COUNCIL AGENDA: 10/16/07
ITEM: 4.2

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Nadine N. Nader

SUBJECT: **SEE BELOW**

DATE: September 24, 2007

Approved Deanna Santana Date 9/25/07

SUBJECT: SAN JOSÉ RETAIL STRATEGY [Community and Economic Development Committee referral 9/24/07 – Item (e)]

On September 24, 2007 staff presented a report on the San José Retail Strategy to the Community and Economic Development Committee.

Councilmember Campos motioned to accept the staff report, Councilmember Liccardo seconded the motion. Attached you will find the report that was presented to the Community and Economic Development Committee.

Mishell Dinsey
for NADINE N. NADER
Agenda Services Manager

Attachment

COMMITTEE AGENDA: 9/24/07
ITEM: 4e

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE

FROM: Paul Krutko

SUBJECT: SAN JOSE RETAIL STRATEGY

DATE: September 6, 2007

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

1) Recommend that the City Council:

   a) Adopt the list of recommended sites listed below as suitable for retail development; and,

   b) Direct Staff to initiate General Plan, CEQA, EIR and other entitlement efforts to prepare the sites for retail development; and,

   c) Direct Staff to bring forward funding proposals for Council consideration for activities identified in b.

Proposed Sites:	**Assessor's Parcel Numbers (APN)**
Airport West	230-46-055, 230-46-062, 230-46-063, 230-46-060
America Center	015-45-030, 015-45-027, 015-45-025, 015-45-028
Arcadia at Airport	230-46-068
Arcadia at 85	458-17-018, 458-16-032, 458-16-035, 458-17-006, 458-17-118
Berryessa & Capitol	245-05-017
Capitol Drive-In	462-18-007
Cisco at 237	015-39-046
Creekside (Ridder Park)	237-05-053
Arcadia at Evergreen*	670-29-017, 670-29-020
Carr Site 1060 Rincon Cir*	237-10-236, 237-10-237
Devcon Ct./Peery Ariega*	237-16-072, 237-16-073
Dollinger (Oakland and Brokaw)	237-03-046, 237-30-048
Moitozo*	097-07-068
Zanker*	097-04-020

OUTCOME

Based on Committee approval of the report and recommendation to the Council that funds be allocated to support CEQA and Planning application expenses, staff will proceed with preparing the sites identified for retail development. Staff has already discussed potential retail development with most of the property owners represented. Additional work will include further meetings with property owners, completing requisite planning processes and marketing the sites to the development community.

BACKGROUND

In February 2007, Council held a priority setting and strategic planning study session with staff. Two strategic objectives which directed Staff to identify likely retail sites and evaluate the benefits of allocating additional resources to encourage the development of those sites were identified to help eliminate the structural budget deficit and increase economic vitality.

On March 20, 2007, Council approved the Mayor's March Budget Message which included items to increase retail sales tax and eliminate the structural deficit. The approval directed that potential sites for retail development be presented to the City Council and the opportunities and resources be identified to make it easier for major retailers to get through the approval process.

ANALYSIS

The City faces financial and jobs issues associated with the lack of sufficient retail within San José. The single best way to speed the development of substantial sales tax generating projects is to have large sites that are ready for development.

Retail Leakage – Revenue and Jobs implications

In 2004, a study of spending in San José revealed that retail leakage to other surrounding cities represented a reduction in expected consumer expenditures by 24%. While this figure has eased by significant square footage increases at major San José shopping centers to roughly 18%, the Association of Bay Area Governments' projected employment and resident growth figures suggest that San José's under-retailing may increase without intervention. With an estimated 350,000 new residents requiring additional City services in San Jose by 2030, the potential for retail leakage rising to as much as 30% raises significant General Fund implications.

Even at present, with total taxable retail sales of $10 billion, an 18% under retailing loss represents $1.8 billion in taxable sales and $18 million in lost revenue that could be used to offset on-going City deficits.

Centers with major "anchor" tenants generate nearly 10 times the revenue of neighborhood retail centers ($70K per acre per year versus $7.9K) and would therefore be more effective in addressing lost revenue. A key factor to the success of larger sites is the presence of a large destination retailer that draws shoppers thus "anchoring" the shopping center. Smaller retailers

surrounding the anchor store benefit from the volume and reinforce the center's appeal, creating synergies. Examples of typical anchors that might locate at the proposed sites include companies such as Bed, Bath and Beyond; Circuit City; Target and Home Depot.

The development sites proposed below are estimated to have a potential for revenue generation of roughly $15 million.

The development of retail sites also represents a significant opportunity for job creation. Such jobs would provide alternative employment opportunities for San José residents' diverse needs. In addition to providing entry-level and part-time positions for those seeking them, some less well-documented advantages of retail positions are that they provide career ladders for those with limited education and include better than perceived, full-time positions.

Preparing Sites for Development

The single best way to speed retail development, and thereby address jobs and revenue issues, is to help ensure that good retail sites are identified as such and that barriers to their development are lowered as much as possible. Among these barriers are the potential need to change the General Plan designation, through which the City identifies its long-term vision and the time required to go through the environmental review and entitlement processes, which stipulate the kind of development allowed particularly with regard to environmental impacts such as traffic. These approval processes, particularly if a General Plan Amendment is necessary, can require up to 24 months to complete.

