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Memorandum

To: Collette Hanna, Economic Development Manager, City of Walnut Creek
Teri Killgore, Assistant City Manager, City of Walnut Creek

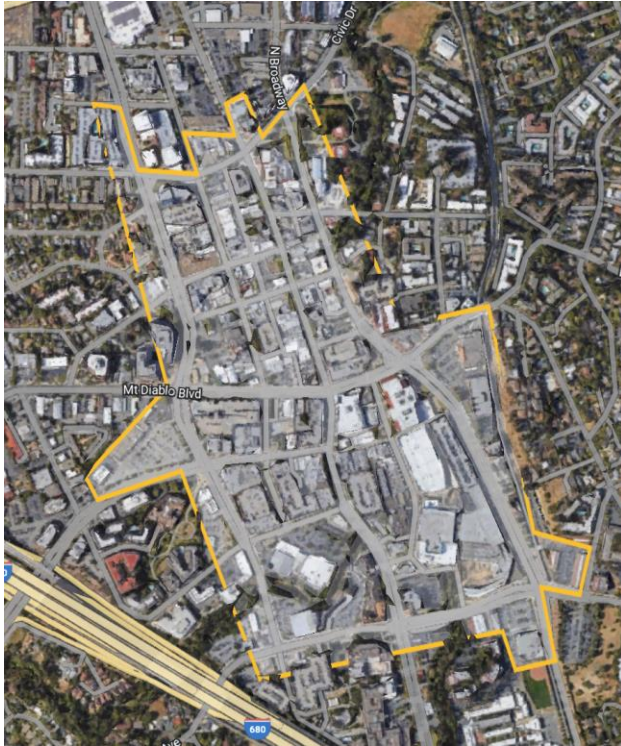
From: Michael Berne, MJB Consulting

Re: Phase I Executive Summary Memo (Final)
Retail Positioning and Tenanting Strategy

Date: November 21, 2022

The City of Walnut Creek’s City Manager’s Office, in an effort to address the pandemic’s impacts on retail occupancy in both the Downtown and citywide, hired MJB Consulting, a Berkeley, CA and New York, NY-based national retail planning and real estate consultancy, to undertake a multi-phase scope of services incorporating analysis, strategy as well as implementation.

Phase I of this scope of work consisted of a nuanced analysis of the market and real estate dynamics affecting the trajectory and potential of the retail mix in the Downtown core, with the goal of understanding its competitive position and future prospects.



The Downtown core is roughly bounded by Civic Dr (to the north), Broadway (east), Newell Ave (south) and California Blvd (west), encompassing retail frontages along each of these perimeter streets.

Phase I tasks included the following:

- Familiarization with past studies and plans as well as specific elements of the 2020 Rebound program and other COVID-related initiatives
- Detailed inventory of ground-floor businesses and existing vacancies in the study area
- Assessment of competing districts and centers that vie for consumers and prospective tenants
- Review of recent economic, real estate and market updates from local brokerages and other experts
- Development of demographic/psychographic profile of core customer(s)
- Reference to appropriate analogs across North America

We conducted one-on-one interviews with the following:

* Each of the five City Councilmembers (in alphabetical order):

- Councilmember Cindy Darling
- Mayor Matt Francois
- Councilmember Loella Haskew
- Mayor Pro Tem Cindy Silva
- Councilmember Kevin Wilk

* Property owners, leasing professionals, business owners and major stakeholders (in alphabetical order):

- Chrystelle Azcona and Michael Strahs, Kimco
- John Cumbelich, John Cumbelich & Associates
- Tracy Dietlein, Macerich
- Shelly Dress, Macerich
- Kathy Hemmenway, Walnut Creek Downtown
- Jennifer Hess, Regency Centers
- Brian Hirahara, BH Development
- Craig Lazzareschi, Greater Bay Development Corp.
- Brian Mirkovich, Retail West
- Stephen Rusher, Colliers
- Shoshanna Smith, Flashlight Books
- Julie Taylor, Colliers
- Tamara Vladic and Jonathan Bartlett, Delicouz

We also tried repeatedly but were ultimately unable to schedule meetings with other major stakeholders, including Garo Kaedjian of Main Street Properties Inc. and Ben Lazzereschi of Jones Lang Lasalle.

The Phase I work product follows below. Keep in mind that, as per the contract, it is not meant to be a full-fledged report, but rather, an “executive-summary memorandum” that outlines the major findings and conclusions. It finishes with general recommendations for the retenanting of six large and/or high-profile spaces that had been vacated in recent years and remained empty upon the study’s initiation.

The memo evaluates the Downtown core’s retail positioning, mix and opportunities solely as a function of market and real estate realities, without considering the matter of practical implementation. While it does offer guidance on some pressing land use/zoning concerns, it generally leaves to the Phase III/IV scope-of-work the task of assessing more comprehensively and recommending more definitively the specific policies, programs, initiatives and regulatory frameworks that the City should institute in the name of supporting and catalyzing retail vitality.

First, though, a Phase II supplement to this memo will offer major findings and conclusions with relation to the retail centers and corridors elsewhere in Walnut Creek. While the city’s 13 anchored strips enjoyed high occupancy in the late 2010’s, some larger spaces (e.g. Stein Mart, McCaulou’s, etc.) have emptied in recent years and overall vacancy now exceeds 10%. Meanwhile, no major tenants have been announced yet for the 14,000 sq ft block of retail space in Phase I of the Walnut Creek Transit Village.

DEFINITION: “Retail” for the purposes of this memo will be defined broadly, to include any uses that are consumer-facing – that is, welcoming potential customers either on a walk-in or subscription basis. This would encompass, then, personal services, food and beverage as well as entertainment venues, while precluding businesses that operate exclusively or primarily by appointment.

Executive Summary

1. Consumer Demand

KEY TAKEAWAY: With its central, easily-accessible location vis-a-vis a large and demographically-desirable trade area as well as its critical mass of upmarket comparison goods stores, Downtown Walnut Creek remains the premier shopping destination in the San Francisco East Bay.

- Downtown draws on a metropolitan sub-region (the “East Bay”) of more than 2.5 million people. To put this into context, the East Bay itself would be the 22nd-largest MSA in the U.S., larger than the MSA’s of Portland, Salt Lake City, Austin, Charlotte as well as most of the major Midwestern metros.

- To provide some sense of its scale, Downtown and immediate environs currently consist of more than 2.9 million sq ft of retail space. While the comparisons are not apples-to-apples, that’s roughly similar in size to Valley Fair and Santana Row (combined) as well as Orange County’s famed South Coast Plaza, and more than twice as large as Stoneridge.

- In psychographic terms, Walnut Creek’s customer base can be generally characterized at present as upper-mid rather than high-end, favoring so-called *contemporary* fashions with a designer aesthetic but (somewhat) more accessible pricing and practical applications. It also caters to growing niche sub-markets, like the Millennial “neo-hipsters” who have entered the family-formation stage and started to suburbanize.

- If ever there was an opportunity to test the hypothesis that “everything is going online”, it has been these last 2 1/2 years. Yet the channel’s market share rose by just 150 basis points, from 11.4% in the first quarter of 2020 to 12.9% in the first quarter of 2022 – which is, given historical growth trends, only slightly ahead of where we would have expected it *without any pandemic*. Put another way, after two years of capacity restrictions and public-health fears, brick-and-mortar still accounted for more than 87% of retail sales.

2. Tenant Demand

- *KEY TAKEAWAY: With its superior co-tenancy and critical mass, Downtown Walnut Creek remains the first choice for most brands looking to expand to San Francisco’s East Bay and the one most likely to benefit from any sort of “flight to quality.”*

- According to CoStar data as of September 2022, 9.0% of Downtown’s retail square footage is vacant – which, if not ideal, still falls below the 10% that is considered “healthy” for a business district (because it allows for some turnover, which enables the district to respond readily to changing market dynamics and stay relevant to the consumer). And of the 243,684 sq ft that remains empty, the Neiman Marcus building (88,000 sq ft) accounts for more than a third.

- Most of the store closures in recent years were not all that shocking to those who had closely followed the industry for years, and arguably said more about the retailers themselves than the Downtown. In fact, the industry has not so much been facing an “apocalypse” as it has been undergoing a changing of the guard in which tired “legacy” brands are simply giving way to newer upstarts which have proven more adept at capturing the imagination of consumers and investors. This is ultimately a *healthy* process, even if quite messy in the short term. However, one should not mistake such instability and churn among tenants for structural vulnerabilities of Downtown Walnut Creek as a whole. If anything, such disruption actually favors such incumbent locations, a phenomenon known as “flight to quality.” When Nordstrom, for example, decided to shutter 16 of its full-price department stores in 2020, it opted to close at Stoneridge and double down on Broadway Plaza as its sole East Bay location. Struggling brands Banana Republic and J. Crew did

the same by exiting Emeryville's Bay Street, leaving Walnut Creek as the only full-price option for either in the East Bay.

- Downtown Walnut Creek does have a fierce new competitor in City Center Bishop Ranch, which is both able and willing to "buy" coveted retailers with percentage-rent deals and generous tenant-improvement packages. And yet, while it did land NIKE, West Elm and Pottery Barn Kids, its collection of comparison goods brands consists largely of chains that already have Downtown locations.

3. Expansion-Minded Retailers

- *KEY TAKEAWAY: There are many tenants on the hunt for new store locations, even in supposedly doomed categories like apparel. The pool might not be quite as deep as it once was, but the opportunities are there, for those willing to look.*

- An online-only business model might obviate the need to pay rent on a physical storefront, but it entails other, more expensive costs, including customer acquisition and retention, last-mile shipping and product returns. As a result, retailers consistently lose money in the channel – even Amazon, which has long struggled to turn a profit on e-commerce, with cloud computing and advertising the divisions that truly drive its bottom line. Brick-and-mortar, on the other hand, can significantly reduce such expenses, and a clicks-and-bricks strategy is increasingly viewed in the industry as the only way to make the overall numbers pencil. Largely for this reason, an ever-growing list of "digitally-native" retailers – the Warby Parker's, the UNTUCKit's, even Amazon itself – have been building robust networks of physical locations in recent years.

- The importance of nurturing a mix diversified in ownership type – including smaller chain-lets, independently-owned businesses and start-up entrepreneurs – cannot be underestimated in Walnut Creek's case, which is largely associated in the public imagination with large national chains. A larger (and more overtly marketed) collection of distinctive shops would help to broaden Downtown's psychographic appeal as well as extend the dwell time and increase the total expenditure of those initially drawn to the major brands – after all, most shoppers prefer a little bit of both.

4. Food, Beverage and Entertainment

- *KEY TAKEAWAY: Downtown Walnut Creek has emerged as a bona fide dining destination in the last couple of decades and continued to evolve with the trends, but will need to keep differentiating and innovating in the face of ever fiercer competition.*

- Many of the new food and beverage concepts in Downtown tend towards the casual, reflecting two trends: 1) the growing influence of the Millennial neo-hipsters, who, with their embrace of "fast-casual" eateries and artisanal food halls, have effectively decoupled quality from formality, believing that gourmet food could also be found *in the absence of* fawning waiters, advance reservations or upscale décor; and 2) the more forgiving cost structure, which provides a clearer path to profitability than sit-down, with even fine-dining chefs and restaurateurs embracing fast-casual as their primary growth vehicles.

- In a fast-evolving category where proposed new concepts might not fit conventional parameters, Walnut Creek will need to match the pace and flexibility of rivals in the granting of approvals and processing of applications. Local landlords and brokers point out that Walnut Creek is at a disadvantage in this area.

- Downtown is well-positioned to tap today's ever-widening array of large-format, mass-market entertainment venues. Such uses reflect the emergence of a more active and urbanized Downtown. Walnut Creek is largely a quiet residential community; this is the one district where more energetic activities might be contemplated. One cannot (or should not) move next to an airport and complain about the noise; the same would seem to apply here, especially when property values and housing prices are elevated by proximity to such amenities.

- While Walnut Creek should strive to broaden its brand so as to incorporate a more youthful, playful and contemporary side, Downtown is not – nor should it try to be – the Mission, or even Berkeley. In-migration trends notwithstanding, the trade area remains a suburban one, with an older median age (40.4) and with empty nesters among its most reliable customers. Any such repositioning efforts, then, will need to be carefully calibrated such that they are not perceived as replacing or contradicting Walnut Creek's existing identity.

5. Quasi-retail uses and the local retail ecology

- KEY TAKEAWAY: In determining whether to allow more flexibility in ground-floor tenanting, planners and policymakers must consider the nuances and imperatives of different retail categories and sub-districts. With this in mind, the P-R zoning in Downtown core should remain largely as is. On the other hand, earlier planning efforts on the periphery might have overreached, and some recalibration there could make sense. This will be revisited in greater detail in the Phase II memo.

- Consumers shopping for comparison goods (e.g. apparel, footwear, accessories, home furnishings/decor) like to “comparison-shop”: they gravitate to districts and centers where there exist a multiplicity of options that vary in style, quality and price. For this reason, once the number of options falls below a certain threshold, the appeal can start to drop precipitously – hence, the importance of what industry professionals call “critical mass.” The retailers, meanwhile, are drawn to the significant co-tenancy, to the visibility and cross-traffic generated by each other, but will scatter as the cluster starts to shrink. Indeed, this is one of the reasons why once-lofty regional malls tend to collapse as quickly as they do.

- Where Downtown, then, can still realistically hope for these sorts of businesses, prime storefronts should continue to be preserved for them, rather than opened to a wider range of possible tenants. Allowing other quasi-retail uses, many of which are far more eager to do deals and willing (as well as able) to pay more for space, might maximize rent levels and property values, but at the expense of existing clusters that rely on critical mass and can unravel in a hurry in its absence.

- Not insignificantly, many of these quasi-retail uses cited by landlords and brokers are simply uninteresting to most pedestrians. Title companies, for example, might be creditworthy tenants with reasonably attractive facades, but they do not excite passersby or contribute all that much to street-level vitality. Upon approaching such a business, one is not motivated to walk further, to see what else lies beyond; rather, he/she is more likely to conclude that the shopping district is ending.

- Even on blocks where comparison goods retail is perhaps less likely, the case for relaxing the P-R use restrictions seems weak. With a vacancy rate that has dropped by 5% (500 basis points) in the last two years, the historic core is far from broken, and the notion that it is in some kind of free fall or primed for lower-quality tenants seems like hyperbole, with ample demand from another category, food and beverage, that is also permitted as-of-right in the P-R zone and more likely than the quasi-retail uses to reinforce Downtown's destination appeal.

