

COUNCIL MEETING

8/14/14

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21
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Carnahan, David

From: Steve Levy <slevy@ccsce.com>
Sent: Monday, July 28, 2014 2:05 PM
To: Council, City
Cc: Planning Commission; Gitelman, Hillary; Turner, Steven; Keene, James
Subject: Background and Ideas for Comp Plan
Attachments: Background and Ideas for Comp Plan.doc; Caltrain and PA Planning.doc; Services, Dining and Retail in Downtown (1).doc

14 JUL 28 PM 5: 37

We are on vacation for the August 4th meeting so I have written my thoughts in the attached memo titled Background and Ideas for the Comp Plan.

I am also attaching two related memos written earlier in response to the last PTC meeting.

DATE: July 28, 2014
TO: Palo Alto City Council and PTC Members
FROM: Stephen Levy
SUBJECT: Background and Ideas for Comp Plan

Update on Regional Trends

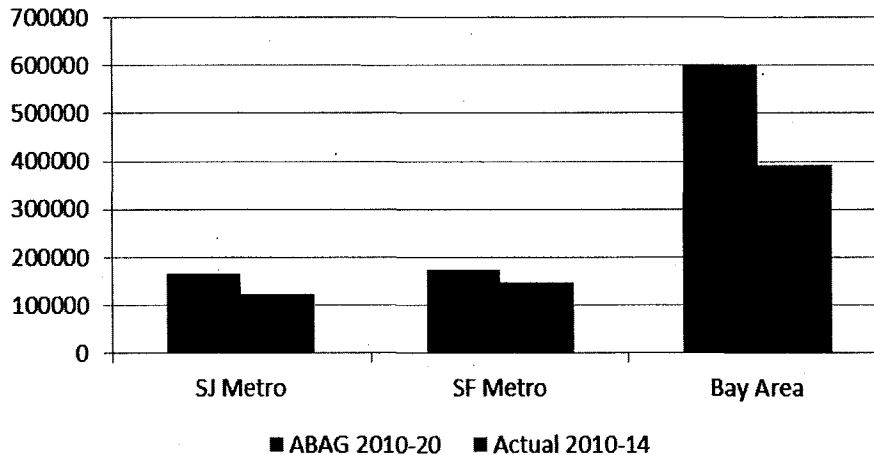
Growth and strategies to address growth challenges in Palo Alto are influenced by job and population trends in the region.

Recent Job Trends—Job Growth Surges Above Plan Bay Area Forecast

The region has added nearly 100,000 jobs per year since 2010 led by strong growth in the San Jose and San Francisco metro areas, which have often been among the five fastest job growth areas in the nation. Unemployment rates in the region declined to 5.3% in June 2014 with lower rates in San Francisco and San Mateo counties.

The recent job growth has outpaced the ABAG projected growth path to 2020 as shown below. In four years since 2010 the San Jose metro area (Santa Clara and San Benito counties) have recorded 75% of the job growth projected by ABAG between 2010 and 2020 while the SF metro area added 84% of anticipated 10-year growth and the region was 65% of the way to the ten year forecasted growth. It is likely that job growth will slow somewhat over the rest of the decade as discussed below but fears that the ABAG growth projections were far too high have not been borne out by actual events.

Job Growth Projected Vs. To Date



Recent Population Trends—Growth Accelerated in 2012 and 2013

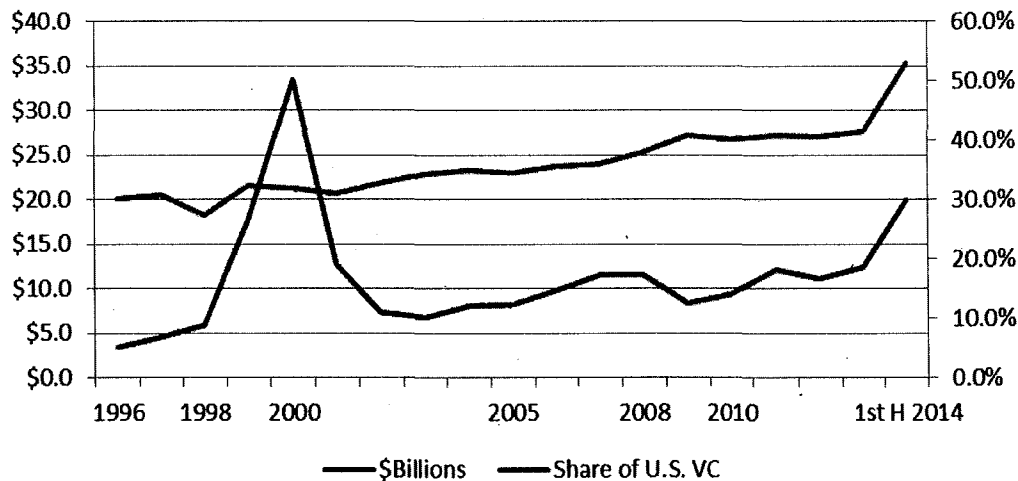
The region added nearly 275,000 residents between 2010 and 2014 or 40% of the ten-year growth anticipated in Plan Bay Area. It is very unusual for job growth to outpace population growth (usually there are roughly 2 added residents for every new job) but this was possible so far as many jobs were filled by existing residents who were unemployed.

