DATE: January 28, 2019

SUBJECT
Downtown Retail Task Force Findings and Recommendations

RECOMMENDATION
1. Accept the findings of the Downtown Retail Task Force; and

2. Direct staff to consider the guiding principles, conduct further study of the recommendations of the Downtown Retail Task Force, and present a “Retail Action Plan” that includes a timeline and next-steps for implementation by May 2019.

STRATEGIC INITIATIVE
Economic Development

BACKGROUND
On August 28, 2017, the City Council held a study session on Downtown retail and hotel opportunities and endorsed the creation of a Downtown Retail Task Force. The task force directives included: create a retail vision for Downtown Redwood City; determine any barriers to strengthening and increasing retail opportunities in the Downtown; and develop policy recommendations for addressing those barriers.

For any city, a thriving Downtown is an indicator of that city’s economic strengths. Redwood City’s Downtown has a very low vacancy rate for ground floor retail space, which is an indicator of market strength, but is also a challenge to diversifying the Downtown’s retail base. As such, task force meetings were designed to provide an opportunity to inform and educate businesses and community stakeholders who share a concern about the economic vitality of Downtown Redwood City, and provide a framework for recommending policies and initiatives to strengthen retail in the Downtown. The task force’s findings and recommendations would also assist the City with proactive efforts to attract and support new retail to the Downtown.
The City Council appointed task force members who represent diverse segments of the community—residents, real estate brokers (retail and office), developers and Downtown business and property owners. The task force met six times between May 29 and October 30, 2018.

The work plan for the task force included:

- Review current retail environment at the national, regional and local level
- Review existing conditions in the Downtown in terms of rents, vacancy, current mix of businesses, physical infrastructure, and character
- Assess the strengths and weaknesses of Downtown’s retail makeup
- Compare demographic and market information for five similar downtowns in the region (Burlingame, Menlo Park, Mountain View, Palo Alto and San Carlos)
- Determine the type of retail (national, regional and local) that is appropriate for the Downtown based on market demand and demographics
- Identify best practices used by other cities with similar challenges that can be implemented by Redwood City
- Assess how current City policies (Downtown Precise Plan, zoning, etc.) affect current rental rates
- Identify the type of City policies that would help retain and attract traditional retail businesses
- Develop a retail vision for Redwood City’s Downtown

Recommendations of the task force, along with other actions that address the City’s economic sustainability, will be incorporated into an economic development work plan for the City Council’s consideration on March 25.

ANALYSIS

Change occurs in the current retail environment quickly and continuously. Product life cycles are getting shorter and shorter as consumers demand newer and better versions of products that can be purchased quickly and cheaply. Online sales continue to challenge brick-and-mortar sales in response to fast-paced lifestyles of consumers that leave little time for shopping in stores. In fact, more Americans are shopping online than ever before, and younger consumers are more frequently purchasing “experiences” rather than goods.

Changing demographics and shopping patterns of the millennial generation are evident in changes to regional Bay Area malls, where expansions of those malls reflects non-conventional uses other than retail stores, including residences, hotels, restaurants, office space, luxury movie theaters, and entertainment venues. Demographic data is important to retailers in making decisions on where to locate, but shopper preferences or lifestyle factors are key drivers of retail demand.

In the last few months, major national and regional chains including Orchard Supply Hardware, Cost Plus/World Market, Aaron Brothers, Toys ‘R’ Us, and Sears have closed stores. Even so, some large retailers are expanding, including Target, Nordstrom Rack, and Trader Joe’s, as well as other business

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1 Members included Jeff Badstubner, Liza Bizzaro, Angelica Cuscieri, Pamela Estes, Jason Galisatus, Greg Garcia, Dani Gasparini, Gina Henson, Gary Johnson, Stephanie Kolka, Volker Staudt, and Elizabeth Strumpell.
types such as medical centers, fitness gyms, banks, after school programs, and restaurants/bars (predominantly fast food/convenience).\(^2\) Many retail stores prefer locations where there is strong pedestrian traffic and synergy with anchor retail stores and other retail businesses. Larger retail store formats like Target, Nordstrom Rack and Trader Joe’s have very specific location requirements that are sometimes challenging to meet, even if there is a strong market opportunity in a community.