- While such tenants could help to underwrite modernizations of dated or disinvested properties in the historic core, there may be some value in retaining a subset of Class B and C buildings that can provide a collection of affordably-priced retail spaces for small businesses and early-stage entrepreneurs, especially in a Downtown like Walnut Creek's, which has long been associated with large national brands and would likely benefit from both the reality as well as the perception of a more balanced mix.

Downtown: Still #1 in the East Bay (Consumer Demand)

KEY TAKEAWAY: With its central, easily-accessible location vis-a-vis a large and demographically-desirable trade area as well as its critical mass of upmarket comparison goods stores, Downtown Walnut Creek remains the premier shopping destination in the San Francisco East Bay.

It is typical, even understandable, that communities think of their trade areas as stopping at the municipal boundaries, but the reality is that most consumers routinely ignore political jurisdictions.

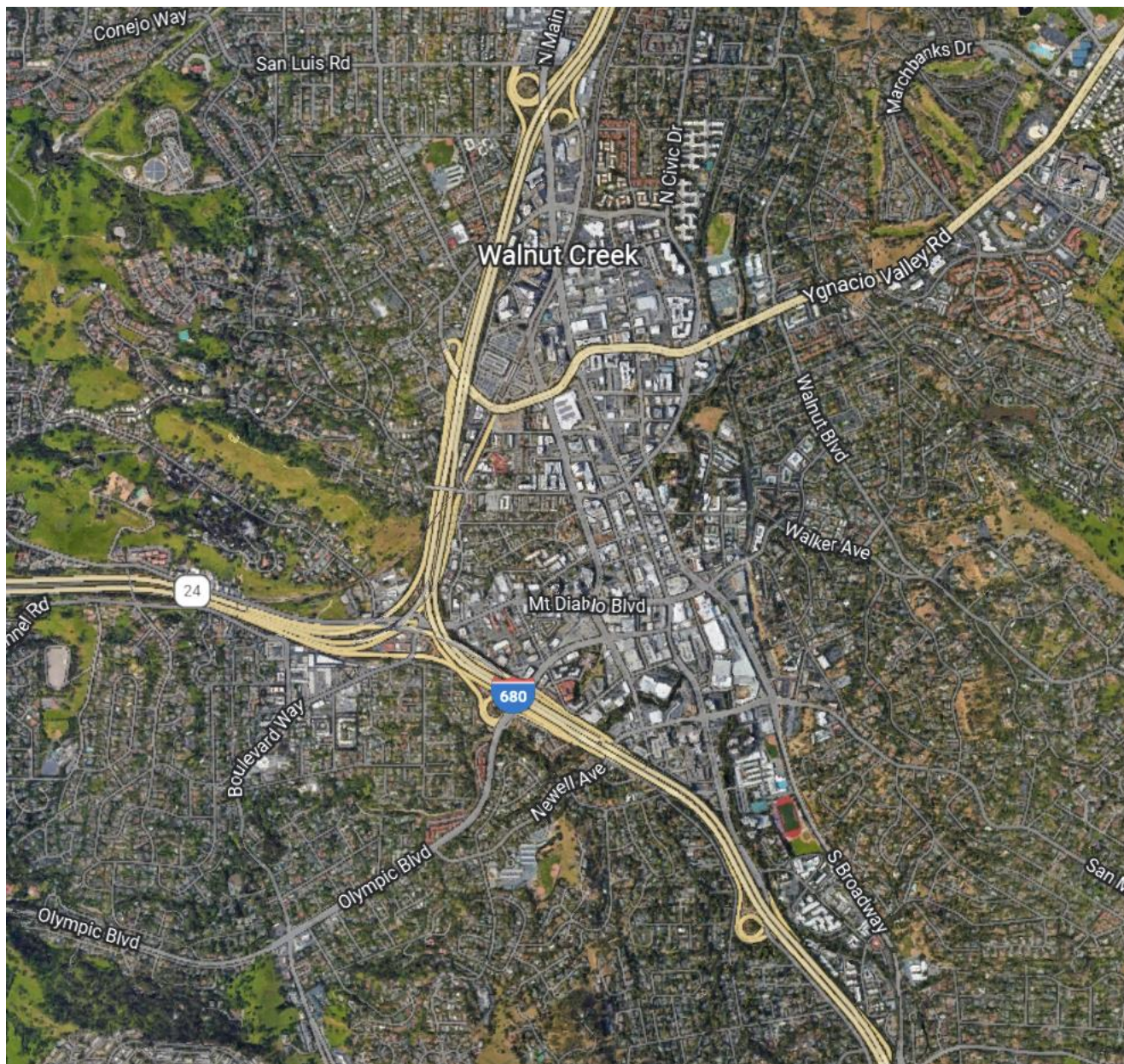
Our willingness to travel further afield depends to a significant extent on what we plan on buying. We typically stay close to home (or work) for “errands”, like groceries, prescriptions, dry cleaning and coffee. After all, why drive to Lafayette for a Safeway, a CVS or a Starbucks when the same brands can be found in one’s own neighborhood?

However, for so-called “comparison goods” like clothing, footwear, furniture and sit-down dining, we are generally willing to travel farther away for larger destinations where we can *comparison-shop* from among a number of options that vary on the basis of style, quality and/or price.

Downtown Walnut Creek contains both of these kinds of retail. The conveniences along the periphery – Newell Ave, Broadway and California Ave – draw from relatively tight geographies that do not even extend across the entirety of the city’s footprint, while the comparison-driven mix centered on Broadway Plaza pulls from across the East Bay.

Delineating the trade area boundaries of the former is a relatively straightforward process, but the latter is a faster-moving target subject to a wider array of factors, some more qualitative in nature. Given its importance to Walnut Creek’s fiscal stability and civic identity, it warrants particular focus here.

Downtown’s most important attributes in this respect are: 1) its superior access as a result of its location at the East Bay’s “Main and Main” intersection of CA 24, I-680 and Ygnacio Valley Boulevard; 2) its unique combination of a “Class A” regional mall and a historic “Main Street” district (which could be leveraged further); and 3) its established brand and critical mass as a shopping destination, which tends to build on itself over time owing to the gravitational pull of existing clusters.



Indeed, according to CoStar, Downtown and its immediate environs currently consist of about 2.7 million sq ft of retail space. While the comparisons are not apples-to-apples, that's roughly similar in size to Valley Fair and Santana Row (combined) as well as Orange County's famed South Coast Plaza, and more than twice as large as Stoneridge.

As a result, it remains today the premier shopping destination for a metropolitan sub-region (the "East Bay") of more than 2.5 million people. To put this into context, the East Bay itself would be the 22nd-largest MSA in the U.S., larger than the MSA's of Portland, Salt Lake City, Austin, Charlotte as well as most of the major Midwestern metros.

And it has continued to grow amidst the pandemic. According to the California Department of Finance, Contra Costa was the only one of the Bay Area’s six core counties to increase in population last year, adding roughly 4,000 new residents in 2021 – a +0.3% change, compared to -0.5% for both the Bay Area as well as the state.

POPULATION DECREASE

California’s population declined in 2020 for the first time since 1900, in part because of the COVID-19 pandemic. In the Bay Area only Contra Costa County saw population growth last year.

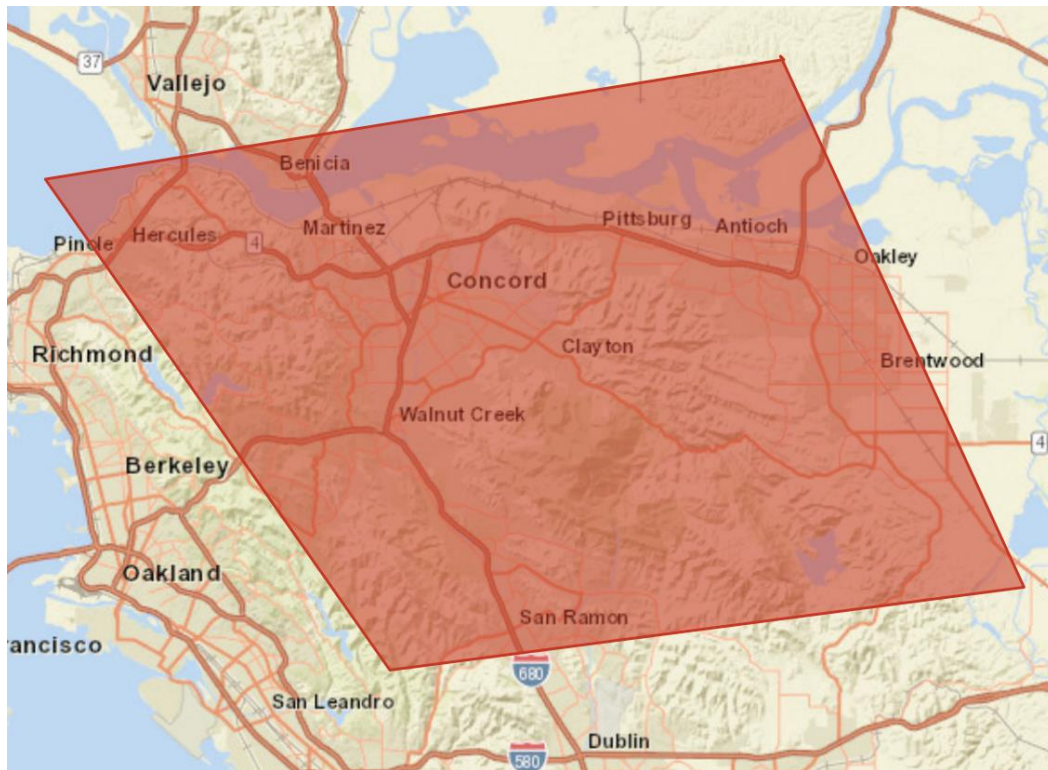
Bay Area county	2020 Population	2021 Population	2020-21 total change	2020-21 % change
Contra Costa	1,149,853	1,153,854	+4,001	+0.3%
Alameda	1,663,114	1,656,591	-6,523	-0.4%
Santa Clara	1,945,166	1,934,171	-10,995	-0.6%
San Mateo	771,061	765,245	-5,816	-0.8%
Marin	260,388	257,774	-2,614	-1.0%
San Francisco	889,783	875,010	-14,773	-1.7%
State total	39,648,938	39,466,855	-182,083	-0.5%

Source: California Department of Finance

BAY AREA NEWS GROUP

Indeed, one would think that the prospect of hybrid work – say, three days in the office, rather than five – makes a Contra Costa address somewhat more palatable for those who commute to and from Silicon Valley or San Francisco.

Of course, Downtown does not draw regularly from across the whole of the East Bay. But even if one were to limit its draw to a much smaller “primary” trade area bounded roughly by the Carquinez Strait (north), the East Bay Hills (west), San Ramon (south) and the Delta east of SR 4 (east), the geography would still contain some 839,000 people, projected to continue growing at a per-decade rate of 6.4% (according to 2021 ESRI data).



Map of Walnut Creek’s smaller “primary” trade area

Not surprisingly, with all of the affluence in Lafayette, Orinda, Danville, San Ramon as well as Walnut Creek itself, this demographic compares favorably to the state as a whole. Roughly half of the trade area’s employed population works in management/business/financial or professional occupations, and the median household income is \$113,000, with 76,000 households earning \$200,000+.

	Primary Trade Area	State of California
Population Growth, 2010 to 2021	+6.7%	+6.0%
Median Household Income, 2021	\$112,429	\$80,044
% Households Earning \$200,000+, 2021	24.8%	13.7%
Median Home Value, 2021	\$750,364	\$625,650
% Homes Valued \$1,000,000+, 2021	29.3%	20.3%
% B.A. Degree or Higher, 2021	45.6%	35.7%
% Management/Business/Financial and Professional	50.7%	43.8%
% Homeowners	68.8%	55.9%

Table of Primary Trade Area Demographics
Source: ESRI, MJB Consulting

Such quantitative data, however, is only part of the picture. After all, those with higher incomes do not all behave the same as consumers. San Francisco is also affluent: it does not dress like Walnut Creek. Such differences are often rooted in “psychographics”, that is, lifestyles, aspirations and sensibilities, which can help to shed light, for instance, on why certain styles,

brands, messaging and in-store atmospherics seem to gain traction in some sub-markets and not others.

Major data-mining outfits like ESRI and Nielsen-Claritas have long offered lifestyle segmentation systems that characterize populations in **psychographic** terms, but in our experience, these classifications often do not provide the level of detail and nuance needed to properly understand complex urban and metropolitan trade areas, so we at MJB Consulting have developed our own proprietary typology as an additional layer to such schemes.

Consider the case of Nordstrom versus Neiman Marcus: both are upscale department stores, with an overlap of designer labels, yet the former has excelled in Walnut Creek while the latter did not even last a full decade. Neiman has been dealing with other problems – most notably, a heavy debt load stemming from a private-equity takeover – yet these varying performances might also have something to do with the trade area’s psychographic makeup.

Macerich had thought that it could transform Broadway Plaza into a premium shopping destination akin to Stanford Shopping Center or Union Square. That Neiman ultimately shuttered, and that no luxury fashion houses followed in its stead at the time, suggests that there might be only so many free-wheeling spenders in the trade area and that the overriding sensibility is not an especially showy or glitzy one.

In psychographic terms, then, Walnut Creek’s customer base can be more accurately characterized as upper-mid than high-end. Nordstrom reflects such an orientation. It offers *enough* of the luxury to service the level of demand while at the same time appealing to a somewhat broader range of preferences and budgets – a balance in product mix and brand identity that the chain as a whole has managed to strike for decades.

[A November 6th, 2019 piece from the *San Francisco Chronicle’s* Culture Desk](#) inadvertently makes this same point. Extolling Walnut Creek’s unapologetically dressy culture, Flora Tsapovsky writes:

Heading east out of Oakland, you pass through the tunnel, over the rolling hills of Orinda and Lafayette and arrive in Walnut Creek. Here there is not a single Uniqlo puffer in sight. Instead, manicured women in Tory Burch dresses and well-preserved men in pastel Lacoste button-ups dot the town square, making tremendous effort on what seems like just an ordinary Friday afternoon. Whole families look like they’ve stepped out of a Draper James campaign. Matching bags and shoes, without a shade of irony. Coiffed hair and nails to match. In Walnut Creek, dressing to impress is the local currency.

