Downtown San Jose Retail Strategy Progress Report

City of San Jose

Community and Economic Development Committee

April 23, 2018

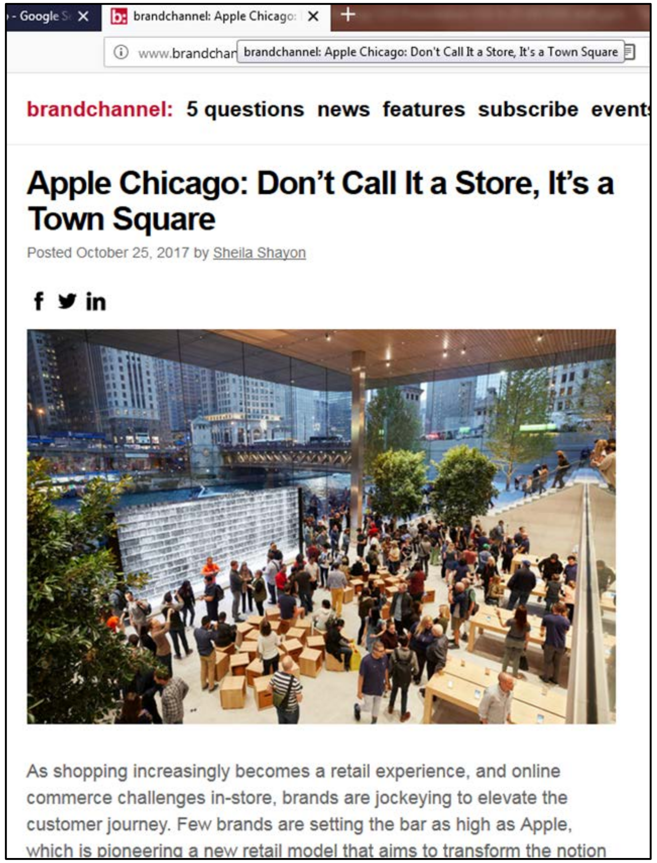
Why This Study?

- Important to have a retail “roadmap” for the next 3-5 years
- Ensure that mixed-use projects have active ground floor uses where appropriate
- Enhanced place-making and improve quality of life in Downtown
- Anticipate and prepare for an evolving retail landscape
- Identify gaps in Downtown’s retail makeup and facilitate attraction
- Compile important demographic information for use in marketing and broker requests
- Better design mixed-use buildings for today and tomorrow’s retail users

Given the growing influence of online shopping, offering a unique experience – and not just selling goods – is becoming essential.

- **Americans are increasingly spending money on experiences, such as food away from home, health and wellness, entertainment, and travel.**
  - High-performing uses: restaurants and bars; food and beverage stores; entertainment; health and personal care stores; and fitness uses/gyms.

- **Retailers are capitalizing on the increased demand for experiences, as a way to distinguish themselves from online retailers.**
  - Expansion of their prepared foods-selection
  - Workshops and classes to drive sales both online and in stores
  - Special events with food & drink
  - Focus on "locally made" products and/or unique design brands
  - Improving the public realm experience
  - Online retailers are actively opening showrooms to offer a "touch & feel" experiential component *however*, the purpose of these showrooms is to drive online traffic.



The national retail industry is undergoing a major restructuring, in large part due to the growing influence of e-commerce.

- Demand for new retail space is shifting (and in some cases declining) due to competition from online sales, particularly for commodity goods.

- Online sales of commodity goods continue to expand into new categories, including apparel, office supplies, sporting goods, toys, and groceries.

- Demand for space for bricks-and-mortar commodity retailers is decreasing. These retailers are consolidating, going out-of-business, and downsizing their footprints.

- “Experiential retail” and food and beverage in particular is a primary focus for filling space, however, these retailers tend not to occupy as much space as “category killer” commodity retailers.

Successful urban retail corridors / districts often share certain key characteristics

- **A healthy mix of different types of businesses,** such as traditional retail, restaurants/cafes/bars, and personal services… An anchor is often key.
- **An appealing physical environment,** including attractive architectural character, a pleasant street environment, and a focus on "active" retail uses. This is important to make the district more "experience-oriented."
- **Convenient and multi-modal access,** including pedestrian and walkability amenities, bike path of travel and amenities, transit, and parking or curb space that is actively managed.
- **A high-capacity district management organization**
- **Drivers of demand,** including curating retail selection to local trade area characteristics, as well as other drivers of foot traffic, such as nearby cultural/institutional anchors, special events, etc.

