SAN JOSE CITYWIDE RETAIL STRATEGY – DRAFT

Strategic Economics and Greensfelder Real Estate Strategy

Prepared for: City of San Jose

Date: June 2018 (DRAFT)

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Strategy Goals and Purpose

San Jose's General Plan, Envision San Jose 2040, which was first adopted in 2011 (the "Plan"), establishes a review process for monitoring the City's progress in implementing the Plan's goals and polices. This review process includes annual reviews focusing on the City's progress in meeting its sustainability goals, and Major Reviews to take place every four years focusing on economic, fiscal, environmental, and housing goals, as well as the ongoing provision of infrastructure and city services necessary to support San Jose residents.

Following the first of these Major Reviews in 2015, City Council members identified two issues which now form the primary goals of this Citywide Retail Strategy:

- Goal 1: Identify retail starved areas of the City, and prime retail sites in these areas that could be developed to meet this need.
- Goal 2: Identify strategies to increase retail activities in new retail locations, and to boost existing retail sales.

This report relies on extensive research and analysis to identify specific, actionable strategies that City staff can undertake over the next three to five years to ensure that San Jose can achieve its retail related goals.

Strategy Organization

This Strategy is organized into six sections. **Section I** includes a summary of the report and the recommended key action items. **Section II** addresses the Strategy purpose and organization. **Section III** will present an overview of the national retail trends that are shaping San Jose's options and opportunities to increase the City's retail activities. **Section IV** will provide an overview of the existing retail conditions in San Jose. **Section V** will evaluate retail performance in San Jose to determine which areas in the City are underserved, and where total retail activity could be increased. Finally, **Section VI** will present the specific strategies San Jose can implement over the next three to five years to achieve the retail goals articulated in the report.

III. NATIONAL RETAIL INDUSTRY TRENDS

This section summarizes the key trends relevant to understanding San Jose's retail landscape over the last 20 years and sets the context for understanding its future outlook given major transformations in the retail industry.

The Evolving Retail Industry

Like all industries, the retail industry is constantly evolving and innovating in response to changing conditions in consumer behavior, technologies, store formats, and locational opportunities. Successive waves of retail industry innovation started in the late 19th century and have continued ever since. These waves have created both winners and losers for retailers and for property owners. For example, Sears and Roebuck, which started its catalog business in the late 19th century to take advantage of the recently constructed railroad network, supplanted the old frontier general stores, eventually rendering these older stores functionally obsolete.

In fact, the retail industry has historically been shaped by four key groups. First and foremost are the consumers, without whose demand for goods and services there is no need for stores. Second are the retail businesses themselves, ranging from the giants like Walmart to the small independently owned businesses. Third are the developers/property owners (and their investors) who supply the space for retailers to occupy. Fourth are the public agencies that regulate land use and development, and which also rely on revenues generated from various taxes (e.g. property, sales, fees, etc.) Typically, all four groups are involved in shaping where, what, and how much retail building activity takes place. In some cases, the retailers (and even public agencies) might be their own developers. However, when this is the case, it is often done in concert with developers working on larger projects.

Recent retrenchment in the retail industry, driven by yet another major technology change, has led to numerous stores closing, huge job layoffs, and millions of square feet of vacant retail space. These statistics have been taken as indicators of the retail industry's demise, with the main nemesis being the internet and e-commerce. But, this characterization of the retail industry is misleading. In fact, consumer expenditures hit an all-time high in 2017.[1] People are still "buying stuff", and a lot of it, but they are buying it differently. The retail industry's "apocalypse" should instead be thought of as the retail industry reorganizing itself with more efficient and responsive retailers (some bricks-and-mortar, some online, and some multi-channel), supplanting inefficient and unresponsive retail models.

As downtown shopping districts and later regional malls declined, big box and category killer retailers proliferated, creating today's "commodity" versus "specialty" paradigm.[2] At its essence, today's shopping environment can be distilled into two retail types: the first, commodity retail, refers to shopping opportunities driven by convenience and price. In this category, the appeal of e-commerce is strong, and the demand for convenience and price also shapes the types of stores and shopping districts that people will visit. The second type, specialty retail, refers to places where people go to shop as well as to eat, drink, and be entertained. Both commodity and specialty retail are described in more detail below:

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[1] The Balance, June 2018. U.S. Retail Sales Report, Current Statistics, and Recent Trends. https://www.thebalance.com/u-s-retail-sales-statistics-and-trends-3305717
[2] ULI Development Handbook Series: Retail Development. Fourth Edition, 2008.

- **Commodity retail goods and services** are those goods and services that are purchased and consumed on a regular basis from "primary" household funds, largely without emotional attachment by the consumer, and at retailers and retail shopping centers offering the consumer the combination of low price and convenience most suited to the consumer's needs at a particular moment. Examples of commodity retailers include local convenience stores, drug stores, grocery stores, discounters and warehouse stores. A "commodity shopping center" is primarily the aggregation of a number of commodity retailers in one location, allowing for convenient cross-shopping. While habits may be developed over time (e.g. shopping at the same grocery store), consumers tend to view these retailers as interchangeable and do not have a strong connection to a commodity retailer's brand or to a commodity shopping venue. For the most part, internet shopping is an option most consistent with purchasing commodity goods and services.

- **Specialty retail goods and services,** by contrast, are those goods and services that are purchased on an optional basis by consumers using "discretionary funds" (i.e. funds not designated for basics like rent, food, and transportation), and selected and/or consumed during "free" or "discretionary" time (i.e. when not working or tending to daily responsibilities). Successful specialty shopping venues deliver a unique and attractive combination of tenant mix and environment (i.e. a sense of place), often reflecting the character of consumers in the market or trade area in which they operate. Equally as important, these specialty shopping areas lend themselves to extended consumer stays. An emotional "feeling" or "pleasure" derived from the overall shopping experience is an important part of the consumer's point of reference. Successful specialty shopping venues, regardless of format, deliver a unique combination of "product" (i.e. shops) and "place" (i.e. physical and conceptual environment), unique and attractive to the consumer within the market or trade area in question.

- Shoppers are often willing to travel a greater distance to patronize **destination retailers.** Both commodity and specialty retail can be considered "destination" retail. The distinction lies in the desire to spend more time shopping to better understand the product or choice of products (commodity retail), as opposed spending more time shopping to enjoy the shopping experience and environment, and likely engage in entertainment or dining activities (specialty retail). The distinction may also be nuanced. For example, Whole Foods, the Apple Store, or Bass Pro Shops each sell *commodity goods*; however, the product and brand positioning, merchandising strategies, and store environment (or "theater") are *specialty* in nature.

The dichotomy in the retail industry between commodity versus specialty retail will both help and hurt each of the four key groups described above in different ways. What has changed and why has there been this dramatic shift in the retail industry? The answer to this question relates to different factors for each of the four key groups involved in the retail industry.

