

Santa Barbara State Street Retail & Office Market Analysis

December 2021

DRAFT



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OUTLINE

- Introduction
- Area Demographics & Employment
- Area Property Inventory
- Office Market Performance
- Retail Market Performance
- Paseo Nuevo Profile
- Conclusions

INTRODUCTION

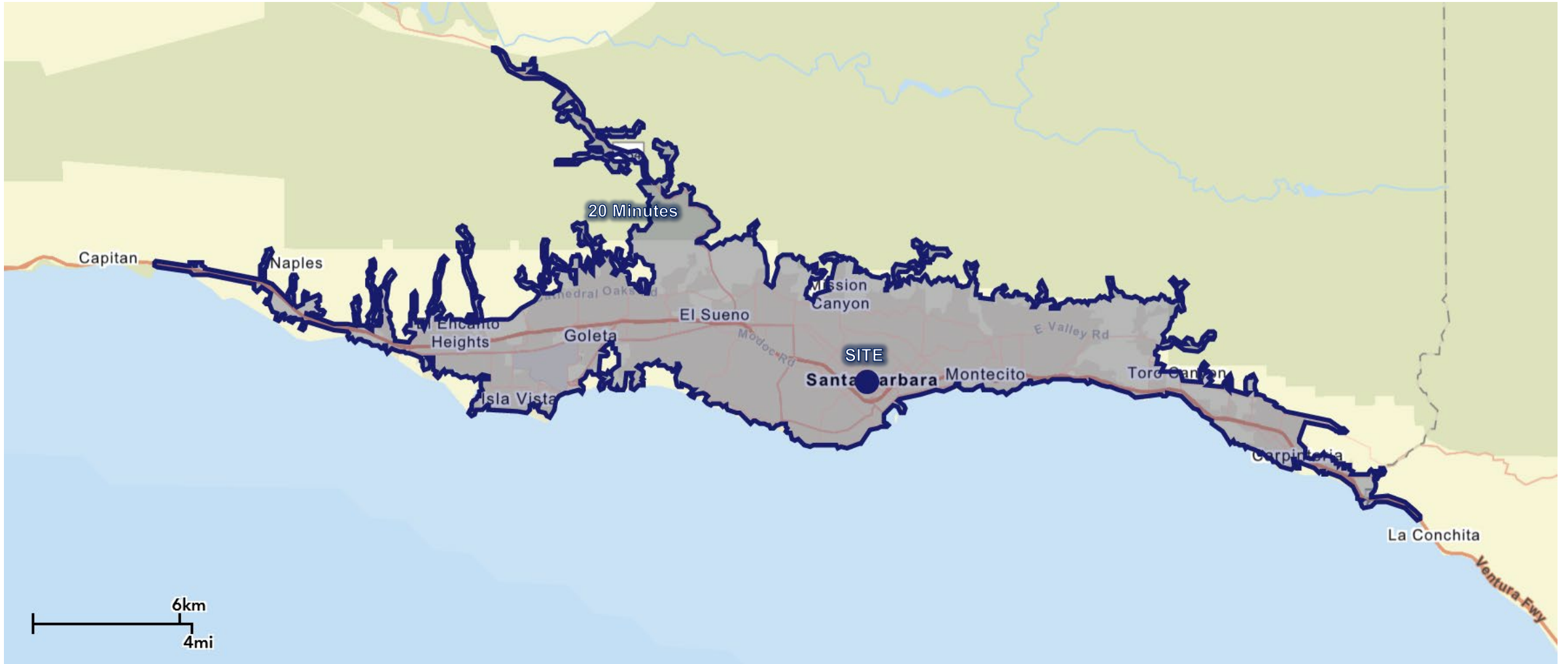
- Kosmont retained by owner of former Paseo Nuevo Nordstrom's leasehold ("Site") to evaluate Santa Barbara State Street / area retail and office market segments
- Substantial decrease in demand for traditional physical retail footprint being experienced nationwide, Santa Barbara is not immune
 - ~132,500 SF Macy's closed in 2017 after ~25 years in business
 - ~175,000 SF Nordstrom closed in 2020 after ~30 years in business
- Given lack of tenant demand for large format former Nordstrom building, potential to reposition for office use
- Potential for office use to help preserve and expand State Street activity (daytime population), support remaining restaurants and retailers

DEMOGRAPHIC STUDY AREAS

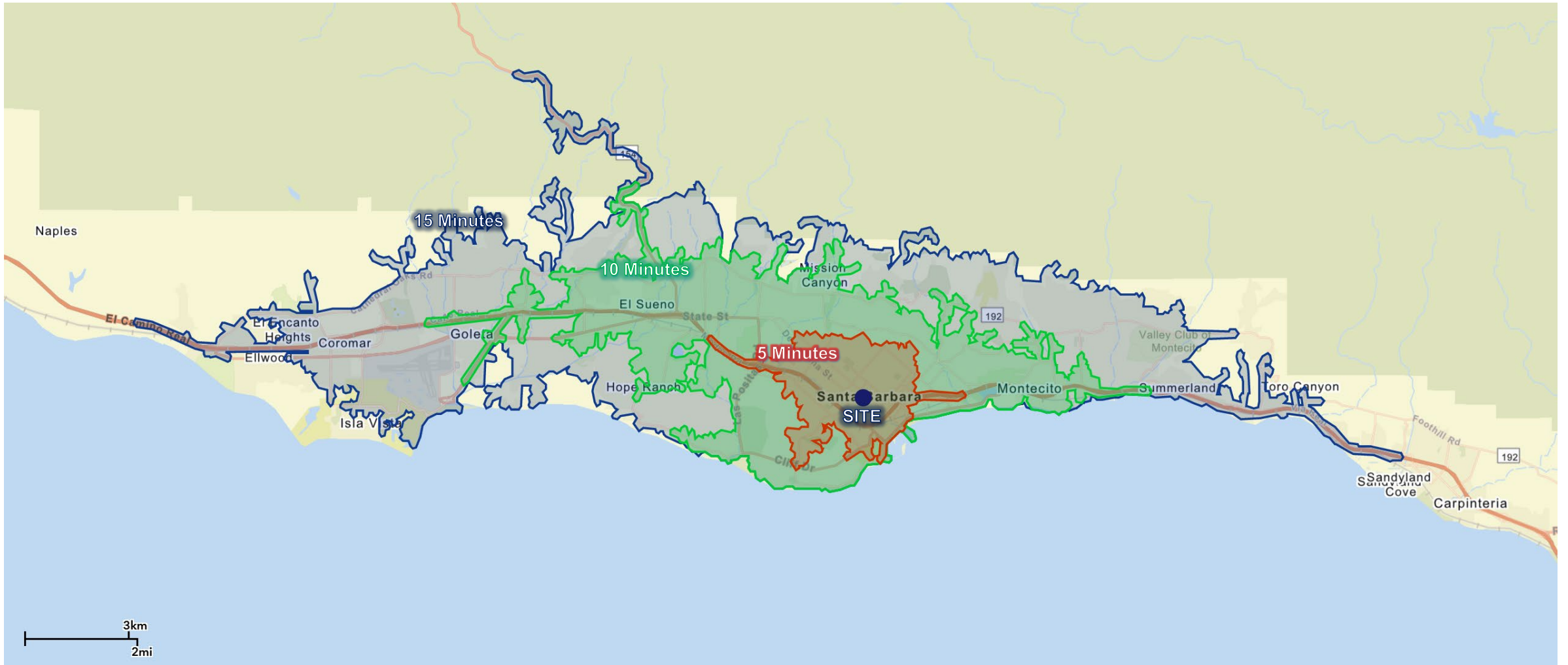
- Demographics evaluated for a variety of geographic areas
 - Area within a 5, 10, 15 and 20-minute drive of the Site
 - City / Municipal Boundary
 - “Downtown” Submarket
 - Area within a 5, 10, and 15-minute walk of the Site
- Area within a 20-minute drive of the Site generally considered to be the primary retail trade area for the Paseo Nuevo center
- Maps of these geographic areas and summary demographics for the same follow
- All figures are estimates / approximated

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AREA WITHIN 20-MINUTE DRIVE OF SITE (PASEO NUEVO TRADE AREA)



AREA WITHIN 5, 10, & 15-MINUTE DRIVE OF SITE

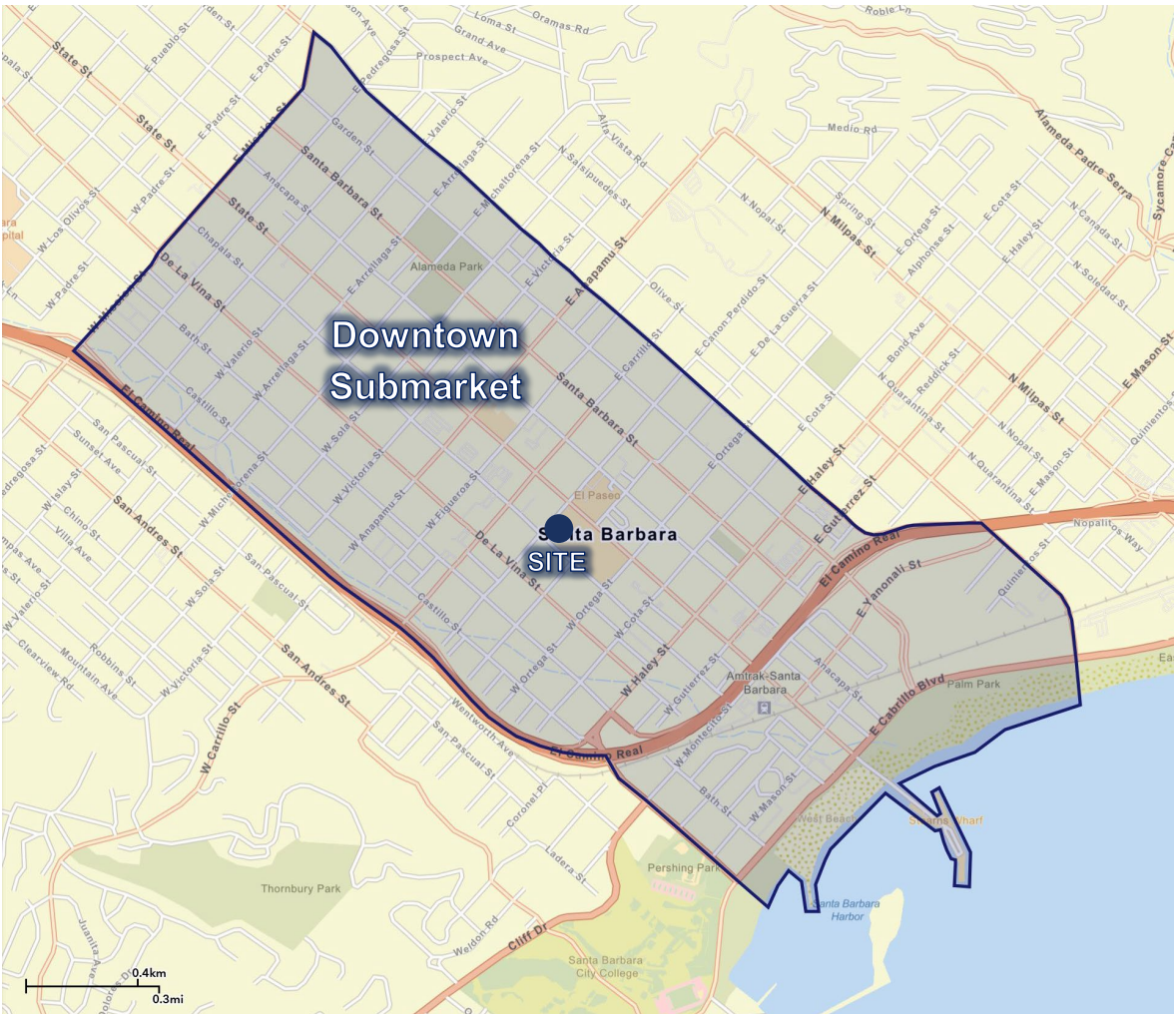


Source: ESRI, Kosmont (2021)

CITY BOUNDARY



AREA WITHIN 5, 10, & 15-MINUTE WALK OF SITE & DOWNTOWN SUBMARKET



Source: ESRI, Kosmont (2021)

AREA DEMOGRAPHICS

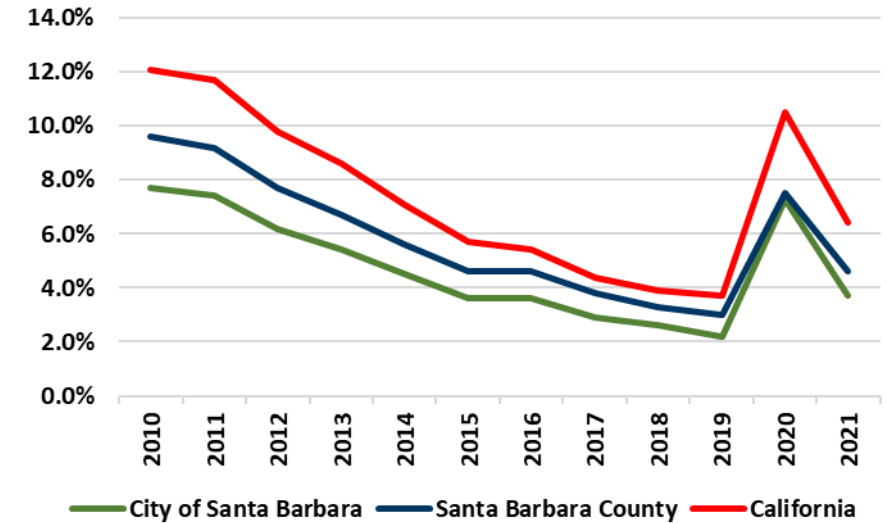
Population	2021	2026	CAGR	Households	2021	2026	CAGR	Median HH Income	2021	2026	CAGR
Downtown City	14,600	14,800	0.4%	Downtown City	6,900	7,100	0.4%	Downtown City	\$ 58,700	\$ 67,100	2.7%
	90,600	91,900	0.3%		36,400	36,900	0.3%		77,700	89,500	2.9%
5 Min Walk	500	500	0.5%	5 Min Walk	200	200	0.6%	5 Min Walk	\$ 68,600	\$ 79,100	2.9%
10 Min Walk	4,600	4,700	0.6%	10 Min Walk	2,300	2,300	0.6%	10 Min Walk	56,200	66,000	3.3%
15 Min Walk	10,800	11,000	0.5%	15 Min Walk	4,900	5,100	0.6%	15 Min Walk	54,200	61,600	2.6%
5 Min Drive	42,000	42,700	0.4%	5 Min Drive	16,600	17,000	0.4%	5 Min Drive	\$ 62,200	\$ 70,900	2.7%
10 Min Drive	107,300	108,700	0.3%	10 Min Drive	42,600	43,200	0.3%	10 Min Drive	79,200	90,900	2.8%
15 Min Drive	159,600	161,700	0.3%	15 Min Drive	60,400	61,200	0.3%	15 Min Drive	87,800	101,600	3.0%
20 Min Drive	202,600	205,700	0.3%	20 Min Drive	74,000	75,200	0.3%	20 Min Drive	82,000	94,800	2.9%
Median Age	2021	2026	CAGR	Avg HH Size	2021	2026	CAGR	Average HH Income	2021	2026	CAGR
Downtown City	36.5	37.4	0.5%	Downtown City	2.0	2.0	0.0%	Downtown City	\$ 83,700	\$ 98,000	3.2%
	38.6	39.5	0.5%		2.4	2.4	0.0%		120,700	137,800	2.7%
5 Min Walk	35.4	37.1	0.9%	5 Min Walk	2.3	2.3	-0.1%	5 Min Walk	\$ 93,300	\$ 110,000	3.4%
10 Min Walk	36.0	37.2	0.7%	10 Min Walk	2.0	2.0	0.0%	10 Min Walk	83,500	99,100	3.5%
15 Min Walk	36.1	37.1	0.5%	15 Min Walk	2.1	2.1	0.0%	15 Min Walk	79,400	93,500	3.3%
5 Min Drive	34.7	35.7	0.6%	5 Min Drive	2.5	2.5	0.0%	5 Min Drive	\$ 91,700	\$ 106,200	3.0%
10 Min Drive	39.5	40.4	0.5%	10 Min Drive	2.4	2.4	0.0%	10 Min Drive	122,200	139,700	2.7%
15 Min Drive	39.8	40.8	0.5%	15 Min Drive	2.5	2.5	0.0%	15 Min Drive	132,200	150,500	2.6%
20 Min Drive	36.5	37.7	0.6%	20 Min Drive	2.6	2.6	0.0%	20 Min Drive	124,800	142,000	2.6%

