



# Vallco Specific Plan Real Estate Market Considerations

City of Cupertino Brown Bag Lunch Presentation



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April 11, 2018

**Economic & Planning Systems, Inc. (EPS)** is a land economics consulting firm with over 30 years of experience in the full spectrum of services related to real estate development, the financing of public infrastructure and government services, land use and conservation planning, and government organization.

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# CUPERTINO – COSMOPOLITAN ENCLAVE

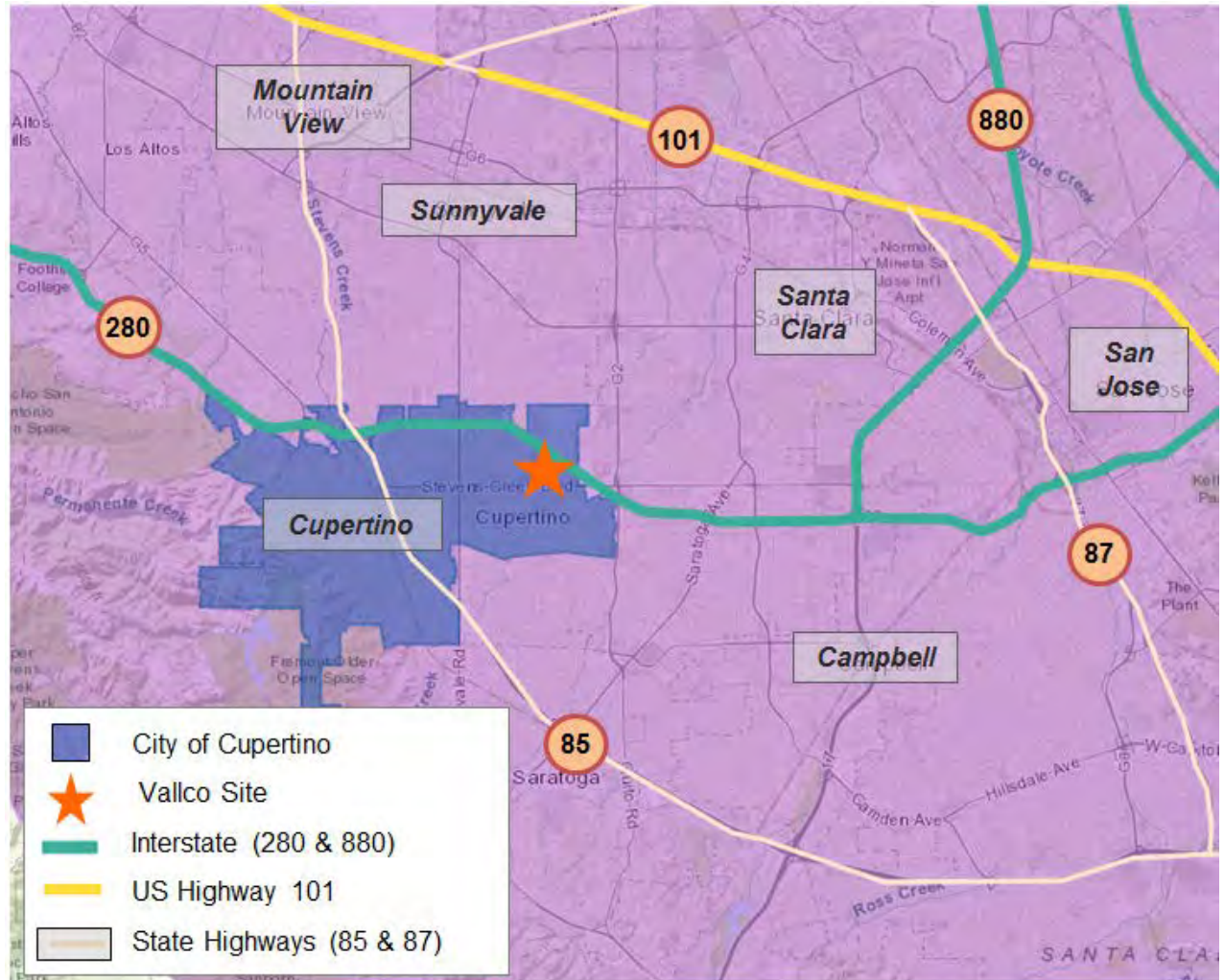


- ❖ 60,000 residents
- ❖ 6% increase in population since mid-2000s (2007-17)
- ❖ 88% of residents are satisfied with quality of life
- ❖ Schools are a top reason residents choose Cupertino
- ❖ 40,000 jobs - Tech sector headquarters location
- ❖ 50% increase in jobs since mid-2000s (2006-15)
- ❖ 90% of workers commute in
- ❖ Traffic and development are key concerns



