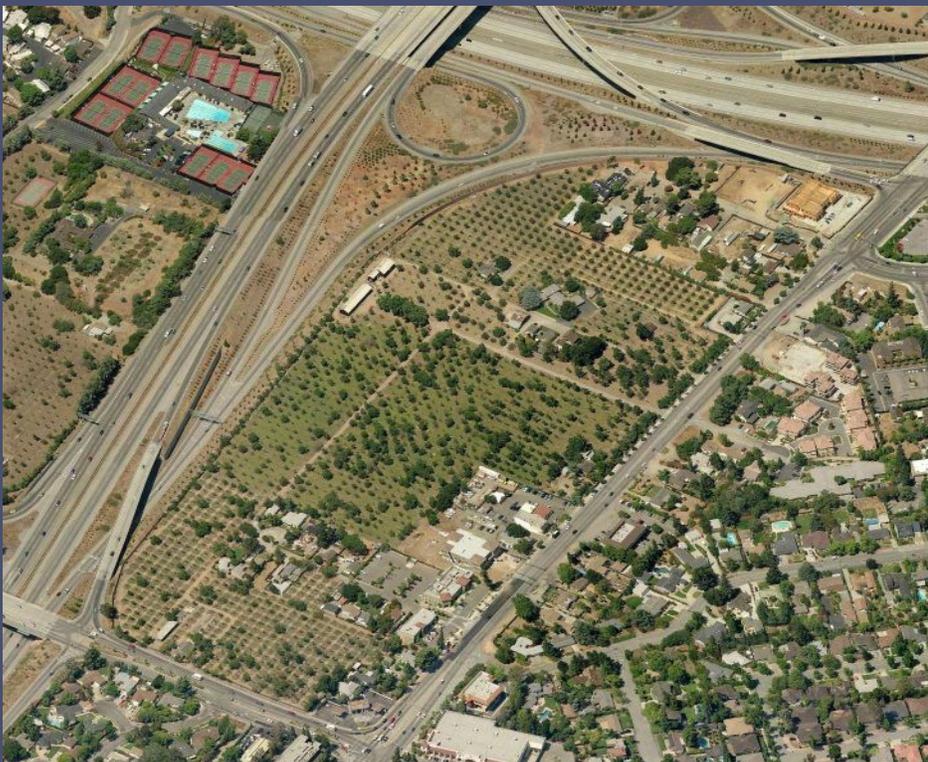


Market Study & Business Opportunities Assessment

Town of Los Gatos

Submitted by BAE Urban Economics
August 12, 2011



bae urban economics

August 12, 2011

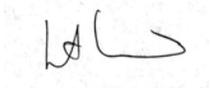
Ms. Jessica von Borck
Economic Vitality Manager
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Dear Ms. Von Borck:

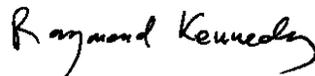
On behalf of BAE Urban Economics, Inc., we are pleased to submit the enclosed North 40 Market Study and Business Development Strategy for the Town of Los Gatos pursuant to Purchase Order Contract #20110317.

We have enjoyed working with you and your staff colleagues as well as the North 40 Advisory Committee, Planning Commission, and Town Council on this exciting opportunity to enhance the Town's economic vitality through the development of the North 40 Specific Plan area.

Sincerely,



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Principal



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Table of Contents

Executive Summary	1
Site Description and Location	1
Demographic and Economic Overview	1
Retail Market Assessment.....	2
Office Market Assessment	6
Hotel Market Assessment	7
Conference/Meeting Space Market Assessment	8
Strategies for North 40 Development.....	8
Site Description	13
Site Location.....	15
Demographic Overview	19
Definition of Retail Trade Area vs. Market Area.....	19
Population and Household Trends	24
Household Characteristics.....	26
Employment Trends.....	28
Retail Market Assessment: Existing Retail Real Estate Conditions.....	33
Retail Real Estate Market Conditions	33
Overview of Los Gatos and Retail Trade Area Retail Nodes	34
Retail Market Assessment: Sales and Leakage Analysis.....	45
Estimated Retail Sales in Los Gatos and the RTA by Major Retail Category	45
Retail Sales by Major Retail Category in Los Gatos, Santa Clara County, and California	49
Los Gatos Taxable Retail Sales by District.....	54
Leakage and Injection Analysis for Los Gatos and the Retail Trade Area (RTA).....	59
Retail Market Assessment: Summary	71
Existing Conditions	71
Leakage and Injection Analysis	74
Potential for New Retail Development in Los Gatos	75
Office Market Assessment	77
Office Inventory	77
Office Market Trends.....	77
Office Employment Trends.....	80
Office Demand Analysis	82

Hotel Market Assessment.....	89
Existing Supply	89
Planned and Proposed Competition	91
Performance Trends	93
Meeting Space Market Assessment	97
Hotel Meeting Space	97
Day-Use Meeting Facilities.....	102
Demand from Major Employers	107
Opportunities & Strategies for Development	109
Overview	109
Retail Development Opportunities.....	110
Retail Development Strategies	114
Office Development Opportunities	116
Hotel Development Opportunities	118
Conference and Meeting Space Development Opportunities	119
Prioritizing Opportunities.....	121
Appendices	125

Executive Summary

Site Description and Location

The North 40 site is a highly strategic location in the West Valley for new commercial development:

- The North 40 site is located at the intersection of Highways 85 and 17, making it a highly visible and desirable location for a variety of uses, particularly for retail, hotel, and meeting/conference facilities.
- The North 40's location at the crossroads of the West Valley's freeway system makes it easily accessible to many of the region's major hubs of activity, including major employers such as Apple Computer, Netflix, and cultural attractions in downtown San Jose.

Demographic and Economic Overview

While Los Gatos itself is a small community, the Town and the Retail Trade Area (RTA) that it is situated in have a significant concentration of high-income households and high rates of homeownership that retailers and hotel operators will likely find attractive –despite modest future population and household growth:

- The Town of Los Gatos had a population of 29,413 in 2010 and experienced limited population or household growth in the last decade.
- Los Gatos is characterized by relatively small households, a high rate of home ownership, and high incomes. The median household size for Los Gatos was 2.35 persons per household in 2010 compared to the Bay Area average household size of 2.69. The Town's median annual household income is over \$115,000, significantly higher than the \$79,000 figure for the Bay Area. Approximately 63 percent of occupied housing units are owner-occupied, in contrast to just over 56 percent for the Bay Area.
- While not at the levels of the Town, the Retail Trade Area (RTA) with a 2010 population of 606,000 also has high incomes and high rates of home ownership. The median household income was just over \$94,000 in 2010. The RTA's homeownership rate was 61 percent of occupied housing units. The RTA represents population and buying power within a 10 minute drive of the North 40 site.
- Both Los Gatos and the Retail Trade Area will experience modest population growth from 2010 to 2020. Based on the Town's recently adopted General Plan, the Town is

slated to add approximately 3,200 residents over the decade, based in part on the potential for new housing at the North 40 site. Future residential development opportunities in the Town and the RTA will largely be infill on sites such as the North 40.

Despite a commute pattern of more residents commuting out of the RTA than others commuting in, there are nearly 100,000 workers commuting into the RTA every day who most likely patronize local retailers and service providers. The North 40 site benefits from the proximity of major employers in the adjacent Good Samaritan Hospital and other medical facilities –these employees may be target market for new retail:

- Los Gatos and the RTA function as a bedroom residential community in Silicon Valley with more residents commuting out every day for work (186,900) than commute in (98,300).
- Good Samaritan hospital is two minute drive from the North 40 site, employs 1,800 people and generates 88,000 patient days annually.
- Columbia Health Care/Mission Oaks Hospital is a three minute drive from the North 40 and employs 2,000 people.

Retail Market Assessment

Los Gatos has a very strong retail sector with a diverse mix of retailers:

- Retail sales for the Town for 2008 are estimated at approximately \$838 million. The three largest categories by sales volume are motor vehicle and parts dealers at 30 percent, food and beverage stores at 23 percent, and food services and drinking places at 15 percent. The proportion of the Town's total retail sales in motor vehicle and food store sales are very high, although motor vehicle sales have declined since 2008.
- On a per capita basis, retail sales in Los Gatos are quite high, at \$28,653 annually compared to less than \$14,000 annually for the RTA; the only sectors lagging the RTA in per capita sales are the building materials group and general merchandise stores.
- The Town is unusual in that it also attracts shoppers for everyday items such as groceries, due in part to the location of supermarkets and drugstores near the edges of Town and in part due to the lack of shopping in Monte Sereno, Saratoga and other nearby unincorporated areas.

- Long-term declines in retail sales in Los Gatos over the last decade have been related largely to the decline in the automotive sector. In 2010, taxable motor vehicle sales in the Town were only 21 percent of 2000 levels after adjusting for inflation.
- With its high per capita sales levels, Los Gatos shows injections of sales in most major retail categories, indicating attraction of shoppers from outside the Town.
- The Town is unusual in that it also attracts shoppers for everyday items such as groceries, due in part to the location of supermarkets and drugstores near the edges of Town and in part due to the lack of retail in Monte Sereno, Saratoga and other nearby unincorporated areas.
- Injections are also high for motor vehicle and parts dealers and food services (which includes restaurants). Two categories, building materials and general merchandise stores, stand out for their substantial leakages.
- The Town’s primary retail areas are the Downtown, Los Gatos Boulevard and the four neighborhood centers. These areas combined make up 59 percent of all Los Gatos retail outlets but generate 88 percent of the Town’s taxable retail sales.

Los Gatos’ Downtown, while impacted by regional and national economic trends, has remained a strong regional retail destination, attracting shoppers from outside the Town.

- Downtown is seen as a retail destination, drawing shoppers from Los Gatos as well as other nearby communities. Downtown is also a tourist destination, with out-of-townners coming to experience the small town and pedestrian-friendly ambience. In 2010, Downtown Los Gatos generated approximately \$209 million in taxable retail sales, or over 50 percent of the Town’s total taxable retail sales, confirming its significance as a shopping destination and as a tax generator for the Town.
- On an inflation-adjusted basis, this sales level has declined from taxable sales of \$225 million in 2008, but has rebounded from \$198 million in 2009. This recent uptick is due in part to increasing sales at the Apple Store.
- The Downtown Core area accounts for nearly three-quarters of all businesses in the Downtown. The largest concentrations are in apparel, eating and drinking, and other retail, which includes various types of specialty retail outlets such as sporting goods, toy, and books/stationery stores. The Core is characterized by smaller floor plates, and because of the formula retail ordinance as well as the limited number of larger store spaces available, the Core contains few chain retailers.

- Formula retail, while restricted in the Downtown Core, nevertheless accounts for a significant proportion of taxable retail sales. In 2010, stores designated as formula retail in the Downtown Core provided over 30 percent of taxable retail sales in the area, while making up only 11 percent of the retail outlets (excluding food-related retail and service stations). Excluding these same outlets, (not subject to the formula retail ordinance), formula retailers account for over half of the taxable retail sales in the Downtown Core.

Los Gatos Boulevard is a mix of community shopping centers anchored by supermarkets, auto dealers and related businesses, and free-standing retail outlets.

- The four larger shopping centers are all anchored by supermarkets, in a cluster that serves Los Gatos and nearby areas of Campbell and San Jose. The high proportion of supermarkets indicates the area is a shopping destination for food items.
- Los Gatos Boulevard had taxable retail sales of approximately \$152 million in 2010, a steep decline from earlier years resulting largely from decreasing sales in the automotive sector.

The neighborhood centers are largely occupied by local-serving retailers providing everyday convenience goods and services.

- Los Gatos has four major neighborhood centers: Rinconada Center, Downing Center, Walgreens Square, and Vasona Station.
- These neighborhood centers are all located at or near the Town boundaries, thus attracting shoppers from outside the Town since they represent the closest grocery or drug store shopping. These centers combined accounted for a much smaller proportion of retail sales than Downtown or Los Gatos Boulevard.

The Retail Trade Area contains a large mix and variety of regional retail shopping destinations which will be competitive with any region-serving retail at the North 40.

- The RTA's retail sales for 2008 are estimated at approximately \$8.4 billion, about 10 times the sales in Los Gatos alone. The RTA's levels of per capita retail sales are only about half the levels for the Town.
- Levels of leakages and injections appear to be much lower on a per capita basis, indicating a relative balance between retail sales and resident expenditures in most categories.

The Town may be able to enhance its retail base in a range of retail types.

- Along with general merchandise stores and home improvement centers, specific store types that appear to be lacking in sales in the Town include appliance stores, and specialty food stores such as meat markets, fish and seafood markets, and produce markets. The sales injections for clothing and clothing accessories stores reflects an overall strength, but the apparel stores in the Town tend to be high-end stores, not necessarily carrying the types of inexpensive everyday apparel more commonly found in many general merchandise stores.
- Given the Town’s already-strong attraction as a food shopping destination and demographic profile, the lack of specialty food stores may also represent an opportunity to broaden the food retailing mix and enhance the Town’s strong position for this retail category.
- To some extent, the leakage of retail sales in certain categories dominated by large-format stores of 30,000 square feet or more reflects the Town’s desire to retain a small-town feel, with smaller shops and in the Downtown Core, limited formula retail. As a result, there are few retail spaces in Los Gatos of approximately 10,000 square feet or more that are available to accommodate larger users such as appliance stores, home improvement stores, or general merchandise stores. While the Town will undoubtedly seek to retain its character, appropriately designed development at the North 40 site may present an opportunity to provide retail space for larger users that might complement the existing retail mix in Los Gatos and provide goods and services that residents currently seek elsewhere.

Office Market Assessment

While the Los Gatos office market comprises a small percentage of the regional office market it has performed better office space in the Market Area and South Bay,

- Los Gatos currently has an office inventory estimated by Cornish and Carey Commercial Newmark Knight Frank to be approximately 1.4 million square feet, representing approximately 2.2 of total inventory in the South Bay.
- Historically the Los Gatos office market has generally outperformed its Market Area and South Bay benchmarks with higher occupancy rates and rents. The current average full-service asking rent in Los Gatos is \$2.58 per square foot compared to \$2.39 for space in the Market Area and \$2.48 in the South Bay as a whole. Los Gatos has an office vacancy rate of 8.8 percent compared to 9.3 percent in the Market Area and 16.6 percent in the South Bay. The Town's higher lease rates and lower vacancy rate indicate that is an attractive and desirable office location.
- During the Great Recession Los Gatos rents were compressed to near the market average and have rebounded slightly during the current recovery. While demand elsewhere in the South Bay has significantly strengthened, office demand has not fully recovered in Los Gatos. Demand tends to be driven by smaller users and end users that require larger floor plates such as Netflix.

The North 40 would be an attractive site for office and employment projections support construction of office space, taking into account existing vacant space and planned and proposed projects.

- Based upon employment projections prepared by the Association of Bay Area Governments (ABAG), BAE estimates that the Market Area can support an additional 698,000 to 957,000 feet of new office space between 2010 and 2030 after accounting for planned and proposed projects, including the proposed 550,000 square foot office use at the Albright site in Los Gatos.
- With its strong location, the North 40 site could capture between 70,000 and 191,000 square feet of this total net demand, applying a 10 and 20 percent capture rate.
- Potential office product types could include larger Class A space for larger users or an end user (100,000+ square feet) or medical offices. Another potential target market could be multitenant Class B or A space for start-ups, small ventures, and medical office that would find the whole package of North 40 amenities highly attractive (e.g., retail and hotel/meeting space).

Hotel Market Assessment

Los Gatos has two existing high-end full service hotel properties. The performance of hotels within the Market Area has followed the business cycle but has out-performed its Santa Clara County benchmark.

- The Market Area for hotels has an inventory of almost 2,000 rooms, representing 7.6 percent of the total rooms in Santa Clara County. Over 79 percent of these rooms in the Market Area are in properties considered as “upscale” or better by Smith Travel Research (STR).
- Los Gatos is home to two high-end full service hotels with 186 rooms, or 9% of high-end hotel rooms in the Market Area.
- Throughout the current business cycle, hotel properties in the Market Area have consistently out-performed those in other parts of Santa Clara County with respect to occupancy levels and room revenues. Occupancy in Market Area properties peaked at 75 percent in 2007, fell to a low of 65 percent, and recovered to 72 percent as of the end of 2010. In contrast, properties in Santa Clara County rose to a high of 70 percent in 2007, dropped to a low of 58 percent in 2009, and rose back to 68 percent in 2010.
- Revenues in the Market Area have not recovered as strongly as occupancy: the average daily rate peaked at \$148 in 2008 and now stands at \$127. Revenue per available room also follows a similar trend. Higher occupancies have been achieved by maintaining competitive room rates.

While a small part of the Market Area and Santa Clara hospitality market, Los Gatos has been an attractive destination.

- Interviews with key community and business informants indicate that Los Gatos’ existing lodging facilities and overall community amenities complement the main demand drivers for overnight room stays in Los Gatos, which include:
 - Business travel generated not only by firms located in Los Gatos, but also those located in downtown San Jose and other areas of central Silicon Valley; general managers of local hotels have found considerable success marketing to high-level business travelers, particularly those who travel with their spouses;
 - Leisure travel related to shopping and dining in downtown Los Gatos, as well as area wineries; and
 - Weddings and other social events.

New hotel construction is planned in Cupertino.

- Two planned and proposed hotel projects would add as many as 370 rooms to the Market Area with at least 123 rooms deemed upscale or better. These two projects are located at the northern end of the Market Area in Cupertino.

There are opportunities for new hotel development at the North 40 site.

- There is a noteworthy lack of national and global luxury hotel branded properties in Silicon Valley. The location and setting of the North 40 coupled with Los Gatos' rich set of amenities may be attractive to luxury hoteliers looking for a Silicon Valley presence or to boutique operators/developers seeking to expand in the Market Area.
- One disadvantage to the North 40 site for global luxury brands is its location outside a major business cluster.

Conference/Meeting Space Market Assessment

- There is a general lack of meeting and conference space that can accommodate more than 250 persons in the Market Area.
- Interviews with key informants indicate that there would be local support for new, state-of-the-art meeting facilities with a capacity of 250 to 500 persons.

Strategies for North 40 Development

Developing Uses Complementary to Downtown Los Gatos

The General Plan EIR guidance states that new development at the North 40 should “complement and not compete with Los Gatos’ downtown and the rest of the community.” BAE has formulated several strategies to honor this goal of complementary retail development:

Retail Strategy 1: Establish a clear difference in the shopping experience between the Downtown and North 40. The Town’s Formula Retail Ordinance helps maintain the downtown’s small-town feel and a large presence of independent retailers with unique products and services and limits the number of formula retailers such as the present mix of Sur La Table, Apple Store, Banana Republic, Restoration Hardware, and the Gap among others. The North 40 experience should be differentiated by a focus on formula retail with less emphasis on independent retailers. Adding formula retail to the Town-wide inventory of retail properties would help Los Gatos capture sales (and generate additional sales tax revenue) from Town residents who currently travel outside the town to shop at formula retail outlets as well as from shoppers who would come from outside Los Gatos. There are several local examples of downtowns and new shopping complexes complementing each other with such differentiated shopping experiences: Downtown and Stanford

Shopping Center in Palo Alto, and Elmwood/Rockridge and Bay Street in the inner East Bay (Berkeley, Oakland, and Emeryville).

Retail Strategy 1.1: Formulate a coordinated market campaign for both the Downtown and North 40 retail development. A cooperative marketing effort between the Town of Los Gatos, local Downtown merchants, and the North 40 developer can help brand and position each retail district appropriately to reinforce their respective core strengths and cross-market events and announcements –all to reinforce Los Gatos as a shopping destination.

Retail Strategy 1.2: Continue and Enhance Downtown Merchant Vitality Programs. The Town of Los Gatos presently operates several programs oriented to business development and merchant assistance. These program which include business workshops in partnership with the Chamber of Commerce and West Valley College, mentoring services for small businesses, and marketing events, should be continued and enhanced to offer assistance to merchants downtown to effectively market to new shoppers brought in by the North 40.

Retail Strategy 1.3: Reinforce the Downtown’s Role as Community Hub and Social Center. By continuing to program Farmers Markets, music and art festivals, and special events, Los Gatos can maintain the Downtown as the Town’s community hub. With its diverse set of buildings and traditional street layout the Downtown offers an authentic small downtown experience that is hard for a new development that is planned at one time to reproduce and compete with. The recent reported purchase of the Los Gatos Theater by a local investment group to keep it as a small movie theater will boost the Town’s efforts to maintain a vital Downtown.

Retail Strategy 1.4: Branding and Identify for Los Gatos Shopping Districts. The branding of the North 40 for any retail use should be approached from the idea that strong identities for all Los Gatos’ shopping districts should be reinforced and branded to offer Los Gatos as a whole “package” of shopping and leisure activities, including nearby wineries. Branding and identity should be accomplished in part by well designed and consistently applied wayfinding and signage treatments that clearly identify where one is within the Town. For new shoppers coming into Los Gatos for retail at the North 40, the North 40 could serve as a “gateway” to the Town with information kiosks (both portable/seasonal and permanent).

Retail Strategy 1.5: Improve Way Finding and Public Parking Signage. Some key informants reported that a perception of lack of parking presents a barrier to local residents patronizing Downtown merchants and businesses. Most residents visit Downtown by car and parking while adequate is sometimes be difficult to find or is not always in the most

convenient locations. Installation of better directional signage or electronic signs with available spaces noted lots could help overcome this perception.

Retail Strategy 1.6: Provide Shuttle or “Shared Bike” Program to Link North 40 and Downtown. By providing a shuttle connection and/or free bicycle rental, the North 40 and Downtown could be linked to promote easy movement between the two districts. Many cities in both the United States and Europe (such as Paris, Portland, and Prague) provide free, shared-use bicycles to encourage sustainable and healthy alternative transportation over short distances. Stations could be established at the North 40 and Downtown.

Strategy 2: Promote New Retail at the North 40 to Provide Goods and Services that are Leaking from the Community and Generate More Sales Tax Revenue for the Town. To strengthen and diversify its sales tax base, the Town should consider promoting new formula retail at the North 40 site since the Town’s own experience with formula retail Downtown has shown that just a few formula retailers can generate a large amount of sales tax revenue. The North 40 could offer a new and fresh shopping experience in contrast to some of the older facilities outside the Town in the RTA, thus potentially attracting new shoppers from outside the Town.

Strategy 2.1: Avoid “Tax-shifting” from Relocation of Formula Retail Downtown to North 40. While some may disfavor formula retail Downtown, in order for the Town to realize a net fiscal gain, formula retailers Downtown should be encouraged to remain Downtown and not relocate to the North 40. This can be achieved through non-compete clauses in the Town’s development agreement with the North 40 developer or through other legally appropriate mechanisms.

Strategy 4: Promote New Retailers that will Capture Existing Sales Leakage. Los Gatos should consider using the North 40 development opportunity to establish new retail uses in the general merchandise home improvement categories by permitting larger floor plate (e.g., over 30,000 square foot) floor plates.

Retail Strategy 5: Encourage New Specialty Retail at North 40. Los Gatos should work with the North 40 developer to identify new specialty retail uses that will complement the Town’s mix such as specialty foods (e.g., “market hall”), an appliance store, as well as formula retail that will bring in shoppers from outside Los Gatos.

Retail Strategy 3: Encourage Neighborhood and Convenience Retail at the North 40. The Town should encourage neighborhood and convenience retail at the North 40 to support not only new residents at the site but other nearby residential and business neighborhood across Los Gatos Boulevard.

Office Strategy 1: Promote New Office Space to Expand Town Inventory. Los Gatos should encourage a mix of new office space at the North 40 site geared to providing large-place Class A office as well as new Class A or B space configured for multitenants.

Office Strategy 2: Pursue the Concept of a “Los Gatos Innovation Center.” The North 40 represents a potential opportunity to accommodate start-up and new ventures and create jobs by establishing a facility providing share-work spaces and social networking/collaboration opportunities.

Hotel Strategy 1: Develop Language in the Specific Plan that will Encourage/Permit a New High-end Hotel/Lodging Use at the North 40. The Town should consider a hotel use for the North 40 to expand the Town’s inventory of high-end hotel properties and complete an overall amenity package at the North 40.

Meeting Space Strategy 1: Incorporate Meeting Space into a Hotel Development. Since a day conference center typically requires subsidy, the Town should consider incorporating a conference/meeting space use into a new hotel property. To meet the large meeting space gap in the Market Area, Los Gatos could consider requiring as has the City of Cupertino a space with a capacity for up to 400 to 500 as a condition of hotel use. The hotel would have to be sized over 150 to 200 rooms to support such a meeting space.

Site Description

The North 40 site is located in the Town of Los Gatos within Santa Clara County. The North 40 area is bounded to the east by Los Gatos Boulevard, to the west by Highway 17, to the south by Lark Avenue, and to the north by Highway 85, and consists of approximately 44 acres. The area is predominantly agricultural in use, with pockets of existing residential use primarily along Bennett Way, and Burton Road and several nonresidential uses located along Los Gatos Boulevard. The area consists of APNs 424-07-009, 010, 024 through 027, 031 through 037, 052 through 054, 060, 063 through 065, 070, 081 through 086, 090, 094 through 096, 099, 100, and 424-06-115, 116, and 129. The site slopes downward slightly to the west from Los Gatos Boulevard.

Figure 1: Site Map



Source: Google Earth Pro

Site Location

The North 40 Specific Plan Area (the “North 40”) is located at the intersection of Highway 17, which connects Santa Cruz to Silicon Valley, and Highway 85, which swings through western Santa Clara County from Moffett Field in Mountain View to South San Jose. In addition, Los Gatos Boulevard, a busy commercial thoroughfare, runs along the eastern edge of the site. These highways carry substantial volumes of traffic, making the North 40 well positioned in terms of both vehicular access and visibility for a variety of commercial uses.

The North 40’s location at the crossroads of the West Valley’s freeway system makes it easy to reach many of the region’s major attractions. Situated in Los Gatos amidst Santa Clara County’s affluent residential belt, the North 40 is proximate to both the scenic Santa Cruz Mountains and the nodes of high technology that define Silicon Valley. The following two tables (Tables 1 and 2) detail distances and drive times between the North 40 and the region’s key attractions and major employers, respectively. (Note that the list of major employers is limited to the Market Area as defined for the office and hotel markets.) A discussion of the strategic importance of these nearby “demand generators” is provided in the analytical sections that follow.

Table 1: Demand Generators, Selected South Bay and Santa Cruz Area

Demand Generators	Distance from Site (miles)	Drive Time (minutes) (a)	Notes (b)
Good Samaritan Hospital (San Jose)	0.8	2	88,000 annual patient days
El Camino Hospital Los Gatos (c)	1.8	7	
Downtown Los Gatos	2.7	8	
Santa Clara Valley Medical Center (San Jose)	5.4	10	126,000 annual patient days
Santana Row/Valley Fair (San Jose)	6.4	7	Over 2.0 million sf combined retail
Montalvo Arts Center (Saratoga)	6.5	14	200,000 annual visitors
Winchester Mystery House (San Jose)	6.8	11	
Santa Clara University	8.5	12	9,000 full-time students
Downtown San Jose	9.3	12	Details below
Triton Museum of Art (Santa Clara)	9.8	15	175,000 annual visitors
Norman Y. Mineta San Jose Int'l Airport	10.8	17	8.2 million annual passengers
Santa Clara Convention Center	10.8	19	302,000 sf meeting space
NASA Ames Research Center (Mtn. View)	14.4	20	
Computer History Museum (Mtn. View)	14.9	19	75,000 annual visitors
CA's Great America Theme Park (Santa Clara)	15.5	21	
Stanford University	21.9	29	14,500 full-time students
UC Santa Cruz	27.1	38	16,750 full-time students

Attractions in Downtown San Jose

Children's Discovery Museum	8.3	12	300,000 annual visitors
San Jose Convention Center	8.9	12	272,000 sf meeting space
San Jose Center for Performing Arts	8.9	12	
HP Pavilion	9.0	12	280,000 sf meeting space; seats up to 20,000
Ballet San Jose	9.2	13	64,000 annual attendees
Tech Museum of Innovation	9.3	13	446,000 annual visitors
San Jose State University	9.3	13	24,000 full-time students
San Jose Repertory Theater	9.5	14	100,000 annual attendees
San Jose Museum of Art	9.6	14	89,000 annual visitors
Opera San Jose (California Theater)	9.8	13	76,000 annual attendees

Notes:

(a) Drive times calculated from the intersection of Lark Ave. and Los Gatos Blvd. using Google Maps.

(b) All performance figures are reported for 2009.

(c) Formerly Community Hospital of Los Gatos. Information on the number of patient days is unavailable because patient days at the Los Gatos campus are reported in aggregate with those at the Mountain View campus.

Sources: Silicon Valley/San Jose Business Journal; City of San Jose, 2010; BAE, 2011.

Table 2: Major Public and Private Sector Employers, Market Area, 2010

Private Sector Employers (a)	Industry	Location	Distance from Site (miles) (b)	Drive Time (minutes) (b) (c)	Employees (d)
Good Samaritan Hospital	Health care	San Jose	0.8	2	1,850
Courtside Tennis Club	Health & fitness	Los Gatos	1.0	4	200
Columbia Health Care/Mission Oaks Hospital	Health care	Los Gatos	1.2	3	2,000
Netflix	E-commerce	Los Gatos	1.3	6	900
El Camino Hospital Los Gatos	Health care	Los Gatos	1.8	7	700
Barracuda Networks Inc.	Telecommunications	Campbell	1.8	7	250
Xilinx Inc.	Semiconductors	San Jose	2.1	7	1,320
Alain Pinel Realtors	Home realty	Los Gatos	2.4	7	220
Verizon	Telecommunications	Los Gatos	2.7	8	200 (e)
eBay Inc.	E-commerce	San Jose	4.8	9	3,300
O'Connor Hospital	Health care	San Jose	6.6	10	1,315
Trend Micro Inc.	Software	Cupertino	7.7	13	250
Oracle Corp.	Information technology	Cupertino (f)	7.9	14	8,000 (f)
Pegasystems (formerly Chordiant)	Software	Cupertino	8.0	14	285
Hewlett-Packard Co. (g)	Information technology	Cupertino	10.2	15	3,000
Apple Inc.	Computers/consumer electronics	Cupertino (f)	10.6	15	10,000 (f)
Public Sector Employers					
Los Gatos Union School District	School district	Los Gatos	1.3	4	300
Los Gatos-Saratoga High School District	School district	Los Gatos	2.1	6	300
Santa Clara Valley Medical Center	Health care	San Jose	5.7	10	4,935
San Jose/Evergreen Comm. College District	Higher education	San Jose (f)	6.0	12	1,200 (f)
Cupertino Union School District	School district	Cupertino	8.2	15	1,679
Foothill/De Anza Comm. College District	Higher education	Cupertino (f)	8.7	13	1,241 (f)

Notes:

- (a) Large retailers were omitted from the table as they are unlikely to generate demand for either conference space or overnight room stays.
- (b) Distances and drive times are reported for the headquarters or principal office location within the Market Area.
- (c) Drive times calculated from the intersection of Lark Ave. and Los Gatos Blvd. using Google Maps.
- (d) Estimates drawn from different sources with different standards of reporting. Therefore, while some figures represent full-time equivalent employees, others represent full- and part-time employees.
- (e) Number of employees reported for 2009 because 2010 data was not available. However, as Town of Los Gatos records show employment remaining flat between 2005 and 2009, this assumption is deemed fair and accurate.
- (f) Number of employees are reported for all of Silicon Valley. Estimates of the number located solely within the Market Area were not available.
- (g) HP has sold its Cupertino offices to Apple and plans to consolidate its workforce in Palo Alto by October 2012.

Sources: Silicon Valley/San Jose Business Journal; Town of Los Gatos; City of Campbell; City of Cupertino; City of San Jose, 2010; County of Santa Clara; BAE, 2011.

Demographic Overview

In this section BAE presents background information on current and projected demographic and economic conditions in the Town of Los Gatos and the Retail Trade Area. For comparison purposes, data from Santa Clara County as a whole and the Bay Area are also provided. Developing a profile of how Los Gatos and surrounding communities have changed—and are expected to change—helps to identify key factors that will influence future market conditions, and to assess the potential impacts of prospective development on existing commercial properties and centers.

This analysis utilizes data published by the U.S. Census Bureau, the California Employment Development Department (EDD), the Association of Bay Area Governments (ABAG), and Claritas—a private vendor that provides estimates of current and future demographic conditions.

Definition of Retail Trade Area vs. Market Area

One goal of this research effort is to provide an overview of the market demand for several commercial real estate products under consideration as uses of the North 40 Specific Plan properties (North 40), including: retail, office, hotel, and meeting space.

In a densely urbanized area such as Western Silicon Valley (West Valley), commercial activity extends across political boundaries. Residents of Los Gatos will travel to Campbell, San Jose, and beyond to work and shop, and vice versa. Therefore, when analyzing the demand for new commercial development, it is critical to identify the population that can reasonably be expected to use the development in question, rather than just the population living in the immediate vicinity.

In this analysis, two such broader geographies are used: the Retail Trade Area (the “RTA”) and the Office/Hotel/Meeting Space Market Area (the “Market Area”). While these two areas share much in common, they feature distinct boundaries that reflect the fact that retail activity in the West Valley follows a different geographic logic than business activity, which encompasses office, hotel, and meeting uses. The following section defines the RTA and Market Area according to these distinct logics.

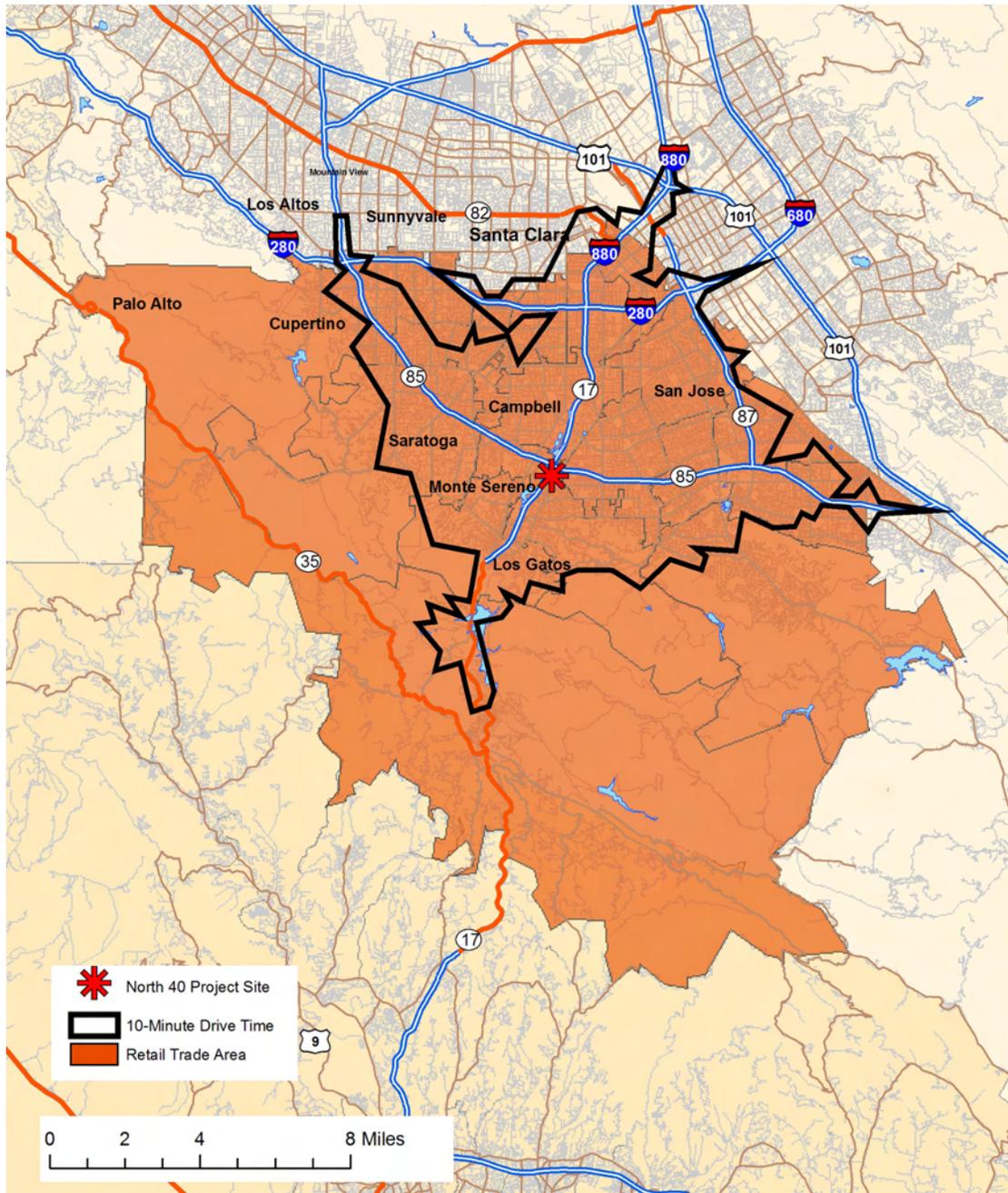
Retail Trade Area

For most consumers, the decision about whether or not to shop at a certain retail outlet is determined in large part by travel time and whether or not there is a comparable outlet that can be reached in less time. Since the potential retail outlets to be located on the site are still unknown, BAE has chosen a retail trade area that reflects that the site is likely to draw from beyond Los Gatos itself. Since the larger West Valley area contains an abundance of retail opportunities, as a starting point a 10-minute drive time was used in delineating the retail trade area. However, as shown in Figure 2, a geography based on drive time is highly irregular, skewed by the impact of

freeways and geographic boundaries such as hillsides. BAE has thus translated drive time into a corresponding group of Zip Codes in order to create an area for which demographic and more reliable retail sales data can be derived. Note that while some Zip Codes grossly expand the boundaries of the RTA beyond the 10-minute threshold, they encompass sparsely developed hillsides in the Santa Cruz Mountains. While residents of these areas may live beyond a 10-minute drive time, Los Gatos and the more urbanized portions of the RTA represent the closest available shopping opportunities.

The ultimate retail mix at the North 40 may attract additional shoppers from outside this defined Retail Trade Area. However, using this area for the analysis assures that a “worst case” scenario with respect to potential impacts on existing retail nodes in Los Gatos.

Figure 2: Retail Trade Area



Source: BAE, 2011.

Office/Hotel/Meeting Space Market Area

The Market Area (see Figure 3) differs slightly from the Retail Trade Area described above. While it is also based on a 10-minute drive time, the Market Area is trimmed down in order to reflect the realities of Silicon Valley's competitive business submarkets. Specifically, the Market Area has been designed to exclude downtown San Jose, Sunnyvale, and Santa Clara.

Downtown San Jose is a distinct commercial node that features a dense cluster of corporate offices, major hotel and conference facilities, and large cultural institutions. If a business traveler is visiting the South Bay in order to attend a meeting or event downtown, then it is likely that he/she will stay at one of downtown's many hotels. Similarly, if a company wants to be located amidst the high volume of business services and transit options that downtown provides, then that company is unlikely to seek office space elsewhere. As such, downtown San Jose should be considered a distinct business submarket with which the North 40 will not compete directly. The Market Area therefore excludes most land east of Highway 87.

In a similar vein, the area surrounding San Jose International Airport and Highway 101—including North San Jose, Santa Clara, and Sunnyvale—features unique qualities that distinguish it from Los Gatos and adjacent areas. If a business traveler wants to be close to the airport, then there he/she will opt to stay at one of the many hotels nearby, rather than on the North 40 site, which is approximately 10 minutes away. Similarly, the North 40 lies too far from the 101 Corridor to attract office tenants for whom that particular milieu of innovation provides a strategic position. As such, most land north and west of I-280 and I-880 has been excluded from the Market Area.¹

From a commercial standpoint, the North 40 is located in a distinct region of Silicon Valley that is as much defined by its location at the foot of the Santa Cruz Mountains as it is by its ability to attract technology firms. The boundaries of the Market Area reflect this reality by encompassing large residential areas, including exclusive enclaves and hillsides, historic downtowns, and a few clusters of business activity with the potential to attract the Valley's leading innovators.

However, this boundary line does not serve as a "hard" edge. Decisions regarding whether or not a site located outside of the Market Area was relevant to the analysis at hand were made on a case-by-case basis. In such instances, BAE used its longstanding knowledge of Silicon Valley business patterns to judge the likelihood that such properties would compete with the North 40 for office, hotel, and/or conference users.

¹ It should be noted that key informants interviewed for this report indicate that hotels in downtown Los Gatos are able to attract some business travel away from the heart of Silicon Valley by marketing Los Gatos' unique and walkable historic environment. However, as the North 40 is located outside of the orbit of downtown Los Gatos, a prospective hotel should not be considered directly competitive with standard hotel products in downtown San Jose and the 101 Corridor.

Figure 3: Office/Hotel/Meeting Space Market Area



Source: BAE, 2011.

Population and Household Trends

Population growth has been limited in the Town of Los Gatos; between 2000 and 2010, the Town added only 821 residents to reach a population of 29,413 in 2010, amounting to only a 0.3 percent compound annual rate of growth. The RTA grew at a slightly more rapid rate year-over-year, adding approximately 30,000 residents. While the RTA grew on par with the Bay Area as a whole (0.5 percent per annum), Santa Clara County experienced a slightly higher growth rate. The slower growth for Los Gatos and the RTA is likely due to the fact that the developable land in the West Valley is relatively built out.

Table 3: Population Trends, 2000-2010

<u>Geography</u>	<u>2000</u>	<u>2010</u>	<u>Avg. Annual % Change 2000-2010</u>
Town of Los Gatos	28,592	29,413	0.3%
Retail Trade Area (a)	575,582	606,056	0.5%
Santa Clara County	1,682,585	1,781,642	0.6%
9-County Bay Area (b)	6,783,760	7,150,739	0.5%

Notes:

(a) See Figure 2 for definition of the Retail Trade Area.

(b) The Bay Area consists of the Counties of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma.

Sources: U.S. Census, 2000 & 2010; BAE, 2011.

