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To: Jeff Pyle
Economic Development Manager
The City of Hollister

From: Jim Harrigan
Managing Principal
Economic Development Systems

Re: Hollister Retail Project Areas
Retail Analysis, Strategies and Recommendations

City of Hollister Retail Project Areas Analysis, Strategies and Recommendations

Definitions and Delineations

The City of Hollister commercial districts that are being analyzed by Economic Development Systems (“EDS”) in the following Retail Analysis, Retail Strategies and Retail Concept Recommendations will be delineated as follows:

Commercially zoned properties/ parcels that are located in:

- **Historical Downtown Hollister**
- **The West 4th Street Corridor Sites**
- **The Guerra Property**

Before preparing the following retail report and determining the recommended retail category increases, upgrades and diversifications, as listed below, the following protocols, definitions, sources and methodologies were applied:

- Careful consideration was given to the increase, upgrade and diversification recommendations for the shopping and/or dining uses in Downtown Hollister. The reason for this concern is to validate that the upgrades and diversifications within Downtown Hollister would be complementary, rather than competitive, to the existing *successful* retail businesses;
- The recommendations given for the commercially undeveloped

parcels in Hollister were made knowing that "time is money" when it comes to the "carry" on all such properties;

- When the term "retail" is used, we include the categories of "traditional" retail stores, restaurants and entertainment venues;
- The inventories of available retail space opportunities were determined by a field survey by Economic Development Systems and supplemented with property owner and/or commercial real estate broker information. (Further inventory review and analysis would be available during a Phase II - Implementation, and would follow receipt of the Property Owner Questionnaire, attached);
- Direct and paraphrased excerpts in this report were gathered from statistical providers Claritas, Inc. and SitesUSA; the International Council of Shopping Centers' Reference Center; The Hollister Downtown Plan by RBF Consulting; GG+A; the Arlington, Virginia based CLUE Marketing Group; the Solimar Research Group; the United States Census Bureau, and; Hyett-Palma and Associates;
- EDS has typically, in the past, used Claritas and SitesUSA information services for all demographic and psychographic source information. Claritas and SitesUSA has always been the pre-eminent sources of accurate, up-to-date demographic data and target marketing information about the population, consumer behavior, consumer spending, households and businesses within any specific geographic market area in the United States. Because EDS questioned some of the base information provided by Claritas, information by the City's sales tax information provider, HdL, was also utilized;
- EDS working knowledge of retail trends in other downtowns, commercial corridors and neighborhood shopping districts were applied, and;
- Interviews, to identify market perceptions and conditions, were held with professionals knowledgeable with Hollister including brokers and representatives of the City of Hollister.

It should be prominently noted that the assistance provided by the City of Hollister Economic Development Manager, Jeff Pyle, was invaluable in the support given during this fact-gathering and analysis phase.

Executive Summary

Historical Downtown Hollister

Since the Middle Ages, downtowns functioned as the commercial, government, and social hubs of their communities - the places where people came together to conduct business, shop and dine, administer government, relax, and celebrate.

But, communities throughout America have gone through a series of profound transformations over the past several decades that have changed the economies of the nation's downtowns and, as a microcosm, Downtown Hollister.

Many of these transformations are a consequence of the expanding highway system, that has stimulated suburban development and made it possible for people to move farther away from town centers. As people have moved outward, the retail industry - always a market follower, rather than a market leader - has moved outward, also. With the advent of regional shopping centers/malls like Gilroy's Premium Outlet Stores and Salinas' Northridge Mall and superstores like Home Depot, Best Buy and Bed, Bath and Beyond, etc, downtown retailing - the bedrock of a traditional main street district's economic foundation - has slowly eroded...yet, the three historical retail categories are still valid:

- Convenience: Retail goods and services for which shoppers tend to patronize the closest business, like gas stations, dry cleaners, and the "neighborhood" grocery store. "Impulse" retail - like card shops, florists, and ice cream shops - also fall into this category;
- Comparison: Retail goods and services for which shoppers like to compare styles, brands and prices before making a purchase, like apparel, shoes, automobiles, electronics and (sometimes) furniture. For this reason, comparison retail businesses tend to cluster together (e.g., clothing stores in traditional shopping malls; car dealers in auto malls), and a comparison business is likely to be more successful if located in a cluster than if it is freestanding, without related businesses nearby. Internet shopping has also exploited the comparison category;
- Destination: Retail goods and services for which shoppers will travel significant distances. These might include specialty businesses (e.g., western wear or musical instruments), large clusters of related businesses (e.g., restaurants or antiques), or businesses that offer exceptional products/services and that

have developed a very loyal clientele.

