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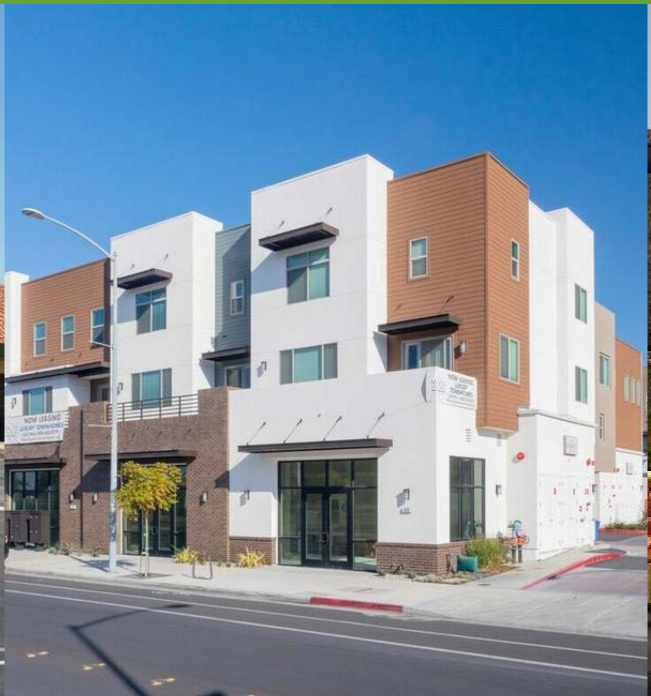
REAL ESTATE STRATEGY

Milpitas Gateway-Main Street Specific Plan Market Study

Prepared for the City of Milpitas

April 27, 2022



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EXECUTIVE SUMMARY

Location, Urban Form, and Focus Area Opportunities

- The Milpitas Gateway-Main Street Specific Plan Market Plan Area ("Plan Area") has a very good location, with access to Interstates I-880 and I-680 and State Route 237, which will be generally attractive for new residential and commercial development.

- Only the southern portions of I-880/Abbott and Elmwood District are within a half-mile of the VTA's Alder Light Rail Station, and the entire Plan Area is more than a half-mile from the Milpitas BART Station and Transit Center, potentially making the remainder of these districts less attractive for new Class A office development –with one exception.

- The portions of the I-880/Abbott that front along West Calaveras Boulevard and Interstate 880 have high visibility which would make these sites attractive to residential and commercial development[1], including Class A office development. Similarly, the sites within the Calaveras Gateway District that abut parcels in the I-880/Abbott District would be potentially attractive for new Class A office space, if integrated with the sites in the I-880/Abbott District.

- That portion of the Railroad Triangle abutting East Calaveras Boulevard on the north and south could offer good visibility for new development and could serve as the eastern end of the State Route 237 corridor.

- The irregular and fragmented parcels and ownerships along Main Street present a challenge for aggregating parcels to accommodate large, investment-grade development projects[2]. Instead, small-scale development should be planned and encouraged.

- The districts with potential for investment-grade mixed-use projects are the I-880/Abbot, Calaveras Gateway, and Railroad Triangle districts.

[1] The Milpitas Unified School District owns property subject to long-term ground leases on Abbott Avenue that needs special consideration for planning redevelopment in the I-880.Abbott District.
[2] Investment grade refers to a project that can be readily sold to national and global real estate investors seeking Class A real estate properties.

Demographics and Economy

- Milpitas has a large base of highly educated and affluent consumers that would be attractive to new retailers in the Plan Area.

- While these consumers are big users of online shopping channels, they are also a prime target for new forms of specialty and experiential retail, or in other words, the places consumers seek out to spend their discretionary time and discretionary dollars. Specialty and experiential retail offer immersive shopping experiences that help foster a unique "sense of place." A new, distinctive retail node in the Plan Area could be attractive to Milpitas residents.

- The city's rich racial and ethnic diversity, with a high proportion of Asian residents, supports specialty food retail, including ethnic markets, and East-Asian and South-Asian eating and drinking establishments.

- The increase in Class A rental multifamily residential, particularly in the area immediately south of the Plan Area, suggests additional demand for eating, drinking and entertainment establishments.

- Esri Tapestry segment information for Milpitas indicates that a large percent of the city's households can support higher-end specialty retail, financial services providers, electronics goods, spas and salons, fitness centers, and eating and drinking establishments.

Real Estate Market Trends

Residential

- Recent construction activity, net absorption, and rent trends demonstrate continued strong demand for rental housing in Milpitas, and the Plan Area offers many attractive sites.

- There is robust demand for ownership housing in Milpitas, some of which could potentially be captured throughout the Plan Area.

- Existing maximum density in the Plan Area ranges from 30-40 du/acre. The smaller parcels in the Main Street District lying south of Serra Way and north of West Curtis Avenue would be appropriate places for new lower density housing due to the predominance of smaller parcel sizes and lack of parcel depth.

- Recent residential projects in the Plan Area have mainly consisted of multifamily apartment projects on large sites (5+ acres), with densities ranging from 60 to 120 units per acre. Maximum building heights need to be five to seven stories to accommodate this density. Larger parcels (or aggregations of smaller parcels) in the Calaveras Gateway, I-880/Abbott, South of Calaveras, West of Abel, and Railroad Triangle districts would be the most appropriate locations for new, high-density residential development. In addition, the larger parcels situated at or near the intersection of Serra Way and S. Main Street in the Main Street district (the Central Plaza shopping center, for example and Serra Center) are large enough to support a range of higher intensity multi-family residential projects at this scale.

Retail

- Due to the long narrow blocks, length, and traffic volumes of Main Street, new retail in the Main Street district should be configured to offer a walkable multi-block retail mode instead of a long strip of ground floor retail.

- Retail along all of Main Street is further challenged by its 'toothy' pattern of commercial and institutional uses. Gaps created by institutional owners that are not likely to redevelop their property works against creating a seamless experience along the street.

- The best location for new retail would comprise the eastern portion of the Calaveras Gateway district and the area of the Main Street district north of Junipero Drive. This area would provide several blocks that can be easily walked west to east and north to south and have parcels that are either large enough for medium-to-large scale development or could be aggregated for new development.

- This area has several underutilized privately owned parcels and has the advantage of easy access to major arterials but with narrower interior streets and lower levels of through traffic. Serra Way could be a focal point for this concept. A program of new multifamily residential with ground floor retail designed to offer an intimate, human-scale, non-mall setting would be the best chance to attract more robust retail tenants, particularly eating and drinking establishments.

- New retail within the recommended node would have a low retail distance to residents that live within the Plan Area and those to the south in the recently completed apartment complexes within the Plan Area. A low retail distance means that local businesses, particularly restaurants, have the potential for enhanced revenues from local delivery and pick up of goods.

Office

- The office market has been weak in Milpitas in general and the potential for significant new office space in the Plan Area may be limited to a select number of well-located parcels.

- The primarily disadvantage the Plan Area has with respect to new office development is its general lack of proximity to the Milpitas BART Station to the south. Distances from this station are too far for walking (e.g., over one-half mile). New large-scale Class A office development would require the developer or tenant to provide additional alternative transit services to connect workers with public transit. Only the south end of the I-880/Abbott district is within a short walk of public transit (VTA Alder Light Rail Station).

- Office rents are currently too low to support new speculative office development in Milpitas; in the near term (e.g., next five years) office development in the Plan Area will likely be driven by technology end users.

- Prime office locations in this submarket are concentrated near State Route 237 in or close to the “Golden Triangle”. The most sought-after properties are those that have freeway frontage along the Highway 237 corridor, major arterials such as Tasman Drive and McCarthy Boulevard, and proximity to transportation and lifestyle amenities. Parcels in the I-880/Abbott district have the best chance of attracting new office development due to their location, visibility, and proximity to transit (south end of the district only). Parcels situated in the western portion of the Calaveras Gateway district could also attract office development if integrated with parcels in the I-880/Abbott district to form a large-scale development.

- In other areas within the Plan Area, small-scale Class B office in a residential mixed-use residential project may be feasible by targeting tenants serving the local residents and businesses.

INTRODUCTION AND BACKGROUND

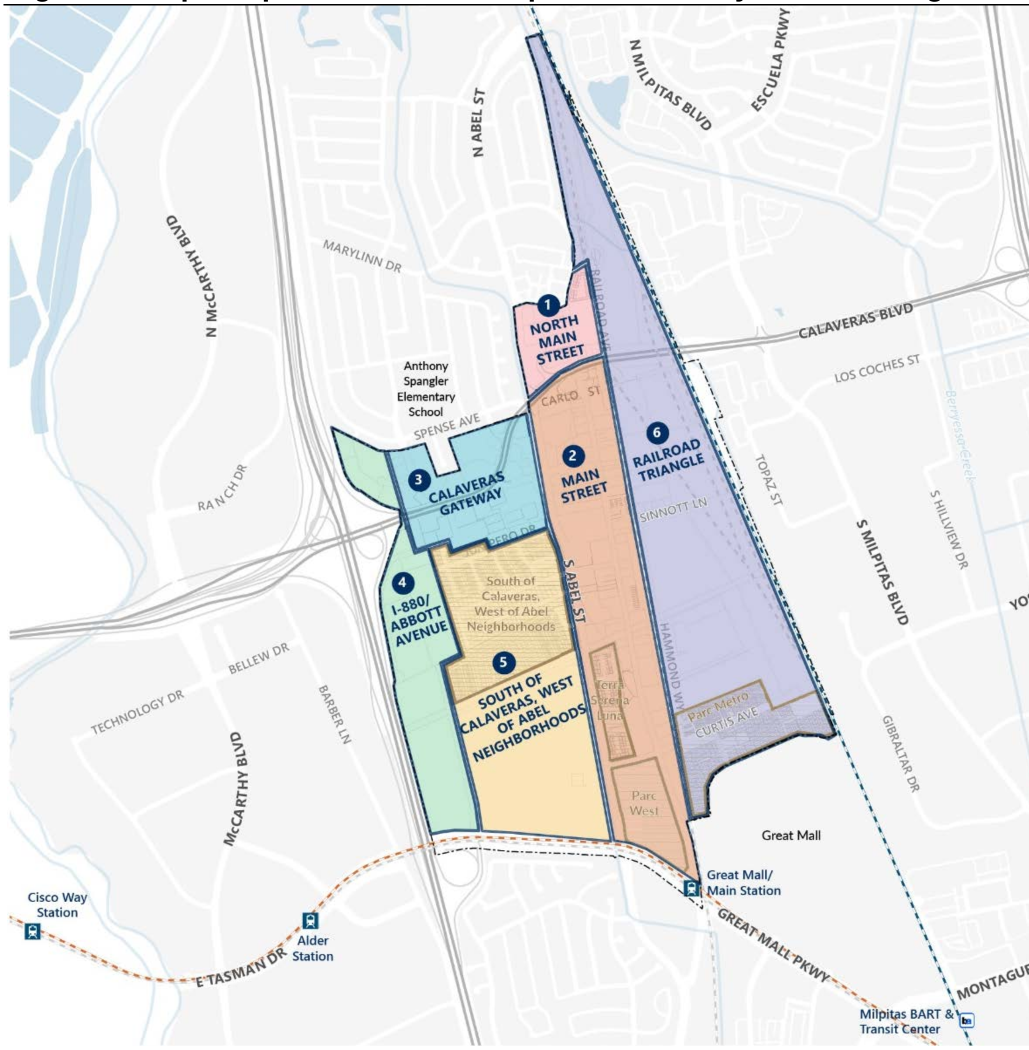
Introduction

This report summarizes market data, analysis, and findings related to current and future anticipated market conditions within the Plan Area to evaluate market support for new development and inform the mix of land uses in the Specific Plan. The analysis identifies potential focus area opportunities and considers potential challenges to achieving the desired mix of land uses in the Plan Area.

Plan Area Site Context

The Gateway-Main Street Specific Plan Area is an approximately 615-acre area bounded by Interstate 880 to the west, the BART railway line to the east, North Abel Street and Weller Lane to the north, and Great Mall Parkway to the south. While the entire Plan Area is well located near major freeways and BART, overall locational and site characteristics within the Plan Area vary by planning district and neighborhood. Figure 1 shows the six planning districts comprising the Plan Area.

Figure 1: Map of Specific Plan Area Update Boundary and Planning Districts



Source: Ascent Environmental, 2022.

I-880/Abbott

The I-880/Abbott district comprises the western end of the Plan Area and runs north-south along Interstate 880 and South Abbott Avenue. This district has excellent visibility from Interstate 880 and close access to Interstate 680 to the east that would be attractive for both residential and commercial uses. However, connections to VTA light rail service and BART are outside the district to the south. The Milpitas BART Station and Transit Center is approximately 1.25 miles from the southern edge of the district and two miles from the northern end. The VTA's Alder Station is approximately a half mile to the west of the southern end of the district and a mile from the northern portion of the district. This district is at the east end of the State Route 237 corridor which attracted considerable investment from commercial developers and end users during the latter half of the last business cycle.

Calaveras Gateway

This district straddles West Calaveras Boulevard and Serra Way from Interstate 880 to the west to South Abel Street to the east. The western end of this district has potentially good visibility from Interstate 880, particularly if redevelopment were integrated with adjacent parcels lying within the I-880/Abbott district to the immediate west. The eastern portion of this district is comprised mainly of the Milpitas Center, Calaveras Center, and Serra Center shopping centers. Like the I-880/Abbott District, connections to VTA light rail service and BART are outside the district to the south.

North and Main Street Districts

The North Main and Main Street districts constitute a corridor that lies between Weller Lane to the north and Great Mall Parkway to the south and is bounded by Abbott Street on the west and Hammond Way on the east. Main Street functions as one of two connectors between the Great Mall and surrounding development and State Route 237/West Calaveras to the north. Sites situated adjacent to West Calaveras Boulevard in the North Main District have potentially excellent visibility. Within the Main Street district, the sites at the intersections of South Abel (four-way intersection) and Serra Way and South Main and Serra Way ("T" intersection) offer the most visibility along with sites that front at the intersections of Abel Street and Great Mall Parkway and South Main Street and Great Mall Parkway. Sites at the north end of this district are approximately 1.75 miles from the Milpitas BART Station and Transit Center while sites at the south end are approximately 0.75 miles from this transit hub.

South of Calaveras, West of Abel District

The South of Calaveras, West of Abel District is comprised of the area that lies to the east of the I-880/Abbott District on the west and Abel Street on the east and to the south of the Calaveras Gateway District and to the north of Great Mall Parkway. This district's frontage along the Great Mall Parkway could offer visibility, but the frontage is owned by the County of Santa Clara and is the site of the Elmwood Correctional Facility.

