San Jose Citywide Retail Strategy: Part I

City of San Jose

Community and Economic Development Committee

Why Do a Citywide Retail Strategy?

1. Shopping opportunities are essential to the quality of life in any major city
2. Sales tax revenues are the second largest single revenue source for San Jose's General Fund
3. Supporting retail activity has been an ongoing objective for Envision 2040

Strategy Outline

I. National Retail Industry Trends

II. San Jose's Existing Retail Context

Today's Discussion

III. San Jose's Retail Performance

IV. Strategies

For Discussion in August

Strategy Goals and Timeframe

- **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.**

- Timeframe of this strategy: 3-5 years

National Retail Industry Trends

The Retail Industry is not Dying, but Rather Reorganizing Itself

- Significant retrenchment in the retail industry i.e. flurry of stores closures, huge job layoffs, and millions of square feet of vacant retail space.

- The industry is responding to consumer behavior and technology changes - as it always has.

- It’s not an apocalypse. People are still “buying a lot of stuff”, but they are buying it differently. The retail industry reorganizing itself with more efficient and responsive retailers.

The Future of Retail

- The role of internet sales and e-commerce continues to expand.
- The U.S. is generally considered "over retailed".
- Shopping centers were traditionally tenanted by retail stores, but they are increasingly turning towards entertainment anchors, e.g. movie theaters, food courts, brew pubs, bowling alleys, spas, grocery stores, etc.
