

# ECONOMIC VITALITY STRATEGY OPTIONS FOR DOWNTOWN LOS ALTOS

Prepared for:  
**City of Los Altos**  
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Submitted by:  
 **LAND ECON GROUP**

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## General and Limiting Conditions

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Every reasonable effort has been made to ensure that the data and information contained in this report are accurate as of the date of this study. However, factors exist that are outside the control of Land Econ Group (LEG) that may affect the estimates and forecasts contained herein. This study is based upon research information, estimates, assumptions and forecasts developed by LEG from independent research efforts and knowledge of the industry. LEG does not assume responsibility for inaccurate information provided by the clients, the client's agents and representatives, or other data sources used in the preparation of this study. The report is based upon information current as of February 2017. LEG has not undertaken any updates of its research since such date.

Because future events and circumstances, many of which are not known or predictable as of the date of this study, may affect the estimates contained therein, no warranty or representation is made by LEG that any of the projected values or results contained in the study will actually be achieved.

## I. Executive Summary

### Downtown Strengths

Downtown Los Altos enjoys strengths and positive attributes that few smaller downtowns are able to match:

- It is located very near the heart of Silicon Valley. Over the past half century, the economic revolution initiated in this valley has increased global productivity and created enormous local wealth. The economy of this valley, after a period of recession, is now undergoing strong expansion.
- The market area for Downtown Los Altos is the City of Los Altos and the Town of Los Altos Hills. These municipalities are the two wealthiest in Santa Clara County with incomes and home values higher than Palo Alto, Cupertino, Los Gatos, Sunnyvale and Mountain View.
- Downtown retail sales has climbed steadily from \$100 million in 2009 to an estimated \$148 million in 2016. Restaurant sales have approximately doubled over this same period.
- With office rents in the \$5.00 to \$6.00 per square foot range, office demand is strong.
- Residential and hotel demand are also strong in the downtown.
- Downtown is the ideal size to function as a pedestrian district.

### Challenges and Constraints

While downtown's strengths are the envy of most every small city across the country, it does have a number of challenges and constraints:

- Neighboring cities are developing new office, retail, restaurant and residential projects in strong regional locations, like the intersection of El Camino Real and San Antonio Road in Mountain View, to compete for sales and tenants.
- The growing success of E-commerce retail has limited the expansion potential of brick and mortar retail stores. E-commerce retail sales in the US has increased from under \$100 in 2000 to over \$1,200 in 2016 on a per capita basis.
- With a majority of the downtown retail buildings constructed before 1970, many retail spaces are too deep and ceiling heights too low to effectively attract contemporary retail tenants.

- Contemporary personal fitness tenants, such as yoga or Tai Chi studios, day spas, martial arts classes and kinder gyms are not permitted in much of downtown.
- Retail rents have declined since mid 2014 and office rents have declined since early 2016.

## Parking Requirements and Downtown Vitality

The combination of high parking requirements, high land cost and the efficiency of larger parking garages forces new development to be of a size and bulk that many residents feel erode the downtown's village character. Despite some world-class strengths, downtown's challenges and constraints have limited its ability to add substantial vitality during this period of rapid regional economic expansion.

- Village scale expansion of small properties within the Downtown Parking District is impossible because expansion beyond an FAR of 1.0 requires additional parking on site, and small lot sizes make underground garages inefficient and financially unfeasible.
- Outside the Parking District, new development must satisfy suburban style parking requirements. (As a specific example, the primary reason that Downtown Los Altos does not have many high quality restaurants despite its affluence is because its parking requirement for restaurant development is five times that of Downtown Santa Barbara and three times that of Downtown San Luis Obispo. In addition, the employee related requirements penalize higher quality and more service intensive restaurants.)
- In contrast to Los Altos' goal of providing convenient parking everywhere, many smaller cities that have vibrant downtowns promote a philosophy of parking once and visiting multiple destinations by walking. For example, a person who visits an office, a bank, a coffee shop, a drug store and a restaurant in a small downtown needs only one parking space rather than the four or five in accordance to suburban style requirements. In mixed-use downtowns, where many short trips are shifted from driving to walking, the district-wide parking demand is greatly reduced.
- The emergence and growing popularity of ride sharing services like Lyft and Uber is likely to reduce future parking demand. Based upon a 2016 survey of over 34,000 ride sharing passengers who responded in 20 metropolitan areas (tabulated by LEG), 57 percent indicated that they likely would use their private automobiles less and 42 percent indicated that they would less likely own a private automobile because of the availability of ridesharing services.

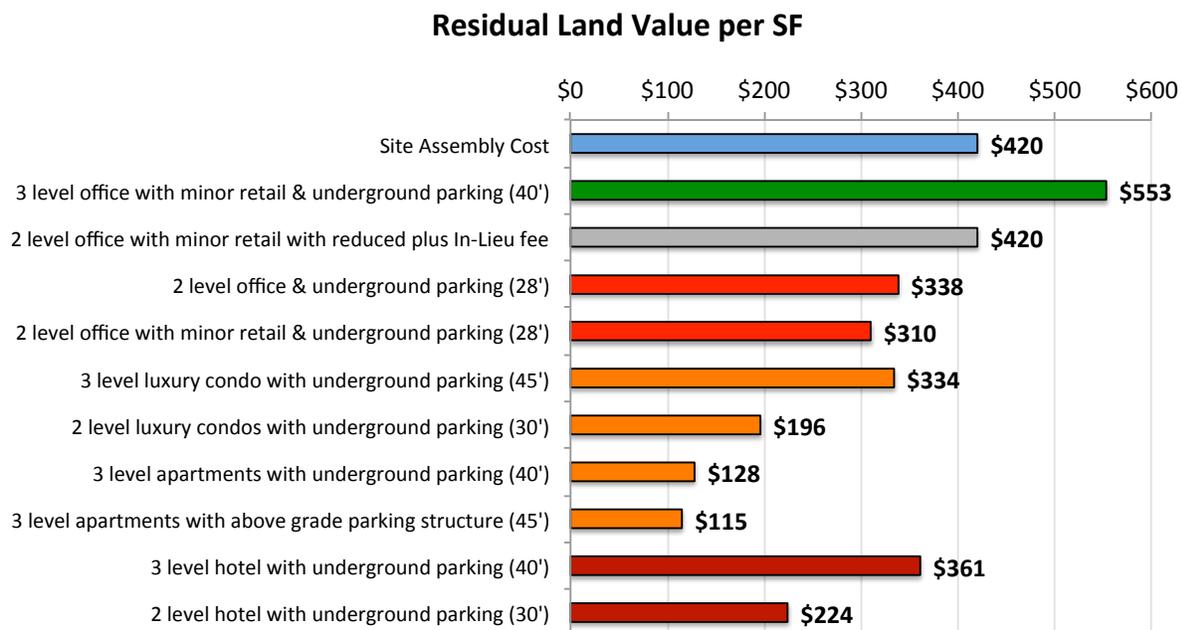
## Height Limits and Development Feasibility

We tested the impact of building height limits on redevelopment feasibility with our development pro forma feasibility model. This model compares the "residual land value" supportable by a development

project against the cost of assembling the redevelopment site. Residual land value is the amount of land value that a developer can afford to pay considering its projected revenues less all development cost, including the developer’s expected return.

The site assembly cost in downtown is estimated at \$400 to \$420 per square foot based upon one-story retail buildings available on the market in Los Altos and Mountain View, which are assumed to be purchased for clearance and redevelopment. Eight hypothetical development scenarios were examined assuming different uses and building heights. Two different land parcel sizes were tested. The findings are summarized in Figure 1 below. A three-story office building with minimum retail and underground parking with a height of approximately 40 feet is the only development scenario that was found to be clearly feasible. A two-story office building scenario was found to be marginally feasible, if its parking requirement was reduced to 2.5 spaces per 1,000 square feet plus if a Parking In-lieu Fee of \$25,000 per stall was applied for the requirement that exceeded the capacity of a one-level underground garage. All others were found to be not feasible.

**Figure 1: Development Feasibility and Building Heights**



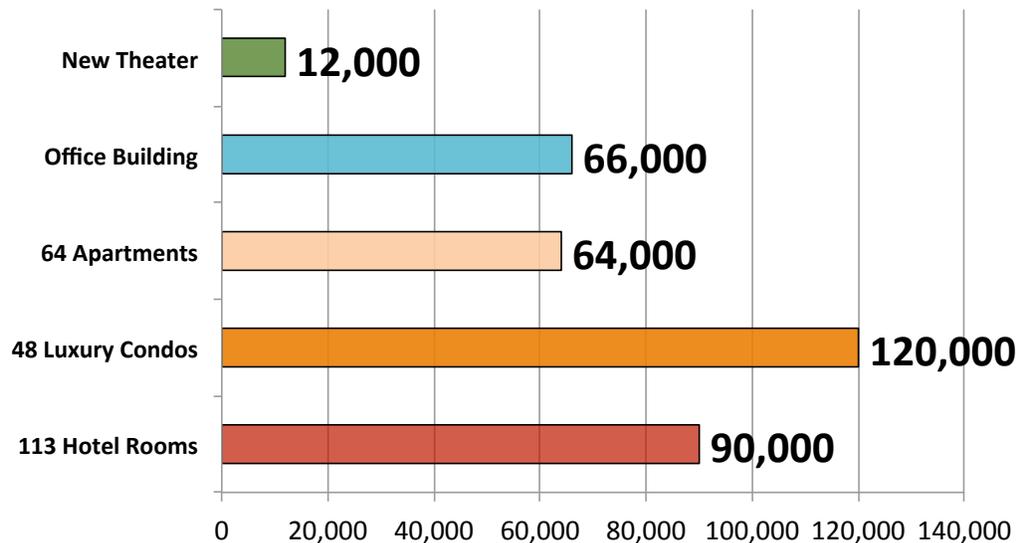
Source: Land Econ Group

### Options to Increase Downtown Vitality

LEG has made estimates of the amount of each type of new development that is required to add \$1 million in new retail sales in the Downtown (Figure 2). As shown, it would require a new office building of 66,000 square feet or 64 new apartments (1,000 SF each) or 48 luxury condominiums (2,500 SF each)

or 113 new hotel rooms to achieve a comparable level of retail and restaurant sales gain to that of a new performing arts theater downtown of 12,000 square feet.

**Figure 2: Estimated Amount of Building SF Needed for One Million Dollar Gain in Downtown Sales**



Source: Estimates by Land Econ Group

## Policy Recommendations

The following seven recommendations are designed to enhance the vitality of Downtown Los Altos by 15 to 20 percent over a five to eight year period after implementation. They are also designed to encourage smaller scale incremental change that allows Downtown Los Altos to modernize while keeping the essence of its village character.

### Permit Contemporary Fitness and Personal Service Type Uses

Permit these uses along State Street and perpendicular streets but maintain the key blocks of Main Street for retail and restaurant use. This change reduces the duration of retail vacancies, adds pedestrian activity in the downtown, enhances retail sales, protects property interests and does not degrade village character.

### Overhaul Downtown Parking Requirements

Los Altos can learn from downtowns with the level of pedestrian vitality desired such as Burlingame, Los Gatos, San Luis Obispo and Santa Barbara.

- Suggest 2.0 to 2.5 parking spaces per 1,000 square feet of office, retail, restaurant or personal service use. The single standard facilitates re-leasing of vacant space to maintain vitality. Eliminating per employee requirements removes the development cost penalty for higher service restaurants.

- Suggest 0.8 to 1.0 parking spaces per hotel room. Employees are able to purchase annual permits at nominal cost. Eliminating employee requirements removes the development cost penalty for higher quality and higher service hotels.
- Institute a Parking In-Lieu Fee at \$25,000 to \$30,000 per space. The In-lieu Fees allows smaller properties to develop or redevelop. The money collected would accumulate in a Downtown Parking Fund and be used later to construct addition parking in or near the downtown as such parking is needed.
- As parking demand grows in the downtown core, use permits, pricing and enforcement to shift employee parking to the areas less convenient for shoppers and restaurant patrons.

