SAN JOSE CITYWIDE RETAIL STRATEGY

Strategic Economics and Greensfelder Real Estate Strategy

Prepared for: City of San Jose

Date: October 26, 2018

TABLE OF CONTENTS

TABLE OF FIGURES

I. EXECUTIVE SUMMARY

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 topics which have been translated 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.

The Evolving Retail Industry: Key Findings

Americans will continue to shop, but where and how they shop, and what impacts their shifting patterns will have on retailers, developers/property owners, cities, and ultimately on consumers themselves 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:

- **The retail industry is not collapsing, it is reorganizing.** In 2017, consumers expenditures in the U.S. hit an all-time high, despite many major retail store closings and significant job losses. These apparently diverging trends reflect the newest innovations in the retail industry's ongoing efforts to achieve greater efficiencies to increase profitability. While retail industry restructuring has happened many times before now, previous innovations were driven by new store and shopping center models. The difference today is that the new retail model, including e-commerce, greatly reduces the demand for physical stores and shopping centers.
- **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).[1] The United States has a large supply of low-density retail space, primarily concentrated in shopping centers,

1 International Council of Shopping Centers, Shopping Center GLA Per Capita, Country Fact Sheets 2015.

which until recently, continued to grow rapidly.[2] 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.[3] A city can benefit itself by getting ahead of this trend from a planning perspective.

- **The role of internet sales and e-commerce continues to expand.** Nationwide, online sales account for an increasingly larger portion of total sales[4] 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 as well as offering new uses, including housing and office space.** 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 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.

---

2 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

3 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

4 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

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 in relation to 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.
- **Traffic volumes and site visibility continue to drive most of San Jose's retail expansion.** Since 2000, many parts of San Jose have seen a greater increase in their proportional share of retail rather than population growth, however, when the specific expansion areas are considered with respect to traffic volumes, most of this new retail growth can be explained by increased traffic flows between job rich areas in northwestern Santa Clara County, and residential areas in south San Jose and southern Santa Clara County. In contrast, looking towards the future, opportunities for retail expansion will most likely focus on infill areas where population growth is expected to occur, but within those areas where there are increasing traffic volumes connecting jobs to housing across the City and within Santa Clara and Alameda Counties.
- **Retail supply is in transition.** In considering the relationship between retail supply and demand, it is important to recognize that San Jose has more retail space on a per capita than the United States as a whole. As noted in the just released ULI Emerging Trends in Real Estate 2019, we can expect that some sub-marginal retail space will be repurposed for other uses. These other uses will then create additional demand for retail, creating a new equilibrium. San Jose is perfectly poised to take advantage of this trend, and can expect market forces to create a bit less retail space, but for that retail space to be more compelling and productive for the City's citizens and visitors alike.

San Jose's Retail Performance: Key Findings

- **Most of San Jose's neighborhoods are adequately served by existing retail facilities to meet daily needs and commodity shopping needs, and the City is unlikely to add more than one new grocery-anchored shopping center in the next three to five years.** The Downtown East San Jose Subarea could likely support an additional grocery anchored shopping center. From a retail location perspective, the best location for a new full-service grocery store would be at the corner of East Santa Clara and N. 14th Streets, which falls in the East Santa Clara Urban Village. The East Santa Clara Urban Village Plan (scheduled for adoption in fall 2018) would allow for a full-service grocery store. Entitlement applications for a mixed-use project at this site are expected to be submitted by the property owner, the County of Santa Clara, in the summer of 2018.
- **As North San Jose continues to grow, this Subarea will need more shopping facilities. This area might support a new small-scale grocery store today, despite competition from the nearby Target and grocery stores located in Santa Clara and Milpitas.** This demand can be accommodated in the former Fresh and Easy space. As additional demand in the form of population growth occurs, a full-service grocery store or even an entire shopping center might be called for. With recent updates to the North San Jose Development Policy, this area could support additional retail activity located in mixed use buildings that have design attributes (e.g. access, visibility, parking, ease of wayfinding, etc.) conducive to retail, if the commercial

space is located primarily along Zanker Road north of River Oaks Parkway where supporting traffic volumes are high and there is good transit accessibility.

- **Despite changing retail industry trends, San Jose's major shopping centers are performing relatively well, however, shopping center repositioning is likely to continue taking place in the next few years.** Malls like Westfield Valley Fair and Eastridge have already demonstrated their value and resilience by expanding and/or refreshing their image and trade area targets. Malls like Westfield Oakridge will likely require new investment in the next few years to remain competitive.
- **Retail chain store closures have impacted San Jose's shopping centers but are not likely to cause any major centers to close completely.** In recent years many national retail chains have either gone out of business, or significantly reduced their number of stores. While these closures have impacted San Jose's shopping centers, this activity has not shuttered an entire center as has been the experience in other parts of the country. The bigger challenge will be related to free-standing stores that are not part of a larger center, or not part of a consolidated property ownership group. These types of sites will be the most challenging to refill with retail uses and may eventually need to be reconsidered for other types of non-retail uses. A trend of owners looking to repurpose vacant retail space into other uses is expected to increase over time.
- **Over the next few years, several of these major shopping centers may consider adding new non-retail uses.** These could include hotel and office space, but also high-density housing. Mall owners will be looking for ways to add value for their investors by creating mixed use places, often with a more "urban" character.
- **San Jose's "commodity-oriented shopping centers" are, for the most part, performing as expected.** This assessment is based on current data available, however, as the retail industry (including major grocery chains) continues to consolidate, these centers may face significant market changes starting in the next five years.
- **Areas with high traffic counts and proximity to existing successful retail concentrations can continue to attract increased retail activity.** The areas within San Jose that have high traffic volumes and provide good connections between large regional employment centers and large residential populations are attractive locations for expanding retail activity.
- **There are multiple retail categories for which San Jose could increase its sales activity. Increased activity in some categories, notably new car sales, will most likely come from increased sales at existing outlets, whereas other retail categories could expand by both increasing sales at existing stores *and* attracting new stores to the City.** Finally, retail categories that can best support existing centers and shopping districts include: apparel, sporting equipment, restaurants, food stores and beverage stores, and florists.
- **Given the significant evidence that the U.S. retail sector is generally overbuilt and that the number of available tenants is decreasing in existing shopping centers, including the ones in San Jose, non-retail uses will continue to be introduced in formerly retail-only projects** – such has office space, residential development, hotels, athletic facilities, etc. An obvious consequence of repositioning [parts of] major shopping centers with non-retail uses is that sales tax revenues for San Jose may decrease, however, this decrease is not anticipated to happen on a straight-line basis. Weaker retailers will go away first, while those that best adapt to an evolving retail marketplace will continue to attract customers, and potentially strengthen. That said, it is generally recommended that the City plan for a long-term trend of static or decreasing sales tax revenues, and the need to repurpose vacant retail space, preferably for other commercial uses. The repurposing of space will have the benefit of creating demand for goods and services for retail.

Strategies for Expanding San Jose's Retail Activity

Strategy 1: Prepare promotional materials to clearly present San Jose's strengths and successes as a retail location.

San Jose has many excellent success stories to tell about its sustained retail health, the success of individual retailers, its overall growth in retail space, and its changing locational advantages (i.e. San Jose used to be at the edge of Santa Clara County's population, but due to increased development in the southern County, San Jose is becoming more centrally located with respect to the overall South Bay region). Furthermore, San Jose is expected to add another 120,000 households and 380,000 jobs by 2040, the majority of whom will be located north of Highway 280 based on the Envision 2040 General Plan Growth Areas. This population/employment increase represents an opportunity for retailers to understand how and where San Jose is changing, and what this could mean for future investment opportunities.

Strategy 2: Continue coordinating with Santa Clara County regarding future uses for the County owned site at East Santa Clara and N. 14th Streets.

This is the best opportunity site for additional retail development in the primary neighborhood that is currently underserved by retail activity. Therefore, the City can continue to work with the County to proactively pursue a significant retail component to any future development project at this site, including a major grocery store.

Strategy 3: Coordinate future development in North San Jose to ensure retail elements are viable and enhance the area's evolution as a walkable, mixed use community.

Since 2000, North San Jose has been one of San Jose's fastest growing areas as measured by both population and retail space increases. The eventual re-opening of housing a represents a significant opportunity to build on North San Jose's existing residential concentrations, add support for new retail activity, and contribute to various potential place making activities recommended in the North San Jose Retail Strategy adopted in 2017. The intersection of Zanker Road and River Oaks Parkway and the on-ramp to Highway 237 at Zanker Road both have significant traffic volumes and from a traffic pattern perspective are located on the gravity side of the trade area, making sites along Zanker Road best suited for future retail development. East Tasman Drive is less desirable for retail development due to the limitations on vehicular turning movements created by the light rail tracks.

Strategy 4: Prepare a detailed site assessment of every highway off-ramp in San Jose to determine high-level suitability for future retail activity.

Because San Jose is in an increasingly central location between the Silicon Valley's employment centers in the north and west parts of Santa Clara County, and the growing residential communities in Morgan Hill, Gilroy, San Benito County, and even the Central Valley, locations with high traffic volumes, good visibility, and easy accessibility will be attractive locations for retailers because of demand represented by traffic patterns. To the extent that there are suitable parcels in these locations that lack appropriate zoning, or have other specific constraints, the City can work proactively to remove these barriers. Greater certainty about obtaining entitlements would cut down on perceived risk that might be associated with pursuing new development projects in San Jose.

Strategy 5: Continue working with the team within the Department of Planning, Building, and Code Enforcement responsible for updating the City's permitting portal to ensure that this tool will offer developers the ability to search for parcels by specific zoning and General Plan land use designations to identify potential retail sites based on existing land use policy.

San Jose is a big city, so it can be challenging for developers to identify sites or locations that are potentially suitable for retail or mixed-use development based on current City land use policy. While both the current General Plan and Zoning maps are available online, these maps cannot be searched by a specific designation. A search function including a significant mapping function should be incorporated into the updated permitting system portal. This search tool should be prominently featured the City's promotional materials as well as directly promoted to the commercial real estate community active in San Jose so that developers know what resources are available to them as they seek potential locations for retail or mixed-use development.

Strategy 6 Identify ways to make site entitlement and other permitting processes as transparent and simple as possible.

City staff should evaluate the building permitting portal update to identify ways to make the entitlement and permitting process as fast and transparent as possible, especially for smaller projects and projects proposed for urban village locations. Including civil engineers, architects, developers, and other stakeholders in this process will help generate market-focused suggestions to improve the interface. This initiative could include providing regularly updated materials explaining the entitlement and permitting process and development fees. In addition, the City should explore ways to make the building inspection process faster and more consistent.

Strategy 7: Ensure that retail viability is preserved during development of new land-use plans, policies and transportation investments

All of San Jose's urban villages, shopping centers, and two auto rows are located on major arterial corridors. The retailers along these corridors are concerned with preserving their visibility and access as new land-use plans, policies and transportation infrastructure are implemented. Planning, transportation and economic development staff should balance priorities and minimize or manage any potential conflicts related to access, visibility and parking as these plans develop.

Strategy 8: Develop and/or build on relationships with commercial property owners

Although San Jose has a good working relationship with many of its large shopping center owners, there may be other entities that own multiple retail or mixed-use projects in the City. These small to mid-sized property owners are crucial to sustaining the City's overall retail health. City staff should identify up to ten small- to mid-size commercial property owners in key locations with whom to build ongoing relationships (particularly owners who "run" with tenants) and their retail tenants. This could assist with retail retention, provide an "early warning" system when a major retailer may be leaving or shutting down, and enable staff to communicate retail opportunities that brokers, and other investors may have missed.

Strategy 9: Prepare a list of specific design parameters that mixed-use developers should follow in designing growth floor commercial space to ensure that this space could be viable for retail user.

In cases where ground floor commercial space is required as a condition for obtaining development approvals, developers often design this space to meet the minimum permitting specifications, but in this process, create suboptimal spaces for actual retail operations. San Jose should provide design clear guidelines regarding minimum standards for bay depths, floor to ceiling heights, loading infrastructure, venting, etc.

Strategy 10: Redouble San Jose’s retail outreach strategy to inform key targets about San Jose's selling points.

San Jose economic development staff should continue to attend International Council of Shopping Center events, as well as retail conferences, as part of a robust retail outreach strategy. It should also include the development of basic retail-oriented flyers and message points relevant to a wide range of retailers. Staff and key policy makers should also consider more active participation in the Urban Land Institute and the International Downtown Association.

