KEYSER MARSTON ASSOCIATES

SUNNYVALE TOWN CENTER MARKET ASSESSMENT

Prepared for:
City of Sunnyvale

Prepared by:
Keyser Marston Associates

December 2015

TABLE OF CONTENTS

EXECUTIVE SUMMARY **1**

SUNNYVALE TOWN CENTER **6**

MARKET OVERVIEW **9**
Demographics 9
Retail Sales Conditions 9
Citywide Leakage Analysis 10
Shopping Districts Comparison 12

RETAIL MARKET ANALYSIS **16**
Market Segmentation 16
Market Analysis Approach 16
Regional Serving Retail 17
Food and Beverage 27
Neighborhood-Serving Retail 31
Entertainment Uses 34

HOTEL MARKET OVERVIEW **41**

CONCLUSION **43**

APPENDIX TABLES **44**

FIGURES AND TABLES

Figures

Figure 1: Site Aerial 6
Figure 2: Household and Per Capita Income Comparison 9
Figure 3: Resident Income and Taxable Retail Sales by City (2013) 10
Figure 4: City of Sunnyvale - Retail Leakage by Category (2013) 11
Figure 5: Map of 3-mile Radii from Sunnyvale Town Center and Nearby Shopping Districts 13
Figure 6: Density and Affluence—Number of Households by Income (3 mile radius) 15
Figure 7: 2014 Taxable Sales ($millions), Town Center and Nearby Shopping Districts 15
Figure 8: Regional Trade Area (5 Mile Radius) 18
Figure 9: 15-Minute Drive Times from Stanford and Valley Fair in relation to Town Center 22
Figure 10: Food and Beverage Trade Area (City of Sunnyvale) 27
Figure 11: Annual Growth in Taxable Restaurant Sales 30
Figure 12: Movie Theater Trade Area (5 mile radius) 35
Figure 13: Historical Room Nights, Vacant Rooms and Occupancy - Sunnyvale, CA 41

Tables

Table 1: Tenant Categories for Development 3
Table 2: Town Center Market Assessment 4
Table 3: Town Center Entitlements As Approved in 2007 7
Table 4: Development Status of Town Center (as of August 2015) 8
Table 5: Per Capita Incomes and Taxable Retail Sales Per Capita (2013) 10
Table 6: Surplus/Leakage of Taxable Retail Sales in Sunnyvale, CA (2013)[1] 12
Table 7: Demographics of Shopping Districts (3 mile radius) 13
Table 8: Demand Characteristics of Regional Trade Area 19
Table 9: Supportable Square Feet of Regional-Serving Retail at Town Center 20
Table 10: Characteristics of Super Regional Shopping Malls Proximate to Town Center 21
Table 11: Profile of Shopping Districts 24
Table 12: Trade Area Food and Beverage (F&B) Demand Characteristics 28
Table 13: Supportable Square Feet of Food & Beverage at Town Center 29
Table 14: Trade Area Expenditure Potential - Grocery and Drug Stores 32
Table 15: Supportable Square Feet of Convenience Retail at Town Center 33
Table 16: Unmet Demand (Screens) for Movie Theaters in Trade Area (5-Mile Radius) 36
Table 17: Movie Theater Supply 37
Table 18: Projected Hotel Demand through 2020 42
Table 19: Existing and Planned Hotel Inventory in Sunnyvale, CA 42

EXECUTIVE SUMMARY

Keyser Marston Associates, Inc. (KMA) has undertaken the following market assessment on behalf of the City of Sunnyvale for the undeveloped retail component of the entitled mixed use Town Center development. In total, the retail entitlements for Town Center are in place allowing approximately 1 million square feet of space, including already constructed space.

Town Center is well positioned to be a successful shopping district for reasons including the following:

- *Strong Trade Area*
  - Strong residential trade area
  - Significant day time office employment within one mile of Town Center
- *Site*
  - Major assemblage with large, contiguous parcels
  - Retail entitlements in place
  - Significant public parking necessary for retailers
  - Ability to create live/work/play, walkable, and transit oriented community, which is attractive in today's marketplace.
- *Existing Sales*
  - Over $100 million annually in taxable retail sales generated at Target, Macy's and Murphy Avenue food and beverage businesses.

Town Center retail trade area compares favorably with other successful shopping districts: Downtown Palo Alto, Downtown Los Gatos, and Santana Row. To evaluate the strength of the opportunity for Town Center, the residential trade area demographics were compared to the trade area demographics for these three successful shopping districts. Detail is provided in the report on the comparison. The conclusion is that the Town Center trade area demographics are strong and compare favorably.

- *Population Density*
  There are nearly 84,000 households living within a 3-mile radius of Sunnyvale Town Center, greater than downtown Palo Alto and downtown Los Gatos shopping districts. Only Santana Row has a higher density.
- *Affluence*
  Approximately 43,000 of these households (51%) have incomes above $100,000. More than 25,000 households (30%) have incomes above $150,000. There are more households earning above $100,000 within 3 miles of Town Center than there are within 3 miles of any of the shopping districts. In fact, the

number of households with incomes above $100,000 exceeds the total of Los Gatos and Palo Alto combined. The number of households with incomes above $150,000 is also greatest at Town Center.

- *Expenditure Potential* Aggregate expenditure potential for retail goods and restaurants by Town Center trade area residents is the highest of the selected shopping districts, even though per capita and household incomes are higher within three miles of downtown Los Gatos and downtown Palo Alto, due in part to the density of the population near Town Center. There is significant leakage of consumer expenditures by the residents of the City of Sunnyvale to retailers outside of the City. KMA estimates annual retail sales leakage of approximately $330 million dollars in the comparison goods category and approximately $59 million in the food and beverage category.

Downtown Palo Alto, Downtown Los Gatos, and Santana Row have demonstrated the ability to be successful in a very competitive retail environment. Notwithstanding the dominance of Stanford Shopping Center and Westfield's Valley Fair, these districts have achieved annual taxable sales ranging from approximately $200 million to $300 million. By comparison, Town Center in its current configuration plus Murphy Ave businesses are now achieving approximately $100 million in annual taxable sales. The strong trade area demographics, the current sales, and the success of these districts demonstrate that a significant market opportunity exists for Town Center

To position Town Center in the marketplace to be successful is predicated on certain conditions including:

- *Multiple shopping districts* Multiple districts create multiple reasons for residents and office employees to visit. One concentration of several districts strengthens Town Center's position in the marketplace and opportunity for success. The diversity of reasons for shoppers and residents to visit Town Center is intended to distinguish Town Center from competition in the marketplace. Recommendations for four shopping districts are summarized below.

- *Continuous pedestrian friendly shopping experience with a coordinated retail leasing offering* A coordinated leasing strategy for the spaces within the buildings must support a pedestrian oriented shopping experience and support the space requirements of retailers. It is also important that there be a connection to Murphy Avenue.

- *Parking strategy* Ample daytime and evening parking at favorable public parking rates to attract the anchor tenants and realize the potential. Ample parking is a prerequisite for virtually all anticipated retail categories.

Four shopping districts are recommended as a means to create synergy and multiple reasons for residents and office employees to visit. Concentration of several districts strengthens Town Center's position in the marketplace and opportunity for success. In all cases, shoppers and patrons must have access to ample parking at low-cost rates that would be provided by the project.

1. *Regional retail district***,** including in-line specialty retail shops anchored by Target and Macy's; the sizing of the in-line specialty shops must include sufficient square footage to satisfy co-tenancy requirements and to attract retailers.
2. *Food and beverage district* that can build on the success of Murphy Avenue and the entertainment district. A connection to Murphy Avenue is important.
3. *Neighborhood shopping district* anchored by a specialty grocery store and drug store that complements Sunnyvale's existing offering of neighborhood retail. These uses also provide amenities for Town Center residents and office employees.
4. *Entertainment/Leisure district* anchored by a multi-screen movie theater. Additionally, amenities for residents and office employees can be offered, such as a fitness center.

Table 1: Tenant Categories for Development

Retail District	Potential Tenants (Anchors in Bold)	
Regional Retail		
Department Stores	**Target***	**Macy's***
In-Line Shops	Apparel - Specialty Children - Toys, Apparel, Shoes Furnishings / Home Décor Jewelry/ Accessories	Shoes Specialty Foods- Confectionery Sporting Goods/ Active Wear Other Specialty Retailers
Neighborhood Retail	**Specialty Grocery**	Drug Store / Ancillary Retail
Food and Beverage**	**Murphy Avenue*** Desserts/ Ice Cream Farm-to-Table/ Organic/ Healthy	Fast Casual- Upscale Burgers, Pizza Beer Garden / Wine Bar/ Brewery Bakery/ Café
Entertainment/Leisure**	**Movie Theater** Bowling Alley/Lounge	Fitness Center

Source: KMA.

* Existing retailers at Town Center.

** May function on second floor with appropriate design enhancements.

Table 2: Town Center Market Assessment

		Estimated Square Footage
Regional Retail District		
Target	*existing store*	181,000
Macy's	*existing store*	177,000
In-Line Shops		155,000
		513,000
Food & Beverage District		50,000
Entertainment District		
Cinema	*approx. 3,000 seats*	60,000
Fitness Center		40,000
Other Entertainment[1]		50,000
		150,000
Neighborhood Retail District		
Specialty grocery store		20,000 - 40,000
Drug store		20,000
Ancillary space [2]		10,000
		50,000 - 70,000
Total		763,000 - 783,000

Source: KMA 2015

1 As detailed in analysis, Other Entertainment may include a bowling alley, arcade, or urban public market. (See Entertainment section of Market Analysis.)

2 Ancillary retail refers to small convenience retailers that co-locate with grocery/drug stores.

KMA recommendation is the culmination of both a technical analysis as detailed in the report and KMA's experience and judgment.

- The methodology builds up to the total recommended square footage with a recommendation for each category: regional retail, food and beverage, neighborhood retail (grocery and drug) and entertainment (movie theater).
- The analysis is based on net new potential sales and assumes that there will not be a transfer of sales from existing Sunnyvale businesses to Town Center.
- Within the various trade areas examined, projected retail expenditure growth and existing sales leakage are sufficient to support retail development at Town Center
- Data used in the analysis are from both public sources and from confidential sources. The analyses includes: review of actual sales in the City of Sunnyvale and estimated sales leakage outside of Sunnyvale, review of actual taxable sales data provided on a confidential basis for Target, Macy's, Murphy Avenue and for the three shopping districts, review of the competition, defining the trade area for each of the groupings, estimating trade area expenditure potential using data

provided by Census, the state and confidential sales information, and estimating expenditure sales potential for Town Center in each of the groupings.

Murphy Avenue connection is an important component of Town Center. Food and beverage is an important component of a successful strategy for the downtown. The current sales volume and active pedestrian environment of Murphy Avenue creates an anchor on which Town Center can build.

Understanding the Macy's property as a component of Town Center is important. At the time of writing this report, Macy's had announced plans to close approximately 40 stores in early 2016. It is unknown whether the Town Center location will be impacted. While department stores are important tenants, Macy's is not a prerequisite for a successful shopping district. One of the strengths of the Town Center opportunity in the marketplace is the ability to create multiple shopping districts, which strengthens the district as a whole. Examples of other successful shopping districts without department stores are presented in the report. Examples of repositioning former department stores are provided in the Entertainment section of this report.

Town Center retail sales potential can be achieved without an adverse impact on existing Sunnyvale businesses, such as along the El Camino, since Town Center will expand trade areas and retail opportunities. The development of Town Center would strengthen Sunnyvale's position as a retail destination and thus attract additional shoppers to the City as a whole.

Allocation of tenants between ground floor and second floor is dependent on the tenant category and the willingness of the anchor tenant in that particular category to consider second floor space. Ground floor space will be required by in-line shop space, by specialty grocery store and food concepts, such as a bakery, and by a drug store. Second level retail space can be occupied by such uses as movie theater, other entertainment uses, food and beverage in combination with the entertainment uses, and fitness center.

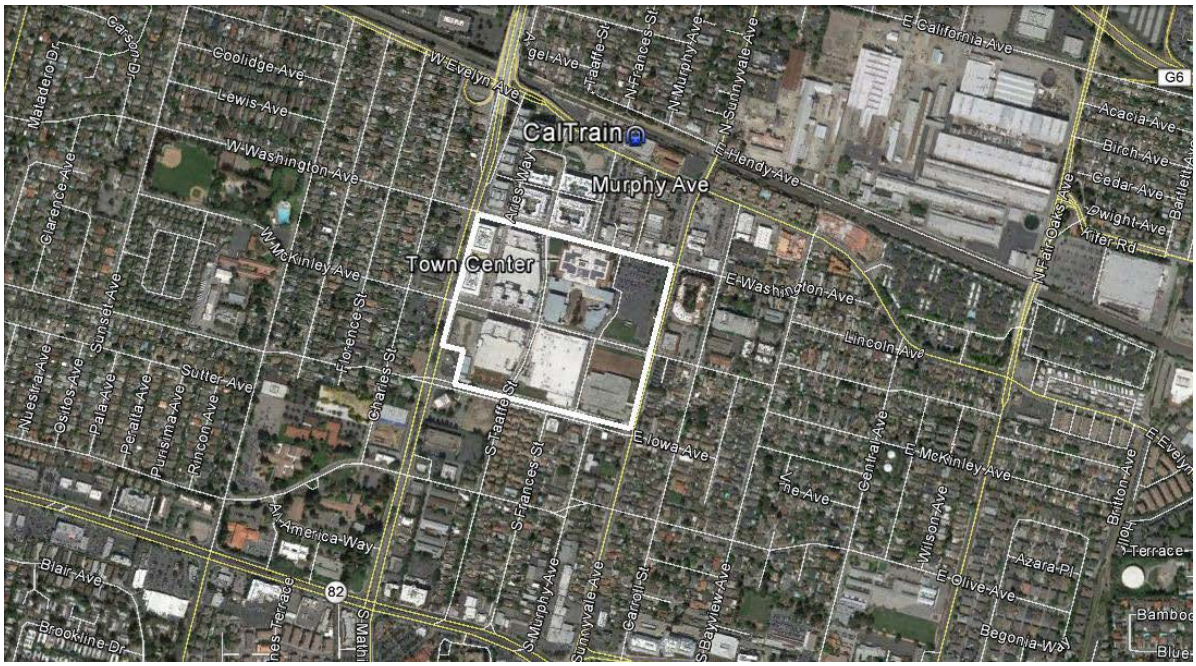
Additional office and residential development at Town Center would not significantly increase the amount of square footage needed to meet demand. Consideration was given to the ability to achieve the full one million square feet of retail entitlements by adding residential and/or office to Town Center. The technical analysis is presented in the report. The conclusion is that additional residential and/or office would increase the performance level of retailers but would not significantly increase the amount of square footage needed to meet demand.

