Existing Conditions Report

Chapter 3. Economics and Market Demand

3.1 Introduction

This chapter summarizes demographic, employment and real estate market conditions and trends in Burlingame and the surrounding market area. Findings and recommendations in this chapter will inform land use, economic development, and other policy decisions in the Burlingame General Plan. The market analysis presented in this chapter is one of many inputs into the General Plan, and the findings represent the most current estimate of long-term demand and the city's economic competitiveness for different land uses. However, it is likely that during the 20-year horizon of the General Plan, the city will experience different market cycles that could affect the timing of new development projects.

The demographic trends section summarizes key characteristics of Burlingame's population and households, highlighting significant trends that shape demand for housing, retail, and services. The section on employment trends describes Burlingame's economic base and implications for existing businesses and new commercial development. Subsequent sections analyze real estate market conditions for residential, retail, office/R&D, industrial, and hotel land uses. These sections highlight significant strengths, challenges and trends affecting future development potential and economic sustainability.

The analyzed conditions and trends must be considered within the regional context. Therefore, the analyses describe Burlingame's demographic, economic and market conditions relative to surrounding communities and San Mateo County. The competitive "market area," referenced throughout this chapter, is composed of nearby communities likely to compete for real estate demand. For the purposes of this study, the market area is comprised of Peninsula communities within approximately seven miles of Burlingame, including: the City of Burlingame itself, Belmont, Foster City, Hillsborough, Millbrae, San Bruno, San Carlos, San Mateo and South San Francisco. The competitive market area was established based on interviews with local brokers and developers and review of past market studies for this area.

This chapter provides long-term market demand estimates for office space, retail space, housing units, and hotel rooms. These demand estimates describe the amount of housing units and square feet of commercial uses that the city could potentially attract based on regional growth and the city's competitive advantages. However, market-based demand does not determine how much actual growth or development will occur in Burlingame. The amount of new development that is ultimately accommodated in Burlingame's General Plan will depend on a variety of factors, including: the community's values and objectives, the capacity of existing facilities and infrastructure (including schools), the desired scale of development, and numerous other issues which will be considered during future phases of the General Plan update process.

3.2 Findings

Demographic Findings

1. Burlingame is a diverse community, home to small households, families with children, and households at all income levels. This is largely due to the diverse housing stock that provides a range of options, including multi-family rental housing, compact ownership housing near transit, and large hillside homes.

Employment Findings

1. Because of its proximity to San Francisco International Airport, Burlingame has attracted and retained businesses in the tourism sector (hotels), logistics, air transportation, and business services.

2. Burlingame also has strength in food services and a concentration of retail/personal service jobs due to both the airport and the regional draw of downtown Burlingame's stores and restaurants.

3. Burlingame's overall employment numbers are fairly stable; the city has consistently maintained a share of nine to ten percent of the county's total employment. In recent decades, the city's employment mix has shifted to include a declining percentage of office, manufacturing, and construction jobs relative to San Mateo County, and an increasing share of service industry jobs.

Residential Market Findings

1. Burlingame's housing stock is more diverse than that in the county overall, with a nearly equal share of single-family and multi-family housing units.

2. Burlingame traditionally has commanded higher home prices and rental rates than most neighboring cities. The city is well positioned to capture strong future demand for multi-family housing in this competitive market area due to its high quality of life, walkable neighborhoods, and transit access. However, the city's ability to accommodate new development is limited by the lack of large development opportunity sites, and the high cost of development in the region.

Retail Market Findings

1. Burlingame has a variety of retail centers that provide a mix of tenants, including regional-serving retail in downtown Burlingame, local independent retailers and restaurants in the

Broadway district and Burlingame Plaza, and auto dealerships along California Drive and near Highway 101 at Broadway. Each of these retail districts serves a unique market niche.

2. Based on projected household growth, there is potential for two million square feet of new regional-serving retail space in the market area over the next 25 years. Downtown Burlingame – as well as competing centers like Hillsdale Shopping Center, the Shops at Tanforan and other Peninsula downtowns – is well-positioned to capture some of the demand for regional retail over the short and longer terms.

Office / Research and Development Market Findings

1. Burlingame's surrounding market area has traditionally been a secondary location for office development, with most Class A office development occurring in San Francisco and southern San Mateo County/northern Santa Clara County. Recently, the nearby cities of South San Francisco, San Mateo, and Foster City have attracted new R&D and office space, with the latter taking advantage of the regional access provided at the intersection of Highways 92 and 101.

2. Burlingame has a small inventory of office and R&D/flex space. Most existing users are tenants that value the proximity to the airport and the regional transportation network.

3. Today's booming technology sector provides opportunities for new office and flex/R&D development in Burlingame. The largest proposed office project, Burlingame Point, would be the first Class A building to be built in recent history and could potentially help strengthen Burlingame's market position for office and R&D development. In addition, there is strong demand for new office spaces from many smaller creative industries and technology firms that value downtowns and locations with access to transit and amenities. With two Caltrain stations, a nearby BART station and a vibrant downtown, Burlingame is well suited to attract smaller scale office development targeted towards these types of firms.

Industrial Market Findings

1. Burlingame's industrial areas attract tenants seeking proximity to the airport or to local construction projects. Burlingame's industrial tenants include construction, logistics, import/export and freight forwarding businesses. In addition to its airport access, Burlingame is known for its high quality of life and BART station access, which help it compete against neighboring cities for industrial firms. Burlingame typically commands higher lease rates than the industrial spaces in South San Francisco and San

Mateo, which typically consist of larger warehouses. Cities in Southern San Mateo County have higher lease rates, however.

2. Little industrial space has been added in the market area over the past ten years, and virtually no major industrial projects are planned for development. This has helped drive up occupancy and lease rates for existing industrial space. However, these higher rates are insufficient to justify new construction of industrial space.

3. Although long-term employment in traditional industrial sectors is projected to decline in the county and market area, demand remains exceptionally high for the limited existing industrial space. Little additional industrial space is likely to be built in Burlingame or the surrounding market area due to price competition from higher value office, R&D and residential uses, thus further increasing competition for existing space among users that need to be located near the airport or end-users.

4. Burlingame's existing industrial space is likely to remain in high demand due to the limited availability of industrial space and the premium airport-adjacent location. The market area commands higher rents than other locations for industrial space due to the value of being near the airport and regional transportation network. Burlingame is particularly well positioned to continue capturing industrial users seeking access to the airport. However, there is market pressure to convert existing industrial spaces to other, higher-value uses if allowed by land use regulations.

Hotel Market Findings

1. Hotels in Burlingame are larger and relatively upscale compared to the rest of the San Francisco International Airport submarket. Occupancy rates are excellent, and revenue per room is high due to the general strength of the regional hotel market in San Francisco and the Peninsula.

2. While long-term projections suggest robust growth in demand for hotel rooms within the airport submarket – demand that Burlingame is well-positioned to capture – immediate development opportunities are constrained by planned and proposed hotel projects outside Burlingame but within the competitive submarket and regional market area.

3.3 Demographic Trends

This section describes Burlingame's population, households, and commute patterns, with comparisons to the surrounding market area and San Mateo County. It includes a profile of age, income, racial and ethnic, and household characteristics using the U.S. Census from 1990, 2000, and 2010, as well as the American Community Survey's (ACS) 5-Year Estimates 2009-2013 (referred to throughout the chapter as the 2009-2013 period). It also describes commute patterns for Burlingame residents and workers based on estimates from the U.S. Census Longitudinal Employer-Household Dynamics (LEHD) dataset.

Burlingame's population as of January 2015 was approximately 29,700 people. Burlingame's population has generally grown at a slower pace than the rest of the market area (comprised of Burlingame, Belmont, Foster City, Hillsborough, Millbrae, San Bruno, San Carlos, San Mateo and South San Francisco). Currently, the city accounts for approximately eight percent of the market area's population (see Table 3.1). Burlingame added approximately 2,000 residents between 1990 and 2010 (an increase of approximately 7.5%), while the market area grew by approximately 33,000 residents (approximately 10.4%).

Although Burlingame's population grew slightly from 1990 to 2010, the number of households remained nearly flat during this period. This is attributable to the average household size having increased, partly explained by the growth in family households with children. The percentage of Burlingame households made up of families with children increased from 25% to 29% from 2000 to 2009-2013.

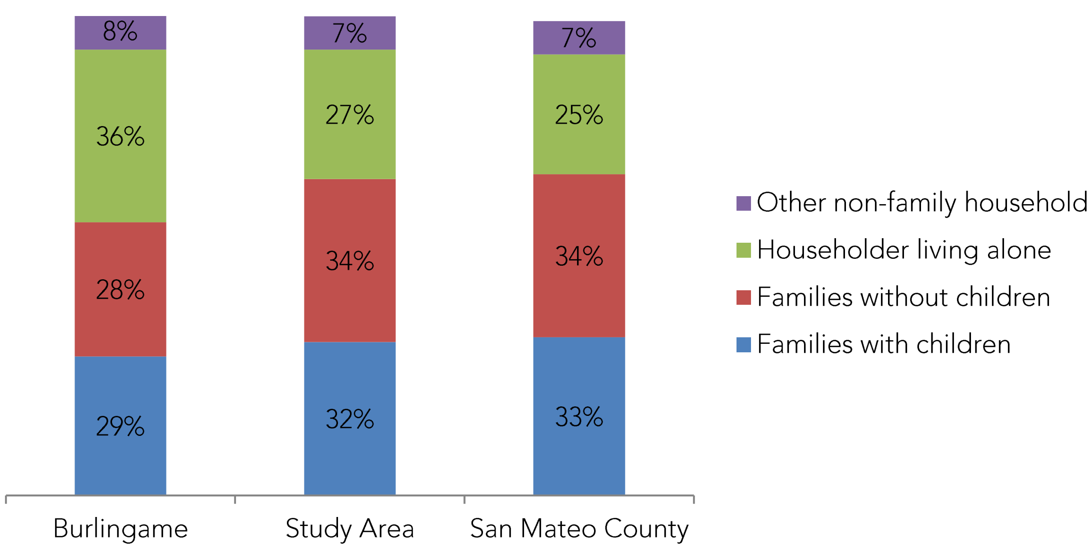
Burlingame has maintained a higher share of single-person and smaller households than the market area and the county. Despite Burlingame's increasing household size, the average household size in the city remains smaller than the market area and county, as shown in Table 3.2. According to 2009-2013 estimates, 36% of households were householders living alone, compared to 27% of the market area and 25% of the county (see Figure 3-1).

TABLE 3.1: POPULATION AND HOUSEHOLDS

	Burlingame	Market Area	San Mateo County
Total Population			
1990	26,801	315,109	649,623
2000	28,158	334,544	707,161
2010	28,806	347,924	718,451
Percent Change, 1990-2000	5.1%	6.2%	8.9%
Percent Change, 2000-2010	2.3%	4.0%	1.6%
Total Households			
1990	12,329	124,886	241,914
2000	12,511	129,334	254,103
2010	12,361	132,035	257,837
Percent Change, 1990-2000	1.5%	3.6%	5.0%
Percent Change, 2000-2010	-1.2%	2.1%	1.5%

Sources: US Decennial Census, 1990, 2000, 2010; Strategic Economics, 2015.

Figure 3-1
Number of Households by Household Type, 2009-2013



Sources: U.S. Census ACS 5-Year Estimates, 2009-2013; Strategic Economics, 2015.

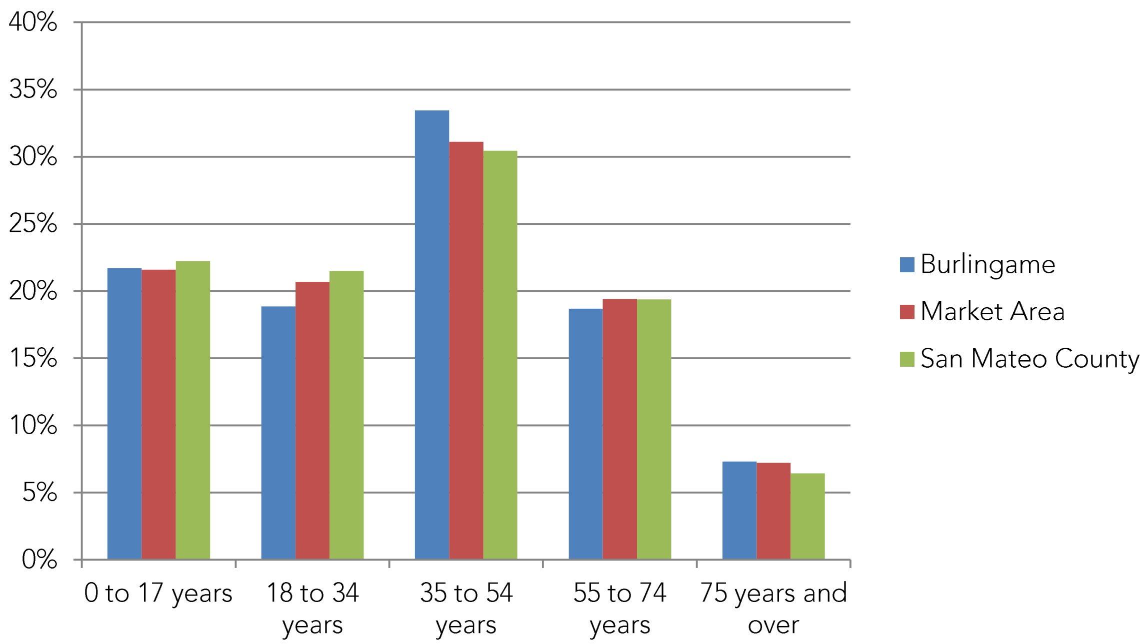
TABLE 3.2 HOUSEHOLD TYPES

	2000		2009-2013	
	#	%	#	%
Burlingame				
Families with Children	3,165	25%	3,495	29%
Families without Children	3,789	30%	3,361	28%
Householder Living Alone	4,448	36%	4,406	36%
Other Non-family Household	1,109	9%	937	8%
Total	12,511	100%	12,199	100%
Average Household Size	2.2		2.4	
Market area				
Families with Children	40,423	31%	42,224	32%
Families without Children	44,165	34%	45,243	34%
Householder Living Alone	34,834	27%	35,416	27%
Other Non-family Household	9,719	8%	8,637	7%
Total	129,141	100%	131,520	100%
Average Household Size	2.6		2.7	
San Mateo County				
Families with Children	86,496	34%	86,024	33%
Families without Children	84,753	33%	88,516	34%
Householder Living Alone	62,626	25%	65,530	25%
Other Non-family Household	20,228	8%	17,871	8%
Total	254,103	100%	257,941	100%
Average Household Size	2.7		2.8	

Sources: US Decennial Census, 2000; US Census ACS 5-Year Estimates, 2009-2013; Strategic Economics, 2015.

