Executive Summary

Economic Considerations and Recommendations for Subareas A, G, and H of the Downtown Precise Plan

The City of Mountain View is considering potential modifications to the Downtown Precise Plan (DTPP) for Subareas A, G and H. The attached memorandum presents economic considerations regarding the rehabilitation of existing buildings and potential future development within the DTPP Subareas and recommends potential high level action steps to be undertaken to help accomplish the objectives of the DTPP. In summary, the findings of the economic analysis indicate the following.

Economic Conditions in Downtown Mountain View

While the Downtown has desirable characteristics from a retail perspective, it must compete within a mature, well-developed and highly competitive regional retail market, which is rapidly evolving.

- Consumer preferences are rapidly evolving, and retail businesses need to constantly refresh to retain existing customers and attract new ones.
- Eating establishments and personal fitness are growing their share of sales and space within the traditional “brick and mortar” retail environments.
  - For example, shopping centers now dedicate 25 percent (%) of their floor area to eating establishments on average, up from about 10% a decade ago.
- In recent years, economic growth in the Downtown has been fueled by technology businesses seeking office space and patronage at popular eating establishments.
- According to an analysis of retail sales tax data for Downtown businesses by the City, retail sales performance varies by business type, with restaurants and drinking places typically generating the highest sales compared to other retail establishments.
- Demand for physical store space is declining in key retail sectors, such as apparel and home goods, as consumers increasingly purchase products online through mega e-retailers like Amazon and eBay.
  - Retail areas like Downtown Mountain View and shopping centers need to consider leasing space to quasi-retail or non-retail uses, such as personal and financial service firms, recreational uses, medical service providers and other health and wellness providers that are "Amazon-proof."
  - While these uses do not typically generate significant taxable sales, they would increase customers to the Downtown who may combine trips to shop or dine at nearby establishments.
- The Downtown does not currently possess a critical mass of retail stores and activity that meet the typical retail location requirements for expanding retailers, which typically seek to co-locate with other complementary retailers within well located retail centers or districts with robust consumer spending growth.
  - Thus, the Downtown continues to face a “chicken or egg” predicament that inhibits it from attracting a more diverse set of retail offerings.

Analysis of Potential Rehabilitation Scenarios

Renovation costs to upgrade the exterior and interior of a building differ significantly depending on its current condition, quality of the prior renovation and proposed use (retail store vs. restaurant).

- While a high quality building renovation with a unique façade and desirable retail space would likely generate higher rent than typical ground floor space in the Downtown, retail rents would need to be at least $1.50 above current rental rates to amortize significant exterior or interior improvements over a lease term of five to ten years.
- Given the significant costs for exterior and interior improvements, property owners face an inherent trade-off between investing in different types of improvements compared to the likelihood of future rent increases over a longer lease term versus current rents.
- Aging and outdated commercial spaces in the Downtown are difficult to fill with new tenants.
  - Renovation costs for retail stores are most likely to be financially supported by a national "credit tenant" or a tenant with a strong leasing track record of paying higher retail rents over a 5 to 10 year lease term, but these tenants are not typically willing to sign leases in Downtown.
  - Renovation costs for restaurants are typically more expensive than a retail store given commercial kitchen and other build-out requirements, and these costs for new restaurant tenants in an outdated space are likely higher than the typical rent increases that restaurants are willing to pay in Downtown, especially when the parking in-lieu fee is included.

Future Development Challenges and Opportunities

To help make downtown retail more competitive and attract new patrons to the Downtown, future development of the underutilized "corner" parcels at key Downtown intersections could provide well-designed retail space and generate patrons from new residents and workers.

- While retail rents are not typically able to cover retail development costs when factoring in the high costs of building and parking construction in Silicon Valley, new residential or office uses on the upper floors would provide additional revenue that could help pay for the provision of retail on the ground floor, as well as generate new potential customers for Downtown businesses.

Recommendations

Based on the economic analysis, a three-pronged strategy of high level actions is recommended for consideration by the City to support a thriving and vibrant Downtown that builds upon the community character of the Downtown and Castro Street in particular:

- **Improve the Downtown Environment**– Enhance the public realm and public experience of Downtown, particularly along Castro Street, with upgraded landscaping, expanded pedestrian spaces, outdoor seating areas, and improved parking management solutions and access to encourage retail activity.
- **Promote Downtown Business Growth** – Strengthen Downtown businesses, expand the customer base of Downtown businesses, as well as simplify and streamline City processes.
- **Encourage Building Upgrades and Complementary Infill Development**– Encourage exterior and interior upgrades of existing buildings and complementary infill development in the Subareas.

Ten potential funding programs are described that could be potentially deployed to help accomplish this three-pronged strategy. Each funding program has unique considerations, and several funding programs would need to be deployed together to improve the Downtown environment, promote economic vitality and encourage building upgrades.

Date September 1, 2022

To: City of Mountain View

CC: Van Meter Williams Pollack and Treanor HL

From: Seifel Consulting, Inc.

Subject: Economic Considerations and Recommendations for Subareas A, G, and H of the Downtown Precise Plan

The City of Mountain View is considering potential modifications to the Downtown Precise Plan (DTPP) for Subareas A, G and H. This memorandum presents economic considerations regarding the rehabilitation of existing buildings and potential future development within the DTPP Subareas and recommends a three-pronged strategy to be undertaken to help accomplish the objectives of the DTPP. This memorandum was prepared in collaboration with Van Meter Williams Pollack (VMWP).

In summary, this memorandum presents the following information and analysis:

A. Summary of Key Findings– Highlights key findings from each section of the report.

B. Economic Conditions in Downtown Subareas A, G and H– Describes the economic conditions that are affecting the retail and development environment in Downtown.

C. Subarea Development Profile– Presents a development profile of each Subarea and discusses relevant commercial leasing and retail sales trends that are affecting the Downtown.

D. Analysis of Potential Rehabilitation Scenarios– Analyzes various options to upgrade and rehabilitate existing buildings in compliance with the DTPP as it may be updated, which includes a high-level economic analysis of these options that evaluates potential exterior and interior renovation costs for retail space on a typical property in the historic retail core.

E. Analysis of Future Development Challenges and Opportunities– Evaluates the challenges and opportunities associated with renovation or redevelopment of existing buildings and new infill development to expand residential and non-residential uses in compliance with the DTPP as it may be updated.

F. Recommendations– Recommends a three-pronged strategy of high level actions to be considered by the City, which would leverage programs that the City is in the process of implementing to undertake public improvements, promote business growth, encourage building upgrades, and/or provide financial assistance to businesses or owners in the Downtown.

A. Summary of Key Findings

Mountain View's Downtown is a walkable, mixed use neighborhood and business district that serves residents, workers and visitors alike. Over the past five decades, the City has invested substantial funding and staff resources to promote economic vitality in the Downtown with a particular focus on retail along Castro Street.

The Downtown is located within a mature, well-developed and highly competitive regional retail market, and changing retail trends make it more challenging for Downtown to attract new and diverse retail users. In addition to these larger market factors, the Downtown is also challenged with aging public infrastructure and physical constraints, such as narrow and deep lots along Castro Street that are less desirable to retail stores.

This competitive marketplace coupled with the growing trend of ecommerce makes it very difficult for the Downtown to attract new and diverse retail stores, particularly those outside of the food and beverage sector that has become its core strength. As the result, the Downtown does not currently possess a critical mass of retail tenants and activity that meet the typical retail location requirements for expanding retailers, which often seek to co-locate with other retailers within retail centers or districts with high quality retail spaces, amenities and robust growth in consumer demand in the surrounding areas.

The proposed updates to the DTPP standards and design guidelines are focused on assuring that buildings are rehabilitated to complement and build upon the high quality, design elements of existing building facades in the Downtown. The proposed changes to the DTPP design standards for the ground floor and building facades codify best practices and policies that have been applied during the design review process on previous building renovations, such as façade articulations at regular intervals and transparent ground floor facades.

Typically, a property owner would pay for exterior and façade improvements, although a tenant may share in a small portion of these costs, such as for new signage. A property owner would also undertake building improvements that are necessary to make the space occupiable by desired tenants. Tenants are primarily responsible for interior tenant improvement costs associated with improving the property to accommodate their business, although tenants can be required to exterior upgrades as well, especially if they have specific signage needs. Property owners may also share in the cost of tenant improvements by providing a partial credit toward rent payment and/or allowing tenant improvement costs to be amortized as part of future rent.

The economic analysis in this memorandum evaluates what a property owner and/or tenant could afford to invest under four potential renovation scenarios for a typical Downtown property on Castro Street. The analysis projects the monthly rent that would be needed to amortize the lower range of renovation costs over different lease time periods, without taking into consideration other costs that could also be incurred, such as higher property taxes, increased insurance costs, higher interest rates, or Downtown parking in-lieu fees. The findings from the economic analysis of the renovation scenarios indicate that:

- Renovation costs for upgrades to the building exterior and façade range from $90 to $170 per building square foot depending on what is accomplished.
- Renovation costs for upgrades to the building interior differ significantly depending on the building condition, quality of the prior renovation and proposed use (retail store vs. restaurant), ranging from $90 to $440 per building square foot depending on a variety of factors.
- Long term leases of five to ten years are needed to amortize renovation costs of $100 per building square foot or greater, and current retail rents for many Downtown retailers are too low to support the renovation of exterior and interior facades and building systems.