Railroad Triangle District

The Railroad Triangle District is divided by West Calaveras Boulevard which connects Interstate 880 to the west with Interstate 680 to the east. The northern part of the district is triangular extending from West Calaveras Boulevard to the point where North Abel cross the railroad tracks. It is bounded by Berryessa Creek on the west side and rail tracks to the east. The southern portion of the district ends at residential uses at Curtis Avenue and is bounded by Hammond Way on the west. The site is generally an interior site (e.g., not located along a major arterial and without visibility) but portions of the district that front the East Calaveras Boulevard overcrossing may offer some visibility were this area to be redeveloped. The southern end of the district is about one mile from the Milpitas BART Station and Transit Center while the northern end of the district is approximately two miles from the station.

Existing Urban Form

The feasibility of new development or reuse of existing buildings for specific uses depends on the characteristics of the parcels that comprise the Plan Area. These characteristics include block patterns, property ownership, and size and shape of parcels. This section of the market reviews how the existing parcel configurations and ownership patterns may impact successful implementation of the Specific Plan.

Block Patterns, Parcel Size, and Configuration

Section 2.4 of the Land Use, Zoning, and Urban Form Analysis indicates that the blocks within the Plan Area are long and disconnected due to physical constraints and barriers. Larger blocks with one or few parcels would generally facilitate redevelopment since parcel aggregation is not necessary and new development can be planned and built in a cost-efficient manner. The I-880/Abbott, Calaveras Gateway, North Main, and Railroad Triangle districts generally have these characteristics. However, the Main Street district has long blocks with many smaller parcels which would require aggregation for redevelopment.

Main Street, which runs for approximately 0.70 miles between Serra Way and Curtis Avenue, also has asymmetric parcel depths with parcels on the west side having approximately 470 feet of depth but parcels on the east side having approximately 250 feet of depth. In addition, parcels on the east side that front on Main Street do not front on Hammond Way. For much of the eastside of Main Street there is a liner north-south parcel that is associated with Central Self Storage. While there is this liner parcel in some areas, the bigger challenge is the rail between Hammond Avenue and Main Street. That, combined with the shallow parcel depth, presents a challenge for adding access, which means Main Street parcels are one sided.

On the west side of Main Street, north of Pavalkis Hall and south of Serra Way, there are many small and irregularly shaped parcels that also present a redevelopment challenge since aggregation would be required to create sites that could accommodate larger projects and more efficient layout and design of improvements.

Property Ownership

The number and type of property owners can impact the degree of success in implementing the Specific Plan since owners make decisions about whether they will hold, sell, or redevelop their properties under a new set of entitlements. Individual and family owners (often holding their interests in trusts or family corporations) generally seek ongoing income and avoidance of capital gains; decisions may require multiple family members to agree to an action which can take time to secure. Owners that are professional real estate business entities typically will focus on meeting financial targets and can generally make disposition and redevelopment decisions quickly. Corporate end use owners focus on how their property contributes to their business operations and income and are less likely to sell or redevelop a property if the current improvements are performing well. Institutional owners such as those that own religious facilities on Main Street are owners for the long term and are less likely to entertain change. Public agency owners typically seek to ensure that they have property to accommodate future program needs but when a property is not needed, seek to generate one-time revenue from a property sale or ongoing revenue from a ground lease.

Within the Plan Aarea ownership patterns vary widely. The I-880/Abbott district has three major owners: The Sobrato Organization, which owns the Center for Non-Profits business park; Milpitas Unified School District, which owns a large tract with commercial and business park uses that operate under long-term ground leases; and the County of Santa Clara, which owns land that is leased to Envision Toyota and Envision Honda of Milpitas, and a vacant parcel north of these sites. The Railroad Triangle district also has three owners: the Union Pacific Railroad Company; the publicly traded PS Business Parks, Inc., which owns the Cadillac Industrial Park; and Icon Owner Pool 1 SF Non-Business Parks, LLC, which owns an industrial park. In contrast, the Main Street district has many owners of all the aforementioned types, which can complicate parcel aggregation.

Implications of Plan Area Location and Existing Urban Form for Specific Plan Update

- The Plan Area has a very good location, with access to Interstates I-880 and 680 and State Route 237, which will be generally attractive for new residential and commercial development.

- Only the southern portions of I-880/Abbott and Elmwood District are within a half-mile of the VTA's Alder Light Rail Station, and the entire Plan Area is more than a half-mile from the Milpitas BART Station and Transit Center, potentially making the remainder of these districts less attractive for new Class A office development –with the following exception.

- The portions of the I-880/Abbott that front along West Calaveras Boulevard and Interstate 880 have high visibility which would make these sites attractive to residential and commercial development[3], including Class A office development. Similarly, the sites within the Calaveras Gateway District that abut parcels in the I-880/Abbott District would be potentially attractive for new Class A office space, if integrated with the sites in the I-880/Abbott District.

- That portion of the Railroad Triangle abutting East Calaveras Boulevard on the north and south could offer good visibility for new development and could serve as the eastern end of the State Route 237 corridor.

- The irregular and fragmented parcels and ownerships along Main Street present a challenge for aggregating parcels to accommodate large, investment-grade development projects[4]. Consideration should be given to providing density incentives for parcel aggregation and promoting small-scale development.

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[3] The Milpitas Unified School District owns property subject to long-term ground leases on Abbott Avenue that needs special consideration for planning redevelopment in the I-880.Abbott District.
[4] Investment grade refers to a project that can be readily sold to national and global real estate investors seeking Class A real estate properties.

- The districts with potential for investment-grade mixed-use projects are the I-880/Abbot, Calaveras Gateway, and Railroad Triangle districts.

DEMOGRAPHIC AND ECONOMIC OVERVIEW

This section provides an overview of demographic and economic characteristics in Milpitas with a focus on identifying potential market gaps and opportunities, which will inform the real estate market analysis presented in later sections of this report. The analysis draws on data from the US Census Bureau and Esri Business Analyst. Because there is a significant group quarters population (Santa Clara County Elmwood Correctional Facility) located within the Plan Area, most of the information in this section is presented for Milpitas and Santa Clara County.[5]

Population and Household Composition

Although the City of Milpitas added a total of 15,110 residents and 5,270 new households between 2010 and 2021, the Milpitas Gateway-Main Street Specific Plan Area itself has seen limited growth since 2010. The City of Milpitas has experienced rapid population and household growth over the course of the past economic cycle. The number of households increased by 27.5 percent in Milpitas between 2010 and 2021, far exceeding the household growth rate of 7.8 percent countywide during this period. Meanwhile, in the Plan Area, the number of households increased by just 89 households, or 3.9 percent, between 2010 and 2021. The households currently living in the Plan Area tend to be smaller than those citywide or countywide.

Table 1: Population and Household Growth, 2010-2021

			Change, 2010-2021	
Population	**2010**	**2021**	**Number**	**Percent**
Milpitas Gateway-Main Street Specific Plan Area	8,959	9,145	186	2.1%
Household Population	6,359	6,564	205	3.2%
Group Quarters Population	2,600	2,581	-19	-0.7%
Milpitas	66,786	81,896	15,110	22.6%
Santa Clara County	1,781,642	1,927,499	145,857	8.2%
			Change, 2010-2021	
Households	**2010**	**2021**	**Number**	**Percent**
Milpitas Gateway-Main Street Specific Plan Area	2,285	2,374	89	3.9%
Milpitas	19,183	24,453	5,270	27.5%
Santa Clara County	604,204	655,394	51,190	7.8%
Average Household Size	**2010**	**2021**		
Milpitas Gateway-Main Street Specific Plan Area	2.78	2.76		
Milpitas	3.34	3.24		
Santa Clara County	2.90	2.89		

Sources: Esri Business Analyst, 2021; BAE, 2022.

[5] The group quarters population in the Plan Area is removed from this analysis since its population would not be a factor in demand for new development.

Although the city's current household composition is weighted heavily towards family households, a recent surge in new multifamily residential development has brought many new non-family households to the community. Between 2010 and 2021, the number of non-family households increased by 35.1 percent in Milpitas, compared to 9.1 percent in Santa Clara County (see Table 2). The high proportion of family households in Milpitas helps to explain the larger average household size in the City (3.24) compared to the County (2.89).

Table 2: Household Composition, 2010-2021

Milpitas	2010	2021	Change, 2010-2021 Number	Percent
Family Households	15,614	19,631	4,017	25.7%
Non-Family Households	3,569	4,822	1,253	35.1%
Total Households	**19,183**	**24,453**	**5,270**	**27.5%**

Santa Clara County	2010	2021	Change, 2010-2021 Number	Percent
Family Households	426,824	461,936	35,112	8.2%
Non-Family Households	177,380	193,458	16,078	9.1%
Total Households	**604,204**	**655,394**	**51,190**	**8.5%**

Sources: Esri Business Analyst, 2021; BAE, 2022.

Housing Tenure

Although Milpitas has a higher proportion of owner-occupied households than Santa Clara County, the city has seen rapid growth in the number of renter households in recent years. As of 2021, approximately 38 percent of all Milpitas households were renter-occupied, compared to 45 percent of households in the county. Both Milpitas and the County saw the share of renter-occupied households increase between 2010 and 2021. Renter-occupied household growth was much more rapid in Milpitas, which saw the number of renter-occupied households increase by 47.1 percent between 2010 and 2021. This is compared to the 16.5 percent increase in renter-occupied households in the County during the same period.

Table 3: Occupied Housing Units by Tenure, 2010-2021

	2010		2021		2010-2021 Change	
Milpitas	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**
Owner-Occupied Units	12,825	66.9%	15,100	61.8%	2,275	17.7%
Renter-Occupied Units	6,358	33.1%	9,352	38.2%	2,994	47.1%
Total Occupied Housing Units	**19,183**	**100.0%**	**24,452**	**100.0%**	**5,269**	**27.5%**

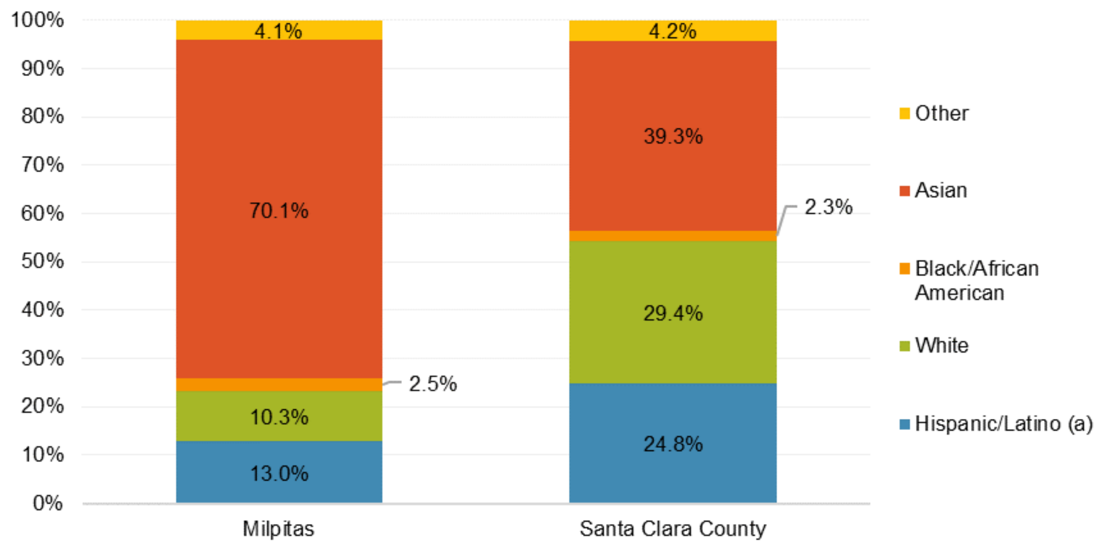
	2010		2021		2010-2021 Change	
Santa Clara County	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**
Owner-Occupied Units	348,298	57.6%	357,209	54.5%	8,911	2.6%
Renter-Occupied Units	255,906	42.4%	298,185	45.5%	42,279	16.5%
Total Occupied Housing Units	**604,204**	**100.0%**	**655,394**	**100.0%**	**51,190**	**8.5%**

Sources: Esri Business Analyst, 2021; BAE, 2022.

Race and Ethnicity

With its large Asian population, Milpitas is markedly different from the county with respect to the racial and ethnic composition of the population. Approximately 70 percent of the citywide population is of Asian descent, compared to 39 percent of the population in Santa Clara County (see Figure 2). By total population, the largest Asian subgroups include Asian Indian, Chinese, Filipino, and Vietnamese based on 2015-2019 ACS data. Together these four groups comprise 90 percent of those who are Asian alone in Milpitas.

Figure 2: Race and Ethnicity, 2021



Note:
(a) Includes all races for those of Hispanic/Latino background.

Sources: Esri Business Analyst, 2021; BAE, 2022.

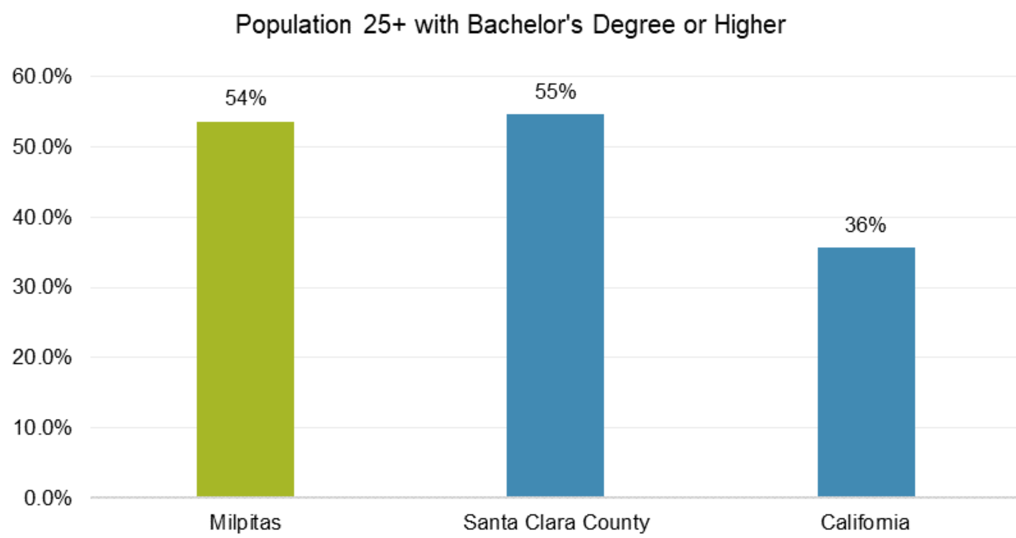
Income, Educational Attainment and Occupation

Reflecting high education levels and a high concentration of residents employed in high-tech occupations, Milpitas households have relatively high incomes. As of 2021, the median annual household income in Milpitas was $137,314, higher than the median in Santa Clara County ($131,856) and significantly higher than the median in California ($80,044). More than half of Milpitas and Santa Clara County residents aged 25 or older have earned at least a bachelor's degree, compared to only 36 percent of the comparable population statewide (see Figure 4). Among employed Milpitas residents, the most common occupations include computer, engineering, and science occupations and management, business, and financial occupations (see Table 4). These occupational groups are typically among the highest paying occupations for Bay Area residents.

