A Retail Real Estate Consulting Firm

2730 Forest Avenue, Suite W
Berkeley, California 94705
Phone: 510-356-4956

85 Fourth Avenue, Suite 6A
New York, New York 10003
Phone: 917-816-8367

E-mail: mikeberne@consultmjb.com
Web: www.consultmjb.com

Memorandum

To: Micah Hinkle and Sally Porfido, City of Hayward

From: Mike Berne, MJB Consulting

Re: Executive Summary Memo – Retail Growth Strategy

Date: September 8, 2018

In late 2017, the City of Hayward's Economic Development Division retained Berkeley, CA-based MJB Consulting (MJB) to devise a retail growth strategy for three separate commercial corridors in Hayward (see map below): 1) Mission Boulevard, from Downtown to the Union City border; 2) Industrial Parkway SW / Whipple Road, in the vicinity of I-880; and 3) Tennyson Road, from I-880 to Mission Boulevard.

Specifically, MJB was charged with identifying parcels and stretches along these corridors that remain viable for retail development, so as to inform zoning and land use policy. MJB was also asked to gather data and fashion arguments that could be used to more effectively frame and sell such opportunities to prospective tenants and the leasing community in general.

MJB's scope-of-work consisted of extensive field work and data gathering. Specifically it included the following, for each of the three corridors:

* Guided and self-guided driving tours
* Evaluation of current retail mixes and development sites
* Assessment of existing competition in adjacent communities
* Retrieval and review of reports on resident demographics
* Gathering of available information on other demand sources
* Calculation and analysis of sales-leakage data

The following memorandum summarizes our findings and recommendations. For each of the three corridors, we will first describe how we defined the "trade area", profile the residential population therein as well as other relevant submarkets, and then offer guidance on the retail categories and formats that could realistically be enticed to locate along its length, including references to specific "market leaders" that might be approached.

We proceed from there to identify the specific sites that remain viable for retail development, detailing the categories that would be most interested as well as the physical form which projects would need to take. We outline the selling points and accompanying data that would help to raise the profile and change the perceptions of the individual corridors within the tenant and leasing communities. Finally, where relevant, we consider – in general terms – the cost-benefit of possible City initiatives and improvements.

As we realize that some in our audience may have had limited exposure to and experience with the retail industry in the past, we have started this memorandum with a "Definitions and Concepts" section (#I) before proceeding to our discussions of the three individual corridors (#2, #3 and #4), and we have also added an Appendix with a glossary of terms as well as typologies of larger-format and grocery retailers.

I. Definitions and Concepts

"Retail", for the purposes of this assignment, shall be understood to encompass commercial tenants that welcome customers on a walk-in basis. This includes, then, traditional shops and services as well as cafes, restaurants and for-profit entertainment venues.

A "trade area" refers to the geographic area from which the overwhelming majority (say, 70%) of a given corridor's customers are drawn. Importantly, its borders are defined by shopping habits, *not* political jurisdictions. As a result, a trade area can range across several municipalities.

A trade area provides geographic definition to a given corridor's "draw", that is, the distances from and the purposes for which it is able attract customers. Roughly speaking, a draw can be either *local*, catering primarily to the daily or weekly needs of nearby residents (e.g. grocery, drug, etc.) or *regional*, pulling from further afield as a destination (e.g. fashion, entertainment, etc.).

For most market analysts and many retailers, a trade area typically takes the form of a circle with a given radius from a central location (e.g. a three-mile radius), or a polygon with the edges corresponding to a particular "drive time" in any direction from that location (e.g. a five-minute drive).

We at MJB Consulting feel, however, that such approaches are insufficiently nuanced, and so we demarcate the borders of our trade areas on the basis of a constellation of factors, including visibility and access, physical and psychological barriers, anchor retailers and uses as well as the location and draw of nearby competitors.

Once the borders of a trade area have been established, a series of reports can be ordered from a national data-mining outfit like ESRI, providing demographic and spending data on the residents living therein. This population can also be segmented by "psychographics", that is, by qualitative characteristics like lifestyles, sensibilities and aspirations (as opposed to quantitative ones such as age and income).

Such reports also include data on "sales leakage". This refers to the difference between the expenditures of trade area residents in particular retail categories, versus the sales of trade area merchants in those same categories. If the former exceeds the latter, sales (and sales-tax revenue) are said to have "leaked" beyond the trade area – and could conceivably be "recaptured". If the reverse, the trade area is "importing" sales from and effectively acting as a destination for consumers who live beyond it.

It is important to keep in mind that all of this information refers to *residents* who live within the boundaries of the given trade area, and does not account for the demographics, psychographics or expenditures of other consumers who might spend money there but who reside elsewhere, like, for example, workers or students who commute in.

Furthermore, sales-leakage data only provides a starting point for assessing retail potential, and must be interpreted in light of other variables. The ability of a trade area to attract new operators and "recapture" leaked sales in a particular category depends also on the overall trajectory of that category as well as the existing locations and site preferences of its market leaders.

For example, certain categories, like office supplies, might be in the process of contraction and/or transition, with neither large chains nor small-scale entrepreneurs looking to open new locations even in submarkets with apparent leakage. In others, such as books, there has been a marked increase in independently-owned stores even as the well-known brands have remained more cautious.

In assessing the tenanting potential of specific corridors and sites, we will be focusing primarily on their appeal to the large national and regional chains ("market leaders") since they are the ones with the kind of creditworthiness that can help to underwrite the costs of redevelopment, as well as the capital to afford the higher rents typically associated with new or renovated space.

In most cases, these tenants already operate locations in the East Bay and will be evaluating Hayward's opportunities with an eye towards tapping underserved submarkets as well as avoiding cannibalization of existing stores. They will also insist on sites and spaces that meet their specific requirements with regards to size and configuration, parking, visibility, access, etc.

In addition, retailers in certain categories concern themselves with the existing "co-tenancy", that is, the *other* retailers that sit in close proximity, as the cross-traffic and visibility generated by such neighbors leads to additional sales beyond what would have been possible in a stand-alone location. Clothing stores, for instance, want to be near other fashion-oriented businesses that attract a similar customer.

In these cases, retailers seek locations that have achieved "critical mass" in their respective categories, that is, they want to be where consumers *already* gravitate in large numbers to buy the kinds of goods that they sell. The fast-food purveyor, for example, yearns for a spot in the mall food court, where it would have visibility to all of the shoppers who are looking for something to eat.

All of this means that even if a given trade area is leaking sales in a particular category, it still might not be able to land a retailer in that category, because the large chains capable of catalyzing redevelopment believe that their existing stores already cover the submarket or that other nearby locations would more closely align with what they need in terms of real estate, co-tenancy, etc.

In other words, such decisions are not always straightforward nor do they take place in a vacuum. Rather, they are both multi-determined and contextual. For example, a given location might meet the population and income thresholds required by a specific retailer, but if another site offers the potential of drawing from on an even larger and/or more affluent trade area, then it will likely be the one that attracts that tenant.

In devising the tenanting strategies that follow for each of the corridors, we consider all of these variables, running each of the market leaders in their respective categories through a proprietary "filtering" process designed to pinpoint the ones most likely to consider the opportunity. For example, are they expanding? Is the trade area one that they are not presently capturing? What sorts of co-tenants do they require? Have they opened in similar locations before?

Finally, we account for how such market-leading retailers would view the suitability of specific sites within the respective corridors from a real estate perspective. Generally speaking, for example, they tend to prefer corner lots at signalized intersections, with the dimensions to accommodate store prototypes (and on-site parking), and with access from both directions. They are comparatively *less* interested in mid-block locations with shallow lot depth and/or with restricted access of any kind (i.e. median).

