



# Memorandum

**TO:** COMMUNITY & ECONOMIC  
DEVELOPMENT COMMITTEE

**FROM:** Rosalynn Hughey

**SUBJECT:** CITYWIDE RETAIL  
STRATEGY UPDATE

**DATE:** June 12, 2018

Approved

Date

**COUNCIL DISTRICT:** Citywide

## **RECOMMENDATION**

Accept staff's report on the work that has been done to date on the Citywide Retail Strategy.

## **BACKGROUND**

The *Envision San José 2040 General Plan* (General Plan) was adopted in November 2011, and sets forth Goals and Policies requiring the City to conduct a review of the General Plan every four years. The purpose of the General Plan Four-Year Review (Four-Year Review) is to evaluate significant changes in the planning context and achievement of key General Plan goals. The first Four-Year Review was completed December 13, 2016, at which time the City Council considered recommendations from the General Plan Four-Year Review Task Force. In addition to other actions, City Council directed staff to return to Council with amendments and rezonings for retail uses, with special focus on identifying prime retail sites in retail-deficient areas of the city, such as North San José and the N. 13th Street Corridor, as specified in Item 2.d. in the April 10, 2015 memorandum from Mayor Liccardo and Councilmembers Jones and Carrasco (<http://www.sanjoseca.gov/DocumentCenter/View/47765>).

In May 2017, City Council accepted a report by staff on retail and amenity development in North San José and directed staff to implement the North San José Retail and Amenity Strategy. City Council subsequently approved amendments in December 2017 to the General Plan, North San José Area Development Policy, and Zoning Code to allow additional flexibility for retail and service commercial uses within the North San José Development Policy area.

Furthermore, as a follow-up from the *Market Overview and Employment Lands Analysis* report prepared for the Four-Year Review (<http://www.sanjoseca.gov/DocumentCenter/View/53472>), staff rehired economics and land use consulting firm, Strategic Economics, to conduct a citywide data-driven retail analysis, including a contextual overview of national and local retail markets, identification of retail-deficient or opportunity areas in the City, and strategies to increase overall

citywide retail activity. At the June 25, 2018 Community & Economic Development Committee, staff and Strategic Economics will present information on national retail trends and existing retail conditions in San José.

## **ANALYSIS**

The purpose of developing strategies to facilitate retail in underserved areas of the City, or in locations where there is opportunity to add new or enhance existing retail, is consistent with direction from City Council and economic development goals of the General Plan. Three key aspects of retail in San José include:

### *Fiscal Health*

The Fiscally Strong City General Plan Major Strategy establishes goals and policies that promote the fiscal balance of revenue and costs to provide high-quality municipal services, consistent with community expectations. Sales tax revenue represents approximately 19 percent of the total General Fund revenue for Fiscal Year (FY) 18-19. Of the 19 percent, or approximately \$233 million, 12 percent of sales tax is generated by general retail and food product sales (approximately \$88.5 million). Recent analysis has shown that San José loses significant sales tax to other cities in some retail categories. Additionally, when adjusted for inflation, annual sales tax in San José has been relatively flat over the past decade.

### *Employment*

The General Plan Innovation/Regional Employment Center Major Strategy focuses on economic development within the City, and emphasizes that all existing employment lands add value to the City overall. The General Plan also stresses the importance of attraction and retention of a diverse mix of businesses that can provide jobs for residents of all skill and education levels. The retail industry provides many entry-level positions, in addition to management roles and entrepreneurial opportunities. Currently, San José has over 40,000 general retail jobs, and over 30,000 restaurant jobs. Furthermore, retail businesses provide amenities and services to San José residents and workers.

### *Placemaking*

Retail businesses play an important role in achieving placemaking goals of the General Plan and Urban Village Major Strategy. Businesses offering services and amenities add to the quality of public life and offer “third spaces” for social interaction. Neighborhood retail also supports the City’s environmental and transportation goals to reduce drive-alone car trips by offering daily needs products accessible by walking or bicycle.

### **Citywide Retail Strategy Study**

The Department of Planning, Building and Code Enforcement (PBCE) and the Office of Economic Development (OED) hired Strategic Economics to perform a Citywide retail analysis. Strategic Economics' scope of work includes:

- Identifying national retail trends that are shaping San José's options and opportunities to increase retail activities.
- Preparation of a baseline retail profile to illustrate characteristics of the City's current retail supply and demand.
- Identification of retail-deficient, or opportunity areas that should be targeted for additional retail recruitment and/or development.
- Recommended strategies to increase overall citywide retail activity.

Strategic Economics has completed an analysis of key national trends that are relevant to understanding San José's retail landscape, and an evaluation of the existing retail context in San José, which are attached to this memorandum. Trends in the next three to five years likely to impact retail in San José include:

- Continued expansion of internet sales and e-commerce.
- Traditional shopping centers are adding more entertainment activities.
- Property characteristics are becoming more important to retailers.
- Shoppers are increasingly drawn to high quality retail environments.

At the local level, San José's retail supply continues to grow and evolve. However, San José's retail space is not equally distributed throughout the City. Locations in San José with good access and/or population growth have attracted the greatest growth in retail supply. Additionally, as it relates to fiscal benefit, the increase in retail supply does not necessarily equate to a corresponding increase in retail sales. This is because in part, many new retail businesses are more experienced based (typically entertainment or dining), which does not necessarily generate sales tax, and new retail development may draw sales away from older spaces. That said, preliminary analysis shows that San José can support additional growth in certain retail sectors, and that many of San José's existing shopping centers continue to thrive. As new retail is established, it creates more competition for existing retail and also brings new customers to older surrounding retail.

### **Next Steps**

Planning and OED staff will continue to work with Strategic Economics to complete the Citywide Retail Strategy. Staff will return to the CED Committee in August 2018 with a complete Citywide Retail Strategy report, including the identification of retail-deficient or opportunity areas in the City, and strategies to increase overall citywide retail activity. At that time staff will request that the CED Committee cross-reference the Citywide Retail Strategy report to City Council.

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## **COORDINATION**

The memorandum has been coordinated with the Office of Economic Development.

/s/  
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Planning, Building and Code Enforcement

For questions please contact Jared Hart, Supervising Planner, at (408) 535-7896.

Attachment  
Citywide Retail Strategy Report - Existing Context