In Preparation for the
Comprehensive Plan Amendment

Retail Background Report

City of Palo Alto | May 5, 2009

Prepared by:

APPLIED
DEVELOPMENT
ECONOMICS

100 Pringle Avenue, Suite 560
Walnut Creek, California 94596 - (925) 934-8712

2151 River Plaza Drive, Suite 150
Sacramento, CA 95833 - (916) 923-1562

1. EXECUTIVE SUMMARY

The retail market analysis estimates the local demand for retail goods, and compares this demand to the sales patterns for types of retail stores in Palo Alto. This information provides a baseline estimate of how Palo Alto's retail stores currently attract local and regional retail spending. The analysis identifies which store categories are Palo Alto's strongest regional shopping attractors, and which categories have shortcomings that can potentially be addressed with new retail store attraction. The results of the retail analysis support the well-established common knowledge that Palo Alto is a regional attraction that draws shoppers from throughout Silicon Valley and the Peninsula.

The key findings from the Retail Market Analysis are summarized below.

- Palo Alto draws from a high local household income base (average annual income of $140,000), as well as a large regional market.
- The local market spending totals $1.4 billion and comprises a combination of retail spending from Palo Alto households ($891 million), Stanford students and other full-time Stanford residents ($83 million), commuters ($287 million), and out-of-town visitors ($171 million). This local area spending will increase to over $1.5 billion by 2020.
- Palo Alto retailers annually generate $1.6 billion in total retail sales. This sales total is greater than the $1.4 billion in local market spending, so the community as a whole has a net capture of retail spending. Despite this overall net capture, retail leakage occurs in specific retail categories, most notably with grocery stores and gasoline service stations where the sales fall well short of the total spending potential.
- Department stores and restaurants/eating places comprise the largest retail sectors in Palo Alto with each generating over $250 million in annual sales. Palo Alto is also a destination for specialty retail stores and apparel stores.
- The retail attraction potential for Palo Alto totals approximately $215 million in unmet retail demand that is sufficient to support new retail establishments. Key retail attraction opportunities are in grocery stores and gasoline service stations. However, much of the potential occurs in categories such as home improvement that are already well represented just outside of Palo Alto's city limits.

Key retail issues for Palo Alto are as follows:

- Retaining regional market capture;
- Retaining and strengthening auto dealerships;

- Addressing unmet demand in local-serving retail sectors;
- Potential short-term increase in retail vacancies; and
- Staying relevant and competitive as the retail market evolves.

Palo Alto's long-standing status as a successful regional retail provider is primarily anchored by the downtown business district and Stanford Shopping Center. The success of these retail centers derives from Palo Alto's location in the middle of an affluent area, as well as the city's strong employment base. Stanford Shopping Center ranks as one of the highest grossing regional malls in the Bay Area, and serves as the primary high-end retail destination between San Francisco and San Jose. In addition, the downtown business district around University Avenue has a large and diverse base of successful businesses that make downtown Palo Alto a destination for local shoppers and residents from surrounding communities.

While Palo Alto has maintained success in capturing regional spending and holding onto a specific niche for high-end retail stores, this success has not trickled down to the neighborhood level where Palo Alto households are currently underserved by retail stores that serve a smaller local market area. Generally, overcoming shortcomings with local-serving retail stores is easier than attracting regional spending. In addition, Palo Alto has large gaps in other specific retail niches, such as discount stores and general merchandise stores, that neighboring communities have successfully captured. In the past, Palo Alto has not been supportive of "big box" discount centers, contributing to their successful attraction by other cities.

Palo Alto also faces multiple challenges in other retail categories, in particular retaining and attracting automobile dealerships. While this sector is well represented in Palo Alto, local dealerships must contend with declining market conditions for auto sales, as well as competition from surrounding communities that have seen their dealerships expand and consolidate. Palo Alto has limited sites with expansion potential for the dealerships, which reduces its competitiveness with other communities that do have larger sites.

Even though regional retail has served as a major source for jobs and sales tax revenue for Palo Alto, there are numerous challenges that should be addressed in order for the City to retain its advantageous position and capitalize on new opportunities. Regional retail in particular is a difficult advantage to maintain because neighboring communities will inevitably try to recapture the spending that leaves their communities and dominate the market niches where Palo Alto's retail performance has been weaker. Competition from both San Francisco and San Jose contributes to the difficulty in maintaining a regional advantage. This analysis will provide a background context from which discussion of planning initiatives can begin.

2. PALO ALTO'S RETAIL SETTING

This retail market analysis consists of two main parts: an estimate of household retail spending and a comparison of overall spending potential and sales by Palo Alto retail establishments.

The household retail spending totals are calculated from an analytical model developed by ADE. This model estimates spending for 40 different store types and 100 product categories. The taxable sales data is an annual total listed by retail category. The businesses listed in the analysis encompass all of the retail businesses operating in the City of Palo Alto. The retail sales data comes from the California State Board of Equalization sales tax allocation records, and the data was audited by MuniServices. Because certain retail items, such as food and prescription drugs, are not taxable, the analysis includes a conversion that calculates nontaxable sales.[1]

As described later in this paper, retail leakage represents the gap between local market demand (which includes household spending by Palo Alto residents, and additional retail spending by visitors and commuters) and retail sales by local retail establishments. This leakage represents an existing shortfall, as well as an opportunity for both retail expansion and possible attraction.

Palo Alto has a very healthy and diverse base of retail stores, with strong regional capture across many retail sectors such as department stores, apparel stores, and specialty retail. The major economic engine driving Palo Alto's retail economy is Stanford Shopping Center, which accounts for the largest portion of retail sales among the city's shopping districts and captures sales well beyond the city limits. Stanford Shopping Center generates 27.8 percent of all taxable sales for the City, followed by the Downtown at 13.7 percent. Non-retail areas including Stanford Research Park and the San Antonio Industrial area generate 25 percent of taxable sales. In addition, Palo Alto has a large daily influx of commuters who provide further market support for local retail stores, as well as a large number of out-of-town visitors that come to Palo Alto annually.

According to the California Department of Finance, the City of Palo Alto has a population of about 63,400 residents, with just over 27,000 households. The estimated annual income for Palo Alto households is approximately $140,000.[2]

---

[1] The data provided to ADE did not include the sales data for individual businesses. All data reporting was done at the business category level.

[2] The retail analysis uses the income distribution from the 2000 Census, adjusted to the Consumer Price Index. This assumes that the income between 2000 and 2007 grew. However, the Association of Bay Area Governments (ABAG) shows a constant dollar decline in household income from $160,300 in 2000 to $133,100 in 2005. ABAG's projection estimates that Palo Alto's average income will increase to $140,900 in 2010. Because the projected ABAG

The 2000 Census identified a commute pattern for Palo Alto showing that only about 36 percent of Palo Alto residents also work in Palo Alto. The total labor force in Palo Alto is approximately 31,300 workers, which means that over 20,000 of them commute out of the city for work. Concurrently, Palo Alto has over 76,000 jobs within the City limits, which equates to a daily influx of more than 65,000 workers who commute to Palo Alto from elsewhere. This creates a sizable daytime commuter base that exceeds the total population of Palo Alto.

TABLE 1
PALO ALTO COMMUTE PATTERN

Commute Pattern	
Palo Alto Labor Force	31,300
Palo Alto Local Commute Rate (2000)	35.7%
Palo Alto Jobs	76,321
Estimated Local Workers	11,174
Estimated In-Commuters	65,147

Source: ADE, Inc.; data from U.S. Census, California EDD LMID, and ABAG.

In terms of local market strength, The Palo Alto Sphere of Influence also includes an additional population of about 15,000 along with 20,500 workers, mostly at Stanford University. These residents and workers also shop heavily in Palo Alto.

REGIONAL COMPETITION

Palo Alto's regional advantage in the retail sector has historically come from successfully serving the multitude of retail constituencies that pass through the community, including commuters, tourists, and other shoppers living in other Bay Area communities. Historically, Palo Alto has served as the most prominent center for high-end retailing between San Francisco and San Jose, and attracted significant numbers of shoppers from throughout the Bay Area. Maintaining this regional advantage is key to sustaining the sales tax revenue that the city has received for many years. However, competition from neighboring communities and other regional attractions represents the one area where Palo Alto has minimal control over the outcome.

TAXABLE SALES PERFORMANCE COMPARISON

Compared to surrounding communities elsewhere along the Peninsula and in Santa Clara County, Palo Alto has the highest per capita sales, as shown in Table 2.[3] In 2007,

income was similar to the average income estimated from the Census data, ADE did not make any further adjustments to the income distribution.

[3] In addition to the taxable retail sales, the retail market analysis also estimates the nontaxable sales by retail stores in Palo Alto, based on confidential sales tax data. However, because the published Board of Equalization data only

Palo Alto's taxable retail sales averaged nearly $20,400 per household resident. The jurisdiction with the next highest per capita taxable retail sales was Santa Clara, with just over $17,400 in taxable retail sales per household resident. It should be noted that a portion of Westfield Valley Fair mall is in Santa Clara, while the majority of the mall property is on the San Jose side of the boundary. If all of Valley Fair's sales were wholly contained within either Santa Clara or San Jose, it would significantly change their per capita retail sales.

In general, the larger cities along the Peninsula generated higher per capita taxable retail sales than cities elsewhere in Santa Clara County. This is likely due to the near absence of retail stores in affluent areas such as Atherton and Hillsborough, and the relatively low per capita retail sales produced by other neighboring cities such as Los Altos, East Palo Alto, and Woodside.

In addition, communities located within San Jose's commute area likely capture significant retail sales from the large number of workers who live in San Jose but work elsewhere. San Jose's lower per capita retail sales performance indicates that its residents support retail activity in neighboring cities.

TABLE 2
COMPARISON OF PER CAPITA TAXABLE RETAIL SALES, 2007

City or Town	Per Capita Taxable Retail Sales
Palo Alto	**$20,396**
Santa Clara	$17,241
Redwood City	$16,685
San Mateo	$14,231
Menlo Park	$14,202
Mountain View	$13,823
Cupertino	$11,793
Sunnyvale	$11,510
San Jose	$9,446
Los Altos	$7,257
East Palo Alto	$6,987
Woodside	$6,579
Portola Valley	$1,655
Atherton	$560
Hillsborough	$87

Source: ADE, Inc., data from California Department of Finance and Board of Equalization.
Notes: Per capita calculations are based on comparison of taxable retail store sales with household population.
Taxable sales do not include sales for nontaxable items such as prescription drugs and groceries. In addition, the data for retail sales excludes some store categories such as building materials dealers that are included in the retail market analysis elsewhere in this report.

includes a summary total of taxable retail sales, this data is insufficient to make an estimate of nontaxable sales in other communities.

REGIONAL MALLS

Stanford Shopping Center is a regional asset that holds numerous advantages over offerings in other communities, primarily because of its concentration of upscale and high end retail stores.

The primary competition for Stanford Shopping Center is the Westfield Valley Fair mall in San Jose/Santa Clara. Valley Fair has aggressively extended its market reach through numerous expansion and remodeling projects that have established the mall as a high end retail destination. In addition, the mall has proposed another expansion project that would add at least another 600,000 square feet to the existing 1.5 million square foot property.

Taxable sales trends indicate that Stanford Shopping Center sales only grew by about 13 percent between 2004 and 2007, while sales at Valley Fair mall grew by nearly 44 percent during this same time.[4] In addition, the hub of activity created with the development of the mixed use Santana Row "lifestyle center" across the street from Valley Fair has benefited both properties, as Santana Row showed 36 percent growth in taxable sales.

