



SAND HILL PROPERTY COMPANY

June 1, 2018

David Brandt  
City Manager  
City of Cupertino  
10300 Torre Ave  
Cupertino, CA 95014

Re: Vallco Town Center SB 35 Application – Supplemental Information

Dear David:

As the City is finalizing its 90-day compliance review of our Vallco Town Center SB 35 application, we wanted to provide some supplemental information for your consideration. This is not new information and does not change the development submittal, but rather is provided to clarify and supplement the application materials. We hope you find it helpful.

First, attached as Exhibit A are figures and tables depicting the detailed uses and square footage for each floor of every block in the project. While perhaps unnecessary to your determination, we thought this additional level of granularity on the uses and square footage calculations for all areas of the project may avoid any misunderstanding.<sup>1</sup> We also thought it would be of interest if we provided some additional detail regarding the “amenity” component of the residential use. Based on project characteristics and the spectrum of expected resident profiles, and after a review of select analogous projects (existing and planned) throughout the Silicon Valley, San Francisco and Los Angeles markets, we determined in order for this project to be considered first-class and competitive it will be important to provide a robust residential amenity program for the future residents of the project. At roughly 550,000 square feet in area (just over 10% of the total residential area of the project), the residential amenity facilities are intended to include (but not be limited to) fitness and wellness facilities (traditional fitness centers with strength & cardio; sauna/steam/jacuzzi; yoga/pilates/spin training areas; indoor

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<sup>1</sup> While preparing these documents, we identified a discrepancy in the “Building Block Allocation” table found on page P-0101 of the plan set. This was simply the result of an Excel formula error and does not affect any of the design or the Development Summary. A brief explanation and updated table is attached as Exhibit C. As the City completes the design review and public oversight portion of the SB 35 process, the plan set will be updated with this table, as well as any other minor revisions that result from the SB 35 process.

basketball courts; indoor squash; indoor climbing; and indoor golf training), resident lounge and function facilities (libraries; grand ball rooms and various lounge areas geared toward entertainment/gaming, coffee, gourmet kitchen, event screening and wet bar), and resident services facilities (storage; bike storage; bike repair stations; pet care/wash; child care; cafes; massage and spa space; dry cleaning and concierge). These residential amenities will only be open to the residents and their guests. This information on the residential amenity program is not meant to be exhaustive but rather illustrative and subject to change.<sup>2</sup>

Second, we are providing additional documentation demonstrating that the two density bonus concessions will result in identifiable and actual cost reductions. These cost reductions in turn will assist in providing the below market rate (“BMR”) units. In particular, The Concord Group’s analysis, attached as Exhibit B, demonstrates that current and forecasted retail market conditions only justify 400,000 square feet of retail at the project and that reducing the minimum retail area requirement from 600,000 to 400,000 square feet would result in project cost reductions. Based on this analysis, building 200,000 fewer square feet of retail would avoid \$160,000,000 in cost (using a mid-range cost of \$800 per square foot provided last week by Economic & Planning Systems, Inc. (“EPS”), the City’s economic consultant, during the opening of the Vallico Specific Plan’s Charrette #2). But we believe the requirement to develop 600,000 square feet of retail, which is 200,000 square feet more than the market would demand, would result in at least \$60,000,000 in additional, *wholly unrecoverable* costs. In addition to less tangible concerns like the chilling effect vacant retail storefronts visible to the public on the street level would have on the lease-up and/or performance of the balance of retail in the project, or of the residential and office components, the concession to 400,000 square feet of retail directly results in the avoidance of an approximate \$60,000,000 loss.

As for the concession eliminating the “identical design” requirement found at Cupertino Municipal Code section 19.56.050.G.2, cost reductions will be achieved in three ways:

- First, the BMR units are smaller than the comparable studio and 1-bedroom market rate units because building units of a smaller area reduces costs. EPS also reported last week that for every square foot of BMR unit developed, the developer realizes a straight loss of \$250 to \$300 (which we believe to be much too low). Using the mid-range loss of \$275 per square foot, a 527-square foot 1-bedroom BMR unit would result in \$92,400 less loss than an 863-square foot 1-bedroom. Further, the rent for BMR units is set by unit type, not sizes, so if larger area BMRs of a certain unit type were built, the additional loss would not be offset by any increased rental income.

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<sup>2</sup> We understand that some in the community have asked about the uses proposed for the “bridge” area above Wolfe Road, and if that should count towards the residential areas. Although the details of the program have not been finalized, this area is planned to house various types of residential amenity uses, including primarily some combination of the fitness and wellness facilities described above. We also note that this area is not necessary in order to meet the two-thirds residential requirement. Even if the 41,000 square feet were counted as non-residential, 67.4% of the development would still be dedicated toward residential uses.

- Second, BMR units are limited to studios and 1-bedrooms and do not include units with two or more bedrooms, which also achieves cost reductions. Of course units with more bedrooms are by necessity larger, which increases cost and loss. In addition, while BMR units with a greater number of bedrooms allow for nominal rent limit increases, such increases are not commensurate with the incremental project costs resulting from the additional areas built. For example, according to the most recent rent limits published by the City, a 1-bedroom BMR unit affordable to the very low income level can be rented for \$1,195 per month, and a 2-bedroom BMR unit affordable to the very low income level can be rented for \$1,344 per month. Based on the \$275 loss per square foot and an estimated 250 square foot difference between a 1-bedroom and a 2-bedroom, loss resulting from providing the 1-bedroom would be less by approximately \$68,750, while rent would only be \$149 per month less than the 2-bedroom (which avoids an abnormally low 2.6% return-on-cost).
- Third, many of the market-rate units will be outfitted with high-end finishes in terms of appliances, cabinetry, lighting, countertops, flooring, hardware and the like, but the BMR units will have more economical (while still new and quality) finishes. Not having to use high-end finishes on the BMR units will also achieve cost reductions.

For these reasons, waiving the “identical design” requirement will result in cost reductions for the project that will allow for the construction of the project’s affordable housing.

In sum, the two concessions we are requesting will result in material reductions in project cost and the avoidance of tens of millions of dollars in loss. These savings will assist in the development of the project’s 1,201 BMR units. To illustrate this, let’s again look to EPS’s loss projection of \$250 to \$300 per square foot of BMR. While we believe these values significantly *understate* the actual loss associated with the 1,201 BMR units proposed in our project, if we apply EPS’s mid-range figure of \$275 of loss per square foot of BMR to the 617,000 square feet of the project’s BMR “unit” area (which does not take into consideration any allocation of the garage or amenity areas and their associated costs), we would see a very conservative projection of the loss associated with our proposed BMR units – in this case, no less than -\$170,000,000. The cost reductions and savings afforded by the requested concessions will serve to offset a portion, at least \$60,000,000, of that loss.

Finally, we wanted to provide additional background on the density bonus aspect of the project. We first assumed and started with a “pre-bonus” or General Plan consistent project, and then added the 35% increase in density and made other modifications allowed by the concessions. This “pre-bonus” project included the following program: 1,810,000 square feet of office, 600,000 square feet of retail, and 1,778 residential units housed within 4,820,000 residential square feet (including amenity and garage space). This program is consistent with the General Plan and still designates at least two-thirds of the square footage for residential uses.

Under the density bonus law, the Project qualifies for a 35% density bonus. When making that calculation, “each component of any density calculation, including base density and bonus density, resulting in fractional units shall be separately rounded up to the next whole number.” Government Code § 65915(q). The property is 50.82 acres, meaning that under the 35 du/acre General Plan density standard, the “base density” is 1,778.7 units, which is rounded up to 1,779 units. When this base density is increased by 35%, the total is 2,401.65, which is also rounded up to the next whole number for a total of 2,402 units in this application.

In addition to additional density, density bonus projects qualify for concessions, which frequently provide relief from development standards contained in a General Plan or zoning. Here, we made modifications to the “pre-bonus” project to account for the two concessions as discussed above: reducing the retail from the 600,000 square feet minimum in the General Plan down to 400,000 square feet and increasing number of residential units without meeting the identical design requirement in Cupertino’s density bonus code. With these two modifications allowed by the concessions, we arrived at the final design that was included in the SB 35 application: 1,810,000 square feet of office, 400,000 square feet of retail, and 4,700,000 square feet of residential uses (including 2,402 units).

Further, under the Cupertino Municipal Code, while the below market rate units must generally be dispersed throughout a project, any bonus units are “permitted in geographic areas of the housing development other than the areas where the affordable units are located.” The Project meets this requirement by dispersing the below market rate units generally throughout the portion of the Project, except for a few areas primarily where the “bonus” units are located.

Our experienced team worked for months to ensure that all technical, planning and legal aspects of our submittal would comply with all requirements of the State’s important new housing related legislation. We remain available to respond to any questions and look forward to your determination.

Sincerely,



Reed Moulds

Attachments:

- Exhibit A: Supplemental Area Calculations
- Exhibit B: Analysis of Cost Reductions Associated with Reduced Retail
- Exhibit C: Building Block Allocation – Updated Table

## **Exhibit A: Supplemental Area Calculations**

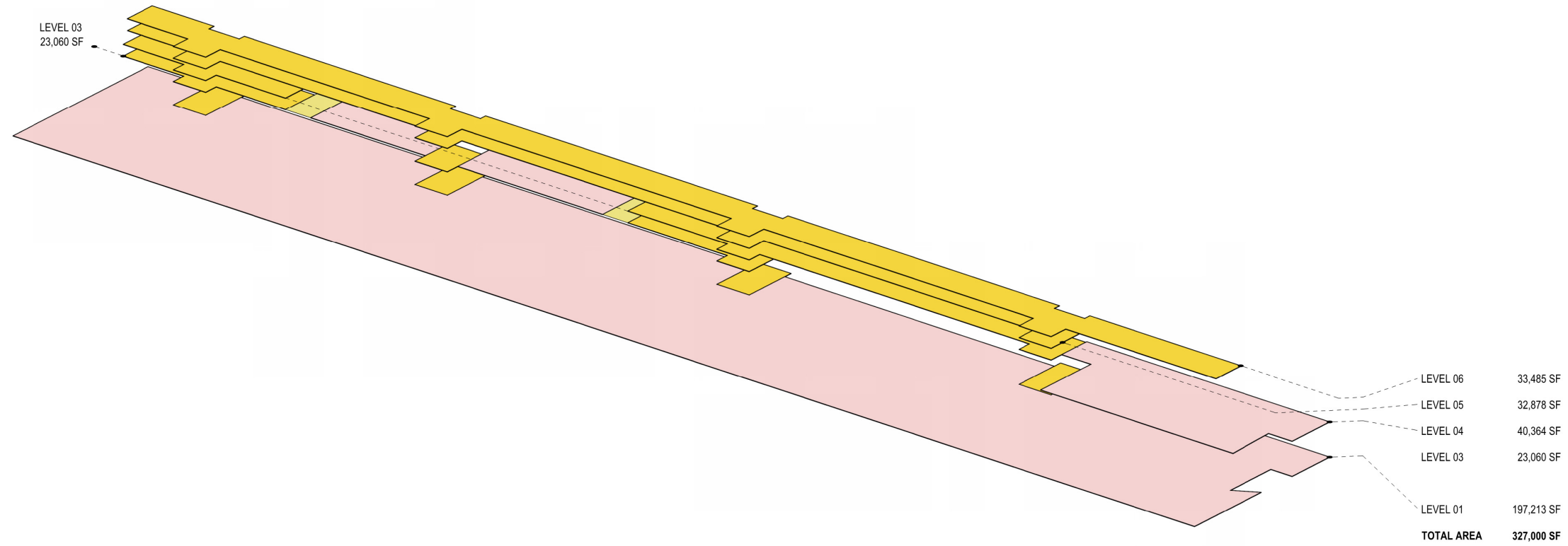
**Vallco Town Center – Supplemental Area Calculations**

June 1, 2018

Area Summary Calculations

<b>Project Total</b>														
	<b>Block 1</b>	<b>Block 2</b>	<b>Block 3</b>	<b>Block 3A</b>	<b>Block 4</b>	<b>Block 5</b>	<b>Bridge</b>	<b>Block 6</b>	<b>Block 7</b>	<b>Block 8</b>	<b>Block 9</b>	<b>Block 10</b>	<b>Block 11</b>	<b>TOTAL</b>
Unit	104,893	449,991	802,863	-	304,932	248,229	-	-	-	-	409,524	393,908	-	2,714,340
Amenity	1,918	58,400	144,543	-	74,508	58,872	41,000	-	-	-	90,623	80,191	-	550,055
Parking	-	158,370	418,156	-	254,413	214,912	-	-	-	-	209,853	179,901	-	1,435,605
<b>Residential</b>	106,811	666,761	1,365,562		633,853	522,013	41,000	-		-	710,000	654,000	-	<b>4,700,000</b>
<b>Office</b>	-	-	-		-	-		247,000	282,000	242,000	-	-	1,039,000	<b>1,810,000</b>
<b>Retail</b>	220,189	83,239	14,438		66,147	15,987		-	-	-	-	-	-	<b>400,000</b>
<b>Total</b>	<b>327,000</b>	<b>750,000</b>	<b>1,380,000</b>		<b>700,000</b>	<b>538,000</b>	<b>41,000</b>	<b>247,000</b>	<b>282,000</b>	<b>242,000</b>	<b>710,000</b>	<b>654,000</b>	<b>1,039,000</b>	<b>6,910,000</b>