As part of this analysis, we also must consider, in general terms, how retail real estate developers are likely to react to the costs attendant to site preparation, like, for example, demolition of existing buildings, remediation of contaminated land, grading of hilly topography, etc., as well as the extent to which the tenants most likely to be interested in the respective corridors would be willing and able to accept the kinds of rents which such expenses imply.

Based on the likely level of interest among market-leading chains and developers, we pinpoint the lots and assemblages with the greatest potential for new or refurbished retail space on a significant scale, where it would make sense to retain or institute zoning that requires such use. In addition, we provide general guidance on the kinds of tenant mixes that would be indicated in each case, along with relevant site-planning considerations.

One last qualification: our assessment of tenanting potential necessarily rests on *existing* conditions, both in the retail industry, within particular categories and for specific retailers. The same holds for site suitability, itself subject to the moving target of (fast-growing) construction costs. The one certainty going forward is that these conditions *will* change: indeed, they are almost certain to do so well within the time horizon of this planning exercise.

In our work as consultants, we at MJB try to look inside the proverbial "crystal ball" and predict, to the extent that one can, how all of this is likely to evolve in the longer run. At the same time, we must humbly concede that there will be new variables, trends and paradigms which we cannot today foresee, as well as trajectories – of individual brands, for instance -- that we could not have anticipated. With this in mind, we suggest an approach of remaining flexible and revisiting often.

II. Mission Boulevard

a. Trade Area Boundaries

Mission Boulevard is a major north-south arterial road traversing multiple communities along the inner East Bay, effectively starting at Lake Merritt in Oakland (as International Boulevard) and continuing south to Warm Springs in Fremont. The relevant stretch for the purposes of this study, from Downtown Hayward south to the Union City border, boasts high traffic counts ranging from 26,000 to 43,000 cars per day.

This stretch lacks, however, the sort of freeway access needed for a regional draw, and as a result, the retail mix tends to be more localized in its appeal. Except maybe for Kmart and Eco Thrift, its anchor stores – Food Source, Chavez Supermarket, Grocery Outlet, Dollar Tree, etc. – are probably not pulling from much beyond the neighborhoods immediately abutting its length.

The trade area boundaries for Mission Boulevard, then – corresponding to the polygon in the image below – speak to the locally-oriented, grocery-anchored competitors that currently exist in Downtown Hayward (to the northeast), along Jackson Street / SR 92 (to the northwest), on Hesperian Boulevard (to the west), at Union Landing (to the southwest) and on Decoto Road (to the south).

Note that the trade area does extend far into the Hayward Hills, encompassing the Cal State University-East Bay campus as well as high-value subdivisions along Hayward Boulevard. For residents of the latter, Mission Boulevard might seem quite removed, yet it is still closer by drive time than the nearest competitor in the other direction, the Safeway-anchored 580 Marketplace shopping center in Castro Valley.

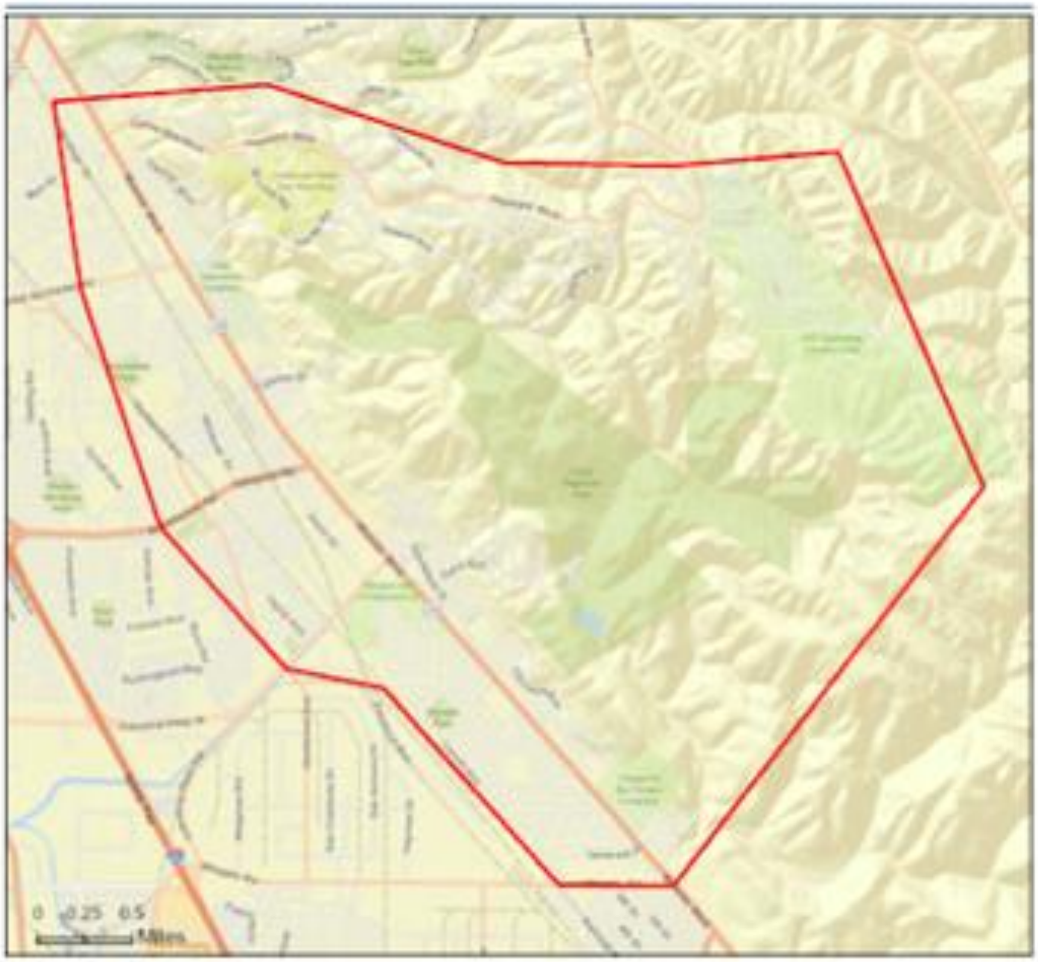


Image 1. Mission Boulevard Trade Area (ESRI, MJB Consulting).

b. Demographic Profile

The aforementioned retail anchors along Mission Boulevard point to a customer base dominated by lower-income households. The demographics of the residents actually living in the trade area, however, suggest a different narrative that could potentially appeal to a broader range of prospective tenants. ESRI data show the following:

* 51,000 residents -- at a population density of 4,100 people per square mile (higher than the 3,500 for Hayward as a whole)

* 11.1% population growth since 2010

* 30% of 25+ residents with a B.A. degree or more -- not including most Cal State University, East Bay undergraduates (aged 18 to 24)

* 33% of 16+ residents working in well-paid managerial / business / financial or professional occupations

* $71,000 median household income, including 36% (5,600 households) which earn $100,000 or more and 21% (3,600 households) at $150,00 or more

* 57% owner-occupancy

* $468,000 median home value, including 18% (1,500 homes) valued at $750,000 or more

In terms of consumer spending, the current trade area indexes well above the U.S. average in various retail categories, including apparel (23% higher), household furnishings (17% higher), grocery (18%), personal care (21%), dining (20%) and entertainment / recreation (17%), as based on data from the Bureau of Labor Statistics' Consumer Expenditure Survey as well as projections from ESRI.

