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MEMORANDUM

To: Diana Pancholi, City of Mountain View

From: Sujata Srivastava, Strategic Economics

Date: January 23, 2020

Subject: 1001 N. Shoreline Retail Analysis

Introduction

The City of Mountain View has received a development application for a mixed-use residential and retail project at 1001 North Shoreline Boulevard ("the project site"), located on the northeast corner of North Shoreline Boulevard and Terra Bella Avenue in the Moffett/Whisman Planning Area. The area is home to many large corporate users, such as Google and Microsoft. The immediate uses surrounding the project site includes offices, public storage, and a fast food establishment. Currently occupying the southwest corner of the site is a recently completed 111,443 square foot office building. The development applicant, Sares Regis is proposing to construct two multi-family buildings on the remainder of the project site. The purpose of this memo is to assess the market opportunities and constraints for including approximately 3,000 square feet of ground-floor retail uses as part of the development project.

Demand for retail in the immediate area is influenced by broader shifts in the global retail industry. Americans continue to shop, but where and how they shop have impacts on the performance and location of existing and future brick-and-mortar businesses. Major trends that affect the demand for new retail space include the following:

- **The retail industry is growing and reorganizing.** In 2019, retail spending in the U.S. increased by four percent from the previous year. However, much of the growth is happening online rather than in brick-and-mortar stores. Nationwide, online sales account for an increasingly larger portion of total sales[1] and e-commerce continues to expand. E-commerce represented 14.3 percent of total retail sales in 2018 compared to 11.6 percent in 2016. Products sold online are no longer limited to books and music, but now also encompass a wide array of soft and hard goods, including: electronics, sporting goods, office supplies, toys, and apparel.
- **Given the rising influence of online shopping, the growth opportunities for stores are in experiential retail categories.** Food stores, restaurants, cafes, and bars are expanding. Existing shopping centers and malls, which are seeing an erosion in sales in department stores and conventional soft goods are re-tenanting their spaces and redeveloping their parking lots to add entertainment uses (bowling alleys, spas, salons) as well as adding restaurants, grocery

[1] https://www.digitalcommerce360.com/article/us-ecommerce-sales/

stores, and brew pubs. Many shopping centers are also integrating housing and office spaces into their redevelopment plans.

- **In addition to their typical location requirements, experiential retailers are also sensitive to the quality of the pedestrian environment for shoppers.** The fundamental factors that retailers consider continue to be the demographic profile of the surrounding area, traffic patterns, and site/ characteristics (ease of access, visibility, etc.). However, to remain competitive, retailers are also interested in creating a high-quality pedestrian experience, including streetscape/urban design and other "placemaking" components.

Within this larger context, this memo evaluates the potential for new retail at the project site, based on interviews with local real estate brokers, a review of competitive supply and proposed development, and consumer spending potential from residential and employment growth in the immediate area.

Various data sources were drawn for this analysis, including CoStar, the California Board of Equalization, the International Council of Shopping Centers, the American Community Survey 5-Year Estimates for 2011-2015, and the City of Mountain View.

Competitive Retail Supply

In order to understand the site's competitiveness for new retail development, Strategic Economics analyzed the supply of existing retail centers within three miles of 1001 N. Shoreline. Within this area, there is a wide range in the existing supply of retail centers. The retail center categories are summarized in Figure 1.

Large shopping centers, such as regional malls, power centers, and community centers, are regionally serving, drawing customers that live in large trade areas that can go beyond five miles in radius. Nationally, large regional malls and power centers are currently facing challenges with the decline of major department stores and "big box" stores. However, community centers, neighborhood retail centers and convenience retail centers, which are often anchored by grocery stores or drug stores, are experiencing growth. These types of centers have a smaller trade area of around three miles.

A map of the existing supply by the one and three-mile retail trade areas is shown in Figure 2. The following summarizes the conclusions regarding the project site's competitive position for retail.