What this describes, and the brands it references (i.e. Tory Burch, Lacoste, Draper Jones), would be more properly characterized in the industry as *contemporary* fashion, with a designer aesthetic but with (somewhat) more accessible pricing and practical applications. The column

also goes on to depict Walnut Creek’s “preppy, polished style” as “New York’s Upper East Side meets Pleasantville”, but the Pleasantville bit would likely make Neiman’s core shopper cringe.

News that both Chanel and a Louis Vuitton pop-up will be opening at Broadway Plaza reflects the recent reorientation of luxury fashion houses towards the perceived stability and openness of the U.S. economy (and away from China) as well as the strength of the U.S. dollar. Indeed, such brands are today willing to consider a far wider array of possible locations in the U.S. than in the past, including suburban malls. Chanel, for instance, is also planning stores at ones outside Detroit and Nashville, Gucci in Columbus, Austin and San Antonio, Givenchy in Atlanta and Philadelphia, etc. Of course, it remains to be seen whether others will follow suit in Walnut Creek and whether they ultimately meet expectations there.

Of course, Walnut Creek’s customer base is a multi-layered one. Downtown draws from such a large geography and catchment that it is also able to attract and sustain niche concepts geared towards very specific tastes and sensibilities because even just a small percentage of the trade area’s overall consumer demand can still translate to absolute numbers of potential customers that meet or exceed minimum thresholds.

As just one example, the “neo-hipsters” -- upwardly-mobile yet progressively-minded professionals rooted in contemporary urban culture – might remain most heavily concentrated in, and more closely associated with, San Francisco and the inner East Bay, yet they also comprise a growing share of the trade area, and enough of a submarket there to impact Walnut Creek’s retail mix on the edges.

Their presence helps to explain, for instance, the popularity of Urban Outfitters, which currently ranks among the city’s top four comparison goods retailers in sales-tax revenue along with Nordstrom, Macy’s, Shane Co. and Apple. (It is unclear whether Urban Outfitters, for tax-reporting purposes, also includes Anthropologie, a sister brand to which Urban Outfitters’ customer base is thought to “graduate”).

This neo-hipster contingent has also spawned new retailers in Walnut Creek like Warby Parker. The stylishly urbane yet affordably-priced eyeglasses brand appeals across a broader spectrum of shoppers today, but it emerged initially from that psychographic substrate, from which it continues to draw heavily in its brand positioning (image below).



The trade area's neo-hipsters might be concentrated to the north at the moment, in more affordable communities like Pleasant Hill, Concord and Martinez, but they probably account for a sizable percentage of those living in and moving to the mid-rise apartment complexes rising in Downtown Walnut Creek. And for many of the brands like Urban Outfitters and Warby Parker that cater to them and require Class A locations, Walnut Creek remains the only true alternative on this side of the East Bay Hills.

The Suburbanizing Neo-Hipster

The arrival of this psychographic is a reflection of demographic realities, with Millennials – the ones who fueled urban vitality in San Francisco, Oakland and other large cities these last few decades – now entering family-formation stage and looking to suburbanize.

This trend was no doubt accelerated by the arrival of COVID-19. According to the U.S. Census Bureau, 20 to 34 year old's left San Francisco at more than twice the rate of the population as a whole between July 2020 and June 2021, at least partly accounting for Contra Costa County's aforementioned growth. It would have happened even without the pandemic, though, and it can be expected to continue in the coming years. Indeed, according to ESRI data, the percentage of 25 to 44 year old's in the primary trade area is projected to increase from 25.7% today to 26.9% in 2026.

Neo-hipsters, however, are a bit different from the suburbanizers of generations past: yes, they want the greater square footage, the better school systems and the big-box stores, but they *also* insist on bringing a little bit of urbanity with them. In the process, they are transforming retail development and tenanting in the East Bay and nationwide, attracting formats and concepts that would never have considered such settings in the past.

Consider City Center Bishop Ranch, which represents an attempt to create an urban-esque gathering space within the quintessential suburban office park, with a decidedly hipper food and beverage mix to match. Or the pockets of street-level vitality in Downtown Lafayette, along Lafayette Circle (e.g. Lafayette Public House, ROAM Artisan Burgers) and Lafayette Plaza Park (e.g. Sideboard).

This phenomenon has all sorts of implications for policymaking, not only in terms of density – the aspect that tends to absorb much of the attention among longtime residents – but also, retail mix. Indeed, neo-hipsters generally do not ascribe any stigma to several uses that older populations tend to denigrate or fear, like quick-service dining, second-hand clothiers, skate shops or tattoo parlors. (Note: 49% of Millennials boast one or more tattoos).

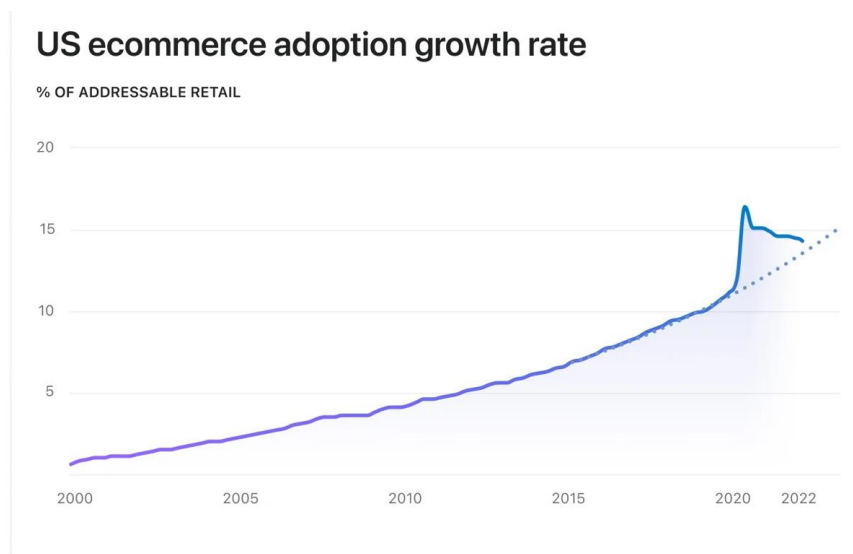
Finally, Downtown offers just a smattering of value-oriented medium boxes and mid-market mall staples. Indeed, Gap, Uniqlo and Forever 21 left the submarket. This is not necessarily a matter

of demographics, however. Even the aforementioned high-income shoppers in Walnut Creek’s trade area are willing to shop off-price (at San Francisco Premium Outlets, for instance). Rather, it likely has more to do with Downtown’s higher rents compared to nearby alternatives in the trade area, like Sunvalley, where, not coincidentally, all three of those brands have kept their stores while exiting Walnut Creek.

The Truth About E-Commerce: Part 1 (Consumer Demand)

The prevailing assumption, among laypersons and journalists as well as many in the industry, is that “everything is going online.” If ever there was an opportunity to test that hypothesis, it has been these last 2 1/2 years.

Yet while we heard incessantly during spring 2020 that there was going to be “ten years of online growth compressed into six months”, the channel’s market share rose by just 150 basis points, from 11.4% in the first quarter of 2020 to 12.9% in the first quarter of 2022 – which is, given historical growth trends, only slightly ahead of where we would have expected it *without any pandemic*. Put another way, after two years of capacity restrictions and public-health fears, **brick-and-mortar still accounted for more than 87% of retail sales.**



Source: US Census Bureau

It is also important to note that these percentages *include* curbside and in-store pickup as well as ship-from-store. That is, when a consumer purchased an item online and then retrieved it at the physical store (or received it as a delivery from a physical store doubling as a fulfillment center), *that sale was credited to e-commerce*. In other words, the share of expenditures involving or requiring brick-and-mortar likely approached if not exceeded 90%, matching the reports from individual retailers like Target.

Obviously, these percentages vary widely across categories, and online sellers like Amazon have succeeded in grabbing considerable market share in apparel and footwear, two categories that obviously loom quite large in Walnut Creek’s Downtown. Yet such expenditures have historically skewed more towards wardrobe basics -- white tees, boxer briefs and tube socks, for instance -- rather than true fashion, where the case for brick-and-mortar primacy remains intact.

Indeed, while the conventional wisdom is that consumers stopped buying clothes and shoes during the first year of COVID-19 because they were no longer working or socializing in public, the reality is that such purchases started to

climb in 2021 once it felt safer to visit physical stores again (and well before the return to the office, which still remains uncertain) -- *because that's how we generally prefer to shop*, at least for true fashion (versus wardrobe basics). In other words, we might just be approaching a natural ceiling to online market share.

Downtown: Still #1 in the East Bay (Tenant Demand)

KEY TAKEAWAY: With its superior co-tenancy and critical mass, Downtown Walnut Creek remains the first choice for most brands looking to expand to San Francisco’s East Bay and the one most likely to benefit from any sort of “flight to quality.”

This last point provides a segue into the second and arguably more important component of any retail market assessment. Retail, after all, is not just about the market in which consumers buy goods and services from businesses: there is *another* market, related to the first yet also needing to be analyzed on its own terms, in which tenants lease ground-floor space from landlords.

In order to understand the dynamics of this second market, one must consider the current vacancy rates, available spaces, occupancy costs and leasing structures as well as the interests, capacities and resources of property owners.

Retail market analyses often calculate “sales leakage” in different categories, comparing what trade area residents are spending to what businesses are grossing. If the former is greater than the latter, sales are said to be “leaking” – and theoretically, capable of being “re-captured”, on the basis of which “supportable” square footages are computed. We have not utilized such a methodology, as we find that it is severely flawed and does not accurately reflect what drives tenants to open in certain districts and not others. Rather, we believe that these decisions are more often made in response to other variables, like psychographic alignment, relevant co-tenancy, occupancy costs (as a percentage of gross sales), nearby alternatives, etc.

According to CoStar data as of September 2022, 9.0% of Downtown’s retail square footage is vacant – which, if not ideal, still falls below the 10% that is considered “healthy” for a business district. And of the over 243,000 sq ft that remains empty, the Neiman Marcus building (88,000 sq ft) accounts for more than a third.

But Don’t We Want Zero Vacancy?

Some level of retail vacancy is actually desirable because it allows for turnover, which enables the district to respond readily to changing market dynamics and stay relevant to the consumer.



Map Source: John Cumbelich & Associates Retail Market Overview quarterly report

	Total Square Footage	Vacant Square Footage	Vacancy Rate	Effective Vacancy Rate
1) Broadway Plaza	990,000	95,605	9.7%	8.8%
2) Historic Downtown	622,990	67,130	10.8%	8.7%
3) West of California	268,880	11,439	4.3%	4.3%
4) Plaza Escuela	70,303	10,015	14.2%	14.2%
5) Target	143,771	0	0.0%	0.0%
6) East of Broadway	91,101	5,196	5.7%	0.0%
7) Olympia Place	114,627	1,866	1.6%	0%
8) The Corners	119,850	25,739	21.5%	5.0%
9) North of Civic	77,936	2,547	3.3%	0.0%
10) Main Street Plaza	75,687	10,345	13.7%	13.7%
11) South of Newell	62,821	0	0.0%	0.0%
12) Newell Promenade/Agora	56,510	13,802	24.4%	24.4%
TOTAL	2,694,476	243,684	9.0%	7.4%

Retail Vacancy Rates By Subdistrict (CoStar, 9/22; City Manager’s Office).

It is also important to note that at least some of the more stubborn vacancies, particularly in the historic core, might be attributable in part to landlord expectations with regard to rent levels and buildout assistance as well as the current conditions of some buildings, perhaps less so to market dynamics and tenant interest.

Overall, conditions in Walnut Creek’s Downtown compare quite favorably to those in San Francisco’s Union Square, where, according to a prominent local brokerage, the effective retail vacancy rate currently ranges from 25% to 29% (depending on boundaries); Santa Monica’s Third Street Promenade, where 23% of the storefronts were empty as of 1Q 2022; and Santa Barbara’s State Street, at 18.7% as of 2Q 2022.

The 9.0% rate is still considerably higher than that which prevailed throughout the early to mid-2010’s. Much of this stems from Macerich’s aforementioned addition of 315,000 sq ft of new retail inventory to Broadway Plaza. (Neither the Veranda, which opened in 2017, nor City Center Bishop Ranch, in 2018, exerted as much of a pull on comparison goods retailers).

Macerich filled the space partly by leveraging its dominant position in Downtown and signing leases with existing tenants from nearby blocks (e.g. Apple, Lululemon, Sephora, Tommy Bahama, H&M, etc.), leaving several prominent vacancies at a time when a number of national brands, due largely to private-equity ownership, were contracting if not liquidating.

All of this had started to happen *prior* to the arrival of COVID-19. The pandemic certainly made matters worse, though it is worth noting that more than half of the increase in the vacancy rate during that time could be attributed to Neiman Marcus’ departure.

Indeed, most of the store closures in recent years were not all that shocking to those who had closely followed the industry for years, and arguably said more about the retailers themselves than the Downtown. Gap’s struggles with its namesake brand have not been a secret, while Forever 21, Destination Maternity, Pier 1 and Neiman Marcus all declared bankruptcy.

Meanwhile, retail marches on. Contrary to what one hears from countless landlords, brokers and observers, there *are* in fact many tenants on the hunt for new store locations, even in these supposedly doomed categories. The pool might not be quite as deep as it once was, but the opportunities are there, for those willing to look.

Indeed, according to Jones Lang LaSalle, 2021 actually saw a net *increase* of 76.1 million sq ft of leased retail space across the U.S., with apparel as the category with the second-highest number of new store announcements.

In fact, the industry has not so much been facing an “apocalypse” as it has been undergoing a changing of the guard in which tired “legacy” brands, many of them staples of our formative years

(and their demise all the more traumatic for that reason), are simply giving way to newer upstarts which have proven more adept at capturing the imagination of consumers and investors.

This is ultimately a *healthy* process, even if quite messy in the short term. However, one should not mistake such instability and churn among tenants for structural vulnerabilities of Downtown Walnut Creek as a whole. If anything, such disruption actually favors such incumbent locations, a phenomenon known as “flight to quality.”