Figure 3: Median Household Income, 2021

Sources: Esri Business Analyst, 2021; BAE, 2022.

Figure 4: Population 25+ with Bachelor's Degree or Higher, 2021



Sources: Esri Business Analyst, 2021; BAE, 2022.

Table 4: Employed Resident Occupations, 2021

	Milpitas		Santa Clara County	
	Number	**Percent**	**Number**	**Percent**
Computer, Engineering, and Science	12,750	30.5%	240,032	23.8%
Management, Business, and Financial	7,923	18.9%	225,448	22.4%
Sales and Office	6,135	14.7%	156,146	15.5%
Production, Transportation, and Material Moving	4,225	10.1%	76,062	7.5%
Health Practitioners and Technicians	3,659	8.7%	73,400	7.3%
Service (a)	3,134	7.5%	90,745	9.0%
Education, Legal, and Arts	2,221	5.3%	87,232	8.7%
Natural Resources, Construction, and Maintenance	1,812	4.3%	59,069	5.9%
Total Employed Residents (a)	**41,859**	**100.0%**	**1,008,134**	**100.0%**

Note:
(a) Totals may not match totals in other tables due to independent rounding.

Sources: Esri Business Analyst, 2021; BAE, 2022.

Commute Patterns

Milpitas experiences large inflows and outflows of commuters every day. Table 5 shows work locations for Milpitas residents, as well as where workers employed in Milpitas live, based on American Community Survey (ACS) data collected between 2012 and 2016 (the most recent time period for which detailed commute data are available). According to these data, approximately 20.4 percent of employed Milpitas residents also work in Milpitas. Of those Milpitas residents that do not work in the City, most work in cities in Santa Clara County (60.0 percent). Similarly, most of the workers that are employed in Milpitas also live somewhere in Santa Clara County (57.7 percent).

Table 5: Commute Flows, City of Milpitas, 2012-2016

Place of Residence for Milpitas Workers (a)

	Workers	
Place of Residence	**Number**	**% of Total**
Alameda County, California	7,035	15.0%
Fremont	*3,200*	*6.8%*
All Other Alameda County	*3,835*	*8.2%*
Contra Costa County, California	1,315	2.8%
San Francisco County, California	565	1.2%
San Joaquin County, California	1,015	2.2%
San Mateo County, California	1,090	2.3%
Santa Clara County, California	**33,675**	**71.9%**
Milpitas	*6,670*	*14.2%*
San Jose	*18,280*	*39.0%*
All Other Santa Clara County	*8,725*	*18.6%*
All Other Locations	2,173	4.6%
Total Workers (a)	**46,868**	**100.0%**

Place of Work for Milpitas Employed Residents (b)

	Employed Residents	
Place of Work	**Number**	**% of Total**
Alameda County, California	3,805	11.6%
Fremont	*2,370*	*7.2%*
All Other Alameda County	*1,435*	*4.4%*
San Francisco County, California	455	1.4%
San Mateo County, California	1,320	4.0%
Santa Clara County, California	**26,305**	**80.4%**
Milpitas	*6,670*	*20.4%*
San Jose	*9,170*	*28.0%*
City of Santa Clara	*2,960*	*9.0%*
Sunnyvale	*2,345*	*7.2%*
All Other Santa Clara County	*5,160*	*15.8%*
All Other Locations	838	2.6%
Total Employed Residents (b)	**32,723**	**100.0%**

Notes:
(a) Data for Milpitas workers reflect estimates for people that work within Milpitas incorporated city limits, per Census Bureau estimates.
(b) Data for Milpitas residents reflect estimates for employed persons that live within Milpitas incorporated city limits, per Census Bureau estimates.
Sources: 2012-2016 five-year sample data from Census Transportation Planning Package and American Community Survey 2012-2016; BAE, 2022.

Tapestry Segmentation

Esri's tapestry segmentation leverages robust data on the demographic and socioeconomic characteristics of U.S. households to develop tailored profiles of different geographies based on their residential characteristics and consumer traits. This data source is often used in the retail industry to better understand the attitudes, interests, habits, and spending patterns of consumers in a given market area. Esri's Tapestry system classifies U.S. neighborhoods into 67 unique market segments based on a combination of demographic characteristics and data mining of consumer databases and surveys.

According to Esri's Tapestry system, nearly 78 percent of adults in Milpitas live in households in the "Pacific Heights" or "Enterprising Professionals" segments (see Table 6 and Appendix A). Households in these segments are characterized by their higher incomes and wealth, professional occupations, orientation to STEM education and professions, expenditures on wellness, and ethnic diversity. These households are also highly educated.

Table 6: Top Five (5) Lifestyle Tapestry Segments by Total Adult Population, 2021

Milpitas	Adult Population	% of Total Adult Population
Pacific Heights	31,373	49.3%
Enterprising Professionals	18,160	28.5%
Boomburbs	3,237	5.1%
International Marketplace	2,605	4.1%
Urban Villages	2,573	4.0%
Subtotal, Top 5 Segments	**57,948**	**91.1%**
Total Adult Population	**63,614**	**100.0%**

Sources: ESRI Business Analyst, 2021; BAE, 2022.

The following are Esri's findings for each of the two primary segments:

Pacific Heights

Nationally, Pacific Heights is a small market segment (with less than 1 percent of households), composed of upscale neighborhoods in the urban periphery of metropolitan areas, along the Pacific Coast in California, in Hawaii, and in the Northeast. This Esri segment includes the highest percentage of multiracial populations. The Pacific Heights segment is a family market, distinguished by married-couple families, with and without children, some in multigenerational households with the following characteristics:

- Prefer imported vehicles, owning later models.
- Favor trendier stores for apparel; Costco and specialty markets for groceries.
- Own iPads and newer Mac computers.
- Use the Internet to visit online blogs and chat rooms, watch TV programs and movies, trade and track investments, and make purchases.

- Enjoy visiting theme parks, eating out at family restaurants, stopping by Starbucks for coffee, listening to all news, contemporary, and hit radio music, and reading fashion magazines.
- Partial to Showtime, HBO, Travel Channel, and CNN.
- Make phone calls overseas; some foreign travel over the last 3 years.

Enterprising Professionals

Esri's Enterprising Professionals segment are residents who are well educated and are pursuing their careers in STEM (science, technology, engineering, and mathematics) occupations. Individuals in this segment change jobs often and therefore choose to live in condos, town homes, or apartments; many still rent their homes. The Enterprising Professionals segment is fast-growing and is located in lower density diverse neighborhoods of large metropolitan areas. Their characteristics include:

- Buy digital books for tablet reading, along with magazines and newspapers.
- Frequent the dry cleaner.
- Travel to foreign and domestic destinations common.
- Watch movies and TV with video-on-demand and HDTV over a high-speed connection.
- Convenience is key; shop at Amazon.com and pick up medicines at the Target pharmacy.
- Eat out at The Cheesecake Factory, Chipotle Mexican, and Panera Bread; drop by Starbucks for coffee.
- Leisure activities include trips to museums and the beach.
- Have health insurance and a 401(k) through work.

Implications of Demographics for Plan Area

- Milpitas has a large base of highly educated and affluent consumers that would be attractive to new retailers in the Plan Area.

- While these consumers are big users of online shopping channels, they are also a prime target for new forms of specialty and experiential retail, or the places consumers seek out to spend their discretionary time and discretionary dollars. Specialty and experiential retail offer immersive shopping experiences that help foster a unique "sense of place." A new, distinctive retail node in the Plan Area could be attractive to Milpitas residents.

- The city's rich racial and ethnic diversity, with a high proportion of Asian residents, supports specialty food retail, including ethnic markets, and East-Asian and South-Asian eating and drinking establishments.

- The increase in Class A rental multifamily residential, particularly in the area immediately south of the Plan Area, suggests additional demand for eating, drinking and entertainment establishments.

- Esri Tapestry segment information for Milpitas indicates that a large percent of the city's households can support higher-end specialty retail, financial services providers, electronics goods, spas and salons, fitness centers, and eating and drinking establishments.

- The high level of workers commuting into the city suggests that delivery of additional housing opportunities in the Plan Area, particularly for workforce and affordable housing, could be supported by the market.

REAL ESTATE MARKET TRENDS

This section provides information on real estate market trends in Milpitas and the Gateway-Main Street Specific Plan Area, including inventory characteristics, pricing trends, and vacancy rates. The information provided in this section provides insight into the potential demand for future development in the Plan Area.

Housing Stock

Milpitas' housing inventory is comprised primarily of single-family detached and attached homes which together account for approximately 70.2 percent of total inventory. (See Table 7). In contrast, single-family homes in Santa Clara County are 61.4 percent. Multifamily units in the city comprise approximately 28.0 percent of total inventory. It should be noted that over half of the city's multifamily inventory was constructed within the last ten years.

Table 7: Milpitas Housing Inventory, January 2021

	Milpitas		Santa Clara County	
Type of Residence	**Number**	**Percent**	**Number**	**Percent**
Single Family Detached	12,062	53.1%	351,726	51.7%
Single Family Attached	3,879	17.1%	66,146	9.7%
Multifamily 2-4 Units	1,474	6.5%	49,706	7.3%
Multifamily 5+ Units	4,880	21.5%	193,796	28.5%
Mobile Home	428	1.9%	18,924	2.8%
Total Housing Units	**22,723**	**100.0%**	**680,298**	100.0%
Single Family Housing Units	**15,941**	**70.2%**	**417,872**	**61.4%**
Multifamily Housing Units	**6,354**	**28.0%**	**243,502**	**35.8%**

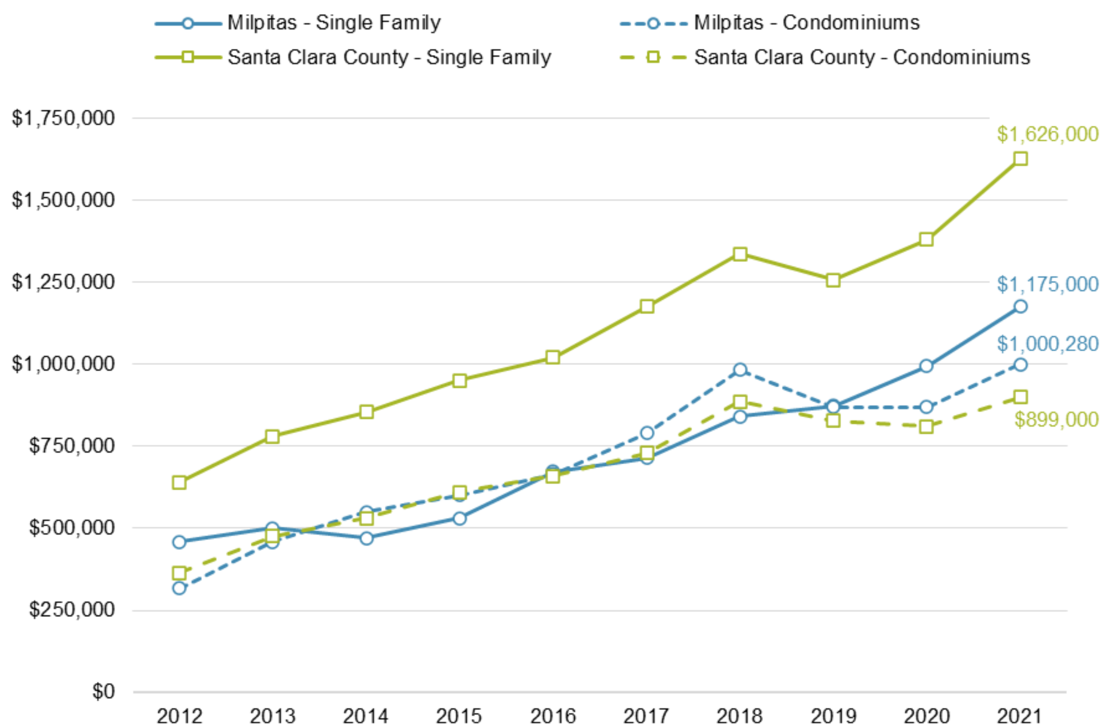
Sources: Department of Finance, Table 2: E-5 City/County Population and Housing Estimates, 1/1/2021; BAE, 2022.

For-Sale Residential Market

For-Sale Market Conditions

As shown in Figure 5, annual median home sale prices in Milpitas have generally followed broader countywide trends since 2012. However, sale prices for single family homes are typically much lower in Milpitas, while sale prices for condominiums are generally higher in Milpitas. In 2021, the median sale price for single family homes sold in Milpitas was approximately $1.2 million, which was roughly 28 percent below the countywide median single family home sale price of $1.6 million. In contrast, the median sale price for condominiums sold in Milpitas in 2021 was just over $1.0 million, roughly eleven percent higher than the median sale price for condominiums sold in the county ($899,000).

