



**Economic &
Planning Systems**

Real Estate Economics

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Land Use Policy

DRAFT REPORT

MARKET ANALYSIS FOR RETAIL DEVELOPMENT IN COYOTE VALLEY

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City of San Jose

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I. INTRODUCTION AND SUMMARY OF FINDINGS

Economic & Planning Systems, Inc. (EPS) has been retained by the City of San Jose to provide a variety of economic consulting services in furtherance of the creation of the Coyote Valley Specific Plan. A key part of these services is the assessment of market conditions for residential, retail, and workspace development. This report presents EPS's findings regarding the current and future market prospects for retail development at Coyote Valley.

BACKGROUND

Coyote Valley is an area comprised of over 7,000 acres of land in the southern part of San Jose and in unincorporated Santa Clara County but within San Jose's sphere of influence. Since the 1980s, San Jose's City Council has maintained a policy that reserves Coyote Valley for future urban development, and establishes goals for the overall development program for the area as well as "triggers" that must be met for the development to begin. Specifically, the policy has maintained that the overall plan for Coyote Valley must reserve over half of the overall acreage as a "greenbelt" on which no urban development can occur, and that the remainder of the land must be developed at sufficient density to accommodate 50,000 "qualifying" jobs (excluding retail and public or quasi-public jobs) and 25,000 housing units. In addition, a trigger has been established that none of the housing development can occur until at least 5,000 of the qualifying jobs are in place in Coyote Valley.

The Coyote Valley Specific Plan is being developed through the joint efforts of the City of San Jose and a multidisciplinary group of consultants, including EPS. This retail market assessment is intended to provide information that will help this group of stakeholders to create the following:

1. A land use program that is supported by current and expected market conditions and meets the established goals for the development of Coyote Valley.
2. A financing program that distributes the benefits, costs, and risks of development among the various landowners.
3. An implementation strategy that efficiently phases and locates land use and infrastructure development to optimize the value of development to the landowners, developers, and the City of San Jose.

KEY FINDINGS

The following points summarize the most important findings of this report:

- 1. Three supermarkets could be supported at Coyote Valley by buildout, with one integrated into the Town Center and the other two anchoring neighborhood centers.** The demand for retail goods at supermarkets will provide sufficient support for three supermarkets of an average size of 55,000 square feet. Each of these supermarkets could anchor an additional 55,000 to 95,000 square feet of neighborhood-serving retail space. One of these supermarkets could be integrated into the Town Center, while the other two will anchor neighborhood shopping centers. The two neighborhood shopping centers will likely average 130,000 square feet of retail space, or 260,000 square feet combined.
- 2. Neighborhood center development and success depends on location and design.** Neighborhood centers should be located within the heart of the residential populations they serve, with convenient automobile access and visibility. A design-orientation that creates an attractive environment for spending time will add to the market success of these centers.
- 3. Supermarkets will wait until a critical mass of households is present before locating at neighborhood shopping centers.** Supermarkets, the anchors of the neighborhood shopping centers, will want to see the presence of over 5,000 households in their market area prior to their location at Coyote Valley.
- 4. There is insufficient market support from surrounding areas to catalyze early development at the Town Center.** The areas surrounding Coyote Valley, including Morgan Hill and the southernmost portions of San Jose, do not offer sufficient market support to catalyze early retail development at the Town Center.
- 5. A high-end grocery store and associated neighborhood-serving stores could be developed relatively early in the development of the Town Center.** Once sufficient residential development is in place, a neighborhood center could be developed at the Town Center. This neighborhood center might include a larger range of restaurants, than the typical neighborhood center, building off the amenity value of the lake, and the draw of some households from other parts of Coyote Valley and the surrounding areas. This primarily neighborhood-driven development at the Town Center could include up to 150,000 square feet of retail space.
- 6. As Coyote Valley grows and provides more market support for the Town Center, additional retail and entertainment development could be added.** Sufficient market support for an eight-screen movie theater is likely to evolve by half-way through the residential development program. The development of a movie theater could also anchor the development of additional restaurants and other entertainment options.

Further along in the development program, a book and CD store could be attracted to the site, and the overall draw of the now more fully developed Town Center could act to attract even more eating and drinking establishments as well as specialty retail.

7. Over time, the Town Center could evolve to include about 415,000 square feet of retail/ entertainment space. This could include about 150,000 square feet of primarily neighborhood-serving development, a 35,000 square foot movie theater, a 30,000 square foot book store, 100,000 square feet of restaurants/ eateries, and 100,000 square feet of additional specialty retail.

8. Big box retailers could be attracted to easily accessible sites between Highway 101 and Monterey Road. A large number of “big box” retailers have numerous sites throughout Santa Clara County, though the large traffic counts close to Coyote Valley could attract these retailers. A 30-acre site, between Highway 101 and Monterey Road, with easy access from the major arterial and strong direct visibility or freeway signage could attract a number of big-box retailers in the early to middling stages of Coyote Valley development. With surface parking, this site could accommodate about 330,000 square of this type of retail.

9. In sum, by buildout, Coyote Valley could support about 1.0 million square feet of retail development. This retail development could include up to 260,000 square feet of retail space at two neighborhood centers, 415,000 square feet at the Town Center, and 330,000 square feet of “big box” retail.

CONTENT OF REPORT

Chapter I, this chapter, summarizes the findings of the retail market assessment. **Chapter II** provides an overview of the retail market in the cities of San Jose, Morgan Hill, Gilroy, and in Santa Clara County. It includes estimates of annual retail expenditures and sales, projected growth in expenditures, and an inventory of existing and proposed region-serving retail, including regional malls, power centers, and “big box” retailers. **Chapter III** evaluates the prospects at Coyote Valley for retail development at neighborhood centers, at the Town Center, and at freeway-serving sites. It includes estimates of the market support for each of these types of retail development by Coyote Valley buildout.

II. OVERVIEW OF RETAIL MARKET

This Chapter provides an overview of current retail expenditures by household and actual retail sales at stores in the cities of San Jose, Morgan Hill, and Gilroy, as well as Santa Clara County as a whole. It also describes the range of retail centers currently present in the County, as well as the retail projects in the supply pipeline. Coyote Valley retail will compete most directly with retail developments in south San Jose and Morgan Hill, but might also compete with retail centers in central San Jose, other central Santa Clara County cities, and in the City of Gilroy.

RETAIL EXPENDITURES

This section estimates retail expenditures by households in the specified jurisdictions. Expenditure estimates are based on the number of households, average household incomes, and the U.S. Bureau of Labor Statistics survey of household retail expenditures. Data for 2002 is used in this analysis as this is the most recent year for which Census updates are provided and also the most recent year for which retail sales data by store is available.

CITY OF SAN JOSE

As of January 2002, the City of San Jose included about 283,000 households, with an average household income of about \$95,400. The City of San Jose comprised 50 percent of all households in Santa Clara County. City of San Jose households are estimated to spend about \$7.65 billion on retail expenditures, including \$5.75 billion on non-auto-related retail expenditures. This is about 43.5 percent of total County retail expenditures. **Table 2.1** shows the estimated retail expenditures of City of San Jose households by retail expenditure category. As shown, general retail, food-at-home, food away-from-home and alcoholic beverages, and apparel make up about 95 percent of non-auto retail expenditures.¹ Expenditures on personal care services and products and movie theater visits make up the rest.

CITY OF MORGAN HILL

As of January 2002, the City of Morgan Hill included about 11,200 households, with an average household income of about \$113,500. The City of Morgan Hill included 1.9 percent of all households in Santa Clara County. City of Morgan Hill households are estimated to spend about \$360 million on retail expenditures, including \$271 million on

¹ The general retail category represents about 40 percent of non-auto retail expenditures and includes expenditures on household furnishings and equipment, entertainment expenditures, such as consumer electronics and CDs, but excluding movies, as well as books and other general merchandise.

Table 2.1
Estimated San Jose Household Retail Expenditures in 2002*
Coyote Valley Specific Plan Economic Analysis

Retail Category	Percent of Household Income (1)	Expenditures/ HH (2)	Total Expenditures
Non-Auto			
Personal Services	0.8%	\$755	\$213,749,387
Supermarket/ Food at Home	3.9%	\$3,733	\$1,056,833,033
Eateries and Alcohol	4.4%	\$4,233	\$1,198,398,201
General Retail (3)	8.9%	\$8,508	\$2,408,570,138
Apparel	3.0%	\$2,862	\$810,378,822
<u>Cinema (4)</u>	<u>0.2%</u>	<u>\$213</u>	<u>\$60,176,877</u>
Total	21.3%	\$20,304	\$5,748,106,458
Auto			
Other Auto	5.4%	\$5,114	\$1,447,889,288
Gasoline	<u>1.7%</u>	<u>\$1,590</u>	<u>\$450,158,544</u>
Total	7.0%	\$6,704	\$1,898,047,833
Total, inc. Autos	28.3%	\$27,008	\$7,646,154,291

* Based on 283,104 households, derived from CA DOF 2002 data on number of housing units and vacancy rate for City of San Jose.

(1) Expenditures by category derived from BLS Consumer Expenditure Survey for households with incomes over \$70,000.

(2) San Jose Mean Household Income is estimated at \$95,400 for Year 2002, based on Census 2000 estimate and historical nominal dollar increases in income.

(3) Includes a broad range of retail groups, including general merchandise, homes and building related merchandise, and consumer electronics.

(4) Movie theater expenditures were removed from General Retail and estimated based on seven movie visits per year per person and an average expenditure of \$11.50 per movie visit.

Sources: BLS Consumer Expenditure Survey, 2002; California DOF 2002; Economic & Planning Systems, Inc.

non-auto-related retail expenditures. This represents about 2.7 percent of total County retail expenditures. **Table 2.2** shows the estimated retail expenditures of City of Morgan Hill households by retail expenditure category.