SUNNYVALE TOWN CENTER

Sunnyvale Town Center is a 36-acre, mixed-use project located in Downtown Sunnyvale on the former site of an enclosed shopping mall. Approved by the Sunnyvale City Council in 2007, the project is entitled to build up to 1 million square feet of retail, nearly 300 residential units, 315,000 square feet of office space, and a 200-room hotel. While two office towers and two anchor retail buildings are now occupied, most of the project is unfinished due to a legal dispute between one of the original development partners and the bank which assumed ownership of the project after completing the foreclosure process in 2011. In May 2015, a California State Appeals Court ruled in favor of the bank. In August 2015, the California Supreme Court declined a request to revisit the decision, clearing the way for the sale of the property to a new developer to complete the project.

Sunnyvale Town Center is bisected by McKinley Avenue and is bounded to the west by Mathilda Avenue, to the north by Washington Avenue, to the east by Sunnyvale Avenue, and by Iowa Avenue to the south. The site is located one block south of the Sunnyvale CalTrain Station and two blocks north of El Camino Real. Mathilda Avenue provides a direct connection between the site and U.S. Route 101 and Interstate 280.

Figure 1: Site Aerial



Google, KMA

Despite delays, Town Center remains important to the overall health of downtown Sunnyvale. Its successful development presents an opportunity for downtown to achieve its full potential as the "cultural, retail, financial, and entertainment center of the community," per the goals of the City's Downtown Specific Plan. In light of the time that has elapsed since the project was first approved, the City has directed Keyser Marston Associates, Inc. (KMA) to prepare a retail market analysis. The purpose of the analysis is to (1) evaluate the market potential for retail at Town Center, and (2) define the appropriate mix of uses for a successful Town Center project.

Town Center Entitlements

In 2007, entitlements were granted for the Town Center site, including 315,000 square feet of office, 292 housing units, a 200-room hotel, and 1 million square feet of retail. Within the retail category, maximum allocations were set aside for a number of retail uses including restaurants (90,000 square feet), a cinema (60,000 square feet), and a fitness center designated as a second-floor use (40,000 square feet). Approximately 440,000 square feet of the 1 million square feet of allowable retail space was left undefined. (See Table 3 for a breakdown of allowable retail use by category.)

Table 3: Town Center Entitlements As Approved in 2007

Retail Use	Entitlements (SqFt)
Anchor Retail	
Macy's	177,000
Target	181,000
Total Anchor Retail	358,000
Remaining Retail	
Restaurants	90,000
Cinema	60,000
Fitness Center (Second Floor)	40,000
Outdoor Uses	12,000
General Retail/ Undefined[1]	440,000
Total Remaining Retail	642,000
Total Allowable Retail	**1,000,000**

Source: Town Center Conditions of Approval (COA) 2008, KMA

[1] Refers to remaining capacity without a specific use. May include (a) retail uses; (b) amusement uses, beer/wine establishments, and childcare providers with a Miscellaneous Plan Permit; (c) establishments serving liquor and live entertainment venues with a Special Development Permit.

Construction of Town Center largely stalled after the developer defaulted on a $109 million bank loan and the project went into foreclosure. However, portions of the project have been completed under the direction of the foreclosing bank's court-appointed receiver. The two office towers were completed in 2010 and 2012, respectively, and are now occupied by Nokia and Apple. The separately owned anchor retail buildings of Macy's (177,000 square feet) and Target (181,000 square feet) are also in use. The remainder of the project is at various stages of completion. Exterior work has completed on most of the residential buildings, which include approximately 100,000 square feet of ground-floor retail. The remaining 540,000 square feet of entitled retail space is unbuilt. (For a detailed comparison of the amount of entitled office, housing, hotel, and retail with what has been built to date, refer to Table 4.)

Table 4: Development Status of Town Center (as of August 2015)

Use	Entitlements	Complete & In Use	Near Completion[1]	Remaining Entitlements[2]
Office	315,000	315,000	-	-
Housing	292	-	198	94
Hotel	200	-	-	200
Retail	1,000,000	358,000	103,000	539,000

Source: KMA 2015, City of Sunnyvale 2015

[1] Near completion refers to projects 60% to 90% complete.
[2] Remaining capacity is calculated as the difference between planned development and developed projects at or near completion.

Nearby Developments

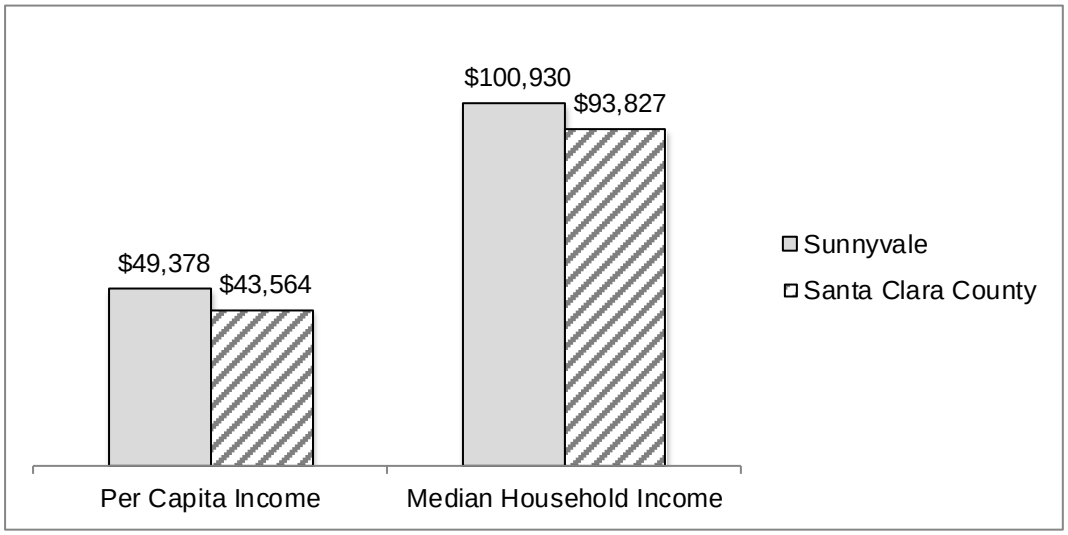
While Town Center's full retail entitlement has yet to be built, nearby developments are already transforming downtown Sunnyvale. Two luxury residential projects containing more than 400 units – Solstice and Loft House – were recently completed a block north of Town Center. They include approximately 35,000 square feet of ground floor retail (largely restaurant uses). Another 440 new residential units are now leasing or under construction within a mile of the Town Center site, not including the 300 units that remain to be completed at Town Center. (See Appendix Table A-8 and Figure A-1.)

MARKET OVERVIEW

Demographics

In 2015, Sunnyvale is estimated to have a population of nearly 148,000 residents and 57,000 households. According to Claritas, a private demographic firm, the population is projected to increase by 8,000 to 156,000 residents by 2020. Sunnyvale's per capita income ($49,000) and median household income ($101,000) both exceed county averages. In addition, an estimated 97,000 workers are employed in the City, 90% of whom commute from elsewhere – thus adding to total retail expenditure potential (City of Sunnyvale Business License Tax Data Base 2015, LEHD On-the-Map 2012).

Figure 2: Household and Per Capita Income Comparison

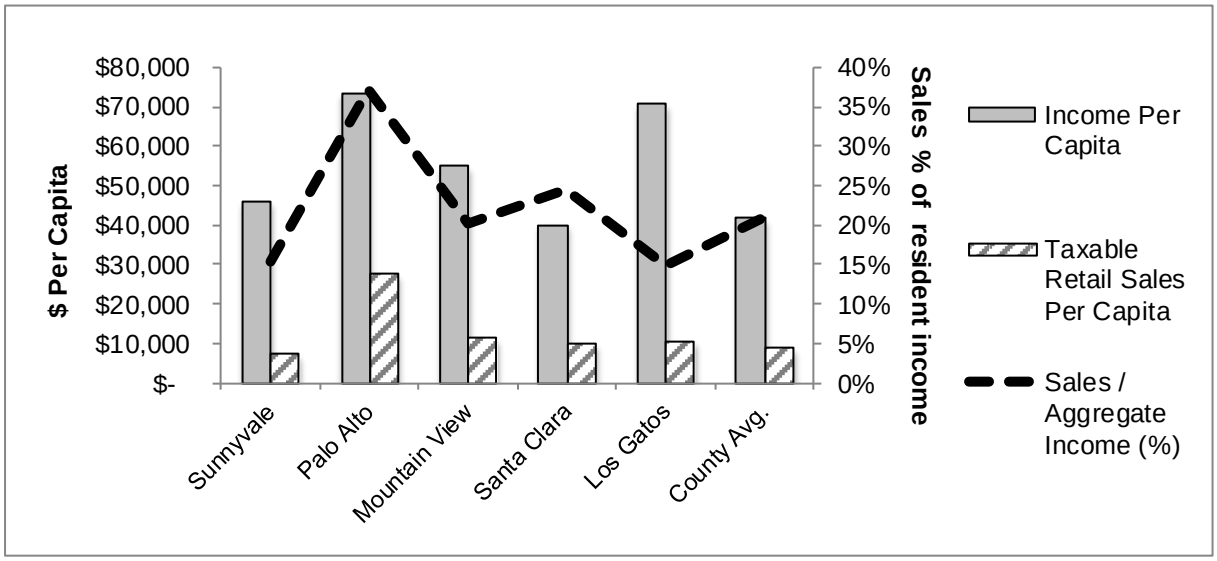


Source: KMA, Claritas

Retail Sales Conditions

Despite significant expenditure potential by local residents, Sunnyvale's retail sector is not capturing its share of this demand. At approximately $7,000, taxable sales per capita in Sunnyvale are significantly below the county average of $8,700, not to mention nearby communities. For example, taxable sales per capita are $11,100 in Mountain View and $27,300 in Palo Alto. Even when differences in income are considered, Sunnyvale retailers' sales represent a lower capture rate of resident expenditure potential than nearby communities. These findings indicate that Sunnyvale residents are spending a substantial portion of their incomes outside the boundaries of the City.

Figure 3: Resident Income and Taxable Retail Sales by City (2013)



Source: KMA, American Community Survey, California Board of Equalization.
Taxable sales excludes automotive retail category.

Table 5: Per Capita Incomes and Taxable Retail Sales Per Capita (2013)

Locality	Population	Income Per Capita	Taxable Retail Sales Per Capita	Sales / Aggregate Income (%)
Sunnyvale	143,315	$ 45,977	$ 7,068	15%
Palo Alto	65,234	$ 73,329	$ 27,332	37%
Mountain View	75,477	$ 54,758	$ 11,104	20%
Santa Clara	117,817	$ 39,966	$ 9,831	25%
Los Gatos	29,809	$ 70,420	$ 10,547	15%
County Avg.	1,812,208	$ 41,513	$ 8,712	21%

Source: American Community Survey 2013 and CA Board of Equalization

[1] Excludes automotive category

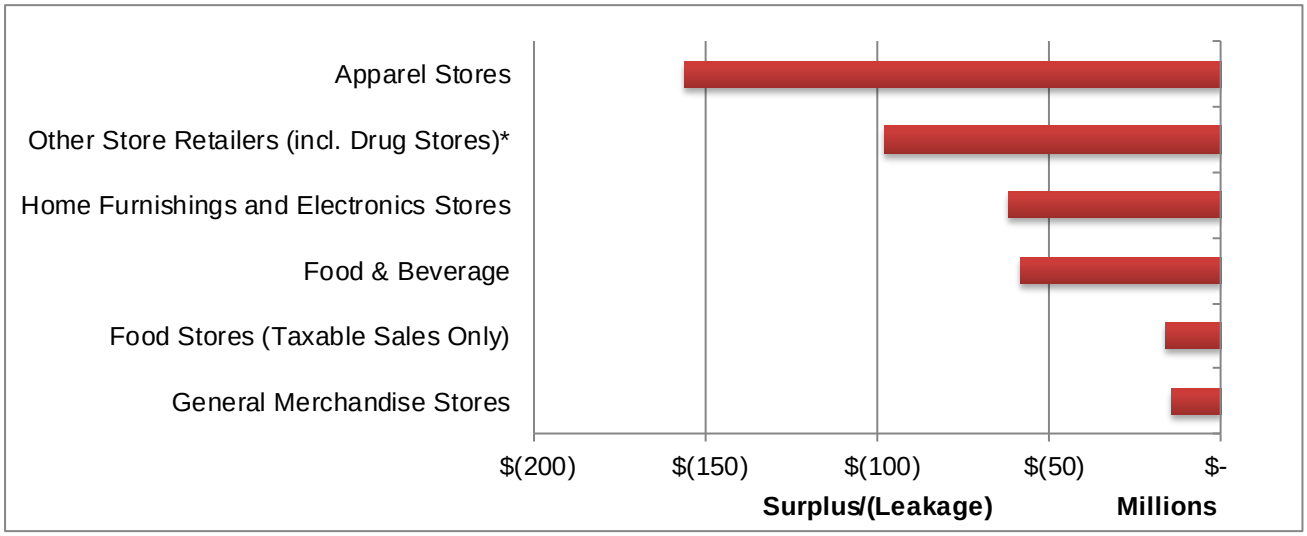
Citywide Leakage Analysis

A retail leakage analysis was prepared to identify the strengths and weaknesses of specific retail sectors within the City of Sunnyvale by illustrating where consumers are spending their money within the region. Retail leakage is calculated as the difference between actual sales and expected or potential sales in a community. Leakage in any retail category is an indicator that consumers in Sunnyvale routinely travel outside of the community to purchase goods in that particular retail category.

The analysis draws on 2013 taxable sales data from the California State Board of Equalization and the American Communities Survey to estimate the degree of surplus or leakage of retail dollars within specific retail sectors in Sunnyvale. Figure 4 and Table 6 present the results of the Citywide retail leakage analysis. The analysis indicates that at least 40% of the expenditure potential by City residents – approximately $330 million in taxable comparison goods sales – is being met outside the area. Leakage exists across all categories of comparison goods, including apparel stores, home furnishings and electronics, general merchandise, and other store retailers. Grocery and restaurant sales also show significant room for growth, with a sales gap of $75 million in taxable sales, representing 18% of the expenditure potential across these two categories.

The subsequent chapter of the report describes in greater detail the opportunities for Town Center to recapture potential retail spending in the comparison retail, grocery store, and food and beverage retail categories.

