



Memo

TO: City Council **DATE:** June 9, 2025

DEPARTMENT: Community Development

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REGARDING: Market and Feasibility Analysis for Project Alternatives & Inclusionary Housing Incentives

Purpose.

This memo determines financial feasibility of requiring 100% retail on the first floor of all the buildings in the proposed project. Specifically, this analysis includes the following information:

- The current real estate market for small format (less than 4,000 SF) retail storefronts in Fort Bragg, Ca.
- The current apartment vacancy and rental rates in Fort Bragg.
- Comparison of the potential income from a 100% retail floor space on the first floor of all the buildings with a 100% multifamily occupancy of the first floor of the proposed project.
- Feasibility analysis for the construction and operation of the two above project alternatives.

This memo provides the basis for the City Council's approval or denial of the Inclusionary Housing Incentives for the mixed-use project proposed for 1151 South Main Street.

The memo also provides additional information about the project to the Coastal Commission to support their review of this project as they do not have local knowledge of the retail real estate market.

Small Format Retail Market Analysis

The small format retail real estate market has suffered from significant vacancy in Fort Bragg due to the increase in ecommerce and the trend towards purchasing items online. Between 2010 and 2020, US online retail purchases grew from \$165 billion to \$861 billion. During this time period, ecommerce sales rose from 4.6% of all us retail sales to 20%.

However, California has been a particularly strong and early adopter of ecommerce. For example, in 2024, approximately 30% of California's shopping dollars were spent via online shopping, while 70% are still spent in brick-and-mortar retailers.¹ In 2024 California's spent 93.3 billion with online retailers or \$3,007/adult. These trends have resulted in less demand for retail storefronts throughout California, and Fort Bragg is no exception to this trend.

MJC completed a driving survey to identify retail vacancies throughout the City and Google Earth to measure the size (SF) of each vacant storefront. The Table below summarizes the available vacant retail space in Fort Bragg. Currently Fort Bragg has an estimated 44,000 SF of vacant retail space which has been vacant for an average of four years. According to local real estate professionals small format retail rents for between \$0.75 and \$1.50 per square foot depending on the size of the space, condition and location.

Vacant Properties, Fort Bragg, 2025		
Address	SF	Estimated Years Vacant
223 North Main Street	1,900	5
223 North Main Street	9000	10
28 West Redwood Ave.	2,300	2
118 N Main Street	1,700	1
300 S Main Street	2,000	5
400 S Main Street	3,500	0.5
1102 S Main Street	1,800	0.5
Various Boatyard Drive	4,500	1
126 N Franklin Street	2,500	3
120 N Franklin Street	3,100	0.6
200 East Oak St	2,800	10
116 E Laurel Street	765	10
210 East redwood	500	4
134 E Redwood Ave.	600	NA
311 North Franklin	4,000	0.5
335 N Franklin Street	2,000	8
310 N Franklin Street	1,400	3
Total	44,365	4

As illustrated by the above information, the market is currently oversupplied with small format retail space and hence the market has low rental rates and high vacancy rates for small format retail.

¹ <https://capitaloneshopping.com/research/online-shopping-statistics-by-state/#ca>

Multifamily Real Estate Analysis

To determine the impact of the project on the financial feasibility of the project, this analysis also explores current apartment rental rates.

According to real estate professionals, Fort Bragg has an extremely low vacancy rate of less than 1% for residential units. By comparison a health vacancy rate is typically 4 to 5%. As illustrated in the table below, craigslist currently lists just 10 units available for rent in Fort Bragg in the month of May. For Bragg has over 2,500 residential units, so this is much lower than a 1% vacancy rate. The average rent/unit is \$1,554 and the average rent/SF is \$2.28.

Real Estate Market, Multifamily, 2025			
Unit Type	Cost	Size (SF)	Cost/SF
Studio	\$ 1,200	750	\$ 1.60
2 BR	\$ 2,050	900	\$ 2.28
1BR	\$ 1,250	650	\$ 1.92
Studio	\$ 1,050	500	\$ 2.10
Studio	\$ 1,295	600	\$ 2.16
Studio	\$ 1,295	650	\$ 1.99
Studio	\$ 1,000	360	\$ 2.78
2 BR	\$ 2,300	1350	\$ 1.70
studio	\$ 1,500	500	\$ 3.00
2BR	\$ 2,600	800	\$ 3.25
Average	\$ 1,554	7,060	\$ 2.28

Feasibility Analysis

The table below includes the current development program for the first floor of the proposed development at 1151 S Main Street. As illustrated by the table below, the modified project would include 24,650 SF of a mix of multifamily residential, retail and hotel units on the first floor of the development.

Development Program for 1st Floor of 1151 S Main Street.			
	Number	SF	Total
Retail Space	1	1000	1,000
Hotel Units	3	817	2,450
Studios	2	500	1,000
1BRapartments	10	760	7,600
2 BRapartments	12	1050	12,600
Total	24		24,650

The table below compares estimated annual gross income to the developer from various configurations of uses on the first floor for the entire development. As illustrated by the table, gross project income would be 700,000 less per year if 100% of the first floor of all the buildings was dedicated to retail development. The gross income level is less because retail rents/SF are low in Fort Bragg, and because the project would have a significant and on-going vacancy rate, as many of the project buildings do not have highway visibility or even visibility from the parking lot. Indeed, a 1/3 retail project configuration would generate 75% of the gross income of a 100% multifamily project. By contrast the mixed-use project (consisting of multifamily units, retail and hotel suites) would generate slightly less gross income than the multifamily project.

