128,826**	**-1,133,926**

Sources: CoStar, 2022; BAE, 2022.

Figure 19: Office Deliveries, 2012-2021



Sources: CoStar, 2022; BAE, 2022

National and Regional Market Trends

Demand for State-of-the-Art, Sustainable Workplaces. In the Bay Area, there has been a notable increase in the number of office property owners and developers renovating or developing their office space into LEED certified structures, often at the gold or platinum levels. Two factors drive this increase in interest in sustainable office space: (i) implementing design and building system features that qualify a structure for LEED certification can result in significant operational savings over the life of the building; and (ii) building users and tenants can market their sustainable office space as a positive feature to attract employees. Younger workers, particularly in knowledge-based sectors but not exclusively, seek to work for companies whose values align with their own and environmental sustainability is one such important value.

Demand for Building, Site, and Neighborhood Amenities. There has been a significant shift in tenant location preferences to urban core or high-amenity and transit-rich suburban locations. Office workers increasingly demonstrate a preference for workplace locations that offer proximity to public transportation, bicycle and pedestrian access, attractive retail and service offerings, and entertainment options. In response to this shift in preferences among workers, companies are more often seeking office locations that offer more urban-style amenities instead of opting for traditional suburban office parks.

Post-Pandemic Shifts to Hybrid Work. The shift to hybrid work may prompt businesses and other office tenants to redesign spaces and locate in amenity-rich areas. In the post-pandemic context, office spaces will increasingly be used as a place for collaboration and meaningful employee interaction, according to CBRE[6]. Approximately 87 percent of large companies plan to adopt a hybrid approach to commuting. Companies also need to attract workers back to the office by locating in areas that help workers to meet their daily needs.

Life Sciences and Research and Development (R&D). The Bay Area is one of the largest life sciences lab and R&D markets in the country, with high shares of employment, R&D office space, and R&D office and lab space under construction as well as a historically high amount of venture capital investment. CBRE suggests that venture capital investment directly causes increases in employment, and therefore demand for office space. Of the 4.3 million square feet of Lab/R&D inventory in the Emeryville/Berkeley submarket, there is no vacant space, although this submarket also does not have any new lab/R&D development under construction. Although the Bay Area generally is a strong market for the growing life sciences sector, this demand is currently concentrated in the North and South Peninsula. Nonetheless, there may be opportunities to capture some of this demand elsewhere in the Bay Area.

[6] *U.S. Real Estate Market Outlook 2022*, CBRE.

Repositioning Strategies. Cities in the Bay Area and elsewhere have started to consider and implement strategies to reposition existing office parks and other suburban office locations to better respond to national and regional trends and shifts in demand. In general, these strategies aim to better integrate suburban office development into the surrounding area through mixed-use development and the addition of public spaces, bicycle paths, and pedestrian networks. Elements of a repositioning strategy can also include the construction of additional housing, particularly housing affordable to local workers, and expanding the mix of retail and entertainment options.

Implications for Hilltop Specific Plan

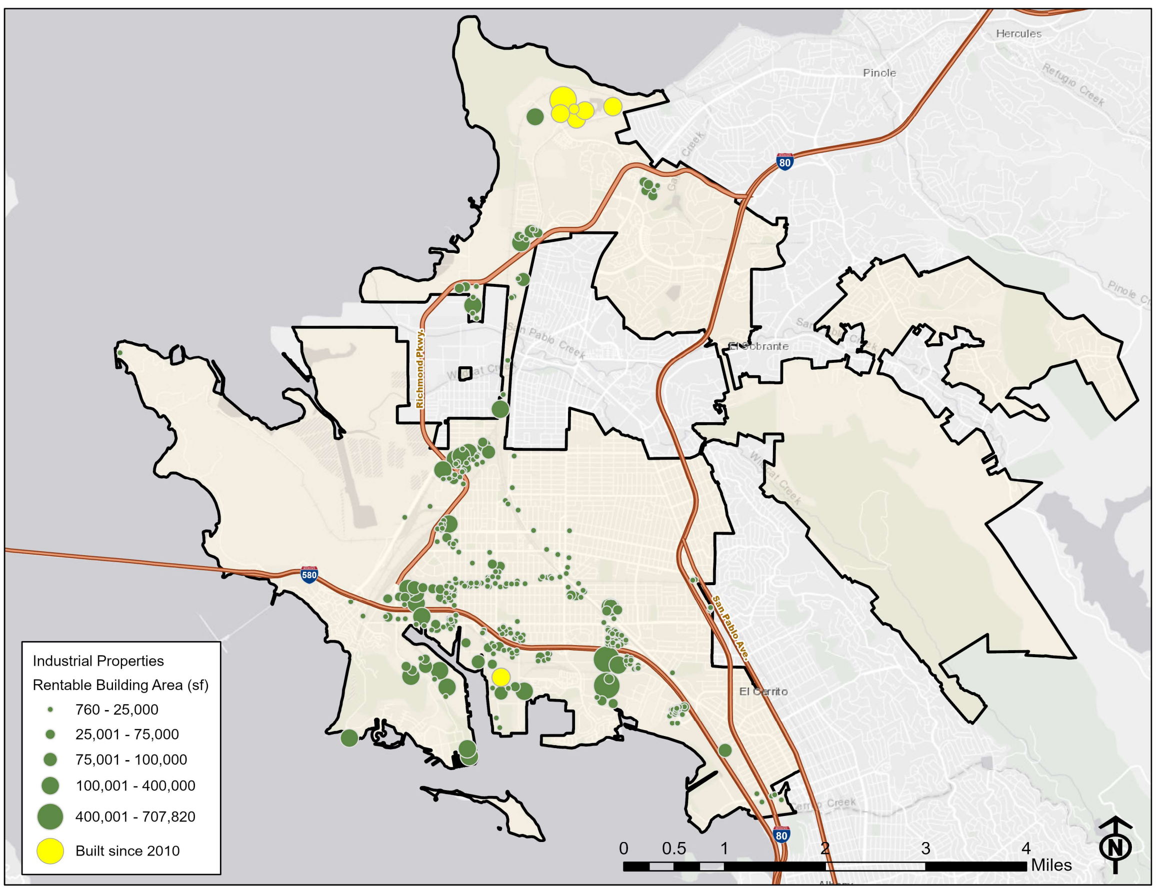
- Richmond is not an established office market and office rents are currently too low to support new speculative office development. However, small-scale office uses within a larger mixed-use project may be feasible by targeting tenants serving local residents and businesses in the future.
- Office tenants prefer physical settings that offer an 'urban' feel, even if situated in a suburban location. The completion of a walkable and amenity-rich mixed-use development project in the Plan Area will greatly improve the area's attractiveness as a potential office location.

Industrial/Flex

Industrial Plan Area Context

As the industrial center of Contra Costa County, Richmond has a sizable industrial inventory of nearly 12 million square feet. As Figure 20 shows, some of the largest industrial properties in Richmond are located along the southern and northern waterfronts in the City. Most of the City's new industrial space can be found in the Pinole Point Business Park, which is home to several major corporate tenants including Amazon, Whole Foods, Bio-Rad Laboratories, Williams Sonoma, Peloton, Restoration Hardware, and UPS. The new PowerPlant Park cannabis campus currently under construction is also located along the City's northern waterfront. An 18.8-acre master planned cannabis production campus, PowerPlant Park will offer fifty-nine greenhouses, full-service nurseries, and state-of-the-art processing and manufacturing facilities upon completion.

Figure 20: Geographic Distribution of Industrial Development in Richmond



Source: CoStar, 2022; BAE, 2022.

Industrial Market Conditions

As of the fourth quarter of 2021, the industrial vacancy rate was just 3.0 percent in Richmond, compared to 4.7 percent in Contra Costa County (see Table 13). The City's 12 million square-foot industrial inventory makes up one-third of the total industrial space in Contra Costa County. Moreover, most of the County's new industrial space is located within the City of Richmond, which has accounted for two-thirds of the total new deliveries since 2010. Newer industrial development in Richmond has mostly consisted of warehouse, distribution, and logistics facilities. As of the fourth quarter of 2021, Richmond had an additional 333,000 square feet of industrial space under construction.