As an urban retail environment, Downtown San Jose has competitive advantages that will allow it to capitalize on trends:

- **A robust and high-quality built environment;** e.g. narrow two-sided shopping streets, historic buildings with architectural character, wider rather than narrower sidewalks, small blocks and alleys; public parks and plazas…

- **Various modes of access**, including transit, parking, pedestrian/bicycle network…

- **Existing and active business district management,** such as the San Jose Downtown Association and the San Jose Downtown Property Owners' Association…

- **Various drivers of demand,** including a dense and growing population of residents and workers, as well as several institutional anchors (San Jose State University, SAP Center, Center for the Performing Arts, Convention Center…)

As an urban retail environment, Downtown San Jose has some challenges:

- **Overall all income of downtown demographic is lower than the rest of the city/region.**
- **Downtown still not perceived as a live/work environment**
- **Quality of life issues of a true urban environment**
- **Lack of continuity in the pedestrian experience**
- **Retail built outside of downtown over the last 50 years**
- **Close proximity of strong regional malls**

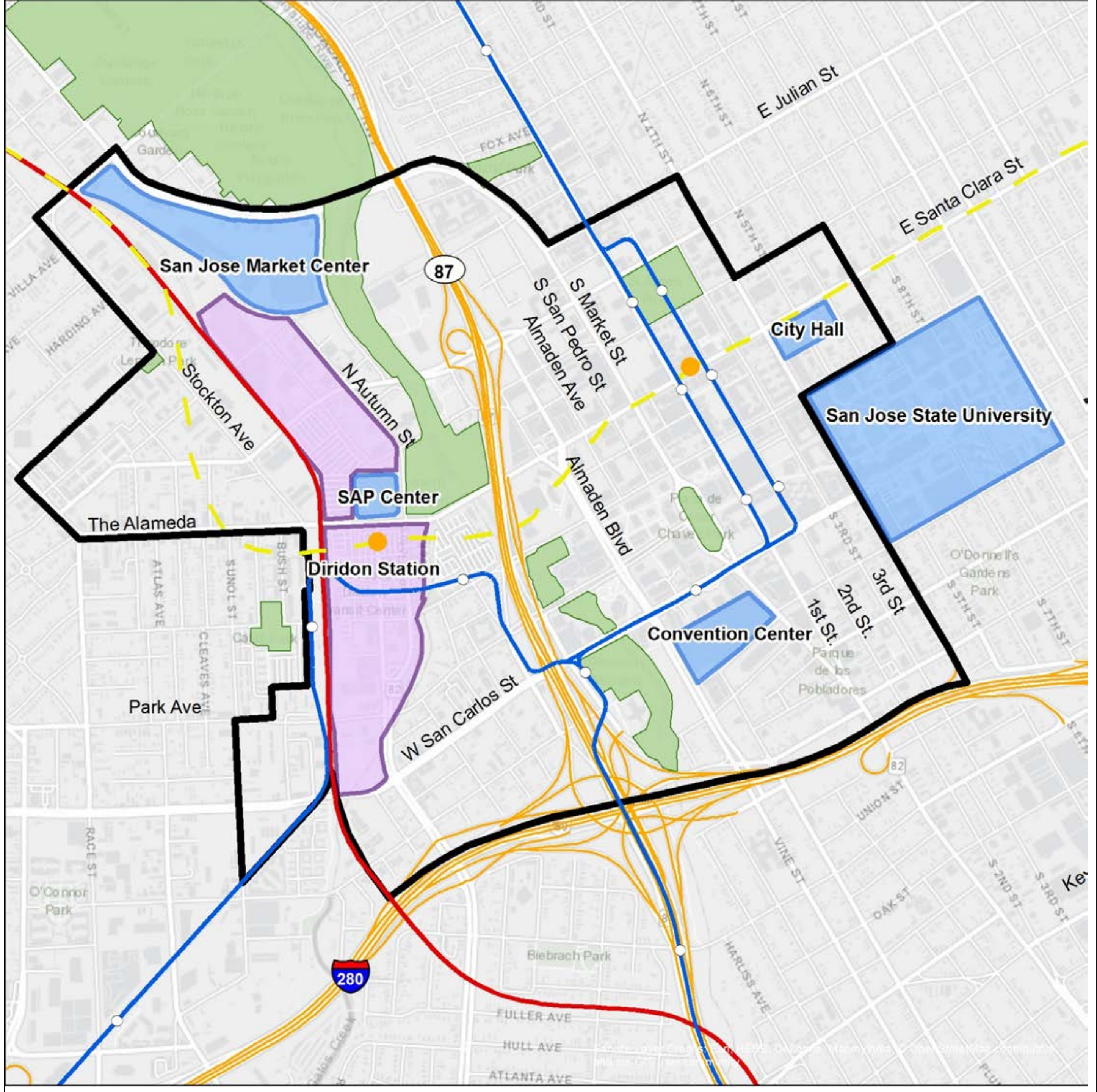
Downtown San Jose Retail Strategy Study Area