Furthermore, the population of this trade area is projected by ESRI to grow by another 7.2% in the next five years, to 55,000 in 2022. Indeed, 1,000 new units will be materializing along Mission Boulevard alone, including some priced as high as $700,000. Furthermore, the decision-making of prospective tenants -- humans like the rest of us – tends to be disproportionately affected by the visual of ground-up development (as opposed to mere talk about project plans or approvals).

In addition, consumer demand along Mission Boulevard will be boosted by **hotel** development. The two new properties under construction – a Holiday Inn Express and a Marriott Residence Inn -- will add another 182 rooms to those that already exist in the corridor. Fitting the definition of "limited-service" and catering primarily to business travelers, they are likely to generate incremental spinoff for nearby food and beverage establishments.

Mission Boulevard is also the closest commercial corridor to **Cal State University, East Bay** (CSUEB), with its 15,500 students and 1,800 employees. Of these, an estimated 4,200 students live either on campus or in nearby apartment complexes (e.g. City View) and are already counted as residents of the trade area, while the other 11,300 – and presumably most of the 1,800 workers – commute from elsewhere in the Bay Area and represent additional demand.

A common misperception is that students do not spend money because they do not have it to spend. Indeed, roughly 75% of CSUEB's enrollees receive some form of financial aid. That said, evidence from college-town settings across the country suggests that at the very least these consumers are both willing and able to pay for affordable luxuries in certain categories like, for example, food and beverage.

The CSUEB campus itself offers only the retail basics -- a college bookstore, a convenience store, a Starbucks Coffee, a Jamba Juice, a food court, etc. -- and the immediate neighborhood is woefully lacking in alternatives. Strategically, however, the City might need to consider the impact that any new offerings along Mission Boulevard could have on its efforts to reposition Downtown as more of a destination for students.

Finally, both the CSUEB community and the residential trade area are extraordinarily diverse: Latinos account for 38% of the latter and 19% of the former, while Asians represent 19% and 30%, respectively. This suggests opportunities for the retail mix along Mission Boulevard to fill particular ethnic niches, though in order to get more specific, such data would need to be further segmented by country of origin or descent.

c. Tenanting Strategy

Based on this demographic profile, the sales-leakage data, the nearby competition as well as our understanding of the tenant's perspective and knowledge of specific market leaders, we offer the following guidance on the additional retail that would be realistic for Mission Boulevard, given existing conditions and current trends.

* **Grocery**. With $54.1 million in sales leakage and assuming a "capture rate" of 70%, there is the potential for $28.1 million in additional grocery sales along Mission Boulevard, translating to roughly 45,000 square feet of space (above what currently exists), with deep-discount -- like, say, Smart & Final Extra!, Foods Co or Aldi (if and when it decides to expand to Northern California) – and/or ethnic concepts the ones most likely to be interested at this point.

Unfamiliar Names: Aldi

Aldi is a prime example of a "limited-assortment" grocer, with a focus on food and household basics. Selling fast-moving, mostly private-label products in a spare, "no-frills" space, it is able to offer deeply-discounted prices that undercut even Wal-Mart's. At the same time, it has established a reputation for high-quality generics, it has started to modernize its already clean and tidy stores, and it has placed a greater emphasis in recent years on fresh and organic produce. It caters to a lower and middle-income customer base.

A German retailer owned by the same family as Trader Joe's, Aldi arrived in the U.S. in the late 1970's and has since blanketed the Midwest, South and Northeast, with expansion in more recent years to Texas and Southern California. Now the second most-shopped grocer in the U.S., it numbers more than 1,800 stores across 35 states, with plans for another 1,300 by 2020. While nothing has been announced, one would imagine that its arrival in the Bay Area is only a matter of time. It favors newly-built, 17,000 to 22,000 sq ft spaces.

Some have hoped that, especially with the proximity to CSUEB and the Hayward Hills, a Trader Joe's or a Sprouts might be a possibility. These grocers, however, are primarily interested in educational attainment, and would be assessing this trade area within the context of others that far exceed it in the number of residents with B.A. degrees or more.

*** Discount-variety**. While typically (and pejoratively) referred to as "dollar stores", the market leaders in this category, even ones with "dollar" in their names, do not necessarily adhere to the dollar price-point. More accurately, they can be described as small-format general merchandisers that fulfill a wide range of basic needs, mostly at prices below $10.

Even with the existing Kmart and the two Dollar Tree locations, there is still the potential for $13.7 million in additional discount-variety sales along Mission Boulevard. An average 99 Cent Only store, for example, grosses roughly $5.5 million.

*** Food and beverage**. There is still the potential for $5.4 million in additional restaurant sales along Mission Boulevard, not including the spending of students and employees who commute to the CSUEB campus (and who are not counted as part of the trade area). This might take the form of new quick-service and family restaurants as well as ethnic offerings.

In addition, there is an opportunity for the sort of "fast-casual" eateries – with counter service but higher-quality food and décor -- that have become popular among students and commonplace in college-town settings, like Chipotle and Blaze Pizza. This trend overlaps with a growing number of food and beverage concepts that target diverse mixed-income submarkets, like Everytable and Tierra Mia Coffee.

In sum, Mission Boulevard is, with a few exceptions, not a likely location for larger-format destination retailers that require and/or demand the kind of regional draw facilitated by a nearby freeway interchange, like, for instance, a Best Buy or a Kohl's. It is more appropriately positioned, rather, to serve the basic day-to-day needs of the adjoining neighborhoods and the underserved CSUEB campus, in such categories as grocery, discount-variety, food and beverage, etc.

Auto dealerships

While the sales-leakage data technically points to an oversupply in this category, the "Auto Row" cluster that has long existed on Mission Boulevard enjoys a much broader draw by dint of its critical mass, and has reportedly started to attract the interest of branded dealerships once again. Such uses would be possibilities for a number of the development sites identified below.

Yet while dealerships tend to generate particularly large amounts of sales-tax revenue to municipal coffers, they could also be viewed as missed opportunities, in that they are not the kinds of co-tenants that would appeal to or generate much spinoff for most other retail categories, nor would they help to improve perceptions of the corridor or the submarket.

---

d. Potential Development Sites

In addition to fast-rising construction costs in a booming regional market as well as the real-time impact of import tariffs, redevelopment along Mission Boulevard is challenged by a number of other factors, depending on the site.