# LOCATION, LOCATION, LOCATION

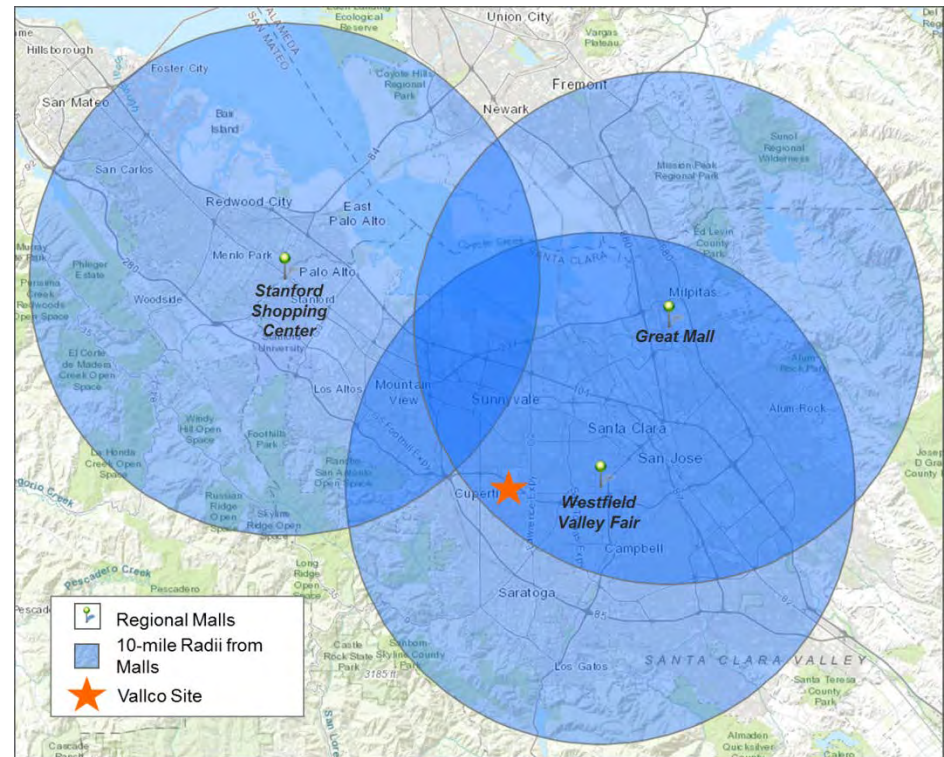
- ❖ Cupertino is centrally located within Silicon Valley
- ❖ Vallco is “one of the best-located properties in the City” and “one of the City’s largest redevelopment opportunities”



# RETAIL REVOLUTION

- ❖ Traditional retail is challenging:
  - 2017 was a record year for both store closings and retail bankruptcies
  - Dozens of retailers including Macy's, Sears, and J.C. Penney shuttered an estimated 9,000 stores
- ❖ Shopping patterns are changing:
  - E-commerce sales are 7.2 percent of all retail sales (2015), up dramatically from 0.2 percent in 1998

Competitive Retail Centers with 10-mile Radii



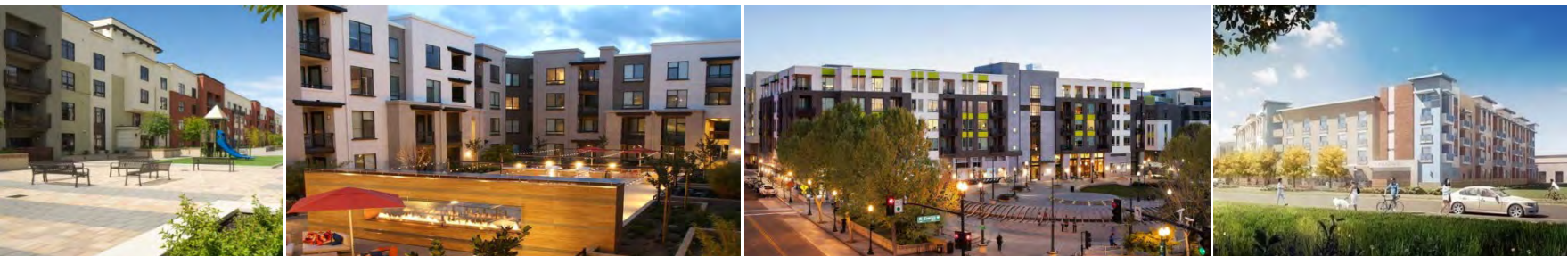
# RETAIL REVOLUTION

- ❖ Retail properties are repositioning to better compete:
  - Renovations including restaurant pavilions, new common areas, enhanced entrances, big signage, new flooring and lighting, new escalators and elevators, and new retailers and restaurants
  - New uses including housing and office that transform traditional mall sites into walkable communities



