

HERCULES, CALIFORNIA

RETAIL MARKET ANALYSIS

Prepared for:

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SECOND DRAFT

EXECUTIVE SUMMARY

This study evaluates the potential retail component of San Pablo Avenue in Hercules, California as it relates to proposed development and population growth over the next five years. The proposed development is likely to include, among other things, the conversion of the Creekside Shopping Center to an outlet mall, and the construction of the Northshore Business Park and Gelsar, a commercial and residential development.

We believe that there is opportunity for 162,000 square feet (sf) of retail space, which would include both neighborhood retailers as well as community oriented retailers serving the larger region. This retail development should include retailers who serve the primary trade area residents, but also will appeal to the large numbers of consumers who will be drawn to the area with the establishment of the outlet mall. Among the primary recommended uses for the area, described in detail in this document, are: 55,000-sf grocer. A 20,000 sf hardware store, 25,000 sf furniture store and a 20,000 sf home furnishing store.

This study projects suitable retail through the year 2005 and assumes that the Creekside Shopping Center will be converted to an outlet mall.

The most important rationale for these conclusions are: 1) a strong projected population growth with a relatively high median household income, 2) currently limited retail competition, and 3) the establishment of an outlet mall that will serve as an anchor for the area, as well as increase the viability for entertainment-oriented retail.

INTRODUCTION

Background. Gibbs Planning Group (GPG) has been requested by the City of Hercules, California to conduct a qualitative evaluation of the retail component of several development projects that are in various stages of planning and development along San Pablo Avenue in Hercules. These developments include:

- Northshore Business Park – Located in the northern portion of the site, currently under development.
- Gelsar – A proposed commercial and residential development proposed for the southern portion of the site.

The following issues were addressed as part of this study:

- *What is the primary and secondary trade area that will be served by retail located along San Pablo Avenue in Hercules, California?*
- *What are the current and projected population and demographic characteristics of trade area residents?*

- *What retail types are supportable and recommended to fulfill unmet needs in the proposed study area? What are their projected sales volumes?*

Methodology. To address the above issues, a detailed field evaluation of the retail in Hercules, as well as all major existing and planned shopping centers in and surrounding the defined trade area, was conducted during the week of May 22, 2000. During this field evaluation, The GPG team thoroughly drove the market and visited and evaluated the major existing and planned retail concentrations in the area.

The area was visited throughout the daytime, as well as the evening, to gain a qualitative understanding of the retail gravitational patterns and traffic patterns throughout the study area.

We then defined trade areas for the proposed retail centers based upon this field evaluation. Population and demographic characteristics of trade area residents were collected by census tract from national sources and updated based on information gathered from various local sources.

Finally, based on the population and demographic characteristics of the trade area, existing and known planned retail competition, and traffic and retail gravitational patterns, we developed our qualitative assessment for potential retail to be located along San Pablo Avenue in Hercules, California.

The Trade Areas

Based on our field evaluation, we determined that the existing retail in Hercules has a neighborhood appeal due to the road network and regional gravitational patterns. However, due to the conversion of the Creekside Center to an outlet mall, we defined an additional secondary trade area we believe constitutes the area that could be served by potential retail on San Pablo Avenue as well as a tertiary trade area that will be served by the outlet mall.

Primary Retail Trade Area This is the trade area from which both the existing and proposed retail in Hercules will attract most of its sales. The retail serving this trade area has a neighborhood appeal attracting customers from short distances based primarily on convenience. This trade area is approximately delimited by the following boundaries:

- San Pablo Bay to the north and west.
- John Muir Parkway to the east.
- Appian Way and Valley Road to the south.

Secondary Retail Trade Area Residents of this trade area will shop the proposed retail on a less frequent basis, but will still use the shops in the area for some of their primary shopping needs. This trade area is approximately delimited by the following boundaries:

- San Pablo Bay to the north and west.
- Briones Regional Park to the east.
- San Pablo Dam Road to the south.

Tertiary Retail Trade Area Finally, the tertiary trade area is the area that will serve the planned outlet mall. Residents of this trade area may shop the proposed retail on an infrequent basis, using other stores closer to home for most of their primary shopping needs. This trade area is approximately delimited by the following boundaries:

- Vallejo northern city limits to the north.
- Interstate 680 to the east.
- State Highway 24 to the south.
- San Pablo Bay to the west.