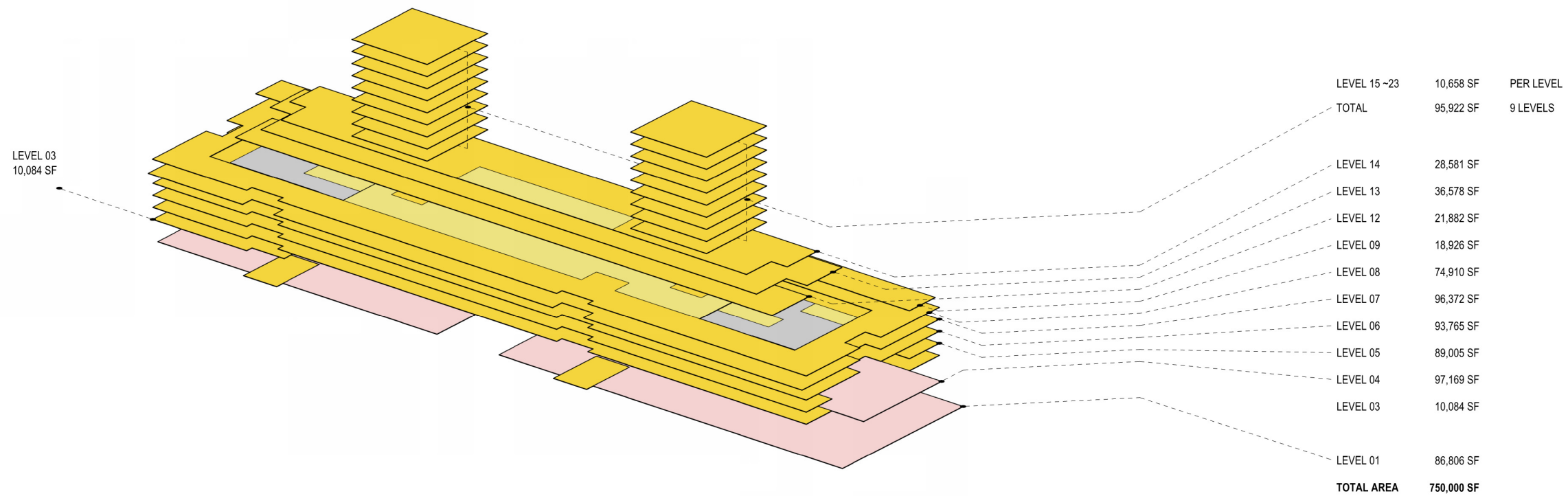
**BLOCK 1**



BLOCK 1	RESIDENTIAL			TOTAL RESIDENTIAL AREA	TOTAL OFFICE AREA	TOTAL RETAIL AREA	TOTAL FLOOR AREA
	UNIT AREA*	AMENITY AREA	PARKING AREA				
LEVEL 15 TO 23 (TOTAL 9 FLOORS)							
LEVEL 14							
LEVEL 13							
LEVEL 12							
LEVEL 11							
LEVEL 10							
LEVEL 09							
LEVEL 08							
LEVEL 07							
LEVEL 06	33,485 SF			33,485 SF			33,485 SF
LEVEL 05	32,878 SF			32,878 SF			32,878 SF
LEVEL 04	21,506 SF	1,918 SF		23,424 SF		16,940 SF	40,364 SF
LEVEL 03	11,019 SF			11,019 SF		12,041 SF	23,060 SF
LEVEL 02							
LEVEL 01	6,005 SF			6,005 SF		191,208 SF	197,213 SF
<b>TOTAL BLOCK AREA</b>	<b>104,893 SF</b>	<b>1,918 SF</b>		<b>106,811 SF</b>		<b>220,189 SF</b>	<b>327,000 SF</b>

NOTE\* : UNIT AREA INCLUDES UNITS, CORES, CORRIDORS & LOBBIES.

# BLOCK 2

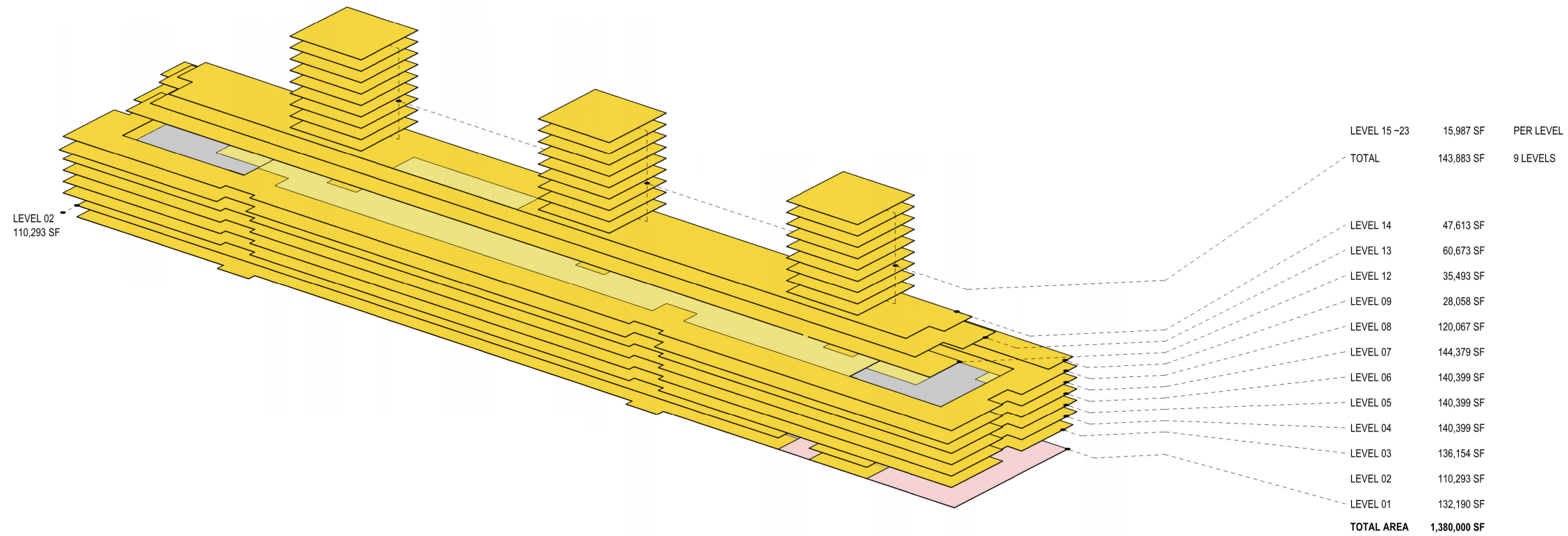


BLOCK 2	RESIDENTIAL			TOTAL RESIDENTIAL AREA	TOTAL OFFICE AREA	TOTAL RETAIL AREA	TOTAL FLOOR AREA
	UNIT AREA*	AMENITY AREA	PARKING AREA				
LEVEL 15 TO 23 (TOTAL 9 FLOORS)	95,922 SF			95,922 SF			95,922 SF
LEVEL 14	24,579 SF	4,002 SF		28,581 SF			28,581 SF
LEVEL 13	36,578 SF			36,578 SF			36,578 SF
LEVEL 12	21,882 SF			21,882 SF			21,882 SF
LEVEL 11							
LEVEL 10							
LEVEL 09	18,926 SF			18,926 SF			18,926 SF
LEVEL 08	46,788 SF	28,122 SF		74,910 SF			74,910 SF
LEVEL 07	49,749 SF	11,394 SF	35,229 SF	96,372 SF			96,372 SF
LEVEL 06	46,912 SF	6,934 SF	39,919 SF	93,765 SF			93,765 SF
LEVEL 05	44,500 SF	3,974 SF	40,531 SF	89,005 SF			89,005 SF
LEVEL 04	44,500 SF	3,974 SF	40,531 SF	89,005 SF		8,164 SF	97,169 SF
LEVEL 03	10,084 SF			10,084 SF			10,084 SF
LEVEL 02							
LEVEL 01	9,571 SF		2,160 SF	11,731 SF		75,075 SF	86,806 SF
<b>TOTAL BLOCK AREA</b>	<b>449,991 SF</b>	<b>58,400 SF</b>	<b>158,370 SF</b>	<b>666,761 SF</b>		<b>83,239 SF</b>	<b>750,000 SF</b>

NOTE\* : UNIT AREA INCLUDES UNITS, CORES, CORRIDORS & LOBBIES.



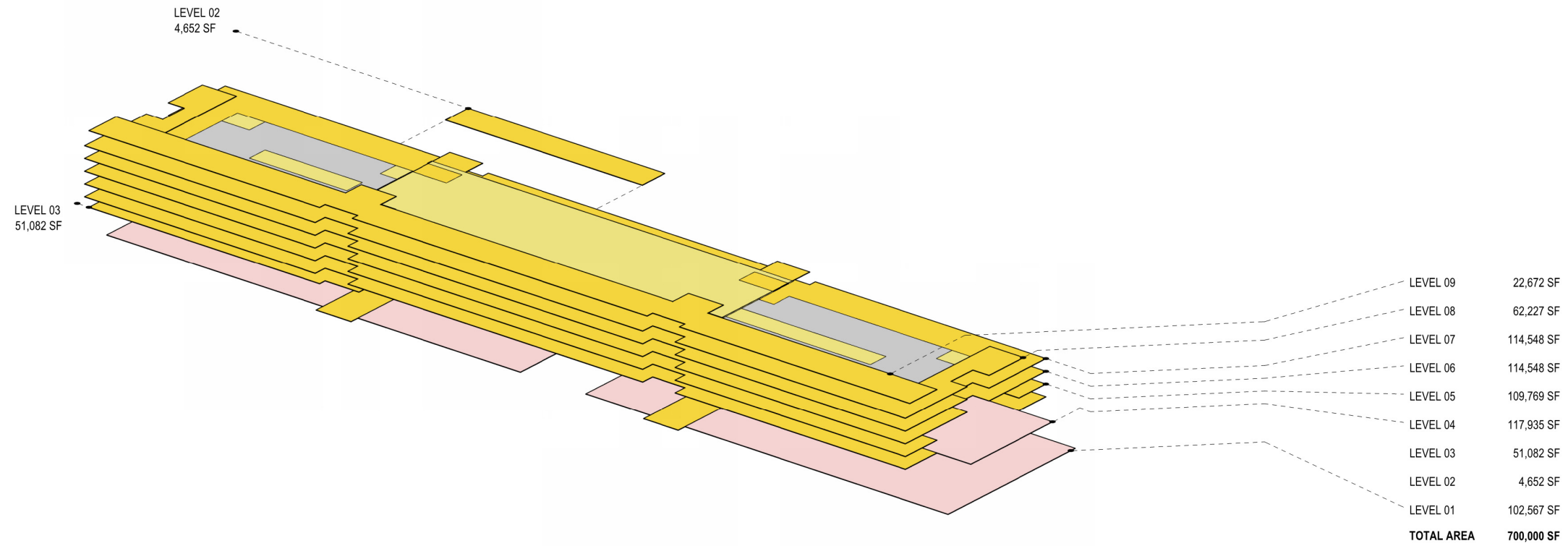
# BLOCK 3



BLOCK 3	RESIDENTIAL			TOTAL RESIDENTIAL AREA	TOTAL OFFICE AREA	TOTAL RETAIL AREA	TOTAL FLOOR AREA
	UNIT AREA*	AMENITY AREA	PARKING AREA				
LEVEL 15 TO 23 (TOTAL 9 FLOORS)	143,883 SF			143,883 SF			143,883 SF
LEVEL 14	40,630 SF	6,983 SF		47,613 SF			47,613 SF
LEVEL 13	60,673 SF			60,673 SF			60,673 SF
LEVEL 12	35,493 SF			35,493 SF			35,493 SF
LEVEL 11							
LEVEL 10							
LEVEL 09	28,058 SF			28,058 SF			28,058 SF
LEVEL 08	67,171 SF	52,896 SF		120,067 SF			120,067 SF
LEVEL 07	71,415 SF	19,684 SF	53,280 SF	144,379 SF			144,379 SF
LEVEL 06	67,171 SF	11,210 SF	62,018 SF	140,399 SF			140,399 SF
LEVEL 05	67,171 SF	10,691 SF	62,537 SF	140,399 SF			140,399 SF
LEVEL 04	67,171 SF	10,691 SF	62,537 SF	140,399 SF			140,399 SF
LEVEL 03	62,926 SF	10,691 SF	62,537 SF	136,154 SF			136,154 SF
LEVEL 02	41,673 SF	8,908 SF	59,712 SF	110,293 SF			110,293 SF
LEVEL 01	49,428 SF	12,789 SF	55,535 SF	117,752 SF		14,438 SF	132,190 SF
<b>TOTAL BLOCK AREA</b>	<b>802,863 SF</b>	<b>144,543 SF</b>	<b>418,156 SF</b>	<b>1,365,562 SF</b>		<b>14,438 SF</b>	<b>1,380,000 SF</b>

NOTE\* : UNIT AREA INCLUDES UNITS, CORES, CORRIDORS & LOBBIES.

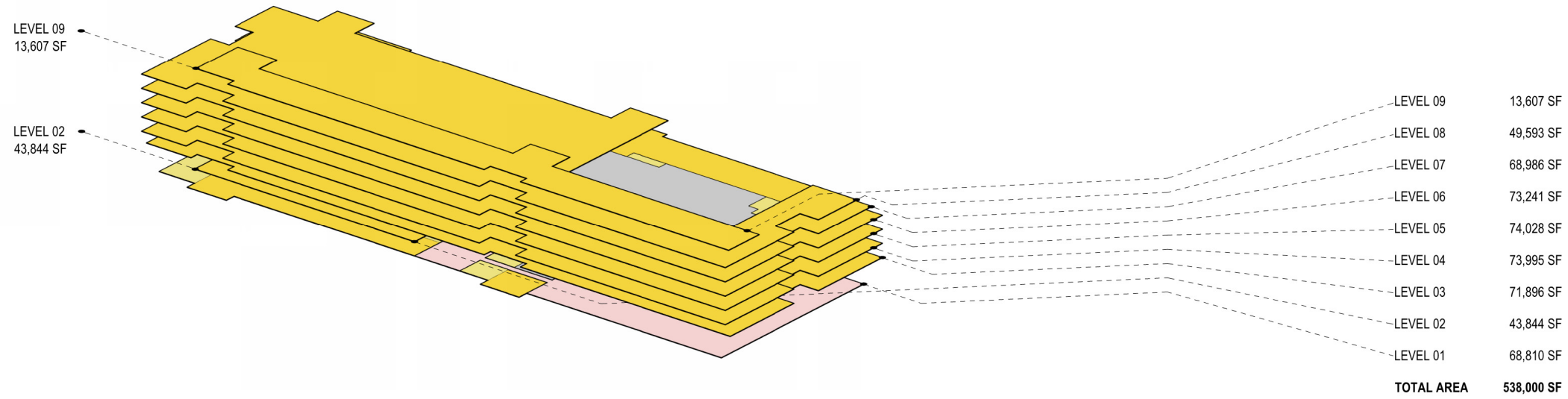
# BLOCK 4



BLOCK 4	RESIDENTIAL			TOTAL RESIDENTIAL AREA	TOTAL OFFICE AREA	TOTAL RETAIL AREA	TOTAL FLOOR AREA
	UNIT AREA*	AMENITY AREA	PARKING AREA				
LEVEL 15 TO 23 (TOTAL 9 FLOORS)							
LEVEL 14							
LEVEL 13							
LEVEL 12							
LEVEL 11							
LEVEL 10							
LEVEL 09	22,672 SF			22,672 SF			22,672 SF
LEVEL 08	32,696 SF	29,531 SF		62,227 SF			62,227 SF
LEVEL 07	54,575 SF	12,721 SF	47,252 SF	114,548 SF			114,548 SF
LEVEL 06	54,575 SF	4,322 SF	55,651 SF	114,548 SF			114,548 SF
LEVEL 05	52,106 SF	3,435 SF	54,228 SF	109,769 SF			109,769 SF
LEVEL 04	52,106 SF	2,926 SF	54,739 SF	109,771 SF		8,164 SF	117,935 SF
LEVEL 03	21,971 SF	1,766 SF	27,345 SF	51,082 SF			51,082 SF
LEVEL 02	4,652 SF			4,652 SF			4,652 SF
LEVEL 01	9,579 SF	19,807 SF	15,198 SF	44,584 SF		57,983 SF	102,567 SF
<b>TOTAL BLOCK AREA</b>	<b>304,932 SF</b>	<b>74,508 SF</b>	<b>254,413 SF</b>	<b>633,853 SF</b>		<b>66,147 SF</b>	<b>700,000 SF</b>

NOTE\* : UNIT AREA INCLUDES UNITS, CORES, CORRIDORS & LOBBIES.