II. INTRODUCTION

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 topics which have been translated 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** presents 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** provides an overview of the existing retail conditions in San Jose. **Section V** evaluates 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** presents 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

Recent retrenchment in the retail industry, as manifested by numerous stores closures, significant retail job losses, and the emergence of millions of square feet of vacant retail space, has led many to conclude that the industry is dying a rapid death, mostly driven by e-commerce. However, this conclusion is a vast over simplification of the many factors that are contributing to a significant restructuring in the retail industry. In fact, consumers' expenditures hit an all-time high in 2017.[5] People are still "buying stuff" … a lot of stuff, but they are buying it differently. The retail industry is responding by reorganizing itself with more efficient and responsive retailers (some bricks-and-mortar, some online, and some multi-channel), supplanting inefficient and unresponsive retail models. In today's retail reality, influencers and social media platforms have an outsized impact on retail trends compared with just a few years ago.

A brief background of how retail has evolved, and how it organizes itself in today's world can be helpful in understanding this most recent retail industry transition. As downtown shopping districts and then regional malls declined, big box, category killer retailers proliferated, creating today's "commodity" versus "specialty" paradigm.[6] At its essence, today's shopping environment can be distilled into two retail types: the first, commodity retail, refers to opportunities to shop driven by convenience and price. This is where the internet is so strong, but also defines the kinds of stores and shopping centers that people visit to purchase commodity goods and services. The second type, specialty retail, refers to places where people go to shop as well as eat, drink, and be entertained. Specialty retail tends to be more experiential in nature, is patronized during a person's discretionary time and using their discretionary income, and typically offers specialty retail goods and services with which the shopper has a personal connection and experience. Both commodity and specialty retail are described below.

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 multiple 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

---

[5] 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
[6] ULI Development Handbook

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 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.

The term "comparison goods," which are goods that consumers do not purchase on a frequent basis (i.e. daily or weekly) and are more likely to cause consumers to compare price, quality, and features than everyday items, is often used interchangeably with **"specialty" goods**. Shoppers are often willing to travel a greater distance to patronize **destination retailers**.

Commodity and specialty retailers, and shopping districts and malls can all fit the definition of **"destination" retail.** The distinction lies in the intent or desire to spend more time shopping to better understand the product or choice of products as opposed to specialty retail, which is specifically limited to instances where the shopping experience and environment are key, and quite likely involve an entertainment or dining component. The distinction may also be nuanced. For example, in the case of Whole Foods, the Apple Store, or Bass Pro Shops, each sells commodity goods; however, the product and brand positioning, merchandising strategies, and environment (or "theater") are specialty in nature.

This dichotomy between commodity and specialty goods is not new. What is new is the internet as an increasingly effective and desirable way to purchase both types of goods, but mostly the commodity goods. In 2016, internet sales accounted for only 8 of total retail sales in the U.S. But in that same year, 40 percent of the growth in total U.S. retail sales were internet based. Amazon alone accounted for almost 70 percent of internet sales growth. These statistics indicate that while the internet is not supplanting conventional retail stores, it is capturing an increasing share of new sales growth.

Growth in internet sales as well as other retail industry restructuring is most apparent in the increasing number of retail real estate vacancies, ranging from small shops in historic business districts to entire shopping centers that have "gone dark." The retail real estate industry has been building to this "crisis" for decades. Over the past sixty years, new retail models have emerged almost every decade, resulting in an almost continuous increase in "brick and mortar" retail development. By 2016, the United States had approximately 24 square feet of retail space per capita, a figure higher than for every other industrialize country in the world including Canada (16 square feet per capita), Australia (11 square feet per capita), or the United Kingdom (5 square feet per capita).[7] Even before e-commerce became a major force in the retail industry, industry experts,

7 International Council of Shopping Centers, Shopping Center GLA Per Capita, Country Fact Sheets 2015.

like the International Council of Shopping Centers, considered the U.S. to be over supplied with retail space.[8]

Consumer expenditure patterns also play a role in the changing retail industry. Wages and real income in the United States have stagnated since the late 1970's, especially for middle and lower income households. In addition, people are working longer hours and commuting longer distances than they were four decades ago. These two trends have contributed to the rise of internet shopping for two reasons: 1) lower prices related to greater efficiencies achieved by internet over brick and mortar merchants; and, 2) greater convenience. Shopping online allows consumers to easily compare prices to get the best price, as well as to be able to shop when they have time and from their own home, not just when the stores are open.

Other demographic shifts are also contributing to changing buying habits. The millennial generation, now the largest age cohort in U.S. history, is consuming in ways that are that are strikingly different from previous generations. Having grown up during the great recession, these young people do not want to be saddled with the same consumer debt as their parents and/or grandparents. Instead, millennials appear to be spending less money on goods and more on experiences and entertainment, including eating and drinking. This trend is borne out by data showing that since the end of the recession in 2009, growth in food services (restaurants and bars) sales have grown much more quickly and steadily than retail sales overall, with that growth accelerating even more in recent years.

However, despite this somewhat bleak picture for retail nationally, Silicon Valley, including San Jose, is generally better off than much of the country with respect to retail activity. Santa Clara County is one of the most desirable retail markets in the country, reflecting the region's low unemployment rates, high incomes, and sustained job and residential growth.[9] Some reporting suggests that the national oversupply of retail is concentrated in suburban malls in slow-growing regions, and that retailers are increasingly focusing their expansion plans in faster-growing, urban areas or dense suburban periphery.[10] Brokers report that while malls in top tier markets such as Santa Clara County have lost some major anchors and other tenants, they have continued to outperform national averages and are successfully adapting by upgrading vacated spaces and re-tenanting.[11]

The trend towards increased expenditures on "experiential retail" is also driving some brick and mortar retail development. Mall owners are reinvigorating their properties by replicating the pedestrian quality and quirky experiences found in older downtowns. Retailers are experimenting with offering more activities tied into their goods and/or providing more service through their stores. Retailers are also becoming more selective about the places they want to locate, looking for opportunities to better capitalize on synergies with other retailers, looking for locations that have

---

8 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

9 Cushman and Wakefield, Marketbeat Silicon Valley, Retail Q1 2018; Marcus Millichap, 2018 Retail Research Investment Forecast, San José Metro Area.

10 Rothstein, "Even Developers Agree the U.S. Has Way Too Much Retail Space"; Grabar, "The Retail Apocalypse Is Suburban."

11 JLL, United State Retail Outlook Q3 2017 and Q4 2018.

more varied reasons for consumers to visit, having more multi-modal accessibility, and operating in an enhanced pedestrian environment.

The Evolving Retail Industry: Key Findings

Americans will continue to shop, but where and how they shop, and what impacts their shifting patterns will have on retailers, developers/property owners, cities, and ultimately on consumers themselves 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:

- **The retail industry is not collapsing, it is reorganizing.** In 2017, consumers expenditures in the U.S. hit an all-time high, despite many major retail store closings and significant job losses. These apparently diverging trends reflect the newest innovations in the retail industry's ongoing efforts to achieve greater efficiencies to increase profitability. While retail industry restructuring has happened many times before now, previous innovations were driven by new store and shopping center models. The difference today is that the new retail model, including e-commerce, greatly reduces the demand for physical stores and shopping centers.
- **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).[12] The United States has a large supply of low-density retail space, primarily concentrated in shopping centers, which until recently, continued to grow rapidly.[13] 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.[14] A city can benefit itself by getting ahead of this trend from a planning perspective.
- **The role of internet sales and e-commerce continues to expand.** Nationwide, online sales account for an increasingly larger portion of total sales[15] 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**

---

12 International Council of Shopping Centers, Shopping Center GLA Per Capita, Country Fact Sheets 2015.
13 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
14 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
15 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

brew pubs as well as offering new uses, including housing and office space. 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 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.

Existing Retail Development Supply

This analysis focuses on the supply of retail development/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 store. Some retail space is occupied by service providers including hair salons, gyms, tutoring businesses, medical uses, 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 DEVELOPMENT TYPES

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

A "trade area" is the area from which a shopping center draws its customers. Trade areas are often expressed as a "primary" and a "secondary". Centers primarily offering "daily needs" goods and services (which tend to be commodities that are purchased frequently), draw from a small trade area because the same consumers will return to the center on a regular basis, often several times a week. This phenomenon is in part why grocery and drug stores usually anchor daily needs shopping 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, these developments are often larger in size than daily needs projects, and as a result draw from a larger primary trade area, thereby allowing retailers to draw enough customers to generate the sales required to successfully operate stores. The same can be said of centers anchored by commodity retailers that are not targeted at daily needs shoppers (Costco, Best Buy, Office Depot, Fry's, etc.). Thus, as **Figure 1** shows, trade area size is a continuum corresponding to overall center size and tenant mix, including the balance between commodity and specialty retail. Because daily needs commodity centers pull from a small trade area, there are many more of these than there are larger centers.

In contrast to the other retail development types, 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 Willow Glen. Also, Costar does not track ground floor retail in mixed use buildings. For these reasons, 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. This inventory includes 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, and outlet 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. Power centers also draw from a larger trade area; however, they tend to sell commodity goods. In specialty environments, both higher prices (i.e. less discounts) 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. This increase also reflects a long-term effort by San Jose's Office of Economic Development and the Planning Department to identify and proactively rezone certain parcels for retail use. This effort has clearly enabled the City to add both jobs and tax base.

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%**

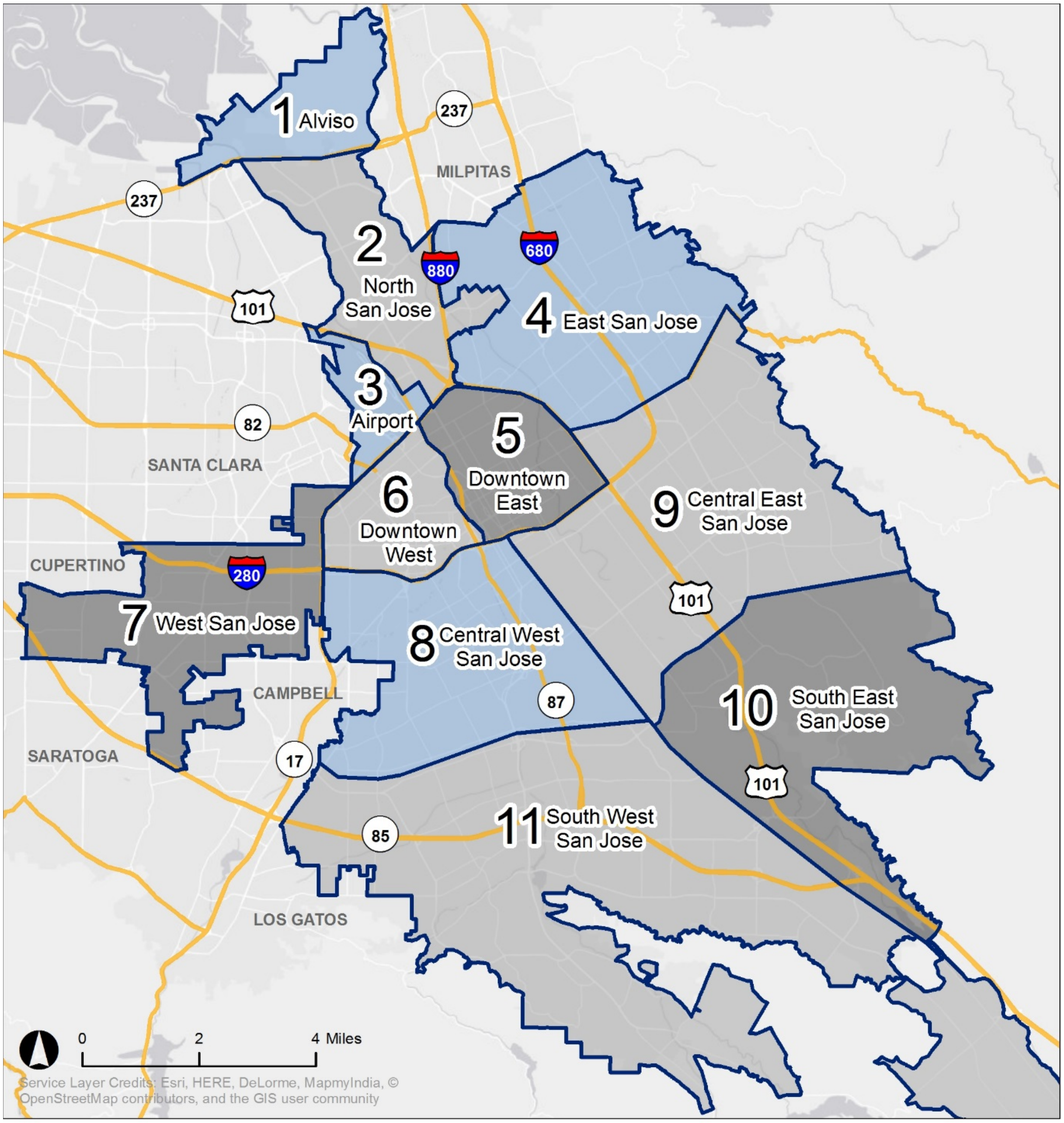
*Westfield Valley Fair (a super-regional mall of 1.36 million square feet) is counted as part of San Jose's retail inventory.
**Includes inventory that was classified as "Year built unknown."
***Includes inventory that was classified as "Under Construction" in 2016. This is why the totals differ slightly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

RETAIL SUPPLY BY SUBAREA IN SAN JOSE

In addition to tracking retail development by type, CoStar also tracks retail supply by subarea or submarket, within San Jose. Breaking out retail supply by subarea is essential evaluating both which areas of the City might be underserved, and which areas present opportunities for increased retail activity. To assist in this analysis, this report identified 11 Subareas that roughly correspond to CoStar's subareas but have been modified slightly to better align with certain planning area boundaries. These Subareas, as shown illustrated in **Figure 4,** will form the basis for the intra-city comparative retail supply analysis that follows.

