



# Memorandum

**TO:** COMMUNITY & ECONOMIC  
DEVELOPMENT COMMITTEE

**FROM:** Nanci Klein

**SUBJECT:** DOWNTOWN RETAIL STRATEGY

**DATE:** February 15, 2019

Approved

Date

2/15/19

## RECOMMENDATION

Accept the Downtown San Jose Retail Strategy report and cross-reference this item to the March 12, 2019 City Council meeting, together with the Citywide Retail Strategy report that was given at the Community and Economic Development Committee meeting on November 26, 2018.

## OUTCOME

Committee members will receive a summary overview of the Downtown San Jose Retail Strategy report compiled by Strategic Economics, including existing Downtown demographics and retail conditions, how these factors relate to citywide and national trends, key findings from consultant observations and stakeholder focus groups and proposed retail strategies for the next three to five years.

## BACKGROUND

On June 26, 2017, staff presented a Downtown Development Update to the Community and Economic Development Committee which announced efforts to secure a consultant to conduct a retail study to inform Downtown retail development. Strategic Economics was secured through Planning Building and Code Enforcement's Master Agreement to leverage their work on the North San Jose and Citywide retail studies initiated in Spring 2017.

The City has not undertaken a Downtown retail study in at least 10 years and a vibrant retail environment is critical as Downtown welcomes more workers and residents expecting to satisfy their daily needs and services, and retail and entertainment desires in San Jose's urban core. With that in mind, the following goals were developed for this retail strategy:

- Lay out a retail "roadmap" to guide retailer expectations and recruitment strategies in the city's urban core for the next three to five years
- Anticipate and prepare for an evolving retail landscape

- Identify gaps in Downtown's retail makeup and have a plan to facilitate attraction
- Provide guidance to better design mixed-use buildings for today and tomorrow's retail users
- Compile important demographic information for use in marketing and broker information requests
- Enhance place-making and improve quality of life in Downtown

Strategic Economics' scope of work included analyzing existing conditions, identifying national retail trends and the implication of these for downtown's retail landscape, identifying missing retail types in the core, conducting retail work sessions with various stakeholder groups and preparing a Downtown retail strategy summary document. In early January 2018, Office of Economic Development and Planning staff met with Strategic Economics and sub-consultant Greensfelder Real Estate Strategy to kick-off the initial work and conducted a Downtown walking tour to view active development sites and better understand pedestrian flow and the existing urban landscape.

In April 2018, the consultant team provided a verbal update of the demographic and existing conditions data collected since January and an explanation of national retail trends to the Community and Economic Development Committee. Since then staff has worked with Strategic Economics to complete the Downtown Retail Strategy study, which is attached to this memorandum.

## **ANALYSIS**

The attractiveness of Downtown's retail market continues to improve as the core draws new residents and office workers. About 2,200 residential units are currently under construction and downtown Class A office vacancy continues to hover between 10% and 11%. Several new coffee shops, restaurants, and service-oriented retailers have opened within the last 18 months, including Academic Coffee, Chromatic Coffee, Elyse Restaurant, Earl of Sandwich, Bishop's Barber Shop, Tea Alley, and Formula Nutrition. Additional arrivals are expected as new investors renovate long-neglected buildings such as 12 S. First Street (Bank of Italy) and 1 W. Santa Clara (Lincoln Law), and rehabilitate buildings such as 82 E. Santa Clara (Hank Coca's Furniture) and 2 W. Santa Clara (Walgreens). New residential towers will also bring additional retail patrons and modern ground-floor spaces.

Despite this positive momentum several key ground-floor spaces, both long-time and newly constructed, remain vacant. A cohesive Downtown Retail Strategy will help to ensure that city staff and retail and development partners can utilize a coordinated and comprehensive roadmap, maximizing the potential for retail success in our urban core.

As an urban retail environment, Downtown San Jose has competitive advantages that will allow it to capitalize on some current national trends. Downtown has a robust and high-quality built environment; e.g. narrow two-sided shopping streets, historic buildings with architectural

character, wider rather than narrower sidewalks, predominantly small blocks, and alleys; public parks and plazas. Downtown also plays host to various modes of access. In addition to cars, these include transit and a growing pedestrian/bicycle network. Downtown enjoys existing and active business district management and is home to various drivers of demand, including a growing population of residents and workers, as well as several institutional anchors such as San Jose State University, SAP Center, the McEnery Convention Center and major performing arts venues and museums.

