Grocery Feasibility Peer Review
Commission on Community Investment and Infrastructure
December 18, 2018

Review of Infeasibility Claims

Parking

- The developer claims that most operators would require on-site parking for customers and that ten spots would not be sufficient.
  - We disagree: while the parking allotment may be 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.

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: the layout of the space is an impediment to securing a grocery tenant.

Neighborhood, and Proximity to Woodland's Market

- The developer claims that most grocery operators they surveyed were concerned with "stepping into an unproven and new market" in the Transbay neighborhood.
  - We agree: the Transbay neighborhood is an unproven retail market and the new Woodlands Market, which is just two blocks from the Block 8 site, will be a direct competitor.

National Trends in Retail

The national retail industry is undergoing a major restructuring

- **Nationally, growth in retail and restaurant sales is concentrated in a few categories** including online sales, food and beverage stores, restaurants and bars, building materials and home furnishings, and health and personal care stores.

- **Major retailers have closed stores in record numbers,** reflecting a national oversupply of retail space, increased competition with online sales, and (for some retail chains) debt obligations associated with leveraged buyouts.

- **Online sales are driving retail sales growth, and expanding into new categories.** Nationally, online retailers accounted for 50 percent of retail sales growth in 2017, with growth in categories including apparel, office supplies, sporting goods, toys, and groceries.

- **Americans are increasingly spending their money on experiences – such as dining, personal services, and fitness – rather than objects.** Increased spending on food away from home, health and wellness, and travel.

Impact of National Trends on San Francisco Retail

After many years of growth, San Francisco's retail sector is slowing.

- Sales tax revenues for general consumer goods have been declining since 2015.
- Commercial rents in many neighborhoods have reportedly plateaued, and vacancies in some areas are increasing.
- Business owners report increased competition with e-commerce and in more categories (e.g., groceries, clothing, personal care goods).
- Fewer traditional retailers are seeking space; increased interest from other uses like gyms and salons.

Grocery Store Competitors

Block 8 Retail Space and Grocery Competitors

- Block 8
- Competitive Grocery Stores
- Transbay Area Half-Mile Radius
- BART Stops
- BART Rail
- MUNI Rail