According to the Association of Bay Area Governments' *Projections 2009*, Los Gatos will continue to see very limited growth over the next two decades, with the RTA showing a slightly higher growth rate. As shown in Table 4, ABAG projects that Los Gatos will add only 500 new residents between 2010 and 2030. This amounts to just a 1.7 percent change overall, reflecting the fact that ABAG estimated that Los Gatos has a limited ability to accommodate future residential expansion. However, the Town's recently adopted General Plan allows for enough additional housing such that the projected population of the Town in 2020 could reach 32,600.² A significant portion of this growth (750 housing units), though, is projected for the North 40 site, so the ability of the Town to reach this figure will depend largely on the outcome of the North 40 Specific Plan process currently underway.

ABAG projects that the population of the RTA (excluding San Jose³) will grow by five percent, or around 8,600 people. Relative to the size of the RTA, this is very limited growth.

² *Town of Los Gatos 2020 General Plan Draft Environmental Impact Report*, prepared for the Town of Los Gatos by Design, Community & Environment, March 10, 2010.

³ ABAG does not publish projections for sub-city areas. Therefore, the RTA in Table 5 is treated as the Town of Los Gatos and the Cities of Monte Sereno, Saratoga, Cupertino, and Campbell, as well as their

In contrast, Santa Clara County and the Bay Area, both of which have a relatively higher proportion of land suitable for new residential development, are projected to grow by 27 percent and 19 percent, respectively.

Table 4: Population Projections, 2010-2030

Geography	2010 (a)	2015	2020	2025	2030	Projected % Change 2010-2030
Town of Los Gatos (b)	29,600	29,900	30,000	30,000	30,100	1.7%
Retail Trade Area (c)	165,900	168,400	171,500	173,100	174,500	5.2%
Santa Clara County	1,822,000	1,945,300	2,063,100	2,185,800	2,310,800	26.8%
9-County Bay Area (d)	7,341,700	7,677,500	8,018,000	8,364,900	8,719,300	18.8%

Notes:

(a) ABAG Projections were completed prior to release of Census 2010, and thus estimates for 2010 may differ from previous table.

(b) Based on Town boundaries, not Sphere of Influence.

(c) ABAG does not publish projections for sub-city areas. Therefore, the Market Area is treated as the Town of Los Gatos and the Cities of Monte Sereno, Saratoga, Cupertino, and Campbell, as well as their respective Spheres of Influence. San Jose is excluded in its entirety because the majority of the city is located outside of the Market Area.

(d) The Bay Area consists of the Counties of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma.

Sources: Association of Bay Area Governments, 2009; BAE, 2011.

Household growth trends between 2000 and 2010 mirror those population trends described above. Between 2000 and 2010, Los Gatos added only 367 new households, amounting to a 0.3 percent compound annual rate of growth. The RTA added 10,203 new households. Santa Clara County and the Bay Area added households at a slightly higher rate than the RTA.

Household size changed very little in the Town, the RTA, the County, or the State. As shown in Table 5, Los Gatos in 2010 featured a much lower average household size (2.35 persons), than either the RTA at 2.69 persons per household or Santa Clara County, with 2.90 persons per household, featured the largest households, on average. The Bay Area had an average household size in 2010 of 2.69 persons.

respective Spheres of Influence. San Jose is excluded in its entirety because the majority of the City is located outside of the RTA.

Table 5: Household Trends, 2000-2010

Area	2000	2010	Avg. Annual % Change 2000-2010
Town of Los Gatos			
Number of Households	11,988	12,355	0.3%
Avg. Household Size	2.33	2.35	0.1%
Retail Trade Area (a)			
Number of Households	213,273	223,476	0.5%
Avg. Household Size	2.68	2.69	0.0%
Santa Clara County			
Number of Households	565,863	604,204	0.7%
Avg. Household Size	2.92	2.90	-0.1%
9-County Bay Area (b)			
Number of Households	2,466,019	2,608,023	0.6%
Avg. Household Size	2.69	2.69	0.0%

Notes:

- (a) See Figure 2 for definition of the Retail Trade Area.
- (b) The Bay Area consists of the Counties of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma.

Sources: U.S. Census, 2000 & 2010; BAE, 2011.

Household Characteristics

While it should be anticipated that Los Gatos and the RTA will experience relatively slow rates of population and household growth moving forward, both geographies feature household characteristics that are favorable to retail development.

As shown in Table 6, as of 2010, the median household income in Los Gatos was over \$115,000, or 27 percent higher than the countywide median of around \$90,500, which was itself substantially higher than in the greater Bay Area. At approximately \$94,000, the median household income in the RTA more closely matched that of the County. However, these figures obscure more substantial differences in per capita income resulting from variations in household size.

At around \$64,000, the per capita income in Los Gatos in 2010 was approximately 62 percent higher than the countywide average of just under \$40,000. Similarly, per capita figures reveal that the RTA features substantially higher incomes on a per person basis than the County (15 percent). In fact, once Santa Clara County's above-average household size is taken into account, Countywide per capita income more closely matches that of the entire Bay Area.

Table 7 shows rates of owner-occupancy that correspond to the hierarchy of household income discussed above. As of 2010, approximately 63 and 61 percent of households in Los Gatos and the RTA, respectively, owned the homes in which they lived, as compared to 58 and 56 percent in the County and Bay Area, respectively. Taken together, these data indicate that the Town of Los Gatos and the RTA feature above-average levels of per capita income and homeownership, both of which likely translate to increased consumer spending.

Table 6: Income, 2010

<u>Geography</u>	<u>Median Household Income</u>	<u>Per Capita Income</u>
Town of Los Gatos	\$115,371	\$64,227
Retail Trade Area (a)	\$94,264	\$45,613
Santa Clara County	\$90,581	\$39,549
9-County Bay Area (b)	\$78,981	\$38,282

Notes:

- (a) See Figure 2 for definition of the Retail Trade Area.
- (b) The Bay Area consists of the Counties of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma.

Sources: Claritas, 2010; BAE, 2011.

Table 7: Owner and Renter Occupancy, 2010

<u>Geography</u>	<u>Occupied Housing Units</u>	
	<u>% Owner-Occupied</u>	<u>% Renter-Occupied</u>
Town of Los Gatos	63.0%	37.0%
Retail Trade Area (a)	61.4%	38.6%
Santa Clara County	57.6%	42.4%
9-County Bay Area (b)	56.2%	43.8%

Notes:

- (a) See Figure 2 for definition of the Retail Trade Area.
- (b) The Bay Area consists of the Counties of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma.

Sources: U.S. Census 2010; BAE, 2011.

Employment Trends

Table 8 contains information on commuter flows in and out of the RTA in 2000, the most recent year for which such data are available. These flows are of interest to this report because workers commuting into the RTA represent an additional source of demand for retail sales, while commuting out represent a potential loss of sales, as those workers may choose to shop closer to where they work rather than where they reside.

As of 2000, 65 percent of workers residing inside the RTA commuted elsewhere to work, while only 49 percent of those workers working inside the RTA commuted in from elsewhere. On the whole, roughly twice as many workers (187,000) commuted out of the RTA on a daily basis than the number that commuted in (98,000).

Table 8: Commuter Flows, 2000

RTA Residents by Place of Work (a)

<u>Place of Work</u>	<u>Number</u>	<u>% Total</u>
In Retail Trade Area	100,665	35.0%
Elsewhere in Santa Clara County	158,913	55.3%
Elsewhere outside Santa Clara County	<u>28,016</u>	<u>9.7%</u>
Total	287,594	100.0%

Residents Commuting out of Area 186,929 65.0%

RTA Workers by Place of Residence (a)

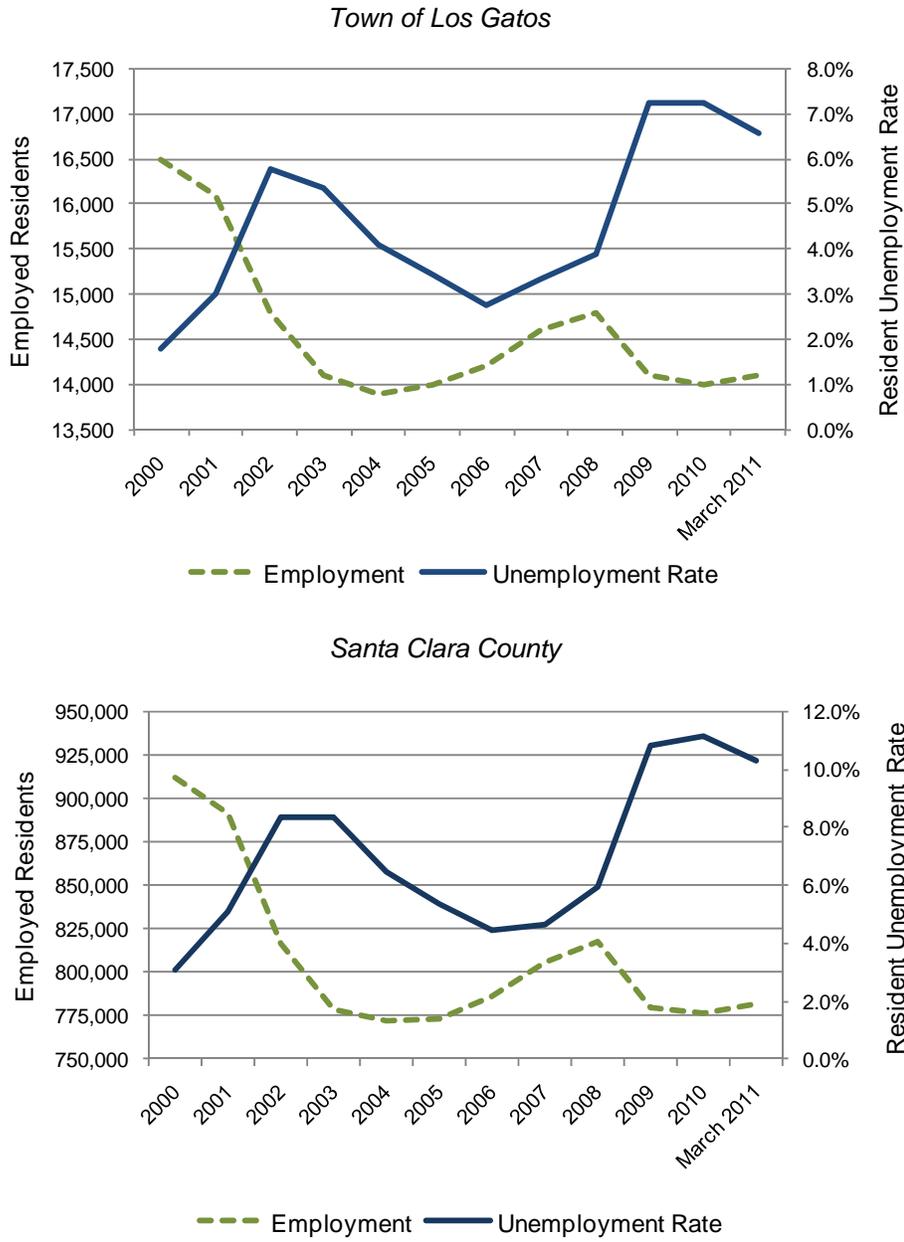
<u>Place of Residence</u>	<u>Number</u>	<u>% Total</u>
In Retail Trade Area	100,665	50.6%
Elsewhere in Santa Clara County	68,291	34.3%
Elsewhere outside Santa Clara County	<u>29,964</u>	<u>15.1%</u>
Total	198,920	100.0%

Workers Commuting into Area 98,255 49.4%

Sources: Census Transportation Planning Package, 2000; BAE, 2011.

As shown in Figure 4, Santa Clara County has undergone two economic cycles over the course of the past decade, both of which caused large changes in regional employment. Between 2000 and 2004, employment fell markedly as a result of the Internet bust. The number of employed residents in Los Gatos and Santa Clara County fell by 16 percent and 15 percent, respectively, causing unemployment to nearly double (see Table 9).

Figure 4: Employment Trends in the Civilian Labor Force, 2000-March 2011



Sources: California Employment Development Department; BAE, 2011.

Between 2004 and 2008, the economy underwent a recovery. However, only about a third of the jobs lost during the Internet bust were recaptured, reflecting the fact that the dot-com “bubble” at the onset of the decade led to unrealistic employment inflation. The mid-decade recovery,

therefore, did not lead to recovery to the peak levels of employment achieved in 2000. Since 2008, the regional economy has declined considerably, owing largely to the nationwide recession spurred by the housing market bust. Though the job losses incurred during the latest crash have been small relative to the Internet bust, unemployment has spiked to unprecedented levels due to persistently high unemployment in the construction sector.

It should be noted that the unemployment rate in Los Gatos remained consistently lower than in the rest of the County through the two economic boom/busts that characterized the previous decade. As of March 2011, unemployment in Los Gatos was under seven percent, as opposed to over ten percent in the County as a whole. After peaking in 2010, the rate of unemployment in both geographies has begun to fall, though the long-term trajectory of employment remains uncertain.

Table 9: Employment Trends in the Civilian Labor Force, 2000-March 2011

Town of Los Gatos				
Year (a)	Labor Force (b)	Employment	Unemployment	Unemployment Rate
2000	16,800	16,500	300	1.8%
2001	16,700	16,100	500	3.0%
2002	15,600	14,800	900	5.8%
2003	14,900	14,100	800	5.4%
2004	14,600	13,900	600	4.1%
2005	14,500	14,000	500	3.4%
2006	14,600	14,200	400	2.7%
2007	15,000	14,600	500	3.3%
2008	15,400	14,800	600	3.9%
2009	15,200	14,100	1,100	7.2%
2010	15,200	14,000	1,100	7.2%
March 2011	15,200	14,100	1,000	6.6%
Change 2000-2010				
Number	-1,600	-2,500	-300	
Avg. Annual % Change	-1.0%	-1.6%	13.9%	
Santa Clara County				
Year (a)	Labor Force (b)	Employment	Unemployment	Unemployment Rate
2000	940,700	911,600	29,200	3.1%
2001	939,500	891,800	47,700	5.1%
2002	891,600	816,900	74,700	8.4%
2003	850,100	779,200	71,000	8.4%
2004	824,900	771,700	53,200	6.4%
2005	817,000	773,200	43,700	5.3%
2006	823,600	786,700	36,900	4.5%
2007	845,100	805,600	39,500	4.7%
2008	869,700	818,000	51,800	6.0%
2009	874,300	779,400	94,900	10.9%
2010	874,000	776,500	97,400	11.1%
March 2011	871,600	781,700	89,900	10.3%
Change 2000-2010				
Number	-66,700	-135,100	68,200	
Avg. Annual % Change	-0.7%	-1.6%	12.8%	

Notes:

(a) Data represent annual averages of monthly labor force data. Based on March 2011 benchmark.
 (b) Civilian Labor Force refers to workers by place of residence. Sums may not equal parts due to independent rounding.

Sources: California Employment Development Department; BAE, 2011.

Retail Market Assessment: Existing Retail Real Estate Conditions

This chapter profiles existing retail real estate conditions in the Retail Trade Area (RTA) and Los Gatos. The RTA has a large number of retail nodes and centers potentially competitive with the North 40, and also with existing retail centers and districts in Los Gatos. This chapter summarizes overall market trends in the regional and local retail real estate market, followed by brief profiles of some of the key retail nodes in Los Gatos and the RTA. The analysis here is based on several area tours, interviews with brokers handling retail properties, and additional research including online searches and contacts with store operators and staff in Los Gatos and other jurisdictions in the area. The next chapter discusses retail sales and provides a leakage analysis, and the chapter following that summarizes the retail market assessment.

Retail Real Estate Market Conditions

In any retail market, existing retail space is vacated on a regular basis due to functional obsolescence or the general cycle of retail closures and openings over time. For instance, until recently there had been a long-term trend in the supermarket industry toward larger stores and consolidation, with older stores reused by “second generation” tenants such as dollar stores, furniture outlets, and even non-retail uses such as fitness centers.⁴ Thus any retail market is likely to have a certain percentage of vacant space due to normal turnover and changes in retailing; in fact, some amount of vacancies keeps rents more affordable and prevents the market from stagnating due to roadblocks to the entry of new competitors.

Overall, the retail real estate market in Los Gatos has fared well through the current economic downturn. According to Terranomics, a major regional retail brokerage firm, at the end of 2010, the retail vacancy rate in Los Gatos was 5.0 percent, well within normal ranges for commercial vacancies.⁵ Overall, West County⁶ showed a vacancy rate of 5.5 percent at year-end 2010. Countywide, the reported rate was somewhat higher, at 6.7 percent. Within the RTA, Cupertino showed the highest vacancy rate, at 18.5 percent. The 5.0 percent rate for Los Gatos was up from 3.7 percent at year-end 2009, but because of the size of the inventory covered for the Town, a single vacant space of approximately 10,000 square feet could cause this fluctuation. Brokers

⁴ More recently, niche grocery stores such as Trader Joe’s, Fresh & Easy, Grocery Outlet, and ethnic supermarkets have started to occupy smaller spaces that are either new or that have been vacated by supermarket chain stores, in some cases subdividing a larger supermarket space and only using a portion of it.

⁵ *Santa Clara County Retail Report, Year-End 2010*, Terranomics. It is important to note that Terranomics does not necessarily cover all retail space in an area, but the trends shown should be indicative of overall market conditions.

⁶ Defined by Terranomics as Palo Alto, Mountain View, Los Altos, Sunnyvale, Cupertino, Saratoga, and Los Gatos.

interviewed also confirmed the Town's low retail vacancy rate, especially relative to the County overall.⁷ The brokers stated two key reasons for the strong occupancy in Town: a limited supply, particularly for larger spaces of 10,000 square feet or more; and the very strong demographics of Los Gatos. For these larger floor plates, demand exceeds supply, so when such a space becomes available (e.g., due to larger corporate bankruptcies, such as Borders), they are re-tenanted in short order.

In fact, one of the key drivers for vacancies nationally in the last few years has been the closure of chain stores due to bankruptcies and downsizing; Circuit City and Borders are two examples of this. In Los Gatos, the recently closed Borders in Old Town exemplifies this trend, as does the consolidation of the Gap under one roof. However, many of these vacant boxes nationally are in prime or high-visibility locations and are being re-tenanted as a result. In any case, the limited amount of national chain retail in the Town has limited its exposure to these types of vacancies.

Rents dropped during the recession, but are still stronger than surrounding communities and have rebounded somewhat. Brokers report rents ranging from \$2 to \$5 per square foot, with Downtown commanding the highest rents, particularly at the south end of Downtown. One broker active in multiple centers and properties reported that rents in Los Gatos dropped 15 to 20 percent overall, but only five to ten percent downtown.

Overview of Los Gatos and Retail Trade Area Retail Nodes

The Retail Trade Area (RTA) has a large number of retail nodes and centers that could be competitive with the North 40, and that compete with existing retailers in Los Gatos, who are in turn concentrated in certain areas of the Town. Following is a description of some of the key region-serving retail nodes, followed by a description of the retail districts of Los Gatos. The Town's retail districts are described in more detail, with the focus for the RTA on major centers rather than an inventory of all retail centers.

Competitive Retail Centers in Retail Trade Area

The RTA contains a number of retail concentrations. The focus here is on major retail nodes and centers that would constitute the competition for region-serving retail at the North 40 site. These nodes and centers are shown in Figure 5. While there are many smaller convenience-oriented centers and other retail centers, they are seen as primarily local-serving and not competitive with the North 40's potential retail tenants.⁸

⁷ A list of brokers interviewed can be found in Appendix F.

⁸ Much of the information on the regional centers was provided by Hurst/Harrigan Associates, with additional research and verification by BAE.

Figure 5: Major Retail Centers in the Retail Trade Area



Westgate Mall/El Paseo de Saratoga/Westgate West. These three centers are in San Jose clustered near the border with Saratoga, approximately eight minutes drive time from the North 40 site.⁹ Westgate Mall is a 645,000 square-foot center which opened in 1961, with renovations in 1989 and 1996. It is configured in part as a traditional enclosed mall, and in part has stores facing outward, and it is no longer anchored by traditional department stores; instead, the largest stores is a Target, and another former department store space is co-anchored by a Nordstrom Rack and a Burlington Coat Factory. Other tenants include Old Navy, Ross, Barnes & Noble, Any Mountain, and Safeway. Westgate West is a 235,768 square-foot open-air center with Trader Joe’s CVS, and Orchard Supply Hardware. This center is owned by Grosvenor, the developer for the North 40, and opened in 1965. El Paseo de Saratoga is a 340,949 square-foot

⁹ All drive times measured from the Boulevard Tavern on Los Gatos Boulevard, using MapQuest.

open-air center originally opened in 1974, and was completely rebuilt in 1997. It is anchored by REI, Petco, Lucky, Office Max, and an AMC 14-screen movie theater complex.

Vallco Shopping Mall. This enclosed mall spans North Wolfe Road in Cupertino in the northwest portion of the RTA and is approximately 13 minutes drive time from the North 40 site. The 1.3 million square-foot center opened in 1975, and is anchored by Macy's, JC Penney, and Sears, and includes an AMC 16-screen theater complex, an ice rink, and a bowling alley. While some renovations were completed in 2007, especially with respect to the movie theater complex, this center has perhaps the most dated appearance of the RTA centers discussed here. According to the City of Cupertino, this center has approvals for a 46,000 square-foot expansion, but the developer indicates a year or more of internal review will occur prior to breaking ground.¹⁰

The Pruneyard/Kohl's/Fry's Electronics. This retail concentration is located near the Hamilton Avenue exit from Highway 17 in Campbell, approximately seven minutes drive time from the North 40 site. The Pruneyard is a 250,000 square foot lifestyle center located at South Bascom and East Campbell Avenue which first opened in 1969, and underwent substantial renovation in the 1990s and later. It is part of a larger mixed-use project which includes a hotel and office space. Key tenants include Barnes & Noble, Trader Joe's, Marshalls, and the Camera 7 Cinemas.

Nearby on the other side of Highway 17 on Hamilton are two major free-standing stores, Kohl's and Fry's Electronics. The Fry's sells a wide variety of electronics and appliances, and would provide substantial competition for a similar outlet at the North 40.

Target/Home Depot on Hillsdale. These stores in San Jose are the home improvement center and large-format discount general merchandise store closest to the North 40 site, at six minutes drive time from the North 40 site. Each of these stores is approximately 110,000 square feet. There are a number of other businesses clustered in the vicinity, including TJ Maxx, 24 Hour Fitness, and Payless Shoe Source.

Westfield Oakridge and Environs. Westfield Oakridge is a regional mall of approximately 1.3 million square feet, anchored by Macy's, Sears, and Target, with a total of over 200 stores, including a 20-screen theater complex. This center opened in 1973, and has been extensively remodeled over the years, including a major reconstruction of the cinema complex in 2003. It is approximately eight minutes drive time from the North 40 site.

There are several other centers and freestanding retail stores in the vicinity of this mall. These include the 559,000 square-foot Almaden Plaza, anchored by Costco, with Barnes & Noble, Ross, and Trader Joe's, and Hillview Plaza, anchored by Kohl's and Home Depot. Almaden Ranch is a proposed power center to the north of Highway 85 on Almaden Expressway, planned at 350,000 to 400,000 square feet with a possible opening date in 2012. Additionally, Walmart has plans to

¹⁰ For planned and proposed projects in the RTA, see Appendix B.

re-tenant a vacant Expo Design Center space on the northwest corner of Almaden Expressway and Highway 85. There is a Best Buy fronting Almaden Expressway adjacent to this former Expo Design Center.

The Plant. The Plant is a value-oriented power center at the eastern edge of the RTA at Monterey Highway and Curtner Avenue in San Jose, 13 minutes drive time from the North 40 site. Opened in 2007, the Plant totals 643,325 square feet, anchored by Target and Home Depot, with Best Buy, Toys R Us/Babies R Us and Ross as other major tenants.

Westfield Valley Fair. This upscale regional mall is located at the northern edge of the RTA, straddling the San Jose/Santa Clara border,¹¹ nine minutes drive time from the North 40 site. Originally opened as two centers in the 1950s and consolidated into one large mall in the late 1980s, the center has seen substantial remodeling and reconfiguration over the years, and currently includes approximately 1.5 million square feet of space. Anchor tenants include Nordstrom, Macy's, and Macy's Men's & Home, with over 250 additional stores. The center has approved plans for an additional 550,000 square-foot expansion, possibly including Neiman Marcus and Bloomingdale's as additional anchors, but these plans have been on hold pending economic recovery. There is a movie theater complex just to the south of this center on Winchester Boulevard.

Santana Row. An upscale open-air lifestyle center, Santana Row first opened in 2003, and is located directly across Stevens Creek Boulevard from Westfield Valley Fair, with additional construction occurring since then, including retail, office, and residential space. This mixed-use complex currently includes 582,000 square feet of retail space, and also includes residential, office, and hotel uses, in an attempt to create an environment resembling an urban Main Street. Tenants include Best Buy, Anthropologie, Brooks Brothers, Crate & Barrel, and the six-screen CinéArts Santana Row movie theater complex showing a mix of first-run major movies and independent, foreign, and documentary films. While dominated by formula retailers, the retail mix of this center somewhat resembles that of downtown Los Gatos in targeting higher-income shoppers and in the mix of shops and dining, and its opening was the subject of concern among retailers in Los Gatos. The impacts of its opening on Downtown are discussed later in this report in the sales analysis chapter.

Hitachi Site. At the far eastern edge of the RTA on Cottle Road near where Highway 85 terminates at U.S. 101 at 11 minutes drive time from the North 40 site, is a 100-acre site proposed for both residential and commercial development, with 30 acres entitled for retail development, adjacent to a Lowe's and an Orchard Supply Hardware, with a Walmart across Monterey Highway.

¹¹ While the map of the RTA shows this center as inside its boundaries, the center uses a Santa Clara Zip Code that is not included in the RTA definition. Thus the sales in this center are not part of those reported for the RTA.

In summary, the RTA contains a large mix and variety of regional retail centers ranging from discount to high end shopping, and from power centers to lifestyle centers to major enclosed malls. In addition to these centers, there are other regional centers beyond the RTA that draw shoppers from the RTA; for example, Stanford Shopping Center is an upscale open-air mall with Neiman Marcus and Bloomingdale's and other small high-end shops; similar retail or new outlets for these stores in Los Gatos could recapture high-income destination shoppers from the RTA. At the other end of the spectrum, the Great Mall in Milpitas is a large outlet mall that is easily accessible from the RTA. There are numerous other centers in the region that may also attract RTA residents. Development at the North 40 could serve to attract and recapture sales in types of retail not currently found in Los Gatos, achieving the Town's goals as stated in its recently adopted General Plan to "support an active business community that provides a wide variety of goods and services and a broad range of employment opportunities, minimizing the need to travel to other communities,"¹² as well as enhancing the fiscal health of the Town.

Retail Districts and Centers in Los Gatos

The Town of Los Gatos has a number of distinct retail districts and centers. For analytical purposes, the majority of retailers in the Town are in one of the following areas:

- Downtown
- Los Gatos Boulevard
- Neighborhood Centers

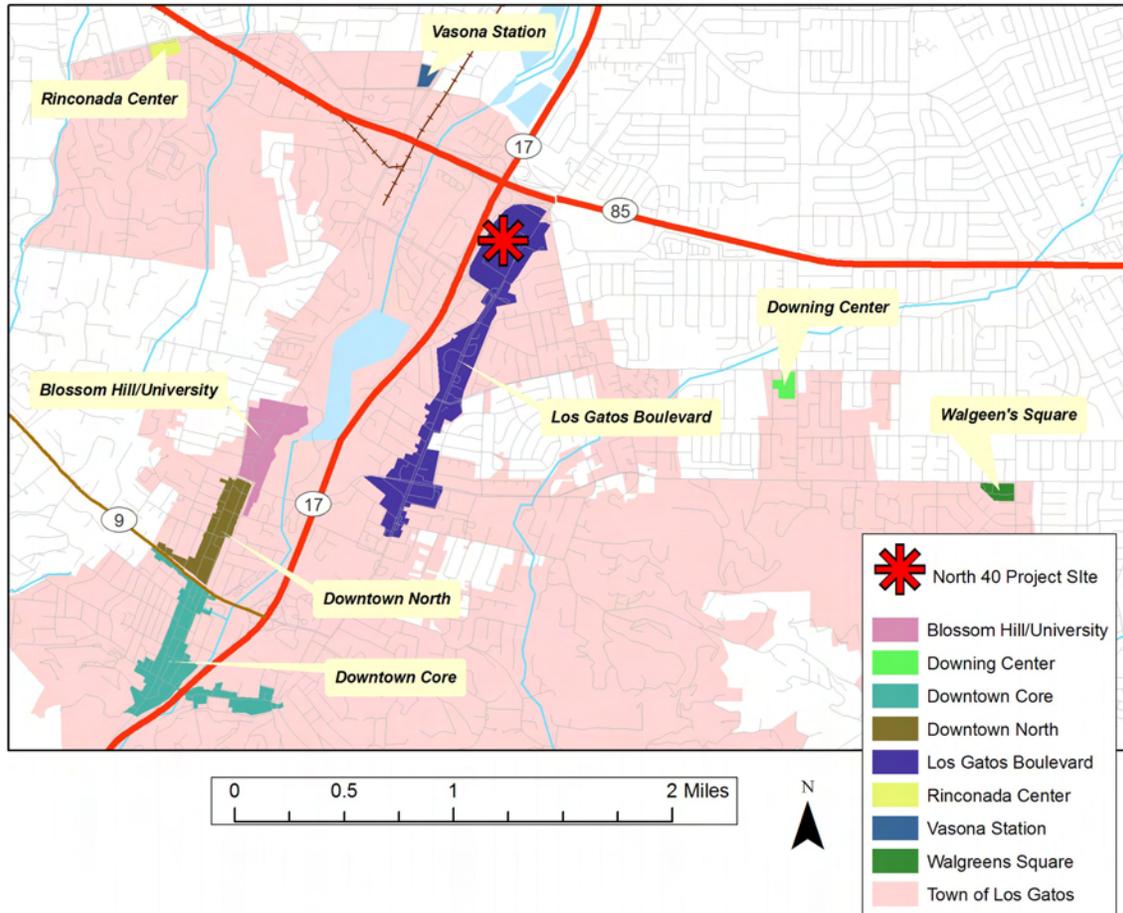
Downtown. This larger area includes three subareas, the Downtown Core, Downtown North, and the Blossom Hill/University district, as shown in Figure 6. The Downtown Core represents the "heart" of Los Gatos, with a mix of small shops in a small-town main-street setting with many historic structures, primarily along Santa Cruz Avenue and Main Street. Downtown North is more auto-oriented, with a few larger stores, and more conventional strip centers as well as scattered free-standing outlets along North Santa Cruz. Blossom Hill/University consists largely of non-retail uses, including office and residential, with the largest concentration of retail and service businesses along the east side of University south of Blossom Hill Road.

Based on State Board of Equalization (SBOE) data, the mix of businesses by type is as shown in Table 10, keeping in mind that because of varying store sizes, the mix by business type does not necessarily represent the proportions of sales for each category.¹³ Retail sales are discussed in more detail in subsequent sections of this report.

¹² *Town of Los Gatos 2020 General Plan*, prepared for the Town of Los Gatos, prepared by Design, Community & Environment, January 7, 2011, p. VIS-1.

¹³ Note that businesses not required to collect sales taxes are not in the SBOE listings, so the focus here is largely on the retail sector. Includes businesses active at any time in 2010.

Figure 6: Los Gatos Retail Districts



As shown in Table 10, the Core area accounts for nearly three-quarters of all businesses in the Downtown, and has the strongest orientation toward retail. SBOE lists 243 retail businesses in the Core, across all the major retail categories. The largest concentrations are in apparel, eating and drinking, and other retail. Approximately one-third of businesses are in the “all other outlets” category, which includes wholesale, industry, and business and personal services. Table 11 provides a more detailed breakdown of these categories for the Downtown Core; the majority of the other outlets are also consumer oriented personal services businesses (e.g., hair salons).

Table 10: Downtown Businesses by Type, 2010

Business Category (a)	Downtown Core		Downtown North		Blossom Hill/Univ		Downtown Total	
	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total
Auto Dealers & Auto Supplies	2	0.6%	3	3.3%	1	1.9%	6	1.2%
Home Furnishings/Appliances	26	7.2%	3	3.3%	1	1.9%	30	6.0%
Bldg. Matrl./Farm Implements	5	1.4%	2	2.2%	1	1.9%	8	1.6%
Food Stores	13	3.6%	5	5.6%	-	0.0%	18	3.6%
Service Stations	1	0.3%	2	2.2%	1	1.9%	4	0.8%
Apparel Stores	50	13.9%	4	4.4%	-	0.0%	54	10.7%
General Merchandise Stores	1	0.3%	1	1.1%	-	0.0%	2	0.4%
Eating and Drinking Places	59	16.4%	9	10.0%	2	3.8%	70	13.9%
Other Retail Stores	86	23.9%	18	20.0%	11	20.8%	115	22.9%
Retail Stores Total	243	67.5%	47	52.2%	17	32.1%	307	61.0%
All Other Outlets	117	32.5%	43	47.8%	36	67.9%	196	39.0%
Total	360	100%	90	100%	53	100%	503	100%

(a) Categories used here are based on the 2007 and earlier SBOE classification system.

Sources: SBOE; U.S. Bureau of Labor Statistics; Muni Services; Town of Los Gatos; BAE, 2011.

Downtown North makes up only 18 percent of the businesses listed, and shows a higher proportion of non-retail businesses, with only slightly more than half of the listings for SBOE as retailers; restaurants and other retail stores make up the largest proportions of these 47 outlets. Blossom Hill/University has only eleven percent of the Downtown's businesses, and less than one-third of these 53 are classified as retailers.

The Downtown Core is characterized by smaller floor plates, and because of the formula retail ordinance, the Core contains few chain retailers. The chain retailers are clustered largely in the Old Town development straddling University. With the exception of the eastern portion of Old Town, the Core businesses are for the most part directly on the streets, with parking provided on-street and in municipal lots behind the stores on Santa Cruz. The lot between Santa Cruz and University provides access to both streets, with some stores providing entrances directly from the lot. Brokers and other key informants stated that there is a perception that parking is limited downtown, although site visits by BAE, in one case on Sunday during the farmers market, indicated that while the best-located lots were full, parking was still available.

Table 11: Downtown Core Business Detail, 2010

Business Category (a)	Number	% of Total
Auto Dealers & Auto Supplies	2	0.6%
Home Furnishings/Appliances	26	7.2%
Bldg. Matrl./Farm Implements	5	1.4%
Food Stores	13	3.6%
Service Stations	1	0.3%
Apparel Stores	50	13.9%
General Merchandise Stores	1	0.3%
Eating and Drinking Places	59	16.4%
Other Retail Stores		
<i>Art, Gift, Novelties</i>	8	2.2%
<i>Boat/Motorcycle</i>	1	0.3%
<i>Cigar Stores</i>	2	0.6%
<i>Florists</i>	2	0.6%
<i>Jewelry Stores</i>	12	3.3%
<i>Liquor Stores</i>	2	0.6%
<i>Music Stores</i>	2	0.6%
<i>Office Eqpmt Store Count</i>	1	0.3%
<i>Second Hand Stores</i>	4	1.1%
<i>Specialty Stores</i>	44	12.2%
<i>Sporting Goods</i>	5	1.4%
<i>Stationery/Books</i>	3	0.8%
Other Retail Subtotal	86	23.9%
Retail Stores Total	243	67.5%
All Other Outlets		
<i>Business To Business</i>	36	10.0%
<i>Personal Services</i>	65	18.1%
<i>Miscellaneous</i>	16	4.4%
All Other Outlets Subtotal	117	32.5%
Total	360	100%

Sources: SBOE; U.S. Bureau of Labor Statistics; Muni Services; Town of Los Gatos; BAE, 2011.

In the North subarea, there are some larger stores, especially Walgreens and the soon-to-open rebuilt and expanded Safeway,¹⁴ and conventional strip centers such as the Walgreens Center and the Los Gatos Shopping Center, with stores set back from the street by parking lots.

The mix of retail types, as well as the leakage analysis for Los Gatos as discussed in the next chapter, indicate that Downtown is seen as a retail destination, drawing shoppers from Los Gatos as well as other nearby communities. Interviews with retailers, brokers, and other key informants¹⁵ confirmed this. Because of a lack of retail, Monte Sereno and Saratoga residents in particular appear to be attracted to Los Gatos for both the downtown specialty shops, as well as the convenience-oriented retail in the Downtown North area and on Los Gatos Boulevard. For instance, the re-opening Safeway will be the closest supermarket to Monte Sereno residents.

¹⁴ Grand opening is set for August 26, 2011. <http://safewaydowntownlosgatos.com>, accessed July 15, 2011.

¹⁵ A list of key informants can be found in Appendix F.

Shoppers from other nearby cities, such as Cupertino, Campbell, and San Jose, have ample convenience-oriented retail nearby but come to Los Gatos for the Downtown experience. Additionally, some informants stated that the Downtown is also a tourist destination, with out-of-towners (particularly those staying at the local hotels) coming to experience the small town and pedestrian-friendly ambience.

Los Gatos Boulevard. Los Gatos Boulevard is a mix of community shopping centers, auto dealers and related businesses, and free-standing retail outlets. The four largest shopping centers are each anchored by a supermarket. The area is defined as shown in Figure 6 above.

Los Gatos Boulevard is strongly differentiated from Downtown in its retail mix, with a more limited number of stores carrying “comparison” goods such as home furnishings and apparel (see Table 12). There are considerably more mid-size store spaces, such as the supermarkets, drug stores, and hardware store. There are approximately 100 retail outlets in the area, as compared to over 300 Downtown. There are also a substantial number of non-retail businesses such as business and personal services, such as auto repair which does also sell parts and thus reports taxable sales.

Table 12: Los Gatos Boulevard Businesses by Type, 2010

Business Category (a)	Number	% of Total
Auto Dealers & Auto Supplies	13	7.9%
Home Furnishings/Appliances	3	1.8%
Bldg. Matrl./Farm Implements	2	1.2%
Food Stores	13	7.9%
Service Stations	4	2.4%
Apparel Stores	1	0.6%
General Merchandise Stores	2	1.2%
Eating and Drinking Places	23	13.9%
Other Retail Stores	37	22.4%
Retail Stores Total	98	59.4%
All Other Outlets	67	40.6%
Total	165	100%

(a) Categories used here are based on the 2007 and earlier SBOE classification system.

Sources: SBOE; U.S. Bureau of Labor Statistics; Muni Services; Town of Los Gatos; BAE, 2011.

While the Downtown configuration allows for a strong pedestrian-oriented experience, Los Gatos Boulevard is generally auto-oriented. The Boulevard’s retail mix is bifurcated between the auto-related retail and the convenience-oriented shopping provided by the four supermarket-oriented centers. However, two of the supermarkets, Whole Foods and Trader Joe’s, are niche supermarkets rather than more generic markets. Lunardi’s is part of a smaller regional chain, and broker interviews and other sources indicate extremely strong sales. As will be seen from the leakage analysis discussion, the Town is a strong attractor for grocery shoppers, likely due in part

to the variety of stores on Los Gatos Boulevard that are also easily accessible to parts of Campbell and San Jose.

Because of the retail mix this area serves largely as a shopping destination for everyday needs (aside from the remaining new car dealers), complementing the Downtown's more specialized and region-serving mix. This was confirmed by the key informants interviewed, although there are some specialty shops such as the Wooden Toy Horse Store which draw from a broader area.

The remaining new car dealers are Moore Buick, Los Gatos Acura, and Los Gatos Luxury Cars. In recent years, Los Gatos Boulevard has lost Chevrolet, Honda, and Ford dealerships as the automotive industry has restructured in the face of declining sales. There are a variety of auto-related ancillary businesses, which include car rental facilities, auto repair, and auto parts outlets.

In addition to the three supermarkets mentioned above, there is a Nob Hill Foods in the El Gato Village center. Rite Aid is located in the Blossom Hill Shopping Center with Whole Foods, and CVS/Pharmacy is in Kings Court with Lunardi's. The CVS is moving to a free-standing store in the near future on the former site of the Chevrolet dealership. There are also plans for approximately 30,000 square feet of commercial space on the former site of the Ford dealership (see Appendix B for planned and proposed developments).

Other retail in the area includes a broad variety of restaurants, one of the Town's two hardware stores, Los Gatos Ace Hardware, and an Office Depot across from the North 40 site. Unlike Downtown, several of the restaurants are fast-food franchises such as McDonald's and Jack-in-the-Box.

Neighborhood Serving Centers. Los Gatos has four major neighborhood centers, as shown in above in Figure 6:

- Rinconada Center
- Downing Center
- Walgreens Square
- Vasona Station

These centers are convenience-oriented, with anchors and other stores that largely serve nearby residents rather than attracting a regional clientele. Interestingly, these neighborhood centers are all located at or near the Town boundaries, thus attracting shoppers from outside the Town since they represent the closest grocery or drug store shopping. The two supermarkets and two drug stores in these centers thus contribute to the Town's capture of sales even in local-serving retail categories, as discussed in the leakage analysis.

The following table presents the mix of businesses by type for each of the neighborhood centers.¹⁶

Table 13: Neighborhood Centers Businesses by Type, 2010

Business Category (a)	Downing Center		Rinconada Center		Vasona Station		Walgreens Square		Total	
	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total
Auto Dealers & Auto Supplies	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Home Furnishings/Appliances	-	0.0%	-	0.0%	1	10.0%	-	0.0%	1	1.8%
Bldg. Matrl./Farm Implements	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Food Stores	2	16.7%	2	11.1%	1	10.0%	-	0.0%	5	8.8%
Service Stations	-	0.0%	-	0.0%	-	0.0%	1	5.9%	1	1.8%
Apparel Stores	1	8.3%	-	0.0%	-	0.0%	-	0.0%	1	1.8%
General Merchandise Stores	-	0.0%	1	5.6%	1	10.0%	1	5.9%	3	5.3%
Eating and Drinking Places	5	41.7%	4	22.2%	4	40.0%	3	17.6%	16	28.1%
Other Retail Stores	2	16.7%	4	22.2%	1	10.0%	4	23.5%	11	19.3%
Retail Stores Total	10	83.3%	11	61.1%	8	80.0%	9	52.9%	38	66.7%
All Other Outlets	2	16.7%	7	38.9%	2	20.0%	8	47.1%	19	33.3%
Total	12	100%	18	100%	10	100%	17	100%	57	100%

(a) Categories used here are based on the 2007 and earlier SBOE classification system.