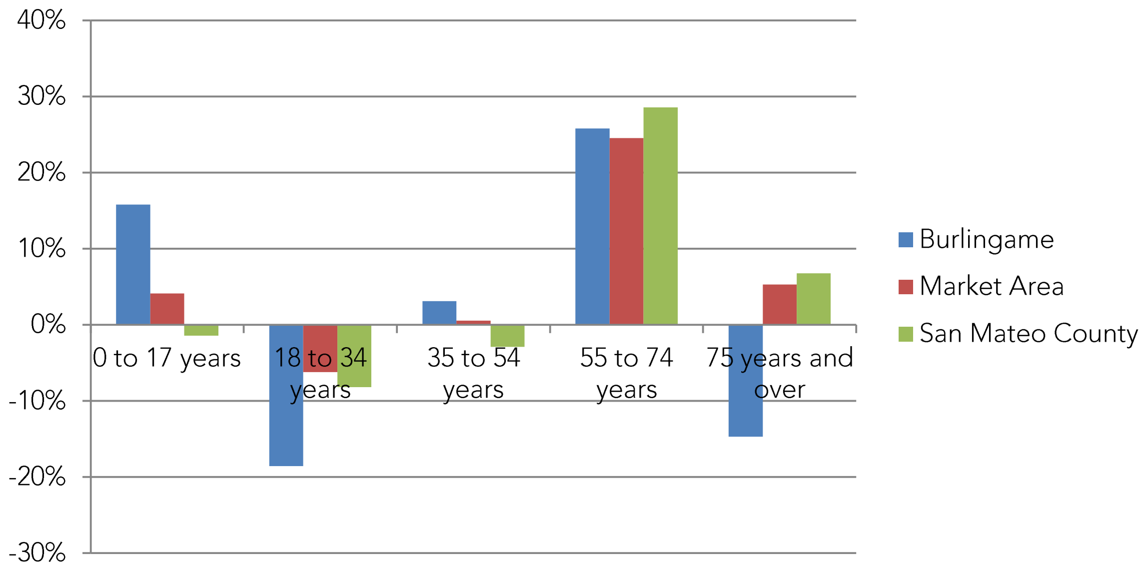
The age distribution of Burlingame residents also suggests a demographic shift toward more families with children. Currently, Burlingame has a higher share of people under 17 years old and between the ages of 35 to 54 than the market area or county (see Figure 3-2). The city experienced a 16% increase in the number of children under the age of 18 from 2000 to 2010, while the market area and the county had growth of four percent and one percent, respectively, in this age group during the same period.

Figure 3-2
Population by Age Group, 2009-2013



Sources: US Census ACS 5-Year Estimates, 2009-2013; Strategic Economics, 2015.

Figure 3-3
Percent Change in Population by Age Group, 2000 to 2010



Sources: US Decennial Census, 2000; US Census ACS 5-Year Estimates, 2009-2013; Strategic Economics, 2015.

Burlingame's median household income is similar to the market area and county; however, the city has higher shares of households in the highest and lowest income brackets. The median household income in Burlingame is $84,854, which is slightly lower than the median incomes in the market area and the county (see Table 3.3). However, a relatively higher proportion of households fall in both the lowest income bracket (13% earn less than $25,000 in 2013 dollars) and the highest income bracket (three percent of households earn more than $150,000) (see Figure 3-4).

TABLE 3.3: 2013 MEDIAN HOUSEHOLD INCOME

	Income
Burlingame	$84,854
Market area	$89,613
San Mateo County	$88,202

Sources: US Census ACS 5-Year Estimates, 2009-2013; Strategic Economics, 2015.

Burlingame has a higher share of renter households and multi-family housing units than the market area and county, providing more diverse housing options. As seen in Table 3.4, 49% of Burlingame's housing units are in multi-family structures, significantly higher than in the Market area (38%) and in the county (33%). Fully 52% of units are renter-occupied compared to 42% in the market area and 41% in the county.

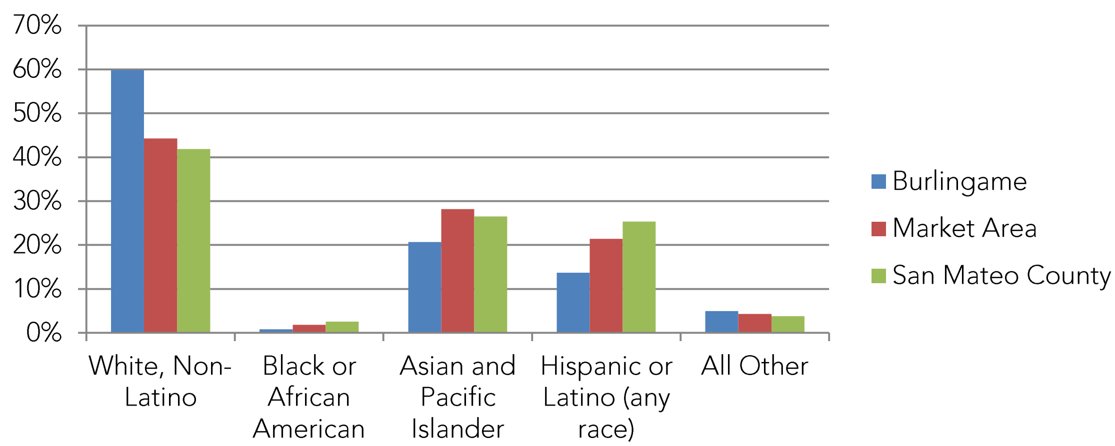
TABLE 3.4: HOUSING STOCK CHARACTERISTICS, 2009-2013

	Burlingame		Market Area		San Mateo County	
	Units	% of Total	Units	% of Total	Units	% of Total
Housing Units						
Single-Family	6,553	51%	85,088	62%	177,957	66%
Multi-Family	6,241	49%	52,106	38%	90,265	33%
Other	43	0%	572	0%	3,277	1%
Total	12,837	100%	137,766	100%	271,499	100%
Occupied Housing Units						
Owner-Occupied	5,889	48%	76,777	58%	153,318	59%
Renter-Occupied	6,310	52%	54,743	42%	104,623	41%
Total	12,199	100%	131,520	100%	257,941	100%

Sources: US Census ACS 5-Year Estimates, 2009-2013; Strategic Economics, 2015.

Burlingame is becoming more racially and ethnically diverse. The racial and ethnic breakdown of Burlingame's population is summarized in Table 3.5 and Figure 3-4. Following a similar trend in the county and market area, the respective shares of residents who identify as Asian/Pacific Islander and Latino have increased. From 2000 to 2009-2013, the share of Asian/Pacific Islander residents went up from 13% to 20%, while the share of Latino residents increased from 11% to 14%.

Figure 3-4
Race and Ethnicity, 2009-2013



Sources: US Census ACS 5-Year Estimates, 2009-2013; Strategic Economics, 2015.

TABLE 3.5: RACE AND ETHNICITY CHARACTERISTICS: BURLINGAME, MARKET AREA, SAN MATEO COUNTY

	1990		2000		2009-2013	
	#	%	#	%	#	%
Burlingame						
White, Non-Latino	21,428	80%	19,904	71%	17,492	60%
Black or African American	252	1%	165	1%	236	1%
Asian and Pacific Islander	2,292	9%	3,771	13%	6,041	21%
Hispanic or Latino (any race)	2,731	10%	2,988	11%	4,013	14%
All Other	98	0%	1,147	4%	1,455	5%
Total	**26,801**	**100%**	**27,975**	**100%**	**29,237**	**100%**
Market area						
White, Non-Latino	211,033	67%	184,669	55%	156,254	44%
Black or African American	8,586	3%	6,045	2%	6,494	2%
Asian and Pacific Islander	48,252	15%	70,155	21%	99,561	28%
Hispanic or Latino (any race)	45,737	15%	59,084	18%	75,709	21%
All Other	1,501	0%	14,473	4%	15,142	4%
Total	**315,109**	**100%**	**334,426**	**100%**	**353,160**	**100%**
San Mateo County						
White, Non-Latino	392,131	60%	351,542	50%	305,350	42%
Black or African American	34,000	5%	23,312	3%	18,486	3%
Asian and Pacific Islander	105,559	16%	149,224	21%	193,203	26%
Hispanic or Latino (any race)	114,627	18%	154,392	22%	184,742	25%
All Other	3,306	1%	28,691	4%	27,762	4%
Total	**649,623**	**100%**	**707,161**	**100%**	**729,543**	**100%**

Sources: US Decennial Census, 1990, 2000; US Census ACS 5-Year Estimates, 2009-2013; Strategic Economics, 2015.

Burlingame has a relatively high ratio of jobs to employed residents compared to San Mateo County as a whole. According to the U.S. Census Longitudinal Employer-Household Dynamics (LEHD), as of 2011 there were approximately 2.5 jobs in Burlingame for each employed resident. Countywide, this ratio is 1.00.

More than half of Burlingame residents work in San Francisco and nearby Peninsula communities. Table 3.6 shows the home locations for workers commuting to Burlingame. Table 3.7 shows work locations for Burlingame residents. Figures 3-5 and 3-6 map these locations. These tables and figures demonstrate a high level of cross commuting to and from San Francisco, with 12.5% of Burlingame jobs drawing San Francisco residents and 18.2% of Burlingame workers commuting to San Francisco for their jobs.

TABLE 3.6: HOME LOCATIONS FOR BURLINGAME WORKERS, 2011

	#	%
San Francisco	4,458	12.5%
San Mateo	2,906	8.2%
Burlingame	1,699	4.8%
Daly City	1,662	4.7%
South San Francisco	1,447	4.1%
San Jose	1,413	4.0%
San Bruno	1,288	3.6%
Redwood City	894	2.5%
Pacifica	817	2.3%
Millbrae	800	2.2%
Oakland	733	2.1%
Hayward	721	2.0%
Foster City	689	1.9%
Fremont	598	1.7%
San Carlos	516	1.4%
All Other Locations	14,968	42.0%

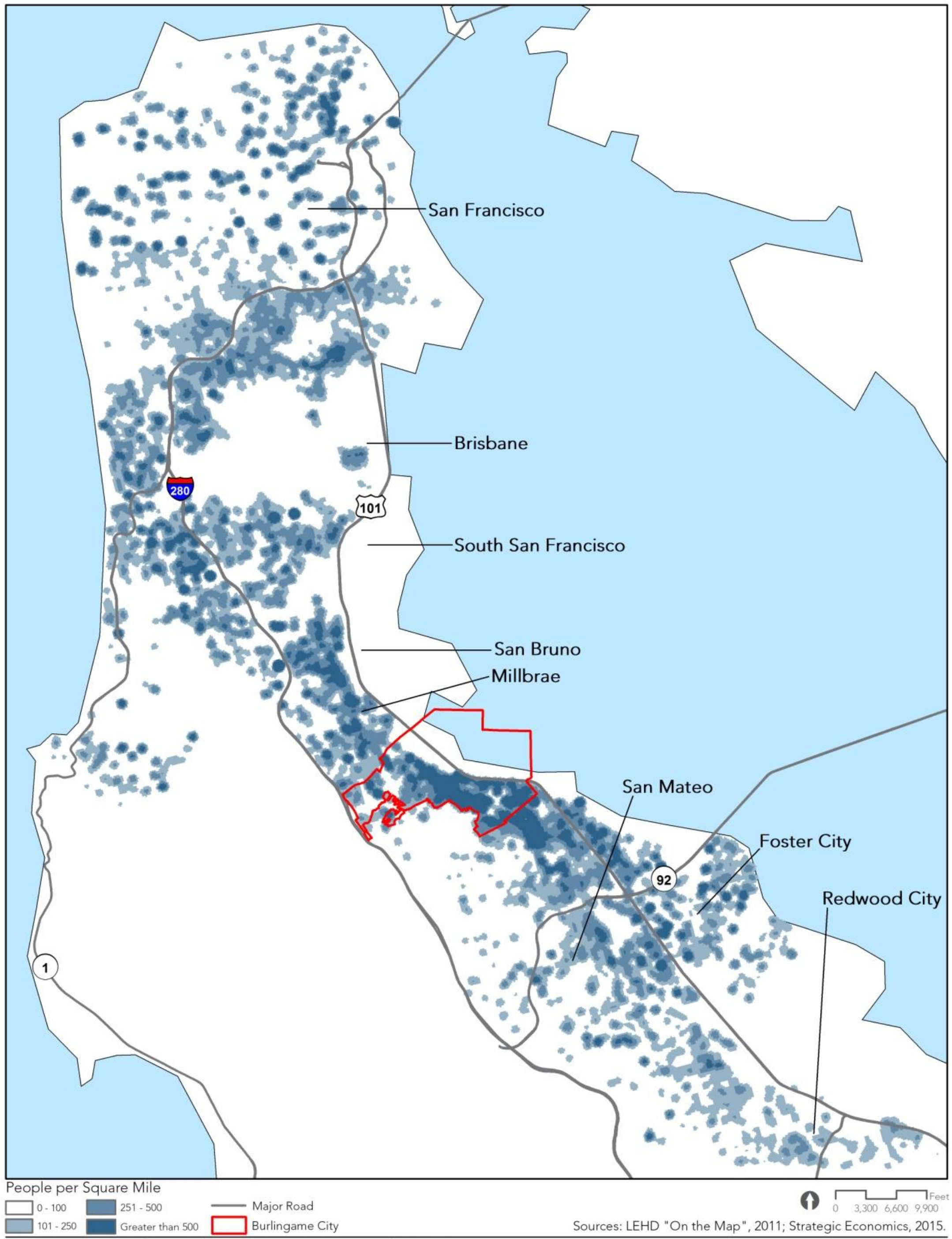
Source: US Census LEHD, 2011; Strategic Economics, 2015.

TABLE 3.7: WORK DESTINATIONS FOR BURLINGAME RESIDENTS, 2011

	#	%
San Francisco	2,613	18.2%
Burlingame	1,699	11.8%
San Mateo	938	6.5%
South San Francisco	694	4.8%
Palo Alto	562	3.9%
Redwood City	554	3.9%
San Jose	376	2.6%
Los Angeles*	330	2.3%
Foster City	329	2.3%
Oakland	276	1.9%
Menlo Park	219	1.5%
San Bruno	213	1.5%
Sacramento	184	1.3%
Mountain View	176	1.2%
Daly City	170	1.2%
All Other Locations	5,031	35.0%

* A small fraction of workers throughout the Bay Area are employed in jobs located outside the region, although they may not commute to these locations on a daily basis.
Source: US Census LEHD, 2011; Strategic Economics, 2015.