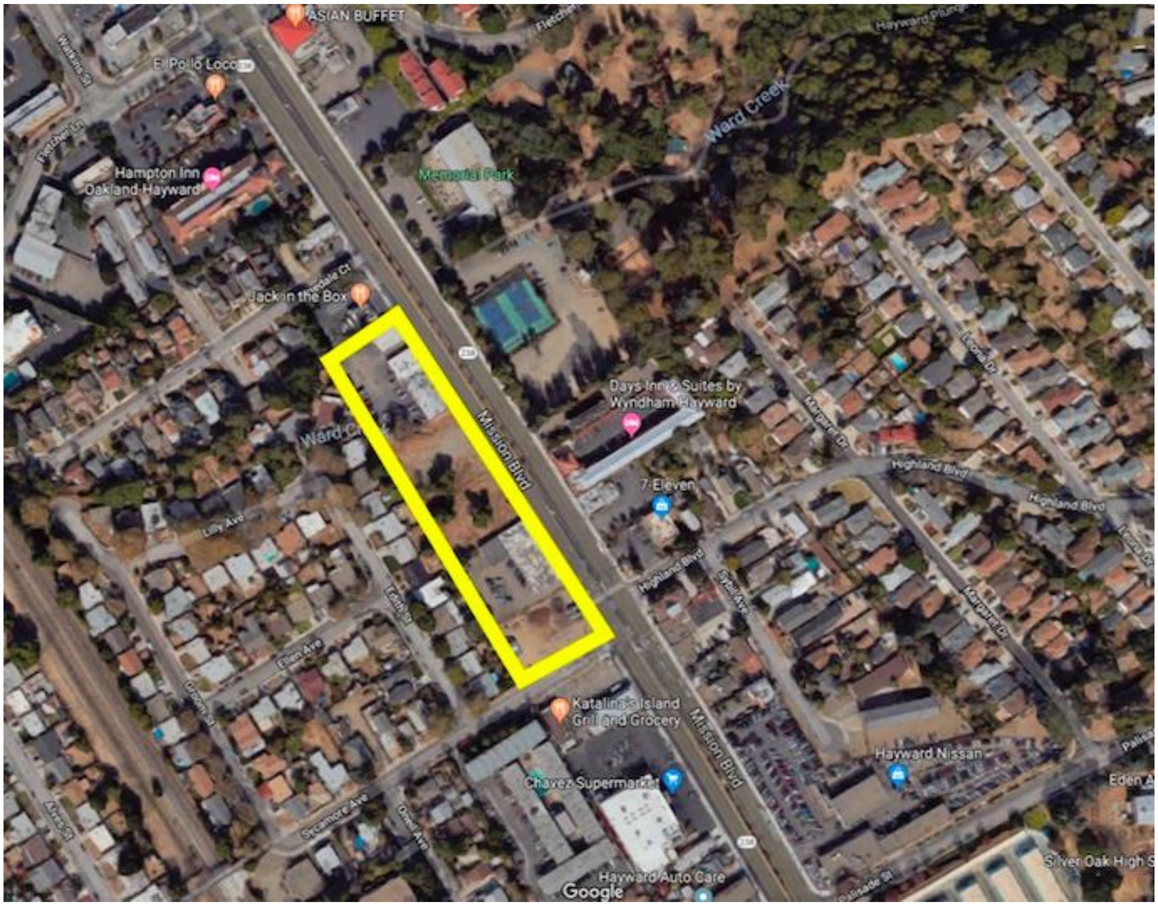
Parcels on the northbound side, for instance, must contend with hilly topography. Some properties still contain existing buildings that have to be demolished. They might be saddled with environmental contamination that needs to be remediated. Each of these adds to costs. Grading, for instance, can be two or more times as expensive on a per-square-foot basis for a sloping lot versus a flat one.

In light of these variables, it may prove far more economical in some cases to reuse existing "second-generation" buildings, which can be remodeled for considerably less than the cost of new construction and in a shorter amount of time, thereby reducing risk for all parties involved.

Also, while the City and many local residents might long for a future with more pedestrian-oriented, "urbanist" development along Mission Boulevard, prospective retail tenants approached for such a project will fixate instead on the near-complete absence of foot traffic there *today*. Few of them are likely to commit to or thrive in such spaces, putting a halt to this hoped-for evolution before or soon after it starts.

Understanding, then, that such development sites sit along what is still an automobile-dominated corridor, projects will need to be designed, and sign ordinances reworked, so as to give potential customers – that is, motorists whizzing past – ample opportunity to catch the names of individual businesses and to notice the availability of off-street parking spaces.

With this in mind, and based on multiple "windshield" surveys as well as our filtering process, we have identified the following sites along Mission Boulevard where retail development might still be viable and *where retail should be specified as a required primary use in the zoning*:



* West side, between Jack In The Box and Sycamore Avenue

This potential assemblage consists of two vacant lots as well as two one-story, multi-tenant retail strips with zero setback and parking behind. The shallow depth precludes larger-format retail and the intersection (at Sycamore Avenue) is not a major one, but it could still be workable for and attractive to <u>quick-service food and beverage concepts</u>, given the high traffic counts (roughly 40,000 cars per day along this stretch), the Chavez Supermarket anchor, the existing co-tenancy (which includes other fast-food eateries like El Pollo Loco and Jack In The Box) as well as the proximity to the CSUEB campus. With Mission's auto orientation, such uses would likely insist on on-site parking, drive-thru window and building setback. Redevelopment would, however, necessitate the closure of several existing small businesses.

* Southeast and Northeast corners, at Carlos Bee Boulevard

The potential assemblage at the southeast corner, aggregating to roughly 10 acres, is controlled by the City and the State, while the vacant lot at the northeast corner, measuring 2.37 acres, is owned by the City. Sitting at a signalized intersection with Carlos Bee, they offer ideal locations for tenants catering to both the university community at CSUEB as well as the more affluent population in the Hayward Hills. Specifically, these would appeal to so-called <u>“fast casual” eateries</u> as well as <u>cafes</u>. At such a high-profile corner, architecturally-distinctive buildings that “embrace” the intersection would be appropriate, though on-site parking should be visible and easily accessible from Mission. Site layout and development economies on the southeast corner will be driven to some degree by the hilly topography and fault lines as well as the remaining homes along Carlos Bee, while the northeast corner will be constrained by its shallow lot depth.

* Southwest corner, at Harder Road

This 11-acre property is still occupied by an operating Kmart store and its spacious parking lot, yet the discount department store's future is uncertain, given the likelihood that its parent company, Sears Holdings, will declare bankruptcy at some point in the next year or two. With this in mind, planning for the site should begin in earnest. It offers the requisite size and configuration to accommodate larger-format retailers like (another) supermarket[1], which could fill a portion of the existing (subdivided) building at a relatively low price. It also sits at a prime crossroads, with Harder Road boasting 18,100 cars per day as well as direct access to and from the CSUEB campus, which suggests new development along the lines of what was proposed above at Carlos Bee, with "fast-casual" eateries and cafes. Ideally such a project would incorporate the corner out-parcel, now a small multi-tenant strip.

[1] This would be in addition to the Grocery Outlet recently announced for Fairway Park.

* Southeast corner, at Tennyson Road

The eastward extension of Tennyson Road (and a new park to which it would provide access) enhances the retail potential of a corner assemblage that would encompass the lots currently occupied by Saudagar Cash & Carry and Kelly-Moore Paints. The site sits not only at a prime intersection but also, within an area which has been welcoming new BART-driven residential development and growing in profile as a result. It could conceivably attract the interest of a small grocery store, a discount-variety retailer and/or restaurants. Unfortunately its reimagining would likely mean the displacement of Saudagar, a longtime fixture of the Indo-Fijian community that has already been forced to relocate once.

* Northwest corner, at Industrial Parkway

This corner is already occupied by retail uses, with a Burger King surrounded by an L-shaped, one-story strip mall. However, it could conceivably be redeveloped as part of a much larger assemblage encompassing the vacant land to the north, where value would be created via a new connection to Industrial Parkway in place of the western portion of the L-shaped strip. A <u>small grocery store</u>, <u>discount-variety retailer</u> and/or <u>restaurants</u> could be intrigued by the improved access to the roughly 35,000 cars per day along Industrial Parkway as well as the area's growing profile resulting from the new mixed-use projects to the south (Mission Village) and north (SOHAY). Again, however, at least some of the existing tenants there would likely be displaced.

e. Marketing

There is a story to tell here. Prospective tenants, pointing to all of the vacant land east of Mission Boulevard, have repeatedly cited a sparsely-populated catchment as the reason for their disinterest, yet this is premised on an inaccurately-drawn trade area that fails to account for the relative isolation of the Hayward Hills. Once these subdivisions are included, the fundamentals appear much stronger, with a sizable and growing population (51,000), a population density higher than Hayward's overall (4,100 people per square mile), a sizable pocket of affluent residents (estimated at 12,000 to 15,000), a healthy median household income ($71,000) and median home value ($468,000) as well as spending indexes well above national averages (by 15-25%). To this, the CSUEB campus adds a captive and woefully underserved submarket of 15,500 students and 1,800 employees (11,300 and 1,800 of which, respectively, are accretive). Finally, all of the new residential and hotel developments along Mission both add to consumer demand while also providing tangible evidence of a corridor headed in the right direction.