Sources: SBOE; U.S. Bureau of Labor Statistics; Muni Services; Town of Los Gatos; BAE, 2011.

Downing Center is anchored by a Safeway, with a mix of other small stores including a liquor store, a consignment shop, restaurants and other small businesses and services.

Rinconada Center, in the northwest portion of the Town on the border with Campbell, is also anchored by a Safeway and a CVS, and includes a number of smaller businesses in a mix of retail stores, restaurants, and business and personal services.

Walgreens is the anchor tenant for Walgreens Square, on the border with San Jose in the eastern portion of Los Gatos. In addition to the pharmacy, the center has a number of smaller businesses, including a high proportion of personal services, three restaurants, and other miscellaneous retail.

Unlike the other neighborhood centers, the smaller Vasona Station is not anchored by a supermarket or major chain drug store (although there is a small pharmacy that is largely prescription-oriented). Instead, it is a mix of smaller businesses, particularly restaurants. The largest and busiest of the restaurants is Aldo's Ristorante & Bar. This center is located on Winchester Boulevard at the Town boundary adjacent to Campbell. There are several office-oriented businesses in the center also.

¹⁶ Note once again that businesses not required to collect sales taxes are not in the SBOE listings; the businesses listed are thus only those that sell tangible items rather than just services, such as retailers and personal services (e.g., hair salons that also sell beauty products). Includes businesses active at any time in 2010.

Retail Market Assessment: Sales and Leakage Analysis

This section examines retail sales conditions in Los Gatos and the Retail Trade Area (RTA). Data for the Town and the RTA are presented, along with comparative data from Santa Clara County and California. The analysis presents an overview of retail sales focusing on categories that might represent the primary competition with retail at the North 40 site. A leakage analysis for the Town and the RTA is undertaken to identify the relative strength of major retail sectors.

The primary source of information on general retail expenditures in California is the taxable retail sales data published by the State Board of Equalization (SBOE). SBOE publishes *Taxable Sales in California*, a quarterly and annual publication that reports taxable sales by major store categories by city and county. With adjustments made to take into account nontaxable sales such as food and prescriptions, this source usually offers the best baseline data for jurisdictions for which it is available. However, beginning in 2009 SBOE used a new categorization of businesses that makes comparisons with earlier data and a continued time series difficult if not impossible.

Because of the limitations with SBOE data with respect to availability for subareas of larger cities such as San Jose which makes up a large portion of the RTA, and for unincorporated areas (which also constitute part of the RTA), the leakage analysis itself utilizes estimates based on 2008 Zip Code and County Business Patterns employment data benchmarked to adjusted data on sales per employee from the 2007 Economic Census, with adjustments by category made based on crosschecks with SBOE data and to reflect more current conditions. The use of this data source also allows analysis by far more detail by retail sector.

Estimated Retail Sales in Los Gatos and the RTA by Major Retail Category

As noted above, retail sales data for the overall RTA cannot be derived from the available taxable sales data, since those data are not published separately for sales in the portion of San Jose which is in the RTA or for the unincorporated portions of the RTA. Furthermore, because of disclosure issues, the level of detail available for some of the cities in the RTA is insufficient for the analysis here. In order to compare actual expenditures for all RTA residents with potential expenditures by store category, an alternative estimate methodology for estimating sales for the overall RTA has been developed. This point-in-time estimate can then also account for the entire population of the RTA to derive per capita sales estimates for use in comparison with a benchmark for the leakage analysis. For comparative purposes, similar estimates have been derived for the Town of Los Gatos, Santa Clara County, and California.

These estimates have been derived using the most recent available data from the Census of Retail Trade and Zip Code Business Patterns. These estimates provide point-in-time data for the Town

and the RTA by detailed retail category. Further explanation of the methodology can be found in Appendix I.

For the purposes of the analysis here, the estimated retail sales have been grouped into eleven categories:

- Motor Vehicle and Parts Dealers
- Home Furnishings and Appliance Stores
- Bldg. Matrl. and Garden Equip. and Supplies
- Food and Beverage Stores
- Health and Personal Care Stores
- Gasoline Stations
- Clothing and Clothing Accessories Stores
- Sporting Goods, Hobby, Book, and Music Stores
- General Merchandise Stores¹⁷
- Miscellaneous Store Retailers
- Food Services and Drinking Places¹⁸

Sales at non-store retailers (e.g. mail order and auction houses) are not included in the analysis, nor are sales occurring at non-retail outlets.

Los Gatos

As shown in Table 14, retail sales for the Town for 2008 are estimated at approximately \$838 million (all sales are presented in inflation-adjusted 2010 dollars). The three largest categories are motor vehicle and parts dealers at 30 percent of sales,¹⁹ food and beverage stores at 23 percent, and food services and drinking places at 15 percent. The proportion of the Town's total retail sales in motor vehicle and food store sales are considerably higher than found in the RTA, the County, or the State. The Town shows almost no sales in General Merchandise stores, well below the proportions for the other geographies. On a per capita basis, retail sales in Los Gatos are quite high, at \$28,653 annually compared to less than \$14,000 annually for the other three geographies. Several sectors have per capita sales at more than twice the levels found in the RTA; the only sectors lagging the RTA in per capita sales are the building materials group and general merchandise stores. While the leakage analysis will present a more refined picture, the proportions of per capita sales by category are a first indicator of strengths and weaknesses in the retail sector in Los Gatos.

¹⁷ Includes stores that sell a broad range of merchandise. Examples include traditional department stores such as Macy's, discount department stores such as Walmart, and warehouse stores such as Costco.

¹⁸ This category includes all types of restaurants, as well as catering services.

¹⁹ As noted, these are estimated sales from 2008; as will be seen from the SBOE data, motor vehicle sales have declined considerably since then.

Retail Trade Area

The RTA's retail sales for 2008 are estimated at approximately \$8.4 billion, about 10 times the sales in Los Gatos alone. While somewhat smaller proportionally than for the Town, motor vehicle and parts dealers, food and beverage stores, and food services and drinking places are the three largest categories for sales. While there are some variations by store category, the RTA's levels of per capita sales are much closer to the countywide and statewide levels than the Town's. Once again, the leakage analysis will present a more refined picture, but these levels of per capita sales relative to the larger areas are indicative of a general balance between the retail supply and demand for the RTA as a whole.

Table 14: Total Estimated 2008 Retail Sales

Sales in 2010 \$000 (a)

	Town of Los Gatos	Market Area	Santa Clara County	California
Motor Vehicle and Parts Dealers	\$249,000	\$1,816,000	\$4,428,000	\$99,923,000
Home Furnishings and Appliance Stores	\$39,000	\$632,000	\$1,750,000	\$27,409,000
Bldg. Matrl. and Garden Equip. and Supplies	\$19,000	\$613,000	\$1,671,000	\$31,266,000
Food and Beverage Stores	\$190,000	\$1,316,000	\$3,738,000	\$77,082,000
Health and Personal Care Stores	\$70,000	\$395,000	\$1,169,000	\$24,313,000
Gasoline Stations	\$52,000	\$603,000	\$1,562,000	\$41,590,000
Clothing and Clothing Accessories Stores	\$47,000	\$582,000	\$1,869,000	\$30,438,000
Sporting Goods, Hobby, Book, and Music Stores	\$18,000	\$257,000	\$593,000	\$9,527,000
General Merchandise Stores	\$1,000	\$796,000	\$2,745,000	\$60,013,000
Miscellaneous Store Retailers	\$30,000	\$202,000	\$617,000	\$11,799,000
Food Services and Drinking Places	\$123,000	\$1,125,000	\$3,468,000	\$60,316,000
Retail Outlets Total	\$838,000	\$8,337,000	\$23,610,000	\$473,676,000

Sales per Capita in 2010 \$

	Town of Los Gatos	Market Area	Santa Clara County	California
Motor Vehicle and Parts Dealers	\$8,514	\$3,028	\$2,514	\$2,734
Home Furnishings and Appliance Stores	\$1,333	\$1,054	\$994	\$750
Bldg. Matrl. and Garden Equip. and Supplies	\$650	\$1,022	\$949	\$855
Food and Beverage Stores	\$6,496	\$2,194	\$2,122	\$2,109
Health and Personal Care Stores	\$2,393	\$659	\$664	\$665
Gasoline Stations	\$1,778	\$1,005	\$887	\$1,138
Clothing and Clothing Accessories Stores	\$1,607	\$970	\$1,061	\$833
Sporting Goods, Hobby, Book, and Music Stores	\$615	\$428	\$337	\$261
General Merchandise Stores	\$34	\$1,327	\$1,558	\$1,642
Miscellaneous Store Retailers	\$1,026	\$337	\$350	\$323
Food Services and Drinking Places	\$4,206	\$1,876	\$1,969	\$1,650
Retail Outlets Total	\$28,653	\$13,899	\$13,404	\$12,959

2008 Population (b)**29,247****599,835****1,761,375****36,551,809****Notes:**

Sales estimates were initially generated using 2008 Zip Code and County Business Patterns employment data and per-employee sales data by detailed NAICS code from the 2007 Economic Census. These numbers by major category above were then cross-checked against SBOE data and 2007 Economic Census data where available to confirm, with some adjustments made as indicated by inconsistencies between the sources. Because of differences in categorization schemes, data by category may not be directly comparable to SBOE numbers presented elsewhere. 2008 represents most recent data available at time of analysis. Market area definitions are the same as for the demographics analysis, but include some point-level Zip Codes not present in the demographic analysis. See Appendix A for Zip Codes covered.

(a) Retail sales have been adjusted to 2010 dollars based on the Bay Area and California Consumer Price Index calculated by the California Department of Industrial Relations (based on data from the Bureau of Labor Statistics) for California, and the Bay Area Consumer Price Index from the U.S. Bureau of Labor Statistics for the smaller areas. Total sales estimates rounded to nearest million \$.

(b) Population estimates for the market areas derived based on Census 2000 and Claritas 2010 estimates, assuming a constant rate of growth over the period to obtain the 2008 estimate.

Sources: 2000 and 2010 U.S. Census; U.S. Census of Retail Trade, 2007; Zip Code and County Business Patterns, 2007 and 2008; CA Dept. of Industrial Relations; U.S. Bureau of Labor Statistics; BAE, 2011.

Retail Sales by Major Retail Category in Los Gatos, Santa Clara County, and California

The following section presents historic data on retail sales by major store/outlet category, to supplement the single-year estimate provided in the previous section. The following discussion relies on taxable sales data published by SBOE. Unfortunately, SBOE taxable sales data are not available for the Retail Trade Area as a whole; the discussion here focuses on Los Gatos, with comparative data from Santa Clara County and the California provided. All data are presented in constant 2010 dollars, based on the Bay Area and California Consumer Price Indexes. It is important to note that the discussion here specifically covers taxable sales, not total sales. For instance, food purchases, prescription drugs, and services (e.g., auto repair) are not taxable. Nevertheless the taxable sales data are the best indicator available of retail sales trends by major store category over a period of years, even though they do not provide complete coverage of the retail sector, and thus the estimates are lower than provided by the Zip Code data discussed above. The leakage analysis following the market overview is based on the static estimate derived from Zip Code and County Business Patterns and the Economic Census in order to cover the total retail sector.

Because of the reclassification of businesses by SBOE beginning with 2009, it is not possible to consistently track retail sales by major store category into 2009 with the published data. Even a time series for overall retail sales is not available, as some businesses were moved out of retail and into the “all other outlets” category. This is particularly a problem in Los Gatos, where Netflix, a major sales tax generator, was moved out of the retail group – thus the trend line for total retail sales shows a significant drop from 2008 to 2009, but this is not due to an actual decline in sales. As a result, retail sales by major category are discussed for the 2000 to 2008 period, and then separately for 2009.

For Los Gatos, BAE obtained more recent data for the 2008 through 2010 period, using the older classification system. However, these data are not directly comparable to the 2000 through 2008 data due to differing data reporting methodologies, and the same source data was not available for Santa Clara County or California.

Los Gatos

Between 2000 and 2008, total inflation-adjusted taxable retail sales in Los Gatos dipped in the early part of the decade following the dot-com bust, and then gradually increased to peak at nearly \$760 annually in 2006 (see Figure 7). By 2008, total retail sales had declined again to \$694 million in 2010 dollars. However, prior to 2009, Netflix was classified as a retail outlet (in the “other retail stores” category), skewing sales upward as their sales boomed. Figure 7 also shows total retail sales excluding Netflix and the entire other retail subcategory; this shows the remainder of taxable retail sales peaking in 2005, with a decline in every year through 2008. These changes in retail sales occurred against a background of very limited population growth in the Town.

Figure 7: Los Gatos Taxable Retail Sales and Population Trends, 2000-2008



Notes: Population data derived from 2000 and 2010 Census, with assumption of constant annual growth. All sales shown in 2010 dollars. For details, see Appendix C.

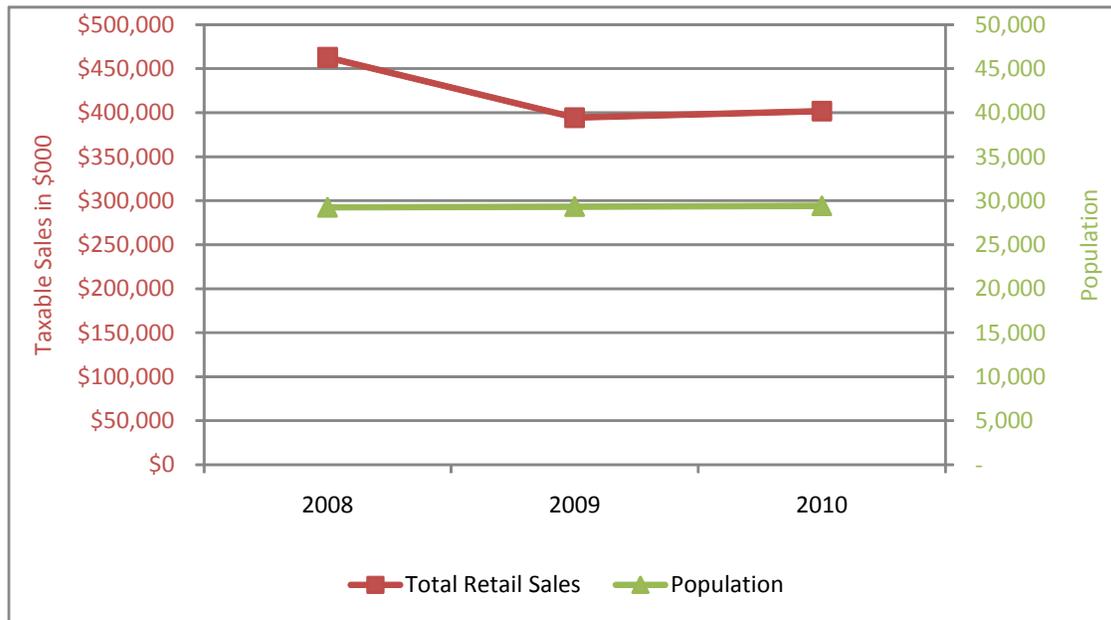
Source: BAE 2011, based on sources as noted in Appendix C.

SBOE-published sales data from 2009 are not comparable to earlier years, due to SBOE’s reclassification of all outlets. However, annual sales for the 2008 through 2010 period are shown in the data obtained for the City only. As shown in Figure 8, taxable retail sales continued their decline into 2009, but stabilized and rebounded slightly in 2010. In 2010, total taxable retail sales were estimated at slightly more than \$400 million.²⁰

²⁰ Note that this total excludes Netflix.

The key factor in the long-term decline of retail sales (excluding Netflix) in Los Gatos is the decline in the motor vehicle sector. By 2010, taxable motor vehicle sales in the Town were only 21 percent of 2000 levels after adjusting for inflation (see Appendices C-1 and C-2). Thus this decline is not just a result of the economic downturn of the last few years. No other sector shows this level of decline; in fact, most of the major retail sectors have 2010 inflation adjusted sales similar to those in 2000. Only the other retail group shows a substantial decline, to 60 percent of 2000 levels.

Figure 8: Los Gatos Taxable Retail Sales and Population Trends, 2008-2010



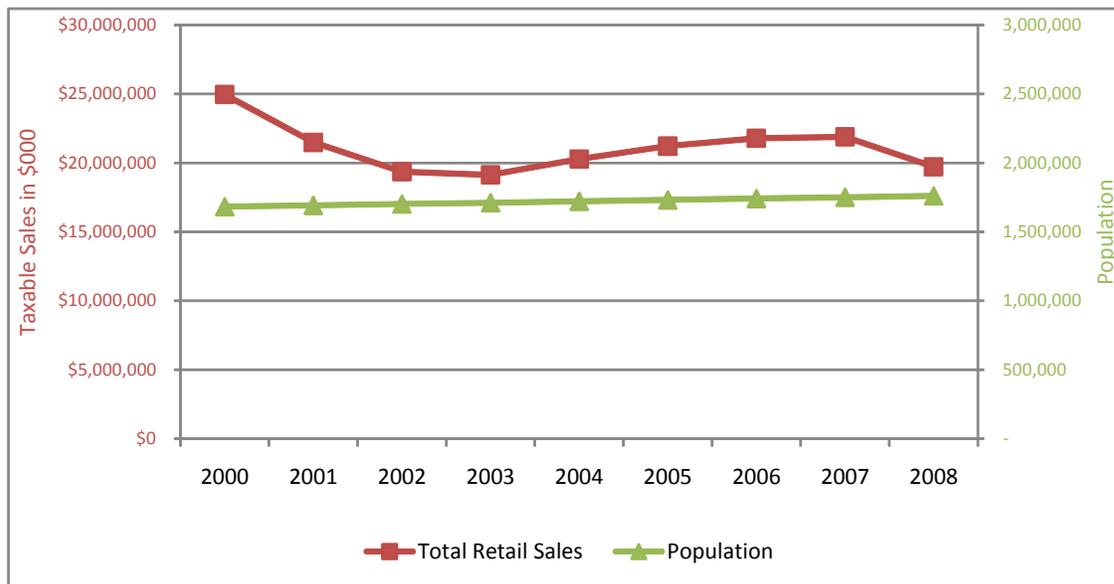
Notes: Population data derived from 2000 and 2010 Census, with assumption of constant annual growth. All sales shown in 2010 dollars. For details, see Appendix C.

Source: BAE 2011, based on sources as noted in Appendix C.

Santa Clara County

The County also shows a pattern of taxable retail sales decline early in the decade, followed by a mid-decade increase, and another decline late in the decade. On an inflation-adjusted basis, sales never again achieve the 2000 levels of nearly \$25 billion in annual taxable retail sales; in 2008 taxable retail sales were below \$20 billion in the County (see Figure 9). In 2009, this fell further to under \$17 billion.²¹

Figure 9: Santa Clara County Taxable Retail Sales and Population Trends, 2000-2008



Notes: Population data derived from 2000 and 2010 Census, with assumption of constant annual growth. All sales shown in 2010 dollars. For details, see Appendix C.

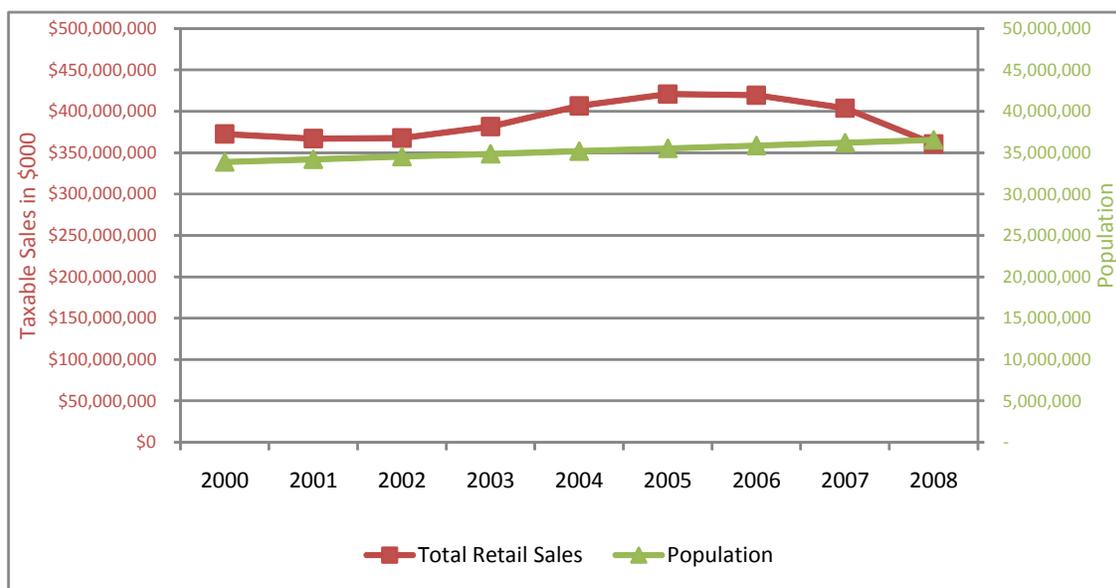
Source: BAE 2011, based on sources as noted in Appendix C.

²¹ Because of the reclassification of businesses in 2009, it is possible that some of the change between 2008 and 2009 is due to businesses formerly classified as retail now being excluded from that group (e.g., Netflix in Los Gatos).

California

As shown in Figure 10, taxable retail sales levels for California were relatively flat from 2000 through 2002, reflecting the dot-com bust and post 9/11 decline, effects of which were not as greatly felt statewide as in Santa Clara County. Statewide sales then increased through 2005, with declines since that year. Inflation-adjusted estimated sales of \$361 billion for 2008 are below 2000 levels (also inflation-adjusted), even though the population of the state increased by eight percent in the same period. In 2009, total inflation-adjusted taxable retail sales for the state were reported at \$315 billion, indicating a further decline.²²

Figure 10: California Taxable Retail Sales and Population Trends, 2000-2008



Notes: Population data derived from 2000 and 2010 Census, with assumption of constant annual growth. All sales shown in 2010 dollars. For details, see Appendix C.

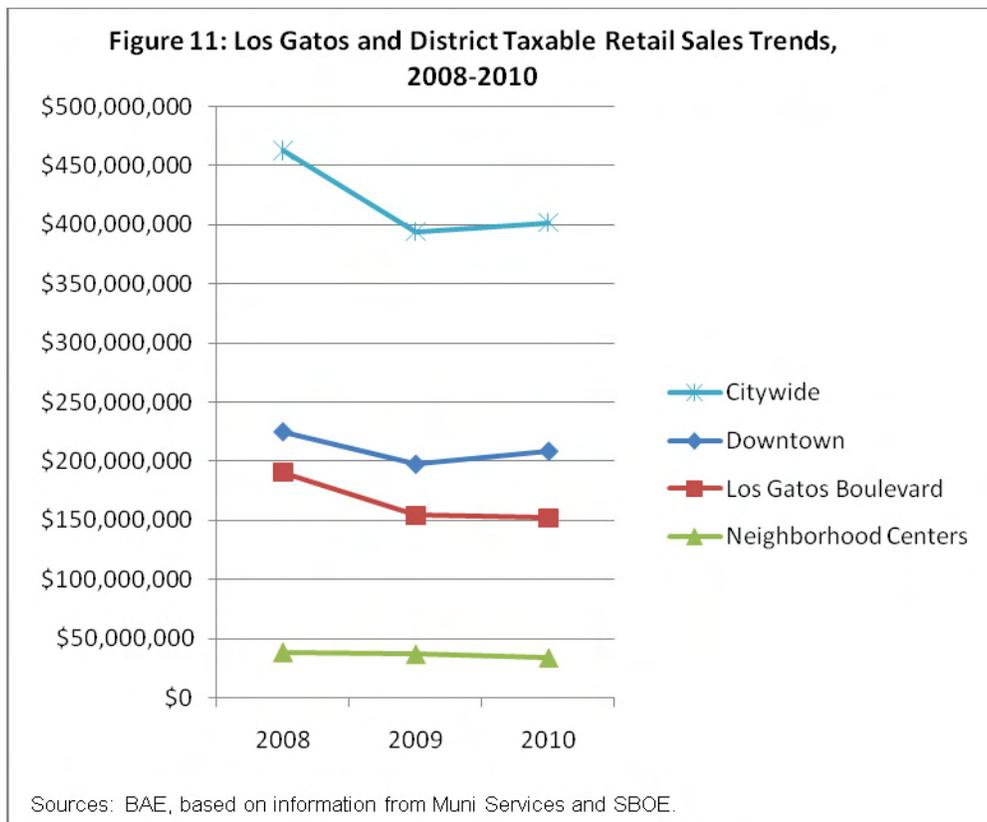
Source: BAE 2011, based on sources as noted in Appendix C.

²² As with the County, the reclassification of businesses in 2009 makes it possible that some of the change between 2008 and 2009 is due to businesses formerly classified as retail now being excluded from that group.

Los Gatos Taxable Retail Sales by District

The following analysis is based on information provided by the Town, broken out by three separate subareas: Downtown, including the Downtown Core, Downtown North, and Blossom Hill/University; Los Gatos Boulevard; and the neighborhood serving centers, including Rinconada Center, Vasona Station, Walgreens Square, and Downing Center.

Figure 11 provides an overview of recent taxable retail sales by subarea, as well as an indication of the levels of sales tax generation by each subarea relative to each other and the Town. Downtown is the largest of the three subareas in terms of taxable sales, with Los Gatos Boulevard slightly lower and the neighborhood centers contributing a far smaller share of the Town's overall taxable retail sales.²³



²³ The discussion here is with respect to *taxable* retail sales, not *total* retail sales. The three store types where this is significant factor are auto dealers (which often provide non-taxable services), food stores, and drug stores. Note that Netflix sales have been excluded from all years.

Downtown

In 2010, Downtown Los Gatos generated approximately \$209 million in taxable retail sales, or over 50 percent of the Town's total, indicating its significance as a shopping destination and as a tax generator for the Town (see Table 15). On an inflation-adjusted basis, this sales level has declined from \$225 million in 2008, but has rebounded from \$198 million in 2009. This uptick is due in part to increasing sales at the Apple Store, which is one of the top 25 largest sales tax generators in the Town.

While disclosure rules for SBOE data limit the detail that can be provided, the Table also shows some sales by category. Of the disclosed categories, Eating and Drinking Places show annual taxable sales in the range of approximately \$64 million to \$67 million, and Apparel Stores have sales at approximately \$25 to \$27 million annually. Both of these categories had year-over-year sales declines between 2008 and 2009, but increases between 2009 and 2010. Apparel sales in 2010 were above 2008 levels on an inflation-adjusted basis. Most of the remaining taxable sales are lumped together in the Other Retail Stores category, which because of the disclosure issues also includes automotive, home furnishings/appliances, service stations, and general merchandise stores.²⁴ This large grouping of stores shows declining taxable sales in 2009, with limited recovery in 2010 to \$106 million.

Within the overall Downtown area, the Core is responsible for 80 percent of total taxable sales (also shown in Table 15). Downtown North makes up 16 percent of the Downtown total, with the remainder coming from the Blossom Hill/University area. These percentages vary little over the three-year period.

²⁴ Under this classification system there are two general merchandise stores, the two pharmacies. In some other tables in the analysis here for recent data, they have been placed in the health and personal care stores category per NAICS.

Table 15: Downtown Taxable Retail Sales Trends, 2008-2010

	2008	2009	2010
Sales in 2010 \$000 (a) (b) (c)			
Auto Dealers & Auto Supplies	#	#	#
Home Furnishings and Appliances	#	#	#
Bldg. Matr. and Farm Implements	\$5,528	\$4,399	\$5,654
Food Stores	\$4,710	\$4,323	\$4,457
Service Stations	#	#	#
Apparel Stores	\$26,413	\$24,805	\$26,574
General Merchandise Stores	#	#	#
Eating and Drinking Places	\$67,832	\$63,879	\$65,614
Other Retail Stores (c)	\$120,633	\$100,244	\$106,371
Retail Stores Total	\$225,115	\$197,650	\$208,671
Downtown Core	\$180,586	\$160,168	\$166,913
Downtown North	\$34,448	\$29,771	\$32,508
Blossom Hill/University	\$10,080	\$7,710	\$9,250

(a) Retail sales have been adjusted to 2010 dollars based on the Bay Area Consumer Price Index, U.S. Bureau of Labor Statistics. Categories used here are based on the 2007 and earlier SBOE classification system, due to the source used.

(b) Analysis excludes all non-retail outlets (business and personal services) reporting taxable sales.

(c) A "#" sign indicates data unavailability for the category due to SBOE confidentiality rules that suppress data when there are four or fewer outlets or sales in a category dominated by one store. Suppressed sales have been combined with Other Retail Stores.

Sources: SBOE; U.S. Bureau of Labor Statistics; Muni Services; Town of Los Gatos; BAE, 2011.

Formula retail, while restricted in the Downtown Core, nevertheless accounts for a significant proportion of taxable retail sales. In 2010, stores designated as formula retail in the Downtown Core provided over 30 percent of all taxable retail sales in the area, while making up only 11 percent of the retail outlets (excluding food-related retail and service stations). Appendix J provides a map showing the location of formula retailers in the Downtown Core.

Over half of the Downtown Core's taxable sales in apparel stores are in formula retail stores, and a much higher proportion of taxable sales in home furnishings and appliances are in formula retail stores. The only drug store downtown is Pharmaca, a formula retailer. The recently closed Border's, a formula store, was the only bookstore. Excluding restaurants and food stores (neither of which are subject to the formula retail ordinance), formula retailers account for over half of the taxable retail sales in the Downtown Core.

Long-term trends in overall taxable sales in the Downtown Core from 2000 through 2010 are presented in Table 16.²⁵ This period covers two major recessions and the opening in 2003 of Santana Row, a major perceived competitor for Downtown Los Gatos. As shown, in inflation-

²⁵ Additional detail by category is unavailable due to SBOE disclosure rules.

adjusted dollars, sales were substantially higher in 2000 than in 2010. Sales declined from 2000 through 2003, but rebounded in 2004 even with Santana Row opening in 2003. Sales increased again in 2005, declined in 2006, increased to a post-2010 peak in 2007, and then declined as the recession took hold, reaching the low point of the decade in 2009. A modest increase was seen in 2010. It appears that general macroeconomic regional trends were a greater factor influencing sales levels in the Core than the additional competition provided by Santana Row.

Much of this decline, however, was not in the major retail categories for the Core, but instead in auto-related retail (dealers and service stations) and non-retail outlets (personal and business services). The key retail sectors combined showed smaller declines over the decade, and eating and drinking places showed much less variation over the ten years.

Table 16: Downtown Core Taxable Retail Sales Trends

Sales in 2010 \$000 (a)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Retail Stores Total	\$226,509	\$191,596	\$169,509	\$164,749	\$179,016	\$202,584	\$191,590	\$207,465	\$180,586	\$160,168	\$166,913
All Other Outlets	\$23,038	\$20,582	\$12,579	\$10,526	\$10,364	\$9,398	\$11,766	\$12,011	\$10,001	\$9,385	\$8,220
Total All Outlets	\$249,547	\$212,179	\$182,088	\$175,275	\$189,380	\$211,982	\$203,356	\$219,475	\$190,587	\$169,554	\$175,134
Key Retail Sectors (b)	\$119,352	\$106,677	\$91,409	\$83,804	\$91,138	\$92,523	\$89,597	\$95,287	\$95,231	\$84,540	\$97,807
Eating & Drinking Places	\$62,407	\$57,763	\$55,596	\$57,526	\$57,712	\$62,057	\$61,172	\$66,876	\$62,053	\$58,503	\$59,108
Other Outlets, Combined (c)	\$33,105	\$28,353	\$19,413	\$17,746	\$17,941	\$17,480	\$18,884	\$16,275	\$13,935	\$12,611	\$11,977

(a) Retail sales have been adjusted to 2010 dollars based on the Bay Area Consumer Price Index, from the U.S. Bureau of Labor Statistics.

(b) Includes all retail sectors except auto dealers & supplies, service stations, and eating and drinking places.

(c) Includes auto dealers & supplies, services stations, and non-retail (all other outlets).

Sources: 2000 and 2010 U.S. Census; State Board of Equalization; CA Dept. of Industrial Relations; U.S. Bureau of Labor Statistics; BAE, 2011.

In summary, Downtown's taxable retail sales declined as the recession took hold in 2009, but have recovered somewhat in 2010, albeit not to the levels of 2008. The Core constitutes the large majority of sales in the overall Downtown area. While formula retail outlets make up only a small proportion of all stores in the Downtown Core, they generate nearly one-third of the Core's taxable retail sales, and are dominant sales in apparel stores, home furnishings and appliance stores, and general merchandise/drug stores. Excluding restaurants and food stores (which are not subject to the formula retail ordinance), formula retailers account for over half of the taxable sales in the Downtown Core.

Los Gatos Boulevard

As shown in Table 17, the Los Gatos Boulevard commercial district had taxable retail sales of approximately \$152 million in 2010. This is a steep decline from \$191 million in 2008 (inflation adjusted), and results largely from declines in the automotive sector, due to the closure of two

major dealerships. Taxable sales in the automotive sector on Los Gatos Boulevard declined from \$80 million in 2008 to \$57 million in 2010.

Due to SBOE data rules, the only other sectors presented separately are food stores and eating and drinking places. Food store sales have been relatively constant at slightly below \$22 million annually, as consumers continue to purchase groceries even as they forgo larger purchases such as cars. Most of these sales occur at the four supermarkets, with limited sales at scattered smaller outlets. It should be noted that as a “rule of thumb,” only about one-third of food store sales are taxable; if non-taxable sales are considered, the food stores generate a much larger share of retail sales on Los Gatos Boulevard. Eating and drinking places have seen a very slight decline over the 2008 to 2010 period, to approximately \$14 million annually in 2010. Other retail outlets combined have also seen a decline in taxable sales, from \$73 million in 2008 to \$59 million in 2010.

Table 17: Los Gatos Boulevard Taxable Retail Sales Trends, 2008-2010

	2008	2009	2010
Sales in 2010 \$000 (a) (b) (c)			
Auto Dealers & Auto Supplies	\$80,449	\$57,481	\$56,771
Home Furnishings and Appliances	#	#	#
Bldg. Matrl. and Farm Implements	#	#	#
Food Stores	\$21,557	\$21,536	\$21,792
Service Stations	#	#	#
Apparel Stores	#	#	#
General Merchandise Stores	#	#	#
Eating and Drinking Places	\$15,528	\$15,276	\$14,498
Other Retail Stores (c)	\$73,102	\$59,962	\$59,018
Retail Stores Total	\$190,636	\$154,255	\$152,078

(a) Retail sales have been adjusted to 2010 dollars based on the Bay Area Consumer Price Index, U.S. Bureau of Labor Statistics. Categories used here are based on the 2007 and earlier SBOE classification system, due to the source used.

(b) Analysis excludes all non-retail outlets (business and personal services) reporting taxable sales.

(c) A "#" sign indicates data unavailability for the category due to SBOE confidentiality rules that suppress data when there are four or fewer outlets or sales in a category dominated by one store. Suppressed sales have been combined with Other Retail Stores.

Sources: SBOE; U.S. Bureau of Labor Statistics; Muni Services; Town of Los Gatos; BAE, 2011.

Neighborhood Centers

The neighborhood centers (Downing Center, Rinconada Center, Vasona Station, and Walgreens Square) provide a much smaller share of the Town’s sales tax than Downtown or Los Gatos Boulevard. These centers combined accounted for approximately \$34 million in taxable retail sales in 2010 (see Table 18). With the exception of Vasona Station, these centers are dominated by supermarkets or chain pharmacies and thus disclosure rules prohibit showing information on individual centers or by type of retail.

Table 18: Neighborhood Centers Taxable Retail Sales Trends, 2008-2010

Sales in 2010 \$000 (a) (b) (c)	2008	2009	2010
Retail Stores Total	\$38,604	\$36,769	\$33,741

(a) Retail sales have been adjusted to 2010 dollars based on the Bay Area Consumer Price Index, U.S. Bureau of Labor Statistics. Categories used here are based on the 2007 and earlier SBOE classification system, due to the source used.

(b) Analysis excludes all non-retail outlets (business and personal services) reporting taxable sales.

(c) A "#" sign indicates data unavailability for the category due to SBOE confidentiality rules that suppress data when there are four or fewer outlets or sales in a category dominated by one store. Suppressed sales have been combined with Other Retail Stores.

Sources: SBOE; U.S. Bureau of Labor Statistics; Muni Services; Town of Los Gatos; BAE, 2011.

Leakage and Injection Analysis for Los Gatos and the Retail Trade Area (RTA)

Overview of Methodology

Retail leakage and injection analysis compares actual retail sales in an area with some benchmark that provides a measure of the potential sales generated by that area's residents. If sales levels are below the predicted level, the area may be able to support increased sales, either through the opening of new outlets targeting those leakages or a repositioning of existing outlets through changes in strategy and marketing, merchandise mix, or store configuration such that they could capture a portion of that leakage.

A lower-than-predicted sales volume is a strong indicator that consumers are traveling outside the area to shop; thus, the sales are “leaking” out of the study area. Conversely, if the area shows more sales than would be expected from the area's characteristics, there are sales “injections” into the study area. Often, an injection of sales indicates that the study area is serving as the regional shopping destination for a broader area. On the other hand, if an area shows substantial leakage, it may be due to the presence of a region-serving retail node outside but near the study area capturing those “leaked” sales.

There are a number of factors that can be used to predict sales levels, with the two most important factors being the number of persons in the area and the disposable income available to that population. Additional factors influencing retail spending in an area include household type, age of population, number of workers in the area (i.e., daytime population), tourism expenditures, tenure patterns (owner vs. renter), and cultural factors.

As noted above, Los Gatos and the RTA have overall per capita sales above county and statewide levels. This alone, however, does not indicate that these areas are necessarily capturing sales from other locales; for instance, higher income levels could account in part for differing local spending patterns, and shopping patterns may vary due to consumer preferences as well as the retail options available locally.

To better determine the levels of leakages and injections for Los Gatos and the RTA, BAE has obtained a Nielsen/Claritas Retail Market Potential Opportunity Gap (RMP) report for the two geographies. This report estimates retail demand based on the Consumer Expenditure Survey, a national survey conducted for the Department of Labor Bureau of Labor Statistics by the U.S. Census Bureau which measures consumer expenditures and provides data on differing spending patterns by age, income, ethnicity, and other variables. This source information is converted to expected expenditures by store type, to obtain an estimate of demand by retail store category. Next, BAE fine-tuned the RMP expenditure estimates based on actual expenditure patterns in Santa Clara County as reflected in total retail sales by major store category.

Following the calculation of the RMP expenditure estimate, the next step in the leakage analysis is the use of an adjustment factor by store category to take into account changes in actual sales and potential demand since 2008, the year for which actual data were obtained.²⁶ For Los Gatos, these adjustment factors are derived from the change in actual sales by major store category between 2008 and 2010 as indicated in the analysis of taxable sales data, and on a national demand adjustment factor based on changes in inflation-adjusted per capita sales derived from national data on estimated retail sales. These multipliers vary by retail store type; for instance, since food items are a daily necessity, food store sales have not declined as much on a percentage basis as other categories.²⁷ For the RTA, the national adjustor is used throughout, since no comparative data for 2010 are available for the area.

The refined demand/expenditure data are then compared to the estimated sales by major store category for Los Gatos and the RTA as shown above in Table 19, on a total and per capita basis.

²⁶ Taxable sales data could not be obtained for the RTA as it crosses jurisdictional boundaries and includes unincorporated areas for which data are not published. The data source used also takes into account total retail sales, not just taxable sales.

²⁷ The procedure here is conservative in that it adjusts expected sales downward to reflect current recessionary conditions. It is possible that economic conditions will improve by the time any retail outlets actually open in the North 40.

The results of the leakage analysis are summarized in Figure 12 and Table 19, with detail on this analysis provided in Appendices D and E.

Los Gatos Leakage Analysis

With its high per capita sales levels, Los Gatos shows injections of sales in most major store categories, as shown in Figure 12. Injections are particularly high for food and beverage stores, motor vehicle and parts dealers, food services, and health and personal care stores.²⁸ Two categories, building materials and general merchandise stores, stand out for their substantial leakages; over half of potential resident expenditures in the building materials category are leaking out of Los Gatos, and nearly all resident expenditures for general merchandise stores appear to be leaking out of Los Gatos. The lack of sales in general merchandise stores is directly related to the lack of such stores in Los Gatos;²⁹ in fact, the California State Board of Equalization (SBOE) does not currently report any outlets in this category in the Town. For the building materials group, there are several outlets including two hardware stores, but the Town does not have a large home improvement store such as Home Depot or an independent lumber yard. Overall, the analysis indicates that by major store category, Los Gatos has estimated combined injections of nearly \$320 million in retail sales annually, and combined estimated leakages of approximately \$80 million annually.

The high level of injections of sales for food and beverage stores is particularly noteworthy, since groceries are a convenience item that is usually purchased locally. To some extent, this is due to the location of the stores in Los Gatos. The Safeway stores in the Downing and Rinconada Centers are near the Town boundary, and their specific local trade areas include areas outside the Town. Furthermore, the two neighboring cities of Saratoga and especially Monte Sereno and the unincorporated areas to the south of Town have limited retail offerings, with Los Gatos offering the closest shopping for some of their residents. This may be a factor for other store types also, particularly health and personal care stores.

Additionally, Los Gatos Boulevard has four supermarkets on a major arterial street which continues into neighboring Campbell and San Jose; two of these stores, Whole Foods and Trader Joe's, are niche stores which likely draw from a larger area than a generic neighborhood-serving store would, and Lunardi's is a smaller local chain which also attracts shoppers from a larger trade area.

Another issue to consider in evaluating leakages and injections is the potential for substitution by store type. For example, apparel can be purchased in both clothing stores and general merchandise stores. In Los Gatos, the lack of general merchandise stores may be responsible for some injections, particularly for drug stores, which are in the health and personal care store

²⁸ The health and personal care stores category includes pharmacies as the largest subcategory.