Downtown San Jose Context Map

Final Study Area	VTA Light Rail Transit Station
Parks	VTA Light Rail
Context Features	Bart Phase II Extension Sites
Rumored Google Campus	Future Bart Line
	Caltrain
	Highways

0 0.2 0.4 Miles

Sources: City of San Jose, 2017; Strategic Economics 2018



Demographic Trends

Downtown is becoming an increasingly important growth area for San Jose

- Downtown’s current population is about 19,500 and will reach about 25,000 once the buildings currently under construction are occupied.
- In the next 3-5 years, if all planned and proposed units are built, Downtown could add another 12,000 people.
- In 2000, Downtown represented 1 percent of the City’s total population
- In 2016, this share had doubled to 2 percent and the new residents account for 6 percent of all new residents in the City
- Overall, once buildings currently under construction are fully occupied, Downtown will have doubled it’s population since 2000.

Downtown’s Population is trending towards small households

- Approximately 43 percent of downtown households have only one person.
- Downtown residents also have a higher overall level of education than the City as a whole.
- Men represent a higher share of downtown residents than women.

Employment Trends

Downtown currently has about 43,000 jobs.

- Information and professional services jobs dominate Downtown employment.
- This represents about 10 percent of total jobs in San Jose (NSJ represents 25 percent of jobs).

The supply of rehabilitated and planned new office construction represents potential for significant employment growth Downtown

- Vacant office space currently undergoing rehabilitation could support about 1,600 new jobs.
- Under construction, planned and proposed office space could support up to 17,000 new jobs.

Downtown jobs are primarily filled by commuters coming from other parts of San Jose.

- People who live Downtown primarily commute to other San Jose employment destinations.

San Jose State University

Represents an important source of demand for retail activity

Overall, the University has 33,409 students and 27,778 undergraduates

- About 4,122 or 15 percent of undergraduate students live on campus.
- Many more students commute to campus via transit and the foot traffic these commuters generate helps to support many businesses in Downtown near the campus.
- The University plans to add between 1,500 and 2,500 more housing units in 3-7 years.