Figure 4: City of Sunnyvale - Retail Leakage by Category (2013)



Source: KMA, U.S. Census American Community Survey, California Board of Equalization
* Other Store Retailers includes Miscellaneous Store Retailers, Sporting Goods, Hobby, Book and Music Stores, Pharmacies and Drug Stores, Health and Personal Care Stores, and Non-store Retailers.

Table 6: Surplus/Leakage of Taxable Retail Sales in Sunnyvale, CA (2013)[1]

Retail Category	Actual Sales[2]	Potential Expenditures[3]	Surplus / (Leakage)[4]	Surplus/ (Leakage) %
Comparison Retail				
General Merchandise Stores	$ 209,800,000	$ 224,110,000	$ (14,310,000)	-6%
Apparel Stores	$ 46,810,000	$ 202,550,000	$ (155,740,000)	-77%
Home Furnishings and Electronics Stores	$ 110,480,000	$ 172,350,000	$ (61,880,000)	-36%
Other Store Retailers (incl. Drug Stores)	$ 129,510,000	$ 227,250,000	$ (97,730,000)	-43%
Subtotal	$ 496,600,000	$ 826,260,000	$ (329,660,000)	-40%
Food Stores (Taxable Sales Only)	$ 81,200,000	$ 97,300,000	$ (16,100,000)	-17%
Food & Beverage	$ 262,600,000	$ 321,400,000	$ (58,800,000)	-18%
Total	$ 840,400,000	$ 1,244,960,000	$ (404,560,000)	-32%

Source: KMA, CA Board of Equalization 2013 (BOE).

1 As of 08/05/15, 2013 is the most recent full year with taxable sales information as reported by the BOE.

2 All retail sales are taxable sales as reported by the source.

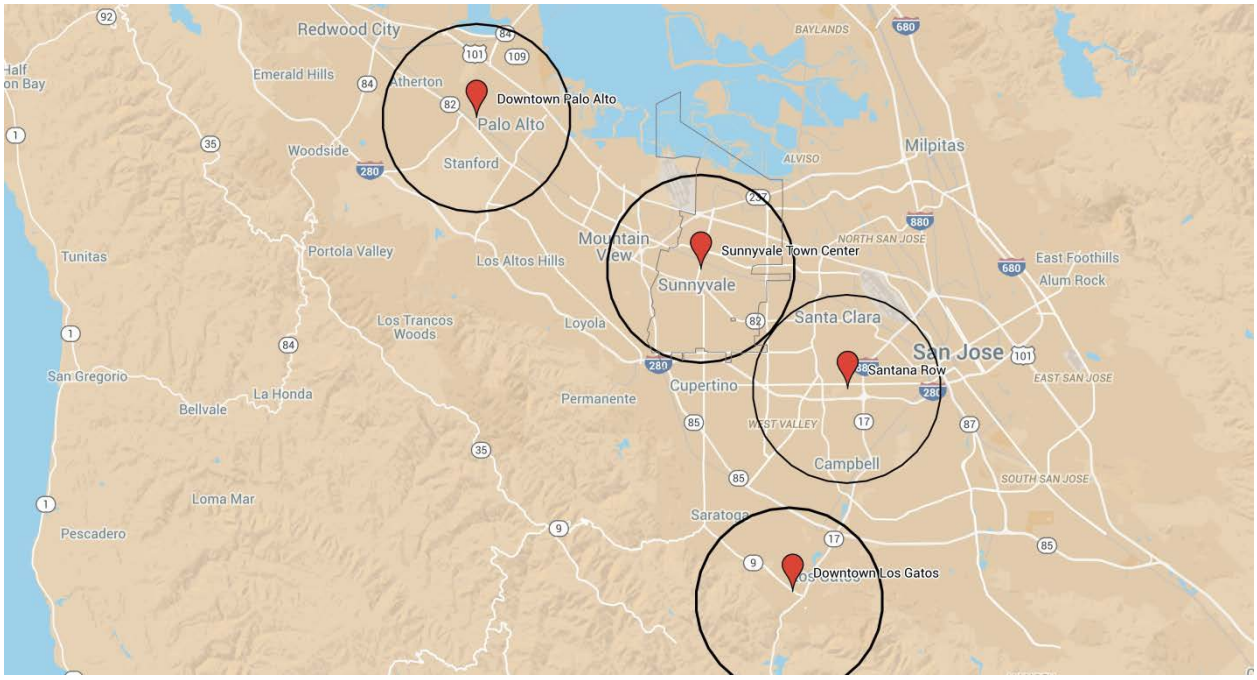
3 Demand Potential is estimated by multiplying Santa Clara County taxable sales as a percentage of the region's aggregate income by the aggregate income in Sunnyvale, CA.

4 Retail Surplus/Leakage is determined by comparing actual reported taxable sales in Sunnyvale, CA to the estimated Demand Potential.

Shopping Districts Comparison

Retail market conditions in the vicinity of Town Center were compared to shopping districts in Downtown Los Gatos, Downtown Palo Alto, and Santana Row. These three districts were selected as successful examples of well-established, pedestrian-oriented shopping centers in Silicon Valley. All three districts offer a broad selection of comparison goods retailers as well as food and beverage establishments, despite their proximity to the area's largest regional malls, Westfield Valley Fair and Stanford Shopping Center. A three-mile radius was used as the study area to compare demographics across the four shopping districts. Per Figure 5, below, Sunnyvale Town Center's three-mile radius area includes virtually all of Sunnyvale and portions of Cupertino, Mountain View, and Santa Clara. Town Center's sales performance considers existing retail anchors as well as restaurants along Murphy Avenue.

Figure 5: Map of 3-mile Radii from Sunnyvale Town Center and Nearby Shopping Districts



Source: KMA, Google Maps

Table 7: Demographics of Shopping Districts (3 mile radius)

	Town Center & Murphy Ave[2]	Downtown Los Gatos	Downtown Palo Alto	Santana Row
Demographics, 3 mile radius[1]				
3 mile radius				
Population	214,056	45,081	149,443	248,088
Households	83,767	18,441	52,723	97,399
Per Cap Inc	$ 52,452	$ 73,938	$ 56,119	$ 43,101
Aggregate Income ($millions)	$ 11,228	$ 3,333	$ 8,387	$ 10,693
Average HH Income	$ 134,035	$ 180,750	$ 159,070	$ 109,783
Households Earning > $100k	42,858	11,001	26,227	39,634
Households Earning > $150k	25,389	8,062	18,093	21,379
Workforce Population (1 mile)	20,243	9,759	32,915	28,646
Taxable Sales - All Categories ($millions)[1]	$ 108	$ 195	$ 311	$ 218

Source: KMA, Claritas, HdL companies

[1] Population and income data are estimated for 2015. Sales tax data is from 2014, provided by HdL Companies.

[2] Sales data for Town Center reported for downtown business improvement district.

The table above and figures below summarize the results of the comparison. Our findings indicate the following:

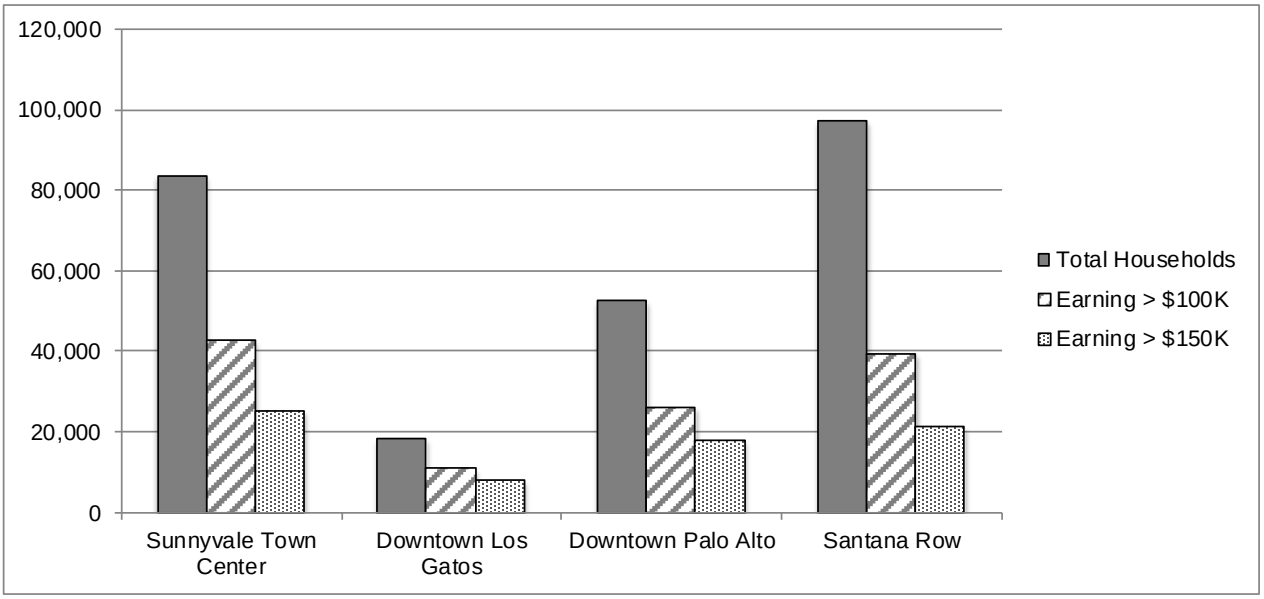
- *Population Density.* There are nearly 84,000 households living within a 3-mile radius of Sunnyvale Town Center, greater than all shopping districts but Santana Row. Approximately 43,000 of these households (51%) have incomes above $100,000. More than 25,000 households (30%) have incomes above $150,000. (See Table 7.)

- *Affluence.* There are more households earning above $100,000 within 3 miles of Town Center than there are within 3 miles of any of the shopping districts. In fact, the number of households with incomes above $100,000 exceeds the total of Los Gatos and Palo Alto combined. The number of households with incomes above $150,000 is also greatest at Town Center. (See Table 7 and Figure 6.)

- *Expenditure Potential.* Although per capita and household incomes are lower near Town Center than they are within three miles of Los Gatos and Palo Alto, aggregate expenditure potential for comparison goods and restaurants by Town Center area residents ($2 billion) is the highest of the three shopping districts, due in part to the density of the population near Town Center. (See Table 7.)

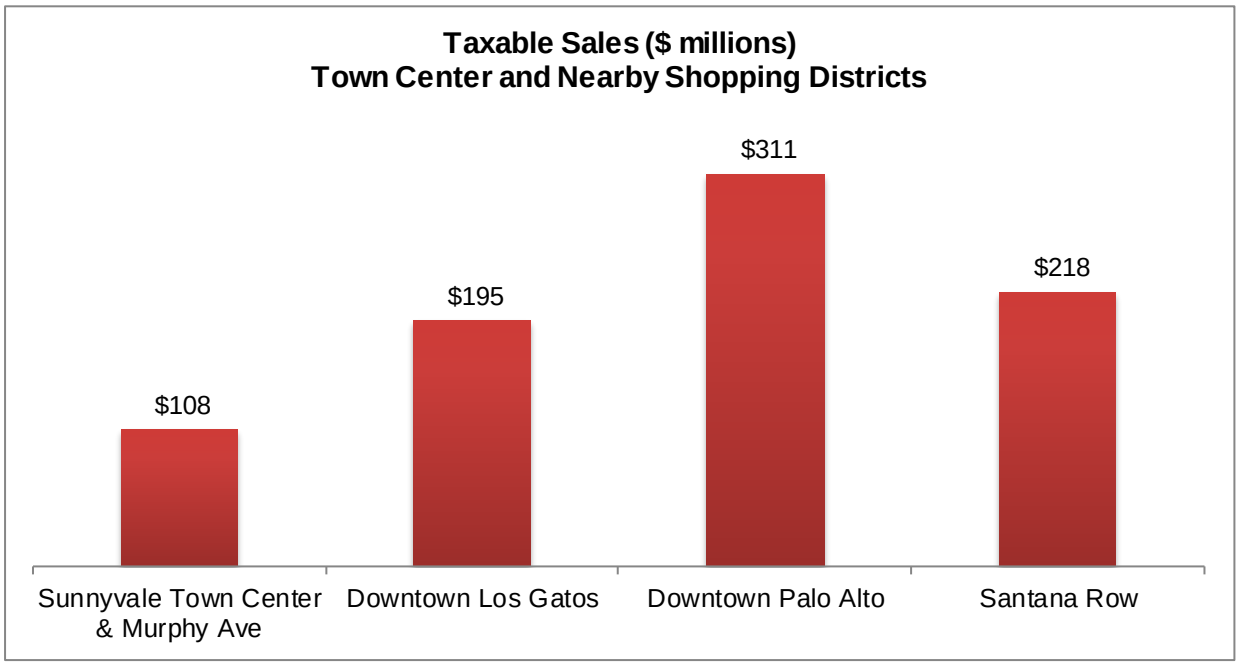
- *District Sales.* Taxable retail sales at comparable shopping centers currently outpace sales at Town Center and Murphy Avenue by $100 million to $200 million annually, suggesting significant growth potential for downtown Sunnyvale (Table 7 and Figure 7).

Figure 6: Density and Affluence—Number of Households by Income (3 mile radius), Town Center and Nearby Shopping Districts



Source: KMA, Claritas 2015

Figure 7: 2014 Taxable Sales ($millions), Town Center and Nearby Shopping Districts



Source: KMA, Claritas, HdL Companies

RETAIL MARKET ANALYSIS

Market Segmentation

Retail centers are traditionally grouped into two broad categories: neighborhood-serving and regional/community-serving. This basic distinction recognizes that retail centers vary in size, tenant mix, and amenities according to which market segment is targeted.

Neighborhood-serving retail centers primarily offer everyday goods and services, such as groceries and hair salons, that customers tend to purchase within a five or ten minute drive from their homes. Centers maintain their market position by providing convenient access to an attractive mix of everyday items which customers from the trade area[1] (1-2 miles from the center) value having nearby.

Regional/Community-serving centers, by contrast, primarily offer comparison goods, such as clothing or electronics, which tend to be discretionary purchases, driven by personal preference more than convenience. Because customers are willing to travel farther from their homes to make such purchases, the trade area for regional-oriented centers is correspondingly larger, extending five to ten miles or even more. Providing a complete and unique shopping experience with a variety of entertainment and dining options has become increasingly important for regional centers seeking to capture a sizable share of the trade area's discretionary income.

