

ECONOMICS

EXISTING CONDITIONS REPORT

PUBLIC REVIEW DRAFT

JANUARY 2015



CONNECTMENLO

menlo park land use & mobility update

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OVERVIEW

This Report examines current economic conditions in Menlo Park in order to inform the General Plan and M-2 Zoning Update (also referred to as ConnectMenlo). Key findings are summarized first, followed by more detailed analysis of demographic, employment, economic, real estate, and fiscal trends for the City of Menlo Park that are compared to the region. The analysis of economic conditions provides background information to inform future consideration of community benefits that could be provided by future development in the M-2 Area. The potential community benefits include land uses desired by the community, improvements to support various transportation modes such as bicycles and shuttles, open space and park improvements, community-oriented programs, or other benefits. Alternative M-2 Area land use programs will be studied and tested for feasibility in order to quantify the amount of community benefits that can be obtained. Then the City will consider the specific public improvements it will seek from new M-2 Area development.

Potential General Plan Update land use changes will be focused on the M-2 Area, and potentially the Belle Haven neighborhood for local-serving retail uses. Because the M-2 Area consists primarily of commercial and industrial uses, much of the following discussion focuses on employment and commercial land use conditions and trends. Since the Belle Haven neighborhood is primarily residential, a portion of the following discussion focuses on demographic trends in Belle Haven and how they affect the potential for new retail. One land use trend that may affect both areas is the shift in companies' and workers' desire for environments that offer a mix of employment, residential, and retail and entertainment uses, also referred to as "live-work-play" environments. This is particularly relevant in the M-2 Area because it is home to campus office environments, which provide on-site food and other services.

DEMOGRAPHIC TRENDS

This section details demographic and housing trends for the City of Menlo Park. Demographic data were compiled from several sources. The American Community Survey (ACS) publishes estimates of demographic conditions over 1-year, 3-year, and 5-year periods, depending on the type of data and population in the

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geographical area being sampled.¹ While these data cannot represent conditions at a specific point in time, they are updated on an annual basis and do offer a valuable means to compare characteristics across neighborhoods. Nielsen Market Data, a private provider of demographic analytic services, was also used to provide data on certain demographic conditions. Resident employee profile data was provided by the California Employment Development Department. To the extent that data were available, information is presented for the City of Menlo Park benchmarked against the combination of Santa Clara and San Mateo counties, as representative of most of the Silicon Valley area and referred to throughout this analysis as the “Combined Counties,” and the greater Bay Area.²

POPULATION AND HOUSEHOLDS

The City of Menlo Park is home to 32,896 residents with an average of 2.6 persons per household, according to current California Department of Finance estimates. Between 2000 and 2014, Menlo Park saw a population increase of 7 percent, compared to a 9 percent increase in the Combined Counties and the larger Bay Area. Unlike growth in the region, Menlo Park’s growth is marked by an increase in household size rather than an increase in the total number of households. Between 2000 and 2014, the average household size increased from 2.4 to 2.6 persons per household (Figure 1), or nearly 8 percent. Household growth in the Combined Counties and the Bay Area only grew by 2 percent during the same time period. However, average household size in Menlo Park (2.6) is still smaller than the Combined Counties and the Bay Area (2.9 and 2.8, respectively).³

Counter to these citywide trends, Belle Haven experienced a decrease in population in recent years, from 6,095 residents in 2000 to 5,605 residents during the 2008-2012 ACS survey period. During the same time period, the number of households in Belle Haven (1,336 in 2008-2012) remained relatively constant. These changes are reflected in a smaller average household size in Belle Haven during the 2008-2012 ACS survey period (3.2 persons per household) compared to 2000 (4.6 persons per household), although the average household size in Belle Haven remains above the citywide average.⁴

¹ The ACS provides data for small geographies, including the Census Tract that encompasses Belle Haven, based on surveys conducted over a 5-year period. While these data are not directly comparable to data collected over a three-year period for the City and other larger geographic areas, it does provide a way to approximate differences between various geographic areas.

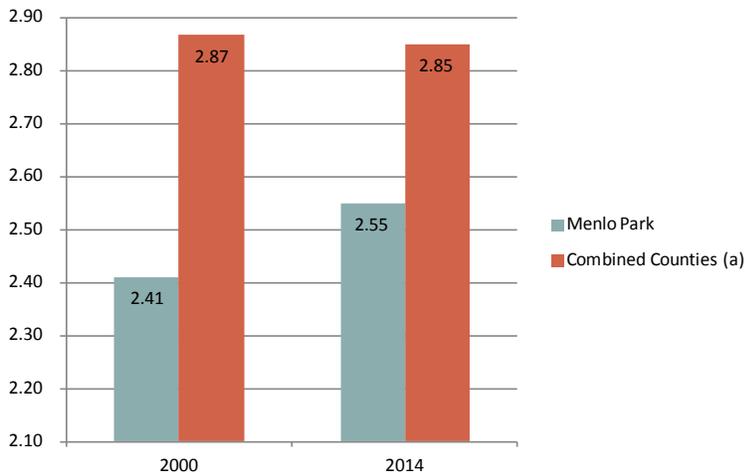
² The Bay Area as defined here consists of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma Counties.

³ California Department of Finance, 2014. *Census 2000*.

⁴ American Community Survey (ACS), 2008-2012. *Census 2000*.

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FIGURE 1 AVERAGE HOUSEHOLD SIZE, 2000 & 2014



Note: (a) Includes Santa Clara and San Mateo Counties.

Sources: US Census, 2000; California Department of Finance, 2014; BAE, 2014.

Between 2000 and 2010, the number of single person households and households with two or more persons without children under 18 years of age decreased in Menlo Park, as shown in Table 1. At the same time, the number of households with children increased, which reflects the increase in average household size. The Combined Counties and Bay Area also experienced an increase in the number of households with children under 18, but, counter to trends in Menlo Park, also saw an increase in the number of single person households.⁵ The growth in households with children in Menlo Park suggests increased demand for school enrollment and family- and youth-oriented retail and services.

AGE

Between 2000 and 2014, the median age of Menlo Park residents increased from 37.4 to 39.0, consistent with national and regional trends as the Baby Boomer generation ages. This resulted in a slightly higher median age in Menlo Park than in the Combined Counties, where the median was 38.0 in 2014.⁶ The median age among Belle Haven residents increased from 25.4 in 2000 to 28.7 during the 2008-2012 ACS survey period, remaining considerably below the citywide median (and without Belle Haven, the median age of the balance of Menlo Park’s population would be above 40 years).⁷

⁵ Census, 2000 & 2010.

⁶ Census, 2000; Nielsen, 2014.

⁷ Census, 2000; ACS, 2008-2012.

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TABLE 1 HOUSEHOLD COMPOSITION, 2000-2010

Household Type	Menlo Park		Palo Alto		Mountain View		Combined Counties		Bay Area ^a	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
Single Person	3,979	3,672	8,209	7,982	11,133	10,961	183,735	194,725	637,575	680,925
2+ Persons w/o Child <18										
Married Couple	3,144	2,931	6,568	6,832	7,117	7,141	225,726	222,977	597,346	639,283
Other Family	677	550	1,164	1,060	1,938	1,716	64,880	61,693	149,931	183,530
Non-Family	1,271	1,082	2,361	1,995	4,111	3,408	66,615	62,588	225,000	234,135
2+ Persons w/Child(ren) <18										
Married Couple	2,595	3,232	5,660	7,143	5,373	6,665	219,791	242,773	618,030	623,824
Other Family	704	860	1,201	1,442	1,481	1,993	56,413	74,988	229,163	239,335
Non-Family	17	20	53	39	89	73	2,806	2,297	8,974	6,991
Total	12,387	12,347	25,216	26,493	31,242	31,957	819,966	862,041	2,466,019	2,608,023
Household Type	Menlo Park		Palo Alto		Mountain View		Combined Counties		Bay Area ^a	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
Single Person	32%	30%	33%	30%	36%	34%	22%	23%	26%	26%
2+ Persons w/o Child <18										
Married Couple	25%	24%	26%	26%	23%	22%	28%	26%	24%	25%
Other Family	5%	4%	5%	4%	6%	5%	8%	7%	6%	7%
Non-Family	10%	9%	9%	8%	13%	11%	8%	7%	9%	9%
2+ Persons w/Child(ren) <18										
Married Couple	21%	26%	22%	27%	17%	21%	27%	28%	25%	24%
Other Family	6%	7%	5%	5%	5%	6%	7%	9%	9%	9%
Non-Family	0.1%	0.2%	0.2%	0.1%	0.3%	0.2%	0.3%	0.3%	0.4%	0.3%
Total	100%	100%	100%	100%						

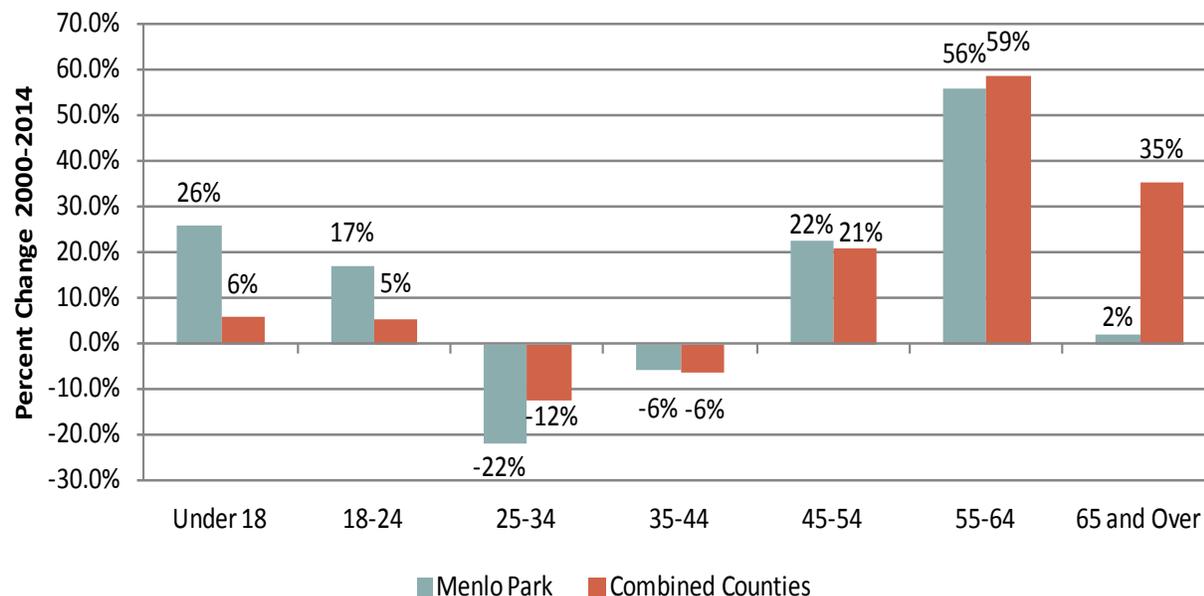
a. The nine-county Bay Area includes Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma Counties.
Sources: US Census 2000, 2010; BAE, 2014.