When Nordstrom, for example, decided to shutter 16 of its full-price department stores in 2020, it opted to close at Stoneridge and double down on Broadway Plaza as its sole East Bay location. Struggling brands Banana Republic and J. Crew did the same by exiting Emeryville’s Bay Street, leaving Walnut Creek as the only full-price option for either in the East Bay.



The former Banana Republic Women store at the Emeryville’s vacancy-filled Bay Street shopping center.

For select larger-format retailers already in the trade area, Downtown Walnut Creek is even appealing enough to justify another, smaller location. Both Barnes & Noble and Ethan Allen are both opening such stores – measuring 13,000 and 7,000 sq ft, respectively – while retaining their existing ones in nearby Concord.



A growing number of medium and big-box retailers are rolling out new, smaller formats – like Ethan Allen’s “Design Center” prototype – that can more easily fit within coveted Downtown districts.

Downtown does have a fierce new competitor in City Center Bishop Ranch, which is both able and willing to “buy” such tenants with percentage-rent deals and generous tenant-improvement packages. And with a subset of more self-consciously hip and urban brands intent on opening just one store in the East Bay, it has to compete for attention with Berkeley’s Fourth Street.



HAY, a Danish purveyor of contemporary furniture, is an example of the kind of neo-hipster retailer for which Downtown Walnut Creek has to compete with Berkeley’s Fourth Street, where the brand recently opened its first (and likely, only) East Bay store.

Ultimately, however, Walnut Creek’s co-tenancy and critical mass reign supreme, resulting in estimated average sales per sq ft at or above \$1,000 per sq ft that justify the relatively high occupancy costs. (For the sake of comparison, a “Class A” mall is defined as one grossing \$500 per sq ft). Even Bishop Ranch, while able to land NIKE, West Elm and Pottery Barn Kids, consists largely of chains that already have Downtown locations.

Well-capitalized retailers generally do not consider rent levels in a vacuum but rather, as a percentage of gross sales. Other locations might be cheaper, but they are typically willing to pay more for a space if it is warranted by the higher sales that they expect to generate there. As a rule-of-thumb, they will agree to occupancy costs (i.e. rents plus the pass-through or “triple-net” expenses of property tax, building insurance and maintenance) that equal 10% of their projected revenue.

Retail rents in Walnut Creek’s Downtown, then, might be “high” in absolute terms – ranging from \$80 per sq ft to more than \$100 per sq ft, versus the \$32.10 per sq ft average for the East Bay as a whole (according to Kidder Matthews’ 2Q 2022 market report) – but they reflect its relative strength and appeal more than anything else. On one level, citing that as a cause for concern calls to mind the famous Yogi Berra quote: “No one goes there anymore... it’s too crowded.”

In sum, then, while Walnut Creek might struggle to compete for one-per-market or first-per-market locations with Union Square or Valley Fair, while it might not be able to replicate the luxury positioning of Stanford Shopping Center, it remains the indisputable king in the East Bay, the first choice for most brands looking to expand to the sub-region.

MJB Consulting
Phase I – Downtown Walnut Creek Retail Positioning and Tenanting Strategy
Final – November 21, 2022

	Access	Co-Tenancy/ Critical Mass	High-Low Positioning	Boutique Shopping	Food, Beverage & Entertainment	On-Site Walkability
Downtown Walnut Creek	A	A	A	B	A-	A
City Center Bishop Ranch	A-	B+	A-	B-	B+	A-
Veranda	B+	C+	B	F	B	C-
Downtown Lafayette	B+	B-	A-	B+	B	B-
Downtown Danville	A-	B-	A-	A-	B	B+
Berkeley/ 4 th Street	B+	A-	A-	B	C	A
Corte Madera	A	A	A	B+	B	A-
Downtown Santa Monica	B	A	A	D	A-	A

Comparison of Downtown Walnut Creek to nearby competitors and regional analogs, using an A to F scale
Source: MJB Consulting

Expansion-Minded Retailers (Still) Gravitating To Downtown Walnut Creek

KEY TAKEAWAY: While the pool of prospective tenants may not be as deep as it once was, there is still no shortage of retailers – from large brands to smaller chain-lets to early-stage entrepreneurs – interested in and looking seriously at Downtown Walnut Creek these days.

Amidst the rise of remote work and the narrative of urban flight, many expansion-minded brands shifted their attention these last two years to “Class A” suburban locations – a trend that is, if anything, *more* pronounced in the Bay Area, with San Francisco as arguably the U.S. city dealing with the greatest economic (and public-relations) fallout from the pandemic.

A. Digitally-Native Brands

One subset of such retailers consists of the digitally-native brands (also referred to, not always accurately, as “direct-to-consumer” or “DTC” brands). A great many of them have arrived at the realization that they will need to build networks of physical stores in order to rationalize the exorbitant costs of online selling (see inset box below) and retain any hope of turning a profit.

Indeed, a number of these already exist in Downtown. At Broadway Plaza, there is Athleta, Fabletics, UNTUCKit, Bonobos, Allbirds, ThirdLove, Peloton and Madison Reed as well as Warby Parker further west on Mt. Diablo Boulevard. And this represents just the leading edge, with many others still in search for places to land.

The Truth About E-Commerce: Part 2 (Tenant Demand)

Irrespective of trends in consumer demand, the online-only business model is simply unsustainable for retailers.

While e-commerce might obviate the need to pay rent on a physical storefront, it entails other, more expensive costs. The most obvious is “last-mile” shipping, whereby the retailer has to absorb the expense of delivering packages to individual residences (instead of a single store).

Also, generating visibility on screens and smartphones requires paying the ransoms demanded by the advertising oligopoly of Facebook, Google and Amazon. After all, a website does a business little good if no one knows or remembers that it is there.

Indeed, research from the International Council of Shopping Centers (ICSC) has shown increases in web traffic for retailers in areas where they have opened new stores, and declines where they have closed them, an effect that has been separately reported by Warby Parker, Fabletics, Casper, Indochino and even Amazon.

Finally, losses must be absorbed on returns which, in seasonal and trend-sensitive categories like fashion, cannot simply be restocked, and which range between 30-40% for online buys versus less than 10% for in-store purchases, where one can see, touch, feel and try on the product.

And at this point, there’s no going back. Perks like free delivery and returns are now the table stakes for online selling. In lieu of game-changers like widespread drone delivery or 3D printing, it is difficult to see how the cost structure changes.

Indeed, shipping fees seem more likely to continue on an upward trajectory as demand for major carriers keep rising, while marketing and advertising expenses do the same as more and more online sellers flood the marketplace and compete for precious digital real estate.

For these reasons, retailers consistently *lose* money in the channel – even Amazon, which, despite its economies-of-scale, still sees its shipping costs continuing to rise as a percentage of sales and which has long struggled to turn a profit on e-commerce, with cloud computing and advertising the divisions that truly drive its bottom line.



Brick-and-mortar, on the other hand, can significantly reduce the costs of delivery (by doubling as “ship-from-store” fulfillment centers as well as providing curbside and in-store pickup), customer acquisition (by serving as a highly visible billboard and offering an immersive brand experience) and product returns (by lowering the rate thereof).

It is largely for this reason that so many “digitally-native” retailers – the Warby Parker’s, the UNTUCKit’s, even Amazon itself -- have started in recent years to build robust networks of physical locations, as a clicks-*and*-bricks strategy is increasingly viewed in the industry as the only way to make the overall numbers pencil.

- Partly reprinted from the consultant’s opinion piece in the August 21, 2021 issue of *MarketWatch*, a publication of Dow Jones & Co. / *Wall Street Journal*.

Digitally-native brands span multiple product lines, but the ones that have been most aggressive with store expansion operate in categories that have historically predominated in Downtown Walnut Creek, like apparel, footwear and accessories as well as home furnishings and décor.

B. Home Furnishings and Decor

The home furnishings and décor category thrived amidst the pandemic, as our homes were forced to play much larger roles in our lives (i.e. working, schooling, cooking, entertaining, etc.), and a number of brands are continuing with store expansion into 2022.

The gravitational pull of existing clusters has always been especially strong in home and works to Downtown’s benefit, where one can already shop at RH, Pottery Barn, Arhaus, Crate & Barrel,

Ethan Allen, LoveSac, California Closets, Williams-Sonoma, The Container Store and Patioworld as well as Terra Outdoor Living, Premier Bath & Kitchen, Porcelanosa and others.

Storm clouds on the horizon?

While there is no shortage of digitally-native apparel and home brands looking for space in Class A suburban Downtowns like Walnut Creek’s, landlords and their brokers should make sure to do their vetting before signing on the dotted line.

It remains unclear whether business models initially seeded by venture capital and relying heavily on digital sales – even if accompanied by fleets of physical stores – will ever be able to turn a profit. Prominent ones that have opened their books in order to access public markets continue to show losses. If it does prove to be a bubble, that would reinforce the primacy of brick-and-mortar, but not without some short-term pain for landlords.

Meanwhile, home retailers had been assuming that the pandemic-era boom would endure, yet how many times can one furnish a home office or outdoor patio, buy new kitchen equipment or relocate from a tiny urban apartment to a spacious suburban home? Indeed, sales in the category have slowed since early 2022, especially as the housing market starts to cool amidst rising interest rates and big-ticket purchases are postponed owing to inflation.

C. Outdoor Recreation and Lifestyle

Yet another category that thrived these last two years was outdoor recreation. Participation in outdoor activities has grown by roughly 7% since early 2020, according to the Outdoor Industry Association, and related retail sales increased by 29% in 2021, as based on data from the NPD Group.

And while sales related to specific activities might moderate, the appeal of the active and outdoor *lifestyle* as a sort of fashion – in many cases independent of actual participation -- predates the pandemic, and the brands perceived to embody it have continued to open new locations.



The active and outdoor lifestyle as fashion is reflected in the popularity of so-called “**gorpware**.” Named after the colloquial term for trail mix (“Good Ol’ Raisins and Peanuts”), it refers to a style, especially popular in the Bay Area, that centers on utilitarian, functional, outdoor-inspired clothing and outerwear.

D. “Treasure Hunt” Concepts

Finally, much ink has also been spilled on the importance of incorporating an “experiential” component into brick-and-mortar. Often, however, news articles take this concept a bit too literally, pointing to in-store putting greens and cooking lessons while ignoring what has long been the most compelling in-store experience of them all, the treasure hunt.

This experience, of unearthing hidden gems at a discount, offers a thrill that cuts across income levels. More importantly, it is one that consumers prefer to have *in-store*. Indeed, it has fueled the success and continued expansion of off-price retailers like TJX (T.J. Maxx, Marshalls and HomeGoods), Ross and Burlington, even though they either do not sell online or derive very little of their overall sales from the channel.

These banners probably feel that they already have the sub-market covered with their existing locations, yet there are other retail forms that the experience can take – like freestanding “outlet” stores as well as vintage and consignment, which has lost much of its stigma in recent years (and, of course, never had much of one at Labels Luxury Consignment on N. Main St).



Secondhand apparel is not just going mainstream, as even luxury fashion houses like Oscar de la Renta, Valentino, Gucci and others announced their own resale collections in the last year.

E. Chain-lets and Independents

Prospective tenants in all of these categories, it is important to note, are not always large brands.

Retail is often framed as a binary of ubiquitous chains and one-off independents, but the reality is that tenanting possibilities exist along a continuum and include a deep pool of “chain-lets”, that is, sub-regional, regional, supra-regional, statewide or even national operators that have successfully grown to a footprint of three to fifteen branches and remain on the outlook for more.

Chain-lets are more common in the food and beverage space – more on that later – but Downtown also has a number of them in comparison goods categories, like, for instance, Mike’s

Bikes (twelve stores), Terra Outdoor Living (eight), Five Little Monkeys (six), Premier Bath and Kitchen (six) and Shoes on Solano (three).

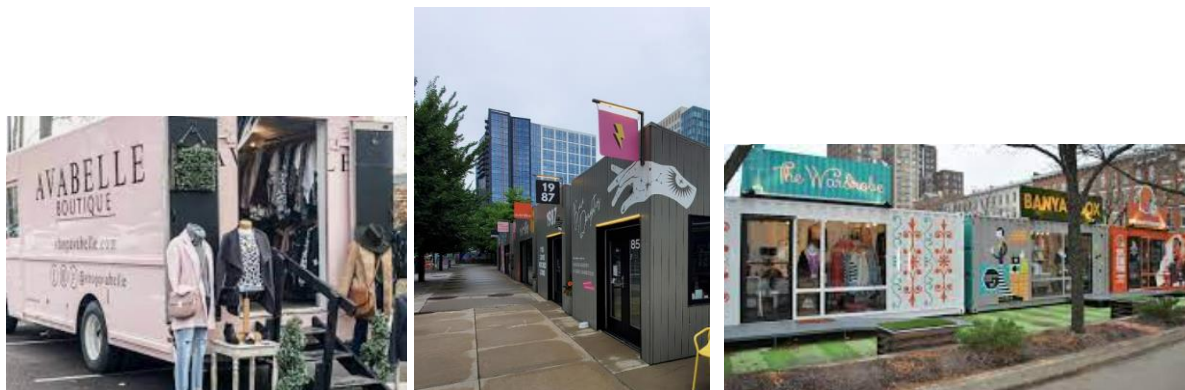
Such prospects are often missed due to the localized nature of retail leasing as well as the incentive structure within which it takes place. Mom-and-pop landlords and seasoned brokers might know chain-lets in the East Bay or throughout the Bay Area, but they understandably do not always have the time nor the inclination to explore other metros, especially in robust submarkets like Downtown where tenants have historically come *to them*. (For more on this subject, see the inset box, entitled “Landlords and Brokers: A Perspective”).

Like most economic downturns, the pandemic also saw a boom in entrepreneurialism. According to the Economic Innovation Group, applications for new businesses more than doubled year-over-year between May 2020 and April 2021, with retail trade as the most active sector in 2020.

Mission-driven and/or otherwise motivated property owners could scour different kinds of entrepreneurial platforms – curated boutiques, craft fairs and online marketplaces, for instance – for especially promising ones, then offer them low-risk lease structures to start, perhaps with the help of build-out assistance from the public/non-profit sector.

Alternatively, landlords could offload the risk by leasing to one of the new breed of department stores that feature rotating selections of emerging and/or “direct-to-consumer” brands, or allow existing tenants to sublease portions of their spaces to other businesses in an arrangement known as “co-location.”