CITY OF GILROY

As of January 2002, the City of Gilroy included about 12,500 households, with an average household income of about \$84,300. The City of Gilroy included 2.2 percent of all households in Santa Clara County. City of Gilroy households are estimated to spend about \$299 million on retail expenditures, including \$225 million on non-auto-related retail expenditures. This is about 1.7 percent of total County retail expenditures.

Table 2.3 shows the estimated retail expenditures of City of Gilroy households by retail expenditure category.

SANTA CLARA COUNTY

As of January 2002, Santa Clara County included about 576,000 households, with an average household income of about \$107,700. Santa Clara County households are estimated to spend about \$17.6 billion on retail expenditures, including \$13.2 billion on non-auto-related retail expenditures. **Table 2.4** shows the estimated retail expenditures of County households by retail expenditure category.

RETAIL MARKET GROWTH

Growth in the size of the retail market results from increases in the number of households and their household incomes as well as any real increases (increases over and above inflation) in the incomes of existing households. Household projections for the County and the City of San Jose vary, with ABAG Projections 2002 and 2003 providing low and high estimates based on their different methodologies.²

For the County, ABAG 2002 projects an increase of about 100,000 households between 2005 and 2025, while ABAG 2003 projects an increase of about 135,000 households. A mid-point estimate is 117,500 households. For the City, ABAG 2002 projects an increase of about 50,000 households between 2005 and 2025, while ABAG 2003 projects an increase of about 80,000 households. A mid-point estimate is 65,000 households.

² Association of Bay Area Governments (ABAG) Projections 2002 follows the traditional ABAG projections methodology that considers recent growth trends and available land among other factors. Projections 2003 assumes more extensive investments in transit and other non-auto transportation infrastructure, and a co-terminus increase in infill development and redevelopment in existing urban areas. As a result, cities such as San Jose show significant increases in their population and household capture.

Table 2.2
Estimated Morgan Hill Household Retail Expenditures in 2002*
Coyote Valley Specific Plan Economic Analysis

Retail Category	Percent of Household Income (1)	Expenditures/ HH (2)	Total Expenditures
Non-Auto			
Personal Services	0.8%	\$898	\$10,079,430
Supermarket/ Food at Home	3.9%	\$4,440	\$49,835,344
Eateries and Alcohol	4.4%	\$5,034	\$56,510,901
General Retail (3)	8.9%	\$10,118	\$113,576,997
Apparel	3.0%	\$3,404	\$38,213,707
Cinema (4)	<u>0.2%</u>	<u>\$253</u>	<u>\$2,837,662</u>
Total	21.3%	\$24,147	\$271,054,041
Auto			
Other Auto	5.4%	\$6,082	\$68,275,743
Gasoline	<u>1.7%</u>	<u>\$1,891</u>	<u>\$21,227,389</u>
Total	7.0%	\$7,973	\$89,503,133
Total, inc. Autos	28.3%	\$32,120	\$360,557,173

* Based on 11,225 households, derived from CA DOF 2002 data on number of housing units and vacancy rate for City of Morgan Hill.

(1) Expenditures by category derived from BLS Consumer Expenditure Survey for households with incomes over \$70,000.

(2) Morgan Hill Mean Household Income is estimated at \$113,500 for Year 2002, based on 2000 Census estimate and historical nominal dollar increases in income.

(3) Includes a broad range of retail groups, including general merchandise, homes and building related merchandise, and consumer electronics.

(4) Movie theater expenditures were removed from General Retail and estimated based on seven movie visits per year per person and an average expenditure of \$11.50 per movie visit.

Sources: BLS Consumer Expenditure Survey, 2002; California DOF 2002; Economic & Planning Systems, Inc.

Table 2.3
Estimated Gilroy Household Retail Expenditures in 2002*
Coyote Valley Specific Plan Economic Analysis

Retail Category	Percent of Household Income (1)	Expenditures/ HH (2)	Total Expenditures
Non-Auto			
Personal Services	0.8%	\$667	\$8,379,082
Supermarket/ Food at Home	3.9%	\$3,299	\$41,428,381
Eateries and Alcohol	4.4%	\$3,741	\$46,977,806
General Retail (3)	8.9%	\$7,519	\$94,417,148
Apparel	3.0%	\$2,530	\$31,767,253
Cinema (4)	0.2%	\$188	\$2,358,963
Total	21.3%	\$17,944	\$225,328,633
Auto			
Other Auto	5.4%	\$4,520	\$56,757,980
Gasoline	1.7%	\$1,405	\$17,646,439
Total	7.0%	\$5,925	\$74,404,419
Total, inc. Autos	28.3%	\$23,869	\$299,733,052

* Based on 12,557 households, derived from CA DOF 2002 data on number of housing units and vacancy rate for City of Gilroy.

(1) Expenditures by category derived from BLS Consumer Expenditure Survey for households with incomes over \$70,000.

(2) Gilroy Mean Household Income is estimated at \$84,300 for Year 2002, based on 2000 Census estimate and historical nominal dollar increases in income.

(3) Includes a broad range of retail groups, including general merchandise, homes and building related merchandise, and consumer electronics.

(4) Movie theater expenditures were removed from General Retail and estimated based on seven movie visits per year per person and an average expenditure of \$11.50 per movie visit.

Sources: BLS Consumer Expenditure Survey, 2002; California DOF 2002; Economic & Planning Systems, Inc.

Table 2.4
Estimated Santa Clara County Household Retail Expenditures in 2002*
Coyote Valley Specific Plan Economic Analysis

Retail Category	Percent of Household Income (1)	Expenditures/ HH (2)	Total Expenditures
Non-Auto			
Personal Services	0.8%	\$853	\$491,553,651
Supermarket/ Food at Home	3.9%	\$4,215	\$2,430,370,185
Eateries and Alcohol	4.4%	\$4,780	\$2,755,923,751
General Retail (3)	8.9%	\$9,607	\$5,538,923,244
Apparel	3.0%	\$3,232	\$1,863,606,139
<u>Cinema (4)</u>	<u>0.2%</u>	<u>\$240</u>	<u>\$138,387,126</u>
Total	21.3%	\$22,926	\$13,218,764,096
Auto			
Other Auto	5.4%	\$5,775	\$3,329,671,620
Gasoline	<u>1.7%</u>	<u>\$1,795</u>	<u>\$1,035,217,362</u>
Total	7.0%	\$7,570	\$4,364,888,982
Total, inc. Autos	28.3%	\$30,497	\$17,583,653,078

* Based on 576,572 households, derived from CA DOF 2002 data on number of housing units and vacancy rate for County of Santa Clara.

(1) Expenditures by category derived from BLS Consumer Expenditure Survey for households with incomes over \$70,000.

(2) Santa Clara County Mean Household Income is estimated at \$107,700 for Year 2002, based on Census 2000 estimate and historical nominal dollar increases in income.

(3) Includes a broad range of retail groups, including general merchandise, homes and building related merchandise, and consumer electronics.

(4) Movie theater expenditures were removed from General Retail and estimated based on seven movie visits per year per person and an average expenditure of \$11.50 per movie visit.

Sources: BLS Consumer Expenditure Survey, 2002; California DOF 2002; Economic & Planning Systems, Inc.

Table 2.5 shows a conservative estimate of the increase in the retail expenditures by Santa Clara County and City of San Jose households over the next 20 years, assuming no real increase in household incomes.³ Based on these assumptions, County household growth over the next 20 years is expected to increase annual retail expenditures by about \$3.6 billion, in constant dollar terms, an increase of about 20 percent. Similarly, household growth in the City of San Jose is expected to increase annual retail expenditures by about \$1.75 billion, in constant dollar terms, an increase of about 23 percent.

RETAIL SALES

The capture of retail expenditures by an individual jurisdiction's retail stores depends on the range of retail development and its competitiveness with retail developments in other jurisdictions. This section provides estimates of retail sales in each of the specified jurisdictions, compares these retail sales to the estimated household expenditures, and also compares the retail sales per capita in the jurisdictions. Retail sales data by jurisdiction is provided for 2002, the last full year for which data is available, and is shown in **Tables 2.6** and **2.7**.

- **Santa Clara County.** Retail sales in 2002 were about \$18.1 billion, about \$10,500 per capita, the same level as in 1992 (in inflation-adjusted terms). This level of sales is similar to the estimated retail expenditures by County households.
- **City of San Jose.** Retail sales in 2002 were about \$8.1 billion, about \$8,800 per capita, below the 1992 levels (in inflation-adjusted terms). This level of sales is similar to the estimated retail expenditures by City households.
- **City of Morgan Hill.** Retail sales in 2002 were about \$342 million, about \$9,800 per capita, below the 1992 levels (in inflation-adjusted terms). This level of sales is similar to the estimated retail expenditures by Morgan Hill households.
- **City of Gilroy.** Retail sales in 2002 were about \$785 million, about \$17,800 per capita, an increase over the 1992 levels (in inflation-adjusted terms). This level of sales is over two and a half times greater than the estimated retail expenditures. Of Gilroy households.

³ This is a conservative assumption because household incomes have shown a real increase of about 2 percent above inflation between the last two decennial censuses.

Table 2.5
Projected Increase in Santa Clara County Household Retail Expenditures, 2005-2025 *
Coyote Valley Specific Plan Economic Analysis

Retail Category	Percent of Household Income (1)	Expenditures/ HH (2)	Total Expenditures
Non-Auto			
Personal Services	0.8%	\$852	\$100,140,071
Supermarket/ Food at Home	3.9%	\$4,214	\$495,118,776
Eateries and Alcohol	4.4%	\$4,778	\$561,441,053
General Retail (3)	8.9%	\$9,603	\$1,128,398,018
Apparel	3.0%	\$3,231	\$379,656,728
Cinema (4)	0.2%	\$240	\$28,192,440
Total	21.3%	\$22,919	\$2,692,947,085
Auto			
Other Auto	5.4%	\$5,773	\$678,325,857
Gasoline	1.7%	\$1,795	\$210,896,084
Total	7.0%	\$7,568	\$889,221,940
Total, inc. Autos	28.3%	\$30,487	\$3,582,169,026

* Based on the mid-point household growth projection of 117,500 from ABAG 2002 and 2003 projections.