Consumers, as well as more efficient retail models, are at the heart of this shift. As wages and real income have continued to drop, especially for middle and lower income households, retailers selling goods through stores had already achieved enormous efficiencies that had allowed for the huge price cuts demonstrated by chains like Walmart, yet their prices could be matched or even undercut by online retailers like Amazon. Internet shopping offers two advantages: (1) the ability to quickly compare prices and buy something at the lowest price; and (2) convenience. But price and convenience are not the only factors driving this sea change in consumer behavior. Demographics also play a factor. The millennial generation, which is now the largest age cohort in history, is demonstrating buying patterns that are strikingly different from previous generations. These young people's experience has been shaped by the great recession, where they saw the financial struggles their parents and grandparents had. But, also, this generation is saddled with tremendous levels of student debt. Both factors have made millennials less focused on consumption and more focused on the experiences and lifestyle

specific to specialty retail. Therefore, what, where, and how this highly influential group shops is having a significant impact on retailers, developers, and public agencies – and by extension, is also having a significant impact on the places retailers will decide to [re]locate stores.

The Future of Retail

Americans will continue to shop, but where and how they shop, and what impacts these shifting patterns will have on both retailers and developers/property owners, will continue to play out over time. In the near term (the next three to five years), the following trends are most likely to shape the answers to these questions:

- **According to the International Council of Shopping Centers (ICSC), the U.S. has an average of 24 square feet of retail space per capita in 2016, which is considered "over retailed".** This figure is higher than other nations such as Canada (16 square feet per capita), Australia (11 square feet per capita), or the United Kingdom (5 square feet per capita).[3] The United States has a large supply of low-density retail space, primarily concentrated in shopping centers, which until recently, continued to grow rapidly.[4] On a national scale, increasing competition with e-commerce is impacting an already over-supplied retail market, thus making some of this retail space susceptible to conversion or obsolescence.[5]

- **The role of internet sales and e-commerce continues to expand.** Nationwide, online sales account for an increasingly larger portion of total sales[6] and e-commerce continues to expand into new categories and product types – products sold online are no longer limited to books and music, but now also encompass electronics, sporting goods, office supplies, toys, and even apparel.

- **Shopping centers, which traditionally have been predominately tenanted by retail stores with limited entertainment anchors (movie theaters and food courts), are now adding more entertainment activities, like bowling alleys, spas, grocery stores, as well as restaurants and brew pubs.** Given the growing influence of online shopping, offering a unique consumer experience has become essential. Shopping centers are capitalizing on the increased demand for experiences as a way to distinguish themselves from online retailers and therefore are re-orienting themselves to include diverse and experiential uses (e.g. entertainment anchors, locally made products, hosting of special events, etc.) Retail projects that are unable to differentiate themselves for the consumer will fare far worse than those that can.

- **Retailers are becoming particularly concerned about the type of property or center in which they locate.** Projects that can differentiate themselves will fare comparatively better than those that do not. Having said that, the fundamental factors that retailers consider will remain

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3 International Council of Shopping Centers, Shopping Center GLA Per Capita, Country Fact Sheets 2015.
4 National Real Estate Investor, May 15, 2017. "Is the U.S. Over-Retailed? When and where will we see the impact from the store closures?" http://www.nreionline.com/retail/us-over-retailed
5 Bisnow, Ethan Rothstein, April 5, 2017. "Even Developers Agree the U.S. Has Way Too Much Retail Space" https://www.forbes.com/sites/bisnow/2017/04/05/even-developers-agree-the-u-s-has-way-too-much-retail-space/#22e6f9a5180f
6 According to a study conducted by Strategic Economics in 2018 for the City of San Francisco's Office of Economic and Workforce Development, while non-store retailers accounted for 12 percent of total national retail sales in 2016, they accounted for 40 percent of the growth in total sales between 2014 and 2016. https://oewd.org/sites/default/files/Invest%20In%20Neighborhoods/State%20of%20the%20Retail%20Sector%20-%20Final%20Report.pdf

important, namely the demographic profile of the surrounding area, traffic patterns, and site/facility characteristics (parking, visibility, and access).

- **Shoppers are increasing drawn to high quality retail environments.** These include regional malls, lifestyle centers, and Main Street shopping districts. The way retail is integrated into denser and mixed-use environments will be key to those projects' success, particularly in a city like San Jose where such projects will compete with nearby legacy, suburban, auto-oriented retail environments which offer greater convenience attributes. Again, proper and thoughtful design and project differentiation are key.

IV. SAN JOSE'S EXISTING RETAIL CONTEXT

This section provides detailed information regarding San Jose's existing retail context, including (1) a measure of supply as expressed by an inventory of built space; (2) a measure of demand as expressed by current population; (3) a consideration of the match between current supply and current demand; and (4) an assessment of the key factors that determine desirable retail locations. Key findings are presented at the end of this chapter.

Retail Supply

This analysis focuses on the supply of retail space in San Jose as expressed in square feet. It is important to note that not all retail space is occupied by businesses selling goods, such as a grocery or clothing stores. Some retail space is occupied by service providers including hair salons, gyms, and martial arts studios. It was beyond the scope of this analysis to link individual retail businesses to specific buildings and locations, so this discussion encompasses all built space in San Jose that has been classified as "retail space" by CoStar, a national real estate data company. While the CoStar data is imperfect, it is the best source of information on total built space by retail category and will therefore form the basis for this analysis.

OVERVIEW OF RETAIL TYPES

As shown in **Figure 1**, CoStar classifies retail space into six types. Except for "General Retail", these retail types reflect different kinds of shopping centers, which are distinguished from each other by their store mix, total square footage, and trade area size.

Trade areas are the general area from which a shopping center draws its customers. Centers primarily offering commodity goods (which tend to be purchased frequently), draw from a small trade area because the same consumers will return to the same center on a regular basis. This is in part why grocery and drug stores usually anchor commodity centers. In contrast, specialty centers offer goods that are purchased less frequently, and/or draw consumers to shop as a recreational activity. Because people tend to shop at specialty centers infrequently, it takes a larger trade area to regularly draw enough customers to support these center types. Thus, as **Figure 1** shows, trade area size is a continuum corresponding to overall center size and tenant mix, including the balance between community and specialty retail. Because commodity centers pull from a small trade area, there are many more of these than there are larger centers.

The "General Retail" category captures retail inventory located along commercial corridors and in neighborhood shopping districts (i.e. not in shopping centers), such as Downtown San Jose, Japantown, or Lincoln Street. However, Costar does not track ground floor retail in mixed use buildings. This means that the "General Retail" inventory compiled by CoStar is not comprehensive for urban/neighborhood shopping districts that include significant mixed use development.