Between 2000 and 2014, Menlo Park saw a larger increase in the proportion of residents under the age of 18 and a smaller increase in the proportion of residents over the age of 65 compared to the region. While the entire population grew by 10 percent from 2000 to 2014, the under 18 population grew by nearly 26 percent, and the population over 65 grew by just 2 percent. Compared to the Combined Counties, Menlo

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Park has seen a much larger increase in the share of population under 18, and a much slower increase in the share of population over 65 (Figure 2).⁸ The increase in Menlo Park families with children is driving this change, along with a decline in seniors continuing to live in Menlo Park as they age.

FIGURE 2 CHANGE IN AGE DISTRIBUTION, 2000 & 2014



Sources: US Census, 2000; Nielsen Marketplace, 2014; BAE, 2014.

Both Menlo Park and the Combined Counties saw a decrease in the population between ages 25 and 34.⁹ This could be due to a variety of factors, including children raised in Menlo Park leaving for other locations, the preference for many in this age range to live in more urban environments, or the inability to afford to live in Menlo Park, especially for younger persons early in their careers and young families.

INCOME AND EDUCATIONAL ATTAINMENT

Menlo Park residents have significantly higher median incomes when compared to the larger region, as shown in Figure 3. As of 2012, the median household income in Menlo Park was approximately \$109,200, which was 23 percent higher than the median in the Combined Counties and 43 percent higher than the median in the Bay Area that year. Just over 26 percent of Menlo Park households have annual incomes of

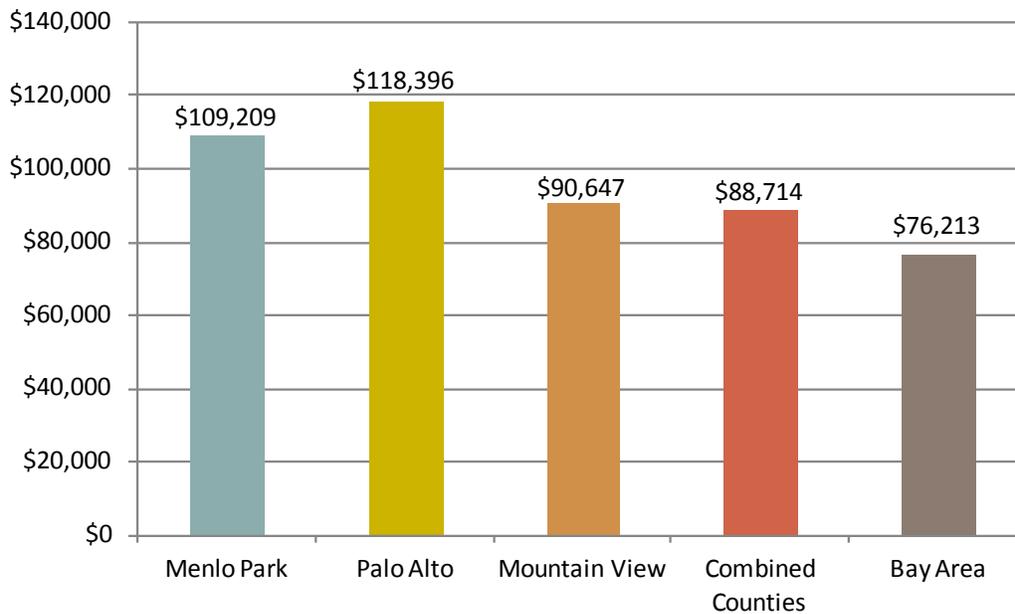
⁸ Census, 2000; Nielsen, 2014.

⁹ Census, 2000; Nielsen, 2014.

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\$200,000 or more, a much greater proportion than the Combined Counties (15 percent) and the Bay Area (12 percent).¹⁰

FIGURE 3 MEDIAN INCOME, 2012



Note: Estimate from American Community Survey (ACS) 2010-2012 3-year data, based on a survey conducted continuously over the 3-year period. All incomes adjusted to 2012 dollars.
Sources: ACS, 2010-2012; BAE, 2014.

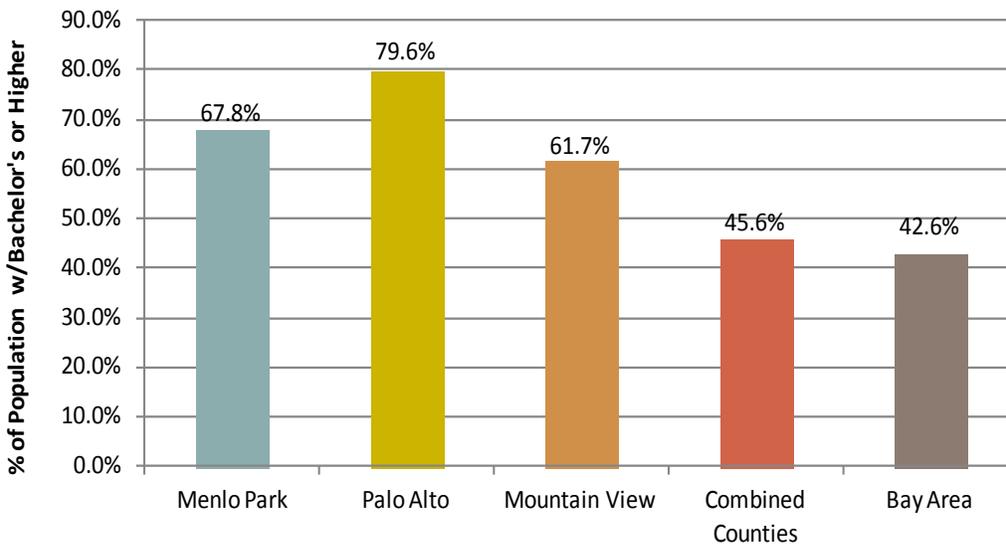
While incomes citywide tend to be high relative to the region, incomes in the Belle Haven neighborhood are lower compared to the region overall. According to ACS data collected between 2008 and 2012, the median income in Belle Haven was \$51,250, less than half of the citywide median.

Residents of Menlo Park have high levels of educational attainment. According to ACS data collected between 2010 and 2012, nearly 68 percent of residents age 25 or older had a bachelor's degree or higher, compared to 46 percent of residents age 25 or older in the Combined Counties and 43 percent of Bay Area residents age 25 or older (Figure 4). Palo Alto and Mountain View also have a high percentage of residents with bachelor's degrees or higher, indicating a wealth of well-educated persons in the area.

¹⁰ ACS, 2010-2012.

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FIGURE 4 POPULATION WITH A BACHELOR'S DEGREE OR HIGHER, 2012



Note: Based on population age 25 or greater. Estimate from American Community Survey (ACS) 2010-2012 3-year data, based on a survey conducted continuously over the 3-year period.

Sources: ACS, 2010-2012; BAE, 2014.

RESIDENT EMPLOYMENT PROFILE

This section provides information on occupations and industries of employment for Menlo Park residents. Occupation data relate to the type of tasks workers perform, whereas industry data relate to the economic sector in which a worker is employed. Data on the industries represented among jobs located in Menlo Park, which may or may not be held by Menlo Park residents, are presented separately in the Economic Development Overview section of this chapter.

OCCUPATION

The majority of Menlo Park residents work in the management, business, science, and arts occupations, as shown in Table 2. According to 2008-2012 ACS data, just over 65 percent of residents were employed in these occupations. This is significantly higher than the Combined Counties (48 percent) and the Bay Area (45 percent). Menlo Park also had fewer residents employed in service occupations and sales and office occupations when compared to the region.

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TABLE 2 EMPLOYED RESIDENTS BY OCCUPATION, 2012^a

Occupation	Menlo Park		Combined Counties		Bay Area ^b	
	Number	% Total	Number	% Total	Number	% Total
Management, Business, Science, Arts	10,276	65.4%	573,411	47.9%	1,538,486	45.2%
Service	1,803	11.5%	186,396	15.6%	564,941	16.6%
Sales & Office	2,519	16.0%	260,348	21.8%	775,027	22.8%
Natural Resources, Construction, Maintenance	472	3.0%	79,329	6.6%	238,540	7.0%
Production, Transportation, Material Moving	635	4.0%	96,491	8.1%	276,784	8.1%
Military Specific Occupations	0	0.0%	237	0.0%	6,421	0.2%
Total	15,705	100.0%	1,196,212	100.0%	3,400,199	100.0%

a. Estimate from American Community Survey (ACS) 2008-2012 5-year data, based on a survey conducted continuously over the 5-year period.
b. The nine-county Bay Area includes Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma counties.
Sources: ACS, 2008-2012; BAE, 2014.

INDUSTRY

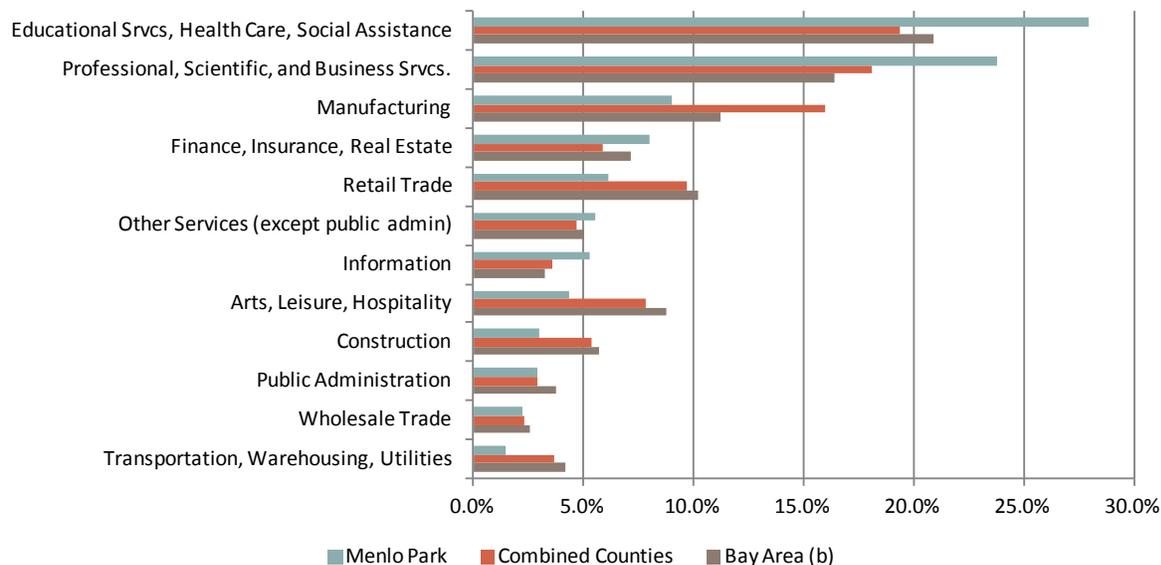
The educational services, healthcare, and social assistance industry is the most common industry of employment among Menlo Park residents, according to ACS data collected between 2008 and 2012. Twenty-eight percent of employed residents held jobs in this industry, while the Combined Counties and Bay Area only had 19 and 21 percent of their respective residents employed in the same industry. A significant portion of Menlo Park residents were employed in the professional, scientific, and business services industry, which accounted for 24 percent of jobs among Menlo Park residents, but only 18 percent of jobs among residents in the Combined Counties and 16 percent of jobs among Bay Area residents (Figure 5). Both the educational services, healthcare, and social assistance industry, and the professional, scientific, and business services industry are large and growing industries in the region, suggesting stable employment for many Menlo Park residents. Other employment industries accounted for less than half of jobs held by Menlo Park residents.

