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Economics Research Associates

Project Report

San Diego Downtown Retail Study

Prepared for

The Centre City Development Corporation
San Diego, California

Submitted by

Economics Research Associates

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Table of Contents

Index of Tables/Figures

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I. Section I: Introduction and Executive Summary

<u>Introduction</u>

Economics Research Associates was engaged by the Center City Development Corporation to prepare analysis of retail market conditions in downtown San Diego. The goal of this analysis was to establish the existing conditions for retail businesses in the downtown area, to identify market support and available sources of patronage for the downtown and finally to make strategic recommendations on opportunities within the downtown core. This work was undertaken within the context of the city's downtown strategic plan analysis which identified nine separate districts within the downtown area that would serve as the basic units of analysis for the district as a whole.

The study is divided roughly into two major parts. The first sections of the report deal with quantitative information regarding the current levels of business activity in downtown San Diego based on analysis of sales tax data. This information is intended to give a subjective analysis of the relative performance and market mix in the downtown and in each of the subdistricts. The other quantitative task that had undertaken in this report is to identify the available markets for retail patronage that currently exist within downtown San Diego. The downtown area is undergoing significant transformation since the last comprehensive socioeconomic analysis of the 2000 census. In that time downtown San Diego has been the site of significant new residential development that has broad new households with higher incomes into the immediate market area. Working with the CCDC it was determined that the leasing community along with building owners would benefit from a more up-to-date and clearly identified analysis of the incomes and expenditures that are supportable by these new residence as well as other downtown users. The goal of this analysis is to take the place of conventional "ring" analyses which extrapolate on the basis of countywide changes applied back to census tract information. This report represents a comprehensive and methodologically rigorous estimate that captures the latent purchasing power of downtown household's employees and visitors based on a detailed analysis of their specific conditions and current economic performance.

The second component of the report is to provide strategic recommendations on improving retail competitiveness within the downtown districts. This was accomplished through qualitative analysis of existing conditions in each of the subdistricts, which included observation of retail categories, storefronts' locations and configurations, and the quality of retail. This section of the report provides general retail direction and complementary implementation recommendations.

Taxable Sales

Based on data provided by the city of San Diego via its sales tax permit processor, MuniFinancial, since 1998, the Horton/Gaslamp district accounted for approximately a quarter of total retail sales tax revenues. Marina, Little Italy, Civic/Core, and the East Village each represented between 13 and 19 percent of the total sales, while the Columbia District accounted for about nine percent of total retail sales tax. The Cortez district and Convention Center district represents four percent and zero percent of retail sales tax, respectively.

Since 1998 the downtown planning area has increased its total taxable sales by 60 percent. The economic segment of taxable sales that has grown the most within the downtown area is restaurants. With the exception of the Marina district, all districts have experienced a growth rate of near 50 percent since 1998. In fact, since 1998, retail sales tax from restaurants in Gaslamp/Horton increased by a magnitude of over one, the Little Italy district grew by a magnitude of two and a half, while the East Village experienced a growth of just over a magnitude of ten. Overall, taxable sales from the restaurant segment in the downtown area grew by 95 percent or approximately $2.6 million since 1998. This represents approximately 42 percent of the absolute growth for all retail sales tax.

Demographics

Over the last eight years the San Diego downtown area has gone through rapid and significant change. Current estimates of downtown demographic characteristics differ greatly because it is difficult, absent a decennial census, to quantify socioeconomic changes that occur in a short period of time. Furthermore, caution must be taken when examining small population groups at small levels of geography due to the inherent difficulty in estimating the current economic characteristics of the various planning areas.

In 2000, the downtown area (defined as the 92101 zip code) had a population of 21,223. Approximately 22 percent or 4,600 of the population were in group quarters, while the remaining 16,600 were in a household formation. At that time, there were 12,527 housing units of which 11,471 were occupied indicating a vacancy rate of just over 8 percent. The median household income was $25,323 in 1999 dollars.

Utilizing the five census tracts that are roughly coterminous with the zip code geography, Census data indicated that as of April 1, 2000, approximately 10 percent of the housing units were owner occupied, 80.5 percent were renter occupied, and 9.5 percent were vacant. The total housing unit census inventory, reported at 9,558, is less than reported by SANDAG. As a result, the total household population was also less. However, the median household income was nearly identical ($24,395). Using 2000 census based estimates the average income in the area was $43,000.

The current number of dwelling units was determined using the CCDC living guide as the primary data source verified by site visits. Based on the housing inventory reported, there are currently 20,370 units within the planning area. According to CCDC data, over 10,000 units were competed since 2001 with over 7,200 for-sale condominium projects completed in comparison to 2,800 apartment units delivered. As a result, the renter/owner dynamic has changed dramatically since the 2000 census. As the number of units in the planning area doubled, ERA estimates that 50.5 percent of all units in the downtown area are for-sale properties while 49.5 percent are rental units.

The East Village district area currently has the most available residential units followed by the Marina, Little Italy, and Cortez districts. In total, these four areas represent approximately 84 percent of all the residential units downtown. The percentage of rental and for-sale units vary by district, with most areas showing relative equal distribution (Cortez, East Village, Horton, Little Italy, and Marina), while the Columbia district has a low percentage of rental homes and the Core district has a low percentage of for-sale homes

ERA also examined the new and planned developments in the downtown area. Based on the currently planned developments, approximately 9,200 units are in various stages of pre-development. This would suggest that the downtown area could see the number of residential units increasing by approximately 45 percent in the near term. Assuming all these units are completed, the total number of units would increase to 29,612 in the downtown area

Household Incomes

Based on a weighted median sales price for homes in the two year time period from 1998 to 1999, ERA estimates the average household income of residents living in the downtown in 1999, adjusted to 2007 dollars, was $86,000. Using a methodology described in detail in Section III, ERA has estimated that the average household incomes within the various downtown districts range from $103,000 to $198,000. These estimates are based on recorded sales prices of downtown condominiums by district between 2001 and 2007. All dollars were upwardly adjusted to 2007. The average household incomes for rental properties were estimated using the year-end 2007 average rent prices and then were proportionally adjusted by reported rental prices by district. The average rental household incomes ranged from approximately $28,000 to $61,000. In total, ERA estimates that the average household income in the downtown area was $73,500 as of year-end 2007.

Purchasing Power

Utilizing 2007 tourism data from the San Diego Convention and Visitors Bureau and in-place employment data and employment spending behavior data from the International Council of Shopping Centers the retail spending potential for visitors and employees located downtown was estimated. Along with residential spending estimated by place of origin, the Marina district has the highest total spending by the three groups. This spending is boosted by the overnight visitor market segment and represents approximately 25 percent of the potential retail spending downtown. The Gaslamp District represents 18 percent of total spending due to the daytrip visitor market. Based on the East Village's high residential population, this district represents 17 percent of the potential retail spending. With the exception of the Convention and Cortez district, which represent less than five percent of the spending potential, the other four districts represent between 11 and 13 percent of the potential retail spending.

	Residential	Employee	Visitor	Total	Percent of Total
Columbia	$33.1	$40.9	$76.7	$150.7	13%
Convention	$0.0	$0.9	$0.0	$0.9	0%
Core	$8.3	$37.4	$82.6	$128.3	11%
Cortez Hill	$39.4	$8.6	$15.7	$63.7	5%
East Village	$104.8	$25.8	$77.4	$208.0	17%
Gaslamp	$20.7	$31.3	$165.7	$217.7	18%
Little Italy	$56.1	$21.4	$53.5	$131.0	11%
Marina	$81.9	$20.6	$198.4	$300.9	25%
Total	$344.3	$186.9	$670.0	$1,201.2	100%

Source: ERA

Strategic Retail Recommendations

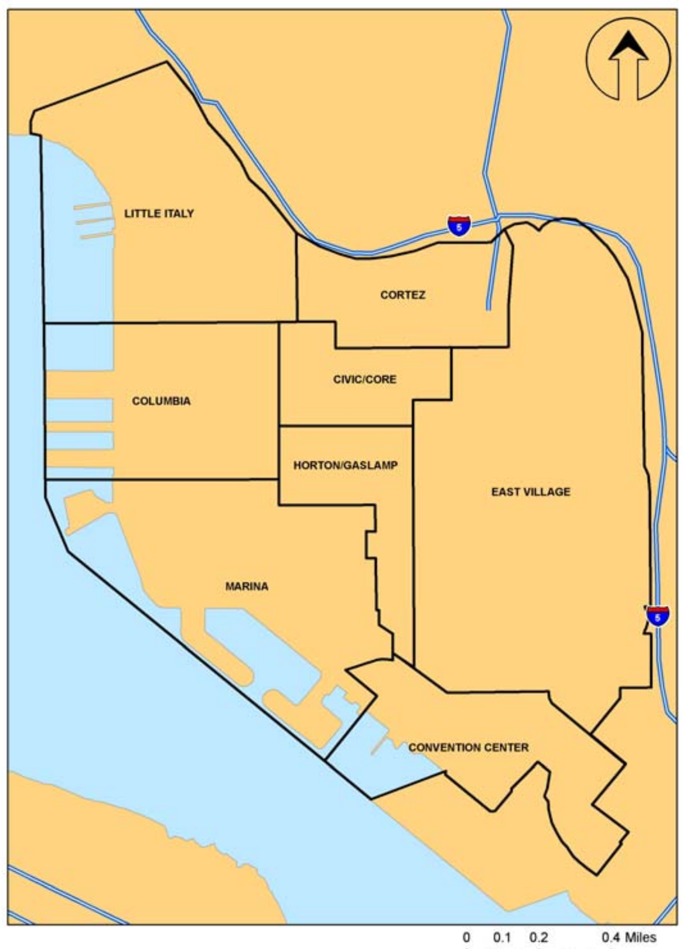
Retail is a dynamic use and while the existence of purchasing power (retail demand) is necessary for retail growth, its mere existence does not mean retail will succeed or that any mix of stores can capture the demand. A retail or merchandise mix (the selection of stores and merchandise) must accurately reflect existing and *potential* customer characteristics, implement proper retail practices, and facilitate the overall improvement of downtown retail. ERA assessed all downtown subdistricts and made a distinction between districts where 1) retail growth is imminent *or* the retail mix requires direction and guidance to sufficiently capitalize on substantial purchasing power or 2) retail is not a short-term play, but rather long-term and efforts should be tempered while the market grows. ERA|DW recommends several tools to ensure that downtown retail fully capitalize on the potential purchasing power. These tools include a Merchandise Mix Plan followed by implementation and targeted financial incentives.

ERA|DW strongly recommends that CCDC and City retail efforts focuses primarily in the Civic/Core on Broadway and then radiate out. As the historic commercial street in downtown and the key linkage between many subdistricts, Broadway has both the potential for retail growth and the ability to impact downtown's retail and identity as a whole with its success or failure. A healthy core makes for a healthy city. ERA|DW recommends two other priority retail areas. The first is the blocks between 8th Avenue and 10th Avenue and between Market and Broadway in the East Village. The second is Little Italy on India Street. While Horton/Gaslamp has significant purchasing power, it is, generally, in good shape. Key efforts here should monitor and ensure that the redevelopment of Horton Plaza is favorable for street-oriented retail in the district.

II. Section II: Existing Conditions in Downtown Retail Market

Downtown San Diego is divided into eight major districts – Civic/Core, Columbia, Convention Center, Cortez, East Village, Horton/Gaslamp, Little Italy, and Marina. The districts are varied in size and composition, and each has key features that make it distinct. The entire area is bounded to the north and east by Interstate 5 and to the west and southwest it is bordered by the Pacific Ocean. The northwest corner is bordered by Laurel Street, and the southeast corner is bordered by 16th Street, Sigsbee Street and Newton Avenue (Figure 1).

Figure 1 – District Map and Downtown Planning Area

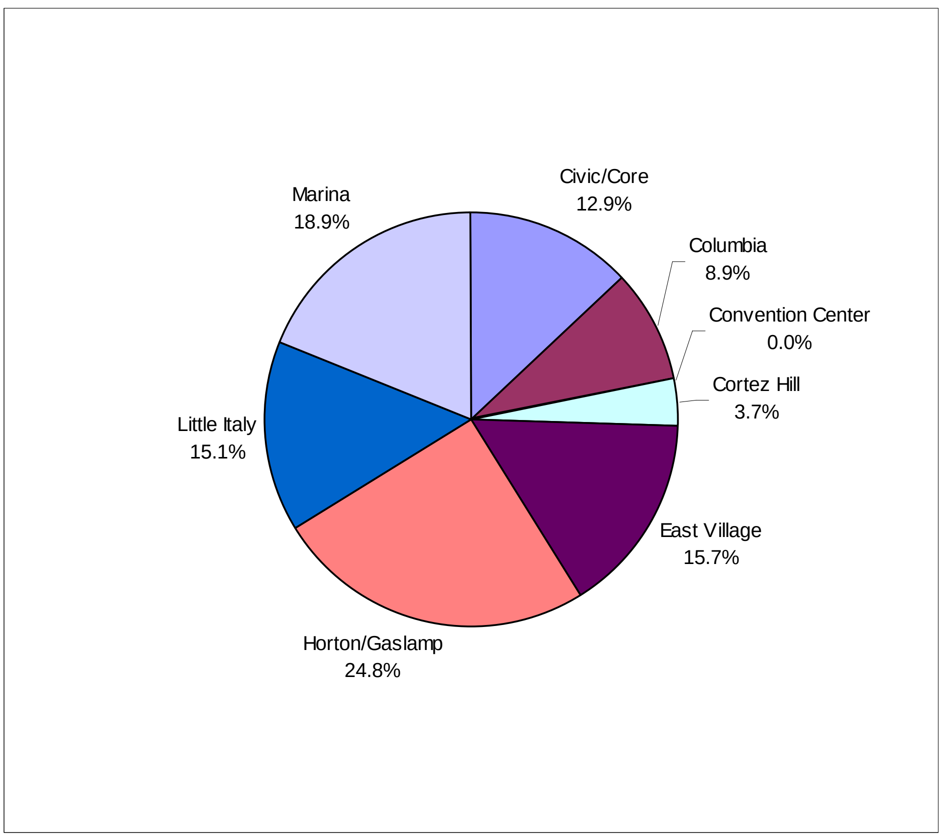


Source: Munifinancial, ERA

There is a bus and trolley system that provides public transportation throughout the city, and most of the streets are one way, with the exception of the main thoroughfares. Construction is ongoing and scattered throughout the area, both of residential buildings as well as new office and retail establishments.

An overview of each districts share of total taxable sales is presented in Figure 2. As noted below, the Horton/Gaslamp District, which is the primary retail center of downtown, with Horton Plaza, a super regional shopping mall and the Gaslamp Quarter accounted for 25 percent of total retail sales tax revenues. Marina, Little Italy, Civic/Core, and the East Village each represented between 13 and 19 percent of the total sales, while the Columbia district only accounted for about 9 percent of total taxable retail sales. The Cortez district and Convention Center district represents 4 percent and 0 percent of retail sales tax, respectively.

Figure 2 – District Sales Tax Revenue as Percent of Total Downtown



Source: Munifinancial, ERA

Description of Districts

Civic/Core

General Location and Key Features

As its name denotes, the Civic/Core District is located at the center of downtown San Diego (Figure 3). It is bounded to the north by A Street for six blocks and Ash Street for three blocks. Its western border is Union Street and its eastern border is Eighth Avenue. On the south side, it is bounded by Broadway for seven blocks and C Street for two. C Street, which was closely examined by ERA in Phase I of this study, runs through the center of the district.

Figure 3 – Map of Civic/Core District

Source: Google Maps, ERA

As noted in the previous study, the most outstanding feature of C Street is that it is a transit corridor, and the light rail system passes down the entirety of C Street located within the Civic/Core District. Though there are sections of C Street that allow car traffic, most of it is closed off to automobiles and the only traffic is from the light rail and pedestrians. The primary tenants of the area are government-related, including the San Diego Civic Center, San Diego Detention Center, San Diego County Public Law Library, and City of San Diego City Administration Building. Most of the other buildings are high rise offices, with some residential properties scattered throughout.

Existing Retailers

Retail is limited in the district, especially on C Street, and the retail that does exist is primarily located on Broadway between 2nd and 5th Avenues, which is near Horton Plaza. Key Tenants in the area include Benihana, Rite Aid, Ross and Starbucks. While there are a number of other retailers in the area, most of them are not nationally branded and are local establishments that cater to the surrounding neighborhoods. According to CoStar, the Civic/Core area has approximately 1.1 million square feet of retail space. This represents 21 percent of all tracked leasable retail space in the downtown planning area.

Retail Sales

The Civic/Core District accounts for about 13 percent of the total sales tax revenues throughout the downtown region. However, it also accounts for 23 percent of business to business sales tax revenues. Within the district itself, food products represent 43 percent of retail sales, general retail revenues only account for 23 percent of sales tax, and business to business tax revenues are 23 percent of the district sales tax (Figure 4).

