

ASSUMPTIONS

- No customer spotting surveys were conducted nor were made available to the consultant for any of the stores surveyed in this analysis and as such, the draw or PEX values were determined by the analyst based on sister store networks, the distance of other stores from the study area in other outlying markets and 35 years of supermarket research experience. (Rick Domanski the main author of this report, was Research Director for Ralphs Grocery Company from 1975 through 2000 before joining Thompson Associates (and later becoming MapInfo).
- Besides those competitor changes discussed herein, no other competitive changes would be expected to occur in or near the trade area other than those discussed in this report. These would include any future takeovers of existing supermarkets (e.g., Albertsons).
- Population growth will occur as projected in the study or at an annual compound rate of 1.4% through 2012. Much of this growth is projected to occur in Map Sector 7, where 500 new units were considered built out next to the site by 2009 and where new growth beyond 2008 would occur at an annual average absorption rate of 250 new homes annually and east of the current urban limit.
- Sales are always presented in constant 2006 dollars and thus **do not account** for inflation.
- Leakage business is kept constant at an estimated 20% (rounded) throughout our projections and ever satisfied by operators like Costco and smaller C-stores. Historically, it has been shown that despite the intensity of competition or lack thereof, no conventional supermarket operator seems to impact Costco's phenomenal volume.

METHODOLOGY

The sales estimates presented herein were generated through the use of MODEL, a gravity model forecasting system developed decades ago for convenience driven stores like supermarkets. All commercial gravity models in use today, utilize comparable data and physical measurements including population, estimates of weekly expenditures, competitive store sizes and sales, and distances between the population centers and retail stores serving these population centers or map sectors. Accordingly, gravity models are the technique most commonly used by supermarket chains, wholesale grocers and consulting firms for developing supermarket sales projections.

The sales estimates in this study have been prepared for the first, third and fifth years of operation (2008, 2010 and 2012) assuming a late 2007 opening date. These sales estimates are presented in constant 2006 dollars and do not, therefore, reflect inflation. They are based on an average per capita weekly expenditure (PCW) of \$33.82 for the study area. The sales figures do, however, account for population growth in the trade area. Tables appended to this report reflect the Market Place As Is (**Exhibit 1**), the Projected Market Place (**Exhibits 2, 3 and 4**), a Sales Forecast table which breaks down the sales estimates by map sector, and a Trade Area Population by Sector table which depicts population changes throughout the forecast period.

The input variables necessary to run MODEL include:

- Current and projected population estimates
- Per capita expenditure estimates for food store type merchandise
- Competitive evaluations
- Distance measurements

Each of these variables is discussed as follows:

Population Estimates – The population of the trade area was broken down into map sectors. Each of these map sectors, determined in a manner that is compatible with gravity model analysis, can be seen on the appended map. All map sectors are census 2000 block groups and updated via local sources.

Per Capita Expenditure Estimates – Per capita weekly food expenditure (PCW), as used in this study, refers to the dollars spent per person, per week for the type of merchandise carried in supermarkets. The expenditure data used in this study were derived and based from U.S. Bureau of Labor Statistics information, which we believe to be the most accurate source for this data.

Competitive Evaluations – Each competitive supermarket in and around the trade area was evaluated by our analyst during an extensive in-store observation. The analyst noted several items during the in-store visit including store operations, merchandising, and physical facility. The analyst also estimated the ground floor building area size for each store, evaluated its major specialty departments, and estimated its weekly sales.

Distance Measurements – Each competitor and population map sector was located on a map of the trade area using an x-y coordinate system. It is critical that all competition and population centroids (i.e., that point in a map sector that most closely approximates the center of population) are accurately located since the geographic relationships thus established are used in simulating the trade area and developing sales forecasts. After gathering and inputting the appropriate information, the analyst “balanced” the gravity model in order to accurately simulate the trade area.

In the Market Place As Is (**Exhibit 1**) report, certain variables were input by the analyst, specifically PEXP and CURVE. PEXP is the percentage of a store's volume that is estimated to originate from within the trade area, whereas CURVE is the percentage of the store's volume estimated to originate from within a certain radius around the store.

The IMAGE factor shown on the Market Place As Is table is the relative ranking of each existing store in the market. An IMAGE of 100 would be average. While the gravity model generates IMAGE, it is dependent upon the input variables as well as the analyst's assessment of them. Once the model is "in balance and or simulated" and accurately portrays the subject trade area, the subject site and any other noted competitor changes is input and an estimated sales forecast is generated by MapInfo.

