

Final Report

Downtown Mountain View Economic and Market Assessment

The Economics of Land Use



Prepared for:

City of Mountain View

Prepared by:

Economic & Planning Systems, Inc.

Summer 2017

*Economic & Planning Systems, Inc.
One Kaiser Plaza, Suite 1410
Oakland, CA 94612-3604
510.841.9190 tel
510.740.2080 fax*

EPS #161071

*Oakland
Sacramento
Denver
Los Angeles*

www.epsys.com

Table of Contents

1.	INTRODUCTION AND KEY FINDINGS	1
	Introduction	1
	Study Context	1
	Key Findings	3
2.	SOCIO-ECONOMIC OVERVIEW.....	5
	Population and Employment	5
	Real Estate Development Activity.....	11
	Commute Patterns	14
3.	COMMERCIAL MARKET TRENDS.....	18
	Real Estate Market Performance Indicators	18
	Regional Retail Market Context	20
	Mountain View Retail Sales Trends	23
4.	RETAIL MARKET IMPLICATIONS.....	28
	Changing National Retail Trends	28
	Downtown Mountain View Opportunities	30

List of Figures

Figure 1	Downtown Mountain View Precise Plan Area Boundaries.....	2
Figure 2	Mountain View Station Average Weekday Ridership Growth.....	17
Figure 3	City and Downtown Rents by Activity.....	20
Figure 4	Downtown Sales Tax Growth	26
Figure 5	Downtown Commercial Establishment Mix by Major Industry	27
Figure 6	E-commerce as a Share of Total Retail Sales	28

List of Tables

Table 1	Population and Employment Estimates.....	6
Table 2	Mountain View Employment Composition	7
Table 3	Mountain View Top 20 Employers.....	8
Table 4	Downtown Business Mix by Type.....	9
Table 5	Mountain View Income Distribution	10
Table 6	Residential Stock	11
Table 7	Downtown Assessed Value	12
Table 8	Recent Downtown Development Activity	13
Table 9	Downtown and Citywide Commute Patterns.....	15
Table 10	Top 10 Ridership Stations in Caltrain System (Average Weekday Riders)	16
Table 11	Commercial Real Estate Trends in City and Downtown Precise Plan	19
Table 12	Shopping Centers/Districts within 20 miles of Downtown Mountain View	22
Table 13	Mountain View Retail Sales Leakage	23
Table 14	Taxable Retail Sales Growth Comparison.....	24
Table 15	Mountain View Taxable Retail Sales	25
Table 16	Downtown Taxable Sales and Commercial Establishment Breakdown.....	26

1. INTRODUCTION AND KEY FINDINGS

Introduction

This Report provides an economic and market assessment of Downtown Mountain View, with a particular emphasis on the retail sector. The Report has been prepared by Economic & Planning Systems (EPS) for the City of Mountain View to help identify economic opportunities and strategies that will best advance policy priorities for the Downtown retail sector. The findings are also designed to inform and guide future detailed feasibility analysis and implementation measures to support specific retail policy initiatives that might be pursued by the City.

The Downtown Precise Plan, adopted in 1988 and most recently amended in 2015, serves as the primary Study Area for this analysis (see **Figure 1**). However, additional boundaries are also considered based on data availability and economic inter-relationships with the Downtown. For example, the Mountain View Business Improvement Areas (BIAs) boundaries are used to examine the existing inventory and industry mix of downtown commercial entities. In addition, the Downtown is compared against larger citywide economic trends to provide context and assess its relative position.

Study Context

This Report builds off of and updates two similar studies prepared by EPS, one in 2011 and another in 1999. Like this Report, these earlier studies sought to provide the City with economic and market information to support on-going planning and economic development efforts in the Downtown, with particular emphasis on implementation of the Downtown Precise Plan. In addition to documenting the progress made on key land use and economic objectives, these studies have sought to identify emerging trends, opportunities, and challenges that may warrant City attention and potential policy response.

As documented further in the Report, Downtown Mountain View continues to experience positive economic growth, bolstered by its location in one of the most dynamic regional economies in the United States. The City has supported the Downtown over the last several decades through a variety of initiatives and investments, including the provision of attractive civic facilities (e.g. the Civic Center with City Hall, Library and Performing Arts Center), improvements to streetscapes, the Transit Center area, development of public parking facilities, and support for affordable housing, among others. The termination of the City of Mountain View's Revitalization Authority by the State of California in 2011 has changed the City's ability to use tax increment financing and other redevelopment tools to support the Downtown. The result is fewer dollars for infrastructure improvements and economic development tools that assist in developing a thriving Downtown.

Despite the economic success of the Downtown, some community and business leaders have expressed concern related to certain growth patterns and impacts. For example, the inter-related success of the office and restaurant sectors may be affecting the overall diversity of the retail sector and pricing-out many existing neighborhood and community oriented businesses. In addition, a variety of physical and market constraints appear to be limiting the ability of the Downtown to attract a wider range of retail offerings that some are seeking.

Figure 1 Downtown Mountain View Precise Plan Area Boundaries



Key Findings

1. *The economic performance and market conditions in Downtown Mountain View have strengthened considerably since the time of EPS's most recent Downtown Study in 2010.*

The Downtown economy expanded significantly over the last six years, driven by its strategic position within an improving regional (and national economy), as demonstrated by the following indicators:

- More than 30 percent growth in Downtown employment, and 10 percent increase in housing stock.¹
- 57 percent growth in Downtown assessed values.
- 40 percent growth in ridership at Downtown Mountain View's Caltrain station.
- Lease rates have increased by 50 percent and 105 percent for retail and office respectively.
- Retail and office vacancy rates are below 5 percent.
- Taxable retail sales in Downtown Mountain View have increased from \$86 million in 2010 to \$152 million in 2014 (most recent year of available data), with the largest share of absolute growth attributed to eating and drinking establishments.²

2. *Despite robust economic indicators, the success of Downtown Mountain View appears to be primarily fueled by a burgeoning high-tech market and sectors linked to it, such as dining, and has yet to achieve a broad scale and diversity of retail offerings.*

Downtown Mountain View struggles to develop a broad based retail sector that expands beyond dining is at least partially attributable to the ongoing success of its thriving office market. In 2016, office rents per square foot exceeded retail rents per square foot by approximately 80 percent (\$85 compared to \$47). Lease rate differentials of this magnitude can present an incentive for retail property owners to convert to office uses, given a choice. Changes in inventory further demonstrate the market preference of office uses over retail in Downtown Mountain View. Since 2010, there has been a net increase of nearly 200,000 square feet of office space in Downtown Mountain View and a net loss of 14,000 square feet of retail, indicating that some retail property owners have converted space to more valuable commercial uses.³ While total retail sales have expanded, more than half (about 54 percent) of this growth is attributable to eating and drinking establishments. This suggests that eating establishments are dominating the limited supply of retail space.

3. *In addition to the dominance of the high-tech and office sectors, broader national trends as well as physical constraints are contributing to Downtown Mountain View's inability to attract a larger and more diverse range of retailers.*

While Mountain View has highly desirable demographics from a retail perspective, the Downtown competes within a mature, well-developed, and expanding regional retail market

¹ Employment data from the United States Census Longitudinal Employer-Household Dynamics (LEHD), includes all primary jobs.

² A full breakdown of sales tax by major industry group is provided in Table 14 of this report.

³ The Meyer's Appliance Store converting to offices uses is an example of this phenomenon.

that provides diverse offerings, formants, and tenants. In addition, the City itself has expanding retail opportunities elsewhere, such as the recent and on-going improvements to San Antonio Center. This competitive marketplace coupled with the growing trend of ecommerce makes it very difficult for smaller-scale retail markets like 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, Downtown Mountain View is also challenged with physical constraints, being somewhat landlocked by existing residential uses (and thus limited opportunities for large scale development) and not offering the immediate freeway accessibility sought by many national retail brands. Because of these challenges, the Downtown does not currently possess a critical mass of retail tenants and activity that meet the typical location requirements of most high volume national brands. Because these tenants typically seek to co-locate in established and well located retail centers or districts, the Downtown faces sort of a "chicken or egg" predicament that has prevented it from developing a larger and more diverse set of retail offerings.

