

APPENDIX C

MARKET OVERVIEW

Foundation for Future Growth

The specific plan area will benefit from the following foundations for future growth, which will create development opportunities:

A 44,000 employee job engine already exists in or near the specific plan area.

Employment surrounding the area includes Bishop Ranch and neighboring office and retail properties. Major employers are Chevron, AT&T, PG&E, and the San Ramon Regional Medical Center.

Bishop Ranch, with 30,000 employees and 8 million square feet of Class A office space, is a premier office park in the Bay Area.

Sunset Development Company within Bishop Ranch controls 4.5 million square feet of premier Class A office space, and will be a source of growth internally as well as attracting important office users region-wide.

The City Center project is planned as a high-end, high-density mixed use development with up to approximately 680,000 office gross square feet, 169 hotel rooms, 635,000 retail square feet, and 487 residential units.

San Ramon demographics are becoming stronger, with high household incomes and education levels.

The presence of successful retailers and hotels in or near the specific plan area, including Target, Whole Foods, and the San Ramon Marriott.

Existence of many large parcels in the specific plan area.

DEMOGRAPHICS

Existing Conditions

The City of San Ramon is located between Walnut Creek and Dublin along Interstate 680. San Ramon is referred to as part of the Tri-Valley region consisting of Dublin, Pleasanton, Livermore, and San Ramon. In the period between 2000 and 2010, the Tri-Valley region is expected to have experienced rapid population growth from an estimated 214,000 to over 270,000, according to the Association of Bay Area Governments (ABAG). From 2000 to 2009, San Ramon's population increased from approximately 44,700 to about 63,200, an increase of 41%, or a third of the Tri-Valley region's population growth.

Based on the most recent ABAG projections, the City's average household income is \$141,100. The income level is strong and is higher than the Tri-Valley's average of \$128,100. The U.S. Census indicates that education levels among San Ramon residents are high, with 97% of adults having received a high school degree and 54% a bachelors degree.

San Ramon's 2010 workforce was estimated at 43,900 by ABAG, of which 68% are employed in Bishop Ranch. Jobs are concentrated primarily in the financial and professional services; health, education, and recreation; and construction, information, and government employment categories.

Market Opportunities and Constraints

ABAG projections for the period ending in 2020 anticipate that the City of San Ramon and the Tri-Valley region will continue their rapid population growth, reaching an estimated population of 70,900 and 315,700, respectively.

Employment growth in San Ramon will allow the City's economic base to expand in tandem with its population. Growth accommodated under the General Plan 2030 is expected to consist of an employment mix that continues the City's strong "office park" character, while accommodating slightly higher proportions of population-serving jobs (in retail, services, and other economic sectors) than the previous General Plan 2020. Employment is projected by the City to increase to approximately 58,769 jobs by 2030 (an increase of nearly 47 percent from 2008). Of the additional 18,657 jobs in San Ramon, the majority of the job growth will be in the retail and service sectors as well as industries such as information and public administration.

RETAIL

Existing Conditions

The City of San Ramon's existing major shopping centers have not suffered the level of vacancies that have occurred due to the current recession in neighboring communities. Nevertheless, the city staff estimates that sales subject to sales tax revenues for the City in FY 2008 will be about \$9.2 million versus \$8.8 million in FY 2005. This is only a 5% increase over the last three years.

Market Opportunities and Constraints

In a recent San Ramon Retail analysis, local demand was estimated for up to 1 million square feet of regional-serving retail in San Ramon.

Region-serving, fashion-oriented retail demand, including demand for retailers focusing on the life style concept, will be met by the planned City Center that includes up to 635,000 square feet of retail space. The intended merchandising concept of the development is to have an emphasis on fashion oriented, high end department stores and specialty retailers supported by food and entertainment uses. The Stanford Shopping Center in Palo Alto and Broadway Plaza Shopping Center in Walnut Creek would be examples of similar developments in terms of tenant mix.

Aside from this type of retail concept, opportunities exist for the specific plan area including large format retailers in the range of 20,000 to 50,000 square feet, such as sporting goods, electronics and appliances, and home furnishings stores. These retailers seek strong sites that have freeway identity or close proximity to established major retailers (such as Costco in Danville). There is also opportunity for a large home improvement center on the order of magnitude of 100,000 square feet. Such stores also seek strong freeway identity and good regional access, as well as large parking fields.

Restaurant concentration, such as a restaurant row, is another opportunity that might be implemented as part of a larger project. There are over 40,000 employees working in San Ramon who would support restaurants during the weekday. The resident population would provide additional support on nights and weekends. A 2009 Retail Analysis prepared for the City projected demand for between 69,000 square feet to 139,000 square feet of space for food establishments. Although this demand will be met, in part, by the planned City Center project, there should be opportunities for additional food establishments that serve both the major employment base in San Ramon and the potential significant new residential growth within the specific plan area.

Movie theater demand in the region is served by Century Walnut Creek Downtown 14, Century Blackhawk Plaza in Danville, Regal Cinemas Hacienda Crossings 20 and IMAX in Dublin, and Regal Cinemas Crow Canyon in San Ramon. Additionally, City Center is planning an Art and Foreign film theater. Opportunities for new theater complexes are thus constrained by the existing and planned supply.

Neighborhood serving retail as part of possible infill residential development is another opportunity. Potential new housing units in the specific plan area could support this type of store. Neighborhood

serving retail typically has a street emphasis and tends to be more focused on neighborhood services, food establishments, and groceries.