- Retailers are becoming particularly concerned about the type of property or center in which they locate.
- Shoppers are increasing drawn to high quality retail environments.

San Jose’s Existing Retail Context

Retail Stores can be Distilled in Two Types...

- **Commodity Retail**
  - Driven by convenience and price
  - Purchased on a regular basis from "primary" household funds
  - More susceptible to competition from e-commerce

- **Specialty Retail**
  - Driven by "the experience" – often includes eating, drinking, entertainment
  - Purchased/consumed on an optional basis using "discretionary funds" and consumed during "free" or "discretionary" time, usually with emotional attachment
  - Unique and attractive combination of tenant mix and environment.
  - Remaining competitive in the face of e-commerce

Stores Cluster into Shopping Center Types

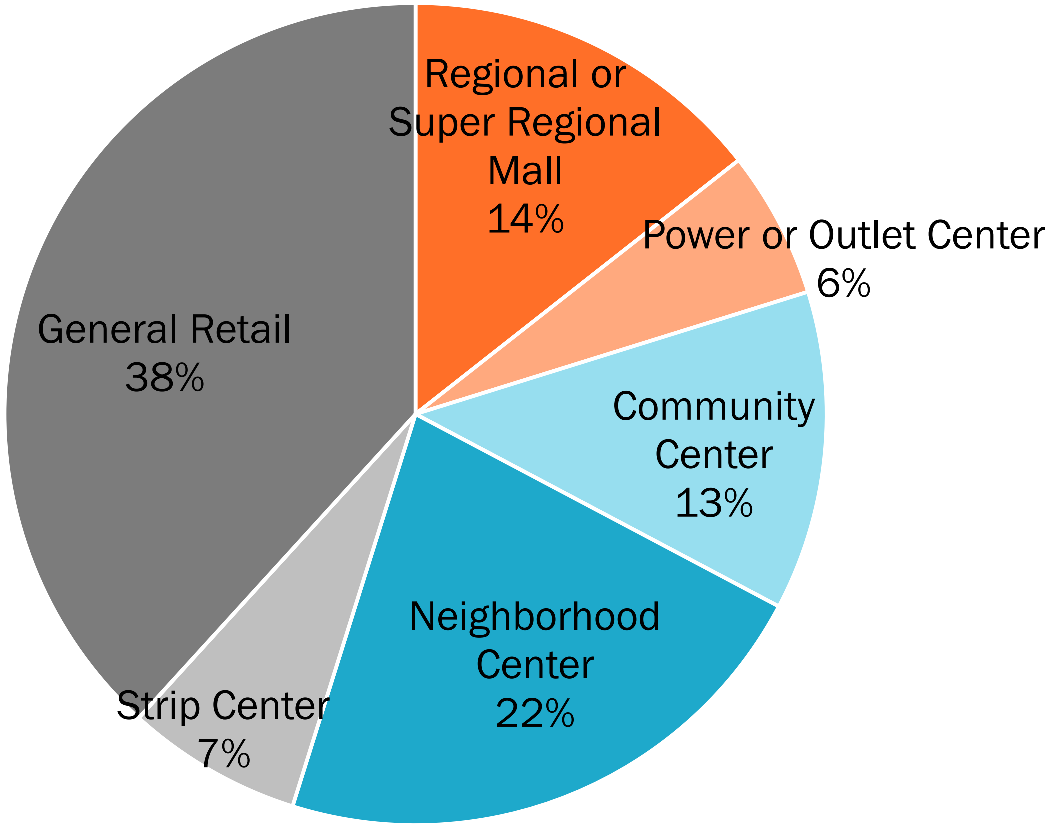
Retail Type	Typical Square Feet	Typical Trade Area	Commodity/ Specialty	San Jose Example
Regional and Super-Regional Mall	400,000 to 1 million+	5-25 miles (5-15 miles for regional malls)	Specialty	Westfield Valley Fair (West San Jose)
Power or Outlet Center	250,000 to 600,000	5-10 miles (may be more for outlets)	Specialty	The Plant (Central West San Jose)
Community Center	125,000 to 400,000	3-5 miles	Commodity/ Specialty	Capitol Square Mall (East San Jose)
Neighborhood Center	30,000 to 125,000	Under 3 miles	Commodity	Quimby Square (Central East San Jose)
Strip Center	Less than 30,000	Under 1 mile	Commodity	Bel Air Plaza (North San Jose)