- Given the significant costs for exterior and interior improvements, property owners face an inherent trade-off between investing in various improvements and the likelihood of future rent increases over a longer lease term compared to current rents.
- While a high quality building renovation with a unique façade and desirable retail space would likely generate higher rent than typical ground floor space in the Downtown, retail rents would need to be at least $1.50 above current rental rates to amortize significant exterior or interior improvements over a five to ten year lease term.
- To support building renovations, the City could work with property and business owners to facilitate the renovation and upgrade of retail spaces to enhance the retail experience in Downtown Mountain View. This collaboration could include providing design services and City matching funds for eligible renovation and/or façade improvement costs through a City loan or grant program.

Catalyzing growth in retail sales is critical to improving the economic vitality of Downtown and enabling retail businesses to support the higher rent payments that are needed to support the cost of building renovation and tenant improvements that are needed to remain competitive. The development of new residential, office and lodging in the Downtown and the rest of the City would help stimulate growth in retail consumer spending potential, which can help offset future competition from online retailers.

According to VMWP, the proposed updates to the DTPP standards and design guidelines would not significantly change how future development could occur in Subareas A, G or H. No major changes are proposed to allowable FAR or height, except that Subarea H would now include an allowable 2.75 FAR for office uses. The proposed extension of massing standards from Castro Street to adjoining side streets are based on what has been previously negotiated through design review on prior developments and would not significantly affect future housing development potential on these corner lots because residential development can likely accommodate the linear feet of exterior façade required to provide adequate light and air.

Nonetheless, redevelopment of existing properties (consisting of building upgrades to accommodate additional floors) or new infill development would typically be complex, challenging and expensive to undertake based on the characteristics of existing properties in the Subareas and as previously indicated in the Urban Land Institute Technical Assistance Panel (ULI TAP) for Downtown Mountain View.

The following three-pronged strategy for the Downtown is recommended to support a thriving and vibrant Downtown that builds upon the community character of the Downtown, and Castro Street in particular, including preservation and enhancement of historic structures and design elements:

1. **Improve the Downtown Environment**– Enhance the public realm and public experience of Downtown, particularly along Castro Street, with upgraded landscaping, expanded pedestrian spaces, outdoor seating areas, and improved parking management solutions and access to encourage retail activity.
2. **Promote Downtown Business Growth** – Strengthen Downtown businesses, expand the customer base of Downtown businesses, as well as simplify and streamline City processes.
3. **Encourage Building Upgrades and Complementary Infill Development**– Encourage exterior and interior upgrades of existing buildings and complementary infill development in the Subareas.

A series of high level actions are recommended under each strategy area, and ten potential funding programs are evaluated that could be potentially deployed to help accomplish them. Each funding program has unique considerations, and several funding programs would need to be deployed together to implement these recommendations. Given the economic considerations described in this memorandum, the use of funds from the City's General Fund will be particularly critical to implementing the recommendations as these funds can be used flexibly to implement the recommended actions and to encourage private property owner and tenant participation.

B. Economic Conditions in Downtown Subareas A, G and H

Downtown Mountain View is a mixed-use, walkable area that serves residents, workers and visitors alike. Over the past five decades, the City has invested substantial funding and staff resources to promote economic vitality in the Downtown with a particular focus on retail along Castro Street. As indicated in prior City studies and the 2019 ULI TAP Report, economic conditions in the Downtown and these Subareas are affected by broader national retail trends as well as existing building characteristics and development conditions:[1]

- While the Downtown has desirable characteristics from a retail perspective, it must compete within a mature, well-developed, and highly competitive regional retail market.
  - Locally, the Downtown competes with other shopping areas in Mountain View that are being upgraded, such as the ongoing improvements to San Antonio Center.
  - The Downtown also competes with other downtowns and shopping centers in surrounding cities, many of which have higher quality retail space with taller ceilings, more desirable retail space dimensions, better lighting, and/or customer focused design and signage.
- In recent years, economic growth in the Downtown has been fueled by technology businesses seeking office space and patronage at popular eating establishments.
  - According to retail experts, a diverse range of expanding residential, office and lodging uses catalyze a dynamic retail environment with a growing number of nearby consumers.
- The rise of e-commerce as an alternative to traditional in-person shopping is forcing retail property owners and tenants to reinvent their commercial spaces and marketing strategies.
- Individual retail tenants are trending towards smaller format spaces that complement their on-line presence with a higher emphasis on displaying their products instead of maintaining an inventory of the products in-store (increasing desirability for wider storefronts and less deep retail spaces).
- Millennials and Baby Boomers, the two larger retail demographic groups, are increasingly focused on "experiential" retail environments (i.e., eating establishments and pop-up art experiences) and less on traditional hard and/or soft goods.
- Eating establishments and personal fitness are growing their share of sales and space within the traditional "brick and mortar" retail environments. For example, shopping centers now dedicate 25 percent (%) of their floor area to eating establishments on average, up from about 10% a decade ago.
- This competitive marketplace coupled with the growing trend of ecommerce makes it very difficult for the Downtown to attract new and diverse retail users outside of the food and beverage sector that has become its core strength.
- In addition to these larger market factors, the Downtown is also challenged with physical constraints, including narrow and deep lots along Castro Street, limited opportunities for larger scale development in these Subareas and the lack of freeway accessibility that is sought by many national retail brands.
- As the result, the Downtown does not currently possess a critical mass of retail stores and activity that meet the typical retail location requirements for expanding retailers, which typically seek to co-locate with other complementary retailers within well located retail centers or districts with robust consumer spending growth. Thus, the Downtown continues to face a "chicken or egg" predicament that inhibits it from attracting a more diverse set of retail offerings.

[1] These observations are summarized from the February 27, 2018, City Council meeting staff report regarding the City's Downtown Economic Vitality Program and the March 2019 Downtown Mountain View ULI Technical Assistance Panel report, as well as industry publications on current retail trends.

C. Subarea Development Profile

Subareas A, G and H of the DTPP include the City's historic Downtown retail district that is located along the first three blocks of Castro Street and the Downtown's northernmost blocks near the Mountain View transit station. Prior to the dissolution of redevelopment in California, the former Mountain View Revitalization Authority made significant investments in public improvements and development in the Downtown, which included parking and streetscape improvements in these Subareas.

a. Subarea H

Subarea H is the City's historic retail district that immediately surrounds the first three blocks of Castro Street. This Subarea includes commercial buildings with ground floor retail along Castro Street and the nearby side streets as well as public parking resources owned by the City.

- Subarea H is the primary Downtown location for restaurants, cafes and bars, many of which front on Castro Street.
  - As of Spring 2022, more than 20 ground floor retail spaces, including both restaurant and specialty retail spaces, were vacant on the first three blocks surrounding Castro Street and the adjacent side streets, as well as several office spaces. While some retail spaces have reportedly been leased to prospective tenants, most of these spaces remain vacant and for lease.
- Since 2020, the first three blocks of Castro Street within the Subarea has been closed to motor vehicles and will remain closed through January 3, 2023.
  - In response to the pandemic, the City closed this portion of Castro Street to create a pedestrian mall and expand outdoor seating opportunities for local restaurants, cafes and bars, which has proven to be successful in attracting patronage to the Downtown.
  - The Castro Street closure enhances revenue potential for surrounding businesses by increasing outdoor seating for these establishments and creates a more dynamic and synergistic public space for people to gather.
- According to VMWP's analysis, most of the buildings along Castro Street in Subarea H are one to two stories in height on small sites with deep building footprints.
- VMWP has identified several corner parcels at key intersections of Castro Street and public parking lot sites to the rear of Castro Street that could allow for future redevelopment and/or expansion of existing buildings as further discussed in Section C below.
  - The City approved a hotel and office development on City owned parking Lot 4 in Subarea H, which also incorporates the adjacent City owned parking Lot 8 in Subarea G.

b. Subarea A

Subarea A is a small, one-block area located to the West of the 100 block of Bryant Street, which is primarily developed with residential and office uses with a few retail spaces along Villa Street.

- The only current retail use is Chez TJ, a Michelin rated French restaurant located at 938 Villa Street in a former single family residence (the Weilheimer House).
- The Airbase Laundry building at 954 Villa Street has been vacant since 2019 but formerly housed a brewery and café (Tied House) and is for lease as office space.
- The nearby ground floor retail space at 888 Villa Street and a portion of its office space on the upper floor is also for lease.

c. Subarea G

Subarea G consists of properties to the East of the 100 and 200 block of Castro Street, which primarily includes the post office, small office buildings, a residential building under construction, and surface parking lots.

- According to VMWP's analysis, Subarea G includes several development opportunity sites on public parking lots and underutilized properties along Hope Street.
  - As indicated above, the City approved a hotel and office development on City owned parking Lot 8 in Subarea G and the adjacent parking Lot 4 in Subarea H.
- A number of these sites along Hope Street have had recent proposals approved, most of which are residential developments.
- Two adjacent ground floor office spaces at 278 and 280 Hope Street have been listed for lease since late 2021.

2. Commercial Leasing Trends

According to Loopnet and Commercial Café, retail and office space in Subareas A, G and H range in size from about 800 square feet to 9,000 square feet (SF), with the largest spaces for lease located on the side streets, such as Villa Street. Small businesses and emerging start-ups are the most likely tenants for these smaller footprint spaces, particularly as some of the larger spaces occupy more than one floor.

