
Downtown Los Altos Economic Vitality Strategy Options

Prepared for the City of Los Altos and RRM Design Group
by Land Econ Group
March 2017

Objectives of Downtown Economics Study

- Examine Downtown strengths and challenges
- Explore strategies to increase vitality by 15 to 20 percent using measureable metrics
- Maintain Downtown's village character
- Evaluate the impact of height limits on development feasibility
- Suggest strategy options

Downtown Los Altos and Retail Uses

Retail

Legend

- Retail
- Restaurants
- Personal Services
- Office and Professional Services
- Banks
- Beauty Salons
- Residential
- Vacancies



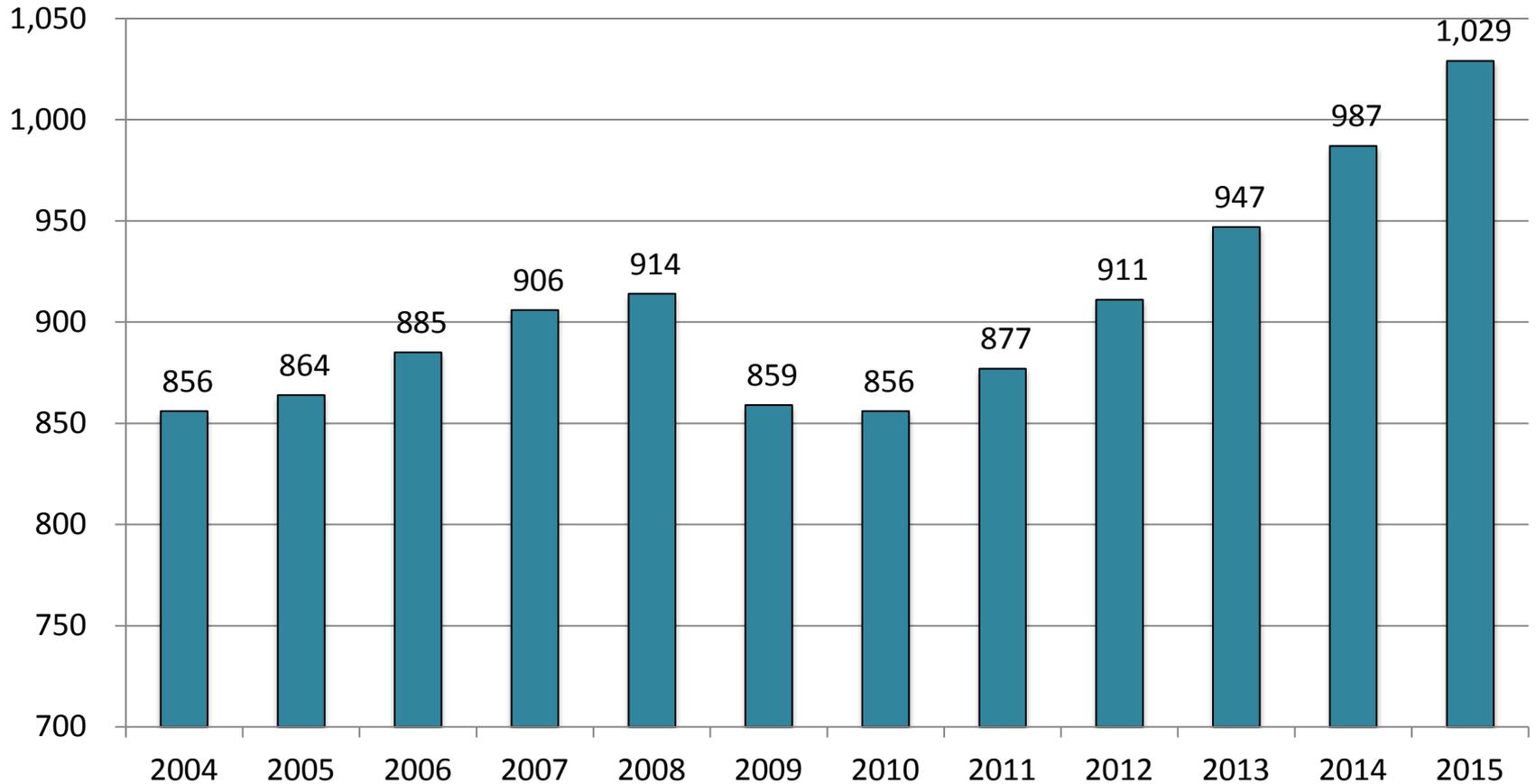
Major Downtown Strengths

- Silicon Valley economy has been booming
- Market area population is extremely affluent
- Strong demand exists for offices, housing, restaurants and hotels
- Retail sales have grown steadily since recession
- Downtown is of ideal size for a pedestrian district

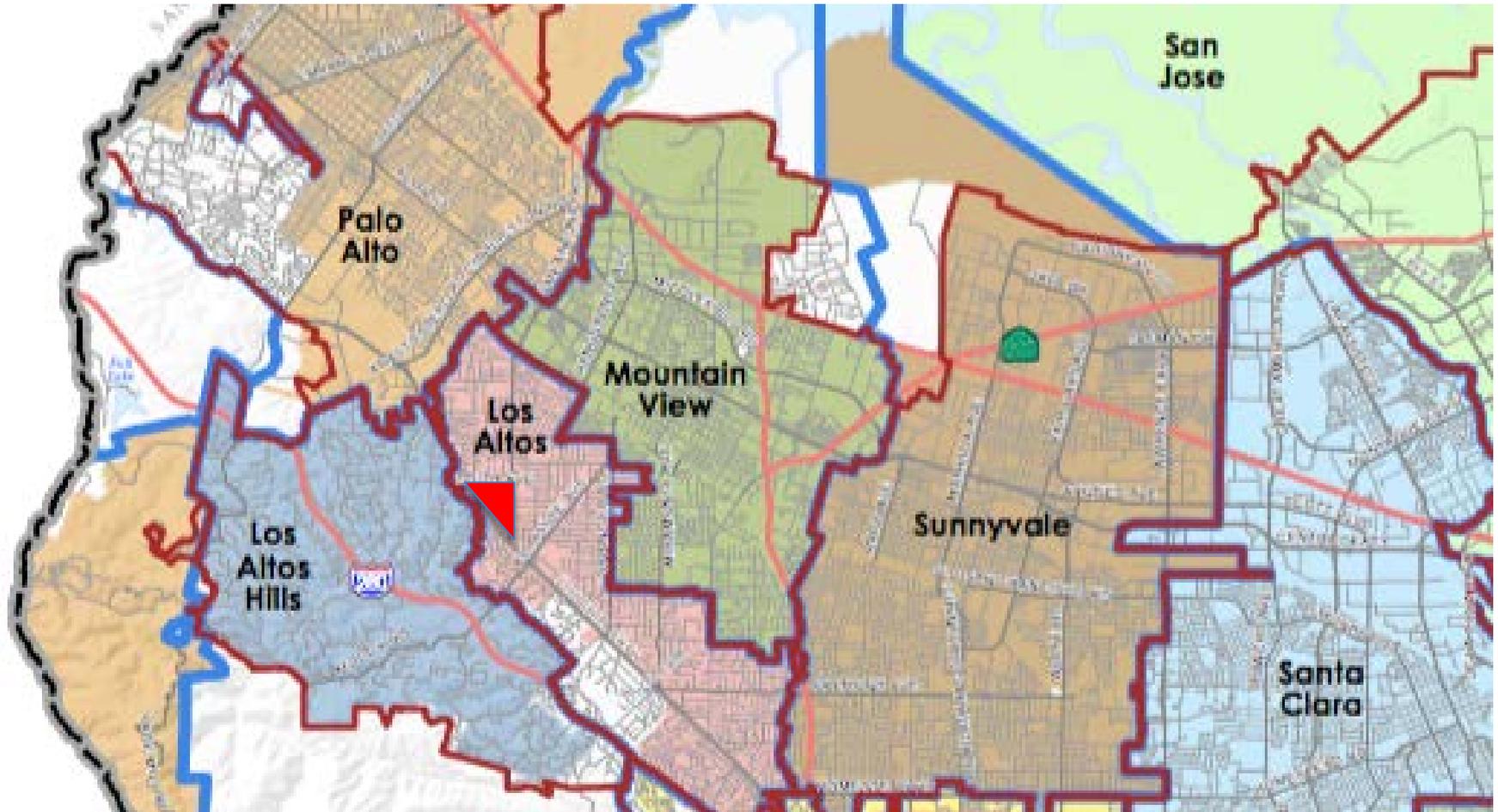
Santa Clara County Economy Booming

(CA EDD)