Source: ESRI, Kosmont (2021)

SUMMARY OF AREA DEMOGRAPHICS & UNEMPLOYMENT

- 2021 Downtown Submarket population of 14,600 represents 16% of City population of 90,600
- ~200,000 people live within a 20-minute drive of the Site
- Population projected to grow modestly over the next five years with higher, but still relatively low growth rates in the Downtown Submarket and area within a 10-minute walk of the Site
- Median age across all geographies is in the mid to late-30's
- Average household size ranges from 2.0 to 2.6, with lower sizes found in the Downtown Submarket, and higher sizes found in the larger geographies
- Average household income ranges from the low \$80,000's to low \$130,000's, with lower incomes found in the Downtown Submarket, and higher incomes generally found in the larger geographies

Unemployment Rate



- Employment rates appears to be recovering from the impacts of the pandemic
- Aside from the impacts of the pandemic, the region has enjoyed low unemployment rates of late

Source: ESRI, CA EDD, Kosmont (2021)

HOUSEHOLD INCOME DISTRIBUTION – DOWNTOWN SUBMARKET (2021)

- Household income within the Downtown Submarket clusters in the \$50,000 to \$75,000 range
- This income band is the most prevalent across all but the most senior age group
- 28% of all households have annual income greater than \$100,000 per year, and 12% have income greater than \$150,000 per year
- 24% of heads of households are 25-34 years old, 20% are 35-44 years old

Household Income	Household Income Distribution by Age Group		Age of Head of Household						
	\$	\$	<25	25-34	35-44	45-54	55-64	65-74	75+
	-	15,000	13.4%	7.4%	7.5%	8.5%	12.3%	14.4%	21.1%
	15,000	24,999	14.3%	8.0%	4.4%	3.6%	7.7%	11.5%	26.6%
	25,000	34,999	9.9%	5.9%	4.1%	3.0%	4.2%	5.4%	6.9%
	35,000	49,999	15.6%	19.5%	16.2%	11.8%	15.1%	16.1%	10.8%
	50,000	74,999	24.8%	17.3%	21.7%	24.0%	21.9%	21.0%	14.9%
	75,000	99,999	11.0%	12.7%	11.8%	10.5%	9.3%	7.8%	6.2%
	100,000	149,999	8.8%	18.6%	17.8%	22.0%	15.4%	11.6%	7.7%
	150,000	199,999	1.3%	5.5%	6.6%	8.1%	5.4%	6.2%	3.1%
	200,000	+	1.1%	5.1%	9.9%	8.5%	8.7%	6.1%	2.8%

Household Income	Household Income Distribution by Population		Age of Head of Household							All Ages
	\$	\$	<25	25-34	35-44	45-54	55-64	65-74	75+	
	-	15,000	0.9%	1.8%	1.5%	1.2%	1.7%	1.7%	2.0%	10.8%
	15,000	24,999	0.9%	1.9%	0.9%	0.5%	1.1%	1.4%	2.5%	9.2%
	25,000	34,999	0.6%	1.4%	0.8%	0.4%	0.6%	0.6%	0.6%	5.2%
	35,000	49,999	1.0%	4.7%	3.3%	1.6%	2.1%	1.9%	1.0%	15.7%
	50,000	74,999	1.6%	4.1%	4.4%	3.3%	3.1%	2.5%	1.4%	20.5%
	75,000	99,999	0.7%	3.0%	2.4%	1.5%	1.3%	0.9%	0.6%	10.4%
	100,000	149,999	0.6%	4.4%	3.6%	3.1%	2.2%	1.4%	0.7%	15.9%
	150,000	199,999	0.1%	1.3%	1.3%	1.1%	0.8%	0.7%	0.3%	5.7%
	200,000	+	0.1%	1.2%	2.0%	1.2%	1.2%	0.7%	0.3%	6.7%
			6.6%	23.8%	20.1%	13.9%	14.1%	12.1%	9.4%	

Median	\$46,200	\$61,000	\$69,000	\$73,500	\$59,600	\$52,100	\$27,800	\$58,700
Average	54,500	82,400	99,300	99,700	88,800	76,800	51,900	83,700

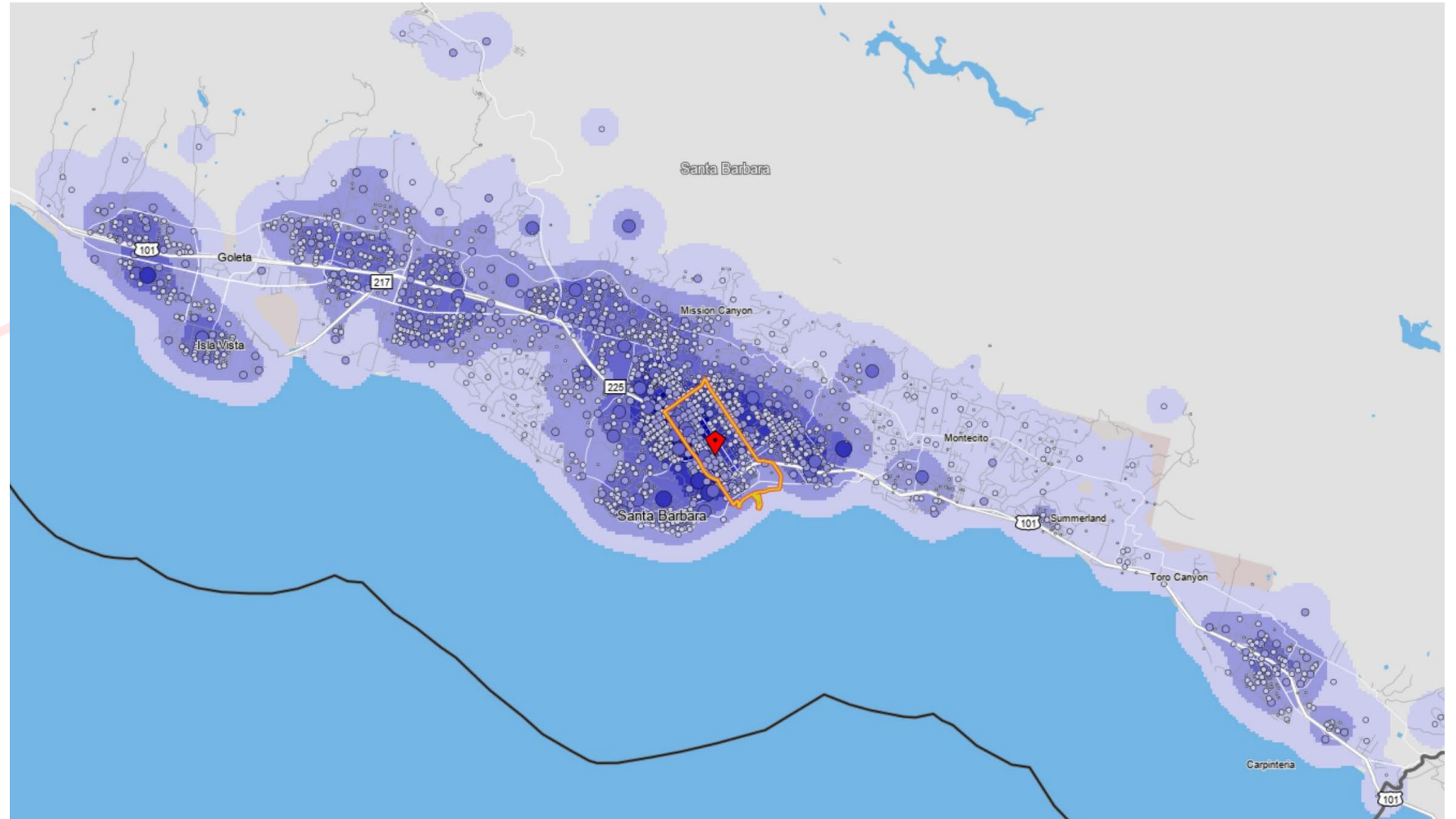
Source: ESRI, Kosmont (2021)

DOWNTOWN SUBMARKET WORKER HOME LOCATION (2019)

- 22,950 jobs within the Downtown Submarket
- 40% of all jobs in the City are within the Downtown Submarket
- 33% of Downtown Submarket workers live within the City

Distance Traveled to Work

Distance	Count	Share
< 10 Miles	11,610	50.6%
10 - 24 Miles	1,540	6.7%
25 - 50 Miles	3,270	14.3%
> 50 Miles	6,530	28.4%
Total	22,950	



DOWNTOWN SUBMARKET & RESIDENT EMPLOYMENT SECTOR (2019)

- Four of top five employment sectors in Downtown Submarket are also top sectors in which Downtown residents work
 - Accommodation & Food Services
 - Professional Services
 - Health Care
 - Retail
- 1,620 Downtown Submarket residents also work in the Downtown Submarket

"Jobs in the Downtown Submarket"

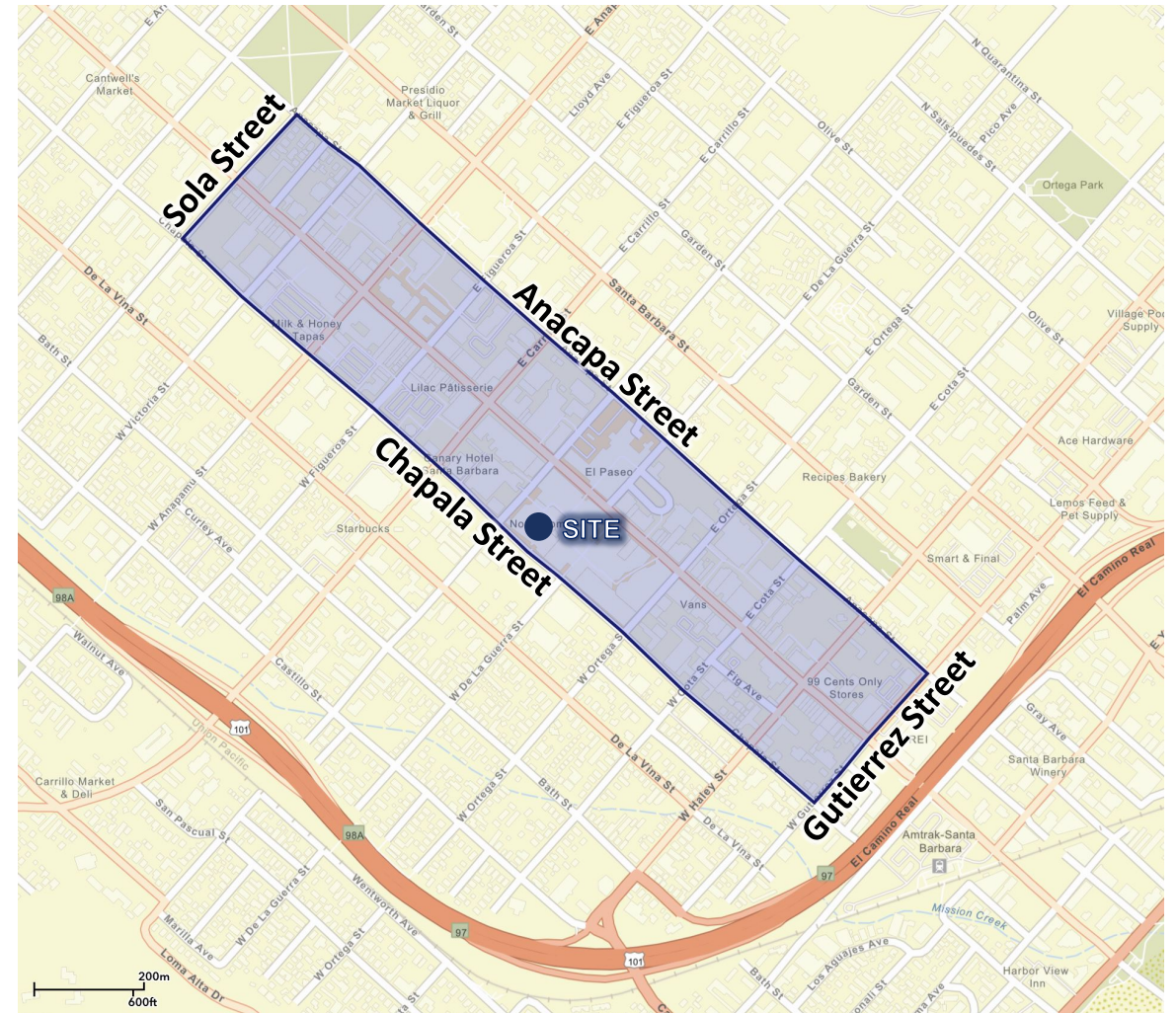
Sector	Jobs	Share
Accommodation & Food Services	4,750	20.7%
Professional, Scientific, & Technical Services	3,310	14.4%
Health Care & Social Assistance	1,990	8.7%
Retail Trade	1,650	7.2%
Public Administration	1,610	7.0%
Other Services (excluding Public Admin)	1,410	6.1%
Admin & Support, Waste Management	1,050	4.6%
Construction	980	4.3%
Finance & Insurance	910	4.0%
Arts, Entertainment, & Recreation	810	3.5%
Information	800	3.5%
Real Estate & Rental & Leasing	650	2.8%
Educational Services	640	2.8%
Manufacturing	600	2.6%
Utilities	550	2.4%
Wholesale Trade	480	2.1%
Transportation & Warehousing	310	1.3%
Management of Companies & Enterprises	300	1.3%
Agriculture, Forestry, Fishing & Hunting	110	0.5%
Mining, Quarrying, & Oil & Gas Extraction	60	0.3%
Total	22,950	

Industries in which Downtown Submarket Residents Work

Sector	Jobs	Share
Accommodation & Food Services	980	14.4%
Health Care & Social Assistance	930	13.6%
Professional, Scientific, & Technical Services	700	10.3%
Educational Services	640	9.4%
Retail Trade	530	7.7%
Admin & Support, Waste Management	440	6.5%
Other Services (excluding Public Adm)	310	4.5%
Manufacturing	290	4.3%
Construction	260	3.9%
Information	260	3.8%
Arts, Entertainment, & Recreation	220	3.2%
Wholesale Trade	210	3.0%
Finance & Insurance	200	2.9%
Public Administration	190	2.8%
Management of Companies & Enterprises	190	2.8%
Agriculture, Forestry, Fishing & Hunting	180	2.6%
Real Estate & Rental & Leasing	130	2.0%
Transportation & Warehousing	130	1.9%
Utilities	40	0.5%
Mining, Quarrying, & Oil & Gas Extraction	0	0.0%
Total	6,820	

STATE STREET STUDY AREA

- Analysis of State Street corridor “State Street Study Area” also completed
- State Street Study Area includes full blocks on each side of State Street between Gutierrez Street from the southeast and Sola Street to the northwest
- Long corridor from a pedestrian perspective (typical comfortable pedestrian range approximately 4-5 blocks)
- However, given multiple focal points and demand drivers, comprises an attractive, coherent district for long-term, economically sustainable mix of uses