Aside from improvements to the store selection and buildings, Valley Fair also benefits from continued population growth south of San Jose. In contrast, the Peninsula is mostly built out, and population and income have not grown much over the past decade.

The Westfield Shopping Center in Downtown San Francisco has introduced additional competition, adding a new Bloomingdale's to compete with the one in Stanford Shopping Center.

Along the Peninsula, Stanford Shopping Center's other major competition is Hillsdale shopping center in San Mateo. Unlike Valley Fair, Hillsdale showed a steep decline in taxable sales with a 27 percent sales loss between 2004 and 2007.

Other market dynamics to be aware of come from the mall redevelopment projects in Cupertino and Sunnyvale. Those communities developed the competing Sunnyvale Town Center and Vallco Fashion Park malls in the late 1970s, but after some initial success both properties went into a steep decline with very high vacancy rates. Except for the anchor department stores, Sunnyvale Town Center has been completely demolished and a new mixed use project incorporating office and residential towers along with an outdoor "lifestyle" shopping center is currently under construction. Vallco is in the middle of an ongoing renovation project and has been rechristened as Cupertino Square. The renamed center has recruited a movie theater, new restaurants,

---

[4] MuniServices; City of Palo Alto Sales Tax Digest Summary Quarter 4, 2007, p.7.

and other entertainment uses to the property, although many large spaces remain vacant and the mall owners recently filed for bankruptcy.[5]

Downtown Districts

Palo Alto has a thriving downtown business district that has a considerable concentration of upscale retail stores and restaurants. The Peninsula has numerous other traditional downtown business districts that originally developed around commuter rail stops, and some of these districts have also evolved into upscale retail and dining destinations.

Neighboring Mountain View has continually evolved as a successful destination for dining and shopping since initial downtown revitalization efforts during the mid 1980s. In addition, Redwood City and San Mateo have made significant recent investments in streetscape improvements and aggressive retail attraction efforts for their downtown areas. Even Santana Row in San Jose functions as a quasi-downtown area, with a mix of attractive pedestrian spaces, and upscale restaurants and retail stores that are comparable to the offerings in Palo Alto. Cumulatively, this has the potential to attract shopping and dining trips away from downtown Palo Alto.

Automobile Dealerships

Another significant source of regional sales is automobile dealerships. The City has seven automobile dealerships and Palo Alto's automobile sales come very close to matching the local demand. However, these dealers are located throughout the city, with only two of them operating in proximity to one another. This runs contrary to regional and national trends and potentially affects the competitiveness of Palo Alto's automobile dealerships. Along the Peninsula and throughout Silicon Valley in general, automobile dealerships are generally concentrated into auto mall developments or along corridors. This follows a national trend where automobile dealerships increasingly share facilities and joint marketing activities. These include auto malls in San Jose, Daly City, and Redwood City, as well as "auto rows" in San Jose/Santa Clara, Sunnyvale, and Burlingame. In contrast, Palo Alto has a lack of available land to support a consolidated auto center.

Power Centers

In the regional retail market, Palo Alto has a significant gap because the community does not have any "power center" developments, which are anchored by large-scale discount retailers. Power centers became the dominant retail development prototype during the 1990s, and have led to a significant decline in retail market share for traditional mall-based retailers. This type of retail center has entailed both new development, as well as renovations of aging shopping centers, but it generally relies

[5] Silicon Valley/San Jose Business Journal; "Cupertino Square owner files for bankruptcy"; September 4, 2008.

on large land tracts. Because Palo Alto has not developed any power centers, nearly all of the household spending for these types of retail stores has gone to neighboring communities. In particular, the power center developments and big box anchor stores in East Palo Alto at the Gateway 101 development and in Mountain View (around Charleston Road and San Antonio Road) are situated directly adjacent to the Palo Alto city limits. This places those centers well within the local market area for Palo Alto households and limits the market potential for attracting comparable stores to Palo Alto.

3. RETAIL DEMAND

The local retail market spending for Palo Alto totals approximately $1.4 billion. This market consists of Palo Alto households, Stanford University students and household residents, commuters who work in Palo Alto and live elsewhere, and out-of-town visitors to Palo Alto.

LOCAL HOUSEHOLD SPENDING

Based on data from ADE's retail demand model, the estimated annual retail spending by Palo Alto's approximately 27,000 households totals about $891 million, as shown in Table 3. It should be noted that not all of this spending occurs in Palo Alto because neighboring communities might provide retail offerings not available locally, and because a high percentage of local residents commute outside of Palo Alto. This commute pattern indicates that at least some portion of household spending will likely continue to leave Palo Alto.

Household spending among Palo Alto residents is distributed across the full range of retail store categories. The largest retail store spending categories are department/discount stores, new car dealers, restaurants/eating places, gasoline service stations, and grocery stores. Each of these retail store categories accounts for over $85 million in household spending.

By 2020, the number of households in Palo Alto is expected to modestly increase to just over 28,300. This household population increase will increase the local household spending from $891 million to $933 million, as shown in Table 4.

STANFORD STUDENT AND RESIDENT SPENDING

In addition to Palo Alto residents, the local market area also includes students and other full-time residents at Stanford University. Stanford students living in group quarters/dormitories account for approximately $11.3 million in retail spending annually.[6] The largest portion of this spending goes towards off-campus food-related expenses. Other full-time residents at Stanford University create about $72 million of annual retail spending.[7] The spending pattern for these residents is higher because it includes a higher average annual income and additional retail expenditures for other family members. Combining Palo Alto households with Stanford residents, the local household retail spending totals about $974 million.

---

[6] The expenditure is based on the Stanford University's estimated annual student budget for incidental expenses, and enrollment of 6,200 students. The retail spending total does not include non-retail expenses, or on-campus expenditures for school supplies and books.

[7] Other full-time residents at Stanford University include approximately 3,200 households with an average annual income of about $83,750.

TABLE 3
LOCAL MARKET RETAIL SPENDING DEMAND, 2007

Retail Group	Palo Alto Household Spending	Stanford Household Spending (exc. Dorms)	Stanford Students (Group Quarters)	Commuter Spending	Visitor Spending	Total Primary Market Area Spending
Total	$890,668,028	$71,984,077	$11,264,134	$286,702,689	$170,984,486	$1,429,001,945
Apparel Store Group	$42,527,072	$3,213,506	$509,916	$10,048,852	$10,383,026	$66,682,372
Women's Apparel	$11,545,704	$855,785	$125,167	$3,779,449	$3,571,319	$19,877,424
Men's Apparel	$3,168,285	$234,922	$31,965	$378,758	$411,520	$4,225,450
Family Clothing	$19,776,272	$1,489,597	$228,342	$5,118,029	$5,560,739	$32,172,978
Shoe Stores	$8,036,811	$633,202	$124,442	$772,616	$839,448	$10,406,520
General Merchandise Group	$167,556,945	$13,161,753	$2,422,564	$62,606,696	$27,573,668	$273,321,625
Department/Discount Stores	$85,331,532	$6,451,070	$977,115	$31,719,402	$19,845,641	$144,324,760
Other General Merchandise	$48,234,178	$3,841,357	$754,365	$0	$0	$52,829,900
Drug & Proprietary Stores	$33,991,234	$2,869,326	$691,084	$30,887,294	$7,728,028	$76,166,966
Specialty Retail Group	$64,984,741	$4,878,422	$653,584	$26,504,312	$16,081,930	$113,102,989
Gifts & Novelties	$3,913,863	$292,735	$40,204	$422,962	$783,224	$5,452,987
Sporting Goods	$7,490,511	$594,584	$58,182	$1,471,816	$1,374,435	$10,989,528
Florists	$1,772,758	$125,167	$13,548	$86,423	$160,035	$2,157,932
Photographic Equipment	$818,174	$58,155	$4,758	$1,602,164	$1,496,158	$3,979,409
Records & Music	$3,384,184	$255,794	$34,836	$162,073	$300,120	$4,137,007
Books & Stationery	$8,249,188	$620,293	$104,593	$587,699	$1,088,276	$10,650,049
Office Supplies	$9,871,146	$714,051	$67,485	$764,723	$714,126	$12,131,531
Jewelry	$8,155,338	$549,109	$55,457	$1,789,079	$3,312,941	$13,861,924
Misc. Specialty Retail	$21,329,579	$1,668,534	$274,520	$19,617,373	$6,852,615	$49,742,621
Food, Eating & Drinking Group	$265,222,874	$17,650,063	$3,910,008	$135,182,872	$86,742,202	$464,895,977
Grocery Stores	$125,199,417	$10,333,662	$2,328,233	$23,866,755	$8,092,973	$169,821,041
Specialty Food Stores	$3,517,771	$292,294	$67,348	$3,020,276	$1,024,145	$7,921,835
Liquor Stores	$6,710,510	$517,098	$86,740	$1,280,118	$434,075	$9,028,542
Eating Places	$85,983,134	$6,507,008	$1,427,687	$107,015,723	$77,191,009	$278,124,560
Building Materials & Home Furnishings Group	$102,568,382	$7,491,566	$841,990	$23,572,274	$75,357	$134,549,569
Furniture/Home Furnishings	$30,984,323	$2,212,748	$191,202	$2,123,618	$0	$35,511,890
Appliances & Electronics	$19,606,767	$1,456,250	$191,363	$19,153,758	$0	$40,408,138
Used Merchandise	$2,092,588	$155,038	$20,586	$83,173	$75,357	$2,426,741
Nurseries & Garden Supply	$10,149,880	$735,229	$94,963	$531,440	$0	$11,511,512
Lumber/Building Materials	$23,760,736	$1,765,337	$210,891	$620,545	$0	$26,357,510
Home Centers/Hardware	$14,732,255	$1,071,937	$122,244	$729,701	$0	$16,656,137
Paint & Wallpaper	$1,241,834	$95,027	$10,741	$330,038	$0	$1,677,640
Automotive Group	$291,620,057	$22,273,172	$2,926,071	$28,787,683	$30,842,429	$376,449,413
New Cars & RVs	$171,077,175	$12,436,194	$1,164,523	$0	$0	$184,677,891
Used Car Dealers	$12,608,311	$914,759	$84,045	$0	$0	$13,607,115
Gasoline Service Stations	$92,974,550	$7,717,933	$1,497,139	$28,787,683	$30,842,429	$161,819,735
Mobile Homes & Trailers	$76,248	$6,191	$1,280	$0	$0	$83,719
Auto Parts & Accessories	$8,674,458	$716,928	$139,567	$0	$0	$9,530,954
Other Vehicles	$6,209,316	$481,167	$39,516	$0	$0	$6,729,999

Source: ADE, Inc., data from City of Palo Alto, California State Board of Equalization, U.S. Census Bureau, California Department of Finance, California EDD, Dean Runyan Associates, International Council of Shopping Centers, UW-Extension, Stanford University, and U.S. Bureau of Labor Statistics.