According to these leasing sources and information gathered from Costar, current asking rents in Subareas A, G and H are within the following ranges depending on the building location, quality and size of the space being leased:

- Retail rents per month typically range from $2.50/SF to $4.50/SF, with small independent retailers typically paying lower rents (+/-$2.50 to $3.50/SF) and restaurants typically paying higher rents ($3.50/SF–$4.50/SF).
- Office rents per month are typically higher than retail, ranging from $4.00/SF to $7.00/SF depending on how the lease is structured and the quality and location of office space.
- While only a small portion of buildings have residential uses, monthly apartment rents range from $3.50 to $6.00/SF with smaller studio and one-bedroom units renting for higher rent per square foot.
- Prior to the pandemic, asking rents were about $0.50 to $1.50/SF higher for retail uses while current rents for office and residential are more similar to pre-pandemic levels.

The Downtown has always had a wide variety of rents given its diverse building stock. In addition, commercial space is leased on both a "NNN" and "Full Service" basis, while market rent data often does not indicate the lease basis, making it difficult to ascertain a tenant's total occupancy cost:

- Most retail space is leased based on NNN rents, which means that a tenant pays its monthly rent and reimburses the landlord for operation and maintenance costs, typically in the form of Common Area Maintenance (CAM) charges that are tied to its proportionate share of building square feet.
  - For example, a restaurant may pay $3/SF for its monthly rent plus reimburse the landlord for $1/SF in CAM charges, or effectively pay $4/SF per month.
- Traditionally office rents are "full service" meaning that the property owner would fully pay for the base cost of operations and maintenance with a partial reimbursement by the tenant for its fair share of the increased operational costs over a base year cost (typically pegged to the first year of a lease). In recent years, office space is also being rented on a "NNN" basis, particularly in newer buildings, which means that office tenants may also pay CAM charges.

- Residential rents are similar to “full service” rents whereby the landlord fully pays for building operational and maintenance costs, but tenants may pay for utilities based on their usage and/or reimburse for certain services, such as trash services.
- CAM charges typically include an allocated cost to the tenant for landlord expenses for operating costs such as maintenance, management, utilities, property taxes, and assessments, which can result in an additional monthly cost of $1/SF to $2/SF depending on the landlord’s operating and maintenance costs as well as property taxes, which is tied to building valuation.
- Depending on the lease, the landlord can also “pass-through” various building improvement costs to a tenant. For example, a landlord may amortize a tenant improvement cost of $50/SF to improve the space that the tenant occupies and increase the monthly rent by about $1/SF to cover this amortized cost (plus interest) over a 5 year lease period.
- As will be further discussed in Section D, a significant share of building improvement costs and annual increases in property taxes, assessments and/or special taxes may be “passed-through” to the tenant, which increases their occupancy cost.

3. Retail Sales Trends Affecting Downtown

As described earlier, retail is a highly competitive, fast-changing business, and the U.S. retail sector is undergoing rapid changes, which have accelerated due to the COVID pandemic.

- Demand for physical store space is declining in key retail sectors, such as apparel and home goods, as consumers increasingly purchase products online through mega e-retailers like Amazon and eBay.
  - According to a December 2019 analysis by the Lincoln Institute of Land Policy (LILP), about 80 percent of U.S. consumers make online purchases, and nearly 40 percent of those online shoppers buy something on Amazon at least once a month.[2]
  - According to quarterly figures released by the U.S. Department of Commerce, U.S. e-commerce sales as a percent of all retail sales has grown from 5 percent in 2012 to 13 percent in 2021 after spiking to over 15 percent during the 4th quarter of 2020.[3]
  - According to McKinsey, spending in online channels has continued to climb even after brick-and-mortar stores reopened after pandemic related closures. The total uplift in e-commerce penetration was 33 percent from the onset of COVID-19 until March 2022, and 75 percent of US consumers say they are both researching and purchasing retail goods in-store and online.[4]
  - Many retail experts are predicting that online sales will continually increase in the future to represent 20 percent or more of sales and emphasize the importance of omnichannel behavior (buying both in-store and online) and the importance of social media influence.
  - Consumer preferences are rapidly evolving, and retail businesses need to constantly refresh to retain existing customers and attract new ones. Today's consumers are increasingly looking for attractive, well-designed and vibrant retail environments, and shoppers are willing to drive to high-quality shopping environments with multiple retail offerings where they can have a compelling “experience.”

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[2] https://www.lincolninst.edu/publications/articles/2019-12-unmalling-america-municipalities-navigating-changing-retail-landscape

[3] https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

[4] https://www.mckinsey.com/business-functions/growth-marketing-and-sales/our-insights/how-us-consumers-are-feeling-shopping-and-spending-and-what-it-means-for-companies

- To remain competitive, retail businesses must make ongoing investments to enhance the customer's experience, including upgrades to their retail space and technology improvements to strengthen their customer relationships and enable them to capture both online and in-place sales.
- As one ULI publication summed it up, "More retail stores will be transformed into places that sell experiences, rather than goods."[5]
- Improvements to the public realm, such as expanded pedestrian and outdoor seating areas along with improved landscaping and social areas with amenities, will also enhance the experience of Downtown customers.

- According to data provided by City staff on retail sales tax performance of Downtown, the City's retail sales tax receipts in 2021 have declined since 2019.
  - Multiple factors have affected the Downtown's retail tax performance including business disruption due to the pandemic, loss of retailers, which has increased retail vacancies, and intensified competition from online retail outlets.
  - Sales tax revenues from "place of sale," which is where a taxable item is purchased, have declined for most business types across California.
  - In contrast, the Countywide pool that allocates sales tax revenues from online sales has increased, and this trend is projected to continue.
- According to an analysis of retail sales tax data for Downtown businesses by the City, retail sales performance varies by business type, with restaurants and drinking places typically generating the highest sales compared to other retail establishments.
  - As of 2021, the average sales tax for casual dining is about $280/SF while the average sales tax for retail businesses is about $90/SF in the Downtown. The low average retail sales tax performance/SF for retail businesses is partially attributable to fitness and service businesses that only generate a small proportion of their sales from taxable goods.
  - Historical retail sales tax data reveals significant differences in retail sales performance among Downtown tenants over the past five years for which historical data is available, and most notably since the pandemic started in early 2020.
  - Retail sales for most Downtown retailers, for which data is available, has not fully recovered to pre-pandemic 2019 levels.
  - Full-service restaurants are exhibiting the strongest rates of recovery. Most full service restaurants are showing an 80% to 100% or greater recovery in sales performance.
  - The Downtown has a much smaller number of limited service restaurants, and most limited service restaurants are showing a 60% to 99% recovery in sales performance.
  - Most of the Downtown's specialty retailers, including apparel, book, jewelry, and gift stores, have are also showing about a 60% to 99% recovery in sales performance.
- The general rule of thumb for retail businesses is that their total occupancy cost (rent plus CAM and other space related costs) should not exceed 6-10% of gross sales. Given their high operation and labor costs, restaurants are typically at the lower end of this range.
  - Applying this general rule of thumb to average sales tax data in the Downtown, the monthly occupancy cost for Downtown retailers would be expected to range between $2.00 to $2.50/SF per month before considering future increases in retail sales and assuming many Downtown retailers have a significant amount of non-taxable retail sales.

[5] http://uli.org/wp-content/uploads/ULI-Documents/DemographicStrategiesForRealEstate.pdf

- Catalyzing growth in retail sales is critical to improving the economic vitality of Downtown and enabling retail businesses to support the higher rent payments that are needed to support the cost of building renovation and tenant improvements that are needed to remain competitive.
  - The development of new residential, office and lodging in the Downtown and the rest of the City can help stimulate growth in retail consumer spending potential, which can help offset future competition from online retailers.
- Retail areas like Downtown Mountain View and shopping centers also need to consider leasing space to quasi-retail or non-retail uses, such as personal and financial service firms, recreational uses, medical service providers and other health and wellness providers that are "Amazon-proof." While these uses do not typically generate significant taxable sales, they would increase customers to the Downtown who may combine trips to shop or dine at nearby establishments.

D. Analysis of Potential Rehabilitation Scenarios

Overall, the proposed updates to the DTPP standards and design guidelines are focused on assuring that buildings are rehabilitated to complement and build upon the high quality, design elements of existing building facades in the Downtown. The proposed changes to the DTPP design standards for the ground floor and building facades codify best practices and policies that have been applied during the design review process on previous building renovations, such as façade articulations at regular intervals and transparent ground floor facades.

As described earlier, the Downtown competes with other shopping centers and downtowns in surrounding cities that have higher quality retail space. VMWP developed a set of potential rehabilitation cost estimates associated with the upgrade of a prototypical building in the historic retail core consistent with the proposed updates to the DTPP. Three basic renovation options are considered to create higher quality retail and restaurant space that reinforces the Downtown’s character while enhancing the building and Downtown’s competitiveness in the dynamic local and regional marketplace:

- Exterior and façade renovation– The outside of the building is renovated to upgrade its appearance, replace exterior building elements (such as windows) and improve its signage.
- Interior renovation – The interior of the building is renovated to improve the quality of the retail space, reveal taller ceilings where possible, improve accessibility to better comply with the Americans with Disabilities Act (ADA), and upgrade lighting, furnishings and other features designed to attract and retain customers.
- Combined interior and exterior renovation– A coordinated combination of exterior and interior upgrades are undertaken to fully upgrade the building.

