OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

122-0192018-002

Agenda Item **No. 5 (d)**
Meeting of December 18, 2018

INFORMATIONAL MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Nadia Sesay, Executive Director

SUBJECT: Finding, pursuant to Section 9.07 of the Disposition and Development Agreement with Transbay 8 Urban Housing, LLC, that the Developer has made good faith efforts, but has been unsuccessful, in leasing an approximately 12,400-square-foot grocery store at Transbay Block 8 (450 Folsom Street); and approving the termination of the Developer's obligation to provide a grocery store; north block of Folsom Street between First Street and Fremont Street; Transbay Redevelopment Project Area

EXECUTIVE SUMMARY

Transbay Block 8 (the "Project") is located on Folsom Street between First and Fremont Streets and upon construction completion will provide a total of 548 housing units and 17,600 square feet of retail space in a 55-story mixed income residential tower and two podium buildings. More specifically, the two podium buildings contain an 80 unit affordable housing project funded by OCII, while the tower includes 398 market rate and 70 below-market rate inclusionary units. The developer of Block 8 is Transbay 8 Urban Housing, LLC, an affiliate of Related California and Tenderloin Neighborhood Development Corporation ("Developer"). The Disposition and Development Agreement ("DDA") and Schematic Designs were approved by the OCII Commission ("Commission") in April 2015, the Developer closed escrow on the land in December 2015, and began construction in November 2016. Construction is anticipated to be completed on all parts of the Project by mid-2019.

The DDA requires that approximately 12,400 square feet of the retail space be used for a grocery store to be located partially in the basement level (9,668 square feet) and on the ground floor level (2,717 square feet) of the tower (see Attachment A). The DDA requires

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that the Developer use good faith efforts to obtain a tenant which includes hiring a listing agent to market the space, providing adequate staffing to support the efforts to market the grocery space, and reporting quarterly to OCII on its progress including market surveys, and descriptions of its outreach efforts and obstacles ("Quarterly Updates"). Should the Developer be unable to enter into a lease with a grocery tenant within 12 months of the anticipated completion date of the phase that includes the grocery space, then the Developer may seek approval from the Commission to release the Developer from its obligation to secure a grocery tenant assuming the Commission finds that the Developer has made good faith efforts to obtain a grocery store tenant on commercially reasonable terms acceptable to the Developer. Under these circumstances, the approval to terminate the obligation "shall not be unreasonably withheld, conditioned, or delayed" (per Section 9.07 of the DDA).

Since purchasing the land in 2015, the Developer has used good faith efforts to obtain a grocery tenant, and has provided OCII with quarterly updates, however, they have been unable to lease the space. On February 15, 2018, the Developer provided OCII with a letter requesting to seek approval from the Commission to release the Developer of the grocery obligation ("Grocery Release Request"). In the Grocery Release Request and its attachments (see Attachment B) the Developer reports that grocers have not leased the space due to (1) proximity to the recently opened Woodlands Market; (2) limited on-site parking and; (3) the multi-level layout not being conducive to grocery use.

After receiving the Grocery Release Request from the Developer, OCII hired Strategic Economics, a retail consulting firm, to review the reasons for the Developer's determination that a grocery store would not be feasible at Block 8, and to analyze the supporting market data attached to the letter. In a report dated June 25, 2018, Strategic Economics agreed with the Developer's conclusions that a grocery store would not be feasible in the Project due to its close proximity to Woodlands market, potential over-supply of grocery stores in the Transbay area, the uncertainty of future demand due to increased grocery delivery services, and the spaces not being sized properly for a multi-level grocery.

Staff recommends the Commission find that the Developer has made good faith efforts and approve Developer's request to be released from the obligation to provide a grocery store at Transbay Block 8.

DISCUSSION

Transbay Block 8 is currently under construction and is located on Folsom Street between First and Fremont Streets and consists of 548 units in a 55-story mixed income residential tower and two podium buildings. The developer of Block 8 is Transbay Urban Housing, LLC, an affiliate of Related California and Tenderloin Neighborhood Development Corporation ("Developer"). The DDA and Schematic Designs were approved by the Commission in April 2015, the Developer closed escrow on the land in December 2015, and began construction in November 2016. The Project includes 70 inclusionary affordable units in the tower, and 80 affordable units subsidized by OCII in the podium buildings. All of the affordable units will be available to very low-income households earning up to 50% of Area Median Income.

In addition to the residential use, the Project also includes 17,600 square feet of retail space and the DDA requires that approximately 12,400 square feet of the retail space be used for a grocery store. The grocery store would be located partially in the basement level (9,668 square feet) and on the ground floor level (2,717 square feet) of the tower (see Attachment A). The remaining 5,200 square feet of retail is located in three separate spaces on the ground floor and the Developer is currently attempting to lease these spaces. Section 9.07 of the DDA requires the Developer use good faith efforts to obtain a grocery tenant as follows:

- Hire a listing agent to market the grocery store space
- Provide adequate staffing to support efforts to obtain a grocery tenant
- Provide OCII with Quarterly Updates of progress that include:
    - Market surveys
    - Outreach efforts to potential grocery tenants
    - Obstacles to Developer's outreach efforts

Section 9.07 of the DDA also reads that should the Developer be unable to enter into a lease with a grocery tenant within 12 months of the anticipated completion date of the phase that includes the grocery space, then the Developer may seek approval from the Commission to release Developer of its obligation to secure a grocery tenant, and that Commission approval "shall not be unreasonably withheld, conditioned, or delayed". The Developer anticipates completion of construction of the retail portion of the Project in June 2019.

Since closing on the land in 2015, the Developer has used good faith efforts to obtain a grocery store. OCII has received written Quarterly Updates from the Developer, including grocery market surveys, descriptions of the outreach efforts by the Developer, and obstacles faced during these efforts. The Developer has also provided annual grocery space status updates to the Commission and Transbay CAC since 2015. In early 2017, the Developer hired Colliers International as their broker to market the retail and grocery space. Colliers contacted 15 potential grocers for the space, including national chains such as Whole Foods and Trader Joes, and local grocers such as Gus's Community Market and Mollie Stone.

During this time the Developer has been unable to lease the grocery space and in a letter dated February 15, 2018 (see Attachment B), the Developer requested OCII staff to seek approval from the Commission to release the Developer of the grocery obligation ("Grocery Release Request"), citing the reasons listed below:

- **Proximity to Woodlands Market:** Woodlands Market is an 11,000 SF grocer that recently opened in the ground floor of Lumina, located three blocks east of Block 8 on the south side of Folsom Street, and there is insufficient neighborhood demand to support both Woodlands and a grocer within the Project

- Attached to the Grocery Release Request letter was the Quarterly Update dated December 31, 2017, which provided competitor store sales and market share data from Intalytics, a retail market consultant, supporting the Developer's determination that there is insufficient demand to support a grocery store in the Project
- **Parking:** 10 parking spaces could be provided onsite for customers and this is insufficient for grocery tenants
- **Multi-level layout:** Grocers expressed concerns about the space being located partially in the ground floor and in the basement

OCII Sponsored Peer Review Summary

In early 2018 OCII hired Strategic Economics, a retail consultant, to review the Developer's reasons for claiming that a grocery store would not be feasible for the Project, and to analyze the supporting market data attached to the Grocery Release Request. Strategic Economics provided OCII with a report (see Attachment C), dated June 25, 2018, which concluded that a grocery store would not be feasible at Block 8 due to two of the three reasons cited by the Developer and summarized below:

<u>Proximity to Woodlands Market</u>
Strategic Economics agrees with the Developer that the proximity of Woodlands Market to the Project is a major concern and that an additional grocery store in the Project would over-saturate the Transbay area market:

- Based on grocery industry population/demand metrics Woodlands Market has absorbed the incremental demand from the recent population growth in the vicinity of the Project
- In addition to Woodlands, the grocery stores listed below serve Transbay residents and would be in direct competition with a grocery store in the Project:
  - Trader Joes, 10 4th Street
  - Whole Foods, 399 4th Street
  - Safeway, 298 King Street
  - Safeway, 145 Jackson Street
- Woodlands and the existing grocery stores listed above are meeting current demand in the Transbay area and a new grocery store in the Project would exceed demand
- Projected residential growth may warrant an additional grocery sometime in the future, however, it is uncertain how the demand will be met due to the rise of grocery delivery services by stores such as Amazon and Safeway

<u>Non-contiguous multi-level layout</u>
Strategic Economics agrees that the non-contiguous layout is an impediment to securing a grocery tenant:

- The sizes of the split spaces in the Project are not practical for grocery use

- Ground level space in predominantly subterranean grocery stores should be minimal and used as a foyer and for elevator and stair access only with all food and purchase areas below
- The 10,000 SF of subterranean space in the Project is too small for mid-size grocers

- The Project does not have off-street loading which is necessary for a grocery store

Parking

Strategic Economics disagrees with the Developer that parking is an issue:

- Grocery industry metrics would require twice as many parking spaces as provided in the Project, however, the high density of the Transbay neighborhood and transit focus decrease parking demand below industry standards
- Two of five nearby grocery stores have been successful without providing parking

Strategic Economics also reviewed the demographic data and grocery sales projections included as attachments to the Grocery Release Request letter and determined that the population data used by Intalytics assumes less future population growth than estimated by Strategic Economics further reinforcing Strategic Economics' and Developer findings that there may be insufficient demand for an additional grocery store in the Transbay area.

