

## EXECUTIVE SUMMARY

Petaluma is a sophisticated retail market that currently lacks the diversity of retail offering that other communities of similar size and composition enjoy. Recognizing perceptions that Petaluma is experiencing a significant degree of retail sales leakage and that the community goes unfulfilled for various types of retail, Thomas Consultants Inc., has been commissioned by the City of Petaluma to prepare a *Retail Leakage and Strategy Study*. The underlying purpose of this study is to assess and determine the missing pieces in Petaluma's retail offering.

This purpose is accomplished by measuring the scope of opportunity for introducing such retail functions that will redirect and re-capture healthy retail sales in Petaluma. The study was prepared during the period July to November 2003, and is augmented by a Consumer Survey, which was undertaken in July and August 2003 to further gauge and quantify the magnitude of current retail voids and the resultant leakage.

This summary section outlines the extent of retail leakage from Petaluma. It then proceeds to define the proposed solution by describing the following key inputs:

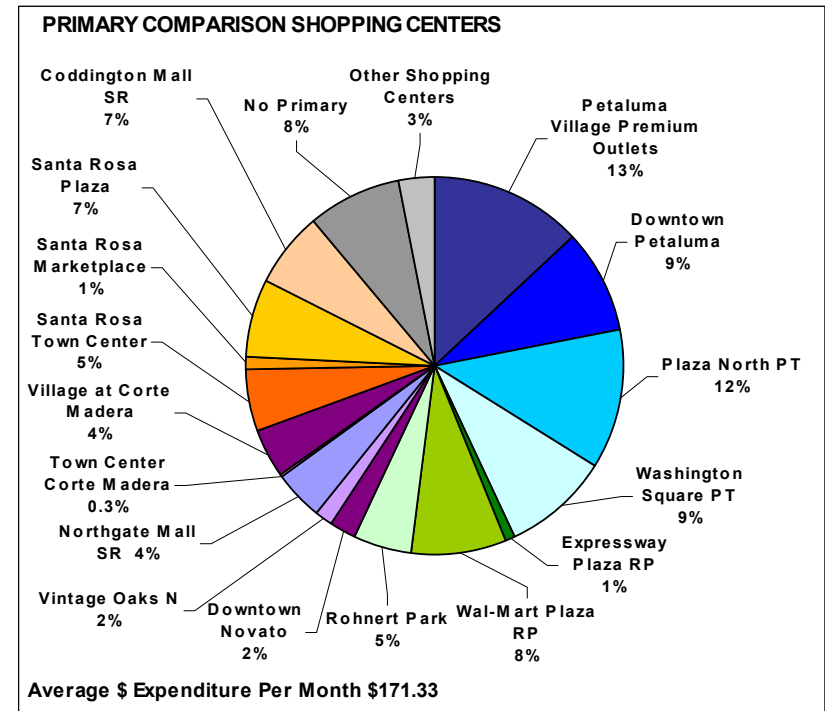
- Specific market voids that need to be filled.
- Demographic profile that indicate the type of retail tenants that best fill these voids.
- Expenditure potential available to attract these tenants.
- Retail trends and opportunities that provide the foundation for successful retail development.
- The application of these points to the City of Petaluma across each of its existing and potential retail clusters.

## CONSUMER SURVEY

To assess items such as the degree of retail sales outflow, consumer expenditure profile and consumer preferences, a detailed consumer research telephone study was conducted within Petaluma during the period of July to August, 2003. The survey interviewed 400 people living within Petaluma and its surrounds.

Highlights of the consumer survey results include:

- Only 43% of respondents identified shopping centers in Petaluma as their regular "Primary Shopping Destination". The alternative shopping destinations that are attracting local residents are shown in the accompanying graph.



- The majority of respondents shop locally in Petaluma for their day-to-day **Convenience** needs (as opposed to **Comparison** shopping for fashion, large ticket items and specialty goods). Whole foods was identified as the strongest convenience shopping destination as identified by 25% of respondents. The next strongest convenience centers were Downtown Petaluma and Washington Square.

