



Evergreen Area Retail Study Executive Summary

Prepared for:
Office of Economic Development
and
Planning Department
City of San José

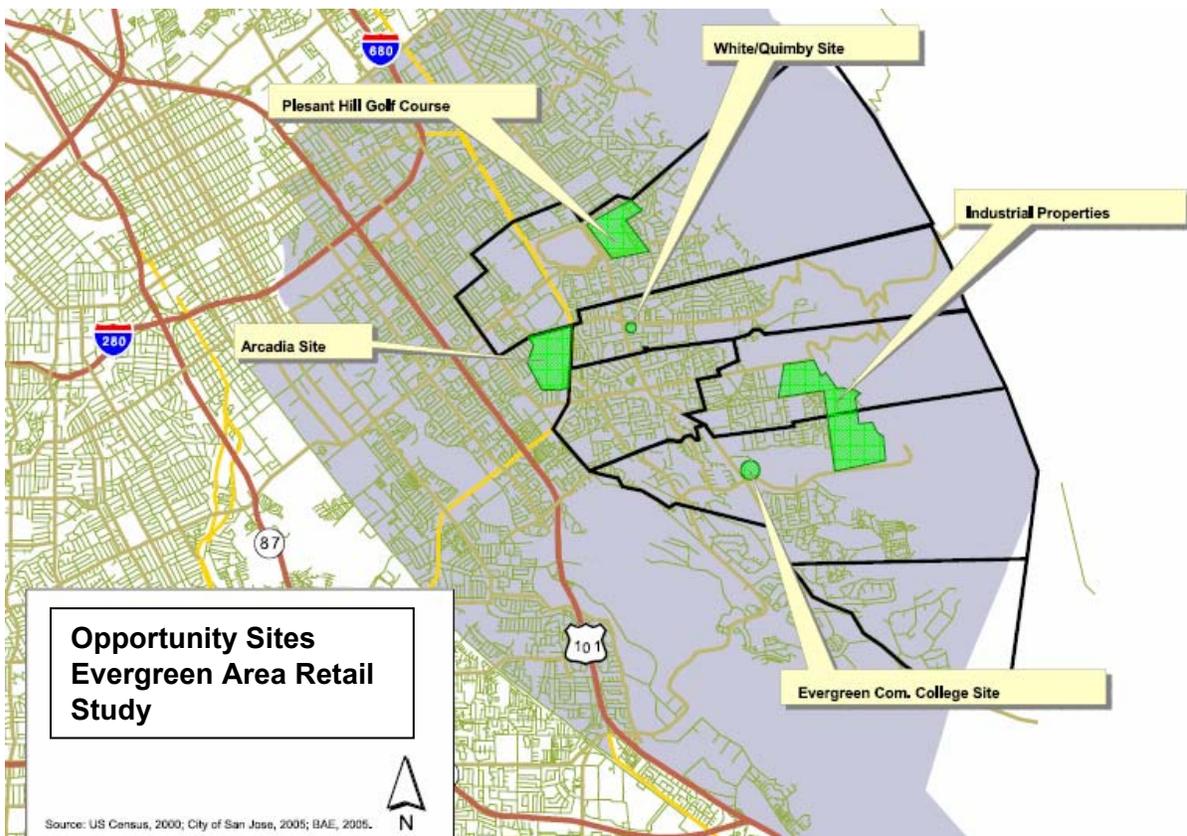
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Executive Summary

The purpose of this report is to analyze the market potential and development feasibility of new retail development in the Evergreen Area. This analysis, commissioned in support of the larger Evergreen East Hills Visioning Strategy planning process, focuses on retail opportunities for both local-serving and regional/lifestyle facilities at five key opportunity sites including:

- Arcadia Site
- Evergreen Community College Site
- Pleasant Hills Golf Course
- The “Industrial” Properties
- White/Quimby Site



Synopsis of Retail Development Potential in Evergreen

It should be noted that this analysis adjusted supply and demand data to model a fully operational Lunardi's (data for this analysis is from 2003, Lunardi's first full year of operation).