However, as an urban retail environment, Downtown San Jose has some challenges. These challenges include the fact that overall income of downtown demographic is lower than the rest of the city. In 2016, median household income in the study area was approximately \$75K while median household income citywide was approximately \$90K. Downtown is still not perceived as a live/work environment. Only about 11 percent of Downtown residents also work Downtown which is lower than expected for a mixed-use district. Downtown struggles with quality of life issues often present in a true urban environment and lacks continuity in its pedestrian experience from neighborhood to neighborhood. Over the last 50 years' retail has been built outside of, but within close proximity to, Downtown, including several strong regional malls (e.g. Valley Fair, Santana Row, Oakridge, Eastridge) and neighboring business districts (e.g. Willow Glen, Japantown, Campbell.)

### **Demographic Trends**

Data gathered by the consultants conducting this retail strategy supports the finding that Downtown is becoming an increasingly important growth area for San Jose. Downtown population in the study area is about 19,500 and will reach about 24,000 once the buildings currently under construction are occupied. In the next 3-5 years, if all planned and proposed units are built, Downtown could add another 12,000 people. In 2000, Downtown represented one percent of the City's total population. In 2016, this share had doubled to two percent and the new residents account for six percent of all new residents in the City. Overall, once buildings currently under construction are fully occupied, Downtown will have doubled its population since 2000. Downtown's population is trending towards small households; approximately 43 percent of downtown households have one person. Downtown residents have a higher overall level of education than the City, with 55% of Downtown residents possessing either a bachelor's or graduate degree. Men represent a higher share of downtown residents than women, making up 60% of the population.

### **Employment Trends**

Downtown currently has about 43,000 jobs. Information and professional services jobs dominate Downtown employment. They represent about 10 percent of total jobs in San Jose. By comparison, North San Jose, the city's largest jobs district, represents 25 percent of total jobs in the City. While no new office buildings have been completed since 2009's Riverpark II, the supply of rehabilitated and planned new office construction represents potential for significant employment growth Downtown. The near-term Downtown office pipeline could support as many as 30,000 jobs, almost doubling Downtown's current employee count.

## Key Findings

To help inform this retail strategy, Strategic Economics and Greensfelder Real Estate Strategy conducted two retail focus groups with commercial/retail brokers, developers, downtown business association leadership, retailers, residents, and San Jose State University. Input from these focus groups and the consultant team's other research led to the following key findings:

- *Downtown San Jose has a unique set of assets* – Downtown's buying power is not limited to just the residents that live Downtown and the employees that work in the core. Downtown amenities such as the Convention Center, SAP Center and many arts and cultural venues attract millions of additional visitors to Downtown on an annual basis. Coupled with the fact that Downtown is at the center of an extensive transit network and possesses numerous open space assets, there is significant potential for success.
- *Downtown could continue to build on its strength as an entertainment destination by making it fun and easy to move around from place to place* – There are approximately 175 eating establishments, more than two dozen arts, cultural and entertainment destinations and over 200 days of outdoor special events or programming annually in the core. Downtown San Jose is a strong regional dining and entertainment destination, year-round. People moving back and forth to these many destinations within Downtown create the vibrancy necessary to support more retail establishments.
- *Existing Downtown policies and regulations should be revised to better address current retail industry conditions* - Updating the Downtown Design Guidelines and Downtown land use classifications in the Zoning Code can provide the necessary mechanisms to balance pedestrian-friendly ground floor uses activity and retail market demand.
- *The City of San Jose must require higher quality retail spaces in new mixed-use buildings* – This key finding is evident in the fact that several of the ground floor spaces Downtown have been vacant since construction or have had a difficult time sustaining tenants. While many factors contribute to the ultimate buildout of a space, the City can play a substantive role in guiding how a space should be designed to best support successful retail use over time.
- *Future retail attraction efforts should focus on making Downtown a distinct retail destination offering an authentic experience* – Most popular shopping destinations are successful and memorable because they offer unique, interesting products in a lively and desirable atmosphere. Past investments in Downtown attempted to recreate the suburban-style shopping mall. Moving forward Downtown's competitive advantage will come from creating a distinct physical environment that attracts brands focused on creating a uniquely urban retail "experience" for their customer.
- *The City and its partners should create a clear and coherent identity for Downtown* – Recently, the Office of Economic Development implemented a successful branding campaign that resulted in the creation of a new San Jose community mark. Although the

campaign is still in its infancy, the mark is extremely popular and has been embraced at a grassroots level. The mark and its accompanying slogans– Make Your Mark and Start Something– speak to the realities and possibilities of the city and are authentic. A similar effort should be undertaken for Downtown.

