



city of
CUPERTINO
general plan amendment



Retail Strategy Report

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EXECUTIVE SUMMARY AND FINDINGS

Cupertino is an affluent community with a bifurcated retail sector: Daily needs and some commodity categories perform well while other categories perform poorly or not at all. Overall, the City leaks sales to the overall Trade Area, probably more as a result of being bested by more aggressive economic development and better-executed development elsewhere than by any fundamental flaw such as the City's location in the Trade Area, transportation issues, or demographics.

Cupertino is centrally located in the west portion of the Santa Clara Valley, commonly known as Silicon Valley. The City is well served by road infrastructure; however, there exist few regional mass transit options.

There are significant barriers to entry such as lack of available land to build new retail projects in Cupertino. Careful consideration should be given to the planning and redevelopment or repositioning of existing retail projects, and to how retail might be added to existing or new mixed-use projects. Careful consideration should also be given to whether a retail development or retail component of a mixed-use development should be designed and positioned as a "commodity" or a "specialty" project.

The City appears to have adequate commodity shopping alternatives within its borders. For example, Target, Safeway, Whole Foods, Ranch 99 (2), Walgreen's, CVS, Sears, Michaels, Home Goods, TJ Maxx, Party City, and Aaron Brothers operate within the City's borders. Barriers to entry contribute to robust sales for many of these stores. Focusing on redeveloping existing retail stores with robust sales (e.g. Target) may be interesting as a planning exercise but unrealistic from a purely economic perspective, particularly with an owner-user.

BAE Reports and Implications for General Plan Amendment

The City expects population to increase by 5,000 and job growth by 7,000 by 2040. Both residents and workers have higher wages than the County or the State. The City's ethnic makeup has evolved so that over 63% of the resident population is of Asian descent.

There are few good entry-housing opportunities in the City for younger members of the workforce, and few amenities that would incentivize these workers to live in Cupertino.

In the defined Trade Area, there is little leakage or injection of retail sales. On a per-capita basis, the City's retail sales underperform as compared with the County and the State. Some categories, like general merchandise, perform well while others, such as electronics and fashion, underperform. Any opportunity to increase retail sales in Cupertino would likely be at the expense of sales happening elsewhere in the Trade Area.

Commodity/Specialty; Active/Non-active

As the United States became more auto dependent, downtown shopping districts gave way to suburban shopping including enclosed malls.

Department stores gave up market share to big boxes, and consequently the number of viable malls contracted.

The best model for illustrating how retail organizes itself today is by contrasting commodity retailers, where consumers based their purchasing decisions on price and convenience from specialty retailers, where consumers choose to spend their discretionary income during their discretionary time. The latter is particularly affected by the retailer's environment. The advent of the so-called lifestyle center was driven by a trend in which small specialty retailers faced a shortage of high quality specialty retail space at the same moment that regional mall failures were accelerating.

When designing retail environments, creating active, interactive environments where the consumer is engaged by businesses even when passing by, as opposed to inactive environments where the consumer does not interact with businesses, is of key importance.

The trend towards "omnichannel" continues. This trend is characterized by retailers creating a seamless shopping experience regardless of whether consumers are shopping online, from portable devices, from catalogs, or in a store.

Study Areas

Presently, there are a number of Study Areas being considered for redevelopment. Of these, not all are well-suited for retail development. Additionally, for those that are well-suited for development, retail is not necessarily the highest and best use..

The best retail application for the Cupertino Inn/Goodyear Study Area is service retail (examples might include a cleaner or cell phone store), and foodservice, which serves the adjacent hotel and creates a synergistic use adjacent to the Homestead Square Shopping Center.

Except for retail supporting the office tenants (e.g. sandwich shop or sundry store), the City Center Study Area is not well suited for retail development, and entitlements for office uses are presently being contemplated.

The PG&E and Mirapath Study Areas might be developable with a big box anchoring the site, however, the site is not well located for retail development, and mitigations in excess of those typically required, for traffic and noise in particular, would be expected due to the site's location away from a major intersection, freeway interchange, and close to housing.

Cupertino Village already has entitlements for redevelopment of the site as a denser shopping center. This repositioning of the Study Area seems well thought out and appropriate. A change of use to residential, while possibly yielding a higher residual land value, would not necessarily be in the best interest of the immediate area since neither is there another daily-needs shopping area in the immediate vicinity nor are there many projects in Cupertino with so-called "lifestyle" components.

The Stevens Creek Office Center could be redeveloped as a retail project, however, there are other options that might be higher and better uses. The creation of cross access with an adjacent site is a positive development for both properties

Other sites in the City were not included in the scope of work for this Report, but are worthy of evaluation. The Oaks, at the intersection of Stevens Creek and Route 85 and across the street from De Anza College, is one example of a site well positioned for redevelopment, perhaps as a retail-residential mixed-use project.

Vallco Study Area

The Vallco Shopping Mall is centrally located in the City. The property, which is zoned for regional commercial uses and was originally developed in the 1970's, consists of 14 parcels and contains a 1.3 million square foot mall anchored by Macy's, Sears, JC Penny, and AMC Theaters. The property has been remodeled several times since it was built.

Despite being the largest retail project in the City, the Mall is largely vacant, save for the anchor tenants who continue to perform well. According to stakeholders, Vallco represents not only one of the best-located properties in the City, but also one of the City's largest redevelopment opportunities, and challenges.

Governing documents control what can be changed on the property, including parking, building requirements, and certain uses. Ground leases and various tenant leases have provisions further restricting changes and certain uses.

The Mall operates in a competitive environment with successful project to the north (Stanford Shopping Center), east (Valley Fair and Santana Row), and south (Westgate Shopping Center).

All of the anchor tenants state their stores perform well despite the Mall having a low occupancy rate, and their commitment to the Trade Area. All of the anchor tenants say they are receptive to redevelopment plans that might improve the project.

There is an oversupply of mall space in the United States; Vallco's circumstances are not unique. Key to the repositioning process is creating a brand that sets Vallco apart from competing projects and communicating that brand to the community and prospective tenants alike. An owner or developer with the expertise and financial capability to execute such a strategy is required for a successful outcome. The City's ability to contribute financially and/or to use its governmental powers to facilitate redevelopment will have a material impact on the success and timing of any redevelopment. There are examples of similarly situated projects that have been successfully repositioned, including in California.

An ideal redevelopment alternative that is not limited in its scope by ownership interests, controlling documents, or leases would likely see the existing project demolished entirely and replaced with a mixed-use project. In the alternative, a scenario that does recognize these limiting factors would more likely result in a mixed-use project with less density and a larger retail component.

Several adjacent projects are planned or under construction. The adjacent Rose Bowl project is under construction, and the owner expects to receive competitive rents for the 60,000 square feet of retail space. Main Street is entitled and being marketed for lease, but grading has only just begun. The Apple Campus 2 is approved, with construction expected to start soon.

PURPOSE AND BACKGROUND OF REPORT

In August 2012, the City Council initiated a process to have City staff and the community identify options for replenishing citywide office, commercial (retail) and hotel development allocations in order to meet economic development goals.

During this time, the City was contacted by several property owners, including some within the Vallco Shopping District, who inquired about potential General Plan amendments for their sites.

In order to comprehensively evaluate citywide needs and individual sites, the City Council decided in early 2013 to combine these efforts into a single General Plan Amendment project.

A General Plan is a regulatory document that sets the “ground rules” for conserving resources, designing new projects, expanding public services, and improving community amenities. Every city in California is required to adopt and regularly update a General Plan. It functions as the City’s primary regulatory document and must be used as the basis for all planning-related decisions.

While this project will consider citywide land use, urban design, mobility, and economic topics, it is not a rewrite of the City’s 2005 General Plan. Rather, this project is focused on identifying and analyzing potential changes within seven key study areas (identified in the Summary and Analysis of Study Areas section), and possible changes to urban design and mobility policies particularly along five major corridors in the City.

The City has established several important goals for this project:

- **Goal 1:** Involve the community in a comprehensive discussion on mobility, urban design, and economic development challenges facing Cupertino.
- **Goal 2:** Identify and analyze potential increases to commercial (retail), office, mixed-use and hotel development allocations within the study areas.
- **Goal 3:** Enhance and improve the overall commercial experience in Cupertino by retaining existing business and attracting new companies.
- **Goal 4:** Revitalize the Vallco Shopping District so it becomes a cohesive, vibrant shopping and entertainment destination that serves both the region and the local community.
- **Goal 5:** Protect and enhance Cupertino’s quality of life so the city remains a desirable place to live, work, recreate and raise a family.
- **Goal 6:** Revise existing General Plan policies and diagrams as they relate to the goals listed above, and make some additional minor changes to address recent State and regional requirements.

As part of the City’s overall growth management system, Cupertino’s General Plan establishes a development allocation system for commercial (retail), office, hotel room and residential growth.

This Retail Strategy Report (the “RSR” or “Report”) will address each Study Area’s suitability specifically for retail development, and thereby help inform any decisions made regarding the various allocations noted above as well as some of the design

principles discussed in the September 2013 Settings and Opportunities Report prepared as a part of this project.

Particular attention will be paid to the centerpiece of the South Vallco Master Plan Area: The Vallco Shopping Mall.



While this Report is not intended to update the South Vallco Master Plan, it will touch on some of the key goals illuminated in that Plan including:

- Revitalizing the South Vallco Master Plan area,
- Coordinating aesthetic improvements,
- Connecting individual properties,
- Optimizing roadway infrastructure, and
- Promoting a unique identity for the area.

As part of the General Plan Amendment process, BAE Urban Economics developed a Market Study, which contains a Retail Sales and Leakage Analysis. The market study analyzes future demand for retail, office, hotel, and housing over the coming 20-25 years. The retail sales and leakage analysis identifies sectors where the City might have an opportunity to capture more sales locally from its residents and employees (while possibly attracting shoppers from nearby areas). Below is a summary of the key findings from both studies. This summary will help provide context for this Report.

REVIEW OF ACCOMPANYING STUDIES

BAE Market Study

The BAE Market Study identifies a number of attributes that provide important context for this Report. Consider the following:

- ABAG's One Bay Area Plan indicates that Cupertino will gain almost 5,000 households and over 7,000 jobs between 2010 and 2040.

Cupertino has a strong housing market due largely to the high quality of local schools as well as proximity to well-paying high-tech jobs. The median price for Cupertino homes changed very little between 2009 and 2011, but increased significantly in 2012 to \$1,045,750, higher than pre-recession levels and twice as high as the median for Santa Clara County with virtually no low- or moderately-priced options, and a steady rental market.

The shortage of young adult residents and workers in Cupertino could be largely the result of the lack of moderately priced housing options for many young or single-earner households, which suggests a need for smaller, more affordable units that can serve as workforce housing.

- On a per capita basis, Cupertino's annual retail sales for 2011 are \$10,483, compared to \$13,404 for Santa Clara County, and \$12,493 for California.
- The City's household composition is weighted towards family households with children and has a correspondingly larger household size than the overall trade area.
- Cupertino differs markedly from the County and region with respect to racial and ethnic breakdown. The City's Asian population comprised 63.1 percent of total population in 2010. By contrast, just under 35 percent of daytime workers are of Asian descent.
- Reflecting high education levels and professional occupations, Cupertino households earn a significantly higher median household income (\$123,700) than Santa Clara County (\$87,200), and the Bay Area (\$75,800).

Cupertino residents' high level of educational attainment correlates positively with a high degree of professional occupations concentrated in management, business, science, and arts as compared with Santa Clara County or the Bay Area.

As a result of the higher percentage of management, business, science, and arts occupations, the median earnings of those working in Cupertino (as opposed to those living in Cupertino) is \$81,000, again higher than Santa Clara County overall.

- Office demand continues to be strong, limited primarily by supply constraints and Apple's demand for office space.

Anticipated office job growth of 49,000 jobs in the west portion of Silicon Valley (the area including Cupertino) will generate demand for approximately 12 million square feet of new office space between 2010 and 2040.

There is significant potential for the City to attract an additional corporate campus to accommodate an existing major employer or to attract a new major employer

Office workers and consequently office tenants more and more demonstrate a preference for working environments that offer urban-style amenities as opposed to traditional suburban office parks, and for green certified buildings. Proximity to public transportation, bicycle and pedestrian access, attractive retail offerings, and entertainment options are also important amenities.

Office design trends that encourage employee interaction has resulted in more open building interiors and consequently greater employee density on a per square foot basis.

- Business-related travel is the driver of demand for hotel rooms in Silicon Valley. Exceptionally strong occupancy and growth in room revenue in Cupertino's existing hotels suggest support for additional hotel rooms. There are five hotels in Cupertino with a total of 785 rooms. The City's hotel development pipeline totals 302 rooms in two projects located at the Oaks Shopping Center and within the Main Street project respectively, the 122 room entitlement at The Oaks being due to expire in September, 2014.

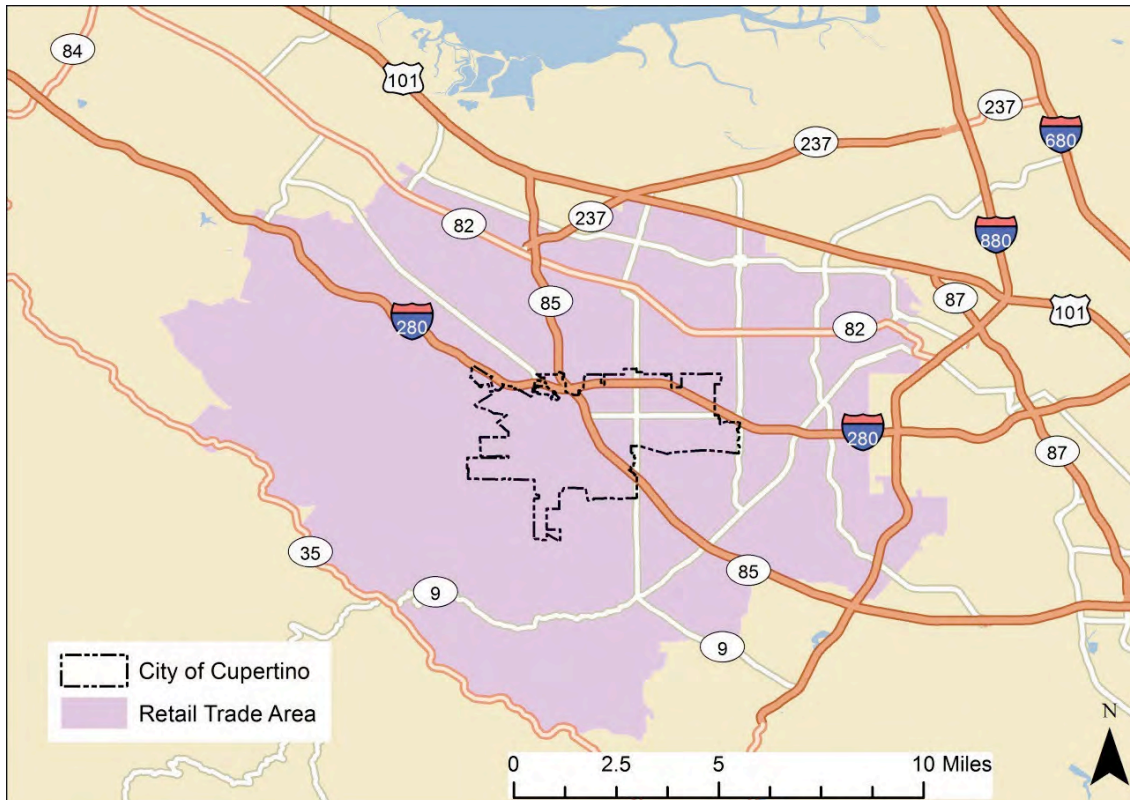
The City's resident and workforce populations are distinct beyond the income and ethnicity differences noted above. For example, Apple is competing with Google, Facebook, LinkedIn and others for talent. To the extent that these workers are younger (as is often the case), there is a greater demand for a more urban environment.

The City's retail "outflow" can be seen most notably in per-capita sales as compared with the County. Looking at the various Study Areas with an eye to future retail needs is important. A retail offering tailored to better meet the needs of citizens (both those presently living in Cupertino and likely future residents, i.e. knowledge workers) will be instrumental if the City hopes to recapture some of the sales leakage.

Vallco will be the City's single greatest opportunity to draw retail dollars to Cupertino. While the present retail allocation for Cupertino is projected to be adequate to meet the retail needs of today's residents and projected population growth, developing an overall retail strategy as a stated economic development goal will inform that allocation and enhance the City's ability to create retail facilities capable of meeting the City's future needs and meeting any stated goal of recapture leaking sales.

BAE Sales Leakage Points

The BAE Retail Sales and Leakage Analysis identifies important spending patterns in the City as well as the defined trade area used for the study. The defined "Trade Area" is shown on the following map:



Consider the following findings:

- A broad array of retail shopping options are available in nearby communities and are easily accessible to Cupertino residents. The leakage analysis shows that city boundaries do not represent a constraint on Cupertino residents shopping elsewhere or non-residents shopping in Cupertino. The fact that less than eight percent of potential sales from trade area customers were occurring outside of the Trade Area indicates that the overall retail trade area is well balanced with respect to retail.
- With respect to specific categories:
 - Cupertino has relatively strong sales in stores selling such as the general merchandise category which includes businesses that sell everyday items. Another reason this category is performing well is the presence of three mall department stores and one discount department store whose sales are included. It should be noted that two Trader Joe's and two Safeway stores are

located just outside the City limits, but that a new Safeway will be opening within the City shortly.

By contrast, stores specializing in other types of comparison goods are lacking in the City. With the exception of the Vallco Shopping Mall, which has its own challenges, most of the retail in the City serves daily needs and convenience-oriented shoppers.

- There are also no major electronics or appliance stores such as Best Buy or Fry's in Cupertino, although Sears (in the general merchandise store category) carries a large variety of appliances and may capture a larger share of resident expenditures that would otherwise occur in stores dedicated to electronics and appliances.
- The lack of clothing and apparel-related stores is due in part to the lack of fashion-driven, destination retail centers in Cupertino. The exception may be Vallco Shopping Center, however, Vallco has suffered from competition with Valley Fair and other projects, leading to high vacancy and shoppers on apparel-driven trips turning to destinations outside Cupertino.
- The BAE Retail Sales and Leakage Analysis suggests that a strong regional retail environment in the overall Trade Area constrains opportunities for additional capture of resident spending through new retail development in Cupertino itself. While it is true that over the entire Trade Area there is not significant leakage, we believe that Cupertino's central location within the Trade Area as well as access to freeways and major arterials creates the opportunity to introduce new retailers to the City, and perhaps even to capture sales presently leaking out of the City to other parts of the Trade Area.
- Cupertino has more jobs than employed residents, leading to a net inflow of workers (31% of people employed in Cupertino live in San Jose, 16% live in Cupertino, and 34% elsewhere in Santa Clara County). This daily inflow creates a significant opportunity for well-located properties in Cupertino to be positioned as destination-oriented retail development.
- In contrast to the City itself, a smaller number of persons work in the Trade Area than the total number of employed residents. Because the Trade Area's leakage is minimal, people living outside the Trade Area must be shopping in the Trade Area.
- Daytime workers generate demand for purchases near their workplace, especially meals eaten during the workday. Additional daytime or to/from work shopping opportunities are created when shopping alternatives are near to or on the path of travel to/from workplaces.

Due to the balanced overall Trade Area, some of the new sales needed to support new retail development would need to be retained in the City, instead of occurring elsewhere in the Trade Area. Since this process depends on shifting spending patterns and providing store types targeted to local demographics, BAE provided estimates in a range of "low" and "high." The

“low” estimate assumes modest additional recapture of leaking sales, while the “high” assumes a shift in spending patterns with well-located and well-merchandised new store types.

Summary of Demand Estimates

	Retail	
	Low	High
Through 2020		
Demand Through 2020 (Units/Sq.Ft.)	NA	NA
Demand Adjustments (a)	NA	NA
Less: Entitled Projects	NA	NA
Net Demand	NA	NA
Through 2035		
Demand Through 2035 (Units/Sq.Ft.)	334,000	521,000
Demand Adjustments (a)	-	-
Less: Entitled Projects	176,000	176,000
Net Demand	158,000	345,000

Notes:

Sources: City of Cupertino; BAE 2013.

Implications for General Plan Amendment

Making “high altitude” decisions about the amount and character of retail development and redevelopment opportunities in Cupertino over the coming years is a primary goal of this General Plan update process.

By way of background, there are eight projects with a retail component that are under construction, approved, or planned in Cupertino. These projects, summarized in Table H-1 of BAE’s Market Study, will bring a total of approximately 352,600 net new square feet of retail to the City. The Study recommends that the following should be considered:

- Cupertino’s strong demographics (e.g. families with high incomes and education levels) constitute a strong base of potential support for renovated or new retail facilities.
- The City has relatively few younger households and singles, indicating potential support for smaller residential units (both for-sale and rental). The development of this sort of housing stock, attracting younger residents, would shift retail demand.
- Retail in Cupertino must cater to a more diverse base of customers than reflected by the City resident profile alone.
- The highly compensated workforce that provides a potential strong base of demand for housing closer to work and for retail sales during the workday is somewhat tempered by onsite food service and other amenities offered by major employers such as Apple.

The leakage study draws an empirical conclusion that if stores in categories leaking sales were to be opened, those sales could be recaptured in the City. The degree to which this can be

achieved will depend on competitive factors and availability of real estate with the correct location and site attributes for these particular sorts of stores.

From an empirical perspective, the market analysis suggests that there is no additional need for increased retail allocations beyond the existing 701,500 square feet to meet potential demand during the planning period. However, the Vallco Shopping Center represents additional available square feet of existing retail that could be redeveloped or re-allocated (depending on how it is redeveloped) to support efforts to attract additional retailers to Cupertino and increase the City's share of retail sales within the Retail Trade Area.

The Retail Sales and Leakage Analysis also comments that: "(n)one of the shopping centers in Cupertino are 'lifestyle' centers, although Cupertino Village, The Oaks, and Vallco Shopping Center have certain elements of "lifestyle" retail. This newer type of retail, which combines upscale, specialty retail, dining, and entertainment in one shopping experience, has recently been developed elsewhere in the Bay Area." Exemplified by Santana Row in San Jose and Bay Street in Emeryville, the Main Street project planned for Cupertino appears intended add a similar type of experience to the City's retail inventory."

With respect to Vallco specifically, the Mall represents a mixed picture for Cupertino: Its anchor department stores and entertainment options appear to draw shoppers to the City, but the poor performance of the remainder of the Mall contributes to Cupertino's weakness in comparison goods shopping and destination retail. Vallco is the City's greatest potential redevelopment opportunity with implications for recapturing leaking retail sales, and creating a so-called lifestyle or mixed-use environment. Vallco will be addressed in greater detail later in this Report.

The purpose of this Report is to comment on how the various study areas might be positioned or redeveloped to attract new and to retain existing retail in the City, notwithstanding the proposed or in-development projects listed above. It should be noted that an impression could be created that Vallco alone could recover retail sales that might be leaking from Cupertino. In its present form, Vallco is not a viable retail project. Additionally, competitive market forces and infrastructure are not taken into consideration in this empirical analysis. Alternatives to Vallco's present condition are discussed later in this Report.

HISTORY, METHODOLOGY AND KEY RETAIL TERMINOLOGY

History

By way of background, a brief history of how retail has evolved over the past century will provide context for this Report and its findings. In the early 20th century, cars were a rarity. Most towns and cities had downtown districts that served as the community's commercial hub and were characterized by a massing of retail that evolved to serve the community's needs. Towns often had their own homegrown department stores that sold a wide variety of goods. The best known examples of these include Emporium and May Co. on the West Coast, Dayton's and Marshall Field in the Midwest, and Filene's and Macy's in the Northeast. These were department stores in the truest sense, having separate departments under one roof for a variety of goods including clothing and shoes, electronics, housewares, books and records, pets, home goods, and the like.

When retail was clustered in a downtown or town square environment, there was not a need for today's ubiquitous suburban shopping center. In contrast, by the 1950's, the automobile became commonplace, and started a trend towards suburbanization. The need for shopping centers was born. Over a period of time, these malls replaced downtown shopping districts in the increasingly decentralized urban landscape.

As the advent of shopping malls began to erode the downtown shopping district's market share, discounters began to erode the traditional department store's market share. Wal-Mart and K-Mart started nationwide expansions. Even traditional department store companies began to enter this world, perhaps the most notable example being Dayton-Hudson's Target division. At the same time, the suburban regional mall would often be anchored by department store chains that expanded their market share by focusing on suburbs.

The next step in the evolution away from traditional department stores was the advent of retailers who became more efficient by specializing in a particular "department." Clustered together in what have come to be known as power centers, these "big box" and "category killer" stores were more convenient, focused narrowly on one category, but offered a wide variety of merchandise within that category, developed supply and distribution advantages extending from their narrower focus, and offered everyday low prices. They also started killing off the departments in the department stores. In-turn, department stores increased their focus on soft goods, thereby limiting the overall variety of merchandise and giving the consumer fewer reasons to visit.