Please refer to the map in the Appendix for a visual depiction of these trade areas.

Demographic Characteristics. Using data from National Decision Systems, Inc., we obtained the population and demographic characteristics for the primary, secondary, total and tertiary trade areas. The total trade area includes the primary trade area as well as the secondary trade areas. The tertiary trade area, while serving the planned outlet mall, will not serve the recommended retail for the study, as such; it is *not* included in the total trade area. The population base was then compared to local population estimates and adjusted accordingly.

The Primary Trade Area, as defined, currently has an estimated population of 37,321 persons. This trade area population is expected to increase approximately 7% between the years 2000 and 2005. The projected 2005 population for the primary trade area is approximately 39,850 persons. Currently, there are approximately 13,700 households in this trade area. This trade area household base is expected to increase 10% to 15,063 households by the year 2005.

In comparison, the Secondary Trade Area has an additional estimated population of 47,356 persons. This figure is projected to increase slightly to 48,922 persons by 2005, a 3% increase. The secondary trade area's household base is estimated at 18,096 and is projected to grow to 19,281 households by 2005, a 6.5% increase.

As such, the total trade area (primary and secondary trade areas) has an estimated 2000-population base of 84,677 persons, which is projected to grow to 88,839 persons by the year 2005. Households are currently estimated at 31,797, which are projected to grow to 34,344 households by 2005.

The following table presents and compares the demographic characteristics found in the two trade areas and the City of Hercules:

| Characteristics | Primary Trade Area | Secondary Trade Area | City of Hercules |
|------------------------------|---------------------------|-----------------------------|-------------------------|
| 1999 Median Household Income | \$61,892 | \$57,029 | \$73,591 |
| 1999 Per Capita Income | \$24,994 | \$25,681 | \$27,366 |
| % White | 49.5 | 62.6 | 32.3 |
| % Asian & Pacific Islander | 35.0 | 21.1 | 51.2 |
| % Black | 10.6 | 10.5 | 12.2 |
| % Hispanic Origin | 13.1 | 13.5 | 11.8 |
| % Other | 4.9 | 5.7 | - |
| Median Age | 36.3 | 38.1 | 35.8 |
| Persons per Household | 2.72 | 2.61 | 2.95 |
| White-Collar Employed | 67.6% | 63.8% | 71.5% |
| % Married | 60% | 60% | 64% |

As shown in the above table, the primary trade area reflects a slightly more mature consumer with a smaller household size and lower per capita and median household income than is found in the City of Hercules. Additionally, the area has a strong Asian population base, with over half (51%) of the residents of the City of Hercules of Asian/Pacific Islander descent.

It is assumed that the proposed residential developments will attract consumers that mirror the existing primary trade area residential base.

Tertiary Trade Area In addition to the identified trade area that will serve any retail in the proposed study area, GPG defined a tertiary trade area that will serve the nearby outlet mall. While any new retail located in the study area will not be able to attract many dollars from the expanded area, the retail may be able to increase its sales from beyond the defined total trade area due to the proximity of the outlet mall.

This expanded trade area offers an additional estimated 606,000 persons, which is projected to increase slightly (3.7%) to 628,555 persons by the year 2005. Households are estimated to increase from an additional 244,322 to 257,823 by 2005. This larger, expanded trade area offers a median household income of \$46,017 and per capita income of \$24,961. Only 46% of the

residents in this area are married, however, the average age of 36 years is similar to both the defined primary and secondary trade areas.

STUDY AREA CHARACTERISTICS

Location. The study area consists of several development projects that are in various stages of planning and development along San Pablo Avenue in Hercules. These developments include:

- Northshore Business Park – Located in the northern portion of the site, currently under development.
- Gelsar – A proposed commercial and residential development proposed for the southern portion of the site.

Currently, the study area is primarily vacant.

Access: The Hercules study area has easy regional and local access. Regional access is provided by Interstate 80, which connects Hercules to Berkley and Oakland to the south, and Vallejo to the north. Additional regional access to Hercules to the east to Pleasant Hill and Walnut Creek is also easily available, however, not as direct via the John Muir Parkway (State Route 4).

