



STAFF REPORT

SAUSALITO CITY COUNCIL

AGENDA TITLE

Business Advisory Committee – Quarterly Report

RECOMMENDED ACTION

Review and accept quarterly reports from Business Advisory Committee; no action required.

DISCUSSION

In order to assure the City Council has current information regarding market conditions for the retail, restaurant, lodging, residential real estate, and commercial office, and industrial sectors, representatives of the Business Advisory Committee have provided the attached quarterly reports. Business Advisory Committee members Cheryl Popp, Peg Copple, and Bruce Huff will be available for questions regarding their respective reports.

FISCAL IMPACT

No fiscal impact.

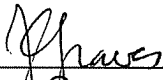
STAFF RECOMMENDATION

Review and accept the attached quarterly reports from Business Advisory Committee; no action required.

ATTACHMENTS

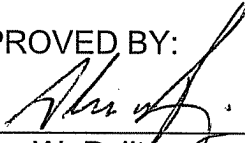
- 1 Retail, Restaurant, & Lodging Conditions Report, dated March 10, 2009
- 2 Residential Real Estate Conditions Report, dated March 10, 2009
- 3 Commercial Office/Industrial Market Conditions Report, dated February 10, 2009

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City Manager

cc: Business Advisory Committee

CDD\Boards & Committees\BAC\Council Reports\Quarterly Report 03-10-09

Item: 6B
Meeting Date: 3-10-09
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TO: Sausalito Business Advisory Committee

FROM: Sausalito Chamber of Commerce

RE: Retail, Restaurant, & Lodging Market Conditions Q4 2008-Q1 2009

March 10, 2009

Prepared by: Oonagh Kavanagh, CEO SCOC, Cheryl Popp, SCOC President, Jeff Scharosch & Joe Lemon, SCOC Board of Directors and BAC volunteer committee members

RETAIL SECTOR

General Feedback/Overview

- Retail merchants estimate sales revenue was 20- 30% less than the previous year in Q4 2008.
- January '09 was down from the same time last year.
- February '09 was particularly bad (30-40% off).
- Foot traffic has fallen considerably as has the average spend per customer.
- There are 15+ high profile empty retail store fronts in town that create a negative and depressed downtown impression.
- Two high-end retail clothiers right by the ferry landing are scheduled to close
- Businesses are cutting back on employees and other expenses, refraining from capital improvements or other investments and reducing their contributions to local non-profit causes and organizations

Downtown Sausalito Retail Merchants

- Stores with a solid and loyal client base, are not as badly effected as retailers who rely primarily on tourist trade.
- Gene Hiller and Sausalito Jewelers sales were down but not as dramatically as Burlwood Gallery, Something Anything, Sottovento, who experienced a drop of 30-40% in revenue last quarter.
- Art Galleries have been particularly hard hit
- Fingerhut Gallery, one of Sausalito's largest and most prestigious galleries, reported record low sales so much so that there was some discussion about closing after 16 years in business in Sausalito. They are choosing to stay but cutting down dramatically on expenses.

Caledonia Retail Merchants

- Several stores such as Grand Illusions, Top Paws, Asian Imports reported a decrease in trade due to construction and lack of parking options..
- Pinestreet Papery who have a strong local following and generally do peak trade at Christmas with lines of people at the registers, reported a 30% decrease in Sales in December '08. Situation deteriorated in '09 with 40% decrease in Jan and Feb (their slowest February since 1993).
- Some of the smaller Art Galleries report big losses and Studio 333 is putting his business up for sale.
- Sausalito Framing is one of the few stores on Caledonia reporting good sales; the assumption is that residents are making improvements to their homes, rather than buying new ones or spending money on travel. In addition, Sausalito Framing recently did a successful postcard mailing to residents promoting the "staycation" concept and offering a 20% discount.