- The project site is well served by existing retail centers. Within the one-mile trade area, there are two neighborhood centers both anchored by Safeway grocery stores. The nearest center is Bailey Park Plaza, located approximately 0.5 mile south, and Monta Loma Center is located about one mile west of the project site. Within the three-mile trade area, there are numerous community and neighborhood centers anchored by general merchandise and grocery stores, such as the Rengstorff Center and Charleston Plaza to the northeast and several centers along El Camino Real. There are also free-standing retail stores and services within walking distance (1 to 3 blocks), including one fast food establishment and several gas stations.
- The North Bayshore Precise Plan Area, located just directly north of Highway 101, will accommodate significant retail and services as the area develops over time from a suburban office location into a more vibrant district. Completed in November 2017, the Plan's Environmental Impact Report (EIR) allows for the development of 9,850 new residential units,

5.5 million square feet of office, and 130,000 square feet of restaurant/retail space.[2] Also located within the North Bayshore Precise Plan Area, Google's east campus expansion (currently under construction) envisions some retail and entertainment uses open to both employees and the public.[3]

[2] City of Mountain View. North Bayshore Precise Plan. Final Subsequent Environmental Impact Report. November 2017.

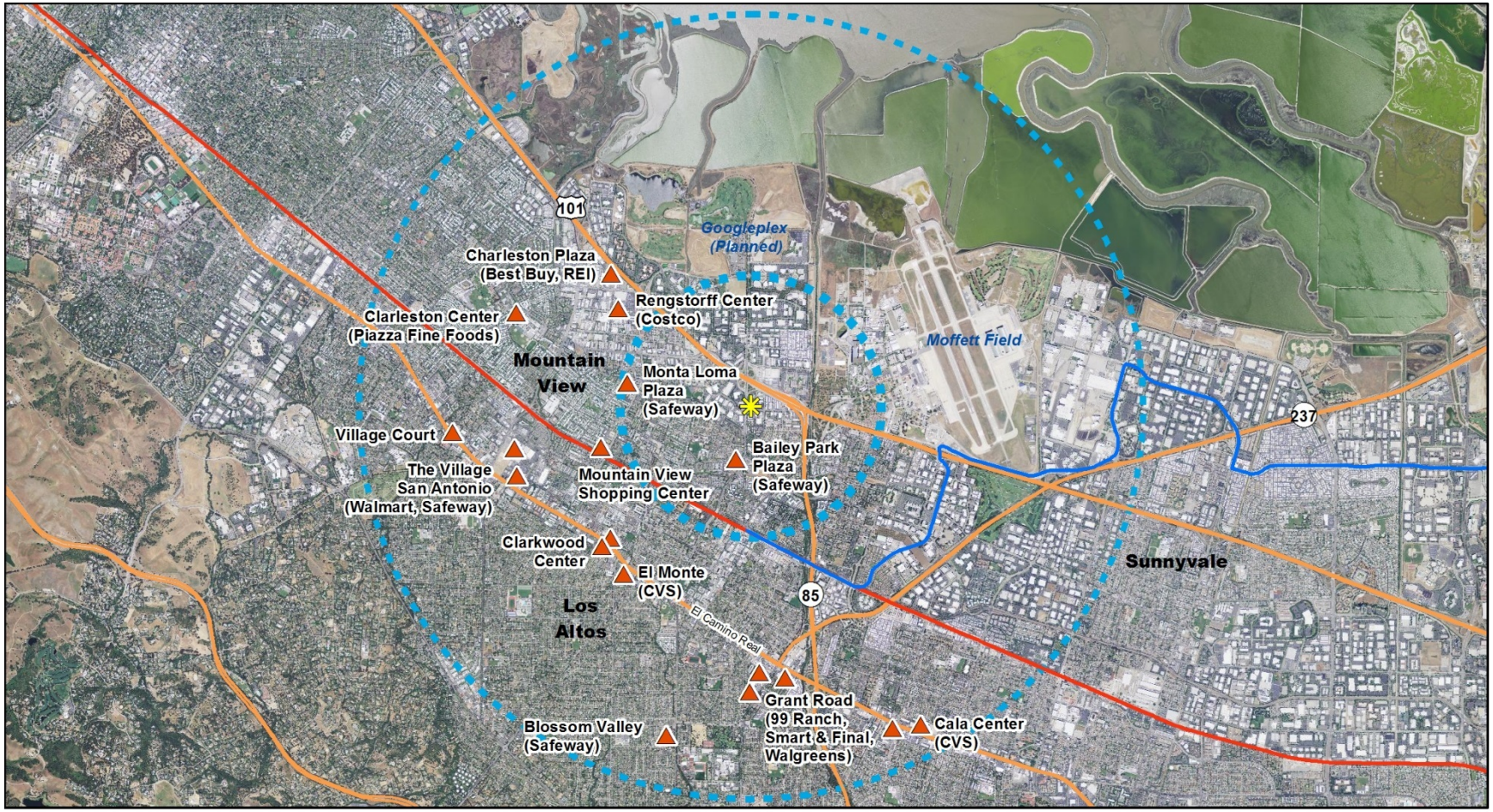
[3] "Mountain View Approves Google's Canopied Charleston East Campus." Design Boom. March 1, 2017. https://www.designboom.com/architecture/google-mountain-view-campus-update-california-bjarke-ingels-heatherwick-studio-03-01-2017/

