Outlook

## FW: 10/22/2024 Agenda, Item #10.4 -- NO on Costco at Westgate West

**From** City Clerk <city.clerk@sanjoseca.gov>
**Date** Tue 10/22/2024 7:45 AM
**To** Agendadesk <Agendadesk@sanjoseca.gov>

**From:** Amy Cody <[redacted]
**Sent:** Tuesday, October 22, 2024 7:43 AM
**To:** City Clerk <city.clerk@sanjoseca.gov>; Kamei, Rosemary <Rosemary.Kamei@sanjoseca.gov>; Mahan, Matt <Matt.Mahan@sanjoseca.gov>; Jimenez, Sergio <sergio.jimenez@sanjoseca.gov>; Cohen, David <David.Cohen@sanjoseca.gov>; Davis, Dev <dev.davis@sanjoseca.gov>; Doan, Bien <Bien.Doan@sanjoseca.gov>; Candelas, Domingo <Domingo.Candelas@sanjoseca.gov>; Foley, Pam <Pam.Foley@sanjoseca.gov>; Batra, Arjun <arjun.batra@sanjoseca.gov>; Ortiz, Peter <Peter.Ortiz@sanjoseca.gov>
**Subject:** 10/22/2024 Agenda, Item #10.4 -- NO on Costco at Westgate West

[**External Email**. Do not open links or attachments from untrusted sources.]

Mayor Mahan, Vice Mayor Kamei & City Councilmembers:

I'm a San Jose resident who lives .5 miles from the proposed Costco warehouse at Westgate West. My husband commutes past the site daily, my family regularly eats and shops there, and my daughter attends Prospect High School. I've been a Costco Club member for 30 years.

While my main concern is traffic congestion and safety along Prospect Road, I want to share some overall thoughts about the project:

When a Costco Warehouse was proposed for this location, my neighbors and I were shocked given the **undersized site**, **area congestion**, and **reliance on rooftop parking**. We were concerned about the **undue impact on nearby residents** and the **safety of Prospect HS students**. We were also stunned by how quickly City and private interests -- who lauded smart growth and transit-oriented development at El Paseo -- turned around and proposed a **singular car magnet like Costco** in the same area..

We're aware of the City of San Jose's vision to transform our community into a dense, pedestrian-friendly, transit-oriented **Urban Village**. This was THE reason that 10-12 story apartment buildings were allowed at El Paseo, via the special Signature Project process. A Costco warehouse, expected to generate 11,000 vehicle trips per day, is antithetical to this vision. Additionally, the site is designated in the **Envision San Jose 2040 General Plan** as **Neighborhood/Community Commercial** rather than Regional Commercial. These land use designations support different scales of commercial development. Clearly, a **Costco members-only warehouse isn't neighborhood-serving retail**.

- Neighborhood/Community Commercial -- This designation is for a variety of commercial uses that serve local neighborhoods, including neighborhood centers and small corner stores. NCC uses should be designed to promote walking, transit use, and public interaction.

- Regional Commercial -- This designation is for large-scale commercial development, such as shopping malls and specialty commercial centers that draw customers from the region.

Local residents have reviewed the Costco proposal and consistently voiced our concerns about 1) **inadequate parking & site circulation** (the proposed project will have far fewer spaces than other Costcos), 2) **unprotected parking for Trader Joe's** and other co-located businesses, and 3) **abandoned shopping carts**. The response from Costco is that these concerns "won't be a problem". We believe otherwise.

**Traffic Congestion on Prospect Road**

Transportation studies (T.A. October 2023 & Supplemental T.A. May 2024) show that Costco traffic will **adversely impact traffic circulation** in several areas, but **especially along Prospect Road**, where Costco's **main entrance** is located. According to the Supplemental T.A., the expected number of new project trips here is far higher than at the Lawrence Expressway entrance (221 vs. 132). Unfortunately, the short stretch of Prospect Road between Saratoga Avenue and Lawrence Expressway experiences regular periods of high congestion and **currently has three intersections rated Level of Service (LOS) D or D+** (Prospect & Saratoga = LOS D, Prospect & Westgate West = LOS D+, Prospect & Lawrence = LOS D). LOS D is generally considered the lowest tolerable level of service for roadways, where passing demand is high while passing capacity approaches zero, where drivers experience reduced physical and psychological comfort levels, and minor incidents can back-up traffic because the traffic stream has little space to absorb disruptions. **Why would anyone put a main entrance to Costco here?**

**Volume Increases vs. Left-turn Lane Capacity on Prospect Road**

If the Costco project is approved, left-turn lanes at these three intersections are predicted to experience volume increases of **19%** (Prospect & Saratoga), **36%** (Prospect & WW Eastbound Left), **45%** (Prospect & Lawrence), and **99%** (Prospect & WW Southbound Left) during high traffic periods. However, the single, left-turn pockets at these intersections already have queues beyond capacity. Transportation studies show that the overflow of left-turning vehicles into adjacent lanes will be made considerably worse by Costco traffic: **180** ft capacity vs. 400>**625** ft queue (Prospect & Lawrence); **220** ft capacity vs. 450>**650** ft queue (Prospect & WW EBL); **265** ft capacity vs. 265>**625** ft queue (Prospect & Saratoga). **These left-turn pockets need to be extended, but City transportation planners do not recommend this because they cannot due to road constraints (i.e. "existing back-to-back left-turn pockets").**

**Operation Issues are Safety Issues on Prospect Road**

Perhaps most frustrating is that City transportation planners tell us that Prospect Road's "operation issues" aren't considered "safety issues". They don't view congestion here as a safety concern. Residents, however, see every day how traffic congestion around Prospect HS during drop off, pick up and rush hour results in blocked bicycle lanes, illegal u-turns, red light running, and other poor driver decisions. Just this morning, during a short but excruciating drive to the high school through backed up traffic lights on Prospect Road, we saw four illegal/dangerous maneuvers directly attributed to traffic congestion: two U-turns in front of Prospect HS, one driver turned left on a full red light, and one driver dashed across multiple lanes of traffic heading in both directions, where such a move was clearly prohibited.

**Dangerous & Impossible Traffic Assumptions Exiting onto Prospect Road -- Why?**

I continue to question -- and lack answers to -- the Supplement Transportation Analysis (released a few weeks ago) that shows unrealistic and disturbing assumptions re: traffic movement away from Costco onto Prospect Road (see photo & spreadsheet below). The S.T.A. shows **ZERO** additional vehicles leaving Costco's main entrance (Intersection 12) and turning right onto Prospect Rd. Instead, 138 additional vehicles are expected to wind their way through a busy parking lot -- next to a Starbucks and other businesses -- to exit via two driveways (23 & 24). These exits make sense for drivers on that end of the parking lot who want to turn right on Prospect and then continue straight through the intersection. **They do not make sense for 84 Costco drivers who need to turn right onto Prospect Rd and then immediately left onto Southbound Lawrence Expressway**. It's difficult (and somewhat perilous) to exit these driveways, cross multiple lanes of traffic and a bike lane, and have space in the turn pocket to make a left onto Southbound Lawrence Expressway. Why did the S.T.A. divert EVERY additional right-turning car away from Costco's main entrance on Prospect Road (Intersection 12)? The Transportation

Analysis from Oct. 2023 doesn't appear to provide SBL and SBR data for Intersection 12. It does, however, also show 138 Costco vehicles exiting via driveways 23 & 24, turning right onto Prospect, and then 84 of them making an immediate left onto Southbound Lawrence Expressway. **This is not only potentially dangerous, it's often impossible due to traffic conditions and the short, backed up left turn pocket here.**

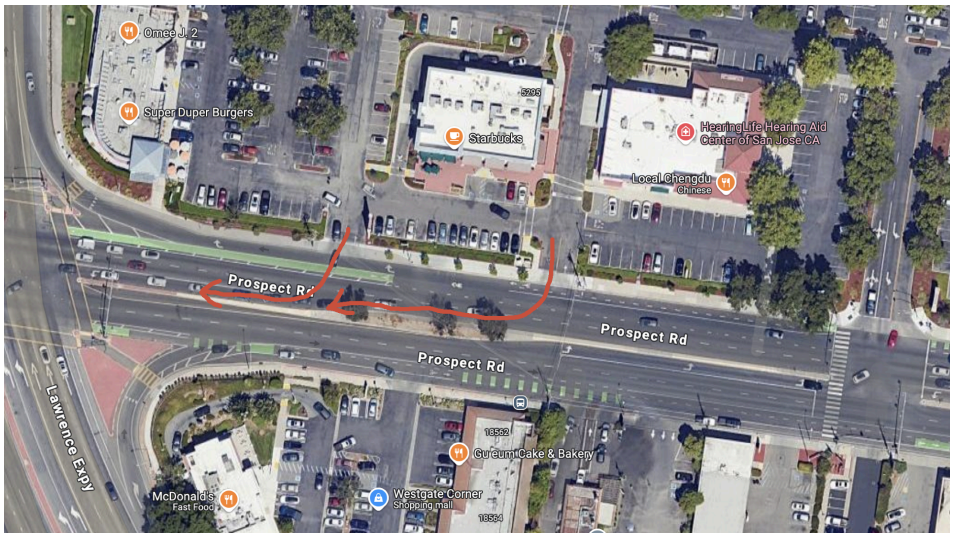
Given the existing traffic conditions and student safety issues at the Prospect & Lawrence intersection and the **increased risk that Costco traffic on both roads would bring**, I'm grateful that the Prospect PTSA, Save West Valley and Vice Mayor Kamei's efforts have resulted in multi-jurisdictional planning for pedestrian safety improvements there.

We need the City of San Jose to similarly recognize and **plan for additional traffic mitigations that will be needed along Prospect Road**, if the proposed project is approved (e.g. extending left-turn lanes, developing a Congestion Management Plan). San Jose's sixth Costco may bring the City up to $2 million in annual tax revenue and be a closer location for some warehouse members, but a Costco here would **greatly impact local residents**, **exacerbate poor traffic and safety conditions along Prospect Road**, and **hamstring our future Urban Village opportunities**.

Thank you for considering community concerns re: the proposed Costco at Westgate West.

Sincerely,

Amy Cody



T.A. & S.T.A. on Prospect Rd

| | | | Supplemental T.A. — May 2024 | | | | T.A. October 2023 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | afternoon | | | | evening | | | | | | | |
| | | | Attachment A: Traffic Volumes | | | | Appendix H: 95th Percentile Queuing Analysis Worksheet | | | | | | 95th Percentile Queue (ft) | |
| 11 | Prospect & Lawrence Expy | WBL | Existing | Existing + Project | Increase | % Increase | Existing | Cumulative + Project w/Graves | Increase | % Increase | Storage Length (ft) | Adequate? | Existing | Cumulative + Project w/Graves |
| | LOS D —> LOS D | | 186 | **270 (highest)** | 84 | **45%** | 154 | 238 | 84 | **56%** | **180** | NO | 400 | **625** |
| | | | | | | | | | | | | | | |
| 12 | Prospect Rd & WW Driveway | EBL | 154 | 240 | 86 | **56%** | 247 | **337 (highest)** | 90 | **36%** | **220** | NO | 450 | **650** |
| | LOS D+ —> LOS D | SBL | 179 | 356 | 177 | **99%** | N/A | N/A | **N/A** | **N/A** | | | | |
| | **Why no increase here?** | SBR | 105 | 105 | 0? | **0%?** | N/A | N/A | **N/A** | **N/A** | | | | |
| | | | | | | | | | | | | | | |
| 13 | Prospect & Saratoga Ave | EBL | 269 | 329 | 60 | **22%** | 285 | **339 (highest)** | 54 | **19%** | **265** | NO | 500 | **625** |
| | LOS D —> LOS D | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | |
| 23 | Prospect & WW (West) | SBR | 69 | 154 | 85 | **123%** | 94 | **179 (highest)** | 85 | **90%** | | | | |
| | It looks like 84 of the cars diverted to Driveways 23 & 24 are expected to cross all traffic lanes to turn LEFT on Lawrence Expressway. This can be perilous and block traffic. In high traffic, it is impossible. **The T.A. & S.T.A. should analyze Intersection 12 with 84 Costco shoppers going SBR onto Prospect Rd**, before making a SBL on Lawrence. **Also, where's the T.A. analysis at Intersection 12 for SBL & SBR turns onto Prospect?** Would SBL & SBR projections here affect operation of the intersection? | | | | | | | | | | | | | |
| 24 | Prospect & WW (East) | SBR | 56 | 109 | 53 | **95%** | 64 | **117 (highest)** | 53 | **83%** | | | | |
| | See above | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | |

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Outlook

## FW: Letter to City Council in opposition to the Westgate West Costco, 10/22/2024 Agenda Item 10.4

**From** City Clerk <city.clerk@sanjoseca.gov>
**Date** Tue 10/22/2024 7:56 AM
**To** Agendadesk <Agendadesk@sanjoseca.gov>

**From:** Marc Pawliger <[redacted]
**Sent:** Tuesday, October 22, 2024 7:50 AM
**To:** City Clerk <city.clerk@sanjoseca.gov>
**Cc:** Kamei, Rosemary <Rosemary.Kamei@sanjoseca.gov>; Mahan, Matt <Matt.Mahan@sanjoseca.gov>; Jimenez, Sergio <sergio.jimenez@sanjoseca.gov>; Torres, Omar <Omar.Torres@sanjoseca.gov>; Cohen, David <David.Cohen@sanjoseca.gov>; Davis, Dev <dev.davis@sanjoseca.gov>; Doan, Bien <Bien.Doan@sanjoseca.gov>; Candelas, Domingo <Domingo.Candelas@sanjoseca.gov>; Foley, Pam <Pam.Foley@sanjoseca.gov>; Batra, Arjun <arjun.batra@sanjoseca.gov>; Ortiz, Peter <Peter.Ortiz@sanjoseca.gov>
**Subject:** Letter to City Council in opposition to the Westgate West Costco, 10/22/2024 Agenda Item 10.4



Councilmembers and Mayor Mahan:

This Costco project is one of extremes:

- The biggest area Costco
- On the smallest area lot
- With the least amount of parking
- Next to roads that are the knowingly the least equipped to handle the traffic
- That puts that traffic closest to the most schools
- With noise that is the closest to the allowable limit
- That saves the least amount of driving
- That goes the most backward against multiple San Jose forward-looking visions
- That was repeatedly called for cancellation by the most genuinely passionate neighbors in the most respectful way
- And that will most likely be voted for approval by a city council the most friendly to developers

We call on the City Council to do the best they can to advocate for San Joseans and say No to this project

Marc Pawliger

Outlook

## 10/22/24: Public Correspondence: Item 10.4 (Costco)

**From** Mitre, Betty <Betty.Mitre@sanjoseca.gov>
**Date** Tue 10/22/2024 8:21 AM
**To** Agendadesk <Agendadesk@sanjoseca.gov>
**Cc** Atienza, Manuel <Alec.Atienza@sanjoseca.gov>; Tu, John <john.tu@sanjoseca.gov>; Garcia, Stephanie R <stephanier.garcia@sanjoseca.gov>; Provedor, Jennifer <jennifer.provedor@sanjoseca.gov>

2 attachments (14 MB)

COUNCIL AGENDA - 10-22-24 FILE 24-2114 ITEM - 10.4 (2)_Redacted.pdf; COUNCIL AGENDA - 10-22-24 FILE 24-2114 ITEM - 10.4_Redacted.pdf;

Good morning,

Please post the following correspondence for today's COUNCIL AGENDA: 10/22/24 FILE: 24-2114 ITEM: 10.4.

Thank you,

**Betty Mitre, Staff Specialist**
Planning Division, Planning, Building and Code Enforcement Department
City of San José | 200 E. Santa Clara Street | San José, CA 95113
408.535.7893 | betty.mitre@sanjoseca.gov

**From:** Connie Tietze [redacted]
**Sent:** Monday, October 21, 2024 5:37 PM
**To:** City Clerk <city.clerk@sanjoseca.gov>
**Cc:** PlanningSupportStaff <PlanningSupportStaff@sanjoseca.gov>
**Subject:** Letter to City Council re: Costco EIR and Conditional Use Permit - Agenda Item 10.4, 10/22/24 meeting



RE: Costco EIR and Conditional Use Permit (CP21-022 & ER21-280)

Dear City Clerk:

Attached please find correspondence addressed to the City Council addressing the Costco EIR and Conditional Use Permit, currently set for a public hearing as Agenda Item 10.4 for the October 22, 2024 City Council meeting.

Please distribute to Councilmembers at your earliest convenience in advance of the meeting.

I would be grateful if you could acknowledge receipt of this email and attachment.

Thank you very much.

Connie Tietze, on behalf of West Valley Citizens for Responsible Development

October 21, 2024

San Jose City Council
c/o City Clerk
200 E. Santa Clara Street
San Jose, CA 95113
city.clerk@Sanjoseca.gov

Re: Agenda Item 10.4, October 22, 2024 Regular Meeting
Conditional Use Permit and Environmental Impact Report for Westgate West Costco Warehouse Project
File Nos. CP21-022 & ER21-280

Dear Members of the City Council:

West Valley Citizens for Responsible Development (WVCRD) urges you to decline to certify the above-referenced EIR and to deny the conditional use permit for the Westgate West Costco project. We are a coalition of citizens and property owners who live in the residential area near or adjacent the project who will disproportionately experience the negative impacts from this grossly out-of-scale project and the thousands of cars and trucks it will attract to our streets.

WVCRD previously submitted detailed comments on the Draft EIR, noting several areas where the analysis of Costco's impacts on the environment and the neighborhood was either deficient or omitted entirely. As we then later explained to the Planning Commission, the Final EIR's responses to our and others' comments were unsubstantial and dismissive, and therefore did not meet the standards for good-faith comment responses required by CEQA. We urged the Planning Commission at its hearing not to certify the EIR until these omissions and deficiencies were addressed, but the Commission refused to do so. As a result, the Final EIR now before you continues to ignore several significant and potentially significant impacts, and remains inadequate under CEQA. The Costco project will therefore have several under-analyzed significant environmental impacts on the community as a whole, and even more extreme impacts on the neighborhood surrounding the Project site, including on our homes and families.

**Air Quality/Health Risks**

We and others commented that the Draft EIR had failed to adequately address cumulative health risks from exposure to diesel particulate emissions from delivery trucks traveling through the community to and from the Project site. As we explained to the Planning Commission, the response to comments document (RTC) did not actually respond to the

comments in any meaningful way or supply any of the requested information. Instead, it simply stated that the Draft EIR's air quality analysis concluded there would be no significant impacts.

For example, one commenter asked whether the Draft EIR's health risk assessment (HRA) considered emissions from delivery trucks, particularly along the northern portion near a residential area. In response, the RTC simply states:

> "For the operational HRA, the truck activity was modelled from 2:00 a.m. until 12 p.m., consistent with the intended delivery hours. The DPM from Project operation resulted in less than significant operational health risk for the surrounding modelled receptors, including those to the north of the Project site. The comment did not provide new, substantial evidence with respect to the disposition of significant environmental impacts evaluated in the Draft EIR and therefore, no further response is required."

Similarly, another commenter asked the City to disclose whether the residential areas within 1,000 feet of the Project currently face elevated cancer risks from DPM exposure or other pollution burdens. In response, the RTC simply asserted that the residential communities surrounding the Project "do not meet the definition of overburdened communities defined by BAAQMD and are not exposed to elevated cancer risks." This response is inadequate because it assumes that only "overburdened" communities are exposed to elevated cancer risks, and furthermore fails to document whether or to what extent these communities experience <u>any</u> increased risk relative to other areas. Moreover, the cancer risk analysis for the Project's construction phase was hand-calculated (Section 5.5 AQ Appendix), while the cancer risk for the operational phase relied on the HARP model. The HARP model incorporates the latest OEHHA Guidance, and should have been used for modeling of both phases. Finally, we noted that it appears that the maximum daily NOx emissions reported in Table 4-6 (49.8 lbs/day) would lead to a violation of the 1-hour federal NOx standard. The San Jose area already violates the state and federal 8-hour ozone standards. This is a significant impact that the EIR did not disclose.

After trying unsuccessfully – twice – to convince the City to look more closely at these issues, we consulted with Raman Kapahi, an air quality/health risk consultant with experience peer reviewing EIRs for large-scale retail operations such as Costco. Mr. Kapahi produced a technical memorandum which is attached to this letter. His memorandum documents the omissions and deficiencies in the EIR's analysis of air quality impacts and human health risks from Costco delivery trucks generating diesel emissions in an area already burdened by air pollution, as the attached maps from OEHHA show. According to Mr. Kapahi, the Costco will in fact have significant air quality impacts because NOx emissions during the construction phase would violate both the State and Federal 1-Hour Standards, and because sensitive receptor exposure to diesel particulate matter during the construction phase would lead to significant cancer risk to nearby residents. Mr. Kapahi also found that here is a potential for significant <u>cumulative</u> risk to the public from

emissions from the additional auto and truck traffic generated by the Costco Warehouse that the EIR failed to address. Please refer to the attachment for further detail and explanation.

**Traffic & Safety**

As WVCRD noted in comments on the Draft EIR, and again to the Planning Commission, the EIR's traffic study relies substantially on information on Costco trip generation information provided in a memo by Kittelson & Associates, Inc., specifically regarding trip generation of Costco warehouse stores. Kittelson is Costco's own, non-independent transportation consultant and maintains the subject data base. Because neither the Draft nor Final EIR includes any explanation or documentation of how the trip generation rates for the project were derived, WVCRD specifically asked for the underlying Kittelson trip generation and travel characteristics data for Costco so that the Traffic Study's assumptions may be properly vetted.

The RTC described the way trip generation data was collected, but failed to provide the data itself. Neither did Costco or the staff supply the data to the Planning Commission. As a result, it remains unclear whether the Costco stores studied by Kittelson, all of which had gas station components, were comparable to the Project, which does not. While the RTC asserts that "fuel station trips were removed from the data set," there is no documentation of this, or indeed of any of the characteristics of the "comparable" Costco stores. The EIR accordingly omits important data that its conclusions concerning trip generation are based on, rendering those conclusions without adequate factual support.

**Urban Decay**

Commenters on the Draft EIR noted that the document had failed to include any analysis of potential urban decay impacts, even though CEQA has long recognized this as potentially significant impact of large-scale retail development in built-out retail market areas. (Bakersfield Citizens for Local Control v City of Bakersfield (2004) 124 Cal.App.4th 1184.) WVCRD pointed out to the Planning Commission that there appear to be several existing, neighborhood-scale retail establishments operating in a manner consistent with the NCC land use designation that could be adversely impacted by the Costco. If any of these retailers were to close as a result, there is a potential for a "domino effect" of retail closures nearby, potentially leading to urban decay. Commenters asked that the EIR identify any existing retailers within 1 mile of the Project site with whom Costco would compete, evaluate whether they are likely to close as a result of this competition, and the potential for urban decay if this were to occur.

The RTC simply dismisses these comments, stating merely that the existing site currently has boarded up buildings, and that introducing a Costco at this location would serve to alleviate blight. This response fails to address impacts to other retailers in the vicinity and is therefore inadequate under CEQA.

In fact, EIRs prepared for other Costcos in California routinely include analysis of urban decay effects as required by the Bakersfield case. We are attaching examples of such studies to this letter for reference. There is simply no defensible explanation for why this Costco in San Jose was not meaningfully scrutinized for potential urban decay effects, when clearly such analysis is common for Costcos in other cities.

**Land Use Planning**

Several commenters noted that a large-scale Costco warehouse was not compatible with the site's neighborhood/community commercial land use designation under the General Plan. According to the General Plan:

> "This designation supports a very broad range of commercial activity, including commercial uses that serve the communities in neighboring areas, such as neighborhood serving retail and services and commercial/professional office development. Neighborhood / Community Commercial uses typically have a strong connection to and provide services and amenities for the nearby community and should be designed to promote that connection with an appropriate urban form that supports walking, transit use and public interaction."

Costco warehouse club stores decidedly are <u>not</u> "neighborhood serving retail" uses. They are large-scale, region-serving uses that are entirely automobile dependent, and they by no means are designed to maintain a strong connection with the nearby community by supporting walking, transit use, or public interactions. To the contrary, the project here is approximately 5 times the size of the Smart & Final grocery store it is replacing.

The Project is simply inconsistent with the applicable General Plan land use designation, and for this reason a General Plan amendment is required for the Project to proceed. We note that the other Costcos in San Jose have land use designations and zoning classifications that are consistent with a region-serving large-scale commercial use:[1]

| | |
|---|---|
| 1709 Automation Parkway | GP Combined Industrial/Commercial<br>Zoning Industrial Park IP<br>Not Urban Village |
| 2201 Senter Road | GP Heavy Industrial<br>Planned Development A(PD<br>Not urban village |

[1] The Costco "Business Center" at 2376 S. Evergreen Loop has a Neighborhood/ Community Commercial designation, but is a different, smaller warehouse type than a standard consumer-focused Costco such as the project here.

| | |
|---|---|
| 5301 Almaden Expwy | Regional Commercial<br>Zoned PD |
| 6838 Raleigh Road | Combined Industrial/Commercial<br>Zoned PD |

**Recirculation of a revised Draft EIR is required**

Several commenters expressed concern about the Project's impacts relating to peak hour traffic during after-school hours at nearby intersections near Prospect High School. In response, the City procured a "supplemental" traffic analysis from Kittleson & Associates, presenting it for the first time in the Final EIR.

As WVCRD explained to the Planning Commission, this new traffic analysis should have been circulated for public comment. An agency must recirculate a revised Draft EIR for public comment whenever "significant new information" is added after public notice is given of the availability of the Draft EIR for public review but before certification. "Significant new information" requiring recirculation includes information showing that the Draft EIR was "so fundamentally and basically inadequate and conclusory in nature that meaningful public review and comment were precluded." (Guidelines, § 15088.5(a)(4).) The purpose of recirculation is to subject the new information "to the same critical evaluation that occurs in the draft stage," so that "the public is not denied an opportunity to test, assess, and evaluate the data and make an informed judgment as to the validity of the conclusions to be drawn therefrom." (Laurel Heights Improvement Association v. U.C. Regents (1993) 6 Cal.4th 1112, 1132.). This purpose has not been fulfilled with respect to the new traffic study only recently prepared for this Project. The fact that the Draft EIR wholly omitted this analysis indicates that it was "fundamentally and basically inadequate" with respect to its consideration of traffic impacts affecting Prospect High School.

In conclusion, the City Council should decline to recommend certification of the Final EIR and approval of the Project, and should direct staff to recirculate a revised Draft EIR that addresses the comment response deficiencies described above, includes a cumulative health risk assessment and urban decay analysis, and also includes the new Supplemental Traffic Analysis prepared by Kittelson.

Thank you for your consideration of these concerns.

Sincerely,

/s/
Connie Tietze
On behalf of West Valley Citizens for Responsible Development

Attachments

EPS
ENVIRONMENTAL PERMITTING SPECIALISTS
Air Quality • Permitting • OHSA • RMP/PSM

# TECHNICAL MEMORANDUM

**To:** Connie Tietze
West Valley Citizens for Responsible Development

**Date:** October 18, 2024

**From:** Ray Kapahi RK
Tel: [redacted]
*Tel:*
*E-Mail:* [redacted]

**Subject:** Review of Impacts to Air Quality and Public Health
Westgate West San Jose Costco Project

## INTRODUCTION AND SUMMARY

Environmental Permitting Specialists (EPS) has reviewed the air quality impacts presented in the Draft Environmental Impact Report (DEIR) for the proposed Westgate West Costco project. It is my understanding that the project would be located at 5287 Prospect Road in San Jose. The project site would occupy 19.8 acres and is located on the Northeast corner of the Lawence Expressway and Prospect Road intersection. As shown in Figures 1 and 2, the proposed Costco would be located in the middle of a residential neighborhood.

EPS reviewed the air quality section (Section 3.3) and Section 4.3 of the Air Quality Appendix. Our findings are summarized below.

- NOx emissions during the construction phase would violate both the State and Federal 1-Hour Standards
- Exposure to diesel particulate matter during the construction phase would lead to significant cancer risk to nearby residents
- There is a potential for significant cumulative risk to the public from emissions from the additional auto and truck traffic generated by the Costco Warehouse

**Violation of Air Quality Standard for NOx**

The MND concluded that the project would not cause the violation of any state of federal air quality standard since the daily project level emissions are below thresholds of significance.

EPS analysis found that NOx emissions[1] during the construction phase as reported in Appendix A (15.7585 lbs/day or 1.9698 lbs/hr over an 8-hour workday) would violate the state and federal 1-hour ambient air quality standards. When added to the background concentration, the cumulative impact is also significant. See Table 1. In other words, daily project level emissions below the thresholds of significance is not guarantee that air quality standards would not be violated

The fact that both project level and cumulative impacts are significant is especially troubling as the region has been classified as non-attainment for the 8-hour federal ozone standard. NOx emissions are a precursor to regional ozone formation. High concentrations of ozone (smog) lead to increased levels of asthma and other respiratory diseases. The very young and the elderly are most at risk from exposure to ozone.

**Table 1**

| | **Project Level and Cumulative Air Quality Concentrations Caused by Project Emissions** | | | |
|---|---|---|---|---|
| | Background (2018) | Project Level | Cumulative | Standard |
| 1-Hr NOx ($NO_2$) | 58.7 ug/m3 | 414.5 ug/m3 | 473.2 $ug/m^3$ | State 339 $ug/m^3$<br>Federal 188 $ug/m^3$ |
| | | | | |

Background NOx data from CARB iADAM summary for 2023 for Santa Clara County.
Available at: https://www.arb.ca.gov/adam

**Significant Public Health Risks**

One of the major toxic air pollutants released during the construction phase is diesel particulate matter (DPM). DPM is regulated as a carcinogen[2] that affects individuals living or working near the emitting source. Impacts from exposure to DPM are evaluated in terms of cancer risk. A cancer risk above 10 in a million is considered significant[3]. A copy of the Bay Area Air Quality Management District (BAAQMD) thresholds of significance is attached.

[1] NOx emissions consist primarily of nitric oxide (NO) that converts to nitrogen dioxide ($NO_2$) in the atmosphere
[2] ARB/OEHHA (2013): "Consolidated Table of OEHHA?ARB Approved Health Risk Assessment Health Values". Available at: https://ww2.arb.ca.gov/sites/default/files/classic/toxics/healthval/contable.pdf

[3] BAAQMD (2023): "CEQA Thresholds and Guidelines Update". Available at: https://www.baaqmd.gov/plans-and-climate/california-environmental-quality-act-ceqa/updated-ceqa-guidelines

EPS reviewed the average daily emission rate of DPM[4] and the number of construction days in 2024 and 2025 and used these data to calculate residential cancer risk.

Using risk assessment guidelines developed by the Office of Health Hazard Assessment (OEHHA)[5] and annual DPM emission rates in preseed in the DEIR (Table 4-1), EPS estimates the offsite cancer risk well in excess of 10 cancers in a million at nearby business.

## ANALYSIS OF IMPACTS FROM NOx EMISSIONS

NOx emissions for the construction phase were modeled using Environmental Protection Agency (EPA) and the Bay Area Air Quality Management District (BAAQMD) recommended AERMOD dispersion model (Version 19191). The air dispersion model is used to translate an emission rate (e.g., lb/hr) into a concentration (e.g., parts per million or micrograms per cubic meter [ug/m3]). A description of this model is attached. Other modeling inputs are described below.

### Model Set-Up

The following model options were used:

- Use of Calm Wind Processing
- Use of Missing Data Processing
- Averaging Time: 1 hour and 1 year
- Use of terrain adjustment

For the construction phase, NOx emissions were modeled as a single area source 34,557 sqaure meters, five feet above ground (Figure 3).

### Modeling Grid and Coordinate System

A rectangular (x-y) Cartesian coordinate system was used. A region 1,225 x 1,225 meters (0.76 miles x 0.76 miles) was used. The modeling region divided into 25 meter square cells for a total of 2,000 individual receptors in the vicinity of the project area. See Figure 4 for a layout of the modeling grid.

### Meteorological Data

One year of hourly meteorological data (2017) were used in the analysis. The surface data (wind speed, wind direction, temperature, etc.) were recorded at the San Jose International Airport. The data was obtained from the BAAQMD web site[6].

---

[4] Westgate West Costco Project Air Quality Technical Report (2023): Tables 4-1 and 4-6.
[5] OEHHA (2015): "Risk Assessment Guidelines". Available at: https://oehha.ca.gov/media/downloads/crnr/2015guidancemanual.pdf

[6] Available at: https://www.baaqmd.gov/plans-and-climate/california-environmental-quality-act-ceqa/ceqa-tools/ceqa-modeling-data

**NOx Emission Rate**
The following daily construction emissions used in the analysis were reported in the DEIR:

2024: 30.0 lbs/day

2025: 49.8 lbs/day (4.15 lbs/hr for a 12 hour work day)

Since the maximum emissions occur in 2025 and this value was used in the analysis.

## FINDINGS

The results of this analysis indicate that NOx emissions during the construction phase would result in ambient concentrations that would violate the state and federal 1-hour ambient air quality standard. These results are summarized below. Cumulative impacts were summarized previously in Table 1.

**Table 2**
**Summary of Project Level NOx Impacts**

| Pollutant | Maximum Construction Related Impact (ug/m3) | State or Federal Ambient Air Quality Standard[7] (ug/m3) |
|---|---|---|
| NOx (1-hour) | 414.5 | Federal: 188<br>State: 339 |

The spatial distribution of NOx is provided in Figures 5 and 6. Area within the contour marked "188" exceed the federal 1-hour NOx standard. These results indicate that the construction phase of this project would lead to significant NOx related air quality impacts, which have not been disclosed in the DEIR. This is a critical omission as the San Jose area violates the state and federal 8-hour ozone standard. NOx emissions are one of the main precursors that cause ozone (smog).

## ANALYSIS OF PUBLIC HEALTH RISKS

One of the major toxic air pollutants released during the construction phase is diesel particulate matter (DPM). DPM is regulated as a carcinogen[8] that affects individuals living or working near the emitting source.

---

[7] Copy of ambient air quality standards available at: https://ww2.arb.ca.gov/sites/default/files/2020-07/aaqs2.pdf, incorporated herein by this reference. The City should print out and include with this letter this referenced material.

[8] SCAQMD (2014): "Classification of Diesel PM as a Carcinogen". Available at: https://www.aqmd.gov/home/rules-compliance/compliance/toxic-hot-spots-ab-2588/iws-facilities/dice/dice-b2

EPS employed the HARP model and the average daily emissions and their duration as presented in Table 4-1 and Table 4-6 of the Air Quality Appendix. The average annual emission rate of DPM over the 2 year duration was calculated to equal 89.45 pounds per year. See Table 3.

**Table 3**
**Calculation of Annual Average Emission Rate of DPM**

| Year | Duration (days) | Average Daily Mitigated Emission Rate in lbs/day | Total Emissions (lbs) |
|---|---|---|---|
| 2024 | 315 | 0.3 | 94.5 |
| 2025 | 211 | 0.4 | 84.4 |
| | | Average Annual Emissions | 89.45 |

The HARP[9] risk model incorporates the OEHHA Risk Assessment Guidelines discussed previously.

### FINDINGS

The results of this analysis indicates that maximum cancer risk would equal 34.4 cancers per million. This is well above the significance threshold of 10 cancers per million and 6.26 cancer per million reported in the Air Quality Appendix (Table 5-3). The spatial distribution of the 2-year cancer risk is shown in Figure 7.

## POTENTIAL IMPACTS FROM TRUCK EMISSIONS

The DEIR includes OEHHA's Enviroscreen maps showing elevated levels of public risk in the vicinity of the project. However, the EIR does not include a cumulative impact analysis to determine whether the additional DPM emissions generated by Costco delivery trucks would result in a cumulatively considerable contribution to an existing aggravated health risk. Such a cumulative analysis is standard in EIRs for projects generating diesel truck trips, and is important here because the additional trucks associated with the Costco Warehouse would add an additional layer of cancer risk to the existing risk profile. At a minimum, a cumulative cancer risk analysis should be completed that quantifies the existing cancer risk at nearby homes.

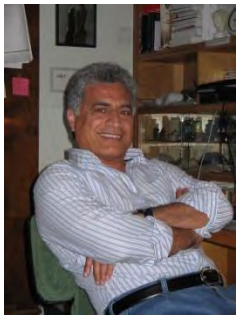
## CONCLUSIONS

Based on our review and analysis of this Project, we conclude:

- NOx emissions during the construction phase would violate both the State and Federal 1-Hour Standards even though the daily emissions are below the threshold of significance
- Exposure to diesel particulate matter during the construction phase would lead to significant cancer risk
- There is a potential for significant cumulative risk to the public from emissions from the additional auto and truck traffic generated by the Costco Warehouse that the EIR did not quantify or evaluate.

[9] ARB (2022): "HARP Air Dispersion Modeling Tool". Available at: https://ww2.arb.ca.gov/resources/documents/harp-air-dispersion-modeling-and-risk-tool

**Ray Kapahi**
Senior Air Quality
Consulting Engineer



[redacted]

Office: [redacted]
Mobile: [redacted]

Practice Areas

- Air Quality Permitting
- Odor Investigation and Control
- Health Risk Assessment
- Computational Fluid Dynamics
- Greenhouse Gas Analysis
- Atmospheric Dispersion Modeling

Industries

- Solid Waste
- Energy Production
- Construction and Mining
- Food Industries
- Oil and Gas Production

Education and Training

- BSc. Physics (1972)
- MEng. Chemical Engineering (1975)
- CARB Accredited Green House Gas (GHG) Lead Verifier with Specialization in Process Emissions and Electricity Transactions (2009)

News

- Presentation "Numerical Modeling of Landfill Gas and Odors" 33rd International Conference on Solid Waste Technology and Management. March 11 to 14, 2018, Annapolis, MD.

- Presentation "Integrated Approach to Effective Odor Control at Landfills and Composting Facilities" Wastecon 2016, Indianapolis, IN.

## EXPERIENCE

Over 30 years of experience in analyzing air quality and odor impacts, permitting of stationary sources, and preparation of environmental impact documents. Mr. Kapahi works with a broad range of clients and assists them to identify and meet their regulatory obligations.

The scope of his experience includes siting of new landfills, waste to energy plants, obtaining conditional use permits from City and County Governments for new projects or expansion of existing projects. Specific experience and skills include preparation of emission inventories, analysis and measurements of odors, dispersion modeling, oversight of air quality monitoring, analysis of impacts to public health, responding to public comments, and appearing before City and County Planning Boards and Commissions as an expert witness on behalf of clients.

Following approvals for new facilities or expansion of existing facilities, Mr. Kapahi continues to work with clients to ensure on-going compliance.

## REPRESENTATIVE PROJECTS

*Air Quality Modeling and Permitting*

- **Permitting of a Powdered Milk Plant (Turlock, CA)**

Evaluate emissions of various air pollutants from the proposed 30 million gallons per year mild processing/drying facility. Demonstrate compliance with local and state air quality regulations, including regulation of toxic air pollutants.

- **Permit Revisions for an Existing Fruit Dehydration Facility (Yuba City, CA)**

Assisted a major food processor in revising their operating permits to allow for additional steam production. Worked cooperatively with the local air district to ensure timely issuance of the revised permits.

- **Permitting of a Waste to Energy Plant (Fort Irwin, CA)**

Quantify emissions from a proposed 34 tons per day solid waste to energy project. Analyze emissions associated with pyrolysis and subsequent utilization of synthetic gas to generate 1.5 MW of electric power. Prepare the necessary permit applications and supporting documentation.

- **Permitting of a Portable Biomass to Energy Unit (Berkeley, CA)**

Prepare permit application and supporting documents for an Authority to Construct and Permit to Operate an on-demand 25 kw biomass powered electric gensets. The unit includes a gasification and biochar recovery modules. The scope of work included a demonstration of compliance with best available control technology.

## Publications and Presentations

Presentation "Use of Advanced Models to Control Fugitive Odors from Composting Sites". US Compost Council Annual Meeting, January 2015, Austin, TX.

"Air Emissions from Landfills and Transfer Stations – Do they Increase Public Health Risks?" Presented at Quad State Environmental Conference, Pigeon Forge TN, Sept 2015.

"Risks of Carbon Credit Invalidation Under California's Cap-and-Trade Program", Presented at the 2014 Air and Waste Management Association Annual Conference. June 24-27, 2014. Long Beach, CA

"Estimate of VOC Emissions from Sludge Drying", Presented at the 1995 SWANA Conference. November 1995, Baltimore, MD.

"Use of Biofilters to Control VOCs", Biocycle, February 1995.

"Impacts of the 1990 Clean Air Act Amendments", San Jose Business Journal, March 24, 1994.

"Modeling Fine Particulates" in Municipal Waste Incineration Risk Assessment, Edited by Curtis Travis, Plenum Press, 1990.

Specialized Training

Accidental Release Modeling Workshop. Trinity Consultants. Dallas, TX November 1-2, 2018.

HARP2 (Risk Assessment Model) Training at California Air Resources Board. Redding, CA April 2016.

Hearing Board Variance Training – California Air Resources Board (1995)

Air Emissions and Odors from Wastewater – University of Texas, Austin (1994)

Professional Affiliations

Air and Waste Management Association (Board Member)

American Institute of Chemical Engineers (Member)

*Dust and Odor Mitigation*

- **Ventilation System for Odor Control (Anaheim, CA)**

Advanced computational fluid mechanics (CFD) models were used to predict the air flow and building pressure to identify the location, size and number of exhaust fans required to remove odors from the transfer station building.

- **Migration of Odors and Aerosol from Leachate Evaporation Pond (Bi-County Landfill, Montgomery County, TN)**

Analyze the movement of odors and aerosols from leachate evaporators. Demonstrate that evaporators were ineffective in reducing volume of leachate, but would release odors and VOCs to nearby homes.

- **Analysis and Control of Fugitive Dust and Odors from a Soil Blending Facility (Stockton, CA)**

Advanced computational fluid mechanics (CFD) models were used to predict the air flow and movement of fugitive dust at a soil blending facility. With this information, the client was able to install appropriate mitigation services to mitigate off-site migration of fugitive dust. View how the movement of dust and odors occur at: https://www.youtube.com/watch?v=wXEX6IT-54U

- **Review of Odor Control Systems for Cannabis Cultivation and Distribution Facilities (Palm Springs, CA)**

EPS evaluated the odor control system for over 15 different odor cultivation and distribution facilities in Palm Springs. The effectiveness of the proposed system was evaluated and recommendations were made to the City of Palm Springs.

*Analysis of Public Health Risks*

- **Analysis of Public Health Risks Associated with Composting Operations (Napa County, CA)**

Estimate the types and amounts of toxic air contaminants (TAC) released from green waste and food waste composting. An air dispersion model was used with local wind data to determine the concentration of each TAC. The concentration estimates were supplemented with toxicity data to quantify public health risks from exposure to the various toxic pollutants.

- **Analysis of Public Health Risks from Proposed Asphalt Plant (Kern County, California)**

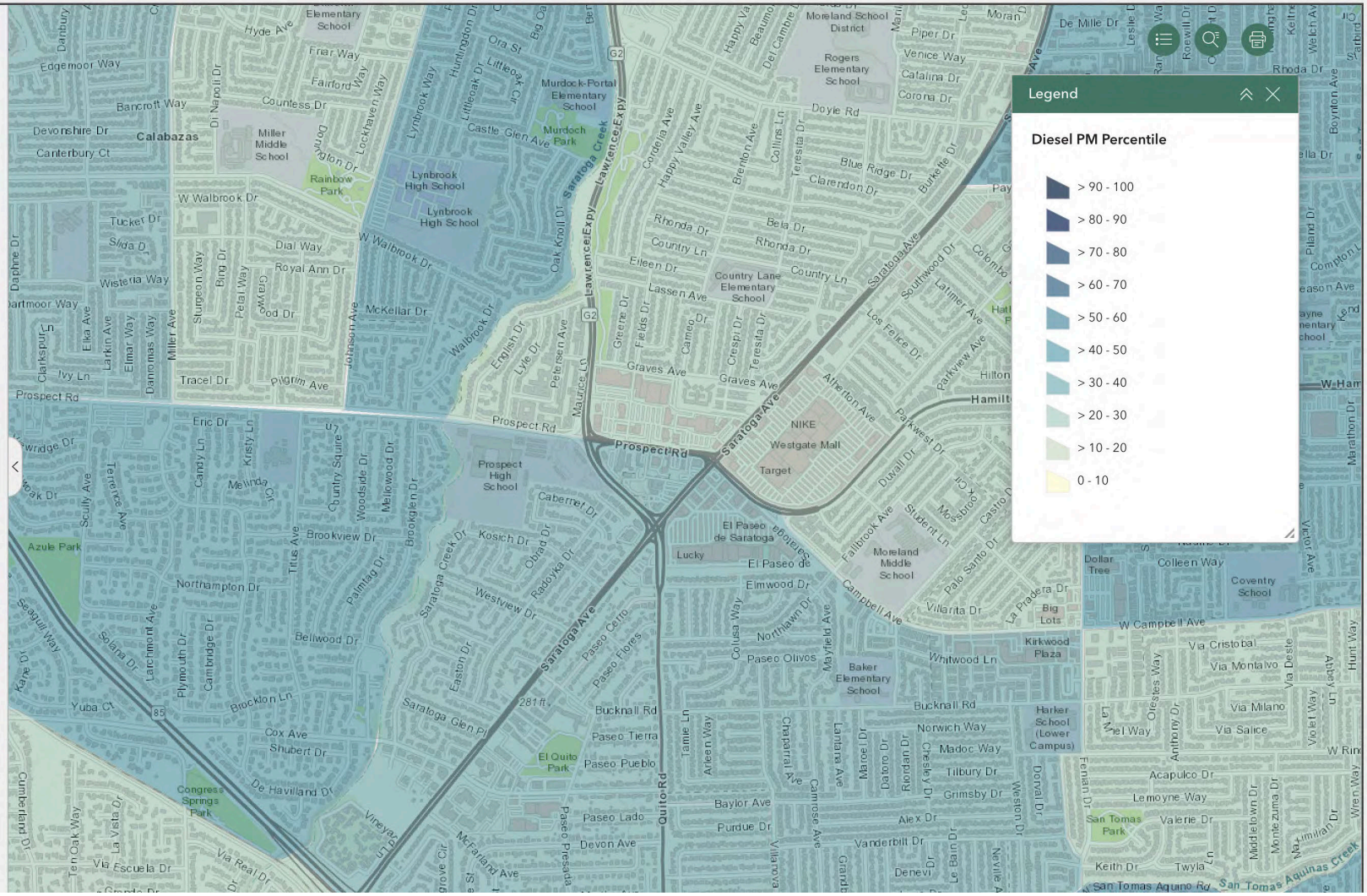
Analyze emissions of any toxic air pollutants from a proposed 250 tons per day asphalt plant. Emissions from aggregate drying, propane combustion and asphalt oil were quantified. Acute and chronic public health risks from exposure to various toxic pollutants were calculated and compared with regulatory thresholds of significance.

## What is diesel particulate matter?

Exhaust from trucks, buses, trains, ships and other equipment with diesel engines contains a mixture of gases and solid particles. These solid particles are known as diesel particulate matter (diesel PM). Diesel PM contains hundreds of different chemicals. Many of these are harmful to health. The highest levels of diesel PM are near ports, rail yards and freeways.

The particles in diesel PM can reach deep into the lung, where they can contribute to health problems including eye, throat and nose irritation, heart and lung disease, and lung cancer. Children and the elderly are most sensitive to the effects of diesel PM.

More information can be found in the **Diesel PM chapter** in the CalEnviroScreen 4.0 report and the **Diesel PM indicator page.**

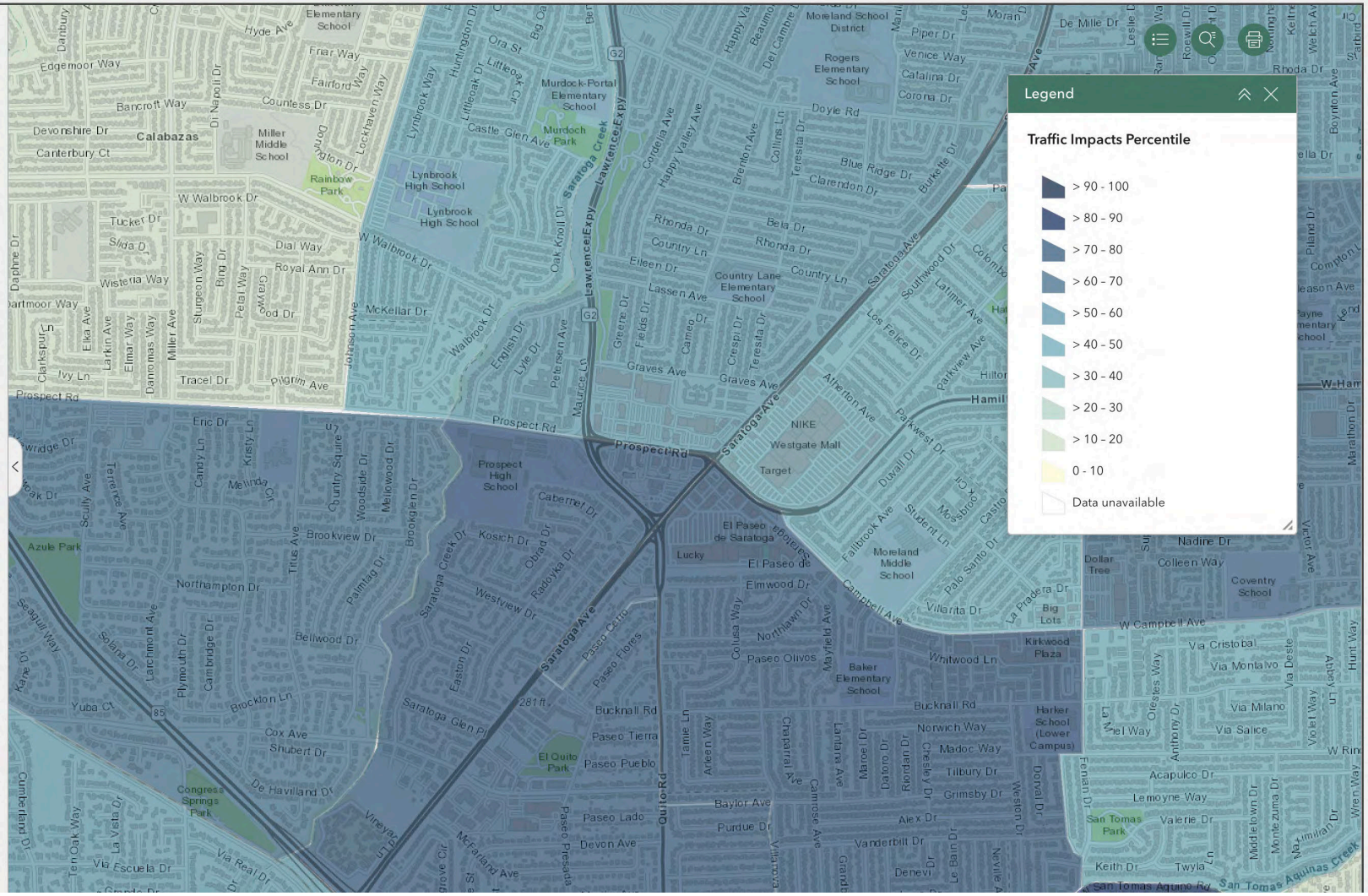


## What are traffic impacts?

California has the biggest network of freeways in the country. Its cities are known for heavy traffic. Traffic density is a measure of the number of vehicles on the roads in an area.

While California has strict vehicle-emissions standards, exhaust from cars and trucks is the main source of air pollution in much of the state. Major roads and highways can bring air pollutants and noise into nearby neighborhoods. Children who live or go to schools near busy roads have higher rates of asthma than children in areas farther from roads.

More information can be found in the **Traffic Impacts chapter** in the CalEnviroScreen 4.0 report and the **Traffic Impacts indicator page.**



**Pollution Burden**

- Ozone
- PM2.5
- Diesel Particulate Matter
- Drinking Water Contaminants
- Children's Lead Risk from Housing
- Pesticide Use
- Toxic Releases from Facilities
- Traffic Impacts
- Cleanup Sites
- Groundwater Threats
- Hazardous Waste
- Impaired Waters
- Solid Waste Sites

**Population Characteristics**

- Asthma
- Cardiovascular Disease
- Low Birth Weight
- Education
- Housing Burden
- Linguistic Isolation
- Poverty
- Unemployment

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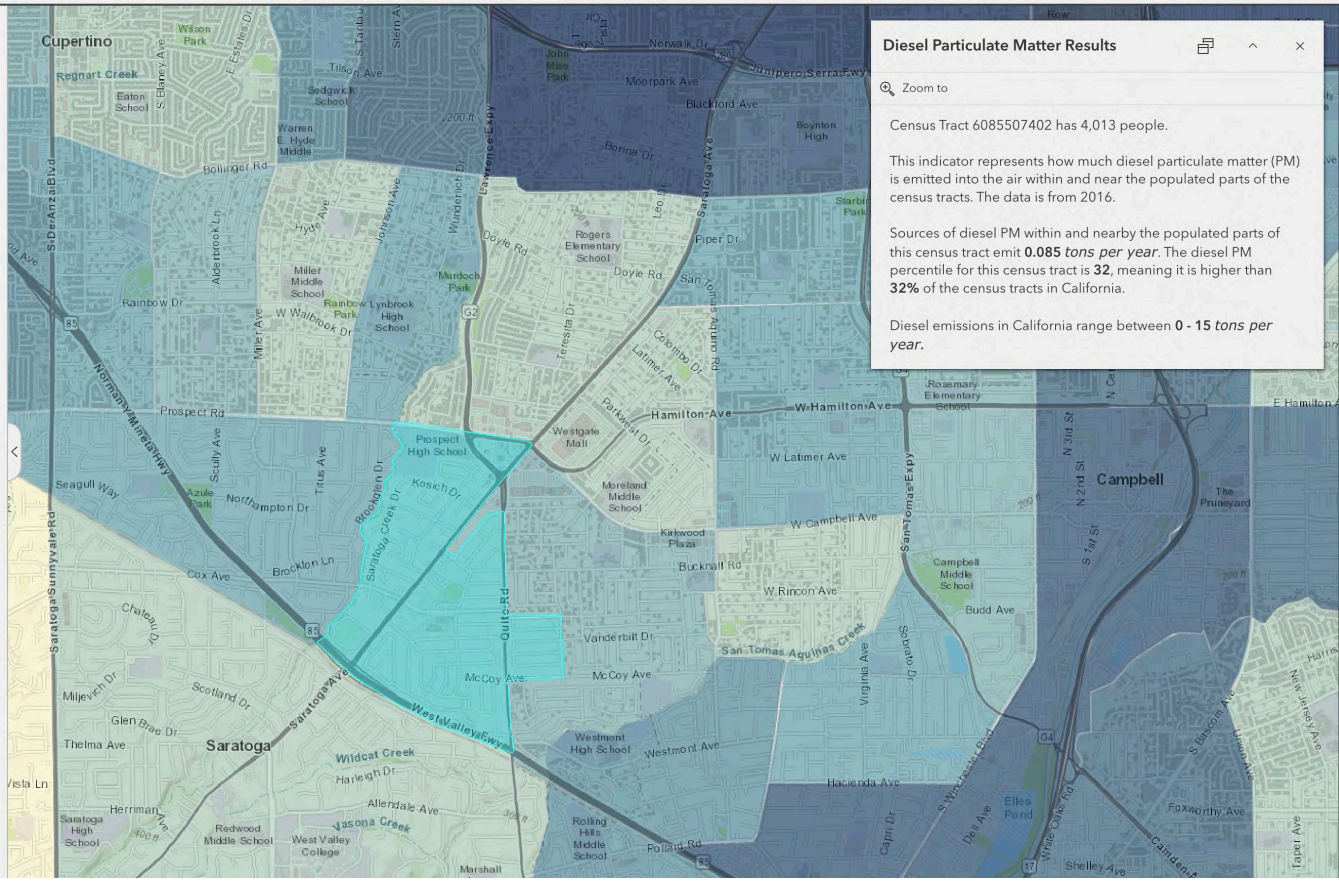

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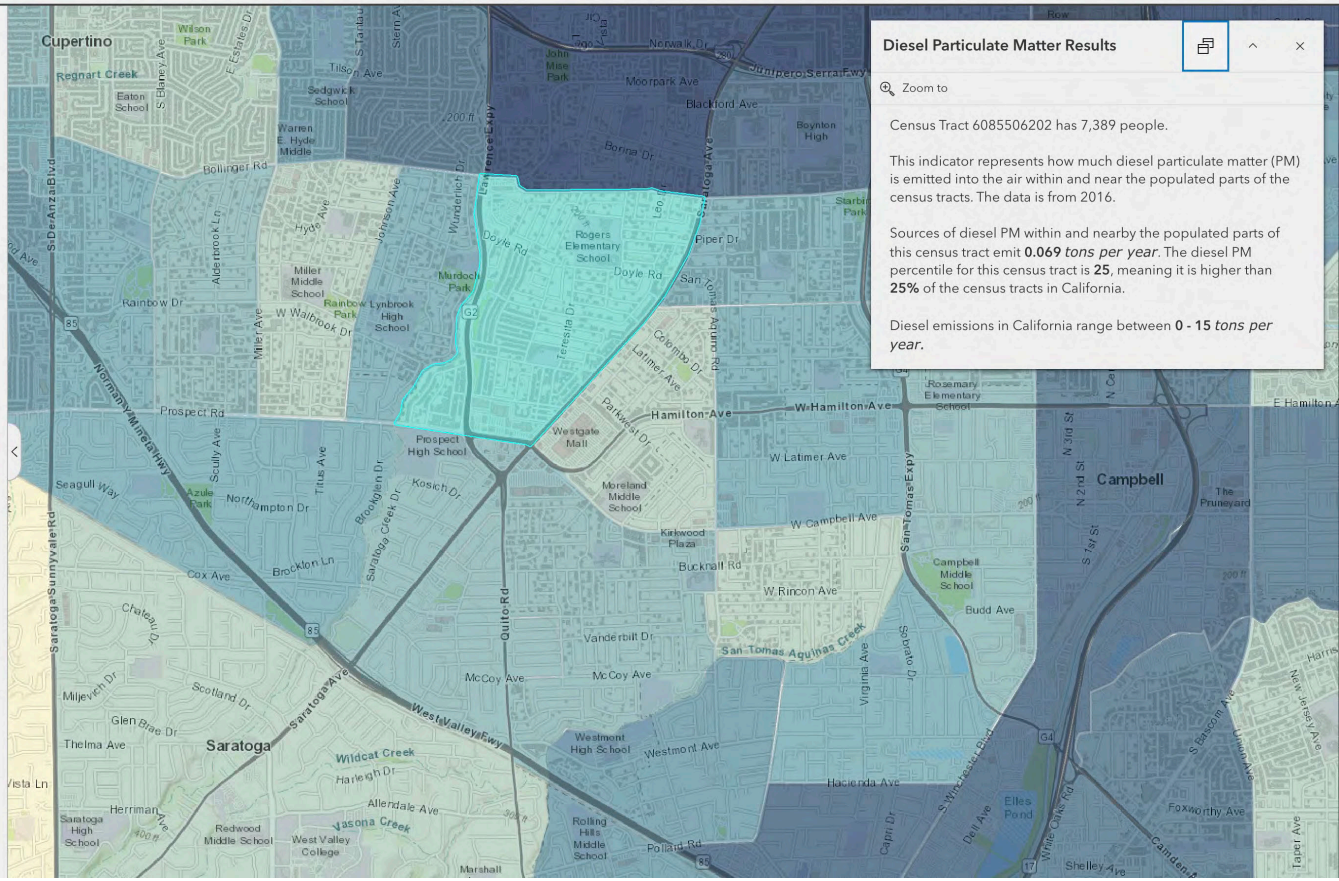

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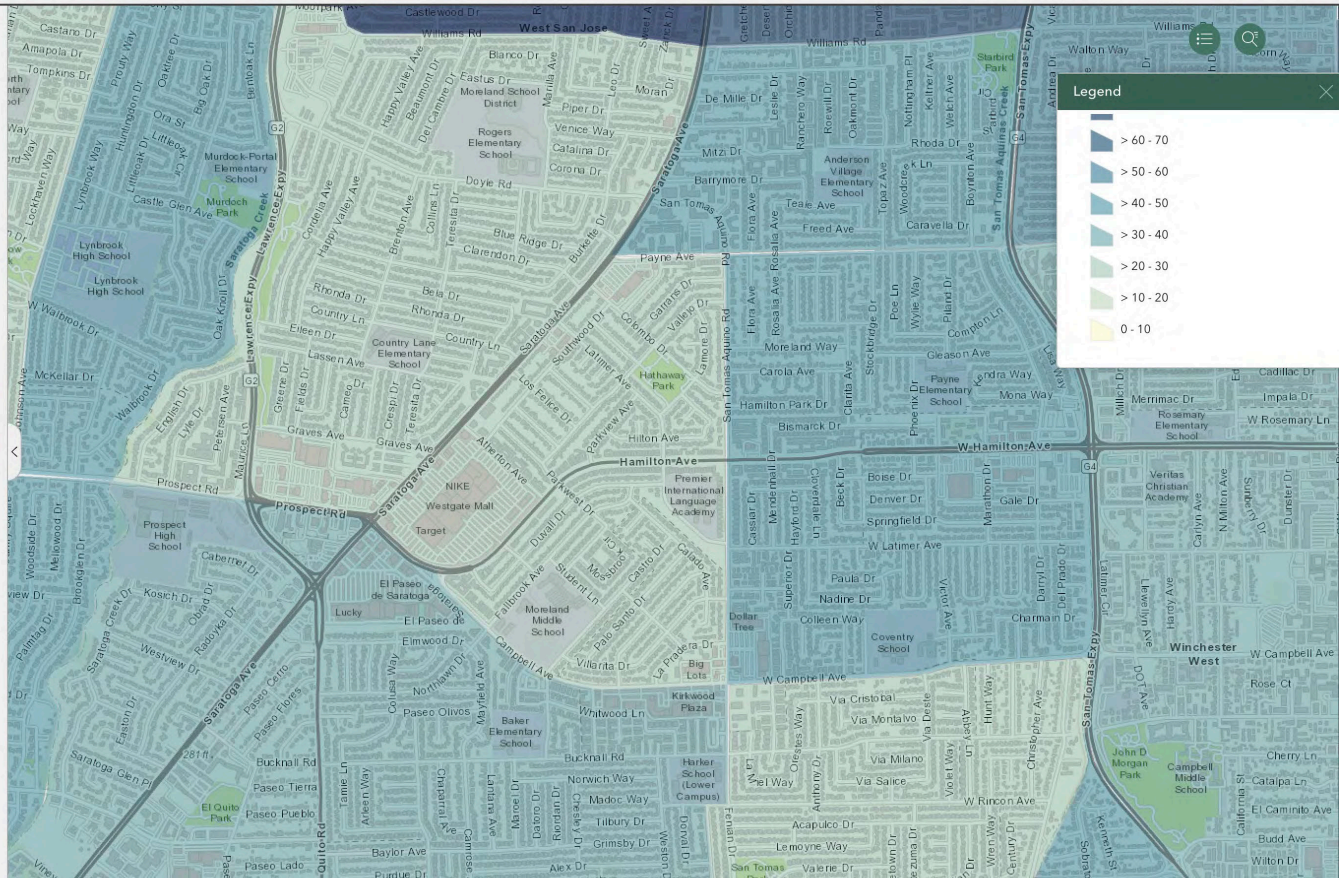

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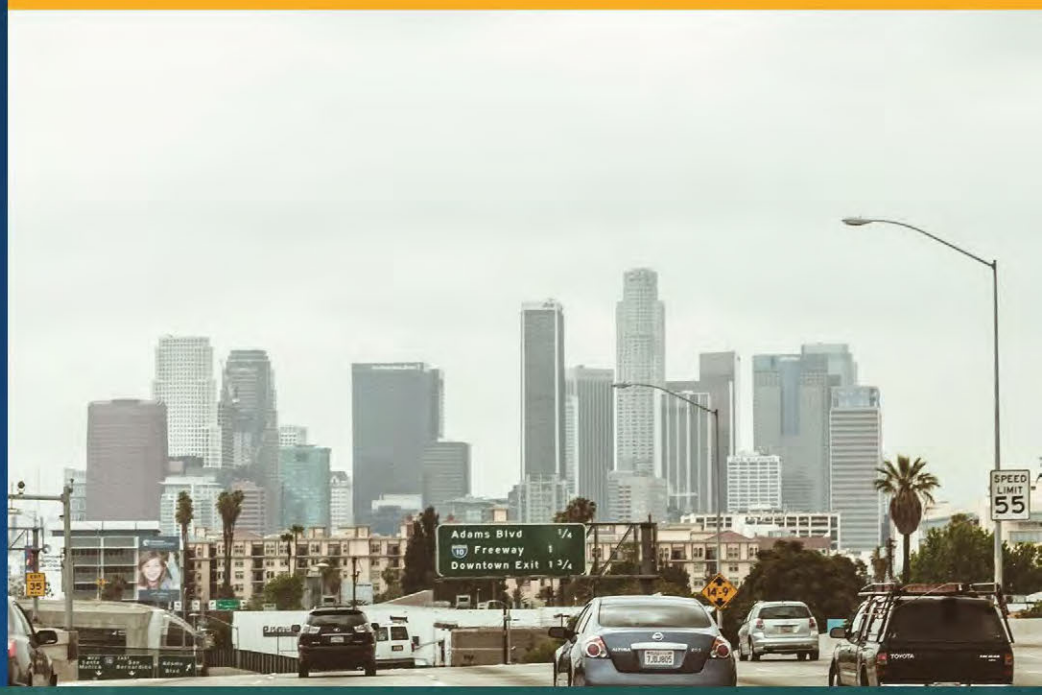


# CalEnviroScreen 4.0

**Lauren Zeise, Ph.D.**
Director, Office of Environmental Health Hazard Assessment

**Jared Blumenfeld**
Secretary, California Environmental Protection Agency

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## Acknowledgments:


- Yana Garcia, Deldi Reyes, Julie Henderson, and Vanessa Galaviz of the CalEPA Office of the Secretary for continued input on the project
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- Sam Delson and Julian Leichty of OEHHA External and Legislative Affairs. OEHHA Research Scientist, Rose Schmitz, for assisting with analyses. Graduate and undergraduate students assisting in the project including Caryn Yip, Kristen Hwang, Janaé Bonnell, Danielle Osborne and Coline Bodenreider

# Table of Contents

# TRAFFIC IMPACTS

While California has the strictest auto-emission standards in the US, the state is also known for its freeways and heavy traffic. Traffic is a significant source of air pollution, particularly in urban areas, where more than 50% of particulate emissions come from traffic. Exhaust from vehicles contains a large number of toxic chemicals, including nitrogen oxides, carbon monoxide, and benzene. Traffic exhaust also plays a role in the formation of photochemical smog. Health effects of concern from these pollutants include heart and lung disease, cancer, and increased mortality.

