CENTER FOR CONTINUING STUDY OF THE CALIFORNIA ECONOMY

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DATE: March 3, 2015

TO: Palo Alto City Council and PTC Members and Staff

FROM: Stephen Levy

SUBJECT: Questions about Retail in Palo Alto

Policies to encourage and preserve retail opportunities in Palo Alto are under discussion this year. Last night the council asked staff to explores short-term actions to protect and promote retail and I am pleased that staff has retained outside expertise on downtown retail opportunities and challenges.

I offer some questions, some thoughts and some data to, hopefully, move the discussion forward in the context of changing local demographics and national retail trends. Let's start with the downtown area to focus the discussion.

Getting Agreement on what Retail Includes

I see five questions here to begin a discussion on common ground:

1) What are residents seeing as deficiencies?
2) What do retailers see as market opportunities/who are the customers?
3) What does the zoning code include as "retail"? (question for staff)
4) What uses are prohibited today in Palo Alto—e.g., large grocery stores or big box stores? (question for staff)
5) What are the barriers to more retail downtown?

What is Retail

As a resident of downtown and as an economist I look at "retail" as including establishments that serve residents, workers and visitors.

That includes

--stores that sell goods
--eating and drinking establishments
--places that deliver services

Is this a generally acceptable interpretation? I suspect there is one definition relative to planners/zoning (what is retail in PA under this definition), one measure as related to taxable sales and my broader measure that includes dry cleaners, dentists, banks, etc.

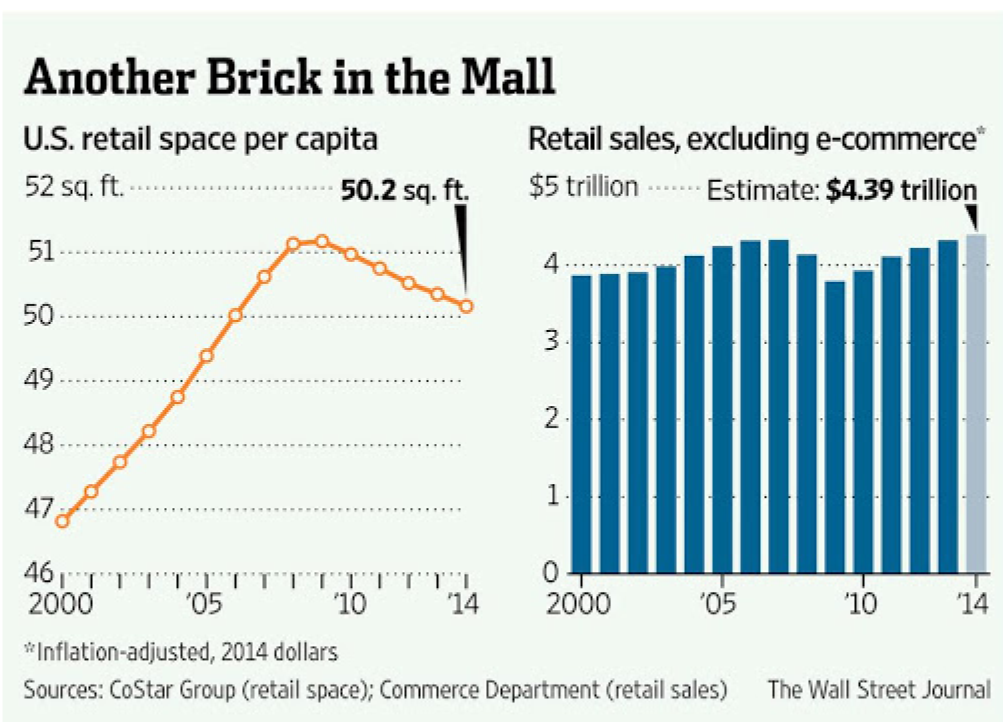
Can we get some agreement on definitions?

As residents Nancy and I eat out, shop at some stores, have our dentists downtown, get our prescriptions filled downtown, do banking downtown (although a lot more is done online now), and get a variety of things repaired and cleaned downtown. I get haircuts downtown. And if you include T&C and Stanford shopping center and medical facilities, we get most of what we do re shopping, eating and services close to home.

And as a "working in downtown Palo Alto" resident (since 1969), I do a lot of "shopping/eating" related to working downtown.

Three Questions for the Consultant

One, how does and will the growing presence of Internet shopping affect retail options in Palo Alto? National data below seem to point to a downward trend in retail space per capita. Perhaps the consultant can help interpret these data for the implications for Palo Alto retail planning.



I can share our experience. I used to buy books and music at stores—physical items. I now buy and download online. I used to buy shoes at stores. But now the online selection is better. Last month we went into Marine Layers downtown to match for me an item Nancy had bought earlier for herself. They did not have it in stock so I ordered online and it came quickly. Every day at our condo I see Amazon deliveries. Is our example isolated or is online really a trend that will affect retail store opportunities and growth.

A related question is how changing demographics in Palo Alto will affect retail opportunities—for stores, eating and services.