Table 13: Industrial Market Summary, Q4 2021

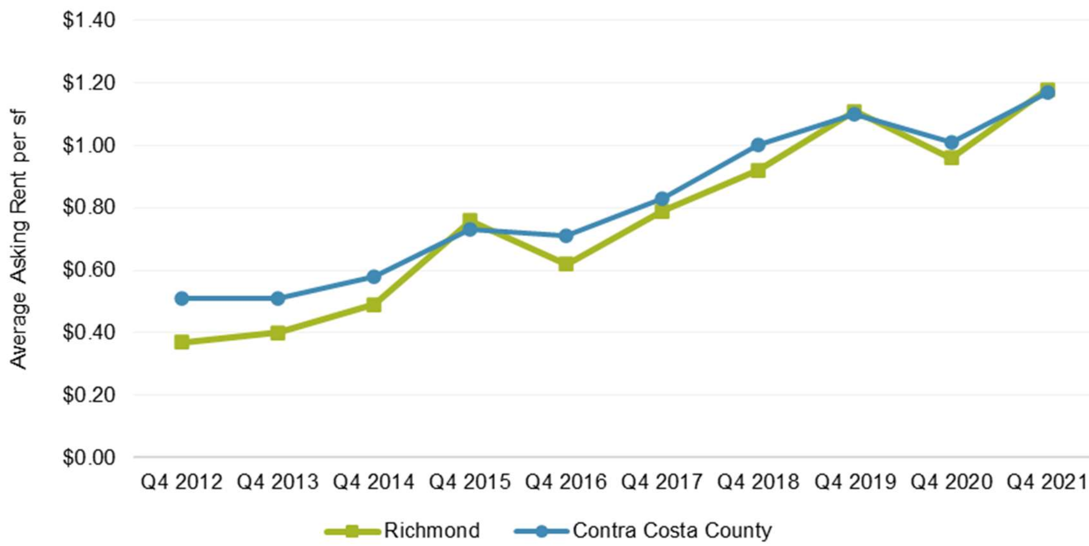
Industrial	City of Richmond	Contra Costa County
Inventory (sf), Q4 2021	11,990,459	36,778,382
Inventory (% of County)	32.6%	100.0%
Vacancy Rate	3.0%	4.7%
Avg. Asking Rents, All Service Types (psf)		
Avg. Asking Rent (psf), Q4 2020	$0.96	$1.01
Avg. Asking Rent (psf), Q4 2021	$1.18	$1.17
% Change Q4 2020 - Q4 2021	22.9%	15.8%
Total Net Absorption (sf)		
Net Absorption (sf), Q1 2010-Q4 2021	1,878,157	2,833,107
Net Absorption (sf), Q1 - Q4 2021	262,759	570,682
New Deliveries (sf), Q1 2010 - Q4 2021	1,843,231	2,745,309
New Deliveries (% of County)	67.1%	100.0%
Under Construction (sf), Q4 2021	332,850	1,597,028
Under Construction (% of County)	20.8%	100.0%

Sources: CoStar; BAE, 2022.

Industrial Asking Rents and Vacancy Trends

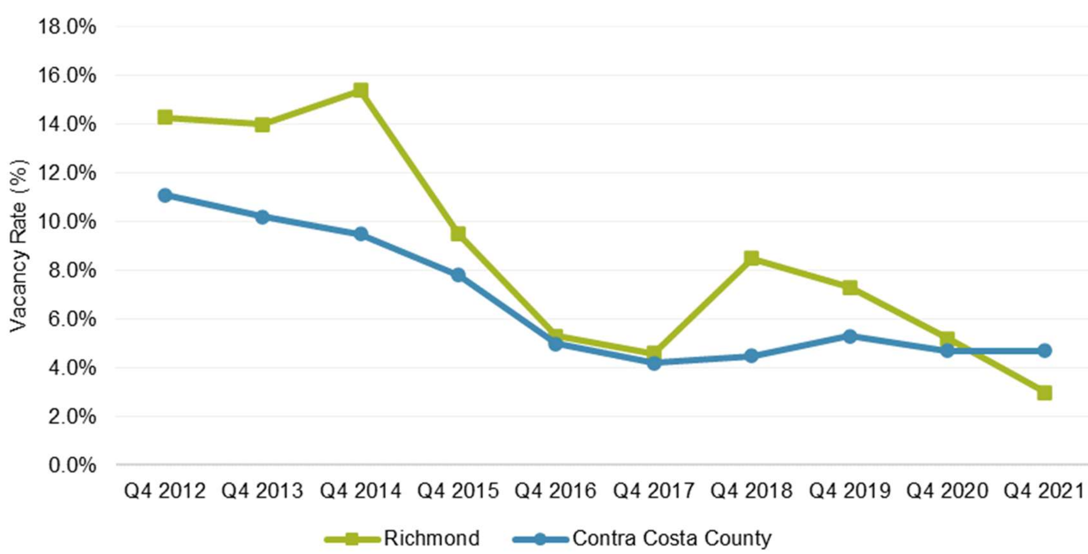
Figure 21 and Figure 22 demonstrate the increasing demand for industrial space in Contra Costa County and Richmond. Between Q4 2012 and Q4 2021, the average asking rent for industrial space more than tripled in Richmond, increasing from $0.37 per square foot per month in Q4 2012 to $1.18 per square foot per month in Q4 2021. In the County, the average industrial asking rent grew from $0.51 per square foot per month to $1.17 per square foot per month during this period. Correspondingly, industrial vacancy rates have plummeted over the past decade. The average industrial vacancy rate was just 3.0 percent in Richmond at the end of the fourth quarter of 2021, falling from 15.4 percent at the end of 2014. The brief spike in the vacancy rate in 2018 was due to the delivery of over 800,000 square feet of new industrial space in Richmond.

Figure 21: Industrial Average Asking Rents, Q4 2010-Q4 2021



Sources: CoStar, 2022; BAE, 2022.

Figure 22: Industrial Vacancy Rate, Q4 2010-Q4 2021

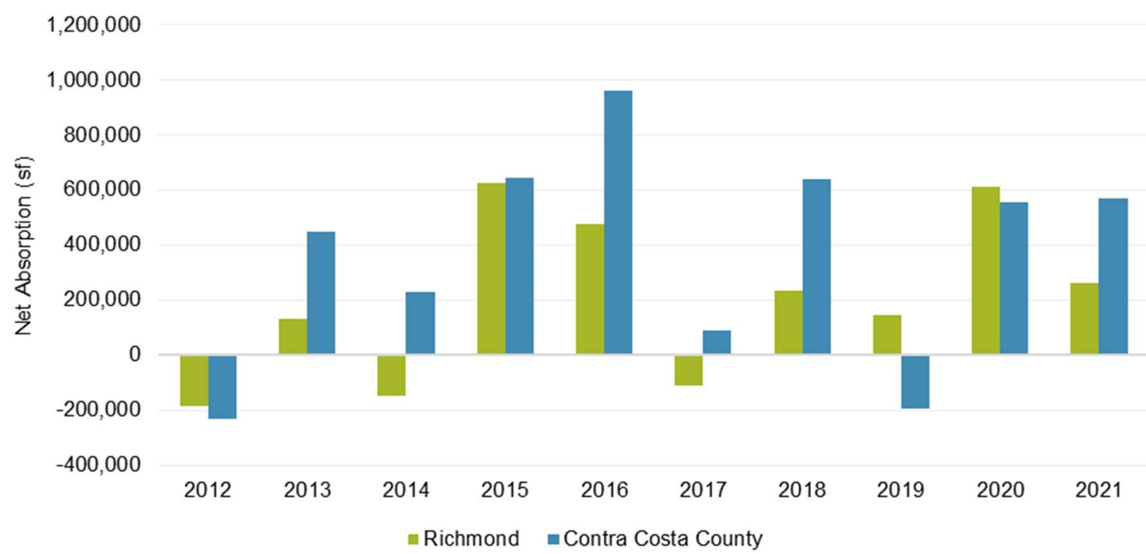


Sources: CoStar, 2022; BAE, 2022.

Industrial Delivery and Absorption Trends

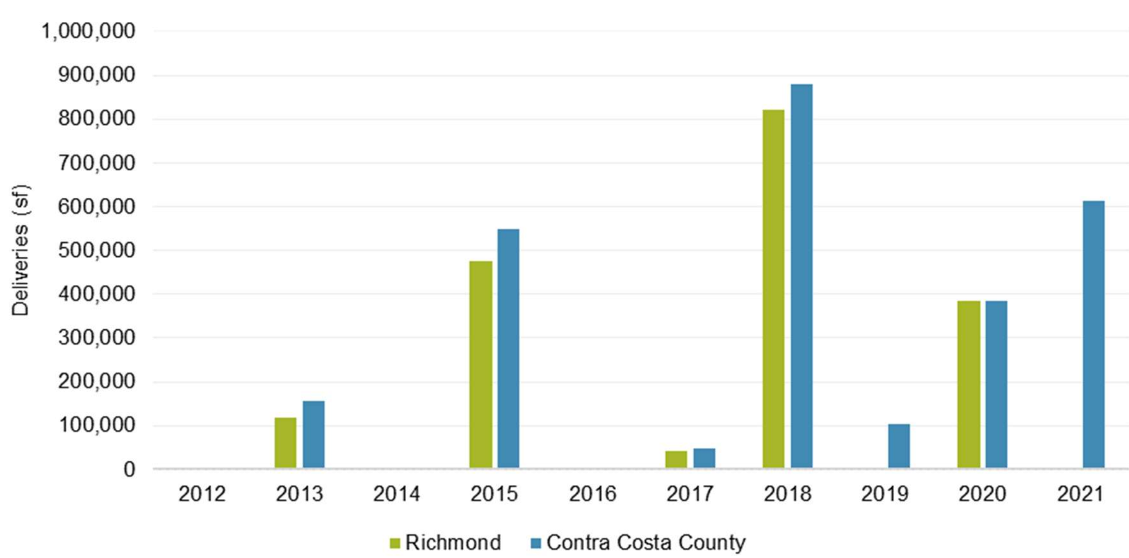
Figure 23 and Figure 24 show the high rates of absorption and deliveries of industrial space in Richmond, particularly compared to the County overall. More than two-thirds of the industrial deliveries in Contra Costa County between 2012 and 2021 occurred in Richmond. The City accounted for nearly all of the industrial space that was delivered in the County between 2013 and 2020. Between 2012 and 2021, the industrial inventory in Richmond increased by 1.7 million square feet while the City experienced an even higher positive net absorption of more than 2.0 million square feet.