Entitling larger retail sites has key advantages, including the increased likelihood of more timely development. Major retail sites take many years to move from concept to reality and the most readily available sites, identified later in this analysis, will have development issues. In addition, staff and property owner promotion of these locations will be easier if the sites have been vetted by the City as good sites for retail, lowering the level of uncertainty for potential developers.

Costs and Benefits of Preparing Sites

In order to prepare these sites for speedy development, the benefits of moving them through processes, such as General Plan and zoning amendment and the creation of any necessary Environmental Impact Reports, significantly outweighs the costs of such preparation. Upon build out, even the smallest of these sites is expected to generate nearly half a million dollars per year in sales tax revenue.

Staff is developing preliminary cost estimates for the work described within the memo. Prior to a request to Council for funding, Staff will complete an analysis of the anticipated costs of preparing the sites.

Potential Retail Sites

The sites listed in the following table represent a collection of the sites Staff believes have the best potential as retail developments. The Office of Economic Development, Redevelopment

Agency and the Department of Planning, Building and Code Enforcement reviewed existing sites for visibility from major roads, accessibility and limited impact on surrounding uses. While there are no "easy sites" left, Staff is committed to working creatively with the development community to resolve issues related to the development of the sites selected.

The number of additional sites that may be identified in the future by Staff or by private developers is likely to be very limited. Sites of adequate size are difficult to assemble in San José and competing uses, particularly housing, can pay significantly more for the land than retail uses can.

#	Potential Sites for Retail	Acreage Retail	Acreage Total	Est. Sq. Ft.	General Plan	Zoning
1	Airport West	7.0	23.3	72,000	CIC	A(PD)
2	America Center	10.0	43.0	88,300	CIC	A(PD)
3	Arcadia at Airport	25.7	20.6	391,822	CIC	A(PD)
4	Arcadia at 85	6.0	43.5	91,476	GC	A(PD)
5	Berryessa & Capitol	9.2	9.2	139,806	GC	GC
6	Capitol Drive-In	33.2	33.2	506,167	CIC	A(PD)
7	Cisco at 237	13.3	13.3	202,772	CIC	A(PD)
8	Creekside (Ridder Park)	13.0	17.3	198,198	CIC	IP
9	Arcadia at Evergreen*	15	42.1	228,690	IP/MLDR	R-1-8
10	Carr Site 1060 Rincon Cir*	8.5	8.5	129,591	IP	IP
11	Devcon Ct./Peery Ariega*	20.0	16.8	304,920	IP w/ MIO	IP
12	Dollinger (Oakland and Brokaw)*	15.0	15.0	228,690	IP	IP, HI/LI, HI
13	Moitozo*	8.0	33.6	88,000	TCR 20+	A(PD)
14	Zanker*	15.0	54.1	228,690	PQP	IP
	TOTALS	198.9	285.8	2,899,122		

* Retail development of these sites would require land-use conversion

The sites identified with asterisks are those that would require conversion from their existing General Plan designation. The potential for such conversions may be affected by the adoption of a proposed Employment Lands Preservation Framework which is anticipated to be considered by Council in October.

Even if approved by Council for retail use, many of these sites may take years to begin development. For example, in the case of the Moitozo site, the family is expected to continue agricultural uses for the foreseeable future. Other property owners may seek to convince future City leaders to allow conversion of the properties to housing, which might bring a higher return to the owners upon sale than if sold for retail.

Retail development is challenging and to encourage faster development of retail sites, the City needs to be more creative in partnering with the private sector. Moving forward Staff-initiated General Plan amendments and CEQA approvals to facilitate potential retail projects in appropriate areas is a proactive step the City can take to demonstrably reduce the time it takes to activate retail sites. These steps will also signal to the development community that San José is

serious about the retail potential of these sites. Staff will continue to work with the property owners of appropriately entitled sites. Additional efforts will be made to link prospective developers and tenants with those property owners.

EVALUATION AND FOLLOW-UP

Upcoming Council consideration and approval of proposed General Plan amendments and land use entitlements is a critical component to this strategy.

Staff will return periodically with reviews of the progress of these initiatives as warranted. These updates will include the number of sites developed and the expected or actual revenue generated.

Even for those sites that may ultimately be prepared for retail development by undertaking the steps described above, the actual development of these sites will take many years. A typical retail project can take between two and four years before completion and with the significant challenges presented by these sites, the timeframe may be significantly longer.

POLICY ALTERNATIVES

Alternative #: *Continue work on only those sites which require conversion.*
Pros: Limited amount of targeted work.
Cons: Limits the number of sites for potential development.
Reason for not recommending: The City faces ongoing budget deficits. Limiting the number of potential development sites reduces the potential for revenue generation.

