

Economic Analysis for Sunnyvale El Camino Real Corridor Plan

Based on comments regarding the intent of the market demand and feasibility analysis (Task 3.1 of the consultant's scope of services) for the update to the Precise Plan for El Camino Real, staff believes that it would be beneficial to clarify the purpose and assumptions for the analysis.

A market analysis is beneficial and often essential when preparing a general plan, specific plan or area plan. It provides insights into the market demand for contemplated land uses and informs decision makers about the financial feasibility of particular development types and land use densities. A plan is only a plan and is unlikely to be implemented if it does not reflect financial or market realities, which is why such an analysis is an important foundational element for general plan and land use studies. However, while land use economics are typically considered when formulating policy plans, this does not negate or minimize other significant policy considerations such as community preferences and the environmental impacts of land use options.

A market analysis can also assist decision makers in crafting land use policies and regulations to direct or incentivize development in order to achieve the land use goals of the city. A market analysis is a common scope of work item and is included in the consultant's contract for other Sunnyvale plans, such as the Lawrence Station Area Plan and Peery Park Specific Plan. Council has also endorsed preparing a market analysis to assess the appropriate land use mix and amount of retail space for the Town Center project.

Consistent with other City planning efforts, the update of the Precise Plan for El Camino Real includes a market analysis to test the viability of certain land uses along the corridor. This analysis is particularly important for the plan update because many economic factors will influence the future direction for this important commercial corridor. The premise of the market analysis is not to justify eliminating or weakening the commercial potential of the corridor. Instead, the analysis will examine a range of economic issues with no preconceived objectives, such as:

- The retail industry is evolving with the downsizing and transformation of certain retail sectors. New retail opportunities are also emerging to respond to changing demographics and customer preferences. Much discussion surrounds the growing impact of Internet sales on traditional brick-and-mortar retail establishments, which are prevalent along El Camino Real. Understanding the future of retailing is important when formulating effective land use policies to support commercial uses.
- Questions have been raised about the amount of commercial uses that should be required for mixed use projects. For instance, developers have voiced that the minimum 20 to 25 percent floor area ratio (FAR) standard for commercial uses is not realistic, and the market analysis would provide insight on this claim.
- The City Council waived the preference for commercial uses at the Butcher's Corner site because of concerns over traffic congestion and development density and asked staff to reevaluate this policy for this mixed use node. The market analysis could suggest the feasible location, amount and type of commercial uses at the nodes and the rest of the corridor, while balancing community concerns about traffic congestion and development density.

- Residential zoning generates the highest land value for property owners, but this could be detrimental for retaining existing retail tenants or attracting new commercial development that cannot pay the high land prices and rents. The market analysis would be useful for formulating strategies and regulations for preserving a strong commercial base along the corridor while allowing for other land uses along the corridors.
- The market analysis would evaluate the strengths and weaknesses of the commercial corridor. While gross square footage of commercial space is one indicator of economic strength, other factors such as retail mix, sales per square foot by type, retail leakage and industry trends can be more insightful and useful to inform policy makers.
- Considerable interest has been expressed for residential and hotel development on El Camino Real to respond to current market conditions. While the analysis will examine the feasibility of these land uses, concern has been expressed that allowing sites to be converted for such uses will be detrimental to the commercial corridor. The market analysis would address the validity of this concern and assist policy makers in determining the appropriate balance of uses to complement, support and strengthen retail activity along the corridor.

A comment was made that the market study will explore the feasibility of auto sales along the corridor for the purpose of relocating these uses. While understanding the future of the auto industry is an important component of the market analysis for El Camino Real, eliminating auto sales uses is certainly not the intent of the plan update. Staff believes that the discussion in Task 3.1 about the difficulties faced by auto dealerships may have contributed to this misconception. This discussion recognizes that auto dealerships need to modernize and expand to meet manufacturer requirements, but are challenged due to limited sites and rising land prices along the corridor.

An economic study was previously prepared on the feasibility of relocating dealerships to create an auto center at the former Onizuka Air Force Station site. Ultimately, this proposal proved to be infeasible as auto dealers preferred to stay on El Camino Real. With this background, the market analysis would assess the economic challenges faced by the auto dealerships, recognizing that relocation is an unlikely option. This analysis could inform policy makers about effective tools for retaining auto sales on El Camino Real. Possibilities discussed at staff level include an auto sales combining district, setting a minimum amount of land along the corridor devoted for auto sales, or preserving or expanding zoning at other city locations for auto service, repairs and storage.