**Existing Conditions**

Downtown Redwood City has a diverse range of restaurants, from high-end establishments to fast food convenience and coffee cafés, but lacks retail stores that sell hard and soft goods. The preponderance of restaurants and cafés is typical of many downtowns in the region. Spaces that become available in downtowns are rented quickly by restaurants willing to pay higher rent. Certain brand retail stores are located near Downtown in Sequoia Station, but the Caltrain rail line creates a physical separation from the Downtown.

Attachment A of this report displays demographic information and economic indicators for the population living within a one, two, and three-mile radius around Jefferson and Middlefield. Although new residential developments are changing the indicators, major brand retail stores respond better to locations that have stronger economic indicators.

Attachment B compares demographic and economic indicators for Redwood City with the cities of Burlingame, Menlo Park, Mountain View, Palo Alto, and San Carlos. Like Redwood City, all of these cities have thriving downtowns, but most have more retail businesses. Burlingame and Downtown San Carlos currently have the greatest number of retail stores. Burlingame is noted for national brand stores that are supported by residents of Hillsborough, a town with a median household income of $216,292 and no available commercial space for retail businesses. San Carlos has several smaller, locally owned boutique stores (pet supplies, children’s and women’s clothing, accessories, specialty foods) supported by older, owner occupied family households with high educational attainment and very high median household income.

New retail opportunities may become feasible for Redwood City’s Downtown as the city’s Downtown demographics change. However, more affluent communities such as Palo Alto are seeing traditional retail stores move from downtowns to mall locations as retailers prefer locations that offer greater visibility, and clustering with other stores. Another shared challenge for these downtowns is the competition for ground floor retail space from restaurants that can pay higher rents.

**Redwood City Downtown Retail Location Strengths and Weaknesses**

In addition to the economic and demographic analysis, two established retail brokers, Aaron Dan and Bruce Fraser, who are not members of the task force but who are involved with retail transactions on the Peninsula, provided their opinion of the Downtown location’s strengths and weaknesses.

Their perceptions, listed below, are important to developing appropriate retail strategies for the Downtown as they provide market perspective. These retail brokers are familiar with retail store location requirements such as size of store footprint, ingress and egress, traffic counts and circulation, amount and access to parking, loading, ceiling heights, height and width of front windows, and traffic, all of which

\(^2\) Websites for two major brokerage firms show retail clients that reflect these types of retail businesses.
affect a retail store’s sales. The strengths and weaknesses assessment presents opportunities for the task force to recommend actions and initiatives.

**Strengths**

- Downtown is safe, clean, attractive and pedestrian-friendly.
- Caltrain and other public transportation systems provide easy access for workers, visitors and residents.
- There is sufficient parking in the Downtown to support retail and restaurants.
- A diverse selection of restaurants in Downtown offer a variety of cuisines and formats.
- New mixed-use developments with residential and office space have been built, and more developments are scheduled to start construction, thus increasing the number of workers and residents in the Downtown.