PUBLIC OUTREACH/INTEREST

- ❑ **Criterion 1**: Requires Council action on the use of public funds equal to $1 million or greater.
  (Required: Website Posting)
- ❑ **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- ❑ **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

Further outreach to property owners of the proposed sites will be undertaken to solicit input to the process if this approach is accepted by Council. The public outreach associated with any General Plan amendments or CEQA documents also will allow for additional comment. Such public outreach will be conducted in accordance with the City Council Outreach Policy.

While this memo does not meet the $1 million threshold in Criterion 1, this memo will be posted on the City's website for the September 24, 2007 Community and Economic Development Committee agenda.

COORDINATION

This memo has been coordinated with the Planning, Building and Code Enforcement department, the Attorney's Office and Budget Office.

FISCAL/POLICY ALIGNMENT

The proposed development strategy is consistent with the Economic Development Strategy's 13th initiative: "Develop Retail to Full Potential, maximizing Revenue Impact and Neighborhood Livability."

COST SUMMARY/IMPLICATIONS

Staff will provide an analysis of the costs in a supplemental memo prior to making request to Council for funding.

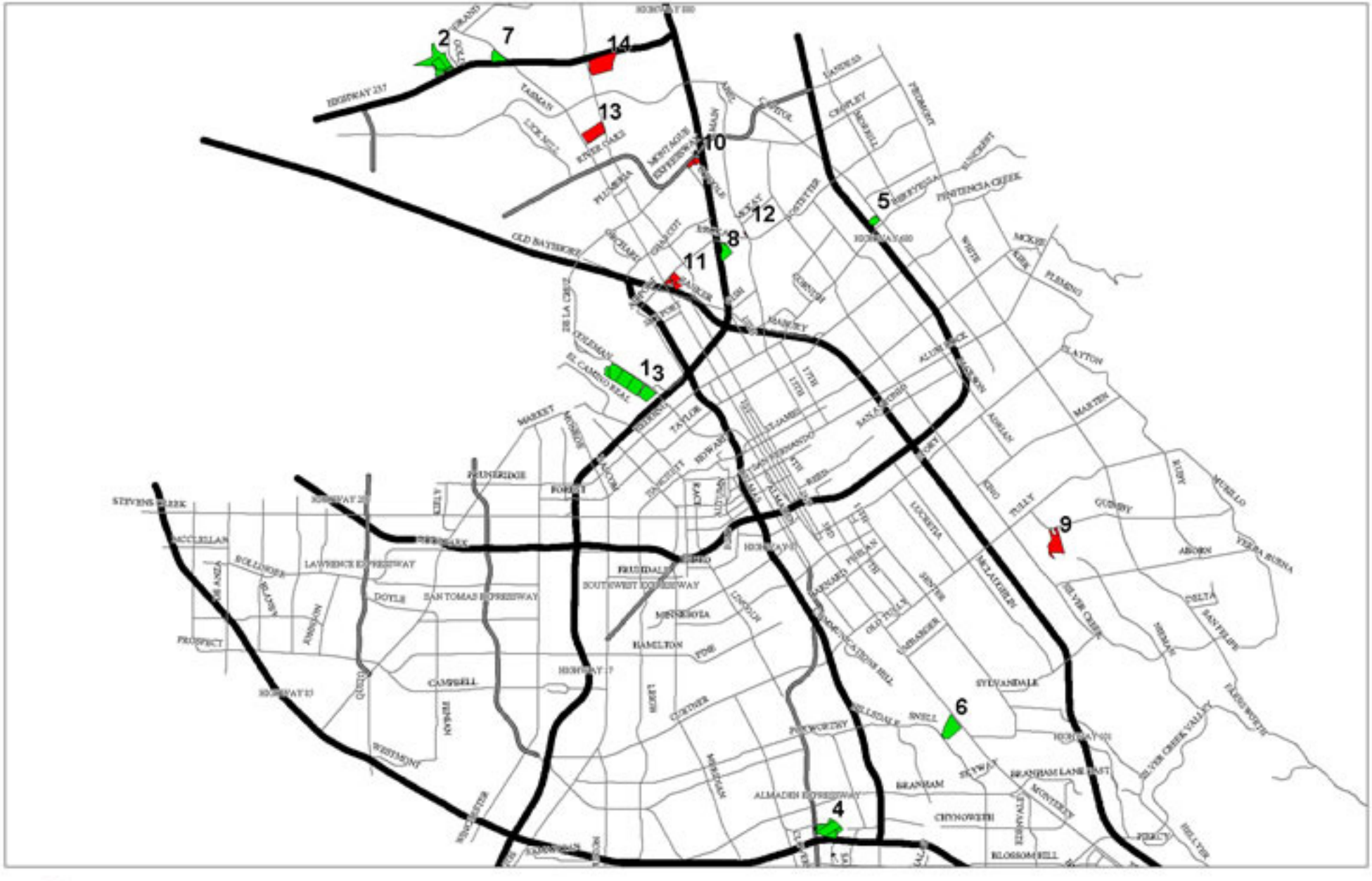
CEQA

CEQA: Not a Project.

PAUL KRUTKO
Chief Development Officer

For questions please contact:
Nanci Klein, Manager of Corporate Outreach, Office of Economic Development at 535-8184.

Potential Retail Sites



Framework Implications

General Plan Consistent with Retail Use