### **Move Forward with New Downtown Theater**

Relative to the amount of new building mass added the proposed new theater has very strong sales impact on restaurants in the downtown.

- Since a large majority of its patronage is in the evenings or on weekends, when parking downtown is not constrained, we suggest that the parking requirements for the new theater be waived. Having theater patrons park throughout the downtown has a greater impact on pedestrian vitality than having them drive in and out of a dedicated parking garage.
- Proceed with detailed feasibility study if needed. It is common for municipal performing arts centers to require an annual operating subsidy to help cover maintenance and utilities. This issue should be addressed in the feasibility study.
- Initiate a fund raising campaign. Given the affluence of the community, we expect the entire project development cost to be covered by private donations raised through a well-conceived fund raising campaign.

### **Preserve Buildings and Landmarks of Historic Importance**

The architectural character of some of Los Altos' long-standing buildings contributes to its village character and provide downtown with a unique sense of place that is important for long-term vitality. It is time for Los Altos to formally identify those buildings and initiate the process of historic preservation. A state level historic designation prevents demolition and limits renovation options for the property owner, but can also confer tax benefits.

### **Add Public Spaces or Facilities that Enhance Sense of Place**

The addition of public spaces, public facilities and events will bring more people downtown. The actual sales impact will depend upon the type of facility and crowd peaking characteristics of the events. An extreme peak in attendance leads to pedestrian and parking congestion that can diminish retail sales, but a series of events that have moderate and more even attendance can enhance downtown sales.

**Permit Three Story Buildings at Select Locations with Top Floor Setback**

As the financial analysis shows, under current parking requirements a two story height limit essentially restrict all new development even with the recommended changes in parking requirements. Elevating the height limit from 30 to 40 feet at selected locations with top floor set backs would add vitality to the downtown by allowing selected three-story office buildings to be developed.

**Institute Downtown Design Review**

Downtown's village character is not simply an issue of building height but very much an issue of building design, as well. It is time that Los Altos created a Downtown Design Review Committee to ensure that future projects of any significant scale reflects the community's desired character.

## II. Introduction

Downtown Los Altos is the community shopping district that has served both the City of Los Altos and the Town of Los Altos Hills since 1950s. It is now being buffeted by economic crosscurrents including more competition from neighboring cities, E-commerce displacing brick and mortar retail stores, a booming Silicon Valley economy and increasing affluence of its market area residents. With concerns that its vitality is waning, the City has engaged a consultant team led by RRM Design Group to prepare a Vision Plan and an Economic Vitality Strategy for its downtown. Land Econ Group (LEG) is the real estate and land planning economics subconsultant serving on the RRM team. This economics analysis examines the demographic and market forces driving change as well as the regulatory policies protecting the community from overly abrupt transition. This analysis provides the foundation for the planning alternatives to be evaluated by the Los Altos community in order to articulate its future vision for the downtown.

LEG has designed this analysis to serve two important but partially conflicting objectives:

- Increase the economic vitality of the downtown by approximately 20 percent.
- Maintain and enhance the village character of Downtown Los Altos so cherished by many of its residents.

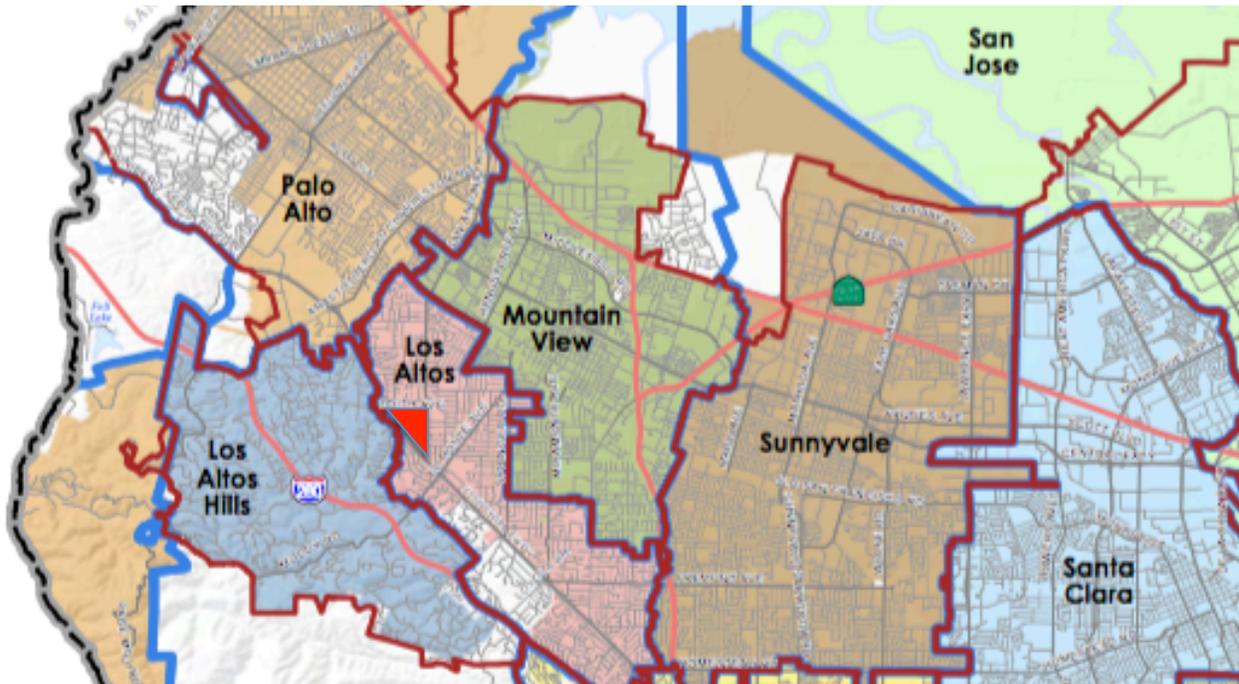
This study is prepared by the Principals of LEG with William “Bill” Lee serving as chief author/analyst and Tanya Chiranakhon serving as the primary researcher and key analyst. Jennifer Quinn, Economic Development Manager of the City of Los Altos, provided invaluable assistance by facilitating primary research and supplying insight and key data.

### III. The Key Strengths of Downtown Los Altos

#### A Booming Silicon Valley Economy

Downtown Los Altos is located near the heart of Silicon Valley (Figure 3). Shockley Semiconductor, a small business credited with initiating the silicon chip industry, was started just over one mile away at the intersection of San Antonio Road and El Camino Real. Stanford Industrial Park, now Stanford Research Park, the birthplace of Silicon Valley, is only two miles from Downtown Los Altos. Silicon Valley has experienced over four decades of globally unparalleled economic innovation and expansion, creating enormous wealth for many in the valley. This long-term economic expansion has oscillated through volatile cycles; however, since the Great Recession of 2008 and 2009, it has been on a robust expansion cycle.

**Figure 3: Downtown Los Altos and Surrounding Communities**



As shown in Table 1 below, since the trough of the recession in 2010, non-farm employment in Santa Clara County has increased by 172,400 with the most significant increase in the professional and business services sector (54,700), the education and health services sector (29,400) and the information technology sector (28,300). This strong job growth has powered demand for office space, housing, retail shops, restaurants and hotels. In the process it has driven up the price of real estate of all types.

**Table 1: Growth of Santa Clara County Employment Since Great Recession**

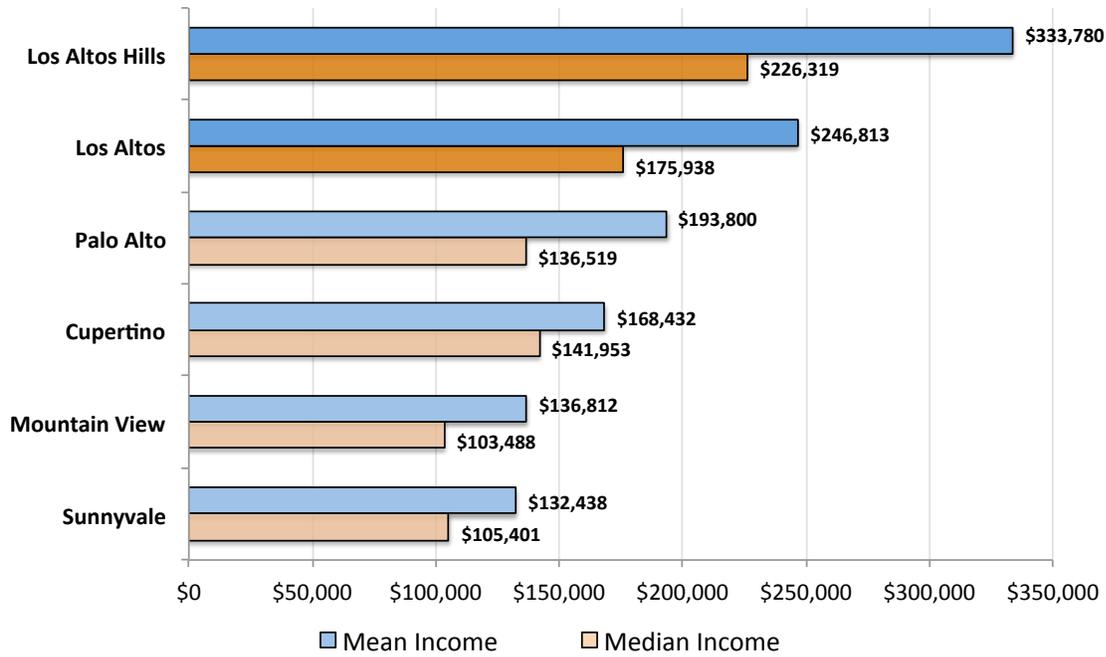
	2010	2011	2012	2013	2014	2015	2010 - 2015	
							Abs Change	CAGR
Total Nonfarm	856,200	877,100	911,100	947,000	987,400	1,028,600	172,400	3.7%
Annual Change	-2,300	20,900	34,000	35,900	40,400	41,200		
Annual Percentage Change	-0.3%	2.4%	3.9%	3.9%	4.3%	4.2%		
Natl Resources, Mining and Constr	31,600	31,100	34,100	36,700	38,800	42,300	10,700	6.0%
Manufacturing	149,000	152,600	153,300	153,100	155,900	159,400	10,400	1.4%
Wholesale Trade	34,600	33,600	34,600	35,900	36,100	36,000	1,400	0.8%
Retail Trade	76,800	79,700	81,900	82,500	83,900	84,900	8,100	2.0%
Transp, Warehousing and Utilities	11,700	11,800	12,700	13,700	14,400	15,000	3,300	5.1%
Information	46,400	51,200	54,100	58,600	66,200	74,700	28,300	10.0%
Financial Activities	30,800	32,100	33,000	33,500	34,300	35,000	4,200	2.6%
Professional and Business Services	160,200	166,000	177,200	190,100	201,800	214,900	54,700	6.1%
Educational and Health Services	126,000	128,600	135,700	142,600	148,700	155,400	29,400	4.3%
Leisure and Hospitality	73,800	76,300	81,300	86,300	90,700	94,500	20,700	5.1%
Other Services	23,900	24,100	24,400	25,000	26,000	26,700	2,800	2.2%
Government	91,500	89,900	88,700	89,000	90,600	89,900	-1,600	-0.4%

Source: California Employment Development Department, Labor Market Information Division