Finally, the City and/or one of its non-profit partners could create and manage their own sorts of platforms – fashion-truck pods, shipping-container villages or retail incubators, for example – on or in publicly-owned real estate, either permanently or on a temporary/periodic basis (perhaps in tandem with street closures).



The importance of nurturing a mix diversified in ownership type – including smaller chain-lets, independently-owned businesses and start-up entrepreneurs – cannot be underestimated in

Walnut Creek’s case, which is largely associated in the public imagination with large national chains and even disparaged in some quarters as “just a mall.” This is an unfair characterization, and yet a larger (and more overtly marketed) collection of distinctive shops would help to broaden Downtown’s psychographic appeal as well as extend the dwell time and increase the total expenditure of those initially drawn to the major brands – after all, most shoppers prefer a little bit of both.

No Room For Complacency On Food, Beverage and Entertainment

KEY TAKEAWAY: Downtown Walnut Creek has emerged as a bona fide dining destination in the last couple of decades and continued to evolve with the trends, but will need to keep differentiating and innovating in the face of ever fiercer competition.

Downtown Walnut Creek boasts a number of attributes that appeal to operators of dining establishments and entertainment venues, including the anchoring presence of the Leshner Center for the Arts (estimated 300,000 annual attendees) and the Century Theaters' 14-screen multiplex as well as the synergies with its critical mass as a shopping destination.

It also offers a contrast to San Francisco, not just in terms of customer convenience (e.g. less hassle, more parking) but also, as a somewhat less crowded marketplace, where the competition is not quite as fierce and niches still remain to be filled.

Fairly or not, Walnut Creek's restaurant scene had struggled for some time to be seen as a premier dining destination. [A July, 12th 2021 San Francisco Chronicle article](#) started by noting the longtime dominance by "lackluster chains" that had rendered its mix "underwhelming and suburban." And regardless of how one feels about such large brands, Downtown today still has its share of them, including a high-grossing Cheesecake Factory.

The same article proceeds to say, however, that such a characterization is fast becoming dated, with the arrival of concepts like Va de Vi (2004), Sasa (2010) and Teleferic Barcelona (2016). The success of these and other restaurants reflected the latent demand within the trade area for a more worldly and sophisticated sort of dining.

This transformation, however, has accelerated in recent years. The pandemic claimed some longtime favorites, including Scott's Seafood and PRIMA Ristorante, yet during that time Downtown has also welcomed a slew of intriguing new offerings, almost all of them either independents, small chain-lets or multi-concept operators.

What is a Multi-Concept Operator (MCO)?

A multi-concept operator is a type of chain-let that operates a number of different concepts under common ownership. It is especially common in the food and beverage space. One local example is Ghaben Partners, which is behind Broderick Roadhouse, World Famous HOTBOYS and LITA as well as Batch & Brine (in Lafayette) and a number of franchised Mel's Diner locations.

New food and beverage establishments, already or soon to open, include La Fontaine, Ostro, SanDai Modern, LITA's, Kokolo Donburi, 5 Tacos & Beers, Sweet Maple, Fizz Champaign & Bubbles Bar, World Famous HOTBOYS, Dumpling Hours, Third Culture Bakery, Model Bakery, Tellus Coffee, Rooted Coffee and Bober Tea & Coffee as well as Sweetgreen and Shake Shack.

These concepts reflect the diversifying palates of suburban diners, a function both of changing demographics – the 2010's saw the trade area turn "majority-minority", with Hispanic and Asian-

Americans alone now accounting for roughly 42% of its population -- as well as greater openness to new cuisines and menus more generally. (For a variety of reasons, ethnic heterogeneity tends to be more readily expressed in food and beverage than traditional shopping).

	Walnut Creek	Trade Area
Non-Hispanic White	64%	46%
Asian	18%	17%
Hispanic	10%	25%
Black	2%	7%

Source: U.S. Census Bureau’s *American Community Survey* (Walnut Creek), ESRI (Trade Area)

On a related note, these new eateries also skew somewhat younger and more trend-driven. Some of them even offer a bit of sizzle – a quality not normally associated with Walnut Creek dining, and one that can, with the help of social and traditional media, greatly expand its draw, luring so-called “foodies” from far afield.

Yelp ranked the World Famous HOTBOYS chain-let’s fried-chicken sandwich as the best in all of California last year, Sweet Maple’s “Millionaire’s Bacon” has become the stuff of legend and the title of an *San Jose Mercury News* article asked whether LITA is the “hottest new restaurant in the East Bay.” In the hype-fueled dining sector, these things matter, and can create their own momentum.



LITA, in Downtown Walnut Creek

Part of this can be traced to the aforementioned “suburbanization of hip.” Indeed, that so many of these concepts tend towards the casual is an indication of who they are chiefly targeting: Millennial diners, who, with their embrace of “fast-casual” eateries and artisanal food halls, have effectively decoupled quality from formality, believing that gourmet food could also be found *in the absence of* fawning waiters, advance reservations or upscale décor.

It also reflects where the category has been heading more generally. Even before social distancing privileged quick-service formats, its more forgiving cost structure (e.g. smaller menus,

less build-out, fewer workers) was already seen as providing a clearer path to profitability than sit-down, with even fine-dining chefs and restaurateurs – like Charles Bililies (Souvla) and Danny Meyer (Shake Shack) – embracing fast-casual as their primary growth vehicles.

If anything, the cost pressures associated with full-service dining have only grown more intense over these last two years, with the industry’s worker shortage, which predates the pandemic, even more severe today. And even if the labor market does eventually stabilize, there is still the expense of kitchen build-outs, which can be difficult to finance even for smaller-scale operators with a successful track record.

This effectively limits new sit-down concepts to either the handful of remaining “second-generation” restaurant spaces, to property owners both able and motivated to defray much of the expense, or to well-capitalized brands and restaurant groups that can more easily surmount such barriers-to-entry.

Why Can’t Walnut Creek Have Its Own *Chez Panisse* or *French Laundry*?

The move towards casual can be deflating for those who long for Walnut Creek’s very own signature Michelin-starred restaurant, but this is unlikely in any event, for the reality is that a chef/restaurateur of such caliber would demand an extremely generous deal, which only those developers with a need to “brand” their buildings or projects – ones constructing Class A office towers or five-star hotels, for instance -- would have the motivation to offer. Sunset Development was willing to do so because it had to create a “there, there” at City Center, but inasmuch as that already exists in the Downtown core, it would only apply in the case of, say, a large-scale redevelopment on Downtown’s periphery.

Aside from these various industry-wide challenges, Downtown as a dining destination also faces fiercer competition than it has in the past. Its critical mass of existing offerings exceeds its nearby rivals, yet that is not quite *as much* of an advantage as it is in comparison goods categories. After all, diners tend to eat at only one restaurant per meal, maybe with an after-dinner drink added in.

City Center Bishop Ranch has been able to lure high-profile, San Francisco-based names like The Slanted Door and Delarosa. The Veranda landed The Yard House as well as some hot Asian concepts. Meanwhile, the Downtowns of Lafayette and Danville both feature sizeable collections of popular independents and smaller chain-lets.

Even Downtown Concord is joining the fray, with the recent arrival of Molli, and it is outpacing Downtown Walnut Creek on microbreweries, a favorite among neo-hipsters in particular. While Walnut Creek’s two brewpubs sit far removed from its Downtown, Todos Santos Plaza boasts E.J. Phair, The Hop Grenade and now, Side Gate, while Visit Concord promotes the “Concord Beer Trail.”

In a fast-evolving category where proposed new concepts – like a recent one combining wine and bocce -- might not fit conventional parameters, Walnut Creek will need to match the pace and flexibility of rivals in the granting of approvals and processing of applications. Local landlords and

brokers point out that Walnut Creek is at a disadvantage in this area.

Meanwhile, interviews also received concerns among some stakeholders about what they see as a “party crowd” increasingly drawn to Downtown Walnut Creek in the evenings. This has purportedly compelled some older and more risk-averse diners to opt instead for alternatives that they perceive as safer, like Downtown Lafayette and Downtown Danville.

Finally, one of Downtown’s major demand generators for food and beverage, the Century Theaters 14, exerts a weaker pull than it once did. While it just signed a lease renewal, its drawing power remains uncertain, given the two much newer competitors in the trade area, the 10-screen Veranda LUXE Cinema (2017) and the 10-screen The LOT Cinema (2018), as well as the rise of at-home digital viewing and the closing of the theatrical window more generally.

Going forward, there are several ways in which Downtown Walnut Creek can further differentiate itself vis-à-vis its competitors as a destination for food, beverage and entertainment.

With, for example, its sub-regional primacy as well as its larger floor-plates, it is well-positioned to tap today’s ever-widening array of large-format, mass-market entertainment venues, which, like the recently-announced Pinstripes, leverage the social appeal of one or more recreational activities – others include golf, mini-golf, soccer, even pickleball – to drive foot traffic to what are effectively food and beverage concepts.

The relationship between night and day

Large-scale entertainment venues, restaurant rows and other evening draws do not merely add another dimension (and hedge) to a otherwise shopping-heavy Downtown mix: they can also provide support for the shops themselves. As demand-generating anchors, they might not be quite as effective as department stores, but it has been received wisdom in the mall industry for decades, starting with the addition of multiplexes in the 1970’s, that such uses can help to reinforce soft goods clusters, largely by extending “dwell time” and thereby increasing overall spend.

Such uses reflect the emergence of a more active and urbanized Downtown. Walnut Creek is largely a quiet residential community; this is the one district where more energetic activities might be contemplated. One cannot (or should not) move next to an airport and complain about the noise; the same would seem to apply here, especially when property values and housing prices are elevated by proximity to such amenities.

Downtown Walnut Creek also benefits from some forward-looking developers/landlords. As just one example, the aspirations for the Foundry, notwithstanding the cost challenges that have slowed its arrival and forced a revamp, are perfectly aligned with – and reflect the ongoing suburbanization of -- so many of the trends and trajectories in contemporary food and beverage.

Food halls like the planned Foundry have been proliferating across the Bay Area and the U.S. over the last half-decade partly because they reflect the Millennial-driven casualization of dining,

including the preference for fast-casual. And they have been materializing more recently in suburban settings just as that population has been migrating to such communities.



The State Street Market food hall in Downtown Los Altos, which opened its doors last year.

The format also represents an adaptation to rising costs: like public markets, food-truck pods and other such entrepreneurial platforms, it lowers the barriers-to-entry for the talented yet undercapitalized who would otherwise hesitate and/or struggle to secure a permanent space, sign a long-term lease and fund an expensive build-out.

The result, in the best cases, is a fresh and exciting collection of concepts full of new cuisines, novel twists and eclectic mashups, with a deliberate churn so as to maintain the sense of novelty and discovery. They become destinations in their own right, establishing (or reinforcing) the foodie bona-fides of their host districts, drawing diners from further afield and attracting the interest of other restaurateurs (including sit-down's).

In Downtown's case, the catalytic impact of such an attraction can be multiplied by other related initiatives – additions to the already-impressive cache of public art installations, eye-catching murals on still-blank side walls and periodic "night markets" on temporarily-closed streets, for instance – that can broaden Walnut Creek's brand to incorporate a more youthful, playful and contemporary side.

That said, Downtown is not – nor should it try to be – the Mission, or even Berkeley. In-migration trends notwithstanding, the trade area remains a suburban one, with an older median age (40.4) and with empty nesters among its most reliable customers. Any such repositioning efforts, then, will need to be carefully calibrated such that they are not perceived as replacing or contradicting Walnut Creek's existing identity. This is admittedly not always an easy balance to strike.

Quasi-retail uses and the local retail ecology

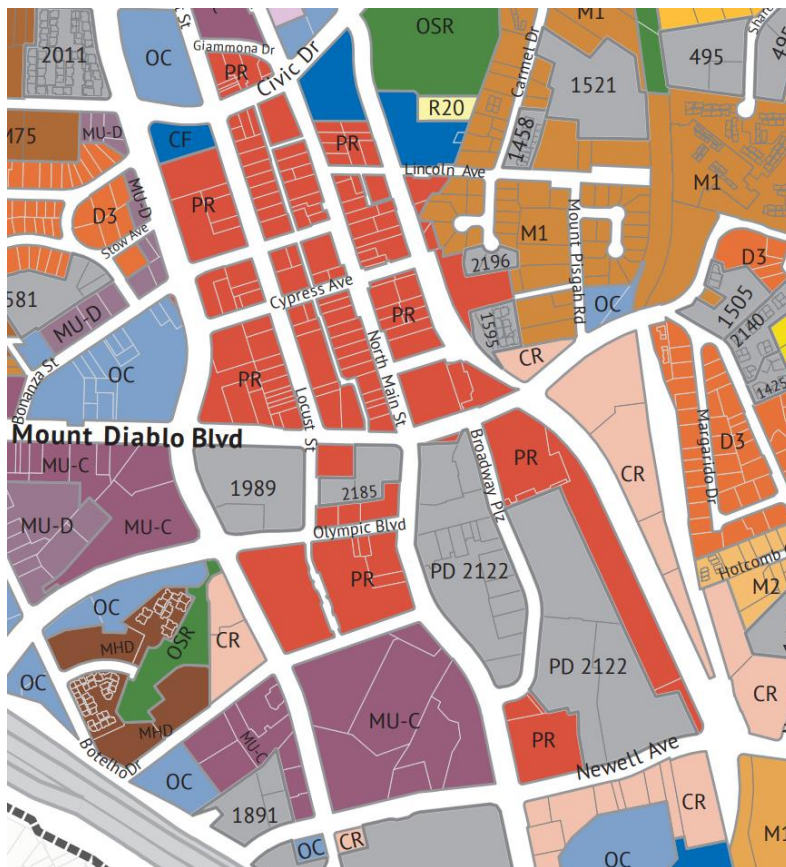
KEY TAKEAWAY: In determining whether to allow more flexibility in ground-floor tenanting, planners and policymakers must consider the nuances and imperatives of different retail categories and sub-districts. With this in mind, zoning in Downtown core should remain largely as is, with some possible tweaks along the periphery.

Recent decades have seen a marked shift in the kinds of tenants that tend to be most interested in traditional storefronts. Sellers of comparison goods have consolidated in a limited number of large clusters, most often malls and lifestyle centers but also Class A suburban Downtowns – the aforementioned “flight to quality” – while providers of daily and weekly essentials have concentrated in automobile-friendly strip malls that allow for “in-and-out” convenience.