Like with many businesses, department store chains began to consolidate in order to increase scale, decrease expenses, and maintain competitiveness ... or simply to avoid going out of business all together. By extension, the number and variety of regional mall anchor tenants contracted, and by the 1990's the contraction and consolidation trend of regional malls was in full swing. In some instances, even traditional department stores (Kohl's being one example) began to abandon malls and join the category killers in power centers. With fewer anchors, so-called "category killer" tenants finding each other in power centers, and the advent of the

exurb, fewer and fewer truly successful regional malls and even fewer downtown shopping districts remained.

Some department stores including Macy's, Sears, and JC Penney have evolved away from their all-things-under-one-roof model to more closely resemble commodity retailers. In other words, their product offerings are less distinguishable from what could be purchased in a variety of other places and through a variety of retail channels. Furthermore, with the exception of chains such as Nordstrom, Bloomingdale's, Neiman Marcus and the like, department stores have ceased to distinguish themselves for their service and environment.

With the homogenization of department stores has come the demise of many regional malls. Certainly, there are many high-performing malls including Valley Fair in San Jose and Stanford Shopping Center in Palo Alto. There are far more that are similar to Vallco or nearby Westgate Shopping Center that have fallen by the wayside. As retail has evolved to today's commodity versus specialty norm, some of these will be revitalized or redeveloped altogether while others will not. [1]

Commodity and Specialty Retail

As downtown shopping districts and regional malls declined, and big box, category killer retailers proliferated, today's "commodity" versus "specialty" paradigm was born. [2] At it's essence, today's environment is about convenience and price versus experience.

Commodity retail goods and services are those goods and services that are purchased and consumed on a regular basis from "primary" household funds, largely without emotional attachment by the consumer, and at retailers and retail shopping centers offering the consumer the combination of low price and convenience most suited to the consumer's needs at a particular moment. Examples of commodity retailers include local convenience stores to drug stores, grocery stores, discounters and warehouse stores. A "commodity shopping center's" primary purpose is the aggregation of a number of commodity retailers in one location, allowing for convenient cross-shopping. While habits may be developed over time (eg. shopping at the same grocery store), consumers' tend to view these retailers as interchangeable and do not to have a strong connection to a commodity retailer's brand or to a commodity shopping venue. For the most part, internet shopping is an option most consistent with purchasing commodity goods and services (see more in the discussion of omnichannel retail below).



Specialty retail goods and services, by contrast, are those goods and services that are purchased on an optional basis by consumers using "discretionary funds" (ie. funds not designated for basics like rent, food, and transportation), and selected and often consumed during "free" or "discretionary" time (ie. when not working or tending to daily responsibilities). Successful specialty shopping venues deliver a unique and attractive combination of tenant mix and environment (ie. a sense of place), often reflecting the character of consumers in the market or trade area in which they operate. Equally as important, these specialty shopping areas lend themselves to extended consumer stays. An emotional "feeling" or "pleasure" derived from the overall shopping "experience" is an important part of the consumer's point of reference. Successful specialty shopping venues, regardless of format, deliver a unique combination of "product" (ie. shops) and "place" (ie. physical and conceptual environment), unique and attractive to the consumer within the market or trade area in question.



The term "comparison goods," which are goods that consumers do not purchase on a frequent basis (ie. daily or weekly), and are more likely to cause consumers to compare price, quality, and features than everyday items is often used interchangeably with "commodity" goods. Shoppers are often willing to travel a greater distance to patronize destination retailers. Commodity and specialty retailers, and shopping districts and malls can fit the definition of "destination" retail. The distinction lies in the intent or desire to spend more time shopping to better understand the product or choice of products as opposed to specialty retail, which is specifically limited to instances where the shopping experience and environment are key, and quite likely involve an entertainment or dining component. The distinction may also be nuanced: For example, in the case of Whole Foods, the Apple Store, or Bass Pro sporting goods, each sells commodities, however, the product and brand positioning, merchandising strategies, and environment or "theater" are specialty in nature.

Active and Inactive Uses

Another important way to think about retail is in terms of active and inactive uses. "Active uses" refers to situations where shoppers or pedestrians interact with built spaces even if they don't go inside to buy a good or service. Examples would include specialty retailers, restaurants, some grocery or drug stores, and even a karate studio, art gallery, or real estate agency.



By contrast “inactive uses” refer to situations where the flow of a retail district is broken so there is a significant gap or in some other manner so that pedestrians don’t interact with the built environment. Even active uses with limited hours may become inactive uses when they close and become “dark” during non-business hours. Examples include offices, medical facilities, auto repair, big box stores without outward-facing interactive displays (e.g. Costco, some supermarkets and drug stores, some big-box retailers). Inactive uses can also be created through poor design.



Gravity Side of the Trade Area

The “gravity side of the trade area” is defined as the general direction in the trade area from which residents and daytime workers enter the trade area and to which they travel in order to leave the area. From an operational definition perspective, much if not most retail goods and services in Cupertino are located along Stevens Creek Blvd. and on the streets providing access to I-280. The intersections of these streets are particularly important (eg. Stevens Creek and Wolfe, and Stevens Creek and De Anza). This means that the “gravity side” of the trade area in Cupertino can generally be defined as the area running along Stevens Creek between Wolfe and Stelling, and along Wolfe and De Anza between Stevens Creek and Homestead Road.

Omnichannel Retail

Retail is now conducted through many channels (eg. traditional stores, catalogs, on-line, via mobile devices, television, etc.). Omnichannel retail refers to the trend where the consumer experience across these multiple retail channels is made seamless and consistent.

Omnichannel consumers frequently use more than one channel simultaneously. For example, a consumer might do research using a price check app or looking up product reviews while looking at a product in a traditional retail store. Likewise, omnichannel retailers will track customers across the various channels they utilize (catalog and on-line shopping, or on-line and mobile shopping for example) increasing sale opportunities and more precisely targeting marketing. Social media provides an opportunity to build relationships with consumers by constructing a detailed customer profile and capitalizing on merchandising and advertising initiatives.

“Simply put, it’s the notion that consumers use more than one channel (web, catalog, mobile, store) to make a purchase. The idea reflects the fact that consumers don’t see channels, they seek solutions: either a retailer satisfies a need or it doesn’t. Increasingly, consumers use the digital channels to make a purchase decision even if that purchase is ultimately completed in a store.

“An omni-channel go-to-market model is an idea whose time has come, at least according to Macy’s Chairman, CEO, and President Terry Lundgren, who recently stated on the National Retail Federation’s blog: ‘We talk a lot at Macy’s about omnichannel retailing. Our customer is multi-dimensional. She is busy at work and out with friends. She always has her mobile device in her hand. She’s active on Facebook and Twitter and YouTube and a dozen other social media sites... We want that customer to be able to interact with Macy’s no matter where she is or how she shops. It makes no difference to us whether she buys something in our store or online... or whether she is shopping from her desktop computer or her Droid or her iPad. Macy’s best customers are those who shop us in-stores and online. We have a whole series of strategies in place to drive our store customers to the Web, and our online customer to the stores... Today’s customer is not monolithic. And that’s the way we are approaching our customer.’” [3]

A November, 2012 “Shopping Centers Today” article summarizes omnichannel nicely: “The idea is to favor no single retail channel (brick-and-mortar, mobile phone, catalogs) but instead to sell things to people whenever, wherever and however they want. Omnichannel retail is about providing a uniform experience and top-notch service in every exchange with the customer.” The article goes on that distribution channels that once operated separately (ie. something ordered from a catalog or online would be delivered to a customer’s house), are merging so that real estate is now part of the picture (ie. something ordered may be picked up the same or the next day at a local outlet). [4]

Omnichannel strategies work differently for commodity as opposed to specialty retailers. For example, multiple retail channels might be used by a consumer to research and assist in purchasing a particular commodity like a television, or to push out or target a promotion. By contrast, a specialty retailer might use omnichannel strategies to drive customer traffic to a bricks-and-mortar store, restaurant, or shopping district. Applicable to both commodity and specialty retailers, the availability and use of multiple retail channels allow consumers to be better informed. A byproduct of this better educated consumer is retail salespeople’s product and competitor knowledge must match this better-informed consumer.

Today’s retail environment is challenging. Deborah Weinswig, a Citibank retail analyst, points out that omnichannel retail also creates retailer-landlord opportunities by combining the touch and feel of the brick-and-mortar experience with the excitement and impulse factor of

web/mobile shopping (eg. tweet/food trucks, crowdsourcing). She goes on to point out that retailers' response to "tech titans" like Amazon have been insufficient when measured by retailers having more than three times the sales of the tech titans, but half the market cap, half the net income, and one fifth the cash. While the tech titans are schooling retailers and gaining mindshare, brick-and-mortar retailers are fighting back. For example, Kohl's was the first to fully allocate costs to its online business, getting a clearer picture of the profitability of its online business. Kohl's also uses analytics to identify the stores that will be most profitable for "ship-from-store" and "same-day delivery," possibly from as few as 100 of Kohl's 1,100+ stores. When interviewed for this study, the Macy's real estate director pointed out that Macy's is investing heavily in its web presence.

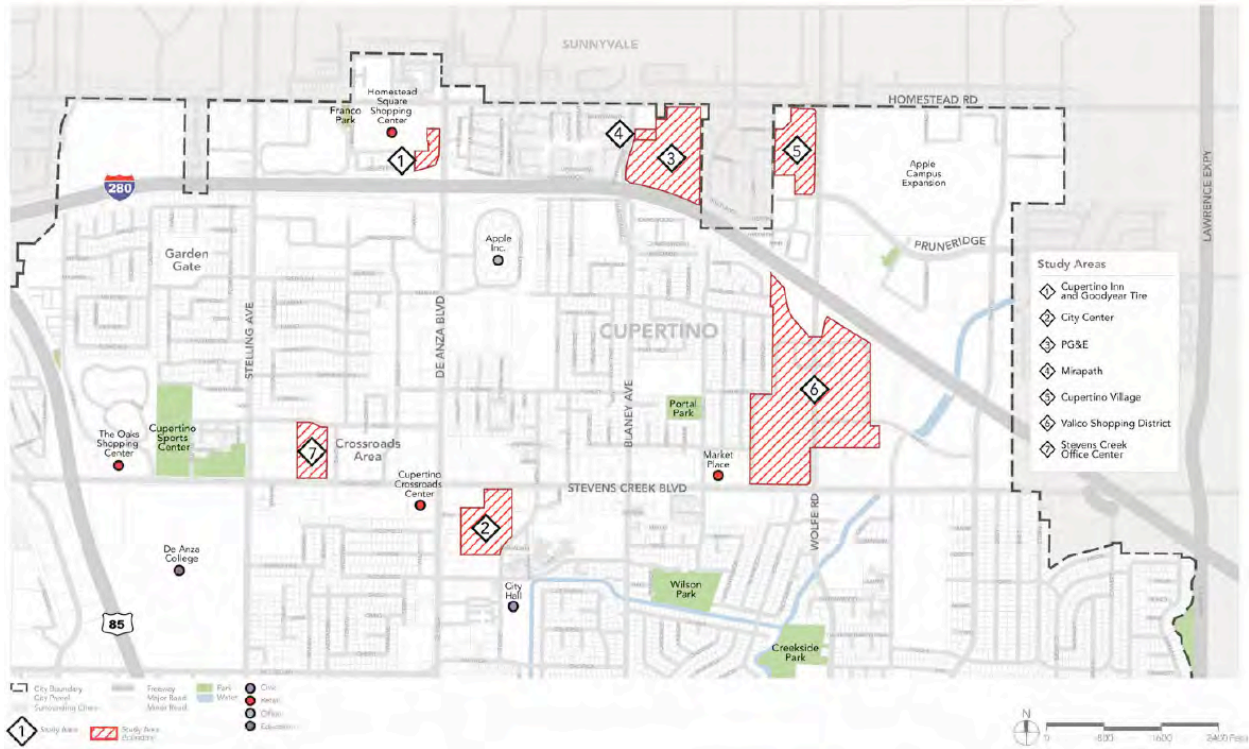
Lifestyle and Hybrid Centers

With respect to so-called lifestyle and hybrid commodity-specialty projects, ULI's Professional Real Estate Development manual states: "Early lifestyle centers successfully combined desirable retail shops with appealing architecture and a variety of outdoor settings spawning the lifestyle center. [...] These early centers were, in part driven by a trend in which small specialty retailers faced a shortage of high quality specialty retail space at the same moment that regional mall failures were accelerating. The dominant new commodity retail and shopping center formats had, in fact, left small store specialty retailers with few reliable anchors, and, developers with no clearly defined shopping center template to replicate, spawning the ill-defined and somewhat chaotic lifestyle center concept. Most malls failed to function as places conducive to social interaction and connection to community [...] Roy Higgs noted a 'Need to create a powerful and different sense of place. This is especially true of mixed-use developments where, very often, it is the space between the buildings that requires more design attention.'"

The same text notes that hybrid commodity-specialty projects "...are generally a risky option for a shopping center developer because the elements of price and convenience that underlie optimal commodity shopping center development generally weaken the elements of better product and place-making essential to well-executed specialty retail centers. Likewise, the higher costs and place-making principles central to specialty retail, degrade the price/convenience equation essential to commodity retailers." [5]

SUMMARY AND ANALYSIS OF STUDY AREAS

The general plan amendment, sometimes called a GPA, will focus on identifying land use, economic development, and urban design changes for seven study areas, shown on the following map:



The study areas together comprise 121.12 acres and contain approximately 1.9 million square feet of existing commercial improvements, 126 hotel rooms, and 423 residential units. The study areas range in size from approximately one acre (the Mirapath site study area) to over 60 acres (the Valico Shopping District study area). Each study area is located east of Highway 85 in areas with existing commercial or office development, mostly adjacent to high volume traffic corridors: Stevens Creek Boulevard, Interstate 280, and Homestead Road.

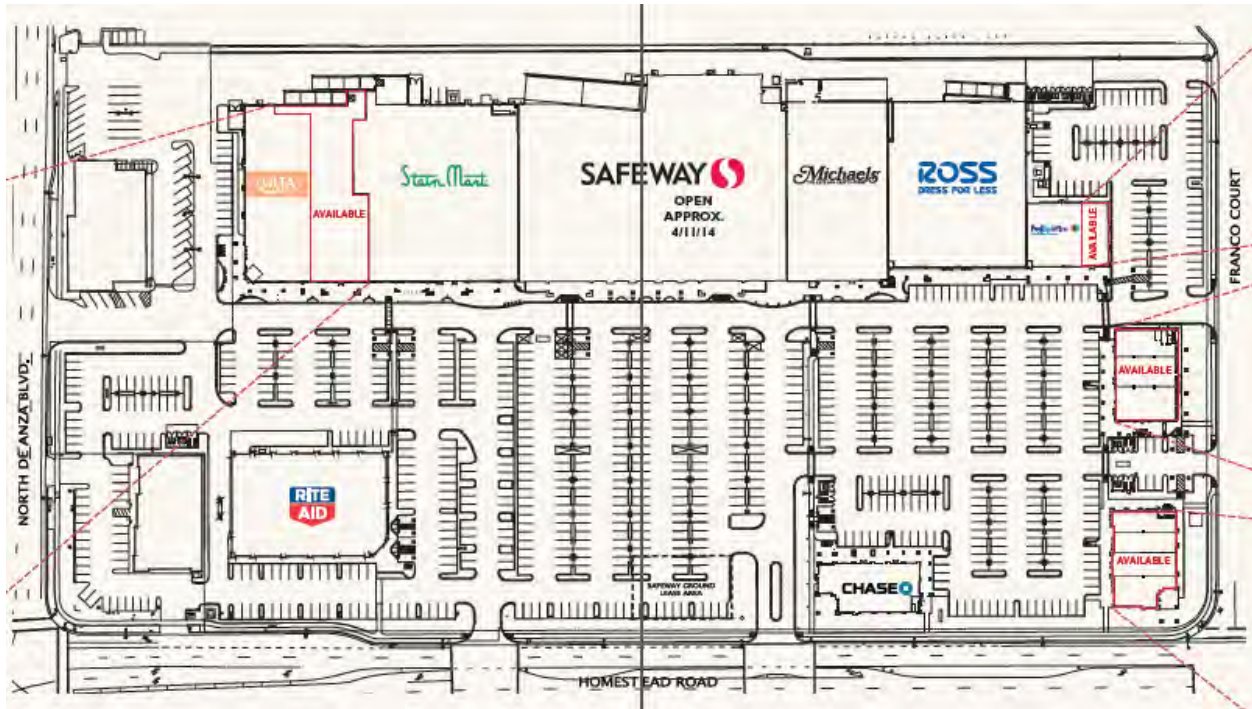
Most of these sites are developed with existing uses. While complete demolition and redevelopment of these sites is one possible approach, new development facilitated by the GPA could also consist of either redevelopment of existing buildings, selective demolition of existing structures and replacement with new construction, or new infill development adjacent to existing uses. Detailed descriptions of the study areas presented in the September, 2013 “Settings and Opportunities Report” are augmented here with an analysis and discussion of each site’s utility and the steps necessary to implement successful retail development or redevelopment.

Study Area #1 – Cupertino Inn and Goodyear Tire

The Cupertino Inn and the Goodyear Tire study area, comprised of two parcels totaling 3.21 acres, includes both the Cupertino Inn and the Goodyear Tire store located at the northwest corner of I-280 and De Anza Boulevard, both owned by John Vidovich. The Cupertino Inn is a full service boutique business hotel that offers 125 rooms as well as event facilities. The Goodyear Tire store is an auto service center offering tire, oil change and other automotive care services. The study area is adjacent to the Homestead Square Shopping Center that is being redeveloped with a 24-hour Safeway as the anchor tenant. The site is effectively already a mixed-use site by virtue of having adjacent hospitality and retail components. The location adjacent to a major arterial and a freeway on-ramp makes it less desirable for residential development.



From a retail potential perspective, the site is more notable for adjacent retail redevelopment than it is as a redevelopment site in and of itself. The adjacent 15-acre Homestead Square Shopping Center is presently being redeveloped. The adjacent 15-acre Homestead Square Shopping Center is presently being redeveloped. The boxes are fully leased to Safeway at 55,000 square feet (planned opening April, 2014), Ross 22,000 square feet, Michaels 25,000 square feet, Steinmart 32,000 square feet, ULTA 13,000 square feet, and FedEx 6,000 square feet. Chase Bank will occupy a 5,000 square foot pad, and there will be 12,000 square feet of shops. A 17,000 square foot Rite Aid pharmacy is open and operating, and most of the other tenants will take possession in the 1st quarter of 2014. A site plan follows. Ownership feels the site is unique as it is one of the last power center development opportunities in the Valley with all surface parking.



The same owner owns the adjacent property occupied by a Goodyear retail outlet. Goodyear's lease will not be renewed, and an application for this project is expected to be submitted to the City for review. The Goodyear parcel is intended for redevelopment as a 10 to 11-story hotel project with ground floor retail that is expected to act as an amenity for the hotel, and potentially additional hotel rooms as well as a conference center. There is a reciprocal access agreement between Vidovich and Homestead Square Shopping Center presently being redeveloped by its owner, the Sobrato Organization. This agreement does not impose any use restrictions upon the Study Area parcels.

Real Estate Evaluation

The study area is tucked into the corner of North De Anza Boulevard and I-280 without direct access, making it a destination as opposed to a convenience-oriented site from a retail perspective. Access to and from the site and circulation between the Study Area and Homestead Square Shopping Center is limited to the established reciprocal rights with the adjacent projects. Since there is a lack of retail space and land for development of additional retail space in the immediate area, especially north of I-280 and continuing to El Camino Real, this barrier to entry makes this Study Area more viable for retail development than it would be in an easier to build environment.

Retail Market Evaluation

Given the limited retail development opportunities in the area discussed above, and adjacency to what will be one of the two dominant retail projects in Cupertino located north of I-280, the Study Area has good long-term prospects for continued operation as a retail development. Service and food uses that serve the hotel's clientele may act as a bridge between the Study Area and Homestead Square. Potential uses consistent with creating this "bridge" might include full-service sit-down restaurants, service uses such as cleaners, salon or spa, or a fitness studio. If the study area were to be developed more intensely, for example with a 10-11 story

hotel with a meeting center, the need for convenience retail, restaurants, and service uses would be even more acute. In the case, a clearly-marked, appealing, and safe path-of-travel between the study area and adjacent Homestead Square Shopping Center, and the inclusion of both sit-down and convenience restaurant and service uses in particular should be encouraged.

Site Evaluation

The only access to/from the subject site is from southbound De Anza; no northbound access is available because of an unbroken median on De Anza. Additional access through adjacent Homestead Square is established by a reciprocal access agreement. Circulation via Celeste Court is restricted by the locked gate between the Cupertino Inn and the adjacent self-storage facility and apartment complex. Parking appears to be adequate for existing uses, however, no plans were available for review in connection with any planned redevelopment of the Goodyear Tire site.

Place-making Considerations

Given present uses and the project's de facto location behind the primary retail project, uses are placed on the Study Area as well and as functionally as could be as expected. No plans were available for review for any planned redevelopment of the Goodyear Tire site. The hotel has public meeting and gathering areas and a pool area within its facility. Project monument signage is deteriorating and inconspicuous due to being obscured by landscaping. Overall, the facility is dated.

Stakeholder Feedback

The owner's representative is desirous of adding density for redevelopment of the hotel as a taller building with additional amenities such as a rooftop bar/lounge. If no additional hotel allocation were to be made as part of this process, the existing hotels in the City would continue to enjoy an artificial cap on room supply, and, by extension, higher room rates resulting from the constrained supply of rooms.

Study Area #2 – City Center

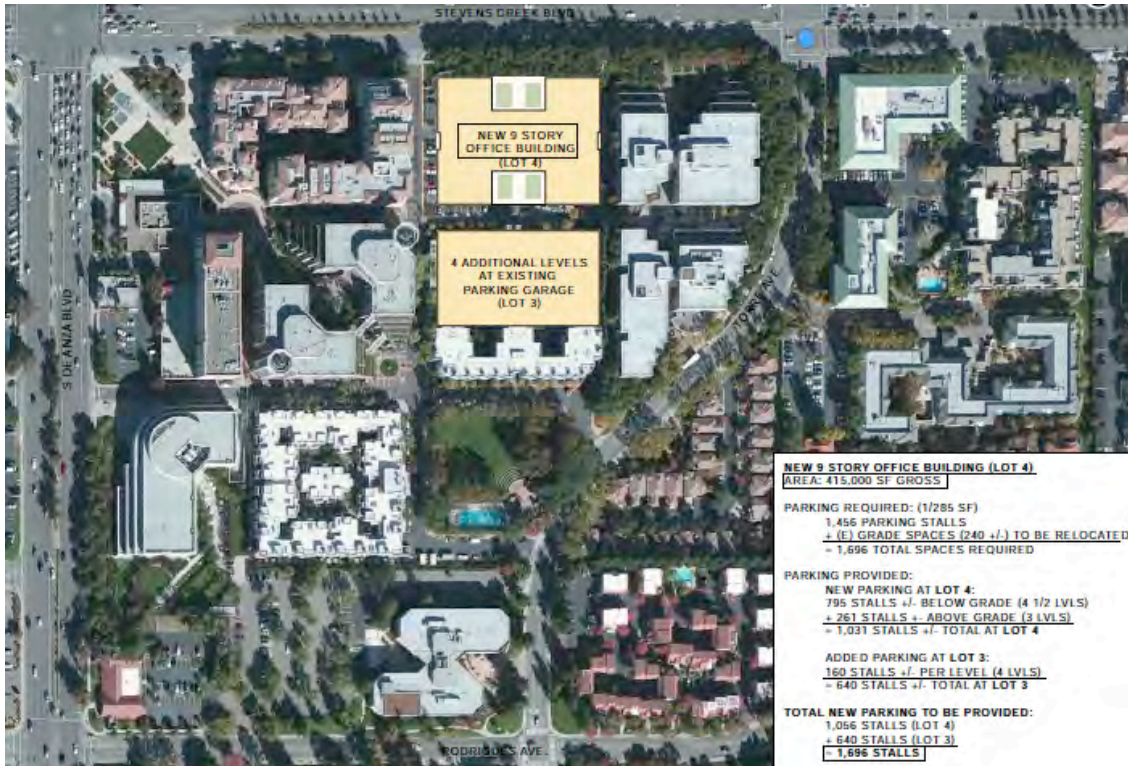
This Study Area, located along Steven's Creek Boulevard between Torre Avenue and De Anza Boulevard, is comprised of eight parcels totaling 12.51 acres and encompasses the City Center Towers, private open space, City Center Apartments, Park Center Apartments, and surface (240 stalls) and structured (3 levels down and 2 levels up) parking facilities. This mixed-use development includes a variety of components including residential, office, commercial and retail space.

The City Center study area incorporates a mix of uses ranging from office to residential with a small amount of retail that principally serves tenants within and near the Study Area. The various uses include the City Center Towers (169,400 square feet of office space) with some ancillary retail uses (approximately 7,000 square feet not including Apple's cafeteria which is located just outside the Study Area boundary), Cupertino Park, City Center Apartments (99 units), Park Center Apartments (120 units), and surface and structured parking. Adjacent uses are also mixed residential and commercial, including the Kimpton Cypress Hotel (224 rooms) and Cali Mill Plaza that offers café style outdoor seating, and additional Apple leased office space.