STRATEGICECONOMICS

Challenging retail environment

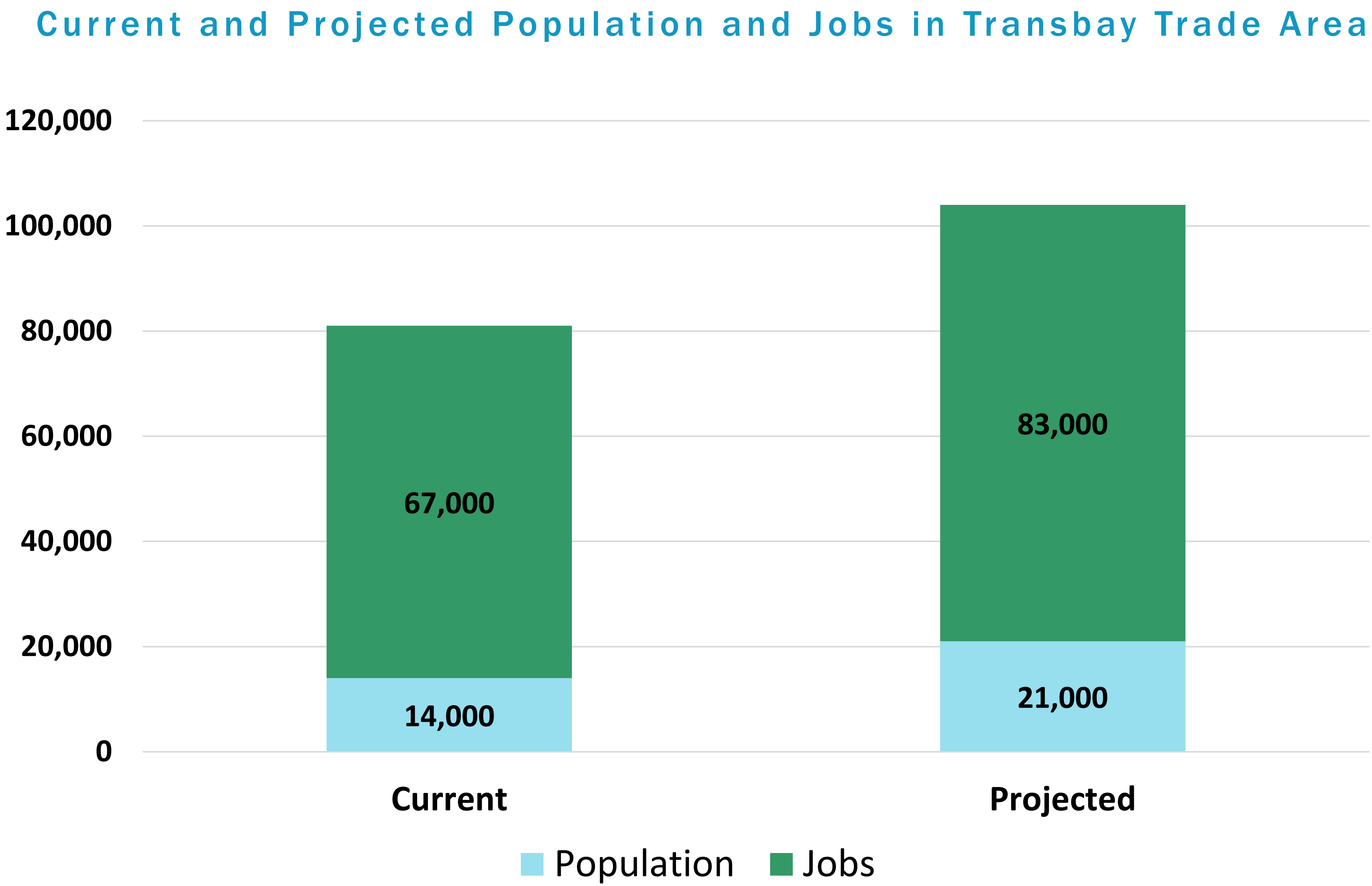
- Increased competition from alternative methods of grocery shopping, such as application-based delivery services.

- Largely unproven retail market in Transbay.
  - Lack of foot traffic.
  - Lack of location with “critical mass”

- High rents. Rents for retail spaces are relatively high when compared to other areas in the city, especially for new spaces.

- Perceptions:
  - Unwelcoming pedestrian environment.
  - Construction on Folsom Street.