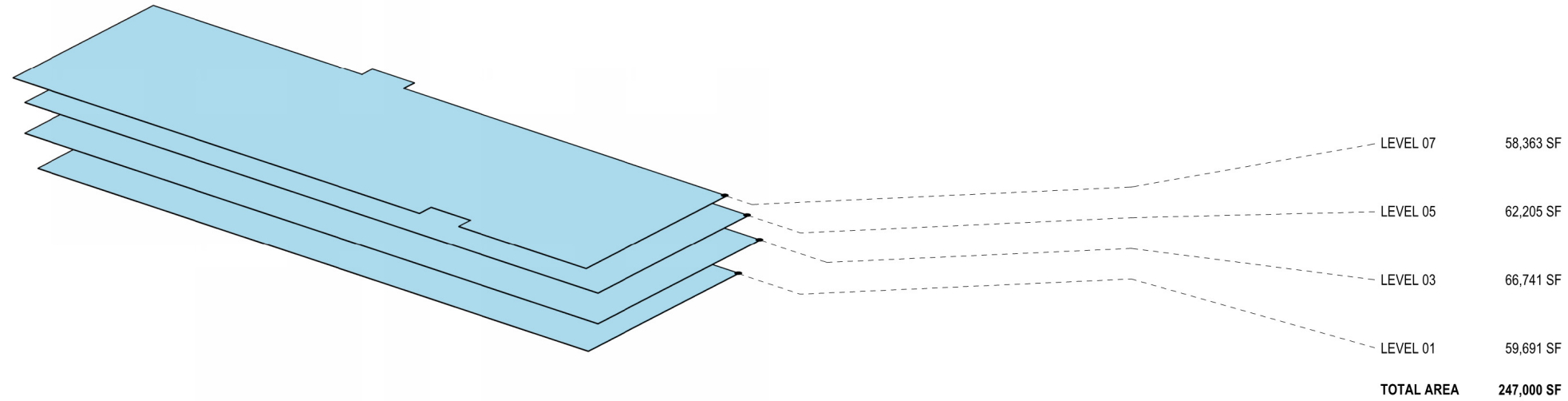
# BLOCK 5



BLOCK 5	RESIDENTIAL			TOTAL RESIDENTIAL AREA	TOTAL OFFICE AREA	TOTAL RETAIL AREA	TOTAL FLOOR AREA
	UNIT AREA*	AMENITY AREA	PARKING AREA				
LEVEL 15 TO 23 (TOTAL 9 FLOORS)							
LEVEL 14							
LEVEL 13							
LEVEL 12							
LEVEL 11							
LEVEL 10							
LEVEL 09	13,607 SF			13,607 SF			13,607 SF
LEVEL 08	24,979 SF	24,614 SF		49,593 SF			49,593 SF
LEVEL 07	36,747 SF	3,776 SF	28,463 SF	68,986 SF			68,986 SF
LEVEL 06	37,259 SF	3,076 SF	32,906 SF	73,241 SF			73,241 SF
LEVEL 05	36,792 SF	4,377 SF	32,859 SF	74,028 SF			74,028 SF
LEVEL 04	35,483 SF	5,662 SF	32,850 SF	73,995 SF			73,995 SF
LEVEL 03	33,384 SF	5,662 SF	32,850 SF	71,896 SF			71,896 SF
LEVEL 02	13,745 SF	3,257 SF	26,842 SF	43,844 SF			43,844 SF
LEVEL 01	16,233 SF	8,448 SF	28,142 SF	52,823 SF		15,987 SF	68,810 SF
<b>TOTAL BLOCK AREA</b>	<b>248,229 SF</b>	<b>58,872 SF</b>	<b>214,912 SF</b>	<b>522,013 SF</b>		<b>15,987 SF</b>	<b>538,000 SF</b>

NOTE\* : UNIT AREA INCLUDES UNITS, CORES, CORRIDORS & LOBBIES.

**BLOCK 6**



BLOCK 6	RESIDENTIAL			TOTAL RESIDENTIAL AREA	TOTAL OFFICE AREA	TOTAL RETAIL AREA	TOTAL FLOOR AREA
	UNIT AREA*	AMENITY AREA	PARKING AREA				
LEVEL 15 TO 23 (TOTAL 9 FLOORS)							
LEVEL 14							
LEVEL 13							
LEVEL 12							
LEVEL 11							
LEVEL 10							
LEVEL 09							
LEVEL 08							
LEVEL 07					58,363 SF		58,363 SF
LEVEL 06							
LEVEL 05					62,205 SF		62,205 SF
LEVEL 04							
LEVEL 03					66,741 SF		66,741 SF
LEVEL 02							
LEVEL 01					59,691 SF		59,691 SF
<b>TOTAL BLOCK AREA</b>					<b>247,000 SF</b>		<b>247,000 SF</b>

NOTE\* : UNIT AREA INCLUDES UNITS, CORES, CORRIDORS & LOBBIES.

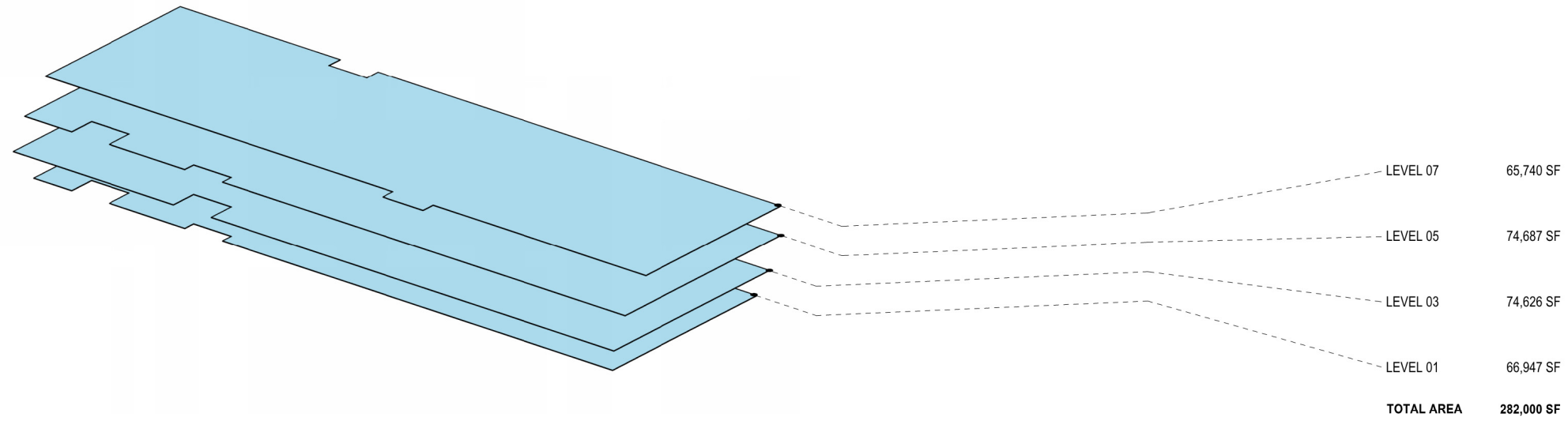
**BRIDGE OVER WOLFE**



BRIDGE	RESIDENTIAL			TOTAL RESIDENTIAL AREA	TOTAL OFFICE AREA	TOTAL RETAIL AREA	TOTAL FLOOR AREA
	UNIT AREA*	AMENITY AREA	PARKING AREA				
LEVEL 15 TO 23 (TOTAL 9 FLOORS)							
LEVEL 14							
LEVEL 13							
LEVEL 12							
LEVEL 11							
LEVEL 10							
LEVEL 09							
LEVEL 08		16,776 SF		16,776 SF			16,776 SF
LEVEL 07							
LEVEL 06		23,654 SF		23,654 SF			23,654 SF
LEVEL 05							
LEVEL 04							
LEVEL 03							
LEVEL 02							
LEVEL 01		570 SF		570 SF			570 SF
<b>TOTAL BLOCK AREA</b>		41,000 SF		41,000 SF			<b>41,000 SF</b>

NOTE\* : UNIT AREA INCLUDES UNITS, CORES, CORRIDORS & LOBBIES.

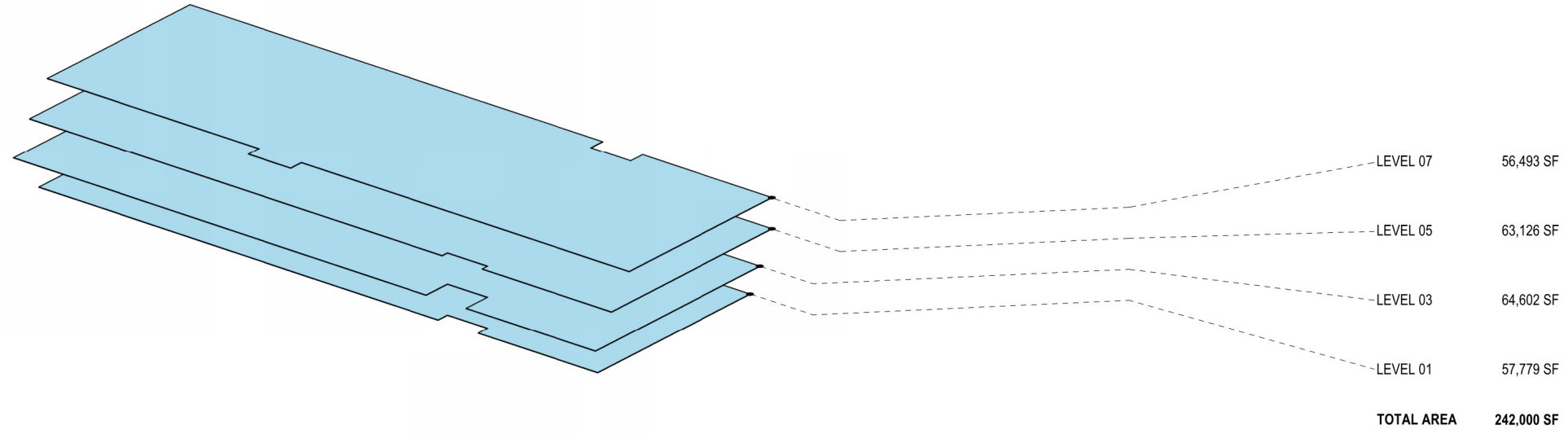
**BLOCK 7**



BLOCK 7	RESIDENTIAL			TOTAL RESIDENTIAL AREA	TOTAL OFFICE AREA	TOTAL RETAIL AREA	TOTAL FLOOR AREA
	UNIT AREA*	AMENITY AREA	PARKING AREA				
LEVEL 15 TO 23 (TOTAL 9 FLOORS)							
LEVEL 14							
LEVEL 13							
LEVEL 12							
LEVEL 11							
LEVEL 10							
LEVEL 09							
LEVEL 08							
LEVEL 07					65,740 SF		65,740 SF
LEVEL 06							
LEVEL 05					74,687 SF		74,687 SF
LEVEL 04							
LEVEL 03					74,626 SF		74,626 SF
LEVEL 02							
LEVEL 01					66,947 SF		66,947 SF
<b>TOTAL BLOCK AREA</b>					<b>282,000 SF</b>		<b>282,000 SF</b>

NOTE\* : UNIT AREA INCLUDES UNITS, CORES, CORRIDORS & LOBBIES.

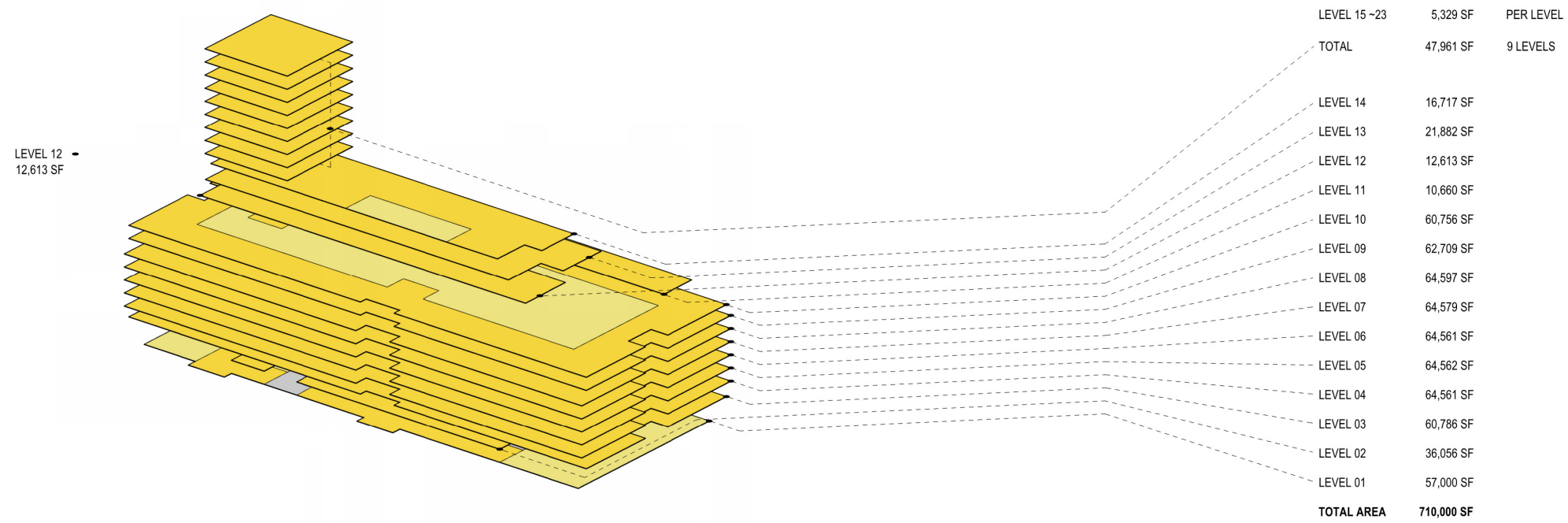
**BLOCK 8**



BLOCK 8	RESIDENTIAL			TOTAL RESIDENTIAL AREA	TOTAL OFFICE AREA	TOTAL RETAIL AREA	TOTAL FLOOR AREA
	UNIT AREA*	AMENITY AREA	PARKING AREA				
LEVEL 15 TO 23 (TOTAL 9 FLOORS)							
LEVEL 14							
LEVEL 13							
LEVEL 12							
LEVEL 11							
LEVEL 10							
LEVEL 09							
LEVEL 08							
LEVEL 07					56,493 SF		56,493 SF
LEVEL 06							
LEVEL 05					63,126 SF		63,126 SF
LEVEL 04							
LEVEL 03					64,602 SF		64,602 SF
LEVEL 02							
LEVEL 01					57,779 SF		57,779 SF
<b>TOTAL BLOCK AREA</b>					<b>242,000 SF</b>		<b>242,000 SF</b>

NOTE\* : UNIT AREA INCLUDES UNITS, CORES, CORRIDORS & LOBBIES.