4. *In spite of the challenges discussed above, Downtown Mountain View maintains several strategic opportunities to attract new retailers and create a more diverse retail district in its Downtown should City policy makers seek to move in this direction.*

As documented throughout this Report, Downtown Mountain View continues to evolve as a successful mixed-use district that attracts residents and employees throughout the day and into the evening. While the retail sector is currently dominated by eating establishments, this success, combined with persistent job growth, both citywide and downtown, could provide a foundation for further expansion into other retail categories, such as general merchandise stores. The level of foot traffic, sense of place, and all-day vitality in the Downtown makes it an appealing environment for many retailers should appropriate space and/or development opportunities arise. While low vacancy rates and high lease rates present a near term barrier there remains a handful of underutilized parcels and surface parking lots within the Downtown Precise Plan area that could be redeveloped in a way to encourage larger-scale and more diverse retail users. A move in this direction would likely require policy support from the community and City policy makers and on-going facilitation by City staff.

2. SOCIO-ECONOMIC OVERVIEW

This chapter provides a general overview of demographic and economic characteristics in Downtown Mountain View. The information is considered in the context of the City as a whole as well as changes since the last EPS Report completed in 2011. While Mountain View's strategic position within the regional economy also provides a critical backdrop, a detailed analysis of these broader economic trends are outside the Report's purpose.

Population and Employment

The population of Mountain View and its Downtown have grown relatively modestly over the last five years at three and four percent respectively, as shown in **Table 1**. Meanwhile, citywide job growth has been significant during this same period, increasing by more than 23,000 since 2010 or by approximately 38 percent. While much of this job growth is attributable to activities in the North Bayshore area, the Downtown has also experienced an employment growth exceeding 30 percent during this time frame. Overall, the Downtown currently accounts for about four percent of the population and nine percent of the jobs in Mountain View.

The difference between population and employment growth in both Downtown as well as citywide is likely attributable to several factors. First, most of the City's residential areas are relatively built-out and City land use policies in these neighborhoods limit significant increases in development density. Meanwhile, jobs in the City's existing business parks and commercial districts have been buoyed by a robust Bay Area recovery from the national economic downturn that commenced in 2008 (i.e., Great Recession). As detailed further below and in **Chapter III**, the recovery has supported both new development and a decline in vacancy rates for existing space. In addition, it has been accompanied by an increase in employment density in both existing and new space (i.e. more jobs per square foot), a phenomenon that is largely due to a shift towards more communal workspace designs in the office sector.

Table 1 Population and Employment Estimates

Category	2010	2015	Change	
			#	%
Total Population				
Downtown ¹	2,625	2,702	77	3%
Citywide ²	74,066	76,712	2,646	4%
Downtown as % of Citywide	4%	4%	-	-
Residential Stock				
Downtown	698	762	64	9%
Citywide	31,957	32,514	557	2%
Total Jobs				
Downtown ³	5,804	7,623	1,819	31%
Citywide ³	61,464	85,006	23,542	38%
Downtown as % of Citywide	9%	9%	-	-

[1] United States Census, American Fact Finder

[2] California Department of Finance.

[3] Longitudinal Employer-Household Dynamics (LEHD). Figures shown represent primary jobs.

With regard to the composition of employment, the City's economy continues to be fueled by high tech sectors. Specifically, citywide, about half of the jobs appear to be in tech related sectors, as shown in **Table 2** (e.g. 41 percent in Information Technology, 17 percent in Professional, Technical, and Scientific Services, plus other sectors such as 8% for Health Care and 4% for Manufacturing). While these sectors are also prominent in Downtown, retail and accommodations as well as Public Administration (mostly City employees) also represent a significant component of total jobs (about one-third of the total) here.

Table 2 Mountain View Employment Composition

Industry	Downtown		Citywide	
	Number	% of Total	Number	% of Total
Construction, Utilities, Mining, and Agriculture ¹	187	3%	5,221	6%
Manufacturing	25	0%	3,335	4%
Wholesale Trade, Transportation, and Warehousing	93	1%	3,817	4%
Retail Trade	256	4%	4,488	5%
Professional, Scientific, and Technical Services	3,493	55%	14,725	17%
Information Technology	1,021	16%	35,263	41%
Other Professional Services ²	268	4%	2,663	3%
Educational Services	255	4%	2,006	2%
Health Care and Social Assistance	301	5%	6,961	8%
Arts, Entertainment, and Recreation	8	0%	489	1%
Accommodation and Food Services	926	15%	4,087	5%
Other Services (excluding Public Administration)	145	2%	1,217	1%
Public Administration	645	10%	734	1%
Total Employment	6,334	100%	85,006	100%

[1] Includes: Agriculture, Forestry, Fishing, Hunting, Mining, Quarrying, Oil and Gas Extraction, Utilities, Construction, Waste Management, and Remediation.

[2] Includes: Finance, Insurance, Real Estate, and Management of Companies and Enterprises

Source: United States Census, Longitudinal Employer-Household Dynamics (LEHD)

Mountain View's economic composition is further exemplified by the type of firms included in the list of top 20 employers, as illustrated in **Table 3**. Specifically, 16 out of 20, or 80 percent, of the City's largest firms are in tech or bio-medical related fields and they account for an even larger percent of these jobs (about 94 percent). It is also worth noting with a few exceptions (e.g., Pure Storage, Endicia, and Fenwick and West) most of the larger high tech firms and corporations are located outside of the Downtown.

Table 3 Mountain View Top 20 Employers

Major Employers	Employees	Sector	Distance to Downtown ¹
Google Inc	19,711	Technology	3.1
El Camino Real Hospital	2,745	Medical	1.8
LinkedIn Corporation	2,018	Technology	2.9
Microsoft Corporation	1,668	Technology	2.3
Intuit Inc	1,287	Technology	4.1
Samsung America Inc	1,085	Technology	2.9
Synopsys Inc	1,031	Technology	3.3
Pure Storage	900	Technology	0
Veritas Technologies LLC	801	Technology	2.3
City of Mountain View	697	Government	0
Fenwick and West	550	Legal (Technology)	0
Mountain View Whisman School District	541	Education	1.6
Palo Alto Medical Foundation	504	Medical	1.4
Alcatel-Lucent USA Inc	405	Technology	2
Siemens Healthineers	404	Medical	2
Etouch Systems Corp	400	Technology	3.1
Walmart	349	Retail	1.9
Teledyne Microwave	330	Technology	1.2
Omnicell Inc	300	Technology	1.8
Upwork Inc	250	Technology	2.1
Endicia	230	Technology	0
Total	36,206		

[1] Distances are shown in miles and are based on walking distance from business address to closest point of the Downtown Precise Plan Area.

Source: City of Mountain View, Compiled June 2016.

To gain a better understanding of the composition of business activity in the Downtown, EPS reviewed the tenants listed by the Downtown Business Improvements Areas (BIA). As shown in **Table 4**, commercial/office establishments currently account for about 53 percent (140 of 264) of the business entities located Downtown, with the remaining 47 percent (124 of 264) composed of retail and food service establishments. The mix of Downtown office tenants is heavily oriented towards specialized, high-wage industries such as technology, medical office, and professional services. Retail tenants are dominated largely by eating and drinking establishments.

Table 4 Downtown Business Mix by Type

Business Category	Establishments	
	#	% of Total
Non-Food Retail		
Motor Vehicle and Parts Dealers	3	8%
Home Furnishings and Appliance Stores	3	8%
Bldg. Matrl. and Garden Equip. and Supplies	1	3%
Clothing and Clothing Accessories Stores	6	17%
General Merchandise Stores	5	14%
Other Retail Group ¹	<u>18</u>	<u>50%</u>
Non-Food Retail Subtotal	36	100%
Food and Beverage		
Food and Beverage Stores	8	9%
Food Services and Drinking Places	<u>78</u>	<u>91%</u>
Food and Beverage Subtotal	86	100%
Commercial/Office		
Technology	51	36%
Medical Office	20	14%
Legal	5	4%
Personal Services	21	15%
Other Professional Services ²	42	30%
Research	<u>2</u>	<u>1%</u>
Commercial/Office Subtotal	141	100%
Total Retail and Commercial Entities	263	

[1] Includes, but not limited to, arts and recreation enterprises, music studios, salons, and therapeutic services.

[2] Includes, but not limited to, banking, accounting, finance, real

Source: 2016 Downtown Business Improvement Areas.

The presence of several global technology firms in Mountain View as well as strong residential desirability factors has created an environment of high-income earning households within the City. Mountain View's median household income of approximately \$103,000 exceeds that of Santa Clara County by roughly \$7,000 per household. **Table 5** provides context of how median household incomes in Mountain View and Santa Clara County compare to household incomes in the State of California and the United States overall. Mountain View's median household income is nearly double the figure seen throughout the rest of the United States, indicating a strong concentration of wealth within Mountain View.