TABLE 4
PROJECTED LOCAL MARKET RETAIL SPENDING DEMAND, 2020

Retail Group	Palo Alto Household Spending	Stanford Household Spending (exc. Dorms)	Stanford Students (Group Quarters)	Commuter Spending	Visitor Spending	Total Primary Market Area Spending
Total	$933,217,228	$71,984,077	$11,264,134	$309,280,692	$222,279,832	$1,545,638,730
Apparel Store Group	$44,558,685	$3,213,506	$509,916	$10,840,205	$13,497,933	$72,620,245
Women's Apparel	$12,097,268	$855,785	$125,167	$4,077,083	$4,642,715	$21,798,017
Men's Apparel	$3,319,641	$234,922	$31,965	$408,585	$534,976	$4,530,090
Family Clothing	$20,721,029	$1,489,597	$228,342	$5,521,076	$7,228,960	$35,189,004
Shoe Stores	$8,420,747	$633,202	$124,442	$833,460	$1,091,282	$11,103,134
General Merchandise Group	$175,561,514	$13,161,753	$2,422,564	$67,537,009	$35,845,769	$294,528,608
Department	$89,408,010	$6,451,070	$977,115	$34,217,323	$25,799,333	$156,852,851
Other General Merchandise	$50,538,432	$3,841,357	$754,365	$0	$0	$55,134,154
Drug & Proprietary Stores	$35,615,072	$2,869,326	$691,084	$33,319,686	$10,046,436	$82,541,603
Specialty Retail Group	$68,089,207	$4,878,422	$653,584	$28,591,542	$20,906,508	$123,119,264
Gifts & Novelties	$4,100,837	$292,735	$40,204	$456,271	$1,018,191	$5,908,237
Sporting Goods	$7,848,349	$594,584	$58,182	$1,587,723	$1,786,766	$11,875,604
Florists	$1,857,447	$125,167	$13,548	$93,229	$208,046	$2,297,437
Photographic Equipment	$857,260	$58,155	$4,758	$1,728,335	$1,945,006	$4,593,513
Records & Music	$3,545,854	$255,794	$34,836	$174,836	$390,156	$4,401,476
Books & Stationery	$8,643,270	$620,293	$104,593	$633,981	$1,414,759	$11,416,896
Office Supplies	$10,342,713	$714,051	$67,485	$824,945	$928,364	$12,877,557
Jewelry	$8,544,936	$549,109	$55,457	$1,929,970	$4,306,823	$15,386,296
Misc. Specialty Retail	$22,348,541	$1,668,534	$274,520	$21,162,252	$8,908,400	$54,362,247
Food, Eating & Drinking Group	$265,222,874	$17,650,063	$3,910,008	$145,828,602	$112,764,863	$512,141,656
Grocery Stores	$131,180,473	$10,333,662	$2,328,233	$25,746,275	$10,520,865	$180,109,509
Specialty Food Stores	$3,685,823	$292,294	$67,348	$3,258,125	$1,331,388	$8,634,978
Liquor Stores	$7,031,086	$517,098	$86,740	$1,380,928	$564,298	$9,580,150
Eating Places	$90,090,740	$6,507,008	$1,427,687	$115,443,273	$100,348,311	$313,817,019
Building Materials & Home Furnishings Group	$107,468,303	$7,491,566	$841,990	$25,428,604	$97,964	$141,328,427
Furniture/Home Furnishings	$32,464,513	$2,212,748	$191,202	$2,290,855	$0	$37,159,317
Appliances & Electronics	$20,543,426	$1,456,250	$191,363	$20,662,128	$0	$42,853,167
Used Merchandise	$2,192,555	$155,038	$20,586	$89,723	$97,964	$2,555,866
Nurseries & Garden Supply	$10,634,762	$735,229	$94,963	$573,291	$0	$12,038,245
Lumber/Building Materials	$24,895,840	$1,765,337	$210,891	$669,414	$0	$27,541,481
Home Centers/Hardware	$15,436,048	$1,071,937	$122,244	$787,165	$0	$17,417,395
Paint & Wallpaper	$1,301,159	$95,027	$10,741	$356,029	$0	$1,762,956
Automotive Group	$305,551,398	$22,273,172	$2,926,071	$31,054,730	$40,095,158	$401,900,530
New Cars & RVs	$179,249,913	$12,436,194	$1,164,523	$0	$0	$192,850,629
Used Car Dealers	$13,210,638	$914,759	$84,045	$0	$0	$14,209,442
Gasoline Service Stations	$97,416,151	$7,717,933	$1,497,139	$31,054,730	$40,095,158	$177,781,112
Mobile Homes & Trailers	$79,890	$6,191	$1,280	$0	$0	$87,361
Auto Parts & Accessories	$9,088,857	$716,928	$139,567	$0	$0	$9,945,352
Other Vehicles	$6,505,948	$481,167	$39,516	$0	$0	$7,026,632

Source: ADE, Inc., data from City of Palo Alto, California State Board of Equalization, U.S. Census Bureau, California Department of Finance, California EDD, Dean Runyan Associates, International Council of Shopping Centers, UW-Extension, Stanford University, and U.S. Bureau of Labor Statistics.

The analysis did not project any spending increases from Stanford students and residents, since the number of students and residents is not expected to increase substantially by 2020.

COMMUTER SPENDING

Palo Alto's job base far exceeds the size of its labor force, which has the effect of broadening the local market base for retailers. The city has over 76,300 jobs and a local labor force of 31,300. Only about 11,200 Palo Alto residents work in Palo Alto, which means that over 65,100 workers who commute into Palo Alto from other communities (see Table 1 for references for this data). Altogether, these commuters account for approximately $287 million in annual retail spending.[8]

Restaurant spending represents by far the largest expenditure category for commuters, with about $107 million in annual spending or 37 percent of the total commuter spending. When combined with grocery stores, nearly half of the total commuter spending goes towards food-oriented businesses. The other major expenditure categories for commuters include department stores, drug stores, and gasoline service stations. As with local households, this reflects the estimated amount that commuters into Palo Alto will spend while they are at work, not necessarily that all of their spending while at work will occur in Palo Alto.

By 2020, the job base for Palo Alto is expected to increase to just over 82,000 workers. Assuming that the commute patterns will remain similar to the current patterns, this increases the number of daily commuters coming into Palo Alto to over 70,000. Consequently, the total commuter spending will increase to $309 million by 2020.

VISITOR SPENDING

Santa Clara County's estimated visitor spending across all expenditure categories for 2006 totaled approximately $3.6 billion, as shown in Table 5.[9] This visitor spending, a significant part of which is associated with business travel, includes overnight accommodations, transportation, recreation, entertainment, and restaurant as well as retail spending. More than half of the countywide visitor spending goes towards retail stores (retail stores, food stores, food service, and ground transportation/fuel).

[8] Data for expenditures comes from the International Council of Shopping Centers(ICSC) and UW-Extension. The ICSC survey data accounts for average weekly expenditures by product type. ADE matched the product-based data to the most appropriate retail store categories to calculate the expenditures by store type.
[9] Dean Runyan Associates; *Travel Impacts by County*; 2008.

TABLE 5
VISITOR SPENDING, SANTA CLARA COUNTY AND PALO ALTO, 2006

Visitor Spending by Commodity	Santa Clara County	Palo Alto (Estimate)
Total	**$3,639,000,000**	**$269,268,830**
Accommodations	$643,000,000	$66,840,222
Food Service	$889,000,000	$76,050,255
Food Stores	$110,000,000	$9,410,043
Ground Trans and Motor Fuel	$776,000,000	$30,386,630
Arts, Entertainment, Recreation	$524,000,000	$29,325,860
Other Retail Sales	$615,000,000	$52,610,694
Air Transportation	$83,000,000	$4,645,127

Source: ADE, Inc., data from Dean Runyan Associates, California Board of Equalization, and U.S. Economic Census.

Based on the city's share of the countywide transient occupancy tax and taxable retail sales receipts, the estimated annual visitor spending that occurs in Palo Alto totaled approximately $269 million in 2006.[10] Of this total, approximately $169 million in visitor spending occurred at retail stores. Among the individual retail store categories, restaurants are by far the largest beneficiaries of visitor spending, with over $76 million in retail sales generated by out-of-town visitors. Two other categories – gasoline service stations, and department stores – also attract more than $19 million visitor spending.

Using normalized historical growth patterns, the retail sales from visitor spending for 2007 is estimated to total $171 million, while projected visitor spending in 2020 is expected to total $222 million.[11]

SECONDARY MARKET AREA SPENDING

In addition to the local market area spending, Palo Alto also draws potential household spending from residents of surrounding communities, including East Palo Alto, Menlo Park, Mountain View, Los Altos, Los Altos Hills, Atherton, Woodside, Portola Valley, and Redwood City, which are referred to as Palo Alto's secondary market area. Altogether, the retail spending potential for this area totals over $3.2 billion annually. Because these communities have their own base of retail businesses, only a portion of this spending is available for Palo Alto retailers to capture.

---

[10] The countywide visitor spending data separates the spending by visitors requiring overnight accommodations from other visitors. Palo Alto's spending by overnight visitors was based on the city's share of countywide transient occupancy tax (TOT) receipts. Spending by other visitors was based on the city's share of countywide taxable retail sales.

[11] The growth in visitor spending is based on a linear regression trend of total visitor spending in Santa Clara County that occurred between 2001 and 2006. This trend is based on inflation adjusted constant dollar growth.

However, because many of the apparel stores, department stores, and specialty retail stores represented in Palo Alto lack any local presence in the surrounding communities, Palo Alto retailers can capture a significant portion of the secondary market area spending in specific niches. It should be noted that because many residents living in these communities work in Palo Alto, the local market area total already includes some of the retail spending by these households. A more detailed distribution of secondary market area spending by community is included as an appendix table.

TABLE 6
SECONDARY MARKET AREA SUMMARY

Household Demand By Community	Household Spending
East Palo Alto	$154,734,578
Portola Valley	$94,685,371
Los Altos Hills	$158,089,043
Los Altos	$440,521,833
Mountain View	$901,934,963
Atherton	$151,688,987
Woodside	$108,046,412
Menlo Park	$431,431,646
Redwood City	$798,322,016
Secondary Market Area	**$3,239,454,849**

Source: ADE, Inc., data from U.S. Census Bureau, California Department of Finance, and U.S. Bureau of Labor Statistics.

SERVICES DEMAND

In addition to demand for retail goods, another prominent component of household spending is services. The types of services that local residents make use of include rentals, professional services, medical services, repair, personal services, and entertainment/recreation. Because services are generally nontaxable with no reliable sources available for estimating the revenues by Palo Alto services providers, the analysis will only estimate the services spending by local households and visitors.

RENTAL SERVICES

This category includes rental and leasing services for items such as automobiles, sports equipment, recreational vehicles, health care equipment, formal wear, appliances, furniture, and office equipment. Generally, most of the demand in this category comes from automobile leasing and rentals. Altogether, local spending on rental services totals about $32 million annually, with Palo Alto residents accounting for $30 million in spending and Stanford students and residents accounting for about $2.3 million, as shown in Table 7. The projected spending for rental services will increase to about $34 million by 2020, as shown in Table 8.

TABLE 7
LOCAL MARKET SERVICES DEMAND, 2007

Service Category	Palo Alto Households	Stanford Households	Stanford Students	Visitors	Total
Total Services Spending	**$210,263,583**	**$14,896,305**	**$1,922,821**	**$29,325,860**	**$256,408,569**
Rental Services	$30,154,136	$2,136,296	$136,161	n/a	$32,426,593
Professional Services	$14,252,156	$1,009,706	$148,856	n/a	$15,410,719
Medical Services	$56,955,183	$4,035,039	$688,217	n/a	$61,678,438
Repair Services	$43,917,682	$3,111,386	$373,859	n/a	$47,402,927
Personal Services	$40,063,003	$2,838,298	$419,168	n/a	$43,320,469
Entertainment/Recreation	$44,210,806	$3,132,153	$159,820	$29,325,860	$76,828,639

Source: ADE, Inc., data from U.S. Census Bureau, California Department of Finance, California EDD, Dean Runyan Associates, Stanford University, and U.S. Bureau of Labor Statistics.