Source: CoStar, 2016; Strategic Economics, 2018.

Retail Supply by Retail Type, 2016

- Total 36 million square feet of retail (36 sq. ft. per person)
- Majority (80 percent) is focused on selling commodity goods

San Jose Retail Inventory by Retail Type, 2016*



*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.

Growth in Retail Supply, 2000 to 2016

- Over 6 million new square feet of retail added since 2000 – about 18% of current inventory
- Mostly in power and community centers

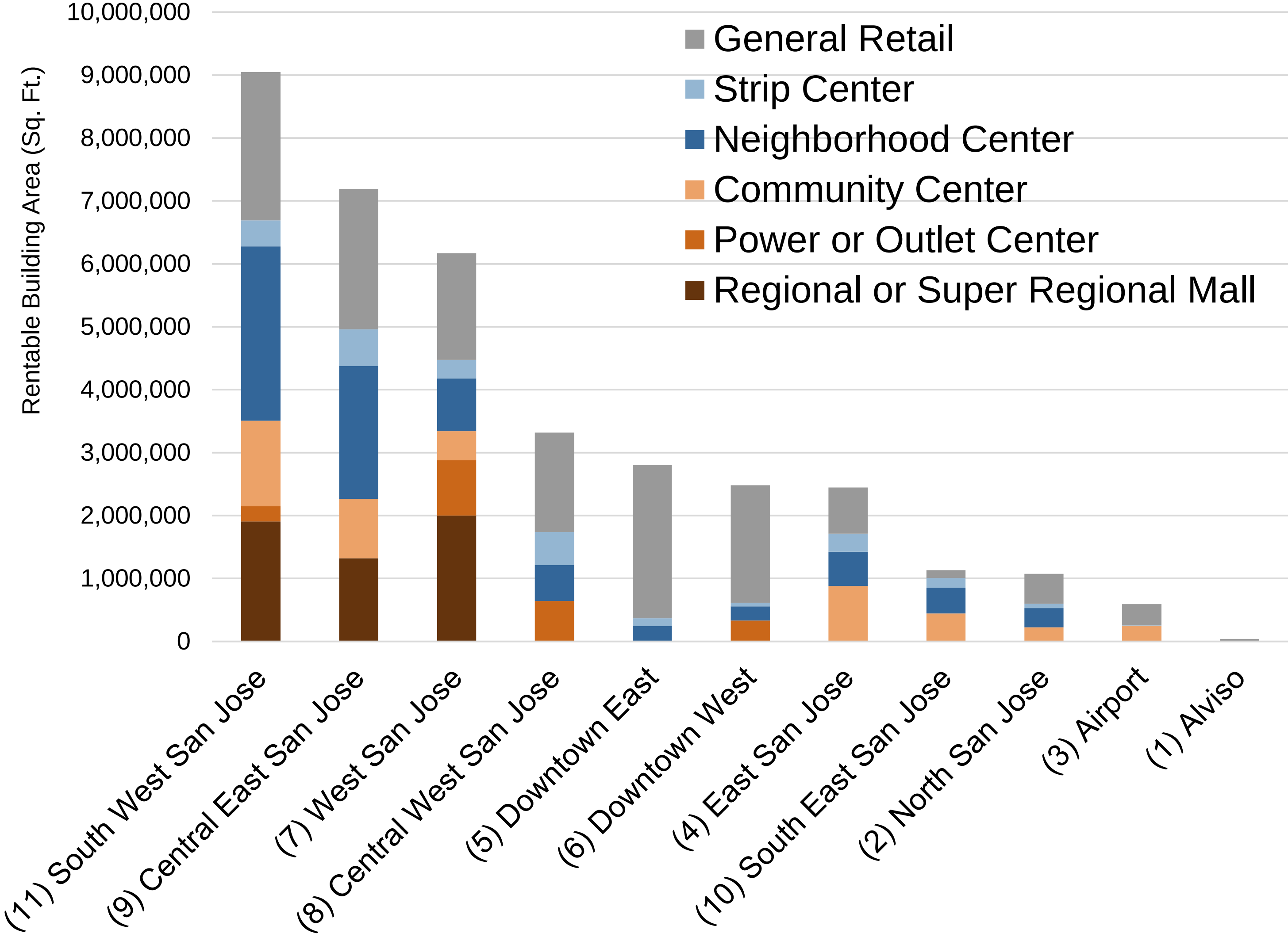
San Jose Retail Inventory by Retail Type, 2000 to 2016