**Weaknesses**

- Downtown has had a very low vacancy rate of two percent. Vacant spaces are quickly leased by coffee shops and restaurants that can afford to pay higher rent than small retail stores. This has helped make the Downtown a thriving dining destination, but the addition of retail businesses that sell hard and soft goods would help diversify and complement the Downtown business mix.
- In addition to very low vacancy, retail rent in the Downtown currently ranges from $2.00/square foot (sf) (asking rent for Cost Plus World Market 18,000 sf space), to $4.50/sf for ground floor space (Pizza and Pints, former Brick Monkey space, and 925 Main Street). The sales volume of small retail businesses limit the amount of rent they can typically pay to $2.50-$4.00/sf or less. If the sales margins are higher, the business operator can pay more than $4.00/sf.
- Vacant spaces in many older buildings do not have the ideal size, space, or layout for retail businesses.
- There are some pockets of blight, tagging, and illegal dumping.
- Many Downtown property owners are unwilling to provide tenant improvement allowances that are needed by higher-profile retailers (typically regional and national chains).
- Downtown lacks a “catalyst” retailer or anchor stores that would help draw customers on a regular basis and help support smaller retail businesses. Cost Plus is a major “catalyst” anchor. Other smaller anchors that help draw frequent shoppers include a cell phone store, pharmacy/general merchandise (CVS or Walgreens). Philz Coffee, Starbucks, and Peet’s are also desirable anchor stores.
- While there is currently a policy that does not allow ground floor office uses in the Downtown Core, there are still a number of spaces that are currently occupied by office uses, which interrupts the continuity that retail stores provide to pedestrians. Some are larger spaces that would be ideal for a “catalyst” anchor retailer.

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3 These anchors are already located in Sequoia Station, which makes it unlikely they will consider another location in the Downtown.
The Downtown does not have continuous blocks of uninterrupted retail storefronts, and retail uses in the Downtown are currently too spread out.

The Downtown could benefit from hotels, which is another component of a 24/7 shopping environment that includes employers, visitors, and residents.

In spite of new mixed-use developments and office buildings that will support future retail opportunities, there is still an over-abundance of “single-level” retail space in the Downtown core. Adding housing above ground floor retail space will contribute to 24/7 activity.

**Best Practices**

Many cities are developing initiatives to attract and diversify retail in their downtowns. The City of Mountain View is considering the following initiatives: discounting parking permits for retail business to encourage employees to park in designated parking locations away from neighborhoods that surround its downtown; creating a streamlined planning and building permit process for retail businesses; cleaning the sidewalks regularly; allowing pop-up stores to activate vacant spaces; and allowing the development of vacant, underutilized city-owned parcels for anchor retail stores.

These are practical, easily implemented best practices that over time can create better location conditions that attract and support retailers.

Other “best practices” that have been implemented by successful downtowns include the following:

- Create a retail action plan with a vision statement to guide retention and attraction activities.
- Build a strong brand that differentiates Redwood City’s Downtown from others.
- Create a critical mass of like businesses (restaurants, cafés, bars, bistros, brewpubs) that will help create a special identity for the Downtown.
- Attract one or two unique anchor businesses as well as smaller brand stores that attract “everyday” shoppers.
- Create a downtown that people want to live in by encouraging development with residential above active ground floor retail. Provide density bonuses to projects in lieu of retail space concessions (lower market rent, tenant improvement allowances, etc.).
- Attract new hotels that would provide new customers every day.
- Identify and work with property owners to embrace the retail vision and want to be pioneers in diversifying as well as increasing retail businesses in the downtown that sell hard and soft goods.
- Start with one or two blocks to create critical mass and a retail focus. Partner with property owners and coordinate streetscape improvements that support a retail character.
- Design and implement a wayfinding system and create business signage that has design continuity.
- Continue pro-active outreach to retailers and retail brokers, especially when vacant spaces become available.
- Provide expedited permit assistance for small businesses.
Retail that Fits Downtown Redwood City

Communities must have the best location conditions for retail based on demographics, shopper preferences, location requirements of retailers, and city policies that encourage retail. An Apple Store or another iconic retail chain is ideal, but the decision to locate in a given city is driven by market considerations and whether the store can make enough profit to justify construction costs and operating expenses.

These stores typically choose co-locations where there is strong synergy with other stores (found in shopping malls and dense, urban areas). Indeed, retail businesses do not create demand; they respond to demand. If the City continues to attract more people working, living and visiting the Downtown, then retail businesses should follow. More people working and living in Downtown Redwood City has contributed to the diverse, thriving food and café scene.