Figure 23: Industrial Annual Net Absorption, 2012-2021



Sources: CoStar, 2022; BAE, 2022

Figure 24: Industrial Deliveries, 2012-2021

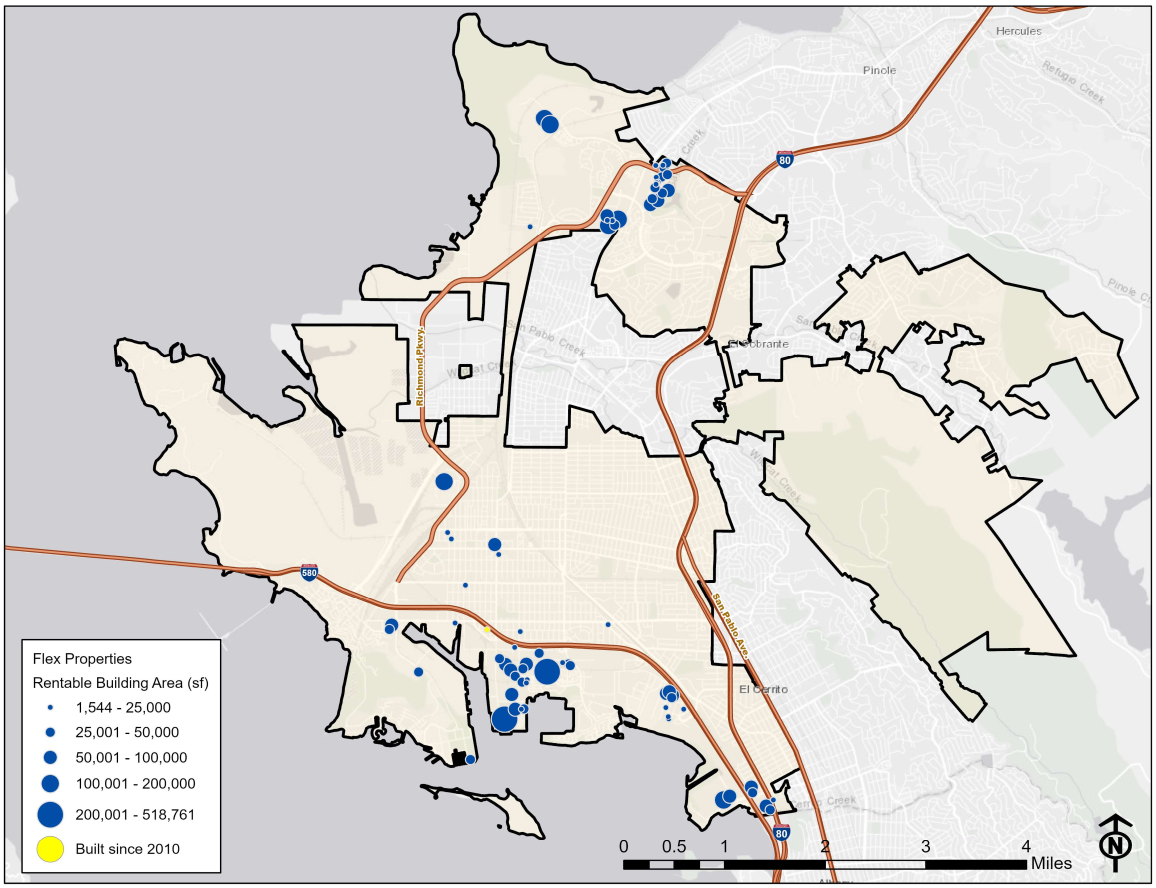


Sources: CoStar, 2022; BAE, 2022.

Flex Plan Area Context

The City has a sizable flex inventory, totaling approximately 3.5 million square feet as of the fourth quarter of 2021. Although there are no existing flex properties within the Plan Area itself, there are several business parks located directly to the north of the Plan Area off of Richmond Parkway that contain existing flex space (see Figure 25).

Figure 25: Geographic Distribution of Flex Properties in Richmond



Sources: CoStar; BAE, 2022.

Flex Market Conditions

According to CoStar, the City's flex inventory makes up roughly 40 percent of the total flex space in Contra Costa County (see Table 14). As of the fourth quarter of 2021, the average vacancy rate for flex properties was 7.7 percent in Richmond and 5.9 percent in Contra Costa County. Monthly average asking rents averaged $1.25 per square foot in Richmond and $1.34 per square foot in Contra Costa County. High land and construction costs make it extremely challenging to build new flex space. There has been limited flex construction activity in the County since 2010.

Table 14: Flex Market Summary, Q4 2021

Flex	City of Richmond	Contra Costa County
Inventory (sf), Q4 2021	3,496,422	8,706,835
Inventory (% of County)	40.2%	100.0%
Vacancy Rate	7.7%	6.9%
Avg. Asking Rents, All Service Types (psf)		
Avg. Asking Rent (psf), Q4 2020	$1.24	$1.32
Avg. Asking Rent (psf), Q4 2021	$1.25	$1.34
% Change Q4 2020 - Q4 2021	0.8%	1.5%
Total Net Absorption (sf)		
Net Absorption (sf), Q1 2010-Q4 2021	366,459	810,043
Net Absorption (sf), Q1 - Q4 2021	-46,820	-101,386
New Deliveries (sf), Q1 2010 - Q4 2021	21,822	69,744
New Deliveries (% of County)	31.3%	100.0%
Under Construction (sf), Q4 2021	0	16,284
Under Construction (% of County)	0.0%	100.0%

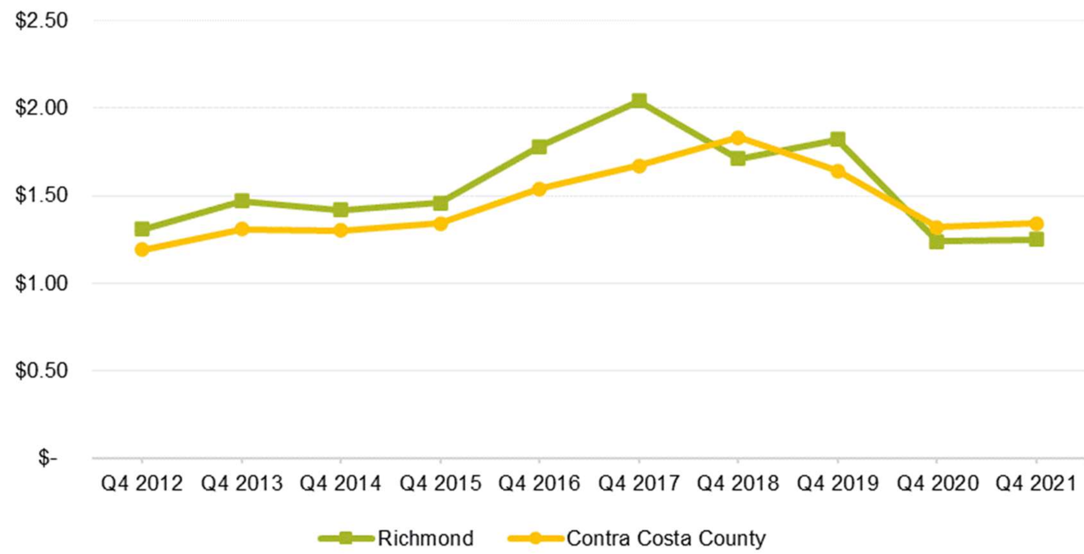
Sources: CoStar; BAE, 2022.

Asking Rents and Vacancy

Overall, the market for flex space in Richmond has greatly benefitted from the strong demand for industrial and office space in the area. As shown in Figure 26, the City of Richmond experienced rapid growth in the average asking rent for flex space in the period from 2015 and 2017, with the average monthly asking rent increasing from $1.46 per square foot per month at the end of the fourth quarter of 2015 to $2.04 per square foot per month at the end of the fourth quarter of 2017. Notably, the City's office and industrial vacancy rates also fell significantly during this same two-year period. The office vacancy rate decreased from 7.9 percent in 2015 to 2.8 percent in 2017, while the industrial vacancy rate fell from 9.5 percent to 4.6 percent. Interestingly, the average asking rent for flex space at the end of the fourth quarter of 2017 in Richmond ($2.04 per square foot per month) actually exceeded the average gross asking rent for office space in the City that same quarter ($1.81 per square foot per month).