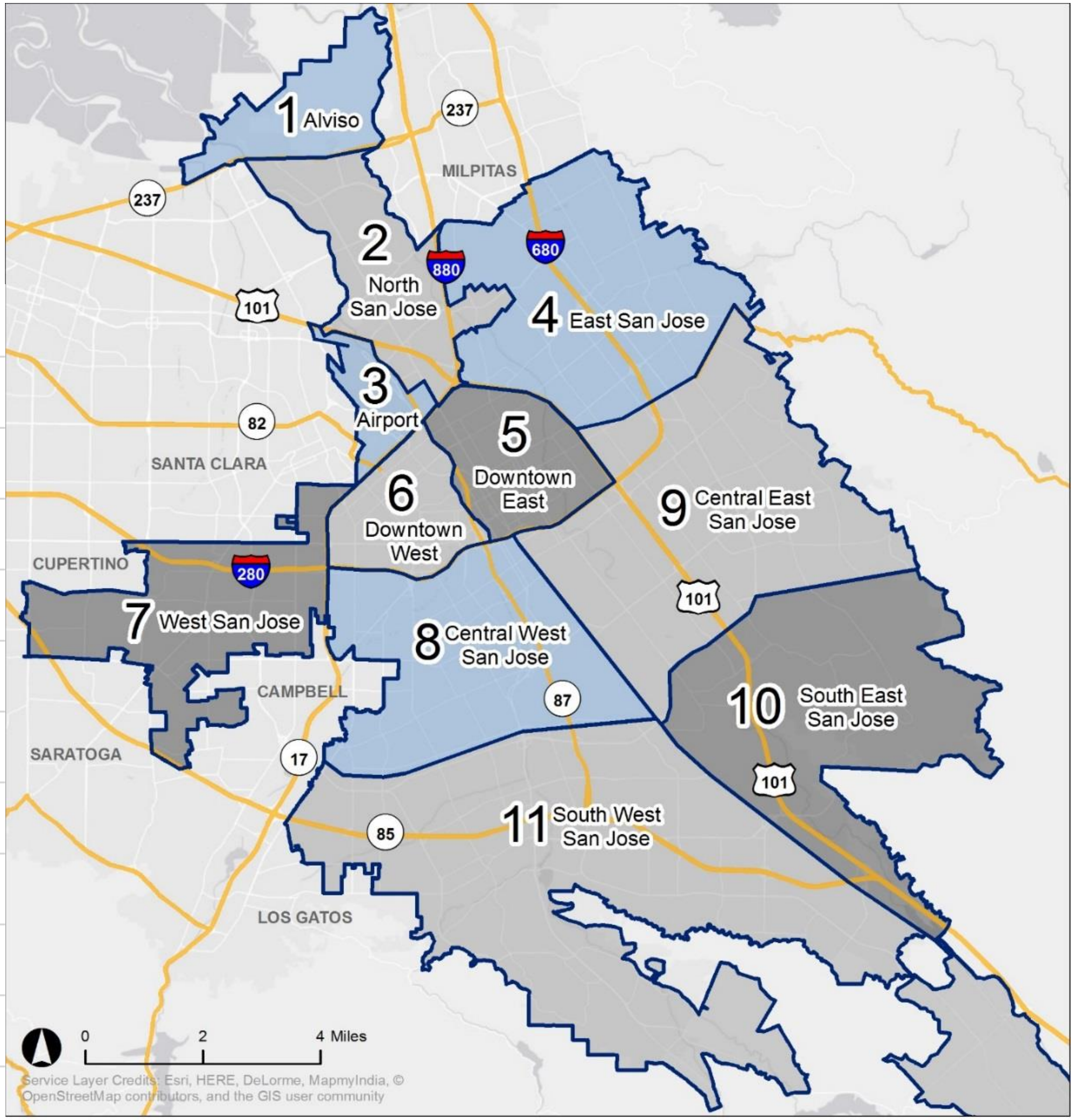
	Total Inventory, 2000**	Total Inventory, 2016***	Absolute Change, 2000 to 2016	Percent Change, 2000 to 2016	Percent of Total New Retail, 2000 to 2016
Regional/Super Regional Mall*	4,905,715	5,226,501	320,786	7%	5%
Power/Outlet Center	390,101	2,178,504	1,788,403	458%	28%
Community Center	3,128,336	4,709,230	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.

