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## **38 NORTH RETAIL & GROCERY ANALYSIS**

Commercial Development Site  
Kennedy Wilson  
Santa Rosa, California  
April 2021 (Update of October 2018 Report)



## BACKGROUND & OBJECTIVES

This project review was prepared by Zonda, a market research and consulting firm specializing in the real estate industry. It has been commissioned by Kennedy Wilson. The objective of this analysis is to provide due diligence efforts and to assess the market-based opportunity for the grocery store development at 38 North, a commercial site in Santa Rosa, California. This report is an update of our study from October 2018.

*Note: This report was completed during the ongoing global health crisis created by the COVID-19 (coronavirus) outbreak, the duration and consequences of which are still largely unknown. Our research and conclusions are based upon the best information available to us at the time of publication.*

## LIMITING CONDITIONS

Client is responsible for representations about the development plans, marketing expectations and for disclosure of any significant information that might affect the ultimate realization of the projected results. There will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and the difference may be material. We have no responsibility to update our report for events and circumstances occurring after the date of our report. Payment of any and all of our fees and expenses is not in any way contingent upon any factor other than our providing services related to this report.

## KEY CONTACTS

The following key team members participated on this analysis:

**Tim Sullivan, Senior Managing Principal**, oversees our Advisory practice. With over 38 years of experience, Mr. Sullivan is an expert in residential and mixed use feasibility studies, strategic planning and product development, and regularly conducts market analyses around the United States and internationally.

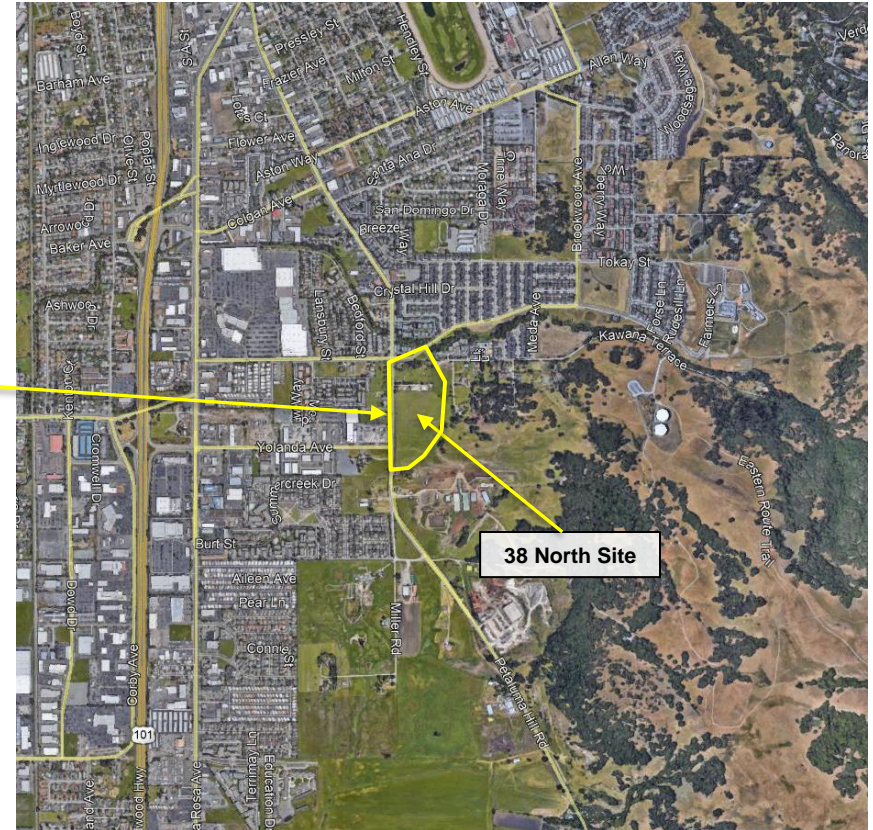
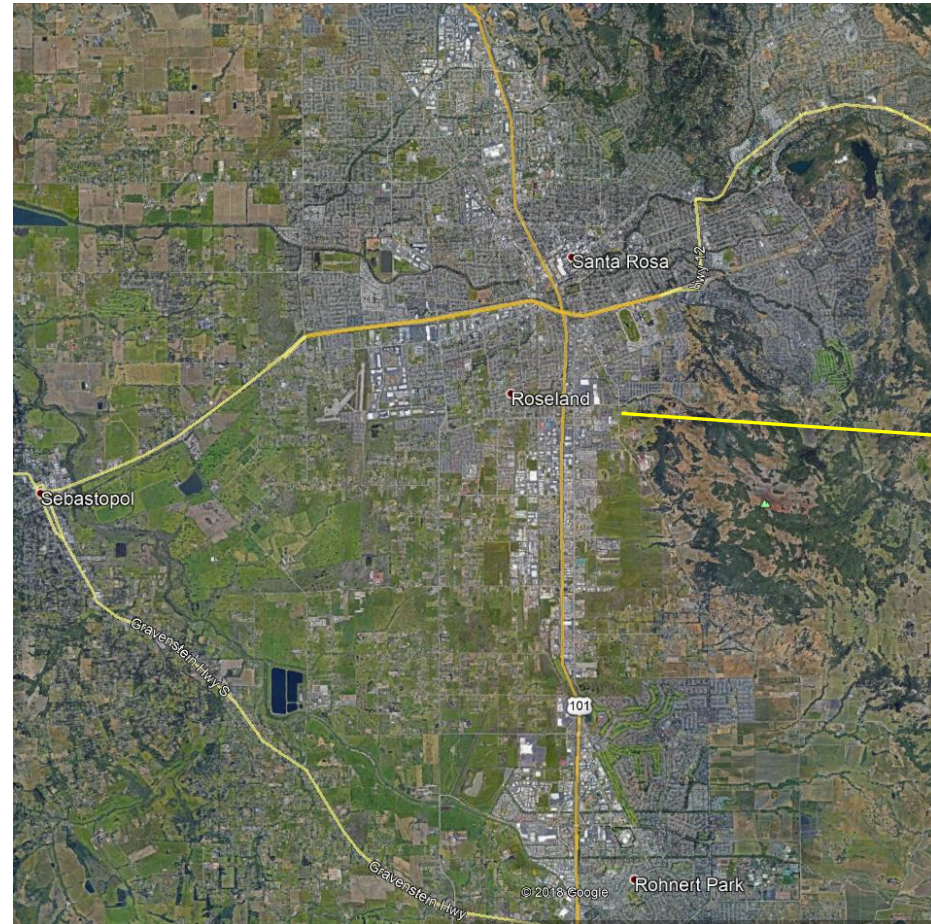
**Shaun McCutcheon, Vice President**. Mr. McCutcheon has 18 years of experience in the Real Estate Industry and specializes in market analysis for our residential and commercial consulting assignments. Mr. McCutcheon regularly works all over the United States on a variety of asset types, including in Northern California.

Additional support was provided as needed.

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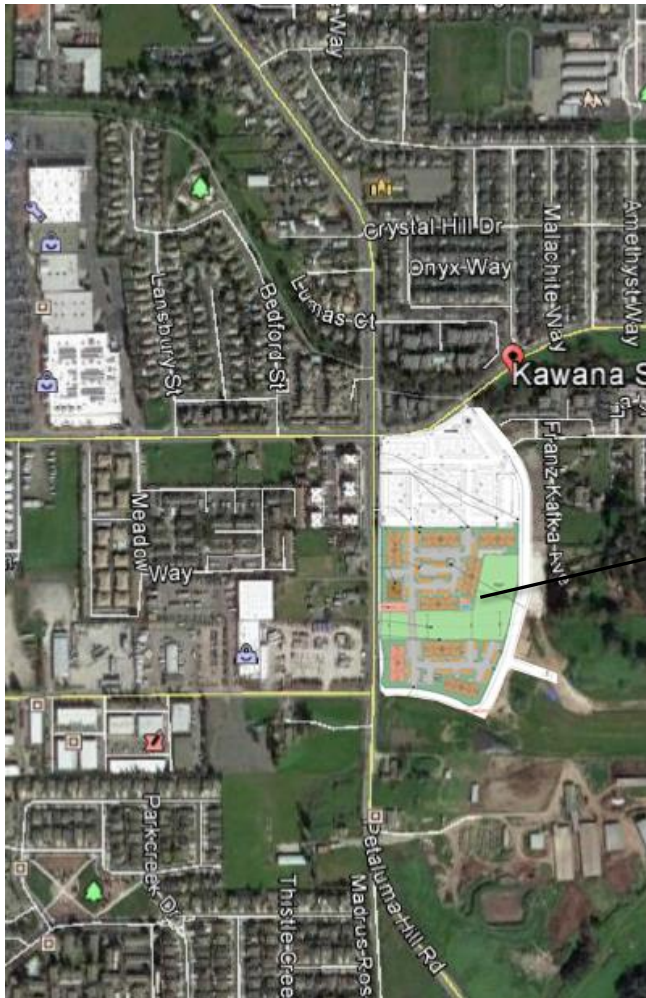
**The 38 North site is located in the southeast quadrant of the greater Santa Rosa area.** This location is proximate to downtown Santa Rosa to the north, Sebastopol to the west, and Rohnert Park to the south. Specifically, the Site is located just over a half-mile east of the 101 freeway and the Yolanda Avenue exit. Surrounding uses include residential communities to the north and southwest, retail centers along Santa Rosa Avenue to the west, and open space to the east. The region is known for its quaint communities, green hillsides, as well as agriculture uses including several wineries.



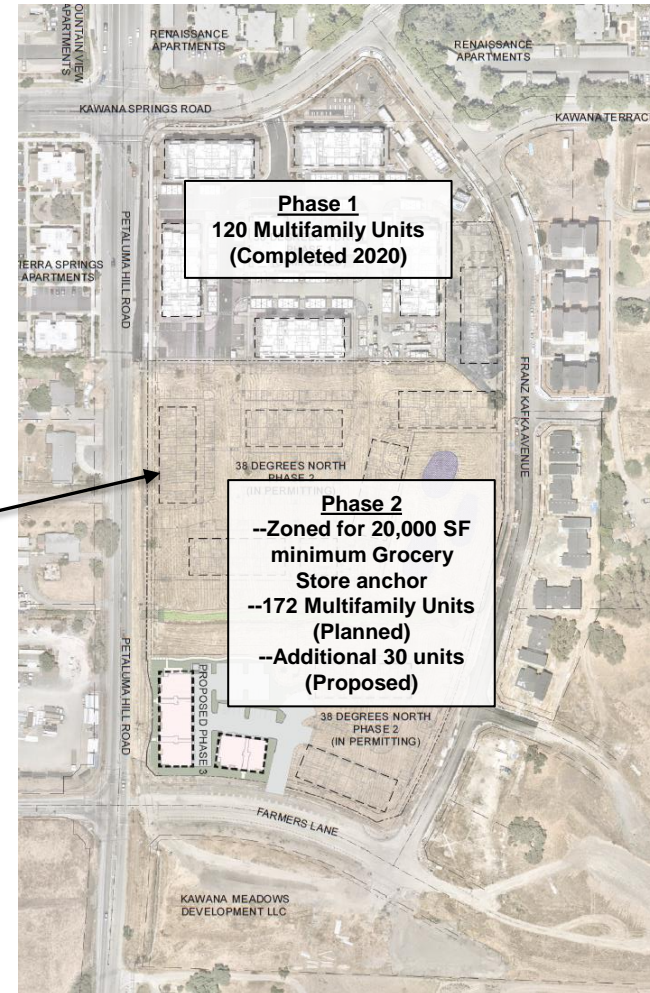
Source: Google Earth



**38 North is a phased development on 18 acres. The first phase, completed in 2020, comprises 120 multifamily units and the second/third phases are in various stages of entitlement approvals and permitting.** Current zoning requires a grocery store on the Site, with a minimum size of 20,000 square feet and a parking ratio of 4 spaces per 1,000 square feet. Kennedy Wilson is in permitting for a 172-unit multifamily project on the southern half of the development site and is proposing 30 additional units in lieu of a grocery store.



Source: BSB Design, Kennedy Wilson



# Key Findings

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38 North, Santa Rosa, California (2021 Update)

**Based on our research, including site visits, retail market trends, supply-demand factors and conversations with local commercial brokers, the 38 North Site does not support any anchor retail uses and does not support a grocery store anchor in particular.** Key conclusions from the retail/ grocery opportunity analysis are as follows:

- **Our retail demand analysis does not indicate any supportable retail uses at the Site in the foreseeable future.** This is based on current household spending levels as well as household growth and income projections through 2025. Because the local area has more supply than demand for nearly every retail category, this does not suggest support for any new space currently or over the next five years. This view is supported by local commercial brokers, who reported that in the local area **supply meets or exceeds demand, vacancies are high, and rents for anchor spaces are relatively low.** See the Retail Demand Analysis section for details related to market supply and demand for various retail uses over time.
- **Several major grocery anchors are located within a three-mile radius of 38 North Site,** including grocers such as Whole Foods, Safeway, Lucky, and Trader Joe's; bulk/ general merchandise anchors that offer groceries (Costco, Walmart, Target); discount supermarkets (FoodMaxx and Smart & Final); as well as department stores (two Macy's, Sears, and JCPenney). According to local commercial brokers, the area is well served in virtually every retail category. This oversupply is evident at Santa Rosa Market place which has a 31,000 square foot anchor space vacant (former Office Depot), Santa Rosa Town Center which has one anchor space vacant that comprises 6,500 square feet, as well as Santa Rosa Southside shopping center, which has a 38,000 square foot anchor space that is vacant (former Toys R Us). This center is located just over a half-mile from the Site in a superior, high-traffic location, and would be better suited to accommodate any potential grocery anchor interested in entering the local area.
- **Traffic levels at the Site are well below existing retail concentrations.** The roads leading to the 38 North Site have Average Daily Traffic volume (ADTs) of 16,800 vehicles per day, while existing retail locations offer significantly higher traffic levels. The 38 North site is situated on Petaluma Hill Road (16,800 ADTs) and near Kawana Springs Road (11,138 ADTs). These levels of traffic are not as high as retail anchors such as a grocery store would prefer (at least 20,000-30,000 ADTs), and well below the traffic levels experienced at other retail centers in the local area. For example, the nearby retail centers at Santa Rosa Marketplace, Santa Rosa Town Center and Santa Rosa Southside center are all located on Santa Rosa Avenue, which offers 27,900 to 28,000 ADTs. Further, these centers have access and visibility to the 101 Freeway, which boasts traffic levels of 130,000 to 157,000 ADTs. Further, 38 North images reveal the Site and surrounding area are largely undeveloped. These images reveal the rural nature of the surrounding area including uninhabited rolling hills to the east, and is evidence of a lack of existing households in the immediate area, which is not conducive to commercial uses or a grocery store in particular.
- **Vacancy rates are at the highest levels on record.** In Sonoma County, the vacancy rate has increased from 4.9% one year ago to 7.7% in Q4 2020 and in Santa Rosa the vacancy rate increased significantly over the past four years, from a low of 2.1% in 2017 to 8.4% in Q4 2020. The increase in vacancy rates is partially due to the negative impact on retail during the COVID-19 pandemic, as well as other factors that were in process prior to COVID, such as the shift to online retail in many retail categories.
- **Conversations with retail brokers further indicate a weak opportunity for retail development at the Site.** Brokers view the site as relatively isolated from population concentrations and high traffic roads that are necessary for successful retail centers. Further, the achievable rents for an anchor tenant are likely to be relatively low, and incentives/ expectations are likely to be high. For example, an anchor space at the Santa Rosa Town Center has recently been leased to Scandinavian Designs Furniture for \$12.60 per square foot per year (as-is), and the Ross anchor has a lease rate of \$10.00 per square foot per year. The listing broker mentioned that **rents are stagnant, and the Scandinavian Designs space was leased to CompUSA for \$15.00 per square foot 25 years ago, 16% more than the current lease.** Based on the location of the 38 North Site, it is likely that a grocery anchor would achieve approximately \$10.00 to \$12.00 per square foot per year lease rate, which is not sufficient to justify new construction, according to local brokers.

**Our retail demand model does not indicate any notable level of expected demand through the foreseeable future.** This is based on current household spending levels as well as household growth and income projections through 2025. Because the local area has more supply than demand for nearly every retail category, this does not suggest support for any new space currently or over the next five years, consistent with our 2018 study. This view is supported by local commercial brokers, who reported that in the local area supply meets or exceeds demand. See the Retail Demand Analysis section for details related to market supply and demand for various retail uses over time.

