



MARIN ECONOMIC FORUM



**The Importance of Commercial Real Estate
Economic Impacts on Marin County, CA
July 2012**

Executive Summary

Lower tenant costs make commercial real estate easier to occupy. Policy makers should view vacant commercial real estate as productive capital, where reduced vacancies generate economic impacts such as new jobs, new business revenues and new tax receipts. These gains should also be seen as rationale to reduce the time and cost of tenant improvements. This report uses BioMarin as an example to show how reducing vacancies enhances local economies throughout Marin County.

This brief report shows how the move of BioMarin Pharmaceutical (BioMarin) to San Rafael provides broad, economic impacts to San Rafael, California. BioMarin's expansion will include over 340 new jobs for San Rafael. There are approximately a total of 540 new workers supported in San Rafael, including the economic impacts of the 340 BioMarin employees. New business revenues across a wide breadth of support industries drive new employment; new income flowing into San Rafael businesses allows these businesses to expand the local workforce. In sum, over \$82 million of additional business revenues comes to San Rafael as a result of this new tenant. Also, over \$4.3 million in new tax revenue will come to San Rafael from new workers and enhanced commercial activity. Some of these benefits will go beyond the city itself into other parts of Marin County.

The number and types of industries affected by BioMarin entering the San Rafael Corporate Center is wide in breadth. Professional services such as legal services, design firms and consulting, would see an increase in demand for their products or services. Grocery stores and restaurants are also positively affected in terms of new jobs supported. As those businesses are positively affected, a wide array of other businesses is affected through new hires, incomes, and tax revenues generated. These factors show economic effects of reducing commercial vacancies.

When vacant real estate is occupied by a new or expanding tenant, there are positive economic effects. In contrast, the recent loss of the Grady Ranch project can be seen the opposite of the BioMarin move on San Rafael's city economy. BioMarin will occupy approximately 120,000 square feet of space in the San Rafael Corporate Center. Using the economic impact numbers, this report concludes that the following impacts take place for every 1,000 square feet occupied by BioMarin:

- There are approximately 4.5 new workers for San Rafael per 1,000 sq ft occupied;
- There are approximately \$40,800 of new government revenue per 1,000 sq ft occupied;
- There is approximately \$675,000 in new business revenues for San Rafael businesses per 1,000 sq ft occupied.

Commercial Real Estate Economic Impacts on Marin County, CA The Case of BioMarin's Expansion

Commercial real estate in Marin County is a productive asset for county businesses and governments. Occupied commercial real estate is an economic engine for the county, housing businesses that have grown within Marin County or come from other places to work in Marin County. When vacant commercial space becomes occupied, the local area around the occupied space experiences positive change economically. There are more services demanded and more business vibrancy. From an economic development perspective, vacant commercial real estate is underutilized, productive capital; a company's entry into that space provides economic and social support for both the immediate and greater area impacted through new jobs, new business income and new tax revenues. While the recent departure of the Grady Ranch project in Lucas Valley was problematic, the entry of BioMarin into the Corporate Center in San Rafael is a positive development in terms of business retention and commercial space use.

Zoning and concerns over tenant improvements are constant worries for commercial real estate owners and service firms in Marin County. While zoning defines strategic uses of space, tenant improvement processes define the tactical use and economics of how companies that meet zoning requirements use space. One specific issue is the local interpretation of code and the actual law concerning the use code. If a tenant improvement is needed for a company to move into a space, time can be spent (which should be interpreted as cost to the potential tenant/company) on a process where both the tenant and local planning department will not agree on a specific modification due to interpretation beyond the requirements to simply enforce the code.

San Rafael, in specific, has done a lot of work to speed up the process. As a policy issue, Marin Economic Forum continues to work with local and county government to move such improvements through more quickly when they are obvious and easy. It is important that tenants, building owners, service firms, and planning departments have a clear understanding of the improvements to be made. A new or expanding company provides support for new jobs, generates new business revenue and tax receipts for county businesses and governments respectively. It is also important to consider what is lost when a potential commercial real estate development or tenant is lost. The following provides an example around the recent leasing of space by BioMarin in downtown San Rafael and compared to what was lost with Grady Ranch.

