

DATE: July 28, 2014
TO: Palo Alto City Council and PTC Members
FROM: Stephen Levy
SUBJECT: Shopping, Dining and Services in Downtown

There has been considerable discussion about trends in retail development downtown in the media, on Town Square and somewhat in the Comp Plan update discussions. Neilson Buchanan has continued this discussion in the email that I am forwarding with this memo.

Introduction

I am not a retail expert nor am I a city planner. My expertise is in regional economic analysis and I am familiar with Bay Area economic and demographic trends, Plan Bay Area and the concepts of “smart growth” in these contexts.

I prepared the regional growth forecast that was the foundation for Plan Bay Area and have done similar work for four other regional planning agencies in California as well as for energy and transportation planning. I do not prepare EIRs but have recently reviewed major economic/environmental analyses related to AB 32 for the Air Resources Board and the Southern California air quality district. I serve on the technical advisory committee related to preparation of the new State Housing Element. I served on the PA infrastructure commission.

Nor am I an expert in Palo Alto data beyond what I have shared with the council and planning staff. I can guess at what the data will show but to the extent possible staff or PlaceWorks/Joanna Jansen should collect the data I discuss in the Comp Plan update.

I lived for 14 years with roommates in College Terrace and then near 101 Alma. Nancy and I lived in two homes in the near Duveneck for 28 years and we have lived downtown in a condo for the past 9 years. I have worked downtown since 1969. I have never driven a car (poor eyesight).

I have never represented a developer in a public decision process and own no property besides our condo and a week timeshare in Tahoe.

Is it just Retail or do Residents Really Mean Retail and Services?

Most people “shop” downtown for restaurants/coffee/desert places, services and traditional retail stores that sell goods.

My sense is that people mean to include services and eating/drinking places in the discussion of what they want downtown to serve people who live and /or work downtown. At least for our family once you get beyond restaurants/coffee places, Whole Foods, CVS, Walgreens and TJs (we walk—thank you Palo Alto for the Homer tunnel), most of our purchases downtown are of services.

I think we need to develop a common understanding that retail really means places that residents, workers and visitors regularly use for dining, shopping and services.

The Competitive Environment

Downtown retail in the narrow sense of shopping for goods faces a daunting competitive environment, which probably explains most of the recent trends.

Here are some trends that affect the environment for retail downtown, but much less so or not at all for many services and eating/drinking establishments.

- 1) Downtown is adjacent to a major regional shopping center. It is a good walk or short drive and has what most residents would call a full range of retail opportunities.
- 2) There is a substantially revitalized Town and Country shopping center with, again, a wide variety of smaller retail establishments sprinkled with a few services and a market (TJs) that all appear to be thriving. This competition for downtown is a relatively new occurrence and I would ask a retail expert how this changes what is possible downtown.
- 3) Both Stanford and T&C have two other competitive advantages: a) they operate under coordinated management and b) they have free onsite parking. One of the challenges of retail “planning” downtown is that we deal with individual owners, not a single management entity.
- 4) There has been a major increase in online shopping for items that folks use to get at stores. When I came home today, in our 17 unit condo there were 8 packages from Amazon and the like. I feel confident that the increase in online shopping affects the possibilities for downtown in what potential shoppers want. Again, Amazon does not deliver services, just goods.
- 5) I now get books and music on my iPad. A while back I would go to Borders but no more. I am sure many residents no longer need (or need

as many) bookstores, places to get CDs or places to rent movies in a Netflix world.

- 6) Downtown rents and land prices are expensive—very expensive and that will affect who wants to locate there.
- 7) What remains and what we use and walk to from our downtown condo include

Medical care—at PAMC and Stanford

Our dentists are downtown

Dry cleaning

Shoe repair (I also buy shoes at Footwear but this is not a frequent purchase)

Clothes alteration (for our son's wedding)

Eyeglasses and repair (Nancy walks to T&C)

Chico's

Watch repair and small purchases

Banking (I still do not do mobile banking)

Haircuts (Nancy drives to Mt. View)

The UPS store (and the post office while it lasts)

The Apple, Sprint and Verizon stores which are a mixture of goods and services

Extensive use of Whole Foods, CVS, and Walgreens for food, home supplies, prescriptions,

Lots of visits to restaurants, places to get frozen yogurt, coffee and goodies—we find lots of places that are not too expensive and mostly they are all jammed.

I am interested in what other downtown residents use in the way of shopping or services downtown.

So we are quite satisfied as residents and rarely use the car.

Who are the Principal Customers?

I don't have the data but I have to believe that the largest daytime customers are people who work downtown.

I think the customers downtown establishments (and we should) focus on are

- 1) Downtown residents
- 2) Downtown workers
- 3) Stanford students and workers

4) Visitors

It would be interesting to know the numbers in each group. Whatever the numbers I suspect the growth recently has been in downtown workers and associated visitors.