# BLOCK 9

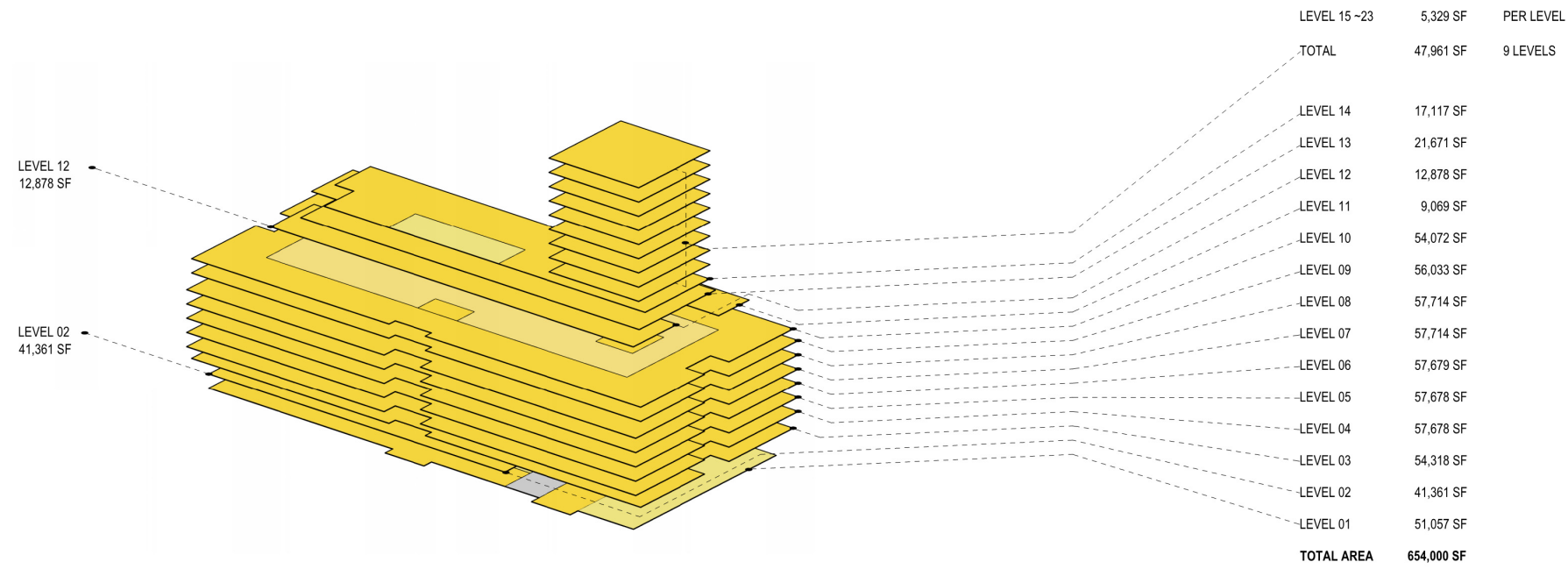


BLOCK 9	RESIDENTIAL			TOTAL RESIDENTIAL AREA	TOTAL OFFICE AREA	TOTAL RETAIL AREA	TOTAL FLOOR AREA
	UNIT AREA*	AMENITY AREA	PARKING AREA				
LEVEL 15 TO 23 (TOTAL 9 FLOORS)	47,961 SF			47,961 SF			47,961 SF
LEVEL 14	14,242 SF	2,475 SF		16,717 SF			16,717 SF
LEVEL 13	21,882 SF			21,882 SF			21,882 SF
LEVEL 12	12,613 SF			12,613 SF			12,613 SF
LEVEL 11	10,660 SF			10,660 SF			10,660 SF
LEVEL 10	31,436 SF	29,320 SF		60,756 SF			60,756 SF
LEVEL 09	33,323 SF	7,047 SF	22,339 SF	62,709 SF			62,709 SF
LEVEL 08	35,211 SF	7,047 SF	22,339 SF	64,597 SF			64,597 SF
LEVEL 07	35,211 SF	6,507 SF	22,861 SF	64,579 SF			64,579 SF
LEVEL 06	35,211 SF	3,825 SF	25,525 SF	64,561 SF			64,561 SF
LEVEL 05	35,211 SF	3,825 SF	25,526 SF	64,562 SF			64,562 SF
LEVEL 04	35,211 SF	3,825 SF	25,525 SF	64,561 SF			64,561 SF
LEVEL 03	31,436 SF	2,889 SF	26,461 SF	60,786 SF			60,786 SF
LEVEL 02	12,842 SF	1,602 SF	21,612 SF	36,056 SF			36,056 SF
LEVEL 01	17,074 SF	22,261 SF	17,665 SF	57,000 SF			57,000 SF
<b>TOTAL BLOCK AREA</b>	<b>409,524 SF</b>	<b>90,623 SF</b>	<b>209,853 SF</b>	<b>710,000 SF</b>			<b>710,000 SF</b>

NOTE\* : UNIT AREA INCLUDES UNITS, CORES, CORRIDORS & LOBBIES.



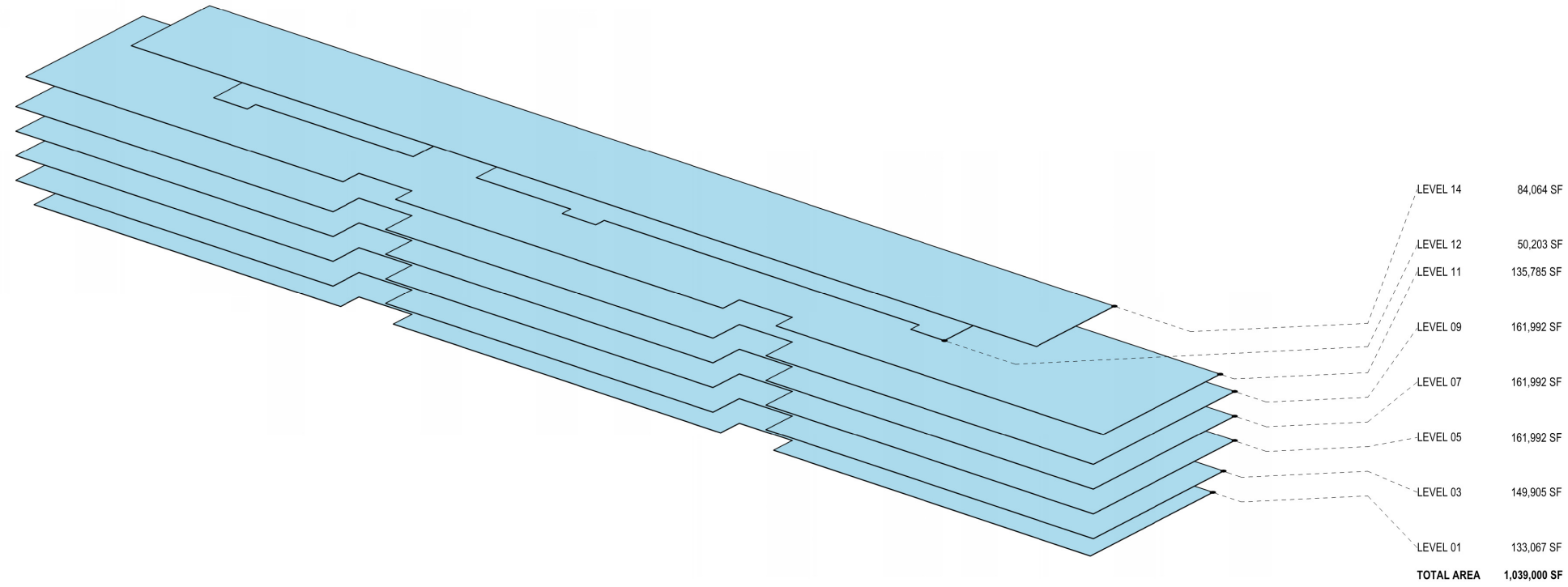
# BLOCK 10



BLOCK 10	RESIDENTIAL			TOTAL RESIDENTIAL AREA	TOTAL OFFICE AREA	TOTAL RETAIL AREA	TOTAL FLOOR AREA
	UNIT AREA*	AMENITY AREA	PARKING AREA				
LEVEL 15 TO 23 (TOTAL 9 FLOORS)	47,961 SF			47,961 SF			47,961 SF
LEVEL 14	14,653 SF	2,464 SF		17,117 SF			17,117 SF
LEVEL 13	21,671 SF			21,671 SF			21,671 SF
LEVEL 12	12,878 SF			12,878 SF			12,878 SF
LEVEL 11	9,069 SF			9,069 SF			9,069 SF
LEVEL 10	28,828 SF	25,244 SF		54,072 SF			54,072 SF
LEVEL 09	30,507 SF	6,819 SF	18,707 SF	56,033 SF			56,033 SF
LEVEL 08	32,188 SF	6,819 SF	18,707 SF	57,714 SF			57,714 SF
LEVEL 07	32,188 SF	6,819 SF	18,707 SF	57,714 SF			57,714 SF
LEVEL 06	32,188 SF	5,179 SF	20,312 SF	57,679 SF			57,679 SF
LEVEL 05	32,188 SF	4,140 SF	21,350 SF	57,678 SF			57,678 SF
LEVEL 04	32,188 SF	4,140 SF	21,350 SF	57,678 SF			57,678 SF
LEVEL 03	28,828 SF	4,140 SF	21,350 SF	54,318 SF			54,318 SF
LEVEL 02	18,039 SF	3,289 SF	20,033 SF	41,361 SF			41,361 SF
LEVEL 01	20,534 SF	11,138 SF	19,385 SF	51,057 SF			51,057 SF
<b>TOTAL BLOCK AREA</b>	<b>393,908 SF</b>	<b>80,191 SF</b>	<b>179,901 SF</b>	<b>654,000 SF</b>			<b>654,000 SF</b>

NOTE\* : UNIT AREA INCLUDES UNITS, CORES, CORRIDORS & LOBBIES.

**BLOCK 11**



BLOCK 11	RESIDENTIAL			TOTAL RESIDENTIAL AREA	TOTAL OFFICE AREA	TOTAL RETAIL AREA	TOTAL FLOOR AREA
	UNIT AREA*	AMENITY AREA	PARKING AREA				
LEVEL 15 TO 23 (TOTAL 9 FLOORS)							
LEVEL 14					84,064 SF		84,064 SF
LEVEL 13							
LEVEL 12					50,203 SF		50,203 SF
LEVEL 11					135,785 SF		135,785 SF
LEVEL 10							
LEVEL 09					161,992 SF		161,992 SF
LEVEL 08							
LEVEL 07					161,992 SF		161,992 SF
LEVEL 06							
LEVEL 05					161,992 SF		161,992 SF
LEVEL 04							
LEVEL 03					149,905 SF		149,905 SF
LEVEL 02							
LEVEL 01					133,067 SF		133,067 SF
<b>TOTAL BLOCK AREA</b>					<b>1,039,000 SF</b>		<b>1,039,000 SF</b>

NOTE\* : UNIT AREA INCLUDES UNITS, CORES, CORRIDORS & LOBBIES.

**Exhibit B: Analysis of Cost Reductions  
Associated with Reduced Retail**



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**To:** Valco Property Owner, LLC  
**Attn:** Reed Moulds, Managing Director  
**From:** The Concord Group  
**Date:** June 1<sup>st</sup>, 2018  
**Re:** Analysis of Cost Reductions Associated with Reduced Retail in Valco Town Center Project

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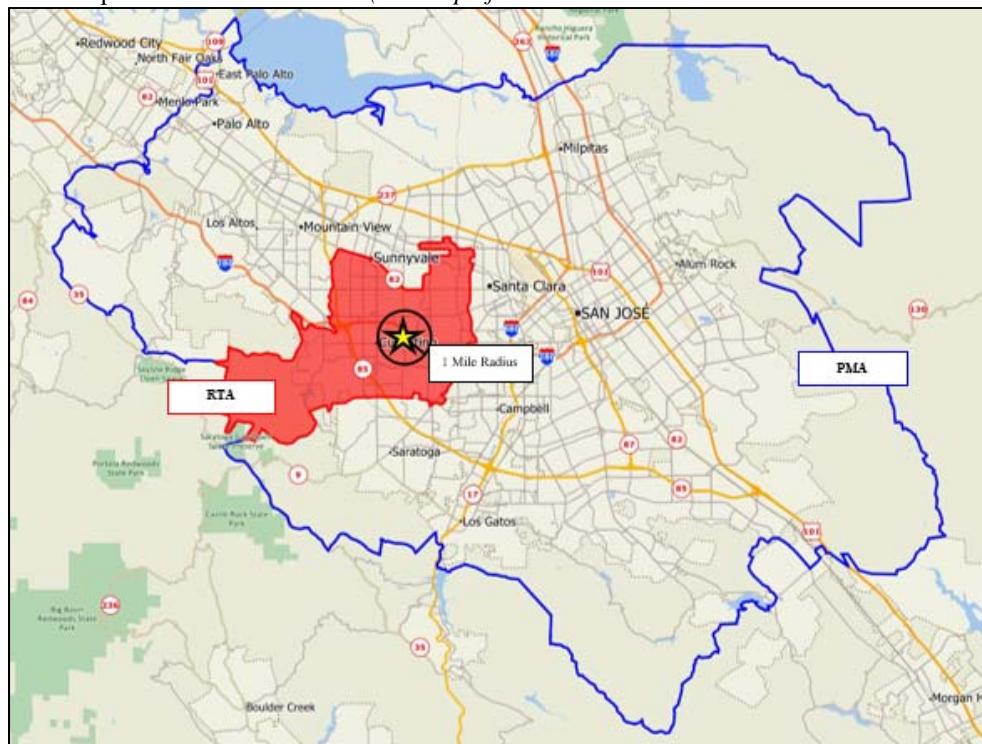
Valco Property Owner, LLC (“VPO”) is pursuing the redevelopment of the Valco Shopping Center in Cupertino, California (the “Site”) and on March 27<sup>th</sup> of this year submitted a mixed-use project known as “Valco Town Center”. As part of that application, VPO has requested a “concession” under the State Density Bonus Law to allow the project to include 400,000 square feet of retail, rather than the normally required amount of 600,000 square feet. In order to qualify under the law, a concession must result in identifiable and actual cost reductions. The purposes of this report is to document the cost reductions that will be achieved by building 400,000 square feet of retail instead of 600,000 square feet. Our analysis was focused on:

1. Identifying the ideal, market-driven scale of retail development on the site, and;
2. Comparing key metrics regarding costs, feasibility and market risks/opportunities of the 400,000 square feet of retail included in the Valco Town Center plan versus the 600,000 square feet of retail specified in the General Plan for the Site.