RESTAURANT SECTOR

- Drinking continues! Food sales are down. Bars sales are steady.
- Restaurants estimate a 15-20% downturn Q4 2008 and Q1 2009
- There has definitely been a slow-down; locals are nervous about the stock market
- Poggios, Sushi Ran, Paradise Bay and Spinnaker all report lower numbers, but note that their sales are not as impacted as restaurants further north.
- People are spending for “special events” but not for daily dining
- Biggest impact has been on banquet sales – major Fortune 500 companies canceled events in December

LODGING SECTOR

- Occupancy rates are always lower in the winter season, but operators estimate they have been off at least 15% compared to same the times last year
- Sausalito’s long-time establishments can calculate; Cavallo Point is too new to compare; they weren’t open at this time last year
- Q4 2008 started very slow for many and Q1 2009 ramped up a bit – property managers attribute this to the presidential election in November – many delayed travel until after the election, and to the Amgen Tour of California and Valentine’s Day in February which filled rooms.
- International bookings continue to be lucrative – longer stays (on average 4-5 days) – and proprietors are seeing more people from Canada and Germany versus the UK.
- On a local basis, lodges seem to be pulling from San Jose & Sacramento
- The few properties we have are all cutting back on staff, which has a domino effect on the entire local economy.

RECOMMENDATIONS

- Caledonia Street merchants would like to see **more signs** to tell locals and tourists that Caledonia is still open for business, during construction. Large prominent signs need to be posted on Bridgeway and Caledonia
- As a matter of urgency, all the retailers polled would like to see the City and the Chamber support a **Buy Local** campaign to encourage residents to patronize local business. This needs to be a repeat marketing campaign rather than a one hit wonder. The Chamber is proposing a multiple postcard mailing linked to the Chamber’s new website “Steals & Deals”.
- In conjunction with this, merchants would also like to see **street banners**, which promote “Buy Local” in each of the different shopping areas (Downtown, Caledonia and North end of town). Several people mentioned the street banner that is currently up in San Anselmo.
- A concentrated effort needs to be made to retain existing business and encourage new business to come to town, especially independently owned businesses versus chains. Every \$100 spent at a local business results in \$73 going back to the local economy. The City and Chamber need to develop marketing that outlines the benefits for having a business in town and a blueprint for these businesses on how to successfully open a business, eliminating as many hurdles and as much red-tape as possible.

- Merchants would also like to see the City continue to support/fund programs as they did last year to encourage locals and visitors alike to visit and spend, such as the successful programs reported below. There is an opportunity to capitalize on the “Staycation” trend.
- Due to the preponderance of vacant storefronts, it has been suggested that a coordinated effort be made with the ICB Artist Association to showcase and promote local art in the windows.

HOLIDAY CAMPAIGNS 2008

We would like to acknowledge and thank the City for continuing **the free parking** during the holidays and for contributing funds from **the Hospitality Committee** to help finance several holiday campaigns organized by the Chamber such as:

- Gingerbread House Tour
- Cable TV Advertising
- Street Lighting

Gingerbread House Tour

- 12 stores who participated reported an increase in foot traffic to their place of business, specifically to see Gingerbread houses and follow the tour.
- Downtown restaurants such as Angelino and The Spinnaker reported that regular customers came in specifically to see the displays
- Sausalito Optometry and Pine Street merchants reported that tourists followed the GB tour map and made their way to Caledonia to see the Gingerbread Houses
- Pacific Heights Cleaners (1st and only participant in North end of town) did not get tourist traffic but had a lot of compliments from regular customers and residents who had not been aware of this campaign before, so it was a good PR exercise.

Overall Impact

- Very positive feedback from participants as well as visitors and residents. We received some good press with a front page article in the Marin IJ and a photo slide show of all the Gingerbread houses on www.moremarin.com
- The general consensus was to reduce the fee to encourage more participants next year. We would like to double participants next year.

Cable TV Advertising

- A 6 week (Nov 24 – Dec 28) cable TV advertising campaign, supported by local merchants, reached 99% of all households in Marin.
- The 30-second spot with Comcast TV ad was aired on CNN, CNBC, ESPN, A&E and other popular cable stations.
- Average of 6.6 views/impressions per person; terrific penetration and exposure
- Total cost of campaign was \$11,300; City contributed seed money of \$3,000 and 12 Chamber members contributed \$8,300.
- The City seed money was a big incentive to local businesses to contribute \$ to cover the remaining costs.

- Major sponsors who contributed \$1,000 or more were Cavallo Point, Gene Hiller, Horizons, Poggio, Scoma's, The Inn above Tide, The Spinnaker
- Other sponsors included Bay Model, Casa Madrona, Dis & Dat, Jewelry by the Bay, Piccolo Teatro, Sushi Ran.