They have been replaced by an eclectic mix of businesses consisting in the main of food and beverage as well as various kinds of personal services, like beauty salons (like Changes, PREP and Stem Salon, in Downtown); “boutique” fitness studios (e.g. Soulcycle, Pure Barre, Orangetheory Fitness, Trufusion); medical spas (e.g. LaserAway, HealthBay Med Spa, Skinspirit, Ideal Image); urgent care centers and medical/dental clinics (e.g. Concentra); and finance/insurance/real estate offices (e.g. TD Ameritrade, Compass); and animal hospitals.

More recently, several electric-vehicle startups have followed the lead of Tesla and launched networks of showrooms, while Tesla itself has moved to open service centers. And these new twists on retail space are almost certain to be followed by others, as tech-driven businesses search for different ways in which to raise awareness of and build excitement for their products and innovations.

However, of the aforementioned uses, only beauty salons (as “personal services”) and exercise studios (as “personal improvement services”) are clearly permitted as-of-right within retail frontages in the Pedestrian Retail (P-R) zone that covers much of the Downtown core (see map below): most of the others are prohibited outright or require a lengthy use-permit process (e.g. medical offices, business/professional offices, urgent care centers, animal hospitals, vehicle equipment sales and service).



Map #1: Pedestrian Retail (PR) zoning in the Downtown core

Virtually all of the property owners and leasing professionals interviewed as part of our stakeholder outreach chafed at these restrictions, arguing that with the rise of e-commerce, such quasi-retail uses will continue to account for most of the tenant interest. If Walnut Creek is to “evolve with the times”, in their opinion, the P-R zone will need to be relaxed so as to allow for them in at least some if not all of the Downtown core.

In our reading, they are both right and wrong. The Phase III memo will delve much deeper into the minutiae of retail land use and zoning policy; for now, however, we would like to introduce some of the basic considerations and imperatives that inform our thinking on the subject. To start with, we feel that it would be helpful to get more nuanced about Downtown’s retail ecology -- its different sub-districts and how they relate to one another.

Returning to historical data, the 315,000 sq ft of new retail inventory added to Broadway Plaza in the 2010’s does seem to have played a significant role in the increase in retail vacancy towards the end of the decade.

Broadway Plaza is, after all, the 800-pound gorilla in Downtown. It is where most comparison goods retailers ideally want to be -- if they could afford the occupancy costs and offer the

creditworthiness necessary to meet Macerich’s underwriting standards. For such tenants, especially (but not only) ones that cannot so easily stand on their own as destinations, the appeal of alternative locations dissipates in proportion to the distance from that gravitational center.

Broadway Plaza lured a number of brands from adjacent blocks in recent years, including Apple, Lululemon, Tommy Bahama and H&M, which left vacated spaces in their wake. All of these ultimately back-filled, though not necessarily by comparison goods retailers of similar caliber nor without cascading effects further afield (e.g. Apple, to Lenscrafters; Tommy Bahama, to Bounty Hunter).



The recent history of 1556 Mt. Diablo Blvd reflects the gravitational pull of Broadway Plaza among comparison goods retailers. Once the home of Anthropologie (which relocated to a space across the street from the mall), Z Gallerie and then Maximilian, it is now a location of Sweetgreen, the fast-casual salad purveyor.

The expansion of Broadway Plaza was certainly not the lone cause of heightened vacancy – it does not explain the closures of Uniqlo, Cost Plus, Destination Maternity or Pier 1, for instance, nor can it be blamed for the shallower pool of expansion-minded comparison goods retailers as a result of e-commerce and the pandemic – yet one cannot help but notice that 315,000 sq ft was added and 243684 sq ft of available space exists today.

But what does this mean for Downtown now? Its overall retail vacancy rate of 9.0% still falls below the 10% threshold for a healthy leasing market, and has been declining in recent quarters. And while the replacements that back-filled earlier vacancies might in some cases fall short of Walnut Creek’s sense of itself, the notion that Downtown is in some kind of free fall or primed for dollar stores and vape shops seems like hyperbole. Indeed, there are also upsides for the Downtown as a whole in offering both a slightly more forgiving rent structure as well as a wider array of tenants (e.g. lower barriers-to-entry, more interesting mix, diversification of risk).

Consumer proclivities are also relevant here. When shopping for comparison goods, they tend to gravitate to districts and centers where there exist a multiplicity of options that vary in style, quality and price. For this reason, once the number of options falls below a certain threshold, the appeal can start to drop precipitously – hence, the importance of what industry professionals call “critical mass.”

Other retail categories are not so fragile. A seller of commodities like groceries, prescriptions, urgent care or emergency veterinary care, as long as it is closer to a minimum number of rooftops than its competitors, can feel reasonably confident that a well-operated business will hit its numbers. A food and beverage concept might ideally prefer a bustling entertainment district or restaurant row, but does not require it, especially in the era of *Yelp* and *Eater.com*.

Destinations for comparison goods, on the other hand, are contingent on significant co-tenancy. To a far greater extent than other businesses, apparel, footwear, accessory and home retailers rely on the visibility and cross-traffic generated by each other, and they have far more to lose if the agglomeration's size starts to shrink. Indeed, this is one of the reasons why once-lofty regional malls tend to collapse as quickly as they do.



With the right operator, concept and marketing, a dining and/or drinking establishment can survive if not thrive in an off-the-radar location far removed from the heart of the action. A comparison goods retailer, on the other hand, would face greater challenges in the absence of other such stores, which partly explains why malls that lose just a few key tenants can spiral so rapidly.

Comparison goods are a large part of not only what supports Walnut Creek's fiscal position but also, what makes its Downtown a destination capable of drawing from afar. Communities like Lafayette, Danville and San Ramon have the same specialty grocers, the same personal services. They might even boast better restaurants and bars. They do *not* have the shopping. Few places – and even fewer Downtowns – do.

To the extent, then, that Downtown can still realistically hope for such retailers, prime storefronts should continue to be preserved for them, rather than opened to a wider range of possible tenants. The latter, many of which are far more eager to do deals and willing (as well as able) to pay more for space, might maximize rent levels and property values, but at the expense of existing clusters that rely on critical mass and can unravel in a hurry in its absence.

Of course, these protections only make sense in sub-districts where, in light of Broadway Plaza's aforementioned gravitational pull, comparison goods are still realistic.

Landlords and Brokers: A Perspective

Landlords and brokers are, as a general rule (with many notable exceptions), motivated to fill space quickly, easily, at the highest-possible rent/creditworthiness and with the fewest-possible concessions, so that they can start generating revenue and earning commissions. For this reason, they will – using a well-known metaphor -- usually take the bird in hand rather than expend the time and energy to ascertain whether there might be two in the bush.

This is understandable on some level, as they have generally not been incentivized or habituated to think more broadly than the deal in front of them. Except in an indirect way, they are not rewarded for thinking in terms of what would retain critical thresholds in certain categories, create and reinforce synergies *between* buildings or make for a compelling visitor/pedestrian experience.

That said, zoning policy should not serve to reward the moral hazard of landlords and brokers that seem unwilling to adjust asking rents or to make investments and/or take the initiative needed to land realistic prospects. The market for retail space only functions properly if stakeholders adhere to a sort of social contract: the public sector is obligated to be smart and fair about what can realistically be accomplished, while private sector actors act in good faith to make that happen.

Again, we realize that finding and signing comparison goods retailers is a lot more difficult these days: the pool of possibilities is much shallower. Posting a sign, waiting for the phone to ring, calling the shots on rents and terms – those days are gone. But for a Class A location like Downtown Walnut Creek, expansion-minded tenants *are out there*; it just might require a more proactive effort to find and sell them, as well as a more creative approach to arriving at a workable deal structure.

Comparison goods retailers do still exist beyond Broadway Plaza's footprint, across the street (e.g. Tiffany & Co., Vineyard Vines, Anthropologie, Pottery Barn, Williams-Sonoma, RH), to the west (e.g. Urban Outfitters, VANS, Warby Parker, The Container Store) and even for a block or two along North Main St (e.g. Davidson & Licht, Spitz Jewelers, Brandy Melville, Labels Luxury Consignment, Deliciouz, Five Little Monkeys, Shoes on Solano).

They appear less frequently along North Main St north of Cypress St, along Locust Street north of Mt. Diablo Blvd and along the intersecting side streets. But even on such blocks, the case for relaxing the P-R use restrictions seems weak. The market is far from broken: the vacancy rate in the historic core is slightly elevated, at 10.8%, though even that represents a drop of roughly 500 basis points since a pandemic-era peak in 2020. And there is ample demand there from another category, food and beverage, that is also permitted as-of-right in the P-R zone and more likely than the quasi-retail uses to reinforce Downtown's destination appeal.



Many of the quasi-retail uses cited by landlords and brokers are uninteresting to most pedestrians. Title companies, for example, might be creditworthy tenants with reasonably attractive facades, but it would be a stretch to say that this one, occupying a retail space along Hartz Ave in the heart of Downtown Danville, excites many passersby or contributes all that much to the street-level vitality there. Upon approaching such a business, is one then motivated to walk further, to see what lies beyond, or likely to conclude that the energy is petering out?

It is true that buildings in the historic core do not always appear all that modern or well-capitalized, and landlords are not always engaged. Generally speaking, the sub-district cannot match the spit and polish of the institutionally-owned blocks to the south of Mt. Diablo Blvd. One prominent broker argues that the kinds of quasi-retail uses currently prohibited in the P-R zone are the only ones likely to drive reinvestment.

Yet while that may well be the case, there may also be some value in retaining a subset of Class B and C buildings that can provide a collection of affordably-priced retail spaces for small businesses and early-stage entrepreneurs, especially in a Downtown like Walnut Creek's, which, as noted earlier, has long been associated with large national brands and would likely benefit from both the reality as well as the perception of a more balanced mix.

On the other hand, it is unclear why quasi-retail uses such as medical offices should be prohibited in second-floor spaces, like the roughly 10,000 sq ft formerly occupied by AAA in Plaza Escuela along California Blvd.



As will be discussed at greater length in the Phase III memo, the twin arterials of Broadway and California Blvd are a bit more complicated. Levels of foot traffic there are lower, especially on the far sides -- northbound on Broadway, southbound on California Blvd -- of the wide and fast-moving rights-of-way. Also, given the geometry of zero-setback storefronts, cars might be driving too fast to take note of what they are passing. And in most cases, off-street parking is not immediately apparent.

These corridors clearly still appeal to some, however. Indeed, the visibility to motorists is enough to draw interest from a subset of retailers -- like furniture and home improvement showrooms (e.g. Premier Bath & Kitchen, Porcelanosa, etc.) -- that seek lower rents for larger floorplates and that consumers do not visit regularly but on an “as-needed” basis, where they know, from seeing them through their windshields regularly, that such stores exist.



Upmarket home improvement showrooms often appear along arterial roads without much precedent for foot traffic but with visibility to affluent motorists.

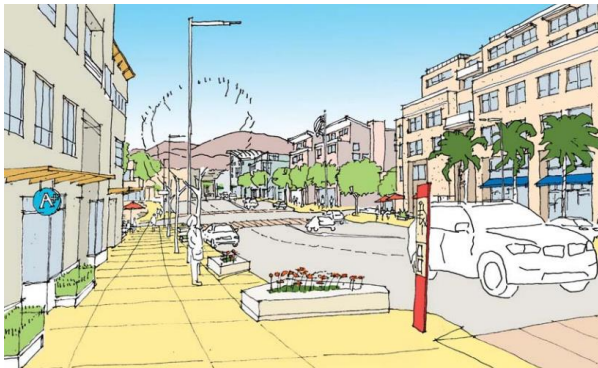
Mt. Diablo Boulevard west of California Blvd is a slightly different case, as will also be discussed at greater length in the Phase III memo. While a bit further removed from the Downtown core, many of its retail spaces enjoy superior access (along what is essentially a ramp from and to SR 24 / I-680), even more and better visibility (due to traffic counts of nearly 30,000 cars per day, with somewhat deeper setbacks) as well as in-front parking lots.

That said, its appeal to prospective tenants largely ends there. On a Mt. Diablo Blvd, interested retailers are drawn to the access, visibility and parking *for motorists*. They are thinking of it primarily as a location along an high-volume arterial thoroughfare, not as one ensconced within a walkable neighborhood fabric. After all, few would think of taking a leisurely stroll along the corridor. Partly for this reason, they seem less likely to be swayed by a couple new residential complexes nearby.

Of course, additional rooftops do translate to more consumer demand, but the scale of development would need to be quite large in order to have a meaningful impact on supportable square footage there. After all, a 300-unit apartment building might yield 500 to 700 residents -

- not even enough to sustain a dry cleaner. And while caffeine might well be an addictive drug, there is actually a saturation point for cafes, too.

Until or unless the number of new residents in this peripheral sub-district reaches the minimum threshold for the business in question, the additional demand will simply accrue to existing operators: it would not justify more retail space and may even justify a reduction in existing retail space in certain locations in this corridor. And that's not even considering the special importance of co-tenancy in comparison goods categories like apparel and footwear, which will always prejudice such tenants in favor of the cluster in the Downtown core.