## Indicator

*Sum of traffic volumes adjusted by road segment length (vehicle-kilometers per hour) divided by total road length (kilometers) within 150 meters of the census tract (traffic volumes estimates for 2017).*

## Data Source

*TomTom Find/Route/Display*

A 2018 digital roadway network, TomTom Find/Route/Display, was purchased through American Digital Cartography *inc.*
https://www.adci.com/tomtom/gis/

*TrafficMetrix® Traffic Count Database*

Traffic volume data for the year 2017 was purchased from TrafficMetrix®.
https://www.kalibrate.com/solutions/traffic-count-data

*University of California, Riverside College of Engineering – Center for Environmental Research and Technology*

*Bernie Beckerman, PhD, independent contractor*

Researchers at the University of California, Riverside's Center for Environmental Research and Technology conducted much of the analysis of the road network and traffic volume data in collaboration with Dr. Bernie Beckerman

https://www.cert.ucr.edu/

*US Customs and Border Protection, Border Crossing Entry Data; San Diego Association of Governments (SANDAG)*

Data on northbound border crossing counts for the year 2017 was downloaded from the US Customs and Border Protection website. Data on traffic volumes for vehicles crossing the US-Mexico border

and from roadways in Mexico that are within 150 meters of the US-Mexico border was obtained for the Tijuana area for the year 2008 from SANDAG.

https://explore.dot.gov/views/BorderCrossingData/Annual?:isGuestRedirectFromVizportal=y&:embed=y

https://www.sandag.org/

## Rationale

Traffic impacts represent the vehicles in a specified area, resulting in human exposures to chemicals that are released into the air by vehicle exhaust, as well as other effects related to large concentrations of motor vehicles. Major roadways have been associated with a variety of effects on communities, including noise, vibration, injuries, and local land use changes such as increased numbers of gas stations. For example, motorists often detour through residential streets near major roads in order to avoid congestion or traffic controls and this phenomenon can increase risk of injuries among pedestrians or bicyclists in these communities. Vehicle speed is directly associated with risk of pedestrian fatality, and speeds along major roadways tend to be higher than normal speeds on residential streets.

Studies have shown that non-white and low income people make up the majority of residents in high-traffic areas (Gunier *et al.*, 2003; Tian *et al.*, 2013) and that schools that are located near busy roads are more likely to be in low-income neighborhoods than those farther away (Green *et al.*, 2004). A US Centers for Disease Control and Prevention study based on the 2010 Census found that Latinos, non-whites, foreign born and people who speak a language other than English at home were most likely to live within 150 meters of a major highway (Boehmer *et al.*, 2013). In a California study on the effects of traffic-related pollution and respiratory effects in children, Hispanic children, particularly those with Native American ancestry, were more likely to live close to a freeway or major road compared with white children (Weaver and Gauderman, 2018). Hispanic children with more than 50% Native American ancestry who also live close to a major road were more than twice as likely to have ever reported asthma compared with those who lived further away (Weaver and Gauderman, 2018). In Southern California, decreases in ambient levels of specific traffic-related pollutants were significantly associated with lower asthma incidence (Garcia *et al.*, 2019). In addition, children who live or attend schools near busy roads are more likely to suffer from asthma and bronchitis than children in areas with lower traffic density. This relationship has been seen in both developed (Patel *et al.*, 2011; Schultz *et al.*, 2012) and developing countries (Baumann *et al.*, 2011).

Exposure to air pollutants from vehicle emissions has been linked to adverse birth outcomes, such as low birth weight, stillbirth, and preterm birth (Ebisu *et al.*, 2018; Ghosh *et al.*, 2012; Ritz *et al.*, 2007). These associations are affected by region, as well as maternal race/ethnicity and education (Ng *et al.*, 2017). A recent study of children in Los Angeles found that those with the highest prenatal exposure to traffic-related pollution were up to 15% more likely to be diagnosed with autism than children of mothers in the lowest quartile of exposure (Becerra *et al.*, 2013).

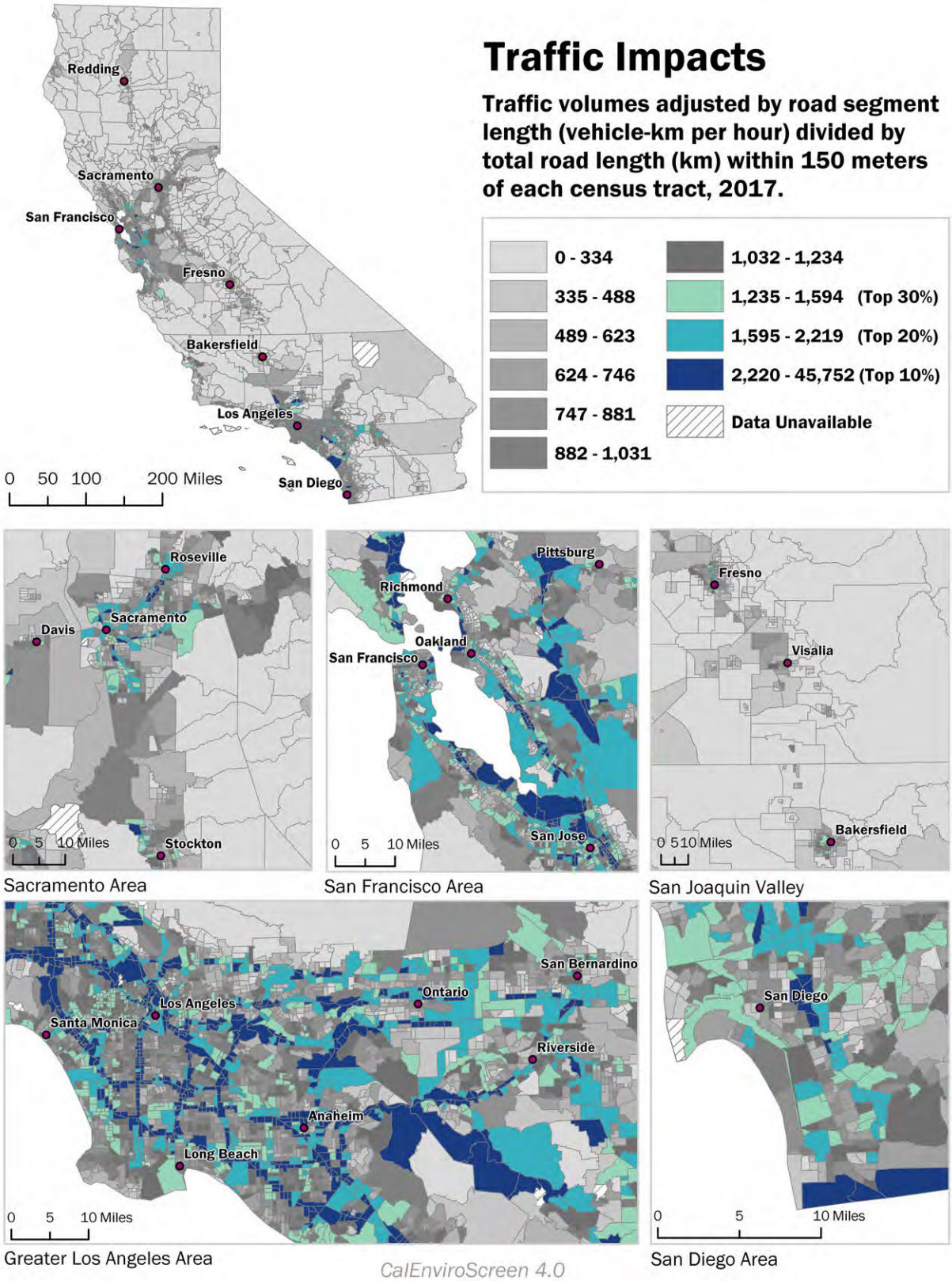
The Atherosclerosis in Communities study, a cohort study with over 15,000 participants, found that traffic density and distance to roadways were associated with reduced lung function in adult women (Kan *et al.*, 2007). A California study found that vehicular emissions were associated with cardiovascular hospitalizations for elderly, as well as respiratory hospitalizations for children (Ebisu *et al.*, 2019). One study using street-level traffic-related air pollutant data showed an association between long-term exposure and higher risk of cardiovascular events among the elderly (Alexeeff *et al.*, 2018). Vehicular emissions were associated with increased cardiovascular mortality, and warm season traffic was associated with all-cause and cardiovascular mortality (Berger *et al.*, 2018). Road density and traffic volume were associated with adult male mortality from cardiovascular disease in an urban area in Brazil (Habermann and Gouveia, 2012). Traffic volume and density have also been associated with all-cause mortality during tuberculosis treatment in California (Blount *et al.*, 2017). Motor vehicle exhaust is also a major source of polycyclic aromatic hydrocarbons (PAHs), which can damage DNA and may cause cancer (IARC, 2010).

## Method

- A 150 meter buffer was placed around each of the 2010 census tracts in California. The area of the buffered census tract was calculated. A buffer was used to account for impacts from roadways within the buffered census tract boundaries. The selected buffer distance of 150 meters, or about 500 feet, is taken from the California Air Resources Board Air Quality and Land Use Handbook recommendations, which states that most particulate air pollution from traffic drops off beyond approximately 500 feet from roadways (CARB, 2005).
- ArcGIS was used to link the 2017 traffic volume data from TrafficMetrix® to the corresponding road segment of the digital roadway network from 2018 TomTom Find/Route/Display.
- ArcGIS was used to intersect (or link) the buffered census tracts with traffic volumes and the road network data. For each road within the buffered census tract, a length-adjusted volume was calculated and summed for all roads within the buffered area of

the census tract. The total road length within the buffered census tract was also calculated.

- For roadways with missing traffic data, spatial interpolation modeling was performed (Beckerman, 2014).
- Due to differences in the length of road segments across the state, a length-adjusted traffic volume metric was calculated by indicator multiplying the traffic volumes by the length of the road segment.
- The final traffic impacts indicator value, vehicles per hour, was calculated by dividing the sum of all length-adjusted traffic volumes within the buffered census tract (vehicle-km/hr) by the sum of the length of all road segments within the buffered census tract (km).
- Traffic impacts, or vehicles per hour (vehicles/hr), represents the number of vehicles (adjusted by road segment lengths in kilometers) per hour per kilometer of roadways within the buffered census tract.
- Two adjustments were made to account for the impacts of traffic on communities along the US-Mexico border. Impacts from parallel roads near border crossings and roads crossing the border.
- Traffic impacts from parallel roads in Mexico within 150 meters of the US-Mexico border were incorporated with traffic data obtained from SANDAG for the Tijuana area for the year 2008. Information on parallel roads near other border crossings, such as Mexicali, was not available at the time of this update.
- Data on the number of trucks, buses and personal vehicles crossing the six ports of entry at the US-Mexico border was incorporated into this indicator. Data on northbound border crossing counts for the year 2017 was downloaded from the US Customs and Border Protection website. To account for vehicles traveling southbound into Mexico, the northbound counts were multiplied by two.
- The estimates for traffic impacts for census tracts were sorted and assigned percentiles based on their position in the distribution.


Traffic Impacts
Traffic volumes adjusted by road segment length (vehicle-km per hour) divided by total road length (km) within 150 meters of each census tract, 2017.
0 - 334
335 - 488
489 - 623
624 - 746
747 - 881
882 - 1,031
1,032 - 1,234
1,235 - 1,594 (Top 30%)
1,595 - 2,219 (Top 20%)
2,220 - 45,752 (Top 10%)
Data Unavailable
Redding
Sacramento
San Francisco
Fresno
Bakersfield
Los Angeles
San Diego
0 50 100 200 Miles
Roseville
Davis
Sacramento
Stockton
0 5 10 Miles
Sacramento Area
Pittsburg
Richmond
Oakland
San Francisco
San Jose
0 5 10 Miles
San Francisco Area
Fresno
Visalia
Bakersfield
0 510 Miles
San Joaquin Valley
San Bernardino
Ontario
Los Angeles
Santa Monica
Riverside
Anaheim
Long Beach
0 5 10 Miles
Greater Los Angeles Area
San Diego
0 5 10 Miles
San Diego Area
CalEnviroScreen 4.0

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# Overview: Diesel Exhaust & Health

### CATEGORIES

**Topics** Health, Air Pollution, Cars & Trucks, Construction & Earthmoving Equipment, Environmental Justice, Oceangoing Vessels & Harbor Craft, Freight & Goods Movement, Trains & Railyards, Transit, VW Diesel Vehicles

**Programs** Exposure, Community Air Protection Program , Community Health, Zero-Emission Powertrain Certification, Alternative Diesel Fuels, In-Use Off-Road Diesel-Fueled Fleets Regulation, Study of Neighborhood Air near Petroleum Sources, School Buses

**Type** Information

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## Background

Diesel engines emit a complex mixture of air pollutants, including both gaseous and solid material.The solid material in diesel exhaust is known as diesel particulate matter (DPM). More than 90% of DPM is less than 1 µm in diameter (about 1/70$^{th}$ the diameter of a human hair), and thus is a subset of particulate matter less than 2.5 microns in diameter (PM2.5). Most PM2.5 derives from combustion, such as use of gasoline and diesel fuels by motor vehicles, burning of natural gas to generate electricity, and wood burning. PM2.5 is the size of ambient particulate matter air pollution most associated with adverse health effects of the air pollutants that have ambient air quality standards. These health effects include cardiovascular and respiratory hospitalizations, and premature death. As a California statewide average, DPM comprises about 8% of PM2.5 in outdoor air, although DPM levels vary regionally due to the non-uniform distribution of sources throughout the state.

DPM is typically composed of carbon particles (“soot”, also called black carbon, or BC) and numerous organic compounds, including over 40 known cancer-causing organic substances. Examples of these chemicals include polycyclic aromatic hydrocarbons, benzene, formaldehyde, acetaldehyde, acrolein, and 1,3-butadiene. Diesel exhaust also contains gaseous pollutants, including volatile organic compounds and oxides of nitrogen ($NO_x$). $NO_x$ emissions from diesel engines are important because they can undergo chemical reactions in the atmosphere leading to formation of PM2.5 and ozone.

Most major sources of diesel emissions, such as ships, trains, and trucks operate in and

around ports, rail yards, and heavily traveled roadways. These areas are often located near highly populated areas. Because of this, elevated DPM levels are mainly an urban problem, with large numbers of people exposed to higher DPM concentrations, resulting in greater health consequences compared to rural areas. A large fraction of personal exposure to DPM occurs during travel on roadways. Although Californians spend a relatively small proportion of their time in enclosed vehicles (about 7% for adults and teenagers, and 4% for children under 12), 30 to 55% of total daily DPM exposure typically occurs during the time people spend in motor vehicles.

## Diesel Particulate Matter and Health

The majority of DPM is small enough to be inhaled into the lungs. Most inhaled particles are subsequently exhaled, but some deposit on the lung surface. Although particles the size of DPM can deposit throughout the lung, the largest fraction deposits in the deepest regions of the lungs where the lung is most susceptible to injury.

In 1998, CARB identified DPM as a toxic air contaminant based on published evidence of a relationship between diesel exhaust exposure and lung cancer and other adverse health effects. In 2012, additional studies on the cancer-causing potential of diesel exhaust published since CARB's determination led the International Agency for Research on Cancer (IARC, a division of the World Health Organization) to list diesel engine exhaust as "carcinogenic to humans". This determination is based primarily on evidence from occupational studies that show a link between exposure to DPM and lung cancer induction, as well as death from lung cancer. Download the IARC report (external site).

Because it is part of PM2.5, DPM also contributes to the same non-cancer health effects as PM2.5 exposure. These effects include premature death, hospitalizations and emergency department visits for exacerbated chronic heart and lung disease, including asthma, increased respiratory symptoms, and decreased lung function in children. Several studies suggest that exposure to DPM may also facilitate development of new allergies. Those most vulnerable to non-cancer health effects are children whose lungs are still developing and the elderly who often have chronic health problems.

## Estimated Health Effects of DPM in California

DPM has a significant impact on California's population. It is estimated that about 70% of total known cancer risk related to air toxics in California is attributable to DPM. Based on 2012 estimates of statewide exposure, DPM is estimated to increase statewide cancer risk

by 520 cancers per million residents exposed over a lifetime. Non-cancer health effects associated with exposure to DPM (based on 2014 - 2016 air quality data) are shown in the table below.

| **Health Effect** | **Estimated Annual Number of Cases*** |
|---|---|
| Cardiopulmonary Death | 730 (570 – 890) |
| Hospitalizations (Cardiovascular and Respiratory) | 160 (20 – 290) |
| Emergency Room Visits for Asthma | 370 (240 – 510) |

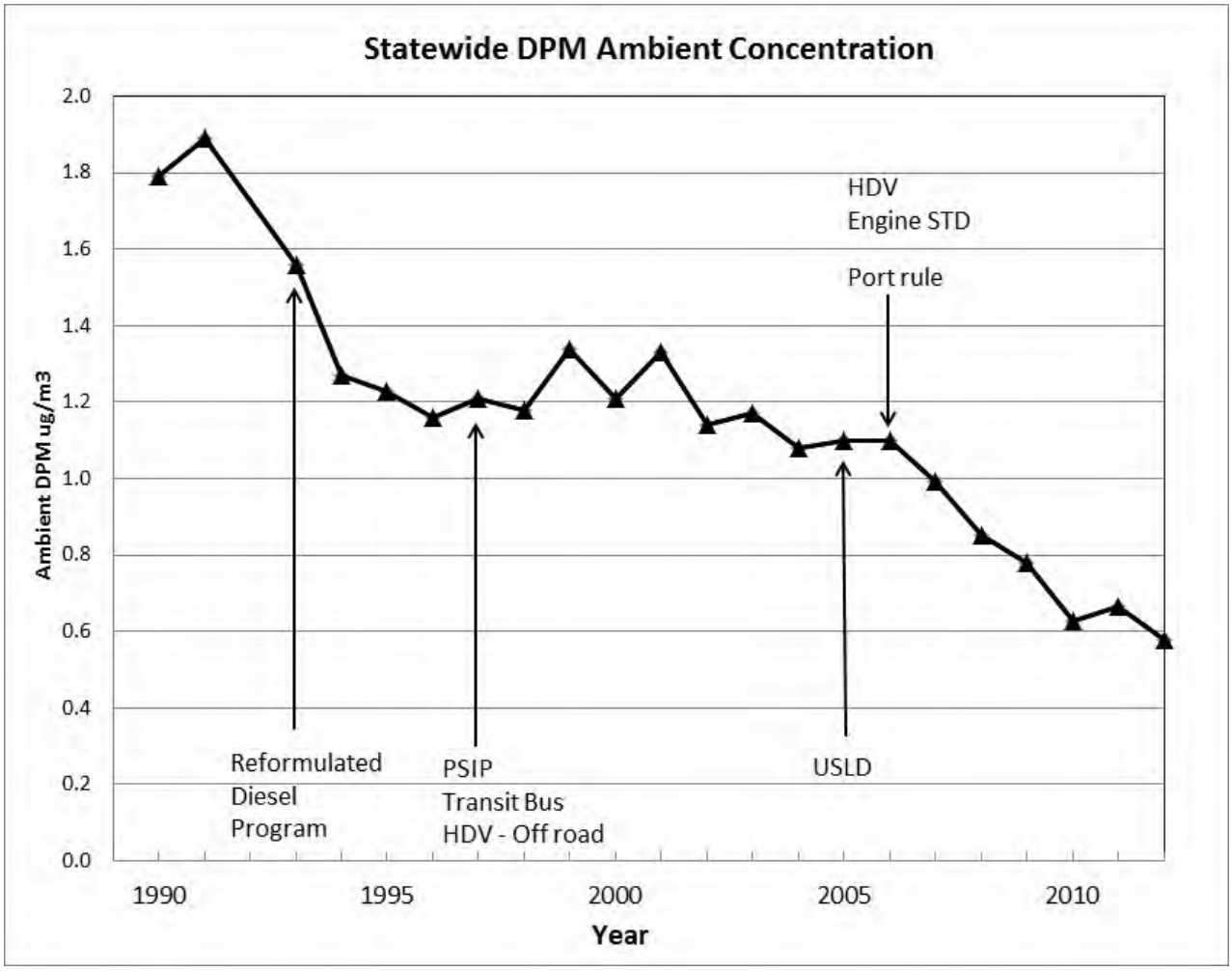
*Values in parenthesis indicate 95% confidence interval.

More Information

## Trends in Outdoor Levels of DPM

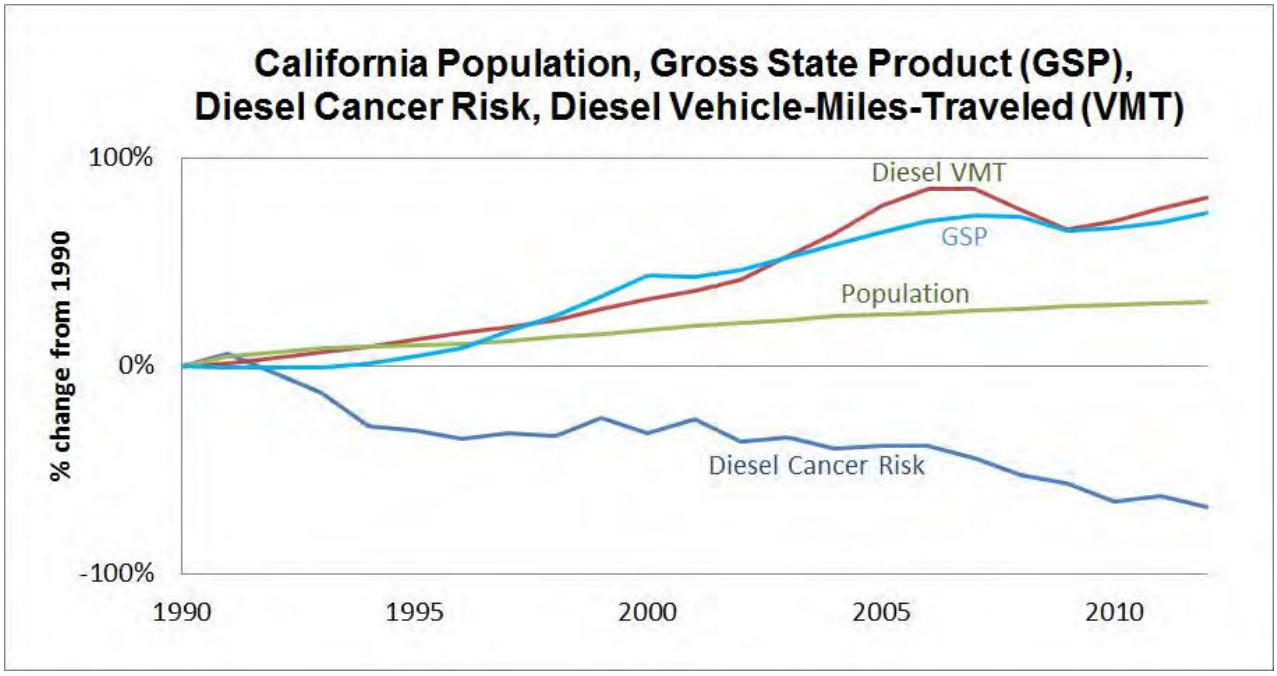
The figure below shows the trend in ambient DPM. CARB regulations** of diesel engines and fuels have had a dramatic effect on DPM concentrations. Since 1990, DPM levels have decreased by 68%. The figure also shows which regulations have had the greatest impact on DPM.

DPM levels are expected to continue declining as additional controls are adopted, and the number of new technology diesel vehicles increases.




**Abbreviations of CARB regulations used in table: HDV Engine STD = Heavy-duty diesel truck engine standard; HDV - Off road = Heavy-duty off-road diesel engines; Port rule = Port (drayage) trucks; PSIP = Periodic self-inspection program; Transit bus = Urban transit buses; ULSD = Clean diesel fuel

The figure below shows that despite the increased number of vehicle miles traveled by diesel vehicles (VMT, red line), and despite increases in statewide population (green line) and gross state product (GSP, a measure of growth in the state's economy, light blue line), CARB's regulatory programs still led to a decline in statewide cancer risk (dark blue line).




### Additional Information

- CARB's diesel programs
- CARB's diesel mobile vehicles and equipment activities
- CARB's freight transport, ports and rail programs
- California's diesel fuel program
- Other diesel-related programs
- Selected references on diesel-related health effects

## Environmental Effects of Diesel Exhaust

In addition to its health effects, diesel exhaust significantly contributes to haze that reduces visibility by obscuring outdoor views and decreasing the distance over which one can distinguish features across the landscape. Researchers have reported that in the San Joaquin Valley and in southern California, diesel engines contribute to a reduction in visibility. This decrease in visibility is caused by scattering and absorption of sunlight by particles and gases present in diesel emissions.

DPM also plays an important role in climate change. A large proportion of DPM is composed of BC. Recent studies cited in the Intergovernmental Panel on Climate Change

report estimate that emissions of BC are the second largest contributor to global warming, after carbon dioxide emissions. Warming occurs when BC particles absorb sunlight, convert it into infrared (heat) radiation, and emit that radiation to the surrounding air. A recent California-specific study showed that the darkening of snow and ice by BC deposition is a major factor in the rapid disappearance of the Sierra Nevada snow packs. Melting of the snow pack of the Sierra Nevada earlier in the spring is one of the contributing factors to the serious decline in California's water supply. As additional DPM controls are adopted, and the number of new technology diesel vehicles increases, BC emissions will continue to decline.

## Conclusions

Although progress has been made over the past decade in reducing exposure to diesel exhaust, diesel exhaust still poses substantial risks to public health and the environment. Efforts to reduce DPM exposure through use of cleaner-burning diesel fuel, retrofitting engines with particle-trapping filters, introduction of new, advanced technologies that reduce particle emissions, and use of alternative fuels are approaches that are being explored and implemented. CARB anticipates that newly adopted diesel exhaust control measures will reduce population exposure even further, and that as the sustainable freight program expands, population exposure to diesel exhaust pollution will decrease even further. It is estimated that emissions of DPM in 2035 will be less than half those in 2010, further reducing statewide cancer risk and non-cancer health effects.

## RELATED RESOURCES

**Public Workshop Notice on March 16, 2021 - Espanol**

**Public Workshop Notice on March 16, 2021**

**SNAPS Lost Hills Newsletter - Februa 2021**

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# "URBAN DECAY" ANALYSIS FOR THE PROPOSED COSTCO/VINEYARD II CENTER

## MURIETTA, CALIFORNIA

Prepared by: **HR&A Advisors, Inc.**

January 28, 2020

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# I. EXECUTIVE SUMMARY

## A. BACKGROUND

HR&A Advisors Inc. ("HR&A") was retained by Dudek to analyze the potential for urban decay resulting from the development of the retail land uses of the Costco/Vineyard II Center project ("Project"). This analysis focuses on the current and projected supply of and demand for community and regional-serving retail and its potential implication on urban decay.

This Report analyzes the market potential for the proposed approximately 225,362 square foot ("SF") Project in the City of Murrieta, California, to directly or indirectly cause "urban decay," as that concept has been defined in recent judicial opinions interpreting the California Environmental Quality Act (CEQA). The proposed Project is planned to include a Costco store as an anchor tenant. Other tenants include a health and beauty store, a pet supplies store, a fitness center, two casual dining and fast food restaurants, and miscellaneous small retailers. As of the date of this analysis not all tenants have been identified for the Project. Construction is planned to be completed in one phase by 2021. The Project is anticipated to reach stabilized operations by 2023.

## B. URBAN DECAY CONTEXT

The potential for the Project to cause "urban decay" – which has been described as physical deterioration to properties or structures so prevalent, substantial, and lasting for a significant period of time that it impairs the proper utilization of the properties and structures, or the health, safety, and welfare of the surrounding community — involves a two-part analysis. First, it must be determined whether the project will attract retail sales away from existing and/or other planned future retail centers and downtown districts to any significant degree. Second, if it can be reasonably foreseen that sales will be attracted away from other retailers, it must be determined whether the severity of this change will cause economic disinvestment that is significant enough to result in business closures, long-term vacancies, and visible symptoms of physical deterioration that may be considered manifestations of "urban decay."

## C. ESTIMATED COSTCO/VINEYARD II CENTER SALES

Based upon the analysis below, HR&A estimates that stabilized Project sales will total $199.0 million in 2023 dollars[1], comprised of:

- Costco store (including a gas station) - $183.8 million
- Health and Beauty Supplies - $6.9 million
- Pet Supplies - $4.7 million

[1] Total estimated sales for the Costco/Vineyard II Center as if open today are $171.7 million. Sales estimates have been inflated at a rate of 3.0 percent annually to the year 2023 when it is assumed that the Center has reached stabilized operations. The rate of 3.0 percent represents the long-term average annual rate of inflation usually adopted for purposes of projecting real estate cash flow.

- Fitness Center[2]
- Restaurants - $2.6 million
- Miscellaneous Retailers - $1.0 million

Of the Costco / Vineyard II sales, it is estimated that approximately 90 percent, or $179.1 million, will be generated by consumers originating from within the Primary and Secondary Market Areas surrounding the project site:

- The Primary Market Area ("PMA") is an area defined as approximately a 15-minute or less drive time from the project site. It is composed of the communities of Murrieta, Wildomar, Menifee, Romoland, Sun City, Homeland, Winchester, Green Acres, French Valley, and small portions of Canyon Lake, Temecula, Perris, and Lake Elsinore.
- The Secondary Market Area ("SMA") is an area defined as approximately a 20-minute or less drive time from the north and south of the project site, and 30-minute or less from the east and west of the project site. It is composed of those communities that are NOT already included in the PMA as well as travelers along the 215 corridor. Communities included in the SMA (either in their entirety or a small portion of) are Hemet, Nuevo, Lakeview, Mead Valley, Good Hope, Meadowbrook, Warm Springs, Lakeland Village, East Hemet, Valle Vista, Temescal Valley, and San Jacinto.

The remaining 10 percent of sales generated at the Project are expected to comprise tertiary demand, originating from locations outside the primary and secondary market area, including travelers along Interstate 215.

## D. SUMMARY OF FINDINGS

**Retail Sales Base in 2018**

The combined Primary and Secondary Market Area retail sales base (i.e. sales occurring in retail stores within these areas) is estimated to be approximately $8.9 billion dollars in 2018, growing to $10.3 billion in 2023. The PMA comprises 28 percent of these sales while the remaining SMA consists of 72 percent of overall store sales.[3] Residents living in the combined area (PMA and SMA) were estimated to spend $9.7 billion on retail purchases in 2018 implying a modest amount of sales leakage outside the area of $824.8 million or about 8.5 percent of all resident purchases.

The PMA has a greater share of sales leakage than the combined market areas. It is estimated that as of 2018, $1.9 billion in consumer purchases were made outside the boundaries of the PMA representing approximately 43 percent of PMA resident purchases (Appendix Exhibit A10). Leakage is seen in all retail categories including restaurants.

Within the SMA area only (meaning primarily the communities of Temecula, Lake Elsinore, Perris, Hemet, and San Jacinto), more sales are captured by area retailers than would be expected from resident spending alone. The SMA "imports" $1.1 billion in sales from consumers who live outside its borders. Much of the $1.9

[2] Sales generated by non-retail services such as fitness centers are not reported by the State of California Board of Equalization or Esri in a manner that is conducive to comparative analysis. Given the limited retail area devoted to these uses the sales are anticipated to be relatively low and not highly competitive with other service providers.
[3] See Appendix Exhibits A10, A12 and A14 for details.

billion in retail sales leaking out of the PMA is believed to be captured by retailers located within the surrounding SMA.

**Changes to Retail Sales Base by 2023**

Projected population growth within the combined PMA/SMA is expected to add approximately 63,400 net new residents within the coming five years.[4] These new households are projected to add $895.9 million in new retail spending power to the combined PMA/SMA market area.[5] Based on current supply and leakage, PMA and SMA stores have capacity to capture 73 percent of this new spending or $651.3 million.

**Projected Sales and Store Impacts**

Based on the existing retail store base in the Primary and Secondary Market Areas, HR&A has projected that there will be no diminution of sales at existing retailers caused by the introduction of the Costco/Vineyard II Center project. Table 1 below summarizes these conclusions:

- By 2023, market area sales required to support the Costco/Vineyard II Center are projected to be $179.1 million. Total sales for the Project are anticipated to be $199.0 million, however, HR&A estimates that 10 percent of the total project sales ($19.9 million) will be to customers that reside outside of the Primary and Secondary Market areas (e.g. the tertiary market area).

- The PMA and SMA already capture a certain amount of sales from within the area. In 2023, the PMA is estimated to capture about 56 percent of residential spending, while the SMA will capture about 91 percent of SMA resident spending. In other words, 56 and 91 percent of PMA and SMA resident spending, respectively, is satisfied by stores within the market areas and is not leaking to other markets.

- Given the existing retail store base, and using projected market area and Costco/Vineyard II sales in 2023, it is estimated that the Project can easily capture about 1.5 percent of the pool of future PMA and SMA resident spending, or $13.7 million. This represents only 2.1 percent of new residential retail spending power expected to be added to the market area over the next five years.

- The PMA and SMA are able to capture 56 and 91 percent of PMA and SMA resident spending within the market areas, but some spending is still leaking to outside markets. The Costco/Vineyard II Project can capture some of this leakage by providing an additional retail option for market area residents. In 2023, it is estimated an additional $65.2 million in sales for the proposed Project will come from a recapture of sales currently leaking outside the market areas (primarily leaving the PMA and going to stores in the SMA).

- New growth capture and recapture of leakage totals to $78.9 million, leaving $100.2 million in sales at the Project to be accounted for. The remaining $100.2 million in Costco/Vineyard II Center sales will be absorbed by current and new resident spending in the PMA and SMA beyond what the Project is already assumed to capture ($13.7 million). In other words, current and new resident demand is so substantial in 2023, and the existing retail store base unable to meet that demand, that resident spending power can easily absorb the $100.2 million in Costco/Vineyard II Center

[4] Based on Esri forecasts for 2023.
[5] See Appendix Exhibit A24.

sales. There is sufficient excess demand in the PMA and SMA to absorb the $100.2 million in sales from Costco/Vineyard II, and still leave $338 million in sales to be absorbed by other new stores. This will not pull sales from other stores because Costco/Vineyard II is meeting unmet future demand.

### Table 1: Potential Costco / Vineyard II Impacts Based on Existing Retail for Combined Primary and Secondary Market Areas

(2023 Dollars)

| | Row ID | Total Impact | Intermediate Calculation | Notes |
|---|---|---|---|---|
| **Market Area Sales in 2023 Required to Support the Center** | A | $ 179,135,955 | | |
| **Sales Supported by New Growth in the Market Area** | | | | |
| Market Area Spending Capacity Attributed to New Growth | B | $ 651,347,849 | | |
| Costco / Vineyard II Fair-Share Capture of New Demand | C | $ 13,745,546 | | *2.1% of B* |
| **Sales Supported by Re-Capture of Current Leakage** | | | | |
| Sales Leakage for Retail Categories Relevant to the Center | D | $ (1,114,433,957) | | |
| Leakage Captured by the Costco / Vineyard II Center | E | $ 65,228,766 | | *5.9% of D* |
| **Total Sales Supported by New Growth and Recapture of Leakage** | F | $ 78,974,312 | C + E | |
| **Intermediary Potential Sales Impacts on Existing Retailers** | G | $ 100,161,643 | A - F | |
| **Remaining Potential Demand from Population Growth to Offset Intermediary Impacts** | H | $ 437,664,717 | | |
| **Sales Diverted from Existing Retailers** | L | $ - | | *$0 diverted* |

**Notes:**

Source: Total in Row B is from Appendix Exhibit A24. All other information is from Appendix Exhibit A25

## E. CUMULATIVE IMPACTS

Based on sales projections for planned and proposed retail projects (see Exhibits A26 and A27 for a list of pipeline retail projects) in the Primary and Secondary Market Areas, HR&A has projected that once the Costco/Vineyard II Center reaches stabilized operations (2023), there could be diversion of some sales dollars away from one or more existing retailers in the combined market area. Table 2 below summarizes these conclusions:

- Projected sales required to support the planned and proposed projects in the market area (cumulative projects) along with projected sales required to support the Costco/Vineyard II Center are estimated to total $700.4 million by 2023.
- Based on a fair-share market capture assessment of the Project, HR&A estimates that the Costco/Vineyard II Center would initially be able to capture $13.7 million of consumer spending from new residential growth in the PMA and SMA areas.
- This leaves $686.7 million in retail sales from the cumulative projects that must be matched to demand or diminution of sales at existing retailers.
- Sales leakage across retail categories relevant to the Project within the combined market area is $1.1 billion; however, leakage amounts vary by retail category. For the following categories, recapture of market area sales leakage will satisfy the introduction of new retail space:
    - Electronics & Appliance Stores
    - Beer, Wine & Liquor Stores
    - Health & Personal Care Stores

  - Gasoline Stations / Auto Supplies
  - Clothing & Clothing Accessories Stores

- Sales in Restaurants and Other Eating Places added to the market area as a result of all planned and proposed projects are projected to total to $115.8 million by 2023. Less than 1 percent of these sales will be attributed to the Costco/Vineyard II Center. The remaining amount of new sales projected in this category can be satisfied by reabsorption of market area leakage as well as demand generated by residential growth.

- When considering all of the cumulative development identified, and assuming all cumulative projects are built and operational by 2023, a total of $171.9 million in sales is at risk of diversion from existing retailers due to an overabundance of planned and proposed projects as well as existing stores within these categories.

## Table 2: Potential Impacts Based on Cumulative Retail for Combined Primary and Secondary Market Areas

| | Row ID | Total Impact | Intermediate Calculation | Notes |
|---|---|---|---|---|
| **Retail Sales Required to Support Planned + Proposed Retail Centers** | A | $ 700,416,451 | | |
| **Costco / Vineyard II Center Sales Supported by New Growth** | B | $ 13,745,546 | | *2.0% of A* |
| **Potential Sales Impacts on Other Retailers** | C | $ 686,670,906 | A - B | |
| **Sales Supported by Re-Capture of Current Leakage** | | | | |
| Sales Leakage for Retail Categories Relevant to the Center | D | $ (1,114,433,957) | | |
| Leakage Captured by Planned and Proposed Centers | E | $ 271,054,667 | | *24.3% of D* |
| **Intermediary Potential Sales Impacts** | F | $ 415,616,239 | C - E | |
| **Retail Categories Where Recapture of Market Area Sales Leakage Will Satisfy the Introduction of New Retail Space** | | | | |
| - Electronics & Appliance Stores | | 100% | | |
| - Beer, Wine & Liquor Stores | | 100% | | |
| - Health & Personal Care Stores | | 100% | | |
| - Gasoline Stations / Auto Supplies | | 100% | | |
| - Clothing & Clothing Accessories Stores | | 100% | | |
| **Retail Categories Where Recapture of Market Area Sales Leakage and Demand from Population Growth Will Satisfy the Introduction of New Retail Space** | | | | |
| -Restaurants/Other Eating Places | | 100% | | |
| **Retail Categories Where There is a Risk of Diverted Sales** | | $ of Dirverted Sales | | SF at Risk |
| Lawn & Garden Equip & Supply Stores | | $ 16,120,275 | | 37,900 sf |
| Grocery Stores | | $ 101,778,991 | | 113,100 sf |
| General Merchandise Stores | | $ 54,017,909 | | 120,000 sf |
| Potential Sales Diverted from Existing Retailers | | $ 171,917,175 | | 271,000 sf |

**Notes:**

Source: Appendix Exhibit A32 and Appendix Exhibit A35

After the Costco/Vineyard II Center reaches stabilized operations by 2023 and if all other proposed projects come online during the same period, an oversupply of retail in lawn and garden equipment stores,

grocery stores and general merchandise stores is projected. Of these, the lawn and garden equipment category is expected to be the most impacted. If all cumulative projects are built and operational by 2023, the lawn and garden category would experience about $16 million in surplus sales, which represents 47.6 percent of projected 2023 sales in that category in the PMA and SMA. The grocery store goods category would have a projected surplus equal to 5.8 percent of 2023 sales in the PMA and SMA, and general merchandise would have a projected surplus equal to 2.7 percent of 2023 sales in the PMA and SMA (see Table 3).

The Costco/Vineyard II Center alone would not cause the surplus sales in the lawn and garden category, as lawn and garden equipment and supplies only make up about 1 percent of the proposed Project's sales. However, there are two new Home Depot stores planned in the PMA (which are included in the related project list), along with other stores with lawn and garden sections, which will have a big impact on the lawn and garden retail category (see Exhibit A30 for a complete list of the PMA pipeline projects).

## Table 3: Cumulative Project Impacts Compared to Market Area and Pipeline Sales

(2023 Dollars)

| | Sales Diverted From Existing Retailers (1) | Total Supply in the Market Area (PMA + SMA) (2) | Diverted Sales as a Percentage of Total Market Area Supply |
|---|---|---|---|
| **Electronics & Appliance Stores** | $ - | $ 202,066,222 | |
| **Bldg Materials, Garden Equip. & Supply** | | | |
| Lawn & Garden Equip & Supply Stores | $ 16,120,275 | $ 33,848,675 | 47.6% |
| **Food & Beverage Stores** | | | |
| Grocery Stores + Liquor Stores | $ 101,778,991 | $ 1,744,649,731 | 5.8% |
| **Health & Personal Care Stores** | $ - | $ 489,763,832 | |
| **Gasoline Stations / Auto Supplies** | $ - | $ 935,471,210 | |
| **Clothing & Clothing Accessories Stores** | | | |
| Clothing Stores + Shoe Stores | $ - | $ 394,791,541 | |
| **General Merchandise Stores** | $ 54,017,909 | $ 2,017,822,248 | 2.7% |
| **Food Services & Drinking Places** | | | |
| Restaurants/Other Eating Places | $ - | $ 969,016,962 | |
| **TOTAL** | **$ 171,917,175** | **$ 6,787,430,422** | **2.5%** |

**Notes**

(1) See Exhibit A32
(2) See Exhbits A20 and A21
(3) See Exhbits A30 and A31

These figures are conservative, as they do not take into account factors such as prospective market corrections or enhancements following the introduction of the cumulative projects into the marketplace or the potential increase in consumer spending pursuant to real income growth or population growth beyond the bounds of this analysis.

Nevertheless, a sales impact of 5.8 percent and 2.7 percent for the grocery store goods and general merchandise categories, respectively, is highly unlikely to lead to store closures, especially if the impact is spread across more than one store. The lawn and garden market in the PMA and SMA is currently comprised primarily of lawn and garden sections within larger big box stores. Even if the lawn and garden equipment and supply sections of these larger stores are impacted by the cumulative pipeline projects, it is unlikely this impact will lead to store closures because the lawn and garden sections only represent a portion of store sales, usually less than 10 percent.

## F. URBAN DECAY DETERMINATION

In recent years, the California Courts of Appeal addressed the need to consider the potential for "urban decay" in environmental documents for large retail projects. In Joshua Tree Downtown Business Alliance v. County of San Bernardino (2016) 1 Cal.App.5th 677, urban decay is defined as, "among other characteristics, visible symptoms of physical deterioration that invite vandalism, loitering, and graffiti that is caused by a downward spiral of business closures and multiple long term vacancies. This physical deterioration to properties or structures is so prevalent, substantial, and lasting for a significant period of time that it impairs the proper utilization of the properties and structures, or the health, safety, and welfare of the surrounding community." Ultimately, the Court of Appeal reversed the trial court decision and found that the Downtown Alliance had failed to carry its legal burden to identify any substantial evidence that a proposed Dollar General store would result in urban decay. The Court of Appeal determined that economic impacts alone are not subject to CEQA analysis. Economic impacts only become CEQA concerns when they are linked to physical changes in the environment.

Per case law described above, the manifestations of urban decay include such visible conditions as plywood-boarded doors and windows, parked trucks and long term unauthorized use of the properties and parking lots, extensive gang and other graffiti and offensive words painted on buildings, dumping of refuse on site, overturned dumpsters, broken parking barriers, broken glass littering the site, dead trees and shrubbery together with weeds, lack of building maintenance, abandonment of multiple buildings, homeless encampments, and unsightly and dilapidated fencing The primary impetus of urban decay often stems from financial conditions faced by the individual property owners, however, as described in the case law above, economic impacts alone do not result in urban decay.

The urban decay process generally takes a number of years to fully materialize and is reinforced by declining economic conditions in a broader market area. It is generally not the result of a single property standing vacant for one or two years in an otherwise vibrant market. It is worth noting that an abandoned freestanding big box retail/power-center development, also known as a "ghost box, "or declining regional mall known as a "gray field, "can pose a particularly high risk for urban decay if not promptly re-leased. Not only are these facilities bigger and thus generally more difficult to quickly re-lease or reuse compared to small "infill" sites, they are also more visually significant and thus provide a more widespread signal of decay and negative business climate. In contrast, several smaller parcels with varied building types often have a better chance of being adapted and released.

**Project Specific Impacts**

Based on this analysis, the Costco/Vineyard II Center, when analyzed exclusively from other proposed retail development, is not anticipated to create conditions conducive to urban decay. The Project is estimated to contribute nearly 225,000 square feet of retail space and approximately $199.0 million in sales to the

Murrieta community[6]. As shown in Chapter V, by the time the Costco/Vineyard II Center is at stabilized operations in 2023, there is no projected oversupply of retail within the larger market area attributable exclusively to the Project. These findings infer that the Project would not be likely to create conditions that would lead to urban decay.

**Cumulative Impacts**

The Inland Empire and Riverside - San Bernardino metro area represents California's fastest growing economy, having added 260,000 jobs over the past five years. As new residents have located in a the area, so too have new jobs and associated retail to support the growing residential base. Overall, at least 70 percent of current new retail supply is pre-leased, heightening retailer demand for existing space. These favorable market conditions have resulted in a significant pipeline of proposed development within the Primary and Secondary Market areas[7], of which the Costco/Vineyard II Center is only one development. If all proposed projects come online as planned within the proposed timeframe (an unlikely scenario), an increase in oversupplied space in the market areas in the lawn and garden equipment and supply, grocery store goods and general merchandise goods is anticipated to occur by the year 2023. The findings indicate that cumulative development of anticipated retail could lead to the following impacts:

1) Vulnerability in the Lawn and Garden Sector: The effect of this potential oversupply is projected to be most significant in the lawn and garden sector. Larger retailers with lawn and garden sections are not particularly vulnerable because the lawn and garden section only makes up a portion of store sales. For example, the lawn and garden section would only comprise 1 percent of the proposed Project's sales in 2023, and a lawn and garden section in a standard Home Depot is assumed to only comprise about 10 percent of the store's sales. Independent lawn and garden equipment and supply retailers would be more at risk for closure due to an oversupply in the marketplace. However, as described earlier, a single property becoming vacant generally does not lead to conditions of urban decay.

2) Minor Shifting of Sales from Existing Costco Stores in the SMA: The two existing Costco stores located in Temecula and Lake Elsinore will likely see some of their current sales redistributed to the Murrieta Costco location as residents from Murrieta, Wildomar and Menifee that currently patronize these stores change their preferred shopping destination to the new store. Anecdotal information from local news sources indicate that the Temecula Costco store is highly successful and may be experiencing crowding issues. Once a new Costco store is opened in Murrieta, customers that reside closer to the new store are, in part, expected to redirect that store visits to the closer store. In any case, the amount of redirected sales is unlikely to negatively impact the two existing Costco stores in the area.

3) Potential for Loss of Sales at General Merchandise Stores: There are two Walmart Supercenters in Hemet and one in Perris, both located in the Secondary Market Area in the northern most section of the market area. There is also an existing Sam's Club store in Murrieta. These stores may see some of their current sales redistributed to the Murrieta Costco location as well as other new general merchandise stores in the pipeline.

To conclude, due to the speculative nature of the inventory of cumulative and competitive projects identified for the PMA and SMA, the cumulative impact on market area sales are likely to be even lower in 2023 than

[6] Of the $199 million in projected sales, 90 percent, or $179.1 million is expected to come from customers residing in either the PMA or the SMA. The remaining 10 percent of sales ($19.9 million) is expected to come from customers located outside either of the two market areas.

[7] HR&A identified 19 planned and proposed projects totaling slightly more than 1.5 million square feet planned for the PMA and SMA areas.

is estimated in this report. If the estimated impacts are fully realized by 2023, the prospective sales diversions of grocery store goods and general merchandise store goods is expected to be minimal and spread among a number of existing stores in the market areas without individual stores going out of business and causing the physical impacts of urban decay. The prospective sales diversions of lawn and garden equipment and supply stores is more significant than the other categories, but given the current nature of the lawn and garden market in the PMA and SMA, the impacts are likely to be widespread and affect larger stores with lawn and garden sections representing only a portion of the store's sales, an impact that is unlikely to lead to a store closure. If the impact on independent lawn and garden stores is significant enough to result in store closures, visible symptoms of physical deterioration are unlikely to occur as a result of small and isolated store closures. As such, if all cumulative projects are built as planned and operational by 2023, conditions conducive to urban decay are highly unlikely to manifest.

# II. INTRODUCTION

HR&A was retained by Dudek to analyze the potential for urban decay resulting from the development of the retail land uses of the Costco/Vineyard II Center project ("Project"). This analysis focuses on the current and projected supply of and demand for community and regional-serving retail.

This report evaluates the potential economic impacts of the proposed Costco and Vineyard II Center project, planned for construction in the City of Murrieta. In particular, the study evaluates the extent to which the proposed retail development has the potential to trigger the necessary chain of events that can lead to urban decay. In addition to addressing the potential impacts of the proposed project itself, the study also considers cumulative impacts from other planned and proposed retail projects in the trade area.

## A. OVERVIEW ON URBAN DECAY

Urban decay is a physical effect that can result from extended vacancy, deferred maintenance, and abandonment. CEQA requires that economic impacts that may cause a physical change in the environment, such as urban decay, be fully analyzed as part of the development review process. CEQA describes the role of urban decay in determining the significance of environmental effects caused by a project in Article 5, Section 15064(e):

*Where a physical change is caused by economic or social effects of a project, the physical change may be regarded as a significant effect in the same manner as any other physical change resulting from the project. Alternatively, economic and social effects of a physical change may be used to determine that the physical change is a significant effect on the environment. If the physical change causes adverse economic or social effects on people, those adverse effects may be used as a factor in determining whether the physical change is significant. For example, if a project would cause overcrowding of a public facility and the overcrowding causes an adverse effect on people, the overcrowding would be regarded as a significant effect.*

Chapter 7 describes urban decay concepts and analytical assumptions in greater detail.

## B. PROJECT DESCRIPTION

The proposed project is located on Clinton Keith Road, east of the 215 Freeway in the City of Murrieta. It consists of an approximately 153,362 square foot Costco warehouse, Costco car wash, and a Costco Gasoline fuel facility with 32 fueling positions[8] (referred to in this report as Costco).

Additionally, a 72,000 square foot shopping center (referred to in this report as Vineyard II) will be located along the north side of Clinton Keith Road. Specifically, this center would likely consist of a health and beauty retailer, a pet supply store, a 37,000 square foot fitness center, two restaurants and miscellaneous small retailers. See Table 4 for a summary of the anticipated Project elements.

Both the Costco as well as the Vineyard II Center are anticipated to be completed by 2021 and are anticipated to be completed in one phase.

The property is designated as commercial land use according to the City's 2035 General Plan and is zoned for regional commercial. It is currently a vacant lot. The proposed site is bordered by Antelope Road to the west and existing residential development to the east. Vista Murrieta High School and an apartment

[8] As many as 40 fueling positions could be available with a potential expansion.

development are located to the south of the project site. See Figure 1 which identifies the project's location within a regional context.

## Table 4: Estimated Land Use Plan for Project

| Land Use | Sq. Ft. |
|---|---|
| **Regional Retail** | |
| Costco Center | 153,362 sf |
| | |
| **Community Retail** | |
| *Vineyard II* | |
| Health and Beauty Retail | 11,900 sf |
| Pet Supplies | 16,000 sf |
| Fitness Center | 37,000 sf |
| Misc Small Retail | 3,500 sf |
| Casual Dining | 1,200 sf |
| Fast Food | 2,400 sf |
| Total Community Retail | 72,000 sf |
| | |
| **TOTAL DEVELOPMENT** | **225,362 sf** |

**Notes:**

Source: Appendix Exhibit A1

Figure 1: Project Location in the Eastern Riverside County Area


## C. TIMELINE OF THE ANALYSIS

The analysis examines retail supply and demand during three years: 2018, 2020 and 2023. The 2018 estimates characterize the existing retail market. Projections were developed for the year 2023 to estimate market impacts at the point of stabilized occupancy and sales for the Project. Projections for 2023 account for projected population growth and changes in retail supply resulting from the construction of currently proposed commercial development besides the Project. Chapter IV details the population growth and development absorption assumptions used to estimate future retail demand and supply.

## D. PRIMARY DATA SOURCES

This report relies on a variety of data sources, which are sited throughout the document. Primary data sources include:

- Demographic and economic data from Esri[9], the U.S. Census Bureau, the U.S. Bureau of Labor Statistics, California Department of Finance – Demographic Research Unit and other publicly available sources.
- Interviews with local planning department staff
- Project description information for the Project proponent
- Business-specific data identifying retailers in the market area and beyond were obtained from CoStar, a database of market metrics for commercial properties.
- Online, internet-based information from newspaper articles and posted planning department documents.

## E. REPORT ORGANIZATION

This report contains seven chapters. Following this chapter, Chapter III provides supplementary background information on retail market analysis and trade area delineation[10]. Chapter IV characterizes and compares the current and projected supply and demand for community-and region-serving retail in the Project's trade area. Chapter V examines whether the Costco/Vineyard II Center would attract new sales to the Primary Market Area or divert sales from existing retailers. Chapter VI analyzes the Costco/Vineyard II Center in the context of other currently planned competitive retail projects, or "cumulative projects." And Chapter VII evaluates the prospects for urban decay and the overall impact of the Project. In addition, backup calculations and assumptions are provided at the end of this report in Appendix A. Appendix B provides general and limiting conditions for this report.

[9] Esri is a mapping and market research firm which incorporates US Census data to generate a wide range of market and demographic reports.

[10] The market area or the trade area consists of the Primary Market Area (PMA) and the Secondary Market Area (SMA) as discussed and defined in Chapter III.

# III. Projected Sales and Market Area Definition

HR&A's findings relative to the anticipated retail sales for the proposed Costco/Vineyard II Center are presented below. These include estimates of the total sales generated by the Project by type of retail category. In addition, this chapter identifies the anticipated Primary and Secondary Market Areas for the Costco/Vineyard II Center, i.e., the areas from which the majority of retail demand is likely to originate.

## A. COSTCO/VINEYARD II CENTER DESCRIPTION

The combined Costco/Vineyard II Center comprises approximately 225,362 square feet of retail space. While the project developer has not identified all of the specific retail tenants, it has identified a Costco Warehouse store as the proposed anchor tenant.

Targeted retail sales categories have been identified for much of the remaining shopping center space. The prospective tenants or tenant types are identified in Appendix Exhibit A1 in the report text.

The majority of space will be devoted to the Costco Wholesale store. Mini-anchors at the Vineyard II Center will include a health and beauty type retailer such as Bath and Body Works or ULTA, a Pet Co or PetSmart store, a fitness center, casual dining and fast food restaurants and 3,500 square feet of small locally-based retailers.

## B. APPROACH TO PROJECTING COSTCO/VINEYARD II CENTER SALES

In order to determine the annual sales performance of the proposed Costco/Vineyard II Center, HR&A developed assumptions based on information available in either individual store 10-K reports filed with the Securities and Exchange Commission or the e-Marketer Retail database dated January 2018. The 10-K reports typically include total store square footage and total sales; spreading the sales across the square footage results in national average sales per square foot performance. The e-Marketer Retail publication provides average sales per square foot figures for many national retailers and aggregates the data by specific retail categories. While not all retailers for the Costco/Vineyard II Center have been identified, targeted retail categories for most of the spaces are proposed. For the unknown retail space, a generally accepted industry standard average sales per square foot was assumed

The developer anticipates that the Costco as well as the Vineyard II Center will be built in one phase with completion estimated for 2021. Stabilized operations typically take two to three years to reach, so HR&A has picked the year 2023 to represent project stabilization.

## C. PROJECTED SALES FOR PROJECT

HR&A's estimate of the Project's store sales are documented in Appendix Exhibit A2. Since Costco is under consideration for the anchor space, a sales per square foot estimate was derived from e-Marketer Retail information for 2018. The results presented indicate a Costco sales estimate in 2018 of $1,121 per square foot[11]. As presented in Appendix Exhibit A2, this results in a Costco sales estimate of $183.8 million in 2023 at project stabilization. The sales for the balance of the Costco/Vineyard II Center are anticipated to bring total Project sales to $199.0.

[11] According to MG2 Architects, the consolidated sales area of the store (including the service station) is 141,484 square feet. This gross building area is 153,362 square feet. A detailed summary of square feet by Costco retail category is illustrated in Appendix Exhibit A3.