FIGURE 1: TYPICAL U.S. SHOPPING CENTER TYPES AND CHARACTERISTICS

Type of Shopping Center	Typical Size (sf)	Acres	Typical Anchors	Trade Area Size/ Drive-time	Examples
Regional and Super Regional Malls	400,000 to 800,000	40 to 100	General merchandise or fashion-oriented anchors, may include department stores, mass merchants, and/or fashion apparel	5-15 miles/ 15-20 minutes	Westfield Valley Fair, Stanford Shopping Center
Power Centers	250,000 to 600,000	25 to 80	Category-dominant anchors, often in more than one freestanding structures, with only a few small tenants	5-10 miles/ 15-20 minutes	San Antonio Center, Rengstorff Center
Community Center	125,000 to 400,000	10 to 40	General merchandise or convenience-oriented anchors, may include discount stores, grocery stores, drug stores, and/or large specialty stores (home improvement/ furnishings, sporting goods, etc.)	3-6 miles/ 10-15 minutes	The Village at San Antonio
Neighborhood Center	30,000 to 125,000	3 to 5	Convenience-oriented, typically anchored by a grocery and/or drug store	3 miles/ 5-10 minutes	Bailey Park Plaza, Monta Loma Center
Strip or Convenience Center	Less than 30,000	Less than 3	Un-anchored, or anchored by a small convenience store (e.g. 7-Eleven)	<1 mile/ < 5 minutes	Alma Plaza, centers on El Camino Real

Sources: ICSC Research and CoStar; Strategic Economics, 2018.

FIGURE 2: 1001 NORTH SHORELINE BOULEVARD: COMPETITIVE RETAIL SUPPLY



Sources: Costar, 2017; Strategic Economics, 2018.

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Retail Broker Interviews

Strategic Economics conducted interviews with local retail brokers about the development potential for retail at the project site. Their observations are summarized below.