TABLE 8
PROJECTED LOCAL MARKET SERVICES DEMAND, 2020

Service Category	Palo Alto Households	Stanford Households	Stanford Students	Visitors	Total
Total Services Spending	**$220,308,344**	**$14,896,305**	**$1,922,821**	**$38,123,618**	**$275,251,087**
Rental Services	$31,594,666	$2,136,296	$136,161	n/a	$33,867,123
Professional Services	$14,933,013	$1,009,706	$148,856	n/a	$16,091,576
Medical Services	$59,676,059	$4,035,039	$688,217	n/a	$64,399,315
Repair Services	$46,015,727	$3,111,386	$373,859	n/a	$49,500,973
Personal Services	$41,976,902	$2,838,298	$419,168	n/a	$45,234,368
Entertainment/Recreation	$42,433,855	$3,132,153	$159,820	$38,123,618	$83,849,446

Source: ADE, Inc., data from U.S. Census Bureau, California Department of Finance, California EDD, Dean Runyan Associates, Stanford University, and U.S. Bureau of Labor Statistics.

PROFESSIONAL SERVICES

Professional services encompass a wide range of professional fields and generally derive most of their revenues from services to business clients. Services to household clients are more limited to accounting, financial, and legal services. Local spending on professional services totals about $15 million, and is projected to increase to about $16 million by 2020.

MEDICAL SERVICES

Medical service providers include physicians, dentists, alternative medical providers, home health care, hospitals, eye care professionals, and child care. The household spending by local households on medical services totals $62 million annually, and will increase to $64 million by 2020.[12]

[12] Spending totals only account for potential out-of-pocket expenditures and do not include medical insurance costs.

Repair Services

Most of the local household demand for repair services comes from automobile repairs. Other repair service categories include shoes, appliances, electronics, furniture, and other household items. The annual spending on repair services by local households totals about $47 million. The demand for repair services expects to increase to about $50 million by 2020.

Personal Services

Personal services include a wide range of business types such as personal care (including beauty services and hair care), funeral services, laundry services, pet care, photo finishing, and auto parking. The annual household spending for personal services totals about $43 million, and will increase to about $45 million by 2020.

Entertainment/Recreation Services

Consumer spending on entertainment and recreation services includes movie theaters, performing arts organizations, sporting events, amusement parks, other event tickets, participant sports (including bowling, skating, skiing, and golfing), recreational lessons, and club memberships. The local market spending in this category totals $77 million, with about $29 million in spending coming from out-of-town visitors. By 2020, this total is projected to increase to $84 million.

4. PALO ALTO SHOPPING DISTRICTS AND SALES

The shopping districts in Palo Alto each serve a distinct retail niche, and greatly differ in the types of retail stores that they offer. Stanford Shopping Center and the downtown district around University Avenue together account for more than half of the taxable retail sales for the entire city. Stanford Shopping Center alone generates over 39 percent of the taxable retail sales for Palo Alto, as shown in Table 9.

TABLE 9
PALO ALTO 2007 TAXABLE RETAIL SALES BY SHOPPING DISTRICT

Shopping District	2007 Taxable Sales	Percent of Taxable Retail Sales
Stanford Shopping Center	$560,014,700	39.1%
Downtown (University Ave)	$242,211,900	16.9%
California Ave. & Park/Lambert	$171,464,900	12.0%
San Antonio Industrial Park	$124,299,300	8.7%
El Camino Real	$87,558,600	6.1%
Town and Country Shopping Center	$24,756,300	1.7%
Midtown	$18,522,400	1.3%
Stanford Research Park	$12,571,900	0.9%
Stanford Professional Center	$8,787,500	0.6%
Total Taxable Retail Sales	**$1,432,000,000**	

Source: ADE, Inc., data from City of Palo Alto and MuniServices
Notes: Due to confidentiality restrictions, data from Alma Plaza, Charleston Center, Edgewood Plaza, Embarcadero (East of 101), and SOFA is not shown.
Some data overlaps more than one shopping district.

CALIFORNIA AVENUE & PARK BLVD./LAMBERT AVE.

The retail stores around California Avenue are not as prominent at attracting regional retail spending as the nearby shopping district around University Avenue. But, combined with the stores around Park Boulevard and Lambert Avenue, the area constitutes a significant concentration of retail spending with over $171 million in taxable sales generated. Together, these stores generate nearly double the taxable sales generated by those located along El Camino Real, and the stores in the area include Fry's Electronics. The dominant sales tax generators in this area are electronics, restaurants, camera stores, specialty store, and service stations. In general, many of the stores around California Avenue primarily serve the local market, while Park Blvd/Lambert Avenue's dominant store categories serve more of a regional market.

EL CAMINO REAL

The stores along El Camino Real are highly visible as they stretch along the primary commercial corridor on the Peninsula. Not including Stanford Shopping Center and the Town and Country shopping center, which are discussed separately below, El Camino Real's other retail stores in Palo Alto generate taxable sales of approximately $88 million. The primary store types represented along El Camino Real encompass a combination of local-serving retail store types such as fast food and service stations, and more regionally-oriented retail categories such as new car dealers, specialty stores, and building materials.

MIDTOWN

The commercial area along Middlefield Road is part of Palo Alto's primary local-serving commercial corridor.[13] The taxable retail sales in Midtown are relatively low at $19 million, but this also includes drug stores and supermarkets, which generate a very large amount of nontaxable retail sales. The primary retail sales generators in this area generally serve local spending. Recently, other commercial uses such as offices and fitness centers have located in this area, further reducing sales tax receipts.

SAN ANTONIO INDUSTRIAL PARK

The San Antonio Industrial Park comprises several large-scale taxable sales generators that serve a more regional market. Located close to the Mountain View city limits, this district generates over $124 million in taxable sales and primarily fills retail niches pertaining to home improvement, light industry, and new car sales.

STANFORD SHOPPING CENTER

Stanford Shopping Center is a regionally oriented 1.3 million square foot mall that specializes in high end retail stores and attracts shoppers from throughout the Peninsula and Silicon Valley. The mall is anchored by four high end department stores, and has numerous other specialty retail niches that further contribute to its $560 million in taxable retail sales. Based on 2008 sales data, Stanford Shopping Center ranks below Valley Fair in San Jose/Santa Clara. However, its sales exceed those of other regional centers in the market area including Santana Row, Hillsdale, and Oakridge Mall.

TOWN AND COUNTRY SHOPPING CENTER

Located adjacent to Stanford University, the 100,000 square foot Town and Country shopping center is more of a local-serving shopping center. Even though the center has lacked a supermarket as an anchor tenant, it does have a drug store as well as numerous restaurants and locally-oriented specialty retail stores. In addition, a Trader Joe's market is due to open at the center soon.

DOWNTOWN (UNIVERSITY AVENUE)

The downtown district is the second largest taxable sales generator in Palo Alto with $242 million in taxable sales. The retail base in the downtown area serves a very

---

[13] The sales totals do not include Charleston Center. Data for Charleston Center is not available due to confidentiality restrictions.

diverse range of retail markets. While not dominated by any single retail store category, the downtown district is the primary center for both full service and fast food restaurants in Palo Alto.

OTHER SHOPPING DISTRICTS

Other shopping districts in Palo Alto include Embarcadero (East of 101), Charleston Center, Alma Plaza, and Edgewood Plaza. Taxable sales for these districts cannot be disclosed due to confidentiality restrictions associated with reporting sales tax data.

Embarcadero (East of 101) is located in an area dominated by offices. The primary retail sales generators in this district are the two neighboring automobile dealerships. Currently, these are the only auto dealerships in Palo Alto that do not operate alone.

Charleston Center is a 41,800 square-foot local-serving commercial center located along Middlefield Road, down the street from other local-serving retail stores in the Midtown shopping district. The center is anchored by a 16,800 square-foot supermarket. The retail sales at this center are dominated by supermarkets, specialty food stores, restaurants, and other specialty stores.

Alma Plaza and Edgewood Plaza are local-serving retail centers whose supermarket anchor stores have closed in recent years. Neither center is located in a high visibility location and the anchor spaces are insufficiently sized to accommodate the larger building spaces specified by many major supermarket chains. With 40,000 square feet of space and 16 retail store spaces, Alma Plaza has been completely vacated and is in the process of redeveloping into a mixed use project comprised of a grocery store, limited additional retail, single family homes, and affordable housing.

The Eichler-designed Edgewood Plaza still has stores operating on the premises, but the majority of the shopping center is vacant. The City made an effort to redevelop the site but neighboring residents opposed the project. A new proposal to demolish the existing buildings and build a mixed use project on the site with a 20,000 square foot grocery store and detached housing is currently in the preliminary stages of review.

PALO ALTO RETAIL SALES

In addition to the amount that local households spend at retail stores, the other component that defines the local retail market is the retail sales generated by local stores. Sales tax data from the State Board of Equalization was used to calculate the retail store sales by store category for the City of Palo Alto. The City's finance department provided an audited record of this data, from which ADE estimated the taxable retail sales.

After adjusting the sales tax data to account for nontaxable item sales, the 2007 retail sales by businesses in the City of Palo Alto totaled approximately $1.6 billion, as shown in Table 10. The two largest retail sales categories are department stores and restaurants/eating places, which each generated more than $260 million in retail sales in 2007. Other retail store categories with more than $100 million in annual sales include gasoline service stations, drug stores, new auto dealerships, miscellaneous specialty retail, and appliances/electronics.

Findings for retail sales by major store group are summarized below.

Apparel Stores

Palo Alto generated a total of $155 million in apparel store sales. More than half of these sales ($83 million) occur in family clothing stores. Women's apparel stores account for another $50 million in sales.

Stanford Shopping Center accounts for the vast majority of apparel store sales in Palo Alto. Other large concentrations of apparel store sales include Town & Country shopping center and the downtown business district. Midtown generates sales in men's apparel and family clothing, while El Camino Real includes sales from shoe stores.

General Merchandise Stores

Department stores constitute by far the largest concentration of retail sales in Palo Alto, with over $296 million in sales. It should be noted that traditional department stores such as Macy's and Bloomingdale's make up all of the department store sales in Palo Alto. Palo Alto does not have any discount department stores, variety/dollar stores, or warehouse club stores. The remaining general merchandise stores in Palo Alto are drug stores, which generate about $115 million in total retail sales.[14]

All of the department stores in Palo Alto are located at Stanford Shopping Center. In contrast, drug store sales are scattered throughout Palo Alto, with stores located in the Downtown, Midtown, Town and Country Shopping Center, El Camino Real, and California Avenue.

Specialty Retail Stores

Specialty retail stores include a broad cross-section of different product offerings and store types. These stores generated a total of $240 million in 2007 retail sales. Among the individual store categories, the largest sales generators are miscellaneous specialty retail stores and jewelry stores. Each of these store categories generated more than $40 million in retail sales. However, Palo Alto is well represented in a broad range of specialty retail store categories, with stores specializing in gifts and novelties, sporting goods, music, books, office supplies, and photographic supplies each generating more than $10 million in retail sales.

---

[14] The drug store sales include an adjustment to account for prescription drug sales, which are nontaxable and therefore not included in the sales tax data.

Specialty retail stores are well represented throughout Palo Alto's business districts, and these concentrations vary considerably by retail store category, as shown below.