## D. PROJECTED SALES BY CATEGORY

Costco, in conjunction with its subsidiaries, operates membership warehouses where a wide variety of consumer goods are sold at wholesale prices. Both brand name and private-label products are sold across a vast array of merchandise categories, such as snack foods; dry/prepackaged foods; tobacco; alcoholic and nonalcoholic beverages; cleaning supplies: electronics; health and beauty aids; office supplies; deli and produce; and apparel. Costco also operates pharmacies, photo centers, food courts, gas stations and several additional services.

The new sales generated by the Project will be spread across many store merchandising categories due to the range of retailers anticipated. It is necessary to allocate the Costco/Vineyard II Center's sales into appropriate retail categories to determine the potential impact on those specific categories. The sales data source for this study is based on retail categories corresponding to the NAICS[12] designation as reported by the publication Esri MarketPlace Retail Profile.

HR&A allocated the Costco sales categories across the NAICS retail categories based in part on descriptions by Costco of what is included in their various service lines. If the type of good was believed to span more than one NAICS category, HR&A apportioned the percentage of sales based upon examination of merchandising at representative Costco stores and professional judgment.

Appendix Exhibit A4 attributes sales to the appropriate categories and sums the total sales of the Costco/Vineyard II Center by NAICS retail category. Appendix Exhibit A5 provides the same sales category breakdown for the retailers and restaurants anticipated for the Vineyard II portion of the project. The results are shown in detail in Appendix Exhibit A6 and summarized below in Table 5.

The following section discusses the anticipated origin of these sales relative to a defined market area for the Costco/Vineyard II Center. This is a prelude to subsequent analysis examining the potential for any of these sales to occur to the detriment of existing retailers and the potential, if any, to result in urban decay pursuant to any resulting vacated retail spaces.

[12] North American Industry Classification System or NAICS is used by business and government to classify business establishments according to type of economic activity (process of production) in Canada, Mexico, and the United States of America. It has largely replaced the older Standard Industrial Classification (SIC) system.

Table 5: Estimated Distribution of All Costco/Vineyard II Center Store Sales by NAICS Categories by Year 2023
(Totals in $ Millions)

| Retail Categories | TOTAL |
|---|---|
| Electronics & Appliance Stores | $ 14.7 |
| Lawn & Garden Equip & Supply Stores | $ 1.8 |
| Grocery Stores | $ 73.5 |
| Beer, Wine & Liquor Stores | $ 7.4 |
| Health & Personal Care Stores | $ 9.7 |
| Gasoline Stations | $ 29.2 |
| Clothing Stores | $ 11.5 |
| Shoe Stores | $ 1.8 |
| General Merchandise Stores | $ 46.8 |
| Restaurants and Other Eating Places | $ 2.6 |
| Total | $ 199.0 |

**Notes:**

Source: Appendix Exhibit A6

## F. MARKET AREA DEFINITIONS

This section discusses the market area for the proposed Costco/Vineyard II Center. For the purpose of analyzing the prospective economic impacts of Costco/Vineyard II, HR&A defined market areas for the Project. This includes a Primary and Secondary Market Area. Shopping center trade area definition draws on a range of factors including but not limited to the location of competitive supply, prevailing commute patterns in the region, and physical barriers (both topographical and psychological). The International Council of Shopping Centers (ICSC), widely considered the retail real estate industry's pre-eminent research organization, states:

> *"A trade area is the geographic market that you will be offering to potential retailers as a consumer market… Defining a retail trade area is an art and a science. In general, a trade area should reflect the geography from which 75-90 percent of retail sales are generated. Different stores can have different trade areas based on their individual drawing power and the competitive market context."* [13]

While geographic considerations and the location of competitive retail centers are a major determinant of a planned center's market area, each shopping center has a unique market draw based on its format and mix of tenants. Literature published by the Urban Land Institute (ULI), a non-profit research and educational organization with the mission of providing leadership in the responsible use of land and in creating and sustaining thriving communities worldwide, supports the idea that a shopping center's format is another major determinant of its market area:

[13] International Council of Shopping Centers (ICSC), Developing Successful Retail in Secondary & Rural Markets, 2007, p. 7.

> *"The trade area traditionally is the geographic area that provides the majority of the steady customers necessary to support a shopping center. The delineation of trade areas is more complex than in the past as a result of the proliferation in the variety and volume of shopping centers already present in most trade areas. It is further complicated by the existence of multiple consumer markets attracted to a center by their affinity for the type of goods sold and the environment in which they are sold rather than because the center is located within a prescribed distance of home or office."* [14]

Consistent with industry definitions of shopping center market areas, HR&A defines the combined PMA/SMA area for the Costco/Vineyard II Center as the geographic area in which 90 percent of the shopping center's repeat customers reside.

## G. PRIMARY AND SECONDARY MARKET AREAS

The 215 freeway serves as a "feeder" for prospective customers travelling south toward the City of Murrieta. To assess the prospective minimum share of the Costco/Vineyard II Center's sales that would be new to the market area and the potential impacts on existing retailers, HR&A defined an estimated Primary Market Area (PMA) and a Secondary Market Area (SMA) for the new Project. See Figure 2 below for illustrations of the two market areas.

This map highlights the locations of the area's other membership discount retail warehouse stores located in Temecula, Murrieta, and Lake Elsinore. These existing Costco and Sam's Club location are instrumental in defining the market area for the new project. It is assumed that the Costco anchor in the Murrieta project will be the primary draw for customers located outside the city of Murrieta. The retail stores that will be located in the Vineyard II Center are more local-serving in nature. Shoppers contemplating single-purpose shopping trips (as opposed to shopping excursions made as "pass-by trips" en route to other destinations) will choose to do business with the most conveniently located stores of those kinds.

Most of the PMA includes areas within an approximately 15-minute or less drive time, with some exceptions based on topographical and physical barriers. The PMA has a current population of approximately 318,260 residents.

Because there are existing Costco stores located to the south and north of the Murrieta project location, the proposed project is not expected to generate significant sales from residents of Lake Elsinore or Temecula. For this reason, these cities are mostly excluded from the Costco/Vineyard II Center's Primary Market Area. This is not to say that no residents of Temecula or Lake Elsinore will patronize the Murrieta project. Some residents will still shop at the Costco/Vineyard II Center for various reasons including: (a) they want to visit a new center to find out what it looks like and what it has to offer; (b) they are attracted to its non-anchor tenants such as restaurants or specialty shops not found closer to home; or (c) they are already traveling to a destination that takes them close enough to Costco/Vineyard II Center to make it convenient to stop at the Costco/Vineyard II Center.

Costco stores draw from a regional trade area and will likely realize some cross shopping from those members presently frequenting the Temecula, Lake Elsinore, and Moreno Valley warehouses. The current population of the SMA (exclusive of the PMA) is approximately 488,600 residents and includes communities outside the bounds of the PMA stretching as far as Hemet, East Hemet and Valle Vista. Communities outside the 20-minute drive time, such as Hemet and its neighbors, were included in the SMA because these communities are somewhat isolated and have limited access to retail destinations.

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[14] Urban Land Institute, Shopping Center Development Handbook, Third Edition, 1999, p. 46.

## H. ESTIMATE OF SHOPPING COSTCO/VINEYARD II CENTER PERFORMANCE IN THE OVERALL MARKET AREA

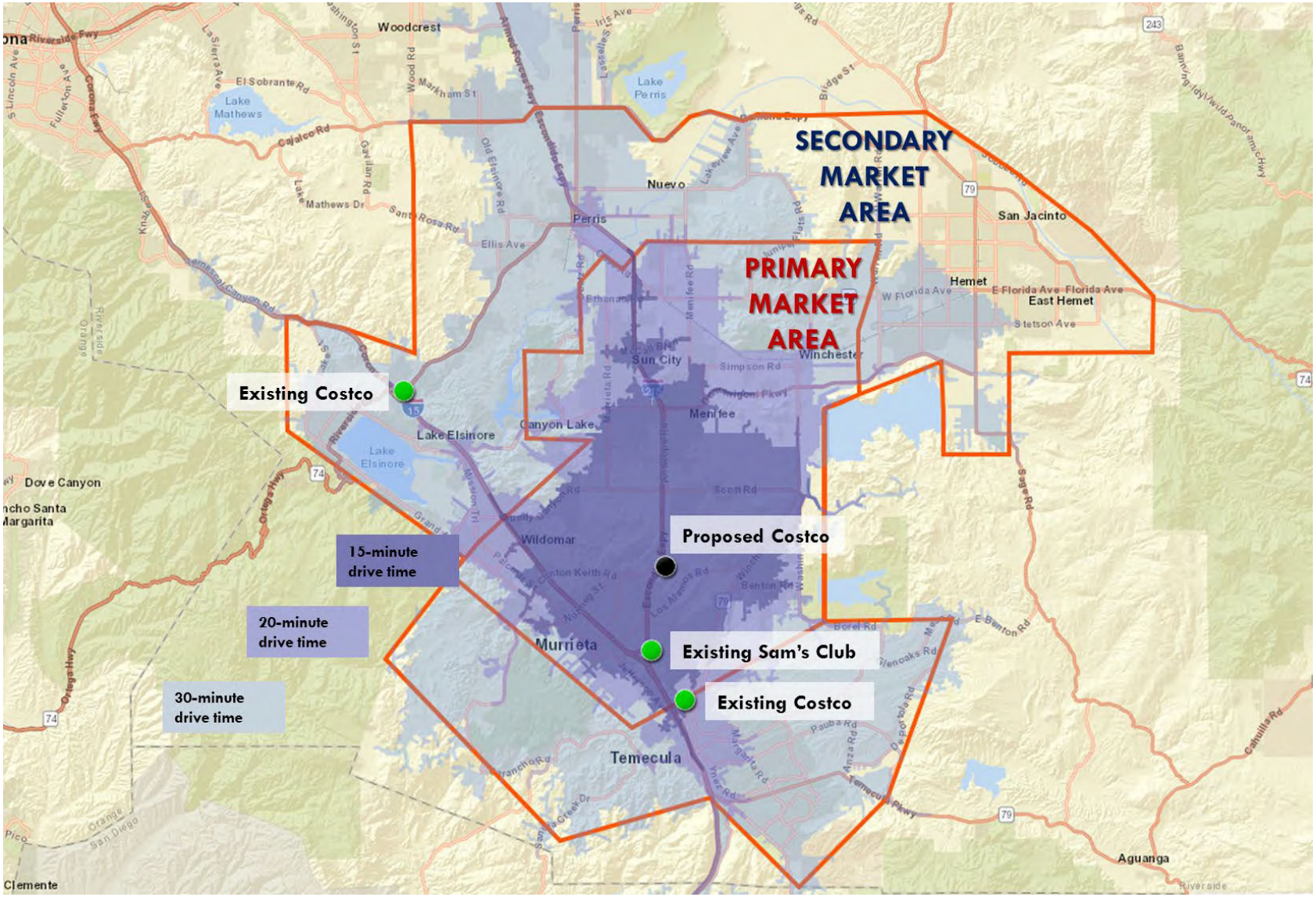
Due to the large amount of area covered, HR&A estimates that Primary and Secondary Market Area residents will generate 90 percent of the Costco/Vineyard II Center's sales. This finding is consistent with the International Council of Shopping Centers (ICSC) guidelines and is, in fact, at the conservative end of the 75-90 percent range cited by ICSC for a retail trade area. By assuming that Primary and Secondary Market Area residents will comprise 90 percent of the Project's sales, rather than a lower percentage, this analysis is making a higher estimate of the potential for diverted sales than would be the case with a lower percentage.

Thus, it is assumed that residents coming from tertiary markets will generate the remaining 10 percent of sales, or $19.9 million of the total $199.0 million in Costco/Vineyard II Center sales. This tertiary market is likely to come from travelers passing through Murrieta on Interstate 215 and from shoppers on pass-by trips. The conservative estimate of 90 percent capture also acknowledges that two existing Costco stores in Lake Elsinore and Temecula are located near Interstate 15 off-ramps and are better positioned to capture pass-by sales from highway travelers.

The concept of a percentage share allocation of demand from a market area is consistent with general real estate market analysis principles, which recognize that regional retailers have primary, secondary, and often even tertiary market areas. It should be noted that this concept, while generally accepted, cannot account precisely for every trip to/from the Costco/Vineyard II Center. Such precision is simply not possible. Notwithstanding this limitation, HR&A believes it presents the most appropriate approach to assessing the retail market for the Costco/Vineyard II Center.

Costco/Vineyard II Center Urban Decay Analysis

## Figure 2: Primary and Secondary Market Area Map



# IV. Retail Sales Leakage Analysis

This chapter analyzes the current retail environment as well as retail sales leakage and attraction profile of the Primary Market Area and the combined Primary and Secondary Market Areas. It measures the extent to which these areas capture resident spending on retail goods as well as sales generated by residents from outside the respective areas. This provides a characterization of the sales performance of the local retail base. HR&A conducts this analysis as a building block in its analysis identifying the extent to which the Costco/Vineyard II Center may or may not divert sales away from existing market area retailers.

## A. METHODOLOGY

HR&A utilizes a statistical-based model by the GIS marketing firm Esri[15] that estimates retail spending potential for a market area based upon population, income, and consumer spending patterns[16]. For the purpose of this study, the market area is the geographic area from which the majority of Costco/Vineyard II Center demand is anticipated to originate.

Generally referred to as a "Retail Sales Leakage Analysis," the model determines the extent to which a market area is or is not capturing its sales potential based upon estimated retail sales from stores located in the market area. Retail categories in which spending is not fully captured are called "leakage" categories, while categories in which more sales are captured than are generated by market area residents are called "attraction" categories. Generally, attraction categories signal particular strengths of a retail market, while leakage categories signal weaknesses.

## B. POPULATION AND HOUSEHOLD INCOME ESTIMATES

HR&A relied on population and household estimates and projections provided by Esri for the PMA and SMA. Totals are shown in Appendix Exhibit A7. The results indicate population estimates in the Primary Market Area of 318,263 in 2018, growing to 347,047 in 2023, when the Costco/Vineyard II Center is assumed to be fully operational. The combined PMA and SMA is 806,898 in 2018 and is expected to grow to 870,320 by 2023.

Average per capita income in the PMA is currently $31,360 and is estimated to grow to $33,201 by 2023. Within the SMA, per capita income currently averages $26,831 and it is expected to grow to $31,616 by 2023.[17]

## C. CURRENT RETAIL MARKET CONDITIONS

According to recent retail broker reports for the Inland Empire, the Riverside - San Bernardino metro represents California's fastest growing economy, having added 260,000 jobs over the past five years[18].

[15] Esri (Environmental Systems Research Institute) is an international supplier of geographic information system (GIS) software, web GIS and geodatabase management applications. It is considered to be an industry leader in the access and use of geographic and demographic data.
[16] Esri Retail Marketplace Profile Report 2018
[17] Source for income growth is Esri Demographic and Economic Profile reports. Based on U.S. Census Bureau, Census 2010 Summary File 1. Esri forecasts for 2018 and 2023.
[18] Marcus & Millichap, *Retail Research Market Report, 2Q 2018*

This sustained span of diverse employment gains has supported the addition of nearly 200,000 residents during the same period, boosting local demand for housing and conveniently located shopping centers. In response, retailers have been in an expansion mode while consumer spending continues to escalate. Grocers and personal service-related companies, namely fitness centers and smaller gyms, have been notably active of late, occupying roughly one million square feet of combined space in 2017. Overall, at least 70 percent of current new supply is pre-leased, heightening retailer demand for existing space. This strong pre-leasing activity and stable tenant demand nearly negates the impact of recent heightened construction as vacancy increases overall have been modest.

Within the area roughly analogous to the combined Primary and Secondary Market Areas, overall retail vacancies stand at 6.4 percent as of the end of the first quarter of 2018.[19] Over the past four quarters, the vacancy rate in the market has remained relatively steady, with the rate going from 6.4 percent at the end of the second and third quarter's 2017 to 6.2 percent at the end of the fourth quarter 2017, and back to 6.4 percent at the end of the first quarter 2018.

## D. EXISTING SHOPPING CENTERS WITHIN A FIVE MILE RADIUS OF THE COSTCO/VINEYARD II CENTER PROJECT

Appendix Exhibits A8 and A9 present an inventory of shopping centers located within the Primary Market Area. Grocery, Clothing and General Merchandise store sales constitute over 70 percent of the projected sales at the Costco/ Vineyard II Center. Grocery store anchored shopping centers and centers with significant general merchandise- and apparel- oriented retailers are considered to be competitive with the Center.

Appendix Exhibit A8 indicates the centers that are located within five miles of the Costco/Vineyard II Center location. There is a total of 26 neighborhood centers, 9 community centers, and 3 power centers located within this area. Neighborhood centers are local serving in orientation, meaning that the trade area for these centers are residential neighborhoods within a 5- to 10-minute drive.

Seven of the neighborhood centers are anchored by a grocery store and one is anchored by a general merchandise store (Dollar Tree). Overall vacancy for this group is 8.1 percent; however, of the 26 neighborhood centers, eight shopping centers currently are experiencing vacancies between 11 percent and 32.5 percent. The most potentially vulnerable center of this group is the Town Center Plaza, located in Murrieta at Jefferson Ave and Juniper Street. It is a non-anchored neighborhood serving shopping center located 3.6 miles from the Costco/Vineyard II Center project site. The Town Center Plaza currently has 14,350 square feet of vacant space for an overall vacancy rate of just under 32.5 percent.

Community shopping centers located within five miles of the proposed Costco/Vineyard II Center range in size from 84,000 square feet to 360,000 square feet. Community shopping centers typically have larger trade areas than neighborhood centers. Customers will typically travel 10-to-15 minutes to go to this type of center. Five of the centers are anchored by a grocery store and three stores have significant general merchandise retailers. Overall vacancy for this group is 6.6 percent; however, two shopping centers currently are experiencing vacancies greater than 15 percent.

The three power centers within five miles of the proposed Project range in size from 230,000 to 325,000 square feet. Two centers have large home improvement stores, and two centers have general merchandise retailers. There are no vacant spaces within this group.

[19] Westmar *Commercial Real Estate, Retail Market Trends 1st Quarter 2018*

As noted, there are two community centers located near to the Costco/Vineyard II Center project that currently have significant vacancies. The Murrieta Town Center, located at the northwest corner of Alta Murrieta Drive and Murrieta Hot Springs Road in Murrieta is currently experiencing a 24 percent vacancy. This center, located within 3 miles of the Costco/Vineyard II project site, is anchored by Burlington Stores, Ross Dress for Less, Dollar Tree, and Rite Aid. Apparel anchors constitute nearly 1/3 of the total space of this center.

The other community center with significant vacancy in this area, the Murrieta Spectrum, does not have any stores that are oriented to product lines that would be in direct competition with stores proposed for the Costco/Vineyard II Center project.

## E. SHOPPING CENTERS LOCATED IN REMAINING PORTION OF THE PRIMARY MARKET AREA

The remaining portion of the Primary Market Area constitutes an area that is between five and eight miles from the Costco/Vineyard II Center site. Appendix Exhibit A9 presents an inventory of these shopping centers.

Although depicted in the exhibit, the neighborhood centers in this distance range are located too far from the Costco / Vineyard II project to be negatively impacted. However, the two existing community shopping centers and one power center located in this area may find themselves in direct competition with the proposed Costco store due to the large trade areas that Costco stores pull from. The two community centers have an overall vacancy of 2.6 percent while the power center has a vacancy rate under one percent. With low vacancy rates, these centers are not particularly vulnerable to increased competition.

## F. SHOPPING CENTERS LOCATED IN THE SECONDARY MARKET AREA

Shopping centers in the SMA, which are generally more than eight miles from the proposed Project are too far away from the Costco/Vineyard II project to be negatively impacted.

## G. COSTCO PRIMARY COMPETITORS

The Costco store located in the proposed Costco/Vineyard II Center will be the main sales generator for the Project. As shown in Appendix Exhibit A6, projected sales at the Costco are anticipated to account for approximately 92 percent of total sales at the Costco/Vineyard II Center. The Primary and Secondary Market Areas for this study are largely determined by the Costco store.

In California, Costco Wholesale stores' primary competitors in the highly competitive retail market of large discount stores are Wal-Mart Stores, Inc. and Target Corporation. Within this group, Costco and Walmart's Sam's Club stores most closely resemble each other and directly compete for customers. All of these stores have at least a partial grocery store component and the Walmart Supercenter stores include a full grocery store selection. Other grocery stores in the area that are not part of a larger general merchandise store will experience some competitive pressure from Costco as well. However, Costco generally sells no more than 5,000 products at any given time and because of that limited variety, customers will always need smaller markets with a wider variety. This helps to insulate freestanding grocery outlets such as Ralphs, Vons and Stater Brothers.

Figure 3 on the following page presents a map of the overall market area. The dark blue concentrations refer to retail store density. From this map it is clear that the highest concentration of retail development within the extended Primary and Secondary Market Area are located within the city boundaries of Temecula, Murrieta, Lake Elsinore, Menifee, and Hemet. Existing Costco locations in Temecula and Lake Elsinore have

been noted as well as the existing Sam's Club store located in Murrieta. These are considered to be the primary competitive locations for the new Costco store. Secondary competitors, Target and Walmart stores are also noted on the map.

The following locations are noted:

Costco Stores

- A 148,000 square foot Costco store in Temecula that is located just south of the Promenade Temecula shopping center. This store is located in the SMA.
- A 146,000 square foot Costco store in Lake Elsinore that is located in a community shopping center at Dexter and Central Avenue. This store is located in the SMA.

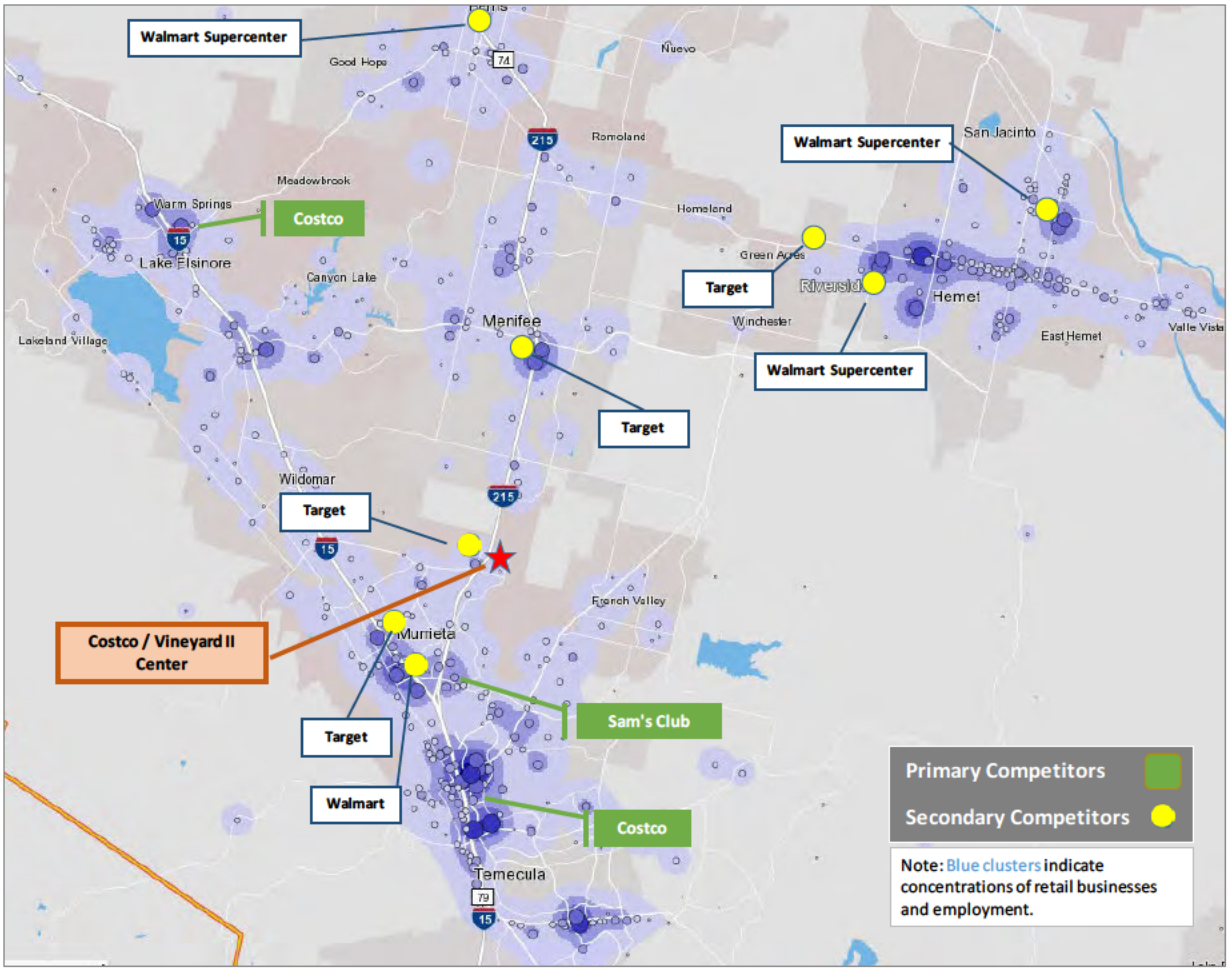
Sam's Club Stores

- A 130,000 square foot Sam's Club store in Murrieta that is located in the Murrieta Plaza shopping center at the cross of the 215 freeway and Murrieta Hot Springs. This store is located in the PMA.

Walmart and Walmart Supercenter Stores

- A 141,000 square foot Walmart store located in Murrieta (PMA) alongside Interstate 215 at Murrieta Hot Springs Road.
- Two Walmart Supercenters located in Hemet – a 220,000 square foot store in the Page Plaza shopping center and a 200,000 square foot store located in the Mount San Jacinto Plaza. These stores are located in the SMA.
- An 185,000 square foot Walmart Supercenter located in Perris at El Nuevo Road and North Perris Boulevard. This store is located in the SMA.

## Figure 3: Location of Primary and Secondary Competitive Supply




Source for retail concentration map - U.S. Census Bureau, Longitudinal-Employer Household Dynamics Program. Survey of competitive environment by HR&A.

Target Stores

- Two Target stores, both located in Murrieta – a 162,000 square foot store located in the Orchard at Stone Creek center, located just one-half mile from the project site; and a 125,000 square foot store located in the Cal Oaks Plaza. This store is located in the PMA.
- A 178,000 square foot Target store located in Menifee at the Countryside Marketplace community center. This store is located in the SMA.
- A 122,000 square foot Target store located in Hemet at the Hemet Valley Center. This store is located in the SMA.

## H. SALES ESTIMATES

Esri publishes estimates of residential consumer demand as well as onsite retail sales figures for defined market areas. Esri provides estimates of yearly store sales by retail category for defined market areas. Additionally, Esri provides estimates of residential purchasing power by retail category within the same market area. A leakage analysis compares the anticipated purchasing power of area residents to the sales experienced at area stores. If store sales are less than the local purchasing power, it is believed that residents are spending a portion of their sales dollars at store locations outside their local market. This is known as leakage. If sales at local stores exceed the local purchasing power, then the market area is known as an sales importer, meaning that consumers from outside the local market are shopping at local stores. A market experiencing leakage is a market that has an opportunity to add retail stores.

Three leakage analyses were conducted to assess the state of the Primary Market Area and Secondary Market Area's retail climate. The first leakage analysis examines the Primary Market Area's sales performance relative to its own population base in order to assess the degree to which the Primary Market Area is serving the retail needs of its resident population. A second leakage analysis examines the sales performance of the Secondary Market Area. Finally, the Primary and Secondary Market Area leakage analyses are combined to reflect the combined Primary and Secondary Market Area. The combined Primary and Secondary Market Area is defined in Chapter III and shown on a map in Figure 2.

The leakage analyses were conducted using 2018 sales data and extrapolated to 2023, reflecting the sales estimates for the Project assuming the first full year of stabilized store operations in that year. The consumer expenditure trends for 2023 were assumed to resemble expenditure trends in 2018, with adjustments for interim population growth and inflation.

The leakage results for the Primary Market Area, the Secondary Market Area, and the combined Primary and Secondary Market Area are located in the Appendix (see Appendix Exhibits A10 and A11 for Primary Market Area results, for 2018 and 2023 respectively, Appendix Exhibits A12 and A13 for Secondary Market Area results, and Appendix Exhibits A14 and A15 for combined Primary and Secondary Market Area results). For benchmark purposes, detailed results for all retail categories are presented in each market area.

The Primary Market Area has an overall leakage of retail sales of $1.9 billion in 2018 (Appendix Exhibit A10). However, a large proportion of this leakage was due to one category: Automobile Dealers (32 percent). This category currently experiences $599.7 million in sales lost outside the PMA, however it is not a relevant category for comparison with the anticipated tenants of the Costco/Vineyard II Center project. Several of the retail categories relevant to the Costco/Vineyard II Center project also experienced leakage in sales. The categories with the most leakage are as follows:

- Clothing and Shoe stores with $177.7 million in leakage
- Restaurants and other eating places with $145.3 million in leakage
- General merchandise stores with $108.6 million in leakage
- Health and personal care stores with $132.2 million in leakage
- Electronics and Appliance stores with $71.0 million in leakage.
- Gas Stations and Auto Supplies with $47.3 million in leakage.

The overall leakage total for the PMA is significantly high. This is due primarily to the location of the PMA in between two strong retail markets to the northwest and southeast along Interstate 15 (Temecula and Lake Elsinore). These leakage categories identify opportunities for new retailing to meet the needs of Primary Market Area residents. Note that grocery stores experienced very little leakage in 2018 with only $1.2 million in estimated lost sales.

HR&A also estimated the leakage/attraction of the Secondary Market Area, as shown in Appendix Exhibits A12 and A13. In 2018, the Secondary Market Area had overall sales attraction of $1,075,924,000 in surplus sales. Automobile dealers, general merchandise stores, gas stations and grocery stores are all strong performers in the SMA.

Finally, the results of the first two analyses were combined to reflect the total Primary and Secondary Market Area (see Appendix Exhibits A14 and A15). For retail categories relevant to the Project, the combined Primary and Secondary Market Area had leakage in the categories of automobile dealers, furniture and home furnishings, electronics and appliance stores, , specialty food and beer, wine and liquor stores, health and personal care stores, clothing stores, some specialty retail outlets and restaurants and other eating places. Overall, the combined market area had sales leakage of $824.8 million in 2018.

While the 2018 retail sales leakage analysis findings are informative, they do not reflect the situation that will prevail when the majority of the Project becomes operational. Thus, HR&A prepared a 2023 retail sales leakage analysis projection in Appendix Exhibits A11, A13 and A15. However, this projection assumes no new interim development, which is not an accurate portrayal of the market. Therefore, the following section provides adjustments to this projection, incorporating information on newly opened or recently closed retail in the Primary Market Area after the Esri Market Place report data was collected.

## I. ADJUSTMENTS FOR MAJOR NEW RETAIL DEVELOPMENTS

In order to bring the projections to 2018 numbers (Esri reports are based on 2017 data), HR&A made adjustments to the projected retail sales leakage analysis findings to account for major new retail developments that have opened in the market area since the end of 2017. The purpose of these adjustments is to more appropriately estimate the size of the Primary Market Area retail base at the time the Costco/Vineyard II Center becomes fully operational in order to more realistically estimate the Project's impacts.

HR&A surveyed the CoStar[20] commercial database and news publications to identify retail projects new to the Primary and Secondary Market Areas since 2017. Estimated sales performance is based on averages for categories published in the e-Marketer Retail publication for 2018.

The survey results identified three major new shopping centers and/or anchor stores (greater than 20,000 square feet) in the Primary and Secondary Market Area opened since January 2018 (see Appendix Exhibit A16 for details).

- The Shops at the Lakes – Menifee – estimated 2018 sales of $54.3 million
- Wildomar Square – Wildomar – estimated 2018 sales of $17.1 million
- The Gateway to Temecula Center – Temecula – estimated 2018 sales of $11.8 million

The distribution of the new retail sales by retail category is presented in Appendix Exhibit A17. The purpose of this distribution is to assess the impact of major store additions or deletions on the market area retail base. The results indicate that the greatest net change by retail category is the $37.7 million increase in grocery store sales. The combined impact of the two shopping centers in the PMA and the one center in the

[20] CoStar is a provider of information, analytics and marketing services to the commercial real estate industry. The company's suite of online service offerings includes information about space available for lease, comparable sales, and identified tenants, properties for sale, and upcoming projects that are planned for development.

SMA will be $83.3 million in additional sales (2018). This adjustment to the sales base of the PMA and SMA is incorporated into the analysis of sales impacts, presented in the next chapter.

# V. SALES IMPACTS

To determine potential sales impacts on existing stores, the analysis evaluates existing supply and demand for retail sales within each NAICS category. Projected population growth and the recapture of existing sales leakage are considered as sources of potential demand that may offset the sales impacts associated with the Project. In short, HR&A estimates the capture of new resident spending at the Project and further assess the extent to which the Project will likewise capture sales that are currently leaking outside the Primary and Secondary Market Areas. To the extent that the projected sales at the Project will not be covered by the purchasing power of new residents and/or the local recapture of sales currently lost to retailers located outside the PMA, then it is assumed that some local stores will be vulnerable to a potential diminution in Sales.

Estimating the impact of the adding the Costco/Vineyard II Center Project to the PMA and SMA market areas is a five-step process:

1. Estimate net new population growth in the PMA and SMA market areas by the year 2023.
2. Estimate the fair-share capture rate for the PMA and SMA store sales (Appendix Exhibits A18 and A19).
3. Estimate the PMA and SMA capture rates of their respective area residential spending power (Appendix Exhibits A20 and A21).
4. Estimate the Costco/Vineyard II Center sales capture attributed to population growth (Appendix Exhibits A22, A23 and A24).
5. Estimate the Costco/Vineyard II Center sales capture of market area sales leakage and the potential for diversion of sales from existing retailers (Appendix Exhibit A25)

## A. PROJECTED POPULATION GROWTH

The addition of new population and households to the Costco/Vineyard II Center's market areas is one major source of demand for the Project. New households will be formed as each market area's population grows between 2018 and 2023. These new households will in turn bolster the demand for retail goods in the region. As shown in Appendix Exhibit A7 and in Table 6 below, HR&A estimates that approximately 63,422 new residents will be added to the combined Primary and Secondary Market Areas between 2018 and 2023. This estimate is based on the most current projections by Esri.

### Table 6: Population Growth Projections

| | 2018 | 2023 | Growth |
|---|---|---|---|
| Primary Market Area | 318,263 | 347,047 | 28,784 |
| Secondary Market Area | 488,635 | 523,273 | 34,638 |
| Total Market Area | 806,898 | 870,320 | 63,422 |

**Notes:**

Source: Appendix Exhibit A7

## B. FAIR-SHARE CAPTURE RATE FOR COSTCO/VINEYARD II CENTER

In order to estimate how much of market area sales the Costco/Vineyard II Center will be able to capture from the new residents, a baseline fair-share capture rate for the PMA and SMA is determined for each relevant retail category in the Project.

As seen in Appendix Exhibit A18, all area store sales in the PMA are projected to be $3.1 billion by 2023, reflecting the point in time that stabilized operations for the Project are projected to happen. This total is comprised of three sources:

- Store sales estimated from retailers currently located in the PMA (Column A)
- Store sales estimated from retailers that have started businesses in the area since January 2018, e.g. store sales that were not captured in the Esri store projections which are based on data from 2017 (Column B), and
- Sales projected for the Costco/Vineyard II Center (Column C)

In Column C, HR&A has estimated the amount of projected sales for the Costco/Vineyard II Center attributable to residents of the PMA. It is worth noting that HR&A has estimated that 80 percent of PMA sales for the Costco/Vineyard II Center will come from residents of the PMA, while the remaining 20 percent of PMA sales are estimated to come from sales redirected from the two existing Costco stores in Temecula and Lake Elsinore. These stores are discussed in more detail in Section VII of this report; however, it is noted that local newspaper reports indicate that the Costco store at the Temecula location has been highly successful and has been experiencing some level of crowding. Based on this information, HR&A has assumed that a portion of customers for both existing Costco locations reside in the PMA and that a significant number of these customers would, redirect most of their shopping trips to the new Costco location when opened.[21]

Appendix Exhibit A18 identifies the fair-share capture rates by retail category for the Costco/Vineyard II Center project if it were built within the environment of the market area's existing retail store base in the final column of the table (Column E). Overall, a stabilized and successful Costco/Vineyard II Center, as proposed, would capture 4.6 percent of all retail sales originating from within the PMA, or $143.3 million.

Appendix Exhibit A19 presents a similar analysis focused on sales originating from within the SMA. All area store sales in the SMA are significantly greater than in the PMA ($7.4 billion vs. $3.1 billion) due to the larger number of residents in the SMA. Because of the large size of this market, and the greater distance between residential areas and the project site, the overall fair-share capture rate for the project would be 0.5 percent of all SMA-based sales. Based on this capture rate, sales at the Costco/Vineyard II Center from the SMA (exclusive of the PMA) are projected to be approximately $35.8 million annually (Column C).

## C. MARKET AREA CAPTURE OF MARKET AREA RESIDENTIAL SPENDING POWER

The third step in our estimation of impact is to estimate the PMA and SMA capture rates of their respective area residential spending power. Appendix Exhibits A20 and A21 illustrate this. Appendix Exhibit A20, Column A presents a projection of the total PMA dollar value of residential demand for retail in the Year 2023. This estimate of spending power includes existing residents as well as new residents expected to be added to the area within the coming five years. It totals $5.6 billion.

[21] HR&A does not have access to Costco store sales data or information about the residential location of Costco members by store. However, we are able to create a reasonable estimate of the impact of redirected resident sales using data from Costco's annual corporate reports. See Appendix Exhibit A36 for details. This serves as an illustration of the derivation of the 80 percent PMA, 20 percent SMA split in store capture for the Project.

The next column (B) presents projected sales for the area's existing retail store base and includes sales anticipated for the Costco/Vineyard II Center. The result of this table indicates that by 2023, without any new store additions to the market other than the Costco/Vineyard II Center, the PMA will only capture 56 percent of residential purchase power implying a sales leakage of nearly $2.5 billion for the area.[22]. In other words, 56 percent of PMA residential retail demand is satisfied by PMA located retail. The remainder is being spent elsewhere outside of the PMA.

Appendix Exhibit A21 presents the same analysis for the SMA. The estimated area residential retail spending power is $6.6 billion. The SMA retail base is larger than that of the PMA and is expected to generate $7.4 billion in sales. Store sales totals that exceed the spending power of the residential base indicate that a significant amount of sales are from residents of a neighboring market area, namely residents of the PMA that are choosing to do some of their shopping in the SMA. After adjusting for the non-resident sales, HR&A estimates that stores in the SMA capture 91 percent of their respective residents' retail spending.

## D. COSTCO/VINEYARD II CENTER SALES CAPTURE ATTRIBUTED TO POPULATION GROWTH AND THE POTENTIAL FOR DIVERSION OF SALES FROM EXISTING RETAILERS

Appendix Exhibits A22 and A23 present projections of how much new resident sales the Costco/Vineyard II Center is likely to capture. These projections are based on current levels of market area capture and the fair-share capture rates derived in Appendix Exhibits A18 and A19.

In Appendix Exhibit A22, HR&A projects that retail spending power growth attributable to new residents locating in the PMA will total $461.7 million by 2023 (28,784 new residents x $16,040 in per capita spending). Column C indicates the capture rates calculated in Appendix Exhibit A20. Overall, the PMA will capture 56 percent of the new residential demand ($256.6 million). Column E presents the fair-share capture rates by retail category for the Costco/Vineyard II Center as estimated previously in Appendix Exhibit A18. At a capture rate of 4.6 percent of area wide sales, the Project is anticipated to capture $11.7 million of its sales attributed to new residents of the PMA added by 2023 (Column F). The last column on the exhibit (Column G) indicates that, after accounting for sales from Costco/Vineyard II Center, there exists remaining retail purchasing power by the area's new residents. In the case of the PMA, this totals $245.0 million.

Appendix Exhibit A23 presents a similar analysis related to new resident sales capture from the SMA. Following the same methodology presented for Appendix Exhibit A22, new SMA resident sales at the Costco/Vineyard II Center are estimated to be $2.0 million. This leaves $392.6 million in new resident spending power to be spent elsewhere within the SMA.

Appendix Exhibit A24 presents a summary exhibit combining the information from A22 and A23. Overall, the Costco/Vineyard II Center is projected to capture $13.7 million of its sales from new residents expected to locate in the combined PMA/SMA over the coming five years.

[22] The totals have been adjusted slightly to compensate for grocery store sales expected to be in excess of resident spending. This is the opposite of leakage in that local grocery stores, in this case, are projected to attract a few customers from outside the PMA. The adjustment has been made in order to estimate the impact of PMA residents on PMA-based stores only

## E. COSTCO/VINEYARD II CENTER CAPTURE OF MARKET AREA RETAIL LEAKAGE

Appendix Exhibit A25 presents an assessment of the Costco/Vineyard II Center's potential sales impact on the existing retail base of the combined PMA / SMA market area. Note that this exhibit presents a pared-down list of retail categories that correspond to the relevant retail categories for the stores anticipated in the Costco/Vineyard II Center project.

Column A of this exhibit illustrates the Project's expected sales in each relevant retail category. In total, $179.1 million of the Project's $199.0 million in expected annual sales will be attributable to consumers residing in the PMA or SMA. Column B shows the amount of Project sales volume projected to come from consumers represented by new residential growth. As summarized previously in Appendix Exhibit A24, this totals $13.7 million.

The remaining amount, $165.4 million, represents the next increment of Costco/Vineyard II Center sales. After accounting for sales that come from new residents in the market area, there are two possibilities for where the next tranche of sales will come from. The first of these is from the recapture of sales lost to other market areas (i.e., leakage). The second possibility is from cannibalizing sales from existing, potentially weaker, retail stores within the market area.

Column D shows the estimated amount of sales leakage in each retail category previously estimated in Appendix Exhibit A15. There are two categories, grocery store sales and general merchandise store sales where no sales leakage is expected to exist. For those categories with leakage[23], the volume of leakage estimated is great enough to satisfy the remaining category demand. In fact, the Costco/Vineyard II Center will only need to capture 5.9 percent of the available leakage in the identified categories to satisfy these sales.

To calculate the Costco/Vineyard II Center's share of recaptured leakage a two-step process was employed:

(1) The estimated leakage in the market areas for each retail category was multiplied by 50 percent, under the assumption that Costco/Vineyard II Center could reasonably expect to recapture only a portion of the available leakage[24].

(2) In order to project a total that does not over allocate sales to the Project, for each retail category shown on Appendix Exhibit A25, if the potential sales impacts from the Costco/Vineyard II Center are less than 50 percent of the estimated leakage; then the Project is projected to only capture leakage amounting to the total potential sales impacts shown in Column C. Using this process, effectively, the Costco/Vineyard II Center is estimated to capture 5.9 percent of the total market area leakage in the relevant retail categories. [25]

This assumption recognizes that consumers generally allocate at least a small fraction of their retail spending to stores relatively far away from their residence. It also takes into account that there are other retail options in the region and that Costco/Vineyard II Center is unlikely to satisfy the entirety of unmet demand.

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[23] Retail categories with leakage – Electronics and Appliance Stores; Lawn and Garden Equipment; Beer, Wine and Liquor Stores; Health and Personal Care Stores; Gas Stations and Auto Supply; Clothing and Shoe Stores and Restaurants and Other Eating Places.

[24] The use of a 50 percent factor implies a conservative estimate of recapture of sales leakage. Many market studies assume that new retail centers will capture 100 percent of available sales leakage. In this case, the PMA and SMA market areas are fairly large and HR&A wishes to exercise caution when making projections of capture for such a significantly sized area. The use of a 50 percent discount factor achieves this.

[25] The 5.9 percent figure is calculated as follows: $65.2 million in recaptured sales leakage (Column E) divided by total market area leakage of $1.1 billion (Column D).

The potential recaptured leakage of $65.2 million represents sales currently occurring outside the Project's market areas, and therefore any recapture that the Project achieves will be to the detriment of stores located outside the Primary and Secondary Market Areas. Because these stores are spread across a very large area, the effects to such stores from Costco/Vineyard II Center will likely be very diffuse and thus minimal on any particular individual retailer. Spread across such a large geography and a multitude of retailers, this $65.2 million is estimated to cause some minor reduction in sales at stores in the region, but are unlikely to cause specific store closures or urban decay.

For grocery and general merchandise goods to be sold at the Costco/Vineyard II Center, there is not projected to be enough market area leakage to satisfy this newly created supply. Taken together, this represents $100.1 million in annual sales. The remaining retail spending power from new residents, even after allocating a portion of this spending to the Project, should be sufficient to easily absorb the Costco/Vineyard II Center project into the market without sales diversion from existing retailers (Columns G and H of Appendix Exhibit A25).

## F. CONCLUSIONS – SALES IMPACT

Based on the existing retail store base in the Primary and Secondary Market Areas, HR&A has projected that there will be no diminution of sales at existing retailers caused by the introduction of the Costco/Vineyard II Center project. Table 7 summarizes these conclusions:

- By 2023, market area sales required to support the Costco/Vineyard II Center are projected to be $179.1 million. Total sales for the Project are anticipated to be $199.0 million, however, HR&A estimates that 10 percent of the total project sales ($19.9 million) will be to customers that reside outside of the Primary and Secondary Market areas (e.g. the tertiary market area).

- The PMA and SMA already capture a certain amount of sales from within the area. In 2023, the PMA is estimated to capture only about 56 percent of residential spending, while the SMA will capture about 91 percent of SMA resident spending. In other words, 56 and 91 percent of PMA and SMA resident spending, respectively, is satisfied by the existing retail store base within the market areas and is not leaking to other markets.

- Based on projected market area and Costco/Vineyard II sales in 2023, it is estimated that the Project will capture about 1.5 percent of the pool of future PMA and SMA resident spending, or $13.7 million. This represents only 2.1 percent of new residential retail spending power expected to be added to the market area over the next five years.

- While the PMA and SMA are able to capture a majority of resident spending within the market areas, some spending is still leaking to outside markets. The Costco/Vineyard II Project can capture some of this leakage by providing an additional retail option for market area residents. In 2023, it is estimated an additional $65.2 million in sales for the proposed Project will come from a recapture of sales currently leaking outside the market areas (primarily leaving the PMA and going to stores in the SMA).

- New growth capture and recapture of leakage totals to $78.9 million, leaving $100.2 million in sales at the Project to be accounted for. The remaining $100.2 million in Costco/Vineyard II Center sales will be absorbed by current and new resident spending in the PMA and SMA beyond what the Project is already assumed to capture ($13.7 million). In other words, current and new resident demand is so substantial in 2023, and the existing retail store base unable to meet that demand, that resident spending power can easily absorb the $100.2 million in Costco/Vineyard II Center sales. This will not pull sales from other stores because Costco/Vineyard II is meeting unmet future

demand. There is sufficient excess demand in the PMA and SMA to absorb the $100.2 million in sales from Costco/Vineyard II, and still leave $338 million in sales to be absorbed by other new stores.

## Table 7: Potential Sales Impacts on Existing Retailers for Combined Primary and Secondary Market Areas

(2023 Dollars)

| | Row ID | Total Impact | Intermediate Calculation | Notes |
|---|---|---|---|---|
| **Market Area Sales in 2023 Required to Support the Center** | A | $ 179,135,955 | | |
| **Sales Supported by New Growth in the Market Area** | | | | |
| Market Area Spending Capacity Attributed to New Growth | B | $ 651,347,849 | | |
| Costco / Vineyard II Fair-Share Capture of New Demand | C | $ 13,745,546 | | *2.1% of B* |
| **Sales Supported by Re-Capture of Current Leakage** | | | | |
| Sales Leakage for Retail Categories Relevant to the Center | D | $ (1,114,433,957) | | |
| Leakage Captured by the Costco / Vineyard II Center | E | $ 65,228,766 | | *5.9% of D* |
| **Total Sales Supported by New Growth and Recapture of Leakage** | F | $ 78,974,312 | C + E | |
| **Intermediary Potential Sales Impacts on Existing Retailers** | G | $ 100,161,643 | A - F | |
| **Remaining Potential Demand from Population Growth to Offset Intermediary Impacts** | H | $ 437,664,717 | | |
| **Sales Diverted from Existing Retailers** | L | $ - | | *$0 diverted* |

**Notes:**

Source: Total in Row B is from Appendix Exhibit A24. All other information is from Appendix Exhibit A25

# VI. CUMULATIVE IMPACTS

This chapter analyzes the Costco/Vineyard II Center in the context of other currently planned competitive retail projects, or "cumulative projects." The surveyed projects are primarily larger neighborhood and community retail centers as well as power centers. Other, smaller retail developments of less than 20,000 square feet were excluded because they are not competitive with a shopping center like Costco/Vineyard II Center, both in terms of size and tenant mix. Smaller shopping centers usually have a neighborhood orientation with restaurants and convenience stores such as dry cleaners and nail salons. The Costco/Vineyard II Center, however, will be a destination center, i.e., it will attract customers that want to comparison shop for larger purchases. For convenience items, customers are likely to continue to shop at their local neighborhood centers.

## A. IDENTIFIED PROJECTS IN THE PRIMARY AND SECONDARY MARKET AREAS

HR&A identified major planned and proposed retail projects in the Primary and Secondary Market Areas. There are ten projects in Murrieta, six in Menifee, and two in Lake Elsinore and one in Hemet. Together, these 19 projects total to slightly more than 1.5 million square feet.

The identified retail projects are presented in Appendix Exhibit A26 and Appendix Exhibit A27. Most of these projects are in various stages of planning (such as specific plans) and in some cases, are still conceptual plans at best (e.g. The Triangle project in Murrieta). In many cases, it is not possible to know at this point in time what the eventual tenant mixes are likely to be or if the project will be completed in the manner currently proposed. Projects can change significantly after they have been initially conceived based the availability of anchor tenants or the success of competing projects coming on-line first. In some cases, as detailed in Appendix Exhibits A26 and A27, it is noted where we believe that a project may not be fully completed by the 2023 assessment date.

For shopping centers where a tenant mix is unknown, HR&A has estimated a standard tenant mix based on information from the International Council of Shopping Centers as well as consultant experience with shopping center planning in California. The list of projects in Appendix Exhibits A26 and A27 represents a compilation of projects that have been at least initially discussed with city planners in the respective jurisdictions.

The reader should note that the market areas are defined for the subject property (Costco/Vineyard II Center) and that the projects below may have somewhat different market areas depending on their location and the location of their major competitors. HR&A did not specifically define a separate market area for each project or store.

**PMA - Projects Identified in Murrieta**

- The Orchard at Stone Creek – consists of an 185,000 square foot addition to an existing shopping center. This project will also include a 78,000-multiplex theater.
- Hot Springs Center – a 24,000 square foot neighbor shopping center.
- Murrieta Marketplace – currently a proposed development plan to construct a 518,817 square foot power center consisting of 26,100 square feet of restaurant space, a 136,000 Home Depot, a gas station and additional pad buildings that could house retail or consumer service businesses.
- Murrieta Gateway – planned for construction of three industrial bldgs. with a total of 285,270 square feet, a 150-room hotel, 43,400 square feet of retail with a gas station.
- Aldi Grocery Store – a freestanding grocery store.

- French Valley Crossing – a 36,300 square foot neighborhood center.
- The Triangle – a potential project of 1.76 million square feet (600,000 sf office + 800,000 sf retail + theater and hotel with meeting rooms). The current square footage is based on the City's Triangle Specific Plan; however, this project has been in planning for a number of years and has a great potential to change from original plans. According to a Valley News article from Aug 8, 2018 -- Grading could begin soon on Golden Triangle' site, but details about the project remain vague. -- For this analysis we have assumed only 100,000 sf of retail is built and operational by 2023.
- Murrieta Hospitality Commons -- Development of 6.95 acres with a 59,840 square foot hotel consisting of 104 rooms and three restaurants totaling 16,100 square feet. Additionally, 10,500 square feet of retail is also planned.
- Vineyard I – City Planning indicates 165,000 sf approved. For this analysis, we are assuming a development consistent with that assumed for the Vineyard II Traffic analysis – that is a 78,489 square foot shopping center and a 91-room hotel.
- Vineyard III – located at the northwest corner of Clinton Keith Rd and I-215. Current plans call for construction of a 32,208 square feet commercial center, consisting of 11,600 square feet of retail, 8,000 square feet of restaurants, a 3,558 square foot bank and 9,000 sf of auto related uses.

**PMA - Projects Identified in Menifee**

- Junction at Menifee – a 309,600 square foot addition to an existing shopping center.
- McCall Square – a 71,000 square foot neighborhood retail center
- McCall Square II – a 84,000 square foot neighborhood retail center
- Menifee Crossroads – a 30,500 square foot addition to an existing shopping center.
- Menifee Lakes Plaza – a 150,000 square foot power center. Proposed tenants include Barons Market, LA Fitness, Raising Cane's, Cafe Rio, and Jamba Juice.
- Menifee Plaza – a 14,000 square foot neighborhood retail center.

**SMA - Projects Identified in Hemet**

- The Boardwalk - Phase II –a 64,000 square foot addition to an existing shopping center.

**SMA – Projects Identified in Lake Elsinore**

- Artisan Alley at The Diamond – The development will feature 95,000 square feet of retail and restaurant space and a 130-room hotel.
- Central Plaza – an 80,000 square foot community shopping center. Current plans include Marshalls, Sketchers, Five Below, ULTA Beauty, Panera Bread, and Starbucks as tenants.

## B. SALES ESTIMATES FOR PLANNED RETAIL DEVELOPMENTS

HR&A estimated sales for the planned market area retail developments in Appendix Exhibits A28 and A29. As with the Project itself, sales were estimated using available 10-k reports or the e-Marketer Retail database. There are a number of projects where tenants or even tenant types have not been identified for the planned space. For these allocations of space, HR&A assumed a generic sales performance estimate,

and assigned the sales to an appropriate mix of categories given the center type as shown in Appendix Exhibit A34.

To date, none of these projects have started construction. It is possible several of these projects may be repositioned once the Project begins construction, however sales from all proposed shopping centers are still forecasted to 2023 to assess the prospective cumulative impact of the Costco/Vineyard II Center in combination with these projects. The results in Appendix Exhibits A28 and A29 indicate that by 2023, if all of the planned projects are completed as noted, they are anticipated to generate an additional $627.3 million in retail sales originating from the Primary and Secondary Market Areas.

Appendix Exhibits A30 and A31 identified estimates of sales by retail category for the identified planned retail projects in the market area. Note that this result is uncertain as a number of projects identified are still in early planning stages and are without a solidified tenant profile. Nonetheless, based on the type of retail center identified and existing market and category data, HR&A believes that the projected retail category mix represents a reasonable estimate of future uses for these centers.

In deriving these sales estimates, the following assumptions were made about the proportion of each proposed project's sales that would be generated by Primary and Secondary Market Area residents. For the Primary Market Area, a range of 75 to 95 percent was used, roughly consistent with the market split assumption used earlier in this analysis. Neighborhood center uses which draw most of their users from a small localized trade area are estimated to be at 95 percent. For community and power centers, some retail use is set at 75 to 85 percent to reflect larger trade areas for customers. For projects located in the Secondary Market Area, 85 percent was used as the proportion of sales from those projects that would originate from the Secondary Market Area.

## C. ANALYSIS OF CUMULATIVE SALES IMPACTS

Utilizing the same methodology discussed in Chapter V - Sales Impacts, HR&A estimated the maximum 2023 impact of the planned retail developments on existing retailers in the market area in combination with the Project., which is presented in Appendix Exhibit A32, and summarized below in Table 8:

- Projected sales required to support the planned and proposed projects in the market area (cumulative projects) along with projected sales required to support the Costco/Vineyard II Center are estimated to total $700.4 million by 2023.
- Based on a fair-share market capture assessment of the Project, HR&A estimates that the Costco/Vineyard II Center would initially be able to capture $13.7 million of consumer spending from new residential growth in the PMA and SMA areas.
- This leaves $686.7 million in retail sales from the cumulative projects that must be matched to demand or diminution of sales at existing retailers.
- Sales leakage across retail categories relevant to the Project within the combined market area is $1.1 billion; however, leakage amounts vary by retail category. For the following categories, recapture of market area sales leakage will satisfy the introduction of new retail space:
    - Electronics & Appliance Stores
    - Beer, Wine & Liquor Stores
    - Health & Personal Care Stores
    - Gasoline Stations / Auto Supplies
    - Clothing & Clothing Accessories Stores
- Sales in Restaurants and Other Eating Places added to the market area as a result of all planned and proposed projects are projected to total to $115.8 million by 2023. Less than 1 percent of

these sales will be attributed to the Costco/Vineyard II Center. The remaining amount of new sales projected in this category can be satisfied by reabsorption of market area leakage as well as demand generated by residential growth.

- When considering all of the cumulative development identified, and assuming all cumulative projects are built and operational by 2023, a total of $171.9 million in sales is at risk of diversion from existing retailers due to an overabundance of planned and proposed projects as well as existing stores within these categories.

## Table 8: Potential Sales Impacts from Cumulative Projects for Combined Primary and Secondary Market Areas

(2023 Dollars)

| | Row ID | Total Impact | Intermediate Calculation | Notes |
|---|---|---|---|---|
| **Retail Sales Required to Support Planned + Proposed Retail Centers** | A | $ 700,416,451 | | |
| **Costco / Vineyard II Center Sales Supported by New Growth** | B | $ 13,745,546 | | *2.0% of A* |
| **Potential Sales Impacts on Other Retailers** | C | $ 686,670,906 | A - B | |
| **Sales Supported by Re-Capture of Current Leakage** | | | | |
| Sales Leakage for Retail Categories Relevant to the Center | D | $ (1,114,433,957) | | |
| Leakage Captured by Planned and Proposed Centers | E | $ 271,054,667 | | *24.3% of D* |
| **Intermediary Potential Sales Impacts** | F | $ 415,616,239 | C - E | |
| **Retail Categories Where Recapture of Market Area Sales Leakage Will Satisfy the Introduction of New Retail Space** | | | | |
| - Electronics & Appliance Stores | | 100% | | |
| - Beer, Wine & Liquor Stores | | 100% | | |
| - Health & Personal Care Stores | | 100% | | |
| - Gasoline Stations / Auto Supplies | | 100% | | |
| - Clothing & Clothing Accessories Stores | | 100% | | |
| **Retail Categories Where Recapture of Market Area Sales Leakage and Demand from Population Growth Will Satisfy the Introduction of New Retail Space** | | | | |
| -Restaurants/Other Eating Places | | 100% | | |
| **Retail Categories Where There is a Risk of Diverted Sales** | | $ of Dirverted Sales | | SF at Risk |
| Lawn & Garden Equip & Supply Stores | | $ 16,120,275 | | 37,900 sf |
| Grocery Stores | | $ 101,778,991 | | 113,100 sf |
| General Merchandise Stores | | $ 54,017,909 | | 120,000 sf |
| Potential Sales Diverted from Existing Retailers | | $ 171,917,175 | | 271,000 sf |

**Notes:**

Source: Appendix Exhibit A32 and Appendix Exhibit A35

After the Costco/Vineyard II Center reaches stabilized operations by 2023 and if all other proposed projects come online during the same period, an oversupply of retail in lawn and garden equipment stores, grocery stores and general merchandise stores is projected. Of these, the lawn and garden equipment category is expected to be the most impacted. If all cumulative projects are built and operational by 2023, the lawn and garden category would experience about $16 million in surplus sales, which represents 47.6 percent of projected 2023 sales in that category in the PMA and SMA. The grocery store goods category would have a projected surplus equal to 5.8 percent of 2023 sales in the PMA and SMA, and general

merchandise would have a projected surplus equal to 2.7 percent of 2023 sales in the PMA and SMA (see Table 3).

The Costco/Vineyard II Center alone would not cause the surplus sales in the lawn and garden category, as lawn and garden equipment and supplies only make up about 1 percent of the proposed Project's sales. However, there are two new Home Depot stores planned in the PMA (which are included in the related project list), along with other stores with lawn and garden sections, which will have a big impact on the lawn and garden retail category (see Exhibit A30 for a complete list of the PMA pipeline projects).

# VII. URBAN DECAY DETERMINATION

The purpose of this chapter is to assess the degree to which development of the Costco/Vineyard II Center will or will not cause or together with other projects, ultimately contribute to urban decay. Urban decay could theoretically result from development of the Project and other known market area planned retail developments due to closure of other stores resulting from negative economic impacts. However, while urban decay could result from such store closures, it does not necessarily result. To make this determination, it is necessary to consider whether, if stores remained closed, urban decay would likely result. This chapter discusses the definition of urban decay, the study's approach to determining urban decay potential, retailer demand in the market area, and HR&A's urban decay determination.

## A. STUDY DEFINITION OF URBAN DECAY

In recent years, the California Courts of Appeal addressed the need to consider the potential for "urban decay" in environmental documents for large retail projects. In Joshua Tree Downtown Business Alliance v. County of San Bernardino (2016) 1 Cal.App.5th 677, urban decay is defined as, "among other characteristics, visible symptoms of physical deterioration that invite vandalism, loitering, and graffiti that is caused by a downward spiral of business closures and multiple long term vacancies. This physical deterioration to properties or structures is so prevalent, substantial, and lasting for a significant period of time that it impairs the proper utilization of the properties and structures, or the health, safety, and welfare of the surrounding community." Ultimately, the Court of Appeal reversed the trial court decision and found that the Downtown Alliance had failed to carry its legal burden to identify any substantial evidence that a proposed Dollar General store would result in urban decay. The Court of Appeal determined that economic impacts alone are not subject to CEQA analysis. Economic impacts only become CEQA concerns when they are linked to physical changes in the environment.