Retail Demand at At 38 North Site (Average of 1-Mile, 2-Mile and 3-Mile Radius & Capture)		
Category	2020 Supportable SF	2025 Supportable SF
Health & Personal Care Stores	(3,244)	(1,596)
Jewelry, Luggage & Leather Goods	(724)	(361)
Lawn & Garden Equip & Supply	(515)	(333)
Shoe Stores	(2,892)	(2,591)
Specialty Food Stores	(293)	(7)
Florists	(26)	49
Drinking Places - Alcoholic Beverages	29	93
Special Food Services	(1,862)	(1,801)
Clothing Stores	(11,935)	(10,241)
Direct Selling Establishments	(1,344)	(1,198)
Book, Periodical & Music	(1,704)	(1,454)
Beer, Wine & Liquor Stores	(5,119)	(4,831)
Other Miscellaneous Store Retailers	(4,917)	(4,195)
Bldg Material & Supplies Dealers	(25,343)	(22,655)
Restaurants/Other Eating Places	(8,856)	(5,922)
Office Supplies, Stationery & Gifts	(4,626)	(4,198)
Used Merchandise Stores	(4,677)	(4,481)
Grocery Stores	(1,057)	2,376
Electronics & Appliance Stores	(13,135)	(12,675)
Furniture Stores	(13,418)	(12,446)
Dept. Stores Excluding Leased Depts.	(22,052)	(18,855)
Home Furnishings Stores	(33,974)	(33,113)
Auto Parts, Accessories & Tire	(44,500)	(43,602)
Sporting Goods/Hobby/Musical Instr	(41,123)	(39,543)
Other General Merchandise Stores	(116,692)	(114,520)
<b>TOTAL</b>	<b>(364,003)</b>	<b>(338,099)</b>

The 2,376 square feet of supportable grocery in 2025 is just a fraction of what a grocery operator can operate at and is a fraction of the 20,000 square feet required on our site, hence not feasible

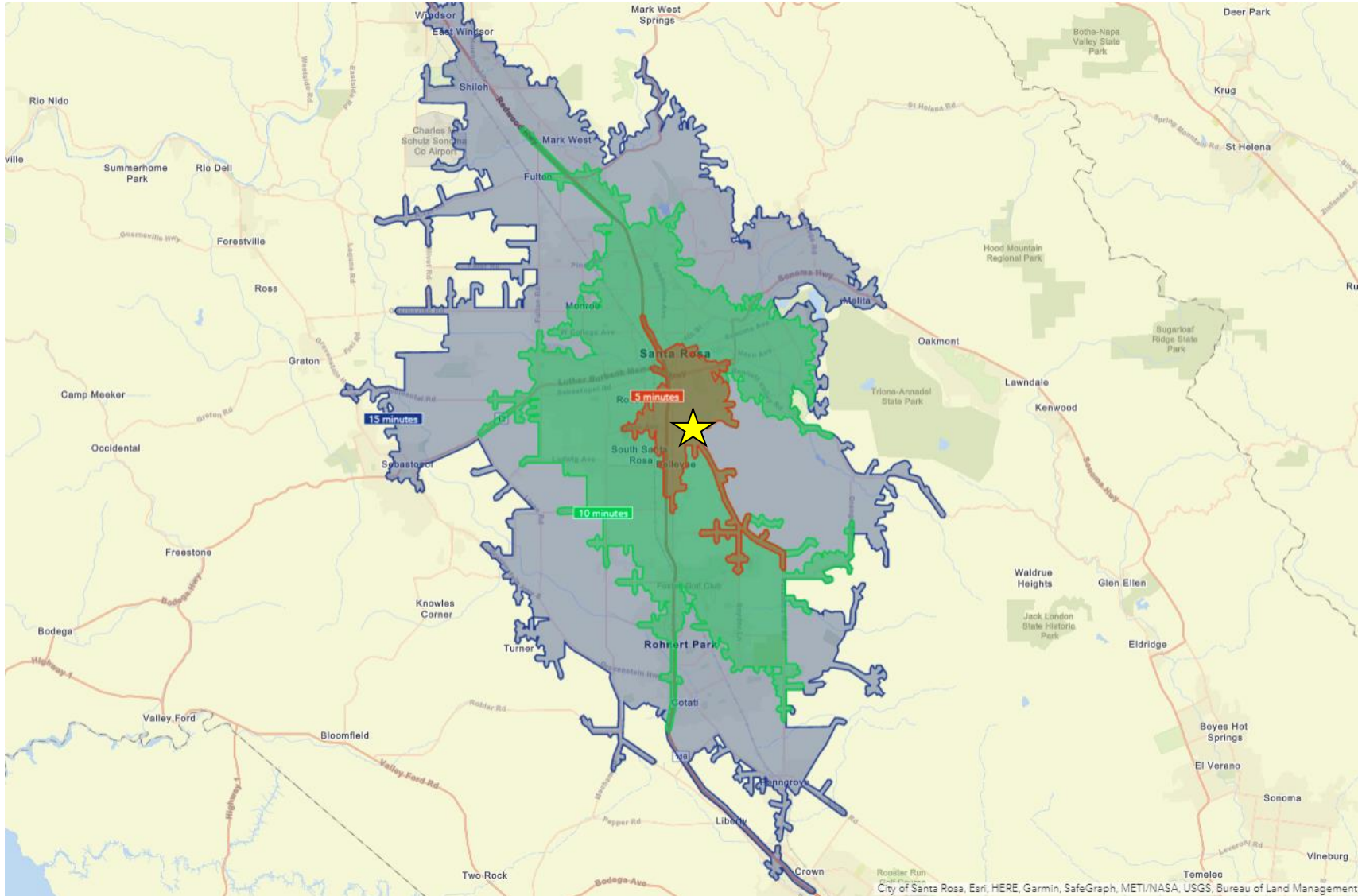


# Location Overview

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38 North, Santa Rosa, California (2021 Update)

**The 38 North Site is within 10 minutes of population concentrations of Santa Rosa, Roseland and Rohnert Park.** Most of the populated areas of the greater Santa Rosa area are within a 15 minute drive from the Site.



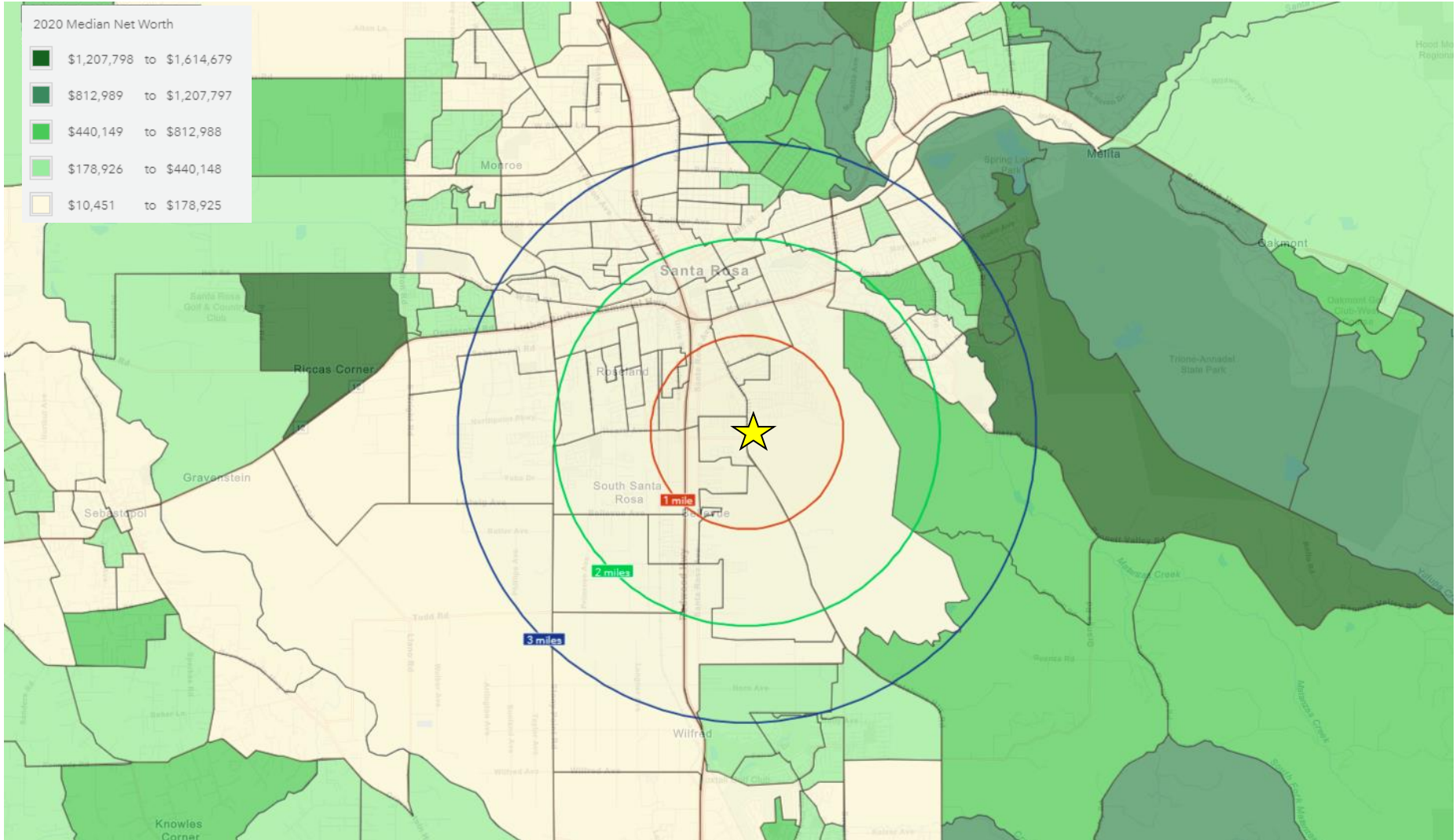






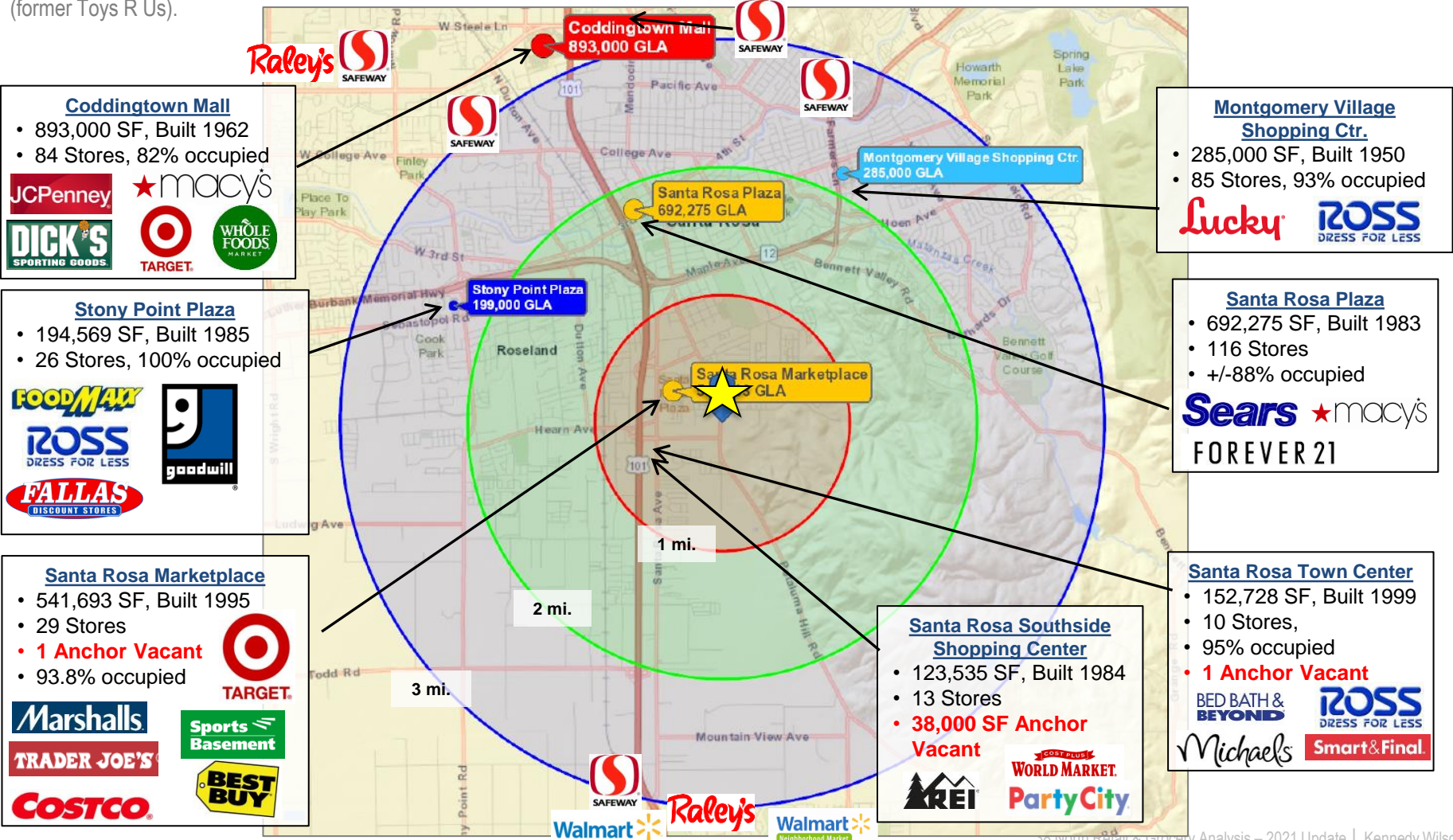


Similarly, there is elevated household net worth to the east and west of the Site. This map illustrates 2020 median net worth by zip code in the region. Note that in general, there are several areas east of the Site that have relatively high net worth levels.



Source: ESRI

The area surrounding 38 North Site is characterized by a number of grocery stores and “big box” retailers. Several major retail anchors are located within a three-mile radius of 38 North Site, including grocers such as Whole Foods, Safeway, and Trader Joe’s as well as bulk/ general merchandise anchors (Costco, Walmart, Target) and department stores (two Macy’s, Sears, JCPenney). According to local commercial brokers, the area is well served in virtually every retail category. This oversupply is evident at Santa Rosa Market place which has a 31,000 square foot anchor space vacant (former Office Depot), Santa Rosa Town Center which has one anchor space vacant that comprises 6,500 square feet, as well as Santa Rosa Southside shopping center, which has a 38,000 square foot anchor space that is vacant (former Toys R Us).

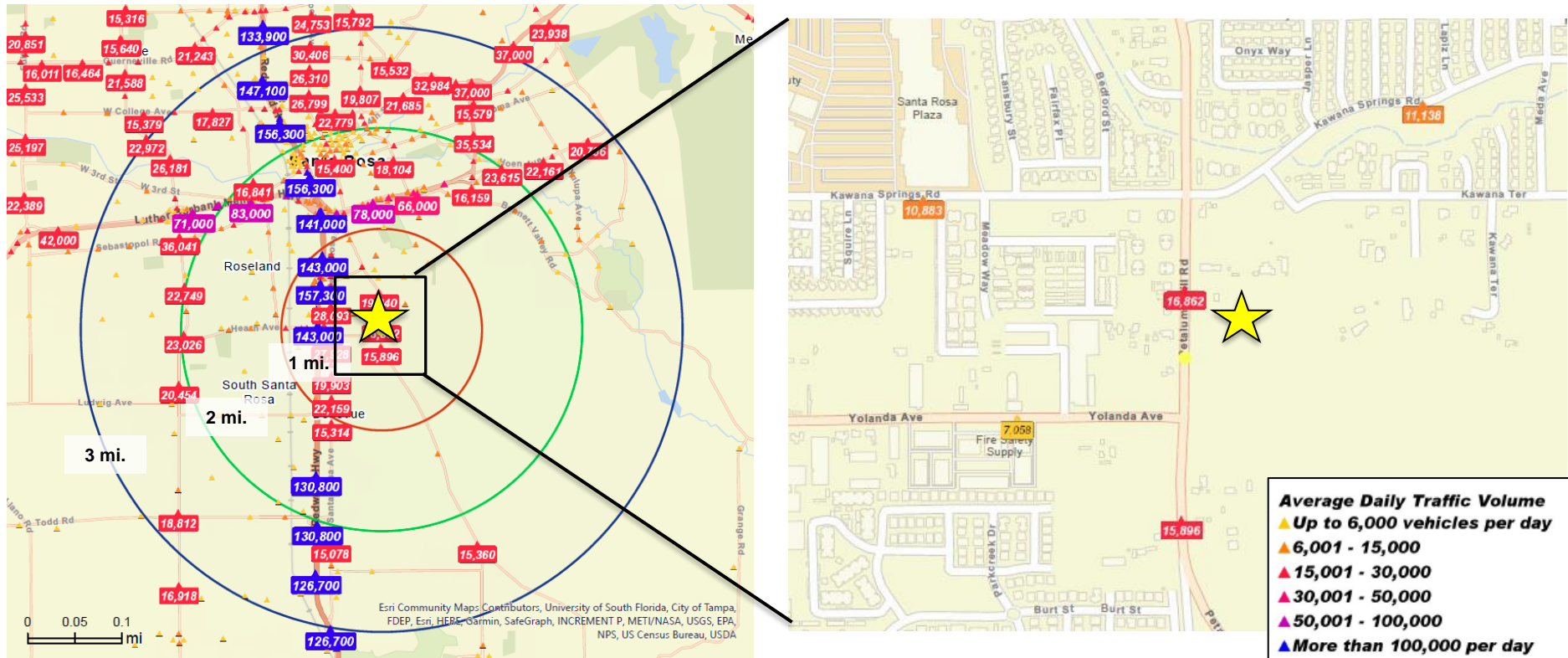




# SITE OFFERS DECENT TRAFFIC LEVELS BUT HIGHER TRAFFIC ROADS ARE NEARBY

Average Daily Traffic Levels Near 38 North Site

The roads leading to the 38 North Site have Average Daily Traffic volume (ADTs) of 16,800 vehicles per day, while existing retail locations offer significantly higher traffic levels. The 38 North site is situated on Petaluma Hill Road (16,800 ADTs) and near Kawana Springs Road (11,138 ADTs). These levels of traffic are not as high as retail anchors such as a grocery store would prefer (at least 20,000-30,000 ADTs), and well below the traffic levels experienced at other retail centers in the local area. For example, the nearby retail centers at Santa Rosa Marketplace, Santa Rosa Town Center and Santa Rosa Southside center are all located on Santa Rosa Avenue, which offers 27,900 to 28,000 ADTs. Further, these centers have access and visibility to the 101 Freeway, which boasts traffic levels of 130,000 to 157,000 ADTs.