(1) Expenditures/Household derived from BLS for households with incomes over \$70,000

(2) Real income of Santa Clara County households conservatively assumed to remain constant at \$107,700.

(3) Includes a broad range of retail groups, including general merchandise, homes and building related merchandise, and consumer electronics.

(4) Movie theater expenditures were removed from General Retail and estimated based on six movie visits per year per person and an average expenditures of \$11.50 per movie visit.

Sources: ABAG Projections; BLS Consumer Expenditure Survey, 2002; California DOF 2002; Economic & Planning Systems, Inc.

Table 2.6
Retail Sales in Santa Clara County in 2002
Coyote Valley Specific Plan
(Thousands of Dollars)

Item	San Jose			Santa Clara County		
	1990 (adjusted to \$2002)	2002	% Change	1990 (adjusted to \$2002)	2002	% Change
Total Retail Sales (1)	7,165,011	8,114,224	13%	15,603,357	18,118,944	16%
Population	782,225	917,971	17%	1,497,577	1,719,565	15%
Retail Sales per Capita (Actual Dollars)	9,160	8,839	-3%	10,419	10,537	1%

(1) California Board of Equalization reports taxable sales. Food store sales are divided by .35 to account for non-taxable sales.

Source: California State Board of Equalization; ABAG 2002 Projections; 1990 Census; Bureau of Labor Statistics; Economic & Planning Systems, Inc.

Table 2.7
Retail Sales in Gilroy and Morgan Hill in 2002
Coyote Valley Specific Plan
(Thousands of Dollars)

Item	Morgan Hill			Gilroy		
	1990 (adjusted to \$2002)	2002	% Change	1990 (adjusted to \$2002)	2002	% Change
Total Retail Sales (1)	245,088	342,208	40%	508,292	784,684	54%
Population	23,928	34,785	45%	31,487	43,935	40%
Retail Sales per Capita (Actual Dollars)	10,243	9,838	-4%	16,143	17,860	11%

(1) California Board of Equalization reports taxable sales. Food store sales are divided by .35 to account for non-taxable sales

Source: California State Board of Equalization; ABAG 2002 Projections; 1990 Census; Bureau of Labor Statistics; Economic & Planning Systems, Inc.

REGIONAL RETAIL DEVELOPMENT

Regional-serving retail draws consumers from a large market area due to their size, mix of tenants, accessibility, pricing, quality, and uniqueness. The competition for non-auto-related “regional dollars”, the retail expenditures of households that might occur outside of their local neighborhoods, is primarily between regional centers and super-regional shopping centers in their many forms (malls, power centers, outlet centers, and fashion/ specialty centers), collections of independent retail stores in downtowns and transit villages, and free-standing big box retailers.

REGIONAL SHOPPING CENTERS

Figure 2.1 shows the location of the 17 shopping centers in Santa Clara County with over 300,000 square feet of retail space.⁴ **Table 2.8** provides more detailed information on each of the large shopping centers. As shown, of the 17 centers, eight are in the City of San Jose, three are in the City of Gilroy, and one each in the cities of Santa Clara, Cupertino, Milpitas, Sunnyvale, Mountainview, and Palo Alto. About seven are malls, seven are power centers, one is a fashion specialty center (Santana Row), one is an outlet center (Gilroy Premium Outlets), and one is more like a very large community shopping center (Almaden Oaks Center). Of these centers only three were developed in the last ten years (Santana Row (2002), Gilroy Crossings (2003), and the northern Gilroy Center (Regency Center/ Newman developments) (2004), though eight others were renovated during this timeframe, including five of the seven malls. Three of the malls include a movie theater and a theater is coming soon to Santana Row. Primary groupings of Santa Clara County shopping centers are summarized below.

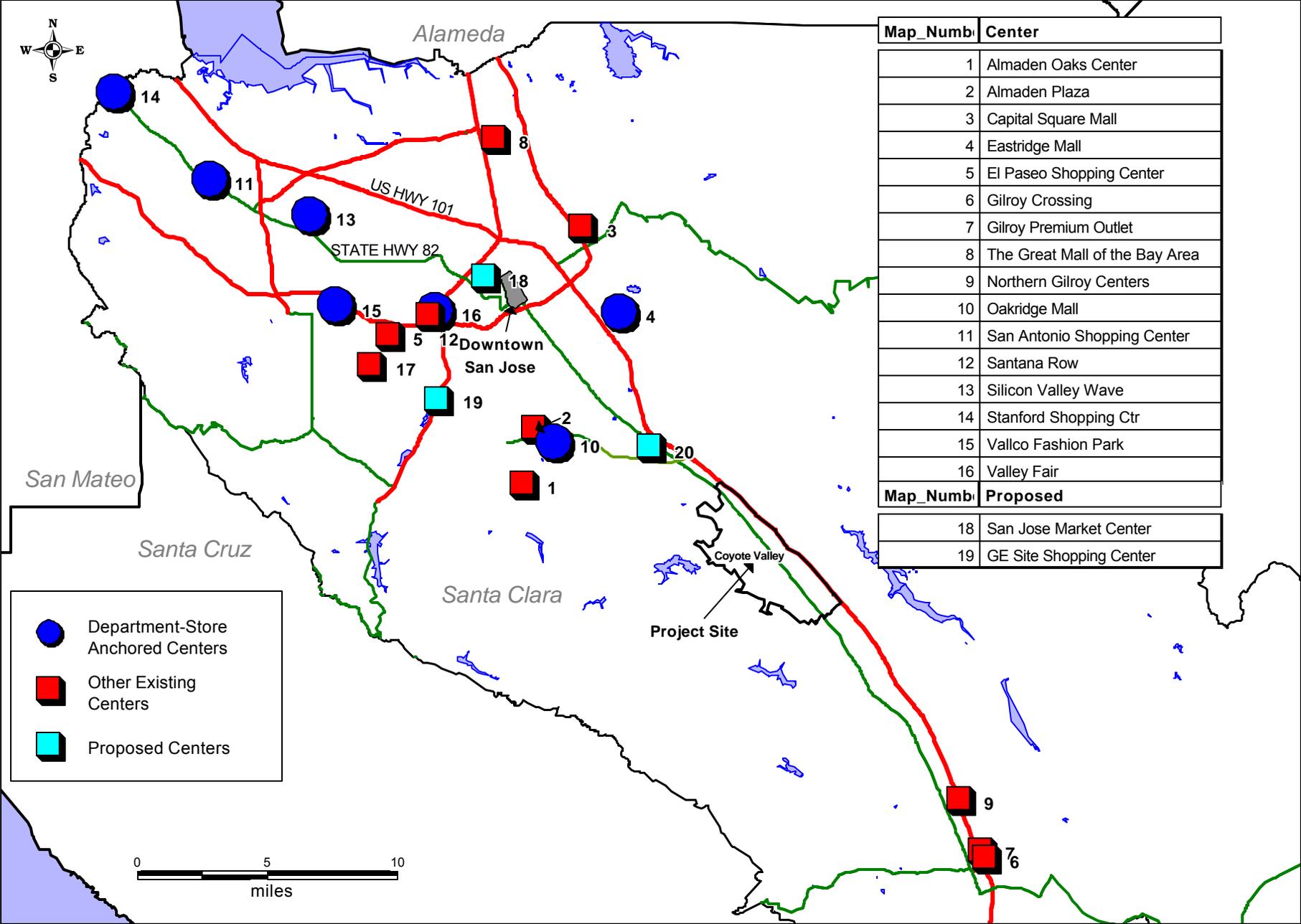
Malls/ Department Stores

Department-anchored malls, both enclosed and external, continue to have a large presence among regional-serving retail. Of the 17 regional centers shown, seven are anchored by department stores, such as Macy’s, Sears, and JC Penny. Many retain a standard mall configuration and tenanting, though others have made adjustments to remain competitive. Renovations, improvements, and tenant expansions are part of the strategy to keep malls competitive. Some have added entertainment in the form of movie theaters and bowling as well as a range of table-service eating and drinking options, while others have integrated big box, discount stores into their mix.

The Oakridge Mall in southern San Jose recently underwent a renovation that added new design features, a movie theater, and a large set of national chain eateries, such as BJ’s Restaurant and Brewhouse, California Pizza Kitchen, and The Cheesecake Factory. The Eastridge Mall is currently undergoing a similar transformation to add a new movie theater, new food court, and a streetscape of shops with street visibility and direct access

⁴ Shopping centers are defined by the International Shopping Center as “a group of retail and other commercial establishments planned, developed, owned, and managed as a single property”.