Per case law described above, the manifestations of urban decay include such visible conditions as plywood-boarded doors and windows, parked trucks and long term unauthorized use of the properties and parking lots, extensive gang and other graffiti and offensive words painted on buildings, dumping of refuse on site, overturned dumpsters, broken parking barriers, broken glass littering the site, dead trees and shrubbery together with weeds, lack of building maintenance, abandonment of multiple buildings, homeless encampments, and unsightly and dilapidated fencing The primary impetus of urban decay often stems from financial conditions faced by the individual property owners, however, as described in the case law above, economic impacts alone do not result in urban decay.

The urban decay process generally takes a number of years to fully materialize and is reinforced by declining economic conditions in a broader market area. It is generally not the result of a single property standing vacant for one or two years in an otherwise vibrant market. It is worth noting that an abandoned freestanding big box retail/power-center development, also known as a "ghost box, "or declining regional mall known as a "gray field, "can pose a particularly high risk for urban decay if not promptly re-leased. Not only are these facilities bigger and thus generally more difficult to quickly re-lease or reuse compared to small "infill" sites, they are also more visually significant and thus provide a more widespread signal of decay and negative business climate. In contrast, several smaller parcels with varied building types often have a better chance of being adapted and released.

## B. ESTIMATED IMPACT OF THE PROJECT

This study analyzes the effects of the Project exclusive from other cumulative projects as well as the anticipated cumulative impact of all the cumulative projects identified above within the Primary and Secondary Market Areas.

**Project Specific Impacts**

Based on this analysis, the Costco/Vineyard II Center, when analyzed exclusively from other proposed retail development, is not anticipated to create conditions conducive to urban decay. The Project is estimated to contribute nearly 225,000 square feet of retail space and approximately $199.0 million in sales to the Murrieta community[26]. As shown in Chapter V, by the time the Costco/Vineyard II Center is at stabilized operations in 2023, there is no projected oversupply of retail within the larger market area attributable exclusively to the Project. These findings infer that the Project would not be likely to create conditions that would lead to urban decay.

**Cumulative Impacts**

The Inland Empire and Riverside - San Bernardino metro area represents California's fastest growing economy, having added 260,000 jobs over the past five years. As new residents have located in the area, so too have new jobs and associated retail to support the growing residential base. Overall, at least 70 percent of current new retail supply is pre-leased, heightening retailer demand for existing space. These favorable market conditions have resulted in a significant pipeline of proposed development within the Primary and Secondary Market areas[27], of which the Costco/Vineyard II Center is only one development. If all proposed projects come online as planned within the proposed timeframe (an unlikely scenario), an increase in oversupplied space in the market areas in the lawn and garden equipment and supply, grocery store goods and general merchandise goods is anticipated to occur by the year 2023. The findings indicate that cumulative development of anticipated retail could lead to the following impacts:

4) Vulnerability in the Lawn and Garden Sector: The effect of this potential oversupply is projected to be most significant in the lawn and garden sector. Larger retailers with lawn and garden sections are not particularly vulnerable because the lawn and garden section only makes up a portion of store sales. For example, the lawn and garden section would only comprise 1 percent of the proposed Project's sales in 2023, and a lawn and garden section in a standard Home Depot is assumed to only comprise about 10 percent of the store's sales. Independent lawn and garden equipment and supply retailers would be more at risk for closure due to an oversupply in the marketplace. However, as described earlier, a single property becoming vacant generally does not lead to conditions of urban decay.

5) Minor Shifting of Sales from Existing Costco Stores in the SMA: The two existing Costco stores located in Temecula and Lake Elsinore will likely see some of their current sales redistributed to the Murrieta Costco location as residents from Murrieta, Wildomar and Menifee that currently patronize these stores change their preferred shopping destination to the new store. Anecdotal information from local news sources indicate that the Temecula Costco store is highly successful and may be experiencing crowding issues. Once a new Costco store is opened in Murrieta, customers that reside closer to the new store are, in part, expected to redirect that store visits to the closer store. In any case, the amount of redirected sales is unlikely to negatively impact the two existing Costco stores in the area.

6) Potential for Loss of Sales at General Merchandise Stores: There are two Walmart Supercenters in Hemet and one in Perris, both located in the Secondary Market Area in the northern most section of the market area. There is also an existing Sam's Club store in Murrieta. These stores may see some of their

[26] Of the $199 million in projected sales, 90 percent, or $179.1 million is expected to come from customers residing in either the PMA or the SMA. The remaining 10 percent of sales ($19.9 million) is expected to come from customers located outside either of the two market areas.

[27] HR&A identified 19 planned and proposed projects totaling slightly more than 1.5 million square feet planned for the PMA and SMA areas.

current sales redistributed to the Murrieta Costco location as well as other new general merchandise stores in the pipeline.

As noted previously, the planned and proposed projects list includes a number of projects that are still conceptual in nature and may not eventually be built out as convinced of today. Specifically, there are several factors that could ameliorate possible impacts of urban decay:

- **Repositioning of Properties to Non-Retail Uses**: The analysis presented herein relates to the demand for property currently used and zoned for retail uses only. Conditions conducive to urban decay may be avoided if individual landowners can readily convert their property to other more marketable or lucrative uses (e.g. residential, industrial or office) in the face of changing market conditions.

- **Entrepreneurialism and Market Adaptation**: Retail is a highly competitive and adaptable sector that is affected by a variety of evolving trends, including consumer preferences, demographics, travel patterns, technology and innovation (e.g. online shopping), as well as commodity production and distribution markets. Individual tenants or property owners will respond to these trends with varying degrees of success, depending upon their entrepreneurial skills, local planning, business development efforts, and other factors. These factors, although intangible and difficult to predict, could improve the performance of the retail sector beyond what might be expected based on population and income growth projections alone.

  **Continued positive economic growth in the Market Area bodes well for re-tenanting vacated space:** As noted in Section IV of the report, the Inland Empire, the Riverside - San Bernardino metro represents California's fastest growing economy, having added 260,000 jobs over the past five years. As jobs have located in the area, so too have new residents and associated retail to support the growing residential base. Overall, at least 70 percent of current new retail supply is pre-leased, heightening retailer demand for existing space. Additionally, within the PMA and SMA area, overall retail vacancies have averaged at approximately six percent for the past year, further indicative of a robust retail environment. Given the current retail environment, vacated retail space should be able to be released within a reasonable amount of time.

## C. CONCLUSION

Based on this analysis, the Costco/Vineyard II Center, when analyzed exclusively from other proposed retail development, is not anticipated to create conditions conducive to urban decay. Due to the speculative nature of the inventory of cumulative and competitive projects identified for the PMA and SMA, the cumulative impact on market area sales are likely to be even lower in 2023 than is estimated in this report. If the estimated impacts are fully realized by 2023, the prospective sales diversions of grocery store goods and general merchandise store goods is expected to be minimal and spread among a number of existing stores in the market areas without individual stores going out of business and causing the physical impacts of urban decay. The prospective sales diversions of lawn and garden equipment and supply stores is more significant than the other categories, but given the current nature of the lawn and garden market in the PMA and SMA, the impacts are likely to be widespread and affect larger stores with lawn and garden sections representing only a portion of the store's sales, an impact that is unlikely to lead to a store closure. If the impact on independent lawn and garden stores is significant enough to result in store closures, visible symptoms of physical deterioration are unlikely to occur as a result of small and isolated store closures. As such, if all cumulative projects are built as planned and operational by 2023, conditions conducive to urban decay are highly unlikely to manifest.

DAVID TAUSSIG & Associates, Inc.

# ECONOMIC IMPACT ANALYSIS (PHASE I)

## FAIRVIEW AT NORTHGATE
## VALLEJO, CALIFORNIA

DECEMBER 16, 2019

Prepared For

Kimley-Horn & Associates, Inc.

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Prepared By

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[redacted]

Public Finance
Public-Private Partnerships
Urban Economics
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## APPENDICES

# EXECUTIVE SUMMARY

## A. CONCLUSIONS

David Taussig & Associates, Inc. ("DTA") has prepared this Economic Impact Analysis ("EIA") in order to analyze the potential short- and long-term economic impacts of the Fairview at Northgate project (the "Project") under the framework provided by Section 16.76.040 of the City of Vallejo (the "City") Municipal Code ("the Code"). DTA was tasked with examining the local and regional markets for existing and proposed stores that provide retail and food and beverage retail uses to determine whether there is potential demand for these uses at the Project site. In completing the analysis, DTA evaluated the possibility that the development of these uses on the Project site might cause the saturation and/or deterioration, or "Urban Decay," of existing and proposed retail development within the City and the County of Solano ("County"), including the reuse of an existing site that would be closed as a consequence of the Project. In addition to its Urban Decay and Economic Impact Analysis, DTA has further evaluated the Fiscal Impacts of the proposed Project by examining the residential and non-residential land uses. The Fiscal Impact Analysis can be found as Phase II of this Study.

As summarized below in this Executive Summary and discussed in detail in the text of the EIA, the Project will add to the supply of retail outlets available to residents of the Project's Primary and Secondary Trade Areas (the "Trade Areas"). The Primary Trade Area encompasses a 3-mile radius from the Project site, whereas the Secondary Trade Area encompasses a 7-mile radius from the Project site. By and large, the demand for retail goods in the Trade Areas exceeds current retail supply. The key reason for this is that the retail sales currently experienced in these Trade Areas fall below the demand for retail goods generated by the residents currently living in these areas, and as a result these residents venture outside the Trade Areas to fulfill their needs.

Retail vacancies within the Trade Areas have decreased in recent years, and as the real estate market becomes more competitive within the Bay Area and the draw toward the East Bay and City of Vallejo rises due to relatively affordable housing prices, increasing retail demand is likely to further reduce any likelihood of Urban Decay related to the construction of the Project.

The timing of the Project and its ultimate buildout, estimated to occur by October 2022 for the retail component and by October 2023 for the residential component, offers the City and the County an opportunity to capitalize on current growth while protecting against changes in market cycles. Yet, irrespective of timing, the Project will play an important role in satisfying the Trade Areas' under-served retail demand by improving the balance between supply and demand in these areas. Consequently, the Project is not expected to cause Urban Decay or any related physical changes.

## B. PROJECT DESCRIPTION

The proposed Project is located in the City of Vallejo within the County of Solano and spans approximately 51.3 acres. It is comprised of approximately 179,688 square feet of retail/commercial space (including the proposed Costco, five retail pads, and gasoline service station accommodating up to 30 fueling dispensers and a related kiosk) within 21.8 acres, a residential component of 178 single family units within 23.8 acres, and 5.7 acres of open space. Notably, the new Costco is to replace a Costco less than one mile from the Project site; the net effect of the replacement is an additional 26,701 square feet. The Project site is located on a vacant, undeveloped lot, and is

bounded to the west by the Admiral Callaghan Lane right-of-way, to the north by the Turner Parkway right-of-way, to the south by a car dealership, residential condominiums, and apartments, and to the east by single family homes. The I-80 freeway is immediately adjacent to the west of Admiral Callaghan Lane. Please refer to **Map ES-1** for further information on the elements and location of the Project.

TABLE **ES-1**

APPROXIMATE LAND USE ASSUMPTIONS

| LAND USE | ACREAGE |
|---|---|
| Retail/Commercial | 21.8 |
| Residential | 23.8 |
| Open Space | 5.7 |

## C. METHODOLOGY

The EIA analyzes the potential short- and long-term economic impacts of the proposed Costco. The term "superstore" shall refer to a business providing retail sales and food and beverage retail sales, as such terms are defined in Chapter 16.06, where the combined uses occupy seventy-five thousand square feet or more gross floor area and devote ten thousand square feet or more of the gross floor area to the sale of nontaxable merchandise, including but not limited to food and beverage retail sales. City Municipal Code Section 16.76.040 is substantially as follows, and requires:

*1. A survey of the existing stores, including their current average retail sales, that provide retail sales and food and beverage retail sales within the city and the cities of Benicia and American Canyon, and/or in other retail and food and beverage retail market areas that would be served by the proposed superstore, regardless of whether such stores are within the political boundaries of the city, and that are likely to be economically affected by the proposed superstore.*

*2. A survey of the existing, proposed, and/or pending superstores within the affected area.*

*3. A survey of the number of persons who are employed on either a full-time or a less than full-time basis, and a delineation of each, by the existing stores and an estimate of the number of persons who would be employed on both a full-time or a less than full-time basis, and a delineation of each by the proposed superstore.*

*4. An analysis of the short- and long-term effect the proposed superstore could have on the retail stores specified, which shall include an analysis of the proposed superstore's potential impact on the following within the affected area: retail sales, food and beverage retail sales, store closures, jobs, and any food and beverage retail and/or retail stores that could potentially close, including an analysis of the potential for using the closed site(s) for similar or other use. Such analysis shall also include a survey of established compensation and wages standards in comparable stores operated by the applicant compared to those established in the affected area.*

*5. An analysis of both the short- and the long-term potential effects of the proposed superstore on retail and food and beverage retail sales in the affected area, including a conclusion as to whether the proposed superstore would cause a net increase or decrease in retail and food and beverage retail sales in the affected area.*

*6. A fiscal impact analysis, which shall include, but not be limited to, an analysis of the projected sales tax revenues for the proposed superstore and an analysis of both the short- and the long-term effects of the proposed superstore on net sales tax revenues generated by existing retail and food and beverage retail stores in the city.*

*7. An analysis of the proposed superstore's potential short- and long-term net effect on the ability of consumers in the affected area to obtain a variety of food and beverage and retail products in light of the analysis concerning potential closure of retail and/or food and beverage retail stores within the affected area.*

*8. An analysis of the average savings a typical consumer might expect, if any, by the approval of the proposed superstore.*

In addition to requiring specific metrics (#1 and #3), Section 16.76.040 is also very concerned with Urban Decay (#4, #5, and #7). Urban Decay is an environmental, economic, and social problem that may be caused by the abandonment of existing retail development that results from highly competitive new retail development. This abandonment can lead to higher vacancy rates and deferred maintenance of existing retail square footage by its owners, who no longer receive the level of rental income necessary to maintain their properties. This in turn can lead to lower property values, higher crime rates, a damaged business environment, and a continuing cycle of events that can cause a variety of economic and social problems for a municipality. While it may take years for this type of deterioration to occur, once it starts, it can be difficult to stop.

To evaluate the potential for the Project to cause Urban Decay due to closures of existing retail stores, DTA evaluated the supply and demand for each specific retail category (e.g., r, food stores, etc.) in each of the geographic areas that will be impacted by the Project, otherwise known as the Project's Trade Areas or the "affected areas." To determine existing retail conditions, the most recent annualized data available to the City (2019), herein referenced as the "Existing Conditions," was obtained from the Nielsen Company. The EIA also assumes that the retail and residential components will be completed by October 2022 and October 2023, respectively, but that stabilized sales within the Project will first occur in 2024.

To determine the likelihood of Urban Decay occurring within the Trade Areas, the following methodology was applied in this analysis:

1. The boundaries of the Primary and Secondary Trade Areas that would support the Project were identified;

2. Retail sales expected within the Project were defined;

3. Current consumer demand generated by existing residents in each of the Trade Areas was determined;

4. Current retail sales in each of the Trade Areas were estimated;

5. The amount of existing retail leakage (local demand greater than local supply) or retail surplus (local supply greater than local demand) in each of the Trade Areas was calculated;

6. Projected future retail demand versus retail supply in 2024, herein referenced as the "Future Conditions" assuming completion of the Project for each of the Trade Areas, was calculated to determine if future retail leakage or retail supply surplus is expected to occur;

7. Other planned developments in the Trade Areas were identified where possible – and the Future Conditions supplies for food and retail were increased to include additional sales generated by the successful completion of these other developments – to determine the impacts of this additional supply;

8. Current retail vacancy rates in the vicinity of the Project were determined; and

9. The extent to which the Project is likely to contribute to Urban Decay in the Trade Areas, based on the findings under Tasks 1-8, was assessed. Evidence of retail leakage in the future despite the construction of the Project would suggest little potential for Urban Decay. Conversely, evidence of an oversupply of retail space would be a reason for greater concern regarding the potential for Urban Decay.

Please note that updated population, employment, and Citywide retail vacancy information, as well as a discussion of market impacts related to the positive real estate forecast have been provided in Section 2 of this analysis.

## D. SUMMARY OF FINDINGS

To assess the potential impacts of the Project on existing retail development, the market area and population that would be served by the Project must first be determined. Local-serving retail uses include grocery and drug stores, cleaners, and other retail uses commonly found in neighborhood shopping centers, all of which generally attract customers from within the Primary Trade Area. Regional retail uses consist of goods and services for which consumers are willing to travel outside of their immediate neighborhoods, and include general merchandise, apparel, home furnishings and other retail uses. These regional uses generally attract customers from both the Primary and Secondary Trade Areas. While consumers are sometimes willing to travel considerable distances to purchase certain goods and services, they generally tend to shop at centers closest to their places of residence — all else being equal. Therefore, the Primary and Secondary Trade Area boundaries for the Project were established based on the distance between local residences and their nearest retail centers, as well as existing roadway systems and traffic patterns that impact where local residents do their shopping. **Exhibit 11** in **Appendix A** identifies the Project Trade Areas in relation to the locations of other centers with major anchors.

The Project is not expected to compete with existing retailers located beyond the Secondary Trade Area as consumers who reside beyond those boundaries would have multiple shopping center options that are located closer to their residences (or in some cases, their places of work).

Additionally, the projected retail sales of the Project represent a small percentage of total retail sales currently occurring beyond the Secondary Trade Area and are thereby unlikely to have a major impact on the shopping habits of residents outside of the Primary and Secondary Trade Areas. Demographic data for 2019 (the "Existing Conditions") provided by the Nielsen Company indicates that there are 39,852 households in the Primary Trade Area and 68,143 households in the combined Primary and Secondary Trade Areas, with median household incomes of $66,006 and $77,437, respectively.

The EIA first examines the current market dynamics within each of the Trade Areas to determine the ability of each Trade Area to capture the expected retail demand of its own residents. Retail demand generated by Trade Area residents which is not currently captured by retailers within the Trade Area would indicate that there is existing excess demand to support the Project's planned retail developments without negatively impacting existing businesses within the Trade Areas. The EIA compares existing retail demand generated by residents of each Trade Area versus existing retail supply within each Trade Area, and illustrates that there is a current shortfall of $222.7 million in retail sales in the Primary Trade Area, versus a shortfall of $691.0 million in retail sales in the combined Primary and Secondary Trade Areas (see **Figures ES-1** and **ES-2**). This shortfall indicates that demand for retail goods in the Trade Areas is much greater than the sales experienced by retail outlets currently located in such areas.

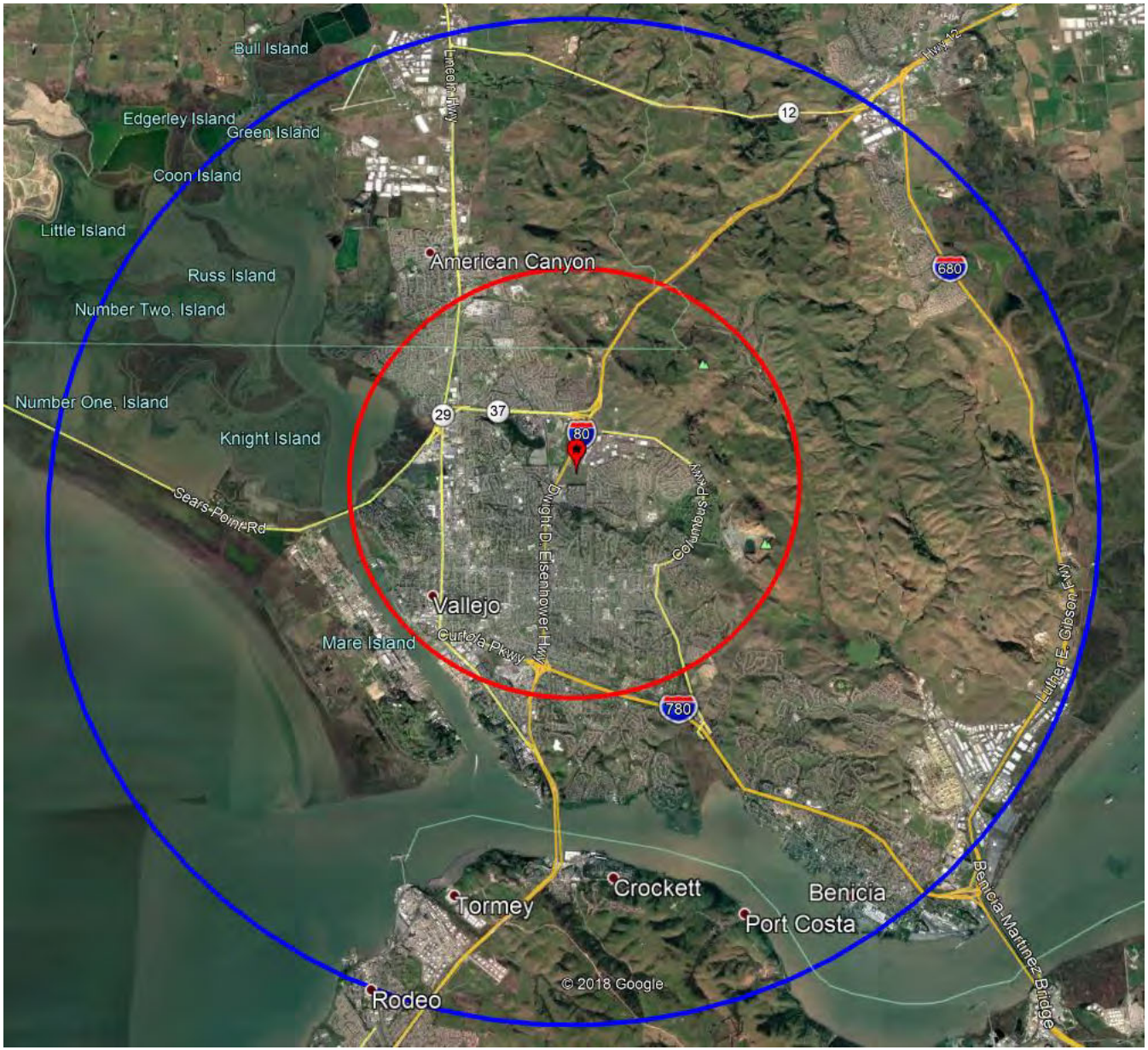
With respect to food and beverage establishments specifically, when combining the Food and Eating and Drinking categories, there is a de minimis surplus of $4.5 million in the Primary Trade Area and a shortfall of $61 million in the combined Primary and Secondary Trade Areas. Costco's business operations include selling groceries, which falls under the Food categorization, as well as running a limited-service restaurant/snack bar, which falls under the Eating and Drinking categorization. As such, for the purpose of this analysis, DTA has combined the Food and Eating and Drinking categories to better reflect the supply this Project will contribute to these related categories. DTA acknowledges the oversupply of $52.9 million in the Primary Trade Area when solely examining the Food category, however given the fact that the Project is merely the relocation and expansion of an existing Costco, and only half of the additional 26,701 square feet will be used for grocery items, as confirmed by the Proponent, there is no evidence to indicate that the Project would exacerbate the already existing surplus. The Project is also not expected to compete with other typical grocery store chains, such as the nearby Safeway, because although both stores offer food and beverage items, each location has a different use to the average consumer depending on their needs.

DTA also recognizes the $122.7 million surplus in the Automotive category, however this is likely due to the quantity of motor vehicle dealers within the Primary Trade Area, which inflates and distorts these figures. According to data obtained from the Nielsen Company, new and used car dealerships comprise 87 percent, or $379.4 million, of the $434.3 million total supply in the Automotive category. The majority of dealership revenue is generated from vehicle sales and the vast majority of goods offered by Costco are not similar to those of a car dealership. As previously mentioned, because the Project is merely the relocation and expansion of an existing Costco and approximately 25 percent of the additional 26,701 square feet will be used for non-grocery retail items, as confirmed by the Proponent, there is no evidence to indicate that the Project would exacerbate the already existing surplus or cause Urban Decay and/or market saturation within the Trade Areas. Additionally, dealerships typically serve a sub-regional population, one well in excess of our Primary and Secondary Trade Areas. Overall, the retail sales figures represent a healthy supply/demand equilibrium, which

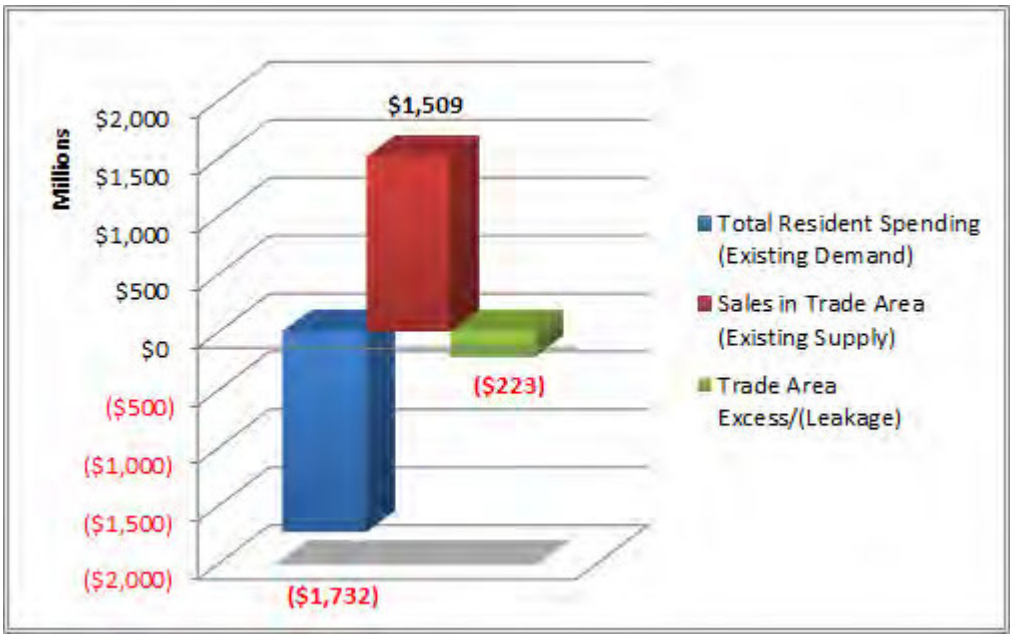
is very unlikely to be upset by the expanded Costco's (additional 26,701 square feet) sales, and any existing surpluses will not be worsened by the Project.

DTA evaluated the closure and reuse of the current site upon completion of the Project. The Project Proponent will place a deed restriction on the original site to prevent any "bulk sale merchandisers" or other general merchandise retailers, which rules out any potential issues that may be caused by the addition of retail uses similar to that of Costco. Based off data provided by the Proponent, it is likely that any new retailer will fall under the General Merchandise or Other Retail categories. The existing site provides 125,437 square feet of potential retail space, and at an average taxable rate of $300 per square foot, the re-tenanting of this space would add an estimated $30.1 million to the existing supply, increasing the supply in the General Merchandise category to $421.8 million with a remaining demand of $137.7 million, and the supply of the Other Retail category to $359.4 million with a remaining demand of $240.8 million. In both scenarios, there would still be significant demand for additional retail in either category, and the re-tenanting of the existing site would provide an expanded opportunity for new retailers to enter the market and fulfill this unmet consumer demand.

## MAP ES-1
## PRIMARY (3 MILE) AND SECONDARY (7 MILE) RETAIL TRADE AREAS

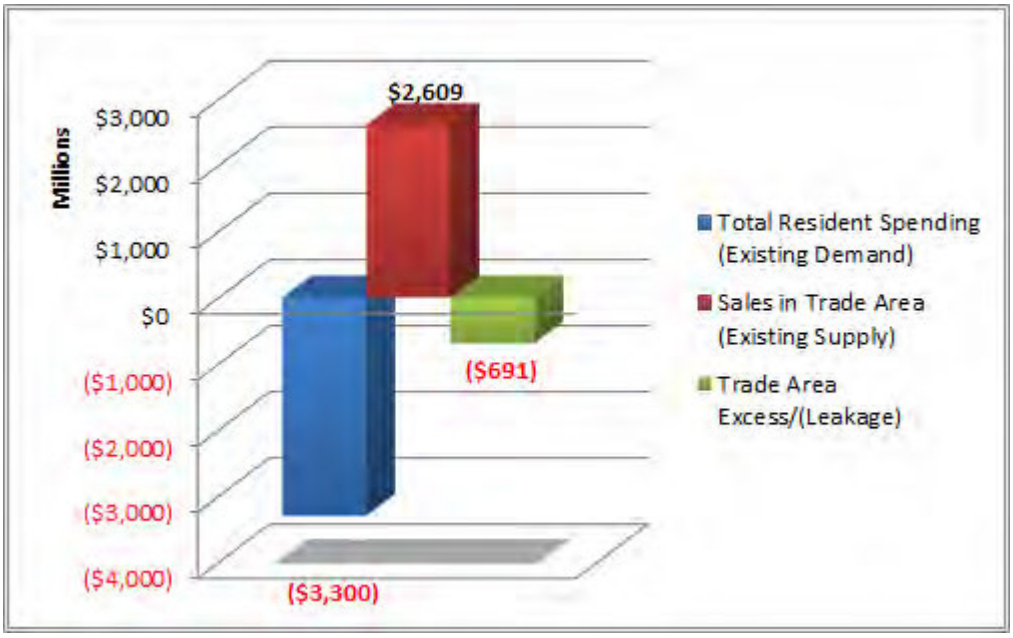


## FIGURE ES-1
## RETAIL SUMMARY
### EXISTING PRIMARY TRADE AREA




Source: Nielsen Company, Solano County, Census Bureau.

## FIGURE ES-2
## RETAIL SUMMARY
### EXISTING COMBINED PRIMARY & SECONDARY TRADE AREAS




Source: Nielsen Company, Solano County, Census Bureau.

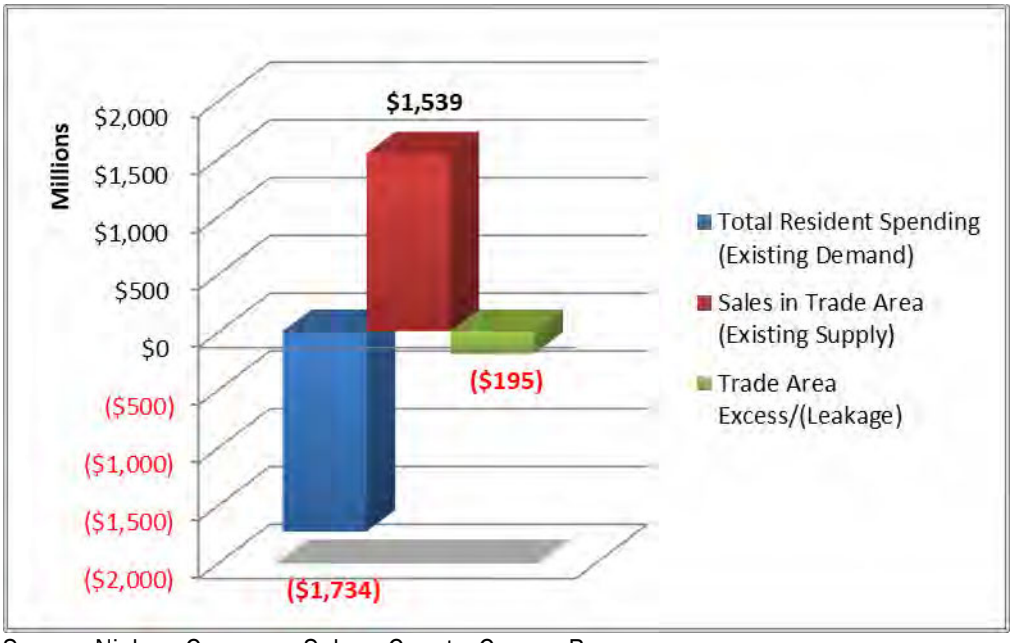
The next task undertaken in the EIA involves projecting the Future Conditions of the Trade Areas, including any potential impacts on retail supply and demand that would be caused by the development and launch of the Project. Based on 2024 projections by the Nielsen Company, DTA estimates that the number of households in the Primary Trade Area will increase from 39,852 to 41,483 by 2024, while the number of households in the combined Primary and Secondary Trade Areas will increase from 68,143 to 71,302 by 2024.

The retail leakage analyses demonstrate a continued overall excess of future consumer retail demand from Trade Area residents (vis-à-vis the future retail supply that includes the projected sales of the Project). The Primary Trade Area is projected to generate $195.2 million in excess retail demand, while the combined Primary and Secondary Trade Areas are projected to produce $663.9 million of excess retail demand under Future Conditions by 2024. Therefore, it is anticipated that there will be considerable demand for new retail uses on the Project site, and the additional retail sales generated by the Project are not expected to create an overall long-term excess of retail supply within the Trade Areas.

With overall retail demand levels well above retail supply, there will continue to be an overall shortage of retail supply in both Trade Areas (*see* **Figures ES-3** and **ES-4**). This supply shortfall suggests that there will be a substantial need for additional retail square footage under the Future Conditions scenario.

**FIGURE ES-3**
**RETAIL SUMMARY**

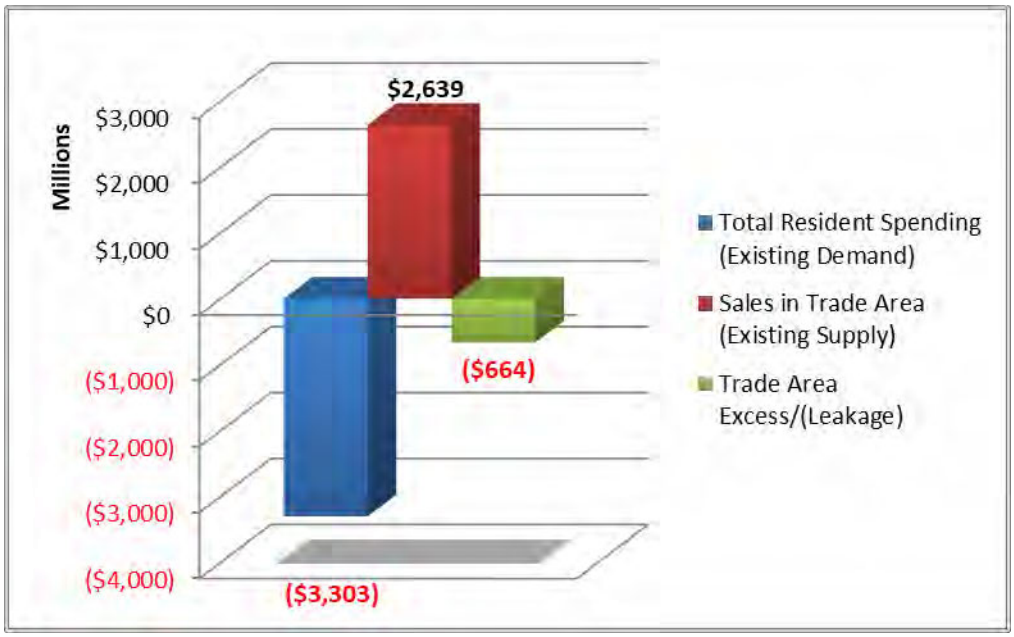
**FUTURE PRIMARY TRADE AREA WITH PROJECT**




Source: Nielsen Company, Solano County, Census Bureau.

FIGURE
ES-4
RETAIL SUMMARY

FUTURE COMBINED PRIMARY & SECONDARY TRADE AREAS WITH PROJECT




Source: Nielsen Company, Solano County, Census Bureau.

Cumulative Impacts of Additional Proposed Retail Projects

In order to fully assess the retail market situation in the future, this EIA has also accounted for the cumulative effects of any additional retail projects that could affect supply in the Project's Trade Areas. After a thorough review of local real estate publications and County and City Planning Department documents and records, DTA:

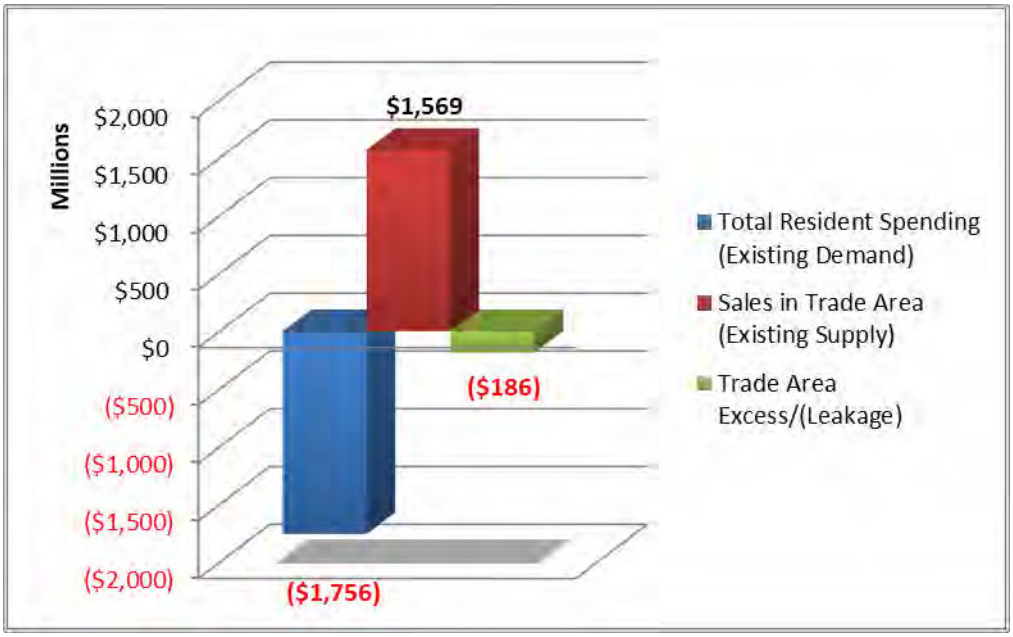
A. Compiled a preliminary list of proposed retail defined as superstores in the City's Municipal Code.

B. Estimated the square footage of proposed projects in each jurisdiction within the Trade Areas.

C. Concluded that the Primary Trade Area is projected to generate $186.1 million in excess retail demand in 2024 under Future Conditions with all proposed projects, while the combined Primary and Secondary Trade Areas with all proposed projects are projected to produce excess retail demand of $684 million by that year (see **Figures ES-5 and ES-6**). Therefore, DTA anticipates that, even after including all proposed projects, there will still be considerable demand for new retail uses on the Project site, and the additional sales to be generated by the Project will not create an overall long-term excess of retail supply within the Trade Areas.

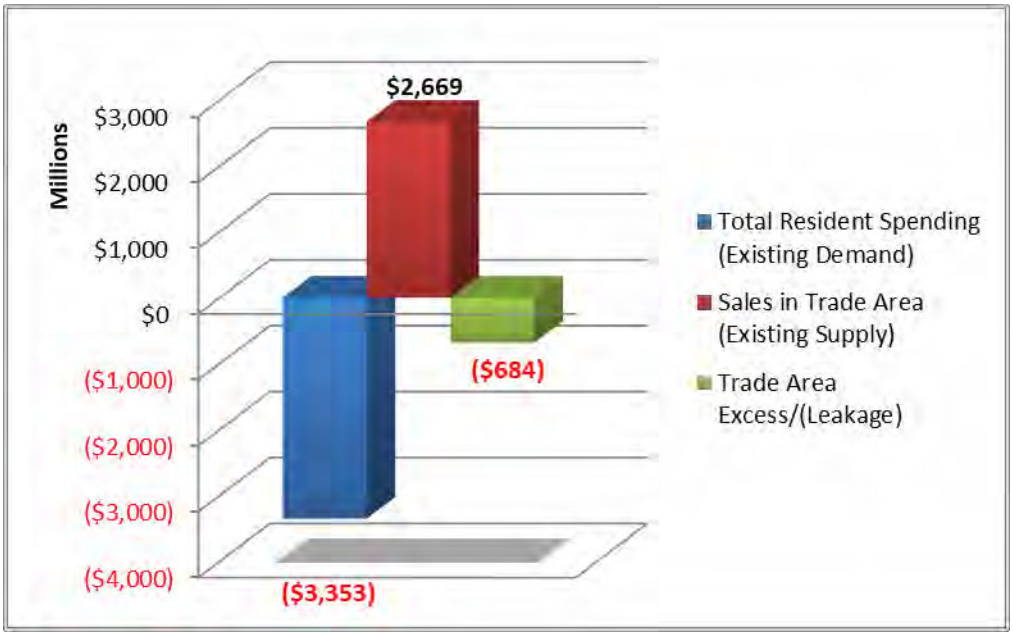
D. The overall shortfall in retail supply suggests that there will be a substantial overall need for additional retail square footage under the Future Conditions scenario. Please refer to **Figures ES-5** and **ES-6** for additional details.

FIGURE ES-5
RETAIL SUMMARY
FUTURE PRIMARY TRADE AREA
(WITH ALL PROPOSED PROJECTS)




Source: Nielsen Company, Solano County, Census Bureau.

FIGURE ES-6
RETAIL SUMMARY
FUTURE COMBINED PRIMARY & SECONDARY TRADE AREAS
(WITH ALL PROPOSED PROJECTS)




Source: Nielsen Company, Solano County, Census Bureau.

Retail Vacancy Rates

The retail vacancy rate in an area is also an important indicator of current market conditions, as well as the area's susceptibility to Urban Decay. A retail vacancy rate of 5% is a normal level expected in a healthy real estate market. In order to approximate the vacancy rate for the Project, DTA evaluated vacancy rate statistics for a variety of retail segment categorizations, including commercial mixed-use retail, retail exclusive, and shopping center for the City of Vallejo. Given that the Costco site offers a variety of non-retail commercial uses such as optometry offices, gas service stations, tire centers, and pharmacies, DTA has identified commercial mixed-use retail as the most appropriate comparative category for the purposes of this analysis.

The vacancy rate for commercial mixed-use retail properties is currently only 4.8 percent, down from 6.6 percent in 2018, as shown in **Figure ES-7** and **Table ES-2** below, with an overall downward trend since 2014. The new Costco will be located in the Northgate area of the City and immediately surrounded by other residential and commercial development. Furthermore, as the real estate market becomes more competitive within the Bay Area and the draw toward the East Bay and City of Vallejo rises due to relatively affordable housing prices, increasing retail demand is likely to further reduce any likelihood of Urban Decay related to the construction of the Project.

FIGURE ES-7
VACANCY RATES – COMMERCIAL MIXED-USE
CITY OF VALLEJO

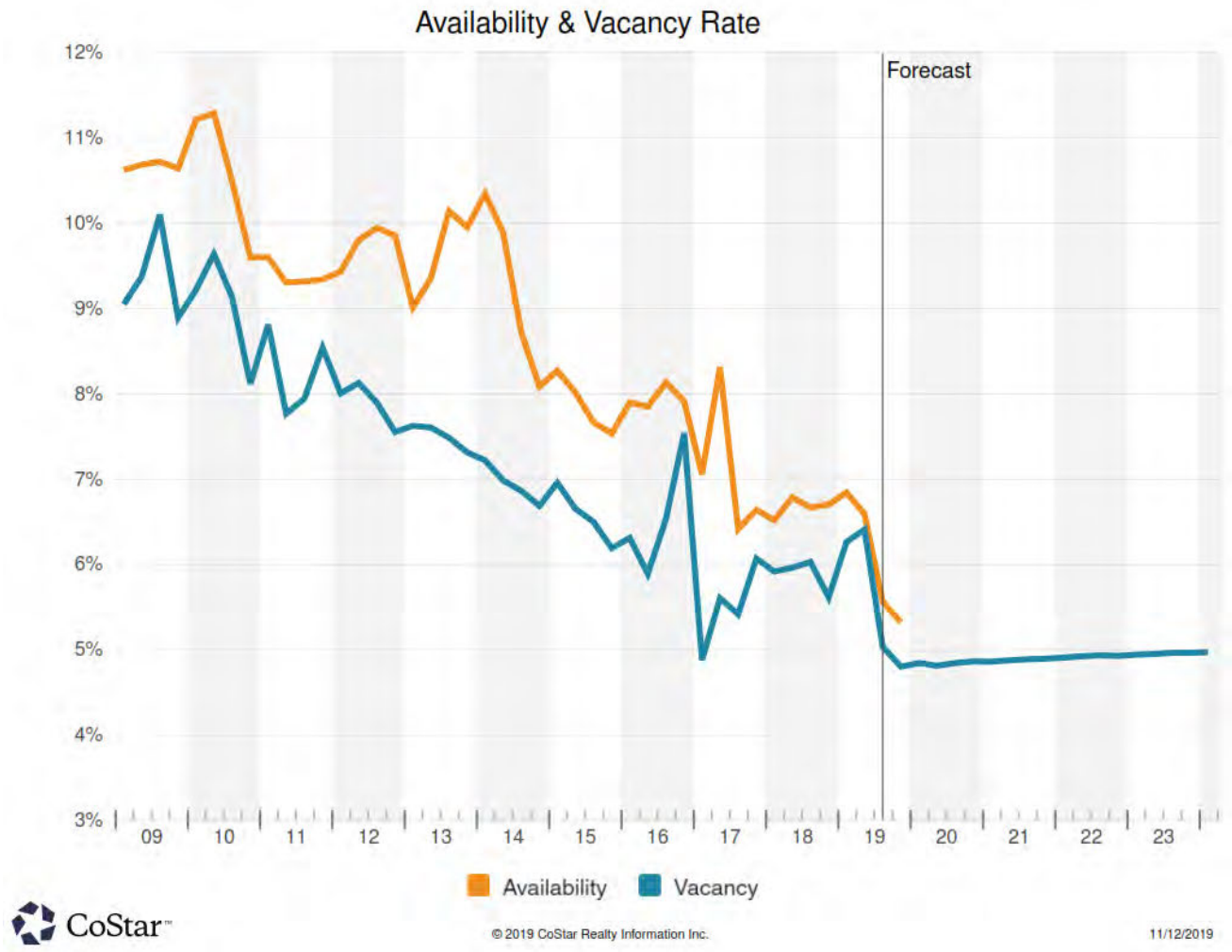



TABLE ES-2
2019 VACANCY STATISTICS WITHIN THE CITY OF VALLEJO

| TYPE | VACANCY RATE | VACANT SQUARE FEET | AVAILABILITY RATE | AVAILABLE SQUARE FEET |
|---|---|---|---|---|
| COMMERCIAL MIXED-USE | 4.80% | 306,000 | 5.30% | 341,000 |

Source: CoStar

# SECTION 1 INTRODUCTION

## A. OVERVIEW

David Taussig & Associates, Inc. ("DTA") has prepared this Economic Impact Analysis ("EIA") in order to analyze the potential short- and long-term economic impacts of the Fairview at Northgate project (the "Project") under the framework provided by Section 16.76.040 of the City of Vallejo (the "City") Municipal Code ("The Code"). Additionally, DTA was tasked with examining the local and regional markets for existing and proposed stores that provide retail uses and food and beverage retail uses to determine whether there is potential demand for these uses at the Project site. In completing the analysis, DTA evaluated the possibility that the development of these uses on the Project site might cause the saturation and/or decay, or "Urban Decay," of existing and proposed retail development within the City and the County of Solano ("County"), including the reuse of an existing site that would be closed as a consequence of the Project.

Urban Decay is an environmental, economic, and social problem that may be caused by the abandonment of existing retail development that results from highly competitive new retail development. This abandonment can cause loss of close and convenient shopping and lead to higher vacancy rates and deferred maintenance of existing retail square footage by its owners, who no longer receive the level of rental income necessary to maintain their properties. This in turn can lead to lower property values, higher crime rates, a damaged business environment, increased traffic congestion and gasoline consumption, and a continuing cycle of events that can cause a variety of economic and social problems for a municipality. While it may take years for this type of deterioration to occur, once it starts, it can be difficult to stop.

The enclosed analysis considers the impacts of the Project on existing retail buildings throughout the Project's Primary and Secondary Trade Areas (the "Trade Areas"), as illustrated on Map 1 herein, where the vast majority of the Project's retail patrons will reside. The analysis also considers the issue of existing retail sales leakage (the degree to which residents of the City and its trade areas are currently forced to shop outside of their immediate neighborhoods due to a lack of existing local shopping alternatives), and, if such leakage exists, the positive impacts of the Project in keeping these residents shopping near their homes, which include minimizing traffic congestion and gasoline consumption. The fact that a stronger retail sector will provide opportunities for entertainment, restaurants, hotels, and motels to locate within the vicinity of the Project would further enhance the economic benefits of reducing retail leakage.

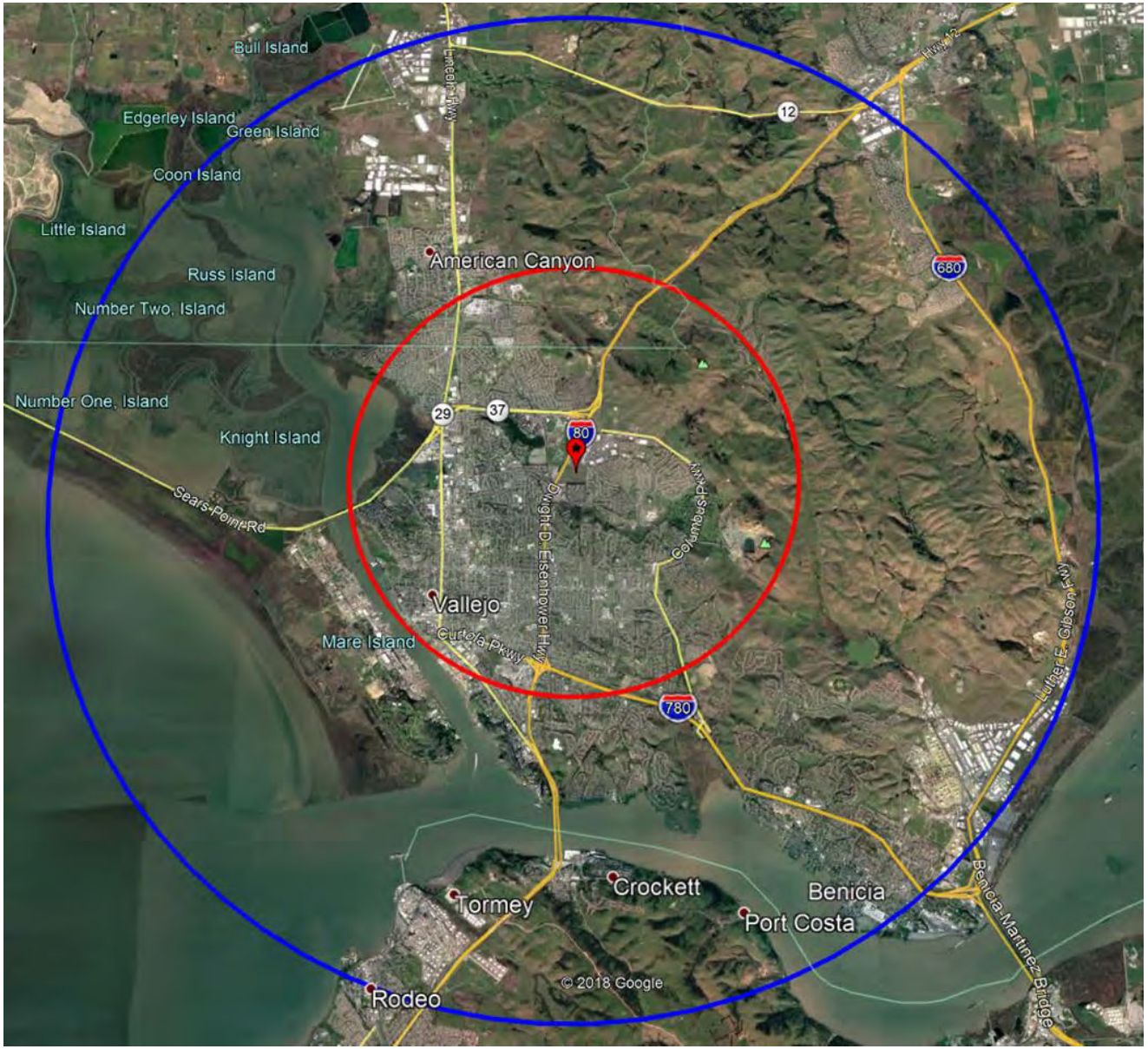
As discussed more specifically in Section 2 of this EIA, trade areas are the geographic areas constituting the market supply and market demand that will ultimately determine the economic viability of the Project, as they provide the majority of the steady customers necessary to support a retail project.

This EIA evaluates two indicators of the economic health of the Project's Trade Areas. The first indicator compares the current demand for retail goods and services in the Trade Areas with the current supply of retail development (the "Existing Conditions"), as well as the projected future demand for retail goods and services with the future supply of retail development (the "Future Conditions"). Existing Conditions are based on data from 2019, the most recent annualized data available. Future Conditions are assumed to reflect 2024, because while the proposed Project is

expected to open by 2022 for the retail component and 2023 for the residential component, stabilized sales are not expected to occur within the first two years of store operations, a conservative assumption, but rather are expected in year 2024. Based on data provided by the Nielsen Company and the Association of Bay Area Governments ("ABAG"), DTA assumes that between 2019 and 2024 the population in the Trade Areas will grow, and this will translate into greater demand for retail in 2024. Comparing retail demand and supply is a key indicator of the likelihood of a community experiencing Urban Decay because the higher the retail demand as compared to the supply, the greater the need for additional retail development and the less the likelihood that existing retail development will be negatively impacted as a result of a retail project.

The second indicator of the propensity for an area to experience Urban Decay is recent trends in retail vacancy rates within the greater metropolitan area. In situations where a significant excess of retail space already exists, as reflected in a high vacancy rate, the likelihood of Urban Decay resulting from a project would increase.

## MAP 1
## PRIMARY (3 MILE) AND SECONDARY (7 MILE) RETAIL TRADE AREAS



## B. PROJECT DESCRIPTION

The proposed Project is located in the City of Vallejo within the County of Solano and spans approximately 51.3 acres. It is comprised of approximately 179,688 square feet of retail/commercial space (including the proposed Costco, five retail pads, and gasoline service station accommodating up to 30 fueling dispensers and a related kiosk) within 21.8 acres, a residential component of 178 single family units within 23.8 acres, and 5.7 acres of open space. Notably, the new Costco is replacing a Costco less than one mile from the Project site; thus, the net effect of the replacement is only an additional 26,701 square feet. The Project site is located on a vacant, undeveloped lot, and is bounded to the west by the Admiral Callaghan Lane right-of-way, to the north by the Turner Parkway right-of-way, to the south by a car dealership, residential condominiums, and apartments, and to the east by single family homes. The I-80 freeway is immediately adjacent to the west of Admiral Callaghan Lane. Please refer to **Map 1** and **Appendix B** for further information on the elements and location of the Project.

**TABLE 1**

**APPROXIMATE LAND USE ASSUMPTIONS**

| LAND USE | ACREAGE |
|---|---|
| Retail/Commercial | 21.8 |
| Residential | 23.8 |
| Open Space | 5.7 |

## C. METHODOLOGY

Determination of Trade Areas

The initial step involved in analyzing the Project's potential to cause Urban Decay in the City and its environs requires an evaluation of the Project's Primary and Secondary Trade Areas to gauge the potential patronage and competitive uses. A Retail Trade Area is defined as a geographic area that contains the elements of demand and supply that will determine the performance of a particular retail store or project. A Retail Trade Area is influenced by a variety of factors, including the location and density of the targeted residential population, the location of key competitors, the relative distance or travel time for each of the above, geographic and psychological barriers, and existing commute and shopping patterns. Retail establishments outside of a given Trade Area are not considered to be at risk of Urban Decay from development within the Trade Area.

The *International Council of Shopping Centers* defines a Primary Trade Area as the area from which 60 to 80 percent of the Project's sales originate. Based on the retail uses within the Project and the location of other retail centers in the area, DTA determined that the identified Primary Trade Area (*see* **Map 1**) would be appropriate for analyzing the majority of the demand generated by the Project for its local-serving neighborhood retail uses. Local-serving retail uses include grocery and drug stores, cleaners, and other retail uses commonly found in neighborhood shopping centers. Customers for these uses tend to shop within 1 to 3 miles of their residence or place of work and are

unlikely to drive long distances to purchase items similar to those that they could purchase closer to home.

A larger 7-mile Secondary Trade Area was also evaluated in the analysis, as it would be expected that a portion of the demand for a retail center of the Project's size would be generated within an area larger than the 3-mile Primary Trade Area. It is important to consider a Secondary Trade Area that encompasses retail development that might be competitively impacted by the Project. The Project is not expected to substantially compete with existing retailers beyond the boundaries of the Secondary Trade Area, as any consumers who reside beyond this radius would have multiple shopping center options to patronize that are located significantly closer to their residence than the Project. Additionally, the total projected sales of the Project represent a small percentage of total retail sales currently occurring beyond the Project's Trade Area boundaries.

Again, **Map 1** delineates the boundaries of the Project's Primary and Secondary Trade Areas, which consist of areas in the City as well as in the surrounding cities.

Specific Methodology

The EIA analyzes the potential short- and long-term economic impacts of the proposed Costco. City Municipal Code Section 16.76.040 is substantially as follows, and requires [notations reference conclusions and findings]:

> *1. A survey of the existing stores, including their current average retail sales, that provide retail sales and food and beverage retail sales within the city and the cities of Benicia and American Canyon, and/or in other retail and food and beverage retail market areas that would be served by the proposed superstore, regardless of whether such stores are within the political boundaries of the city, and that are likely to be economically affected by the proposed superstore.* ***[Page 10, and Exhibits 10 and 11 of Appendix A]***
>
> *2. A survey of the existing, proposed, and/or pending superstores within the affected area.* ***[Pages 11 and 19, and Exhibits 10 and 11 of Appendix A]***
>
> *3. A survey of the number of persons who are employed on either a full-time or a less than full-time basis, and a delineation of each, by the existing stores and an estimate of the number of persons who would be employed on both a full-time or a less than full-time basis, and a delineation of each by the proposed superstore.* ***[Page 10]***
>
> *4. An analysis of the short- and long-term effect the proposed superstore could have on the retail stores specified, which shall include an analysis of the proposed superstore's potential impact on the following within the affected area: retail sales, food and beverage retail sales, store closures, jobs, and any food and beverage retail and/or retail stores that could potentially close, including an analysis of the potential for using the closed site(s) for similar or other uses. Such analysis shall also include a survey of established compensation and wages standards in comparable stores operated by the applicant compared to those established in the affected area.* ***[Economic Impact Discussion, Pages 13 through 26]***

*5. An analysis of both the short- and the long-term potential effects of the proposed superstore on retail and food and beverage retail sales in the affected area, including a conclusion as to whether the proposed superstore would cause a net increase or decrease in retail and food and beverage retail sales in the affected area.* ***[Economic Impact Discussion, Pages 13 through 26]***

*6. A fiscal impact analysis, which shall include, but not be limited to, an analysis of the projected sales tax revenues for the proposed superstore and an analysis of both the short- and the long-term effects of the proposed superstore on net sales tax revenues generated by existing retail and food and beverage retail stores in the city.* ***[Fiscal Impact Analysis, Provided Separately in Phase II]***

*7. An analysis of the proposed superstore's potential short- and long-term net effect on the ability of consumers in the affected area to obtain a variety of food and beverage and retail products in light of the analysis concerning potential closure of retail and/or food and beverage retail stores within the affected area* ***Pages 13 through 26]***

*8. An analysis of the average savings a typical consumer might expect, if any, by the approval of the proposed superstore.* ***[Page 26]***

In addition to requiring specific metrics (#1 and #3), Section 16.76.040 is also very concerned with Urban Decay (#4, #5, and #7). Urban Decay is an environmental, economic, and social problem that may be caused by the abandonment of existing retail development that results from highly competitive new retail development. This abandonment can cause loss of close and convenient shopping and lead to higher vacancy rates and deferred maintenance of existing retail square footage by its owners, who no longer receive the level of rental income necessary to maintain their properties. This in turn can lead to lower property values, higher crime rates, a damaged business environment, increased traffic congestion and gasoline consumption, and a continuing cycle of events that can cause a variety of economic and social problems for a municipality. While it may take years for this type of deterioration to occur, once it starts, it can be difficult to stop.

To evaluate the potential for the Project to cause Urban Decay due to closures of existing retail stores, DTA evaluated the supply and demand for each specific retail category (e.g., general merchandise, food stores, etc.) in each of the geographic areas that will be impacted by the Project, otherwise known as the Project's Trade Areas. To determine existing retail conditions, the most recent annualized data available for the City (2019), herein referenced as the "Existing Conditions," was obtained from the Nielsen Company. The EIA conservatively assumed that the proposed Project's retail and residential components will open by 2022 and 2023, respectively, but that stabilized sales within the Project will first occur in 2024.

To determine the likelihood of Urban Decay occurring within the Trade Areas, the following methodology was applied in this analysis:

1. The boundaries of the Primary and Secondary Trade Areas that would support the Project were identified;

2. Retail sales expected within the Project were defined;

3. Current consumer demand generated by existing residents in each of the Trade Areas was determined;

4. Current retail sales in each of the Trade Areas were estimated;

5. The amount of existing retail leakage (local demand greater than local supply) or retail surplus (local supply greater than local demand) in each of the Trade Areas was calculated;

6. Projected future retail demand versus retail supply in 2024, under Future Conditions assuming completion of the Project for each of the Trade Areas, was calculated to determine if future retail leakage or retail supply surplus is expected to occur;

7. Other planned retail developments in the Trade Areas were identified where possible – and the Future Conditions retail supply was increased to include additional sales generated by the successful completion of these other retail developments – to determine the impacts of this additional retail supply on the retail leakage or supply surplus calculated under Task 6, above;

8. Current retail vacancy rates in the vicinity of the Project were determined; and

9. The extent to which the Project is likely to contribute to Urban Decay in the Trade Areas, based on the findings under Tasks 1-8, was assessed. Evidence of retail leakage in the future despite the construction of the Project would suggest little potential for Urban Decay. Conversely, evidence of an oversupply of retail space would be a reason for greater concern regarding the potential for Urban Decay. **Based on our findings, DTA sees no evidence that would indicate Urban Decay occurring in the area immediately surrounding the Project, as further discussed in this analysis.**

## D. LIMITATIONS

The economic impact model utilized for purposes of analyzing the retail supply and demand scenarios associated with the Project is based on both (i) the current Project Site Plan provided to DTA by the Client, and (ii) Trade Area market supply data provided to DTA by the Nielsen Company. The sources of information and basis of the estimates calculated in the economic impact analysis are stated herein. While DTA is confident that the sources of information are reliable, some information may be dated and no longer accurate for Fiscal Year 2018-2019. Furthermore, since the analyses contained herein are based on estimates and assumptions that are inherently subject to uncertainty and variation depending on evolving events, DTA cannot represent that such estimates will definitely be achieved. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary from those projections stated throughout this economic impact analysis.