Arcadia Site. The Evergreen Regional Trade Area exhibits strong demand for a number of lifestyle anchors. The following retail components are recommended for this site:

- Total Retail 300,000 sq. ft.
- Home Furnishings – 40,000 sq. ft.
 - Furniture – 50,000 sq. ft.
 - Bookstore – 25,000 sq. ft.
 - Sporting Goods Store – 25,000 sq. ft.
 - Upscale Grocery Store – 40,000 to 50,000 sq. ft.
 - Small shops/restaurants – 50,000 to 80,000 sq. ft.

Evergreen Community College Site. A 55,000 to 65,000 square foot local serving neighborhood center is recommended, occupied primarily by a 50,000 square foot traditional supermarket.

Pleasant Hills Golf Course. Though the site location is not well suited for a major retail center, the overall retail demand indicates that a 5,000 square foot convenience center could be a development component on this site. To avoid cannibalization of existing and other planned retail it may be appropriate to limit the scope of the site's retail development.

The "Industrial" Properties. Given the overall retail demand as well as the affluence of surrounding residential communities, a small 5,000 to 10,000 square foot specialty/convenience center could be appropriate as part of the mix of uses on this large site.

White/Quimby Site.

This site is well-positioned to be modernized or reused as a 90,000 to 100,000 square foot contemporary neighborhood retail center, anchored by a traditional 50,000 square foot grocery store. A mix of neighborhood retailing along with for-sale condominiums, will yield sufficient financial return to stimulate a feasible new development project.

Methodology

This report assesses both market demand and financial feasibility of development at the opportunity sites. Building on prior studies conducted by the City of San Jose and the San Jose Redevelopment Agency, as well as input from the Evergreen visioning process, this report utilizes the following methodology:

Market Analysis Methodology

- Review recent demographic trends

- Identify local trade areas (LTAs) for local-serving goods such as grocery and drugstores, based on current and future residential development patterns and existing competitive supply
- Identify a regional trade area based on transportation access, development patterns, and the location of existing competitive supply
- Map and review existing retail supply for trade areas
- Analyze current retail sales for the trade areas, based on store-by-store confidential data for taxable retail sales
- Estimate potential sales and supportable square feet of new stores for each trade area
- Identify types of retailers that match trade area demographics and complement existing retail supply
- Recommend retail opportunities with market support for each key site

Financial Analysis Methodology

- Based on market analysis as well as Task Force objectives for residential and office land uses, formulate conceptual development programs for selected key sites
- Create pro formas to test development program feasibility

Trade Area Definitions

The following map (Figure 1) illustrate the boundaries of the Local Trade Areas (LTA), formulated to capture demand and shopping patterns for items such as food, drugstore items, and a portion of apparel purchases made locally. The Local Trade Areas for this study were defined based on windshield surveys and the on-the-ground market knowledge of Metrovation, and are based on driving patterns, neighborhood development, and likely attraction to each of the existing retail centers.

Figure 2 illustrates the larger regional trade area (RTA), formulated to reflect the likely geography from which shoppers could be drawn to a larger shopping facility if it were developed within the Evergreen study area.