Source: ESRI

# Key Project Profiles

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38 North, Santa Rosa, California (2021 Update)

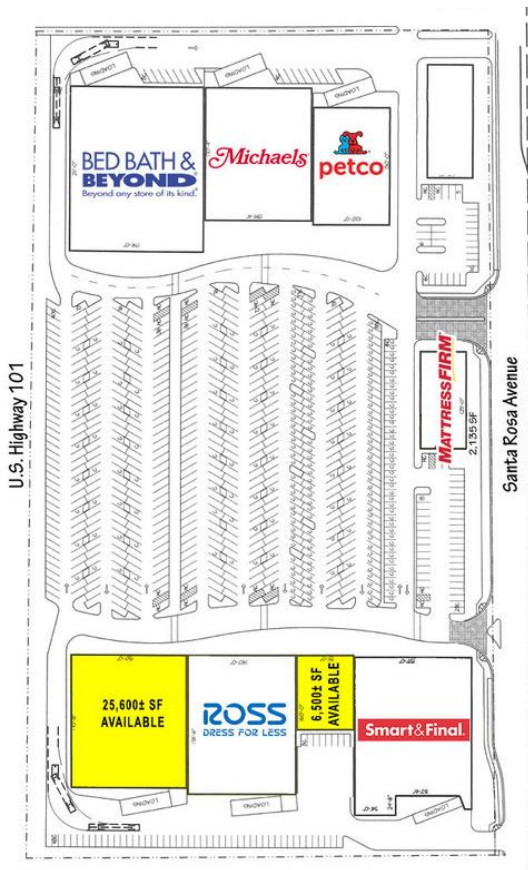


**Santa Rosa Marketplace a retail power center at the northeast corner of Santa Rosa Avenue and Kawana Springs Road, less than a half mile from the 38 North Site.** The 541,000 square foot center was built in 1995. Anchor tenants include Target (with groceries), Costco, Best Buy, BevMo, Marshalls, Office Depot and Sports Basement among others. In total, the center comprises 29 shops and restaurants and is 93.8% leased—a former Office Depot anchor comprising 31,635 square feet is vacant, with an asking lease rate of \$22.00 per square foot per year (NNN) and a 1,500 square foot space has a lease rate of \$55.00 per square foot per year (NNN) with \$25.00 per square foot tenant improvement allowance.



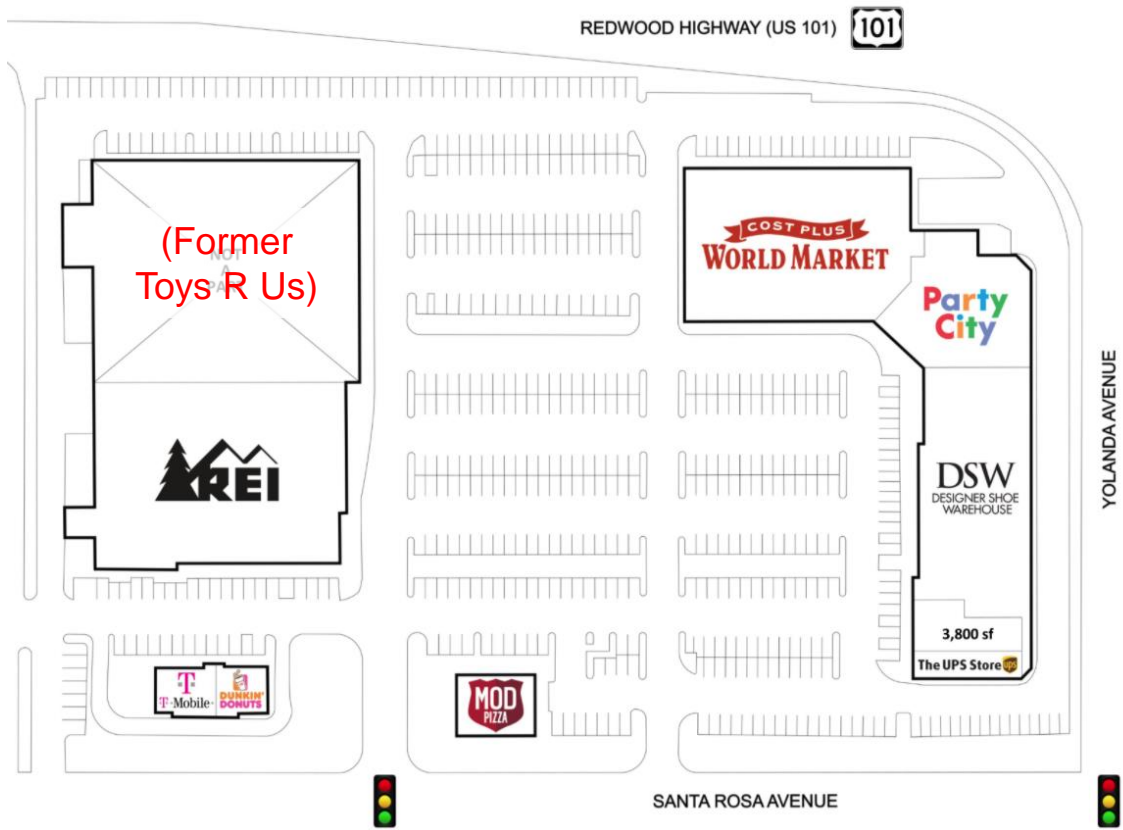


**Santa Rosa Town Center is a retail power center at Highway 101 and Santa Rosa Avenue, approximately 0.7 miles from the Site.** The 152,000 square foot center was built in 1999 and is 95% leased. Anchor tenants include Smart & Final, Bed Bath & Beyond, Ross, Michaels and Petco. The 25,000 square foot space shown below as vacant has recently been leased to Scandinavian Designs Furniture for \$12.60 per square foot per year (as-is), and the Ross anchor has a lease rate of \$10.00 per square foot per year. The listing broker mentioned that rents are stagnant in the center, and the Scandinavian Designs space was leased to CompUSA for \$15.00 per square foot 25 years ago, 16% more than the current lease.



Source: Keegan & Coppin

**Santa Rosa Southside shopping center is a retail power center at Highway 101, Yolanda Avenue, and Santa Rosa Avenue, approximately 0.6 miles from the Site.** The 123,000 square foot center was built in 1984. Anchor tenants include REI, Cost Plus World Market, DSW and Party City. It is important to note that there are three vacant spaces ranging from 1,768 to 38,000 square feet, for an overall occupancy rate of 65.5%.





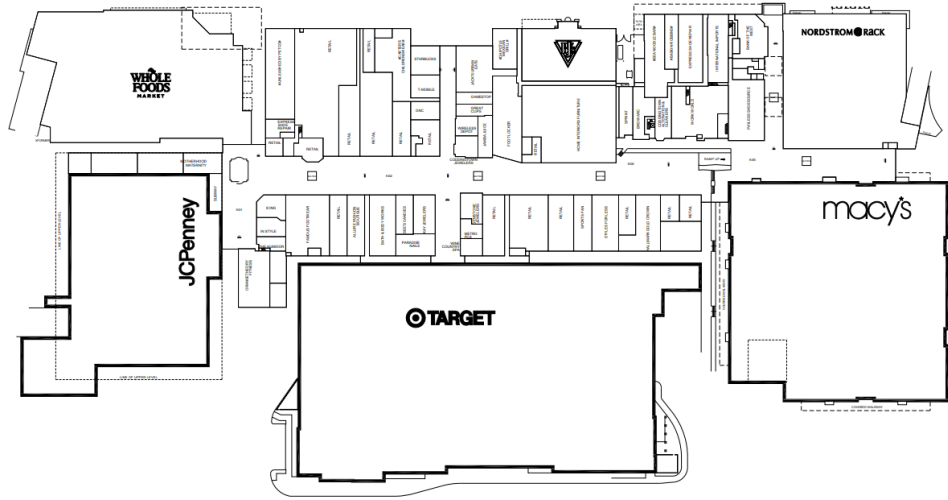
**Santa Rosa Plaza a regional mall at Highway 101 and 3<sup>rd</sup> Street, approximately 2.3 miles north of the Site.** The 692,000 square foot center was built in 1983 and acquired by Simon in 1998. Anchor tenants include Macy's, Sears, and Forever 21 among others. In total, the center comprises 120 shops and restaurants and is approximately 88% leased.



Source: Simon Property Group, Keegan & Coppin



**Coddington Mall is a regional mall at Highway 101 and W State Lane, approximately three miles north of the Site.** The 893,000 square foot center was built in 1962, and renovated from 2008 through 2016—a Ralphs supermarket was replaced by a Whole Foods in 2010, a Gottschalks department store building was replaced by a Target store in 2014, and a Nordstrom Rack was built in 2016. Other anchor tenants include JCPenney and Macy's. In total, the center comprises 84 shops and restaurants and is approximately 82% leased.



Source: Coddington Enterprises, Simon Property Group



**Montgomery Village Shopping Center is a specialty retail center located at Highway 12 and Sonoma Avenue, approximate three miles north of the Site.** The 250,000 square foot center was built in 1950. Anchor tenants include a Lucky supermarket and Ross. In total, the center comprises 76 shops and restaurants in a walkable, promenade oriented setting. Currently the center is 93% occupied.



Source: Montgomery Village Shopping Center

**Stony Point Plaza** is a discount oriented shopping center at Highway 12, Stony Point Road and Sebastopol Road, approximately three miles west of the Site. The 194,000 square foot center was built in 1985. Anchor tenants include FoodMaxx, Ross, Fallas Paredes and Goodwill. The center is currently fully occupied.



# Retail Demand Analysis

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38 North, Santa Rosa, California (2021 Update)

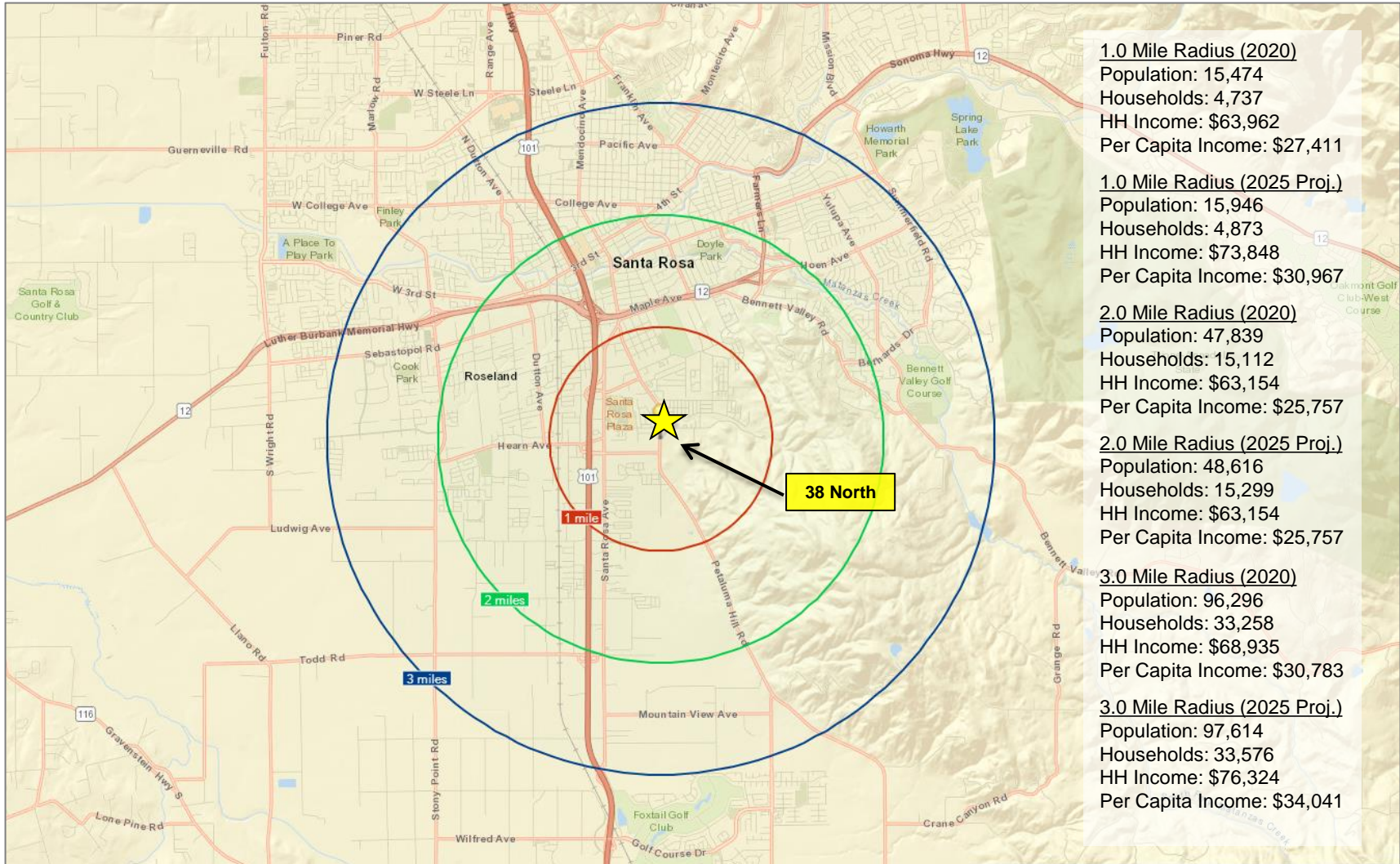


# 38 NORTH SITE LOCATION AND RETAIL TRADE AREAS CONSIDERED FOR DEMAND MODEL

Meyers Research Considered Demand in a 1, 2, and 3 Mile Radius



**Our retail demand analysis considers demand for additional retail uses in 1-mile, 2-mile and 3-mile radii from the Site.** While it is possible that the Site could pull demand from other areas of Sonoma County, we used these radii to measure demand since any prospective grocery store anchors will prioritize the local fundamentals of demand versus any marginal demand that may exist in more remote areas.



Source: ESRI

**Our retail demand model does not indicate any notable level of expected demand through the foreseeable future.** This is based on current household spending levels as well as household growth and income projections through 2025. Because the local area has more supply than demand for nearly every retail category, this does not suggest support for any new space currently or over the next five years, consistent with our 2018 study. This view is supported by local commercial brokers, who reported that in the local area supply meets or exceeds demand.

Retail Demand at At 38 North Site (Average of 1-Mile, 2-Mile and 3-Mile Radius & Capture)		
Category	2020 Supportable SF	2025 Supportable SF
Health & Personal Care Stores	(3,244)	(1,596)
Jewelry, Luggage & Leather Goods	(724)	(361)
Lawn & Garden Equip & Supply	(515)	(333)
Shoe Stores	(2,892)	(2,591)
Specialty Food Stores	(293)	(7)
Florists	(26)	49
Drinking Places - Alcoholic Beverages	29	93
Special Food Services	(1,862)	(1,801)
Clothing Stores	(11,935)	(10,241)
Direct Selling Establishments	(1,344)	(1,198)
Book, Periodical & Music	(1,704)	(1,454)
Beer, Wine & Liquor Stores	(5,119)	(4,831)
Other Miscellaneous Store Retailers	(4,917)	(4,195)
Bldg Material & Supplies Dealers	(25,343)	(22,655)
Restaurants/Other Eating Places	(8,856)	(5,922)
Office Supplies, Stationery & Gifts	(4,626)	(4,198)
Used Merchandise Stores	(4,677)	(4,481)
Grocery Stores	(1,057)	2,376
Electronics & Appliance Stores	(13,135)	(12,675)
Furniture Stores	(13,418)	(12,446)
Dept. Stores Excluding Leased Depts.	(22,052)	(18,855)
Home Furnishings Stores	(33,974)	(33,113)
Auto Parts, Accessories & Tire	(44,500)	(43,602)
Sporting Goods/Hobby/Musical Instr	(41,123)	(39,543)
Other General Merchandise Stores	(116,692)	(114,520)
<b>TOTAL</b>	<b>(364,003)</b>	<b>(338,099)</b>

Source: Zonda, ESRI, ULI

The chart below estimates a capture (%) of total retail demand in a one-mile radius used in our retail demand analysis. We estimate that the 38 North Site can enjoy approximately one-half of demand (+/-50%) within this area, since the 38 North Site represents a large commercial parcel but there are other viable retail sites nearby. In the one mile radius, most of the retail categories are oversupplied due to the presence of large “big box” retailers within this area (Costco, Target, Trader Joes, Best Buy, etc.). There is a small amount of demand (less than 4,000 square feet) in the Health & Personal Care, Jewelry, Lawn & Garden and Shoe Stores categories among others, but none are large enough to support a retail anchor of 20,000 square feet or more, or a grocery store anchor in particular.