BioMarin Expansion to San Rafael Corporate Center

BioMarin Pharmaceutical Inc., headquartered in Novato, recently leased approximately 120,000 square feet of office space in San Rafael Corporate Center. The company plans to occupy all of currently the vacant 770 Lindaro St. and two floors of 790 Lindaro Street¹. BioMarin has a worldwide footprint and had choices throughout California in terms of where it could have expanded its local footprint. The main use of the newly-leased space will be research and

¹ See <http://www.northbaybusinessjournal.com/46451/biomarin-to-move-several-hundred-to-san-rafael-in-2012/>.

development jobs (approximately 250) and administrative and general maintenance (approximately 95 people). The move provides BioMarin with space within its current scientific building in Bel Marin Keys for later expansion. BioMarin did not reduce its square footage in Marin County otherwise, at least not to date, as a result of this move.

For Marin County, this is a success story: a local business in a frontier technology took a long process to find an expansion space and used vacant real estate here in Marin County to make that move. BioMarin was retained as a result. In terms of reducing vacancy and raising lease rates, there will be upward pressure as a result of this change. Such growth is the essence of a vibrant commercial real estate market, where relatively low lease rates and costs of doing business versus other Bay Area options drove an economic decision by a local firm to expand locally. Economic impacts that result from this change on downtown San Rafael expand the community benefit of this utilization of property vacant otherwise.

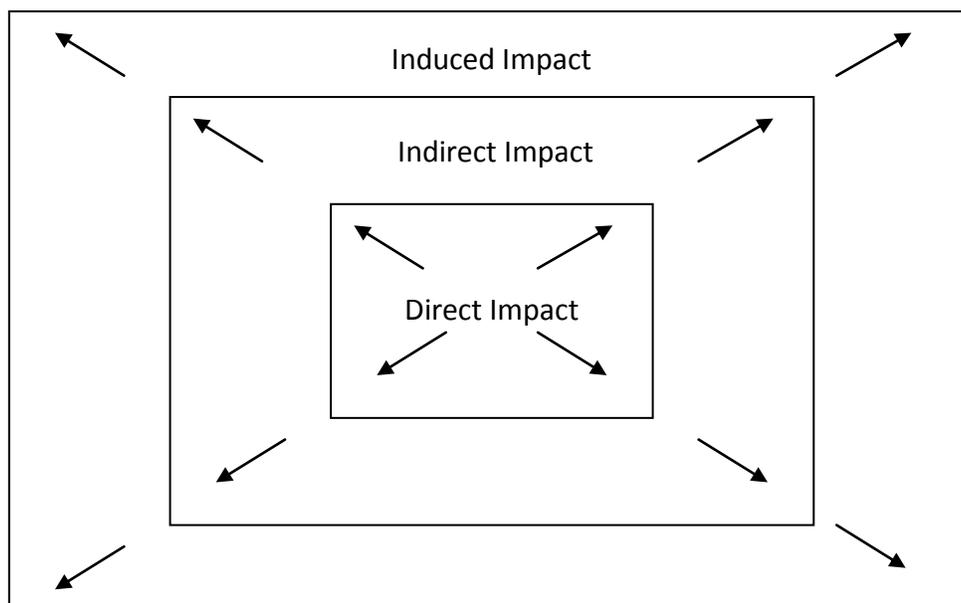
Economic Impacts²

Like dropping a rock into a pond, the BioMarin expansion to San Rafael has effects on many industries throughout Marin County based on new business revenues, jobs and tax revenues. The IMPLAN[®] model used here, which stands for IMPact analysis for PLANning, is a model by which municipalities and counties worldwide analyze the employment, business revenue and tax effects of economic events (see www.implan.com). There are three classifications of effects. The **direct** effects are those that initiate the impacts. For example, hiring construction workers to build the main building or perform the land improvements generates an increase in wages paid and people employed in Marin County. This direct benefit from new wages and jobs begins a chain reaction of gains, which affects local employment, taxes and business revenues generated in other industries.