III. Industrial Parkway SW / Whipple Road ("Industrial / Whipple")

a. Trade Area Boundaries

Industrial Parkway SW / Whipple Road – hereafter to be referred to simply as "Industrial / Whipple" – refers to the collection of commercial properties just within Hayward city boundaries at Exit 24 of the I-880 freeway, encompassing both the stretch of Industrial Parkway SW from Whipple Road to the Manheim site as well as the segment of Whipple Road from the I-880 exit ramp to Amaral Street.

The polygon for Industrial / Whipple – depicted in the image below – shows trade area boundaries that do not correspond with the municipal ones. This conforms with the behavior of the typical consumer: rarely does he or she consider political jurisdictions (or even know where they begin or end) when deciding which stores and restaurants to patronize.

Industrial / Whipple offers, then, a rare opportunity for Hayward: because of the close proximity to the freeway interchange at Whipple Road as well as the regional draw of the massive Union Landing shopping center, new retail on these parcels would be theoretically capable of pulling from deep within, and thereby poaching sales-tax revenue from, the nearby municipalities of Union City and Newark.

The borders of the trade area have been chosen to reflect this potential pull, extending roughly halfway to the nearest competitors with a similarly regional draw: Fremont's Fremont Hub (at Fremont Boulevard and Mowry Avenue) and Newark's NewPark Mall (at I-880 and Mowry Avenue), as well as Hayward's own Southland Mall (at I-880 and Winton Avenue) to the northwest.

Image 2. Industrial / Whipple Trade Area (ESRI, MJB Consulting).

b. Demographic Profile

As a result of this wider draw, Industrial / Whipple's trade area encompasses a considerably larger and demographically stronger population than Mission Boulevard's. ESRI data show the following:

* 164,000 residents -- at a population density of 6,000 people per square mile, similar to most Midwestern cities

* 7.9% population growth since 2010

* 35% of 25+ residents with a B.A. degree or more

* 39% of 16+ residents working in well-paid managerial / business / financial or professional occupations

* $84,000 median household income, including 43% (20,300 households) which earn $100,000 or more and 23% (10,800 households) at $150,000 or more

* 66% owner-occupancy

* $533,400 median home value, including 14% (4,400 homes) valued at $750,000 or more

Furthermore, the population of this trade area is projected by ESRI to grow by another 5.7% in the next five years, to 172,400 in 2022.

Industrial / Whipple's trade area is extraordinarily diverse. Asians predominate, accounting for some 47% of the residential base – partly a reflection of their growth in Union City, where they now constitute the majority – while Latinos comprise another 27%. It is also family-oriented. Nearly 46% of its households include one or more children, and the average household size is 3.41.

In addition to trade area residents, Industrial / Whipple sits at the heart of an **employment cluster** with some 43,200 workers, supplementing consumer demand on the weekdays. Not surprisingly, given the presence of large industrial zones to the east, west and northwest, this contingent has a blue-collar hue, with 37% working in either manufacturing or wholesale trade.

It is worth noting, however, that workers typically do not spend as much money or in as many categories as residents, with a higher share of their expenditures going towards lunch, caffeine and errands (e.g. bank deposit, haircut, dental appointment, etc.). Furthermore, many such offerings can already be found either at Union Landing, in the immediate vicinity thereof or along Industrial Parkway W.

c. Tenanting Strategy

The retail potential for Industrial / Whipple is driven not just by the automobile access and trade area demographics but also by "co-tenancy" and "critical mass". That is, with anchors that include Wal-Mart, Target, Lowe's, Home Depot, Best Buy and Century 25, and with more than one million square feet of retail space in total, the agglomeration exerts a strong pull on other prospective tenants.

However, Union Landing itself is currently contending with several medium-box vacancies, including the floor-plates previously occupied by Sports Authority and Babies R Us. Indeed, the rise of e-commerce has disproportionately impacted the kinds of retailers that typically fill such spaces – most notably, the "category killers" that trade on selection and convenience but now find themselves outflanked on both counts.

These trends might generate some cause for concern in the near term. And while there are many such retailers still thriving and expanding today, they are more likely to gravitate first to any available "second-generation" spaces within Union Landing itself, and only begin to consider alternatives on the other side of the freeway if and when those are back-filled.

That said, a small subset might be willing to jump I-880 if, owing to their needs or preferences for supersized and/or uniquely configured floor-plates, they cannot be accommodated at Union Landing. These would include, for example, tenants that require big boxes of 60,000 square feet or more.

Furthermore, desirable real estate *is* -- and will remain -- desirable real estate. Shopping habits and retail formats may change, but Industrial / Whipple's proximity to a freeway interchange presumably will *not*. Zoning, then, should remain sufficiently flexible so as to allow for a wide variety of future retail uses, like, for instance, new kinds of entertainment venues or hybrid showroom(s)/warehouse(s) that would fit neatly into such industrial settings.

With this in mind, we offer the following guidance on the additional retail that would be realistic in the near term for the submarket as a whole:

* **Off-price / cheap-chic fashions**. Even with its regional draw, Industrial / Whipple currently leaks 86% of its clothing sales ($95.7 million) beyond the trade area, and it is also lacking a number of the fast-growing value-oriented apparel retailers that typically gravitate to such co-tenancy, including, for instance, medium-box chains like T.J. Maxx, Ross Dress For Less, Gap's Old Navy banner and Forever 21's "F21 Red" format.

* **Category killers**. Again, many of these chains have been undermined in recent years by the rise of e-commerce, but some continue to enjoy sales growth and open new stores, like, for instance, Hobby Lobby, the national big-box purveyor of crafts and fabrics (which would compete with, and steal market share from the Michael's at Union Landing) and Big 5 Sporting Goods.

* **Furniture / home stores**. Retailers in this category prefer to cluster, and additional ones might be drawn to the presence of La-Z-Boy Furniture Galleries, ANA Furniture as well as the Macy's Furniture Outlet further east along Whipple Road. Possibilities would include other mid-priced offerings, like, for instance, HomeGoods, Bassett Furniture and Ashley HomeStore.

* **Daily / weekly needs.** While Industrial / Whipple is able to command a regional draw, this does not mean that it cannot also leverage a local one. Indeed, inasmuch as it can offer even greater convenience to consumers as a "one-stop shop" for a wide range of goods and services, it becomes even more attractive as a location for retailers that primarily sell everyday essentials.

For example, while the capture rate for grocery is already quite high, Industrial / Whipple's enviable location and co-tenancy could draw the interest of relatively new market entrants – like, say, H-Mart – that would be capable of taking market share from competitors on the Union City side while not cannibalizing their own sales.

Unfamiliar Names: H-Mart

H-Mart is a newcomer from New Jersey. A Korean / pan-Asian grocer which features saliva-inducing produce and a food court as well as mainstream American products, Westernized store interiors, English language signage and copious free samples, it has managed to achieve a "crossover" appeal in many of its existing submarkets, to the point where it has even opened in ones that do not contain large numbers of Korean or Asian-American shoppers. Its location in Yonkers, NY, for instance, sits in a trade area consisting primarily of Italian-Americans and Latinos, with relatively few Asian Americans.