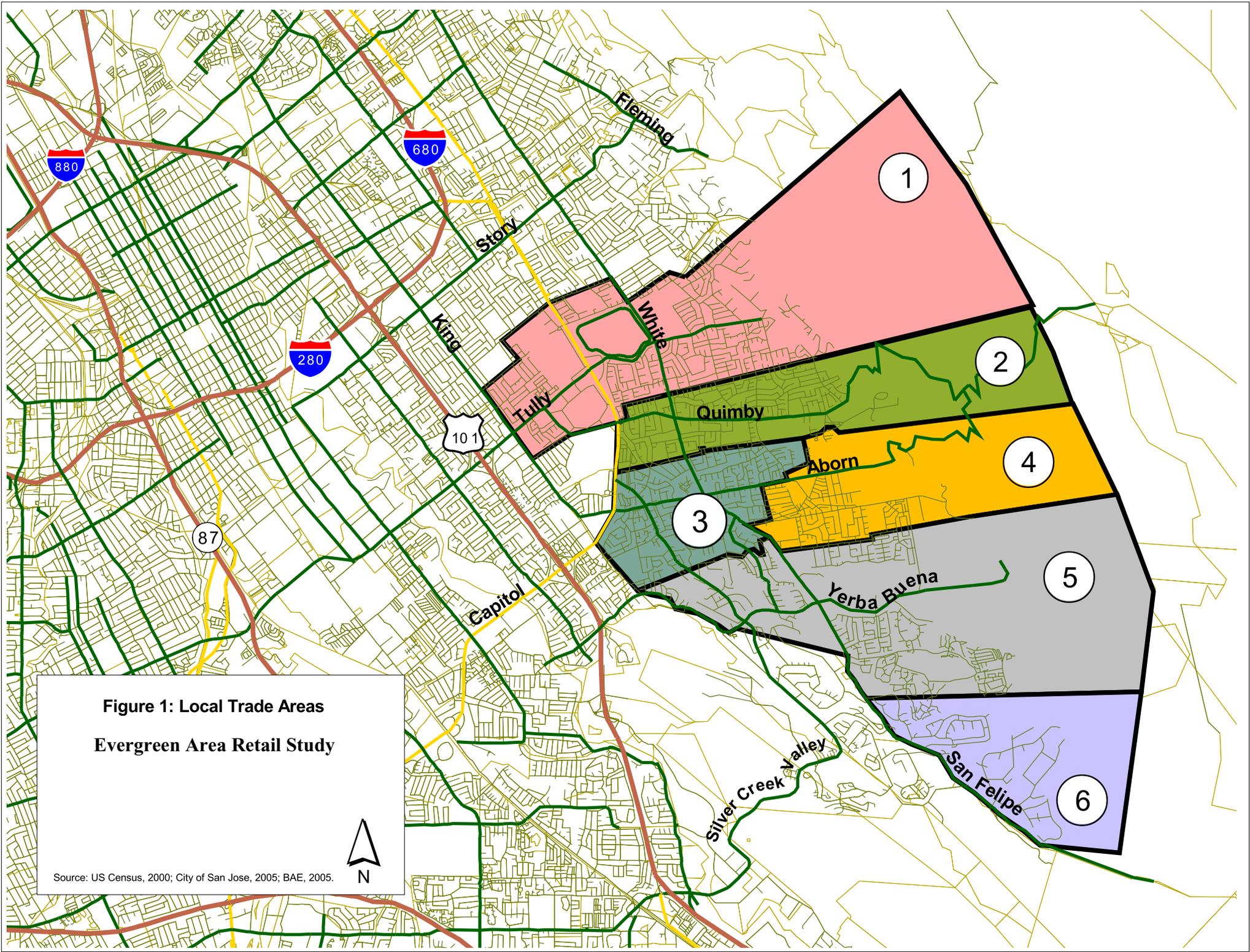
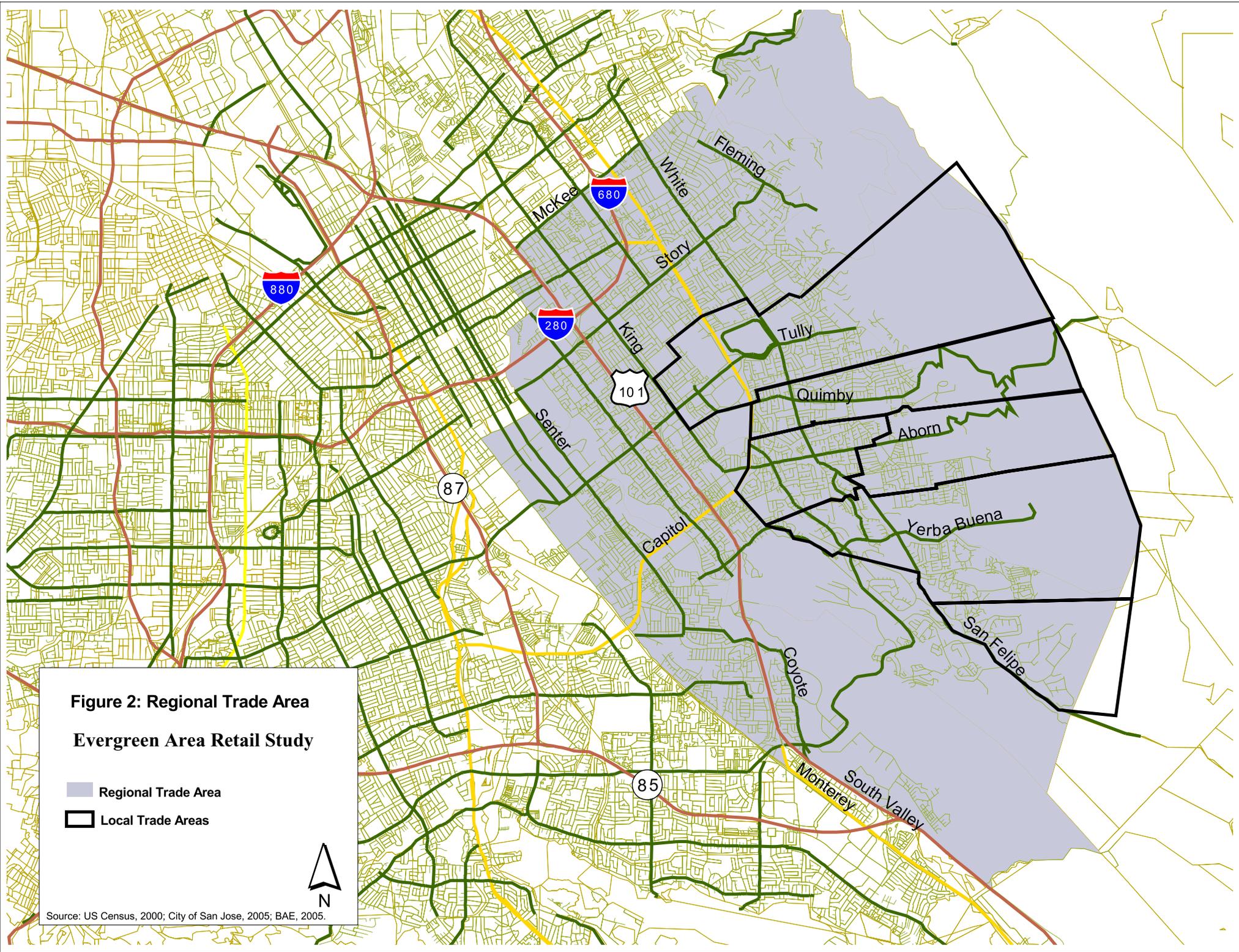


