



ALFRED GOBAR ASSOCIATES

February 6, 2006

Ms. Laurel Prevetti – Deputy Director
DEPARTMENT OF PLANNING
CITY OF SAN JOSE
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SENT VIA MAIL AND E-MAIL

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Subject: Concerns Regarding Evergreen Area Retail Study Recommendations

Dear Ms. Prevetti:

Alfred Gobar Associates (AGA) has reviewed the Bay Area Economics (BAE) analysis dated September 13, 2005 that evaluates retail potential in the Evergreen Area. The BAE study indicates current and future market potential exists for a 50,000-square-foot conventional supermarket at the corner of Yerba Buena and San Felipe (Community College Site). This review serves to compare the research approach used in the BAE study and the determination of market potential for a standard format supermarket at the Community College site.

Based on this independent review of the BAE study, AGA respectfully submits the following concerns for City Staff and elected officials to consider:

- The BAE study concludes that a conventional 50,000-square-foot supermarket should be built at the Community College site based on a highly aggressive interpretation of market potential and without due consideration to the competitive impact of existing supermarkets on site sales performance.
- Under the discussion of “Market Support for New Neighborhood Retail” (Pg viii), the study states the Community College local trade area (Area 5) and Lunardi’s local trade area (Area 4) each could support another 50,000-square-foot store, yet identifies the White & Quimby Site (Area 2) as the optimal site to capture this potential support because of its central location within the Evergreen Area.
- Table 13 of the study only identifies \$6.6 million in supermarket sales within the Lunardi’s local trade area and inadvertently underscores issues raised by Lunardi’s and Consentino’s about the difficulty of achieving a competitive level of sales support from existing households despite a relative level of affluence that should favor quality-based merchandising.
- The BAE study identifies significant leakage of sale potential associated with the local trade areas that are characterized as relatively affluent with a heterogeneous ethnic mix of households. The BAE study is not cognizant that a lack of ethnocentric products and merchandising is likely a principal factor contributing to sales leakage. Despite this reality, the BAE study recommends a 50,000-square-foot standard platform market such as a Safeway or Albertson’s (Pg 31), though both chain operations are already represented near the Community College site.

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- Finally, the BAE study assumes an overly aggressive rate describing the capture of sales leakage and future sales potential (90%) by a standard platform supermarket and ignores competitive practices of existing food stores that will likely reduce effective capture to half the level indicated. In addition, the BAE study indicates the Community College site is not the optimal location for another supermarket in the Evergreen Area (Pg 31).

The BAE study is not without merit and does a good job of assessing the magnitude of retail potential within the Evergreen Area as a whole. As structured, the BAE analysis falls short in considering street-level competitive interaction with existing markets and the impact on site-specific sales potential.

AGA conducted a separate analysis of retail potential at the Community College site in June 2005. The research approach used in the AGA and BAE studies is similar in many respects, except the AGA study uses a 2.0-mile radius to estimate sale potential and accounts for the geographic distribution of existing supermarkets and their impact on sales support at the site. Several prospective target store-platforms were evaluated (ranging in size from 20,000 to 60,000 square feet) against a threshold benchmark of roughly \$400 per square foot (comparable to the BAE study benchmark). In every instance, site-specific sales performance fell short (\$150 to \$290 per square foot) of the threshold requirement due to the competitive interaction of the site and surrounding supermarkets.

Proper consideration of any proposal for another supermarket at the Community College site cannot ignore the following factors:

- Realistic retail support potential at the Community College site is not adequate for a conventional supermarket operation nor is the supply of future housing in the trade area sufficient to increase sales performance to acceptable levels.
- To achieve success at the Community College site, a supermarket will need to significantly dilute sales support that currently flows to existing retailers. The impact of such cannibalization can be expected to have an adverse impact on independent and regional chain operators such as Consentino's and Lunardi's.

We would be happy to respond to any question you may have about this review.

Very truly yours,

ALFRED GOBAR ASSOCIATES



Alonzo Pedrin
Principal

cc: Mr. Kelly Erardi – Shapell Industries