FIGURE 1. KEY CHARACTERISTICS OF STANDARD RETAIL CENTER TYPES*

Retail Type	Typical Square Feet Range	Typical Acres	Typical Anchor Tenants	Typical Trade Area	Typical Location and Configuration
Regional and Super-Regional Mall	400,000 to 1 million+	40-120	General-purpose center anchored by general merchandise or fashion-oriented anchors; may include department stores, mass merchants, and/or fashion apparel.	5-25 miles (5-15 miles for regional malls)	Often located near major highways or interchanges; typically configured as an enclosed structure with inward-facing stores, surrounded by parking on the outside perimeter.
Power or Outlet Center	250,000 to 600,000	25-80	Specialized center anchored by category-dominant stores such as home improvement, discount department, warehouse club, off-price stores or retailer outlet stores.	5-10 miles (may be more for outlets)	Often located near major highways or interchanges; configuration is often open-air, and may be laid out in an L or U shape with parking in the center.
Community Center	125,000 to 400,000	10-40	General merchandise or convenience-oriented anchors; may include discount stores, grocery stores, drug stores, or large specialty stores (home improvement, furnishings, sporting goods, etc.)	3-5 miles	Typically located at major intersections in neighborhoods, by major highways, or in proximity to other malls. Usually configured in a straight line as a strip, or may be in an L or U shape.
Neighborhood Center	30,000 to 125,000	3-5	Convenience-oriented anchor(s), typically a grocery and/or drug store.	Under 3 miles	Typically located in neighborhoods along a major commercial corridor or a major intersection. Usually configured in a straight line as a strip, or may be in an L or U shape.
Strip Center	Less than 30,000	Less than 3	Often not anchored, or anchored by a small convenience store.	Under 1 mile	Typically located in neighborhoods along commercial corridors; configured in a straight line as a strip.
General Retail	n/a	n/a	n/a	n/a	Free-standing and single-tenant commercial building (note that CoStar does not track ground floor retail in mixed use buildings).

*Standard classification used by CoStar.
Source: International Council of Shopping Centers, 2015; CoStar, 2018; Strategic Economics, 2018.

RETAIL SUPPLY BY RETAIL TYPE IN SAN JOSE

In 2016, San Jose had a total retail supply of over 36 million square feet, as shown in **Figure 2**. Nearly 40 percent of this space falls in the general retail category, i.e. these buildings are along retail corridors and are not included in a shopping center (see Figure 1). In total, 80 percent of San Jose's inventory focuses on selling "commodity" merchandise and serves a primary trade area of five miles or less; these are the community centers, neighborhood centers, strip centers and general retail. This type of space is primarily geared towards serving consumers' daily and weekly needs for food, drugs, basic services, and restaurants/prepared foods. There is an abundance of this type of space because it is oriented towards convenient locations for the customers, and places with high traffic volumes and visibility for the retailers.

In contrast, regional and super-regional malls, outlet centers, and power centers, which sell more specialty items or items that are bought on an infrequent basis, comprise a much smaller share of San Jose's retail inventory, as is expected given that these retail types serve a larger trade area than their convenience-oriented counterparts. In these malls, both higher (i.e. less discounted) prices and total sales volume drive overall retail performance.

Figure 3 shows new retail space added in San Jose between 2000 and 2016. San Jose added 6.5 million square feet of retail space since 2000, accounting for approximately 18 percent of the City's total current retail supply. More than half of this increase has been in power and community centers. Only 5 percent of this increase has been in super-regional and regional malls.

FIGURE 2. SAN JOSE RETAIL INVENTORY BY RETAIL TYPE, 2016

	Total Inventory (Sq. Ft.)	Percent of Total
Regional/Super-Regional Mall*	5,226,501	14%
Power/Outlet Center	2,103,486	6%
Community Center	4,559,230	13%
Neighborhood Center	8,018,237	22%
Strip Center	2,513,685	7%
General Retail	13,881,233	38%
Total	**36,302,372**	**100%**

*Westfield Valley Fair (a super-regional mall of 1.36 million square feet) is counted as part of San Jose's retail inventory.
Source: CoStar, 2016; Strategic Economics, 2018.

FIGURE 3. SAN JOSE RETAIL INVENTORY BY RETAIL TYPE, 2000 TO 2016

	Total Inventory, 2000**	Total Inventory, 2016***	Absolute Change, 2000 to 2016	Percent Change, 2000 to 2016	Percent of Total New Retail, 2000 to 2016
Regional/Super Regional Mall*	4,905,715	5,226,501	320,786	7%	5%
Power/Outlet Center	390,101	2,178,504	1,788,403	458%	28%
Community Center	3,128,336	4,709,230	1,580,894	51%	24%
Neighborhood Center	7,230,411	8,018,237	787,826	11%	12%
Strip Center	2,268,755	2,522,669	253,914	11%	4%
General Retail	12,174,096	13,901,220	1,727,124	14%	27%
Total	**30,097,414**	**36,556,361**	**6,458,947**	**21%**	**100%**