- Gift and novelty stores are primarily concentrated in the downtown district;
- Sporting goods stores are well represented in Town and Country shopping center, El Camino Real, Downtown, and California Avenue;
- Florists are concentrated Downtown;
- Music store sales are concentrated along El Camino Real and Park Avenue/Lambert Blvd.;
- Stationery/book stores sales are primarily concentrated Downtown with additional sales focused at Stanford Shopping Center, California Avenue, and Town and Country shopping center;
- Nearly all jewelry store sales occur at Stanford Shopping Center and Downtown;
- Miscellaneous retail store sales are concentrated at Stanford Shopping Center, Downtown, and California Avenue.

FOOD, EATING, AND DRINKING GROUP

Food-oriented retail stores generated about $383 million in retail sales in 2007, with $264 million in sales coming from restaurants/eating places. Restaurants represent the second largest retail store category in Palo Alto. Grocery stores generate another $101 million in retail sales, with specialty food stores and liquor stores making up the remainder.

Restaurant/eating places generate significant retail sales throughout Palo Alto and are represented in nearly every shopping district in the city. Grocery stores are also located throughout Palo Alto, but the supermarkets are primarily concentrated in Downtown, Midtown, Stanford Shopping Center, Charleston Center, and California Avenue.

BUILDING MATERIALS AND HOME FURNISHINGS GROUP

The building materials and home furnishings group includes stores that specialize in home improvement products, and also includes electronics/appliance stores, furniture stores, and used merchandise stores. Altogether, these stores generated about $191 million in retail sales, with sales predominantly occurring in electronics/appliance stores ($131 million) and furniture/home furnishings ($29 million). Home improvement store categories such as home centers, hardware stores, garden supply stores, paint stores, and building materials stores are minimally represented by comparison.

Sales from furniture and home furnishing stores are concentrated in the downtown district, with additional concentrations of retail sales around San Antonio Industrial Park, Stanford Shopping Center, California Avenue, and Park Blvd./Lambert Ave.

Electronics/appliance store sales almost entirely occur at Park Blvd./Lambert Ave., Stanford Shopping Center, and the downtown district. Sales from home improvement stores primarily center around San Antonio Industrial Park, El Camino Real, California Avenue, Park Blvd./Lambert Ave., and the downtown district. The IKEA store in East Palo Alto also provides significant competition in the home furnishings sector.

AUTOMOTIVE GROUP

Retail businesses in the automotive group include new and used automobile dealerships, gasoline service stations, auto parts stores, as well as dealers for other vehicles such as boats, motorcycles, and trailers. In Palo Alto, new car dealerships ($171 million), used car dealerships ($17 million), and gasoline service stations ($64 million) together make up 99 percent of the $252 million in total retail sales for this retail group. Palo Alto does not have significant sales in auto parts and other vehicle dealerships.

Geographically, the new car dealerships are concentrated at Embarcadero (east of 101), San Antonio Industrial Park, and El Camino Real. Palo Alto's used car dealerships are primarily concentrated around Park Blvd./Lambert Ave. and San Antonio Industrial Park. Service stations are only located in San Antonio Industrial Park, Edgewood Plaza, El Camino Real, and California Avenue.

5. RETAIL LEAKAGE AND ATTRACTION POTENTIAL

Retail leakage represents the mismatch between local market spending and the retail sales by Palo Alto retail establishments. Leakage indicates both an existing shortcoming in terms of local retailers not meeting existing household and daytime population demand, as well as an opportunity because unmet retail demand can create potential for new stores or sales expansions for existing stores. Conversely, those store categories with net capture of regional sales extend their market reach into the surrounding region.

RETAIL LEAKAGE AND NET CAPTURE

Overall, Palo Alto's retail sales total of $1.6 billion exceeds the local consumer spending total of $1.4 billion, as shown in Table 10. This means that Palo Alto overall has a net capture of regional sales where Palo Alto retailers attract spending from outside of the community. The sales leakage trend identified in the analysis shows a mixed trend as Palo Alto is a net regional retail provider in some key retail store categories, but also experiences significant retail leakage in other major store categories. The retail store categories where the sales exceed the local market spending attract a total net capture of $508 million in regional sales, while the retail store categories where sales fall short of local market spending generate a total of $303 million in retail leakage.

In general, Palo Alto is a regional provider for apparel stores, general merchandise, and specialty retailers. These retail groups generate sales that far exceed the local market spending, and they generally confirm the strong regional shopping attraction of Stanford Shopping Center and Downtown.

By far the largest net capture of regional sales occurs with department stores. This store category alone captures $152 million from outside of the local market. Other strong performing retail store categories where Palo Alto attracts more than $30 million in sales from outside of the local market include family clothing ($51 million), electronics/appliances ($91 million), women's apparel ($33 million), jewelry stores ($36 million), miscellaneous specialty retail stores ($53 million), and drug stores ($39 million).

The projected long-term market growth through 2020 will not substantially change these findings, as shown in Table 11. During this time the retail leakage and capture trends will remain similar to the current situation, unless the makeup of Palo Alto's retail store mix changes during this time. The combined effect of population growth, job growth, and growth in visitor spending will only result in an increase of $119 million of local spending potential, or 8.3 percent over 13 years. In store categories

TABLE 10
PALO ALTO RETAIL SALES LEAKAGE AND NET CAPTURE, 2007

Retail Group	Local Market Area Spending	Palo Alto Retail Sales	Sales Leakages	Net Capture of Regional Sales
Total	**$1,429,001,945**	**$1,633,164,290**	**$303,397,722**	**$507,560,067**
Apparel Store Group	**$66,682,372**	**$154,980,800**	**$0**	**$88,298,428**
Women's Apparel	$19,877,424	$53,306,800	$0	$33,429,376
Men's Apparel	$4,225,450	$6,142,500	$0	$1,917,050
Family Clothing	$32,172,978	$83,001,600	$0	$50,828,622
Shoe Stores	$10,406,520	$12,529,900	$0	$2,123,380
General Merchandise Group	**$273,321,625**	**$411,574,553**	**$52,829,900**	**$191,082,827**
Department Stores	$144,324,760	$296,223,216	$0	$151,898,456
Other General Merchandise	$52,829,900	$0	$52,829,900	$0
Drug & Proprietary Stores	$76,166,966	$115,351,337	$0	$39,184,371
Specialty Retail Group	**$113,102,989**	**$240,044,703**	**$1,472,231**	**$128,413,945**
Gifts & Novelties	$5,452,987	$11,690,679	$0	$6,237,691
Sporting Goods	$10,989,528	$20,515,315	$0	$9,525,787
Florists	$2,157,932	$2,388,744	$0	$230,812
Photographic Equipment	$3,979,409	$22,332,200	$0	$18,352,791
Records & Music	$4,137,007	$4,479,700	$0	$342,693
Books & Stationery	$10,650,049	$16,244,000	$0	$5,593,951
Office Supplies/Computer Equipment	$12,131,531	$10,659,300	$1,472,231	$0
Jewelry	$13,861,924	$49,450,150	$0	$35,588,226
Misc. Specialty Retail	$49,742,621	$102,284,615	$0	$52,541,994
Food, Eating & Drinking Group	**$464,895,977**	**$383,086,107**	**$86,650,729**	**$4,840,860**
Grocery Stores	$169,821,041	$100,853,054	$68,967,987	$0
Specialty Food Stores	$7,921,835	$12,762,694	$0	$4,840,860
Liquor Stores	$9,028,542	$5,409,359	$3,619,183	$0
Eating Places	$278,124,560	$264,061,000	$14,063,560	$0
Building Materials & Home Furnishings Group	**$134,549,569**	**$191,225,980**	**$37,172,911**	**$93,849,321**
Furniture & Home Furnishings	$35,511,890	$28,718,938	$6,792,953	$0
Household Appliances & Electronics	$40,408,138	$131,471,800	$0	$91,063,662
Used Merchandise	$2,426,741	$1,124,800	$1,301,941	$0
Nurseries & Garden Supply Stores	$11,511,512	$7,186,974	$4,324,538	$0
Lumber & Other Building Materials	$26,357,510	$8,392,000	$17,965,510	$0
Home Centers and Hardware Stores	$16,656,137	$9,868,168	$6,787,969	$0
Paint & Wallpaper	$1,677,640	$4,463,300	$0	$2,785,660
Automotive Group	**$376,449,413**	**$252,252,147**	**$125,271,952**	**$1,074,685**
New Cars & RVs	$184,677,891	$171,427,300	$13,250,591	$0
Used Car Dealers	$13,607,115	$14,681,800	$0	$1,074,685
Gasoline Service Stations	$161,819,735	$64,403,247	$97,416,488	$0
Mobile Homes & Trailers	$83,719	$0	$83,719	$0
Auto Parts & Accessories	$9,530,954	$575,900	$8,955,054	$0
Other Vehicles	$6,729,999	$1,163,900	$5,566,099	$0

Source: ADE, Inc., data from City of Palo Alto, California State Board of Equalization, U.S. Census Bureau, California Department of Finance, California EDD, Dean Runyan Associates, International Council of Shopping Centers, UW-Extension, Stanford University, and U.S. Bureau of Labor Statistics.

TABLE 11
PROJECTED PALO ALTO RETAIL SALES LEAKAGE AND NET CAPTURE, 2020

Retail Group	Local Market Area Spending	Palo Alto Retail Sales	Sales Leakages	Net Capture of Regional Sales
Total	**$1,545,638,730**	**$1,633,164,290**	**$382,077,841**	**$469,603,401**
Apparel Store Group	**$72,620,245**	**$154,980,800**	**$0**	**$82,360,555**
Women's Apparel	$21,798,017	$53,306,800	$0	$31,508,783
Men's Apparel	$4,530,090	$6,142,500	$0	$1,612,410
Family Clothing	$35,189,004	$83,001,600	$0	$47,812,596
Shoe Stores	$11,103,134	$12,529,900	$0	$1,426,766
General Merchandise Group	**$294,528,608**	**$411,574,553**	**$55,134,154**	**$172,180,099**
Department Stores	$156,852,851	$296,223,216	$0	$139,370,365
Other General Merchandise	$55,134,154	$0	$55,134,154	$0
Drug & Proprietary Stores	$82,541,603	$115,351,337	$0	$32,809,734
Specialty Retail Group	**$123,119,264**	**$240,044,703**	**$2,218,257**	**$119,143,697**
Gifts & Novelties	$5,908,237	$11,690,679	$0	$5,782,442
Sporting Goods	$11,875,604	$20,515,315	$0	$8,639,712
Florists	$2,297,437	$2,388,744	$0	$91,306
Photographic Equipment	$4,593,513	$22,332,200	$0	$17,738,687
Records & Music	$4,401,476	$4,479,700	$0	$78,224
Books & Stationery	$11,416,896	$16,244,000	$0	$4,827,104
Office Supplies/Computer Equipment	$12,877,557	$10,659,300	$2,218,257	$0
Jewelry	$15,386,296	$49,450,150	$0	$34,063,854
Misc. Specialty Retail	$54,362,247	$102,284,615	$0	$47,922,369
Food, Eating & Drinking Group	**$512,141,656**	**$383,086,107**	**$133,183,265**	**$4,127,716**
Grocery Stores	$180,109,509	$100,853,054	$79,256,455	$0
Specialty Food Stores	$8,634,978	$12,762,694	$0	$4,127,716
Liquor Stores	$9,580,150	$5,409,359	$4,170,791	$0
Eating Places	$313,817,019	$264,061,000	$49,756,019	$0
Building Materials & Home Furnishings Group	**$141,328,427**	**$191,225,980**	**$41,421,424**	**$91,318,977**
Furniture & Home Furnishings	$37,159,317	$28,718,938	$8,440,379	$0
Household Appliances & Electronics	$42,853,167	$131,471,800	$0	$88,618,633
Used Merchandise	$2,555,866	$1,124,800	$1,431,066	$0
Nurseries & Garden Supply Stores	$12,038,245	$7,186,974	$4,851,271	$0
Lumber & Other Building Materials	$27,541,481	$8,392,000	$19,149,481	$0
Home Centers and Hardware Stores	$17,417,395	$9,868,168	$7,549,226	$0
Paint & Wallpaper	$1,762,956	$4,463,300	$0	$2,700,344
Automotive Group	**$401,900,530**	**$252,252,147**	**$150,120,741**	**$472,358**
New Cars & RVs	$192,850,629	$171,427,300	$21,423,329	$0
Used Car Dealers	$14,209,442	$14,681,800	$0	$472,358
Gasoline Service Stations	$177,781,112	$64,403,247	$113,377,865	$0
Mobile Homes & Trailers	$87,361	$0	$87,361	$0
Auto Parts & Accessories	$9,945,352	$575,900	$9,369,452	$0
Other Vehicles	$7,026,632	$1,163,900	$5,862,732	$0