Based on the information provided by the Developer and Strategic Economics, OCII staff agrees that there is currently insufficient demand in the Transbay market area to support a new grocery store and that the Block 8 space is not properly designed for a grocery tenant.

CALIFORNIA ENVIRONMENTAL QUALITY ACT

Approving the termination of the Developer's obligation to enter into a lease for a grocery store on Block 8 is not subject to the California Environmental Quality Act ("CEQA") since there is no possibility such approval may have a significant effect on the environment pursuant to CEQA Guidelines Section 15061(b)(3).

(Originated by Shane Hart, Transbay Project Manager)

Nadia Sesay
Executive Director

Attachment A:	Grocery Location within Block 8
Attachment B:	Letter to OCII from Developer dated February 15, 2018
Attachment C:	Grocery Feasibility Peer Review by Strategic Economics

Attachment A

GROUND LEVEL

2,717 SF

LOWER LEVEL 9,668 SF

Attachment B

RELATED

February 15, 2018

Ms. Nadia Sesay
Executive Director
Office of Community Investment & Infrastructure (OCII)
1 South Van Ness Avenue, 5th Floor
San Francisco, CA 94103

Via Electronic Mail

RE: Transbay Block 8 – Retail Effort

The purpose of this letter is to request that T8 Urban Housing Associates, LLC (an affiliate of Related California and the Developer on Transbay Block 8) be released of its obligation to pursue a grocer tenant for Transbay Block 8 (the "Project").

As directed by the TB8 Disposition and Development Agreement ("DDA"), dated April 21, 2015, the Developer has made earnest efforts to identify a viable grocer tenant to occupy a portion of the retail space at the Project. The Developer has provided quarterly updates to OCII staff beginning in 2Q 2015 highlighting its outreach and progress which was led by Colliers International. The latest quarterly updated, which is enclosed and dated December 31, 2017, communicated to OCII that the Developer has been unsuccessful in identifying a grocer due to a series of inherent obstacles in the neighborhood and the building itself, namely: (i) proximity to Woodlands (a grocer at the base of Lumina one block away), (ii) a lack of available on site parking and (iii) a challenging layout (10,000 ft below grade).

The Developer has now exhausted any interested leads and with construction progressing quickly, we feel it is critical to shift to a more broad retail offering to have a successful delivery of the Project. We will continue to maintain outreach with prospective grocery tenants as the use would be a tremendous amenity to our residents and the neighborhood; however, we request that OCII release the Developer of its obligation under the DDA as it has become clear there is no immediate path to securing a grocer.

If you have any questions regarding the above, please contact the undersigned at (415) 677-9000.

Sincerely,

Jonathan Shum
Senior Project Manager
T8 Urban Housing Associates, LLC

Cc. Bill Witte, Chairman – Related California
Shane Hart, Project Manager – OCII

MEMORANDUM

Date: December 31, 2017

To: Shane Hart, Transbay Project Manager (OCII), Benjamin Brandin, Development Specialist (OCII)

From: Jonathan Shum (Related), Balint Simsik (Related), Sarah White (TNDC)

Subject: **Transbay Block 8 – Retail Quarterly Update**

The following is the Transbay Block 8 ("Project" or "TB8") quarterly update for evaluating the viability of a potential grocer tenant at the Project.

As directed by the TB8 Disposition & Development Agreement with the City and County of San Francisco, Related as the developer on the Project has made an earnest effort to pursue a grocery store operator to serve the residents of TB8 as well as the surrounding community.

To this end, in 2016 Related began working with Colliers to identify potential grocers that could serve the Project well and provide the right fit and feel for this burgeoning neighborhood. Subsequently, Colliers was exclusively engaged to head the marketing effort to identify a grocer in March 2017. During this time, Erika Elliot, the lead broker on the account, worked tirelessly to identify potential grocery tenants. As shown in Exhibit A, she has reached out to – and in most instances engaged with – owners and/or brokers representing owners for nearly all of the grocery stores currently in the San Francisco community and the Bay area. While there was generally positive initial response there have been three consistent concerns which have discouraged grocer operators from moving forward on TB8:

1. Neighborhood / Proximity to Woodlands: Most grocery operators were concerned with stepping into an unproven and new market in Transbay. The Woodlands one block away exacerbated the neighborhood concern as many felt there wouldn't be enough demand to support two full service grocers.

2. Parking: Most operators expressed the need to provide on-site parking for their customers. TB8 as a 100% valet facility which serves 548 residential rentals and condos with approximately 218 spots can only provide approximately 10 spaces to the entire retail footprint per code; a number that is unfortunately not sufficient for many grocer tenants.

3. Layout: TB8 has a unique retail layout with five scattered retail lots totaling approximately 17,000 sf, of which roughly 10,000 sf is below grade. This non-contiguous layout, while thoughtfully designed to encourage curated retail, does not necessarily lend itself to a large grocer concept.

These three concerns were voiced repeatedly by those we spoke with and for most, these were hurdles they could not ultimately overcome. While there are some remaining options that we need to explore further, it has become clear that securing a grocer at TB8 is a very difficult and improbable task given the current set of circumstances.

While we have not terminated the search for a grocer, we wanted to acknowledge the difficulties that are being encountered and want to begin pursuing parallel paths for the retail program at TB8 so the Project is successful and its residents and the community will have access to a robust and exciting neighborhood retail offering.

Our next steps are to finalize outreach to the handful of grocer tenants that have not definitively passed on the Project. To the extent we receive some positive feedback from them, we will make every effort to explore the opportunity further. In the meantime however, we will begin formulating a process to identify non-grocer tenants.

Please do not hesitate to contact the Transbay Block 8 team with any questions OCII may have.

Exhibits:

A. Colliers Grocer Outreach Status as of 12/31/17

B. Intalytics 2017 Grocer Forecast: Transbay Block 8

Exhibit A. Colliers Grocer Outreach Status as of 12/31/17

Retail Leasing Report

Transbay 8
12.31.17

Tenant	Category	Size	Information	Status	Comments
Gus's Market	Grocery	15,000	Have Flyer	Passed	Passed; needs more parking about 40+ stalls, concerned with new market location and proximity to Woodlands down the street.
Market Hall /Woodlands	Grocery	10,000	Have Flyer	Passed	Passed; The basement placement alone is a big drawback. it costs about $500/SF in hard costs to put together a store Another $100-150 per SF in costs for staffing, inventory and working capital.Woodlands cost over $ 600/FT and Lumina provided them about $400 per SF in TI and approx another $ 120 per SF in deferred rent credits and an option to buy.
Andronico's / Safeway	Grocery	17,000	Have Flyer	Passed	Passed; They need 17,000 sf in one space.
Draeger's	Grocery	20,000	Have Flyer	Passed	Passed; Not interested in something in the City at this time.
Trader Joe's	Grocery	15,000-25,000	Have Flyer	Still Reaching Out To	Unresponsive; initial indication was not interested in this location / proximity to Woodlands.
Bryan's	Grocery	8,000-10,000	Have Flyer	Still Reaching Out To	Unresponsive; have had multiple conversations with Broker and tried to line up hard hat tour.
Amazon Go	Grocery	TBD	Have Flyer	Still Reaching Out To	Unresponsive; Related has attempted to contact Amazon numerous times through multiple channels to no avail.
Smart & Final Extra	Grocery	17,000	Have Flyer	Passed	Passed; they need 20,000 sf of contiguous space.
Bi-Rite	Small Grocery	5,000	Have Flyer	Still Reaching Out To	Unresponsive; have had multiple conversations with Broker and tried to line up hard hat tour.
Falletti Foods	Grocery	5,000	Have Flyer	Passed	Passed; not interested in this location in the City.
Mollie Stones	Grocery	20,000	Have Flyer	Passed	Passed; interested but the lack of parking and split level between L1 and B1 is too much to overcome.
New Seasons Market	Grocery	20,000	Have Flyer	Passed	Passed: The space is too small for them - they take 30,000 sf
San Peodro Market	Grocery	TBD	Have Flyer	Passed	Passed: They are concentrating on their Santa Cruz store renovation

Retail Leasing Report

Transbay 8
12.31.17

Tenant	Category	Size	Information	Status	Comments
365 Market	Grocery	15,000	Have Flyer	Passed	Unresponsive; broker never responded to multiple attempts.
Locale Market	Grocery	8,000	Have Flyer	Passed	Passed; No interest in expansion.
Local Mission Market	Grocery	8,000-10,000	Have Flyer	Passed	Passed; No interest in expansion
Urban Space	Food Hall	TBD	Have Flyer	Passed	Passed; not interested in this location in the City; typically pursue highly trafficed pedestrian thoroughfares.
Cal Mart Super Market	Grocery	15,000	Have Flyer	Passed	Passed; concerned about the lack of parking and having Woodlands so close by.