Figures 5 and 6 summarize San Jose's retail inventory by retail development type and by Subarea. This spatial distribution by both total supply and by development type varies considerably by subarea reflecting the multiple factors that make some locations more attractive for retail development than others. Three subareas, Southwest San Jose, Central East San Jose, and West San Jose have significantly more total retail supply and a great diversity in retail development types than the other eight Subareas. In comparison, the Downtown East Subarea (i.e. including the Downtown Core) and the Downtown West Subarea (west of Highway 87) have the least diverse retail supply, although not the smallest inventory. The North and the Southeast Subareas have the smallest total supply. The specific factors accounting for this spatial distribution are discussed in greater detail below.

FIGURE 4. RETAIL SUBAREAS OF ANALYSIS



San Jose Retail Strategy Subareas of Analysis

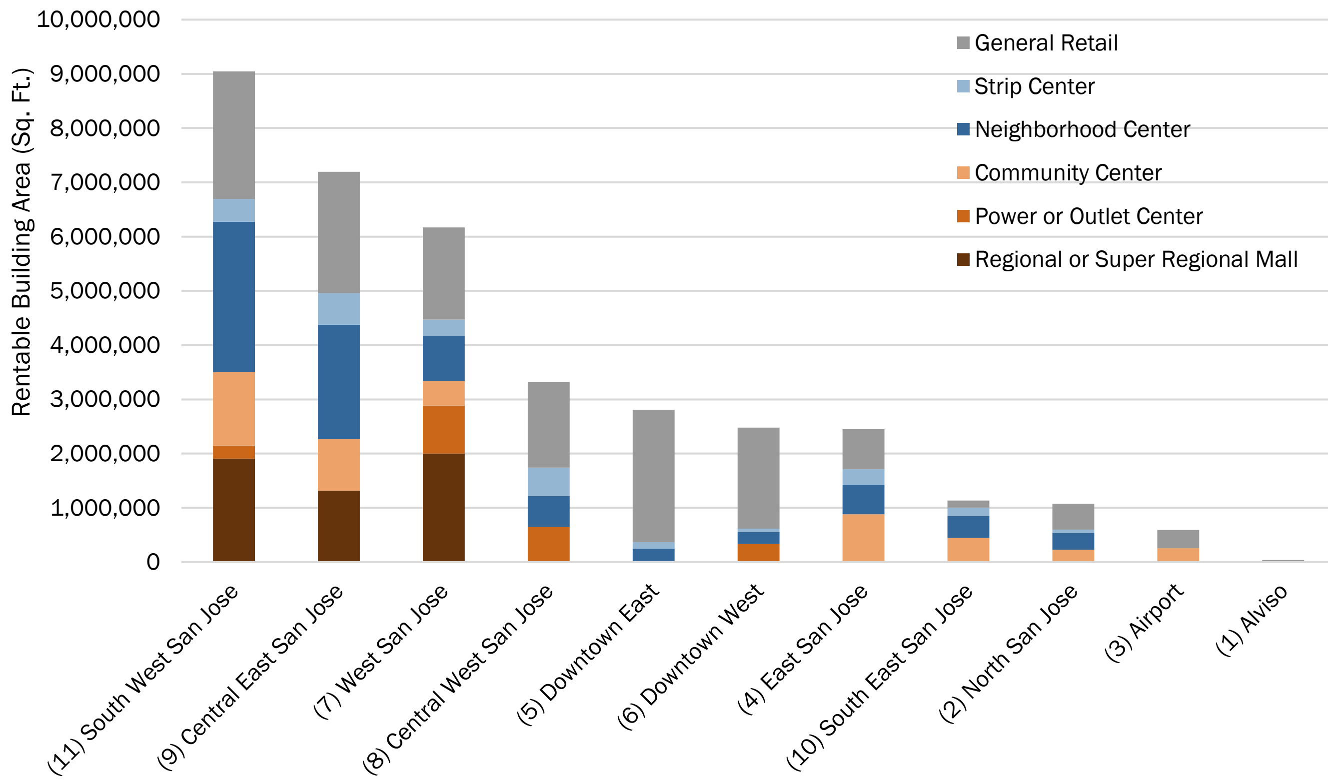
Subareas

Major Highway

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

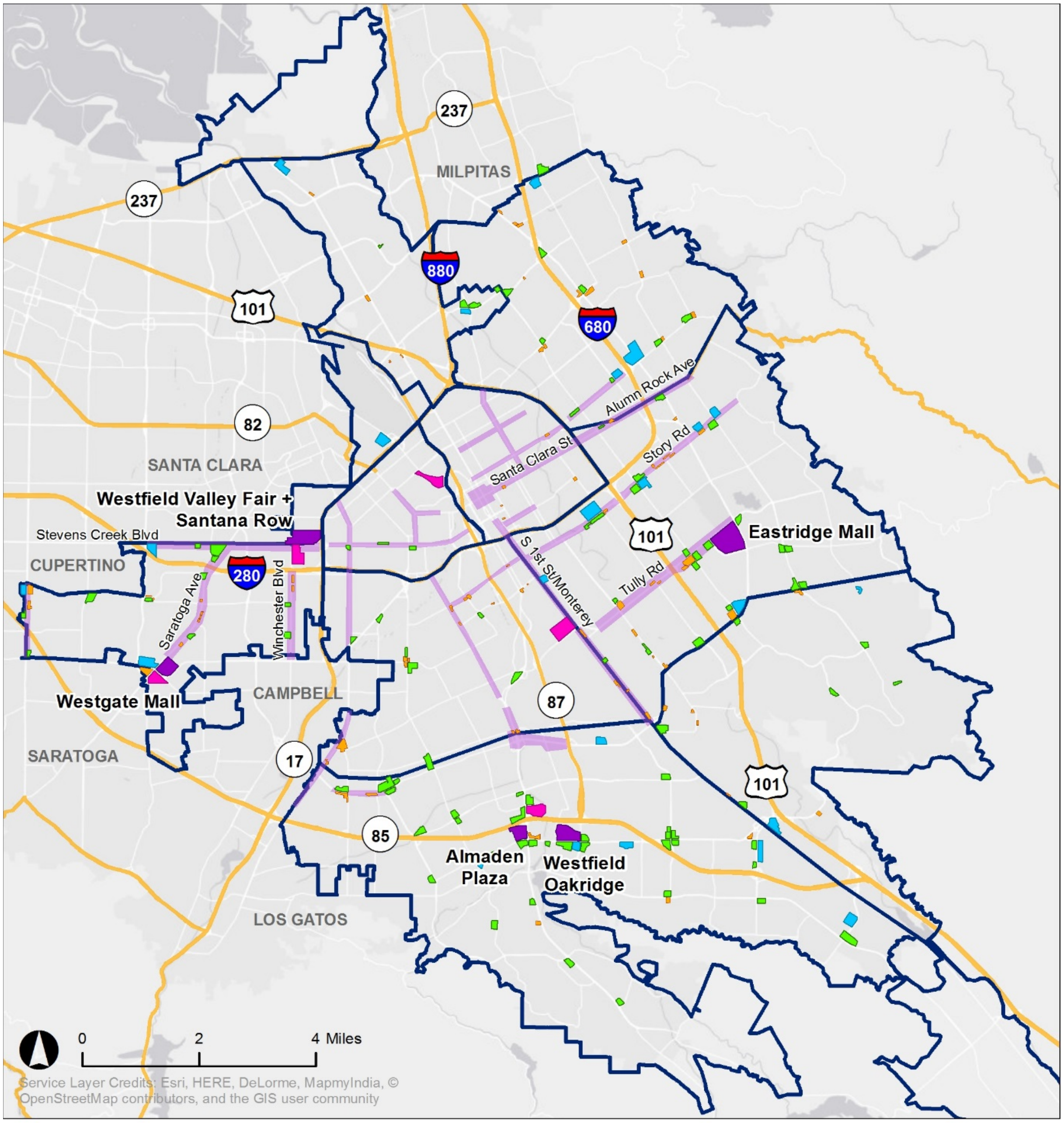
STRATEGIC ECONOMICS

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 help define primary and secondary trade areas, and to determine if the trade area's customer base is consistent with the retailer's target customer base. Factors that are often studied include population density, 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 or considering per-capita rather than average household income.

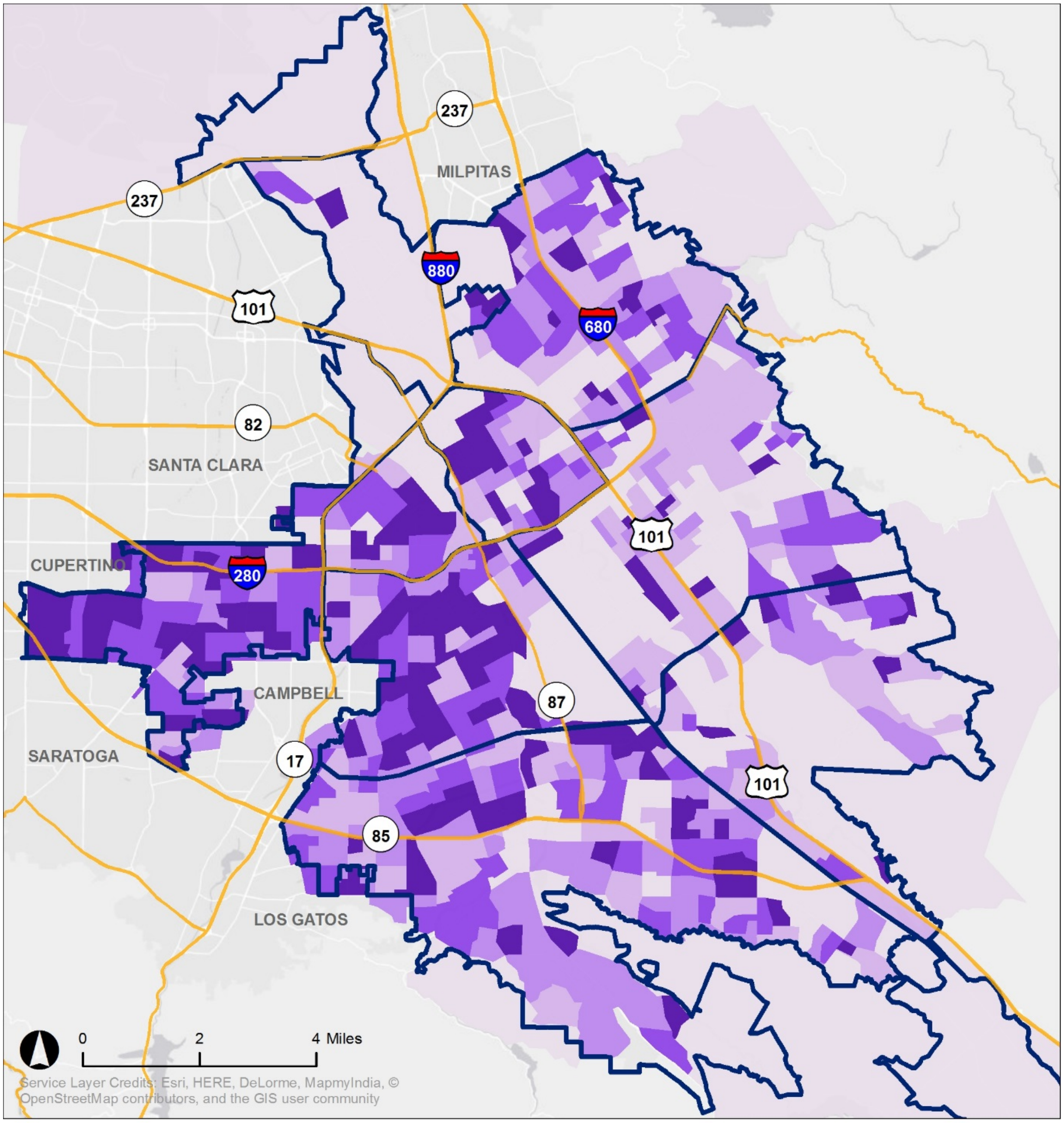
This retail strategy presents a generalized demand analysis, so rather than focusing on a given retailer or retail type, retail demand in this analysis is quantified using a generalized approach broken out by Subarea. **Figure 7** shows population, number of households, household size, income, and total population per square mile (ie. population density) 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 less aggregate income, representing more 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*

