

MEMORANDUM

TO: Amy French, Chief Planning Official, City of Palo Alto

DATE: November 27, 2023

FROM: Michael Baker International

SUBJECT: Palo Alto Retail Recovery: Peer Research, City of Santa Monica Interview

Interview Summary

On October 4th Michael Baker International conducted an interview with Roxanne Tanemori, Principal Planner, and Jennifer Taylor, Economic Development Manager, from the City of Santa Monica to discuss the numerous retail recovery efforts undertaken by the City of Santa Monica since March 2020. These efforts focused on simplifying zoning and permitting rules for new and existing businesses. The recommendations for successful retail recovery focused on looking at making COVID-related changes permanent, relaxing zoning, streamlining permitting, and strong outreach and community engagement. This City believes these efforts have been successful in retaining and attracting retailers and improving the overall health and function of the commercial districts.

Making COVID-Related Changes Permanent

The City discussed an extensive list of emergency orders during the pandemic. These include both planning and building/safety emergency orders, including time extension on open permits of up to four years. In October 2022, the City permanently adopted two zoning ordinance amendments with the intent of reducing regulatory barriers for small businesses, as described below. The [economic recovery ordinance](#) was extended for five years in September of 2023. In summary, the following proposed zoning changes focus on the Third Street Promenade area

- 1) allowing greater flexibility for restaurants that provide entertainment within the Third Street Promenade Area District,
- 2) expanding Alcohol Exemption (AE) permits to additional uses to further streamline the review of alcohol permits while also correcting and refining existing AE permit conditions,
- 3) allowing the Director of Community Development or designee to consider commercial uses that are not clearly defined in the Zoning Code,
- 4) allowing a longer term for Temporary Use Permits, and
- 5) allowing outdoor rooftop commercial uses on public parking structures owned by the City

Relaxing Restrictions on Uses

Changes in zoning included allowing a wider variety of uses by right in areas that were historically more restrictive, including in the downtown and Third Street Promenade areas. Efforts highlighted by City Staff included allowing new uses such as pop-ups and creative commercial uses that do not fit exactly into the existing use categories, including new alcohol services and pickleball. The City eliminated the restrictions on the number of restaurants per block on Main Street and expanded opportunities for outdoor dining.

The City has traditionally been very restrictive in requiring retail uses on the ground floor; however, due to the changing market and feedback from the community, the City has been re-evaluating what mix of uses will work in its retail areas. This is also in response to an increased focus on housing and the City's larger efforts in its Housing Element. The City noted that being open to a wider mix of uses is important in serving the needs of residents.

Streamlined Permitting

The City eliminated the need for conditional use permits, minor use permits, and other discretionary approvals for several uses including childcare, cinemas and theaters, general retail sales (medium size), hotels and motels, medical and dental offices, food halls, and general personal services, among others. The City removed the public hearing requirements for a change of use from a restaurant to a different use. This streamlined permitting expedites and simplifies the permitting process. This provides certainty and predictability to existing businesses and prospective businesses considering locating in Santa Monica. As of July 2023, there are 38 new development projects in downtown Santa Monica comprised mostly mixed-use and housing, including affordable housing.

Communication and Outreach with Business Owners

The interviewees discussed the importance of educating the public through comprehensive, consistent communication and outreach efforts. They stressed the importance of City staff being a known, visible, and trusted figure in the community. The City of Santa Monica highlighted a number of outreach efforts including working with community groups, business improvement districts, City staff, and City council. Efforts included an “[open for business flyer](#),” blog, e-mail blasts, broker’s round table event, and a 3-1-1 system where anyone can e-mail or call with questions. The City offers online planning services, and virtual counter reviews, and hosts an online appointment system to increase the number of permitting activities that can be done online.

The City has extensively documented and advertised these zoning and regulatory changes on its City website¹ and provides comprehensive data regarding vacancies and employment on the Downtown Santa Monica website².

Interview Questions and Responses

1. Have you evaluated the impact of COVID and/or online shopping on retail in Santa Monica?

- The City started to see the impact of e-commerce prior to COVID-19.
- The City created a “Buy Local” campaign in 2010 and increased messaging during COVID-19 to educate the public on the importance of supporting local businesses.
 - Through the campaign the City identified and informed people which retailers had gift cards and how businesses were operating during the Holidays.
- During COVID the City supported businesses through a variety of strategies which included:
 - Established pick-up and delivery zones,
 - Connected business owners with the Los Angeles Small Business Development Center for education and technical support,
 - Waived fees (e.g. loading and pick-up zones),
 - Encouraged shopping locally through informing customers which businesses support gift cards during Holiday shopping,
- The City can track online versus in-store sales reports through a sales tax report and can track by geographic area and by sector.
 - Art gallery pivoted to online and had high sales and started artists' talks and other events/features they didn't have before.
 - The city has anecdotal data that shows an increase in sales activity but is hard to isolate.