Non Farm Employment in Thousands

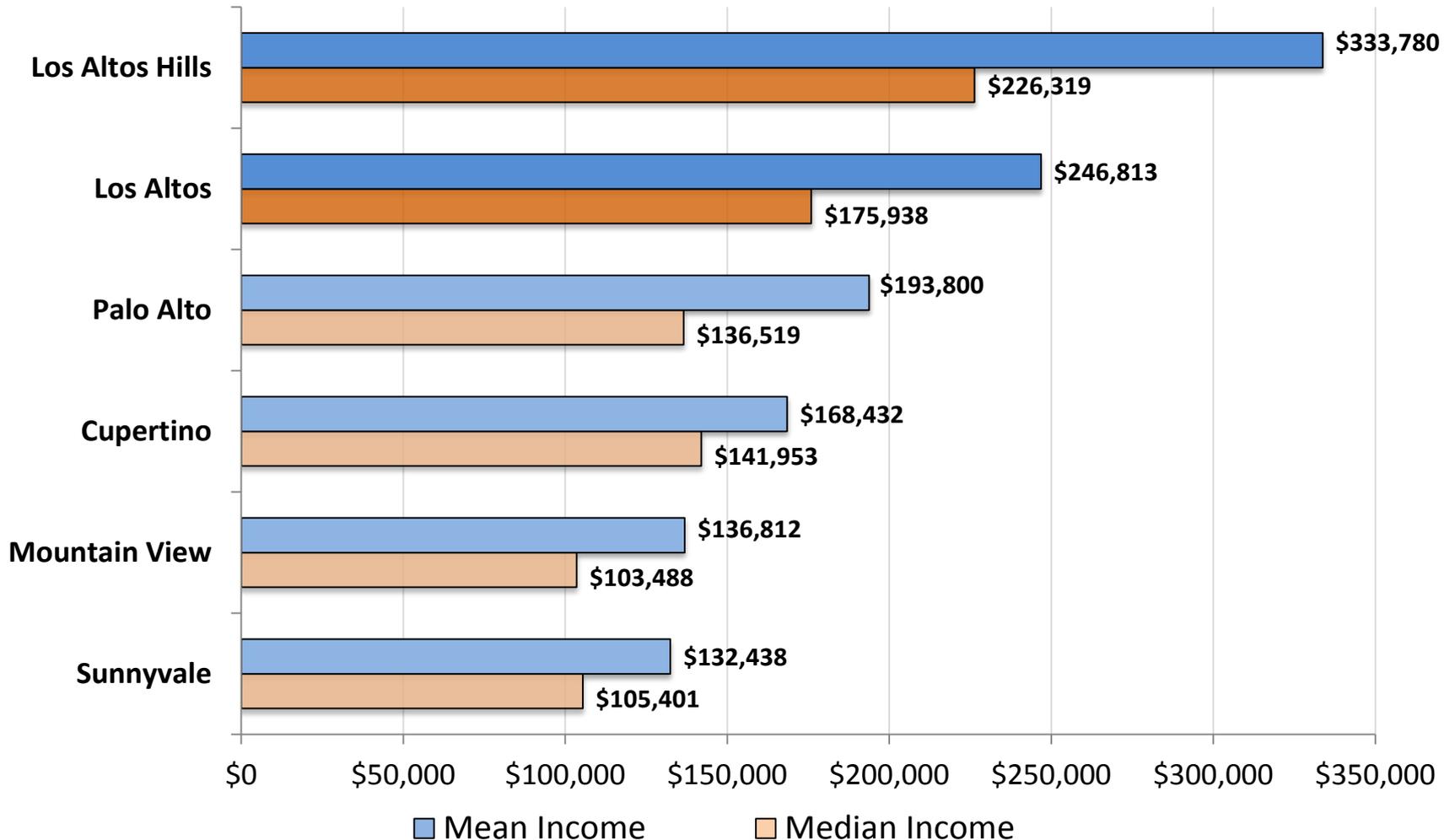


Downtown Serves Los Altos and Los Altos Hills



Comparison of Household Income in Los Altos and Surrounding Cities in 2015

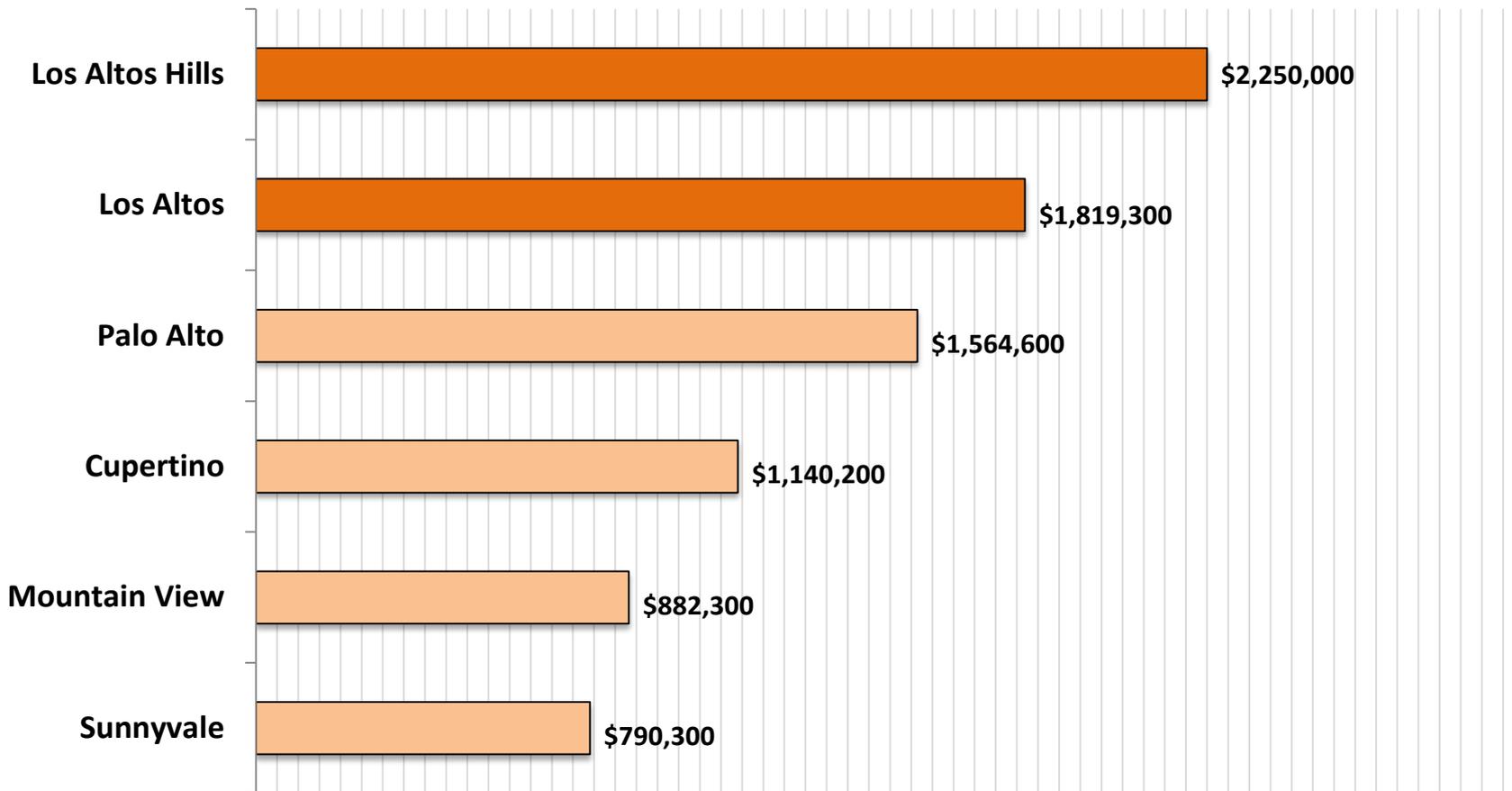
(American Communities Survey of Census Bureau)



Comparison of Home Values in Los Altos and Surrounding Cities

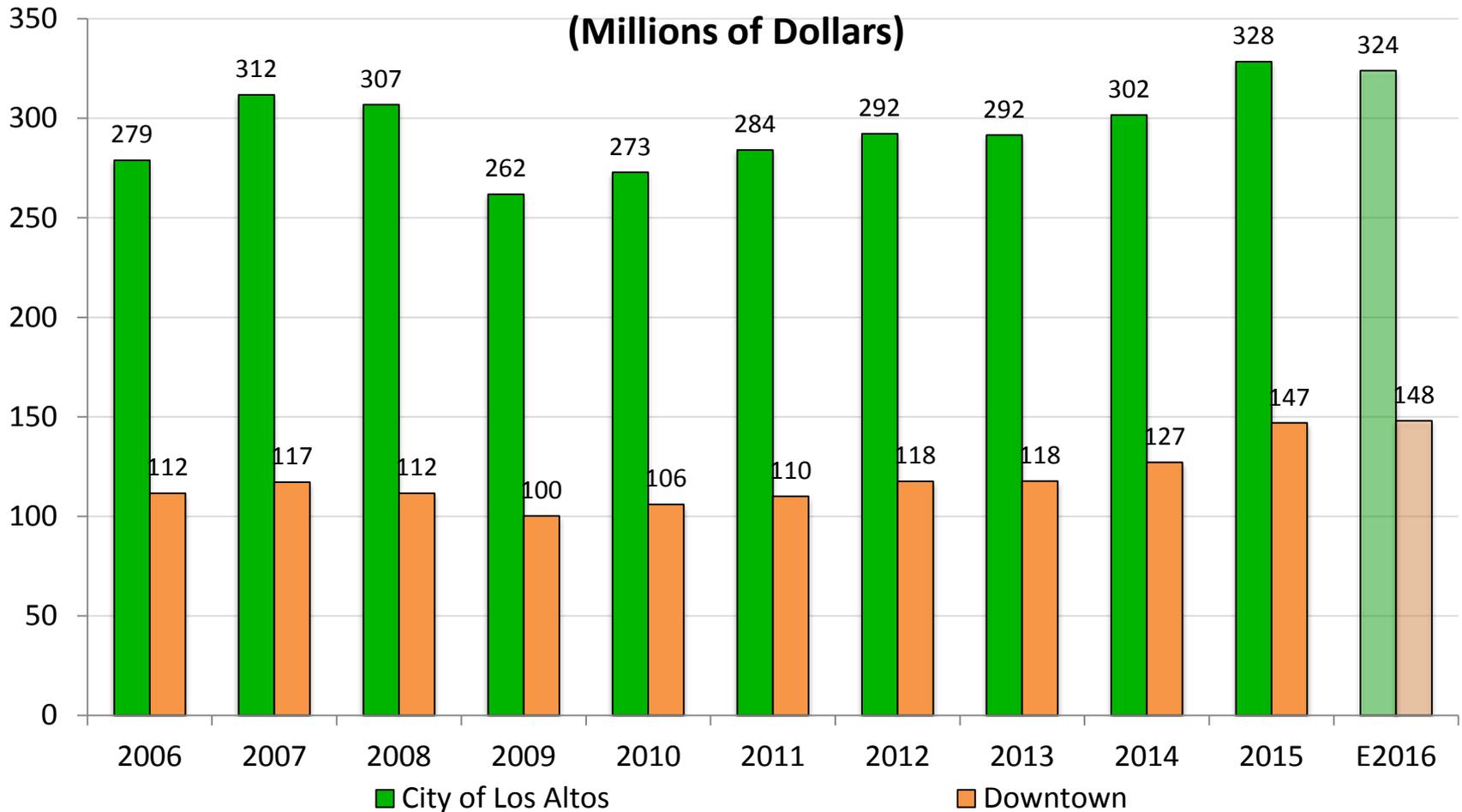
(American Communities Survey of Census Bureau)

Median Value of Owner Occupied Homes in 2015



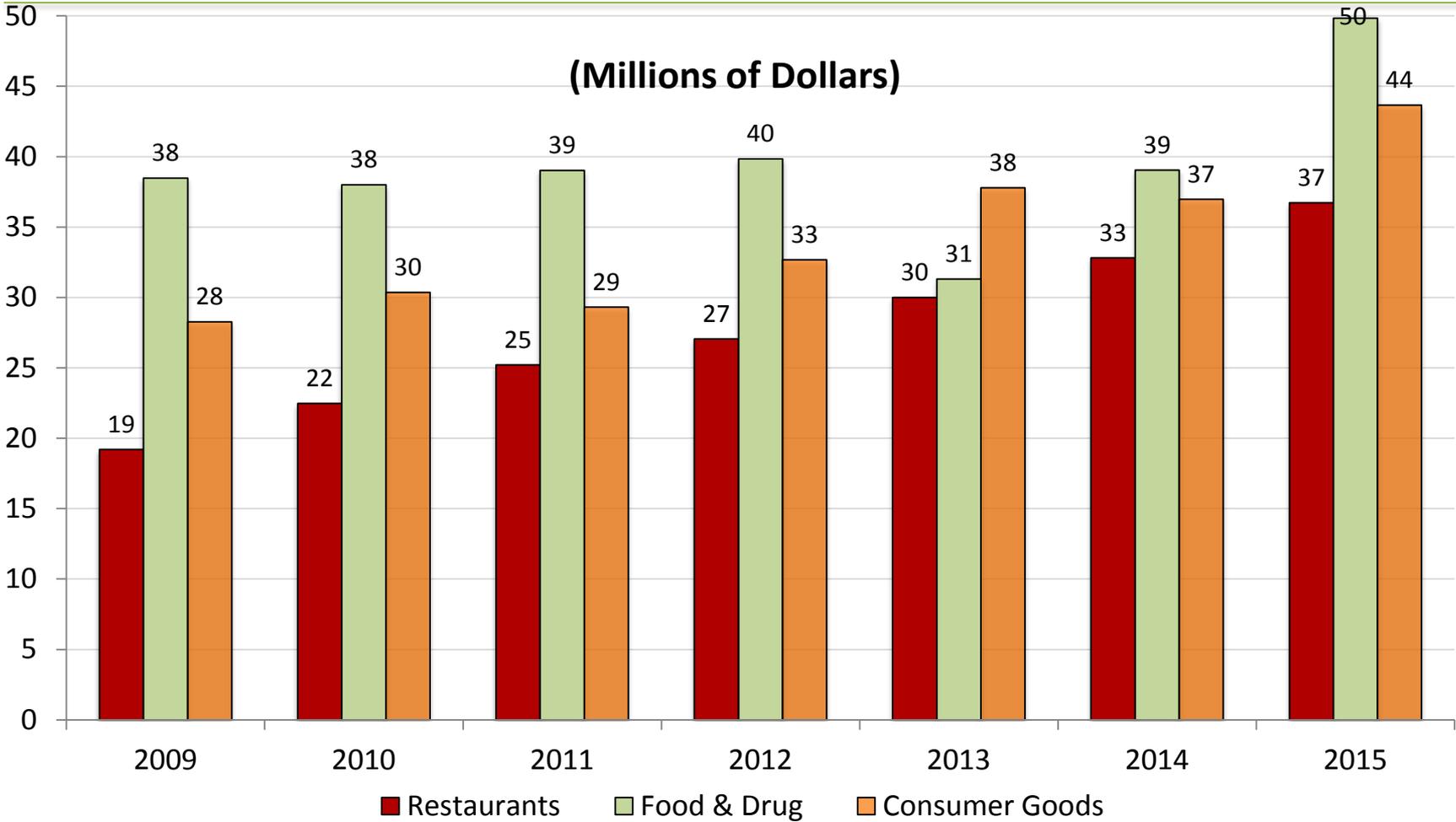
Retail Sales in Los Altos & Downtown

(City of Los Altos & HdL)



High Growth Retail Categories in Downtown

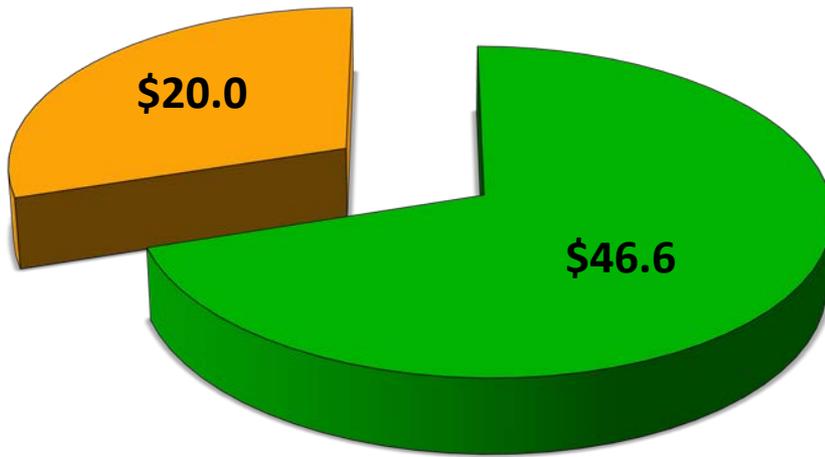
(City of Los Altos & HdL)