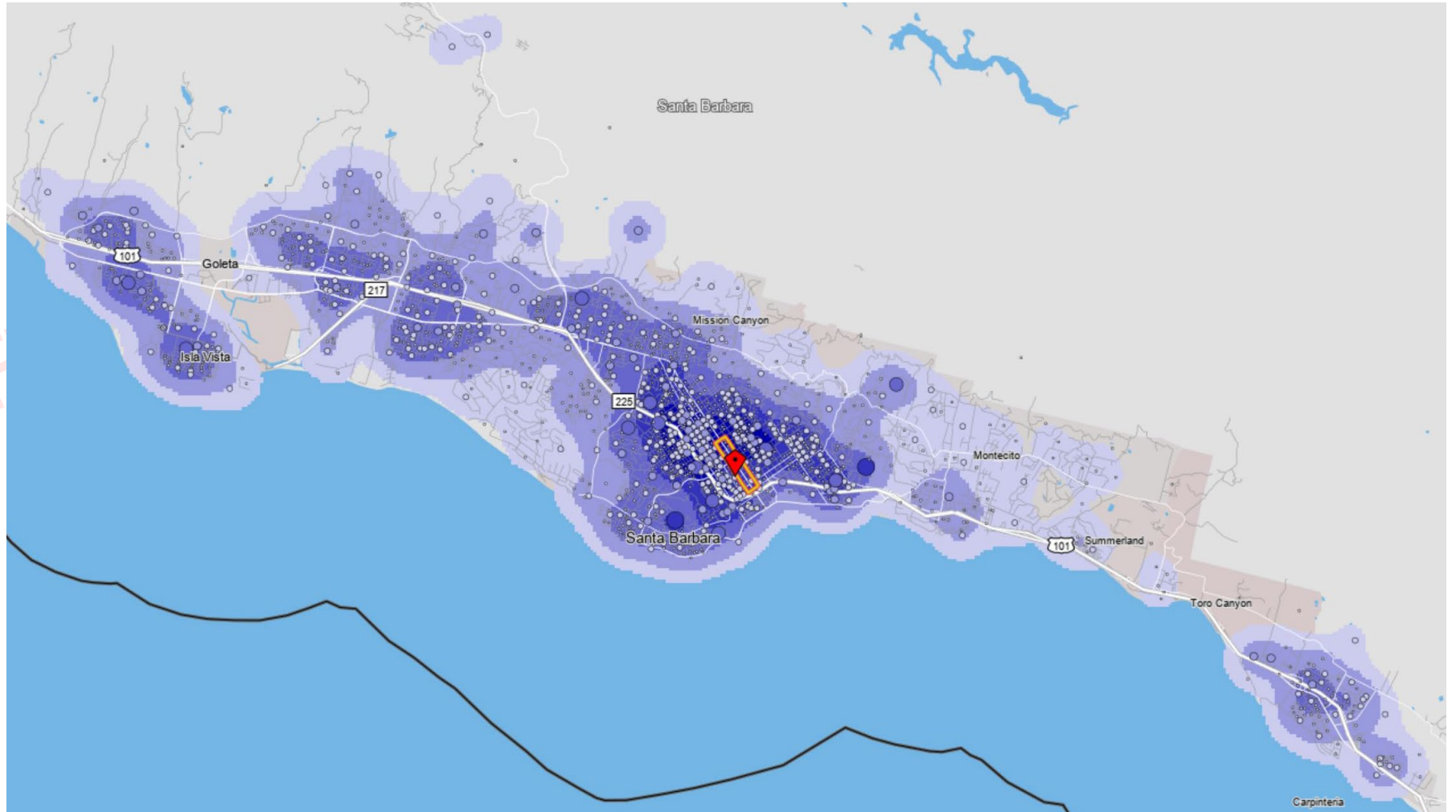
Source: ESRI, Kosmont (2021)

STATE STREET STUDY AREA WORKER HOME LOCATION (2019)

- 6,840 jobs within the State Street Study Area
- 30% of all jobs in Downtown Submarket within State Street Study Area
- 32% of State Street Study Area workers live in Santa Barbara

Distance Traveled to Work

Distance	Count	Share
< 10 Miles	3,360	49.0%
10 - 24 Miles	450	6.6%
25 - 50 Miles	920	13.5%
> 50 Miles	2,110	30.8%
Total	6,840	



Source: OnTheMap, Kosmont (2021)

STATE STREET STUDY AREA EMPLOYMENT SECTOR (2019)

- Top employment sectors in hospitality, food services, retail trade, and professional services sectors
- Figures reflect employment prior to closure of Nordstrom in 2020
- 105 people live within the State Street Study Area, of which seven also work in the Study Area
- Study Area population not substantial enough for meaningful analysis of resident employment sectors

"Jobs in the State Street Study Area"

Sector	Jobs	Share
Accommodation & Food Services	2,100	30.7%
Retail Trade	950	13.9%
Professional, Scientific, & Technical Services	660	9.6%
Arts, Entertainment, & Recreation	460	6.8%
Public Administration	420	6.2%
Information	410	6.0%
Finance & Insurance	290	4.3%
Health Care & Social Assistance	260	3.7%
Other Services (excluding Public Admin)	230	3.3%
Manufacturing	200	2.9%
Admin & Support, Waste Management	180	2.7%
Construction	180	2.6%
Utilities	160	2.3%
Real Estate & Rental & Leasing	100	1.4%
Educational Services	70	1.0%
Management of Companies & Enterprises	70	1.0%
Wholesale Trade	70	1.0%
Mining, Quarrying, & Oil & Gas Extraction	20	0.3%
Transportation & Warehousing	20	0.2%
Agriculture, Forestry, Fishing & Hunting	10	0.2%
Total	6,840	

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DOWNTOWN SUBMARKET BUILDING INVENTORY

- Total of ~10.6 million square feet of building area
- Variety of land uses, but heavily retail and office, notable multi-family building area
- Mix of uses expected to support long-term stability given potential for reuse of building programs as market fundamentals and segment demands shift
- Increase in multi-family supply within Downtown Submarket likely complimentary to long term viability of other uses

Land Use	Properties	Acres	Building SF	Floor Area Ratio
Industrial	161	112.0	1,090,400	0.22
Health Care	14	7.2	287,200	0.91
Hospitality	48	24.1	785,700	0.75
Multi-Family	216	72.0	1,951,300	0.62
Office	404	121.8	3,120,900	0.59
Retail	416	195.6	3,385,200	0.40
Sports & Entertainment	2	2.0	15,000	0.17
Total	1,261	534.8	10,635,700	0.46

Land Use	Properties	Acres	Building SF
Industrial	12.8%	20.9%	10.3%
Health Care	1.1%	1.4%	2.7%
Hospitality	3.8%	4.5%	7.4%
Multi-Family	17.1%	13.5%	18.3%
Office	32.0%	22.8%	29.3%
Retail	33.0%	36.6%	31.8%
Sports & Entertainment	0.2%	0.4%	0.1%

Source: CoStar, Kosmont (2021)

STATE STREET STUDY AREA BUILDING INVENTORY

- Total of ~3.5 million square feet of building area
- Dominated by retail uses, some office, and hospitality
- Mix representative of traditional retail corridor
- Increase in office, residential and hospitality uses likely complimentary to long-term activation and sustainability

Land Use	Properties	Acres	Building SF	Floor Area Ratio
Industrial	13	4.5	38,800	0.20
Health Care	1	0.1	2,500	0.47
Hospitality	6	1.9	203,300	2.44
Multi-Family	4	2.2	71,700	0.77
Office	62	17.4	897,600	1.18
Retail	211	54.7	2,290,100	0.96
Sports & Entertainment	1	0.7	11,300	0.36
Total	298	81.5	3,515,300	0.99

Land Use	Properties	Acres	Building SF
Industrial	4.4%	5.5%	1.1%
Health Care	0.3%	0.1%	0.1%
Hospitality	2.0%	2.3%	5.8%
Multi-Family	1.3%	2.6%	2.0%
Office	20.8%	21.4%	25.5%
Retail	70.8%	67.1%	65.1%
Sports & Entertainment	0.3%	0.9%	0.3%

Source: CoStar, Kosmont (2021)

STATE STREET STUDY AREA RETAIL BUILDING INVENTORY / USE

- Given dominance of retail within State Street Study Area, secondary uses evaluated, suggests some mixed / blended-use retail / office that may serve to help balance office / retail ratios

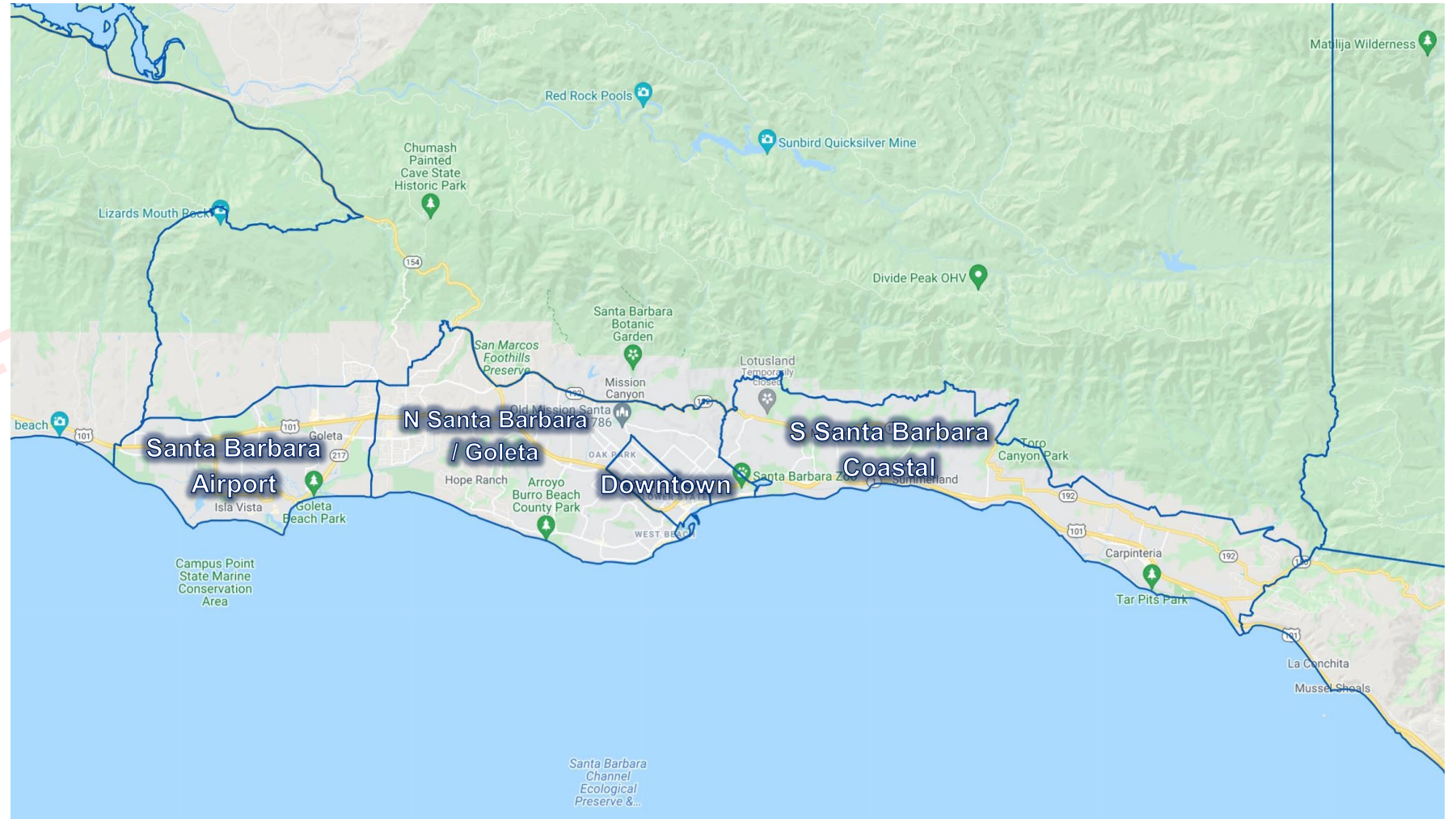
Secondary Retail Use	Properties	Acres	Building SF	Floor Area Ratio	Properties	Acres	Building SF
Storefront Retail/Office	48	14.0	744,700	1.22	22.7%	25.6%	32.5%
Storefront	74	15.4	525,000	0.78	35.1%	28.1%	22.9%
Department Store	2	2.1	400,000	4.46	0.9%	3.8%	17.5%
Restaurant	37	6.3	217,900	0.79	17.5%	11.6%	9.5%
Freestanding	10	6.4	104,800	0.38	4.7%	11.7%	4.6%
Bank	7	2.2	99,000	1.02	3.3%	4.1%	4.3%
Other	13	3.0	81,800	0.62	6.2%	5.6%	3.6%
Storefront Retail/Residential	5	0.8	29,600	0.84	2.4%	1.5%	1.3%
Movie Theatre	1	1.6	19,600	0.29	0.5%	2.8%	0.9%
Supermarket	1	1.0	18,300	0.42	0.5%	1.8%	0.8%
Health Club	1	0.3	15,400	1.31	0.5%	0.5%	0.7%
Auto Dealership	2	0.6	15,400	0.64	0.9%	1.0%	0.7%
Bar/Nightclub	7	0.9	14,900	0.37	3.3%	1.7%	0.7%
Fast Food	2	0.1	2,100	0.59	0.9%	0.1%	0.1%
Auto Repair	1	0.1	1,600	0.30	0.5%	0.2%	0.1%
Total	211	55	2,290,100	0.96			

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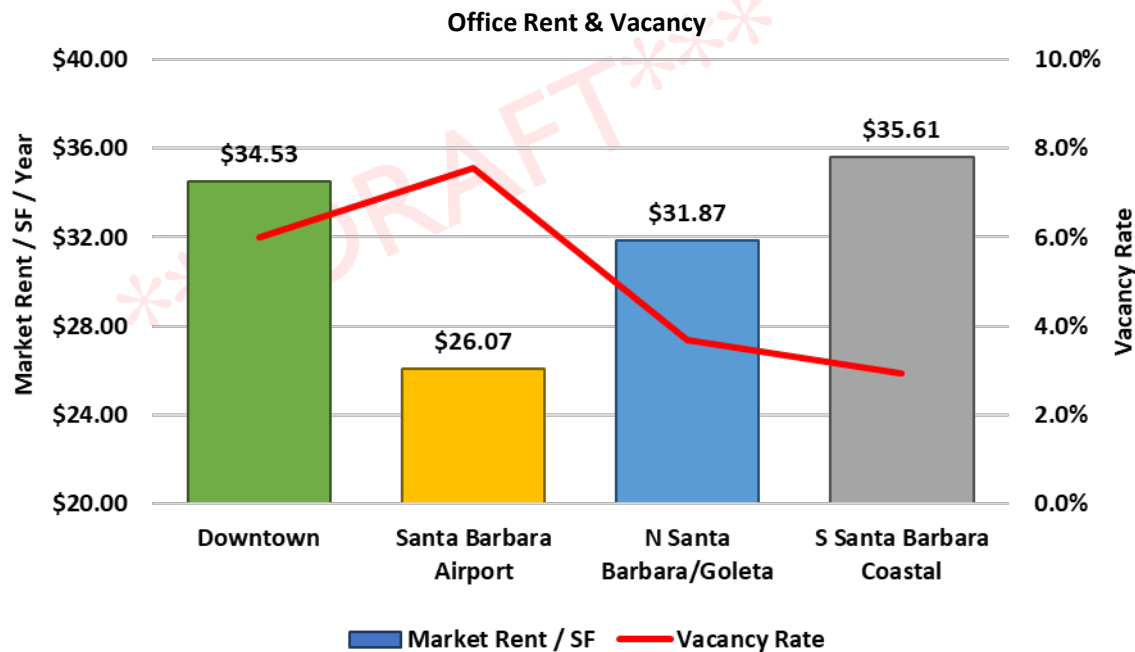
OFFICE & RETAIL SUBMARKET MAP

- Office and retail market performance for four area submarkets completed
 - Downtown
 - Santa Barbara Airport
 - N Santa Barbara / Goleta
 - S Santa Barbara Coastal