The following memorandum and technical appendix exhibits attached outline The Concord Group’s (“TCG”) findings and conclusions:

**Market Feasibility Analysis, Depth of Demand and the Changing Nature of Retail**

- *Market Areas:* For all retail product, the Retail Trade Area (“RTA”), represents the geographic source of competitive supply. For the subject property, the RTA is defined as zip codes effectively covering the City of Cupertino, parts of Sunnyvale and parts of Santa Clara. While market activity in the Primary Market Area (“PMA”), especially at key retail centers such as Westfield’s Valley Fair and Stanford Shopping Center, will influence retail demand at the Site, future potential retail tenants at the Site can expect to compete directly with other retail product within the RTA. (See map of the RTA and PMA below and in Exhibits 1 and 2)



- **Retail Market Performance:** The RTA is currently home to 223,280 people, 12MM square feet of retail space, and more than \$4 Billion of annual retail sales.
  - With ongoing strong job growth in the region, the RTA is expected to add more than 2,000 people each year through 2023
  - As a high-affluence area proximate to the cities of San Francisco and San Jose and their dynamic retail offerings, the RTA currently sees leakage of retail expenditures. Although \$6B of retail spending is done by households within the RTA, only \$4B is spent in the area. The largest leakage comes from large-format big-box or ecommerce sales categories that have been concentrated and pushed out of the RTA given the reorganization of consumer behaviors and preferences over the past several decades.
  - The RTA has seen *net* absorption of only 76,000 square feet over the past year and *negative net* absorption for seven out of the past ten years, again a symptom of retail reorganization, consolidation and ecommerce impacting the landscape.
  - At current, vacancies in the RTA sit at 12.5%, significantly higher than the 4.3% across the PMA as a whole.
  - Retail rents have grown slowly over the past decade, hitting increases of 2.1% per year.
  - See Exhibits 2 & 3 for more detail.
- **Changing Nature of Retail:** Ecommerce has created seismic shift in the retail industry. According to the Census Bureau and the US Department of Commerce, the share of all retail spending conducted online has grown from 4.1% in 2010 to 10.0% this year with further growth to 17.1% projected through 2023. In real terms, this represents a cumulative *drop* of retail space demanded by the marketplace as sales (and resulting inventories, fulfillment, etc.) move increasingly online.
  - ***Despite a growing population, the impact of this further ecommerce growth will mean a negative demand of 390,000 square feet of retail through 2023. See Exhibit 4 for more detail.***
  - Ecommerce, consolidation and eroding demand for traditional malls, shopping centers and key tenants have impacted a wide variety of retail spending categories. The result is a small list of *protected* retail spending classes/categories that offer experiential, immediate or entertainment opportunities suitable for inclusion in a 21<sup>st</sup> century retail project, most notably Food and Beverage, Health/Personal Care/Wellness/Fitness. Interestingly, these – and related – categories make up 72% of all retail spending in the region. ***These categories constitute the Site’s true target retail tenant types and shall be referred to in this report as “Key Categories”; project sizing decisions should ultimately be made based on the extent of demand from the Key Categories.***
- **Developer Reactions, Mixed Use Communities and Real World Examples:** As the built environment adjusts to the new retail reality, developers are reacting to stay ahead of the trends and build for the new world. There are clear examples in the SF Bay Area alone.
  - Not far from the Site, a large developer is pursuing the development of a large mixed use master planned community. Originally contemplating 1.1MM square feet of retail anchored by high-end department stores amongst significant office, hotel and residential space, the developer is currently reworking the retail plan to focus on Food and Beverage/Entertainment Uses and reducing the overall retail footprint by as much as 20%.
  - Macerich has recently exited the JV Agreement on Candlestick Point redevelopment. Originally planned for 635,000 square feet of large format retail, in a JV between Fivepoint and Macerich, the mall development will no longer move forward due to concerns about the macro-economic retail environment.
  - See Exhibit 5 for more detail.
- **Retail Demand Forecast:** TCG has conducted a demand/opportunity analysis for new retail in the RTA over the next 5 years, a reasonable time frame for the buildout of 100% of the retail component of the Vallco Town Center project. Demand is made up of two component parts:
  - “Clawback” of retail spending categories currently leaking to other jurisdictions given lack of contemporary product, key tenants, or 24-hour environments.
    - This analysis yields a cumulative demand for 309,000 square feet over the next five years, of which 203,000 square feet is in the Key Categories.
    - See Exhibit 8, Page 1
  - Demand resulting from new household and population growth. New people bring new spending and demand for new retail space.

- This analysis yields a cumulative demand for 320,000 square feet of retail through 2022 and 208,000 square feet in the Key Categories.
    - See Exhibit 8, Page 2
  - *All told, TCG forecasts the total demand throughout the entire RTA for the next 5 years to be 629,000 square feet of all retail types and 411,000 square feet in Key Categories.*
- *Retail Demand Capture:* Given the narrowing of likely tenant types and the surge in online spending, on the tenant side competition is and will continue to be fierce for sales in the Key Categories. Furthermore, on the landlord side, the Site will be competing with other retail developments in the RTA for this total retail and Key Category forecasted demand. Given all of this – and the real pipeline that will compete for customers across the region using similar concepts and anchors – *it is unreasonable to assume the subject property could capture 95-100% of the 629,000 square feet net new demand in the RTA for each of the next 5 years.*
- *Recommended Retail Footprint:* *TCG believes it is appropriate to assume the Site will capture between 60% and 65% of the total retail demand in the RTA over the next 5 years. Given the above factors, TCG believes the Site can absorb ±400,000 square feet of retail (approximately 63% total forecasted retail demand) during its development period and recommends no more than 400,000 square feet as the project’s retail footprint.*

**Cost Reduction, 400,000 sq. ft. vs. 600,000 sq. ft.**

- In simple terms, building less retail space in the project would significantly reduce the project’s overall costs. Construction costs for retail components within dense mixed-use residential/office over retail projects with parking currently reach upwards of \$800 per square foot *excluding land* (as recently attested to by the City of Cupertino’s economic consultant, Economic & Planning Systems, Inc.).
  - *Using a conservative \$770 per gross square foot cost, a reduction of 200,000 square feet of retail would generate a primary cost reduction of \$154,000,000.*
- However, because a 600,000 square foot retail project would exceed the projected retail demand for the Site, adjustments must be made to economic assumptions for the difficult-to-lease 200,000 retail square feet surplus. VPO would in this case have two options:
  - (1) Allow the surplus 200,000 square feet of retail to remain vacant beyond the initial 5-year development period, either until a tenant is procured or, potentially, permanently. Both scenarios would result in extraordinarily high carry costs and/or operating losses for the Project;
  - (2) Incentivize lease-up of the surplus 200,000 retail square feet (in order to avoid the significant down-time described above) by agreeing to:
    - Fund above-market cash contributions toward a tenant’s improvement of the space
    - Deliver retail spaces in “turn-key” condition, relieving the tenant from having to pay for such improvements, which are typically tenant costs
    - Pay extraordinarily large leasing commissions to brokers who procure retail tenants
    - Discount the project’s rental rates beneath typical market rates in order to attract tenants

*Both options (1) and (2) to contend with the surplus 200,000 square feet of retail would result in (i) extraordinarily high “carry” costs and operating losses and (ii) extraordinarily high lease transaction and construction costs.*

*Assuming the typical soft cost per square foot of the retail component in a typical mixed-use project is approximately \$150, TCG estimates the soft costs for the incremental 200,000 square feet of surplus retail would be at least double the typical cost, or \$300 per square foot, and that such incremental costs would be 100% unrecoverable, which is to say they will not be recovered nor will they generate any return on investment, a pure loss. As such, the 400,000 square feet retail project will result in an incremental cost reduction of approximately \$60,000,000 in soft costs.*

**Without the incremental \$60,000,000 reduction in soft costs directly resulting from the reduction in retail area from 600,000 to 400,000 square feet, the Vallico Town Center project would be infeasible.**

\* \* \* \*

This assignment was completed by Chase Eskel and Taylor Henry under the direction of Tim Cornwell. We have enjoyed working with you on this assignment and look forward to our continued involvement with your team. If you have any questions, please do not hesitate to call.



## LIST OF EXHIBITS

### RETAIL OPPORTUNITY ANALYSIS

1. Retail Regional Location
2. Retail Submarket Performance
3. Retail Macroeconomic Trends
4. Changing Nature of Retail Space
5. Changing and Retooling of Space
6. Consumer Spending Capacity
7. Retail Opportunity Gaps
8. Retail Demand
9. Selected Competitive Retail Inventory Space