Table 5 Mountain View Income Distribution

Income	Mountain View	Santa Clara County	State of California	United States
Less than \$10,000	3.6%	3.7%	5.8%	7.2%
\$10K to \$24,999	8.7%	8.9%	14.6%	15.8%
\$25K to \$49,999	12.5%	14.4%	20.9%	23.5%
\$50,000 to \$74,999	13.1%	13.1%	16.7%	17.8%
\$75,000 to \$99,999	10.0%	11.5%	12.1%	12.1%
\$100K to \$149,999	18.5%	18.5%	15.0%	13.1%
\$150,000 or more	33.6%	29.9%	14.9%	10.4%
Median Income	\$103,488	\$96,310	\$61,818	\$53,889

Source: U.S. Census Bureau, 2011-2015 ACS 5-Year Estimates

Real Estate Development Activity

The population and employment trends described in the previous section have been manifested through increased real estate development activity and value appreciation in the Downtown. Among other things, this new development has helped the Downtown continue to provide an increasing source of property tax revenue to the City. In addition, the different patterns of residential and commercial development provide insight into how the Downtown is changing in response to changing population and employment trends.

In terms of new housing, available data suggests that residential development in the Downtown Precise Plan has actually exceeded population growth, bucking a citywide trend. Specifically, the Downtown added about 64 units between 2010 and 2015, an increase of about 9 percent compared to a 3 percent increase in population citywide (see **Table 6**). This compares to a 2 percent increase in the housing stock and 4 percent increase in population citywide during the same period. This would suggest that new units in the Downtown are smaller (e.g. fewer bedrooms) and average household size is diminishing relative to the historical norm. By comparison, the limited amount of new residential development relative to population growth citywide would imply a slight increase in average household size overall.

Table 6 Residential Stock

Location	2010	2015	Change	
			#	%
Downtown				
Residential Stock	698	762	64	9%
Population	2,625	2,702	77	3%
Citywide				
Residential Stock	31,957	32,514	557	2%
Population	74,066	76,712	2,646	4%

Source: City of Mountain View; California Department of Finance.

Since 2010, assessed property values in Downtown Mountain View has increased by approximately 57 percent. Excluding vacant land, parcels zoned residential have experienced the second highest rate of assessed value growth over the study period for all land uses, following only commercially-zoned parcels. The growth rate of assessed value from 2010 to 2016 for residential and commercial parcels stand at 33 percent and 72 percent respectively, see **Table 7**. Although a relatively small proportion of the total, vacant land has also increased significantly (79 percent), suggesting recent transactions that would likely lead to new development in the near future.

With California State Proposition 13 in place, assessed values can only increase by a maximum of two percent per year, unless an action is taken that would trigger a reset of the assessed value estimate. The most common actions that would trigger a reassessment are property transactions, or new (and/or) substantial development on an existing parcel. **Table 7** displays both the absolute growth from 2010 to 2016 as well as the growth above the legislative 2 percent maximum annual increase. All growth above and beyond the annual two percent represent properties that have been recently transacted or newly developed. Seeing that assessed values have, on the aggregate, grown by 44 percent above the expected two percent growth rate indicate that downtown Mountain View's real estate market has experienced substantial activity since 2010.

Table 7 Downtown Assessed Value

Category	2010 Total Value ¹	2016 Total Value	2010-16 Change		Change Above 2% ²	
			#	%	#	%
Residential	\$182,736,935	\$242,290,114	\$59,553,179	33%	\$36,498,645	20%
Commercial	\$360,081,563	\$618,992,158	\$258,910,595	72%	\$213,481,834	59%
Recreational	\$235,616	\$256,295	\$20,679	9%	-\$9,047	-4%
Institutional	\$18,526,989	\$18,682,833	\$155,844	1%	-\$2,181,566	-12%
Miscellaneous	\$338,101	\$367,787	\$29,686	9%	-\$12,970	-4%
Vacant ³	\$1,602,204	\$2,863,099	\$1,260,895	79%	\$1,058,757	66%
Total	\$563,521,408	\$883,452,286	\$319,930,878	57%	\$248,835,654	44%

[1] Total Value represents the value of land and improvements net of any property tax exemptions applied by the City of Mountain View.

[2] California Proposition 13 limits the increase in assessed property valuation to a maximum of 2% annually, any increase above 2% can be attributed to actions such as new development, significant renovation, or property sales.

[3] Inclusive of city-owned parking lots, no assessed value is assigned to publicly held land or improvements.

Source: City of Mountain View, Secured Value Breakdown Listing; Economic & Planning Systems, Inc.

Despite a relatively small land area, Downtown Mountain View has experienced a number of significant development projects since 2010 (the last year analyzed in EPS's previous Downtown Mountain View Economic and Development Study). As shown in **Table 8**, there have been seven completed projects during this study period in Mountain View's Downtown Precise Plan area, which have resulted in the delivery of more than 157,000 newly constructed square feet of office space and 71 residential units.

In addition to the seven completed projects, another four projects are underway downtown, and when completed, will bring the total newly constructed square footage of office space to approximately 250,000, total newly built residential units to 110, and also bring an additional 15,000 square feet of retail space. It is important to note that the figures shown in **Table 7** do not represent "net new" square footage since some of this new development is at least partially replacing existing improvements.

Table 8 Recent Downtown Development Activity

Development Name	Address	Acres	Date of Completion	Dwelling Units	Retail Sq. Ft.	Office Sq. Ft.
Residential						
Downtown Family Housing	135 Franklin St	1.03	11/23/2011	51	-	-
Pacific Peninsula (Bryant)	324 Bryant St	0.26	2/13/2013	7	-	-
Pacific Peninsula (California)	948 California	0.3	5/17/2013	5	-	-
Hope Street Investors	235 Hope St	0.26	Not Complete	9	-	-
Office						
Minkoff	871 W Evelyn Ave	0.38	12/18/2013	-	-	65,000
Burnell	902 Villa St	0.26	6/13/2014	-	900	21,745
Bryant/Dana Office	250 Bryant St	1.12	7/1/2015	-	-	67,772
New Office Mezzanine	153 Castro St	0.12	Not Complete	-	-	2,335
Mixed-Use						
Downtown Mixed-Use	605 Castro St	0.46	5/5/2016	8	-	2,800
Fairmont Mixed-Use	881 Castro St	0.42	Not Complete	18	6,673	-
St. Joseph's Church	582 Hope St	1.21	Not Complete	12	7,590	88,990
Total Completed¹		3.81		71	900	157,317
Total		5.82		110	15,163	248,642

[1] The 71 completed dwelling units represents new units coming to market only and does not factor in any pre-existing units that were replaced by new construction.

Source: City of Mountain View

Commute Patterns

Commute patterns to and from Mountain View and the Downtown provide important information on its emerging role in the regional economy and size of the daytime population (and subsequent retail demand). First and foremost, both the Downtown and City serve as major employment destinations with significantly more jobs than employed residents. Specifically, the Downtown Precise Plan has roughly 15 times more jobs than employed residents (6,700 compared to 400), as shown in **Table 9**. Secondly, the citywide pattern is similar, albeit less pronounced, with citywide employment more than double the level of employed residents of Mountain View (89,000 compared to 39,000). Among other things, the size of the City's daytime population creates significantly more demand for retail goods and services than would be implied by residential population alone.

In terms of the origins and destinations, most Downtown workers commute in from other jurisdictions. Specifically, only about 11 percent of the Downtown jobs are held by Mountain View residents (this compares to 9 percent of jobs in Mountain View held by City residents). And, out of the estimated 400 Mountain View employed residents who live Downtown, approximately 117, or 30 percent, also work locally in Mountain View. For Mountain View as a whole, about 20 percent of the employed residents work in the City with the remainder commuting to other jurisdictions. As a dynamic employment center, a considerable amount of retail demand within Mountain View and particularly the Downtown is generated by spending from workers and others attracted to the tech economy. . These commute patterns reflect the interdependent nature of the Silicon Valley economy as well as the complex relationship between jobs, pay, housing prices, transportation, and other factors.