Exhibit B. Intalytics 2017 Grocer Forecast: Transbay Block 8

POTENTIAL SALES SURVEY
PROPOSED GROCERY STORE
TRANSBAY BLOCK 8 RETAIL CENTER
(1ST/FREMONT/FOLSOM)
SAN FRANCISCO, CALIFORNIA

Intalytics
INTELLIGENT ANALYTICS

POTENTIAL SALES SURVEY
PROPOSED GROCERY STORE
TRANSBAY BLOCK 8 RETAIL CENTER
(1ST/FREMONT/FOLSOM)
SAN FRANCISCO, CALIFORNIA

PREPARED FOR: MR. BALINT SIMSIK
SENIOR ASSOCIATE
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OCTOBER 2017
INTALYTICS #482-001

Intalytics
INTELLIGENT ANALYTICS

SALES SUMMARY - TRANSBAY BLOCK 8

HEALTH/ORGANIC (I.E. BI-RITE, WHOLE FOODS, ETC.)

SALES SUMMARY- **12,500** GSF AT 140 IMAGE

	2020	(GROSS $PSF)	2021	(GROSS $PSF)	2022	(GROSS $PSF)
WEEKLY SALES:	$245,200	($19.62)	$284,300	($22.74)	$310,300	($24.82)
ANNUAL SALES:	$12,750,400		$14,783,600		$16,135,600	

UPSCALE (I.E. MOLLIE STONE'S, MARKET 5-ONE-5, ETC.)

SALES SUMMARY- **12,500** GSF AT 105 IMAGE

	2020	(GROSS $PSF)	2021	(GROSS $PSF)	2022	(GROSS $PSF)
WEEKLY SALES:	$201,500	($16.12)	$233,500	($18.68)	$254,900	($20.39)
ANNUAL SALES:	$10,478,000		$12,142,000		$13,254,800	

INDEPENDENT (I.E. HARVEST URBAN MARKET, ETC.)

SALES SUMMARY- **12,500** GSF AT 85 IMAGE

	2020	(GROSS $PSF)	2021	(GROSS $PSF)	2022	(GROSS $PSF)
WEEKLY SALES:	$161,900	($12.95)	$187,600	($15.01)	$204,800	($16.38)
ANNUAL SALES:	$8,418,800		$9,755,200		$10,649,600	

ALL FORECASTS ARE IN CONSTANT 2017 DOLLARS WITH NO INFLATION ADDED

PURPOSE

Intalytics has been requested to evaluate and prepare a Potential Sales Survey for a variety of potential grocers that could be deployed at Transbay Block 8 development in San Francisco, California. Transbay Block 8 is a parcel bound by 1[St,] Folsom, Fremont, and Clementina Streets. Construction has begun and the proposed market would be expected to open sometime in 2019. The existing plans highlight an approximately 12,500 square foot grocery store with street level entrance off Folsom and a large concourse sales floor located on Basement Level 1. Further, approximately 550 new apartments sit directly above the store and thus captive to the site which is considered in this analysis. And, although the subject site will be afforded some garage parking, it is assumed in this survey that much of the projected supermarket volume will be derived from within a half-mile radius of the site (or walking distance to the site).

Overall, the trade area is characterized by very high income and well educated population. The trend is expected to continue, given the numerous high rise housing projects under construction in all directions of the subject site. Intalytics has calculated and projected population growth through 2022, wherein the projects currently under construction are expected to be complete. However, long-range growth is earmarked for well after the forecast period (2022) that will ensure long run sales at the subject site.

Currently, trade area population level today stands at an estimated 18,924 people and expected to increase to an estimated 25,823 persons by the end of subject site's third year of operation (2022). Further, a very strong daytime population of over 40,000 persons working within just a quarter-mile radius of the subject site (and 131,142 persons in a half-mile radius) will ensure the beyond trade area sales that will be attacted to this subject site. Accordingly, our beyond sales (defined as sales outside the trade area) account for as much as 30% of trade area sales for grocery formats tested in this forecast.

COMPETITION ALIGNMENT

A total of five (5) primary food operators were determined to be serving portions of the defined trade area highlighted on the appended map. The five grocers in this forecast account for an estimated 75% of the total trade area's grocery potential which stands at $1,113,202 per week in 2017. Thus, an estimated 25% of the total grocery potential is relegated to leakage sales. Much of the leakage sales in this forecast are attributed to smaller convenience stores and Costco. The newest grocery store in this survey is Woodlands (Map Key 1). The Woodland is about 11,000 square feet and enjoyed a very strong grand opening in August of this year (2017). The grocery store offers a large variety of perimeter service departments and is well staffed and operated. During the time of our visit, it was estimated that the store was already achieving good sales despite being only less than two months new. After speaking with staff, Intalytics believes this store will settle at about $200,000 per week for 2017. However, because of the strong population growth and the new maturity of this store, sales are expected to average about an estimated $300,000 for 2018-2019.

Safeway operates two stores located at the periphery of the subject trade area. Safeway (Map Key 3) is currently the highest volume supermarket in this survey enjoying weekly sales of an estimated $725,000. Whole Foods is a near second place store at an estimated $715,000 per week. It should be noted that Trader Joe's recently opened (less than a year ago) at Market and Fourth Streets. The new Trader Joe's is considered subterranean, offers no parking, and has limited visibility. Yet management shared that they average $90,000 a day and are projected to reach over $750,000 per week for 2018.

POTENTIAL SALES SURVEY
PROPOSED GROCERY STORE
TRANSBAY BLOCK 8 RETAIL CENTER
(1ST/FREMONT/FOLSOM)
SAN FRANCISCO, CALIFORNIA

PROPOSAL		EXISTING	
PROPOSED SIZE:	12,500 SQUARE FEET	STORES AFFECTING TRADE AREA:	5 OPERATORS
OPPORTUNITY:	IN-FILL	AVERAGE SALES SQUARE FOOT:	$23.98
CONSTRUCTION:	NEW		
TIMING:	OPENING IN 2019	AVERAGE PCW:	$58.82
LOCATION TYPE:	DOWNTOWN	TOTAL POTENTIAL:	$1,113,202
		AVERAGE LEAKAGE:	25%
		TOTAL POPULATION:	18,924 (2017)
SPECIALTY DEPARTMENTS:	PRODUCE, MEAT, FLORAL, PREPARED FOODS, BEER/WINE, POSSIBLE LIQUOR	POPULATION TREND:	ANNUAL COMPOUND GROWTH AT 6.4%
PARKING:	GARAGE	DEMOGRAPHICS:	INCOME EST: $201,599
		FUTURE IMPACTING COMPETITIVE CHANGES CONSIDERED:	NONE

PRIMARY TRADE AREA POTENTIAL

The current trade area population is estimated at 18,924 persons and expected to increase to an estimated 25,823 persons by the end of the forecast period. The 5 supermarkets surveyed in this analysis average 21,640 gross square feet, with an average sale per square foot of $23.98. Total weekly grocery store expenditure potential is $1,113,202. Of this potential the combined 5 facilities capture $835,000 or 75% market share. Total leakage in this market is 25% and is accounted for by Costco and smaller local independent grocers.