## SECTION 2 URBAN DECAY

### A. KEY INDICATORS

The retail demand for various product types was based on estimates provided by the Nielsen Company for each of the Trade Areas. These demand figures were derived from the Consumer Expenditure Survey data published by the U.S. Bureau of Labor Statistics. **Table 2** below summarizes the resulting demand estimates in the Primary and Secondary Trade Areas of the Project. The total 2019 retail demand (the Existing Conditions) generated by residents of the Primary Area for applicable retail categories was estimated to be $1.7 billion, while the combined retail demand for residents of both the Primary and Secondary Areas is $3.3 billion.

TABLE 2

EXISTING RETAIL DEMAND

PRIMARY & SECONDARY TRADE AREAS

| JURISDICTION | PRIMARY TRADE AREA DEMAND | COMBINED PRIMARY & SECONDARY TRADE AREA DEMAND |
|---|---|---|
| FOOD | $231,501,607 | $428,657,897 |
| GENERAL MERCHANDISE | $300,104,714 | $559,452,736 |
| APPAREL | $70,376,520 | $135,676,667 |
| EATING AND DRINKING PLACES | $225,766,492 | $431,249,339 |
| BUILDING MATERIAL & FARM IMPLEMENTS | $99,425,900 | $195,992,737 |
| AUTOMOTIVE | $311,599,734 | $610,011,153 |
| OTHER RETAIL | $310,448,333 | $600,141,065 |
| HOME FURNISHING AND APPLIANCES | $37,961,513 | $74,792,322 |
| SERVICE STATIONS | $144,720,654 | $264,120,061 |
| **TOTAL** | **$1,731,905,467** | **$3,300,093,977** |

Source: Nielsen Company, Solano County, Census Bureau.

The level of existing sales for each retail category within the Trade Areas was also provided by the Nielsen Company. **Table 3** summarizes the projected levels of existing retail sales for the Project's Trade Areas. Total sales were estimated at $1.5 billion in the Primary Trade Area, and $2.6 billion in both the Primary and Secondary Trade Areas.

TABLE 3

EXISTING RETAIL SUPPLY

PRIMARY & SECONDARY TRADE AREA

| JURISDICTION | PRIMARY TRADE AREA SUPPLY | COMBINED PRIMARY & SECONDARY TRADE AREA SUPPLY |
|---|---|---|
| FOOD | $284,404,493 | $481,721,997 |
| GENERAL MERCHANDISE | $243,731,258 | $391,671,520 |
| APPAREL | $34,327,950 | $56,401,820 |
| EATING AND DRINKING PLACES | $177,332,841 | $317,153,275 |
| BUILDING MATERIAL & FARM IMPLEMENTS | $79,005,885 | $153,579,804 |
| AUTOMOTIVE | $434,296,924 | $593,819,248 |
| OTHER RETAIL | $114,829,376 | $329,281,084 |
| HOME FURNISHING AND APPLIANCES | $25,074,263 | $56,148,654 |
| SERVICE STATIONS | $116,193,517 | $229,338,915 |
| **TOTAL** | **$1,509,196,507** | **$2,609,116,317** |

Source: Nielsen Company, Solano County, Census Bureau.

Retail Vacancy Rates

The retail vacancy rate in an area is also an important indicator of current market conditions, as well as the area's susceptibility to Urban Decay. A retail vacancy rate of 5 percent is considered to be a normal level expected in a healthy real estate market. **Figure 1** below specifically shows commercial mixed-use vacancy trends within the City of Vallejo over the last ten (10) years. **Table 4** below provides an overview of the vacancy rates for commercial mixed-use properties. In order to approximate the vacancy rate for the Project, DTA evaluated vacancy rate statistics for a variety of retail segment categorizations, including commercial mixed-use retail, retail exclusive, and shopping center for the City of Vallejo. Given that the Costco site offers a variety of non-retail commercial uses such as optometry offices, gas service stations, tire centers, and pharmacies, DTA has identified commercial mixed-use retail as the most appropriate comparative category for the purposes of this analysis.

The vacancy rate for commercial mixed-use retail properties is currently only 4.8 percent, down from 6.6 percent in 2018, with an overall downward trend since 2014. The new Costco will be located in the Northgate area of the City and immediately surrounded by other residential and commercial development. Furthermore, as the real estate market becomes more competitive within the Bay Area and the draw toward the East Bay and City of Vallejo rises due to relatively affordable housing prices, increasing retail demand is likely to further reduce any likelihood of Urban Decay related to the construction of the Project. According to Zillow market data, median home values in Vallejo have

increased 12.4 percent over the past two years and are anticipated to rise by an additional 1.1 percent by September 2020.

FIGURE 1
VACANCY RATES – COMMERCIAL MIXED-USE
CITY OF VALLEJO

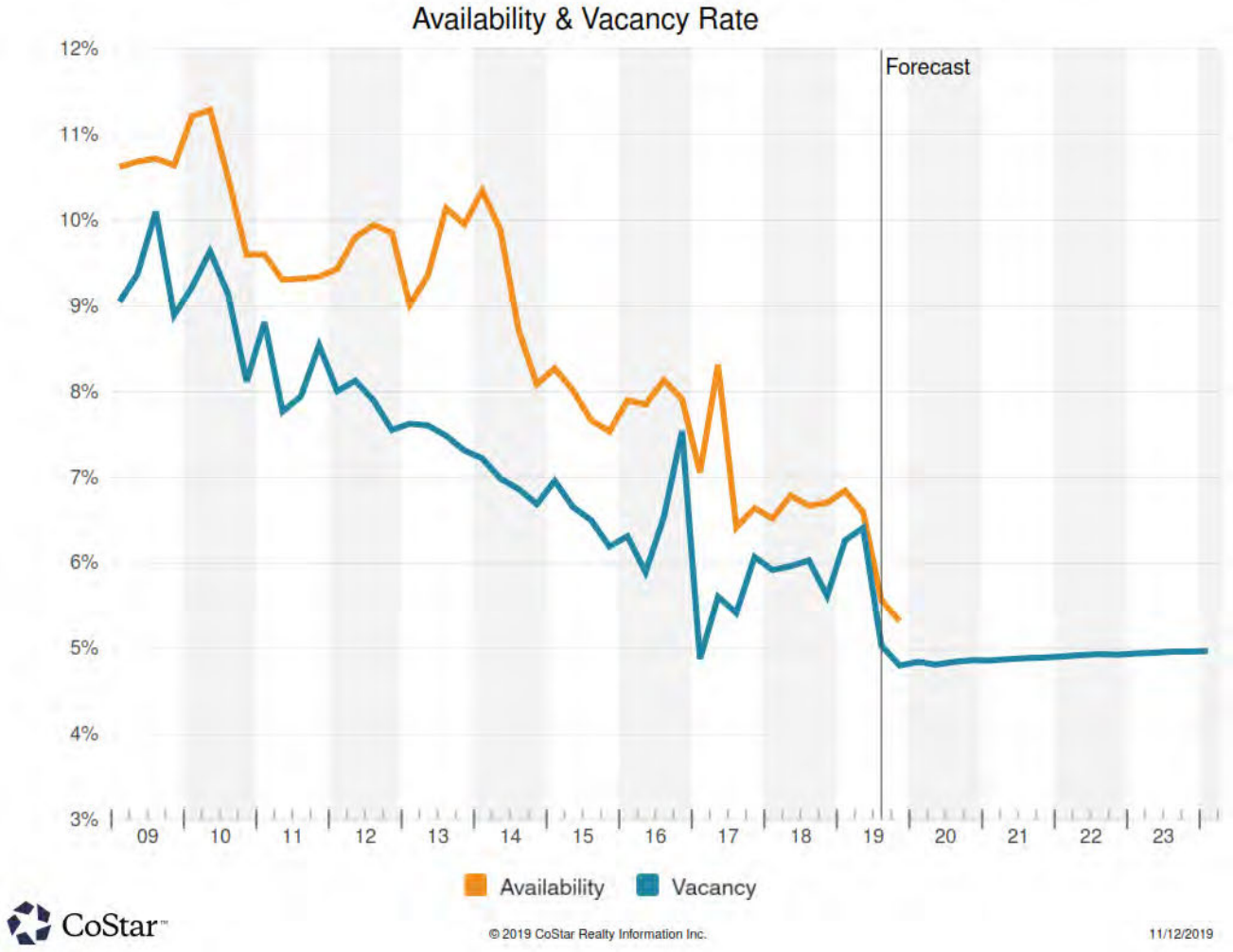



TABLE 4
2019 VACANCY STATISTICS WITHIN THE CITY OF VALLEJO

| TYPE | VACANCY RATE | VACANT SQUARE FEET | AVAILABILITY RATE | AVAILABLE SQUARE FEET |
|---|---|---|---|---|
| COMMERCIAL MIXED-USE | 4.80% | 306,000 | 5.30% | 341,000 |

Source: CoStar

## B. EMPLOYMENT INDICATORS

Existing Retail Stores

DTA surveyed and examined existing retail stores within the affected area that provide similar food and beverage retail sales – most notably, the Wal-Mart and Target locations within the Primary Trade Area. The Wal-Mart averages approximately $400 in sales per square foot and nets average annual retail sales of approximately $40.0 million while the Target averages approximately $295 per square foot and nets average annual retail sales of $37.4 million. Costco currently employs approximately 163,000 full and part-time employees within the U.S. over 528 locations, or approximately 309 employees per location. In comparison, Wal-Mart employs approximately 1.5 million full and part-time associates within the U.S. at over 4,761 locations (including super centers, discount stores, and neighborhood markets), or approximately 315 employees per location, whereas Target employs 345,000 full and part-time employees within the U.S. over 1,846 locations, or approximately 187 employees per location. These statistics are reflected in **Table 5** below.

TABLE 5

STATISTICS OF STORES WITHIN AFFECTED AREA

| EXISTING RETAIL STORES | AVERAGE SALES PER SQUARE FOOT | AVERAGE ANNUAL SALES PER STORE | NUMBER OF U.S. EMPLOYEES | NUMBER OF U.S. STORES | AVERAGE NUMBER OF EMPLOYEES PER STORE |
|---|---|---|---|---|---|
| COSTCO | $1,098 | $154,865,000 | 163,000 | 528 | 309 |
| WAL-MART | $400 | $39,924,000 | 1,500,000 | 4,761 | 315 |
| TARGET | $295 | $37,361,000 | 345,000 | 1,846 | 187 |

Source: eMarketer and Company Annual Reports

With the 26,701 additional square feet in retail space created by the Project, the new Costco has capacity to support 330 employees upon completion, as confirmed by the Project Proponent and Costco management. This increase in employees could have further indirect and induced impacts, such as additional employees and sales tax receipts within the Primary Trade Area.

Other existing stores that provide similar retail sales to that of Costco and serve as retail anchors within the Primary Trade Area include Ross, Safeway, CVS, Lowe's, and Big 5 Sporting Goods, among others. These properties and those in the surrounding areas have exhibited strong sales and high occupancy rates. Please see **Table 6** below for a list of properties with footprints greater than 10,000 square feet.

TABLE 6

OTHER EXISTING RETAIL GREATER THAN 10,000 SQ. FT.

| BUSINESS NAME | SQ. FT. |
|---|---|
| Lowe's | 185,142 |
| Target | 106,169 |
| Kohl's | 97,732 |
| Home Depot | 95,443 |
| Food 4 Less | 56,814 |
| Foodmaxx | 52,431 |
| Toyota | 51,930 |
| Century Theatres | 50,090 |
| Best Buy | 44,925 |
| Safeway | 31,790 |
| Momentum Chrysler/Dodge/Jeep/Ram | 27,500 |
| Pep Boys | 22,268 |
| Smart & Final | 20,563 |
| CVS | 16,500 |
| Petco | 12,000 |
| Sleep Train Mattress Center | 10,000 |
| Big 5 Sporting Goods | 10,000 |

Source: CoStar

Wage Standards

Among large retailers, Costco has maintained a reputation for its commitment to paying employees a living wage. As of June 11, 2018, Costco's starting wage for its U.S. employees is $14.50 an hour, and among its total number of U.S. employees, the average hourly wage is $22.50 an hour. Costco's employees also have access to health insurance benefits, for which the company covers 90 percent of the annual costs. Approximately 10 percent of Costco's workforce are union represented, and Costco negotiates a new agreement with the union every three (3) years with prescribed annual wage increases. In comparison, Walmart's entry level wage is $11 an hour and Target's entry level wage is $12 an hour, and neither have union-organized stores. Costco also has a policy of maintaining a ratio of at least 50 percent full-time employees at each store location and prefers employing full-time employees over part-time employees.

Pipeline Projects

Additionally, the Primary Trade Area has two small-scale food service additions – a 4,150-square-foot Panera Bread and a 3,867-square-foot In-N-Out Burger, which opened in November 2018 and January 2019, respectively. Both are in the immediate vicinity of the Project. There are currently no other proposed or pending superstores in the City of Vallejo.

DTA also surveyed the Cities of American Canyon and Benicia and learned that there are no proposed and/or pending superstores within those communities.

## C. ECONOMIC IMPACT ANALYSIS

Methodology

In order to determine the potential impacts of the Project on existing retail development within the Primary and Secondary Trade Areas, it was necessary to first estimate the current need for additional retail space in these areas. The current need was evaluated based on the existing demand for the specific types of retail uses that are anticipated within the Project, based on the estimated demand for these retail uses on the part of current residents in the Project's Primary and Secondary Trade Areas. This demand was then compared with actual existing sales within the Trade Areas for each type of retail use. Following this comparison, an additional analysis was performed that compared the anticipated demand of the residents in each of the Project's Trade Areas in 2024 under the Future Conditions scenario, versus the levels of retail sales expected in the Trade Areas that year based on the supply of retail uses in the areas, including the additional sales expected to be generated by the Project. An effort was then made to prepare a third comparison to consider the impact of the Project when analyzed with the supply of retail uses to be included in all other currently proposed local retail projects within the Trade Areas, and an overall retail supply was calculated and compared to expected demand for retail services.

Determination of Trade Areas

As noted previously, the initial step involved in analyzing the Project's potential to cause Urban Decay in the City and its environs requires an evaluation of the Project's Primary and Secondary Trade Areas to gauge the potential patronage and competitive uses. Trade areas are the geographic areas constituting the market supply and market demand that will ultimately determine the economic viability of the Project, as they provide the majority of the steady customers necessary to support a retail project. The boundaries of trade areas are determined by a number of factors, including the type of retail project, accessibility for local residents, physical barriers, location of competing facilities, and limitations of driving time and distance. Within a retail center's trade area, customers closest to the site will affect the center most strongly, with customer influence diminishing gradually as the distance increases away from the center.

Determination of Existing Retail Demand within the Trade Areas

In order to evaluate the existing demand within the Trade Areas for each type of retail use expected in the Project, as well as the current sales levels experienced within these Trade Areas, DTA relied primarily on data provided by the Nielsen Company.

In looking at the impact of the Project on the retail market, the following assumptions were made:

(1) The Project residents will generate new demand for retail;

(2) The purchasing power of existing residents within the Trade Areas will remain at existing levels; and

(3) The population in the Trade Areas will increase from existing levels, and this increase will create a greater demand for retail.

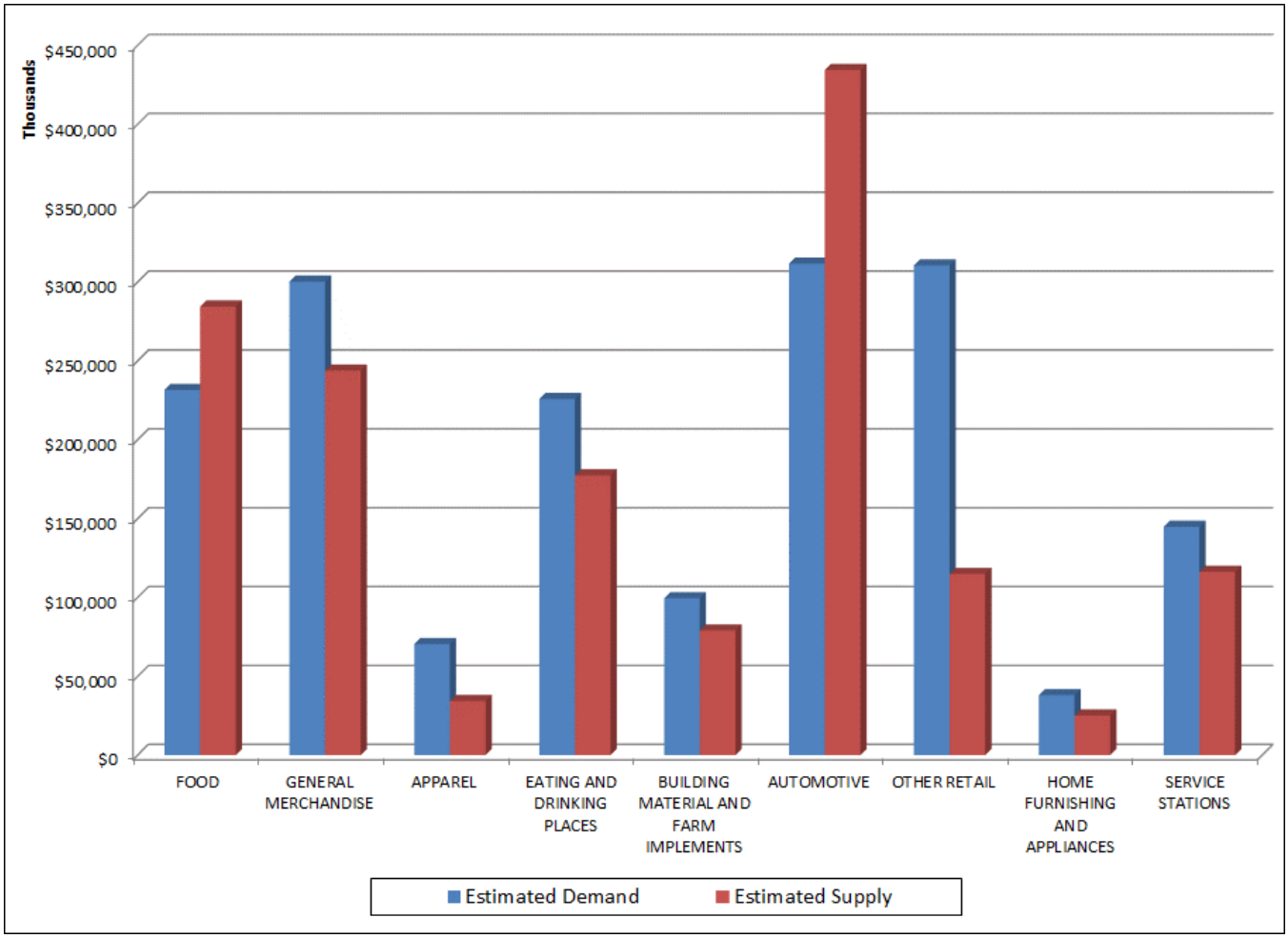
Current Primary Trade Area Surplus/Leakage Analysis

As reflected below in **Figure 2** and **Table 7**, the current annual retail demand of $1.7 billion in the Primary Trade Area exceeds the $1.5 billion in sales by $222.7 million each year. This indicates that overall, there is a current leakage of approximately 12.9 percent of the Primary Trade Area resident expenditures to retail stores outside of the area. The leakage appears to be occurring in most retail categories and is most severe within Other Retail ($195.6 million), General Merchandise ($56.4 million), Eating and Drinking Places ($48.4 million), and Apparel ($36.0 million). To a lesser extent, Service Stations ($28.5 million), Building Material and Farm Implements ($20.4 million), and Home Furnishing and Appliances ($12.9 million) are also categories that fail to fully capture potential spending. This data indicates that current retail businesses within the Primary Trade Area are failing to capture all the possible retail expenditures of their population. Thus, households residing within this area must travel elsewhere in order to meet their current retail needs as the vast majority of retail categories in the Primary Trade Area are underserved.

## FIGURE 2

## EXISTING RETAIL TRADE BALANCE

## PRIMARY TRADE AREA




Source: Nielsen Company, Solano County, Census Bureau.

TABLE 7

EXISTING SURPLUS/LEAKAGE

PRIMARY RETAIL TRADE AREA

| JURISDICTION | PRIMARY TRADE AREA DEMAND | PRIMARY TRADE AREA SUPPLY | EXCESS/ (LEAKAGE) |
|---|---|---|---|
| FOOD | $231,501,607 | $284,404,493 | $52,902,886 |
| GENERAL MERCHANDISE | $300,104,714 | $243,731,258 | ($56,373,456) |
| APPAREL | $70,376,520 | $34,327,950 | ($36,048,570) |
| EATING AND DRINKING PLACES | $225,766,492 | $177,332,841 | ($48,433,651) |
| BUILDING MATERIAL & FARM IMPLEMENTS | $99,425,900 | $79,005,885 | ($20,420,015) |
| AUTOMOTIVE | $311,599,734 | $434,296,924 | $122,697,190 |
| OTHER RETAIL | $310,448,333 | $114,829,376 | ($195,618,957) |
| HOME FURNISHING AND APPLIANCES | $37,961,513 | $25,074,263 | ($12,887,250) |
| SERVICE STATIONS | $144,720,654 | $116,193,517 | ($28,527,137) |
| **TOTAL** | **$1,731,905,467** | **$1,509,196,507** | **($222,708,960)** |

Source: Nielsen Company, Solano County, Census Bureau.

Current Combined Primary and Secondary Trade Area Surplus/Leakage Analysis

Combining the Primary and Secondary Trade Areas also generates an overall existing leakage of retail demand, as illustrated in **Figure 3** and **Table 8**, below. The current annual retail demand in the Primary and Secondary Trade Areas is estimated to be approximately $3.3 billion in total retail goods per year. This compares to a current annual retail supply estimate of $2.6 billion, which indicates an overall leakage of retail expenditures in the amount of $691.0 million per year within the Primary and Secondary Trade Areas. The leakage appears to be occurring in most of the retail categories and is most severe within Other Retail ($270.9 million), General Merchandise ($167.8 million), Eating and Drinking Places ($114.1 million), and Apparel ($79.3 million). This data indicates that current retail businesses within the combined Primary and Secondary Trade Areas are also failing to capture all the possible retail expenditures of their population, as was the case in the Primary Trade Area. Thus, households residing within this combined area must travel elsewhere in order to meet their current retail needs as nearly every retail category in the Trade Areas is underserved.

Specifically, with respect to food and beverage establishments, there is a de minimis surplus of $4.5 million in the Primary Trade Area and a shortfall of $61 million in the combined Primary and Secondary Trade Areas. Costco's business operations include selling groceries, which falls under the Food categorization, as well as running a limited-service restaurant/snack bar, which falls under the Eating and Drinking categorization. As such, for the purpose of this analysis, DTA has combined the Food and Eating and Drinking categories to better reflect the supply this Project will contribute to these related categories. When solely examining the Food category, there is oversupply of $52.9

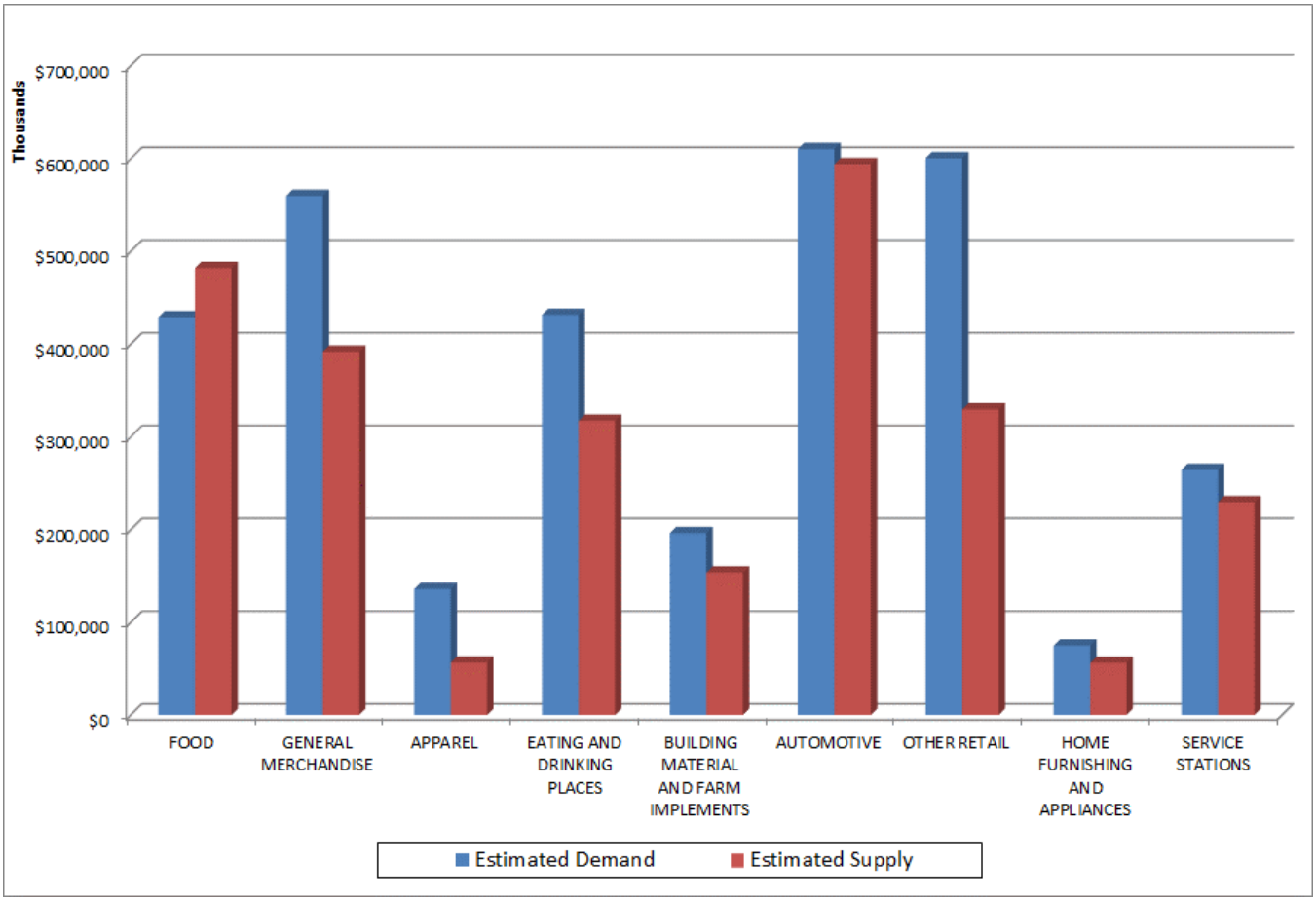
million in the Primary Trade Area, however given the fact that the Project is merely the relocation and expansion of an existing Costco, and only half of the additional 26,701 square feet will be used for grocery items, as confirmed by the Proponent, there is no evidence to indicate that the Project would exacerbate the already existing surplus. This analysis also assumes it is unlikely that a big box store would be re-occupied as a restaurant, and there would be no impact on the variety of food services currently offered in the Primary Trade Area. Additionally, the Project would not remove any existing food and beverage and retail services from operation; therefore, the relocation and expansion of the existing Costco would have no effect on the long-term or short-term abilities of consumers to obtain a variety of food and beverage and retail products. The Project is also not expected to compete with other typical grocery store chains, such as the nearby Safeway, because although both stores offer food and beverage items, each location has a different use to the average consumer depending on their needs.

DTA also recognizes the $122.7 million surplus in the Automotive category, however this is likely due to the quantity of motor vehicle dealers within the Primary Trade Area, which inflates and distorts these figures. According to data obtained from the Nielsen Company, new and used car dealerships comprise 87 percent, or $379.4 million, of the $434.3 million total supply in the Automotive category. The majority of dealership revenue is generated from vehicle sales and the vast majority of goods offered by Costco are not similar to those of a car dealership. As previously mentioned, because the Project is merely the relocation and expansion of an existing Costco and approximately 25 percent of the additional 26,701 square feet will be used for non-grocery retail items, as confirmed by the Proponent, there is no evidence to indicate that the Project would exacerbate the already existing surplus or cause Urban Decay and/or market saturation within the Trade Areas. Additionally, dealerships typically serve a sub-regional population, one well in excess of our Primary and Secondary Trade Areas. Overall, the retail sales figures represent a healthy supply/demand equilibrium, which is very unlikely to be upset by the expanded Costco's (additional 26,701 square feet) sales, and any existing surpluses will not be worsened by the Project.

## FIGURE 3

## EXISTING RETAIL TRADE BALANCE

## COMBINED PRIMARY AND SECONDARY TRADE AREA




Source: Nielsen Company, Solano County, Census Bureau.

TABLE 8

EXISTING SURPLUS/LEAKAGE

COMBINED PRIMARY AND SECONDARY RETAIL TRADE AREAS

| JURISDICTION | COMBINED PRIMARY & SECONDARY TRADE AREA DEMAND | COMBINED PRIMARY & SECONDARY TRADE AREA SUPPLY | EXCESS/ (LEAKAGE) |
|---|---|---|---|
| FOOD | $428,657,897 | $481,721,997 | $53,064,100 |
| GENERAL MERCHANDISE | $559,452,736 | $391,671,520 | ($167,781,216) |
| APPAREL | $135,676,667 | $56,401,820 | ($79,274,847) |
| EATING AND DRINKING PLACES | $431,249,339 | $317,153,275 | ($114,096,064) |
| BUILDING MATERIAL & FARM IMPLEMENTS | $195,992,737 | $153,579,804 | ($42,412,933) |
| AUTOMOTIVE | $610,011,153 | $593,819,248 | ($16,191,905) |
| OTHER RETAIL | $600,141,065 | $329,281,084 | ($270,859,981) |
| HOME FURNISHING AND APPLIANCES | $74,792,322 | $56,148,654 | ($18,643,668) |
| SERVICE STATIONS | $264,120,061 | $229,338,915 | ($34,781,146) |
| **TOTAL** | **$3,300,093,977** | **$2,609,116,317** | **($690,977,660)** |

Source: Nielsen Company, Solano County, Census Bureau.

## D. CUMULATIVE RETAIL IMPACTS OF THE PROJECT

Determination of Retail Demand under Future Conditions within the Trade Areas

**Table 9** shows the estimated expenditures on retail goods per year, based on household growth and income growth resulting from the Project. As the number of households and their related household income grows in the City and surrounding jurisdictions (encompassed in the Trade Areas), so do the expenditures on retail goods. DTA does not assume any change in the percentage amount spent on retail goods and services, currently 22.3 percent, per the City of Vallejo Fiscal Year 2018-2019 Adopted Budget.

Using residential household projections from the Nielsen Company as well as development assumptions for the Project, **Table 9** shows that households in the Primary Trade Area are estimated to spend approximately $1.7 billion on retail goods in 2024. Similarly, households in the combined Primary and Secondary Areas are expected to spend approximately $3.3 billion on retail goods.

TABLE 9

RETAIL DEMAND UNDER FUTURE CONDITIONS

PRIMARY & SECONDARY TRADE AREAS

| JURISDICTION | EXISTING 2019 DEMAND | FAIRVIEW AT NORTHGATE PROJECT | TOTAL DEMAND IN 2024 |
|---|---|---|---|
| | PRIMARY TRADE AREA | | |
| NUMBER OF HOUSEHOLDS | 39,852 | 178 | 40,030 |
| HOUSEHOLD INCOME | $66,006 | $76,519 | $76,519 |
| *% INCOME SPENT ON RETAIL* | | 22.26% | |
| *TRADE AREA CAPTURE RATE* | | 85% | |
| **PRIMARY TRADE AREA DEMAND** | **$1,731,905,467** | **$2,576,640** | **$1,734,482,107** |
| | COMBINED PRIMARY & SECONDARY TRADE AREA | | |
| NUMBER OF HOUSEHOLDS | 68,143 | 178 | 68,321 |
| HOUSEHOLD INCOME | $77,437 | $89,770 | $89,770 |
| *% INCOME SPENT ON RETAIL* | | 22.26% | |
| *TRADE AREA CAPTURE RATE* | | 85% | |
| **COMBINED PRIMARY & SECONDARY TRADE AREA DEMAND** | **$3,300,093,977** | **$3,022,853** | **$3,303,116,830** |

Source: Nielsen Company, Solano County, Census Bureau, and City of Vallejo Fiscal Year 2018-2019 Adopted Budget.

Determination of Retail Supply under Future Conditions within the Trade Areas

The Future Conditions retail supply was estimated from information provided by the Project Proponent and Costco Annual Report. In order to determine the effects of the Project's sales on the Trade Areas, DTA included the Project's projected sales under Future Conditions. Both Trade Area figures include the Project's estimated total annual retail sales (including both Primary and Secondary Trade Area residents). DTA used an average taxable sales per square foot metric to calculate projected future sales, under the assumption that an average retailer would earn an estimated $300 per square foot, based off data provided by the Urban Land Institute, and the average Costco would earn approximately $1,098 per square foot, according to figures provided in the 2017 Costco Annual Report. The total projected supply for the Fairview at Northgate Project is a blended average based off these rates. Table 10 summarizes the Trade Areas' projected Future Conditions supply figures.

## TABLE 10

## RETAIL SUPPLY UNDER FUTURE CONDITIONS

## PRIMARY & SECONDARY TRADE AREAS

| JURISDICTION | EXISTING 2019 SUPPLY | RE-TENANTING OF EXISTING SITE | FAIRVIEW AT NORTHGATE PROJECT (TOTAL) | TOTAL SUPPLY IN 2024 |
|---|---|---|---|---|
| | PRIMARY TRADE AREA | | | |
| PROJECTED BUILDING SQ. FT.[1] | | 125,437 | 54,251 | |
| TAXABLE SALES PER SQ. FT. | | $300 | $693 | |
| *DISPLACED SALES WITHIN TRADE AREA* | | *20.00%* | *20.00%* | |
| **PRIMARY TRADE AREA SUPPLY** | **$1,509,196,507** | **$30,104,880** | **$30,066,158** | **$1,569,367,545** |
| | COMBINED PRIMARY & SECONDARY TRADE AREA | | | |
| PROJECTED BUILDING SQ. FT. | | 125,437 | 54,251 | |
| TAXABLE SALES PER SQ. FT. | | $300 | $693 | |
| *DISPLACED SALES WITHIN TRADE AREA* | | *20.00%* | *20.00%* | |
| **COMBINED PRIMARY & SECONDARY TRADE AREA SUPPLY** | **$2,609,116,317** | **$30,104,880** | **$30,066,158** | **$2,669,287,355** |

Source: Kimley-Horn & Associates, Inc. and 2017 Costco Annual Report.
[1] Project as modelled is only the additional 54,251 square feet, 26,701 of which is allocated to the the new Costco that is merely replacing an existing store, and 27,550 to additional retail pads.

### Projected Future Conditions Primary Trade Area Surplus/Leakage Analysis

As previously indicated, the estimated demand for the Primary Trade Area is expected to remain at $1.7 billion in retail expenditures per year, while the projected supply is only expected to reach a level of approximately $1.5 billion under the Future Conditions scenario. These figures indicate that even with the additional sales generated by the Project, there is still significant leakage of retail sales with a total of $195.2 million in unmet retail demand within the Primary Trade Area. **Table 11** reflects the overall leakage information for each of the Trade Areas.

The overall leakage expected within the Primary Trade Area under the Future Conditions is reflective of the current level of insufficient retail supply. As a result, the future retail demand in the Primary Trade Area is more than sufficient to support the Project without significantly diverting sales from existing merchants. The development of the Project will only serve to benefit the market within the Primary Trade Area and expand on the limited retail shopping opportunities currently available. The significant consumer spending that is still not being met, even after the addition of the Project, in the Primary Trade Area indicates the Project has the potential to operate successfully and not result in Urban Decay.

In the combined Primary and Secondary Trade Areas, the projected excess of consumer demand is approximately $663.9 million per year under the Future Condition.

TABLE 11

RETAIL SURPLUS/LEAKAGE UNDER FUTURE CONDITIONS

PRIMARY & SECONDARY TRADE AREAS

| JURISDICTION | TRADE AREA BALANCE 2019 | TRADE AREA BALANCE 2024 |
|---|---|---|
| | PRIMARY TRADE AREA | |
| PROJECTED DEMAND | $1,731,905,467 | $1,734,482,107 |
| PROJECTED SUPPLY | $1,509,196,507 | $1,539,262,665 |
| *EXCESS/(LEAKAGE)* | ($222,708,960) | ($195,219,442) |
| | COMBINED PRIMARY & SECONDARY TRADE AREA | |
| PROJECTED DEMAND | $3,300,093,977 | $3,303,116,830 |
| PROJECTED SUPPLY | $2,609,116,317 | $2,639,182,475 |
| *EXCESS/(LEAKAGE)* | ($690,977,660) | ($663,934,355) |

Source: Nielsen Company, Solano County, Census Bureau.

## E. CUMULATIVE IMPACTS OF ADDITIONAL PROPOSED FOOD & BEVERAGE PROJECTS

In addition to the Project, there are two small-scale quick-service restaurants in the area that have recently opened – Panera and In-N-Out, which opened in November 2018 and January 2019, respectively. Importantly, as discussed earlier, the Fairview at Northgate project spans approximately 51.3 acres and includes approximately 179,688 square feet of retail/commercial space within 21.8 acres, a residential component of 178 single family units within 23.8 acres, and 5.7 acres of open space. As a result, new residential units will be situated within a quarter mile of shopping, employment, and recreational uses. According to the approved plan, the buildout will provide rich employment and shopping opportunities and services to improve the City's jobs-housing balance.

In order to project the value of retail supply in both the Primary and Secondary Trade Areas, DTA used retail sales data from the Nielsen Company. As new developments come online in the years ahead, the total level of retail development in these areas will increase accordingly and peak in 2024 when all currently planned retail projects are assumed to be fully operational.

Determination of Retail Demand under Future Conditions within the Trade Areas

**Table 12** shows the estimated expenditures on retail goods per year, based on household growth and income growth throughout the Trade Areas. As discussed earlier, DTA does not assume any change in the percentage amount spent on retail goods and services, currently 22.3 percent. **Table 12** shows that households in the Primary Trade Area are estimated to spend approximately $1.8 billion on retail goods in 2024. Similarly, households in the combined Primary and Secondary Area are expected to spend approximately $3.4 billion on retail goods.

## TABLE 12

## RETAIL DEMAND UNDER FUTURE CONDITIONS

## PRIMARY AND SECONDARY TRADE AREAS

| JURISDICTION | EXISTING 2019 DEMAND | PROJECTED INCREASE BY 2024 | FAIRVIEW AT NORTHGATE PROJECT | TOTAL DEMAND IN 2024 |
|---|---|---|---|---|
| | PRIMARY TRADE AREA | | | |
| NUMBER OF HOUSEHOLDS | 39,852 | 1,453 | 178 | 41,483 |
| HOUSEHOLD INCOME | $66,006 | $76,519 | $76,519 | $76,519 |
| *% INCOME SPENT ON RETAIL* | | *22.26%* | *22.26%* | |
| *TRADE AREA CAPTURE RATE* | | *85.00%* | *85.00%* | |
| **PRIMARY TRADE AREA DEMAND** | **$1,731,905,467** | **$21,032,911** | **$2,576,640** | **$1,755,515,018** |
| | SECONDARY TRADE AREA | | | |
| NUMBER OF HOUSEHOLDS | 28,291 | 1,528 | 0 | 29,819 |
| HOUSEHOLD INCOME | $93,539 | $102,371 | $102,371 | $102,371 |
| % INCOME SPENT ON RETAIL | | *22.26%* | *22.26%* | |
| TRADE AREA CAPTURE RATE | | *85.00%* | *85.00%* | |
| **SECONDARY TRADE AREA DEMAND** | **$1,568,188,510** | **$29,591,385** | **$0** | **$1,597,779,895** |
| | COMBINED PRIMARY & SECONDARY TRADE AREA | | | |
| NUMBER OF HOUSEHOLDS | 68,143 | 2,981 | 178 | 71,302 |
| HOUSEHOLD INCOME | $77,437 | $89,770 | $76,519 | $89,770 |
| % INCOME SPENT ON RETAIL | | *22.26%* | *22.26%* | |
| TRADE AREA CAPTURE RATE | | *85.00%* | *85.00%* | |
| **COMBINED PRIMARY & SECONDARY TRADE AREA DEMAND** | **$3,300,093,977** | **$50,624,295** | **$2,576,640** | **$3,353,294,913** |

Source: Applied Geographic Solutions, 2018, City of Vallejo Consumer Expenditures.

### Determination of Retail Supply under Future Conditions within the Trade Areas

The Future Conditions retail supply that includes all proposed projects was estimated from information provided by the Nielsen Company. In order to determine the effects of the Project's sales on the Trade Areas, DTA estimated future sales of all proposed projects. **Table 13** summarizes the Trade Areas' projected Future Conditions supply figures.

## TABLE 13
## RETAIL SUPPLY UNDER FUTURE CONDITIONS
## PRIMARY AND SECONDARY TRADE AREAS

| JURISDICTION | EXISTING 2019 SUPPLY | RE-TENANTING OF EXISTING SITE | FAIRVIEW AT NORTHGATE PROJECT (TOTAL) | TOTAL SUPPLY IN 2024 |
|---|---|---|---|---|
| | PRIMARY TRADE AREA | | | |
| PROJECTED BUILDING SQ. FT. | | *125,437* | 54,251 | |
| TAXABLE SALES PER SQ. FT. | | $300 | $693 | |
| *DISPLACED SALES WITHIN TRADE AREA* | | *20.00%* | *20.00%* | |
| **PRIMARY TRADE AREA SUPPLY** | **$1,509,196,507** | ***$30,104,880*** | ***$30,066,158*** | **$1,569,367,545** |
| | COMBINED PRIMARY & SECONDARY TRADE AREA | | | |
| PROJECTED BUILDING SQ. FT. | | 125,437 | 54,251 | |
| TAXABLE SALES PER SQ. FT. | | $300 | $693 | |
| *DISPLACED SALES WITHIN TRADE AREA* | | *20.00%* | *20.00%* | |
| **COMBINED PRIMARY & SECONDARY TRADE AREA SUPPLY** | **$2,609,116,317** | ***$30,104,880*** | ***$30,066,158*** | **$2,669,287,355** |

Source: City of Vallejo Planning Department and 2017 Costco Annual Report.

Projected Future Conditions Primary Trade Area Surplus/Leakage Analysis

The estimated demand for the Primary Trade Area is expected to increase to $1.8 billion in retail expenditures per year. Including all future proposed projects, the projected supply is only expected to reach a level of approximately $1.6 billion under the Future Conditions. These figures indicate that even with the additional sales generated by the Project and other future projects, there is still significant leakage of retail sales, with a total of $186.1 million in unmet retail demand within the Primary Trade Area. **Table 14** reflects the overall leakage information for each of the Trade Areas.

The overall leakage expected within the Primary Trade Area under the Future Conditions is reflective of the current level of insufficient retail supply. As a result, the future retail demand in the Primary Trade Area is more than sufficient to support the Project without significantly diverting sales from existing merchants. The development of the Project will only serve to benefit the market within the Primary Trade Area and expand on the limited retail shopping opportunities currently available. The significant consumer spending that is still not being met in the Primary Trade Area, even after the addition of the Project, indicates the Project has the potential to operate successfully and not result in Urban Decay.

In the combined Primary and Secondary Trade Areas, the projected excess of consumer demand increases to approximately $684 million per year under the Future Condition.

Any potential for Urban Decay due to the projected surplus in the Food and Automotive categories is limited due to a number of mitigating factors. First, the tenants that actually choose to locate in these planned retail developments will be oriented towards retail areas in which there is a shortage of supply in the combined Primary and Secondary Trade Areas. Second, there is no certainty that future proposed projects within the Trade Areas will actually be constructed by the year 2024. Third, the cumulative supply figures are likely to be overstated due to the application of the same Trade Area to other proposed retail projects. Any possible future retail developments will have their own

Trade Areas, none of which will be exactly coterminous with the Project's Trade Areas. Total retail demand for these other projects will not be entirely derived from the Project's Trade Area populations, as assumed in the conservative approach to this leakage analysis. Fourth, as stated previously, Costco's business operations fall under both the Food and Eating and Drinking categorizations and it is reasonable to combine these categories for the purpose of this analysis to better reflect the supply this Project will provide to these related categories. DTA acknowledges the oversupply of $52.9 million in the Food category, however, given the fact that only half of the additional square feet being added to the new location will be used for grocery items, as confirmed by the Proponent, there is no evidence to indicate that the Project would exacerbate the already existing surplus. Finally, new and used dealerships constitute 87 percent of the total supply in the Automotive category, which inflates the surplus figures. The Project will minimally affect the existing surplus in this category, as ancillary services such as tire and auto centers, gas stations, pharmacies, optical dispensing centers, food courts, and hearing-aid centers make up just 18 percent of Costco's net sales, according to Costco's 2018 Annual Report.

TABLE 14

RETAIL SURPLUS/LEAKAGE UNDER FUTURE CONDITIONS

PRIMARY & SECONDARY TRADE AREAS

| JURISDICTION | EXISTING 2019 CONDITION | PROJECTED 2024 CONDITION |
|---|---|---|
| | PRIMARY TRADE AREA | |
| PROJECTED DEMAND | $1,731,905,467 | $1,755,515,018 |
| PROJECTED SUPPLY | $1,509,196,507 | $1,569,367,545 |
| *EXCESS/(LEAKAGE)* | ($222,708,960) | ($186,147,473) |
| | COMBINED PRIMARY & SECONDARY TRADE AREA | |
| PROJECTED DEMAND | $3,300,093,977 | $3,353,294,913 |
| PROJECTED SUPPLY | $2,609,116,317 | $2,669,287,355 |
| *EXCESS/(LEAKAGE)* | ($690,977,660) | ($684,007,557) |

Source: Nielsen Company, Solano County, Census Bureau.

## F. ECONOMIC IMPACT DETERMINATION

The retail leakage analyses in the Trade Areas reflect continued overall excess of retail demand from Trade Area residents, as compared to retail supply. To the extent to which there is sufficient demand to support the proposed retail developments, **there will likely be no negative impacts to market shares of existing businesses. In fact, the proposed retail projects may actually improve the balance between supply and demand in the Project's Trade Areas**. Because of the strong and stable commercial mixed-use retail market in the Northgate area and the excellent regional visibility and access of the site, the existing Costco site will be successfully re-tenanted and will not contribute to the downward spiral of Urban Decay. Notably, the location of the Project on the I-80 Freeway – a significant gateway into the Project and the City – provides regional visibility and immediate access

from Redwood Parkway, Admiral Callahan Lane, and Turner Parkway. According to data provided by CalTrans in 2016, there are as many as 270,000 vehicles per day currently using the I-80 corridor. **Thus, DTA concludes that while the Project and other proposed retail centers will add to the available supply of retail outlets, current and projected strength of the retail demand within the Project's Trade Areas will likely support this supply**. Also, considering the overall leakage illustrated by the current and future retail market analyses, the addition of retail space will provide expanded opportunity for new retailers to enter the market and fulfill unmet consumer demand.

Given that the Project is an expanded Costco and that there are several other competitive retail sites in both Trade Areas, it's unlikely that the Project will provide any additional appreciable "checkout aisle" savings to the typical City consumer beyond what is already provided by the existing Costco. However, the proximity of the Project to housing will minimize traffic congestion and gasoline consumption.

As mentioned previously, DTA evaluated the closure and reuse of the current site upon completion of the Project. The Project Proponent will place a deed restriction on the original site to prevent any "bulk sale merchandisers" or other general merchandise retailers, which rules out any potential issues that may be caused by the addition of retail uses similar to that of Costco. Based off data provided by the Proponent, it is likely that any new retailer will fall under the General Merchandise or Other Retail categories. The existing site provides 125,437 square feet of potential retail space, and at an average taxable rate of $300 per square foot, the re-tenanting of this space would add an estimated $30.1 million to the existing supply, increasing the supply in the General Merchandise category to $421. 8 million with a remaining demand of $137.7 million, and the supply of the Other Retail category to $359.4 million with a remaining demand of $240.8 million. In both scenarios, there would still be significant demand for additional retail in either category, and the re-tenanting of the existing site would provide expanded opportunity for new retailers to enter the market and fulfill this unmet consumer demand.

# Johnson Drive EDZ
# Economic Impact Analysis

**Prepared for:**

Environmental Science Associates &
The City of Pleasanton

**Prepared by:**

ALH | ECON
ALH Urban & Regional Economics

**March 2016**

[redacted]

March 15, 2016

Ms. Christy Herron
Senior Managing Associates
ESA | Community Development Group
[redacted]

**Re: Economic Impact Analysis for Johnson Drive Economic Development Zone**

Dear Ms. Herron:

ALH Urban & Regional Economics (ALH Economics) is pleased to present this economic impact analysis of the planned Johnson Drive Economic Development Zone in the City of Pleasanton. This study highlights the study findings regarding the economic impact of the planned retail and hotel components of the EDZ, including potential club retail space. The purpose of this report is to provide an assessment of the potential for the project to cause or contribute to changes in the economy.

It has been a pleasure working with you on this project. Please let me know if you have any questions or concerns.

Sincerely,

[redacted]

Amy L. Herman
Principal

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# I. EXECUTIVE SUMMARY

## INTRODUCTION

The purpose of this study is to assess economic impacts resulting from development of new club retail, general retail, and hotel space in the Johnson Drive Economic Development Zone (EDZ) in the Pleasanton, CA. This report also evaluates the potential of the EDZ to result in urban decay, which comprises prolonged physical deterioration resulting from sustained economic impacts. The EDZ is a proposed 40-acre area along Johnson Drive. Implementation of the EDZ would allow the City of Pleasanton to use zoning and land use designations, incentive programs, completed California Environmental Quality Act (CEQA) documentation, and standards and guidelines to streamline the development process and encourage investment.

The EDZ site is located in a commercial area with other nearby commercial establishments, industrial uses, and a hotel. Proposed new development includes 189,037 square feet of new general retail space, 148,000 square feet of club retail space, and a 150- or 231-room hotel. This mix of new uses is hereafter defined as the "Project." This study estimates the potential impacts of the Project on existing retailers in the Project's market area, primarily in the form of diverted sales from existing retailers. The study also estimates the potential impacts on existing hotels. The study further estimates the extent to which the opening of the Project and other cumulative retail or hotel projects may or may not contribute to urban decay pursuant to potential store closures attributable to existing retailer sales diversions and hotel closures. The key indicator of urban decay from a CEQA perspective is impacts on the physical environment, which includes existing stores and hotels and commercial real estate conditions, as measured by the current baseline. This is the baseline reflected by existing conditions discussed in this report.

The Johnson Drive EDZ new retail and hotel development would occur incrementally. Phase 1 development of 5,000 square feet of general retail space, the 148,000 square feet of club retail space, and the hotel are assumed to be complete and fully operational by 2018. The remaining balance of new general retail space would be developed sometime prior to Full Buildout of the EDZ, which is assumed to occur by 2028.

## SUMMARY OF FINDINGS

### Project Sales and Market Area

ALH Economics estimates that stabilized sales for the Project would total $172.3 million in Phase I and a total of $241.3 million upon Full Buildout, all in 2015 dollars. Not all Project sales are deemed competitive with the existing retail sales base. Sales components not anticipated to be competitive with the retail sales base include sales made to wholesalers with resale licenses, purchases made by market area consumers recaptured from other regional club retailers, and sales made to consumers from outside the Project's market area.

The Project's general retail and club retail spaces are anticipated to draw 80% and 60% of their sales from the market area, respectively. The percentage is lower for the club retail space because market area data for nearby club retail stores suggests demand originates from a large area, with less than 60% sourced from households in the nearby environs. Based largely on locations of

competing club retail venues, the Project's market area was defined to include 18 full census tracts and three partial census tracts spanning the City of Pleasanton, the majority of the City of Dublin, and some unincorporated Alameda County areas. Consumer origin data for nearby club retail venues indicates that a large part of their consumers originate from the market area defined for the Project. This means market area consumers who want to shop at a club retail store are already doing so. It is assumed that these sales will be captured by the Project's club retail store. These redirected sales will not be diverted from any existing market area retailers but will comprise sales new to Pleasanton.

Based upon considerations of wholesale purchases, redirected sales, outside market area demand, the Project's sales anticipated to be most competitive with the existing retail base include $66.5 million in Phase I sales and $119.7 million in total sales at Full Buildout. These are the new sales anticipated to be generated by market area retail consumers.

The distribution of sales by retail category will vary between the general retail and club retail portions of the Project, but the overall distribution is summarized in Table 1. This distribution is based on assumptions regarding the allocation of Project space by type of retail category, and associated average sales estimates.

**Table 1. Summary of Project Sales Competitive with Market Area Retail Sales Base**

| | General Retail | | Club Retail | | Full Buildout | Percent of |
|---|---|---|---|---|---|---|
| Retail Category | Phase 1 | Full Buildout | Phase 1 | Full Buildout | Total | Total |
| Motor Vehicles and Parts Dealers | $0 | $0 | $3,143,726 | $3,143,726 | $3,143,726 | 3% |
| Home Furnishings and Appliance Stores | $153,189 | $5,791,663 | $4,419,892 | $4,419,892 | $10,211,555 | 9% |
| Building Materials and Garden Equip. | $142,416 | $5,384,380 | $2,645,710 | $2,645,710 | $8,030,090 | 7% |
| Food and Beverage Stores | $0 | $0 | $32,075,342 | $32,075,342 | $32,075,342 | 27% |
| Gasoline Stations | $0 | $0 | $6,278,039 | $6,278,039 | $6,278,039 | 5% |
| Clothing and Clothing Accessories Stores | $365,722 | $13,827,011 | $2,023,190 | $2,023,190 | $15,850,201 | 13% |
| General Merchandise Stores | $141,136 | $5,335,998 | $4,840,093 | $4,840,093 | $10,176,090 | 8% |
| Food Services and Drinking Places | $288,849 | $10,920,622 | $249,008 | $249,008 | $11,169,630 | 9% |
| Other Retail Group | $407,534 | $15,407,814 | $7,395,537 | $7,395,537 | $22,803,351 | 19% |
| **Total** | **$1,498,846** | **$56,667,487** | **$63,070,537** | **$63,070,537** | **$119,738,024** | **100%** |

Source: Exhibit 15.

The categories of sales are based upon categories defined by the State of California Board of Equalization. The "Other Retail" category is a broad category that includes a wide range of goods, such as office supplies, pet supplies, books, toys, pharmacy, jewelry, sporting goods, and gifts. As noted, the largest component of Project retail sales is estimated to comprise Food & Beverage store sales. This is attributable to the large share of club retail store sales comprising Food & Beverage sales.

## Retail Sales Base and Characterization

The combined sales bases of Pleasanton and Dublin are estimated to total $3.0 billion, comprised of approximately equal portions between the two cities. Both Pleasanton and Dublin are retail attraction markets, meaning that more sales are captured by area retailers than would be expected from resident spending alone. This retail base attraction is characteristic of all major retail sectors except for two in Pleasanton – Building Materials & Garden Equipment and Gasoline Stations, meaning these two categories are not fully meeting demand generated by Pleasanton consumers. However, both of these categories are attraction categories in Dublin, thus the analysis assumes

the market area as a whole has attraction in all major retail categories. This suggests that recaptured leakage beyond the sales assumed to be recaptured from area club retail stores is not a likely source of demand for the Project's retail components.

**Project Sales and Store Impacts**

Recognizing that the market area is a sales attraction market, the analysis estimates that for the Project to be successful, all of its sales from market area residents would comprise sales diverted from existing retailers, excepting demand generated by new market area households, which is significant. Based on estimated household growth averaging just over 1.0% a year, this new demand is estimated to total $51.7 million in retail sales by 2018, an additional $171.1 million between 2018 and Full Buildout, for a cumulative total of $1.7 billion by Full Buildout, or 2028.

Taking Project sales generated by market area households and new demand into consideration, Phase I Project's sales impacts are estimated to total $26.7 million for existing retailers, or 0.9% of existing market area sales. This is the amount of sales estimated to be diverted from existing market area retailers after new household demand is taken into consideration. Overall this is a nominal level of impact. However, the sales impact is anticipated in three retail categories, including $0.3 million in Gasoline Stations, $1.9 million in Home Furnishings & Appliances, and $23.2 million in Food & Beverage Stores. The sales impacts in Home Furnishings & Appliances and Gasoline Stations are nominal and given the size of the sales base are not deemed large enough to result in existing retail outlet closures. Moreover, these sales impacts are anticipated to be offset quickly following completion of Phase I, including a period of less than one year for the Gasoline Station impact and just over two years for the Home Furnishings & Appliances impact. Thus, these impacts are not deemed severe enough to result in existing outlet closures.

The estimated Phase I sales impacts in the Food & Beverage Stores category are more substantial. At $23.2 million these impacts are equivalent to 7.4% of the existing sales base. This volume of sales could result in lower store sales performance among a number of existing Food & Beverage stores, which includes at least 17 more traditional food stores in the market area, as well as numerous ethnic and other small food markets. Or the sales impacts could be concentrated among just several retailers most comparable to the discounted or bulk food options available at a club retailer. Based upon average store sales performance, the estimated volume of diverted Food & Beverage Store sales is sufficient to support approximately 36,000 square feet of space. While this level of impact could suggest the potential for one existing grocery store in the market area to be at risk of potential closure following Phase I Project development, it is unlikely based on the outcomes experienced in similar jurisdictions after club stores opened. It is further unlikely because the nature of goods available at club retail stores are typically bulk in nature, with very limited variety, such that they do not lend themselves to the average household consumer who needs to stop by a grocery store once or twice a week for basic household needs or to round out the pantry and purchase ingredients for intimate family dinners. In addition, spread over just the more traditional market area food stores, the estimated level of impact is equivalent to less than $1.4 million in sales impact per store, which is likely not a sufficient sales volume loss to trigger store closure. Many stores can likely compensate for this loss through product repositioning and other operational changes. Further, some of these impacts will be offset over time as additional new demand is generated, averaging about $3.0 million a year after 2018.

If a store closes there are other demand opportunities available to backfill the space, thus reducing the likelihood of long-term retail vacancy. For some Project sales categories new market area demand will exceed the portion of Phase I Project sales estimated to be generated by market area households, thus no impact will result and demand available for other retailers will result. Thus, while there could be the potential for store closure, the likelihood of the space remaining vacant following Phase I development for a prolonged period of time and leading to urban decay is very low.

By the time of Full Buildout of the Project, estimated to comprise 2028, more than sufficient new market area demand will be generated to absorb the Project's anticipated sales generated by market area retail consumers. There is one minor exception to this, which is the Clothing & Clothing Accessories category, with a nominal sales impact. The estimated level of impact in this category is so limited it comprises 0.0% of the market area sales base. Moreover, the findings suggest that over $100 million in additional demand for retail will remain at Full Buildout, providing support for yet other retail venues as well as any retail space that might become vacated as a result of Project impacts. Such potential vacancies, however, are not deemed likely given the negligible sales impacts projected by Full Buildout.

**Downtown Pleasanton Impacts**

Downtown Pleasanton is anticipated to experience very limited, if any, sales impacts associated with the Project. This assessment is attributable to several factors, including the nature of the impacts, Downtown Pleasanton's retail base and orientation, and historical precedents. Specifically, the Project's impacts in sales categories represented Downtown are very low and unlikely to be experienced by Downtown retailers. This is especially the case because the nature of these and other goods sold in Downtown Pleasanton is generally very different from the type of goods available at a club retail store like Costco or other generic retailers that might occupy the Project's general retail space. Further, while there may be some club retail goods overlap, the quality of goods available Downtown is typically much greater and of a broader variety than available at a club retailer. In addition, Downtown Pleasanton retailers provide services not available at a club retailer. Downtown Pleasanton also provides a unique, pedestrian-oriented shopping opportunity with a customer-friendly atmosphere, which cannot be replicated at the Project. Further, shoppers who want the type of goods available at a club retail store already have regional opportunities for this kind of shopping. Thus, there is no motivation for Downtown shoppers to change their shopping patterns.

Downtown Pleasanton is quite distant from the Project site, at 4.3 miles. Shoppers who choose to shop in Downtown Pleasanton are unlikely to bundle a Downtown shopping with a Project shopping trip, further helping Downtown Pleasanton retain its existing shoppers. Finally, anecdotal information suggests that the opening of the San Francisco Premiums Outlets in Livermore, located even closer to Downtown Pleasanton than the Project site (3.9 miles versus 4.3 miles), did not result in negative economic impacts on Downtown Pleasanton retailers. This is supported by comparative sales analysis in Pleasanton spanning 2011, the year before the Outlets opened, and 2013, the year following the Outlets opening. This suggests that City of Pleasanton as a whole did not experience any retail sales repercussions associated with this significant retail addition to the region's retail base. This also supports the finding that the Project's impacts on the existing retail base may be limited, given the greater size of the San Francisco Premium Outlets relative to the Project.

### Costco Case Study Findings

Case study research in select California communities with Costco stores provides some insight into the potential for more granular store impacts than results from the study's quantitative analysis. This includes research in Livermore, where the Costco store opened in 1993 but where gasoline sales were added within the past 5 years, plus Hayward and Huntington Beach, which have some sales base comparability to Pleasanton and newer Costco stores opened in 2009 and 2012, respectively. The case study findings indicate that none of the cities noted negative impacts on the existing business community associated with Costco, including the small business community, downtown, gas stations, or food stores. In the case of Huntington Beach, the Costco store was instead seen as a catalyst for small business development and area economic development, with spin-off benefits noted for other, previously struggling retail districts.