# HOUSING CRISIS – DEMAND AT ALL PRICE POINTS

- ❖ Residential development has lagged relative to economic expansion
  - Jobs up 50% but residential population grew by 6% since mid-2000s
  - 90% of workers commute in
  - 870 new housing permits were just 1.5% of countywide total (2006-16)
  - 1.6 jobs per working resident versus 1.1 countywide
- ❖ New Cupertino housing has been largely single-family units
  - Cupertino permitting was 34% multifamily versus 72% countywide
- ❖ Regional market reveals deep demand for denser housing formats across the full spectrum of housing affordability



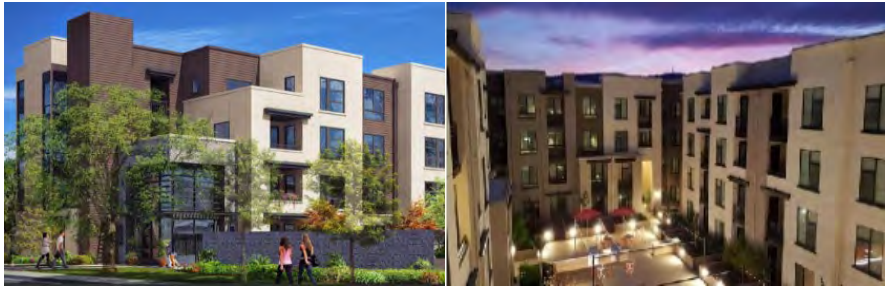
# MULTIFAMILY HOUSING EXAMPLES IN THE REGION

## Oakwood – Mountain View

4-stories above ground

Subterranean parking

Average unit size ~870 square feet



## Loft House Apartments – Sunnyvale

5-stories above ground

2-levels subterranean parking

Average unit size ~925 square feet





# SILICON VALLEY OFFICE MARKET STILL THRIVING



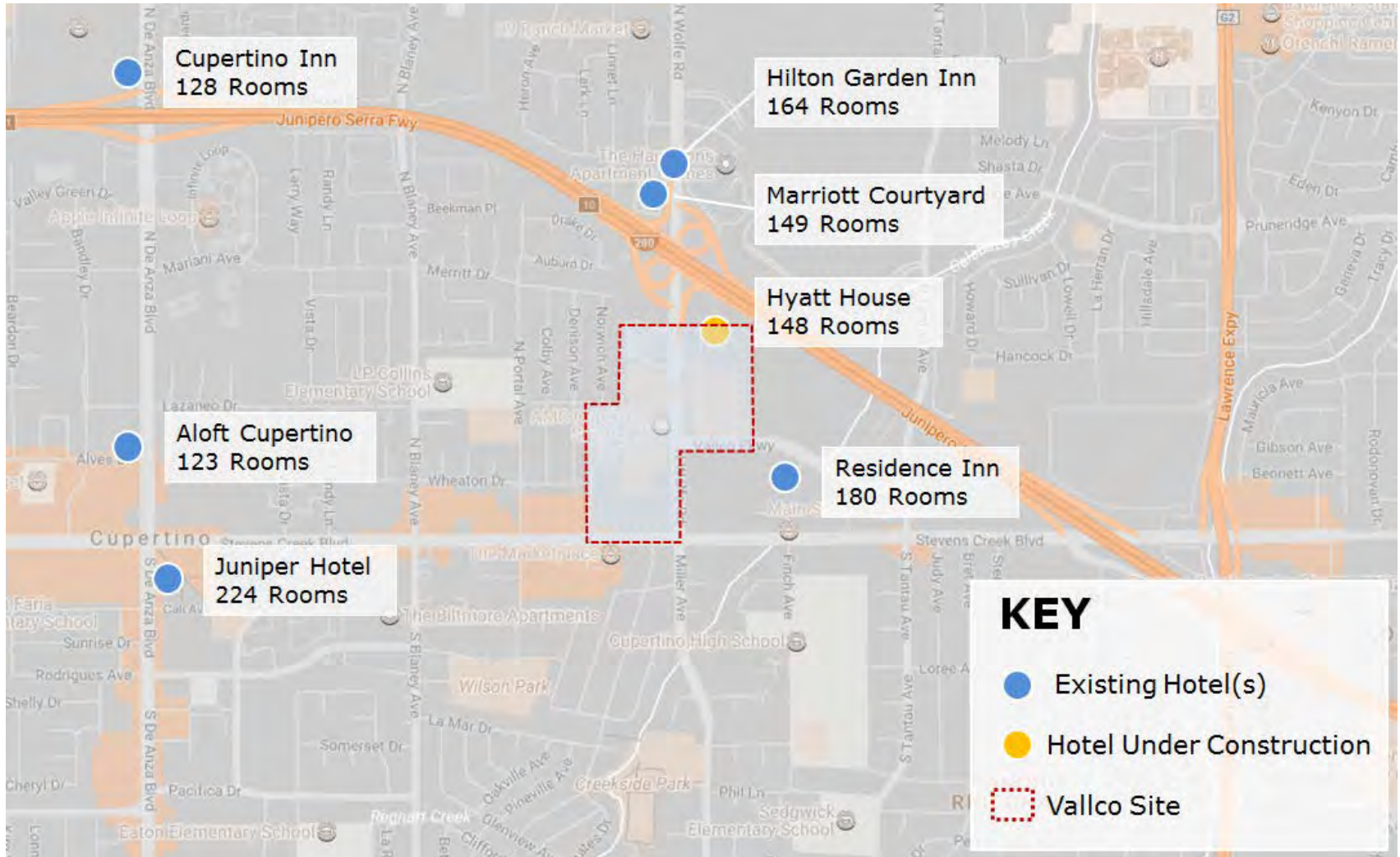
- ❖ 23 million square feet of office in Santa Clara County since 2009
- ❖ County vacancy fell from 17% to 10%
- ❖ 20+ million square feet in office pipeline
- ❖ “Demand remains healthy”
- ❖ In Cupertino, Apple Park added 2.8 million square feet of office, but there have been few additional office projects
- ❖ Office vacancy in the City is just 2%
- ❖ Lease rates are slightly above the countywide average
- ❖ Vallco is well located for new office