*Westfield Valley Fair (a super-regional mall of 1.36 million square feet) is counted as part of San Jose's retail inventory.
**Includes inventory that was classified as "Year built unknown."
***Includes inventory that was classified as "Under Construction" in 2016. This is why the totals differ slightly from Figure 2.
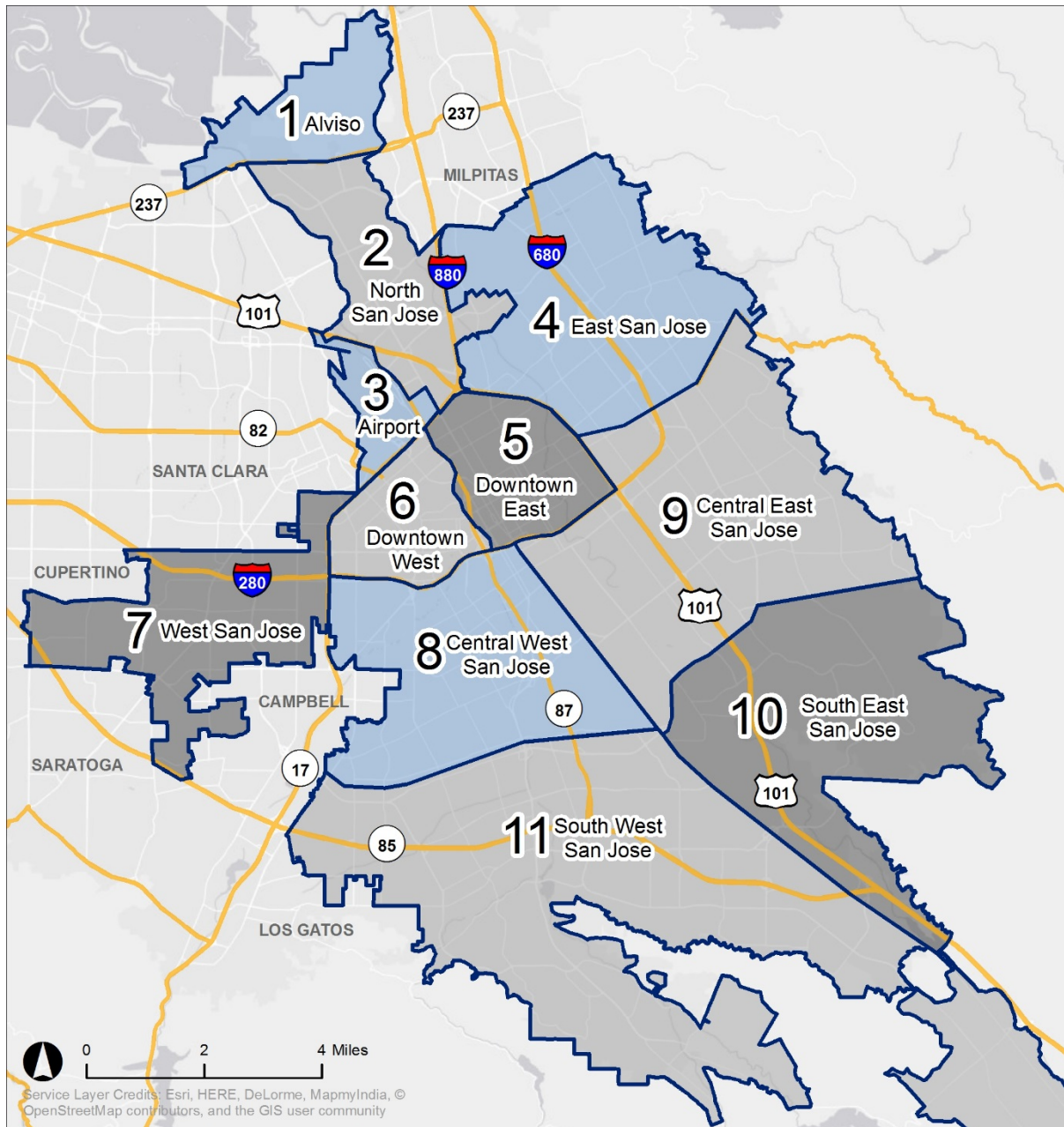Source: CoStar, 2016; Strategic Economics, 2018.

RETAIL SUPPLY BY SUBAREA IN SAN JOSE

Retail supply is very sensitive to location. Therefore, to track the match between supply and demand by neighborhood, this report identifies 11 Subareas within the City, as illustrated in **Figure 4**. **Figure 5** summarizes San Jose's retail inventory by retail type and by Subarea, and **Figure 6** maps the inventory of major retail centers and corridors within these Subareas.

Southwest San Jose has both the largest overall inventory of retail space, and the greatest diversity in retail type. The Downtown East Subarea (i.e. including the Downtown Core) and the Downtown West Subarea (west of Highway 87) have the highest proportions of general retail and the lowest amount of retail space housed in retail centers. The North and the Southeast Subareas have the smallest total supply.