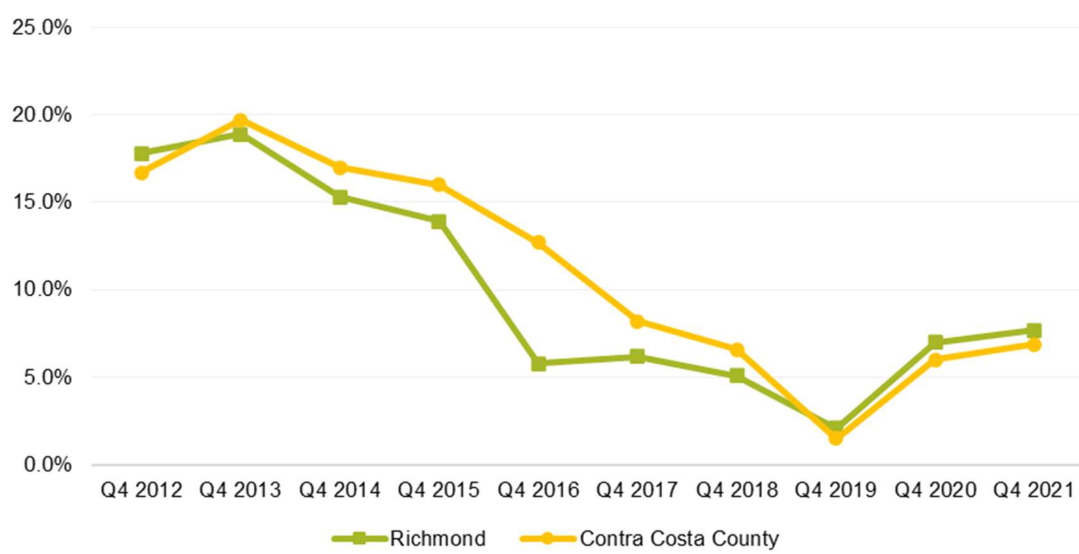
As shown in Figure 27, the average flex vacancy rate has decreased significantly in both the City and the County over the past decade. Both geographies saw their average flex vacancy rates fall from nearly 20 percent at the end of the fourth quarter of 2013 to all-time low levels in 2019. Flex vacancy rates have since increased in both geographies, most likely as a result of the pandemic. Average asking rents for flex space also fell in both the City and the County during the first year of the pandemic. Between the fourth quarter of 2019 and the fourth quarter of 2020, average monthly asking rents in Richmond fell from $1.82 per square foot to $1.24 per square foot, a year-to-year drop of nearly 32 percent. The County saw average asking rents for flex properties decline by 20 percent during this period.

Figure 26: Flex Average Asking Rents, Q4 2010-Q4 2021



Sources: CoStar; BAE, 2022.

Figure 27: Flex Vacancy Rate, Q4 2010-Q4 2021

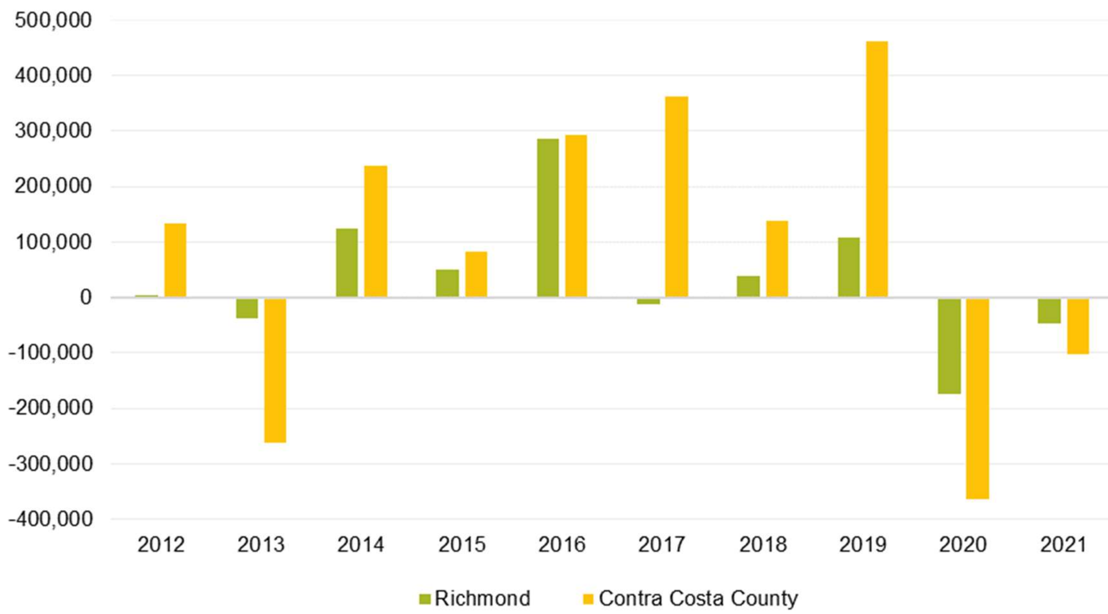


Sources: CoStar; BAE, 2022.

Flex Delivery and Absorption Trends

Figure 28 shows annual net absorption trends for flex space in Richmond and Contra Costa County between 2012 and 2021. Net annual absorption was positive in Richmond most years during the 10-year period, ranging from a low of approximately -174,000 square feet in 2020 to a high of approximately 285,000 square feet in 2016. In Contra Costa County, annual net absorption averaged approximately 98,000 square feet per year, ranging from a low of 364,000 square feet to a high of 462,000 square feet. New flex deliveries were extremely limited during this period. In the County, a total of three flex properties with approximately 70,000 square feet were constructed. None of these properties were located in Richmond, which has not seen any new flex space constructed since 2010.

Figure 28: Flex Annual Net Absorption, 2012-2021



Sources: CoStar; BAE, 2022.

National and Regional Industrial/Flex Trends

Location Criteria. Industrial developers, end users, and tenants typically seek large parcels with desirable topography (e.g., flat and with minimum potential for flood or other hazards), access to major interstate freeways and connecting arterials that avoid residential uses, access to other transportation modes such as freight rail, airports, or water, and access to a skilled workforce.

Warehouse and Logistics. Logistics centers are a growing and evolving segment of the industrial sector that will continue to drive warehouse demand. With online retailers shifting to same-day deliveries and the proliferation of chain convenience stores, distributors are seeking smaller facilities (70,000 to 100,000 square feet compared to larger centers of up to one million square feet) at sites closer to major urban markets. The market for large facilities is also changing. Ceiling clear height requirements are moving from 20 to 25 feet to up to 80 to 100 feet. For all new or rehabilitated warehouse space, developers and tenants require energy efficient buildings in locations with excellent transportation connectivity.

Distribution. The current e-commerce boom will have major implications for the industrial market, as companies such as Amazon and Walmart push for "Last Mile" distribution locations to speed up shipping times. These last-mile facilities are typically smaller (less than 200,000 square feet) light-industrial or warehouse properties located in or near urban infill areas. Compared to large-scale or big-box distribution centers, they normally feature lower ceiling heights (28 feet or less), fewer loading docks, and less parking.

Creative Industrial. Creative industrial projects combine characteristics of creative office and industrial space to deliver a workplace that can accommodate a wide range of activities. Creative industrial projects typically feature amenities found in "creative office" projects such as indoor-outdoor gathering areas, extensive glass for natural lighting mixed with bifold vertical glass rollup doors and open floor plans for a collaborative work experience. Additional outdoor amenities can include fire pits, water features, a bocce ball court, or a movie wall. These amenities are provided to retain and attracted skilled labor and support the industrial tenant's brand and image.

Flex Space. Flex space is typically developed at a low density (0.24 to 0.30 floor area ratio) to permit parking and truck movement. Office space comprises between 15 and 25 percent of total floor area with the remainder in high-bay configuration for warehouse, assembly, or R&D use. In the Richmond submarket, flex spaces accommodate a wide range of industrial and other businesses not requiring customized facilities. Flex spaces can also be attractive to technology or bioscience firms.

Advanced Manufacturing. Advanced manufacturing production processes are extremely complex and often require high levels of automation. According to commercial brokerage firm Lee & Associates, tenants are willing to pay the premium for more efficient, first generation industrial space with higher beam clearance to take advantage of newer advanced automation and robotic technologies. In the Bay Area, advanced manufacturing companies typically seek higher value spaces that are 50,000 to 150,000 square feet in size.[7] However, there is also a significant need for smaller spaces to accommodate small and medium sized businesses and start-ups.