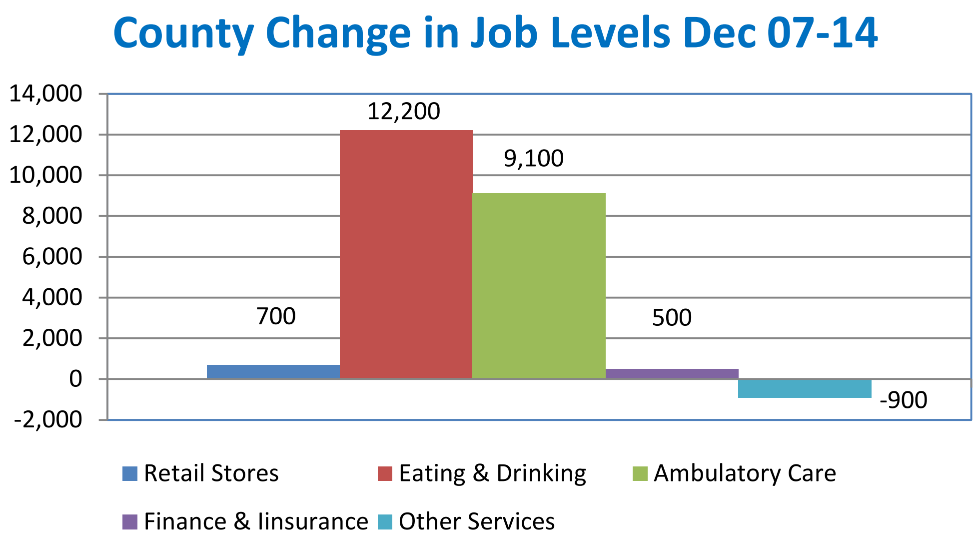
Two, do the consultants see any trends in new retail entrepreneurs wanting to "open" and manage online retail businesses instead of local stores? I wonder whether there is now a generational trend where some/many people who would have opened stores in the past are either not doing stores or doing fewer given online opportunities.

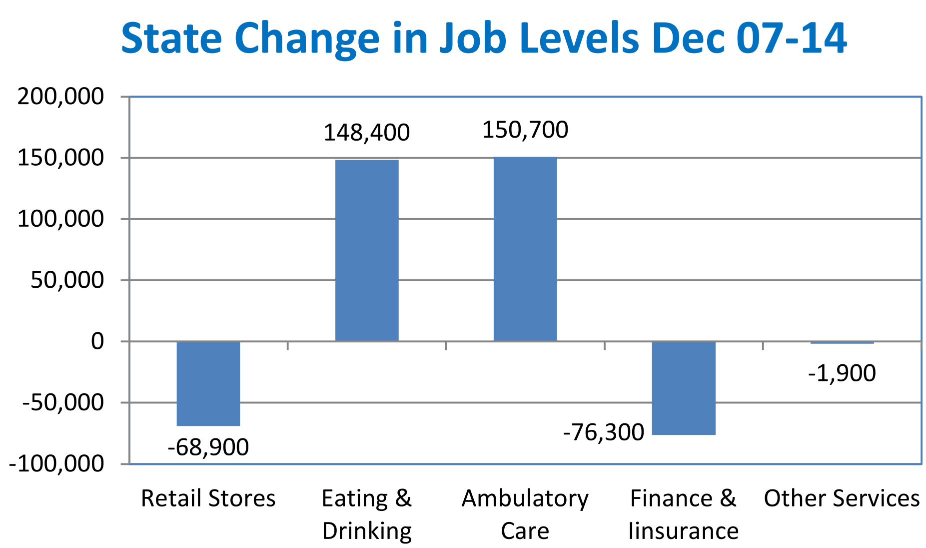
Three, how does the existence and growth of Stanford shopping center and T&C affect the prospects by type of retail for downtown, Cal Ave and the neighborhoods? There are the obvious issues of direct competition and Neilson Buchanan has raised another good point—that Stanford and T&"C have centralized management and so can control the mix of offerings. I think Neilson has some ideas of how to achieve a similar result downtown with disperse ownership and management.

Some Data on County and State "Retail" Employment Trends

Virtually all of the "retail" growth in our county for the past seven years has been in eating and drinking establishments and, if you include them, ambulatory care facilities including doctors and dentists. The number of jobs in retail stores, banking and services is basically unchanged despite strong job, population and income growth.

And at the state level, the number of employees in retail stores is down by nearly 70,000 during this period.





Who are the Customers for Downtown and Cal Ave?

This is really a question for anyone who knows.

In theory the customers are

--local residents

--nearby workers

--visitors (probably more so for downtown and the shopping center)

--Stanford students, faculty and employees

Council and staff have heard some complaints from residents. Elaine Uang started a great thread on Nextdoor for downtown residents asking what they would like to see. Check it out here https://universitysouthca.nextdoor.com/news_feed/?s=&link_source_user_id=2314774&post=9433334&ct=UpA4iyXuaf7uL0h-xF2uNv1nF3aYTLXsc8gj3MaYegEA3AcEUnztTGkZTTQFRwCz&mobile_deeplink_data=action%3Dview_post%26post%3D9433334&lc=11124.

How do we hear the voices of workers and Stanford shoppers? And how do we hear the voices of retailers?

Is it possible to get information on who are the customers by type of retail and area of the city? Are they mostly workers, nearby residents, farther away residents, visitors, folks from Stanford?

How do we handle the situation where what residents want is not what retailers see as the greatest opportunities, particularly looking forward in a world of increasing online shopping for goods formerly purchased in stores?

How to Get More Customers

One contradiction facing prospective retailers in Palo Alto is the current discussions around limiting growth of jobs and housing.

In effect the city would be saying to retailers, our residents want more retail but at the same time they are working to restrict the growth of customers.

Perhaps Palo Alto is a desirable location for more retail (outside of the shopping center and T&C growth) without job and population increases, but I would certainly ask retailers and the consultant about this.

There was a story yesterday in the San Jose Mercury News about San Jose’s views on the relation of jobs to retail sales and overall revenues.

http://www.mercurynews.com/business/ci_27573398/at-center-silicon-valley-boom-2-0-san.

I hope the consultant can help us understand the relation between downtown retail opportunities and the growth of the customer base.