Prometheus, the owner, has a conceptual proposal for the redevelopment of the surface parking lot adjacent to the office towers into a 400,000 square foot 10-story office building with



4 levels of below-grade parking and an additional 4 levels of parking to the existing parking garage. No additional retail is anticipated as a part of those plans, although there could be some service-retail depending on tenant needs. Any parking afforded to any retail would need to be in structures, further reinforcing that any retail would be limited as a tenant amenity. The 7,000 square feet of existing retail that is immediately adjacent to, although outside of the Study Area defined above, will remain.



Real Estate Evaluation

The Study Area is located on Stevens Creek Boulevard between South De Anza Boulevard and Wolfe Road in the center of Cupertino's business and retail core, and close to the Civic Center. The existing office product's primary competition is located at the southeast corner of Stevens Creek and North De Anza Boulevards where there is a sizable inventory of garden office space. The Study Area contains no retail space, but there is a small amount of retail space as well as a boutique hotel immediately adjacent to the west. Despite being mid-block and median-bound for access purposes, the small amount of retail has reasonable long-term viability given its small size and primary purpose of serving the Study Area. However, the retail has little synergy with other nearby projects, and has no orientation to or visibility from adjacent streets. It should be noted that Apple is the major office tenant. Apple's employee commissary, located adjacent to the project site, features extremely reasonable prices, good food quality and variety, and inviting indoor and outdoor dining areas, capturing much Apple-generated foodservice demand. This "closed architecture" further limits retail potential on-site.

Retail Market Evaluation

Uses most appropriate for the site include office, residential, and retail that serves the daytime office population. For retail, convenience-oriented or lifestyle uses would fare best (e.g. restaurant, salon, health club, convenience or sundry store). Restaurants with a nighttime gathering element (e.g. a bar or more casual sit-down restaurant with a bar component), in particular, might do well. Apple's commissary and other services to employees limit the viability of other retail and especially restaurant users establishing themselves at this site.

Site Evaluation

The limited retail offerings on the block have no visibility from Stevens Creek Boulevard or side streets. The project's main entrance from Stevens Creek Boulevard is mid-block and median-

bound. Secondary access is available from Torre Avenue and by way of other internal streets. Right-in right-out access is available on South De Anza Boulevard. Daytime parking demand appears to be accommodated on-site, though the designated retail parking is not in close proximity to the on-site retail.

Place-making Considerations

Fundamentally, City Center is not a retail site. The project would need to be redesigned to create a retail statement, and better access and wayfinding signage would need to be provided to attract customers from outside of the Study Area. Only limited retail can be supported by City Center's office and residential population alone. Attractive outdoor and public gathering areas have been developed at City Center as well as on adjacent projects. Clearly, thought has been given to public gathering areas, with some providing protection from the elements. Some wayfinding signage is provided, however, it is not oriented to retail uses. Materials and amenities such as public seating areas are provided, and are of good quality.

Functionality Evaluation

Trucks block internal streets and by extension vehicular circulation when making deliveries. This impacts all site users and in some cases makes for less than ideal (or even unsafe) conditions for pedestrians and bicyclists.

Study Area #3 – Pacific Gas and Electric Company (PG&E) Study Area #4 – Mirapath

While the PG&E and Mirapath sites are two separate Study Areas, for purposes of this Report, because they are adjacent and would function as one site for retail development purposes, they will be discussed as if they were one Study Area. These adjacent Study Areas are located on the city's northern border with Sunnyvale and are surrounded by industrial, low- to medium-density residential, and an adjacent small neighborhood-serving strip retail center located at the southeast corner of Homestead Road and North Blaney Avenue. If the two sites were to be developed together, the overall site may be appropriate for mixed-use development with both commercial and residential uses. If this approach were undertaken, careful consideration should be given to planning the retail component with access and visibility and access in mind.

In the case of PG&E, the Study Area includes an approximately 21.91-acre parcel of land used as a regional customer service center, training facility, and equipment staging and storage facility. There is a large amount of vacant land. By way of background, PG&E is comprised of two entities: A publically traded corporation, and a public trust. This land is held by the trust, complicating matters if and when PG&E might initiate a sale of the Study Area land.

The Mirapath Study Area encompasses one 0.98-acre parcel owned and operated by Mirapath, a data entry and lab infrastructure provider. The parcel fronts North Blaney Avenue and backs up to the PG&E Study Area. Existing improvements consist of a single-story building in front with a two-story structure behind.



Real Estate Evaluation

The Study Area is located in a predominantly residential area that, with the exception of the site's current use and small adjacent commercial uses is characterized by low to medium density residential development. Existing power centers such as Target in Cupertino and Sunnyvale and Costco in Santa Clara presently serve the Cupertino Trade Area. Despite barriers to development such as its "inside" location, poor freeway access (although there would be freeway visibility for well-positioned signs), and need for mitigations on the surrounding residential area, the site may be viable for development of a big box commodity retail use such as Costco or Wal-Mart if for no other reason than the supply constraints on adequately sized sites for these users in the Trade Area. Emphasis should be placed on this site having potential viability due to its size and supply constraints, and not because it possesses site attributes that otherwise would make it attractive for retail development. The appropriateness of placing large-scale retail abutting non- or less-compatible uses will likely be considered should such development be proposed on this site.

Retail Market Evaluation

The only viable use for the Study Area would be a destination big box user, such as a Costco (which has expressed interest) or Wal-Mart. Perhaps two smaller big box users such as Winco and Dick's, both of which are presently expanding their presence in the Bay Area, sharing the site in lieu of the big box would make some sense. In either scenario, some smaller-scale users that frequently co-locate with these large anchors might then become viable co-tenants depending on site planning constraints. If not for the capacity constraint posed by the lack of large developable sites in the trade area, this site would not be considered for retail development. That it has been considered reinforces that market demand for new

development in the Trade Area is likely greater than supply of large developable sites or as allowed by current zoning regulations. Rezoning the Mirapath study area from ML (light industrial) to CG (general commercial) almost certainly makes sense. This property is small, fronts a thoroughfare, and is adjacent to another commercial use (the small shopping center to the north). Allowing this study area the flexibility to evolve into a small office or convenience retail use almost certainly would have greater utility for the owner, be more compatible with surrounding uses, and yield a higher residual land value than would a light industrial use.

Site Evaluation

Site access and visibility are poor. The site could have some freeway visibility if well placed and large enough signs were to be permitted. Visibility from Homestead Road is poor and limited from North Blaney Avenue. The small corner strip center at the hard corner of Homestead and Blaney means that the site has a mid-block location on both arterials, with no signal on either. These significant impediments to site access could be rectified through the integration of the corner strip center into the Study Area and/or the addition of traffic signals on both arterials (likely required traffic mitigations).

The Mirapath Study Area's value is primarily to provide a secondary access point to the PG&E Study Area. Required significant traffic mitigations should be expected, possibly further complicating access. As entitlements and land use designations are considered, treating both Study Areas and the corner strip center as one integrated site is recommended.

Despite barriers to entry, and given the site's mid-block position with no direct freeway connection, depth, and poor visibility, a Costco or other large destination retailer with strong drawing characteristics would likely be the only sort of use that might succeed in breaking this site free for retail development.

Study Area #5 – Cupertino Village

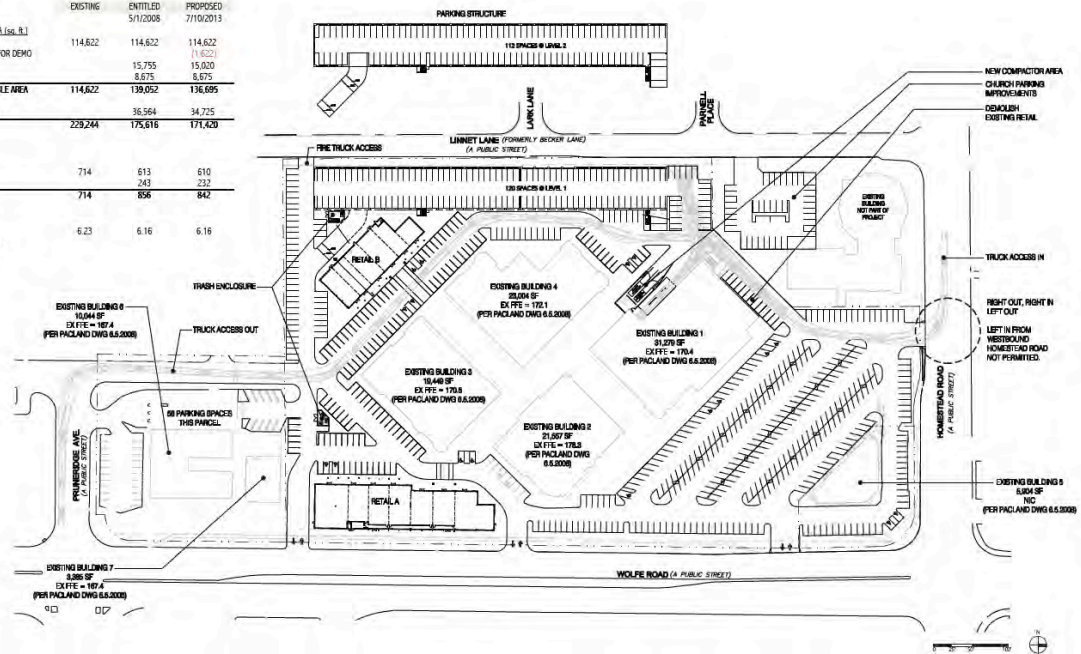
Located at the southwest corner of Homestead and Wolfe Roads, the Cupertino Village Study Area lies at the northern end of Cupertino at the city's border with Sunnyvale. Cupertino Village is comprised of three parcels totaling 12.51 acres and is home to an 113,200 square foot shopping center directly across from the proposed Apple Campus 2. Cupertino Village is a multi-cultural center with over 40 retail businesses including 99 Ranch Market, Starbucks, Joy Luck Place restaurant, and the Duke of Edinburgh Pub and Restaurant. Adjacent uses include hotels (directly south, reciprocal access with the Study Area), small office uses, and multi- and single-family residential. Apple plans to build their second campus (Apple Campus 2) directly across Wolfe Road. With this in mind, Cupertino Village serves an important role in the northeast part of the City, particularly in light of the Apple Campus 2's coming development. Cupertino Village, no doubt, would be a desirable housing site, and housing would likely yield a higher residual land value than would retail. If repurposing the site for residential development were ever desired, the loss of this retail amenity may not be in the best interest of the community and should be carefully considered.



Owner Kimco has worked on redevelopment plans for the Study Area since 2009, with a majority of its activity in the last year. Entitlements allow for a total of 25,000 square feet of new retail in two structures known as Retail A and B, and a new parking structure to increase parking capacity.

	EXISTING	ENTITLED	PROPOSED
BUILDING LEASABLE AREA (sq. ft.)	5/1/2008	7/10/2013	
EXISTING BUILDINGS	114,622	114,622	114,622
EXISTING BUILDINGS FOR DEMO		14,622	14,622
RETAIL A		15,755	15,000
RETAIL B		8,675	8,675
TOTAL GROSS LEASABLE AREA	114,622	139,052	136,695
PARKING STRUCTURE		36,564	34,725
TOTAL AREA	229,244	175,616	171,420
PARKING			
ON-GRADE	714	613	610
STRUCTURED		243	232
TOTAL PARKING	714	856	842
PARKING RATIO *			
	6.23	6.16	6.16

* based on gross leasable area



Over the last 12 months, Kimco has refreshed the architecture of the buildings, acknowledging Apple Campus 2 across the street, while trying to work within the previous entitlements. Ownership recognizes that this center has been extremely successful as an Asian-oriented shopping center with both a commodity/daily-needs and a lifestyle component, and acknowledges strong retail performers such as 99 Ranch. The renovation will have to be sensitive to existing customer base while also attempting to capture some of the value represented by Apple Campus 2 as well as the younger demographic in the area. There is an opportunity to diversify the tenant base with new buildings (e.g. quick service restaurant or other daily good amenities).

The renovation is now anticipated to update the look and feel of the center and try to attract a broad mix of tenants who compliment the many Asian-oriented tenants presently on site. Reinvestment is planned to update older facades, bringing them to current standards and using new materials, cleaning up building lines, and opening up gateways for a more modern appearance. The renovated site will seek to make common areas more conducive for “hanging out” with seating areas and other features.

Real Estate Evaluation

The Study Area is located at one of the major intersections between I-280 and El Camino Real, and has close freeway access. Other competing retail areas include Stevens Creek and Wolfe Road (Vallco Shopping Center if redeveloped), Ranch 99 located at South De Anza Boulevard and McClellan Road, and the El Camino Real retail corridor in Sunnyvale. The site is well positioned given project spacing between Stevens Creek and El Camino Real, and Vallco's present condition. The site's location across Wolfe Road from the planned Apple Campus 2 is a singular strength as well as an identifying feature for the project.

Retail Market Evaluation

Cupertino Village and the Marketplace are perhaps the closest examples in the City to a so-called lifestyle center. The Asian community serving tenant mix has proven to be a strong one, with daily-needs convenience-oriented users, foodservice and specialty tenants, and hospitality. An expansion of the Ranch 99 market should be explored, along with additional daily needs uses such as a drug store, boutique foodservice, and service uses (eg. cleaners, salon, office supply or stationary, etc.) due to the proximity to the new Apple campus and adjacent hospitality uses.

Site Evaluation

The site has good visibility from all directions, though it is somewhat obscured in places due to landscaping. Access is good with right-in right-out access on both Homestead Road and Wolfe Roads, and access to and from all directions being possible at the signalized access point at the Wolfe Road and Pruneridge Avenue intersection, and signalized U-turns at the Homestead and Wolfe Roads intersection. There are significant barriers to building new shopping centers in Cupertino. The combination of daily needs, foodservice, and hospitality users is well suited for this corner, particularly in light of the newly proposed Apple campus.

Site Plan Recommendations

Cupertino Village is well located at a prime signalized intersection. Parking, visibility, and access are all good. Internal circulation can be a bit difficult due to tight drive aisles, and the 45-degree orientation of buildings to the street grid. Ranch 99 parking is routinely impacted

during the afternoon peak shopping period, though parking on the south portion of the project is generally more available. A pedestrian bridge across Wolfe Road to the Apple Campus 2 would be an excellent amenity for both the Study Area and Apple. The owner points out, we believe correctly, that the main question is how to maximize density on the site while maintaining balance with the surrounding uses and the community.

Place-making Considerations

As discussed, the 45-degree orientation makes parking and circulation less efficient than it otherwise might be, and its design further complicates widening the sidewalks in front of retail spaces that currently are not wide enough to accommodate outdoor seating areas and comfortable strolling through the various retail offerings. There are some nice courtyard and outdoor seating areas with protected promenades in some areas but not in others. Generally, there is inadequate protection from the elements. Little to no wayfinding signage makes the already difficult circulation even more of a challenge, however, it should be noted that tenant signs are prominent. Landscaping also hinders visibility in places. Outdoor seating is generally provided by tenants for the use of their customers, but the lack of project seating and uniformity of outdoor amenities is a lost opportunity for keeping customers on site and cross-shopping. There is neither a particularly strong sense of place nor any historic façade, however, it should be noted that the "Town & Country" environment is a pleasant one, and the Ranch 99 front elevation heralds back to the era in which the center was originally built. Cupertino Village's more contemporary design should add curb appeal and be more compatible with the Apple Campus 2, however, incorporation of design elements showcasing the project's (and the region's) town-and-country roots might be worthy of consideration.

Functionality Evaluation

The loading area behind Ranch 99 is unattractive and perhaps dangerous with delivery trucks parked haphazardly and making deliveries, preventing motorists from easily maneuvering in the same space. Some improvements are planned with the planned renovation of the shopping center. These changes may provide some relief.

Study Area #6 – Vallco Shopping Mall

Vallco is addressed at length in the next section of this Report.

Study Area #7 – Stevens Creek Office Center

This approximately 6.99 acre Study Area, located along Stevens Creek Boulevard (between Saich Way and North Stelling Road), is improved with 108,500 square feet of office and 5,000 square feet of retail space (a small retail strip tenanted by Peet's Coffee and Panera Bread). The existing buildings are one to two stories with on-site amenities such as covered parking, common areas, and a gym for office workers. The Study Area is directly between a Whole Foods to the west and a small retail redevelopment project immediately east. Additionally, a Target is located across Saich Way. Single-family residential neighborhoods are located to the north and northwest of the Study Area, a YMCA is located immediately north of the site, and there is other garden office space in the immediate area. Stevens Creek Office Center is already a mixed-use project with adjacent office and retail uses. The site might be desirable for residential

development, more dense office development, additional retail development, or a combination of any or all of these uses. With respect to a mixed-use redevelopment of the site, particular attention should be given to access, parking, and visibility for the retail component of the site.



Real Estate Evaluation

Stevens Creek Office Center Study Area, centrally located in the City, is an older garden office development that, while appearing a bit dated, the owners try to maintain in a first class manner: Siding was recently replaced, and roof and mechanical systems are reported to have considerable remaining useful life. The project has a successful small retail component with Peet's Coffee and Panera Bread.

An adjacent property, Saich Way Station (see "New Retail Project" on the aerial above), has been fully entitled for redevelopment as a retail center, and a leasing campaign is underway. That project will likely have two restaurants with the balance being non-food uses. This redevelopment project is notable as it provides access from the Study Area to Saich Way (a signalized intersection), and also due to the integration of the Study Area's retail with retail on the hard corner. Because of this adjacent project, the Study Area may be a candidate for further repositioning as a retail project, particularly if cross access with Whole Foods could be established. It should be noted that this connection was explored and rejected during the development of the Whole Foods project in 2005 due to grading difficulties. This concept could be explored again in connection with a complete renovation of the Stevens Creek Office Center.

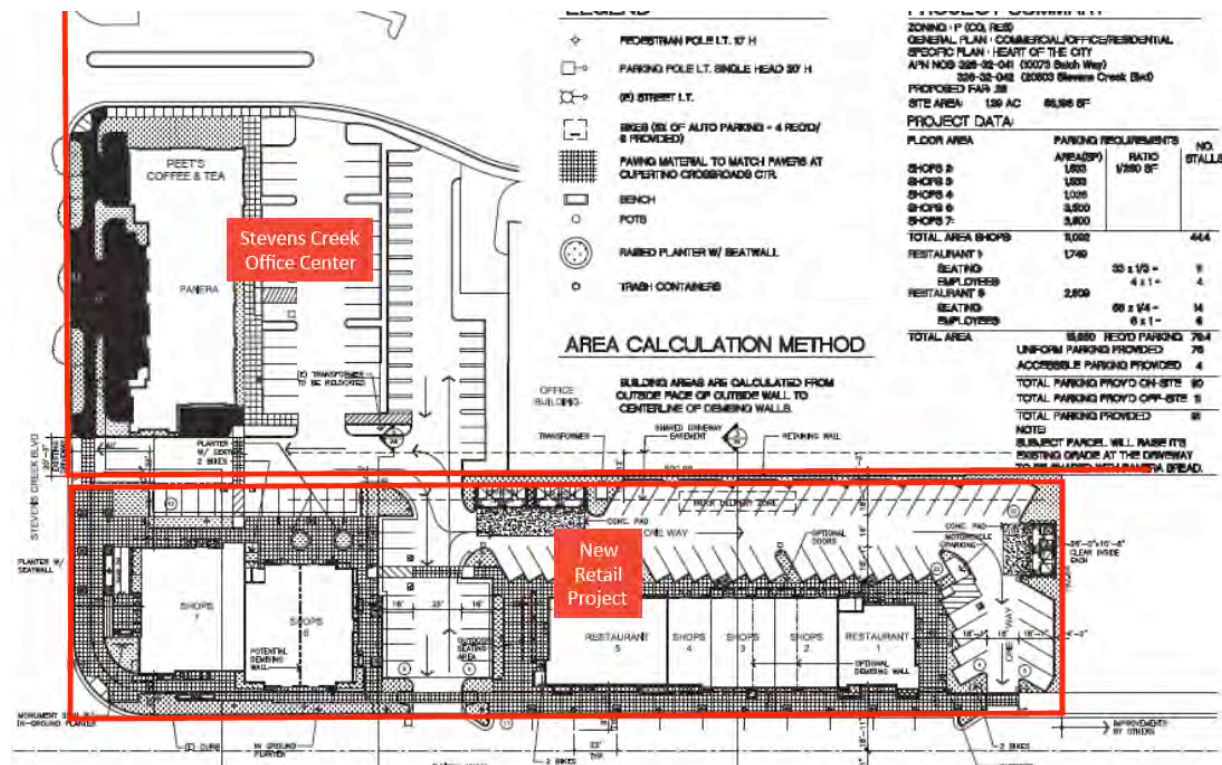
Retail Market Evaluation

In its present configuration, the site is best suited for daytime population-serving retail uses such as restaurant (quick-serve or full-service), and service uses. There is some competing quick

serve restaurant space (Starbucks, Noah’s Bagels) at the southwest corner of Stevens Creek and North De Anza Boulevards, and a number of commodity box stores in the immediate area (TJ Maxx, Party City, Home Goods). Once the adjacent retail redevelopment project is built, the Study Area will enjoy ingress and egress on Saich Way, have all turning movements available at the signal at Stevens Creek and Saich Way, and no longer be “median bound.” This improved access and the Target co-tenancy will be key attributes for which commodity retailers who prefer positioning stores near Target, and daily-needs retailer such as a drug stores. Consequently, all of these uses would become potential retail uses for this Study Area. For these reasons, continuation of the retail portion of Stevens Creek Office Center as it is presently configured, or a partial or complete redevelopment of the Study Area as a retail project are both viable options.

Site Evaluation

The site has good visibility from both eastbound and westbound traffic on Stevens Creek Boulevard with right-in right-out access from Stevens Creek Boulevard and from all turns on Alves Drive at the north end of the project (providing access back to Saich Way and the signalized intersection at Stevens Creek Boulevard). The Study Area’s overall parking ratio is 3.3 spaces per 1,000 square feet of leasable space, and the retail in particular is under parked and of poor design and circulation (e.g. narrow and dead-end drive aisle), reliance on compact stalls, and lack of reciprocal access to adjacent retail to the east.



As discussed above, the proposed retail redevelopment project immediately adjacent to the Study Area will have a reciprocal access and parking agreement with the Study Area, significantly improving access and circulation to the site. This new site plan will alleviate some

of the issues just noted. In addition to other reasons noted here, these improvements make the Study Area a potential candidate for redevelopment as a retail project.

Taking advantage of the improved access, circulation, and parking will be key to maximizing the Study Area's potential. If the site remains primarily an office project, there is probably little that could be done except restriping stalls to maximize stall size (given the limited area available for parking) and posting signs stating parking is limited to 30 or 60 minutes (limiting, for example, students using Panera as a long-term homework hangout) as well as improving way-finding signage. If the balance of the site is to be redeveloped as retail, then creating entry gateways from both Stevens Creek and Saich Way, and an overall site plan that maximizes visibility and parking, while simultaneously simplifying circulation would be of utmost importance. In either scenario, creating delivery zones to minimize congestion caused by double-parked trucks is important.

Place-making Considerations

The Study Area is a well-maintained suburban garden-style office project. Any opportunity to create pedestrian and/or auto paths of travel between the Study Area and the new retail project to the east and the Whole Foods to the west should be encouraged. The retail portion of the Study Area benefits from attractive outdoor areas, however, the outdoor area's orientation does a better job of creating "curb appeal" to Stevens Creek Boulevard than it does providing as appealing an amenity as it might, making it less appealing to users than a more protected area might be. The introduction of additional protection from the elements as well as some protection from street noise could make the outdoor area more pleasant in the summer months and more usable during cooler, rainy seasons. Buildings and retail parking areas are well identified, but wayfinding signage for the overall Study Area as well as signage directing traffic through the project to the Alves Drive exit is missing.

While it impacts the adjacent retail redevelopment project and not the Study Area, it is worth noting an opinion from an individual knowledgeable of that project's entitlement process that policy makers appear to believe that retailers will locate where they want them to, and cited under-parked retail on the hard corner of Stevens Creek and Saich Way as an example (while this may be parked to code, it nonetheless may be underparked from a demand perspective). That these spaces will be leased should not be taken as evidence that the site plan is ideal or functional, but rather as evidence of a general undersupply of retail space in the City. These tenants will be looking for opportunities to relocate, and there will be ongoing implications for leasing the balance of the project. Conversely, the City required cross-access with the Study Area that it is reported to do elsewhere in the City. While this sort of cross-access will not necessarily make Stevens Creek a walkable shopping environment, it does foster a better overall retail environment, albeit occasionally to the betterment or detriment of a given landowner.

Functionality Evaluation

Both the retail and the office portions of the project are congested and under parked. The lack of service and loading areas leads to delivery trucks double parking, adding to congestion.