## A Market Area of Exceptional Affluence

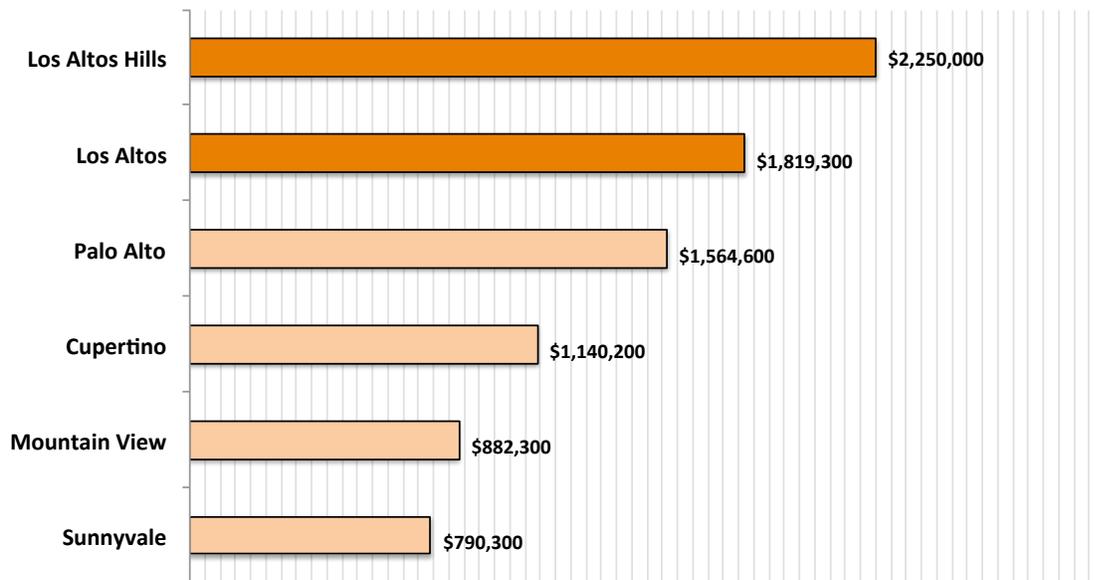
The unparalleled long-term expansion of the Silicon Valley economy, plus the recent accelerated job and income growth, has made the communities of Los Altos and Los Altos Hills not only the wealthiest communities in Silicon Valley, but also some of the wealthiest in all of the United States (see Figure 4 and Figure 5). Downtown Los Altos is the local shopping district that serves these two communities. As shown in Figure 2, the Town of Los Altos Hills and then the City of Los Altos are the highest income municipalities in Silicon Valley, higher than either Palo Alto or Cupertino. Also the substantial difference between the mean (arithmetic average) household income and the median (midpoint) household income indicate that there are large numbers of extremely wealthy households in these communities. The physical appearance of Downtown Los Altos and its tenant profile do not seem to have kept pace with the growing and world-class affluence of its market area. In the next sections of this report, some of the explanations will be explored.

**Figure 4: Comparison of 2015 Household Income in Selected Silicon Valley Cities**



Source: American Communities Survey of Census Bureau

**Figure 5: Comparison of 2015 Median Home Prices in Selected Silicon Valley Cities**



Source: American Communities Survey of Census Bureau

## Sales History Indicates Solid Increase

Since the Great Recession, the retail sector in Downtown Los Altos has performed well. Based upon the city’s sales tax data and adjusting for the fact that groceries for home consumption and prescription drugs are not taxed, the estimated retail sales in downtown has grown from \$100 million in 2009 to \$147 million in 2015 (Table 2). This 47 percent gain in six years is about three times the rate of inflation in the Bay Area.

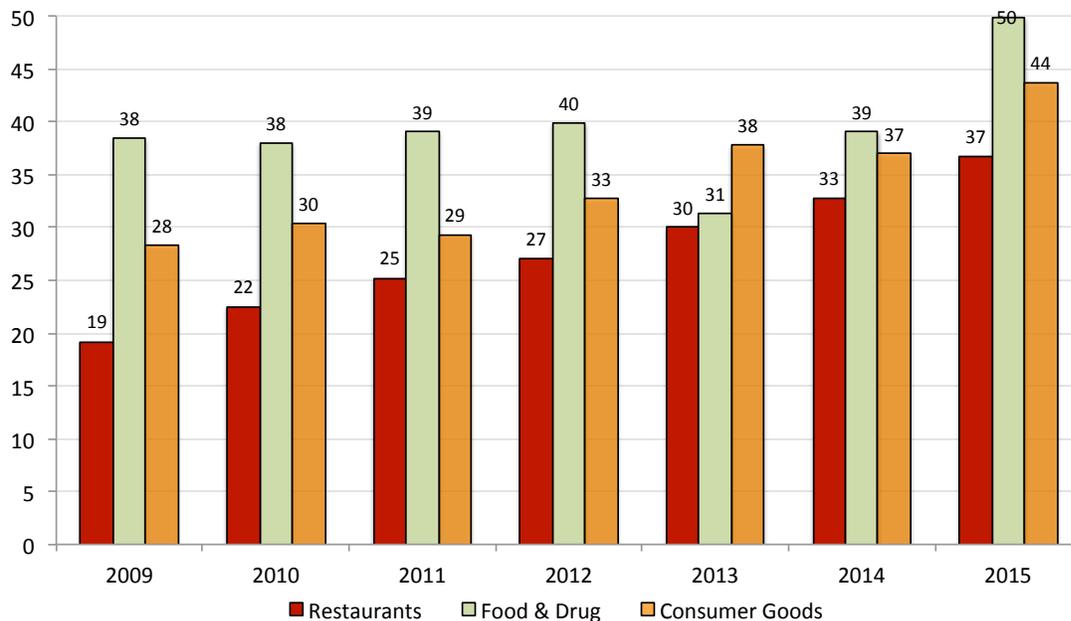
**Table 2: Estimated Downtown Los Altos Retail Sales by Store Type (Millions of Dollars)**

	2008	2009	2010	2011	2012	2013	2014	2015	Sales Gain 2009-15
Autos and Transportation	0.7	2.5	1.9	2.1	1.8	2.4	1.9	1.8	-0.7
Building and Construction	3.7	3.4	3.0	3.3	3.5	4.0	4.2	3.5	0.1
Business and Industry	2.2	1.7	2.0	0.9	1.0	0.8	0.8	1.2	-0.5
Food and Drugs*	39.9	38.5	38.0	39.0	39.8	31.3	39.0	49.8	11.4
Fuel and Service Stations	7.9	6.8	8.3	10.3	11.8	11.5	11.4	10.2	3.4
General and Consumer Goods	36.9	28.3	30.4	29.3	32.7	37.8	37.0	43.7	15.4
Restaurants	20.3	19.2	22.5	25.2	27.0	30.0	32.8	36.7	17.5
<b>Total</b>	<b>\$111.6</b>	<b>\$100.3</b>	<b>\$106.0</b>	<b>\$110.0</b>	<b>\$117.6</b>	<b>\$117.8</b>	<b>\$127.1</b>	<b>\$146.9</b>	<b>\$46.6</b>
<b>Annual Growth</b>	<b>-4.7%</b>	<b>-10.1%</b>	<b>5.7%</b>	<b>3.8%</b>	<b>6.9%</b>	<b>0.1%</b>	<b>8.0%</b>	<b>15.6%</b>	<b>46.5%</b>

\*Adjusted by a factor of 3 to reflect groceries and prescription drugs not being taxable

Source: HDL Companies

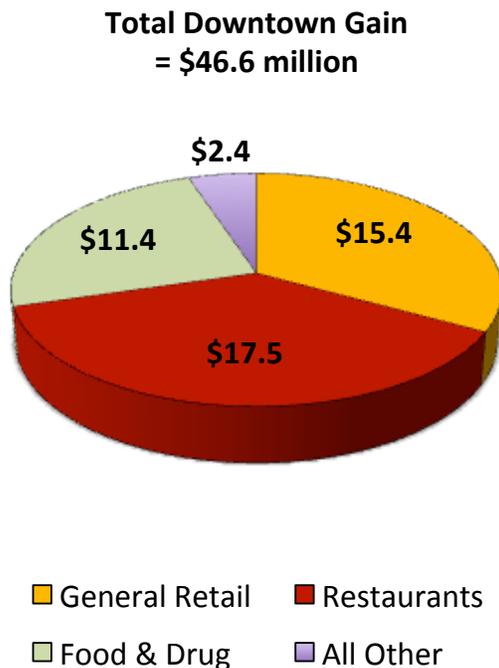
**Figure 6: High Growth Retail Sectors in Downtown**



Source: HDL Companies

As presented in Table 2 and highlighted in Figure 6 above, the restaurant sector in the downtown has essentially doubled in revenue from 2009 to 2015. The strong operators, like Los Altos Grill, are prospering. For the food and drug store sector, the Safeway redevelopment was noticeable in 2013 as sales dropped from \$40 million in 2012 to \$31 million. Once the new Safeway was completed, sales rebounded to \$39 million in 2014 and \$50 million in 2015. The consumer goods sector, which includes personal services, has shown steady sales increase as well. The graph in Figure 7 illustrates that of the downtown's \$46.6 million in estimated sale increase, the largest portion went to restaurants at \$17.5 million, followed by general retail at \$15.4 million and then groceries and drug stores at \$11.4 million. All other retail, primarily automotive retail, service station sales and business related retail, accounted for only \$2.4 million of the sales increase.

**Figure 7: Distribution of Downtown Sales Gain from 2009 to 2015**



Source: HDL Companies

The City of Los Altos as a whole also experienced retail sales increase during this six-year period (Table 3). Of the \$66.6 million in sales gain, 70 percent was achieved by the downtown (Figure 8).

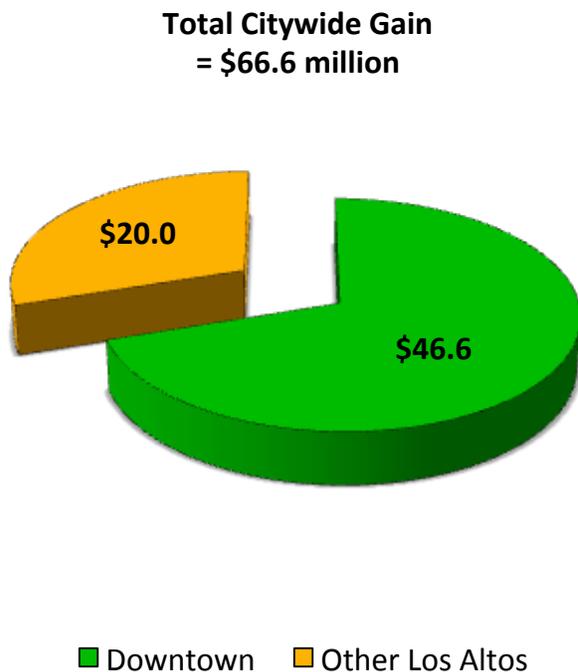
**Table 3: Estimated City of Los Altos Retail Sales by Store Type (Millions of Dollars)**

	2008	2009	2010	2011	2012	2013	2014	2015	Sales Gain 2009-15
Autos and Transportation	2.1	3.7	3.2	3.0	2.5	3.2	2.5	2.6	- 1.1
Building and Construction	6.8	4.9	3.6	3.7	4.0	4.3	4.7	3.9	- 1.1
Business and Industry	32.4	22.0	20.0	19.5	14.9	10.3	10.3	12.4	- 9.5
Food and Drugs*	123.1	112.5	115.7	116.7	121.6	116.1	127.2	146.0	33.5
Fuel and Service Stations	42.0	33.2	39.4	48.1	50.2	48.1	45.7	39.7	6.5
General and Consumer Goods	57.3	44.5	46.1	43.8	46.6	53.1	50.0	56.9	12.5
Restaurants and Hotels	43.0	41.0	44.8	49.3	52.4	56.6	61.2	66.7	25.7
Transfers and Unidentified	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	-
<b>Grand Total</b>	<b>\$306.9</b>	<b>\$261.8</b>	<b>\$272.8</b>	<b>\$284.1</b>	<b>\$292.2</b>	<b>\$291.6</b>	<b>\$301.6</b>	<b>\$328.5</b>	<b>\$66.6</b>
Annual Growth	-1.6%	-14.7%	4.2%	4.1%	2.9%	-0.2%	3.4%	8.9%	
Downtown Share of City Sales	36.4%	38.3%	38.9%	38.7%	40.2%	40.4%	42.2%	44.7%	70.0%

\*Adjusted by 3 times to reflect groceries and prescription drugs not paying sales tax

Source: Estimated from City Sales Tax Data provided by HDL Companies

**Figure 8: Downtown Share of Citywide Retail Sales Gain**



Source: HDL Companies

## Occupied Retail and Office Space Downtown Have Increased

The amount of occupied retail space in the downtown has grown since the recession as well. As shown in Table 4 below, occupied retail space dropped from 576,000 square feet in 2008 to 547,000 square feet in 2010 during the trough of the recession. It has grown to 640,000 square feet by 2016. Much of this growth was achieved in 2014 when the new and larger Safeway was completed. While the longer term trend has been solid, the recent trend is causing concern with vacancies increasing and average triple net rent (net of maintenance, insurance and property tax) decreasing during the past two years.