Indirect effects come from directly-affected workers and businesses (new researchers and administration at BioMarin in San Rafael) increasing their spending on local businesses. For example, when a researcher purchases more restaurant meals, groceries, and other local goods and services, the restaurants and grocery stores gain more revenues. As these merchants' sales increase, they increase their employment levels based on enhanced levels of demand. These additional jobs and revenues create **induced** effects. The induced effects are similar to the indirect effects, but come from the indirectly-affected workers and firms and their spending on the local economy more broadly. The deli worker, who gets a job due to an increase in demand for the deli's goods and services, increases her demand of a broad range of personal services, retail products and other spending. The sum of these effects is the total or overall economic impacts from the original event.

² The tenant improvements phase of this move to San Rafael will provide further enhancements in terms of local construction and design firms. We will take a quick look here at the industries affected by this move in terms of the ongoing operations within this space.

Figure 1: Economic Impact Concept



This report provides summary data to show the new business revenue, employment and state and local taxes generated by BioMarin’s expansion to San Rafael on San Rafael specifically.

Operations Impact Estimates

TABLE 1

New Jobs Supported, Industries in San Rafael, Thousands of 2012\$

Description	Direct	Indirect	Induced	Total
Research and development: biotech	250.0	0.5	0.1	250.6
Business support services	95.0	1.2	0.2	96.4
Employment services	0.0	12.8	1.7	14.5
Services to buildings and dwellings	0.0	12.8	1.6	14.4
Bars and Restaurants	0.0	4.3	8.8	13.1
Real estate establishments	0.0	7.0	5.7	12.7
Medical and Dental Offices	0.0	0.0	7.3	7.3
Private hospitals	0.0	0.0	7.1	7.1
Legal services	0.0	4.7	2.1	6.8
Maintenance and repair construction: commercial	0.0	5.7	0.3	6.0
Architectural, engineering, and related services	0.0	5.5	0.4	5.9
Management, scientific, and technical consulting services	0.0	5.2	0.5	5.7
Wholesale trade businesses	0.0	1.4	3.3	4.7
Grocery Stores	0.0	0.1	4.2	4.3
Nursing and residential care facilities	0.0	0.0	4.2	4.2
All others	0.0	31.3	62.4	93.7
Totals	345.0	92.3	109.9	547.2

The countywide impact will be even larger as BioMarin continues to hire to re-fill its commercial space in Novato. The figures are in 2012 dollars. Tables 1 and 2 show the new business revenue and employment gains for businesses for San Rafael; Table 3 shows the new state and local taxes derived from the new tenant.

TABLE 2
New Jobs Supported, Industries in San Rafael

Industry	Direct	Indirect	Induced	Total
Research and development: biotech	\$42,639	\$87	\$12	\$42,738
Business support services	7,605	95	19	7,719
Employment services	-	-	3,233	3,233
Services to buildings and dwellings	-	1,161	946	2,107
Bars and Restaurants	-	1,256	58	1,315
Real estate agencies	-	-	1,207	1,207
Medical and Dental Offices	-	335	797	1,132
Private hospitals	-	-	1,057	1,057
Legal services	-	687	310	997
Maintenance and repair construction: Commercial	-	219	750	969
Architectural, engineering, and related services	-	853	87	940
Management, scientific, and technical consulting services	-	815	101	916
Wholesale trade businesses	-	841	48	889
Grocery Stores	-	288	591	879
Nursing and residential care facilities	-	259	491	750
All others	-	6,550	7,598	14,148
Totals	\$50,244	\$13,446	\$17,306	\$80,996

TABLE 3
New State and Local Taxes, Annual, Thousands of 2012\$

State and Local Taxes	Amount
Employment Taxes	\$123
Sales taxes	790
Property taxes	649
Personal Income	1,983
Other Taxes and Fees	819
Total State and Local taxes	\$4,364

A Brief Comparison to Grady Ranch

The loss of the Grady Ranch project in Lucas Valley is the loss of a commercial real estate tenant. While this tenant was going to use its own facility and engage as in-fill development, it is important to compare the economic impacts of this loss with the gain and retention of BioMarin.