Continuity of Place Evaluation

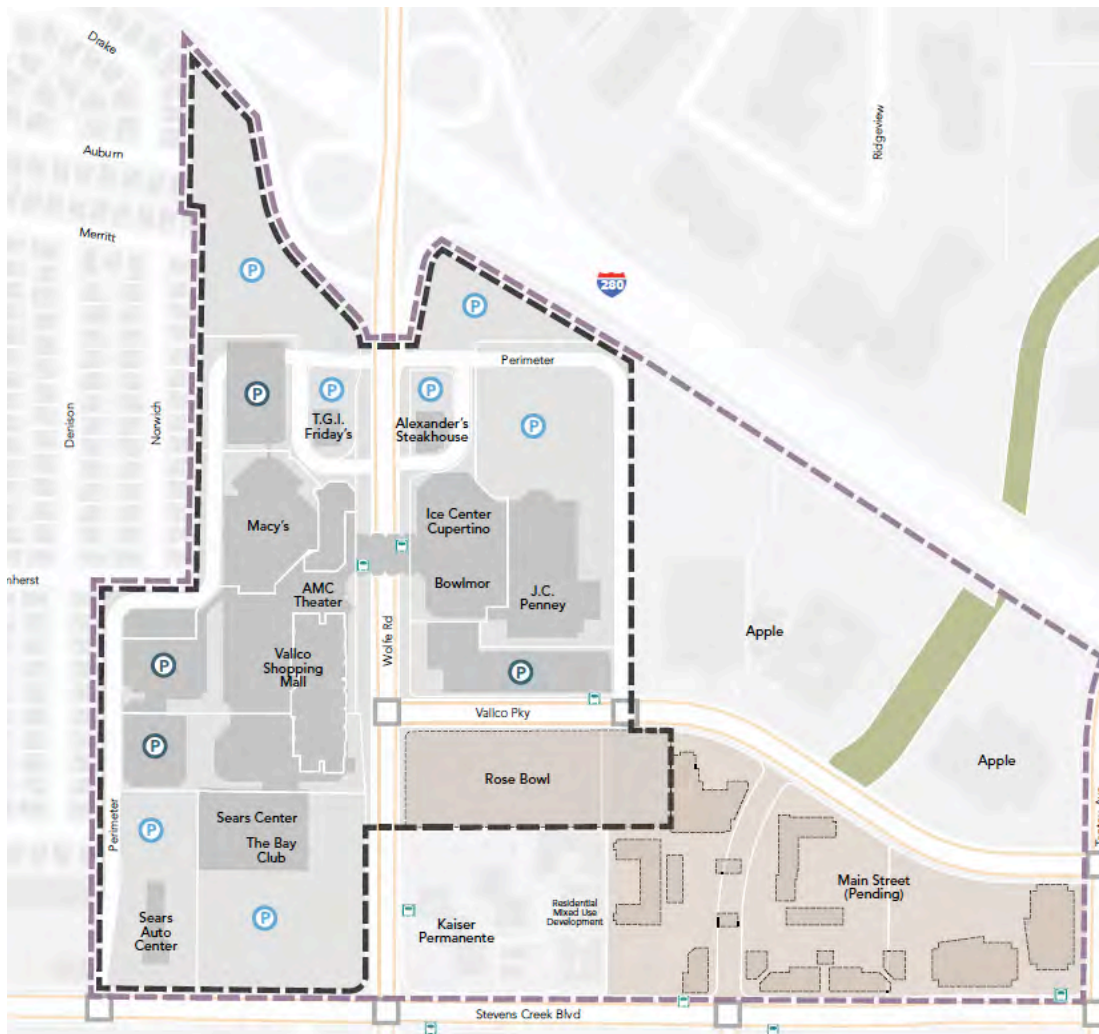
The Study Area's owner has evaluated redeveloping the property, evaluating a variety of uses from mid-rise office to residential to a variety of retail concepts. Like with many such

evaluations, the allowed density has a significant impact on whether a particular redevelopment scenario might be justified by the required investment, and to take development, leasing, and construction risk as opposed to maintaining the status quo given the project's occupancy and rental rates. To date, the status quo has prevailed.

VALLCO SHOPPING MALL

This Study Area, located on either side of Wolfe Road between Stevens Creek and I-280 and outlined below in a black dashed line, is comprised of 16 parcels. Ownership is split among seven owners and includes the Vallco Shopping Mall, and adjacent commercial and mixed-use properties. The Study Area is adjacent to the recently entitled Main Street project, the under construction Rose Bowl project, and to office space owned and used by Apple. It is immediately south of the proposed Apple Campus 2 and the Cupertino Village study area, both of which are located just north of I-280. This Study Area has historically been the commercial heart of Cupertino, however, Vallco itself has suffered for many years.

The Vallco Shopping Mall consists of 14 parcels and contains the 1.3 million square foot mall anchored by Macy's, Sears, and JC Penney. Various pads comprising the mall are either owned or operated on a long-term basis.



There are various opportunities for this Study Area to be explored including:

- Identify a viable, community-based strategy for revitalizing the current Vallco Mall and broader Study Area so that it remains a regional shopping destination,
- Explore opportunities to create a walkable, vibrant, mixed-use “downtown” within the Vallco Shopping District that can serve Cupertino residents, workers and visitors,
- Explore the possibility of incorporating public or recreational uses,
- Ensure future development is more cohesive by creating better connections, architectural relationships, common spaces and parking between individual properties/ownerships, and
- Consider creating a specific plan with specific detail and directions for future infrastructure improvements.

Background and History

The mall was originally constructed between 1974 and 1979. In 1988, the lower level was converted to retail from a former parking lot at a \$20 million cost, increasing the total store count from 140 to 190. [6] The construction type is structural steel and concrete block frame, with masonry and concrete exterior.

Despite these efforts, increased competition from other regional malls such as Stanford Shopping Center, and in particular Valley Fair which opened 1986 began to take market share from Vallco. Thereafter, while its competitors renovated, expanded, and re-tenanted to meet market demands, Vallco languished with incomplete development, defaults from prior ownerships, prolonged and unrealized redevelopment plans, management changes, and other set-backs.

After beginning in the 1990s, the emptying of the mall continued into the mid 2000’s. One widely and commonly-cited reason for Vallco’s decline was a mismatch between Vallco’s mid-range stores and Cupertino and the surrounding area’s growing affluence and changing ethnic makeup, however, this only tells part of the story. The Balance of the story lies in the competitive nature of regional mall operation, leasing, and management: Vallco was unable to compete with the much larger and more sophisticated operators of Stanford and Valley Fair. [6, 7]

Real Estate Attributes

The Vallco Shopping Mall is centrally located in both the City of Cupertino and the Trade Area at the NWC of Stevens Creek and Wolfe Road. This is the second busiest intersection south of I-280 in Cupertino after Stevens Creek and De Anza. The Vallco site is bordered Stevens Creek, Wolfe Road, Vallco Parkway, and I-280. [8]

- Stevens Creek Boulevard (31,845 ADT, 2007) is an east-west six-lane divided arterial that connects western Cupertino to downtown San Jose (via West San Carlos Street).

Stevens Creek Boulevard provides access to SR 85, I-280 and Lawrence Expressway via interchanges.

- Wolfe Road (27,390 ADT, 2009) is a four-to-six-lane north-south roadway that bisects Vallco Shopping Mall, provides access to I-280 via a partial cloverleaf interchange. North of Stevens Creek Boulevard the roadway is designated as an arterial in the City of Cupertino General Plan; south of Stevens Creek Boulevard, called Miller Avenue, it is designated as a major collector. It extends north to the City of Sunnyvale and south to the City of Saratoga.
- Vallco Parkway (2,880 ADT, 2009), a less than 1/2 mile six-lane, east-west roadway, connects Wolfe Road and Tantau Avenue. Several entitled development projects border Vallco Parkway including JC Penney, Rose Bowl, and Main Street. Vallco Parkway's lane configurations will be modified in conjunction with these development projects to four travel lanes with some on-street parking, and two additional traffic lights will be added at Finch Avenue (Main Street) and at the new entrance to the Main Street garage between Finch and Tantau Avenues.
- I-280 (159,000 ADT, 2012) borders the north boundary of Vallco Shopping Mall. I-280 provides easy access from Cupertino to San Jose to the east, and to Peninsula communities and San Francisco to the north.
- Public transportation serves the Vallco site. VTA, VTA Express, and VTA Limited bus service are all offered with stops at the Mall.

Fundamental Site Attributes

The Vallco Shopping Mall has excellent visibility from all directions as well as visibility of the project's approximately 80' foot tall monument sign which can be seen from I-280. Access is available from both Stevens Creek (right in, right out only), and Wolfe Road (RIRO, slip lanes north of the pedestrian bridge, and a signalized access point south of the pedestrian bridge). Internal circulation allows access to all major parking lots and structures as well as access under Wolfe Road. Parking of 4,886 stalls is provided in a combination of surface lots and parking structures. The overall parking ratio for the project is 3.8:1,000 s.f. of GLA.

Land Use Designations, Zoning and Land Use Policies

Policy 2-30: Maintain and enhance as a regional commercial area (including hotel), office, and entertainment center with supporting residential development at up to 35 du/acre. Create a master plan to define the mix of land uses. Encourage daytime and nighttime activities. Development agreement expired in 2006. Height limits of 60' if a retail component, and 45' if no retail component. Focus on better integration with surrounding uses.

Source: Cupertino General Plan, 2005

Land Use: South Vallco Park Special Center (in 2005 General Plan)
Heart of the City Specific Plan
South Vallco Master Plan



Current Land Use



Future Land Use

Note (a): Mixed-Use development now under construction
 Source: South Vallco Master Plan

Zoning: P (Regional Shopping), and P (CG, ML, O, Hotel, Regional Shopping, Res)

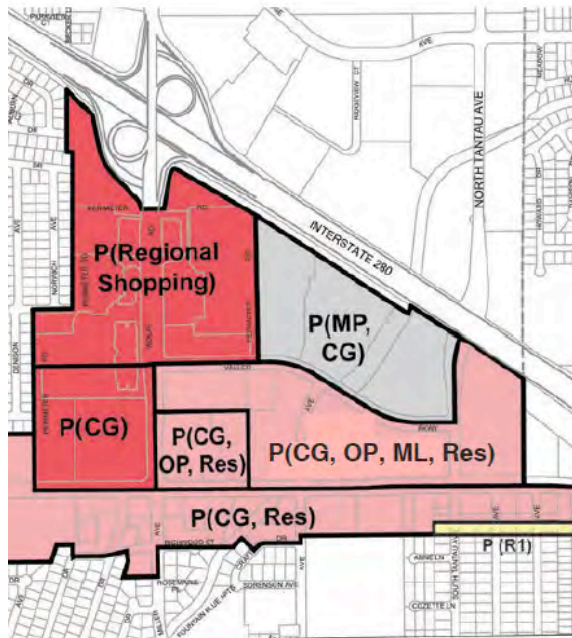


Figure 3: Heart of the City Area and Special Centers Zoning Map - Easterly Portion

Source: Heart of the City Specific Plan

Competitive Landscape

The area along Stevens Creek from ¼ mile east of Wolfe to ¼ mile west of De Anza represents the focal area for retail in Cupertino. There are no projects in the immediate area that compete directly with Vallco. Valley Fair and Santana Row (approx. five miles east), Westgate Mall (approx. three miles southeast), Sunnyvale Town Center (approx. four miles north), and Stanford Shopping Center (approx. thirteen miles northwest) represent the next closest regionally-oriented retail projects.

Valley Fair, San Jose/Santa Clara

Westfield's Valley Fair Shopping Center opened in 1986. Presently 1,477,393 square feet, the Mall is home to 272 retailers including Nordstrom, Macy's, Apple and Cartier producing \$494.9 million in annual sales from over 16 million annual customer visits. Valley Fair is often cited as the highest performing mall in California. A new food court called the Dining Terrace opened in November, 2013, and a Bloomingdales is under consideration as a new anchor.



Per the Macy's representative, the Valley Fair Macy's is one of their highest grossing stores in the United States. Macy's is discussing locating a new Bloomingdale's unit at Valley Fair. Westfield is exploring a 200,000 square foot expansion to accommodate Bloomingdale's and a movie theater.

Westfield recently remodeled its food court and created what it now calls a "dining terrace."



This amenity creates a place for people to gather, mingle, and linger. Lighting, materials, and the inside-outside connection expand the open environment during warmer seasons. Banquettes, tables that can be moved together, and internet stations allow visitors with various needs (groups, families, couples) to patronize the dining terrace.

Santana Row, San Jose

Opened in 2003, Santana Row is a 647,000 square foot mixed-use project with retail, hospitality, office, and residential components. There are over 3,500 parking stalls supporting the 70 shops, 20 restaurants, the 212 room Hotel Valencia, 622 rental units, 219 condominium units, and 65,000 square feet of office space.



Westgate Center, San Jose

A former regional mall that fell out of favor in the late 1980's to early 1990's, Westgate Center has been "demalled" and presently operates as a 645,000 square foot power center with over 50 tenants including anchors Wal-Mart, Target, Nordstrom Rack, Burlington Coat Factory, Ross Dress for Less, and Old Navy.



Sunnyvale Town Center, Sunnyvale

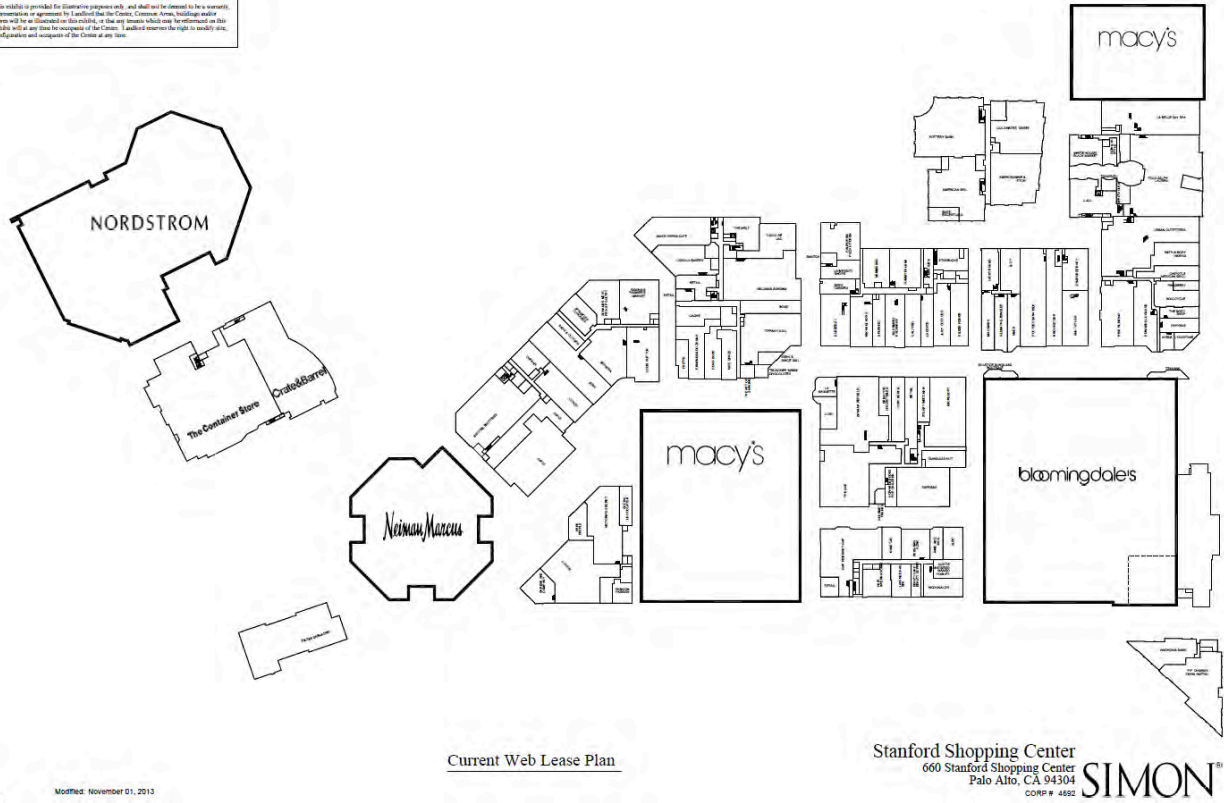
Originally built in 1979, the 36-acre site has recently been redeveloped into an outdoor, Main Street-style project anchored by Target (located on a podium over parking area 4) and Macy's. The project's 2007 plans called for 275,000 s.f. of office, 933,000 s.f. of retail (including Macy's, Target, and a 2,624 seat cinema), and 292 housing units. Plagued in recent years by a highly public foreclosure, the site has emerged from receivership.



Stanford Shopping Center, Palo Alto

Originally built in the mid-1950's, Stanford Shopping Center has evolved into a regional mall with 1,364,000 square feet of retail space and restaurants with 140 stores including anchors Neiman Marcus, Bloomingdale's, Macy's, and Nordstrom. According to an October 24, 2013 San Francisco Business Times article, the owner made an application for a major remodel that will create four new shop buildings totaling about 140,000 square feet located where Bloomingdale's presently operates. Bloomingdale's will relocate to Fleming's former location, and Fleming's has already moved to a new building. The total GLA of the mall, which generates approximately \$5.4 million in sales taxes annually, will stay roughly the same. [9]

This exhibit is provided for illustrative purposes only, and shall not be deemed to be a warranty, representation or agreement by Landlord that the Current, Common Areas, building and/or other areas will be as illustrated on this exhibit, or that any tenants which may be referenced on this exhibit will at any time be occupants of the Center. Landlord reserves the right to modify the configuration and occupancy of the Center at any time.



Vallco Site Area

Vallco Shopping Mall contains a total of approximately 50.60± acres, of which 32.04± acres are owned by the anchor tenants, and 21.13± acres are owned by Vallco Shopping Mall, LLC. [10] The various mall ownerships listed here as well as adjacent owners are shown on the following map:

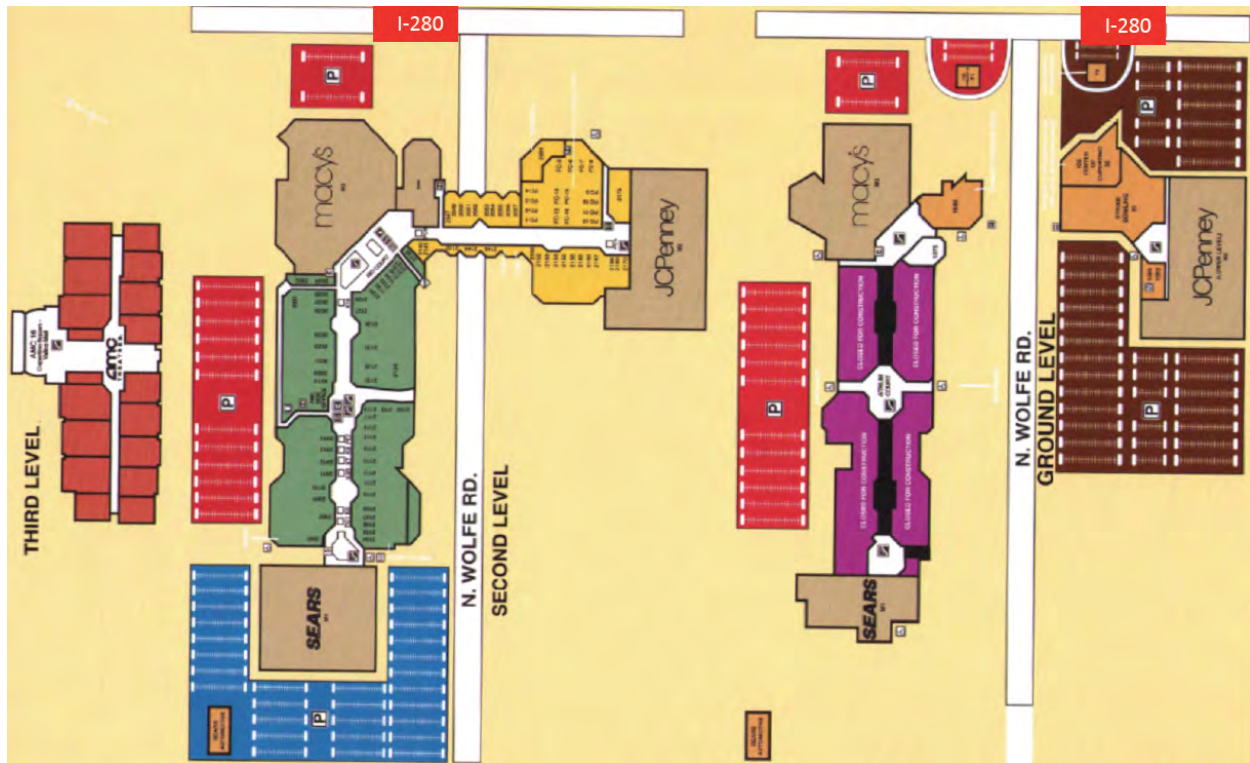
<u>Parcel Owned</u>	<u>Site Area</u>
316-20-089 (Macy's)	6.942 Acres
316-20-080 (Sears)	12.410 Acres
316-20-094, -095 (JCPenney)	12.684 Acres
Subtotal - Anchor Parcels	32.036 Acres
316-20-099, -100	4.965 Acres
316-20-081 (Sears Lease)	4.379 Acres
316-20-096, -097, -098	9.219 Acres
Subtotal - Mall Parcel	18.563 Acres
Total Owned Site Area	21.126 Acres
Total Center Site Area	50.599 Acres



Vallco Leasing Makeup

Vallco Shopping Mall's tenant make up is summarized in the following chart [11] and the leasing plan that follows:

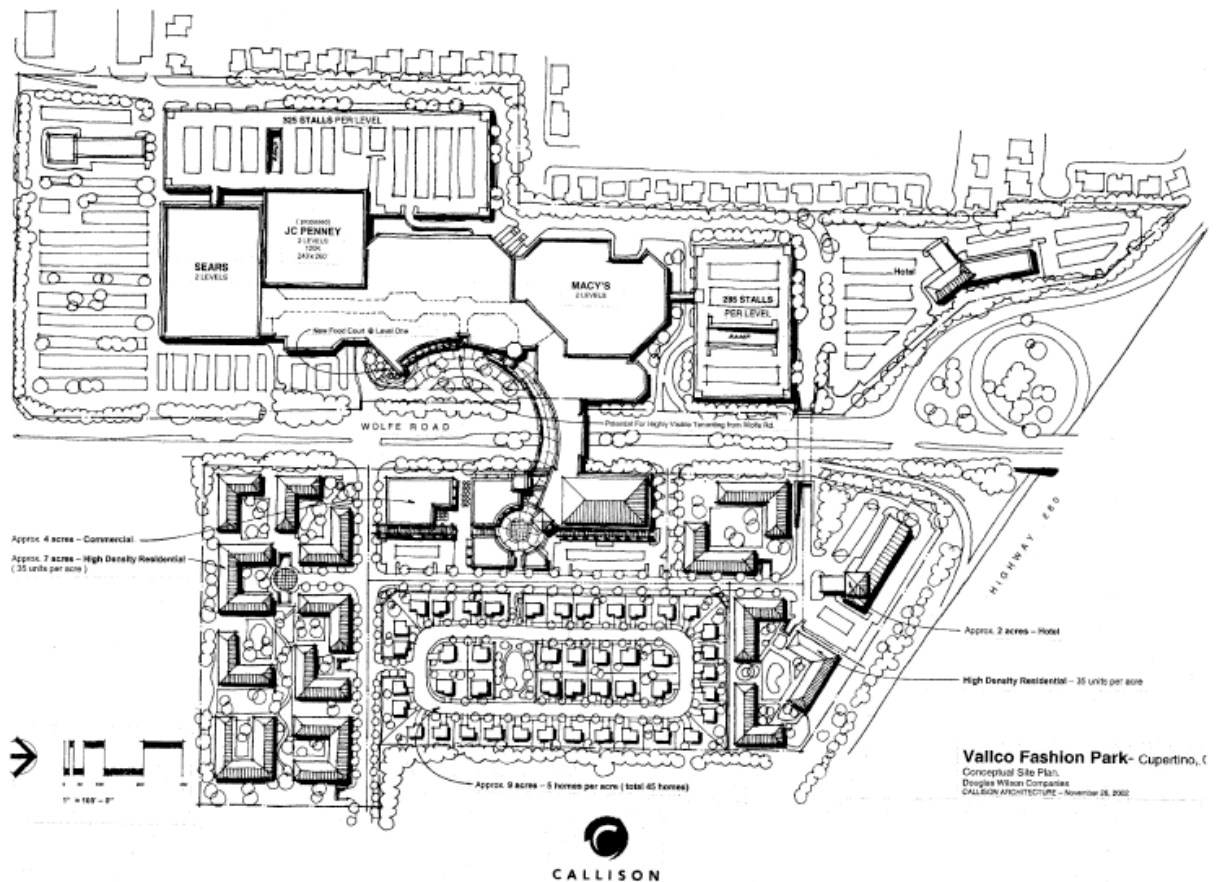
<u>Component</u>	<u>GLA Area</u>
Macy's	176,962 SF
Sears	280,185 SF
J.C. Penney	202,360 SF
AMC Theaters	80,500 SF
Total Anchor GLA	740,007 SF (58%)
In-Line	436,523 SF
Food Court	11,073 SF
Restaurants	29,960 SF
Major Tenants	59,238 SF
Subtotal-Mall Shop GLA	536,794 SF (42%)
Total Center GLA	1,276,801 SF (100%)
Total Owned GLA	617,294 SF (48%)



Development, Ownership, and Repositioning History

Vallco Fashion Park opened in September 1976. Among its unique features were several “parks” in the Mall’s main walkway, each showcasing aspects of local history, the Ice Capades Chalet (one of two year-round skating rinks in Santa Clara County) which operated for almost ten years before encountering trouble in 1986, and the Tilt Family Entertainment Center which opened in 1990.