- 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

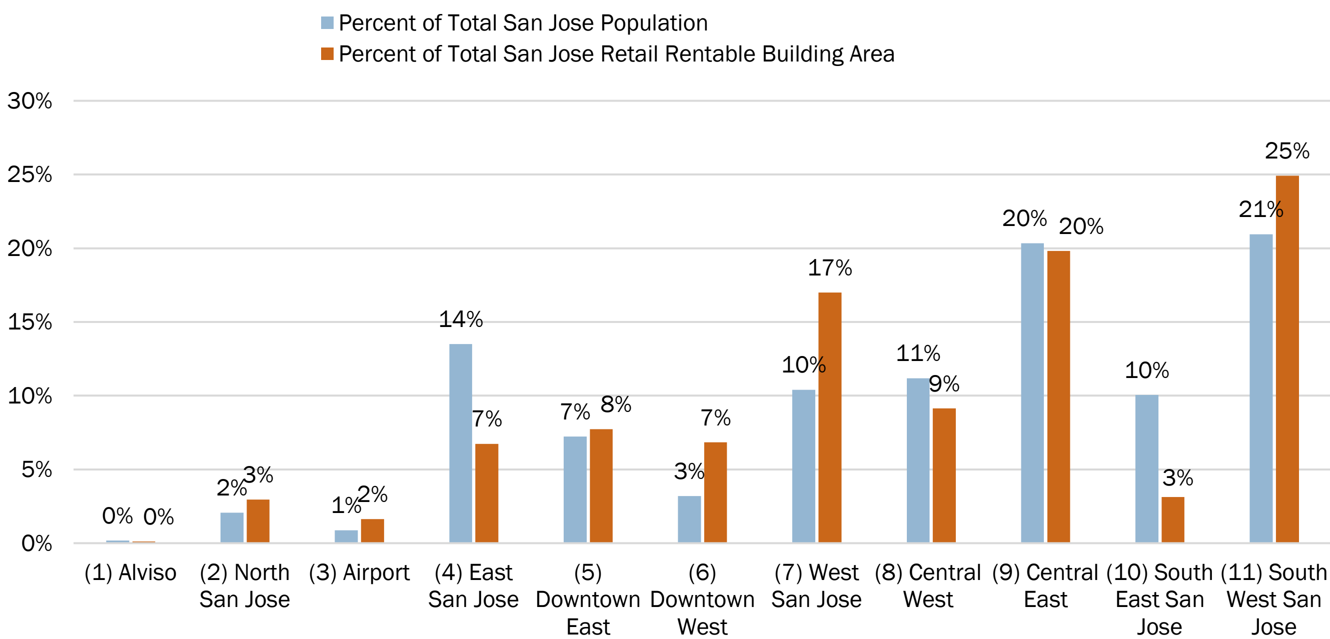
The Match Between Demand and Supply

As shown in **Figure 9**, San Jose's total retail space is not equally distributed throughout the City. Some Subareas contain a greater share of retail space as compared with their share of total population, or even population density in the immediate area. The comparison between proportional share of population to proportional share of retail inventory,[16] 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, areas that are more accessible to greater population base and/or traffic volumes, 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, Highway 87, and the Almaden Expressway, are two key north/south routes through the City. These places are all ideal 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. The area around Stevens Creek and Winchester (near I-880 and I-280) which is home to Valley Fair and Santana Row is another excellent example of a highly accessible area that can support significant retail demand related not just to the local resident population, but also due to the location's accessibility to a much larger trade area and the high traffic volumes on Stevens Creek Boulevard. 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. Corresponding to this lower density, the projects in South East San Jose such as Cottle Station draw from a larger trade area than a similar project in a denser area.

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

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.

As shown in **Figure 8** above, aggregate buying power, expressed by combining population density and income, further illustrates why some Subareas are better suited for more retail activity than others. 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.

Comparing supply and demand dynamics from 2000 to 2016, San Jose added 6.5 million square feet of retail space, a 21 percent increase in supply, while only adding 114,000 people, a 13 percent increase in population. In 2000, the City had 34 square feet of retail space 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.[17] 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

---

[17] 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.

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).

It is also important to remember that San Jose does not operate in a vacuum, and that shopping patterns do not respect a city's physical boundary of incorporation. San Jose competes for retail sales with other nearby and adjacent municipalities. For example, Santa Clara has focused on creating more compelling retail near the airport in its Downtown area as well as along El Camino Real.

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.

FIGURE 11. 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%**

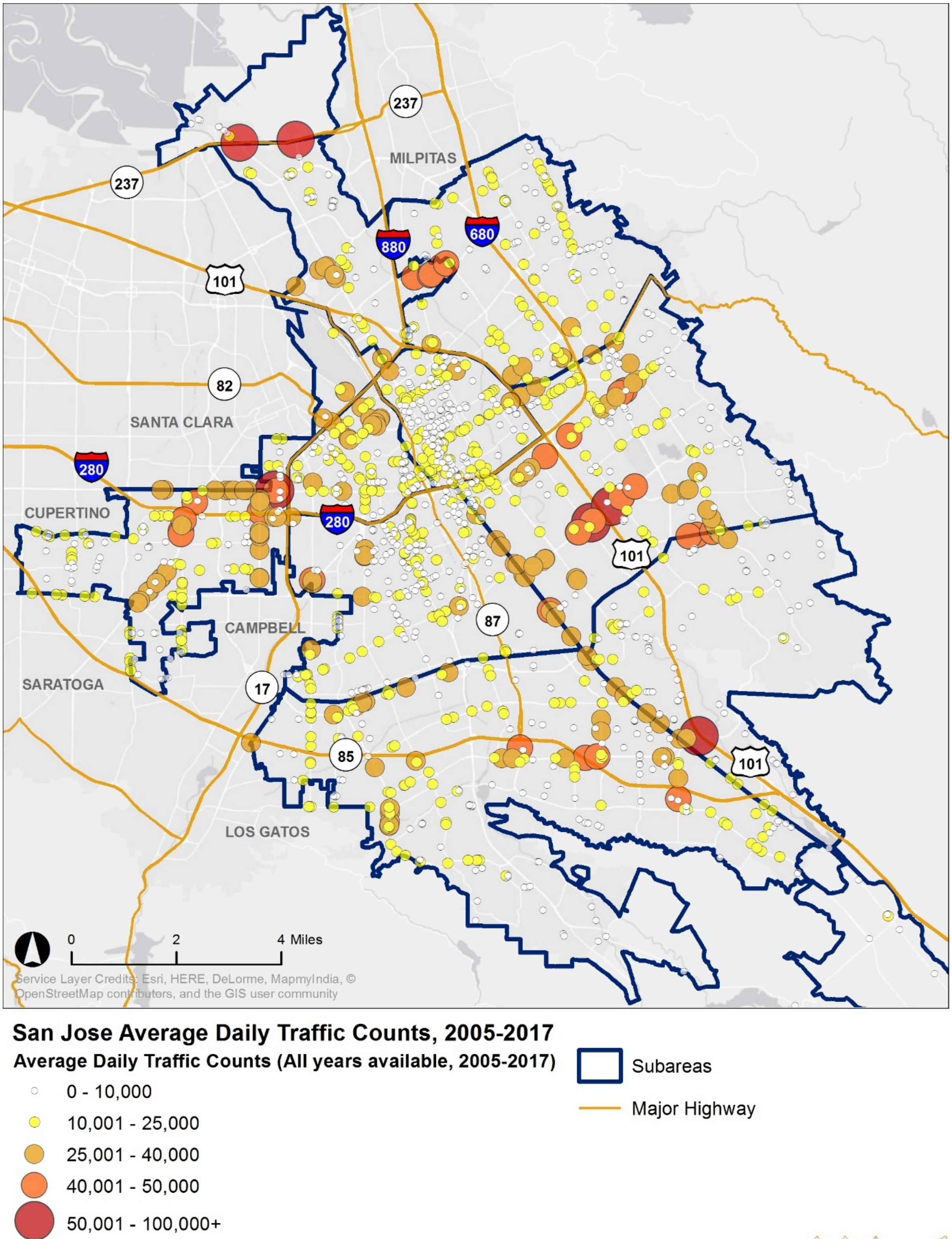
Source: U.S. Census ACS 5-year estimates, 2012-2016; CoStar, 2016; Strategic Economics, 2018.

Retail Location Factors

In addition to trade area population counts and demographic profiles, there 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. Site-specific attributes such as accessibility, visibility, and parking are critical. With respect to a site a retailer might be considering for a new store, these attributes are evaluated in light of whether an existing competitor or another site being considered have better, the same, or worse attributes. For example, a well-located site with ample visibility and parking but limited vehicular and/or pedestrian access is sub-optimal for retail (particularly when a competing site has the similar visibility and parking, but better access), whereas a site with all three attributes would be more desirable.

FIGURE 12. SAN JOSE AVERAGE DAILY TRAFFIC COUNTS, 2005 TO 2017



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

STRATEGICECONOMICS

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 in relation to 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.

Traffic volumes and site visibility continue to drive most of San Jose's retail expansion. Since 2000, many parts of San Jose have seen a greater increase in their proportional share of retail rather than population growth, however, when the specific expansion areas are considered with respect to traffic volumes, most of this new retail growth can be explained by increased traffic flows between job rich areas in northwestern Santa Clara County, and residential areas in south San Jose and southern Santa Clara County. In contrast, looking towards the future, opportunities for retail expansion will most likely focus on infill areas where population growth is expected to occur, but within those areas where there are increasing traffic volumes connecting jobs to housing across the City and within Santa Clara and Alameda Counties.

Retail supply is in transition. In considering the relationship between retail supply and demand, it is important to recognize that San Jose has more retail space on a per capita than the United States as a whole. As noted in the just released ULI Emerging Trends in Real Estate 2019, we can expect that some sub-marginal retail space will be repurposed for other uses. These other uses will then create additional demand for retail, creating a new equilibrium. San Jose is perfectly poised to take advantage of this trend, and can expect market forces to create a bit less retail space, but for that retail space to be more compelling and productive for the City's citizens and visitors alike. .

V. SAN JOSE'S RETAIL PERFORMANCE

This Chapter summarizes three different approaches that when used together explain and assess San Jose's retail performance, and specifically addresses the Strategy goals identified by Council: to identify underserved neighborhoods and to increase overall citywide retail activity.

The first section identifies neighborhoods in San Jose that are underserved by retail. The second section evaluates shopping center performance, identifies other strong retail nodes, and explores how these various centers and nodes might increase their retail activity in the future. The third section examines underrepresented retail categories within the City. The Chapter concludes with a summary of key findings.

Underserved Retail Areas

Neighborhoods can be underserved by retail outlets in two ways. The first is a lack of basic retail supply – especially grocery and drug stores – relative to demand. The second is a mismatch between the retail supply that is available and the demographic profile of the area in which it operates. These two types of underserved neighborhoods are examined below.