TABLE 4
New Business Revenue and Jobs Lost, Grady Ranch Totals
Industries across Marin County, Thousands of 2012\$

Description	Total Business Revenue Lost	Industry	Total Jobs Lost
	Thousands \$		FTE Jobs
Motion picture and video industries	\$57,191	Motion picture and video industries	306.3
Rental income for apartment owners	2,476	Commercial structures maintenance and repair	156.9
Real estate agencies	2,311	Real estate establishments	39.9
Commercial structures maintenance and repair	1,495	Bars and Restaurants	16.9
Advertising and related services	1,158	Employment services	12
Facilities and IT management	1,068	Advertising and related services	11.5
Accounting and payroll services	998	Independent artists, writers, and performers	7.5
Insurance agencies	817	Accounting and payroll services	7.1
Bars and Restaurants	705	Medical and Dental offices	6.3
Medical and Dental offices	665	Services to buildings and dwellings	5.5
All Others	14,096	All Others	120.6
Total	\$82,980	Total	690.5

Table 4 allows a comparison in terms of new business revenue generated per new full-time equivalent (FTE) worker. In terms of workers at the new facility, BioMarin will generate \$148,073 per worker; Grady Ranch would have generated \$120,173 per new worker for Marin County. The loss of Grady Ranch almost nullifies the gains to be generated from BioMarin, thus reducing overall county job creation.

Summary

Commercial space is a major asset in terms of business retention. For Marin County, the number of jobs supported by this move can also be seen as jobs saved from being lost had BioMarin decided to relocate outside Marin County. Also, the multiplicative effects of these jobs are also to businesses that will see rising demand as a result of this move; For Marin County overall, BioMarin did not relocate and thus still supports many types of businesses within Marin County. For every 1,000 square feet of occupied space by BioMarin, the following effects occur:

- There are approximately 4.5 new workers for San Rafael per 1,000 sq ft occupied;
- There are approximately \$40,800 of new government revenue per 1,000 sq ft occupied;
- There is approximately \$675,000 in new business revenues for San Rafael businesses per 1,000 sq ft occupied.

The multiplicative effect of new jobs is an important factor. There are approximately 200 additional jobs supported in San Rafael across the listed industries and more as a result of this change beyond the jobs in the BioMarin offices. Further, there is more business revenue across similar companies. These business revenues drive the employment; the new cash flowing into businesses in San Rafael allow these businesses to expand the local workforce. In sum, over \$30 million of additional business beyond the estimated \$50 million represented by the new office occupants for BioMarin comes to San Rafael as a result of this company becoming a tenant in this space. Every time vacant real estate is occupied by a new or expanding tenant, there are positive economic effects.

Also, over \$4.9 million in new tax revenue will come to San Rafael. Some of this will go beyond the city itself, but some will remain and help socially. The combination of these factors show the economic and social effects of reducing vacancies, making commercial real estate easier to occupy through a faster and less costly tenant improvement process where possible, and a focus on commercial real estate as productive capital. This report uses BioMarin as an example, and will continue to show how reducing vacancies enhances the local economies in Marin County.

A thriving, sustainable local economy is what drives the ability to keep the other two E's thriving as well. Targeted Industries are important because they drivers prosperity and further job growth through their economic impacts. Targeted industry businesses purchase products and services from other, local businesses and generally offer higher wage levels and upward career paths, creating a consumer population, which drives the local economy's overall success. Supporting growth in targeted industries is a core element of Marin Economic Forum's mission.