With regard to preferred retail formats and locations, Petalumans' reported the following:

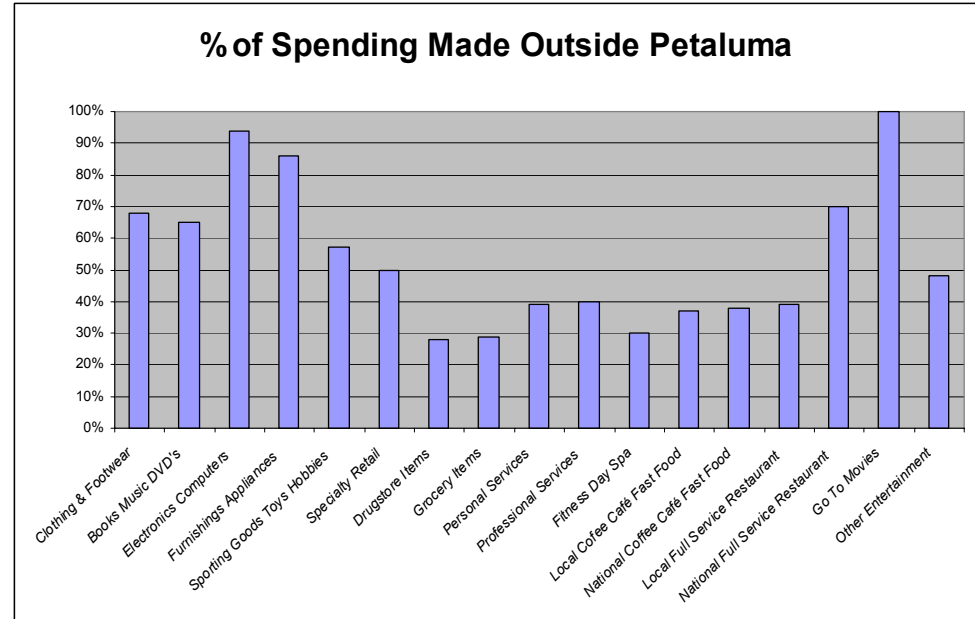
- Preferred retail locations and formats include an even balance of preference to add new stores Downtown and close to Highway 101.
- "Streetfront Retail" and "Unenclosed Specialty Retail" were identified as preferred shopping formats.
- The respondent profile suggests that a balanced variety of value, mid-ranged and upscale specialty stores is desired.

### **Retail Sales Retention & Leakage**

The most significant question of the survey queried respondents to determine the percentage of their regular shopping that occurs either inside or outside of Petaluma.

**The most significant leakage is occurring for the following categories ranging from 50% to 100% leakage**

- Entertainment & Movies
- Electronics/Computers
- Home Furnishings, Appliances & Accessories
- Clothing (Apparel) and Footwear
- Books, Music (DVD's) & Media
- Sporting Goods, Toys & Hobbies
- National Full Service Restaurants



The only Comparison Retail categories that are being retained within Petaluma include Specialty Retail and Home Improvement. However, Petaluma appears to be retaining between 60% to 75% of Convenience and Service Retail functions such as Grocery and Pharmacy. The leaking retail categories identified by respondents confirm the scope of retail voids and opportunities for Petaluma.

Stores and services that would increase visits to Petaluma are:

- Movie Theatre & Other Entertainment Venues**
- Discount Dept. Store/Dept. Store**
- Home Electronics & Computers Store**

Next most desired stores to add are:

- Clothing(Apparel)/Footwear
- Books & Music (DVD's) & Media
- Home Improvement & Garden
- Specialty Retail, Entertainment/ Leisure
- Local & National Full Service Restaurants
- Casual Dining
- Specialty Food Grocery.