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[7] Bergsman, Steve. (First Quarter 2017). "Advanced Manufacturing." *SIOR Commercial Real Estate Report, Spring Edition, Vol. 76, Number 1.*

East Bay Manufacturing Ecosystem. Manufacturing and related industry sectors such as transportation, distribution and logistics, and biomedical/life sciences are critical to the Bay Area's economy and account for a significant share of the total jobs in the two counties that comprise the East Bay (Alameda and Contra Costa counties). According to East Bay Economic Development Alliance (East Bay EDA), the manufacturing, transportation, distribution & logistics, and biomedical/life sciences industries—together with wholesale trade—accounted for 25 percent of the East Bay's total gross regional product in 2019.[8] In 2020, East Bay EDA invited East Bay cities and business-serving organizations to participate in the development of a draft strategy framework to strengthen this important regional manufacturing ecosystem. As part of that process, stakeholders and survey data revealed several key land use and real-estate challenges:

- Increasing competition for real estate with global distribution firms has resulted in very low vacancy and high costs;
- Lack of modern, available space for co-location of manufacturing and distribution;
- Need for smaller sites and spaces for R&D and start-up manufacturers;
- Need for infrastructure improvement upgrades, e.g., broadband, power, water, air quality;
- Mitigation of near-term land-use conflicts/incompatibilities between industrial, residential, and other commercial uses;
- Freight/goods movement mobility and physical safety;
- Rising public safety issues in and around industrial zones (crime, vandalism, encampments);
- Meeting local and state building and transportation decarbonization targets; and
- Pressure to convert industrial lands into affordable housing.

[8] See https://eastbayeda.org/wp-content/uploads/2021/11/Resilient-East-Bay-Project-Description-compressed.pdf

Implications for Hilltop Specific Plan

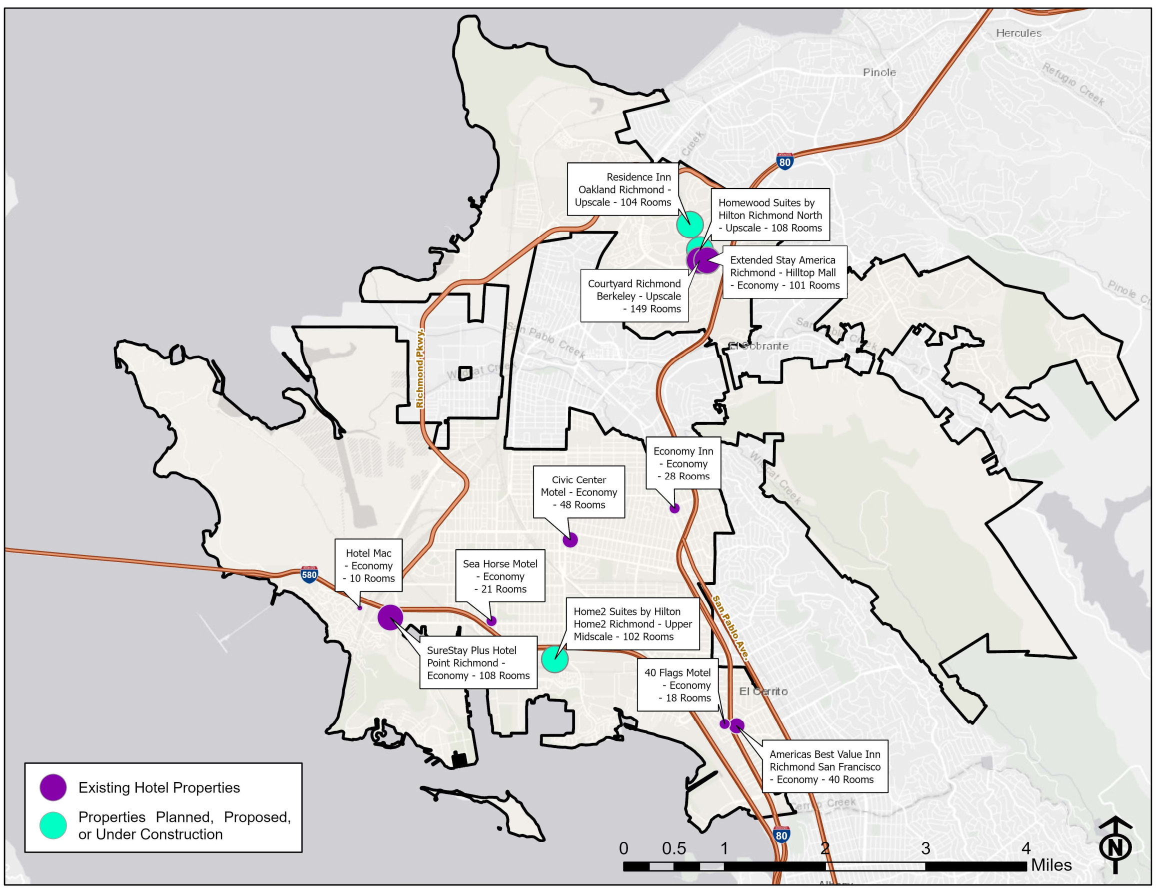
- Richmond is strategically located to capture industrial demand spurred by the Port of Richmond, the Port of Oakland, and the growing demand for last-mile warehouse and distribution space regionwide.
- Many industrial tenants now prefer contemporary facilities with a modest-to-high level of amenities to retain and attract skilled workers.
- Vacancy rates for industrial and flex space are historically low, indicating that the market would be receptive to new industrial or flex product in the Plan Area.'
- Although market trends suggest relatively strong demand for industrial space in Richmond, some industrial uses could potentially be incompatible with existing and future residential uses in the Plan Area. Industrial tenants typically seek locations separated from residential uses in order to avoid conflicts arising from truck traffic, noise, and vibrations. Additionally, conflicts between residential uses and industrial uses can hamper the operation of industrial businesses, making industrial operations less viable over time.
- The Plan Area may be an appropriate location for new smaller-scale industrial/flex, R&D, and PDR uses. Businesses in these industries can provide high-quality job opportunities for City residents.

Hotel

Plan Area Context

Smith Travel Research (STR), a private data vendor that tracks performance trends in the lodging industry, distinguishes hotel properties by "class," based on the average room rates associated with the property's brand. As shown in Figure 29, with the exception of the Courtyard Richmond Berkeley, all of the City's existing hotels are "Economy" hotels. Economy hotels are defined by STR based on average daily rates relative their geographic market. Therefore, Richmond hotels generally have lower rates than hotels in other cities in the Oakland Northeast/Concord market. However, there are two upscale hotel projects with 212 rooms that are proposed in the Plan Area. One other "Upper Midscale" hotel, a 102-room Home2 Suites by Hilton, has been approved in the Marina Bay neighborhood.

Figure 29: Hotels in City of Richmond



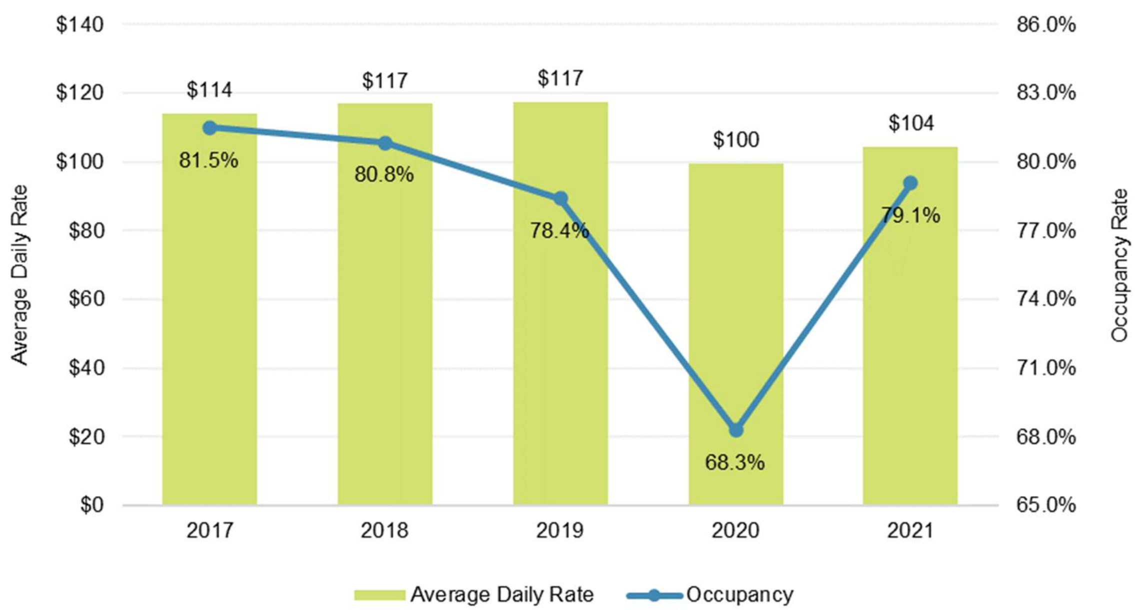
Note:
(a) STR defines class for a chain-affiliated hotel is the same as its Chain Scale, which are segments are grouped primarily according to actual average room rates. An independent hotel is assigned a class based on its ADR, relative to that of the chain hotels in their geographic proximity. The class segments include: Luxury, Upper Upscale, Upscale, Upper Midscale, Midscale and Economy.

Sources: STR, 2022; BAE, 2022.