EXHIBIT I-1

REGIONAL LOCATION AND SUBMARKET DELINEATION  
RETAIL TRADE AREA  
JUNE 2018

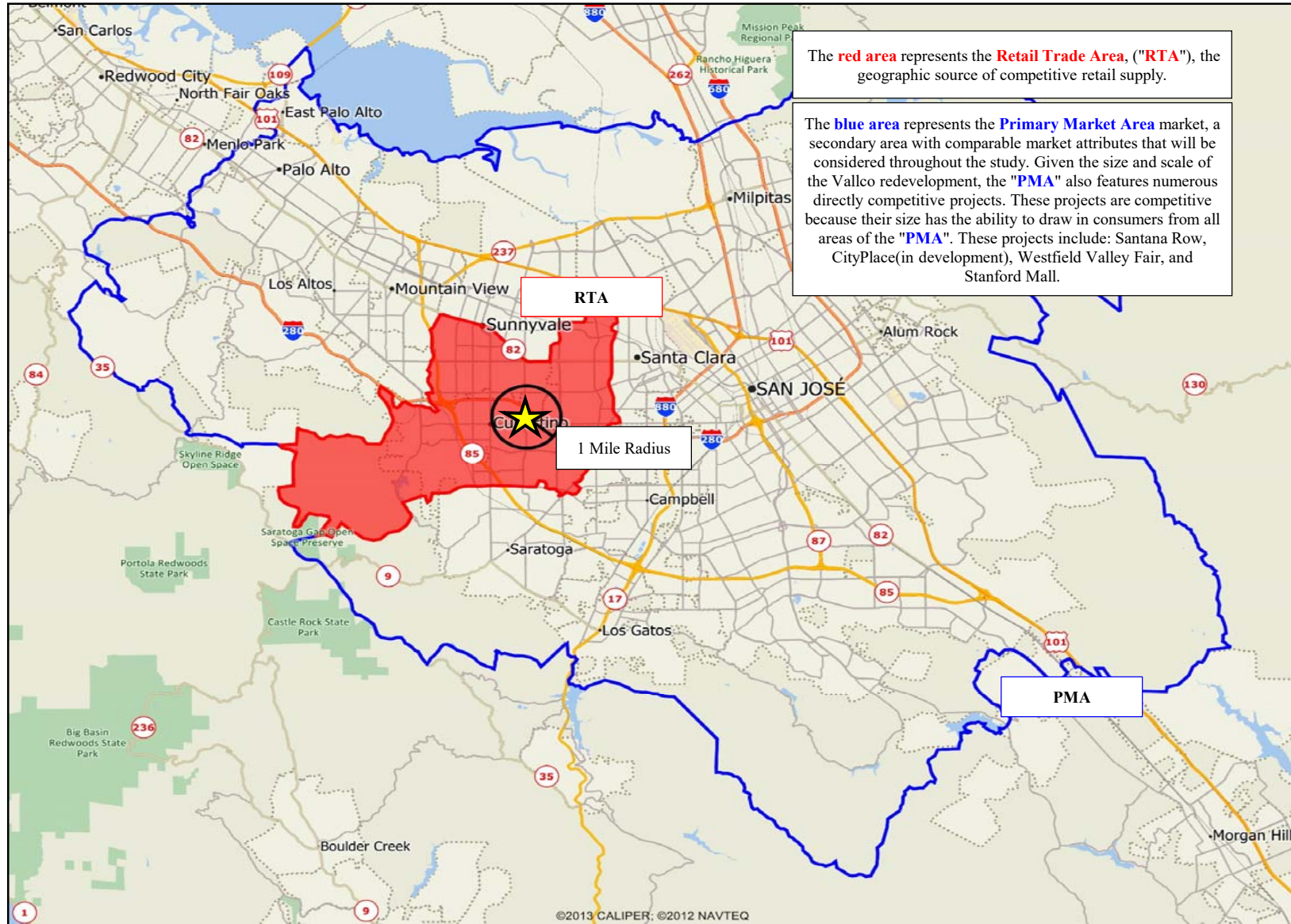


EXHIBIT I-1

REGIONAL LOCATION AND SUBMARKET DELINEATION  
RETAIL TRADE AREA  
JUNE 2018

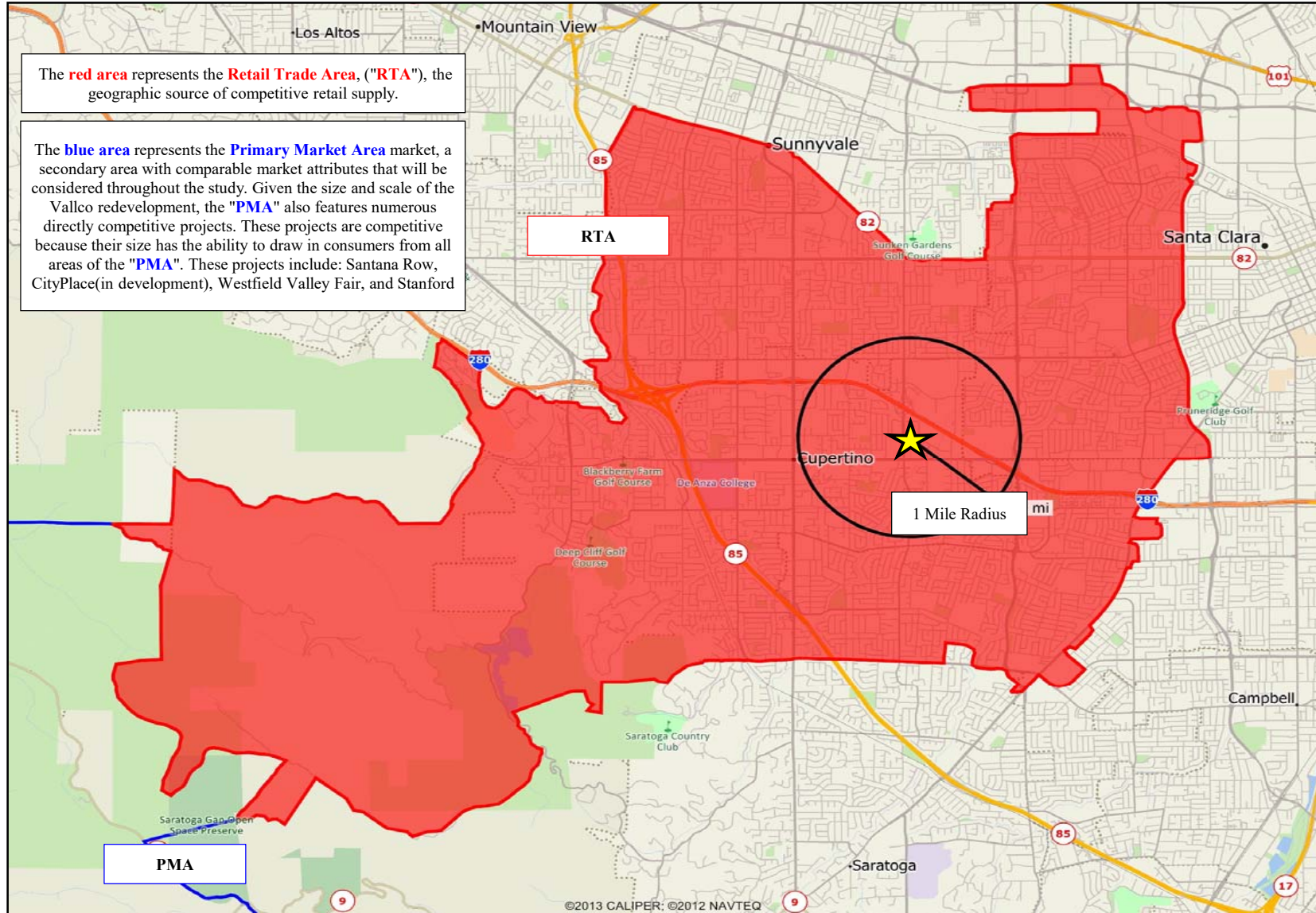


EXHIBIT I-2

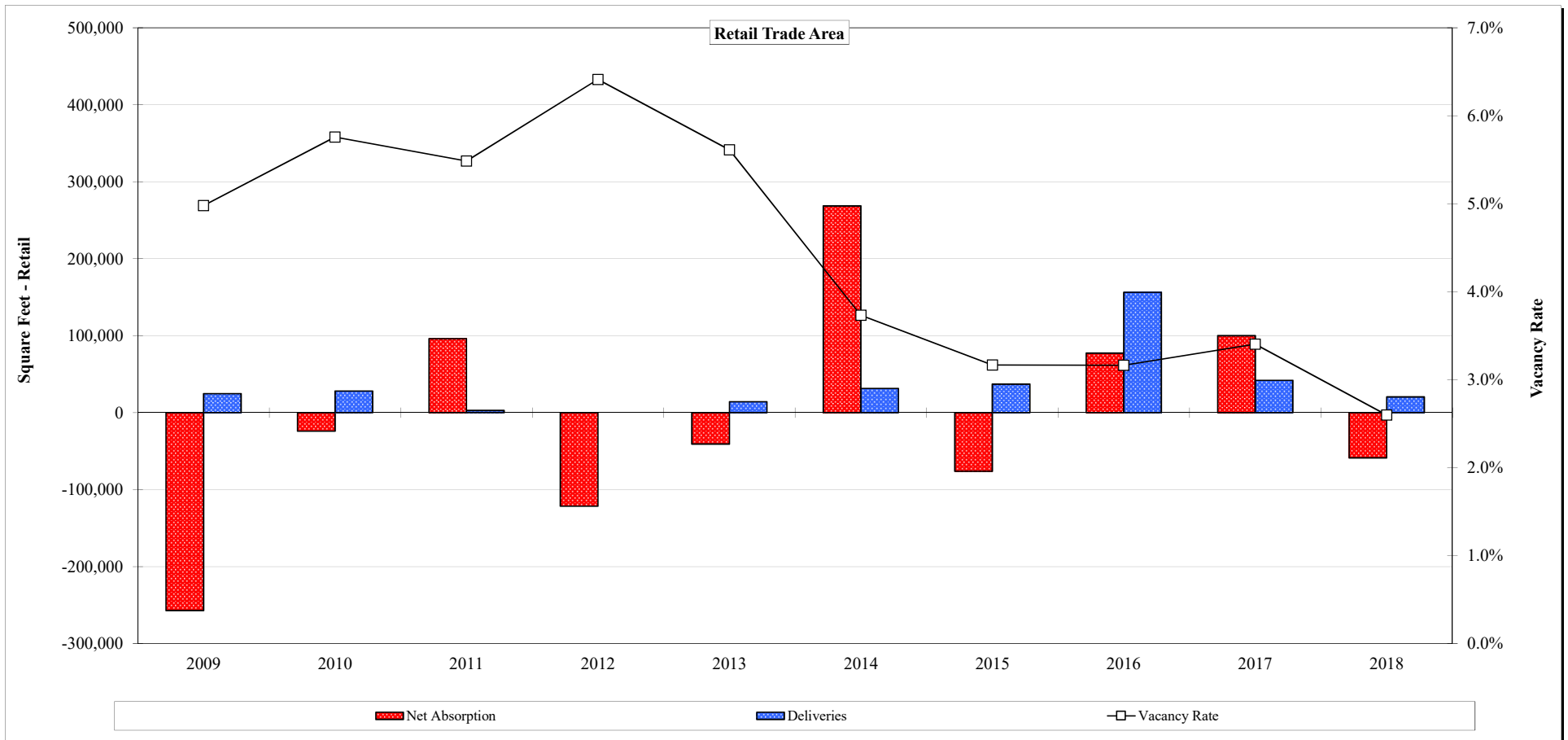
RETAIL SUBMARKET PERFORMANCE  
PRIMARY MARKET AREA  
JUNE 2018

Geography	1-Mile	Retail Trade Area	PMA
<b>General Information</b>			
Population ('18)	24,058	223,280	1,855,647
Households ('18)	8,468	80,765	634,221
% PMA	1.3%	12.7%	100.0%
Ann. Growth (#, '18-'23)	99	745	6,556
% PMA	1.5%	11.4%	100.0%
Over \$100K HH Growth	150	1,264	10,189
Under \$100K HH Growth	(51)	(518)	(3,633)
Ann. Growth (% , '18-'23)	1.1%	0.9%	1.0%
Household Size ('18)	2.84	2.76	2.93
<b>Consumer Spending Patterns ('18)</b>			
Consumer Expenditures (\$000)	\$662,491	\$6,025,190	\$42,440,532
Per Capita	\$27,537	\$26,985	\$22,871
Retail Sales (\$000)	\$494,451	\$4,019,980	\$54,221,288
Per Occupied Square Foot	\$508	\$379	\$783
Spending Inflow/ (Leakage)	(\$168,041)	(\$2,005,210)	\$11,780,756
<b>Retail Market Performance (1Q18)</b>			
Rentable Building Area (SF)	999,716	10,893,935	72,082,254
Annual Deliveries (SF)			
Last Four Quarters	0	38,500	752,461
Five-Year Average	32,689	60,344	587,743
Ten-Year Average	19,300	39,001	496,645
Annual Net Absorption (SF)			
Last Four Quarters	29,573	71,123	924,290
Five-Year Average	32,558	55,876	398,829
Ten-Year Average	15,430	(10,954)	81,054
Vacancy Rate (Available Vacant SF)	2.59%	2.60%	3.88%
Vacant Stock (SF)	25,881	283,154	2,798,262
Asking Rent (NNN)	\$49.10	\$36.18	\$35.28
Rent Growth			
Last Four Quarters	(25.5%)	2.0%	7.2%
Five-Year Average	6.2%	2.8%	4.3%
Ten-Year Average	1.9%	2.1%	1.2%

Source: Claritas; US Census; CoStar

**EXHIBIT 3**  
**RETAIL INVENTORY PERFORMANCE**  
**RETAIL TRADE AREA**  
**2009 THROUGH Q8 2018**

<b>Market Factor</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<i>Retail Trade Area</i>										
Rental Building Area	10,723,524	10,738,209	10,753,115	10,750,817	10,746,647	10,767,143	10,794,613	10,839,771	10,865,685	10,893,935
Net Absorption	(257,050)	(24,076)	96,161	(121,549)	(40,808)	268,632	(76,150)	77,427	100,092	(58,662)
Deliveries	24,693	28,203	2,855	0	14,200	31,532	37,090	156,398	42,000	20,500
Total Vacancy Rate	5.0%	5.8%	5.5%	6.4%	5.6%	3.7%	3.2%	3.2%	3.4%	2.60%
Vacant SF	534,131	618,431	589,963	689,545	603,137	401,821	342,023	343,045	369,901	283,154



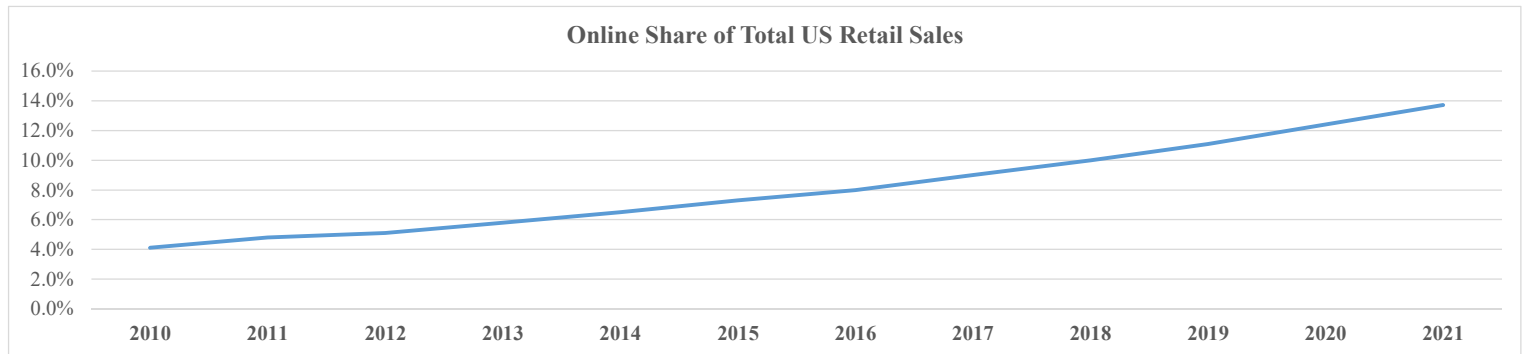
Source: CoStar

EXHIBIT 4

CHANGING NATURE OF RETAIL AND IMPACT ON LOCAL RETAIL NEED  
 RETAIL TRADE AREA  
 2010 THROUGH 2021

I. Online Share of Total Retail Spending

Year	Share	Growth
2010	4.1%	
2011	4.8%	17.1%
2012	5.1%	6.2%
2013	5.8%	13.7%
2014	6.5%	12.1%
2015	7.3%	12.3%
2016	8.0%	9.6%
2017	9.0%	12.5%
2018	10.0%	11.1%
2019	11.1%	11.0%
2020	12.4%	11.7%
2021	13.7%	10.5%
<b>Average YoY Growth</b>		<b>11.6%</b>



Source: US Census & US Dept of Commerce

II. Square Footage Impact of Annual Change

Assumptions and Inputs

New Population per Year	2,066
Trade Area Retail Spending per Person per Year	\$17,056
Total Retail Spending by Trade Area Consumers	\$3,808,209,492
Total Retail Space in Trade Area	12,172,957
Retail Spending per Square Foot	\$312.84

Sources

Nielsen/Claritas/US Census
Nielsen/Claritas/US Census
Nielsen/Claritas/US Census
Costar
Calculated

	2019	2020	2021	2022	2023	5 Yr
Population Added	2,066	2,066	2,066	2,066	2,066	10,330
x Retail Spending per Capita	\$17,056	\$17,056	\$17,056	\$17,056	\$17,056	\$17,056
= Total Retail Spending Added	\$35,237,696	\$35,237,696	\$35,237,696	\$35,237,696	\$35,237,696	\$176,188,480
Total Retail Spending (\$MM)	\$3,843	\$3,879	\$3,914	\$3,949	\$3,984	\$19,570
Online Share of Retail Spending	11.1%	12.4%	13.7%	15.3%	17.1%	13.9%
Online Spending (\$MM)	\$427	\$481	\$536	\$604	\$680	\$2,728
Incremental Online Spending	\$45,801,689	\$54,334,288	\$55,250,468	\$67,696,345	\$76,188,877	\$299,271,666
<b>Resulting Brick &amp; Mortar Spending</b>	<b>(\$10,563,993)</b>	<b>(\$19,096,592)</b>	<b>(\$20,012,772)</b>	<b>(\$32,458,649)</b>	<b>(\$40,951,181)</b>	<b>(\$123,083,186)</b>
<b>Resulting SqFt Impact</b>	<b>(33,768)</b>	<b>(61,042)</b>	<b>(63,971)</b>	<b>(103,754)</b>	<b>(130,901)</b>	<b>(393,436)</b>