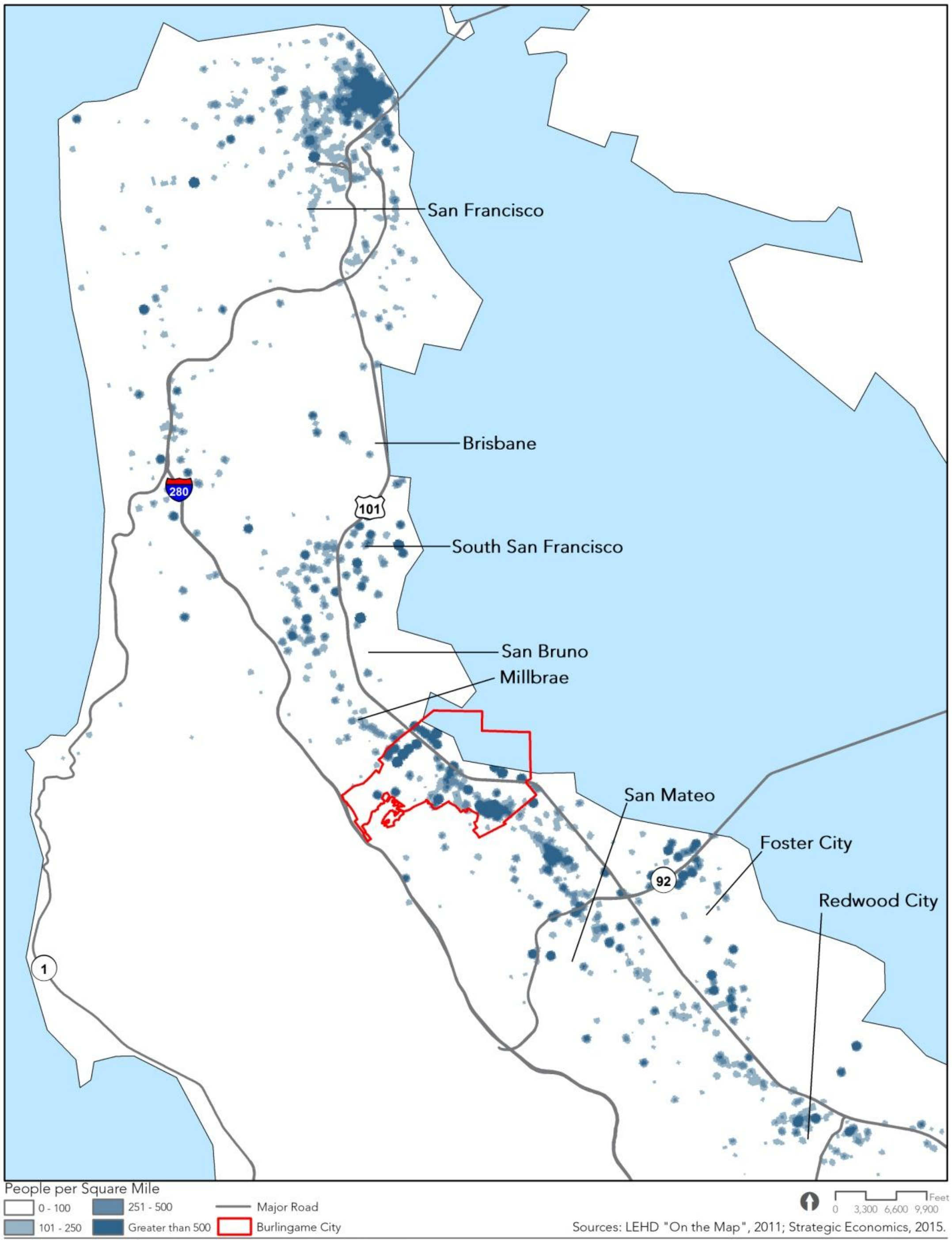
Figure 3-5
Home Locations for Workers Commuting to Burlingame



Home Locations for Workers Commuting to Burlingame

May 2015

Figure 3-6
Work Locations for Residents Living in Burlingame



Sources: LEHD "On the Map", 2011; Strategic Economics, 2015.

Work Locations for Residents Living in Burlingame

May 2015

3.4 Employment Trends

This section summarizes Burlingame's employment and industry trends—compared to San Mateo County—to describe its competitive position within the region and its potential to capture future job growth. The employment analysis is based on data from the U.S. Census "County Business Patterns" and "ZIP Code Business Patterns" for the years 1998, 2003, 2008, and 2012 (the most recent year for which data were available).

Burlingame's overall level of employment and share of county employment are very stable. Total employment in Burlingame is estimated to range from 30,000 to 35,000 jobs, depending on the data source and methodology. Between 1998 and 2012, which included rapid growth periods and two recessions, Burlingame's share of San Mateo County employment has remained between nine and ten percent (see Table 3.8).

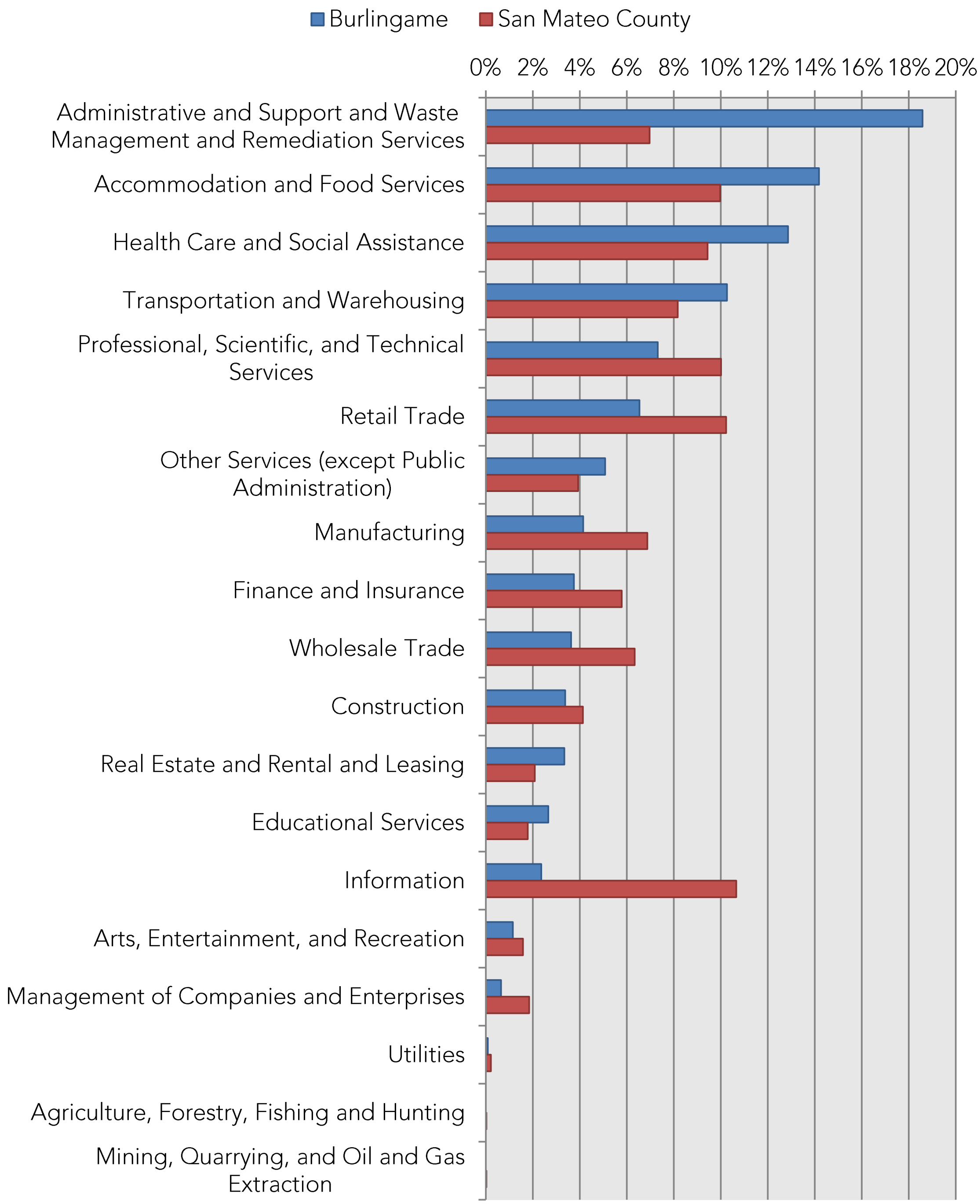
TABLE 3.8: BURLINGAME EMPLOYMENT

	1998	2003	2008	2012
Burlingame	34,213	30,274	33,985	33,995
San Mateo County	332,634	322,356	366,478	332,839
Share of County	10%	9%	9%	10%

Sources: U.S. Census CBP/ZBP, 2012; Strategic Economics, 2015.

Burlingame's economic base includes service industries, transportation, and warehousing. The largest industry sectors in Burlingame are Administrative and Support Services, Accommodation and Food Services, Health Care, and Transportation and Warehousing. Combined, these sectors make up 56% of Burlingame's total employment. (See Table 3.9 and Figure 3-7 for the sector breakdown in Burlingame and San Mateo County.)

Figure 3-7
Share of Total Employment by Sector, Burlingame and San Mateo County



Sources: U.S. Census CBP/ZBP, 2012; Strategic Economics, 2015.

TABLE 3.9: BURLINGAME EMPLOYMENT BY SECTOR

	Employment				Share of San Mateo County			
	1998	2003	2008	2012	1998	2003	2008	2012
Administrative and Support and Waste Management and Remediation Services	4,713	2,802	6,013	6,319	15.4%	10.4%	21.1%	27.2%
Accommodation and Food Services	4,488	3,651	5,014	4,821	16.1%	14.1%	15.3%	14.5%
Health Care and Social Assistance	4,582	4,058	4,558	4,372	18.5%	14.6%	14.4%	13.9%
Transportation and Warehousing	2,219	1,908	2,405	3,487	6.6%	6.6%	8.4%	12.8%
Professional, Scientific, and Technical Services	2,409	2,266	1,939	2,487	9.0%	6.5%	3.1%	7.5%
Retail Trade	2,604	3,168	2,588	2,224	7.3%	8.6%	7.0%	6.5%
Other Services (except Public Administration)	1,483	1,684	1,527	1,727	13.2%	14.1%	12.3%	13.2%
Manufacturing	2,579	1,649	1,854	1,408	8.2%	7.0%	6.6%	6.2%
Finance and Insurance	1,408	1,825	1,323	1,272	7.6%	11.2%	8.6%	6.6%
Wholesale Trade	2,229	1,787	1,476	1,234	10.5%	9.3%	7.0%	5.9%
Construction	1,310	1,636	1,621	1,149	7.1%	8.5%	8.9%	8.3%
Real Estate and Rental and Leasing	1,289	1,126	1,147	1,135	12.4%	13.9%	13.1%	16.4%
Educational Services	561	833	783	904	14.8%	12.1%	14.8%	15.2%
Information	933	863	967	799	4.2%	3.4%	3.6%	2.3%

	Employment				Share of San Mateo County			
	1998	2003	2008	2012	1998	2003	2008	2012
Arts, Entertainment, and Recreation	411	467	510	389	10.1%	9.6%	9.6%	7.4%
Management of Companies and Enterprises	695	483	182	219	7.1%	9.3%	4.1%	3.6%
Other Sectors*	288	52	62	25	2.2%	0.6%	0.6%	0.4%
Total	34,213	30,274	33,985	33,995	10.3%	9.4%	9.3%	10.2%

*Other Sectors includes Utilities; Mining, Quarrying, and Oil and Gas Extraction; and Agriculture, Forestry, Fishing, and Hunting
Sources: U.S. Census CBP/ZBP, 2012; Strategic Economics, 2015.

TABLE 3.10: BURLINGAME EMPLOYMENT BY LAND USE CATEGORY

	Employment				Share of San Mateo County			
	1998	2003	2008	2012	1998	2003	2008	2012
Office-Based	6,733	6,562	5,557	5,911	7.7%	7.3%	4.7%	5.8%
Hospitality	4,899	4,118	5,524	5,209	15.4%	13.4%	14.5%	13.5%
Transportation	4,448	3,695	3,881	4,720	8.1%	7.6%	7.8%	9.8%
Production and Repair	3,896	3,299	3,489	2,585	7.8%	7.7%	7.5%	6.9%
Retail	2,604	3,168	2,588	2,224	7.3%	8.6%	7.0%	6.5%
Other Sectors**	11,634	9,433	12,947	13,346	15.9%	12.8%	16.6%	18.1%
Total	**34,213**	**30,274**	**33,985**	**33,995**	**10.3%**	**9.4%**	**9.3%**	**10.2%**

**Other Sectors includes Administrative and Support and Waste Management and Remediation Services; Educational Services; Health Care and Social Assistance; Other Services (expect Public Administration); Public Administration; Utilities; Mining, Quarrying, and Oil and Gas Extraction; and Agriculture, Forestry, Fishing, and Hunting
Sources: U.S. Census CBP/ZBP, 2012; Strategic Economics, 2015.

Burlingame's local economy benefits from its proximity to San Francisco International Airport, mid-Peninsula location, and access to the regional transportation network. The Accommodation and Food Services sector – which includes hotels, restaurants and food service contractors – accounts for 14% of Burlingame employment compared with ten percent of countywide employment. Similarly, Transportation and Warehousing (warehousing, logistics and goods movement) comprises ten percent of Burlingame's employment, compared with eight percent in the county. One of the largest employers in Burlingame is Virgin America, Inc., the passenger airline with its corporate headquarters in the city.

The Health Care and Social Services sector is Burlingame's third largest, with 13% of employment, largely driven by jobs at or related to the Mills-Peninsula Health Services facility.

Burlingame's largest industry sector – Administrative and Support Services – consists of a variety of jobs not necessarily located within a particular place. This sector contains primarily large firms dealing in security, temporary help, and employment placement agencies. As a result, a high share of these jobs may not be physically located in Burlingame nor directly linked to demand for local commercial real estate.

Burlingame's economy includes a relatively low and declining concentration of conventional office-based employment compared to San Mateo County. As seen in Table 3.10, employment in Burlingame's office-based businesses overall has fallen from 7.7% of the county to 5.8% between 1998 and 2012. Table 3.9 and Figure 3-7 show that jobs in the Professional, Scientific, and Technical Services sector constitute seven percent of employment in Burlingame compared with ten percent of San Mateo County. Finance and Insurance jobs make up four percent of employment in Burlingame compared with six percent in the county, and Information jobs make up two percent of Burlingame compared with 11% of the county. Finance and Insurance jobs have declined relative to the county since 2003, while Professional, Scientific, and Technical Services have also lagged the county over the long term, yet have recovered more recently.

Jobs in industrial sectors other than Transportation and Warehousing are not concentrated relative to San Mateo County and have declined in recent years. While Burlingame represents a competitive employment center in Transportation and Warehousing, it lags behind San Mateo County in Manufacturing and Wholesale Trade. Manufacturing employment is declining in San Mateo County while Wholesale Trade has held steady, yet Burlingame has been losing jobs in these sectors at a rate faster than the county. Burlingame's share of county employment in Manufacturing has declined from 8.2% in 1998 to 6.2% in 2012. In Wholesale Trade, its share has declined from 10.5% to 5.9%.

3.5 Residential Market Analysis

This section provides an overview of Burlingame's housing market, with comparisons to the market area (Burlingame, Belmont, Foster City, Hillsborough, Millbrae, San Bruno, San Carlos, San Mateo and South San Francisco) and San Mateo County as a whole. The section begins with an overview of Burlingame's existing housing stock and recent trends in residential construction relative to the market area and county. Next, the section reviews trends in home values and Burlingame's sales and rental performance. The section concludes with a review of recent and planned development projects, and projects future demand for housing in the market area and Burlingame.