Source: ADE, Inc., data from City of Palo Alto, California State Board of Equalization, U.S. Census Bureau, California Department of Finance, California EDD, Dean Runyan Associates, International Council of Shopping Centers, UW-Extension, Stanford University, and U.S. Bureau of Labor Statistics.

where the city currently experiences leakage, the opportunities to attract new stores to fill the gaps will marginally improve as potential spending levels for these store categories increases. But, this level of growth does not open up any new opportunities for retail development that do not already exist. That is, for store categories that are already meeting available demand and there is no leakage currently, the increased demand from future growth would not be sufficient to support additional new stores. In addition, regional competition from San Jose and San Francisco will continue to exert pressure on Palo Alto retailers.

LINKING RETAIL LEAKAGE TO NEW BUSINESS ATTRACTION POTENTIAL

Retail leakage represents potential for new business attraction or business expansion. Retail groups where there was a general trend towards retail leakage include food stores and automotive businesses. While Palo Alto attracts significant retail sales from outside of the community in many retail categories, there are many other retail categories where Palo Alto has significant unmet local demand. Retention of Palo Alto's existing retail economy depends largely on the city's continued capacity to attract spending from throughout the region. In those categories where Palo Alto has retail sales leakage, the community has potential to expand its retail economy by recapturing some local spending that currently goes outside of the area.

In terms of expanding total taxable sales in the City, non-retail businesses can also have a significant role. As noted earlier in the report, the Stanford Research Park area and the San Antonio Rd. industrial area generate 25 percent of total taxable sales for the City. Taken as a whole, non-retail businesses generate about $7,000 in taxable sales annually per employee in Palo Alto. Such business to business transactions have potential for this to grow as well and in San Jose, Sunnyvale, Santa Clara and Cupertino such businesses generate more than $10,000 in taxable sales per employee.[15] This should be a consideration in the City's economic development program and it is acknowledged in the fiscal analysis for the comprehensive plan update. The present report, however, is concerned with growth and expansion in the retail sector primarily.

As shown in Table 12, Palo Alto households spend almost $302 million annually at retail stores outside of Palo Alto. In many retail categories, this spending leakage is large enough to support new retail businesses. The sales leakage can potentially support at least 41 new retail establishments with a total sales capture of $215 million in annual sales, assuming that this retail leakage could be captured. These supportable establishments represent categories where the sales leakage (unmet demand) is large enough to support a viable business for a given retail category. However, other consideration such as the availability of suitable sites and the effect of competitive stores outside Palo Alto would need to be taken into account in order to determine the specific retail expansion potential in the City.

The remaining $89 million in retail leakage will either continue to leave Palo Alto, or existing retail stores can potentially capture this continuing leakage through expansion of their business and retail sales. The analysis established a minimum support level for each retail category by estimating the average sales by store type for retail

[15] Calculated based on ABAG employment figures and taxable sales data from the State Board of Equalization.

establishments in the San Jose Metropolitan Statistical Area (MSA).[16] It should also be noted that in addition to showing the types of new businesses that could fill existing vacancies and provide the base for potential new development, this analysis can also be used by existing businesses that want to identify new product lines for business expansion.

The store categories with retail leakage large enough to support potential new retail stores are concentrated in the grocery store, building materials and home furnishings, and automotive retail groups. The specific store categories with potential for new establishments are as follows:

- Grocery stores
- Liquor stores
- Eating places
- Furniture and home furnishings
- Used merchandise
- Nursery/garden supply stores
- Lumber and building materials
- Gasoline service stations
- Auto parts
- Other vehicle dealerships
- General retail

As shown in Table 12, the retail categories with the most potential for attracting new retail establishments are gasoline service stations and grocery stores with $97 million and $64 million in attraction potential, respectively. The gas station leakage is very significant, but opportunities to develop new gas stations may not be readily available due to high land costs and a lack of sites. The grocery store leakage could support a number of smaller sized stores, such as currently exist in the City, but probably would be consolidated into larger modern store formats. Currently two smaller sized stores are proposed as part of new developments in older commercial centers. The City could support an additional two large grocery stores of 40,000 to 50,000 sq.ft. each.

Even though the unmet demand is sufficient to support new establishments, it is unlikely that all of this retail leakage will result in new business formation. For example, the retail leakage shown with restaurants represents less than 5.0 percent of the total market area spending. Sales growth by existing restaurants in Palo Alto can easily absorb this leakage, so it is not likely that 17 new restaurants will develop in

---

[16] Data for average sales per establishment was calculated from the 2002 Economic Census, escalated to 2007 dollars.

TABLE 12
PALO ALTO RETAIL ATTRACTION POTENTIAL, 2007

Retail Group	Sales Leakages	Potential New Stores	Attraction Potential	Continuing Leakage	Square Footage Potential
Total	**$303,397,722**	**41**	**$214,869,902**	**$88,527,820**	**381,725**
Apparel Store Group	**$0**	**0**	**$0**	**$0**	**0**
General Merchandise Group	**$52,829,900**	**0**	**$0**	**$52,829,900**	**0**
Specialty Retail Group	**$1,472,231**	**0**	**$0**	**$1,472,231**	**0**
Food, Eating & Drinking Group	**$86,650,729**	**24**	**$80,856,521**	**$5,794,208**	**184,100**
Grocery Stores	$68,967,987	4	$64,914,826	$4,053,161	133,638
Liquor Stores	$3,619,183	3	$2,655,240	$963,942	6,701
Eating Places	$14,063,560	17	$13,286,455	$777,104	43,761
Building Materials & Home Furnishings Group	**$37,172,911**	**10**	**$26,711,684**	**$10,461,227**	**165,308**
Furniture/Home Furnishings	$6,792,953	3	$5,927,743	$865,210	29,639
Used Merchandise	$1,301,941	1	$1,083,938	$218,004	4,336
Nurseries/Garden Supply	$4,324,538	1	$2,307,682	$2,016,856	15,385
Lumber/Building Materials	$17,965,510	5	$17,392,321	$573,188	115,949
Automotive Group	**$125,271,952**	**7**	**$107,301,697**	**$17,970,255**	**32,318**
Gasoline Service Stations	$97,416,488	n/a	$95,084,312	$2,332,176	n/a
Auto Parts & Accessories	$8,955,054	6	$8,079,479	$875,575	32,318
Other Vehicles	$5,566,099	1	$4,137,905	$1,428,194	n/a

Source: ADE, Inc., data from City of Palo Alto, California State Board of Equalization, U.S. Census Bureau, California Department of Finance, California EDD, Dean Runyan Associates, International Council of Shopping Centers, UW-Extension, Stanford University, Urban Land Institute, and U.S. Bureau of Labor Statistics.

Palo Alto as shown in Table 12. In addition, market conditions have shown a general decline in restaurant sales across the Bay Area, a likely reflection of lower demand for eating out. Moreover, with a commute pattern that shows a very high out-commute rate among Palo Alto residents, at least some portion of the retail leakage will continue to leave Palo Alto, even though the City captures significant sales from its daytime in-commuter population (see Table 3).

The recent general retail market decline also impacts short-term attraction potential for home improvement (building materials and nurseries) and furniture stores, since those stores depend on a growing market for new home construction and remodeling projects. Furthermore, the square footage potential identified for home improvement and furniture stores in Palo Alto is already tempered by the large concentration of competing stores of this type in East Palo Alto in the Ravenswood 101 center.

The general retail category at the bottom of the list above would address the $52 million in leakage in the General Merchandise category. Ideally, more upscale small to medium box outlets would respond best to Palo Alto's market characteristics.

TABLE 13
PALO ALTO RETAIL ATTRACTION POTENTIAL, 2020

Retail Group	Sales Leakages	Potential New Stores	Attraction Potential	Continuing Leakage	Square Footage Potential
Total	**$382,077,841**	**90**	**$279,050,307**	**$103,027,534**	**542,484**
Apparel Store Group	**$0**	**0**	**$0**	**$0**	**0**
General Merchandise Group	**$55,134,154**	**0**	**$0**	**$55,134,154**	**0**
Specialty Retail Group	**$2,218,257**	**0**	**$0**	**$2,218,257**	**0**
Food, Eating & Drinking Group	**$133,183,265**	**71**	**$124,905,945**	**$8,277,320**	**319,594**
Grocery Stores	$79,256,455	4	$72,127,584	$7,128,871	148,487
Liquor Stores	$4,170,791	4	$3,540,320	$630,471	8,934
Eating Places	$49,756,019	63	$49,238,041	$517,978	162,173
Building Materials & Home Furnishings Group	**$41,421,424**	**12**	**$30,995,280**	**$10,426,144**	**190,572**
Furniture/Home Furnishings	$8,440,379	4	$7,903,657	$536,722	39,518
Used Merchandise	$1,431,066	1	$1,083,938	$347,128	4,336
Nurseries/Garden Supply	$4,851,271	2	$4,615,364	$235,907	30,769
Lumber/Building Materials	$19,149,481	5	$17,392,321	$1,757,160	115,949
Automotive Group	**$150,120,741**	**7**	**$123,149,082**	**$26,971,659**	**32,318**
Gasoline Service Stations	$113,377,865	n/a	$110,931,697	$2,446,168	n/a
Auto Parts & Accessories	$9,369,452	6	$8,079,479	$1,289,973	32,318
Other Vehicles	$5,862,732	1	$4,137,905	$1,724,827	n/a

Source: ADE, Inc., data from City of Palo Alto, California State Board of Equalization, U.S. Census Bureau, California Department of Finance, California EDD, Dean Runyan Associates, International Council of Shopping Centers, UW-Extension, Stanford University, Urban Land Institute, and U.S. Bureau of Labor Statistics.

Using national benchmark averages, the $215 million of retail attraction potential generates a demand for about 453,700 square feet of retail space.[17] This amount of retail square footage does not necessarily mean that new retail developments are feasible in the short-term, because some of this demand could presumably be accommodated in existing vacant commercial spaces or through sales growth by existing retailers.