Share of Retail Growth 2009 – 2015

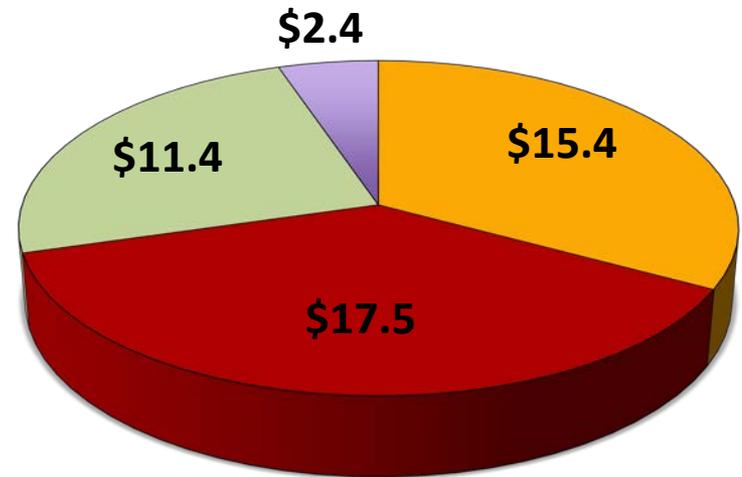
(City of Los Altos & HdL)

**Total Citywide Gain
= \$66.6 million**



■ Downtown ■ Other Los Altos

**Total Downtown Gain
= \$46.6 million**



■ General Retail ■ Restaurants
■ Food & Drug ■ All Other

Downtown is Ideal Size for Pedestrian District

(Map from City)

Restaurants

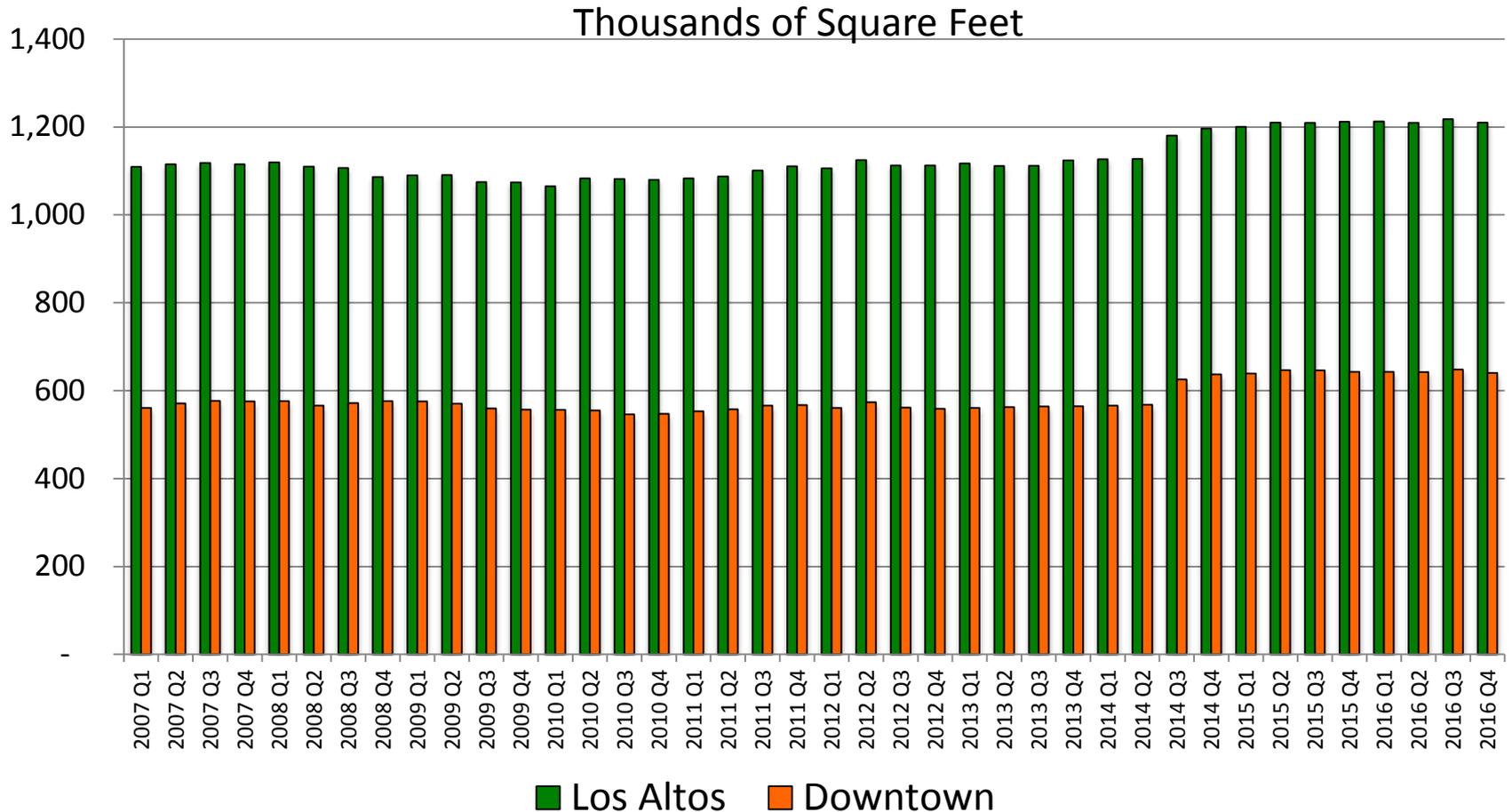
- Legend**
- Retail
 - Restaurants
 - Personal Services
 - Office and Professional Services
 - Banks
 - Beauty Salons
 - Residential
 - Vacancies



- All parts are within 5-minute walk of the center
- Centrally located public parking
- Street dimensions and block sizes are pedestrian friendly
- Key sidewalk improvements already completed

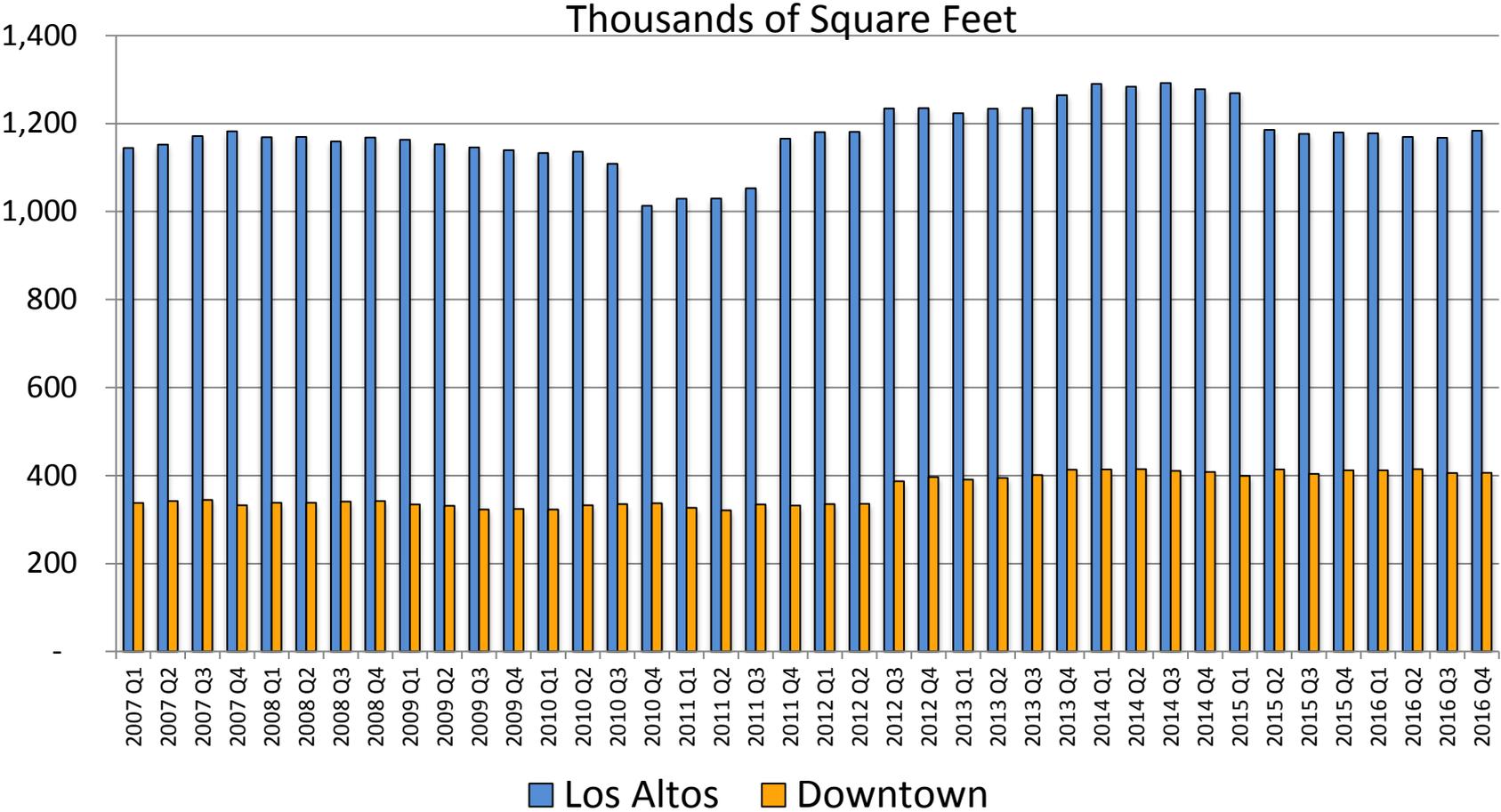
Growth in Occupied Retail Space in Los Altos and Downtown

(CoStar)



Growth in Occupied Office Space in Los Altos and Downtown

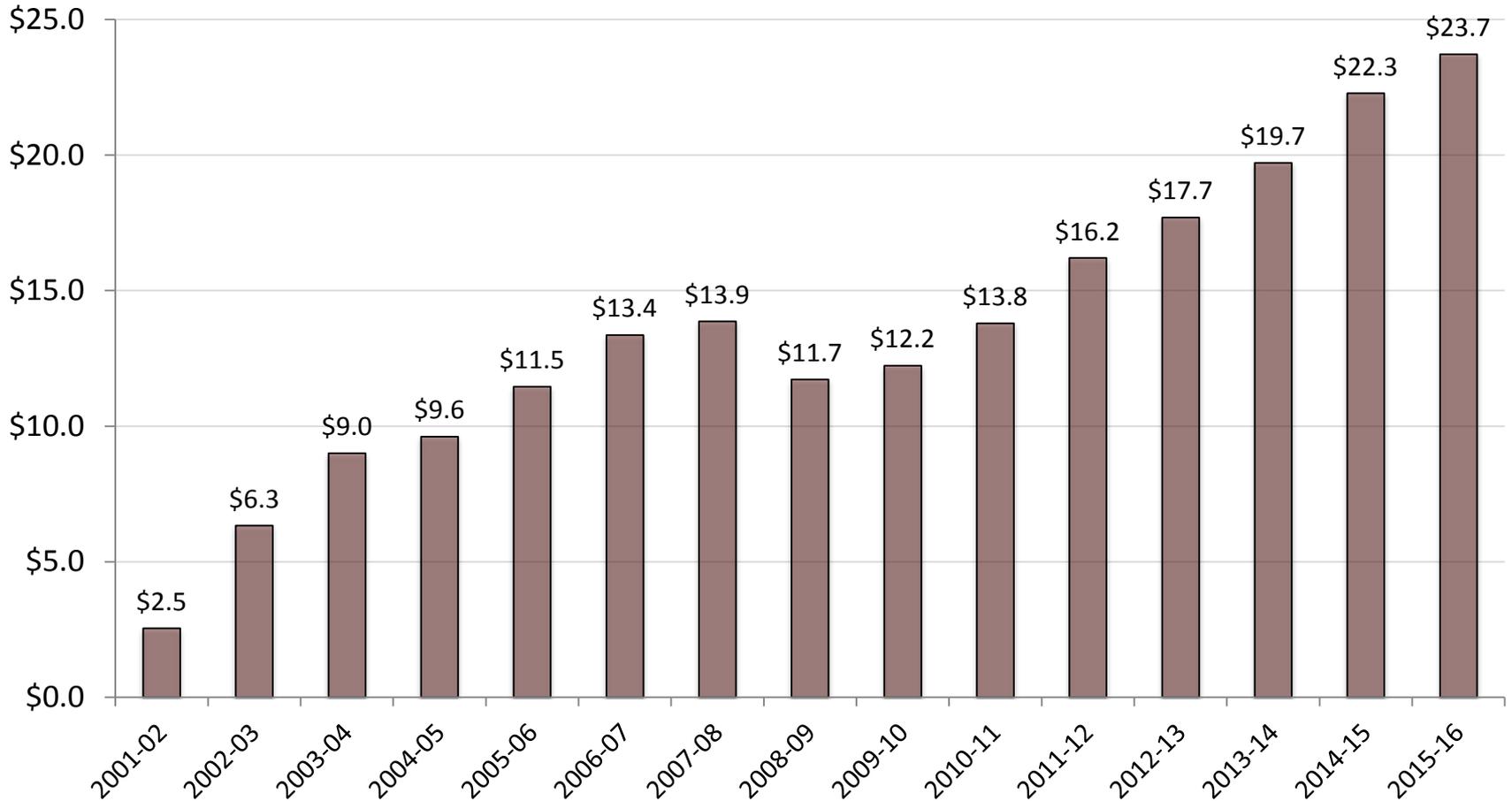
(CoStar)