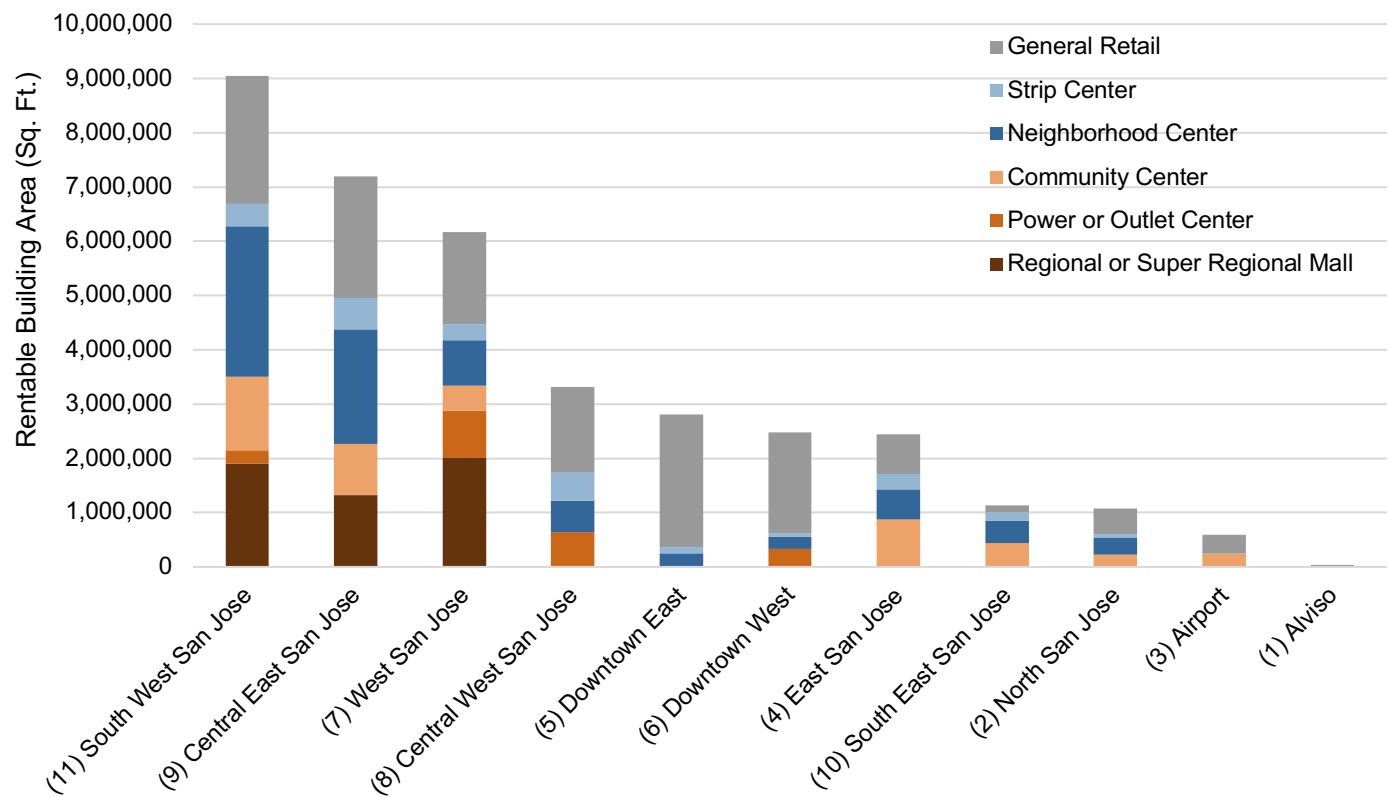FIGURE 4. RETAIL SUBAREAS OF ANALYSIS

San Jose Retail Strategy Subareas of Analysis

☐ Subareas

— Major Highway

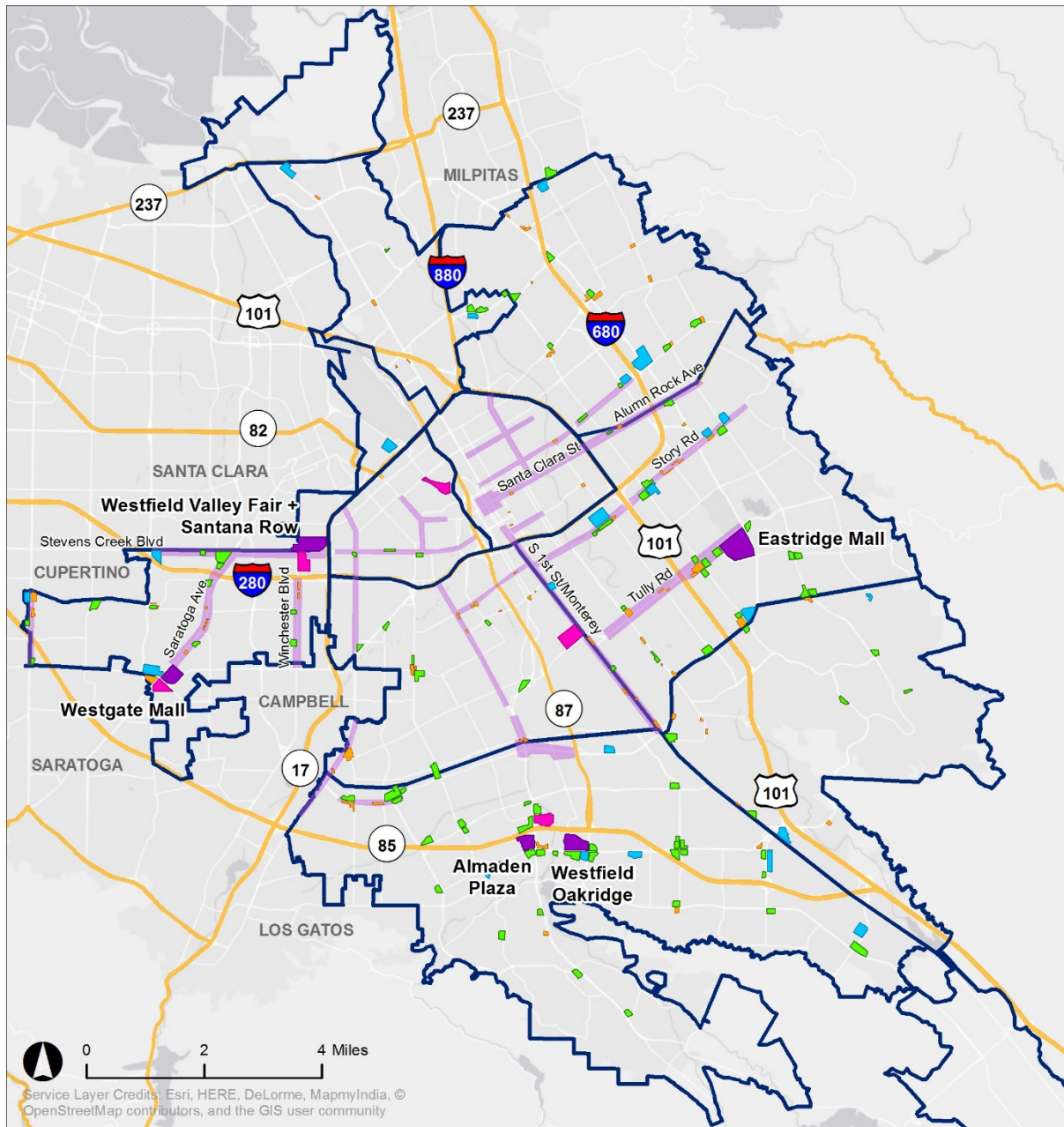Sources: CoStar, 2016; City of San Jose, 2016; Strategic Economics, 2018.

FIGURE 5. SAN JOSE RETAIL INVENTORY BY RETAIL TYPE AND SUBAREA, 2016*


*Westfield Valley Fair (a super-regional mall of 1.36 million square feet) is included in Subarea (7) West San Jose's retail inventory.
Source: CoStar, 2016; Strategic Economics, 2018.

FIGURE 6. MAJOR RETAIL CENTERS AND CORRIDORS IN SAN JOSE, 2016

Major Retail Centers and Corridors in San Jose, 2016

Retail Center by Type

- Super Regional and Regional Mall
- Power and Outlet Center
- Community Center
- Neighborhood Center
- Strip and Convenience Center

- Major Retail Corridor (General Retail)
- Subareas
- Major Highway

Sources: CoStar, 2016; City of San Jose, 2016; Strategic Economics, 2018.
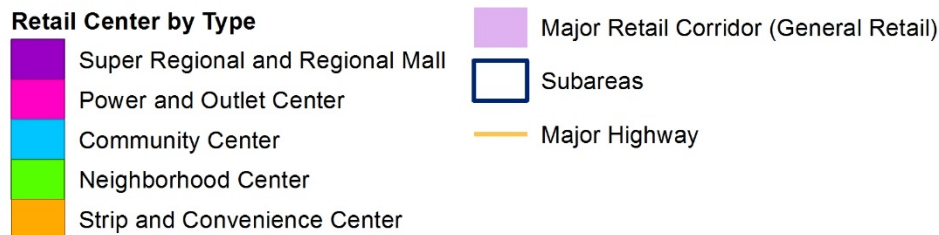
STRATEGIC ECONOMICS