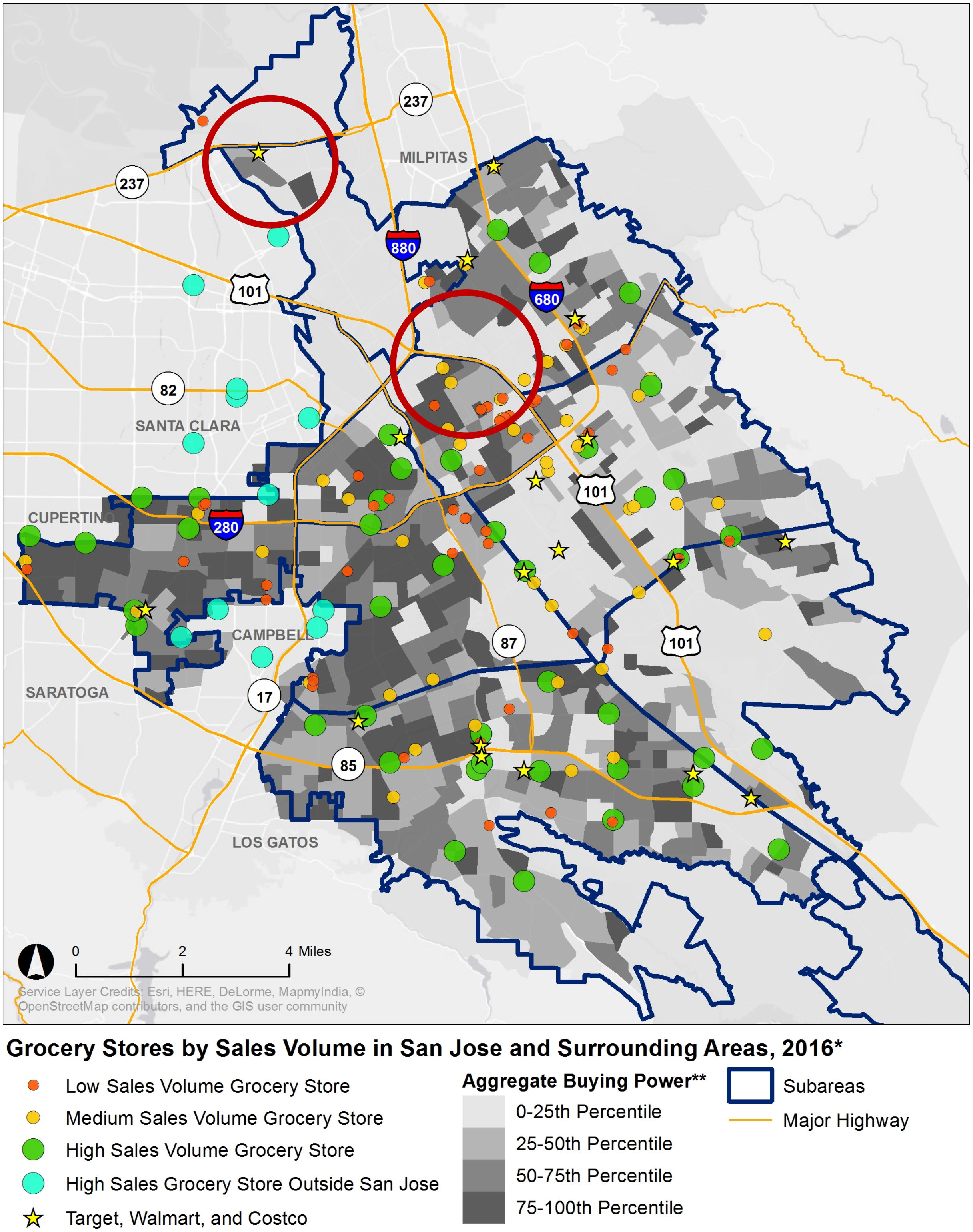
UNDERSERVED NEIGHBORHOODS: GROCERY STORES AND DRUG STORES

As discussed in Chapter IV, San Jose's retail supply is not equally distributed by neighborhood or by retail type. This is to be expected for some retail types, such as regional malls, given trade area sizes, locational factors, and structural changes in the retail and shopping center industries. Certain retail stores, such as full-service food retailers, should be available to all neighborhoods to ensure that people have adequate and convenient access to healthy foods and other basic goods. For this reason, a key measure of San Jose's retail performance is the distribution of its most basic retailers, namely grocery stores and drug stores.

In today's retail environment, a "full-service supermarket" is a store selling fresh produce, dairy products, meat, and other packaged food items. Large grocery store chains such as Safeway, Trader Joe's, or Whole Foods, as well as many smaller chains or independent stores meet these criteria, as do many general merchandise stores including Target, Costco, and Walmart superstores. In fact, even drug stores are carrying an increasing supply of fresh and packaged foods.

In this analysis, "underserved retail" is defined as any area that is not within the standard one-mile trade area of a full-service supermarket, grocery store, or the equivalent (**Figure 13**). The supply of drug stores is also shown to support these findings (**Figure 14**). Data from the California State Board of Equalization (SBOE), which tracks all retail outlets by address, were used to map all full-service grocery stores, other major food outlets, and drug stores in San Jose. A one-mile trade area radius was drawn around each store to identify gaps in store coverage. Stores are also classified according to their sales volumes to distinguish large chains (Safeway, Whole Foods, Walgreens, CVS…) from smaller or independent retailers.

FIGURE 13. SUPPLY OF GROCERY STORES, BY SALES VOLUME, IN SAN JOSE AND SURROUNDING AREAS, 2016*

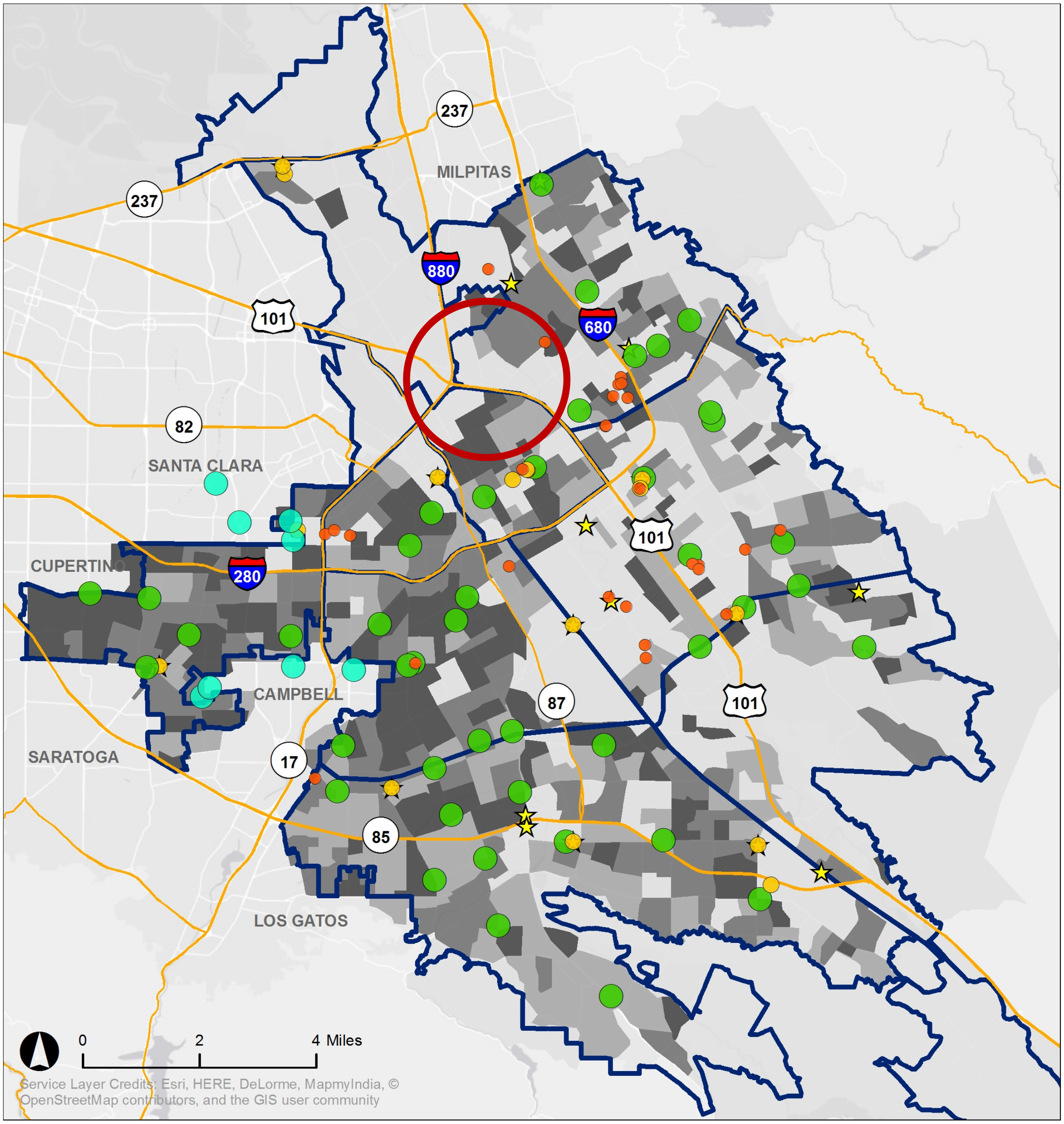


*Sales volume is based on total annual sales in 2016.

**Aggregate buying power is estimated using aggregagte income per square mile, 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.

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

FIGURE 14. SUPPLY OF DRUG STORES, BY SALES VOLUME, IN SAN JOSE AND SURROUNDING AREAS, 2016*



Drug Stores by Sales Volume in San Jose and Surrounding Areas, 2016*

- Low Sales Volume Drug Store
- Medium Sales Volume Drug Store
- High Sales Volume Drug Store
- High Sales Drug Store Outside San Jose
- Target, Walmart, and Costco

Aggregate Buying Power**

- 0-25th Percentile
- 25-50th Percentile
- 50-75th Percentile
- 75-100th Percentile

- Subareas
- Major Highway

*Sales volume is based on total annual sales in 2016.
**Aggregate buying power is estimated using aggregagte income per square mile, 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.
Sources: U.S. Census 2010-2014 ACS 5-year estimates; City of San Jose, 2016; Strategic Economics, 2018.

STRATEGICECONOMICS

According to this analysis, a few areas in San Jose appear underserved by grocery stores: North San Jose, the eastern/northeastern part of Downtown East, and East San Jose, west of 680, as identified by the red circles in **Figures 13 and 14**. These Subareas, as well as Downtown West, are discussed in more detail below:

- **North San Jose.** Up until a few years ago, the North San Jose Subarea had a Fresh & Easy Neighborhood Market, which along with Target, met this Subarea's grocery demand. However, the entire Fresh and Easy chain closed in 2015 and this space remains vacant. While Target and grocers that are outside of the North San Jose area fill much of the area's demand for daily needs food items, the growth in trade area population will likely generate demand sufficient to support a second grocery store of 15-25,000 square feet or greater.
- **East San Jose.** A new grocery store and drug store are expected to be developed in the North Village Market Park San Jose mixed use project, near the future Berryessa BART station, so the gap identified in the western portion of the East San Jose Subarea is likely to be filled in the near future.
- **Downtown East and West.** The Downtown Core is currently served by a Safeway and a Whole Foods, however, if the Safeway were to close, then the Downtown East Subarea would lack a daily needs grocer. Residents using that store would then have to shop at the Target or Trader Joe's on Coleman Ave (in the San Jose Market Shopping Center), the Grocery Outlet at East Santa Clara and N. 6th Street, the Whole Foods in the Downtown West Subarea, or the Safeway on San Carlos. A potential location for a new grocery store in the Downtown East Subarea could be the former Santa Clara County hospital site, at the intersection of East Santa Clara and N. 14th Streets, within the East Santa Clara Urban Village. The City Council will be considering approval of East Santa Clara Urban Village Plan in fall 2018. The proposed Plan designates the site with a General Plan land use designation of "Mixed-Use Commercial". The parcel is located in the East Santa Clara Urban Village, for which a Draft Plan is up for review by City Council in fall 2018. The property owner, the County of Santa Clara, is in the process of drafting a site master plan and expects to submit a Planned Development Zoning application to San Jose's Planning Division in summer 2018. Even if this new development were to include a grocery store, the Downtown Core in the Downtown East Subarea would still be lacking a grocery or drug option within short walking distance of planned new residential and office developments.

Note that two other Subareas appear underserved based on the criteria used in this analysis, but each have specific local conditions that explain this gap in coverage. First, Central East San Jose appears underserved, but this Subarea is characterized by industrial uses, and therefore there is no demand to support a grocery store. Second, South East San Jose has low population densities and therefore limited aggregate buying power.