**Figure 2.1:
Existing and Proposed Regional Shopping Centers in Santa Clara County**



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Table 2.8
Regional Shopping Centers in Santa Clara County (1)
Coyote Vally Specific Plan

#/ Name/ Type	City	Distance to CV Driving (2)	SqFt	# of Stores	Occ.	Opened	Renov.	Avg SqFt/ Non-Anchor Store	Anchor (SqFt)
1 Eastridge Mall	San Jose	14	1,358,744	145	N/A	1970	1995	3,683	? JCPenny (246,261) ? Macy's (175,000) ? Sears (251,000)
2 Almaden Plaza Power Center	San Jose	13	650,000	43	95%	1969	1998	3,075	? Barnes & Noble (28,111) ? Bed, Bath & Beyond (62,000) ? Circuit City (37,840) ? Costco Wholesale (100,575) ? Red Lobster (9,424) ? Strouds Linen Warehouse (10,201)
3 Oakridge Mall w/ Movie Theatre	San Jose	12	798,888	178	100%	1973	1995	2,536	? AMF Bowling (48,500) ? Borders ? Century Theatre (20) ? Macy's (235,129) ? Sears (148,200)
4 Almaden Oaks Center Mega Community Center	San Jose	8	353,808	34	N/A	1,978	1989	2,492	? Albertson's (52,761) ? Rite Aid Pharmacy (16,250)
5 Valley Fair Mall	Santa Clara	20	1,471,000	241	98%	1987	2002	2,832	? Macy's (520,000) ? Nordstrom (225,000)
6 Westgate Mall Power Center w/ Movie Theatre	San Jose	22	650,000	55	96%	1961	1996	4,149	? Burlington (77,825) ? Nordstrom Rack (45,000) ? Target (167,154) ? Barnes & Noble (24,992) ? Michaels (20,652) ? Safeway (37,875) ? Ross Dress For Less (45,000) ? Century 25 Theatre (9,600)
7 Capitol Square Mall Power Center	San Jose	17	367,353	37	98%	1970	1987	2,972	? Albertson's (35,460) ? Ross Dress For Less (25,535) ? Target (146,259) ? Toys 'R' Us (45,000) ? Walgreens (19,786)
8 Santana Row Fashion/ Specialty w/ Movie Theatre	San Jose	21	572,585	123	N/A	2002	2002	2,867	? Borders (9,017) ? Gucci, Burberry, St. John, etc. ? Cine Art Movie Theatre (23,400)

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**Table 2.8
Regional Shopping Centers in Santa Clara County (1)
Coyote Vally Specific Plan**

#/ Name/ Type	City	Distance to CV Driving (2)	SqFt	# of Stores	Occ.	Opened	Renov.	Avg SqFt/ Non-Anchor Store	Anchor (SqFt)
9 Vallco Fashion Park Mall	Cupertino	24	1,324,133	168	N/A	1976	1998	4,028	? JC Penny ? Macy's ? Sears
10 The Great Mall of the Bay Area Power Center w/ Movie Theatre	Milpitas	22	1,500,000	250	N/A	1994	2000	2,946	? Burlington (117,357) ? Century Theatre (20) ? Linens'N Things (42,000) ? Marshalls (52,000) ? Media Play ? Off 5th-Saks Fifth Avenue (25,000) ? Old Navy Clothing Co.(20,088) ? Sportmart ? Vans Skate Park & Shoes (56,000)
11 El Paseo Shopping Center Power Center	San Jose	19	340,498	35		1974	1997	3,554	? Albertson's ? AMC Theatres ? OfficeMax ? Petco ? REI (Recreational Equipment Inc.)
12 Silicon Valley Wave Mall	Sunnyvale	28	724,589	124	50%	1979		2,445	? JCPenney (98,408) ? Macy's (177,816)
13 San Antonio Shopping Center Mall	Mountain View	31	381,518	35	100%	1965	1993	4,481	? Mervyn's ? Sears ? Wal-Mart
14 Stanford Shopping Center Mall	Palo Alto	33	1,350,000	140	N/A	1955	2001	3,148	? Bloomingdale's (228,986) ? Macy's (320,137) ? Macy's Men's Store (94,337) ? Neiman Marcus (120,000) ? Nordstrom (180,000)
15 Gilroy Crossing Shopping Center Power Center	Gilroy	21	475,572	39	91%	2004	n/a	3,457	? Target ? Barnes & Noble ? Bed, Bath & Beyond ? Kohl's ? Michael's ? PETsMART ? Ross Dress for Less ? Sportsmart ? Andronico's (32,262)

17

**Table 2.8
Regional Shopping Centers in Santa Clara County (1)
Coyote Vally Specific Plan**

#/ Name/ Type	City	Distance to CV Driving (2)	SqFt	# of Stores	Occ.	Opened	Renov.	Avg SqFt/ Non-Anchor Store	Anchor (SqFt)
16 Gilroy Premium Outlet Outlet Center	Gilroy	18	577,724	145	N/A	1992		4,110	? Fashion ? Shoes ? Fragrances & Cosmetics ? Jewlery
17 Northern Gilroy Center (3) Power Center	Gilroy	16	550,171						? Lowe's ? Costco ? Best Buy
Total/ Average			12,896,412	1,792				3,298	

(1) Regional Centers have GLA of over 300,000 square feet, as defined by the Shopping Center Directory.

(2) Driving distance measured from intersection of Bailey Ave. and Monterey Rd in CV.

(3) Information about this center was unavailable from the Shopping Center Directory.

A 220,000 sf WalMart is planned for the site and 15 acres of the total 97 acres remain to be developed, with likely tenants Chuckee Cheese and Krispy Kreme.

Source: Shopping Center Directory 44th Edition, 2004; Economic & Planning Systems, Inc.

to parking. Both these malls are within a 15-mile drive of Coyote Valley and are likely to represent its most immediate competition in the City of San Jose for regional retail dollars. Integrating big box stores is another strategy for making older regional centers more competitive. For example, the San Antonio Shopping Center in Mountain View has added a Wal-Mart, while Santana Row now has a Best Buy in its tenant mix.

Power Centers

Seven of the 17 large shopping centers in Santa Clara County are considered power centers. These power centers are jointly anchored by a range of stores including discount department stores and big box stores. Anchors at Santa Clara County power centers include Sportmart, Burlington Coat Factory, OfficeMax, Petco, Bed, Bath and Beyond, Circuit City, Ross Dress for Less, Target, Toys'R'Us, Nordstrom Rack, Costco and Lowe's. The power centers are currently located in San Jose and Gilroy, with one in Milpitas. The two in Gilroy are the most recently developed and the Gilroy Crossing Shopping Center offers the broadest range of stores. These centers are about 18 miles from Coyote Valley.

Other Centers

The only new major retail development in the City of San Jose in the last ten years is Santana Row, a high end fashion and specialty center. Santana Row includes very high-end design features and includes upscale boutiques and eating and drinking places in a walkable, outdoor format. It is a unique project and is the only fashion/ specialty center in the County. The County has one outlet center, the Gilroy Premium Outlet. Like most outlet centers, it is unanchored, but includes a large number of manufacturer-owned and operated stores selling discounted merchandise, including apparel, cosmetics, and jewelry.

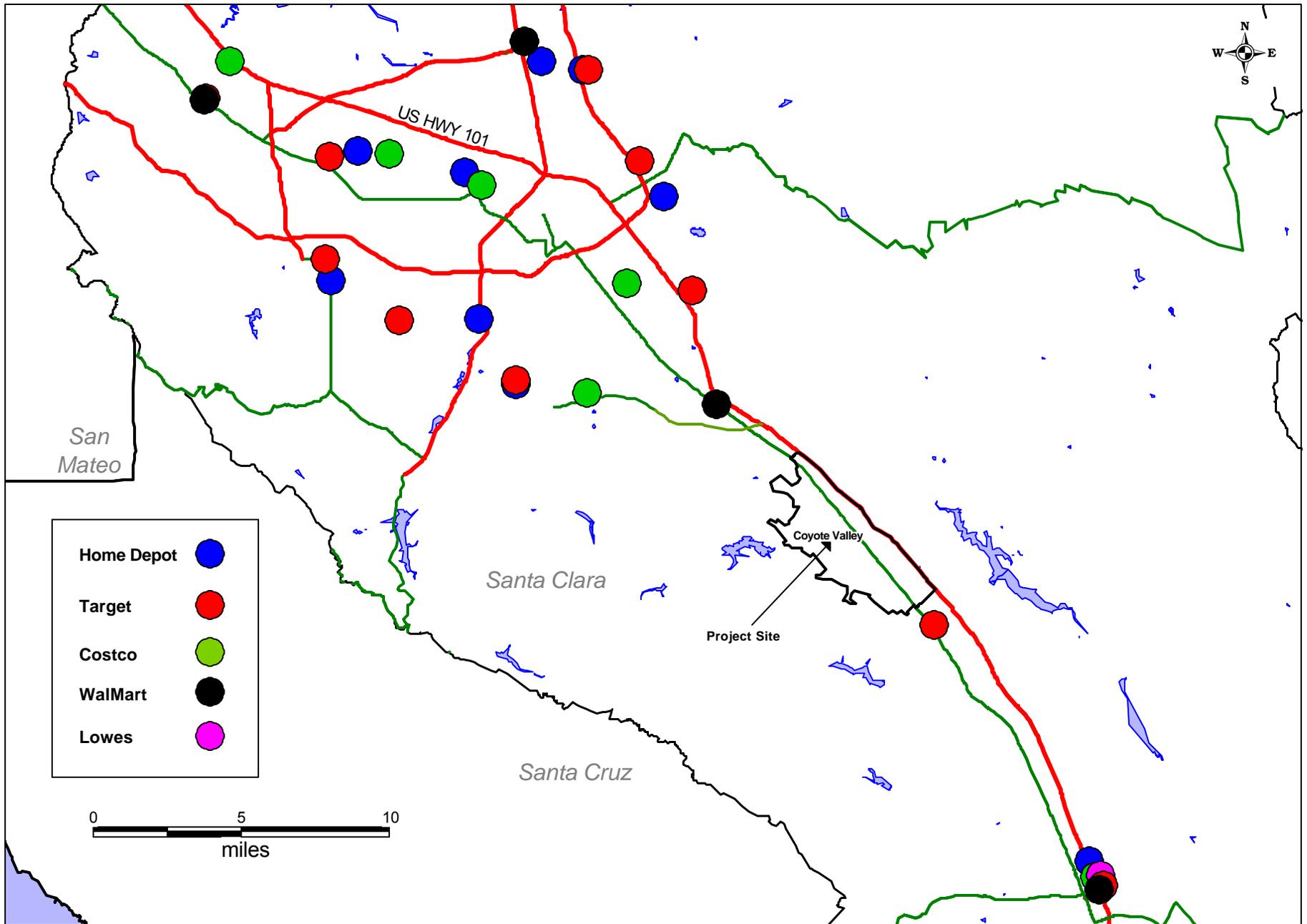
OTHER REGIONAL RETAIL

The large shopping centers capture a significant proportion of regional expenditures, but not all. Several downtowns continue to capture sales and a number of big box stores, some part of regional shopping centers, though many stand-alone, are also capturing increasing proportions of regional sales. **Figure 2.2** shows the location of selected "big box" stores, including Home Depot, Target, Costco, Kmart, Wal-Mart, and Lowes. Big box stores and regional downtowns are discussed below.