Population	18,924
Potential	$1,113,202
Facility Volume	$835,000
Leakage Amount	$278,202
Leakage Percent	25%

MARKET PLACE AS IS

POTENTIAL SALES SURVEY
TRANSBAY BLOCK 8 (lST/FREMONT/FOLSOM)
SAN FRANCISCO, CALIFORNIA

OCTOBER 02, 2017

STORE NAME	STORE NO.	SALES VOLUME	STORE SIZE	SALES/ S.F.	PEXP	T.A. VOLUME	CURVE	IMAGE
WOODLANDS	1	200000	11000	18.18	70	140000	65	74
WHOLE FOODS	2	715000	32200	22.20	35	250250	70	96
SAFEWAY#2606	3	725000	32000	22.66	35	253750	70	97
SAFEWAY#4601	4	325000	19000	17.11	20	65000	70	71
TRADER JOE'S	5	630000	14000	45.00	20	126000	70	161
AVERAGE		519000	21640	23.98				100

TOTAL POPULATION 18924
TOTAL POTENTIAL $1113202

AVERAGE PCW $58.82
AVERAGE LEAKAGE 24.99%

SECTOR REPORT

SECTOR NUMBER	---POPULATION LEVELS--- CURRENT	1ST YR	3RD YR	CURRENT PCW	CURRENT POTENTIAL	--CURRENT LEAKAGE-- PERCENT	DOLLARS
1	3192	5288	7156	59.38	189541	25.03	47437
2	3309	3441	3589	58.63	194007	24.87	48248
3	4612	4918	5112	58.57	270125	25.07	67722
4	2123	2567	2863	58.98	125215	24.97	31268
5	1270	1688	2115	59.49	75552	24.83	18756
6	4418	4701	4988	58.57	258762	25.03	64770
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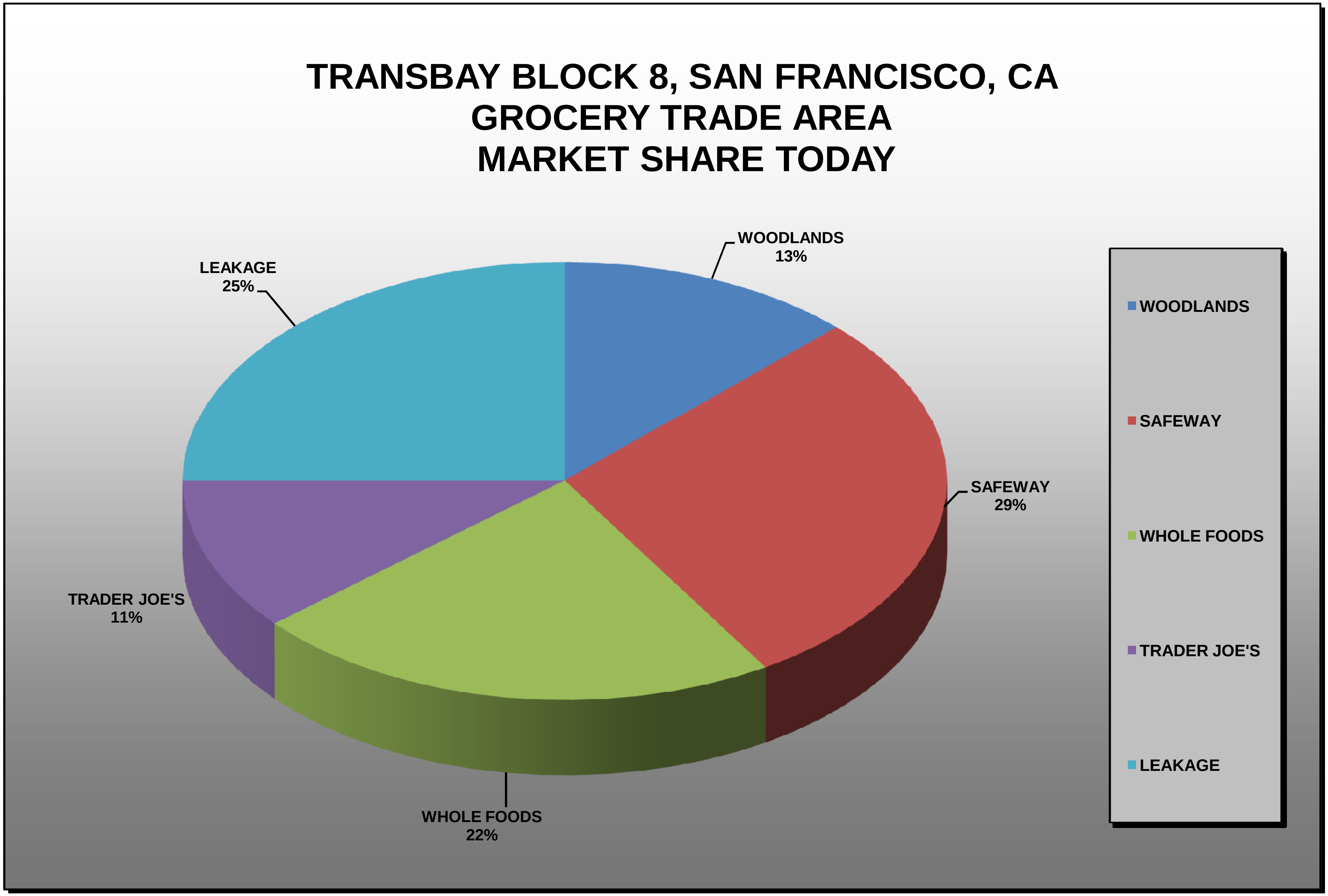
TOTALS	18924	22603	25823		$1113202		$278202
AVERAGES				$58.82		24.99%	

TOTAL MARKET SHARE

POTENTIAL SALES SURVEY
TRANSBAY BLOCK 8 (1ST/FREMONT/FOLSOM)
SAN FRANCISCO, CALIFORNIA

OCTOBER 02, 2017

STORE NAME	STORE NO.	ACTUAL VOLUME	ACTUAL M.S.	EST. VOLUME	EST. M.S.
WOODLANDS	1	200000	12.6	200000	12.6
WHOLE FOODS	2	715000	22.5	715000	22.5
SAFEWAY#2606	3	725000	22.8	725000	22.8
SAFEWAY#4601	4	325000	5.8	325000	5.8
TRADER JOE'S	5	630000	11.3	630000	11.3
LEAKAGE		ACTUAL -	25.0	ESTIMATED -	25.0



TRANSBAY BLOCK 8, SAN FRANCISCO, CA
GROCERY TRADE AREA
MARKET SHARE TODAY
WOODLANDS 13%
SAFEWAY 29%
WHOLE FOODS 22%
TRADER JOE'S 11%
LEAKAGE 25%
WOODLANDS
SAFEWAY
WHOLE FOODS
TRADER JOE'S
LEAKAGE

DEFINITIONS

Market Share:	The percent of business obtained from the total potential available from within a given trade area.
PCW:	The average per capita weekly expenditure for food-at-home a given sector or trade area.
PEXP:	The percent of a store's volume that is estimated to be generated from within the defined trade area.
Potential:	The amount of supermarket merchandise dollars available for a given sector or trade area. This is the result of the population time the per capita weekly food expenditure.
Sector:	A non-overlapping partition of the trade area containing a group of homogeneous population sharing similar demographic patterns and having approximately the same access to the supermarkets in a given study area.
Sales Volume:	In the current market column refers to the estimated average weekly sales of that store during the survey period.
T.A. Change:	Represents the amount of trade area volume lost or gained by each existing store after the anticipated market changes have occurred.
Store Size:	The total square footage of a store which is considered in this analysis. With Supercenters, only a portion of the total floor is considered.
Trade Area:	Synonymous with "primary trade area". This is the area from which a given store receives the majority of its sales volume and obtains a significant market share.

METHODOLOGY

The sales estimates presented herein were generated through the use of MODEL, a gravity model forecasting system developed specifically for supermarkets. Sales estimates have been prepared for the first, second and third **full years** of operation (2020, 2021 and 2022) assuming a 2019 store opening date at the site. These sales estimates are presented in constant 2017 dollars and do not, therefore, reflect inflation. They are based on an average per capita weekly expenditure (PCW) of $58.82 for the trade area. The sales figures do, however, account for population growth in the trade area. Tables appended to this report reflect the Market Place As Is, the Projected Market Place, a Sales Forecast table which breaks down the sales estimates by map sector, and a Trade Area Population by Sector table which depicts population changes throughout the forecast period.

The input variables necessary to run MODEL include:

- Current and projected population estimates
- Per capita expenditure estimates for food store type merchandise
- Competitive evaluations
- Distance measurements

Each of these variables is discussed below:

<u>Population Estimates</u> – The population of the trade area was broken down into map sectors. Each of these map sectors, determined in a manner that is compatible with gravity model analysis, can be seen on the appended map. All map sectors are based upon **2010** Census Tracts and updated via local sources.

<u>Per Capita Expenditure Estimates</u> – Per capita weekly food expenditure (PCW), as used in this study, refers to the dollars spent per person, per week for the type of merchandise carried in supermarkets. The expenditure data used in this study was derived from U.S. Bureau of Labor Statistics information, which we believe to be the most accurate source for this data.

Competitive Evaluations – Each competitive supermarket in and around the trade area was evaluated by our analyst during an extensive in-store observation. The analyst noted several items during the in-store visit including store operations, merchandising, and physical facility. The analyst also measured the size of each competitor, evaluated its major specialty departments, and estimated its weekly sales.