The educational services, healthcare, and social assistance industry and the professional, scientific, and business services industry accounted for a smaller share (21 percent and 20 percent, respectively) of jobs held by Belle Haven residents than among residents of the city as a whole, but were nonetheless the largest employment industries among Belle Haven residents. Compared to the city as a whole, a larger share of Belle Haven residents held jobs in the service industry (16 percent of employed residents) and leisure and hospitality industry (10 percent of employed residents).¹¹

¹¹ ACS, 2008-2012.

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FIGURE 5 EMPLOYED RESIDENTS BY INDUSTRY, Q3 2012^a



a. Estimate from American Community Survey (ACS) 2008-2012 five-year data, based on on a survey conducted continuously over the 5-year period.
b. The nine-county Bay Area includes Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma counties.
Source: ACS, 2008-2012; BAE, 2014.

POPULATION AND HOUSEHOLD PROJECTIONS

The Association of Bay Area Governments (ABAG) provides population, household, and employment projections for each city and county in the Bay Area. These projections are based on a regional model that estimates overall population, household, and employment growth in the region. This growth is then allocated to various jurisdictions based on available land for development and policy objectives.

Menlo Park is expected to grow at a relatively moderate pace through 2040, according to ABAG estimates. As shown in Table 3, the population of Menlo Park is projected to increase by 19 percent between 2010 and 2040, while the number of households in the city is projected to increase by 18 percent. Projections show a faster rate of population and household growth in San Mateo County (26 percent and 22 percent, respectively), and the Bay Area (30 percent and 27 percent, respectively). Although projections estimate that growth in Menlo Park will be somewhat limited, the city’s robust employment opportunities and position within Silicon Valley suggest that the city has the potential to capture a larger share of regional residential demand than projected.

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TABLE 3 POPULATION AND HOUSEHOLD PROJECTIONS, 2010-2040

	2010	2015	2020	2025	2030	2035	2040	% Change 2010-2040
Population								
Menlo Park	32,026	32,900	33,800	34,700	35,800	36,900	38,100	19%
San Mateo County	718,451	745,400	775,100	805,600	836,100	869,300	904,400	26%
Bay Area ^a	7,150,739	7,461,400	7,786,800	8,134,000	8,496,800	8,889,000	9,299,100	30%
Households								
Menlo Park	12,347	12,700	13,070	13,420	13,790	14,150	14,520	18%
San Mateo County	257,837	267,150	277,200	286,790	296,280	305,390	315,100	22%
Bay Area ^a	2,608,023	2,720,410	2,837,680	2,952,910	3,072,920	3,188,330	3,308,090	27%

a. The nine-county Bay Area includes Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma counties.
Source: ABAG, 2013; BAE, 2014.

ECONOMIC DEVELOPMENT OVERVIEW

Economic development is essential to the city’s future, and involves the attraction, retention, and growth of companies in Menlo Park and the jobs they create. This requires providing companies with the facilities they need. All residents in Menlo Park have a stake in successful economic development because the fiscal revenues that it creates are key to the long-term sustainability of the City’s budget. Economic development also creates job opportunities for local residents, which can reduce congestion impacts from cross-commuting. Additionally, economic development supports expanded choices in housing, retail, and services that enhance the city and can fund community benefits and improvements via new projects.

This section of the report presents information on employment and commute flow for workers in Menlo Park. Employment data was supplied by the Quarterly Census of Employment and Wages (QCEW), as provided by the California Employment Development Department (EDD). Commute flow data was provided by the American Community Survey’s (ACS) Census Transportation Planning Package (CTPP) that contains statistical survey data collected between 2006 and 2010.

EMPLOYMENT

This section provides information on jobs in Menlo Park. While some jobs located in Menlo Park are held by Menlo Park residents, a large share of jobs in Menlo Park are held by residents of other communities. Likewise, a large share of Menlo Park residents are employed in jobs located outside of the City of Menlo Park (commute data are discussed in greater detail below). As a result, the data presented in this section are

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distinct from the data presented in the section above on Menlo Park residents’ occupation and industry of employment.

The M-2 Area is the key to the city’s economy; in 2012 it contained 48 percent of the city’s jobs.¹² It is also home to clusters in three rapidly growing high-tech sectors:

- Information/Social Media (such as Facebook and related companies)
- Life Sciences (including Pacific Biosciences and CS Bio)
- Medical Devices (such as Evalve and Abbot Vascular)

The diverse economy in the M-2 Area includes traditional manufacturing, firms that provide services to the high-tech industry (including the Orrick, Herrington & Sutcliffe law firm), and traditional industrial users who offer jobs to medium- and lower-skill workers (like Gachina Landscape Management and Cupertino Plumbing Supply).

The largest employers in Menlo Park span a number of industries, including high tech, government, biotechnology, financial services, and retail. The ten largest employers in Menlo Park represent nearly one-third of wage and salary employment in Menlo Park. The largest employer by far is Facebook, located in the M-2 Area, followed by SRI International, which is located outside of the M-2 Area near the Caltrain station. The largest employers in Menlo Park are listed in Table 4.

The professional, scientific, and technical services industry is the largest employment industry in Menlo Park, accounting for 35 percent of jobs located in the City (see Figure 6). The second largest industry that employs workers in Menlo Park is manufacturing, followed by financial activities, leisure and hospitality, and education and health care. These data demonstrate the difference between the predominant industries of employment for Menlo Park residents (as shown in Figure 5) and the predominant industries among jobs located in Menlo Park (as shown in Figure 6).

TABLE 4 TOP EMPLOYERS IN MENLO PARK, 2012-2013

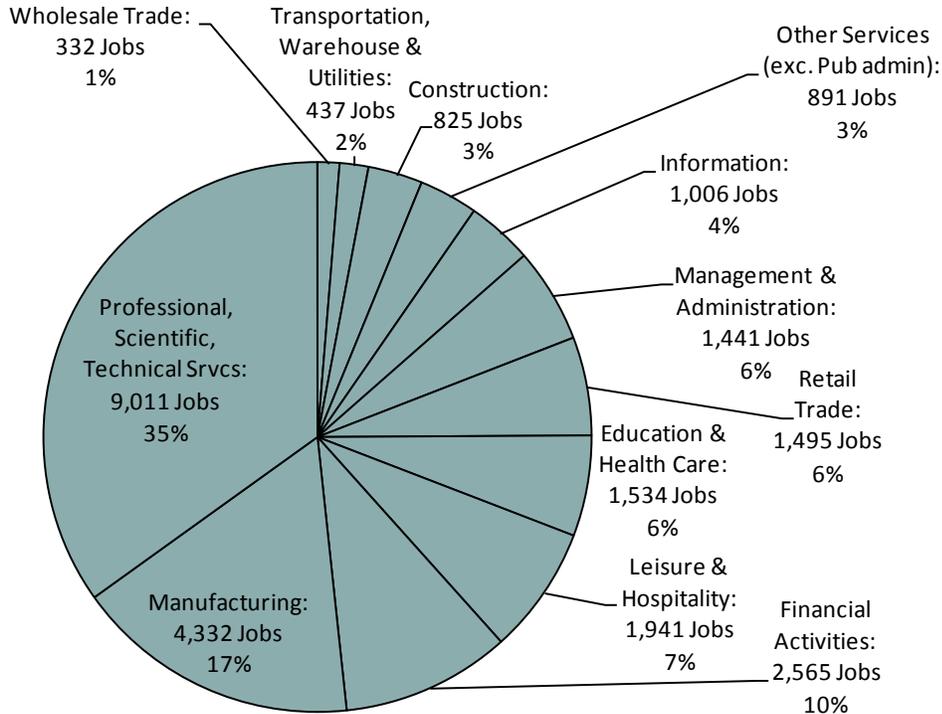
Firm Name	Number of Employees
Facebook, Inc.	2,865
SRI International	1,421
Menlo Park VA Medical Center	837
TE Corporation	747
SHR Hotel, L.L.C.	458
US Geological Survey	454
E*Trade Financial Corporation	370
Evalve Inc	328
Pacific Biosciences of California	300
Safeway Stores, Inc.	264

Note: All employment estimates from City of Menlo Park Business License Database, annual data from 2013, except for Federal employment, which is 3Q 2012 from BLS/EDD QCEW program.
Sources: City of Menlo Park; U.S. Department of Labor, Bureau of Labor Statistics QCEW Program; California Employment Development Department, 2014; BAE, 2014.

¹² US Department of Labor, Bureau of Labor Statistics QCEW Program, 2012.

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FIGURE 6 EMPLOYMENT BY INDUSTRY BY PLACE OF WORK IN MENLO PARK, Q3 2012



Notes: The Quarterly Census of Employment and Wages (QCEW) program publishes a quarterly count of employment and wages reported by employers covering 98 percent of US wage and salaried jobs, available at the county, MSA, state and national levels by industry. Data are derived from the quarterly tax reports submitted to State workforce agencies by employers, subject to State UI laws and from Federal agencies subject to the Unemployment Compensation for Federal Employees (UCFE) program. Data here are average monthly employment for the third quarter of 2012. Sources: US Department of Labor, Bureau of Labor Statistics QCEW Program; California Employment Development Department, 2014; BAE, 2014.

With the relocation of Facebook to Menlo Park, Menlo Park experienced a 71 percent increase in the professional, scientific, and technical services industry and a 201 percent increase in the information industry between 2007 and 2012. During the same time period, Menlo Park lost workers in construction, manufacturing, wholesale trade, and financial industries. The largest employment losses were in the construction industry, which decreased in employment by nearly 40 percent between 2007 and 2012. The construction industry was also the industry with the largest employment losses in the Combined Counties during this period, although the decrease was smaller (23 percent).¹³ Losses in employment in the construction industry in Menlo Park and the region may be temporary due to the recent recession. It should

¹³ US Department of Labor, Bureau of Labor Statistics QCEW Program, 2014.