Figure 5: Annual Median Home Sale Prices, Milpitas and Santa Clara County, 2012-2021



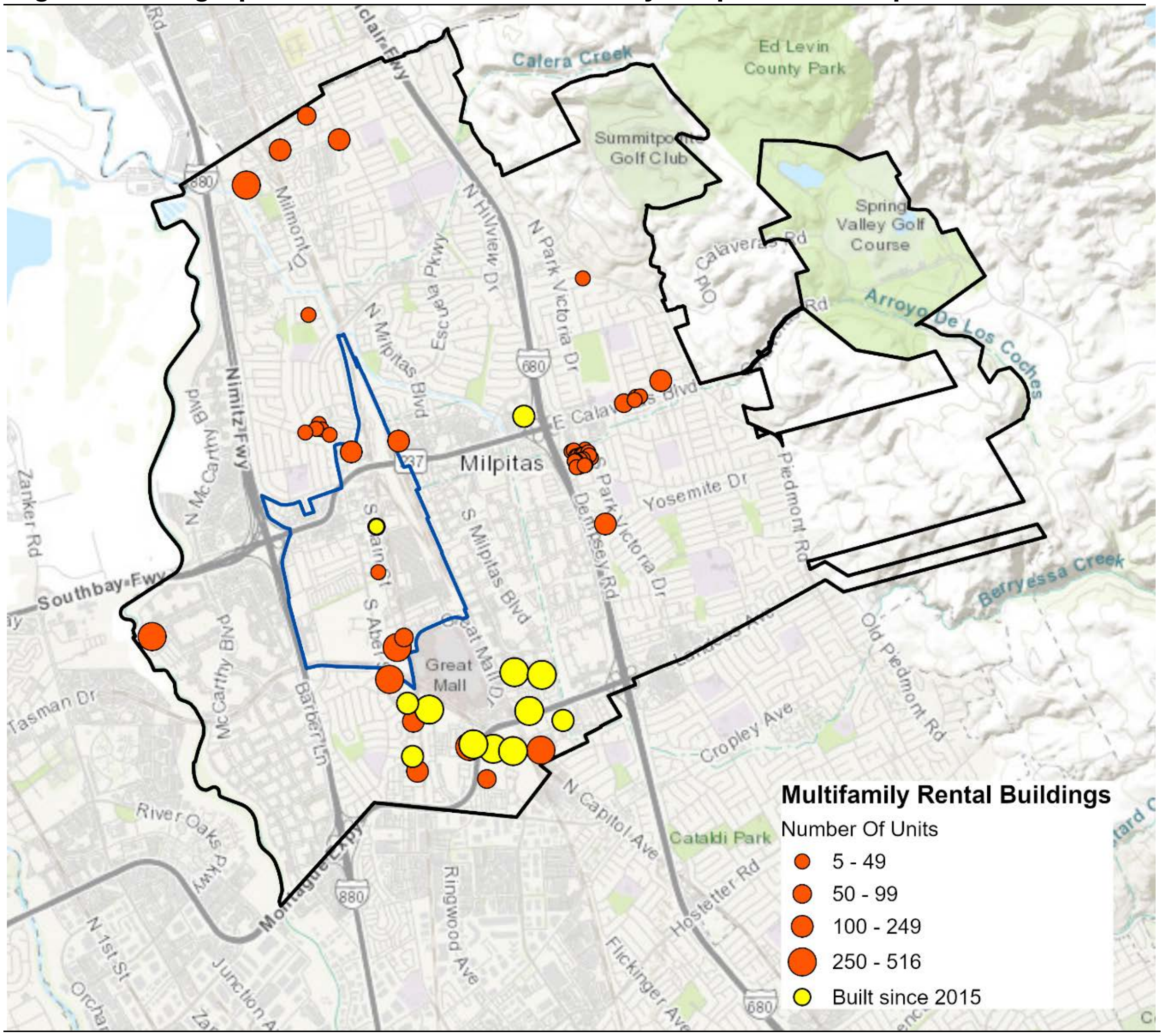
Sources: Redfin; BAE, 2022.

Multifamily Rental Market

Plan Area Context

Milpitas is a strong multifamily rental market that has seen significant new multifamily development over the course of this past economic cycle. Recent multifamily rental construction activity has been heavily concentrated in the Milpitas Metro Specific Plan (MMSP) area which is centered around the Milpitas BART Station and the VTA Light Rail system to the south of the Plan Area. The Plan Area is not an established multifamily rental submarket and has seen just one multifamily project built since 2010. That project, Milpa Village Townhomes, was completed in 2020 and consists of 24 three-bedroom townhomes with ground-floor retail.

Figure 6: Geographic Distribution of Multifamily Properties in Milpitas



Sources: City of Milpitas; CoStar Group; BAE, 2022.

Multifamily Rental Market Conditions

Table 8 shows data on multifamily rental properties with five or more units as inventoried by CoStar. The data capture only five rental housing properties in the Plan Area containing a total of 511 units. As mentioned above, the Plan Area has experienced very little multifamily rental construction activity over the past decade, with just 24 new units built in one project since 2010. As of the fourth quarter of 2021, the average monthly asking rent in the Specific Plan Area was $2,319 per unit, roughly 17 percent below the citywide average of $2,779 per month. Countywide, the average monthly asking rent was $2,557 per unit as of the fourth quarter of 2021. The reported rental rates within the Plan Area reflect five properties in the CoStar database, including two affordable properties, DeVries Place senior apartments at 163 N Main Street and Parc West apartments at 950 S. Main Street, and one mixed market rate/affordable project (Montevista Apartments at 1001 S Main Street). In addition, one market rate project, Mancebo Apartments at 515 S Main Street, is an older rental property having been constructed in 1958. Hence, the asking rates for the existing stock are likely not reflective of the rents new market-rate multifamily product could command in the Plan Area.

Table 8: Multifamily Rental Real Estate Market Snapshot, Q4 2021

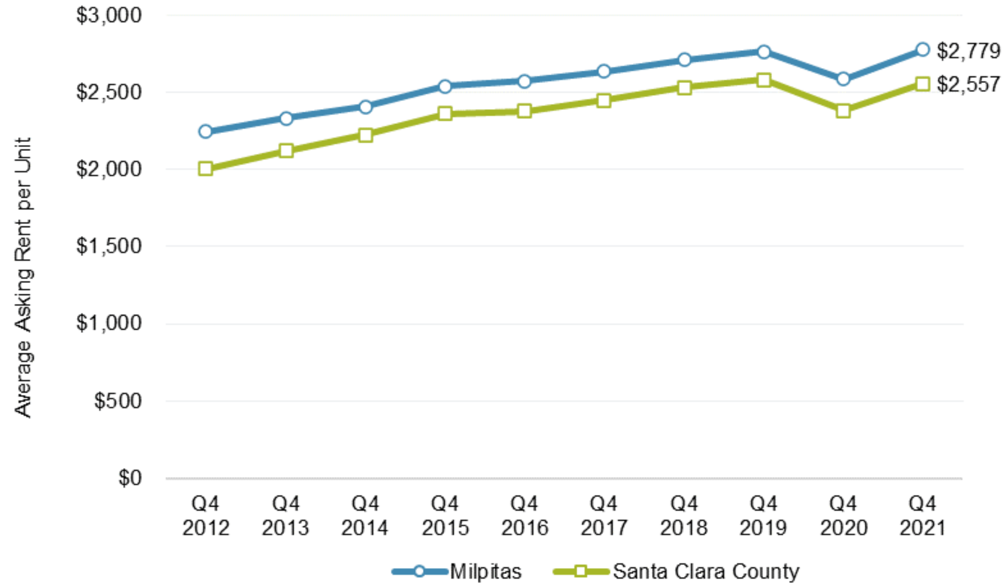
Multifamily Residential, All Rent Types (a)	**Milpitas Gateway-Main Street Specific Plan Area**	**Milpitas**	**Santa Clara County**
Inventory (units), Q4 2021	511	6,463	183,484
Inventory (% of County)	0.3%	3.5%	100.0%
Vacancy Rate	9.7%	9.5%	5.7%
Avg. Asking Rents, Q4 2020 - Q4 2021			
Avg. Asking Rent, Q4 2020	$2,291	$2,585	$2,381
Avg. Asking Rent, Q4 2021	$2,319	$2,779	$2,557
% Change Q4 2020 - Q4 2021	1.2%	7.5%	7.4%
Avg. Asking Rents (psf), Q4 2020 - Q4 2021			
Avg. Asking Rent (psf), Q4 2020	$2.67	$3.05	$2.83
Avg. Asking Rent (psf), Q4 2021	$2.71	$3.28	$3.04
% Change Q4 2020 - Q4 2021	1.5%	7.5%	7.4%
Under Construction (sf), Q4 2021	0	216	6,970
Under Construction (% of County)	0.0%	3.1%	100.0%
New Deliveries (units), Q1 2010-Q4 2021	24	3,691	39,736
New Deliveries (% of County)	0.1%	9.3%	100.0%

Note:
(a) Universe includes market rate and affordable units in multifamily buildings with five or more units. Multifamily properties with less than five units were excluded.

Sources: CoStar; BAE, 2022.

Figure 7 shows average monthly asking rents for multifamily rental units in Milpitas and Santa Clara County in the fourth quarter of years from 2012 through 2021. As shown, Milpitas has consistently recorded higher asking rents than Santa Clara County since 2012. At the end of the fourth quarter of 2021, the average monthly asking rent in Milpitas ($2,779 per unit) was approximately nine percent higher than the average asking rent per unit in Santa Clara County ($2,557 per unit). The observed rent premium in Milpitas is at least partially a function of the city's large concentration of newly built multifamily units. As shown in Table 8, in the twelve years from 2010 through 2021, a total of 3,691 new multifamily units were delivered in Milpitas, equal to roughly 9.3 percent of the total new deliveries countywide.

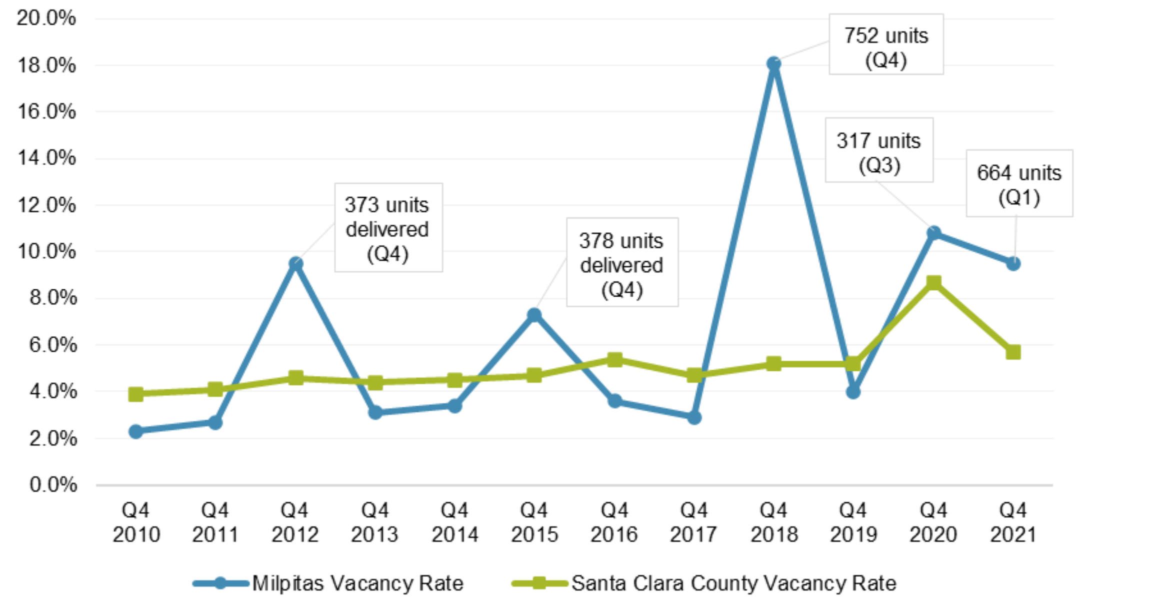
Figure 7: Multifamily Rent Trends, Q4 2012-Q4 2021



Sources: CoStar; BAE, 2022.

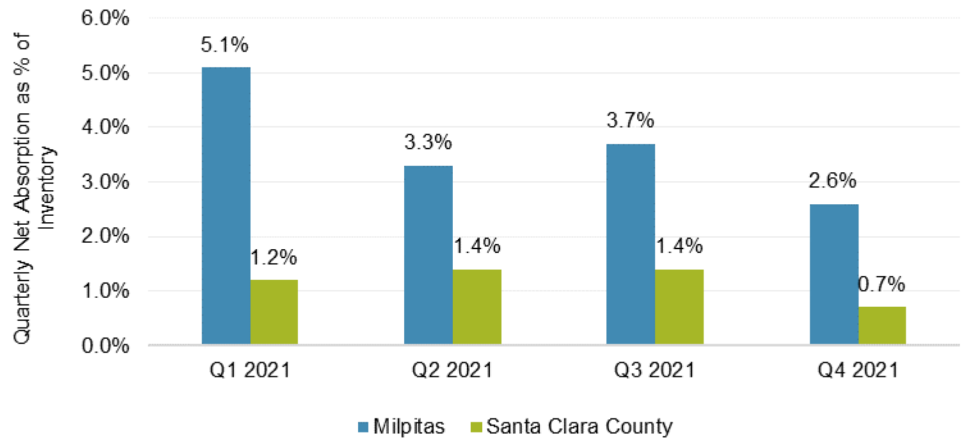
Figure 8 shows multifamily rental vacancy rates in the fourth quarter of each year from 2010 through 2021. In Santa Clara County, the vacancy rate remained steady at less than five percent in years 2010 through 2019 before jumping to 8.7 percent in the fourth quarter of 2020 as a result of the COVID-19 pandemic. The vacancy rate in Milpitas was more volatile; however, this was largely due to the significant amount of new multifamily construction activity in the city during this period relative to a small existing inventory of units. The total multifamily inventory in the city more than doubled between 2010 and 2021 from 2,772 units to 6,463 units as indicated in Table 8. As shown in the figure, spikes in the citywide vacancy rate have coincided with new project deliveries. Generally, the vacancy rate stabilizes soon after newly delivered projects lease-up and the units are absorbed. As of the fourth quarter of 2021, the vacancy rate was 9.5 percent in Milpitas and 5.7 percent in Santa Clara County. The high vacancy rate in the city is likely the result of several different factors, including the economic fallout from the COVID-19 pandemic as well as the large new project deliveries in recent quarters. Milpitas recorded significant and strong positive net absorption in every quarter of 2021, signaling that even despite the COVID-19 pandemic, demand for rental housing in Milpitas is high (see Figure 9).

Figure 8: Multifamily Vacancy Trends, Q4 2010 – Q4 2021



Sources: CoStar; BAE, 2022.

Figure 9: Multifamily Rental Quarterly Net Absorption as Percent of Inventory, Q1 2021 – Q4 2021



Sources: CoStar; BAE, 2022.

National, Regional, and Local Residential Trends

Demand for residential in the Plan Area will be influenced by ongoing trends that operate at the national, regional, and local levels. The following summarizes key trends:

Millennials are primary drivers of household growth and therefore near-term housing demand. As reported by the Joint Center for Housing Studies at Harvard University, the Millennial generation (born 1985 to 2004) has entered into prime household-formation age, which has implications for demand for housing.[6] Due to high housing costs and other factors such as student debt, Millennials have historically been the major drivers of rental housing demand rather than homeownership demand. However, there is a rising demand for ownership housing among this population, which has coincided with recent changes in residential mobility and the shift to remote work.