TIAA held a loan on the property at the same time that Jacobs Group, who had an interest in Vallco (the JG Cupertino entity), was winding down its retail portfolio. Jacobs had cleared out the Mall’s lower level with the idea of creating additional parking, resulting in lower net operating income at just the time the Mall was beginning to have significant issues competing with newly opened Valley Fair. TIAA foreclosed and subsequently came to own both the fee and leasehold interests. Shortly after the foreclosure, Douglas Wilson was appointed as the receiver (they acted in this role from August 2002 until June, 2003). During this time, John Nguyen approached on behalf of an investment consortium led by Alan Wong, Emily Chen, and John Nguyen. The group offered significantly over book value, and a deal was ultimately struck for a sale at \$72 million. At the same time as the Mall was in escrow, in order to fulfill its fiduciary obligation to maximize the value of the receivership estate, the receiver formed a backup redevelopment plan that included hiring Callison as architect of record. [12,13]



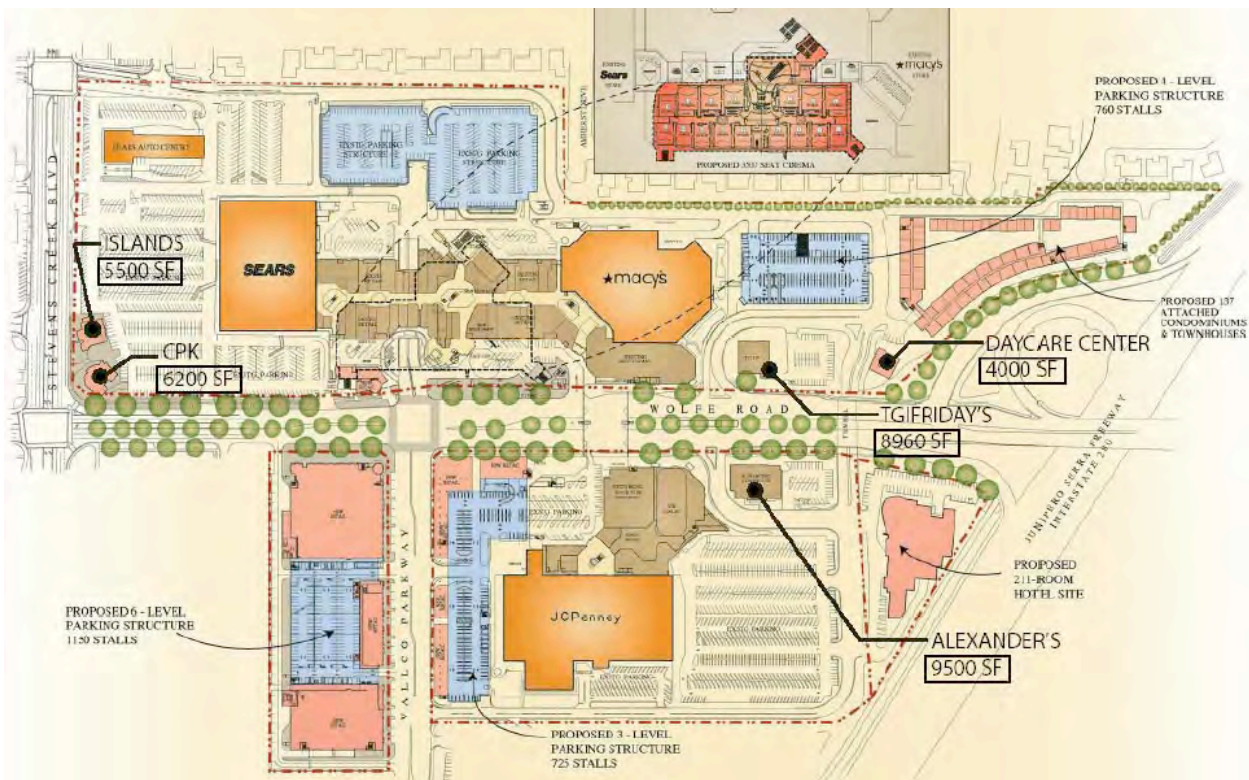
Among various options explored, the receiver investigated converting Wolfe Road to be one lane in each direction with 60-degree parking, demalling the project and having tenants facing the streets, relocating JC Penney onsite west of Wolfe Road, and addressing the pedestrian bridge which was viewed as a major impediment to pedestrian flow and hence the success of the Mall. Additional issues that were investigated but never resolved were the community's ties to the ice rink and complications from Sears owning land under the Mall.

Alan Wong, Emily Chen, and John Nguyen ultimately acquired the subject property and adjacent land parcels (Rose Bowl, Northwest, and Northeast) for a reported price of \$67,000,000. The sale closed in June 2003.

After acquiring the center in May, 2003, the Wong, Chen, and Nguyen team undertook to convert and upgrade the regional mall into a specialty center with an international tenant mix including entertainment, additional restaurants, and a new food court. One of the changes made to Vallco as part of these new renovations was to completely close the first of the mall's two levels in 2005, leaving the focus on the second floor. A few new tenants were recruited over the next few years including a 16-screen AMC Theater that was added on a podium level above the existing retail space, new retail space, and two parking structures that added 1,652± parking spaces. Unfortunately, by 2006, Vallco had the lowest occupancy rate (24%) of any mall in the area.

Alan Wong, Emily Chen, and John Nguyen sold the Rose Bowl, Northeast, and Northwest parcels to Evershine, the owner/developer of Marketplace Center immediately southwest of the subject Sears (across Stevens Creek Boulevard). The reported purchase price for the land was \$50.0 million. Surface parking lost on the sale of these parcels was replaced by the construction of new parking garages at the subject center. These additional parking garages were intended to permit more intense development on other parcels, including the adjacent "Rose Bowl" site, a 50-unit detached home project on the "Northwest Development" parcel, and a hotel on the "Northeast Development" parcel (all planned, but only the Rose Bowl site was eventually developed).

In addition to the Alan Wong, Emily Chen, and John Nguyen purchase, a new venture partner, Orbit, reportedly invested \$33.0 million (\$22.5 million in cash and \$10.5 million in a note) for an 85 percent interest in the Cupertino Mall ownership entity. The proceeds were reportedly used to clean up mechanics liens, pay down the loan, establish an interest reserve, and recapitalize the project. In 2006, United Commercial Bank loaned Cupertino Square, LLC \$195 million to further recapitalize the project and to provide development funds. In July 2007, Orbit Resources acquired the Mall, and Vallco Fashion Park's name was changed to Cupertino Square, and managing agents were switched from Landmark Property Management to Jones Lang LaSalle. Renovation of the mall that began in 2005 continued, and by 2009 two new parking structures, a 16-screen AMC movie theater, a food court, and Strike Bowling (at the former location of Tilt Family Entertainment Center) had been added.



In September 2008, the two owners of the complex filed for bankruptcy to prevent the primary financier Gramercy Capital from foreclosing on their property. By September 2009, Vietnamese food processing company Son Son Co. purchased Cupertino Square for \$64 million in an all-

cash deal, and restored the name Vallco Shopping Mall. Vallco also hosts the every-Friday Pacific Coast Farmers' Market in the parking lot behind JC Penney. [14, 15]

Ground Lease Discussion

As noted, three parcels comprising portions of the subject property are on ground leases. The details of these leasehold interests are as follows: [16,17]

- The first ground lease (APN 316-20-081) dated 8/26/88 with Sears as the ground lessor and the mall owner as the ground lessee, is for a 4.38±-acre parcel of land, expiring November 30, 2074. The annual rent of \$290,628 is flat over the lease term. The land subject to this ground lease is improved with approximately 52,000 square feet of mall shops.
- A second ground lease dated 8/22/06 was consummated with JC Penney as the ground lessor and the mall owner as the ground lessee to construct an additional 45,000± square feet of retail space adjacent to JC Penney. The ground lease commenced November, 2006 with a term of 30 years and three ten-year options to extend at an annual rent of \$320,000 per year, with ten percent increases every ten years. At expiration, JC Penney may require the demolition of any improvements, and conversion back to parking.
- Cushman Wakefield was also provided with an unexecuted (draft) lease for a second ground lease by the mall owner for a 0.36±-acre parcel owned by Sears. The commencement date was reported to be November 2006, with a 50-year term, and five five-year options at an annual rent of \$189,656, increasing eight percent every five years during the term and options. Based on the draft, unsigned leases, California Pizza Kitchen and Islands restaurants each planned to lease stand-alone restaurant buildings that mall ownership planned to construct, but which were never built. It is assumed this lease was never consummated.

Title Review Discussion

As part of the process of developing alternative scenarios and recommendations, thousands of pages of recorded documents were reviewed. These documents give insight about development intent, certain tenant's lease rights, and restrictions placed on the project. Following are the key findings:

Master Ground Lease for Mall Development

Originally the developer structured the Vallco Shopping Mall development on a ground lease with a related developer entity as the ground lessee commencing on 9/1/74 with a term of 47 years plus two options to extend for 20-years each. On 10/22/98, a Memorandum of Ground Lease with a term from 11/1/98-10/31/58 was recorded showing TIAA as the ground lessor, and JG Cupertino (Jacob's Group) as the ground lessee with JG having a purchase option. These two interests merged on 6/12/03 when the new John Nguyen-led ownership group purchased

the fee and leasehold interests in the Mall from TIAA. These combined interests were transferred to the present owner, Vallco Shopping Mall LLC, on 9/11/09.

Construction Operating Restrictions Easements Agreement (COREA)

The COREA, dated 2/19/75, initially was between Vallco Fashion Park Venture (the development entity), Federated (Bullocks, briefly Emporium, now Macy's), and Sears. Macy's is the successor-in-interest in a sub-ground lessee with a 27-year term commencing on or about 12/1/74 with one 20-year and four 10-year options to renew. The COREA provides among other things for the following:

- A 60-year term extendable to up to 99-years if the majors continue to operate.
- Easements across all tracts for vehicle and pedestrian access and circulation.
- The parties can each redesign their own parcels, with each anchor having exclusive right to design its entry court to the Mall.
- The establishment of minimum and maximum buildable areas and parking ratios for each parcel.
- Use restrictions requiring operation as a first class regional mall, and establishing a list of restricted uses which appear typical of shopping center governing documents.
- A developer requirement to continuously manage and operate the Mall, and for the anchor tenants to operate continuously for a minimum number of years (all since expired).
- A provision that all parties are required to modify the COREA.

First Amendment to COREA

The First Amendment to COREA, dated 8/1/75, established minimum and maximum buildable areas, parking ratios, and a developer requirement to use best efforts to maintain at least 65% occupancy between Sears and Bullocks (now Macy's).

Second Amendment to COREA

An amended and restated COREA was dated 12/1/75. A complete copy was not available for review.

Third Amendment to COREA

Dated 9/14/76, the third amendment established construction and financing schedules of performance, parking ratios, and parking locations.

Fourth Amendment to COREA

Dated in August, 1980, the fourth amendment established buildable area minimums and maximums and updated parking ratio as well as a provision for a bus stop in the common areas adjacent to Sears.

Fifth Amendment to COREA

Dated 2/15/84, the fifth amendment memorialized Federated's interest being assumed by Carter Hawley Hale (Emporium). (CHH was later purchased by Federated, reverting that interest back to Federated.)

Sears Documents

- On 2/19/75, Sears granted the developer an easement co-terminus with the COREA to develop parking areas, and a connection between Sears and the Mall.
- A ground lease by Sears to Westland dated 8/26/88 terminating the earlier of 11/30/74 or

when COREA terminates with a right of first refusal by the ground lessee to purchase the fee.

- Lease of the lower level by Sears to Westland.

Development Agreement

A Development Agreement dated 10/8/74 between the City and the original Mall developer provided for the following:

- Construction of 1,028,436 square feet of net rentable area.
- Rose Bowl site to be developed for office uses at a 0.37 FAR.
- The granting by the City of air rights over Wolfe Road for the construction of a pedestrian bridge, and for the construction of two levels of underground parking.
- Provision for the construction of a rapid transit station adjacent to I-280.

General Plan Amendment

A General Plan Amendment dated 7/1/91 and a Development Agreement dated 8/15/91 between the City and Westland were approved with a term of 15 years expiring August 14, 2006 (in 2005, the agreement was extended to August 15, 2009) and contained the following terms: [18]

- The *General Plan Amendment* (2-GPA-89) increased the designated development capacity for the Shopping Center by 260,000 net rentable square feet, which, taken together with the available capacity under existing approvals, provided for 535,000 square feet of future development on the Property and the Rose Bowl site (for a total build-out of 1,645,700 square feet of net rentable space). At least 80,000 square feet of the total 260,000 square feet of additional net rentable square feet authorized under 2-GPA-89 were to be reserved for use by a "Single User." This single user became AMC Theaters which leases 80,500 square feet
- *Cinema*: A cinema complex was approved for the Shopping Center subject to the conditions attached to Application 9-U-90 which allowed for a 2,500 seat cinema to be built adjacent to the Sears store or a 3,500 seat cinema may be built on the Westside Site (these locations are noted on Exhibit B attached to the development agreement). A cinema would reduce the total build out authorized under the Master Use Permit by 100,000 square feet. A fourth amendment to the development agreement recorded 2/9/06 permitted the 2,500 seat AMC Theater.
- *Parking*: Additional parking to accommodate future development was required to be provided at a ratio of 1 parking space for every 248 square feet of gross leasable floor area of retail space. Additional parking requirements are established in the COREA as noted above.
- *Ice Rink*: The developer was required to operate and maintain the ice rink facility at no cost to the City. If the developer expanded the center by 100,000 square feet of new net rentable space during the term of the development, the continued operation of the ice rink would become a permanent condition. If 100,000 net new square feet are not added, the developer would only be responsible for operating the ice skating rink for the term of the development agreement. The ice rink is excluded from the maximum GLA calculation.
- *Park and Ride*: The developer agreed to establish a shared use park and ride area for 75 spaces.
- *Child Care*: The developer agreed to operate or cause to be operated a child care facility within the Shopping Center throughout the term of the development agreement.
- The *Rose Bowl* parcel was rezoned to P (CG, ML, Office, Hotel, Regional Shopping);

however, the rezoning maintained the retail, office, industrial use, and the hotel use option available under the prior planned development zoning for the Rose Bowl Parcel. On August 23, 2004 Resolution 6269 was passed calling for the approval of an architectural and site review for 138,760 square feet, 204 residential units and a parking structure on the Rose Bowl site. On the same date, the City Council recommended the approval of a use permit permitting the development to construct 204 residential units (for-rent condominiums) and a parking structure. The Architectural and Site Approval was completed by the Cupertino City Council on March 15, 2005. A fifth amendment to the development agreement recorded 2/9/06 permitted development of the Rose Bowl site with 138,760 s.f. of retail and 204 dwelling units.

Tenant Leases

Various leases are on record with the following terms noted:

- *TGIF*: TGIF's lease commenced 9/1/74 and expires 8/31/21 with two 20-year options to extend. A separate memorandum of lease shows TGIF's lease dated 11/29/76 commencing 12/21/77 and running for a term of 20-years with one 5-year option to extend. It is unclear which is correct, however, Friday's still operating would support a theory that it is the former.
- *AMC Theaters*: AMC executed a lease on 5/5/05 for 15 years with three 5-year options and one 4½-year option. The lease includes the following provisions:
 - A protected area requiring AMC's approval for changes of any parking areas west of Wolfe Road including the then newly built parking deck, and all pedestrian access to and from the parking areas, but allowing the landlord rights to certain future building areas (lease § 26).
 - A requirement for the landlord to continuously operate the property as a shopping center.
 - Restrictions on the sale of movie concession food or beverage within 50 feet of AMC's premises, in common areas, or in parking areas, on so-called noxious uses typically restricted in shopping center governing documents (but allowing Lucky Strike bowling alley), and on a health club.
- *Lucky Strike*: The bowling alley executed a lease on 12/11/06 for 38,000 square feet of space for a term of 15 years from 1/1/07 to 12/31/22 with three 5-year options to renew.
- *Ross Dress for Less*: Ross executed a lease on 7/21/92 for 10 years plus three 5-year options. The lease requires the mall to remain retail in nature, and no so-called noxious uses in defined protected areas. Ross has since relocated out of the mall.
- *The Bay Club*: The Bay Club's lease dated 3/15/11 has a term of 15-years 4-months plus options to renew for three 5-year periods. The lease establishes part of the common areas as protected areas requiring Bay Club's approval for modifications, and an exclusive for a health club on Sears' lands.
- *Sprint*: Sprint has two leases for cell towers, each commencing in 2002 with a 15-year initial term plus two 5-year options to renew.

Stakeholder Interviews and Discussion – Anchor Tenants

Macy's

Todd B Scheffler, Macy's Director of Real Estate responsible for the area including Cupertino, was interviewed regarding Vallco. Like with all chain retailers, market share and goodwill are

important considerations for Macy's. Macy's cites a legacy customer that shops at its Vallco unit as well as low operating costs, and a low book value which allows relatively flat sales (+/- 1-2% from year to year) that are "moderate not killer" to produce a positive EBITDA and contribution to the parent company.

Macy's sees itself as a partner in the community; giving back to the community is a stated policy initiative. The Company feels it is important to remain open where goodwill has been built over time and they are vested in the community. Mr. Scheffler noted the Chairman is a merchant for whom aligning the Macy's brand and merchandising with market demand and serving its legacy customer are key.

It was confirmed that the Vallco store does better than Macy's at Sunnyvale Town Center, but much lower sales than Valley Fair. Macy's self-characterized as a conservative company concerned with operating department stores rather than being in the real estate business. While no plans to do so were expressed, if choosing a store to close between Vallco and Sunnyvale, Sunnyvale would be the more obvious choice.

With respect to Vallco specifically, notwithstanding the focus on operations as opposed to real estate, Macy's is keenly aware that its long-term control has real value. From an operational perspective, there is always an eye to market share and goodwill, and the potential impact closing a long-established unit might have on its overall market position. Since the store makes money, the tendency is not to consider closure, however, if there were an opportunity for a meaningful capital event, and if there were an opportunity to transfer the Vallco business to another location, a closure would be evaluated by the company.

Macy's believes they get some AMC and some JC Penney cross-shopping, but that the project really is no longer a shopping center in the traditional sense. The common areas are a vacuum with no energy or amenities, and it is not a place to socialize or walk. With respect to redevelopment strategies, the answer was that everything is plan-specific. For example, Macy's understands that the underutilized parking next to its store is a development opportunity. Citing a potential increase in customer traffic and that traffic generates sales, Macy's indicated it would look at any opportunity to increase customer traffic and to optimize the site including a mixed-use redevelopment plan, a demalling strategy that would bring in larger box retailers, or an open air environment with inviting common area.

Macy's previously agreed to permit the undeveloped triangular parcel north of its store to be developed as residential and for a parking deck supporting the mall and the to be built AMC Theater (see Grammercy site plan) with the thought that the additional development would be good for the project and for Macy's. A 6th Amendment to the COREA would have established fee interest transfers, but was never consummated. While the residential portion was never built, the added parking infrastructure does serve Macy's customers' needs.

Grammercy documents indicated that a never executed 6th Amendment to the COREA called for Macy's to receive \$2.3 million as consideration for a new REA that extending through 2075. Macy's reportedly indicated that a store remodel would be explored if a major interior mall model were to be undertaken. At the time, the store upgrade was estimated to be a \$5 million investment. By way of comparison, the Macy's store at Westfield's Eastridge Mall (13 miles from Cupertino) was in similar condition to Vallco before being renovated in 2005 (an AMC

theater was also added as part of that repositioning). The Eastridge Macy's post-renovation sales reportedly increased 40%. [19]

Citing their positive anticipation about Sunnyvale Town Center (which had Macy's along with other retail, office, restaurants, and residential uses), Macy's reiterated its interest in evaluating any redevelopment plan that would increase traffic, and that, at this point, there is no disposition initiative. Clearly disappointed with Sunnyvale Town Center and frustrated with delays caused by ongoing legal maneuvering, the Macy's representative stated there is "nothing wrong with their Sunnyvale store except it needs a mall." Similarly, Macy's is not happy with Vallco, and believes the current owner, who is not experienced with regional malls, purchased the property for its redevelopment potential and appreciation value rather than to operate as a Mall.

Sears

Jim Terrell, Vice President of Real Estate, and Robyn Alexander, Associate General Counsel - Real Estate, both of Sears Holding Company, and Ivor E. Samson of Dentons discussed Vallco on behalf of Sears.

Sears self-reports as the second largest holder of retail real estate in the United States after Wal-Mart. Sears does not see Vallco as a cohesive project because, among many things, work needs to be done on the mall portion of the project, the site is bisected by Wolfe Road, and deferred maintenance. These factors make Sears reticent to reinvest in its store at this time.

In contrast to Sears reticence today, Grammercy documents indicate that Sears invested \$4MM of its own capital in the store in 2005, when the Vallco Sears was the second highest grossing store in its district with sales of \$35 million (as compared with average sales of \$38.8 million over the prior 5 years). As part of the unconsummated 6th Amendment to the COREA, Sears was reported to have received \$1 million which they were required to invest in their space. [20] We note that Sears has since given up considerable market share in the Peninsula sub-market with the closure of both its Mountain View and San Mateo stores.

Sears first and foremost wants to understand how its property is key to any redevelopment of Vallco. Stating they would be cooperative, they cautioned they intend to maintain control over their real estate, they do not want any planning process to result in a redevelopment plan they do not like, they want to retain the flexibility to improve their parcel with the highest and best use whatever that might be, and they want to participate in any conversation that might be happening with a developer who might be in the wings (which they believe to be the case). There was little interest expressed in either relocation or a store closure.

The Sears representative commented that Sears is not in the business of creating redevelopment proposals, and they would like to hear more about what the City would like to see at Vallco. Sears was interested in understanding whether Successor Agencies would be permitted to exercise power of eminent domain in the public interest since the dissolution of redevelopment agencies in the state.

Sears feels the community embraces its store in Cupertino, and without citing specific sales or

other parameters, confirmed that the store contributes well. Any redevelopment analysis would take into account added value with respect to both real estate and operations with a view to the long term and how the property will be positioned far (say, 20 years or more) in the future. Bay Club was cited as an example of a nice addition, but also one that does not fit well with the mall in its present iteration. Sears also pointed out that the impact of construction on operations would need to be taken into consideration; while there may be a sales lift after a remodel, sales are negatively impacted during the remodeling process that can easily take up to 24 months.

Sears' perception is that others are "envious" of Sears having the largest parcel within Vallco and more than ample parking. While possessing good real estate and store level economics, Macy's is viewed by Sears as disadvantaged when compared with Sears. Sears is concerned that its parking stands alone, and that any redevelopment scenario should have each parcel stand alone with respect to parking. Sears would consider newly created shared parking (including structured parking) where that shared parking is advantageous to Sears and where Sears is not being asked to "subsidize" parking for the balance of the project. We do note that the operating documents state that all parking is to be in common among all parcels of the shopping center. Sears will certainly also evaluate key retail real estate fundamentals such as ingress/egress, traffic flow, visibility, and compatible uses.

JC Penney

Bradley Syverson, VP Real Estate and Area Research, and April Webster, Real Estate Manager were interviewed about JC Penney's Vallco store.

Once operating as both a store and as a stockroom for local catalog sales, Penney's building contains 213,000 s.f. while only 130,000 s.f. is merchandised today for retail sales. Penney would like to see a dramatically improved retail project, and would like to have 120,000-130,000 s.f. of selling area (130,000-140,000 s.f. of gross floor area).

While the surrounding mall environment is severely lacking, the store performs well. JC Penney has reinvested in the Vallco store over the past two years including the addition of a home department and other shops within the store. Book value would have increased with this reinvestment. Sales were quoted at \$22 million in 2012 which is attributed to JC Penney's strong franchise with local consumers, and favorable site attributes such as good visibility and easy access and parking.

With respect to redevelopment of the property, Penney would entertain any reasonable proposal including a mixed-use alternative. They would be concerned about the size of a retail component as part of such a project, like many retailers wanting to be part of a critical mass large enough to be a destination attraction for customers.

According to Grammercy, in 2005, the Vallco JC Penney (Penney's only unit in Silicon Valley) generated \$2 million in net income, placing it in the top 18% of all JCP stores nationally and 2nd among the 14 stores within the Bay Area. Sales in 2005 were \$32 million with average sales of \$30.9 million over the prior 5 years, and the store reportedly maintained profitability despite on-going construction. JC Penney invested \$3.5 million in 2005 to remodel the store's interior,

and would have received \$400,000 towards that effort per the unconsummated 6th Amendment to the COREA. [21]

It is well known that JC Penney is repositioning itself in the retail marketplace. The Company's stated goal is to monetize its fee ownership of 12+ acres, however, they would like to continue operating in the market and at Vallco. Both a sale-leaseback or an on-site relocation would meet the Company's dual objectives. With respect to the sort of transaction that Penney's would consider, if the value being paid for the real estate were to be significantly more than income from operations, store closure would be considered, however, like Macy's and Sears, the Company's goal is to be an operator of retail stores and not a real estate investment company. Accordingly, any buy vs. sell or relocation vs. closure analysis would weigh heavily towards store results, take into account Penney's low occupancy cost, and be mindful of Bay Area real estate costs creating a high barrier to entry at another location.