Each of these rehabilitation scenarios is described below along with an analysis of their potential costs.

1. Description of Rehabilitation Scenarios

As described earlier, Subareas A, G and H contain a broad variety of building types and sizes. Many of the buildings in the historic retail core of Subarea H are small buildings that are one to two stories in height. Based on a review of existing buildings in the historic retail core, VMWP evaluated potential rehabilitation scenarios for a prototypical, smaller building on Castro Street with a ground floor area of 3,150 square feet. The rehabilitation scenarios evaluate potential exterior and/or interior renovation improvements that are consistent with the proposed changes to the DTPP standards and design guidelines.

VMWP developed planning level cost estimates for each scenario, and Seifel Consulting performed a high-level economic analysis of rehabilitation options for this typical building as either a retail store or restaurant, as summarized below and shown in Table 1.

The greatest variation in rehabilitation scope and construction cost per square foot will be likely be attributable to existing building conditions and the needs of the new tenant that seeks to occupy the retail or restaurant space. For example, a large amount of deferred maintenance and antiquated electrical or plumbing systems could significantly increase renovation costs. In contrast, if a building has been previously renovated for a similar tenant and the prior upgrades were of high quality consistent with current retailing and building standards, the renovation costs will be significantly less.

a. Exterior and Façade Renovation Only (Retail Store and Restaurant)

As exterior and façade renovation improvements would be similar between a retail store and restaurant, Scenario A evaluates the typical costs associated with rehabilitating the building's exterior as either use.

- **Scenario A- Exterior and Façade Renovation Only**– This scenario assumes that improvements are only made to the building exterior façade (without any interior building improvements).
  - These upgrades would include repair of exterior façade, new signage and paint, replacement of doors, and windows, and replacement of the roof and flashing.
  - The cost of these upgrades would range between $90 to $170 per square foot depending on what is accomplished and would likely need to be done along with some interior upgrades.

b. Interior Renovation Only (Retail Store and Restaurant)

As restaurants require a greater level of interior upgrades to meet health, safety and occupancy requirements, the analysis of interior renovations evaluates potential upgrades to a retail store (Scenario B), existing restaurant (Scenario C) or new restaurant (Scenario D).

- **Scenario B- Retail Store Interior Renovation–** This scenario assumes that interior improvements would be undertaken to accommodate a retail store, including new paint and flooring, ceiling improvements, upgrades to mechanical, electrical and plumbing (MEP) systems, ADA accessibility, and other interior improvements that would improve the quality and attractiveness of the space.
- **Scenario C- Restaurant Interior Renovation–** This scenario assumes that interior improvements would be undertaken to renovate the space for a restaurant, which would include the types of improvements listed above for a retail store plus specialized restaurant improvements. Restaurant build-out is typically more expensive than a retail store given the commercial kitchen requirements, associated ventilation and MEP costs, and seating upgrades.
- **Scenario D- New Restaurant Interior–** This scenario is the same as what is assumed under Scenario C except the building would be further improved to accommodate a new restaurant, which would be more expensive than upgrading an existing restaurant.

c. Combined Exterior and Interior Renovation (Retail Store and Restaurant)

The final three scenarios evaluate the cost of undertaking both interior and exterior renovations for a retail store (Scenario 1), existing restaurant (Scenario 2) or new restaurant (Scenario 3).

- **Scenario 1 (A+B) Retail Store Exterior and Interior Renovation** assumes that upgrades are made to both the exterior and interior of the building for a retail store.
- **Scenario 2 (A+C) Restaurant Exterior and Interior Renovation** assumes that upgrades are made to both the exterior and interior of the building to renovate a restaurant.
- **Scenario 3 (A+D) Restaurant Exterior and Interior Renovation** assumes that upgrades are made to both the exterior and interior of the building for a new restaurant.

2. Estimated Renovation Costs of Rehabilitation Scenarios

Table 1 below summarizes VMWP's estimated renovation costs for each rehabilitation scenario based on a lower to higher end range cost estimate to reflect the broad range of exterior and interior rehabilitation improvements that can occur for retail stores and restaurants.

Table 1
Estimated Renovation Costs for Rehabilitation Scenarios
Typical Small Building in Downtown Mountain View

	Renovation Cost Range Per Ground Floor Square Feet		Total Renovation Cost (Rounded)	
Renovation Scenarios	Lower	Higher	Lower	Higher
Scenario A- Exterior + Façade Renovation Only	$ 90	$ 170	$ 280,000	$ 550,000
Interior Renovation Options				
Scenario B- Retail Store Interior Renovation	$ 90	$ 220	$ 280,000	$ 710,000
Scenario C- Restaurant Interior Renovation	$ 240	$ 430	$ 760,000	$ 1,360,000
Scenario D- New Restaurant Interior	$ 350	$ 550	$ 1,110,000	$ 1,740,000
Exterior and Interior Renovation Options				
Scenario 1 (A+B)- Retail Store Exterior + Interior Renovation	$ 180	$ 400	$ 560,000	$ 1,260,000
Scenario 2 (A+C)- Restaurant Exterior + Interior Renovation	$ 330	$ 600	$ 1,040,000	$ 1,910,000
Scenario 3 (A+D)- Restaurant Exterior + New Restaurant Interior	$ 440	$ 730	$ 1,400,000	$ 2,290,000

Note: The renovation cost estimates are based on a representative building on Castro Street with a 3150 square foot ground floor.
The renovation costs do not include costs related to the payment of Downtown parking in-lieu fees.
Totals may not add up precisely due to computer rounding.

Source: Van Meter Williams Pollack (January 2022)

As described earlier, the renovation construction cost per square foot will vary depending on the amount of deferred maintenance, condition of the electrical and plumbing systems, quality of prior renovations, and extent of proposed improvements. In addition to the exterior and interior renovation costs, Downtown parking in-lieu fees would need to be paid if restaurant occupancy were increased above what is already provided in the existing building as the result of a restaurant renovation, and Downtown parking requirements apply. According to the Downtown Precise Plan, Subareas A, G and H do not have parking requirements for existing ground floor retail and personal service uses within an existing building.

For example, if a restaurant renovation in an existing building would generate the need for 10 additional parking spaces, the payment of the Downtown parking in-lieu fee for 10 spaces would increase the renovation cost by about $306,000 (or $97/SF) assuming the Fiscal Year 2022/23 Downtown parking in-lieu fee for change of use of $30,614 per space, which is 50% of the fee for new construction.[6]

Poor building conditions and/or the payment of parking in-lieu fees will significantly increase projected costs, particularly for the restaurant scenarios. While each scenario includes an estimated upper range of renovation costs, the economic analysis assumes the lowest cost estimate for each scenario and does not include the potential payment of Downtown parking in-lieu fees.

[6] https://www.mountainview.gov/civicax/filebank/blobdload.aspx?BlobID=37984

3. Economic Analysis of Renovation Scenarios

Typically, a property owner would pay for exterior and façade improvements, although a tenant may share in a small portion of these costs, such as for new signage. A property owner would also undertake building improvements that are necessary to attract tenants and make the space occupiable.

Tenants are primarily responsible for interior tenant improvement costs associated with improving the property to accommodate their business, although tenants can be required to exterior upgrades as well, especially if they may have specific signage needs. Property owners may also share in the cost of tenant improvements by providing a partial credit toward rent payment and/or allowing tenant improvement costs to be amortized as part of future rent.

To evaluate what a property owner and/or tenant could afford to invest under the four renovation scenarios, the economic analysis projects the monthly rent that would be needed to amortize the lower range of renovation costs over different lease terms. This simplified analysis does not factor in other related costs that may be incurred, including higher property taxes, increased insurance costs, higher interest rates, Downtown parking in-lieu fees, or other costs that may be incurred.

As shown in Table 2 below, the analysis presents the monthly rent increase that would be needed to amortize the lower renovation costs under each scenario assuming lease terms of 2, 5 and 10 years. The green highlights indicate that these renovations scenarios that would be feasible if monthly retail rents were able to increase up to $1.50/SF NNN after the renovation is performed. A monthly rent increase greater than $1.50/SF NNN may be achievable for high performing restaurants but not likely achievable for retail or restaurant businesses with low retail sales performance.

Table 2
Estimated Monthly Rent Needed to Amortize Renovation Costs Over Lease Term
Based on Lower Range of Renovation Costs for Typical Small Building in Downtown Mountain View

	Renovation Cost $/SF	Monthly Rent Increase Per Square Foot to Amortize Renovation Cost		
Renovation Scenarios (Assuming Lower Range of Costs)		**2 Year Lease**	**5 Year Lease**	**10 Year Lease**
Scenario A- Exterior + Façade Renovation Only	$ 90	$ 3.75	$ 1.50	$ 0.75
Interior Renovation Options				
Scenario B- Retail Store Interior Renovation	$ 90	$ 3.75	$ 1.50	$ 0.75
Scenario C- Restaurant Interior Renovation	$ 240	$ 10.00	$ 4.00	$ 2.00
Scenario D- New Restaurant Interior	$ 350	$ 14.58	$ 5.83	$ 2.92
Exterior and Interior Renovation Options				
Scenario 1 (A+B)- Retail Store Exterior + Interior Renovation	$ 180	$ 7.50	$ 3.00	$ 1.50
Scenario 2 (A+C)- Restaurant Exterior + Interior Renovation	$ 330	$ 13.75	$ 5.50	$ 2.75
Scenario 3 (A+D)- Restaurant Exterior + New Restaurant Interior	$ 440	$ 18.33	$ 7.33	$ 3.67

Note: The rent amortization analysis is focused on the amortized cost for renovation and does not consider potential costs that may occur due to increased payment of property taxes, insurance, interest, Downtown parking in-lieu fees or other occupancy costs.