**Table 4: Trends in Occupancy of Downtown Retail Space**

Quarter	Inventory Bldgs	Inventory SF	Occupied SF	Occupancy %	Net Absorption SF Direct	NNN Rent Direct	Sales in Millions	Sales per SF
2007 Q4	130	580,237	575,837	99.2	-900	\$2.95	\$117.2	\$203
2008 Q4	131	582,858	576,008	98.8	4,021	\$3.15	\$111.6	\$194
2009 Q4	131	582,858	556,832	95.5	-3,005	\$2.84	\$100.3	\$180
2010 Q4	131	582,858	547,133	93.9	-486	\$2.83	\$106.0	\$194
2011 Q4	131	582,858	567,014	97.3	909	\$2.83	\$110.0	\$194
2012 Q4	131	582,858	558,914	95.9	-2,762	\$2.96	\$117.6	\$210
2013 Q4	131	582,858	564,975	96.9	746	\$3.61	\$117.8	\$208
2014 Q4	133	661,657	637,218	96.3	11,860	\$4.44	\$127.1	\$200
2015 Q4	133	661,657	642,899	97.2	-3,257	\$3.67	\$146.9	\$229
2016 Q4	133	661,657	640,417	96.8	-6,064	\$3.52	N A	N A

Source: CoStar

The market for office space in the Downtown Los Altos is very similar to that of retail space. According to the data provider CoStar and shown below in Table 5, the amount of occupied office space climbed from 324,000 square feet in 2009 to 406,000 square feet by the end of 2016. However, rents have fallen and occupancy decreased this past year as more competition has emerged from Mountain View.

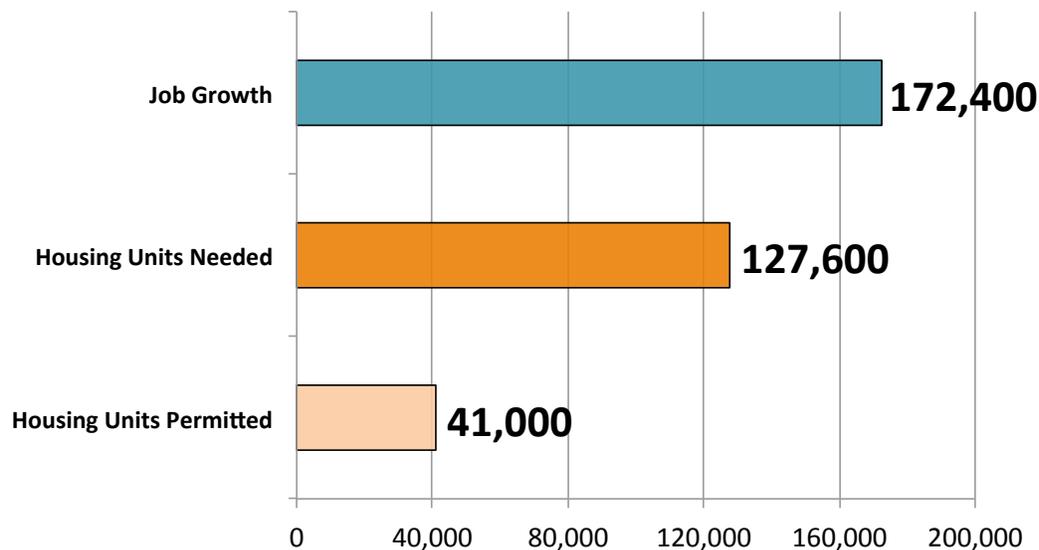
**Table 5: Trends in Occupancy of Office Space Downtown**

Quarter	Inventory		Occupied SF	Occupancy %	Net	Office Gross Rent Direct
	Bldgs	Inventory SF			Absorption SF Direct	
2007 Q4	51	351,335	332,246	94.6	-13,835	\$3.37
2008 Q4	51	351,335	341,927	97.3	834	\$3.72
2009 Q4	51	351,335	324,259	92.3	1,397	\$3.64
2010 Q4	51	351,335	336,950	95.9	1,917	\$3.22
2011 Q4	51	351,335	331,783	94.4	-2,795	\$3.77
2012 Q4	53	422,391	396,437	93.9	9,214	\$4.14
2013 Q4	53	422,391	412,988	97.8	11,644	\$4.27
2014 Q4	53	422,391	408,003	96.6	170	\$4.60
2015 Q4	53	422,391	412,127	97.6	8,573	\$5.42
2016 Q4	53	422,391	406,325	96.2	595	\$5.34

Source: CoStar

## Silicon Valley Housing Market Not Keeping Pace with Job Growth

Because of the time lag between job growth and housing production, the cities in Santa Clara County are suffering from a severe housing shortage. The result has been escalating home sales prices and apartment rents. As shown in Figure 9 below, from 2010 through 2015 the county added 172,400 jobs, but only 41,000 units of housing were permitted. In order to maintain the jobs versus housing balance that existed in 2010, 127,600 housing units need to be developed to accommodate this strong level of job growth.

**Figure 9: Housing Units Needed to Maintain Jobs v Housing Balance in County 2010 to 2015**

Source: CA Employment Development Department, HUD and ABAG

The result of this housing shortage has been escalating home prices and apartment rents to the benefit of homeowners but to the detriment of new homebuyers and renters. The number of apartment units in Los Altos has grown from 667 units in 2007 to 1,017 units by the end of 2016. Rent has climbed by about 50 percent during this period and the average units size has declined as new project have smaller units in attempt to keep costs down. However, this past year both average rent per unit and per square foot have fallen in the city (Table 6), as new countywide housing production appears to be making inroads into the demand backlog.

**Table 6: Apartment Market Trends in Los Altos**

Quarter	Inventory Bldgs	Inventory Units	Inventory Avg SF	Effective Rent Per Unit	Effective Rent Per SF	Vacancy %	Occupied Units
2007 Q4	37	667	1,040	\$1,694	\$1.86	3.5	651
2008 Q4	37	667	1,040	\$1,722	\$1.89	5.1	643
2009 Q4	38	745	1,040	\$1,574	\$1.72	4.6	724
2010 Q4	38	745	1,040	\$1,725	\$1.89	2.2	735
2011 Q4	38	745	1,040	\$1,850	\$2.03	2.2	735
2012 Q4	38	745	1,040	\$2,018	\$2.22	2.8	732
2013 Q4	40	825	1,040	\$2,114	\$2.33	2.4	814
2014 Q4	40	825	1,040	\$2,253	\$2.49	3.1	810
2015 Q4	41	992	899	\$2,743	\$3.04	3.6	975
2016 Q4	42	1,017	909	\$2,530	\$2.80	4.3	996

Source: CoStar

## Hotel Market Has Been Strong

The hotel market in Los Altos has been strong as well, as measured by transient occupancy tax (TOT) collections. Hotel room revenue has increased every year since FY 2001-02 with the exception of FY 2008-09 when it dropped by over 15 percent due to the recession. As shown in Table 7 below, hotel room revenue has more than doubled since that recession year. This market strength is reflective of the booming Silicon Valley economy and the fact that Downtown Los Altos provides hotel guests with a safe and pleasant pedestrian environment in the evenings.

**Table 7: Citywide Transient Occupancy Tax and Hotel Room Revenue**

Fiscal Year	TOT	TOT Rate	Room Revenue	
			(Millions)	Annual % Change
2001-02	\$254,887	10.0%	\$2.5	--
2002-03	\$633,861	10.0%	\$6.3	148.7%
2003-04	\$945,649	10.5%	\$9.0	42.1%
2004-05	\$1,057,995	11.0%	\$9.6	6.8%
2005-06	\$1,260,279	11.0%	\$11.5	19.1%
2006-07	\$1,469,867	11.0%	\$13.4	16.6%
2007-08	\$1,525,090	11.0%	\$13.9	3.8%
2008-09	\$1,289,722	11.0%	\$11.7	-15.4%
2009-10	\$1,345,855	11.0%	\$12.2	4.4%
2010-11	\$1,517,579	11.0%	\$13.8	12.8%
2011-12	\$1,782,018	11.0%	\$16.2	17.4%
2012-13	\$1,946,484	11.0%	\$17.7	9.2%
2013-14	\$2,168,556	11.0%	\$19.7	11.4%
2014-15	\$2,450,488	11.0%	\$22.3	13.0%
2015-16	\$2,608,368	11.0%	\$23.7	6.4%

Source: City of Los Altos

## Downtown is Ideal Size for Pedestrian District

Based upon the experience of having studied a number of smaller downtowns in detail, LEG is of the opinion that Downtown Los Altos has the physical attributes to be a very vibrant pedestrian district. As illustrated in Figure 10, the key attributes include:

- The size of the downtown triangle is such that all parts are essentially within a five-minute walk of the center and walking from one corner to another is rarely more than ten minutes.
- The street system layout is such that traffic moves at moderate speeds.
- The street dimensions and block sizes are friendly to pedestrians.
- Some of the key sidewalk improvements are already in place.
- The existence of a large number of centralized public parking spaces is essential for a good pedestrian downtown. While only about half of the land area is in the parking district, the spaces in the district serve the entire downtown.

Figure 10: Downtown Walking Distances and Parking District



Source: Downtown Parking Management Plan 2013, CDM Smith

## IV. Challenges and Constraints to Downtown Vitality

While Downtown Los Altos enjoys many positive attributes, it also faces a number of challenges and constraints. The key challenges and constraints are summarized here and discussed in greater detail in this report section.

- There is growing competition from neighboring cities, particularly Mountain View.
- E-commerce is eliminating many brick & mortar retail stores.
- Older downtown retail buildings are not well suited to contemporary retail tenant needs.
- Los Altos has zoning restrictions that prevent contemporary physical fitness tenants from leasing vacant retail spaces.
- Downtown parking requirements for new development inhibit small scale incremental change essential to maintaining village character.
- The two-story building height limit, in combination with high land cost and high parking requirements, render redevelopment unfeasible.