- According to brokers, the project site is not a desirable location for a new neighborhood shopping center. They cited North Shoreline Boulevard as a largely pass-through area for fast-travelling autos accessing Highway 101. In addition, the intersection lacks the traffic volume and high visibility required to support a new neighborhood center.
- There may be potential to attract smaller tenants like restaurants and cafes serving nearby office workers, and a small fitness center. Outdoor patios would provide a more welcoming environment and serve as additional amenity space. However, restaurants and fitness centers often have high parking requirements.
- Brokers expressed that the market for ground-floor retail is limited, and recommended no more than 5,000 square feet of retail on this site. Brokers estimated that new retail on the site would not attract spending from beyond the workers and households in the immediate neighborhood, given the existing supply of shopping centers in close proximity.
- The project site is not well-positioned to attract national tenants. Brokers cited that a lack of retail synergy, low traffic volumes, and parking accessibility would make retail development challenging for this location. In addition, given that the area would be relatively quiet in the middle of a weekday and on weekends, the site is not ideal for many retailers.
- The site's most prominent corner is currently occupied by a large office building. Future retail that would exist on the site would be located in a less visible location. However, brokers noted that retail fronting Shoreline Boulevard would be preferable to Terra Bella Avenue, which has much lower traffic volumes.
- Mixed-use developments are challenging in areas that are not seen as walkable or well-connected. Strong retail streets in Downtown Mountain View and along El Camino Real create synergy between retail centers and provide high visibility and auto access.
- Ground-floor retail projects are challenging to lease, and many remain vacant, even in Downtown San Francisco, San Jose, and Oakland. Attracting tenants to ground-floor spaces of residential or office buildings require many considerations, such as parking access, foot traffic, visibility, rent and operating costs, and the design and efficiency of the space itself.

Retail Demand Estimate

Based on the assessment of the existing retail supply and interviews with brokers, the report concludes that the site can only support a small increment of retail, which would be based on capturing spending from new residential and employment growth within close proximity of the project.

This section contains retail demand estimates for new residential and employment growth within a one-mile radius of the project site, which will be referred to as the Primary Trade Area. Because any new retail is expected to be dependent on local employee and resident spending, these estimates are based on growth within the immediate surroundings. The section begins with a description of the methodology for the analysis, followed by a summary of key findings.

METHODOLOGY

This section describes the methodology to estimate new retail demand generated from growth in households and jobs within the Primary Trade Area. Figure 3 summarizes the projected growth between 2015 to 2020 for households and employment within the Primary Trade Area using "Low Growth" and "High Growth" scenarios. The 2030 City of Mountain View General Plan served as the basis for the "Low Growth" scenario using the growth projections for the Moffett/Whisman and Monta Loma/Farley/Rock Planning Areas, which the Primary Trade Area encompasses. The "Low Growth" scenario is based on a conservative growth rate adopted in the Plan, while the "High Growth" scenario uses a slightly higher growth rate (Table 2).

Based on feedback from brokers about the types of retailers that are most suitable for the area and shifts in retail demand primarily driven by convenience-oriented stores and food-related establishments, Strategic Economics estimates retail demand for convenience retail categories, such as grocery stores (Food and Beverage Stores), restaurants (Food Services and Drinking Places), and convenience retail (General Merchandise Stores).

FIGURE 3: LOW AND HIGH GROWTH SCENARIO: PRIMARY TRADE AREA, 2015-2020

Baseline Households and Employment (2015)		
Households	9,140	
Employment	18,173	
	Low Growth Scenario	**High Growth Scenario**
Compounded Annual Growth Rate		
Households	0.7%	1.0%
Employment	1.2%	1.5%
Years	5	5
Projected Growth (2020)		
New Households	9,446	9,606
Total Net New	306	466
New Employment	19,318	19,577
Total Net New	1,145	1,404

Sources: Missouri Census Data Center/ACS 5-Year Estimates, 2011-2015; U.S. Census Longitudinal Employer-Household Dynamics, 2015; City of Mountain View 2030 General Plan, 2012; Strategic Economics, 2018.

RESIDENT SPENDING AND DEMAND FOR RETAIL AND RESTAURANTS

In order to project demand for new retail in the Primary Trade Area by new residents, Strategic Economics used a 4-step methodology, described below and summarizes in Figure 4 and Figure 5.