Big Box Stores

While power center anchors include big and medium-sized box stores, the drawing power of large big box stores (e.g., Home Depot and Costco) is sufficient to support stand alone stores. Such stores are spread throughout the region, from south San Jose northwards along major transportation corridors. Gilroy has also recently attracted a number of these stores to its two new large power centers, offering a strong clustering of big box stores that attracts consumers from San Benito and Monterey Counties, in addition to south Santa Clara County communities.

Figure 2.2:
Existing Big Box Retail in Santa Clara County



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Downtown

Several downtowns in the County, for example, Palo Alto, San Jose, and Mountain View, draw from a regional market area. These downtowns attract people with a mix of eating and drinking options, as well as selected smaller stores, and their pedestrian-oriented environments with a mix of architectural styles. These locations offer attractive alternatives to eating out or spending time at more standard regional shopping centers.

REGIONAL RETAIL PIPELINE

There are a number of new developments in the retail pipeline, most of which represent additions to existing retail locations, though three of which represent new locations (shown in **Figure 2.1**). These developments include:

- **Downtown San Jose (Central).** About 68,000 square feet of new retail space is currently planned downtown in a mixed use building on San Fernando Avenue between First Street and Second Street.
- **San Jose Marketcenter (Central).** A submittal for a 460,000 square foot retail center between downtown San Jose and the Rose Garden neighborhood has been submitted. Cousins Properties is seeking to develop the 38-acre site with a range of retail, including big box, grocery, apparel, and eating and drinking establishments. The preliminary land use plan suggests six anchor stores of between 18,000 square feet and 125,000 square feet as well as 14 small retail shops of less than 8,000 square feet.
- **Santana Row (West Valley).** About 88,000 square feet of retail space is currently under construction in a mixed-use building on Santana Row. A 28,000 square foot Century Theater movie theater is also under construction and an additional 119,000 square feet of retail space has been approved.
- **GE Site Shopping Center (South).** A submittal for a 636,000 square foot retail center has also been submitted at the former General Electric site. Preliminary land use plans suggest four big box anchor tenants, including Target. The project is expected to gain approvals in the next six months.
- **Eastridge Mall (Evergreen).** The Eastridge Mall is in the process of demolishing, renovating, and redeveloping a portion of its site. There will be no net increase in retail space, though about 307,000 square feet of renovated retail space will be provided.
- **Oakridge Mall (Edenvale).** The renovation of the Oakridge Mall is now complete with a total of 420,000 square feet of renovated retail space. In addition, a new 164,000 square foot Target Store is currently under construction at the Oakridge Mall.

- **Former IBM Campus (Edenvale).** A 222,000-square foot application for a Lowe's Home Improvement store is pending city approval at the former IBM campus. Plans have also been submitted for approval of 460,000 square feet of retail space elsewhere on the site. This would likely include up to 340,000 square feet of big box space, a 90,000 square foot grocery-anchored retail, and 30,000 square feet of main street retail, including eating and drinking establishments.
- **Morgan Hill.** There are currently no plans for any regional retail in the City of Morgan Hill. The retail supply pipeline primarily includes small retail additions to existing community centers or at infill locations. The largest proposed project is the development of a 55,000 square foot Safeway at the corner of Monterey Road and Tennatt Avenue.
- **Gilroy.** The northern Gilroy power center (the Regency Center and Newman developments) will be the locus of the major new retail development in the City of Gilroy. About half of the 100-acre site has been developed. A Super Wal-Mart has been approved, though construction has not begun.

III. PROSPECTS FOR COYOTE VALLEY

At buildout, Coyote Valley will include approximately 25,000 households and an estimated 70,000 residents. These households will be organized in a series of neighborhoods linked into the framework of a larger community. This Chapter evaluates the potential market support for retail development in Coyote Valley in light of the size of the Coyote Valley community, the proximity of other population centers, the competition for regional retail expenditures, and the types of retail formats under consideration in Coyote Valley.

RETAIL CENTER TYPES

Three different types of retail center have been envisioned for Coyote Valley. Each of these types is defined below and evaluated in subsequent chapters:

NEIGHBORHOOD CENTERS

Several neighborhood shopping centers are envisioned for Coyote Valley, serving one or more Coyote Valley neighborhoods. Four distinct residential neighborhoods are planned (northwest, northeast, southwest, and southeast) in addition to residential development in and around the mixed use Town Center. The neighborhood shopping centers will be anchored by supermarkets and include a variety of other retail stores, such as drug stores, liquor stores, dry cleaners, and restaurants. Some members of the neighborhood may walk or bike to these retail centers, though many will drive. The size of neighborhood shopping centers will vary, depending on the anchor, the competition, and the location.

TOWN CENTER

A Town Center is envisioned as the community core of Coyote Valley, located adjacent to a planned lake, Bailey Avenue, and the re-routed Santa Teresa Boulevard. Town Centers generally offer a mix of restaurants, entertainment, and other retail uses interwoven into a pedestrian-oriented, finely grained urban fabric with active public spaces. Office and residential uses are integrated into the mix, either horizontally (adjacent to retail and entertainment uses) or vertically (above them in the same building).

The design and sense of place associated with the Town Center is as important to its attractiveness as its tenant mix. Such centers are generally designed to serve as vibrant civic gathering points for residents, workers, and other community members, whether

for a stroll, to have lunch or dinner, to see a movie, to do some shopping, or to people watch. The scale of Town Centers varies considerably, depending on their market area and competition and their attractiveness to different tenant types.

BIG BOX RETAILERS

The possibility of big box retailers located between Monterey Road and Highway 101 is being considered at Coyote Valley. Big box retailers include discount stores, such as Target and Wal-Mart, category killers, such as Home Depot and Lowes, and discount warehouses, such as CostCo. These stores are generally over 100,000 square feet in size and are often grouped together in “power centers”, though they also can stand alone. They require close proximity to and good visibility from freeways or major arterials in addition to a significant amount of parking. They can also be used to draw shoppers to areas where other types of smaller-format retail are in the vicinity.

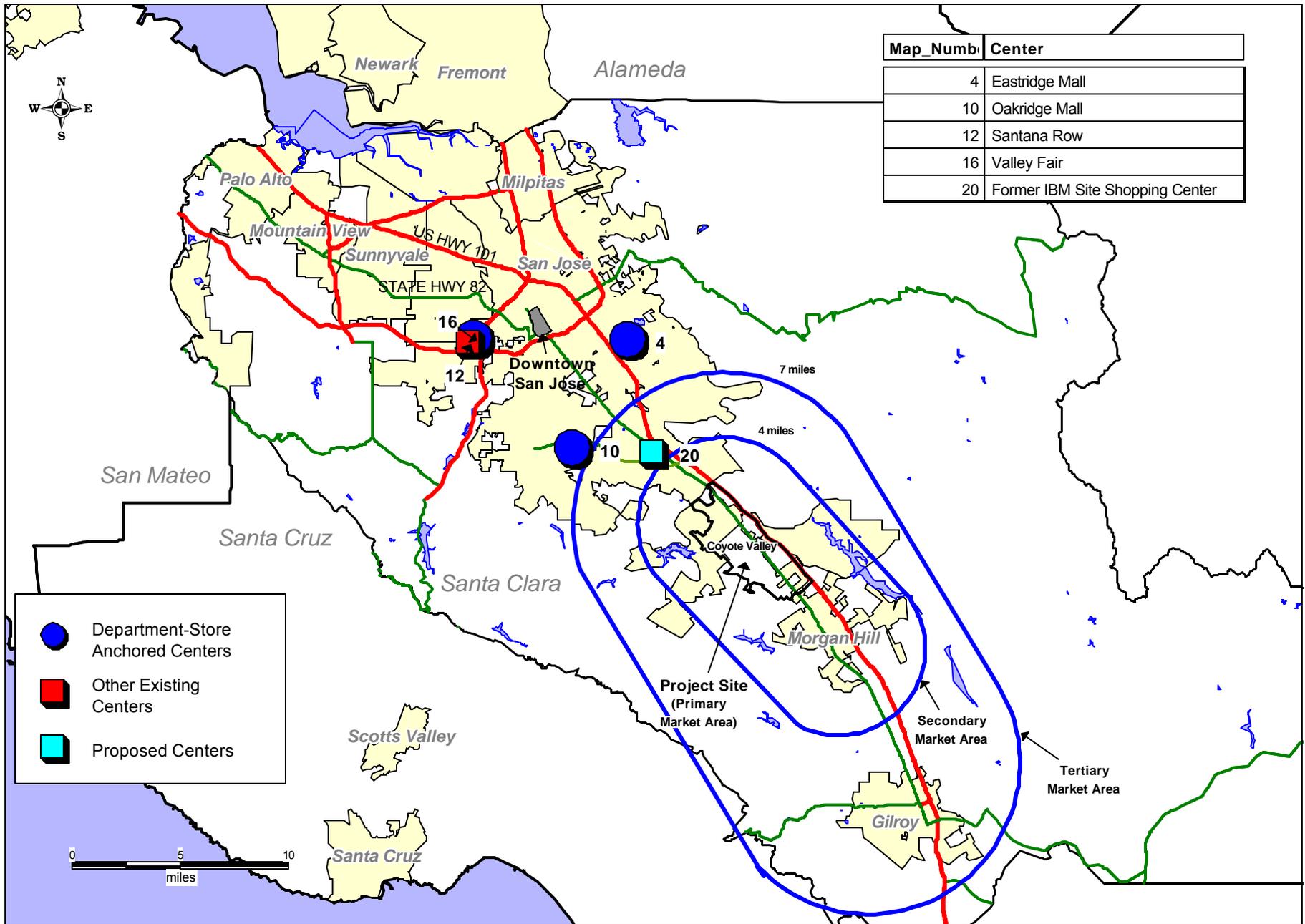
MARKET AREAS

Coyote Valley lies to the southeast of the current southern edge of urbanized San Jose and to the northwest of Morgan Hill. The areas to the west and east of Coyote Valley are primarily undeveloped and are likely to remain so. Highway 101, Monterey Road, and Santa Teresa Boulevard/ Hale Avenue run directly from Morgan Hill through Coyote Valley and up into San Jose. The Town Center of Coyote Valley is likely to be located around the intersection of Bailey Avenue and the re-routed Santa Teresa Boulevard. It will be about three-quarters of a mile from the Bailey Avenue interchange at Highway 101 and about 0.4 miles from Monterey Road. The center of Morgan Hill will be about seven miles to the south and the City of Gilroy about 16 miles to the south. The current, closest, southern urban edge of the City of San Jose, marked by the Coyote Alamos Canal, will be about one and a half miles northwest of the Town Center. Different types of Coyote Valley retail development will serve different market areas. Key market areas are shown in **Figure 3.1** and are described below.