Founded in Queens some 36 years ago, H-Mart has been expanding aggressively as of late and now boasts more than 90 locations across the country. It debuted in the Bay Area last spring with a 28,000 square foot store on San Jose's S De Anza Boulevard. Encouraged by the positive response, it has since opened a second branch in a 43,000 sq ft former supermarket on Oakland Road in North San Jose, and announced plans for a third, in a 42,000 sq ft space previously occupied by a grocer on Alemany Boulevard in San Francisco's Ingleside Heights neighborhood.

H-Mart has historically been willing to consider spaces of different sizes and configurations, with a willingness and ability to adapt its product mix and layout to whatever kind of floor-plate it is occupying. Furthermore, the chain appears to be drawn to the presence of universities, having, for example, opened in Cambridge's Central Square and Seattle's U District. At the time of its 2017 San Jose debut, executives noted the possibility of expanding to the East Bay "maybe in a year or two".

*** Entertainment venues.** Already a draw with Century 25 Theatres and iFLY Indoor Skydiving, and given the high percentage of households with children in its trade area, Industrial / Whipple would likely prove appealing to other large-scale entertainment venues with a family or youth orientation like, for instance, Dave & Buster's, Legoland Discovery Center or Ctrl V (a virtual-reality arcade).

In sum, Industrial / Whipple, able to pull from a wider trade area by dint of its freeway access and existing co-tenancy, holds appeal to retailers that require more of a regional draw. And while available spaces at Union Landing and ongoing disruption in the industry give reason for caution, retail uses should remain in the conversation, both in the nearer term (for supersized floor-plates) and the longer (for whatever emerges next).

d. Potential development sites

Even more so than Mission Boulevard, redevelopment in Industrial / Whipple will entail added costs that could diminish retailer interest and strain project feasibility. In addition to the expense of assembling multiple lots and demolishing existing structures, any parcels located in what has long been an industrial quarter will almost certainly require extensive remediation. Some will also necessitate pricey access improvements.

With this in mind, and based on multiple "windshield" surveys as well as our filtering process, we have identified the following sites in Industrial / Whipple where retail development could still be viable and *where retail should be specified as a required primary use in the zoning*:

* Whipple Road, eastbound side, from A-1 Armor Self Storage to Amaral Street

Sitting along Whipple Road, this potential assemblage enjoys direct access to and from I-880 as well as the "shadow" co-tenancy of Target. It is currently occupied by a dense and motley assortment of uses, but while significant time and resources will be needed to acquire and then clear all of the constituent properties (and while a number of existing small businesses would be lost in the process), the resulting acreage and depth would be considerable, allowing for one or more <u>larger-format retailer(s)</u> / <u>entertainment venues</u>. Given the setting's automobile orientation, the site layout for such a project would need to incorporate building setbacks and in-front parking.

* Industrial Parkway SW, northeast-bound side, from the Target-anchored center to the point directly across from entrance to Calaveras Landing

An assemblage of these properties, currently occupied by a host of heavy industrial uses, could conceivably offer the size to accommodate a <u>big box floor-plate</u> as well as one or more other <u>larger-format retailer(s)</u> interested in co-locating with such an anchor(s). It is a bit further removed from the freeway interchange, yet still sits within the footprint of the larger shopping destination, across from Calaveras Landing (with Home Depot and Food Maxx). And while the presence of the Alameda Creek Flood Control Channel – running parallel to the road – might present some complications in terms of access, these do not appear insurmountable given the current points of ingress/egress. Again, of course, the site layout would need to incorporate building setbacks and in-front parking.

* Industrial Parkway SW and Industrial Parkway W, aka the "Manheim site"

This sprawling, 73-acre property is currently home to the Bay Area operations of Manheim, an Atlanta, GA-based wholesale auto auctioneer with locations worldwide. It has not announced any plans to relocate nor would it have an easy time identifying or securing an even bigger piece of land elsewhere in the inner Bay Area. However, the site might ultimately not be able to respond to changing needs and preferences in the evolving auto-sales space, and its freeway-side location would certainly appeal to larger-format retailers and entertainment venues. That said, the roughly 730,000 square feet of retail space that could conceivably be developed there would far exceed tenant demand at this point in time. Furthermore, major infrastructure improvements would be necessary, including, for instance, a new northbound freeway off-ramp at Industrial Parkway W.

e. City initiatives and improvements

While Industrial / Whipple sits adjacent to the freeway, its potential assemblages currently suffer from a lack of direct sight lines and/or straightforward access. This might trouble the kinds of larger-format retailers which typically draw on the basis of visibility and convenience, as motorists will not necessarily know that their stores even exist, nor understand how to get there.

The public sector has a role to play, then, with new signage that can help to address these challenges. As Union City did with Union Landing, it should consider erecting tall and large pylon signs along the freeway that advertise all of the retailers on the various properties (including Target, Home Depot, Food Maxx, etc.). At the same time, it should install smaller ones at street level that can assist with navigating and wayfinding while also exploring ways of rationalizing the very busy and intimidating intersection of Whipple Road, Industrial Parkway SW and the northbound I-880 off-ramp.

In light of the earlier discussion (see III-c), such an investment on the City's part is not without risk. That said, it could still be worth pursuing in light of the opportunity to entice new tenants and import sales-tax revenue from beyond. And it is almost certain that Industrial / Whipple will struggle to attract customers and retailers *without* these sorts of improvements.

f. Marketing

Given current perceptions of Hayward, the locations of the assemblages within its boundaries could cause prospective tenants to hesitate, at least at first. However, the opportunity should be reframed in terms of the freeway interchange, the co-tenancy (Wal-Mart, Target, Lowe's, Home Depot, Best Buy, Century 25, etc.) and the critical mass (more than one million square feet of retail space in total), which ensure a broader regional draw that encompasses communities like Union City and Newark.

The resulting trade area of 164,000 residents (and growing) boasts a dense residential fabric (6,000 persons per square mile, similar to most Midwestern cities) of relatively affluent homeowners ($84,000 median household income, with 66% owner-occupancy and a $534,000 home value) that are ready and willing to consume (with spending indexes exceeding national average by 17-23%). This contingent includes more than 20,000 households that earn at least $100,000, with nearly 11,000 that reach the $150,000 threshold. In addition, consumer demand is further supplemented by more than 43,000 workers.

Recruitment efforts should also highlight the potential for assemblages in Industrial / Whipple that can accommodate one or more larger floor-plates, as well as the willingness of the City to invest in new signage and other improvements that would enhance visibility and simplify access.

IV. Tennyson Road

a. Trade Area Boundaries

The primary retail stretch of Tennyson Road, extending roughly from Pompano Avenue to the Union Pacific Railroad tracks, boasts relatively high traffic counts ranging from 29,000 to 36,000 cars per day, due largely to its function as one of the main east-west arterial roads in Hayward as well as its freeway access to and from I-880.

Except, however, for a modest cluster of apparel boutiques anchored by a dd's discounts, the retail mix along Tennyson – also featuring Chavez Supermarket, Walgreens and O'Reilly Auto Parts – seems largely geared towards the more basic needs of the residential neighborhoods immediately adjacent to it.

The trade area boundaries, then -- corresponding to the polygon in the image below – have been drawn in recognition of the locally-oriented, grocery-anchored competition that currently exists along Mission Boulevard (to the northeast), along Jackson Street / SR 92 (to the northwest), on Hesperian Boulevard (to the west), at Union Landing (to the southwest) and on Decoto Road (to the south).