# HOTELS FOR BUSINESS TRAVEL

- ❖ Existing hotels in Cupertino are exhibiting strong performance metrics
  - 80% occupancy
  - Average rates of \$225
- ❖ Demand driver is business travel
  - 90%+ occupancy during the week
- ❖ Extended stay hotel delivered in 2017
- ❖ Another extended stay hotel under construction at Vallco
- ❖ Two additional proposed hotels
- ❖ Hotel demand well satisfied in the near term



# EXISTING CUPERTINO HOTELS



# DISCUSSION AND QUESTIONS

# Retail Trends

## Relevant to Cupertino

April 11, 2017

Prepared for:  
**Economic & Planning Systems**

By:  
**Stephen Lawton**



# Retail Trends

- Amount of Retail Space
- Impact of Electronic Commerce
- Size and Shape of Shopping
- Allocation of Capital to Retail Real Estate
- Implications for Land Use Decisions

# Retailers are Tenants

- Anchor stores
- In-line stores
- National retailers
- Local retailers
- Mom & Pop / independents

**US Retail Sales, 2017:**

**\$5.1 trillion**

# Tenant Rents Reflect Demand for Space

PSF NNN

## Storage

Mountain View

\$2.37

## Street Retail

Los Altos - Downtown

\$2.10 - \$4.35

Mountain View - Castro Street

\$3.55 - \$4.75

Palo Alto - California Ave

\$4.00 - \$7.70

## Shopping Center Retail

Palo Alto & Mountain View

\$4.85 - \$6.30



# Shopping Center Types

- Regional center
- Specialty center
- Enclosed mall
- Grocery-anchored neighborhood center
- Freestanding retail building
- Street Retail District

# The Firm and its Context



# America is Over-Stored

1995 - 2015: shopping centers grow +23%, GLA +30%... population +14%.

	Total Retail Space	Retail Space Per Capita	Shopping Center Space Per Capita
United States	18 billion SF	55.5 SF	23.5 SF
Europe	2.2 billion SF	2.9 SF	