Table 9 Downtown and Citywide Commute Patterns

Item	Citywide	% of Total	Downtown	% of Total
Place of Work for Local Residents¹				
Mountain View city, CA	7,707	20%	117	29%
Palo Alto city, CA	5,874	15%	64	16%
San Jose city, CA	4,413	11%	51	13%
Sunnyvale city, CA	2,359	6%	22	5%
Santa Clara city, CA	1,787	5%	14	3%
San Francisco city, CA	1,693	4%	8	2%
Menlo Park city, CA	1,385	4%	-	-
Redwood City city, CA	1,225	3%	11	3%
Cupertino city, CA	969	2%	9	2%
Los Altos city, CA	871	2%	-	-
Menlo Park city, CA	-	-	20	5%
Fremont city, CA	-	-	13	3%
All Other Locations	<u>10,899</u>	<u>28%</u>	<u>74</u>	<u>18%</u>
Total	39,182	100%	403	100%
Place of Residence of Local Workers				
San Jose city, CA	16,253	18%	1,252	18%
San Francisco city, CA	8,684	10%	550	8%
Mountain View city, CA	7,707	9%	716	11%
Sunnyvale city, CA	7,343	8%	542	8%
Santa Clara city, CA	3,771	4%	279	4%
Fremont city, CA	3,422	4%	250	4%
Palo Alto city, CA	2,686	3%	210	3%
Cupertino city, CA	1,875	2%	129	2%
Redwood City city, CA	1,442	2%	134	2%
Los Altos city, CA	1,430	2%	117	2%
All Other Locations	<u>34,259</u>	<u>39%</u>	<u>2,592</u>	<u>38%</u>
Total	88,872	100%	6,771	100%

[1] Local Residents are individuals who live within the geographic boundaries of the City of Mountain View.

Source: U.S. Census Bureau, OnTheMap Application and LEHD Origin-Destination Employment Statistics 2014.

Mountain View's growing role as a regional employment center is further illustrated by Caltrain ridership trends. Specifically, Caltrain boarding and alighting at the Downtown station has increased by 40 percent from 2010 through 2015 (as show in **Table 10** and **Figure 2**). Although not an apples to apples comparison, jobs have grown by 30 percent in the Downtown and 38 percent citywide during this same period, as noted earlier. This data suggests that Downtown Mountain View continues to expand as a major transit hub, a role that is likely to increase as Caltrain expands service.

Table 10 Top 10 Ridership Stations in Caltrain System (Average Weekday Riders)

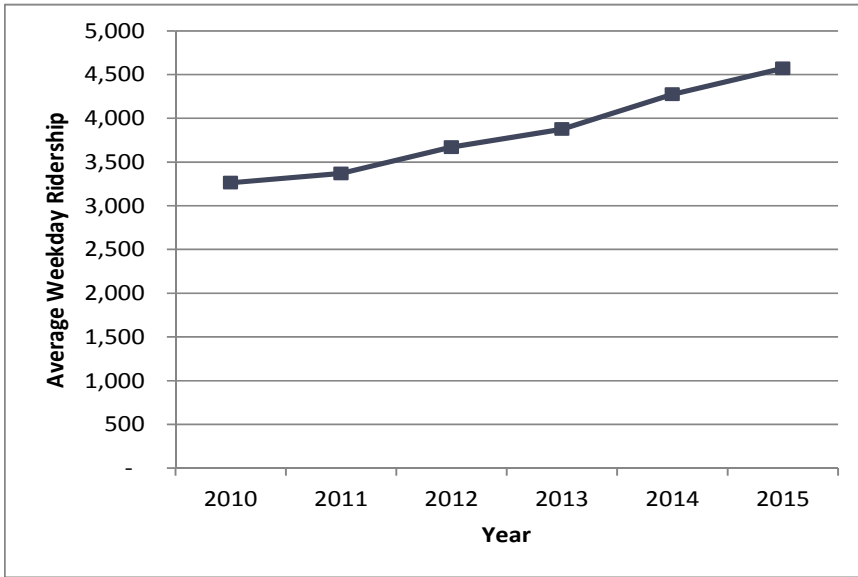
Station	2010 AWR ¹	2011 AWR ¹	2012 AWR ¹	2013 AWR ¹	2014 AWR ¹	2015 AWR ¹	2010-2015 % Change
San Francisco	8,673	8,897	9,670	10,786	12,160	13,571	56%
Palo Alto	3,905	4,028	4,661	5,469	6,156	7,197	84%
Mountain View	3,264	3,368	3,670	3,876	4,274	4,570	40%
San Jose Diridon	2,698	2,681	3,187	3,489	3,714	4,160	54%
Millbrae	2,485	2,600	2,880	3,255	3,291	3,536	42%
Redwood City	2,036	2,106	2,399	2,619	2,947	3,233	59%
Sunnyvale	1,736	1,787	1,965	2,274	2,655	2,881	66%
Hillsdale	1,835	1,883	2,097	2,317	2,555	2,706	47%
San Mateo	1,282	1,347	1,477	1,571	1,851	2,061	61%
Menlo Park	1,377	1,312	1,471	1,526	1,668	1,762	28%

Note: Caltrain's Peninsula Corridor Electrification Project would add additional cars to accommodate increasing passenger demand.

[1] Average Weekday Ridership. Represents an average of the physical headcounts of all boarding and alighting passengers.

Source: CalTrans 2015 Annual Passenger Count

Figure 2 Mountain View Station Average Weekday Ridership Growth



3. COMMERCIAL MARKET TRENDS

This chapter assesses the Downtown's current market position and changes that have occurred over the last six years with a particular emphasis on the retail sector. To that end, the goal of this chapter is to provide a comprehensive overview of the health of Downtown Mountain View's retail sector as well as other land uses that may directly or indirectly impact retail performance. It is important to note that food services and drinking places (restaurants and bars) fall under the classification of "retail" for the purpose of this analysis. Only in certain cases, where a distinction can be made, does this report consider food services and drinking places separately from other retail categories.

Real Estate Market Performance Indicators

As described in **Chapter 2**, Mountain View's continued role as a major employment center for the technology and related sectors has created tremendous growth in real estate property values both Downtown and citywide. The expanding employment base has fueled demand across the full spectrum of real estate assets, driving land values and rental rates up over the past six years. The Downtown commercial real estate market has fared particularly well during this period.

While all real estate sectors in the City have benefited from the aforementioned trends, the office market has experienced the most pronounced growth, greatly outperforming other sectors in both the City and Downtown. Due in large part to Mountain View's strategic location in Silicon Valley and the Bay Area, there is significant demand for office space which has not been adequately met by new supply, driving up prices.

As shown in **Table 11**, the Downtown office inventory grew by nearly 200,000 square feet (17 percent) from 2010 to 2016 while the average lease rate increased by more than 120 percent during the same period (from \$41 per square foot to nearly \$84 per square foot).⁴ Citywide trends in the office market were similar albeit less pronounced (a 14 percent growth in inventory and 95 percent increase in lease rates). Moreover, Downtown office rents are currently almost double the citywide average, suggesting that it is a highly desirable mixed-use commercial district with a constrained supply.

While the Downtown and citywide retail sector remains strong, growth pressures have been less dramatic. For example, the Downtown actually lost about 14,000 square feet of retail space since 2010, likely as a result of conversion to more valuable land uses (e.g. office). The conversion of Meyer's Appliance Store to office uses is an example on one such transition. This net reduction in the Downtown retail inventory occurred despite a 50 percent increase in average retail lease rates during this same period (from \$31 to \$47 per square foot).

⁴ The inventory growth shown in **Table 11** is net new square footage, which takes into account the loss of existing office space when developing new space, as well as growth of inventory that is not attributed to new development (i.e., conversion of uses). The figures shown in **Table 8**, however, just represent new development square footage.

Moreover, average retail lease rates in the Downtown and citywide remain well below those in the office sector and have continued to lose ground over the last six years. In the Downtown, for instance, the average office lease rate is currently about 80 percent greater than existing retail lease rates in the same area. Depending on the specifics of a particular property, lease rate differentials of this magnitude can present an incentive for retail property owners to convert to office uses, given a choice.

The discrepancy between the market performance of office and retail space parallels the economic trends described in **Chapter 2**. Mountain View boasts a strong office climate due to its location in "Silicon Valley," access to a highly-skilled technical workforce, accessibility to Caltrain/Light Rail, and an established cluster of global technology firms. The significant growth in private sector employment (compared to relatively modest population growth), is fueling an increasing demand for office space. While job growth also generates demand for retail, the relationship is less direct⁵. In addition, national trends in the retail sector, particularly the emergence of on-line shopping, is affecting the competitive dynamics of "brick and mortar" retail space, as discussed further in **Chapter 4**.