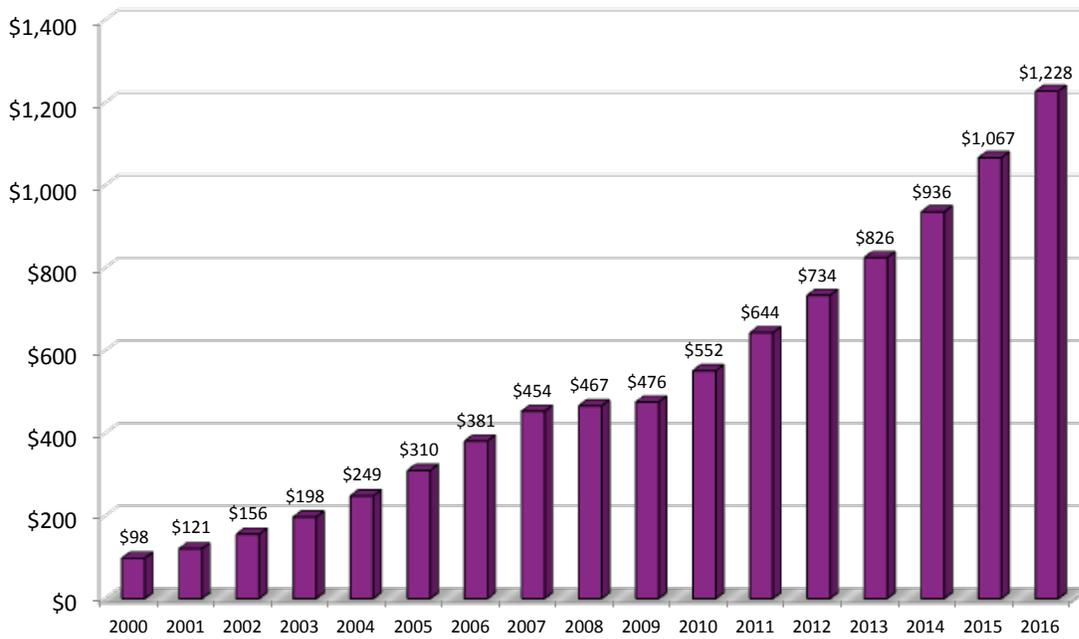
### Competition from Other Cities

As Los Altos debates the future of its downtown, neighboring cities are developing new shopping districts and office concentrations that are siphoning local sales and tenants. For example, a long struggling retail center at San Antonio Road and El Camino Real in Mountain View is being redeveloped. Now called the Village at San Antonio Center, it has just completed Phase 1 that includes a new Safeway supermarket and 330 residential apartments built over shops and restaurants. Phase 2 will add 400,000 square feet of office space, a 167-room hotel, an eight-screen cinema and 80,000 square feet of additional shops and restaurants. In the last two and half years, Mountain View has added 1.4 million square feet of new office space.

### E-Commerce Growth Eliminating Brick & Mortar Stores

Because of the dramatic emergence of E-commerce or on-line shopping, many regional shopping centers and downtown retail districts are struggling. According to Census Bureau estimates, E-commerce sales in the US have climbed from under \$100 per capita in 2000 to \$1,228 in 2016 (Figure 11). The average household in the US, assuming 2.6 persons, would have spent nearly \$3,200 in on-line purchases last year. Given the affluence and sophistication of the Los Altos and Los Altos Hills population, the per person amount could be considerably higher in this market.

**Figure 11: Growth in Per Capita E-Commerce Sales in US**



Source: US Census Bureau

The Wall Street Journal published an article at the end of 2016 indicating that the market value of Amazon is now higher than that of Walmart, Target, Best Buy, Macy’s, Kohl’s, Nordstrom, JC Penney and Sears combine (Figure 12 below).

**Figure 12: Amazon Dominant in Market Value**

Market value as of December 30, 2016



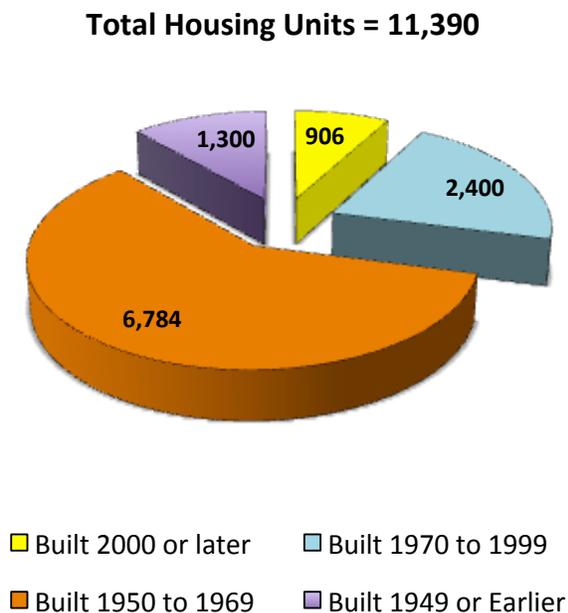
Source: Wall Street Journal

Vallco, the regional shopping mall in Cupertino, has had a difficult time competing against the Stanford Shopping Center to the northwest and Valley Fair/Santana Row to the southeast. Sand Hill Property Co. has recently announced that it will close all of its retail stores while keeping its cinema, ice skating rink and bowling alley open. The Benihana restaurant next to the ice rink will also remain open for the term of its lease. The voters of Cupertino voting down a proposition by Sand Hill Property Co. to redevelop the mall into a major concentration of offices, residential and restaurants with a park on top precipitated this action. The growing popularity of on-line shopping no doubt contributed to this closure decision.

### Growing Obsolescence of Downtown Buildings

A majority of the housing in Los Altos was built between 1950 and 1970, and over 70 percent of the stock was built before 1970 (Figure 13). The retail buildings in the downtown would have mostly been built during this period as well. These older buildings typically have heights of 10 to 12 feet, whereas contemporary retail tenants now require a minimum floor height of 15 or 16 feet. The depth of many of these older buildings is 100 feet, whereas contemporary retail tenants prefer a depth of 40 to 60 feet because of improved logistics. They do not need the extra 40 to 60 feet in depth, which was primarily used for storing inventory, and do not wish to pay rent for that space. Any attempt to update these buildings will trigger Title 24 Building Energy Efficiency Standards that are costly to implement.

**Figure 13: Age of Los Altos Housing Stock**



Source: Census Bureau

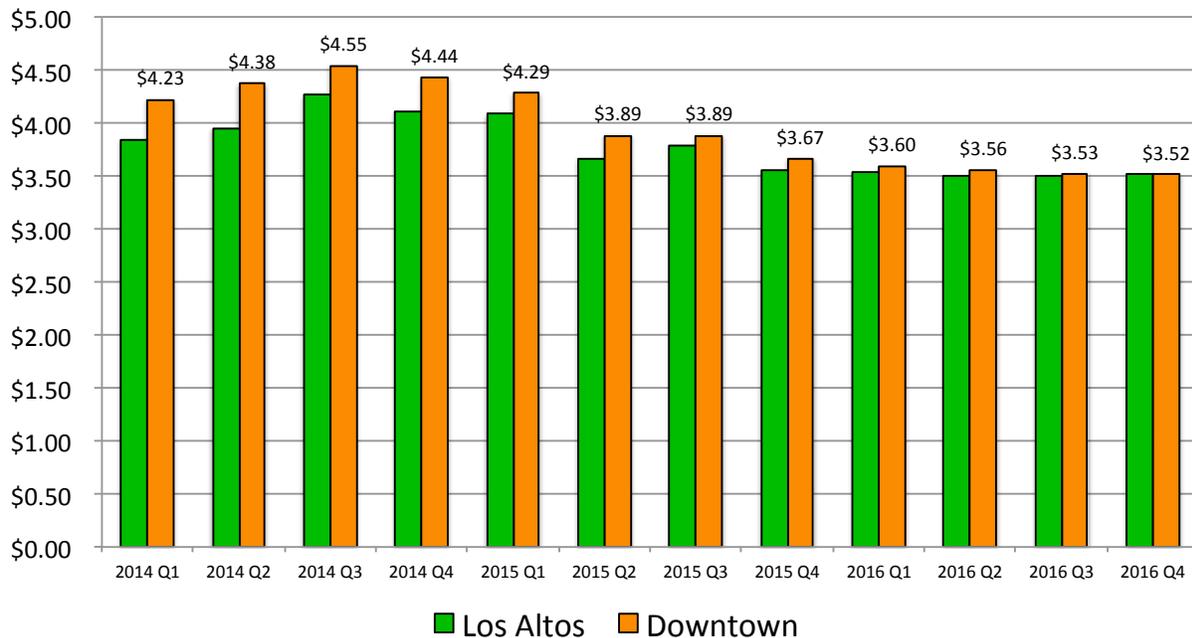
### Popular New Personal Services Tenants Not Permitted

As downtown property owners face increasing competition from E-commerce and neighboring cities for retail tenants, their ability to lease to new and popular physical fitness services type tenants are restricted by the Los Altos Zoning Code. As other retail districts lose shops, they are backfilling with fitness studios, day spas, yoga or Tai Chi classes, martial arts studios and kinder gyms. These new tenants pay rent to facilitate building and property maintenance and bring additional people into the district. For much of the Downtown Los Altos, property owners do not have this flexibility. As a consequence, storefront spaces remain vacant longer resulting in a lower level of downtown vitality.

### Retail and Office Rents Falling

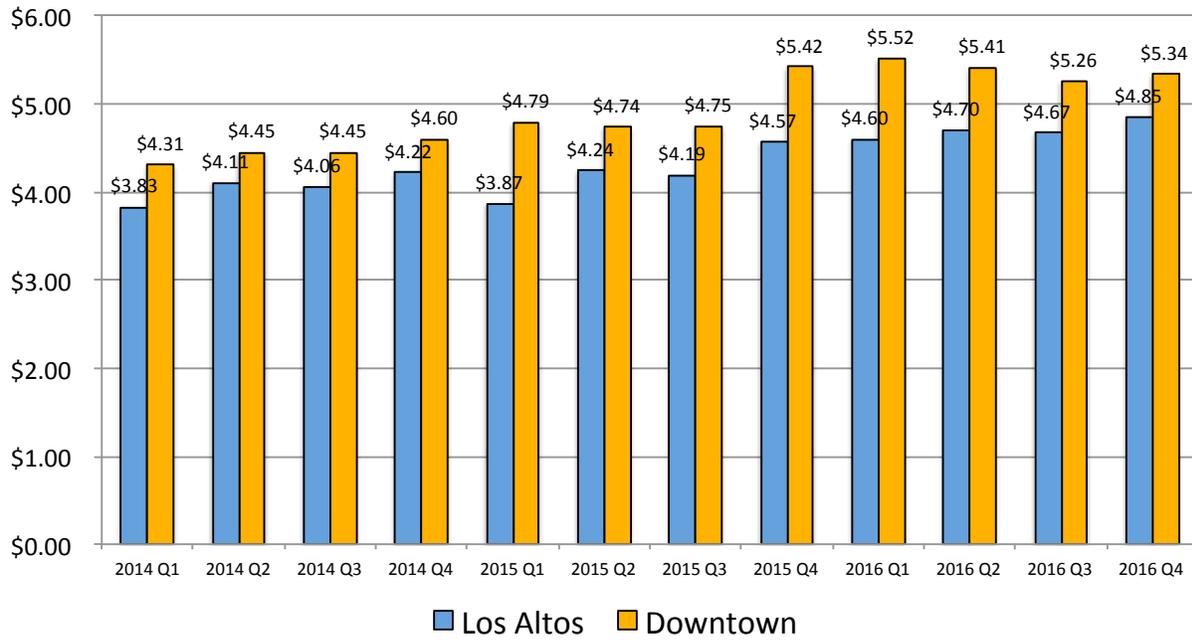
While the long-term trend since the recession has been strong, a closer examination of the last two year indicate that both retail and office rents in downtown are declining (Figure 14 and Figure 15). These declines can be attributed to the forces cited above, including competition from neighboring cities, the E-commerce juggernaut, older building in Los Altos not being competitive and restrictions on contemporary personal services tenants.

**Figure 14: Quarterly Retail Rents in Downtown Los Altos**



Source: CoStar

**Figure 15: Quarterly Office Rents in Downtown Los Altos**



Source: CoStar

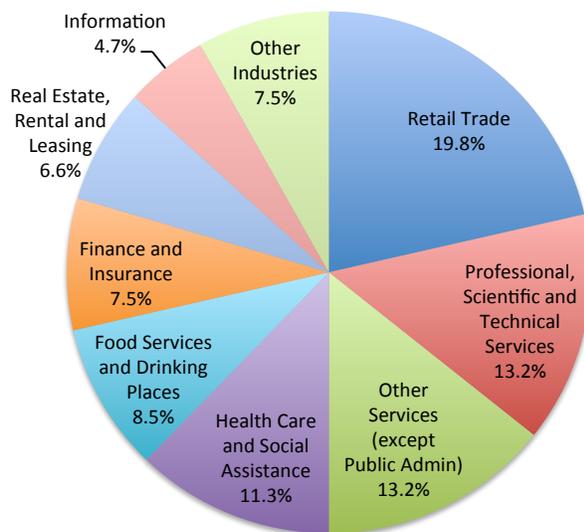
## IV. Downtown Businesses Survey

In order to better understand the perspectives and requirements of downtown business owners and operators, a survey of downtown businesses was conducted with the assistance of the City. LEG designed the online survey to gain a better understanding of downtown's strengths, weaknesses, opportunities and threats. The online survey was sent to business owners by e-mail (as identified by employee parking permits) and to the Los Altos Chamber of Commerce and Los Altos Village Association (LAVA), an association with over 160 members comprised of merchants and property owners focused on promoting downtown businesses, for distribution to their membership. The City also canvassed the downtown area and distributed postcards with a link to the online survey. This section summarizes the 98 survey responses received between February 7 and 28, 2017.