Figure 1: Local Trade Areas

Evergreen Area Retail Study

Source: US Census, 2000; City of San Jose, 2005; BAE, 2005.





**Figure 2: Regional Trade Area
Evergreen Area Retail Study**

- Regional Trade Area
- Local Trade Areas



Source: US Census, 2000; City of San Jose, 2005; BAE, 2005.

Summary of Demographic Trends

Evergreen Area Retail Study Area (east of 101, south of Story Road)

- In 2000, the Evergreen area had a population of 75,500, living in relatively large-sized households averaging 3.7 persons.
- Evergreen will continue to grow in the near future. Since 2000, 1,843 residential units have been built in Evergreen¹. An additional 1,186 residential units have permits for construction.
- Evergreen has a relatively high proportion of homeowners - in 2000, Evergreen's ownership rate was 85.3 percent, compared to 61.8 percent for the City overall, and 57.8 percent for the Bay Area region.
- Household incomes for Evergreen indicate an affluent community. In 2004, Evergreen's estimated median household income was \$110,200, compared to \$80,000 for San Jose overall, and \$71,600 for the Bay Area.
- Evergreen has a high concentration of very affluent households. In 2004, an estimated 31 percent of Evergreen households earned more than \$150,000, compared to just 18 percent for the City and 16 percent for the Bay Area.
- Evergreen has a diverse ethnic composition, including 45 percent Asian/Pacific Islander, 35 percent white and 20 percent other and mixed ethnicities.
- These demographic characteristics are particularly favorable to retailers offering lifestyle and specialty retail merchandise.

Regional Trade Area

- The Regional Trade Area, defined as the area encompassing the Evergreen Study Area plus additional neighborhoods that would be attracted to a regional shopping destination, had a population of 317,600 living in relatively large households averaging 4.1 persons in 2000.
- The regional trade area has also continued to grow, with almost 3,000 housing units added since 2000, and an additional 1,500 permitted for construction.
- The RTA's substantial population and continued housing growth demonstrate strong characteristics for regional shopping and lifestyle goods.