Los Altos Hotel Room Revenue

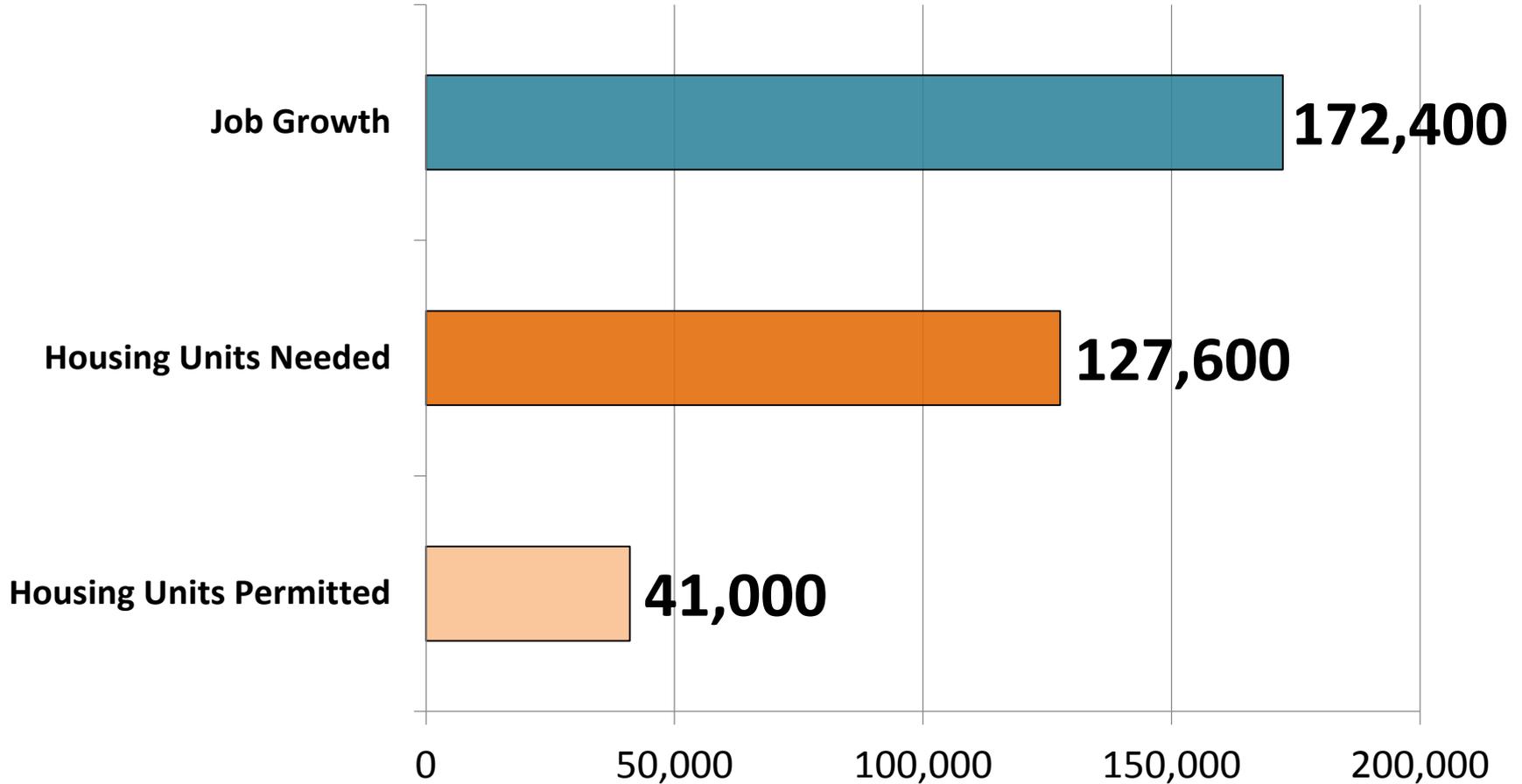
(City of Los Altos)

(Millions of Dollars)



Comparison of Countywide Job Growth with Housing Permits 2010-2015 – Strong Housing Demand

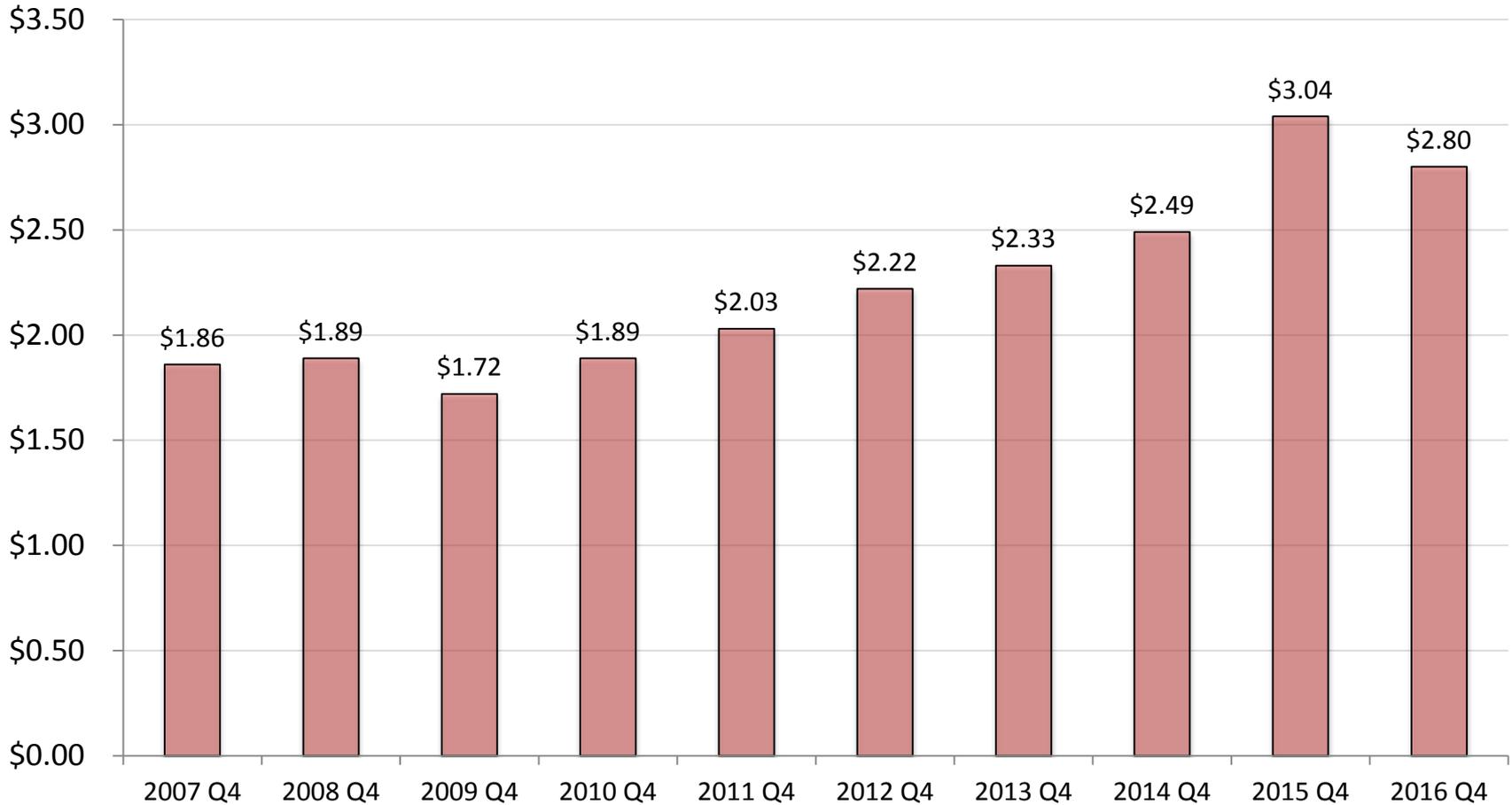
(CA EDD & HUD)



Per Square Foot Apartment Rent in Los Altos

(CoStar)

(Average Monthly Rent per SF)



Downtown Challenges & Constraints

- Mountain View is providing growing competition
- E-commerce is eliminating brick & mortar retail
- Older downtown buildings are not well suited for contemporary retail
- Restrictions on contemporary personal services tenant types
- Parking standards and policies inhibit incremental change essential to maintaining village character
- Building height limits render most redevelopment not feasible due to high land cost & high parking requirements

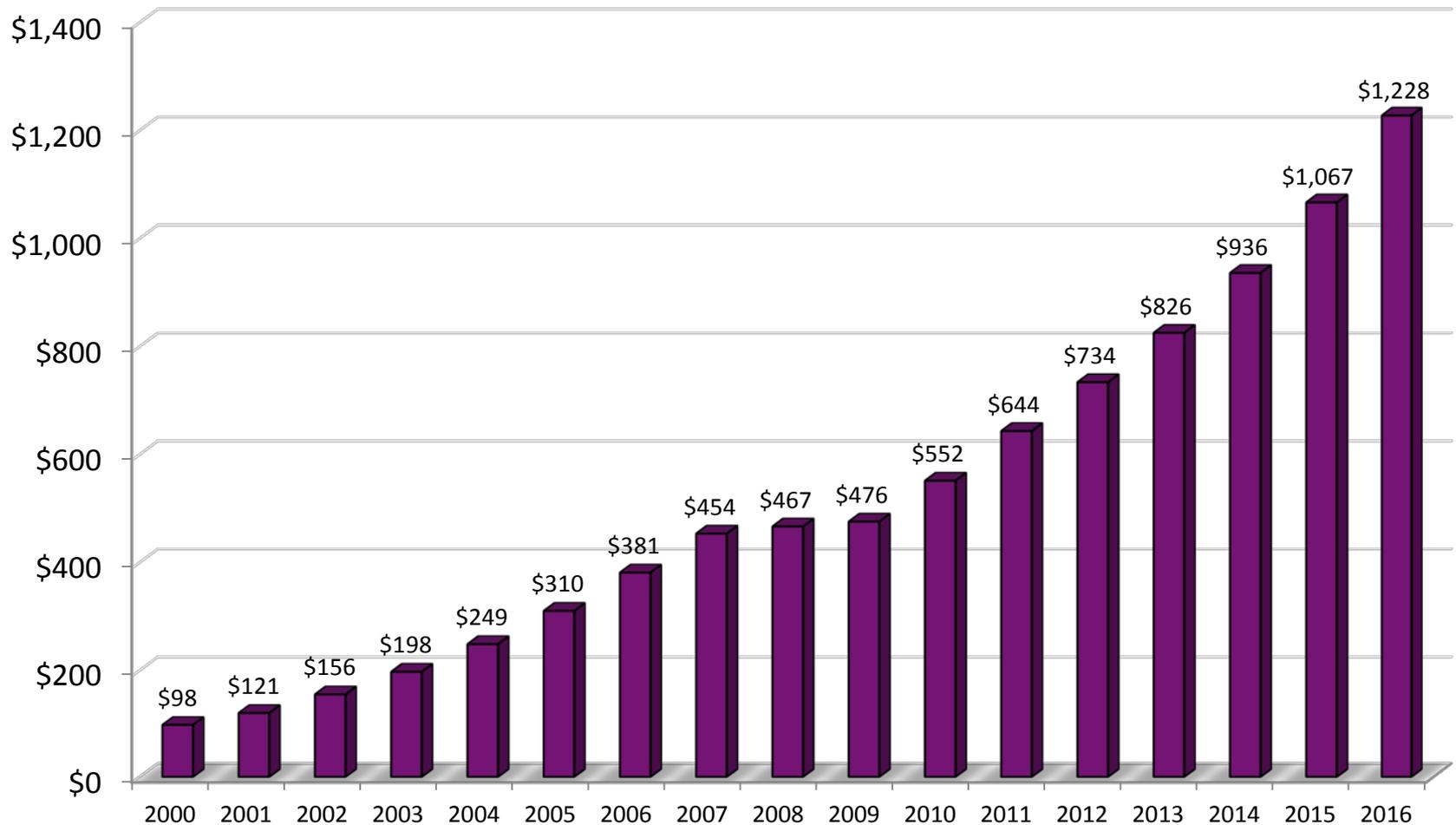
New Competition from Mountain View: The Village at San Antonio Center

- Located at San Antonio Road and El Camino Real
- Phase 1 included new Safeway plus 330 residential apartments over restaurants and shops
- Phase 2 will add 400,000 SF of office, 167-room hotel, 8 screen cinema and 80,000 SF of retail and restaurants



Per Capita E-Commerce Sales in the U.S.