Image 3. Tennyson Trade Area (ESRI, MJB Consulting).

b. Demographic Profile

Tennyson Road's trade area might be rather small in both size and population, and its income profile relatively modest, but it does offer one unique selling point in its exceptionally high population density, with the corridor surrounded by residential fabric in all directions. ESRI data shows the following:

* 22,000 residents – at a population density of 14,500 people per square mile (more than four times that of Hayward's, and higher even than Boston's, Chicago's and Philadelphia's)

* 6.7% population growth since 2010

* $58,000 median household income, including 25% (1,500 households) which earn $100,000 or more and 11% (700 households) at $150,000 or more

* 54% owner-occupancy

* $384,000 median home value

Furthermore, the population of this trade area is projected by ESRI to grow by another 5.2% in the next five years, to 23,000 in 2022.

Finally, Tennyson Road's trade area is very diverse. Latinos predominate, accounting for some 48% of the residential base, while Asians comprise another 23% (and growing). It is also family-oriented. Nearly 47% of its households include one or more children, and the average household size is 3.64.

c. Tenanting Potential

Its high density notwithstanding, the modest size and population of Tennyson Road's trade area – just 1 ½ square miles and 22,000 people -- limits its appeal to the kinds of larger-format anchors that can kickstart redevelopment, as the sales potential is in most cases not sufficient to support the types of stores that these retailers would typically open.

A related complication with Tennyson Road is that its trade area overlaps with – and its retail mix is similar to -- Mission Boulevard's. In assessing, then, the opportunities to attract different kinds of businesses, one must be careful *not* to be "double-count". The consumer will buy a particular item at one store (in one corridor), and not the other. And that type of store will only exist or open in a single location, not both.

While the case is by no means clear-cut, Tennyson Road probably ranks *below* Mission Boulevard as a retail location in the minds of most prospective tenants, by virtue of the latter's greater prominence as an arterial thoroughfare that spans multiple jurisdictions as well as its larger development sites. In other words, the retailer targeting the trade area overlap would be more likely opt for Mission Boulevard.

With this in mind, we offer the following *preliminary* guidance on the additional retail that would be realistic for the submarket as a whole:

* **Discount-variety**. There is the potential for $4.3 million in "other general merchandise sales" along Tennyson Road, and yet discount-variety retailers remain conspicuously absent.

* **Quick-service food**. With the high traffic counts and I-880 freeway access as well as the presence of Cesar Chavez Middle School and the Eden Youth and Family Center, other fast-food brands might be intrigued by the possibility to join KFC and Jack In The Box along the corridor – assuming, of course, that they are permitted to include drive-thru windows.

Going forward, then, market dynamics along Tennyson Road will probably not change all that much. The retail mix will continue to skew towards independently-owned, entrepreneur-driven small businesses that cater primarily to nearby residents. Spaces will experience above-average turnover, but demand among such tenants will most likely stay constant, and the vacancy rate, low.

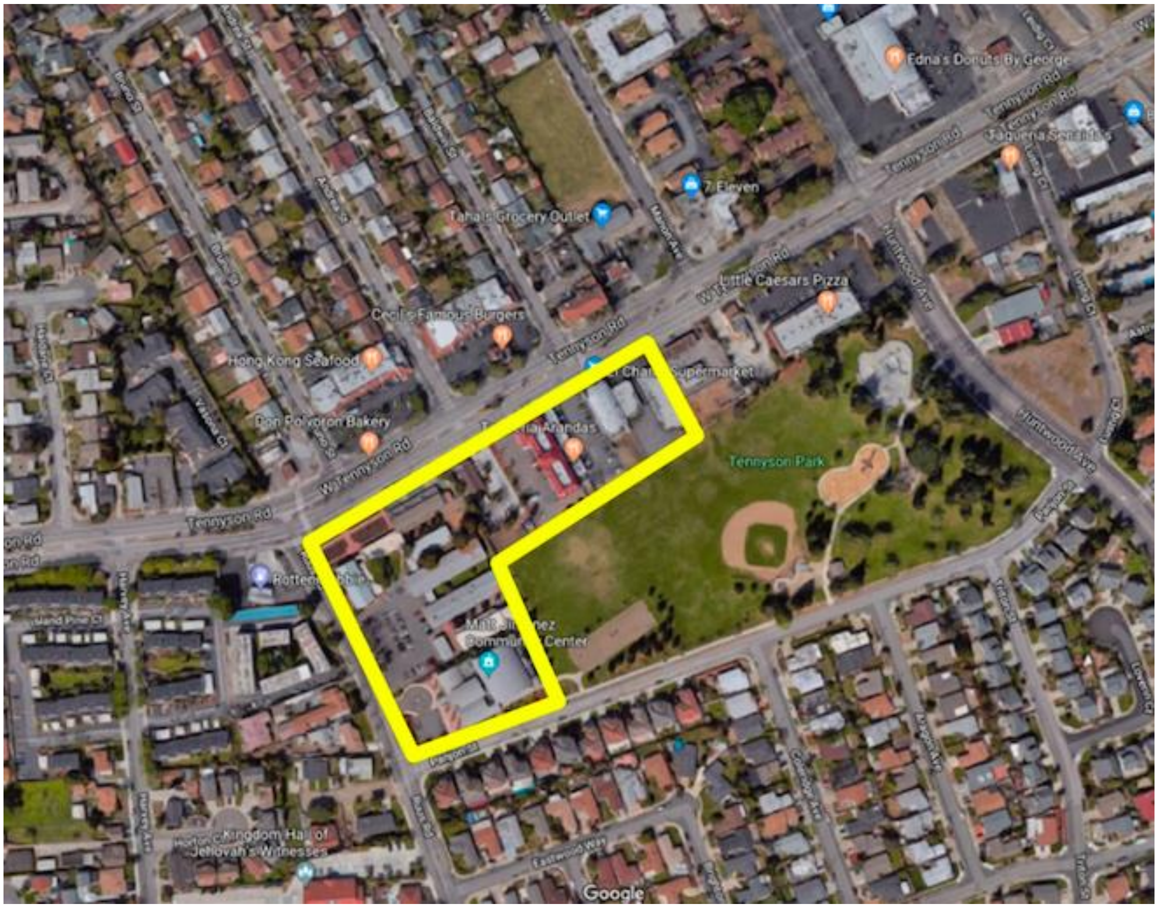
d. Potential development sites

New projects with larger-format retailers would be very difficult to accommodate along Tennyson Road in any event, given the constraints on lot size and depth that result from the closely abutting residential uses as well as the challenges and costs of assembling multiple properties within such a fine-grained urban fabric. Inventory, then, will likely remain *as is*, with a preponderance in smaller floor-plates in older strips.

With this in mind, and based on multiple "windshield" surveys as well as our filtering process, we have identified just one site in the corridor where retail development could still be viable and *where retail should be specified as a required primary use in the zoning*:

* Northeast corner, at Huntwood Drive (to Leidig Court), aka the "Superway" site

This possible assemblage, dominated by a large, one-story, multi-tenant retail building that suffers from disinvestment and blight, is perhaps the only one along Tennyson with the size and depth as well as the level of underutilization that could justify redevelopment. It also sits at the intersection of Huntwood Drive, a north-south connector road with 8,000 to 10,000 cars per day and filled with higher-density apartment complexes. And more broadly speaking, as the effective eastern gateway of the business district, it assumes outsized importance in shaping (and reinforcing) perceptions of the corridor, perhaps suggesting a proactive role for the public sector, though the tenanting potential – implying a project anchored by a discount-variety retailer and including fast-food restaurants or additional space for small businesses – might not be enough to make the case for the subsidy that would likely be necessary.