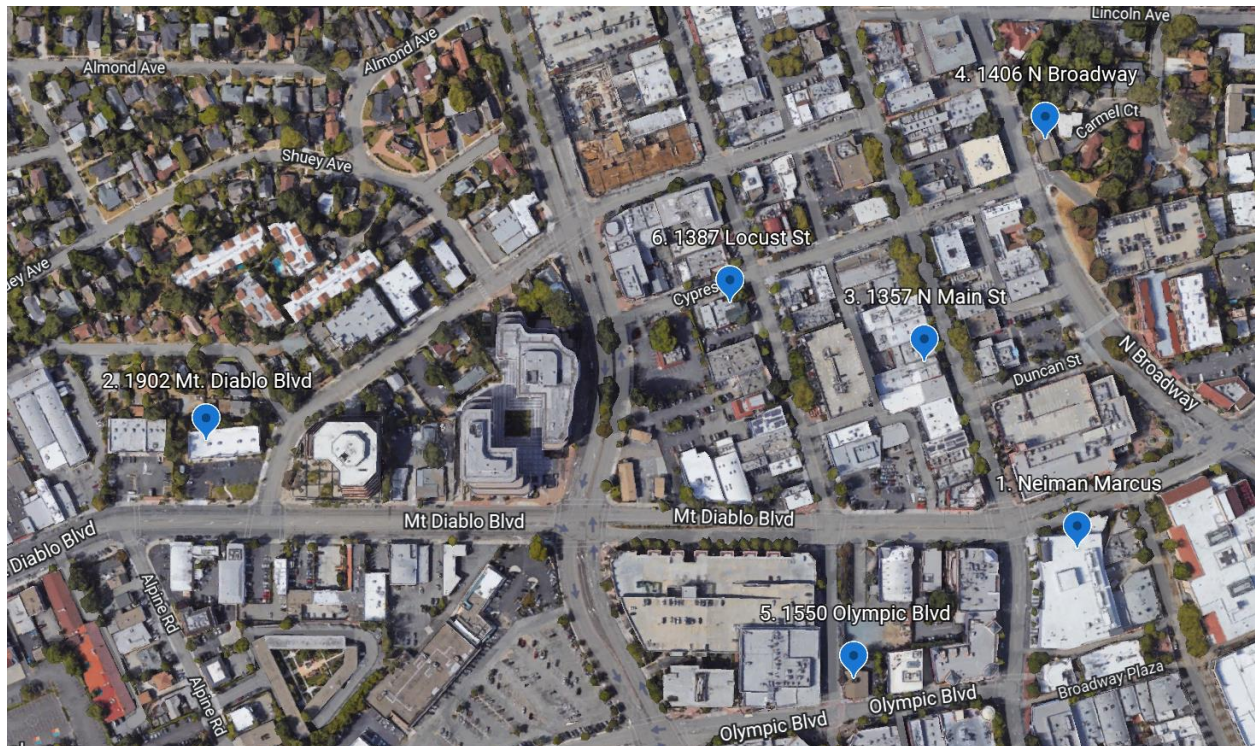


While admittedly developed at a more exuberant time, the 2018 West Downtown Specific Plan seems overly optimistic about the potential for new pedestrian-oriented retail along Mt. Diablo Blvd west of California Blvd.

In sum, while there might be a worthwhile tweak or two to the current approach in the Downtown core (e.g. more flexibility on the second floor), the P-R zoning appears largely appropriate there, and seems not to deserve the blame for extant vacancies. It is on the periphery where earlier planning efforts might have overreached and some recalibration could make sense. Again, this will be revisited in greater detail in the Phase III memo.

What to do with six high-profile vacancies

Based on an analysis that draws on property and historical information gleaned from the City's vacancy spreadsheet (attached), conversations with the respective landlords and/or brokers (in some though not all cases), direct observation as well as the consultant's experience, the following provides some commentary on and possible solutions for six stubborn, high-profile vacancies in Downtown and vicinity that have been selected by the Client.



First, a caveat. We at MJB Consulting are retail specialists, not development consultants, and while there's definitely areas of overlap, the differences are important. We focus on what kinds of retailers and retail mixes would be realistic and sustainable at a given location as a function of market forces (e.g. consumer and tenant demand) and real estate realities (e.g. space criteria and occupancy costs).

The question, however, of what kinds of redevelopment would be feasible at that site is a larger one beyond the scope of this analysis. *Should* Macerich consider replacing the Neiman Marcus building with a mid-rise, mixed-use complex? That depends on not only the prospects for the ground-floor retail space, but also, the markets for other property types as well as the pro forma for the project as a whole, neither of which fall neatly into our areas of expertise.

1. Neiman Marcus



This two-level, 88,000 sq ft space at the 100% corner of Main Street and Mt. Diablo Boulevard has been empty since Neiman Marcus' closure in early 2021. One of the anchor spaces in Broadway Plaza, it is owned by Macerich. With its size, it alone accounts for more than one-third of the empty retail square footage (or roughly 3% of the vacancy rate) in Downtown today.

While technically part of a mall, the site sits at Downtown's "100% corner" of Main Street and Mt. Diablo Boulevard. Such high visibility offers a particular advantage as brands increasingly rely on bricks-and-mortar to help drive customer acquisition and retention amidst rising digital marketing costs.

However, the category for which the structure was originally designed -- a department store -- has been contracting for years, and the pool of tenants that could be interested in the entire 88,000 sq ft is no doubt a shallow one. Moreover, any new occupant would also need to synergize with Broadway Plaza's existing tenant mix and align with its upmarket positioning.

That said, possibilities still exist -- in home furnishings and outdoor-recreational goods, for example -- particularly if the building is split among multiple tenancies.

Like other Downtown property owners, Macerich is hoping for more flexibility with its ground-floor uses, to align with the ongoing evolution of the industry. As has been discussed elsewhere, the City should generally resist such calls. Not only do soft goods tenants maximize synergies with the existing mix, but also, Broadway Plaza seems well-suited to attract more of them: it is Downtown's premier retail location and enjoys a very low vacancy rate.

That said, the PD 2122 zone, which covers most of the mall's footprint (except for the Nordstrom's building and the parking deck along S Broadway), is in need of some updating.

For instance, it should allow “wholesaling, distribution and storage” as *accessory* uses, so as to align with the growing interest among retailers in utilizing their brick-and-mortar for more than just in-person transactions. Target, as an example, thinks of its physical stores *also* as fulfillment centers for online orders that are retrieved curbside as well as delivered to homes. Indeed, they account in one way or another for 90-95% of its total sales.

Restrictions on different kinds of large-scale entertainment venues should also be relaxed. Why, for instance, are pool halls, bowling alleys and game arcades conditionally permitted while ice/roller-skating rinks, scale model course and bingo parlors are outright prohibited? It might be difficult to imagine today a hip reinterpretation of the roller-skating rink or the bingo parlor, but then again, recent years have seen just such a reimagining of ping-pong, putt-putt golf, shuffleboard and pickleball. The category continues to diversify at a rapid clip, calling for a more flexible approach that can also accommodate the (as-yet-unknown) concepts of the future.

Again, as demand-generating anchors, such large-scale entertainment venues might not be quite as effective as department stores, but they are among the few large-floorplate, consumer-facing tenancies that continue to expand in regional malls – and are, as such, still preferable to non-retail uses like office or residential – while also, as noted earlier, helping to extend dwell time and increase overall spend.

Broadway Plaza recently added Pinstripes, but there are also other possibilities that could help to backfill the Neiman Marcus building, like one of the several expansion-minded indoor golf concepts. Another, more unconventional sort of entertainment anchor would be a permanent venue for immersive multimedia exhibitions. Perhaps more accurately characterized as “entertainment”, these ticketed digital experiences tend to center on famous artists, ranging from classical (Van Gogh) to contemporary (Banksy). Several such productions are currently on offer in San Francisco, like, for example, Lighthouse Immersive’s “Immersive Van Gogh Exhibit” in the former Fillmore West building at Market St and South Van Ness Ave, where tickets range from \$40 (off-peak) to \$55 (peak).

Finally, there are other, non-retail opportunities, currently prohibited in the PD 211 zoning, that could benefit both Macerich as well as Downtown more broadly. For instance, the height of the Neiman Marcus parcel is restricted by Measure A to two stories and 35 feet, precluding a mixed-use redevelopment incorporating other uses in the upper levels that would generate foot traffic, such as a modestly-sized boutique hotel, which would add a new product to the submarket, in a far more central location than the lodging options north of Ygnacio Valley Road. (Note that a full-on market analysis confirming the viability of this and/or other possible upper-floor use is beyond the scope of this study effort).

2. 1902 Mt. Diablo Boulevard



This freestanding one-level, 10,000 sq ft building on a one-acre site at 1902 Mt. Diablo Boulevard (the northwest corner of Mt. Diablo Boulevard and Bonanza Street), built in 1988, has been vacant since Pier 1 Imports left in spring 2020. (The closure had been announced prior to COVID-19's arrival and the chain's liquidation later that year).

The space is temporarily filled by Spirit Halloween, a temporary tenant. It is currently under consideration for a redevelopment that will consist of housing at least in part.

As a retail location, the site boasts superior visibility and access for motorists, sitting at a signalized intersection along the primary gateway from/to SR 24, with a traffic count of nearly 30,000 cars per day. It also provides 38 on-site, in-front parking spaces.

It offers proximity to Downtown proper, with its critical mass of retailers, but at a comparatively lower rent level. That tradeoff, however, will only appeal to a subset of tenants, specifically, ones that do not need adjacency to anchors or a cluster capable of ensuring consistent streams of foot traffic.

Furthermore, the pool of potential 10,000 sq ft users is shallow at the moment, and while there is no shortage of tenant demand for much smaller, 1,000 to 2,500 sq ft bays, the subdividing or "demising" of the existing floorplate would require a commitment by the current property owner, which seems unlikely.

The ideal occupant, then, would be some sort of destination use, one that: 1) consumers do not visit regularly but on an “as-needed” basis, where they know, from passing regularly, that it exists; and 2) requires 10,000 sq ft of space. Like, for example, a home furnishings retailer, drawn to the nearby co-tenancy in the category. Or one from the subset of apparel brands that can also thrive as destinations and have taken such slightly off-center, freestanding locations elsewhere. Or select fitness concepts.

The site would also likely appeal to other kinds of destination uses that continue to expand aggressively, including, for instance, urgent-care/walk-in clinics and veterinarians/animal hospitals.

There is already an urgent care center on N. Broadway in the Downtown core (Concentra) as well as several others in the Ygnacio Valley Blvd (Walnut Creek Urgent Medical Care, BASS Urgent Care) and Treat Blvd (John Muir Health) corridors, but all of them are located to the north/east, with inferior freeway access. Meanwhile, the closest one to the west/southwest (STAT Med Urgent Care) sits more than four miles away, on the other side of Downtown Lafayette.

Urgent care centers are typically smaller than 10,000 sq ft but can grow in size with other services, like occupational medicine. The Concentra on N. Broadway, for example, currently offers both at its N. Broadway location.

The site’s current Commercial Mixed-Use District (MU-C) zoning, however, presents challenges and contradictions.

First, how the use is defined seems unclear: is it “emergency medical care” or “medical offices”? Second, neither would be permitted in the Pier 1 space: the former is outright prohibited, while the latter is only allowed on an upper-floor or in back of the building. Thirdly, either one would require 50 off-street parking stalls (1 per 200 sq ft of rentable floor area, for a 10,000 sq ft space) – ten more than currently exist.

Animal hospitals and veterinary clinics would also not be possible, as they, like medical offices, are only allowed on the upper floor or in the back.

3. 1357 N. Main Street



Built in 1948, this two-story building, currently subdivided into 4,500 sq ft and 3,000 sq ft street-level storefronts as well as another 3,400 sq ft upstairs, sits across from Mechanics Bank and adjacent to Mancini’s Sleepworld. Its second floor was previously occupied by The Ballet School.

While it lacks off-street parking, that is somewhat less of a problem, given the foot traffic along N. Main Street as well as the proximity to Downtown’s “100% corner” and peak co-tenancy, just a block away at Mt. Diablo Boulevard.

Indeed, even the two blocks north from Mt. Diablo Boulevard to Cypress Street contain a number of soft goods retailers, including Davidson & Licht, Spitz Jewelers, Brandy Melville, Labels Luxury Consignment, Deliciouz and Shoes on Solano, among others.

This suggests the opportunity of similar tenancies in the space, though the ability to land more creditworthy, higher-caliber ones will depend on the extent to which the current landlord approaches the dealmaking process with flexibility in mind, including an ability and willingness to assist meaningfully with tenant improvements.

With that said, there is an ever-expanding array of digitally-native brands that have been building networks of physical stores and gravitating to the Class A suburban Downtowns, especially amidst pandemic-era urban flight.

Indeed, one can already find Athleta, UNTUCKit, Bonobos, ThirdLove, Peloton and Madison Reed at Broadway Plaza as well as Warby Parker further west on Mt. Diablo Boulevard.

While most of these brands would likely prefer a Broadway Plaza location, they will find few options there at the moment, given its low vacancy rate, and might start looking farther afield. Indeed, Warby Parker offers an example of how some of them do not insist on the immediate co-tenancy and greater predictability of a mall settings.

Home furnishings and décor is another category that offers possibilities, either for a consolidated space of 7,500 sq ft (ground-floor only), 11,000 sq ft (incorporating the upstairs availability) or even one of the two smaller bays at street level.

Indeed, marketing and leasing efforts could leverage the nearby presence of RH, Pottery Barn, Arhaus, Crate & Barrel, Ethan Allen, LoveSac and Williams-Sonoma as well as Porcelanosa, Galleria Shades & Shutters, Design Haus and California Closets.

Finally, while greater zoning flexibility might be indicated in other parts of the Downtown, it definitely should not be contemplated along this stretch of Main Street, where a cluster of soft goods retailers exists – in relatively close proximity to Broadway Plaza as well as Downtown’s 100% corner at Main St and Mt. Diablo Blvd – and where additional ones could be challenged to compete for available space with a wider range of prospective tenants that include quasi-retail or non-retail uses.

The consultant made repeated attempts to schedule an interview with the property owner but did not hear back.

4. 1406 N. Broadway



This freestanding, two-level, 5,200 sq ft building at 1406 N. Broadway (the northeast corner at Cypress Street), built in 1970, has been vacant since a corporate-owned Sprint store left there in 2018. It consists of 3,700 sq ft on the ground floor as well as a 1,500 sq ft upstairs office.

The site enjoys visibility to the 21,000 cars that pass daily along N. Broadway. However, unlike 1902 Mt. Diablo Boulevard (see above), it offers very limited parking – six on-site spaces -- and must instead rely on the adjacent, 502-space municipal parking deck.

Also, while it is just two blocks from Nordstrom/Broadway Plaza and only one block from Main Street, foot traffic plummets as one walks from either in its direction. Furthermore, it is on the *other side* of a wide, four-lane road from the retail core.

As with the Pier 1 space, then, it would be more likely to appeal to a destination use that values proximity but does not need adjacency to anchors or a critical mass of retailers -- like, for instance, a category that consumers do not visit regularly but on an “as-needed” basis, where they know, from passing regularly, that it exists.

Once again, this suggests home furnishings and décor, though only a limited number would be interested in a floor-plate of this size and configuration. And while there is also, as noted earlier (see 1902 Mt. Diablo Blvd), a tiny subset of apparel brands that consider such off-center locations, these are the rare exceptions, not the rule.