As a mixed-use project in the heart of downtown, Town Center has the opportunity to serve both neighborhood and regional market segments. The trade area demographics for both segments strongly support retail demand. Nearby, residential and office developments have augmented demand for food and beverage establishments, as well as neighborhood amenities, such as a specialty grocery store. On a regional scale, there is a $3 billion market for comparison goods, and Town Center possesses the scale, access, and parking capacity to become a regional destination.

Market Analysis Approach

In the context of Silicon Valley's highly competitive retail environment, Town Center's success hinges on targeting both of the above customer segments, thus fulfilling its role in supporting a vibrant downtown center. With this in mind, our analysis treats Town Center as four separate shopping "districts" aimed at meeting the diverse retail and entertainment needs of local residents and workers, as well as the region at large. The analysis focuses on the following recommended shopping districts, each with a distinct market segment, trade area, expenditure potential, and competitive base:

[1] A trade area refers to the geographic area where the majority of a retail center's customers reside. It also contains or is proximate to the center's principal sources of completion.

- *Regional shopping district,* including a specialty collection of in-line shops anchored by Target and Macys;

- *Food and beverage district,* anchored by Murphy Avenue;

- *Neighborhood shopping district,* anchored by a specialty grocery store;

- *Entertainment district,* anchored by a multi-screen movie theater.

The following summarizes our approach to assessing the market potential for each of the above retail categories at Town Center:

1. *Trade Area Identification* – A geographic trade area is defined based upon: (a) the likely drawing-power of retailers within the category, (b) the location and nature of existing and planned competition.

2. *Expenditure Potential* – The trade area's expenditure potential is estimated using available demographic data and retail sales data. Expenditure potential is projected through the year 2020.

3. *Evaluation of Competitive Supply* – Town Center's market position is assessed relative to the competitive supply.

4. *Assessment of Capture Potential* – Based on the preceding tasks, the percentage of expenditure potential that Town Center is likely capture is estimated. Projected sales are converted to supportable square feet of retail based on industry benchmarks. These vary by retail category.

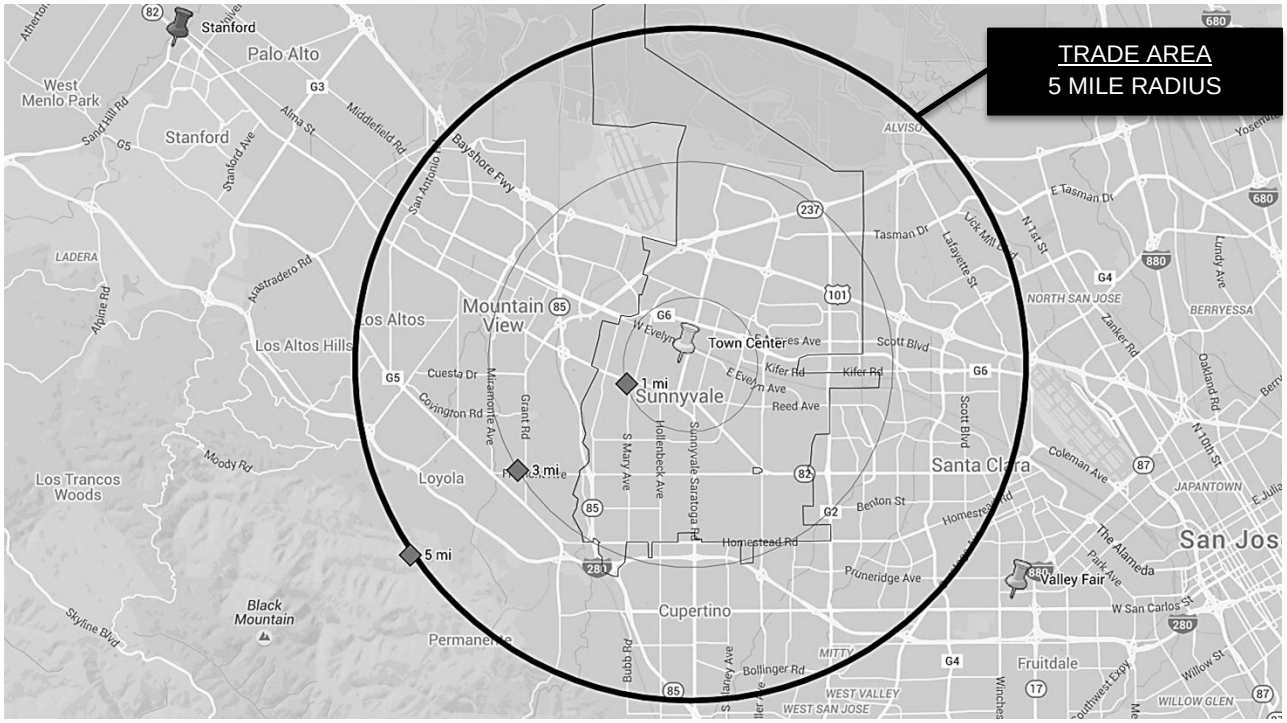
Regional Serving Retail

Trade Area

Regional-serving retail encompasses comparison goods for which consumers are willing to drive a greater distance in order to compare prices and quality before they make their purchase. As such, a typical trade area for comparison goods can extend five to ten miles, or more. After considering Town Center's regional positioning, KMA defined the project's trade area for comparison goods as a five mile radius from the site, representing the lower range of a typical regional trade area. As illustrated by Figure 8, a five mile radius includes all of Sunnyvale, most of Mountain View, Los Altos, and Santa Clara, and small portions of Los Altos Hills and San Jose. The trade area is bordered by Silicon Valley's two premiere regional shopping centers, Stanford Shopping Center to the northwest and Westfield Valley Fair to the southeast, both of which draw customers

from Town Center's trade area. Town Center's competitive positioning in relation to these two centers is reviewed in greater detail below.

Figure 8: Regional Trade Area (5 Mile Radius)



Source: KMA, Google Maps, Claritas

Trade Area Expenditure Potential

As shown in Table 8, Town Center's regional trade area includes approximately 445,000 residents, projected to reach 472,000 residents by 2020. Residents of the regional trade area currently have a per capita income of $53,095 that is estimated to increase annually by 1.1% in real terms, based on historical income growth. Correspondingly, KMA estimates aggregate resident expenditure potential for comparison goods in the trade area will increase from $3.0 billion in 2015 to $3.3 billion by 2020. This expenditure category includes merchandise typically sold at department stores: general merchandise stores, apparel stores, furniture stores and other retail stores (abbreviated as GAFO).

While the following estimate accounts for expenditure potential by area workers who also live in the area, workers who do not live in the trade area are excluded from the estimate of regional expenditure potential. A 2012 survey by the International Council of Shopping Centers shows that while per capita spending by workers near their places of work can be significant ($6,000 per year), most of this spending is dedicated to restaurant and convenience purchases. Given the commuting dynamics of Silicon

Valley, substantial comparison goods spending by local workers who live outside the region is not likely to be a major source of demand at Town Center.

Table 8: Demand Characteristics of Regional Trade Area

5-mile radius		2015		2020
Population[1]		445,383		472,240
Households		170,172		180,764
Per Capita Income[2]	$	53,095	$	56,080
Aggregate Income	$	23,647,400,000	$	26,483,100,000
GAFO Spending as % of Income[3]		12.5%		12.5%
GAFO Expenditure Potential	$	2,955,900,000	$	3,310,400,000

Source: KMA, Claritas
Figures expressed in 2015$

[1] Population growth based on 5-year projections provided by Claritas, a private data vendor

[2] Assumes 1.1% real income growth per historical trend.

[3] GAFO (General Merchandise, Apparel, Furniture, and Other) refers to goods normally sold at department stores. The share of income available for GAFO spending is derived from the US Bureau of Labor Statistics' Consumer Expenditure Survey.

Capture at Town Center

Town Center has the potential to become a pedestrian friendly shopping district, anchored by Murphy Avenue, Macy's, and Target. KMA considered Town Center's market position and the sales performance of competing centers to estimate the project's share of regional expenditure potential. KMA has assumed that the project has the potential to capture 7% of regional demand, which translates to $273 million in comparable goods sales by 2020 (assuming that 15% of total sales are derived from visitors).

The projected potential for comparison good sales would support 513,000 square feet of regional-serving retail by 2020, including the 358,000 square feet of space currently occupied by the project's two existing anchors, Macy's and Target, and up to 155,000 square feet of new in-line space. It is assumed that over time, sales performance of both existing anchors will reach $375 per square foot, reflecting the typical performance of larger department stores. At this level of sales productivity, Macy's and Target alone would generate half of the center's potential comparable goods sales, leaving approximately $139 million in sales for new in-line tenants. Sales productivity of in-line retailers is significantly higher than department stores, and generally ranges from $850 to $1,050 per square foot within a newly constructed shopping district.

Table 9: Supportable Square Feet of Regional-Serving Retail at Town Center Based on Capture of Trade Area Expenditure Potential

		2015	2020
Regional Expenditure Potential		$ 2,955,900,000	$ 3,310,400,000
Town Center Expenditure Potential			
Town Center Market Capture @	7%	$ 206,913,000	$ 231,728,000
Sales Inflow[1] @	15%	$ 36,514,000	$ 40,893,000
Total Expenditure Potential		$ 243,427,000	$ 272,621,000
Existing Anchor Expenditure Potential			
Macy's and Target SF		358,000	358,000
Targeted Sales PSF[2]		$ 350	$ 375
Anchor Expenditure Potential		$ 125,300,000	$ 134,250,000
New, In-Line Specialty Shops - Supportable SqFt			
Exp. Potential Net Existing Anchors		$ 118,127,000	$ 138,371,000
Supportable Square Feet[2] @	$900 PSF	130,000	155,000

Source: KMA, Claritas. See Appendix A-2 for complete list of demand assumptions.
Dollar figures expressed in 2015$. Supportable SF rounded to nearest 5,000.
[1] 15% of demand is expected to derive from visitors living outside the trade area.
[2] Sales targets per square foot based on industry benchmarks for anchor and in-line retailers for space in planned shopping districts. Sales performance for anchors is assumed to improve as center

Competitive Environment

A. Super Regional Malls

For Town Center to achieve the regional sales capture targeted above, the project will have to differentiate itself from the region's two largest shopping centers, Stanford Shopping Center (9 miles northwest of Town Center) and Westfield Valley Fair (6 miles southeast of Town Center), both of which command substantial market power within the trade area. Combined, the two centers contain more than 2.7 million square feet of retail and generate approximately $1.5 billion in taxable sales. They continue to expand and add tenants, and will reach 3 million square feet of leasable area over the next two years. The table below provides an overview of these two centers.

Table 10: Characteristics of Super Regional Shopping Malls Proximate to Town Center

	Stanford Shopping Center	Westfield Valley Fair
Year Opened	1956	1986
City	Palo Alto	San Jose
Distance to Town Center (miles)	9	6
Leasable Area		
Current[1]	1,234,000	1,474,000
Planned	132,000	600,000
Total	1,366,000	2,074,000
Total Stores	144	260
Anchor Tenants	Nordstrom's Bloomingdale's Macy's Nieman Marcus	Nordstrom's Bloomingdale's Macy's
Taxable Retail Sales (2014)	$ 573,000,000	$ 746,000,000
Reported Retail Sales[2]	n/a	$ 901,000,000

Source: KMA, Simon Properties, Westfield, ICSC Shopping Center Directory, City of Palo Alto

[1] Stanford's current renovations downsize the Bloomingdale's store and add 132,000 SF. Resulting GLA is comparable to what center had prior to renovations.

[2] Includes all sales reported to Westfield; however, only in-line tenants are required to report sales.

Westfield Valley Fair is a largely enclosed, regional mall featuring approximately 260 retailers across 1.5 million square feet of retail space. Valley Fair is considered one of the top performing malls in the nation, supporting $634 million in taxable sales and $901 million in gross sales. Specialty retailers, which comprise half of total leasable area, are reported to generate more than $1,000 in gross sales per square foot of retail space. Anchor tenants include Macy's and Nordstrom's. Valley Fair has received substantial investment in recent years. Following the opening of a dining terrace and an expanded luxury wing, Westfield has announced plans for a $600 million investment to add 600,000 square feet of retail space, including a 150,000 square foot Bloomingdale's department store, a 10-screen Show PLACE Icon cinema, and 80 to 100 new specialty stores. The expansion, slated for completion in 2017, also includes a new dining district and the enhancement of open-air public spaces.

Stanford Shopping Center is an open-air regional mall that will comprise 1.4 million square feet when renovations are completed in early 2016. Stanford Shopping Center's tenants generate approximately $573 million in taxable sales per year (gross sales are higher). Tenants include anchors Nordstrom's, Nieman Marcus, Bloomingdale's, and

Macy's, as well as more than 140 specialty retailers. The relocation and redesign of the Bloomingdale's anchor store was completed in the fall of 2014. With the new, smaller location, Bloomingdale's has downsized from 230,000 square feet to 120,000 square feet, making way for a roughly equivalent amount of new specialty retail and restaurant space, currently under construction.

Per Figure 9, below, there is significant overlap between the regional trade areas of Stanford and Valley Fair and Town Center. Nearly all of Town Center's 5-mile trade area is also within a 15-minute drive of Stanford, Valley Fair, or both, which is to say Town Center must differentiate itself from the two regional centers. From a retailer's perspective, most anchor tenants at Valley Fair and Stanford will not open up an additional location at Town Center, as doing so would primarily transfer sales from their existing store to a new store. Market saturation will be of particular concern to larger department stores, many of which are in the process of consolidating stores. For example, Nordstrom's operates a full-line store at both Westfield and Stanford, for a total of 417,000 square feet. Between these two stores, Nordstrom's market penetration in Santa Clara County, measured by square feet per capita, is three times its national average, or twice its national average when adjusted for income. Considering that Nordstrom's typically opens one full-line store per year, it is highly unlikely that the retailer would choose to open an additional full-line store at Town Center.

Figure 9: 15-Minute Drive Times from Stanford and Valley Fair in relation to Town Center Trade Area

Source: KMA, Google Maps, Claritas.
Drive time = Areas that can be reached within a 15-minute drive of subject shopping center. Valley Fair's 15-minute drive time does not account for freeway traffic.

B. Shopping Districts

Despite the above, there are a number of successful comparison retail clusters in the market area that are thriving in the “shadow,” so to speak, of the two super regional centers, and more still that will be opening over the next several years, due to the strength of Silicon Valley’s demographics. “High street” or “lifestyle” retail formats, such as Downtown Palo Alto, Santana Row, and Downtown Los Gatos, have achieved success by offering comparison goods shopping in a pedestrian-friendly retail environment with excellent food and leisure/entertainment options. Despite being proximate to Westfield and Stanford, all three shopping clusters generate impressive sales ($200 million to $300 million in taxable sales), including in comparison retail categories, without the support of a large retail anchor.