Local access is also easily provided by San Pablo Parkway, which offers four lanes of bi-directional traffic to the study area.

Visibility: Visibility of any retail located along San Pablo Parkway will be very good from both the parkway as well as from Interstate 80.

Ingress/Egress and Parking: Ingress/egress to any retail at the site is assumed adequate from San Pablo Parkway. Additionally, a traffic light is also assumed at the point of ingress/egress. Parking is assumed to be adequate and readily available to all portions of the center.

Other Shopping Areas. As part of this study, The GPG team visited all major shopping areas both within and surrounding the defined trade area. Currently, the shopping centers located near the site are neighborhood in orientation. All regional and community-oriented shopping centers are located to the south in southern Pinole and northern Richmond. As such, regional retail gravitation is to the south, toward Richmond, Berkley and Oakland.

The only regional mall identified near Hercules is the Hilltop Mall, a regional mall offering a traditional tenant mix and anchored by J C Penney, Macy's and Sears. Just northeast of the mall, at the intersection of Richmond Parkway and Interstate 80, are all the discount and big-box retailers currently in the defined trade area. Both Kmart and Target, as well as Mervyn's are located in these centers, as is Orchard Supply Hardware, Barnes & Noble, Best Buy, PETsMART and Ross Dress For Less.

However, the Creekside Shopping Center, located just east of the site, is assumed to be converted to a 250,000 gross square foot outlet mall. Currently, no retailers for the mall have been announced, however, it is assumed for the purpose of this study that the mall will be fully tenanted and offer the standard mix of outlet tenants including the following:

- Apparel
- Jewelry
- Books
- Housewares
- Shoes and Accessories
- Food Court(with 6-10 fast food tenants)

RECOMMENDATIONS

As a result of our qualitative analysis, we believe there is a favorable opportunity for future retail growth, as well as non-retail uses in the defined study area for Hercules, California. In particular, we conclude that 162,000 additional retail space will be supportable by 2002. Of this, we recommend that most of the retail appeal to the close-in residential base, both existing and planned. We also conclude that the area can support additional community-oriented retailers that cater to a larger trade area base due to the expansion of the secondary trade area and the planned outlet mall, as well as some additional restaurant space.

The following presents our recommendations for the additional retail space in the Hercules study area:

- ***55,000 square feet for the relocation of the existing Safeway in Rodeo.***
- ***20,000 square foot hardware store, such as Ace or Crown Hardware.***
- ***5,000 square feet for a video rental shop.***
- ***25,000 square feet for a furniture store, such as Ethan Allen or La-Z-Boy.***
- ***10,000 square feet for a 1/2 Off Card Shop or party store.***
- ***20,000 square feet for a Cost Plus Market or Pier 1 Imports.***
- ***11,000 square feet of additional restaurant space, most of which (7,000 square feet) should offer liquor and sit-down seating. The remainder (4,000 square feet) should be fast-food oriented to appeal to the interstate traffic as well as those shopping at the outlet mall.***
- ***3,000 square foot liquor or wine shop.***
- ***3,500 square foot golf and tennis shop.***

- *5,500 square feet of personal services* to include a dry cleaner, optical/vision care and beauty and nail salon.
- *4,000 square feet of additional professional services.*

Please refer to the table in the Appendix for the complete recommended retail tenant mix for Hercules.

Rationale. The rationale for recommending the above tenants is presented below:

- 1) Strong primary trade area population growth with an estimated 37,321 persons growing to 39,850 persons by 2005.
- 2) Excellent demographics for the proposed retail with a median household income of \$73,591 for the City of Hercules and \$61,802 in the primary trade area. The primary trade area also offers a strong white-collar employed population base of 68%.
- 3) Limited existing close-in competition, with the retail strength of the area becoming much stronger due to the planned outlet mall.
- 4) The outlet mall will also increase the viability of entertainment-oriented retail, such as restaurants, enabling these units to attract a strong portion of sales from beyond the defined trade area.
- 5) Retail competition in the southern periphery of the primary trade area, however, is strong, combined with the physical barriers to the north and west, limiting the site's ability to attract neighborhood or community-oriented sales from beyond the defined trade area.