Total Retail Demand - 1 Mile Radius		
Category	2020 Supportable SF	2025 Supportable SF
Health & Personal Care Stores	4,729	7,833
Jewelry, Luggage & Leather Goods	3,373	4,050
Lawn & Garden Equip & Supply	1,704	2,046
Shoe Stores	1,568	2,136
Specialty Food Stores	1,493	2,032
Florists	384	525
Drinking Places - Alcoholic Beverages	299	418
Special Food Services	(751)	(635)
Clothing Stores	(1,805)	1,386
Direct Selling Establishments	(2,582)	(2,315)
Book, Periodical & Music	(2,787)	(2,318)
Beer, Wine & Liquor Stores	(6,114)	(5,572)
Other Miscellaneous Store Retailers	(7,308)	(5,942)
Bldg Material & Supplies Dealers	(8,945)	(3,826)
Restaurants/Other Eating Places	(10,344)	(4,812)
Office Supplies, Stationery & Gifts	(10,552)	(9,745)
Used Merchandise Stores	(10,900)	(10,530)
Grocery Stores	(13,411)	(6,942)
Electronics & Appliance Stores	(28,689)	(27,823)
Furniture Stores	(29,050)	(27,216)
Dept. Stores Excluding Leased Depts.	(42,251)	(36,228)
Home Furnishings Stores	(66,171)	(64,547)
Auto Parts, Accessories & Tire	(95,196)	(93,507)
Sporting Goods/Hobby/Musical Instr	(95,226)	(92,248)
Other General Merchandise Stores	(297,522)	(293,423)
<b>TOTAL</b>	<b>(716,055)</b>	<b>(667,199)</b>

Source: Zonda, ESRI, ULI

Retail Demand At 38 North Site - 1 Mile Radius (50% Capture)		
Category	2020 Supportable SF	2025 Supportable SF
Health & Personal Care Stores	2,364	3,917
Jewelry, Luggage & Leather Goods	1,687	2,025
Lawn & Garden Equip & Supply	852	1,023
Shoe Stores	784	1,068
Specialty Food Stores	746	1,016
Florists	192	262
Drinking Places - Alcoholic Beverages	149	209
Special Food Services	(375)	(318)
Clothing Stores	(902)	693
Direct Selling Establishments	(1,291)	(1,157)
Book, Periodical & Music	(1,394)	(1,159)
Beer, Wine & Liquor Stores	(3,057)	(2,786)
Other Miscellaneous Store Retailers	(3,654)	(2,971)
Bldg Material & Supplies Dealers	(4,472)	(1,913)
Restaurants/Other Eating Places	(5,172)	(2,406)
Office Supplies, Stationery & Gifts	(5,276)	(4,872)
Used Merchandise Stores	(5,450)	(5,265)
Grocery Stores	(6,706)	(3,471)
Electronics & Appliance Stores	(14,344)	(13,911)
Furniture Stores	(14,525)	(13,608)
Dept. Stores Excluding Leased Depts.	(21,126)	(18,114)
Home Furnishings Stores	(33,086)	(32,273)
Auto Parts, Accessories & Tire	(47,598)	(46,753)
Sporting Goods/Hobby/Musical Instr	(47,613)	(46,124)
Other General Merchandise Stores	(148,761)	(146,711)
<b>TOTAL</b>	<b>(358,028)</b>	<b>(333,600)</b>



**The chart below estimates a capture (%) of total retail demand in a two-mile radius from the retail demand section.** We estimate that the 38 North Site can enjoy a smaller portion of demand (+/-25%), given that 38 North Site encompasses a relatively small portion of this two-mile radius, with several other viable retail sites in this area. At 25% capture, this analysis indicates an oversupply of retailers in nearly every category currently and over the next five years. There is evidence of a marginal amount of support for a grocery store in the two mile radius, but is not at a level to support a +/-20,000 square foot grocer at the Site.

Total Retail Demand - 2 Mile Radius		
Category	2020 Supportable SF	2025 Supportable SF
Health & Personal Care Stores	(35,412)	(28,432)
Jewelry, Luggage & Leather Goods	(12,538)	(10,992)
Lawn & Garden Equip & Supply	(7,526)	(6,756)
Shoe Stores	(26,273)	(25,004)
Specialty Food Stores	(5,332)	(4,122)
Florists	(977)	(655)
Drinking Places - Alcoholic Beverages	(367)	(95)
Special Food Services	(13,393)	(13,135)
Clothing Stores	(91,873)	(84,696)
Direct Selling Establishments	(5,590)	(4,954)
Book, Periodical & Music	(8,061)	(6,999)
Beer, Wine & Liquor Stores	(28,728)	(27,504)
Other Miscellaneous Store Retailers	(24,723)	(21,679)
Bldg Material & Supplies Dealers	(184,858)	(173,586)
Restaurants/Other Eating Places	(50,163)	(37,750)
Office Supplies, Stationery & Gifts	(15,905)	(14,094)
Used Merchandise Stores	(15,618)	(14,785)
Grocery Stores	18,364	32,893
Electronics & Appliance Stores	(47,704)	(45,756)
Furniture Stores	(49,242)	(45,134)
Dept. Stores Excluding Leased Depts.	(91,917)	(78,384)
Home Furnishings Stores	(139,449)	(135,814)
Auto Parts, Accessories & Tire	(165,607)	(161,802)
Sporting Goods/Hobby/Musical Instr	(138,533)	(131,846)
Other General Merchandise Stores	(338,494)	(329,314)
<b>TOTAL</b>	<b>(1,479,917)</b>	<b>(1,370,394)</b>

Source: Zonda, ESRI, ULI

Retail Demand At 38 North Site - 2 Mile Radius (25% Capture)		
Category	2020 Supportable SF	2025 Supportable SF
Health & Personal Care Stores	(8,853)	(7,108)
Jewelry, Luggage & Leather Goods	(3,134)	(2,748)
Lawn & Garden Equip & Supply	(1,881)	(1,689)
Shoe Stores	(6,568)	(6,251)
Specialty Food Stores	(1,333)	(1,030)
Florists	(244)	(164)
Drinking Places - Alcoholic Beverages	(92)	(24)
Special Food Services	(3,348)	(3,284)
Clothing Stores	(22,968)	(21,174)
Direct Selling Establishments	(1,398)	(1,238)
Book, Periodical & Music	(2,015)	(1,750)
Beer, Wine & Liquor Stores	(7,182)	(6,876)
Other Miscellaneous Store Retailers	(6,181)	(5,420)
Bldg Material & Supplies Dealers	(46,214)	(43,396)
Restaurants/Other Eating Places	(12,541)	(9,437)
Office Supplies, Stationery & Gifts	(3,976)	(3,523)
Used Merchandise Stores	(3,904)	(3,696)
Grocery Stores	4,591	8,223
Electronics & Appliance Stores	(11,926)	(11,439)
Furniture Stores	(12,311)	(11,284)
Dept. Stores Excluding Leased Depts.	(22,979)	(19,596)
Home Furnishings Stores	(34,862)	(33,954)
Auto Parts, Accessories & Tire	(41,402)	(40,450)
Sporting Goods/Hobby/Musical Instr	(34,633)	(32,961)
Other General Merchandise Stores	(84,623)	(82,329)
<b>TOTAL</b>	<b>(369,979)</b>	<b>(342,599)</b>

The chart below estimates a capture (%) of total retail demand in a three-mile radius from the retail demand section. We estimate that 38 North Site can enjoy approximately a smaller portion of demand (+/-10%), given that 38 North Site encompasses a relatively small portion of this three-mile radius, with several other viable retail sites in this area. At 10% capture, this analysis indicates an oversupply of retailers in nearly every category currently and over the next five years.

Total Retail Demand - 3 Mile Radius		
Category	2020 Supportable SF	2025 Supportable SF
Health & Personal Care Stores	(90,981)	(75,979)
Jewelry, Luggage & Leather Goods	(18,054)	(14,651)
Lawn & Garden Equip & Supply	(8,089)	(6,358)
Shoe Stores	(33,361)	(30,716)
Specialty Food Stores	(4,774)	(2,229)
Florists	(4,319)	(3,577)
Drinking Places - Alcoholic Beverages	(676)	(87)
Special Food Services	(13,954)	(13,403)
Clothing Stores	(104,217)	(89,025)
Direct Selling Establishments	1,593	3,123
Book, Periodical & Music	(18,347)	(16,088)
Beer, Wine & Liquor Stores	(37,427)	(34,788)
Other Miscellaneous Store Retailers	(32,931)	(26,439)
Bldg Material & Supplies Dealers	(337,197)	(312,891)
Restaurants/Other Eating Places	(77,800)	(51,457)
Office Supplies, Stationery & Gifts	(15,096)	(11,243)
Used Merchandise Stores	(19,354)	(17,572)
Grocery Stores	(178,966)	(148,342)
Electronics & Appliance Stores	(49,163)	(45,006)
Furniture Stores	(24,368)	(15,627)
Dept. Stores Excluding Leased Depts.	(108,105)	(79,509)
Home Furnishings Stores	(140,526)	(132,703)
Auto Parts, Accessories & Tire	(149,915)	(141,803)
Sporting Goods/Hobby/Musical Instr	(143,471)	(129,345)
Other General Merchandise Stores	(281,611)	(262,294)
<b>TOTAL</b>	<b>(1,891,106)</b>	<b>(1,658,010)</b>

Retail Demand At 38 North Site - 3 Mile Radius (10% Capture)		
Category	2020 Supportable SF	2025 Supportable SF
Health & Personal Care Stores	(9,098)	(7,598)
Jewelry, Luggage & Leather Goods	(1,805)	(1,465)
Lawn & Garden Equip & Supply	(809)	(636)
Shoe Stores	(3,336)	(3,072)
Specialty Food Stores	(477)	(223)
Florists	(432)	(358)
Drinking Places - Alcoholic Beverages	(68)	(9)
Special Food Services	(1,395)	(1,340)
Clothing Stores	(10,422)	(8,902)
Direct Selling Establishments	159	312
Book, Periodical & Music	(1,835)	(1,609)
Beer, Wine & Liquor Stores	(3,743)	(3,479)
Other Miscellaneous Store Retailers	(3,293)	(2,644)
Bldg Material & Supplies Dealers	(33,720)	(31,289)
Restaurants/Other Eating Places	(7,780)	(5,146)
Office Supplies, Stationery & Gifts	(1,510)	(1,124)
Used Merchandise Stores	(1,935)	(1,757)
Grocery Stores	(17,897)	(14,834)
Electronics & Appliance Stores	(4,916)	(4,501)
Furniture Stores	(2,437)	(1,563)
Dept. Stores Excluding Leased Depts.	(10,810)	(7,951)
Home Furnishings Stores	(14,053)	(13,270)
Auto Parts, Accessories & Tire	(14,991)	(14,180)
Sporting Goods/Hobby/Musical Instr	(14,347)	(12,935)
Other General Merchandise Stores	(28,161)	(26,229)
<b>TOTAL</b>	<b>(189,111)</b>	<b>(165,801)</b>

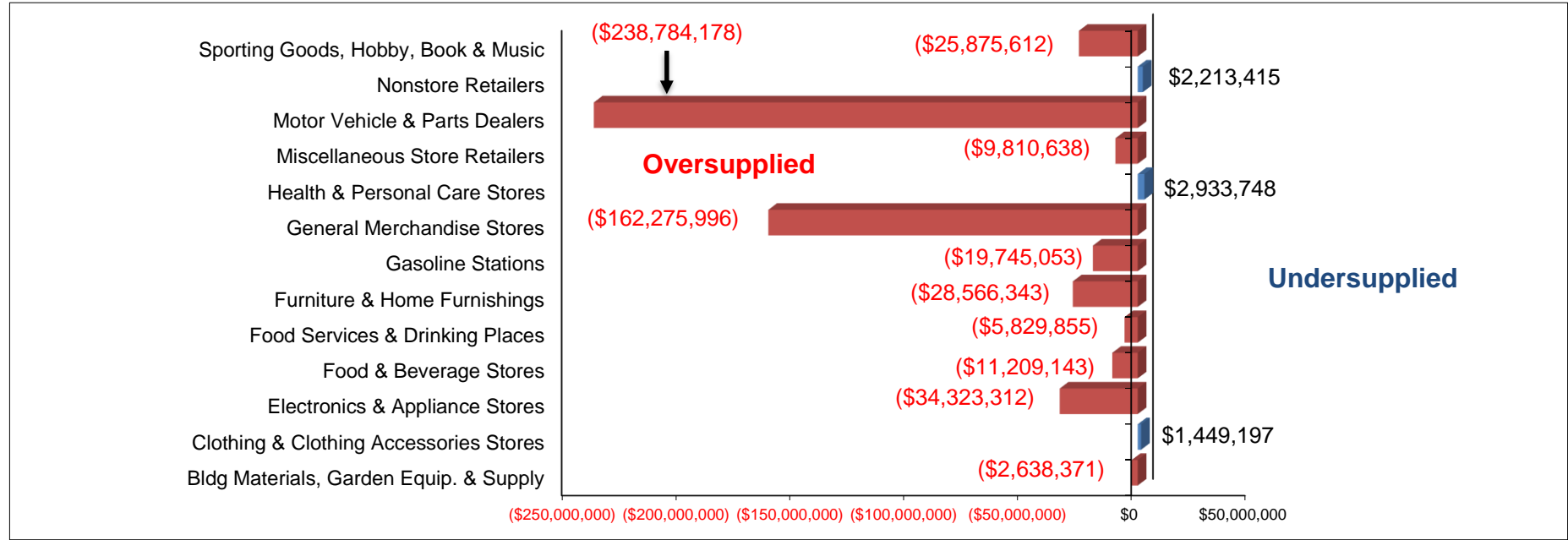
Source: Meyers Research, ESRI, ULI

# OPPORTUNITY TO CAPTURE RETAIL SALES BY SEGMENT – 1 MILE RADIUS

Retail Demand Analysis



**Most retail categories are oversupplied in the 1-mile radius.** In this demand model, there is a notable oversupply in the Motor Vehicle and General Merchandise categories, which is logical considering the presence of several car dealerships and Target. There is slight undersupply in the Clothing and Health & Personal Care categories.



Retail Categories	DEMAND	SUPPLY	LEAKAGE	
	Retail Expenditures by Area Residents	Retail Spending Within the Area	Difference \$	Difference %
Bldg Materials, Garden Equip. & Supply	\$8,162,971	\$10,801,342	(\$2,638,371)	-32.3%
Clothing & Clothing Accessories Stores	\$10,211,301	\$8,762,104	\$1,449,197	14.2%
Electronics & Appliance Stores	\$5,164,438	\$39,487,750	(\$34,323,312)	-664.6%
Food & Beverage Stores	\$23,386,797	\$34,595,940	(\$11,209,143)	-47.9%
Food Services & Drinking Places	\$15,518,785	\$21,348,640	(\$5,829,855)	-37.6%
Furniture & Home Furnishings	\$5,169,970	\$33,736,313	(\$28,566,343)	-552.5%
Gasoline Stations	\$13,069,205	\$32,814,258	(\$19,745,053)	-151.1%
General Merchandise Stores	\$24,091,913	\$186,367,909	(\$162,275,996)	-673.6%
Health & Personal Care Stores	\$9,596,999	\$6,663,251	\$2,933,748	30.6%
Miscellaneous Store Retailers	\$5,220,489	\$15,031,127	(\$9,810,638)	-187.9%
Motor Vehicle & Parts Dealers	\$29,589,455	\$268,373,633	(\$238,784,178)	-807.0%
Nonstore Retailers	\$4,030,504	\$1,817,089	\$2,213,415	54.9%
Sporting Goods, Hobby, Book & Music	\$4,535,336	\$30,410,948	(\$25,875,612)	-570.5%
<b>Total</b>	<b>\$157,748,163</b>	<b>\$690,210,304</b>	<b>(\$532,462,141)</b>	<b>-337.5%</b>

Source: ESRI; Meyers Research

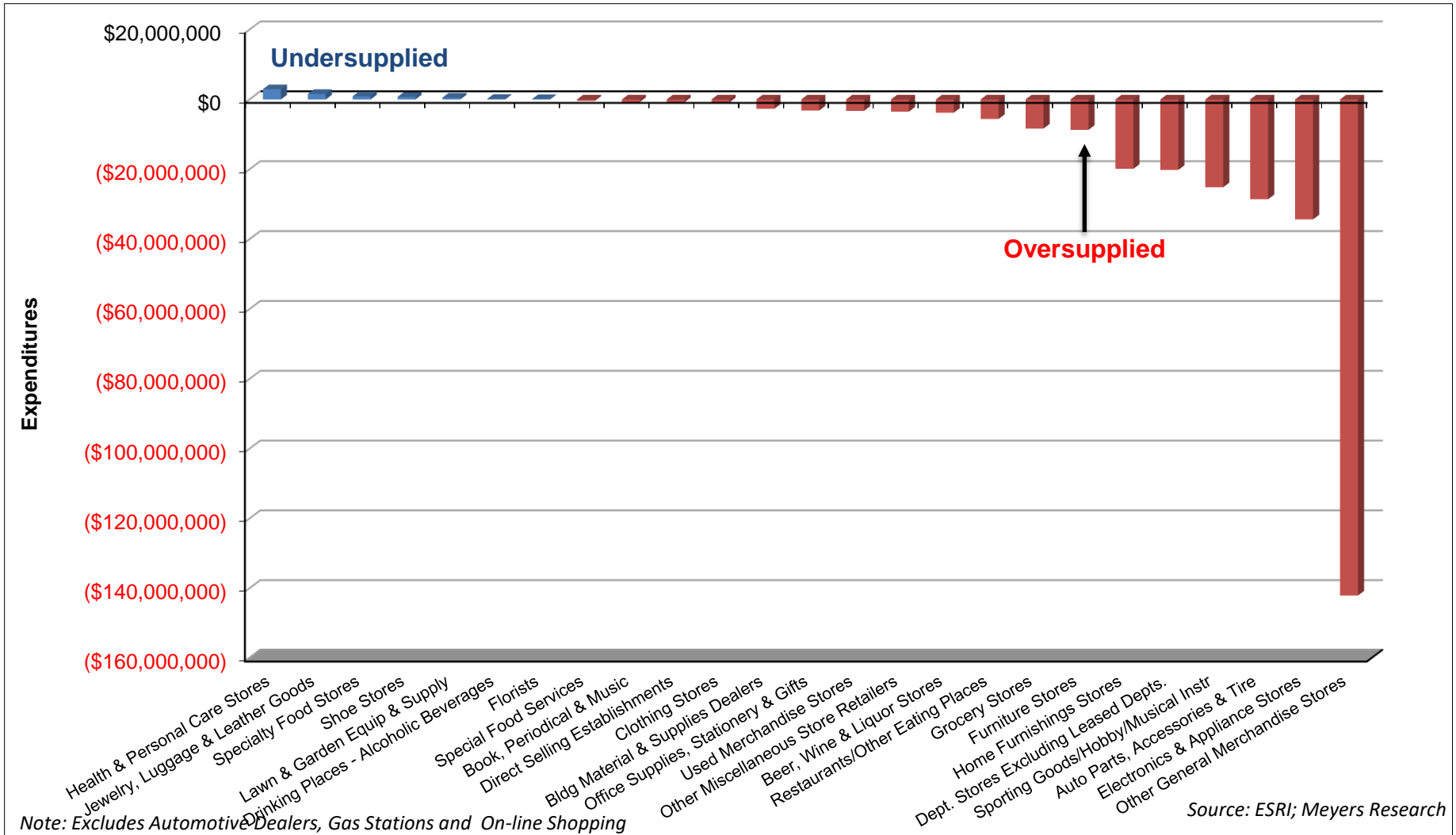


# ADDITIONAL SUPPORTABLE EXPENDITURES BY RETAIL TYPE – 1 MILE RADIUS

Retail Demand Analysis



The chart below expands on the previous over- and under-supplied retail segments by looking at detailed retail subcategories in the 1-mile radius. There is evidence of unmet demand for seven out of 26 subcategories in the 1-mile radius, including some slight unmet demand in the Health & Personal Care and Jewelry subcategories, among others. It is important to note that the Grocery Store subcategory is oversupplied.