In the mid-twentieth century, following World War II, many downtowns offered a blend of businesses in all three categories. Shopping malls, though, specialize in comparison retail businesses (particularly apparel and apparel accessories, like shoes and jewelry) and typically offer enough of a concentration of these businesses to dominate the local market and make it very difficult for downtowns like Hollister to successfully compete in this category. Subsequently...we have to find another way.

Discount superstores and "category killers", which began appearing in the 1970s and 1980s, respectively, have created additional challenges for traditional Main Street districts by saturating additional retail niches. Discount superstores offer such a broad range of merchandise that they put a broad range of existing businesses in the community - or several communities - at risk. By siphoning away even relatively small percentages of sales from existing downtown businesses, discount superstores often make it difficult or impossible for those businesses to achieve the gross sales levels needed to remain in business. And, relative to Downtown Hollister, this siphoning off of sales from an existing downtown can also occur through the re-positioning of major thoroughfares and community traffic patterns.

(These late twentieth century-shopping options also coincided with the fact that consumer buying power – the amount of money people have available to spend on retail goods and services – has not kept up with the rate of growth in the amount of retail space that has been built. This economic fact has exacerbated the “leakage” of consumers and sales to other shopping districts/ areas, further diminishing the collective downtown.)

These effects have not only affected the profitability of the downtown retailer...but it also drove down rental rates, leading to property/ building owners’ deferring or ignoring maintenance responsibilities (as well as decreasing the feasibility for new construction). The result of this syndrome has been the physical and visual blight to the downtown shopping district/ shopping experience.

Interestingly, lower rental rates, while attractive to the under-performing retailer, is no panacea to the successful businessperson who understands that fair rental rates are a necessary component to a successful business district. (It is not coincidental that the most successful retail districts in the world also have the highest rental rates...although, one could argue the primacy order of the “chicken-egg/rental rates-success” theory.)

Another historic feature of an under-performing/low rental rate commercial district is the influx of service businesses (e.g., medical/dental; insurance; real estate offices, etc.), non-profit institutions (post offices, city halls, churches,

libraries, etc.) and/or strictly office-type uses in what one would consider “first-floor retail” locations.

The mixing of these “non-retail” business categories (that in more successful retail districts would - because of the higher retail and lower office rent structure - be located above the first-floor or on secondary / tertiary streets) has the detrimental effect of limiting the “browsing” factor that every successful retail district exhibits.

This fragile retail consumer trait of browsing (e.g., the store-to-store strolling of both casual and serious shoppers) is upset if the retail line-up on the street is interrupted with the aforementioned non-retail business storefronts, empty lots, vacant stores, non-profits and/or even the lack of attractive/interesting window displays/merchandising.

In communities similar to Hollister - that have experienced steady, sustained residential growth and increasing demand for retail goods and services - the typical evidence of change in these downtowns has been most apparent in the same changing types of retail businesses, with community-serving retail businesses that provide the staples of everyday living - like supermarkets, hardware and department stores - gradually giving way to the aforementioned office and service businesses. In Downtown Hollister these phenomena are present in the commercial Downtown core, but will start to change if/when a professional recruitment program is effected through the revitalization of existing buildings, the development of undeveloped land and the natural rise in retail rental rates as the increase, upgrade and diversification of retailers occurs.

This shift that communities have undergone for the last forty to fifty years - from concentrating retail activity in a central business district to diffusing retail activity throughout a number of commercial centers - sometimes blocks or even miles away - transformed downtowns like Hollister into districts that are unable to support the number and mix of retail businesses they once embraced.