The Palo Alto residents who do not live downtown have no real need to get into the downtown retail/services discussion. They have closer better options. They do have an interest in downtown dining or perhaps going to the movies or unique places but in general for everyday shopping, downtown is not needed for them.

My observation is that many, if not most, of the new workers downtown are relatively young. I see that in the people getting off Caltrain, the people where our offices have been and the people we see in restaurants and coffee/yogurt places and observe in bars. We also see a lot of families with children downtown in the evening and where we eat.

If I were a retailer I would target these folks. I think there is a lot of nostalgia in these retail discussions, often by people who do not live or work downtown. Our favorite not here anymore places are Hobe's, Good Earth and Machismo Mouse. But we do not suffer for places to eat and if our children were still of that age, we would easily find new places (Lyfe Kitchen, Sprouts, Plutos and others) that meet our needs.

But I am reminded often that I am no longer a typical or in demand customer for many goods and services. TV networks routinely cancel shows we love but I do not pretend they are acting irrationally. My trainer had an office next to mine but we both got moved out when Palantir took over the building and offered so much that the our landlords also moved on. Life goes on and we are surviving.

What do we make of the Empty Retail Places Downtown?

I observe retail places that remain vacant for long periods. The Borders site is one. The Waterworks site is another. There are two on Bryant—the almost kosher restaurant and the restaurant site next to Monique's (vacant seemingly forever). The retail site next to Simply Be has been vacant forever. I am sure there are others. We do not walk around counting vacant sites.

I assume this means that the demand for retail space at the rents offered is not sufficient to fill these spaces.

This leads to the “you can bring a horse to water but you cannot make her drink” dilemma. These vacant spaces are all ground floor in good locations. So I suspect enforcing more ground floor retail space is not any guarantee that it will

be filled and certainly no guarantee that it will be filled by the kind of places the nostalgia folks wish for.

What's Not Coming Downtown

Big box stores, a giant cheap supermarket (nor any other places in PA with our zoning and land costs).

I am interested in hearing from folks what is missing that is realistic to expect and how that might occur through city action.

The Palo Alto Contradiction

Many of the people who speak to the PTC and council and write on Town Square are indulging in illogical thinking.

They want more retail downtown while restricting the growth of the two largest customer bases (workers and residents) and, inferentially by opposing new hotels, restricting the growth of some tourism.

Next they want more retail in a parking constrained area while opposing the growth of traffic or spending money for new parking lots and simultaneously wanting to restrict parking on neighborhood streets without as yet any offsetting investments. **I AM sympathetic to the downtown parking issues and am just pointing out that wanting the growth or retail while restricting the customer base and only solving part of the parking challenges is a bit illogical.**

Conclusions

My perspective is that downtown shopping, restaurants and services are serving the main customer bases well. I observe lots of people in Whole Foods, CVS, Walgreens, and the many restaurants and desert/coffee places we frequent and lots of people downtown in general.

There are plenty of mainstream shopping options for people who do not live or work in downtown and their voices are not much to be trusted relative to future downtown retail. My perspective in listening to the complaints is that they see retail as a way to block more office growth and not because they are injured by the transitions going on.

I am unclear what kind of planning can be done given the many uncoordinated individual property owners or where there is market failure. But expert voices on downtown retail might see other options that are within the city's powers.

Two Other Factors Worth Noting

I will write more about these but wanted here to get the ideas out.

- 1) The Comp Plan is to 2030. That means a) going beyond the current RHNA time period ending and anticipating the needs of the next eight year period which will be within the Comp Plan horizon and 2) anticipating the implications of the large demographic changes in the decade 2020-2030.
- 2) We should rethink the notion in the current alternative that seeks to locate housing within ½ mile of transit. To minimize the travel impacts of new housing it should be located close to services, dining and shopping. The main trips eliminated are non-work trips. Some residents have suggested trying to reduce school driving trips—and interesting idea.

Most people (I don't know for sure but this must be right) who take Caltrain drive, walk, bike or get dropped off but most do not live within a half mile of the stations.

On the other hand smart growth does suggest placing job sites near transit. Look at the success of the downtown Caltrain station, Stanford shuttle combination. Watch as I do who the folks are getting off the trains and where they go.

In the other hand this may be a distinction with only a slight difference in that the train stations are located near services, dining and shopping.

But once you shift from thinking housing will reduce commute trips to the concept of reducing not commute trips and associate parking, the half mile from transit is not the right criterion. For example, where Neilson and Eric live are in the right location for convenient walking trips but are not within a half mile of transit. Our place might make the ½ mile criterion but a block away might not although in terms of downtown use they are identical.