(US Census Bureau)



Amazon Dominant in Market Value

(Wall Street Journal)

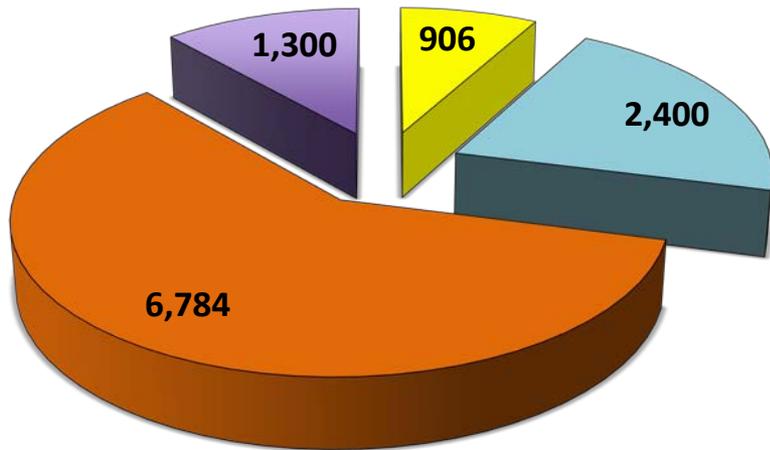
Market value as of December 30, 2016



Housing and Downtown Built in 1950s and 60s

(US Census Bureau)

Total Housing Units = 11,390

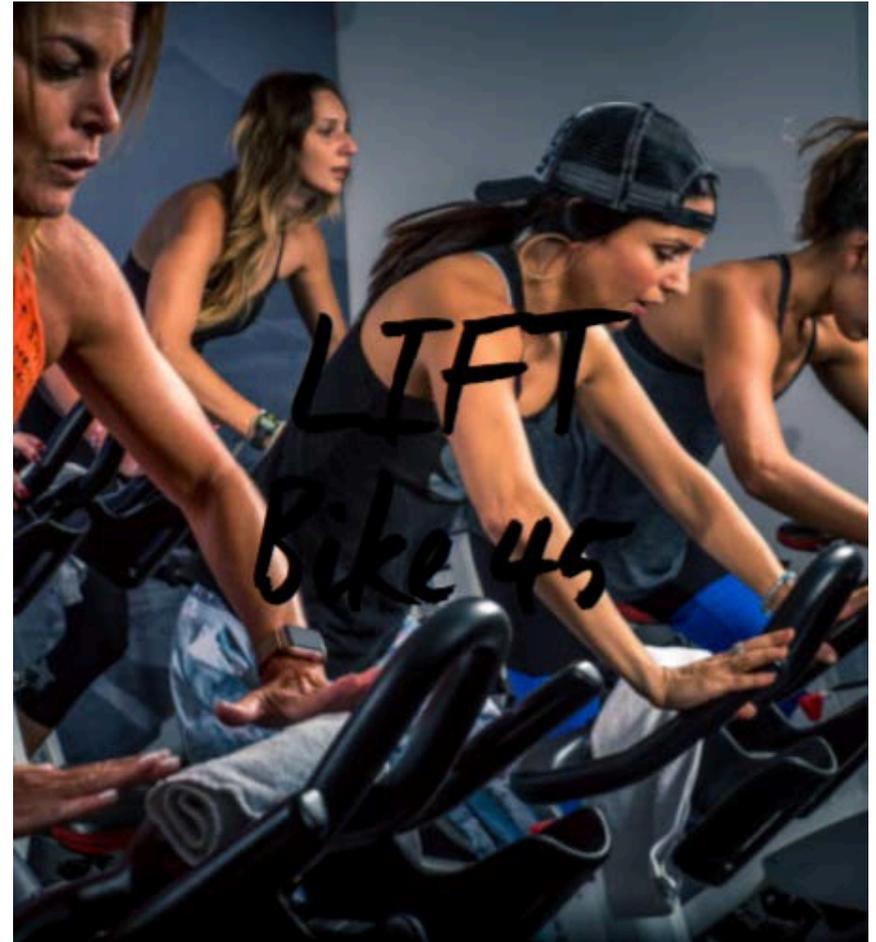


- Built 2000 or later
- Built 1970 to 1999
- Built 1950 to 1969
- Built 1949 or Earlier

- Retail buildings are 10 to 12 feet in height when contemporary retailers wish for 15 or 16 feet
- Retail depth often 100 feet when new retailers wish for 40 to 60 feet
- Buildings in Parking District unable to add a second floor
- Renovation triggers costly Title 24 Building Energy Efficiency Standards

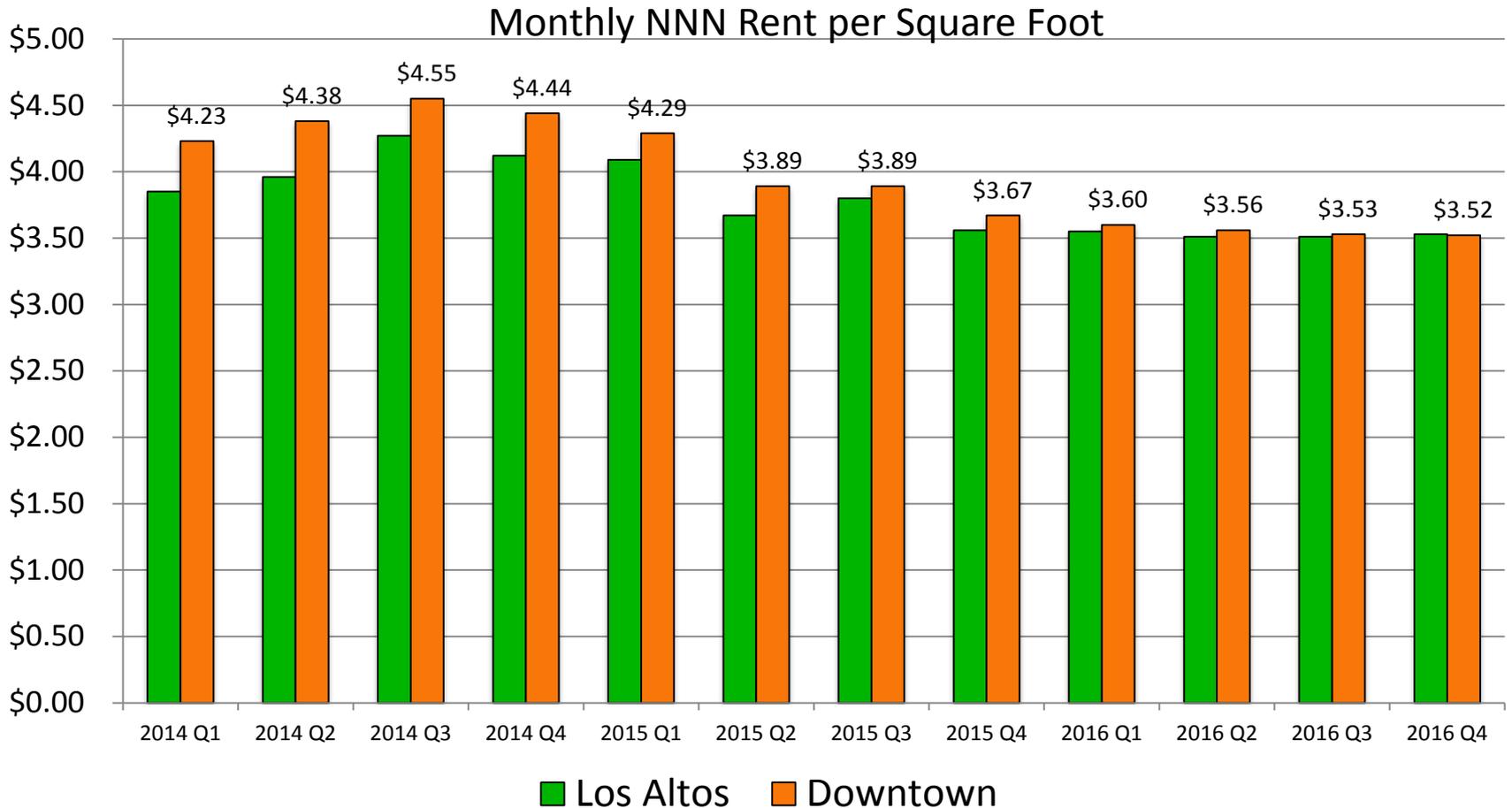
Popular New Fitness Personal Services Not Permitted in Much of Downtown

- Fitness studios
- Day spas
- Yoga or Tai Chi studios
- Marshall arts classes
- Kinder gyms



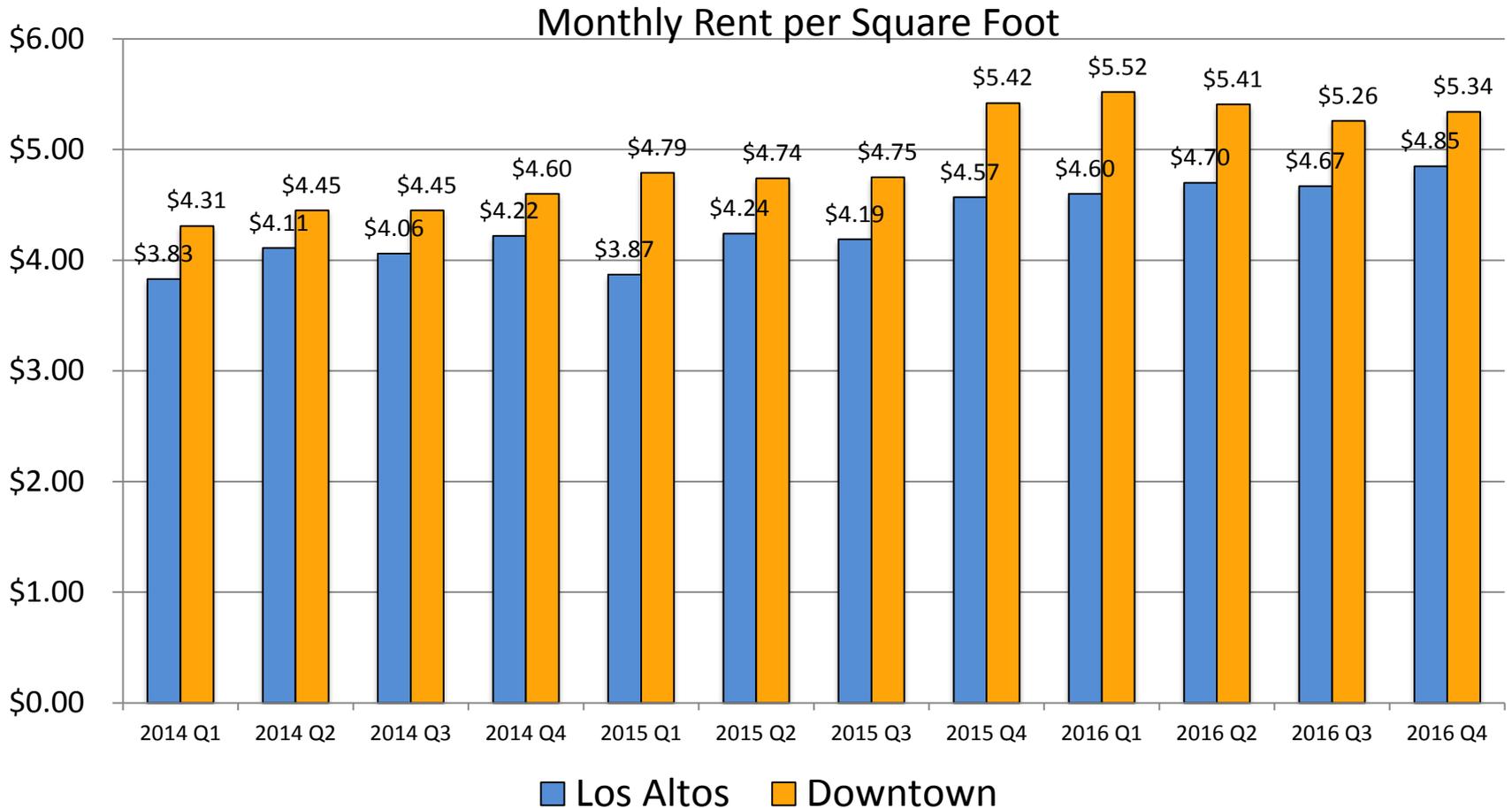
Per SF NNN Retail Rent in Los Altos and Downtown