Overview of Burlingame Housing Stock

Unlike most cities in the market area, about half of Burlingame's housing stock consists of multi-family units. According to estimates by the California Department of Finance (see Table 3.11), there are approximately 13,000 total housing units in Burlingame, and approximately 47% of these are in multi-family buildings. By comparison, the proportion of multi-family units in the market area and the county is 37% and 33%, respectively (see Figure 3-8).[1]

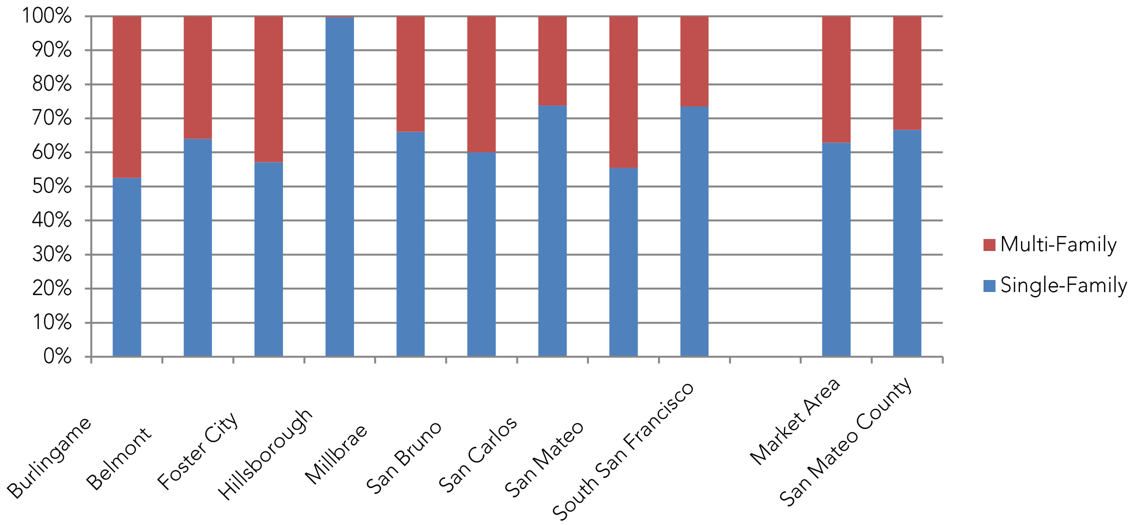
TABLE 3.11: HOUSING TYPE MIX FOR COMMUNITIES IN THE MARKET AREA AND SAN MATEO COUNTY, 2015

	Single-Family	Multi-Family	Total Units	Single-Family	Multi-Family
Burlingame	6,865	6,199	13,064	53%	47%
Belmont	7,070	3,977	11,047	64%	36%
Foster City	7,299	5,467	12,766	57%	43%
Hillsborough	3,978	12	3,990	100%	0%
Millbrae	5,668	2,915	8,583	66%	34%
San Bruno	9,636	6,413	16,049	60%	40%
San Carlos	8,866	3,150	12,016	74%	26%
San Mateo	22,361	17,970	40,331	55%	45%
South San Francisco	15,876	5,740	21,616	73%	27%
Market area	**87,619**	**51,843**	**139,462**	**63%**	**37%**
San Mateo County	**180,916**	**90,529**	**271,445**	**67%**	**33%**

Source: California Department of Finance, E-5 Population and Housing Estimates 2011-2015; Strategic Economics 2015.

[1] Note these figures refer to type of housing unit rather than type of tenancy. A multi-family unit is defined as any dwelling contained with other dwellings in a single building or complex, such as a rental apartment, owner-occupied condominium, duplex or triplex.

Figure 3-8
Proportion of Single-Family and Multi-Family Units in the Market area and San Mateo County, 2015



Source: California Department of Finance, E-5 Population and Housing Estimates 2011-2015; Strategic Economics 2015.

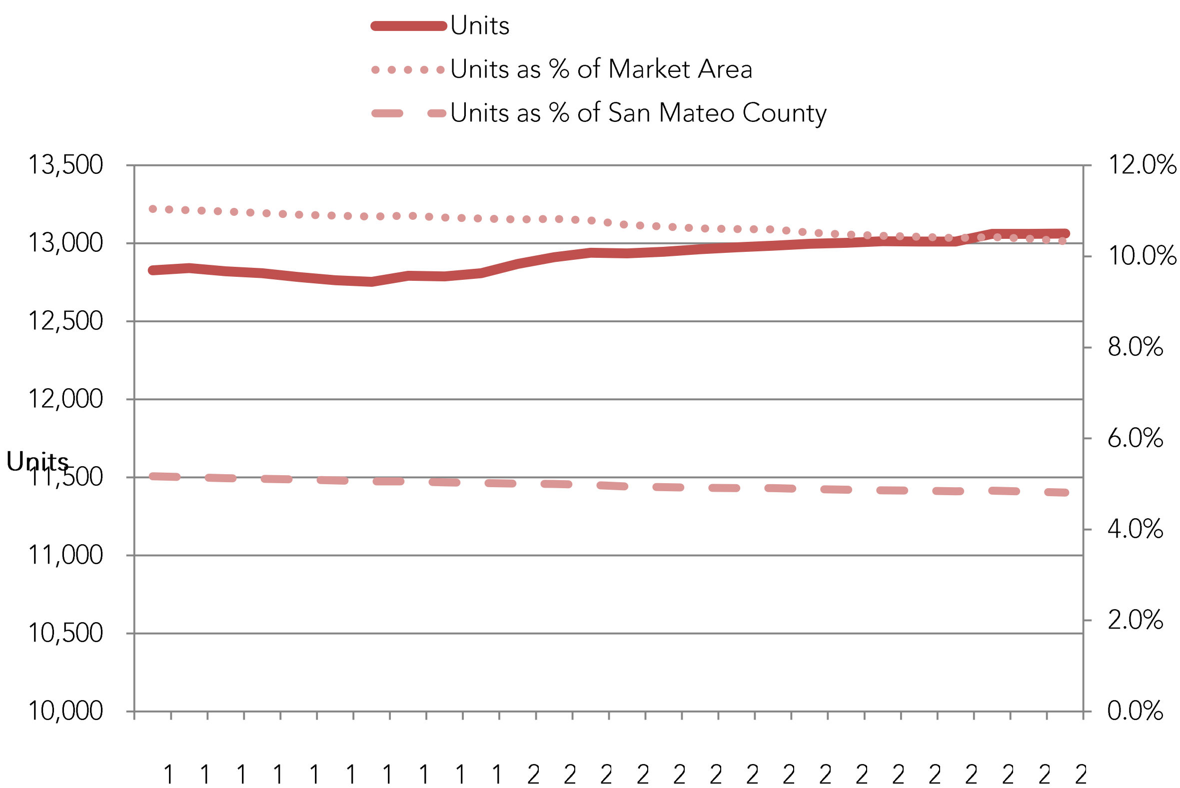
Burlingame has experienced a relatively small amount of new housing development in recent decades. According to building permit data shown in Table 3.12, Burlingame issued permits for 737 housing units since 1990, or 6.8 percent of units permitted in the market area and 2.8 percent of San Mateo County. During this same period, Burlingame's total actual housing inventory experienced a slight increase overall, though the city's share of countywide housing is gradually declining (see Figure 3-9). Single-family home permits are often issued for replacements of existing housing since Burlingame's single-family home neighborhoods are largely built out. Nearly half of Burlingame's housing permits have historically been issued for multi-family housing, but multi-family units comprise an increasing share of permits since the year 2000 due to limited development opportunities for single-family housing.

TABLE 3.12: BURLINGAME BUILDING PERMITS, UNITS PERMITTED, 1990 TO 2014

	1990-1994	1995-1999	2000-2004	2005-2009	2010-2014	1990-2014
Total Units Permitted						
Units	96	250	141	81	169	737
Average Annual Units Permitted	19.2	50.0	28.2	16.2	33.8	29.5
Units As % of Market area	6.1%	10.4%	3.9%	5.0%	10.4%	6.8%
Units As % of San Mateo County	2.4%	3.6%	1.8%	2.3%	3.9%	2.8%
Single-Family Units Permitted						
Units	51	73	103	48	79	354
Average Annual Units	10.2	14.6	20.6	9.6	15.8	14.2
Units As % of Market area	7.8%	6.0%	8.8%	11.5%	15.6%	8.9%
Units As % of San Mateo County	2.0%	1.8%	2.5%	2.5%	5.3%	2.5%
Multi-Family Units Permitted						
Units	45	177	38	33	90	383
Average Annual Units	9.0	35.4	7.6	6.6	18.0	15.3
Units As % of Market area	4.9%	15.1%	1.5%	2.7%	8.1%	5.5%
Units As % of San Mateo County	3.0%	6.1%	1.1%	2.1%	3.1%	3.1%

Source: HUD SOCDS Permit Data, 1990-2014; Strategic Economics 2015.

Figure 3-9
Trend in Burlingame Housing Stock, 1990-2015



Sources: California Department of Finance, E-8 City/County Population and Housing Estimates 1990-2010; E-5 Population and Housing Estimates 2011-2015; Strategic Economics 2015.

Home Sales Price and Rental Performance

The median home sales price in Burlingame is among the highest in the market area, both overall and on a per square foot basis. As shown in Table 3.13, the median home price in August 2015 was approximately $1,600,000. Other than in the town of Hillsborough, this was the highest median sales price in the market area and 69% higher than the county median (42% higher on a per square foot basis).

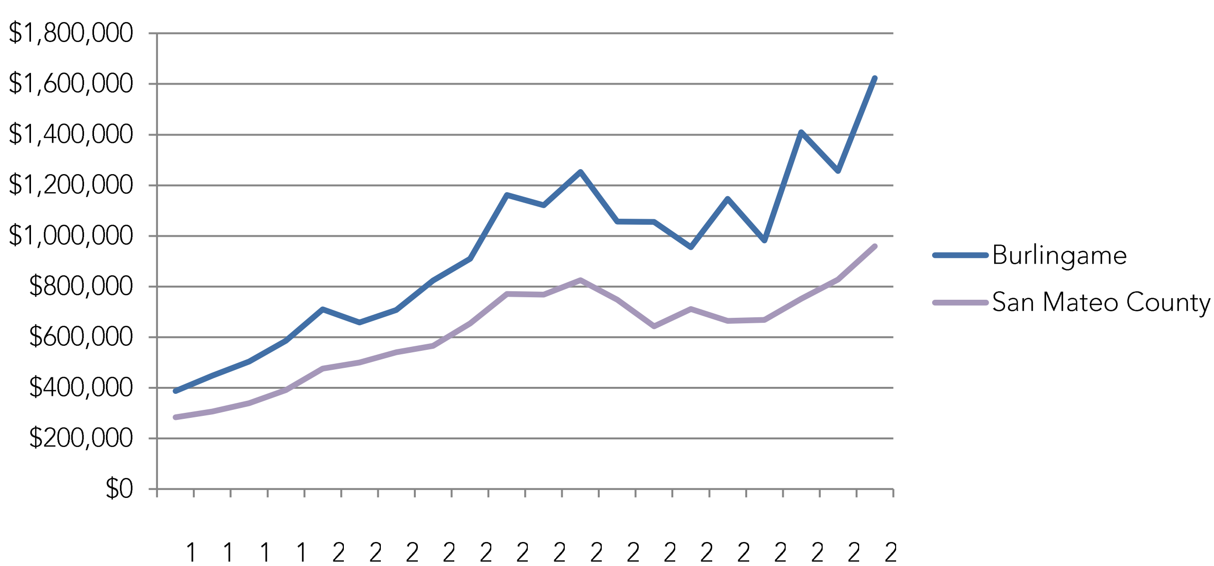
Trends in Burlingame's home values have been in line with area trends (see Figure 3-10). Over the last two decades, monthly median sales prices have typically ranged between 40% and 60% higher than the county median. This difference has widened over time, as sales prices in Burlingame have increased at a faster pace than in the county overall in the last eight years (see Figure 3-11).

TABLE 3.13: MEDIAN SALES PRICE, AUGUST 2015

	Median Sales Price	Median Sales Price per SF
San Bruno	$631,300	$600
South San Francisco	$737,900	$561
San Mateo	$949,500	$710
Foster City	$1,112,500	$685
Millbrae	$1,324,115	$794
Belmont	$1,415,500	$935
San Carlos	$1,525,000	$869
Burlingame	**$1,623,000**	**$1,003**
Hillsborough*	$3,150,000	$1,068
San Mateo County	**$958,750**	**$706**

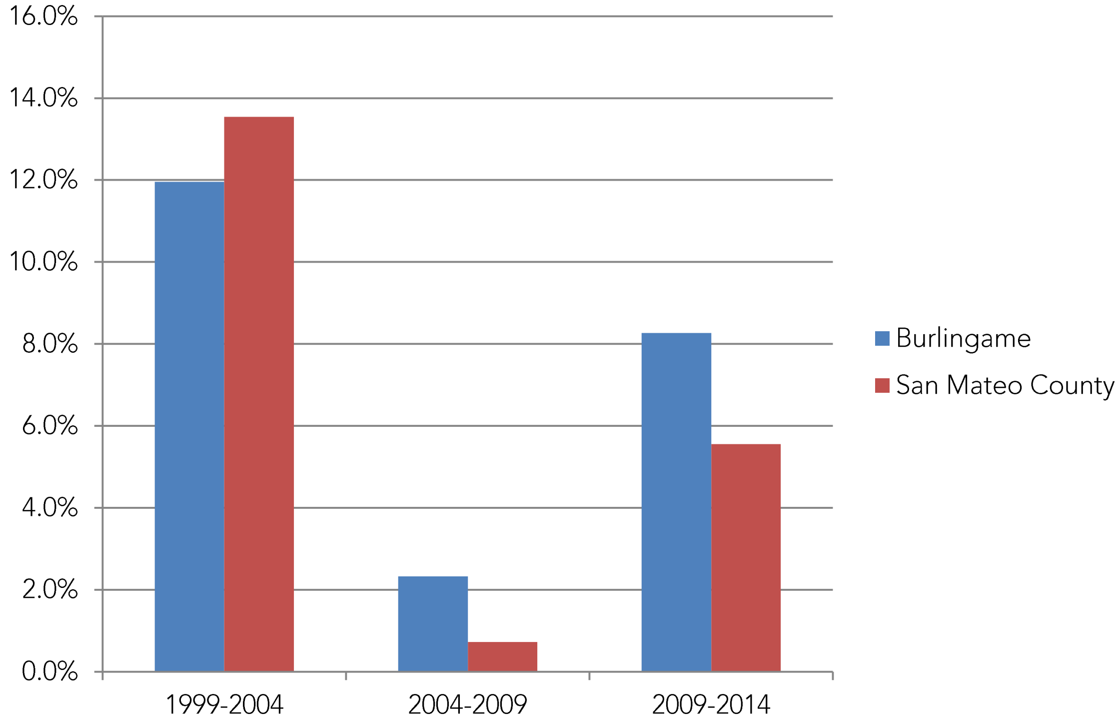
* The most recent data available for Hillsborough was July 2015.
Source: Zillow Real Estate Research, 2015; Strategic Economics, 2015.