Existing Retail Inventory

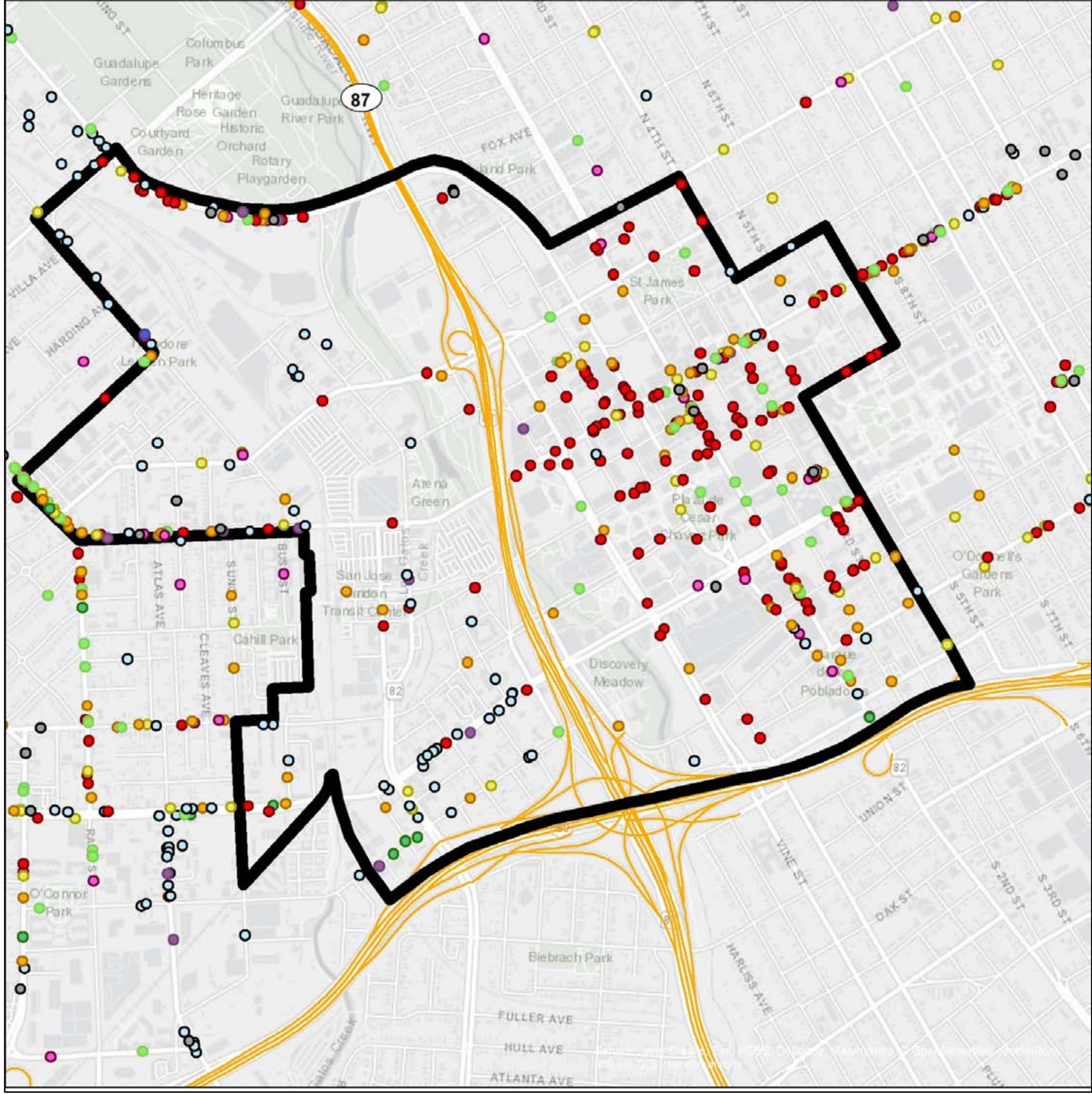
Downtown San Jose Retail: Sales Tax Revenue, 2016

Retail Categories

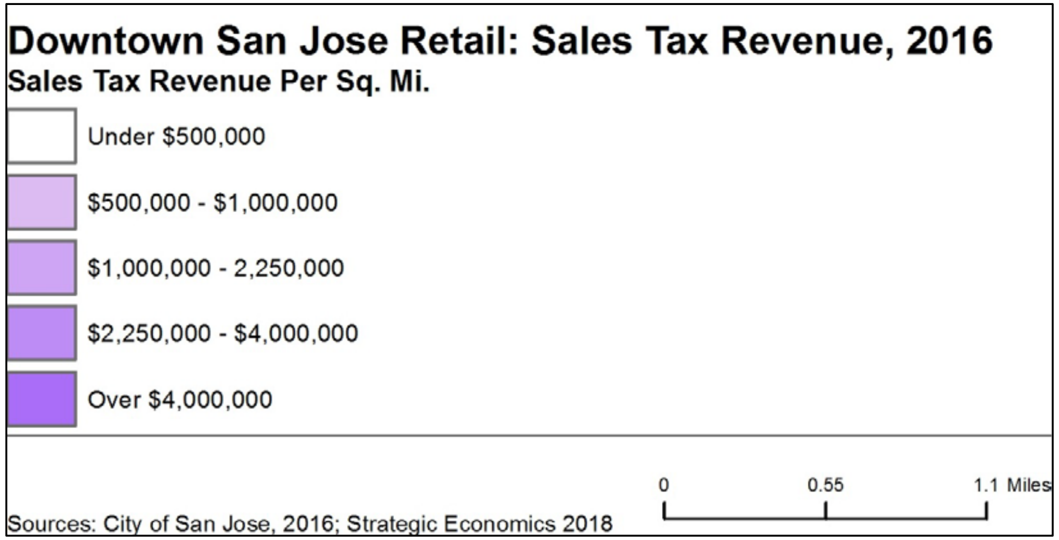
- Building Materials, Supplies, Garden Equip.
- Clothing and Accessories Stores
- Drug and Personal Care Stores
- Eating and Drinking Places
- Food and Beverage Stores
- General Merchandise Stores
- Home Furnishings, Appliance Stores
- Motor Vehicle and Parts Dealers
- Other Retail Stores
- Personal Services