(CoStar)



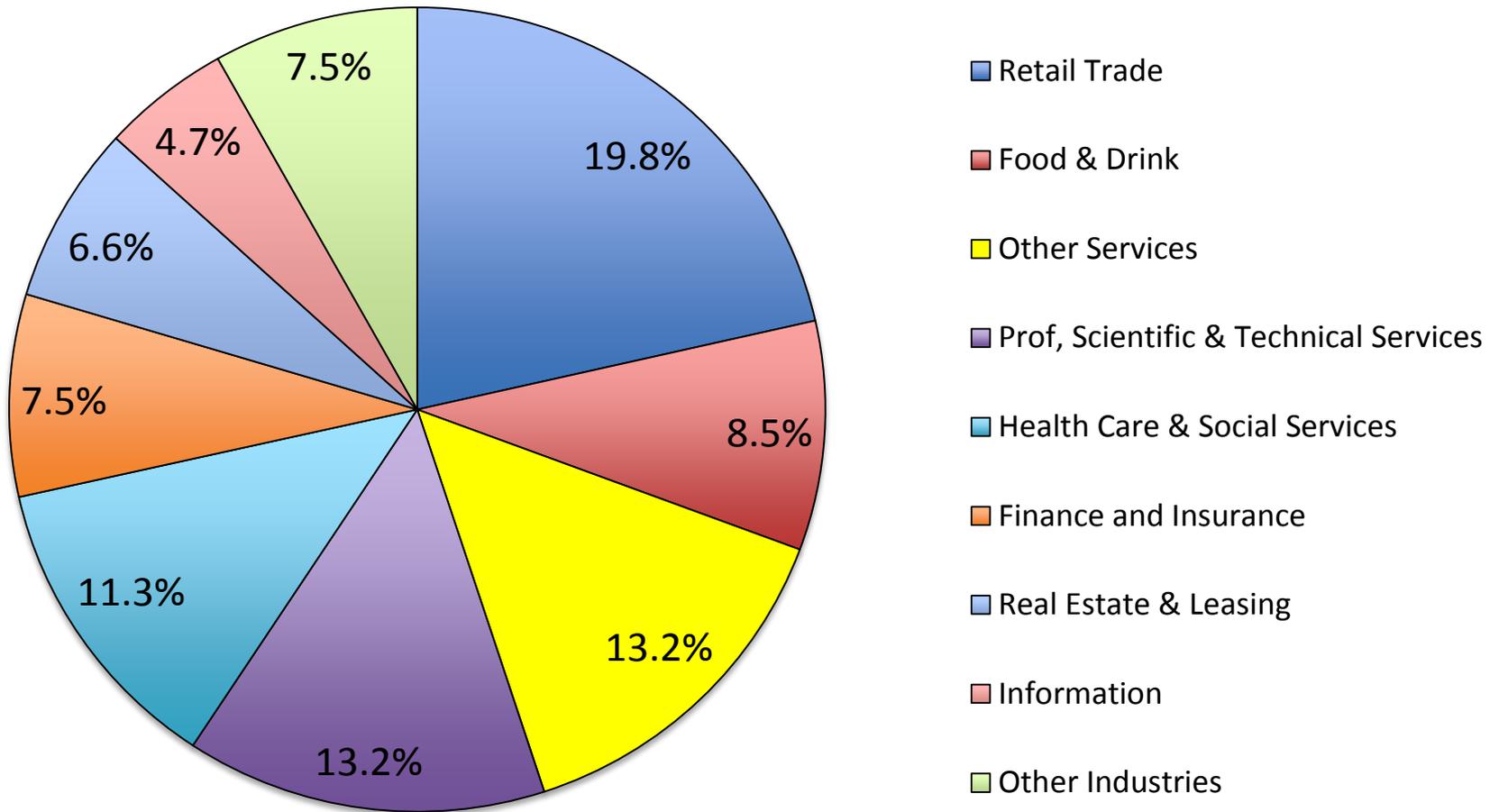
Office Rent in Los Altos and Downtown

(CoStar)



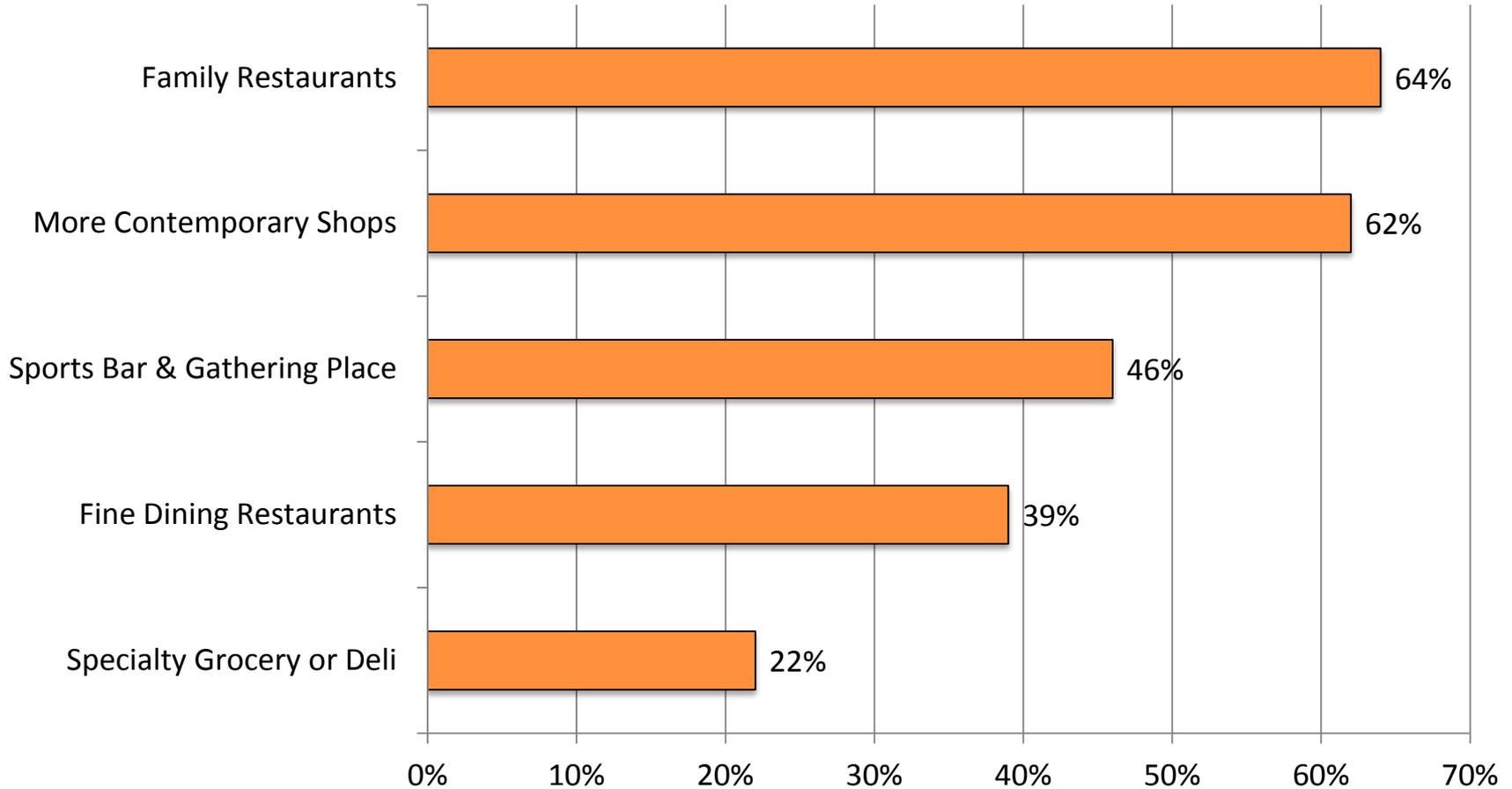
Business Survey Respondents by Industry Classification

(Downtown Business Survey)



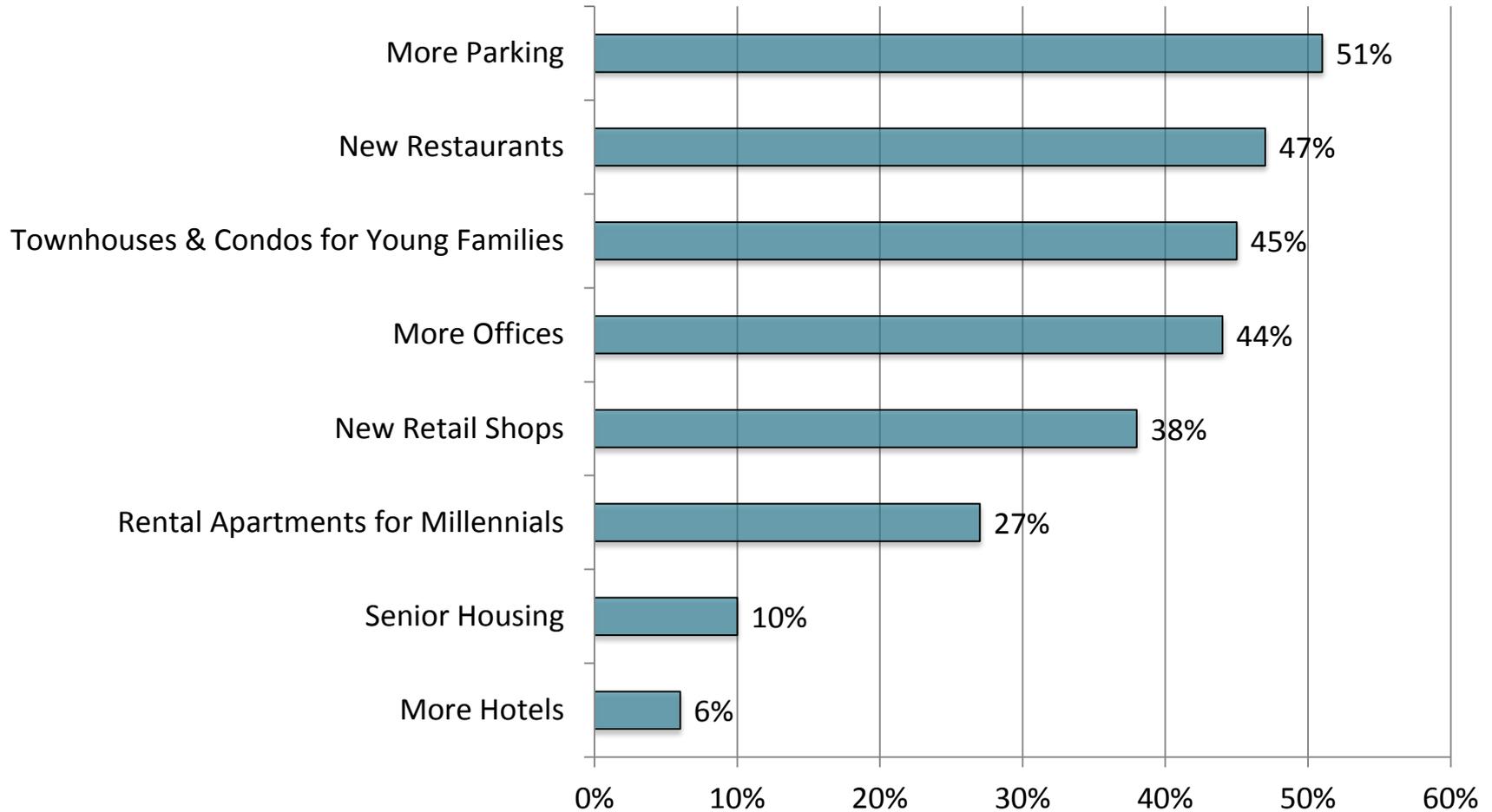
Additional Stores or Services Desired by Downtown Businesses