²⁹ The closest major general merchandise store to Los Gatos is the Target on Hillside Avenue in San Jose.

category.³⁰ While the majority of drug store dollars are spent at the prescription counter, chain drug stores stock a variety of everyday items that are typically found in larger discount department stores. Supermarkets also carry a selection of housewares, paper goods, and other items that one might also purchase at a discount department store.

One additional key factor is that one outlet with extremely strong sales can mask poor performance by the rest of that store category. For example, in Los Gatos the home furnishings and appliances category is dominated by sales in the Apple Store. This store's extremely strong sales may be masking limited sales across the remainder of the category. This issue will be explored in the discussion of per capita sales by more detailed store type found after the leakage analysis for the RTA.

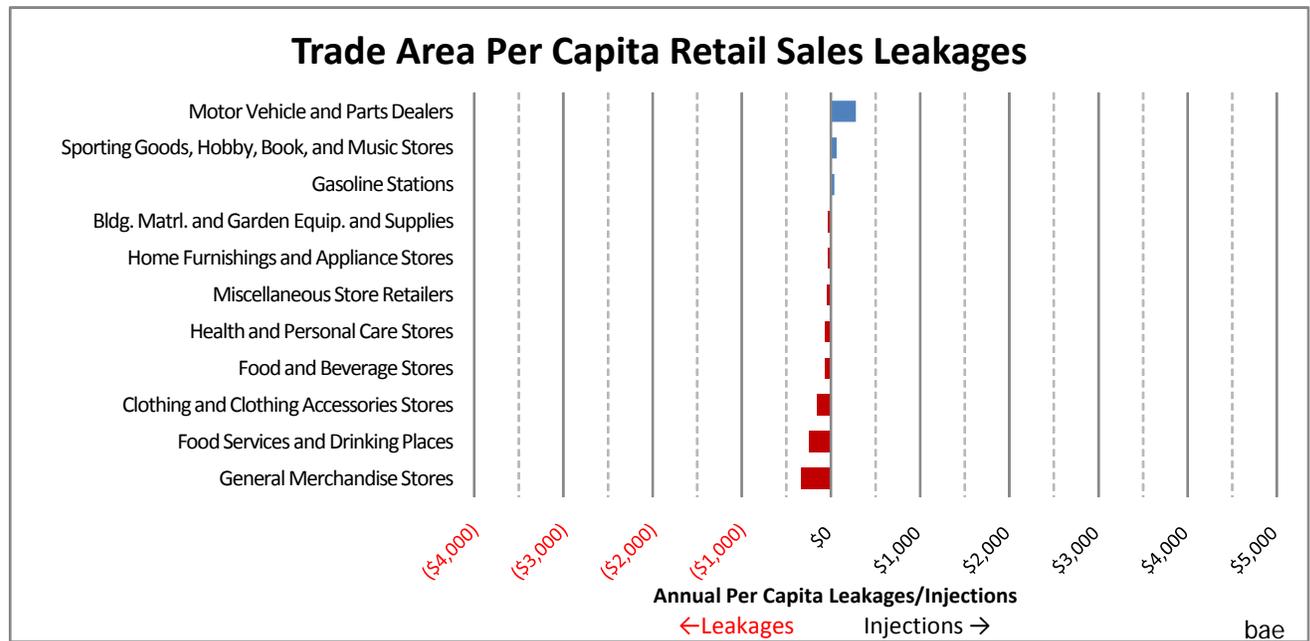
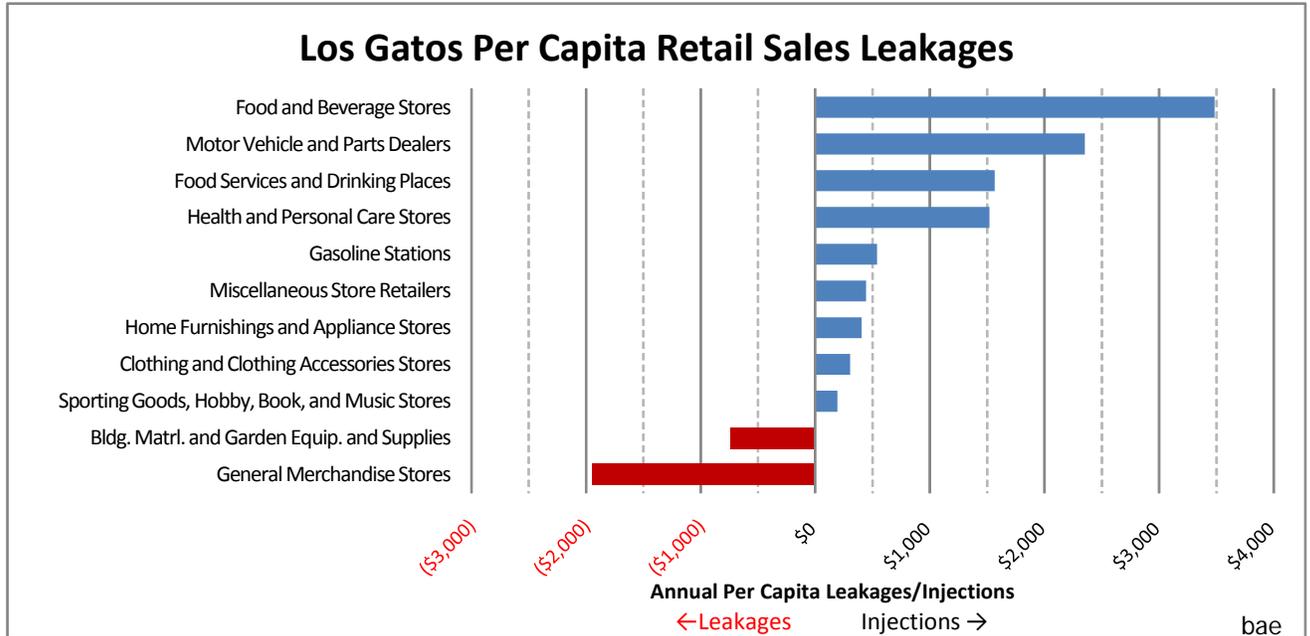
Retail Trade Area Leakage Analysis

For the larger RTA, the levels of leakages and injections appear to be much lower on a per capita basis, indicating a relative balance between retail sales and resident expenditures in most categories. Even though the RTA is much more populous than the Town, estimated combined injections are lower, at approximately \$230 million annually, and are concentrated in auto-related retail. The combined leakages are greater, at nearly \$590 million annually, but are spread across a number of categories, with the largest leakages in the general merchandise store category. The leakages in the general merchandise category may be related in part to Westfield Valley Fair's presence just outside the RTA although it certainly attracts sales out of the RTA to its anchor stores.³¹

³⁰ In fact, up until 2009, SBOE classified drug stores as general merchandise stores.

³¹ Valley Fair straddles the Santa Clara/San Jose city line and has a Santa Clara Zip Code address which is not part of the RTA.

Figure 12: Per Capita Retail Sales Leakages by Major Retail Store Category



Source: BAE Urban Economics, based on sources as noted in Table 19 and Appendices D and I.

Table 19: Summary of Leakage Analysis

Los Gatos

Store Category

Motor Vehicle and Parts Dealers
 Home Furnishings and Appliance Stores
 Bldg. Matrl. and Garden Equip. and Supplies
 Food and Beverage Stores
 Health and Personal Care Stores
 Gasoline Stations
 Clothing and Clothing Accessories Stores
 Sporting Goods, Hobby, Book, & Music Stores
 General Merchandise Stores
 Miscellaneous Store Retailers
 Food Services and Drinking Places

2010 Total Annual Retail Sales in \$000		Total Injection/ (Leakage) \$000	Per Capita Injection/ (Leakage)	Injection/ Leakage as % of Potential Sales	
Estimated Sales in Area	Estimated Resident Expenditures				
\$161,339	\$92,148	\$69,191	\$2,352	75%	
\$47,964	\$36,100	\$11,864	\$403	33%	
\$14,043	\$35,723	(\$21,680)	(\$737)	-61%	
\$179,336	\$76,836	\$102,500	\$3,485	133%	
\$70,701	\$26,001	\$44,700	\$1,520	172%	
\$44,782	\$28,923	\$15,858	\$539	55%	
\$48,247	\$39,330	\$8,917	\$303	23%	
\$18,819	\$13,141	\$5,678	\$193	43%	
\$999	\$58,322	(\$57,323)	(\$1,949)	-98%	
\$26,420	\$13,389	\$13,031	\$443	97%	
\$119,818	\$73,758	\$46,060	\$1,566	62%	
Total	\$732,467	\$493,672	\$238,795	\$8,119	48%

Market Area

Store Category

Motor Vehicle and Parts Dealers
 Home Furnishings and Appliance Stores
 Bldg. Matrl. and Garden Equip. and Supplies
 Food and Beverage Stores
 Health and Personal Care Stores
 Gasoline Stations
 Clothing and Clothing Accessories Stores
 Sporting Goods, Hobby, Book, & Music Stores
 General Merchandise Stores
 Miscellaneous Store Retailers
 Food Services and Drinking Places

2010 Total Annual Retail Sales in \$000		Total Injection/ (Leakage) \$000	Per Capita Injection/ (Leakage)	Injection/ Leakage as % of Potential Sales	
Estimated Sales in Area	Estimated Resident Expenditures				
\$1,682,675	\$1,513,989	\$168,686	\$278	11%	
\$560,862	\$581,031	(\$20,169)	(\$33)	-3%	
\$560,238	\$577,276	(\$17,038)	(\$28)	-3%	
\$1,319,441	\$1,361,405	(\$41,963)	(\$69)	-3%	
\$399,097	\$436,516	(\$37,419)	(\$62)	-9%	
\$534,082	\$510,114	\$23,968	\$40	5%	
\$565,599	\$658,592	(\$92,993)	(\$153)	-14%	
\$252,796	\$214,317	\$38,479	\$63	18%	
\$798,972	\$1,002,377	(\$203,405)	(\$336)	-20%	
\$196,399	\$223,713	(\$27,314)	(\$45)	-12%	
\$1,127,384	\$1,276,097	(\$148,714)	(\$245)	-12%	
Total	\$7,997,544	\$8,355,427	(\$357,882)	(\$591)	-4%

All sales and leakages are in 2010 dollars. For detail on methodology and sources, see Appendices D and I.

Sources: BAE, based on sources as noted in Appendix D.

Comparative Retail Sales by Detailed Store Category

While the leakage analysis above provides a broad-brush picture of the retail market in Los Gatos and the RTA, a more detailed approach should give a better view of particular subcategories that may have weak or strong sales relative to the population base. The following analysis drills down to more detailed store types by NAICS code, by comparing annual per capita sales for Los Gatos and the RTA with Santa Clara County.

This analysis is not a more detailed version of the leakage analysis itself, but a slightly different type of analysis. First, it does not take into account changes in sales since 2008, as it was not possible to provide adjustments at this greater level of detail. For example, the declines in motor vehicle sales due to dealer closures is not taken into account, nor are the increasing sales for the Apple Store, which were considerably higher in 2010 than 2008. This is noted in the discussion which follows with respect to car dealers and the Apple Store. Second, the analysis includes no adjustments for local demographics (e.g., high incomes and home ownership) as provided by the RMP report from Nielsen/Claritas. The ability of consumers to substitute between store types and the quality of the RMP data do not reasonably allow per capita sales adjustment factors for these more detailed store types.

The tables in the following discussion highlight the subcategories where Los Gatos' per capita sales are more than 50 percent below those for Santa Clara County, as these may represent some of the better opportunities to expand retail in the Town, and because this extreme level of variation would still be present even if adjustments for local conditions in the Town and the RTA had been possible. Since the County has lower overall income levels and lower expected resident expenditures, this is a strong indicator of subcategories where there is a substantial gap between sales and expenditures in the Town.³² The following discussion is organized by major retail category as shown in the leakage analysis above.

³² It should also be noted that the sales figures here in this detailed analysis are based on 2008 sales and are inflation-adjusted only, and have not been adjusted to account for changes in the economy and retail mix subsequent to 2008, such as the decline in new car sales in Los Gatos due to the closure of several car dealerships and the overall decline in the economy. The prior overall leakage analysis section makes adjustments for these factors.

Motor Vehicle and Parts Dealers. As noted in the leakage analysis above, Los Gatos is attracting sales in this category, even after adjusting for the considerably lower sales levels of 2010. Within the category, the Town's sales are concentrated in the new car dealer subcategory; furthermore, Los Gatos has two luxury car dealers selling relatively expensive automobiles. The Town has no used car, RV, or boat dealers, but these are retail types unlikely to find suitable sites in Los Gatos. Furthermore, these subcategories appear to be better-represented in the larger RTA, so the general region is fairly well-served. Once again, it is important to note that the sales in this detailed analysis are from 2008, and do not always reflect current conditions, e.g., dealer closures.

2008 Estimated Annual Per Capita Sales in 2010 \$	Los Gatos		Retail Trade Area		Santa Clara County
	Per Capita Sales	As % of County	Per Capita Sales	As % of County	
New car dealers	\$8,100	366%	\$2,699	122%	\$2,211
Used car dealers	\$0	0%	\$59	153%	\$39
Recreational vehicle dealers	\$0	0%	\$0	0%	\$17
Motorcycle, ATV, and personal watercraft dealers	\$154	297%	\$68	131%	\$52
Boat dealers	\$0	0%	\$12	166%	\$7
All other motor vehicle dealers	\$0	0%	\$12	259%	\$5
Automotive parts and accessories stores	\$123	114%	\$98	90%	\$108
Tire dealers	\$144	192%	\$80	107%	\$75
Motor Vehicle and Parts Dealers	\$8,521		\$3,028		\$2,514

Home Furnishings and Appliance Stores. The broad-brush leakage analysis in the previous section of this report indicates substantial injections for this major category overall, likely driven in large part by the Apple Store. Unfortunately, the sales data presented do not show this effect fully, as the store had not yet reached current sales levels and the following numbers do not take into account the increase in sales in the Apple Store since 2008. Nevertheless, the data do indicate some potential opportunities for Los Gatos. While the Town also shows strong per capita furniture store sales, appliance store and electronics (excluding computers) stores show sales below countywide levels. Appliance stores in particular appear to be a gap in the retail mix. Although computer store sales shown here based on 2008 data appear low, this subcategory may no longer have such low per capita sales due to the Apple Store's increasing sales.

2008 Estimated Annual Per Capita Sales in 2010 \$	Los Gatos		Retail Trade Area		Santa Clara County
	Per Capita Sales	As % of County	Per Capita Sales	As % of County	
Furniture stores	\$448	320%	\$143	102%	\$140
Floor covering stores	\$27	56%	\$41	85%	\$49
Window treatment stores	\$17	274%	\$6	96%	\$6
All other home furnishings stores	\$561	374%	\$207	138%	\$150
Household appliance stores	\$10	20%	\$47	95%	\$50
Radio, television, and other electronics stores	\$89	37%	\$251	104%	\$241
Computer and software stores	\$116	35%	\$334	100%	\$335
Camera and photographic supplies stores	\$72	306%	\$26	109%	\$23
Home Furnishings and Appliance Stores	\$1,340		\$1,054		\$994

³³ The sources for these tables can be found in Appendix A.

Building Materials, and Garden Equipment and Supplies. This major store category was one of the two that showed leakages for Los Gatos. This is largely due to the lack of a large home improvement store such as Lowe’s or Home Depot. The Town’s sales in this category are concentrated in the hardware store subcategory, which has per capita sales higher than the RTA or the County. This is likely an example where local shoppers are substituting purchases at local hardware stores and garden centers for purchases at home improvement centers. This propensity to purchase locally rather than drive out of town to a home improvement center is limited, though, as the overall building materials/garden equipment category still has estimated per capita sales below RTA and countywide levels.

2008 Estimated Annual Per Capita Sales in 2010 \$	Los Gatos		Retail Trade Area		Santa Clara County
	Per Capita Sales	As % of County	Per Capita Sales	As % of County	
Home centers	\$0	0%	\$407	108%	\$378
Paint and wallpaper stores	\$10	36%	\$51	179%	\$29
Hardware stores	\$397	356%	\$229	205%	\$112
Other building material dealers	\$103	29%	\$243	68%	\$360
Outdoor power equipment stores	\$0	0%	\$12	112%	\$11
Nursery, garden center, and farm supply stores	\$150	250%	\$80	133%	\$60
Bldg. Matrl. and Garden Equip. and Supplies	\$660		\$1,023		\$949

Food and Beverage Stores. Los Gatos is unusual in the level of sales capture in this overall category, where per capita sales are estimated to be over twice the level of local resident expenditures. As discussed above, this is due in part to the location of many of the stores, particularly the two Safeways near opposite edges of the Town, as well as the attraction to these stores of residents of nearby unincorporated areas to the south of Town, since Los Gatos supermarkets are the closest such stores. Also discussed above, the cluster of supermarkets on Los Gatos Boulevard includes stores that have a more region-serving nature, and the lack of general merchandise stores in Town may lead to local shoppers purchasing a higher proportion of non-grocery items in these local supermarkets. Additionally, the downtown Safeway is the closest supermarket to Monte Sereno and some of Saratoga.

Despite the Town’s profile, with high home ownership and income levels, the Town has limited specialty food retail, showing no sales in meat markets, fish and seafood markets, and produce markets.³⁴ Given the Town’s already-strong attraction as a food shopping destination, this may represent an opportunity to broaden the food retailing mix and enhance the Town’s strong position for this retail category.

³⁴ Los Gatos Meats and Smokehouse provides some specialty meats, but is classified as a restaurant.

2008 Estimated Annual Per Capita Sales in 2010 \$	Los Gatos		Retail Trade Area		Santa Clara County
	Per Capita Sales	As % of County	Per Capita Sales	As % of County	
Supermarkets and other grocery (except convenience) stores	\$6,055	319%	\$1,967	104%	\$1,897
Convenience stores	\$301	335%	\$75	84%	\$90
Meat markets	\$0	0%	\$12	100%	\$12
Fish and seafood markets	\$0	0%	\$4	122%	\$3
Fruit and vegetable markets	\$0	0%	\$8	66%	\$12
Baked goods stores	\$3	73%	\$3	71%	\$5
Confectionery and nut stores	\$58	592%	\$18	185%	\$10
All other specialty food stores	\$17	171%	\$15	147%	\$10
Beer, wine, and liquor stores	\$68	82%	\$92	111%	\$83
Food and Beverage Stores	\$6,503		\$2,195		\$2,122

Health and Personal Care Stores. This category is dominated by drug stores, and shows substantial injections in Los Gatos. As noted in the leakage analysis, some of these injections may be due to local residents using drug stores as general merchandise stores due to the lack of such stores in the Town. Additionally, many of the drug stores are at or near the edges of the Town, with even the Downtown Walgreens as the closest pharmacy for Monte Sereno and some of Saratoga.

2008 Estimated Annual Per Capita Sales in 2010 \$	Los Gatos		Retail Trade Area		Santa Clara County
	Per Capita Sales	As % of County	Per Capita Sales	As % of County	
Pharmacies and drug stores	\$1,658	313%	\$509	96%	\$530
Cosmetics, beauty supplies, and perfume stores	\$636	882%	\$81	112%	\$72
Optical goods stores	\$17	63%	\$31	112%	\$27
Food (health) supplement stores	\$17	95%	\$23	127%	\$18
All other health and personal care stores	\$55	327%	\$15	92%	\$17
Health and Personal Care Stores	\$2,383		\$658		\$664

Clothing and Clothing Accessories Stores. Los Gatos has strong sales in this major retail category, and in most of the subcategories. There are no estimated sales in the clothing accessories subcategory, but this subcategory represents a fairly small proportion of sales in the clothing store group. Thus the overall sales injections for clothing and clothing accessories stores reflects an overall strength, with limited opportunities to capture additional sales from Los Gatos residents. However, it should be noted that the apparel stores in the Town tend to be high-end stores, not necessarily reflecting the types of inexpensive everyday apparel more commonly found in discount general merchandise stores such as Target, Kmart, or Walmart, or in lower-end mall department stores such as JC Penney or Sears.

2008 Estimated Annual Per Capita Sales in 2010 \$	Los Gatos		Retail Trade Area		Santa Clara County
	Per Capita Sales	As % of County	Per Capita Sales	As % of County	
Men's clothing stores	\$41	89%	\$38	82%	\$46
Women's clothing stores	\$431	231%	\$113	60%	\$186
Children's and infants' clothing stores	\$65	147%	\$43	98%	\$44
Family clothing stores	\$557	129%	\$463	107%	\$433
Clothing accessories stores	\$10	31%	\$11	34%	\$33
Other clothing stores	\$92	196%	\$70	148%	\$47
Shoe stores	\$106	83%	\$102	80%	\$128
Jewelry stores	\$222	184%	\$119	99%	\$120
Luggage and leather goods stores	\$82	365%	\$12	53%	\$22
Clothing and Clothing Accessories Stores	\$1,607		\$970		\$1,061

Sporting Goods, Hobby, Book, and Music Stores. Among this group of store types, Los Gatos shows per capita sales above Santa Clara County for most subcategories. Sporting goods store sales, the largest category, are due in large part to the Town's bicycle shops. Los Gatos shows no sales for news dealers/newsstands and prerecorded tape, compact disc, and record stores, but these categories are small categories which have been impacted by a switch to online news reading and downloadable music. Additionally, the per capita book store sales shown here for the Town do not take into account the recent closure of Borders; it is possible there may now be an opportunity for a smaller, independent bookstore in Los Gatos, but this subcategory has also been impacted by online sales (e.g., Amazon) and now by e-readers, which may affect the potential long-term viability of such a store.

2008 Estimated Annual Per Capita Sales in 2010 \$	Los Gatos		Retail Trade Area		Santa Clara County
	Per Capita Sales	As % of County	Per Capita Sales	As % of County	
Sporting goods stores	\$274	207%	\$208	158%	\$132
Hobby, toy, and game stores	\$144	218%	\$82	124%	\$66
Sewing, needlework, and piece goods stores	\$51	447%	\$22	188%	\$11
Musical instrument and supplies stores	\$14	52%	\$24	91%	\$27
Book stores	\$116	129%	\$84	94%	\$90
News dealers and newsstands	\$0	0%	\$0	0%	\$1
Prerecorded tape, compact disc, and record stores	\$0	0%	\$9	89%	\$10
Sporting Goods, Hobby, Book, and Music Stores	\$598		\$429		\$337

General Merchandise Stores. Los Gatos is almost entirely lacking in general merchandise stores, and as a result has almost no sales in this category. While some of these sales may be occurring in other types of outlets such as drug stores, this category overall represents a substantial gap in the retail mix in the Town.

2008 Estimated Annual Per Capita Sales in 2010 \$	Los Gatos		Retail Trade Area		Santa Clara County
	Per Capita Sales	As % of County	Per Capita Sales	As % of County	
Department stores (except discount department stores)	\$0	0%	\$449	103%	\$435
Discount department stores	\$0	0%	\$459	78%	\$587
Warehouse clubs and supercenters	\$0	0%	\$239	51%	\$468
All other general merchandise stores	\$44	65%	\$181	264%	\$68
General Merchandise Stores	\$44		\$1,328		\$1,558

Miscellaneous Store Retailers. Los Gatos has extremely strong per capita sales across the store types comprising this catch-all major category. The two store types with very limited per capita sales have special market niches that are not substantial opportunities in the context of the Los Gatos retail mix.

2008 Estimated Annual Per Capita Sales in 2010 \$	Los Gatos		Retail Trade Area		Santa Clara County
	Per Capita Sales	As % of County	Per Capita Sales	As % of County	
Florists	\$38	300%	\$19	153%	\$13
Office supplies and stationery stores	\$209	289%	\$80	110%	\$72
Gift, novelty, and souvenir stores	\$431	825%	\$70	134%	\$52
Used merchandise stores	\$10	28%	\$30	82%	\$36
Pet and pet supplies stores	\$243	374%	\$76	117%	\$65
Art dealers	\$21	495%	\$7	169%	\$4
Manufactured (mobile) home dealers	\$0	0%	\$0	0%	\$51
Tobacco stores	\$17	107%	\$21	133%	\$16
All other miscellaneous store retailers (except tobacco stores)	\$58	143%	\$35	86%	\$41
Miscellaneous Store Retailers	\$1,026		\$337		\$350

Food Services and Drinking Places. The Town's overall strength in this category as indicated above in the leakage analysis carries through for almost all of the subcategories. Full-service restaurants have particular strong per capita sales on an absolute basis, making up approximately half of the restaurant sales in the Town. The only subtype lacking in Los Gatos is cafeterias/grill buffets/buffets. This niche is probably not particularly well-suited to the area demographic profile of high income households.

2008 Estimated Annual Per Capita Sales in 2010 \$	Los Gatos		Retail Trade Area		Santa Clara County
	Per Capita Sales	As % of County	Per Capita Sales	As % of County	
Full-service restaurants	\$2,181	263%	\$873	105%	\$831
Limited-service restaurants	\$684	110%	\$648	104%	\$622
Cafeterias, grill buffets, and buffets	\$0	0%	\$26	91%	\$29
Snack and nonalcoholic beverage bars	\$468	276%	\$192	113%	\$170
Food service contractors	\$561	233%	\$83	35%	\$240
Caterers	\$123	455%	\$17	63%	\$27
Mobile food services	\$7	753%	\$1	92%	\$1
Drinking places (alcoholic beverages)	\$185	379%	\$36	73%	\$49
Food Services and Drinking Places	\$4,209		\$1,876		\$1,969

Retail Market Assessment: Summary

Existing Conditions

Los Gatos has fared relatively well with respect to its retail real estate over the past few years. Currently, the retail vacancy rate for the Town is estimated at approximately five percent, indicative of a balanced market where vacancies occur as a regular part of the business cycle. Vacancy rates for the entirety of west Santa Clara County are slightly higher, but still not at extremely high rates on average. For the Town, low vacancies have been driven by the strong demographics of the area, and by a constrained supply; the supply of spaces of 10,000 square feet or more is particularly limited. The limited presence of national chains such as Borders that have undergone downsizing and liquidation has also helped keep vacancies lower in Los Gatos. Rents in Los Gatos declined at the onset of the recession, but have since rebounded somewhat. Downtown has shown the strongest rents and lesser dollar decreases.

The RTA contains a large mix and variety of regional retail centers ranging from discount to high end shopping, and from power centers to lifestyle centers to major enclosed malls. In addition to these centers, there are other regional centers beyond the RTA that draw shoppers from the RTA. Some of these centers both within and outside the RTA will be competitive with any region-serving retail at the North 40, depending on the particular shopping experience that is provided by the project. The RTA's retail sales for 2008 are estimated at approximately \$8.4 billion, about 10 times the sales in Los Gatos alone. While somewhat smaller proportionally than for the Town, motor vehicle and parts dealers, food and beverage stores, and food services and drinking places are the three largest categories for sales in the RTA. There are some variations by store category, but the RTA's levels of per capita sales are much closer to the countywide and statewide levels than the Town's.

Retail sales for the Town for 2008 are estimated at approximately \$838 million (in inflation-adjusted 2010 dollars). The three largest categories by sales volume are motor vehicle and parts dealers at 30 percent, food and beverage stores at 23 percent, and food services and drinking places at 15 percent. The proportion of the Town's total retail sales in motor vehicle and food store sales are considerably higher than found in the RTA, the County, or the State, although they have declined since 2008. The Town shows almost no sales in general merchandise stores, well below the proportions for the other geographies. On a per capita basis, retail sales in Los Gatos are quite high, at \$28,653 annually compared to less than \$14,000 annually for the other three geographies. Several sectors have per capita sales at more than twice the levels found in the RTA; the only sectors lagging the RTA in per capita sales are the building materials group and general merchandise stores.

Total inflation-adjusted taxable retail sales in Los Gatos dipped in the early part of the last decade following the dot-com bust, and then gradually increased to a peak in 2006; sales declined again

through 2009, then recovered slightly in 2010. These changes in retail sales occurred against a background of very limited population growth in the Town.

The key factor in the long-term decline of retail sales in Los Gatos is the decline in the motor vehicle sector. By 2010, taxable motor vehicle sales in the Town were only 21 percent of 2000 levels after adjusting for inflation. Most of the major retail sectors have 2010 inflation adjusted sales similar to those in 2000. Aside from the automotive sector, only the catch-all other retail group (which includes specialty retail such as sporting goods and books) shows a substantial decline, to 60 percent of 2000 levels.

The Town's primary retail areas are the Downtown, Los Gatos Boulevard and the neighborhood centers. Downtown has three subareas: the Downtown Core, Downtown North, and the Blossom Hill/University district. The Downtown Core represents the "heart" of Los Gatos, with a mix of small shops in a small-town main-street setting with numerous historic structures, primarily along Santa Cruz Avenue and Main Street.

The Core area accounts for nearly three-quarters of all businesses in the Downtown, and has the strongest orientation toward retail. The largest concentrations are in apparel, eating and drinking, and other retail, which includes various types of specialty retail outlets such as sporting goods, toy, and books/stationery stores. The Core is characterized by smaller floor plates, and because of the formula retail ordinance, the Core contains few chain retailers. With the exception of the eastern portion of Old Town, the Core businesses are for the most part directly adjacent to the street and sidewalks, with parking provided on-street and in municipal lots behind the stores on Santa Cruz.

In the North subarea, there are some larger stores, especially Walgreens and the soon-to-open rebuilt and expanded Safeway, and conventional strip centers such as the Walgreens Center and the Los Gatos Shopping Center, with stores set back from the street by parking lots.

Downtown is seen as a retail destination, drawing shoppers from Los Gatos as well as other nearby communities, especially Monte Sereno and Saratoga, which have limited retail offerings and come to Downtown for everyday items, specialty goods and services, and dining. Shoppers from other nearby cities such as Cupertino, Campbell, and San Jose, have ample convenience-oriented retail nearby but come to Los Gatos for the downtown experience. Downtown is also a tourist destination, with out-of-towners coming to experience the small town and pedestrian-friendly ambience.

In 2010, Downtown Los Gatos generated approximately \$209 million in taxable retail sales, or over 50 percent of the Town's total, confirming its significance as a shopping destination and as a tax generator for the Town. On an inflation-adjusted basis, this sales level has declined from \$225 million in 2008, but has rebounded from \$198 million in 2009. This uptick is due in part to increasing sales at the Apple Store, which is one of the largest sales tax generators in the Town.

Within the overall Downtown area, the Core is responsible for 80 percent of total taxable sales. Long-term trends in overall taxable sales in the Downtown Core show that in inflation-adjusted dollars, sales were substantially higher in 2000 than in 2010. Sales declined from 2000 through 2003, but rebounded in 2004 even with Santana Row opening in 2003. Sales increased again in 2005, declined in 2006, increased to a post-2010 peak in 2007, and then declined as the recession took hold, reaching the low point of the decade in 2009. A modest increase was seen in 2010. It appears that general macroeconomic regional trends were a greater factor influencing sales levels in the Core than the additional competition provided by Santana Row.

Much of this decline, however, was not in the major retail categories considered key sectors for the Core, but instead in auto-related retail (dealers and service stations) and non-retail outlets (personal and business services). The key retail sectors combined showed smaller declines over the decade, and eating and drinking places showed limited variation over the ten years.

Formula retail, while restricted in the Downtown Core, nevertheless accounts for a significant proportion of taxable retail sales. In 2010, stores designated as formula retail in the Downtown Core provided over 30 percent of taxable retail sales in the area, while making up only seven percent of the retail outlets. Over half of the Downtown Core's taxable sales in apparel stores are in formula retail stores, and a much higher proportion of taxable sales in home furnishings and appliances are in formula retail stores (due to the Apple Store). The only drug store downtown is Pharmaca, a formula retailer. The recently closed Border's, a formula store, was the only bookstore. Excluding restaurants and food stores (neither of them subject to the formula retail ordinance), formula retailers account for over half of the taxable retail sales in the Downtown Core.

Los Gatos Boulevard is a mix of community shopping centers, auto dealers and related businesses, and free-standing retail outlets. The four largest shopping centers are each anchored by a supermarket. Los Gatos Boulevard is strongly differentiated from Downtown in its retail mix, with a more limited number of stores carrying "comparison" goods such as home furnishings and apparel. There are considerably more mid-size store spaces, such as the supermarkets, drug stores, and the hardware store. While the Downtown configuration allows for a strong pedestrian-oriented experience, Los Gatos Boulevard is generally auto-oriented.

Los Gatos Boulevard had taxable retail sales of approximately \$152 million in 2010. This is a steep decline from \$191 million in 2008 (inflation adjusted), resulting largely from declines in the automotive sector, due to the closure of two major dealerships. Taxable sales in the automotive sector on Los Gatos Boulevard declined from \$80 million in 2008 to \$57 million in 2010.

Los Gatos has four major neighborhood centers: Rinconada Center, Downing Center, Walgreens Square, and Vasona Station. These centers are convenience-oriented, with anchors and other stores that largely serve nearby residents rather than attracting a regional clientele. Interestingly, these neighborhood centers are all located at or near the Town boundaries, thus attracting shoppers from outside the Town since they represent the closest grocery or drug store shopping. These centers

combined accounted for approximately \$34 million in taxable retail sales in 2010, a much smaller proportion than Downtown or Los Gatos Boulevard.

Leakage and Injection Analysis

Retail leakage and injection analysis compares actual retail sales in an area with some benchmark that provides a measure of the potential sales generated by that area's residents. If sales levels are below the predicted level, the area may be able to support increased sales, either through the opening of new outlets targeting those leakages or a repositioning of existing outlets through changes in strategy and marketing, merchandise mix, or store configuration such that they could capture a portion of that leakage.

Los Gatos

With its high per capita sales levels, Los Gatos shows injections of sales in most major store categories. Injections are particularly high for food and beverage stores, motor vehicle and parts dealers, food services (which includes restaurants), and health and personal care stores. Two categories, building materials and general merchandise stores, stand out for their substantial leakages; over half of potential resident expenditures in the building materials category are leaking out of Los Gatos, and nearly all resident expenditures for general merchandise stores appear to be leaking out of Los Gatos. The lack of sales in general merchandise stores is due to the near or complete absence of such stores in Los Gatos. For the building materials group, there are several outlets including two hardware stores, but the Town does not have a large home improvement store such as Home Depot or an independent lumber yard. Overall, the analysis indicates that by major store category, Los Gatos has estimated combined injections of nearly \$320 million in retail sales annually, and combined estimated leakages of approximately \$80 million annually.

The high level of injections of sales for food and beverage stores and for health and personal care stores is particularly noteworthy, since groceries and drug store items are convenience goods that are usually purchased locally. To some extent, this is due to the location of the stores in Los Gatos, often in centers near the boundaries of the Town. Furthermore, the two neighboring cities of Saratoga and especially Monte Sereno and the unincorporated areas to the south of Town have limited retail offerings, with Los Gatos offering the closest everyday shopping for some of their residents.

One additional key factor is that one outlet with extremely strong sales can mask poor performance by the rest of that store category. For example, in Los Gatos the home furnishings and appliances category is dominated by sales in the Apple Store. This store's extremely strong sales are masking limited sales across the remainder of the category.

Retail Trade Area

For the larger RTA, the levels of leakages and injections appear to be much lower on a per capita basis, indicating a relative balance between retail sales and resident expenditures in most

categories. Even though the RTA is much more populous than the Town, estimated combined injections are lower, at approximately \$230 million annually, and are concentrated in auto-related retail. The combined leakages are greater, at nearly \$590 million annually, but are spread across a number of categories, with the largest leakages in the general merchandise store category.

Comparative Retail Sales by Detailed Store Category

The analysis drilled down to more detailed store types, comparing annual per capita sales for Los Gatos and the RTA with Santa Clara County and the State by detailed NAICS subcategory. This comparison highlights the subcategories that might represent some of the better opportunities to expand retail in the Town. Specific store types that appear to be lacking in sales in the Town include appliance stores, and specialty food stores such as meat markets, fish and seafood markets, and produce markets. The sales injections for clothing and clothing accessories stores reflects an overall strength, but the apparel stores in the Town tend to be high-end stores, not necessarily carrying the types of inexpensive everyday apparel more commonly found in many general merchandise stores. The per capita book store sales for the Town do not take into account the recent closure of Borders; while there might now be an opportunity for a smaller, independent bookstore in Los Gatos, this subcategory has been seriously impacted by online sales and now by e-readers, which may affect the potential long-term viability of such a store.

As noted previously, Los Gatos is almost entirely lacking in all categories of general merchandise stores, and as a result has almost no sales in this category. While some of these sales may be occurring in other types of outlets such as drug stores, this category overall represents a substantial gap in the retail mix in the Town.

Potential for New Retail Development in Los Gatos

Los Gatos has a very strong retail sector, even taking into account the decline in auto sales over the last decade. The Downtown, while impacted by regional and national economic trends, has remained a strong retail destination, bringing in shoppers from outside the Town. The Town is unusual in that it also attracts shoppers for everyday items such as groceries, due in part to the location of supermarkets and drugstores near the edges of Town and in part due to the lack of shopping in Monte Sereno, Saratoga and other nearby unincorporated areas.

The leakage analysis shows that the Town is losing retail sales in the general merchandise store and building materials store categories to other retail outlets. These leakages are due largely to the lack of large-format stores in these categories in Los Gatos. In particular, there are almost no sales in Town in the general merchandise store category. There are sales in the building materials category, as there are two hardware stores and several other outlets in Town in this category, but there is not a home improvement center such as Home Depot or Lowe's. Additionally, the Town has limited options for appliances and consumer electronics; the Apple Store, while extremely successful, provides a limited range of items largely from one manufacturer.

Given the Town's already-strong attraction as a food shopping destination and demographic profile, the lack of specialty food stores may also represent an opportunity to broaden the food retailing mix and enhance the Town's strong position for this retail category. While specialty food stores might capture some sales going to the supermarkets, they could also create a synergy that attracts more food shoppers to the Town. For example, in the Rockridge neighborhood in North Oakland, a Trader Joe's can be found in close proximity to Market Hall with its mix of specialty food vendors including a produce store, a meat counter, a seafood counter, and a pasta shop. Safeway also has a store near Market Hall, with plans for expansion. Across from the Safeway are a standalone butcher shop and another produce market. In Berkeley, there are several specialty food stores clustered near the Monterey Market on Hopkins Street.

To some extent, the leakages reflect the Town's desire to retain a small-town feel, with smaller shops and in the Downtown Core, limited formula retail. As a result, there are few retail spaces in Los Gatos of approximately 10,000 square feet or more that are available to accommodate larger users such as appliance stores, home improvement stores, or general merchandise stores. While the Town will doubtless seek to retain its character, appropriately designed development at the North 40 site may present an opportunity to provide retail space for larger users that might complement the existing retail mix in Los Gatos.

Office Market Assessment

The purpose of this section is to offer an overview of the local office market and identify potential opportunities for further evaluation as part of the North 40 Specific Plan process. Current and historical data are provided in order to reveal how the local office market has performed over the course of the most recent economic cycle and suggest where the market is heading. In addition, this section considers employment trends in Santa Clara County—combining historical data and future projections—in order to determine the potential demand for new office space. An exhaustive list of projects currently in the development pipeline is provided in order to determine whether future construction will absorb any and all potential demand, or whether there will remain residual demand that may support office use as one component of the North 40 development program.

Office Inventory

As shown in Table 20, the Town had approximately 1.4 million square feet of office space at the end of the first quarter 2011, according to data furnished by Cornish & Carey Commercial Newmark Knight Frank. This represents about 12 percent of the 11.7 million square feet of office space in the Market Area but only a fraction of the South Bay inventory of 61.6 million square feet (2.2 percent). A representative of Cornish & Carey contacted by BAE indicated that most of the Town's office inventory is comprised of Class C and B buildings and that due to the age and floor plate configuration of the Town's existing buildings it is difficult to find space in the 75,000 to 100,000 square foot range in Class A buildings.

Office Market Trends

Figure 13 charts the fluctuations of both average asking rents and vacancy rates in Los Gatos, the Market Area, and the entire South Bay over the last five years.³⁵ As shown, vacancy rates increased in both Los Gatos and the Market Area between 2006 and 2009, rising faster at the onset of the Great Recession in 2008/2009. Likewise, after declining at the onset of the study period, vacancy throughout the South Bay spiked in 2010.

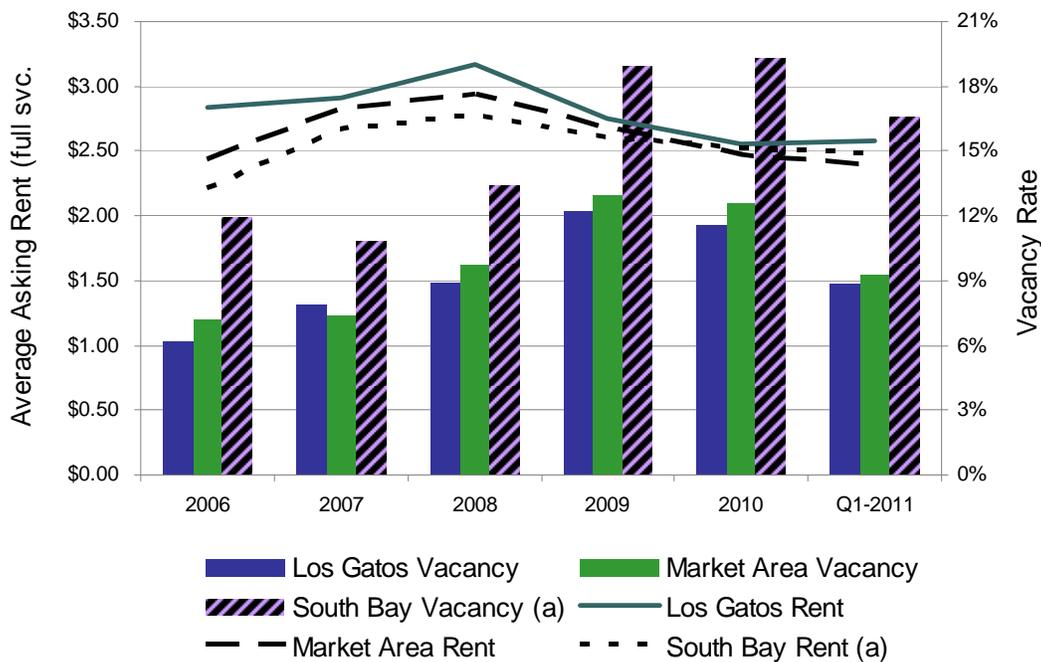
Starting in 2010 vacancy rates declined in Los Gatos and the Market Area and fell sharply in the first quarter of 2011. Across the South Bay, vacancies remained high until the end of the first quarter 2011 when leasing activity picked up to reduce vacancy rates. The shift in vacancy rates generally reflects an increase in technology and technology-related leasing. Despite recent gains, vacancy rates in Los Gatos, the Market Area, and South Bay are still markedly higher at the end of the decade than they were in the middle. Trends over the last five years indicate that Los Gatos

³⁵ According to Cornish & Carey Commercial Newmark Knight Frank's formulation, the South Bay consists of Campbell, Cupertino, Los Gatos, Milpitas, Mountain View, Santa Clara, San Jose, Saratoga, and Sunnyvale. It excludes Palo Alto.

tends to experience slightly lower levels of vacancy than the Market Area, which itself features substantially lower vacancy than the region. The Town’s performance may be attributed to medical office tenants that tend to be stable during recessions as well as demand by business owners and executives that seek an office location close to their residence.