Other destination uses include bridal studios, beauty salons, boutique-fitness studios and pet groomers, though many operators in these categories might find the space too *large* for their needs.

The vacancy, which sits within the Pedestrian Retail District (P-R) zone, might, then, be one where calls from brokers for the relaxing of restrictions on ground-floor usage do not seem unreasonable. If provided with such flexibility, the long-empty space would likely receive interest from heretofore prohibited quasi-retail uses like medical/dental offices and veterinary clinics.

5. 1550 Olympic Boulevard



This freestanding, one-story, 2,250 sq ft building at the northeast corner of the intersection with Locust Street, constructed in 1965, has been vacant since Koja Kitchen, a fast-casual Korean/Japanese fusion concept, closed there just before the start of pandemic after three years of operation (and despite ongoing expansion elsewhere).

The property includes its own outdoor seating – along the Olympic Boulevard frontage and the side of the building -- as well as eleven metered public parking spaces (translating to one per roughly 200 sq ft).

It sits in an enviable location across from the Century Theatres 12 multi-plex, Cheesecake Factory, Ruth's Chris Steak House as well as the recently-announced Barnes & Noble in the former Forever 21 space.

Given the size and location, the space seems ideal for fast-causal food and beverage, which generally thrived amidst the pandemic, with countless operators continuing to expand today. Especially with the outdoor seating and on-site parking, it should not have remained vacant for this long. Indeed, many such concepts been refocusing specifically on suburban settings these last two years, in response to urban flight and remote work.

While low-hanging fruit should be easy to pick, the ideal tenant would be one that is not already ubiquitous across the trade area and that can generate some buzz within foodie circles. Examples include chain-lets from further afield, concepts from celebrity chefs and/or with cult followings, etc.

One source of possibilities is the growing number of ghost/commercial kitchens that have been materializing in recent years, where growth-minded regional chain-lets have been establishing low-cost/low-risk beachheads as a way of launching in or experimenting with new submarkets.

More coveted operators, however, will likely expect a certain level of deference or concession (e.g. build-out assistance) as part of the deal-making process. And even more basic improvements to the building's infrastructure might well be necessary: according to City records, the latest upgrades took place in the late 1990's.

The consultant made repeated attempts to schedule an interview with the property owner but did not hear back.

6. 1387 Locust Street



This freestanding, one-story, 7,500 sq ft building at the southwest corner of the intersection with Cypress Street, built in 1967, has been vacant since Crogan’s Sports Bar & Grill closed in 2017 following a City order to cease alcohol sales in the wake of repeated late-night incidents and police calls.

The property contains a small patio area along its Cypress St frontage. However, it offers very limited parking – just four on-site spaces -- as the lot to the immediate south is privately-owned for the tenants of 1375 Locust St.

The property occupies an enviable location along Locust Street’s “restaurant row”, sitting on the same intersection as three chain-lets/MCO’s -- Sauced BBQ & Spirits, Torsap Thai Kitchen (Osha Thai) and Ostro Restaurant (Manakish Oven & Grill) – and in close proximity to several other such draws.

As noted earlier, food and beverage uses do not rely on co-tenancy to the same degree as comparison goods retailers – indeed, there are many that thrive even in relative isolation – but they do benefit from visibility and location within an existing cluster, where large numbers of diners and imbibers head for greater variety.

That said, the 7,500 sq ft space is supersized by today’s standards, even for sit-down food and beverage concepts, of which, again, there are fewer expansion-minded ones than in the past.

Furthermore, given the long tenure of the previous tenant, the building and its kitchen infrastructure would almost certainly need to be modernized, raising the question of how such improvements would be covered. According to City records, the most recent upgrades took place thirteen years ago.

Few deep-pocketed national franchises would be interested in the location, instead preferring something either on or south of Mt. Diablo Blvd. A well-capitalized restaurant group is more likely, though it would expect the current landlord to share meaningfully in the costs.

The consultant made repeated attempts to schedule an interview with the property owner but did not hear back.

PROSPECTIVE RETAIL TENANTS

As a supplement to this memo, we have drawn upon our proprietary database of expansion-minded tenants to identify ones that would be realistic and might be pursued for the aforementioned vacancies. We focused primarily on comparison goods brands rather than food and beverage, as it is assumed that the latter sort of tenant will be much easier to land. More generally, we wanted to take aim at the widely-held narrative that traditional brick-and-mortar retail is “dead.”

These leads will be relayed to the specific landlords and/or brokers with available spaces that match their site criteria. We recognize that the vacancies are already being marketed by said landlords and/or brokers, who do such work every day and can, in many cases, point to very strong track record(s). Macerich, for instance, is one of the nation’s largest mall owners, while other Downtown properties are represented by some of the Bay Area’s most prominent leasing professionals. For this reason, we have tried to steer clear of the most obvious possibilities and instead suggest ones that might be flying under the proverbial radar. Even so, we imagine that some of what we propose may already have been considered if not pursued.

Apparel/Footwear/Accessories

The RealReal, the upscale resale / consignment retailer, shifted during the pandemic from larger flagships in high-profile locations like Union Square to smaller, 2,500 to 4,300 sq ft stores in “neighborhood” settings such as Downtown Palo Alto. It has yet to establish an East Bay presence.

The retailer’s customer base will almost certainly overlap with that of Labels Luxury Consignment, just two doors away, though in soft goods categories, additional operators, even direct competitors, typically drive *increasing* returns-to-scale and turbocharge overall sales -- hence, the gravitational pull of “clustering.” They ought not to be perceived as threats.



Faherty, a beach-themed concept featuring outdoor apparel, operates 32 units nationwide as well as locations in Hayes Valley, Santana Row and Corte Madera but nothing yet in the East Bay. It has also taken an interest in submarkets to which younger urbanites, its core customer, have been relocating in recent years. Stores measure roughly 2,000 to 3,500 sq ft.



Todd Snyder, the menswear designer who helped to develop J. Crew's Men's Shop concept (currently at Broadway Plaza), has been expanding his eponymous line, now owned by American Eagle Outfitters, with 2,500 to 3,500 sq ft stores across the U.S. that target 25 to 50-year old males aspiring to a more fashionable look.



Though not digitally-native, Evereve, a purveyor of contemporary casual fashions for young moms, has also been expanding rapidly. While it has yet to debut in the Bay Area, it arrived last year in the Southland (El Segundo's The Point and Newport Beach's Fashion Island), and while the majority of its roughly 100 stores are found in malls and lifestyle centers, it has also opened in several Downtown shopping destinations. Its latest floor-plates measure 3,000 to 3,500 sq ft.



Possible outdoor-recreational retailers include L.L. Bean, the iconic Maine brand with roughly 55 stores across the country, often between 15,000 to 20,000 sq ft, yet still only operates two in the West (in the Reno and Denver metropolitan areas) and North Face, which has referenced an 8,000 sq ft prototype as its growth vehicle yet oddly does not have a full-price East Bay location.



Patagonia also does not have an East Bay presence. Its 2,500 to 12,000 sq ft stores are sometimes found in slightly off-center, freestanding locations, like the one in Palo Alto, on Alma Street just beyond the Downtown core, next to a municipal parking garage and without its own on-site parking.



Amazon Style is the online giant’s much-hyped new department store concept that recently opened in a 30,000 sq ft space at Americana at Brand in Glendale, CA., with more locations to come, including (at least) one in the Bay Area. Offering both well-known lines as well as its 100+ private labels, with price points ranging from \$10 to \$400, Amazon is hoping that the store can help to upscale its image as a destination for fashion. (It is unclear what, if anything, the CEO’s recently-announced move away from in-house brands means for this initiative).



Finally, there’s Leap, a third-party “retail-as-a-service” provider that designs, develops and operates stores on behalf of digitally-native brands looking to expand via bricks-and-mortar. Typically leasing spaces in clusters, it currently manages roughly 50 shops for some 30 concepts across eight metros, including four in San Francisco as well as the new ThirdLove location at Broadway Plaza.



PACT store, managed by Leap, on Hayes Street in San Francisco’s Hayes Valley

Home Furnishings

Room & Board, a modern home furnishings retailer with 21 stores nationwide, operates 35,000 to 60,000 sq ft showrooms, sometimes on multiple floors and often in walkable shopping districts (e.g. Downtown Pasadena, Denver’s Cherry Creek North, Portland’s Pearl District). It has just one Bay Area location (in San Francisco’s Design District) and would likely be drawn to the nearby co-tenancy in the home furnishings category.



OKA, a U.K.-based upscale home furnishings retailer, has been introducing its uniquely British style and design sensibility to major U.S. markets, with 9,000 to 14,000 sq ft stores open in Houston, Dallas and Westport (CT) as well as plans for one or two more per year. Positioned between mass-market and bespoke, it competes with and values proximity to the likes of RH and Arhaus. While focused on the Northeast and Southeast, it says that it is “opportunistic” about potential loations. Note that its first U.S. store, in Houston, was cited not far away from though also not immediately adjacent to a superregional mall.



Serena & Lily, the Sausalito-based purveyor of upscale yet understated “California chic”, operates 15 full-price “Design Shop(s)” across the country, including one on Sacramento Street in San Francisco, but oddly, none in the East Bay -- with just outlets in Berkeley and Vacaville. Its locations range widely in size, from 3,000 to 8,000 sq ft., including multi-level spaces.



Natuzzi Italia, an Italian designer and retailer of upmarket leather and fabric-upholstered furniture, is optimistic about continued growth of its 8,000 to 10,000 sq ft showrooms. It has opened fifteen of them across the U.S., two in Southern California but none yet in the Bay Area.



Ballard Designs, an Atlanta-based designer and seller of home furnishings and décor that operates 16 stores across the country but none yet in California. Its typical floorplate is 10,000 sq ft. Originally a catalog retailer, it is owned by Qurate Retail Group, which also operates QVC and HSN.



Interior Define, a Chicago-based, digitally-native concept that specializes in sofas and customizable furniture, is growing aggressively, with 14 permanent stores today but plans for 30 new ones per year. Its Hayes Valley location is its only one thus far in the Bay Area. It recently shifted its prototype from 2,000 sq ft “Design Shop(s)” to 5,000 sq ft “Studio(s).”



Finally, Wayfair, the online home furnishings and decor retailer, is launching a network of brick-and-mortar stores, and recently announced a two-story, 150,000 sq ft location in a former department store space in suburban Chicago. It is unclear whether the company would contemplate a more urban setting with structured (rather than in-front) parking, though it has stated that it is considering several different banners, sizes and geographies.



Other

Camp is a New York City-based toy retailer that not only sells products in its 10,000 sq ft spaces but also includes sprawling playrooms with constant rotations of themed, merchandise-filled experiences as well as scheduled activities such as storytime, arts and crafts, music classes and magic shows. With nine stores now, it is planning to more than double its fleet in 2022, including a California beachhead in Century City.



Neighborhood Goods is a new breed of department store that offers novelty and discovery in a rotating selection of emerging, contemporary and digitally native brands, which it combines with restaurants in a roughly 10,000 sq ft box. The chain-let currently operates three stores, in Manhattan, Austin and Plano (TX), with plans to resume expansion in 2022, including two new locations in California. Affluent suburbs (like Plano) and malls are among the submarkets and property types that it is targeting.



In health and fitness, Barry's (formerly known as Barry's Bootcamp), the West Hollywood cult favorite that offers high-intensity interval training in a nightclub-like environment, has accelerated its suburban expansion amidst pandemic-era urban flight, yet while its eight Bay Area studios include ones in Burlingame, Stanford Shopping Center, Santana Row and Larkspur, there are none in the East Bay. Its latest prototype measures 9,000 sq ft.



Meanwhile, Sutter Health, like other integrated health-care providers, complements its hospital network with facilities of various sizes, ranging from small Walk-In Clinic(s), like the one at Concord's Veranda, to much larger Care Center(s), such as its two-story, 16,000 sq ft medical office building in Orinda, complete with urgent care, laboratory and imaging as well as physicians in multiple specialities.

Possible large-format entertainment venues might include one of the several expansion-minded indoor golf concepts, such as The Puttery, part-owned by star golfer Rory McIlroy (and similar to San Francisco's Urban Putt), which offers an adult-focused miniature golf course along with multiple bars and lounges as well as a full-service kitchen in an 18,000 to 22,000 sq ft floorplate, or Five Iron Golf, backed by Callaway Golf Company, which features simulator bays and instruction in 10,000 to 15,000 sq ft spaces.



Perhaps the fast-growing PGA Tour Superstore, a specialty golf and tennis retailer with a focus on in-store experiences and services (e.g. swing simulators, customized fittings, etc.), which typically occupies 40,000 to 50,000 sq ft boxes with in-front parking, could be convinced of the synergies of co-locating in the same building with a concept like The Puttery.

Another, more unconventional sort of entertainment anchor would be an immersive multimedia exhibition. Perhaps more accurately characterized as “edu-tainment”, these ticketed digital experiences tend to center on famous artists, ranging from classical (Van Gogh) to contemporary (Banksy). Several such productions are currently on offer in San Francisco, like, for example, Lighthouse Immersive’s “Immersive Van Gogh Exhibit” in the former Fillmore West building at Market St and South Van Ness Ave, where tickets range from \$40 (off-peak) to \$55 (peak).

While these are typically staged in urban properties on a temporary basis, Crossmedia Group, an Italian producer, offers different ones on a rotating basis in permanent retail spaces located in both cities and suburbs. In addition to the lease that it recently signed for a new, two-story, 18,000 sq ft building in Downtown Vancouver’s Granville (Street) Entertainment District, it debuted the Da Vinci Experience in a 14,000 sq ft floor-plate at the Tsawwassen Mills mall in suburban Vancouver (BC) last year.



Meanwhile, newer, more distinctive fast-casual eateries can be found in the growing number of ghost/commercial kitchens that have been materializing in recent years, where growth-minded regional chain-lets have been establishing low-cost/low-risk beachheads as a way of launching in or experimenting with new submarkets.

One such example is Local Kitchens (<https://www.localkitchens.com/>), founded by former DoorDash employees. Its “micro food hall” in Downtown Lafayette, one of several in the region, features several Bay Area brands with their first locations beyond the East Bay Hills, like Proposition Chicken, Senor Sisig, Wise Sons and Humphrey Slocombe.

The Local Kitchens format itself, however, should only be pursued as a second choice in the event that the Foundry does not move forward.