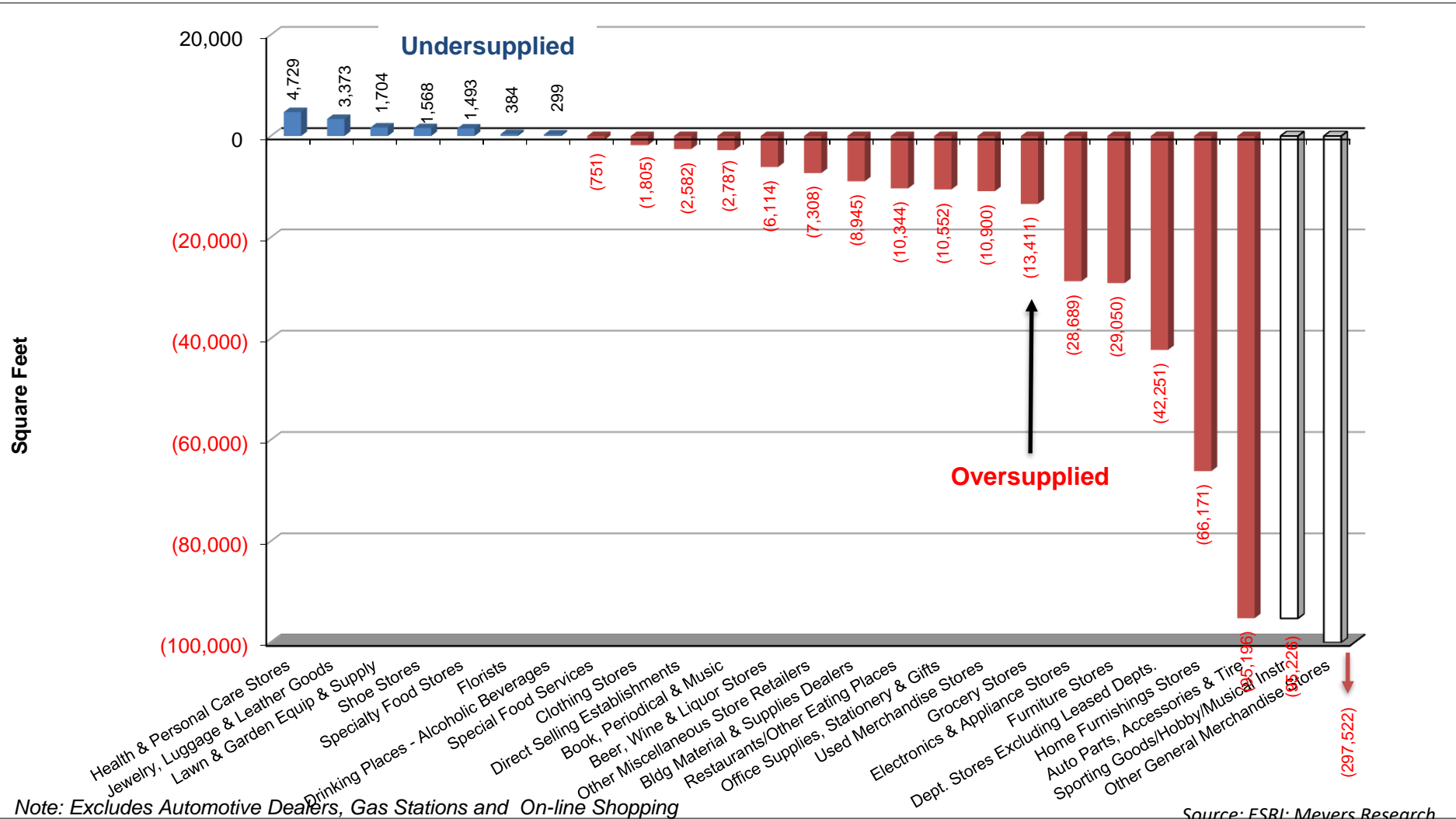
Source: ESRI; Meyers Research

# ADDITIONAL SUPPORTABLE SQUARE FEET BY RETAIL TYPE – 1 MILE RADIUS

Retail Demand Analysis



The chart below translates the over- and under-supplied retail subcategories' revenues into supportable square feet in the 1-mile radius area. The unmet expenditures in the Health & Personal Care, Jewelry, and Lawn & Garden subcategories equate to less than 5,000 square feet in additional space that could be supported currently, but the majority of retail subcategories are oversupplied—it is important to note that the Grocery Store subcategory in particular is oversupplied.



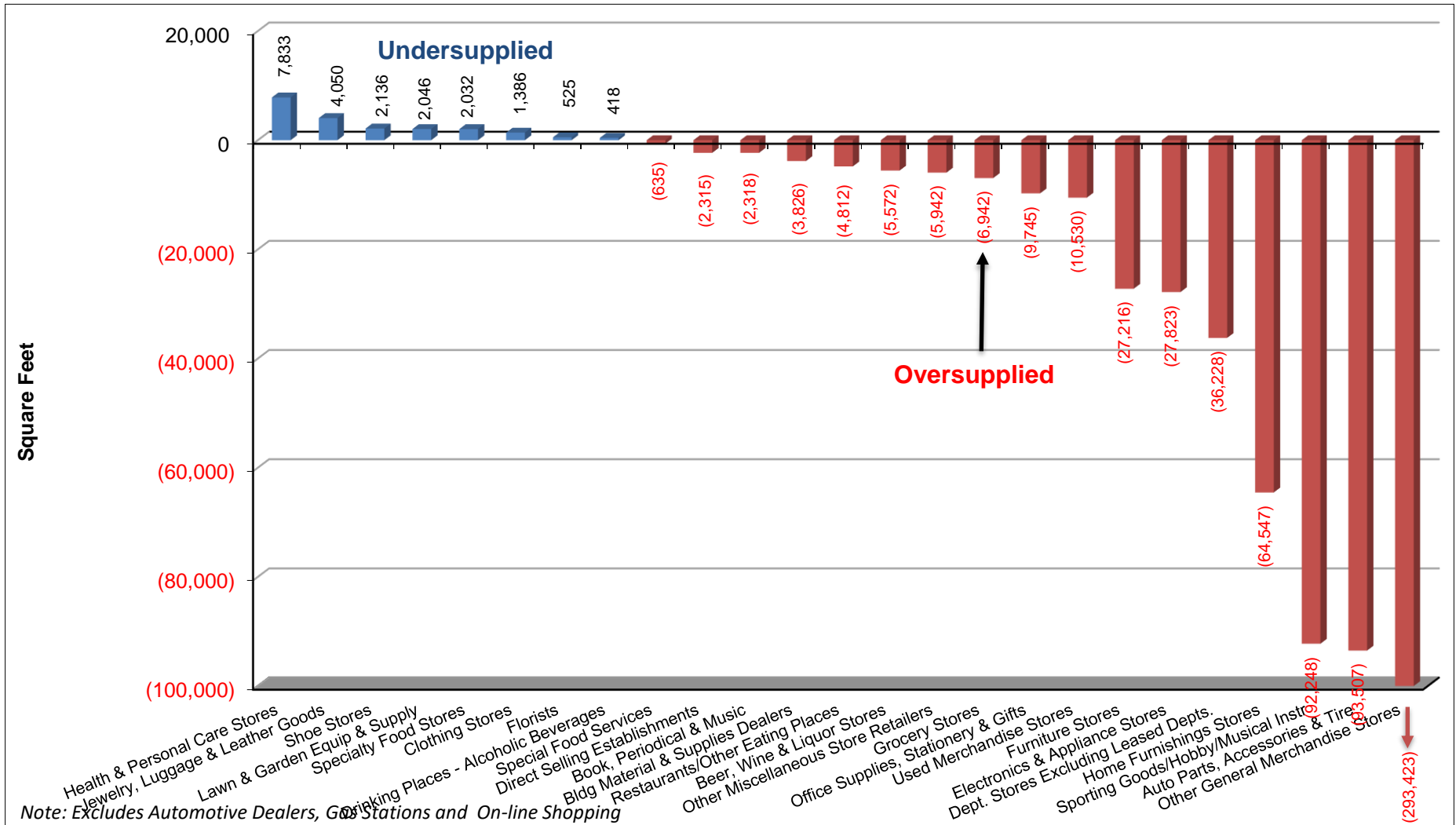
Source: ESRI; Meyers Research

# ADDITIONAL SUPPORTABLE SQUARE FEET BY RETAIL TYPE – 1 MILE RADIUS (2025)

Retail Demand Analysis



By 2025, additional demand from household growth in the 1-mile radius increases slightly, but growth is not significant enough to support additional retail anchors over 20,000 square feet. It is important to note that the Grocery Store subcategory remains oversupplied by 2025.



Note: Excludes Automotive Dealers, Gas Stations and On-line Shopping

Source: ESRI; Meyers Research

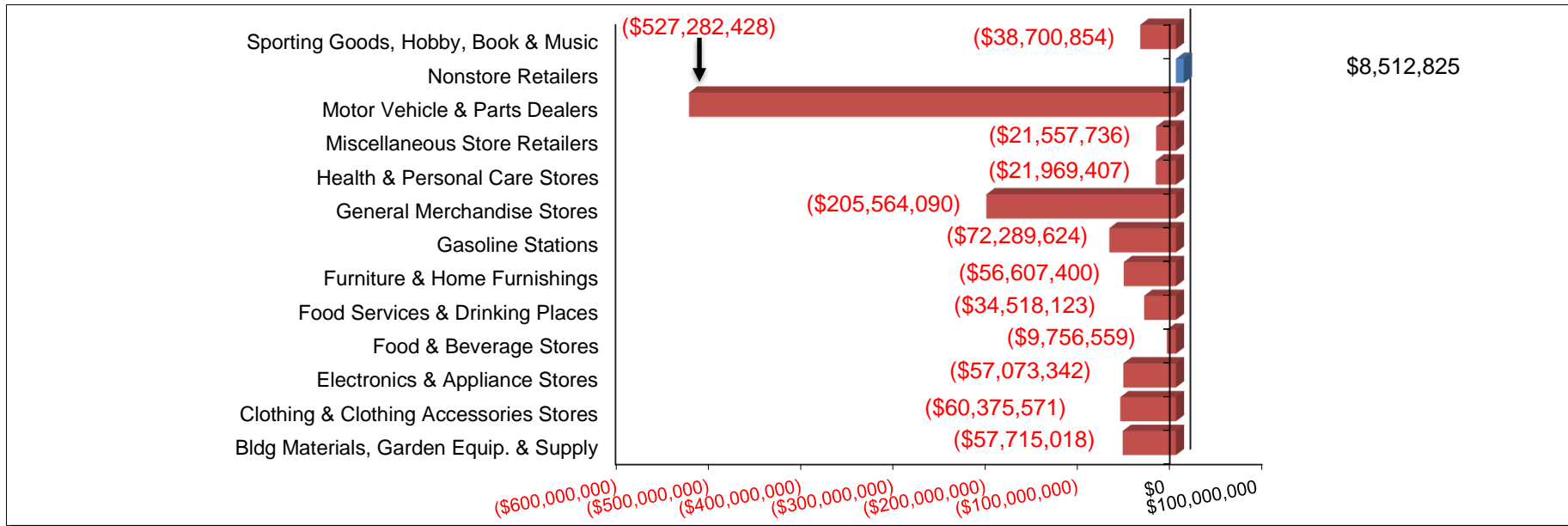


# OPPORTUNITY TO CAPTURE RETAIL SALES BY SEGMENT – 2 MILE RADIUS

Retail Demand Analysis



**The category with the most undersupply is in the Motor Vehicles and General Merchandise categories.** In the 2-mile radius model, there is an oversupply in every major retail category, particularly in the General Merchandise and Motor Vehicle categories.



Retail Categories	DEMAND		SUPPLY		LEAKAGE	
	Retail Expenditures by Area Residents		Retail Spending Within the Area		Difference \$	Difference %
Bldg Materials, Garden Equip. & Supply	\$25,632,074		\$83,347,092		(\$57,715,018)	-225.2%
Clothing & Clothing Accessories Stores	\$32,747,334		\$93,122,905		(\$60,375,571)	-184.4%
Electronics & Appliance Stores	\$16,537,850		\$73,611,192		(\$57,073,342)	-345.1%
Food & Beverage Stores	\$74,818,847		\$84,575,406		(\$9,756,559)	-13.0%
Food Services & Drinking Places	\$49,591,891		\$84,110,014		(\$34,518,123)	-69.6%
Furniture & Home Furnishings	\$16,482,484		\$73,089,884		(\$56,607,400)	-343.4%
Gasoline Stations	\$41,514,622		\$113,804,246		(\$72,289,624)	-174.1%
General Merchandise Stores	\$76,967,665		\$282,531,755		(\$205,564,090)	-267.1%
Health & Personal Care Stores	\$30,722,800		\$52,692,207		(\$21,969,407)	-71.5%
Miscellaneous Store Retailers	\$16,629,893		\$38,187,629		(\$21,557,736)	-129.6%
Motor Vehicle & Parts Dealers	\$93,798,297		\$621,080,725		(\$527,282,428)	-562.1%
Nonstore Retailers	\$13,006,567		\$4,493,742		\$8,512,825	65.5%
Sporting Goods, Hobby, Book & Music	\$14,516,683		\$53,217,537		(\$38,700,854)	-266.6%
<b>Total</b>	<b>\$502,967,007</b>		<b>\$1,657,864,334</b>		<b>(\$1,154,897,327)</b>	<b>-229.6%</b>

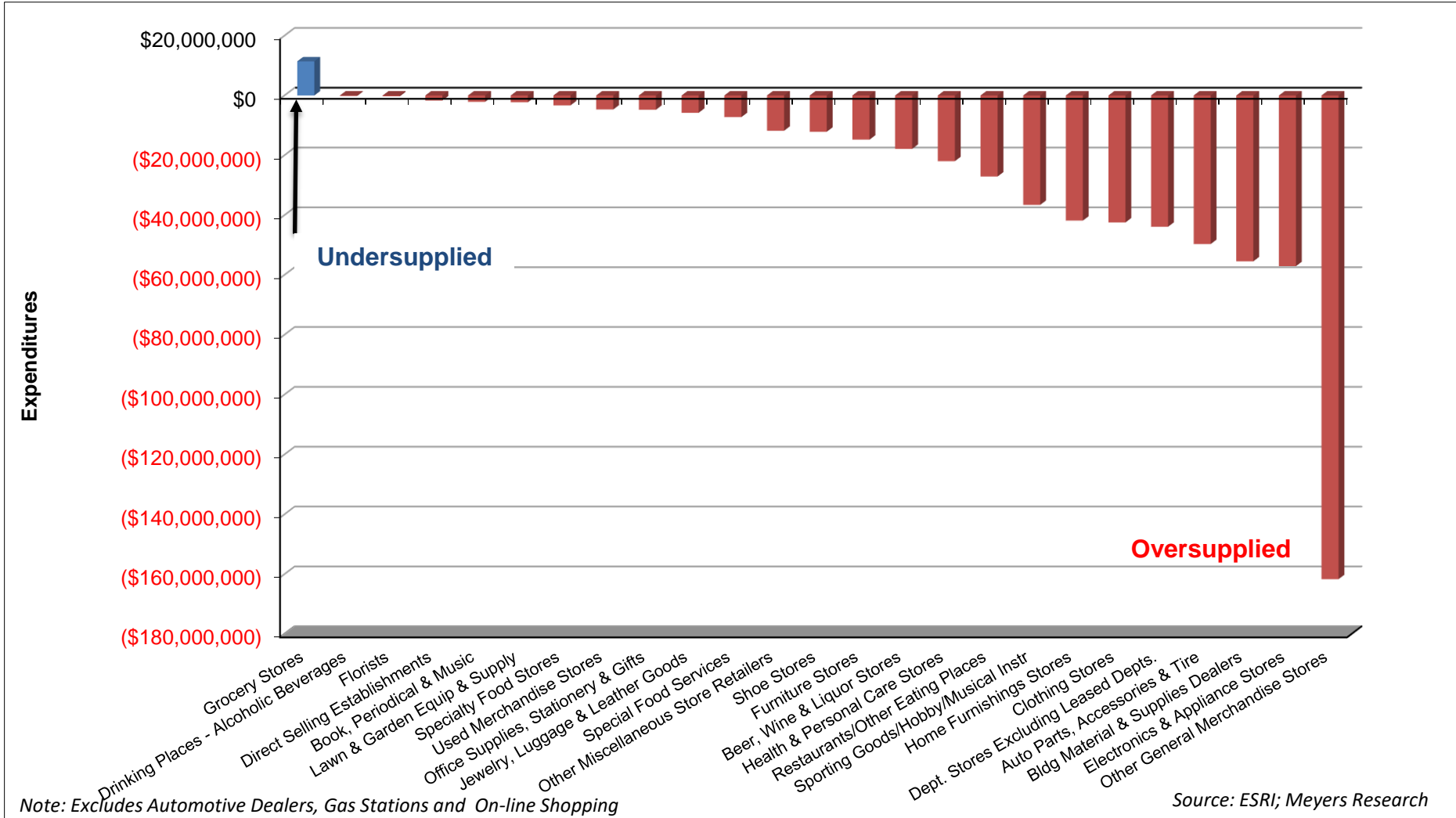
Source: ESRI; Meyers Research

# ADDITIONAL SUPPORTABLE EXPENDITURES BY RETAIL TYPE – 2 MILE RADIUS

Retail Demand Analysis



The chart below expands on the previous over- and under-supplied retail segments by looking at detailed retail categories in the 2-mile radius. Every retail subcategory is oversupplied in the two mile radius, most notably in the Other General Merchandise and Electronics subcategories. The Grocery Store subcategory is undersupplied in the two-mile radius.