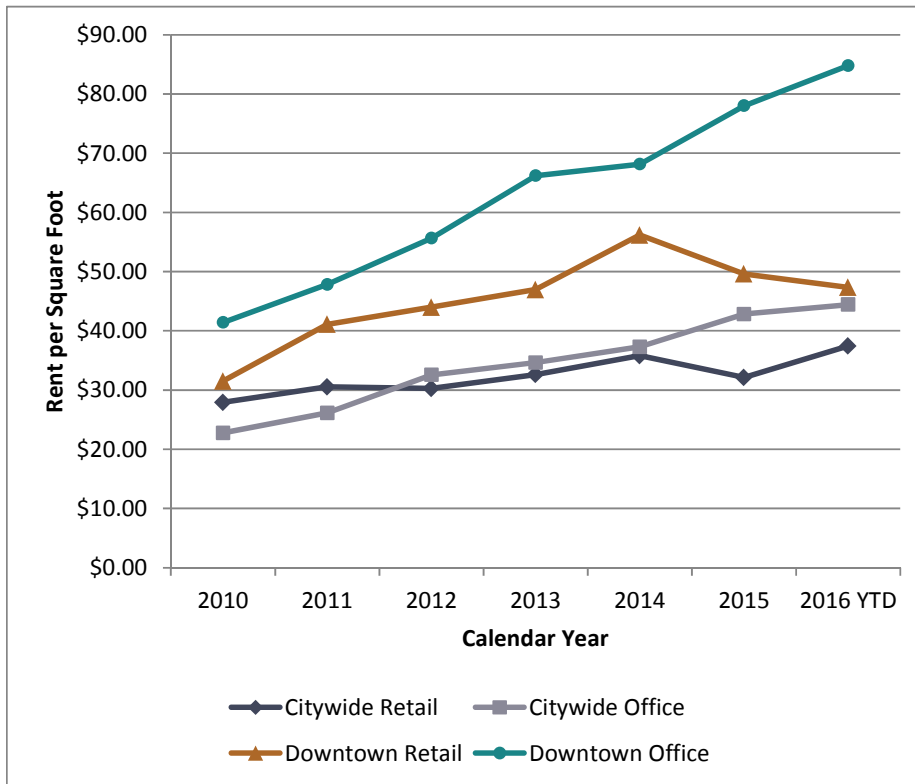
Table 11 Commercial Real Estate Trends in City and Downtown Precise Plan

Item	2010	2011	2012	2013	2014	2015	2016 YTD	2010 - 2016 YTD Change	
								#	%
Citywide Retail									
Inventory	3,833,960	3,664,326	3,672,467	3,944,989	3,933,445	3,919,952	3,863,753	29,793	1%
Rent	\$28	\$31	\$30	\$33	\$36	\$32	\$37	\$10	34%
Vacancy	3%	3%	3%	5%	5%	5%	3%	0%	-3%
Citywide Office									
Inventory	10,076,389	10,067,895	10,167,775	10,389,158	10,470,830	11,434,740	11,527,361	1,450,972	14%
Rent	\$23	\$26	\$33	\$35	\$37	\$43	\$44	\$22	95%
Vacancy	13%	14%	10%	9%	7%	3%	4%	-9%	-70%
Downtown Retail									
Inventory	478,110	472,310	470,810	465,610	464,101	464,101	464,101	(14,009)	-3%
Rent	\$32	\$41	\$44	\$47	\$56	\$50	\$47	\$16	50%
Vacancy	4%	4%	3%	1%	9%	3%	4%	0%	11%
Downtown Office									
Inventory	1,086,153	1,086,153	1,086,153	1,148,545	1,170,295	1,278,219	1,278,219	192,066	18%
Rent	\$41	\$48	\$56	\$66	\$68	\$78	\$85	\$43	105%
Vacancy	4%	8%	4%	8%	2%	3%	4%	0%	11%

Source: CoStar Property Analytics

⁵ While employment growth directly leads to an increased demand for office, retail, and related commercial space, the amount of spending by employees on retail goods/services depends on a variety of factors including: wages, office location, and the range of in-house amenities offered by employers (i.e., dining, personal services, and entertainment).

Figure 3 City and Downtown Rents by Activity



Regional Retail Market Context

Mountain View's downtown retail offerings exist within a highly competitive regional retail market that includes regional shopping malls, major retail centers and other successful downtowns in Santa Clara and San Mateo counties. The Downtown must be viewed within the context of this overlapping and interconnected trade area that shapes the shopping, commute, and leisure/entertainment patterns of residents, visitors, and workers within the broader region.⁶ In addition, the City itself also contains a diverse, albeit disaggregated, retail sector that includes a regional shopping center (San Antonio Center and Village at San Antonio), a well-traveled commercial corridor (El Camino Real), and numerous neighborhood and stand-alone commercial centers.

Competitive Supply in the Region

Table 12 provides an overview of the level of regional competition, listing the primary orientation of significant retail destinations within 20 miles or less commute from the Downtown. As shown, this broader trade area includes centers and districts that cater to everything from daily needs and discount shopping to entertainment, tourism, high-fashion, and other specialty

⁶ A trade area is a geographic region that contains the elements of demand and supply that will determine the performance of a particular retail district and/or store. Trade areas are influenced by a variety of factors, including the location and density of the targeted residential population, the location of key competitors, the relative distance or travel time for each of the above, geographic and psychological barriers, and existing commute and shopping patterns.

categories (e.g., ethnic and arts and crafts). In addition to regional malls, the table also includes other Main-Street-oriented Central Business Districts (CBDs) since this is a format and market position similar to the Downtown.

The broader economic context has both positive and negative implications for Downtown Mountain View's retail sector. On the one hand, tenants or projects have the potential to attract demand from a variety of market segments, including local and regional residents, commuters, and employers and their workers. Indeed, the market demographics within a 10- to 20-minute commute from the Downtown meet or exceed the requirements of most retailers, in terms of population, income, and other factors. On the other hand, this environment also creates a high level of competition, making it difficult for a tenant or project to dominate a particular submarket or niche.

In the time period since the last EPS study was completed which examined Mountain View's Downtown real estate market in 2010, there have been only modest changes in the geographic distribution of supply in the regional retail market. While there has been some turnover of retail tenants within the trade area, most of the anchor tenants are still operating and all of the major shopping centers/districts are still intact. Probably the most noteworthy developments include:

- **Stanford Shopping Center Renovation:** This super-regional shopping center continues to under-go modernization adding both tenants (about 45 since the last report) and re-configuration. Mirroring national trends, many of the new tenants and additions have focused on experiential amenities and dining.
- **Village at San Antonio:** In 2011, Mountain View's City Council approved a project that would reconstruct 16 acres of the 56-acre San Antonio Shopping Center. The project added more than 300 residential units, a 65,000 square foot Safeway, and 26,000 square feet of new retail space. In 2013 the Council approved a second phase of the redevelopment of the San Antonio Center which includes 121,000 square feet of commercial, retail, and dining, a 70,000 square foot cinema, nearly 400,000 square feet of office, and a 167-room hotel, which is currently under construction.
- **Cupertino Main Street:** In 2009, Cupertino's City Council approved Sand Hill Property Company's mixed-use development proposal located in between Steven's Creek Boulevard and Vallco Parkway near Cupertino's eastern border and just south of Apple Campus 2. Main Street Cupertino contains significant retail offerings, anchored by a Target Express.

Table 12 Shopping Centers/Districts within 20 miles of Downtown Mountain View

Shopping Center/District	Distance to Mountain View Downtown (miles)	Market Orientation
Mountain View		
Downtown	0	Main Street CBD
San Antonio Shopping Center	2	Regional Center
Downtown Los Altos	3	Main Street
Downtown Sunnyvale	4	Main Street CBD
Cupertino		
Cupertino Village	6	Regional Mall
Cupertino Main Street	8	Mixed Use
Palo Alto		
Stanford Shopping Center	7	Regional Mall
University Avenue	7	Main Street CBD
Menlo Park	8	Main Street CBD
San Jose		
Santana Row	11	Mixed Use/ Entertainment
El Paseo de Saratoga	11	Regional Center
Westgate Shopping Mall	11	Regional Mall
Downtown San Jose	14	Main Street CBD
Westfield - Oakridge	19	Regional Mall
Great Mall in Milpitas	12	Regional Mall
Westfield - Valley Fair in Santa Clara¹	12	Regional Mall
Downtown Redwood City	13	Main Street CBD
Campbell		
Pruneyard Shopping Center	14	Regional Mall
Downtown Campbell	14	Main Street CBD
Downtown San Carlos	14	Main Street CBD
Downtown Los Gatos	16	Main Street CBD
Downtown San Mateo		
Downtown San Mateo	19	Main Street CBD
Hillsdale Shopping Center	19	Regional Mall

[1] Partially located in Santa Clara and partially located in San Jose.

Citywide Retail Capture/Leakage Analysis

A common method for evaluating the retail performance and potential of various retail categories within a localized market is to identify any existing retail sales leakage that may be taking place. Retail leakage occurs when local retail offerings are undersupplied relative to local demand, and

is identified analytically when local per-capita retail sales fall short of regional per-capita retail sales averages. Due to the trade area dynamics at play in retail markets, leakage analyses are typically done on a citywide level. That being said, since Mountain View is an employment-rich area, this analysis estimates retail leakage using a resident plus worker consumer basis, as well as the more traditional calculation of retail sales per resident. Depending on the approach, Mountain View's retail sales exceed the regional population-adjusted benchmark by between \$138 million and \$473 million. **Table 13** provides the results of the EPS leakage analysis.

