



**DATE:** February 27, 2018

**CATEGORY:** New Business

**DEPT.:** Community Development

**TITLE:** **Downtown Economic Vitality Program**

### **RECOMMENDATION**

Approve a two phase Downtown Economic Vitality Program and authorize City staff to proceed with the implementation of the program.

### **BACKGROUND**

Downtown Mountain View is a diverse commercial district with a mix of residential and commercial uses, a multimodal-transit station, and civic and cultural amenities serving the Mountain View community and the Bay Area region. The downtown is home to approximately 263 businesses, with 464,000 square feet of retail space (including restaurants), and 11 public parking facilities (1,500 off-street public parking spaces).

The City has supported the downtown over the last several decades through a variety of policies, initiatives, and investments. The Downtown Precise Plan provides a framework for downtown development and preservation. The first three blocks of Castro from Evelyn are the historic retail district. Meanwhile, the Downtown Parking Maintenance and Operations Assessment District (Parking District) currently funds the maintenance and operations of the public parking system and the former Revitalization Authority provided additional funding for infrastructure improvements and economic development tools to the downtown. The Revitalization Authority was terminated in 2011 by the State of California.

In 2017, the City, with assistance from Economic and Planning Systems (EPS), completed a downtown economic study (Study) to assess commercial and residential growth, and identify economic and market trends with a particular emphasis on the retail sector (Attachment 1). The Downtown Precise Plan boundary serves as the primary Study area for the analysis. The Study also builds off of, and updates, two similar studies prepared by EPS in 2011 and 1999.

Overall, the 2017 Study found economic and market conditions in downtown Mountain View have changed since the last analysis in 2011.

- More than 30 percent growth in downtown employment and 10 percent increase in housing stock.
- Retail and office vacancy rates are below 5 percent.
- Fifty-seven percent (57%) growth in downtown assessed property values.
- Forty percent (40%) growth in ridership at downtown's Caltrain station.
- Lease rates have increased by 50 percent for retail and 105 percent for office.
- Taxable retail sales in downtown increased from \$86 million in 2011 to \$160 million in 2016 (most of the growth is due to eating and drinking establishments).

The Study states that despite the economic growth, the success of downtown Mountain View appears to be primarily fueled by technology businesses and popular eating establishments, and has yet to achieve a diverse mix of retail businesses. Broader national retail trends as well as physical constraints are contributing to downtown Mountain View's inability to attract a larger and more diverse range of retailers. The Study acknowledged several trends occurring in the retail industry:

- 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. For example, major national retailers are allowing customers to order items online and pick up items directly from the store.
- 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 environment. Shopping centers now dedicate on average 25 percent of their floor area to eating establishments, up from about 10 percent a decade ago.

- 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.

Over the past year, the Downtown Committee discussed downtown retail and their current work plan identified supporting economic development initiatives in the downtown as a work item. The Committee hosted three retail panels to learn about current retail trends and challenges. One panel featured commercial real estate professionals to gain perspectives from the private sector (landlord and tenant). The Committee discussed current retail trends at the regional and national levels and how online shopping is changing the retail industry. The two other panels featured downtown Mountain View businesses and property owners to understand why the businesses choose to operate in downtown Mountain View. The business panels also discussed current challenges: minimum wage increase, parking demands, shortage of qualified employees, and the overall increasing cost of doing business in the Bay Area.

## ANALYSIS

While the Study identifies positive economic growth in the downtown, challenges with retail businesses exist. The overwhelming success of downtown's eating establishments is driving up the lease rates and making it more difficult for retail businesses, which may not enjoy the same sales volume, to enter the market. As a result, staff developed a downtown economic vitality program. The goal of the program is to support the downtown businesses and continue to encourage economic vitality. The program is divided into two phases: (1) support existing businesses; and (2) attract new businesses. Some of the initiatives focus on supporting only retail businesses (retail is defined as businesses who sell hard or soft goods) and other initiatives provide support to all downtown businesses. From a timing and staff workload perspective, staff recommends focusing first on the implementation of Phase I in the second and third quarter of 2018 and implementation of Phase II beginning in the first quarter of 2019.