Although this analysis indicates that the vast majority of neighborhoods in San Jose are served by major grocery stores, this finding does not address the potential mismatch between an existing store or shopping center, and the trade area it serves. While there may be older centers and/or store formats that could use a "refresh," existing owners and/or general market conditions provide insufficient financial incentives to stimulate this type of reinvestment.

Increasing Retail Activity in San Jose

This section examines ways to increase retail activity in San Jose. This is done in two parts. The first part is focused on existing shopping center performance, looking at both major centers and smaller commodity-oriented centers. The second is focused on identifying opportunity areas throughout the City for future retail expansion more generally.

SHOPPING CENTER PERFORMANCE

To measure shopping center performance, shopping centers were assigned to one of two categories:

- **Major shopping centers** refer to San Jose's super-regional malls, regional malls, power centers, and outlet centers as defined by Costar (see **Figure 1** in Chapter IV for more details). These are large centers of 300,000 square feet or more of Rentable Building Area (RBA) and tend to sell both commodity and discretionary merchandise.
- **Commodity-oriented shopping centers** refer to all centers in San Jose that are anchored by a grocery store, drug store, and/or general merchandise store (such as a Target, Costco, or Walmart). For the most part, centers in this category are classified as community and neighborhood centers by Costar and are focused on offering commodity or convenience-oriented items. (Note that power centers tend to lean towards selling commodity goods.)

Combined, these two broad center types account for over half of all of San Jose's retail inventory in terms of RBA. The remaining space types – unanchored strip centers and general retail – are often lower performing and less significant in terms of overall retail sales, so are therefore not considered in this analysis.

MAJOR SHOPPING CENTER PERFORMANCE

San Jose has 10 major shopping centers, which account for about 20 percent of the City's total retail inventory measured in terms of Rentable Building Area (see **Figure 2** in Chapter IV), and 26 percent of total retail sales. These centers are located at major freeway interchanges and/or along arterial corridors carrying high traffic volumes.

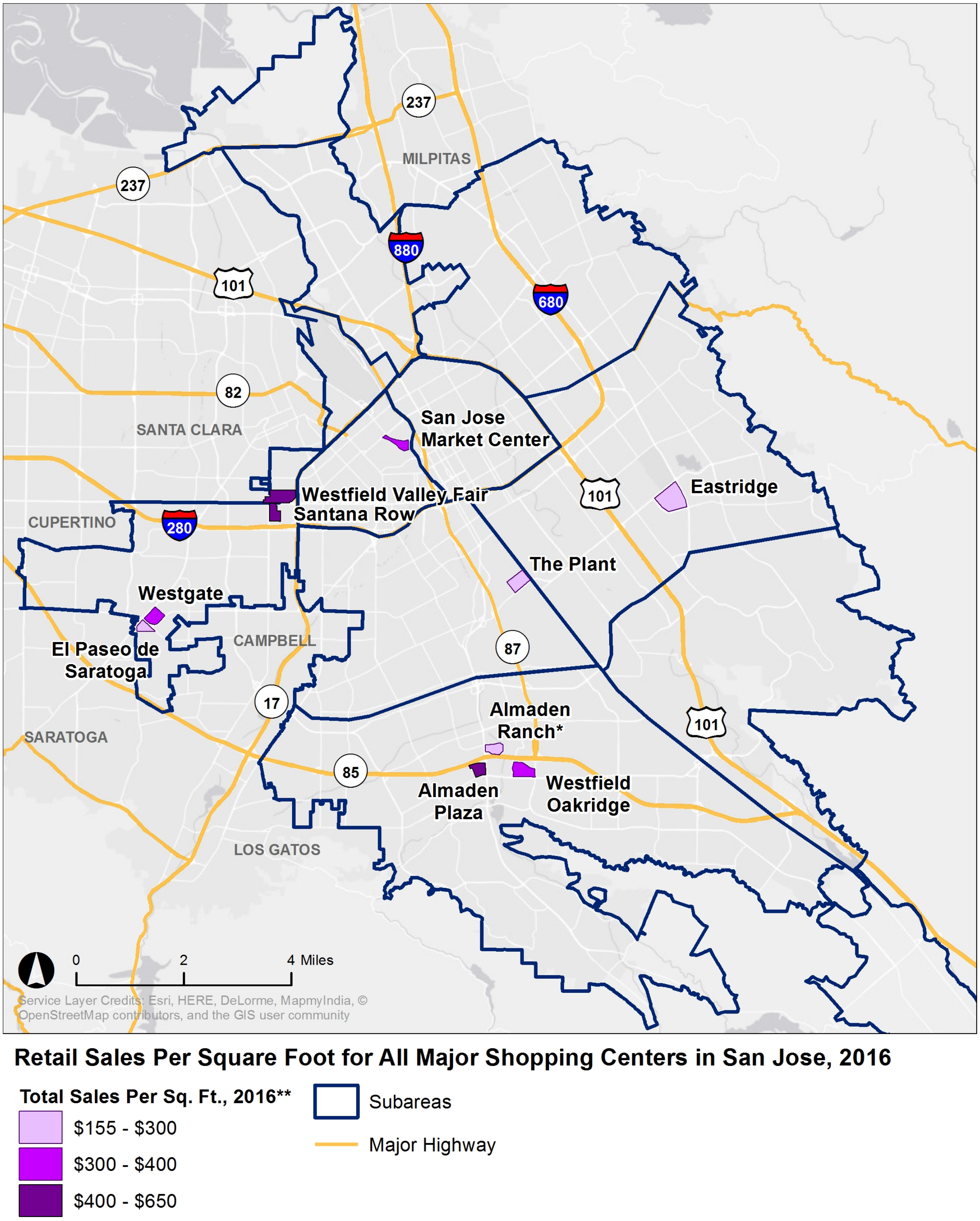
Figures 15 and 16 summarize annual sales per square foot for each major shopping center as compared to general industry averages. Based on 2016 SBOE data, the most recent year for which point-level data are available, most centers appear to be performing well. Four centers are performing at or above the estimated average sales for their respective center type: Westfield Valley Fair, Almaden Plaza, Westgate Center, and The Plant. Two centers, San Jose Market Center and Santana Row, are unusual center types, and therefore lack normative industry sales data, but both appear to have relatively high sales performance. One center, Almaden Ranch, was under construction in 2016, meaning that the sales data for that year does not reflect actual performance.

FIGURE 15. MAJOR SHOPPING CENTER PERFORMANCE MEASURED BY SALES PER SQUARE FOOT, 2016

Center Name	Center Type	Total Annual Sales (2016)	Estimated Sales Per Square Foot (2016) *	Estimated Average Sales Per Square Foot for Similar Centers*
Westfield Valley Fair	Super-Regional Mall	$904,000,000*	$647*	$600 +
Westfield Oakridge	Regional Mall*	$407,836,950	$352*	<$400
Santana Row	Lifestyle	$344,836,933	$533*	N/A
Eastridge Mall	Regional Mall*	$310,854,067	$236	<$400
Almaden Plaza	Power Center*	$243,294,893	$404	$300 +
Westgate Center	Power Center*	$202,079,217	$318	$250-300
The Plant	Community/Power Center*	$185,477,733	$288	$200 +/-
San Jose Market Center	Power Center	$116,282,133	$342	N/A
El Paseo de Saratoga	Community/Power Center*	$74,723,850	$212	$250 +/-
Almaden Ranch (Under Construction)	Power Center	$48,465,000	$155	N/A

*These values/figures were provided by industry reports and/or by Greensfelder Real Estate Strategy. All other values are estimated based on 2016 SBOE sales and 2016 CoStar inventory data.
Source: CoStar, 2016; California State Board of Equalization, 2016; Strategic Economics, 2018.

FIGURE 16. RETAIL SALES PER SQUARE FOOT FOR SAN JOSE'S MAJOR SHOPPING CENTERS, 2016



*Almaden Ranch was still under construction in 2016. Therefore, its sales volume for 2016 is not comparable to other centers.
**Total annual 2016 sales based on SBOE; Rentable building area based on CoStar, Q4 2016.

Sources: CoStar, 2016; California State Board of Equalization, 2016; City of San Jose, 2016; Strategic Economics, 2018.

STRATEGICECONOMICS

Only three major shopping centers show signs of underperformance: Westfield Oakridge, Eastridge Mall, and El Paseo de Saratoga. These centers are discussed in greater detail below. Although many stories of shopping centers failing and closing nationwide have recently been making headlines, the low performance of these three major shopping centers may be an indication of circumstances at the time of this analysis rather than a sign of their imminent decline. Each center is examined in turn:

- Since 2016, Eastridge Mall has undergone major renovations, including upgraded public spaces, new tenant openings, and a renewed focus on positioning the project as a multi-purpose hub for the local community, rather than simply a place to shop. The mall's performance should be monitored moving forward.
- El Paseo de Saratoga's sales numbers were low in 2016, likely reflecting the departure of several major tenants at that time. As these spaces have since been re-leased, it is expected that El Paseo's sales performance will increase accordingly. This increase should be examined when this strategy is next updated.
- Westfield Oakridge Center has experienced many of the challenges faced by other regional malls around the country. Oakridge has periodically lost key tenants going back almost two decades (most recently, Sears), and ownership has had to backfill these large spaces multiple times. These challenges have occurred despite the mall's strategic location in a high-income neighborhood and along a major regional thoroughfare. At the same time, Westfield is one of the bigger and more capable mall operators in the U.S.; it is well capitalized and has strong relationships with its retailers. With Sears' departure, it is possible that Westfield will consider undertaking major renovations at Oakridge, in addition to repositioning the vacated Sears space. Given Westfield's ownership, there is likely no need for immediate concern over Oakridge continuing to be a major retail destination, even if the project may eventually seek to incorporate a greater mix of uses.

San Jose's major shopping centers also appear resilient, even in the wake of store closures, for several reasons. First, overall incomes and job growth are very strong in San Jose and Santa Clara County more generally, indicating that consumers will continue to shop and spend money.[18] Second, the major shopping centers that have experienced significant retailer closures have already repositioned themselves (Eastridge and El Paseo de Saratoga), or will likely be able to do so (Westfield Oakridge). Third, major shopping center owners have a great deal at stake in terms of retaining the value of their real estate assets. As a result, these owners are likely to reinvest and rethink their properties, rather than walk away from an asset.

To the extent that San Jose's major malls do continue to lose anchor tenants, their owners are likely to look for ways to transition these centers into mixed-use places that will look and feel more "urban," and be more consistent with increasing population densities, a greater emphasis on pedestrian quality, and the addition of more "experiential" opportunities.