### Profile of Survey Respondents

Of the Downtown Los Altos Business Survey respondents, retail trade businesses represented the largest proportion, at approximately 20 percent. Professional, scientific, technical and other services made up a combined 26 percent of survey respondents. Businesses classified as health care and social assistance made up about 11 percent and food service and drinking places were less than nine percent.

**Figure 16: Survey Respondents by Industry Classification (NAICS)**



“Other Industries” includes: Management of Companies and Enterprises; Arts, Entertainment and Recreation; Manufacturing; Wholesale Trade; Educational Services; and Accommodation

Source: Downtown Los Altos Business Survey, Land Econ Group

In terms of business tenure in Downtown Los Altos, nearly 41 percent of survey respondents' businesses have been located in downtown for less than six years, of which over a third have been there less than two years. Approximately 31 percent have been in downtown between six to ten years. The remaining 28 percent have been there for more than 20 years. In terms of business size by number of employees, survey respondents were overwhelmingly micro businesses, defined as having fewer than 10 employees, amounting to 74 percent. Another 19 percent of respondents were small businesses, having 11 to 25 employees, and six percent were medium businesses, with 26 to 50 employees. Only one percent of respondents had over 50 employees. The full-time and part-time employee split among respondent businesses was approximately 60 percent full-time and 40 percent part-time.

### **Downtown Businesses Outlook**

Survey respondents were asked about their business outlook and expected changes in employment and facility needs in the near future. Business outlook was generally strong, with 68 percent of respondents reporting "very strong" or "moderately strong" outlook at their downtown location. Approximately 26 percent of the respondents indicated "neutral" business outlook and only six percent responded that their business outlook was "moderately weak" or "very weak." Despite the strong business outlook of so many businesses in Downtown Los Altos, only 41 percent of respondents expected an increase in employment at this location over the next two years. Approximately 55 percent expected no employment change and the remaining four percent expected reduced employment over the next two years. In terms of facility size, 70 percent of respondents did not expect any change in their facility needs in the next five years. Just over 16 percent indicated that their business would likely need to expand facilities, with approximately one third of those needing to relocate to a larger site. Of the balance of respondents seven percent indicated their business may move out of downtown, five percent indicated they may cease operations and one percent anticipated a need to reduce facility size over the next five years.

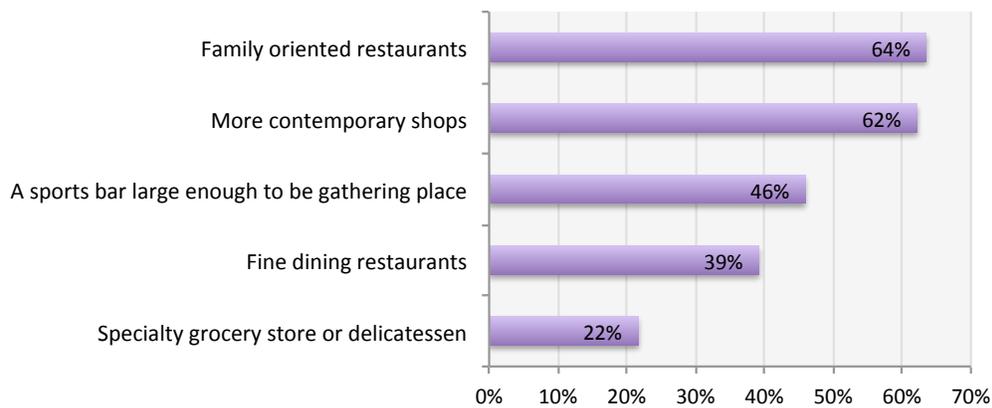
Nearly 56 percent of respondents either "strongly agree" or "agree" with the statement: "Being in Downtown Los Altos is critically important to my business." About 23 percent were neutral on the statement and responded that they "neither agree nor disagree," and the remaining 21 percent of respondents did not agree that a downtown location was important to their business.

### **Business Perspective on What is Needed in Downtown**

Survey respondents also addressed their perspective on how to improve the business climate in Downtown Los Altos. Two thirds of respondents agreed or strongly agreed that more vitality in Downtown Los Altos is needed for their business to thrive. Fewer than 15 percent of respondents disagreed. An even greater proportion recognized that Downtown Los Altos would be improved with

more restaurants, stores, and services, with over 76 percent agreeing or strongly agreeing. Among those, when asked to rate the three types of businesses that would be most needed, the highest proportion chose family oriented restaurants and contemporary shops, each with over 60 percent of responses. The next most popular selection was a sports bar large enough to be a gathering place, which attracted 46 percent of responses.

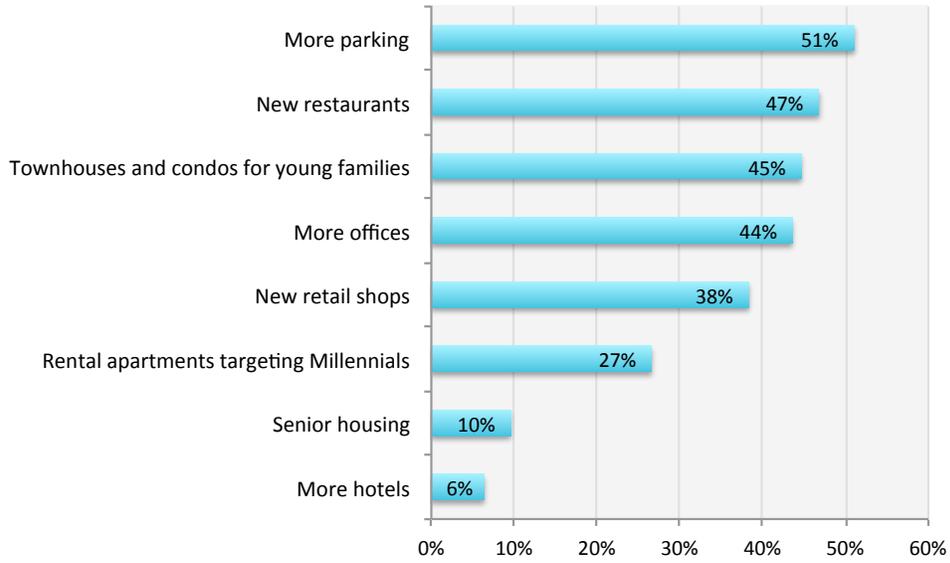
**Figure 17: Types of Additional Stores or Services Needed in Downtown Los Altos**



Source: Downtown Los Altos Business Survey, Land Econ Group

When asked what additions to Downtown Los Altos would best fuel vitality, the three most popular choices were more parking, new restaurants, townhouses and condos for young families, and more offices, each attracting more than 40 percent of respondents. More parking was the favorite, with over half the respondents answering that more parking would increase vitality. This reflects some businesses that commented in the survey they frequently receive feedback from customers that lack of parking is a problem. However, other businesses that rely more on foot traffic indicated they would like to make the environment more welcoming for customers that are already living or working in Downtown Los Altos to spend more time there. In summary, the collective outlook for Downtown Los Altos businesses is one of optimism with two-thirds of the respondents indicating their outlook is moderately strong to very strong.

**Figure 18: Additions In and Around Downtown That Would Be Most Helpful in Increasing Vitality**



Source: Downtown Los Altos Business Survey, Land Econ Group

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## V. Parking Requirements, Building Height Limits and Development Feasibility

The properties in the downtown are segregated into those in the Parking District and those that are not. Parking requirements also differ for new development and redevelopment.

### Properties in the Parking District

When initially implemented, the Los Altos Downtown Parking District worked well in providing centralized parking for shoppers, restaurant patrons and employees. It covered about half of the downtown area and provided free 3-hour parking for all customers. For employees who need all day parking, an annual permit can be purchased for \$36, which allowed them to park in the District spaces, located more to the periphery of downtown. Those policies remain intact today.

For the properties included in the District, no additional parking was required as long as their built space did not exceed the land area of their parcel. However, if the owners wish to expand the improved portion of their property beyond an FAR of 1.0, they are required to meet the City's parking requirements on site. Since most of the properties in the District are small with narrow lots, parking under the building is not possible because the circulation ramps would make the subterranean garage inefficient and prohibitively expensive. Because of this parking requirement, a retail store owner is unable add a second story as small tenant office space; and a coffee shop owner cannot add a mezzanine level to accommodate peak business conditions. Small-scale incremental expansion of the downtown by long time small property owners is essentially impossible. Such small-scale change would have maintained the area's village character while adding vitality.

### Properties Outside the Parking District

In the downtown, but outside the Parking District, the City's parking requirements can be described as suburban in character. For example, the following are direct quotes from Los Altos Parking Requirements, Section 14.74.110 – Commercial Uses in CRS/OAD, OA, CN, CD< CD/R3, CRS and CT Districts:

- For intensive retail uses and personal services, not less than one parking space for each two hundred (200) square feet of net floor area (or 5 spaces per 1,000 SF);
- For bars, cafes, nightclubs, restaurants, and soda fountains, one parking space for every three employees, plus one space for every three seats provided for patrons, and such additional

parking spaces as may be prescribed by the commission. (This amounts to 8 to 14 spaces per 1,000 SF with higher quality restaurants with more staff facing a higher parking requirement);

- For hotels and motels, one parking space for every three employees, plus one additional space for each sleeping room or suite, and additional parking spaces as prescribed in subsection A of this section for any store, service establishment, shop, or studio located on the site, and additional parking spaces as prescribed in subsection C of this section for any bar, cafe, nightclub, restaurant, or soda fountain located on the site. (This amounts to 1.2 to 1.4 spaces per guest room with higher quality hotels with more staff per guest room facing a higher parking requirement.)
- For theaters and auditoriums, one parking space for every four seats, plus one additional space for every three employees. (If a theater is primarily for evening use, there is no shortage of parking in the downtown during that period.)

These parking requirements reflect the City's long standing goal "to provide access to convenient parking for downtown customers, employees and visitors," which was the first goal recapped in the *Downtown Parking Management Plan of the City of Los Altos*, prepared by CDM Smith in May of 2013.

In contrast, many smaller cities that have vibrant downtowns promote a philosophy of parking once and visiting multiple destinations by walking. For example, a person who visits an office, a bank, a coffee shop, a drug store and a restaurant in a small downtown needs only one parking space rather than the four or five in accordance to suburban style requirements. Excessive parking convenience promotes automobile usage rather than pedestrian vitality. A number of smaller California cities with active pedestrian downtowns treat their parking requirements very differently from Los Altos:

- Santa Barbara has a downtown parking requirement of two spaces per 1,000 square feet of commercial use, covering retail, office, restaurants and essentially all commercial uses. Properties in the Downtown Parking Assessment Districts were exempt from parking requirements.
- For restaurant uses in the downtown, San Luis Obispo sets a maximum of one space per 350 square feet or 2.9 spaces per 1,000 square feet.
- In Downtown Burlingame, ground floor retail, personal service and food establishments are exempt from parking requirements.
- Downtown Los Gatos has parking requirements that are lower than Downtown Los Altos.

Portland, Oregon, a city often cited as the best example of pedestrian vitality and friendliness, has a cap on the maximum number of parking spaces that can be built in its downtown.