¹ As of November, 2004.

Retail Sales Trends in Evergreen Area Retail Study Area

The analysis in this report examines recent actual taxable retail sales in Evergreen, in order to understand trends and identify strengths and weaknesses. The analysis is not inflation-adjusted, due to the short, two-year time period analyzed. Key findings include:

Growth and Decline by Category

- Total taxable retail sales in the Evergreen Study area increased 6.8 percent from 2001 to 2003, despite the economic slowdown in the Bay Area.
- Despite this positive finding, there was some variability among specific categories of goods.
- Taxable retail sales grew in General Merchandise (includes department and discount stores like Target, and drugstores like Walgreen's). Taxable retail sales also grew for the grocery store category.
- Substantial growth occurred in automotive-related sales (almost a 50 percent increase during the two-year period), reflecting the addition of a major new dealership to the area.
- Sales declined in the categories of apparel, specialty retail, restaurants, home furnishings/appliances, building materials, and "other". Most of these categories tend to slow down during economic decline periods.

Composition of Sales in Evergreen

- In 2003, General Merchandise sales were the largest category, comprising 28.1 percent of all Evergreen taxable retail sales.
- Automotive was the second-largest category, with 25.5 percent of taxable retail sales.
- Apparel and Specialty Retail comprised a combined 12.6 percent of total sales, and Restaurants were approximately 12.4 percent of the total.
- Grocery (Food) Stores comprise 8.9 percent of total Evergreen taxable sales.
- Relatively small sectors included Building Materials and Home Furnishings/Appliances with 4.8 and 4.1 percent of the total sales respectively. Other retail sales comprised 3.7 percent of Evergreen sales.

Study Area Retail Sales Leakage

A leakage analysis of Regional Trade Area encompassing Evergreen indicated that per capita annual sales were \$3,800. When compared to San Jose's overall per capita sales pattern for the same time period, the data indicate that the Evergreen RTA is capturing only about half of potential sales; with about half of potential sales leaking outside of the Evergreen trade area.

Market Support for New Neighborhood Retail

Grocery Stores

- The analysis conducted for this report indicates strong support for new grocery stores in Evergreen. Based on the report's analysis, current unmet demand translates into additional potential capturable sales of approximately \$18 million. When adding the approved future housing units and development at the Evergreen Vision Strategy sites, potential unmet demand increase further to \$43 to \$54 million.
- These findings translate into additional market support for approximately 43,000 square feet of new grocery store space today (net of an adjustment to demand to allow for the relatively new Lunardi's store to stabilize), and as much as 133,000 square feet with implementation of the Evergreen Vision Strategy.
- Local Trade Areas 4 and 5 each will likely support an additional standard format grocery store with approximately 50,000 square feet (such as Safeway or Albertson's). The optimal location to meet this demand is at the White & Quimby site (in LTA 2), due to its central location and strong access/visibility.
- In addition, it is likely that the Arcadia site can support the addition of an upscale grocer such as Whole Foods, Draeger's or Trader Joe's.

Drugstores

The analysis for drugstores indicates that current and future unmet demand results in potential capturable sales of up to \$8 million, which translates into support for at least one new drugstore. However, none of the individual trade areas alone can support this store completely. Local Trade Areas 1 and 4 each demonstrate enough future demand to support 9,000 square feet and 11,000 square feet of drugstore space, respectively, but today's drugstores are typically in the 15,000 square foot range. Moreover, a Walgreen's is currently planned for the Evergreen Square center in Local Trade Area 4. Thus, no additional drugstores are recommended for the Evergreen retail area.

Local Apparel Demand

A portion of all apparel sales were analyzed, to reflect the potential for small, local apparel stores. It should be noted that while this type of store is often considered highly desirable by local residents, most of the national clothing retailers long ago opted to locate at larger regional malls, leaving the independent retailer to venture into or remain in the neighborhood. Thus, it is difficult to find smaller retailers who can sustain the risk of competing with mall stores, and merchandise their clothing appropriately in a neighborhood shopping center setting.