Retail Demand

In selecting a store location, every retailer evaluates the potential trade area's demographic profile to determine if the area's demographics are consistent with that retailer's target customer base, including such factors as population, income, daytime population (workers), and traffic patterns. Different retailers consider different types of data, for example by including households and household size, rather than only considering simple population counts.
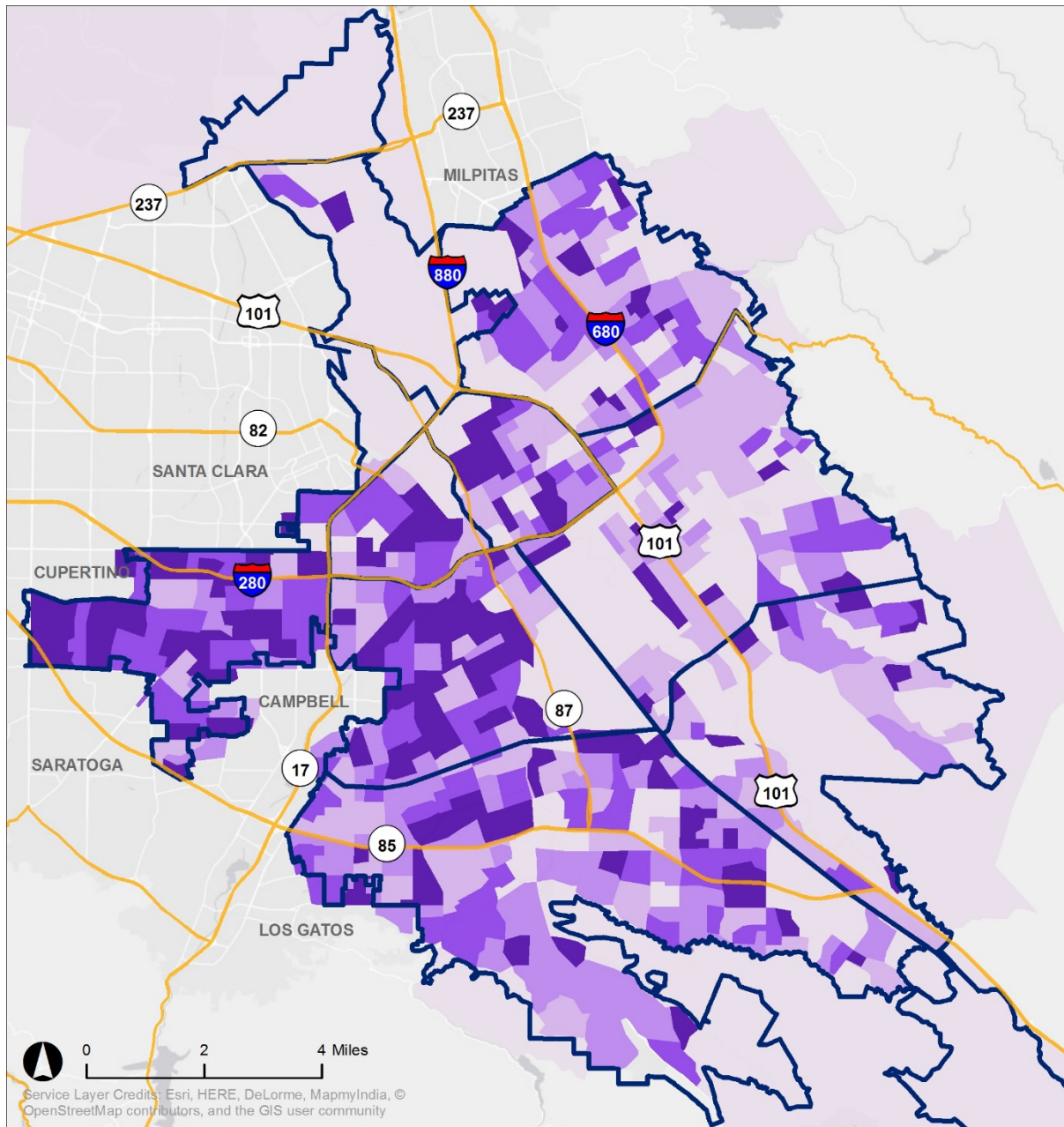
Because this retail strategy is general, rather than focused on any given retailer or retail type, retail demand in this analysis is quantified using a general approach broken out by Subarea. **Figure 7** shows population, number of households, household size, income, as well as total population per square mile by Subarea. The population per square mile metric standardizes population density across the different Subareas since these areas vary considerably in total size. This information is complimented by **Figure 8,** which shows aggregate income (a combined "buying power" measure which combines population density with per capita incomes). **Figures 7 and 8** reinforce the findings from the Retail Supply discussion above by showing that there is a more limited retail supply in areas with limited demand. Again, using South East San Jose as an example, this Subarea has a total population of over 100,000 people, but residents are scattered in a low-density development pattern of approximately 3,400 people per square mile, as compared to the Citywide average density of 5,700 people per square mile.

FIGURE 7. POPULATION, HOUSEHOLDS, AND PER CAPITA INCOME IN SAN JOSE SUBAREAS, 2016
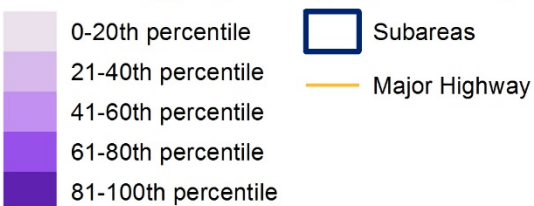
	Population	Households	Average Household Size	Population Density (Persons per Square Mile)	Median Household Income (2016 Dollars)
San Jose Subareas					
(1) Alviso	1,957	635	3.1	87	$77,734
(2) North San Jose	21,366	9,065	2.4	2,884	$129,456
(3) Airport	9,099	3,117	2.2	2,791	$79,385
(4) East San Jose	139,260	41,201	3.3	6,196	$85,471
(5) Downtown East	74,594	23,760	2.8	13,092	$60,734
(6) Downtown West	33,078	13,279	2.4	7,660	$80,240
(7) West San Jose	107,335	38,214	2.8	9,756	$94,786
(8) Central West	115,398	42,918	2.7	7,759	$90,209
(9) Central East	209,763	50,320	4.1	10,518	$68,755
(10) South East San Jose	103,613	28,482	3.6	3,428	$102,779
(11) South West San Jose	216,049	73,200	2.9	3,360	$104,592
City of San Jose	**1,009,363**	**317,317**	**3.1**	**5,718**	**$90,303**
Santa Clara County	**1,885,056**	**626,579**	**3.0**	**1,460**	**$101,173**

Source: U.S. Census ACS 5-year estimates, 2012-2016; Strategic Economics, 2018.

FIGURE 8. SAN JOSE AGGREGATE BUYING POWER BY SUBAREA, 2014

San Jose Aggregate Buying Power by Subarea, 2014*

Legend:
- 0-20th percentile
- 21-40th percentile
- 41-60th percentile
- 61-80th percentile
- 81-100th percentile
- Subareas
- Major Highway

*Aggregate buying power is estimated using aggregagte income per square mile, which was calculated by summing per capita income and population at the block group level using 2010-2014 ACS 5-year estimates. The data is summarized by quantile at the block group level.