These case study findings indicate that other communities of a similar scale to Pleasanton did not experience negative impacts on their retail community when local Costco stores were developed. This includes no reported small business community impacts or impacts on gasoline stations. Therefore, these findings suggest the study conclusion that the Project's Phase I development could result in food store sales impacts is a conservative conclusion, not borne out by the experience in comparable cities.

### Secondary Impacts

In addition to sales impacts throughout the Project's market area, there will be potential for more localized secondary impacts on the businesses located in the area proposed for the Johnson Drive EDZ. These include a higher volume of traffic through the area impacting employees and customers as well as existing businesses encountering a more competitive environment when seeking land or building acquisition for expansion purposes. Yet there are also potential beneficial impacts including traffic-related benefits associated with enhanced visibility of existing businesses, the proximate availability of low cost club retail merchandise and gasoline, other shopping and eating opportunities close to work, and possible long-term property value increases associated with economic development improvements throughout the area. Thus, as noted in the Huntington Beach Costco case study, Project development could serve as a catalyst for economic development, bringing shoppers to an area that was previously underutilized, and creating synergistic opportunities for business growth.

### Cumulative Project Sales Impacts

ALH Economics identified 12 potential cumulative retail development projects in or near the market area. Cumulative projects are defined as retail developments that have the potential to generate net new retail sales that may be competitive with the Project, especially sales generated by market area consumers. Of these 12 projects, eight are anticipated to be completed by the end of 2018, concurrent with the Project's Phase I. The remaining four projects have unknown timing because they are either in very early planning stages or are phased projects that do not have estimated starting dates for the outstanding retail portion. These projects are assumed to be completed by the Project's Full Buildout timeframe.

The cumulative projects will have their own unique market areas, so only a portion of the cumulative project retail space will be competitive with the Project or relate to the market area sales

base. This share of space is estimated to total 173,321 square feet by 2018. There are 293,721 total square feet of estimated occupied development with unknown timing; however, a portion of this square footage may be developed between those years. This brings the total competitive square footage estimate to 467,042 square feet for the market area and surrounding areas, exclusive of the Project. Notably, these figures include one retail project in Dublin that City of Dublin representatives suggest may convert to an all residential project.

Cumulative project analysis taking into consideration the portion of Project and cumulative project retail space anticipated to capture sales from the Project's market area, future market area demand for retail, and timing of development indicates that by the completion of Phase I, suggest there will be a projected shortfall of 111,200 square feet of market area demand to support the cumulative projects. This is a nominal amount of shortfall based upon the current size of the combined retail base in Pleasanton and Dublin, which comprises 9.2 million square feet. If this 11,200–square-foot increment of retail space became vacant as a result of the cumulative projects (possibly including the estimated Phase I Project grocery store impacts), the current retail base vacancy rate would increase by 1.2%. This retail vacancy increment is very low, and would comprise an insignificant impact on the market area's retail base.

By the time Project Full Buildout occurs, there will continue to be insufficient new market area demand to absorb all the cumulative projects with known development timeframes. Similar to the Phase I timing analysis, however, this insufficient demand is estimated to be relatively low. Inclusive of the cumulative project anticipated to be unlikely to be developed as retail, this demand shortfall comprises an estimated 267,650 square feet. Excluding the unlikely development project reduces this figure to 154,800 square feet. Thus, the market area retail base vacancy rate is estimated to increase by 1.7% to 2.9% by Full Buildout pursuant to the cumulative retail development.

The degree to which these percentage increases will be significant to the market will depend upon the prevailing market conditions at the time of Full Buildout. While these conditions cannot be predicted, current conditions suggest that the projected increases in vacancy attributable to the cumulative projects at Full Buildout will not be detrimental to the commercial retail market, and that the market would continue to operate within healthy parameters. Therefore, ALH Economics concludes that the cumulative projects, inclusive of the Johnson Drive EDZ Project, are unlikely to result in negative sales impacts contributing to the potential for prolonged economic impacts and that urban decay is not likely to occur in the market area.

### Hotel Impact Analysis

The Project has the potential for a 150- to 231-room hotel. There are a minimum of 15 existing hotels in Pleasanton and Dublin with a total of 2,297 rooms. These hotels represent five classes of hotel, including economy, midscale, upper midscale, upscale, and upper upscale. All of the existing hotels appear to be in good general repair, with attractive physical conditions and no signs of urban decay or deterioration, such as litter, graffiti, weeds or rubbish. Average annual occupancy rates of the hotels vary with economic conditions, with occupancy ranging from a low of 56% in 2009 at the peak of the Great Recession to 81% in 2015.

ALH Economics projected future demand for hotel rooms and assessed the Project's impact on future occupancy to identify if there could be negative impacts on occupancy sufficient to cause existing hotels to close. Demand was projected out at the combined projected employment rate for

Pleasanton and Dublin. This analysis effectively accommodates hotel rooms demand associated with expansion of the city's economic base. The results indicate that in 2018, when the Project's hotel is assumed to be added to supply for the full year, occupancy is projected to range from 79% to 81%. On the low end this rate is above the industry standard hotel occupancy rate of 75% and at the high end the rate is generally equivalent to the current baseline rates. Thus, the addition of the Project hotel is not anticipated to result in negative impacts on the existing hotel base contributing to potential hotel closure.

In addition to the Project, there are two cumulative hotels planned. This includes the 122-room Aloft Hotel at Grafton Plaza in Dublin, anticipated to be added to supply in 2017, a year before the Project, and the 75-room Project Clover hotel in Dublin, anticipated to be added to supply in 2018, the same year as the Project hotel. The near-term results after the addition of the new Grafton Plaza hotel in 2017 indicate that hotel occupancy is projected to remain stable at 81%, the rate noted in 2015. When the Project Clover and Johnson Drive EDZ Project hotels are further added to supply in 2018 the occupancy rate is projected to decrease, down to 73% to 75%, and recover thereafter. These projected rates are close to or above industry standard levels, and exceed levels achieved by the market as recently as 2011 and 2012. Thus, market performance is anticipated to remain close to or above industry standard levels reflective of a healthy hotel market. Therefore, the study concludes that the Project and cumulative projects may result in reduced occupancy among existing hotels, but that the existing hotels are not anticipated to be impacted to the point that hotel closure is a potential risk.

## CEQA URBAN DECAY DETERMINATION

### Definition of Urban Decay

For the purpose of this analysis, urban decay is defined as, among other characteristics, visible symptoms of physical deterioration that invite vandalism, loitering, and graffiti that is caused by a downward spiral of business closures and long term vacancies. This physical deterioration[1] to properties or structures is so prevalent, substantial, and lasting for a significant period of time that it impairs the proper utilization of the properties and structures, and the health, safety, and welfare of the surrounding community. For this study, urban decay is only considered a risk factor if the economic impact analysis suggests the potential for prolonged market area vacancies to occur resulting from Project- and cumulative project-related sales impacts.

### Retail Market Characteristics

Historically, Pleasanton has maintained a healthy retail market sector, while Dublin has experienced more fluctuations. As of 4th quarter 2015 Pleasanton had an overall retail vacancy rate of 2.3%. This rate comprises a relative low in recent years, since hitting a peak of 6.0% in 4th quarter 2012. Prior to that time period the Pleasanton vacancy rate was as low as 1.4% in 1st quarter 2007, which is an exceedingly low vacancy rate. All of these rates, however, indicate an

[1] The manifestations of urban decay include such visible conditions as plywood-boarded doors and windows, parked trucks and long term unauthorized use of the properties and parking lots, graffiti and other building defacement, dumping of refuse on site, overturned dumpsters, broken parking barriers, broken glass littering the site, dead trees and shrubbery together with weeds, lack of building maintenance, homeless encampments, and unsightly and dilapidated fencing.

extremely healthy and very stable retail base throughout the city. The retail market in Dublin is not as strong as in Pleasanton, but is still operating within healthy parameters. Dublin retail vacancy peaked at 14.7% in the 3rd quarter of 2009, but dropped by 2011 to below 10.0%. Since then, vacancy was lowest in 1st quarter 2015, at 3.9%, which is an extremely low vacancy rate. The vacancy rate as of 4th quarter 2015 was slightly higher at 5.9%, but still relatively low by commercial market standards. These favorable retail vacancy rates in Pleasanton and Dublin bode well for the market area with respect to any potential increases in vacancy attributable to potential Project impacts resulting in store closures.

Retail vacancies in Pleasanton and Dublin are finding new tenants. At least 35 retail leases were executed in Pleasanton over the one-year time frame from approximately mid-January 2015 to mid-January 2016, totaling approximately 72,000 square feet. Comparable figures in Dublin over the same time frame were 44 leases totaling over 140,000 square feet. These lease transactions ranged in size, up to 19,500 square feet. Over a longer period of time the Pleasanton market alone has demonstrated the ability to backfill even larger spaces, including spaces vacated by grocery stores.[2] Field observation indicates that properties that are not immediately backfilled and remain vacant are in generally good condition and do not exhibit signs of urban decay. These factors suggest that retail vacancies that might occur in the Project's market area as a result of Project or cumulative project economic impacts will be well-maintained during any period of vacancy and will not contribute to conditions of urban decay or deterioration.

**Urban Decay Conclusion**

ALH Economics focused on determining whether or not physical deterioration in existing retail centers and area hotels would likely result from the opening of the Project and other cumulative retail or hotel developments in reaching a conclusion about economic impacts contributing to or leading to urban decay. The conclusion is based on consideration of current market conditions, findings regarding diverted sales, and regulatory controls. Highlights of these findings are as follows:

> ***Current Market Conditions***: The fieldwork and market research indicated that retail market conditions are moderate to very strong in the market area's core commercial areas, with low to moderate retail vacancy rates. Retail leasing activity is strong and existing vacancies are well maintained.
>
> ***Sales and Vacancy Impacts:*** The findings suggest the Project's Phase I development could potentially result in the closure of one grocery store and that at Full Buildout the cumulative project impacts (including the Project) could result in a modest increase in the market area's vacancy rate, as new market area demand will not be sufficient to support all the competitive retail space. While the grocery store closure is deemed unlikely, due to factors such as the anticipated distribution of impacts and the lack of variety and bulk orientation of goods available at club retail stores, even if the modest amount of vacancy occurs, the resulting vacancy rate increment will be nominal, with the resulting vacancy rate well within the range indicative of a healthy retail market. Moreover, the market's demonstrated retail absorption, including backfilling of larger retail spaces, coupled with the strong to

[2] Backfilling refers to re-tenanting of vacant retail spaces.

moderately strong market conditions, suggest that vacancies that might occur as a result of the cumulative project impacts would likely be backfilled within a reasonable time and not be characterized by prolonged vacancy.

Even if some sites experience prolonged vacancy because they might be of a size that experiences less demand or they are located in shopping centers with poor visibility or other undesirable characteristics, the prevailing conditions in the market area suggest that these vacancies would be well-maintained and would not devolve into urban decay or deterioration. Moreover, it should be noted that when tenants vacate prior to lease expiration, they continue to be responsible for rent and their share of building operating expenses, such as the Fresh & Easy example in Exhibit 46. While not all tenants would have the wherewithal to continue these payments, national or regional retailers are more likely to have this capability. This is an important consideration because landlords would continue to receive income on these vacated spaces through committed lease payments, which means they would have available financial resources to continue to maintain their properties.

***Regulatory Controls:*** During Project-related fieldwork conducted in February 2016, ALH Economics found there were little-to-no visible signs of litter, graffiti, weeds, or rubbish associated with existing commercial nodes in the Project's market area. Thus, ALH Economics concludes that existing measures to maintain private commercial property in good condition in Pleasanton and Dublin are generally effective and would serve to help preclude the potential for urban decay and deterioration in the event any existing retailers in the market area close following the operations of the Project and other cumulative retail projects.

Based upon these findings, ALH Economics concludes that the Johnson Drive EDZ Project and the identified cumulative projects would not cause or contribute to urban decay.

**Fiscal Impact Analysis**

A fiscal impact analysis of the Project was prepared based upon the methodology and assumptions included in a fiscal impact study prepared for the entirety of the Johnson Drive EDZ in February 2015.[3] This study used the City of Pleasanton's Fiscal Year 2014/15 Operating Budget as a key resource. ALH Economics updated some of the factors included in this fiscal impact study pursuant to the more recent Fiscal Year 2015/16 budget as well as operating characteristics specific to the Project included in this analysis, such as taxable sales performance and forecasted sales diversions.

The fiscal impact analysis results indicate that on a worst case basis, assuming that all diverted sales are diverted from Pleasanton retailers (as opposed to retailers outside of Pleasanton), the Project is anticipated to generate a projected $1.4 to $1.7 million annual contribution to the City of Pleasanton's General Fund at the completion of Phase I. This net revenue estimate increases to $2.1 to $2.3 million annually upon Full Buildout. At Full Buildout these net fiscal revenues represent an annual contribution equivalent to approximately 2.1% to 2.3% of the City's General

[3] "Draft Summary – Johnson Drive EDZ Fiscal Impact Analysis, City of Pleasanton," February 5, 2015, Brion & Associates.

Fund expenditures. This analysis does not include any potential City of Pleasanton share of Project-related transportation costs, which will be ultimately determined by the Pleasanton City Council. The expenditure of any such costs will result in a reduction in the Project's estimated annual net fiscal revenues.

The fiscal impact analysis for the entire Johnson Drive EDZ included a lower per square foot sales estimate for the Project's club retail space than projected in this study. This figure was $700 per square foot vs. the $1,152 per square foot figure included in the economic impact analysis. Net fiscal impacts results reflecting this lower per square foot club retail sales performance estimate include a range of $1.1 to $1.4 million at the completion of Phase I and $1.9 to $2.2 million annually upon Full Buildout. Thus, the net fiscal impact results would be equal to approximately 79% to 86% the amount projected with the higher club retail sales performance estimate.

# II. INTRODUCTION

## STUDY BACKGROUND

The City of Pleasanton proposes to implement a pilot Economic Development Zone ("EDZ", or "Project") within a 40-acre area along Johnson Drive currently developed with office, commercial, institutional, and industrial uses. The EDZ would allow the City of Pleasanton to use zoning and land use designations, incentive programs, completed CEQA documentation, and standards and guidelines to streamline the development process and encourage new investment. ALH Urban & Regional Economics was engaged to examine the net increment of the Project development in addition to "Existing Development", which includes general retail among other uses, such as commercial service, office, industrial, and institutional/religious space, some of which will be phased out gradually from the area over the period of Full Buildout. This net increment includes "Phase I" development, which includes the development of club retail, general retail, and hotel uses, and "Full Buildout" development, which includes Phase I as well as additional general retail.

The Project site is in a commercial area with other nearby commercial establishments, industrial uses, and a hotel (see Exhibit 1 for site location). At Full Buildout the proposed EDZ will include a total of 227,940 square feet of general retail, a 148,000-square-foot club retail store, and either an 88,000-square-foot hotel with 150 rooms (Option 1) or 132,000 square feet of hotel space with 231 rooms (Option 2).[4] At Full Buildout this equates to a cumulative net new 189,037 square feet of general retail, 148,000 square feet of club retail, and either 150 or 231 hotel rooms. The Project's Draft Supplemental Impact Report (Draft SEIR) reflects analysis of a 150-room hotel. However, this study also conservatively analyzes a larger hotel option with 132,000 square feet.

The City of Pleasanton circulated the Draft SEIR for the Project, which tiers from EIRs prepared previously by the City for its General Plan update and Housing Element and Climate Action Plan. Several comments submitted by public stakeholders as well as City of Pleasanton Planning Commission members have requested that the Final SEIR include the results of an analysis of potential economic impacts that would be caused by the Project. In addition, the City requested that a fiscal impact analysis of the Project be completed, consistent to the extent possible with a February 2015 fiscal impact study prepared for the Johnson Drive EDZ in its entirety, which included analysis of several potential development scenarios.

To support this effort and comply with the California Environmental Quality Act ("CEQA"), ALH Urban & Regional Economics ("ALH Economics") was asked to prepare an analysis of the economic effects of the project, including the potential for the Project to cause or contribute to urban decay and to assess the Project's fiscal impact on the City of Pleasanton's General Fund. The decision by the Fifth District Court of Appeal in *Bakersfield Citizens for Local Control v. The City of Bakersfield* indicated that CEQA requires a lead agency to consider and analyze the potential for the introduction of planned retailers to result in adverse physical impacts on the environment by causing a chain reaction of store closures and long-term vacancies, otherwise referred to as a condition of "urban decay." This analysis is not required for all projects subject to CEQA, but only projects where there is the perceived potential for urban decay or deterioration to result. In

[4] Option 2 could include more than one hotel. For the sake of simplifying the presentation and analysis, the balance of the report and analysis refers to this as one hotel option with 231 rooms.

addition, a fiscal impact analysis is not a required component of CEQA. The comment period for the Draft SEIR ended November on 23, 2015.

This study addresses the Bakersfield decision by considering the potential impact of the Project in conjunction with the introduction of other relevant cumulative retail and hotel developments. The key indicator from a CEQA perspective is impacts on the existing physical environment, which in the context of an urban decay analysis includes existing stores and commercial real estate conditions, as measured by the current baseline. The Notice of Preparation (NOP) for the EIR was released in August 2014 and the Draft SEIR was released in September 2015. The market conditions were most recently assessed in February 2016, comprising the study baseline. Other data included in the report were the most recently available at the time of study initiation. For study purposes, Phase I of the Project is anticipated to be completed and fully operational in 2018 and Full Buildout is anticipated to occur by 2028.

## STUDY TASKS

ALH Economics engaged in numerous tasks to complete this assignment assessing the prospective economic and fiscal impacts of the Project. These tasks included the following:

- Identified the Project's market area, i.e., the area from which the majority of the Project's consumers are anticipated to originate;
- Developed a definition of the Project, including net incremental square footage estimates by type of space and by Phase;
- Estimated the Project's net retail sales;
- Conducted fieldwork to review the Project's site and evaluate existing market conditions;
- Conducted retail sales leakage analyses for the cities of Pleasanton and Dublin;
- Estimated demand generated by households added to the market area by the time the Project achieves stabilized sales;
- Estimated the Project's economic impacts on existing retailers;
- Identified planned market area retail projects;
- Assessed the cumulative impacts of planned retail projects;
- Assessed the Project's economic impact on the existing hotel market;
- Assessed the extent to which operations of the Project and the cumulative projects may or may not contribute to economic impacts contributing to or leading to urban decay; and
- Estimated the annual net fiscal impact of the Project at the completion of Phase I and full buildout.

The findings pertaining to these tasks are reviewed and summarized in this report, with analytical findings presented in the exhibits in Appendices A and B.

## STUDY RESOURCES AND REPORT ORGANIZATION

### Study Resources

The economic impact analysis relied upon a number of key resources. These resources are all identified in the sources and notes to the exhibits developed to support the analysis. These resources include the following:

- *Governmental resources.* These sources include representatives from the City of Pleasanton Planning, Economic Development, and Code Enforcement; City of Pleasanton Operating Budget Fiscal Year 2015/16 – FY 2016/16; City of Dublin Planning Department; City of Hayward Community Development Department; City of Huntington Beach Economics Development Department; City of Livermore Economic Development Department; the United States Bureau of Labor Statistics, Consumer Price Index; the U.S. Census, U.S. Economic Census; State of California Board of Equalization; Association of Bay Area Governments (ABAG), "Population & Household Projections 2013"; City of Pleasanton Municipal Code; City of Dublin Municipal Code; and U.S. Bureau of Labor Statistics, Consumer Expenditures Survey.

- *Third party resources.* These sources include Environmental Science Associates; Costco Wholesale Corporation 10-K form and Annual Report for the fiscal year ending August 30, 2015; Walmart Inc. 10-K Form for the fiscal year ending January 31, 2015; Streetlightdata.com; Hinderliter de Llamas (HdL); CB Richard Ellis; CoStar; Nielsen, a national resource for demographic estimates and projections; Retail Maxim, a retail industry performance resource; Tax Policy Center; californiagasprices.com; Smith Travel Research; GoogleMaps; ESRI ArcMap; US Census Tigerline Shapefiles; Yelp; and Brion & Associates. In addition, ALH Economics was asked to reach out to two parties interested in the environmental review process for the Johnson Drive EDZ. These included Carrie Fox of Cox Family Stores, a local chain of gas stations, and Bill Wheeler, Manager of Black Tie Transportation, a transportation provider located in the Johnson Drive EDZ. Both parties declined the opportunity to discuss their concerns with ALH Economics.

All of these resources are identified as warranted in the text and/or the series of exhibits found in Appendices A and B that document the study analysis.

**Report Organization**

This report includes 10 chapters, as follows:

I. Executive Summary
II. Introduction
III. Project Retail Sales Estimation
IV. Market Area Definition, Share of Project Sales, and Retail Characterization
V. Market Area Demographics and Retail Spending Potential
VI. Project Sales Impact Analysis
VII. Cumulative Project Impacts
VIII. Hotel Impact Analysis
IX. CEQA Urban Decay Determination
X. Fiscal Impact Analysis

This report is subject to the appended Assumptions and General Limiting Conditions.

# III. PROJECT RETAIL SALES ESTIMATION

A description of the planned EDZ Project and ALH Economics' estimates of the retail sales generated by the Project are presented below. This includes sales generated by retail category. This estimate is necessary to facilitate analysis of the Project's economic, urban decay, and fiscal impacts.

## PROJECT DESCRIPTION

This analysis evaluates the proposed incremental retail and hotel development of the EDZ Project. The focus in this chapter includes the anticipated retail sales generated by the Project. The Project components include new general retail and club retail development in addition to a small amount of existing retail development. The full development program is presented in Exhibit 2, and summarized below in Table 2.

In summary, the development program includes 375,940 square feet of retail space upon full buildout. Of this, 38,903 square feet currently exist. Thus, the net square footage includes 5,000 square feet of general retail space and the 148,000-square-foot club retail space in Phase I. The incremental amount of retail space anticipated to be further developed by buildout, which is anticipated by 2028, is another 184,037 square feet of general retail space.

Table 2. Summary Project Square Feet and Hotel Rooms

| | Development Characteristics | | | Incremental Development | | |
|---|---|---|---|---|---|---|
| Development | Existing | Phase I | Full Buildout | Phase I | Full Buildout | Total |
| Retail | | | | | | |
| General Retail | 38,903 | 43,903 | 227,940 | 5,000 | 184,037 | 189,037 |
| Club Retail | 0 | 148,000 | 148,000 | 148,000 | 0 | 148,000 |
| | **38,903** | **191,903** | **375,940** | **153,000** | **184,037** | **337,037** |
| Hotel Option 1 | 0 | 150 rooms | 150 rooms | 150 rooms | 0 | 150 rooms |
| Hotel Option 2 | 0 | 231 rooms | 231 rooms | 231 rooms | 0 | 231 rooms |

Source: Exhibit 2.

Thus, as noted in Table 2, the total amount of net new retail space upon buildout will include 189,037 square feet of general retail space and 148,000 square feet of club retail space, totaling 337,037 square feet of net additional retail space. Hereafter, all reference to retail space planned for the Project includes this net increment of retail space.

## PROJECTED SALES

### Retail Categories

There will be several retail sales components associated with the Project. These include general retail space and club retail space. Given anticipated Project phasing, the first new Project sales are anticipated to occur in 2018, with the balance of sales anticipated to occur by 2028. The sales for the general retail and club retail space will differ dramatically, given the difference in

market orientation, with club retailers typically oriented toward bulk sales and/or discounted pricing with a no frills shopping setting.

ALH Economics engaged in an estimation procedure for both types of retail space to develop assumptions regarding space allocation by type of retail good and then sales by type of retail good. The approaches were different for the different types of retail space but the goal for both was to develop sales estimates for the retail categories consistent with the retail categories defined by the State of California Board of Equalization (BOE), which publishes taxable retail sales figures for cities and counties. To maximize the use of these data, the analysis is benchmarked to the BOE retail categories and the related sales figures reported in its *Taxable Sales in California* publication (with some adjustments, as noted in the Retail Sales Base Characterization chapter.) These categories, as typically reported for cities, are listed below, including examples of representative retail goods by category.[5]

- Motor Vehicles & Parts (new and used auto sales, auto parts and tires);
- Home Furnishings & Appliances (furniture, electronics, home appliances, linens, bed and bath supplies);
- Building Materials & Garden Equipment (hardware stores, home improvement stores, nurseries);
- Food & Beverage Stores (grocery stores, convenience stores, liquor stores);
- Gasoline Sales (gas stations);
- Clothing & Clothing Accessories Stores (apparel, boutiques, shoes, western wear, purses);
- General Merchandise Stores (department stores and dollar stores);
- Food Services & Drinking Places (restaurants and bars); and
- Other Retail Stores (a wide range of retailers, such as pet supplies, office supplies, drug store sales, sporting goods, jewelry, florists, and gifts).

Notably, these retail sales categories do not include some services that typically occupy commercial retail space, including personal and business services such as hair and nail salons, postal services, and banks and insurance companies.

The BOE records a retailer's sales in only one sales category. For example, the actual sales for a club retailer are reported by the BOE under the General Merchandise classification. For purposes of this study, however, the impact of the Project's club retail space is more appropriately analyzed across several retail categories since the new retail space will likely compete with a range of retailers, not just general merchandise retailers.

The approach to estimating the share of Project sales by category and associated sales follows.

**Club Retail Space by Retail Category and Total Sales**

The operator for the Project's club retail space has not been identified. The universe of club retailers is relatively limited, primarily including Costco and Sam's Club. Consequently, ALH Economics researched performance data for both retailers to develop estimates of the Project's club retail sales by retail category. This included obtaining information about typical store sales by the categories defined by each retailer, allocating and translating these sales into BOE

[5] The category list is based on the 2013 *Taxable Sales in California* report (Table 5), which was the most recent full year of reported data provided by the BOE at the time of this study.

categories, developing a study assumption regarding sales distribution by BOE category, developing a store sales per square foot estimate, and allocating the resulting store sales estimate across the retail categories.

The process of store sales space allocation is documented in Exhibits 3 through 5. Exhibit 3 includes analysis regarding the percentage distribution of sales by BOE retail category. This is based upon information included in investor documents on file with the United States Securities and Exchange Commission and assumptions developed by ALH Economics based upon site visits and knowledge of Costco stores. Exhibit 4 includes comparable estimates for Sam's Club, based upon similar sources. Exhibit 5 then averages the resulting percentage distributions for the two club retailers to develop a study assumption regarding the distribution of club retail sales. ALH Economics then translated these percentage distributions into estimated space allocations for the Project's club retailer, also shown in Exhibit 5. The result indicates that the largest allocation of space is anticipated to comprise Food & Beverage sales space, with 51.5% of the total store space. The next largest category is the Other Retail category, at 11.9%. All other categories are assumed to comprise sales shares less than 10.0%.

To estimate the Project's club retail sales ALH Economics examined sales performance at the same two club retailers – Costco and Sam's Club. The sales performance analysis for Costco is presented in Exhibit 6 while the sales performance analysis for Sam's Club is presented in Exhibit 7. The results indicate estimated 2015 sales per square foot performance of $1,152 per square foot for Costco and $671 for Sam's Club. At these sales rates, the club retail total sales would be $170.4 million using the Costco sales performance and distribution information and $99.3 million using the Sam's Club sales performance and distribution information (see Exhibits 6 and 7, respectively).

The sales assumption for the club retail space is an important assumption for the economic impact analysis. This assumption determines the total sales estimate, which in turn impacts the degree to which the club retail component could, in combination with the general retail space, result in prospective sales impacts on existing retailers. The larger the club retail sales figure the greater the potential for sales impacts. The opposite is of course true, which is that the lower the club retail sales figure the less potential for sales impacts.

For analytical purposes ALH Economics assumes the Project's club retail space will perform at the sales level comparable to Costco. The implications of this assumption are discussed below, in the **Total Project Sales** section.

### General Retail Space by Retail Category

There are no specific retailers currently identified to comprise the Project's general retail component. ALH Economics therefore prepared generic assumptions to shape the analysis. The most significant assumption is the allocation of the Project's general merchandise space by type of retail category (see Exhibit 8). This assumption is equal allocations of space by retail category with several exceptions. One exception is an allocation of no retail space to the Food & Beverage store and Gasoline sales categories. This is attributable to the expectation that the club retail space will include both these sales categories, such that demand by other food and gasoline retailers would be limited in the balance of the Project. The other exception is that the Other Retail category was ascribed a double weight of space, i.e., twice as much space as any of the other categories. This is attributable to the wide range of retailers represented by the Other Retail category, such as office supply stores, pet supply stores, book stores, and gift

shops. The result is building blocks of 12.5% or 25% of the total Project space, reflecting the incorporation of seven retail categories and double-weighting of the Other Retail category.

The resulting allocations of general retail space by type of retail were adjusted for a stabilized vacancy rate. This is due to the expectation that retail sales will be generated by occupied retail space and not vacant retail space. Because retail vacancy tends to be low in Pleasanton, the stabilized vacancy rate included in this analysis is 5%. Thus, the general retail space sales estimate is based on an occupied square footage of 4,750 square feet for Phase I, an incremental 174,835 square feet by Project buildout, and a total of 179,585 square feet for the entire Project.

**Project Sales**

The Project's estimated retail sales are presented in Exhibit 9. This includes estimates for the general retail space and the club retail space. For the general retail space sales per square foot estimates were developed based upon national averages associated with the assumed retail categories. These sales figures are based upon analysis of trend data presented by Retail Maxim, a retail industry performance resource. Retail Maxim, prepares an annual publication that culls reports for numerous retailers and publishes their annual retail sales on a per square foot basis. This type of information for a range of retailers or type of retailers is presented in Exhibit B-1 annually from 2010 through 2013. The figures are then averaged and presented in inflated 2015 dollars as a generalized estimate of sales per square foot for key retail categories. The resulting sales per square foot range from a low of $297 per square foot for General Merchandise stores to a high of $643 per square foot for Food and Beverage Stores (e.g., grocery stores). The total club retail store sales estimate is also presented in Exhibit 9. This sales figure is based upon the $1,152 per square foot store sales estimate pursuant to analysis of national average Costco performance. As noted earlier, application of this high sales rate is the most conservative approach to estimating club retail store sales given that the higher the store sales figure the greater the potential for store impacts.

The results of the Project's total sales estimates are presented in Exhibit 9 and summarized below in Table 3. This indicates that total Project sales will comprise $172.6 million in Phase I, an additional $69.0 million for the subsequent increment of space to buildout, with a grand total of $241.3 million. The allocation of total sales is approximately 30% generated by the general retail space and 70% generated by the club retail space.

**Table 3. Summary of Total Project Sales**

| Retail Category | Phase I | Increment to Buildout | Total |
|---|---|---|---|
| General Retail | $1,873,558 | $68,960,801 | $70,834,359 |
| Club Retail | $170,441,418 | $0 | $170,441,418 |
| **Total** | **$172,314,976** | **$68,960,801** | **$241,275,777** |

Source: Exhibit 9.

While these sales estimates pertain to the total project sales, not all the estimated club retail store sales will be competitive with existing retail operations. This is because club retail membership at stores such as Costco includes business and household members. Some business members include businesses that purchase items wholesale from a club retailer, and then resell the items as part of their business operations. Businesses with resale licenses do not

pay sales tax on the purchased items. Thus, sales made under these circumstances are not considered taxable retail sales. As such, these sales are not competitive with the existing retail base, the size of which is estimated based upon taxable retail sales reported by the State of California Board of Equalization (see Chapter VI).

Using Costco as a study resource, nationally 24% of paid Costco memberships in 2015 were Business or Business add-on memberships.[6] However, Costco provides paid memberships with one free household card. Thus, business and business add-on cards comprised 13% of all cardholders.[7] Costco materials indicate that many business members also shop at Costco for their personal needs, but these materials do not indicate the share of total business member purchases that are personal.

To minimize risk of overstatement, ALH Economics assumes that based on the preceding information, 13% of Costco members are business members. Not all business purchases will entail the resale of merchandise, as many businesses purchase goods from club retailers for other purposes, such as cleaning supplies, snacks, office supplies, etc. However, ALH Economics further assumes that business members making tax exempt purchases (and other purchases for resale, including food sales that are tax exempt for all consumers) spend twice as much as other business cardholders do to their purchase of inventory/merchandise for later resale. Therefore, using the Costco data as a source, the analysis assumes that 13% of the Project's club retail sales will be to wholesale customers, i.e., customers whose typical purchases are not reported as retail purchases, and 87% will be to household and business customers that qualify to pay sales tax on taxable items. The exception is gasoline sales, all of which are allocated to retail consumers as all of these sales are assumed to be taxed and not subject to resale.

Based upon the assumption split between retail consumers and wholesale consumers, the portion of Project club sales attributable to retail consumers is presented in Exhibit 10. These sales figures are summarized below in Table 4, and include $152.3 million for Phase I, an additional $69.0 million increment to buildout, and an overall total of $230.4 million.

**Table 4. Summary of Project Sales Generated by Retail Consumers**

| Retail Category | Phase I | Increment to Buildout | Total |
|---|---|---|---|
| General Retail | $1,873,558 | $68,960,801 | 70,834,359 |
| Club Retail | $150,167,946 | $0 | 150,167,946 |
| **Total** | **$152,041,504** | **$68,960,801** | **$221,002,305** |

Source: Exhibit 10.

The distribution of these sales by retail category is presented in Exhibit 9 for general retail and Exhibit 10 for club retail. These figures are consolidated in Table 5 below for both retail components.

[6] See "Annual Report 2015, Costco Wholesale, Fiscal Year Ended August 30 2015," pages 8 and 9/

[7] Ibid.

Table 5. Project Sales Made to Retail Consumers by Retail Category

| Retail Category | Phase 1 | Increment to Buildout | Total | Percent of Total |
|---|---|---|---|---|
| Motor Vehicles and Parts Dealers | $7,485,062 | $0 | $7,485,062 | 3% |
| Home Furnishings and Appliance Stores | $10,715,038 | $7,048,093 | $17,763,130 | 8% |
| Building Materials and Garden Equip. | $6,477,329 | $6,552,455 | $13,029,784 | 6% |
| Food and Beverage Stores | $76,369,862 | $0 | $76,369,862 | 35% |
| Gasoline Stations | $14,947,712 | $0 | $14,947,712 | 7% |
| Clothing and Clothing Accessories Stores | $5,274,272 | $16,826,611 | $22,100,883 | 10% |
| General Merchandise Stores | $11,700,451 | $6,493,576 | $18,194,028 | 8% |
| Food Services and Drinking Places | $953,937 | $13,289,717 | $14,243,654 | 6% |
| Other Retail Group | $18,117,840 | $18,750,349 | $36,868,189 | 17% |
| **Total** | **$152,041,504** | **$68,960,801** | **$221,002,305** | **100%** |

Source: Exhibit 9.

Table 5 includes a summary of the estimated percent distribution of Project sales generated by retail consumers by retail category. This indicates that upon full completion of the Project, Food & Beverage Store sales are anticipated to comprise the largest share of sales, at 35%. This is due to the expectation that more than 50% of club retail store sales typically comprise food and beverage sales. The next largest category is the Other Retail category at 17%, which as described earlier includes a wide range of retail goods, such as office supplies, pet supplies, books, gifts, and jewelry. This is followed by Clothing & Clothing Accessories at 10%. All other retail categories range from an estimated 3% to 8% of the total retail sales anticipated to be generated by retail consumers.

# IV. MARKET AREA DEFINITION, SHARE OF PROJECT SALES, AND RETAIL CHARACTERIZATION

This report chapter discusses the approach to estimating the Project's market area, which is the area from which the majority of shoppers are anticipated to originate. This chapter describes the market area and characterizes the area's existing retail inventory

## PROJECT MARKET AREA DEFINITION

### Approach to Defining Market Area

The Project's market area definition for consumer retail sales is based on the principle that most consumers will travel to the shopping destination most convenient to their homes given the type of goods available. A market area is the geographic area from which the majority of a retail shopping center's demand is anticipated to originate. Several tasks were completed to identify the Project's market area, foremost of which included mapping the location of the Project relative to other club retail and shopping centers, including existing or planned stores, and taking into consideration comparative travel time and the size and composition of the retail base in the market area.

### Market Area Conceptual Description

In developing a market area, ALH Economics strives to identify the area from which the majority of demand for a shopping center will originate, typically at least 70%, based upon the following industry resources.

Materials published by major industry organizations indicate that a retail store's trade area generally supplies 70% to 90% of the store's sales, while the remaining 10% to 30% of sales are attributed to consumers residing outside of the store's market area. In its Shopping Center Development Handbook, Third Edition, the Urban Land Institute (ULI) states the following:

> "A site generally has a primary and a secondary trade area, and it might have a tertiary area. The primary trade area should generally supply 70 to 80 percent of the sales generated by the site. These boundaries are set by geographical and psychological obstacles."[8]

ULI is a nonprofit research and education organization representing the entire spectrum of land use and real estate development disciplines. Among real estate, retail, and economic development professionals, this organization is considered a preeminent educational forum.

Information published by the International Council of Shopping Centers (ICSC), a trade association for the shopping center industry, also provides instructional information about market area definitions. In the recent publication Developing Successful Retail in Secondary & Rural Markets, the ICSC says:

[8] Shopping Center Development Handbook, Third Edition, Urban Land Institute, 1999, page 44.

> "A trade area is the geographic market that you will be offering to potential retailers as a consumer market. … Defining a retail trade area is an art and a science. In general, a trade area should reflect the geography from which 75-90 percent of retail sales are generated. Different stores can have different trade areas based on their individual drawing power and the competitive market context."[9]

In summary, these industry resources suggest that a retail project's trade area, or market area, typically is defined as the geographic area from which at least 70% of demand is anticipated to originate. However, depending upon the nature of the retail, the share of sales originating from the geographic area deemed most consistent with a market area can be less, as discussed below.

**Market Area for Johnson Drive EDZ Project**

ALH Economics conducted research to develop an estimate of the retail consumer market area for the Project, i.e., the area from which the majority of shoppers will originate. This market area took into consideration the location of other retail nodes where consumers can shop, including nodes with other club retail stores, as club retail will be a large portion of the Johnson Drive EDZ Project. The locations of similar club retail stores such as Costco and Sam's Club were taken into consideration (though there are no Sam's Club locations in the area, with the closest one 25 miles north in the City of Concord). For market area definition purposes, ALH Economics assumes that households that live closer to any other club retail store will shop there and not shop at the club retail in the Johnson Drive EDZ. However, locations closer to the Johnson Drive EDZ are assumed to comprise areas included in the Johnson Drive EDZ's market area.

To identify these closer areas ALH Economics selected several geographic locations and calculated their travel time and distance between Johnson Drive EDZ and the next nearest club retail store as well as noting both natural and man-made boundaries, area topography, and freeway access. This mapping was achieved using the Google Maps functionality. Thus, the general boundary of the Project's market area was determined based upon this mapping analysis. ALH Economics then superimposed census tract boundaries over the general boundary to identify the census tracts that would best comprise the market area for the Project. An advantage of using census tracts is that the market area definition is easily defined, easily replicable, and key demographic estimates and projections can often be readily available in this format.

Estimated drive times from household locations within each census tract were analyzed to determine which club retail stores were closer. This resulted in the identification of 18 full census tracts and three partial census tracts spanning the City of Pleasanton, the majority of the City of Dublin, and some unincorporated Alameda County areas. The three partial census tracts were modified to better define the market area as they included areas that were not reasonable to be included in the Project's market area. This is because they were either very large and included areas that are too far to be considered as part of the Project's market area, including areas hindered by natural boundaries or that have little-to-no population. These three partial census tracts are Census Tract 4506.01, 4507.01, and 4507.45. For Census Tract 4506.01, which is large and includes portions of the City of Pleasanton, Sunol Census Designated Place (CDP),

[9] Developing Successful Retail in Secondary & Rural Markets, International Council of Shopping Centers in cooperation with National Association of Counties, 2007, page 7.

and unincorporated Alameda County, ALH Economics modified the portion of this census tract for inclusion in the Project market area to follow along the geographical boundary for the City of Pleasanton down to where it meets Interstate 680. This adjustment removes areas of little-to-no population and areas that are bounded by natural boundaries such as Pleasanton Ridge Regional Park. For Census Tract 4507.01, a large census tract that also includes portions of the City of Pleasanton, Sunol CDP, and Unincorporated Alameda county, ALH Economics modified this census tract for the Project market area to follow along the northern portion of State Route 84 to where it meets Interstate 680 to remove areas too far to be deemed reasonable for the market area, as well as areas of little-to-no population. For Census Tract 4507.45, a medium-sized census tract, which includes portions of the City of Pleasanton and Unincorporated Alameda County, ALH Economics modified this census tract for the Project market area to follow along the eastern geographical boundary of the City of Pleasanton to remove the bodies of water in the unincorporated area from the market area where there is no population.

The resulting market area is presented in Exhibit 11, and includes the locations of key club retail stores considered in defining the market area.

## MARKET AREA SUPPORT OF PROJECT SALES

For the purpose of this study, ALH Economics developed an estimate of the percentage of Project retail consumer sales from market area resident spending. This estimate is based on considering the geographic size of the market area, the Project size and tenant orientation, population density of the area, amount of existing retail in the market area, and Project proximity to major thoroughfares, including Interstates 680 and 580 and State Route 84. In addition, ALH Economics obtained data from streetlightdata.com to identify home locations of customers shopping at the Danville and Livermore Costco locations, as representative club retail shopping. These data provide an assessment of the home location of origin by zip code for shoppers with a smart electronic device traveling to these stores during calendar year 2013, which comprises the most recent time period for which these data are available. The home location is determined based upon the location where the device is observed to spend the greatest amount of time. While these data do not pertain to all store shoppers, for the sake of analysis ALH Economics assumes they are representative of all shoppers, and thus provide information on the market area definition of stores as well as store demand by geography.

### Area Costco Market Areas and Project Club Retail Recaptured Sales

The streetlight.com data for the Danville Costco store are presented in Exhibit 12. These findings are also presented visually in Exhibit 13, which shows the density of demand for the store by zip code and the geographic dispersion of the store's market area. As these data indicate, demand for the Danville Costco store is strongest in the three zip codes that surround the store location. However, yet additional demand is generated from other zip codes radiating out from the store location, including zip codes located in the Project's market area. Based on the mapped zip code findings, ALH Economics believes the most appropriate market area definition for the Danville Costco store comprises the 8 zip codes above the dotted line on Exhibit 12, which includes all zip codes generating more than 1.7% of demand for the store. This includes the zip codes depicted on the map extending from Alamo south through Pleasanton, and east to include zip code 94588 but not Livermore's zip code 94550. These 8 zip codes are estimated to provide 58.6% of the store's shoppers. This includes repeat shoppers, as each shopper visit is counted separately.

The Danville Costco store information indicates that Costco market areas appear to obtain a high level of demand from shoppers dispersed over a wide area, likely associated with other shopping trips, travel, workday trips, etc. Thus, Costco stores appear to derive less than the typical amount of demand from a logically defined market area. This has bearing on the percent of demand the Project is estimated to derive from its market area. In addition, the Danville Costco store customer data indicate that the Danville store obtains significant demand from the zip codes that correspond with much of the Project's market area. These zip codes include 94568, 94588, and 94566. As noted in Exhibit 12, these three zip codes provide a collective total of 8.0% of shoppers for the Danville Costco store. Assuming that all shoppers spend equally, this suggests that 8.0% of the Danville Costco store sales are generated from the Project's market area. ALH Economics assumes that when the Project's club retail store is opened, these sales will be diverted from the Danville Costco store and comprise recaptured sales at the Project's club retail store. Thus, these sales that are already being made by market area retail consumers will comprise a base amount of sales for the Project's club retail space, generated by existing market area consumers.

Exhibit 14 presents shopper zip code of origin data for the Livermore Costco store. This exhibit demonstrates that the Livermore Costco store market area is even more diffuse than the Danville store, with 45.9% of store shoppers originating from zip codes comprising 1.7% or more of shoppers. This store additionally captures shoppers from further away, such as the Modesto and Stockton areas, which are over 40 and 50 miles away from the Livermore Costco store, respectively. ALH Economics believes this more dispersed shopper origin is influenced by the location of the large-scale Premium Outlets in Livermore, which has a wide geographic draw. Because of this wide dispersal ALH Economics did not prepare a representative map of the Livermore Costco market area. However, the information presented in Exhibit 13 indicates that 14.1% of the Livermore Costco store shoppers originate from the three zip codes that best correspond with the Project's market area. Thus, by extension, this suggests that 14.1% of the Livermore Costco store demand is generated by the Project's market area.

As with the Danville Costco store, ALH Economics assumes that when the Project's club retail store is opened, the market area sales captured by the Livermore Costco store will be diverted to the Project's store and comprise recaptured sales at the Project's club retail store. However, ALH Economics attributes greater weight to these recaptured sales than represented by the 14.1% share of demand. This is attributable to the assumed high retail sales achieved by the Livermore Costco store. Information obtained by ALH Economics regarding this store suggests that its performance exceeds national averages, with total store sales significantly greater than projected for the Project's club retail store, likely in the direction of 50% higher than projected for the Project. Thus, Project market area sales contribution of 14.1% to this store will comprise a greater percentage share of sales for the Project's club retail store. Applying a 50% higher factor results in an estimate of approximately 21% of Project club retail sales generated by market area shoppers already shopping at area club retail stores. Combining this figure with the 8% derived from the Danville store (assuming the Danville store performs on par with the Project store projection) results in an assumption that approximately 30% of Project club retail sales will comprise recaptured demand from existing market area consumers. This finding suggests that market area shoppers who want to shop at a club retail store are already doing so. Thus, these shoppers are unlikely to change their shopping habits other than to redirect their club retail shopping closer to home, at the Project's club retail component.

Notably, recaptured sales from existing club retail stores is an expected phenomena among club retailers. For example, in the company's 2015 10-K on file with the Securities and

Exchange Commission Costco states: "A new warehouse may draw members away from our existing warehouses and adversely affect comparable warehouse sales performance and member traffic at those existing warehouses."[10] This supports the assumption that a portion of Project club retail sales will be recaptured sales from existing club retail stores.

### Share of Project Sales Generated by Market Area

Based on the preceding information, ALH Economics developed two different assumptions for the share of Project retail sales generated by market area residents. One assumption pertains to the Project's general retail space while the other pertains to the club retail space. The general retail space is anticipated to be relatively traditional retail space, with competitive opportunities located nearby and in other Tri-Valley communities. Thus, ALH Economics assumes that 80% of the demand for this space will be generated from the defined market area. Consumers living outside this market area are assumed to have similar nearby shopping opportunities, and be less likely to travel to patronize the Project's general retail space. This could be a conservative figure given that the Project's club retail space is anticipated to have a greater draw (see below), but this is a reasonable figure to assume based upon the preceding review of industry standards and the amount of retail in communities neighboring Pleasant and Dublin, which comprise the bulk of the Project's market area.

For the club retail space, however, ALH Economics assumes a smaller percentage of demand will originate from the market area. This is largely based on the findings pertinent to the Danville and Livermore Costco stores. These two stores have widely dispersed areas from which shoppers originate, with primary market areas that seemingly generate 58.6% and 44.4% of demand. Based on this finding, ALH Economics assumes that market area retail consumers will account for 60% of sales at the Project's club retail space.

### Market Area Sales Generated by Market Area Consumers

Exhibit 15 presents the Project-based retail sales that comprise the core of the economic impact analysis. These are the sales that are anticipated to be generated by market area retail consumers, and which comprise sales that could be diverted from other market area retailers if sufficient new demand is not generated to support the sales. This takes in to account the earlier assumption that select sales will be wholesale in nature, and thus not competitive with the market area's traditional retail base, plus the recaptured sales from existing area club retail stores and the share of sales generated by market area consumers.

The competitive market area sales are presented in Exhibit 15 by type of retail, i.e., general retail and retail, and by development status, i.e., Phase 1, Increment to Buildout, and at Full Buildout. The total sales are summarized below in Table 6.

[10] United States Securities and Exchange Commission, Costco Wholesale Corporation 10-K form for the fiscal year ending August 30, 2015, page 8.

Table 6. Summary of New Project Sales Generated by Market Area Retail Consumers

| Retail Category | Phase I | Increment to Buildout | Total |
|---|---|---|---|
| General Retail | $1,498,846 | $55,168,640 | $56,667,487 |
| Club Retail | $63,070,537 | $0 | $63,070,537 |
| **Total** | **$64,569,384** | **$55,168,640** | **$119,738,024** |

Source: Exhibit 15.

This table indicates that the Project's competitive sales are estimated to total $64.6 million for Phase I, an incremental $55.2 million to buildout, and a total of $119.7 million upon Full Buildout.

The estimated distribution of sales by type of retail varies by retail component. The general retail sales allocation by retail category is summarized in Table 7 while the club retail space sales allocation by retail category is summarized in Table 8.

As noted below in Table 7, there are three retail categories where general retail sales are anticipated to exceed $10.0 million at Full Buildout. These include Other Retail, Clothing, and Food Services (e.g., restaurants).

Table 7. Project General Retail Sales Generated by Market Area Retail Consumers

| Retail Category | Phase 1 | Increment to Buildout | Total | Percent of Total |
|---|---|---|---|---|
| Motor Vehicles and Parts Dealers | $0 | $0 | $0 | 0% |
| Home Furnishings and Appliance Stores | $153,189 | $5,638,474 | $5,791,663 | 10% |
| Building Materials and Garden Equip. | $142,416 | $5,241,964 | $5,384,380 | 10% |
| Food and Beverage Stores | $0 | $0 | $0 | 0% |
| Gasoline Stations | $0 | $0 | $0 | 0% |
| Clothing and Clothing Accessories Stores | $365,722 | $13,461,289 | $13,827,011 | 24% |
| General Merchandise Stores | $141,136 | $5,194,861 | $5,335,998 | 9% |
| Food Services and Drinking Places | $288,849 | $10,631,773 | $10,920,622 | 19% |
| Other Retail Group | $407,534 | $15,000,279 | $15,407,814 | 27% |
| **Total** | **$1,498,846** | **$55,168,640** | **$56,667,487** | **100%** |

Source: Exhibit 15.

The sales distribution is different for the club retail space, with the majority of sales anticipated to comprise food store sales. These sales are anticipated to comprise $32.1 million generated by market area residents not already making food purchases at other area club retail stores, as these diverted sales are not included in the figures cited in Table 8. All other categories are anticipated to comprise less than $7.5 million in sales generated by market area retail consumers.

Table 8. Project Club Retail Sales Generated by Market Area Retail Consumers

| Retail Category | Phase 1 | Increment to Buildout | Total | Percent of Total |
|---|---|---|---|---|
| Motor Vehicles and Parts Dealers | $3,143,726 | $0 | $3,143,726 | 5% |
| Home Furnishings and Appliance Stores | $4,419,892 | $0 | $4,419,892 | 7% |
| Building Materials and Garden Equip. | $2,645,710 | $0 | $2,645,710 | 4% |
| Food and Beverage Stores | $32,075,342 | $0 | $32,075,342 | 51% |
| Gasoline Stations | $6,278,039 | $0 | $6,278,039 | 10% |
| Clothing and Clothing Accessories Stores | $2,023,190 | $0 | $2,023,190 | 3% |
| General Merchandise Stores | $4,840,093 | $0 | $4,840,093 | 8% |
| Food Services and Drinking Places | $249,008 | $0 | $249,008 | 0% |
| Other Retail Group | $7,395,537 | $0 | $7,395,537 | 12% |
| **Total** | **$63,070,537** | **$0** | **$63,070,537** | **100%** |

Source: Exhibit 15.

## MARKET AREA RETAIL ORIENTATION

The Project will be located in a market area currently characterized by a large and healthy retail sector characterized by low retail vacancy rates. Thus the Project's club retail and general retail space will comprise a modest addition to an already large and varied retail base, which includes a range of big box, discount, traditional, and specialty retailers, many of which have regional draw.

The market area comprises desirable residential communities and offers unique regional amenities, including the Alameda County Fairgrounds and Pleasanton Ridge Regional Park, and is home to a strong office sector, including various business parks, such as Hacienda Business Park. Many companies are based out of Pleasanton, such as Workday, Veeva, and Ellie Mae. In addition, close proximity to Interstates 580 and 680 and BART make the market area attractive for Bay Area connectivity.

There are numerous retail shopping districts and shopping centers in the market area. Key shopping centers and districts are listed in Exhibit 16 and mapped for locational reference purposes in Exhibit 17, including locations relative to the Project site. In the discussion below, reference numbers for each cited shopping area are presented in parentheses following the area/center name, with the numbers matching ones referenced in Exhibits 16 and 17.

The largest retail option in the Project's market area is Stoneridge Mall (#5). With approximately 1.3 million square feet this regional mall includes many national big box and smaller retail chain options. Adjacent to the mall is JC Penney Plaza (#2), an older center with medium-sized chain stores such as Office Max and Cost Plus. Beyond this mall area, Pleasanton offers several small retail corridors with groupings of two or three shopping centers, mostly older neighborhood-serving centers that are well maintained. These areas include:

- Along the Hopyard Road corridor near Stoneridge Drive is a mix of service and retail at Gateway Square (#3) and the Crossroads Shopping Center (#4);
- Also along the Hopyard Road corridor near Valley Avenue is Gene's Fine Food/Rite Aid center (#8) and the upscale Hopyard Village (#9);
- In south Pleasanton on Bernal Avenue near Valley Avenue are Bernal Plaza (#29) and Pleasanton Gateway (#30), a newer retail center, which appears at the heart of newer multifamily development;

- Along the Santa Rita Road corridor near Valley Avenue are the small neighborhood-serving retail centers of Mission Plaza (#26), Amador Center (#27), and Valley Plaza (#28), which are mostly older, but well maintained with low vacancy; and
- Also along the Santa Rita Road corridor near Las Positas Boulevard are the small, neighborhood-serving retail centers of Santa Rita Square (#16) and Meadow Plaza (#17).

The southernmost part of the market area includes Downtown Pleasanton and select neighborhood-serving shopping centers. Downtown Pleasanton (#31) is a very pedestrian-oriented shopping district, with restaurants, boutique apparel stores, specialty stores, and hotels. Examples of specialty stores include western apparel, jewelry (new and repair), bakeries, floral-based gift shops, and home goods. Downtown Pleasanton largely comprises an approximate 7-block long area along Main Street, but with additional retailers located on adjoining streets. It is also adjacent to Pleasanton's Civic Center. This area is organized into the Pleasanton Downtown Association (PDA), which operates as an assessment district with the goal of developing and promoting a vibrant downtown community. Fieldwork observation suggests the PDA achieves this goal, with a unique mix of retailers, strong pedestrian shopper activity, and a friendly atmosphere, such as welcoming dogs into many of the small shops. There are currently several small shop vacancies in Downtown Pleasanton, but most already have new tenants in progress. For example, another coffee shop will be backfilling the former Tully's space and across the street a women's clothing store is being replaced by a women's shoe store.[11] Another example includes Tara's Organic Ice Cream, which left in December 2015, with the property owner negotiating a lease with an undisclosed new tenant. The speedy rate at which these Downtown Pleasanton retail vacancies are backfilled is a testament to the vibrancy of Downtown as an important Pleasanton shopping district.

Pleasanton's Pleasant Plaza (#34) is located near Downtown Pleasanton and a residential area. This small neighborhood-serving shopping center includes Cole's Market (a convenience store), Bob's Burgers, and non-retail services such as a barber and nail salon. Also in southern Pleasanton, Oak Hills Shopping Center (#36) is located adjacent to residential neighborhoods, This is a larger neighborhood-serving shopping center anchored by Raley's. Southern Pleasanton also features Vintage Hills Shopping Center (#37), which is a small neighborhood-oriented shopping center with a relatively new market, New Leaf Market, and a fitness center, Montessori school, jewelry store, frozen yogurt, and other neighborhood-oriented tenants.

A very large regional-serving retail node that straddles the Interstate 580 corridor includes retail in both the cities of Pleasanton and Dublin. To the south of Interstate 580, in Pleasanton, is an older retail node comprising Metro 580 (#7), Rose Pavilion (#24), and Pimloco Plaza (#25), which include stores such as Walmart, Kohl's, Party City, Macy's Furniture, Ranch 99, Dollar Tree, and Trader Joe's. Within the Dublin portion of this corridor there is newer retail stock which includes Persimmon Place (#10), Hacienda Crossings (#21), Dublin Corners (#23), and Shops at Waterford (#33), all within the Project's market area and Grafton Station (#32) and Fallon Gateway (#35), which both lie outside the Project market area. This Dublin section of the corridor includes stores such as Whole Foods, Nordstrom Rack, HomeGoods, TJ Maxx, Bed, Bath, & Beyond, Best Buy, Safeway, Lowe's, Target, and Dick's Sporting Goods.

[11] Backfilling refers to re-tenanting of vacant retail spaces

In Dublin, to the north across Interstate 580 from Stoneridge Mall, there is a large retail node along Dublin Boulevard, San Ramon Road, Amador Valley Boulevard, and Amador Valley Plaza. This node includes Dublin Place (#14), Dublin Plaza Center (#13), Dublin Center (#12), Almond Plaza (#11), Lamps Plus Plaza (#15), Shamrock Village (#18), Amador Plaza (#20), and a Safeway-anchored center (#21). These eight shopping centers include stores such as Target, Hobby Lobby, DSW Shoes, Michael's, OSH, Ross, Marshall's, Sprouts, Jo-Ann's Fabrics, REI, Dollar Tree, 99 Ranch, Sports Authority, and Safeway. This area of Dublin, near Interstate 680 and Dublin Boulevard, also includes Valley Center Shopping Center (#19), a small strip center with tenants such as restaurants, a nail salon, and a laundromat.

The market area also features shopping centers located adjacent to residential or office space but no other retail offerings. In Pleasanton these include Pleasanton Square Shopping Center (#1) located in northern Pleasanton near office space in Pleasanton and includes tenants such as Home Depot, Smart & Final Extra, Tap Plastics, and BevMo!. Val Vista Center (#6) is a Lucky-anchored neighborhood-serving shopping center located within a residential area.

As noted during February 2016 fieldwork, market area retail vacancies were actively being marketed and there was a lack of large big box type of vacancies, the exception being Rose Pavilion (#24) in Pleasanton, which contains a former Ethan Allen (recently moved to the brand new Persimmon Place in Dublin), a former Fresh & Easy, and a vacant CVS, which built a brand new store within the newer portion of the same shopping center.

Typical signs of urban decay include graffiti, trash, boarded windows, none of which are prevalent in Pleasanton and Dublin. As in any retail market, there will be vacancies and some chronic vacancies, particularly when new retail is constructed and some retailers prefer newer retail stock in updated developments as seen in the new CVS in Rose Pavilion and the relocation of Ethan Allen from Rose Pavilion to Persimmon Place. Pursuant to fieldwork observation, indicators of urban decay such as graffiti, boarded windows, and trash in parking lots were largely not present in the market area. Most vacancies appear to be well maintained and are actively being marketed. Thus, overall, ALH Economics finds the market area to comprise a healthy retail market with a varied mix of retail offerings.

In summary, the Project's location close to Interstates 680 and 580 would serve to strengthen Pleasanton's retail base and the existing retail node adjacent to Highway 580. In addition to the Project's general environs being a strong retail node, the market area as a whole appears to have a relatively healthy, large, and diverse retail base. The area includes neighborhood through regional shopping opportunities. The neighborhood and community shopping centers include approximately 17 stores selling groceries (excluding ethnic food stores but including general merchandise retailers like Target with a strong food sales component) while the regional shopping opportunities include department stores such as Macy's and Nordstrom's that are not located elsewhere in the Tri-Valley area. Thus the Project's market area serves a broad range of consumer shopping needs.

# V. MARKET AREA DEMOGRAPHICS AND RETAIL SPENDING POTENTIAL

This report chapter identifies the market area's demographic characteristics, including in comparison to the cities of Pleasanton and Dublin. The chapter additionally estimates retail demand generated by the market area's residents.

## DEMOGRAPHIC CHARACTERISTICS

ALH Economics developed population and household estimates and projections for the market area to provide a basis for estimating market area retail demand. These estimates and projections were prepared based upon projections formulated by the Association of Bay Area Governments (ABAG), the Regional Council of Governments for the San Francisco Bay Area. These projections were prepared in 2013, and provide estimates and projections in 5-year increments, up to the year 2040. These projections are provided on a jurisdictional basis, such as cities, as well as by census tract. The projections are prepared for population and household counts, among other demographic factors.

ALH Economics culled the population and household projections for the City of Pleasanton, the City of Dublin, and the census tracts comprising the market area. These figures were pulled for the years straddling the Project's anticipated development timeline, and then interpolated for years key to the analysis. These key years are 2018, the first year during which Phase I development is anticipated to be fully operational is anticipated to be complete, and 2028, which is anticipated to coincide with full Project buildout.

The resulting demographic estimates and projections for the Project's market area indicate that the market area has an estimated 2015 household count of 39,409 (See Exhibit 18). The population equivalent is 113,799. This is for the 21 census tracts that collectively comprise the market area. By 2018, the first estimated year of full operations for the Project, the household count is forecasted to increase to 40,824, for an increase of 1,415 households. By 2028, the Project's buildout year, the household count is forecast to rise to 45,504, or by an additional 4,680 households. Based on the estimates in Exhibit 18, the market area comprises approximately 92% of the combined household counts for Pleasanton and Dublin.

Household incomes in the market area vary somewhat by geography, with the average household income in 2015 comprising $153,130 in Pleasanton and $140,220 in Dublin. For the market area as a whole, the average is $146,232 as presented in Table 9 below.

Table 9. Market Area Average Household Income

| Geographic Area | 2015 Income |
|---|---|
| City of Pleasanton | $153,130 |
| City of Dublin | $140,220 |
| Market Area | $146,232 |

Source: Nielsen Reports.