Distance Measurements – Each competitor and population map sector was located on a map of the trade area using an x-y coordinate system. It is critical that all competition and population centroids (i.e., that point in a map sector that most closely approximates the center of population) are accurately located since the geographic relationships thus established are used in simulating the trade area and developing sales forecasts. After gathering and inputting the appropriate information, the analyst "balanced" the gravity model in order to accurately simulate the trade area.

In the Market Place As Is report, certain variables were input by the analyst, specifically PEXP and CURVE. PEXP is the percentage of a store's volume that is estimated to originate from within the trade area, whereas CURVE is the percentage of the store's volume estimated to originate from within a certain radius around the store.

The IMAGE factor shown on the Market Place As Is table is the relative ranking of each existing store in the market. An IMAGE of 100 would be average. While IMAGE is generated by the gravity model, it is dependent upon the input variables as well as the analyst's assessment of them. Once the model is "in balance and/or simulated" and accurately portrays the subject trade area, the subject site is input and a sales forecast is generated and confirmed by Intalytics.

TRADE AREA/DEMOGRAPHICS

The study area defined for the proposed supermarket is highlighted on the accompanying Sector and Competition Map. Overall, the trade area approximates a 0.5 mile radius around the site, where increased intercepting competition and/or declining population limit further primary extension. Currently, some 18,924 persons reside within this study area that will continue to grow to some 25,823 persons by 2022. Some 85% of the population is employed in White Collar jobs, and the average household income is strong at $201,599. The trade area's estimated Median age is 38.9 and the average household size is 1.59 persons per unit.

Racially, the trade area is an estimated 54% White, 30% Asian/Pacific Islander, and 5% African-American and 7% Hispanic. A demographic summary table follows.

TRANSBAY BLOCK 8, SAN FRANCISCO, CA - GROCERY TRADE AREA DEMOGRAPHICS

MAP SECTOR	AVE HH SIZE	2017 POP	2020 POP	2022 POP	TOTAL HOUSE-HOLDS	AVE HH INCOME	BACHELOR DEGREE OR HIGHER	%WHITE COLLAR	% BLACK CY	% HISP CY	% WHITE CY	%ASIAN CY	% OTHER CY	MEDIAN AGE CY
1	*1.50*	*3192*	*5288*	*7156*	*2128*	*$197,150*	*79%*	*93%*	*3%*	*6%*	*58%*	*29%*	*4%*	*39.1*
2	*1.70*	*3309*	*3441*	*3589*	*1946*	*$159,711*	*81%*	*92%*	*3%*	*7%*	*54%*	*31%*	*4%*	*36.1*
3	*1.68*	*4612*	*4918*	*5112*	*2745*	*$326,264*	*78%*	*96%*	*1%*	*5%*	*48%*	*41%*	*5%*	*37.5*
4	*1.56*	*2123*	*2567*	*2863*	*1361*	*$190,422*	*90%*	*95%*	*3%*	*6%*	*54%*	*32%*	*6%*	*37.8*
5	*1.39*	*1270*	*1688*	*2115*	*914*	*$101,253*	*37%*	*44%*	*16%*	*9%*	*52%*	*18%*	*5%*	*45.4*
6	*1.68*	*4418*	*4701*	*4988*	*2630*	*$146,712*	*74%*	*91%*	*3%*	*6%*	*58%*	*28%*	*4%*	*37.2*
Total/Average	1.59	18,924	22,603	25,823	11,724	$201,599	73%	85%	5%	7%	54%	30%	5%	38.9

POTENTIAL SALES SURVEY
PROPOSED GROCERY STORE
TRANSBAY BLOCK 8 RETAIL CENTER
(1ST/FREMONT/FOLSOM)
SAN FRANCISCO, CALIFORNIA

	Ex	Above Avg	Avg	Below Avg	Poor
STREET NETWORK (ACCESSIBILITY TO THE SITE)		X			
INGRESS/EGRESS			X		
SITE LOCATION RELATIVE TO OTHER SHOPPING NODES		X			
TRAFFIC FLOW			X		
LOCATION RELATIVE TO POPULATION		X			
PARKING (AVAILABILITY/ARRANGEMENT) (NOT AVAILABLE)					
VISIBILITY OF SITE: NORTH	X				
SOUTH	X				
EAST	X				
WEST	X				

TRAFFIC CONTROLS: Traffic signals serve the nearby subject intersection.

TOPOGRAPHY OF SITE: Street and Concourse Level

PROJECTED MARKET PLACE

POTENTIAL SALES SURVEY
TRANSBAY BLOCK 8 (1ST/FREMONT/FOLSOM)
SAN FRANCISCO, CALIFORNIA

>HEALTH/ORGANIC GROCER (I.E. BI-RITE, GUS'S, WHOLE FOODS, ETC.)

OCTOBER 02, 2017

STORE NAME	STORE NO.	SALES VOLUME	STORE SIZE	SALES/ S.F.	PEXP	T.A. VOLUME	T.A. CHANGE	CURVE	IMAGE
WOODLANDS	1		11000		70	93454	-46546	65	74
WHOLE FOODS	2		32200		35	215252	-34998	70	96
SAFEWAY#2606	3		32000		35	206127	-47623	70	97
SAFEWAY#4601	4		19000		20	50869	-14131	70	71
TRADER JOE'S	5		14000		20	109624	-16376	70	161
>HEALTH/ORGA	100		12500		70	159675	159675	75	140
AVERAGE		394669	20117	19.62			0		107

TOTAL POPULATION 18924
TOTAL POTENTIAL $1113202

AVERAGE PCW $58.82
AVERAGE LEAKAGE 24.99%

SALES FORECAST

POTENTIAL SALES SURVEY
TRANSBAY BLOCK 8 (1ST/FREMONT/FOLSOM)
SAN FRANCISCO, CALIFORNIA

>HEALTH/ORGANIC GROCER (I.E. BI-RITE, GUS'S, WHOLE FOODS, ETC.)

				FIRST YEAR END		THIRD YEAR END	
SECTOR	DISTANCE (MILES)	MATURE M.S.	EST. PCW	EST. POP.	EST. SALES	EST. POP.	EST. SALES
1	0.24	15.2	59.38	5288	43021	7156	64687
2	0.19	13.9	58.63	3441	25313	3589	29336
3	0.17	18.8	58.57	4918	48858	5112	56428
4	0.16	16.9	58.98	2567	23068	2863	28586
5	0.44	5.9	59.49	1688	5352	2115	7452
6	0.36	10.5	58.57	4701	26041	4988	30701
TOTAL TRADE AREA		14.3%-	$58.82	22603	$171653	25823	$217190
BEYOND TRADE AREA (30 PERCENT)					73566		93081
GRAND TOTAL					$245219		$310271

PROJECTED MARKET PLACE

POTENTIAL SALES SURVEY
TRANSBAY BLOCK 8 (1ST/FREMONT/FOLSOM)
SAN FRANCISCO, CALIFORNIA

>UPSCALE (I.E. MOLLIE STONE'S, DEAN AND DELUCA'S, ETC.)

OCTOBER 02, 2017

STORE NAME	STORE NO.	SALES VOLUME	STORE SIZE	SALES/ S.F.	PEXP	T.A. VOLUME	T.A. CHANGE	CURVE	IMAGE
WOODLANDS	1		11000		70	97717	-42283	65	74
WHOLE FOODS	2		32200		35	224140	-26110	70	96
SAFEWAY#2606	3		32000		35	214367	-39383	70	97
SAFEWAY#4601	4		19000		20	53225	-11775	70	71
TRADER JOE'S	5		14000		20	114333	-11667	70	161
>UPSCALE	100		12500		70	131217	131217	75	110
AVERAGE		402952	20117	20.03			0		102

TOTAL POPULATION 18924
TOTAL POTENTIAL $1113202

AVERAGE PCW $58.82
AVERAGE LEAKAGE 24.99%

SALES FORECAST

POTENTIAL SALES SURVEY
TRANSBAY BLOCK 8 (1ST/FREMONT/FOLSOM)
SAN FRANCISCO, CALIFORNIA

>UPSCALE (I.E. MOLLIE STONE'S, DEAN AND DELUCA'S, ETC.)