0 0.2 0.4 Miles

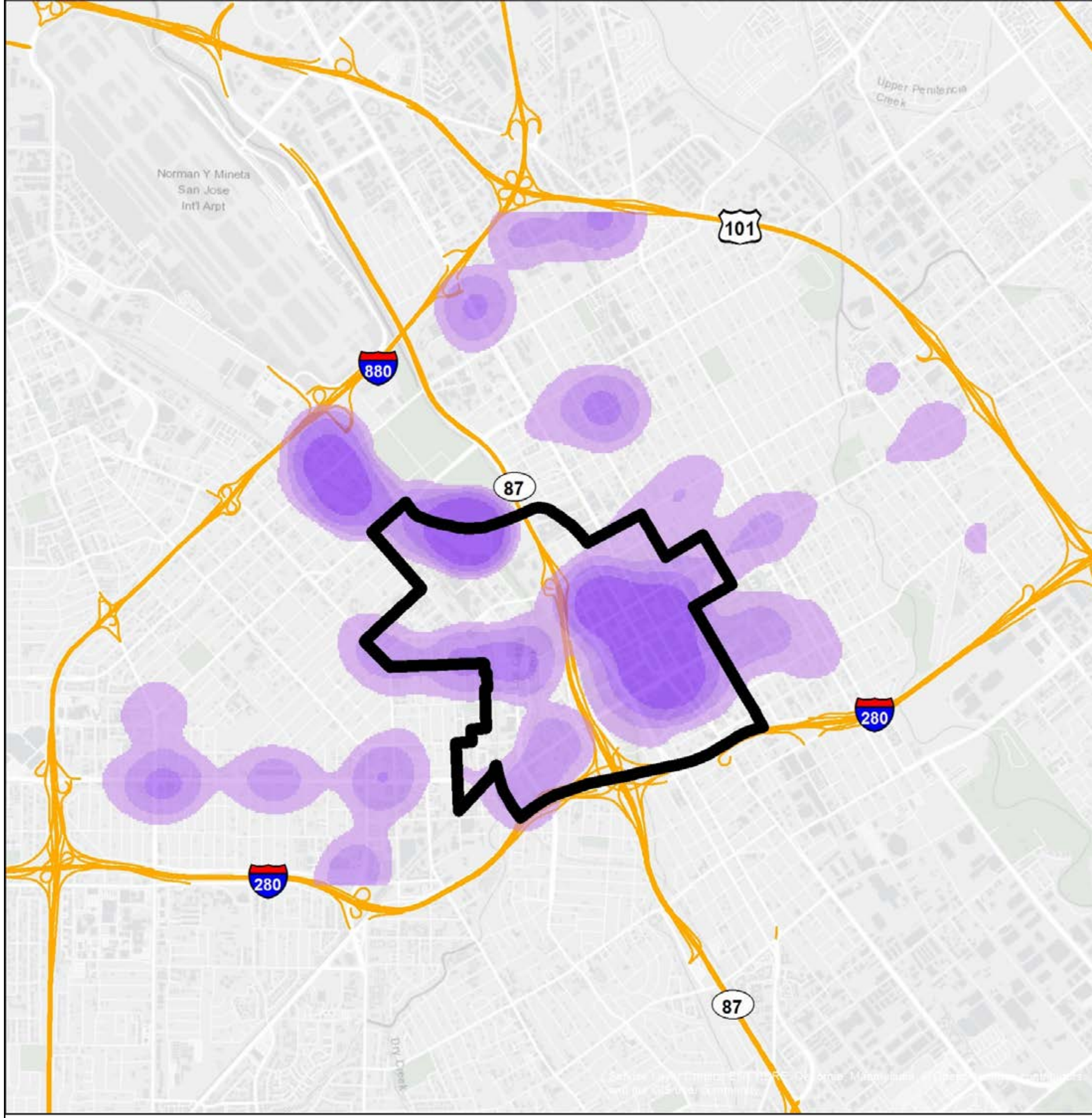
Sources: City of San Jose, 2016; Strategic Economics 2018



