RETAIL RECOVERY STUDY

Planning and Transportation Commission
Meeting #3
March 13, 2024

Presented by Michael Baker INTERNATIONAL

Retail Recovery Study

Goal

Recommend zoning strategies to help retain, strengthen, and facilitate retail in the key commercial areas of Palo Alto

Problem: Extensive & Persistent Vacancies

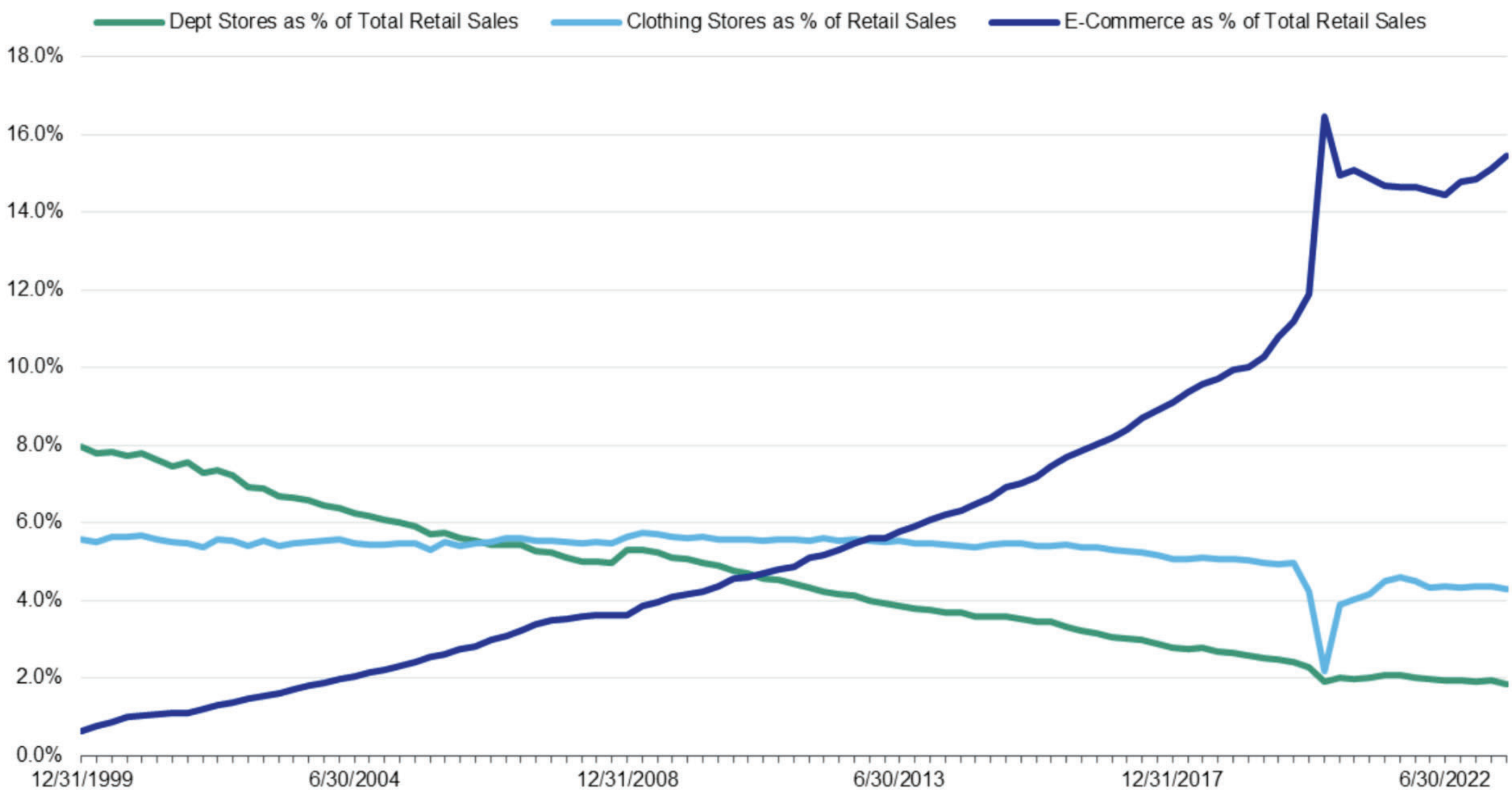
Symptoms:

- Loss of vibrancy
- Reduced activity
- Fewer options
- Businesses leaving Palo Alto

Probable Causes/Contributing Factors:

- Retail space exceeds market demand
  - E-commerce
  - Reduced office workers
  - Competition
- Palo Alto Regulations
  - Too complicated, hard to understand, implement
  - Too restrictive

Problem – E-Commerce Growth



Problem – Supply & Competition

RETAIL OVERSUPPLY

- 461,000 square feet vacant retail
- 4 times the 10-year projected growth in demand

LOSS OF OFFICE WORKERS

- Equal to 111,000 square feet of demand for retail space

COMPETITION

- Stanford Mall
- Big Box Retailers at Palo Alto border
- Neighboring Communities

Problem – Regulations

STAKEHOLDER CONSENSUS

- **Too Complicated**:
  - Hard to understand & implement
  - Multiple layers of exceptions, exclusions, applicability
  - Internal conflicts, inconsistencies (permitted uses)
- **Too Restrictive:**
  - Inflexible/Counter Productive
    - May deter new retail because can’t change to other uses
  - Limits retail-supporting uses

Problem – Why Retail Vacancies Persist?