Short term leases under 5 years do not enable property owners to amortize costs sufficiently.

Green highlights indicate that this level of renovation could be feasible with longer lease terms and assuming retail rents may increase up to $1.50/SF NNN after renovation occurs. Higher rent increases would allow greater levels of improvement and may be achievable for high performing restaurants.

Source: Van Meter Williams Pollack (January 2022)

The analysis in Table 2 demonstrates that a 5-year term would be needed to support the cost of exterior renovation, while a 10-year lease term would be needed to support the cost of exterior renovation along with a modest amount of interior renovation costs for a retail store. A rent increase of $1.50/NNN would not be sufficient to accomplish both exterior and interior renovations for a restaurant during a five or ten year term and would require a significantly higher rent increase, particularly if additional costs were incurred, such as the payment of in-lieu parking fees.

Securing a long term lease with increased retail rents from a national "credit tenant" or tenant with a strong leasing track record would enable a property owner to borrow funds from a private lender to pay for the renovation improvements, as long term leases provide security for a bank loan. However, past Downtown leasing patterns do not indicate that national credit tenants or well-established retailers are typically willing to sign a major, long term lease in Downtown.

Similarly, the ability of a business owner to achieve significant growth in retail sales that can be sustained over a longer period will enable a business owner to borrow more funds and/or pay more rent that can in turn be used as security for a loan. The US Small Business Administration (SBA) works with private partner lenders to provide loans to qualifying small businesses based on SBA loan guidelines, and these loans can be used to finance building and tenant improvements. As described earlier, retail rents should typically range between 6-10% of retail sales, which is a limiting factor to rent and loan repayment.

Securing long term loans, particularly for 20 to 25 years, is often challenging and requires a significant track record of rent and/or sales growth at the property or in the local market as well as significant collateral to secure the loan (even with SBA assistance). Improving the Downtown's economic vitality will synergistically improve the ability for both property owners and business owners to borrow funds and invest in improvements.

4. Key Findings From Economic Analysis of Renovation Scenarios

The economic challenges facing tenants and property owners described above are consistent with the findings of the 2019 ULI Technical Assistance Panel (ULI TAP) Report, and the findings from the economic analysis of the renovation scenarios indicate the following:

- Renovation costs to upgrade the exterior and interior of a building differ significantly depending on its current condition, quality of the prior renovation and proposed use (retail store vs. restaurant).
- Long term leases of five to ten years are needed to amortize renovation costs, and retail rents for many Downtown retailers are too low to support the renovation of exterior and interior facades and building systems.
- Given the significant costs for exterior and interior improvements, property owners face an inherent trade-off between investing in different types of improvements compared to the likelihood of future rent increases over a 5 to 10 year lease term versus current rents.
- Aging and outdated commercial spaces in the Downtown are difficult to fill with new tenants.
  - Renovation costs for retail stores are most likely to be financially supported by a national "credit tenant" or a tenant with a strong leasing track record of paying higher retail rents over a 5 to 10 year lease term, but these tenants are not typically willing to sign leases in Downtown.
  - Renovation costs for restaurants are typically more expensive than a retail store given commercial kitchen and other build-out requirements, and these costs for new restaurant tenants in an outdated space are likely higher than the typical rent increases that restaurants are willing to pay in Downtown, especially when the parking in-lieu fee is included.
- As will be further discussed in Section F, the City would need to work with property and business owners to facilitate the renovation and upgrade of retail spaces to enhance the retail experience in Downtown Mountain View by providing City matching funds for eligible renovation and/or façade improvement costs through a City loan or grant program.

E. Analysis of Future Development Challenges and Opportunities

The proposed updates to the DTPP standards and design guidelines are focused on assuring that future development is compatible with existing building patterns and fits within existing building typologies in the Downtown. According to VMWP, the proposed updates to the DTPP standards and design guidelines would not significantly change how future development could occur in Subareas A, G or H.

No major changes are proposed to allowable FAR or height, except that Subarea H would now include an allowable 2.75 FAR for office uses. The proposed extension of massing standards from Castro Street to adjoining side streets are based on what has been previously negotiated through design review on prior developments and would not significantly affect future housing development potential on these corner lots because residential development can likely accommodate the linear feet of exterior facade required to provide adequate light and air.

Nonetheless, redevelopment of existing properties (consisting of building upgrades to accommodate additional floors) or new infill development would typically be complex, challenging and expensive to undertake based on the characteristics of existing properties in the Subareas and as previously indicated in the ULI TAP for Downtown Mountain View.

1. Small Properties Most Challenging to Develop

Many of the parcels in Subareas A, G and H are small and poorly configured for redevelopment or infill development with narrow street frontages and deep building footprints, particularly along Castro Street in Subarea H.

- The typical small building footprint is about 25 feet wide by 125 feet deep, while many retailers prefer a store depth of between 50 to 60 feet.
- Narrow and deep buildings make it more difficult to efficiently accommodate circulation and emergency egress or to provide the required or desired amount of light and ventilation.
  - They also make it difficult to attract retail stores, which typically prefer wider storefronts and less deep retail spaces that provide greater visibility for their products and better natural lighting.
- Development costs for small infill sites surrounded by buildings are higher than for larger parcels with greater setbacks from existing buildings because construction must be carefully undertaken to avoid disturbing surrounding buildings and their foundations.
- Most small parcels cannot accommodate the DTPP parking requirements on the ground floor and would need to provide parking in an underground garage with an inefficient parking layout that would be expensive to construct.[7]
  - While the City allows the payment of parking in-lieu fees for some non-residential development, this is not allowed for residential development. Furthermore, a change in non-residential use, such as new restaurant space in an existing building, may trigger payment of parking in-lieu fees.
  - Few sites are large enough to provide the required on-site parking for residential, which is a current governing criteria for redevelopment potential to expand and add floors.
  - The current property ownership pattern of numerous individual owners of small properties does not suggest that parcel assembly is currently underway. If parcel assembly were to occur, this could enhance the feasibility of future development.
- If a property has been owned for many years and has a low cost basis, the annual rate of return from existing development at lower rents (assuming the retail space is occupied) may be greater than a

[7] Subarea H does not have a parking requirement for newly constructed ground floor retail and personal service uses, while Subareas A and G do according to the Downtown Precise Plan.

speculative rate of return from future development that requires significant additional investment of funds to renovate or redevelop the property.

  - For long term owners, the rental stream from existing tenants can provide a low-risk return on investment, even if rents are low given their low cost base. This can represent a significant financial hurdle to redevelopment.
  - If properties remain vacant for a long time and are not able to be leased given the poor quality of the building space, this may incentivize an owner to renovate, redevelop or sell the property.
  - As indicated in Section D, an existing owner must be able to attract new tenants or raise rents on existing tenants to sufficient rent levels to amortize the renovation costs or to support the cost of property redevelopment, which is more difficult to achieve.
- Developers that seek to redevelop a small property in the Downtown must be able to achieve sufficient rental income or sales proceeds to pay for development costs (including property acquisition costs), meet lender underwriting standards and generate an acceptable rate of return to attract equity investment.
  - Given the physical and economic challenges associated with redevelopment of small properties and Mountain View's high property values, this may be difficult to achieve.
  - Retail rents are not typically able to cover retail development costs when factoring in the high costs of building and parking construction in Silicon Valley as well as the significant costs associated with high-quality interior build out, as described in Section D.

2. Larger Sites Most Suitable for Future Development

VMWP determined that several, larger corner parcels along Castro Street and surface parking lots to the rear of Castro Street would be most suitable for infill development, especially if parking can be more cost effectively provided.

- To help make Downtown retail more competitive and attract new patrons to the Downtown, future development of the underutilized "corner" parcels at key Downtown intersections could provide well-designed retail space and generate patrons from new residents and workers.
- As indicated in the ULI TAP, buildings on corners contribute to Downtown vitality because they:
  - Frame views and allow for memorable architecture with exposure of multiple elevations.
  - Provide markers for rhythms of pedestrian and vehicular circulation.
  - Set the tone as gateways for blocks they anchor.
- As indicated in the Downtown Parking Strategy, the City can better manage its existing parking resources, redevelop some of its public parking lots into garages that could provide expanded parking resources through multiple levels of parking, and to undertake public private partnerships to include other land uses on these properties alongside new parking resources.
- Other larger Downtown sites could be redeveloped to include high quality, desirable retail space that could attract local, regional or national retailers with a larger customer base.
- Larger sites can provide parking more efficiently and cost effectively, and corner sites allow access to parking from more than one street or from a street other than Castro Street.
- While retail rents are not typically able to cover retail development costs when factoring in the high costs of building and parking construction in Silicon Valley, new residential or office uses on the upper floors would provide additional revenue that could help pay for the provision of retail on the ground floor, as well as generate new potential customers for Downtown businesses.