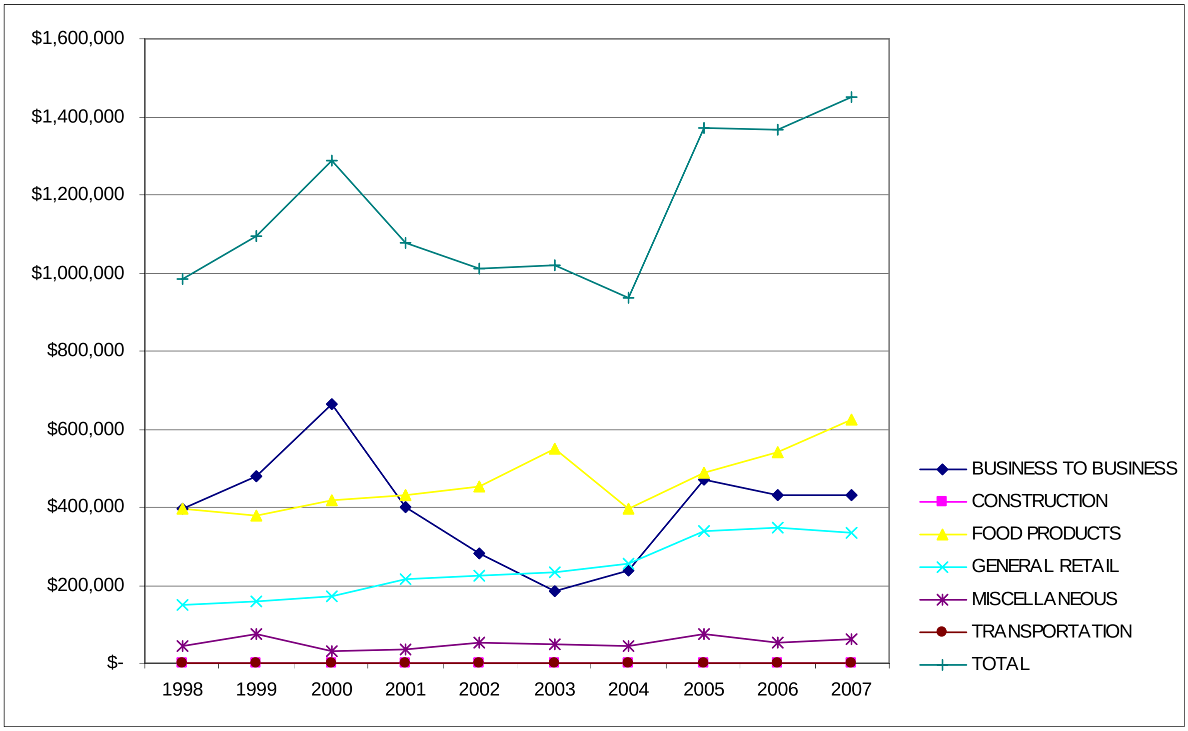
Figure 4 – Civic/Core District Sales Tax (2007)

Economic Category	Percent of District	Percent of Downtown
Business to Business	29.7%	23.3%
Construction	0.0%	0.0%
Food Products	43.1%	10.8%
General Retail	22.9%	17.3%
Miscellaneous	4.2%	18.0%
Transportation	0.1%	0.2%
Total	100.0%	12.9%

Source: MuniFinancial, ERA

Total revenues in the Civic/Core District peaked in 2000 at approximately $1.2 million, which then gradually declined in the following years to about $936,000 in 2004. These declines were largely the result of declines in business to business and food products revenues. Business to business tax revenues and food products rebounded in 2005, helping the district reach a new high in 2005. Since 2005, the district has continued to grow and as of year end 2007, the district had approximately 1.45 million in sales tax (Figure 5).

Figure 5 – Civic/Core District Sales Tax Trends by Spending Category (1998-2007)



Source: MuniFinancial, ERA

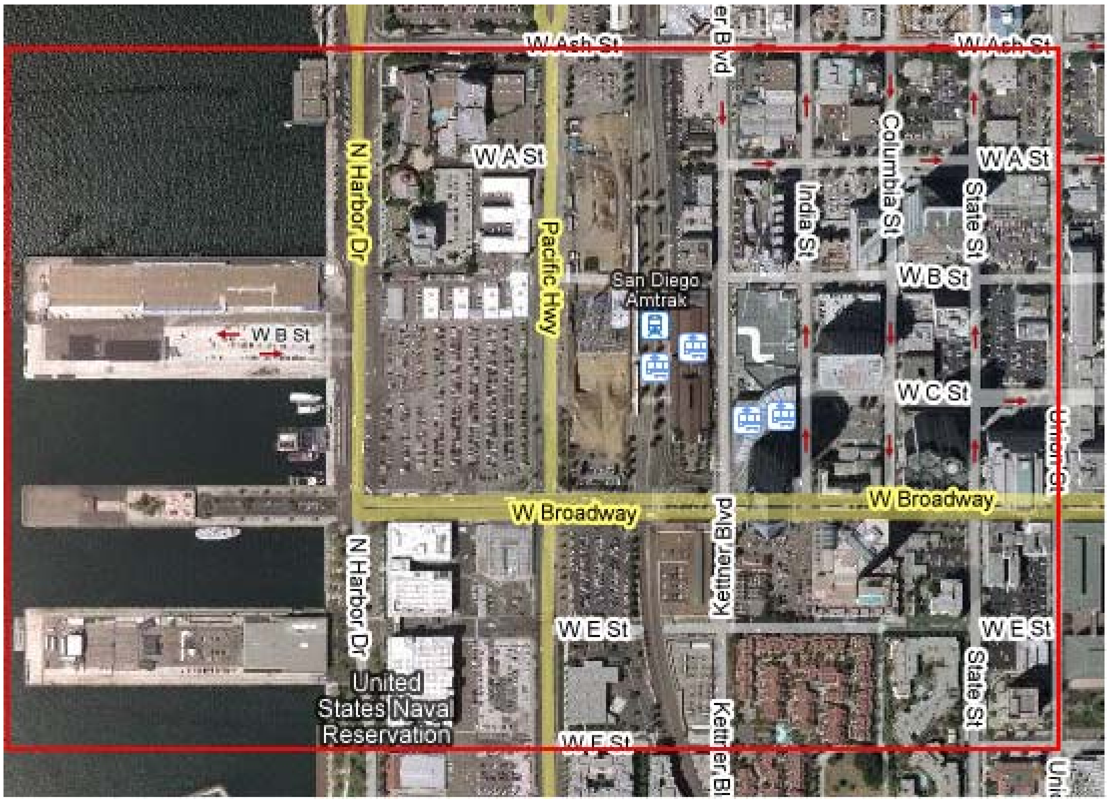
Columbia

General Location and Key Features

The Columbia District is located on the western side of downtown, bordered by Little Italy to the north and the Marina District to the south (

Figure 6). To the east is the Civic/Core and Horton/Gaslamp Districts. Ash Street bounds Columbia to the north, separating it from Little Italy. On the east the district is bordered by Union Street, and to the south it is bordered by F Street. The western portion of the district is bordered by the Pacific Ocean, and this section includes a large amount of port property.

Figure 6 – Map of Columbia District



Source: Google Maps, ERA

Both Harbor Drive and the Pacific Coast Highway pass through the district in the north-south direction, and Broadway intersects the district east-west. The San Diego Amtrak station is located at the end of B Street, and the southwest corner is inhabited mostly by the United States Navy. There are a number of housing developments being constructed between Ash and Broadway near Kettner Boulevard, and much of the rest of the area is split between residential and commercial buildings and a couple of large hotels to the east of the Pacific Coast Highway.

Existing Retailers

There are few major retailers in this area, but there are a couple of large hotels and nationally branded stores and restaurants. These include Office Depot, Ruth's Chris Steakhouse, and Elephant and Castle. Additionally there is an Anthony's Fish Grotto, which is a restaurant chain located throughout the greater San Diego region. All of these retail establishments are located between Harbor Drive and Pacific Coast Highway with the exception of Office Depot which it just to the east of Pacific Coast Highway on F Street.

According to CoStar, the Columbia district has approximately 110,000 square feet of retail space. This represents 2 percent of all tracked leasable retail space in the downtown planning area.

Retail Sales

Columbia accounts for about 13 percent of total sales tax revenues in the downtown area (Figure 7). Of Columbia's total revenues, more than half, 53 percent, comes from the sale of food products. This is reflective of the number of nationally branded and upscale restaurants located within the district. Another third comes from business to business transactions. Almost ten percent of district revenues from transportation costs, which is reflective of the Amtrak station. Overall, Columbia's food product sales account for 9 percent of all food product sales in downtown, and its business to business sales almost account for 18 percent as well.

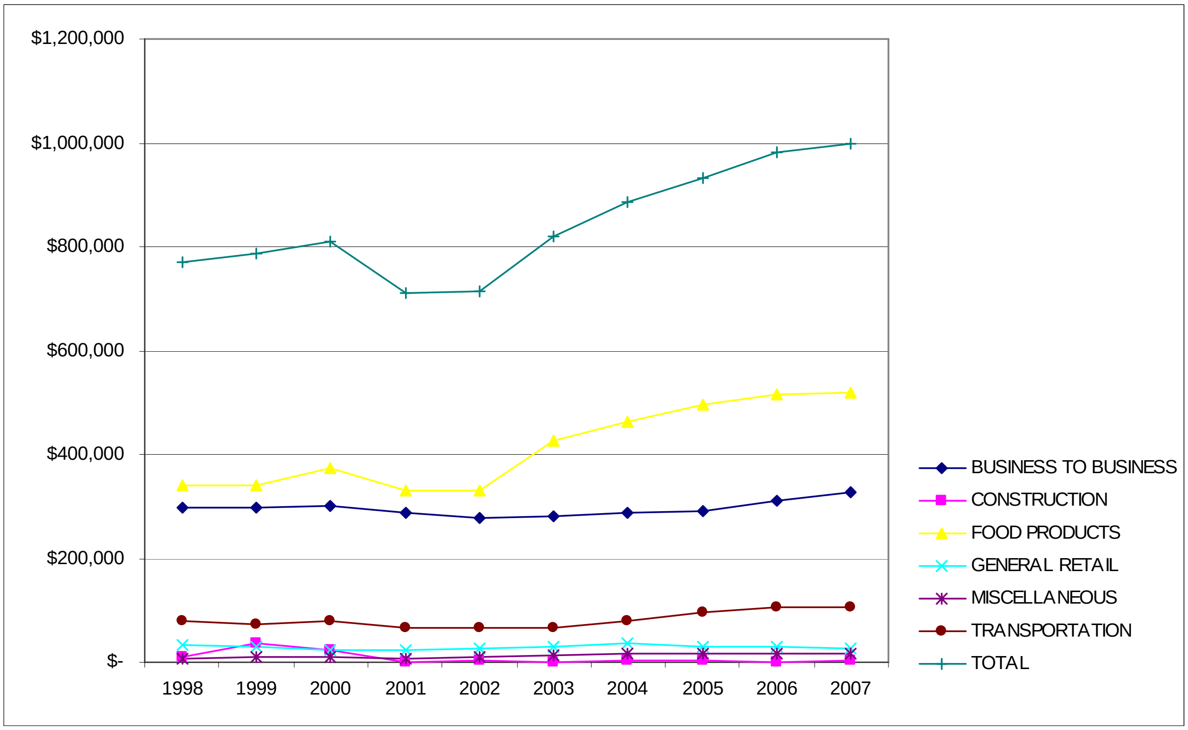
Figure 7 – Columbia District Sales Tax (2007)

Economic Category	Percent of District	Percent of Downtown
Business to Business	32.8%	17.7%
Construction	0.2%	0.3%
Food Products	52.2%	9.0%
General Retail	2.6%	1.3%
Miscellaneous	1.7%	5.1%
Transportation	10.6%	13.3%
Total	100.0%	12.9%

Source: MuniFinancial, ERA

Columbia's sales tax revenues have remained largely stable, showing gradual increases over the past 10 years. Most categories reflected the overall sales trends. Construction sales, however, varied widely during the 10 years, peaking in 1999 at about $37,000 and then dropping to close to zero in the years following (Figure 8).

Figure 8 – Columbia District Sales Tax Trends by Spending Category (1998-2006)



Source: MuniFinancial, ERA

Convention Center

General Location and Key Features

As its name suggests, the one key feature of the Convention Center District is the San Diego Convention Center (Figure 9). It is located in the southernmost corner of the San Diego downtown area, and is border to the south and the west by the Pacific Ocean. To the north, it is bounded by Harbor Drive, Imperial Avenue, National Avenue, 16th Street, and Sigsbee Street and is side-by-side with the East Village District. To the northwest, it is bordered by the Marina District. Most of the property included in the district is taken up by the Convention Center and related uses such as parking. There are some industrial yards, but no other retail offerings.

Figure 9 – Map of Convention Center District

Source: Google Maps, ERA

Existing Retailers

There are no major retailers located within this district. Similarly, CoStar did not report any leasable retail space in the district.

Retail Sales

The Convention Center District did not have any recorded retail sales tax revenue because the only tenant on the property is the Convention Center and its associated tenants. The rest of the property includes a series of parking lots and industrial yards.

Cortez Hill

General Location and Key Features

Cortez Hill is located in the northeast section of downtown San Diego. It is bordered to the north by Interstate 5 and to the east by Highway 163 (Figure 10). To the south, it is bounded for nine blocks by A Street and by Ash Street for which, both of which separate it from the East Village and Civic/Core districts. On the west, it is bordered by Front Street, which separates it from Little Italy.

Most of the properties on Cortez Hill are offices or residential. The Cortez Hotel is located north of Ash Street between 7th and 8th Avenues, but almost the rest of the northeast sector is residential development. The area is built on a substantial hill, which is highest around 8th and 9th Avenues, setting them above the level of the surrounding freeways. The geography, in addition to the landscaping sets the residences apart from the street noise so that it becomes relatively unobtrusive. There are a couple of neighborhood parks as well, which makes the district feel more like a suburban neighborhood rather than a downtown district.

Figure 10 – Map of Cortez Hill

Source: Google Maps, ERA

Existing Retailers

There are no major retail establishments located within the Cortez Hill District. As much of the district is residential and office, most of the retail offerings are small neighborhood directed establishments, such as small cafes and service shops. According to CoStar, the Cortez Hill area has approximately 164,000 square feet of retail space. This represents 3 percent of all tracked leasable retail space in the downtown planning area.

Retail Sales

Cortez Hill only accounts for about 4 percent of sales tax revenues in the whole of downtown. Over 53percent of sales tax revenues come from transportation sales. Food products and business to business sales are the second and third largest producers of sales tax. Another nine percent of revenues come from general retail. However, because these sales account for so little of overall revenues in the downtown area, they actually are very limited in their monetary amount (Figure 11).

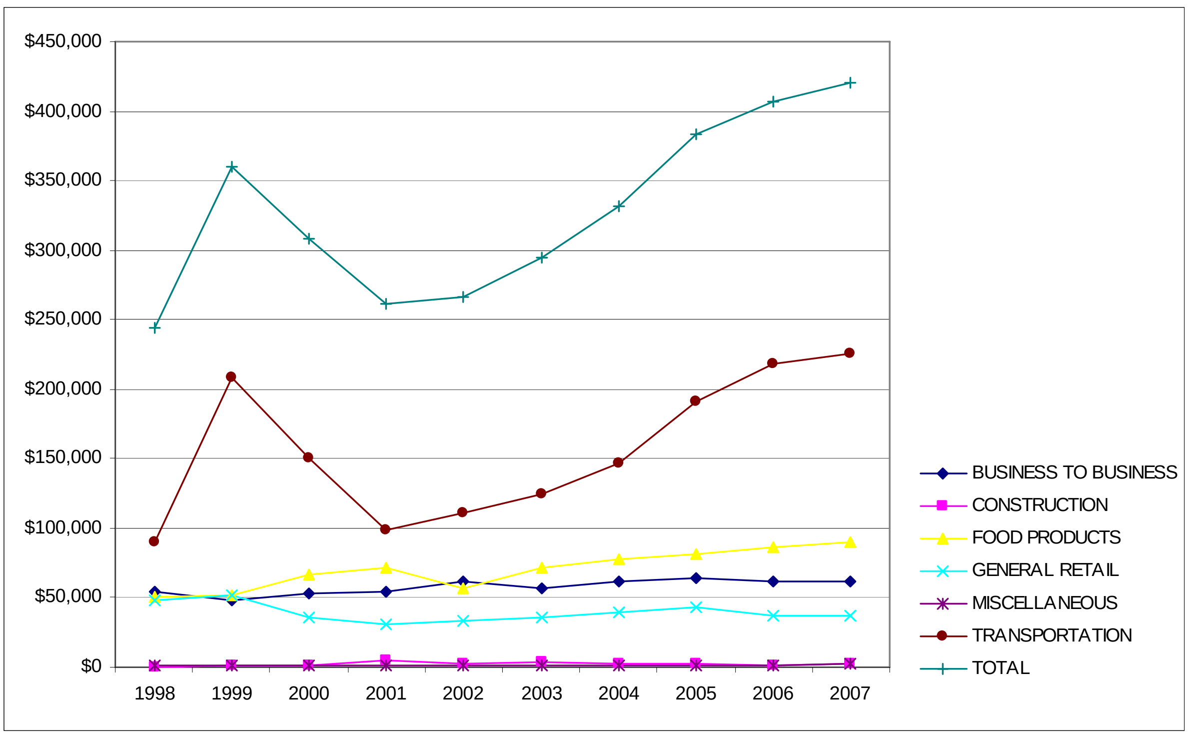
Figure 11 – Cortez Hill District Sales Tax (2007)

Economic Category	Percent of District	Percent of Downtown
Business to Business	14.6%	3.3%
Construction	0.5%	0.4%
Food Products	21.5%	1.6%
General Retail	8.9%	2.0%
Miscellaneous	0.6%	0.7%
Transportation	53.8%	28.5%
Total	100.0%	3.7%

Source: MuniFinancial, ERA

Total sales tax revenues have been increasing from 2001to 2007 (Figure 12). Similar to what was reported in the Columbia district. This growth is mirrored by transportation, though food products and business to business sales remain relatively stable during the 10 year period.

Figure 12 – Cortez Hill District Sales Tax Trends by Spending Category (1998-2007)



Source: MuniFinancial, ERA

East Village

General Location and Key Features

The East Village district is the largest of the districts and includes a variety of key features and tenants. It is bounded to the north and the east by Interstate 5, to the south by Commercial Street and to the west by 6th Avenue and Highway 163. The main streets through the district include Market Street, Park Boulevard, and Broadway (Figure 13).

Figure 13 – Map of East Village District

Source: Google Maps, ERA

San Diego City College is located in the northern portion of the district, which includes Balboa Stadium. The lower southeastern corner and central eastern sections are primarily industrial properties, many of which have large lots for storage purposes. The southwestern section is Petco Park, which is a fairly new stadium surrounded by brand new condominiums and other types of residences. There are several large parking lots in this area to support the park as well as the trolley station. Near the trolley station, which is located just to the east of Petco Park, there seem to be a lot of people who loiter on the streets. This area is marked in contrast to the much newer section of residences and restaurants just to the north of the park. Much of the eastern portion of the Village is older residential and office buildings, and the western section, especially near the Civic/Core district becomes much more urban.

Existing Retailers

The retail in the area varies by neighborhood. Near Petco Park, the retail is directed toward the potential new condominium and loft tenants, with stores such as Design Within Reach. Also, much of the retail is more focused on the surrounding neighborhoods, with a number of grocery stores, coffee shops and small cafes. Market Street Village, located at G Street and 13th Street has an Albertson's and Boston Market. Further to the northeast where the residences are much older and more rundown, there are a couple of thrift stores—Goodwill and Salvation Army, which is adjacent to the Salvation Army Center—all of which cater to a lower income demographic. Other nationally branded stores include Ralph's and Coffee Bean.