Overall:

- The general consensus was that the quality of our TV spot was much higher than ad campaigns run by other local towns and conveyed a very up-market image of Sausalito.
- Several merchants said that customers and vendors mentioned seeing the ad on TV and were impressed. Additional thanks to Tom Gangitano of Gene Hiller who helped negotiate a good deal with Comcast and to Cheryl Popp who donated her time at no cost to narrate the ad.

Tree Lighting

- The City of Sausalito Hospitality Committee contributed \$5,000 of TOT funds towards a tree lighting project on Bridgeway.
- This was well received by merchants as they all acknowledge the importance of having the trees lit over the holidays.
- Greg Christie organized a team to check all the current lighting and replace lights where needed.
- The contribution was much appreciated and the general consensus was that an even bigger effort should be funded next year to light up the town.

Sausalito Business Advisory Committee
Residential Real Estate Conditions Report
4th Quarter 2008
3/10/09

Residential Real Estate Perspective by Peg Copple, Peg Copple & Associates

This report covers the months of October, November, and December 2008.

This report includes only properties reported on the Marin Association of Realtors Multiple Listing System (BAREIS), with properties not in the City Limits deleted from the figures. Floating Homes, as they are generally not in City Limits, are not included. There were several properties sold, as reported on tax records, that were not listed on the MLS records. Those properties are not included in this report.

General Discussion

The 4th Quarter report reflects the very bad news delivered to the public regarding the state of the economy in general, continuing from the previous quarter. Real Estate foreclosures increased in Marin County (though Sausalito was not affected much). The headlines ranted about the continuing problems with banks and mortgages. Mortgage Companies began to close or be merged with other companies. Banks were absorbed by other banks. Huge national businesses closed or downsized. The unemployment rate was increasing dramatically. The whole "bail out" proposal was being bantered around. The election was in its final stage.

This had an effect on the buyers and sellers of Sausalito. Both groups were unwilling to take action, in many ways. Sellers often decided not to sell until the bad economy gets better. Sellers who needed to sell still offered their property at the old prices, but found they could not get those prices. They lowered their prices until the property was sold, or they took their properties off the market. Some Sellers decided to rent their properties until the economy turns around.

During the 4th Quarter the number of buyers attending Sunday open houses and making offers on properties dwindled. While the 4th Quarter is normally slower than the other 3 quarters, you can see that the October sales, which are normally fairly robust, were minimal. Keep in mind that the recorded sales date reflected an escrow period of about 30 to 45 days during that time. This would mean that offers were made and accepted on these sold properties from August to November.

The 4th Quarter of 2008 had a total of 18 closed sales in the three categories: Single Family Dwellings (SFD), Condominiums and 2-4 Units.. Total sales for the year were 67 closed. Following is a spread sheet showing the statistics on the 4th Quarter and the year of 2008.

4th Quarter 2008

The number of sales totaled 18 (7 SFD, 9 Condos and 2 Duplexes).

Single Family Dwellings (7):

Average price was \$1,687,667, with an average number of Days on the Market (DOM) at 86 days. The median Price (half over and half under) was \$1,400,000. Low price \$750,000. High price \$3,850,000. 2 sold in October, 5 in November and 2 in December.

Condominiums (9)

Average price was \$598,214, with an average DOM of 157 days. Median Price was \$590,000. Low sales price \$512,500, high \$1,125,000. 1 sold October, 3 November and 3 December. Keep in mind we have many condos that are only 2 to a parcel, not big complexes.

2 - 4 Units (2)

Average Price was \$1,167,500, with an average DOM of 70 DOM. Median Price was \$1,167,500. Low Sales price was 885,000, High was \$1,450,000. 1 in November, 1 in December.

2007 4th Qtr results are as follows: SFD: 16 sales with the median price \$1,585,000 and average price \$2,226,813. Condos 7 sales with the median price of \$675,000 and average price of \$836,000 (one sale of \$2,000,000 skewed the numbers).

Generally, 2008 sales of all 3 categories totaled 67. 2007 Sales totaled 106. This is a reflection of the drastic (37%) drop in number of sales, year to year.

Generally, Median price of SFD sales in all of 2008 was \$1,382,500. Average was \$1,810,374. Median price of SFD sales in 2007 was \$1,522,000,. Average was \$1,828,992..