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be noted that Facebook reports that by mid-2014 the Facebook workforce reached 5,000 employees, with an expected 20 percent increase for the coming year.¹⁴

COMMUTE FLOW

Most residents of Menlo Park commute elsewhere for work. Of the 30,885 jobs in Menlo Park, only 3,440 are held by Menlo Park residents. Menlo Park residents primarily travel to work in Palo Alto/Stanford (27 percent), Redwood City (8 percent), San Francisco (6 percent), or other locations within San Mateo and Santa Clara counties. Conversely, more than 27,000 workers who live in other cities commute to jobs in Menlo Park. Workers commute into Menlo Park from San Jose (10 percent), Redwood City (9 percent), San Francisco (8 percent), and other locations in San Mateo, Santa Clara, and Alameda counties (Table 5).¹⁵ According to the Circulation Existing Conditions Report, approximately 79 percent of commuters pass through Menlo Park; these commuters do not work or live in Menlo Park, but use Menlo Park's road network daily. This cross-commute pattern is typical in most suburban environments and is a major cause of traffic congestion.

As shown in part in Figure 5 and Figure 6 above, employment industries for Menlo Park residents differ from industries of employment for jobs located in Menlo Park, suggesting a disconnect between the jobs located in the city and residents' professional skills. Increasing the number of jobs that fit the skills of residents could help ease traffic congestion, as could providing additional lower cost housing, though a variety of other investments in alternative modes of transportation, such as shared shuttles and transit to reduce the number of single-vehicle trips, will also be needed to address congestion.

RETAIL DEMAND

There are currently three small retail nodes along Willow Road. The first, at Hamilton Avenue, is a strip center with several fast food/fast casual restaurants and an ATM, along with an adjacent gas station, that target the daytime worker population in the area and serves the Belle Haven residents. There is a small, good-quality grocery store specializing in Latino food at Ivy Drive that also sells prepared food. On either side of Newbridge Street, there is a small cluster of older retail buildings that include another small,

¹⁴ Facebook, 2014.

¹⁵ CTTTP, 2006-2010 and ACS, 2006-2010. CTTTP data and ACS data vary from employment figures shown elsewhere (e.g., Figure 6) due to differences in the time periods used for data collection and the source of the data. The QCEW data in Figure 6 are based on persons in the regular Unemployment Insurance program, which excludes certain categories of workers (e.g., federal employees and some independent contractors, among others), and are provided for the third quarter of 2012. The CTTTP and ACS data shown in Table 5 are for all workers age 16 and over, and was collected between 2006 and 2010.

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TABLE 5 COMMUTE FLOWS, 2006-2010^a

Menlo Park Residents by Place of Work			Menlo Park Residents by Place of Residence		
Place of Work	Employed Persons		Place of Work	Employed Persons	
	Number	Percentage		Number	Percentage
San Mateo County	6,953	45.0%	San Mateo County	13,410	43.4%
Menlo Park	3,440	22.3%	Menlo Park	3,440	11.1%
Redwood City	1,250	8.1%	Redwood City	2,880	9.3%
San Mateo	330	2.1%	San Mateo	1,440	4.7%
South San Francisco	305	2.0%	East Palo Alto	990	3.2%
Foster City	210	1.4%	Santa Clara County	9,075	29.4%
Atherton	155	1.0%	San Jose	2,990	9.7%
Santa Clara County ^b	6,775	43.9%	Sunnyvale	1,450	4.7%
Palo Alto/Stanford	4,090	26.5%	Palo Alto/Stanford	1,215	3.9%
San Jose	820	5.3%	Mountain View	1,100	3.6%
Mountain View	650	4.2%	Alameda County	3,635	11.8%
Sunnyvale	405	2.6%	Fremont	1,160	3.8%
Santa Clara	390	2.5%	San Francisco	2,500	8.1%
San Francisco	900	5.8%	Other Bay Area Locations	890	2.9%
All Other Locations	822	5.3%	All Other Locations	1,375	4.5%
Total^c	15,450	100%	Total^c	30,885	100.0%

a. The American Community Survey (ACS) data used for the most recent Census Transportation Planning Package (CTPP) uses demographic estimates based on statistical sampling conducted between 2006-2010. Data is reported for workers age 16 and over. This is the most recent commute flow data available.

b. Data captures total Menlo Park residents working in incorporated cities, towns and Census Designated Places in Santa Clara County. Persons working in other unincorporated areas of Santa Clara County are included in "All Other Locations."

c. Totals may not match employed residents in other tables because this table was derived from the ACS 2006-2010 rather than the 2010-2012 three-year ACS data used in other tables.

Sources: 2006-2010 Census Transportation Planning Package; ACS, 2006-2010; BAE, 2014.

good-quality Latino specialty grocery store, a couple of restaurants, a beauty salon, and a barbershop. The approved Menlo Gateway project, at the western end of the M-2 Area, will include a restaurant, health club, and up to 10,000 square feet of additional retail targeting tenants of that project and the surrounding area; however, it has yet to commence construction.

Throughout the ConnectMenlo process, Belle Haven residents have expressed interest in a new supermarket providing a broader range of food choices, as well as additional retail choices to provide more convenient access to retail and convenient services. There is need for a bank and/or ATMs, a pharmacy, and other daily-

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needs services, particularly during peak commute times when Willow and Marsh Roads, the only means of crossing US 101 by automobile, become extremely congested. An analysis of the potential to support an additional grocery store in Belle Haven, based on a calculation of estimated grocery expenditures for residents alone, showed support for up to 25,000 square feet of grocery store space, as shown in Table 6. Assuming the two existing markets represent approximately 8,000 square feet, there remains support for 15,000 to 20,000 square feet of new grocery store space. While this is much less than a typical new 60,000 square foot supermarket, it is sufficient for a specialty grocery store, such as a Sprouts or Fresh & Easy Market. These stores offer a full selection of a variety of fresh produce, meat, grocery items, households goods, along with prepared ready to eat food items. Additional demand from new employment and other sources could potentially support additional grocery store square footage.

TABLE 6 SUPPORTABLE GROCERY STORE SQUARE FOOTAGE, BELLE HAVEN, 2012

	Low Estimate	High Estimate
Supportable Grocery Store Square Footage, Belle Haven	17,553	25,075
Assumptions		
Taxable Sales Per Capita in Grocery Stores, 2012, CA	\$469.74	
Estimated Total Sales Per Capita in Grocery Stores, 2012, CA ^a	\$1,566	
Estimated Belle Haven Grocery Expenditures, 2012	\$8,776,326	
Dollars/sq.ft. Needed to Support a New Grocery Store (Annual)	\$350	\$500

a. Total Sales per capita are estimated based on an assumption that 30% of all grocery store sales are taxable.
Sources: California State Board of Equalization, 2012; BAE, 2014.

In addition to the demand for retail among residents, employees in the M-2 Area provide potential support for new retail offerings. Employees, and therefore companies seeking to locate in Menlo Park, prefer a more mixed-use, “live-work-play” environment. The current M-2 Area does not meet this requirement, particularly for retail uses, and landlords report that a lack of retail and services impacts their ability to attract new office tenants. M-2 Area firms, including those with on-site food service, also report that their employees are seeking a more diverse choice of neighborhood retail and services, such as restaurant options and convenience retailers.

One key to attracting new retailers to the Belle Haven area will be creating locations that are convenient for both Belle Haven residents and workers in the M-2 Area, as well as pass-through travelers. The combined spending of these two sources of demand creates support for more retail than would be possible based on just resident population, and may also help make retailers aware that viable alternatives exist in locations other than the El Camino Real or Downtown area. For example, it may be difficult to attract a standard bank branch to the area because Belle Haven will be a less attractive location relative to other areas of Menlo

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Park where bank operators believe they will attract higher-income customers. However, a business branch of a bank that targets firms in the M-2 Area could also provide services and ATM access to Belle Haven residents, such as the Wells Fargo Business Center branch in West Berkeley. The same would apply for other retail and services, such as restaurants, pharmacy, cleaners, coffee shops, and other businesses.

There may be support for two new distinct retail nodes in the M-2 Area, one focused on or near Willow Road, and the other near the western end of the M-2 Area, closer to Marsh Road. These locations are sufficiently accessible to Belle Haven residents, M-2 Area workers, and pass-through traffic, and are best able to meet the accessibility and visibility requirements of potential retailers.

EMPLOYMENT PROJECTIONS

Similar to projected population and household growth, ABAG employment projections estimate more limited growth in Menlo Park than in San Mateo County and the Bay Area overall. ABAG Employment projections estimate that employment will grow by 21 percent in Menlo Park, 29 percent in San Mateo County, and 33 percent in the Bay Area (Table 7).¹⁶ However, as with population and household growth, the city has the potential to capture a larger share of future regional employment than projected, particularly if policies are put in place to facilitate growth in the M-2 Area.

CITY FISCAL TRENDS

REVENUE SOURCES AND EXPENDITURES

Menlo Park relies on a range of revenue sources to fund public services and government operations. The City's FY 2014-2015 Budget estimates a total of \$46.5 million in revenue to the City's General Fund. Property tax revenues constitute the largest General Fund revenue source, accounting for an estimated \$14.7 million (32 percent) of General Fund revenue in 2014-2015. Due to Proposition 13, property taxes from individual properties cannot increase by more than 2 percent per year unless property changes ownership or new improvements are constructed, which limits growth in property tax revenue in Menlo Park. As a result, local governments must increasingly rely on other revenue sources to maintain balanced budgets.

¹⁶ ABAG, 2013.

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TABLE 7 PROJECTED EMPLOYMENT GROWTH, 2010-2040

	2010	2015	2020	2025	2030	2035	2040	% Change 2010-2040
Employment								
Menlo Park	28,890	30,910	33,060	33,310	33,660	34,280	34,980	21%
San Mateo County	345,190	374,940	407,550	414,240	421,500	432,980	445,070	29%
Bay Area ^a	3,385,300	3,669,990	3,987,150	4,089,320	4,196,580	4,346,820	4,505,230	33%

a. The nine-county Bay Area includes Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma counties.
Source: ABAG, 2013; BAE, 2014.

Additional large General Fund revenue sources in Menlo Park include charges for service (18 percent of General Fund revenues), sales tax (14 percent of General Fund revenues), licenses and permits (10 percent of General Fund revenues) and transient occupancy tax (9 percent of General Fund revenues). Remaining revenue sources, including franchise fees, utility user tax revenue, and intergovernmental transfers, account for a combined total of approximately 17 percent of total General Fund revenues (Figure 7).¹⁷

The Police Department has the largest projected budget in Menlo Park, accounting for 33 percent of General Fund expenditures. Menlo Park does not operate its own Fire Department, which means that approximately 15 percent of the property tax revenues collected from Menlo Park residents instead go to the Menlo Park Fire Protection District, an independent special district, to fund its operations. Across all departments, personnel costs (wages, salaries, and benefits) account for approximately two-thirds of General Fund expenditures (\$30.6 million).