- *Despite significant growth in projected retail demand, future retail supply will grow slowly, due in part to changing industry trends* – Downtown retail demand will undoubtedly increase over time but how the retail industry responds to this changing demand is uncertain. To maximize Downtown’s opportunity for success in the short-term, retail spaces should be focused on key intersections, most closely matching the retail industry’s location criteria. In the long-term, City staff should work closely with property owners and developers to ensure that future retail uses can fill-in between these key intersections.
- *Plans for the Diridon Station Area should connect to and build on this retail strategy* – Development in the Diridon Station Area will ultimately result in a significant increase in both Downtown residents and employees. The future buildout, and more specifically the street-level experience of key corridors such as Santa Clara and San Fernando streets and Park Avenue, are extremely important to the ultimate connection between the east and west sides of Downtown and the flow of people between them.

### **Retail Strategies**

The following is brief overview of the 11 strategies proposed in the Downtown Retail Strategy report. Each strategy is addressed in greater detail in the consultant’s attached report.

**Strategy 1: Create and promote a strong “brand” identity for Downtown.** The City should establish an identifiable brand for Downtown, building on its unique assets, its authentic story, its multi-modal accessibility, and its relationship to Silicon Valley’s innovation ethos.

**Strategy 2: Continue to incubate small retailers in Downtown.** National credit retailers tend to be very formulaic when considering whether they will locate in an area or not. When looking to other cities with perceived retail success stories such as Los Gatos or Campbell you find that most of what makes these locations successful in a shopper’s mind is the uniqueness of the product offered at stores in shopping districts. Moment at San Pedro, a cluster of small retail shops with unique, artisanal products, and curated by local entrepreneurs, is a strong foray into this retail niche. This type of retail should be nurtured and supported, as it will be what differentiates a shopper’s experience in Downtown San Jose from their experience in a mall or other retail location.

**Strategy 3: Target attracting emerging brands to Downtown.** Downtown could become the premier location for retail concepts who want a Silicon Valley address but aren’t looking to locate in a traditional mall setting. The MUJI San Jose store on the Paseo de San Antonio is an example of a brand most comfortable in urban settings. Downtown could benefit from focusing on brands that have traditionally sold their product on-line and are now looking to establish a

small brick and mortar location or from partnering with tech companies looking to have a public-facing space to sell branded merchandise or display their latest invention.

**Strategy 4: Revise the Downtown Zoning Regulations.** Title 20 of the San Jose Municipal Code should be amended to remove and replace the Downtown Ground Floor Overlay and liberalize the Downtown Districts Land Use Regulations table (Table 20-140). A Primary Active Use/Transparency Zone, similar in concept to the Downtown Ground Floor Overlay but smaller in area, should be implemented on key east-west and north-south streets. This zone coincides with the creation of distinctive pedestrian routes identified in Strategy 7. Uses in Table 20-140 that are currently not permitted in the Downtown Ground Floor Overlay such as ground floor residential would remain restricted in the new active use/transparency zone. The consultant team recommends that the City reserve six prominent intersections along Santa Clara and San Fernando streets exclusively for certain retail and food-related land uses. Lastly, there are uses in the Commercial Land Use table of Title 20 that are currently not permitted Downtown, but should be reconsidered (e.g. retail bakery, indoor theatre, and instructional art studios). An amended land use table is proposed in Appendix A of the report.

**Strategy 5: Prepare a Downtown Developer's Manual.** This strategy is proposed primarily to facilitate the development of viable ground floor retail spaces in new mixed-use developments and to provide some additional context (downtown demographics, planned and proposed development pipeline, planned public investments, development review process) for a developer. Often in large mixed-use projects the design and buildout of ground floor space is an afterthought, rather than an element of the development that is thoughtfully considered during the early stages of building design. A Downtown Developer's Manual that includes a Best Practices Ground Floor Retail Checklist (Appendix B) could result in the development of higher quality, more utilizable Downtown ground floor spaces.