This challenge appears to be present in the Evergreen study area. Due to the large, established concentration of apparel stores at Eastridge Mall, it is difficult to identify sufficient unmet demand to support apparel stores at the neighborhood scale.

However, assuming that one or more very strong independent retailers could be identified, it may be possible to capture a small amount of local-oriented apparel demand, particularly within Local Trade Area 5 and 6. It should be noted that to assure market support for these kinds of retailers, several strong apparel retailers would need to be clustered together to form a small specialty apparel shopping attraction.

Market Support for New Lifestyle Retail

This portion of the analysis focuses on “anchor” retailers that can form the nucleus of a region-serving lifestyle center adjacent to Eastridge Mall. The analysis was conducted with the assumption that after renovations to Eastridge Mall, which include a new multi-screen movie theater, this established regional mall will become an even stronger destination. Thus, retail development at the Arcadia site adjacent to Eastridge must be carefully considered and positioned as a complement to the established mall, building on and enhancing the opportunity at this location to create a “lifestyle” center.

Lifestyle centers are a relatively recent evolution of traditional retailing. Building on the success of specialized retailers targeting certain market segments, the lifestyle center combines entertainment (e.g., movies), shopping, and dining to create an experience that results in a longer stay and increased spending. Lifestyle centers are usually designed as open-air experiences, promoting gathering places, cafes, etc. These centers also often include other uses such as residential or office space above the retail. In San Jose, a popular example of this concept is Santana Row.

It should be noted, however, that the traditional rules of retailing still must be considered to create a successful lifestyle center in most markets. Anchor stores or other destinations are necessary to attract sufficient customers to support the concept, similar to the idea of a traditional mall configuration. Thus, the analysis for this report incorporates the more traditional “anchor” categories, but assesses their potential support assuming that they would be the lifestyle-oriented versions of the category. For example, the analysis looks at anchors such as bookstores (e.g., Barnes & Noble, Border’s), home furnishings (e.g., Crate & Barrel, Pottery Barn, Restoration Hardware), and restaurants. In addition, the analysis examines lifestyle apparel retailers (e.g., Chico’s, Banana Republic) and shoes. In order to further assess the broadest range of possible anchors not present in the defined trade area, the analysis explored consumer electronics (e.g., Circuit City, Best Buy, CompUSA), pet suppliers (e.g., PetsMart, Petco), and sporting good stores (e.g., Sportmart, Copeland’s).

It should also be noted that in some parts of the U.S, the regional trade area that would be analyzed for this range of potential retailers would encompass a larger geography than the trade area assumed herein. However, the regional trade area as defined was considered appropriate in this case due to the affluence present in parts of Southeast San Jose, the lack of this type of specialty

retailing supply in the same area, the future growth potential in Evergreen, the relative density of “rooftops” compared to other parts of the country, and the strong interest from national retailers in developing this product type in Northern California.

Anchor Tenant Support for Lifestyle Center

- Bookstore space is strongly supported by current and future demand, resulting in support for 58,000 square feet today and up to 70,000 square feet in the future. Current demand is sufficient to attract and support an anchor bookstore for a lifestyle center, such as a Barnes & Noble.
- Home furnishings demand could support 99,000 square feet currently, and up to 120,000 square feet based on future demand. Current demand is sufficient to support an anchor home furnishing store or other large home accessory store for a lifestyle center. Examples in this size range include Pottery Barn and Crate & Barrel.
- Regional demand for apparel is strong, with 128,000 square feet of space supported by current demand, and up to 166,000 square feet supported by future demand. However, there is little support for shoe retailers within this mix of space.
- Sporting goods demonstrates current support for 27,000 square feet, and future support for up to 36,000 square feet. This support is sufficient to attract a major sporting goods retailer such as Sportmart or Copeland’s.
- Restaurant demand is strong in all for all types except fast food (currently sufficiently supplied in the trade area). Though not the primary draw, a complementary cluster of restaurants serves as high-grossing tenants at lifestyle centers and help lengthen the shopping trip, expanding opportunities for other retailers.
- Support for building materials (home improvement) is also strong with 160,000 square feet supported by current demand, and up to 188,000 square feet from future demand. This finding indicates sufficient support for at least one full size home improvement store. Although home improvement stores are not typically included in lifestyle centers, the overlap with home furnishings demonstrates the need for these uses in the Evergreen area and may indicate other potential tenants for a lifestyle center.
- Support for consumer electronics and pet supply stores is marginal to weak, showing no current or future unmet demand sufficient enough to support stores being developed today to serve this category.