- Allowing the payment of parking fees in-lieu of constructing on-site residential parking on small sites at strategic Downtown locations that align with other DTPP and citywide development objectives could make residential infill development in the Subareas more feasible, as would reducing residential parking requirements in alignment with the City's sustainability goals and Housing Element update.

F. Recommendations

As discussed earlier, Mountain View's Downtown is located within a mature, well-developed and highly competitive regional retail market, and changing retail trends make it more challenging for Downtown Mountain View to attract new and diverse retail users, particularly those outside of the food and beverage sector. In addition to these larger market factors, the Downtown is also challenged with aging public infrastructure and physical constraints, such as narrow and deep lots along Castro Street that are less desirable to retail stores. As the result, the Downtown does not currently possess a critical mass of retail tenants and activity that meet the typical retail location requirements for expanding retailers, which often seek to co-locate with other retailers within retail centers or districts with high quality retail spaces, amenities and robust growth in consumer demand in the surrounding areas.

Based on the findings from this analysis and complementary recommendations in other City reports, this section of the memorandum recommends a set of high level actions to help implement the Downtown Precise Plan update for Subareas A, G and H and to support a thriving and vibrant Downtown. These recommendations can further the City of Mountain View's Economic Vitality strategic priority to:[8]

- Support a walkable, beautiful, vibrant downtown and accessible village centers that draw residents and visitors.
- Create an environment where small, local, diverse businesses can thrive across the City alongside large employers.
- Continue to work in partnership with the business community so that Mountain View remains a center for innovation with meaningful jobs for workers.

The City is in the process of developing an Economic Vitality Strategy for Mountain View that will recognize the unique character of Mountain View's businesses community, identify and address the opportunities and challenges, and create a long-term, sustainable strategy for economic growth that will support businesses and be responsive to the evolving needs and opportunities of the local economy. While the Economic Vitality Strategy will establish citywide strategic priorities, it can also make specific recommendations for the Downtown, which could augment and modify the following recommendations. In addition, the City is considering a Phase 2 update to the Downtown Precise Plan, which will review and make land use and policy recommendations for the entire Downtown.

The following three-pronged strategy for the Downtown is designed to support a thriving and vibrant Downtown that builds upon the community character of the Downtown, and Castro Street in particular, including preservation and enhancement of historic structures and design elements Subareas A, G, and H:

1. **Improve the Downtown Environment**– Enhance the public realm and public experience of Downtown, particularly along Castro Street, with upgraded landscaping, expanded pedestrian spaces, outdoor seating areas, and improved parking management solutions and access to encourage retail activity.
2. **Promote Downtown Business Growth** – Strengthen Downtown businesses, expand the customer base of Downtown businesses, as well as simplify and streamline City processes.

[8] https://www.mountainview.gov/council/strategic_planning_and_visioning.asp

3. **Encourage Building Upgrades and Complementary Infill Development**– Encourage exterior and interior upgrades of existing buildings and complementary infill development in the Subareas.

The following sections present the recommended high level actions within each of these strategy elements and the potential funding tools that could be used to implement this three-pronged strategy.

1. Improve the Downtown Environment

The City has been implementing and studying various actions to improve the public realm, parking and the public's experience of Downtown. The recommendations to improve the Downtown environment build on prior reports and analyses that have been presented to the City Council and consist of three major priority areas:

- **1a. Castro Pedestrian Mall–** Building upon the success of the Castro Street closure program that was implemented over the past two years, implement the recommendations in the 2021 Pedestrian Mall Feasibility Study by Gehl and Kimley Horn regarding the establishment of a pedestrian mall in Subarea H along the first three blocks of Castro Street.
  - The recommended actions will ensure an appealing, accessible and upgraded environment that encourages active use by all demographic groups along the first three blocks of Castro Street, as recommended by the ULI TAP.
  - The actions will also permanently expand outdoor space for eating and dining where many of Downtown's restaurants are located, which will help increase restaurant revenues that will allow for future rent growth to help pay for investments in existing buildings and help boost Downtown retail sales taxes.
- **1b. Downtown Parking**– Implement recommendations in the 2021 Downtown Parking Strategy by Nelson Nygaard that focus on parking management, supply, access and mobility, and related zoning and regulation modifications.
  - The recommended actions will make more effective and convenient use of existing parking supply, encourage public private partnerships to expand the supply of parking and encourage mobility alternatives to private automobiles.
- **1c. Other Public Realm Improvements**– In addition to improvements along Castro Street in Subarea H, the remaining areas in Subareas A, G and H would benefit from improvements to the public realm.
  - Complementary to the Castro Pedestrian Mall improvements, the recommended actions will promote an appealing, accessible and upgraded environment throughout Subareas A, G and H.

Exhibit 1 at the end of this section presents the recommended actions to improve the Downtown environment.

2. Promote Downtown Business Growth

The City has been implementing many strategies to promote economic development and business growth, with a particular focus on small, local and diverse businesses. The recommendations to promote Downtown business growth are organized into three major priority areas:

- **2a. Strengthen Downtown businesses–** Building upon the success of the City's pandemic response to assist local businesses and its Small Business Action Plan, enhance Downtown business outreach and support while attracting new businesses to strengthen the Downtown business environment.
  - The recommended actions will provide coordinated business assistance to local businesses and help attract new, complementary businesses.

- **2b. Expand the customer base for Downtown businesses** – Building upon the success of the Chamber of Commerce's promotion efforts and the "ilovemv.org" website, help expand the customer base for Downtown businesses through coordinated marketing and social media outreach.
  - The recommended actions will promote Downtown and expand outreach to customers in the local and regional marketplace.
- **2c. Simplify and streamline City processes**– Building on other City efforts to simplify and streamline procedures, provide transparent information regarding the City's permitting and approval processes and provide staff support to streamline compliance to promote Downtown business growth.
  - The recommended actions will provide clearer and more transparent information regarding the City's permitting and approval processes for Downtown businesses and owners and will provide staff support to facilitate business growth and expansion.

Exhibit 2 at the end of this section presents the recommended actions to promote Downtown business growth.

3. Encourage Building Upgrades and Complementary Infill Development

As indicated in the ULI TAP, Downtown has great bones and a great brand, which should be leveraged to ensure Downtown continues to be the vibrant heart of Mountain View. The City has been undertaking several initiatives to improve the Downtown's built environment, including the DTPP Phase 1 update for Subareas A, G and H. The recommendations to encourage building upgrades and complementary infill development are organized into three major priority areas and reflect findings from this Phase 1 update:

- **3a. Upgrade buildings to cultivate community character–** A combination of incentives and staff support can encourage exterior and interior upgrades of properties at risk of vacancy or depreciation. Building upon the findings from the VMWP urban design recommendations, exterior upgrades will be conducted in a way that promotes community character.
  - The recommended actions will incentivize property owners to upgrade buildings in a way that cultivates community character.
- **3b. Support complementary infill development** – Building upon VMWP's analysis of opportunity sites and urban design recommendations, encourage infill development of corner sites, suitable Downtown public parking lots and other larger Downtown sites in Subareas A, G and H.
  - The recommended actions will facilitate new infill development that meets the DTPP land use, urban design and parking standards, as they may be amended.
- **3c. Consider revisions to the DTPP land use and parking policies as part of the Phase 2 update process**– The City is considering a Phase 2 update of the DTPP that will review the land use and parking policies for the entire Downtown, building on the findings in Phase 1.
  - The recommended actions recommend areas for further consideration during the Phase 2 process.

Exhibit 3 at the end of this section presents the recommended actions to encourage building upgrades and complementary infill development.

4. Funding Programs

As shown in Exhibit 4 at the end of this memorandum, ten potential funding programs have been evaluated that could be potentially deployed to help accomplish the three-pronged strategy. Each funding program has unique considerations, and several funding programs would need to be deployed together to improve the Downtown environment, promote economic vitality and encourage building upgrades.

- **City Programs Funded by the General Fund–** The first two, City sponsored programs are the most flexible and directly applicable programs to incentivize building renovation and assist local businesses. These programs would build upon the City's existing and historical economic development programs and its recent COVID relief fund. For example, a façade improvement program was administered by the former Mountain View Revitalization Authority.
  - **City Loan or Grant Program**– The City of Mountain View could provide loans or grants based on an established leverage ratio of City funding to private investment (for example, $1 City investment to $3 private investment). Loans could be structured as "forgivable loans" that operate like grants when certain milestones are achieved regarding opening, operations, renovation criteria, and/or jobs.
  - **City Property Owner and Business Assistance**– The City could continue to assist property owners and businesses by providing dedicated staff that can serve as "ombudsman" to facilitate Downtown business growth and property upgrades.
- **Tax Increment Financing**– Tax increment financing (TIF) leverages the incremental growth in property taxes generated by the increase in assessed value from new development and rehabilitation. In order to generate significant TIF funds, the City would need to incentivize a substantial amount of development activity.
  - **Enhanced Infrastructure Financing District (EIFD)**– EIFDs allow public agencies to TIF to fund a broad range of public infrastructure and facilities. For example, if 100 units of new housing were built in the Downtown that could be sold for $1 million per home, this would generate $100,000,000 in assessed value, which would generate about $160,000 in TIF annually based on the City's share of property taxes (16% X 1% X $100 million). The establishment of an EIFD is complex and would divert property tax funds from the General Fund.
- **Assessment and Special Tax Programs**– The following programs provide for an assessment or special tax to be levied on property or a business to generate funding that can be used for very specific purposes under State law. The City currently has two existing Business Improvement Areas and a Parking Maintenance and Operations Assessment District that help pay for business assistance and Downtown parking costs. All or a portion of the costs associated with an assessment or special tax may be passed on to the tenant in the form of higher monthly CAM charges. As many Downtown small businesses cannot afford significant rent increases and the City already has three districts, the potential expansion of these programs will likely be limited.
  - **Assessment District**– Assessment districts enable a jurisdiction to levy additional taxes on properties within designated districts to finance public improvements that directly benefit those districts with the approval of property owners in the district.
  - **Business Improvement District (BID)**– A BID is a special type of assessment district that generates revenue to support enhanced services. Two types of BID mechanisms exist under California law: Business Improvement Areas (BIAs) and Property Based Improvement Districts (PBIDs). PBIDs can be used to help fund public improvements and enhanced services, and assessments can be paid for by both business and property owners.