PRIMARY MARKET AREA

The primary market area for retail development in Coyote Valley will be the households and workers in Coyote Valley. At buildout, development of Coyote Valley will include about 25,000 households (70,000 persons) and 50,000 jobs. These households will have a broad range of incomes, though on average are expected to have incomes at least as high as the average for the City of San Jose, about \$95,000. The expected distribution of household non-auto retail expenditures by category in the primary market area is shown in **Table 3.1**. Total retail expenditures are estimated at about \$510 million. The 50,000

**Figure 3.1:
Coyote Valley Retail Market Areas**



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Table 3.1
Primary Market Area Households - Non-Auto Retail Expenditures*
Coyote Valley Specific Plan Economic Analysis

Retail Category	Percent of Household Income	Expenditures/ HH (2)	Total Expenditures
Personal Services	0.8%	\$755	\$18,875,488
Supermarket/ Food at Home	3.9%	\$3,733	\$93,325,361
Eateries and Alcohol	4.4%	\$4,233	\$105,826,504
General Retail (3)	8.9%	\$8,508	\$212,692,707
Apparel	3.0%	\$2,862	\$71,561,821
Cinema (4)	0.2%	\$213	\$5,314,017
Total	21.3%	\$20,304	\$507,595,898

*Based on 25,000 Households projected for Coyote Valley.

(1) Expenditures by category derived from BLS Consumer Expenditure Survey for households with incomes over \$70,000.

(2) Assumes San Jose Mean Family Income of \$95,400 for Year 2002, based on Census 2000 estimate and historical nominal increases in income.

(3) Includes a broad range of retail groups, including general merchandise, homes and building related merchandise, and consumer electronics.

(4) Movie theater expenditures were removed from General Retail and estimated based on seven movie visits per year per person and an average expenditure of \$11.50 per movie visit.

Sources: BLS Consumer Expenditure Survey, 2002; California DOF 2002; Economic & Planning Systems, Inc.

employees at Coyote Valley will also make retail purchases. At an average of \$4.00 per worker per business day, this amounts to annual expenditures of about \$50 million, primarily at eating establishments.⁵

SECONDARY MARKET AREA

The secondary market area includes residents of areas outside of Coyote Valley that are relatively close by and are likely to be drawn to an attractive Town Center or other region-serving retail offerings. All households in the secondary market area are closer to the Town Center than any other regional mall or specialty retail center and are less than ten miles away. The secondary market area includes the City of Morgan Hill and the portion of south San Jose within a four-mile radius of the Town Center.

By 2025, the secondary market area is expected to include about 27,700 households. The City of Morgan Hill is about seven miles from the proposed Town Center location and roughly equidistant between the proposed Town Center and the City of Gilroy. The City of Morgan Hill's sphere of influence currently includes about 13,500 households and is expected to increase to about 17,700 households by 2025.⁶ About 6,500 households in south San Jose are within four miles of the proposed Town Center, closer to the Town Center, than the next most proximate regional retail destination, the Oakridge Mall.⁷ The number of households in this radius is expected to increase to 10,000 households by 2025, in part due to redevelopment of the former IBM campus. Average household incomes in Morgan Hill are about \$113,000 as discussed above, and in the City of San Jose are about \$95,000. The distribution of expected non-auto retail expenditures by category in the secondary market area by 2025 is shown in **Table 3.2**. The total retail expenditures are estimated at about \$630 million, including \$425 million from Morgan Hill households and \$205 million from San Jose households.

TERTIARY MARKET AREA

The tertiary market area includes the geographic area directly beyond the secondary market area. Households in this market area will consider shopping at the Town Center, but will have at least one regional mall closer to their homes. They will still be

⁵ Surveys of retail expenditures by office workers suggest a different level of retail expenditure depending on the proximity and availability of retail. Many workers will bring lunches most days, others will eat in campus cafeterias, and others will eat, snack, and buy gifts and groceries at the nearest retail center. Office worker expenditures close to retail options spend about \$8.00 per day. Given the range of workers expected at Coyote Valley, including office and R&D workers, and the range of likely distances from the closest retail center, an average daily retail expenditure of \$4.00 per working day per worker is used in this analysis.

⁶ The City has a 200 unit-a-year growth cap. Market demand is expected to be greater than this level so the 2025 city growth is capped at 20 years of 200 units of growth. ABAG projects an additional 200 households in the sphere of influence, outside of the city limits.

⁷ Based on Claritas, Inc. radius analysis.

Table 3.2
Secondary Market Area Households - Non-Auto Retail Expenditures*
Coyote Valley Specific Plan Economic Analysis

Retail Category	Percent of Household Income (1)	Expenditures/ HH (2)	Total Expenditures
Morgan Hill Households			
Personal Services	0.8%	\$898	\$15,893,177
Supermarket/ Food at Home	3.9%	\$4,440	\$78,580,037
Eateries and Alcohol	4.4%	\$5,034	\$89,106,010
General Retail (3)	8.9%	\$10,118	\$179,087,447
Apparel	3.0%	\$3,404	\$60,255,116
<u>Cinema (4)</u>	<u>0.2%</u>	<u>\$253</u>	<u>\$4,474,407</u>
Total	21.3%	\$24,147	\$427,396,194
San Jose Households within 4-Mile Radius			
Personal Services	0.8%	\$755	\$7,550,195
Supermarket/ Food at Home	3.9%	\$3,733	\$37,330,145
Eateries and Alcohol	4.4%	\$4,233	\$42,330,602
General Retail (3)	8.9%	\$8,508	\$85,077,083
Apparel	3.0%	\$2,862	\$28,624,728
<u>Cinema (4)</u>	<u>0.2%</u>	<u>\$213</u>	<u>\$2,125,607</u>
Total	21.3%	\$20,304	\$203,038,359
Total Secondary Market Area			
Personal Services	--	--	\$23,443,372
Supermarket/ Food at Home	--	--	\$115,910,181
Eateries and Alcohol	--	--	\$131,436,611
General Retail (3)	--	--	\$264,164,530
Apparel	--	--	\$88,879,845
<u>Cinema (4)</u>	--	--	<u>\$6,600,014</u>
Total	--	--	\$630,434,553

* Based on 17,700 Households in Morgan Hill and 10,000 Households within the rest of the 4-mile radius surrounding Coyote Valley by 2025, a total of 27,700 households.

(1) Expenditures by category derived from BLS Consumer Expenditure Survey for households with incomes over \$70,000.

(2) Morgan Hill Mean Family Income is estimated at \$113,000 for Year 2002, based on Census 2000 estimate and historical nominal increases in income. Income for Households within 4-mile radius is assumed to be \$95,400.

(3) Includes a broad range of retail groups, including general merchandise, homes and building related merchandise, and consumer electronics.

(4) Movie theater expenditures were removed from General Retail and estimated based on seven movie visits per year per person and an average expenditure of \$11.50 per movie visit.

Sources: BLS Consumer Expenditure Survey, 2002; California DOF 2002; Claritas; Economic & Planning Systems, Inc.

closer to the Town Center than to either Santana Row or Downtown San Jose. The tertiary market area includes an additional portion of south San Jose and the City of Gilroy. It is expected to include 54,500 households by 2025. Between four and seven miles from the Town Center, there are a total of 31,900 additional households (excludes the Morgan Hill and south San Jose households already included in the secondary market area).⁸ In addition, at the current time, there are a total of 15,500 households in the Gilroy Sphere of Influence, with projected 2025 households at 22,600.⁹

Average household incomes in City of Gilroy are about \$84,000, and in the City of San Jose are about \$95,000. The distribution of tertiary market area household retail expenditures by category by 2025 is shown in **Table 3.3**. Total retail expenditures are estimated at about \$1.05 billion, including \$405 million from Gilroy households and \$645 million from San Jose households.

OVERALL EXPENDITURES AND RETAIL SUPPORT

The expenditures in each of these market areas will support a broad range of retail space in a large number of locations. **Table 3.4** shows estimates of the retail space supported by the household expenditures in each of these market areas. As shown, the primary market area (including Coyote Valley households and workers) is expected to support a total of 1.44 million square feet of retail space and 11 movie theater screens, the secondary market area about 1.65 million square feet and 13 movie theater screens, and the tertiary market area about 2.76 million square feet and 22 movie theater screens. By Coyote Valley residential buildout, the combined households in the three market areas are projected to generate \$2.24 billion in retail expenditures and support for a total of 5.9 million square feet of retail space and 46 movie theater screens.

NEIGHBORHOOD CENTER PROSPECTS

MARKET AREA, COMPETITION, AND CAPTURE

Grocery-anchored neighborhood centers will serve households in their primary market area and will compete with other nearby grocery stores. In recent years, Wal-Mart has started incorporating 60,000 square foot supermarkets into its Super Wal-Mart stores. There are currently no such stores in Santa Clara County, though a Super Wal-Mart is approved at the new, northern Gilroy power center, about 13 miles from Coyote Valley. At the present time, there are no existing neighborhood shopping centers in Coyote Valley, with the closest neighborhood centers in Morgan Hill and the Edenvale area of

⁸ Based on Claritas, Inc. radius estimate of 45,300 households within seven miles of the site, with the 6,400 within the four-mile radius subtracted and 7,000 Morgan Hill households subtracted.