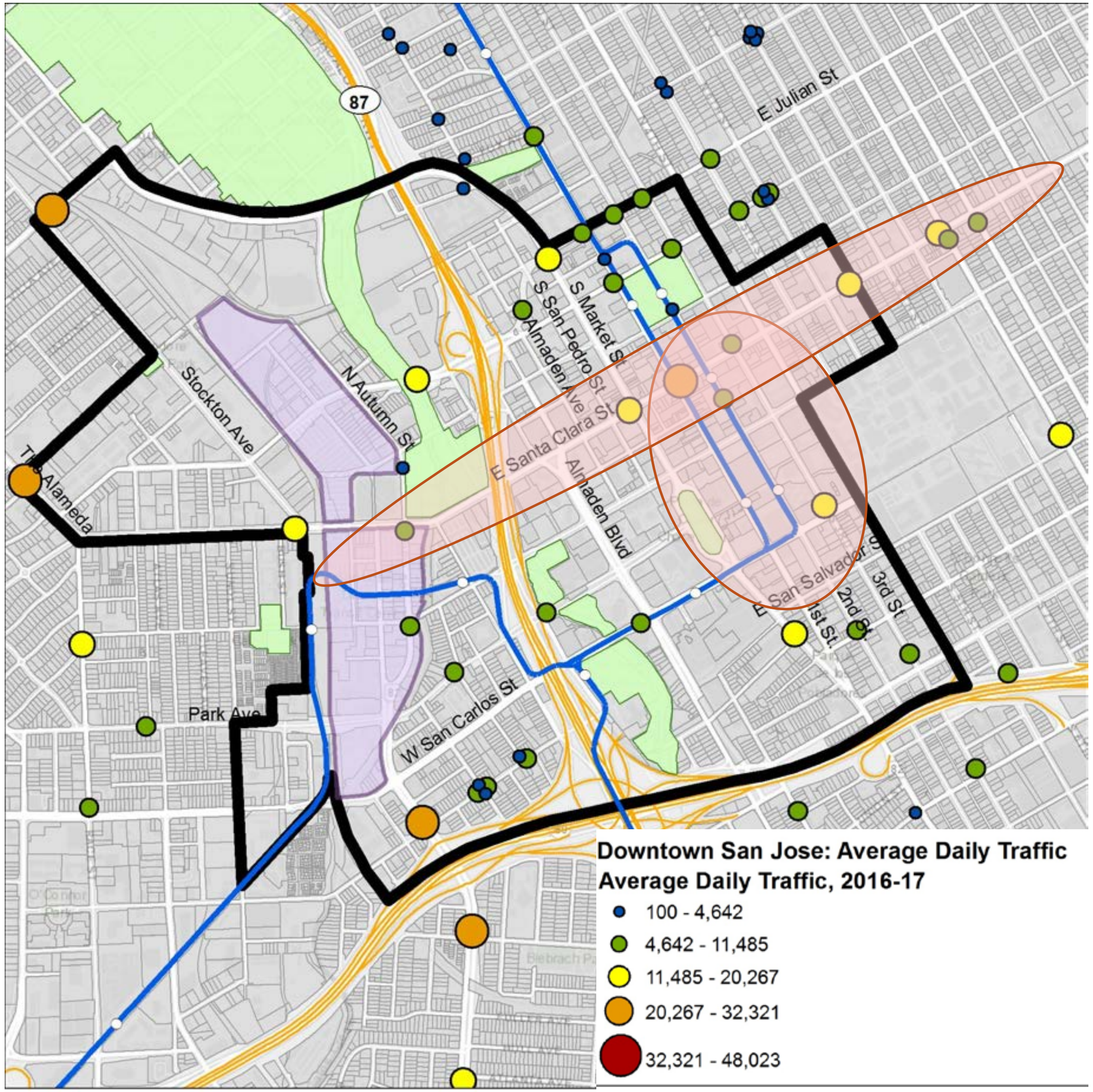
Retail Sales Tax Revenues



Excludes motor vehicle and parts dealers



Vehicle and Pedestrian Traffic Counts are Essential