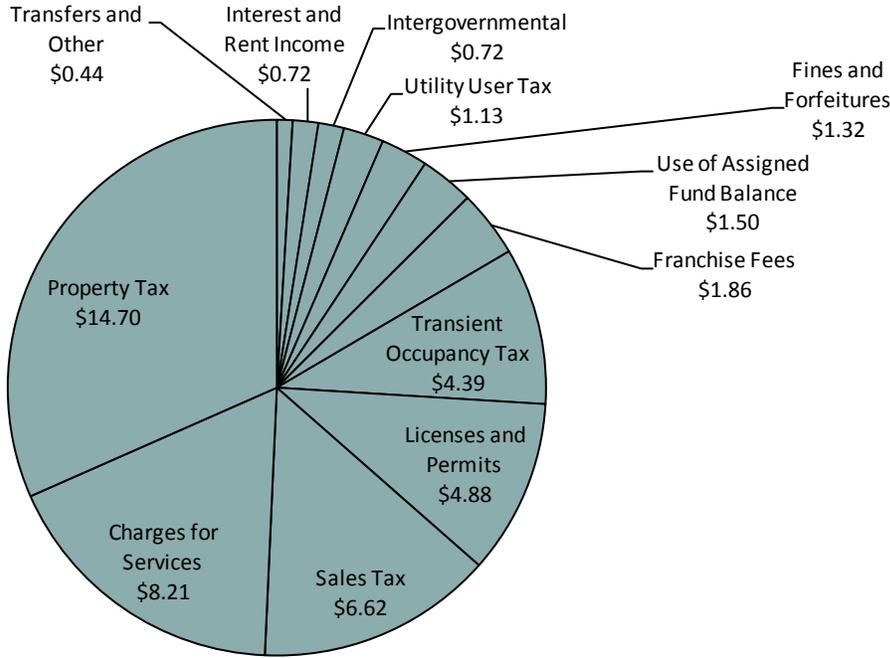
FISCAL IMPACTS OF NEW DEVELOPMENT

New development brings increased demands on local government services and infrastructure, but also generates new local government revenues through additional taxes and fees. Fiscal impact analysis provides long-term estimates of these increased expenditures and revenues in order to evaluate whether proposed new development would generate sufficient new fiscal revenues to cover new fiscal costs on a permanent basis.

¹⁷ City of Menlo Park Budget, 2014-15

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FIGURE 7 GENERAL FUND REVENUE SOURCES (IN MILLION \$) IN MENLO PARK, FY 2014-2015



Source: Menlo Park Budget, FY 2014-15; BAE 2014.

In addition to the City of Menlo Park, there are a number of special districts that provide services to the City that may experience fiscal impacts from new development due to increases in service costs as well as increases in revenue sources such as property taxes. The Menlo Park Fire Protection District, Sequoia Union High School District, Menlo Park City School District, and Las Lomas School District are the special districts that are most likely to experience fiscal impacts from new development, as discussed in greater detail below.

Menlo Park requires fiscal impact analyses for most major projects and plans in the city, and an overall fiscal impact analysis will be prepared later in the General Plan Update process once a preferred land use alternative has been identified. Previous fiscal impact analyses conducted by the City to identify impacts on its General Fund, as well as impacts to special districts, include the Facebook Campus, a residential development at 389 El Camino Real, Menlo Gateway (a mixed-use project in the M-2 Area), the El Camino Real/Downtown Specific Plan, the City’s Housing Element, and development that would be allowed under the City’s current General Plan, including an estimated 1.5 million square feet of additional unentitled commercial development potential in the M-2 Area.

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ONGOING FISCAL IMPACTS FOR THE CITY OF MENLO PARK

Overall, the major planned development projects in Menlo Park and the additional development potential in the city under the current General Plan are projected to have a combined positive net fiscal impact on the City’s General Fund, as shown in Figure 8. The fiscal analysis for the Housing Element, one of the required elements of a General Plan, assumed a large number of affordable housing units that would be exempt from property taxes, which resulted in a net negative fiscal impact; however, that impact is offset more than two times over by the positive net fiscal impact on the City’s General Fund that would result from all of the other development allowed by the City’s General Plan.

FIGURE 8 ANNUAL NET FISCAL IMPACT FROM PLANNED DEVELOPMENT AND DEVELOPMENT POTENTIAL UNDER CURRENT GENERAL PLAN IN MENLO PARK, 2014

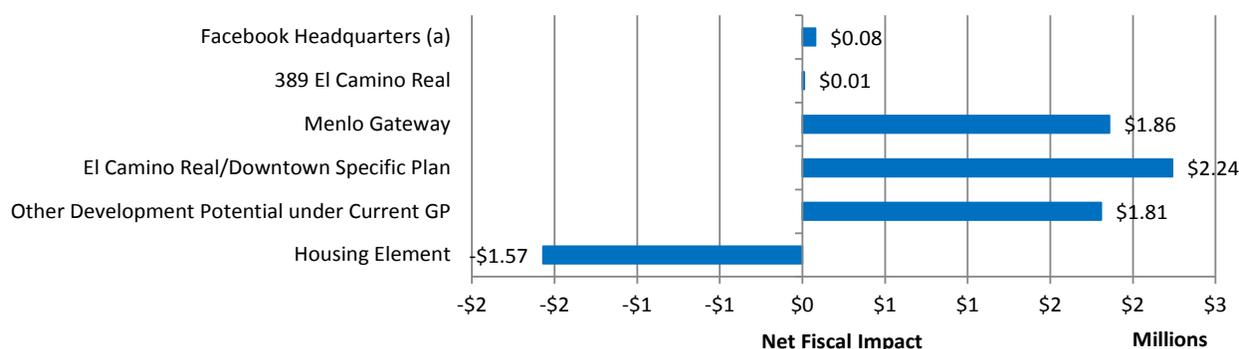


Chart shows annual net fiscal impact to the City’s General Fund based on recent fiscal analyses for development in Menlo Park. All figures are inflated to 2014 dollars.

(a) Does not include payments pursuant to City’s Development Agreement with Facebook.

Source: BAE, 2014.

ONGOING FISCAL IMPACTS FOR SCHOOL DISTRICTS

The fiscal impact that new development has on a particular school district depends largely on whether the district is a Revenue Limit district or a Basic Aid district. Most school districts in California are Revenue Limit districts, which means that local property taxes are not sufficient to provide the minimum per-student funding that is guaranteed by the State, and are therefore supplemented by State funding to make up for the shortfall. In Revenue Limit districts, new development does not have an impact on district revenues, because the amount of State aid that the district receives is adjusted to account for any change in the gap between the State-mandated minimum spending per-pupil and property tax revenues.

In Basic Aid districts, property tax revenues are sufficient to exceed the minimum per-student funding that is guaranteed by the State, and the district is able to retain and utilize all property tax revenue that it receives. As a result, any change in property taxes to the district represents a change in district revenue.

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While this can support higher levels of student spending in districts with a strong property tax base, it also means that property taxes from new development are the primary source of funds for additional annual operating costs caused by students from new residential development. In general, Basic Aid districts will experience a positive net fiscal impact from commercial development because it generates additional property taxes, but no additional students. The fiscal impacts from residential development are mixed and depend on the type of housing, the resulting number of students, and the value of the new housing and the resulting new property tax revenues.

The Ravenswood and Redwood City School Districts, which serve elementary and middle school students in the M-2 Area, Belle Haven, and areas outside of Menlo Park, are Revenue Limit districts and therefore do not experience a fiscal impact related to operating costs from new development. Although these are the elementary and middle school districts that are most likely to experience an increase in students and property tax revenues due to development pursuant to the City's General Plan Update, changes in State aid will ensure consistent levels of per-student funding. Throughout the ConnectMenlo community engagement process, Belle Haven residents have expressed concern to City staff about school quality in the Ravenswood School District, which has lower Academic Performance Index Scores and lower per-pupil spending than the Menlo Park City and Las Lomas School Districts. However, concerns related to school quality are generally outside of the scope of a General Plan Update.

The Menlo Park City School District and Las Lomas School District, which serve elementary and middle school students elsewhere in Menlo Park and in some adjacent areas, but not in the M-2 Area and Belle Haven, are Basic Aid districts, and therefore potentially experience fiscal impacts to operating costs from new development. A fiscal impact analysis conducted for the City's Housing Element Update, which included an analysis of all approved, planned, and anticipated residential and commercial projects in Menlo Park, estimated that these projects would have a minimal negative fiscal impact on the Menlo Park City School District amounting to \$244,700 annually (0.6 percent of the district budget) and a minimal negative fiscal impact on the Las Lomas School District amounting to \$32,000 annually (0.1 percent of the district budget), in 2014 dollars. Since any land use changes under the General Plan Update will primarily be focused on the M-2 Area, the Menlo Park City School District and Las Lomas School District are not expected to experience significant changes in property tax revenues or student generation due to development pursuant to the General Plan Update.

Sequoia Union High School District, the high school district that serves all of Menlo Park along with some adjacent communities, is also a Basic Aid district. A fiscal impact analysis conducted for the City on all approved, planned, and anticipated projects in Menlo Park estimated that these projects would have a positive net fiscal impact on the Sequoia Union High School District amounting to \$1.15 million annually (in 2014 dollars), or approximately 1.5 percent of the District's annual budget. Because the Sequoia Union High School District covers the M-2 Area and Belle Haven along with other areas in Menlo Park, increases

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in property tax revenues and district enrollment resulting from development pursuant to the General Plan Update may result in fiscal impacts to the District related to operating costs.

ONGOING FISCAL IMPACTS FOR THE MENLO PARK FIRE PROTECTION DISTRICT

The fiscal impact of new development on the Menlo Park Fire Protection District varies based on factors specific to each project. While fiscal impact analyses for previous projects have shown a neutral or slight positive ongoing fiscal impact on the District, in one case a negative fiscal impact was identified. The fiscal impact analysis for the planned Menlo Gateway project identified a negative net fiscal impact to the District of \$62,000 per year because building heights in the project exceeded current building heights in the area, potentially requiring the District to procure a ladder truck for the station closest to the project. The new truck would generate a need for additional personnel and maintenance, resulting in additional ongoing operating expenses for the District. The fiscal impact analysis conducted later in the General Plan Update process will include discussions with the Menlo Park Fire Protection District, as well as analysis of property tax revenues and service costs. These analyses will estimate ongoing fiscal impacts to the District resulting from the General Plan Update in order to ensure that new fire safety service needs can be adequately addressed by the District.