These average household incomes are estimated by Nielsen Reports, as there are no governmental resources with current household income estimates for the jurisdictions comprising the market area, or of course for the customized market area itself.

## MARKET AREA RETAIL DEMAND POTENTIAL

### Approach to Estimating Retail Demand

ALH Economics prepared a retail spending potential analysis, or demand analysis, for the Project's market area households. This spending analysis takes into consideration average household income, the percent of household income spent on retail goods, and prospective spending on retail by the same retail categories reported by the BOE. Pursuant to data published by the U.S. Bureau of Labor Statistics, 2013 Consumer Expenditures Survey, households in the income group with annual household incomes $70,000 or more throughout the United States spent an average of 25% of household income on the type of retail goods tracked by the BOE. This is the highest income bracket analyzed by the Consumer Expenditures Survey, and these households had average household incomes of $131,945 before taxes. This average income is high because the income bracket includes all households earning over $70,000. Select other income ranges and associated average household incomes include the $40,000 to $49,999 range with a $44,576 average, spending 40% of income on retail, and the $50,000 to $69,999 range with a $59,101 average, spending 36% of income on retail.

The spending pattern for households earning $70,000 and more is the most appropriate Consumer Expenditures Survey match for the market area. Therefore, ALH Economics assumes that for the market area households, 25% of income will be spent on retail goods. This results in a per household retail spending estimate of $36,558.

As a proxy for household spending patterns, ALH Economics analyzed statewide taxable sales trends for 2013 and converted them to estimated total sales.[12] The results, presented in Exhibit B-5, indicate that household spending by retail category ranges from a low of 5.2% on Home Furnishings & Appliances to a high of 17.1% on Food & Beverage stores.

Market area retail demand projections for the market area's current and future household bases were estimated based upon the percent share of income spent on retail and estimated distribution of retail spending. The demand projection for the current household base is presented in Exhibit 19 and the demand estimates for the incremental new households to 2018 and 2028 are presented in Exhibit 20. These demand estimates are then combined in Exhibit 21, which presents the total demand estimate for the current 2015 time period as well as future household demand in 2018 and 2028, all in 2015 dollars.

### Retail Demand Findings

The household demand estimates in Exhibit 21 are summarized below in Table 10. This indicates that the current household base has the estimated potential to spend $1.4 billion on retail goods. The largest share of spending is for Food & Beverage stores, which totals $246.7 million for the existing household base. The total demand estimate will increase by almost $52.0 million by the time the Project's Phase I is fully operational, totaling $1.5 billion 2018.

[12] The year 2013 comprises the most recent year for which annual taxable sales are published by the State of California Board of Equalization.

Yet another $171.1 million in demand will be generated between 2018 and Project buildout in 2028, comprising total market area demand of $1.7 billion by 2028.

Table 10. Market Area Retail Demand Estimates, in millions

| Type of Retailer | Existing 2015 | 2015-2018 | 2018-2028 | Total by 2028 |
|---|---|---|---|---|
| Motor Vehicles and Parts Dealers | $199.0 | $7.1 | $23.6 | $229.7 |
| Home Furnishings and Appliance Stores | $74.4 | $2.7 | $8.8 | $85.9 |
| Building Materials and Garden Equip | $86.9 | $3.1 | $10.3 | $100.3 |
| Food and Beverage Stores | $246.7 | $8.9 | $29.3 | $284.8 |
| Gasoline Stations | $166.4 | $6.0 | $19.8 | $192.1 |
| Clothing and Clothing Accessories Stores | $102.2 | $3.7 | $12.1 | $118.0 |
| General Merchandise Stores | $200.7 | $7.2 | $23.8 | $231.7 |
| Food Services and Drinking Places | $183.7 | $6.6 | $21.8 | $212.1 |
| Other Retail Group | $180.9 | $6.5 | $21.5 | $208.9 |
| **Total** | **$1,440.7** | **$51.7** | **$171.1** | **$1,663.5** |
| **Cumulative Total** | **$1,440.7** | **$1,492.4** | **$1,663.5** | **$1,663.5** |

Source: Exhibit 21.

These figures demonstrate that the market area has very strong retail spending potential.

# VI. PROJECT SALES IMPACT ANALYSIS

This chapter assesses the extent to which the Project's sales might impact the existing retail sales base. It examines the characterization of the sales bases in Pleasanton and Dublin, the two cities that comprise the bulk of the Project's market area, and then considers the extent to which the Project may or may not divert sales away from existing retailers.

## RETAIL SALES BASE CHARACTERIZATION

### Approach

For the purpose of this study, ALH Economics characterized the retail sales bases of Pleasanton and Dublin with regard to the extent to which they attract or leak retail demand generated by their population base. Toward this end, ALH Economics uses a retail model that estimates retail spending potential for an area based upon household counts, income, and consumer spending patterns. The model then computes the extent to which the area is or is not capturing this spending potential based upon taxable sales data published by the State of California Board of Equalization (BOE) or provided by local government municipal tax consultants. This analysis can be most readily conducted for cities, groupings of cities, or counties, consistent with the geographies reported by the BOE.

For any study area, retail categories in which spending by locals is not fully captured are called "leakage" categories, while retail categories in which more sales are captured than are generated by residents are called "attraction" categories. This type of study is generically called a retail demand, sales attraction, and spending leakage analysis, or retail gap analysis. Generally, attraction categories signal particular strengths of a retail market while leakage categories signal particular weaknesses. ALH Economics' model, as well as variations developed by other urban economic and real estate consultants and economic analysts, compares projected spending to actual sales.

For the purpose of generating a Retail Demand, Sales Attraction, and Spending Leakage Analysis for the relevant cities, and the market area as a whole, ALH Economics obtained taxable retail sales data for 4th Quarter 2013 through 3rd Quarter 2014 as reported by the BOE and adjusted the taxable sales to reflect total, more current sales. These were the most recent BOE data available at the time the study was conducted. Using the retail sales data, combined with household counts from the demographic estimates benchmarked to ABAG forecasts and household income figures estimated by Nielsen Reports, ALH Economics conducted Retail Demand, Sales Attraction, and Spending Leakage Analyses. These analyses compared total estimated household spending to actual retail sales in both Pleasanton and Dublin. To the extent possible, sales estimates were updated to reflect a more current time period than measured by the BOE data. This included analyzing sales tax trend data in Pleasanton from 2nd Quarter 2014 through 4th Quarter 2015, to generate sales adjustment factors by category to result in an estimated 2015 retail sales base. These data were provided by the City of Pleasanton via the City's tax consultant. Comparable data were requested for the City of Dublin; therefore, sales adjustments for Dublin were based upon the CPI index, with the exception of gasoline sales, which was adjusted as the same rate as Pleasanton because the volatility of gasoline sales is not tied to the CPI index. Retail sales for both cities were also adjusted upward to adjust for nontaxable sales in key sales categories, including Food &

Beverage stores and the drug store component of Other Retail sales. All these adjustments are noted as relevant in the analysis.

### Household Spending Estimates

ALH Economics' Retail Demand, Sales Attraction, and Spending Leakage Analysis requires household count, average household income, and percent of income spent on retail inputs for the area of analysis. As noted in Table 9, the annual household income profiles vary modestly between Pleasanton and Dublin, with both exceeding $130,000. Accordingly, the percent of income spent on retail is assumed to be similar to the percentage assumed in the market area, which is 25%. The resulting annual retail household spending estimate by city is presented in Table 11, along with the earlier referenced market area finding. These figures are $38,283 for Pleasanton and $35,055 for Dublin.

Table 11. Market Area Average Household Spending

| City | 2015 Income | % Spent on Retail | Average HH Spending |
|---|---|---|---|
| Pleasanton | $153,130 | 25% | $38,283 |
| Dublin | $140,220 | 25% | $35,055 |
| Market Area | $146,232 | 25% | $36,558 |

Sources: Nielsen Reports; and ALH Urban & Regional Economics.

### Retail Demand, Sales Attraction, and Spending Leakage Findings

***City of Pleasanton.*** The estimate of Pleasanton's retail sales base pursuant to the most recently available BOE data is presented in Exhibit 22. This figure, reflective of annual retail sales ending the 3rd Quarter of 2014, is approximately $1.6 billion. With interim adjustments to year-end 2015 based on changes in citywide retail sales trends, the sales base was estimated to increase modestly, but still rounds to a total of $1.6 billion by the end of 2015 (see Exhibit 23). This indicates average sales on a per household basis of $60,348. This figure reflects sales captured per household, not demand per household. Pursuant to the estimated distribution of household demand based upon the pattern noted earlier in Exhibit B-4, and cited in Tables 8 and 10, estimated retail spending per household in Pleasanton is $38,283. This demand figure is substantially lower than the sales per household figure, indicating in the aggregate that Pleasanton captures more sales than is spent by its own households. In other words, Pleasanton as a whole attracts retail sales. This result is not surprising, as Pleasanton has a large retail base, including a regional shopping center.

Overall, the Retail Demand, Sales Attraction, and Spending Leakage estimates in Exhibit 24 suggest that just over 36% of the sales achieved in Pleasanton are attracted from elsewhere. As Exhibit 24 further indicates, this retail sales attraction extends across almost every retail category, with the exception of Building Materials and Garden Equipment and Gasoline Stations. This would suggest some potential for retail new to Pleasanton to stem leakage and recapture sales lost to Pleasanton retailers in these two categories. However, as noted below, when analyzed in the context of neighboring Dublin's retail base, which has attraction in these two categories, the leakage in Pleasanton is likely being measured as attraction to the City of Dublin. Therefore, instead of comprising recaptured sales leakage, sales achieved by new Pleasanton retailers will comprise sales generated by new market area household growth, sales

diverted away from existing market area retailers, sales that serve to strengthen the city's existing sales attraction, or some combination thereof.

***City of Dublin.*** The findings for the City of Dublin demonstrate an even greater level of estimated attraction compared to Pleasanton. The estimated 4th Quarter 2013 through 3rd Quarter 2014 sales base in Dublin totaled $1.4 billion (see Exhibit 25). Adjusted to 2015 based upon changes in the CPI index, coupled with the more volatile estimate of changes in Gasoline sales, results in a slightly lower 2015 sales estimate, but one which continues to round to $1.4 billion (See Exhibit 26; the decline is due to the lower cost of gasoline). Per household sales generally equaled $88,078, compared to the per household demand estimate of $35,055. Thus, Dublin achieves even higher retail sales attraction than Pleasanton, estimated at 60.2% of all sales (see Exhibit 27). In contrast to Pleasanton, Dublin achieves retail sales attraction in all major retail categories.

### PROJECT SALES IMPACTS

This section estimates the extent to which the Project's sales may comprise a negative sales impact on the existing retail sales base. For study purposes, ALH Economics combined the Pleasanton and Dublin estimated retail sales bases as a proxy for the market area. This includes some Dublin retail sales generated by retail stores not included in the market area. However, this is deemed a more meaningful basis for analysis than estimating through imprecise means the portion of Dublin's sales base that is not included in the market area. Moreover, while consumer demand may originate from within the defined market area, likely all outlets in Pleasanton and Dublin receive some increment of demand from households in the Project's defined market area.

## Approach

ALH Economics has developed an analytic approach that estimates the impact of the Project's incremental sales on existing retailers. For this analysis, the approach assumes that if the Project is adding sales to a category in an amount greater than any potential recaptured leakage in the category, ***then at worst***, the amount of sales in that category in excess of any recaptured leakage would be diverted away from existing area retailers. In cases when this applies, this can be a conservative assumption given that diverted sales beyond the amount of recaptured leakage could also occur among other retailers beyond the market area or relevant city boundaries. Or, in cases where new household growth occurs, demand captured from these new households can offset impacts by increasing total sales captured by retailers throughout the area under study. In the case of the Johnson Drive EDZ Project, the combined cities of Pleasanton and Dublin do not appear to exhibit any retail leakage. This analysis therefore focuses exclusively on the potential for Project sales generated by the Project's market area retail consumers to be absorbed by new demand, with any resulting sales not absorbed by new demand comprising potential sales impacts.

## Market Area Retail Sales Base

To best assess the Project's sales impacts it is optimal to have an understanding of the size of the existing retail sales base. As stated above, for the purpose of this study this sales base is anticipated to comprise the summation of the retail sales bases in Pleasanton and Dublin. Pursuant to the analyses presented in Exhibits 23 and 26 this sales base is estimated to total $3.0 billion in 2015.

## Future Growth Considerations

As noted earlier, the market area is estimated to grow by 1,415 households between 2015 and 2018, the year the Project's Phase I is estimated to be fully operational, and by another 4,680 households by 2028, the Project's year of Full Buildout. These new households will generate additional demand for retail sales, as documented in Exhibits 19 through 21. These new sales are estimated to total $51.7 million by 2018 and an incremental $171.1 million by 2028, and include sales in all the categories of estimated Project sales.

## Estimated Project Sales Base Impacts

***Approach.*** ALH Economics analyzed the Project impacts on the existing sales base based upon the amount of Project sales generated by market area residents not absorbed by new household demand. This does not mean that the new households are anticipated to spend all their retail dollars at the Project, but that as new retail dollars are spent in the market it provides support for all retailers, which may or may not include the Project's retailers. Thus, if the Project diverts retail dollars spent at existing market area retailers, new demand generated by household growth can potentially offset these sales diversions. Moreover, new demand for sales categories not represented by the Project can additionally provide support for yet other retailers, and hence support retail occupancy for additional new retailers. This analysis was conducted for the Project's Phase I development as well as the incremental development to Full Buildout, and consolidated in a Full Buildout scenario.

***Phase I Sales Base Impacts.*** The analysis assessing the Project's Phase I impacts on the market area's estimated existing retail sales base is fully presented in Exhibit 28 and summarized below in Table 12. Taking into consideration prospective demand generated by households new to the market area prior to the full operation of Phase I, the Project's sales impacts may result in estimated sales decline of $26.7 million for existing retailers, or 0.9% of existing market area sales. Overall this is a nominal level of impact, which comprises approximately 16% of all Phase I Project sales. Thus, overall, at least 84% of the Project's $172.3 million in estimated Phase I sales will comprise net new sales to the City of Pleasanton's (see Exhibit 9 for the $172.3 million figure).

Table 12. Project Phase I Sales Impacts on Existing Sales Base

| Retail Category | Total Net New Consumer Retail Sales | New Market Area Demand 2015-2018 | Sales Impact Less New Demand | % Impact on Sales Base | Remaining Demand For Backfilling |
|---|---|---|---|---|---|
| Motor Vehicle & Parts Dealers | $3,143,726 | $7,145,800 | $0 | 0.0% | $4,002,074 |
| Home Furnishings & Appliances | $4,573,080 | $2,670,856 | $1,902,224 | 0.9% | $0 |
| Building Materials & Garden Equipment | $2,788,126 | $3,119,560 | $0 | 0.0% | $331,434 |
| Food & Beverage Stores | $32,075,342 | $8,860,179 | $23,215,163 | 7.4% | $0 |
| Gasoline Stations | $6,278,039 | $5,976,404 | $301,636 | 0.2% | $0 |
| Clothing & Clothing Accessories | $2,388,912 | $3,670,104 | $0 | 0.0% | $1,281,192 |
| General Merchandise Stores | $4,981,229 | $7,207,640 | $0 | 0.0% | $2,226,411 |
| Food Services & Drinking Places | $537,857 | $6,598,189 | $0 | 0.0% | $6,060,332 |
| Other Retail Group | $7,803,072 | $6,496,950 | $1,306,122 | 0.6% | $0 |
| Total | $64,569,384 | $51,745,682 | $26,725,145 | 0.9% | $13,901,443 |

Source: Exhibit 28.

While the overall sales impact is relatively nominal as a percent of the sales base, there are three retail categories with estimated sales impacts. These categories include the following:

- Home Furnishings & Appliances with $1.9 million in sales impacts, or less than 1.0% of the category sales base;
- Food & Beverage Stores with $23.2 million in sales impacts, or 7.4% of the category sales base; and
- Gasoline Stations with approximately $0.3 million in sales impacts, or 0.2% of the sales base.

The sales impacts in Home Furnishings & Appliances and Gasoline Stations are nominal and, given the size of the sales base, are not deemed large enough to result in existing retail outlet closures. The impacts are likely to be experienced by a number of existing market area retailers, and thus not concentrated amongst any single retailer to the point where business closure could result from declining sales. In addition, these impacts assume the Project's Phase I components achieve stabilized sales during the first full year of operations. More typically, new retailers achieve stabilized sales over a period of several years, such that the full amount of estimated Phase I sales will not be achieved until sometime after 2018. By this time, yet additional new market area demand will be generated, further offsetting the projected sales impacts. For example, based upon findings presented in Exhibit 21, the average annual new demand generated for Gasoline Stations between 2018 and 2028 is almost $2.0 million a year. Thus, the anticipated Gasoline Stations impacts will be offset within a year after the start of the Project's Phase I operations. In like manner, the Home Furnishings & Appliances estimated sales impacts of $1.9 million could be offset in just over two years. These findings further reinforce the conclusion that existing Home Furnishings & Appliances and Gasoline Stations are unlikely to experience sales impacts from Phase I development severe enough to result in existing outlet closures.

The estimated sales impacts in the Food & Beverage Stores category are more substantial than the other category impacts. At $23.2 million, these impacts are equivalent to 7.4% of the existing sales base. While the Project's estimated Food & Beverage Store sales may also not achieve stabilization until sometime after 2018, these impacts are more substantial and could result in lower store sales performance among a number of existing Food & Beverage stores. As noted earlier, this includes at least 17 more traditional food stores, as well as numerous ethnic and other small food markets. These include a wide variety of stores, such as Safeway, Raley's, and Lucky, and more specialty or upscale grocers such as Whole Foods, Trader Joe's, Sprouts, New Leaf, and Gene's Fine Foods. The existing stores also include stores more comparable to the discounted or bulk food options available at a club retailer, such as Walmart Neighborhood Market, Smart & Final Extra, and Target.

Food & Beverage stores achieve a wide range of per square foot sales performance. Assuming an overall industry average of $643 per square foot (see Exhibit 9), the estimated volume of diverted Food & Beverage Store sales is sufficient to support approximately 36,000 square feet of space. This level of impact suggests the potential for one existing grocery store in the market area to be at risk of potential closure following Phase I development of the Project, although the impact will morel likely be spread among the more than 17 market area stores selling groceries. If spread equally among just these 17 stores the level of impact would be less than $1.4 million in sales impact per store, which is likely not a sufficient sales volume loss to trigger store closure. Many stores can likely compensate for this loss through product repositioning and other operational changes. Further, some of these impacts will be offset over time as additional new demand is generated, averaging about $3.0 million a year after 2018 (see figures included in Exhibit 21).

There are a number of factors endemic to the club retail shopping experience that could minimize the impacts on the existing Food & Beverage retailers, or especially on specific food stores. Using examples from Costco, club retail merchandise is not targeted to the average grocery store consumer. Many Costco items are only available in bulk. This includes mostly foodstuffs and other items one could purchase at a grocery store, such as two loaves of sliced bread bundled together, a case of kidney bean cans, 15 rolls of paper towels, and a 33.9-ounce can of ground coffee. It is not possible at Costco to purchase an individual-sized pastry, a quart of milk, a small spice jar, a dozen eggs, or just a pound of butter. Costco food sales are clearly targeted toward large families, restaurants, event organizers, and other consumers with extensive storage capacity. Accordingly, Costco is not the type of store where the average household consumer will stop by once or twice a week to round out the pantry and purchase ingredients for intimate family dinners.

In addition, Costco typically carries only one brand at a time of certain items, such as canned peaches or tomato sauce. Thus, selection is not the hallmark of Costco. In fact, Costco typically carries 3,700 items, or SKUS (stock-keeping units) for sale throughout the entire store.[13] This compares to 15,000 to 60,000 at a traditional supermarket for just grocery goods.[14] Thus shoppers seeking food product variety will not find it at Costco.

Costco is further distinguished from the average retailer pursuant to its payment options and how it assembles items purchased by customers. Costco warehouses accept cash, checks, certain debit cards, and Visa. No other major credit cards are accepted for the payment of merchandise. These methods of payment may limit Costco's customer base. Once a customer has made purchases, Costco does not provide bags or bagging services. Some items are loaded into packing boxes by Costco cashiers, but the balance of goods are either reloaded back into the shopping cart by the Costco cashiers or can be placed into bags provided by the customer. This approach may further limit Costco's customer base among customers accustomed to merchandise bagging.

The preceding club retail merchandising factors may contribute to the dispersal of the estimated Food & Beverage sales impacts, or even lessening of the impacts. Moreover, stores can adapt their merchandising mix and customer service strategies to be more resistant to Project sales impacts. Yet, if a store closes there are other demand opportunities available to backfill the space, thus reducing the likelihood of long-term retail vacancy. For some Project sales categories new market area demand will exceed the portion of Project sales estimated to be generated by market area households, thus no impact will result and demand available for other retailers will result. As noted in Exhibit 28, after absorption of Project sales, an estimated $13.9 million in new retail demand will still be available for a range of retail categories. Thus, while there could be the potential for store closure, the likelihood of the space remaining vacant for a prolonged period of time and leading to prolonged economic impacts is not high.

***Full Buildout Sales Base Impacts.*** Sales impact analysis findings for the Project at Full Buildout were prepared in an analysis parallel to the Phase I analysis. These findings were also generated for the increment of development between Phase I and Full Buildout. These findings

[13] Costco Wholesale Corp, 10-K, Filed on 10/14/15, page 4.
[14] http://www.fmi.org/facts_figs/?fuseaction=superfact

are presented in Exhibit 29 for the increment to Full Buildout and Exhibit 30 for Full Buildout. The Full Buildout findings are also summarized in Table 13, below.

The summary findings in Table 13 indicate that by the time Full Buildout occurs, estimated to comprise 2028, more than sufficient new market area demand will be generated to absorb the Project's anticipated sales generated by market area retail consumers. There is one minor exception to this, which is the Clothing & Clothing Accessories category, with a nominal sales impact of $46,544. This level of impact is so limited it comprises 0.0% of the market area sales base.

Table 13. Project Sales Impacts on Existing Sales Base at Full Buildout

| Retail Category | Total Net New Consumer Retail Sales | New Market Area Demand 2015 - 2028 | Sales Impact Less New Demand | % Impact on Sales Base | Remaining Demand For Backfilling |
|---|---|---|---|---|---|
| Motor Vehicle & Parts Dealers | $3,143,726 | $30,770,182 | $0 | 0.0% | $27,626,456 |
| Home Furnishings & Appliances | $10,211,555 | $11,500,843 | $0 | 0.0% | $1,289,289 |
| Building Materials & Garden Equipment | $8,030,090 | $13,432,983 | $0 | 0.0% | $5,402,893 |
| Food & Beverage Stores | $32,075,342 | $38,152,384 | $0 | 0.0% | $6,077,042 |
| Gasoline Stations | $6,278,039 | $25,734,700 | $0 | 0.0% | $19,456,661 |
| Clothing & Clothing Accessories | $15,850,201 | $15,803,657 | $46,544 | 0.0% | $0 |
| General Merchandise Stores | $10,176,090 | $31,036,468 | $0 | 0.0% | $20,860,377 |
| Food Services & Drinking Places | $11,169,630 | $28,412,138 | $0 | 0.0% | $17,242,508 |
| Other Retail Group | $22,803,351 | $27,976,200 | $0 | 0.0% | $5,172,849 |
| Total | $119,738,024 | $222,819,555 | $46,544 | 0.9% | $103,128,075 |

Source: Exhibit 30.

Based on the projected level of market area demand up to 2028, the limited amount of Clothing & Clothing Accessories sales impact would likely be absorbed shortly after Project completion. Moreover, the findings suggest that over $100 million in additional demand for retail will remain at Full Buildout, providing support for yet other retail venues as well as any retail space that might become vacated as a result of Project impacts. Such potential vacancies, however, are not deemed likely given the negligible sales impacts projected by Full Buildout.

## DOWNTOWN PLEASANTON IMPACTS

Based upon the preceding impacts analysis, ALH Economics believes that Downtown Pleasanton will experience very limited, if any, sales impacts associated with the Project. This assessment is attributable to several factors, including the nature of the impacts, Downtown Pleasanton's retail base and orientation, and historical precedents, especially including the development of the significant San Francisco Premium Outlets in Livermore.

Phase I Project sales impacts are most anticipated to occur in Food & Beverage Stores, Gasoline Stations, and Home Furnishings & Appliances, while Full Buildout sales impacts are isolated to just Clothing & Clothing Accessories, and for just a limited period of time. Among all these categories, only Home Furnishings & Appliances and Clothing & Clothing Accessories stores are located in Downtown Pleasanton. As these impacts are anticipated across the entire market area, which includes many other shopping areas in Pleasanton as well as Dublin, it is very unlikely the limited sales impacts in these categories will be specifically diverted from Downtown Pleasanton stores. This is especially the case because the nature of these and other goods sold in Downtown Pleasanton is generally very different from the type of goods available at a club retail store like Costco or other generic retailers that might occupy the Project's general retail

space. Further, while there may be some club retail goods overlap, the quality of goods available Downtown is typically much greater and of a broader variety than available at a club retailer. In addition, Downtown Pleasanton retailers provide services not available at a club retailer.

Downtown Pleasanton stores sell a very carefully selected mix of merchandise not typically found at other market area retailers. Downtown Pleasanton provides a unique, pedestrian-oriented shopping opportunity with a customer-friendly atmosphere. These experiences cannot be replicated at the Project. Moreover, shoppers who want the type of goods available at a club retail store already have regional opportunities for this kind of shopping. Thus, there is no motivation for Downtown shoppers to change their shopping patterns assuming the new shopping opportunities will not be significantly different from other shopping opportunities already available.

Downtown Pleasanton is quite distant from the Project site, at 4.3 miles. Shoppers who choose to shop in Downtown Pleasanton are unlikely to bundle a Downtown shopping with a Project shopping trip, further helping Downtown Pleasanton retain its existing shoppers. Finally, anecdotal information suggests that the opening of the San Francisco Premiums Outlets in Livermore, located even closer to Downtown Pleasanton than the Project site (a distance of 3.9 miles versus 4.3 miles), did not result in negative economic impacts on Downtown Pleasanton retailers. The San Francisco Premium Outlets opened as Paragon Outlets during the holiday season of 2012, and subsequently expanded in 2015. Examination of taxable retail sales data for the City of Pleasanton indicates that for all major retail categories, sales in Pleasanton were higher in 2013 than in 2012, while sales in 2012 were higher yet again than in 2011.[15] This suggests that in addition to the anecdotal information about Downtown Pleasanton that the City of Pleasanton as a whole did not experience any retail sales repercussions associated with this significant retail addition to the region's retail base totaling approximately 540,000 square feet initially, and then expanding by almost another 200,000 square feet. This also supports the finding that the Project's impacts on the existing retail base may be limited, given the greater size of the San Francisco Premium Outlets relative to the Project.

### CLUB RETAIL CASE STUDY INFORMATION

The preceding Project Impact analysis focuses on relatively high level analysis, examining impacts on a category-specific basis. In order to gain some insight into the potential for more granular impacts, ALH Economics conducted research regarding several existing club retail stores. This included the Costco store in nearby Livermore, which opened in 1993 and added gasoline sales within the past 5 years, and stores in California developed more recently. The nearby Danville store was not included because it was developed in 1989, prior to the tenure of existing Economic Development staff, and too long ago to be of much relevancy.

The case study stores opened more recently in California included a Costco warehouse in Hayward and in Huntington Beach. These two stores comprise two of the four most recent Costco stores opened in California, among 11 that have opened since 2006. These two locations were selected for case study purposes because of their relative retail sales base comparability to Pleasanton. Most of the other cities where Costco stores have opened in California since 2006 have either much smaller sales bases (less than $1.0 billion) or much

[15] The only 2011 to 2012 exception being in the General Merchandise category, which likely has limited bearing on the Outlets given the strong apparel orientation of the Outlets.

larger sales bases (greater than $4.5 billion). Thus, Hayward and Huntington Beach seemed well-matched to Pleasanton, especially given their recent development in 2009 and 2012, respectively. Thus, these stores have been in the market long enough to achieve stabilized operations, but are recent enough that current city staff should have familiarity with their impacts on their respective sales bases.

As noted, the Livermore Costco store opened many years ago in 1993. Accordingly, little information is available about its immediate impacts on the nearby retail base. However, Livermore's outgoing Economic Development Director, with a relatively long tenure in Livermore, indicated she was not familiar with any negative sales impacts resulting from the store, including on small businesses or Downtown Livermore. This includes no negative impacts on food stores or individual small businesses. Of particular relevance to the Project is the gas station operation that was added to this store within the past 5 years. According to the outgoing Economic Development Director, the City of Livermore has not noted any drop off in gasoline sales since Costco added this component. ALH Economics believes a large contributor to this lack of impact is the dispersed geography associated with Livermore Costco customers, as discussed previously and documented in Exhibit 14.

The Hayward Costco store is located in an industrial area of Hayward near the border of Union City. Similar to Livermore, city representatives are not aware of any existing business impacts that occurred following the opening of this Costco store, including small businesses, Downtown Hayward, existing food stores, or gas stations. Some of the lack of impacts is attributed to the store's location, which is somewhat devoid of other retail establishments.

Finally, the Huntington Beach case study information suggests that rather than impacting existing retailers negatively, the new Costco store serves as a catalyst for retail demand, bringing shoppers to an area that was previously occupied by obsolete retail uses. After Costco was developed small businesses chose to be near Costco to benefit from retail synergies. Yet there is no indication that small businesses located elsewhere in the City of Huntington Beach, including Downtown, were impacted in a negative way. This Costco store is part of a larger plan for area economic development, has served as a catalyst for other property improvements, and has added to the critical mass of retail in the area, with spin-off benefits noted for other, previously struggling retail districts.

In summary, these case study findings indicate that other communities of a similar scale to Pleasanton did not experience negative impacts on their retail community when local Costco stores were developed. This includes no reported small business community, Downtown, or gasoline station impacts. Therefore, these findings suggest the study conclusion that the Project's Phase I development could result in food store sales impacts is a conservative conclusion, not borne out by the experience in comparable cities.

## SECONDARY IMPACTS

In addition to sales impacts throughout the Project's market area, there will be potential for more localized secondary impacts on the businesses located in the area proposed for the Johnson Drive EDZ. One certain impact is a higher volume of traffic through the area, which is addressed in the SEIR's Transportation Impact Analysis. As this traffic occurs it may make take longer for employees and customers to travel to and from existing area businesses and traffic may become more congested. In addition, existing businesses seeking to expand at their current location might find the environment more competitive for land or building acquisition given

anticipated economic development efforts in the area and prospective new uses. However, there are also potential beneficial impacts, including the enhanced visibility and business exposure as a result of the greater volume of traffic through the area. Prospective customers can gain knowledge of the existing area businesses through repeated sightings of business signage and facilities, and the presence of existing customers. Thus, there can be positive as well as negative impacts associated with greater area traffic volume. Additional potential positive secondary impacts include the proximate availability of low cost club retail merchandise and gasoline, other shopping and eating opportunities close to work, and possible long-term property value increases associated with economic development improvements throughout the area. For example, as noted in the case studies above, Costco development served as a catalyst for economic development in Huntington Beach, and is credited with bringing shoppers to an area that was previously underutilized, and creating synergistic opportunities for business growth. The experience in Huntington Beach demonstrates there can be positive secondary impacts for existing area businesses as well as the potentially negative secondary impacts cited above.

# VII. CUMULATIVE PROJECT IMPACTS

This analysis seeks to quantify the impact of the Project taking into consideration other planned competitive retail projects within and near the market area. The cumulative projects assessed for impacts include retail developments that are in various stages of entitlement or planning. Because specific development timelines are not available for many of the projects, the analysis carefully considers each project prior to determining the set of projects most likely to be operational during the Project's approximate timeframe.

### IDENTIFIED RETAIL DEVELOPMENT PROJECTS

ALH Economics identified 12 potential cumulative retail development projects in and near the market area by reviewing development pipeline materials maintained by the cities of Pleasanton and Dublin. While nine of the 12 projects are located within the Project's market area, all of them may have some market area commonality, and thus were reviewed and considered for relevancy. Information about these projects was primarily derived from the major project documents from each city, supplemented by additional information from planning staff, project websites, the San Francisco Business Journal, and Pleasanton-Dublin area news provider, The Independent. These 12 projects are described in Exhibit 31, which includes their address, square footage, development status, anticipated completion date, and distance from the Project Site. Number references for projects in the following discussion match the numbers listed in Exhibit 31, as well as the accompanying map in Exhibit 32.

The 12 projects included in Exhibit 31 total approximately 1.3 million square feet of retail space. The projects range in size from just over 5,000 square feet up to 430,000 square feet. Some of the projects are in the preliminary stages of planning or are in the latter phases of development and therefore have an undetermined timeframe. These projects add up to 1.1 million square feet; one of these projects is the second largest project in the pipeline at 225,000 square feet, Project #8, the Boulevard/Dublin Crossing located in Dublin. Though this project has been approved for commercial space, planning staff from the City of Dublin relayed that the developer is most likely going to develop the site as residential.

ALH Economics reviewed the information on the planned projects, status, and anticipated timing, and identified the projects most likely to be developed during two timeframes concurrent with the Project, i.e., by 2018 corresponding with Phase I and by 2028, corresponding with Full Buildout, as well as unknown timing. To allow for a conservative analysis ALH Economics includes all of the projects listed on Exhibit 31. These 12 identified cumulative projects are summarized below, with more project detail included in Exhibit 31. The cumulative project locations are mapped in Exhibit 32.

- **Pacific Pearl/Staples Ranch (#1)** - This is an approved 112,000-square-foot shopping center with probable tenants including Marina Foods, King Wah restaurant, additional restaurants/quick serve, beauty/nail salons & spa services, learning/tutoring services, medical/dental, general retail, and the remaining square footage is unknown. This project is located 4.8 miles east of the Project site and anticipated to be completed in 2017;
- **Vintage Sustainable Mixed-Use Village (#2) -** This is a proposed mixed-use project with 345 apartment units and 38,781 square feet of retail. The retail tenants are unknown,

but the anchor tenant is estimated to be a small grocery or drugstore, located 4.9 miles southeast of the Project site, with potential completion in 2016;

- **CarMax (#3)** - An 11,783-square-foot auto dealership under construction, located 4.8 miles east of the Project site, estimated to be complete in 2016;
- **Essex Site 1 (#4)** - This is a mixed-use high-density residential/commercial development containing 251 residential units, 4 live/work units, and approximately 5,700 square feet of retail space under construction, located 1.8 miles east of the Project site, estimated to be complete in 2017;
- **Chick-fil-A Restaurant (#5)** - A 5,399-square-foot Chick-fil-A restaurant under construction, approximately 1.2 miles northeast of the Project site, estimated to be complete in 2016;
- **Project Cover (#6)** – This is a newly announced project that will soon be going before the City of Dublin for approval. The project includes a 339,000-square-foot IKEA store and additional pads for another 91,000 square feet of retail space and a 75-room hotel. This project, in the planning stages, is anticipated to be complete in 2018. This project is located 2.8 miles northeast of the Project site.
- **Kaiser Medical Center (#7)** - This preliminary project is a medical campus comprising a 950,000-square-foot medical facility and 250,000 square feet of commercial development built over 25 years, located 4.3 miles northeast of the Project site, with unknown timing;
- **The Boulevard/Dublin Crossing (#8)** - The EIR and Specific Plan for this site allow up to 225,000 square feet of commercial space; however, the developer is leaning toward building only residential. This site is located 3.2 northeast miles from the Project site with unknown timing;
- **Fallon Gateway (#9)** – This project is a partially complete 379,000-square-foot retail center with 140,000 square feet that has yet to be built, tenants and timing for the remaining square footage are unknown, located 5.1 miles northeast of the Project site;
- **Grafton Plaza Mixed-Use Development (#10)** - An integrated mixed-use project in review with 115 townhomes, a 122-room Aloft hotel, and a 55,000-square-foot retail center, located 4.3 miles northeast from the Project, projected to open in 2017/2018;
- **Bay West Mixed Use Project (#11)** - A small mixed-use downtown Dublin project under construction with 17,000 square feet of first floor commercial with 314 apartments above, located 2.3 miles northwest from the Project, estimated to open by 2016; and
- **Sutter Retail (#12)** – This preliminary project is a 2,600-square-foot Starbuck and a 5,400-square-foot retail shop building, located 2.6 miles northwest from the Project, timing is unknown.

Of these 12 projects, eight are anticipated to be completed by the end of 2018. The remaining four projects have unknown timing because they are either in very early planning stages or are phased projects that do not have estimated starting dates for the outstanding retail portion.

### CUMULATIVE PROJECT MARKET AREA OVERLAP

The cumulative retail projects will compete with the Project's market area only to the extent that their market areas overlap. Exhibit 31 also shows estimates of the share of each cumulative project sales anticipated to be sourced from the same market area as the Project. These estimates are the result of generalized assumptions, based on consideration of the location of the projects, their distance from the Project site, and the anticipated nature of their retail space and likely consumer. Pursuant to individual assumptions regarding share of market area

overlap with the Project, the cumulative projects are estimated to generate approximately 492,000 square feet in retail competitive with the Project, and also generated by market area households. Following are explanations of the market area overlap assumptions for key cumulative projects.

- Vintage Sustainable Mixed-Use Village (#2), Essex Site 1 (#4), Chick-fil-A Restaurant (#5), Bay West Mixed Use Project (#11), and Sutter Retail (#12) are anticipated to have much smaller, localized market areas than the Johnson Drive EDZ Project. Large portions of these cumulative projects' market areas are estimated to be subsumed within the Johnson Drive EDZ Project's market area and are estimated to have a 95% overlap of market area sales with the Project.
- The Boulevard/Dublin Crossing (#8), Fallon Gateway (#9), and Grafton Plaza Mixed-Use Development (#10) are estimated to have a different market area than the Project, extending north and east of areas encompassed by the Project's market area. Therefore, these projects are estimated to have a 66% overlap with the Project's market area.
- Pacific Pearl/Staples Ranch (#1) and Kaiser Medical Center (#7) are estimated to have large and different market areas than the Project, extending beyond the north and east of areas encompassed by the Project's market area. Therefore, these projects are estimated to have a 50% overlap with the Project's market area.
- CarMax (#3) is estimated to have a specialized market area, focused on serving the needs of consumers seeking to purchase cars. Thus, the analysis assumes only approximately 25% of the sales at this project will be generated by Johnson Drive EDZ Project market area residents.
- Project Clover (#6) is estimated to have only a 10% overlap with the Project's market area. This low overlap is attributable to the tremendous market draw experienced by Ikea. This store will be only the third Ikea store in the Bay Area region, and will likely draw customers from a broader area to the north, east, and west of the Project site. There may also be the potential to draw from the south as well, but many of these consumers may live closer to the existing Ikea store in Palo Alto.

As with the demand projections, the timeframes for anticipated development are presented consistent with the anticipated timeframe for the Project and other major retail development in Pleasanton and Dublin, i.e., 2018 and 2028.

## CUMULATIVE PROJECT IMPACTS

### Cumulative Project Supply

As noted in Exhibit 31, there are eight projects identified in Pleasanton and Dublin with prospective retail development by the years 2018 and 2028 and four with unknown timeframes, as some of these projects are further along in the conceptualization process than others. A summary of the market area cumulative retail projects is presented in Exhibit 33. This summary indicates that the cities of Pleasanton and Dublin have a total estimate of 4917,623 square feet of competitive prospective retail development planned excluding the Project (i.e., square footage anticipated to require support by the Project's market area). ALH Economics applied a 5% vacancy rate assumption to the square footage, which means an estimate of 95% of the total retail space is occupied (this is the same as the assumption for the Project).

Per the benchmark periods associated with the Project, an estimated 173,321 square feet of occupied competitive retail project space are anticipated to be complete by 2018. Between 2018 and 2028 the estimated timing for Full Buildout, there are no cumulative projects confirmed to have development completion estimates. There is 293,721 total square feet of estimated occupied development with unknown timing; however, a portion of this square footage may be developed between those years. This brings the total competitive square footage estimate to 467,042 square feet for the market area and surrounding areas. Notably, these figures include The Boulevard/Dublin Cross project in Dublin, which City of Dublin representatives suggest may convert to an all residential project.

**Future Market Area Demand**

Prospective tenants and tenant mixes are not known for many of the cumulative projects. Therefore, the impacts of the cumulative supply are best assessed relative to prospective demand. Thus, the market area's demand for retail space between 2015 and 2028 is converted to supportable retail space to facilitate a space-based supply and demand analysis. This conversion is documented in Exhibit 34, which incorporates estimated demand, estimated sales performance per square foot, an increment of space for personal and business services, and a modest vacancy allocation to allow for market fluidity.

The results of the supportable demand analysis indicate that new market area retail shoppers are estimated to have the ability to support 120,000 square feet of new retail space by 2018, another 390,000 square feet by Project buildout, for a total of 510,000 square feet by Full Buildout, i.e., between 2015 and 2028.

**Cumulative Projects Impact**

The supply and demand analyses relevant to analysis of the cumulative retail (including the Project) are consolidated and summarized in Exhibit 35. This exhibit pulls together the retail supply figures for the Project and the identified cumulative retail projects by the time periods relevant to the timing of the Project's retail development (based upon occupied competitive square feet). The exhibit also pulls together the market area demand estimates presented as supportable square feet. Table 14 below summarizes the findings of Exhibit 35. This analysis includes sensitivity analysis for the cumulative project that is deemed unlikely to be developed (e.g., the 225,000-square-foot The Boulevard/Dublin Crossing project in Dublin, about which City of Dublin representatives suggest may convert to an all residential project).

The cumulative retail analysis results indicate that based on the projects with estimated completion dates consistent with the Project's Phase I development, there will be a projected shortfall of 111,200 square feet of market area demand to support the cumulative projects. This is a nominal amount of shortfall based upon the current size of the combined retail base in Pleasanton and Dublin, which comprises 9.2 million square feet.[16] If this 111,200–square-foot increment of retail space became vacant as a result of the cumulative projects (possibly including the Phase I Project grocery store impacts referenced in Project impacts), the current retail base vacancy rate would increase by 1.2%. This retail vacancy increment is very low, and would comprise an insignificant impact on the market area's retail base.

[16] See subsequent Exhibits 43 and 44 for estimates of the Pleasanton and Dublin retail inventories.

Table 14. Cumulative Impacts of Johnson Drive EDZ and Cumulative Retail Projects

| Supply and Demand Characteristic | Retail Development Timing 2018 | 2028 | Unknown | Total |
|---|---|---|---|---|
| **Johnson Drive EDZ and Cumulative Project Additions to Supply (1)** | 231,200 | 371,068 | 180,861 | 551,929 |
| **Cumulative Retail Demand** | 120,000 | 510,000 | NA | 510,000 |
| **Additional Demand Needed to Support New Supply** | | | | |
| Projects with Estimated Timing | 111,200 | 0 | NA | 267,649 |
| Less Unlikely Projects | 111,200 | 0 | NA | 154,789 |
| **Resulting Increase in Combined Pleasanton/Dublin Retail Vacancy Rate** | | | | |
| Projects with Estimated Timing | 1.2% | 0.0% | NA | 2.9% |
| Less Unlikely Projects | 1.2% | 0.0% | NA | 1.7% |

Source: Exhibit 35.
(1) Includes retail space anticipated to attract demand from the market area.

By the time Project Full Buildout occurs, there will continue to be insufficient new market area demand to absorb all the cumulative projects with known development timeframes. Similar to the Phase I timing analysis, however, this insufficient demand is estimated to be relatively low. Inclusive of the cumulative project anticipated to be unlikely to be developed as retail, this demand shortfall comprises an estimated 267,650 square feet. Excluding the unlikely development project reduces this figure to 154,800 square feet. Thus, the market area retail base vacancy rate is estimated to increase by 1.7% to 2.9% by Full Buildout pursuant to the cumulative retail development.

The degree to which these percentage increases will be significant to the market will depend upon the prevailing market conditions at the time of Full Buildout. While these conditions cannot be predicted, current conditions suggest that the projected increases in vacancy attributable to the cumulative projects at Full Buildout will not be detrimental to the commercial retail market, and that the market would continue to operate within healthy parameters. This is also the case taking into consideration historical retail vacancy trends, as discussed in the study chapter addressing urban decay (see Chapter IX. CEQA Urban Decay Determination). Therefore, ALH Economics concludes that the cumulative projects, inclusive of the Johnson Drive EDZ Project, are unlikely to result in negative impacts contributing to the potential for urban decay to occur in the market area.

# VIII. HOTEL ANALYSIS

## CONTEXT FOR JOHNSON DRIVE EDZ PLANNED HOTEL

The Johnson Drive EDZ has the potential for a 150- to 231-room hotel. There are 15 existing hotels in Pleasanton and Dublin that participate in hotel industry surveys, with a total of 2,297 rooms.[17] The Project's hotel would increase the existing rooms supply by 6% to 9%. The nearest hotel to the Johnson Drive EDZ Project site is located on Johnson Drive, approximately 0.5 miles away. This is an upscale hotel, with one of the three highest room rates in the Pleasanton and Dublin area, with all other hotels located over 1.0 miles away (see Exhibit 36). The distribution of the hotels is mapped in Exhibit 37.

The fiscal impact analysis conducted for the entire Johnson Drive EDZ in February 2015 assumed the area's hotel would comprise a limited-service hotel.[18] The study assumed there would be sufficient demand for the hotel from business and resident demand segments and priced the hotel for analytical purposes at $125 a night with an average occupancy rate of 75%.[19] For the purpose of this study the City of Pleasanton assumes the Project's hotel may have a more full-service orientation, with a potential focus on serving business travelers.

ALH Economics conducted analysis of hotel demand relevant to the Project's potential hotel. The analysis is based upon growing out the met demand at existing Pleasanton and Dublin hotels pursuant to employment growth projections, assuming economic growth is a relative generator of demand. Because a CEQA urban decay analysis must also look at cumulative impacts, there is additional analysis comparing the projected demand for hotel rooms in Pleasanton and Dublin to the supply of other planned hotels. This study chapter closes with an assessment of the Project's potential impact on existing hotels and hence the existing physical hotel stock.

## BASELINE HOTEL CONDITIONS

### Existing Supply of Pleasanton and Dublin Hotels

The 15 existing hotels in Pleasanton and Dublin were identified through internet research and review of a list of hotels maintained by Smith Travel Research, a company that tracks supply and demand data for the hotel industry and provides market share analysis. ALH Economics reviewed a list of hotels throughout the Tri-Valley area that participate in Smith Travel Research's trend analysis, which includes operating trends such as rooms, average daily room rate, demand, supply (measured by rooms available per period), and revenue, among other characteristics. ALH Economics then researched room rates for the listed hotels. From the larger set of Tri Valley hotels ALH Economics determined that hotels in Pleasanton and Dublin were

[17] Includes hotels that participate in trend analysis conducted by Smith Travel Research. Therefore, not all hotels are included. For example, the inventory does not include downtown Pleasanton's Rose Hotel with 38 rooms (considered an Upper Upscale Class hotel by Smith Travel Research) or the Pleasanton's Tri Valley Inn & Suites Economy Class hotel on Santa Rita Road with 34 rooms.
[18] "Draft Summary – Johnson Drive EDZ Fiscal Impact Analysis, City of Pleasanton," February 5, 2015, Brion & Associates, page 2.
[19] Ibid, page 2 and Table A-5.

most relevant to the market best served by the Project's hotel given its location and local economic dynamics.

Smith Travel Research classifies the existing Pleasanton and Dublin hotels into five classes of hotel, including economy, midscale, upper midscale, upscale, and upper upscale. Overall there are 2,297 rooms distributed among the 15 hotels (see Exhibit 36). Approximately 75% of the hotels are located in Pleasanton, with 25% in Dublin. The room count generally parallels these percentages. Among the hotels with known opening dates, approximately half opened prior to the 1990s, another six opened in the 1990s, and the newest hotel, the economy class Extended Stay America Dublin Hacienda Drive opened in 2000. The upscale hotels were built in the 1980s and 1990s, with the most expensive hotel, the Marriot Pleasanton, built in 1986. Notably, no new hotels have been added to this market since 2000, comprising a 16-year gap. This is the longest gap in the area's rate of hotel development.

ALH Economics conducted field reconnaissance in February 2016 to examine the physical condition of the existing hotels. All of the existing hotels were found to be in good general repair, with attractive physical conditions and no signs of urban decay or deterioration, such as litter, graffiti, weeds or rubbish. Photographs demonstrating existing conditions for all of the identified hotel properties are maintained in the ALH Economics project files.

**Historic and Current Hotel Performance**

Smith Travel Research provided a summary report of the performance of the 15 existing competitive hotels. This included aggregate performance data from 2009 through 2015. These data are presented in Exhibit 38. As noted in this exhibit, the average number of rooms available per year changed nominally over time, dropping from 2,312 in 2009 to 2,297 in 2015. The number of rooms sometimes changed on a monthly basis, hence the minor vacillation by year.

The Smith Travel research data also include a supply estimate, which reflects the summation of the number of rooms available per month times the number of days in the period. This is effectively a measure of the number of room nights available among the competitive supply throughout the year. Thus, in 2015, there were a total of 838,405 room nights available among the 15 hotels.

Smith Travel Research also measures demand, which is based on occupancy reported by the participating hotels. As the data in Exhibit 38 indicate, annual demand rose consistent from 2009 onward, despite the tail end of the Great Recession. This increasing demand corresponds with increasing annual occupancy rates, which changed from a low of 56% in 2009 to 81% in 2015. This 81% occupancy rate comprises the baseline for analysis of the Project. Notably, however, a hotel occupancy rate of 75% is generally considered an industry standard stabilized occupancy rate. Further, this is the rate assumed in the Brion & Associates fiscal impact study.

Over the 2009 through 2015 time period, the rate of increase in demand was lumpy, with a significant 16.5% increase from 2009 to 2010, slowing to a nominal 0.4% rate from 2013 to 2014 from 2011 to 2012, but then increasing thereafter, including an 11% increase from 2013 to 2014. Overall, hotel demand grew on annual average of 6.3% percent since 2009, and a slightly lower 4.3% from 2010 onward. These data clearly indicate that hotel demand in Pleasanton and Dublin is trending upward. Since the number of rooms effectively stayed

relatively constant from 2000 onward, the increasing demand also translated into higher occupancy rates.

## PROJECT HOTEL AND CUMULATIVE HOTEL IMPACTS

### Projected Hotel Demand

ALH Economics developed projections for hotel demand applicable to the existing supply based upon an economic growth projection range. The purpose of these projections was to prepare estimates of aggregate hotel occupancy rates following the Project's addition to the supply. The premise is that if hotel occupancy drops below a level considered unhealthy for the hospitality industry, then there could be some negative impacts on the market, which could raise concerns about the Project contributing to prolonged economic impacts and urban decay. Alternatively, if hotel occupancy rates are estimated to remain the same as the current baseline, or improve, then the Project would not be expected to contribute to urban decay.

ALH Economics updated the supply of existing hotel rooms to include the Project's hotel entering the market in 2018, comprising part of the Project's Phase I development. The analysis was conducted using two hotel size options – 150 rooms and 231 rooms. Thus, Project introduction would increase the supply of rooms to 2,528 for Option 1 (150 rooms) and the annual supply of room nights to 893,155. For Option 2 (231 rooms) the supply of rooms would increase to 2,528 and the annual supply of room nights to 922,720. Information about the changed number of rooms and annual supply of rooms is reflected in Exhibit 39, which projects future hotel supply and demand trends. The projection is extended to 2028 to depict projected supply and demand conditions consistent with Project buildout.

ALH Economics prepared a demand trend based upon blended employment growth trends for Pleasanton and Dublin. These trends are presented in Exhibit 40, and summarized in Table 15, and reflect a 2.1% employment growth rate from 2015-2020 and 0.6% growth rate from 2020 to 2030. These growth trends are based upon Association of Bay Area Government's employment projections, prepared in 2013.

Table 15. Projected Annual Growth Rate
Cities of Pleasanton and Dublin

| | Compound Annual Growth Rate | | |
|---|---|---|---|
| Period | Pleasanton | Dublin | Total |
| 2015-2020 | 1.5% | 3.9% | 2.1% |
| 2020-2025 | 0.4% | 1.2% | 0.6% |
| 2025-2030 | 0.4% | 1.3% | 0.6% |

Source: Exhibit 40.

### Johnson Drive EDZ Hotel Impact

The projected annual estimated occupancy rates by year are also depicted in Exhibit 39, and summarized I Table 16 on the following page. As these figures indicate, by 2018, the Project's estimated year of market entry, annual average occupancy among the existing hotels, including the Project, is estimated to range from 79% to 81%, depending upon the Project's room count.

This range is projected to increase to 85% to 88% by 2028, the Project's assumed buildout year. The projected rate in 2018 for the Option 2 hotel with 230 rooms of 79% is below the 2015 stabilized rate. However, this projected rate continues to be above the industry standard stabilized rate. The buildout year 2028 rates reflect enhanced market performance relative to the baseline rate of 81% in 2015.

**Table 16. Historic and Projected Occupancy**
**Pleasanton/Dublin Hotels and Project**

| Year | Annual Occupancy (1) | | |
|---|---|---|---|
| | Option 1 | | Option 2 |
| 2009 | | 56% | |
| 2010 | | 66% | |
| 2011 | | 71% | |
| 2012 | | 74% | |
| 2013 | | 77% | |
| 2014 | | 77% | |
| 2015 | | 81% | |
| 2016 | | 83% | |
| 2017 | | 85% | |
| 2018 | 81% | to | 79% |
| 2019 | 83% | to | 81% |
| 2020 | 84% | to | 81% |
| 2021 | 84% | to | 82% |
| 2022 | 85% | to | 82% |
| 2023 | 85% | to | 83% |
| 2024 | 86% | to | 83% |
| 2025 | 86% | to | 84% |
| 2026 | 87% | to | 84% |
| 2027 | 88% | to | 85% |
| 2028 | 88% | to | 85% |

Sources: Exhibits 38 and 39.

Note: Projected occupancy below the dotted line.
(1) Option 1 reflects 150 rooms and Option 2 reflects 231 rooms in the Project hotel.

The analysis indicates that hotel occupancy rates initially following the assumed market entry of the Project's hotel are projected to be comparable to the high occupancy rate noted in 2015, or slightly below this rate but still above the industry standard stabilized 75% occupancy rate. Occupancy is only projected to increase thereafter, including the occupancy rate for the larger Option 2 hotel returning to the 2015 level by 2021, or three years following introduction of the Project hotel. Based on this finding, ALH Economics concludes that the Project's hotel operations are not anticipated to reduce or impact hotel occupancy to the extent that any hotels would significantly falter and operations would cease. Thus, no existing hotels are anticipated to close as a result of the Project's development and operations. Moreover, the occupancy impacts are relatively minor and short-term, with occupancy rates continually increasing each year after the assumed opening of the Project.

**Cumulative Hotel Impacts**

To conduct a cumulative analysis ALH Economics researched information about other planned hotel projects in Pleasanton and Dublin. The research findings about the planned supply are presented in Exhibit 41. These results provide information on two planned Dublin hotel projects, comprising a 122-room Aloft Hotel at Grafton Plaza and a 75-room hotel at Project Clover accompanying the anticipated IKEA store. As of February 2016 the Aloft Hotel project was in Planning review with the City of Dublin, and was expected to be heard by the Dublin Planning Commission in February or March 2016. Based upon the project's entitlements status ALH Economics assumes the hotel could open as soon as 2017 or 2018, either just prior to or relatively concurrent with the Project. The review date for the Project Clover hotel is not known but the project as a whole is anticipated to be completed by sometime in 2018.

Similar to the analysis for just the Project, ALH Economics prepared a future projection of hotel supply and demand and then examined the occupancy impacts pursuant to the addition of the planned Grafton Plaza hotel project. This analysis is presented in Exhibit 42 and summarized in Table 17. For analytic purposes, the Aloft Hotel was conservatively added into the supply in 2017, the Project Clover hotel was added in 2018, and the Project hotel continues to be added to supply in 2018.

Table 17. Historic and Projected Occupancy
Pleasanton/Dublin Hotels and Cumulative Projects

| Year | Annual Occupancy (1) | | |
|---|---|---|---|
| | Option 1 | | Option 2 |
| 2009 | | 56% | |
| 2010 | | 66% | |
| 2011 | | 71% | |
| 2012 | | 74% | |
| 2013 | | 77% | |
| 2014 | | 77% | |
| 2015 | | 81% | |
| 2016 | | 83% | |
| 2017 | | 81% | |
| 2018 | 75% | to | 73% |
| 2019 | 77% | to | 75% |
| 2020 | 77% | to | 75% |
| 2021 | 78% | to | 76% |
| 2022 | 78% | to | 76% |
| 2023 | 79% | to | 77% |
| 2024 | 79% | to | 77% |
| 2025 | 80% | to | 78% |
| 2026 | 80% | to | 78% |
| 2027 | 81% | to | 79% |
| 2028 | 82% | to | 79% |

Sources: Exhibits 38 and 42.

Note: Projected occupancy below the dotted line.
(1) Option 1 reflects 150 rooms and Option 2 reflects 231 rooms in the Project hotel.

The near term results after the addition of the new Grafton Plaza hotel in 2017 indicates that hotel occupancy is projected to decrease to 81%, comprising stability with the 81% rate noted in 2015. When the Project Clover and Johnson Drive EDZ hotels are further added to supply in 2018 the occupancy rate is projected to decrease to 73% to 75%, depending upon the Project hotel option. These projected rates are close to or above industry standard levels, and exceed levels achieved by the market as recently as 2011 and 2012. Occupancy rates are then projected to recover thereafter, reaching up to 80% by 2025 for the Project's lower room count Option 1 and 78% for the higher room count Option 2. Regardless of option, the results indicate that hotel occupancy in the Pleasanton and Dublin market is generally anticipated to remain close to or above 75% following the cumulative impacts of the planned Grafton Plaza hotel, Project Clover hotel, and the Project. Thus, market performance is anticipated to remain close to or above industry standard levels reflective of a healthy hotel market.

### JOHNSON DRIVE EDZ PROJECT AND CUMULATIVE HOTEL PROJECTS IMPACTS CONCLUSION

The preceding analysis for the Project hotel indicates that occupancy impacts on the existing base of hotels will likely be limited, and that existing hotels will continue to be able to perform close to or above the industry standard occupancy rate of 75%. This finding also pertains to the cumulative impact scenario including the addition of a 122-room hotel in Dublin one year prior to the Project's assumed development and a 75-room hotel the same year as the Project's hotel. Based on these findings, ALH Economics concludes that existing hotels will not be impacted by the Project, individually or cumulatively, to the point that hotel closure is a potential risk. The CEQA urban decay implications of this finding are presented in the following chapter, Chapter IX. CEQA Urban Decay Determination.

# IX. CEQA URBAN DECAY DETERMINATION

The purpose of this chapter is to assess the degree to which development of the Johnson Drive EDZ Project would or would not contribute to or cause urban decay pursuant to the economic impact analysis findings. This includes impacts associated with the Project combined with other cumulative planned retail and hotel development. This chapter discusses the definition of urban decay, the study's approach to determining urban decay potential, and ALH Economics' urban decay determination.

## STUDY DEFINITION OF URBAN DECAY

For the purpose of this analysis, urban decay is defined as, among other characteristics, visible symptoms of physical deterioration that invite vandalism, loitering, and graffiti that is caused by a downward spiral of business closures and long term vacancies. This physical deterioration[20] to properties or structures is so prevalent, substantial, and lasting for a significant period of time that it impairs the proper utilization of the properties and structures, and the health, safety, and welfare of the surrounding community.

## APPROACH TO DETERMINING URBAN DECAY POTENTIAL

ALH Economics engaged in several tasks to assess the probability of urban decay ensuing from Project development and the identified cumulative projects. These tasks directly result from the economic impact analysis findings regarding potential store impacts pursuant to prospective store sales losses. As a result, the urban decay determination revolved around assessing the potential for closed retail store spaces, if any, to either (a) remain vacant for a prolonged period of time such that they contribute to the multitude of causes that could eventually lead to urban decay, or (b) be leased to other retailers within a reasonable marketing period. Similar considerations were made regarding prospective hotel development as well.

The purpose of this research was to determine if sufficient retailer demand exists to absorb vacated space in the event existing retailers close due to any negative economic impacts of the Project and the development of other planned retail, as well as parallel hotel analysis. An additional purpose was to assess the potential for long-term vacancies to devolve into urban decay. ALH Economics conducted field research and reviewed third party resources to determine the commercial health of the market area.

## THE CURRENT ENVIRONMENT

ALH Economics conducted fieldwork throughout portions of the City of Pleasanton and Dublin. The purpose of this fieldwork was to perform reconnaissance of the Project site, examine the physical condition of major shopping centers, commercial shopping corridors, and hotels, and identify existing retail vacancies and assess their condition and appearance. These personal observations are complemented by historical and current retail and hotel market performance

[20] The manifestations of urban decay include such visible conditions as plywood-boarded doors and windows, parked trucks and long term unauthorized use of the properties and parking lots, graffiti, and other building defacement, dumping of refuse on site, overturned dumpsters, broken parking barriers, broken glass littering the site, dead trees and shrubbery together with weeds, lack of building maintenance, homeless encampments, and unsightly and dilapidated fencing.

data, demonstrating the underlying strength or weakness of the local commercial retail and lodging markets.

**Retail Market Statistics**

Historically, Pleasanton has maintained a healthy retail market sector, while Dublin has experienced more fluctuations. Historical trend data in Exhibits 43 and 44 present quarterly vacancy, absorption, and new construction trends in Pleasanton and Dublin, respectively, beginning 2nd quarter 2006. Select 4th quarter 2015 market statistics are summarized in Table 18. This table indicates that the retail inventory totals 5.2 million square feet in Pleasanton and a smaller 4.0 million square feet in Dublin.