TRADE AREA/DEMOGRAPHICS

The primary trade area defined for the proposed supermarket is highlighted on the accompanying Sector and Competition Map. The trade area encompasses the southeastern portion of the City of San Jose's Evergreen Community and its future outlined growth. As the purpose of this survey was primarily to estimate the competitive sales impact upon the existing supermarket operators serving portions of the defined trade area, that area which was deemed as being convenient (usually with two miles) to the site was delineated for analysis. At its maximum extent, the trade area spans approximately 4.4 miles east to west and 4.0 miles north to south.

As defined, the trade area currently encompasses an estimated 55,721 persons and expected to increase to 60,546 persons in 2012. Much of this future growth will occur in subdivisions under construction and or approved in Map Sector 7.

Demographically, the delineated trade area is an estimated 40% White, 43% Asian/Pacific Islander, and 4% African-American. Ethnic Hispanic population accounted for about 25% of the trade area's populace. Current weighted average household income stands at an estimated \$128,884 per annum, while the trade area's median age is older, or approximately 34.4 years. The average household size is estimated at 3.5 persons per unit. The following table summarizes our population estimates by map sector.

EVERGREEN TRADE AREA DEMOGRAPHICS (MI #1588-001)

MAP SECTOR	2006 POP	2008 POP	2012 POP	AVE HH INCOME	%WHITE COLLAR	% BLACK CY	% HISP CY	% WHITE CY	%ASIAN CY	% OTHER CY	MEDIAN AGE CY
1	2396	2396	2396	\$81,844	54%	5%	33%	24%	51%	20%	29.9
2	1377	1377	1377	\$82,524	69%	7%	41%	38%	38%	17%	30.0
3	4134	4134	4134	\$94,565	62%	6%	27%	30%	51%	13%	28.6
4	1768	1768	1768	\$81,923	53%	5%	47%	31%	38%	27%	28.4
5	1153	1153	1153	\$91,683	58%	4%	26%	22%	58%	15%	28.6
6	653	669	680	\$111,022	56%	6%	37%	26%	47%	21%	28.5
7	7072	7857	11107	\$177,956	72%	3%	10%	26%	66%	5%	31.8
8	1166	1241	1284	\$132,225	70%	3%	18%	37%	51%	9%	34.5
9	2743	2743	2743	\$104,431	80%	6%	25%	58%	27%	10%	36.9
10	1349	1349	1349	\$139,106	70%	4%	25%	51%	30%	15%	35.0
11	1854	1854	1854	\$83,120	75%	3%	12%	72%	20%	5%	53.4
12	6362	6362	6562	\$117,853	85%	1%	7%	78%	18%	3%	58.8
13	2325	2332	2345	\$90,267	61%	3%	21%	26%	62%	10%	30.5
14	2497	2650	2738	\$103,446	67%	5%	28%	32%	51%	12%	30.5
15	3528	3528	3528	\$128,712	69%	3%	13%	24%	67%	6%	32.8
16	2014	2014	2014	\$120,987	55%	6%	31%	33%	45%	16%	31.7
17	2054	2054	2054	\$93,585	61%	4%	29%	36%	44%	16%	32.7
18	2116	2116	2116	\$84,479	73%	6%	26%	64%	18%	12%	36.7
19	9160	9544	9544	\$193,842	69%	4%	15%	50%	38%	8%	34.4
Total/Average	55,721	57,141	60,746	\$128,884	66%	4%	25%	40%	43%	13%	34.4

PRIMARY TRADE AREA POTENTIAL

The current trade area population is estimated at 55,721 and is estimated to increase to 60,546 by the end of the forecast period. The average PCW is estimated at \$36.82 in 2006. The ten supermarkets surveyed average 40,750 gross square feet, with an average sale per square foot of \$8.72 weekly. Total weekly grocery store expenditure potential is \$2,051,770. Of this potential the ten facilities capture \$1,634,000 or 79.6% market share. Total leakage in this market is 20.36% and is accounted for by warehouse operators like Costco and by small C-stores.

Population	55,721
Potential	\$2,051,770
Facility Volume	\$1,634,000
Leakage Amount	\$417,770
Leakage Percent	20.36%