Los Altos' historic strategy of providing centralized public parking within its Downtown Parking District was a sound strategy. However, during the past decade or two, downtown has expanded beyond the

Parking District into the entire triangle bounded by San Antonio Road, Foothill Expressway and West Edith Avenue. Downtown Los Altos would likely gain 10 to 20 percent in pedestrian vitality without substantial public investment, if the City would update of its parking requirements, to be more consistent with those of the smaller downtowns enjoying great pedestrian vitality, such as Burlingame, Los Gatos, Santa Barbara and San Luis Obispo.

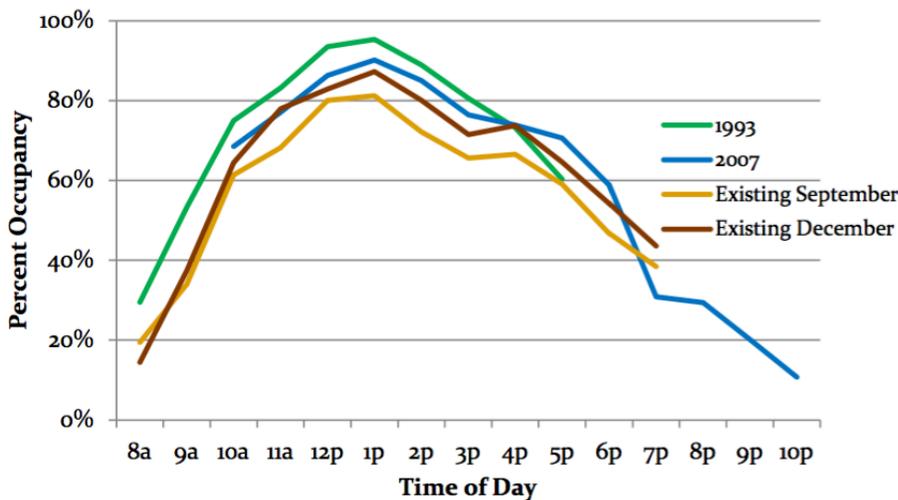
### Parking Requirements Erode Village Character

Given the small lot sizes, older buildings and high and not very flexible parking requirements, development in Downtown Los Altos has been limited to those organizations that are extremely well capitalized and can assemble properties to create sufficient land area to construct an efficient above grade or subterranean garage. Examples include Safeway, The Packard Foundation and Los Altos Community Investment (LACI). The combination of high parking requirements, high land cost and the efficiency of larger parking garages forces new development to be of a size and bulk that many residents feel erode the downtown’s village character.

### Future Parking Demand

Los Altos came of age during the golden era of the automobile when single family homes and suburban shopping centers proliferated. A half century later, with the build up of traffic congestion, on-line shopping and ride sharing services, America’s romance with the private automobile and associated parking convenience may be fading. According to the City’s last *Downtown Parking Management Plan*, peak hour parking demand in the downtown has not been increasing (Figure 19). In fact, the September 2012 tabulation by CDM Smith is lower than the 2007 count, which was lower than the 1993 count.

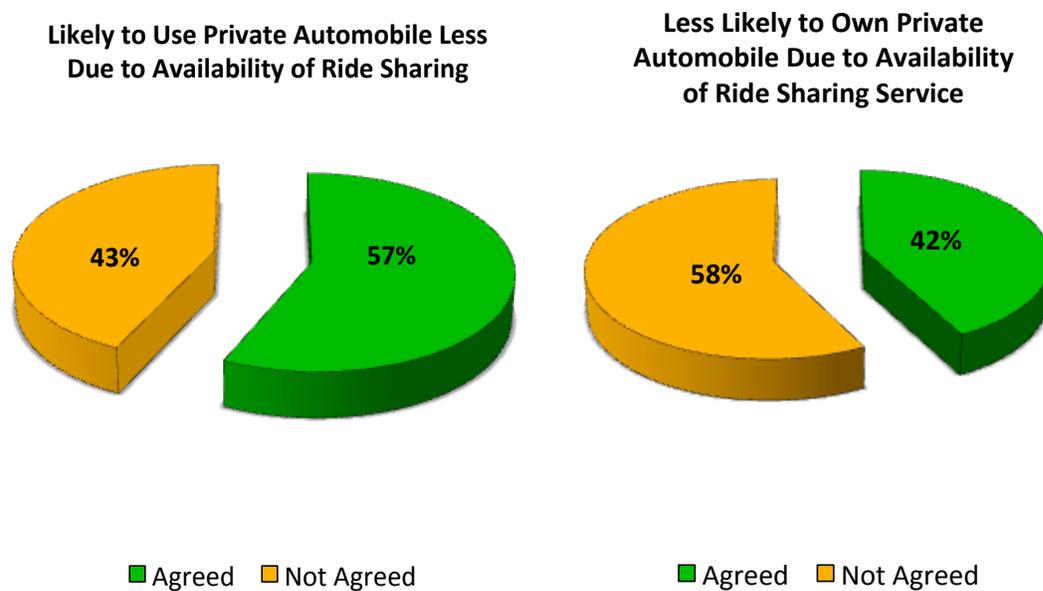
**Figure 19: Downtown Off Street Parking Occupancy Trend**



Source: Downtown Parking Management Plan 2013, CDM Smith

This trend of decreasing private automobile use, indicating less need for parking, was borne out by an early 2016 survey performed by one of the major ride sharing companies and tabulated and analyzed by LEG. The survey was sent to passengers in 20 US metropolitan areas and received over 34,000 responses. It found that 57 percent of the passengers either agreed or strongly agreed with the statement “I am less likely to use a private automobile due to the availability of ride sharing.” It also found that 42 percent of these passengers either agreed or strongly agreed with this statement “I am less likely to own a private automobile due to the availability of ride sharing service.” These responses are graphed in Figure 20 below.

**Figure 20: Survey of Over 34,000 Ride Sharing Passengers**



While Los Altos is not likely at the leading edge of this type of behavior change, it would be reasonable to anticipate a 10 or 15 percent decline in parking demand over the next decade if no substantial square footage is added downtown. Or conversely, if downtown activity expands by 10 or 15 percent, parking demand may remain at today's level.

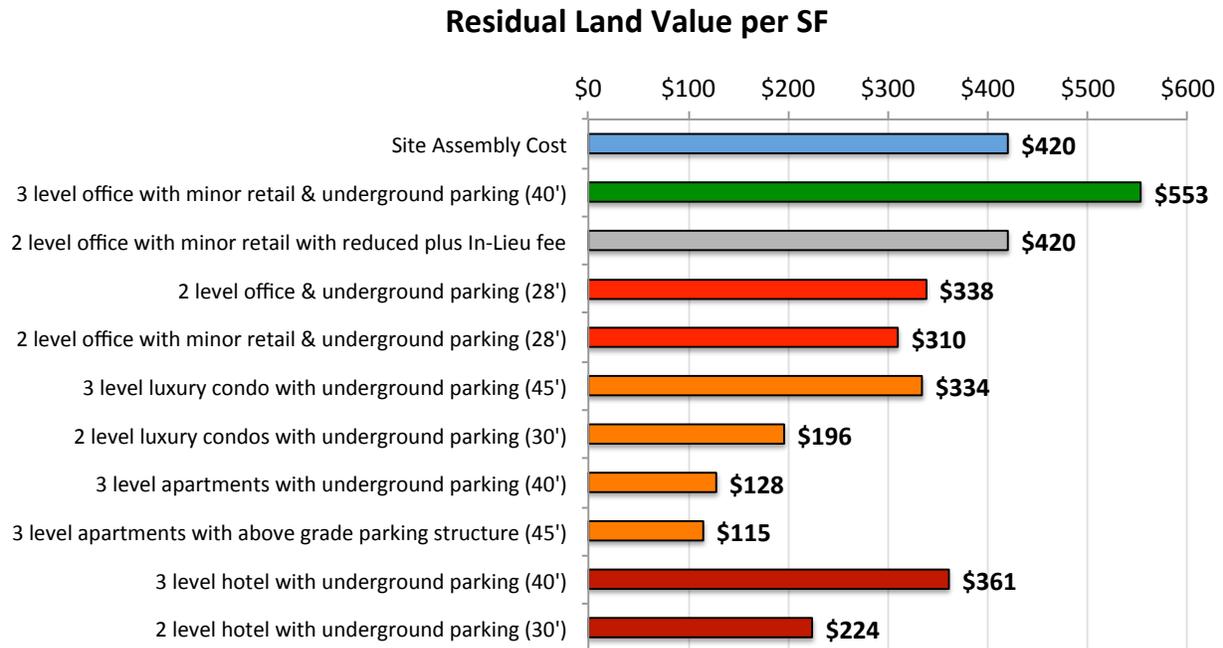
### Building Heights and Development Feasibility

The impact of building height limits on redevelopment feasibility can be tested with the application of LEG's development feasibility model. This model compares the “residual land value” supportable by a development project against the cost of assembling the redevelopment site. Residual land value is the amount of land value that a developer can afford to pay considering its projected revenues less all development cost, including the developer's expected return. The developer moves forward with the project only if the project's residual land value exceeds the cost of assembling the site.

This model was used to examine the projected cash flow over a 12-year time span and considered a large number of variables to estimate residual land value:

- 1) Land parcel size,
- 2) Net rentable or salable area by land use,
- 3) Number of floors and the height of each floor,
- 4) Gross building area,
- 5) Number of units,
- 6) Number of parking spaces by type and associated cost,
- 7) Rent or sales price per square foot,
- 8) Absorption schedule,
- 9) Rate of rent increase,
- 10) Project capitalization rate,
- 11) Direct building construction cost,
- 12) Direct parking construction cost by space type,
- 13) Indirect construction cost,
- 14) Construction interest,
- 15) Long term takeout financing,
- 16) Project operating cost and revenue, and
- 17) The developer's required rate of return.

The site assembly cost in downtown is estimated at \$400 to \$420 per square foot based upon one-story retail buildings available on the market in Los Altos and Mountain View, which are assumed to be purchased for clearance and redevelopment. LACI staff has indicated that this cost is more like \$450 per square foot. In order for a new redevelopment project to be financially feasible in Downtown Los Altos, it must be able to generate a residual land value of not less than \$420 per square foot. Eight hypothetical development scenarios were examined assuming different uses and building heights. Two different land parcel sizes were tested. The actual pro formas and development scenario assumptions are detailed in Appendix B, and the findings are presented in Figure 21 below.

**Figure 21: Development Feasibility and Building Heights**

Source: Land Econ Group

The findings presented in the bar graph above can be summarized as follows:

- A three story office building with minimum retail and underground parking with a height of approximately 40 feet is the only development scenario that was found to be feasible with a residual land value of \$553 per square foot.
- A two-story office building with minor retail and an assumed height of 28 feet was found to be marginally feasible, if its parking requirement was reduced to 2.5 spaces per 1,000 square feet and those spaces that could not be accommodated in a single-level underground garage was satisfied with the payment of a Parking In-lieu Fee at \$25,000 per space.
- All other scenarios were found to be unfeasible.
- Depending upon the intended use, land parcels size and shape, the land value difference between a 30 and a 40 to 45 feet height limit is in the range of \$120 to \$220 per square foot with the higher height limit providing the greater value.
- Due to higher parking requirements and lower per square foot rents, including retail space diminishes project feasibility.
- Neither three story apartments nor three story luxury condominiums were found to be feasible because of high site assembly and parking construction cost.

Within the Parking District redevelopment is restricted because small lot sizes render on-site parking for building expansion impractical, and no other option is available. Outside the Parking District the combination of high site assembly cost, 30-foot height limit and suburban style parking requirements essentially renders any redevelopment financially unfeasible.

## VI. Principles and Options to Increase Vitality and Maintain Village Character

### Principles

Based upon past experience in cities with values and characteristics similar to Los Altos, LEG has developed a set of principles for enhancing vitality while maintaining village character. We have employed downtown retail sales as the key variable representing vitality since no other metrics is readily available. Our principles and their implications are discussed below.