Demand for Small Office Spaces

In addition to retail demand, the market needs for additional smaller office spaces to house business services (e.g., accounting, management consulting, engineers, attorneys), personal services (e.g., nail salons, travel agencies, UPS stores), and medical services was explored. These uses are complementary to retail centers, and can sometimes be provided both at the ground floor retail level if serving pedestrians or shoppers coming to the retail stores. In other situations, relating mostly to the business or health services, these uses can work well as second floor uses above retail, providing professional office space for small businesses.

To assess market support for these uses, the following steps were completed:

- Document existing available space and real estate market indicators (e.g., rents, occupancy rates)
- Analyze data regarding the number of small businesses in the area and region
- Explore “working at home” Census data to provide another indicator of the presence of small business not able to find suitable office or service space

Current Supply in Evergreen

The current supply of small business and professional service space in Evergreen is limited, and is available mostly as less-visible space within small shopping centers. A complete inventory of office and commercial space for the Study Area was not available or developed for this report. Research for this report did include a windshield survey to identify vacant office spaces; during this research, only two small spaces were identified as vacant and available for lease, including a 950 square foot space in the Evergreen Village shopping center, and 4,800 square feet in the Tully Business Center. In addition, a medical office building on Jackson Avenue had a small 1,200 square foot medical office space available for lease².

Potential Demand for Office Space

To identify potential demand for small office spaces in the Study Area, the distribution of jobs by size of firm was analyzed. As shown in the body of this report (Table 19), about 490 firms have fewer than five employees in the Local Study Area (roughly 11 percent of all jobs in the Area). Total demand for space is also estimated; resulting in the need for approximately 200,000 square feet. The Regional Trade Area has an additional 1,500 firms with fewer than five employees (roughly 7 percent of all jobs in the Area) and additional demand for 530,000 square feet of office space. Generally smaller firms are locally based dependent either on the location of their client base or the residence of the owner. Small businesses are the most likely to expand and require additional local office space. Additionally, many of these businesses serve the local population and as Evergreen grows demand for these businesses will grow proportionally. Assuming that 50 percent of these businesses are local-serving, the build out proposed in the Evergreen Visioning Strategy would generate over 30,000 square feet of additional office demand.

² It is important to note that field research for this report was conducted in early 2005, and vacant/available for lease space has fluctuated since then, as spaces are leased and other spaces are vacated.

As an additional piece of information, the research also looked at “working at home” data from the U.S. Census. As shown in Table 20, approximately 1,150 residents of the Evergreen local area are working at home (some of these may also be counted in the small firms cited above). Based on the almost 5 percent working at home rate in newer parts of Evergreen an additional 200 to 300 home-based businesses can be expected. If 10 percent of these home-based businesses seek local Evergreen office space, 45,000 square feet of additional demand would be generated.

These indicators of local office space needs, based on both the small business data and the proportion of residents working at home, suggest a strong demand for additional small office spaces to house both business and personal services.

Thus, the total of small office users needed to serve current and future residents of the Study area, plus the presence of home-based businesses today and in future housing units, will generate up to 75,000 square feet of additional office demand.

Retail Development Potential on Opportunity Sites

Arcadia Site

The Evergreen Regional Trade Area exhibits strong demand for a number of lifestyle anchors including bookstores (e.g., Barnes & Noble, Borders), home furnishings (e.g., Crate & Barrel, Pottery Barn, Restoration Hardware), lifestyle apparel (e.g., Chico’s, Banana Republic), restaurants and sporting good stores (e.g., Sportmart, Copeland’s)³. Although not typically a lifestyle center tenant, a home improvement store might also be supported at this site, particularly one with a home furnishings orientation.