Figure 3-10
Median Sales Price, Burlingame and San Mateo County (nominal dollars)



Sources: Zillow Real Estate Research, 2015; Strategic Economics, 2015.

Figure 3-11
Average Annual Growth in Sales Price, Burlingame and San Mateo County (nominal dollars)



Source: Zillow Real Estate Research, 2015; Strategic Economics, 2015.

The rental rates for apartments in Burlingame are competitive with the rest of the market area and the county, even though the housing stock tends to be older. As shown in Table 3.14, the average rent in Burlingame of $2,472 per month is only slightly lower than in the market area and the county. Rents are also comparable on a per square foot basis. Burlingame rental apartments are, on average, over ten years older than those in the market area and county, yet still attain high rents. Brokerage firm DTZ estimated that average apartment vacancy in San Mateo County was 4.9% as of the first quarter of 2015.

Overall, most of the multi-family units in Burlingame are occupied by renter households. As shown in Table 3.15, ten percent of Burlingame's multi-family units are owner-occupied, compared to 27% in the market area, indicating a relative lack of ownership of multi-family housing in the city compared to rental units.

TABLE 3.14: AVERAGE YEAR BUILT AND MONTHLY RENTS

	Average Year Built	Average Rent	Average Rent per Sq. Ft.
Burlingame	1967	$2,472	$2.87
Belmont	1971	$2,199	$2.53
Foster City	1985	$2,762	$3.16
San Bruno	1998	$2,688	$2.88
San Mateo	1974	$2,560	$2.94
South San Francisco	1981	$2,280	$2.58
Market area	**1979**	**$2,558**	**$2.91**
San Mateo County	**1979**	**$2,517**	**$2.90**

*Insufficient data exists for the municipalities of Hillsborough, Millbrae, and San Carlos.
Source: Real Answers, 2014; Strategic Economics, 2015.

TABLE 3.15: TENURE BY HOUSING TYPE

	Single-Family	Multi-Family
Burlingame		
Owner Occupied	82.5%	10.3%
Renter Occupied	17.5%	89.7%
Market area		
Owner Occupied	82.3%	18.0%
Renter Occupied	17.7%	82.0%
San Mateo County		
Owner Occupied	81.1%	15.6%
Renter Occupied	18.9%	84.4%

Sources: US Census ACS 5-Year Estimates, 2009-2013; Strategic Economics, 2015.

Recent, Planned and Proposed Housing Development

The strong regional economy, tight housing market, and limited available development sites are driving demand for multi-family condominium and apartment projects, typically in downtowns and transit-rich areas. A handful of smaller condominium projects (usually fewer than 25 units) were recently completed in Burlingame, and additional smaller rental and condominium multi-family projects have been proposed. The most significant new development in the pipeline is a 290-unit project by SummerHill Apartment Communities on Carolan Avenue near Toyon Drive, which includes a combination of apartments and townhomes. Burlingame's limited availability of development opportunity sites will continue to constrain delivery of larger multi-family projects and large concentrations of new single-family homes.

Within the market area, San Bruno, San Mateo, and Foster City have been the focus of most major residential developments completed since 2010. These new developments tend to be either townhomes or apartment buildings of between two and four stories, typically containing a small portion of below-market-rate units as required by each jurisdiction. Current market rate rents in new luxury apartments are as high as $4.00 to $5.00 per square foot, or $3,000 to $4,000 per month for a one-bedroom unit and $3,500 to $5,000 for a two-bedroom unit. Sales prices of new multi-family dwellings in the market area typically range from $550 to $750 per square foot, or $800,000 to $1,000,000 for two-bedroom units and $600,000 to $700,000 for one-bedroom units.

Residential Demand Estimate

Burlingame is challenged by land supply constraints in meeting demand for housing, resulting in an increased focus on multi-family housing. Burlingame has limited housing development opportunity sites and few (if any) sites that could accommodate large additions of single-family homes. Therefore, this demand analysis focuses on future multi-family demand in the market area.

Burlingame's transportation access, amenities, and household sizes also suggest the city is an appealing location for multi-family housing. Regardless of land supply constraints, Burlingame is well positioned to attract new multi-family development. High sales prices and rental rates overcome the risks of developing larger projects. And, although Burlingame's household sizes and share of family households are increasing, the city still has lower average household sizes compared to surrounding communities.

Projected household growth will result in demand for an additional 17,000 multi-family units in the market area between 2015 and 2040. As shown in Table 3.16, household growth projected by the Association of Bay Area Governments (ABAG) will generate demand for over 50,000 housing units in San Mateo County between 2015 and 2040. Based on its existing share of county households, the market area is likely to capture demand for over 10,000 housing units by 2025 and an additional 18,500 units by 2040. Of this total demand, long-term permitting trends suggest that demand will exist for approximately 6,000 of these units in multi-family structures by 2025 and an additional 11,000 by 2040.

Based on its past shares of market area multi-family permits, Burlingame can potentially attract between 940 and 1,260 multi-family units by 2040. Approximately 35 percent of growth in housing unit demand is likely to occur by 2025. The recently-approved 290 unit SummerHill Apartments project and smaller proposed projects may successfully accommodate much of the demand for new multi-family units over the next ten years.

While most multi-family housing developments are likely to be rental apartments, the demand for ownership multi-family products is anticipated to grow. Currently, 18 percent of market area multi-family units are owner occupied. This percentage is likely to gradually increase as rising home values limit ownership opportunities for single-family housing, and as new condominium projects are built to a high standard of luxury and unit size. As a result, it is estimated that demand will exist for 4,000 owner-occupied multi-family units in the market area between 2015 and 2040, with potentially 220 to 300 of these units in Burlingame. See Table 3.16 for detailed breakdowns of owner- and renter-occupied multi-family unit demand by time period.

TABLE 3.16: HOUSING DEMAND ESTIMATES, BY TYPE AND TENURE

	Net New	
	2015-2025	2025-2040
San Mateo County Demand		
San Mateo County Projected Households (ABAG)	19,640	28,310
Estimated Housing Unit Demand	20,670	29,800
Market area Demand		
Capture Rate of San Mateo County Demand	51% of total	52% of total
Housing Unit Demand	10,540	18,510
Market area Demand by Unit Type		
Multi-Family Share of New Unit Demand	57%	60%
Multi-Family Housing Unit Demand	6,010	11,110
Single-Family Housing Unit Demand	4,530	7,410
Market area Multi-Family Unit Demand by Tenure		
% Owner-Occupied	20%	25%
% Renter-Occupied	80%	75%
Owner-Occupied Units	1,200	2,780
Renter-Occupied Units	4,810	8,330

	Net New	
	2015-2025	2025-2040
Burlingame Capture of Market area Multi-family Demand		
Low Capture	5.5%	5.5%
High Capture	10.5%	10.5%
Low Housing Unit Demand	330	610
High Housing Unit Demand	480	780
Burlingame Multi-Family Unit Demand by Tenure		
Owner-Occupied Units, Low Capture	70	150
Owner-Occupied Units, High Capture	100	190
Renter-Occupied Units, Low Capture	260	460
Renter-Occupied Units, High Capture	380	580

Source: ABAG, 2013; Strategic Economics, 2015.

3.6 Retail Market Analysis

This section provides an overview of the retail market in Burlingame with comparisons to the market area (Burlingame, Belmont, Foster City, Hillsborough, Millbrae, San Bruno, San Carlos, San Mateo and South San Francisco) and San Mateo County. The competitive context, market conditions, and tenant mix for Burlingame's retail subareas are discussed based on data from the city, market reports, and interviews with local commercial brokers. Citywide sales performance and strengths are examined using taxable sales data, and future demand for regional- and local-serving retail is calculated based on future household and worker growth.

Retail Supply and Trends

Burlingame contains a unique mix of retail in distinct districts, including downtown Burlingame – which draws customers from a wide area – and neighborhood-serving centers at Broadway and the Burlingame Plaza Shopping Center. Each retail district plays a different role and serves different market niches, as described below.

Retail space in Burlingame has higher occupancy rates than within the market area and county. Local retail storefronts are almost fully occupied, with a vacancy rate of 1.8%. The rental rates and vacancy rates are stronger in Burlingame than in the market area and the county (see Table 3.17).

Downtown Burlingame competes for shoppers within a large, regional trade area, with the Hillsdale Shopping Center as its primary competition. As shown in Figure 3-12, Downtown Burlingame, centered along Burlingame Avenue, is roughly equidistant from the Shops at

Tanforan in San Bruno and the Hillsdale Shopping Center in San Mateo. Both of these are suburban-style regional shopping malls with mostly national tenants. Downtown Burlingame's location and large collection of national specialty retailers make it a regional shopping destination, competing primarily against Hillsdale Shopping Center.

TABLE 3.17: RETAIL INVENTORY, VACANCIES AND RENTS, OCTOBER 2015

	Existing Inventory	Vacancies		
	Total Rentable Building Area (Sq. Ft.)	Sq. Ft.	% of Total	Average Monthly Rents*
Burlingame	2,032,464	36,726	1.8%	$3.53
Market area	16,506,727	482,201	2.9%	$2.46
San Mateo County	31,102,101	741,236	2.4%	$2.57

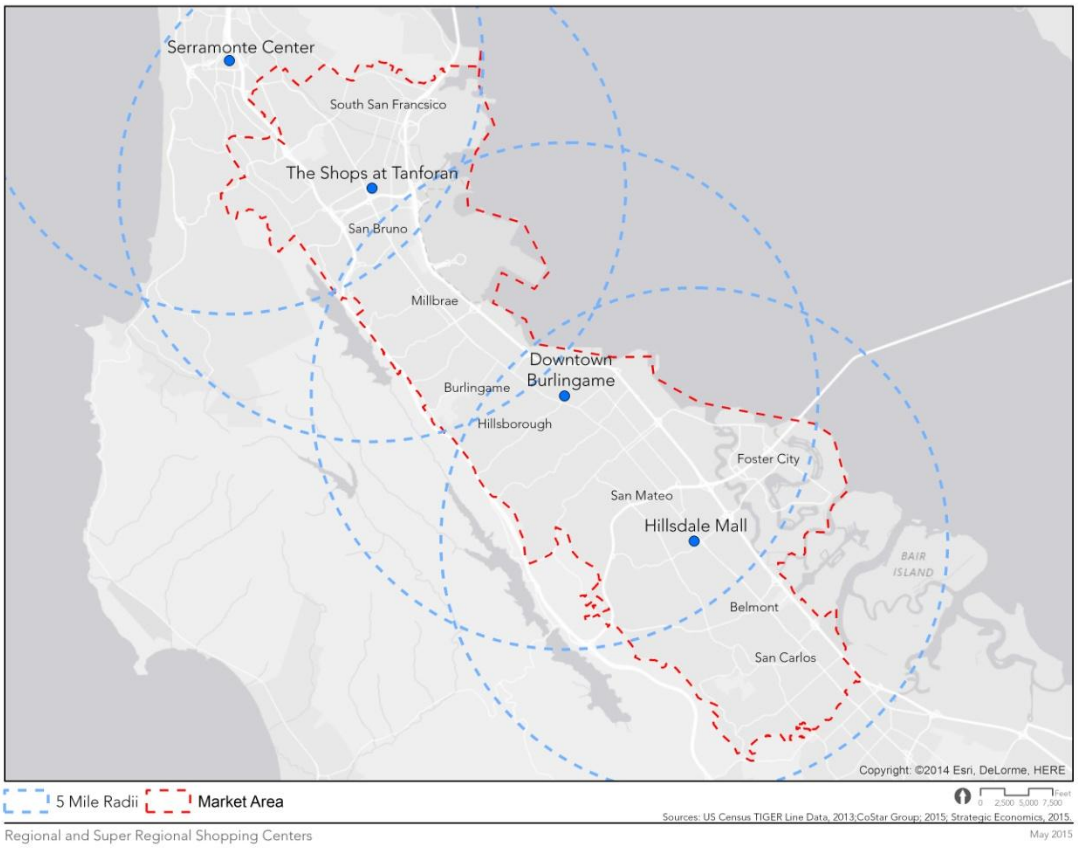
*Average asking rate per square foot, NNN
Sources: CoStar Group, 2015; Strategic Economics, 2015.

According to a City of Burlingame inventory of businesses, 22% of Downtown's commercial spaces are filled by retail tenants, 19% by personal services businesses, 8% by restaurants, 3% by cafes, and 1% by bars, totaling nearly 300 storefronts (the remaining commercial spaces are occupied by office uses). Retail tenants in prime locations on Burlingame Avenue are a mixture of regionally serving specialty goods stores/chains, destination restaurants and other food service establishments. Local-serving tenants that serve everyday convenience retail – such as grocery stores, pharmacies, and services – are located on the edges of the district.

Recent physical improvements and policy changes have helped keep Downtown Burlingame competitive. In interviews, local brokers cited the recent streetscape improvements and lifting of the moratorium on full-service restaurants as actions that helped keep Downtown Burlingame competitive and attractive to tenants. Typical rents range from $4.00 per square foot (triple-net lease) on the low end to $6.00 per square foot for the centrally located section of Burlingame Avenue between El Camino Real and Lorton Avenue. These rents are similar to the most successful downtowns in the Peninsula, such as University Avenue in Palo Alto, Laurel Street in San Carlos, and Castro Street in Mountain View. Those locations often compete with Burlingame Avenue for prospective tenants seeking to locate their retail businesses in open air, walkable downtown shopping districts rather than in enclosed malls.

The primary challenges for Downtown Burlingame include parking access and visibility, lack of activity at night, and the conditional use permitting process for new restaurants. Local brokers cited the accessibility of convenient parking as a detriment to business at peak hours. A lack of late-evening and late-night activity and vibrancy was also cited as a concern. The conditional use permitting process for conversions of retail space to restaurants was also cited as a challenge for adding new dining venues. However, this practice may help to maintain a healthy retail tenanting mix for Downtown Burlingame.

Figure 3-12
Regional and Super Regional Shopping Centers



In contrast to Downtown Burlingame, the Broadway retail district primarily serves local residents and features a concentration of local, independent businesses. The portion of Broadway between California Drive and El Camino Real represents a much smaller retail district than downtown, with approximately 100 retail, restaurant and personal services storefronts serving mostly local clientele. Nearly 23% of Broadway businesses are restaurants, cafes and bars, significantly higher than in the more regional-retail focused downtown area; this number may increase since the cap on the number of restaurants in the Broadway district was recently lifted. According to city surveys, over three-fourths of visitors to the Broadway district visit at least once per week, and over two-thirds live less than a mile from the district. Survey respondents showed appreciation for Broadway's quaint atmosphere and inclusion of independent retailers. At the same time, survey respondents and commercial brokers expressed a desire for physical improvements and a wider variety of stores and restaurants. Broadway retail spaces are currently leased at a significantly lower price point than Downtown Burlingame, estimated by local brokers to range from $2.25 to $2.90 per square foot (triple-net lease). The city estimates that fewer than four percent of commercial spaces are vacant.