⁹ Based on ABAG Projections 2002.

**Table 3.3
Tertiary Market Area Households - Non-Auto Retail Expenditures*
Coyote Valley Specific Plan Economic Analysis**

Retail Category	Percent of Household Income (1)	Expenditures/ HH (2)	Total Expenditures
Gilroy Households			
Personal Services	0.8%	\$667	\$15,080,095
Supermarket/ Food at Home	3.9%	\$3,299	\$74,559,943
Eateries and Alcohol	4.4%	\$3,741	\$84,547,415
General Retail (3)	8.9%	\$7,519	\$169,925,471
Apparel	3.0%	\$2,530	\$57,172,511
Cinema (4)	<u>0.2%</u>	<u>\$188</u>	<u>\$4,245,500</u>
Total	21.3%	\$17,944	\$405,530,935
San Jose Household within 4-7 Mile Radius			
Personal Services	0.8%	\$755	\$24,085,122
Supermarket/ Food at Home	3.9%	\$3,733	\$119,083,161
Eateries and Alcohol	4.4%	\$4,233	\$135,034,619
General Retail (3)	8.9%	\$8,508	\$271,395,894
Apparel	3.0%	\$2,862	\$91,312,884
Cinema (4)	<u>0.2%</u>	<u>\$213</u>	<u>\$6,780,686</u>
Total	21.3%	\$20,304	\$647,692,365
Total Tertiary Market Area			
Personal Services	--	--	\$39,165,217
Supermarket/ Food at Home	--	--	\$193,643,104
Eateries and Alcohol	--	--	\$219,582,034
General Retail (3)	--	--	\$441,321,365
Apparel	--	--	\$148,485,395
Cinema (4)	--	--	<u>\$11,026,186</u>
Total	--	--	\$1,053,223,300

*Based on the 22,600 households in the Gilroy Sphere of Influence and the 31,900 households within the four to seven mile radius surrounding Coyote Valley in San Jose.

(1) Expenditures by category derived from BLS Consumer Expenditure Survey for households with incomes over \$70,000.

(2) Gilroy Mean Household Income is estimated at \$84,300 for Year 2002, based on Census 2000 estimate and historical nominal increases in income. Mean income for Households within a 4 to 7 mile radius is assumed to be \$95,400.

(3) Includes a broad range of retail groups, including general merchandise, homes and building related merchandise, and consumer electronics.

(4) Movie theater expenditures were removed from General Retail and estimated based on seven movie visits per year per person and an average expenditure of \$11.50 per movie visit.

Sources: BLS Consumer Expenditure Survey, 2002; California DOF 2002; Claritas; Economic & Planning Systems, Inc.

Table 3.4
Non-Auto Retail Expenditures and Supportable Retail Space by Market Area
Coyote Valley Specific Plan Economic Analysis

Retail Category	Primary Market Area		Secondary Market Area	
	Expenditures	Square Feet (1)	Expenditures	Square Feet (1)
Personal Services	\$18,875,488	94,000	\$23,443,372	117,000
Supermarket/ Food at Home	\$93,325,361	187,000	\$115,910,181	232,000
Eateries and Alcohol (2)	\$155,826,504	346,000	\$131,436,611	292,000
General Retail	\$212,692,707	608,000	\$264,164,530	755,000
Apparel	\$71,561,821	204,000	\$88,879,845	254,000
Cinema	\$5,314,017	11 screens	\$6,600,014	13 screens
Total (2)	\$557,595,898	1,439,000	\$630,434,553	1,650,000

(1) Average expenditures per square foot of retail space (ULI/ EPS estimates):

Personal Services	\$200 per sq. ft.
Supermarket/ Food at Home	\$500 per sq. ft.
Eateries and Alcohol	\$450 per sq. ft.
General Retail	\$350 per sq. ft.
Apparel	\$350 per sq. ft.
Cinema	\$500,000 per screen

(2) Primary market area eateries and alcohol includes the \$50 million expenditure estimate of Coyote Valley workers.

Sources: Urban Land Institute (ULI); BLS Consumer Expenditure Survey; Economic & Planning Systems, Inc.

Table 3.4 (continued)
Non-Auto Retail Expenditures and Supportable Retail Space by Market Area
Coyote Valley Specific Plan Economic Analysis

Retail Category	Tertiary Market Area		Total	
	Expenditures	Square Feet (1)	Expenditures	Square Feet (1)
Personal Services	\$39,165,217	196,000	\$81,484,076	407,000
Supermarket/ Food at Home	\$193,643,104	387,000	\$402,878,646	806,000
Eateries and Alcohol (2)	\$219,582,034	488,000	\$506,845,149	1,126,000
General Retail	\$441,321,365	1,261,000	\$918,178,602	2,623,000
Apparel	\$148,485,395	424,000	\$308,927,061	883,000
Cinema	\$11,026,186	22 screens	\$22,940,216	46 screens
Total (2)	\$1,053,223,300	2,756,000	\$2,241,253,750	5,845,000

(1) Average expenditures per square foot of retail space (ULI/ EPS estimates):

Personal Services

Supermarket/ Food at Home

Eateries and Alcohol

General Retail

Apparel

Cinema

(2) Primary market areas eateries and alcohol includes the \$50 million expenditure estimate of Coyote Valley workers.

Sources: Urban Land Institute (ULI); BLS Consumer Expenditure Survey; Economic & Planning Systems, Inc.

San Jose. Given this level of competition and the general preference of households to shop at supermarkets close to home, Coyote Valley neighborhood centers are expected to capture about 75 percent of local grocery expenditures.

RETAIL EXPENDITURES

As shown in **Table 3.1**, households in the primary market area, similar to other households, will spend about 4 percent of their household incomes on food at grocery stores (“food-at-home”). This represents about \$3,750 per household or \$95 million in annual food expenditures at supermarkets by residential buildout. Assuming an 80 percent capture rate, about \$75 million in retail expenditures on “food-at-home” items are expected to be captured in Coyote Valley, the large majority of which will occur at supermarkets.

SUPPORT FOR NEIGHBORHOOD CENTERS/ SQUARE FEET

Grocery stores vary in size between 40,000 and 65,000 square feet, with the current standard being 55,000 square feet. Based on a \$500 per square foot average sales requirement at new supermarkets, about 150,000 square feet of food space at supermarkets could be supported at buildout in Coyote Valley.¹⁰ Grocery stores also offer a range of other non-food products, generally occupying an additional 20 percent of supermarket space. As a result, a total of about 180,000 square feet of supermarket space could be supported. This represents market support for about three grocery stores.

Each neighborhood shopping center in Coyote Valley will be anchored by a grocery store. The grocery store will act as an anchor to a number of smaller stores, potentially including a drug store, a liquor/ wine store, a deli, a bakery, a dry cleaner, a hair salon, and other personal services and convenience-oriented stores. The amount of additional space will vary, though is likely to be between 55,000 and 95,000 square feet of additional retail space. As a result, the average neighborhood shopping center in Coyote Valley will likely be between 110,000 and 150,000 square feet in size, with an average size of 130,000 square feet.¹¹

¹⁰ Sales per square foot estimates are based on Urban Land Institute (ULI) estimates adjusted by EPS for regional and construction date variations in sales per square foot. The estimates assume that all food-at-home sales occur at the neighborhood grocery stores.

¹¹ Actual neighborhood center size can vary widely. The integration of a supermarket into the Town Center will make it part of a significantly larger development.

PROGRAM CONSIDERATIONS

Number of Centers

By residential buildout, there will be support for about three supermarkets. With one of these supermarkets likely to be integrated into the Town Center, a total of two grocery-anchored neighborhood centers could be supported.

Tenant Profiles

The neighborhood centers will most likely be anchored by standard supermarkets, such as Albertson's or Safeway, or higher-end supermarkets, such as Whole Foods and Andronico's. The latter may be more likely to locate in the Town Center than the more typical supermarkets. The anchor tenants attracted to the centers will depend on the demographics of the households in the surrounding areas, with the higher end supermarkets looking for higher incomes and education levels. The additional tenants at each neighborhood center will, in large part, depend on the anchor tenant.

Location and Design Considerations

Neighborhood centers are generally located along major transportation thoroughfares, close to the heart of the neighborhood they serve. Convenient access by car in addition to sufficient parking are important to their success, though accessibility to pedestrians and bicyclists from the surrounding residential development can also improve market support. The enduring success of the neighborhood centers will be enhanced with a more pedestrian-friendly design and with the creation of an attractive place to spend time on activities other than shopping.

Absorption

Most supermarkets will expect to see close to 5,000 households in a market area before they will anchor a neighborhood retail center. As a result, neighborhood shopping centers are likely to develop at Coyote Valley as development passes this critical mass. The phasing of residential development by neighborhood will play a large role in the phasing of the neighborhood shopping centers.

TOWN CENTER RETAIL PROSPECTS

TOWN CENTER CONCEPT

The Coyote Valley Town Center is conceived as a focal point for the community that will add value and community to the residential and workplace development. As such, it is hoped that Town Center development will begin prior to the full buildout of the rest of the community. Coyote Valley's Town Center will lie close to an artificial lake at the intersection of the re-routed Santa Teresa Boulevard and Bailey Avenue and less than half a mile to the west of the intersection of Bailey Avenue and Monterey Road. It is envisioned as a mixed use development, including retail, entertainment, housing, and

office uses, with a significant amount of additional housing close-by. To the extent that Coyote Valley includes regional retail not located adjacent to the freeway, it is likely to be located in the Town Center.