ONE-TIME CAPITAL EXPENDITURES

In addition to the ongoing fiscal impacts discussed above, local governments and special districts can incur one-time capital costs if new development generates a need for new facilities, equipment, or infrastructure. In most cases, capital costs directly associated with new development are fully funded by developers through some combination of impact fees, direct pass-through charges to developers, or developer contributions pursuant to Development Agreements. School district capital improvements are funded by State-controlled school impact fees and bond programs for new construction. The fiscal impact analysis for the General Plan Update process will address potential capital costs that the City and special districts may incur as a result of development pursuant to the General Plan Update.

REAL ESTATE MARKET OVERVIEW

The Silicon Valley real estate market, including Menlo Park, is currently the strongest market in the US, with substantial development of new multi-family residential and office, as well as corporate campuses. This reflects the current boom in the Valley economy, which has had repeated boom and bust cycles over the past several decades. Menlo Park, along with Palo Alto and Mountain View, remain the most desirable locations

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in Silicon Valley for high-tech companies, although the lack of available space and sites has pushed demand to other parts of Santa Clara and San Mateo County. Based on current levels of market demand for office/R&D space, there is greater demand than there are available sites in Menlo Park, even if the City were to allow more development than is envisioned in the current General Plan.

The active office/R&D market in Silicon Valley has created considerable demand for new residential development in communities throughout Silicon Valley as developers seek to build housing adjacent to employment centers. Many cities near Menlo Park, including Mountain View, Palo Alto, and Redwood City, have experienced significant recent multi-family construction activity as a result, suggesting strong potential for additional multi-family residential development in Menlo Park.

The M-2 Area is the primary location in Menlo Park with the potential to accommodate a significant amount of new development. As a result, future development in the M-2 Area is expected to be vital to the City's future fiscal stability and its ability to attract and retain growing companies. The M-2 Area also offers significant potential to provide amenities and benefits to workers in the area and Belle Haven residents.

According to CoStar, there is total of approximately 8.7 million square feet of built space in the M-2 Area, much of which consists of older and obsolete industrial properties. Some properties have recently been redeveloped or are planned for redevelopment, and many other obsolete properties provide additional opportunities for redevelopment. Strong real estate market demand in Menlo Park and Silicon Valley overall suggests that non-market factors will constitute the primary constraints to future development in the M-2 Area.

Within the 640-acre M-2 Area, 50 percent of the land is owned and/or controlled by four entities: Facebook (137 acres), Bohannon Companies (83 acres), Prologis (61 acres), and Tarlton Properties, Inc (36 acres).¹⁸ Facebook employment has been expanding rapidly in recent years and is anticipated to continue to grow at a rapid pace, and the company may therefore occupy a larger share of space in the M-2 Area in the future. In addition to the company's existing campus, Facebook has a new campus under construction and recently purchased a significant amount of adjacent property from the former TE Connectivity site. Bohannon Companies has secured approvals for a new mixed-use project in the M-2 Area that will include office, retail, and a hotel, and owns additional M-2 Area properties that are poised for redevelopment. Prologis owns a number of office and industrial (life science) properties in the M-2 Area and is considering opportunities to redevelop some of these properties to incorporate a mix of uses. Tarlton Properties, Inc. owns several properties that are leased to life sciences and other companies, and works with new and existing companies to assist in meeting needs for space in Menlo Park.

¹⁸ Together, these four property owners own more than half of the buildable acreage in the M-2 Area. Calculation cited includes Southern Pacific right of way and marshland in the total acreage of the M-2 Area.

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RESIDENTIAL MARKET TRENDS

Menlo Park has seen extremely low levels of new unit construction since 2000, with permits issued for a total of only 219 units from January 2000 through July 2014,¹⁹ all of which were for single-family homes (both detached and attached units). During the same period, Palo Alto and Mountain View saw considerably more housing construction: Palo Alto permitted 2,304 units and Mountain View permitted 3,219 units (Figure 9).²⁰ These cities also experienced considerable new multi-family residential development, with multi-family accounting for 38 percent of the units in Palo Alto and 57 percent of the units in Mountain View built during that time. In San Mateo and Santa Clara Counties overall, 63 percent of all units permitted were multi-family during this period (Figure 10),²¹ reflecting a strong shift toward building more multi-family housing construction in the region due to the strong job growth. This trend is now just affecting Menlo Park. Of the 735 new multi-family units approved or under construction, 540 will be located in two adjacent projects on Haven Avenue in the M-2 Area and 195 units are located along the Bayside edge of Belle Haven on Hamilton Avenue.²²

Menlo Park lies within one of the most expensive housing markets in the US, and home prices in the city are even higher than average for this high-cost region. As of July 2014, the median home sale price reported in Menlo Park was \$1.5 million (see Figure 11). The Menlo Park median home sale price is lower than the median in Palo Alto (\$2.02 million in July 2014), but higher than the median in Mountain View (\$970,000 in July 2014). The desirability of all three of these communities is shown by median sale prices that are higher than the median for the region; the July 2014 median was \$790,000 for San Mateo County and \$725,000 for Santa Clara County.²³

Homes in Menlo Park also held their value better than homes in many communities in the region during the recent recession. Menlo Park, along with Palo Alto and Mountain View, showed smaller declines during the recession than the two counties, and Menlo Park and Palo Alto have shown particularly strong gains over the long run, with the July 2014 median sale price for Menlo Park at 171 percent of the 2005 figure, and Palo Alto at 217 percent of the 2005 figure (Figure 11).²⁴

¹⁹US Census Bureau, 2000-2014. The permits for the new multi-family project under construction occurred after the time period covered by this data source.

²⁰ US Census Bureau, 2000-2014.

²¹ US Census Bureau, 2000-2014.

²² City of Menlo Park, 2014.

²³ DataQuick, 2014.

²⁴ DataQuick, 2014.

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FIGURE 9 MULTI-FAMILY UNITS PERMITTED, 2000-2013

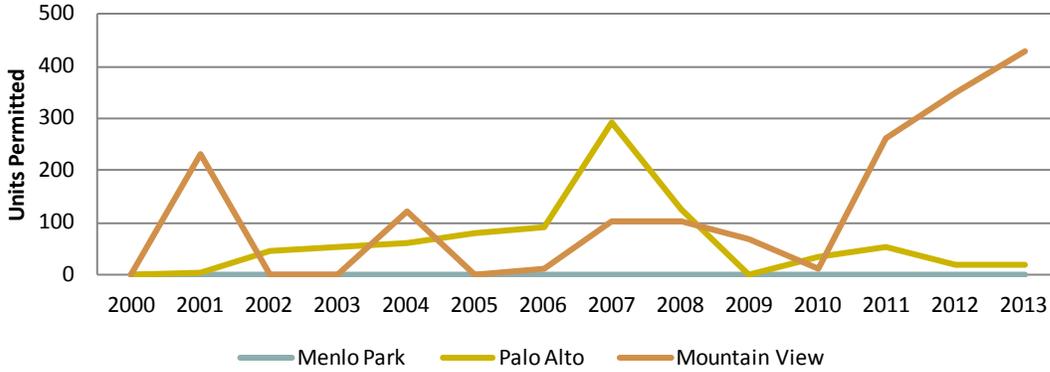


FIGURE 10 RESIDENTIAL UNITS PERMITTED IN SAN MATEO AND SANTA CLARA COUNTIES, 2000-2013

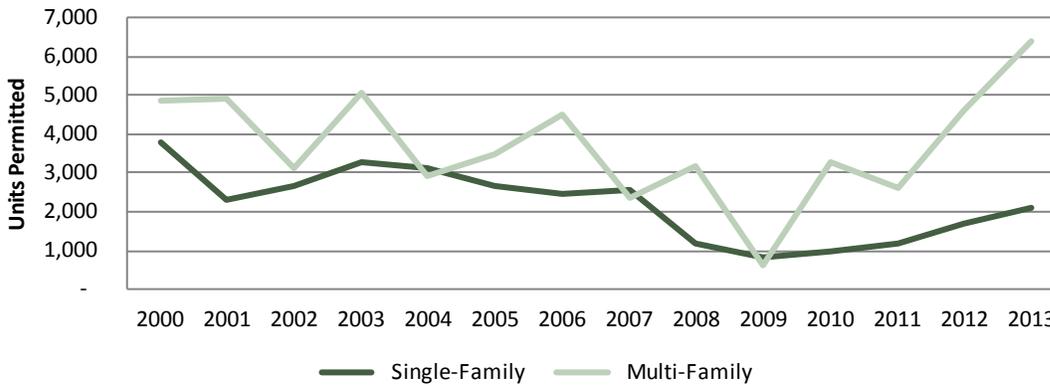
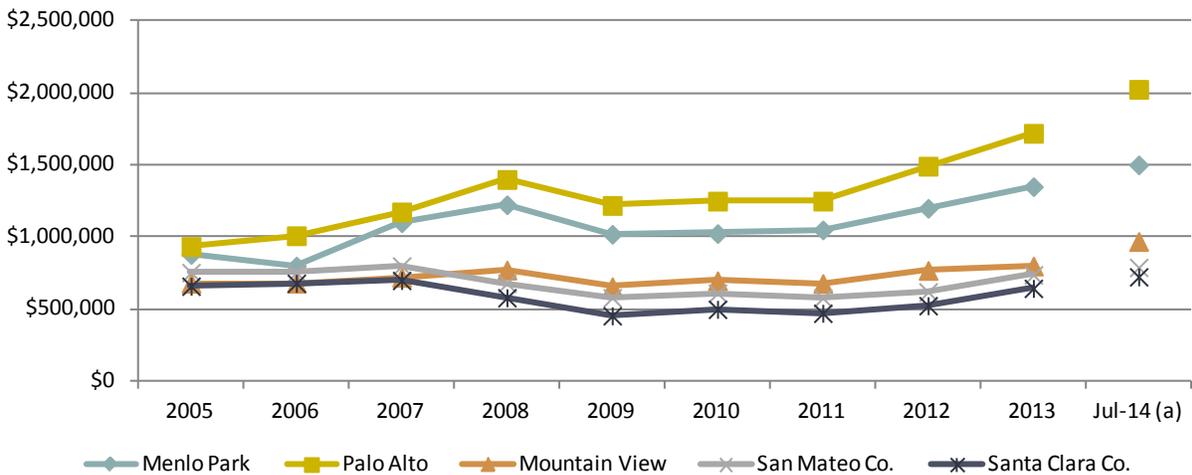


FIGURE 11 MEDIAN HOME SALE PRICE, 2005-2013



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Similarly, the Menlo Park rental market is characterized by high rental rates; according to ACS data for the 2010 through 2012 period, the median gross rent in Menlo Park was approximately 12 percent higher than the median in the Combined Counties and 25 percent above the median in the Bay Area overall. Moreover, because there has been a lack of multi-family rental development in Menlo Park during recent years, current rental rates in Menlo Park reflect rents for older properties and are therefore significantly lower than the expected market-rate rent for new rental units in the area.