Note: Excludes Automotive Dealers, Gas Stations and On-line Shopping

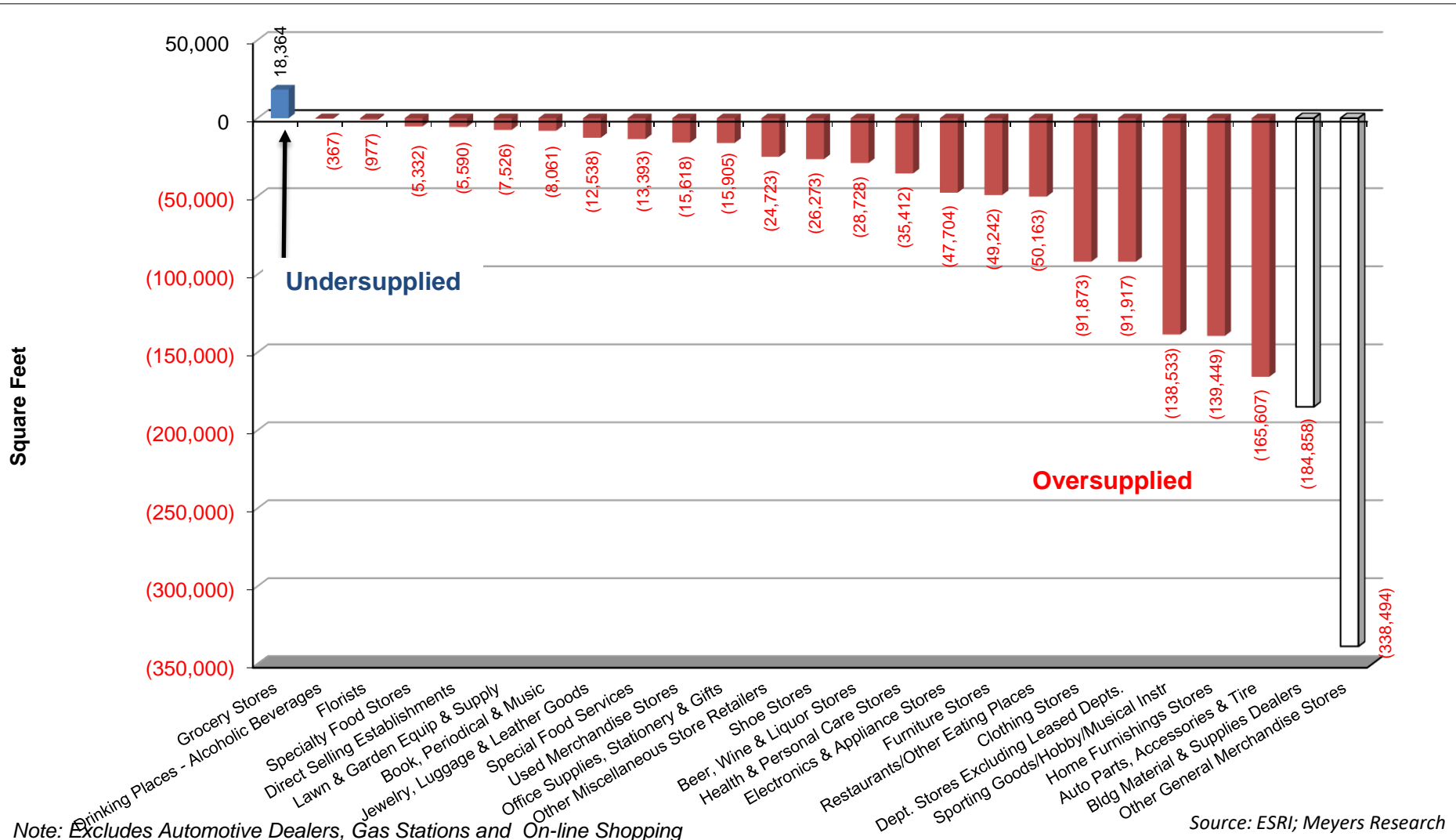
Source: ESRI; Meyers Research

# ADDITIONAL SUPPORTABLE SQUARE FEET BY RETAIL TYPE – 2 MILE RADIUS

Retail Demand Analysis



The chart below translates the over- and under-supplied retail categories' revenues into supportable square feet in the 2-mile radius area. Similarly to the previous chart, nearly every retail subcategory is oversupplied in the two mile radius, most notably in the Other General Merchandise and Building Material subcategories. The Grocery Store subcategory is undersupplied in the two-mile radius.



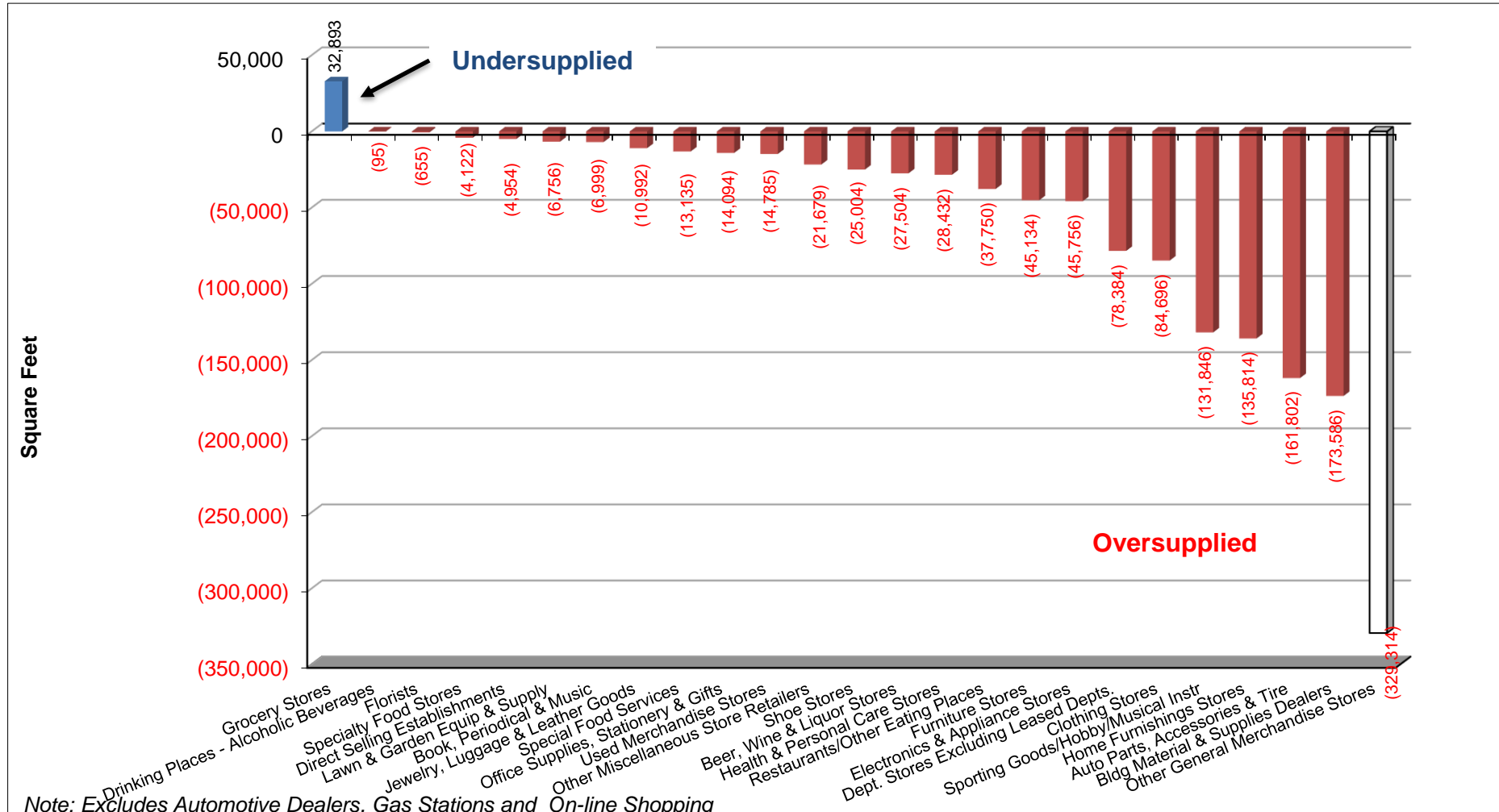


# ADDITIONAL SUPPORTABLE SQUARE FEET BY RETAIL TYPE – 2 MILE RADIUS (2025)

Retail Demand Analysis



By 2025, additional demand from household growth in the 2-mile radius increases slightly, though 25 out of 26 subcategories are oversupplied. The Grocery Store subcategory is undersupplied in the two-mile radius by 2025.



Note: Excludes Automotive Dealers, Gas Stations and On-line Shopping

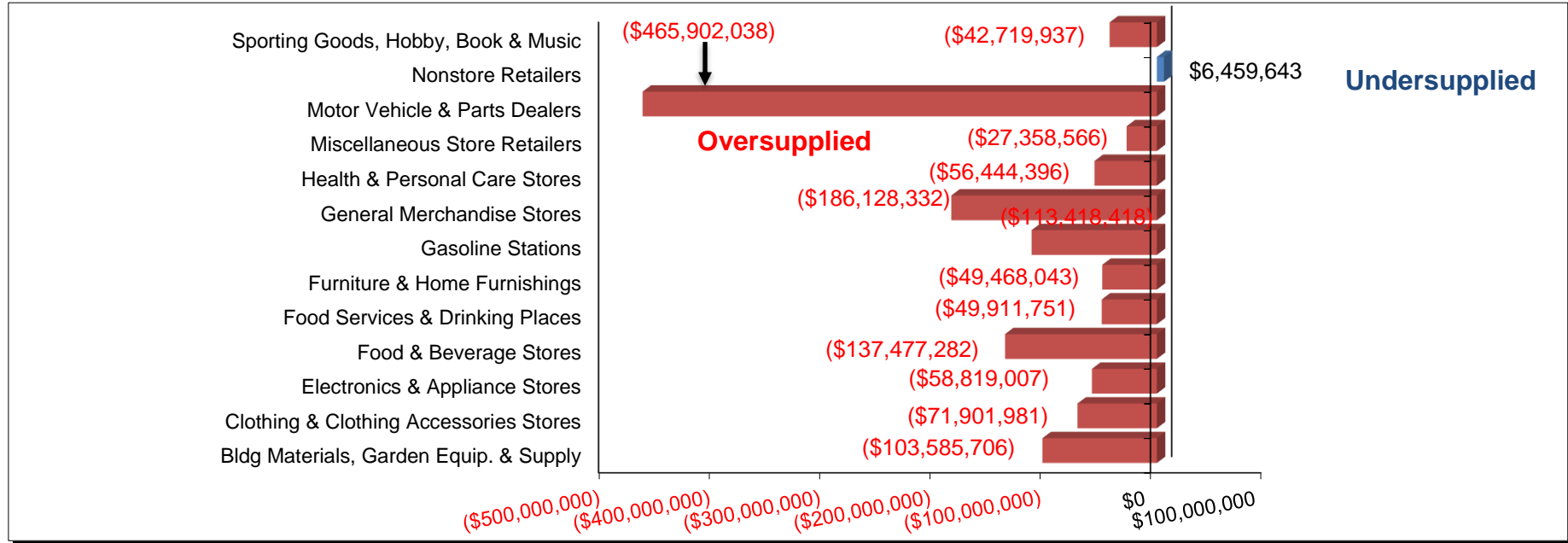
Source: ESRI; Meyers Research

# OPPORTUNITY TO CAPTURE RETAIL SALES BY SEGMENT – 3 MILE RADIUS

Retail Demand Analysis



**Nearly every major retail category is oversupplied in the 3-mile radius.** In this model, there is an oversupply in the Motor Vehicle, General Merchandise, and Food & Beverage categories in particular.



Retail Categories	DEMAND	SUPPLY	LEAKAGE	
	Retail Expenditures by Area Residents	Retail Spending Within the Area	Difference \$	Difference %
Bldg Materials, Garden Equip. & Supply	\$61,642,321	\$165,228,027	(\$103,585,706)	-168.0%
Clothing & Clothing Accessories Stores	\$77,443,325	\$149,345,306	(\$71,901,981)	-92.8%
Electronics & Appliance Stores	\$39,253,011	\$98,072,018	(\$58,819,007)	-149.8%
Food & Beverage Stores	\$175,650,145	\$313,127,427	(\$137,477,282)	-78.3%
Food Services & Drinking Places	\$117,114,669	\$167,026,420	(\$49,911,751)	-42.6%
Furniture & Home Furnishings	\$39,214,334	\$88,682,377	(\$49,468,043)	-126.1%
Gasoline Stations	\$96,227,062	\$209,645,480	(\$113,418,418)	-117.9%
General Merchandise Stores	\$180,589,053	\$366,717,385	(\$186,128,332)	-103.1%
Health & Personal Care Stores	\$73,447,224	\$129,891,620	(\$56,444,396)	-76.9%
Miscellaneous Store Retailers	\$39,564,486	\$66,923,052	(\$27,358,566)	-69.1%
Motor Vehicle & Parts Dealers	\$220,555,603	\$686,457,641	(\$465,902,038)	-211.2%
Nonstore Retailers	\$31,256,796	\$24,797,153	\$6,459,643	20.7%
Sporting Goods, Hobby, Book & Music	\$34,136,261	\$76,856,198	(\$42,719,937)	-125.1%
<b>Total</b>	<b>\$1,186,094,290</b>	<b>\$2,542,770,104</b>	<b>(\$1,356,675,814)</b>	<b>-114.4%</b>

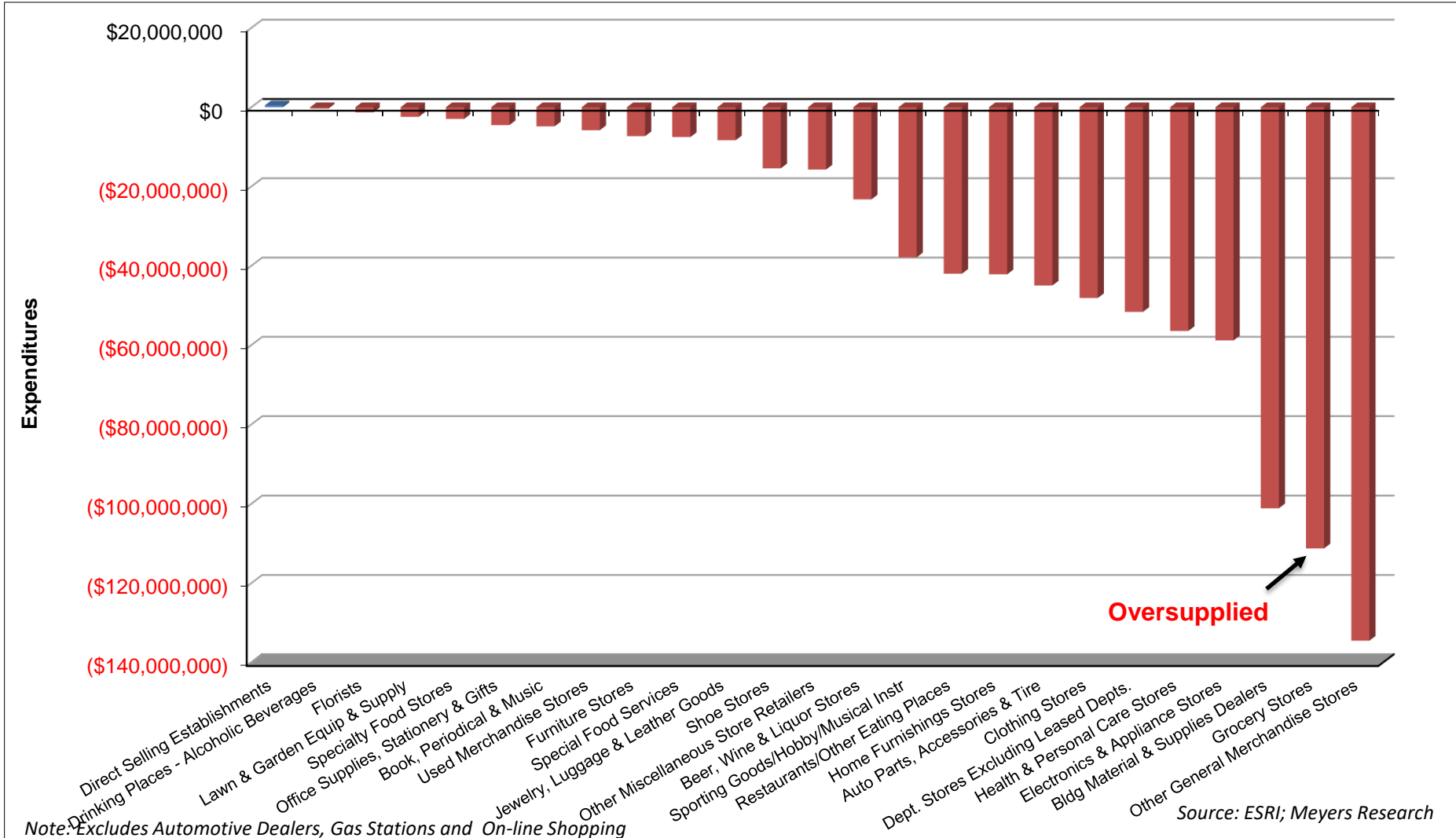
Source: ESRI; Meyers Research

# ADDITIONAL SUPPORTABLE EXPENDITURES BY RETAIL TYPE – 3 MILE RADIUS

Retail Demand Analysis



The chart below expands on the previous over- and under-supplied retail segments by looking at detailed retail subcategories in the 3-mile radius. Nearly every retail subcategory is oversupplied in the three mile radius, most notably in the Other General Merchandise, Grocery, and Building Material subcategories.