Occupancy and Average Room Rates

Figure 30 shows trends in occupancy and average daily rates (ADR) for a sample of eight hotels in Pinole, Richmond, and San Pablo that had data available. A list of the hotels included in the sample is provided in Table 15. The hotels in the sample represent 690 total rooms in six economy hotels, one upper midscale hotel, and one upscale hotel. As the figure shows, these hotels maintained relatively steady occupancy and average daily room rates (ADR) from 2017 to 2019. The local lodging sector was significantly impacted by the COVID-19 pandemic in 2020, with the average daily room rate falling to $100 and the occupancy rate dipping to 68 percent for the year. In 2021, the occupancy rate recovered to nearly 79 percent, although the ADR remained low, at $104.

Figure 30: Average Daily Rate and Occupancy Trends, 2017-2021



Sources: STR, 2022; BAE, 2022.

Table 15: Hotels in STR Sample

Name of Establishment	City	STR Class (a)	Rooms	Open Year
Motel 6 Pinole	Pinole	Economy	102	1987
Days Inn Pinole Berkeley	Pinole	Economy	52	1987
Americas Best Value Inn Richmond San Francisco	Richmond	Economy	40	1986
SureStay Plus Hotel Point Richmond	Richmond	Economy	108	1975
Rodeway Inn San Pablo	San Pablo	Economy	52	1961
Holiday Inn Express & Suites San Pablo - Richmond	San Pablo	Upper Midscale	86	2001
Extended Stay America Richmond - Hilltop Mall	San Pablo	Economy	101	2000
Courtyard Richmond Berkeley	San Pablo	Upscale	149	1989
Total Rooms in Sample			**690**	

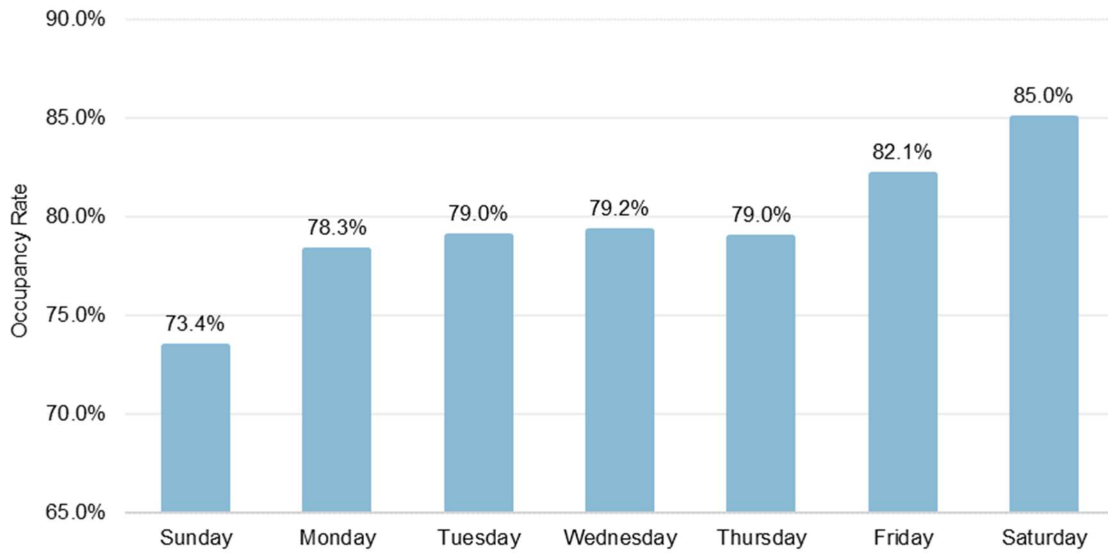
Note:
(a) STR defines class for a chain-affiliated hotel is the same as its Chain Scale, which are segments are grouped primarily according to actual average room rates. An independent hotel is assigned a class based on its ADR, relative to that of the chain hotels in their geographic proximity. The class segments are: Luxury, Upper Upscale, Upscale, Upper Midscale, Midscale and Economy.

Sources: STR; BAE, 2022.

Occupancy by Day of Week

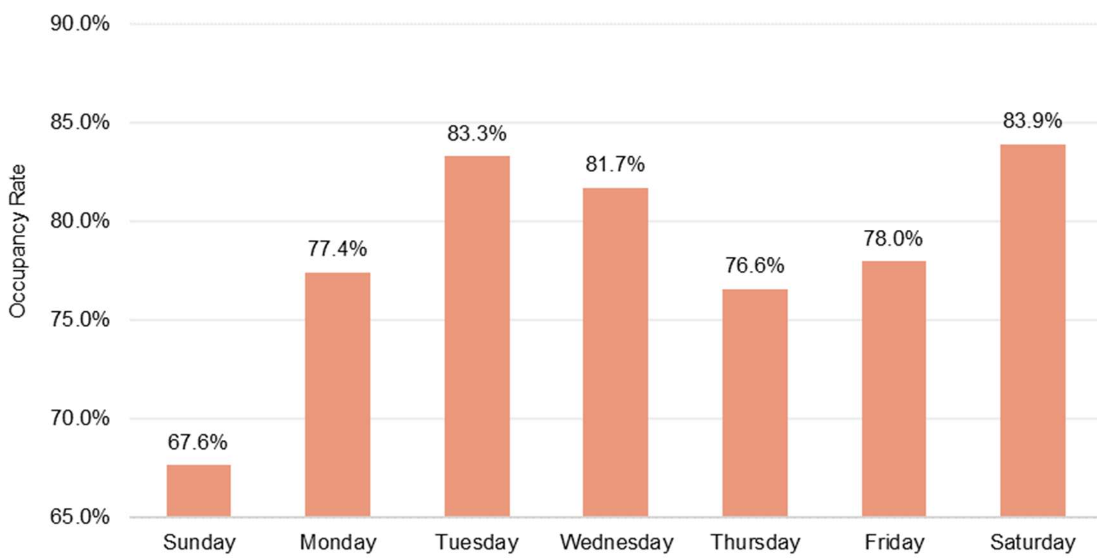
Currently, demand for hotel rooms in the Richmond area tends to be higher on weekends than during the week, indicating that leisure and personal travel is the primary source of hotel demand in the area, rather than business travel. Figure 31 shows occupancy rates by day of week for the sample of STR-tracked hotels in the year spanning from February 2021 through January 2022. As shown, occupancy rates are highest on Fridays and Saturdays, averaging 82 percent and 85 percent, respectively. Prior to the shutdowns due to the COVID-19 pandemic, weeknight demand for hotel rooms was significantly higher. As shown in Figure 32, during the year spanning from February 2019 through January 2020, the occupancy rate averaged 83 percent on Tuesdays, which was just below the average occupancy rate on Saturdays (84 percent).

Figure 31: Occupancy by Day of the Week, February 2021 – January 2022



Sources: STR, 2022; BAE, 2022.

Figure 32: Occupancy by Day of the Week, February 2019 – January 2020



Sources: STR, 2022; BAE, 2022.

National and Regional Market Trends

Business, leisure, and events drive hotel room demand. There are three primary sources of demand for hotel rooms, as well as related services such as meeting and event space. One of the largest sources of demand for hotels is from local business activity, for both individual business travel and business-related meetings, and most of this demand is associated with office-based employment. Leisure travelers, including tourists, represent another major source of demand, with group travel and events making up the third category of demand, including social, educational, non-profit, family, and others. Generating demand in all three segments are major businesses, educational and medical institutions, convention centers, and sports complexes, as well as tourist attractions.

Although leisure travel is recovering from the impacts of the pandemic, demand from business travel remains weak. A Smith Travel Research (STR) net propensity to travel survey from November 2021 found that the number of business travelers willing to travel was 30 percent lower than the number of business travelers not willing to travel. By contrast, the number of leisure travelers willing to travel exceeded the number of leisure travelers unwilling to travel by 25 percent. Major markets that rely on business travel, international visitors, and group bookings continue to suffer from the relatively low levels of demand from those segments.

Enhanced demand for experience-oriented stays. Some hotel operators are taking on an enhanced role in connecting guests to experiences, both at the hotel itself and in the local area, as part of their hotel stay. These experiences can range from social events and informal communal spaces within the hotel to offering classes and providing tours of local attractions. In addition, the pandemic may accelerate this trend as all-inclusive destinations, where travelers can stay in one place, are becoming increasingly popular and attracting significant investment[9].

Focus on health and well-being. Many hotels have developed well-being strategies to enable guests to maintain healthy habits during their stay, including enhancing fitness centers and offering fitness classes.

Labor shortages in tight labor markets with high housing costs. Tight labor markets have increased competition for hotel workers in markets throughout the United States, while markets with high housing costs face increasing challenges in attracting and retaining employees.

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[9] FS Investments, *Q1 2022 Commercial real estate outlook,* 2022.

Implications for Hilltop Specific Plan

- There are currently two planned hotels in the Plan Area. New hotels in Richmond may be able to secure a competitive position in the local market relative to the existing lodging inventory by offering a more modern aesthetic and amenities.
- Richmond currently serves primarily as an economy hotel market with limited business travel. Ensuring that the Plan Area includes a mix of uses and amenities that would support a higher-end hotel property could be critical to attracting a different category of hotel to the Plan Area, if desired.
- Hotels in Richmond may seek to increase leisure travel stays in part by enhancing connections with local and regional attractions and experiences.