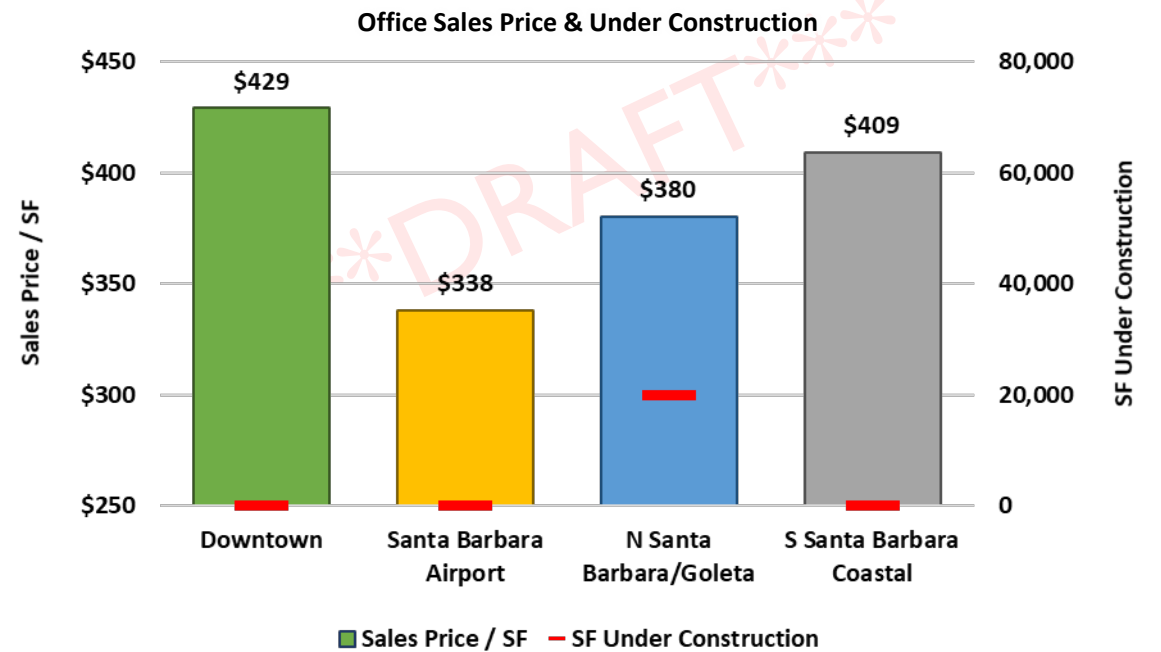


OFFICE – SUMMARY METRICS FOR AREA SUBMARKETS (2021 Q4)

- Downtown Submarket and South Santa Barbara Coastal submarket achieving fairly strong rents
- Downtown and Santa Barbara Airport submarkets experiencing higher vacancy that other submarkets, but still moderate levels of vacancy

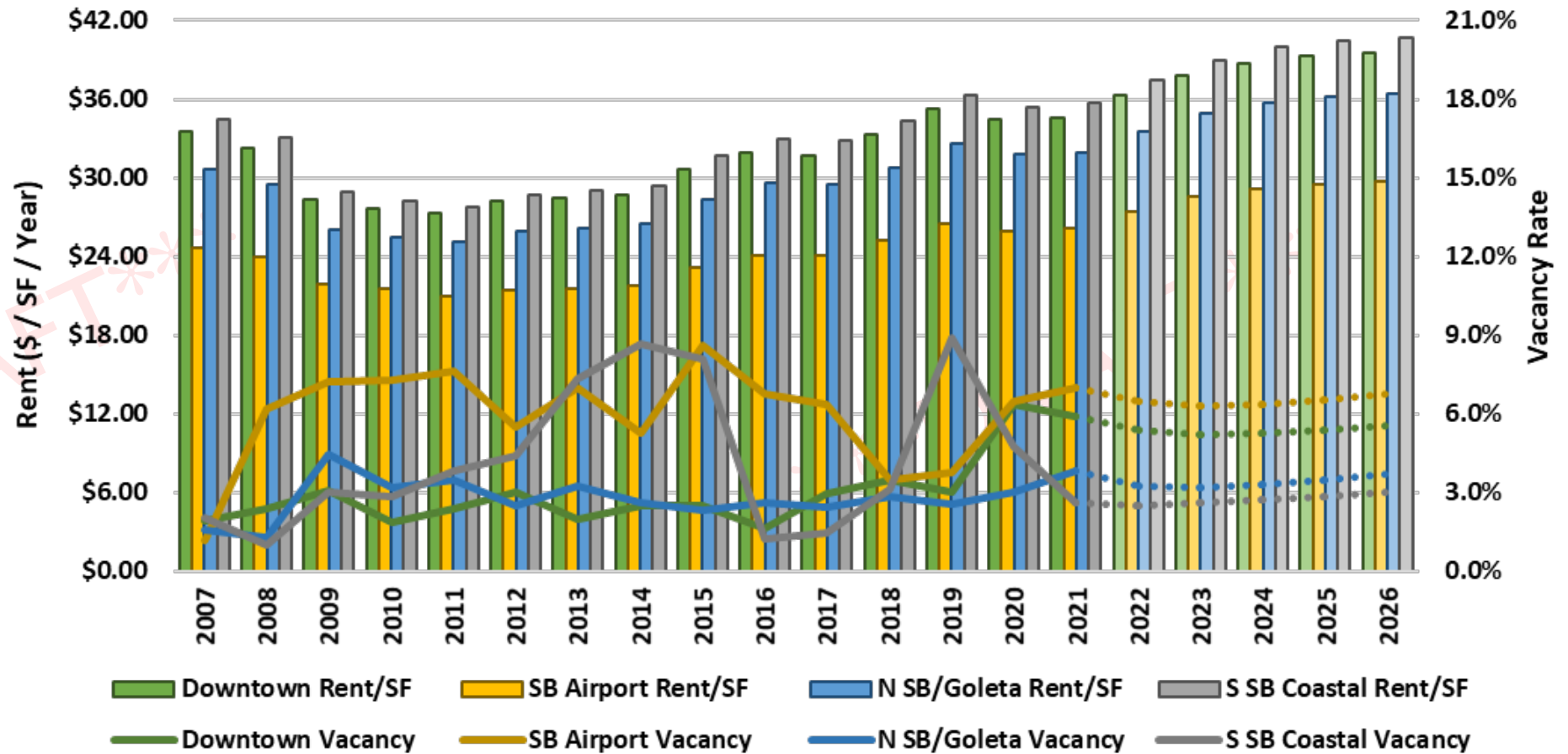


- Downtown Submarket achieving highest sales prices, exceeding the South Santa Barbara Coastal submarket despite the Downtown's slightly higher vacancy rate
- Only new office product projected is small growth in North Santa Barbara / Goleta submarket



OFFICE – SUBMARKET RENT & VACANCY TRENDS

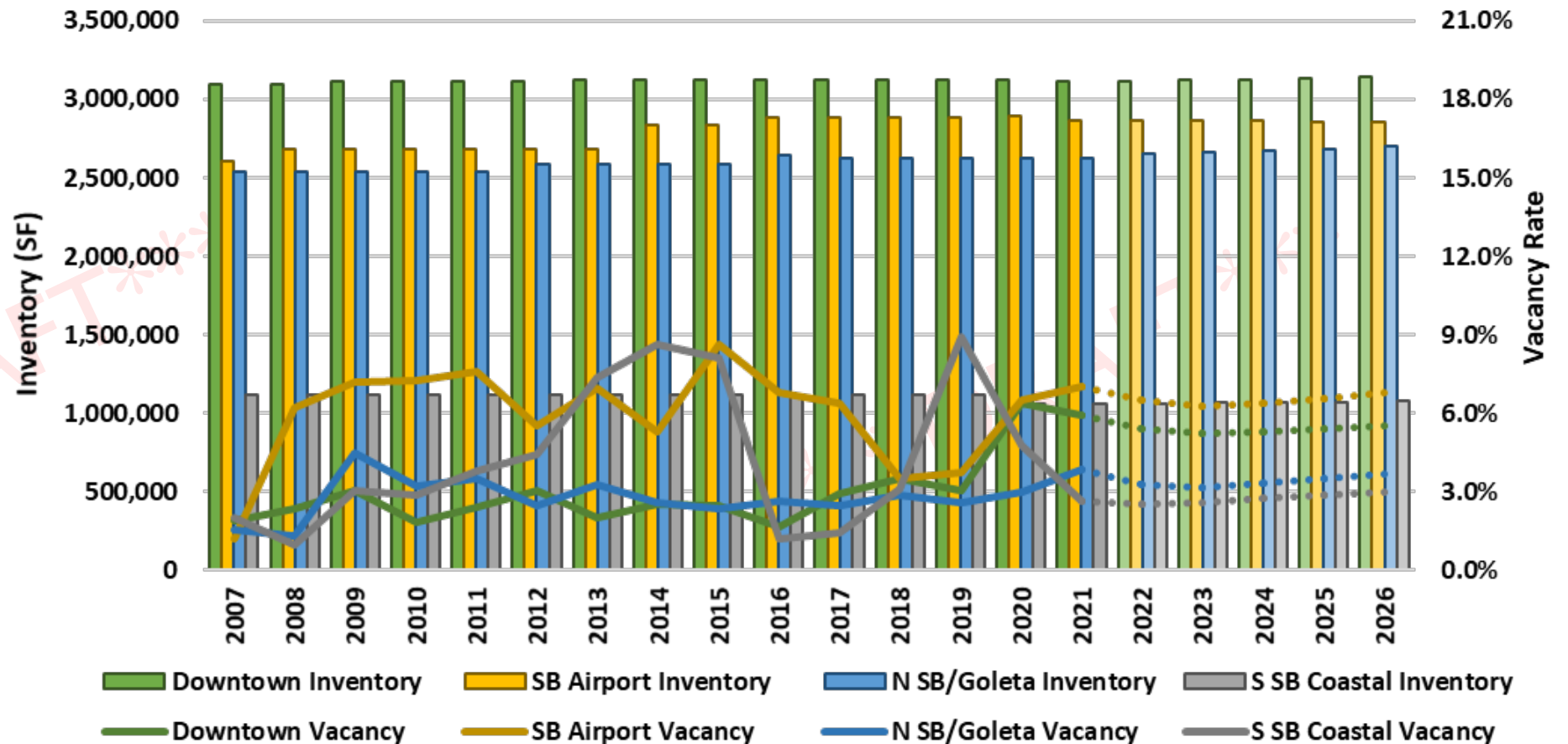
- Rent growth of 25-28% across submarkets over the last 10 years
- Downtown and South Santa Barbara Coastal submarkets regularly trade leadership position for rent achieved
- Airport submarket trades at a notable discount, and has historically experienced higher vacancy rates than other submarkets



Source: CoStar, Kosmont (2021)

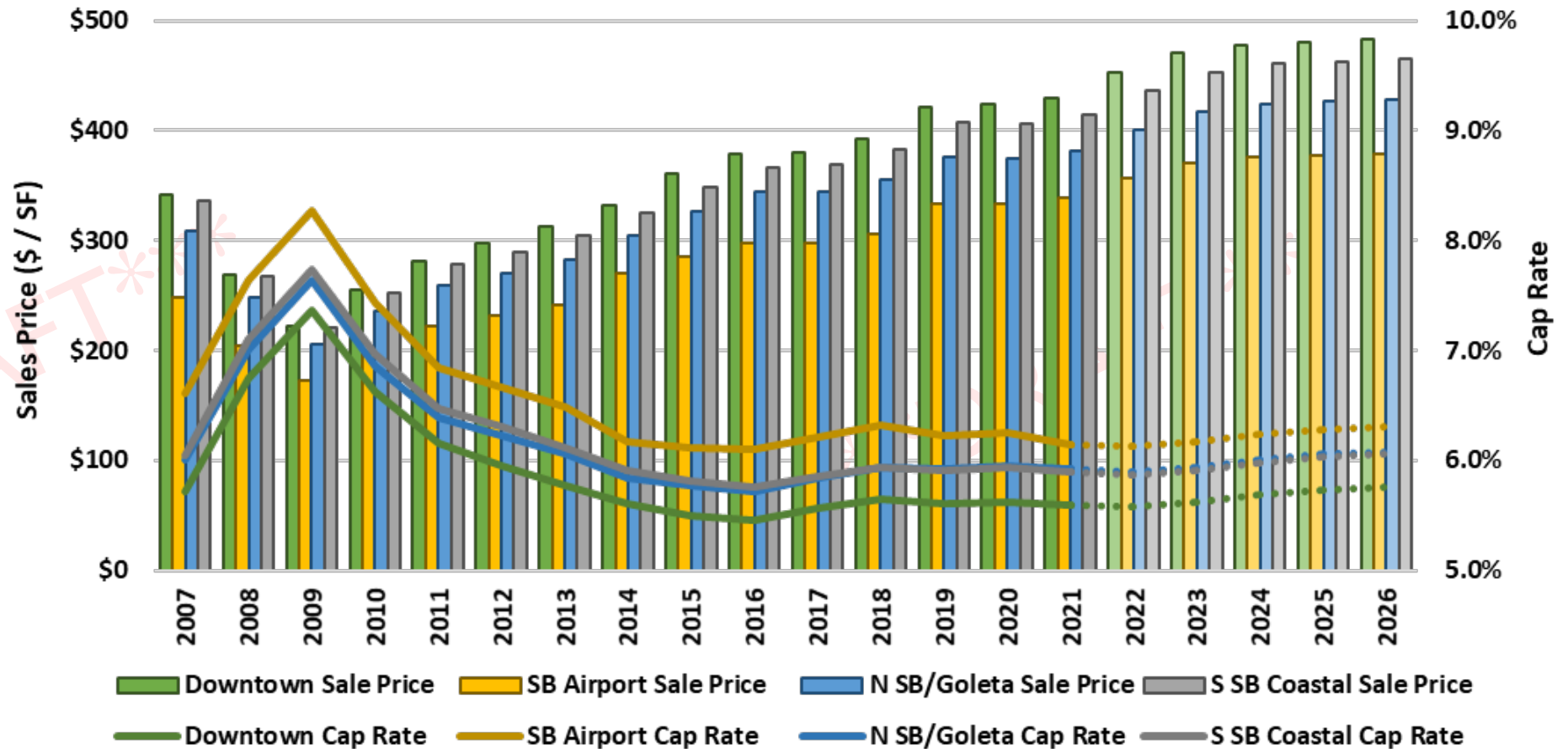
OFFICE – SUBMARKET INVENTORY & VACANCY TRENDS

- 7% inventory growth in Airport submarket, 4% growth in North Santa Barbara / Goleta, 5% decrease in South Santa Barbara Coastal, no change in Downtown
- Vacancy across submarkets has been below 9%, with Downtown and North Santa Barbara / Goleta historically achieving lower vacancy rates versus the overall set

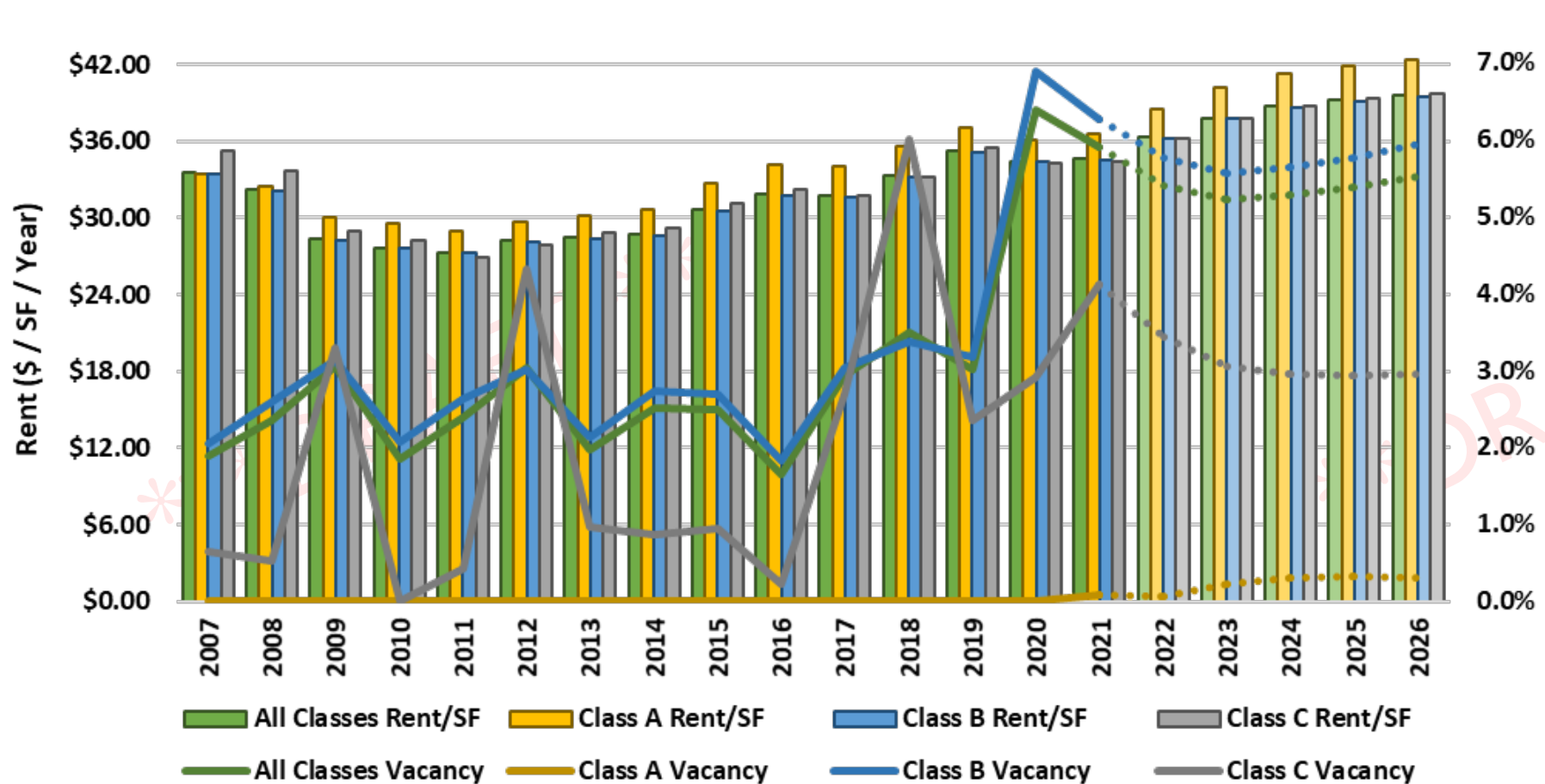


OFFICE – SUBMARKET SALES PRICE & CAP RATE TRENDS

- Cap rates in all markets trading around 6%
- Downtown office sale price has consistently outperformed other submarkets, and achieved a 0.3 – 0.5% lower (premium) cap rate
- All submarkets have experienced price growth from high 40% to low 50% over the last 10 years