Landlords willing to wait for higher rents via:

- Stronger Market in Future
- Higher Quality (Profit) Tenant

Lease/Rental Factors:

- Limited choice of tenants at given time
- Expensive Tenant Improvement Costs:
  - Longer leases to amortize investments;
  - Careful selection of long-term tenant

Study Findings (preliminary)

PALO ALTO VACANCY TRENDS:

1. Consistent with National trends
2. Downtown and total Palo Alto at 10-year high (Q1 2024)
3. Increasing since lows in 2015
4. Smaller, neighborhood serving areas - steady and low vacancies
5. Downtown, California Ave - increasing vacancies
6. Highest vacancies in highest rent areas (SM, DT, T&C, Cal Ave)
7. Rent rates increasing slowly, steadily despite increasing vacancies

Possible Zoning Strategies (preliminary)

1. Allow more Formula Retail uses on California Avenue
2. Allow non-retail on ground floor/former retail spaces
3. Limit RPO to core areas (DT, Cal Ave, neighborhood centers)
4. Lower relief standards; allow Alternative Active Uses
5. Simplify the Zoning Code – user-friendly

Zoning Strategies – Relaxed Formula Retail

- Limit to restaurants (vs all franchises):
  - Coronado:
    - Formula Fast Food – Minor SUP; max 2 per site; max 10 per district
    - Formula Retail – Major SUP; max 50 feet building frontage, 2 stories; (excludes grocery stores, banks, savings and loans, full-service restaurants and theaters)
  - Santa Monica – limited to restaurants (fast food)
- Increase franchise threshold
  - Palo Alto – 10 nationwide – any business
  - Santa Monica – 150 nationwide (restaurants only)
  - Coronado – 15 restaurants sharing name, logo, etc.
- Some by right, without CUP (size, number, concentration)
  - >2,500 prohibited in downtown; < 2,500 with CUP (Bristol, RI)
  - CUP in neighborhood business districts (San Francisco)
- "Formula retail >20,000 (except grocery stores) shall require an economic impact study (303(i) (San Francisco)
- < 10% of number of like businesses (clothing, restaurants, etc.) in district or jurisdiction (McCall, ID)

Zoning Strategies – Allow Non-Retail on GF

- Not street-facing (i.e., behind retail)
- On side streets
- When vacancies exceed threshold (%, and/or duration)
  - Vacancies exceed 5% in district for more than 6 months (prior PA code)
- Subject to limits (concentration, size, proximity):
  - Min. 25% ground floor commercial (PA MU standards)
  - Max. 15% of total floor area (T&C office)
  - Max. 30% of all street frontage within 300-foot radius (San Francisco)
  - Max. 50% of street frontage per building > 100’ frontage (Thousand Oaks)
  - Allow fitness, spas, exercise > 1,800 sf (3,000 sf is industry average)
  - Max. size per use w/o CUP (PA for offices, com. Recreation; CN uses)
  - Not within 200 feet on same side of street
- Allow other viable active uses
  - (e.g., pet grooming, beauty shops, nail salons, barbershops, small learning centers, day care)
  - Medical office with retail component, lifestyle, health services

Zoning Strategies – Limit RPO Applicability

- Limit RPO to core areas (DT, Cal Ave, Neighborhood centers)
  - What areas are priority for retail?

  - Possible effects of RPO removal:
    - Retail remains allowed, not required
    - Allow market to balance (reduce) retail floor area with demand
    - Allow former retail to convert to other uses over time in non-RPO areas
    - May attract new retail to non-RPO areas by removing constraint of retail only restriction

Zoning Strategies – Easier RPO, GF, R Relief

Relax Waiver and Adjustment Standards

1. Unconstitutional Taking threshold - Delete/Replace
   - RPO - 18.40.180(c)(1)(A)
   - R Retail (California Avenue) – 18.30(A).070(a)
2. Alternative Active Use (practical difficulty):
   - Make RPO standards instead of Constitutional Taking
   - Remove RPO relief exclusion for and apply to GF and R Combining Districts -18.40.180(c)(1)(B)
3. Relax the documentation requirements and criteria
   - 18.40.180(c)(2)

Zoning Strategies – Simplify the Zoning Code

1. Make easier for staff, applicants, public
2. Comprehensive Code Revision/Cleanup –
   1. organize, standardize,
   2. clarify intent and purpose,
   3. objective standards,
   4. simple process,
   5. clear, comparative use tables,
   6. formal interpretations, etc.
   7. Eliminate confusing redundancy, duplication, conflicts
      1. CN zone use table vs Midtown (CN zone) vs Ground Floor use table, ALSO redundant with the GF combining district for CN (GF, P) Midtown
      2. Multiple conflicts where GF or R combining district allows a use that is not listed (prohibited) in the rest of the underlying district.
      3. Fitness studios - <1,800 not permitted in R

Next Steps

UPCOMING MEETINGS

March 26
Ad hoc Committee
Zoning Recommendations

→

March 27
PTC Meeting
Zoning Recommendations

→

April 16
Ad hoc Committee
Zoning and Parking Recommendations

→

May 8
PTC Meeting
Final Recommendation and Report → Recommendation to Council

→

June 3 or June 10
City Council Meeting
Receive the Report and Extend the Interim Ordinance