Rental rates for new units in Menlo Park can be expected to be higher than current averages for Menlo Park, comparable to rents for new units in Redwood City or Mountain View. Rents for newly-constructed units in Redwood City average \$2,950 for a one-bedroom unit and \$3,400 for a two-bedroom unit. Units in recently-completed multi-family rental properties in Mountain View are even more costly, averaging \$3,200 to \$4,200 per month for a one-bedroom unit and over \$5,000 per month for a two-bedroom unit.²⁵ In order to be feasible based on current land values, new multi-family residential development is typically three- to five-story buildings, potentially above ground-floor retail, configured either as a wrap building around parking, or a podium-style building with residential above ground-level parking and other uses.

While these high home sale prices and rental rates indicate strong demand for housing in the city, they also contribute to a shortfall in housing affordable to workers at all but the highest income levels. High housing costs in Menlo Park and nearby communities therefore contribute to the high levels of in-commuting from lower-cost communities (including in the East Bay and beyond), and resulting traffic congestion.

OFFICE AND RESEARCH AND DEVELOPMENT MARKET TRENDS

Traditionally, there has been a distinction in the real estate market between office and R&D space, with R&D space typically in single-story rectangular or square-shaped structures with modest exterior features and detailing. However, over time there has been an increasing convergence of real estate product types across the Bay Area as production facilities have moved elsewhere, often to other countries, and research and product development activities that once required large or specialized lab space are more often completed using computer simulations. Future real estate demand in Menlo Park, Silicon Valley, and the Bay Area is expected to reflect a diminished distinction between office and R&D space requirements, with office space used to conduct tasks that have formerly required larger floor plates.²⁶

Menlo Park has a strong office market consisting of approximately 6.1 million square feet of office space, 42 percent of which is located in the M-2 Area (Figure 12). The City's inventory of office space has shown

²⁵ RealFacts, 2014.

²⁶ Bioscience uses still typically require more square footage per employee than do other high-tech uses.

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steady growth over recent decades, increasing by 17 percent between 1997 (the earliest year for which data are available) and 2014 (Figure 13). However, the pace of growth in the city’s office inventory during this period was considerably slower than office growth in Silicon Valley²⁷ overall, which experienced a 41 percent increase in office square footage between 1997 and 2014.²⁸

FIGURE 12 OFFICE SPACE BY LOCATION (SQ. FT.) IN MENLO PARK, SECOND QUARTER 2014

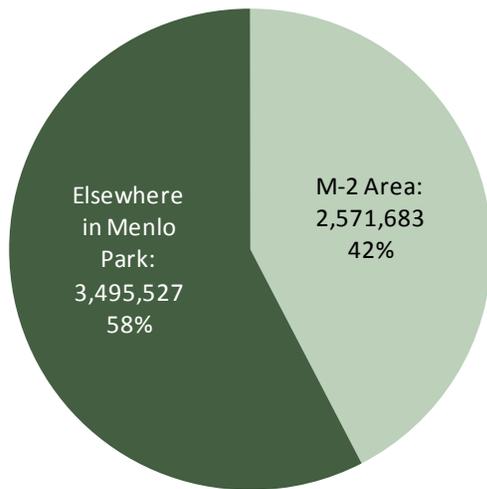
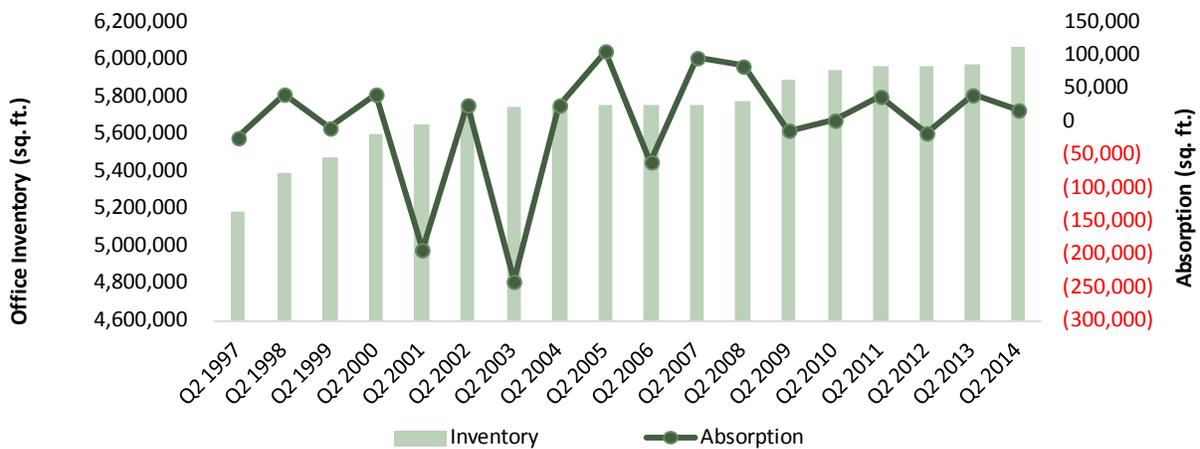


FIGURE 13 OFFICE INVENTORY AND ABSORPTION IN MENLO PARK, Q2 1997-2014



²⁷ Silicon Valley is defined here as Santa Clara County, Menlo Park, and Fremont. Definition of Silicon Valley is based on source data provided by CoStar, and may vary from definitions used elsewhere in this report to reflect variations in real estate market areas.

²⁸ CoStar, 2014.

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As of the second quarter of 2014, Menlo Park office rental rates were almost twice as high as office rents in Silicon Valley overall, at \$5.16 per square foot per month on a full-service basis. Together with Menlo Park's modest office vacancy rate (6.5 percent as of the second quarter of 2014),²⁹ the city's high office rents within the growing Silicon Valley office market signify that there is significant potential for additional future growth in the Menlo Park office market.

INDUSTRIAL MARKET TRENDS

Menlo Park has an estimated 2.75 million square feet of industrial space, 98 percent of which is located in the M-2 Area. The city's inventory of industrial space has declined slightly in recent years, as shown in Figure 14, which is indicative of the redevelopment of industrial properties to build offices and other property types that provide a higher value to the property owner. The difference in value between office and industrial space is considerable: as of the second quarter of 2014, industrial rents in Menlo Park averaged \$0.66 per square foot per month on a triple net basis,³⁰ on par with industrial rents in Silicon Valley overall but significantly less than the average rent for office space in Menlo Park (more than \$5 per square foot). The city experienced a gradual reduction in industrial space beginning in 2007, with a slightly more significant decrease in 2013. These citywide trends are consistent with trends throughout Silicon Valley,³¹ which experienced an increase in industrial space through 2002 followed by a steady decrease in subsequent years as properties have redeveloped.³²

However, while the industrial inventory has declined in Menlo Park and Silicon Valley overall, absorption of industrial space has fluctuated between years, with positive absorption³³ in Menlo Park in 2013 and 2014³⁴ while the industrial inventory was declining. This pattern suggests that, while there is growing demand for office/R&D space in the region, there is also continuing demand for industrial space from some businesses in the city and region, including from start-ups seeking older, inexpensive industrial buildings. These trends demonstrate a possible mismatch between the continuing demand for space and real estate market trends that motivate redevelopment of older industrial properties into newer, higher-value office and R&D uses.

²⁹ CoStar, 2014.

³⁰ Average industrial rents are quoted on a triple net basis, which means that tenants are responsible for all costs related to the leased property, including real estate taxes, building insurance, and common area maintenance, in addition to the monthly lease amount. As a result, full monthly occupancy costs for industrial tenants would likely be two to three dollars per square foot higher on a full service basis.

³¹ Silicon Valley is defined here as Santa Clara County, Menlo Park, and Fremont.

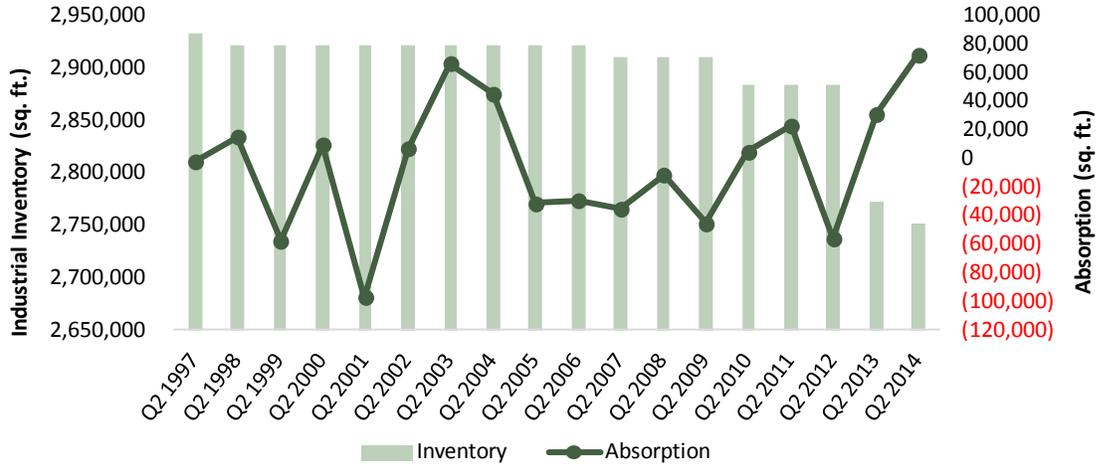
³² CoStar, 2014.

³³ Absorption is a measure of the square footage of space that is newly leased, less the square footage that is vacated. In this case, positive absorption means that the amount of industrial space leased in Menlo Park in 2013 and 2014 exceeded the amount of space that was vacated in 2013 and 2014.

³⁴ CoStar, 2014.

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FIGURE 14 INDUSTRIAL INVENTORY AND ABSORPTION IN MENLO PARK, Q2 1997-2014



As noted in the earlier discussion under Economic Development, the General Plan Update will include policies regarding the extent and locations where M-2 Area industrial buildings can be redeveloped to other uses. Even for M-2 Area properties that are rezoned, those where retail and service uses are allowed will have a lower value than those rezoned for office and multi-family residential. One way of distributing the benefit from any rezoning would be to create specific incentives for property owners to provide these uses that contribute to the live-work-play environments sought by many businesses.