to Strong Retail Locations



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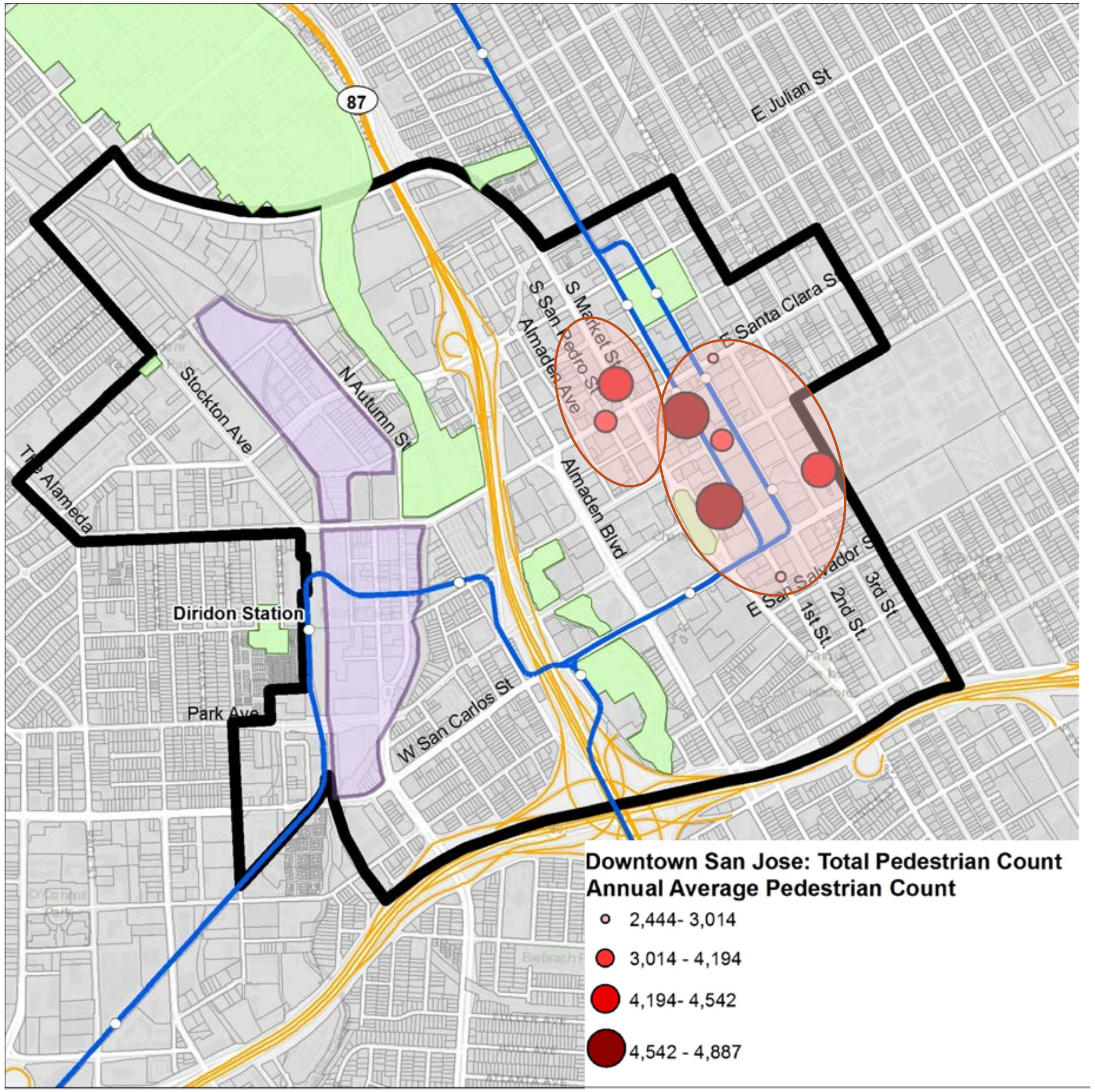
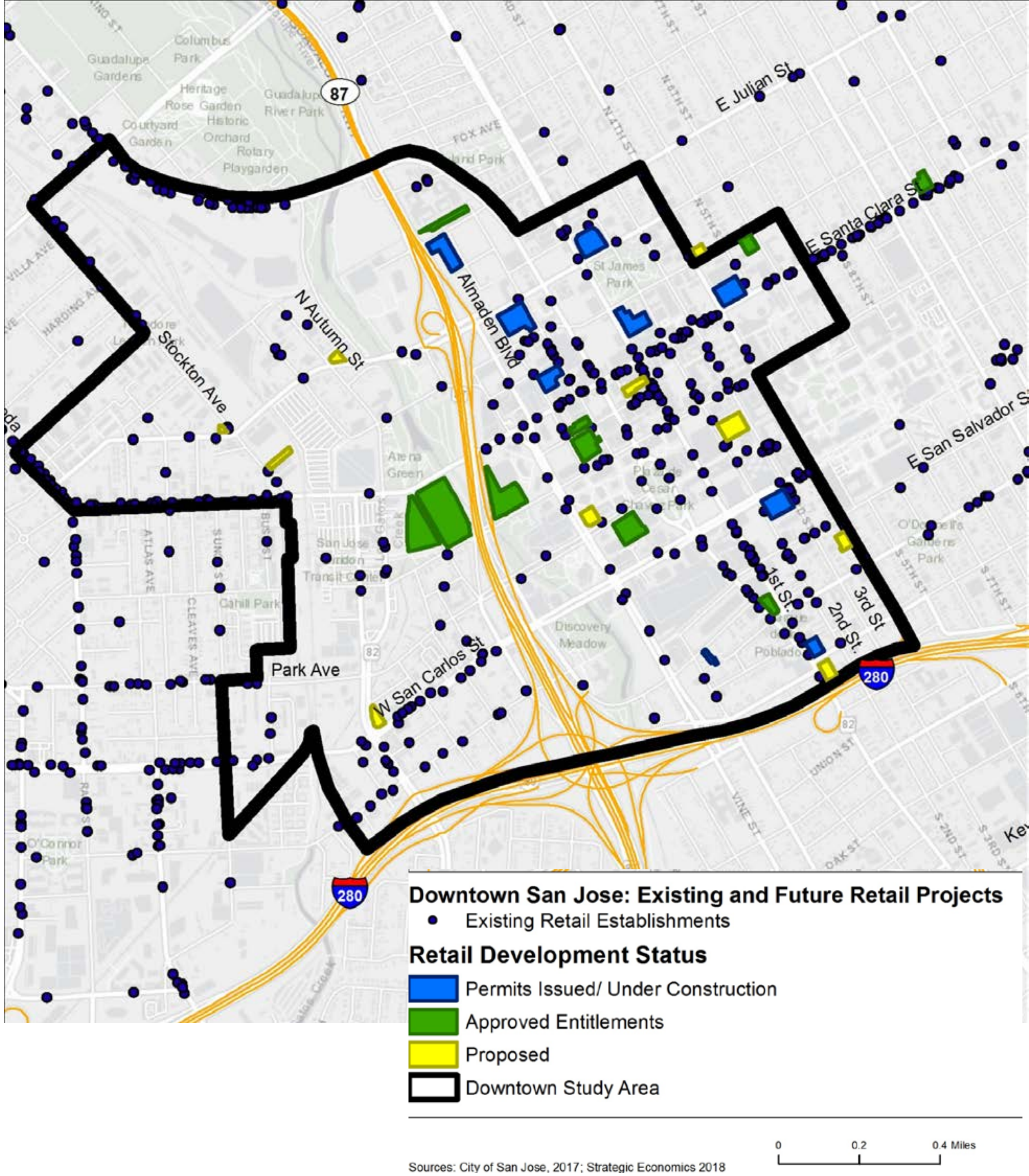