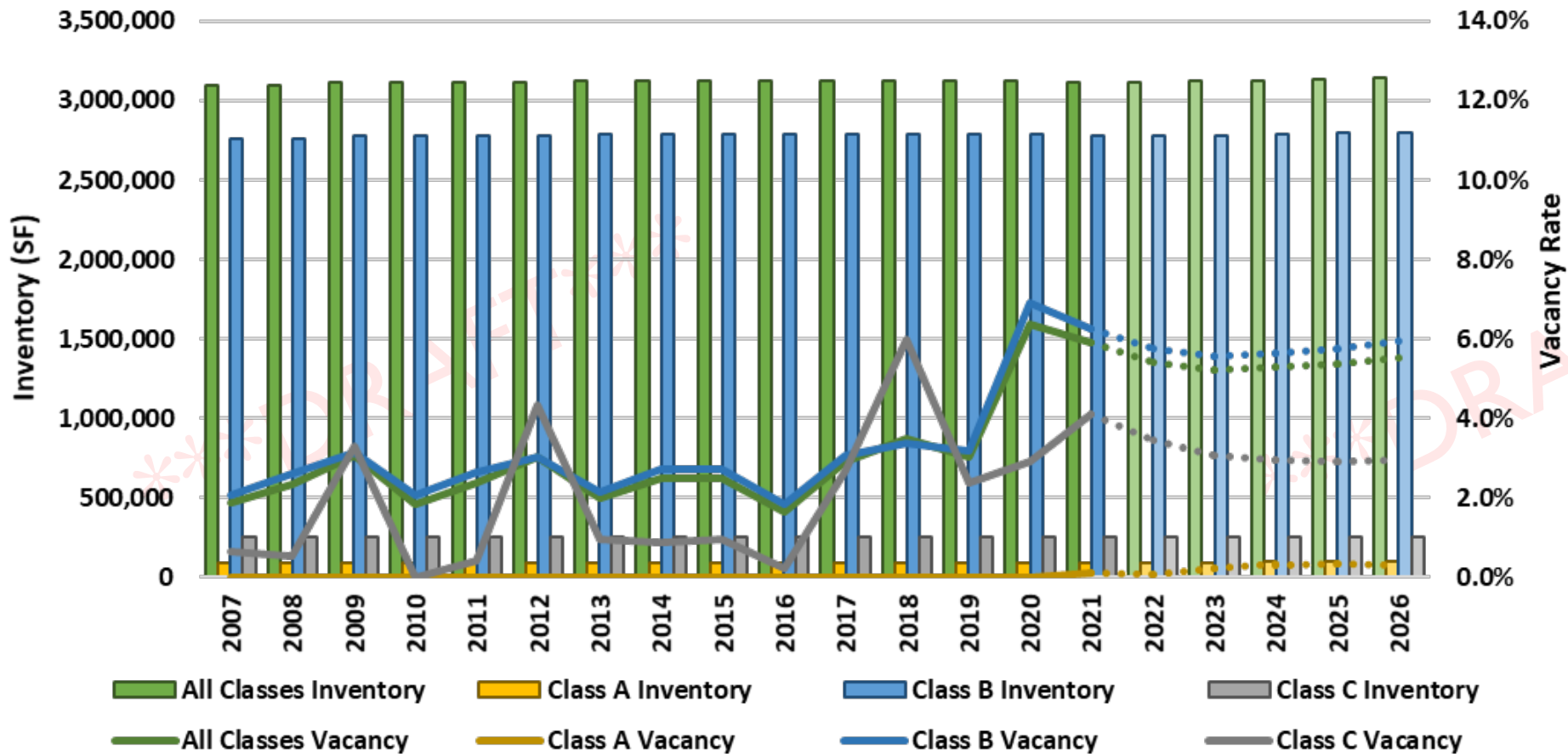


OFFICE – DOWNTOWN RENT & VACANCY TRENDS BY TYPE



- Market has experienced moderate rent growth subsequent to the Great Recession
- Class A space achieving a modest 5-10% premium over lower classes of product
- Some growth in vacancy rate in class B and Class C product over the last few years, but still at low / healthy levels

OFFICE – DOWNTOWN INVENTORY & VACANCY TRENDS BY TYPE

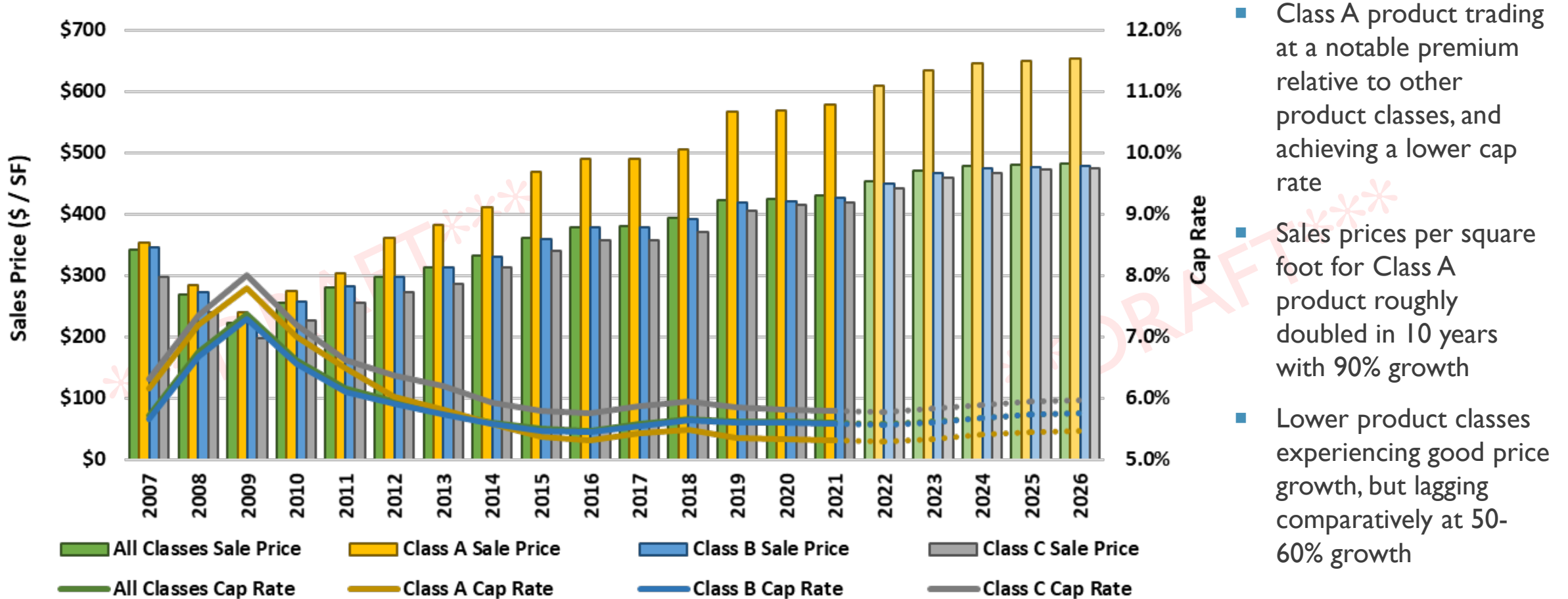


- Little to no change in Downtown office inventory across all classes over the last 15 years
- Majority of submarket comprised of Class B and Class C product
- The ~91,000 SF of Class A office space has been fully occupied historically
- Proposed conversion of Nordstrom building expected to deliver Class A product



Source: CoStar, Kosmont (2021)

OFFICE – DOWNTOWN SALES PRICE & CAP RATE TRENDS BY TYPE

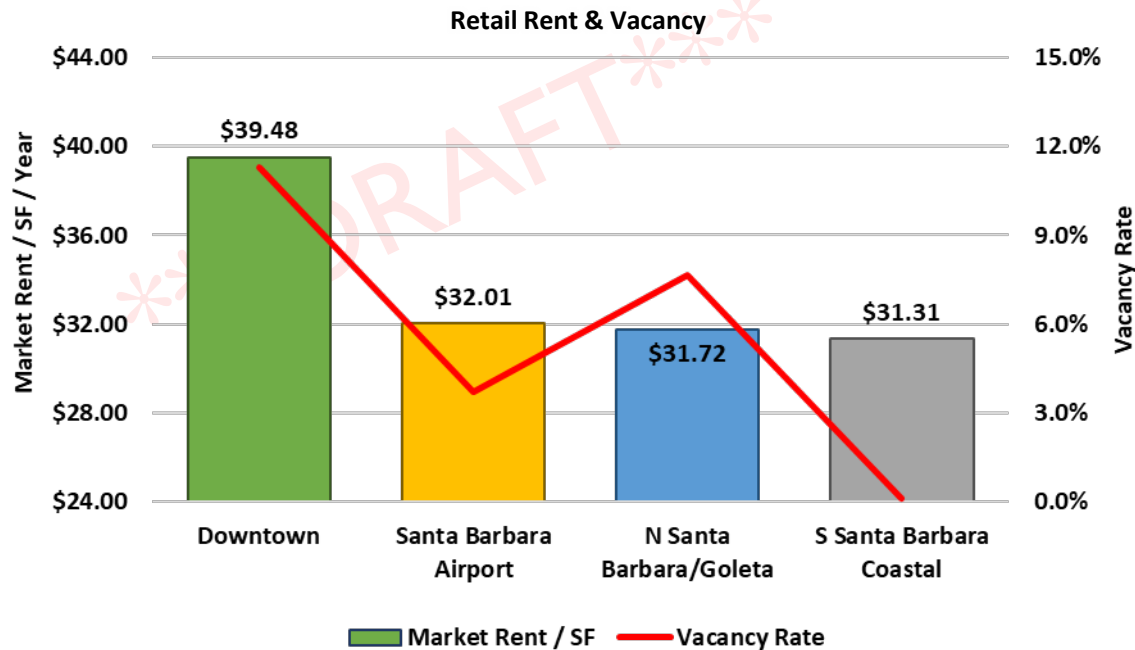


OUTLINE

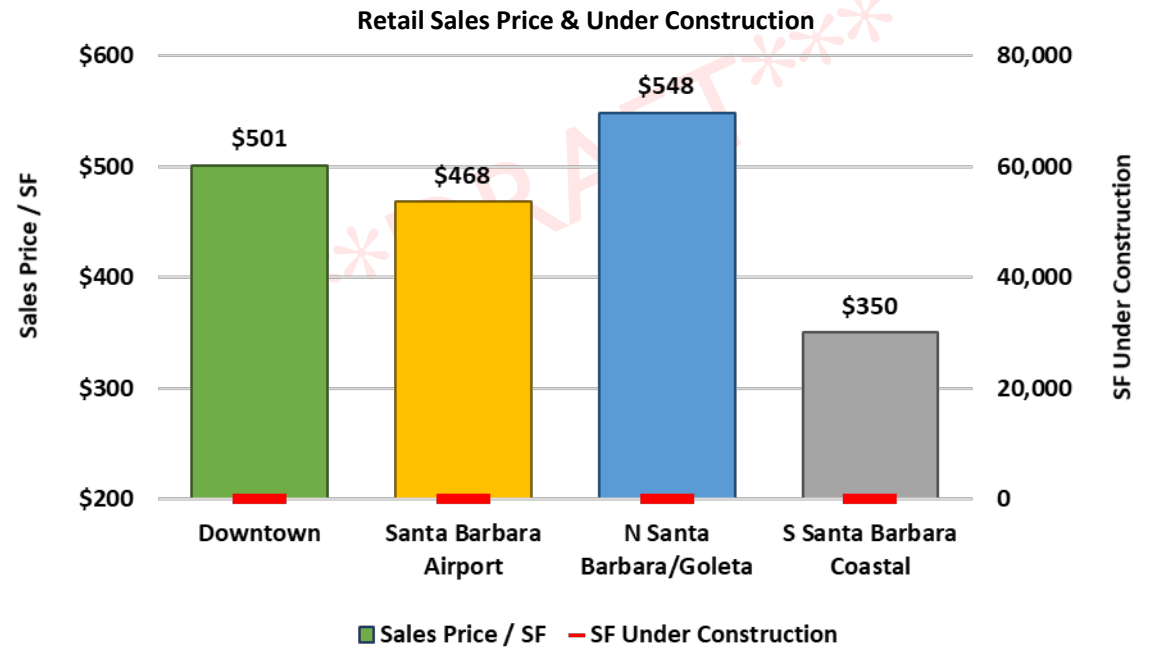
- Introduction
- Area Demographics & Employment
- Area Property Inventory
- Office Market Performance
- **Retail Market Performance**
- Paseo Nuevo Profile
- Conclusions

RETAIL – SUMMARY METRICS FOR AREA SUBMARKETS (2021 Q4)

- Downtown Submarket commanding notably higher rent per square foot (“SF”) than other area submarkets
- Downtown retail vacancy notably higher than other submarkets

