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Urban and Regional Planners

M E M O R A N D U M

To: City of Palo Alto
From: Dyett & Bhatia
Re: Downtown Development Cap: Summary of Business and Employment Density Survey
Date: November 13, 2014

PURPOSE

This memorandum summarizes the methodology and key findings of the Business Survey conducted as part of Phase I of the Downtown Development Cap Study for the City of Palo Alto. The survey was intended to assess employment density (square feet per worker), commuting trends, and other business operation trends in Downtown Palo Alto. It was conducted by The Henne Group (THG)—a research, surveying, and public opinion firm based in San Francisco, and the same firm that conducted the Intercept Survey earlier in this process.

METHODOLOGY

Because Palo Alto does not currently have a business license program, a complete and accurate list of Downtown businesses was not readily available from which the survey could sample. Therefore, respondents were contacted from a list of 774 Downtown businesses compiled from several sources. The list was initially sourced from a list of businesses in the Downtown Business Improvement District (BID) provided by the City. THG supplemented this list by performing an in-field census, walking the area and noting businesses missing from the BID list. While the final list is comprehensive, it is not complete; the BID list was incomplete and THG could not gain access to some of the larger buildings to enumerate all of the businesses contained therein.

A total of 257 surveys were completed from April 24 through May 28, 2014—234 by telephone and 23 on the web via a link distributed with assistance from the Palo Alto Chamber of Commerce. Five additional surveys were completed between July 21 and August 1, 2014 in response to direction from the City to pursue additional data from tech companies, for a final combined total of 262 responses. The 262 responses out of 774 represent a 34% response rate.

Finally, building sizes were added to the sample; these were gathered from the parcel and CoStar data provided by Dyett & Bhatia, online commercial real estate databases, and visual estimates from THG staff. The distribution of completes by building size group closely matched the distribution of sample records.

While the primary objective of the survey was to assess employment density, the survey also included other questions pertinent to the Downtown Development Cap Study and to planning and economic development for the Downtown area in general. Topics included:

- Business's occupied gross square footage
- Whether the business occupied part or all of the building in which they were located
- Number of employees working full- and part-time
- Typical operating hours
- Type of business
- Tenure in Downtown Palo Alto
- Reasons for locating in Downtown Palo Alto
- Provision of on-site parking, how much, whether it is free or paid
- Means of employees' commutes and commuting incentives offered
- Expansion plans and probable location of any expansion
- Perceived effects of Palo Alto's planning/permitting process on any expansion plans
- Perceived effects of changes in the city's or the region's demographics on the business

EMPLOYMENT DENSITY RESULTS

One of the primary objectives of the Downtown Development Cap study in general, and of the Business Survey in particular, is to better understand the way in which businesses are using available space in Downtown Palo Alto. While new construction since the cap was established (in 1986) has only accounted for less than 10 percent of the total building square footage in the Primary Study Area today, Downtown is perceived by many to have experienced noticeable increases in traffic, parking difficulties, and general activity that seem out of proportion to the amount of new development that has occurred. This implies that there may have been a shift in the uses of existing buildings and the intensity of uses throughout Downtown—not just in the new space constructed in the last 28 years.

Anecdotally, Downtown has seen a shift in the mix of businesses that includes a greater number of office uses; moreover, many of these newer offices seem to be “start-ups” in the technology and software fields with nontraditional, informal office layouts featuring communal work tables rather than cubicles or individual office spaces. The mix of businesses and the density of employees within these businesses have implications for how the City sets policy for future Downtown development.

While the overall response rate for the Business Survey was high (34%), the representation of tech companies was low, even though the precise total number of tech companies located Downtown is not known. Only 23 of the 262 responses identified as tech firms (9%). This sample size appears too small to draw any conclusion. The largest share of responses was received from the finance, insurance, and real estate (FIRE) industries followed by retail and restaurant uses. The data does confirm some of the trends observed in Downtown Palo Alto over the last few years—in particular, for traditional office and retail uses. The median square feet per employee use for traditional office uses (including professional services) range from 315 square feet to 645 square feet based on the size of the establishment. Median employment density for retail uses including but not limited to gyms, yoga or pilates studios, garages and auto shops, salons, spas, art galleries, jewelry stores, bike shops etc. range from 430 square feet to 900 square feet depending on the size of the establishments and number of employees. The food service or restaurant establishments have median square feet range of 150-to 600 square feet depending on their size and number of employees. All of these employment density ranges are within the expected ranges found in other similar communities.

OTHER GENERAL RESULTS

Beyond employment density, key findings from the Business Survey are as follows.

- Most Downtown businesses are small in size and occupy space in multi-unit buildings alongside other tenants
 - Over 80% occupy less than 5,000 square feet
 - Nearly two-thirds have 10 or fewer employees
- While most employers observe that the majority of their employees drive alone to work, few can accommodate them with on-site parking; this is a likely contributor to the Downtown area's parking issue, which many perceive to be a real problem
- Most businesses are well-established; more than three-fourths (76%) have been located in the area for six years or more, and nearly half (46%) have been there for more than a decade
- Most business occupants seem content with the area; many have been in residence for several years and few are planning on leaving
- Most businesses (69%) do not offer commuting incentives to their employees
 - Those that do offer flex hours (16%), telecommuting (13%), and transit subsidies or reimbursements (12%)
 - Just over half (53%) of all tech firms offer commuting incentives, the most of any business type
- Most businesses (62%) do not provide parking to their employees
 - Nearly every business that provides parking (95%) provides free parking

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- Most of those that do offer parking seem to have enough space to accommodate their staff; only 12% said that they had fewer parking spaces than employees
- Almost everyone (88%) said that their business did not have future plans for expansion
 - Two-thirds (68%) of those who did said that they were planning on expanding within their own building or somewhere else Downtown
- Three-quarters (77%) said that they did not perceive that changes to the local demographic were bringing change to their business
 - Those that did perceive changes cited more people in the area, lack of parking, rising rent/cost of doing business, and increased affluence
- Most businesses seem content with the Downtown area; many are long-term tenants, few are planning on leaving, and most feel unaffected by changes to the local demographic or the City's planning or permitting activities
- Though respondents were not asked about this directly, the data suggests that most businesses have enough space to accommodate their employees without overcrowding; this is largely because most businesses in the area carry fairly small staffs
- Those who did identify issues in the Downtown area pointed to insufficient parking, traffic congestion, and increases in rent and other operating costs brought on by an influx of bigger businesses

CONCLUSIONS

The Business Survey provided some valuable information on the types, sizes, and other characteristics of businesses in Downtown Palo Alto that are helpful to the Downtown Development Cap Study and other ongoing City efforts to improve parking in the area. The data collected affirms the expected values of employment density for a several business types, including restaurant and retail. However, while the data does show tech companies operating with somewhat lower than average square footage per employee than other business types, the sample size of these companies was too small to be able to draw concrete and defensible conclusions. The difficulty in obtaining this data lends support for the idea of establishing a Business License or Registry program, from which more accurate and comprehensive records on business types, sizes, and spaces could be tracked and analyzed.