San Jose's Existing Retail Context

Retail Supply by Strategy Subarea





San Jose Retail Strategy Subareas of Analysis

Subareas

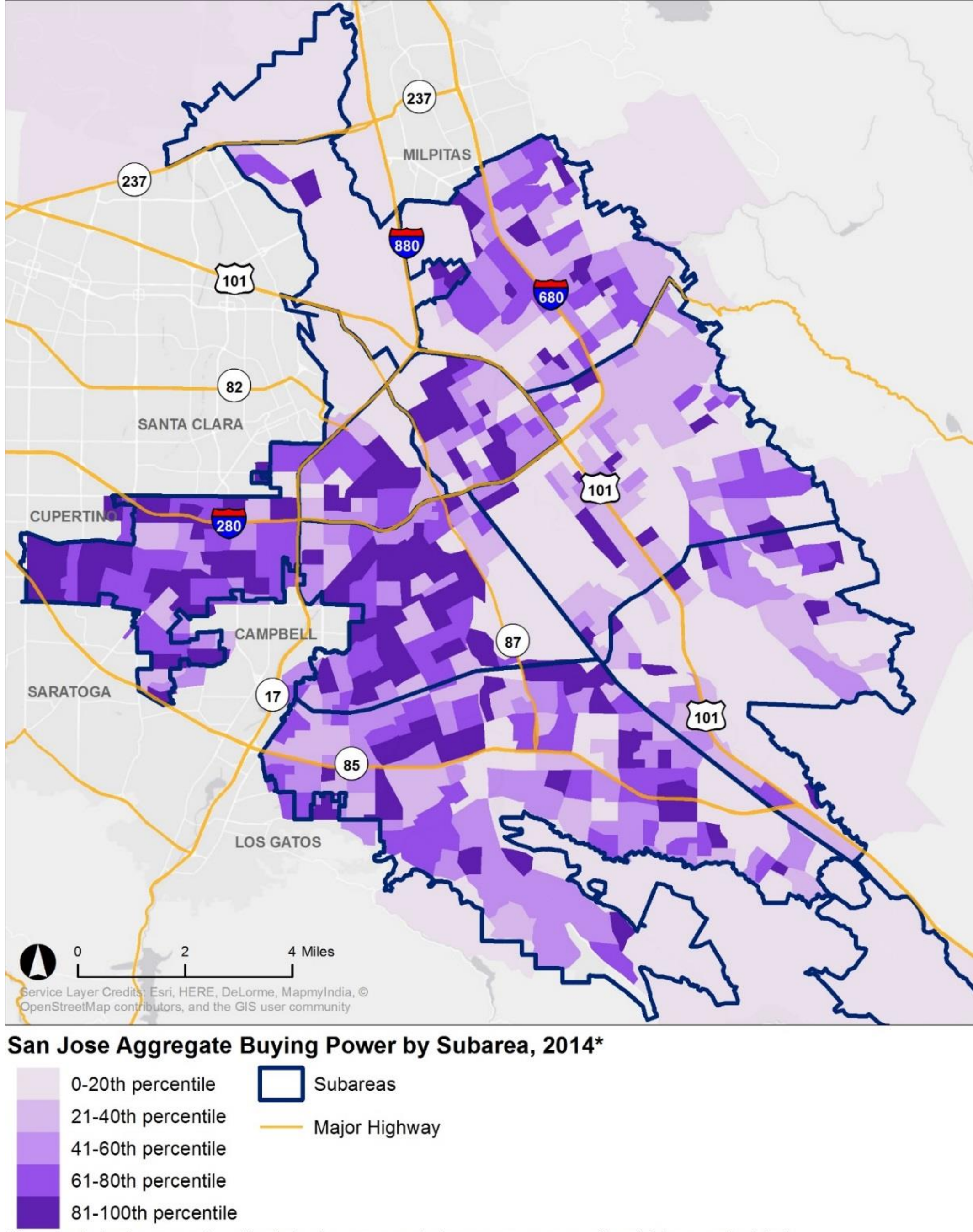
Major Highway

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

STRATEGIC ECONOMICS

Consumer Buying Power (Demand)

- "Buying power" measure combines population density with per capita incomes
- Even if some areas have very high incomes, they have very low population densities, and therefore struggle to attract retail (e.g. South East San Jose).



San Jose Aggregate Buying Power by Subarea, 2014*

*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.

Changing Supply vs. Growth in Demand - Citywide

- Retail supply grew much faster than population.
- For each new person in San Jose, 56 new square feet of retail were added.

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.

Changing Supply vs. Growth in Demand – by Subarea

- **North San Jose** and the **airport area**, experienced **significant increases** in retail supply.
- Subareas in which the retail inventory grew more rapidly than population (**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).
- **Downtown East**: added significant population but **limited supply**.
- There is a proposed "freeway oriented" shopping center in **Alviso**, but unclear if it will move forward. Alviso did not grow in population.

Percent Change in Retail Inventory and Population by Subarea, 2000 to 2016

	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%**

*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.

Key Findings

- San Jose's retail supply continues to grow and evolve.
- Locations in San Jose with strong access and/or population growth have attracted the greatest growth in retail supply.
- Increasing retail supply does not necessarily equate to a corresponding increase in retail sales.

STRATEGICECONOMICS

Citywide Retail Strategy Next Steps

- Finalize data/analysis on retail performance
- Outreach with retail community/stakeholders
- Return in fall with
  - Retail workplan
  - Strategy and Resources for Implementation

Questions/Discussion