RESIDENTIAL

Existing Conditions

Until the current recession, housing for the last several years has been the strongest sector of the Bay Area real estate market. As a result of strong demand, a significant number of residential units have been built/entitled in the Tri-Valley region. In San Ramon, about 7,600 units are estimated to have been built between 2000 and 2009.

The strength of the housing market was most evident in the for-sale sector. Home sales proceeded at an unprecedented rate during the past few years due to historically available mortgage monies, but have stalled as the credit market tightened in reaction to the subprime lending crisis. Apartment rents had been in decline the last few years, then stabilized, and now again appear to be in flux due to current economic turmoil.

Market Opportunities and Constraints

The analyses suggest that there is a strong opportunity for large scale mixed use projects in the Specific plan area. In addition to latent strong housing demand in the Tri-Valley and its diverse economic base, there are other market factors contributing to the strength of San Ramon's housing market despite the current national recession. The City's office market is expected to continue to attract employment growth both internally and from the region, and employees are increasingly interested in living near work. The popularity of the lifestyle created by living close to jobs is influenced by benefits including reduced travel times, increased use of transit, decreased traffic congestion, and improved health. At current employment levels of 30,000 in neighboring Bishop Ranch, if 5+% of employees were interested in moving to within walking distance from the office, 2,000 infill housing units could be supported in the specific plan area. Employment-driven residential will be further supported by new medical office development anticipated in the specific plan area, as well as existing PG&E facilities and the San Ramon Regional Medical Center. By comparison, the most recent available ABAG projections indicate that San Ramon will add about 3,200 households or 3,300 new units, between 2009 and 2020. Although the current economic climate will probably preclude such growth in the near- to mid-term future, as housing begins to come on line again in the next 10 years, some of this projected growth could be accommodated in the project area.

Given City goals for higher-density development in the specific plan area, an appropriate residential product is apartments, likely in wood-frame on podium configurations. At similar Floor Area Ratios, this translates to about 40-50 condominium units per acre. While the market for higher density for-sale housing may not exist for several years, this is something that could be contemplated for the specific plan area at a later date. Some of San Ramon's expected new housing demand will be filled by the 487 condominiums planned as part of the City Center development.

OFFICE

Existing Conditions

San Ramon is an office center among the Tri-Valley cities, with an inventory of 9.3 million square feet of office space, or 35% of the region's 26.8 million square foot total. This position is driven by the presence of one of the Bay Area's premier office parks: Bishop Ranch. This development contains 8 million square feet of Class A space, including headquarters for Chevron and AT&T, and provides jobs for approximately 30,000 employees. In addition, PG&E has a substantial presence near the specific plan area, and demand for medical center office space is growing in the proximity of the San

Ramon Regional Medical Center. Despite the economic downturn, San Ramon continues to attract major office users, such as Bank of the West at Bishop Ranch and PG&E relocating 600 employees to the City. The City's office space is concentrated in Class A inventory, which comprises over 80% of the total. Class B space represents about 11% of the City's office square footage, and Flex space another 8%. Since the recession set in, office vacancies have increased in San Ramon and elsewhere in the Tri-Valley, and rents have decreased. Nevertheless, the City's office market is relatively strong, with the lowest vacancies in the region (11% versus 17% for the four Tri-Valley cities), and the highest average asking rents (\$2.02 versus \$1.88 per square foot). This is driven by San Ramon's strong Class A and B office space performance in users such as Bishop's Ranch.

Market Opportunities and Constraints

A strong office base now exists within San Ramon, and demand for additional office space is expected to continue once the national recession ends and job growth resumes. The presence of Bishop Ranch, as well as PG&E and the San Ramon Regional Medical Center, has a strong influence on future development potential.

Based on ABAG employment projections, it is estimated that over the next 10 years, there will be demand for another 1.6 million square feet of office space in San Ramon. In the current economic climate, this timeline will likely be extended. Office product in the specific plan area area is expected to consist of higher density development with structured parking. Sunset Development is planning to build up to 680,000 gross square feet of Class A space at Bishop Ranch in the mid-term (phase one is a 230,000 square foot tower), which will limit such opportunities in the specific plan area. After the Bishop Ranch space has been added, major office development could occur in the specific plan area. Until then, office development is expected to be limited to small scale infill space in mixed use developments.

HOTEL

Existing Conditions

The Tri-Valley region contains 20 full- and focused-service hotels and 20 extended stay/suite products, with a total of 4,902 rooms. There are seven such hotels in San Ramon, with 1,147 rooms.

Room sales at these properties are estimated at \$27.3 million in fiscal year 2008, based on City Transient Occupancy Tax (TOT) revenues. After growth in the range of 10% for the past three years, the City Finance Department expects TOT to decline 1% in FY 2008, given the current economy.

San Ramon's existing hotel facilities provide almost 420,000 room nights per year. The addition of a new 169 room luxury hotel at City Center will contribute another 60,000 room nights per year, to bring the total to almost half a million room nights.

Market Opportunities and Constraints

Hotel opportunity in the specific plan area area is expected to be focused on properties that would be developed in a higher density format with structured parking. The nature of this type of property is that it is high cost to construct and therefore requires premium room rates (above the current market) to achieve feasibility. At this time that hotel demand is expected to be met by the planned luxury property in City Center.

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