New market-rate multifamily developments are being targeted to the top of the market with luxury amenities. Primarily due to high construction costs that require top end rents to achieve project feasibility, developers have targeted the upper end of the rental residential market by building luxury, Class A multifamily rental projects. This has been particularly true in the Bay Area which has some of the highest construction costs in the nation coupled with an influx of high-paying technology jobs.

Both younger and older renter households have many shared apartment amenity preferences. Renters are seeking apartments in locations where one can walk to restaurants, retail, and entertainment. Along with standard amenities such as storage, fitness center, pool, and clubrooms, developers are now expanding apartment amenities to include pet-oriented facilities (dog park or pet wash stations), bike storage and repair rooms; yoga studios, secure package delivery rooms, fast speed WiFi in common areas, smart security systems, electric car charging stations, rideshare waiting areas at front entries, rooftop gardens, and sustainable energy and water systems.

The Milpitas Metro Specific Plan (MMSP) area to the south of the Gateway-Main Street Specific Plan Area is an attractive location for new multifamily residential development since it offers a walkable environment with retail, entertainment, and other amenities that are sought by today's renters. New residential products in the Metro Plan area have primarily consisted of townhomes (20-30 units per acre) and multifamily apartments (60-120 units per acre). A review of recent multifamily developments in the Metro Plan area shows that most multifamily projects have been on large sites (5+ acres).

Although the Metro Plan area has already successfully attracted a substantial amount of new residential development since the Great Recession, there is still some remaining capacity

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[66] *The State of the Nation's Housing 2021*, Joint Center for Housing Studies of Harvard University.

within the Plan Area to accommodate additional residential units. One of the major goals of the MMSP is to add higher density and mixed-uses in and around the Great Mall area, which is directly to the south of the Gateway-Main Street Specific Plan area. Given the Great Mall site's proximity to the Plan Area, future growth and development at this site may support new retail in Plan Area.

Implications for Residential Development in the Plan Area

- Recent construction activity, net absorption, and rent trends demonstrate continued strong demand for rental housing in Milpitas and the Plan Area offers many attractive sites.

- There is robust demand for ownership housing in Milpitas, some of which could potentially be captured throughout the Plan Area.

- Existing maximum density in the Plan Area ranges from 30-40 du/acre. The smaller parcels in the Main Street District lying south of Serra Way and north of West Curtis Avenue would be appropriate places for new lower density housing, such as townhomes, rowhomes, or live-work units, due to the predominance of smaller parcel sizes and lack of parcel depth.

- Recent residential projects in the Plan Area have mainly consisted of multifamily apartment projects on large sites (5+ acres), with densities ranging from 60 to 120 units per acre. Maximum building heights need to be five to seven stories to accommodate this density. Larger parcels (or aggregations of smaller parcels) in the Calaveras Gateway, I-880/Abbott, South of Calaveras, West of Abel, and Railroad Triangle districts would be the most appropriate locations for new, high-density residential development. In addition, the larger parcels situated at or near the intersection of Serra Way and S. Main Street in the Main Street district (the Central Plaza shopping center, for example and Serra Center) are large enough to support a range of higher intensity multi-family residential projects at this scale.

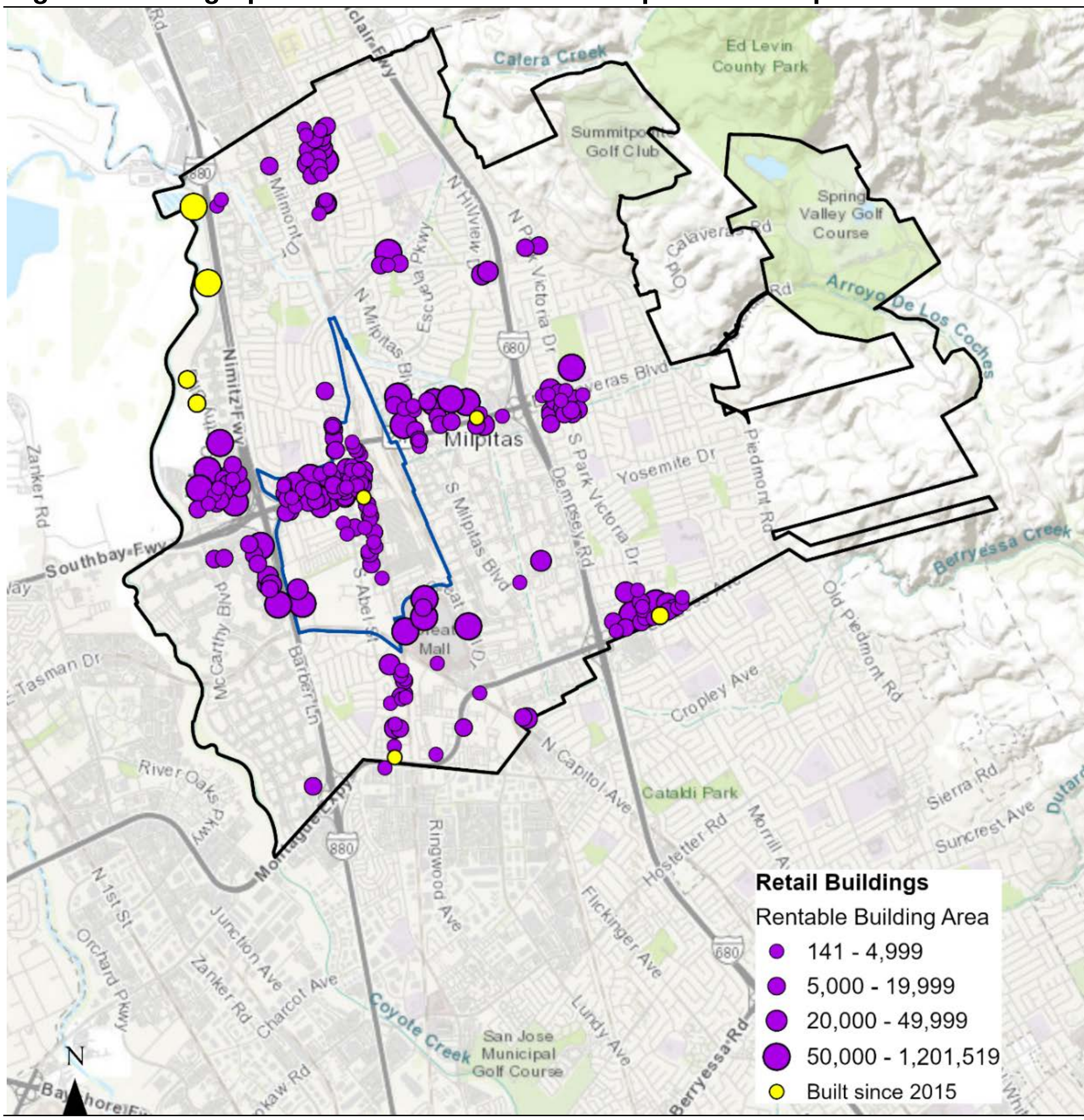
Retail Market

Plan Area Context

At approximately 810,000 square feet, the retail inventory in the Plan Area makes up approximately 16 percent of the total citywide retail inventory (5.1 million square feet as of the fourth quarter of 2021). Most of the retail space in the Plan Area is contained in older strip centers, retail storefronts, and freestanding buildings. Neighborhood centers within the Plan Area include Calaveras Plaza and Serra Center on West Calaveras Boulevard. There are several strip centers along South Main Street and South Abel Street. Freestanding retail buildings also line South Main Street and portions of South Abel Street.

Most of the city's retail space outside of the Plan Area is located within shopping centers. Great Mall, the largest outlet mall in Northern California, contains approximately 1.4 million square feet of space and is located just outside of the Plan Area to the south. The city is also home to one power center, McCarthy Ranch Shopping Center, which is located at the interchange of Interstate 880 and Highway 237 to the west of the Plan Area. The city's community centers include Milpitas Town Center on East Calaveras Boulevard and Milpitas Square, just west of the Plan Area west of Interstate 880.

Figure 10: Geographic Distribution of Retail Properties in Milpitas



Sources: CoStar; BAE, 2022.

Retail Market Conditions

As of the fourth quarter of 2021, retail rents in Milpitas averaged $2.87 per square foot per month, NNN, compared to $2.90 per square foot NNN in Santa Clara County. Retail rents in the Plan Area were near the citywide and countywide averages, at $2.89 per square foot per month. Notably, average asking rents increased by 74.1 percent in the Plan Area between the fourth quarter of 2020 and the fourth quarter of 2021, reflecting a combination of recovery from the COVID-19 pandemic and limited inventory of space. The average retail vacancy rate is low in all three geographies, ranging from 0.3 percent in the Plan Area to 4.1 percent in Santa Clara County. The extremely low vacancy rate and the recent increase in retail rents in the Plan Area indicates that there is demand for space, but the retail mix includes many non-retailers, such as fitness centers, salons and spas, medical service providers, financial institutions, after-school tutoring and martial arts centers and the like.

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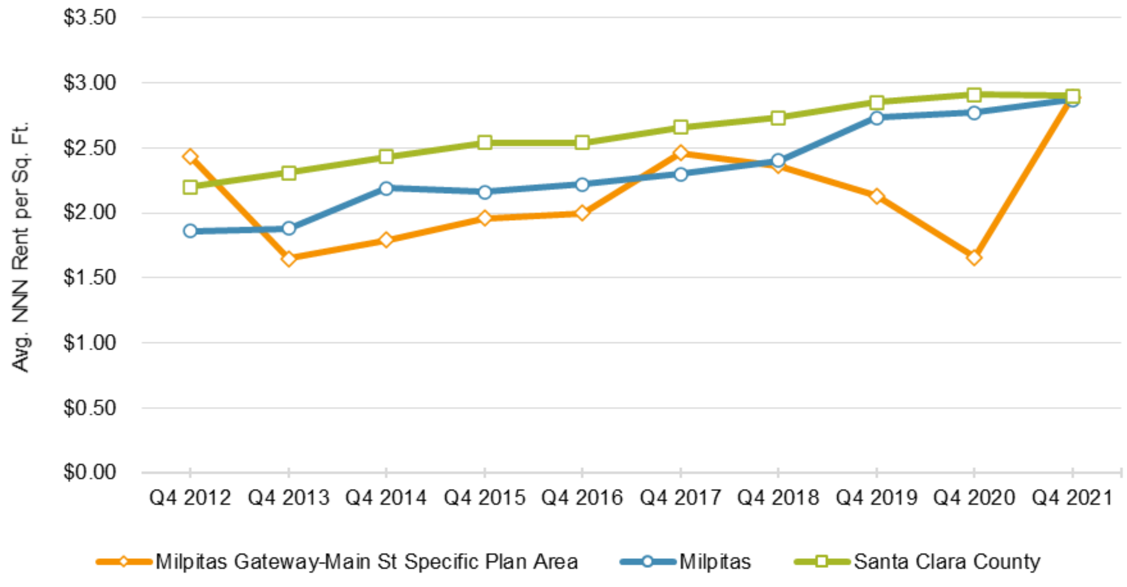
Table 9: Retail Real Estate Market Snapshot, Q4 2021

Retail Market Summary, Q4 2021	Milpitas Gateway Main Street Specific Plan Area	Milpitas	Santa Clara County
Inventory (sf), Q4 2021	809,557	5,101,568	78,042,249
Inventory (% of County)	1.0%	6.5%	100.0%
Vacancy Rate	0.3%	3.4%	4.1%
Avg. Asking NNN Rents (psf)			
Avg. Asking Rent (psf), Q4 2020	$1.66	$2.77	$2.91
Avg. Asking Rent (psf), Q4 2021	$2.89	$2.87	$2.90
% Change Q4 2020 - Q4 2021	74.1%	3.6%	-0.3%
Net Absorption Direct (sf)			
Net Absorption (sf), Q1 2010-Q4 2021	18,979	189,676	2,300,788
Net Absorption (sf), Q1 - Q4 2021	626	(58,681)	(240,852)
New Deliveries (sf), Q1 2010 - Q4 2021	2,040	164,070	5,654,433
New Deliveries (% of County)	0.0%	2.9%	100.0%
Under Construction (sf), Q4 2021	0	3,000	133,105
Under Construction (% of County)	0.0%	2.3%	100.0%

Sources: CoStar; BAE, 2022.

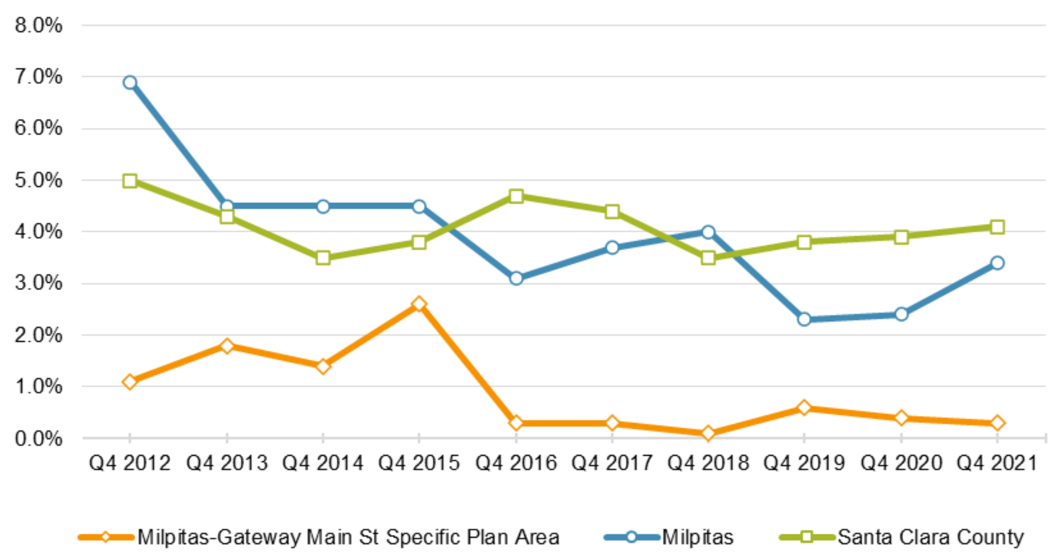
Figure 11 shows fourth quarter average NNN asking rents for retail properties in the Plan Area, Milpitas, and Santa Clara County for the period between 2012 and 2021. As shown, average retail rents have trended upwards in both Milpitas and countywide since 2012. Average retail rents in the Plan Area have been much more volatile, likely due to the persistently low vacancy rate and the limited number of retail availabilities in the area. As can be seen in Figure 12, the average retail vacancy rate in the Specific Plan Area has remained below one percent since 2016. As of the fourth quarter of 2021, the average retail vacancy rate was just 0.3 percent in the Plan Area, well below the average citywide retail vacancy rate of 3.4 percent and the countywide vacancy rate of 4.1 percent. It should be noted, however, that demand for retail in the Plan Area has been driven at least in part by non-retailers seeking high visibility, accessible locations.