(Downtown Business Survey)



Strategies to Increase Downtown Vitality: Business Respondents

(Downtown Business Survey)



Village Style Small-Scale Expansion within Downtown Parking District Not Possible

- Covers about half of downtown area
- All day parking in orange area with permit for \$36 per year
- Free 3-hour parking without permit
- For properties within District no additional parking needs to be provided unless FAR exceeds 1.0
- Expansion beyond FAR 1.0 essentially impossible for owners of small properties
- Ramps make underground garages costly and inefficient
- Small-scale incremental expansion to maintain village character cannot be accomplished

DOWNTOWN LOS ALTOS “WHITE DOT” PERMIT PARKING AREAS



Downtown Outside of Parking District Has Suburban Parking Requirements that Inhibit Smaller Scale Development

Los Altos Parking Goal – “To Provide Access to Convenient Parking for Downtown Customers, Employees and Visitors”

- For intensive retail and personal services – 5 spaces per 1,000 SF of net area.
- For cafes and restaurants – 1 space for each employee plus 1 space for every three seats (approximately 8 to 14 spaces per 1,000 SF). Higher quality restaurants require more parking.
- For business and professional offices – 1 space per three employees (approximately 3 per 1,000 SF)
- For hotels – 1 space per three employees plus 1 space per each sleeping room (approximately 1.2 to 1.4 spaces per hotel room). Hotels of higher quality require more parking.
- Theaters and auditoriums – 1 space for every four seats plus 1 additional space for every three employees.

Los Altos Views Downtown Parking Requirements on an Individual Use Basis. They are too high to Encourage Pedestrian Vitality.

Smaller Downtowns with Great Pedestrian Vitality View Parking Requirements on a District Basis with Goal of “Park Once and Walk to Multiple Destinations”

- A patron of downtown who visits an office, bank, post office, drug store and restaurant needs only one space not 4 or 5.
- Pedestrian vitality is inhibited by overly convenient parking.
- Downtown Burlingame exempts ground floor retail, personal service and food establishments from having to provide off-street parking.
- Downtown Santa Barbara’s Parking Requirement was 2 spaces per 1,000 SF of commercial use.
- Downtown Los Gatos’s Parking Requirements are lower than Downtown Los Altos.
- For restaurants in Downtown San Luis Obispo, it is half the citywide standard but not to exceed 1 space per 350 SF (or about 3 per 1,000 SF)

As Downtown has expanded beyond the Parking District, Los Altos needs a new set of parking requirements that facilitate smaller scale incremental change.

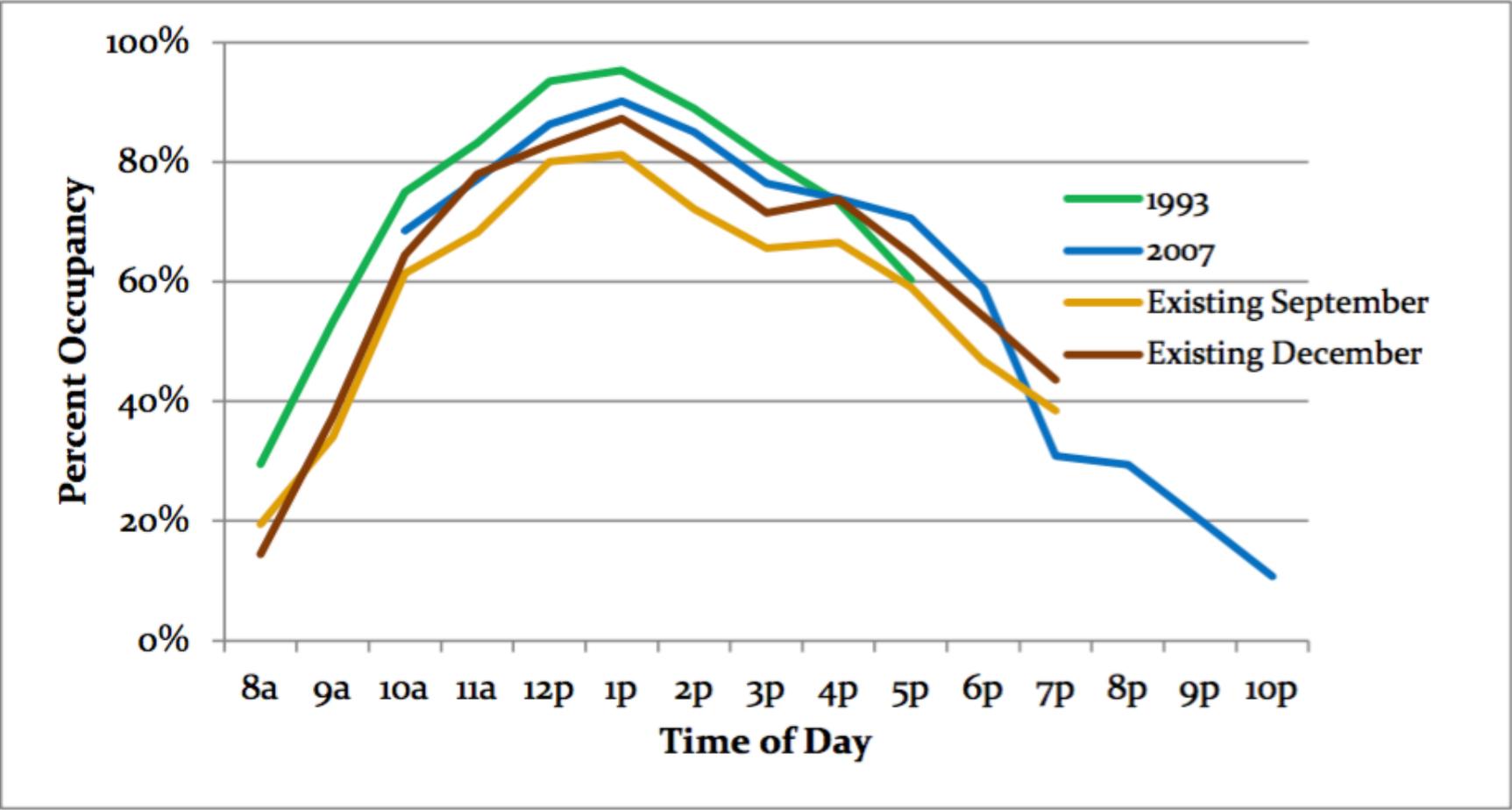
Conflict Between Goals of Parking Convenience and Village Character

- Small property owners in the Parking District cannot expand in small increments
- Because of the high land costs and high parking requirements, only major players that can afford to build large underground garages are able to develop: Packard Foundation, Safeway and LACI
- The required parking is often in excess of tenant needs
- Successful smaller pedestrian downtowns have “Park Once and Walk to Multiple Destinations” approach
- Off-street parking occupancy during the peak period has been declining
- New ride sharing services (Lyft and Uber) foreshadow lower parking demand in the future

Downtown Off-Street Parking Occupancy Trending Down During the Lunch Hour Peak

(CDM Smith 2013)

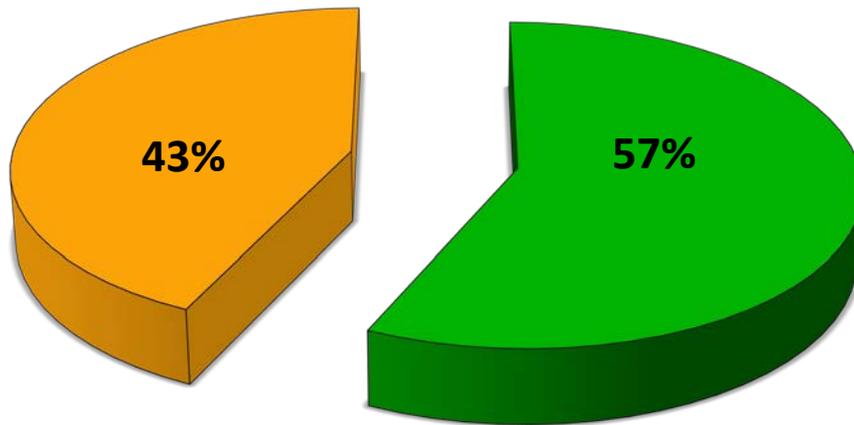
Figure 1-8 Historical Off-Street Occupancy



Survey of Ride Sharing Passengers

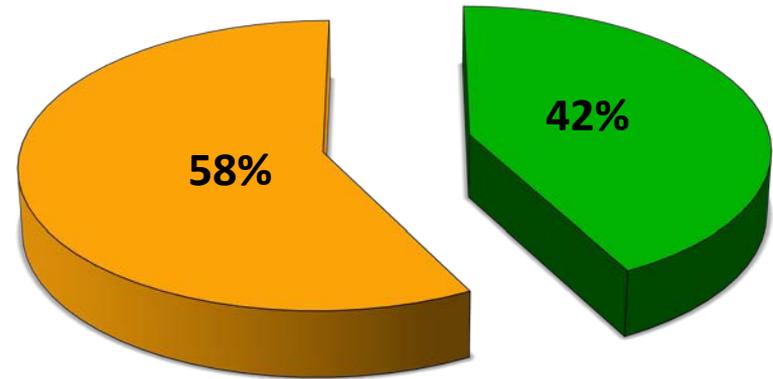
(Based Upon 34,000+ Responses in 20 Metro Areas During 2016)

**Likely to Use Private Automobile Less
Due to Availability of Ride Sharing**



■ Agreed ■ Not Agreed

**Less Likely to Own Private
Automobile Due to Availability
of Ride Sharing Service**

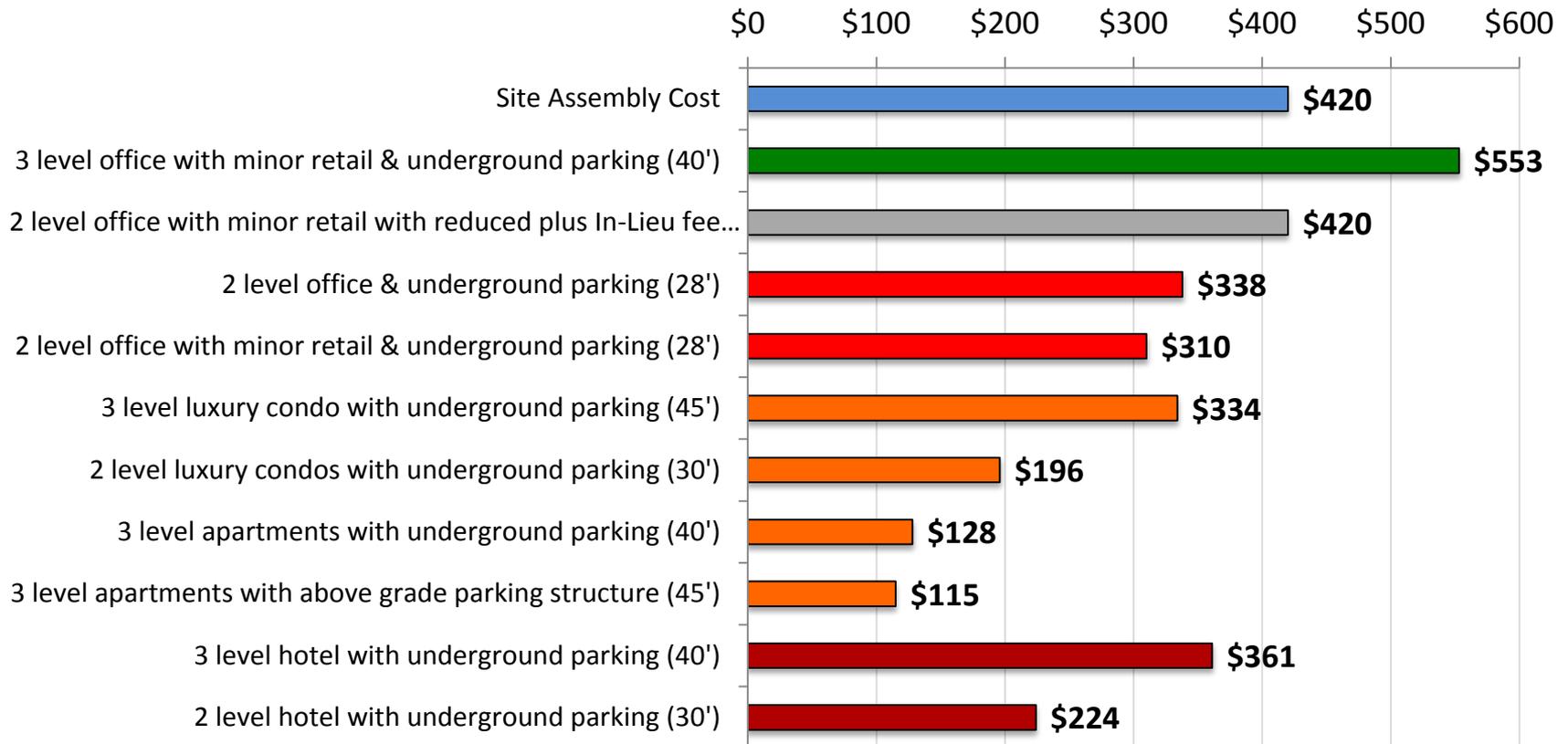


■ Agreed ■ Not Agreed

Development Feasibility and Building Height

(Land Econ Group Pro Forma Analysis)