All three geographies saw an increase in average asking rents between 2006 and 2008. Rents began to backslide thereafter during the Great Recession, albeit at a different rate depending on geography. As of the end of first quarter of 2011, asking rents in Los Gatos were lower than they were in 2006, marking a relatively swift rate of decline after peaking above \$3.00 in 2008. By contrast, average asking rents in the Market Area and South Bay declined more slowly, causing the performance gap between Los Gatos and surrounding submarkets to narrow.

Figure 13: Average Asking Rent and Vacancy Rate, Los Gatos vs. Market Area vs. South Bay, 2006-Q1 2011 (a)



Note:

(a) The South Bay office market includes Campbell, Cupertino, Los Gatos, Milpitas, Mountain View, Santa Clara, San Jose, Saratoga, and Sunnyvale. It excludes Palo Alto.

Sources: Cornish & Carey Commercial Newmark Knight Frank, 2005-2010; BAE, 2011.

Table 20 provides a more detailed overview of market conditions as of the first quarter of 2011. The snapshot provided reveals that at present, regional vacancy rates are continuing to decline, fueled substantially by positive net absorption in Cupertino where Apple Computer Inc. is

headquartered. The South Bay has seen substantial net absorption (approximately 763,000 square feet) in the first quarter of 2011, accounted for by large blocks of space at Moffett Towers in Sunnyvale being leased to technology companies. On the whole, asking rents in the Market Area are continuing to slide, though asking rents are climbing, slightly, in Los Gatos.³⁶ Therefore, the local office market is showing some signs of recovery, particularly in Los Gatos.

Table 20: Office Market Overview, South Bay, Fourth Quarter 2011 (a)

Office Market	Inventory (sf)	Overall Vacancy Rate	Net Absorption Q4 2010-Q1 2011	Avg. Asking Rent (\$/sf) (b)
Los Gatos	1,368,790	8.8%	(64)	\$2.58
Market Area	11,745,205	9.3%	52,672	\$2.39
<i>Campbell</i>	2,267,022	16.7%	(19,019)	\$2.19
<i>Cupertino</i>	4,054,170	7.9%	34,754	\$2.85
<i>Los Gatos</i>	<i>see above</i>			
<i>Saratoga</i>	323,128	9.9%	1,686	\$2.67
<i>West San Jose (c)</i>	3,732,095	6.5%	35,315	\$1.91
South Bay (a)	61,617,115	16.6%	762,961	\$2.48

Notes:

(a) The South Bay office market includes Campbell, Cupertino, Los Gatos, Milpitas, Mountain View, San Jose, Santa Clara, Saratoga, and Sunnyvale. It excludes Palo Alto.

(b) Office rents are full service.

(c) Data provider tracks office submarket conditions in West San Jose, which falls wholly inside the Market Area.

Sources: Cornish & Carey Commercial Newmark Knight Frank; BAE, 2011.

In sum, at the peak of an economic cycle, when office space is in high demand, Los Gatos outperforms both the Market Area and South Bay with lower vacancies and higher rents. At the trough of the cycle, however, while Los Gatos maintains above-average occupancy, rental rates converge with the regional average. As the local economy recovers, it remains to be seen whether this pattern will reemerge, causing office rents in Los Gatos to rise above competing submarkets, once again. To justify new speculative Class A, steel frame construction, rents would need to rise to above \$3.25 to \$3.50 per square foot on a full service basis –this rental range reflects the rent required to make a new office project financially feasible.

³⁶ “Asking rent” refers to the listed rental rate and does not reflect the actual contract rate that a landlord and tenant agree to in an executed lease; asking rents tend to be somewhat higher than actual contract rents.

Office Employment Trends

As discussed in the Demographic and Economic Overview section above, Santa Clara County underwent two major economic cycles over the course of the last decade: the Internet Boom that peaked in 2000 and the credit-led expansion from 2004 through 2007. Throughout this tumultuous period, however, the unemployment rate in Los Gatos remained consistently lower than in the rest of the County. As of March 2011, unemployment in Los Gatos was under seven percent, as opposed to over ten percent in the County as a whole, and appeared to be on the decline in both the micro- and macro-regions (See Figure 4 in the Demographic & Economic Overview chapter).

During the most recent boom/bust (2004 to present), total employment within the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area bottomed out at about the same level at which it began. However, the overall balance of the cycle obscures differential trends by industry. A few sectors underwent steady increases in employment, even growing amidst the market downturn between 2008 and 2010, including: Information (46 percent); Educational Services (25 percent); and Health Care & Social Assistance (20 percent). In addition, jobs in Professional, Scientific & Technical Services grew by seven percent over the course of the cycle, despite declining somewhat from their peak in 2008. On the other hand, a few sectors contracted rapidly during the bust, causing overall declines in employment over the course of the cycle. Several of the sectors that suffered the worst overall job losses were those tied to the housing market, including: Construction (29 percent); Real Estate & Rental & Leasing (16 percent); and Finance & Insurance (11 percent).

Table 21 aggregates employment trends into two broad categories: those that tend to generate demand for office space and those that don't (see Table footnote for a detailed breakdown). As shown, during the upswing of the last cycle (2004 to 2008), office employment grew at nearly twice the rate of non-office employment. During the bust that followed, office employment declined by less than one percent, while non-office employment fell by an estimated ten percent. Therefore, despite the economic tumult, office demand sectors added an estimated 27,000 jobs between 2004 and March 2011, while non-office sectors shed around 29,000 jobs. This trend indicates a shift of technology employment from traditional R&D to office functions.

Table 21: Employment Trends by Sector, San Jose-Sunnyvale-Santa Clara MSA, 2004-March 2011 (a)

Industry Sector	Employment			% Change		
	2004	2008	Mar. 2011	2004-2008	2008-Mar. 2011	2004-Mar. 2011
Total Farm Employment	6,700	6,100	4,400	-9.0%	-27.9%	-34.3%
Mining & Logging	100	300	200	200.0%	-33.3%	100.0%
Construction	43,000	44,200	30,500	2.8%	-31.0%	-29.1%
Manufacturing	167,200	168,000	155,800	0.5%	-7.3%	-6.8%
Wholesale Trade	34,500	39,800	35,500	15.4%	-10.8%	2.9%
Retail Trade	82,900	84,400	77,400	1.8%	-8.3%	-6.6%
Transportation, Warehousing & Utilities	13,500	13,500	11,900	0.0%	-11.9%	-11.9%
Information	32,600	42,300	47,500	29.8%	12.3%	45.7%
Finance & Insurance	20,500	19,900	18,200	-2.9%	-8.5%	-11.2%
Real Estate & Rental & Leasing	14,700	14,400	12,400	-2.0%	-13.9%	-15.6%
Professional, Scientific & Technical Services	100,900	114,000	107,800	13.0%	-5.4%	6.8%
Management of Companies & Enterprises	12,100	9,700	9,800	-19.8%	1.0%	-19.0%
Administrative & Support & Waste Services	52,600	55,200	48,000	4.9%	-13.0%	-8.7%
Educational Services	28,400	33,000	35,500	16.2%	7.6%	25.0%
Health Care & Social Assistance	66,800	75,200	80,300	12.6%	6.8%	20.2%
Leisure & Hospitality	70,900	78,100	72,800	10.2%	-6.8%	2.7%
Other Services	25,000	25,400	25,200	1.6%	-0.8%	0.8%
Government	<u>96,300</u>	<u>97,800</u>	<u>94,100</u>	1.6%	-3.8%	-2.3%
Total (b)	868,700	921,000	867,300	6.0%	-5.8%	-0.2%
Office Demand Sectors (c)	349,050	378,800	376,500	8.5%	-0.6%	7.9%
Non-Office Sectors	519,650	542,200	490,800	4.3%	-9.5%	-5.6%

Notes:

(a) The San Jose-Sunnyvale-Santa Clara MSA was used instead of Santa Clara County because more up-to-date information was available for the MSA, which includes both Santa Clara and San Benito Counties.

(b) Numbers may not sum to total due to rounding error.

(c) Consists of those sectors that predominantly generate demand for office space, including: Information; Finance & Insurance; Professional, Scientific & Technical Services; Management of Companies & Enterprises Health Care & Social Assistance; Government; and 50% of employment in both Real Estate & Rental & Leasing and Other Services, reflecting the fact that these categories combines office and non-office tasks.

Sources: California Employment Development Department, 2010; BAE, 2011.

Office Demand Analysis

The following table calculates the long-term demand for new office space based on the Association of Bay Area Governments' (ABAG) projection of employment growth by broad industry sector between 2010 and 2030. By applying the approximate percentage of jobs in each sector that take place in an office and a demand factor of 250 gross square feet of building space per new job, the calculator estimates how much office space will be needed in order to accommodate job growth over the next twenty years.

Table 22: Projected Long-Term Demand for Office Space, Market Area, 2010-2030

Industry Sector	New Jobs 2010-2030 (a)	Percent Office Jobs (b)	New Office Jobs	Projected Office Demand (sf) (c)	Projected Demand Per Year (sf)
Market Area (d)					
Financial & Professional Services	4,130	74%	3,039	759,680	37,984
Health, Education & Recreational Services	4,850	38%	1,826	456,426	22,821
Other	<u>2,690</u>	53%	<u>1,418</u>	<u>354,493</u>	<u>17,725</u>
Total	11,670		6,282	1,570,599	78,530

Notes:

(a) Based on ABAG projections from 2009.

(b) Based on BLS data regarding industry employment by occupation in 2008. Numbers represent the percentage of workers within each industry that tend to labor in an office.

(c) Derived by applying the number of new office jobs to 250 square feet, or the estimated gross square footage required per employee with an efficiency factor of 90%.

(d) ABAG does not publish projections for sub-city areas. Therefore, the Market Area is treated as the Town of Los Gatos and the Cities of Monte Sereno, Saratoga, Cupertino, and Campbell, as well as their respective Spheres of Influence. San Jose is excluded in its entirety because the majority of the city is located outside of the Market Area.

Sources: Association of Bay Area Governments, 2009; U.S. Bureau of Labor Statistics; BAE, 2011.

As shown, the Market Area³⁷ will gain approximately 6,300 new office jobs by 2030, creating a demand for over 1.5 million gross square feet of office space, or 78,000 square feet per year. However, some of that demand will be absorbed by vacancies in existing buildings, while another portion may be absorbed by new buildings constructed elsewhere in the Market Area. Table 23 takes these sources of competitive supply under consideration in order to calculate the projected residual demand for new office space, which could present a market opportunity for office development at the North 40.

³⁷ ABAG does not publish projections for sub-city areas. Therefore, the Market Area is treated as the Town of Los Gatos and the Cities of Monte Sereno, Saratoga, Cupertino, and Campbell, as well as their respective Spheres of Influence. San Jose is excluded in its entirety because the majority of the City is located outside of the Market Area.

Table 23: Residual Demand Calculator, Market Area

Projected Demand for Office Space, 2010-2030 (sf)	1,570,599		
Existing Inventory and Vacancy, 1Q11 (a)	<u>Inventory (sf)</u>	<u>Vacancy Rate (sf)</u>	<u>Vacant Inventory (sf)</u>
Los Gatos	1,368,790	8.8%	121,001
Campbell	2,267,022	16.7%	378,819
Cupertino	4,054,170	7.9%	318,252
Saratoga	<u>323,128</u>	9.9%	<u>31,990</u>
Total	8,013,110		850,062
Calculation of Residual Demand: 7% Market Vacancy v. 10% Market Vacancy (b)			
	<u>Low Vacancy</u>	<u>High Vacancy</u>	
Calculate Existing Inventory Deduction			
Vacancy Rate, 1Q11	10.6%	10.6%	
Less "Normal" Vacancy (b)	<u>7.0%</u> -	<u>10.0%</u> -	
Percent Absorbable	3.6%	0.6%	
Existing Inventory (sf)	<u>8,013,110</u> x	<u>8,013,110</u> x	
Absorbable Available Inventory (sf)	289,145	48,751	
Calculate Deduction for New Planned and Proposed Office			
Expected Net New Office (sf) (c)	613,770	613,770	
Less "Normal" Vacancy (b)	<u>42,964</u> -	<u>61,377</u> -	
Absorbable Net New Office (sf)	570,806	552,393	
Calculate Net Residual Demand			
Projected Demand for Office Space, 2010-2030 (sf)	1,570,599	1,570,599	
Less Absorbable Available Inventory (sf)	289,145 -	48,751 -	
Less Absorbable Net New Office (sf)	<u>570,806</u> -	<u>552,393</u> -	
Residual Demand (sf)	710,648	969,455	

Notes:

- (a) West San Jose is excluded in order to match the geographies used in the projected office demand calculator (ABAG).
- (b) It is assumed that a certain amount of "normal" vacancy will always exist. Based on observation of historical trends, it is assumed that between 7 to 10 percent of current and future inventory will remain vacant.
- (c) Represents Expected New Office Construction from Table 24.

Sources: Cornish & Carey Commercial Newmark Knight Frank; BAE, 2011.

As of the fourth quarter of 2010, the Market Area featured around 930,000 square feet of vacant inventory, amounting to an 11.6 percent vacancy rate (West San Jose was excluded from this tabulation in order to match the available data on employment growth from ABAG). However, not all of this vacant supply should be considered competitive for future demand absorption. Office markets never achieve 100 percent occupancy. Therefore, it should be assumed that there will always be a normalized amount of vacancy. Based on observation of historical trends, this analysis assumes that the Market Area will always feature a seven to ten percent rate of vacancy. As such, Table 23 presents two analyses of residual demand: one in which a "normal" vacancy rate of seven percent is assumed, and one in which a "normal" vacancy rate of ten percent is assumed.

If the market experiences a high demand for office, leading to a seven percent normalized rate of vacancy, then around 370,000 square feet of existing available inventory can be considered competitive with a North 40 office project. On the other hand, assuming a ten percent normalized rate, around 130,000 square feet of existing available inventory might compete with the North 40. Either scenario would leave the bulk of the projected 1.5 million square feet of demand as residual.

Some of that residual demand, however, will likely be captured by other new office developments within the Market Area. Table 24 lists all office developments currently under construction or under planning review in the Market Area.³⁸ While there are five large developments or substantial rehabs under consideration in the vicinity, all but one of them are stalled due to strict commercial lending standards and lingering economic uncertainty (smaller, neighborhood-serving products seem to be moving forward).³⁹ While city officials plan to provide continuous support to these larger projects, their eventual realization will be tied to the business cycle, and it is therefore unknown when and if they will come on-line. To move forward, these project developers would have to secure either a single end-user tenant or “pre-lease” over 50 percent of proposed space to multiple tenants (e.g., secure binding lease agreements for space to satisfy loan underwriting standards). Projects without such commitments are referred as “speculative” projects and are typically difficult to finance when credit conditions are tightened.

In order to account for this uncertainty, it is assumed that only 50 percent of the gross net new office space in the development pipeline—amounting to around 614,000 square feet—will be built in a timeframe that is competitive with the development of the North 40. Assuming, again, that seven to ten percent of new office construction will remain vacant, this leaves somewhere between 698,000 and 957,000 square feet of residual projected demand in the Market Area.

As discussed above, the North 40 is a highly desirable location for marquee offices. Highways 17 and 85 provide easy access for employees, as well as excellent visibility with Silicon Valley commuters, many of whom are industry thought-leaders and engage regularly in inter-firm networking. Therefore, it should be assumed that a North 40 office project would be a desirable product capable of capturing a competitive portion of residual demand. Assuming a 10 to 20 percent capture rate, the North 40 could support anywhere from 70,000 to 191,000 square feet of office space, making office a potentially strategic use for the site.⁴⁰

³⁸ On June 7, 2011, Apple Computer Inc. announced plans to develop a 1.1 million square foot corporate campus on a 50-acre site with existing improvements that it purchased in 2006. As of the date of this draft report, no submittal has been made to the City of Cupertino. Hence, no information is available to incorporate into the analysis regarding demolition/retention of existing structures and new construction (e.g., an estimate of net new space to be developed on its property).

³⁹ The Albright Office Redevelopment project in Los Gatos, which could yield as much as 550,000 square feet of new Class A office space, is currently active, but the Town Council has yet to approve the required rezoning.

⁴⁰ This estimate may understate demand for new office space since it does not differentiate between Class A space and Class B/C space. Demand for new office space is typically for Class A while available inventory may be primarily composed of older, less functional Class B and C properties.

Table 24: Planned and Proposed Office Developments, Market Area, April 2011

Name Location/Drive Time Developer	Size (sf)	Est. Timing	Comments
Under Construction			
<i>San Jose (a)</i>			
Willow Glen Town Square Office 1104 Lincoln Ave. (14 mins) Paja Investments	24,000 office 0 demo (office) 24,000 new Class A	Early 2012 (completion)	Class A office w/ common amenities over ground-floor retail requires demolition of 9,500 sf of existing retail
Approved (Construction Not Yet Commenced)			
<i>Los Gatos</i>			
Walker Medical Building 14881 National Ave. (1 min) Lee Walker	20,600 office 0 demo (office) 20,600 new Class A	Late 2011 (start); see comments	2-story medical office building located between Good Samaritan Hospital and the North 40; requires the demolition of two single-family homes; developer in the process of applying for extension, but hopes to break ground in 2011
15400 Los Gatos Blvd. (1 min) Developer unknown	20,000 office 0 demo (office) 20,000 new Class A	Start date unknown; see comments	Redevelopment of former auto dealership for 2-story mixed-use structure w/ Class A office above restaurant/retail; developer is not moving forward at the moment; Town has granted approval for Planned Development.
55 Los Gatos-Saratoga Rd. (5 mins) Pelio & Associates	2,000 office 0 demo 2,000 new Class A	Stalled; see comments	Mixed-use structure w/ office and retail and renovation of adjacent 56-room Los Gatos Motor Inn; developer currently in dispute with San Jose Water; project will not move forward until dispute is resolved
<i>Campbell</i>			
649 Creekside Way (5 mins) South Bay Development Co.	170,000 office 0 demo 170,000 new Class A	Stalled; see comments	5-story glass office building; developer has received two extensions; developer intention is to construct when a specific user for the project is identified.
<i>Cupertino</i>			
Main Street Cupertino Stevens Creek Blvd. & Finch Ave. (14 mins) Sand Hill Property Co.	100,000 office 0 demo 100,000 new Class A	Start date unknown; see comments	17-acre mixed-use development w/ Class A office, retail, athletic club, hotel, and senior housing around 1-acre park; EIR outlines several options; final development program is yet to be determined; City has seen no activity since approvals were granted in 2009 and believes that developer intends to tenant commercial space before commencing construction

Table 24: Planned and Proposed Office Developments, Market Area, April 2011 (cont.)

Name Location/Drive Time Developer	Size (sf)	Est. Timing	Comments
Approved (continued)			
One Results Way Campus Redevelopment McClellan & Bubb Rds. (14 mins) Embarcadero Capital Partners LLC	155,500 office <u>140,000</u> demo (Class B) 155,500 new Class A	Stalled; see comments	3 new, 2-story glass office buildings; requires demolition of 140,000 sf of existing office space; HP recently acquired major tenant ArcSight and is moving firm to Sunnyvale; project stalled in the meantime; City has granted long-term extension on permits & expects that it will move forward eventually
<i>San Jose (a)</i>			
Monroe Mixed Use 485 S. Monroe St. (8 mins) Silverstone Development	90,000 office <u>110,000</u> demo (Class B) 90,000 new Class A	Stalled; see comments	Planned office adjacent to 104 townhomes & new park in vicinity of Santana Row; requires demolition of 110,000 sf of existing office; project not moving forward pending identification of tenant.
Pending Approval			
<i>Los Gatos</i>			
Albright Office Redevelopment Albright Way & Winchester Blvd. (3 mins) Huetigg & Schromm Inc.	550,000 office <u>250,000</u> demo (Class B) 550,000 new Class A	Start date unknown; see comments	Proposed redevelopment of 21.6-acre office site to include up to 550,000 sf of new Class A office adjacent to up to 168 housing units; Town Council has yet to approve required rezoning
16005 Los Gatos Blvd. (3 mins) CHL Ventures LP	30,790 comm. <u>0</u> demo (office) 0 to 30,790 new Class A	Mid-2012 (start); see comments	Redevelopment of former auto dealership for two neighborhood-serving commercial buildings and 25 units of housing; Project is entitled and developer must obtain building permits.
475-485 Alberto Way (6 mins) Alberto Way Holdings LLC	15,650 office <u>0</u> demo 15,650 new Class A	Start date unknown; see comments	Expansion of existing 55,600 sf office campus; application pending; Town has no further information on project timeline
<i>Campbell</i>			
Merrill Gardens 2041-2127 S. Winchester Blvd. (8 mins) SRM Development LLC	17,000 comm. <u>0</u> demo (office) 0 to 17,000 new Class A	Spring/ Summer 2013 (completion)	Mixed-use development w/ 127 senior housing units & 21 Alzheimer care units over ground-floor commercial space; commercial space could accommodate small office users
<i>Saratoga</i>			
12250 Saratoga-Sunnyvale Rd. (13 mins) Timespace Investment Development	16,000 office <u>0</u> demo (office) 16,000 new Class A	Fall 2011 (start); see comments	2-story mixed-use building clad w/ prefinished paneling; professional/medical office condos w/ retail & children's learning center; requires demolition of 14,000 sf of existing retail & light industrial; developer has submitted for approvals; City expects construction to commence soon after approval.

Table 24: Planned and Proposed Office Developments, Market Area, April 2011 (cont.)

Name	Location/Drive Time	Developer	Size (sf)	Est. Timing	Comments
Pending Approval (continued)					
12260 Saratoga-Sunnyvale Rd. (13 mins)			16,000 office	Fall 2011	Mixed-use Muslim community center w/ prayer space, retail & office; requires demolition of existing light industrial uses (sf unknown); City expects developer to submit for approvals soon & commence construction thereafter; Ancillary office.
Muslim Community Group (name unknown)			0 demo (office)	(start); see	
			16,000 new Class A	comments	
Summary					
Max. Planned and Proposed Class A Office (sf) (b)			1,227,540		
Planned Demolition of Class A Space (sf)			0		
Net New Planned and Proposed Class A Office (sf)			1,227,540		
Expected % Completed in Competitive Timeframe (c)			50% x		
Expected Net New Class A Office (sf)			613,770		
Notes:					
(a) List of projects in San Jose only includes those with 25,000 sf or more office space.					
(b) Assumes that all "commercial" space is fully tenanted with office users.					
(c) Many of these projects face significant hurdles in terms of financial feasibility before they may come to fruition. Therefore, it is assumed that only 50% of the supply in the pipeline will be completed within a timeframe deemed competitive with prospective office development at the North 40 site.					
Sources: Silicon Valley/San Jose Business Journal, 2009-2011; Los Gatos Patch; Town of Los Gatos; City of Campbell; City of Cupertino; City of San Jose; City of Saratoga; BAE, 2011.					

Hotel Market Assessment

The purpose of this section is to assess the potential for market absorption of a new hotel development at the North 40. This analysis draws on performance data from area hotels provided by Smith Travel Research (STR) to reveal how the Market Area performs in relation to the County as a whole, and how the Great Recession has affected that performance. In addition, this section considers how the site relates geographically to key demand drivers—such as major institutions and leisure destinations—as well as competing properties in order to judge the viability of new hotel development. Insights from interviews conducted with key informants knowledgeable about the local hotel market are provided, when applicable, as well.

Existing Supply

Table 25 on the following page presents a breakdown of the hotel rooms in the Market Area and Santa Clara County according to STR’s brand classification system.⁴¹ As shown, the Market Area features nearly 2,000 hotel rooms, or around 7.6 percent of the total number of rooms in the County. Compared to the County, however, the Market Area features an above-average proportion of upscale rooms, reflecting the fact that the West Valley is comprised of high-end residential communities. Hotel rooms qualified by STR as “upscale” or better (including rooms at upper-tier independent properties) account for 79 percent of supply in the Market Area, as compared to around 68 percent in the County as a whole.

Interviews with representatives of the Los Gatos Chamber of Commerce indicate that this concentration towards stylish properties with high-quality amenities complements the main demand drivers for overnight room stays in Los Gatos, which include:

- Business travel generated not only by firms located in Los Gatos, but also those located in downtown San Jose and other areas of central Silicon Valley;
- Leisure travel related to shopping and dining in downtown Los Gatos, as well as area wineries; and
- Weddings and other social events.

Hotel Los Gatos and Toll House Hotel, for example, both feature upscale restaurants and provide access to full-service day spas. Located adjacent to downtown Los Gatos’ unique retail environment and the many vineyards in the nearby Santa Cruz Mountains, these hotels are well-positioned to capture lucrative weekend travel. Further, they provide an alluring alternative to hotels located in downtown San Jose or off of Highway 101, which lack the historical charm and convenient walkability of downtown Los Gatos. According to the Chamber, the general managers

⁴¹ Smith Travel Research only publishes data on those hotels and motels that respond to the company’s surveys. Therefore, all STR data represents a sample, rather than a 100 percent count. However, as their surveys yield a very high participation rate, STR data is deemed a reliable representation of the hotel market as a whole.

of local hotels have found considerable success marketing to high-level business travelers, particularly those who travel with their spouses.

Other hotels in the Market Area cater to a similar set of demand drivers. For instance, Hotel Valencia—the only hotel on Santana Row—features stylish décor, high-end dining, a rooftop lounge, and a full-service spa, not to mention the cachet of San Jose’s most popular retail destination. Both of these hotels, as well as the Kimpton Cypress Hotel in Cupertino, provide desirable venues for weddings and other major social events.

Table 25: Room Supply by Hotel Class, Market Area vs. Santa Clara County, 2011 (a)

Hotel Class (b)	Market Area		Santa Clara County	
	Rooms	% Total	Rooms	% Total
Economy	168	8.6%	3,424	13.3%
Midscale	0	0.0%	2,150	8.3%
Upper Midscale	196	10.0%	2,300	8.9%
Upscale	555	28.4%	5,031	19.5%
Upper Upscale	374	19.1%	5,396	20.9%
Luxury	0	0.0%	849	3.3%
Independent	<u>662</u>	<u>33.9%</u>	<u>6,688</u>	<u>25.9%</u>
Total	1,955	100.0%	25,838	100.0%
Upscale or Better (c)	1,544	79.0%	17,489	67.7%

Notes:

(a) Includes all hotels and motels in the Market Area and County that participate in Smith Travel Research's surveys. Figures do not represent a 100 percent count.

(b) STR allocates properties by class according to the nationwide ADR of the chain with which it is affiliated. An independent hotel is assigned a class based on its ADR, relative to the chain hotels in its geographic proximity.

(c) Includes all rooms in upscale, upper upscale, and luxury hotels, as well as rooms in independent hotels with ADRs that are comparable to "upscale" hotels chains. The percentage of independent rooms that are upscale was calculated for the Market Area only, but was applied to both the Market Area and County. Therefore, the County figures are an approximation and likely overstate the number of rooms that are upscale or better.

Sources: Smith Travel Research; BAE, 2011.

These customer segments complement one another to buoy performance within the overall Market Area. STR data on performance by day of the week, which can be found in Appendix H, indicates that while business travel supports operations during the week, leisure travelers and wedding guests help boost occupancy during the weekend. On Friday and Saturday nights, Countywide occupancy drops below 60 percent, while Market Area hotels manage to maintain occupancy rates eight to nine percentage points above the baseline (see Appendix H).

But the upscale nature of the hotels in the Market Area aside, Table 25 also reveals that luxury

hotel rooms represent a minute share of County wide supply (three percent). The Fairmont San Jose, with 805 rooms, comprises the vast majority of this market segment, while the Rosewood Resort at CordeValle in San Martin accounts for the remaining 44 rooms.⁴² The Market Area does not contain any name-brand luxury properties.

Despite Silicon Valley's global reputation as a center of high technology, many of the world's most famous hotel products are missing from the region. Mandarin Oriental, St. Regis, and Le Meridien all have hotels in San Francisco, and Ritz-Carlton has hotels in both San Francisco and Half Moon Bay. But none of these brands have a presence in the South Bay, where the only luxury products of global notoriety are W Silicon Valley in Newark and Four Seasons Silicon Valley in East Palo Alto. Although the North 40 site is outside a major business cluster it is a short drive from many demand generators and offers an enhanced level of cultural and recreational amenities.

Planned and Proposed Competition

At the time of writing, only two new hotels were proposed for development within the Market Area, as shown in Table 26. If built, these projects will add approximately 123 rooms deemed upscale or better to the Market Area. However, both prospective sites are located approximately 15 minutes away along Stevens Creek Blvd. in Cupertino, where the intent is likely to capture business generated by Apple and other major corporate tenants. Further, one of the proposed hotels is to be located amidst the Main Street mixed-use development, which will strive to create a self-contained hub of activity akin to Santana Row. As such, these projects, in the case that they should come to fruition, should be considered indirectly competitive with a prospective North 40 hotel in terms of room stays.

Table 1, first discussed in the Site Description above, provides a list of major institutions and leisure destinations in the San Jose-Santa Cruz metro area that may be capable of sparking demand for overnight room stays at a North 40 hotel.

This list reveals that the metro area features myriad potential demand generators, including a number of arts and entertainment venues, business hubs, and universities. However, most all of the sites listed are served by existing nodes of hotel rooms that, for all intents and purposes, have the capacity to absorb demand generated by nearby attractions.

⁴² Rosewood Resort also has a property in Menlo Park outside the Market Area to the north (approximately 23 miles).

Table 26: Planned and Proposed Hotel Developments, Market Area, April 2011

Name Location/Drive Time Developer	Brand Class	Rooms	Est. Timing	Meeting Space (sf)	Restaurant	Amenities
<i>Cupertino</i>						
Hyatt Place Cupertino 10165 N. De Anza Blvd. (13 mins) Shashi Corporation	Hyatt Place Upscale	123	Summer 2011 (start); plans to open by end of 2012	6,000	The Gallery: guest kitchen/ wine bar	Fitness center, pool, sauna, spa, executive board room & lounge
Main Street Cupertino Stevens Creek Blvd. & Finch Ave. (14 mins) Sand Hill Property Co.	Yet to be determined	Up to 250	Start date unknown	Most details are yet to be determined; as a condition of approval, City has stipulated that if hotel includes 160+ rooms, then developer must provide a banquet facility for 400 people		

Sources: City of Cupertino; BAE, 2011.

Demand Generators

While downtown San Jose, for instance, houses a dense cluster of meeting and cultural centers, it also features one of the region’s largest concentrations of hotel rooms. While there are some indications that executive-level travelers may choose to stay in Los Gatos—rather than closer to their point of business in San Jose or elsewhere, as discussed above—the average business traveler or tourist is likely to opt for a hotel that provides more ready access to the region’s principal attractions. Similarly, while Stanford University and UC Santa Cruz have the potential to generate room demand, especially around graduation, they both represent a drive time of 30 minutes or more, and therefore mark the absolute outer orbit of the North 40’s reach in the hospitality market.

On the other hand, nearby medical centers may present a viable market capable of supporting additional hotel supply. The North 40 sits directly across Los Gatos Blvd. from the expansive Good Samaritan Hospital, which was ranked the fourth largest hospital in Silicon Valley in terms of gross patient revenue in 2009 by the *Silicon Valley/San Jose Business Journal*. In addition, El Camino Hospital Los Gatos (formerly Community Hospital of Los Gatos) and Santa Clara Valley Medical Center—the second largest hospital in Silicon Valley, according to the *Journal*—are both located within a 10-minute drive of the site. Combined, these facilities amount to well over 200,000 patient census days per year, meaning that, on any given day, there are an average of over 550 patients hospitalized in the surrounding area. In addition, each of these hospitals is flanked by complementary medical labs and offices, many of which handle outpatient procedures.

These complexes have the potential to generate demand for nearby hotel rooms. Interviews with administrative/guest services staff from Good Samaritan and El Camino Hospitals indicate that both organizations rely on area hotels to accommodate visiting doctors, researchers, and executives, as well as patients travelling long-distances for hospital procedures and/or extended rehabilitation. In the case of the latter, patients may be travelling with family and friends that also require

accommodations. Under such circumstances, proximity is at a premium, as patients and their visitors want to be able to reach the hospital as quickly as possible.

At present, Good Samaritan places travelling staff in the Marriott Residence Inn or Larkspur Landing, as they provide amenities that lessen the burden of extended stays, and places executives in Hotel Valencia on Santana Row. Both extended stay properties are located within a five to ten minute drive in Campbell. However, a representative of the Hospital indicates that a North 40 hotel would be a welcomed convenience, particularly if it were to offer rates or discounts below the existing price point for comparable properties. Similarly, a representative of El Camino Hospital Los Gatos, which specializes in hip and joint work, believes that a hotel geared towards long-term stays—one that has a pool and allows pets, for example—could accommodate their rehab patients.

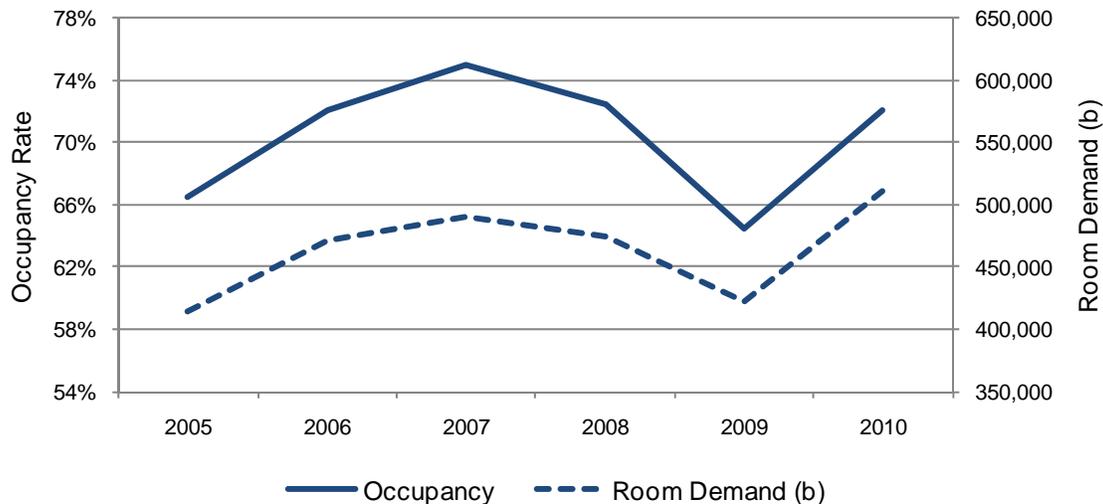
In addition to demand generated by nearby medical complexes, high-end leisure travel focused on retail, scenery, and the arts may present a secondary opportunity for hotel development. The North 40 site is located midway between downtown Los Gatos and Santana Row/Valley Fair, amounting to a major axis of upscale retail. Similarly, the site provides strategic access to parks and vineyards nestled into the hills above Los Gatos and Saratoga, which is also home to the popular Montalvo Arts Center. It should be noted that Saratoga is underserved by hotel rooms, and both public officials and business representatives steer visitors to lodging options in Los Gatos. However, as existing hotels in downtown Los Gatos provide immediate access to local shopping and dining, this strategy would rely on providing convenient transportation linkages between the North 40 and nearby attractions.

Performance Trends

Data provided by STR allows for comparison between the performance of hotels located within the Market Area and those located within Santa Clara County at large. STR gathers information on key performance indicators from participating hotels. While STR does not capture 100 percent participation, the vast majority of area hotels share information, allowing for a meaningful analysis of the hospitality market.

As shown in Figure 14, overall occupancy in the Market Area peaked in 2007 at 75 percent. While occupancy fell rapidly over the following two years due to the national recession, bottoming out around 65 percent in 2009, it shot back up in 2010 to 72 percent, nearing peak levels. Room demand in the Market Area in 2010 actually exceeded demand in 2007, climbing to over 510,000 room-nights from a previous peak of around 490,000. This growth in demand is obscured by the fact that the Marriot Courtyard in Campbell opened in early 2010, adding 162 rooms to the Market Area, thus suppressing the overall occupancy rate. In other words, the Market Area experienced more demand for hotel room-nights in 2010 than it did during its pre-recession peak. For more-detailed STR data, see Appendix H.

Figure 14: Occupancy Rate and Room Demand, Market Area, 2005-2010 (a)



Notes:

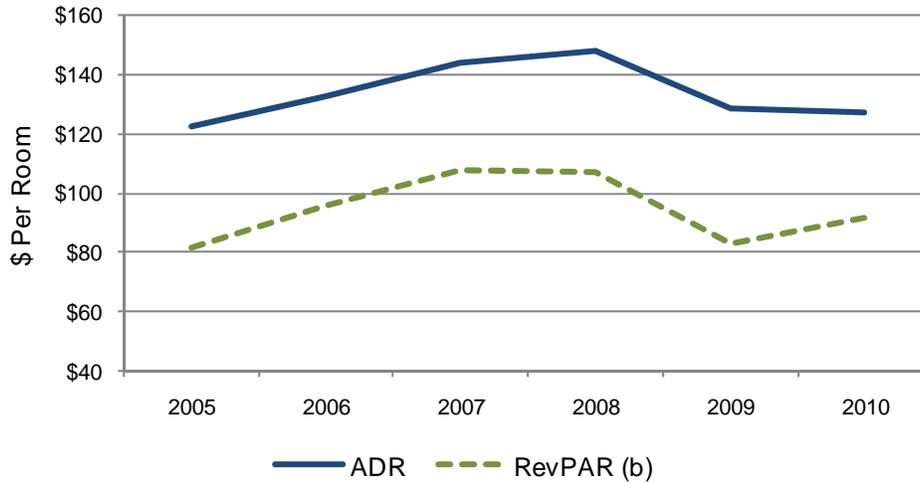
(a) Includes all hotels and motels in the Market Area and County that participate in Smith Travel Research’s surveys. Figures do not represent a 100 percent count.

(b) Room demand represents the number of rooms sold over a given time period, excluding complimentary rooms.

Sources: Smith Travel Research; BAE, 2011.

However, this increase in demand has not caused a proportional increase in revenue. As shown in Figure 15, local hotels have encouraged sales by dropping rates. Between 2005 and 2008, the average daily rate (ADR) in the Market Area climbed from \$122 to \$148, before falling to \$129 in 2009. Between 2009 and 2010, local hotels actually lowered their rates a little further, thus incentivizing demand. This tactic has proven successful, and while rates dropped slightly from 2009 to 2010, revenue per available room (RevPAR) reversed its recessionary decline, rebounding from \$83 to \$92. Therefore, while hotels in the Market Area have emerged from the recession showing strong demand and occupancy, hotel revenues moving forward will depend on the ability of operators to raise room rates without discouraging sales.

Figure 15: ADR and RevPAR, Market Area, 2005-2010 (a)



Notes:

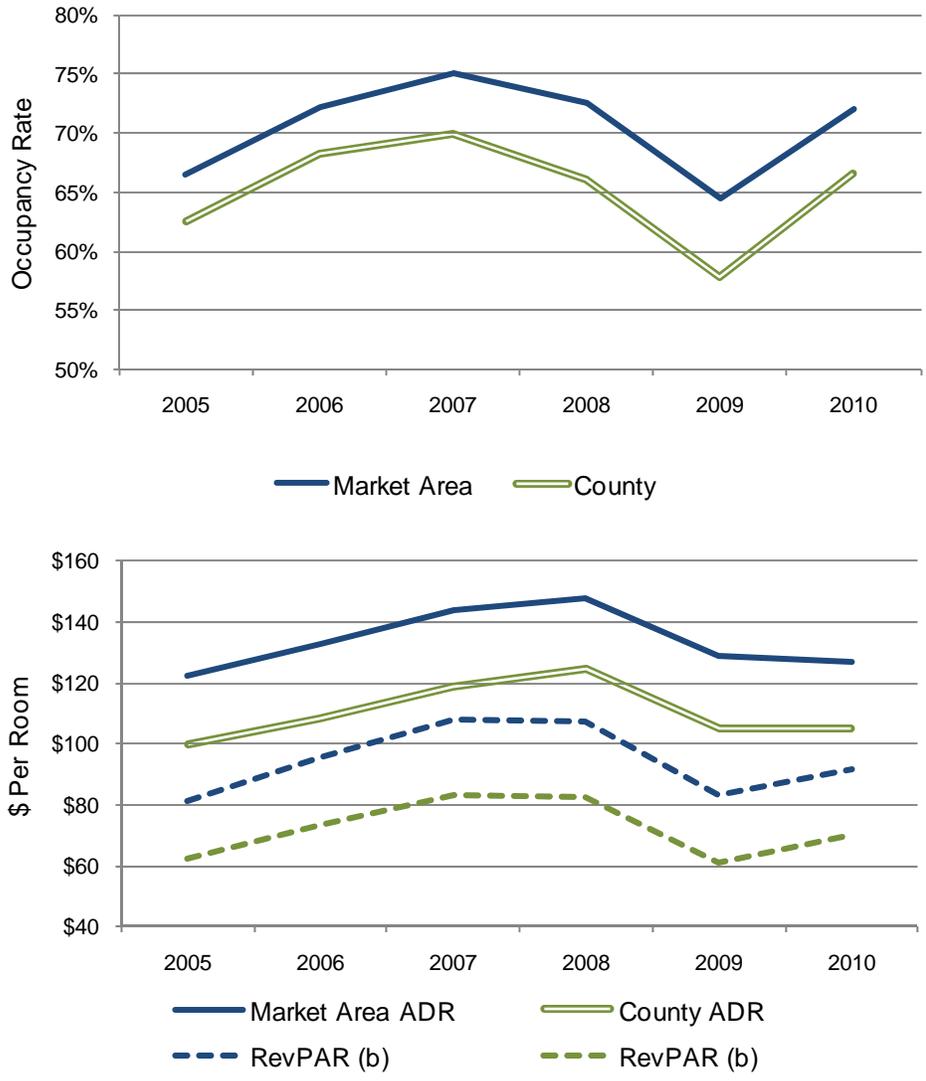
(a) Includes all hotels and motels in the Market Area and County that participate in Smith Travel Research's surveys. Figures do not represent a 100 percent count.