Figure 11: Retail Rent Trends, Q4 2012-Q4 2021



Sources: CoStar; BAE, 2022.

Figure 12: Retail Vacancy Trends



Sources: CoStar; BAE, 2022.

National and Regional Market Trends

Transformation of the Retail Sector

In some respects, retail has never been more diverse, and consumers have never had more options readily at their fingertips. How retail is being conducted and how consumers behave are in the midst of a sea change. Examining how shopping centers and "Main Street" or "Downtown" retail districts are evolving, how on-line shopping continues to evolve, and how the landlord-tenant relationship is evolving all help to explain how retail goods and services are consumed and how they will be consumed going forward. It can offer insight into the future of downtown commercial districts.

Commodity and Specialty Retail – How Retail is Organized Today

Each mature community's retail offering organizes and calibrates itself to local demand, and each community's commercial strategy must be calibrated for a variety of local conditions including the local real estate market, consumer demographics, changes in consumption patterns, community vision, the perspective and capabilities of property owners and tenants, a city's available resources, and other factors. Any strategy should be clear, deliberate, and most importantly, should differentiate the subject area from other destinations.

Understanding distinction between commodity and specialty retail, and how they lend themselves to the analysis of and any recommendations related to various retail projects and districts will be extremely useful. In its simplest form, commodity retailers sell the goods and services that we use every day, while specialty retailers sell what we splurge on. As a local Bay Area example, the shopping behaviors exhibited at East Washington Place in Petaluma whose stores generally sell commodities are much different than behaviors in that city's historic downtown shopping district whose stores are generally specialty in nature.

Retail is best thought about not as "box stores" or "malls," but instead in a way that clearly distinguishes between "commodity" retail uses and "specialty" retail uses. Because the factors that maximize performance of commodity retail projects and specialty retail districts are so different, we need to clearly differentiate each in our analyses and strategic recommendations. This approach is further discussed in the Urban Land Institute's *Professional Real Estate Development* handbook.

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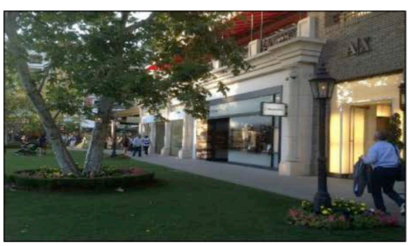
Commodity Retail. The goods commodity retailers sell generally are the same regardless of the origin of purchase. A cell phone or a reusable water bottle, for example, are exactly the same regardless of whether purchased from an airport vending machine, a store, or online. For this reason, they are purchased with the trade-off between price and convenience being the primary decision-making function for the consumer who is asking the question, “Do I need it right now, or can I wait and get a better price?” An emotional connection to the purchase is not a part of this equation.

Specialty Retail. In contrast, specialty goods and services involve allocating discretionary income (i.e. income not earmarked for necessities like shelter or groceries) and discretionary time (i.e. time not devoted to required activities like work or school). Because discretionary income and time are limited, we have more of an emotional connection to how we allocate these scarce resources. For this reason, the physical environment and a sense of place in which these purchases are made become increasingly important. When we go out for a "white tablecloth" dinner, we prefer a High Street in Phoenix Arizona, for example, or other lifestyle center's neighborhood (location) and environment (improvements or facilities) to a quick-serve restaurant located on the outparcel of a big-box retail store or a power center.



It is important to understand that retailers and service providers are not strictly commodity or specialty in nature; they can straddle the line and be both. By extension, it is important to remember that commodity and specialty retail describes shopping behaviors as much, and perhaps more, than it describes a specific retailer or service provider. For example, all of the products sold in an Apple store strictly fall under the definition of commodities; the products are the same regardless of where we get them. That said, Apple has carefully curated its brand and their stores are designed to maximize “retail theater.” Similarly, the majority of the SKU’s in a Whole Foods store are commodities, however, Whole Foods continues to add specialty and prepared foods to its in-store offerings. In some cases, Whole Foods stores have restaurants and the on-site sale of alcoholic beverages. We shop the Apple Store much differently than we might shop for electronics at Costco or Walmart, and while we might buy commodities at Whole Foods, we often take advantage of offerings that are not readily available at a Safeway supermarket. Like the attention to branding and retail theater, both Apple and Whole Foods have a level of fit and finish meant to elicit a more emotional connection than we have at competing retailers. It is important to think about all of these factors when deciding if a retailer is commodity or specialty in nature, or about the sort of consumer behaviors that will be created when such a store opens. The same retailer might be either depending upon context or location. Do the project's location, neighborhood, customer base, and traffic patterns lend themselves more to commodity or specialty purchasing behaviors?

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, and their fortunes as retail powerhouses have similarly waned. 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 The Great Mall in Milpitas, Valley Fair in San Jose, and Stanford Shopping Center in Palo Alto. There are far more that are similar to Santa Rosa Plaza or the former Vallco Fashion Center in Cupertino that are in the process of falling by or have already fallen by the wayside.

The Continued Evolution of Malls and Shopping Centers

The pithy quip, "We're not over-built, we're under-demolished" has merit. The United States had approximately 24 square feet of retail per-capita in 2016, the highest in the world, compared to Canada's 16 square feet, Australia's 11 square feet, Europe's 4 to 5 square feet, and China's 3 square feet[7]. Commodities can be purchased across multiple retail channels, a "channel" being a place such as a bricks-and-mortar store, the internet, a catalog, where a purchase can be made. Specialty goods, including apparel, jewelry, and food and beverage, which just a few years ago were the mainstay of malls and lifestyle centers are increasingly available through channels other than traditional bricks-and-mortar stores. Evidence of the change in where we buy goods, consolidation particularly among commodity retailers, and the US's outsize physical store base is seen in store closures in the thousands and decaying and dead retail projects. The headlines should therefore be "How Will We Repurpose Unneeded Retail Space?" and "Which Bricks-and-Mortar Retail Will Survive?" There are lots of poor-quality shopping centers that have no reason to exist other than tenant demand at the time they were built. Today, an "A" retail project is one that can differentiate itself from competitors. Projects that do not differentiate, or do not have depth, are destined to be "B," "C," or empty.

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[7] GGP Investor Presentation, March, 2017.

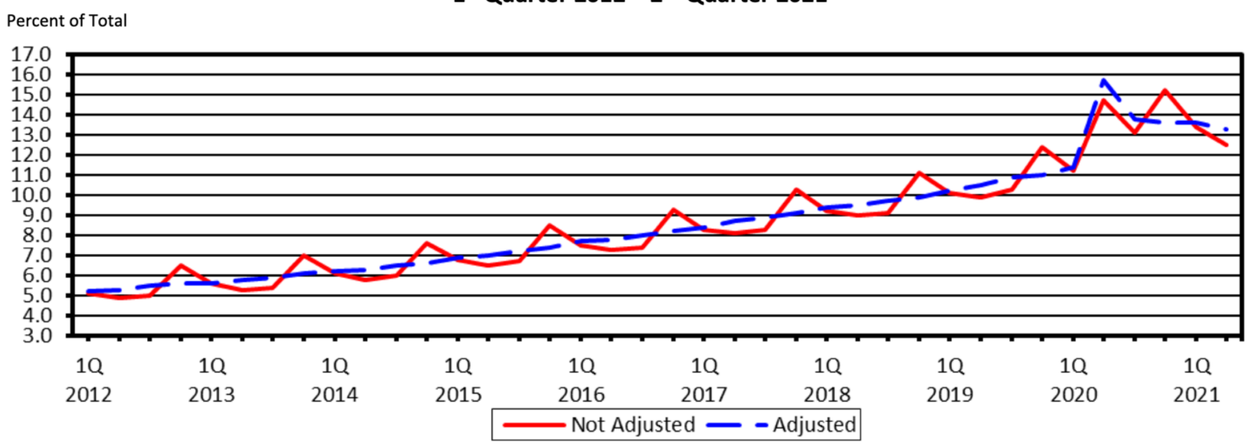
A particularly astute retail leasing executive observed that malls and shopping centers need to differentiate themselves by answering the question, "Why?" Why will the consumer want a "super store" version of the same tenant they've been shopping at for the past 25 years as opposed to something new? Why will refreshed common areas sway consumers when the store offering is stale? Why are owners filling space with "who cares" tenants rather than looking for fewer and better ones, and recognizing that less supply will generate higher rents and smaller operating costs? Tenant curation decisions need to be made with an eye to the relationship the tenant will have with the customer and the value it adds to the overall shopping experience.

In the future, expected demand simply dictates that we will have less commercial real estate space devoted to retail. Planners and developers concentrating efforts on the projects most likely to be dominant will create the most compelling and productive retail destinations with the biggest draws despite competing retail channels. Particularly for communities dependent on sales tax revenues, the key to generating sales tax is to identify where a dominant project or district can flourish, eliminate regulatory hurdles, recognize that some other retail projects simply should be repurposed, and understand that allowing non-dominant projects to evolve to other uses will have the added benefit of creating incremental demand for the dominant retail project. "Less" may, in fact, be "more." Again, because retail real estate is generally well located, acknowledging that some retail projects fall by the wayside but their excellent locational attributes make them excellent candidates for being repurposed as other compatible uses is important.

Implications of the Online World

As noted earlier, consumers shop differently for commodity as opposed to for specialty retail goods. This change is occurring so rapidly that a further explanation of specialty retail that takes into account how specialty goods are sought and consumed is in order. Consider the following graph showing the percent of retail sales that are generated through e-commerce:

Estimated Quarterly U.S. Retail E-commerce Sales as a Percent of Total Quarterly Retail Sales: 1st Quarter 2012 – 2nd Quarter 2021



Source: US Census Bureau, 2021. https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

In short, consumption of specialty goods is increasingly being driven both by online marketplaces, or platforms, and by influencers. COVID-19 is certainly related to some of the incremental rate of growth seen in 2020, however, it is important to differentiate between COVID-19 being the initiating cause of a trend as opposed to it accelerating or bending how goods and services are consumed.

Retail is not dying, it has reoriented to more efficient platforms that give consumers one-stop comparison and shopping and is as or more robust and diversified than at any time in memory. What's new is that specialty goods that have traditionally been purchased through brick-and-mortar retail channels are also increasingly being purchased through on-line channels once reserved for commodity goods. For example, the Canadian e-commerce platform Shopify started in 2004. As of today, it works with over 1,700,000 sellers[8]. Today, there are over 6 million Amazon third-party sellers worldwide, accounting for approximately 50 percent of total units sold[9].

The range of commodities sold through online platforms continues to increase and box stores continue to consolidate as consumers perfect their price-convenience function. Examples range from electronics to office supplies. Produce boxes ordered online represent an increasingly popular method of purchasing perishables, an alternative to a traditional grocery channel. The COVID-19 pandemic ushered in an era of significantly increased online grocery shopping. Specialty goods are increasingly moving to non-bricks-and-mortar retail platforms through services such as Trunk Club, Bonobos, and the Real Real. Even food and beverage is being consumed through apps like Uber Eats, GoldBelly, and BeyondMenu -- another platform that saw a significant increase in adoption because of COVID-19. One factor in particular driving on-line sales of specialty goods is the ability to research and order on-line, combined with an increased ease of picking-up and returning goods through other retail channels. The line between on-line and bricks-and-mortar continues to blur as evidenced by BOPIS (buy online, pick-up in-store) strategies and other strategies intended to have consumers use both on-line and bricks-and-mortar as part of their goods acquisition strategies. Best Buy, Warby Parker, and macys.com are good examples of the latter.

[8] See: www.shopify.ca/about.
[9] See: https://www.marketplacepulse.com/stats/amazon.

In addition to evolving shopping habits, consumers are increasingly interested in what their peers and friends are buying, and not buying. When an "influencer" buys, endorses, or rejects a product, that message can have a wide-ranging impact, particularly when the influencer has a wide social network. This phenomenon is particularly true with consumables like beauty products. Social commerce also has particular significance for the resale market where, for example, someone might put or see something on-line, and then tell their friends about it…creating hype.

The real estate implications are far reaching. It is no surprise that box stores are on the wane as commodities are being purchased through different channels than in the past. On the one hand, platforms directly refute the idea of retail Armageddon. On the other, a decrease in demand for bricks-and-mortar retail space is leaving cities to grapple with decreased sales tax revenues (although the South Dakota vs. Wayfair, Inc. decision[10] has leveled that playing field to some degree). Retail projects are increasingly being rethought and repurposed, sometimes as part of retail pruning strategies. Examples include malls becoming mixed-use projects, educational campuses, or adding residential components. Chains on their own or in partnerships are increasingly recognizing the value of their physical locations as last-mile distribution nodes as is evidenced by Kohl's driving additional foot traffic to its stores by accepting and packaging Amazon returns at no cost.

A final, and possibly most important, implication for malls and shopping centers is the redefinition of the location-Location-LOCATION maxim. We are not suggesting that location is no longer important for retail, however, "beacons" are changing from traditional monument signs to influencers and social media. For example, reviews on Yelp and Google Maps drive bricks-and-mortar visits, often to locations other than at the traditional highest trafficked intersections. Traditional retailers and cities alike need to find new and better beacons than traditional signage for consumers to find and patronize their stores and shopping districts, and to continue to compete effectively in an even more competitive and fluid retail environment.

How to Think About Retail Vibrancy

We are now in an era where thought leadership about the oversupply of retail space has become paramount. For example, online platforms with the greatest hits are the most robust marketplaces. Similarly, we can now measure footfalls in shopping centers and main street retail districts. Retail centers and districts with an increasing/higher number of footfalls are going to be more robust and resilient. An industry veteran said, "Retail is fine; bad retail, bad retailers, and bad developers are not!" Differentiation will define the most successful projects, and increased customer visits will be their prize.