Source: ICSC, Forbes

# Driving Forces

- Demographics
- Changing Preferences
  - 2016: food service over grocery

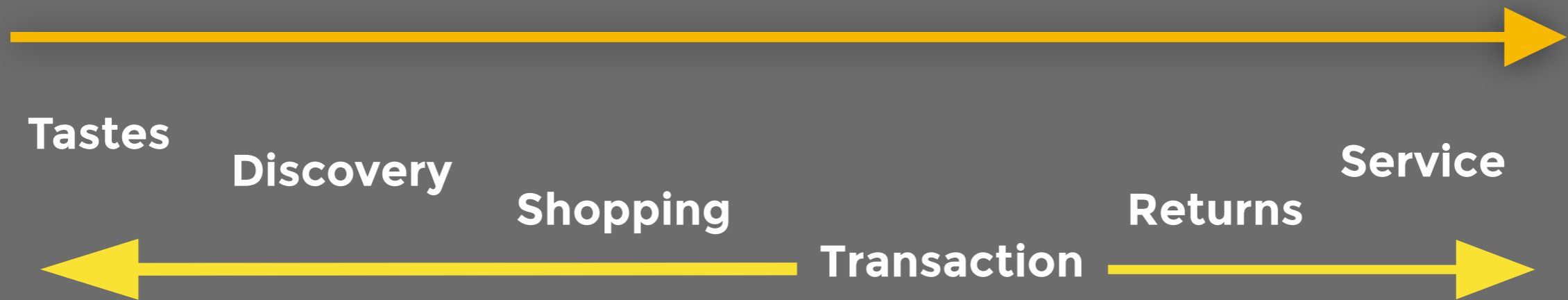


# Big Driving Force

- “Omnichannel”



# Innovation in Electronic Commerce: The Customer's Journey



# eCommerce Growth

## U.S. eCommerce Total Share of Retail

Stronger Growth Ahead Thanks to eGrocery & ePharma



Source: US Department of Commerce

# “Retail Apocalypse?”

- Retail business = constant change
- Store formats are transitory

“Without a doubt we are experiencing one of the most profound periods of evolution within our industry since the advent of the first suburban malls in the mid-1950’s.”

– International Council of Shopping Centers





# Responses

SAN FRANCISCO | RETAIL

## Entertainment Evolves At Retail Destinations

DECEMBER 18, 2017 | BY LISA BROWN

CenterCal Properties' new 375,000-square-foot retail, dining and entertainment destination, The Veranda, has a musically choreographed \$1.7 million water feature, GlobeSt.com learns in this **EXCLUSIVE**.

## Food Halls Continue to Grow in Popularity

## The Case for the American Mall

**Malls aren't dying. They're changing.**

## Merchandising Has Replaced 'Filling Space'

AEC Commercial Finance INDUSTRY news

## 500,000 SQFT Candlestick Point Retail Development in San Francisco On Hold

April 6, 2018

# Responses

## Quality, Convenience Critical in Mixed Use

February 23, 2018 By [Lisa Brown](#)

Jeff Dodd with Sunset Development Company discusses City Center Bishop Ranch's additional of two project anchors including Equinox, and dining and retail tenants, in this **EXCLUSIVE**.



## Tired Mall to Get Zing as Mixed-Use Site

January 3, 2018 By [Lisa Brown](#)

LBG Real Estate is breathing new life into Richmond's 1.1 million-square-foot shopping mall, which has undergone rebranding to be known as The Shops at Hilltop and will include office, retail and housing.