1. **Define Primary Trade Area.** Based on the conclusions of the competitive supply analysis and broker interviews, the greatest potential for new retail development is a smaller convenience center, which draws customers from within a one-mile trade area. The Primary Trade Area is therefore defined as the one-mile radius around 1001 North Shoreline Boulevard, as illustrated in Figure 2.
2. **Estimate per household spending potential in the Primary Trade Area.** Strategic Economics (SE) first analyzed the total taxable retail sales in stores located in City of Mountain in 2015, the most recent year for which this data is available. SE then applied assumptions about the percent of sales in each category that is taxable to derive an estimate of total retail spending in Mountain View for convenience retail categories, which include Food and Beverage Stores, Food Services and Drinking Places, and General Merchandise. SE then divided estimated total retail store sales by the number of households in Mountain View to arrive at per household retail spending figures (Figure 4).
3. **Estimate additional retail sales from new households using Low and High Growth scenarios for 2015 to 2020.** The "Low Growth" scenario is based on a conservative population growth rate adopted in the 2030 General Plan for the combined Moffett/Whisman and Monta Loma/Farley/Rock Planning Areas[4], which the Primary Trade Area encompasses. The "High Growth" scenario uses a slightly higher growth rate. The steps are shown in Figure 5.
4. **Estimate demand for retail space.** The estimated additional retail demand was divided by average sales per square foot in each category to determine the estimated demand for new retail square feet. The results are described in Figure 5.

[4] Since the household growth rate was not provided in the Plan, the Plan's population growth rate was used.

FIGURE 4: CALCULATION OF RETAIL SPENDING POTENTIAL PER HOUSEHOLD

	Taxable Sales	% Taxable	Estimated Retail Sales	Per Household Sales
Retail Categories				
Food Services and Drinking Places	$380,651,667	100%	$380,651,667	$11,636
Food and Beverage Stores	$76,761,943	25%	$307,047,774	$9,386
General Merchandise Stores	$186,466,306	75%	$248,621,741	$7,600
Total	**$643,879,916**		**$936,321,182**	**$28,621**

Note: Inflation adjusted to 2018 dollars.
Sources: California Board of Equalization, 2015; Missouri Census Data Center/American Community Survey 5-Year Estimates, 2011-2015; Strategic Economics, 2018.

FIGURE 5: PROJECTED DEMAND FOR NEW RETAIL IN THE PRIMARY TRADE AREA BY NEW HOUSEHOLDS, 2015-2020

		Household Growth		Total New Spending Potential			Estimated Demand for New Retail Sq. Ft.	
Retail Category	Annual Household Spending	Low	High	Low	High	Average Sales Per Sq. Ft. Assumption	Low	High
Food Services and Drinking Places	$11,636	306	466	$3,565,859	$5,424,954	$350	10,188	15,500
Food and Beverage Stores	$9,386	306	466	$2,876,355	$4,375,969	$500	5,753	8,752
General Merchandise Stores	$7,600	306	466	$2,329,033	$3,543,296	$300	7,763	11,811
Total	**$28,621**			**$8,771,246**	**$13,344,219**		**23,704**	**36,063**

Note: Inflation adjusted to 2018 dollars.
Sources: California Board of Equalization, 2015; Missouri Census Data Center/American Community Survey 5-Year Estimates, 2011-2015; City of Mountain View 2030 General Plan, 2012; Strategic Economics, 2018.

EMPLOYEE SPENDING AND DEMAND FOR RETAIL AND RESTAURANTS

In order to project demand for new retail in the Primary Trade Area from new employees, Strategic Economics followed a 4-step methodology, described below and summarized in Figure 6 and Figure 7. This estimate is based on projected employment growth within the Primary Trade Area, because any new retail is expected to primarily serve the workers in the immediate area.

1. **Estimate annual per capita working spending.** Based on survey data collected by the International Council of Shopping Centers, Strategic Economics (SE) estimated weekly spending per worker in key categories. These figures represent weekly expenditures for goods and services by typical office workers that occurred in or around their office building. Weekly spending per worker in 2012 was then adjusted for inflation to estimate weekly spending per worker in 2018. Finally, weekly spending per worker was multiplied by 50 to estimate annual spending per worker, based on a 50-week work year (Figure 6).
2. **Estimate employment growth in the Primary Trade Area for 2015 to 2020.** For the "Low Growth" scenario, employment growth is projected based on the growth rate for the combined Moffett/Whisman and Monta Loma/Farley/Rock Planning Areas[5], which the Primary Trade Area encompasses. The "High Growth" scenario is based on a slightly higher growth rate. The steps are shown in Figure 7.
3. **Calculate retail demand generated by new employees.** SE multiplied annual worker spending by the estimated employment growth to calculate the retail spending from new employees.
4. **Estimate potential demand for retail space.** The estimated growth in retail sales due to new employees was divided by average sales per square foot to estimate the demand for new retail square feet by new employees. The results are shown in Figure 7.

