

Appendix 4
Urban Decay Analysis

Memorandum

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From: Raymond Kennedy
Director of Research

Date: September 14, 2022

Re: Potential for Urban Decay Impacts from Proposed Kylli Mission Point Development

The purpose of this analysis is to provide an initial assessment of the potential for “urban decay” related to the proposed Mission Point project (the “Project”) in the city of Santa Clara.

Since the mid-2000s, EIRs for most development projects in California with a large retail component have included an economic impact analysis to assess potential issues relating to urban decay and physical deterioration resulting from possible closure of competing stores and subsequent long-term vacancies and the decline of associated shopping centers or districts.

Project Description

The Notice of Preparation provides a general description of the Project, including the inclusion of a “neighborhood” retail component of 100,000 square feet, as shown in Table 1.

Table 1: Summary Description of Project

Project Components

Residential	
Square Feet	1,800,000
Units	1,800
Office (Square Feet)	3,000,000
Neighborhood Retail (Square Feet)	100,000
Child Care (Square Feet)	10,000
Total Square Feet	4,915,800

Source: "Notice of Preparation of an Environmental Impact Report for the Mission Point Project," April 18, 2022, City of Santa Clara.

The retail component will generate retail and related sales, and Project residents and workers will make retail purchases within this retail component of the Project. The following analysis provides an estimate of the potential capture of the retail expenditures of those residents and workers, and estimates the level of support the residents and workers will provide for the retail component of the Project.

Resident Expenditures

The NOP describes the Project as slated for 1.8 million square feet of residential uses in 1,800 units of various sizes. The retail portion of the Project, due to its proximity to the residential uses in the Project, will be patronized by those residents. Table 2 provides an estimate of resident retail expenditures both within the project and elsewhere.

Table 2: Resident Spending

Residential Units	1,800
Average Persons per Unit	2.15
Total Residents	3,870
Annual Spending per Resident	\$12,000
Total Annual Resident Spending	\$46,440,000
Capture in Project	25%
Spending within Project	\$11,610,000
Spending Elsewhere	\$34,830,000

Sources: City of Santa Clara; California Department of Tax and Fee Administration; California State Department of Finance; Keyser Marston Associates; BAE, 2022. See Table 6 for detailed calculations.

Given a mix of units ranging from studios to two bedroom units, BAE assumed an average of 2.15 persons per unit as estimated by Keyser Marston Associates, for a total of 3,870 residents. Resident retail spending is derived based on per capita retail sales for Santa Clara County,¹ using reported 2021 taxable sales adjusted to include nontaxable items, and excluding motor vehicle-related sales, which would be unlikely to occur in the Project. The resulting average annual spending per capita is approximately \$12,000 at the types of stores that would be likely to be located in the Project. Total spending within the Project for the assumed retail types is estimated at \$46.4 million annually.

However, it is unlikely that local residents will make most of their purchases in the neighborhood retail in the Project, due in part to more limited offerings in the Project compared to other nearby retail nodes, including potentially the region-serving retail proposed for the Related Santa Clara project nearby. BAE has conservatively estimated that the Project would capture only 25 percent of resident non-auto-related purchases internally, for total sales

¹ As the median household income (\$136,870) for the Santa Clara city is higher than the median countywide (\$130,890), as shown in Table 5, this may be a conservative estimate of local resident expenditures. Household income estimates for 2020 from the U.S. Census American Community Survey.

of \$11.6 million annually, with the remaining \$34.8 million in sales occurring elsewhere in the area.

Worker Expenditures

In addition to resident spending, the retail component of the Project would benefit from spending by the workers in the proposed three million square feet of office space. Table 3 below provides an estimate of office worker spending in the Project.²

Table 3: Office Worker Spending

Office Space in Project (Square Feet)	3,000,000
Square Feet per Worker	250
Total Workers	12,000
Annual Spending per Worker in Project	\$4,000
Total Worker Expenditures in Project	\$48,000,000

Sources: City of Santa Clara; International Council of Shopping Centers; U.S. Bureau of Labor Statistics; Keyser Marston Associates; BAE, 2022. See Table 7 for detailed calculations.

Using an industry “rule of thumb” standard of 250 square feet per office worker as estimated by Keyser Marston Associates, the Project would have 12,000 office workers. To estimate per worker spending, BAE used *Office-Worker Retail Spending in a Digital Age*, published by the International Council of Shopping Centers (ICSC). ICSC periodically publishes reports based on surveys of office workers regarding their daytime expenditures near their place of work; this most recent version is from 2012. The report compiled survey responses for workers in downtown and suburban locations by type of store and typical weekly expenditures in various store type. BAE selected store types that might be found in the proposed neighborhood retail in the Project, and estimated capture by store type, converted the weekly expenditures to an annual figure, and used the Consumer Price Index to convert the estimate to 2022 dollars. Annual expenditures per worker are estimated at \$4,000, with overall expenditures by all the office workers in the Project at \$48.0 million. Expenditures by Project workers elsewhere near the place of work are estimated at \$26.4 million, as shown in Table 7 below.

Total Retail Expenditures and Sales per Square Foot

Summed together, the total retail spending from residents and workers in the Project is estimated at \$59.6 million annually, as shown in Table 4. Assuming that the retail outlets occupy 80 percent (80,000 square feet) of the 100,000 square foot total, with non-retail tenants such as banks, insurance offices, personal care businesses, and fitness-related businesses occupying the remainder (along with some vacancies), sales to residents and workers in the project would generate approximately \$745 in sales per square foot annually.