For Condos, 2008 median price was \$800,000. Average was \$763,691. For 2007 condos, Median Price was \$684,500. Average was \$706,315.

As you can see, while number of sales are drastically down in Sausalito from the Year 2007 to the Year 2008, the prices are the same or better.

For the 4th Quarter, comparing 2007 and 2008, SFD number of sales is less than half. Average and Median prices are down a bit. Condo number of sales is about even, with average and median prices up.

During the 4th Quarter the number of buyers attending Sunday open houses and making offers on properties dwindled. While the 4th Quarter is normally slower than the other 3 quarters, you can see that the October sales, which are normally fairly robust, were minimal. Keep in mind that the recorded sales date reflected an escrow period of about

30 to 45 days during that time. This would mean that offers were made and accepted on these sold properties from August to November.

The fear of the unknown is still a major problem in the Sausalito Real Estate Market. The 4th Quarter of 2008 had a total of 18 closed sales in the three categories: Single Family Dwellings (SFD), Condominiums and 2-4 Units.. Total sales for the year were 67 closed. Following is a spread sheet showing the statistics on the 4th Quarter and the year of 2008.

In summary, the number of sales appears to be slowing even further. While selling prices are holding, the lack of sales reflects in a lack of income to the City of Sausalito from Transfer Taxes and increase in Property Taxes.

While I don't have a crystal ball, I would expect this trend to continue for 2009, and possibly well into 2010.

Sausalito Business Advisory Committee

Current Market Conditions

February 10, 2009

Commercial Office/Industrial Market – Bruce O. Huff, The Kimber Companies

The commercial leasing market for offices, industrial space and design studios can be best described as showing signs of weakness. As reported in my analysis on September 23, 2008, our outlook for the immediate and long term future is extremely cautious.

Although we have not yet experienced significant vacancy, we are seeing signs of staff cutbacks with our tenants, which appears to be a sign of the times. If this trend continues, we can foresee an increase in the vacancy rate as well as a decline in the demand in the food service industries in our immediate area. We have seen this in the restaurant market, where large vacancies are not being filled.

Lease renewals are taking more time and, in some instances, our tenants are intentionally allowing their lease to go month to month

While we have not reduced our rental rates for renewing tenants, we did voluntarily suspend all rent increases scheduled for 2009 and will take another look at the economy for 2010. Fortunately, our buildings have historically leased at rates more favorable than our immediate competition and we think that this has kept many of our tenants in place for the coming months. It is interesting to note, however, that the Consumer Price Index produced a drop in overall prices in December. This is the first time I have ever seen a negative CPI.

There are several areas of significant concern for us in the coming year.

- In addition to the national financial crisis, the State of California appears to be intentionally headed for a budget crisis. If the State issues IOUs for payment, many of our tenants (and their customers) will experience serious cash flow difficulties. This could be devastating in the long term.
- Vacancy rates are rising in San Francisco and Marin and rates are in flux. This trend will be felt during lease renewals and may result in a loss in tenant base.
- Commercial lending is at a virtual standstill. Most commercial buildings have loans that mature every 5- 10 years. Appraisals are coming in lower, effecting equity rates and many lenders are simply out of the market. If loans cannot be renewed, the ultimate effect will be bank owned buildings in Sausalito.

On a brighter side, our inquiries for space have increased significantly in January. The demand appears to be coming from mostly startup companies and entrepreneurs. It is too early to tell if this is a trend or not, but if it continues, it could signal a move away from higher rates in San Francisco.

Sausalito Business Advisory Committee

Current Market Conditions

In most recent downturns, there has usually been a single segment of the economy that has been significantly affected. I do not think that this is the case this time. All of our tenants appear to be preparing for the worst. We are taking a very cautious approach in this market and are investing more to attract and retain quality tenants.

Most of the regional and local reports we receive reflect an increase in vacancy, a weakening of rates, and more incentives for tenants and brokers. Most of the national forecasting we have seen, places the San Francisco industrial/commercial market in the 4th quarter 2008 at the top of the cycle (expansion), about to enter into an "over-supply" status and heading for a downturn. While these are general trends, it does also reflect our current experience.

While we do not believe that our market is yet broken, it certainly is bending under the strain of weakening demand and rates, as well as the inability to obtain good commercial financing.

Bruce Huff - February 10, 2009