The likeliest retail stores that can be attracted to Palo Alto in the short-term are grocery stores and gasoline service stations. The estimated unmet demand for grocery stores can support 133,600 square feet of space, which is the equivalent of two large supermarkets. However, since two smaller stores are currently proposed for sites in Palo Alto, Table 12 shows a total of four potential stores. Even though the market potential exists to support new grocery stores, the more pressing question is whether suitable sites for larger stores are available. Gasoline service stations are in short supply in Palo Alto, but accommodating the unmet demand also depends on finding suitable sites for locating these businesses.

By 2020, the retail attraction potential will increase to $279 million, with a square footage potential of 626,400 square feet, as shown in Table 13. The growth in local demand is not projected to create new store potential for additional retail categories,

---

[17] Sales per square foot benchmark data comes from the Urban Land Institute *Dollars and Cents of Shopping Centers, 2008*.

but rather increase the retail attraction potential for those store categories that already have large enough unmet spending demand to support new retail stores. In particular, restaurant potential will capture a very high proportion of the new store potential. By 2020, the market growth will create enough unmet demand to support multiple new restaurants.

6. KEY RETAIL ISSUES

Palo Alto has significant strength in specific retail niches, but also has numerous retail gaps that present both challenges and opportunities for future planning. The city's regionally oriented retail sector has served the community very well by attracting shoppers from throughout the Bay Area and capturing significant sales tax revenue. However, Palo Alto's regional retail centers need to react to shifts in economic trends, and competition from surrounding communities. Moreover, Palo Alto has a significant shortcoming in its local-serving retail centers and the lack of power center discount stores, which have left a large portion of local household demand unmet. A significant challenge here is the difficulty of assembling larger lots from the existing narrow parcels under multiple ownerships in many commercial districts of the City. The City may be able to pursue more upscale, smaller box stores to fill this niche. The following discussion addresses existing shortcomings in Palo Alto's retail sector as well as competitive challenges that Palo Alto needs to meet in order to maintain its position of strength in the retail market.

RETAINING AND STRENGTHENING AUTO DEALERSHIPS

Auto dealerships represent a significant source of sales and tax revenue for the City. These dealerships are also competitively vulnerable, even under favorable market conditions. The existing dealerships in Palo Alto are in different parts of the City such as Embarcadero, El Camino Real, Park Boulevard, and San Antonio Road, which limits opportunities for shared facilities and marketing. In addition, most of the existing dealerships have limited space for expansion. Given how far the market conditions for the automotive sector have deteriorated in 2008, supporting Palo Alto's dealerships is more of an imperative.

In the short-term, developing new dealerships is not a realistic option, given that dealerships have been closing throughout Santa Clara County and some auto manufacturers such as GM and Ford have indicated a desire to reduce the size of their dealer networks in order to strengthen the remaining dealerships.[18]

Auto malls and auto rows have the advantage of providing shoppers with the opportunity to compare multiple makes and models in close proximity. The newer auto malls in particular use a much larger land area than older dealerships located along mixed commercial streets, and locate in high visibility locations along major highways. In addition, the dealerships band together to not only market themselves collaboratively, but to also address infrastructure and facility issues.

---

[18] Associated Press; "Automakers look to consolidate dealer ranks"; December 4, 2008.

Retaining Palo Alto's existing automobile dealerships will require addressing their competitive disadvantages. This entails potentially planning for an alternate location that provides dealerships with sufficient space to run a more modern operation, greater visibility, and/or the opportunity for dealerships to concentrate together.

In other cities, dealerships have expanded operations from landlocked locations by building multilevel parking structures and relocating maintenance and administrative operations off-site. In a novel approach, the City of Cerritos leased land areas underneath utility right-of-ways, which allowed its auto mall dealerships to use this otherwise undevelopable land as overflow storage for new cars. Initiatives like these potentially require modifications to existing regulations. Palo Alto has adopted a "grow in place" strategy with some auto dealers that involves adoption of an auto dealer overlay zone that permits the dealers to expand onto nearby sites.

RETAINING EXISTING REGIONAL CAPTURE AND COMMUTER SPENDING

Palo Alto has significant retail assets that have made the community a shopping destination for a broad range of Bay Area consumers. In the past, Palo Alto has successfully captured retail spending from neighboring communities partly because those communities lacked regional malls that were competitive with the offerings at Stanford Shopping Center and the attractiveness of its outdoor spaces.

As the overall retail market has shifted towards power centers, mall-based retailing has declined nationally. Stanford Shopping Center's sales have held up well despite these trends. Much of the mall's distinctiveness has been in its attraction as a high-end retail destination. With the current economic downturn, sales of luxury goods have taken the biggest hit. This disproportionally affects Palo Alto because of its concentration of stores that carry luxury products.

For the long-term however, Palo Alto has a well-established niche as a regional shopping destination and needs to maintain the distinctiveness of its mall and downtown area in order to retain the market capture of regional sales, tourism spending, and commuter spending. Relative to its neighbors, Palo Alto has retail assets in place, as well as an established pattern of shoppers coming into Palo Alto from outside. Because of this, Palo Alto has a strong base from which it can continue to attract shoppers from throughout the Bay Area.

ADDRESSING UNMET DEMAND IN LOCAL-SERVING RETAIL SECTORS

The retail leakage analysis identified a large shortcoming with grocery stores in Palo Alto. Because grocery stores typically serve as anchors for local-serving shopping centers, this shortfall also points to unmet demand for other locally oriented establishments that currently goes into neighboring communities. The closure of the

Albertson's supermarkets at Alma Plaza and Edgewood Plaza eroded grocery store spending in Palo Alto and contributed to the loss of other retail stores at those shopping centers. The grocery store closures occurred because of corporate strategy decisions, but are difficult to rectify because of the small site configurations.

However, the favorable market conditions for new grocery stores in Palo Alto have led to Trader Joe's developing a new store at Town and Country shopping center, and have attracted interest from British grocery store operator Tesco to build a Fresh & Easy market in Palo Alto. Both of these grocery store operators tend to develop smaller stores (20,000 square feet or less), and offer a more limited product selection than larger full-service supermarkets. However, even if both of these locations attract new grocery stores, there remains a significant market gap that would likely be filled by a large full-service supermarket.

A new full-service supermarket would need contemporary floor configurations that generally take up at least 50,000 square feet and often more than 100,000 square feet of space. Most of the existing shopping centers in Palo Alto are not large enough to support these newer supermarket configurations and also provide space for other local-serving tenants. Therefore, alternative sites would need to be identified if existing shopping centers cannot accommodate new stores of this size. These shopping centers could add space by constructing a second level, but this potentially raises the development costs and increases the number of parking spaces needed. Typical neighborhood and community-level shopping centers with supermarkets anchoring the center include secondary local-serving tenants such as variety stores, auto parts stores, beauty supply stores, fast food restaurants, small clothing stores, dry cleaners, banks, pet stores, florists, and other small-scale specialty retail stores.

In addition to supermarkets, Palo Alto also has a significant shortcoming in its gasoline service station sales. Compared to the large volume of commuters that pass through Palo Alto on a daily basis, Palo Alto does not have a very large number of gas stations. In addition, many of the existing gas stations in Palo Alto are located on relatively small sites, which limits the number of pumps that the station can provide and creates access problems. Further development of gas stations is likely hindered also by the high cost of land and the relatively low return compared to other development options. All of these factors create a very large amount of unmet spending potential.

ANTICIPATING SHORT-TERM INCREASE IN RETAIL VACANCIES

The retail downturn that occurred in 2008 cut deep across a broad range of different retail store categories, retail chains, and individual stores. Analyst projections anticipate that many retail chains and stores will close in 2009 as low consumer confidence reduces discretionary spending. For Palo Alto, this has the potential to significantly increase the number of retail vacancies throughout the city in a short time.

While many of these vacancies will likely be short-term as retail spending rebounds, some of the vacant spaces will remain vacant or need to convert to other uses. Along aging strip commercial corridors such as El Camino Real in particular, there is a general glut of commercial space as communities have added considerable new commercial space closer to freeway interchanges. This trend has affected Palo Alto, as East Palo Alto and Mountain View have built large-scale power centers adjacent to Highway 101 and eroded the market support for other commercial corridors and business districts. Other Peninsula communities such as Redwood City and Sunnyvale have addressed the long-term vulnerability of El Camino Real by adopting plans for the corridor that include mixed use development, streetscape improvements, and transit-oriented configurations.

Minimizing the negative impacts of retail vacancies should be a short-term objective. This entails keeping viable businesses that face short-term financial shortfalls from going out of business. Potential actions include mobilizing business retention resources and disseminating information about small business loan and grant programs, City programs, and other business assistance resources. It also includes identifying any applicable assistance that might come through the various economic stimulus approaches currently in discussions at the federal level.

STAYING RELEVANT AS RETAIL MARKET EVOLVES

Retail trends can evolve quickly, and thus far, Palo Alto has maintained a strong enough retail base to serve its particular niche in the regional retail market. Keeping on top of changes to these trends is vital because Palo Alto's local retail spending growth is expected to be minimal through 2020. Generally, retail markets grow by increases in the population and/or income growth. In Palo Alto's retail market, population and income growth have been minimal. However, shifts in spending habits also present market opportunities even as the overall demand for retail shows little change. Staying relevant means identifying which retail sectors are growing, and adapting as those shifts within the retail sectors occur. The City needs to recognize potential vulnerabilities within its existing retail centers, and be prepared to proactively address market opportunities. For example, the City has allocated funds to update a market study, originally completed in 2000, of the grocery store sector.

Nationally, the recent trend in retailing has been towards upscale "lifestyle" centers that place emphasis on architectural amenities, outdoor walkable spaces, and more upscale shopping opportunities mixed with entertainment. This was in response to the rising number of "empty nesters" (working couples whose children have grown up and moved out of the house), who have greater discretionary income because they no longer need to support their kids.

To a great extent, potential opportunities with lifestyle centers are already addressed by Palo Alto's existing regional retail centers. The upscale blend of stores and restaurants in downtown Palo Alto and Stanford Shopping Center, with both sites featuring outdoor walkable spaces, place Palo Alto ahead of the curve. However, Valley Fair and Santana Row have emerged as formidable competitors for upscale shopping and dining, and those developments have expansion plans of their own.

Downtown Palo Alto and Stanford Shopping Center represent assets that surrounding communities cannot readily replicate. Shopping malls create constant opportunities for reinvention, as other malls throughout the country have repositioned themselves into a variety of different configurations. Some malls have incorporated power center anchors, such as discount stores and other big box retail stores that have traditionally shunned or have been shunned by regional malls. In addition, other recent lifestyle center developments such as Santana Row in San Jose and the Paseo Colorado in Pasadena have added housing as a way of reinventing a more traditional shopping center.

Currently, the luxury retailing market is most vulnerable, but also represents Palo Alto's greatest strength. Palo Alto's largest unmet retail demand is with local-serving retail uses and middle market big box types of retail stores. In addition, new lifestyle centers have the potential to accommodate entertainment anchors that draw larger shopping crowds. Those types of uses could potentially be accommodated at Stanford Shopping Center and to a lesser extent in the downtown area. However, attracting those types of uses could also detract from the well established image of Stanford Shopping Center as a high end shopping destination and might not generate the high sales per square foot that existing stores do.[19]

---

[19] Silicon Valley/San Jose Business Journal; "Stanford mall eyes expansion"; August 11, 2006.