This means that to economically compete with this diffusion:

- We must give consumers a very specific reason, or a retail niche, for dining and shopping in Downtown Hollister that they do not have in Gilroy or non-Downtown Hollister retail locations/ districts;
- We must carefully consider Hollister's current zero to ten-mile and zero to twenty-mile trade area (e.g., an area formed by a radius of ten and twenty-mile concentric circles) demographic/ psychographic mix and find this consumer combinations of new,

exciting, attractive "destination" retail uses to occupy Downtown Hollister's first-floor retail spaces, redevelopment space and developable retail parcels *as soon as possible*, as this will not be an overnight effort;

- We must find new ways for these independent retail businesses to find and reach new customers for their and the Downtown's economic health;
- And, we must be very strategic in our recruitment/revitalization efforts, if given the go-ahead for our Phase II - Implementation program. This strategy would initially and necessarily focus on the San Benito Street commercial corridor.

It is therefore the charge of EDS, in the analysis and planning of Downtown Hollister's future economic viability, to restructure and reposition the retail economy of the district, focusing intently on one or two specific, tightly coordinated economic development goals.

Fortunately, there are many opportunities available for older and traditional downtowns like Downtown Hollister. Among the many paths other California districts have successfully pursued:

- A district might develop one or more retail "convenience" niches unique within the 0 to three-mile radius trade area. Many districts have focused on gourmet food items, books, home furnishings, family clothing or, most importantly, any number of other niches with little regional competition;
- A district might create or expand a grouping of unique restaurants; a district might also create enough residential units and small industries or professional offices (on second floors or on secondary/tertiary streets) within the district to provide enough "captive" customers (residents and workers) to support convenience-oriented businesses in many or most of the district's retail storefront spaces. (An added benefit...because this path does not depend on attracting many customers from outside the district, it does not increase demand on parking and traffic infrastructure.)
- A district might intensively target a particular demographic segment whose needs are not being well met within the community or region - "Generation Xers", for example, or

"empty nesters" - and might provide an array of housing, shopping, work, and appropriate entertainment options for them.

Each of these is an example of a market-based strategy - a strategy that is based on the district's specific economic opportunities - that has a specific economic goal. Many districts can successfully pursue more than one market-based strategy simultaneously - but it is unlikely that a district can successfully implement more than two market-based strategies without losing focus and diluting the impact of their work.

Successfully implementing these market-based strategies involves thinking and acting locally and regionally; marketing the district and its businesses creatively and collaboratively by:

- Building strong, collaborative partnerships between the many organizations, agencies and constituents with vested interests in the district;
- Creating an effective, professional, district-wide retail recruitment plan, as we are now accomplishing;
- Implementing this plan, through effective recruitment;
- Crafting a carefully synchronized work plan that reinforces the district's market-based strategies, has the strong support and involvement of all the district's partners, and helps ensure that all the downtown-related tasks undertaken by the district's partners focus tightly on these strategies.

With this charge clarified it should also be noted that the three and ten-mile trade area demand/supply ratio, in favor of the demand over the supply (e.g., leakage outside of the three and ten-mile trade area), is formidable for a City the size of Hollister.

In virtually every retail category, with the exception of "Grocery and Liquor", the demand for these products exceeds the three and ten-mile supply, some by a staggering margin. Examples of only the three-mile leakage:

- Furniture and Home Furnishings...\$9.9 million;
- Electronics and Appliances...\$12.2 million;
- Building Materials and Garden Equipment...\$39.3 million;
- Health and Personal Care...\$10.3 million;
- Gasoline Stations...\$35.1 million;
- Clothing and Clothing Accessories...\$29.3 million;

- Sporting Goods, Hobby, Books and Music...\$11.0 million;
- General Merchandise (Department, Warehouse Stores)...\$42.6 million;
- Full-Service Restaurants...\$12.0 million.

(It should be understood that not all of the aforementioned categories, especially in the "comparison" retail categories, could /should be located in a Downtown retail district.)

With that in mind, the EDS strategy for Downtown Hollister is to recommend an increase, upgrade and diversification of the current tenant mix, focusing *first* on quality "destination" independent restaurants. This effort would, *secondarily*, also include combining unique, visitor-serving retail with new "convenience", neighborhood-serving businesses. This retail strategy's aim would be to attract the three to, approximately, fifteen-mile radius visitor...while keeping the zero to three-mile radius Hollister resident "at home".

The target retail categories that are listed below are defined as retail "leakage" opportunities, e.g., a retail category under-representation, void - or a void within a sub-category - on the attached Claritas zero to three-mile and zero to ten-mile trade area Claritas "*Opportunity Gap*" report.