Population numbers do not support second grocery store



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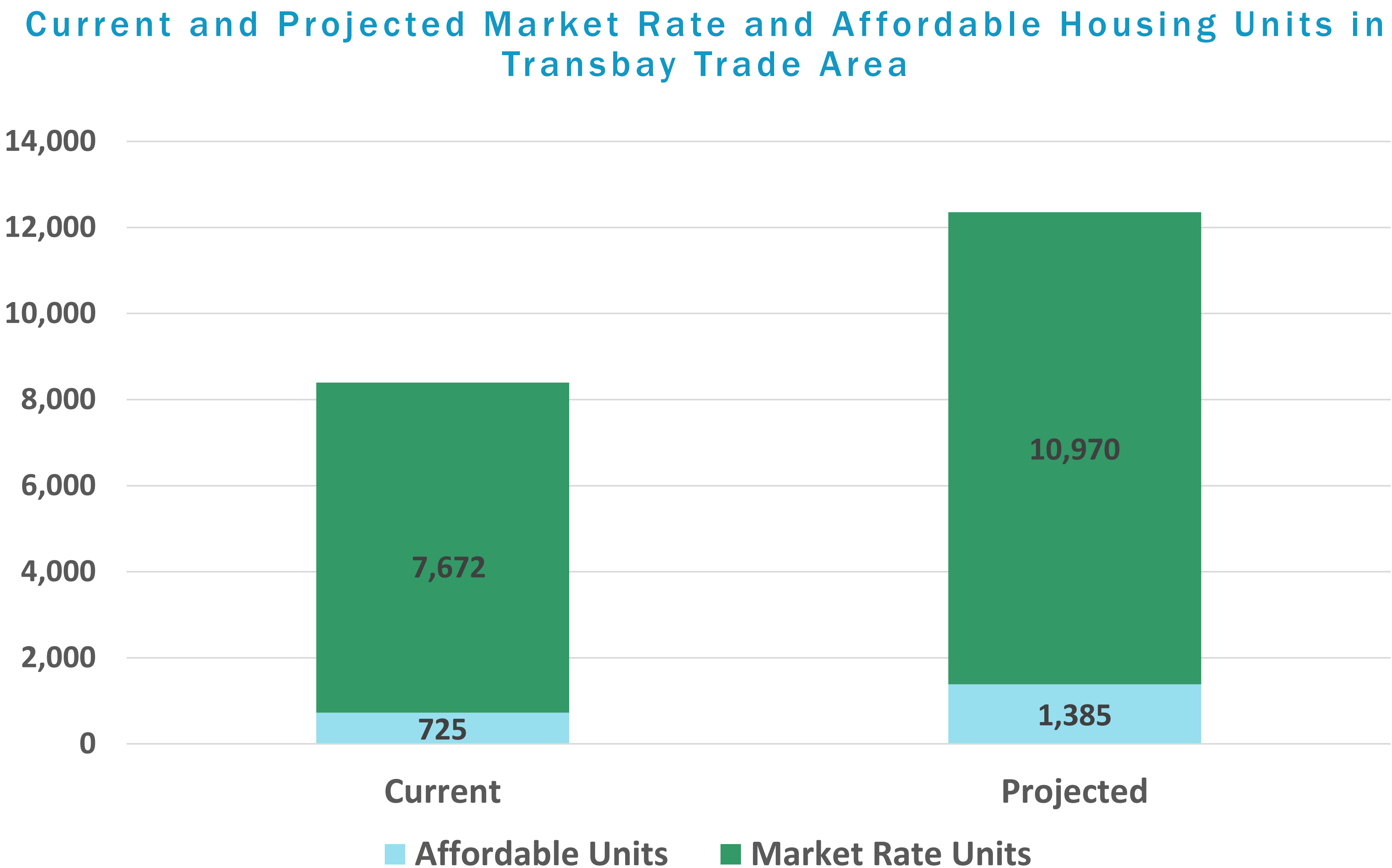