* Southeast corner, at Ruus Road and heading east

The City is considering an assemblage along the eastbound frontage of Tennyson Road that incorporates lots which it already owns, currently occupied by the Eden Youth Center and the Matt Jimenez Community Center as well as privately-owned properties which it would acquire, to the east. The dual purpose would be to offer more of a "front door" to Tennyson Park and to partner with a developer in the creation of modern retail space that could accommodate, say, a grocery store and/or more upscale neighborhood-serving retail. Given, however, the current market dynamics along Tennyson Road, these storefronts would be unlikely to entice or sustain a different kind of tenant than what exists today (even if sufficient subsidy was available to reduce the higher rents typically associated with new construction). Indeed, depending on the scale of the project, it might displace small businesses that are already serving the local shopper well, like, for instance, El Charro Super Market, a modestly-sized, independently-owned Mexican food market that appears to move significant volumes.

e. Marketing

Households in Tennyson Road's trade area boast a relatively healthy median income of nearly $60,000, with more than half owning their residences. However, given that many might associate the surrounding neighborhood with low-income apartment dwellers, it could be even more effective to underscore that the population density – at 14,500 persons per square mile – exceeds that of even some of the nation's largest and most tightly-packed cities (including Boston, Chicago and Philadelphia), and perhaps then compare the resulting spending power to that of some of the Bay Area's most affluent suburbs (which it would likely exceed). The high occupancy levels should also be cited as evidence of the consumer demand, and anchors like Chavez Supermarket, dd's DISCOUNTS and Walgreens, noted as guarantors of foot traffic. Finally, in light of the limited potential for larger brands, the marketing of Tennyson Road should *embrace* its abundance of independently-owned, small businesses, framing the corridor as one that provides a favorable climate for fledgling entrepreneurs.

Appendix: Glossary of Terms

For the purposes of understanding tenanting potential, we have provided below a glossary of the terms-of-art used in the industry to refer to particular kinds of stores:

Big box: a retailer occupying a space of 60,000 square feet or more

Medium box: a retailer occupying a space between 15,000 and 60,000 square feet

Small box: a retailer occupying a space between 6,000 and 15,000 square feet

Larger-format retailer: a medium or big box store, of at least 15,000 square feet

Supercenter: a big-box store combining general merchandise with a full-service grocery

Warehouse club: a big-box store selling general merchandise in bulk, for members only

Category killer: a medium-box store that offers a broad selection in one particular category, with relatively low prices; examples include Best Buy, Bed Bath & Beyond, Michaels and Barnes & Noble

Off-price fashion retailer: a medium-box store that offers department store brands at discount prices

Cheap-chic retailer: stores that sells trendy fashions at low prices; examples include Forever 21

Discount-variety retailer: a small-box store selling general merchandise at very low prices; includes dollar stores; examples include 99 Cent Only Stores and Dollar Tree

Quick-service restaurant: an eatery in which customers order their food at a counter and/or a drive-thru window; examples include Taco Bell and Subway

Fast-casual restaurant: a quick-service eatery with higher-quality ingredients, a more upmarket atmosphere and slightly elevated price points; examples include Chipotle and Panera Bread

Sit-down restaurant: an eatery with table service; examples include Applebee’s and BJ’s

Family restaurant: a sit-down restaurant that features a basic and affordable menu, with options for kids, and that does not contain a bar; examples include Black Bear Diner and Mel’s Diner

Appendix: Typology of Larger-Format Retailers

Retail Category	Typical Square Footage	Market Leaders
Supercenter	150,000 to 200,000 sq ft (big box)	***Wal-Mart***, **Target**, **Kmart**
Warehouse Club	100,000 to 200,000 sq ft (big box)	Sam's Club, **Costco**
Home Improvement Retailer	100,000 to 150,000 sq ft (big box)	**Home Depot**, ***Lowe's***
Full-Price Department Store (freestanding)	60,000 sq ft or more (big box)	Kohl's, **J.C. Penney**, Old Navy**
Off-Price Fashion Retailer	20,000 to 40,000 sq ft (medium box)	T.J. Maxx, Marshalls, **Ross**, **Burlington**, Nordstrom Rack, Stein Mart, DSW Designer Shoe Warehouse, **Famous Footwear**
Deep-Discount Shopping	15,000 to 30,000 sq ft (medium box)	**Big Lots**, **dd's DISCOUNTS**, Savers, Fallas-Paredes, **99 Cent Only Stores**
Home Furnishings / Decor	15,000 to 60,000 sq ft (medium box)	**La-Z-Boy**, Ethan Allen, Bassett Home Furnishings, Ashley HomeStore, ***ANA Furniture***, IKEA**, Living Spaces**, etc.
Home Décor	15,000 to 40,000 sq ft (medium box)	HomeGoods, Cost Plus World Market, At Home**
Bookstore (category killer)	20,000 to 40,000 sq ft (medium box)	Barnes & Noble
Electronics (category killer)	20,000 to 60,000 sq ft (medium box)	***Best Buy***, Fry's Electronics**
Office Supply (category killer)	15,000 to 25,000 sq ft (medium box)	Staples, **Office Depot**
Pet Supply (category killer)	15,000 to 25,000 sq ft (medium box)	***Petco***, Petsmart
Fabrics / Crafts (category killer)	15,000 to 30,000 sq ft (medium box)	***Michaels***, Jo-Ann, Hobby Lobby**
Bed & Bath (category killer)	20,000 to 50,000 sq ft (medium box)	Bed Bath & Beyond
Sporting Goods (category killer)	15,000 to 60,000 sq ft (medium box)	REI, **Dick's**, Sports Basement, Sportsman's Warehouse, PGA Tour Superstore, **Big 5 Sporting Goods****, Bass Pro / Cabela's**
Party Supply (category killer)	10,000 to 15,000 sq ft (small box)	***Party City***

* Retailers already in Hayward are emboldened; retailers just across the border (e.g. in Union Landing) are emboldened *and* italicized.
** Retailers with unusual size requirements for their respective categories

Appendix: Typology of Grocery Stores

Subcategory	Typical Square Footage	Concept	Market Leaders
Conventional	35,000 to 50,000 sq ft	Mainstream mix of groceries and perishables; moderate prices	**Safeway, Lucky**, Raley's, Wal-Mart Neighborhood Market
Upscale / Specialty	20,000 to 40,000 sq ft	Emphasis on natural, organic and/or gourmet foods; moderate to high prices	Sprouts, 365 By Whole Foods, Whole Foods
Trader Joe's	15,000 to 20,000 sq ft	Idiosyncratic mix of private-label foods; low prices	Trader Joe's
Deep Discount	15,000 to 30,000 sq ft	"No-frills" setting; very low prices	**Grocery Outlet, Food Source**, **Smart & Final Extra**!, Pak N Save, Save-A-Lot, Foods Co.**, WinCo Foods**, **FoodMaxx** **
Ethnic Specialty	10,000 to 25,000 sq ft	Ethnicity-specific foods, services and atmosphere; low prices	**Chavez Supermarkets**, **Cardenas Markets**, 99 Ranch Market, H-Mart, **Seafood City, Island Pacific,** Marina Grocery
(Non-Grocery)	Variable	Growing food selections within convenience stores, drug stores and discount-variety stores; moderate prices	**Walgreens, CVS, Dollar Tree,** 99 Cent Only Stores, **7-Eleven**

* Retailers already in Hayward are emboldened; retailers just across the border (e.g. in Union Landing) are emboldened *and* italicized.
** Retailers with unusual size requirements for their respective categories