Given the strong regional demand as well as the unique opportunity of a large site adjacent to Eastridge Mall, the northern portion of this site should be developed as a lifestyle retail center. Retail at this site must be carefully positioned to dovetail with the lifestyle components, such as the multi-screen movie theater under construction at Eastridge. The following retail components are recommended for this site (can be planned along with other land uses to create mixed-use property):

- | | |
|---------------------------|-------------------------------|
| Total Retail | 300,000 sq. ft. |
| - Home Furnishings | – 40,000 sq. ft. |
| - Furniture | – 50,000 sq. ft. |
| - Bookstore | – 25,000 sq. ft. ⁴ |
| - Sporting Goods Store | – 25,000 sq. ft. |
| - Upscale Grocery Store | – 40,000 to 50,000 sq. ft. |
| - Small shops/restaurants | – 50,000 to 80,000 sq. ft. |

³ In late summer, 2005, General Growth Properties announced some of the new tenants at Eastridge Mall, including a Barnes & Noble. Thus, this potential tenant would no longer be attracted across the street to the Arcadia site.

⁴ IBID.

This site was also tested for potential financial feasibility, if developed as a mixed-use project with housing, lifestyle retail, and parking. The scenarios tested indicated that such a mixed use project can be financially viable in today's marketplace, depending on further site planning to ensure that the appropriate layout and functionality of the retail can be preserved and parking still provided for all uses.

According to Metrovation, it is important to note that while a "smart growth" approach to this site would often lead in the direction of placing for-sale housing units over some portions of the ground-floor retail, some of today's developers and anchor retailers have not accepted a "vertical mixed use concept" as advocated by some "smart growth" site designs. Reasons for this resistance and lack of interest by developers/anchor retailers include perceived additional development and financial risk, the concern that permanent residents may be disruptive to shoppers, and the added complexities of building design. While projects placing for-sale housing above grocery stores or furniture stores have been developed on a limited basis around the U.S., a full vertical mixed-use product type should be considered as more difficult to attract a strong pool of potential developers. Thus, design and ultimate land use mix is key to implementing the vision over the near-term, and careful planning with separation of the mix of uses in a practical way will broaden the development's ability to be immediately constructed. If more density is desired, and the resulting design places housing directly over substantial amounts of key retailers on the site (and/or creates the need to park shoppers' cars in a structured garage), the resulting project may face a longer development period as leading developers and retailers perfect their approaches to smart growth designs.

Evergreen Community College Site

The Evergreen Community College Property is ideally suited to capture local serving demand. A 55,000 to 65,000 square foot local serving neighborhood center is recommended, occupied primarily by a 50,000 square foot traditional supermarket⁵. Due to this site's adjacency to the Evergreen Marketplace, no additional drugstore is feasible at the new retail component; rather, the two sites should be designed to function in tandem, creating a single retail node.

Pleasant Hills Golf Course

The Local Trade Area (LTA) containing the Pleasant Hills Golf Course does not exhibit local serving demand for grocery. Though the LTA shows support for 11,000 square feet of drugstore space, the pending addition of Walgreen's at Evergreen Village reduces overall drugstore demand to the point where another drugstore is not recommended for Evergreen. Though the site location is not well suited for a major retail center, the overall retail demand indicates that a 5,000 square foot convenience center could be a development component on this site. To avoid cannibalization of existing and other planned retail it may be appropriate to limit the scope of the site's retail development.

⁵ The analysis found this grocery store to be supportable, even with an allowance for stabilization of the new Lunardi's store, particularly after buildout of approved new housing units.

The “Industrial” Properties

The “Industrial” Properties straddle Local Trade Areas 4 and 5 and though there is strong local serving demand in these trade area, the site location is not well suited for a full neighborhood retail center. Given the overall retail demand as well as the affluence of surrounding residential communities, a small 5,000 to 10,000 square foot specialty/convenience center could be appropriate as part of the mix of uses on this large site.

White/Quimby Site

This site is well-positioned to be modernized or reused as a 90,000 to 100,000 square foot contemporary neighborhood retail center, anchored by a traditional 50,000 square foot grocery store. Market support for the grocery store would come from surrounding Local Trade Areas lacking sufficient support on their own to support such a store, as well as enhanced sales from replacement of the current underperforming store.

This concept has been tested for financial feasibility in this report. In general, a mix of neighborhood retailing along with for-sale condominiums, will yield sufficient financial return to stimulate a feasible new development project.