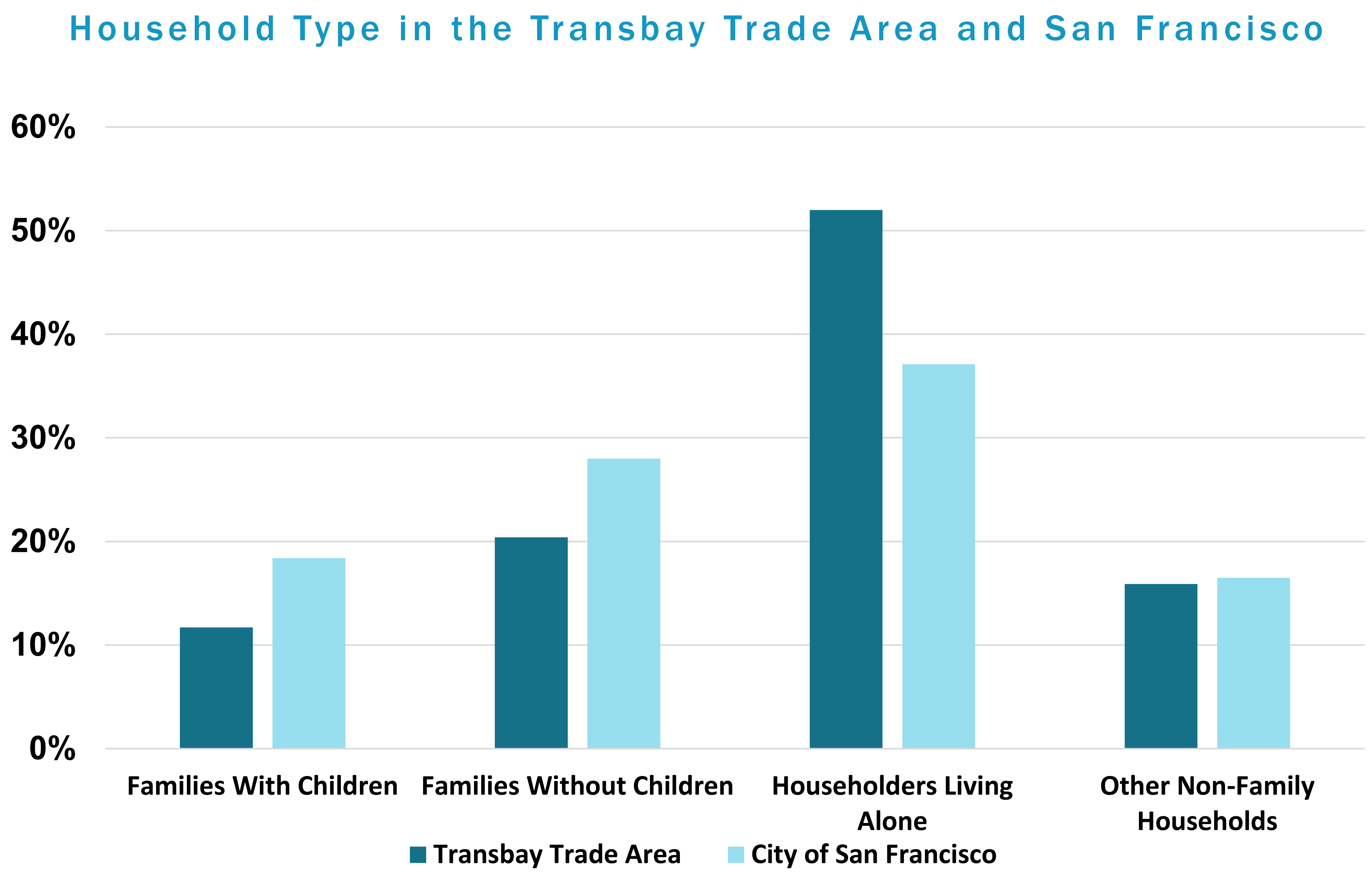
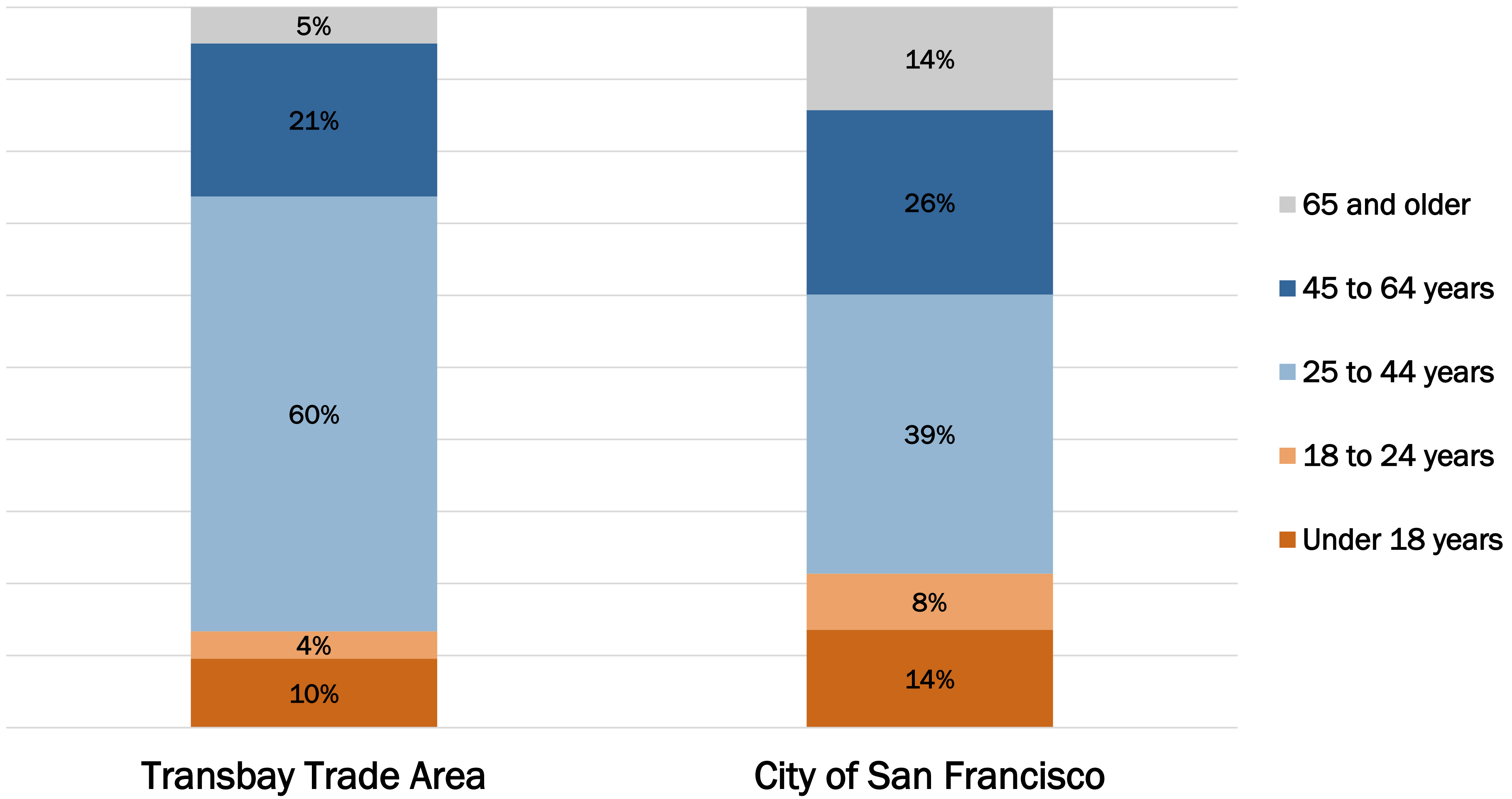