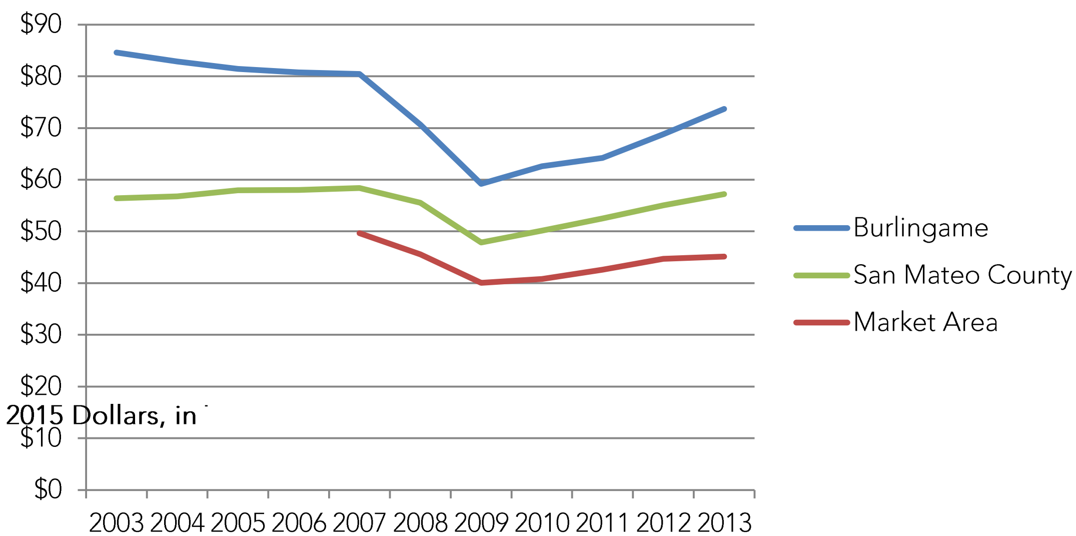
Burlingame Plaza shopping center effectively serves needs of the immediate surrounding area. Burlingame Plaza is a neighborhood-serving center offering convenience goods and consumer services to residents and workers in the surrounding area. The center is well occupied despite a dated physical appearance. Because the center consists of multiple parcels with different property owners, any large-scale upgrades would require coordination among all property owners.

Burlingame also includes several longstanding automobile dealerships in two clusters: near the Broadway off-ramp of U.S. 101 and just southeast of Downtown Burlingame on California Drive. These dealerships compete with other automobile dealers throughout the region and are likely to remain in Burlingame given the superior location, longtime property ownership and the lack of alternative sites for new dealerships in the Peninsula region.

Sales Composition and Performance

Burlingame's taxable retail sales revenues are recovering from the recession that began in 2007/8. Burlingame's inflation-adjusted taxable sales declined during the recession, following similar trends in the market area and county (see Figure 3-13). Sales have undergone a robust recovery since that time. Burlingame's taxable retail sales typically comprise 14% to 15% of the market area and six percent of the county.

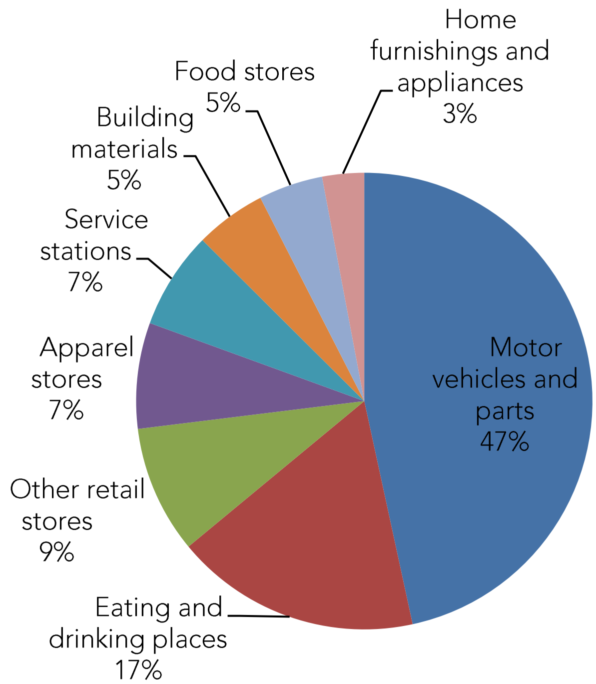
Figure 3-13
Inflation-Adjusted Taxable Sales per Household



Source: California State Board of Equalization, 2003-2013; Strategic Economics, 2015.

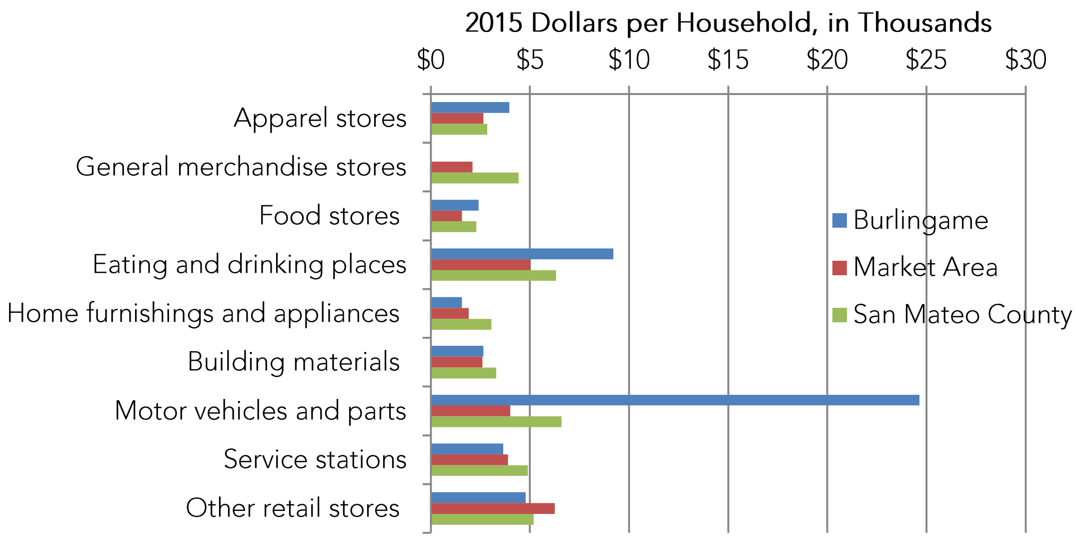
Taxable retail sales per household in Burlingame reflect the city's relative strengths in automobile dealerships, dining and apparel. As shown in Figures 3-14 and 3-15, retail sales performance in motor vehicles and parts comprised 47 percent of citywide retail revenues and amounted to nearly $25,000 per household in Burlingame, or approximately 3.8 times the countywide figure. Eating and drinking establishments and apparel stores also performed well compared with the reference areas, reflecting the strength and tenant mix of the downtown shopping district. A lack of "big box" retail stores in Burlingame can be seen in relatively low sales in general merchandise stores, home furnishings and appliances, and building materials.

Figure 3-14
2013 Burlingame Retail Sales Composition



Source: California State Board of Equalization, 2003-2013; Strategic Economics, 2015.

Figure 3-15
Inflation-Adjusted Taxable Sales per Household by Category



Source: California State Board of Equalization, 2003-2013; US Census ACS 5-Year Estimates, 2009-2013; Strategic Economics, 2015.

Recent and Planned Development

Burlingame and other municipalities in the market area are relatively built out and well served by retail, resulting in limited new retail development activity. Other than recent upgrades in the market area's regional-serving centers at the Shops of Tanforan, the Hillsdale Shopping Center, and Downtown Burlingame, there appears to be little activity toward creating more of this type of product in the market area. Recent and planned retail development have focused primarily on adding, expanding or upgrading smaller neighborhood-serving centers and on small additions of ground-floor retail storefronts in new mixed-use buildings.

Retail Demand Estimate

In the market area, household growth is anticipated to generate demand for over two million square feet of additional retail space for businesses in regionally competitive retail categories between 2015 and 2040. Based on household growth projections and average sales per capita in San Mateo County, new households in the market area will generate demand for approximately 730,000 square feet of additional retail space in regionally competitive categories over the next ten years, and another 1.3 million square feet between 2025 and 2040. These retail categories include apparel stores, general merchandise, home furnishings/appliances, and building materials. This demand could be captured throughout the market area and beyond since these retail categories cluster in regional-serving centers such as Hillsdale Shopping Center and Downtown Burlingame (see Table 3.18).

TABLE 3.18: PROJECTED DEMAND FOR NEW RETAIL

	New Retail Demand (Sq. Ft.)	
	2015-2025	2025-2040
Market area, Regional-Serving Retail		
Apparel	124,100	217,900
General Merchandise	394,600	692,900
Home Furnishings and Appliances	122,200	214,600
Building Materials	87,100	153,000
Total	**728,000**	**1,278,400**
Burlingame, Local-Serving Retail		
Food Stores	20,400	25,200
Eating and Drinking Places	28,700	28,700
Other Retail	57,200	30,600
Total	**106,300**	**84,500**

Sources: ICSC, Office-Worker Retail Spending in a Digital Age, 2012; California State Board of Equalization, 2013; ABAG, 2012; Strategic Economics, 2015.

Household and worker growth in Burlingame will generate demand for over 190,000 square feet of additional retail space for businesses in local-serving retail categories between 2015 and 2040. As shown in Table 3.18, new household and office workers in Burlingame may potentially generate demand for an additional 106,000 square feet of space by 2025 and an additional 85,000 square feet by 2040. Household growth is based on an average of the low and high multi-family housing unit demand described in the previous section, adjusted to reflect household growth. Demand generated by new households in single-family homes was also incorporated, based on Burlingame capturing its long-term share of market area single-family housing permits. Demand from new office/R&D workers was estimated based on office/R&D demand estimates in the following section, and on spending patterns survey results produced by the International Council of Shopping Centers. The local-serving retail demand does not overlap with demand in the market area's regional-serving retail categories since local needs are focused on food stores, eating/drinking places, and other day-to-day retail needs.

New construction will be necessary if growing retail demand is to be accommodated. While some of the new retail demand likely can be met through re-tenanting existing spaces, the low vacancy rates and minimal planned/proposed retail projects within the market area suggest that much of the demand will need to be accommodated in new retail spaces.

Downtown Burlingame is positioned to potentially capture additional market area demand, but will be challenged by limited development opportunities, smaller storefronts, and competition with Hillsdale Shopping Center. Downtown Burlingame remains competitive for attracting smaller retail tenants such as apparel stores. However, capturing future market area demand growth will be challenging due to limited opportunities to expand retail spaces in prime locations. The overlapping trade area with Hillsdale Shopping Center will also limit Downtown Burlingame's ability to expand its retail base.

Local demand for food stores, eating/drinking places, and other day-to-day retail needs can be accommodated within both the Broadway and Downtown Burlingame districts. Broadway is likely to remain a local-serving district and therefore will attract restaurants, food stores, and eating/drinking places rather than major national apparel stores. Downtown Burlingame may also capture a share of the limited local-serving demand generated by new residents in Burlingame.

3.7 Office / Research and Development Market Analysis

This section provides an overview of the market for office and research and development (R&D) space in Burlingame, with comparisons to the market area (Burlingame, Belmont, Foster City, Hillsborough, Millbrae, San Bruno, San Carlos, San Mateo and South San Francisco) and San Mateo County as a whole. Strategic Economics based this analysis on a review of market data from CoStar and local brokerages, business/employment trends, construction pipeline data from cities, and interviews with office brokers with significant experience in Burlingame.

Office/R&D Supply and Trends

Burlingame lies in a highly competitive environment for office and R&D space. The city is located midway between two large office/R&D concentrations: South San Francisco's R&D and biotechnology hub to the north, and the Foster City and City of San Mateo office concentrations to the south. Offices in San Mateo and Foster City benefit from strong access to labor markets offered by their proximity to the intersection of Highways 92 and 101. Largely as a result of its geographical position, Burlingame historically has depended on overflow demand when prices and occupancy rates rise in competing communities.

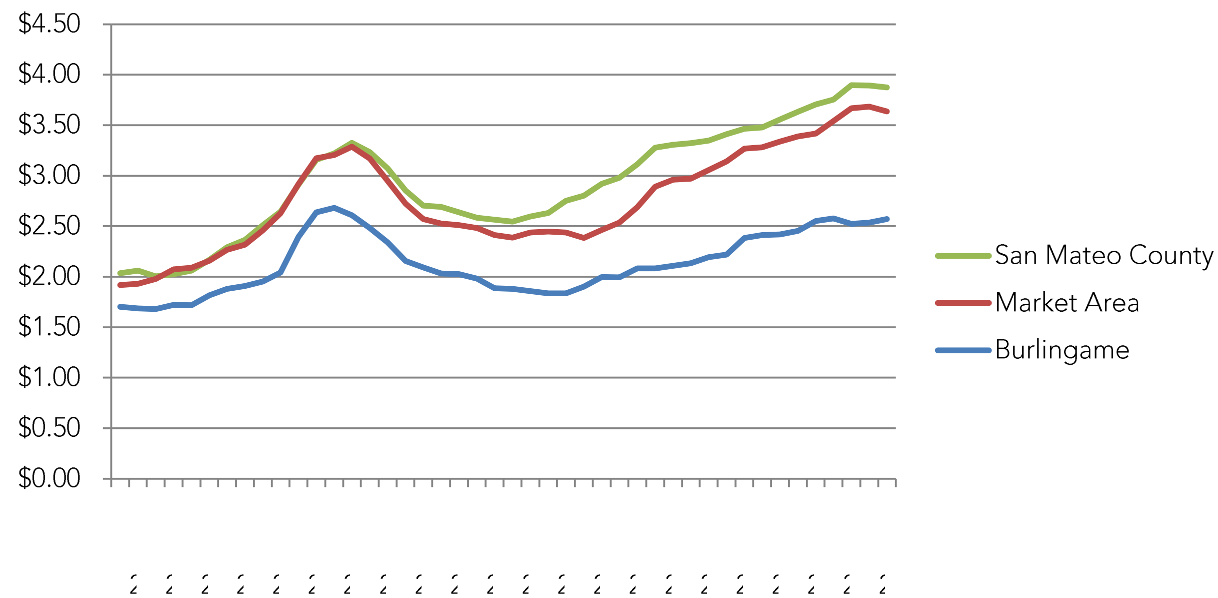
San Francisco and the South Bay are the region's premium locations for Class A office space. Class A office tenants, including technology firms, typically prefer to locate in San Francisco, southern San Mateo County, and northern Santa Clara County. Demand for premium office space is high in San Francisco and southern San Mateo County; for example, brokerage firm DTZ estimates that, as of the second quarter of 2015, vacancy rates in these areas were 5.7 percent and 7.9 percent, respectively, and asking rents were over $5.00 per square foot of space.

Current office tenants in Burlingame typically are smaller firms that value the proximity to San Francisco International Airport. Typical office tenants are sales and satellite offices of national and multi-national firms attracted to Burlingame's airport access, along with its lower price position compared to other submarkets. Virgin America, Inc. is one of Burlingame's largest employers, with its headquarters located close to the air passenger carrier's network hub. Logistics companies also value the Burlingame location due to its airport access.