Table 13 Mountain View Retail Sales Leakage

Retail Category	Actual Sales (\$1,000)	Residents Only Approach		Residents + Workers Approach	
		Estimated Demand (\$1,000)	Supply Surplus/ Defecit	Estimated Demand (\$1,000)	Supply Surplus/ Defecit
Retail and Food Services					
Motor Vehicle and Parts Dealers	\$100,018,287	\$178,661,880	(\$78,643,593)	\$117,718,310	(\$17,700,023)
Home Furnishings and Appliance Stores	\$99,243,541	\$87,405,760	\$11,837,781	\$57,590,675	\$41,652,866
Bldg. Matrl. and Garden Equip. and Supplie:	\$32,912,154	\$78,714,348	(\$45,802,194)	\$51,864,002	(\$18,951,848)
Food and Beverage Stores	\$73,809,561	\$53,716,527	\$20,093,034	\$35,393,218	\$38,416,343
Gasoline Stations	\$101,535,237	\$87,838,458	\$13,696,779	\$57,875,775	\$43,659,462
Clothing and Clothing Accessories Stores	\$35,038,099	\$95,502,496	(\$60,464,397)	\$62,925,524	(\$27,887,425)
General Merchandise Stores	\$179,294,525	\$94,681,728	\$84,612,797	\$62,384,729	\$116,909,796
Food Services and Drinking Places	\$366,011,218	\$183,206,685	\$182,804,533	\$120,712,831	\$245,298,387
Other Retail Group	<u>\$130,904,514</u>	<u>\$120,080,257</u>	<u>\$10,824,257</u>	<u>\$79,119,535</u>	<u>\$51,784,979</u>
Total Retail and Food Services	\$1,118,767,136	\$979,808,138	\$138,958,998	\$645,584,599	\$473,182,537

Source: California State Board of Equalization; Economic & Planning Systems, Inc.

According to the above analysis, Mountain View is particularly specialized in Food Services and Drinking Places as well as General Merchandise Stores. Mountain View's actual sales in the Food Services and Drinking Places sector exceed the regional benchmark by over \$180 million annually, regardless of approach. In contrast, Mountain View is experiencing a retail sales deficit in a number of retail categories, including Clothing and Accessories, Building Materials and Supplies, and Motor Vehicles and Parts Dealers. Leakage in the Clothing and Accessories category is likely attributable to the presence of large regional malls outside of the City, including the Stanford Shopping Center and Westfield Valley Fair.

Mountain View Retail Sales Trends

This sub-section of the report examines the retail sales trends experienced in Mountain View, and particularly the Downtown Precise Plan area since the end of the study period analyzed in EPS's most recent Downtown Mountain View Development Strategy Study, 2010. Consistent with the larger economic recovery trends of this time period, the retail sector has rebounded considerably since 2010, this study area is no exception. Fueled by the disposable income associated with Mountain View's high-income households, and a drastic increase in downtown business to business sales activity (**Table 16**), Downtown Mountain View has experienced strong year over year gains in taxable sales.

As shown in **Table 14**, the growth in taxable annual sales experienced in Downtown Mountain View from 2010 to 2015 has significantly outpaced taxable sales growth seen citywide and countywide. While Downtown Mountain View's taxable annual sales have grown by 89 percent

during this time period, growth rates of 14 and 30 percent have been seen in the City of Mountain View and Santa Clara County, respectively.

In 2015, Downtown Mountain View was responsible for generating about 10 percent (\$162 Million of the \$1.5 Billion) of the total taxable retail sales citywide, however, more than 40 percent of the citywide taxable retail sales growth (\$76 million of the \$187 million) from 2010 to 2015 occurred within the Downtown Precise Plan area boundaries. **Table 15** on the following page provides a more detailed breakdown of specific retail sectors and respective changes to their annual taxable sales from 2010 to 2015.

Table 14 Taxable Retail Sales Growth Comparison

Geography	Taxable Sales		Change	
	2010	2015	#	%
Santa Clara County	\$30,523,321,737	\$39,628,655,000	\$9,105,333,263	30%
City of Mountain View	\$1,333,080,000	\$1,520,293,710	\$187,213,710	14%
Downtown Mountain View	\$86,096,040	\$162,666,418	\$76,570,378	89%

Source: California State Board of Equalization, Taxable Sales in California 2010 and 2015. At time of data collection, 2016 sales tax information was not available.

To gain a better understanding of the composition of the overall retail sales growth, both citywide and in the Downtown Precise Plan area, EPS examined the major retail sectors that were influencing these growth trends. **Table 15** below provides valuable insight into the composition of Mountain View's citywide retail market and how the performance of the city's major retail sectors has changed over time.

The retail category responsible for the majority of citywide growth is the Food Services and Drinking Places sector, which saw an increase in annual taxable sales of nearly \$200 million from 2010 to 2015. In fact, this retail category exceeding total growth in all retail sales during this period, off-setting declines in other categories, such as general merchandise and motor vehicle and parts dealers.

Table 15 Mountain View Taxable Retail Sales

Retail Sector	2010 Sales	2015 Sales	2010-15 Change	
			#	%
Motor Vehicle and Parts Dealers	\$106,301,000	\$100,018,287	-\$6,282,713	-6%
Home Furnishings and Appliance Stores	\$80,100,000	\$99,243,541	\$19,143,541	24%
Bldg. Matrl. & Garden Equip. and Supplies	\$29,951,000	\$32,912,154	\$2,961,154	10%
Food & Beverage Stores	\$67,764,000	\$73,809,561	\$6,045,561	9%
Gasoline Prices	\$100,910,000	\$101,535,237	\$625,237	1%
Clothing & Clothing Accessories	\$29,421,000	\$35,038,099	\$5,617,099	19%
General Merchandise Stores	\$220,575,000	\$179,294,525	-\$41,280,475	-19%
Food Services & Drinking Places	\$167,678,000	\$366,011,218	\$198,333,218	118%
Other Retail Group ¹	\$126,254,000	\$130,904,514	\$4,650,514	4%
Total Retail and Food Services	\$928,954,000	\$1,118,767,136	\$189,813,136	20%
All Other Outlets	\$404,126,000	\$401,526,574	-\$2,599,426	-1%
Total All Outlets	\$1,333,080,000	\$1,520,293,710	\$187,213,710	14%

[1] Includes pharmacies, book stores, hobby stores, sporting goods stores, nonstore retailers, and all other outlets not classified in the retail sectors identified above.

Source: California State Board of Equalization, Taxable Sales in California 2010 and 2015. At time of data collection, 2016 sales tax information was not available.

In concurrence with citywide trends, data provided by the City of Mountain View indicates that the retail sector responsible for the largest share of absolute sales growth during this time has been Restaurants, classified as "Food Services & Drinking Places" in the table above. The success of Downtown Mountain View's food and beverage retailers has created a critical mass of restaurants and drinking establishments that draws residents and employees alike to the city's downtown core from all over the Bay Area. Presently, the Food Services & Drinking Places category may represent as Downtown Mountain View's primary retail anchor.