Sales tax revenue reports show that Redwood City has sales leakage in the categories of women’s, men’s and family apparel, and shoes. Even though a range of retail shopping options surrounds the city, including two regional malls, there is a location opportunity in the Downtown for unique, boutique retail stores that sell clothing and accessories. The challenge is finding vacant space with affordable rent that meets the needs of retailers. Three retail stores, Pomegranate Seed, Brick Monkey 2, and Pickled (women’s clothing and accessories), have done business in the Downtown for several years. The owners have developed a loyal clientele mainly by understanding and providing what their customers want.

There is also an opportunity attract unique “hybrid” uses. For example, Morgan Hill has a brewpub that also sells running shoes called Running Shop and Hops (http://www.therunningshopandhops.com/). Successful retail stores know they need to be creative and receptive to changing customer preferences and tastes.

Retail Vision and Guiding Principles for Recommendations

Before developing recommendations, the task force developed a proposed retail vision for Downtown Redwood City:

“Redwood City’s Downtown District will be the “heart of the Peninsula” – an active, vibrant and charming retail destination where a variety of retailers provide a unique, friendly, and convenient shopping experience for residents, visitors, and workers in a clean, safe, green, and walkable environment.”

The chart below reflects guiding principles that were developed by the task force to frame various recommendations. The task force also recommended that the City develop a “Retail Action Plan” that incorporates the following recommendations and any best practices that staff believes is appropriate and legally acceptable for strengthening retail in Downtown Redwood City.

The task force’s recommendations took into consideration the Downtown’s existing conditions: demographic and economic indicators, physical infrastructure and layout, and current business mix; its strengths and weaknesses as a location for stronger and more diverse retail businesses; best practices used by other downtowns; and factors retailers need to succeed in a competitive, fast paced and changing marketplace.
<table>
<thead>
<tr>
<th>Guiding Principle</th>
<th>Recommendations</th>
</tr>
</thead>
</table>
| 1. Attract, recruit and support a variety of retail in the Downtown District (e.g. boutique retail, entertainment, restaurants, bars, hotel). | A. Develop a list of boutique retail, entertainment, restaurants, bars, and hotels that are located in other downtowns and are looking to expand locations.  
B. Identify and implement best practices used by comparable downtowns for attracting, retaining, and strengthening retail.  
C. Identify vacant parcels in the Downtown District that are appropriate for hotels and actively promote them to developers/brokers representing hotels.  
D. Develop and provide a list of real estate brokers and relevant links to databases that provide information about available spaces and vacancies in the Downtown District. |
| 2. Attract, recruit and support targeted anchor businesses in the Downtown District (i.e. business with customers who return on a regular basis). | E. Identify a list of anchor businesses that may be a fit for new retail space in mixed use developments or larger spaces in the Downtown District that become available. These anchor businesses draw patrons on a regular basis and support in-line boutique stores. |
| 3. Recognizing the City’s limited resources, position the City to facilitate the Task Force recommendations by coordinating and leveraging efforts with groups involved in Downtown programs. | F. Schedule semi-annual meetings of these groups to implement the Downtown Retail Plan and act as the point of contact for responding to any retail opportunities.  
G. Update marketing information on a timely basis. |
| 4. Develop policy solutions to address the lack of available space and vacancies in the Downtown District | H. Study potentially expanding the area in the Downtown District that requires active ground floor uses beyond those designated in the Precise Plan.  
I. Consider limiting new banks on key corner spaces.  
J. Consider encouraging Downtown property owners to notify the City when retail spaces become vacant.  
K. If feasible, consider expanding the depth for ground floor retail space. |
<p>| 5. Continue to restrict ground floor building spaces to “active uses” in the designated area, as defined in the Downtown Precise Plan (see Section 2.2). | L. Consider developing standards to create displays in store windows and allow temporary uses (pop up-retail/art) in vacant spaces. |</p>
<table>
<thead>
<tr>
<th>Guiding Principle</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>M. Retail uses on ground floor spaces of historic buildings present design challenges. Consider dealing with these challenges on a case-by-case basis.</td>
<td></td>
</tr>
<tr>
<td>N. Consider using development incentives for new market rate and affordable housing developments in the Downtown to support retail uses such as reducing rent for retail space, or providing tenant improvement allowances.</td>
<td></td>
</tr>
<tr>
<td>O. Engage design experts to develop guidelines for consistent, complementary design and look.</td>
<td></td>
</tr>
<tr>
<td>P. Expand real-time parking availability and wayfinding signage.</td>
<td></td>
</tr>
<tr>
<td>Q. Ensure that other guidelines that govern sidewalk-dining, use of outdoor promotional signs, personal transportation vehicles, (scooters, roller boards, etc.) are in place. (Should be coordinated with Redwood City Improvement Association.)</td>
<td></td>
</tr>
<tr>
<td>R. Ensure that retail space in new mixed projects is appropriately designed to meet the needs of retail tenants.</td>
<td></td>
</tr>
<tr>
<td>S. Continue to maintain 2-hour parking on Broadway; consider expanding 2-hour parking to Main Street.</td>
<td></td>
</tr>
<tr>
<td>T. Add electric vehicle parking charging stations in the Downtown to enable drivers of electric vehicles who are working or visiting to enjoy Downtown with the assurance they can charge their cars.</td>
<td></td>
</tr>
<tr>
<td>U. Ensure that plans to improve Downtown streetscapes and other infrastructure align and support a retail look and feel for core streets in the Downtown. (Should be coordinated with the Redwood City Improvement Association.)</td>
<td></td>
</tr>
</tbody>
</table>