### *Phase I: Support Existing Businesses*

The purpose of the initiatives is to provide opportunities for current businesses that are experiencing some of the aforementioned challenges. Staff is recommending three initiatives to support existing retail businesses:

1. The first initiative is a discounted parking permit for retail (non-restaurant) businesses to encourage employees to park in the designated parking permit locations and away from the surrounding neighborhoods.

Staff reviewed the 2017 downtown parking permit sales and found 96 percent of the total permits sales come from commercial office users followed by restaurants at 1.6 percent, and personal services (i.e., hair salon) at 1.3 percent. Retail businesses account for less than 1 percent of all permit sales followed by other (i.e., nonprofit business) at 0.2 percent.

2. The second initiative is to assist retail businesses through the planning and building permitting process, including the Building Division Fast Track and One-Stop permit processes. Economic Development staff will continue to act as an ombudsman to the retail businesses.
  
3. Last, business resource workshops, such as Americans with Disabilities Act (ADA) compliance, will be provided in an effort to help businesses increase their knowledge, save time, and encourage economic growth.

Staff is also recommending initiatives which activate and support the overall downtown environment: activating vacant retail space or ground-floor commercial office space (i.e., an office lobby) through pop-up stores and storefront displays of visual art or products from existing downtown retail businesses. To help with the look and cleanliness of downtown, staff recommends exploring options to change the downtown sidewalk power washing schedule. The sidewalks and alleyways are currently power washed two times a month in June, July, August, and September, and once a month all other months.

<u>Initiative</u>	<u>Description</u>	<u>Eligible Businesses</u>	<u>Estimated Budget/Pricing</u>
Pop-up Store Program	Connect property owners with pop-up store opportunities to activate vacant retail spaces.	Vacant retail space	None
Storefront Displays	Connect property owners with opportunities to display visual art or products from existing retail business near storefronts of vacant retail space and/or office lobbies.	Vacant retail space  Office building lobbies	None

<u>Initiative</u>	<u>Description</u>	<u>Eligible Businesses</u>	<u>Estimated Budget/Pricing</u>
Discounted Parking Permits	<p>Provide 50 percent discount on quarterly and monthly parking permits and waive shipping fee for online orders.</p> <p>Permits holders must park at Parking Structure 3 (California and Bryant Streets – the location with most available parking spaces).</p>	<p>Retail businesses (non restaurant) within the Parking District</p> <p>(Employees must show paycheck stub to be eligible.)</p>	<p>\$56 per quarter \$28 per month</p> <p>Estimated lost revenue of \$5,700.</p> <p>50% discount to eligible employees</p>
Expedited Permit Process – One-Stop and Fast Track Permits	<p>Building Division currently provides an expedited permit service (by appointment) for interior tenant improvements if no other departments are involved.</p> <p>Economic Development staff will continue to act as an ombudsman through the permit process.</p>	Retail businesses	None
Business Resource Workshops	Quarterly one-hour classes focusing on various topics, including ADA compliance, public health and safety, and tax and employment laws.	All downtown businesses	None
Increase Sidewalk Cleaning	Increase sidewalk cleaning schedule. (Currently twice a month June, July, August and September, once a month all other months, for a total of 16 scheduled cleaning services.)	All downtown businesses	Estimated cost at \$65,000 (current budget is \$30,700 for the entire year).

### *Phase II: Attract New Retailers*

Phase II focuses on attracting new retail with the goal of diversifying the downtown. Urban Land Institute (ULI) provides technical assistance panels where the organization utilizes an interdisciplinary panel of experts that explore complex land use and real estate issues. The panel visits the site, holds stakeholder interviews, conducts working sessions, and develops a report outlining recommendations. Staff recommends utilizing ULI to provide strategic guidance on attracting new retailers. Meanwhile, expanding the expedited permit process to include exterior modifications may save time for a business and a downtown branding campaign to provide the downtown businesses an opportunity to reinvent themselves. Staff will also further explore options for potential retail incentives, including permit fee reductions and signage grants.