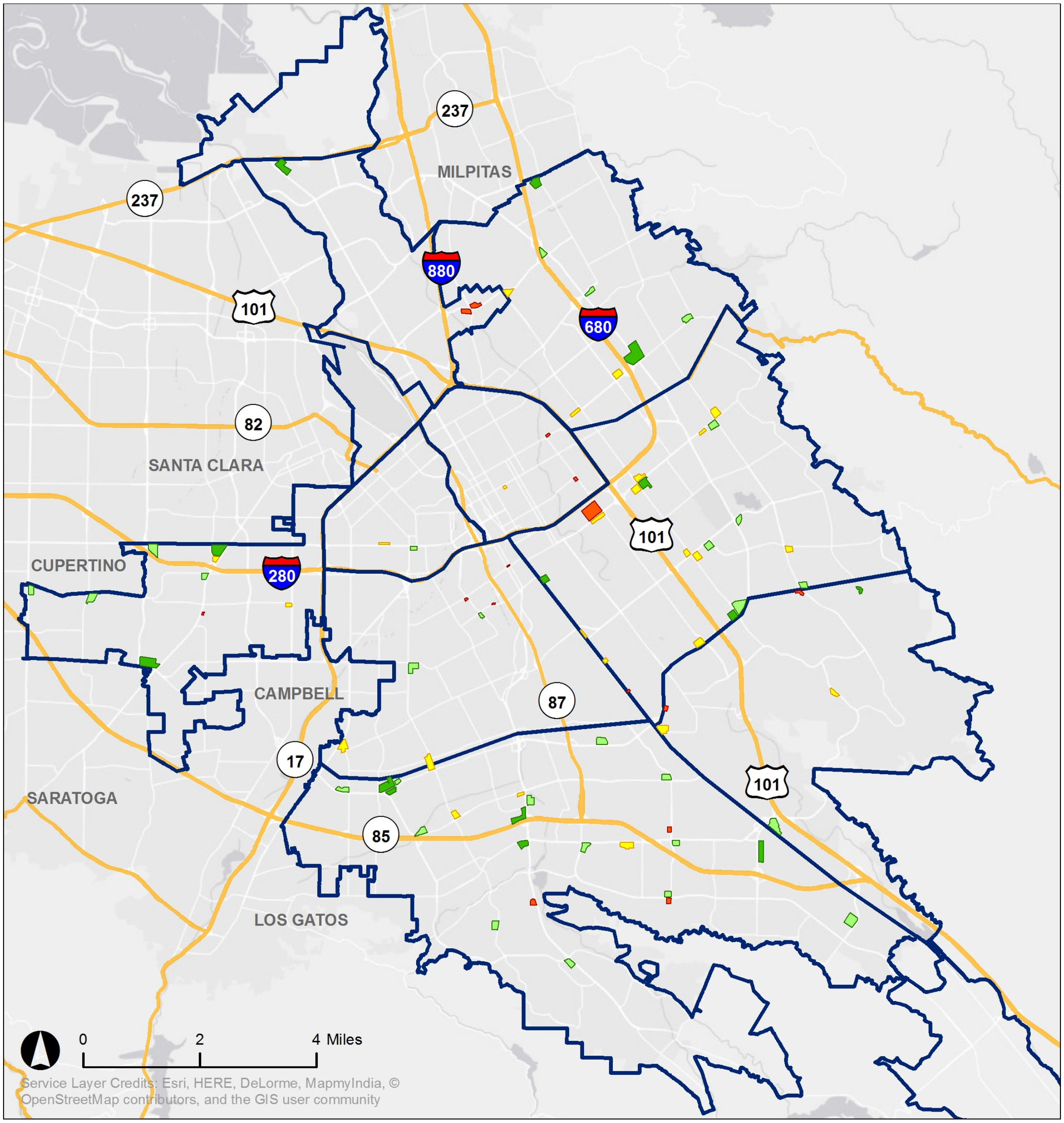
COMMODITY-ORIENTED SHOPPING CENTER PERFORMANCE

San Jose has approximately 80 "commodity-oriented shopping centers", which for the purposes of this analysis are defined as centers that are anchored by a grocery store, drug store, or general merchandise store. As shown in **Figure 17**, the vast majority of commodity-oriented shopping centers

[18] Cushman and Wakefield Marketbeat Silicon Valley, Retail Q1 2018.

are performing at or above expected sales levels, consistent with the grocery/drug store retail analysis presented above and are not in danger of immediate closure or significant increased vacancies. Furthermore, due to data challenges, it is possible that some lower performing centers could in fact be performing better than what is shown below.

FIGURE 17. RETAIL SALES PERFORMANCE FOR COMMODITY-ORIENTED SHOPPING CENTERS IN SAN JOSE, 2016*



Retail Sales Performance of Centers Anchored by a Grocery Store, Drug Store, or General Merchandise Store in San Jose, 2016*

- Center with Low Sales Grocery/General Merchandise Anchor(s)
- Center with Medium Sales Grocery/General Merchandise Anchor(s)
- Center with High Sales Grocery/General Merchandise Anchor(s)
- Center with Very High Sales Grocery/General Merchandise Anchor(s)
- Subareas

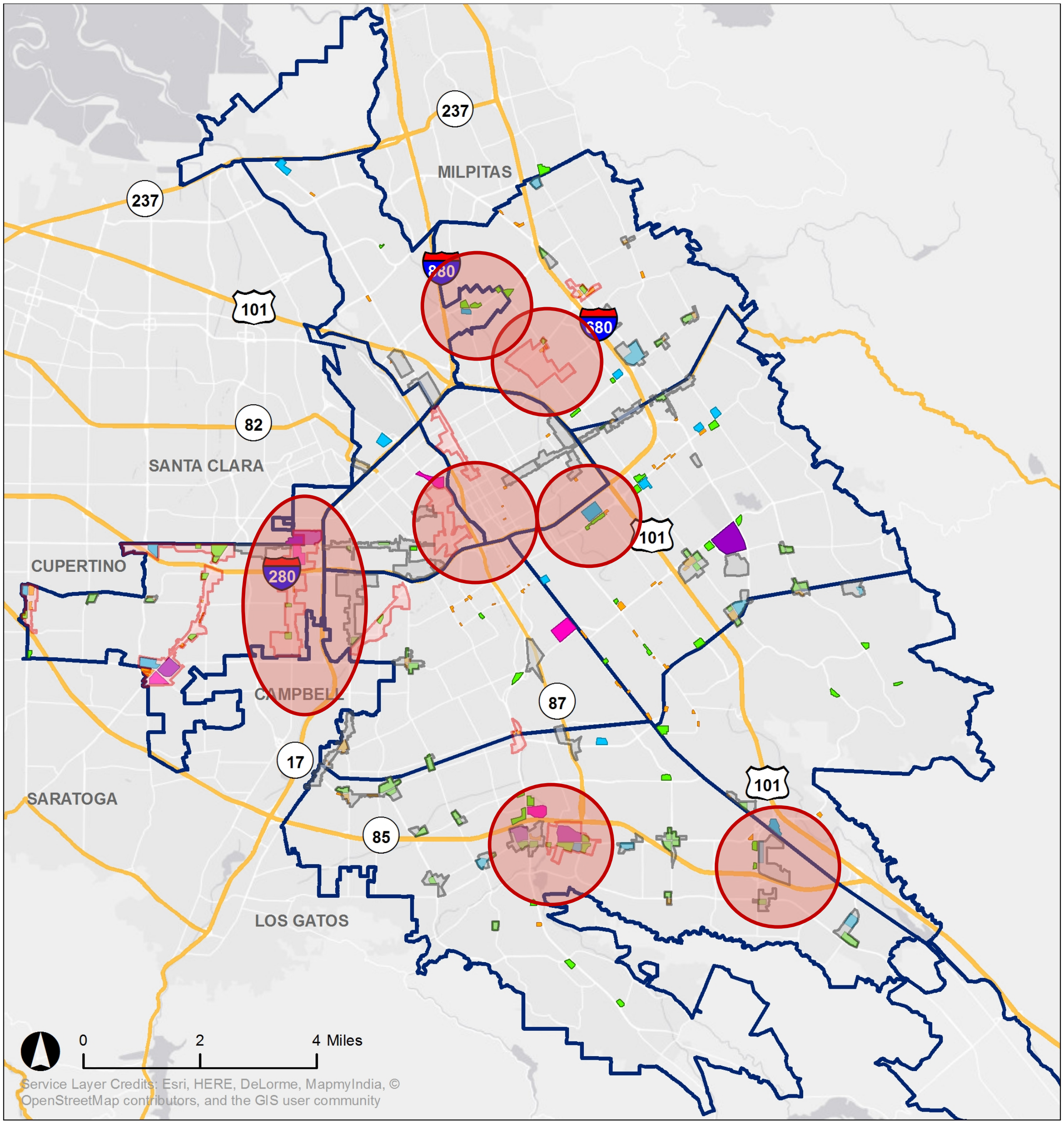
*Centers are ranked based on the performance of their anchor, using SBOE data for 2016.
Sources: CoStar, 2016; California State Board of Equalization, 2016; City of San Jose, 2016; Strategic Economics, 2018.

OPPORTUNITY AREAS FOR RETAIL EXPANSION

There are seven general areas, as indicated in **Figure 18**, in San Jose where retail activity might increase. These areas have been identified based on their suitability using typical retail location factors including traffic counts, convenient access and proximity to high income households, higher than average population density, existing strong retail nodes/anchors, and future residential growth. These seven areas are as follows:

- San Jose Downtown Core (the subject of a retail strategy currently underway)
- Winchester Corridor Urban Village. An Urban Village Plan for this area was adopted in 2017, which now signals to the private sector that this is an area where the City is prioritizing growth and welcoming development proposals for commercial and mixed-use projects.
- The Berryessa BART Urban Village, for which new retail development is already planned. Additionally, the planning process has been initiated to prepare an Urban Village Plan for the Berryessa BART Urban Village and is expected to be considered by City Council in 2019.
- The two areas around the intersection of Highways 101 and 280, extending up into the Downtown East Subarea. This area is growing in population but has experienced very little new retail investment over the past two decades.
- The remaining three areas – around Westfield Oakridge Mall/Almaden Plaza, near Blossom Hill, and around Brokaw Commons shopping center – are situated along highways or major arterial corridors with strong existing retail anchors that could attract additional retailers looking to build on an existing retail critical mass.

FIGURE 18. OPPORTUNITIES AREAS FOR RETAIL EXPANSION IN SAN JOSE, 2016



Urban Villages, Shopping Centers, and Opportunities for Retail Expansion in San Jose, 2016

Retail Center by Type (Excludes General Retail)
- Super Regional and Regional Mall
- Power and Outlet Center
- Community Center
- Neighborhood Center
- Strip and Convenience Center

- Urban Villages with Short-term Retail Potential*
- Other Urban Villages
- Subareas

*Based on analysis conducted by Strategic Economics in 2016 as part of San Jose's General Plan Review.

Sources: CoStar, 2016; California State Board of Equalization, 2016; City of San Jose, 2016; Strategic Economics, 2018.

STRATEGIC ECONOMICS

Underrepresented Retail Categories

Another approach San Jose could take to increase its retail activity is to attract retail stores in categories that are currently underrepresented in the City. While there are multiple ways to measure underrepresented retail categories, one approach comes from the "Effective Buying Power" analysis recently prepared for San Jose (**Figure 19**). This analysis was conducted by MuniServices, a sales tax analysis and reporting firm, using retail sales data from the fourth quarter of 2017.

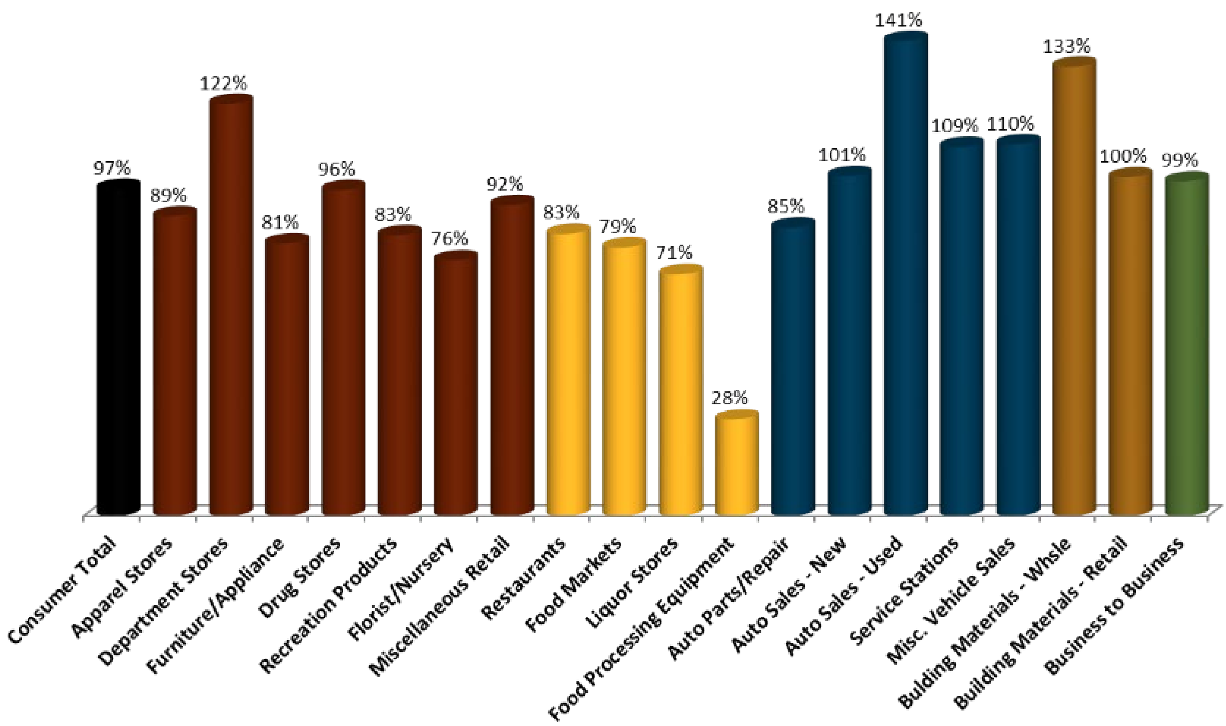
Across all retail categories, the analysis shows that San Jose's actual total retail sales represent 97 percent of total expected expenditures, suggesting that overall, the City is capturing nearly all of its residents' total effective buying power. Expenditures do differ by retail category. On the one hand, sales for some retail categories are well over 100 percent of expected sales, thus pointing to categories for which San Jose is drawing consumer expenditures from other jurisdictions. These strong retail categories include department stores, used-auto sales, and wholesale building materials.