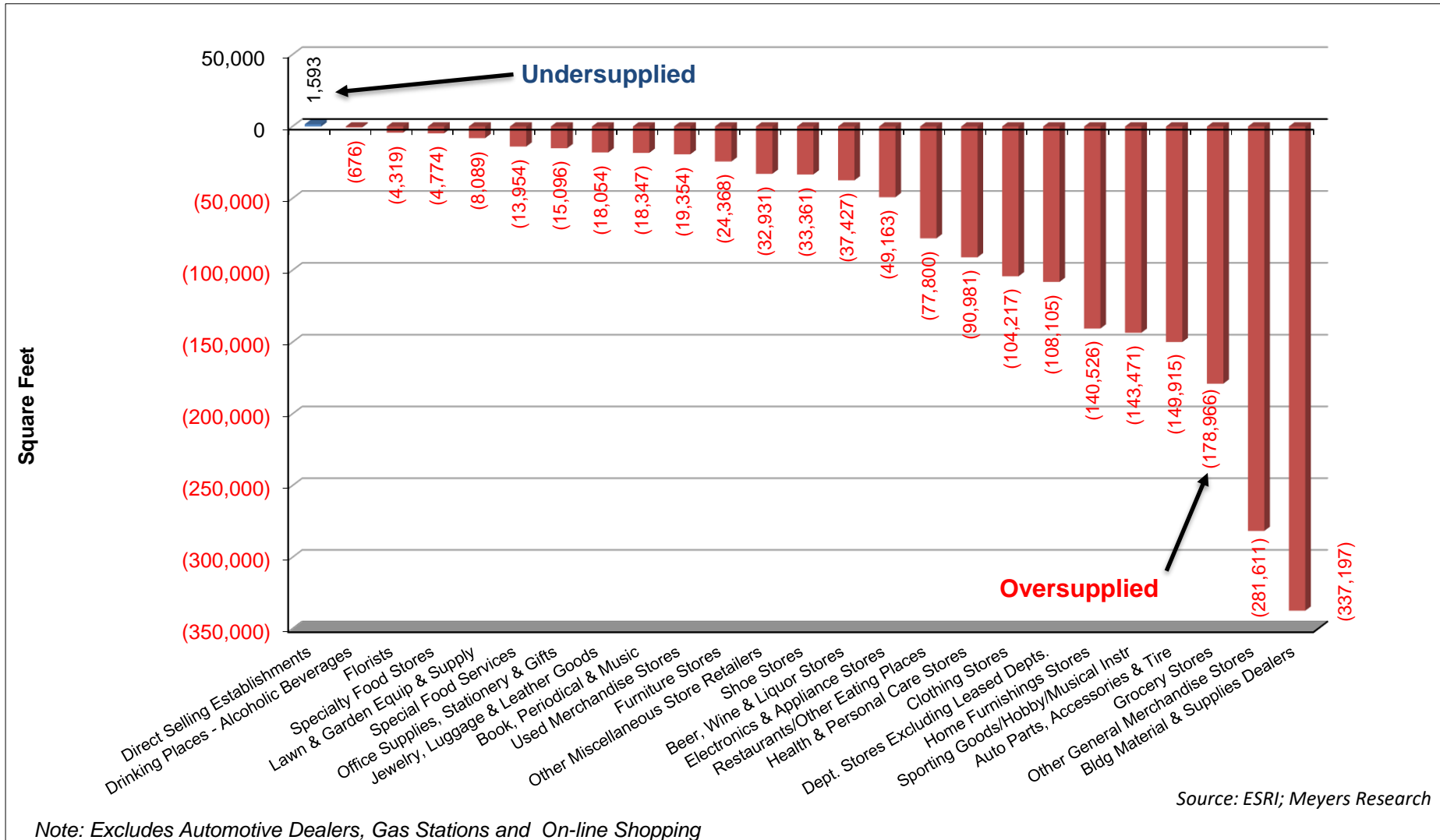


# ADDITIONAL SUPPORTABLE SQUARE FEET BY RETAIL TYPE – 3 MILE RADIUS

Retail Demand Analysis



The chart below translates the over and under-supplied retail categories' revenues into supportable square feet in the 3-mile radius area. Similarly to the previous chart, nearly every retail subcategory is oversupplied in the three mile radius, most notably in the Building Material, Other General Merchandise and Grocery subcategories.



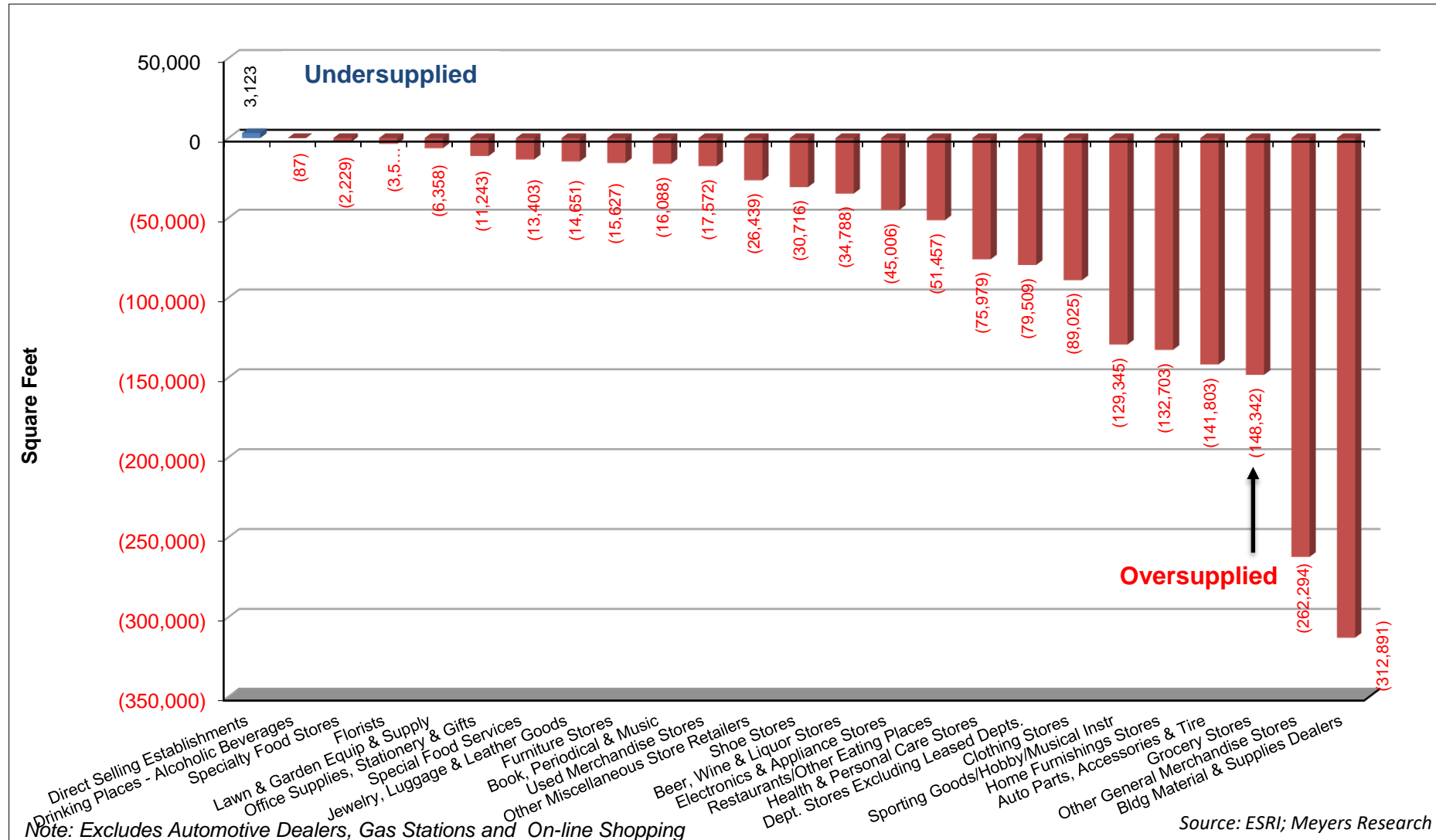
Source: ESRI; Meyers Research

# ADDITIONAL SUPPORTABLE SQUARE FEET BY RETAIL TYPE – 3 MILE RADIUS (2025)

Retail Demand Analysis



By 2025, additional demand from household growth in the 3-mile radius increases slightly, but growth is not significant enough to support additional retail anchors over 20,000 square feet. It is important to note that the Grocery Store subcategory is the third most oversupplied subcategory.



Source: ESRI; Meyers Research

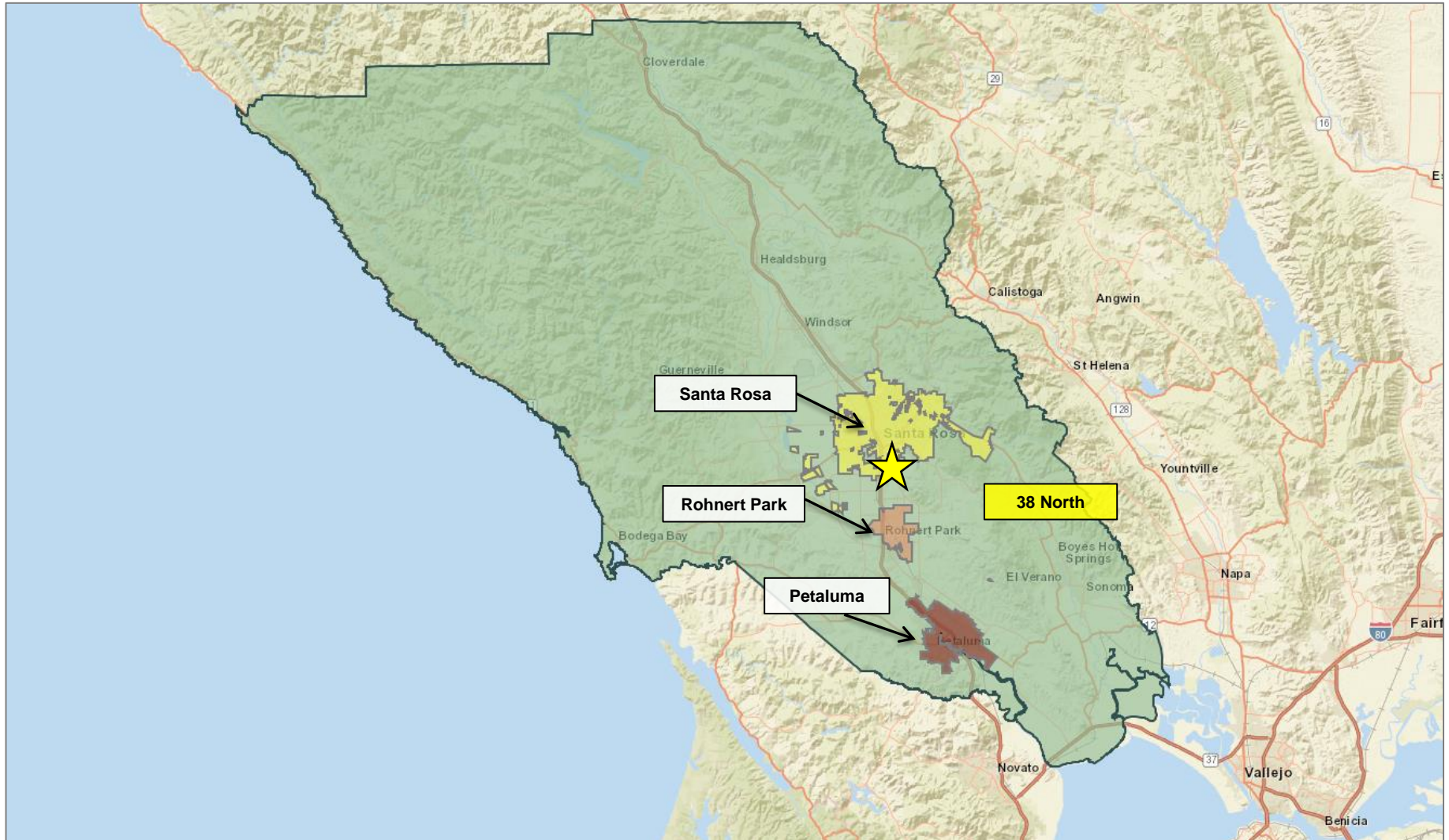
# Retail Market Trends

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38 North, Santa Rosa, California (2021 Update)



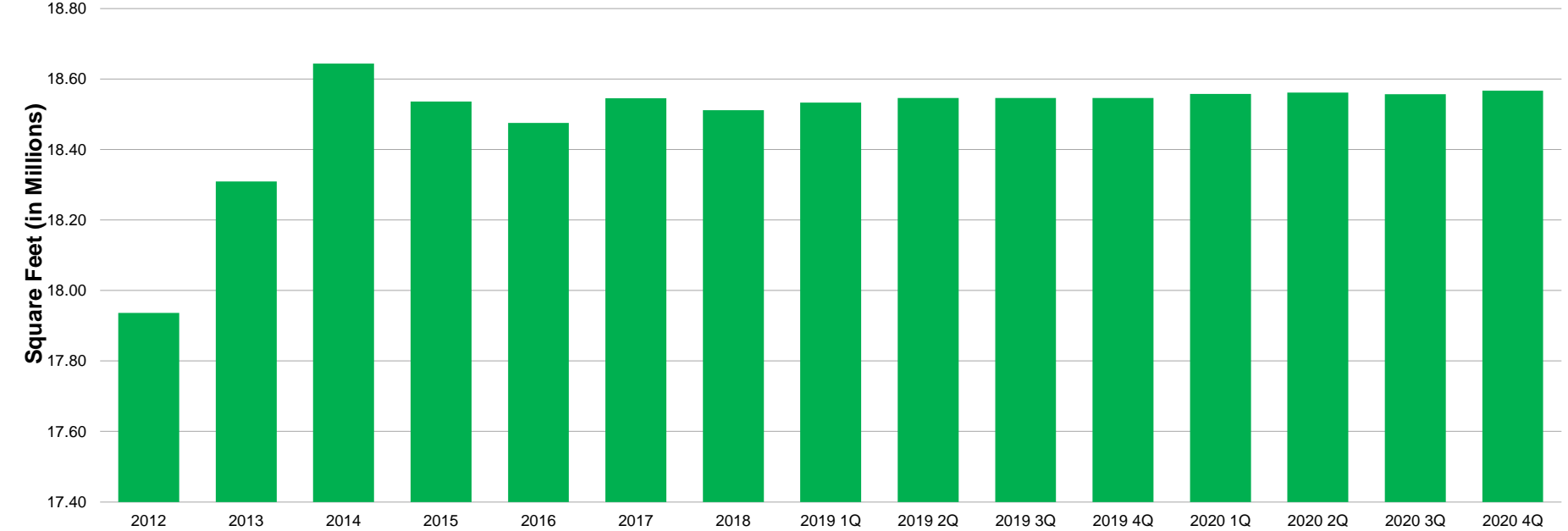
**Sonoma County and the city of Santa Rosa offer some insight into local retail market trends.** 38 North is located in the Santa Rosa submarket, and retail data includes the Petaluma and Rohnert Park submarkets, as well as “other” areas of Sonoma County. Reliable market trend data is limited in Santa Rosa, so we considered the market trend data available as well as performance in local shopping centers and commercial broker feedback.