VIABILITY OF ENTERTAINMENT USES

This section provides a qualitative assessment of the market potential for certain location-based entertainment-related uses in the Plan Area. The analysis uses local demographic characteristics, siting considerations, and relevant market gaps in the wider relevant market areas to evaluate the potential market support for two different types of potential entertainment venues: 1) a family or adult oriented entertainment center and 2) a local brewery or brewpub. To help characterize the area's potential market strengths and weaknesses, BAE analyzed several key variables that retailers commonly consider when evaluating new site locations. While there are many different factors that retailers might use, two of the most important factors to consider are the number of persons and the disposable incomes available to the targeted market population in the geographic trade area. Additional demographic factors often include age of population, household type, education, number of workers in the area (i.e., daytime population), entertainment and leisure expenditures, tenure patterns (owner vs. renter), personal preferences, and social factors. In addition to these demographic criteria, retailers have site-specific requirements related to access, traffic volumes, parking, visibility, and type of space. Many tenants also have preferences or requirements for certain co-tenants or types of shopping centers.[10] All of these factors can influence the market potential for future regional retail and entertainment uses in the Plan Area.

Definition of Key Terms

This section outlines several key retail concepts and trends that are relevant to understanding and evaluating the potential for location-based entertainment and retail uses in the Plan Area.

Location-Based Entertainment. Location-based entertainment refers to any type of entertainment that is experienced away from the home. Community leisure and entertainment venues describe all of the various out-of-home destinations and leisure options that are available within a local community. All of these venues compete for a share of consumers' limited discretionary leisure time. Location-based businesses such as bowling alleys, theme parks, arcade bars, movie theaters, family entertainment centers, and even some restaurants all compete for this limited discretionary time.

Commodity Retail. Retail goods and services that are (a) consumed on a regular basis from "primary" household funds; (b) purchased without emotional connection by the consumer; and (c) purchased with primary emphasis by the consumer on selecting the combination of lowest

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[10] As an example, Round1 Bowling & Amusement, which operates family entertainment and amusement centers throughout the United States, specifically seeks locations within entertainment-oriented enclosed malls with movie theaters due to their high visitation and super-regional draw. It also prefers spaces that are located near food courts, since they draw additional foot traffic and also help complement its limited food and beverage offerings.

"price" and highest "convenience." These goods are exactly the same regardless of the origin of purchase (e.g., a cell phone)

Specialty Retail. Retail goods and services that are (a) consumed on an optional basis from "discretionary" income or funds; (b) involving the expenditure of "discretionary" time; and (c) for which environment or place is an important point of reference for the consumer, as is an emotional connection with purchased item and the overall shopping experience. In contrast to commodity goods, specialty goods and services involve allocating discretionary income (i.e. income not earmarked for necessities like shelter or groceries) and discretionary time (i.e. time not devoted to required activities like work or school). The physical environment and a sense of place in which these purchases are made are extremely important. An IKEA store is an example of a specialty retail store.

Experiential Retail. A type of specialty retail in which the purchasing experience is closely tied to the value of the product being purchased (e.g. wine tasting). "Experience goods" are things that enhance the retail experience. An experience good is a good or service that is not valued until it is experienced. Retail district design can also be an experience good that offers important emotional and social benefits that translate into longer periods being spent in the location. Successful experiential retail addresses the importance of "place" by fostering strong community gathering and commercial areas.

Destination Retail. A retail store or shopping center that attracts customers regardless of location due to certain store qualities, which may include ambience, price, and/or variety of goods. Santana Row in San Jose is an example of destination retail.

Lifestyle Centers. A type of destination retail shopping center that does not have a retail anchor such as a department store. Lifestyle centers typically have outdoor designs that emulate urban streets and plazas and offer a strong sense of place. They frequently incorporate significant entertainment and dining space along with a unique specialty retail tenant mix in order to differentiate the center from other competition. These projects may or may not be part of mixed-use projects. The trade area for a lifestyle center ranges from 8 to 12 miles. Bay Street in Emeryville is an example of a nearby lifestyle center.

Location-Based Entertainment Centers. A type of family entertainment center that draws from a regional and/or tourist market. These entertainment centers are typically located in region-serving retail/entertainment districts, in large shopping centers, or near other retail or tourist destinations that attract significant traffic. The location-based entertainment center market is segmented by type, activity, and visitor age/demographics. The trade area size for an entertainment center varies significantly based on the market segment as well as the type of location.

Resident-Serving Retail. Retail stores which provide goods that meet the everyday needs of local residents. Typically, these are smaller “neighborhood serving” retail outlets occupying standalone retail buildings, strip centers, neighborhood centers, or community centers. Examples include grocery and drug stores, hardware stores, restaurants, banks, beauty/barber shops, health and personal care stores, among other outlets. Trade areas generally range from less than one mile for retail stores in anchor-less strip/convenience centers to up to six miles for stores in large, anchored community shopping centers.

Gravity Direction. The general direction from which residents and daytime workers enter a trade area and to which they travel in order to leave. These directions and flows heavily influence sales capture potential.

Tapestry Segmentation. A method to generalize household and population characteristics within a specific geography, produced by private data vendor ESRI.

Market Potential for Entertainment-Related Uses

The location-based entertainment center market is segmented by type, activity, and visitor age/demographics. Whereas children’s entertainment centers typically target children under the age of nine, family entertainment centers are designed to appeal to a broader age range of family members. Adult oriented entertainment centers target the adult market and often combine interactive games and/or activities with full-service bars and restaurants offering high quality food and drink options. Dave and Buster’s and TopGolf are two well-known examples of adult oriented centers. Other successful examples have incorporated concepts such as bocce ball, axe throwing, darts, ping-pong, shuffleboard, and even competitive e-sports gaming.

To better understand the potential for a new location-based entertainment center in the Plan Area, BAE reviewed the site selection criteria for two popular entertainment venue franchises with existing locations in the Bay Area. The first, Dave & Busters, is an adult-oriented “eatertainment” venue that offers entertainment, a full-service restaurant, and sports bar in a single venue. Round1 Bowling & Amusement is a similar family-oriented entertainment venue that combines activities such as bowling, arcade games, billiards, karaoke, and ping pong under one roof. Some Round1 locations also include an indoor sports complex with basketball courts, a skating rink, trampolines, and batting cages.

Table 16 summarizes the site selection criteria for the two venues. As shown, both franchises have high standards for population density. In addition, both require sites that have existing super-regional draws. Dave & Busters requires a daytime population of 700,000 to 1,000,000 million within ten miles. Round1 requires a population of at least 150,000 within five miles, a population of at least 400,000 within ten miles, and a population of at least 600,000 within twenty miles.

Table 16: Site Selection Criteria for Selected Entertainment Centers

	Dave & Busters	Round1 Bowling and Amusement
Type of Entertainment Center	Adult Oriented Entertainment Center	Family Entertainment Center
Description	Dave & Buster's combines an entertainment, restaurant and sports bar venue under one roof.	Round1 Bowling & Amusement is a multi-entertainment facility offering Bowling, Arcade Games, Billiards, Karaoke, Ping Pong, Darts, and an indoor sports complex.
Nearest Locations (approx. driving distance from Plan Area)	Concord, CA (~20 miles) Fairfield, CA (~28 miles) Daly City, CA (~30 miles)	Concord, CA (~20 miles) Hayward, CA (~30 miles) San Jose, CA (~60 miles)
Market Requirements	Existing Super-Regional Draw 700,000 to 1,000,000 daytime population within 10 miles.	At least 150,000 population within 5 miles; 400,000 population within 10 miles; and 600,000 population within 20 miles.
Target Demographics	Dave & Buster's has a broad demographic appeal, serving as an attractive entertainment value for fun-seeking, casual-plus dining customers who enjoy spending time with friends and family. Customers in daytime are different from evening and nighttime customers.	Round1 Bowling and Amusement offers attractions for the entire family, but its key customer base includes younger people in their teens and twenties.
Site / Real Estate Requirements	• Freestanding or inline space • 26,500 square feet (+/- 1,000) OR 40,000 square feet (+/- 1,000) • Midway Seating: 50 • Special Events Seating: 200 • +/- 175' x 200' Footprint • 300 to 400 Parking Spaces (can be shared)	• Hybrid type: 50,000 - 75,000 square feet • Full Spo-cha (Round1's sports facility concept) type: 80,000 to 120,000 square feet • Must be located in super-regional mall • Having a movie theater is a plus • Being close to a food court is a plus • 400-500 parking spaces (can be shared) • Must have direct access from parking lot & mall

Source: BAE, 2022.

BAE analyzed the resident and daytime populations within 5-miles, 10-miles, and 20-miles of the Plan Area in order to identify whether the population density requirements in Table 16 could be met within the Plan Area today. As shown in Table 17, the Plan Area does not currently have the residential and employment density needed to attract a new Dave and Buster's based on its current site selection criteria. The Plan Area would meet the minimum population density requirements for a new Round1 franchise. However, Round1 has a strong preference for locating within super-regional malls due to their retail drawing power. It is highly unlikely that a Round1 franchise would actually choose to locate within the Plan Area today given that there are no existing major retail anchors or attractors within or near the Plan Area.