According to CoStar, the East Village district has approximately 1.5 million square feet of retail space. This represents almost a third (29 percent) of all leasable retail space in the downtown planning area.

Retail Sales

The East Village District accounts for about 16 percent of the total sales tax revenues in downtown San Diego (Figure 14) . It also accounts for 21 percent of all transportation sales tax revenue, which is not surprising as there is a bus depot and San Diego trolley station within the district borders. 20 percent of all general retail tax revenues for downtown also come from the East Village.

Most of East Village's revenues from sales tax come the sale of food products and general retail. Transportation accounts for about 10 percent of total revenues for East Village, which implies that total transportation revenues are relatively small across the entire downtown.

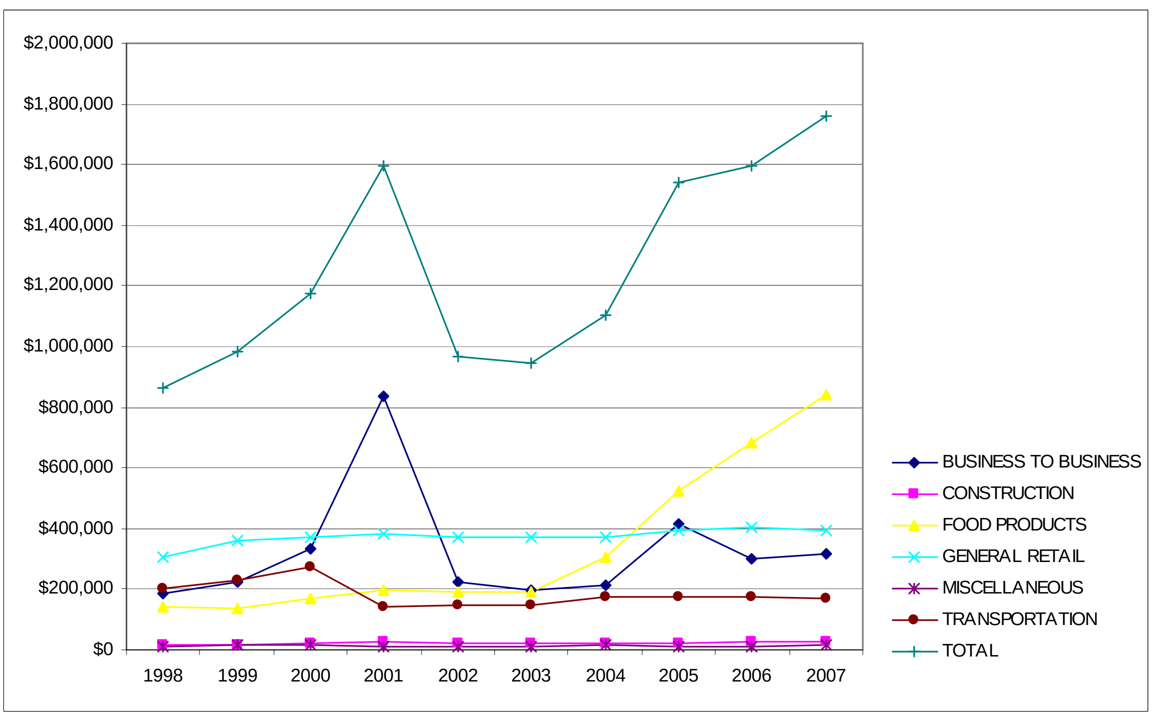
Figure 14 – East Village District Sales Tax (2007)

Economic Category	Percent of District	Percent of Downtown
Business to Business	18.0%	17.1%
Construction	1.5%	4.7%
Food Products	47.9%	14.6%
General Retail	22.2%	20.4%
Miscellaneous	0.8%	4.2%
Transportation	9.6%	21.4%
Total	100.0%	15.7%

Source: MuniFinancial, ERA

Total sales tax revenues have fluctuated over the past 10 years in the East Village District (Figure 15). There was one peak in 2001 at about $1.6 million, which dropped steeply in 2002 to about $1 million. This increased back to about $1.5 million by 2005, and has grown to over $1.7 million in 2007. Business to business sales has followed the same trend, and is one of the drivers behind the fluctuations. Food products, the other driver, have been gradually increasing through the past 10 years, and construction increased dramatically. However, construction spending is relatively small and has had little affect on the overall revenues.

Figure 15 – East Village District Sales Tax Trends by Spending Category (1998-2007)



Source: MuniFinancial, ERA

Horton/Gaslamp

General Location and Key Features

The Horton/Gaslamp District is located in the center of downtown and is the retail and entertainment hub of the city. Both the Gaslamp Quarter and Horton Plaza, a super regional mall, are located within its borders, which include most of the restaurants and nationally branded stores that are located within the downtown area. The Gaslamp Quarter, which is the stretch that runs north-south around 5th Avenue, is San Diego's old town area and tourist district for shopping and eating. There are a number of bars, clubs, and restaurants that line the street, many of which are nationally branded.

The district is bordered by several of the other districts—Marina, East Village, Convention Center, Civic/Core, and Columbia. It is bounded to the north by Broadway, to the east by 6th Avenue, to the south by G Street and Harbor Drive, and to the west by 4th Avenue and Union Street (Figure 16). The district is small and much of it is taken up by Horton Plaza. There is little by way of residential properties, but there are some offices including those of NBC Studios, directly adjacent to Horton Plaza.

Figure 16 – Map of Horton/Gaslamp District

Source: Google Maps, ERA

Existing Retailers

Retailers in this area are both nationally branded as well as independent. There are many restaurants, bars and clubs that line the streets of the Gaslamp Quarter, and the mall has two major department stores. Other major retailers are included in Figure 17 below. According to CoStar, the Horton/Gaslamp district has the most liable retail space. Within its boundaries there is approximately 1.6 million square feet of retail space, which represents 29 percent of all leasable retail space in the downtown planning area.

Figure 17 – Major Retail Establishments in Horton/Gaslamp District

Key Tenants in Horton/Gaslamp District
Border's
Macy's
Nordstrom
Sam Goody
Long's Drugs
Horton Plaza Mall

Source: CoStar, ERA

There were many other tenants, including nationally branded tenants, located within the district. However, the establishments included above were the largest in terms of their square footage within the area.

Retail Sales

Horton/Gaslamp sales tax revenues accounted for 25 percent of all retail sales in the downtown San Diego region (Figure 18). It also accounted for a significant portion of food products revenue and general retail tax revenues in the whole downtown, more than third each. Within the district itself, food products accounted for 74 percent of revenues. General retail revenues were about 22 percent of taxable sales dollars.

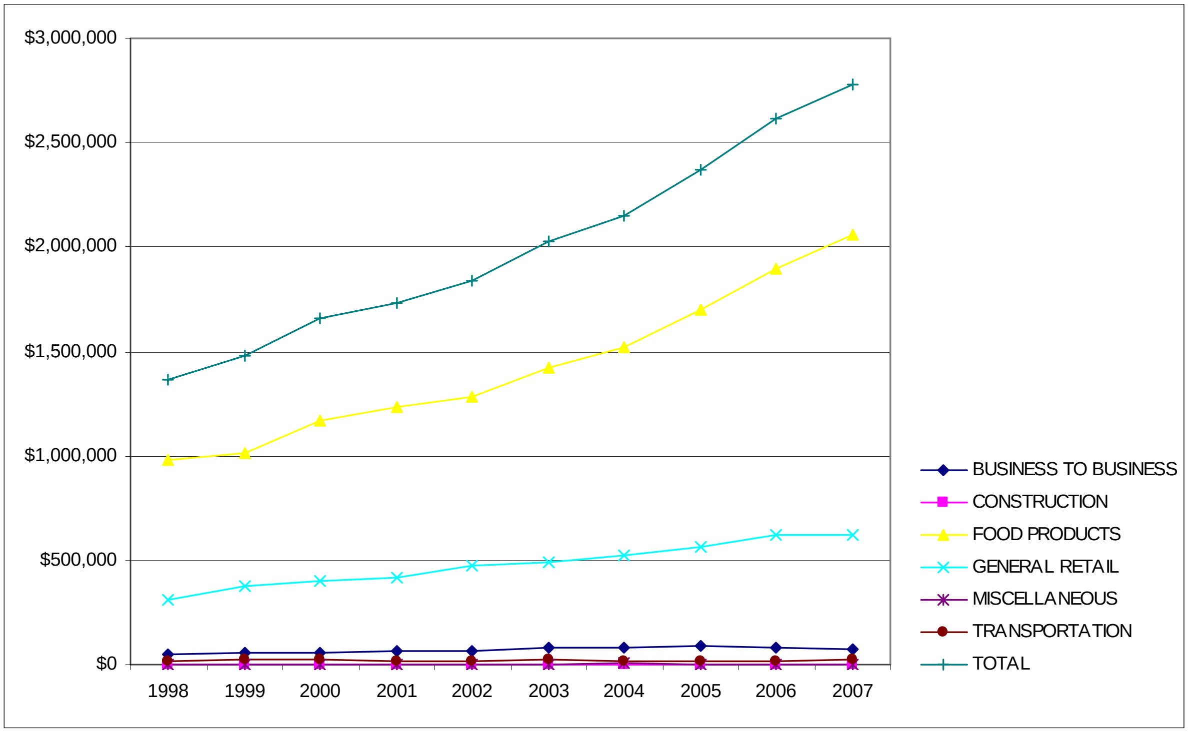
Figure 18 – Horton/Gaslamp District Sales Tax (2007)

Economic Category	Percent of District	Percent of Downtown
Business to Business	2.5%	3.8%
Construction	0.0%	0.0%
Food Products	74.1%	35.7%
General Retail	22.4%	32.6%
Miscellaneous	0.1%	0.5%
Transportation	0.9%	3.1%
Total	100.0%	24.8%

Source: MuniFinancial, ERA

Revenues have been growing in the Horton/Gaslamp District, similar to those in several of the other districts. Business to business revenues have actually been on the decline since 2004 and continued the trend to 2006 (Figure 19). Construction and transportation revenues remained relatively stable in the ten year period. The rise in food product and general retail sales has driven growth since 1999.

Figure 19 – Horton/Gaslamp District Sales Tax Trends by Spending Category (1998-2006)



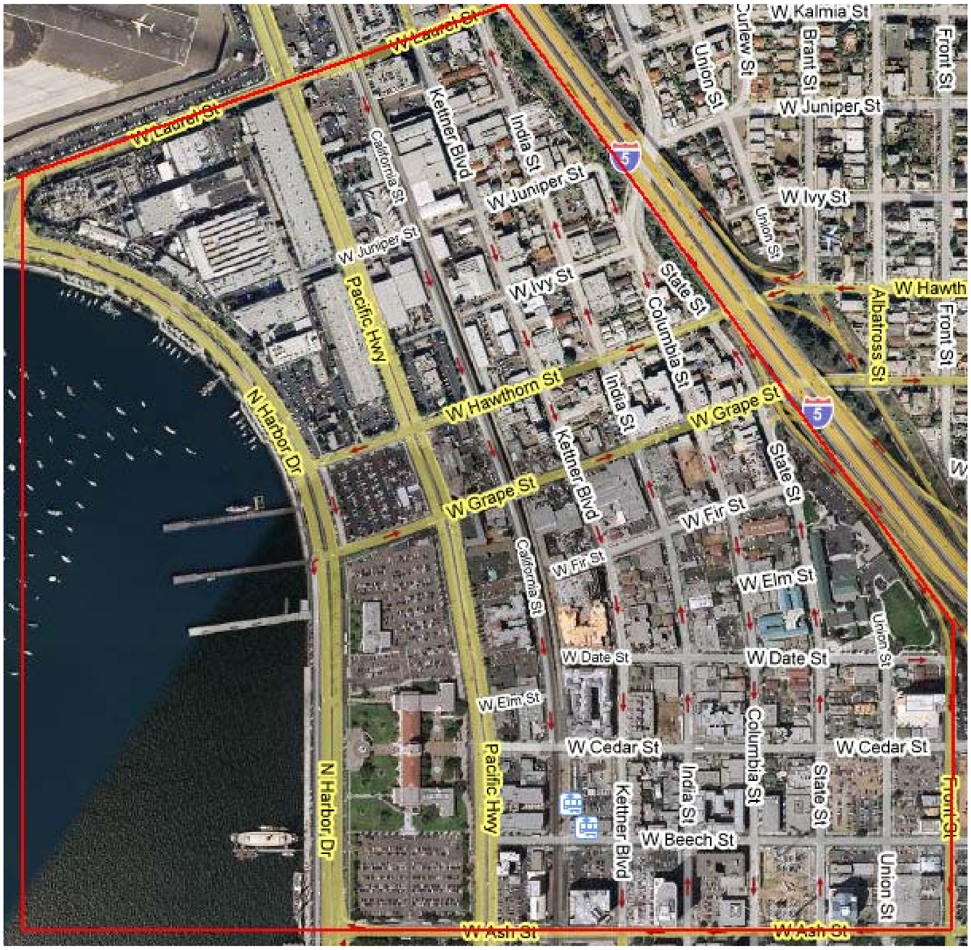
Source: MuniFinancial, ERA

Little Italy

General Location and Key Features

Little Italy is located in the northwest corner of downtown San Diego and is the next largest district after East Village (Figure 20). It is bordered to the west by the Pacific Ocean, to the north by Laurel Street, to the east by Interstate 5 and Front Street, and to the south by Ash Street. The district is named for its clustering of Italian restaurants, grocery stores, and population on India Street between Beech street and Fir Street. Near this area on Cedar Street there are clusters of small boutique shops and specialty retail stores. In the northwest corner between the Pacific Coast Highway and Harbor Drive there is a large industrial center for Solar Turbine, Inc. South of this facility there are a number of port facilities with several large lots for parking. In the southern section there is a number of new construction projects ongoing, including new residential properties.

Figure 20 – Map of Little Italy District



Source: Google Maps, ERA

Existing Retailers

There were very few nationally branded stores and retailers that were located in this district. There was a Denny's and a clustering of Italian restaurants and delis along India Street between Beech Street and Fir Street, as mentioned above. Furthermore, there were a number of small boutique shops near Cedar Street. CoStar reports that the Little Italy district has approximately 404,000 square feet of retail space. This represents almost 8 percent of all leasable retail space in the downtown planning area.

Retail Sales

Little Italy accounts for about 71 percent of miscellaneous sales tax revenues for downtown San Diego (Figure 21). It accounts for one-third of all business to business retail sales, and 23 percent of transportation revenues.

Within Little Italy, there is a relative balance between business to business sales, food products, general retail, miscellaneous, and transportation sales tax revenues. Construction, on the other hand, only accounts for about 1 percent of revenues in Little Italy.

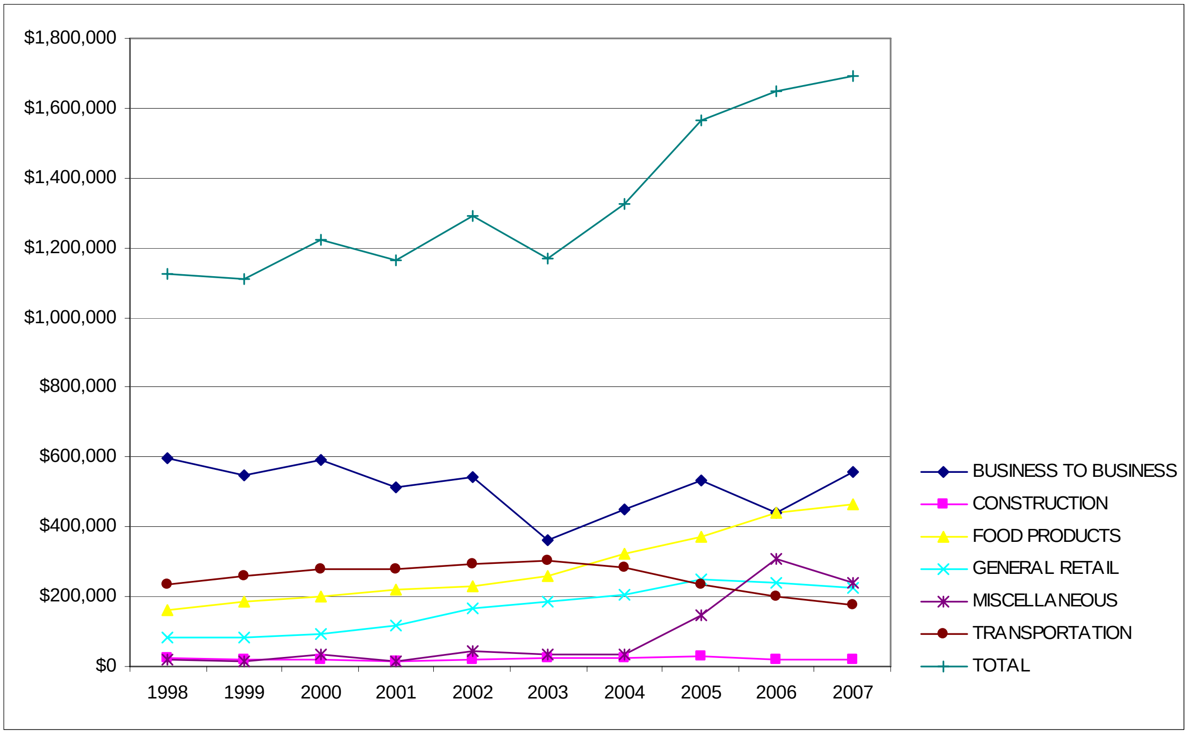
Figure 21 – Little Italy District Sales Tax (2007)

Economic Category	Percent of District	Percent of Downtown
Business to Business	33.1%	30.3%
Construction	1.3%	3.8%
Food Products	27.6%	8.1%
General Retail	13.3%	11.8%
Miscellaneous	14.1%	71.1%
Transportation	10.6%	22.5%
Total	100.0%	15.1%

Source: MuniFinancial, ERA

Like many of the other districts, the total revenues generated in Little Italy increased through most of the last 10 years (Figure 22). This trend was mirrored by business to business revenues, which make up a third all revenues in the district. Both food product and general retail sales have grown steadily since 1998.