EXISTING COMPETITION AND MARKET SUPPORT

At the current time, Coyote Valley, comprising the primary market area, includes several hundred residential units, insufficient to support new retail development. The secondary market area, including a portion of the City of San Jose as well as the City of Morgan Hill, both lie closer to the proposed Town Center location than to the nearest regional malls, though they have numerous neighborhood centers surrounding them. Their combined household count of 27,700 households, while significant, is not sufficient to drive new retail development in Coyote Valley. Morgan Hill households are too far away to drive new retail development. South San Jose households are within a ten-mile driving distance of the Oakridge Mall and have a large number of other options further away.

The tertiary market area includes an even greater number of households, though these households are still further from Coyote Valley, and the tertiary households in San Jose have access to a large number of regional shopping centers. As a result, retail developers, with the preferences of their potential tenants in mind, are unlikely to start development of the Town Center until residential development at Coyote Valley has started to provide market support from the immediate, primary market area.

MARKET AREA AND COMPETITION

By buildout, Coyote Valley will be a very different place, with about 25,000 households and 50,000 jobs providing strong support for a range of retail offerings. As discussed above, two neighborhood centers will likely serve the grocery, convenience, and local needs of some of the Coyote Valley neighborhoods. The Town Center, however, is envisioned not only to serve the needs of its surrounding residential development, but also to compliment its attractive surroundings and public places with a broader range of retail. This retail is expected to draw from throughout Coyote Valley, as well as from the secondary and tertiary market areas.

Assuming that no new, unplanned regional centers are constructed in south San Jose, Morgan Hill, or Gilroy during buildout of Coyote Valley, the main competition for retail expenditures of Coyote Valley households as well as households in Morgan Hill and the southern portion of San Jose within a four-mile radius of the Coyote Valley Town Center will come from the proposed retail development at the former IBM campus, the existing Oakridge Mall, and other popular malls, such as Valley Fair, and unique places such as Santana Row. The competition and likelihood of attracting households from the three market areas are described below.

Primary Market Area

The Coyote Valley Town Center will be considerably more accessible to Coyote Valley residents and retailers located there and will therefore capture a high proportion of the relevant retail expenditures of Coyote Valley households. As mentioned above, Coyote Valley is expected to include 25,000 households, who will make a total of \$510 million in retail expenditures annually. Retail developers will consider these households as the core of their market area.

Secondary Market Area

Most households in the south San Jose portion of the secondary market area will be closer to the retail development at the former IBM campus, though they will be closer to the Coyote Valley Town Center than the Oakridge Mall. The Coyote Valley Town Center will be the closest retail center to Morgan Hill households, outside of their local neighborhood centers, though they will be an average of a seven-mile drive away. As a result, Town Center retailers that generally draw from beyond their immediate residential neighborhoods will have the opportunity of capturing a proportion of the retail expenditures of these households. As mentioned above, the secondary market area is expected to include 27,500 households, who will make a total of \$625 million in retail expenditures annually. Retail developers will consider many of these households as inside their market area, though their propensity to go to the Coyote Valley Town Center will likely be between one-third and one-half as for households in the primary market area.

Tertiary Market Area

The tertiary market area includes the City of Gilroy and households between four and seven miles from the Coyote Valley Town Center. The households in south San Jose are all closer to a regional mall than to the Town Center. The households in Gilroy are all at least 15 miles from the Town Center. As a result, these households may be drawn periodically to the Town Center, but much less frequently than households in the primary and secondary market areas. The propensity of these households to travel to the Coyote Valley Town Center will likely be between one-tenth and one-twentieth as for households in the primary market area.

RETAIL TYPES, SQUARE FEET, AND PHASING

This market support, combined with the public amenities of the Town Center, will offer possibilities for the development of a number of different retail businesses. The local neighborhood population will provide support for a supermarket and associated local neighborhood-serving stores; nearby workers will provide support for restaurants and other eateries; and, households throughout Coyote Valley, in the secondary market area, and to a lesser extent the tertiary market area, may provide support for additional cafes and restaurants, a movie theater, a book and CD store, and specialty stores. In sum, a

total of about 415,000 square feet of retail/ entertainment development could be supported at the Town Center by buildout, as shown in **Table 3.5**. The components and derivation of this market support are described below.

Neighborhood-Serving Retail

As evaluated above, Coyote Valley households could support three supermarkets. One of these supermarkets could be located in the Town Center and would also bring with it the addition of smaller retail tenants that similarly serve the local residential population. The scale of development supported by these households will be similar to that supported at other neighborhood centers, though likely somewhat larger, given the number of shoppers passing through the area. Neighborhood-serving retail development of about 150,000 square feet could be supported at the Town Center. The neighborhood-serving retail component of the Town Center will require the presence of about 5,000 households in Coyote Valley.

Restaurants/ Eateries

Restaurants, cafes, to-go food, and juice bars will receive market support from Coyote Valley workers and residents as well as residents in other market areas attracted to Coyote Valley for its aesthetics, sense of place, and other retail and entertainment options. Primary market area households are expected to spend about \$105 million on “food-away-from-home” and alcoholic beverages and the 50,000 workers could be expected to spend about \$50 million on food and drinks at lunchtime, for a total of \$155 million. In addition, secondary market area households are expected to spend \$130 million and tertiary market area households \$220 million on restaurants and alcohol.

By buildout, the Town Center could support over 100,000 square feet of eating and drinking establishments. As shown in **Table 3.6**, this scale of restaurants would be supported by a 20 percent capture of the primary market area expenditures by workers and households on eating and drinking, an 8 percent capture of secondary market area household expenditures, and a 1.5 percent capture of tertiary market area household expenditures on eating and drinking. Groups of restaurants are likely to develop in step functions with the early ones coming on-line with the neighborhood-serving retail and additional developments being coordinated with the addition of entertainment and other major Town Center draws.

Movie Theater

Movie theaters tend to require about 8,000 to 10,000 persons per screen. Coyote Valley will face competition from 16-screen theaters in Gilroy and at the Oakridge Mall, as well as an 8-screen renovated theater in the City of Morgan Hill. As shown in **Table 3.6**, Coyote Valley could support a 12-screen theater by buildout with a 60 percent capture of movie theater expenditures by primary market area households, a 30 percent capture of secondary market area households, and a 4 percent capture of tertiary market area households. Development of a movie theater earlier in the development program would require a smaller theater of between six and ten screens. Many movie theater developers prefer to construct 12- to 16-screen theaters in response to demands of film distributors

Table 3.5
Supportable Town Center Retail/ Entertainment Space
Coyote Valley Specific Plan Economic Analysis

Retail Category	Town Center Square Feet
Supermarket and Ancillary Retail	150,000 sq .ft.
Eateries and Alcohol (2)	100,000 sq .ft.
Book/ CD Store (General Retail)	30,000 sq .ft.
Specialty (Apparel/ General Retail)	100,000 sq .ft.
<u>Cinema</u>	<u>35,000</u> sq .ft.
Total	415,000 sq .ft.

Source: Economic & Planning Systems, Inc.

Table 3.6
Town Center Market Area Capture Rates
Coyote Valley Specific Plan Economic Analysis

Retail Category	Primary Market Area		Secondary Market Area		Tertiary Market Area		Total Market Support Square Feet (1)
	Capture %	Square Feet	Capture %	Square Feet	Capture %	Square Feet	
Eateries and Alcohol	20%	69,000	8%	23,000	1.3%	15,000	107,000
General Retail/ Apparel	10%	81,000	4%	40,000	0.7%	11,000	132,000
<u>Cinema</u>	60%	6 screens	30%	4 screens	4.0%	2 screens	12 screens
Total		150,000		63,000		26,000	239,000

Source: Economic & Planning Systems, Inc.

for multiplex theaters, though smaller theaters, for example the 8-screen theater under construction at Santana Row, are still developed in desirable smaller markets. As a result, the Coyote Valley Town Center is expected to be able to support a movie theater, though only once it has developed at least half of its residential development. At about 4,500 square feet per screen, an eight-screen movie theater is likely to be about 35,000 square feet in size.

Other Retail

A range of other retail could be supported including a book store and specialty retail, including apparel, shoe, home furnishing, and furniture stores. As shown in **Table 3.6**, Coyote Valley is expected to be able to support about 130,000 square feet of this type of retail, with a 10 percent capture of general retail and apparel expenditures from primary market area households, a 4 percent capture from secondary market households, and less than a 1 percent capture from tertiary market households. The expected nature of this development is described below.

Book Store

A major book and CD store, such as Barnes and Noble or Borders Books and Music, will serve as an additional draw to the Town Center. Such retailers tend to locate in market areas with a market area population of about 100,000 persons (over 33,000 households). The Coyote Valley Town Center could meet these requirements, but only once it is well into its development program. Such stores are generally in the 20,000 to 40,000 square foot range, with an average of 30,000 square feet.

Specialty

The grouping of restaurants, a movie theater, and a book store, in addition to the lake and the public spaces, will draw in a large number of people. This will, in turn, make the Coyote Valley Town Center appealing to other retailers. Once the other retail and entertainment uses are in place, some apparel, jewelry, furniture, and home furnishings stores may be attracted to the Town Center, potentially occupying an additional 100,000 square feet of space.

BIG BOX RETAILER PROSPECTS

Power centers and stand-alone big box stores are distributed throughout Santa Clara County, and two new power centers have opened in Gilroy serving the City of Gilroy and a broad swath of the market to the south of Santa Clara County. Big box stores are constantly in search of locations with high traffic counts, easy transportation access, and good visibility. While some big box stores may feel that they adequately serve the southern San Jose market and may not see an advantage to adding new stores in a more isolated location, many others will see the Coyote Valley market and the traffic flows along Highway 101 as sufficient to support new stores.

A number of big box retailers could likely be attracted to a site off Bailey Avenue between Highway 101 and the Monterey Road. Such a development will require significant parking and must be easily accessible off Bailey Avenue. A 30-acre site would provide sufficient space for two or three big box stores and a total of about 330,000 square feet, if surface parked. Retailers will look for a sufficient flow of traffic before locating at Coyote Valley, though, given existing traffic counts, it is likely that big box development might locate at Coyote Valley in the earlier part of the development program.