**Recommendations A-U will be further reviewed for policy and legal analysis prior to incorporation into a Retail Action Plan.**
There is no magic formula to attracting retail businesses in a downtown. With the support of the community, proactive business stakeholder groups, and new mixed-use development projects, the Downtown will continue its transformation and be a place where more retail can thrive.

Next steps include developing a Retail Action Plan and analyzing the Downtown policy recommendations (including legal review) for presentation to the City Council by May 2019.

**FISCAL IMPACT**

The City Council has approved a budget of $100,000 for implementation of the City’s retail strategy. To date, $16,000 has been spent on facilitation and meeting expenses for the Downtown Retail Task Force.

**ENVIRONMENTAL REVIEW**

This activity is not a project under California Environmental Quality Act (CEQA) as defined in CEQA Guidelines, section 15378, because it has no potential for resulting in either a direct or reasonably foreseeable indirect physical change in the environment.

**PUBLIC NOTICE**

Public Notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting.

**ALTERNATIVES**

The Council may elect not to accept the Retail Task Force’s recommendations

**ATTACHMENTS**

Attachment A: Downtown Redwood City demographic and economic indicators within a one, two, and three mile radius

Attachment B: Demographic and Economic Indicators for Burlingame, Menlo Park, Mountain View, Palo Alto, and San Carlos

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**APPROVED BY:**

Melissa Stevenson Diaz, City Manager
### Downtown Redwood City Demographic and Economic Indicators Within a One, Two, and Three Mile Radius

<table>
<thead>
<tr>
<th>Middlefield at Jefferson</th>
<th>One Mile</th>
<th>Two Mile</th>
<th>Three Mile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Population</td>
<td>31,146</td>
<td>87,079</td>
<td>129,600</td>
</tr>
<tr>
<td>Total No. Households</td>
<td>10,601</td>
<td>29,849</td>
<td>46,122</td>
</tr>
<tr>
<td>Average Household Size</td>
<td>2.83</td>
<td>2.86</td>
<td>2.76</td>
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<tr>
<td>No. Owner Occupied</td>
<td>25.3%</td>
<td>44.9%</td>
<td>53.3%</td>
</tr>
<tr>
<td>No. Renter Occupied</td>
<td>70.3%</td>
<td>51.3%</td>
<td>43%</td>
</tr>
<tr>
<td>Median Age</td>
<td>34</td>
<td>36.3</td>
<td>38.6</td>
</tr>
<tr>
<td>B.A. Degree</td>
<td>19.7%</td>
<td>22%</td>
<td>25.4%</td>
</tr>
<tr>
<td>Graduate Degree</td>
<td>11.9%</td>
<td>17.3%</td>
<td>21.1%</td>
</tr>
<tr>
<td>Per Capita Income</td>
<td>$31,893</td>
<td>$41,093</td>
<td>$50,845</td>
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<tr>
<td>Median Household Income</td>
<td>$57,701</td>
<td>$76,008</td>
<td>$90,702</td>
</tr>
</tbody>
</table>