Figure 22 – Little Italy District Sales Tax Trends by Spending Category (1998-2006)



Source: MuniFinancial, ERA

Marina

General Location and Key Features

The Marina District is located in the southwest corner of downtown San Diego. It is bordered on the west by the Pacific Ocean and includes much marina and port property as well as some of the adjacent buildings to the San Diego Convention Center. Harbor Drive passes through the center of the district, and most of the properties to the southwest of the thoroughfare are marina and port-related uses. To the northeast of Harbor there are several sections of retail and residential uses, which some nationally branded stores.

The district is bordered to the north by the Columbia District, to the north and east by Horton/Gaslamp, and to the southeast by the Convention Center district. The streets that separate it from these districts are F Street and G Street to the north and 4th Avenue to the east (Figure 23). Marina and the Convention Center district are separated between the Convention Center and its adjacent property near where 5th Avenue runs into Harbor Drive.

Figure 23 – Map of Marina District

Source: Google Maps, ERA

Existing Retailers

There are a number of nationally branded retail offerings in the Marina district, especially in the northeast sector closest to the Horton/Gaslamp district. Some of these retailers include Cost Plus World Market, Morton's Steakhouse, and Rock Bottom, among others. The area in which most of these establishments were located is directly adjacent to the Gaslamp Quarter and seems to draw the same population that comes to visit that area. Beyond this area, however, most of the offerings are small and local, drawing only the local populations. According to CoStar, the Marina district has approximately 434,000 square feet of retail space. This represents 8 percent of all leasable retail space in the downtown planning area.

Retail Sales

According to sales tax revenue data, only 19 percent of total downtown revenues are being generated in the Marina District (Figure 24). Of total district sales, 55 percent comes from food products transaction revenues, and another 24 percent comes from construction revenues. Overall, construction related sales tax revenues in the district accounted for 91 percent of all construction revenues in the downtown area.

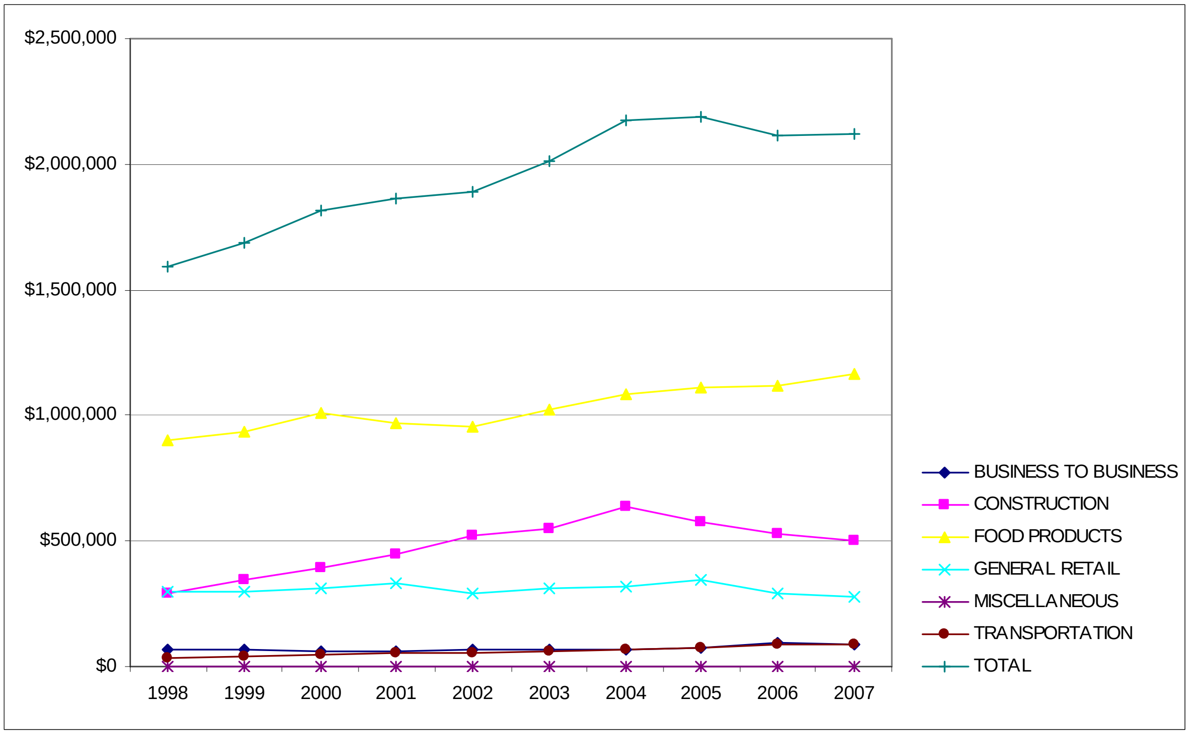
Figure 24 – Marina District Sales Tax (2007)

Economic Category	Percent of District	Percent of Downtown
Business to Business	4.0%	4.6%
Construction	23.7%	90.7%
Food Products	55.0%	20.2%
General Retail	13.2%	14.6%
Miscellaneous	0.1%	0.3%
Transportation	4.1%	10.9%
Total	100.0%	18.9%

Source: MuniFinancial, ERA

Sales tax revenues have been growing overall in the Marina district. This trend is directly related to the growth in food products sales, which is a direct mirror of the total revenues. Miscellaneous sales peaked in 2004, but quickly dropped back down by 2005 and were close to zero most recently in 2006. Other categories remained relatively stable with very little by way of large fluctuations (Figure 25).

Figure 25 – Marina District Sales Tax Trends by Spending Category (1998-2007)

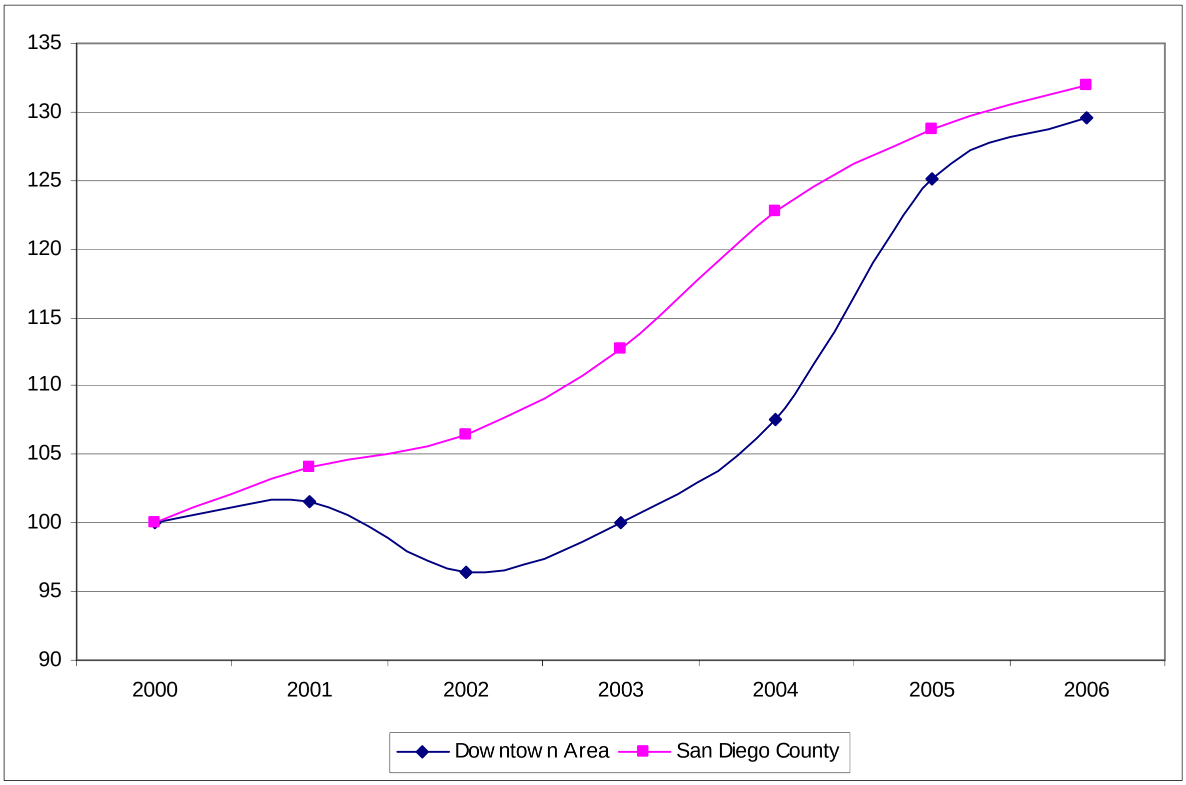


Source: MuniFinancial, ERA

Retail Sales Growth in Comparison to Countywide Trends

While the districts in the downtown area have experienced growth since 2000, the rate in which taxable sales have increased is not consistent with the growth rate experienced at the County level. Utilizing information from the California State Board of Equalization, ERA indexed total taxable sales for both areas, as presented in Figure 26. Downtown taxable sales grew in 2000 and 2001 at a comparable rate as the County, but began to drop off in 2002. Between 2002 and 2005, downtown San Diego increased taxable sales at a rate faster than the County. The rate of sales tax growth was similar between 2005 and 2006. Over the last 10 years, downtown taxable sales (in all categories) have grown at an overall rate similar to the County.

Figure 26 –Sales Tax Growth in Downtown and San Diego County Indexed to 2000 (2000 - 2006)



Source: State Board of Equalization, MuniFinancial, ERA

One economic segment of taxable sales that has grown tremendously within many of the downtown districts is restaurants. With the exception of the Marina District, all areas experienced a growth of close to 50 percent since 1998. In fact, since 1998, retail sales tax from restaurants in Gaslamp/Horton increased by 111 percent, the Little Italy district grew by close to 248 percent while the East Village experienced a growth of 1,027 percent in taxable sales. Overall, taxable sales from restaurants in the downtown area grew by 95 percent or approximately $2.6 million since 1998. This growth represents approximately 42 percent of the absolute growth for all retail sales.

Figure 27 –Restaurant Sales Tax in Downtown Districts (1998-2007)

	Share of Total Retail Sales	Percent Change	Numeric Change
Columbia	49%	55%	$183,700
Core	37%	48%	$183,400
Cortez Hill	19%	92%	$39,300
East Village	18%	1,027%	$586,600
Gaslamp/Horton	69%	111%	$1,055,100
Little Italy	17%	248%	$282,776
Marina	49%	29%	$244,135
Downtown	42%	95%	$2,575,000

Source: MuniFinancial, ERA

III. Section III: Available Markets

This section presents ERA's estimates regarding the available markets and their respective retail spending potential located within the downtown planning area. The estimated resident population, employees, and visitors are evaluated based on their place of origin[1] as of year-end 2007. This information does not attempt to estimate capture or market penetration within the various sub-market areas. Consequently, all retail spending estimates represent total potential retail sales.

Downtown Residential Market

Introduction

According to SANDAG, the downtown area (defined as the 92101 zip code) had a population of 21,223 in 2000. Approximately 22 percent or 4,600 of the population were in group quarters, while the remaining 16,600 were in a household formation. At that time, there were 12,527 housing units of which 11,471 were occupied indicating a vacancy rate of just over 8 percent. The median household income was $25,323 in 1999 dollars.

Utilizing the five census tracts that are roughly coterminous with the zip code geography, the Census data indicated that as of April 1, 2000, approximately 10 percent of the housing units were owner occupied, 80.5 percent were renter occupied, and 9.5 percent were vacant. The total housing unit census inventory, reported at 9,558, is less than reported by SANDAG. As a result, the total household population was also less. However, the median household income was nearly identical ($24,395). Using 2000 census based estimates the average income in the area was $43,000.

Over the last 8 years the San Diego downtown area has gone through rapid and significant change. Current estimates of downtown demographic characteristics differ greatly because it is difficult, absent a decennial census, to quantify socioeconomic changes that occur in a short period of time. Furthermore, caution must be taken when examining small population groups at small levels of geography. The following section describes ERA's methodology and findings in regards to the current inventory of downtown housing, residential population, and residential income profiles.

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[1] Residents are allocated by living location, employees by place or work, and visitors by hotel room location.

Dwelling Units

The current number of dwelling units was estimated using the CCDC living guide as the primary data source. Based on the housing inventory reported, there are currently 20,370 units within the planning area. According to CCDC data, over 10,000 units were competed since 2001 with over 7,200 for-sale condominium projects completed in comparison to 2,800 apartment units delivered. As a result, the renter/owner dynamic has changed dramatically since the 2000 census. As the number of units in the planning area doubled, ERA estimates that 50.5 percent of all units in the downtown area are for-sale properties while 49.5% are rental properties based on analysis of this data.

The East Village district area has the most residential units available (7,173) followed by the Marina, Little Italy, and Cortez districts. In total, these four areas represent approximately 84 percent of all the residential units downtown. The percentage of rental and for-sale units vary by district, with most areas showing relative equal distribution (Cortez, East Village, Horton, Little Italy, and Marina), while the Columbia district has a low percentage of rental homes and the Core district has a low percentage of for-sale homes (Figure 28).

Figure 28 – Housing Inventory in Downtown San Diego, as of 2007

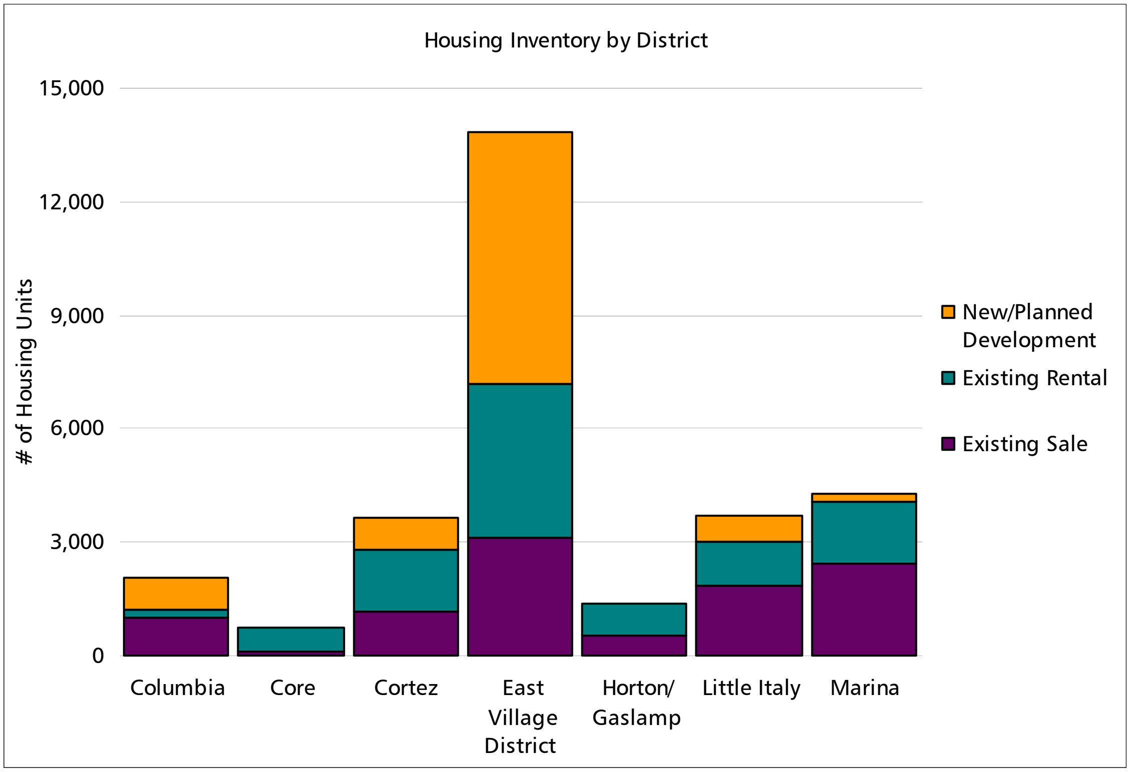
	Columbia	Core	Cortez	East Village	Horton/ Gaslamp	Little Italy	Marina
Existing Sale	1,023	127	1,165	3,134	534	1,845	2,454
Existing Rental	186	624	1,623	4,039	820	1,170	1,626
Total Existing	1,209	751	2,788	7,173	1,354	3,015	4,080
New/Planned Development	861	0	875	6,641	0	662	203
Total Housing	2,070	751	3,663	13,814	1,354	3,677	4,283

Source: Centre City Development Corporation Downtown Living Guide 2007, ERA

As noted above, ERA also examined the New and Planned Developments in the downtown area. Based on the currently planned developments, approximately 9,200 units are in various stages of predevelopment. This would suggest that the downtown area could see the number of residential units increasing by approximately 45 percent in the near term. Assuming all these units are completed, the total number of units would increase to 29,612 in the downtown area. The majority of these planned units (6,641 or 72 percent) are located within the East Village district. Columbia, Cortez, Little Italy, and the Marina all have some units planned while the

Horton/Gaslamp and the Core districts did not have any planned developments. The existing rental, for-sale, and new/planned developments are presented below in Figure 29.