Table 11 summarizes the characteristics of three of the most successful shopping districts. The centers below provide an example of what other shopping districts located within the trade areas of Valley Fair and Stanford are capable of achieving. They also represent another source of competition from which Town Center must differentiate itself.

Table 11: Profile of Shopping Districts

	Downtown Palo Alto[2]	Downtown Los Gatos[2]	Santana Row
Distance to Stanford (mi)	0.3	19	15
Distance to Valley Fair (mi)	15	7	0.3
Taxable Retail Sales ($millions)	$ 311	$ 195	$ 218
Retail Space (sqft.)[1]	**600,000**	**514,000**	**584,000**
Retail	n/a	350,000	479,000
Restaurants	n/a	163,000	105,000
Representative Tenants			
Apparel - Specialty			
Anthropologie		X	X
American Apparel	X		
Chico's	X	X	
Gap/Banana Republic		X	
H&M			X
J. Crew		X	
Jos A Bank	X	X	
Lululemon Athletica	X		X
Patagonia	X		
Title Nine	X	X	
Electronics			
Apple Store	X	X	
Best Buy			X
Furniture/Housewares/Home Décor			
Container Store			X
Crate & Barrel			X
Restoration Hardware	X	X	
Sur La Table		X	X
West Elm	X		
Williams Sonoma		X	
Other			
Tesla Motors			X

Source: KMA, HdL Companies, City of Palo Alto, City of Los Gatos, Simeon Properties, R. McLaughlin

[1] Retail space in Los Gatos and Santana Row excludes all other commercial uses (including hotel). Palo Alto figure does not exclude non-retail uses.

[2] Downtown Los Gatos defined as C-2 zoning district up to Saratoga Road. Downtown Palo Alto defined as Commercial Downtown Ground Floor Combining District. (CD-C GF/P Zoning District)

Santana Row is a nationally recognized mixed-use development located at the intersection of Stevens Creek Boulevard and Winchester Boulevard in San Jose, steps away from Valley Fair. Developed in 2002, the project includes a 214-key hotel, more than 800 residential units, 60,000 square feet of office, and nearly 585,000 square feet of retail, offered in a pedestrian-friendly setting. Santana Row's 70 shops and 20 restaurants generated approximately $218 million in taxable sales in 2014. Tenants include Best Buy, a Tesla showroom, Crate & Barrel, a six-screen CinéArts movie theater, and 105,000 square feet of food and beverage establishments. The existing project is roughly the same size as Town Center, and its main thoroughfare, Santana Row, is comparable in length to the blocks of McKinley Avenue that bisect Town Center. The owners are moving forward with plans to develop the remaining acreage, "Santana West," and incorporate 2 additional acres into the development area. While the second phase is primarily focused on office, the expansion will include 56,000 square feet of retail.

Downtown Palo Alto is a Main Street shopping district centered on pedestrian-oriented University Avenue, located on the opposite side of El Camino from the Stanford Shopping Center. The core downtown district covers approximately 29 acres and runs 2,700-square feet along University Avenue. The downtown includes more than 600,000 square feet of ground floor commercial space, the bulk of which is occupied by retail and restaurant tenants, which generated $311 million in annual taxable sales last year (gross sales are higher). A variety of home décor, apparel and specialty tenants, including West Elm, Restoration Hardware, and Patagonia, are located in Downtown Palo Alto rather than Stanford Shopping Center. These tenants are joined by popular food and beverage establishments, two art house movie theaters, and a variety of local boutiques.

Downtown Los Gatos is another historic Main Street district with approximately 170 retailers located along North Santa Cruz Avenue, East Main Street, and University Avenue. The core of downtown consists of 514,000 square feet of retail supporting $195 million in taxable sales. This includes approximately 163,000 square feet of restaurants, and 350,000 square feet of stores and services. Primary tenant types include clothing, jewelry, sportswear, and specialty gifts, many of which are local boutiques. Downtown Los Gatos has arguably benefitted from being farther from Valley Fair and Stanford through its ability to attract retailers which also operate locations at the regional malls, without conflicting with shopping center radius clauses. For example, Williams Sonoma, Gap, and J Crew all operate stores in Los Gatos, in addition to their stores at Stanford and Valley Fair.

C. Planned Projects

As a sign of the growth potential of retail in Silicon Valley, sophisticated real estate investors have announced plans for additional investments in community- and regional-

serving shopping centers. Two of the most significant planned projects are profiled below.

City Place Santa Clara is a proposed 239-acre master-planned project of Related California to be built on a City-owned land fill site just north of Levi's Stadium in Santa Clara, 3.5 miles northeast of Town Center. The projected is envisioned to contain 5.7 million square feet of office, 1,360 residential units, 700 hotel rooms, 190,000 square feet of entertainment, and 1.3 million square feet of retail, including 250,000 square feet for food and beverage place. A minimum of 500,000 square feet of retail would be required by the City as a condition of the project's entitlement. The first phase of the project is anticipated to commence in 2017 and be completed by 2020. Subsequent phases would be developed over a 10-15 year period. The project will cost upwards of $6.5 billion, including the construction of a concrete podium structure over the landfill site. Related is in the process of preparing the Environmental Impact Report and negotiating with the City of Santa Clara regarding the terms of the development agreement and ground lease.

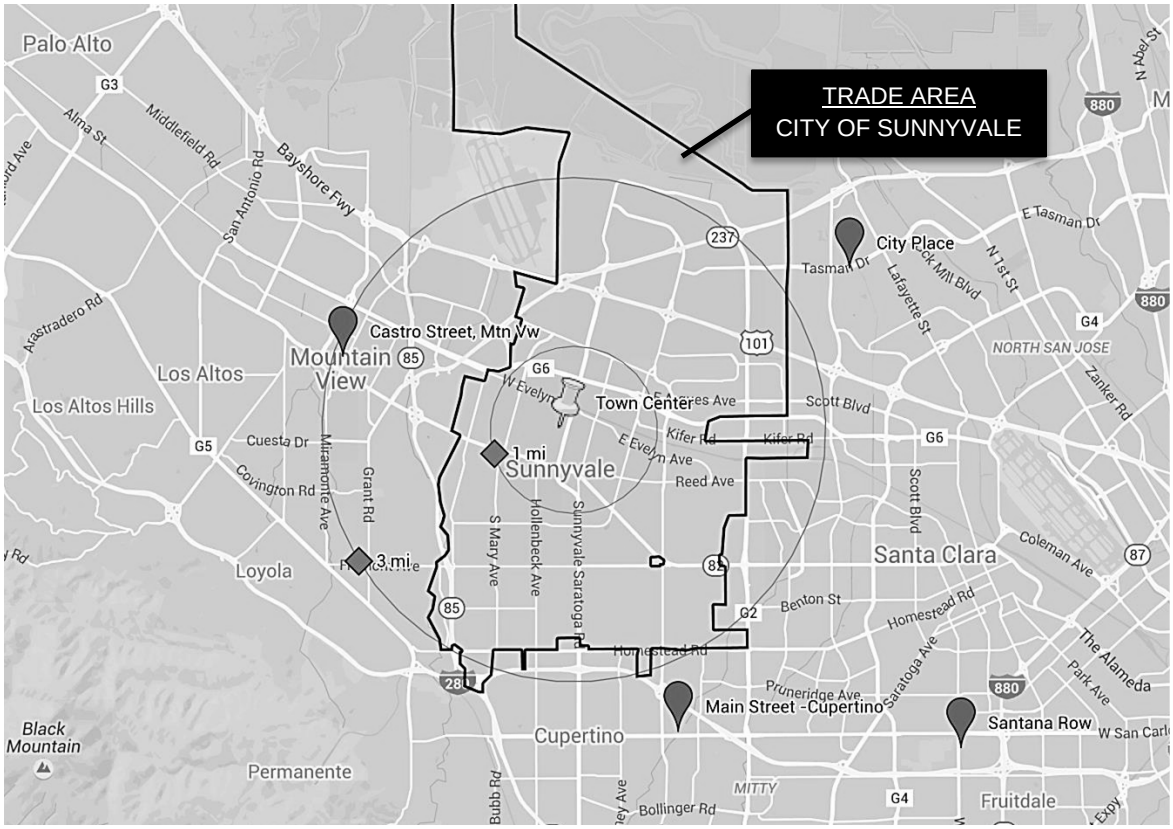
Vallco Shopping Mall is an existing Cupertino mall located 3.5 miles southeast of Town Center, which is now poised for a $2 billion revitalization. The long-neglected, 50 acre property was purchased by Sand Hill Property Company late last year, which is expected to submit a formal plan for the site this fall. Sand Hill intends to convert the 1.3 million square foot shopping mall into a mixed-use "town center" for Cupertino. Through its updated General Plan and Housing Element, the City of Cupertino has allocated a minimum of 600,000 square feet of retail, up to 2 million square feet of office, and 389 residential units to the project. Vallco is located across I-280 from the 3 million square foot Apple Campus, and virtually adjacent to another Sand Hill project, Main Street Cupertino. Main Street features 130,000 square feet of retail, 260,000 square feet of office, 120 residential units, and a hotel, all organized around a pedestrian plaza. The retail space has primarily leased to modern, casual food and beverage establishments (Eureka Burger, Meet Fresh, Roostock Wine Bar, and LYFE Kitchen). Comments by the city and the developer indicate that the retail component of the renewed Vallco will focus on a mixture of high-end shopping, leisure, and entertainment uses. The AMC movie theater is one of the few existing tenants reportedly performing well, and will be the only anchor to continue with the project through its revitalization. Macy's closed its store in March, and the remaining anchors, Sears and JC Penney, are reported to be vacating their spaces by late 2015 and early 2016, respectively.

Food and Beverage

Trade Area

Trade area boundaries for food and beverage establishments extend 1 to 2 miles to the east and west of the site, and approximately 3 miles north and south. Covering the City of Sunnyvale, the trade area considers the pull factor of potential restaurant tenants and the location of competitive restaurant clusters, including Castro Street in Downtown Mountain View and Santana Row in San Jose, as well as planned restaurant clusters in Santa Clara and Cupertino. A secondary trade area was defined to include downtown workers within a 1 mile radius of the site; the trade area for downtown workers is smaller understanding that office workers prefer to eat and drink within walking distance of their place of employment. (See Figure 10.)

Figure 10: Food and Beverage Trade Area (City of Sunnyvale)



Source: KMA, Google Maps

Trade Area Expenditure Potential

Total trade area expenditure potential at food and beverage establishments is estimated to be $383 million in 2015 increasing to $430 million by 2020. The trade area includes approximately 148,000 residents of Sunnyvale. Residents are estimated to spend $358 million at food and beverage places, reaching $400 million by 2020, due to growth in population and real incomes. The remaining trade area expenditure potential derives from the office workers who commute downtown. Approximately 20,000 workers are based in downtown Sunnyvale, including 1,000 who work within the Town Center project at the office towers of Nokia and Apple. Ninety percent of these workers commute from outside the trade area (LEHD 2012). Based on typical spending patterns of office workers near their place of employment, commuters to downtown add $25 million to total trade area expenditure potential. This figure is projected increase to $30 million by 2020.

Table 12: Trade Area Food and Beverage (F&B) Demand Characteristics

		2015		2020
Resident Demand (City of Sunnyvale)				
Population		147,735		156,220
Households		56,512		59,841
Per Capita Income	$	49,378	$	52,155
Aggregate Income ($M)	$	7,295,000,000	$	8,148,000,000
F&B Spending as % of Income[3]		4.9%		4.9%
F&B Expenditure Potential	$	358,000,000	$	400,000,000
Worker Demand (1 mile radius)				
Total Workforce		20,243		22,350
Per Capita Restaurant Spending Near Work[4]	$	1,254	$	1,325
F&B Expenditure Potential	$	25,000,000	$	30,000,000
Total Trade Area Expenditure Potential	$	383,000,000	$	430,000,000

Source: KMA, Claritas

Figures expressed in 2015$

[1] Population growth based on 5-year projections provided by Claritas, a private data vendor

[2] Assumes 1.1% real income growth per historical trend.

[3] Share of income spent at food/drinking places derived from US Bureau of Labor Statistics' Consumer Expenditure Survey (CES).

[4] Per capita restaurant spending based on national survey of office workers by ICSC. Spending was reduced by 10% to exclude spending by workers who also live in the trade area.

Capture at Town Center

Our analysis indicates that Town Center and Murphy Avenue are capable recapturing approximately one third of trade area leakage, for an effective capture rate of 15%, including Murphy Avenue's existing share of trade area expenditure potential. KMA compared resident and downtown worker expenditure potential with existing restaurant sales for the trade area as a whole and found that 22% of trade area expenditure potential is currently being spent elsewhere. Murphy Avenue already captures close to 8% of trade area demand. Achieving a 15% capture rate—equivalent to approximately one third of the area's leakage rate plus Murphy's existing capture—restaurants at Town Center and Murphy Avenue have the potential to generate sales of $76 million by 2020 when combined with visitor demand (comprising 15% of total expenditure potential). Assuming existing sales at Murphy Avenue keep pace with trade area demand, $37 million in expenditure potential would remain to support new food and beverage development at Town Center. Based on the typical sales performance of restaurants in new commercial buildings ($700 - $800 PSF), projected food and beverage sales at Town Center can potentially support 50,000 square feet of additional space.

Table 13: Supportable Square Feet of Food & Beverage at Town Center Based on Capture of Trade Area Expenditure Potential

			2015		2020
Trade Area Expenditure Potential					
Sunnyvale Residents		$	358,000,000	$	400,000,000
Downtown Workers		$	25,000,000	$	30,000,000
Total Trade Area		$	383,000,000	$	430,000,000
Town Center/Murphy Capture					
TA Capture @[1]	15%	$	57,000,000	$	65,000,000
Sales Inflow @[2]	15%	$	10,000,000	$	11,000,000
Total F&B Expenditure Potential		$	67,000,000	$	76,000,000
Murphy Avenue Exp. Potential		$	34,000,000	$	39,000,000
Town Center Exp. Potential		$	33,000,000	$	37,000,000
Town Center Supportable Square Feet					
Supportable Square Feet[3] @ $750 PSF			45,000		50,000

Source: KMA, Claritas. See Appendix A-2 for complete list of demand assumptions.

[1] Includes Murphy Ave capture (7.5%) plus recapture of approximately one-third of trade area leakage (7.5% of 22%).

[2] 15% of demand expected to derive from visitors outside the trade area.