With this strategy established, EDS, with knowledge of the trade areas' demographics and psychographics (attached) makes the following phased Downtown Hollister retail category recruitment recommendations:

Primary:

- Independent, Full-Service Restaurants (10,000 to 15000 sq. ft.: total of four restaurants):
 - Seafood
 - Italian
 - "Hofbrau-type" buffet
 - Mexican/ American, Tex-Mex
 - Steak
- Jazz/Blues Entertainment Venue

The recruitment of independent "destination" restaurants, by cuisine that is not currently represented, or under-represented (leakage: three-mile, \$12.0M, and; ten-mile, \$4.9M) in Downtown Hollister, will provide the critical mass for establishing an upscale "restaurant district" and, therefore, the "niche" that the Downtown does not now have and will differentiate itself from other downtowns and shopping districts in the Gilroy-Salinas-Watsonville areas.

It is the belief of EDS that independent destination restaurants, and the aforementioned recommendation of a small, club entertainment venue, will be especially important draws for consumers from outside the City's resident population. These businesses will assist in establishing longer hours of operation for the Downtown into the mid-to-later evening with the entertainment venue complementing the restaurants...and the restaurants complementing that entertainment venue.

(Please note: The Hollister Downtown Association has recently proposed a novel "Public Market" retail concept for the corner green space at 4th Street and San Benito. This privately owned and managed business would be modeled after similar public markets in Napa, California and Lynchburg, Virginia that feature food and food products from local and regional producers. EDS believes this to be a *very* interesting proposal for this very important retail corner and, we will lend our expertise for this concept, if called upon to do so.)

Secondary:

- Jewelry

This "comparison" retail category is usually supplied by stores in mall locations. As the leakage "gap" in the three-mile trade area is over \$3.9 million, and over \$5.4 million in the ten-mile, we believe another jewelry store location in the Downtown would flourish.

- Sporting Goods/Hobby/Books/Toys/Games

Also in the "comparison" category are usually sporting goods, hobby, books, toys and games. But, as with the aforementioned "jewelry" category, the sheer difference between the demand and supply, e.g., over \$6.3 million in the three-mile trade area; \$7.8 million in the ten-mile...portends success for an entrepreneur that has the talent to combine the supply of all four product categories under one roof.

Tertiary:

- Home Furnishings

In a three-mile radius, there is a substantial \$2.9 million leakage gap between Home Furnishings supply and demand; \$4.4 million in the ten-mile radius.

There are existing stores in the Downtown that are already marketing within this same retail category and should be aware, and take advantage, of this demand/supply discrepancy.

The West 4th Street Corridor Sites

At some time in the future, when the existing residential neighborhood grows to the point where more "neighborhood-convenience" retail is warranted...then part of one of the current developable sites on the West 4th Street corridor may be needed for discrepancies/voids in the current retail mix.

EDS has also attempted to project these sites as future "destination" locations, as this thoroughfare is the gateway from San Juan Bautista and Highway 101 from Monterey and Salinas. We believe, however, that any destination retail would be more successful and better placed either Downtown or in Downtown-adjacent locations.

These sites may ultimately be best suited for small-scale "mixed-use" or multi-family residential.

The Guerra Site

The Guerra site is located on the southwest corner of the Highway 25 - Hollister Bypass and Meridian Street. This site is comprised of two parcels, one owned by the Guerra family and one owned by the Lowe's Home Improvement. The site has been planned, and approved, as a retail development including a 139,000 square foot Lowe's store and approximately thirteen pad sites that total over an additional 133,000 square feet.

It had been envisioned that in the fourth quarter, 2008, construction would actually begin on the Lowe's building followed eventually by the development of the Guerra property pad sites. As we are now aware, Lowe's has postponed their development until some undetermined time with the Guerra development, no doubt, also postponing their start-date (The Guerra family has not returned EDS' phone messages).

EDS can only guess at the probable, economic reasons why Lowe's has delayed their construction, however, as the need for this category will only be increasing, EDS believes that a Lowe's competitor, if necessary due to protracted, unnecessary delays, could be recruited to another Hollister location...or, if Lowe's is willing to sell their "Guerra" parcel, to that location. (Please note that the Hollister retail market has a strong, current need for the home improvement category of "Building Material and Garden Equipment",

e.g., a three-mile radius leakage gap of over \$39.3 million...and, a ten-mile radius leakage gap of over \$51.2 million.)