Residual Land Value per SF



Development Pro Forma Considered a Large Number of Factors

- Land parcel size
- Net rentable area by use
- Gross building area
- Number of units
- Number and type of parking spaces
- Rent or sales price per SF
- Rate of rent increase
- Project capitalization rate
- Direct building construction cost
- Direct parking construction cost
- Indirect construction cost
- Construction interest
- Long term financing
- Developer's required return
- Annual cash flow for 12 years

Estimated New Downtown Theater Impact on Downtown Restaurant & Retail Sales

(Land Econ Group Estimates Based Upon Interview with Stage Company Executive Director)



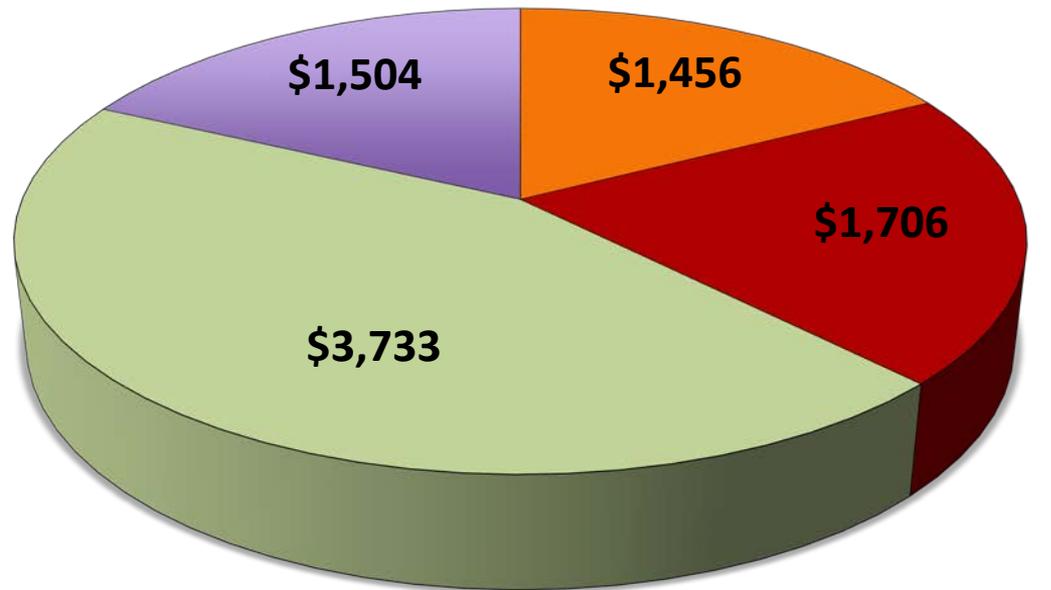
	Existing Theater	New Theater
Seating Capacity	100	190
Estimated Event Days/Evenings	135	200
Estimated Attendance @ 80% of Capacity	10,800	30,400
Estimated Percentage of Attendees Patronizing Downtown	50%	70%
Average Spending for Meals/Drinking/Incidentals	\$50	\$55
Theater Patron Sales Impact on Downtown	\$270,000	\$1,170,400
Add 10% for Performer and Staff Impact	\$297,000	\$1,287,440
Gain in Downtown Sales Due to New Theater Patrons/Performers/Staff		\$990,440

Source: LEG estimates based upon interview with Executive Director of Stage Company

Per Capita Spending by Los Altos and Hills Residents in Los Altos Retail Stores in 2015

(HdL & State Dept of Finance)

**Total Per Capita Sales
= \$8,399**



■ General Retail

■ Restaurants

■ Food & Drug

■ Auto & Business

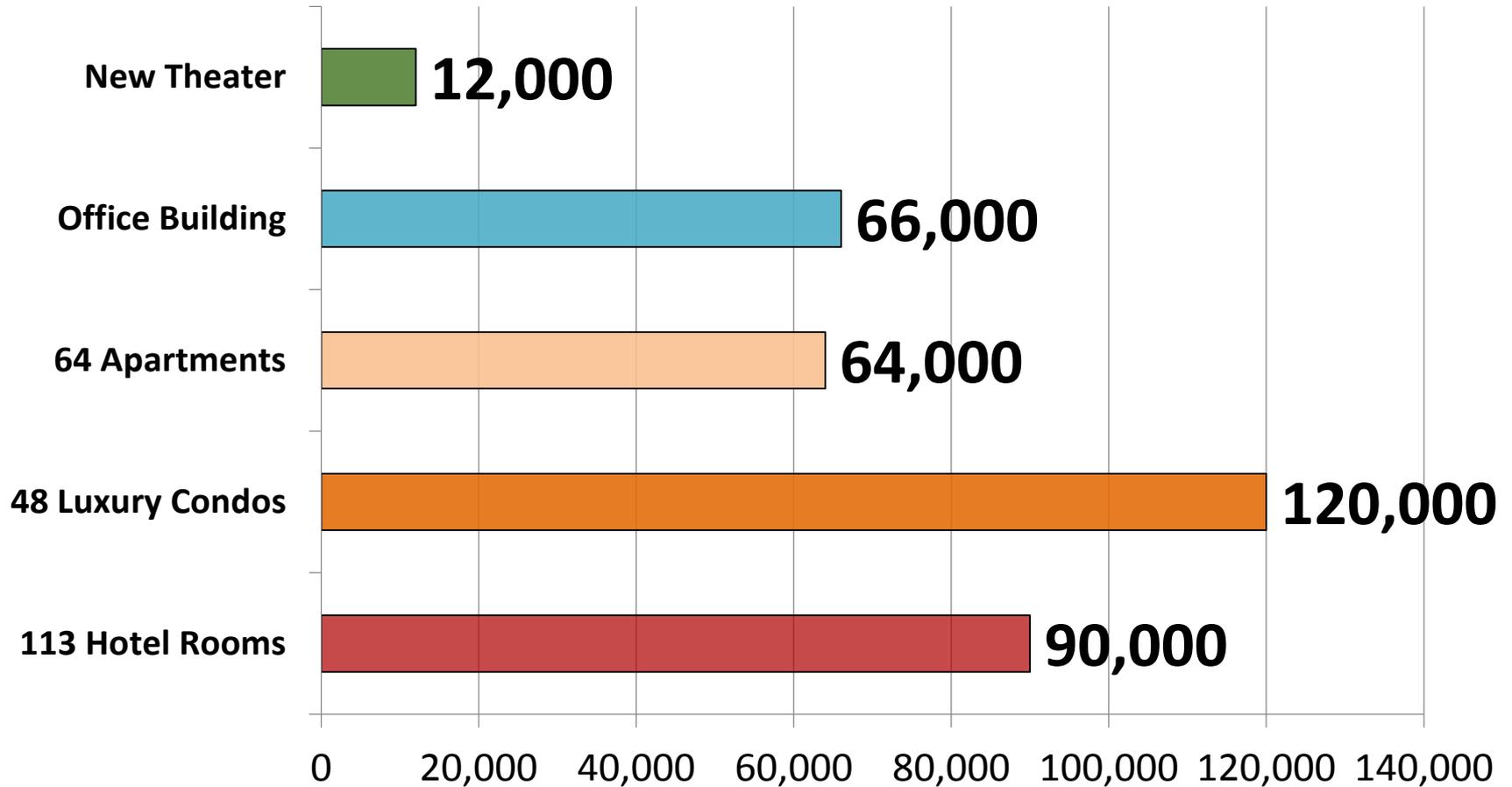
Alternative Development Options on Increasing Downtown Retail Sales

(Estimated by Land Econ Group)

	Theater	Office	Apartments	Luxury Condos	Hotel
Square Footage of Development	12,000	66,000	64,000	120,000	90,000
Number of Units	1	1	64	48	113
Employees		200			90
Residents or Patrons			154	134	84
Local Spending per Person per Year		6,000	9,000	12,000	1,858,078
Downtown Los Altos Share		80%	70%	60%	50%
Sales Gain per Office Worker or Resident		4,800	6,300	7,200	
Downtown Sales Increase		\$960,000	\$967,680	\$967,680	\$929,039
Add New Retail Employee Spending	\$990,440	\$988,800	\$996,710	\$996,710	\$956,910
As Percent of 2015 Downtown Sales	0.7%	0.7%	0.7%	0.7%	0.7%

Estimated Amount of Building SF Needed to Add One Million Dollars in Downtown Sales

(Land Econ Group Estimates)



Amount of Development Required for a Five Percent Gain in Downtown Retail Sales

(Estimated by Land Econ Group)

	Office	Apartments	Luxury Condos	Hotel
Square Footage of Development	490,000	475,000	880,000	690,000
Number of Units	5	475	352	863
Employees	1,485			690
Residents or Patrons		1,140	986	647
Local Spending per Person per Year	6,000	9,000	12,000	14,245,266
Downtown Los Altos Share	80%	70%	60%	50%
Sales Gain per Office Worker or Resident	4,800	6,300	7,200	
Downtown Sales Increase	\$7,127,273	\$7,182,000	\$7,096,320	\$7,122,633
Add New Retail Employee Spending @ 3%	\$7,341,091	\$7,397,460	\$7,309,210	\$7,336,312
As Percent of 2015 Downtown Sales	5.0%	5.0%	5.0%	5.0%

Comment on ULI Target Land Use Mix for Street Retail Districts

(15% retail/food - 45% office - 40% residential)

- Intended to guide greenfield development of new street retail (e.g. Bay Meadows II)
- Not relevant to Downtown Los Altos with its 60+ year history of serving as community retail center
- Senior ULI executives agree that there is no magic formula for every downtown
- Development by formula diminishes a downtown's unique sense of place essential for long-term success
- Successful downtowns evolve over time
- Office market currently very strong and is of interest to property owners and developers

Principles to Enhancing Vitality but Keeping Village Character

- 1) Use existing built space efficiently
- 2) Encourage small-scale incremental change by existing property owners
- 3) Further centralize public parking in lieu of individual private parking to encourage walking and promote smaller scale new development
- 4) Promote types of new development that have high retail/restaurant sales impact per square foot of new building area
- 5) Add public spaces, facilities and events that encourage residents to visit and linger downtown

Recommendations

- 1) Permit contemporary personal service and fitness uses along State Street and perpendicular streets but maintain key blocks of Main Street for stores and restaurants
- 2) Update downtown parking requirements
 - Learn from Los Gatos, Burlingame, Santa Barbara and San Luis Obispo
 - Suggest 2.0 to 2.5 spaces per 1,000 net SF for retail, restaurant, services and office – a single standard facilitates re-leasing to maintain vitality
 - Suggest 0.8 to 1.0 space per sleeping room for hotels
 - Initiate Parking In-lieu Fee at \$25,000 to \$30,000 per space
 - Construct additional public parking as demand warrants
 - Shift employee parking to lots not as convenient for shoppers and restaurant patrons
- 3) Commence fund-raising for new theater Downtown
- 4) Preserve buildings and landmarks of historic importance
- 5) Add public spaces or other public facilities that enhance uniqueness and “sense of place”
- 6) Permit 3-story buildings (40 feet) at select locations with top floor setback
- 7) Institute Downtown design review

Thank You

Land Econ Group