Sources: U.S. Census ACS 2010-2014 5-year estimates; City of San Jose, 2016; Strategic Economics, 2018.
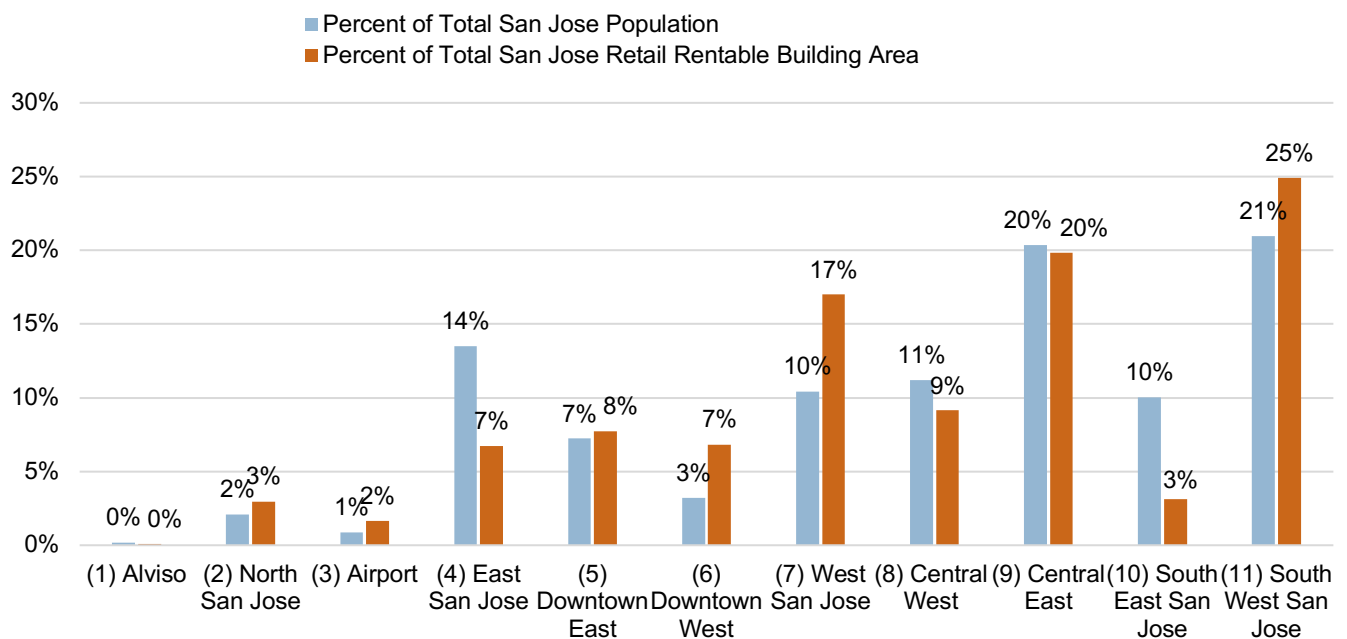
STRATEGIC ECONOMICS

The Match Between Demand and Supply

As shown in **Figure 9**, San Jose's total retail space is not equally distributed throughout the City, with some Subareas holding a greater share of retail space as compared with their share of total population. The comparison between proportional share of population to proportional share of retail inventory,[7] however, can be overly simplistic in that it does not fully capture the fact that some locations within San Jose are better situated to capture a higher volume of retail sales from a larger or expanded trade area than others, primarily due to traffic patterns. Therefore, these more accessible areas have a larger proportional share of retail sales and/or larger shopping center types, as was also shown in **Figures 5 and 6** above.

For example, Southwest San Jose includes the intersection of Highway 85, an important regional east/west route across the southern part of the City, with Highway 87 and the Almaden Expressway, two key north/south routes through the City. This is an ideal place to capture traffic from both City residents and consumers passing through San Jose from residential communities in southern Santa Clara County to employment areas in the northern and northwest parts of the County. In contrast, South East San Jose has a relatively low ratio of retail space per capita in part because San Jose becomes a less accessible "dead end" east of Highway 101, with development stopping at the edge of the hillsides.

FIGURE 9. PROPORTIONAL SHARE OF POPULATION AND RETAIL SPACE BY SUBAREA

Source: U.S. Census ACS 5-year estimates, 2012-2016; CoStar, 2016; Strategic Economics, 2018.

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[7] Measured in terms of Rentable Building Area (RBA), in square feet.

Aggregate buying power, expressed by combining population density and income, further illustrates why some Subareas are better suited for more retail activity than others, as shown in **Figure 8** above. Subareas located east of Monterey Highway and south of Highway 280/680 tend to have more places with lower aggregate buying power than Subareas to the west. These areas are served by community and neighborhood centers, but not by larger centers that require strong access from all directions. The only regional shopping center on the City's east side, Eastridge Mall, is located at the intersection of Tully Road and Capital Expressway, a high-traffic intersection that allows Eastridge to draw from a larger and multi-directional trade area.

Furthermore, in comparing supply and demand dynamics from 2000 to 2016, San Jose added 6.5 million square feet of retail space, a 21 percent increase, while only adding 114,000 people, a 13 percent increase. In 2000, the City had 34 square feet per capita, and in 2016, despite significant population growth this number increased to 36 square feet per capita. To make the point clearer, when comparing net new retail space to net new population since 2000, San Jose added 56 square feet of new retail space for every new city resident, as shown in **Figure 10**.

Figure 11 shows the change in retail inventory and population by Subarea between 2000 and 2016. Alviso is the only Subarea that did not add retail inventory, corresponding to a lack of population growth.[8] Other Subareas that had rapid population growth, including North San Jose and the area around the airport, also experienced significant increases in retail supply. Subareas in which the retail inventory grew more rapidly than population (e.g. Central West, West, South West San Jose…) are at the City's periphery and/or where traffic volumes are high, allowing these newer retail developments to capture demand from a trade area extending beyond San Jose's boundaries (a positive from a retail leakage point of view).

FIGURE 10. SAN JOSE'S RETAIL INVENTORY AND POPULATION, 2000 TO 2016

	City of San Jose
Population, 2000	894,943
Population, 2016	1,009,363
Absolute Change, 2000 to 2016	114,420
Percent Change, 2000 to 2016	13%
Retail Inventory (Sq. Ft.), 2000*	30,097,414
Retail Inventory (Sq. Ft.), 2016**	36,556,361
Absolute Change (Sq. Ft.), 2000 to 2016	6,458,947
Percent Change (Sq. Ft.), 2000 to 2016	21%
Retail Sq. Ft. Per Capita, 2000	34
Retail Sq. Ft. Per Capita, 2016	36
New Retail Sq. Ft. Per New Capita, 2000 to 2016	56
Percent Change, 2000 to 2016	8%

*Includes inventory that was classified as "Year built unknown."
**Includes inventory that was classified as "Under Construction" in 2016 as well as 1.36 million square feet for Westfield Valley Fair.
Source: U.S. Census ACS 5-year estimates, 2012-2016; CoStar, 2016; Strategic Economics, 2018.