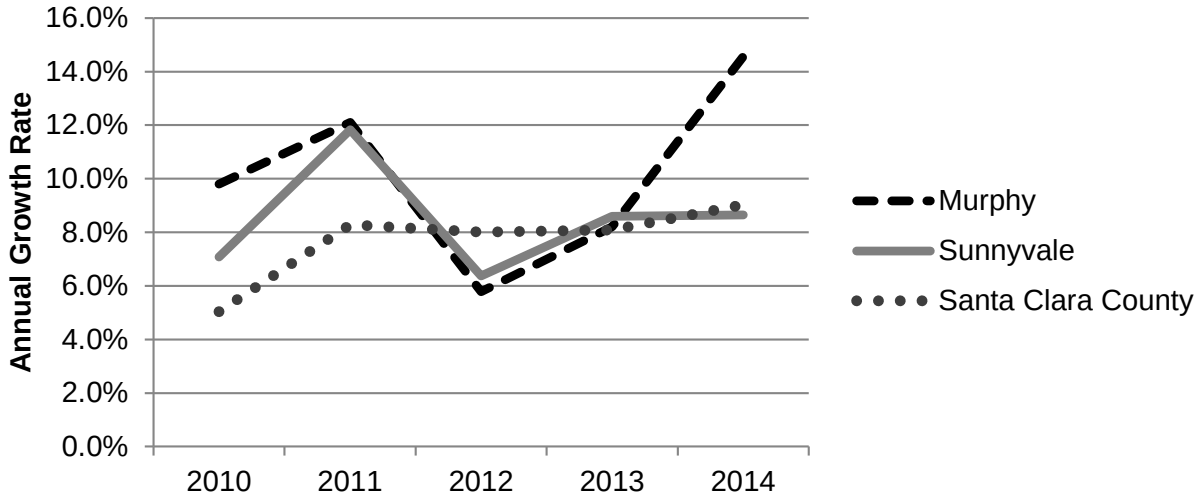
[3] Sales target per square foot based on industry benchmarks for food and beverage in planned shopping districts.

Murphy Avenue

Downtown Sunnyvale benefits from an existing cluster of approximately 30 restaurants and bars located along Murphy Avenue, a historic, pedestrian friendly “Main Street” one block from the Town Center site. The City has made significant investments in the revitalization of Murphy Avenue, including major streetscape improvements, and has an interest in its continued success as a vibrant downtown destination. It is important to consider the appropriate level of new restaurant space at Town Center within the context of an overall healthy downtown.

Up to this point, additional downtown development has in fact augmented the sales of Murphy Avenue restaurants. Murphy Avenue restaurants generated taxable sales of approximately $32 million in 2014, or nearly 8% of total trade area expenditure potential. With the completion of 400 residential units in downtown in 2014, taxable sales at Murphy grew by more than 14% over the prior year, far above the City and County growth rates for restaurants, even as the two residential developments added approximately 35,000 square feet to the supply of ground-floor food and beverage space.

Figure 11: Annual Growth in Taxable Restaurant Sales



Source: KMA, HdL Companies

Town Center can be complementary to Murphy Avenue restaurants, provided that the food and beverage offering is appropriately sized and the overall mix of shops, restaurants, and entertainment options attracts new visitors to downtown. The inclusion of entertainment and shopping options with a regional draw will add depth to the demand for downtown restaurants, and expand Murphy Avenue’s market potential. Town

Center's food and beverage district can be developed in synergy with Murphy Avenue to fill gaps in the existing offering, particularly by catering to the tastes of Silicon Valley's changing demographics. There is an increasing demand across the region for organic and natural food, delivered in a fast casual setting. Recent food and beverage arrivals to downtown Sunnyvale fit this mold, and as the leakage analysis suggests, there continues to be room for growth across this market segment.

Neighborhood-Serving Retail

Trade Area

As with restaurants, the City of Sunnyvale was selected as Town Center's trade area for neighborhood-serving retail. (Figure 10, above.) The City of Sunnyvale covers a slightly larger geographic area than what is typically assumed as the trade area for neighborhood-serving retail (1-2 miles). This is to allow for a more complete analysis of the supply gap for neighborhood retail, since many existing retailers are located at the periphery of a traditional 1 to 2 mile radius from the Town Center site. Also, the type of neighborhood-serving tenants that Town Center is positioned to attract, such as a specialty grocer, are capable of drawing customers from across the City. Given that a substantial share of office workers' expenditures go toward grocery items, including prepared foods during the lunch hour, downtown workers based within a mile of Town Center are considered as an additional component of local expenditure potential.

Trade Area Expenditure Potential

As summarized in the table below, Sunnyvale's 148,000 residents currently support $356 million in expenditure potential for groceries and $92 million for drug store products, for a total of $448 million in convenience retail expenditure potential. Resident expenditure potential for convenience goods is projected for to reach $500 million by 2020.

The more than 20,000 workers employed within a mile of Town Center constitute another source of demand for convenience retail. According to a 2012 study by the International Council of Shopping Centers, the typical office worker spends $1,400 annually at grocery and drug stores near their work. After adjusting this factor to exclude workers who also live in the trade area, our analysis indicates that downtown workers have the potential to contribute an additional $26 million to trade area convenience retail expenditure potential. Owing to growth in the workforce population and in salaries, worker expenditure potential is projected to reach $30 million by 2020.

Combined, Town Center's neighborhood represents an estimated $474 million in consumer expenditure potential, growing to $530 million by 2020.

Table 14: Trade Area Expenditure Potential - Grocery and Drug Stores

		2015		2020
Resident Expenditure Potential (City of Sunnyvale)				
Population		147,735		156,220
Per Capita Income	$	49,378	$	52,155
Aggregate Income ($M)	$	7,295,000,000	$	8,148,000,000
Expenditure Potential				
Grocery	$	356,000,000	$	397,000,000
Drug Store	$	92,000,000	$	103,000,000
Subtotal- Resident Expenditure Potential	$	448,000,000	$	500,000,000
Worker Expenditure Potential (1 mile radius)				
Total Workforce		20,243		22,350
Annual Per Capita Spending Near Work[1]				
Grocery	$	929	$	981
Drug Store	$	323	$	341
Expenditure Potential				
Grocery	$	19,000,000	$	22,000,000
Drug Store	$	7,000,000	$	8,000,000
Subtotal - Worker Expenditure Potential	$	26,000,000	$	30,000,000
Total Trade Area Expenditure Potential				
Grocery	$	375,000,000	$	419,000,000
Drug	$	99,000,000	$	111,000,000
Total Convenience	$	474,000,000	$	530,000,000

Source: KMA, Claritas

[1] National data from International Council of Shopping Centers, adjusted downward to exclude workers who live and work in the trade area.

Capture at Town Center

Per Table 15, a grocery store at Town Center is capable of capturing 9% of trade area expenditure potential, representing sales of $40 million by 2020, including sales to visitors. This level of sales would support approximately 35,000 to 40,000 square feet of retail, based on typical sales performance of specialty grocery stores ($1,000 in gross sales per square foot). KMA's estimate of Town Center's capture rate assumes the grocery store on site will capture half of unmet demand within the trade area.

KMA's leakage analysis indicated there is also a market opportunity for an additional drug store within the trade area. Per the table below, a drug store at Town Center is capable of capturing $12 million in trade area and visitor sales by 2020, supporting a drug store of 10,000 to 20,000 square feet. A drugstore of this size stands to capture approximately one third of drug store retail leakage within the trade area. In addition to

what is shown below in the table, we assume that a neighborhood shopping district would include 10,000 square feet of ancillary neighborhood retail (i.e., hair salons, stationary store, bank, etc.).

Table 15: Supportable Square Feet of Convenience Retail at Town Center Based on Capture of Trade Area Expenditure Potential

Grocery		**2015**	**2020**
Trade Area Expenditure Potential		$ 375,000,000	$ 419,000,000
Expenditure Potential at Town Center			
TA Capture @[1]	9%	$ 34,000,000	$ 38,000,000
Supportable Square Feet[2] @	$1000 PSF	34,000	38,000
Drugstore		**2015**	**2020**
Trade Area Expenditure Potential		$ 99,000,000	$ 111,000,000
Expenditure Potential at Town Center			
TA Capture @[1]	10%	$ 10,000,000	$ 11,000,000
Supportable Square Feet[2] @	$800 PSF	13,000	14,000

Source: KMA, Claritas. See Appendix A-2 for complete list of demand assumptions.

1 Assumes project captures 50% of grocery leakage (currently 19% of demand) and one third of drug store sales leakage (currently 31% of demand).

2 Sales per square feet based on industry benchmarks for newly constructed space.

Competitive Landscape

The trade area is currently served by approximately 15 grocery and other food stores, though none are located within Sunnyvale's downtown. Supermarkets within one mile of Town Center include Trader Joe's, Sprout's, and Safeway, all located along El Camino Real, as well as a Lucky Supermarket one mile north of the site. Farther from Town Center, the trade area is served by a Costco and a Zanotto's (both 2 miles away), two additional Safeway locations, and a handful of ethnic/specialty grocers. In addition, Amazon has announced plans to locate an 11,000-square foot drive-through grocery store just south of El Camino Real. Nevertheless, the remaining sales gap for food retail (equivalent to nearly 20% of trade area expenditure potential) and Town Center's proximity to higher-density residential and office development indicates an opportunity for a specialty/gourmet grocer that can both a catalyst for downtown and complementary to the existing grocery offer in Sunnyvale.

A free-standing pharmacy or drug store with a mix of health products and general merchandise is also missing from Sunnyvale's downtown, and could be viewed as an attractive amenity to nearby residents and workers. While there is a pharmacy inside Target's store at Town Center, the closest free-standing drug store is a Walgreen's on El Camino Real approximately 0.7 miles south of the project site. Per the recent sale agreement between CVS and Target, CVS should be taking over the operations of Target's pharmacy at their store at Town Center, potentially limiting the company's interest in a second location. However, there is market potential for attracting a competing pharmacy to the project, particularly if the drug store can locate near the grocery store, as part of a cohesive neighborhood shopping district.

Town Center Opportunity

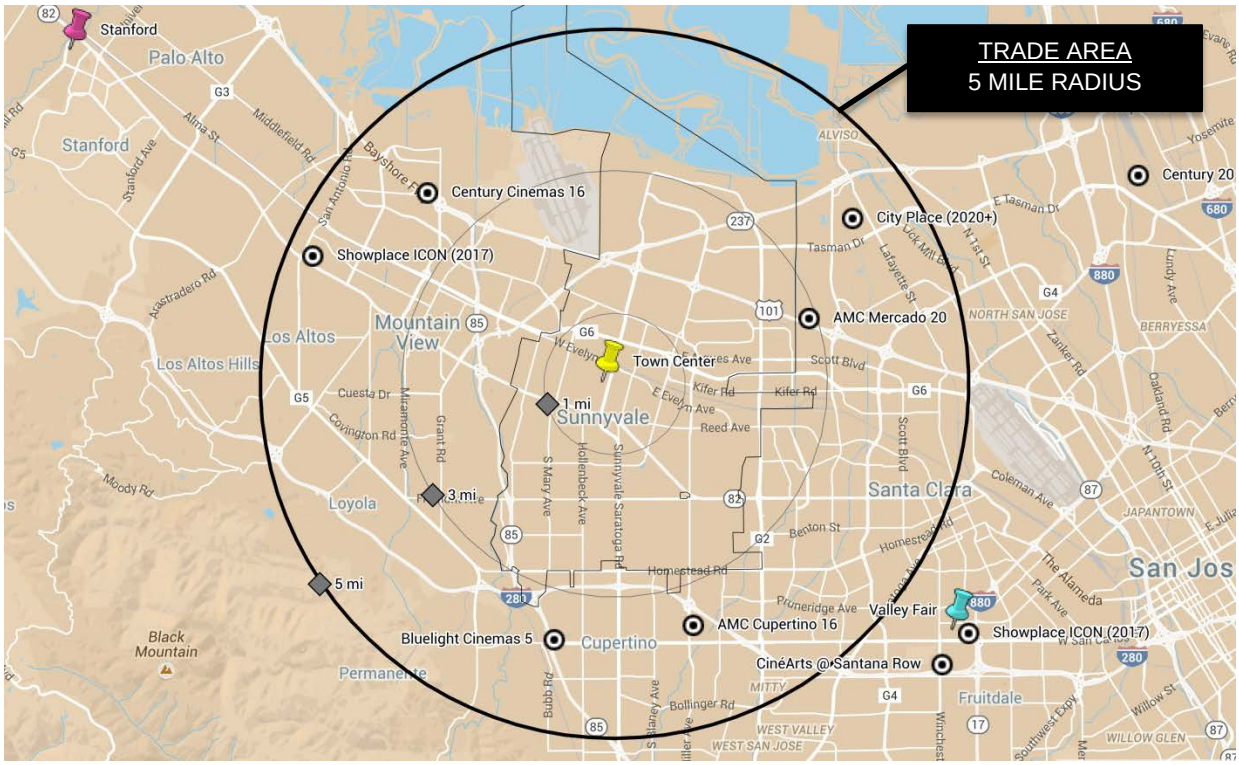
A grocery store and other neighborhood-serving retail play an important "placemaking" role in pedestrian-oriented, mixed-use districts. For example, Safeway's King Street location across from AT&T Park in San Francisco has helped form a cohesive neighborhood within the Mission Bay redevelopment area. In Silicon Valley, grocery tenants are increasingly common in shopping centers that also offer comparison goods, such as San Antonio Center in Mountain View, which includes a Trader Joe's as well as apparel and specialty retailers. A grocery store makes a neighborhood and can play a similar role at Town Center. For neighborhood-serving retail to function at Town Center, retailers will require ground floor space with ample free or low-cost parking.

Entertainment Uses

Trade Area

The trade area for entertainment uses is defined as a five-mile radius from Town Center. As KMA's analysis of entertainment uses focuses primarily on movie theaters, this regional trade area was selected considering the likely distance that customers are willing to travel to attend a movie, and the location of the competitive supply. Figure 12 below illustrates the boundaries of the trade area, and the existing and planned movie theaters that fall within it.

Figure 12: Movie Theater Trade Area (5 mile radius)



Source: KMA, Google Maps

Movie Theater Demand and Competitive Supply

There are currently 8,000 residents per movie screen in the United States. Applying this factor to the trade area population, there is currently sufficient demand in the trade area to support 56 movie screens. Demand should increase to 59 screens by 2020, as the trade area population grows.