Table 16 Downtown Taxable Sales and Commercial Establishment Breakdown

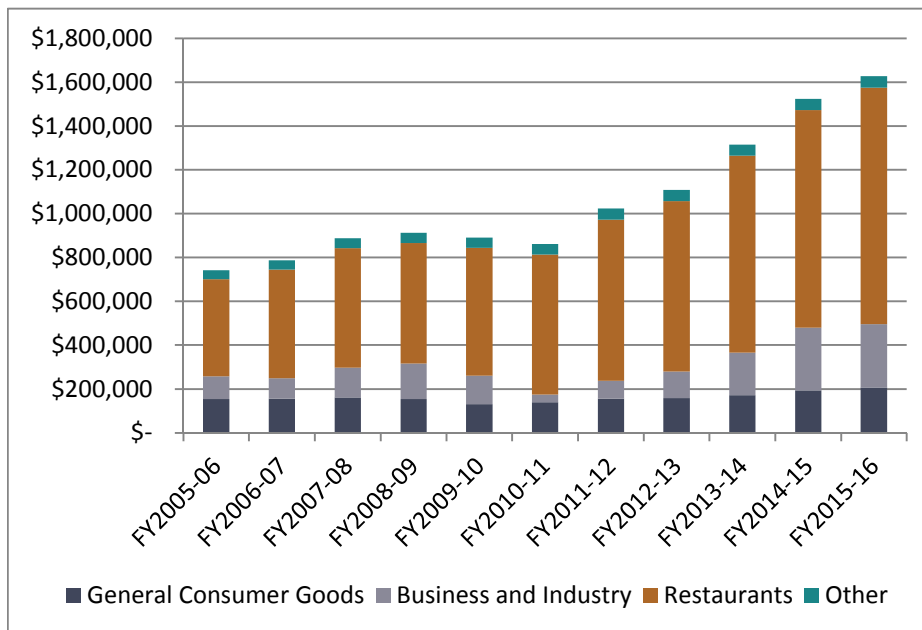
Major Industry Group	FY2010-11	FY2014-15	Change	
			#	%
General Consumer Goods				
Sales	\$14,008,225	\$19,280,546	\$5,272,321	38%
# of Establishments	72	70	-2	-3%
Business and Industry				
Sales	\$3,492,701	\$28,638,797	\$25,146,096	720%
# of Establishments	42	48	6	14%
Restaurants				
Sales	\$63,861,163	\$99,381,388	\$35,520,225	56%
# of Establishments	77	81	4	5%
Other¹				
Sales	\$4,733,951	\$5,039,098	\$305,147	6%
# of Establishments	13	16	3	23%
Total Sales	\$86,096,040	\$152,339,829	\$66,243,789	77%
Total # of Establishments	204	215	11	5%

*Note: This data is based on commercial entities that are subject to sales tax and does not include all entities that are registered with the Downtown Business Improvement District.

[1] Other refers to Autos and Transportation, Building and Construction, and Food and Drugs.

Source: City of Mountain View; California Board of Equalization

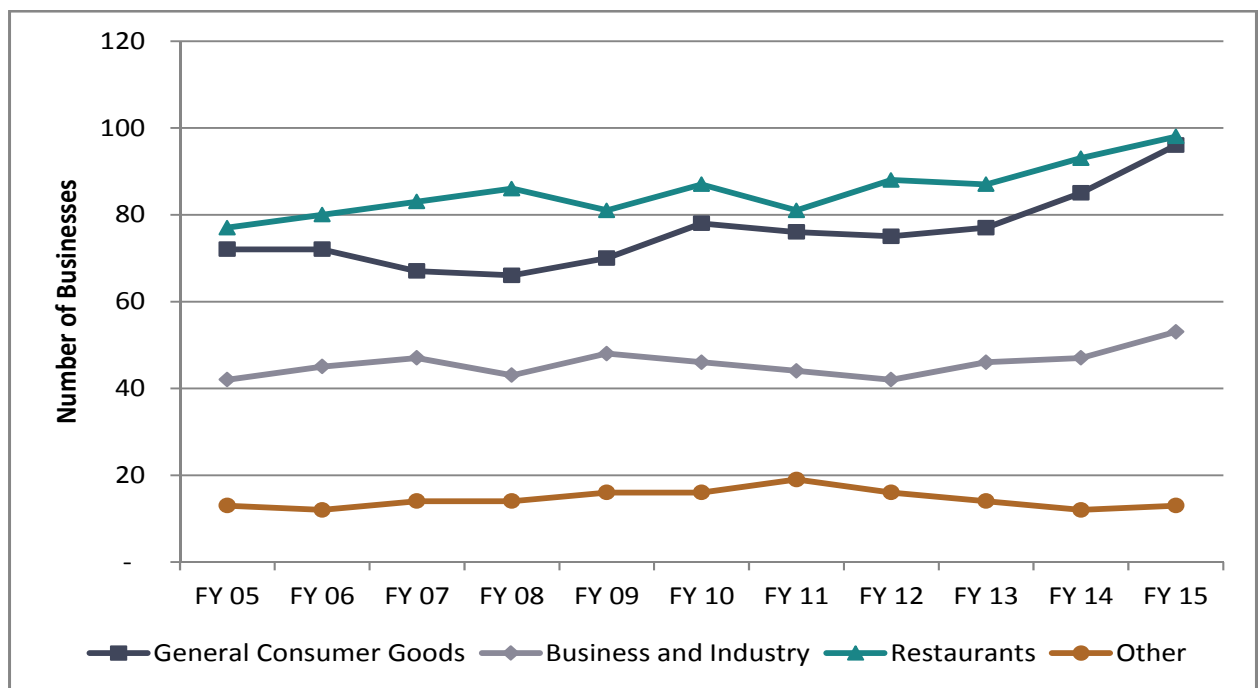
Figure 4 Downtown Sales Tax Growth



Perhaps the most remarkable takeaway from these findings is that while retail sales have increased substantially over this study period, the number of establishments has grown only modestly, with the largest absolute growth being observed in the restaurants sector. In fact, of the four major industry groups shown in **Table 16** and **Figure 4**, taxable sales growth has exceeded the growth of establishments in all but one major industry group, "Other", which consists of Automotive, Construction, and Food and Drug establishments.⁷

This phenomenon, sales growth greatly outpacing growth of retail establishments, indicates that existing establishments are enjoying the fruits of greater retail demand, while new actors are struggling to enter the market. Barriers to market entry downtown may be largely due to a lack of physical space for new entrants to expand into as well as retail formats that are generally small in nature, limiting the type of and intensity of retail uses.

Figure 5 Downtown Commercial Establishment Mix by Major Industry



*Other refers to Autos and Transportation, Building and Construction, and Food and Drugs.

Source: City of Mountain View

⁷ While the BIA boundaries do not perfectly align with the boundaries of the Downtown Precise Plan area, they are similar enough to be used as a proxy for Mountain View's Downtown. Note that the number of establishments reported in **Table 16** is less than the number of commercial establishments reported in **Table 4** because **Table 16** is only showing those establishments that produce taxable sales.

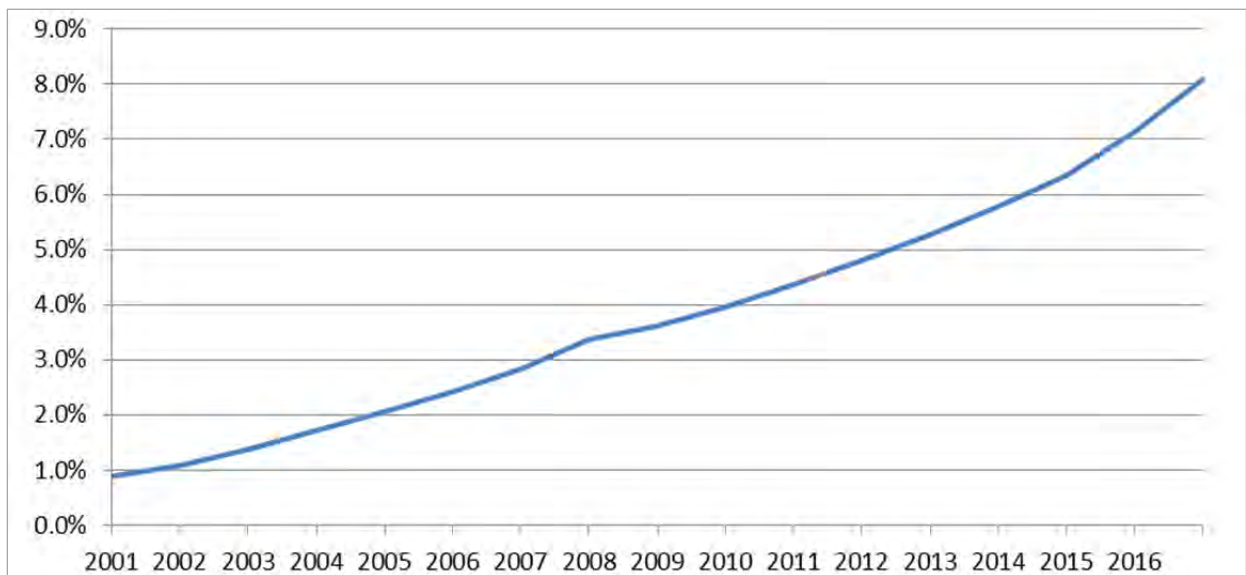
4. RETAIL MARKET IMPLICATIONS

This chapter identifies potential opportunities and strategies for advancing particular retail policy priorities. The conclusions are based on the market trends described in earlier chapters as well as overarching trends in the retail industry.