Sources: City of San Jose, 2017; Strategic Economics 2018

Planned & Proposed New Development

Retail	Square Feet
Under Construction, Approved and Proposed	350,828
Residential	**Unit Count**
Under Construction, Approved and Proposed	8,470
Office	**Square Feet**
Under Construction, Approved and Proposed	4,252,761



Preliminary Findings

There is tremendous investment happening in the Downtown Study Area and in the neighborhoods around Downtown, suggesting strengthening demand/support for more retail activity.

Downtown San Jose retail activity is currently dominated by specialty retail (eating and drinking establishments).

Commodity retail in the downtown core has contracted (e.g. Walgreens). Nonetheless, there remains drug in both East and West Subareas, and significant grocery in the West Subarea.

STRATEGICECONOMICS

Preliminary Findings

The challenge may be to bring more retailers selling daily needs/ commodity goods and specialty soft goods, rather than just restaurants, bars, and other entertainment related venues

Downtown already has a growing residential population (has doubled since 2000), but where housing units are concentrated does not correspond to where most retail activity is located.

Downtown could benefit from increased continuity and connectivity between housing units and retail activity.

Next Steps/Schedule

Finalize Existing Conditions Analysis – End of April

Meet with Key Stakeholders – May

- SJDA, Retail Brokers, Property Owners, SPUR, SJSU

Draft Retail Strategy – June

- Where and how commodity retail should be located
- Utilization of large opportunity sites
- What makes retail work in mixed-use projects?
- Best practices check list for retail space design
- Strategies to fill the gaps in downtown's retail offerings

Final Recommendations – July/August