- **Commercial Property Assessed Clean Energy (C-PACE)**– C-PACE is a tool that can be used to finance energy efficiency, renewable energy, water conservation, and/or seismic retrofit improvements on commercial property through assessments that leverage long term debt.
- **Mello-Roos Community Facilities District (CFD)**– Mello-Roos CFD is a public financing tool that can be used to finance the capital cost and maintenance of public improvements and community facilities through annual payments of special taxes by property owners.

- **Public Programs That Leverage Private Capital**– The following publicly sponsored programs leverage private capital to help fund building renovation. Each of these programs is complex to qualify for and utilize given their unique Federal or State requirements.
  - **US Small Business Administration (SBA) Loan Program**– The SBA works with private partner lenders to provide loans to qualifying small businesses based on SBA loan guidelines. As these are private loans that need to be paid back monthly, property owners must receive sufficient rent to cover the monthly loan costs.
  - **Historic Rehabilitation Tax Credits**– A certified historic structure that is listed on the National Register of Historic Places is eligible to receive a tax credit based on qualified rehabilitation costs as determined by Federal and State agencies. Based on their determination, a 20% tax credit is provided to a private entity over a 5-year period to leverage private capital to help defray renovation costs. Very few buildings in the Subareas are likely to be eligible based on the analysis by Treanor HL.
  - **California Mills Act Program**– The California Mills Act allows the City to enter into a binding "Historical Property Contract" with a property owner of a "qualified historic property" in exchange for property tax relief. A property owner must enter into a ten year contract with the City to rehabilitate the building in exchange for a reduction in local property taxes.

These programs could be used in combination with one another to help achieve the City's economic vitality goals and to implement the recommended actions. Given the economic considerations described in this memorandum, the use of funds from the City's General Fund will be particularly critical to achieving the recommended actions as these funds can be used flexibly to implement the actions in the three strategy areas as presented in Exhibits 1-3:

1. Improve the Downtown Environment
2. Promote Downtown Business Growth
3. Encourage Building Upgrades and Complementary Infill Development

The use of public funds and certain public incentives may trigger construction labor requirements in certain instances, which may make it more complex to undertake a specific action on the part of the City, property owner or tenant.

Exhibit 1

Improve the Downtown Environment – Recommended High Level Actions

1a. Castro Street Pedestrian Mall– Implement recommendations to establish a pedestrian mall in Subarea H along the first three blocks of Castro Street:

- Expand programming across the three blocks to help invite more people to shop, dine, and gather in Downtown.
- Undertake public infrastructure and other street improvements to support the street closure for motor vehicles, which will include, but not be limited to, bollards, planters, other traffic-control devices, cross-street intersection improvements, street furniture, lighting, and accessibility improvements.
- Prepare interim design guidelines to provide consistency in the aesthetics, street furniture, and other features for the first three blocks.

1b. Downtown Parking– Implement recommendations in the Downtown Parking Strategy that focus on four key areas as recommended by Nelson Nygaard:

- **Management–** Improving parking management, which includes implementing nine actions designed to revise and modernize how parking supply, permitting and enforcement are managed, as well as improving signage and access to existing off-street public parking.
- **Supply–** Exploring public private partnerships to build new parking supply and creating additional public access to existing off-street private parking.
- **Access and Mobility–** Incentivizing the use of multimodal transportation and implementing an integrated parking wayfinding strategy.
- **Zoning and Regulations –** Adopting zoning and regulations to support the Downtown Parking Strategy.

1c. Other Public Realm Improvements – Implement recommendations in various studies to improve the public realm throughout Subareas A, G and H:

- Upgrade and replace outdated street furniture, fixtures and lighting.
- Promote outdoor seating areas and keep restaurant seating along the street with pedestrian walkways adjacent to storefronts wherever possible.
- Encourage vehicular right-of-way to be living streets for all modes of movement, possibly modeled on European examples.
- Enhance tree canopy by increasing coverage areas and preserve existing canopy and heritage trees.
- Provide dark-sky compliant lighting for nighttime activation.

Exhibit 2– Promote Downtown Business Growth

Recommended High Level Actions

2a. Strengthen Downtown businesses– Implement recommendations in the Small Business Action Plan and the City's economic development initiatives to support existing Downtown businesses and attract new businesses to complement Downtown.

- Create an interdepartmental Small Business Action Team of City staff to regularly work with small businesses on challenges, issues and opportunities.
- Provide access to capital for small businesses, which could include modifying the City's Small Business Resiliency Program to provide loans that will help businesses build stronger, long-term resiliency and promote economic vitality.
- Provide information about available public-sector and private-sector grants to assist small businesses, which would include using the City's Economic Development web page and proposed monthly electronic newsletter to provide information about available public-sector and private-sector grants to assist small businesses.
- Retain a retail curator/business attraction specialist with a deep understanding of the regional market that can act as a curator and advocate for Downtown retail opportunities and curate future leasing of vacant spaces to attract businesses that will complement and strengthen Downtown businesses.

2b. Expand the customer base for Downtown businesses – Building upon the success of the Chamber of Commerce's promotion efforts and the "ilovemv.org" website, help expand the customer base for Downtown businesses through coordinated marketing and social media outreach.

- Continue to support and expand events that attract new customers to the Downtown, such as the Mountain View Art & Wine Festival that will be held on September 10-11 this Fall.
- Help Downtown businesses leverage social media tools for advertising and promotion to keep them "top of mind" with existing and new customers, which includes the "Shop Local" program
- Promote digital tools that can expand and improve electronic commerce for small businesses.
- Continue to explore the creation of a Downtown storefront pilot program in collaboration with the Visual Arts Committee to temporarily fill vacant spaces with "pop-up" businesses and arts-related displays to allow short-term proof-of-concept that could lead to longer-term commitments.

2c. Simplify and streamline City processes– Building on other City efforts to simplify and streamline procedures, provide transparent information regarding the City's permitting and approval processes and provide staff support to streamline compliance to promote Downtown business growth.

- Minimize confusing and unnecessary City requirements (related to business expansion or modification and building renovation).
- Create a user-friendly handbook or website resource for Downtown to provide clear and transparent information regarding the City's permitting and approval processes for Downtown, as well as design and building code incentives and potential fee credits for historic renovation.
- Offer streamlined processing and waiver of fees, which can be used for desired development projects, tenant improvements, and business permits.
- Consider hiring an "ombudsman" staff person who serves as a liaison to landlords and tenants to help move projects more quickly through regulatory and administrative processes, helps manage outside consultants, and provides leadership and input to other City departments involved in Downtown retail recruitment and expansion.

Exhibit 3 – Encourage Building Upgrades and Complementary Development

Recommended High Level Actions

3a. Upgrade buildings to cultivate community character– A combination of incentives and staff support can encourage exterior and interior upgrades of properties at risk of vacancy or depreciation. Building upon the findings from the VMWP urban design recommendations, exterior upgrades will be conducted in a way that promotes community character. Provide funding for a Downtown "ombudsman" who coordinates with City staff to facilitate the review, permitting and approval process for building upgrades and historic renovation.

- Create a user-friendly handbook or website resources for property owners, prospective businesses and developers to encourage rehabilitation and façade/signage improvements.
- Provide real estate consulting assistance and design services to property owners to help them evaluate the financial options and benefits to upgrading their properties to attract higher-performing retail tenants, to access other programs that may be available, and to negotiate fair leases with new tenants.
- Publish a special fee schedule for historic rehabilitation projects, which differs from other new development. (For example, consider allowing a significant reduction or exemption from the parking in-lieu fee to accommodate new tenants for buildings that are listed as local historic resources and building upgrades that preserve historic elements.)
- Consider implementing a loan program to assist landlords and tenants to fund property improvements, which would be matched at a ratio to private investment, a portion of which could be structured as "forgivable loans" based on achieving milestones of opening, operations, and employment.
- Consider proactive enforcement to require upgrades to poorly maintained buildings and storefronts that pose a health and safety risk.

3b. Support complementary infill development – Building upon VMWP's analysis of opportunity sites and urban design recommendations, encourage infill development of corner sites, selected Downtown public parking lots and other larger Downtown sites in Subareas A, G and H.