Table 17: Plan Area Trade Area Population Densities, 2021

	Plan Area		
Key Variable	5 mile Radius	10 mile Radius	20 mile Radius
Total Population	228,666	498,727	2,627,089
Population Density (Population/Sq. Mile)	2,912	1,589	2,091
Total Daytime Population	193,667	477,377	2,714,535
Total Households	78,757	185,318	1,052,181

Sources: Esri Business Analyst; BAE, 2022.

BAE also compared key demographic data for the 10-mile trade area surrounding the Plan Area to the data for the areas surrounding selected Bay Area Dave & Busters and Round1 entertainment center locations. The findings help reveal why the Plan Area may not be viewed as competitive by regional retailers making site location decisions. As can be seen in Table 18, these entertainment businesses typically locate in areas with much higher population densities and significantly higher household incomes. In the 10-mile radius areas surrounding the four selected Bay Area entertainment centers, the median household income ranges from a low of $98,720 for the Round1 location in Hayward to a high of $119,317 for the Dave & Buster's in Daly City. Currently, the median household income in the 10-mile area surrounding the Plan Area is $85,800.

The data in Table 18 show that the Plan Area is likely not an attractive location for new region-serving entertainment or retail based on the two most important demographic criteria that retailers consider when evaluating new site locations (i.e., population density and household incomes). However, the development of a new high-quality mixed-used project with a significant residential component should drastically increase the population density in the Plan Area and may help to build additional support for retail and entertainment uses in the future.

Table 18: Summary of Key Site Demographics, Plan Area and Selected Bay Area Entertainment Centers

Key Variables (10-Mile Radius Area)	Plan Area	Dave & Buster's Concord	Dave & Buster's Daly City	Round1 Hayward	Round1 San Jose
Total Population	498,727	476,018	1,194,863	765,602	1,251,773
% Age 0-19	23%	23%	17%	26%	26%
% Age 20-44	37%	30%	40%	35%	36%
Total Daytime Population	477,377	473,859	1,279,913	689,826	1,235,293
Total Households	185,318	182,863	485,600	249,320	408,894
Median Household Income	$85,800	$111,698	$119,317	$98,720	$117,000
% Age 25+ w/ Bachelor's or Higher	48%	50%	57%	38%	48%

Sources: Esri Business Analyst; BAE, 2022.

Market Potential for a Craft Brewery

According to the Brewers Association, craft breweries are defined as small and independent brewers that produce up to six million barrels of beer annually. As of 2021, California had a total of 931 craft breweries and 3.2 breweries per capita, which produced a combined 3.5 million barrels per year.[11] Although the vast majority of craft breweries are small and serve local markets, regional craft brewers with annual production capacities of more than 15,000 barrels serve larger market areas. As of 2022, there were a total of 38 regional breweries operating in the State of California. There are several regional breweries that have locations in the Bay Area: Trumer Brewery (Berkeley), Drake's Brewing Company (San Leandro, Oakland, and Sacramento), Russian River Brewing Company (Santa Rosa), HenHouse Brewing Company (Santa Rosa, Petaluma, Fairfax), Fort Point Beer Company (San Francisco and Oakland), Gordon Biersch Brewing Company (San Jose), and Altamont Beer Works (Livermore).

There are six distinct craft beer industry market segments: microbreweries, brewpubs, taproom breweries, regional breweries, contract brewing companies, and alternating proprietors. These segments are defined by the Brewers Association as follows:

Microbrewery. A brewery that produces less than 15,000 barrels of beer per year and sells 75 percent or more of its beer off-site. Microbreweries sell to the public by one or more of the following methods: the traditional three-tier system (brewer to wholesaler to retailer to consumer); the two-tier system (brewer acting as wholesaler to retailer to consumer); and directly to the consumer through carry-outs and/or on-site taproom or restaurant sales.

[11] See https://www.brewersassociation.org/statistics-and-data/state-craft-beer-stats/

Brewpub. A restaurant-brewery that sells 25 percent or more of its beer on-site and operates significant food services. The beer is brewed primarily for sale in the restaurant and bar, and is often dispensed directly from the brewery's storage tanks. Where allowed by law, brewpubs often sell beer to-go and/or distribute to off-site accounts.

Taproom brewery. A professional brewery that sells 25 percent or more of its beer on-site and does not operate significant food services. The beer is brewed primarily for sale in the taproom, and is often dispensed directly from the brewery's storage tanks. Where allowed by law, taproom breweries often sell beer to-go and/or distribute to off-site accounts.

Regional Brewery. A brewery with an annual beer production of between 15,000 and 6,000,000 barrels. As of 2022, there were a total of 38 regional breweries within the State of California. Some, but not all, regional breweries also operate taprooms or brewpubs with on-site restaurants. Regional breweries tend to focus on packaged distribution sales. Smaller breweries generate more sales from on-site sales.

Contract Brewing Company. A business that hires another brewery to produce its beer. It can also be a brewery that hires another brewery to produce additional beer. The contract brewing company handles marketing, sales, and distribution of its beer, while generally leaving the brewing and packaging to its producer-brewery (which is also sometimes referred to as a contract brewery).

Alternating Proprietor. A licensed tenant brewery that physically takes possession of a shared brewery while brewing. In contrast to contract brewers, alternating proprietors are the brewery of record for all of the obligations of a licensed brewery, including record keeping, tax payments, and label or formula approval.

Inventory of Existing Craft Beverage Providers in Richmond

The City of Richmond is home to a large cluster of existing craft beverage manufacturers, including three breweries, two distilleries, and one winery. The City's existing craft breweries include Armistice Brewing Company, East Brother Beer Company, and Origin Brewer. Armistice Brewing Company and East Brother Beer Company both operate on-site taprooms, while Origin Brewer is a small production nano-brewery that mostly sells to other local retailers off-site. Falcon Spirits Distillery, located near Point Pinole, is a production facility with no on-site tasting or sales. The City's other distillery, Dissident Spirits in Marina Bay, currently offers limited on-site tasting. Riggers Loft, a working winery and cidery in Point Richmond, is the City's only craft beverage provider that offers on-site beverage sales with significant food services. The winery is located within a historic building with sweeping views of the Bay and is an extremely popular venue for tasting, dining, and private special events.

Market Support for a New Brewery or Brewpub

To evaluate the potential for a new craft brewery or brewpub within the Plan Area, BAE obtained an Esri Retail Market Potential report for the City of Richmond and reviewed Esri's spending and sales estimates for the two relevant retail categories affecting demand for this type of use (Drinking Places – Alcoholic Beverages and Restaurants/Other Eating Places).

As summarized in Table 19, the report shows significant retail gaps in both food services and drinking places categories. Based on Esri's estimates, the retail potential or demand for Drinking Places – Alcoholic Beverages is $3,015,813 and the current retail sales or supply is $354,784, meaning that there is a retail gap or leakage of $2,662,029. These estimates suggest that there is unmet demand for drinking places that serve alcoholic beverages in Richmond. Average sales per square foot estimates can be used to estimate the amount of new space that could be supportable within Richmond based on Esri's spending and sales estimates. Assuming annual sales per square feet of $350 to $500, Esri's estimates suggest that Richmond likely has sufficient existing retail demand to support a new alcohol establishment that is approximately 5,000 to 7,500 square feet in size.[12] As demonstrated in the table below, Esri estimates show substantial leakage of sales in the Restaurants/Other Eating Places category totaling more than $69 million annually. Given this significant and unmet existing demand for restaurants and eating places in the City, a brewpub with a full restaurant would be the ideal type of brewery establishment within the Plan Area due to its focus on on-site sales of both food and beverages.

Table 19: Existing Retail Demand and Supply for Food Services & Drinking Places, City of Richmond

Industry Group	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap (Demand-Supply)
Drinking Places - Alcoholic Beverages	$3,015,813	$354,784	$2,661,029
Restaurants/Other Eating Places	$133,617,457	$64,509,210	$69,108,247
Total Food Services & Drinking Places	**$136,633,270**	**$64,863,994**	**$71,769,276**

Note: Supply (retail sales) estimates sales to consumers by establishments. Sales to businesses are excluded. Demand (retail potential) estimates the expected amount spent by consumers at retail establishments. Supply and demand estimates are in current dollars. The Retail Gap represents the difference between Retail Potential and Retail Sales. A positive value represents 'leakage' of retail opportunity outside the trade area. A negative value represents a surplus of retail sales, a market where customers are drawn in from outside the trade area.

Sources: Esri Business Analyst; BAE, 2022.

[12] A 2015 Craft Beer Commercial Real Estate Spotlight Report by Colliers International surveyed 1,457 craft breweries across 29 markets and found that the average craft microbrewery size was approximately 7,500 square feet. The average brewpub size was approximately 7,700 square feet.