EL CAMINO REAL
SANTA CLARA DEVELOPMENT OPPORTUNITIES

JUNE 12, 2019
PLANNING SESSION OF PLANNING COMMISSION
GOAL OF TONIGHT

- Specific Plan that will contribute to commercial and residential development on the ECR
TOPICS: OVERVIEW OF CURRENT SANTA CLARA REAL ESTATE ECONOMICS

• How ground floor commercial real estate can be successful
• Attracting larger store commercial development – issues and potential
PRESENTERS

• Jerry Keyser, Keyser Marston Associates, Inc.  
  Statewide Real Estate Economics

• Christine Firstenberg,  
  Retail Real Estate Resource Group  
  Retail/Commercial Specialist
• Residential is the hot new use

• Commercial is another story – turbulent
**ECR CURRENT ISSUES AND NEAR TERM FORWARD LOOK**

- **Residential**
  - Rent increases struggling to keep up with cost increases
  - Tight profit margins may limit new construction in the near term

- **Retail**
  - Turbulence will continue but ICSC indicates investors still value retail assets, especially:
    - Markets with limited supply
    - Limited construction of new retail space
INDUSTRY TRENDS IMPACTING ECR’S FUTURE

• E-commerce will not cause brick and mortar to disappear
• Thriving retail – the five Fs:
  • Food
  • Fitness
  • Fashion
  • Furniture
  • Fun
• New formats will emerge
• Self driving cars and rideshare will reduce parking need
• Healthcare is a growing force in retail real estate
Why Retailers Make The Location Decisions They Do

Presented By | Christine Firstenberg

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Table of Contents

Part I: “The Retail Revolution”- Current Trends in National and Regional Retail

Part II: How do Large Retailers choose new Sites?

Part III: Commercial in Mixed Use Projects

Part IV: Suggested criteria for future retail design in Mixed Use Projects
Part I:
“The Retail Revolution”- Current Trends in National and Regional Retail
“The Retail Revolution”

- Shop Tenants vs Anchor Tenants
- Reduction in space size
- The emergence of Experiential Retail
“The Retail Revolution”

Online purchases vs in store trips

• Reason to go to the stores?
• Rise of “Subscription” E-Commerce

(Stores that charge a small fee and deliver pre-identified preference oriented items).
Shift in Demographics, attitudes and Consumer preferences

- Faster shipping from on-line retailers
- Millennials shop differently than previous generations
“The Retail Revolution”

Brick and Mortar is still needed - It has just changed some
Part II:
Retailer’s Location Criteria Information
## Retail Typologies and Definitions

<table>
<thead>
<tr>
<th>TYPE OF SHOPPING CENTER</th>
<th>CONCEPT</th>
<th>SQUARE FEET (INCLUDING ANCHORS)</th>
<th>TYPICAL ANCHOR(S)</th>
<th>ANCHOR RATIO*</th>
<th>PRIMARY TRADE AREA**</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPEN-AIR CENTERS</strong></td>
<td></td>
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<tr>
<td>Neighborhood Center</td>
<td>Convenience</td>
<td>30,000–150,000</td>
<td>Supermarket</td>
<td>30–50%</td>
<td>3 miles</td>
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<tr>
<td>Community Center</td>
<td>General merchandise; convenience</td>
<td>100,000–350,000</td>
<td>Discount department store; supermarket; drug; home improvement; large specialty/discount apparel</td>
<td>40–60%</td>
<td>3–6 miles</td>
</tr>
<tr>
<td>Lifestyle Center</td>
<td>Upscale national chain specialty stores; dining and entertainment in outdoor setting.</td>
<td>Typically 150,000–500,000, but can be smaller or larger.</td>
<td>Not usually anchored in the traditional sense but may include book store; other large-format specialty retailers; multi-plex cinema; small department store.</td>
<td>0-50%</td>
<td>8-12 miles</td>
</tr>
<tr>
<td>Power Center</td>
<td>Category-dominant anchors; few small tenants</td>
<td>250,000–600,000</td>
<td>Category killer; home improvement; discount department store; warehouse club; off-price</td>
<td>75–90%</td>
<td>5–10 miles</td>
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<tr>
<td>Theme/Festival Center</td>
<td>Leisure; tourist-oriented; retail and service</td>
<td>80,000–250,000</td>
<td>Restaurants; entertainment</td>
<td>N/A</td>
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<td>Outlet Center</td>
<td>Manufacturers’ outlet stores</td>
<td>50,000–400,000</td>
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<td>25–75 miles</td>
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<td>Regional Center</td>
<td>General merchandise; fashion (mall, typically enclosed)</td>
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<td>Superregional Center</td>
<td>Similar to regional center but has more variety and assortment</td>
<td>800,000+</td>
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The Why?