Table 16: Unmet Demand (Screens) for Movie Theaters in Trade Area (5-Mile Radius)

5-mile radius	2015	2020
Theater Demand (Screens)		
Population	445,383	472,240
Potential Demand[1]	56	59
Theater Supply (Screens)		
Existing Supply	52	52
Inflow Adjustment[2]	(9)	(9)
Supply Net Inflow	43	43
Unmet Demand	**13**	**16**

Source: KMA, Claritas

[1] Assumes 8,0000 residents per screen per data from the National Association of Theater Operators

[2] Includes all cinemas with more than 5 screens in the trade area (5 mi-radius). The Cinearts theater at Santana Row is beyond 5 miles and falls outside the trade area.

[3] 25% of screens at AMC Mercado and Century Mountain View are excluded to account for demand from residents outside 5-mile radius.

As shown in Table 16, above, three major multiplexes operate 52 screens in the trade area (excluding one smaller, second run theater). This includes figure includes AMC Mercado (20 screens) in Santa Clara, AMC Cupertino Square (16 screens), and Century Cinemas in Mountain View (16 screens). AMC Mercado and Century Mountain View both serve trade areas that extend beyond the five mile radius from Town Center. For this reason, 25% of the screens supplied by these two theaters are removed from the trade area's supply, to account for this inflow of customers. This leaves a net supply of 43 screens serving the trade area, indicating a potential gap of 13 screens. Population growth between 2015 and 2020 will increase the supply gap to 16 screens.

Table 17 lists the current and planned supply of movie theaters within and proximate to the trade area. The planned supply includes a 10-screen ShowPlace ICON theater in Mountain View, the potential replacement of the Century Theaters in Mountain View, and a movie theater of an undetermined size included in the long-range master plan of Santa Clara City Place. Beyond the five-mile trade area, Valley Fair will open at 10-screen theater in 2017, and Santana Row may expand its existing cinema from 6 to 13 screens. The inventory of planned supply indicates that planned additions to theater capacity in the trade area will cover most, if not all of unmet demand by 2020. However, as with the current supply, many of these projects lie at the periphery of the trade area indicating that a significant portion of demand may come from residents living beyond five miles from Town Center.

Table 17: Movie Theater Supply

Theater Name	Type	Screens	Opening Year
Existing Supply, 5 mi. radius			
AMC Mercado	Chain	20	1997 *
AMC Cupertino Square	Chain	16	2007
Century Cinemas Mountain View	Chain	16	1980's *
Bluelight Cinemas	Independent, Second-Run	5	2009
Total		57	
>5 screens only		52	
Planned Supply, 5 mi. radius			
San Antonio Center	Chain, Luxury	10	2017
City Place Santa Clara	TBD	TBD	2020+
Century Cinemas Mountain View (rebuild)	Chain, Luxury	15 *total*	2018+
		(1) *net new*	
Net New Supply		9 *net new*	
Planned Supply, >5 mi.			
ShowPlace ICON- Valley Fair	Chain, Luxury	10	2017
CinéArts @ Santana Row	Chain, Luxury	13 *total*	2018 expansion
		7 *net new*	
Total Net New Supply		17	

Source: KMA

* Recently renovated.

Town Center Opportunity

Town Center has market potential to accommodate a movie theater of 10 to 15 screens, requiring between 40,000 and 60,000 square feet of retail space. A second-floor movie theater is a possibility. Town Center's retail site assemblage, as well as its existing and potential mix of restaurants and comparison retail, makes the project a competitive location for a movie theater. Providing ample, free or low-cost parking, as Town Center is capable of doing, is essential to realize this market opportunity.

While there are plans to add theater capacity to the trade area, the economics of movie theater site selection are complex, and many other factors will determine the viability of a movie theater at Town Center. Theater operators select locations to achieve market share and to vie for a superior market position relative to competitors. As older theaters

come to the end of their useful life, additional unmet supply is created. The unique physical requirements of movie theaters mean that there are very few sites, particularly in urban markets, that can accommodate them. Shopping centers themselves may subsidize movie theaters to generate foot traffic and create a 24/7 district.

Additional Entertainment Uses

As store sizes continue to shrink, additional entertainment/leisure uses beyond movie theaters are now being incorporated into shopping districts to support the retail environment, particularly within live/work/play, walkable, and transit oriented developments. KMA conducted a review of other regional shopping districts in the Bay Area to identify other possible entertainment uses. A list of possible uses for consideration is presented below.

While a formal market study has not been performed, KMA recommends allotting between 30,000 and 50,000 square feet for additional entertainment uses within the development program. A luxury bowling alley, other interactive entertainment (arcades/ billiards), a public market, or live entertainment space are all potential uses. Food components of entertainment uses should be counted against the maximum supportable food and beverage program and other food uses should be scaled back accordingly. Second-floor space is an option for most entertainment uses. Parking is also necessary to realize this market opportunity.

The most successful entertainment uses are integrated with the shopping center's food and beverage offering, and in many cases, with outdoor public spaces, such as public plazas or open-air dining areas. As the cases below indicate, many are also management-intensive. For example, flexible space that can be adapted for entertainment use, as is found in public markets, requires significant investment by the property manager in programming events. It is not uncommon that such uses are amenities to a shopping district and, as such, are financially subsidized and underwritten.

Plank, Jack London Square, Oakland

Plank is a 50,000 square foot, privately managed restaurant and entertainment concept, which opened in October 2014 at a former Barnes and Noble space in Oakland's Jack London Square. Plank is meant to establish the shopping area as a regional destination and bring needed activity to the shopping center during the evenings. Plank is comprised of 15,000 square feet of outdoor space, with a beer garden, fire pits, and bocce-ball courts, and a 34,000 square feet indoor venue, with 18 bowling lanes, an arcade, and private event space. An extensive food and drink menu is offered throughout the venue and live music events are hosted on the weekends.

Hillsdale Mall Redevelopment

The owner of Hillsdale Mall has submitted plans to replace Sears' 200,000 square foot anchor store with an upscale food and entertainment complex. Buildings will include a 40,000 square foot fitness center, a 44,000 square foot Cinépolis luxury cinema, and a two-story bowling alley lounge and restaurant. Buildings are organized an outdoor food court with an open-air plaza. The shopping center owner aims to capture growing demand from nearby residential projects, such as Bay Meadows (1,100 units).

Eastridge Mall Redevelopment

A similar approach to filling vacant anchor space has been taken in Santa Clara County at Eastridge Mall. Round One, a Japanese bowling chain, recently occupied 50,000 square feet on the second floor of the anchor building formerly occupied by Bed, Bath, and Beyond.

San Pedro Square

The "Urban Public Market" is a retail concept which organizes specialty and gourmet food vendors within a large market hall with common customer seating, similar to a food court. Urban markets have been developed in many communities including Oakland, Emeryville, San Francisco and San Jose. In San Jose, San Pedro Square is a 25,000 square feet public market, with a diverse mix of 20 food vendors (including coffee shops, wood fired pizza) in spaces ranging from 200 square feet to 2,000 square feet. The market is adjacent to Peralta Adobe Plaza, which is used for additional seating and for regular live performances. The property management company, as well as individual tenants, organize a steady stream of entertainment events (including trivia nights, karaoke, food truck / farmers markets, and live bands) drawing customers to the market. It is worth noting that the public market concept does not typically dedicate space solely for entertainment use. Rather, common eating areas and public open spaces are repurposed as live entertainment venues as events occur.

Town Center Residential & Office Impact on Retail

Per the market analysis above, Town Center has the potential support 780,000 square feet of retail and entertainment uses, which is 220,000 less than what the project is entitled to build.

KMA considered the extent to which adding residential and office would support the development of the current entitlement for 1 million square feet of retail. While additional residential and office would certainly aid Town Center in achieving the development program and retail sales targets recommended above, it is highly unlikely that retail demand deriving from additional residential and office development downtown would permit Town Center to add significantly more retail space than what is recommended above. Moreover, additional retail space would need to be located on the first floor, per

the requirements of most tenants, and it is not clear that the Town Center site can accommodate additional ground floor retail beyond what is included in the program recommendations above.

Town Center is primarily a regionally oriented shopping center. As such, Town Center's success depends mostly on differentiating itself as a regional or community destination. The office and residential development at Town Center only marginally increases the expenditure potential within a mile from the site. Town Center would need to generate roughly $140 million in additional retail sales to support the remaining 220,000 square feet of retail. This represents a substantial increase in the project's capture of regional expenditure potential. Additional development proximate to the site could raise the profile of downtown and Town Center as a mixed use, live/work/play district, but the direct impact deriving from population growth will not support a significant increase in retail space.

Based on the likely expenditure potential of new downtown residents and workers and Town Center's potential capture of that demand, we estimate that every 100 residential units built downtown would support an additional 5,000 square feet of retail at Town Center; an additional 100,000 square feet of office would support 2,000 square feet of retail. Most of this growth in demand would flow to neighborhood shopping (grocery and drug) and food and beverage retail segments, as opposed to regional-serving retail. (See Appendix Table A-6 for full analysis.)

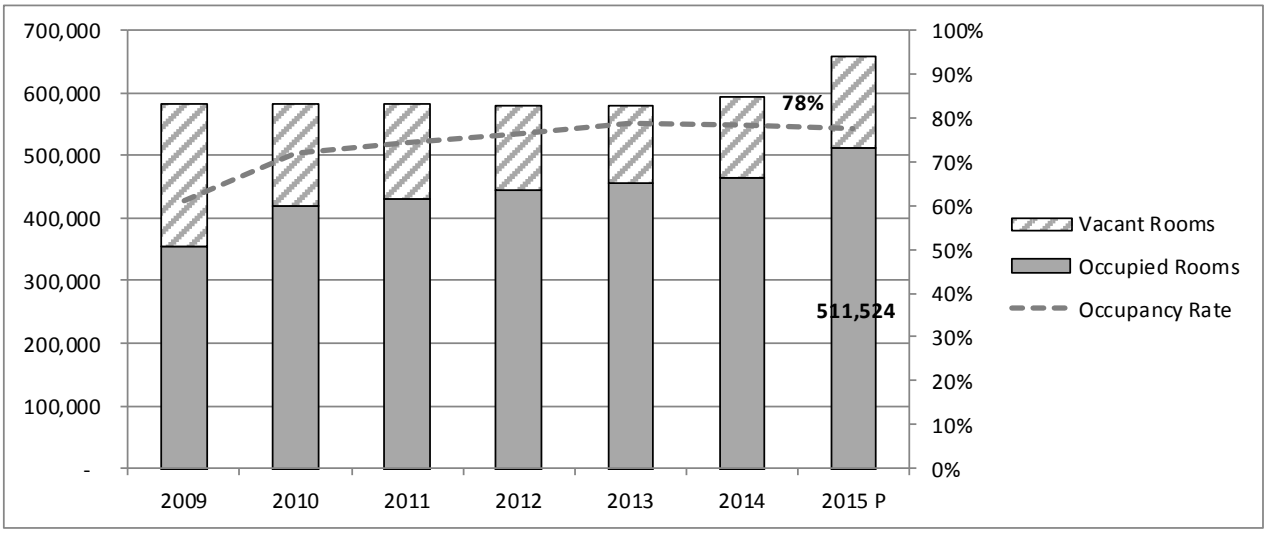
HOTEL MARKET OVERVIEW

Hotel Trends in Sunnyvale

The following chapter provides an overview of the current real estate market conditions for a 200 room hotel, as Town Center's entitlements allow. Hotel market conditions in the City of Sunnyvale are generally perceived as strong. Occupancy in 2015 has averaged 78%—slightly above historical the historical rate (STR 2015 Trend Report – City of Sunnyvale). KMA projects that hotels in Sunnyvale will close out the year with more than 511,000 room nights.

While supply of hotel rooms had been virtually flat since the economic recession, two new hotel projects were added to the supply over the past year: a 145-room Courtyard Marriott, located along El Camino Real, and an 85-room Aloft, located one block away from the project site on Sunnyvale Avenue.

Figure 13: Historical Room Nights, Vacant Rooms and Occupancy - Sunnyvale, CA



Source: KMA, STR

Growth in Demand and Supply

If hotel demand in the City of Sunnyvale grows by 8% per year over the next five years, demand will reach 752,000 room nights per year by 2020. An illustrative, best-case assumption, eight percent growth is twice the average annual growth rate of the last five years, which has seen limited hotel investment. This level of demand would support the addition to 890 new hotel rooms, assuming occupancy averages 76% (the historical rate). Even under this aggressive growth scenario, the development pipeline of hotels in Sunnyvale exceeds the number of supportable hotel rooms by more than 900 rooms

(Table 18). There are currently 1,795 rooms at some stage in the development pipeline in Sunnyvale, nearly matching the 1,821 rooms at existing hotels. Two-thirds of these planned hotel rooms fall into the Upper Upscale and Upscale market categories (Table 19). While not all of these rooms will be built, the completion of even half of the planned supply would satisfy the most optimistic projections for growth in room night demand.

Table 18: Projected Hotel Demand through 2020

City of Sunnyvale	2015	2020
Demand Potential		
Room Nights @ 8% Annual Growth	511,524	751,597
Rooms Supported[1]	1,844	2,709
Supportable Hotel Growth		
Existing Room Supply	1,821	1,821
Supportable Growth	23	888
Hotel Pipeline		
Planned Growth		1,795

Source: KMA 2015, STR 2015

[1] Assumes historical occupancy rate of 76%.

Table 19: Existing and Planned Hotel Inventory in Sunnyvale, CA

	Existing		**Pipline**	
Market Class[1]	Rooms	%	Rooms	%
Luxury	104	6%	53	3%
Upper Upscale	513	28%	432	24%
Upscale	689	38%	879	49%
Upper Midscale	515	28%	217	12%
Unknown	-	0%	214	12%
Total	**1,821**	**100%**	**1,795**	**100%**

Source: KMA 2015, STR 2015, City of Sunnyvale 2015

[1] Market class defined by STR according to Average Daily Rate, with Luxury representing top 15% of hotels.

Town Center Opportunity

Town Center's unique location makes it a competitive site for a hotel. The opportunity to develop a hotel at Town Center depends on the delivery of the site in the marketplace. In the near term, the large existing development pipeline for hotels is sufficient to meet demand through 2020. There remains a long-term opportunity to develop the 200-room hotel that the project is entitled to build. In the meantime, Aloft Sunnyvale, one block from Town Center, can provide some of the benefits that an on-site hotel would offer, such as evening foot traffic and the opportunity to capture visitor shopping demand.