(b) RevPAR, or Revenue per Available Room, is calculated by dividing total room revenue by the total supply of rooms for a given period.

Sources: Smith Travel Research; BAE, 2011.

Figure 16 on the following page compares the historical performance of hotels throughout Santa Clara County to those located in the Market Area, which consistently outperform the countywide baseline. As shown, the difference between the trend line of the Market Area and that of the County remained relatively stable before, during, and after the Great Recession, regardless of performance indicator. This implies that while the Market Area is as vulnerable to the business cycle as the rest of Santa Clara County, local hotels, in the aggregate, have performed better than the corresponding County average for all hotel properties regardless of whether the market is in a peak or trough.

Figure 16: Occupancy Rate, ADR and RevPAR, Market Area vs. Santa Clara County, 2005-2010 (a)



Notes:
 (a) Includes all hotels and motels in the Market Area and County that participate in Smith Travel Research's surveys. Figures do not represent a 100 percent count.
 (b) RevPAR, or Revenue per Available Room, is calculated by dividing total room revenue by the total supply of rooms for a given period.
 Sources: Smith Travel Research; BAE, 2011.

Meeting Space Market Assessment

The purpose of this section is to assess the potential for market absorption of meeting facilities on the North 40. Two types of facilities are considered: (1) hotels that feature space for business meetings of 50 to 500 people and (2) dedicated day-use conference facilities that can host meetings of a similar scale, but do not feature attached hotel rooms. No data is available to assess the utilization or performance of these types of facilities. Therefore, this analysis serves mostly to describe the type and geographical distribution of existing facilities in the Market Area, which make up the competitive supply. In addition, an analysis of how the site relates geographically to major employers is provided in order to shed limited insight onto whether or not demand can support additional conference facilities. Insights from interviews conducted with key informants knowledgeable about the local conference market are provided, as well, in order to further suggest the magnitude and type of existing demand.

Hotel Meeting Space

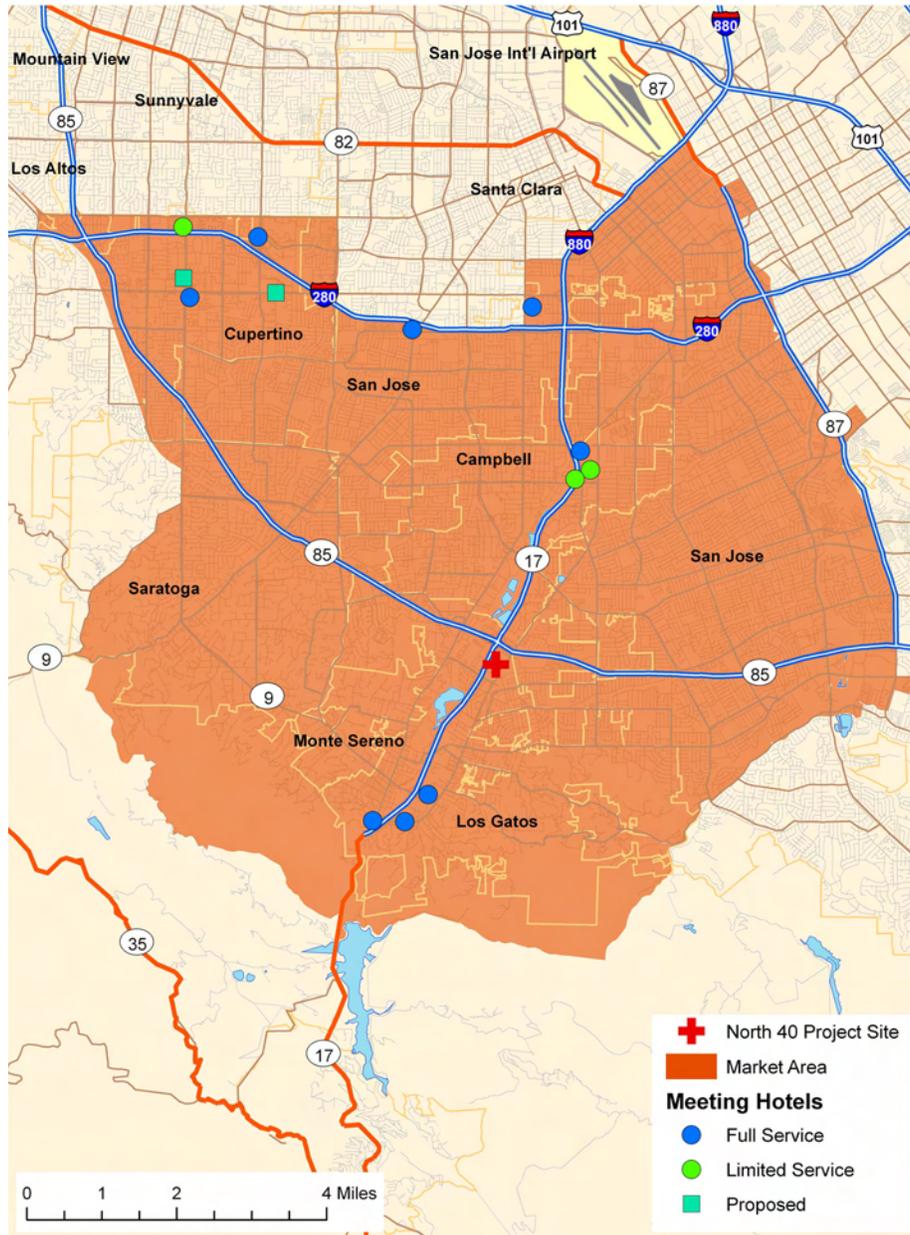
As shown in Figure 17 and Tables 27 and 28, the hotels that feature meeting space for 50 to 500 people are concentrated in a few distinct clusters within the Market Area. Downtown Los Gatos features a collection of full-service hotels with meeting space. Another cluster exists in Campbell around the Pruneyard Shopping Center, including two limited-service facilities and the Courtyard San Jose Campbell, which opened in 2010.⁴³ San Jose features Joie de Vivre's Moorpark Hotel and Hotel Valencia, which provides the only source of meeting space on Santana Row. Finally, the largest cluster of rooms exists in Cupertino in the vicinity of Apple's corporate headquarters and a large outpost of Oracle employees. The area of Cupertino around Stevens Creek and North De Anza Boulevards is one of the strongest office hubs within the Market Area, and its prominent technology tenants likely drive a significant portion of the demand for business travel and meeting space. In fact, two more hotels are planned for this area, representing the only hotel developments currently in the pipeline in the entire Market Area. At present there are no hotels in the Market Area that can accommodate more than 285 people in a single room.

A 123-room Hyatt Place recently received planning approval, and the project is slated for completion by the end of 2012. With 6,000 square feet of meeting space, the Hyatt Place will become the Market Area's largest hotel meeting facility in terms of conference square footage. Another hotel is planned as part of the 17-acre Main Street Cupertino development at Valco Parkway. While the overall project is progressing slowly, as the developer seeks to tenant the office and retail components before breaking ground, the hotel will likely be the first phase to move forward. The developer has not yet announced whether or not the project will include

⁴³ Full service hotels offer more in services and accommodations than limited service hotel properties, typically an attached restaurant, 24-hour valet service, dry cleaning, heated pools and saunas, well-equipped fitness centers, guaranteed high-speed wireless Internet access, and higher-end furnishing and finishes.

meeting space. However, as a condition of approval, Sand Hill Property Co. has agreed to provide a 400-person banquet facility if the hotel exceeds 160 rooms.

Figure 17: Existing and Proposed Meeting Hotels, Market Area



Source: BAE, 2011

Table 27: Comparable Hotels with Meeting Space, Market Area (a)

Name Location/Drive Time Brand (if applicable)	Class	Rooms	Built	Rates (a)	Food & Bev.	Amenities					
						Meeting Space (sf)	Bus. Center	Outdoor Pool	Hot tub	Fitness Center	Other
Full Service											
<u>Los Gatos</u>											
Los Gatos Lodge 55 Los Gatos-Saratoga Rd. (5 mins)	Independent	128	1958	\$99-159	Los Gatos Lodge Bar & Grill	5,000	No	Yes	No	Yes	Bocce court, putting green
Hotel Los Gatos 210 E. Main St. (7 mins) Summit Hotel & Resorts	Upper Upscale	71	2002	\$189-279	Dio Deko Rest.	3,472	No	Heated	Yes	No	Full svc. Spa Elia on-site; afternoon tea available; comp. access to nearby gym
Toll House Hotel 140 S. Santa Cruz Ave. (8 mins) Larkspur Collection	Independent	115	1983	\$184-344	3 Degrees Rest. & Lounge	3,694	Yes	No	Yes	Yes	Full svc. Spa Los Gatos next door; comp. bike rentals, same-day laundry
<u>Campbell</u>											
Courtyard San Jose 655 Creekside Way (8 mins) Courtyard by Marriott	Upscale	162	2010	\$115-205	The Bistro	1,738	Yes	Yes	Yes	Yes	
<u>Cupertino</u>											
Hilton Garden Inn Cupertino 10741 N. Wolfe Rd. (12 mins) Hilton Garden Inn	Upscale	164	1998	\$79-139	Great American Grill	1,650	Yes	Yes	Yes	Yes	
Cypress Hotel 10050 S. De Anza Blvd. (13 mins) Kimpton	Upper Upscale	224	2002	\$159-259	Park Place Rest.	3,625	Yes	Heated	No	Yes	Hosted wine hour

Table 27: Comparable Hotels with Meeting Space, Market Area (a) (cont.)

Name Location/Drive Time Brand (if applicable)	Class	Rooms	Built	Rates (a)	Food & Bev.	Amenities					
						Meeting Space (sf)	Bus. Center	Outdoor Pool	Hot tub	Fitness Center	Other
San Jose											
Hotel Valencia Santana Row 355 Santana Row (8 mins) Valencia Group	Independent	212	2003	\$226-256	Citrus Rest. V Bar Cielo Lounge	3,804	Yes	Yes	No	Yes	Full svc. Ayoma Lifespa; balcony rooms available
Moorpark Hotel 4241 Moorpark Ave. (9 mins) Joie de Vivre	Upper Upscale	79	2001	\$111-149	Park Bar & Grill	1,865	Yes	Heated	Yes	Yes	Billiards loft; comp. wine hour
Limited Service											
Campbell											
Pruneyard Plaza Hotel 1995 S. Bascom Ave. (9 mins)	Independent	171	1989	\$144-244	N/A	4,090	Yes	Heated	Yes	Yes	
Campbell Inn 675 E. Campbell Ave. (10 mins)	Independent	95	1985	\$114-249	N/A	1,000	Yes	Yes	No	No	Tennis courts; comp. access to nearby gym, bike rentals, 24-hour shuttle to SJO
Cupertino											
Cupertino Inn 10889 N. De Anza Blvd. (11 mins)	Independent	125	1987	\$219-239	N/A	1,720	No	Heated	Yes	No	Comp. access to nearby gym, limo service to SJO, cocktails/hors d'oeuvres nightly

Notes:

(a) Includes all hotels that feature indoor meeting spaces that can accommodate groups of 50 to 500 persons seated theater style.

(b) Price survey conducted on April 18, 2011. Ranges exclude ultra-luxury suites on the high end.

Sources: Smith Travel Research; BAE, 2011.

Table 28: Summary of Meeting Spaces at Comparable Hotels, Market Area (a)

Name Location/Drive Time	Meeting Space (a)	Size (sf)	Capacity by Configuration			
			Theater	Class	Banquet	Reception
<u>Los Gatos</u>						
Los Gatos Lodge	El Gato Room	1,800	150	80	120	N/A
55 Los Gatos-Saratoga Rd. (5 mins)	De Anza Room	1,242	100	40	80	N/A
	Garden Room	1,240	90	35	75	N/A
Hotel Los Gatos	Monte Sereno Room	1,900	100	80	150	200
210 E. Main St. (7 mins)	Salons ABC or CDE	1,225	60	60	80	N/A
	Salons BC or CB	953	50	40	60	N/A
Toll House Hotel	Larkspur 1/2	1,920	180	90	150	N/A
140 S. Santa Cruz Ave. (8 mins)	Larkspur 1	1,152	100	40	80	N/A
	Larkspur 2	758	70	30	50	N/A
	Dining Room	576	50	30	36	N/A
<u>Campbell</u>						
Courtyard San Jose	Campbell Room	1,390	90	54	64	N/A
655 Creekside Way (8 mins)						
Pruneyard Plaza Hotel	Harvest Room	1,060	90	65	90	90
1995 S. Bascom Ave. (9 mins)	Orchard Room	730	60	40	60	80
	Fireside Atrium	812	60	36	50	50
Campbell Inn	Dining Room	1,000	60	N/A	N/A	60
675 E. Campbell Ave. (10 mins)						
<u>Cupertino</u>						
Cupertino Inn	De Anza Room	760	60	40	55	N/A
10889 N. De Anza Blvd. (11 mins)						
Hilton Garden Inn Cupertino	Garden Room ABC	1,650	120	60	90	120
10741 N. Wolfe Rd. (12 mins)	Garden Room AB or BC	1,100	80	40	60	80
Cypress Hotel	Cali Ballroom	3,040	250	150	200	250
10050 S. De Anza Blvd. (13 mins)	Cali A, B or C	1,026	70	30	60	70
	Parkview	1,245	100	50	80	125
	Parkview West	745	60	30	50	75
<u>San Jose</u>						
Hotel Valencia Santana Row	Valencia	2,268	200	100	170	285
355 Santana Row (8 mins)	Valencia I or II	1,134	100	56	84	140
	Santana	768	50	30	50	80
Moorpark Hotel	Gentry Room	1,086	60	32	40	80
4241 Moorpark Ave. (9 mins)						

Note:

(a) Includes all spaces that can accommodate a business meeting of 50 to 500 persons seated theater style. Outdoor spaces are excluded.

Source: BAE, 2011.

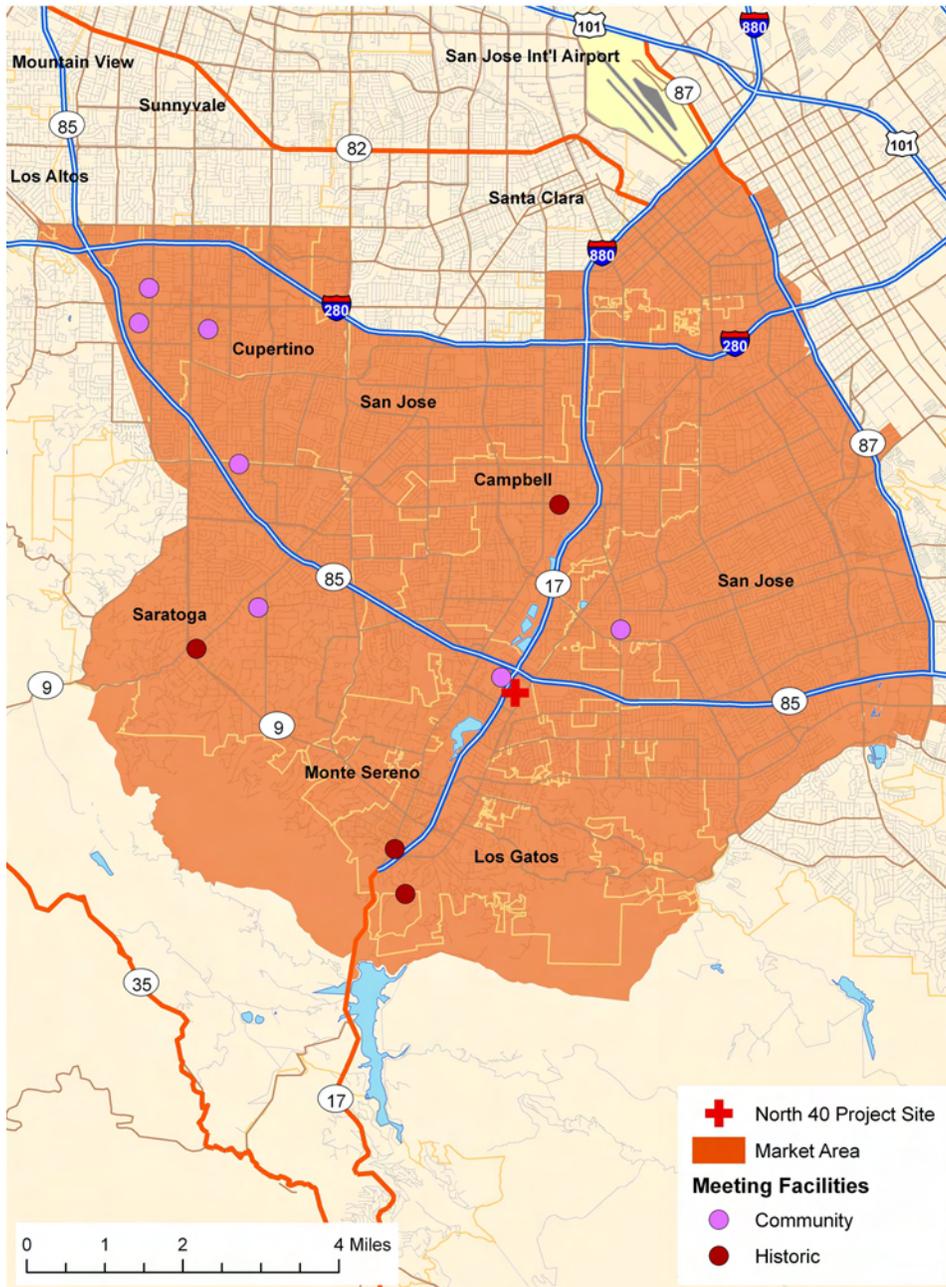
Day-Use Meeting Facilities

Figure 18 and Table 29 reveal that the Market Area is largely devoid of dedicated, day-use meeting facilities that are designed for business use.⁴⁴ While a number of facilities exist that can accommodate business meetings of 50 to 500 people, the bulk of them are publicly run community centers and community colleges. Though many of these properties were recently constructed or renovated, and all are outfitted with some degree of meeting equipment, they may not appear professional enough to appeal to certain business users.

Historic buildings comprise the next largest segment of day-use meeting space. These facilities include the Opera House and Testarossa Winery in Los Gatos, the Foothill Club in Saratoga, and the Villa Ragusa in Campbell. However, historic facilities may be more appropriate for weddings and social functions than they are for meetings. In order to hold a meeting on-site, businesses often have to either supply their own audiovisual equipment or work through the facility to obtain it for a fee.

⁴⁴ While the HP Pavilion is also located within the Market Area, it is not likely that a local business looking to hold a meeting would view it as a desirable site. BAE attempted unsuccessfully on several occasions to contact meeting staff at the Pavilion in order to confirm the user profile.

Figure 18: Existing Day-Use Meeting Facilities, Market Area



Source: BAE, 2011

Table 29: Comparable Day-Use Meeting Facilities, Market Area (a)

Name Location/Drive Time	Description	Meeting Space	Size (sf)	Capacity by Configuration				Amenities
				Theater	Class	Banquet	Reception	
<u>Los Gatos</u>								
Opera House Banquet Facility 140 W. Main St. (7 mins)	Historic building in downtown Los Gatos	Main Room	3,500	250	60	260	350	Comp. WiFi, tables, chairs, dinnerware; on-site caterer
		Mezzanine	1,400	75	30	50	190	
Testarossa Winery 300-A College Ave. (9 mins)	Historic vineyard near downtown Los Gatos	Palazzo Room	1,655	80	60	120	120	Comp. WiFi, tables, chairs, dinnerware, non-alcoholic drinks; meeting equipment available (fee); wine discounts
Jewish Community Center 14855 Oka Rd. (1 min)	Modern community center across Hwy. 17 from the North 40	Auditorium	4,000	450	N/A	250	N/A	Meeting equipment available; on-site caterer; kosher only
<u>Campbell</u>								
Villa Ragusa 35 S. Second St. (9 mins)	Historic building in downtown Campbell	East Gallery Combo	8,700	600	500	475	N/A	Comp. tables, chairs, N/A dinnerware; N/A full commercial kitchen; meeting equipment available (fee)
		West Gallery Combo	7,000	500	350	350	N/A	
		East Gallery	5,000	450	350	250	N/A	
		Campbell Gallery	3,700	275	175	175	N/A	
		West Gallery	3,200	275	175	175	N/A	
<u>Cupertino</u>								
De Anza College 21250 Stevens Creek Blvd. (12 mins)	Community college w/ renov. meeting spaces available for rent	Main Dining Room	10,080	528	450	450	N/A	
		Conference A/B	5,022	400	280	280	N/A	
		Conference A	2,494	150	72	72	N/A	
		Conference B	3,132	200	125	125	N/A	
		Fireside Lounge	2,250	90	120	120	N/A	

Table 29: Comparable Day-Use Meeting Facilities, Market Area (a) (cont.)

Name Location/Drive Time	Description	Meeting Space	Size (sf)	Capacity by Configuration				Amenities
				Theater	Class	Banquet	Reception	
Community Hall 10350 Torre Ave. (13 mins)	Modern, City-owned event facility in Civic Center; doubles as Council chambers; built 2007	Community Room	N/A	170	50	152	320	Comp. tables, chairs; meeting equipment available; catering kitchen; green room
Quinlan Community Center 10185 N. Stelling Rd. (13 mins)	City-owned community center; doubles as City offices and multipurpose space; built 1990	Cupertino Room Social Room	4,000 875	300 80	100 50	275 80	300 100	Comp. tables, chairs; meeting equipment available; full svc. kitchen
<i>San Jose</i>								
Camden Community Center 3369 Union Ave. (6 mins)	City-owned community center; renov. 2006	Multiuse Room	4,200	300	200	250	400	Comp. tables, chairs; meeting equipment available
<i>Saratoga</i>								
Saratoga Community Center 19655 Allendale Ave. (10 mins)	City-owned community/senior center in Civic Center	Multipurpose Room Senior Center Room	3,250 2,200	300 200	200 125	200 125	300 200	Comp. tables, chairs; projector available; 2 full svc. kitchens
Saratoga Foothill Club 20399 Park Pl. (12 mins)	Historic social hall near downtown Saratoga; redwood interiors; designed by Julia Morgan	Main Room	N/A	200	N/A	150	150	Comp. tables, chairs; full svc. kitchen

Table 29: Comparable Day-Use Meeting Facilities, Market Area (a) (cont.)

Name Location/Drive Time	Description	Meeting Space	Size (sf)	Capacity by Configuration				Amenities
				Theater	Class	Banquet	Reception	
Saratoga Prospect Center 19848 Prospect Rd. (13 mins)	City-owned event facility; built 2009	Friendship Hall	2,264	250	150	150	250	Comp. tables, chairs; projector available; full svc. kitchen in Friendship Hall; kitchenette in Main Room
		Main Room	2,200	75	30	30	75	

Note:

(a) Includes all facilities within the Hospitality Market Area that provide an appropriate venue for a corporate meeting or event for 50 to 500 persons seated theater-style. Auditoriums, restaurants, libraries, and informal facilities such as rec halls and lodges were excluded.

Sources: *Here Comes the Guide*; BAE, 2011.

Demand from Major Employers

It is assumed that the primary source of demand for meeting facilities on the North 40 would be nearby firms or organizations that require space for large group activities, such as seminars, sales meetings, and trade shows. Table 2 in the Site Description section lists major private- and public-sector employers located within the Market Area in order of distance from the subject site.

As discussed above, medical centers account for a significant share of employment in the project vicinity. Good Samaritan Hospital, Columbia Health Care/Mission Oaks Hospital, El Camino Hospital Los Gatos, Santa Clara Valley Medical Center, and O'Connor Hospital all lie within a ten-minute driving radius. Collectively, this constellation of core health care providers employs over 10,000 people. Taking into consideration the clusters of medical offices and labs that agglomerate around each hospital, health care is a major economic force in the West Valley—one that grew by over two percent annually Countywide between 2000 and 2009.

While Santa Clara Valley Medical Center and O'Connor Hospital are situated closer to meeting hotels in Campbell and San Jose, as well as Campbell's Villa Ragusa, the North 40 is ideally situated to serve Good Samaritan, Mission Oaks, and El Camino's Los Gatos campus. Interviews with meeting planners from Good Samaritan and El Camino Hospital indicate that while El Camino generates little demand for off-site meeting space, Good Samaritan conducts an average of two off-site meetings per quarter. These include board meetings, director meetings, union-bargaining sessions, and other events. Good Samaritan currently uses the Toll House Hotel for conventional meetings because of its proximity, but often looks up to 15 miles away for venues to host its director meetings, which require an ambience that appeals to executive clientele. High-end meetings make up the bulk of off-site events generated by the hospital.

In addition to health care, Table 2 shows that information technology is the other key private employment engine in the Market Area. Los Gatos itself houses a portion of Verizon's corporate offices and the headquarters of rising e-commerce powerhouse Netflix, located only a few minutes from the North 40. However, the largest clusters of tech firms within the Market Area are located in Cupertino and San Jose.

In San Jose, the Market Area encapsulates the offices of eBay and Xilinx—a semiconductor designer—while excluding the bulk of the city's tech firms, which are located downtown and in North San Jose. Nevertheless, both of these firms have the potential to generate demand for North 40 meeting space, particularly Xilinx, whose Cambrian Park offices are located in relative isolation from most of the Valley's business services. In addition, Cupertino is home to the worldwide headquarters of Apple as well as offices of Redwood City-based Oracle and smaller software companies such as Trend Micro and Pegasystems.⁴⁵ While these firms and others amount to a

⁴⁵ While HP currently houses approximately 3,000 employees in Cupertino, the company has announced plans to relocate those jobs to Palo Alto by the end of 2012; Apple Inc. has recently announced plans to redevelop the

significant node within Silicon Valley's innovation economy, Cupertino is relatively saturated with both hotel and day-use meeting options, and will only become more so once meeting hotels now in the pipeline become available.

HP site for a new corporate campus that could ultimately permit the company to house up to 12,000 employees in Cupertino .

Opportunities & Strategies for Development

Overview

The North 40 site, at the intersection of two major freeways in a major metropolitan area, in a locale with a very strong demographic profile, is extremely well-situated to capture retail sales and other business from residents of Los Gatos and other nearby communities, and beyond. Given the site's strong locational attributes, it is likely that any of a broad range of business types would be very successful at site. However, Los Gatos residents and elected officials are legitimately concerned about impacts on other businesses in the Town, particularly the Downtown Core which is a major asset of the Town, and seeks uses that would be complementary to the Downtown. The Town also desires to preserve its small-town character, as stated in its General Plan. The General Plan also states, though, that there is overall community consensus that the town be a "full-service community that is also environmentally sensitive" and should "support an active business community that provides a wide variety of goods and services and a broad range of employment opportunities, minimizing the need to travel to other communities."⁴⁶ The process of developing the North 40 site is in large part a process of balancing the goals of retaining the Town's small-town character while expanding the business community such that Los Gatos residents have less need to travel elsewhere for goods and services.

The General Plan EIR provides general guidelines for the current North 40 Specific Plan Process:

- Complement and not compete with Los Gatos' Downtown and the rest of the community.
- Be based on sustainable and "smart" development practices.
- Incorporate mixed-use development with residential uses to the south and retail mixed-use to the north.
- Include a plaza at the center of the mixed-use area and a park at the center of the residential area.
- Provide for a variety of residential housing types, both rental and owner occupied.
- Provide at least 150 units of housing affordable to households at the moderate income level or below.
- Include high-quality architecture and design that reflects the rural and agricultural history of the site.
- Provide pedestrian-oriented buildings along the Los Gatos Boulevard frontage, with minimal parking oriented to the street.
- Take advantage of the grade change across the site by including split-level buildings that allow for two floors of retail and "tuck under" parking.
- Continue the "boulevard treatment" along Los Gatos Boulevard, with interconnections from one parcel's drive aisle to the next.

⁴⁶ *Town of Los Gatos 2020 General Plan*, prepared for the Town of Los Gatos, prepared by Design, Community & Environment, January 7, 2011, p. VIS-1.

- Include connections to existing intersections along Los Gatos Boulevard and Lark Avenue.
- Develop gateway or landmark features at Los Gatos Boulevard and Lark Avenue, and at Los Gatos Boulevard and the Highway 85 off ramp.
- Provide an easily accessible, fully connected street network that encourages walking.
- Provide a vegetative buffer and screening along Highways 17 and 85.
- Preserve Town character and views, including:
 - Preserving views of the hills from Highways 17 and 85.
 - Limit building heights to a two-story maximum along Los Gatos Boulevard.
 - Limit building heights to a four-story maximum on most of the site.
 - Provide for the possible development of a maximum five story hotel.⁴⁷

The General Plan, for the purposes of its EIR, describes a maximum buildable envelope for the site to assess impacts and guide future development. The stated land use mix provides for maximum capacity of 750 housing units and 580,000 square feet of retail and office uses on the site, as well as a hotel. The ultimately approved plan may provide for a lower density of development.

The following discussion of potential retail, office, hotel, and conference center opportunities is in the context of both the market assessment and these Town guidelines for the North 40 site.

Retail Development Opportunities

Large-Format Retail

The retail analysis noted several gaps in the overall retail mix in Los Gatos, where there would be opportunities to broaden the Town's retail base. The two major categories with substantial leakage are general merchandise stores and building materials stores. In particular, the Town is lacking in a large department store (discount/good value such as Target or Nordstrom Rack or regular, such as Nordstrom Macy's, or JC Penney), and a home improvement center such as Home Depot. While some of the items stocked by these stores can be found at local drug stores, hardware stores, and other outlets, the level of leakage confirms that Town residents are leaving Los Gatos to shop at larger stores such as Target or mall department stores that carry a broad range of goods. Los Gatos also has limited sales in stores carrying major appliances, such as Best Buy, Sears, or Western Appliance. As noted the likely candidates are large-format stores which usually require large floor plates⁴⁸, such as Target, Lowe's, or Best Buy.⁴⁹ While these stores would be complementary to the

⁴⁷ *Town of Los Gatos 2020 General Plan*, prepared for the Town of Los Gatos, prepared by Design, Community & Environment, January 7, 2011, pp. 3-21 to 3-23.

⁴⁸ In the context of the retail space inventory in Los Gatos, large-format retail is defined here as stores requiring 30,000 square feet or more of space.

⁴⁹ Even though there is a Target nearby in San Jose, this site is a stronger location, and if the market is strong enough, Target will build stores in close proximity. One example is in the East Bay, where Target recently

existing retail mix in the Town, and would be less likely to compete with existing stores, especially those Downtown, it is clear that satisfying this retail demand while retaining the Town's small-town character and meeting the general guidelines for development on the North 40 site represents a complex balancing act.

Historically, the companies operating these stores prefer large floor plates on a single floor with extensive surface parking, but in recent years they have shown more flexibility in store configuration in order to enter desirable underserved markets where large vacant parcels are unavailable for traditional large-format retail development, particularly in built out urbanized areas. Appendix G presents several examples of stores on multiple-floor store spaces and in mix-use configurations across the nation, including Target, Walmart, Best Buy, Home Depot, and Whole Foods in several major U.S. cities. In another more local example, in San Francisco Target recently began renovations to build a smaller-format store of approximately 85,000 square feet in the Metreon complex in San Francisco. While Los Gatos represents a less urban market than these examples, Target has built stores in a two-story configuration elsewhere in more suburban locations in the Bay Area, including the store in Albany in the East Bay. A major home improvement store is probably not suitable for this site given design and site constraints, but even Lowe's has constructed at least one store in a horizontal mixed use configuration; in Charlotte, NC, there is a Lowe's providing rooftop parking which is buffered from a residential neighborhood by townhouses on two sides.

Specialty Food

For specialty food stores such as meat markets and produce markets, a configuration similar to Market Hall in the Rockridge neighborhood in North Oakland where shoppers can walk through multiple stores under one roof, or instead with each store oriented more toward the sidewalk and street, should provide an appropriate scale of building development for this component. This type of use, along with some smaller personal service businesses, or other local-serving businesses, would also be supported by residents of any new housing developed on the North 40 site, enhancing the pedestrian orientation of the development. Although there is some risk that specialty food markets could cannibalize sales from the existing supermarkets, they would also enhance Los Gatos Boulevard's position as a grocery destination and thus may attract additional food shoppers to Los Gatos.

Formula Retail

The retail analysis indicated that while formula retailers constitute a small percentage of stores in the Downtown, they account for a significantly higher percentage of retail sales, especially in the apparel and home furnishings/appliances category. Given the buildable envelope of commercial space at the North 40 site, even if some larger general merchandise or appliance stores locate in the project along with some small specialty and local-serving businesses, there is the potential for considerably more retail space. As noted previously, the location at the intersection of two major

opened a store in Emeryville, only a few minute's drive time from its Albany store. In Colma/Daly City, Target has stores even closer together, on opposite sides of the same highway interchange.

freeways indicates that this is a prime location for region-serving retail, which could take the form of additional formula retail stores.

As the Downtown focus has been to retain and expand its small town appeal, it may ultimately become even more focused on independent stores as it repositions. If the Town, however, is proactive in continuing to schedule concerts, farmers markets, and other events Downtown, as well as working with the developer of the North 40 site on coordinated marketing efforts, the impacts might be sufficiently mitigated. The Downtown would still provide an attractive shopping and dining destination; Rockridge Avenue or Piedmont Avenue in North Oakland provide examples of successful retail districts with very little formula retail.

The strengths of the North 40 site as a regional destination with strong demographics should provide the incentive for retailers to be more flexible as to how a store is scaled and configured, such that the design is deemed appropriate for the Town and does not give the appearance of a suburban power center. For this particular site, the larger retail uses should be configured on the north end of the site with any other large users (e.g., hotel), with smaller mixed-use, such as buildings containing specialty food or other smaller shops with office or residences above, could act as a buffer for more residential areas.

Movie Theaters/Entertainment Center

One commercial use that has not been explored in this report but was mentioned in the key informant interviews is the potential for a new movie theater/entertainment complex. Downtown Los Gatos has a small movie theater, but the Town might benefit from additional screens offering a broader variety of movies; some theater-goers at the North 40 site might also choose to dine in the Downtown, especially if cross-promotional efforts are undertaken. In addition to movie theaters, there may be opportunities to incorporate other larger family entertainment venues such as a bowling alley, a rock climbing gym, an indoor sports center, or similar other recreation-related uses. While the analysis here has not covered these uses, the developers should explore the potential for such uses at the North 40 site. The Downtown theater has recently seen an ownership change, and Town staff report that plans are to convert back to a single auditorium, and repurpose it such that it is also available as a local performing arts or meeting space.

Summary of Retail Opportunities

The downtown theater issue epitomizes some of the issues that need to be considered in considering the balance between the existing businesses in Los Gatos, and growing the overall business base to the benefit of the entire Town and with respect to being able to provide a greater variety of shopping opportunities. Some of the key factors to consider in this balancing act are as follows:

- While many of these retail and entertainment uses would generally be complementary to the Downtown, it is important to recognize that it would be virtually impossible to find a retail use that would not compete at least somewhat with existing stores in the Downtown

and elsewhere in Los Gatos. For example, Target stores often include a pharmacy, which could compete with existing drug stores in Town, and Best Buy sells a selection of Apple products. However, the four neighborhood centers would probably be relatively unaffected by region-serving uses at the North 40 site, since they are strongly oriented toward neighborhood convenience shopping.

- The Downtown's unique character is based on the large variety of and mix of independent shops in smaller spaces creating a small-town atmosphere, with a limited number of formula retail businesses. However, the formula retail currently located in the Core accounts for a significant percentage of retail sales, and draws shoppers that may also patronize the independent stores. To the extent that new development at the North 40 could cause any formula retailers to relocate from Downtown, this could have impacts on remaining businesses there, and may require adjustments that could be less problematic if the change is more gradual.
- The North 40 also has the potential to serve as a hospitality district serving nearby medical facilities, offices, and clinics bordering Los Gatos in San Jose. Neighborhood and convenience retail, along with lodging and meeting space, would be attractive to the area's robust medical community since it is within a short walk or drive across Los Gatos Boulevard.
- If the North 40 is developed as mixed use, there will be synergies beneficial to all the uses. For example, local residences would benefit from retail that could be accessed on foot rather than by automobile. Entertainment uses would benefit from nearby restaurants or shops, as would a hotel/conference center use. Office uses might allow for shared parking with retail.

The strengths of the North 40 site as a regional destination with strong demographics should provide the incentive for retailers to be more flexible as to how a store is scaled and configured, such that the design is deemed appropriate for the Town and does not give the appearance of a suburban power center. For this particular site, the larger retail uses should be configured on the north end of the site with any other large users (e.g., hotel), with smaller mixed-use, such as buildings containing specialty food or other smaller shops with office or residences above, could act as a buffer for more residential areas.

In summary, there is no "ideal world" solution that will perfectly meet all the various goals of the Los Gatos community – any commercial land use product comes with some level of both business risk and a need for adjustment as existing businesses adjust to accommodate and compete with new retail users. Change represents both risk and opportunity. Hopefully, the Specific Plan process will lead to thoughtful consideration of these issues as the planning and development process continues.

Retail Development Strategies

Developing Uses Complementary to Downtown Los Gatos

The General Plan EIR guidance states that new development at the North 40 should “complement and not compete with Los Gatos’ downtown and the rest of the community.” BAE has formulated several strategies to honor this goal of complementary retail development:

Retail Strategy 1: Establish a clear difference in the shopping experience between the Downtown and North 40. The Town’s Formula Retail Ordinance helps maintain the downtown’s small-town feel and a large presence of independent retailers with unique products and services and limits the number of formula retailers such as the present mix of Sur La Table, Apple Store, Banana Republic, Restoration Hardware, and the Gap among others. The North 40 experience should be differentiated by a focus on formula retail with less emphasis on independent retailers. Adding formula retail to the Town-wide inventory of retail properties would help Los Gatos capture sales (and generate additional sales tax revenue) from Town residents who currently travel outside the town to shop at formula retail outlets as well as from shoppers who would come from outside Los Gatos. There are several local examples of downtowns and new shopping complexes complementing each other with such differentiated shopping experiences: Downtown and Stanford Shopping Center in Palo Alto, and Elmwood/Rockridge and Bay Street in the inner East Bay (Berkeley, Oakland, and Emeryville).

Retail Strategy 1.1: Formulate a coordinated market campaign for both the Downtown and North 40 retail development. A cooperative marketing effort between the Town of Los Gatos, local Downtown merchants, and the North 40 developer can help brand and position each retail district appropriately to reinforce their respective core strengths and cross-market events and announcements –all to reinforce Los Gatos as a shopping destination.

Retail Strategy 1.2: Continue and Enhance Downtown Merchant Vitality Programs. The Town of Los Gatos presently operates several programs oriented to business development and merchant assistance. These program which include business workshops in partnership with the Chamber of Commerce and West Valley College, mentoring services for small businesses, and marketing events, should be continued and enhanced to offer assistance to merchants downtown to effectively market to new shoppers brought in by the North 40.

Retail Strategy 1.3: Reinforce the Downtown’s Role as Community Hub and Social Center. By continuing to program Farmers Markets, music and art festivals, and special events, Los Gatos can maintain the Downtown as the Town’s community hub. With its diverse set of buildings and traditional street layout the Downtown offers an authentic small downtown experience that is hard for a new development that is planned at one time to reproduce and compete with. The recent reported purchase of the Los Gatos Theater by

a local investment group to keep it as a small movie theater will boost the Town's efforts to maintain a vital Downtown.

Retail Strategy 1.4: Branding and Identify for Los Gatos Shopping Districts. The branding of the North 40 for any retail use should be approached from the idea that strong identities for all Los Gatos' shopping districts should be reinforced and branded to offer Los Gatos as a whole "package" of shopping and leisure activities, including nearby wineries. Branding and identity should be accomplished in part by well designed and consistently applied wayfinding and signage treatments that clearly identify where one is within the Town. For new shoppers coming into Los Gatos for retail at the North 40, the North 40 could serve as a "gateway" to the Town with information kiosks (both portable/seasonal and permanent).

Retail Strategy 1.5: Improve Way Finding and Public Parking Signage. Some key informants reported that a perception of lack of parking presents a barrier to local residents patronizing Downtown merchants and businesses. Most residents visit Downtown by car and parking while adequate is sometimes be difficult to find or is not always in the most convenient locations. Installation of better directional signage or electronic signs with available spaces noted lots could help overcome this perception.

Retail Strategy 1.6: Provide Shuttle or "Shared Bike" Program to Link North 40 and Downtown. By providing a shuttle connection and/or free bicycle rental, the North 40 and Downtown could be linked to promote easy movement between the two districts. Many cities in both the United States and Europe (such as Paris, Portland, and Prague) provide free, shared-use bicycles to encourage sustainable and healthy alternative transportation over short distances. Stations could be established at the North 40 and Downtown.

Strategy 2: Promote New Retail at the North 40 to Provide Goods and Services that are Leaking from the Community and Generate More Sales Tax Revenue for the Town. To strengthen and diversify its sales tax base, the Town should consider promoting new formula retail at the North 40 site since the Town's own experience with formula retail Downtown has shown that just a few formula retailers can generate a large amount of sales tax revenue. The North 40 could offer a new and fresh shopping experience in contrast to some of the older facilities outside the Town in the RTA, thus potentially attracting new shoppers from outside the Town.