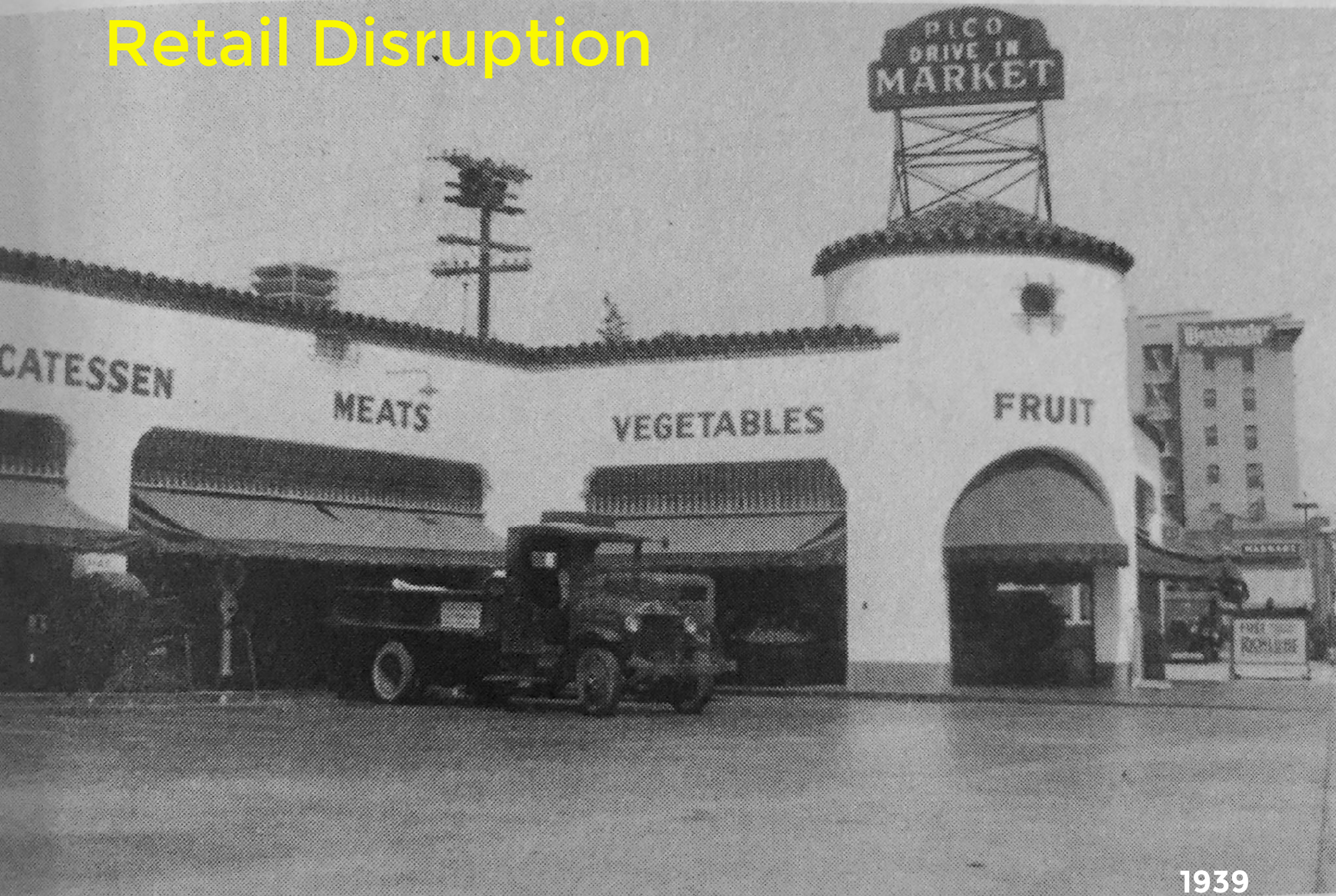
The city had previously rezoned the property to include more than just retail.