Source: ESRI

Sonoma County has experienced limited change in retail inventory over the past four years, with just over 18.5 million square feet of space. The majority of retail inventory increase took place in 2013/ 2014 and is likely attributable to additions of anchor retailers such as Target at Coddington Mall specifically.

**Retail Inventory (in Millions Square Feet)**



Inventory	2012	2013	2014	2015	2016	2017	2018	2019 1Q	2019 2Q	2019 3Q	2019 4Q	2020 1Q	2020 2Q	2020 3Q	2020 4Q
Total Inventory (SF)	17,936,206	18,308,827	18,643,511	18,535,876	18,475,373	18,545,377	18,511,221	18,532,579	18,545,762	18,545,762	18,545,762	18,557,383	18,561,342	18,557,026	18,567,088
Inventory Change	--	372,621	334,684	-107,635	-60,503	70,004	-34,156	21,358	13,183	0	0	11,621	3,959	-4,316	10,062
% Change	--	2.1%	1.8%	-0.6%	-0.3%	0.4%	-0.2%	0.1%	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%	0.1%

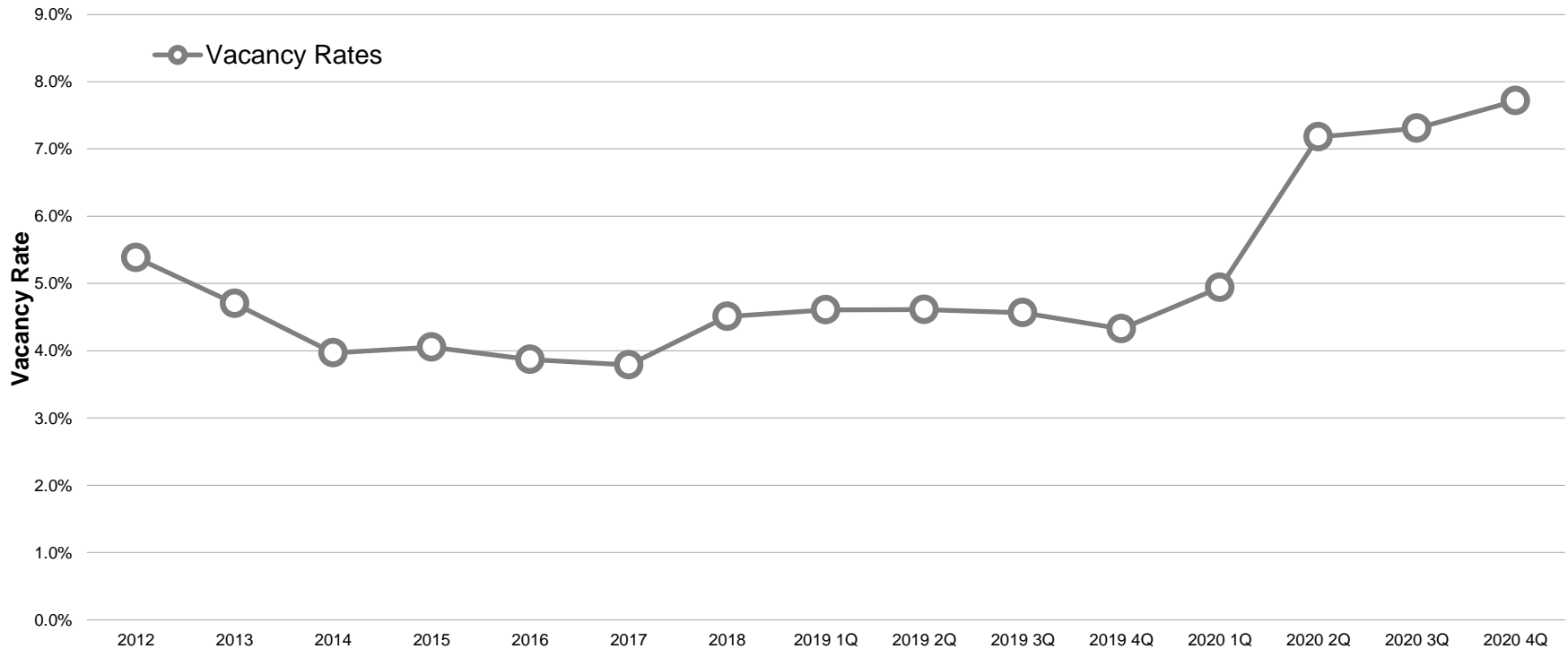
Source: Keegan & Coppin

# SONOMA COUNTY VACANCY IS STABLE

Retail Market Trends



**The vacancy rate has increased from 4.9% one year ago to 7.7% in Q4 2020, the highest level on record.** Retail vacancy rates of over 5.0% generally indicate an oversupplied retail market, while vacancy rates under 3% indicate a supply constrained market. The increase in vacancy rate is partially due to the negative impact on retail during the COVID-19 pandemic, as well as other factors that were in process prior to COVID, such as the shift to online retail in many retail categories.

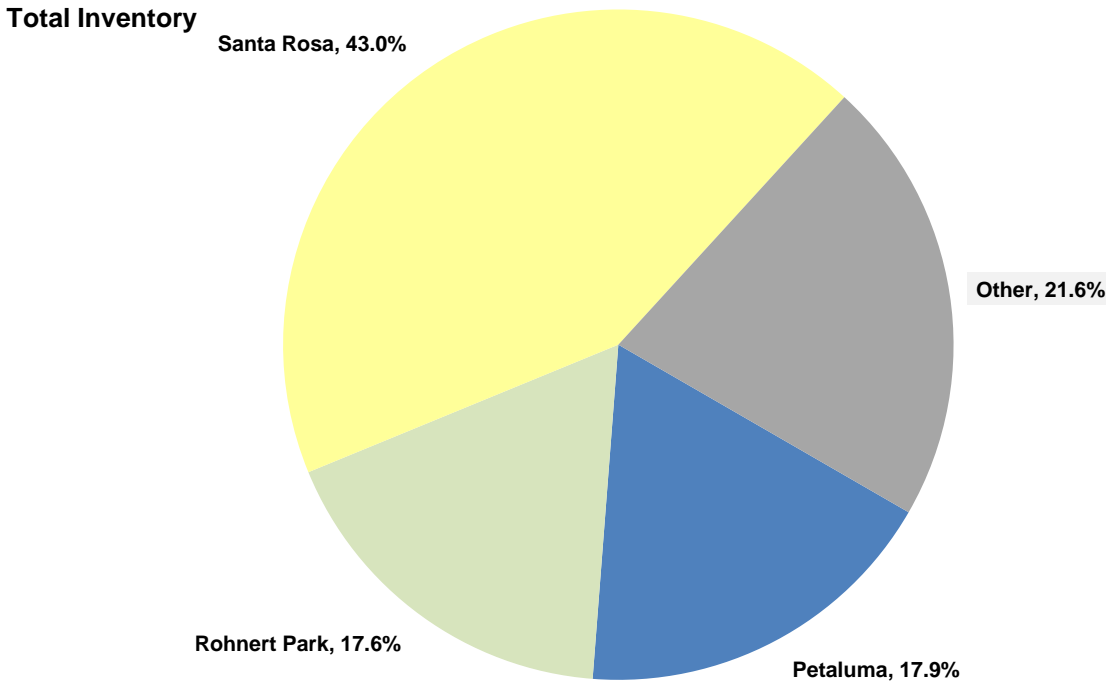


Vacancy Rates	2012	2013	2014	2015	2016	2017	2018	2019 1Q	2019 2Q	2019 3Q	2019 4Q	2020 1Q	2020 2Q	2020 3Q	2020 4Q
Vacancy Rate	5.4%	4.7%	4.0%	4.1%	3.9%	3.8%	4.5%	4.6%	4.6%	4.6%	4.3%	4.9%	7.2%	7.3%	7.7%
Vac. Rate Change	--	-0.68%	-0.73%	0.09%	-0.19%	-0.08%	0.72%	0.10%	0.00%	-0.04%	-0.24%	0.62%	2.24%	0.13%	0.41%
% Change	--	-12.7%	-15.6%	2.2%	-4.6%	-2.0%	19.0%	2.2%	0.1%	-1.0%	-5.3%	14.2%	45.3%	1.8%	5.6%

Source: Keegan & Coppin



The Santa Rosa submarket comprises a 43.0% share of the Sonoma County Retail Market, and the submarket conditions are generally similar to the overall MSA in terms of vacancy rate. Keegan & Coppin data reports there are 290,000 square feet of “planned” retail space in Santa Rosa, though brokers could not cite any specific retail projects under development currently.



Submarket	Total SF	Vacant SF	Vacancy Rate	Planned (SF)
Petaluma	3,321,438	332,987	10.0%	9,345
Rohnert Park	3,261,388	218,229	6.7%	145,000
<b>Santa Rosa</b>	<b>7,982,349</b>	<b>672,729</b>	<b>8.4%</b>	<b>90,000</b>
Other	4,001,913	208,701	5.2%	46,400
<b>TOTAL:</b>	<b>18,567,088</b>	<b>1,432,646</b>	<b>7.7%</b>	<b>290,745</b>

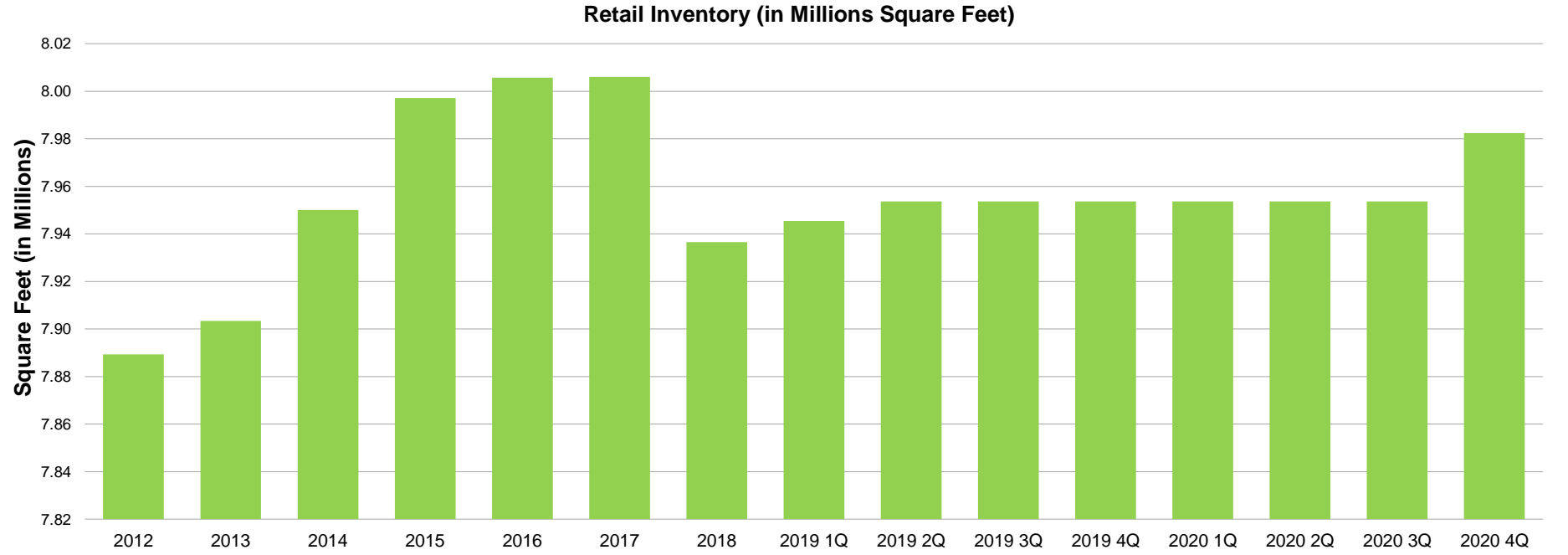
Source: Keegan & Coppin

# SANTA ROSA RETAIL INVENTORY IS SLOWLY INCREASING

Retail Market Trends



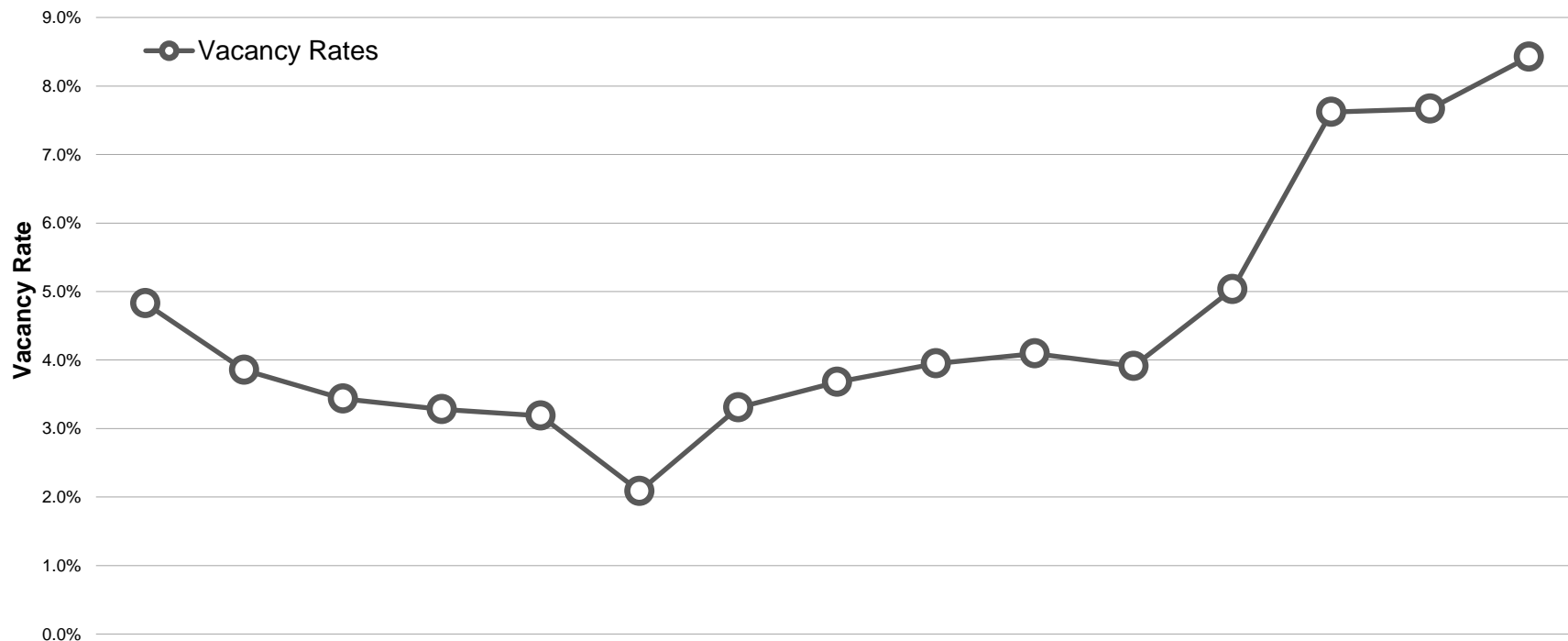
Santa Rosa has experienced marginal retail inventory growth over the past five years, though inventory increased by 28,700 square feet in 4Q 2020.



Inventory	2012	2013	2014	2015	2016	2017	2018	2019 1Q	2019 2Q	2019 3Q	2019 4Q	2020 1Q	2020 2Q	2020 3Q	2020 4Q
Total Inventory (SF)	7,889,377	7,903,377	7,950,009	7,997,090	8,005,690	8,006,042	7,936,508	7,945,466	7,953,649	7,953,649	7,953,649	7,953,649	7,953,649	7,953,649	7,982,349
Inventory Change	--	14,000	46,632	47,081	8,600	352	-69,534	8,958	8,183	0	0	0	0	0	28,700
% Change	--	0.2%	0.6%	0.6%	0.1%	0.0%	-0.9%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%

Source: Keegan & Coppin

The Santa Rosa vacancy rate increased significantly over the past four years, from a low of 2.1% in 2017 to 8.4% in Q4 2020, the highest level on record. The increase in vacancy rate is partially due to the negative impact on retail during the COVID-19 pandemic, as well as other factors that were in process prior to COVID, such as the shift to online retail in many retail categories.



Vacancy Rates	2012	2013	2014	2015	2016	2017	2018	2019 1Q	2019 2Q	2019 3Q	2019 4Q	2020 1Q	2020 2Q	2020 3Q	2020 4Q
Vacancy Rate	4.8%	3.9%	3.4%	3.3%	3.2%	2.1%	3.3%	3.7%	3.9%	4.1%	3.9%	5.0%	7.6%	7.7%	8.4%
Vac. Rate Change	--	-0.97%	-0.42%	-0.15%	-0.10%	-1.10%	1.22%	0.37%	0.27%	0.14%	-0.18%	1.12%	2.59%	0.05%	0.76%
% Change	--	-20.2%	-10.9%	-4.4%	-2.9%	-34.5%	58.5%	11.3%	7.3%	3.7%	-4.5%	28.7%	51.5%	0.6%	9.9%

Source: Keegan & Coppin

# Appendix

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38 North, Santa Rosa, California (2021 Update)



# Thank you!

Zonda

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