**Strategy 6: Prepare a Future Retailer's Guide to Downtown San Jose.** Not all retailers are created equal and navigating city and county processes and procedures can be difficult. The City's Small Business Ally team and the San Jose Downtown Association's Business Development Manager do a tremendous job of helping retailers of all sizes navigate these processes. Having a document with comprehensive information that might be useful to a retailer as they are considering a Downtown location, as well as information about permitting processes and procedures, organized in one place could substantially enhance a future retailer's experience with the City of San Jose. The guide would include information such as population demographics and projected growth, development project pipeline, a list of pertinent city and county departments the retailer will need to interact with, necessary land use and policy information, and a summary of Downtown's unique assets.

**Strategy 7: Identify and create distinctive pedestrian routes between key Downtown anchor destinations.** In many areas downtown there is a pattern of one or multiple vacant storefronts next to an active storefront. This does not make for a safe, inviting and interesting continuous pedestrian experience throughout the city's central business district. Downtown's checkerboard of empty storefronts and active storefronts make exploring Downtown from one end to the

another unappealing and difficult. This strategy calls for an integrated approach to improve the street-level pedestrian experience between key anchors such as San Jose State University and Diridon Station, the arena and the convention center, and San Pedro Square and the SoFA District with elements such as wayfinding signage, lighting, art installations and innovative street furniture.

**Strategy 8: Address quality of life in Downtown.** Downtown San Jose is faced with the challenges that you find in many urban city centers. This strategy is about making a concerted and sustained effort at getting back to basics. It is imperative that residents, employees, and visitors feel safe and comfortable Downtown and that Downtown is clean and inviting. This is especially true along the distinctive pedestrian routes that connect Downtown's anchor destinations called-out in the consultant's report.

**Strategy 9: Identify specific actions to address long-term retail vacancies.** Not all ground floor spaces are created equal and not all property owners have the same ability or desire to lease their space. Some significant Downtown ground floor spaces have remained vacant for years for a variety of reasons— the initial space isn't configured in a way that is compatible for a retail use, the property owner is only willing to lease to a national credit-worthy tenant, the space requires some type of environmental mitigation before it can be leased, etc. Staff should identify the highest priorities spaces in the recommended Primary Active Use/Transparency Zone and work with individual property owners and knowledgeable retail brokers on solutions to tenant each space. Some effort has already been made in this area with the implementation of the City's Vacant Storefront Registry pilot program in Summer 2018.

**Strategy 10: Ensure that Downtown continues to have daily needs retailers.** As the downtown population grows, it will become more imperative that daily needs retailers locate Downtown. The most prominent of these types of retailers include grocery stores and drug stores; however, this category of service-driven retailers also includes uses such as hair and nail salons, dry cleaners, and banks.

**Strategy 11: Consider adopting a policy regarding corporate cafeterias.** Cities such as Mountain View and San Francisco have either adopted or are considering adopting policies that minimize the effect of corporate cafeterias and encourage employees to eat at local restaurants/cafes during lunchtime. While some employees at companies that have corporate cafeterias do venture out during lunchtime, most do not and fall into the pattern of driving into work in the morning and driving out of work at night without ever setting foot outside of the walls of their office building.

## **EVALUATION AND FOLLOW-UP**

The Downtown Retail Strategy report will be placed on the agenda for the March 12, 2019 City Council meeting, as part of a consolidated report aligning staff's work on the Downtown, North San Jose, and Citywide retail strategies, and providing recommendations for future

implementation. Staff will also provide further detail on how proposed strategies might be integrated into existing work plans or provide context for adding resources through a future budget action.

### **PUBLIC OUTREACH**

This memorandum will be posted on the City's website for the February 25, 2019 Community and Economic Development Committee meeting.

### **COORDINATION**

This memorandum has been coordinated with the Department of Planning, Building and Code Enforcement, and the City Attorney's Office.

/s/

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For questions please contact Blage Zelalich, Downtown Manager, at (408) 535-8172.

Attachment: Downtown San Jose Retail Strategy Report, Strategic Economics and Greensfelder Real Estate Strategy