Figure 29 – Dwelling Units by District

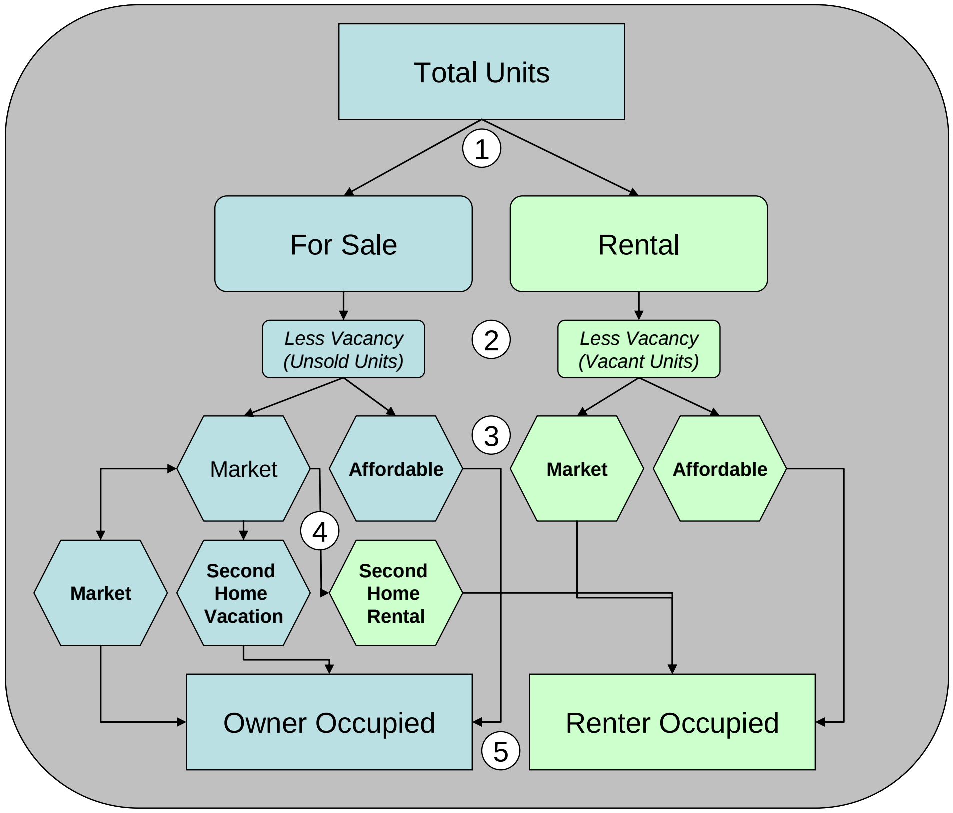


Source: Centre City Development Corporation Downtown Living Guide 2007, ERA

Occupied Dwelling Units by Type

While the total number of units has been established, the data needed to be further refined in order to take into account current levels of vacancy, number of affordable units, and second homes in the area. Figure 30 presents an overview of this process, which is explained as follows:

Figure 30 – Occupied Units by Type Flow Chart



Source: ERA

First, the total units were separated into for-sale and for rental properties as previously presented. Second, vacancy was accounted for by removing the unsold units along with applying current vacancy rates for rental properties in the downtown area. Using MarketPointe data, ERA estimate that of the units completed there were approximately 1,700 units unsold, which would suggest a vacancy rate of 17 percent in 2007. According to REIS, Inc., a commercial real estate performance information and analysis company, the year-end vacancy rate was 7.5 percent in the downtown area. ERA did not account for potential market differences by district area, as the data was not available. Consequently, the vacancy rate was universally applied to all rental properties.

Third, for-sale and rental properties were separated into two major categories: market and affordable. Market refers to market rate units while affordable refers to those units that area listed below market rate values. For for-sale housing, ERA has assumed that 17 percent of the housing is currently affordable units. For rental properties, the number of affordable units was counted by district using the available data.

Fourth, data suggests that a significant share of the market rate housing in the downtown area is not owner occupied. DataQuick research tracts this information and classifies dwelling units where the owner's mail zip code (primary residence) is different from the unit's physical zip code as not the owner's primary place of residence. Based on this data, ERA estimated that before 2000 approximately 27 percent of all owner occupied housing units were vacation homes or income properties. Between 2000 and year-end 2007, approximately 31 percent of the new homes sold were not the owner's fulltime residences. In this report, these second home units are defined as either vacation homes or income properties. We have assumed that the ratio of vacation and income properties is evenly distributed (50 percent each) based on discussions with real estate agents and residents.

Finally, owner occupied housing is represented by three major groups: market, second home vacation, and affordable. Similarly, rental occupied housing is represented by three major groups: market, second home rental, and affordable. The estimate for total number of owner and renter occupied units are presented below in Figure 31. 17,786 total units suggest that the vacancy in the downtown planning was 12.7 percent as of year-end 2007.

Figure 31 – Occupied Housing by Type (Owner and Renter)

	Owner Occupied	Renter Occupied	Total
Columbia	683	287	971
Core	55	586	641
Cortez Hill	735	1,619	2,354
East Village	1,854	4,049	5,904
Gaslamp/Horton	457	829	1,287
Little Italy	1,383	1,316	2,698
Marina	2,101	1,831	3,932
Total	**7,268**	**10,518**	**17,786**

Source: ERA

Estimated Household Income

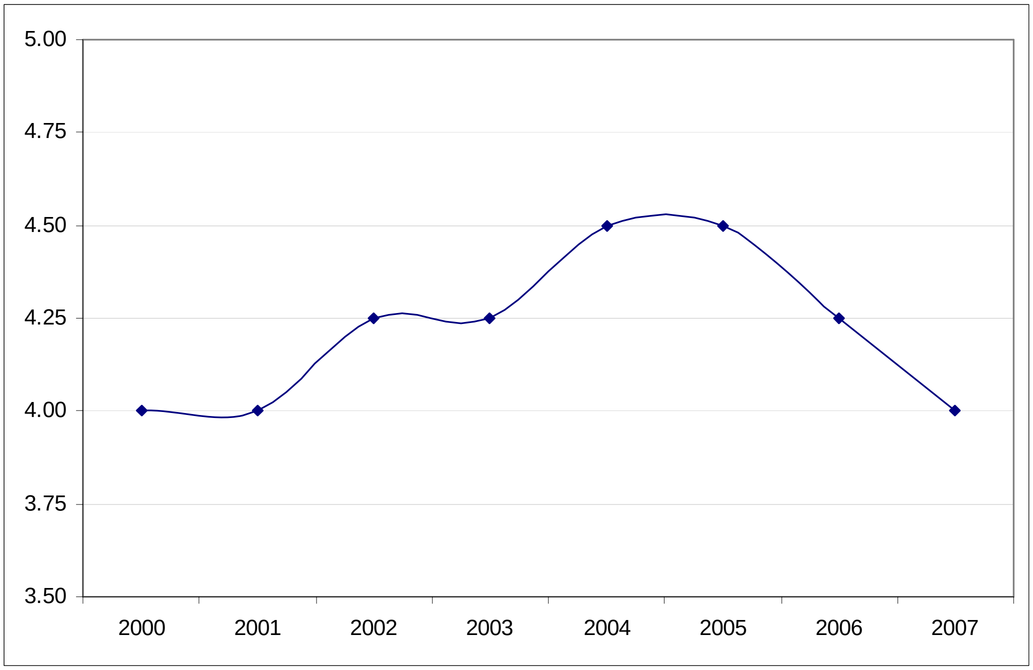
ERA utilized various methods to project contemporary household income by district based on the number and type of units in the market and the available sales and rental data for housing in the downtown area.

Owner Occupied Units

Household incomes for owner occupied units were estimated based on the median sales price of condominium units before 2000 and reported sales from 2000 to 2007. Information regarding actual sales by district prior to 2000 is not available. As a result, it is assumed that the sales price before 2000 is universal among all planning areas. While this would not be correct in absolute terms, it allows us to establish the baseline downtown income before the heavy development that occurred in the years to come. Based on a weighted median sales price for homes in the two year time period from 1998 to 1999, ERA estimates the average household income of residents living in the downtown in 1999 was approximately $73,500 in nominal dollars. Adjusted to 2007 dollars, those residents are expected to have an income of $86,000.

Information from after 1999 could be analyzed by district planning area based on data from MarketPointe. ERA assumed that between the years of 2000 and 2007 the average sales price in the downtown ranged from 4.0 to 4.5 times the average gross household income. Figure 32 presents the sales price to income ratios in a graphical form. All household income levels were further adjusted by sales date to reflect 2007 wages using the Bureau of Labor Statistics inflation statistics.

Figure 32 – Ratio of Average Household Income to Sales Price in Downtown San Diego



Source: ERA

ERA also determined that 17 percent of all owner-occupied units in the downtown area are affordable. Using a rate of 60 percent the area median income (as published by HUD), the income for those units are set at $62,300. Based on previously stated assumptions and sales data applied to all new units in the downtown area, the estimated 2007 income levels estimates by district are presented below in Figure 33.

Figure 33 – Estimated Household Incomes for Owner Occupied Properties

	HH Incomes 2007 $
OWNER (2000)	$86,000
OWNER (2001 - 2007)	
Columbia	$198,500
Core	$140,300
Cortez Hill	$117,500
East Village	$123,300
Gaslamp/Horton	$103,300
Little Italy	$103,900
Marina	$159,500
AFFORDABLE OWNER (2007)	$62,300

Source: ERA

Renter Occupied Units

REIS reported that as of year-end 2007, the average market rental price in the downtown San Diego market area was $1,712 per month. Using this number as a baseline figure for the downtown, ERA adjusted each sub-district based on the rental information provided by MarketPointe. Using a 45 percent ratio of gross earnings to annual rent, ERA determined the average household incomes for each district area. ERA also established the income level for those households in affordable rental units by using 35 percent of the area median income ($35,900).

Figure 34 – Estimated Household Incomes for Renter Occupied Properties

	HH Incomes 2007 $
MARKET RENTER (2007)	
Columbia	$45,900
Core	$27,900
Cortez Hill	$44,400
East Village	$46,600
Gaslamp/Horton	$48,100
Little Italy	$60,900
Marina	$40,900
AFFORDABLE RENTER (2007)	$35,900

Source: ERA

Based on the total units owner and renter occupied units in the downtown, ERA estimates that the average income in the entire downtown area (by occupied units) was $73,500 in 2007 (both owner and renter units). The average incomes and total aggregate income by district is presented below in Figure 35.

Figure 35 – Estimated Household Incomes for Renter Occupied Properties

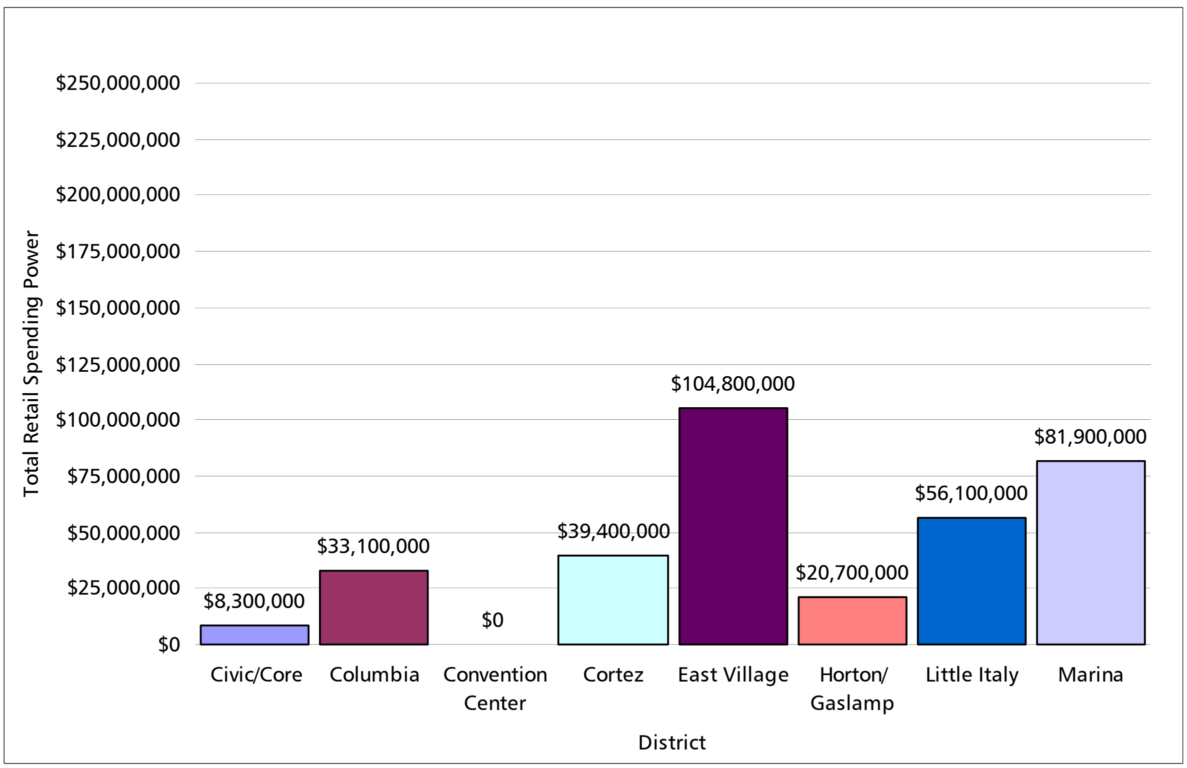
	Average HH Incomes 2007 $	Total Aggregate Income
Columbia	$139,000	$134,900,000
Core	$45,300	$29,000,000
Cortez Hill	$61,600	$145,000,000
East Village	$66,200	$390,900,000
Gaslamp/Horton	$59,300	$76,300,000
Little Italy	$79,000	$213,200,000
Marina	$80,800	$317,600,000
Downtown	$73,500	$1,306,900,000

Source: ERA

Estimated Household Retail Spending

Assuming that households spend 30 percent of their gross income on all retail purchases, the total retail spending potential (at 100 percent capture) would total $334.3 million. The residential spending power by sub-district is presented below in Figure 36. These totals represent the aggregate retail spending potential for both the owner-occupied and renter occupied household population. The estimated total retail expenditures also include potential sales from those residents who have second vacation homes in the downtown area. ERA has estimated that 40 percent of the total retail sales would be spent while staying in the second home vacation unit.

Figure 36 – Estimated Household Retail Spending by District



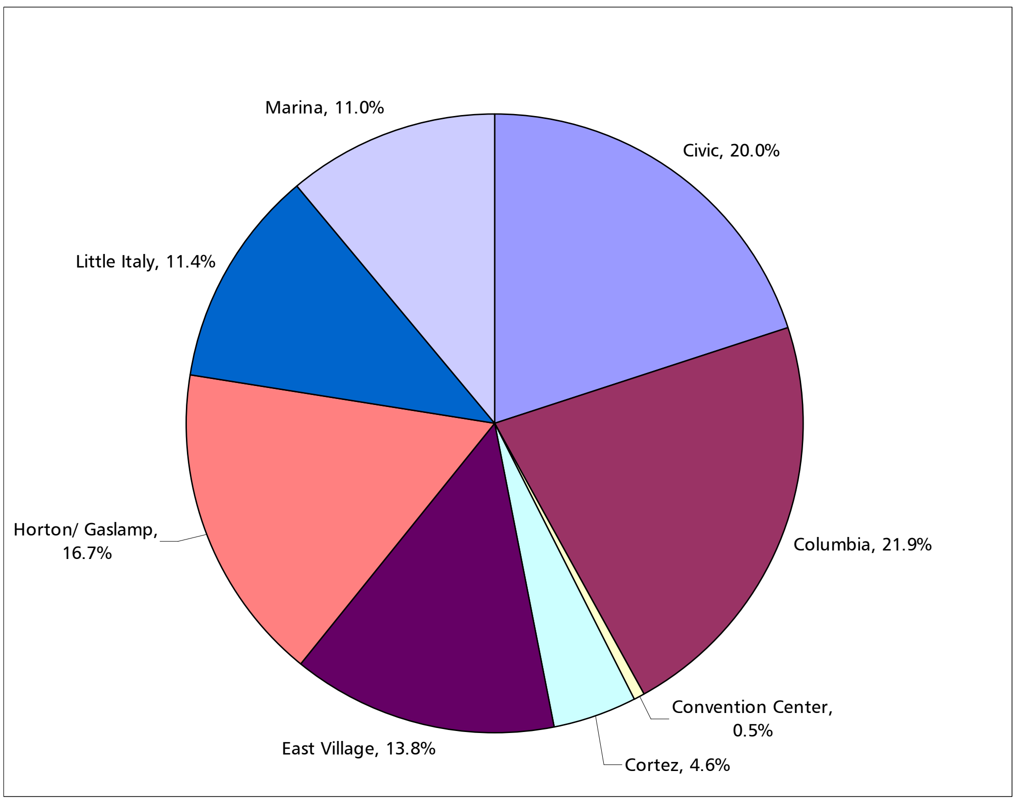
Source: ERA

Downtown Employment

Downtown "in place" employment estimates were made using InfoUSA as the primary data source. The database provides detailed information regarding the number of reported employees by company address. As a result, the estimated number of total employees within the downtown planning area can be examined within the eight planning districts based on their place of work. According to the 2007 data, InfoUSA suggests that there are approximately 59,500 employees within the downtown area.

The Civic/Core and Columbia district areas had the highest concentration of employment with approximately 12,000 and 13,000 employees, respectively. The Horton/Gaslamp area had approximately 10,000 employees while the East Village, Little Italy, and Marina area had between 8,200 and 6,600 employees. Figure 37 presents the total percent each district represents of all downtown employment.

Figure 37 – San Diego Downtown Employees by District

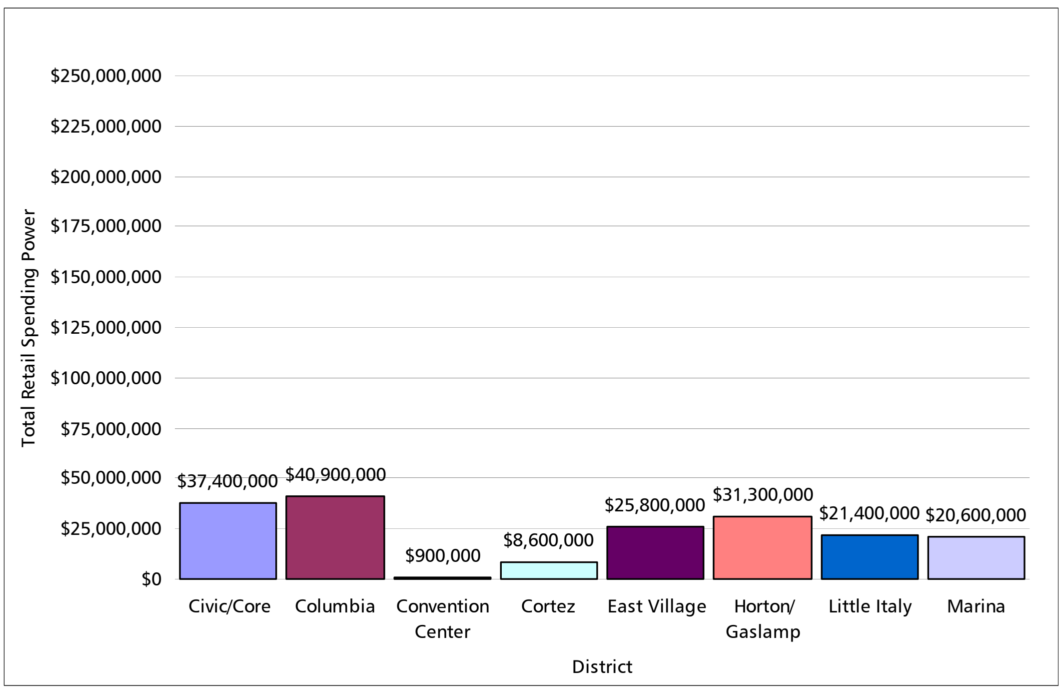


Source: ESRI, US Census 2000, North American Industrial Classification System, ERA

Estimated Employee Retail Spending

The 2004 Office Worker Retail Spending Patterns survey by the International Council of Shopping Centers (ICSC) was utilized to determine potential levels of employee spending within the downtown San Diego planning area. Based on their findings, the average worker spends just over $3,100 per year on retail spending "close" to their place of work[2]. This figure is based on 241 annual work days or approximately 48 work weeks (weekends are excluded and 20 days are deducted for holidays and vacations). The data suggests that the average worker spends $60 per week or $12 per day on retail purchase (figures adjusted to 2007 dollars). All of this potential spending is anticipated within the downtown area and would include retail purchase made lunches, dinners, entertainment, and convenience goods. Total spending by employee origin is directly related to their place of work. As presented below in Figure 38, the total retail spending power of downtown employees is estimated to be $186.9 million per year.