Strategy 2.1: Avoid "Tax-shifting" from Relocation of Formula Retail Downtown to North 40. While some may disfavor formula retail Downtown, in order for the Town to realize a net fiscal gain, formula retailers Downtown should be encouraged to remain Downtown and not relocate to the North 40. This can be achieved through non-compete clauses in the Town's development agreement with the North 40 developer or through other legally appropriate mechanisms.

Strategy 4: Promote New Retailers that will Capture Existing Sales Leakage. Los Gatos should consider using the North 40 development opportunity to establish new retail uses in the general merchandise home improvement categories by permitting larger floor plate (e.g., over 30,000 square foot) floor plates.

Strategy 5: Encourage New Specialty Retail at North 40. Los Gatos should work with the North 40 developer to identify new specialty retail uses that will complement the Town's mix such as specialty foods (e.g., "market hall"), an appliance store, as well as formula retail that will bring in shoppers from outside Los Gatos.

Strategy 3: Encourage Neighborhood and Convenience Retail at the North 40. The Town should encourage neighborhood and convenience retail at the North 40 to support not only new residents at the site but other nearby residential and business neighborhood across Los Gatos Boulevard.

Office Development Opportunities

The Office Market Assessment chapter indicated that the Los Gatos office market has generally outperformed the broader Market Area and South Bay by maintaining lower vacancy rates and higher lease rental rates over the past several years. However, much of the Town's inventory is in older Class B and C buildings with few properties that can accommodate companies seeking space in the 75,000 to 100,000 square foot range. A residual demand estimate suggests that the site could capture between 70,000 to 191,000 square feet of new office demand. The North 40 site offers an attractive location and can enhance the Town's office inventory in several positive ways.

New Class A Office Space Targeted to Large or Single Users

One opportunity for office development at the North 40 would be allocating a portion of the site to new Class A office space targeted to tenants seeking large floor plates (25,000 to 35,000 per floor or 50,000 to 105,000 square feet per building, assuming two or three stories. Local brokerage firms report that during the first six months of 2011 there has been a significant increase in the number of tenants seeking over 100,000 square feet of space. By offering larger floor plates, new office space at the North 40 would likely not compete significantly with the Downtown since the Downtown office market is comprised of older and smaller properties. Instead, new office space at the North 40 would most likely compete with other comparable Class A properties in the West Valley.

New Class B or A Multitenant Space

In addition to adding larger floor plate space to the Los Gatos inventory, the North 40 site could also add new Class B or A space designed for multitenant occupancy for small to medium tenants, particularly medical service providers, labs, and support firms, taking advantage of the site's proximity to a significant cluster of medical institutions and clinics. This opportunity would expand the Town's inventory by adding new space to meet demand generated in the current business cycle but would potentially compete with other existing properties in Los Gatos. The

benefit to the Town would be adding new state-of-the-art facilities to its office inventory, thereby offering a greater choice to businesses wishing to locate in Los Gatos.

New Multitenant Office Space Packaged as Los Gatos’ “Innovation Center”

A third opportunity for the Town and North 40 developer to consider would be to establish an “innovation center” or “technology hub” that offers a variety of office and shared work spaces targeted to venture capital companies and start-up firms. These centers typically offer flexible space configurations from a single desk to space for 20 to 30 employees as well as flexible lease terms from month-to-month to a typical term of three-to-five years. These facilities are designed to promote collaboration and cross fertilization of ideas and technology among tenants with shared kitchens, lounges, and special events spaces. The revival of early-stage venture funding of new technology companies along with the large base of venture capital and technology professionals in Los Gatos and surrounding communities may provide a base of support for such a concept. Having onsite amenities such as a hotel, meeting space, and convenience retail would be critical to make this concept feasible. Many of these centers are sized between 5,000 and 30,000 square feet and thus would not preempt other office development at the North 40 site. A potential constraint for this opportunity, however, may be the North 40’s distance from existing start-up clusters in Palo Alto, Menlo Park, and Mountain View.

Summary of Office Opportunities

Office development at the North 40 would be consistent with the Town’s General Plan by providing a supportable use to complement retail and other commercial uses in the northern portion of the site. The General Plan guidelines calling for sustainable and “smart” development, pedestrian-oriented design, and amenities such as plazas and landmark features would enhance the marketability of new office development by giving the North 40 a strong brand and image to distinguish it from other properties in the Market Area. The Town has several office development opportunities that can be pursued by the North 40 developer. As seen with other planned and proposed office projects in the Market Area, speculative office investment may be difficult to finance without having pre-leased 50 percent or more of planned space. Lending requirements may then make provision of new Class B or A multitenant and “innovation center” more challenging to finance compared to office space for an identified credit-worthy single tenant requiring a large quantity of space. Hence, the ultimate feasibility of office space at the North 40 will depend to great extent upon the developer’s capacity to finance new development and success at securing leasing commitments. Overall, new office development at the North 40 site will add new, highly functional space the Town’s inventory, improving its ability to retain and attract business and bolstering the Town’s overall economic prosperity.

Office Strategy 1: Promote New Office Space to Expand Town Inventory. Los Gatos should develop language as part of the Specific Plan process that would promote the expansion of the Town’s inventory of office space, specifically encouraging a mix of new office space at the North 40 site geared to providing large-place Class A office as well as new Class A or B space configured for multitenants.

Office Strategy 2: Pursue the Concept of a “Los Gatos Innovation Center.” The North 40 represents a potential opportunity to accommodate start-up and new ventures and create jobs by establishing a facility providing shared-work space, collaborative workspace, or co-working facilities, and social networking/collaboration opportunities. Los Gatos should consider adopting Specific Plan language encouraging establishment of a “Los Gatos Innovation Center” that is targeted to start-ups, entrepreneurs, or self-employed individuals seeking alternative workspace and/or affordable office space and support services.

Hotel Development Opportunities

The Association of Bay Area Governments projects that Santa Clara County will add nearly 500,000 residents and 386,000 jobs by 2030. While the Market Area is slated to grow at a much slower pace, it is nonetheless projected to add nearly 9,000 residents and over 11,000 jobs. In sum, both the micro- and macro-regions in which the North 40 sits are slated to grow over the coming decades, generating as yet unmet demand for new hotel rooms. The North 40 is ideally situated to serve this growing population because of its location at the intersection of two of Silicon Valley’s most-traversed highways.

This location puts the North 40 within a relatively short driving distance of many of the region’s largest corporations and institutions, as well popular leisure destinations. While some of those demand drivers are already well-served by nearby hotels, the North 40 is geographically positioned to capture strategic market share among the thriving medical complexes and leisure attractions of the West Valley. At the time of this writing, only two new hotels were being considered for development within the Market Area, indicating a lack of competition moving its way through the pipeline. Further, both of those projects were oriented toward capturing business from Apple and other major corporate tenants in Cupertino.

As shown in the Hotel Market Assessment chapter, an analysis of comparative trend data from STR indicates that existing hotels in the Market Area consistently outperformed the countywide baseline before, during, and after the Great Recession in terms of both room rates and occupancy. This favorable performance owes, in part, to the fact that the Market Area is an amenity-rich environment capable of attracting high-paying business customers, leisure travelers, and parties seeking a picturesque setting for weddings or other social events. By appealing to this balanced blend of market segments, Area hotels retain above-average room rates on the weekend, when prices fall off more drastically in less-alluring parts of the County.

The South Bay appears underserved by name-brand luxury hotel products given the size of its business market with only the Fairmont in Downtown San Jose, Four Season in East Palo Alto, W Hotel in Newark, and Rosewood Sand Hill in Palo Alto.

The North 40, therefore, might prove viable as a site for a flagship name-brand luxury hotel in the South Bay. By associating the brand with Los Gatos' stylish reputation—as in, “The Ritz-Carlton Los Gatos”—such a hotel has a potential to become the go-to destination for many of Silicon Valley's most discriminating travelers. However, a potential limitation of the North 40 for a globally branded hotel is its location outside a major business hub such as downtown San Jose or Palo Alto, according to operators and hotel industry experts contacted by the North 40 developer.

Alternatively, appealing to a regional boutique hotelier could present an additional opportunity. Joie de Vivre and Kimpton are both Bay Area-based operators that are looking to expand their presence in destination environments such as Los Gatos. While each of these companies operates a property within the Market Area—Joie de Vivre in West San Jose, and Kimpton in Cupertino—they have demonstrated a willingness and desire to find new opportunities for market share, even in locations where they already have a presence. With its marquee location and potential to appeal to executive-level travelers and recreationalists alike, the North 40 could represent just such an opportunity to these growing hospitality groups.

Hotel Strategy 1: Develop Language in the Specific Plan that will Encourage/Permit a New High-end Hotel/Lodging Use at the North 40. The Town should consider a hotel use for the North 40 to expand the Town's inventory of high-end hotel properties and complete an overall amenity package at the North 40.

Conference and Meeting Space Development Opportunities

The Meeting Space Market Assessment indicated that the area directly surrounding the North 40 is underserved by both existing and proposed meeting hotels. Approximately 38 percent of the hotel meeting space in the Market Area is located in Los Gatos—twice as much as is located in either Campbell or Cupertino, the two next largest meeting hotel clusters (note that this balance will change when two new hotels in Cupertino come on-line). Los Gatos' existing supply of hotel meeting space is concentrated downtown. Interviews with key informants confirm that the majority of existing conference activity in Los Gatos takes place at the Toll House Hotel and Hotel Los Gatos.

These facilities, however, are hampered by their size. As shown in Table 28 in the Meeting Space Market Assessment chapter, most of the meeting hotels in the Market Area are unable to accommodate more than 250 persons seated theater-style (all chairs), and, in fact, the average seated capacity is closer to 100. The Toll House Hotel and Hotel Los Gatos can seat a maximum of 180 and 150 guests, respectively. Representatives of the Los Gatos Chamber of Commerce confirm that there is a need for event space in Los Gatos that can hold more than 200 people.

The existing day-use facilities, on the other hand, are distributed more evenly throughout the Market Area, and both the Jewish Community Center (JCC) in Los Gatos and the Camden Community Center in San Jose are located in close proximity to the North 40. While the

Testarossa Winery and the Opera House are also somewhat restricted with regard to size—seating up to 80 and 250 people theater-style, respectively—the JCC can seat up to 450 people. Indeed, many of the day-use facilities elsewhere within the Market Area can accommodate groups in excess of 250 people. However, most of these facilities are focused on community users and do not necessarily provide the ambience required by more-professional groups. Representatives of the Los Gatos Chamber of Commerce indicate that the JCC, for example, is not a competitive venue for Silicon Valley business meetings because it is relatively informal and imposes kosher restrictions on dining.

According to local experts, Los Gatos lacks a destination conference center that has the potential to compete with high-end facilities in Cupertino and San Jose. They envision a steady stream of users from within the Los Gatos community, including local businesses, trade associations, and non-profit groups looking to hold a fundraiser. The Chamber itself is in need of a large space that can accommodate trade events that showcase local industries, such as a “Taste of Los Gatos” highlighting local restaurants. Demand would also likely be generated by Good Samaritan Hospital, which values executive-level space that is close by.

The Chamber also foresees a strong *regional* demand for high-end meeting space in Los Gatos, which it would like to further promote as a destination by working with a conference facility to market the space to industry leaders in the West Valley. Key informants observe that a successful facility of this nature would feature the following: a large space to accommodate 200 or more people as well as smaller breakout rooms; the ability to transition from a business meeting to an evening event; top-of-the-line audiovisual equipment and WiFi; high-quality food options; and nearby hotel rooms, especially if marketing to large conferences and/or weddings.

New conference and meeting space with 200+ capacity could complement the existing facilities in Los Gatos by expanding the size of the market that could be accommodated. New conference and meeting space facilities at the North 40 would advance the General Plan goals for mixed commercial uses at the northern end of the site and, integrated with new retail and office uses, would potentially offer a dynamic setting for business and professional meetings as well as expand the scope of offerings for larger special events.

While this report finds that there may be market support for new conference and meeting space facilities, new stand-alone conference centers are rarely profitable and typically require an operating subsidy. Typically conference centers and meeting space facilities are offered in association with a hotel, leveraging meeting and conference space to generating overnight stays as well as food and beverage sales from meeting attendees. Hence the scope and scale of any new conference and meeting space at the North 40 would be driven primarily by a hotel operator brought to the property.

Meeting Space Strategy 1: Incorporate Meeting Space into a Hotel Development. Since a day conference center typically requires subsidy, the Town should consider incorporating a conference/meeting space use into a new hotel property. To meet the large meeting space gap in the Market Area, Los Gatos could consider requiring as has the City of Cupertino a space with a capacity for up to 400 to 500 as a condition of hotel use. The hotel would have to be sized over 150 to 200 rooms to support such a meeting space.

Prioritizing Opportunities

To assist the Town of Los Gatos with further evaluating and formulating a commercial development program for the North 40, BAE has prepared a matrix that summarizes findings by key decision-making criteria. This matrix can be found on the following two pages.

Criteria	Retail	Office	Hotel	Conference/Meeting Space
Market Feasibility	Yes , leakage and injection analyses indicate areas for expansion of retail mix	Yes , analysis indicates residual demand for new office space	Likely , analysis limited to survey of key performance indicators; boutique operators are in market seeking opportunities	Likely , analysis limited to survey of facilities; identifies gap in market for facility with capacity for over 250; stand alone conference centers frequently not financially feasible without public investment
Competition with Downtown?	Limited if North 40 focused on formula retail, leakage categories, and convenience retail serving nearby residential and commercial neighborhoods; limited if North 40 and Downtown packaged and branded as destination retail and other retail strategies implemented to support existing Town merchants	Lack of large Class A properties offering 75,000 to 100,000 sq. ft. means limited competition with existing inventory; addition of new Class A or B multitenant space expands supply in relatively balanced market; Innovation Center would be new concept with no existing facility in Town	New hotel would strengthen Los Gatos position as high-end/boutique destination ; Market Area has performed well compared to Santa Clara County; new hotel with conference meeting facility with capacity for over 250 would expand Town's overall hospitality market share	New conference and meeting facility with capacity over 250 would not compete with existing facilities due to lack of comparable facilities in Market Area
Fiscal Impacts	Diversifies sales tax base to mitigate Netflix impact; generates new net sales tax receipts; net sales tax receipts maximized if non-compete condition attached to North 40 to protect existing formula retail Downtown.	Office often generates net fiscal benefits over costs ; ability to retain and attract firms adds to overall retail expenditures by new employees	Transient occupancy tax would add to diversity of tax base ; new room nights adds to overall potential retail sales	Limited ; supports other commercial uses

Criteria	Retail	Office	Hotel	Conference/Meeting Space
Economic Vitality	Creates new jobs in retail sector at one job per 500 sq.ft.; bolsters Los Gatos as retail destination both among Town residents and nearby communities	Ability to retain and attract firms seeking larger and/or new space; Innovation Center grows future office tenants; creates one job per 250 sq. ft.	Creates hospitality sector jobs and expands Town’s package of amenities supporting other business activity; creates one job per one or two hotel rooms, depending on overall package of services	Creates hospitality jobs
Environmental Sustainability	Expanded retail at North 40 encourages residents to shop closer to home reducing trip distances; potential trip reduction with new neighborhood retail for nearby residents and medical complex; shuttle and/or shared bicycle program can reduce auto trips	Improves jobs-housing balance by adding jobs close to residential districts in West Valley; shuttle and/or shared bicycle program can reduce auto trips	As part of North 40 mixed use commercial project, adds to overall project diversity and potential to reduce overall project trips generated ; shuttle and/or shared bicycle program can reduce auto trips	See hotel statement
General Plan Consistency – Guiding Principles for North 40	A mixed use commercial program at the North 40 will achieve many of the guidelines set forth the General Plan EIR and preliminary site conceptual plans indicate that physical design elements will advance the guidelines.			

Appendices

Appendix A: Zip Codes in Retail Trade Area

<u>Zip Code</u>	<u>City</u>
95008	Campbell
95009	Campbell PO Box
95011	Campbell PO Box
95014	Cupertino
95015	Cupertino PO Box
95030	Los Gatos
95031	Los Gatos PO Box
95032	Los Gatos
95033	Los Gatos
95042	New Almaden
95070	Saratoga
95071	Saratoga PO Box
95117	San Jose
95118	San Jose
95120	San Jose
95123	San Jose
95124	San Jose
95125	San Jose
95126	San Jose
95128	San Jose
95129	San Jose
95130	San Jose
95136	San Jose

Note: PO Boxes Zip Codes may have businesses listed in Zip Code Business Patterns.

Source: BAE Urban Economics, 2011.

Appendix B: Planned and Proposed Retail Developments, Retail Trade Area, April 2011

Project Location/Drive Time Developer	Size (sf)	Est. Timing	Comments
Under Construction			
<u>Los Gatos</u>			
Safeway expansion 470 N. Santa Cruz Ave. (6 mins) Safeway Inc.	45,600 retail <u>25,000</u> demo 20,600 net new retail	Aug. 2011 (completion)	Replacement of aging Safeway in downtown Los Gatos; new store to include 55,000 sf of underground parking
<u>Campbell</u>			
Safeway 950 W. Hamilton Ave. (8 mins) Safeway Inc.	80,500 retail <u>75,000</u> remodel 5,500 net new retail	Safeway & gas station recently opened; TI app. for in-line furniture store under review	Remodel of existing 75,000 sf building (former Mervyn's) for 56,000 sf grocery store & 19,000 sf in-line retail; construction of new 4,650 sf pad building & 16-pump gas station w/ 850 sf retail kiosk
<u>Cupertino</u>			
Rose Bowl Stevens Creek Blvd. & Wolfe Rd. (14 mins) The Evershine Group (KCR Development)	60,000 retail <u>0</u> demo 60,000 net new retail	Late 2012/early 2013 (completion)	Mixed-use development w/ 204 condominiums over ground-floor retail; construction halted while foundation was being poured; after attempting to sell project mid-construction, developer plans to move forward; City is currently reviewing construction documents for the superstructure
<u>San Jose (a)</u>			
Willow Glen Town Square Retail 1104 Lincoln Ave. (14 mins) Paja Investments	17,000 retail <u>9,500</u> demo 7,500 net new retail	Early 2012 (completion)	Neighborhood-serving retail (mostly restaurants); some businesses relocated from other locations in Willow Glen
Approved (Construction Not Yet Commenced)			
<u>Los Gatos</u>			
15400 Los Gatos Blvd. (1 min) Developer unknown	20,000 office <u>0</u> demo (office) 20,000 new Class A	Start date unknown; see comments	Redevelopment of former auto dealership for 2-story mixed-use structure w/ Class A office above restaurant/retail; developer is not moving forward at the moment; Town has granted approval for Planned Development, which does not expire; developer will need to resubmit for Architectural and Site Approval at a later date; Town has no indication when and if project will be completed
55 Los Gatos-Saratoga Rd. (5 mins) Pelio & Associates	2,000 office <u>0</u> demo 2,000 new Class A	Stalled; see comments	Mixed-use structure w/ office and retail and renovation of adjacent 56-room Los Gatos Motor Inn; developer currently in dispute with San Jose Water; project will not move forward until dispute is resolved

Appendix B, cont.: Planned and Proposed Retail Developments, Retail Trade Area, April 2011

Project Location/Drive Time Developer	Size (sf)	Est. Timing	Comments
Approved (continued)			
<i>Campbell</i>			
1677 S. Bascom Ave. (6 mins) Bascom Financial LLC	14,000 retail Q demo 14,000 net new retail	Stalled; see comments	Mixed-use development w/ 123 condominiums over ground-floor retail; developer can't obtain financing w/ current unit plan, but desired changes are not allowed by General Plan w/o amendment; making project feasible would require re-submitting for approvals, adding at least 1 year to timeline
651-671 W. Hamilton Ave. (9 mins) Santa Clara Development Co. (Robson Homes)	11,150 retail 44,000 demo -32,850 net new retail	Site under remediation; start date unknown; see comments	Mixed-use development w/ 108 residential units over ground-floor retail; developer currently considering making revisions to drawings
276 E. Campbell Ave. (9 mins) Imwalde Properties	10,400 retail 5,400 remodel 5,000 net new retail	Pending building permit approval; see comments	Renovation of 5,400 sf existing building in CBD to create 3 new retail spaces & addition of 5,000 sf on adjacent parking lot; project has obtained financing; developer plans to begin construction prior to securing tenants, pending building permit approval
<i>Cupertino</i>			
Homestead Square 20580-20680 Homestead Rd. (12 mins) Sobrato Development Co.	204,000 retail 153,000 remodel 51,000 net new retail	Rite Aid to move to 17,500 sf pad by late 2011; see comments	Remodel of existing 153,000 sf building & construction of 4 pad buildings totaling 51,000 sf of new retail; developer has not secured any new anchor tenants; first step is to move Rite Aid from principal building to new pad, but developer has not yet pulled building permits
Tantau Retail & Parking Garage Stevens Creek Blvd. & N. Tantau Ave. (12 mins) Rocktino Fee LLC (Four Corners Property)	10,500 retail Q demo 10,500 net new retail	Start date unknown; see comments	Retail building constructed around 1-story, 26,500 sf parking garage; City extended approvals in late 2010, but has seen no further activity from the developer
Vallco Shopping Mall Improvements Stevens Creek Blvd & N. Wolfe Rd. (12 mins) Vallco Shopping Mall LLC	46,000 retail Q demo 46,000 net new retail	Start date unknown; see comments	Addition to existing mall; developer has indicated that they have at least 1 year of internal review to complete before moving forward
Cupertino Village Homestead Rd. & N. Wolfe Rd. (12 mins) Kimco Realty	24,500 retail Q demo 24,500 net new retail	Start date unknown; see comments	Neighborhood-serving retail; project stalled pending economic recovery; approvals expire August 2011
Main Street Cupertino Stevens Creek Blvd. & Finch Ave. (14 mins) Sand Hill Property Co.	128,000 retail total 164,000 in lieu of gym Q demo 128,000 to 164,000 net new retail	Start date unknown; see comments	17-acre mixed-use development w/ Class A office, retail, athletic club, hotel, and senior housing around 1-acre park; EIR outlines several options; final development program is yet to be determined; City has seen no activity since approvals were granted in 2009 and believes that developer intends to tenant commercial space before commencing construction

Appendix B, cont.: Planned and Proposed Retail Developments, Retail Trade Area, April 2011

Project Location/Drive Time Developer	Size (sf)	Est. Timing	Comments
Approved (continued)			
<i>San Jose (a)</i>			
Valley Fair Expansion 2855 Stevens Creek Blvd. (7 mins) Westfield Group	550,000 retail Q demo 550,000 net new retail	Stalled; see comments	Expansion into surrounding parking lots to create space for 95 new stores and 2 additional anchors; developer in negotiations w/ Neiman Marcus & Bloomingdale's; project put on hold in 2009 & is stalled pending economic recovery
Fruitdale Station (Phase II) SW Expy. & Fruitdale Ave. (9 mins) De Anza Properties	25,000 retail Q demo 25,000 net new retail	Stalled; see comments	Mixed-use development w/ 80 condos over ground-floor retail; no developer activity in over a year; likely waiting for housing market to rebound
Ohlone Mixed Use W. San Carlos & Sunol Sts. (11 mins) Green Republic LLLP	30,000 retail Q demo 30,000 net new retail	Start date unknown; see comments	Mixed-use development w/ 800 units of housing in three 15-story towers around new light-rail station and park; zoning approved recently; developer waiting for financing and market to be right
Whole Foods The Alameda & Stockton Ave. (13 mins) Whole Foods Market	33,000 retail Q demo 33,000 net new retail	Start date unknown; see comments	Stand-alone grocery store; project scaled back 25% from original application; City has no sense of project timing
Pending Approval			
<i>Los Gatos</i>			
16005 Los Gatos Blvd. (3 mins) CHL Ventures LP	30,790 comm. Q demo (retail) 0 to 30,790 net new retail	Mid-2012 (start); see comments	Redevelopment of former auto dealership for two neighborhood-serving commercial buildings and 25 units of housing; developer must complete drawings and obtain building permits, but project is active and moving ahead
<i>Campbell</i>			
Merrill Gardens 2041-2127 S. Winchester Blvd. (8 mins) SRM Development LLC	17,000 comm. 31,000 demo (retail) -31,000 to -14,000 net new retail	Spring/Summer 2013 (completion)	Mixed-use development w/ 127 senior housing units & 21 Alzheimer care units over ground-floor commercial space; commercial space could accommodate small office users
<i>San Jose (a)</i>			
Almaden Ranch Almaden Expy. & Highway 85 (7 mins) Hunter Storm LLC	400,000 retail Q demo 400,000 net new retail	Start date unknown; see comments	Power center on 40 acres of agricultural land w/ 2 anchors; developer has not disclosed potential anchor tenants; project is in early stages of zoning approval & moving forward
Calvary Church Commercial Almaden Expy. & Hillsdale Ave. (13 mins) Sand Hill Property Co.	24,250 retail Q demo 24,250 net new retail	Fall 2011 (start); see comments	Neighborhood-serving retail adjacent to Calvary Church; Walgreen's interested in occupying 14,500 sf pad; developer actively pursuing approvals; City believes construction will commence by the end of 2011

Appendix B, cont.: Planned and Proposed Retail Developments, Retail Trade Area, April 2011

Project Location/Drive Time Developer	Size (sf)	Est. Timing	Comments
Pending Approval (continued)			
<i>Saratoga</i>			
12250 Saratoga-Sunnyvale Rd. (13 mins) Timespace Investment Development	3,500 retail <u>14,000</u> demo -10,500 net new retail	Fall 2011 (start); see comments	Mixed-use development w/ professional/medical office condos, retail & children's learning center; developer has submitted for approvals; City expects construction to commence soon after
12260 Saratoga-Sunnyvale Rd. (13 mins) Muslim Community Group (name unknown)	6,000 retail <u>0</u> demo (retail) 6,000 net new retail	Fall 2011 (start); see comments	Mixed-use Muslim community center w/ prayer space, retail & office; City expects developer to submit for approvals soon & commence construction thereafter
Summary			
Max. Planned and Proposed Retail (sf) (b)	1,829,190		
Planned Remodel of Existing Retail (sf)	-233,400		
Planned Demolition of Existing Retail (sf)	<u>-123,500</u>		
Planned Net New Retail (sf)	1,472,290		

Note:

(a) List of projects in San Jose only includes those with 25,000 sf or more retail space.

(b) Assumes the maximum allowable buildout of retail at the Cupertino Main St. project and that all "commercial" projects are fully tenanted with retail users.

Sources: Silicon Valley/San Jose Business Journal, 2009-2011; Los Gatos Patch; Town of Los Gatos; City of Campbell; City of Cupertino; City of San Jose; City of Saratoga; BAE, 2011.

Appendix C: Retail Sales Trends

Appendix C-1: Los Gatos Taxable Retail Sales Trends, 2000-2009

Sales in 2010 \$000 (a) (b) (c)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Motor Vehicles and Parts	\$297,832	\$264,904	\$235,020	\$196,148	\$195,073	\$207,525	\$182,137	\$158,495	\$100,134
Home Furnishings and Appliances	\$39,533	\$34,463	\$27,916	\$27,636	\$31,111	\$31,786	\$28,937	\$24,400	\$17,112
Building Materials	\$12,564	\$12,646	\$11,218	\$10,687	\$10,892	\$13,023	\$14,253	\$15,092	\$16,701
Food Stores	\$48,956	\$47,049	\$45,994	\$44,179	\$46,122	\$47,001	\$46,845	\$47,573	\$46,371
Service Stations	\$48,920	\$42,777	\$37,597	\$41,462	\$45,867	\$48,562	\$51,677	\$54,181	\$56,145
Apparel Stores	\$33,540	\$31,468	\$27,996	\$26,521	\$29,677	\$30,397	\$29,203	\$29,948	\$27,845
General Merchandise Stores	\$21,419	\$20,045	\$19,171	\$19,412	\$20,289	\$19,886	\$20,201	\$20,422	\$20,473
Eating and Drinking Places	\$87,819	\$82,981	\$81,790	\$82,288	\$87,206	\$90,580	\$90,482	\$98,751	\$94,598
Other Retail Stores	\$122,102	\$107,630	\$118,799	\$145,139	\$208,666	\$244,936	\$295,123	\$305,340	\$315,119
Retail Stores Total	\$712,685	\$643,962	\$605,501	\$593,473	\$674,903	\$733,697	\$758,859	\$754,202	\$694,498
Excluding Other Retail Stores	\$590,582	\$536,332	\$486,702	\$448,334	\$466,237	\$488,761	\$463,737	\$448,862	\$379,379
Sales per Capita in 2010 \$ (d)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Motor Vehicles and Parts	\$10,417	\$9,239	\$8,173	\$6,802	\$6,746	\$7,156	\$6,263	\$5,435	\$3,424
Home Furnishings and Appliances	\$1,383	\$1,202	\$971	\$958	\$1,076	\$1,096	\$995	\$837	\$585
Building Materials	\$439	\$441	\$390	\$371	\$377	\$449	\$490	\$517	\$571
Food Stores	\$1,712	\$1,641	\$1,600	\$1,532	\$1,595	\$1,621	\$1,611	\$1,631	\$1,585
Service Stations	\$1,711	\$1,492	\$1,308	\$1,438	\$1,586	\$1,675	\$1,777	\$1,858	\$1,920
Apparel Stores	\$1,173	\$1,097	\$974	\$920	\$1,026	\$1,048	\$1,004	\$1,027	\$952
General Merchandise Stores	\$749	\$699	\$667	\$673	\$702	\$686	\$695	\$700	\$700
Eating and Drinking Places	\$3,071	\$2,894	\$2,844	\$2,854	\$3,016	\$3,124	\$3,111	\$3,386	\$3,234
Other Retail Stores	\$4,271	\$3,754	\$4,132	\$5,033	\$7,216	\$8,446	\$10,148	\$10,470	\$10,774
Retail Stores Total	\$24,926	\$22,459	\$21,058	\$20,581	\$23,339	\$25,300	\$26,094	\$25,860	\$23,746
Excluding Other Retail Stores	\$20,656	\$18,705	\$16,926	\$15,548	\$16,123	\$16,854	\$15,946	\$15,391	\$12,972
Population	28,592	28,673	28,754	28,836	28,918	29,000	29,082	29,164	29,247

(a) Retail sales have been adjusted to 2010 dollars based on the Bay Area Consumer Price Index, U.S. Bureau of Labor Statistics. At the beginning of 2007, SBOE made some minor changes to their classification system, thus year-to-year comparisons with previous years should be made with caution. Beginning in 2009, SBOE made major changes in their classification system, such that comparisons with the data here cannot be made. 2009 data presented in a separate table.

(b) Analysis excludes all non-retail outlets (business and personal services) reporting taxable sales.

(c) A "#" sign indicates data unavailability for the category due to SBOE confidentiality rules that suppress data when there are four or fewer outlets or sales in a category dominated by one store. Suppressed sales have been combined with Other Retail Stores.

(d) Per capita sales calculated based on sales divided by population. Population for each year has been estimated by assuming a constant annual growth rate from 2000 through 2010. 2000 population from decennial Census, and 2010 population estimate from Claritas.

Sources: 2000 and 2010 U.S. Census; State Board of Equalization; CA Dept. of Industrial Relations; U.S. Bureau of Labor Statistics; BAE, 2011.

Appendix C-2: Los Gatos Taxable Retail Sales Trends, 2008-2010

Sales in 2010 \$000 (a) (b) (c)	2008	2009	2010
Motor Vehicle and Parts Dealers	\$101,090	\$72,599	\$63,785
Home Furnishings and Appliance Stores	\$33,377	\$31,445	\$39,973
Bldg. Matrl. and Garden Equip. & Supplies	\$18,245	\$13,862	\$13,132
Food and Beverage Stores	\$51,706	\$50,460	\$47,525
Gasoline Stations	\$54,464	\$41,206	\$45,675
Clothing & Clothing Accessories Stores	\$31,333	\$28,968	\$31,322
General Merchandise Stores	\$0	\$0	#
Food Services and Drinking Places	\$91,248	\$85,161	\$86,559
Other Retail Group	\$81,359	\$70,605	\$73,794
Retail Stores Total	\$462,822	\$394,306	\$401,764

Sales per Capita in 2010 \$ (d)	2008	2009	2010
Motor Vehicle and Parts Dealers	\$3,456	\$2,475	\$2,169
Home Furnishings and Appliance Stores	\$1,141	\$1,072	\$1,359
Bldg. Matrl. and Garden Equip. & Supplies	\$624	\$473	\$446
Food and Beverage Stores	\$1,768	\$1,720	\$1,616
Gasoline Stations	\$1,862	\$1,405	\$1,553
Clothing & Clothing Accessories Stores	\$1,071	\$988	\$1,065
General Merchandise Stores	\$0	\$0	#
Food Services and Drinking Places	\$3,120	\$2,904	\$2,943
Other Retail Group	\$2,782	\$2,407	\$2,509
Retail Stores Total	\$15,825	\$13,444	\$13,659

Population	2008	2009	2010
	29,247	29,330	29,413

(a) Retail sales have been adjusted to 2010 dollars based on the California Consumer Price Index calculated by the California Department of Industrial Relations (based on data from the Bureau of Labor Statistics) for California. At the beginning of 2007, SBOE made some minor changes to their classification system, thus year-to-year comparisons with previous years should be made with caution. Beginning in 2009, SBOE made major changes in their classification system, such that comparisons with the data here cannot be made. 2009 data presented in a separate table.

(b) Analysis excludes all non-retail outlets (business and personal services) reporting taxable sales.

(c) A "#" sign indicates data unavailability for the category due to SBOE confidentiality rules that suppress data when there are four or fewer outlets or sales in a category dominated by one store. Suppressed sales have been combined with Other Retail Stores.

(d) Per capita sales calculated based on sales divided by population. Population for each year has been estimated by assuming a constant annual growth rate from 2000 through 2010. 2000 population from decennial Census, and 2010 population estimate from Claritas.

Sources: 2000 and 2010 U.S. Census; State Board of Equalization; CA Dept. of Industrial Relations; U.S. Bureau of Labor Statistics; BAE, 2011.

North Forty Specific Plan
Market Study and Business Development Strategy

Appendix C-3: Campbell Taxable Retail Sales Trends

Sales in 2010 \$000 (a) (b) (c)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Motor Vehicles and Parts	\$29,553	\$29,448	\$24,457	\$25,945	\$27,386	\$33,478	\$32,619	\$28,239	\$24,761
Home Furnishings and Appliances	\$49,176	\$41,412	\$37,166	\$32,810	\$40,082	\$14,545	\$19,919	\$26,330	\$55,131
Building Materials	\$164,012	\$142,786	\$130,739	\$131,992	\$157,045	\$155,747	\$152,911	\$135,163	\$105,582
Food Stores	\$31,480	\$32,574	\$32,342	\$32,367	\$31,879	\$32,245	\$33,754	\$33,737	\$32,022
Service Stations	\$70,019	\$60,345	\$62,600	\$64,704	\$68,319	\$73,646	\$71,980	\$74,366	\$77,807
Apparel Stores	\$30,978	\$27,771	\$26,766	\$26,267	\$28,542	\$28,330	\$40,562	\$40,906	\$32,401
General Merchandise Stores	\$64,186	\$60,599	\$57,985	\$53,307	\$53,496	\$53,581	\$53,275	\$51,271	\$50,793
Eating and Drinking Places	\$114,778	\$111,665	\$110,383	\$102,625	\$104,291	\$108,089	\$110,271	\$114,787	\$114,852
Other Retail Stores	\$222,199	\$172,348	\$137,458	\$133,533	\$135,889	\$160,876	\$161,516	\$148,830	\$127,585
Retail Stores Total	\$776,382	\$678,945	\$619,895	\$603,549	\$646,928	\$660,538	\$676,806	\$653,629	\$620,936

Sales per Capita in 2010 \$ (d)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Motor Vehicles and Parts	\$775	\$770	\$637	\$674	\$709	\$864	\$839	\$724	\$633
Home Furnishings and Appliances	\$1,289	\$1,082	\$968	\$852	\$1,038	\$375	\$513	\$675	\$1,410
Building Materials	\$4,301	\$3,732	\$3,407	\$3,429	\$4,067	\$4,020	\$3,935	\$3,467	\$2,700
Food Stores	\$825	\$851	\$843	\$841	\$825	\$832	\$869	\$865	\$819
Service Stations	\$1,836	\$1,577	\$1,631	\$1,681	\$1,769	\$1,901	\$1,852	\$1,908	\$1,990
Apparel Stores	\$812	\$726	\$697	\$682	\$739	\$731	\$1,044	\$1,049	\$829
General Merchandise Stores	\$1,683	\$1,584	\$1,511	\$1,385	\$1,385	\$1,383	\$1,371	\$1,315	\$1,299
Eating and Drinking Places	\$3,010	\$2,919	\$2,876	\$2,666	\$2,701	\$2,790	\$2,838	\$2,945	\$2,937
Other Retail Stores	\$5,826	\$4,505	\$3,582	\$3,469	\$3,519	\$4,153	\$4,156	\$3,818	\$3,263
Retail Stores Total	\$20,357	\$17,747	\$16,153	\$15,678	\$16,752	\$17,051	\$17,417	\$16,768	\$15,879

Population 38,138 38,257 38,377 38,497 38,618 38,739 38,860 38,982 39,104

(a) Retail sales have been adjusted to 2010 dollars based on the Bay Area Consumer Price Index, U.S. Bureau of Labor Statistics. At the beginning of 2007, SBOE made some minor changes to their classification system, thus year-to-year comparisons with previous years should be made with caution. Beginning in 2009, SBOE made major changes in their classification system, such that comparisons with the data here cannot be made. 2009 data presented in a separate table.

(b) Analysis excludes all non-retail outlets (business and personal services) reporting taxable sales.

(c) A "#" sign indicates data unavailability for the category due to SBOE confidentiality rules that suppress data when there are four or fewer outlets or sales in a category dominated by one store. Suppressed sales have been combined with Other Retail Stores.

(d) Per capita sales calculated based on sales divided by population. Population for each year has been estimated by assuming a constant annual growth rate from 2000 through 2010. 2000 and 2010 population from decennial Census.

Sources: 2000 and 2010 U.S. Census; State Board of Equalization; CA Dept. of Industrial Relations; U.S. Bureau of Labor Statistics; BAE, 2011.

Appendix C-4: Saratoga Taxable Retail Sales Trends

Sales in 2010 \$000 (a) (b) (c)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Motor Vehicles and Parts	\$4,388	\$4,112	\$4,145	\$4,176	\$4,228	\$4,332	\$4,454	\$4,278	\$4,256
Home Furnishings and Appliances	\$10,057	\$7,858	\$6,855	\$5,285	\$5,436	\$5,802	\$5,107	\$5,721	\$4,334
Building Materials	#	#	#	\$3,087	#	#	#	#	#
Food Stores	\$12,499	\$12,413	\$11,699	\$10,342	\$9,741	\$9,369	\$9,273	\$8,932	\$9,296
Service Stations	\$9,259	\$7,805	\$6,670	\$7,389	\$8,958	\$9,784	\$10,066	\$10,892	#
Apparel Stores	\$1,192	\$1,776	\$1,543	\$1,189	\$1,703	\$1,178	\$1,123	\$1,704	\$1,483
General Merchandise Stores	\$7,314	\$6,870	\$6,683	#	\$6,782	#	#	#	#
Eating and Drinking Places	\$35,047	\$28,998	\$28,357	\$25,154	\$26,604	\$27,560	\$27,937	\$22,024	\$23,461
Other Retail Stores	\$20,607	\$20,496	\$19,034	\$21,658	\$17,709	\$22,603	\$22,096	\$21,129	\$29,274
Retail Stores Total	\$100,363	\$90,329	\$84,985	\$78,280	\$81,160	\$80,629	\$80,056	\$74,680	\$72,103

Sales per Capita in 2010 \$ (d)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Motor Vehicles and Parts	\$147	\$138	\$139	\$140	\$142	\$145	\$149	\$143	\$142
Home Furnishings and Appliances	\$337	\$263	\$230	\$177	\$182	\$194	\$171	\$191	\$145
Building Materials	#	#	#	\$103	#	#	#	#	#
Food Stores	\$419	\$416	\$392	\$346	\$326	\$314	\$310	\$299	\$311
Service Stations	\$310	\$261	\$223	\$247	\$300	\$327	\$337	\$364	#
Apparel Stores	\$40	\$60	\$52	\$40	\$57	\$39	\$38	\$57	\$50
General Merchandise Stores	\$245	\$230	\$224	#	\$227	#	#	#	#
Eating and Drinking Places	\$1,174	\$971	\$950	\$842	\$890	\$922	\$935	\$737	\$784
Other Retail Stores	\$691	\$687	\$637	\$725	\$593	\$756	\$739	\$707	\$979
Retail Stores Total	\$3,363	\$3,026	\$2,846	\$2,621	\$2,717	\$2,698	\$2,678	\$2,498	\$2,411

Population	2000	2001	2002	2003	2004	2005	2006	2007	2008
	29,843	29,851	29,860	29,868	29,876	29,884	29,893	29,901	29,909

(a) Retail sales have been adjusted to 2010 dollars based on the Bay Area Consumer Price Index, U.S. Bureau of Labor Statistics. At the beginning of 2007, SBOE made some minor changes to their classification system, thus year-to-year comparisons with previous years should be made with caution. Beginning in 2009, SBOE made major changes in their classification system, such that comparisons with the data here cannot be made. 2009 data presented in a separate table.

(b) Analysis excludes all non-retail outlets (business and personal services) reporting taxable sales.

(c) A "#" sign indicates data unavailability for the category due to SBOE confidentiality rules that suppress data when there are four or fewer outlets or sales in a category dominated by one store. Suppressed sales have been combined with Other Retail Stores.

(d) Per capita sales calculated based on sales divided by population. Population for each year has been estimated by assuming a constant annual growth rate from 2000 through 2010. 2000 and 2010 population from decennial Census.

Sources: 2000 and 2010 U.S. Census; State Board of Equalization; CA Dept. of Industrial Relations; U.S. Bureau of Labor Statistics; BAE, 2011.