HOTEL INDUSTRY TRENDS

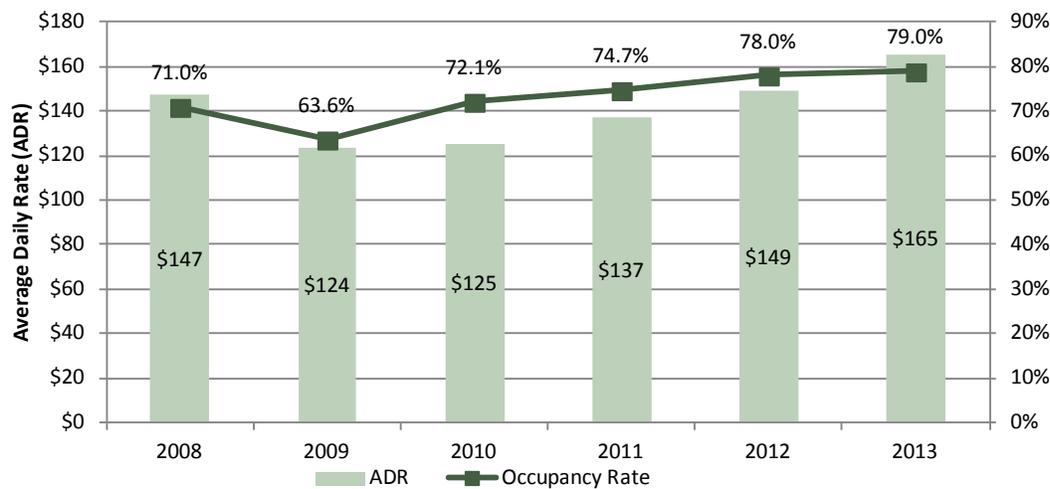
There are currently seven hotels operating in Menlo Park, with a total of slightly more than 400 rooms. These hotels cover a broad range from small economy independents such as the Mermaid Inn to upscale hotels such as the Stanford Park Hotel and the Rosewood Sand Hill. Compared to Palo Alto and Mountain View, Menlo Park has a modest hotel room inventory; Palo Alto has approximately 1,800 hotel rooms and Mountain View has approximately 1,600 rooms, based on data from Smith Travel Research (STR), which tracks lodging industry trends. However, Menlo Park has approved two additional hotels – the conversion of an existing building to a Marriott Residence Inn Hotel in the Downtown area (now under construction) and a hotel in the approved Menlo Gateway project in the M-2 Area – that will add 373 new hotel rooms in the city and provide additional mid- to upper-range lodging options. The City has also approved an expansion of the existing Mermaid Inn, which will add eight additional rooms.³⁵

³⁵ City of Menlo Park, 2014.

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Silicon Valley³⁶ has a strong hotel market that primarily serves business travelers and out-of-town friends and relatives visiting area residents, with a more limited focus on tourism. As shown in Figure 15, the higher-end hotels in the region that cater to business travelers have shown steady growth in occupancy and room rates following a slight decline during the recession in 2009. In 2013, the average occupancy among Silicon Valley business hotels was 79 percent,³⁷ well above the 70 percent occupancy levels needed to break-even. Strong existing regional hotel demand and future office development in Menlo Park and adjacent communities may provide opportunities for additional hotel development in Menlo Park, particularly in locations that provide easy access to businesses located in the M-2 Area.

FIGURE 15 BUSINESS HOTEL REVENUE AND OCCUPANCY TRENDS IN SILICON VALLEY, 2008-2013



PLANNED AND PROPOSED PROJECTS

Menlo Park has a significant number of projects that are pending, approved, or under construction. The city’s development pipeline includes 1,347 residential units, approximately 1.9 million square feet of office space, approximately 113,000 square feet of retail, and 373 hotel rooms. Of this total, a significant share is located in the M-2 Area, including 540 residential units,³⁸ 1.3 million square feet of office space, approximately 94,000 square feet of retail, and 235 hotel rooms (with most of the remaining development that is pending, approved, or under construction in or near the El Camino Real / Downtown area). More

³⁶ Silicon Valley is defined here as Santa Clara County and southern San Mateo County.

³⁷ STR, 2014.

³⁸ An additional 195 residential units have been approved on Hamilton Avenue in Belle Haven.

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TABLE 8 PLANNED AND PROPOSED DEVELOPMENT IN MENLO PARK, DECEMBER 2014

Project Location Developer	Site Size (Acres)	Development Program ^a	Comments
Under Construction			
Facebook Campus Project 312/313 Constitution Drive (West) Facebook, Inc.	22	433,656 sq. ft. new office 127,246 sq. ft. office demo	Two project sites for East and West Campus of Facebook, but only West Campus undergoing new construction.
3639 Haven Avenue St. Anton	9.69	394 new residential units	Multi-family units consisting of studios and 1-, 2-, and 3- bedroom units. 37 units affordable to low- or very low-income households.
1460 El Camino Real B/t Glenwood and Encinal Ave Hunter Properties	1.55	26,800 sq. ft. new office 16 new residential units 12,000 sq. ft. retail demo	Redevelopment of four parcels into two-story office building and 16 attached townhouse units. Commercial portion built but not occupied.
555 Glenwood Avenue Sand Hill Property Company	2.26	138 new hotel rooms 8,419 sq. ft. new commons	Conversion of assisted living facility to Residence Inn by Marriot.
777 Hamilton Avenue Greenheart Land Company	6.5	195 new residential units	Multi-family units consisting of 1-, 2-, and 3-bedroom units.
Approved (Construction Not Yet Commenced)			
Menlo Gateway Project 100-190 Independence Dr; 101-155 Constitution Dr Bohannon Development Company	15.9	694,726 sq. ft. new office 93,787 sq. ft. new commercial 235 new hotel rooms	Mixed-use development with three office and R&D buildings, 235 hotel rooms, a health club, café/restaurant, and neighborhood serving retail.
3645 Haven Avenue Greystar	4.89	146 new residential units	Multifamily units consisting of 1- and 2-bedroom units.
Core/VA 605 Willow Road The Core Companies	1.9	60 new residential units	Studio and 1-bedroom units affordable to extremely low- and very low-income households on the VA campus.
Commonwealth Corporate Center 151 Commonwealth Dr; 164 Jefferson Dr The Sobrato Organization	13.3	259,920 sq. ft. new office 237,858 sq. ft. industrial demo	Redevelop properties and construct 2 four-story office/R&D buildings.
Pending Approval			
500 El Camino Real 300-550 El Camino Real Stanford University	8.43	199,500 sq. ft. new office 170 new residential units 10,000 sq. ft. new retail	Redevelop six properties into a mixed use development containing office, multi-family residential, and retail space.
SRI Campus Modernization Project Ravenswood Ave b/t Laurel St & Middlefield Road SRI International	63.2	1,212,886 sq. ft. office 1,212,886 sq. ft. office demo	Reconstruction of campus in multiple phases. No net new square footage.
1300 El Camino Real El Camino Real & Oak Grove Ave Greenheart Land Company	6.4	220 new residential units 210,000 sq. ft. new office 7,000 sq. ft. new retail	Redevelop 6.4 acre site with commercial and residential uses. Encompasses prior 1300 El Camino Real and Derry development proposals.
133 Encinal Avenue Hunter Properties	1.74	26 new residential units	Demolition of existing garden nursery buildings and construction of 26 new residential units.

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TABLE 8 PLANNED AND PROPOSED DEVELOPMENT IN MENLO PARK, DECEMBER 2014

Project Location Developer	Site Size (Acres)	Development Program ^a	Comments
1295 El Camino Real Pinnacle Group	0.63	15 new residential units 1,906 sq. ft. commercial	Demolition of two commercial buildings and construction of a new mixed-use residential and commercial development
650 Live Oak Avenue The Minkoff Group	0.69	15 new residential units 16,811 sq. ft. office	Demolition of commercial building and construction of new office-residential development
1020 Alma Street Lane Partners	0.66	25,156 sq. ft. office	Demolition of existing commercial buildings and construction of new office development
1221 Willow Road MidPen Housing	2.27	90 new residential units 48 residential units demo	Demolition of existing residential buildings and construction of new senior housing development
Summary			
Gross New Residential Planned and Proposed (units)		1,347	
Gross New Office Planned and Proposed (sq. ft.) ^b		1,866,569	
Gross New Retail/Com. Planned and Proposed (sq. ft.)		112,693	
Gross New Lodging Planned and Proposed (# of Rooms)		373	

Projects listed here do not include projects totaling less than 10,000 square feet or five residential units.

a. Square footage of existing buildings to be demolished is not included for all projects.

b. This does not include the SRI Campus Modernization project as it has no net new square footage.

Source: City Menlo Park, 2014; BAE, 2014.

than half of the M-2 Area approved office space and all of the hotel rooms are located in the Menlo Gateway project.³⁹

SUMMARY OF KEY FINDINGS

- Current Market.** Menlo Park is one of the most desirable locations of Silicon Valley, currently the strongest and most active real estate market in the US. This is reflected in a current median house price in Menlo Park of \$1.5 million, office rents that exceed \$5 per square foot per month, and rental rates for new, multi-family residences are expected to be as much as \$4,200 per month for 1-bedroom units and \$5,000 per month for 2-bedroom units. The strength of the market means there is more potential demand for multi-family residential citywide and office and R&D uses in the M-2 Area than there are viable development sites.
- Local Economy.** The M-2 Area is central to the local economy, with 48 percent of all jobs in Menlo Park located there. It houses significant clusters of leading-edge, high-tech firms in information sciences

³⁹ City of Menlo Park, 2014.

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and social media, life sciences, and medical device manufacturing. It also houses a variety of firms that support these clusters, as well as more traditional industrial uses that offer a broader range of medium- and lower-skilled jobs.

- **M-2 Area.** Older industrial/R&D spaces can help support start-up firms that seek lower cost space until they begin to expand, as well as non-high-tech uses. A number of sites, especially larger parcels in the M-2 Area, are currently being redeveloped or are being targeted for redevelopment by current or prospective owners and tenants. Property owners note that they are already starting to experience challenges in attracting new firms to the M-2 Area because it does not offer the mix of retail, entertainment, lodging, residential, and other uses that companies desire in addition to available office and R&D space. Existing firms in the M-2 Area, including those with on-site food service, report that their employees desire a greater choice of off-site locations for dining, services, and other activities.
- **Retail Potential.** The Belle Haven neighborhood is underserved for retail, relative to the size of its population. Based on household spending trends, there is potentially support for a new specialty grocery store in the 15,000-20,000 square foot range, as well as other retail uses. Additional commercial locations that serve both Belle Haven residents and M-2 Area workers, as well as pass-through traffic, would be expected to enhance the potential to attract a wider range of other retail choices to the area.
- **Development Types.** Based on current trends, office and R&D development in the current M-2 market can be expected to consist of Class A buildings that range from four to eight stories, with feasibility affected by the cost of acquiring land for development and local development controls. New multi-family residential development is typically five- to six-story buildings, either in a wrap configuration around parking or atop podium parking with residences above nonresidential ground floor uses. There also is potential for other mixed-use development configurations in the M-2 Area.
- **Fiscal.** Economic development, and the ability of the M-2 Area to attract new firms and retain existing ones, is central to a sustainable fiscal future for the City and its ability to continue providing a high level of services to residents. Previously planned, approved, and anticipated projects have the potential to generate more than \$4 million in net new annual fiscal revenues for the City, which is expected to help offset the long-term trend of existing tax revenues growing at a much slower rate than the cost of providing services.