But a large share of recent population growth came in the last two years as unemployment fell and more of the jobs required people moving to the region—a trend that will continue now that unemployment is near 5%. In 2012 and 2013 the Bay Area was the fastest growing region in the state and Santa Clara County was the fastest growing county.

Information Relevant to the Near Term Future and to 2030

Job growth will slow toward the end of the decade and beyond but that is already anticipated in the Plan Bay Area forecasts, which now look low for the period to 2030. For the near term the outlook is for continuing strong job growth. The U.S. and state job growth is expected to be strong through 2016. And the latest venture capital data show that the Bay Area is receiving a record high share of VC funding and 2014 shapes up as the second highest funding year after the dot.com boom record in 2000 based on data for the first half of the year.

Bay Area VC Funding Trends



In addition to normal economic activity the south bay will see extra activity surrounding the new 49er stadium and soon to open BART stations.

Two years ago there was discussion in Palo Alto questioning the Plan Bay Area population projections because they were much higher than those released by

the California Department of Finance (DOF). DOF will release new Bay Area and statewide projections for second review by regional/county planning agencies this Friday. They will be similar to the levels expected in Plan Bay Area and compared to previous ABAG and DOF projections have a) lower birth rates, b) more growth in the Asian population and c) similar patterns of substantial growth in the older population.

So the bottom line, which should not be surprising to residents, policy makers or staff, is that the Bay Area is experiencing substantial growth and remains desired by business and prospective residents alike as a great place to live and work.

Implications and Ideas for the Comp Plan

- 1) The Comp Plan horizon is 2030. The new DOF projections should give a good picture of the age and ethnic population trends for the region and peninsula. I appreciate how difficult it is to think about and plan for the future but I hope that the Council and PTC can incorporate the perspective of our 2030 residents and the kind of city they would like. That perspective will include that of existing residents and the substantial aging that will take place but also, I hope, reflect what newer residents will be like and want. One challenge we face with these incredibly rising home prices is maintaining diversity as much as realistically possible.
- 2) Staff has outlined four broad alternatives for the initial Comp Plan discussion. One difference among the alternatives is in the amount of growth that is planned for. I urge the staff, Council and PTC to include an alternative that at least matches the amount of growth envisioned in Plan Bay Area. My discussions with staff indicate that they may adjust one of the alternatives to achieve this broader range of growth alternatives for consideration.

I am well aware of the current mood of many residents about growth but have also seen at the PTC and at the Our Palo Alto meetings that many residents want to see the city offer a broader range of new housing. In addition I am concerned that there are legal risks in preventing discussion of plans that at least study the Plan Bay Area anticipated growth.

- 3) Staff has identified six areas within the city for studying future growth alternatives while trying to steer growth away from existing residential areas except for possible additional retail opportunities. I think this is a good framework for proceeding. In all of the meetings I have attended residents have worked constructively and seen opportunities in all of these locations. While we will not have exact numbers until the alternatives are fleshed out more, it may well be that these six areas can handle the housing growth without any densification of existing R1

neighborhoods. So what has been a controversy about housing growth in the abstract may be easier to find agreement if we get specific about these six areas.

- 4) I am encouraging staff to provide rough numbers as soon as possible as to how much growth is allowed under current zoning. I am worried that the current upset about recent growth is encouraging residents to have unrealistic expectations about how much growth can be limited apart from the Comp Plan question of what is desirable for Palo Alto. I am hoping that staff including the city attorney can clarify what is in the discretion of Council (certainly there is a lot and I expect vigorous analysis of public benefits for zoning change applications) and what is less or not discretionary—for example, the changes planned at the Yoga Center and CPK sites in downtown.

One factor for all to consider is that office use for tech companies and start-ups is much denser than the way office space was used ten or twenty years ago. This means that a considerable (I hope staff can get an estimate) amount of job growth can occur even if no more buildings are approved. There are solid cost (space is expensive) and productivity (tech workers get benefit from working closely together) for these changes.

Our offices downtown have seen two such changes—1) the way Palantir is using the space that our office and the adjacent training center used space before we had to move, 2) the way that the main tenant in our current building has gone from 10 to 40 employees in the same space and 3) we saw the same trend in our visit last week to our son's new workplace in Irvine where four or five people work in each office—40+ people working in a space that previously might have had 10 to 15.

- 5) There has been a lot of back and forth about what uses are good near transit. My understanding of the best thinking on these issues (which is supported by the Caltrain usage data) is

--for reducing commuting trips the best approach is to locate jobs near transit

--for reducing travel by households apart from commuting (most trips are not for commuting) the best locations are near services and often used retail.

So it is good to locate housing near downtown or Cal Ave, not primarily because they are near Caltrain stations but because they are near places residents go often and can now not need a car.