#### **Use Existing Built Space Efficiently and Intensely**

If the downtown were able to gain additional retail and restaurant sales without changes to the size and bulk of its building stock, its village character would be maintained. To satisfy this principle, when a tenant leaves and a space becomes vacant, the building owner should have good flexibility to re-lease to a new tenant. Given the competition from neighboring cities and E-commerce retailers, true retail store tenants are not numerous. The older retail buildings that have insufficient floor heights and excessive depth further restrict downtown's appeal. This principle suggests that restriction on contemporary fitness personal services type tenants be permitted in more of the downtown. It also suggests that the differences in parking requirements between commercial uses (e.g. stores, services and restaurants) be eliminated to facilitate ease of re-leasing.

#### **Encourage Small Scale Incremental Change by Existing Property Owners**

Part of Los Altos' village character is defined by its long time small property owners and business operators. As the community has prospered in recent years, its small property owners in the Parking District have been unable to undertake small-scale upgrades and expansions to keep pace with the growing affluence of their market place. They are handcuffed by inflexible parking requirements and strict enforcement of Title 24 energy efficiency standards. These property owners should have the ability to modernize and add a second floor to their buildings. The solution here is more contemporary parking requirements and a reasonable Parking In-lieu Fee to satisfy parking demand that cannot be accommodated on-site. The current parking requirements inhibit small-scale change by long time owners important to maintaining village character.

#### **Further Centralize Parking into Public Facilities in lieu of Requiring Extensive Private Parking**

The Parking District has worked well in the past for a one-story retail district covering approximately half of the land area in the downtown. With the recent growth of the Silicon Valley economy and the escalating affluence of the market area, the City's city's historic parking policies are inhibiting

downtown's transformation into a more vibrant and contemporary mixed-use village. Other smaller cities that have good pedestrian vitality promote the principle of parking once and walking to multiple destinations. In contrast, Los Altos' goal has been to provide convenient parking at all destinations. In mixed-use downtowns, where many short trips are shifted from driving to walking, the district-wide parking demand is greatly reduced. In addition, the reduction in land area for parking lots and driveways places stores and restaurants into a more compact area that facilitates walking. In summary, Los Altos' long-standing goal of convenient parking at all destinations contradicts its stated goal of more downtown pedestrian vitality. As Downtown Los Altos has evolved from a community shopping district into more of a mixed-use village, its parking policies needs to keep pace.

As a specific example, the primary reason that Downtown Los Altos does not have many high quality restaurants despite its world-class affluence is because its parking requirements for restaurant development are five or six time that of Downtown Santa Barbara and three times that of Downtown San Luis Obispo. In addition, the employee related requirements penalize higher quality and more service intensive restaurants.

#### **Promote New Development that Have High Retail Sales Impact per SF of New Building Area**

Different types of land uses have different impacts on downtown retail and restaurant sales. The principle is for Los Altos to select the uses that maximizes sales impact per square foot of new building area. This comparison will be discussed under options.

#### **Add Public Spaces, Facilities and Events**

The addition of public spaces, public facilities and events in the downtown will increase vitality without adding much building bulk which tends to erode its village character. The selection of such public spaces and amenities is a matter of community preference to be discovered through the visioning process.

## **Options**

The options to enhancing downtown liveliness, while maintaining village character by minimizing the height and bulk of new buildings, are based upon an analysis of new downtown retail and restaurant sales generated by different types of land development.

#### **New Performing Art Theater Downtown**

The Los Altos Stage Company was incorporated in 1995 and has been producing live theater performances in town since that date. Its performances are held in old school maintenance building in the civic center campus that is in poor exterior condition. The theater has 100 seats and stages approximately 135 event-days/evenings per year. At an assumed average attendance to be 80 percent of capacity, 50 percent of the attendees visiting the downtown for meals or drinks associated with the theater event, and an average expenditure of \$50, the current theater patrons generates an estimated \$270,000 in mostly restaurant and food service sales in the downtown. If an additional ten percent is

added for the sales of performers, theater staff and volunteers, the current theater impact on downtown sales would be approximately \$297,000.

In 2014, a group of community leaders proposed a new theater of approximately 190 seats with a 12,000 square feet overall size to be located in the downtown (Figure 22). With the excitement generated by a new building, we assume that the number of event-days/evenings would increase to 200 per year. At an assumed average attendance of 80 percent of capacity, 70 percent of the attendees visiting the downtown for meals or drinks, an average expenditure of \$55 per attendee, and including the impact of performers and staff, the new theater would generate an estimated \$1.29 million in downtown sales. The net gain mostly during the evening hours would be approximately \$1 million (Table 8).

**Figure 22: Concept Illustration for New Downtown Theater**



Source: A Theater and parking Garage for Downtown, Presentation to City Council June 10, 2014

**Table 8: Estimated New Downtown Theater Impact on Downtown Sales**

	<b>Existing Theater</b>	<b>New Theater</b>
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
<b>Gain in Downtown Sales Due to New Theater Patrons/Performers/Staff</b>		<b>\$990,440</b>

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

This new 12,000 square foot theater will generate approximately \$1 million in additional downtown sales, almost entirely in restaurants, bars and coffee shops. This \$1 million in new sales represents a 2.7 percent increase in downtown restaurant sales and only a 0.7 percent increase in total downtown retail sales.

### **New Office, Residential or Hotel Development**

The next step in the analysis is to determine at what levels of office, residential or hotel development would we achieve a comparable \$1 million in additional downtown sales. When 2015 citywide retail sales of \$329 million is divided by the population of Los Altos (30,500) and that of Los Altos Hills (8,600), each resident in these two communities account for \$8,400 in sale of which 45 percent is in downtown Los Altos (Table 3). The countywide per capita retail sales generation is approximately \$15,000, indicating that Los Altos is experiencing considerable leakage to surround areas like Stanford Shopping Center, the automobile dealerships along El Camino Real and Stevens Creek Boulevard and workplace related spending throughout the county and beyond. While this \$8,400 per resident is a benchmark for estimation, a number of other factors needs to taken into consideration:

- Approximately 3,000 employees work in Downtown Los Altos, 1,700 in the retail sector and 1,200 in the office sector and 100 or more in other sectors. Their spending needs to be considered.

- The residents living near or in the downtown would tend to make a higher proportion of their retail purchases downtown.
- Those of higher income, including employees in expensive new office buildings or residents buying or renting new housing in the downtown, would tend to have higher spending.

Taking all these factors into consideration, LEG has made estimates of the amount of each type of new development required to add \$1 million in new retail sales in the downtown (Table 9). As shown, it would require a new office building of 66,000 square feet or 64 new apartments (1,000 SF each) or 48 luxury condominiums (2,500 SF each) or 113 new hotel rooms to achieve a comparable level of retail and restaurant sales gain. As illustrated in Table 10, a five percent gain in downtown sales would require 490,000 square feet of new office space or 475 new apartment units (475,000 square feet) or 352 new luxury condominiums (880,000 square feet) or 863 new hotel rooms (690,000 square feet).

**Table 9: Estimated Amount of New Development Needed for Additional Million in Downtown Sales**

	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
<b>Add New Retail Employee Spending</b>	<b>\$990,440</b>	<b>\$988,800</b>	<b>\$996,710</b>	<b>\$996,710</b>	<b>\$956,910</b>
As Percent of 2015 Downtown Sales	0.7%	0.7%	0.7%	0.7%	0.7%

Source: Estimated by Land Econ Group

**Table 10: Estimated Amount of New Development Needed to Achieve Five Percent Increase in Sale**

	Office	Apartments	Luxury Condos	Hotel
<b>Square Footage of Development</b>	<b>490,000</b>	<b>475,000</b>	<b>880,000</b>	<b>690,000</b>
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
<b>Add New Retail Employee Spending @ 3%</b>	<b>\$7,341,091</b>	<b>\$7,397,460</b>	<b>\$7,309,210</b>	<b>\$7,336,312</b>
As Percent of 2015 Downtown Sales	5.0%	5.0%	5.0%	5.0%

Source: Estimated by Land Econ Group

**Restructuring Parking Goals, Policies and Requirements**

Either as an alternative or as a supplemental strategy to enhancing downtown sales and pedestrian vitality, a comprehensive restructuring of the City's downtown parking goals, policies and requirements would likely lead to smaller scale incremental change over time that is more in keeping with the community's desire to maintain downtown's village character. The next section covers LEG's recommendations for enhancing vitality while keeping the downtown's village character.

## VII. Recommendations

The following seven recommendations are designed to enhance the vitality of Downtown Los Altos by 15 to 20 percent over a five to eight year period after implementation. They are also designed to encourage smaller scale incremental change that allows Downtown Los Altos to modernize while keeping the essence of its village character.

### **Permit Fitness Uses in Select Locations**

Permit contemporary fitness and personal service type uses along State Street and perpendicular streets but maintain the key blocks of Main Street for retail and restaurant use. This change reduces the duration of retail vacancies, adds pedestrian activity in the downtown, enhances retail sales, protects property interests and does not degrade village character.

### **Overhaul Downtown Parking Requirements**

Learn from downtowns with the level of pedestrian vitality desired by Los Altos.

Suggest 2.0 to 2.5 spaces per 1,000 square feet of office, retail, restaurant or personal service use. The single standard facilitates re-leasing of vacant space to maintain village liveliness. Eliminating per employee requirements removes development cost penalty against higher service restaurants.

Suggest 0.8 to 1.0 spaces per hotel sleeping room. Employees are able to purchase annual permits at a nominal cost. Eliminating employee requirements removes development cost penalty against higher quality and higher service hotels.

Institute a Parking In-Lieu Fee at \$25,000 to \$30,000 per space. The In-lieu Fees allows smaller properties to develop or redevelop. The money collected would accumulate in a Downtown Parking Fund and be used later to construct addition parking in or near the downtown as such parking is needed.

As parking demand grows in the downtown core, use permits, pricing and enforcement to shift employee parking to the areas less convenient for shoppers and restaurant patrons.

### **Move Forward with New Downtown Theater**

Relative to the amount of new building mass added, the proposed new theater has very strong sales impact on restaurants in the downtown.

- Since a large majority of its patronage is in the evenings or on weekends, when parking downtown is not constrained, we suggest that the parking requirements for the new theater be

waived. Having theater patrons park throughout the downtown has a greater impact on vitality than having them drive in and out of a dedicated parking garage.

- Proceed with detailed feasibility study if needed. It is common for municipal performing arts centers to require an annual operating subsidy to cover maintenance and utilities. This issue should be addressed in the feasibility study.
- Initiate a fund raising campaign. Given the affluence of the community, we expect the entire project development cost to be covered by private donations raised through a well-conceived fund raising campaign.

### **Preserve Buildings and Landmarks of Historic Importance**

The architectural character of some of its long-standing buildings contributes to Los Altos's village character. Those buildings or landmarks provide downtown a unique sense of place that is important for long-term vitality. It is time for Los Altos to formally identify those buildings and initiate the process of historic preservation. A state level historic designation prevents demolition and limits renovation options for the property owner, but can also confer tax benefits.

### **Add Public Spaces or Facilities that Enhance Sense of Place**

The addition of public spaces, public facilities and events will bring more people downtown. The actual sales impact will depend upon the type of facility and crowd peaking characteristics of the events. An extreme peak in attendance leads to pedestrian and parking congestion that can diminish retail sales, but a series of events that have moderate and more even attendance can enhance downtown sales.

### **Permit Three Story Buildings at Select Locations with Top Floor Setback**

The financial analysis shows that under current parking requirements a two-story height limit essentially restrict all new development and even with the recommended changes in parking requirements. Elevating the height limit from 30 to 40 feet at selected locations with top floor set back would add vitality to the downtown by allowing selected three-story office buildings to proceed.

### **Institute Downtown Design Review**

Downtown's village character is not simply an issue of building height but very much also an issue of building design. It is time that Los Altos created a Downtown Design Review Committee to ensure that future projects of any significant scale reflects the community's desired character.