¹ City Council Makes Pandemic-Era Zoning Changes Permanent to Support Business Success in Santa Monica. <https://www.santamonica.gov/press/2022/10/12/city-council-makes-pandemic-era-zoning-changes-permanent-to-support-business-success-in-santa-monica>

² Downtown Santa Monica, Third Street Promenade. <https://downtownsm.com/downtown-data#section-8666>

2. What, if any, efforts did you undertake to preserve retail as a response to COVID-19?

- The City passed several emergency orders during the pandemic related to both planning and building and safety.
 - The City provided time extensions on open permits – up to 4 years in some cases.
 - The City allowed more uses to be permitted by right in the Downtown and Third Street Promenade areas.
 - Allowed flexibility for creative and temporary uses that don't fit the prescribed use categories in the Downtown and Third Street Promenade.
 - Positive feedback from stakeholders resulted in the interim ordinances becoming permanent – codified in August 2023.
 - One block in the Third Street Promenade had high vacancy rates, so the City has loosened the use restrictions – they are focusing on making it a food, art, and entertainment district/hub.
 - The City is seeing alcohol licenses being paired with innovative and creative uses. (e.g. Pickleball).
 - The City is focusing on food establishments and assisting applicants through the permitting process.
 - Where and how to allow business to expand into the right-of-way to not access and circulation issues.
 - Restaurant owners voiced the need for expanded permanent outdoor space to sustain business.

3. How did the City work with the business owners during the zoning changes?

- The City along with Downtown Santa Monica Inc. (Property Based Assessment District) asked property owners and businesses what kind of new uses they were interested in and what challenges they were facing with the permitting process, the City then identified opportunities on how the emergency orders and interim zoning can start to address the issues.
- Held collective meetings with Business Improvement District (BID) leaders (Main Street, Montana Ave, and Pico Boulevard) to talk through zoning changes.
- The City created an [“Open for Business” flyer](#).
- Implemented a 3-1-1 system for businesses to ask questions to City staff regarding zoning.

4. What types of metrics does the City utilize to track changes in business?

- The City tracks occupancy rates and pedestrian counts in association with Downtown Santa Monica Inc. (see Downtown Santa Monica data below)
- The City also monitors sales tax data and business license permits.

5. Does the City allow residential Downtown or in other commercial districts?

- Downtown is truly a mixed-use district – residential is permitted everywhere but particularly seen from 2nd Street to 7th Street.
- Several current Downtown housing projects (thousands of units) are in development to create a “24/7 community.”
 - Downtown previously saw affordable housing and now a trend to mixed-income housing.
 - Change in demand in the Downtown to more local serving uses like restaurants – previously tourism drove development trends (~8 million visitors/year prior to COVID, now 4.5-5 million visitors/year)
- Residential is integrated and embedded in all commercial districts.

6. Are there any restrictions on the usage of ground floor space in the commercial areas?

- The City has historically been very restrictive on the ground floor with a focus on retail and restaurant.
- The City has been rethinking strategy to allow more uses in certain configurations while still promoting retail and restaurant – the office is still restricted.
- The City is trying to be flexible as property owners figure out the right mix of uses – having the choice is positive for all parties.
- The City has utilized interim ordinances as an experimentation to see how effective/successful an ordinance can be (up to five (5) years). The [economic recovery ordinance](#) was extended for five years in September of 2023.

7. Have developers used the provisions of AB 2097 in developments for parking? How is the City ensuring there will be parking for visitors and residents in the wake of AB 2097?

- State law has changed the City's parking practices since much of the City exists within ½ mile of a major transit stop.
- Before state law the City eliminated minimum parking requirements for a majority of active uses Downtown in 2017.
- The City has major parking investment in the form of ten (10) City-owned public parking structures in the Downtown District – “well-served to over-served.”
 - Parking structures were funded through bond financing in the 70's – all but one (1) are paid off.
 - Parking structures were funded by revenue generated by parking and transportation impact fees (in-leu fee for businesses) – the City has since eliminated this impact fee.
 - Parking structures have active ground floor retail space which the Economic Development Department manages (3 tenants) – provide revenue to the City.
 - The city is working to bring in a rooftop cinema company to lease the top floor of one of the parking garages (made possible by the interim temporary use ordinances).
- The City has no parking requirements for businesses going into existing footprints.
 - The City prefers that there is no more parking built in the Downtown, they would like the business to invest in other ways.
 - In terms of new mixed-use housing development, the City is seeing both zero (0) parking and proposed projects with parking – Projects tend to be dependent on lender and financing strategy to make the project marketable.
 - The City has a cap on parking in the Downtown that can not be exceeded.
 - The City has worked with developers to look at shared parking, shared mobility programs, bike parking, EV charging, carshare, automated driving companies (Waymo), and the integrations of the bike infrastructure as an alternative to parking.