Figure 38 – Estimated Employee Retail Spending by District



Source: ERA

[2] The total estimated amount of office employees spending is higher, but ERA did not include all spending because some purchases are likely to occur on the way to or from work and will not likely take place within the downtown planning area.

Downtown Tourist Market

In 2007, the San Diego Convention and Visitors Bureau estimated there were 31.6 million total visitors to San Diego County. It is estimated that these visitors spent approximately $7.9 billion dollars. In order to estimate the potential retail related spending in the downtown area, ERA deducted hotel and airfare related expenses from the total visitor spending. It was reported that there 14.4 million room nights sold in 2007 at an average daily rate of $138.89 in San Diego County. This would imply that almost $2 million of total visitor spending was a result of payments to overnight accommodations. The data also includes a portion of airfare related spending within the total countywide visitor spending estimate. As a result, ERA reduced the total spending by just over $1 million. If the reduced spending is divided by the total visitors, it would yield an average level of $154 in spending per visitor in San Diego County. This total, presented in Figure 39, represents an average for all visitors and does not distinguish between the spending behaviors of overnight or daytime visitors.

Figure 39 – Estimated Visitor Retail Spending Per Capita

Total Visitor Spending	$7,899,000,000
Total Hotel Expenditures	($1,997,027,921)
Airfare Related Expenditures	($1,043,816,718)
Revised Total Visitor Spending	$4,858,155,361
Total Visitor Spending Per Capita	$154

Source: San Diego Convention and Visitors Bureau, ERA

ERA used a variety of data sources to estimate the total number of visitors in the downtown area. Based on our survey of the downtown, there are 12,251 hotel rooms. Using the reported occupancy rate of 75.2 percent, it is assumed that there was 3,362,654 hotel room nights in 2007 (Rooms x Days in Year x Occupancy Rate). Based on the latest survey data relating to San Diego visitors profiles published by the CVB, the average length of stay in San Diego is 3.5 days. By dividing the total number of room nights by the average length of stay, ERA estimates that the number of parties visiting the downtown was 960,758 in 2007. By multiplying the number of parties by the reported average party size (2.1), the total hotel overnight visitors were estimated (2.02 million). ERA used the countywide ratio of hotel overnight visitors (44%) to daytrip and people staying in non-hotel accommodations visitors (56%) to estimate the total annual visitors to the downtown area. This methodology would suggest that 4.66 million visitors visited the downtown area in 2007, representing 14.4 percent of all the countywide visitors.

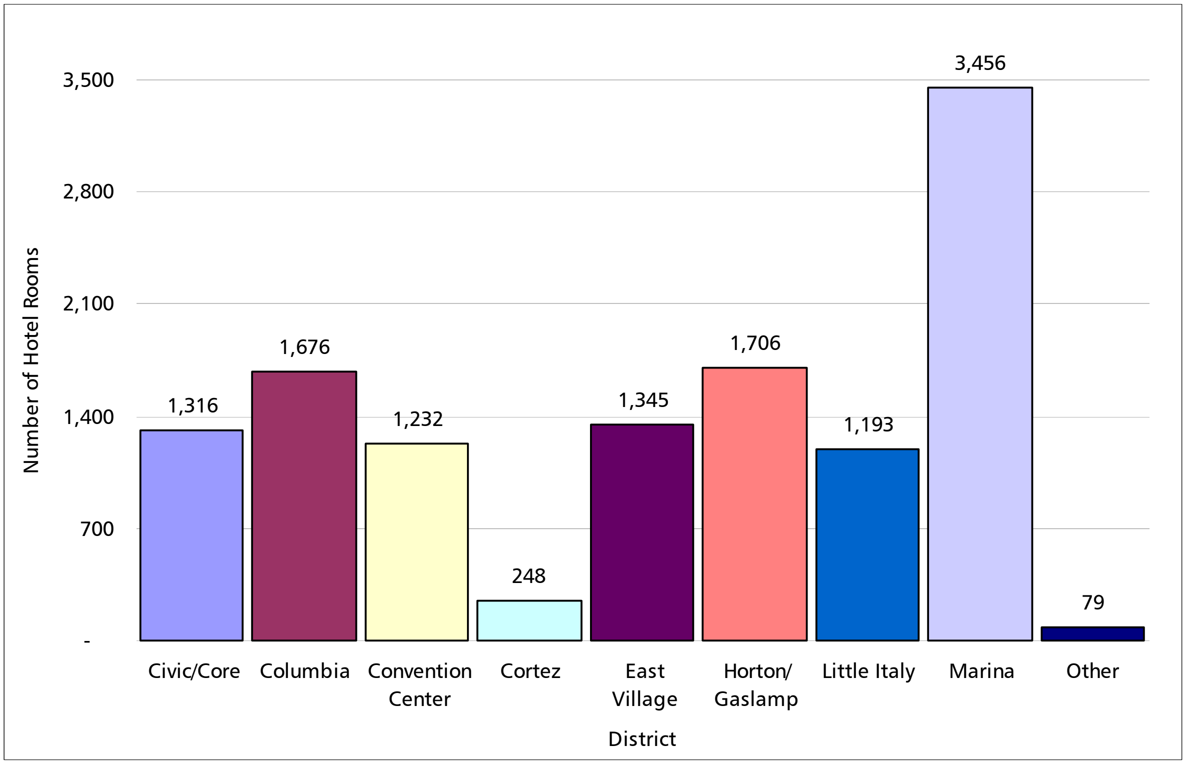
Figure 40 – Estimated Visitors in Downtown

Rooms	12,251
Occupancy Rate	75.2%
Rooms Nights Sold Per Year	3,362,654
Average Length of Stay	3.5
Number of Parties Per Year	960,758
Average Number of Persons Per Party	2.1
Total Hotel Overnight Visitors	2,020,000
All Day Visitors /Visiting Friends, Family/Other (56% of all visitors)	2,540,000
All Visitors	4,660,000

Source: San Diego Convention and Visitors Bureau, ERA

The overnight visitors were allocated based on the existing hotel rooms within the downtown area. Figure 41 presents the hotel inventory by district. The Marina district has the most hotel rooms, with Civic/Core, Columbia, Convention, East Village, Gaslamp/Horton, and Little Italy having a roughly portion percent of hotel rooms. The location of a small portion of the hotel rooms, classified as other, could not be verified and were reallocated by the existing shares within the downtown districts.

Figure 41 – Hotel Inventory by District, 2007

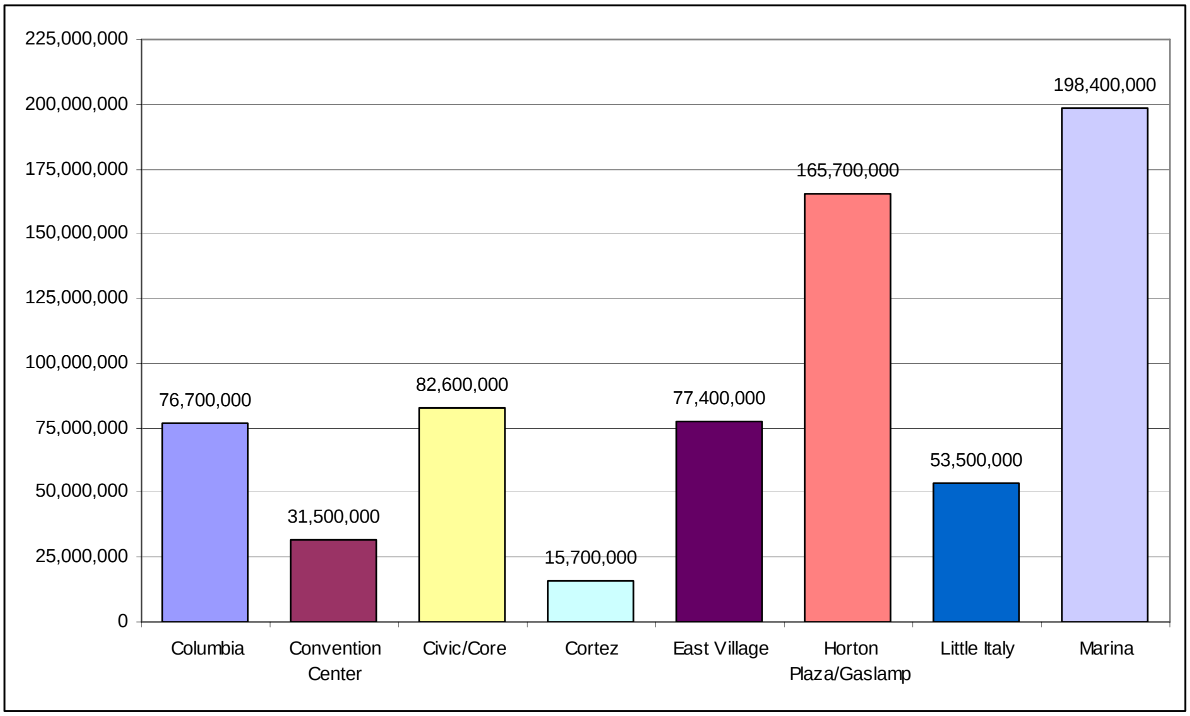


Source: San Diego Convention and Visitors Bureau, ERA

Estimated Visitor Retail Spending

The overnight visitors were allocated based on the existing hotel rooms within the downtown area. The day visitors, which also would include those visitors not staying in hotel accommodations, were allocated based on the retail spending patterns established in Section II. In both cases, it is assumed each individual spent, on average, $154. In total, it is estimated that approximately $701.5 million was spent by visitors staying in the downtown area in 2007.

Figure 42 – Estimated Visitors Spending by District



Source: San Diego Convention and Visitors Bureau, ERA

Summary of Potential Retail Spending by District

Based on total retail spending estimates by place of origin, the Marina district has the highest total spending. This spending is boosted by the overnight visitor market segment and represents approximately 20 percent of the potential retail spending downtown. The Horton/Gaslamp district represents 18 percent of sales largely due to daytrip visitor spending. Based on the East Village's high residential population, this district represents 17 percent of the potential retail spending. With the exception of the Convention and Cortez district, which represent in total less than 5 percent of the spending potential, the other four districts represent between 11 and 13 percent of the potential retail spending (Figure 43).

Figure 43 – Summary of Total Retail Spending by District (millions)

	Residential	Employee	Visitor	Total	Percent of Total
Columbia	$33.1	$40.9	$76.7	$150.7	13%
Convention	$0.0	$0.9	$0.0	$0.9	0%
Core	$8.3	$37.4	$82.6	$128.3	11%
Cortez Hill	$39.4	$8.6	$15.7	$63.7	5%
East Village	$104.8	$25.8	$77.4	$208.0	17%
Gaslamp	$20.7	$31.3	$165.7	$217.7	18%
Little Italy	$56.1	$21.4	$53.5	$131.0	11%
Marina	$81.9	$20.6	$198.4	$300.9	25%
Total	$344.3	$186.9	$670.0	$1,201.2	100%

Source: ERA

IV. Section IV: Retail Strategy for Downtown

ERA conducted site visits to all eight districts in downtown San Diego. With regards to retail potential, ERA classified the sub districts into two categories: Red and Blue. Red Districts are those with immediate and/or significant potential for improved retail conditions. Blue Districts are those with long term and/or minimal retail potential. Since San Diego has eight distinctive districts in downtown, it is important to make this differentiation in order to 1) effectively have a positive and noticeable impact on the retail environment, 2) most economically utilize CCDC and City resources, and 3) most efficiently commence retail improvements. Some districts are not ripe for retail recruitment, and resources should be concentrated in areas with immediate and significant retail potential. Typically, stores follow residential and employment growth; retail considerations and planning, however, should always be a part of the discussion for infill development, building renovation, and other future plans.

In Red Districts, where retail growth is imminent, the retail mix should be directed and guided to ensure long term viability. If these areas are left alone, improper storefront designs and inappropriate leasing deals may occur that will have negative, and potentially long-term, implications on the identity and overall success of retail in a district. In Blue Districts, where retail is not a major play, short-term efforts should be tempered while the market grows. While there is demand for new and better retail in downtown San Diego, there is not demand for retail in every district and in every building. Generally, ERA|DW recommends a retail effort that focuses primarily in the Core of downtown, and then radiates out.

Red Districts include:

1) Civic/Core
2) East Village
3) Little Italy
4) Horton/Gaslamp

Blue Districts include:

5) Columbia
6) Marina
7) Cortez
8) Convention Center

Summary of Key Findings

The following bullets highlight the most important points and take-away messages in the Retail Strategy Recommendations section.

- Broadway is historically the major commercial street of downtown and it ties together many districts in downtown. It goes through the heart of Columbia, is the boundary line between the Civic/Core and Horton/Gaslamp, and connects to the East Village. Broadway is the natural and historic retail spine for downtown. ERA|DW *strongly* recommends that the CCDC prioritize retail efforts on Broadway.
- Downtown retail revitalization does not need to wait for major developments that will occur over the next five to ten years. Land deals, entitlement processes, construction, etc. can take years. Retail improvements can and should start *now* on the primary retail streets in downtown. The CCDC can start improving the retail conditions and tenant mixes for retail spaces that already exist in the historic core and emerging East Village neighborhoods.
- Among all streets in the eight downtown sub-districts, three streets/areas stand out as both having the most retail potential and needing the most assistance. They are:
    - Civic/Core: Broadway
    - East Village: Between 8th Avenue and 10th Avenue and between Market and Broadway
    - Little Italy: India Street
- A combination of the following methods, tools, and incentives will set the CCDC and downtown San Diego on the right path towards a revitalized downtown retail environment.
    - A well-articulated Merchandise Mix Plan for retail areas that have immediate retail potential or need guidance
    - Thorough and hands-on Implementation Program involving intensive retail recruitment. Recruiters must be trained to appropriately to qualify prospects based on a Merchandise Mix Plan and several other factors, including but not limited to operations and merchandising.
    - Grants or forgivable loans to improve storefronts or interior spaces. Incentives should be geographically focused and targeted to incentivize deals that are in accordance with the Merchandise Mix Plan
    - Zoning overlays to curb deal-making that will have negative and long-term impacts on San Diego's primary retail streets.
- If the CCDC and downtown stakeholders want new, more, and better retail options in downtown, they must understand what prospective retailers consider:
    - Co-tenancy: Good retailers do not want to locate beside or near tanning salons, check-cashing agencies, convenience stores selling alcohol to transients, and dirty quick service food operations. Downtowns must show a commitment and vision to recruiting market-appropriate and high-quality tenants.

- Sales of **like/comparable retailers**: While some retailers on Broadway, such as 7-Eleven and T-Mobile, may have very profitable sales; this information will be irrelevant and unimpressive to desirable (qualified) apparel, shoe, home furnishings, etc. retailers. Sales without co-tenancy will not work.

- Downtown San Diego deserves and can support better retail than the current mix, but making the right deals takes patience, hard work, and, most importantly, a strong commitment to improving downtown retail in San Diego. The brokerage community, landlords, the CCDC, and the City should be educated on market appropriate and beneficial types of retail for primary retail areas in downtown. It is clear, based on the existing tenants, that deal-making does not take into consideration the long term viability and health of retail in downtown, but rather the easiest and quickest deal.

Basic Principals of Retail

The following bullets review some of the basic principals of urban retail. The degree to which downtown retail stakeholders consider these characteristics can dramatically impact the retail environment.

- Retail district functions best when streets are:
    - Double-loaded with retail (on both sides of the street)
    - Open to cars
    - Two-way
    - Four to five lanes or less
- Stores are most successful when they have/are:
    - Defined identity and target customer
    - Merchandise that cater to existing and potential market
    - Cohesive, but varied merchandise
    - Appropriately designed merchandising (shelving, lighting, cash wrap, etc.)
    - Well-inventoried
    - Clustered and contiguous to other good stores
- Retailers, such as drugstores, convenience stores, and retail services, such as dry cleaners, banks, tailors, should be on secondary retail streets adjacent to the primary retail streets.
- Storefronts should have:
    - At least 75 percent transparency, more is better
    - Creative displays
    - Succinct signage
    - Appropriately sized storefront elements (sign bands, signage, doors, etc.)

- Clean sidewalks, windows, entryways
- Different design than storefronts on either side
- Design features that distinguish storefront from use above (especially important with new construction
- High-quality materials

Red Sub-Districts

Civic/Core

Description of Existing Merchandise Mix

The Civic/Core has three streets with retail; they are C Street, Broadway, and 5th Avenue. ERA|DW assessed and commented, in-depth, on the retail dynamics of C Street and Broadway in an associated report. ERA|DW recommends that readers refer to this document for more detailed and strategic retail information, as well as current conditions in the Civic/Core. In summary, retail on C Street, as a transit corridor, will remain as convenience, service, and food or beverage uses. The strongest potential for retail in the Civic/Core is Broadway. Broadway divides the Horton/Gaslamp and Civic/Core district, links to East Village, and is a central corridor in the Columbia District. These districts, and the whole of downtown, should take ownership of Broadway and understand the value and impact it has on their respective districts. Some of San Diego's most beautiful and historic buildings line Broadway and their street level spaces are currently under–utilized or vacant. The retail spaces east on Broadway in the East Village are in especially bad shape largely because of the tenants. Nevertheless, they are real storefronts that can gradually be renovated.