Customer service has always been and continues to be key, so monitoring a store's social ranking is a way to monitor customer service and operations, and an additional performance-

[10] On June 21, 2018, The United States Supreme Court ruled 5-4 in South Dakota v. Wayfair that states can mandate that businesses without a physical presence in a state with more than 200 transactions or $100,000 in-state sales collect and remit sales taxes on transactions in the state (https://us.aicpa.org/advocacy/state/south-dakota-v-wayfair).

based way to differentiate between tenants. The higher a store, center, or district's social ranking, the greater the expected footfalls. Similarly, a retailer with a higher social media ranking will be sought after by consumers. These measures can also guide landlords and economic development specialists in their decision-making.

As already noted, asking "why" a tenant should be in a project, encouraging shop owners to articulate how they plan to make customers feel special when they show up, and offering a unique product and excellent customer service are key to curating a tenant mix that is relevant today rather than a repetition of past strategies.

Forward-Looking Trends

As noted earlier with the Amazon and Shopify examples, retail has never been more diverse, and consumers have never had more options readily at their fingertips. How retail is being conducted is in the midst of a sea change. There are several other emerging retail trends that are important to note:

- COVID-19 has accelerated retail trends that were already in place. During 2020, ecommerce sales as a percent of total retail sales went from 18 to 26percent, or approximately 6 years of growth in 6 months. Specialty retail, especially food and beverage, made strong headway during the pandemic. Customers are not abandoning physical stores, but increasingly using them as a convenience fulfillment mechanism, and contactless pickup and on-demand contactless delivery are a new normal that are here to stay.

- There are surprising short vs. long-term changes at play. The economy will be like a light switch dimmer – it will be freed up and slowed down depending on public health realities. We need to find ways to humanize the in-store experience despite health protocols, making shopping districts and centers more welcoming, healthy, and smart. Offices will be used more for collaboration, innovation/creative, and cross-functional work, and head-down production work will be done more remotely and this will impact commercial districts generally.

- Retail is increasingly key to the success of other land use types. For example, when one sector like office or small retail gets hit, other parts of a mixed-use project help pull the weight, like residential and grocery. Observing solid commercial design principles allow owners to pivot retail space to other uses such as specialty health care, office, and live-work when markets change. Future of work includes more telework and less commuting. This evolution of the distributed workplace means that the demand for daytime serving retail to focus not just on work centers will follow. The impact of the pandemic on the retail environment is an opportunity for healthcare providers to reach more of their patients closer to where they live.

- "Home" has taken on a new meaning. We are re-centering more of social life around home, and this trend will continue to evolve. More of the Gen X (born between 1965 and 1980) and boomer generations (born between 1946 and 1964) are living in the suburbs and have more space at home from which to work remotely. Winning retail home categories include mattress/bedding, home improvement, appliances, grocery, beauty, pet, pool, active/outdoor.

- Malls are yesterday's news, a trend that is accelerating today. Obsolete shopping centers often represent a city's highest profile opportunities to remake space and how people live and interact. These projects are generally really well located and contain enough land to create change at scale.

- The pandemic has damaged our well-being, and retail could help fix that. A vibrant retail environment, even a safe and distanced one during more restricted periods, can offer social resilience. This resilience is something important that retail has to offer. We need our inner circle, but we also need our "outer circle" for our social health. We miss the people we only sort of know (our "weak ties") that includes people we see infrequently, near strangers with whom we have some familiarity, the barista, people in the neighborhood, people who frequent the same businesses, etc. These people introduce us to new ideas, information, opportunities, and people. Losing incidental, repeated social interactions that physical workplaces foster can be especially difficult for young people trying to establish themselves. "Peripheral connections tether us to the world at large, without them, people sink into the compounding sameness of closed networks."

- "Experience goods" enhance the retail experience. An experience good is a good or service that is not valued until it is experienced. For example, clean air wasn't fully valued in Beijing until pollution cleared at the start of the COVID-19 pandemic. Retail is about more than buying and selling goods and services; it's also about new experiences. Retailer merchandising and retail district design can also be an experience good that offers important emotional and social benefits that translate into longer periods being spent shopping and by extension greater sales and sales tax revenues. We recommend that the specific plan address the importance of "place" in fostering strong community gathering and commercial areas.

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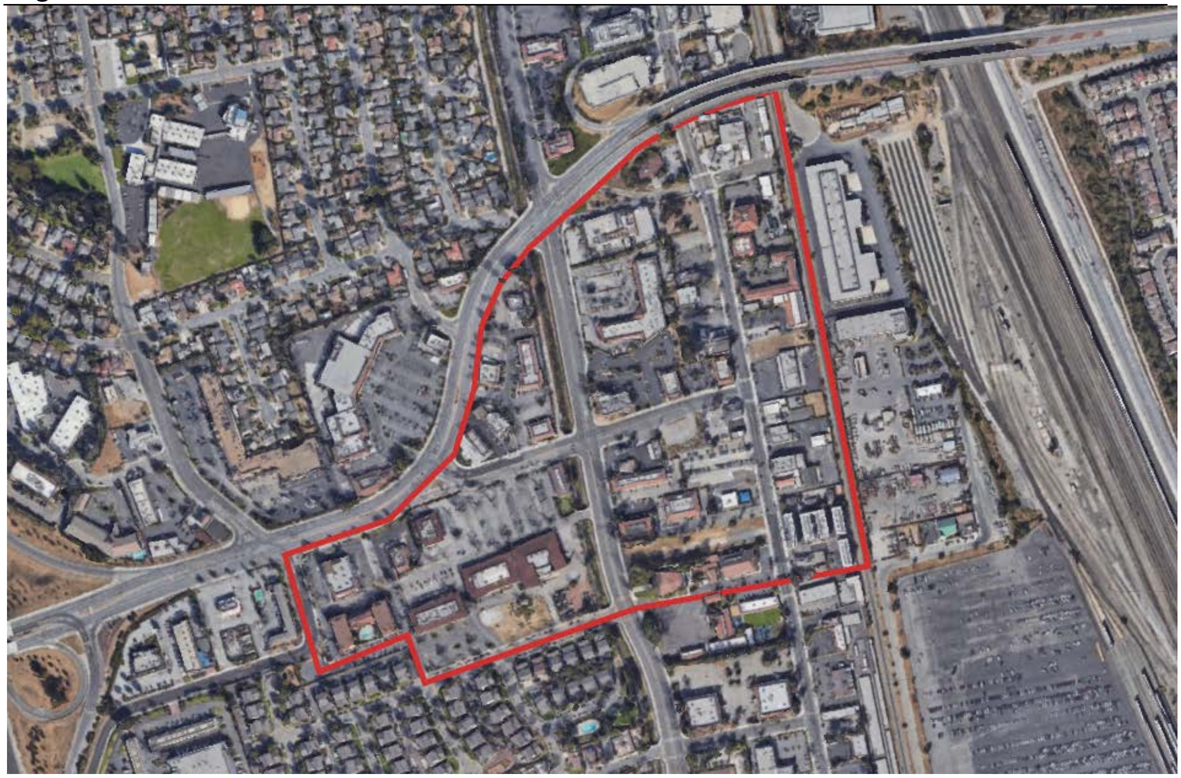
- Adaptation of public spaces and common areas will be key. Encouraging consumers to stay longer translates into a greater spend. Controlling aesthetics (such as landscaping, music, or water features) makes a statement about the shopping experience and lets customers know that a shopping district or center is open. Controlling public health aspects such as making sure diners are spaced appropriately, creating outdoor workout areas and queuing areas, allowing for curbside pick-up, and making sure consumers are aware about efforts to sanitize, increase air circulation, and trash pick-up will have positive impacts. Finally, customers tend to linger longer at outdoor events, so strategies to create more indoor-outdoor environments will be key.

Implications for Retail in the Plan Area

- **The current sub-area boundaries should be redefined with an eye to ease of access and circulation.** Commercial districts that are laid out in grids are even more conducive to shopping than shorter corridors and because of its superior circulation as compared with other parts of the Main Street sub-area as its boundaries are presently defined. The Main Street sub-area is over a mile long, and the redefinition of this sub-area is recommended not only because of its location but because it has the potential to evolve into a small commercial district over time, expanding onto Serra Way and over time to include the block bounded by Abel, Serra, Main, and Carlo. Furthermore, there is the potential to incorporate the “triangle” bounded by Serra, Abel, and Calaveras, and for a repositioned or redeveloped Serra Center to act as a gateway/anchor for a downtown district. The “triangle” is particularly important because if offers the opportunity to create a better connection between the sub-area and the major arterial serving the sub-area. The area, served by Serra Way, Abel Street, Main Street, and Carlo Street, also has better access and circulation than most of the length of Main Street that has only one cross street between the Great Mall Drive and Serra Way.

Figure 13: Potential Retail Node



- The area shown in the figure above has several underutilized privately owned parcels and has the advantage of easy access to major arterials but with narrower interior streets and lower levels of through traffic. Serra Way could be a focal point for this concept. A program of new multifamily residential with ground floor retail designed to offer an intimate, human-scale, non-mall setting would be the best chance to attract more robust retail tenants, particularly eating and drinking establishments and entertainment uses.

- New retail within the recommended node would have a low retail distance to residents that live within the Plan Area and those to the south in the recently completed apartment complexes within the Metro Specific Plan area. A low retail distance means that local businesses, particularly restaurants, have the potential for enhanced revenues from local delivery and pick up of goods.

- **If the right infrastructure and design standards are provided, street retail will work along Main Street between Carlo Street and St. John the Baptist Catholic Church, and along Serra Street between Calaveras Blvd. and Main Street.** Commercial shopping districts that are compact and walkable are easier and more pleasant to navigate for consumers and tend to be more successful. Even the long-successful 4th Street shopping district in Berkeley is relatively compact at under three blocks in length. The most obvious starting point for the creation of a commercial district is Serra Way between Abel and Main Streets with Abel and Serra being seen as a gateway intersection. In terms of retail-supportive infrastructure, we want to promote certain consumer behaviors such as "lingering longer" through "complete sidewalk" design (sidewalk width, public amenities, shade trees, and allowing retailers to spill on to the sidewalks), a "jay-walkable" environment where it is easy to cross from one side of the street to the other, ample lighting, district wide parking (necessary in order to increase sidewalk width), etc. Furthermore, promoting active storefronts including transparency requirements are key to creating interesting commercial districts. Since the area is likely to support the economics required for mixed-use development, developing and adhering to ground floor design standards that promote best practices for incorporating commercial into the podium of mixed-use buildings will be key.

- **Serra Center redevelopment.** Serra Center was once a daily-needs, grocery-anchored neighborhood shopping center. As grocery stores became larger and larger over time, the grocery anchor (most likely Lucky Stores) relocated and its space was backfilled by the sort of tenant that looks for inexpensive second-hand space: Big Lots. Many developers have looked at redeveloping Serra Center over at least the past 15 years, and we believe it remains an excellent redevelopment opportunity. The center is perfectly situated to evolve from being an extension of the downtown district whose boundaries we have suggested above to being a mixed-use anchor for the entire area, housing retail, office, and residential uses. In short, a well-executed Serra Center redevelopment could be transformational for the community by acting as the gateway anchor for a commercial district that would be expected to continue to evolve over time. The key to redevelopment of Serra Center will be a thorough understanding of restrictions that run with the land, easements, and tenant lease rights and terms. This sort of analysis could easily be added to this scope of work.

- **Street retail does not and will not work everywhere.** As noted earlier, Main Street has few intersections, a real estate attribute to which retail is particularly attracted, and it is particularly linear, an attribute not conducive to "lingering longer." For these reasons, street retail should not be the focus south of New India Bazaar where, in fact, it should be discouraged as allowing it in this area would work against the goal of creating a dense commercial district to the north. The existing development pattern to the south, mainly churches and hotels, shallow lot depth, and poor visibility of some parcels (particularly along Junipero), will also make it difficult to extend a walkable retail environment through this area. There also needs to be attention to the sort of retail that is encouraged. The area around Great Mall and Lyon Living's "The Fields" tends to be populated with chain retailers and commodity retailers. By way of contrast, the goal for Milpitas' downtown district should be differentiated as it is the differentiation that will draw consumers, and that will draw consumers from a wider catchment than might otherwise be expected. It should go without saying that a robust food and beverage offering will be key as will be attracting independent as opposed to chain occupiers.

- **Auto-oriented and specialty retail should be reserved to Calaveras.** Because of its high speed and traffic volume, commodity retail should be encouraged along the auto-oriented Calaveras corridor. While not a part of the downtown district, this retail nonetheless will continue to draw people to the area who might then become more aware of the sub-area and more likely to cross shop or make a future destination trip. Nonetheless, E/B Calaveras west of I-880 needs to be improved as the gateway to the sub-area.

- **North of Calaveras**: Despite significant infrastructure improvements, Main Street north of Calaveras is unlikely to become an extension of the downtown district because the Calaveras grade separation is a de facto barrier and “inactive” creak in the area’s walkable pattern. Furthermore, there is not enough opportunity to create a critical mass of retail north of Calaveras on Main to create a separate, stand-alone node.