² While there would be additional workers associated with the other components of the project, the estimate here conservatively is limited to office workers.

Table 4: Total Spending and Sales per Square Foot

Total Expenditures for Workers + Residents	\$59,610,000
Retail Square Footage as % of Total	80%
Net Retail Square Footage	80,000
Sales per Square Foot	\$745

Sources as cited in previous tables.

Key Findings

The sales per square foot number is within the range of performance for successful major national retail chains. For example, based on their most recent *Annual Report* Walmart's U.S. store division generated approximately \$560 per square foot in their most recent fiscal year ending in January 2022. Similarly, Home Depot reports sales of \$605 per square foot in their most recent fiscal year, also ending in January 2022. The Project's retail performance is thus estimated to be well-supported from its own residents and workers. Furthermore, it is assumed here that the majority of the Project's resident retail expenditures and approximately one-third of Project worker expenditures near their place of work would occur offsite. As a result, the Project would allow for a net increase in supportable retail space outside the Project itself, and therefore the Project is not projected to result in urban decay by itself or in combination with other retail developments in Santa Clara or surrounding communities.

Supporting Tables

Table 5: Household Income Comparison, City and County of Santa Clara

Santa Clara City Median Annual Household Income	\$136,870
Santa Clara County Median Annual Household Income	\$130,890

Note: Incomes are in 2020 dollars.

Source: U.S. Census American Community Survey, 2016-2020 5-Year Sample Data.

Table 6: Retail Sales in Santa Clara County

<u>Type of Business</u>	<u>2021 Taxable Sales</u>	<u>\$ for Potential Tenants in Project</u>	<u>Percent Taxable</u>	<u>Total Sales</u>
Motor Vehicle and Parts Dealers	\$4,650,531,805			
Home Furnishings and Appliance Stores	\$1,693,074,595	\$1,693,074,595	100%	\$1,693,074,595
Building Material & Garden Equipment & Supplies Dealers	\$2,184,176,687			
Food and Beverage Stores	\$1,353,702,149	\$1,353,702,149	33%	\$4,102,127,724
Gasoline Stations	\$2,004,222,510			
Clothing and Clothing Accessories Stores	\$2,156,255,503	\$2,156,255,503	100%	\$2,156,255,503
General Merchandise Stores	\$2,599,117,457	\$2,599,117,457	85%	\$3,057,785,244
Food Services and Drinking Places	\$4,523,548,981	\$4,523,548,981	100%	\$4,523,548,981
Other Retail Group	\$6,027,986,143	\$6,027,986,143	85%	\$7,091,748,404
Total Retail and Food Services	\$27,192,615,830			\$22,624,540,450
Total Population, 2022				1,907,693
Sales per Capita in Selected Categories				\$11,860

Note: Excludes unallocated taxable sales. Percent taxable based on BAE analysis of retail sales comparing Economic Census data with CDTFA data.

Sources: California Department of Tax and Fee Administration (CDTFA); California Department of Finance (for population estimate); BAE, 2022.

Table 7: Office Worker Expenditures

	<u>Mean Weekly Expenditures, Suburban Workers</u>	<u>Potential Tenant in Project</u>	<u>% Capture in Project</u>	<u>Estimated Weekly Sales in Project</u>
Transportation	\$37.67			
Online Purchases Made at the Office (Personal)	\$42.47			
Full-Service Restaurants	\$13.06	\$13.06	50%	\$6.53
Fast Food/Deli/Lunch Eateries	\$15.80	\$15.80	75%	\$11.85
Department Stores	\$9.03			
Discount Stores	\$11.33			
Drug Stores	\$7.60	\$7.60	75%	\$5.70
Grocery Stores	\$21.58	\$21.58	75%	\$16.19
Clothing Stores	\$4.43	\$4.43	25%	\$1.11
Shoe Stores	\$3.40			
Sporting Goods Stores	\$3.49			
Electronics/Phone/Computer Stores	\$8.93	\$8.93	75%	\$6.70
Jewelry Stores	\$3.75			
Office Supplies/Stationery/Novelty Gifts and Cards	\$7.41	\$7.41	75%	\$5.56
Warehouse Clubs	\$12.32			
Other Goods (florist, non-food vendors, etc.)	\$3.75	\$3.75	75%	\$2.81
Personal Care Shops	\$5.76	\$5.76	50%	\$2.88
Personal Services	\$4.97	\$4.97	50%	\$2.49
Other Services (not elsewhere classified)	\$4.90			
Entertainment(sporting events, live theater, concerts, movies)	\$5.01	\$5.01	25%	\$1.25
		\$98.30		\$63.06
Total Work Weeks per Worker				48
Annual Sales per Worker in Project in 2011 Dollars				\$3,027
CPI Adjustment, 2011-2021				1.327
Annual Sales per Worker in Project in 2022 Dollars				\$4,000
Annual Sales Elsewhere near Work				\$2,200
Total Workers				12,000
Total Annual Sales on Project from Workers in Project in 2022 Dollars (Rounded)				\$48,000,000
Total Annual Sales Elsewhere from Workers in Project in 2022 Dollars (Rounded)				\$26,400,000

Sources: City of Santa Clara; International Council of Shopping Centers; U.S. Bureau of Labor Statistics; BAE, 2022.