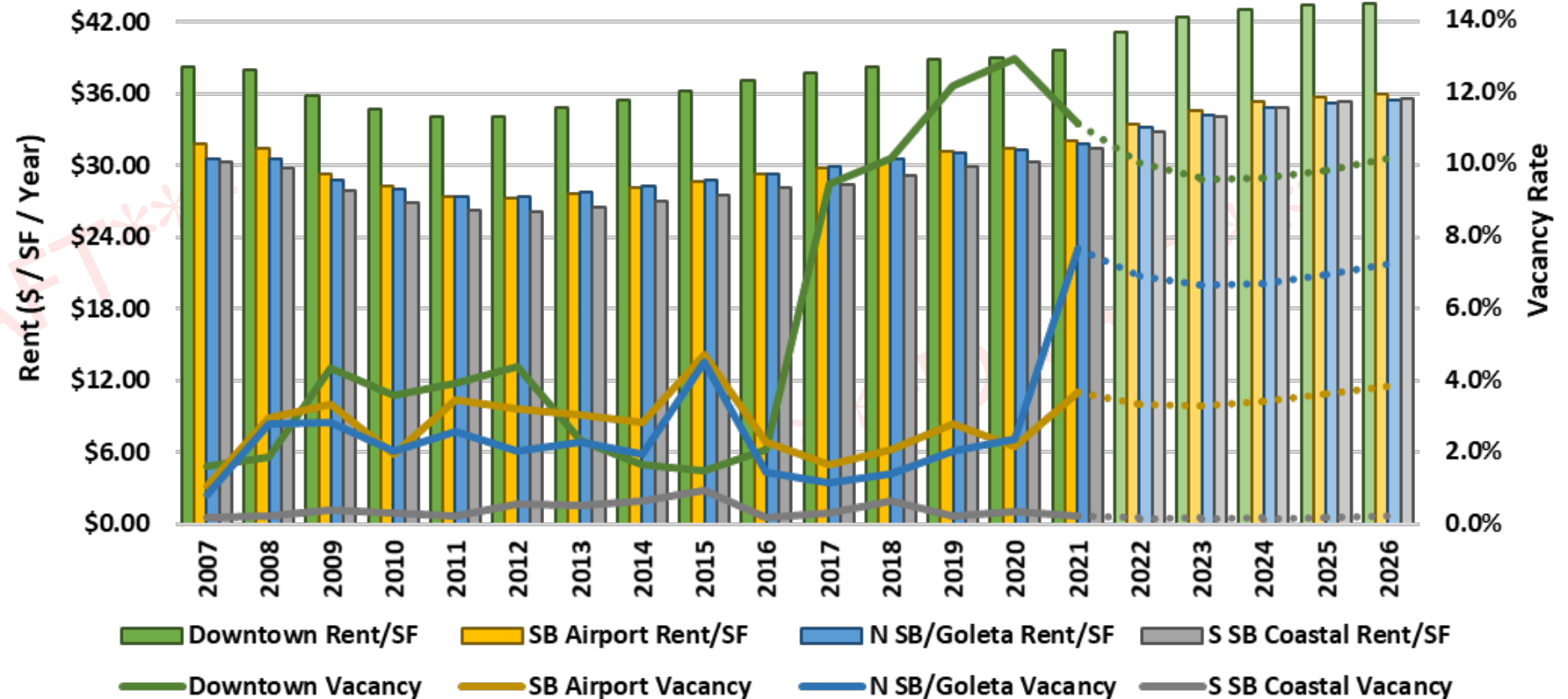


- Downtown submarket sales values are strong, but surpassed by the North Santa Barbara / Goleta submarket
- No new retail inventory currently projected



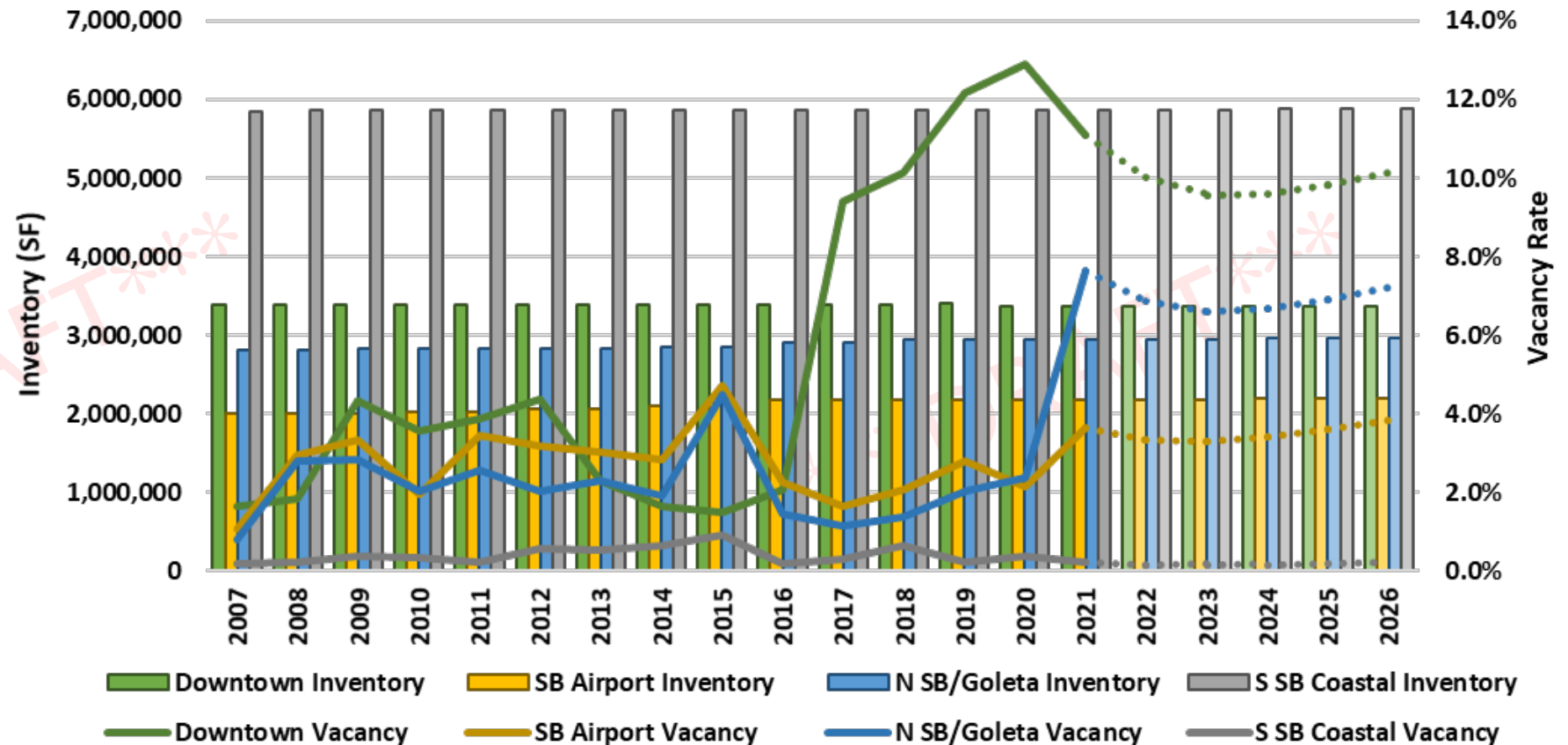
RETAIL – SUBMARKET RENT & VACANCY TRENDS

- Downtown Submarket rent performance has consistently outperformed other submarkets
- Retail vacancy Downtown substantially higher than other area submarkets
- Rent growth has been modest in all submarkets subsequent to the Great Recession (16 - 20% over 10 years)



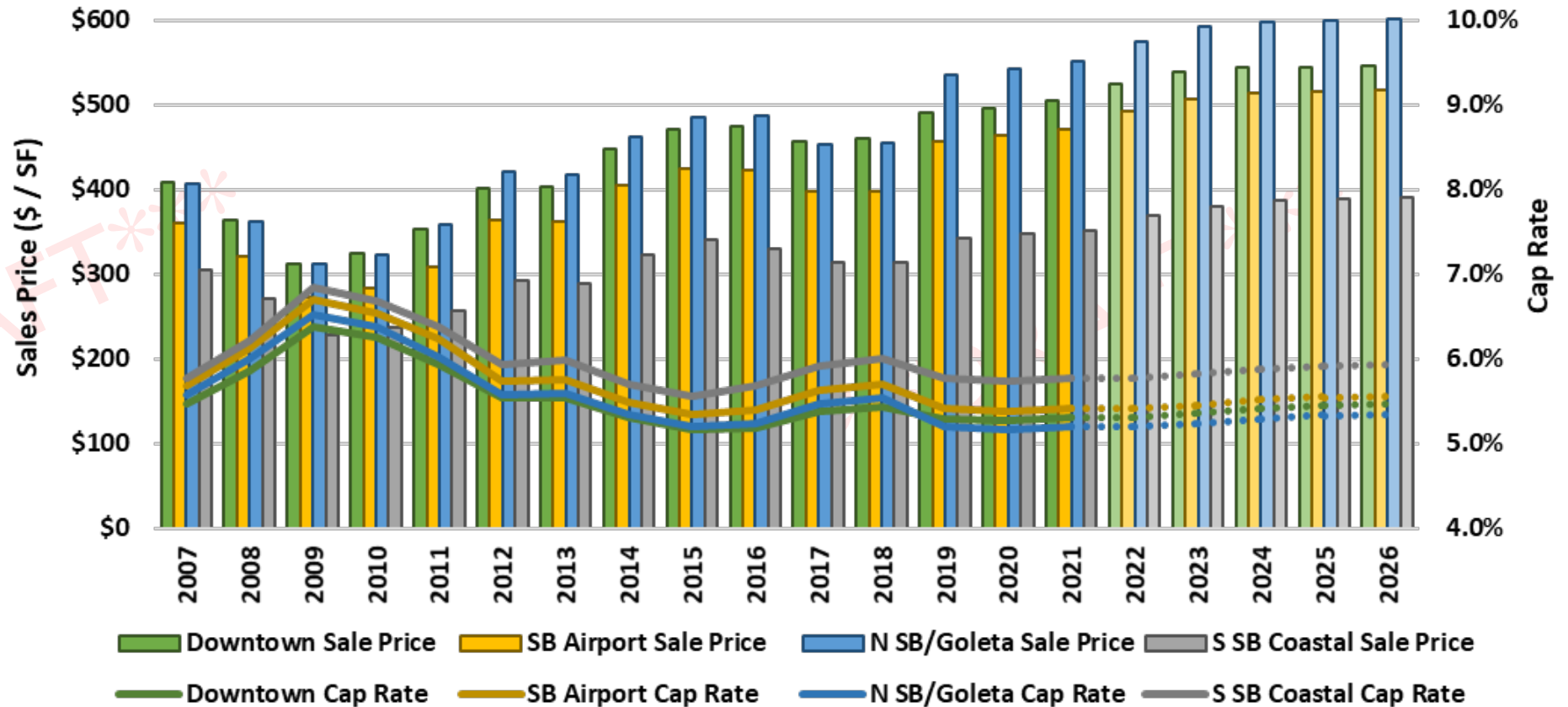
RETAIL – SUBMARKET INVENTORY & VACANCY TRENDS

- South Santa Barbara Coastal submarket comprised of substantially more inventory than other submarkets
- 8% inventory growth in Airport submarket, 4% growth in North Santa Barbara / Goleta, no change in South Santa Barbara Coastal, marginal decrease in Downtown
- North Santa Barbara / Goleta vacancy increased during pandemic, long term impact yet to be determined

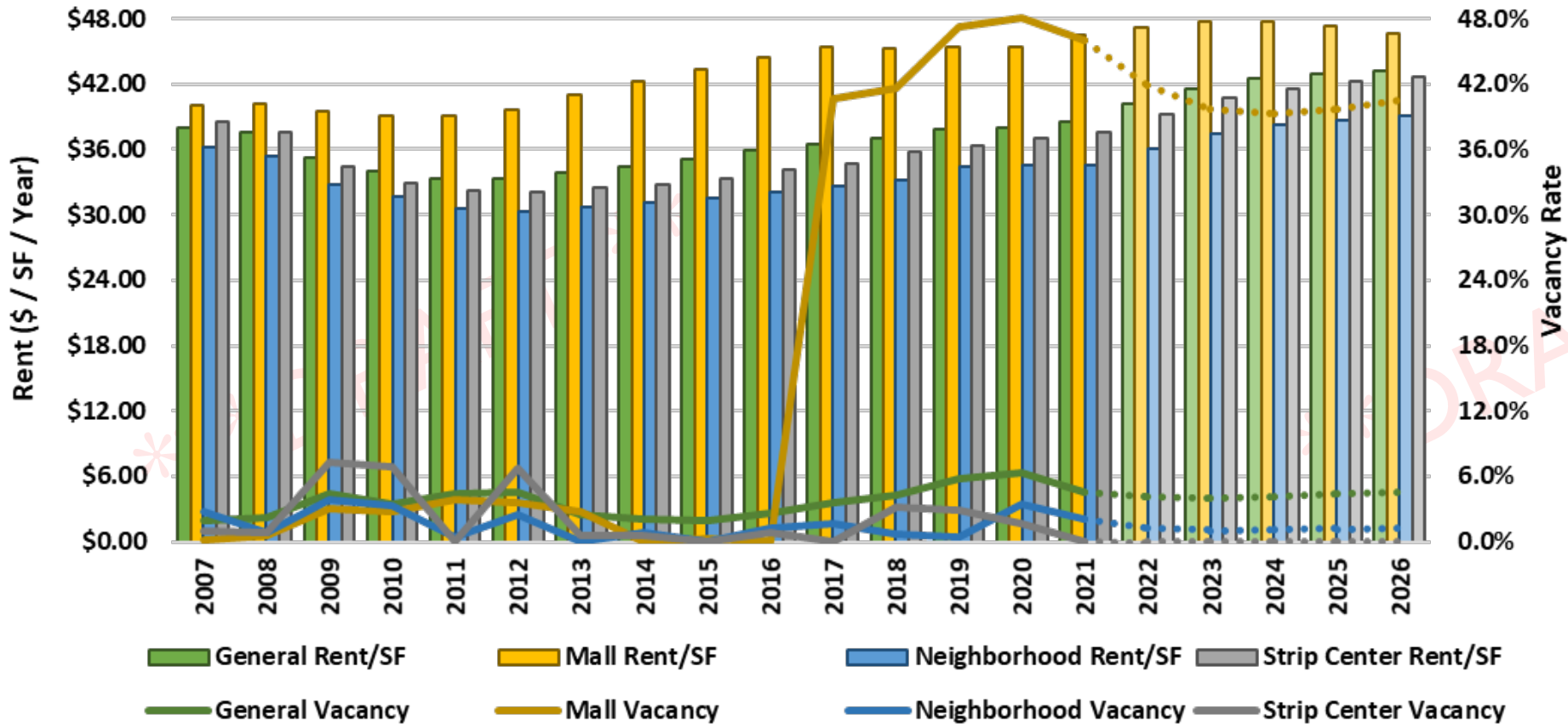


RETAIL – SUBMARKET SALES PRICE & CAP RATE TRENDS

- Sales price growth above 50% over 10 years in Airport and North Santa Barbara / Goleta submarkets, approximately 40% in Downtown, and South Santa Barbara Coastal submarkets
- Cap rates have improved / decreased since the Great Recession
- Downtown was consistently trading at a lower / superior rate versus other submarkets until last three years