Majority of households are people living alone

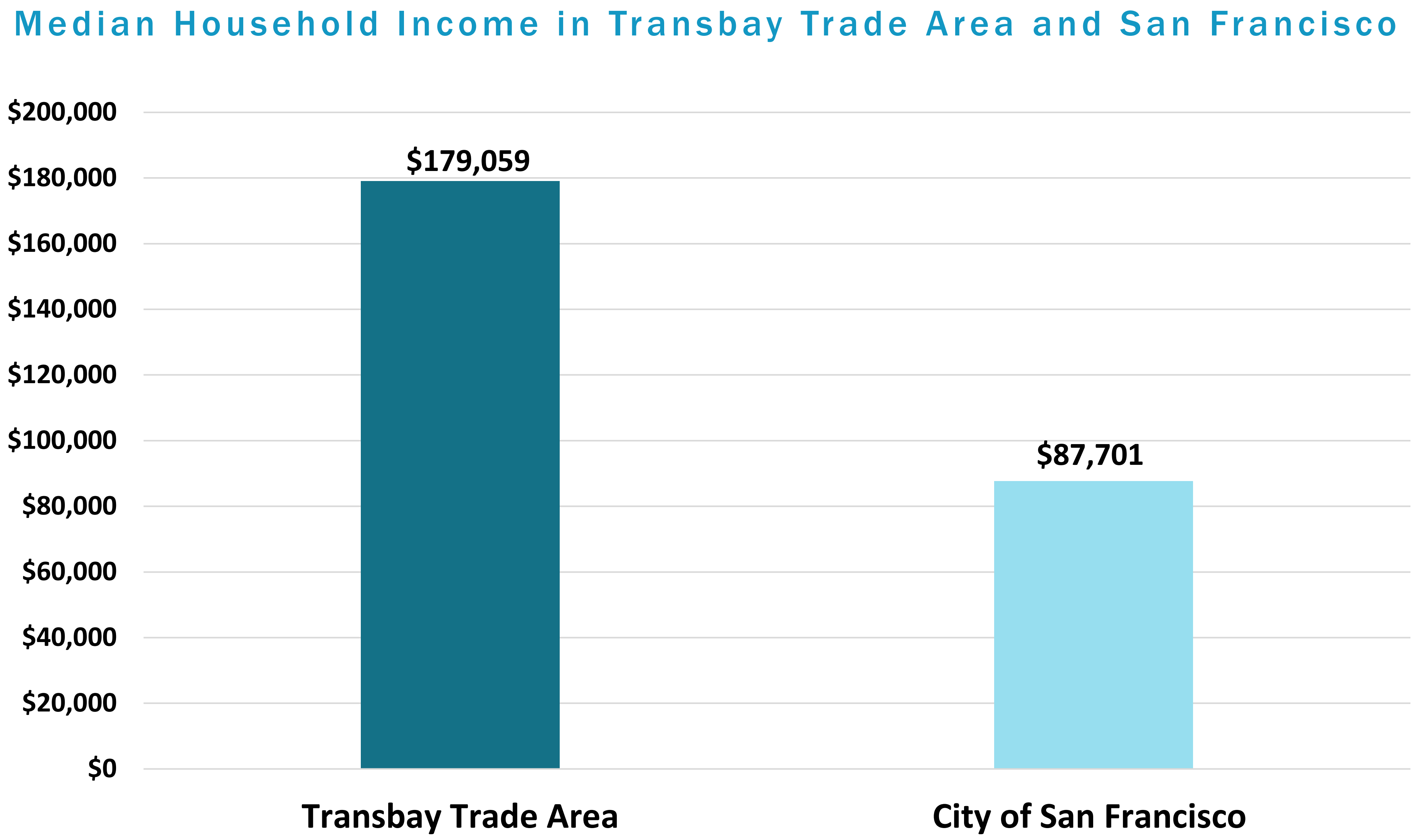


Nearly two thirds of residents are between the ages of 25 and 44 years old

Share of Residents by Age Group in Transbay Trade Area and San Francisco



A large majority of residents earn very high incomes



Implications for Grocery Demand in Transbay

Retail conditions of this location do not support an additional grocery store at this time or in foreseeable future

- The most significant source of demand for retail in the Transbay is day-time users, primarily office workers who commute into the area from throughout the region.

- The Transbay Trade Area is experiencing an influx of new high-income households, which would result in a significant increase in buying power.

- However, the increased buying power does not necessarily translate to a large increase in demand for local retail as younger adults and high-income households conduct a significant portion of their shopping online, and the amount is growing.

Summary of Findings

Review of Infeasibility Claims in Securing Grocer Tenant

- **The evaluation found the determination by Related California and its consultants that a grocery store is not feasible at the development under construction at Transbay Block 8 to be reasonable.**
  - The Transbay neighborhood is an unproven retail market and retail conditions do not support an additional grocery store in the area.
  - Securing a tenant in the Block 8 area, which currently has limited foot traffic and heavy congestion, may require substantial incentives.
  - The new Woodlands Market, which is just two blocks from the Block 8 site, will be a direct competitor.
  - Alternative methods of grocery shopping, such as application-based delivery services, are on the rise.
  - The site's non-contiguous layout is ultimately too difficult for a grocery tenant to overcome.