[8] It should be noted that a 100,000 square foot retail center was approved, but it remains uncertain if and when this development will proceed.

|	Percent Change in Retail Inventory, 2000 to 2016	Percent Change in Population, 2000 to 2016
(1) Alviso	0%	-12%
(2) North San Jose	134%	261%
(3) Airport	72%	326%
(4) East San Jose	19%	6%
(5) Downtown East	4%	17%
(6) Downtown West	27%	24%
(7) West San Jose	17%	8%
(8) Central West San Jose	31%	11%
(9) Central East San Jose	19%	7%
(10) South East San Jose	36%	16%
(11) South West San Jose	17%	7%
San Jose Total	**21%**	**13%**

Source: U.S. Census ACS 5-year estimates, 2012-2016; CoStar, 2016; Strategic Economics, 2018.

Retail Location Factors

In addition to trade area population counts and demographic profiles, accessibility, visibility, and site-specific attributes are other important retail location factors. Traffic patterns and volumes are a key determinate of retail location. **Figure 12** shows traffic counts at key intersections within San Jose to illustrate the significant correspondence between traffic volumes and retail activity. All of the City's major retail concentrations are sited on highways and/or high volume arterial streets, with the strongest locations typically at the intersection of north/south and east/west roads.

Retailers select a specific location for a store within a trade area based on availability of appropriate sites, as well as the attributes a given site might possess. For example, a well-located site with ample visibility and parking but limited vehicular and/or pedestrian access is sub-optimal for retail, whereas a site with all three attributes would be more desirable.

FIGURE 12. SAN JOSE AVERAGE DAILY TRAFFIC COUNTS, 2005 TO 2017
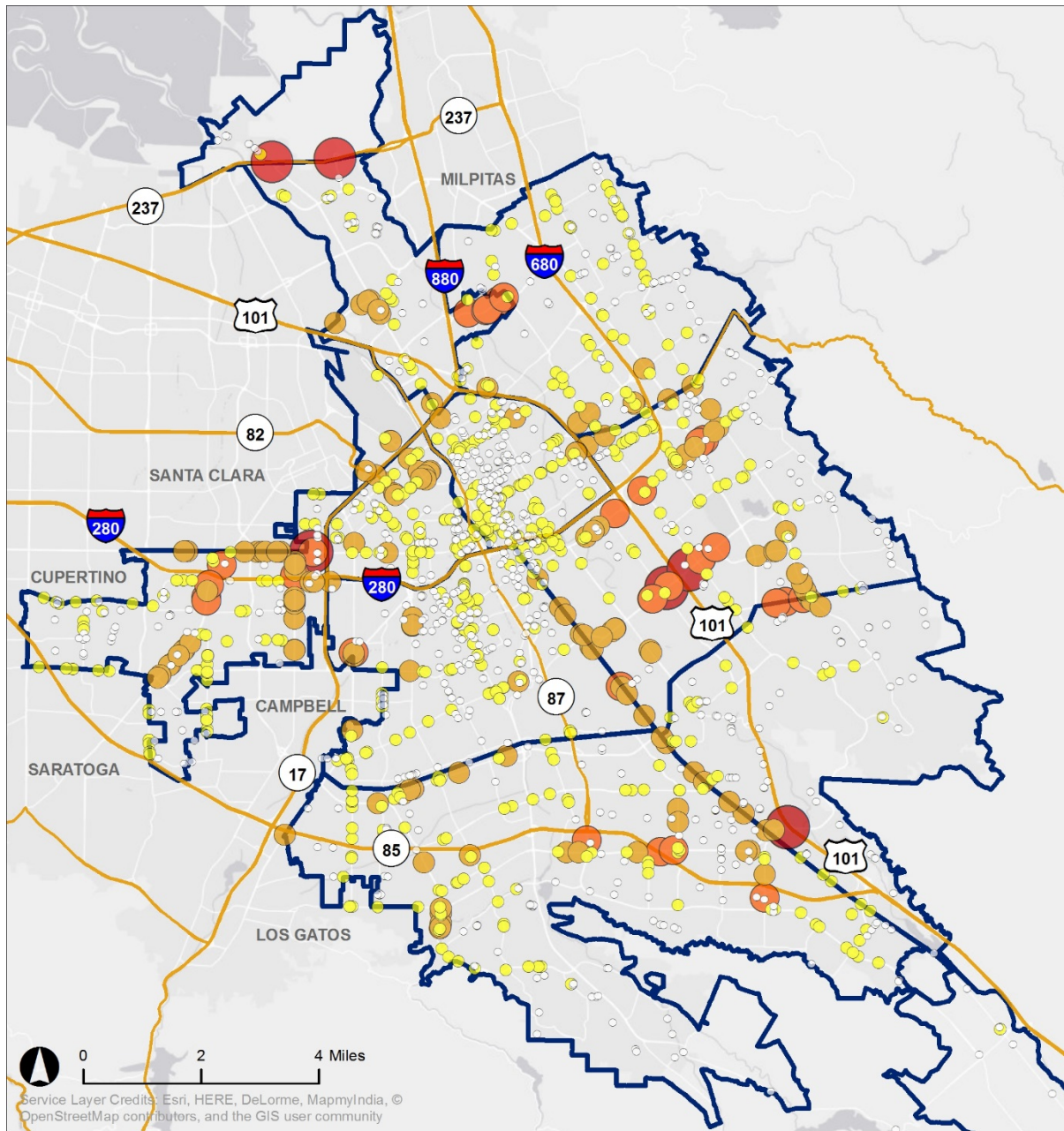
San Jose Average Daily Traffic Counts, 2005-2017

Average Daily Traffic Counts (All years available, 2005-2017)

- 0 - 10,000
- 10,001 - 25,000
- 25,001 - 40,000
- 40,001 - 50,000
- 50,001 - 100,000+

☐ Subareas
— Major Highway

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

San Jose's Existing Retail Context: Key Findings

The following are key findings regarding the existing retail context in San Jose.

San Jose's retail supply continues to grow and evolve. Since the early 2000s when San Jose began to track the City's fiscal health with land use patterns, the City's retail inventory has increased more quickly than population, demonstrating that the retail industry continues to look for opportunities to expand in San Jose.

Locations in San Jose with strong access and/or population growth have attracted the greatest growth in retail supply. Looking towards the future, opportunities for retail expansion will most likely focus on areas where population growth is expected to occur, and where there are increasing traffic volumes connecting jobs to housing across the City and within Santa Clara and Alameda Counties.

Increasing retail supply does not necessarily equate to a corresponding increase in retail sales. New retail space is sometimes built in response to growing demand (e.g. population growth). But in other instances, new space may be built in response to changing consumer preferences and/or retail industry trends. In this latter case, new space primarily draws market share away from existing retail space, so net new retail sales activity may be limited.

[Other sections to come]