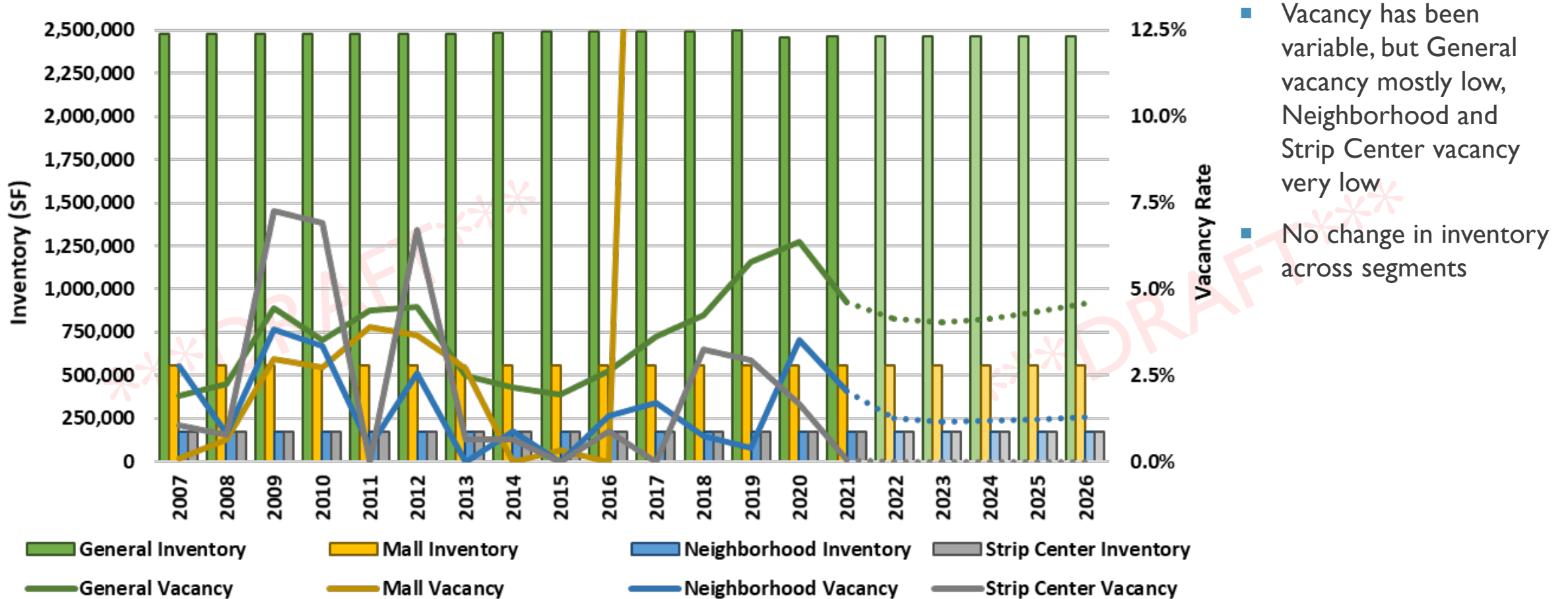


RETAIL – DOWNTOWN RENT & VACANCY TRENDS BY TYPE

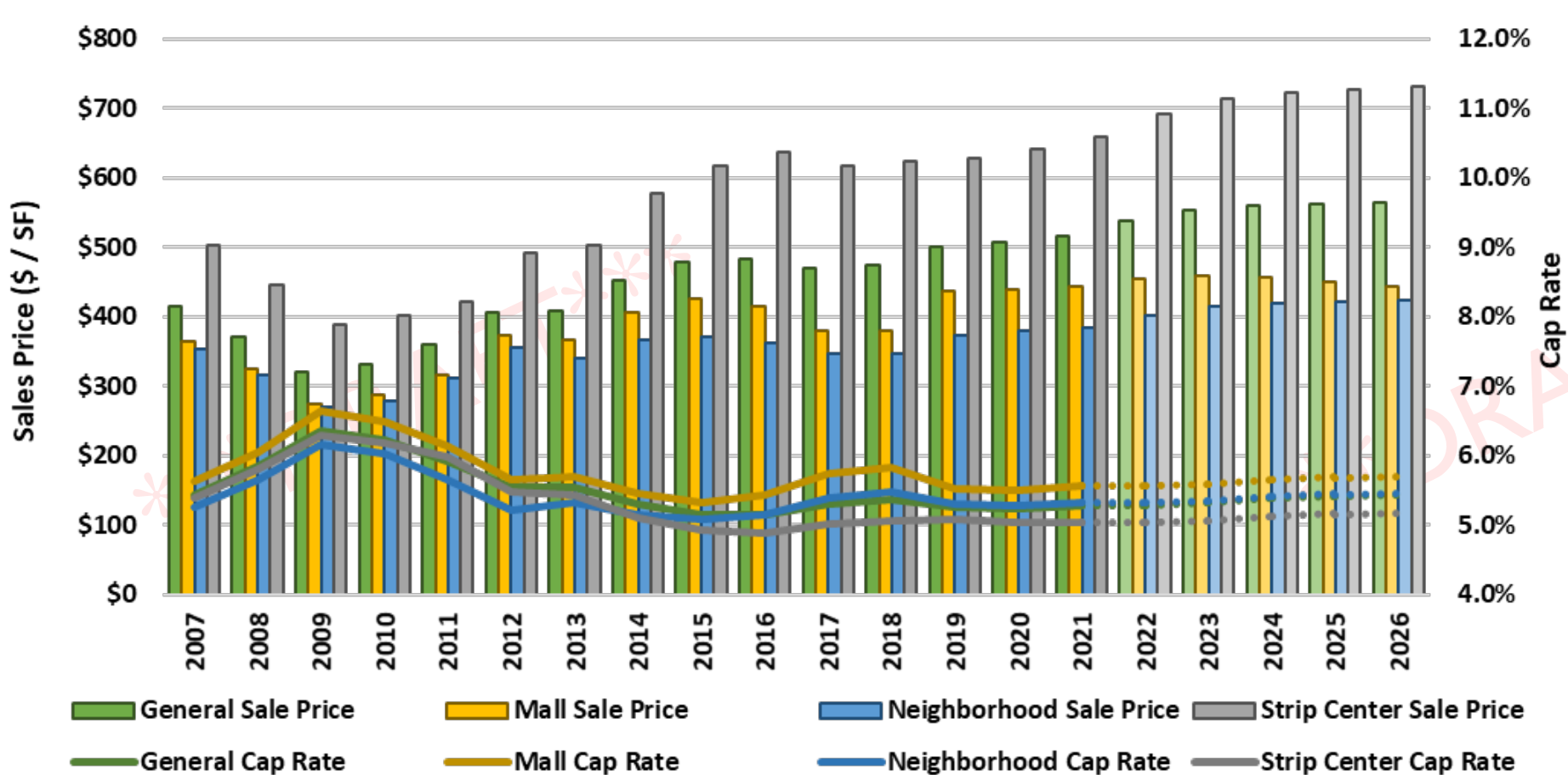


- Mall rent Downtown has achieved a premium to other product types over the last 10 years, but gap is projected to decrease
- High Mall vacancy driven by Macy's closure; Nordstrom closure not fully accounted for
- Rent growth across segments of approximately 15% over the last 10 years

RETAIL – DOWNTOWN INVENTORY & VACANCY TRENDS BY TYPE



RETAIL – DOWNTOWN SALES PRICE & CAP RATE TRENDS BY TYPE

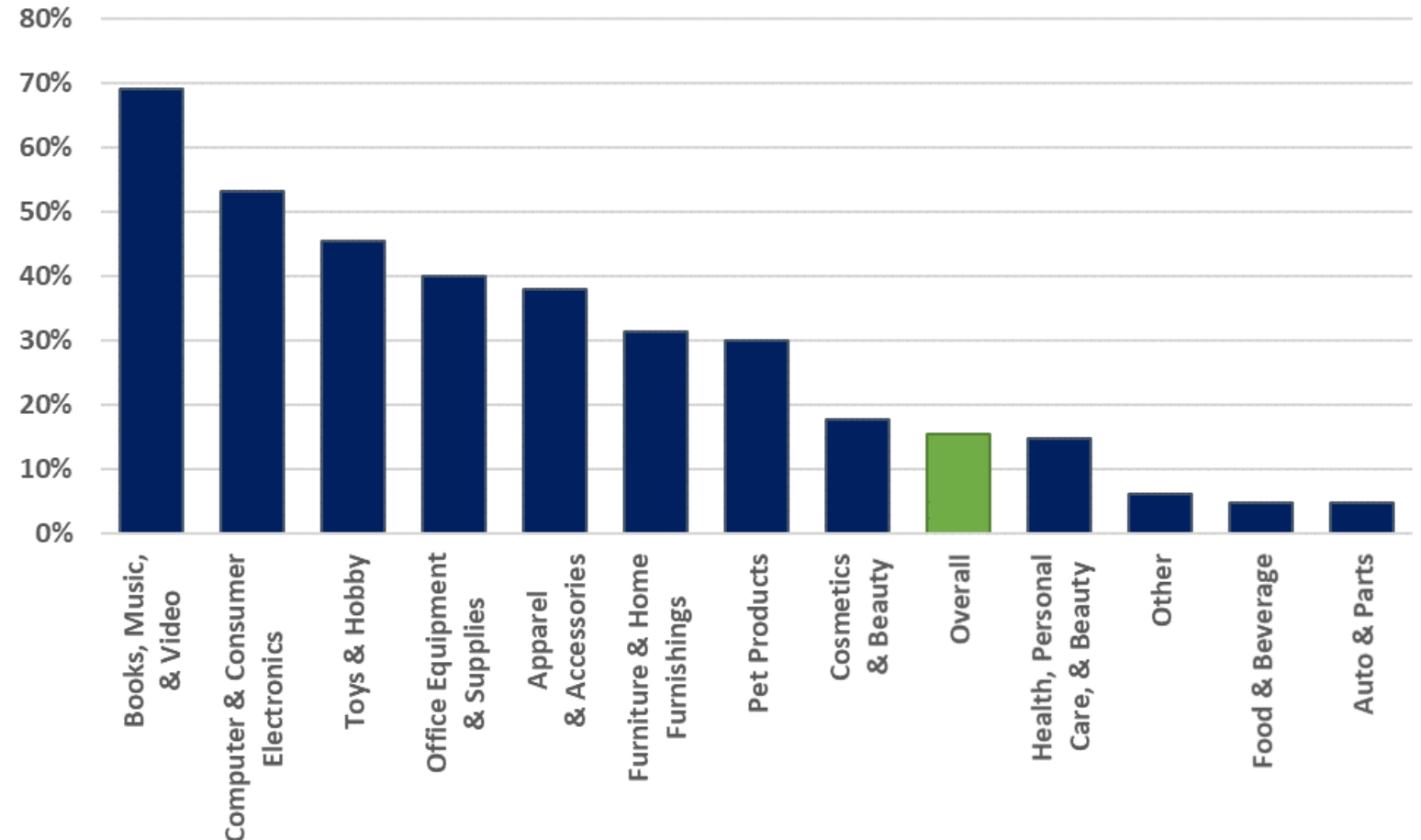


- Downtown Strip Center properties achieving a premium in sales values and reduced cap rate
- Strip Center price growth of 57% over last 10 years, General at 43%, Mall at 41% (may be misrepresentative given Macy's and Nordstrom sales), and Neighborhood at 23%
- Cap rates fairly stable, trading within the 5% to 6% band across segments

IMPACT OF ONLINE SALES / E-COMMERCE

- Retail sales continue to move online as retailers test new markets, models, and technology
- Current market penetration varies by retail segment, but overall ~16% of retail sales have already moved online
- Numerous State Street retail segments directly competing with high penetration e-commerce segments

E-Commerce Market Penetration by Retail Category



Source: eMarketer, Kosmont (2021)

AREA SALES CAPTURE / LEAKAGE

- Downtown Submarket and City capture substantially more than their “fair share” of retail and restaurant expenditures
- Only notable retail category City does not fully capture is “General Merchandise” (e.g., Target)
 - May be a function of online sales and/or general merchandise options located outside of City and Trade Area
 - Downtown Submarket captures a surplus in the category roughly equal to the Citywide leakage
- Despite high capture rates, Downtown Submarket retail sales below what is usually required to support the existing retail footprint in the Downtown Submarket & State Street Study Area
 - Kosmont 2019 analysis based on detailed sales performance within core State Street area (10 square blocks) concluded 400,000 - 500,000 SF of retail footprint around Paseo Nuevo may not be supportable long term
 - 2021 evaluation in alignment with the 2019 figures, and oversupply appears to grow moderately as study area is expanded along State Street
- Removing Macy’s and Nordstrom buildings from retail category helps to bring supportable supply of retail in line with demand, but absent increases in demand, further reduction in supply likely

AREA SALES CAPTURE / LEAKAGE

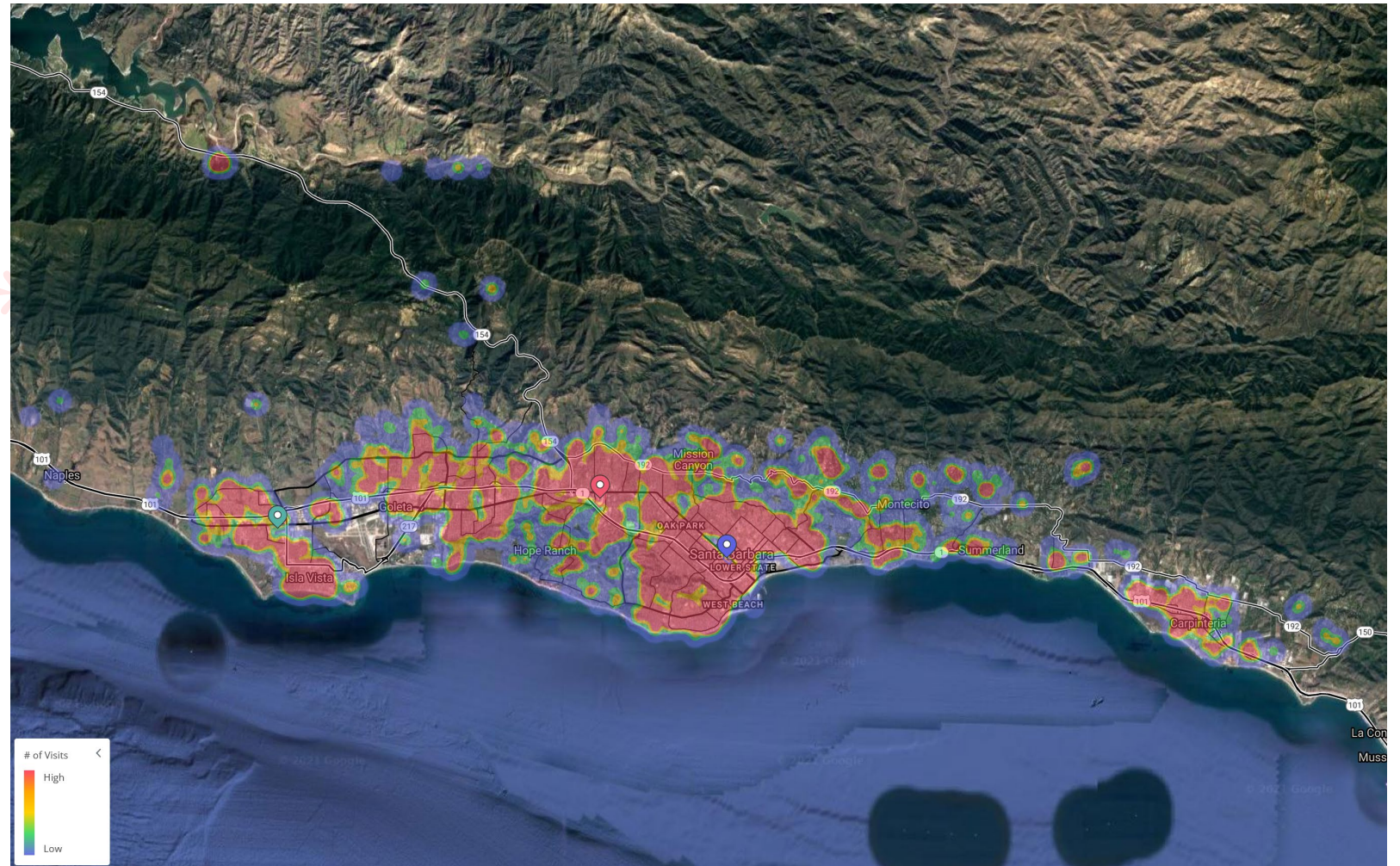
	Surplus Retail Sales Capture (Leakage)			% Surplus (Leakage)			Online Leakage Potential
	Downtown	City	20-Min Drive	Downtown	City	20-Min Drive	
Shopper Goods							
Clothing & Clothing Accessories Stores	\$ 118,000,000	\$ 69,900,000	\$ (22,500,000)	722%	59%	-9%	High
General Merchandise Stores	77,700,000	(76,300,000)	(123,400,000)	211%	-29%	-22%	Moderate
Furniture & Home Furnishings Stores	31,600,000	13,800,000	(29,200,000)	417%	24%	-24%	Moderate
Health & Personal Care Stores	25,000,000	16,000,000	(35,500,000)	173%	15%	-15%	Moderate
Sporting Goods, Hobby, Book & Music Stores	28,500,000	28,800,000	29,400,000	410%	57%	28%	High
Electronics & Appliance Stores	31,800,000	25,300,000	4,900,000	413%	43%	4%	High
Miscellaneous Store Retailers	26,200,000	16,100,000	13,300,000	331%	27%	11%	Varies
Subtotal – Shopper Goods	\$ 338,700,000	\$ 93,500,000	\$ (163,000,000)	347%	13%	-11%	
Convenience Goods							
Food & Beverage Stores (Grocery)	\$ 30,600,000	\$ 156,900,000	\$ 158,400,000	84%	61%	29%	Low
Food Services & Drinking Places (Restaurants)	136,500,000	112,900,000	75,100,000	553%	64%	20%	None
Subtotal – Convenience Goods	\$ 167,100,000	\$ 269,700,000	\$ 233,500,000	274%	62%	26%	
Heavy Commercial Goods							
Bldg. Materials, Garden Equip. & Supply Stores	\$ 27,100,000	\$ (400,000)	\$ (3,600,000)	264%	0%	-2%	Low
Motor Vehicle & Parts Dealers	(8,200,000)	41,900,000	(135,000,000)	-20%	13%	-20%	Low
Gasoline Stations	12,100,000	(25,900,000)	(45,500,000)	64%	-19%	-16%	None
Subtotal – Heavy Commercial Goods	\$ 31,000,000	\$ 15,600,000	\$ (184,000,000)	44%	3%	-16%	
Non-store Retailers	\$ 400,000	\$ (32,500,000)	\$ (72,200,000)	7%	-69%	-72%	Varies
Total Retail	\$ 537,300,000	\$ 346,400,000	\$ (185,700,000)	227%	20%	-5%	