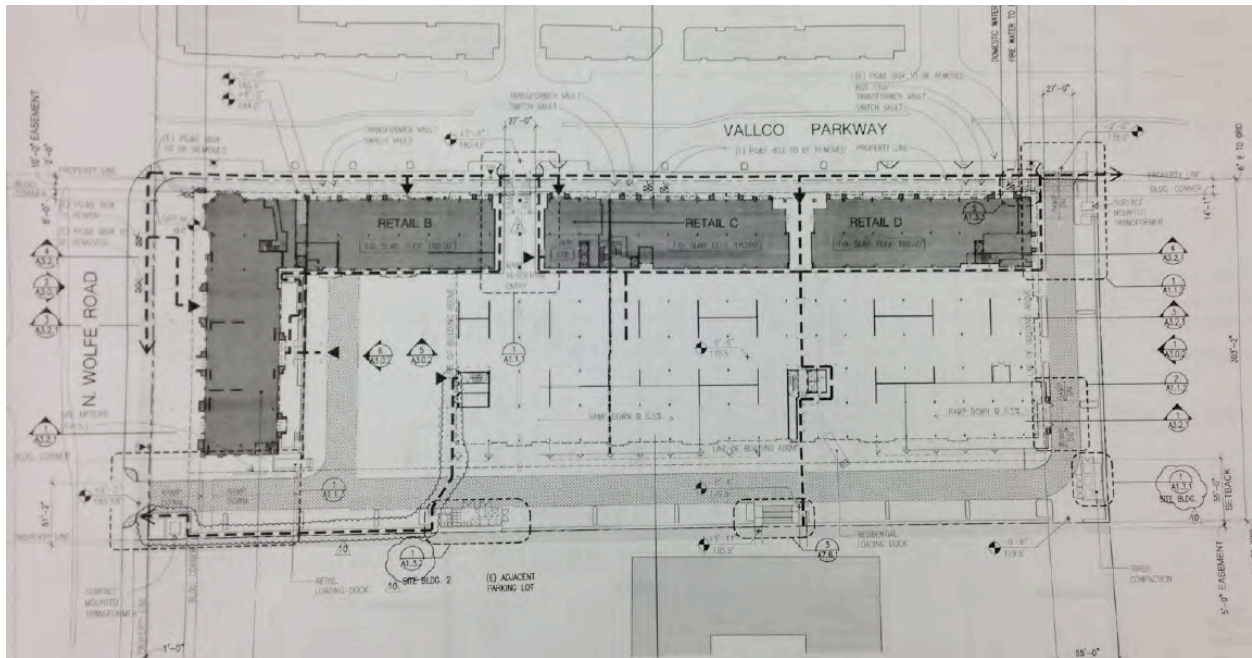
The Bay Club

Per Peter Berkowitz, the Bay Club opened in 2012 as Sears' sub-tenant. Membership is reported to be growing nicely, and due to a combination of the Club's upscale market positioning and Cupertino having a significant daytime in-migration of workers, the Club draws from a wider radius than might otherwise be assumed. An interesting observation is that shoppers will go from Cupertino to Valley Fair and Santana Row, but Vallco does not have a compelling offering for anyone to think of it as a destination. The Club's parent company maintains a keen interest in how the intersection of Stevens Creek and Wolfe is developed.

Stakeholder Interviews and Discussion – Rose Bowl

KCR, a family held development company and the Rose Bowl developer, has operated retail projects in Cupertino since the mid to late 1990's. They own and oversaw the repositioning of The Marketplace, and continue to do ground-up as well as value-add project which they manage themselves. The Marketplace is successful: Marukai's only Northern California store is a top performer, Elephant Bar does well despite selling more food than alcohol, and most other tenants are reported to be doing well with solid customer counts.

The Rose Bowl, a mixed-use project KCR purchased with entitlements in place and located at the SEC of Wolfe Road and Vallco Parkway, will have 204 residential rental units and 60,000 s.f. of retail space when complete. Retail space will face Vallco Parkway and Wolfe Road with three access points (one off Wolfe, two off Vallco). Structured retail parking is to have a 10:1,000 s.f. ratio which, while not the stated intent, would allow for the project to be predominantly restaurant.



The mix is purported to have mainstream uses such as full service and QSR restaurants, dessert shops, and neighborhood-serving retail such as a dry cleaner and other daily needs, convenience oriented tenants. Tenants are beginning to inquire in connection with the anticipated Apple Campus 2.

With respect to the Mall, KCR also owns the triangular parking lot north of JC Penney, with a business-oriented hospitality use in mind for the property. Changes in general plan designation as well as limited freeway visibility are viewed as the primary development risks. KCR believes there is a real opportunity to reposition as a mixed-use project. KCR has been approached about taking on the Mall and has declined.

Stakeholder Interviews and Discussion- Other

Note: Many of those interviewed asked that their comments be held in confidence. Identifying remarks and references have thusly been eliminated.

- A common sentiment was that Vallco presents a huge opportunity if all parties can be brought to the table. A stakeholder hoped that after years of neglect, the City is finally recognizing the need for involvement in change at Vallco, and there is popular support for different uses.
- While it is quite dated, a shopping center developer felt there is an opportunity to position Vallco as a community shopping center driven by daily needs and convenience, and that if Vallco were to go through a significant reinvestment, it would only be good.
- An interviewee familiar with Sears commented that Sears' position that its real estate is valuable, and not wanting to "subsidize anyone else" is consistent with its approach elsewhere. A number of people familiar with Vallco pointed out that if those controlling

restrictions in the COREA and leases were pushed towards a common position, one of the biggest obstacles to redeveloping Vallco would be removed.

- Another interviewee noted that in order for Santana Row to work, residential was required to justify development and open space costs, and to create a place people want to be. Yet another view was that the City is culpable for Vallco's present situation, particularly when Vallco is contrasted with how progressive neighboring cities have been (for example, Santa Clara with Related Company of California's Santa Clara project near the new 49ers Stadium).
- According to a broker with considerable experience in the Cupertino market, Vallco is challenged by being roughly midway between Valley Fair and Stanford Shopping Center. Consistent with this opinion that Vallco will never be able to compete with either of these highly successful projects given the highly competitive nature of the regional mall leasing business: Larger landlords with multiple shopping centers are able to condition offering tenants spaces in highly desirable projects (ie. Valley Fair) upon tenants also leasing spaces in less desirable projects. Furthermore, they are able to withhold spaces from tenants who might open in a competing project, and this is precisely the issue that Vallco might face if it were to try to reinvest itself as a traditional regional mall. Westfield likely views Vallco as a nuisance, but one that needs to be addressed nonetheless. On the plus side, the entertainment value of the ice rink and AMC was acknowledged. Redevelopment issues include restrictions (governmental, and controlling documents such as the COREA), and the anchors' naturally slow-moving internal decision making processes. The site is thought to have significant potential for other than retail uses: High-density housing and office space for companies associated with Apple in particular. The question was raised about whether retail might, in fact, yield the lowest residual land value of the available options.
- An interviewee with familiarity about both Vallco and other regional malls in the Trade Area was aware of a group that did not move forward to purchase Vallco when Grammercy was marketing the project because it did not have enough leverage to attract tenants, and further had doubts that a third party regional mall operator (ie. a company working for a fee but who would never own Vallco) such as General Growth would leverage its relationships or trade a willingness to lease a desired tenant space in other in-demand projects as a trade for locating a store in Vallco.
- Vallco operates in a trade area that is relatively mature. It was pointed out that strong projects in all major categories already serve the Trade Area that includes Cupertino: Valley Fair is an outstanding regional mall, Westgate Shopping Center is a strong commodity-oriented power center, and Santana Row has grown into an established and high-performing specialty center. Another interview reiterated that Westfield, owner of both Valley Fair and Oakridge Shopping Center, has a vested interest in making sure Vallco remains a third-rate mall. In so doing, it holds significant market share in the Trade Area as the dominant landlord for mall tenants wanting to serve the Trade Area.
- A decision needs to be made about whether the project should be turned into a power center with box tenants that can absorb a lot of square footage, a specialty project, a mixed-use project, or something completely different. An executive with a national

retail development firm commented that the biggest challenge with a project like Vallco would be to balance redevelopment economics with defining the project's place in the market: The investment needed to buy out tenant interests, tear down the project, and rebuild it into something new would likely never work given rents that might be achieved. A corresponding recognition that a complete repositioning may necessitate "going backward" before "going forward" was also expressed. Overcoming retailers' perceptions of Vallco will be another challenge. A leasing team that can leverage tenant relationships to get the opportunity to tell the "right story" – the pitch and the hook – about rebranding the project and why tenants need to locate at Vallco rather than going elsewhere would be necessary just to start the process. The tenant attraction process will likely be a years-long endeavor, and likely take 5-7 years to "get it right." A traditional transaction-oriented leasing team (eg. a broker or institutional 3rd party leasing team) would find the assignment extremely frustrating. Accordingly, an adaptive reuse of the existing project would only be viable with a forward-thinking owner possessing a combination of a clearly articulated, long-term vision and the determination and deep pockets to match.

- Santana Row is often invoked to describe a vision of a desired project. Santana Row's success is attributed to the mix of retailers, service uses, and restaurants. The 640,000 square foot project can be thought of as follows: One third of the project is Crate & Barrel, The Container Store, Best Buy, and a theater. The next largest space is Club One at 30,000 square feet, H&M at 26,000 square feet, 8,000 square feet, and then quickly 2,500 square foot spaces. With restaurants mixed through the project, the opportunity was in creating the right groupings of tenants in districts-within-the-project. For example, Olin functions as a unit with a gym, office, emphasis on fast casual rather than sit down dining where families might go, moms and strollers and mommy & me classes, and park events. Olson is sleepier with two restaurants and service tenants such as a bank, dental office, and hair salon. Santana Row acts as the project's "Main Street" with a mix of fashion, street retail and restaurants. A fashion tenant would not be appropriate for Olin or Olsen Streets whereas Dry Bay would not be for Santana Row. A sense of place was created through common area design, but also through architecture and, in particular, tenants having unique storefronts. The project's biggest weakness is the lack of a traditional anchor tenant.
- A project's DNA and its tenants' DNA need to match: Some tenants will have a so-called "comfort zone" in a regional mall and not in a Main Street environment. In contrast to Santana Row's more experimental approach, Valley Fair tends to seek retailers with the biggest consumer franchises and the most ubiquitous names. While Santana Row may never win the back to school shopper, it will win on where you want go on Friday night.
- Every retail project either works or does not work in its unique context and with its unique set of circumstances. Understanding that a "Santana Row" will not work everywhere is important. An important analog was drawn between Vallco and Santana Row: Neither project is easy to lease, and projects need a clear marketing statement/message to be successful, and a messenger capable both of communicating that message and going toe-to-toe with competing project's leasing strategies.

- From a leasing strategy perspective, keeping a project cutting edge is important. The “right” tenant mix needs to take priority over the notion that longevity guarantees future longevity: Just because a tenant has been in a project for a long time doesn’t mean it is appropriate to keep that tenant. Taking a step back and making a merchandising-appropriate decisions about tenant mix is essential. Refreshing storefronts and constantly improving the tenant mix also conveys the message that something new continues to happen.
- Finally, the concept that every great retail center or street has its “anti-center” or “anti-street” was introduced. For example, Valley Fair has Santana Row. Beverly Center has The Grove. Santa Monica Place has the Third Street Promenade. Fifth Avenue has SoHo. There will likely never be an opportunity to “beat” Valley Fair, but there may be an opportunity to become the anti-Valley Fair

Strategies for Repositioning Vallco Shopping Mall

Vallco is being affected by the consolidation of retailers, increasing dominance of super-regional malls, the introduction of new retail shopping channels, and a variety of other forces. While Vallco enjoys a good location in the Trade Area, it lacks identity compared to alternative shopping venues. The BAE Retail Sales and Leakage Analysis suggests that a strong regional retail environment and balanced sales in the Trade Area (Cupertino’s annual retail sales are \$10,483 as compared to \$13,404 for Santa Clara County) constrain opportunities for additional capture of Trade Area resident spending through new retail development in Cupertino itself.

We believe this same strong regional retail environment might, in fact, give Cupertino the opportunity to consolidate additional retail in the City given its compelling location and Vallco’s fundamentally excellent location; Vallco presents a unique opportunity to create a new retail nexus, although not necessarily in its present format.

As discussed earlier, mid-range department stores have evolved into commodity retailers. Vallco’s anchors are effectively commodity retailers, however, the nature of a regional mall is more specialty in nature. Vallco has already evolved in the direction of a hybrid projects as is evidenced by its legacy anchors, which generate reasonable sales, and the beginning of a specialty offering in the form of The Bay Club and AMC Theaters. The following literature review and discussion of analogous projects will help explain that Cupertino and Vallco are not unique, and that the forces impacting Vallco are happening to many malls nationwide.

Literature Review

A literature review written by Maryia Hodge while a graduate planning student at San Jose State University summarizes issues some key concepts relevant to redeveloping Vallco as part of a downtown area. [22] Original sources are cited where possible.

- Excess supply of retail space has shifted retail dollars to new centers without creating additional demand, leading to the decline of older centers. As long ago as 2002, it was

noted that of the more than 2000 enclosed malls in the U.S., approximately 15 to 20 percent are headed for closure. [23, 24]

- While shopping center owners may opt for cosmetic improvements, retail researcher Mark Eppli states that giving a decaying mall a facelift or introducing a new department store is unlikely to stem the tide of decline. What is needed is a more serious reconsideration of the relationship between the site and its surrounding community. [25, 26]
- Barnes observed that regional shopping centers with uncertain and shifting identities lacked the ability to appeal to increasingly value-conscious consumers who had alternative channels such as factory outlet stores, catalogs, internet sales, and big-box stores. In addition, a “do-it-yourself” mentality drove customers from traditional retailers to warehouse stores. Meanwhile Robbins argues that by creatively rethinking public space and urbanism, decaying malls can be transformed into “genuine places in the older areas of our spreading suburban environment.” [27, 28]

These observations support the theory that today’s retail landscape is a dichotomy of price and convenience-oriented commodity retailers, and specialty retailers congregated in appealing environments. Not coincidentally, shoppers are choosing alternatives to enclosed regional malls in part because those malls lack an identifiable sense of place.

- Retail alternatives, or specialty projects where consumers enjoy spending their discretionary time and income, have become a major focus. Formats that add entertainment and cultural uses, or unconventional uses such as mixed-use centers, educational facilities, medical clinics, or a variety of other uses are increasingly common and sought after. Fitzgerald and Leigh agree that downtown shopping may be poised for a recovery, noting that “shoppers who used to buy in malls are now more willing to shop on ‘Main Streets.’” [29]
- Two important notes about successful downtowns are as follows:
 - They must have active streets with pedestrian-oriented retail, a concentration of residents to promote activity, effective design that blends new and established development,
 - The successful downtowns that were studied all had either a university, a historic district, or were a state or provincial capital, suggesting that other conditions that increase density and contribute to a sense of place must be present. Caution is cast at so-called “new urbanism,” suggesting that “the loss of vitality in the suburbs in a primarily cosmetic way, opting for the appearance of cities but avoiding those essential urban traits...” does not work. [30, 31]

Retrofitting Suburbs: Instant Cities, Instant Architecture, and Incremental Metropolitanism
Harvard Design Magazine, Ellen Duhnam-Jones and June Williamson [32]

The authors hypothesize that cities evolving over time (“incremental urbanism”) is not preferable to “instant urbanism” where large-scale development (as much as any real estate

development can be instant) rises in place of a no longer viable project. They also point out that instant urbanism often is more sustainable.

Growth trends that have resulted in once far flung suburbs now being more centrally located, California's transit and housing policies, rising land values, and few significantly large undeveloped sites are all trends supporting instant urbanism. Shopping centers that are no longer competitively or financially viable are excellent candidates for instant urbanism because they are typically well located, they offer the opportunity to create a project of some scale, and they offer opportunities to support infill as opposed to exurban growth strategies. Two excellent examples cited in the report are Belmar in Colorado and Santana Row in San Jose.

As large-scale redevelopments are undertaken, a number of issues should be taken into consideration: For example larger parcels are needed in order to justify the inclusion of open/public spaces in projects (the economics behind this assertion are discussed in the Vallco alternatives). Larger projects also help justify the costs of structured parking, and can be financially more predictable leading to financial structures with better terms. The inclusion of an office component creates jobs-housing balance as well as a "networked urbanity" that would be more appealing to the sort of younger knowledge workers who commute to but do not live in Cupertino. The authors note that incremental urbanism where the urban landscape has evolved over time tends to have quirks that can contribute to place making and a "cool factor," and that experimenting with a diversity of architecture should be considered as a part of any instant urban project.

Converting Obsolete Malls ***CoStar, October 3-17, 2012 [33]***

In late 2012, Co-Star published a series of three articles on demalling America. As has already been noted, the articles point out that as anchor tenants merge and contract, dominant regional malls are faring better than secondary malls and do a better job attracting tenants. This trend is particularly important in light of many retailers trending towards smaller stores, exacerbating vacancy rates in weaker projects, and providing opportunities to augment tenant mix in stronger ones. The dominant malls' success is often at the expense of outmoded centers such as Vallco. The article asserts that 10% of the approximately 1,000 regional malls in the US will fail by 2022 and repeats the quip: "Shopping centers aren't overbuilt, they're merely under-demolished."

Malls are typically well located, and are designed for a shorter lifespan than other types of real estate such as housing and office (retail is routinely remodeled as customers are attracted to "new and shiny"). Malls need to provide a mix of shopping, dining and entertainment experiences, and whether with this in mind or not, many malls are being redesigned as town squares. Projects and stores that are not refreshed in a regular basis tend to fare far worse. Distressed malls often reflect financing issues. We agree with the author's assertion that while painful on a case-by-case basis, that the culling of weaker properties from the market is a healthy process.

A fundamental decision needs to be made about whether to reposition a mall or to demolish and start over. Regardless, a major repositioning represents key opportunities for visionary

planning, political leadership, and the owner. There are positive externalities such as a well-executed project helping lure desired employers and their highly desirable workers that should be considered as well. Execution is difficult: In order to obtain financing, tenants need to be lined up in advance, and the authors point out that successful mall repositionings involve a combination of deleveraging, demalling, and deep pockets. These observations have been repeated by some stakeholders whose interviews are summarized in this report.

Analogous Redevelopment Projects

In a larger context, Vallco is certainly not the only regional mall to suffer a significant decline in the 1990's. There are several analogs of regional malls in the United States, and one in particular in the South Bay that declined and subsequently were successfully redeveloped. Most of these projects have been repositioned as commodity projects, as hybrid projects with both commodity and specialty characteristics, or as mixed-use projects. The distinctions between commodity and specialty, and active versus non-active space (outlined above) provide a paradigm for discussing these analogous projects, and how Vallco Shopping Mall might be repositioned or redeveloped. Following are examples of former regional malls that became defunct around the same time as Vallco's decline. Each was subsequently successfully redeveloped.

Belmar (formerly Villa Italia), Lakewood, Colorado [34, 35]

Belmar opened as Villa Italia in 1966 and flourished into the early 1980's when a gradual decline precipitated by a slow economy, poor maintenance and competition began. When the center closed in 2001, three of its four anchors had left. Wanting to build an "urban mall," the developer decided to divide the 104-acre property into a 22 city block, 3.5 million square foot mixed-use, pedestrian-friendly downtown district including a 900,000 square foot open-air mall, 269,000 square feet of offices, green areas, and 1,300 for-sale single-family residences, townhouses, and condominiums and apartments.



The site had a good location with good visibility and high-density neighborhoods nearby, and the Villa Italia Mall had had a history of producing strong sales. The developer commented: "Initially, the property was developed on a grant lease, which had an underlying owner plus 140 subtenants. We had to figure out how to consolidate all those subinterests -- each with veto power -- into one. It was a huge undertaking that took several years and overlapped the actual development process. It was certainly different from buying 100 acres of cornfield."



Another challenge was the issue of incremental development: "It would be wonderful if we could have just dropped in, demolished everything, and started from scratch -- had it all done at once. It doesn't work that way; it comes in increments. It's more evolutionary. You have to manage this constantly evolving site, as well as residents' expectations. It's going to be a few years before it comes into its own."

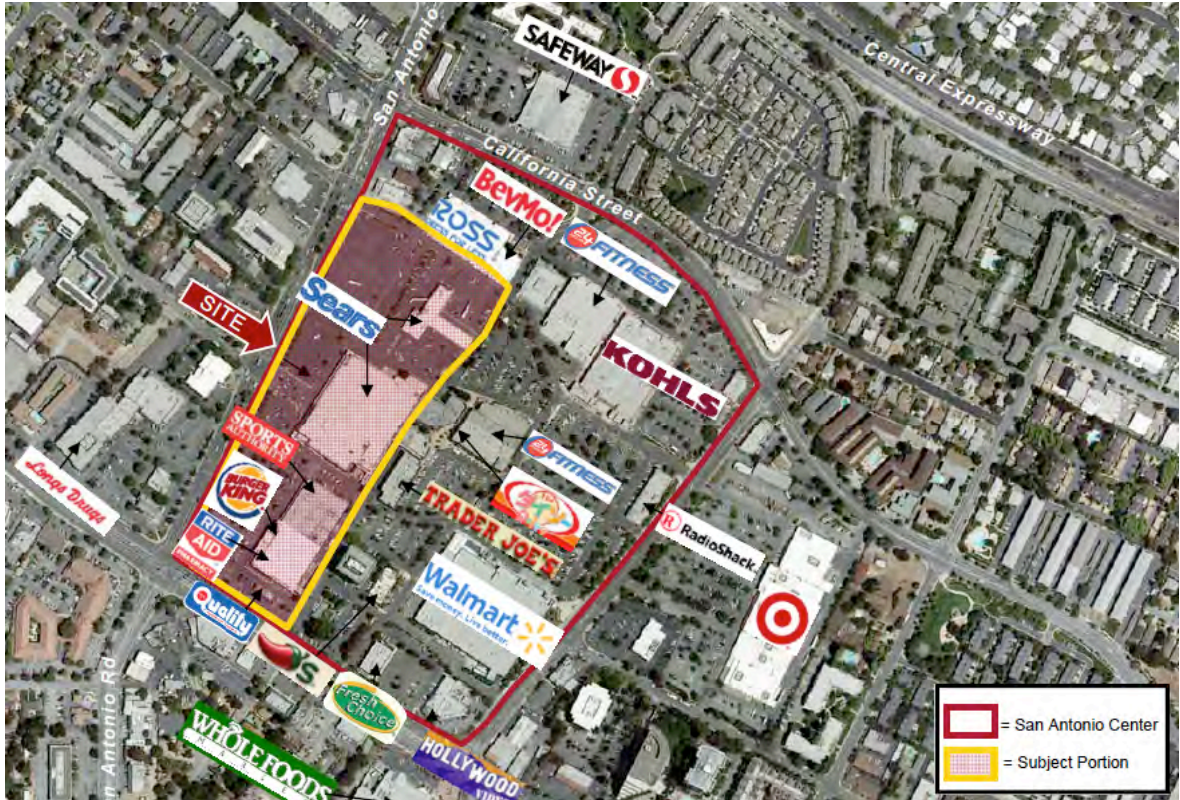
Even though it is still a work in progress, Belmar already has become a bustling, vibrant downtown district for Lakewood, which had no such district before the renovation effort began. It represents the cumulative will of the city of Lakewood and its residents, who clamored for a downtown and an identity for the city.

Village San Antonio Center, Mountain View

Located at the northeast corner of El Camino Real and San Antonio Road, developer Merlone Geier, describes Village San Antonio Center as follows: [36]

The site encompasses approximately 229,000 square feet of retail buildings on 16 acres of improved land. The property was developed over time with the initial construction

taking place over fifty years ago. Formerly anchored by Sears, the current site/building configuration is representative of what was designed in the 1950's with an expansive parking lot ranging from the adjacent streets to the building storefronts. Over time both the buildings and parking lot have begun to show their age. [The following aerial shows the pre-development plan.]



The newly approved Village San Antonio Center is an infill based residential and retail redevelopment consisting of approximately 311,000 square feet of retail and restaurant space, 330 residential units, and associated sub-grade, on-grade and roof-top parking. It is anticipated that the project will contain a grocery store (+/- 65,000 square feet), a pharmacy (+/- 17,000 square feet), 330 residential units, three to four restaurants (+/- 4,000–9,000 square feet), one or more large format retailers (+/-175,000 square feet), and numerous small shop/office/retail spaces located throughout the project. The size and density of the residential building is consistent with the scale of the adjacent office building located behind the project.

The approved redevelopment of San Antonio Center aims to be sustainable, innovative, and of long-term benefit to the City of Mountain View. Additionally, the redevelopment will likely kick-start a renaissance of the overall 56 acre San Antonio regional retail center. The project's central location provides convenient citywide access from public transportation, as well as nearby higher density residential neighborhoods, mitigating dependence on arrival by car.