If merchandised appropriately, the Civic/Core will attract customers from the residential, office, and visitor markets. Different types of uses will cater to certain groups more than others. ERA|DW recommends relying on downtown and nearby residents and employees as the primary customer base for Broadway. These groups have sufficient disposable income to significantly contribute to downtown retail expenditures. Some visitors will spend money on Broadway if the retail mix is great. One stakeholder identified wealthy Mexican nationals as a potential customer group. This international shopping pattern does occur in some resort towns throughout the US, such as Vail, Colorado and other areas throughout the southwest.

Challenges: Tenant Retention/Recruitment

In order for retail to achieve its full potential in downtown San Diego, it should cater to the existing employee base and growing residential community in and around downtown. The existing retailers along Broadway and C Street do not aid or facilitate the recruitment of ideal retailers. There are two major factors that influence a retailers' decision to locate in an area or not. The first factor is co-tenancy; retailers want to know that other retailers will complement their businesses. The second factor is existing sales information of like-retailers at the potential new location. For example, West Elm is a modern urban home furnishings and accessories retailer that will locate in urban and emerging areas with retail potential. San Diego should have a West Elm in its downtown on Broadway. West Elm, however, will consider existing and future uses on the street. They want to see a movement to recruit stores that 1) cater to comparable customer groups 2) have the same or higher design, merchandising, and operational standards and 3) are doing well in sales. They do not want to see stores or uses that cater to a group that is not their customer, such as convenience stores, check cashing, tanning salons, etc. Every new retail deal should leverage the next retail deal. Existing retailers, such as Octopus Clothing (Always under $20) on C Street, Rite-Aid, and Ross Dress for Less do not add value to the street or leverage future deals.

Some stakeholders noted that the homeless, transient, and SRO residents are a deterrent for customers. ERA|DW has found in other cities that as the retail improves and a different clientele populates the street, this element dissipates. Other deterrents for customers and prospective retailers are the bus stops. The stops are crowded with people, creating a dirty and intimidating environment for potential shoppers. One particularly obstructive bus stop is at the corner of 5th Avenue and Broadway. Bus and other transportation stops should not be located at the best retail corner in downtown San Diego or other integral retail corners (i.e. 5th Avenue and C Street).

Recommended Tenant Mix/Recruitment

Clearly define and prioritize Broadway as the central and primary retail street in downtown

The CCDC and the City should make a concerted effort to define and prioritize Broadway as the primary retail street in downtown. Subsequently, the CCDC and the City should dedicate financial resources and strategize policy incentives that support Broadway as the primary retail street.

Research a well-articulated Merchandise Mix Plan

If the CCDC and the City is willing to take the next step for improving retail in downtown San Diego, then efforts should not be hasty. The CCDC should consult with retail and merchandising experts to create an accurate and realistic Merchandise Mix Plan. Merchandise Mix Plans identify the specific categories of and locations for market-appropriate retailers. The merchandise mix in downtown will ultimately shape the identity of downtown San Diego for better or worse. ERA|DW preliminarily recommends a Merchandise Mix Plan that includes, but is not limited to:

- Women's Apparel
- Men's Apparel
- Accessories
- Shoes
- Home furnishings and accessories
- Kitchen and daily needs
- Stationary/paper products
- Gifts

In order to elevate the environment in the Civic/Core, retailers must have great merchandising and operational practices. The strength of a retail mix on Broadway will be twofold 1) a pleasant and unique shopping environment and 2) a merchandise mix with retailers not found elsewhere in San Diego or in the shopping malls. This is how urban retail districts can attract from a broad customer base. In downtown, 7-Eleven has approximately 13 locations; two are on Broadway in the Civic/Core (one of which is opening on 5th Avenue and Broadway). This does not create a unique shopping environment. For this reason, retail recruitment for Broadway and other priority retail streets should not include:

- National Franchises (i.e. Subway, Dunkin Donuts)
- Quick service/fast food (independent or locally operated)
- Banks (inactive passive are not ideal for primary recruitment)
- Drugstores (do not merchandise to the street, obstruct windows)
- Check-cashing
- Discount retailers

Engage in a thorough Retail Recruitment and Implementation Program

While retail recommendations can be described in reports, the CCDC and/or the City must be actively (hands-on) involved in implementation. In order for implementation to occur, there must be a specific program to follow and implement, hence the recommendation for a Merchandise Mix Plan. After 30 years of retail leasing and urban retail experience, ERA|DW has found that the most effective way to implement a Merchandise Mix Plan is through time-intensive on-the-ground retail recruitment. National chains are not pioneers on revitalizing urban streets, so recruitment efforts must search out and find stellar local or independent retailers. Desirable national retailers will follow after they see appropriate co-tenancy with successful sales. If national franchises want to be on Broadway in its current condition, then they are most likely not the right retailers for the street. The recruitment necessary to develop prospects for Broadway is too time-intensive for incentive-based brokers who operate in an industry where making a commission based on rent, size of space, and lease terms is their livelihood. ERA|DW recommends that the CCDC supplement the brokerage community's efforts with additional recruitment. Recruitment is not an easy job and requires a person devoted to the task who is well-trained to qualify prospective retailers against a Merchandise Mix Plan. In Austin, a retail recruiter (non-commissioned) employed by the Downtown Austin Alliance called on 600 prospects in the first two years of a retail strategy implementation. This resulted in 125 qualified leads, 20 serious prospects and seven signed deals. This intense scale of effort must happen for revitalization to be a reality. Alternative recruitment efforts have facilitated deal-making for the brokerage community, while also improving downtown retail conditions; brokers are an important part of the downtown real estate community. In all cases where ERA|DW has been involved in recruitment, brokers are never cut out of commissions and are still the deal makers. Supplemental recruitment efforts make brokers' jobs easier by bringing them the right tenants with whom they can then make a deal.

East Village

Description of Existing Merchandise Mix

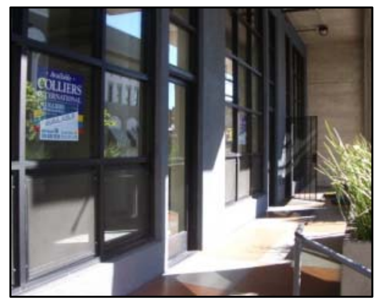
The East Village is a large district with many different dynamics and phasing for retail development. Market Street is a central corridor, but is too wide to be an intimate retail-friendly pedestrian street (it is five lanes wide with two lanes for parking). The San Diego Community Plan requires that all of Market Street have commercial uses. ERA|DW supports that Market Street be commercial, but retail uses will be a challenge. In addition to being very wide, there are many gaps that prohibit contiguous retail. Several uses were clearly not built for a pedestrian retail environment, such as the Rite Aid drive-thru on the street.

Unocal is a proposed big-box center in the East Village. It will be a positive addition and fulfill a need in the downtown and regional community for big-box type uses (i.e. Target, Bed, Bath &

Beyond, etc.) Big-box centers should not be located in the core of downtown. ERA|DW supports the proposed location in southeastern part of the East Village.

There is a cluster of retail around 9th Avenue and E Street, which includes Java Jones Coffee, East Village Tavern, Lotus Thai, a wine bar, a few salons, Café Chloe, Dianne O (apparel), Pokey's Mexican Restaurant, Sweat (work-out gym), Lounge Rustic, and more. Most of the uses are locating within the bounds of 8th Avenue and 10th Avenue and Market and Broadway. These are the types of uses that should be in downtown San Diego.

Challenges: Tenant Retention/Recruitment



The major challenge in the East Village will be facilitating clustered and contiguous neighborhood retail districts. The East Village is a large area and if every new building attempts to have retail, then there will be an oversupply of retail space. The Community Plan outlines Neighborhood Retail Centers, which was a good step towards clustering retail. It will be time-intensive, but do-able, to recruit retail to these defined Neighborhood Centers. Retail retention and recruitment operates more in the here and now; therefore it is unrealistic to outline specific retailers for parts of the East Village that are years away from having a retail cluster. In the long-term there may be challenges regarding the location of social agencies in proximity to proposed Neighborhood Retail Centers in the Community Plan.

Much of the retail development in the East Village may be infill development. It is critical that, as infill development occurs, the CCDC holds developers to a high-standard for their storefront design. The retail space cannot be designed as an after thought. The developer must contract with a professional retail designer to ensure that storefronts are unique, differentiated from others, and ideal for retail uses. If this recommendation is not followed, all of the retail spaces will be homogenous and utilize the same storefront systems. The pictures below are examples of common generic homogenous storefront systems. Storefronts near the baseball park look similar to these.

Recommended Tenant Mix/Recruitment

During a site visit to the East Village, ERA|DW toured the Neighborhood Centers that require retail, as outlined in the Community Plan. In this section, ERA|DW discusses the proposed Neighborhood Centers in the East Village from east to west. One center is located between K Street and midway between Market Street and Island Street to the south and north, and between 14th Street and 16th Street to the west and east. Retail is required along 15th Street of this Center. Current uses in the area are not conducive to retail and include social agencies, senior residential complexes, and, on the eastern edge, warehouse-type uses with razor-wire fences. ERA|DW definitely sees retail here as a long-term objective. Upcoming CCDC efforts should not focus in outer-lying areas until they are more developed and the Civic/Core is healthy and thriving. There is a lot of vacant land in the area, which can be advantageous as a blank slate in the long term.

A second Neighborhood Center is located between F Street and C Street to the south and north and Park Boulevard and 14th Street to the west and east; retail is required on 13th Street and Broadway. ERA|DW thinks the Neighborhood Center boundaries and retail required streets are good in concept. Retail, however, will only take root upon the relocation of the Salvation Army.

A third Neighborhood Center is located between K Street and J Street to the south and north and 9th Avenue and 10th Avenue to the west and east. Retail is required on J Street, which is the northern edge of the baseball park. Due to its proximity to the baseball park and new residential buildings, this is a location that should have mostly restaurant, food, and entertainment uses. Currently, there is a 7-Eleven, Quiznos Subs, and a bank, among other uses, in or near this Neighborhood Center. Along K Street there are many retail spaces at the base of residential buildings. A majority of these spaces are vacant and for-lease. The storefronts are generic storefront systems with no distinction. ERA|DW does not suggest creating shopping districts or spaces near baseball parks. Typically, visitors to the baseball park are not interested in shopping, but rather eating and drinking before or after the games. ERA|DW submits that these retail spaces will be difficult to lease for these various reasons.

In the East Village, the CCDC should focus merchandise mix planning and retail recruitment between 8th Avenue and 10th Avenue and Market and Broadway.

A fourth Neighborhood Center is located between F Street and C Street to the south and north and 7th Avenue and 9th Avenue to the west and east; retail is required on 8th Avenue and Broadway. Of all the Neighborhood Centers delineated in the East Village, ERA|DW recommends prioritizing this one. It is the closest Center to the core and has the most immediate potential. ERA|DW will refer to this Center as the East Village Primary Retail Center. Traditional storefronts are already in place here, which is a great asset to work with. If this Neighborhood Center improves it can have a positive impact on the core, especially Broadway, which is downtown's strongest retail potential. Additionally, there are some unique and notable retail and restaurant operations located adjacent to this Center on 9th Avenue. They include Café Chloe, Esthetique (spa/salon), and a Dianne O (women's apparel). Retail recruitment efforts can build upon these good retailers and their successes.

*Recruit more destination restaurants to the East Village Primary Retail Center for San Diego residents and employees***.**

ERA|DW recommends recruiting more destination cafes and restaurants that will cater to San Diego residents. Cafe Chloe is a great example of the type of prospect that ERA|DW recommends be generated by recruitment efforts. It is an independent café located outside of the tourists' paths and opened for lunch, dinner, and brunch. It has a fabulous menu, great interior and exterior design, and a strong local following. Café Chloe has been in business for three years and is doing very well. ERA|DW submits that if other uses of a similar caliber were recruited they, also, would be successful.

Recruit neighborhood serving and destination retail to the East Village Primary Retail Center.

ERA|DW recommends recruiting most kinds of retail to the East Village Primary Retail Center. This Center has the most potential in the East Village to cater to the immediate neighborhood, yet also San Diego region. For example, Dianne O, a high-end women's retailer, draws from the greater San Diego region. While Broadway should be the location for traditional retail types and ultimately national retailers, there is an opportunity to implement a unique merchandise mix with a hip and urban appeal here. This could include, but is not limited to:

- Contemporary salons and spas
- Fashion forward clothing
- Apparel shops featuring local designers
- Shoes, jewelry, and other accessories
- Art studios and galleries

Foster a strong link between the Civic/Core and East Village on Broadway.

While ERA|DW recommends that retail efforts first focus on Broadway in the Civic/Core, Broadway extends into the East Village and is a major linkage for the two districts. The CCDC and the City should consider the properties along Broadway in the East Village as an extension of efforts in the Civic/Core. If the CCDC follows a defined Merchandise Mix Plan and a comprehensive Implementation Program, then retail will improve in the Civic/Core along Broadway. As the Civic/Core becomes healthy, this vitality should extend along Broadway. As retail Neighborhood Centers in the northern part of the East Village grow and develop, they can link to the Civic/Core.

Little Italy

Description of Existing Merchandise Mix

Little Italy has a Community Benefit District, which is a business improvement district, consisting of 48 blocks. It functions as both a neighborhood district and a destination for people in San Diego. Little Italy is an active daytime neighborhood with people walking the street and dining/lounging in outdoor cafes. The primary street is India and the secondary street is Kettner Street. The retail is mostly restaurant and food focused on India Street with some local retailers selling merchandise. Kettner Street is home to a mixture of retail, residential, and office uses. Kettner has the beginnings of an art and design district with art studios and design offices, such as architecture offices. Fir Street, between India Street and Columbia Street, has the best and most concentrated retail in the district. Several good local stores include Che Bella (florist), For Joseph (women's apparel), and Niche (all apparel).

Little Italy does not have storefront design guidelines, but does have mixed-use requirements. There are streetscape plans to create an identity and public space at each intersection in the core section of India Street. According to stakeholders who run the District, there are approximately 1200 condominiums in Little Italy and the population is expected to double in five to seven years.

Challenges: Tenant Retention/Recruitment

Little Italy does not have many challenges facing retail retention and recruitment other than proceeding with the actual recruitment of more retail. Currently, the amount of retailers selling merchandise (as opposed to restaurants) is limited. A larger critical mass would enable retail to function as its own destination beyond the dining draw. Another challenge is the length of India Street. It is a long street to populate with retail. The Community Plan outlines a Neighborhood Center with retail requirements on India between Beech Street and Ivy Street. Commercial development is required from Broadway to Laurel Street, which is 14 blocks. ERA|DW also observed several gaps (i.e. surface parking) between buildings in the core that interrupt the flow of retail. Another challenge, which is common wherever infill development occurs, is the uninteresting storefront design/systems that are being installed in new construction. For an area with so much charm and vibrancy, generic storefront systems are a setback.

Recommended Tenant Mix/Recruitment

ERA|DW recognizes that the restaurant and food uses are an important part of Little Italy's identity and success. ERA|DW observed that this sector of Little Italy is doing well and will continue to grow. ERA|DW recommends considering other types of food uses such as gourmet markets and more prepared foods. ERA|DW would prioritize fostering retail and art- and design-related uses with a strong recruitment effort. ERA|DW recommends building upon these two different assets in Little Italy.

Build the critical mass of retailers in Little Italy

Fir Street has an appealing, but very small collection of retailers. Recruitment efforts should strongly focus on recruiting retailers that would complement this existing mix and attract more customers. Little Italy needs more of a critical mass of retailers in a concentrated area. Ideally, new stores should be located near or adjacent to the existing retail on Fir Street. Retail functions best when contiguous. More qualified stores will help retain existing retailers and bring more business to Little Italy:

- Apparel (men's, women's, and children's)
- Shoes
- Jewelry
- Accessories (i.e. scarves, handbags, etc.)
- Home accessories (i.e. picture frames, vases, tabletop, etc.)
- Fabrics/Linens

Utilize emerging art and design identity to recruit more retailers that relate to art and design.

The other asset to build upon in Little Italy is the collection art and design uses. Dick Blick: Art Supplies, Noel Baza Fine Art, Nelson Photo Supply, and Che Bella Florist among others are part of this art and design mix. Other types of uses include paper and ink supply, antiques, design services, art galleries. ERA|DW recommends recruiting more art and design related uses that sell merchandise and concentrating them. Uses include, but are not limited to studios, supplies, or retail for the following areas:

- Visual arts
- Photography
- Ceramics
- Specialists (oil or water color)

- Poster/lithographic
- Print Studios
- Glass
- Guild Jewelry
- Silk-screening/Fabrics
- Leather work

Concentrate recruitment prospects between Ash and Hawthorn (primarily on India)

As mentioned previously, retail functions best when double-sided and contiguous. India is a long commercial street that links into Broadway. Retail would not work well if scattered along this whole length. ERA|DW recommends concentrating on the six blocks between Ash and Hawthorn. This is where the retail is currently located and where residential development appears to be locating. ERA|DW also recommends that new construction and development fill in surface parking lots and gaps between buildings in the core of the district before expanding farther along the street. Retail should be on the ground level.

Horton/Gaslamp

Description of Existing Merchandise Mix

The primary retail street in the Gaslamp District is 5th Avenue. It is one way with three lanes of traffic and two-sided parking. Several good national stores, such as Quicksilver, Urban Outfitters, and Z-Gallerie populate the street. According to Gaslamp stakeholders, conventioneers will walk as far as Broadway and C Street to visit Adidas and House of Blues. If the right stores are in place, people will find them. Gradually, more retail has located on the southern part of 5th Avenue; the merchandise in these stores is oriented to tourists. ERA|DW found that along 5th Avenue most rents are between $42 and $54 per square foot on an annual basis and the triple net costs are high. These are healthy rents, which indicate healthy sales (rent is a function of sales); this will be attractive to more retailers and restaurants.

Fifth Avenue is the anchoring corridor of the Gaslamp/Horton District and has a very healthy mix of retail and entertainment. ERA|DW refers to the Gaslamp District as an Urban Entertainment Districts (UED). If retail and daytime uses are not encouraged or maintained, then UED's can worsen over time with too many nighttime bar uses and minimal daytime activity. This is not the case on 5th Avenue, which has a good percentage of retail to entertainment (nighttime) uses. As part of other project research conducted in 2007, ERA|DW found that retail constituted 48 percent of the mix on the street. Additionally, many of the restaurants are open during the day.