OUTLINE

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- Retail Market Performance
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PASEO NUEVO TRADE AREA HEAT MAP (I/2017 – I I/2021)

- Heat map illustrates where people who visited Paseo Nuevo five or more times in the four year period reside.
- Primary trade area generally consistent with 20-minute drivetime of Site
- La Cumbre Plaza and Camino Real Marketplace identified as common destinations for Paseo Nuevo patrons



Source: Placer.ai, Kosmont (2021)

SUMMARY OF COMPARISON RETAIL CENTERS

- Paseo Nuevo
 - Fashion oriented outdoor lifestyle / specialty center
 - Opened in 1990
 - ~460,000 square feet
- La Cumbre Plaza
 - Home and fashion oriented outdoor community center
 - Opened in 1967
 - ~490,000 square feet
- Camino Real Marketplace
 - Regional / power center
 - Opened in 1998
 - ~500,000 square feet

Notable Tenants

Paseo Nuevo	La Cumbre Plaza	Camino Real Marketplace
American Eagle Outfitters	Bristol Farms	AT&T
Bath & Body Works	Chico's	Best Buy
Claire's	J. Jill	BevMo!
Foot Locker	LensCrafters	Costco
GameStop	Macy's	Home Goods
Gap	Pottery Barn	Ross Dress for Less
Hollister California	See's Candies	Staples
MAC	Talbots	The Home Depot
PacSun	Williams-Sonoma	Tillys
See's Candies		Ulta Beauty
Sephora		
Skechers		
T Mobile		
Victoria's Secret		
Zumiez		

MONTHLY VISITS BY CENTER

■ Paseo Nuevo

- Macy's closed March 2017
- Nordstrom closed June 2020
- Mostly recovered to pre-pandemic levels
- Slight declining trend overall

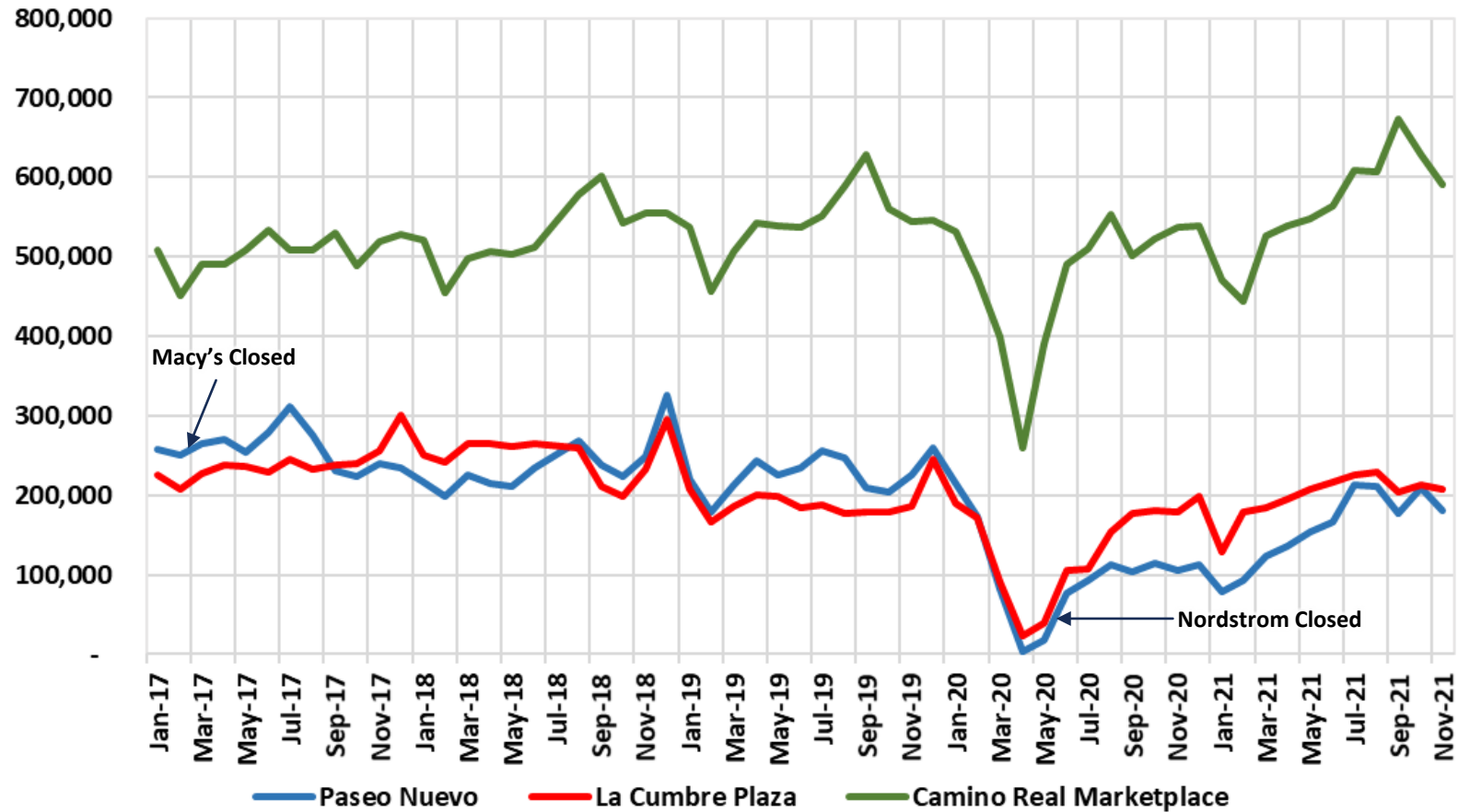
■ La Cumbre Plaza

- Mostly recovered to pre-pandemic levels
- Slight declining trend overall
- Currently outperforming Paseo Nuevo on visits

■ Camino Real Marketplace

- Slight increasing trend overall
- Strength / growth likely based on alignment of tenant mix and pandemic segment demand

Monthly Visits



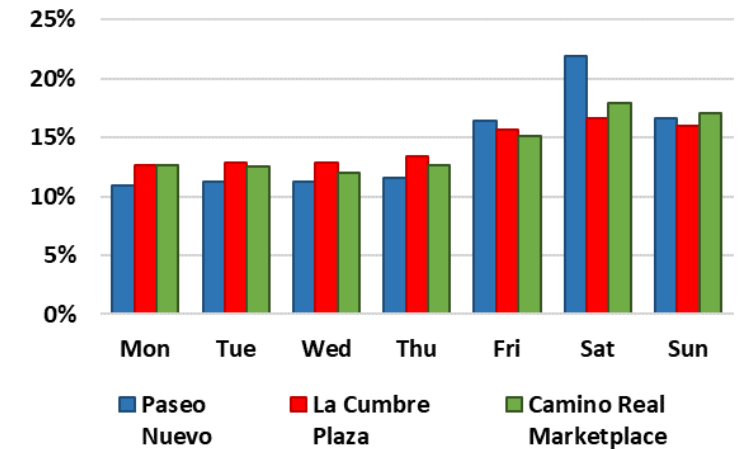
VISIT PROFILE (I/2017 – I I/2021)

- Paseo Nuevo has a high percentage of loyal patrons, with high repeat visit counts, though lower than the comparison centers
- Paseo Nuevo patrons tend to have higher dwell time / stay longer than the comparison centers: 79 minutes versus 70 & 63 minutes for La Cumbre and Camino Real, respectively
- Paseo Nuevo patronage is highest on the weekends and in the early afternoon to the early evening

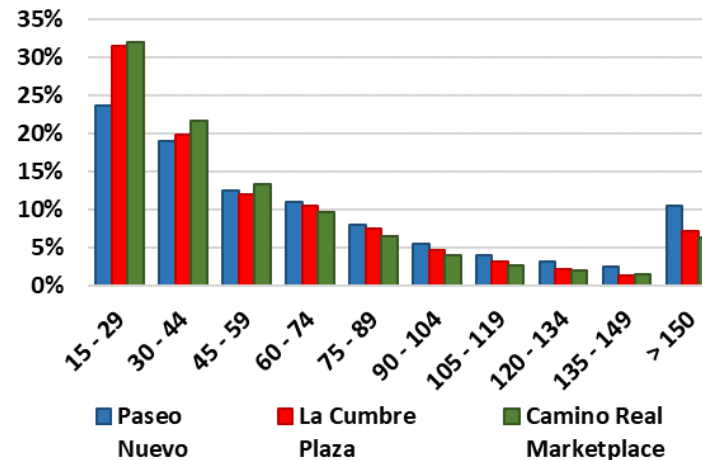
Cumulative Visits Per Patron

Visits	Paseo Nuevo	La Cumbre Plaza	Camino Real Marketplace
1	0.4%	0.2%	0.1%
2	5%	2%	1%
3	6%	3%	1%
4	5%	2%	1%
5	4%	2%	1%
6	4%	2%	1%
7-9	3%	2%	1%
10-14	4%	3%	2%
15-19	4%	3%	2%
20-29	7%	7%	3%
30+	58%	74%	86%

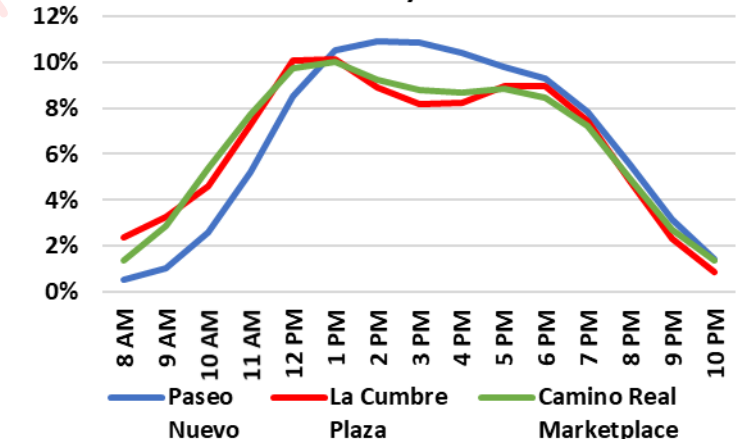
Day of Week of Visit



Length of Visit (Minutes)

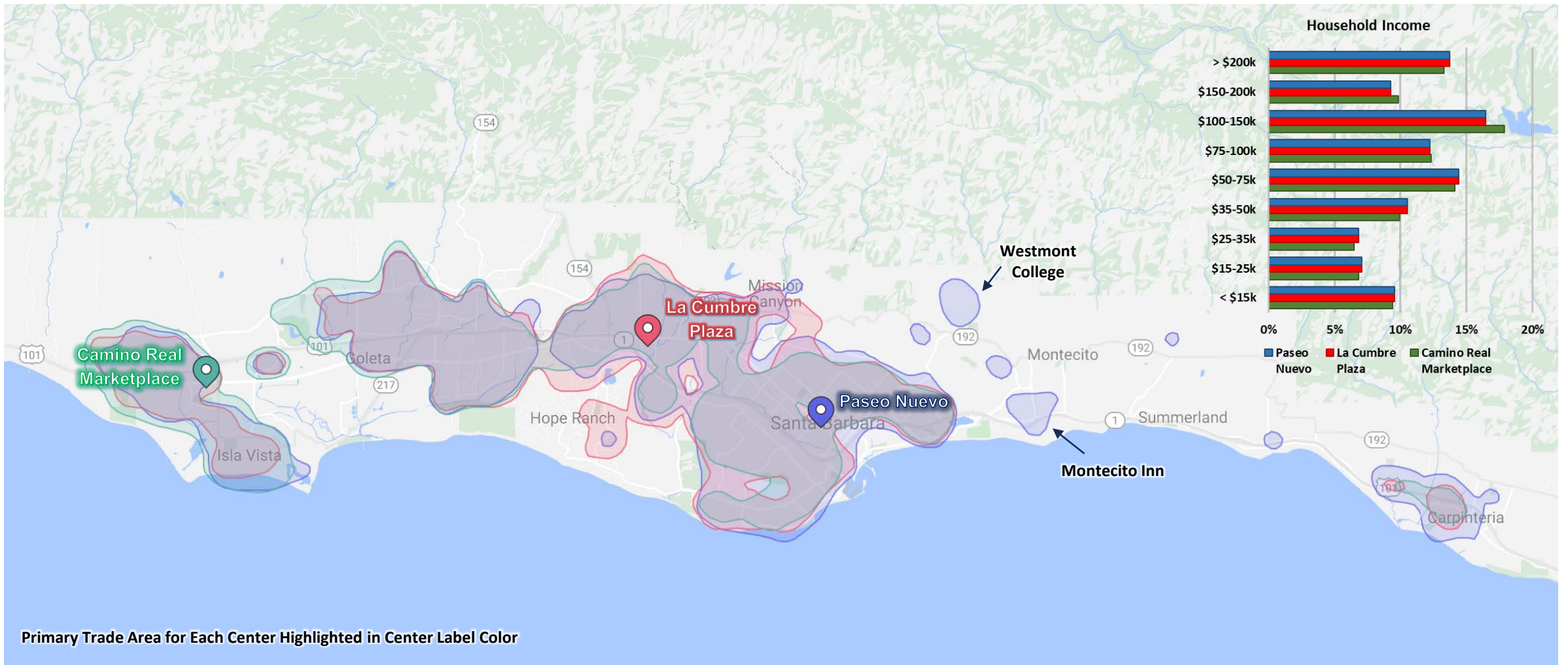


Time of Day of Visit



Source: Placer.ai, Kosmont (2021)

OVERLAPPING TRADE AREA & PATRON HOUSEHOLD INCOME



SUMMARY OF CENTER COMPARISON

- Paseo Nuevo, La Cumbre Plaza, and Camino Real Marketplace share substantially the same patron base
- Each center offers unique collection of retailers / tenants that likely support same patrons visiting each center depending on purpose of visit
- Paseo Nuevo likely enjoys slightly more tourist / non-resident patronage
- Paseo Nuevo patronage uniquely higher on the weekends and afternoon
 - Could benefit from higher weekday population – e.g., increased office and residential uses in proximity to center

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CONCLUSIONS

- Online sales / e-commerce penetration of retail segments continues to increase
 - Resulting in a long term decrease in demand for traditional physical retail footprints
 - Resulting in an expansion of business models for remaining physical locations to support online sales (“omnichannelling”)
- Macy’s and Nordstrom departure from Paseo Nuevo after years in operation is an example / product of shifts in the segment, and suggests tenant / department store with similar scale / footprint not viable
- Retail owners increasingly focused on non-retail tenants such as restaurants, entertainment, medical, gym uses to drive visits
- Reality of State Street and Paseo Nuevo is not how to retenant former Macy’s & Nordstrom buildings with similar use, but instead how to support and integrate / blend with remaining retailers and restaurants and curtail closures

CONCLUSIONS (CONTINUED)

- Conversion of large retail boxes to office use provides an opportunity to bring weekday and daytime population to State Street (e.g., Amazon occupancy of former Saks Fifth Avenue building in 2020)
 - Office workers typically provide strong support for proximate restaurant amenities, and provide some marginal support for retail uses
 - Office market in the Downtown Submarket has been performing well for an extended period
 - Proposed conversion of former Nordstrom building would substantially grow high quality office inventory currently lacking in the Downtown Submarket
 - Given the size of converted space, lease-up would likely include business attraction program to recruit new entities to the area

CONCLUSIONS (CONTINUED)

- Proposed Nordstrom conversion expect to directly support ~600 permanent jobs, plus ~500 indirect and induced jobs
- Delivery of office product could ultimately increase demand for new residential product within Downtown Submarket
 - Additional residential would further help activate the area in a sustainable manner
 - Residential uses typically provide strong support for retail
- Proposed conversion of retail space to office considered the best opportunity to stabilize State Street in the near term, and likely represents an economically sustainable and long-term blended use solution