				FIRST YEAR END		THIRD YEAR END	
SECTOR	DISTANCE (MILES)	MATURE M.S.	EST. PCW	EST. POP.	EST. SALES	EST. POP.	EST. SALES
1	0.24	12.5	59.38	5288	35340	7156	53138
2	0.19	11.4	58.63	3441	20713	3589	24004
3	0.17	15.7	58.57	4918	40576	5112	46862
4	0.16	14.0	58.98	2567	19046	2863	23602
5	0.44	4.7	59.49	1688	4278	2115	5955
6	0.36	8.5	58.57	4701	21094	4988	24869
				------	------	------	------
TOTAL TRADE AREA		11.8%	$58.82	22603	$141047	25823	$178430
BEYOND TRADE AREA (30 PERCENT)					60449		76470
					------		------
GRAND TOTAL					$201496		$254900

PROJECTED MARKET PLACE

POTENTIAL SALES SURVEY
TRANSBAY BLOCK 8 (1ST/FREMONT/FOLSOM)
SAN FRANCISCO, CALIFORNIA

>INDEPENDENT

OCTOBER 02, 2017

STORE NAME	STORE NO.	SALES VOLUME	STORE SIZE	SALES/ S.F.	PEXP	T.A. VOLUME	T.A. CHANGE	CURVE	IMAGE
WOODLANDS	1		11000		70	101599	-38401	65	74
WHOLE FOODS	2		32200		35	232178	-18072	70	96
SAFEWAY#2606	3		32000		35	221808	-31942	70	97
SAFEWAY#4601	4		19000		20	55370	-9630	70	71
TRADER JOE'S	5		14000		20	118600	-7400	70	161
>INDEPENDENT	100		12500		70	105445	105445	75	85
AVERAGE		410455	20117	20.40			0		97

TOTAL POPULATION 18924
TOTAL POTENTIAL $1113202

AVERAGE PCW $58.82
AVERAGE LEAKAGE 24.99%

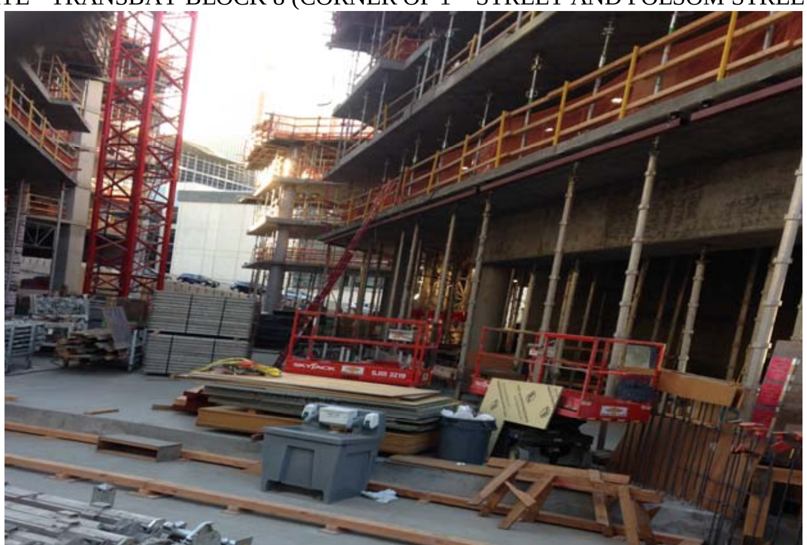
SALES FORECAST

POTENTIAL SALES SURVEY
TRANSBAY BLOCK 8 (1ST/FREMONT/FOLSOM)
SAN FRANCISCO, CALIFORNIA

>INDEPENDENT

SECTOR	DISTANCE (MILES)	MATURE M.S.	EST. PCW	FIRST YEAR END EST. POP.	FIRST YEAR END EST. SALES	THIRD YEAR END EST. POP.	THIRD YEAR END EST. SALES
1	0.24	10.0	59.38	5288	28384	7156	42679
2	0.19	9.1	58.63	3441	16577	3589	19211
3	0.17	12.7	58.57	4918	32916	5112	38017
4	0.16	11.3	58.98	2567	15368	2863	19044
5	0.44	3.7	59.49	1688	3353	2115	4669
6	0.36	6.8	58.57	4701	16732	4988	19726
				------	------	------	------
TOTAL TRADE AREA		9.5%-	$58.82	22603	$113330	25823	$143346
BEYOND TRADE AREA (30 PERCENT)					48570		61434
					------		------
GRAND TOTAL					$161900		$204780

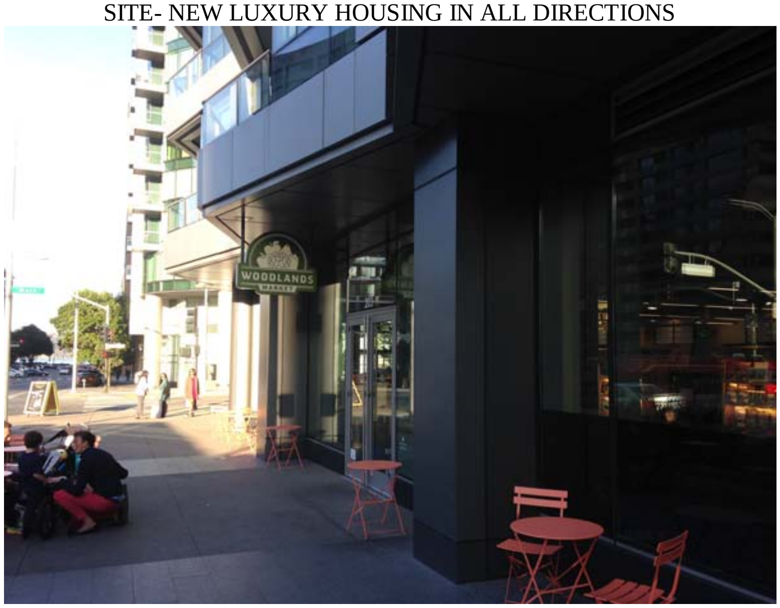
SITE - TRANSBAY BLOCK 8 (CORNER OF 1ST STREET AND FOLSOM STREET)



SITE - TRANSBAY BLOCK 8 (CORNER OF 1ST STREET AND FOLSOM STREET)