# Retail Disruption



1932

# Retail Disruption



1939

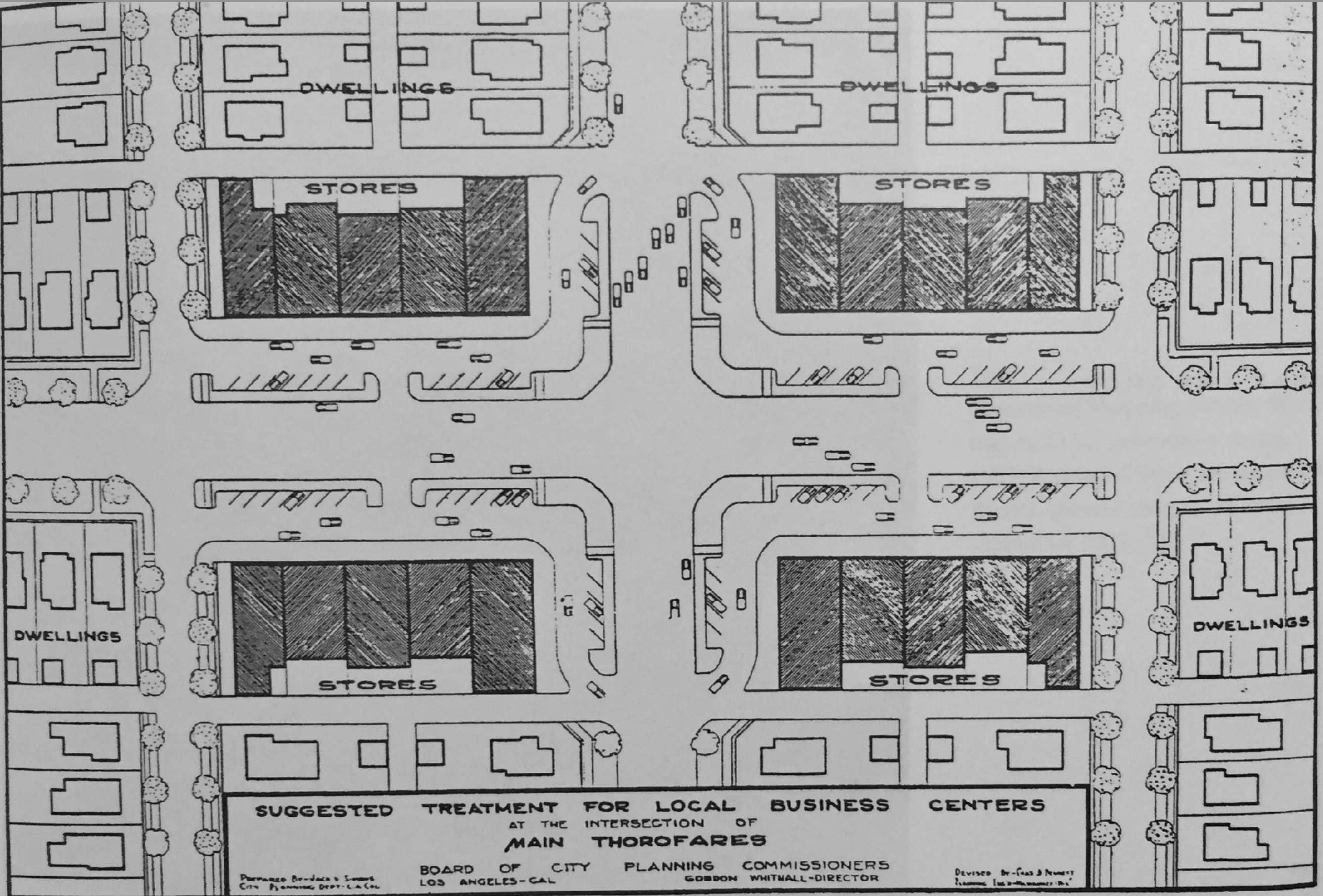
# Retail Innovation



1939

# Land Use - Policy Response

1927



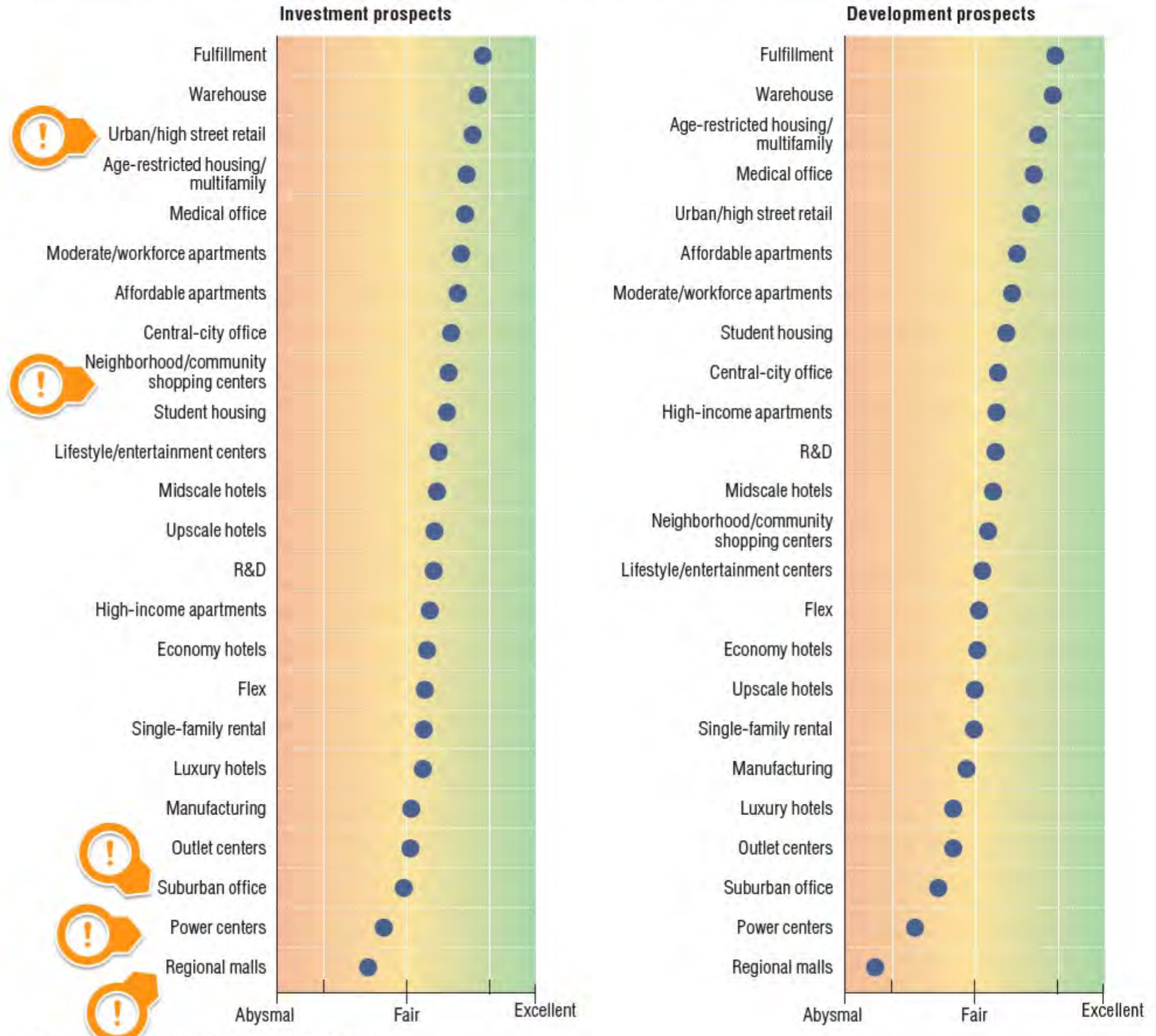
# Retail as a Commercial Real Estate Asset