<u>Initiative</u>	<u>Description</u>	<u>Eligible Businesses</u>	<u>Estimated Budget/Pricing</u>
Downtown Retail Assessment	Utilize the Urban Land Institute (ULI) Technical Assistance Panel to provide strategic advice on the future of retail in downtown Mountain View.	Select downtown businesses/ property owners to participate in stakeholder interviews.	\$20,000
Expand Expedited Permit Process	Expand the Fast Track/One-Stop process to include exterior building modifications, signage, and multi-department approvals.  Explore options for identifying a staff member who will coordinate the permit process for downtown retail businesses and provide support throughout the process.	Retail businesses	Staff will return to City Council at a later date with recommendations.
Explore Potential Retail Incentives	Explore incentive options to attract new retailers, including permit fee reduction or waiving fee, and signage grant.	Retail businesses	Staff will return to City Council at a later date with recommendations.
Downtown Branding Campaign	Create new brand for downtown Mountain View. <ul style="list-style-type: none"> <li>– Joint promotional and marketing opportunities</li> <li>– New downtown logo</li> </ul>	All downtown businesses	\$10,000

*Downtown Committee*

At the February 6, 2018 Downtown Committee meeting, staff presented details of the downtown economic vitality program. The Committee was supportive of the program, and discussed how time was the most important issue when operating a business. The Committee wanted existing businesses prioritized over new development through the dedication of a City staff member who will facilitate the permit process for the business

and provide ongoing support throughout the permit process. The Committee also discussed other potential ideas to support the downtown businesses: a review of the Downtown Sign Ordinance, loading zones updates, and collaboration across the City, Central Business Association (CBA), and Chamber of Commerce (Chamber). Updating the downtown loading zones is part of the current fiscal year budget and staff will begin work the second quarter of 2018. Updating the Downtown Sign Ordinance is a major item and not currently on staff's work plan. .

If the City Council approves the program as outlined in this report, staff will continue to provide updates to the Committee and partner with the CBA and Chamber to ensure businesses are aware of the program.

### **FISCAL IMPACT**

Staff is proposing a program budget of \$30,000 with \$20,000 for the Downtown Retail Assessment and \$10,000 for the downtown branding campaign. If the City Council supports the program, the \$30,000 will be included as part of the Fiscal Year 2018-19 budget process. The program cost does not include additional sidewalk cleaning services and expanded permitting services. If the City Council chooses to support sidewalk cleaning services, staff will include the increased costs as part of the Fiscal Year 2018-19 budget process. Staff will return to City Council at a later date with recommendations for expanding the expedited permitting services.

The discounted parking permit costs, estimated at \$5,700, will be absorbed through the Parking District. It is possible the discounted permits may encourage more retail businesses to purchase permits and potentially become cost-neutral or provide increasing permit revenue. If the City Council chooses to support the discounted parking permit initiative, staff will include the permit fee as part of the Fiscal Year 2018-19 budget process. The remaining initiatives of the downtown economic vitality program will be funded through the current Economic Development Division budget.

### **CONCLUSION**

Downtown Mountain View continues to be a vibrant commercial district supported by the community and region. However, the downtown retail sector is dominated by eating establishments, and attracting new retailers will require policy support from the City. Participation by local stakeholders representing the downtown businesses and property owners, and the Mountain View community will also be critical to the success of any initiatives designed to expand and diversify the core of downtown businesses.



**ALTERNATIVES**

1. Modify the proposed programming.
2. Implement Phase I: support existing businesses, and not Phase II: attract new retailers.
3. Implement Phase II: attract new retailers, and not Phase I: support existing businesses.
4. Provide additional direction.

**PUBLIC NOTICING**

Agenda posting. Staff provided an overview of the program at the February 14, 2018 Chamber of Commerce Business Issues and Public Policy (BIPP) meeting and at the February 20, 2018 Central Business Association board meeting. A copy of the report was sent to the Downtown Committee, Central Business Association, and Chamber of Commerce.

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Attachment: 1. 2017 Downtown Mountain View Economic and Market Assessment