[5] City of Mountain View 2030 General Plan (2012).

FIGURE 6: ANNUAL SPENDING PER WORKER

Retail Categories	Weekly Spending Per Worker (2012$)	Weekly Spending Per Worker (2018$)	Annual Spending Per Worker(a)
Food Services and Drinking Places	$29	$31	$1,544
Food and Beverage Stores	$22	$23	$1,155
General Merchandise Stores	$21	$22	$1,111
Total	**$71**	**$76**	**$3,810**

(a) Assumes 50 work weeks in a year
Sources: ICSC Research, 2012; Strategic Economics, 2018.

FIGURE 7: PROJECTED DEMAND FOR NEW RETAIL IN THE PRIMARY TRADE AREA BY NEW WORKERS, 2015-2020

Retail Category	New Households		New Employment		Total Retail Demand Potential		Site Capture (10%)	
	Low	High	Low	High	Low	High	Low	High
Food Services and Drinking Places	10,188	15,500	5,052	6,196	15,240	21,696	1,524	2,170
Food and Beverage Stores	5,753	8,752	2,644	3,243	8,397	11,995	840	1,199
General Merchandise Stores	7,763	11,811	4,242	5,202	12,005	17,013	1,200	1,701
Total	**23,704**	**36,063**	**11,937**	**14,641**	**35,642**	**50,704**	**3,564**	**5,070**

Sources: ICSC Research, 2012; City of Mountain View 2030 General Plan, 2012; Strategic Economics, 2018.

FIGURE 8: SUMMARY OF ESTIMATED RETAIL DEMAND FROM HOUSEHOLDS AND WORKERS

Retail Category	New Households		New Employment		Total Retail Demand Potential		Site Capture (10%)	
	Low	High	Low	High	Low	High	Low	High
Food Services and Drinking Places	10,188	15,500	5,052	6,196	15,240	21,696	1,524	2,170
Food and Beverage Stores	5,753	8,752	2,644	3,243	8,397	11,995	840	1,199
General Merchandise Stores	7,763	11,811	4,242	5,202	12,005	17,013	1,200	1,701
Total	**23,704**	**36,063**	**11,937**	**14,641**	**35,642**	**50,704**	**3,564**	**5,070**

Sources: ICSC Research, 2012; City of Mountain View 2030 General Plan, 2012; Strategic Economics, 2018.

CONCLUSIONS ON DEMAND FOR NEW RETAIL SPACE

This section discusses the results of the retail demand estimates, including the amount of space that would be required to meet demand for new retail based on household and employment growth. Strategic Economics estimated that the retail on the site could capture up to 10 percent of new spending. This conservative capture rate is based on the observations from retail brokers that this site is not a very competitive location for retail, and that there is an existing supply of retail shopping centers within the one-mile and three-mile trade areas. Figure 8 describes the results of this analysis.

- New households and employment are expected to generate demand for 35,600 to 50,700 square feet of retail space in the Primary Trade Area from 2015 and 2020. This estimate represents the potential demand from new households and employees only, and does not include demand from existing households and workers, or account for the existing retail supply in the Primary Trade Area.
- The project site's capture of new retail space would likely support between 3,500 and 5,000 square feet of new retail, based on the assumption that 10 percent of the new retail demand would be captured by new retail stores on the project site. As the competitive supply map shows (Figure 2), the one and three-mile radius of the site is currently well-served by neighborhood and community centers anchored by grocery stores and general merchandise stores. Brokers interviewed for this analysis also noted that no more than 5,000 square feet of retail would be supported on this site. Likely tenants are small restaurants, cafes, and/or service stores.