- Risk-adjusted returns:
  - Least Favored Category
  - “No worse investment than a poor-quality mall”

# Retail Real Estate

## Asset Class

Exhibit 4-3 Prospects for Commercial/Multifamily Subsectors in 2017



Source: *Emerging Trends in Real Estate 2017* survey.

Note: Based on U.S. respondents only.



# The Firm and its Context



after: Peter Drucker & Michael Porter

# Decision Parameters – New Investment

- Net Operating Income
- Financial & real estate business cycle
- Construction costs & cost risk
- Approval time & risk



Real Estate Firm

# Trends: Understandings

- Retail space is over-supplied today
- e-Commerce is significantly reducing the total (per-capita) requirements for retail space in important categories
- e-Commerce is significantly changing the shape and function of retail real estate as seen and felt by shoppers

# Trends: Understandings

- The day of the department store is over
- Owners of retail real estate are pulling back on new shopping centers and repositioning selected, existing locations
- Shopping centers not built to serve daily needs will be seen as redevelopment sites or as evolving into new formats



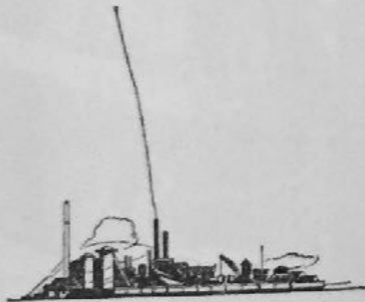
1923

# Land Use Policy Choices

1925 - 2018



## WHERE WILL THE WORKERS LIVE?



In addition to being close to the great industrial tracts of the East Side, Montebello Park is located on the principal traffic arteries of that section. The Whittier Boulevard, carrying a heavier volume of traffic than any other boulevard in Southern California, runs along the north side of Montebello Park for more than a mile. The American Way, a continuation of Ninth Street from the new viaduct, runs through the middle of Montebello Park to the town of Montebello and will, when completed, be fully as important as the Whittier Boulevard. Garfield Boulevard which will carry the heavy north and south traffic also runs through Montebello Park, crossing both the American Way and Whittier Boulevard.

The story of the developments on the East Side of Los Angeles is the story of an industrial metropolis in the making. What has already taken place is a token and a forecast of what may be expected by those who have the vision to become a part of the Montebello Park enterprise now. An interesting illustrated book, describing this section in detail, is just off the press. A copy will be sent to you if you will request it in person, by mail, or phone.

**L**OS ANGELES is fast becoming an industrial metropolis. During the present year more than sixty industries a month have come. Eighth city of the nation today in value of manufactured products, Los Angeles ten years from today will be third...according to accepted authorities. Hundreds of thousands of workers with their families will make their homes here.

Where will these workers live? The factories are coming to the East Side. Will the workers live there, or will they live in the residential districts of the West Side?

Even should they wish to live on the West Side, it would be utterly impracticable for them to do so. It is ten miles from the Union Pacific and Central Manufacturing Districts to suitable and uncrowded residential areas on the other side of town. This is too far for a worker to go by street car every morning and every evening of the year.

If he tries to go by automobile, he will have to traverse the business section of downtown Los Angeles where traffic conditions are becoming worse every day. During the congested morn-

ing and evening rush, it would take at least an hour—probably more—to make the trip from the factory to any appropriate residential district on the West Side.

Under these conditions, it is reasonable to conclude that the bulk of these workers will live on the East Side—as close to their places of employment as they can find desirable homesites. There they will not have to spend time and money traveling back and forth. There they can enjoy their leisure hours happily at home.

By all odds, the most desirable living place on the East Side from the standpoint of general accessibility, beauty of locality, nearness to the industrial districts and advanced modern development is

# Montebello Park

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# Commercial Real Estate's Role as a Local Amenity



# Retail Trends

- ☑ Amount of Retail Space
- ☑ Impact of Electronic Commerce
- ☑ Size and Shape of Shopping
- ☑ Allocation of Capital to Retail Real Estate
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