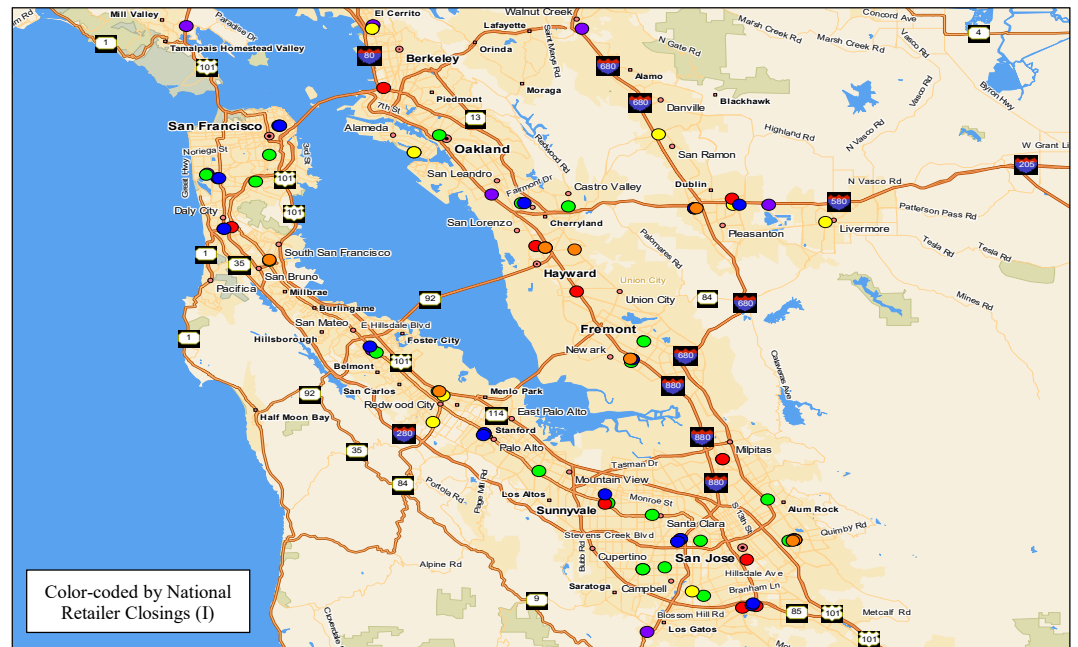
EXHIBIT 5

CLOSINGS AND RETOOLING OF RETAIL PLANS  
SAN FRANCISCO BAY AREA, CALIFORNIA  
JUNE 2018

I. Major Retail Anchor Closings

Retailers	National Closings		Total
	2017	2018	
▪ Radioshack	1470	--	1,470
▪ Toys'R'Us	--	735	735
▪ Payless	700	--	700
▪ Sears/Kmart	358	166	524
▪ Gymboree	330	102	432
▪ Macy's	100	11	111
▪ Walgreen's Rite Aid	--	600	600
▪ Ann Taylor/Dress Barn	70	500	570
▪ Rue21	400	--	400
▪ Gap Inc.	70	200	270
▪ The Limited	250	--	250
▪ Best Buy	250	--	250
▪ Mattress Firm	--	200	200
▪ J.C. Penney	138	--	138
	<b>4,136</b>	<b>2,514</b>	<b>6,650</b>

II. Map of Retailers at Risk



III. Changing Large Scale Development Plans

- Westfield Valley Fair Mall is currently undergoing a \$1.1 billion expansion project adding 685k sf to the existing 1.5M sf. The expansion is said to focus specifically on adding more F&B and on upscale distinct retailers that pull customers from a wider radius. Already underway, this project will draw in customers who otherwise wouldn't have traveled to the mall. This strategy targets consumers in our "Key Categories" which will compete directly with the Vallecito redevelopment.
- Lennar's Candlestick Point development has suspended development amid rising concerns in the retail market. Macerich and Lennar partnered on the development of a 635k sf mall in the master-planned community in San Francisco. Macerich is now leaving the mall joint venture over concerns of the retail market. Macerich has also been selling off some of their retail assets as the market has struggled, indicating macroeconomic weakness on large-scale retail formats.



**EXHIBIT 6**

**CONSUMER SPENDING CAPACITY  
RETAIL TRADE AREA  
JUNE 2018**

		<u>2018 Population</u>				
		PMA	1,855,647			
		Retail Trade Area	223,280			
		1-Mile Radius	24,058			
<u>Spending Category</u>	<u>Target Market</u>		<u>Consumer Spending Capacity</u>			
	<u>Radius</u>	<u>Pop.</u>	<u>Total</u>	<u>Per Cap.</u>	<u>Share</u>	
<b>GAFO (1)</b>						
Department Stores	Retail Trade Area	223,280	\$188,426,415	\$844	4.9%	
Furniture	Retail Trade Area	223,280	\$134,636,183	\$603	3.5%	
Sporting Goods/Hobby	Retail Trade Area	223,280	\$91,035,366	\$408	2.4%	
Books & Music	Retail Trade Area	223,280	\$21,204,309	\$95	0.6%	
Office Supplies, Gift Stores	Retail Trade Area	223,280	\$35,560,260	\$159	0.9%	
Electronics/Appliances	Retail Trade Area	223,280	\$120,290,505	\$539	3.2%	
Clothing & Accessories	Retail Trade Area	223,280	\$358,688,040	\$1,606	9.4%	
Other General Merchandise	Retail Trade Area	223,280	\$527,471,281	\$2,362	13.9%	
<b>GAFO Total</b>	<b>Retail Trade Area</b>	<b>223,280</b>	<b>\$1,477,312,359</b>	<b>\$6,616</b>	<b>38.8%</b>	
<b>Non-GAFO</b>						
Eating & Drinking Places	Retail Trade Area	223,280	\$833,202,953	\$3,732	21.9%	
Misc. Stores	Retail Trade Area	223,280	\$92,887,134	\$416	2.4%	
Health & Personal Care	Retail Trade Area	223,280	\$302,092,003	\$1,353	7.9%	
Building/Garden Materials	Retail Trade Area	223,280	\$385,030,957	\$1,724	10.1%	
Food & Beverage	Retail Trade Area	223,280	\$717,684,086	\$3,214	18.8%	
<b>Non-GAFO Total</b>	<b>Retail Trade Area</b>	<b>223,280</b>	<b>\$2,330,897,133</b>	<b>\$10,439</b>	<b>61.2%</b>	
<b>Total Excluding Vehicle/Gas/Non-Store Key Categories (New Format Retail)</b>	<b>Retail Trade Area</b>	<b>223,280</b>	<b>\$3,808,209,492</b>	<b>\$17,056</b>	<b>100.0%</b>	
					<b>71.9%</b>	
<b>Motor Vehicle/Gas/Non-Store</b>						
Motor Vehicle	Retail Trade Area	223,280	\$1,117,864,280	\$5,007		
Gas Stations	Retail Trade Area	223,280	\$387,891,494	\$1,737		
Other Non-Store Retailers	Retail Trade Area	223,280	\$711,224,924	\$3,185		
<b>Motor Vehicle/Gas/Non-Store Total</b>	<b>Retail Trade Area</b>	<b>223,280</b>	<b>\$2,216,980,698</b>	<b>\$9,929</b>		
<b>Total</b>	<b>Retail Trade Area</b>	<b>223,280</b>	<b>\$6,025,190,190</b>	<b>\$26,985</b>		

Source: Claritas; TCG

(1) GAFO = General Merchandise, Apparel, Furniture, and Other

EXHIBIT 7

RETAIL OPPORTUNITY GAPS  
RETAIL TRADE AREA  
JUNE 2018

Spending Category	2018 Population		Consumer Spending			
			Consumer Demand	Actual Sales	Retail Opportunity Gap	
	Radius	Pop.		\$	%	
<b>2018 Population</b>						
PMA		1,855,647				
Retail Trade Area		223,280				
1-Mile Radius		24,058				
<b>Consumer Spending</b>						
<b>GAFO (1)</b>						
Department Stores	Retail Trade Area	223,280	\$188,426,415	\$83,539,406	\$104,887,009	55.7%
Furniture	Retail Trade Area	223,280	\$134,636,183	\$30,807,637	\$103,828,546	77.1%
Sporting Goods/Hobby	Retail Trade Area	223,280	\$91,035,366	\$31,565,669	\$59,469,697	65.3%
Books & Music	Retail Trade Area	223,280	\$21,204,309	\$12,603,262	\$8,601,047	40.6%
Office Supplies, Gift Stores	Retail Trade Area	223,280	\$35,560,260	\$7,093,763	\$28,466,497	80.1%
Electronics/Appliances	Retail Trade Area	223,280	\$120,290,505	\$228,267,785	(\$107,977,280)	(89.8%)
Clothing & Accessories	Retail Trade Area	223,280	\$358,688,040	\$81,567,142	\$277,120,898	77.3%
Other General Merchandise	Retail Trade Area	223,280	\$527,471,281	\$67,063,241	\$460,408,040	87.3%
<b>GAFO Total</b>	<b>Retail Trade Area</b>	<b>223,280</b>	<b>\$1,477,312,359</b>	<b>\$542,507,905</b>	<b>\$934,804,454</b>	<b>63.3%</b>
<b>Non-GAFO</b>						
Eating & Drinking Places	Retail Trade Area	223,280	\$833,202,953	\$602,732,216	\$230,470,737	27.7%
Misc. Stores	Retail Trade Area	223,280	\$92,887,134	\$19,559,348	\$73,327,786	78.9%
Health & Personal Care	Retail Trade Area	223,280	\$302,092,003	\$152,229,820	\$149,862,183	49.6%
Building/Garden Materials	Retail Trade Area	223,280	\$385,030,957	\$135,582,463	\$249,448,494	64.8%
Food & Beverage	Retail Trade Area	223,280	\$717,684,086	\$488,153,882	\$229,530,204	32.0%
<b>Non-GAFO Total</b>	<b>Retail Trade Area</b>	<b>223,280</b>	<b>\$2,330,897,133</b>	<b>\$1,398,257,729</b>	<b>\$932,639,404</b>	<b>40.0%</b>
<b>Total Excluding Vehicle/Gas/Non-Store Outflow Categories</b>	<b>Retail Trade Area</b>	<b>223,280</b>	<b>\$3,808,209,492</b>	<b>\$1,940,765,634</b>	<b>\$1,867,443,858</b>	<b>49.0%</b>
			<b>\$3,687,918,987</b>	<b>\$1,712,497,849</b>	<b>\$1,975,421,138</b>	<b>53.6%</b>
<b>Motor Vehicle/Gas/Non-Store</b>						
Motor Vehicle	Retail Trade Area	223,280	\$1,117,864,280	\$1,574,453,637	(\$456,589,357)	(40.8%)
Gas Stations	Retail Trade Area	223,280	\$387,891,494	\$173,202,195	\$214,689,299	55.3%
Other Non-Store Retailers	Retail Trade Area	223,280	\$711,224,924	\$331,558,607	\$379,666,317	53.4%
<b>Motor Vehicle/Gas/Non-Store Total</b>	<b>Retail Trade Area</b>	<b>223,280</b>	<b>\$2,216,980,698</b>	<b>\$2,079,214,439</b>	<b>\$137,766,259</b>	<b>6.2%</b>
<b>Total</b>	<b>Retail Trade Area</b>	<b>223,280</b>	<b>\$6,025,190,190</b>	<b>\$4,019,980,073</b>	<b>\$2,005,210,117</b>	<b>33.3%</b>

Source: Claritas; TCG

(1) GAFO = General Merchandise, Apparel, Furniture, and Other



EXHIBIT 8

ESTIMATED RETAIL DEMAND  
RETAIL TRADE AREA  
2018 THROUGH 2023

I. Consumer Spending Opportunity Gap Demand Potential

Spending Category	Consumer Spending			Expected Sales Per SF (2)	Current Retail Gap	Unfulfilled Retail Space @ \$550/SF	Future Potential		
	Consumer Demand	Actual Sales	Sales/ Demand				Capture	New SF	
<b>GAFO (1)</b>									
Department Stores	\$188,426,415	\$83,539,406	44.3%		\$104,887,009	190,704	10.0%	19,070	
Furniture	\$134,636,183	\$30,807,637	22.9%		\$103,828,546	188,779	10.0%	18,878	
Sporting Goods/Hobby	\$91,035,366	\$31,565,669	34.7%		\$59,469,697	108,127	10.0%	10,813	
Books & Music	\$21,204,309	\$12,603,262	59.4%		\$8,601,047	15,638	10.0%	1,564	
Office Supplies, Gift Stores	\$35,560,260	\$7,093,763	19.9%		\$28,466,497	51,757	---Not Compatible---		
Electronics/Appliances	\$120,290,505	\$228,267,785	189.8%		(\$107,977,280)	0	---Not Compatible---		
Clothing & Accessories	\$358,688,040	\$81,567,142	22.7%		\$277,120,898	503,856	10.0%	50,386	50,386
Other General Merchandise	\$527,471,281	\$67,063,241	12.7%		\$460,408,040	837,106	10.0%	83,711	41,855
<b>GAFO Total</b>	<b>\$1,477,312,359</b>	<b>\$542,507,905</b>	<b>36.7%</b>		<b>\$934,804,454</b>	<b>1,895,967</b>	<b>9.7%</b>	<b>184,421</b>	
<b>Non-GAFO</b>									
Eating & Drinking Places	\$833,202,953	\$602,732,216	72.3%		\$230,470,737	419,038	10.0%	41,904	41,904
Misc. Stores	\$92,887,134	\$19,559,348	21.1%		\$73,327,786	133,323	10.0%	13,332	
Health & Personal Care	\$302,092,003	\$152,229,820	50.4%		\$149,862,183	272,477	10.0%	27,248	27,248
Building/Garden Materials	\$385,030,957	\$135,582,463	35.2%		\$249,448,494	453,543	---Not Compatible---		
Food & Beverage	\$717,684,086	\$488,153,882	68.0%		\$229,530,204	417,328	10.0%	41,733	41,733
<b>Non-GAFO Total</b>	<b>\$2,330,897,133</b>	<b>\$1,398,257,729</b>	<b>60.0%</b>		<b>\$932,639,404</b>	<b>1,695,708</b>	<b>7.3%</b>	<b>124,217</b>	
<b>Motor Vehicle/Gas/Non-Store</b>									
Motor Vehicle	\$1,117,864,280	\$1,574,453,637	140.8%		(\$456,589,357)	0	---Not Compatible---		
Gas Stations	\$387,891,494	\$173,202,195	44.7%		\$214,689,299	390,344	---Not Compatible---		
Other Non-Store Retailers	\$711,224,924	\$331,558,607	46.6%		\$379,666,317	690,302	---Not Compatible---		
<b>Motor Vehicle/Gas/Non-Store Total</b>	<b>\$2,216,980,698</b>	<b>\$2,079,214,439</b>	<b>93.8%</b>		<b>\$137,766,259</b>	<b>1,080,647</b>	<b>0.0%</b>	<b>0</b>	
<b>Total (All Spending Categories)</b>	<b>\$6,025,190,190</b>	<b>\$4,019,980,073</b>	<b>66.7%</b>	<b>\$550</b>	<b>\$2,005,210,117</b>	<b>4,672,321</b>	<b>6.6%</b>	<b>308,637</b>	
<b>Excluding Vehicle/Gas/Non-Store</b>	<b>\$3,808,209,492</b>	<b>\$1,940,765,634</b>	<b>51.0%</b>		<b>\$1,867,443,858</b>	<b>3,591,675</b>	<b>8.6%</b>	<b>308,637</b>	
<b>Key Categories (New Format Retail)</b>									<b>203,125</b>

66%

Note: In addition to the demand derived from spending gaps within the Retail Trade Area, an additional portion of demand will come from new population growth, as shown on the next page.

**New Format Retail**

As traditional retail faces accelerating headwinds and the rise of online shopping continues, brick and mortar retail spaces increasingly turns towards experiential excursions focused on food and entertainment. These spending categories represent approximately 2/3 of the potential spending clawback in the Trade Area.

Source: Claritas; TCG

(1) GAFO = General Merchandise, Apparel, Furniture, and Other

(2) High-end retail realizes a higher Sales per Foot. Thus \$550 being a more appropriate figure than the traditional \$300-\$350 per foot.