Because of this holding pattern that the Guerra site is in, "another Hollister location" needs to be explored at this time, if only because of the immediacy of the Hollister trade areas' demand for retail products and, therefore, prime retail locations.

The "other" Hollister site that would be most viable for retail development, at this time, is the "Gibson" triangular property, located west of the Highway 25 - Hollister Bypass, east of McCray Street, south of Gibbs Drive, with its "point" at the corner of Tres Pinos Road and Airline Highway.

This site could, theoretically, house over 200,000 square feet of national "big box" or smaller, regional and/or "independent" commercial configurations.

Again, as in the Downtown, the target retail category recommendations that are listed below are defined as retail "leakage" opportunities, that is, a retail category under-representation, void - or a void within a sub-category - on the attached Claritas zero to three-mile and zero to ten-mile trade area Claritas "Opportunity Gap" report.

The following retail categories (and *examples* of specific businesses that may be recruitment possibilities) are logical candidates, based on our aforementioned research, for the Guerra or Gibson sites:

- Home Improvement (leakage: three-mile, \$39.3M, and; ten-mile, \$51.2M)
 - Lowe's 160,000 square feet
 - OSH 50,000 s.f.
 - Do-It-Best 30,000 s.f.

- Furniture (\$7.0M; \$9.3M)
 - Strictly Furniture 10,000 s.f.
 - Regional Independent 15,000 s.f.

- Consumer Electronics and Appliances (\$12.2M; 16.6M)
 - Circuit City 30,000 s.f.
 - Ultimate Electronics 30,000 s.f.

- Health and Personal Care (\$10.3M; \$19.4M)
 - CVS 15,000 s.f.
 - Walgreen's 15,000 s.f.

- Family Clothing, Accessories, Shoes (\$25.0M; \$27.8M)
 - T.J.Maxx 40,000 s.f.
 - Ross Dress-for-Less 25,000 s.f.
 - La Curacao 80,000 s.f.
 - Kohl's 60,000 s.f.
 - Marshall's 30,000 s.f.
 - Old Navy 15,000 s.f.
 - SteinMart 35,000 s.f.

- Warehouse Clubs (\$33.6M; \$42.9M)
 - Regional Independent 60,000 s.f.

- Office Supply/Stationary Stores (\$3.0M; \$4.0M)
 - Office Max 18,000 s.f.
 - Regional Independent 10,000 s.f.

- National and Regional Restaurants (balance of the Downtown supply: approximately \$6.0M)
 - Mimi's Cafe 6,000 s.f.
 - Joe's Crab Shack 7,000 s.f.
 - Sizzler 5,000 s.f.
 - Elephant Bar 7,000 s.f.
 - Applebee's 5,000 s.f.
 - Denny's 4,000 s.f.

As you see in the above retail category, square foot breakdown...there are not enough retailers for both sites...no less "anchors" for both sites. Only one location will prevail by attracting the prime tenants, and it will be the one with their shovel in the dirt first.

Jeff, in closing, EDS believes that, although our Hollister retail strategy is valid, credible and sustainable, the implementation strategy will take a number of years to complete.

Downtown vacancies are common and are one of the signs of an underperforming retail district. The good and bad news is that our instincts tells us that a majority of current leases are on a month-to-month basis or will be coming to term within a one-year period, including first-floor office and service uses. These vacancies and lease terminations will provide the fuel for the retail revitalization and retail re-positioning that is needed for the San Benito Street commercial corridor and its intersecting streets.

There will also be a need during this implementation phase to emphasize to

the property ownership of the Downtown that, to validate this retail strategy, the leasing of future vacant first-floor retail space, and the build-out of all Downtown developable land, should be made with their and the Downtown's "long-term" goals in mind, rather than offering the space/land to whomever first shows up with counter-productive, non-retail plans. The incentive to the landlord will be an increase in property rental rates and sale prices, however... a heightened awareness of the Downtown Hollister real estate market potential...and patience...will be needed.

But in any eventuality, Jeff, regarding any revitalization effort specifically in the Downtown...time is of the essence...