SITE – ABUTS INTERSTATE 80 OFF-RAMPS

SITE- NEW LUXURY HOUSING IN ALL DIRECTIONS



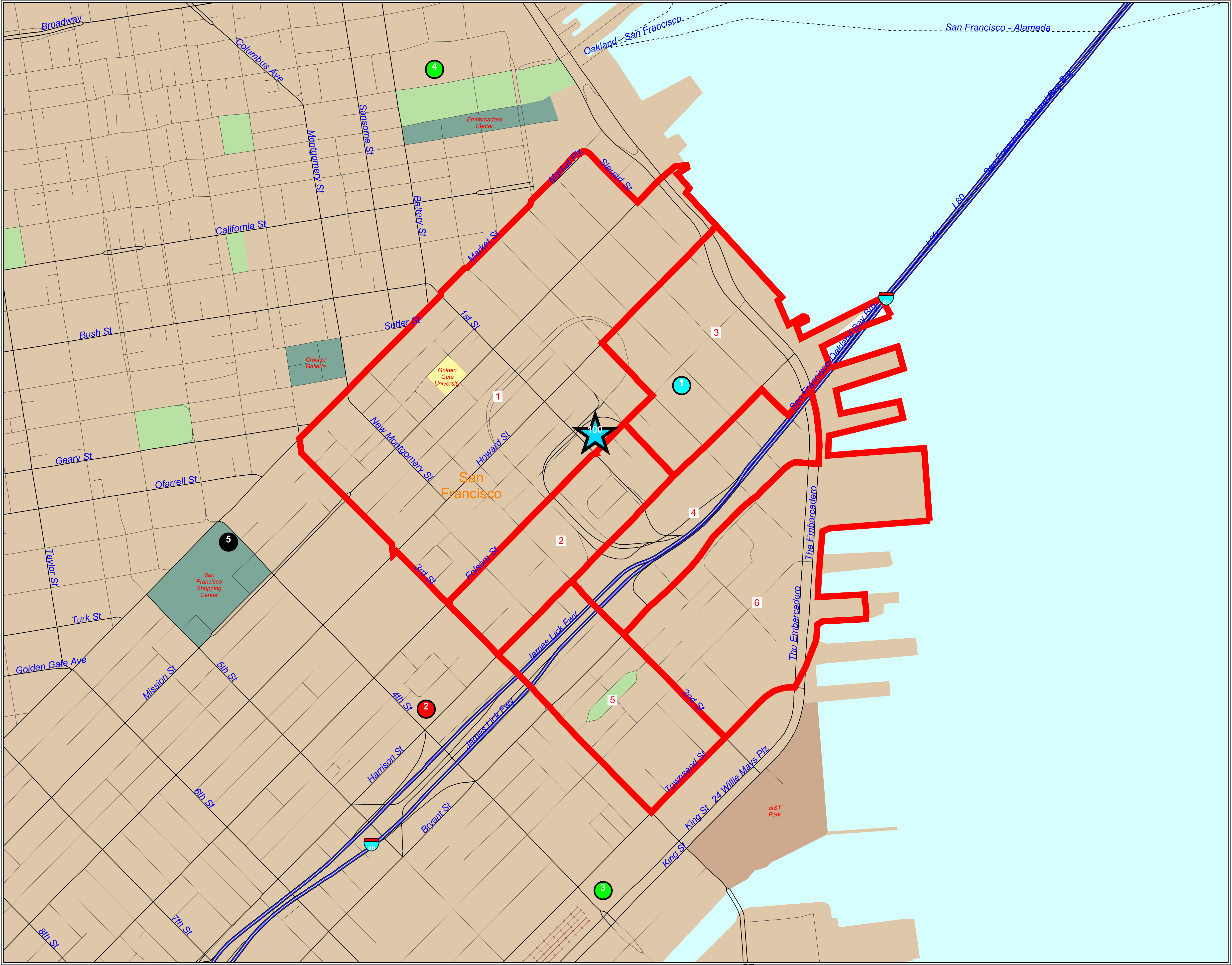
MAP KEY 1

MAP KEY 2

MAP KEY 3

MAP KEY 4

MAP KEY 5



RELATED CALIFORNIA

TRADE AREA AND COMPETITION MAP

PROPOSED GROCERY STORE
1ST/FREMONT/FOLSOM
SAN FRANCISCO, CA

Site

Competition
- Woodlands
- Whole Foods
- Safeway
- Trader Joe's
- Trade Area and Map Sectors

Major Roads
- Limited Access
- Primary
- Secondary
- Ramp
- Ferry
- Minor Roads
- Railroads
- Water
- Parks

N

#4820001
10/2/17

0.06 0 0.06 0.12 0.18 0.24 Miles

STRATEGIC ECONOMICS

MEMORANDUM

To: Benjamin Brandin, Office of Community Investment & Infrastructure

From: Strategic Economics

Date: June 25, 2018

Subject: Grocery Feasibility Peer Review

Introduction

Strategic Economics was hired by the Office of Community Investment and Infrastructure (OCII) to evaluate the determination by Related California and its consultants that a grocery store is not feasible at the development under construction at Transbay Block 8. Related California submitted a Developer Release Letter to OCII, dated February 15, 2018, requesting to be released from an obligation to pursue a grocer tenant for a predominantly subterranean retail space in the Block 8 development fronting Folsom Street. This memorandum summarizes Strategic Economics' evaluation of the assumptions and methodology used as the basis of the developer's request.

Review of Intalytics 2017 Grocery Forecast: Transbay Block 8

DEMOGRAPHICS

The developer relied on demographic research from Intalytics, a predictive analytics firm specializing in providing location-centric data for clients in retail, healthcare, finance, and service sectors.[1] Strategic Economics finds that Intalytics demographic analysis differs somewhat from recent analysis conducted for this area. Intalytics estimated that there were 19,000 residents within a half-mile radius of Block 8 in 2017, and projected a population of 26,000 for 2022. According to two analyses recently conducted by Strategic Economics, it is likely that the existing resident population for the area is somewhat smaller at between 14,000 and 15,000 people, and will likely grow to about 21,000 after development projects in the pipeline are realized. Intalytics estimated the worker population within a quarter-mile at 40,000, which is somewhat smaller than Strategic Economics estimate of 67,000 workers within the boundaries of the East Cut CBD.[2]

Because the Intalytics memorandum does not provide information on data sources or methodology, it is difficult to know why the numbers differ from those estimated by Strategic Economics. For the

[1] Intalytics.com

[2] It is important to note, however, that the boundaries between the East Cut CBD and the quarter-mile buffer area slightly differ, with the CBD covering a half block north of Mission Street, in the financial district, and blocks east of Spear Street, which the radius buffer partially omits.

purposes of this evaluation and memorandum, Strategic Economics relied on our own estimates for population and employment in the study area.

FIGURE 1. STRATEGIC ECONOMICS AND INTALYTICS DEMOGRAPHIC SUMMARY

	Intalytics	SE - ACS	SE - Population Density*
Half-Mile Radius Resident Population (2017)	18,924	14,720	14,355
Half-Mile Radius Projected Resident Population**	25,823	21,449	21,083
Quarter-Mile Radius Worker Population***	40,000	n/a	67,301

Sources: Intalytics, "Potential Sales Survey: Proposed Grocery Store, Transbay Block 8 Retail Center," 2017; American Community Survey (ACS) 5-year estimates, 2012-2016; Costar, 2018; East Cut CBD, 2018.

* Population estimates based off average household size of 1.7 persons per household, per ACS 5-year estimates (2012-2016). Worker estimate based off 260 square feet per employee assumption.
**Intalytics projected resident population is based off the year 2022, while Strategic Economics' projected populations are informed by residential developments in the pipeline.
***Strategic Economics' worker population is inferred from East Cut Community Benefits District boundary.

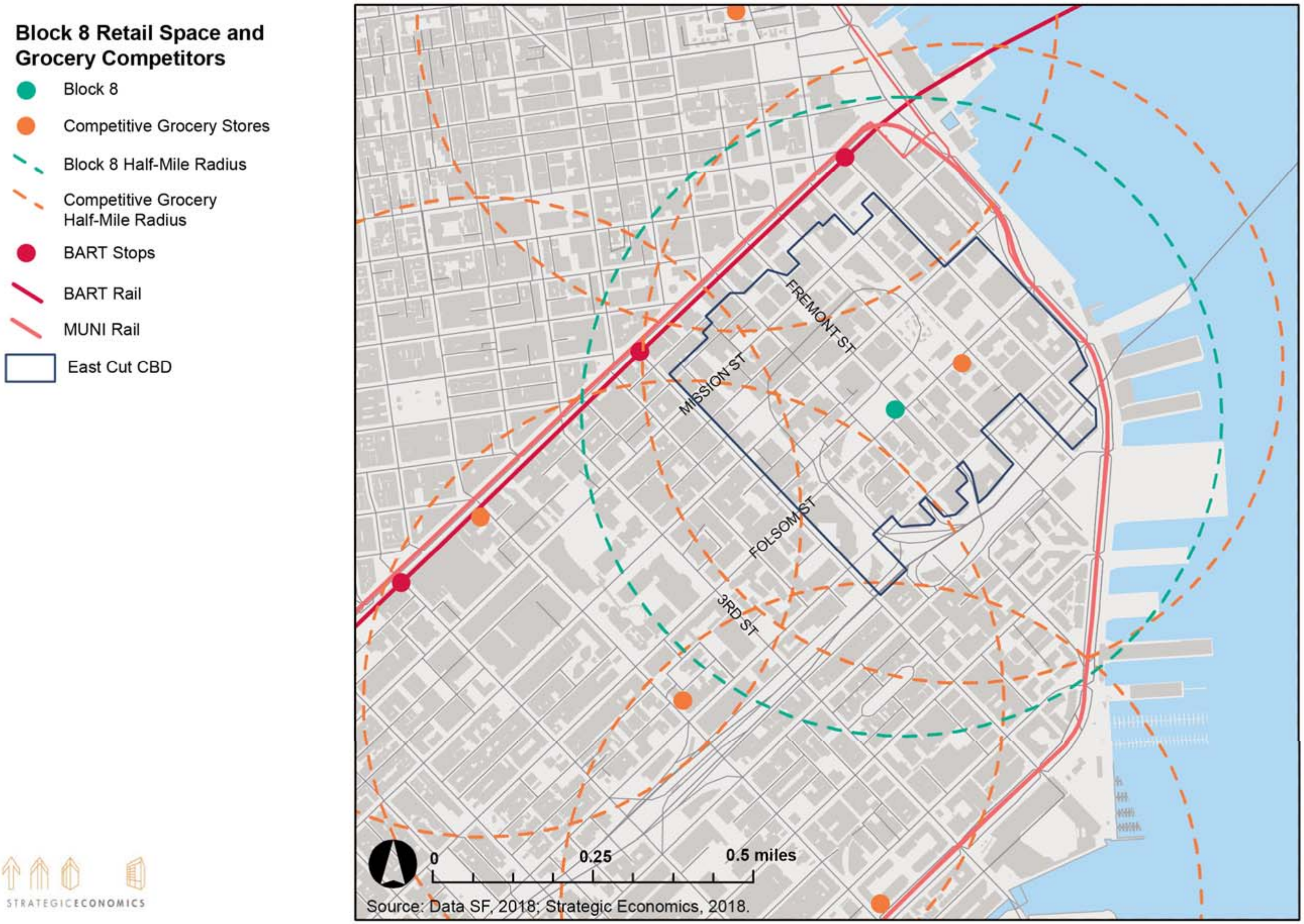
COMPETITIVE GROCERY STORES

Intalytics also identified five grocers near the site, ranging from small to mid-sized specialty stores to large-scale supermarkets. They are the following:

- The Woodlands Market, 203 Folsom Street
- Trader Joe's, 10 4th Street
- Whole Foods, 399 4th Street
- Safeway, 298 King Street
- Safeway, 145 Jackson Street

Strategic Economics agrees that these stores would be the primary competition for a grocery store at Block 8. They are displayed in the following map, in relation to Block 8 (figure 2).