EXHIBIT 8

ESTIMATED RETAIL DEMAND  
RETAIL TRADE AREA  
2018 THROUGH 2023

II. Consumer Spending Opportunity Gap Demand Potential

Market Factor	Per Capita Spending		New Resident Generated Spending					5-Yr Total
	\$	%	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	
<b>New Population Growth</b>			2,066	2,066	2,066	2,066	2,066	10,329
<b>Spending Categories</b>								
Department Stores	\$844	3.1%	\$1,743,333	\$1,743,333	\$1,743,333	\$1,743,333	\$1,743,333	\$8,716,663
Furniture	\$603	2.2%	\$1,245,662	\$1,245,662	\$1,245,662	\$1,245,662	\$1,245,662	\$6,228,310
Sporting Goods/Hobby	\$408	1.5%	\$842,265	\$842,265	\$842,265	\$842,265	\$842,265	\$4,211,323
Books & Music	\$95	0.4%	\$196,184	\$196,184	\$196,184	\$196,184	\$196,184	\$980,918
Office Supplies, Gift Stores	\$159	0.6%	\$329,006	\$329,006	\$329,006	\$329,006	\$329,006	\$1,645,028
Electronics/Appliances	\$539	2.0%	\$1,112,935	\$1,112,935	\$1,112,935	\$1,112,935	\$1,112,935	\$5,564,675
Clothing & Accessories	\$1,606	6.0%	\$3,318,603	\$3,318,603	\$3,318,603	\$3,318,603	\$3,318,603	\$16,593,017
Other General Merchandise	\$2,362	8.8%	\$4,880,196	\$4,880,196	\$4,880,196	\$4,880,196	\$4,880,196	\$24,400,980
Eating & Drinking Places	\$3,732	13.8%	\$7,708,844	\$7,708,844	\$7,708,844	\$7,708,844	\$7,708,844	\$38,544,219
Misc. Stores	\$416	1.5%	\$859,397	\$859,397	\$859,397	\$859,397	\$859,397	\$4,296,987
Health & Personal Care	\$1,353	5.0%	\$2,794,973	\$2,794,973	\$2,794,973	\$2,794,973	\$2,794,973	\$13,974,867
Building/Garden Materials	\$1,724	6.4%	\$3,562,330	\$3,562,330	\$3,562,330	\$3,562,330	\$3,562,330	\$17,811,648
Food & Beverage	\$3,214	11.9%	\$6,640,056	\$6,640,056	\$6,640,056	\$6,640,056	\$6,640,056	\$33,200,282
Motor Vehicle	\$5,007	18.6%	\$10,342,548	\$10,342,548	\$10,342,548	\$10,342,548	\$10,342,548	\$51,712,738
Gas Stations	\$1,737	6.4%	\$3,588,795	\$3,588,795	\$3,588,795	\$3,588,795	\$3,588,795	\$17,943,977
Other Non-Store Retailers	\$3,185	11.8%	\$6,580,296	\$6,580,296	\$6,580,296	\$6,580,296	\$6,580,296	\$32,901,479
<b>Total (All Spending Categories)</b>	<b>\$26,985</b>	<b>100.0%</b>	<b>\$55,745,422</b>	<b>\$55,745,422</b>	<b>\$55,745,422</b>	<b>\$55,745,422</b>	<b>\$55,745,422</b>	<b>\$278,727,112</b>
<b>Excluding Vehicle/Gas/Non-Store</b>	<b>\$17,056</b>	<b>63.2%</b>	<b>\$35,233,783</b>	<b>\$35,233,783</b>	<b>\$35,233,783</b>	<b>\$35,233,783</b>	<b>\$35,233,783</b>	<b>\$176,168,917</b>
<b>Key Categories (New Format Retail)</b>			<b>\$22,902,575</b>	<b>\$22,902,575</b>	<b>\$22,902,575</b>	<b>\$22,902,575</b>	<b>\$22,902,575</b>	<b>\$114,512,875</b>

Retail Sales per Square Foot \$550 \$550 \$550 \$550 \$550 \$550

<b>Total Demand for Retail Space (SF)</b>	<b>64,061</b>	<b>64,061</b>	<b>64,061</b>	<b>64,061</b>	<b>64,061</b>	<b>320,307</b>
<b>Key Categories (New Format Retail)</b>	<b>41,641</b>	<b>41,641</b>	<b>41,641</b>	<b>41,641</b>	<b>41,641</b>	<b>208,205</b>

III. Total Demand

Total 5-Year Demand from Opportunity Gaps:	308,637	Annualized assuming 5-year absorption flow of current leakage
Total 5-Year Demand from New Population Growth:	320,307	
<b>Total 5-Year Demand:</b>	<b>628,945</b>	<b>125,789</b>

IV. Total Demand (Key Categories)

Total 5-Year Demand from Opportunity Gaps:	203,125	Annualized assuming 5-year absorption flow of current leakage
Total 5-Year Demand from New Population Growth:	208,205	
<b>Total 5-Year Demand:</b>	<b>411,330</b>	<b>82,266</b>

**EXHIBIT 9**  
**SELECTED COMPETITIVE RETAIL INVENTORY SPACE**  
**RETAIL TRADE AREA**  
**JUNE 2018**

Available													
Building Name	Address	City	Year			Type	Subtype	Typical Floor	RBA			Ann. Lease Rate	
			Built	Reno.	Elev.				Total	Avail.	Occ.	Avg.	Type
<b>Retail Trade Area</b>													
696 W El Camino Real	696 W El Camino Real	Sunnyvale	2018	--	1s	General Retail	Freestanding	9,836	9,836	9,836	0.0%	\$72.00	NNN
Bldg B (108-116 E El Camino Real)	108-116 E El Camino Real	Sunnyvale	2010	--	1s	General Retail (Community Center)	Freestanding	8,339	8,339	1,000	88.0%	69.00	NNN
Homestead Center (20916 Homestead Rd)	20916 Homestead Rd	Cupertino	1984	--	1s	General Retail (Neighborhood Center)	Freestanding	7,200	7,200	1,200	83.3%	66.00	NNN
10129-10191 S De Anza Blvd	10129-10191 S De Anza Blvd	Cupertino	1952	--	1s	General Retail	Freestanding	20,527	20,527	975	95.3%	54.00	NNN
Saratoga Plaza (375 Saratoga Ave)	375 Saratoga Ave	San Jose	1970	--	1s	General Retail (Neighborhood Center)	Restaurant	38,000	38,000	1,080	97.2%	54.00	NNN
Loree Center (19050-19088 Stevens Creek Blvd)	19050-19088 Stevens Creek Blvd	Cupertino	1951	--	1s	General Retail (Strip Center)		20,000	20,000	6,400	68.0%	54.00	NNN
Biltmore (20030-20080 Stevens Creek Blvd)	20030-20080 Stevens Creek Blvd	Cupertino	2015	--	1s	General Retail		7,045	7,045	1,271	82.0%	54.00	NNN
751-799 E El Camino Real	751-799 E El Camino Real	Sunnyvale	1993	--	2s	General Retail (Community Center)	Freestanding	172,613	172,613	7,066	95.9%	51.00	NNN
798-820 E El Camino Real	798-820 E El Camino Real	Sunnyvale	2008	--	1s	General Retail (Strip Center)		5,720	5,720	1,800	68.5%	51.00	NNN
V Center (1191-1195 S De Anza Blvd)	1191-1195 S De Anza Blvd	San Jose	2017	--	2s	General Retail	Freestanding	13,000	13,000	3,824	70.6%	48.00	NNN
1375 S De Anza Blvd	1375 S De Anza Blvd	Cupertino	1985	2006	1s	General Retail	Freestanding	6,222	6,222	6,222	0.0%	48.00	NNN
1253 W El Camino Real	1253 W El Camino Real	Sunnyvale	1980	--	1s	General Retail (Strip Center)	Restaurant	8,979	8,979	2,262	74.8%	48.00	NNN
717 E El Camino Real	717 E El Camino Real	Sunnyvale	1985	--	1s	General Retail (Strip Center)		20,000	20,000	1,910	90.5%	46.20	NNN
510 E El Camino Real	510 E El Camino Real	Sunnyvale	1979	--	1s	General Retail (Strip Center)		12,606	12,606	2,591	79.4%	45.00	NNN
1018 W El Camino Real	1018 W El Camino Real	Sunnyvale	1958	1995	1s	General Retail	Freestanding	7,250	7,250	7,250	0.0%	45.00	NNN
Westmoor Village (1211-1291 S Mary Ave)	1211-1291 S Mary Ave	Sunnyvale	1961	--	1s	General Retail (Neighborhood Center)	Storefront	60,909	60,909	2,520	95.9%	42.00	NNN
455-489 Saratoga Ave	455-489 Saratoga Ave	San Jose	1973	--	1s	General Retail (Neighborhood Center)	Storefront	42,677	42,677	1,500	96.5%	42.00	NNN
580 South Murphy (101-103 E El Camino Real)	101-103 E El Camino Real	Sunnyvale	1965	--	1s	General Retail (Neighborhood Center)	Freestanding	24,032	24,032	1,500	93.8%	39.00	NNN
Henderson Center (1053 E El Camino Real)	1053 E El Camino Real	Sunnyvale	1968	--	1s	General Retail (Strip Center)		11,249	11,249	1,350	88.0%	37.20	NNN
740 E El Camino Real	740 E El Camino Real	Sunnyvale	1975	--	1s	General Retail	Restaurant	10,947	10,947	10,947	0.0%	36.00	NNN
Pepper Tree Plaza (1084 S De Anza Blvd)	1084 S De Anza Blvd	San Jose	1900	--	1s	General Retail (Strip Center)		11,500	11,500	3,698	67.8%	35.60	NNN
Park Lane Plaza (5152-5278 Moorpark Ave)	5152-5278 Moorpark Ave	San Jose	1968	--	1s	General Retail (Neighborhood Center)	Freestanding	70,000	70,000	4,022	94.3%	34.56	NNN
Bldg 4 & 5 (4360 Stevens Creek Blvd)	4360 Stevens Creek Blvd	San Jose	1972	--	1s	General Retail (Neighborhood Center)	Freestanding	31,981	31,981	1,360	95.7%	31.30	NNN*
130 E El Camino Real	130 E El Camino Real	Sunnyvale	1964	--	1s	General Retail (Community Center)	Freestanding	39,500	39,500	39,500	0.0%	30.00	NNN
Civic Square (802-844 W El Camino Real)	802-844 W El Camino Real	Sunnyvale	1964	2009	1s	General Retail (Neighborhood Center)	Freestanding	42,178	42,178	23,900	43.3%	30.00	NNN
Kiely Plaza (1052-1092 Kiely Blvd)	1052-1092 Kiely Blvd	Santa Clara	1974	1999	1s	General Retail (Strip Center)	Freestanding	23,766	23,766	1,655	93.0%	29.40	NNN
Moonlite Shopping Center (2610-2790 El Camino Real)	2610-2790 El Camino Real	Santa Clara	1960	1994	1s	General Retail (Community Center)	Freestanding	169,375	169,375	15,780	90.7%	28.77	NNN
1587-1595 Pomeroy Ave	1587-1595 Pomeroy Ave	Santa Clara	1964	--	1s	General Retail (Strip Center)	Freestanding	6,000	6,000	2,416	59.7%	27.00	NNN
942-948 W El Camino Real	942-948 W El Camino Real	Sunnyvale	1960	2016	1s	General Retail (Strip Center)	Freestanding	7,200	7,200	7,200	0.0%	24.92	NNN*
1080 Saratoga Ave	1080 Saratoga Ave	San Jose	1966	--	1s	General Retail (Strip Center)	Freestanding	17,380	17,380	1,178	93.2%	24.48	NNN
<b>Totals:</b>								<b>30,868</b>	<b>926,031</b>	<b>173,213</b>	<b>82.2%</b>	<b>\$38.21</b>	<b>NNN</b>

Source: CoStar

**Exhibit C: Building Block Allocation –  
Updated Table**

### Exhibit C

In creating the “Building Block Allocation” table found on page P-0101 of the plan set, some of the areas in Block 1, 6, and 11 were incorrectly attributed to the wrong block due to an excel formula error. This was simply a tabulation discrepancy and does not affect any of the design, nor does it impact the Development Summary. The total square footage for the project remains 4,700,000 square feet of residential uses, 400,000 square feet of retail, and 1,810,000 square feet of office. This updated table also clarifies the square footage and uses that will occur in the bridge area. The following is a corrected version of the Building Block Allocation table.

DEVELOPMENT SUMMARY (50% AFFORDABLE HOUSING)			
	RESIDENTIAL (GROSS SF)	RETAIL (GROSS SF)	OFFICE (GROSS SF)
TOTAL FLOOR AREA*	4,700,000	400,000	1,810,000
%	68.0%	5.8%	26.2%
* NOTE: PURSUANT TO CUPERTINO MUNICIPAL CODE SECTION 19.08.030 "FLOOR AREA"			

AREAS EXCLUDED FROM FLOOR AREA CALCULATION	
PRIVATE RESIDENTIAL OPEN SPACE (INCLUDES TERRACES, BALCONIES, AND OPEN SPACE AMENITIES)	14.9 ACRES / 652,000 SF
PUBLIC GREEN ROOF PARK SPACE	22 ACRES / 959,000 SF
UNDERGROUND STRUCTURE - WEST (PARKING, UTILITIES, INFRASTRUCTURE)	1,478,000 SF
UNDERGROUND STRUCTURE - EAST (PARKING, UTILITIES, INFRASTRUCTURE)	1,906,000 SF
* NOTE: 14 ACRES ON THE WEST SIDE AND UP TO 8 ACRES ON THE EAST SIDE, DEPENDING ON OFFICE TENANT DEMANDS.	

BUILDING BLOCK ALLOCATION		
	GROSS SF	LAND USES
BLOCK 1	327,000	RESIDENTIAL, RETAIL, PARKING
BLOCK 2	750,000	RESIDENTIAL, RETAIL, PARKING
BLOCK 3	1,380,000	RESIDENTIAL, RETAIL, PARKING
BLOCK 3A	16,000	CENTRAL PLANT + CENTRAL WASTE
BLOCK 4	700,000	RESIDENTIAL, RETAIL, PARKING
BLOCK 5	538,000	RESIDENTIAL, RETAIL, PARKING
BRIDGE*	41,000	RESIDENTIAL AMENITY
BLOCK 6	247,000	OFFICE, PARKING
BLOCK 7	282,000	OFFICE, PARKING
BLOCK 8	242,000	OFFICE, PARKING
BLOCK 9	710,000	RESIDENTIAL, PARKING
BLOCK 10	654,000	RESIDENTIAL, PARKING
BLOCK 11	1,039,000	OFFICE, PARKING