Appendix C-5: Cupertino Taxable Retail Sales Trends

Sales in 2010 \$000 (a) (b) (c)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Motor Vehicles and Parts	\$56,273	\$53,152	#	#	\$20,864	\$3,257	\$3,524	\$3,295	\$3,212
Home Furnishings and Appliances	\$45,819	\$30,429	\$25,229	\$20,999	\$15,310	\$16,165	\$10,329	\$10,276	\$9,810
Building Materials	\$8,595	\$6,528	\$5,815	\$4,612	#	#	#	#	#
Food Stores	\$31,689	\$30,024	\$29,869	\$28,320	\$28,305	\$29,345	\$28,300	\$30,826	\$31,200
Service Stations	\$58,475	\$52,898	\$45,317	\$50,496	\$56,881	\$64,243	\$63,152	\$67,564	\$68,515
Apparel Stores	\$41,148	\$33,569	\$29,579	\$26,371	\$23,756	\$22,769	\$20,138	\$19,231	\$16,145
General Merchandise Stores	\$241,853	\$223,030	\$195,546	\$176,279	\$176,379	\$168,180	\$158,377	\$159,050	\$143,162
Eating and Drinking Places	\$119,193	\$113,281	\$100,376	\$98,065	\$96,902	\$109,771	\$116,023	\$118,231	\$112,054
Other Retail Stores	\$156,062	\$149,798	\$140,683	\$110,273	\$77,314	\$73,682	\$77,731	\$275,321	\$214,737
Retail Stores Total	\$759,108	\$692,707	\$572,415	\$515,415	\$495,711	\$487,413	\$477,574	\$683,794	\$598,836

Sales per Capita in 2010 \$ (d)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Motor Vehicles and Parts	\$1,113	\$1,037	#	#	\$390	\$60	\$64	\$59	\$57
Home Furnishings and Appliances	\$906	\$593	\$485	\$398	\$286	\$298	\$188	\$184	\$173
Building Materials	\$170	\$127	\$112	\$87	#	#	#	#	#
Food Stores	\$627	\$586	\$574	\$537	\$529	\$541	\$514	\$552	\$551
Service Stations	\$1,157	\$1,032	\$871	\$957	\$1,063	\$1,183	\$1,147	\$1,210	\$1,209
Apparel Stores	\$814	\$655	\$569	\$500	\$444	\$419	\$366	\$344	\$285
General Merchandise Stores	\$4,785	\$4,350	\$3,760	\$3,341	\$3,296	\$3,098	\$2,876	\$2,847	\$2,527
Eating and Drinking Places	\$2,358	\$2,209	\$1,930	\$1,859	\$1,811	\$2,022	\$2,107	\$2,117	\$1,978
Other Retail Stores	\$3,088	\$2,922	\$2,705	\$2,090	\$1,445	\$1,357	\$1,412	\$4,929	\$3,790
Retail Stores Total	\$15,018	\$13,510	\$11,006	\$9,769	\$9,263	\$8,979	\$8,673	\$12,242	\$10,569

Population	2000	2001	2002	2003	2004	2005	2006	2007	2008
	50,546	51,273	52,010	52,758	53,516	54,286	55,066	55,858	56,661

(a) Retail sales have been adjusted to 2010 dollars based on the Bay Area Consumer Price Index, U.S. Bureau of Labor Statistics. At the beginning of 2007, SBOE made some minor changes to their classification system, thus year-to-year comparisons with previous years should be made with caution. Beginning in 2009, SBOE made major changes in their classification system, such that comparisons with the data here cannot be made. 2009 data presented in a separate table.

(b) Analysis excludes all non-retail outlets (business and personal services) reporting taxable sales.

(c) A "#" sign indicates data unavailability for the category due to SBOE confidentiality rules that suppress data when there are four or fewer outlets or sales in a category dominated by one store. Suppressed sales have been combined with Other Retail Stores.

(d) Per capita sales calculated based on sales divided by population. Population for each year has been estimated by assuming a constant annual growth rate from 2000 through 2010. 2000 and 2010 population from decennial Census.

Sources: 2000 and 2010 U.S. Census; State Board of Equalization; CA Dept. of Industrial Relations; U.S. Bureau of Labor Statistics; BAE, 2011.

Appendix C-6: San Jose Taxable Retail Sales Trends

Sales in 2010 \$000 (a) (b) (c)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Motor Vehicles and Parts	\$2,246,877	\$1,895,444	\$1,699,864	\$1,695,468	\$1,777,480	\$1,766,284	\$1,722,330	\$1,630,225	\$1,161,933
Home Furnishings and Appliances	\$534,878	\$451,038	\$414,410	\$389,236	\$392,143	\$407,490	\$396,502	\$379,454	\$413,622
Building Materials	\$919,880	\$870,164	\$863,878	\$854,269	\$954,004	\$957,969	\$951,797	\$822,866	\$714,557
Food Stores	\$515,471	\$500,637	\$479,433	\$460,596	\$453,354	\$450,808	\$444,997	\$449,822	\$419,588
Service Stations	\$988,115	\$914,038	\$770,909	\$862,294	\$997,982	\$1,145,959	\$1,226,762	\$1,311,833	\$1,428,528
Apparel Stores	\$402,134	\$400,181	\$406,380	\$430,972	\$490,782	\$534,272	\$559,487	\$566,337	\$599,003
General Merchandise Stores	\$1,606,208	\$1,454,137	\$1,352,055	\$1,326,210	\$1,364,526	\$1,429,670	\$1,448,971	\$1,501,148	\$1,389,893
Eating and Drinking Places	\$1,126,989	\$1,073,618	\$1,024,134	\$1,041,052	\$1,118,423	\$1,174,522	\$1,226,715	\$1,270,164	\$1,256,330
Other Retail Stores	\$2,372,973	\$1,937,026	\$1,661,955	\$1,577,785	\$1,543,576	\$1,590,265	\$1,713,726	\$1,789,965	\$1,333,694
Retail Stores Total	\$10,713,525	\$9,496,283	\$8,673,016	\$8,637,880	\$9,092,270	\$9,457,240	\$9,691,285	\$9,721,815	\$8,717,148

Sales per Capita in 2010 \$ (d)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Motor Vehicles and Parts	\$2,511	\$2,106	\$1,878	\$1,863	\$1,943	\$1,920	\$1,862	\$1,752	\$1,242
Home Furnishings and Appliances	\$598	\$501	\$458	\$428	\$429	\$443	\$429	\$408	\$442
Building Materials	\$1,028	\$967	\$955	\$939	\$1,043	\$1,041	\$1,029	\$884	\$764
Food Stores	\$576	\$556	\$530	\$506	\$495	\$490	\$481	\$484	\$449
Service Stations	\$1,104	\$1,016	\$852	\$948	\$1,091	\$1,245	\$1,326	\$1,410	\$1,527
Apparel Stores	\$449	\$445	\$449	\$474	\$536	\$581	\$605	\$609	\$640
General Merchandise Stores	\$1,795	\$1,616	\$1,494	\$1,457	\$1,491	\$1,554	\$1,566	\$1,614	\$1,486
Eating and Drinking Places	\$1,259	\$1,193	\$1,132	\$1,144	\$1,222	\$1,277	\$1,326	\$1,365	\$1,343
Other Retail Stores	\$2,652	\$2,152	\$1,837	\$1,734	\$1,687	\$1,728	\$1,852	\$1,924	\$1,426
Retail Stores Total	\$11,971	\$10,552	\$9,584	\$9,493	\$9,937	\$10,279	\$10,475	\$10,450	\$9,318

Population	2000	2001	2002	2003	2004	2005	2006	2007	2008
	894,943	899,917	904,918	909,947	915,004	920,089	925,203	930,344	935,515

(a) Retail sales have been adjusted to 2010 dollars based on the Bay Area Consumer Price Index, U.S. Bureau of Labor Statistics. At the beginning of 2007, SBOE made some minor changes to their classification system, thus year-to-year comparisons with previous years should be made with caution. Beginning in 2009, SBOE made major changes in their classification system, such that comparisons with the data here cannot be made. 2009 data presented in a separate table.

(b) Analysis excludes all non-retail outlets (business and personal services) reporting taxable sales.

(c) A "#" sign indicates data unavailability for the category due to SBOE confidentiality rules that suppress data when there are four or fewer outlets or sales in a category dominated by one store. Suppressed sales have been combined with Other Retail Stores.

(d) Per capita sales calculated based on sales divided by population. Population for each year has been estimated by assuming a constant annual growth rate from 2000 through 2010. 2000 and 2010 population from decennial Census.

Sources: 2000 and 2010 U.S. Census; State Board of Equalization; CA Dept. of Industrial Relations; U.S. Bureau of Labor Statistics; BAE, 2011.

Appendix C-7: Santa Clara County Taxable Retail Sales Trends

Sales in 2010 \$000 (a) (b) (c)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Motor Vehicles and Parts	\$4,968,565	\$4,265,768	\$3,772,377	\$3,640,370	\$3,757,926	\$3,796,149	\$3,733,332	\$3,651,501	\$2,767,127
Home Furnishings and Appliances	\$1,486,510	\$1,159,752	\$1,003,560	\$924,979	\$950,271	\$954,578	\$956,731	\$948,802	\$1,091,072
Building Materials	\$1,792,956	\$1,647,928	\$1,566,758	\$1,581,975	\$1,827,088	\$1,849,946	\$1,880,555	\$1,665,481	\$1,385,137
Food Stores	\$1,064,362	\$1,031,159	\$982,775	\$949,633	\$937,851	\$931,964	\$923,447	\$937,407	\$886,946
Service Stations	\$1,825,002	\$1,662,170	\$1,460,927	\$1,636,789	\$1,890,416	\$2,140,128	\$2,284,313	\$2,443,177	\$2,579,392
Apparel Stores	\$1,106,359	\$1,058,166	\$1,039,426	\$1,076,539	\$1,202,588	\$1,311,924	\$1,374,616	\$1,404,572	\$1,452,716
General Merchandise Stores	\$3,604,051	\$3,258,536	\$3,028,507	\$2,998,936	\$3,110,365	\$3,186,897	\$3,239,571	\$3,277,075	\$3,008,658
Eating and Drinking Places	\$2,893,614	\$2,681,991	\$2,518,527	\$2,477,754	\$2,612,452	\$2,738,626	\$2,876,838	\$2,962,251	\$2,937,559
Other Retail Stores	\$6,218,929	\$4,719,754	\$3,985,797	\$3,840,683	\$3,991,103	\$4,303,219	\$4,520,575	\$4,599,032	\$3,612,357
Retail Stores Total	\$24,960,348	\$21,485,224	\$19,358,654	\$19,127,657	\$20,280,059	\$21,213,429	\$21,789,977	\$21,889,299	\$19,720,964

Sales per Capita in 2010 \$ (d)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Motor Vehicles and Parts	\$2,953	\$2,521	\$2,217	\$2,127	\$2,183	\$2,193	\$2,144	\$2,085	\$1,571
Home Furnishings and Appliances	\$883	\$685	\$590	\$540	\$552	\$551	\$549	\$542	\$619
Building Materials	\$1,066	\$974	\$921	\$924	\$1,061	\$1,068	\$1,080	\$951	\$786
Food Stores	\$633	\$609	\$577	\$555	\$545	\$538	\$530	\$535	\$504
Service Stations	\$1,085	\$982	\$858	\$956	\$1,098	\$1,236	\$1,312	\$1,395	\$1,464
Apparel Stores	\$658	\$625	\$611	\$629	\$699	\$758	\$789	\$802	\$825
General Merchandise Stores	\$2,142	\$1,926	\$1,779	\$1,752	\$1,807	\$1,841	\$1,860	\$1,871	\$1,708
Eating and Drinking Places	\$1,720	\$1,585	\$1,480	\$1,448	\$1,518	\$1,582	\$1,652	\$1,691	\$1,668
Other Retail Stores	\$3,696	\$2,789	\$2,342	\$2,244	\$2,318	\$2,485	\$2,596	\$2,626	\$2,051
Retail Stores Total	\$14,835	\$12,696	\$11,374	\$11,175	\$11,780	\$12,252	\$12,513	\$12,499	\$11,196

Population	1,682,585	1,692,238	1,701,946	1,711,709	1,721,529	1,731,405	1,741,338	1,751,328	1,761,375
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(a) Retail sales have been adjusted to 2010 dollars based on the Bay Area Consumer Price Index, U.S. Bureau of Labor Statistics. At the beginning of 2007, SBOE made some minor changes to their classification system, thus year-to-year comparisons with previous years should be made with caution. Beginning in 2009, SBOE made major changes in their classification system, such that comparisons with the data here cannot be made. 2009 data presented in a separate table.

(b) Analysis excludes all non-retail outlets (business and personal services) reporting taxable sales.

(c) A "#" sign indicates data unavailability for the category due to SBOE confidentiality rules that suppress data when there are four or fewer outlets or sales in a category dominated by one store. Suppressed sales have been combined with Other Retail Stores.

(d) Per capita sales calculated based on sales divided by population. Population for each year has been estimated by assuming a constant annual growth rate from 2000 through 2010. 2000 population from decennial Census, and 2010 population estimate from Claritas.

Sources: 2000 and 2010 U.S. Census; State Board of Equalization; CA Dept. of Industrial Relations; U.S. Bureau of Labor Statistics; BAE, 2011.

Appendix C-8: California Retail Sales Trends

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Sales in 2010 \$000 (a) (b) (c)									
Motor Vehicles and Parts	\$73,642,245	\$75,900,902	\$77,819,616	\$79,912,840	\$82,184,658	\$82,436,082	\$77,157,652	73,870,970	55,052,561
Home Furnishings and Appliances	\$17,645,813	\$16,650,104	\$17,050,368	\$18,001,228	\$19,051,612	\$19,475,949	\$18,739,358	17,451,059	17,360,769
Building Materials	\$32,201,355	\$33,046,559	\$34,232,032	\$36,580,862	\$43,119,528	\$44,417,809	\$42,916,841	34,082,440	26,897,348
Food Stores	\$23,852,975	\$23,508,143	\$23,108,197	\$23,130,272	\$23,023,767	\$23,664,615	\$23,569,585	23,441,943	21,706,335
Service Stations	\$32,725,704	\$30,753,380	\$29,176,773	\$33,030,343	\$38,043,921	\$43,195,866	\$46,978,937	49,141,160	52,503,918
Apparel Stores	\$16,677,991	\$16,720,376	\$17,106,352	\$18,091,201	\$19,692,408	\$20,958,227	\$21,376,110	21,766,676	22,327,906
General Merchandise Stores	\$59,494,013	\$58,935,268	\$59,121,960	\$60,246,539	\$62,640,249	\$63,603,573	\$63,887,556	62,513,093	56,955,574
Eating and Drinking Places	\$46,035,129	\$46,019,714	\$46,432,224	\$47,731,290	\$50,255,519	\$51,983,992	\$53,069,313	53,914,527	52,540,412
Other Retail Stores	\$70,385,615	\$65,577,936	\$63,720,144	\$64,910,580	\$68,645,636	\$71,181,970	\$71,718,413	67,744,788	55,330,512
Retail Stores Total	\$372,660,839	\$367,112,382	\$367,767,667	\$381,635,156	\$406,657,299	\$420,918,084	\$419,413,765	\$403,926,655	\$360,675,335
Sales per Capita in 2010 \$ (d)									
Motor Vehicles and Parts	\$2,174	\$2,220	\$2,254	\$2,293	\$2,336	\$2,321	\$2,151	\$2,040	\$1,506
Home Furnishings and Appliances	\$521	\$487	\$494	\$516	\$541	\$548	\$523	\$482	\$475
Building Materials	\$951	\$966	\$992	\$1,050	\$1,225	\$1,250	\$1,197	\$941	\$736
Food Stores	\$704	\$687	\$669	\$664	\$654	\$666	\$657	\$647	\$594
Service Stations	\$966	\$899	\$845	\$948	\$1,081	\$1,216	\$1,310	\$1,357	\$1,436
Apparel Stores	\$492	\$489	\$495	\$519	\$560	\$590	\$596	\$601	\$611
General Merchandise Stores	\$1,756	\$1,723	\$1,712	\$1,729	\$1,780	\$1,790	\$1,781	\$1,727	\$1,558
Eating and Drinking Places	\$1,359	\$1,346	\$1,345	\$1,369	\$1,428	\$1,463	\$1,480	\$1,489	\$1,437
Other Retail Stores	\$2,078	\$1,918	\$1,846	\$1,862	\$1,951	\$2,004	\$2,000	\$1,871	\$1,514
Retail Stores Total	\$11,002	\$10,735	\$10,653	\$10,950	\$11,557	\$11,849	\$11,695	\$11,156	\$9,868
Population	33,873,086	34,196,883	34,523,776	34,853,794	35,186,966	35,523,323	35,862,895	36,205,713	36,551,809

(a) Retail sales have been adjusted to 2010 dollars based on the California Consumer Price Index, from the CA Dept. of Industrial Relations, based on data from the U.S. Bureau of Labor Statistics.

At the beginning of 2007, SBOE made some minor changes to their classification system, thus year-to-year comparisons with previous years should be made with caution. Beginning in 2009, SBOE made major changes in their classification system, such that comparisons with the data here cannot be made. 2009 data presented in a separate table.

(b) Analysis excludes all non-retail outlets (business and personal services) reporting taxable sales.

(c) A "#" sign indicates data unavailability for the category due to SBOE confidentiality rules that suppress data when there are four or fewer outlets or sales in a category dominated by one store. Suppressed sales have been combined with Other Retail Stores.

(d) Per capita sales calculated based on sales divided by population. Population for each year has been estimated by assuming a constant annual growth rate from 2000 through 2010. 2000 population from decennial Census, and 2010 population estimate from Claritas.

Sources: 2000 and 2010 U.S. Census; State Board of Equalization; CA Dept. of Industrial Relations; U.S. Bureau of Labor Statistics; BAE, 2011.

Appendix D: Leakage Analysis Detail

Los Gatos

Store Category	Unadjusted Baseline Per Capita Retail Sales (a)		Estimated Sales	Estimated Resident Expenditure	Adjusted Baseline Annual Per Capita Retail Sales		2010 Total Annual Retail Sales in \$000 (d)		Total	Per Capita	Injection/Leakage
	Estimated Sales in Area (a)	Estimated Resident Expenditures (b)	Adjutor (c)	Adjutor (c)	Estimated Sales in Area	Estimated Resident Expenditures	Estimated Sales in Area	Estimated Resident Expenditures	Injection/Leakage \$000	Injection/Leakage	as % of Potential Sales
Motor Vehicle and Parts Dealers	\$8,514	\$3,416	64%	92%	\$5,485	\$3,133	\$161,339	\$92,148	\$69,191	\$2,352	75%
Home Furnishings and Appliance Stores	\$1,333	\$1,397	122%	88%	\$1,631	\$1,227	\$47,964	\$36,100	\$11,864	\$403	33%
Bldg. Matrl. and Garden Equip. and Supplies	\$650	\$1,343	73%	90%	\$477	\$1,215	\$14,043	\$35,723	(\$21,680)	(\$737)	-61%
Food and Beverage Stores	\$6,496	\$2,633	94%	99%	\$6,097	\$2,612	\$179,336	\$76,836	\$102,500	\$3,485	133%
Health and Personal Care Stores	\$2,393	\$884	100%	100%	\$2,404	\$884	\$70,701	\$26,001	\$44,700	\$1,520	172%
Gasoline Stations	\$1,778	\$1,122	86%	88%	\$1,523	\$983	\$44,782	\$28,923	\$15,858	\$539	55%
Clothing and Clothing Accessories Stores	\$1,607	\$1,390	102%	96%	\$1,640	\$1,337	\$48,247	\$39,330	\$8,917	\$303	23%
Sporting Goods, Hobby, Book, and Music Stores	\$615	\$459	104%	97%	\$640	\$447	\$18,819	\$13,141	\$5,678	\$193	43%
General Merchandise Stores	\$34	\$1,996	99%	99%	\$34	\$1,983	\$999	\$58,322	(\$57,323)	(\$1,949)	-98%
Miscellaneous Store Retailers	\$1,026	\$473	88%	96%	\$898	\$455	\$26,420	\$13,389	\$13,031	\$443	97%
Food Services and Drinking Places	\$4,206	\$2,528	97%	99%	\$4,074	\$2,508	\$119,818	\$73,758	\$46,060	\$1,566	62%
Total	\$28,653	\$17,641			\$24,903	\$16,784	\$732,467	\$493,672	\$238,795	\$8,119	48%

Market Area

Store Category	Unadjusted Baseline Per Capita Retail Sales (a)		Estimated Sales	Estimated Resident Expenditure	Adjusted Baseline Annual Per Capita Retail Sales		2010 Total Annual Retail Sales in \$000 (d)		Total	Per Capita	Injection/Leakage
	Estimated Sales in Area (a)	Estimated Resident Expenditures (b)	Adjutor (c)	Adjutor (c)	Estimated Sales in Area	Estimated Resident Expenditures	Estimated Sales in Area	Estimated Resident Expenditures	Injection/Leakage \$000	Injection/Leakage	as % of Potential Sales
Motor Vehicle and Parts Dealers	\$3,028	\$2,724	92%	92%	\$2,776	\$2,498	\$1,682,675	\$1,513,989	\$168,686	\$278	11%
Home Furnishings and Appliance Stores	\$1,054	\$1,092	88%	88%	\$925	\$959	\$560,862	\$581,031	(\$20,169)	(\$33)	-3%
Bldg. Matrl. and Garden Equip. and Supplies	\$1,022	\$1,053	90%	90%	\$924	\$953	\$560,238	\$577,276	(\$17,038)	(\$28)	-3%
Food and Beverage Stores	\$2,194	\$2,264	99%	99%	\$2,177	\$2,246	\$1,319,441	\$1,361,405	(\$41,963)	(\$69)	-3%
Health and Personal Care Stores	\$659	\$720	100%	100%	\$659	\$720	\$399,097	\$436,516	(\$37,419)	(\$62)	-9%
Gasoline Stations	\$1,005	\$960	88%	88%	\$881	\$842	\$534,082	\$510,114	\$23,968	\$40	5%
Clothing and Clothing Accessories Stores	\$970	\$1,130	96%	96%	\$933	\$1,087	\$565,599	\$658,592	(\$92,993)	(\$153)	-14%
Sporting Goods, Hobby, Book, and Music Stores	\$428	\$363	97%	97%	\$417	\$354	\$252,796	\$214,317	\$38,479	\$63	18%
General Merchandise Stores	\$1,327	\$1,665	99%	99%	\$1,318	\$1,654	\$798,972	\$1,002,377	(\$203,405)	(\$336)	-20%
Miscellaneous Store Retailers	\$337	\$384	96%	96%	\$324	\$369	\$196,399	\$223,713	(\$27,314)	(\$45)	-12%
Food Services and Drinking Places	\$1,876	\$2,123	99%	99%	\$1,860	\$2,106	\$1,127,384	\$1,276,097	(\$148,714)	(\$245)	-12%
Total	\$13,899	\$14,477			\$13,196	\$13,787	\$7,997,544	\$8,355,427	(\$357,882)	(\$591)	-4%

All sales and leakages are in 2010 dollars.

(a) Estimated unadjusted actual per capita sales from Table 14.

(b) Estimated expenditures per capita sales are derived from Claritas/Nielsen RMP Opportunity Gap Report, adjusted to account for local expenditure patterns in Santa Clara County. These levels of consumer potential are assumed as a benchmark against which to compare actual sales. Sales assumed to be "leaking" from the area if that area has per capita sales below benchmark sales. Per capita calculated based on 2010 population per the U.S. Census:

2010 Los Gatos Population: 29,413
 2010 Market Area Population: 606,056

(c) Sales levels in the Town of Los Gatos have been adjusted based on full-year 2010 taxable sales data in comparison with 2008 data. Estimated resident expenditure potential has been adjusted based on changes in retail sales nationally as reported by the Annual Retail Trade Survey published by the U.S. Census Bureau. As noted some sectors show greater declines than others. Since comparable data for 2010 were not available for the Retail Trade Area, the national adjustment figure has been used for both estimated sales in the area and estimated resident expenditures by residents of the area. To be conservative, the adjustment factor from the national data has been capped at 100%. See Appendix E for details.

(d) Total sales = adjusted sales/expenditures per capita times area population.

Sources: 2010 U.S. Census; CA Department of Industrial Relations. U.S. Bureau of Labor Statistics; U.S. Census of Retail Trade, 2007; 2007 & 2008 Zip Code and County Business Patterns; Annual Retail Trade Survey, U.S. Census; Claritas/Nielsen; BAE, 2011.

Appendix E: Retail Sales Potential Adjustment Factors

	Retail Sales in the United States						Expenditure Adjustment Factor (d)	Los Gatos Sales Adjustment Factor (e)
	in millions				Per Capita			
	Uninflated (a)		Inflation-Adjusted (b)		Inflation-Adjusted (c)			
	2008	2010	2008	2010	2008	2010		
Motor Vehicle and Parts Dealers	\$788,688	\$744,268	\$798,773	\$744,268	\$2,626	\$2,408	92%	64%
Home Furnishings and Appliance Stores	\$208,782	\$188,700	\$211,452	\$188,700	\$695	\$611	88%	122%
Bldg. Matrl. and Garden Equip. and Supplies	\$305,085	\$283,970	\$308,986	\$283,970	\$1,016	\$919	90%	73%
Food and Beverage Stores	\$571,245	\$583,306	\$578,549	\$583,306	\$1,902	\$1,887	99%	94%
Health and Personal Care Stores	\$246,976	\$262,978	\$250,134	\$262,978	\$822	\$851	100%	100%
Gasoline Stations	\$502,469	\$453,252	\$508,894	\$453,252	\$1,673	\$1,467	88%	86%
Clothing and Clothing Accessories Stores	\$216,087	\$213,872	\$218,850	\$213,872	\$719	\$692	96%	102%
Sporting Goods, Hobby, Book, and Music Stores	\$84,323	\$84,474	\$85,401	\$84,474	\$281	\$273	97%	104%
General Merchandise Stores	\$596,541	\$609,816	\$604,169	\$609,816	\$1,986	\$1,973	99%	na
Miscellaneous Store Retailers	\$113,170	\$112,062	\$114,617	\$112,062	\$377	\$363	96%	88%
Food Services and Drinking Places	\$456,568	\$465,977	\$462,406	\$465,977	\$1,520	\$1,508	99%	97%
	\$4,089,934	\$4,002,675	\$4,142,230	\$4,002,675	13,618	12,952		

(a) From U.S. Census Bureau Monthly and Annual Retail Trade Survey Data.

(b) 2008 data have been inflated to 2010 dollars using U.S. Consumer Price Index for All Urban Consumers.
2008-2010 inflator: 1.012787

(c) Per capita based on inflation-adjusted total sales divided by total U.S. population as estimated in Table 1. Preliminary Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2000 to July 1, 2010

(NST-PEST2010-01). Release Date: February 2011. 2010 number does not vary significantly from official counts from 2010 Census.

July 1, 2008 population: 304,177,401

July 1, 2010 population: 309,050,816

(d) Based on change in sales by category from 2008 to 2010. To be conservative, adjustment factor has been capped at 100%. Factor is used for both Los Gatos and RTA. For the RTA, since sales adjustment factor data are unavailable, the expenditure adjustment factor is also used for sales.

(e) Based on change in taxable retail sales from 2008 to 2010.

Sources: Monthly and Annual Retail Trade Survey, U.S. Census; U.S. Census Population Division; BAE, 2011.

Appendix F: List of Key Informants

Lisa Porria
Manager, Administrative Services
Samaritan Medical Center

Jean Altman
Manager, Guest Services & Government Relations Officer
El Camino Hospital

Ronee Nassi
Executive Director
Los Gatos Chamber of Commerce

Dianne Anderson
Chair of the Board
Los Gatos Chamber of Commerce

Sloan Mukai
Proprietor
The Wooden Horse Toy Store

Freddy Howell
Proprietor
Los Gatos Birdwatcher

Bob Bortfield
Proprietor
Vintages – Estate Sale Antiques

Sharon Sterling
Broker
Grosvenor
Properties: Trader Joe's Shopping Center
(Not personally involved with North 40 project)

Shahram Moussavi
Broker
Terranomics
Properties: Old Town Center, Kings Court

Doug Ferrari

Principal

Prime Commercial

Properties: Los Gatos Shopping Center, Los Gatos Village Square, New Town Shopping Center,
various buildings in the downtown core

James Chung

Broker

Terranomics

Properties: 120 North Santa Cruz, 35 West Main

Patty Steele

Vice President

Cornish & Carey Commercial

Newmark Knight Frank

Appendix G: Innovative Floor Plates for Large-Format Retailers

Target | Chicago's Uptown neighborhood



Target opened in Chicago's Uptown neighborhood in July 2009. The Wilson Yard development spans two blocks along North Broadway and includes a Target, a grocery store, smaller-scale retail, and two affordable rental apartment buildings. The Target site plan contains two floors of retail spanning 126,000 square feet. Parking is located underground. The Red line rail stops 0.2 miles from the store.

The \$151 million project involved eighteen financing sources and federal new market tax credits. Target also invested \$33 million. Holsten Real Estate Development Corp. developed the project.

Walmart | Washington DC



Walmart is preparing to open four stores in Washington DC over the next two years. One store, located at 1st and H Street NW, is currently in planning stages. The design showcases a six-story building atop three levels of underground parking. The ground floor level contains 10,000 square feet of retail space for small, local retailers. Walmart will occupy 76,000-126,000 square feet on the 2nd floor, which is considerably smaller than their standard 185,000 square super center floor plate. There will also be four stories of apartments above Walmart. The total complex will occupy over four acres. The proposed parking ratios are three to four spaces for every 1,000 square feet of retail. The site is located 0.4 miles from Union Station.

The developers are JBG, JBGR, and Bennett Group. MV+A Architects of Bethesda, Maryland is the architect.

Home Depot | New York City, Manhattan



Home Depot first opened in New York City in 2004 and occupied the basement and ground floor level of two historic buildings. The architect united a pair of limestone buildings, and upgraded the 200 foot cast-iron façade. Home Depot takes up 106,000 square feet. The floor plan includes a 2-story loft-style interior with escalators to the basement level. Above Home Depot is 500,000 square feet of office space.

Whole Foods @ Union Square | New York City, Manhattan



Whole Foods opened in Union Square in New York City in 2005. It occupies 47,000 square feet within a 250,000 square-foot building. The store fronts a 3.5-acre park, and is located within a mixed-use district that includes office, residents, students, and a mix of retail types. The store spans three stories. Groceries are located in the basement level, and prepared foods and checkout

counters are situated on the ground floor. The mezzanine level provides seating with large windows that overlook the park.

Forever 21 (26,000 square feet), Filene's Basement (92,000 square feet), and DSW (26,000 sf) are other retail tenants in the building, stacked vertically above Whole Foods. Vornado Realty Trust bought the building in 1993, and put \$46 million into its renovation.

Best Buy, Container Store, Ace Hardware | Washington DC, Tenleytown



This is an urban rehabilitation of an old Sears Roebuck building that had been abandoned in the 1990s. The developer, Roadside Development, converted the building into a mixed-use development called Cityline at Tenley, which opened in 2005. Ace Hardware occupies a below-grade space, and Best Buy and the Container Store are situated at street level. Luxury condominiums rise above the retail floors, and parking is provided underground. The condominiums were priced between \$300,000 and \$1,000,000. The site is located 385 feet from the Tenleytown metro stop.

Lockwood Place | Baltimore



Lockwood Place is a development that contains mixed-use office, retail, and parking located in downtown Baltimore by the Inner Harbor. The complex contains a multi-story office tower with 250,000 square feet of Class A office space. Adjacent to the office tower is a three-story shopping complex that covers 98,000 square feet. Best Buy (37,000 sf) and Filene's Basement (30,000 sf) are the anchor tenants, and there are a variety of smaller-scale restaurants. A 940-space structured parking garage is located at the back of the building. The project was developed by David S. Brown Enterprises and A&R Development. The site is located within the downtown in an urban location, and has harbor views.

Appendix H: Hotel Market Overview, Market Area vs. Santa Clara County, 2005-Feb. 2011 (a)

Historic Overview (2005-2010)

Year	Occupancy Rate			Average Daily Rate			RevPAR (b)			Room Demand (c)		
	Market			Market			Market			Market		
	Area	County	Diff.	Area	County	Diff.	Area	County	Diff.	Area	County	% Share
2005	66.5%	62.6%	4.0%	\$122	\$100	\$23	\$81	\$62	\$19	414,316	5,997,754	6.9%
2006	72.1%	68.3%	3.8%	\$133	\$108	\$25	\$96	\$74	\$22	471,937	6,414,232	7.4%
2007	75.0%	69.9%	5.2%	\$144	\$119	\$25	\$108	\$83	\$25	491,106	6,536,068	7.5%
2008	72.5%	66.1%	6.4%	\$148	\$124	\$24	\$107	\$82	\$25	474,164	6,170,795	7.7%
2009	64.5%	57.9%	6.6%	\$129	\$105	\$24	\$83	\$61	\$22	421,849	5,381,561	7.8%
2010	72.1%	66.6%	5.5%	\$127	\$105	\$22	\$92	\$70	\$22	510,912	6,228,963	8.2%

Current Market Overview (March 2010-Feb. 2011)

Month	Occupancy Rate			Average Daily Rate			RevPAR (b)			Room Demand (c)		
	Market			Market			Market			Market		
	Area	County	Diff.	Area	County	Diff.	Area	County	Diff.	Area	County	% Share
Mar-10	66.3%	65.3%	0.9%	\$126	\$106	\$20	\$84	\$69	\$14	40,162	519,157	7.7%
Apr-10	66.2%	65.8%	0.4%	\$125	\$104	\$21	\$83	\$68	\$14	38,801	505,826	7.7%
May-10	76.0%	68.7%	7.3%	\$125	\$106	\$20	\$95	\$73	\$23	46,086	546,109	8.4%
Jun-10	80.3%	73.0%	7.2%	\$128	\$106	\$22	\$103	\$77	\$25	47,082	561,770	8.4%
Jul-10	77.1%	70.9%	6.3%	\$124	\$102	\$21	\$96	\$73	\$23	46,754	563,381	8.3%
Aug-10	78.3%	70.5%	7.8%	\$127	\$103	\$24	\$100	\$73	\$27	47,445	560,900	8.5%
Sep-10	78.7%	70.2%	8.5%	\$129	\$106	\$23	\$102	\$75	\$27	46,141	540,492	8.5%
Oct-10	80.6%	73.9%	6.7%	\$130	\$110	\$20	\$105	\$81	\$23	48,839	587,921	8.3%
Nov-10	73.0%	65.4%	7.7%	\$129	\$109	\$20	\$94	\$72	\$23	42,840	503,532	8.5%
Dec-10	62.1%	52.5%	9.6%	\$125	\$101	\$24	\$78	\$53	\$24	37,655	418,083	9.0%
Jan-11	64.9%	61.2%	3.7%	\$136	\$111	\$25	\$88	\$68	\$20	39,327	487,391	8.1%
Feb-11	75.7%	67.9%	7.8%	\$137	\$113	\$24	\$104	\$77	\$27	41,426	488,069	8.5%

Daily Averages (d)

Day of Week	Occupancy Rate			Average Daily Rate			RevPAR (b)		
	Market			Market			Market		
	Area	County	Diff.	Area	County	Diff.	Area	County	Diff.
Sunday	53.8%	49.5%	4.3%	\$128	\$105	\$24	\$69	\$52	\$17
Monday	71.2%	65.9%	5.3%	\$143	\$119	\$23	\$102	\$79	\$23
Tuesday	79.4%	73.9%	5.5%	\$145	\$122	\$23	\$115	\$90	\$25
Wednesday	79.8%	74.0%	5.8%	\$145	\$122	\$23	\$116	\$90	\$26
Thursday	71.0%	65.1%	5.9%	\$137	\$112	\$25	\$97	\$73	\$24
Friday	65.7%	57.4%	8.3%	\$116	\$94	\$22	\$76	\$54	\$22
Saturday	66.8%	58.2%	8.6%	\$115	\$92	\$23	\$77	\$54	\$23
Total	69.7%	63.4%	6.2%	\$134	\$111	\$23	\$94	\$70	\$24

Notes:

(a) Includes all hotels and motels in the Market Area and County that participate in Smith Travel Research's surveys. Figures do not represent a 100 percent count.

(b) RevPAR, or Revenue per Available Room, is calculated by dividing total room revenue by the total supply of rooms for a given period.

(c) Room Demand represents the number of rooms sold over the course of a given time period, excluding complimentary rooms.

(d) Daily Averages calculated over the last three years, from March 2008 to Feb. 2011.

Sources: Smith Travel Research; BAE, 2011.

Appendix I: Notes on Methodology for Retail Sales and Leakage Estimates

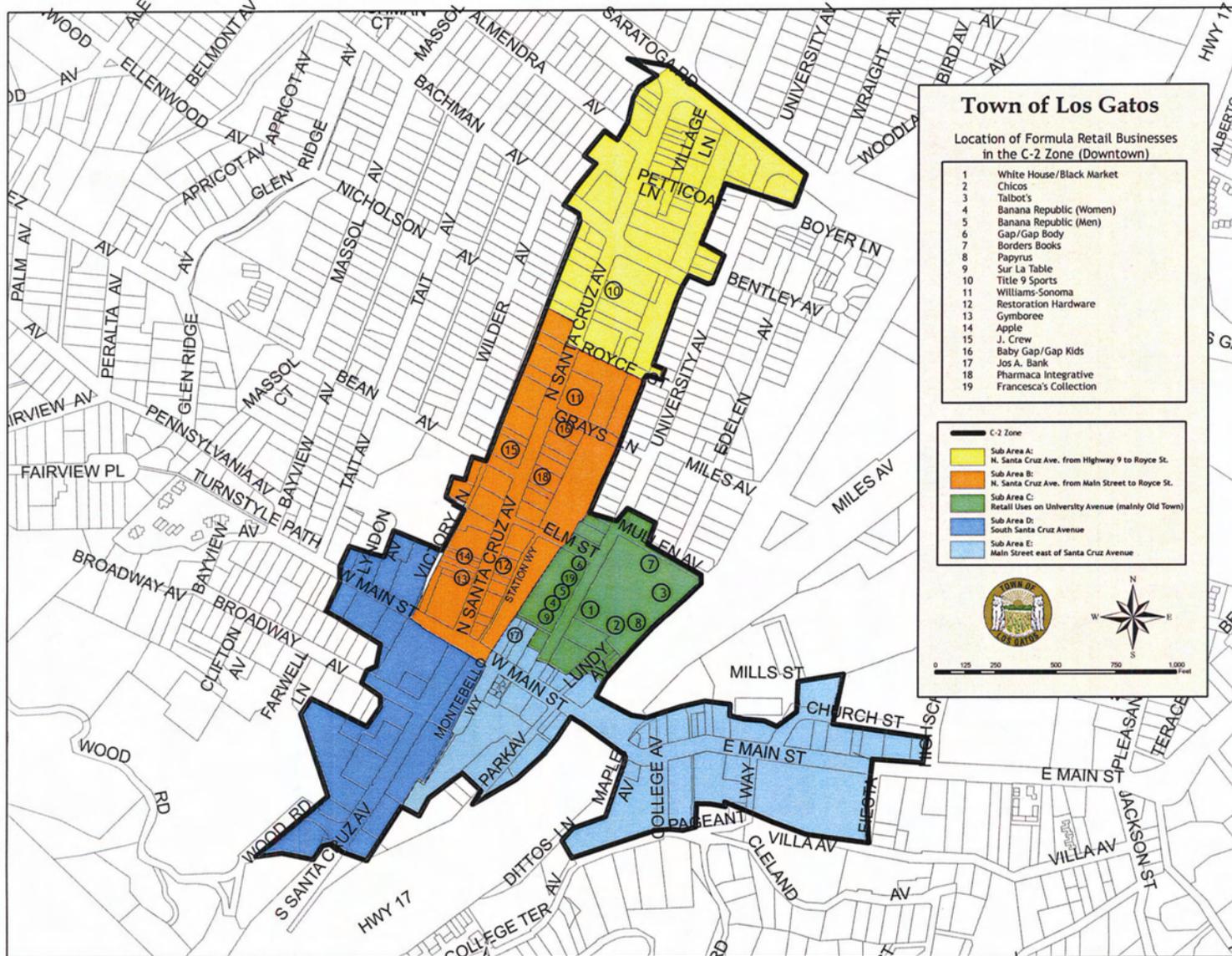
BAE has developed point-in-time estimates of retail sales by six-digit NAICS⁵⁰ category, applying sales per employee data by NAICS from the 2007 Census of Retail Trade to generate estimates of total retail sales by category for 2008, the most recent data available at the time of analysis. It should be noted that these estimates should be considered as approximate, since the exact employment numbers for each store type are not available; instead, the published data group stores into an employment class size.⁵¹ However, the availability of SBOE and Economic Census data for the same general period (2007 or 2008) made refinements possible based on cross-checking the Zip Code-derived estimates against the other sources and making adjustments accordingly, so these the figures should reasonably estimate the order of magnitude of overall retail sales by category. These estimates have the advantage over estimates based on taxable data in that all retail sales are included, so no adjustment factors are necessary to get from SBOE data to total retail sales. The disadvantage of these estimates is that the data are not as current as what SBOE can provide. It is important to note the data are from 2008, when the impacts of the housing market meltdown and recession were not yet at their peak. The leakage analysis in this report adjusts these sales levels to take into account more current conditions, as shown in Appendix E.

With respect to the taxable retail sales analysis based on State Board of Equalization data, it is extremely important to note that total taxable retail sales from the 2008 through 2010 Town data (e.g., Figure 8 and 11) are grouped somewhat differently, and thus cannot be compared to the 2000 through 2008 SBOE data.

⁵⁰ The North American Industrial Classification System (NAICS) is a federally-directed system for classifying establishments by industry.

⁵¹ For example, one store size category in the Zip Code Business Patterns ranges from 25 to 49 employees; estimates are based on a central point in this range, since the exact number of employees is unknown.

Appendix J: Location of Formula Retail Businesses in the Downtown Core



North Forty Specific Plan
 Market Study and Business Development Strategy