FIGURE 2. COMPETITIVE GROCERY STORES NEAR BLOCK 8



STRATEGIC ECONOMICS

Review of Infeasibility Claims in Securing Grocer Tenant

The developer claimed that it would be infeasible to secure a grocer tenant, due to limitations on the site's parking allotment and the site's layout, as well as concerns about stepping into an unproven market area. The review of each claim is summarized below.

PARKING

The developer claims that most operators would require on-site parking for customers. The ten spots that would likely be designated for this retail space would not be sufficient, according to the developer. We disagree, in that while the parking allotment is too limited for a traditional grocery store in a less dense neighborhood, most patrons are not likely to be car-dependent at a grocery store of this size in this location.

It is generally assumed that parking is essential for the successful functioning of supermarkets. A "rule of thumb" measure is five spaces per 1,000 square feet of store, though in the densest urban locations where many customers walk, the allotment could be lowered to two or three spaces per 1,000 square feet.[3] By this measure, there should be at least twice as much parking dedicated to grocery customers at this space. However, small-format grocers that may focus on prepared or specialty foods are likely to serve a clientele that makes smaller and more frequent purchases, and who often travel by foot or bike. Furthermore, the above assumptions are more closely tied to national transportation trends. While 76 percent of commuters in the U.S. "drove alone" to work according to the 2012-2016 ACS, only 35 percent of San Franciscans and 26 percent of Transbay neighborhood residents drove alone, which is unsurprising due to the fact the area is very well-served by public transit.[4]

The fact that two of the five nearby grocery stores have no parking is further evidence that national grocery store standards are not applicable to downtown San Francisco, and that it could be feasible for a store to do without it. Three of the five nearby grocers do include free off-street parking either on-site or through agreements with nearby facilities. Whole Foods offers garage parking onsite, and both the Woodlands Market and the King Street Safeway share parking with nearby residential properties. Woodlands Market offers up to an hour of free valet parking at the Lumina. Woodlands Market staff said, however, that the majority of customers do not drive to their store, and so far, very few request the parking stickers required for the Lumina garage. Neither Trader Joe's nor Safeway on Jackson Street offer parking. Trader Joe's staff mentioned that shoppers making larger purchases typically call a ride share or taxi as nearby public garages are prohibitively expensive.

Additionally, the Transbay neighborhood is known for traffic congestion, as drivers rely on the I-80 on- and off-ramps for access to the Bay Bridge, so driving to the grocery store may be challenging. Overall, this neighborhood context suggests that potential customers are likely to either make smaller and more frequent purchases by foot or bike, rely on ride share, or use a delivery service as discussed further below.

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[3] Newberg, Sam "Urban Grocers," *Urban Land Magazine,* November 4, 2011.
[4] ACS 5-year estimates, 2012-2016.

NEIGHBORHOOD, AND PROXIMITY TO THE WOODLANDS MARKET

The developer claims that most grocery operators they surveyed were concerned with "stepping into an unproven and new market" in the Transbay neighborhood. According to the developer, this hesitance is exacerbated by the fact that the Woodlands Market, a specialty grocery store that opened in 2017, would be located just two blocks away. We agree with this claim.

Brokers familiar with the Transbay neighborhood have said the neighborhood has the potential to grow into a retail destination, but currently lacks the foot traffic and name recognition to compete with more established retail centers in San Francisco. The hours of operation for existing retail tenants in the area are tied to the business day, and there is very little activity in the evening or on weekends. Potential retail tenants see the prospect of moving to the area as risky. It is likely that a grocery store in this location would benefit from the large daytime population of the Transbay neighborhood and the nearby Financial District. However, because it would be a 0.4 mile walk from Embarcadero, the nearest BART station, it is unlikely to capture many BART commuters. It would be better situated to serve commuters relying on the future Transbay Transit Terminal, approximately two blocks north, but it will also be competing with a planned food hall and other food offerings in the terminal.

The projected residential growth of the Transbay neighborhood could warrant additional grocery in the coming years, but it is unclear how that demand will be met. Brick and mortar grocery stores are increasingly adopting "omnichannel strategies," defined as the integration of brick-and-mortar and digital channels to improve customer experience and increase sales.[5] Both chain and independent grocery stores have begun implementing delivery services to be better situated in a market increasingly defined by online sales. Intermediary, application-based services, such as Instacart or AmazonFresh, which both specialize in grocery delivery, are on the rise. Meal kit companies, including HelloFresh and Blue Apron have also risen in popularity. With changing trends in how people purchase groceries, meeting new demand is less tied to a specific geography than it once was.

Furthermore, it is likely that much of the demand from recent population growth in the Transbay neighborhood has already been met by the new Woodlands Market. A University of Washington study about grocery market dynamics found that in Seattle, there were approximately 1,200 households per grocery store.[6] Assuming that there is a similar relationship between groceries and population in San Francisco, while taking into account the Transbay neighborhood's average household size of 1.7 persons, it is plausible that the addition of more housing units may support a new store, assuming that the demand for groceries is not absorbed by omnichannel strategies of existing stores. With nearly 4,000 housing units proposed or under construction in the vicinity, this threshold might be met in the coming years, and an additional grocery store might be supported at that point. However, since the Woodlands Market, which opened in 2017 has already capitalized on recently added households, there is likely a lag before a new grocery tenant would feel comfortable moving into the area, without substantial incentives.[7] Five grocers that Colliers surveyed cited location concerns as factors in passing on the location. Additionally, due to the layout constraints of the space discussed below, it is likely the limited pool of tenants who could function in the space would be direct competitors with the Woodlands Market.

[5] Sopadjieva, Dholakia, and Benjamin, "A Study of 46,000 Shoppers Shows That Omnichannel Retailing Works," January 3, 2017.
[6] Average household size for Seattle is 2.4 persons per household.
[7] Scully, Jason, "Rethinking Grocery Stores," *Urban Land Magazine,* May 16, 2011.

SITE LAYOUT

The developer claims that the non-contiguous layout, with 10,000 square feet below grade, would not lend itself to a large grocer concept. We agree that the layout of the space is an impediment to securing a grocery tenant.

Traditional grocery stores in the United States tend to occupy large-scale, stand-alone buildings, with a majority of the land space used for parking. Overtime, the typical American grocery store has grown dramatically. In 2015, the median supermarket store size was 46,000 square feet, compared to just 35,100 square feet in 1994.[8] Nevertheless, with increased migration into cities, there has also been a shift in the last decade toward grocery store formats that are better incorporated into urban settings. Large chain retailers today are more willing to occupy smaller stores, while niche regional chains and independent specialty grocers well-suited for pedestrian-oriented spaces have also gained in popularity.[9] Full-service supermarkets in dense neighborhoods typically occupy spaces between 20,000 and 40,000 square feet. Smaller format café markets, cooperatives, food halls, and neighborhood markets tend to function best in spaces between 5,000 and 15,000 square feet - the "sweet spot" where it is large enough for one to do most of their shopping, but small enough to have greater site selection flexibility than larger stores.[10]

While subterranean grocery stores face the added challenge of attracting street-level foot traffic down an elevator, they are on the rise in dense cities in the U.S. In San Francisco, Trader Joe's recently opened a subterranean store on 8th and Market streets, and their sales volume is exceeding expectations, according to a site selection specialist who has worked for Trader Joe's in the past. This is an indication that the subterranean aspect of the space is not a detriment in and of itself. However, for the Block 8 location the awkward split of space between the first and underground floors is not well-suited to traditional grocery tenants, First-floor space in predominantly subterranean grocery stores is often minimal, being just large enough for elevators, stair access, and a foyer, while the food departments, aisles, and purchase areas are all located on one level. While a 12,500 square foot space may be adequate for a typical medium-sized store, a 10,000 square foot concourse area is likely too small for most mid-sized chain grocers. In fact, four grocers that Colliers reached out to cited either the size or non-contiguous layouts as reasons for passing. The Trader Joe's site selection specialist anecdotally shared that while Trader Joe's may occupy spaces with similar total square footage, it would normally require off-street loading, which this site also lacks, and a more contiguous configuration.

[8] *Food Marketing Institute*, "Median Total Store Size- Square Feet."
[9] Newberg, Sam, "The rush to build walkable urban grocery stores," *Urban Land Magazine,* March 22, 2011.
[10] Takemoto, Neil, "Sizing down the next generation of urban grocery stores," *Smart Cities Dive.*