Office markets in Burlingame, the market area and San Mateo County have been performing well since the end of the recession. Overall, lease rates in the market area and San Mateo County have climbed to over $3.50 per square foot (on a full-service gross basis) (see Figure 3-16). Occupancy rates similarly indicate an ongoing tightening of supply (see Figure 3-17). As shown in Table 3.19, estimates of Burlingame's office vacancy rate range between 5.5 and 11.2 percent. However, office rents remain lower on average because the city is not a primary office location, and most of the office space is in Class B and Class C buildings. Overall, Class A office space in Burlingame tends to consist of older and multitenant buildings located east of U.S. 101. Absorption and leasing activity are still robust in the market area and San Mateo County.

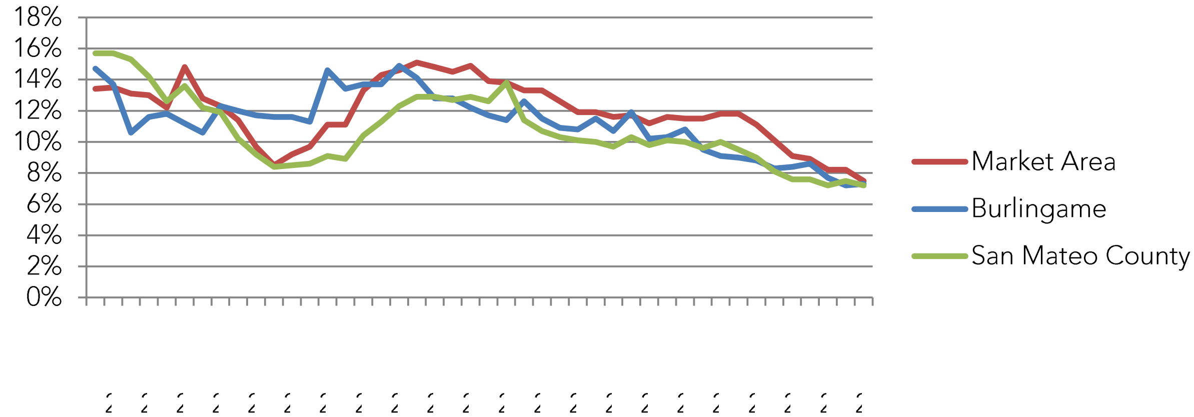
Burlingame contains a small share of the market area's flex/R&D space (Table 3.20), with South San Francisco dominating the sector. According to Costar, Burlingame's flex inventory, which includes R&D space, comprises just over seven percent of market area space. Flex/R&D space is heavily concentrated in South San Francisco and often located in office-like buildings with high-quality finishes specifically designed for biotechnology firms. By contrast, flex/R&D space in Burlingame is typically smaller scale and located in buildings with a more industrial appearance. Vacancy rates are slightly higher in Burlingame compared to the market area, reflecting this secondary positioning.

Figure 3-16
Quarterly Lease Rate, All Office, 2005 to 2015



*Average asking rate per square foot, full service
Source: CoStar Group, 2015; Strategic Economics, 2015.

Figure 3-17
Quarterly Vacancy Rate, All Office, 2005 to 2015



Source: CoStar Group, 2015; Strategic Economics, 2015.

TABLE 3.19: BURLINGAME OFFICE INVENTORY, VACANCIES AND RENTS, COMPARISON OF DATA SOURCES, SECOND QUARTER OF 2015*

Data Provider	Existing Inventory	Vacancies		Average Monthly Rents*
	Total Rentable Building Area (sq. ft.)	Sq. Ft.	% of Total	
CBRE	2,507,633	198,103	7.9%	$2.83
Colliers	2,918,418	155,013	5.5%	$2.78
CoStar	2,959,877	243,248	8.2%	$2.49
DTZ	2,043,799	225,934	11.2%	$2.68
NCC	2,706,798	264,976	9.8%	$2.66

* The second quarter of 2015 was the most recent quarter for which broker data were available for all the above sources.
Sources: CBRE Research, 2015; Colliers International, 2015; CoStar Group, 2015; DTZ, 2015; Newmark Cornish & Carey, 2015; Strategic Economics, 2015.

TABLE 3.20: FLEX SPACE INVENTORY, VACANCIES AND RENTS, OCTOBER 2015

	Existing Inventory	Vacancies		Average Monthly Rents*
	Total Rentable Building Area (sq. ft.)	Sq. Ft.	% of Total	
Burlingame	1,071,792	58,157	5.4%	$1.60
Market area	8,396,029	259,409	3.1%	$1.77
San Mateo County	14,307,886	446,255	3.1%	$2.11

*Average asking rate per square foot, full service
Sources: CoStar Group, 2015; Strategic Economics, 2015.

Recent and Planned Development

Significant office and R&D development activity is occurring in the market area, with new projects generally taking the form of either large multitenant properties or build-to-suit projects. Much of the recent office development has taken place in South San Francisco, primarily for tenants in the biotechnology sector. Developments have been a combination of large multi-tenant projects or projects to suit a single biotechnology tenant with specific space requirements difficult to accommodate in existing buildings. Planned and proposed development in the market area continues to be driven by the biotechnology sector, with a smaller share of development projects targeted toward software and technology firms. Pipeline projects are primarily located in South San Francisco and Foster City.

Burlingame Point holds the potential to transform and modernize Burlingame's office market. Burlingame Point is a 767,000-square-foot multi-tenant project planned for the Burlingame Bayfront area. The project may potentially diversify and modernize Burlingame's office building stock by adding a premium product to Burlingame's collection of older Class A office buildings. The brokerage community cites airport proximity as a driving factor in this project's development since the building could potentially accommodate overseas companies seeking a foothold in the United States. An additional eight-story building was also recently proposed for construction nearby at 1300 Old Bayshore Highway, although the application is in its early stages, and three- and four-story office buildings have been proposed in Downtown.

Office/R&D Demand Estimate

Job growth projections for the market area suggest growth in demand for approximately 5.4 million square feet of office space between 2015 and 2040, or approximately 1.8 to 2.8 million square feet after accounting for absorption by planned and proposed projects. ABAG projects that the market area will experience growth of 10,830 jobs in office and R&D based industry sectors between 2015 and 2025, and an additional 7,150 jobs between 2025 and 2040. Net of planned and proposed projects, this translates to additional demand for 700,000 to 1.4 million square feet of space between 2015 and 2025, and another one million to 1.4 million between 2025 and 2040 (Table 3.21). This calculation assumes an average of 300 square feet per job, and assumes that 70% of pipeline projects are constructed by 2025 and another 30% are constructed by 2040. Current market area planned, proposed, and under construction projects represent approximately 2.6 million to 3.6 million square feet of space, although there is uncertainty about the final square footage represented by some projects.

Burlingame is positioned to capture over 690,000 square feet of office demand at the proposed Burlingame Point development, and has potential to capture at least 200,000 square feet of additional space. If built, Burlingame Point will absorb a significant share of market area office demand by 2025. In addition to this project, Burlingame can also absorb additional demand; if it maintains its existing share of the market area's office/ R&D inventory (12%), Burlingame could potentially attract 90,000 to 170,000 square feet of space by 2025 and 128,000 to 164,000 square feet by 2040. It is possible that Burlingame could exceed its historic share of the market area's office/R&D inventory, particularly if it can deliver new Class A office space in highly desirable locations, and if early proposed developments are constructed.

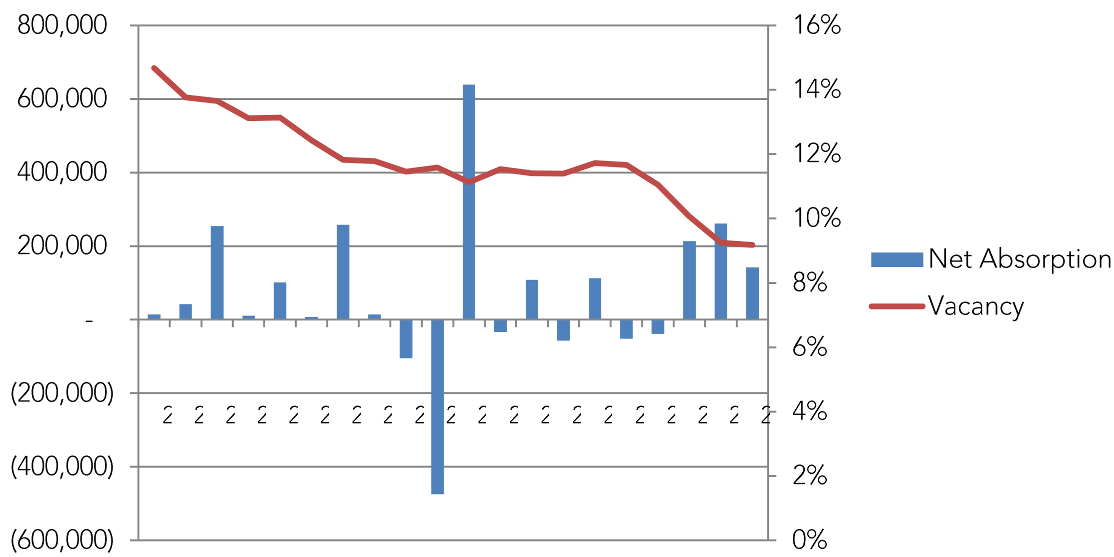
Smaller creative, startup, and general office users are likely to value office space in locations featuring Caltrain access and amenities. If Burlingame Point is constructed, it will absorb a high share of demand for corporate Class A office space in the city. These users are likely to value freeway access and airport access. However, Burlingame can also continue to attract smaller office users seeking different value propositions. Areas near the Caltrain stations and particularly Downtown Burlingame offer a unique mix of Caltrain access and amenities not found in the Bayfront and Rollins Road areas. The desirability of Downtown Burlingame has already been demonstrated by recent office development proposals.

TABLE 3.21: PROJECTED DEMAND FOR NEW OFFICE

	2015-2025	2025-2040
Market area		
Job Growth (ABAG)	25,810	13,520
Office/R&D Job Growth (ABAG)	10,830	7,150
Projected Office/R&D Demand in Sq. Ft.	3,249,000	2,145,000
Low Demand, Net of Planned/Proposed	729,000	1,065,000
High Demand, Net of Planned/Proposed	1,429,000	1,365,000
Burlingame		
Potential Demand Capture, in Sq. Ft.	87,500 to 172,000	127,800 to 163,800

Sources: ABAG, 2012; Strategic Economics, 2015.

Figure 3-18
Trend in Office Net Absorption and Vacancy for the Market Area



Sources: CoStar Group, 2015; Strategic Economics, 2015.

3.8 Industrial Market Analysis

This section discusses the industrial real estate market in Burlingame and market area, providing insights into the future demand for industrial development. Market data, broker reports, and interviews with experienced industrial brokers inform the findings.

Market Trends

As with office space, Burlingame's market area for industrial uses includes South San Francisco, San Bruno and Millbrae, and also nearby cities such as San Mateo and San Carlos. Burlingame comprises approximately 14 percent of the industrial space in the market area (see Table 3.22). The city has approximately nine percent of the industrial space in the county overall. A significant portion of the market area stock of industrial space is located in South San Francisco, but other major concentrations exist in San Mateo and San Carlos.

Industrial space in the market area is setting records for lease and occupancy rates. Vacancy in the market area is down to 3.5 percent, with average monthly rent at $0.99 per square foot. According to brokerage DTZ, lease and occupancy rates are at their highest level since the dot-com period.

TABLE 3.22: INDUSTRIAL INVENTORY, VACANCIES AND RENTS, OCTOBER 2015

	Existing Inventory	Vacancies		Average Monthly Rents*
	Total Rentable Building Area (Sq. Ft.)	Sq. Ft.	% of Total	
Burlingame	3,924,761	116,108	3.0%	$1.12
Market area	28,318,962	1,321,574	4.7%	$0.99
San Mateo County	42,000,982	1,593,367	3.8%	$0.99

*Average asking rate per square foot, on a triple-net basis.
Sources: CoStar Group, 2015; Strategic Economics, 2015.

Burlingame's industrial areas attract tenants seeking proximity to the airport or to local construction projects. Local industrial tenants include construction, logistics, import/export, and freight forwarding businesses. In addition to its airport access, Burlingame is known for its high quality of life and BART and Caltrain station access, which makes it more competitive than other neighboring cities for industrial firms. Burlingame typically commands higher lease rates than the industrial spaces in South San Francisco and San Mateo, which typically consist of larger warehouses. Cities in Southern San Mateo County have higher lease rates, however.

Due to the strength of the overall real estate market on the Peninsula, there is market pressure to convert industrial spaces to commercial uses. According to brokers, there is strong interest from nonindustrial users to lease existing industrial spaces and convert them to service uses such as gyms. It is also common for the industrial spaces to be upgraded to higher value uses such as showrooms for home furnishings.

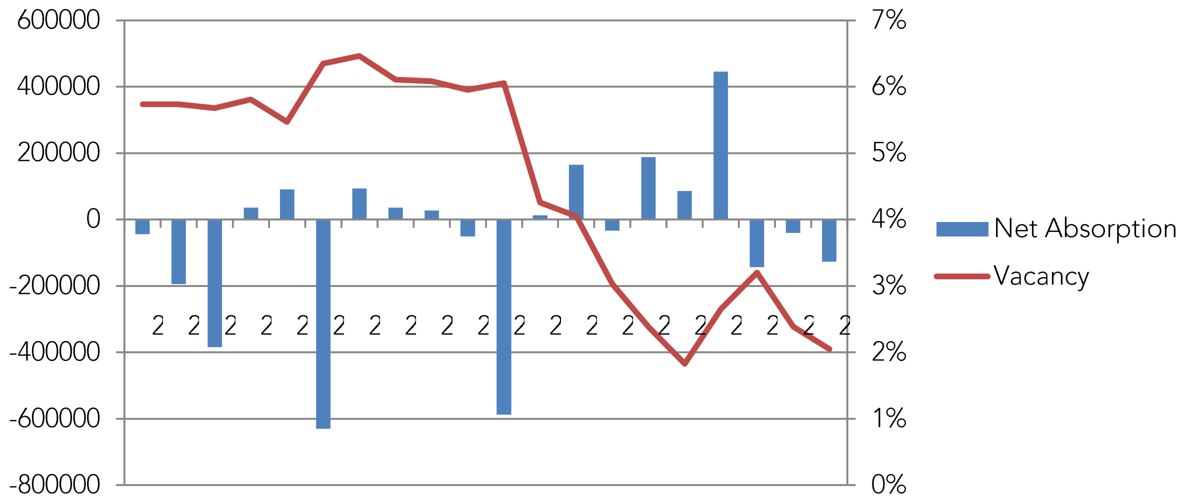
Industrial Development Trends and Demand Implications

Development of new industrial space in the market area is minimal, and significant future development is unlikely. Minimal industrial space has been added over the past ten years, and virtually no major projects are planned for development. This has helped to drive up occupancy and lease rates for existing industrial space. However, even these higher rates are insufficient to justify new construction of industrial space.