Retailers Chose a Location To Make Money

They make money where people shop. It is **NOT** always a science
Retailers combine consumer shopping habits with operational efficiencies, when you add basic retail location criteria - you have a map of how a Tenant will view every Trade Area and every site.
“Retailers Location Criteria”

- Location needs to be at an intersection of 2 main thoroughfares
- Need visibility to traffic and signage \((\text{pedestrian or car, whichever is greater})\)
- Needs to have parking, \((\text{ratio of square footage to number of stalls})\):
  - Each use has slightly different criteria
    - Grocery
    - Dress Store
    - Furniture Store
    - Apple Store
- Needs to be where the retailer’s customers are located
Location Criteria - Locating a Customer

By Using Trade Area Demographics Analytics
Trade Area Demographic Analytics

- Most retailers do market research in house with brokerage support
- Analysis of demographic information of proposed trade area gives a retailer information they need for sales projections in order to move forward with deal.
- Accurate sales projections and good understanding of trade area demographics are key to locating a profitable store.

Then: Site Analysis
Site Analysis

In addition to trade area demographics a retailer looks at items specific to the proposed site to make certain they will contribute to good sales volumes thus, a good store location.

Factors That Impact Site Analysis:

- Site Plan Layout
- Overall Design of Shopping Center
- Ingress + Egress
- Entitlement Issues
- Space Layout
- Deal Structure
- Co-Tenancy
- Distance To Nearest Competitor
- Signage
- Parking
- Front Door Visibility To Traffic
- Cost of Rent and NNN
- Distance To Nearest Retailers Store
Site Analysis

Site Plan Layout

Overall Center Design

Ingress + Egress
Site Analysis

Co-Tenancy
Other tenants in the shopping center make a big difference in the performance of a retailer

Distance To Nearest Competitors
Competitors in the immediate vicinity must be considered for any site
Site Analysis

Signage

Parking

Visibility

Overall:
Convenience For Customer
Other Important Retail Rules:

• Retail grows at the intersection of two main thoroughfares – Do not force retail to locate on side streets through zoning, it should be optional
• Retail needs parking! – Unless you have high pedestrian counts in front of space
• A shop tenant cannot exist solely on residents in mixed use development – They need additional customers
• Allow for anchor tenant in your zoning – They are needed for the health of the smaller tenants
Part III: Commercial in Mixed Use Projects
Developers tend to only build spaces for smaller (shop) tenants, not anchors

- Mixed Use developers are driven by the product (office or residential) other than Retail
- Retail is often required by the Cities
- Residential Developers typically don’t understand retail development requirements.
Why some of those spaces don’t ever get leased

**Design**
- Often the depths are too short for national/regional retailers to merchandise within.
- If there are large numbers of columns within the retail space, retailers often cannot merchandise around and produce an enjoyable, experiential retail experience.

**Signage**
- Need exposure for signage
- Sign criteria are often overlooked
Why some of those spaces don’t ever get leased

Parking

- Retailers need some parking for their customers.
- The parking must be visible to the customer and must be easily accessible.
- Retail’s entrance must be easy to access from the parking area.

Improper location for Retail Activity

- What does retail need to be successful?
  - Where two major roads intersect.
- Need to keep required retail inclusion in Mixed Use Projects at Retail Nodes or Activity Centers—not mid-block or on every project.
Part IV: Suggested criteria for future retail design in Mixed Use Projects
Suggested Criteria

• Do NOT require retail be built if the project is not at the intersection of two major roads.
• Require the design of the retail space have at least 55’ depths (but not deeper than 60’), and 16’ wide
• Require the Mixed Use developers to include venting for the retail spaces, so restaurants are able to consider the spaces for a new location.
Suggested Criteria

- Require the Mixed Use developers to install a grease trap for their retail spaces, so restaurants are able to consider the spaces for a new location.
- Require the retail space be designed with a ceiling clear height of at least 15’
- Require parking be provided of at least 2.5 stalls for every 1000 sf of retail space
- Require parking to be easily accessible to retail customers and easy to find.
- Require retail space have beams (within the space) be no more than 20’ from every other beam in all directions.
Questions?

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