CONCLUSION

KMA concludes that there is a significant market opportunity at Town Center for a regional shopping district. The Town Center site will serve an affluent trade area. Town Center's trade area compares favorably with those for downtown Los Gatos, downtown Palo Alto, and Santana Row. These shopping districts have demonstrated their success in a very competitive market, and Sunnyvale Town Center has the opportunity to do the same. KMA recommends a retail program that creates multiple reasons for shoppers to visit Town Center, including:

- In-line specialty retail shops anchored by Target and Macy's;
- Entertainment district anchored by a multi-screen movie theater,
- Food and beverage cluster that can build on the success of Murphy Avenue and the entertainment, and
- Neighborhood shopping district anchored by a grocery store.

Second level retail space can be occupied by such uses as movie theater, other entertainment uses, food and beverage in combination with the entertainment uses, and fitness center. Ground floor space will be required by in-line shop space, by grocery store and food concepts, such as a bakery, and by a drug store.

Consideration was given to the ability to achieve the full one million square feet of retail entitlements by adding residential and/or office to Town Center. The conclusion is that additional residential and/or office would increase the performance level of retailers but would not significantly increase the amount of square footage needed to meet demand.

APPENDIX TABLES

APPENDIX TABLE A-1
Trade Area Demographics of Nearby Shopping Areas, With Additional Districts Included
Market Assessment
Sunnyvale Town Center

3 Mile Radius	Town Center & Murphy Ave[2]	Downtown Los Gatos	Downtown Palo Alto	Santana Row	Main Street Cupertino[3]	Downtown Mountain View[3]
Population[1]	214,056	45,081	149,443	248,088	243,121	158,078
Households	83,767	18,441	52,723	97,399	89,316	64,727
Per Cap Inc	$52,452	$73,938	$56,119	$43,101	$51,692	$62,197
Aggregate Income ($millions)	$11,228	$3,333	$8,387	$10,693	$12,567	$9,832
Average HH Income	$134,035	$180,750	$159,070	$109,783	$140,708	$151,900
Households Earning > $100k	42,858	11,001	26,227	39,634	47,121	34,836
Households Earning > $150k	25,389	8,062	18,093	21,379	29,395	22,613
Workforce Population (1 mile)[4]	0	9,759	32,915	28,646	14,145	19,319
Taxable Sales - All Categories ($millions)[1]	$108	$195	$311	$218		

Source: KMA, Claritas 2015, HdL companies

[1] Population and income data are estimated for 2015. Sales tax data is from 2014, provided by HdL Companies.

[2] Sales tax data for Town Center includes all of Downtown Sunnyvale.

[3] Sales tax data not provided for Mountain View and Cupertino.

[4] New Apple Campus near Main Street Cupertino is anticipated to house 13,000 employees. (not reflected above)

APPENDIX TABLE A-2
Retail Demand Assumptions
Market Assessment
Sunnyvale Town Center

Common Assumptions				
Population Growth (2015-2020)				
Regional Trade Area		1.2%	annual growth	[1]
Neighborhood Trade Area		1.1%	annual growth	[1]
Employment Growth (2015-2020)				
1 mile radius		2.0%	annual growth	[2]
Real Per Capita Income Growth		2.3%	annual growth	[3]
Regional Retail Demand Assumptions				
Resident Spending on Comparison Goods		12.5%	of income	[4]
Town Center Capture of Regional Demand		7%	of exp. potential	[5]
Visitor Sales (Sales Inflow)		15%	of sales at project	[6]
Eating and Drinking Demand Assumptions				
Resident Spending at Eating/Drinking Places		4.9%	of income	[4]
Worker Spending at Eating Drinking Places	$	1,254	annual exp. per capita	[7]
Capture Rate				
TA Leakage (2013-2014)		22%	of TA exp. potential	[8]
Murphy Ave/TC Recapture of Leakage		33%	of TA leakage (above)	[9]
		7.3%		
Murphy Ave Existing Sales Capture (2013-2014)		7.5%	of TA exp. potential	[10]
Effective Murphy Ave/TC Capture Rate		15%	of TA exp. potential	
Visitor Sales (Sales Inflow)		15%	of sales at project	[6]
Grocery Demand Assumptions				
Resident Spending at Eating/Drinking Places		4.9%	of income	[4]
Worker Spending on Groceries	$	929	annual exp. per capita	[7]
Capture Rate				
Average Trade Area Leakage (2013-2014)		19%	of TA exp. potential	[11]
Town Center Recapture of Leakage		50%	of TA leakage (above)	[9]
Effective Capture Rate		10%	of TA exp. potential	
Drug Store Demand Assumptions				
Resident Spending at Eating/Drinking Places		1.3%	of income	[4]
Worker Spending at Drugstores		$323	annual exp. per capita	[7]

APPENDIX TABLE A-2
Retail Demand Assumptions
Market Assessment
Sunnyvale Town Center

Table Continued

Drug Store Demand Assumptions

Capture Rate			
Average Trade Area Leakage (2013-2014)	31%	of TA exp. potential	[12]
Town Center Recapture of Leakage	40%	of TA leakage (above)	[9]
Effective Capture Rate	12%	of trade area exp. potential	

Source: KMA and sources below

Abbreviations
exp. = expenditures
TA = trade area
TC = Town Center

[1] Claritas 2015-2020 Projection
[2] KMA assumes growth in Downtown Sunnyvale slightly above the 5-year average projected for the county by CalTrans (1.9%)
[3] Based on CalTrans 5-year projection of retail sales growth net population growth in Santa Clara County.
[4] Per 2012-2013 Consumer Expenditure Survey for San Francisco Bay Area, California Board of Equalization and HDL sales tax data for 2012-2014, and US Business Census 2012.
[5] KMA assumption based on the sales performance of nearby shopping districts and Town Center's competitive position
[6] KMA assumption based on typical visitor sales in retail districts.
[7] International Council of Shopping Centers, Office Worker Spending in a Digital Age (2012)
[8] See table A-3.
[9] KMA assumption.
[10] Based on 2013-2014 retail sales on Murphy Avenue reported by HDL and trade area expenditure potential quanitified in table A-3.
[11] See table A-4.
[12] See table A-5.

APPENDIX TABLE A-3
Eating and Drinking Leakage Analysis (Baseline Condition)
Market Assessment
Sunnyvale Town Center

Eating and Drinking Trade Area		**2013**		**2014**
Aggregate Resident Income [1]	$	6,474,643,400	$	6,872,548,883
% of Income Spent @ Eating/Drinking Places [2]		4.91%		4.91%
Est. Resident Expenditure Potential	$	317,904,991	$	337,442,150
Nearby Worker Expenditure Potential (1 mi)	$	23,818,161	$	24,688,627
Total Exp. Potential	$	341,723,152	$	362,130,777
Eating & Drinking Sales [3]	$	262,552,406	$	285,275,185
Estimated Spending Leakage	$	79,170,746	$	76,855,593
% of Trade Area Expenditure Potential		23%		21%

Source: KMA 2015, ACS 2013, Claritas 2015, BOE 2013, HDL 2015

See Table A-2 for additional details on demand assumptions.

[1] 2013 income data from American Community Survey 5-year estimates, 2014 data from Claritas.
[2] Based on share reported in Consumer Expenditure Survey, US West 2012-2013.
[3] 2013 taxable sales data from state BOE, 2014 data from HdL.

APPENDIX TABLE A-4
Grocery Leakage Analysis (Baseline Condition)
Market Assessment
Sunnyvale Town Center

Grocery Trade Area		**2013**		**2014**
Aggregate Resident Income [1]	$	6,474,643,400	$	6,872,548,883
% of Income Spent at Grocery Stores [2]		4.9%		4.9%
Est. Resident Grocery Expenditure Potential	$	315,599,686	$	334,995,171
Est. Nearby Worker Demand (1 mile radius)	$	17,645,932	$	18,290,826
Total Exp. Potential	$	333,245,618	$	353,285,997
Taxable Grocery Sales [3]	$	63,242,400	$	60,282,800
Taxable Share of Gross Sales [4]		22%		22%
Est. Gross Grocery Sales	$	283,027,539.90	$	269,382,870
Spending Leakage	$	50,218,079	$	83,903,127
% of Total Demand [5]		15%		24%

Source: KMA 2015, ACS 2013, Claritas 2015, BOE 2013, HDL 2015

See Table A-2 for additional details on demand assumptions.

[1] 2013 income data from American Community Survey 5-year estimates, 2014 data from Claritas.

[2] Based on a comparison of countywide income to grocery sales reported by BOE/HdL.

[3] 2013 and 2014 taxable sales data from from HdL for grocery and other food stores.

[4] Taxable sales share derived by comparing gross sales reported in the 2012 Economic Census to taxable sales reported by HdL during the same period.

APPENDIX TABLE A-5
Drug Store Leakage Analysis (Baseline Condition)
Market Assessment
Sunnyvale Town Center

Drug Store Trade Area		**2013**		**2014**
Aggregate Resident Income [1]		6,474,643,400	$	6,872,548,883
% of Income Spent @ Drug Stores [2]		1.4%		1.3%
Est. Resident Expenditure Potential	$	88,631,529	$	86,570,635
Nearby Worker Demand (1 mi radius)	$	6,125,698	$	6,349,569
Total Exp. Potential	$	94,757,226	$	92,920,204
Taxable Drug Store Sales [3]	$	22,448,600	$	21,813,300
Taxable Share of Gross Sales [4]		34%		34%
Est. Gross Drug Store Sales	$	65,869,003		64,004,896
Spending Leakage	$	28,888,224		28,915,308
% of Total Demand		30.5%		31.1%

Source: KMA 2015, ACS 2013, Claritas 2015, BOE 2013, HDL 2015

See Table A-2 for additional details on demand assumptions.

[1] 2013 income data from American Community Survey 5-year estimates, 2014 data from Claritas.
[2] Based on a comparison of countywide income to drug store sales reported by HdL.
[3] 2013 taxable sales data from state BOE, 2014 data from HdL.
[4] Taxable sales share derived by comparing gross sales reported in the 2012 Economic Census to taxable sales reported by BOE and HdL during the same period.

APPENDIX TABLE A-6
Incremental Demand from Housing and Office Development
Market Assessment
Sunnyvale Town Center

		Calculation
Household Demand Assumptions		
Monthly Lease Rate per unit [1]	$3,750	
Housing expenditure as % of income	30%	
Household Income - New Residents	$150,000	
Share of Aggregate Income Spent On Taxable Retail Sales [2]	19%	
Taxable Share of Gross Retail Sales [3]	71%	
Total Potential Retail Expenditures Per Household	$39,045	A
Project Capture of Exp. Potential [4]	80%	B
Benchmark Sales Per Square Foot Retail [5]	$650	C
Incremental Demand (Residential)		
Potential Project Retail Sales per 100 residential units	$31,200	(AxBx100)
Supportable Retail Sq Ft per 100 residential units	5,000	(AxBx100)/C
Housing Units Required to Support 220,000 sq ft retail	4,400	
Worker Demand Assumptions		
Annual Retail Spending Per Office Worker [6]	$3,000	
Office Workers Per 1,000 Sq Ft [7]	5	
Total Retail Expenditure Potential Per 1,000 Sq Ft Office	$15,000	A
Project Capture of Exp. Potential [4]	80%	B
Benchmark Sales Per Square Foot of Retail [5]	$650	C
Incremental Demand (Office)		
Potential Project Retail Sales per 100,000 sq ft of office	$1,200,000	(AxBx100)
Retail Sq Ft Per 100,000 sq ft office	2,000	(AxBx100)/C
Sq Ft Required to Reach 220,000 sq ft retail	11,000,000	

Source: KMA Supportable retail rounded to nearest thousand square feet.

[1] Based on listed rate for 2-br unit at Carmel Partners' Loft House.

[2] Based on 2013 BOE sales tax data for 9-county Bay Area. Includes eating and drinking, comparison, and convenience retail categories.

[3] Based on a comparison of statewide gross sales by retail category reported in the 2012 Economic Census to taxable sales for the same period.

[4] KMA assumption. This is an aggressive capture rate for illustrative purposes.

[5] KMA assumption, based on lower range of average sales per square foot for Western regional malls as reported by the International Council of Shopping Centers (2015).

[6] Based on 2012 ICSC survey, Office Worker Spending in the Digital Age, adjusted to 2015 dollars. Eating and drinking, convenience and entertainment sales are reduced by 10% to account for resident workers. Only 10% of comparison retail expenditure potential is assumed to be net new to the regional trade area.

[7] KMA assumption.

APPENDIX TABLE A-7
Order-of-Magnitude Fiscal Benefits to Sunnyvale General Fund of Recommended Net New Retail Uses
Market Assessment
Sunnyvale Town Center

	Net New Retail Uses				
	In Line Specialty	Grocery/Drug	Eating & Drinking	Entertainment	**TOTAL**
Net New Square Feet	155,000	70,000	50,000	110,000	385,000
Estimated Fiscal Benefits [1]					
Property Tax [2]	$119,000	$54,000	$38,000	$84,000	$295,000
VLF Property Tax	$39,000	$18,000	$13,000	$28,000	$98,000
Sales Tax	$1,130,000	$189,000	$338,000	$36,000	$1,693,000
Total Estimated Fiscal Benefits	$1,288,000	$261,000	$389,000	$148,000	$2,086,000

Source: KMA

[1] Estimate of fiscal benefits does not account for costs to the city to service new workers or to maintain new infrastructure.
[2] Assessed values will vary depending on the development program. For the time being, a flat rate is assumed for commercial and residential property values, respectively. Only the City's share of property tax revenues is displayed.

APPENDIX TABLE A-8
Order-of-Magnitude Fiscal Benefits to Sunnyvale General Fund of Non-Retail Land Uses
Market Assessment
Sunnyvale Town Center

	Hotel	Office	Residential
	Upscale Hotel	General Office	Multifamily
Sq Ft / Units [1]	100	100,000	100
Estimated Fiscal Benefits [2]			
Property Tax [3]	$57,000	$77,000	$83,000
VLF Property Tax	$19,000	$25,000	$28,000
Sales Tax [4]	$25,000	$1,000	$8,000
Transit Occupancy Tax	$728,000	$0	$0
Total Estimated Fiscal Benefits	$829,000	$103,000	$119,000

Source: KMA

[1] Built areas for non-residential uses are asumed for illustrative purposes only.
[2] Estimate of fiscal benefits does not account for costs to the city to service new residents/workers or to maintain new infrastructure.
[3] Assessed values will vary depending on the development program. For the time being, a flat rate is assumed for commercial and residential property values, respectively.
[4] For non-retail uses, taxable retail sales represent only non-project retail sales within Sunnyvale. For purposes of this illustrative analysis off-site sales represent a small share (5%-10%) of total expenditure potential. See Appendix Table A-6 for a more complete analysis of incremental retail demand generated by residential and office uses.