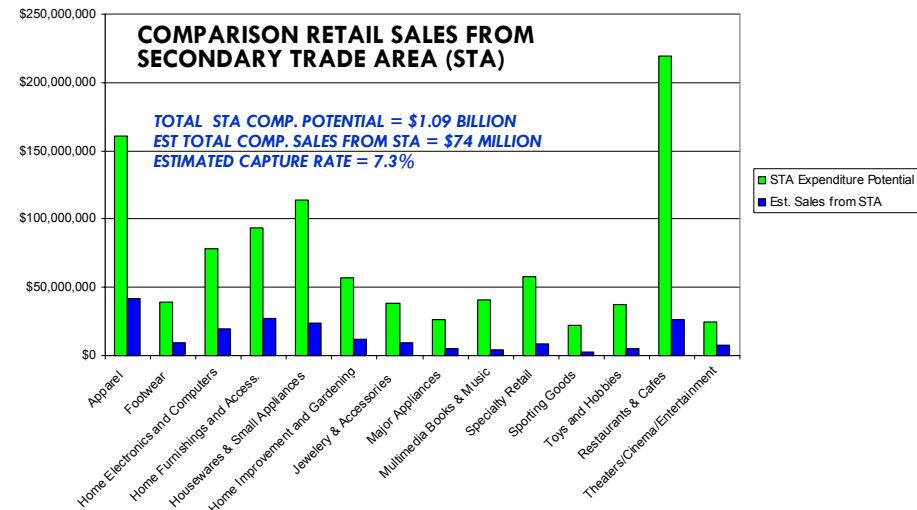
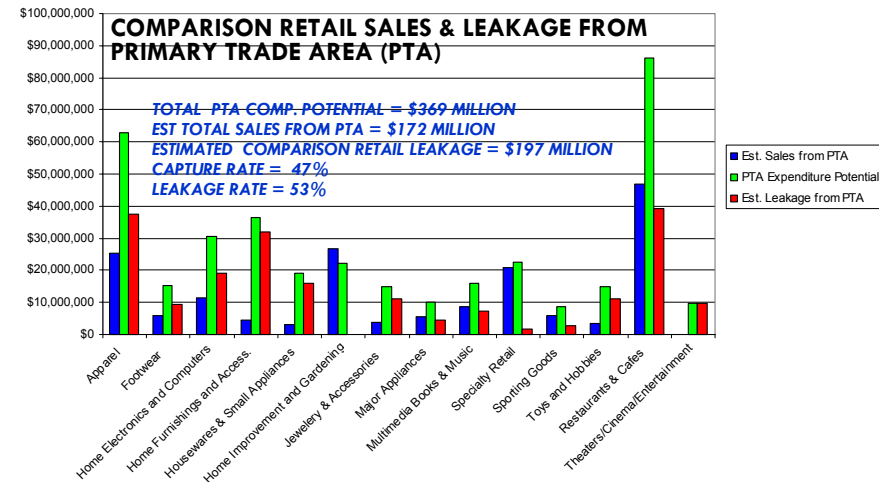
## RETAIL SALES LEAKAGE

In addition to the Consumer Survey, a detailed analysis was made of taxable sales occurring within Petaluma. The analysis indicates that Petaluma's taxable transactions reached \$369 million in 2001, with the major sales categories of Other Retail Stores (\$84.4 million), General Merchandise (\$64 million) and Restaurants (\$67 million).

*It should be noted that these figures do not include "Automotive Sales, Servicing, Recreation Vehicles or Fueling". Similarly, it should also be noted that most Grocery sales are non-taxable and thus not recorded in the taxable sales data.*

- The expenditure assessment indicates that Petaluma's PTA residents spent \$369 million on the categories under study in 2001. However, only \$172 million (47%) of these purchases were made in the City. By contrast, over \$197 million (53%) of PTA residents' expenditure was made outside of Petaluma in 2001.
- On almost all categories, the City is achieving a net sales outflow.

- Restaurants represent the largest expenditure category included in this analysis, and this category demonstrates a substantial sales outflow.
- The retail categories with the greatest retail sales leakage (and hence opportunity) include Home Electronics, Home Furnishings, Cinema and Apparel.
- Specialty Retail is the only category to maintain a strong sales retention within the City. This likely indicates the effect of the influx of daytrippers and tourists shopping in Downtown Petaluma's specialty stores rather than an indication of a complete specialty retail program within the city.



## REGIONAL RETAIL COMPETITION

A key component of stemming the retail sales leakage is to determine the current level of competition for retail spending in the area. Petaluma's neighboring communities possess more developed retail environments, which can be summarized as follows:

- *Rohnert Park*, north of Petaluma is most comparable in retail infrastructure. However, Rohnert Park has a stronger representation of box/value retailers (e.g. Target, Outdoor Pro Shop, Office Depot, etc.). The value offering creates the destination appeal for shoppers.
- *Santa Rosa* possesses a variety of retail formats, effectively appealing to a broad market segment. Regional malls, power centers and box retail-oriented strip centers dominate the retail landscape. The variety of retail formats accommodates a multitude of national chain retailers, and reflects a 'strong' ranking in all categories of the void analysis. The critical mass of branded/national retailers combined with value prices generates the strong destination appeal for Santa Rosa.
- *Novato/San Rafael* is characterized with a developed offering, with the exception of the Electronics/Home Entertainment category. The majority of this retail is focused in the *Vintage Oaks* retail center fronting Highway 101.
- *Corde Madera* offers the only significant cluster of 'Lifestyle' oriented retailers in a more pedestrian-oriented shopping environment. Specifically, Corde Madera's 'Lifestyle' is higher profile and reflects middle-to-upper price points (e.g. *Village at Corde Madera*). This retail offering and overall center profile is more comparable to the upscale shopping centers in San Francisco.
- Although approximately 9% of retail sales made in the communities between Corde Madera and Santa Rosa occurred in Petaluma, per capita retail sales are lowest in Petaluma for these communities.



## CURRENT INVENTORY & RETAIL VOIDS

**In 2003, there are an estimated 1.14 million sq. ft. of retail functions in Petaluma today, of which about 775,000 sq. ft. are in shopping centers, while the remainder are in Downtown and Streetfront retail areas.**

- ❑ Retail is sprawled across Petaluma with no distinct focal point.
- ❑ Downtown Petaluma is dominated by antiques & local specialty retail.
- ❑ Retail outside of Downtown is dominated by "Convenience" and "Strip" retail.
- ❑ Overall, Petaluma has a limited offering of National Brand retailers and restaurants.
- ❑ Many of the few national tenants found in Petaluma occupy spaces at the Petaluma Village Factory Outlets that are hard to see and difficult to get to.
- ❑ Petaluma does not have the variety of retail formats that are evolving in other communities of similar size and demographic profile.

## PETALUMA'S RETAIL CLUSTERS WITH DEVELOPMENT/REDEVELOPMENT POTENTIAL

In order to identify the optimal strategy for stemming retail sales leakage from Petaluma, the City's component retail clusters were identified, including undeveloped areas that have potential for future commercial development. The entire retail infrastructure was analyzed simultaneously to determine the optimal function of each cluster that would provide the most appropriate retail offering at the site as well as contribute the greatest synergy to the overall city offering.

The retail cluster sites include:

- Downtown Petaluma West
- Golden Eagle & Station RDA Site
- Kenilworth/Fairgrounds Site
- Petaluma Plazas
- Washington Square
- DSL/Ranier Site
- Petaluma Village Factory Outlets
- Redwood Center

An evaluation of “retail suitability” and attractiveness of each site for development or redevelopment with new retail was prepared. This evaluation considers 15 individual retail site criteria in equal weighting, to consider site exposure, location, configuration and adjacencies. Highlights of this analysis suggest the following:

- The **Petaluma Plazas** (85%) site rated as the best overall site for retail potential followed by a tie between the **Kenilworth Fairgrounds** and **Redwood Center** (84%) sites, which also scored high.
- The **Golden Eagle/Station RDA** (60%) and **Washington Square** (60%) ranked in the middle of range.
- **Downtown Petaluma West** & the **DSL/Ranier Site** ranked in the lower half of the range.
- The weakest site was the **Petaluma Village Factory Outlets** (47%) site.

From a retail void analysis to identify retail functions and formats that are missing in Petaluma, the following retail opportunities are suggested for Petaluma:

- **Large format general merchandise stores (e.g. Kohl’s)**
- **Value apparel/footwear or discount department store (e.g. TJ Maxx, Old Navy, DSW Footwear, etc.)**
- **Large format house & home retailer (e.g. Container Store, Pier One, Linens ‘N Things, etc.)**
- **Large format electronics/home entertainment (e.g. Fry’s Electronics, Circuit City, etc.)**
- **Lifestyle/branded retailers (e.g. J.Crew, Eddie Bauer, Talbots, American Eagle Outfitters, etc.)**

### **DEMOGRAPHIC & EXPENDITURE PROFILE**

Having established the extent of the retail leakage from Petaluma, as well as the existing infrastructure and existing voids in the marketplace, the specific opportunity for the City to pursue was further refined through demographic and expenditure analysis. Specifically, the detailed demographic and spending habits of local residents were analyzed to determine the types of retail tenants that would garner the greatest appeal. When matching this “demand” information with the “supply” situation outlined in the void analysis, an optimal strategy is clearly defined.