8. Do you have recommendations for jurisdictions looking to preserve/encourage retail uses?

- Review the zoning ordinance, permitting procedures, and how those factors affect the cost of doing business.
- Determine how your jurisdiction can support businesses operating outdoors.
 - The City reviewed and contacted several jurisdictions for best practices regarding parklets and expanded outdoor dining.
 - Where possible, make operating outdoors permanent.
- Provide certainty to businesses so they know what they can and can't do.

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- Due to the small size of Santa Monica, City staff has seen the importance of relationship building, being visible, known, and a trusted figure in the community so people know who to contact for questions or issues.
- Important for jurisdictions to work together regionally and throughout the State to become competitive as whole (i.e. align programs and fees) – don't try and steal from business.

Appendix A: Downtown Santa Monica Inc. Data

[Downtown Santa Monica](#) | [Downtown Data \(downtownsm.com\)](#)

New Development

As of November 9, 2023, there were 38 new development projects. Nearly two-thirds of them had been approved and approximately one-fifth of them are under construction.

Retail Space Occupancy

As of November 9, 2023, there were 573 ground-floor commercial spaces in Downtown Santa Monica and 7.2% of their occupancy was undetermined. Among 532 spaces being determined for their uses, 82.1% were occupied.

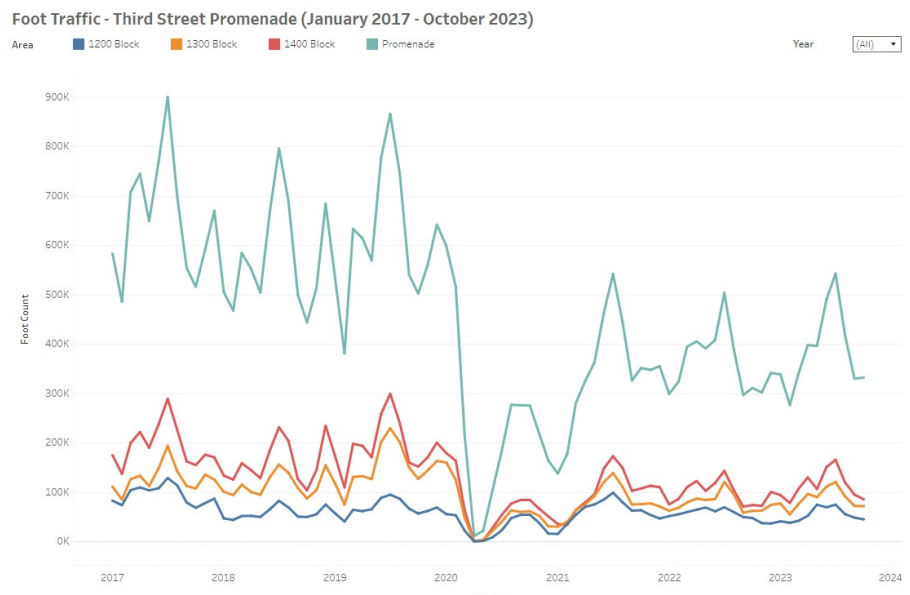
Business Types

As of November 9, 2023, there were 438 ground-floor businesses in Downtown Santa Monica. About a third of them were accommodation, beverage, and food, followed by retail (21.69%), and beauty, health, and wellness (19.86%).

Third Street Promenade Foot Traffic

Much like numerous downtowns across the United States, the Third Street Promenade has experienced a decline in pedestrian activity over the last three years, attributed to the practice of remote work prompted by the pandemic and a decrease in tourist visits.

In October 2023, the Third Street Promenade saw an influx of 331,679 visitors, representing approximately 66% of the foot traffic observed in the pre-pandemic October of 2019. The post-summer months witnessed a decline in foot traffic, indicating a seasonal trend. Notably, the footfall surpassed the count recorded in September 2022, signifying a moderate recovery from the impact of the coronavirus pandemic.



Promenade Business Types & Retail Space Occupancy

As of November 8, 2023, retail and accommodation, beverage, and food accounted for approximately 90% of all businesses.

As of November 8, 2023, the occupancy of commercial spaces on Block 1200, 1300, 1400, and the entire Promenade were 69.2%, 88.6%, 78.4%, and 79.6%, respectively.

Source: "Downtown Santa Monica." n.d. Downtown Santa Monica. Accessed November 21, 2023. <https://www.downtownsm.com/downtown-data>.