In addition, the vertical orientation and density of the project conserves land, resources and reduces impact on the city's infrastructure. If developed as a conventional single-story retail center, a project of this magnitude would occupy over 40 acres of land, in contrast to San Antonio Center's 16 acre site area. The fundamental design goals of the project are: i) to create a vibrant retail and residential project that is responsive to the adjacent context; ii) create a unique sense of place through the development of iconic architectural elements and amenities; iii) provide public open plazas; and iv) provide an active pedestrian oriented shopping and dining experience.

Englewood City Center (formerly Cinderella City), Englewood, Colorado [37]

Cinderella City Mall originally opened in the 1960's. By the mid 1980's, new and newly renovated malls began to compete for market share and also brought new designs and new tenants, causing Cinderella City to appear dated. By the mid 1990's, anchors began to close, Foley's being the first and Montgomery Ward being the last at the end of 1997. The remaining approximately 100 tenants followed suit, often relocating to competing projects.



During the following years, the city of Englewood would create, revise, and reject in excess of 30 redevelopment plans, ranging from complete demolition and turning the land into a park, to keeping the structure and converting it to an art museum. In 1998, a final plan was adopted to rehabilitate the area with transit-oriented development. Catalyzed by a future Regional Transportation District (RTD) light rail station, Englewood planned on remaking the former mall site as a "downtown", complete with luxury apartments, mixed-use retail and residential buildings, and "big box" stores such as Wal-Mart, Office Depot, and The Sports Authority.

Sherman Oaks Galleria, Sherman Oaks, California [38]

The three-level mall opened at intersection of Ventura and Sepulveda Boulevards in Los Angeles' San Fernando Valley in 1980 with department store anchors Robinsons to the south and May Company to the north. Pacific Theatres' Pacific 4 occupied the uppermost level of the project. The Galleria became famous in the early 1980's as the center of teenage mall culture and a well-known teenage hangout as well as being immortalized in "Fast Times at Ridgemont High" and "Valley Girl." In 1993, Robinsons and May Company merged, and both stores in the mall were converted to Robinsons-May, the north store becoming a Men's and Home store, and the south store becoming a Women's and Children's store. The next decade saw business at the Galleria decline. In January, 1994, the Galleria closed for 11 days for repairs following the

Northridge earthquake, and although the Galleria reopened quickly, Robinson-May its south store for four years; many smaller stores on that floor closed. During that closure, the Galleria suffered due to having only one main anchor store. Closures continued through the late 1990's.



The Galleria closed in April, 1999 for a major renovation and reopened in 2002 as an open-air center. The only remnant of the original mall is the court where ArLight Cinema is located, on the uppermost level of what was previously the southern Robinsons-May store. The majority of the remaining mall was turned into offices. Today's retail tenants include Urban Home, DSW Shoe Warehouse, 24-Hour Fitness, Paul Mitchell-The School, and restaurants including The Cheesecake Factory, P.F. Changs China Bistro, El Torito Grill, and Fuddrucker's. The Sherman Oaks Galleria also houses over 3,500 office workers on site daily as well as over 9,500 employees populating the neighboring Douglas, Emmett offices. The Sherman Oaks Galleria has over 3,500 parking spaces.

Vallco Repositioning Alternatives

The retail sales and leakage analysis suggests that injections of sales for general merchandise, where the sales are primarily derived from Target and the three Vallco Shopping Mall anchors, is an indicator that while Vallco has significant inline shop vacancy, and is underperforming relative

to more upscale traditional malls such as Valley Fair or Stanford Mall, the anchor stores still function as a regional draw drawing shoppers from outside Cupertino. Put differently, Vallco represents a mixed picture for Cupertino: Its commodity and specialty anchors both drawing shoppers to the City while the moribund in-line component contributes to Cupertino's weakness in comparison goods shopping and destination retail.

The questions about Vallco is whether there is an opportunity to create a meaningful destination (ie. specialty) retail environment combined with what essentially amounts to commodity anchors, and whether this environment be a purely retail one, or retail as part of a mix of uses that might include residential, office, and/or hospitality. To this end, the demand daytime workers generate from purchases near their place of work, especially meals eaten during the workday, or shopping done on the way to or from work could move Vallco towards a tipping point that might influence its redevelopment. The public sector could play a meaningful role in the repositioning process. For example, using a power of eminent domain to gain control of all or a part of a project, or to eliminate covenants standing in the way of development are powerful tools. Sears' attorney, Ivor Samson, noted that while redevelopment agencies have been disbanded in California, it has yet to be established if Successor Agencies will be permitted to exercise a power of eminent domain in the public interest. The public sector also has the ability to invest in projects and to eliminate barriers to redevelopment, for example through bonding tax increment, or through thoughtful land use designations and zoning.

Three of the key General Plan Amendment goals are:

- Goal 2: Identify and analyze potential increases to commercial (retail), office, mixed-use and hotel development allocations within the study areas.
- Goal 3: Enhance and improve the overall commercial experience in Cupertino by retaining existing business and attracting new companies.
- Goal 4: Revitalize the Vallco Shopping District so it becomes a cohesive, vibrant shopping and entertainment destination that serves both the region and the local community.

Two repositioning scenarios have been created for Vallco Shopping Mall. The purpose of the two repositioning scenarios outlined below will be to inform the decisions to be made in response to these goal statements.

Repositioning Scenario 1: An ideal mix appealing to Cupertino and extended trade area customers without regard to entitlement or site constraints

This first scenario describes an ideal mix which might appeal to Cupertino's citizens as well as to residents of the larger Trade Area, and does not take into account required approvals or encumbrances presently in place in the Study Area.

Vallco Shopping Mall is governed by a COREA, a document that establishes building and parking requirements, and use requirements and restrictions among other things (see details above). In addition, various tenant leases contain exclusive use clauses and further restrictions

on competing uses as well as changes to the Mall's common areas. For purposes of this alternative scenario, we are assuming that none of these restrictions exist.

By way of background the following findings from the BAE Market Study and Retail Sales and Leakage Analysis will inform this first repositioning scenario:

- Vallco operates in a defined Trade Area where retail demand and offerings are relatively balanced, even though they are not balanced within the City of Cupertino proper.
- Cupertino proper continues to outpace the surrounding area in terms of income and education levels.
- Those employed in Cupertino tend to have higher incomes than in the surrounding areas.
- Cupertino has a strong housing market with high median home prices reflecting demand outstripping supply.
- Demand significantly exceeds supply of office space. Another large corporate campus is a reasonable expectation for Cupertino in the future.
- The City's existing office space tends not to be configured for the sort of collaborative working environments presently in favor.
- Occupancy and average room rate trends lead to the conclusion that hotel demand outstrips supply.

An October, 2013 community workshop and an online forum were conducted to gather resident input about the various Study Areas, and about the Vallco Study Area in particular. A polling exercise revealed preferences for various site characteristics:

- Stevens Creek: Wide sidewalks and narrow setback of buildings from those sidewalks, outdoor seating areas, rich landscaping (which also recycles storm-water and runoff), enhanced public transportation infrastructure (including bus rapid transit and improved shelters), incorporation of small plazas and parklets, and a mix of uses with retail on the ground floor of residential and office buildings.
- Wolfe Road: A mix of uses with street-facing commercial uses with higher densities than those preferred for Stevens Creek. Wolfe Road was the preferred location for a traditional indoor shopping mall, however, a traditional shopping mall generally was not preferred.

A block exercise was also conducted. In this exercise, participants were asked to use color-coded blocks to create redevelopment scenarios with desired attributes. An example of this exercise looked like the following:



The following characteristics were frequently cited in the block exercise:

- Remake Wolfe Road into a “Main Street” with retail and other commercial uses fronting the street.
- Design the project so that Wolfe Road and Vallco Parkway become the dominant retail corner.
- Incorporate enhanced landscaping, seating, etc. into the streetscape.
- Increase connectivity within the site and with adjacent projects (ie. Rose Bowl, Main Street), and mobility for pedestrians and bicycles.
- Consolidate parking on the north end of the site closest to the freeway, thereby hiding the parking and creating a noise barrier.
- Consolidate office near the freeway for the same reasons as parking.
- Create an indoor-outdoor environment including outdoor destination features such as public spaces and parks within the project.
- Increase densities including a mix of uses with residential or office uses over ground floor retail.

A few specific uses were called out in addition to general references to retail, residential, hotel, and office. These included creating nightlife, retaining Sears and AMC, and adding a bigger mix of restaurants.

A few interesting ideas were generated by individual groups. These included keeping Sears in its present configuration as a defense against high rise development; having big-box retailers face Wolfe Road with parking behind the stores; consolidating residential on the part of the Study Area east of Wolfe Road; and, creating residential along the west border of the Study Area as a buffer between the Study Area and existing single family homes to the west.

Two groups cited specific projects: The Grove and Museum Square in Los Angeles, and nearby Santana Row. Common elements shared among these projects include the creation of a retail street or even a street grid, and increased densities including the integration of other uses such as office, hospitality or residential.

Implications of Suggestions

The criteria cited by the various groups logically lead to a number of other considerations. For example, Wolfe Road carries 27,390 cars daily. Wolfe Road being a main arterial providing access to I-280 may be at odds with significant traffic calming and it becoming a retail "Main Street." In order to be a "Main Street," traffic calming, on-street parking, creating a narrower thoroughfare (perhaps by removing the median and narrowing lanes to 10½ feet), and other features aimed at enabling pedestrians to see, cross, and access shopping options on the other side of the street would need to be implemented, taking into account balancing traffic and place-making objectives. In addition, the Apple Campus 2 is anticipated to add a significant amount of traffic to Wolfe Road between I-280 and Vallco Parkway: The Apple EIR (Appendix B, p. 38) estimates that the Apple Campus 2 will generate 35,106 net new daily vehicle trips when at full occupancy. Over 50% of the morning and evening peak hour trips will be through the Wolfe Road Main Driveway north of I-280, and it is anticipated that Wolfe Road to Vallco Parkway to Tantau Avenue will be a key alternate route, increasing today's Wolfe Road traffic counts. Circulation and turning movements will need to be studied in order to accommodate the additional Apple traffic as well as the additional traffic generated by a redeveloped Vallco project. Since access and parking are key to the success of any suburban, auto-oriented retail project, even a densely planned one, the impact of increased Wolfe Road and Vallco Parkway traffic counts on these site attributes will need to be studied as well.

Related to Wolfe Road and Vallco Parking design is improving connectivity with other adjacent or nearby projects. One of Vallco's most notable attributes is the pedestrian bridge connecting the portions of the project on either side of Wolfe Road, and the bridge could continue to serve this purpose regardless of how the project is redeveloped. The bridge could also be reengineered as an open bridge similar to the following picture of a similar amenity in Century City in Los Angeles.



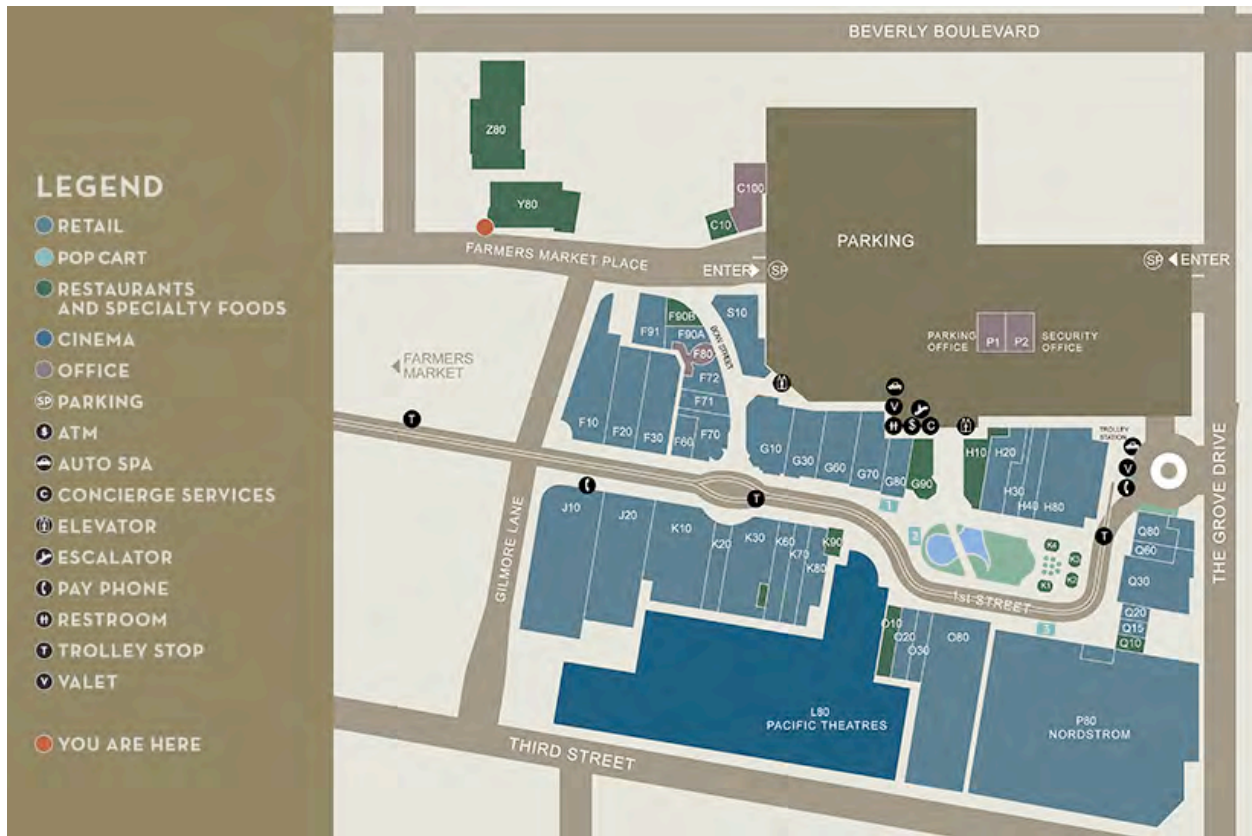
Additional connections will need to be made between the portions of Vallco on either side of Wolfe Road and the Rose Bowl site, the office site on the NEC of Stevens Creek and Wolfe Road, and eventually to the Main Street project to the east. Whether additional pedestrian bridges are constructed or crosswalks are created, there will be significant cost associated with crossing these streets as well as accommodating the paths of travel and way-finding signage for the various non-Vallco projects east of Wolfe Road. Many groups also mentioned improved access to public transportation. Curb cutouts for bus loading and shelters will need to be considered when designing the overall site plan. Decisions about creating a transit hub, and whether to integrate that hub with the Apple Campus 2, will also need to be considered.

Among other options, many of the groups called for site configurations that would necessitate large parts or even the entire existing mall being significantly reconfigured or even razed including both large format retailers and shop space facing Wolfe Road. The process of reconfiguring an existing mall is often referred to as "demalling." Nearby Westgate Shopping Center in San Jose is an excellent example of a former regional shopping center that was demalled. Westgate originally opened in 1960, but starting in the late 1980's and continuing through today has been reconfigured mostly with outward-facing commodity retailers such as Ross Dress For Less, Nordstrom Rack, Target, Old Navy, Any Mountain, Michaels, Hancock Fabrics, Party City, and a Wal-Mart Neighborhood Market that replaced Safeway in 2012.

Many groups indicated a desire for increased open space. The Vallco land has a basis which could be defined in the simplest terms as the purchase price plus investment made in the project less depreciation. Any owner or developer will be looking for a return on any investment they might make. In the case of a redevelopment, that would mean a return on the basis plus any investment anticipated to be made. Open space by definition would not be developed with income-producing assets, but would require investment to create amenities such as seating, landscaping, play areas and the like. This open space would also have associated maintenance expenses in perpetuity. Thus, in order to achieve any particular desired return on investment, the open space either requires a subsidy, or it places a higher burden on the balance of the property that is to be developed. In order to accommodate this higher burden, the balance of the property will need to be of greater density than might otherwise be required, however, expected income is a function of supply and demand for the sort of space that is built, and not of a "build it and they will come" wish. There is another balancing act with respect to construction costs: Costs increase significantly once buildings can no longer be block or wood frame construction, so if taller buildings are required in order to achieve enough leasable area to offset the loss of buildable land that has been dedicated to open space such as parks, some combination of yet more density and/or higher rents might be required in order to offset these increased construction costs. To the extent the market supports higher buildings and greater density (ie. users are interested in these spaces and will pay rents needed to justify their construction), allowing greater heights and densities may improve development pro-formas and by extension incent the demolition of Vallco in favor of a complete redevelopment.

Many groups indicated a desire for parking to be hidden, and several groups designated parking areas to be adjacent to I-280. Another option to hide parking is to create structured parking either above or below ground, either of which are significantly more expensive to build than surface parking (subterranean parking is yet more expensive than above-ground structures). Cost is not the only consideration when planning parking. Retail places a premium on convenience. Visible and easily accessible parking combined with a proximate path of travel

to and from the retail shops contribute to “convenience.” Parking on the far north end of the site would not meet these important criteria. Parking for The Grove, a destination regional shopping center mentioned above, is primarily housed in one large parking structure. This structure has the unique characteristic of being extremely well designed in terms of ease of use and vertical transportation for vehicles and pedestrians alike. It is also situated in the geographic middle of the Grove, minimizing the proximity issue previously mentioned.



Virtually all groups indicated a desire for a mix of uses. Mixed-use projects for a variety of reasons are inherently more complex to design, build, and manage than single use projects. For example, in projects where a retail use occupies the ground level and residential or office uses occupy upper levels, there will likely need to be structured parking, vertical transportation (ie. stairs, elevators, escalators), and separation of public and private facilities. Residents do not want to share parking with retail shoppers, so parking entrances, parking areas, and vertical transportation must be segregated from the same facilities for retail customers and shop-keepers. While this segregation also addresses security issues, there will likely be a need for additional on-site security to satisfy residents and shoppers alike. Both vehicle and pedestrian circulation patterns will need to take into account separate residential/office and retail driveways and visitor lobbies, each with their own identity. Loading docks, trash, utilities, and other building systems will also need to be segregated, further complicating design and adding cost to construction.

Type and Size of Project, Likely Uses

The Vallco Shopping Mall land is a unique, large piece of property in an area with high land values (the nearby Main Street site was purchased by Sand Hill Property Company for \$65 million or almost \$85.76 per square foot in 2008). High land values reflect high demand and higher rents. Few large tracts of land are available for redevelopment at any price, and while the price paid for the Main Street site may or may not have been too much, it can certainly be concluded that land in Vallco's immediate area is valuable. A dense, mixed-use project incorporating a variety of uses is likely a financially viable option for this valuable site. Demolishing most or all of the existing improvements will most likely be deemed the best alternative, and would also be the easiest path to creating an indoor-outdoor environment. For example, an "ideal project" (i.e. one conceived for purposes of this Repositioning Scenario 1) might have three distinct areas: Wolfe Road as a retail "Main Street", an office, hospitality, and residential component west of Wolfe Road, and a commodity retail project east of Wolfe Road is one possible configuration. Following are some specific attributes:

- Create a retail boulevard along Wolfe Road.
- Narrow Wolfe Road and add on-street parking, wider sidewalks, and enhanced street-scape and landscaping.
- Place retail and perhaps office or residential entrance lobbies so they face Wolfe Road (and create easy paths of travel from parking facilities).
- Determine if the existing anchor tenants would or would not be a part of a redevelopment plan.
- Separate big-box tenants from multi-family and office components, perhaps with retail east of Wolfe on land presently owned by JC Penney, and office, residential, and hospitality west of Wolfe Road.
- Consider incorporating uses such as a university satellite or extension campus, or ambulatory medical uses.
- Consider from a design and engineering perspective if AMC can remain in-place (ie. "in the air"), or if an on-site relocation would be necessary.
- Create an interior circulation system to route visitors to and from parking facilities serving the specific uses they had come to patronize.
- Create residential development near existing residential suites and the least compatible commercial use (i.e. commodity retail) east of Wolfe Road, adjacent to existing commercial uses. Note, however, in the alternative a good argument could be made that office or residential uses designed to tie into the new Apple Campus 2 should be assembled east of Wolfe Road.

Retail Tenant Mix

Two mutually-distinct retail components are likely: a Main Street specialty component and a big-box commodity component. The retail fronting Wolfe Road would likely be made up of considerably smaller shop tenants and eating and drinking establishments than the retail presently in Vallco Shopping Mall. Displays and seating areas on wide sidewalks would be encouraged and protection from the elements integrated into the design. Retailers and restaurants would serve the dual purpose of catering to Cupertino's large daytime worker population and offer an expanded offering in the evenings for residents. While predominantly

specialty in nature, some daily-needs (i.e. serving, commodity) retail should be particularly encouraged to cater to the weekday users. This retail would be expected to compete favorably with the planned retail on Main Street because of the higher traffic on Wolfe Road.



The focus of retail along Wolfe Road might sound reminiscent of Santana Row, however, it should not be thought of in those terms. Santana Row is a unique environment, located at a major intersection (with far more traffic than Stevens Creek and Wolfe Road), near two major freeways, and in the retail nexus of one of the more successful regional malls in the United States. In other words, it is simply different. The Wolfe Road retail offering would be much smaller than Santana Row, need to integrate with adjacent non-owned projects such as the Rose Bowl and Main Street, and more likely to resemble a nearby downtown as is found in Campbell, Los Altos, Mountain View, or Palo Alto's University and California Avenues.

These users could be assembled in the land presently occupied by JC Penney and its parking facilities, thereby creating a project-within-a-project which would have a distinct commodity retail identity. Segregating destination retail from other uses would have the benefit of minimizing retail-oriented vehicle trips and parking impacts on residential or office uses. At the same time, overlapping parking facilities for the commodity retail component and the Wolfe Road specialty retail component are feasible.

The retail sales and leakage analysis revealed that, with respect to commodity retail, the Trade Area has a balanced retail offering, while Cupertino actually leaks retail dollars to other parts of the Trade Area. Introducing commodity retailers might help recapture some sales as well as capturing other sales from outside the Trade Area.

Place-Making Considerations

The creation of the three distinct areas as described above, Wolfe Road as a retail "Main Street," an office, hospitality, and residential component west of Wolfe Road, and a commodity retail project east of Wolfe Road, would inform place-making considerations. The location and size of enhanced street-scape and open spaces within the projects would be one key consideration. Likewise, integrating these amenities into the various districts, and with the uses within those districts (and even with other nearby projects) by creating vehicular, pedestrian, and bicycle paths-of-travel, and way-finding signage will be critical.

Apple Campus 2

The Apple Campus 2 is designed to accommodate over 14,000 employees at full occupancy. A redeveloped Vallco site will need to take this significant project into account. For example, while there are benefits to placing a destination retail project on the other side of Wolfe Road from office and hospitality uses, the area east of Wolfe Road might be better designated for office and hospitality, rather than for retail, in order to create the most convenient proximity of these uses to the Apple Campus 2. Another option would be to extend Wolfe Road's "Main Street" district onto Vallco Parkway. Regardless of how a redeveloped Vallco is designed, creating a "front door" that invites integration with the Apple Campus 2 should be a key site planning consideration.



Development and Entitlement Issues

Creating certainty with respect to required approvals and the process for obtaining them will be key to the Study Area's redevelopment. The Vallco Study Area is already zoned for a mix of uses, however, reconciling the highest and best mix of uses with corresponding allocations for those uses will remove a barrier to the Study Area's evolution. Likewise, removing or streamlining the need for conditional use permits, stating key desired design criteria and articulating the required community outreach and approval process (ie. design review, planning commission, or City Council) will have a positive impact on development planning efforts.

Repositioning Scenario 2: Assume market factors such as competing projects and legal limitations such as those contained in the COREA and land use regulations

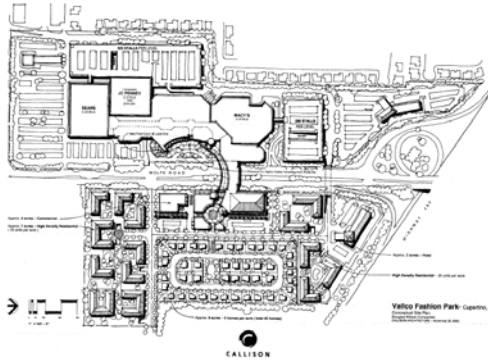
As discussed, Vallco operates in a retail environment dominated by Valley Fair and Santana Row, Westgate Shopping Center, Stanford Shopping Center, and other downtowns and Main Street areas such as Downtown Los Altos, and perhaps Sunnyvale Town Center once it's redevelopment has been completed. The area in which Vallco is located is governed by the South Vallco Master Plan. While zoning allows for a mix of uses including regional shopping, general commercial, office, hotel and residential, a development agreement allowing for the development of certain of these uses has expired.

The project is governed by the COREA, as amended, as well as various lease restrictions and other agreements. These documents establish building and parking requirements, and use requirements and restrictions among other things. In addition, various tenant leases contain exclusive use clauses and further restrictions on competing uses as well as changes to common areas of the projects.