Employment in industrial sectors is forecast to decline over the next decade. ABAG anticipates a long-term decline in jobs in the manufacturing, transportation and warehousing, and wholesale trade industrial sectors over the longer term.

Existing industrial space in Burlingame is likely to remain in high demand due to the limited availability of industrial space and the premium airport-adjacent location. The area commands higher rents than other locations for industrial space due to the value of being near the airport and regional transportation network. However, because new development of industrial space is unlikely to occur in the short term, competition will be high for the limited remaining industrial space. Burlingame is particularly well positioned to continue capturing industrial users seeking access to the airport. However, there is market pressure to convert existing industrial spaces to other, higher-value uses if allowed by land use regulations.

Figure 3-19
Trend in Industrial Net Absorption and Vacancy for the Market Area



Sources: CoStar Group, 2015; Strategic Economics, 2015.

3.9 Hotel Market Analysis

This section examines the hotel market in Burlingame and surrounding cities, relative to the regional San Francisco and northern San Mateo County markets. (The hotel market analysis has different trade area definitions than other land uses.) The analysis is primarily based on information from PKF Hospitality Research (PKF) and Smith Travel Research (STR).[2] The analysis concludes with an estimate of the potential for new hotel development in Burlingame.

Competitive Supply

Burlingame and neighboring Millbrae are located in the southern portion of the San Francisco International Airport (SFO) submarket. The SFO submarket also includes hotels in South San Francisco and San Bruno. The SFO area is a submarket of the larger regional San Francisco and northern San Mateo County market area.

The SFO submarket serves travelers seeking easy access to the airport and region at slightly lower rates than premium San Francisco or southern Peninsula locations. Travelers stay in the SFO submarket because it offers easy access to the airport and region via BART, Caltrain and freeways, while charging slightly lower rates than premium San Francisco locations. Customers are typically convention and business travelers, but also include leisure travelers seeking a relatively budget-friendly option.

[2] Detailed data from hospitality research companies PKF and STR was incorporated in this analysis; however, the terms of use agreements for these sources limit detailed reproduction of the data in this report.

Hotels in Burlingame and Millbrae form a continuous competitive cluster of hotels constituting the majority of room inventory within the SFO submarket. The 12 hotels in Burlingame include over 3,700 rooms and constitute over 40 percent of rooms in the SFO submarket area. The remaining SFO submarket includes approximately 8,800 rooms in 62 hotels. As shown in Table 3.23, Burlingame and Millbrae hotels are typically larger and more upscale than the northern portion of the SFO Airport submarket area (San Bruno and South San Francisco).

The SFO Airport submarket area experienced a construction boom in the 1980s and late 1990s/early 2000s, but relatively little development has been completed since then. These trends are illustrated in Figure 3-20.

Performance

Regional and SFO submarket hotel performance have consistently improved since a low in 2009. Hotel occupancy rates, average daily rates, and revenue per available room are strong in both the SFO Airport submarket area and the larger San Francisco/Peninsula market area. Occupancy rates in the SFO Airport submarket were generally 73 to 75 percent between 2005 and 2008, but declined to below 70 percent in 2009; they now stand at nearly 85 percent, up from 84 percent in the prior year.

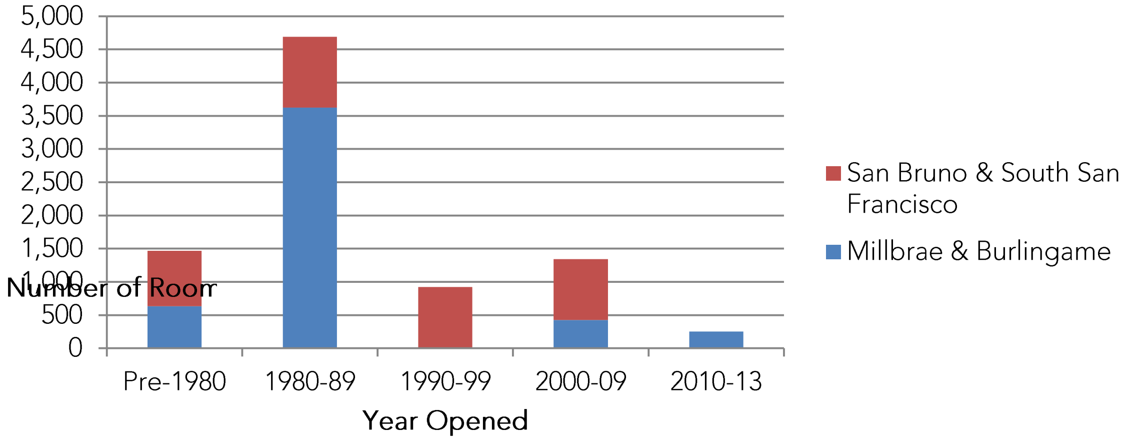
Current projected occupancy rates suggest demand for additional hotel development in the short term, with slower growth in the longer term. Occupancy is above 84 percent in both the SFO Airport submarket and the San Francisco/Northern San Mateo County regional market area; a general industry rule of thumb is that hotel demand begins to outstrip supply when occupancy rates rise above 65 to 70 percent. This increase in occupancy has occurred while revenue per available room has grown, suggesting robust demand. However, data service PKF Hospitality Research forecasts slowing growth in revenue per available room and occupancy over the next three years as new rooms are absorbed.

TABLE 3.23: SFO AIRPORT SUBMARKET HOTELS BY CLASS: NUMBER, ROOMS, AND AVERAGE SIZE, 2014

	# of Hotels	# of Rooms	Average Rooms per Hotel
Burlingame			
Economy	1	212	212
Midscale	3	313	104
Upscale	8	3,178	397
Total	**12**	**3,703**	**309**
Millbrae & Burlingame Cluster			
Economy	2	270	135
Midscale	6	805	134
Upscale	11	3,861	351
Total	**19**	**4,936**	**260**
San Bruno & S. San Francisco			
Economy	20	1,003	50
Midscale	14	1,633	117
Upscale	9	1,241	138
Total	**43**	**3,877**	**90**

Sources: Smith Travel Research, 2014; Strategic Economics, 2014.

Figure 3-19
Opening Year of Extant Hotels by Number of Rooms: Millbrae/Burlingame and San Bruno/South San Francisco



Sources: Smith Travel Research, 2014; Strategic Economics, 2014.

Planned and Proposed Development

Currently, two hotels are planned for construction in the SFO submarket, representing 528 rooms and a six percent increase in inventory. Sixteen hotels with a total of approximately 2,600 rooms are planned for construction or under construction throughout the entire San Francisco/Northern San Mateo County regional market area, representing a five percent increase in hotel room supply. This figure does not include a potential hotel considered for development at SFO itself, as it may be a number of years before construction begins. Hotels currently under construction will soon add 450 additional rooms to the San Francisco/Northern San Mateo County Market area.

Demand Estimate

General market and economic indicators suggest strong demand for additional hotel rooms in the San Francisco/Northern San Mateo County market and SFO Airport submarket. The SFO Airport hotel submarket currently features high occupancy rates and increasing revenue per available room. Construction and reinvestment activity are increasing in the submarket and market areas, suggesting that excess demand already exists in the short term. Broader indicators also bode well for the hotel market: the Bay Area has experienced a strong regional economic recovery since the national recession of 2008 to 2009. Visitor spending in San Francisco increased 19 percent between 2009 and 2013 according to the San Francisco Travel Association, and the Metropolitan Transportation Commission forecasts that passenger volumes at Bay Area airports will grow an average of 2.2 percent annually between 2013 and 2035.

Strategic Economics estimates growth in demand for 2,300 to 2,900 hotel rooms in the SFO Airport submarket between 2015 and 2040, or an average of 90 to 110 rooms annually (see Table 3.24). This estimate assumes that the San Francisco/Northern San Mateo County market delivers an average of 450 rooms per year, matching long-term deliveries since 1990. It also assumes that the SFO Airport submarket captures between 20 and 25 percent of new market area demand, compared to 23 percent since 1990 and 31 percent since 1980.

Hotel development typically expands during favorable economic conditions. Although the demand growth estimates are presented in annual averages, hotels are expected to actually develop during these favorable cycles. Since midscale and upscale hotels usually contain more than 100 rooms (and sometimes several hundred rooms), significant unmet demand must exist before a large project is undertaken.

Burlingame could potentially capture growth in hotel room demand of between 600 and 900 hotel rooms between now and 2040. Burlingame is well located for hotel development. It is easily accessible from San Francisco International Airport and provides excellent access to San Francisco and the Peninsula/Silicon Valley via U.S. 101 or short drives/shuttle rides to BART and Caltrain. Given these strengths, Strategic Economics assumes that 25 to 30 percent of SFO Airport submarket demand growth could potentially be captured within Burlingame, resulting in average annual growth in demand for 23 to 33 rooms. For comparison, 27 percent of new SFO Airport submarket hotel rooms have been developed in Millbrae and Burlingame since 2000, and over 60 percent of SFO Airport midscale and upscale rooms are located in these cities.

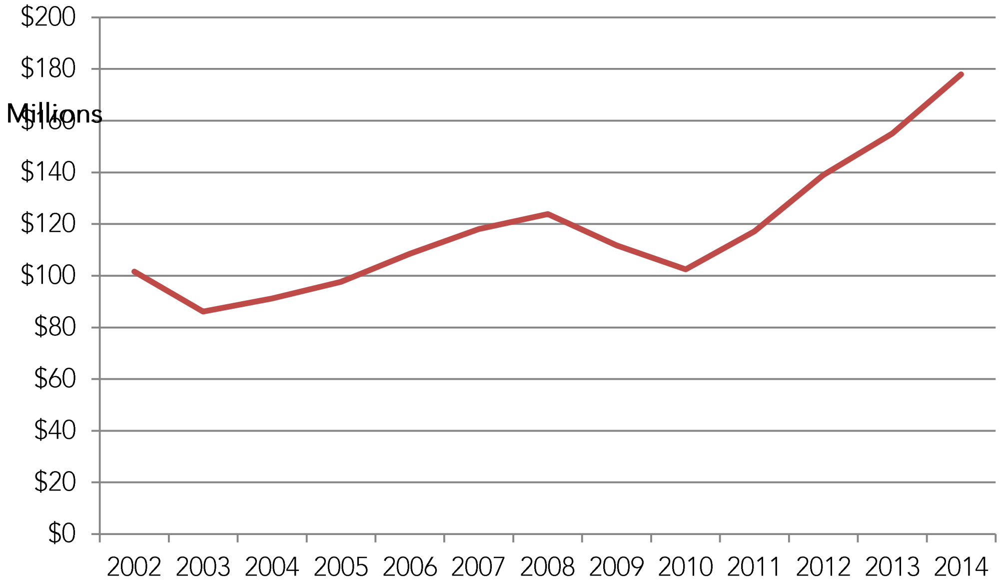
Planned hotels will absorb much of the existing unmet demand in the near future, making it unlikely that Burlingame will attract a large hotel within the next five to ten years. Developers are currently rushing to meet hotel demand in the San Francisco/Northern San Mateo County market area. As previously cited, 528 rooms are planned in the SFO Airport submarket and an additional 2,600 in the larger San Francisco/Northern San Mateo County market area. These hotels will absorb existing unmet demand and up to five years of growth in demand. Given that there are no pending hotel applications in Burlingame, the city is unlikely to attract a larger hotel until additional demand growth occurs and market conditions are again favorable. Smaller boutique projects – especially in a unique environment such as Downtown Burlingame – may still be possible since they absorb less demand and are targeted to specific niches of travelers.

TABLE 3.24: HOTEL DEMAND GROWTH ESTIMATES: MARKET AREA, SFO AIRPORT SUBMARKET, AND POTENTIAL CAPTURE OF DEMAND IN BURLINGAME

	Avg. Annual Demand Growth	2015-2040 Total Demand Growth
San Francisco/N. San Mateo County Market area Demand Growth		
Number of New Rooms	450	11,700
SFO Airport Submarket Demand Capture Rate		
Low	20%	20%
High	25%	25%
SFO Airport Submarket Rooms Demand		
Low	90	2,300
High	110	2,900
Burlingame Potential Capture Rate of Submarket Demand		
Low	25%	25%
High	30%	30%
Burlingame Room Demand		
Low	23	600
High	33	900

Source: Strategic Economics, 2014.

Figure 3-20
Taxable Hotel Revenue, Fiscal Years Ending 2002 to 2014 (2015 dollars)



Sources: City of Burlingame, 2015; Strategic Economics, 2015.

Sources

Reports and Data

Bay Area Council Economic Institute, "Innovation and Investment: Building Tomorrow's Economy in the Bay Area," March 2012.

California Department of Finance, E-8 City/County Population and Housing Estimates 1990-2010; E-5 Population and Housing Estimates 2011-2015.

California State Board of Equalization, Taxable Sales by City and County, 2003-2012.

City of Burlingame, 2015-2023 Housing Element, 2015.

City of Burlingame, Transient Occupancy Tax Receipts.

Colliers International Research & Forecast Report, San Francisco Peninsula, Q1 2015.

CoStar Group, 2015.

County and Zip Code Business Patterns,1998, 2003, 2008, 2012.

DTZ Bay Area Multi-Family Snapshot, Q1 2015.

DTZ Industrial Snapshot, San Mateo County, Q1 2015.

DTZ Office Snapshot, San Mateo County, Q1 2015.

DTZ R&D Market Snapshot, San Mateo County, Q1 2015.

HVS, In Focus: San Francisco Hotel Market, May 2014.

International Council of Shopping Centers, Office-Worker Retail Spending in a Digital Age, 2012.

Metropolitan Transportation Commission, "Regional Aviation Activity Tracking Report: 2014 Edition," April 2014.

PKF Hospitality Research, Hotel Horizons reports for San Francisco market area, second quarters of 2014 and 2015.

San Francisco Travel Association, "San Francisco Visitor Industry Statistics," accessed April 21, 2014. http://www.sanfrancisco.travel/research/

STR Global Hotel Census, San Francisco market area, 2014.

U.S. Census American Community Survey 5-year Estimates, 2009-2013.

U.S. Census Longitudinal Employer-Household Dynamics 2011.

U.S. Decennial Census, 1990, 2000, 2010.

U.S. Housing and Urban Development Department, State of the Cities Data Systems Permit Data, 1990-2014.

Zillow Real Estate Research, 2015.

Persons Contacted

Carol Augustine, Finance Director, City of Burlingame

Garbis Bezdjian, Broadway Realty

Jesse Cardenas, Newmark, Cornish, and Carey

Jeff DeMartini, Burlingame Planning Commissioner

Michael Draeger, Colliers International

Kevin Gardiner, Planning Manager, City of Burlingame

Ronald Karp, Karp Property Management & Consulting, Inc.

Henry Lau, Urban Properties, Inc.

James Lee, Kidder Mathews

Andrew Peceimer, Coldwell Banker Commercial Westbay Real Estate Group

Cleese Relihan, Economic Development Specialist, City of Burlingame

Sandy Rodriguez, Kidder Mathews

Greg Terry, Alain Pinel Realtors

Anthony Tsia, Baycal Realty Corporation