- Meet with developers that are proposing new developments in Downtown to better understand the opportunities and challenges associated with infill development to inform recommendations for potential modifications to City policies or programs to encourage infill development in conformance with the DTPP as amended.
- Analyze public parking lots to determine which lot(s) are most suitable to undertake a public private partnership (PPP) to develop a new parking garage with residential development and outline a process and timeline to initiate a PPP within the next three years.
- Review how State Density Bonus Law could be used to incentivize mixed use developments with high-quality, ground floor retail space and a certain percentage of affordable housing.

3c. Consider revisions to the DTPP land use and parking policies as part of the Phase 2 update process– The City is considering a Phase 2 update of the DTPP that will review the land use and parking policies for the entire Downtown, building on the findings in Phase 1.

- Revisit land use and parking policies for both existing and new uses that would incentivize building upgrades and new complementary infill development.
- Revisit building design policies including a review of signage and façade design policies that would allow dynamic and distinctive storefront design approaches, while respecting the historic nature of certain buildings.

Exhibit 4
Summary of Potential Funding Programs for Downtown Mountain View

Funding Program	Primary Funding Source	Funding Method	Determination of Funding	Potential Uses of Funding: Building Upgrades	Potential Uses of Funding: Public Improve-ments	Potential Uses of Funding: Business & Owner Assistance	Considerations
City Loan or Grant Program	City General Fund	Low interest loan or matching grant	Based on City General Fund budget process	X		X	The former Revitalization Authority sponsored a program to assist local property owners and business owners to improve downtown buildings and façades. The City of Mountain View could sponsor a similar program with General Fund dollars building on its recent COVID small business loan assistance. Loans would be provided based on an established leverage ratio of City funding to private investment (for example, $1 City investment to $3 private investment). Loans could be structured as “forgivable loans” that operate like grants when certain milestones are achieved regarding opening, operations, renovation criteria, and/or jobs. Property owners could obtain City funding to help pay for façade improvements and/or building renovation, while business owners could obtain funding to help pay for retail tenant improvements, which could be targeted to retail space that has been vacant for at least six months or longer. The City could also offer design services at free or low cost, and City staff could help facilitate the City review process for the improvements. Depending on how the program is structured, construction of the improvements may need to meet State and/or local labor standards, which can add complexity and compliance costs.
City Property Owner and Business Assistance	City General Fund	Grant and technical assistance	Based on City General Fund budget process			X	Over the past few decades, the City has provided ongoing assistance to promote economic vitality, which has included support of local business organizations such as the Chamber of Commerce and "ilovemv.org" website. The City could continue to provide support as recommended by the 2019 ULI TAP: –Create a handbook and/or webpage for property owners, prospective businesses and developers to encourage rehabilitation and facade/signage improvements: –Provide clear and transparent information regarding the City’s design review, permitting and approval processes for Downtown improvements, as well as design and building code incentives and potential fee credits for historic renovation. –Minimize confusing and unnecessary City requirements. –Publish a special fee schedule for historic rehabilitation projects, which differs from other new development. –Provide a Downtown “ombudsman” to facilitate the review, permitting and approval process for historic renovation.
Enhanced Infrastructure Financing District (EIFD)	Property tax revenues	Growth in property tax revenues, likely paid by tenant via CAM charge	Based on the growth in assessed value from new development and rehabilitation		X		EIFDs allow public agencies to use tax increment financing (TIF) that leverages the growth in property tax revenues generated by assessed value from private development collected from a designated project area. EIFDs allow the use of TIF to fund a broad range of public infrastructure and facilities. (Of note, CRIA is a similar TIF program that provides more flexibility in how funds are used, but the Downtown would not likely to qualify given current State requirements.) As TIF is generated by the growth in assessed value, substantial new development or redevelopment of property would need to occur in the Downtown for significant funding to occur. For example, if 100 units of new housing were built that could be sold for $1 million per home, this would generate $100,000,000 in assessed value which would generate $160,000 in TIF annually based on the City's share of property taxes (16% X 1% X $100 million). When the EIFD generated close to $1 million in annual funds, bonds could be cost effectively issued, which would likely generate between $10 million to $12 million in proceeds depending on the interest rate environment and remaining term of the EIFD when the bonds are issued. The establishment of an EIFD is complex and would divert property tax funds from the General Fund.
Assessment District	Assessments on property owners	Assessment payments often passed through to tenants via CAM charges	Based on benefit analysis and owner approval process.		X		Assessment districts enable a jurisdiction to levy additional taxes on property within designated districts in order to finance public improvements that directly benefit those districts with the approval of the property owners based on a legally specified process. Upon the issuance of bonds, the district has the power to assess all district property owners to repay the borrowed funds. The special assessment cannot be based on the value of the property but is established in an Engineer’s Report through determination of direct and special benefit to the properties that will be assessed. Like other assessments or special taxes, all or a portion of the assessment cost may be passed on to the tenant in the form of higher monthly CAM charges.

Exhibit 4
Summary of Potential Funding Programs for Downtown Mountain View

Funding Program	Primary Funding Source	Funding Method	Determination of Funding	Potential Uses of Funding: Building Upgrades	Potential Uses of Funding: Public Improve-ments	Potential Uses of Funding: Business & Owner Assistance	Considerations
Business Improvement District (BID)	Assessments on property and/or business owners	Assessment payments often passed through to tenants via CAM charges	Based on benefit analysis and owner approval process.		X	X	A BID is a special type of assessment district that generates revenue to support enhanced services. Two types of BID mechanisms exist under California law. Business Improvement Areas (BIAs) allow an additional fee to be added to annual business licensing charges that can be used to pay for enhanced services. Property Based Improvement Districts (PBIDs) allow for an assessment of commercial property with support from owners that would pay more than 50 percent of the annual fees to be collected in the District. PBIDs require the creation of an advisory committee of property and business owners, provide for a cap on assessments and have a five year maximum life, requiring a new petition process. Like other assessments or special taxes, all or a portion of the assessment cost may be passed on to the tenant in the form of higher monthly CAM charges.
Commercial Property Assessed Clean Energy (C-PACE)	Assessments on property owners	Assessment payments often passed through to tenants via CAM charges	Based on eligible improvement costs.	X			C-PACE is a tool that can be used to finance energy efficiency, renewable energy, water conservation, and/or seismic retrofit improvements on commercial property. Unlike other project financing, the borrowed capital is repaid over time via a voluntary tax assessment, which allows for 100% financing and longer payback (up to 30 years) beyond what is possible with traditional commercial financing. C-PACE Loans are secured by the property rather than the owner's credit standing and may be passed on to the next property owner in the event of sale. Given their financing structure, C-PACE loans often have relatively high transaction fees and interest rates Like other assessments or special taxes, all or a portion of the assessment cost may be passed on to the tenant in the form of higher monthly CAM charges.
Mello-Roos Community Facilities District (CFD)	Special tax payments by property owners	Assessment payments often passed through to tenants via CAM charges	Based on special tax analysis and voter approval process.		X		Mello-Roos CFD is a public financing tool that can be used to finance the capital cost and maintenance of public improvements and community facilities. A public agency can issue Mello-Roos bonds to finance public infrastructure that are secured by the special taxes on private property and collected on the County property tax bills. The taxes are calculated pursuant to a formula that is established during the CFD formation proceedings that is often based on the size of property. A special tax must be approved by a vote of registered voters within the CFD unless there are less than 12 registered voters. Like other assessments, all or a portion of the special tax cost may be passed on to the tenant in the form of higher monthly CAM charges.
US Small Business Administration (SBA) Loan Program	SBA private lending partner	Private business loan with Federal support	Based on project costs and appraised value of property	X		X	The US Small Business Administration (SBA) works with private partner lenders to provide loans to qualifying small businesses based on SBA loan guidelines. The SBA 7(a) loan program can be used by small business owners to purchase properties and help fund the renovation of an existing building at a maximum loan amount of $5 million. SBA allows lenders to apply different interest rates (fixed or variable) and terms depending on the nature of the loan. As these are private loans that need to be paid back on a monthly basis, property owners must receive sufficient rent to cover the monthly loan costs.
Historic Rehabilitation Tax Credits	Federal tax credit	Private tax credit used to leverage private investment	Based on qualified rehabilitation expenses for a certified historic structure	X			A certified historic structure that is listed in the National Register of Historic Places is eligible to receive a tax credit based on qualified rehabilitation costs as determined by Federal and State agencies. The building must be listed either individually or as a contributor to a listed district. The State Historic Preservation Office and the National Park Service review the rehabilitation work to ensure that it complies with the Secretary's Standards for Rehabilitation. Qualified rehabilitation expenditures include hard and soft construction costs associated with an historic renovation. if such costs are reasonable and related to the services performed. Based on their determination, a 20% tax credit is provided to a private entity over a 5-year period to leverage private capital to help defray these costs. Very few buildings in the Downtown Subareas are likely to be eligible based on the analysis by Treanor HL.
California Mills Act Program	State property tax abatement	Property tax abatement used to leverage private investment	Based on Mills Act formula for tax relief	X			The California Mills Act allows the City to enter into a binding "Historical Property Contract" with a property owner of a "qualified historic property" in exchange for property tax relief. A "qualified historic property" is a property listed on any federal, state, county, or city register, including the National Register of Historic Places, California Register of Historical Resources, California Historical Landmarks, State Points of Historical Interest, and locally designated landmarks. A property owner must enter into a ten year contract with the City to rehabilitate the building in exchange for a reduction in local property taxes. The City could work with local property owners to incentivize their participation in this program.