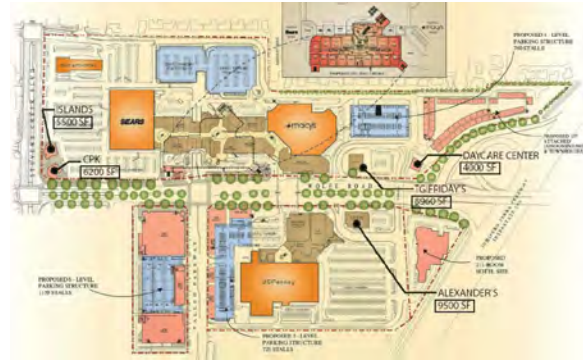
Type and Size of Project

Mike Rhode, Vallco's general manager, commented when interviewed that the only way to solve Vallco is to purchase the anchors. Based on our interviews with the anchors, we do not believe this purchase is likely to be achieved, however, we are aware of at least two redevelopment schemes that have been developed over the past decade that incorporate the anchors. The past schemes are notable because each involved some level of discussion and negotiation with the anchor tenants whose approval would be required in order to move forward with a plan. In other words, they establish that the anchors were willing to discuss a redevelopment. The stakeholder interviews with Sears, Macy's, and JC Penney all confirmed that the majors remain open to and willing to discuss a redevelopment strategy today. Furthermore, assuming a mutually agreeable plan can be designed, cooperation is in each of the anchor tenant's best interest.

Probably the biggest hindrance to such a conversation happening is the current owner's lack of experience, obvious credentials, and apparent interest in executing a redevelopment plan. This alternative analysis will assume that ownership is interested in pressing forward with a redevelopment.



Receiver's Plan c. 2002



Grammercy Plan c. 2007

Both of these plans call for a mixed-use environment, but neither address what is almost certainly an excess of retail space on-site, nor today's moribund atmosphere (i.e. retaining or rebuilding existing infrastructure). As noted in Maryia Hodge's paper, trends today are favoring alternative formats and even the resurgence of downtowns in certain circumstances. Cupertino has never had a downtown per se, however, Belmar, Mountain View, and Englewood are all examples of creating a downtown-esque environment where none had previously existed by establishing a critical mass of commercial and residential uses. In each case, density becomes the magnet.

Uses and Tenancy

There are other product mix and tenant merchandising decisions that will need to be made. For example, the importance of incorporating an Asian-theme to reflect the community's demographic and ethnic makeup, relocating JC Penney to the west side of Wolfe Road (freeing the entire portion of the Study Area located east of Wolfe Road for redevelopment), identifying the most appropriate mix of retail and non-retail uses, and taking the Apple Campus 2 into account are all critical to formulating a redevelopment plan for Vallco.

While the City of Cupertino's residents are 63.1% Asian, Santa Clara County is only 31.7% Asian. The retail sales and leakage analysis observed that while Cupertino is leaking sales to the defined Trade Area, that Trade Area is relatively balanced with respect to sales leakage. This balance would indicate that if Vallco is seen as a regional destination, the project's makeup certainly might include a variety of tenants catering to the needs and tastes of the large Asian community, however, it should not be a so-called "Asian center" per se.

Relocating JC Penney to the west side of Wolfe Road accomplishes two goals: It is consistent with JC Penney's stated desire to monetize their land holding while still maintaining a downsized presence in the project, and it frees 19.07 acres of land east of Wolfe Road for redevelopment (4.27 owned by the mall, 2.12 by KSR, and 12.68 by JC Penney). There are relatively few, if any, well located land parcels in Santa Clara County of this size, and the residual land value would be expected to be quite high.

The BAE Market Study identifies demand for office, hospitality, and residential uses. Demand for younger knowledge workers, referring to residential opportunity, was specifically mentioned.

The 19-plus acre site could support a significant amount of office, housing, or both. Hospitality uses could be easily incorporated on either side of Wolfe Road. From a use perspective, all of these uses would complement the Apple Campus 2. Also, it is our understanding that the Apple Campus 2 is designed only to meet current needs, and there will be additional future office demand. First class, high density for-sale or for-rent housing will certainly be in demand, and given that this sort of housing is not ideal for families, it may be a palatable proposition to the community given sensitivity to overburdening the local school system.

Land East Versus West of Wolfe Road

With the hypothesis that the land east of Wolfe Road is highly desirable for development, and that it could actually be freed for such development, addressing the portion of Vallco west of Wolfe Road becomes the key topic. Parking, and especially structured parking, is expensive to create. There are significant existing parking facilities on the west and north sides of the existing mall, so to the extent these facilities do not need to be relocated or rebuilt, the cost of a significant rehabilitation to the project becomes financially more manageable because returns will be that much easier to achieve.

In either scenario, the climate in Silicon Valley is normally temperate year round, and thus conducive to creating an open-air environment. Integrating this open-air environment with what would become AMC's "skybox" location will need to be addressed in the design development phase of the project, but we believe it may be deemed possible from a structural perspective. An open-air environment will also make establishing connections with adjacent projects easier.

The amount and mix of tenants west of Wolfe Road is an important consideration. Given the 128,789 square feet of retail space planned for the Main Street project, we recommend that the 536,794 square feet of mall/shops space be reduced significantly. Without doing site planning exercises and corresponding pro-formas, which were not a part of the scope of work for this Report, it is difficult to determine the ideal amount of space. There are two most likely scenarios: A demalling, which would combine a JC Penney on-site relocation as shown on the 2002 plan with $\pm 100,000$ square feet of shop space (this is intended as a starting place from which to determine the ideal amount of space) on an axis between Sears and Macy's combined with some commodity retail (e.g. Ulta Cosmetics, a pet retailer, or Best Buy or Office Depot's new smaller concepts). Additionally, some Wolfe Road-facing retail could be integrated into the new design. An alternative scenario would be to combine the shop space with non-retail uses such as office or hospitality. Regardless of what scenario is undertaken, it is likely that the project's GLA will actually be reduced. This reduced mall GLA would allow the development of outparcels without putting an undue burden on existing parking facilities.

Retail Tenant Mix

Vallco already has two full service restaurants: TGI Fridays and Alexander's Steakhouse, however, neither is well integrated into the Study Area's existing pedestrian flow. The Mall's food court is not compelling with respect to atmosphere or selection of food operators. Creating a path of travel for Friday's and Alexander's as well as augmenting the food offerings will be key to a successfully revitalized Study Area's success. Valley Fair's dining terrace might

give guidance to the sort of quick-serve food uses that should be considered. Likewise, borrowing from Santana Row's restaurant success should be studied. In both cases, the food uses are designed to integrate with the surrounding uses, either through adjacency or by literally spilling out of their spaces onto adjacent sidewalks.

Regardless of the amount of retail to be included in a revitalized project, fashion will be an important part of the project's identity. The BAE Market Study notes that the lack of clothing and apparel-related stores is due in part to the lack of destination retail centers in Cupertino, and, in part, from competition with Valley Fair and other fashion-driven projects. Fashion tenants could run the range from ubiquitous national tenants such as Gap Inc., Osh Kosh, Abercrombie & Fitch, Hollister, Zara, Bebe, Sketchers, or Juicy Couture. Alternatively, attention could be focused on a cluster of active lifestyle concepts such as The North Face, Columbia, or Under Armor. While not offering the same credit, a decision about whether to include local or regional tenants will help create the project's identity, and differentiate it from other competing projects...creating an all-important message.

In urban areas, high costs and other barriers to entry have limited the development of commodity retail projects, so there is significant pent-up demand. If a demalling strategy were to be pursued, candidates for larger spaces might range from Ulta Cosmetics to commodity tenants such as a pet superstore, or Office Depot's new smaller concept. As no major electronics stores exist in Cupertino (although Sears carries a large variety of appliances), the project might present an opportunity for Best Buy's new smaller concept store. Other categories might include value-oriented soft-goods retailers like Ross Dress for Less, DSW, H&M, or Uniqlo as their rollout matures.

Alternative uses might help give the project a unique identity. Apple, possibly the most sophisticated omnichannel retailer in the world, is headquartered in Cupertino, and does operate a company store at its headquarters that is open to the public and is promoted as "the only place in the world that sells Apple logo t-shirts, caps and accessories," however, the closest Apple Store is located at Valley Fair Shopping Center. Vallco's proximity to Apple's headquarters might present Apple with the opportunity to consider opening an Apple flagship store that ties into Apple's HQ. Another example might be including other healthy lifestyle alternatives to compliment The Bay Club, such as a pilates studio, or even incorporate an open air climbing gym, which might be today's analog to the ice rink and merry-go-round of yesteryear. Whatever the alternative uses, they should have the multiple roles of promoting the uniqueness of Vallco, giving the customer reason to visit and to linger, and of being active uses that engage the consumer and the community.

Place-Making Considerations

Creating a project with a sense of "place" requires thoughtful decisions regarding use of storefront design, store and project signage, way-finding signage, materials, lighting, tenant mix and location, indoor-outdoor connections, and amenities such as seating, light, and shade. While authenticity should be a consideration, we do not believe there is any particular emotional connection between the consumer and Vallco that is worthy of preserving. In this case we would recommend NOT maintaining "continuity of place," and instead suggest that an exterior remodel is an important component of any repositioning strategy as it would convey

the all-important message that “there is something new here” to consumers. An excellent example of such an exterior remodel strategy is the Sherman Oaks Galleria:



Before



After

A large-scale redevelopment east of Wolfe Road combined with the Rose Bowl project, the Main Street project, and an overhaul of Vallco’s infrastructure west of Wolfe Road gives rise to opportunities to create connectivity between all projects, and to create a “city center” for the community. On a smaller scale, careful consideration must be given to tenant placement, configuration of indoor-outdoor areas and parklets where patrons might be encouraged to gather and linger, protection from the elements, store and way-finding signage, and use of inviting materials throughout the various projects in and adjacent to the Study Area.

The Mall’s “back of house” is relatively well designed in that it allows for deliveries and loading, trash service, truck path-of-travel and the like without significant impacts on the project or the public. These facilities will still likely need to be redesigned as part of a remodeling effort so as not to interfere with neighbors, a new site plan, or with newly introduced non-retail uses.

Finally, JC Penney is a mid-market department store that generally does not have the same top-of-mind association with newly gentrified retail and mixed-use projects. Creating an identity that is fresh, appealing, and reflective of the community’s demographic makeup, and not diluted by these brands will be a balancing act. We believe that focus on a broad mix, fresh alternative uses, a mixed-use environment, and attention to place-making consideration will help overcome this hurdle.

Development and Entitlement Issues

Most importantly, in order for a redevelopment to take place, the property needs a basis that makes reinvestment possible. The present owner’s purchase price was \$64 million. This price equates to \$4.48 million in net operating income at a 7.0% cap rate, or \$3.84 million at a 6% cap. Actual net operating income today is unknown, but in 2007 it was just under \$2 million. Note that gross income was significantly higher, but the high vacancy level required the owner to pay for operating expenses that ordinarily would be reimbursed by retail tenants, which typically operate on “triple net” or “NNN” leases where the tenant reimburses the landlord for operating and maintaining costs, insurance, and property taxes. If occupancy levels were to increase, top-line income would rise at the same time that the share of operating expenses the owner needs to pay would decrease.

Significant reinvestment will be required to reinvigorate the Mall. While grossly oversimplifying the economic model, the following gives some perspective about the required investment: In 2002, the receiver estimated that a \$51 million investment would be required (not including land or demolition costs) to execute its redevelopment plan (site plan above). The CPI (probably a conservative measure for purposes of calculating construction costs) has risen 30% since that time, equating to over a \$66 million investment today, again not including the cost of land, demolition, or concessions to tenants who hold approval rights over changes to the Mall. The net operating income required to support the original basis plus this level of investment would be \$9.1 million at a 7.0% cap, or \$7.8 million at a 6% cap. In other words, a significant investment, a leasing plan that increases net operating income from \$2 million, and the time and expertise to achieve all three are required.

In addition to creating a financially viable development plan, approvals will need to be sought to execute that plan. It is not known at this time what mix of uses or tenants might be sought, however, the area has the potential, with the Rose Bowl and Main Street projects, and close proximity to Apple's headquarters, to form the basis of a commercial City Center for Cupertino. Absent being able to use its power of condemnation or to provide a public funding mechanism, removing barriers to development is a key contribution the City could make in this instance. The area has already been designated for multiple commercial uses including retail, office, hospitality, and for residential uses. The City has a history of creating allocations for these various uses. The economy and the real estate market ebb and flow over time making one sort of use more or less commercially viable at any given time. It is recommended that the City set aside allocations in the Vallco Shopping District that will allow a developer to create various development scenarios with the knowledge of what is achievable from an entitlement perspective.

Execution will be important. The owner will need to partner with a leasing team and a management company that are experienced lessors and operators of regional retail and larger-scale mixed-use projects. The leasing partner will also need to be able to compete effectively against Westfield which has a vested interest in a Vallco redevelopment not taking place.

The anchor tenants with approval rights over changes to the project have a balancing equation to consider: What is the right balance of concessions with the upside of anchoring a once-again vigorous project. The owner-developer will need to carefully negotiate these tenant approvals to allow for both the financial and planning aspects of the project to be successful.

Any partner should have relationships with the anchor tenants, as there are some significant issues to overcome. For example, it is our understanding that due to a co-tenancy provision in AMC's lease, the Mall's vacancy rate reduces AMC rent to a fraction of its contracted rent. AMC's sales are reported to be strong. AMC thusly has a vested interest in the status-quo since it is quite possible that not enough incremental customer traffic could be generated, even by a successful redevelopment, to make up for the differential between its present minimal occupancy cost and the rent called for in its lease. A strategy for gaining AMC's needed approvals might be to amend their lease, replacing their contracted rent schedule with a blending of their contract and their current rent.

NON-VALLCO RELATED STAKEHOLDER INTERVIEW FEEDBACK

A number of interviewees commented on City characteristics. These comments ranged from recognition of the City's generally high education levels to its Asian-influenced ethnic makeup. One pointed out that some retailers will think that incomes and education levels are too high to consider opening in Cupertino, including some general merchandise and grocery discounters (examples might include dollar stores or Grocery Outlet).

- It was also noted that contrary to development trends in some surrounding areas (for example, Merlone Geier's Mountain View project), the City does not have much dense mixed-use development that is substantial in scale, well-designed, and well-built. This lack of mixed-use product was viewed as curious given apparent redevelopment opportunities like The Oaks. Another observed that Cupertino is a hidden gem, and has the potential to benefit from business growth as Sunnyvale "was supposed to." One Cupertino property owner commented that density would help economic development, but feared the ramifications of having that comment attributed to him and his employer's holdings.
- A retail real estate professional knowledgeable about the Cupertino retail market noted that De Anza, Stevens Creek, and Homestead have the traffic counts needed for retail development, while another noted that the De Anza corridor is viewed as being well located for retail development, however, traffic is so great on De Anza that retailers would lose impulse visits because potential customers do not want to fight the congestion.
- Many stakeholders commented that residents do not like change. A stakeholder observed that Cupertino is home to one of the world's highest profile companies, that Cities evolve (neighboring cities like Santa Clara are embracing opportunities brought by high-profile high-tech companies), and that an opportunity is being missed not even trying to meet today's housing and amenity demand created by younger knowledge workers. More than one person acknowledged the fear that any new housing will have a detrimental impact on schools, and one wondered why contributions for new school facilities were not part of conditions of approval for new residential projects (it should be noted that SB50 limits the City's role in imposing additional school impact fees over those allowed by AB2926).

Some stakeholders identified concerns about government and the development process that are seen broadly through the Bay Area. For example:

- Several stakeholders expressed views that the Planning Commission and the City Council were not aligned about supportiveness to change. Some held the view that the Planning Commission has been supportive of new development, but this view was not uniformly held with respect to the rest of City government.
- Some stakeholders felt the City was good to work with on the entitlement process and obtaining approvals, while others expressed reservations.

- Other stakeholders commented that staff and Council often had a different vision than developers, and by way of example noted that the City's hesitation in approving the Biltmore project at its fully allowed density was disappointing.
- The perception City government opposes significant development despite demand.
- A concern that policy-makers have a comprehensive knowledge of real estate and development.
- A view that developers are market driven, and policy-makers would benefit to developers' analysis of what the City needs, and their market-based point-of-view of development economics.

Other stakeholder comments more specific to Cupertino included:

- A desire that the decision-makers be more open minded about allowing the City to grow economically.
- A concern the City is reluctant to approve new office space because ABAG would then allocate additional RHNA numbers to meet jobs-housing balance requirements.
- Confusion was expressed about whether City government or the community has a preference not to grow in a significant way. It was noted that if there were not resistance to new development, there would be opportunities all along Stevens Creek and De Anza for both commercial and residential redevelopment.
- A perception the City lets itself be bullied into decisions. The example cited was Main Street being approved with senior housing, but soon after the housing component was approved by the decision-makers, that housing being converted to market-rate at the developer's request.
- A perception that decision-makers over-weigh concerns of conservative residents who do not want change. This person also indicated that the people who take the time to go and speak at Council meetings are generally those that don't like the project or some aspect thereof. Supporters do not take the time to go to hearings.
- One stakeholder suggested that older citizens don't want any change, citing as an example (perhaps as a stereotype) an older citizen who appeared before the Council to request signs only be in English.

Finally, a number of stakeholders offered opinions about prospects about Cupertino and about some of the Opportunity Sites specifically:

- While it is a nice idea not to be car-dependent, it is unrealistic to think [the Trade Area] will detach from the car, so there will need to be retail catering to impulse shopping that is well designed with clear retail identity and easy parking for customers arriving by car and not some other means.
- Traditional retail requires a low FAR (0.25 at most). The best case for land values for this FAR would be \$50-60 PSF which is substantially below market for other uses. For example, the 3-acre southwest corner of El Camino Real and Wolfe sold in 2012 for \$110 PSF. In order for retail to be developed, need to zone property for retail and keep that property zoned for retail, or owners will hold out for more money for a different use.
- A number of stakeholders expressed optimism that Cupertino has many opportunities going forward. Future development can be built around Apple's highly identified presence in the City.

- The City's central location in Silicon Valley makes it a prime opportunity for redevelopment as compared with other cities. Other opportunities cited include:
- Providing places for young talent to live and to enjoy the community is important to the City's evolution. The line at BJ's was seen as showing how few places there are in the City to go out after work. The City needs more gathering places. It is hoped that Main Street will help fill this void.
- Economics for building hotels don't yield a much higher residual land value than retail. While a five star hotel might be desired, select service models are more profitable and easier to finance. A 2.0-2.5 acre site where a hotel can share parking with office would make a good hotel development opportunity.
- Forever 21 was rumored by one stakeholder to have commented that they would not come to Vallco even if they were given free rent. This comment is no doubt a reflection of the project's condition and lack of tenancy and less a comment on the desirability of Cupertino per se. If Vallco were to be redeveloped and retailers had a reasonable expectation of co-tenancy, stores like Forever 21 would be expected to at least evaluate whether the project and area met their criteria for a new store opening
- Transit in particular would allow for opportunities for growth while minimizing traffic impacts.

RECOMMENDATIONS

Cupertino was originally conceived and planned as an auto-oriented, suburban environment. This suburban model is evolving as population and population density increases, and as once distant suburbs find themselves increasingly at the center of population centers. As Cupertino decides if and how it intends to embrace increased density and mixed-use projects (an increasing trend in real estate development and redevelopment in the Bay Area and beyond), careful consideration should be given to retail design (location, visibility, access and circulation, signage, parking, appropriate convenience attributes, etc.) with an eye to ensuring that design trends do not trump basic functionality. This applies both to commodity and to specialty retail projects.

Shopping patterns generally are not limited by city or county borders. Cupertino residents have many alternatives for both commodity and specialty retail venues that are close to but not necessarily within the City limits. Trader Joe's is one excellent example. Significant successful retail exists along El Camino Real in Sunnyvale, at Westgate Shopping Center in San Jose, Valley Fair and Santana Row at the intersection of Stevens Creek and Winchester (and I-880 and I-280), and downtown districts in Los Altos, Mountain View, Los Gatos, and Palo Alto.

- The City government and residents alike are widely viewed as being conservative about approving new development projects, particularly projects with residential components. We recommend using the feedback from the community process that has been a part of this planning effort, and additional workshop(s) as needed including elected officials, planning and economic development staff, the community, and retail development professionals aimed at creating a mission and values statement about retail development and redevelopment in Cupertino, and whether capturing retail sales presently occurring outside the City limits is desired. Such a statement would provide a consistent baseline against which project sponsors can plan, and staff and Council can evaluate and approve projects. This statement could also guide how retail projects should be designed in order to be competitive with offerings outside the City limits if that is desired.
- We believe that Cupertino is well located and could attract additional retail. The Opportunity Sites that are the subject of this report have been evaluated for such development. We recommend that other sites that were not part of the scope of this report also be evaluated. The Oaks is one example.
- In order to better understand what attributes will be required for successful retail developments in Cupertino and to augment this report, we recommend evaluating the factors that make Westgate Mall, Valley Fair/Santana Row, and other nearby shopping districts frequented by Trade Area residents appealing to patronize. A well-designed intercept survey or on-line poll might suffice.
- There is a lack of destination-oriented specialty "lifestyle" and "downtown" areas within the City's borders. For example, while sit-down restaurants exist, they are generally not in a project or a district where one might park, stroll, cross-shop other merchants, and "hang out." Cupertino Village may be one of the best examples of a successful destination-oriented specialty project within the City's borders (despite it actually being a hybrid with commodity-tenant Ranch 99 market in the project).

- Some projects have potential to be community-gathering spots, however, they do not appear to be as well patronized as possible. The Oaks is a good example. In these cases, careful consideration of potential audiences and project design may help reinvigorate a stalled project.
- There are some blockbuster retail projects in close proximity to Cupertino. Santana Row is one good example. Not every project is for every city. The suitability of a retail project for any given community is a comment on how market forces have evolved over time. It is not a negative comment on the community that does not have a particular facility, even if that facility is desired.

Focus on planning retail projects that are best suited to serve the local community's needs as opposed to replicating facilities found elsewhere (and which are unique to those facility's individual circumstances) should be a primary planning focus.

- Many communities have leanings or policies about requiring retail on the ground floor of mixed-use, and especially residential, projects. Sometimes this retail space is well executed and serves an important purpose. Just as often, it is not as successful as it was envisioned. As discussed in this report, retail succeeds or fails based on demand, and the relative competitiveness of its location and site attributes (especially visibility, access, and parking) as compared with other options. Because residential uses result in higher residual land values than retail, the retail component of mixed-use projects is frequently designed principally with housing and not retail in mind. We assume that the City, the project sponsor, the retailer, neighbors and the community, and customers all want well designed projects that are both aesthetically pleasing and functional (and without vacancy resulting principally from lack of demand or poor design). We recommend that ground floor retail in mixed-use projects be evaluated for its appropriateness on a case-by-base basis, taking location and demand into consideration. We also recommend that when such a retail component is deemed appropriate, that project sponsors be required to retain experts (whether a retail architect, site planner, or other retail consultant) to advise on the size, location, site attributes, and layout/design of the retail component.

Redeveloping Vallco will take significant effort on the owner and the City's part, and the mall is unlikely to be successful without a significant redevelopment effort. Following are our recommendations for Vallco:

- Understand owner Son Son Co's motivation for purchasing the property, and its long-term plans for the property. A significant effort may be required in order to engage the owner and to build a rapport.
- Understand Sears' long-term plans for its property, the extent to which Sears might want to redevelop its parcel and how, and in what ways Sears may or may not be interested in cooperating with a redevelopment effort.
- Sears' attorney brought up an interesting point about whether Successor Agencies will be permitted to exercise their power of eminent domain in the public interest post-dissolution of redevelopment. Hire land use counsel to provide guidance on this point. Depending

upon the outcome of this investigation, explore the feasibility of contemning the COREA or certain provisions thereof which impede obtaining approvals necessary to activate a redevelopment of the Mall.

- Open a conversation with Apple about it's interest in the Mall property, and if it is interested the nature of that interest.
- Create a vision for Vallco Shopping Center (and do not hesitate to "Think big!") to be memorialized in a specific plan with the following goals in mind:
 - Start thinking about the area comprised of Vallco, the Rose Bowl, Menlo Equities, and Main Street as a downtown district.
 - Identify the amount and type of retail desired for the Vallco property. Retail will likely result in a lower residual land value than office or residential uses, so making clear what portions or how much of the land needs to remain retail and the configuration of that retail (i.e. on the ground floor of a mixed-use development, traditional surface-parked shopping center, etc.) will lead to development underwriting that recognizes some of the land will be used for less than its highest and best use (i.e. most valuable use). Articulate desired uses for the portion of Vallco east of versus west of Wolfe Road.
 - Create certainty with respect to an approval process: Create clearly articulated design criteria, FAR's and massing guidelines, and timelines for obtaining approvals. When a developer can see a clear path from underwriting and acquisition to approvals and commencement of construction, it can more easily evaluate the feasibility of a development in terms of anticipated market conditions.
 - Focus on pedestrian-friendly environments, active ground floor uses, and outdoor uses.
 - Ensure cohesion throughout the specific plan area by creating better connections, architectural relationships, common spaces and parking between individual properties/ownerships. Address streetscape improvements, reconfiguration of Wolfe Road, and connectivity. Explore Mello Roos districts for improvements and infrastructure.
 - Be realistic about what visibility, access, circulation, and parking facilities will be required in order for a proposed project to compete with other shopping destinations frequented by target customers.
- Every revitalization projects needs a champion! Have the City Council become the project's advocate.
- Be patient, and know when to say: "No!" The plan articulated in a specific plan may or may not be feasible in today's market and economic climate. Any redevelopment will be something the community will live with for decades, so waiting a few years for the right set of circumstances to converge is preferable to the wrong project today.

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