Estimated Gross Income from Three Project Configurations				
	Rent/SF	Total SF	Vacancy Rate	Income
Multifamily Project				
100% Multifamily Floor 1	\$ 3.50	24,650	1%	\$ 1,024,947
Multifamily Floor 2 & 3	\$ 3.50	49,300	1%	\$ 2,049,894
Total		73,950		\$ 3,074,841
Mixed Use 1/3 retail and 2/3 multifamily				
100% Retail Floor 1	\$ 1.00	24,650	40%	\$ 177,480
Multifamily Floor 2 & 3	\$ 3.50	49,300	1%	\$ 2,049,894
Total				\$ 2,227,374
Proposed Mixed Use Project				
Multifamily Floor 1	\$ 3.50	20,650	1%	\$ 858,627
Retail Floor 1	\$ 1.00	1,000	40%	\$ 4,800
Hotel Suites Floor 1	ADR		Occupancy	
Hotel - 1 Affordable Suite	\$ 120		62%	\$ 27,156
Hotel - 2 Market Rate Suites	\$ 250		52%	\$ 47,450
Multifamily Floor 2 & 3	\$ 3.50	49,300	1%	\$ 2,049,894
Total				\$ 2,987,927
Source: MJC, 2025				

Feasibility Analysis

The table below compares the financial feasibility of the two project configurations.

1151 S Main Street - project Alternatives Feasibility Analysis		
	Proposed Project (Alt 1)	Mixed Use Retail & Multifamily (Alt 2)
Hard Costs (\$325/SF)	\$ 24,033,750	\$20,428,688
Soft Costs (15% of Hard Costs)	\$ 3,605,063	\$ 3,064,303
Total Costs	\$ 27,638,813	\$23,492,991
Developer's Investment (20%)	\$ 5,527,763	\$ 4,698,598
Loan Amount	\$ 22,111,050	\$18,794,393
Monthly Mortgage Payment (Interest Only) 7.1%, 20 year term, ballon payment	\$ 130,823	\$ 111,200
Annual Gross Income	\$ 3,010,015	\$ 2,227,374
Operating Costs (30% of income)	\$ 903,004	\$ 668,212
Annual Mortgage Costs	\$ 1,569,876	\$ 1,334,400
Net Income	\$ 537,134	\$ 224,762
Return on Investment	10%	4.8%

This analysis is conservative in that it assumes:

- \$325/sf in Hard Costs (land purchase, building construction and site work). This is relatively low for Fort Bragg. Typically, new construction costs between \$350 and \$400/SF.
- Soft Costs at 15% of hard costs. Soft costs include all design, permitting, fees and all construction loan costs. Soft costs typically range between 12% and 25% of a project's total costs.
- The mortgage assumes that the mortgage is an interest only loan and at a competitive rate of 7.1%. However, the actual cost of capital is currently in flux due to the trade war and budget conversations at the federal level. Currently the prime interest rate is 6.75% and commercial mortgages are 0.75% higher than prime, which would bring the mortgage rate to 7.5%. Commercial loan, require a ballon payment at 10 years and a loan to value ratio of 80%.
- For large multifamily projects operating costs are generally between 30% to 50% of gross income depending on construction type, size and age of structure. This analysis assumes that operating costs consume 30% of income. Operating costs include property taxes, insurance, management fees, utilities, etc.

Conclusion

Generally multifamily projects must generate between 14% and 18% return on investment (ROI) to be considered a good investment risk for a developer or a bank. The ROI is the amount of income generated after all expenses except divided by the cost of development. However, this project generates only 10% ROI even with very conservative inputs (see previous discussion). The applicant has indicated that they are aware of the relatively low profitability for this project and are looking to earn money on the project's appreciation over time.

If 100% of the first floor of all buildings were required to be retail, it would result in a 25% drop in gross income and would make the project infeasible with an ROI of less than 5%.

Appendix A: Vacant Retail Real Estate (Fort Bragg, CA).

The following photos illustrate some of the vacant storefronts in Fort Bragg. Many of these storefronts have been vacant for years.



Former gas station, Vacant for 10+ years
223 North Main Street, 1,900 SF



Former bank & Chocolate shop, vacant for 5+ years
223 North Main Street, 9,000 SF



Multiple uses, vacant for 2+ years
2,300 SF, 28 West Redwood Ave.



Former liquor store, vacant for one year.
118 N Main Street, 1,700 SF



Former Amerigas Office, Vacant for 5+ years
300 S Main Street, 2,000 SF



Angie's Restaurant, vacant for 6 months.
400 S Main Street, 3,500 SF



Former Grocery Store, vacant 3+ years.
126 N Franklin Street, 2,500 SF



Former Bank, Vacant
120 N Franklin Street, 3,100 SF



Vacant for 10+ years
200 East Oak St, 2,800 SF



Former retail store, vacant for over ten years.
116 E Laurel Street, 765 SF



Former Smoke Shop, vacant for more than four years.
210 East redwood, 500 SF



Former consignment store, vacant
134 E Redwood Ave., 600 SF



Former clothing store, vacant for 1+ years.
311 North Franklin , 4,000 SF



Vacant for 8+ years.
335 N Franklin Street, 2,000 SF



Vacant for 3+ years.
310 N Franklin Street, 1,400 SF