Changing National Retail Trends

The disproportionate success experienced by Downtown Mountain View's restaurant sector over other retail types is not necessarily a localized phenomenon. Mountain View's struggles with retail tenant diversification in its Downtown are shared with many other communities in the United States as the dynamics of retail have changed considerably in the last 15 years. The rise of e-commerce as a more efficient alternative to traditional in-person shopping for many consumer items is forcing retail property owners and tenants to update their commercial spaces and marketing tactics (see **Figure 6**). Retail shopping districts and centers in many communities are facing significant pressures to re-invest and modernize in response to changing consumer preferences and technology. Many national retail chains including Borders Bookstores, Radio Shack, Office Depot, and Sports Authority have suffered substantial losses following the rise of e-commerce. While these specific retail tenants have not previously located in Downtown Mountain View, their ongoing struggles are indicative of a larger trend that is leading many smaller downtowns to focus on experiential uses such as food services and drinking places.

Figure 6 E-commerce as a Share of Total Retail Sales



Source: Retail Indicators Branch (US Census), Economic & Planning Systems

In addition, the consumer preferences of millennials and Baby Boomers, the two largest retail demographic cohorts, are increasingly focused on “experiential” retail environments and less on traditional goods. These inter-related trends are leading to a number of adaptation strategies by retail operators and owners, including the following:

- Retail districts and centers are incorporating stronger “place-making” features to attract customers and to enhance the shopping experience, including complimentary entertainment, recreational, and cultural features; and improved public spaces (e.g. fountains, play areas, plazas and paseos, public art).
- Consumers are seeking spaces to not only shop, but socialize, eat, have fun and be active, local and connected along with intimate and personal spaces create a destination with energy and connectivity.
- Many retail centers are incorporating mixed-use development in order to enhance vitality, create a 24-hour feel, and improve real estate yield and value.
- Individual retail tenants are trending towards smaller format spaces that complement their on-line presence with a higher emphasis on “touch and feel” rather than inventory, including “display centers” and “pop-ups.”
- The food and dining segment is growing its share of sales and space within the “brick and mortar” retail. For example, the typical shopping center now devotes close to 25 percent of its floor area to food and dining, up from about 10 percent about a decade ago. In 2015 the food and beverage segment accounted for a high of about 12 percent of total retail sales.
- Like food and dining, the personal fitness segment is also experiencing a growing share of sales and space inventory within “brick and mortar” retail environments.

In addition to the recent trends described above, over the last 20 years retail centers and districts have become increasingly bifurcated into one of several major types. These include modern, well located shopping malls, big box and power center formats, and commercial mixed-use districts. Increasingly, high volume national merchandisers are gravitating to these locations, often at the expense of older format and more peripheral locations. These locations typically have competitive demographic and strategic locational advantages. By locating near other retail establishments, retailers can create a critical density of offerings, attracting more potential shoppers.

As noted, the rise of online shopping has created a need for conventional brick-and-mortar retailers to differentiate and offer a unique shopping experience that cannot be duplicated elsewhere. One consequence of this phenomenon has been the increasing popularity of lifestyle centers, including many that incorporate and/or are integrated within downtown “main-street” settings. These centers typically incorporate outdoor/pedestrian oriented formats, and combine a range of upscale retailers with a variety of dining options and entertainment uses (e.g. theaters). They are differentiated from more value or discount retail formats (big boxes and outlet malls) by offering more lifestyle amenities and creating a destination where shoppers want to spend time, rather than merely purchase retail goods and services. Increasingly, they also incorporate mixed-use concepts with residential and/or office on upper floors.

The most prominent lifestyle centers in the Bay Area include Bay Street in Emeryville, Santana Row in San Jose, and Broadway Plaza in Walnut Creek. All three of these projects occupy massive tracts of land, typically at least 30 acres or more and include structured parking.

Downtown Mountain View Opportunities

As discussed throughout this report, the Downtown retail sector is currently dominated by food and drinking establishments. In many ways, it is the success and expansion of the Downtown office sector that has generated a large demand for restaurant uses, a retail subtype that is strongly suited to capture the spending of office workers. In fact, Mountain View as a whole is home to a greater number of jobs than residents (See **Table 1**), making the City particularly well-suited to absorb restaurant spending. While the Downtown retail sector is performing well from a market standpoint (low vacancy, high lease rates), the City is interested in understanding ways in which the Downtown may attract new and currently underrepresented retail types.

While the retail leakage analysis described in Chapter 3 identified several retail categories that are underserved in Mountain View (Clothing and Accessories being the most applicable to Downtown) it may be difficult for the Downtown area to attract these new types of uses due to location requirements of these tenants as well as existing barriers to entry in the Downtown. The overwhelming success of Downtown's most common retail offering, food and drinking places, is driving up retail lease rates and making it difficult for other product categories, which may not enjoy the same sales volume, to enter the market.

A related challenge is that the Downtown currently does not possess (1) the type of space or (2) the existing critical mass of retail activity that are typically sought by national retail brand retailers who would otherwise be able to afford space in the Downtown. As noted above, many major national retailers are seeking locations in pre-established retail environments or as co-tenants with other major retailers. These locations typically have competitive demographic and strategic locational advantages. By locating near other retail establishments, retailers can create a critical density of offerings, attracting more foot-traffic and potential shoppers.

The retail environment that currently exists in the Downtown is generally differentiated from the traditional high-volume retail districts in the following key and inter-related ways:

- **Smaller format, mixed-used buildings:** Retail formats in smaller, often historic, downtown settings are typically characterized by smaller, one to two story buildings with relatively narrow and shallow floor plates. The buildings are often adjacent with minimal or zero lot lines, and parking is provided on the street and/or on public lots located off-the property. These environments often include a variety of building types and uses, including a variety of commercial, residential, and office tenants on upper floors or stand alone. This format and setting often does not meet the standards of many credit or national retail chains.
- **Independently owned and managed:** Downtown commercial districts typically consist of multiple parcels and property owners, often with different motivations, time horizons and level of involvement in the use of their property. Among other things, this circumstance can make it difficult to develop and implement district wide marketing or tenanting plans.

The alignment of the existing Downtown retail inventory is oriented primarily to serve local residents and workers, a fact that is evident by both the smaller-scale nature of the existing retail establishments and the lack of regionally attractive retail brands. Specifically, with a few exceptions, the Downtown retail submarket is characterized by small-scale tenants with footprints averaging in the 1,000 to 3,000 square foot range. Businesses of this scale tend to be incorporated into mixed-use formats, as they can serve as ground-floor retail anchors with office or residential tenants above.

Despite these challenges, opportunities do exist for the City to leverage its existing strengths to diversify its retail offerings. The City may be able to take advantage of any underutilized parcels to create enough square footage for a larger format retail or entertainment offering to enter the market. Although a retail opportunity site analysis is outside the scope of this current effort, the Downtown does appear to possess several under-utilized properties and sites that if properly were to be assembled may be large enough to accommodate the needs of a larger format retailer that could serve as a destination or “anchor” for additional retailers.

In addition to the opportunities discussed above, there may be certain actions that the City of Mountain View could explore to incentivize the development of diverse retail offerings within the Downtown market. In particular, the City could evaluate the following:

- **Density bonus for ground floor retail:** Density bonuses are a commonly used tool to encourage specific community goals. By granting density bonuses to developers who commit to providing ground floor, street-fronting retail within their projects, the City would ensure that retail uses in such spaces would not have to compete in the market with higher value commercial uses like office.
- **Reduction in Parking in-lieu fee:** Feedback from City staff has indicated that the current parking in-lieu fee has made development of new retail space prohibitive for some small businesses. In these instances, the current fee burden could be reduced or waived entirely in order to make new retail development feasible.

As documented throughout this Report, Downtown Mountain View continues to evolve as a successful mixed-use district that attracts residents and workers throughout the day and into the evening. While the retail sector is currently dominated by dining venues, this success, combined persistent job growth, both citywide and downtown, could provide a foundation for further expansion into other retail categories. The level of foot traffic, sense of place, and all-day vitality in the Downtown makes it an appealing environment for many retailers should appropriate space and/or development opportunities arise. A move in this direction would likely require policy support from City policy makers and on-going facilitation by City staff.

To conclude, this Report has found that Downtown Mountain View is performing very well as a vibrant mixed-use district catering to local residents and employees. However, the retail sector lacks a depth or diversity of other offerings beyond dining and expanding beyond this current orientation would likely require some level of policy support from the City. Specific initiatives often pursued by other cities seeking to spur redevelopment and expansion of their retail districts often include assistance with site assembly, development entitlement, tenant recruitment, and improved parking and transportation infrastructure.

Participation by local stakeholders representing business, property owner, and community interest would also be critical to the success of any initiatives designed to expand and diversify retail offerings in the Downtown. Consequently, as a next step City staff may consider weighing the level of stakeholder support for initiatives designed to achieve this goal.