As summarized in Table 18, as of 4th quarter 2015, Pleasanton had an overall retail vacancy rate of 2.3%. This rate comprises a relative low in recent years, since hitting a peak of 6.0% in 4th quarter 2012. Prior to that time period the Pleasanton vacancy rate was as low as 1.4% in 1st quarter 2007, which is an exceedingly low vacancy rate. All of these rates, however, indicate an extremely healthy and very stable retail base throughout the city.

In general, retail markets are deemed most healthy when there is some increment of vacancy, at least 5.0%, which allows for market fluidity and growth of existing retailers. Even retail vacancy rates at the 10.0% level are generally considered a reasonably healthy retail market. Thus, the current Pleasanton retail vacancy rate of 2.3% is a very low vacancy rate and indicative of a very strong market.

Table 18. Fourth Quarter 2015 Retail Vacancy and Inventory
Pleasanton and Dublin

| City | Vacancy Rate | Retail Inventory | Vacant Sq. Ft. |
|---|---|---|---|
| Pleasanton | 2.3% | 5,219,542 | 128,286 |
| Dublin | 5.9% | 3,986,959 | 211,861 |

Sources: Exhibits 43 and 44.

The retail market in Dublin is not as strong as in Pleasanton, but is still operating within healthy parameters. As shown in Exhibit 44, Dublin retail vacancy peaked at 14.7% in the 3rd quarter of 2009, but dropped by 2011 to below 10.0%. Since then, vacancy was lowest in 1st quarter 2015, at 3.9%, which is an extremely low vacancy rate. The vacancy rate as of 4th quarter 2015 was slightly higher at 5.9%, but still relatively low by commercial market standards.

Generally speaking, the 2.3% vacancy rate in Pleasanton and 5.9% vacancy rate in Dublin are indicative of strong to moderate retail markets. This bodes well for the market area with respect to any potential increases in vacancy attributable to potential Project or cumulative project impacts resulting in store closures.

**Representative Retail Lease Transactions**

Table 19 demonstrates that retail vacancies in Pleasanton and Dublin are finding new tenants. This table summarizes 35 lease transaction in Pleasanton and 44 in Dublin for previously occupied spaces that occurred over the one-year time frame generally from late January 2014 to late January 2015.

In Pleasanton these lease transactions totaled approximately 72,311 square feet of leased space with a relatively small average of 2,066 square feet. The largest lease transaction during this timeframe was 9,694 square feet for Max Muscle Sports Nutrition (the former Iron Horse Nutrition under new ownership). Other lease transactions in Pleasanton during this timeframe included 6,124 square feet for Inklings Coffee & Tea Bar, 2,410 square feet for a fitness facility, 2,500 square feet for Mongolian BBQ, and 1,400 square feet for Academic Plus, a tutoring center.

Table 19. Pleasanton and Dublin Retail Lease Transactions
1/22/15 - 1/22/16

| Type | Number of Leases | Total Sq. Ft. | Largest Space | Average Sq. Ft. |
|---|---|---|---|---|
| Pleasanton | 35 | 72,311 | 9,694 | 2,066 |
| Dublin | 44 | 140,267 | 19,500 | 3,188 |

Sources: CoStar; and ALH Urban & Regional Economics.

Over the cited time period there was a greater volume of leasing activity in Dublin, in some part reflecting the higher vacancy rate and thus great supply of available retail spaces. The 44 lease transactions in Dublin totaled 140,267 square feet, with the largest fill vacancy totaling 19,500 square feet occupied by Home Goods. Other representative lease transactions over the time period included 7,200 square feet for Ethan Allen, 5,949 square feet for Sur La Table, and 5,000 square feet for a Pilates studio. There were yet numerous other smaller retail lease transactions, reflected in the overall average lease transaction size of 3,188 square feet.

This strong lease transaction information, paired with the each city's low retail vacancy rate, indicates that Pleasanton and Dublin are attractive retail markets.

**Existing Vacancies**

ALH Economics conducted fieldwork in Pleasanton and Dublin to assess the condition of existing retail vacancies. A selection of properties was viewed representing a range of vacancies from small to large. As a fieldwork guide ALH Economics assembled a list of existing retail vacancies, which is presented in Exhibit 45. All the properties included on this list highlighted in bold italics were photographed in February 2016 as part of the fieldwork process. These photographs, which demonstrate existing vacant retail conditions, are maintained in the ALH Economics project files along with descriptive notes on each property.

In general, the observed properties all indicate that existing market area vacancies are very well maintained, with no visible signs of urban decay or deterioration. Pleasanton and Dublin contain many small neighborhood-serving retail centers as well as larger community-oriented retail options. Some of these centers are over 30 years of age. Despite their age, these centers have low vacancy rates and are generally well maintained. This includes Mission Plaza, which contains only one small vacancy that is actively being marketed. Some retail centers have been remodeled or rehabilitated in recent years. This includes the Vintage Hills Plaza, which is anchored by a New Leaf Market, and Shamrock Village, which is currently being remodeled.

Many of the centers have no visible vacancies. The Pleasanton Square Shopping Center and Meadow Plaza, amongst others, are 100% occupied. For those centers not 100% occupied, the

properties are well maintained and most vacancies are actively being marketed. An example is at 2803 Hopyard Road, a former Straw Hat Pizza, which is actively being marketed. This property is adjacent to other retail options that are characterized by very low retail vacancy rates. Rose Pavilion, a larger community-oriented retail center in Pleasanton, contains three medium to larger vacancies. Within this center, CVS relocated to a new site within the center, Ethan Allen moved to the newly constructed Persimmon Place in Dublin, and Fresh and Easy Market closed all stores in California. All three of these vacant retail spaces are well maintained and located adjacent to active retail options within the shopping center. During fieldwork observation the center had heavy shopping volume because of the Macy's Furniture store, Ranch 99 Market, and other retail options. Moreover, while vacant for several years, the CVS space, which is owned by CVS, has recently been acquired by the shopping center's owner.

A few of the observed shopping center parking lots show some signs of minor cracking of the pavement. This included Gateway Square and Val Vista Center. This cracking is largely normal wear and tear and minor cracking of pavement is common with older shopping centers. Both centers did not exhibit signs of decay and Val Vista Center is 100% occupied. Some of the older centers are poorly oriented relative to the street, which is not favorable. This includes Valley Plaza; however, despite this center's poor orientation, only two retail vacancies were observed, one which appears to be backfilled by a new Thai restaurant.

The Project's market area is characterized by very few long-term vacancies. One such vacancy is the former Borders bookstore space at Metro 580. This approximately 30,000-square-foot space was vacated in 2011 when Borders went bankrupt. Numerous prospective users negotiated over the space over the years, and reports are that Party City will be relocating to the space soon, opening in early 2016. This will entail Party City's relocation from Dublin. Despite this long-term vacancy, this property has been well-maintained over the years. Since the pool of demand is smaller for larger tenant spaces such as the former Borders bookstore space these spaces can often remain vacant longer than small shop spaces with a great pool of tenant demand. Moreover, negotiations and tenant improvements can also be time consuming for these larger tenant spaces. Thus, longer-term vacancies are not necessarily an indicator of poor commercial market health, and property owners are motivated to maintain the properties in good physical condition to maximize potential tenant interest.

One indicator of urban decay is chronic trash and litter. A small amount of trash was observed in the parking lot of the former Denny's restaurant at 6455 Owens Drive. However, the trash appeared to be mostly fast food containers due to the proximity to nearby fast food restaurants and did not appear to be a chronic problem. Overall, the Pleasanton and Dublin vacancies were found to be well maintained with no visible signs of urban decay, especially with regard to boarded up windows, graffiti, or visible signs of trash.

### Retail Backfilling Examples

As demonstration of the potential for backfilling of retail vacancies, including any vacancies that might result from project or cumulative project's sales impacts, ALH Economics compiled a list of examples of backfilled tenants, with a focus on larger tenant spaces backfilled in Pleasanton. The above discussion regarding retail lease transactions demonstrates the ability for smaller retail spaces to be backfilled in the market area.

The representative list of larger backfilled retail vacancies, presented in Exhibit 46, includes 5 examples of backfilled tenant spaces, comprising 136,500 square feet of space. This includes the above-referenced Borders bookstore space. The average space cited totals approximately 27,300 square feet, and period of vacancy for the properties ranged from approximately 1 year to up to 5 years for the Borders space. The distance of these properties from the Project site range from 1.2 miles to 3.8 miles.

The quantity of good-sized retail backfill examples in just Pleasanton is a very strong indicator of the reuse potential of larger retail spaces and the attraction of the market area. The information in Exhibit 46 identifies the current tenant and the prior tenant. Other examples beyond the Borders/Party City transition include CompUSA's closure in 2006 and subsequent backfilling of approximately 17,500 square feet by Smart & Final. The 2010 closure of Nob Hill Grocery's 30,000-square-foot store was later backfilled by Walmart Neighborhood Market. Another example of a new large grocery store tenant includes 99 Ranch Market taking over the 45,000 square feet vacated by Levitz Furniture in 2008 after a two-year vacancy. Finally, in 2011 Fresh & Easy took over an approximate 10,000-square-foot space after Fitness Express closed in 2010. After Fresh & Easy vacated the California market this space again became vacant in 2015; however, Fresh & Easy continues to hold the lease for the space, and thus it is not currently available to the market.

These backfilled retail space examples demonstrate that the market has the ability to backfill retail vacancies, including former grocery store space as well as larger spaces. This is in addition to the high demand demonstrated for smaller retail spaces as well. This information suggests that any retail vacancies that might occur in the Project's market area as a result of Project or cumulative project impacts will be well-maintained during any period of vacancy and will not contribute to conditions of urban decay or deterioration.

### REGULATORY CONTROLS

Owners of commercial retail properties are generally financially motivated to maintain property in a manner appropriate to retain existing tenants and attract new retail tenants. This appears to be the case in the Project's market area as evidenced by the overall positive prevailing physical condition of the market area's retail vacancy. If property owners lag, however, and property maintenance begins to show signs of deferred maintenance or other disrepair, both of the market area cities have regulatory controls that can be implemented to avoid the onset of deterioration or decay. A review of these regulations by market area city follows.

#### City of Pleasanton

City ordinances such as the City of Pleasanton Municipal Code of Ordinances Chapter 9.08 on Litter, Chapter 9.20 on Garbage, Chapter 9.28 on Property Maintenance, Chapter 9.34 on Graffiti Abatement, Chapter 11.44 on Removal of Vehicles from Private Property, and Chapter 20.65 on International Property Maintenance Code require property owners to maintain their properties so as not to create a nuisance by creating a condition that reduces property values and promotes blight and neighborhood deterioration.[21] Chapter 9.28.020 on Unlawful Property Maintenance covers many property nuisances such as, but not limited to, "broken or discarded furniture, household equipment and furnishings or shopping carts when visible from a public street," "Overgrown vegetation visible from a public street likely to harbor rats, vermin

[21] City of Pleasanton, "Municipal Code," http://qcode.us/codes/pleasanton/ (accessed January 2016).

or other nuisances or which obstructs the view of drivers on public streets or private driveways, or which impedes, obstructs or denies pedestrian or other lawful travel on sidewalks, walkways, or other public rights-of-way," "Packing boxes, cardboard boxes, lumber, junk, trash, barrels, drums, salvage materials, or other debris kept on the property for an unreasonable period and visible from a public street," "Buildings which are abandoned, partially destroyed, left in an unreasonable state of partial construction or have been declared substandard or dangerous by the building official," "Buildings with windows containing broken glass or no glass at all, where the window is of a type which normally contains glass, which constitutes a hazard and/or invites trespassers and malicious mischief. Plywood or other material used to cover such window space, if permitted under this code, shall be painted in a color or colors compatible with the remainder of the building," "Building exteriors, walls, fences, driveways, sidewalks, or walkways which are maintained in defective or unsightly condition," and "Maintenance of property out of harmony or conformity with the standards of the neighborhood."[22] The enforcement of these ordinances can help prevent physical deterioration due to any long-term closures of retail spaces.

Pleasanton's Code Enforcement Division is part of the Community Development Department and comprises one Senior Code Enforcement Officer. Code enforcement within the City of Pleasanton is done on a mainly reactive basis through complaints made by the public, with obvious and dangerous enforcement done on a proactive basis.[23] Public complaints can be made through the City's website, through the Mobile Citizen App, and by calling the Code Enforcement Division directly. The process for abating the violation depends on the severity and hazard level of the violation. Typical violations are resolved between seven to 30 days.[24] When a violation occurs the property owner will receive a written notice from the city, and the owner is given a reasonable amount of time, but no less than 15 calendar days, to fix the nuisance, as well as suggested methods for correcting the violation. If nothing is done to correct the violation, an administrative hearing will be held to determine whether or not a violation has occurred. After the administrative hearing, the case will either continue on to City Council or the owner will be given a certain amount of time to correct the violation. If the owner continues to not abate the violation, the City Manager shall cause it to be abated by city employees or by private contract. The costs shall be billed to the owner, as specified in Section 9.28.13 or a lien will be placed on the property.[25] According to the City of Pleasanton, "over 90 percent of all reported problems are resolved on the initial contact by Code Enforcement Officers."[26]

In 2013 the Code Compliance Division opened 532 cases and closed 531, providing a closure rate of 99%; in 2014 561 cases were opened and 552 were resolved, resulting in a closure rate of 98%; and in 2015 517 cases were opened and 476 were resolved, with some carrying over into 2016, providing a closure rate of 99%. The majority of these cases are violations related to property maintenance, signs, encroachments, residential zoning, commercial zoning, business licenses, trailer parking, noise, garbage, and heritage trees. Code Compliances estimates that

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[22] City of Pleasanton, "Chapter 9.28 Unlawful Property Maintenance," http://qcode.us/codes/pleasanton/ (accessed February 2016).
[23] Code Enforcement Department, Senior Code Enforcement Officer, City of Pleasanton; interview conducted January 2016.
[24] Ibid.
[25] City of Pleasanton, "Municipal Code Chapter 9.28 Property Maintenance," http://qcode.us/codes/pleasanton/ (accessed February 2016).
[26] City of Pleasanton, "Code Enforcement," http://www.cityofpleasantonca.gov/gov/depts/cd/code/default.asp (accessed February 2016).

65% of cases relate to residential property and 35% relating to commercial property. The majority of commercial property violations comprise sign violations, construction noise violations, business licenses violations, zoning violations, conditions of approval violations, and design review violations. Graffiti violations are handled through the Police Department and given to either the Operations Service Center if located on public property or Code Enforcement if located on private property for abatement and are removed within 10 days after notification.[27]

**City of Dublin**

City ordinances, such as the City of Dublin Municipal Code of Ordinances Chapter 5.32 on Solid Waste Management, Chapter 5.64 on Property Maintenance, Chapter 5.66 on Maintenance of Foreclosed Residential Properties, Chapter 5.68 on Graffiti, Chapter 5.70 on Weeds and Refuse, and Chapter 6.80 on Abatement of Abandoned Vehicles, require property owners to maintain their properties so as not to create a nuisance by creating a condition that reduces property values and promotes blight and neighborhood deterioration.[28] Enforcement of these ordinances can help prevent physical deterioration due to any long-term closures of retail spaces. Code enforcement in Dublin is managed by the City's Community Development Department and includes one full time Senior Code Enforcement Officer, who primarily enforces the Zoning Ordinance, Residential Property Maintenance Ordinance, Non-Residential Property Maintenance Ordinance, Graffiti Ordinance, and other relevant public nuisance ordinances on occasion. This position is assigned to the Planning Division and reports to the Assistant Community Development Director. In addition, the Building Division is responsible for the enforcement of the California building code and other related City adopted technical codes. The assigned building code enforcement officer reports directly to the Building official.

Code enforcement is done on both a pro-active and complaint basis. Community Development staff work with business owners, residents, outside agencies, and other City departments to resolve any violations. Citizens can report code violations by calling, using the online form, by U.S. mail, or in person.[29] Once a violation has been determined, a written notice is issued to the property owner in person or by mail and the owner is given a reasonable amount of time to abate the nuisance.[30] Most routine violations are resolved within two-three weeks; however, this timeframe varies based on the nature of the violation.[31] According to the Code Enforcement division most violations are resolved after initial contact is made; however, if violations are not corrected, "within a reasonable amount of time, there are a number of additional actions that can be taken by the City to achieve compliance including: mediation, citation, abatement, lien, and/or judicial proceedings."[32]

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[27] Code Enforcement Department, Senior Code Enforcement Officer, City of Pleasanton; interview conducted January 2016.

[28] City of Dublin, "Municipal Code," http://www.codepublishing.com/CA/Dublin/ (accessed February 2016).

[29] City of Dublin, "Code Enforcement," http://dublinca.gov/1635/Code-Enforcement (accessed February 2016).

[30] City of Dublin, "Municipal Code," http://www.codepublishing.com/CA/Dublin/ (accessed February 2016).

[31] Code Enforcement Department, Senior Code Enforcement Officer, City of Dublin; interview conducted February 2016.

32 City of Dublin, "How Compliance is Achieved," http://dublinca.gov/727/How-Compliance-is-Achieved (accessed February 2016).

Also, according to Municipal Code Chapter 7.52.140:

> If the nuisance is not abated within the time period set forth in the abatement order, the Enforcement Official may cause the nuisance to be abated by city employees or private contract in accordance with appropriate procedures applicable to the city. Absent consent to enter the subject property for the purpose of nuisance abatement, the City Manager shall direct the City Attorney to obtain the necessary judicial authority for entry and abatement purposes. All costs incurred by the city in abating the nuisance shall be chargeable to the property and shall be collected as hereinafter provided.[33]

According to the Senior Code Enforcement Officer the annual closure rate for violations is very high and the most common complaints include unkempt residential front yards, overgrown vegetation and weeds, litter junk debris stored in yards, and inoperable vehicles. The majority of code violation cases occur in the residential districts, comprising a three year average (2013-2015) of 64%, with 36% Commercial code enforcement cases. The majority of commercial cases involve Sign regulation, Temporary Use Permits, Conditions of Approval, and Graffiti abatement.[34]

### Summary

During the fieldwork conducted in February 2016 there were limited visible signs of litter, graffiti, weeds, or rubbish associated with existing commercial retail nodes and corridors in the Project's market area. There appear to be isolated examples of cracked parking lot pavement and light trash, but these are not endemic throughout the market area. Instead, vacant commercial retail examined properties were reasonably well-maintained with no significant signs of decay or deterioration. Thus, ALH Economics concludes that existing measures to maintain private commercial property in good condition in the cities of Pleasanton and Dublin are effective and would serve to preclude the potential for urban decay and deterioration in the event any existing area retailers or hotels close following the operations of the Project and any cumulative projects.

## POTENTIAL FOR URBAN DECAY RESULTING FROM THE PROJECT

### Contributing Causes to Urban Decay

Before considering how the Project and cumulative projects might affect the market and environs, it is useful to focus on what constitutes the *environmental* impact known as urban decay. The leading court case on the subject, *Bakersfield Citizens for Local Control v. City of Bakersfield* (2004) 124 Cal.App.4th 1184, 1204, described the phenomenon as "a chain reaction of store closures and long-term vacancies, ultimately destroying existing neighborhoods and leaving decaying shells in their wake." The court also discussed prior case law that addressed the potential for large retail projects to cause "physical deterioration of [a] downtown area" or "a general deterioration of [a] downtown area." (Id. at pp. 1206, 1207).

33 City of Dublin, "Municipal Code," http://www.codepublishing.com/CA/Dublin/ (accessed February 2016).

34 Code Enforcement Department, Senior Code Enforcement Officer, City of Dublin; interview conducted February 2016.

When looking at the phenomenon of urban decay, it is also helpful to note economic impacts that do not constitute urban decay. For example, a vacant building is not urban decay, even if the building were to be vacant over a relatively long time. Similarly, even a number of empty storefronts would not constitute urban decay. Based on the preceding descriptions regarding urban decay, therefore, ALH Economics' analysis examined whether there was sufficient market demand to support the Project without affecting existing retailers so severely such as to lead to a downward spiral toward decay of the commercial real estate market.

**Project and Cumulative Project Vacancy Impacts**

The preceding analysis indicated that Phase I development of the Project could result in the closure of an existing grocery store, with the level of sales impact equivalent to approximately 36,000 square feet of food store space. By the time of Full Buildout there are only negligible sales impacts, anticipated to contribute to no store closures. The cumulative projects analysis indicates the potential for up to 111,200 square feet of unmet demand by Phase I, increasing to approximately 154,800 to 267,650 square feet by Full Buildout anticipated in 2028.

Given the size of the combined Pleasanton and Dublin retail base, it would take about 92,500 square feet of incremental vacancy to increase the vacancy rate by 1.0%. Thus, the prospective Phase I Project or cumulative project impacts would raise the combined area vacancy rate by just over 1.0%. The cumulative project impacts by Full Buildout could result in a higher vacancy rate increase, but still relatively low at 1.7% to 2.9%. The combined cities vacancy rate is currently 3.9%.. A 1.7% to 2.9% increase in this vacancy rate would increase the rate to 5.5% to 6.8%. These rates are within the range previously experienced by Pleasanton and Dublin, and within the 5% to 10% range generally deemed sufficient to maintain a healthy retail market, which includes some increment of vacancy to allow for market fluidity and growth of existing retailers. Thus, this potential increment in retail vacancy is not perceived to be detrimental to the real estate sector, and hence the physical environment of the Project's market area. Further, the actual increment in vacancy will be less because as new development occurs the inventory will increase, so the vacancy will be a smaller percentage of the increased base.

In addition to increasing the prevailing vacancy rate by a nominal amount, the market has demonstrated the ability to backfill retail vacancies, including larger vacancies such as might be caused by the closure of a grocery store. The examples presented in Exhibit 46 demonstrate that the market is resilient and that larger scale vacancies can be successfully backfilled. This provides support and evidence to suggest that continued backfilling can occur, without risk the market devolving into urban decay.

**Urban Decay Conclusion**

In developing a conclusion regarding the potential for urban decay, ALH Economics relied on the definition presented earlier in this chapter, which focused on determining whether or not physical deterioration would likely result from the opening of the Project and other cumulative developments. ALH Economics' conclusion is based on consideration of current market conditions, findings regarding sales and vacancy impacts, and regulatory controls, as summarized below:

> ***Current Market Conditions***: The fieldwork and market research indicated that retail market conditions are moderate to very strong in the market area's

core commercial areas, with low to moderate retail vacancy rates. Retail leasing activity is strong and existing vacancies are well maintained.

***Sales and Vacancy Impacts:*** The findings suggest the Project's Phase I development could result in the closure of one grocery store and that at Full Buildout the cumulative project impacts (including the Project) could result in a modest increase in the market area's vacancy rate, as new market area demand will not be sufficient to support all the competitive retail space. While the grocery store closure is deemed unlikely, due to factors such as the anticipated distribution of impacts and the lack of variety and bulk orientation of goods available at club retail stores, even if the modest amount of vacancy occurs, the resulting vacancy rate increment will be nominal, with the resulting vacancy rate well within the range indicative of a healthy retail market. Moreover, the market's demonstrated retail absorption, including backfilling of larger retail spaces, coupled with the strong to moderately strong market conditions, suggest that vacancies that might occur as a result of the cumulative project impacts would likely be backfilled within a reasonable time and not be characterized by prolonged vacancy.

Even if some sites experience prolonged vacancy because they might be of a size that experiences less demand or they are located in shopping centers with poor visibility or other undesirable characteristics, the prevailing conditions in the market area suggest that these vacancies would be well-maintained and would not devolve into urban decay or deterioration. Moreover, it should be noted that when tenants vacate prior to lease expiration, they continue to be responsible for rent and their share of building operating expenses, such as the Fresh & Easy example in Exhibit 46. While not all tenants would have the wherewithal to continue these payments, national or regional retailers are more likely to have this capability. This is an important consideration because landlords would continue to receive income on these vacated spaces through committed lease payments, which means they would have available financial resources to continue to maintain their properties.

***Regulatory Controls:*** During Project-related fieldwork conducted in February 2016, ALH Economics found there were little-to-no visible signs of litter, graffiti, weeds, or rubbish associated with existing commercial nodes in the Project's market area. Thus, ALH Economics concludes that existing measures to maintain private commercial property in good condition in Pleasanton and Dublin are generally effective and would serve to help preclude the potential for urban decay and deterioration in the event any existing retailers in the market area close following the operations of the Project and other cumulative retail projects.

In conclusion, while some existing stores may experience negative impacts following the addition of the Project, evidence suggests that closed store spaces would not exhibit traditional signs of deterioration and decay, such as graffiti, refuse dumping, and dilapidated fencing. Existing vacant spaces throughout the market area appear well-maintained, including longer-term vacancies. This, plus the recent area leasing activity, indicates that the Project's market area is an inherently appealing retail market. Based upon these findings, ALH Economics

concludes that the Johnson Drive EDZ Project and the identified cumulative projects will not cause or contribute to urban decay.

# X. FISCAL IMPACT ANALYSIS

The purpose of this study chapter is to present a net fiscal impact analysis of the Project components included in the economic impact analysis. This includes the new general retail, club retail, and hotel development included in the analysis. The chapter discusses the anticipated City of Pleasanton General Fund revenues anticipated to be generated by the Project, the associated expenditures to service the Project, and the net fiscal impact, both at the completion of Phase I and on an annual recurring basis after buildout. All of the fiscal impact analysis findings are documented in a series of exhibits. These are referenced in the text and include Exhibits 47 through 57. Because the analysis includes two time periods (Phase I and Full Buildout) and two hotel options the findings do not lend themselves to text table presentation.

## APPROACH TO THE ANALYSIS

In February 2015 Brion & Associates prepared a draft memorandum pertaining to the Johnson Drive Economic Development Zone for the Project applicant. This memorandum is titled "Draft Summary – Johnson Drive EDZ Fiscal Impact Analysis, City of Pleasanton," and is dated February 5, 2015. The analysis in this memorandum was prepared for the entire 40-acre area under consideration for designation as an EDZ. The Brion & Associates analysis was prepared for five site project scenarios, which included a mix of club retail, hotel, retail, HQ office, and office space.

ALH Economics was directed to use as much of the Brion & Associates analysis as possible in preparing a fiscal impact analysis specific to the Project included in the economic impact analysis. This pertains to the club retail space, general retail space, and hotel development to be developed above the existing base of retail space. ALH Economics therefore reviewed the Brion & Associates analysis, identified the key assumptions relevant to the Project, and updated select factors pursuant to the passage of time since completion of the Brion & Associates study. The Brion & Associates study was benchmarked to the City of Pleasanton's Fiscal Year 2014/15 Operating Budget. ALH Economics benchmarked the current Project fiscal impact analysis to the Fiscal Year 2015/16 Operating Budget where relevant. Exceptions to this update are noted in the following fiscal impact analysis presentation.

In general, the Brion & Associates analysis is based upon the average cost approach to fiscal impact analysis. In this approach, costs are derived by determining an average cost to provide existing services on a per capita basis for the relevant population served, which is then applied to the comparable population base for the project under study. In this approach revenues are also sometimes calculated on a per capita basis as well, with other revenues estimated based upon a project's anticipated performance or valuation. The ALH Economics analysis parallels the Brion & Associates approach to General Fund revenues and expenditures. Therefore, this current analysis relies upon the Brion & Associates report as a source document. The logic or support for the resulting fiscal impact factors or assumptions can be found in the referenced Brion & Associates report and are not repeated herein except as warranted to support the current analysis.

## FISCAL ASSUMPTIONS

The fiscal impact analysis is dependent upon key assumptions and building blocks. These are presented in Exhibits 47 through 50, which include inputs to the analysis. Following is a review of these key assumptions and building blocks.

### Project Description, Employment, and Service Population Estimates

Exhibit 47 summarizes the proposed Project development program as reviewed earlier. For analytic purposes, ALH Economics bases the analysis on occupied square feet. As noted there are two hotel options. One option includes 150 rooms (Option 1) and one option includes 231 rooms (Option 2). The employment assumption is sourced to the Brion & Associates study, and includes an estimated 800 square feet per club retail employee, 400 square feet per general retail employee, and 3,000 square feet per hotel employee. For this analysis ALH Economics applies the general retail employment density assumption to occupied square feet. The result includes a range of 226 to 241 employees for Phase I development and an increment of 437 employees to full buildout, for a cumulative total of 663 to 678 employees. These employment estimates provide a foundation for estimating the Project's "service population," which is estimated to range from 113 to 120 for Phase I, an additional 219 to full buildout, and a cumulative total of 332 to 339. These service population estimates comprise one-half the estimated employees, on the assumption that employees do not require the same level of service as residents. This is an industry-standard assumption reflected in the Brion & Associates study and is relevant to the calculation of average cost city expenditures as well as some revenues.

### City of Pleasanton Demographic, Employment, and Tax Characteristics

Exhibit 48 contains many of the baseline assumptions and information necessary to generate estimates of City of Pleasanton revenues and expenses applicable to the Project. Unless other cited, these figures all match the Brion & Associates analysis. These include population and employment estimates used to generate the size of the City's existing service population for the purpose of deriving existing average cost expenditures and some per capita revenues. These estimates are the same as included in the Brion & Associates study for 2015 and include a population base of 73,500 and an employment base of 58,520. Based on the assumption that each employee is equivalent to one-half a resident, the City's service population is estimated to total 102,760.

This exhibit also includes key tax-related information unique to Pleasanton, such as property and sales tax rates, vehicle in lieu of property tax revenues, and assessed property valuation, all of which are germane to the fiscal impact analysis as noted in subsequent exhibits. Most relevant is the City's estimated share of the basic 1% property tax rate collected by the County, which is 24.64%. In addition, the exhibit indicates the City's sales tax rate is 1.0% and Transient Occupancy Tax (TOT) is 8% of hotel revenues.

Finally, this exhibit also includes information on the City of Pleasanton's Vehicle in Lieu of Property Tax Revenues, which was updated from the Brion & Associates study to reflect the FY 2015/16 budget. This figure is $5,580,000. This revenue item is generated on the basis of property valuation increases. Toward this end, ALH Economics also updated the City's projected assessed valuation, to also reflect the FY 2015/16 budget, estimated at almost $19.6 billion.

## Taxable Project Sales

The City of Pleasanton will receive sales taxes based upon the taxable portion of the Project's sales. This excludes the portion of club retail sales assumed to be made to wholesale consumers with a resale license. It will also exclude taxable sales that might be diverted from existing retailers. The economic impact analysis identified estimates of sales diverted from existing market area retailers, but does not differentiate between retailers in the portion of the market area in the City of Pleasanton or the City of Dublin. To be conservative, this analysis assumes as a worst case scenario that all these sales are diverted from existing Pleasanton retailers as opposed to retailers outside of Pleasanton. This represents a cautious approach because it results in the maximum reduction in the Project's potential taxable retail sales.

The amount of Project sales providing the basis for sales tax for the Project is derived in a series of three exhibits. Exhibit 49 includes the estimate of all taxable sales, regardless of the amount that might be diverted from existing retailers (i.e., excluding wholesale purchases). When gas sales occur, they are fully loaded with all applicable taxes. Thus, ALH Economics assumes that the estimated portion of Gasoline Station sales for the Project includes taxes. Therefore, analysis is presented in Exhibit 50 that estimates the portion of gasoline sales that is the taxable basis, to which the City's 1.0% sales tax rate would be applied to estimate sales tax. Finally, Exhibit 51 presents the estimate of Project-related taxable sales that will comprise net new taxable sales to the City of Pleasanton. This takes into account the earlier Project sales impacts identified at the end of Phase I and at Full Buildout (e.g., no sales impacts are estimated at this time).

The findings in Exhibit 51 result in net new taxable sales estimated to accrue to the City of Pleasanton totaling $94.5 million at the end of Phase I, an additional $69.0 million attributable to the incremental development between 2018 and Full Buildout, and a grand total of $163.5 million per year at Full Buildout, all in 2015 dollars. This Full Buildout figure will likely increase nominally within a year of full completion of the Project as the small increment of sales impact in the Clothing & Clothing Accessories category is absorbed through new demand generated after the Full Buildout date (see Exhibit 30 for the sales impact figure).

Currently, the Johnson Drive EDZ generates limited taxable retail sales, estimated to total $8.3 million in Fiscal Year 2015. This figure was derived by ALH Economics from reported sales tax revenues of $83,432.[35] These taxable retail sales were generated by four businesses. However, for reasons of confidentiality, the City cannot disclose the sales taxes generated by the individual businesses.

## Johnson Drive EDZ Project Property Valuation

Exhibit 52 presents the assumptions and conclusions regarding the property valuation of the Project upon the completion of development and the estimated property tax revenues that will accrue to the City of Pleasanton General Fund. The valuation is based on value per square foot assumptions prepared by Brion & Associates. These values are $300 per square foot for club retail, $400 per square foot for general retail, and $300 per square foot for hotel.[36] The

[35] Provided by the City of Pleasanton Finance Department, pursuant to the City's tax consultant, Hinderliter de Llamas.

[36] ALH Economics believes the hotel valuation figure may be low given the current hotel concept. However, for the sake of both consistency and conservatism this fiscal impact analysis continues to assume the $300 per square foot value included in the Brion & Associates analysis.

resulting values are $72.7 to $85.9 million for Phase I development, depending upon hotel option; and $69.9 million for the incremental general retail space built between 2018 and Full Buildout in 2028. Thus, the total Project valuation at Full Buildout is $142.6 to $155.8 million.

As a point of comparison, in 2014 the assessed value of the parcels in the Johnson Drive EDZ totaled $41.7 million.[37] Assuming the value of the properties increased 2% from 2014 to 2015 pursuant to the provisions of Proposition 13, this would place the current value of the properties at about $42.6 million in 2015.

## FISCAL REVENUE ESTIMATES

The revenue calculations for the fiscal impact analysis are presented in Exhibits 52 through 55. A summary of these exhibits and their primary purpose follows.

### Johnson Drive EDZ Property Taxes

Exhibit 52 also includes estimates of the property taxes that will accrue to the City of Pleasanton's General Fund pursuant to Project development. Based on the estimated valuation and pursuant to the City of Pleasanton's share of property tax revenues, the Project is estimated to generate $179,133 to $211,658 in property taxes at the end of Phase I and $351,450 to $383,975 at Full Buildout.

Pursuant to the estimated existing Johnson Drive EDZ valuation of $42.6 million, ALH Economics estimates that the City of Pleasanton currently receives an estimated $105,000 in annual property taxes.

### Tax in Lieu of VLF Estimates

Property Tax in Lieu of Vehicle License Fees (VLF) is derived from the Project's anticipated contribution to increased property valuation throughout the City of Pleasanton. This is the method by which such tax revenues are estimated by the State of California and redistributed to local jurisdictions. This is a state substitute for prior motor vehicle license taxes that were redistributed by the State to municipalities. The results of these calculations presented in Exhibit 53 indicate that the incremental value associated with the Project is estimated to increase the City of Pleasanton's assessed valuation by 0.73% to 0.80% upon Full Buildout. The VLF Revenues associated with this increase range from $20,711 to $24,472 at the completion of Phase I, an additional $19,923 at Full Buildout, for a total of $40,634 to $44,395 for the entire Project at Full Buildout.

### Select City of Pleasanton General Fund Revenue Factors

The Brion & Associates study identified a number of per capita revenues applicable to Project employees. These are included in Exhibit 54. The factors under "Daytime Population Factors" exactly match the factors calculated by Brion & Associates. ALH Economics did not adjust these factors based on the more current City of Pleasanton Operating Budget because their derivation involved several steps that were not readily adaptable to a more current budget. Matching these figures to the Brion & Associates analysis is therefore conservative, as it does not adjust for modest increases anticipated between fiscal years. These factors total $72.68 per daytime

[37] Brion & Associates Memorandum, Table A-4.

population, which is equivalent to $36.34 per employee pursuant to the study's approach to estimating service population.

Exhibit 54 also includes "Sales Tax Factors" that pertain to sources other than the Project's taxable retail sales. These include retail sales tax pursuant to employee taxable spending in Pleasanton and anticipated local taxable retail spending by hotel guests. These factors were derived from analysis in the Brion & Associates study, and include $26.38 a year per employee and $0.50 per occupied hotel rom.

### Select City of Pleasanton General Fund Revenues

Exhibit 55 presents estimated General Fund revenues associated with sales tax, transient occupancy tax (TOT), and employee-based revenues. All of the revenues factors were presented earlier, such as the Project's estimated taxable sales net new to the City of Pleasanton, the per employee and per occupied hotel room annual sales tax, TOT rate, and the per employee General Fund revenues. The only piece of information new to this exhibit includes the assumptions relevant to the TOT estimate. For this revenue source, the analysis assumes the same $125 hotel room rate assumed in the Brion & Associates study. ALH Economics believes this is conservative given hotel room rates in the Pleasanton and Dublin area as presented in Exhibit 55, but using a conservative room rate results in a conservative estimate of TOT revenues. The analysis further assumes the same 75% occupancy rate assumed by Brion & Associates. Thus, for Option 1's 150 rooms there will be an estimated 41,062.5 occupied room a year, increasing to 63,236.25 for Option 2's 231 rooms.

The revenue estimates in Exhibit 55 include $814,819 in Project-generated retail sales tax at the completion of Phase I, increasing to $1.7 million a year at Full Buildout (this compares to $83,432 in sales taxes generated in Fiscal Year 2015 from existing Johnson Drive EDZ businesses). This is the largest revenue source included in Exhibit 55, followed by TOT taxes of $410,625 to $632,363 a year beginning with the completion of Phase I. All other revenues included in this exhibit are estimated to total approximately $30,000 or less a year, even at Full Buildout.

## FISCAL EXPENDITURES ESTIMATES

The Brion & Associates Memorandum calculated fiscal expenditures based upon the average cost methodology. This approach as implemented by Brion & Associates looks at departmental costs, estimates the amount likely to vary with the size of the population served, determines the share likely to be applicable to employment-generated uses, and derives a per employee expenditure estimate. ALH Economics replicated the Brion & Associates analysis using projected City of Pleasanton expenditures from the FY 2015/16 Operating Budget. The sole exception to replicating the Brion & Associates approach pertains to the estimation of Offsetting Revenues. For this column, ALH Economics could not fully replicate the Brion & Associates approach because some matching figures could not be found in the FY 2015/16 Operating Budget. In these cases, ALH Economics calculated the percent offsetting revenues from the Brion & Associates analysis and applied these percentages to the departmental revenues to deduce the offsetting revenue amounts. This is explained and documented in Exhibit 56.

The expenditures analysis documented in Exhibit 56 results in a per employee annual expenditure estimate of $293.63. The comparative figure in the Brion & Associates Memorandum based upon Fiscal Year 2014/15 expenditures is $269.69.

## NET FISCAL IMPACT

The results of the Project fiscal impact analysis are presented in Exhibit 57. These findings present the estimated annual revenues and expenditures accruing to the City of Pleasanton's General Fund at completion of Phase I and at Full Buildout of the Project. The results are also presented for the two hotel options. As referenced earlier, the analysis assumes a worst case analysis, in that all diverted taxable sales are diverted from City of Pleasanton retailers. This is conservative in that taxable sales diversions, if they occur, are likely to pertain to retailers throughout the Project's market area.

### Summary of Revenues

The fiscal impact findings indicate that on an annual basis, the Project is estimated to generate $1.5 to $1.7 million in gross revenues to the City of Pleasanton at the completion of Phase I, depending upon the hotel room count option. These revenues are projected to increase to $2.5 to $2.7 million upon Full Buildout. The largest General Fund revenue component is retail sales tax estimated at $0.8 million for Phase I and $1.6 million for Full Buildout. All other General Fund revenues are much lower, with property taxes comprising the next largest General Fund revenue source followed by Transient Occupancy taxes. There are likely to be yet additional General Fund revenues generated by the Project, but the most substantial revenue sources are reflected in Exhibit 57.

### Summary of Expenditures

The average General Fund expenditures estimated to be attributable to the Project total $66,422 to $70,728 annually at the completion of Phase I and $194,764 to $199,071 annually at the completion of Full Buildout. This reflects the average City of Pleasanton service costs for General Government, Community Development, Operations Services, Community Services, Library, Police, and Fire. These are the estimated average service costs for the Project's estimated employees.

These expenditures estimates do not include any City of Pleasanton cost allocation for the Project's transportation costs. It is possible the City of Pleasanton may be responsible for a portion of the Project's transportation costs. However, the amount of this expenditure is not presently identified and will be ultimately determined by the Pleasanton City Council. Thus, Project expenditures may increase by some as yet unidentified amount.

### Net Fiscal Impact Summary

The net result of the Project's fiscal impact at stabilized operations assuming on a worst case basis that all diverted sales are diverted from Pleasanton retailers, is a projected $1.4 to $1.7 million annual contribution to the City of Pleasanton's General Fund at the completion of Phase I. This net revenue estimate increases to $2.1 to $2.3 million annually upon Full Buildout. At full buildout these net fiscal revenues represent an annual contribution equivalent to approximately 2.1% to 2.3% of the City's General Fund expenditures.

As noted above, the Project expenditures analysis does not include any potential City of Pleasanton share of Project-related transportation costs. The expenditure of any such costs will result in a reduction in the Project's estimated annual net fiscal revenues.

### Sensitivity Analysis for Reduced Club Retail Sales

The Brion & Associates analysis of the Johnson Drive EDZ included a lower per square foot sales estimate for the Project's club retail space. This figure was $700 per square foot vs. the $1,152 per square foot figure included in the economic impact analysis.[38] Net fiscal impacts results reflecting this lower $700 per square foot club retail sales performance estimate are included in Exhibit 57, pursuant to sensitivity analysis. These results indicate that if the club retail space achieved this lower level of sales performance that the Project's Phase I net fiscal impact would range from $1.1 to $1.4 million. This net fiscal impact would increase to $1.9 to $2.2 million annually upon Full Buildout. Thus, the net fiscal impact results would be equal to approximately 79% to 86% the amount projected with the club retail sales performance benchmarked to Costco's national average performance level.[39]

## FISCAL IMPACT LIMITATIONS

The foregoing fiscal impact analysis is intended to give a general sense of the net fiscal impact of the Johnson Drive EDZ Project. The figures are not precise estimates and changes will occur if the revenue and expenditure factors or other assumptions are developed with more precision. Nonetheless, the findings suggest a strong likelihood that the Project will result in a significant net positive fiscal impact to the City's General Fund. However, some limitations to the analysis, listed below, may affect the degree of the Project's estimated net benefit and change the net fiscal impact balance.

### General Limitations

- The analysis is benchmarked to estimated stabilized operations. The net impacts during the ramp up period to stabilized operations will vary from the stabilized operations estimate. It may take several years before the full stabilized impacts transpire.

- The analysis may not be inclusive of all revenue and cost estimates. Major categories associated with ongoing revenues and costs are included, but there may be other less significant categories excluded from the analysis.

### One-time Revenues and Appropriations

- The fiscal impact analysis does not include one-time fees that may be assessed by the City of Pleasanton. These fees are typically assessed on a cost recovery basis and are thus excluded from the analysis. Other potential fees, such as impact fees, are also excluded as they too are designed to provide a nexus with the services provided.

- Depending upon how construction contracts are structured, there may be the potential for the City of Pleasanton to benefit from construction-related sales and use taxes associated with the construction effort. These revenues are excluded from the analysis but could comprise a strong source of one-time revenues.

---

[38] Brion & Associates Memorandum, Table A-3.

[39] See Exhibit 57, footnote 10 for information on the percentage impact on sales tax revenues assuming the lower club retail sales performance figure.

- Another one-time revenue that could benefit the City of Pleasanton during the construction period includes retail sales tax revenues resulting from construction worker spending in Pleasanton.

**Ongoing Revenue and Appropriation Factors**

- The analysis does not include any increase in valuation, such that would occur with the maximum 2% allowable increase pursuant to Proposition 13 or that would occur based upon increased valuation upon sale.

- The analysis does not take into account long-term service cost inflation, which may or may not be greater than the estimated rate of inflation.

- The Johnson Drive EDZ Project may trigger the need for additional services not accounted for in this analysis. The costs associated with these services could be meaningful, and could reduce the estimated net positive annual impacts. The likelihood of such additional costs being high, however, is deemed to be low.

In summary, the Johnson Drive EDZ Project net fiscal impact findings estimated above may change as more information and factors are considered. The results, however, suggest a strong likelihood that the Project will result in a significant net positive fiscal impact to the City of Pleasanton's General Fund.

## ASSUMPTIONS AND GENERAL LIMITING CONDITIONS

ALH Urban & Regional Economics has made extensive efforts to confirm the accuracy and timeliness of the information contained in this study. Such information was compiled from a variety of sources, including interviews with government officials, review of City and County documents, and other third parties deemed to be reliable. Although ALH Urban & Regional Economics believes all information in this study is correct, it does not warrant the accuracy of such information and assumes no responsibility for inaccuracies in the information by third parties. We have no responsibility to update this report for events and circumstances occurring after the date of this report. Further, no guarantee is made as to the possible effect on development of present or future federal, state or local legislation, including any regarding environmental or ecological matters.

The accompanying projections and analyses are based on estimates and assumptions developed in connection with the study. In turn, these assumptions, and their relation to the projections, were developed using currently available economic data and other relevant information. It is the nature of forecasting, however, that some assumptions may not materialize, and unanticipated events and circumstances may occur. Therefore, actual results achieved during the projection period will likely vary from the projections, and some of the variations may be material to the conclusions of the analysis.

Contractual obligations do not include access to or ownership transfer of any electronic data processing files, programs or models completed directly for or as by-products of this research effort, unless explicitly so agreed as part of the contract.

**From:** Connie Tietze [redacted]
**Sent:** Tuesday, October 22, 2024 4:26 AM
**To:** City Clerk <city.clerk@sanjoseca.gov>; PlanningSupportStaff <PlanningSupportStaff@sanjoseca.gov>; Kamei, Rosemary <Rosemary.Kamei@sanjoseca.gov>; Fruen, Joseph <Joseph.Fruen@sanjoseca.gov>
**Subject:** Save West Valley Requests / Concerns Regarding Planning Memo and City Council Resolution Pertaining to Westgate West Costco, 10/22/2024 Agenda item #10.4



Dear City Clerk, Planning Support Staff, Vice Mayor Kamei, and JR Fruen:

Please find attached SaveWest Valley's requests / concerns regarding the October 9, 2024 memo from the Planning Commission to Honorable Mayor and City Council, including the attachments and exhibits thereto, and City Council Resolution 24-2114 - (b) pertaining to the Westgate West Costco matter to be heard by the City Council on 10/22/2024 as Agenda Item #10.4.

We respectfully request that our requests / concerns be addressed by way of modifying the subject documents prior to the council meeting or making our requests / concerns conditions of approval prior to the council meeting or by way of motion at the council meeting.

We thank you for your consideration of our requests / concerns.

Should you have any questions or need further information regarding the above, please do not hesitate to contact me via email or via cell phone at [redacted]

Best regards,
Connie Tietze
Save West Valley!

# SAVE WEST VALLEY REQUESTS / CONCERNS

**COUNCIL AGENDA: 10/22/24 FILE: 24-2114 ITEM: 10.4**

**CP21-022 & ER21-280**

**MEMO FROM PLANNING COMMISSION TO HONORABLE MAYOR AND CITY COUNCIL, DATED OCTOBER 9, 2024**

**ATTACHMENT - PLANNING COMMISSION STAFF REPORT -
MEMO FROM CHRISTOPHER BURTON TO PLANNING COMMISSION, DATED SEPTEMBER 25, 2024**

**1. PROJECT DESCRIPTION**

**A. Request:** Delete all references to “propane and refueling sales” from the list of included services.

**Support:** Comment 290-7 and Response 290-7 to Comment Letter 290 of the Response Comment to the Draft EIR (p. 1186) states as follows: “Section 2.3, Proposed Development, of the Draft EIR does not include ‘Propane refueling and sales.’ The Project does not propose the sale and refueling of propane.”

**B. Request:** Delete all references to “Graves Avenue” from the list of pedestrian access points.

**Support:** Conflicts with the fifth sentence of the Applicant Presentation section on page 4 of Planning Commission Memo, dated October 9, 2024, that states “...Costco is closing off pedestrian access to Graves Avenue entirely.”

**C. Request:** Page 4, Fifth Paragraph: The paragraph is incomplete as it does not include the number of local and regional trucks and the receiving days/times or how they will be restricted. This information should be included for completeness.

**Support:** The second sentence of item 3. under the Operations section on page 5 of the City of San Jose, Costco Wholesale Corporation, Westgate West CUP Application, Frequently Asked Questions and Answers, states that “...up to 15 smaller trucks from local and regional vendors would make deliveries daily.”

**2. EXHIBIT F - CONDITIONAL USE PERMIT PLAN SET**

**A. Request:** All references and illustrations to the “Enhance Pedestrian Crossing” / crosswalk at Graves Avenue at the intersection with Fields Drive should reflect that it has been moved to Graves Avenue at the intersection with Crespi Drive.

**Support:** See item 1.f) of the Memo from Vice Mayor Kamei, Mayor Mahan, Councilmember Cohen, and Councilmember Candelas to Honorable Mayor and City Council, dated October 17, 2024.

**B.** **Request:** All references to and illustrations of the Pedestrian Portal or pedestrian access point from/on Graves Avenue near Fields Drive should reflect that it has been eliminated.

**Support:** See item 1.b) of the Memo from Vice Mayor Kamei, Mayor Mahan, Councilmember Cohen, and Councilmember Candelas to Honorable Mayor and City Council, dated October 17, 2024.

**C.** **Request:** All references to and illustrations of the existing wall along Graves Avenue should reflect that it has been eliminated and replaced with a new wall set back to align with the Costco building.

**Support:** See item 2.a) of the Memo from Vice Mayor Kamei, Mayor Mahan, Councilmember Cohen, and Councilmember Candelas to Honorable Mayor and City Council, dated October 17, 2024.

**D.** **Request:** All references to and illustrations of access to the existing driveway at the end of the Graves Avenue cul-de-sac (across from the Saratoga Dog Park) should reflect that it has been closed.

**Support:** See item 1.a) of the Memo from Vice Mayor Kamei, Mayor Mahan, Councilmember Cohen, and Councilmember Candelas to Honorable Mayor and City Council, dated October 17, 2024.

**E.** **Request:** All references to and illustrations of ingress or egress to / from the eastern driveway along Graves Avenue should reflect that Costco trucks shall not utilize such driveway for ingress or egress to the site.

**Support:** See item 1.c) of the Memo from Vice Mayor Kamei, Mayor Mahan, Councilmember Cohen, and Councilmember Candelas to Honorable Mayor and City Council, dated October 17, 2024.

**3. EXHIBIT G - OPERATIONS PLAN**

**A.** **Request:** Delete all references to “propane and refueling sales” from the list of included services.

**Support:** Comment 290-7 and Response 290-7 to Comment Letter 290 of the Response Comment to the Draft EIR (p. 1186) states as follows: “Section 2.3, Proposed Development, of the Draft EIR does not include ‘Propane refueling and sales.’ The Project does not propose the sale and refueling of propane.”

**B.** **Request:** Page 2, Second Paragraph: The paragraph is incomplete as it does not include the number of local and regional trucks and the receiving

days/times or how they will be restricted. This information should be included for completeness.

**Support:** The second sentence of item 3. under the Operations section on page 5 of the City of San Jose, Costco Wholesale Corporation, Westgate West CUP Application, Frequently Asked Questions and Answers, states that "...up to 15 smaller trucks from local and regional vendors would make deliveries daily."

**24-2114 - (b) RESOLUTION**

**4. PROJECT DESCRIPTION**

**A. Request :** Delete all the references to "propane and refueling sales" from the list of included services.

**Support:** Comment 290-7 and Response 290-7 to Comment Letter 290 of the Response Comment to the Draft EIR (p. 1186) states as follows: "Section 2.3, Proposed Development, of the Draft EIR does not include 'Propane refueling and sales.' The Project does not propose the sale and refueling of propane."

**B. Request:** Delete all references to "Graves Avenue" from the list of pedestrian access points.

**Support:** Conflicts with the fifth sentence of the Applicant Presentation section on page 4 of Planning Commission Memo, dated October 9, 2024, that states "...Costco is closing off pedestrian access to Graves Avenue entirely."

**C. Request:** Paragraph at the bottom of Page 4 and the top of Page 5: The paragraph is incomplete as it does not include the number of local and regional trucks and the receiving days/times or how they will be restricted. This information should be included for completeness.

**Support:** The second sentence of item 3. under the Operations section on page 5 of the City of San Jose, Costco Wholesale Corporation, Westgate West CUP Application, Frequently Asked Questions and Answers, states that "...up to 15 smaller trucks from local and regional vendors would make deliveries daily."

**MISCELLANEOUS**

**5. HUB FOR COSTCO HOME DELIVERY**

**A. Request :** Any and all references to the proposed warehouse serving as a hub for Costco home delivery should be deleted from the plans or such activity should be prohibited as a condition of approval.

**Support:** Conflicts with the fourth full paragraph Commission Discussion section on page 6 of Planning Commission Memo, dated October 9, 2024, that states “...this store, and San Jose stores in general, do not have home delivery...”

## 6. COSTCO FUEL STATION

**A.** **Request :** Any and all references to the proposed warehouse including a fuel station should be deleted from the plans or such activity should be prohibited as a condition of approval.

**Support:** The public has repeatedly been told that there are no fuel stations in the plans.

Outlook

## FW: City Council agenda item 10.4 (Costco)

**From** City Clerk <city.clerk@sanjoseca.gov>
**Date** Tue 10/22/2024 9:55 AM
**To** Agendadesk <Agendadesk@sanjoseca.gov>

1 attachments (97 KB)
Costco Response to West Valley Center Ltr.pdf;

**From:** Shimko, Anna C. <[redacted]
**Sent:** Tuesday, October 22, 2024 9:48 AM
**To:** City Clerk <city.clerk@sanjoseca.gov>
**Subject:** City Council agenda item 10.4 (Costco)

[**External Email**. Do not open links or attachments from untrusted sources.]

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Please see attached pertaining to today's City Council agenda item 10.4 (Costco) for the record and for distribution to City Council members. Thank you, Anna Shimko

**Anna C. Shimko | Partner**
*she, her, hers*

**Burke, Williams & Sorensen, LLP**
[redacted]
D [redacted] | O [redacted] |
F [redacted] | M [redacted]
[redacted] | vCard |
Bio | LinkedIn | bwslaw.com

BURKE, WILLIAMS & SORENSEN, LLP

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burke
BURKE, WILLIAMS & SORENSEN, LLP
[redacted]
voice [redacted] - fax [redacted]
www.bwslaw.com

Direct No.: [redacted]

October 22, 2024

VIA EMAIL

Hon. Mayor and City Council
Office of the City Clerk
200 E. Santa Clara St.
Tower 18th Floor
San José, CA 95113
Email: city.clerk@Sanjoseca.gov

Re: October 22, 2024 City Council Agenda Item 10.4; Westgate West Costco Warehouse Project

Dear Mayor and Members of the City Council:

Costco has received a copy of the October 18, 2024 letter from Norman Matteoni on behalf of the owner of West Valley Center, the shopping center east of and adjacent to the Westgate West shopping center in which Costco seeks to locate.

By virtue of a long-standing private easement, the owner and tenants of the Westgate West shopping center enjoy specified vehicle access rights across the West Valley Center. Naturally, these rights are a private matter, and therefore City action or interpretation with respect to the private easement is not appropriate.

Please be assured, however, that Costco has no objection to way-finding and directive signage as requested in the letter. Costco has reached out to West Valley Center to discuss the details as to how such signage can be accommodated via private agreement.

In addition, to the extent that existing permit conditions relating to the West Valley Center would restrict Costco's use of Saratoga Avenue driveways for truck deliveries, Costco will comply with those conditions. Furthermore, Costco has no intention of using the West Valley Center property for truck access to Costco between 9:00 p.m. and 7:00 a.m.

We look forward to answering any additional questions before or at the City Council hearing.

Sincerely,

BURKE, WILLIAMS & SORENSEN, LLP

[redacted]

Anna C. Shimko

ACS:EAL

Outlook

## Fw: Letter Of Support For Costco Project

**From** City Clerk <city.clerk@sanjoseca.gov>
**Date** Tue 10/22/2024 11:32 AM
**To** Agendadesk <Agendadesk@sanjoseca.gov>

1 attachments (98 KB)
Letter of support for Costco project.pdf;

**Office of the City Clerk | City of San José**
200 E. Santa Clara St., Tower 14th Floor
San Jose, CA 95113
Main: 408-535-1260
Fax: 408-292-6207

How is our service? Your feedback is appreciated!

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**From:** Bill S. Lee <[redacted]>
**Sent:** Tuesday, October 22, 2024 11:29 AM
**To:** [redacted] <[redacted]>; The Office of Mayor Matt Mahan <mayor@sanjoseca.gov>; District1 <district1@sanjoseca.gov>; District2 <District2@sanjoseca.gov>; District3 <district3@sanjoseca.gov>; District4 <District4@sanjoseca.gov>; District5 <District5@sanjoseca.gov>; District 6 <district6@sanjoseca.gov>; District7 <District7@sanjoseca.gov>; District8 <district8@sanjoseca.gov>; District9 <district9@sanjoseca.gov>; District 10 <District10@sanjoseca.gov>; City Clerk <city.clerk@sanjoseca.gov>; [redacted] <[redacted]>
**Subject:** Letter Of Support For Costco Project

[**External Email**. Do not open links or attachments from untrusted sources.]

You don't often get email from [redacted]. Learn why this is important

Good Afternoon,

Please see my attached letter of support.

With gratitude,

Bill Lee

Executive Director
[redacted]
Office: [redacted]
www.marthas-kitchen.org
Instagram | Facebook | Linkedin | Twitter

"Feeding The Hungry With Dignity"
WWW.MARTHAS-KITCHEN.ORG
NONPROFIT TAX ID [redacted]

San Jose City Council
200 E. Santa Clara Street
San José, CA 95113
October 22, 2024

Dear Mayor Mahan, Vice Mayor Kamei, and Council Members,

I am writing to express my support for the proposed Costco Warehouse at the Westgate West shopping center. By way of introduction, for those who might not know my background, I was born and raised in Southern California and am a proud product of Jesuit education. I earned both my undergraduate degree and MBA from Santa Clara University, where I was also a member of the Bronco football team. After founding and successfully running a national manufacturing and distribution company in the window shutter industry, I decided to shift my focus to the nonprofit sector. For the past 5 years, I've had the privilege of leading Martha's Kitchen, helping to further its mission of serving those in need across the Santa Clara County region.

The project proposal will contribute to the vitality of San Jose, including:

- Contributing to the city's retail base and tax revenue with an estimated $2 million in annual sales tax.
- Creating 250 to 300 well-paying jobs that offer long-term career opportunities.
- Budgeting 1% of pre-tax profits for select charitable contributions focused on children, education, and health and human services to organizations such as United Way, Children's Miracle Network Hospitals, Costco Scholarship Fund, disaster relief, and many other programs.
- Serving as an anchor location, bolstering the retail success of existing businesses on the site.

Costco has demonstrated its willingness to be a good neighbor by ensuring its operations will not impact surrounding businesses and residences. In fact, the proposal will provide many improvements to the shopping center that will benefit the existing tenants and shoppers, including new landscaping and traffic calming measures to increase visibility and allow safer pedestrian and cyclist circulation throughout the interior and exterior of the shopping center. I encourage your support of the proposed Costco Warehouse at the Westgate West shopping center.

Sincerely,

[redacted]

Bill Lee
Executive Director
Martha's Kitchen

Outlook

## Fw: I love Costco, but scale it down

**From** City Clerk <city.clerk@sanjoseca.gov>
**Date** Tue 10/22/2024 1:21 PM
**To** Agendadesk <Agendadesk@sanjoseca.gov>

**Office of the City Clerk | City of San José**
200 E. Santa Clara St., Tower 14th Floor
San Jose, CA 95113
Main: 408-535-1260
Fax: 408-292-6207

How is our service? Your feedback is appreciated!

---

**From:** Kris G.C. <[redacted]>
**Sent:** Tuesday, October 22, 2024 1:03 PM
**To:** Kamei, Rosemary <Rosemary.Kamei@sanjoseca.gov>; City Clerk <city.clerk@sanjoseca.gov>
**Cc:** Mahan, Matt <Matt.Mahan@sanjoseca.gov>; Jimenez, Sergio <sergio.jimenez@sanjoseca.gov>; Cohen, David <David.Cohen@sanjoseca.gov>; Davis, Dev <dev.davis@sanjoseca.gov>; Candelas, Domingo <Domingo.Candelas@sanjoseca.gov>; Ortiz, Peter <Peter.Ortiz@sanjoseca.gov>; Foley, Pam <Pam.Foley@sanjoseca.gov>; Batra, Arjun <arjun.batra@sanjoseca.gov>
**Subject:** I love Costco, but scale it down

[External Email. Do not open links or attachments from untrusted sources.]

[Some people who received this message don't often get email from [redacted]. Learn why this is important at https://aka.ms/LearnAboutSenderIdentification ]

Dear Councilmembers,

I am a 27 year resident of Campbell and my family shops at Costco. I don't want a Costco in that location, but I know that tax dollars are a big draw. If it must happen, I absolutely oppose the size of the scale of this project.

I realize that Costco is a big draw for a lot of people. With that in mind, does it really need to be bigger than the Sunnyvale Costco? No, it doesn't. A Costco that size is too much for the intersection and

overwhelming for the neighborhood. No one walks to Costco.

Costco will make money and draw in lots of people. No doubt about that. But do we need to maximize their profit by permitting them to build a monster store right up against a neighborhood?

Scale down the store to 2/3 of the proposed size. Redesign the parking lot, so that Costco has a separation from the rest of the property.

Encourage people to use the rooftop parking by installing solar panels to provided shade/cover from rain.
What concerns would you have if you lived right behind on Graves? What concerns would you have if your child attends Prospect and walks through that parking lot to go home? What are your concerns if you owned a nearby business, like Happy Lemon or Ike's?

Respectfully,
Kristin Gan
Campbell resident