These indicators will change as more residential projects are built and newer data becomes available.
## Demographic and Economic Indicators for San Carlos, Burlingame, Menlo Park, Mountain View, and Palo Alto

<table>
<thead>
<tr>
<th></th>
<th>Redwood City</th>
<th>San Carlos</th>
<th>Burlingame</th>
<th>Menlo Park</th>
<th>Mtn. View</th>
<th>Palo Alto</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Population</strong></td>
<td>86,380</td>
<td>29,596</td>
<td>30,686</td>
<td>33,319</td>
<td>78,827</td>
<td>66,649</td>
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<tr>
<td><strong>Total No. Households</strong></td>
<td>27,957</td>
<td>11,524</td>
<td>12,361</td>
<td>12,557</td>
<td>33,881</td>
<td>26,493</td>
</tr>
<tr>
<td><strong>Average Household Size</strong></td>
<td>2.69</td>
<td>2.46</td>
<td>2.29</td>
<td>2.53</td>
<td>2.31</td>
<td>2.41</td>
</tr>
<tr>
<td><strong>Total % Family Households</strong></td>
<td>64.8%</td>
<td>67.9%</td>
<td>58.1%</td>
<td>61.3%</td>
<td>54.8%</td>
<td>62.2%</td>
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<tr>
<td><strong>Average Family Size</strong></td>
<td>3.26</td>
<td>2.99</td>
<td>3.2</td>
<td>3.20</td>
<td>3.01</td>
<td>3.04</td>
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<tr>
<td><strong>Total No. Occupied Housing Units</strong></td>
<td>29,498</td>
<td>11,524</td>
<td>12,196</td>
<td>11,823</td>
<td>31,957</td>
<td>26,493</td>
</tr>
<tr>
<td><strong>No. Owner Occupied</strong></td>
<td>50.7%</td>
<td>70.6%</td>
<td>46.6%</td>
<td>57.9%</td>
<td>41.7%</td>
<td>55.7%</td>
</tr>
<tr>
<td><strong>No. Renter Occupied</strong></td>
<td>49.3%</td>
<td>29.4%</td>
<td>53.4%</td>
<td>42.1%</td>
<td>58.3%</td>
<td>44.5%</td>
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<tr>
<td><strong>Median Household Income</strong></td>
<td>$90,461</td>
<td>$135,220</td>
<td>$102,443</td>
<td>$126,045</td>
<td>$108,249</td>
<td>$137,043</td>
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<tr>
<td><strong>Per Capita Income</strong></td>
<td>$46,318</td>
<td>$69,738</td>
<td>$64,525</td>
<td>$74,162</td>
<td>$61,668</td>
<td>$78,721</td>
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<tr>
<td><strong>Poverty Level</strong></td>
<td>9.1%</td>
<td>3.7%</td>
<td>7.2%</td>
<td>8.1%</td>
<td>8.7%</td>
<td>5.9%</td>
</tr>
<tr>
<td><strong>Median Age</strong></td>
<td>37</td>
<td>42.6</td>
<td>40.5</td>
<td>38</td>
<td>35</td>
<td>41.9</td>
</tr>
<tr>
<td><strong>B.A. Degree or Higher</strong></td>
<td>44.3%</td>
<td>63.6%</td>
<td>60.5%</td>
<td>70.6%</td>
<td>65.7%</td>
<td>80%</td>
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</table>