Over 65,000 people reside within a 10-minute drive from Downtown Petaluma and nearly 387,000 people live within a half-hour drive of Petaluma. Petaluma's retail trade area is comprised of a Primary Trade Area (PTA) of over 68,000 people and an Secondary Trade Area (STA) of 170,000 people. The total trade area is expected to grow from 238,000 to 262,000 people over the next decade, an average annual rate of 0.97%, nearly identical to the national average.

The PTA is anticipated to experience the fastest growth, averaging 1.53% per annum. The Petaluma retail market will benefit from an influx of over 11,000 new residents anticipated over the next decade.

**Petaluma's demographic profile is highlighted as follows:**

- **Strong average household incomes of \$75,000 or more.**
- **Well-educated adult population.**
- **Larger than average representation of 35 to 64 years olds.**

**Total trade area expenditure in 2003 is estimated to be over \$2.35 Billion and is expected to increase to \$2.68 Billion by 2013.** The PTA represents \$659 million (28%) of the entire Trade Area retail and leisure market, while the STA represents \$1.69 Billion (72%).

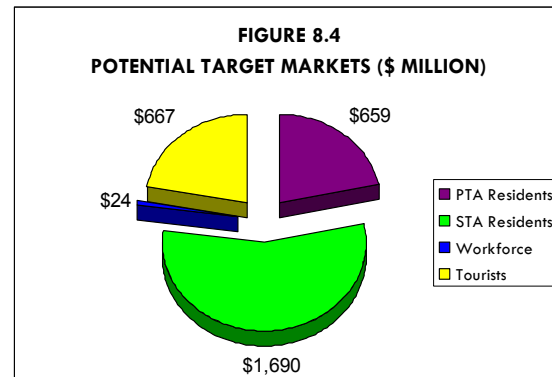
Total expenditure is expected to grow at over 1.29% per annum over the next decade. The fastest growing major retail category is Convenience, particularly Supermarket spending, which will grow at 1.57% per annum over the next decade. Comparison retail expenditure will grow from \$974 million to \$1.1 billion during this time period, while expenditure on Leisure is slated to grow from \$340 million to \$382 million from 2003 to 2013.

Petaluma's trade area is characterized as positive for retail development. Per capita expenditure on retail and leisure is well above average in the PTA and STA, at 129% and 140% the national average. Within the PTA, the growing population base is anticipated to be bolstered by an influx of affluent Baby Boomers who are seeking the high quality of life offered in the Petaluma area.

The STA is not slated to grow as quickly as the PTA. However, this market is both significantly larger than the PTA, and exhibits high per capita expenditure, and thus represents a key market segment to entice to Petaluma.

Additional sources of miscellaneous sales inflow include purchases made by the estimated 30,000 employees that work in Petaluma and the visitors whom pass through Sonoma County. Employees are estimated to generate \$48 million per year of retail and food/beverage spending during their working hours, of which about half is from employees who do not live within Petaluma.

Although detailed figures are not available just for visitors to Petaluma, visitors to overall Sonoma County and Wine Country generate approximately \$667 million per year in retail and food/beverage spending. These spending segments are seen to be supplementary to the base of local resident trade area expenditure.



## RETAIL TRENDS & OPPORTUNITIES

The vision for the evolution of Petaluma's retail offering should also draw from the current "state of the art" in retail programming and design. The following retail formats and new generation retailer types are currently driving North

### American retailing:

- Mixed-Use Centers
- Lifestyle & New Generation Retail Centers
- Main Street Retail & Downtowns
- Hybrid Centers (Value, Lifestyle & Convenience)
- Polarized Retail Centers
- Strategic Repositioning of Existing Centers
- Entertainment Themed Retail Centers

Common elements of these retail formats include:

- Integrated by a variety of uses in one setting.
- Exploiting and celebrating the local, organic lifestyle.
- Establishing the community social gathering place.
- Anchored by restaurants and family entertainment.
- Culture, arts and education play a prominent role.
- Specialty food and public markets are an attraction.
- Spaces are organized into a "Streetscape" setting.
- Retailing has a balance of local & national operators.
- New generation "Lifestyle Retailers" are prominent.
- Investment in architectural & landscape features is intense.

Currently, the majority of these contemporary retail formats are not available in Petaluma, suggesting an opportunity to weave them into the retail fabric.

## PETALUMA OVERALL RETAIL OPPORTUNITY

A market share/capture rate methodology was utilized to project the optimal retail mix for each of Petaluma's retail clusters. This methodology involves applying realistic market capture rates against the Primary and Secondary Trade Area expenditure potential figures for each retail category in each individual retail cluster.