On the other hand, categories such as apparel, furniture, recreational products, and appliances show expenditures at less than 90 percent of the expected levels. These are underrepresented retail categories for which San Jose residents are shopping outside city boundaries. If the City were to focus on increasing its retail supply in these categories, it might better capture these expenditures and increase its overall retail activity. It should be noted, however, that some retailers, particularly in the furniture and appliance category, have very specific site location needs and may not be able to find a suitable site in San Jose. It should further be noted that retail in these categories that exists outside of the San Jose City limits may be filling demand, and that there is not sufficient demand for a retail chain to justify another outlet.

Other underrepresented retail categories identified in **Figure 19** include restaurants, food stores, florists, and liquor stores. While some of these categories may not drive San Jose's sales tax revenue growth, restaurants are important anchors for shopping districts of all types, from small community centers to Downtown districts, because they can draw much-needed foot traffic to other retailers. For example, a cluster of restaurants can be a successful anchor for specialty retail districts. In fact, malls have increasingly been repositioning themselves by renovating their food courts to take advantage of the fact that consumers are spending more money on experiences and eating out.[19] In addition, locally-produced beer and spirits are helping to drive revitalization and investment in many cities around the country.

[19] JLL, 2017. A New Mall on the Rise.

FIGURE 19. SALES TAX CAPTURE AND GAP ANALYSIS FOR SAN JOSE, Q4 2017



Source: Figure taken directly from Sales Tax Capture and Gap Analysis Report, by MuniServices, Avenue Insights & Analytics Company, 2018.

San Jose's Retail Performance: Key Findings

Most of San Jose's neighborhoods are adequately served by existing retail facilities to meet daily needs and commodity shopping needs, and the City is unlikely to add more than one new grocery-anchored shopping center in the next three to five years. The Downtown East San Jose Subarea could likely support an additional grocery anchored shopping center. From a retail location perspective, the best location for a new full-service grocery store would be at the corner of East Santa Clara and N. 14th Streets, which falls in the East Santa Clara Urban Village. The East Santa Clara Urban Village Plan (scheduled for adoption in fall 2018) would allow for a full-service grocery store. Entitlement applications for a mixed-use project at this site are expected to be submitted by the property owner, the County of Santa Clara, in the summer of 2018.

As North San Jose continues to grow, this Subarea will need more shopping facilities. This area might support a new small-scale grocery store today, despite competition from the nearby Target and grocery stores located in Santa Clara and Milpitas. This demand can be accommodated in the former Fresh and Easy space. As additional demand in the form of population growth occurs, a full-service grocery store or even an entire shopping center might be called for. With recent updates to the North San Jose Development Policy, this area could support additional retail activity located in mixed use buildings that have design attributes (e.g. access, visibility, parking, ease of wayfinding, etc.) conducive to retail, if the commercial space is located primarily along Zanker Road north of River Oaks Parkway where supporting traffic volumes are high and there is good transit accessibility.

Despite changing retail industry trends, San Jose's major shopping centers are performing relatively well, however, shopping center repositioning is likely to continue taking place in the next few years. Malls like Westfield Valley Fair and Eastridge have already demonstrated their value and resilience by expanding and/or refreshing their image and trade area targets. Malls like Westfield Oakridge will likely require new investment in the next few years to remain competitive.

Retail chain store closures have impacted San Jose's shopping centers but are not likely to cause any major centers to close completely. In recent years many national retail chains have either gone out of business, or significantly reduced their number of stores. While these closures have impacted San Jose's shopping centers, this activity has not shuttered an entire center as has been the experience in other parts of the country. The bigger challenge will be related to free-standing stores that are not part of a larger center, or not part of a consolidated property ownership group. These types of sites will be the most challenging to refill with retail uses and may eventually need to be reconsidered for other types of non-retail uses. A trend of owners looking to repurpose vacant retail space into other uses is expected to increase over time.

Over the next few years, several of these major shopping centers may consider adding new non-retail uses. These could include hotel and office space, but also high-density housing. Mall owners will be looking for ways to add value for their investors by creating mixed use places, often with a more "urban" character.

San Jose's "commodity-oriented shopping centers" are, for the most part, performing as expected. This assessment is based on current data available, however, as the retail industry (including major grocery chains) continues to consolidate, these centers may face significant market changes starting in the next five years.

Areas with high traffic counts and proximity to existing successful retail concentrations can continue to attract increased retail activity. The areas within San Jose that have high traffic volumes and provide good connections between large regional employment centers and large residential populations are attractive locations for expanding retail activity.

There are multiple retail categories for which San Jose could increase its sales activity. Increased activity in some categories, notably new car sales, will most likely come from increased sales at existing outlets, whereas other retail categories could expand by both increasing sales at existing stores *and* attracting new stores to the City. Finally, retail categories that can best support existing centers and shopping districts include: apparel, sporting equipment, restaurants, food stores and beverage stores, and florists.

Given the significant evidence that the U.S. retail sector is generally overbuilt and that the number of available tenants is decreasing in existing shopping centers, including the ones in San Jose, non-retail uses will continue to be introduced in formerly retail-only projects – such has office space, residential development, hotels, athletic facilities, etc. An obvious consequence of repositioning [parts of] major shopping centers with non-retail uses is that sales tax revenues for San Jose may decrease, however, this decrease is not anticipated to happen on a straight-line basis. Weaker retailers will go away first, while those that best adapt to an evolving retail marketplace will continue to attract customers, and potentially strengthen. That said, it is generally recommended that the City plan for a long-term trend of static or decreasing sales tax revenues, and the need to repurpose vacant retail space, preferably for other commercial uses. The repurposing of space will have the benefit of creating demand for goods and services for retail.

VI. STRATEGIES FOR EXPANDING SAN JOSE'S RETAIL ACTIVITY

Over the past few decades, San Jose has been able to increase its retail supply and leverage the market opportunities inherent to a growing city with almost a million people. Over the next three to five years, as the retail industry continues to evolve in new and unanticipated ways, the City will need to take a proactive and tactical approach to ensuring that it can achieve its core mission to provide residents with the goods and services they need, as well as sustain a healthy retail sales tax base. The following strategies lay out steps that staff and policy makers can take together to ensure that San Jose does not fall behind on its goals, and that the City can continue to be an innovation showcase, not just in technology, but in the way people live their daily lives.

In reviewing these strategies, note that the Downtown Core Area has not been addressed. A retail strategy for Downtown is being prepared separately. A separate North San Jose retail strategy was adopted by the City Council in April 2017, however, since that that time, the North San Jose Development Policy has been amended, therefore an additional policy regarding retail development in North San Jose has been added below.[20]

Strategy 1: Prepare promotional materials to clearly present San Jose's strengths and successes as a retail location.

San Jose has many excellent success stories to tell about its sustained retail health, the success of individual retailers, its overall growth in retail space, and its changing locational advantages (i.e. San Jose used to be at the edge of Santa Clara County's population, but due to increased development in the southern County, San Jose is becoming more centrally located with respect to the overall South Bay region). Furthermore, San Jose is expected to add another 120,000 households and 380,000 jobs by 2040, the majority of whom will be located north of Highway 280 based on the Envision 2040 General Plan Growth Areas. This population/employment increase represents an opportunity for retailers to understand how and where San Jose is changing, and what this could mean for future investment opportunities.

Strategy 2: Continue coordinating with Santa Clara County regarding future uses for the County owned site at East Santa Clara and N. 14th Streets.

This is the best opportunity site for additional retail development in the primary neighborhood that is currently underserved by retail activity. Therefore, the City can continue to work with the County to proactively pursue a significant retail component to any future development project at this site, including a major grocery store.

Strategy 3: Coordinate future development in North San Jose to ensure retail elements are viable and enhance the area's evolution as a walkable, mixed use community.

Since 2000, North San Jose has been one of San Jose's fastest growing areas as measured by both population and retail space increases. The eventual re-opening of housing a represents a significant

---

[20] City of San Jose, North San Jose Retail and Amenity Strategy, April 2017. http://sanjose.granicus.com/MetaViewer.php?view_id=&event_id=2683&meta_id=632158

opportunity to build on North San Jose's existing residential concentrations, add support for new retail activity, and contribute to various potential place making activities recommended in the North San Jose Retail Strategy adopted in 2017. The intersection of Zanker Road and River Oaks Parkway and the on-ramp to Highway 237 at Zanker Road both have significant traffic volumes and from a traffic pattern perspective are located on the gravity side of the trade area, making sites along Zanker Road best suited for future retail development. East Tasman Drive is less desirable for retail development due to the limitations on vehicular turning movements created by the light rail tracks.

Strategy 4: Prepare a detailed site assessment of every highway off-ramp in San Jose to determine high-level suitability for future retail activity.

Because San Jose is in an increasingly central location between the Silicon Valley's employment centers in the north and west parts of Santa Clara County, and the growing residential communities in Morgan Hill, Gilroy, San Benito County, and even the Central Valley, locations with high traffic volumes, good visibility, and easy accessibility will be attractive locations for retailers because of demand represented by traffic patterns. To the extent that there are suitable parcels in these locations that lack appropriate zoning, or have other specific constraints, the City can work proactively to remove these barriers. Greater certainty about obtaining entitlements would cut down on perceived risk that might be associated with pursuing new development projects in San Jose.

Strategy 5: Continue working with the team within the Department of Planning, Building, and Code Enforcement responsible for updating the City's permitting portal to ensure that this tool will offer developers the ability to search for parcels by specific zoning and General Plan land use designations to identify potential retail sites based on existing land use policy.

San Jose is a big city, so it can be challenging for developers to identify sites or locations that are potentially suitable for retail or mixed-use development based on current City land use policy. While both the current General Plan and Zoning maps are available online, these maps cannot be searched by a specific designation. A search function including a significant mapping function should be incorporated into the updated permitting system portal. This search tool should be prominently featured the City's promotional materials as well as directly promoted to the commercial real estate community active in San Jose so that developers know what resources are available to them as they seek potential locations for retail or mixed-use development.

Strategy 6 Identify ways to make site entitlement and other permitting processes as transparent and simple as possible.

City staff should evaluate the building permitting portal update to identify ways to make the entitlement and permitting process as fast and transparent as possible, especially for smaller projects and projects proposed for urban village locations. Including civil engineers, architects, developers, and other stakeholders in this process will help generate market-focused suggestions to improve the interface. This initiative could include providing regularly updated materials explaining the entitlement and permitting process and development fees. In addition, the City should explore ways to make the building inspection process faster and more consistent.

Strategy 7: Ensure that retail viability is preserved during development of new land-use plans, policies and transportation investments

All of San Jose's urban villages, shopping centers, and two auto rows are located on major arterial corridors. The retailers along these corridors are concerned with preserving their visibility and access as new land-use plans, policies and transportation infrastructure are implemented. Planning, transportation and economic development staff should balance priorities and minimize or manage any potential conflicts related to access, visibility and parking as these plans develop.

Strategy 8: Develop and/or build on relationships with commercial property owners

Although San Jose has a good working relationship with many of its large shopping center owners, there may be other entities that own multiple retail or mixed-use projects in the City. These small to mid-sized property owners are crucial to sustaining the City's overall retail health. City staff should identify up to ten small- to mid-size commercial property owners in key locations with whom to build ongoing relationships (particularly owners who "run" with tenants) and their retail tenants. This could assist with retail retention, provide an "early warning" system when a major retailer may be leaving or shutting down, and enable staff to communicate retail opportunities that brokers, and other investors may have missed.

Strategy 9: Prepare a list of specific design parameters that mixed-use developers should follow in designing growth floor commercial space to ensure that this space could be viable for retail user.

In cases where ground floor commercial space is required as a condition for obtaining development approvals, developers often design this space to meet the minimum permitting specifications, but in this process, create suboptimal spaces for actual retail operations. San Jose should provide design clear guidelines regarding minimum standards for bay depths, floor to ceiling heights, loading infrastructure, venting, etc.

Strategy 10: Redouble San Jose's retail outreach strategy to inform key targets about San Jose's selling points.

San Jose economic development staff should continue to attend International Council of Shopping Center events, as well as retail conferences, as part of a robust retail outreach strategy. It should also include the development of basic retail-oriented flyers and message points relevant to a wide range of retailers. Staff and key policy makers should also consider more active participation in the Urban Land Institute and the International Downtown Association.