Office Market

Plan Area Context

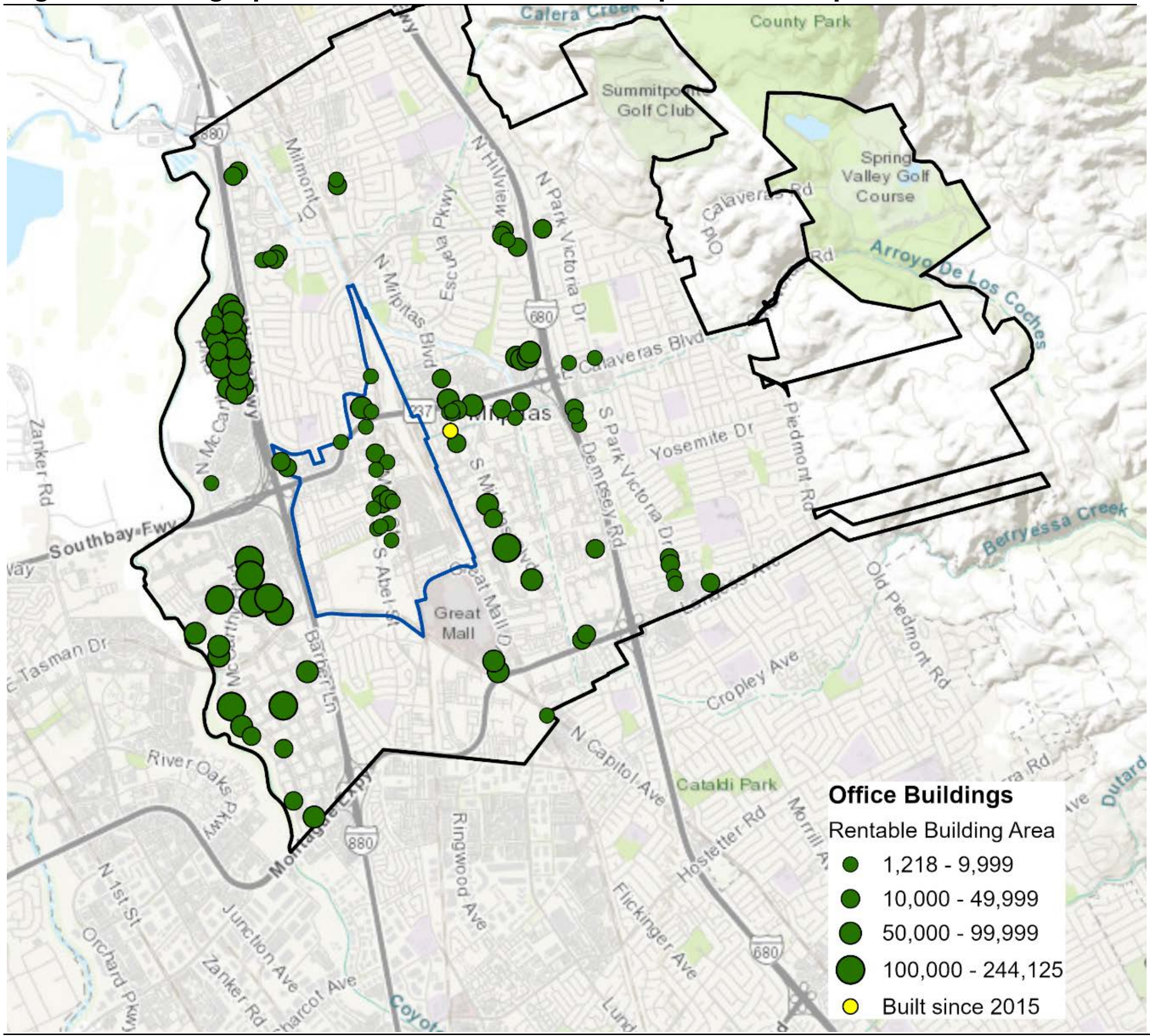
At 4.9 million square feet, the citywide office inventory is fairly limited, making up approximately 3.6 percent of the total countywide inventory. The office inventory in the Plan Area is also very limited, totaling less than 280,000 square feet as of the fourth quarter of 2021. Most office space in Milpitas is contained in larger Class B and Class C[11] buildings west of Interstate 880, which is an area dominated by research and development (R&D), office, and industrial uses. The southwestern corner of the city, which borders the fast-growing Golden Triangle tech employment area, is home to several major office complexes and large corporate campuses. The most prominent among these are McCarthy Ranch and McCarthy Creek. Over the recent business cycle significant investment in office and R&D development has occurred along the western end of the State Route 237 corridor and the Plan Area is at the eastern end of this developing corridor. Smaller Class C office properties are concentrated within the Plan Area along the Main Street and Abel Street commercial corridors.

Office Market Conditions

Demand for office space in Silicon Valley varies by submarket and is generally reflected by vacancy, lease, and absorption rates. Palo Alto and Menlo Park are generally considered top tier cities, commanding the highest rents due their proximity to Stanford University and venture capital firms. Portions of West Silicon Valley, including the Mountain View/Los Altos and Sunnyvale/Cupertino submarkets, are also highly desirable due to the large concentration of major tech employers such as Google, Apple, LinkedIn, and Yahoo. East Silicon Valley cities along Interstate 880 such as Milpitas have historically offered lower rents and experienced higher vacancies relative to other Silicon Valley cities. As of the fourth quarter of 2021, office asking rents averaged $2.86 per square foot in Milpitas, roughly 30 percent lower than the average office asking rent reported in Santa Clara County overall. Office asking rents in the Plan Area were much lower, averaging $2.25 per square foot. The average office vacancy rate was 9.4 percent in Milpitas and 9.8 percent in Santa Clara County. In the Plan Area, the average vacancy rate was just 1.5 percent. The Plan Area's lower vacancy rate reflects demand for affordable office space.

[11] Buildings are typically classified by class of building. Class A office buildings command the highest rents in a market and provide high quality finishes and amenities. Class B and C buildings are usually older and obtain lower rents than Class A buildings.

Figure 14: Geographic Distribution of Office Properties in Milpitas



Sources: CoStar Group; BAE, 2022.

Table 10: Office Real Estate Market Snapshot

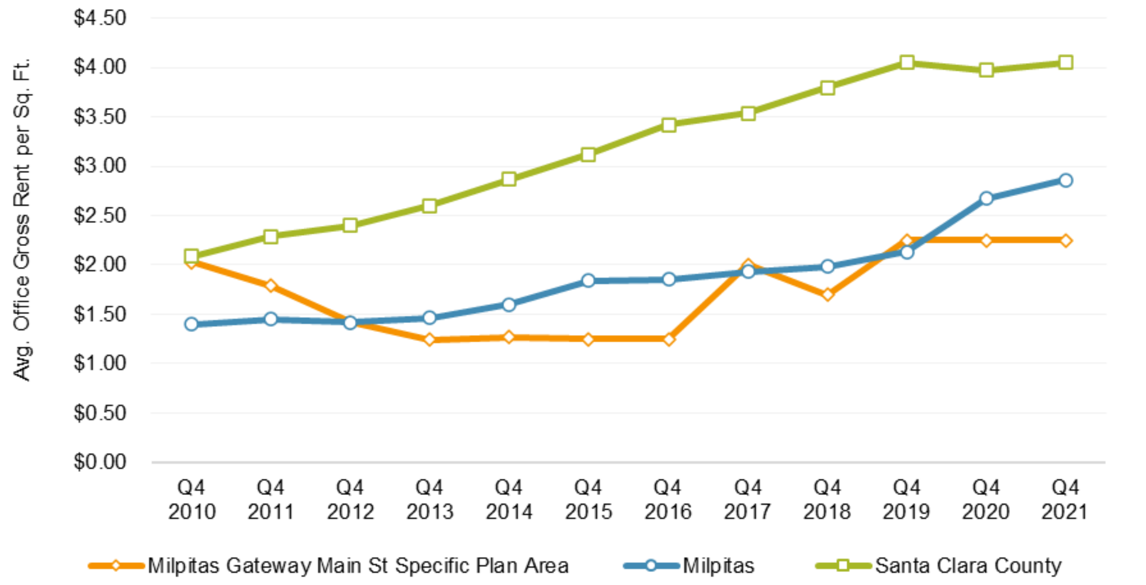
Office Market Summary, Q4 2021	Milpitas Gateway Main Street Specific Plan Area	Milpitas	Santa Clara County
Inventory (sf), Q4 2021	278,213	4,894,525	136,268,890
Inventory (% of County)	0.2%	3.6%	100.0%
Vacancy Rate	1.5%	9.4%	9.8%
Avg. Asking Office Gross Rents (psf)			
Avg. Asking Rent (psf), Q4 2020	$2.25	$2.67	$3.97
Avg. Asking Rent (psf), Q4 2021	$2.25	$2.86	$4.05
% Change Q4 2020 - Q4 2021	0.0%	7.1%	2.0%
Net Absorption Direct (sf)			
Net Absorption Direct (sf), Q1 2010-Q4 2021	(3,682)	59,317	27,896,717
Net Absorption Direct (sf), Q1 - Q4 2021	(545)	(5,447)	1,465,975
New Deliveries (sf), Q1 2010 - Q4 2021	0	2,580	32,377,587
New Deliveries (% of County)	0.0%	0.0%	100.0%
Under Construction (sf), Q4 2021	0	0	7,596,501
Under Construction (% of County)	0.0%	0.0%	100.0%

Sources: CoStar Group; BAE, 2022.

As shown in Figure 15, office rents in Milpitas tend to be lower than the countywide average. In years since 2010, the average fourth quarter office rent in Milpitas has typically fallen around 40 percent below the countywide average. Notably, the city has experienced a significant increase in office rents in recent quarters despite the COVID-19 pandemic. Between the fourth quarter of 2019 and the fourth quarter of 2021, the average office rent increased by roughly 34 percent in Milpitas. In contrast, the average office rent in Santa Clara County decreased between the fourth quarter of 2019 and the fourth quarter of 2020 before recovering to the same 2019 level at the end of the fourth quarter of 2021.

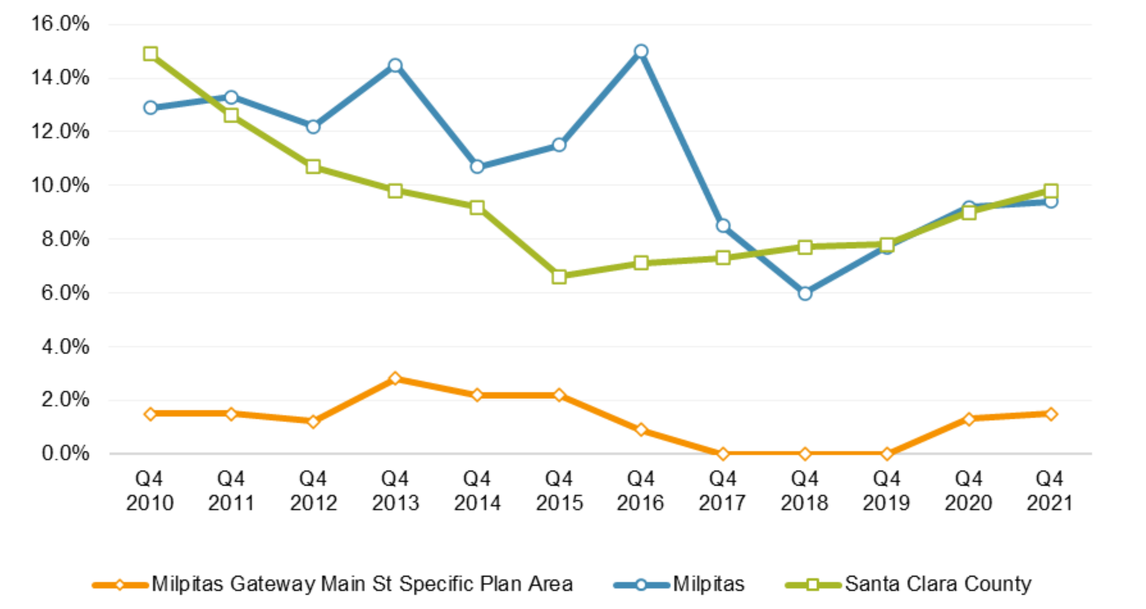
As shown in Figure 16, the average office vacancy rate in Milpitas has also begun tracking much closer to the countywide average office vacancy rate in recent years. The city saw its office vacancy rate drop nine percentage points in the two years from 2016 to 2018. As of the fourth quarter of 2021, the office vacancy rate in Milpitas (9.4 percent) was just below the rate in the county (9.8 percent). Largely due to persistent low rents relative to construction costs, very little office development has occurred in the Plan Area and the city as a whole with CoStar data indicating no deliveries of new space in the Plan Area between 2010 and 2021.

Figure 15: Office Rent Trends



Sources: CoStar; BAE, 2022.

Figure 16: Office Vacancy Trends



Sources: CoStar; BAE, 2022.

National, Regional, and Local Office Trends

Demand for Building, Site, and Neighborhood Amenities. Office workers, particularly workers in the high-tech industries that dominate the market in Silicon Valley, are increasingly demonstrating a preference for workplace locations that offer the amenities typically found in more urban environments, including proximity to public transportation, bicycle and pedestrian access, attractive retail offerings, and entertainment options. Elements of luxury residential and resort space are increasingly being incorporated into commercial office settings. On-site amenities like recreation centers, rooftop decks, outdoor collaboration areas, and master planned landscaping are common. In response to this shift in preferences among workers, companies are more often seeking office locations that offer more urban-style amenities instead of opting for traditional suburban office parks. The preference for more urban amenities, particularly access to public transportation, is reflected in the preferences of companies looking for space in Silicon Valley.

Demand for State-of-the-Art, Sustainable Workplaces. There also has been a notable increase in the number of office property owners and developers renovating or developing their office space into LEED certified structures, usually at the silver, gold, or platinum levels. Two factors drive this increase in interest in sustainable office space: (i) implementing design and building system features that qualify a structure for LEED certification can result in significant operational savings of the life of the building; and (ii) building users and tenants can market their “green” office space as a positive feature to attract employees. Younger workers, particularly in the technology sectors, seek to work for companies whose values generally align with their own and environmental sustainability is one element of these values.

Downtowns are Well Positioned Against Traditional Business Parks. Many suburban downtowns, including Redwood City, Walnut Creek, and Mountain View have seen strong demand for office space as a result of these cities having BART or Caltrain stations and robust nearby amenities. In the Fremont, Milpitas, and North San Jose submarkets, the most sought-after properties are those that have good location (particularly along the Highway 237 corridor) and proximity to transportation (such as Diridon Station in San Jose and Warm Springs BART Station in Fremont) and lifestyle amenities. There has been a high level of renovation of existing office properties in the southwestern portion of the city to reposition these well-located properties as creative office with a contemporary design and materials as well as indoor and outdoor amenity features.

Implications for Office in the Plan Area

- The office market has been weak in Milpitas in general and the potential for significant new office space in the Plan Area may be limited to a select number of well-located parcels.

- The primarily disadvantage the Plan Area has with respect to new office development is its general lack of proximity to the Milpitas BART Station and Transit Center to the south. Distances from this location are too far for walking (e.g., over one-half mile). New large-scale Class A office development would require the developer or tenant to provide additional alternative transit services to connect workers with public transit. Only the south end of the I-880/Abbott district is within a short walk of public transit (VTA Alder Light Rail Station). However, the Plan Area does offer a few parcels with potentially excellent visibility.

- Office rents are currently too low to support new speculative office development in Milpitas; in the near term (e.g., next five years) office development in the Plan Area will likely be driven by technology end users.

- Prime office locations in this submarket are concentrated near State Route 237 in or close to the "Golden Triangle". The most sought-after properties are those that have freeway frontage along the Highway 237 corridor, major arterials such as Tasman Drive and McCarthy Boulevard, and proximity to transportation and lifestyle amenities. Parcels in the I-880/Abbott district have the best chance of attracting new office development due to their location, visibility, and proximity to transit (south end of the district only). Parcels situated in the western portion of the Calaveras Gateway district could also attract office development if integrated with parcels in the I-880/Abbott district to form a large-scale development.

- In other areas within the Plan Area, small-scale Class B office in a residential mixed-use residential project may be feasible by targeting tenants serving the local residents and businesses.