"This page intentionally left blank"

APPENDIX TABLES

APPENDIX TABLE 1
AREA AND ESTABLISHMENT BENCHMARK SALES

Retail Group	Benchmark Sales Per S.F.	Benchmark Sales Per Establishment
Apparel Store Group		
Women's Apparel	$221	$1,294,460
Men's Apparel	$275	$990,768
Family Clothing	$269	$4,506,418
Shoe Stores	$193	$1,018,435
General Merchandise Group		
Department Stores	$250	$39,872,575
Other General Merchandise	$250	$71,190,146
Drug & Proprietary Stores	$429	$5,833,215
Specialty Retail Group		
Gifts & Novelties	$170	$743,912
Sporting Goods	$221	$1,746,353
Florists	$265	$405,839
Photographic Equipment	$630	$1,663,352
Records & Music	$250	$1,851,940
Books & Stationery	$220	$2,741,838
Office Supplies/Computer Equipment	$202	$4,368,712
Jewelry	$303	$1,168,703
Misc. Specialty Retail	$245	$1,185,116
Food, Eating & Drinking Group		
Grocery Stores	$486	$7,212,758
Specialty Food Stores	$193	$765,481
Liquor Stores	$396	$885,080
Eating Places	$304	$781,556
Building Materials & Home Furnishings Group		
Furniture & Home Furnishings	$200	$1,975,914
Household Appliances & Electronics	$302	$2,188,441
Used Merchandise	$250	$1,083,938
Nurseries & Garden Supply Stores	$150	$2,307,682
Lumber & Other Building Materials	$150	$3,478,464
Home Centers and Hardware Stores	$150	$9,095,824
Paint & Wallpaper	$150	$9,095,824
Automotive Group		
New Cars & RVs	N/A	$41,774,004
Used Car Dealers	N/A	$2,149,803
Gasoline Service Stations	$1,321	$3,169,477
Auto Parts & Accessories	$250	$1,346,580
Other Vehicles	N/A	$4,137,905

Source: ADE, Inc.

APPENDIX TABLE 2
SECONDARY MARKET AREA DEMAND

Retail Group	Primary Market Area Spending	East Palo Alto Household Spending	Portola Valley Household Spending	Los Altos Hills Household Spending	Los Altos Household Spending	Mountain View Household Spending	Atherton Household Spending	Woodside Household Spending	Menlo Park Household Spending	Redwood City Household Spending	Secondary Market Area Household Spending	Total Market Area Household Spending
Total	$1,429,001,945	$154,734,578	$94,685,371	$158,089,043	$440,521,833	$901,934,963	$151,688,987	$108,046,412	$431,431,646	$798,322,016	$3,239,454,849	$4,668,456,794
Apparel Store Group	**$66,682,372**	**$6,662,417**	**$4,478,494**	**$7,508,907**	**$20,433,962**	**$39,830,459**	**$7,228,969**	**$5,120,683**	**$19,556,250**	**$35,214,643**	**$146,034,785**	**$212,717,157**
Women's Apparel	$19,877,424	$1,763,235	$1,222,687	$2,050,949	$5,571,129	$10,751,866	$1,975,555	$1,398,015	$5,304,776	$9,489,515	$39,527,728	$59,405,152
Men's Apparel	$4,225,450	$481,284	$338,689	$568,729	$1,535,840	$2,935,791	$548,764	$387,732	$1,456,089	$2,594,985	$10,847,903	$15,073,353
Family Clothing	$32,172,978	$3,098,794	$2,077,589	$3,482,442	$9,493,991	$18,564,513	$3,352,814	$2,375,742	$9,097,183	$16,409,732	$67,952,801	$100,125,779
Shoe Stores	$10,406,520	$1,319,104	$839,530	$1,406,787	$3,833,001	$7,578,289	$1,351,836	$959,194	$3,698,201	$6,720,411	$27,706,353	$38,112,873
General Merchandise Group	**$273,321,625**	**$28,276,494**	**$16,905,995**	**$28,217,993**	**$78,660,910**	**$162,050,609**	**$27,045,934**	**$19,279,694**	**$77,371,989**	**$143,595,270**	**$581,404,887**	**$854,726,512**
Department Stores	$144,324,760	$13,620,206	$8,822,147	$14,758,254	$40,653,663	$81,062,820	$14,194,381	$10,078,164	$39,301,339	$71,668,900	$294,159,872	$438,484,632
Other General Merchandise	$52,829,900	$8,309,510	$4,824,692	$8,046,827	$22,518,354	$46,969,567	$7,704,338	$5,501,229	$22,292,308	$41,648,931	$167,815,756	$220,645,655
Drug & Proprietary Stores	$76,166,966	$6,346,777	$3,259,156	$5,412,913	$15,488,893	$34,018,222	$5,147,215	$3,700,301	$15,778,342	$30,277,439	$119,429,259	$195,596,225
Specialty Retail Group	**$113,102,989**	**$10,289,629**	**$6,703,786**	**$11,209,442**	**$30,989,572**	**$61,749,429**	**$10,780,337**	**$7,647,763**	**$29,953,847**	**$54,635,039**	**$223,958,844**	**$337,061,832**
Gifts & Novelties	$5,452,987	$614,545	$409,784	$686,539	$1,876,603	$3,692,348	$661,465	$469,050	$1,801,184	$3,262,230	$13,473,747	$18,926,734
Sporting Goods	$10,989,528	$1,332,232	$687,777	$1,133,177	$3,410,703	$7,632,119	$1,077,982	$770,662	$3,503,357	$6,839,657	$26,387,666	$37,377,194
Florists	$2,157,932	$252,133	$190,662	$320,271	$865,850	$1,624,086	$308,968	$217,873	$813,404	$1,429,353	$6,022,599	$8,180,532
Photographic Equipment	$3,979,409	$127,909	$81,026	$134,757	$384,558	$798,202	$129,142	$92,202	$377,566	$701,011	$2,826,373	$6,805,782
Records & Music	$4,137,007	$556,823	$342,607	$571,791	$1,595,063	$3,285,301	$550,408	$392,333	$1,561,533	$2,904,199	$11,760,058	$15,897,065
Books & Stationery	$10,650,049	$1,336,224	$812,414	$1,352,472	$3,852,854	$8,037,085	$1,291,178	$921,567	$3,812,704	$7,093,897	$28,510,396	$39,160,446
Office Supplies/Computer Equipment	$12,131,531	$1,483,327	$1,038,572	$1,740,180	$4,767,704	$9,236,312	$1,675,615	$1,185,806	$4,540,208	$8,144,469	$33,812,192	$45,943,722
Jewelry	$13,861,924	$1,009,660	$966,875	$1,636,445	$4,171,644	$6,902,344	$1,597,775	$1,115,020	$3,687,523	$6,049,425	$27,136,711	$40,998,635
Misc. Specialty Retail	$49,742,621	$3,576,777	$2,174,070	$3,633,811	$10,064,594	$20,541,631	$3,487,804	$2,483,250	$9,856,369	$18,210,797	$74,029,102	$123,771,723
Food, Eating & Drinking Group	**$464,895,977**	**$39,687,652**	**$33,080,210**	**$41,947,015**	**$108,542,980**	**$209,508,323**	**$42,248,490**	**$33,036,045**	**$118,141,922**	**$223,182,359**	**$849,374,996**	**$1,314,270,973**
Grocery Stores	$169,821,041	$22,784,455	$12,193,908	$20,285,331	$57,513,734	$124,354,660	$19,357,960	$13,890,669	$58,011,116	$110,472,865	$438,864,699	$608,685,740
Specialty Food Stores	$7,921,835	$648,662	$338,918	$563,133	$1,607,128	$3,518,137	$536,669	$385,744	$1,631,439	$3,126,280	$12,356,110	$20,277,944
Liquor Stores	$9,028,542	$1,084,965	$701,863	$1,176,115	$3,206,410	$6,340,414	$1,132,332	$803,392	$3,089,802	$5,614,712	$23,150,005	$32,178,546
Eating Places	$278,124,560	$15,169,570	$19,845,522	$19,922,436	$46,215,708	$75,295,112	$21,221,529	$17,956,240	$55,409,565	$103,968,501	$375,004,182	$653,128,742
Building Materials & Home Furnishings Group	**$134,549,569**	**$15,996,541**	**$10,507,713**	**$17,541,713**	**$48,829,691**	**$97,953,881**	**$16,879,721**	**$11,992,616**	**$47,200,525**	**$86,356,462**	**$353,258,863**	**$487,808,432**
Furniture & Home Furnishings	$35,511,890	$4,714,962	$3,236,852	$5,402,898	$14,897,451	$29,296,351	$5,231,581	$3,708,439	$14,167,762	$25,795,243	$106,451,538	$141,963,429
Household Appliances & Electronics	$40,408,138	$3,121,146	$2,006,406	$3,351,627	$9,304,944	$18,785,900	$3,223,699	$2,293,025	$9,034,403	$16,572,630	$67,693,780	$108,101,918
Used Merchandise	$2,426,741	$326,382	$217,753	$364,302	$1,001,766	$1,978,903	$351,020	$248,955	$961,929	$1,747,182	$7,198,193	$9,624,935
Nurseries & Garden Supply Stores	$11,511,512	$1,503,753	$1,074,572	$1,802,395	$4,911,207	$9,418,350	$1,735,427	$1,226,667	$4,664,530	$8,302,455	$34,639,356	$46,150,868
Lumber & Other Building Materials	$26,357,510	$3,870,642	$2,322,746	$3,861,525	$11,078,267	$23,326,729	$3,685,562	$2,633,946	$11,006,867	$20,575,727	$82,362,009	$108,719,519
Home Centers and Hardware Stores	$16,656,137	$2,250,110	$1,527,188	$2,555,701	$7,056,748	$13,923,434	$2,457,640	$1,742,505	$6,789,127	$12,277,688	$50,580,142	$67,236,279
Paint & Wallpaper	$1,677,640	$209,547	$122,196	$203,265	$579,308	$1,224,214	$194,791	$139,078	$575,908	$1,085,537	$4,333,844	$6,011,485
Automotive Group	**$376,449,413**	**$48,421,338**	**$29,285,720**	**$48,846,036**	**$137,120,170**	**$283,644,265**	**$46,843,289**	**$33,408,669**	**$134,799,702**	**$250,939,008**	**$1,013,308,198**	**$1,389,757,612**
New Cars & RVs	$184,677,891	$26,250,158	$17,838,839	$29,861,184	$82,177,712	$161,717,212	$28,759,303	$20,394,982	$78,740,860	$142,576,004	$588,316,254	$772,994,145
Used Car Dealers	$13,607,115	$1,927,889	$1,316,945	$2,204,835	$6,062,349	$11,902,510	$2,123,875	$1,505,756	$5,802,142	$10,492,746	$43,339,046	$56,946,161
Gasoline Service Stations	$161,819,735	$17,496,240	$8,747,121	$14,495,334	$42,112,147	$94,687,948	$13,788,042	$9,942,988	$43,280,355	$84,223,093	$328,773,270	$490,593,005
Mobile Homes & Trailers	$83,719	$13,489	$7,595	$12,659	$35,452	$74,676	$12,119	$8,668	$35,221	$66,284	$266,163	$349,882
Auto Parts & Accessories	$9,530,954	$1,660,467	$793,806	$1,311,732	$3,879,508	$8,998,806	$1,244,220	$902,393	$4,044,174	$7,986,568	$30,821,674	$40,352,628
Other Vehicles	$6,729,999	$1,073,095	$581,414	$960,291	$2,853,002	$6,263,112	$915,730	$653,883	$2,896,951	$5,594,314	$21,791,791	$28,521,791

Source: ADE, Inc.