The market share analysis indicates that with the complementary and optimal retail positioning and mix recommended for each of Petaluma's retail clusters, there could be as much as **2.31 million sq. ft. of vibrant retail functions within Petaluma. If the current estimated retail inventory of 1.14 million sq. ft. is subtracted from this total demand estimate, the analysis indicates there is an opportunity to add up to 1.17 million sq. ft. of new retail functions (Comparison, Leisure and Convenience retail).**

This retail space could be generating in the magnitude of **\$775 million per annum in retail sales** for all of the Convenience, Comparison and Leisure categories. Of this amount, the sales and mix of potential retail capture for Petaluma would be as follows:

- **\$279.6 million/yr for Convenience Retail**
- **\$391.4 million/yr on Comparison Retail**
- **\$104.1 million/yr on Leisure, Entertainment & Restaurants**

**Considering the current estimated Comparison & Leisure Retail capture is approximately \$246 million/yr, the above figures suggest an almost \$250 million lift in Comparison Retail and Leisure sales; in other words a doubling. This would result in an additional \$2.5 million tax revenues annually, as well as the generation of 3,084 total direct new jobs in the City.**

The accompanying two Figures illustrate the recommended optimal positioning and geographic location for each retail cluster in Petaluma.

# PETALUMA – RECOMMENDED RETAIL POSITIONING

## POSITIONING STRATEGY

## LAND USE

**DOWNTOWN COMMERCIAL\***

RETAIN AND ENHANCE FOOD AND BEVERAGE, SPECIALTY RETAIL AND ENTERTAINMENT

**MIXED-USE COMMERCIAL\***

REDEVELOP WITH MIXED-USE STREET-ORIENTED LIFESTYLE RETAIL AT GRADE RESIDENTIAL OR OTHER ABOVE, TO FRAME AND BALANCE EAST SIDE OF RIVER AS PART OF DOWNTOWN

**HIGHWAY/TOURIST COMMERCIAL\***

ASSEMBLE AND DEVELOP AS REGIONAL LARGER FORMAT RETAIL NODE TO INTRODUCE MISSING RETAILERS OF REGIC

**HIGHWAY/COMMUNITY COMMERCIAL\***

ENHANCE EXISTING PETALUMA PLAZA AND WASHINGTON SQUARE PROPERTIES WITH ADDITIONAL CRU, BABY BOX AND RESTAURANTS AND INTRODUCE ADDITIONAL APPAREL RETAILER WITH ADJACENT RELATED CRU'S

**COMMUNITY COMMERCIAL\***

ENHANCE CONVENIENCE AND SERVICES AND INCORPORATE HEALTH AND WELLNESS

**SPECIALTY RETAIL**

Downtown (West Side of River)

**Mixed-Use Lifestyle Retail**

Golden Eagle Plaza (East Side of River) Station Area RDA (East Side of River)

**Regional Larger Format Retail**

Kenilworth Fairgrounds Site

**Box Retail**

DSL/Rainier Site

**Off-Price Fashion**

Petaluma Village Factory Outlets

**Strip Retail Centers**

Petaluma Plaza (North and South)

Washington Square

Northern Gateway

**Neighborhood Convenience Centers**

Osh/Orchard & Yardbird Plazas

Arroyo Center

Whole Foods

Petaluma Gateway /Albertson's

G + G

**INFILL/ ENHANCEMENT**

LOCAL AND INDEPENDENT RETAILERS

**REDEVELOPMENT**

MIX OF LOCAL, REGIONAL AND NATIONAL "STREET-ORIENTED" RETAILERS

**NEW DEVELOPMENT**

LARGER FORMAT NATIONAL AND REGIONAL RETAILERS

**INTENSIFICATION/ REDEVELOPMENT**

JUNIOR DEPARTMENT STORE ANCHORED WITH A BYBRID OF "BABY BOX" RESTAURANT AND A BLEND OF NATIONAL AND LOCAL CRU RETAILERS AND SERVICES

**ENHANCEMENT**

SUPERMARKET AND PHARMACY ANCHORED WITH BLEND OF LOCAL AND NATIONAL SMALLER RETAILERS AND SERVICES



# DISTRIBUTION OF RECOMMENDED RETAIL POSITIONING TYPES