The merchandise mix on 6th Avenue includes Borders, Bucca Di Beppo, and the back of TGI Fridays among others. Sixth Avenue clearly serves as the back-of-house for 5th Avenue. The Jewelry Exchange building is also located on 6th Avenue. It houses 60 independent jewelry related companies under one roof. Sixth Avenue is growing with hotels and, according to Gaslamp stakeholders, will ultimately eclipse 4th Avenue with hotels. Stakeholders envision 6th Avenue becoming the hospitality corridor. The Gaslamp is largely a tourist destination. Renovations such as the Ivy Hotel from an SRO to a boutique hotel should be encouraged. Hotel industry stakeholders indicated that the area is lacking unique and interesting boutique-type retail. Sophisticated tourists need places to shop other than tourist/souvenir-oriented stores.

Fourth Avenue to the west of 5th Avenue appears to have a healthier retail climate than 6th Avenue. It is not the back-of-house space for 5th Avenue, unlike 6th Avenue. The southern part of 4th Avenue is home to several steakhouses and other restaurants, which cater to tourists and locals. The northern part of 4th Avenue between G Street and Broadway borders Horton Plaza. This part of 4th Avenue is virtually dead from the impact of Horton's large blank inactive walls.

Horton Plaza is a flawed urban retailing concept and its merchandise mix has degraded over time. This is not unique to San Diego or Horton Plaza; interior circulated malls in downtowns across the country have failed for retail. Horton Plaza could not retain its original tenants because the merchandise mix was not unique and the design and configuration is flawed. As an urban retail center, Horton Plaza turns its back on the Gaslamp District and the rest of San Diego with large blank walls at the street level. Westfield owns the mall and is planning a major redevelopment. According to several stakeholder interviews, two other San Diego region projects are more important to Westfield than the Horton Plaza redevelopment. Some estimate the redevelopment will occur in seven to eight years. Stakeholders also commented that Westfield is planning a remodeling effort for Nordstrom. Currently, the Horton Plaza Nordstrom is sub-par compared to other Nordstrom stores throughout the country. The merchandise lines have down-traded over the years. The nicer department stores and malls are Fashion Valley and Mission Valley.

Challenges: Tenant Retention/Recruitment

There are a limited number of challenges affecting tenant retention and recruitment in Horton/Gaslamp. One, however, is that 6th Avenue is clearly back-of-house for 5th Avenue, which causes many gaps between retail on the street. A contiguous retail strip is a real challenge on 6th Avenue. As noted, contiguous stores is a characteristic of successful urban retail.

Storefront design in new construction is a challenge for retail success and recruitment. Several residential buildings in the Gaslamp District were recently built with poorly designed retail space at the ground level. This occurs at the Alta and the Lofts at 777 on 6th Avenue. The Alta's retail space is a generic storefront system and is leased to a drugstore that does not merchandise to the street. ERA|DW recognizes the value of a drugstore in a growing residential area. The storefront, however, should be designed well and the landlord should require the tenant to merchandise to the street. The retail spaces at Loft 777 are set back and raised from the sidewalk. This configuration is not ideal for a pedestrian-friendly retail environment. Horton Plaza itself is a challenge to recruiting retailers. The redevelopment of Horton Plaza by Westfield is a critical component of the retail environment in the Gaslamp District.

Recommended Tenant Mix/Recruitment

ERA|DW recommends that the ratio of retail/daytime uses to entertainment/night time uses stay about the same. The objective of recruitment efforts in the Horton/Gaslamp District is to maintain a healthy balance of uses. ERA|DW recommends that office space along 5th Avenue be recaptured when possible for retail or restaurant space. Having alternative prospective tenants and a great sales pitch can often convince landlords to re-tenant space. Recruitment should also focus on making the link between the contiguous cluster of uses on 5th Avenue and Broadway. 5th Avenue and Broadway is *the* retail corner in downtown San Diego. The proportion of retail to restaurant/entertainment uses should increase closer to Broadway and vice versa closer to the convention center and hotels.

While 6th Avenue is primarily a back-of-house for 5th Avenue, there is some retail potential between E Street and Broadway. This block houses contiguous traditional storefronts; some of the existing uses would be candidates for recapture.

The Horton Plaza redevelopment will have large impacts on not only the nature of 4th Avenue, but the Gaslamp District and the Civic/Core. The life of a city comes from its streets, so it is imperative that Horton Plaza essentially turn itself inside out. Westfield should re-instate the street grid and orient storefronts to the street. It is very important that storefronts have individual identities. Bland storefront systems can hinder the ability to recruit retailers who want their own identity. Good examples of distinct and creative storefront systems in large developments can be found. The pictures below show how storefronts can be distinct on their own, yet still cohesive with the building/center. The signage is simple, creative, and well articulated. The façades are distinguished by design.

Bethesda Row: Bethesda, Maryland

Kierland Commons: Scottsdale, Arizona

Santana Row: San Jose, California

Gallery Place/Chinatown: Washington, D.C.

Recommended tools, incentives and leverage opportunities

ERA|DW recommends four different areas that will important tools, incentives and leverage opportunities. They are described below.

Merchandise Mix Plan

The strength of a retail district lies largely in how well the collection of merchandise/stores reflects the demographics and retail preferences of all customer groups. This is common from suburban to urban and independent to national retail centers. The CCDC should commission a Merchandise Mix Plan for the primary retail areas outlined in this report. A Merchandise Mix Plan should cater to not only the existing customers, but also potential new markets. As San Diego grows, the merchandise mix will continue to shape the identity of downtown.

Merchandise mix plans should outline what types of retail is under or over served and what type of retail is successful and should be expanded. If applicable, merchandise mix plans should also direct certain types of retailers or specific prospective tenants to key properties.

A Merchandise Mix Plan can be used as a tool by which to gauge the appropriateness of potential lease deals or incentive applicants. For this reason, it is important that all the relevant parties are committed to the plan, which takes significant one-on-one time with individual stakeholders (i.e. property owners). The Merchandise Mix Plan can also be used a tool to guide retail recruitment efforts.

Retail Recruitment Program

Plans and recommendations are the first tool used to revitalize urban retail. The second important tool is retail recruitment to find retailers that fulfill a defined vision and plan for downtown retail in San Diego. If retail in downtown is to thrive, a retail coordination effort must be in place to ensure a Merchandise Mix Plan is fulfilled and retail standards are maintained overtime. Downtown retail is constantly evolving.

As outlined in the discussion on the Civic/Core of downtown, ERA|DW recommends that the CCDC supplement existing retail recruitment efforts for downtown. In order for downtown retail to attract enough customers to be successful, it must offer a merchandise mix of distinctive good stores not found elsewhere. The retail real estate community must dig deeper than existing contacts with national retailers and spend a significant amount of time combing local, regional, and ultimately national markets for one-of-a-kind retailers. Successful retail recruitment programs across the country, have committed to hire individuals (full or part time) to prospect for potential downtown tenants. Eventually, when downtown San Diego retail is in prime condition, the CCDC will be less concerned about contacting new potential retailers and more concerned with maintaining quality, uniqueness, and balance [of retail categories] in the merchandise mix.

Financial Incentives

Financial incentives can be a useful leverage tool when jumpstarting retail in downtown San Diego. The most important aspect of any incentive is that it is distributed appropriately. A retail incentive should be distributed to retailers/property owners that:

- Fulfill or build upon a defined retail plan for downtown (Merchandise Mix Plan)
- Are great operators with a sound business plan or history
- Have long-term commitment to downtown
- Will attract and leverage future deals that fulfill a defined retail plan (co-tenancy)
- Implement appropriate storefront design

ERA|DW also recommends that incentives focus on small geographies so the impact is clearly visible. The geography can change over time. For example, in one or two years the CCDC could make a façade renovation grant eligible for four blocks along Broadway. In the following two years, the geography could change to another area of focus. Retail incentives vary from city to city, but two common types are façade renovation grants and forgivable loans for building improvements. In the case of building renovation, ERA|DW also recommends that incentives require matching funds from the property owner or retailer. This serves two purposes 1) it indicates the applicant's commitment to the project and 2) increases the magnitude of the proposed change. Typically, ERA|DW does not recommend rent subsidies. In downtown San Diego, a good retailer with the right marketing and merchandise for the market should have enough sales to support the rent.

Storefront and Signage Design Guidelines

San Diego is home to many new buildings and many more to come. The CCDC should require that buildings in primary retail areas follow storefront and signage design guidelines for ground level space. For example, ERA|DW recommends that storefronts be at least 75 percent transparent, which means no window tinting or obstructed fenestration. Drugstores may attempt to obstruct street frontage with shelving or cash wraps. This is the reason why they, in particular, should have limited frontage along the street. Design guidelines should tactfully ensure that common elements of good retail design are followed, yet allow retailers an individual storefront identity. Very well defined design guidelines will help the developer achieve the desired overall appearance of retail. Some recently built retail space does not demonstrate good retail design. In downtowns, the physical appeal of an area or individual stores influences retail expenditures. ERA|DW recommends the CCDC hire professional retail designer to create these guidelines that outline, with both images and text, how retail storefronts should look, including signage, displays, windows, materials and architectural details. These guidelines must include all existing guidelines and code requirements and could be utilized as a means to approve façade grants.

Blue Sub-Districts

One of ERA|DW's most important Retail Strategy recommendations relates to the retail development of the waterfront (Marina and Columbia districts). A City thrives when the core is healthy. The CCDC, City of San Diego, brokerage and development communities can not neglect the core while turning major retail efforts to the waterfront. If this happens, the core of San Diego will likely experience dramatic negative impacts. ERA|DW recommends the CCDC consider other cities, such as Baltimore, that focused retail efforts and financial resources on waterfront development projects. The historic core of Baltimore in recent history has been blighted, vacant, and in despair. There is a place for retail in the waterfront districts, but it should not supplant the actual retail core of the city. Retail at the waterfront should be an expansion of retail in the Civic/Core. Broadway is San Diego's historic retail core and the City's best chance for a strong retail district and revitalized downtown. ERA|DW recommends the CCDC and City build upon the historic commercial core of San Diego and take advantage of the building stock on Broadway.

Retail development in the waterfront is largely dependent on major developments and their financing. The CCDC and the City can begin retail planning and recruitment efforts on Broadway right *now*. The CCDC and City can not afford to wait for private development that will occur over the next five to ten years. Downtown entities can start improving conditions (tenant mix, facades, etc.) now in the downtown core and on Broadway where there is plenty of space. Waiting until developers go through their various processes could take years. In the meantime, the CCDC will follow further behind in revitalizing its downtown.

Columbia

Retail development in Columbia will remain small-scale and neighborhood serving, until major development projects are underway. Retail space at the Museum of Contemporary Art for San Diego (MCSA) should be improved.

The Columbia district will continue to grow and likely become densely populated with residents. With regards to urban retail, Columbia is still not the center of the downtown, which has access to tourists, residents, *and* office workers. Harbor Drive along the water in Columbia does not have the capacity for two-sided retail. Urban retail is most successful when developed on both sides the street; retail on the waterfront would be one-sided. Additionally, Harbor Drive is the terminal area for the cruise ships. The cruise customer, for the most part, is not a big spender. They typically save their money for port-of-call stops during the trip and spend less at the start or terminus of the trip. Focusing retail towards the waterfront and therefore, the tourist (cruise ship passengers) means committing to souvenir and impulse merchandise. Focusing retail towards the Pacific Highway and downtown opens the retail mix to the downtown employment base and San Diego residents. Collectively, they will spend more money than cruise ship passengers. Cruise ship passengers and San Diego residents will not mix well for retail merchandising; they do not share shopping preferences, such as merchandise or price-points.

ERA|DW understands that several large development projects are in the pipeline in Columbia, such as Lane Field and the Navy base next to it. ERA|DW recommends that the street grid from downtown remain intact in new developments so that people can drive through these projects. Streets should not be closed to vehicular traffic. In the 1980s many streets were closed to vehicular traffic in an attempt to simulate a shopping mall environment and revitalize retail. Now, downtowns, across the country, are re-opening pedestrian malls to vehicular traffic because the tactic was ineffective. The growing trend in downtown and shopping centers alike is orienting retail to vehicular streets (i.e. popularity of lifestyle centers). Additionally, retail developments should not turn its back on the Pacific Highway and thereby downtown.

With a development project housing a significant critical mass of retail, there are various retail potentials that would need more detailed research and exploration. It will challenging but achievable to create a successful retail cluster in the waterfront. ERA|DW summarizes the major factors below.

1) Retail should be oriented to Pacific Highway

   a. Cruise ship/waterfront tourists, generally, will not mix well with downtown employees, residents, and other upscale customers (i.e. luxury hotel).

   b. Retail oriented to the waterfront will naturally cater more to the tourist and single-sided retail is not as successful

   c. Retail oriented to Pacific Highway has a greater chance of tapping into more customer markets with attractive spending potential.

2) Pacific Highway is not an ideal place for small-scale street-oriented retail because the street has seven lanes of traffic and two lanes of parking.

3) The train line separates it from downtown, which is a deterrent for the pedestrian traffic flow

The success of retail in Columbia will be directly tied to design, location, configuration, and the mix of retailers. To put the best foot forward, the merchandise mix should cater to downtown employees, residents, and any other proposed uses. ERA|DW is certain that destination restaurants should part of the tenant mix. Destination restaurants are unique to the market, chef-driven, or hot restaurants on the national scene. People will travel farther for food than for retail and it is easier for restaurants than retail to cater to multiple customer markets (i.e. residents, employees, business travelers, leisure visitors). Since such development projects are several years away, current conditions at the time of construction and leasing would heavily influence the appropriate merchandise mix, retail configuration, and leasing.

The MCSA is located adjacent to the American Plaza Station along Kettner Boulevard. The retail space is neither oriented to Kettner Boulevard nor the America Plaza Station. The store does not take advantage of showing itself to the street. ERA|DW understands that maintaining two store entrances is difficult; however, one entrance should definitely be visible and prominent from a street. It is very difficult for customers to find the store and the display windows have frosted glass. ERA|DW recommends that the MCSA refer to the storefront design of the Seattle Art Museum gift shop. The storefront is very visible from the street with large transparent windows with creative displays of colorful merchandise. The interior of the store and shoppers are visible from the sidewalk.

Marina

Marina District retail will consist primarily of neighborhood serving retail; it is not the location for a major retail destination.

In the Marina District neighborhood serving retail is most appropriate. One example of a good neighborhood serving use is Bricklayer Coffee and Tea on Kettner Boulevard and G Street. G Street is a major street in the Marina; it connects to the Horton/Gaslamp District and borders the south side of Horton Plaza. At G Street and 1st Avenue there is a Ralph's Grocery Store that performs well. While grocery stores do not create an ideal shopping environment, they are a great asset to have in downtown. This is a good location, however, for a grocery store in downtown. Since Horton Plaza is an interior focused mall and does nothing to address the street, this part of G Street will be void of activity and retail potential until the mall is redeveloped.

There is a residential development that bridges the Marina District and Columbia District between G Street and E Street to the south and north and between Kettner Boulevard and State Street to the west and east. The street grid is interrupted at this residential development; F Street does not connect between downtown and the waterfront. This residential development is oriented inward as opposed to outward toward the street, which prohibits retail development. Also, the Metropolitan Correction Center (federal jail) is located in the Marina District. This complex and other institutional uses do not promote retail, but may support a few food or convenience-oriented stores. ERA|DW observed that a Westin is under construction. All uses other than retail are appropriate for the Marina District.

The Community Plan requires commercial uses along the whole length of Market Street, another important street in the Marina. Retail is required between Front Street and 3rd Avenue, which is not an ideal retail segment. Along Market Street there are mostly large towers (residential or office) with no spaces designed appropriately for retail. Additionally, this segment is somewhat isolated from other retail clusters in the downtown. The back of Ralph's Grocery Store is in this "retail" stretch of Market Street, as well as a Starbucks Coffee. Market Street is home to one of downtown's few and good apparel retailers, Gracie at 181 West Market Street. The ground level spaces are not ideal for retail. Gracie has several locations in southern California and is successful at its Market Street location because it has a loyal local (not tourist) customer base and functions as a destination retailer. It is hard for pedestrians or drivers passing by to distinguish that the space is a store. ERA|DW does not recommend that the CCDC mandate retail along this strip; any retail added should also include retail services, such as tailors, banks, etc.

Cortez

Cortez is primarily residential and will/should have neighborhood serving retail, as opposed to destination retail.

Cortez is very hilly with interesting small and large scale residential buildings with great views. It is understandable why this area is largely residential. Very few of the buildings have retail spaces built to the street. Sixth Avenue is the primary retail street and is a linkage between Cortez and the Civic/Core. The current mix includes neighborhood serving retail such as, One World Fine Food Market at 6th Avenue and Cedar, as well as Sole Luna Café, Indigo Café, and a neighborhood wine bar. Closer to downtown the retail space is occupied with less desirable tenants, such as Domino's Pizza, US Army Recruiting Station, and Bail Hotline.

ERA|DW recommends that 6th Avenue remain the main commercial street in Cortez and continue to grow with neighborhood serving uses. Neighborhood serving uses include retail, restaurants, and services. While commentary on residential development is not part of ERA|DW's scope, ERA|DW will note that affordable housing projects, generally, do not facilitate an improved retail environment.

Convention Center

The Convention Center District is not a place for retail; rather conventioneers should be encouraged to spend money in nearby districts, such as the Horton Plaza/Gaslamp District.

The official boundaries of the Convention Center include little more than the actual convention center and some hotels. Conventioneers are a great source of business for the hospitality industry, including hotels and restaurants, and not necessarily retail. Granted some retail in the Horton/Gaslamp have a large amount of conventioneer traffic. The CCDC or the City should not, however, rely on conventioneers as a major source of retail expenditures. Conventioneer spending should be considered an added bonus. It should be noted that conventioneers spend differently (typically less) than other tourists or business travelers.

Restaurants and food uses are great uses near convention centers. San Diego's convention center is ideally located adjacent to the Horton Plaza/Gaslamp District, the City's urban entertainment and dining district. It does not interrupt the vital street grid in downtown, like many convention centers unfortunately do in other cities. Actual convention Center buildings can be deadly for urban retail similar to Horton Plaza. They are monolithic buildings and often require large blank walls on downtown streets. Retail streets directly adjacent to or across from convention centers will not flourish. ERA|DW recognizes that retail and restaurant offerings in the Horton/Gaslamp District meet the demand generated by conventioneers. ERA|DW supports this continued dynamic.