As a result the goal of locating housing within x miles of transit should be replaced by the goal of locating new housing near services and often used retail. There are places like T&C and Stanford Shopping Center for other needs. We cannot eliminate car use but can reduce the need for it by these measures.

I am attaching a memo on Caltrain usage. As readers can see Palo Alto ridership is in a strong uptrend and by far the largest use is riders who come to PA in the morning in contrast to those who leave from the city confirming that it is access to jobs that is boosting ridership the most.

- 6) I am attaching a long memo on retail/dining/services demands and locations. There are three bottom lines

--for downtown what we have is what one would expect given the customer base

--growth in the customer base downtown and in many PA locations is driven by jobs and visitors (from afar, from neighboring communities and from other parts of PA). The customer base is not dominated by nearby residents (although we feel well served living downtown) and one should expect prospective tenants to think about the needs of their primary customer base.

--many of the residents who call for more retail also call for limiting housing and job growth putting them in a logical disconnect from the perspective of prospective retail/dining/service owners.

- 7) I commend the city for the three part approach to parking and traffic downtown and wish all participants well. From my perspective there are no villains here and solutions need to respect the perspectives of residents, businesses and workers to solve the problem for everyone and not just move it around. Probably some kind of pricing oriented to incentives to use existing non street parking will be helpful along with capacity increases.

- 8) I am worried about two potential "mistakes" in the Comp Plan process and associated activities—

--a) that residents may underestimate the amount of growth that is coming, which is why I have stressed providing such information and associated legal opinions

--b) that as a result of these underestimates or wishful hopes, we may not go as aggressively as I think we need to in improving infrastructure,

expanding school capacity, finding approaches to deal with the expanded parking and traffic challenges

CENTER FOR CONTINUING STUDY OF THE CALIFORNIA ECONOMY

575 MIDDLEFIELD ROAD SUITE 110 • PALO ALTO • CALIFORNIA • 94301

TELEPHONE: (650) 321-8550
FAX: (650) 321-5451
www.ccsce.com

DATE: July 28, 2014
TO: Palo Alto City Council and PTC Members
FROM: Stephen Levy
SUBJECT: Caltrain and PA Planning Issues

Some Caltrain Trends

Average Weekday Ridership

The Palo Alto (downtown) station remains the second busiest system wide and shows above average growth since 2010. Interestingly, while the Cal Ave ridership is much lower, the rate of growth exceeds that at the downtown station. Since these are total trips, the number of unique riders is roughly half of the ridership totals. So, for example, the growth of 2,574 boardings at PA represents nearly 1,300 additional riders.

Average Weekday Trips To and From Station

	2010	2011	2012	2013	2014	Growth 2010-14	
						Number	Percent
PA	3582	4028	4664	5469	6156	2574	71.9%
Cal Ave	777	865	1069	1294	1408	631	81.2%
Mt View	3049	3368	3670	3876	4274	1225	40.2%
Total	34120	37779	42354	47060	52611	18491	54.2%

Source: Caltrain

Average Peak Morning Ridership

These trends are interesting and shed light on two discussions—1) the priority for downtown housing and jobs relative to transit and 2) parking and shuttle service relative to ridership trends.

Average MORNING PEAK Weekday Trips to and From Palo Alto Station

	Going North		Going South		Total	
	On	Off	On	Off	On	Off
2010	659	790	161	1399	820	2189
2011	382	826	150	1538	532	2364
2012	726	1037	186	1803	912	2840
2013	746	1333	214	2139	960	3471
2014	820	1493	246	2459	1066	3952
2010-14	161	703	85	1060	246	1763
	24.4%	89.0%	52.8%	75.8%	30.0%	80.5%

The first point to note is that the station is used by many more coming here than leaving from here. In 2014 in the morning peak hour 3,952 riders got off at PA station and 1,066 got on. The number of riders getting off at PA increased by 80.5% since 2010 while the departing riders increased by just 30.0%.

More riders (2,459 in 2014) got off coming from the north than from the south (1,493) but there are large numbers and % increases from both directions.

Potential Implications

Palo Alto is a major destination for jobs for Caltrain morning riders. The increase since 2010 has been 1,763. It would be interesting to know the split between those going downtown, to Stanford and perhaps to other locations. I know that many walk downtown after getting off as I see them but I do not have numbers. Perhaps Stanford has and would share shuttle ridership trend information.

Each of these arriving passengers eliminates a parking demand. It would be interesting to know how the increase in riders getting off at PA compares to job increases in downtown and Stanford.

I had thought the increase on people getting on at PA would have been larger and might have been a larger component of the increase in parking pressure. This looks less likely given the ridership numbers and 1) that PA has the second largest on board bikers (732), 2) some people walk to the station and 3) some are dropped off.

I think these data support the idea that locating jobs near transit is the more effective way to reduce auto commute use while locating housing near downtowns remains the most effective way to reduce non commute travel.

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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 Hobee'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.