




Office of the City Manager

WORKSESSION
December 13, 2016

To: Honorable Mayor and Members of the City Council
From:  Dee Williams-Ridley, City Manager
Submitted by: Michael Caplan, Director, Office of Economic Development
Subject: Economic Development Worksession, San Pablo Avenue Commercial District

SUMMARY

In this Worksession, the Office of Economic Development (OED) will provide Council with an economic overview of the San Pablo Avenue Commercial Corridor. Staff will identify significant conditions, trends, challenges and opportunities relevant to the economic health and vitality of the area. Staff hopes that this information may be helpful to Council in future policy and program deliberations.

San Pablo Avenue is one of the most dynamic streets in the City. It is the spine of West Berkeley, stretching the entire length between Oakland and Albany, while also serving as a joint between the manufacturing and mixed-use districts to its west and the residential districts to its east. The avenue itself sits at the intersection of production and commerce; a number of businesses sell directly from their production sites, contributing to San Pablo's distinctive character and economic vitality. It is home to a racially and economically diverse population, including many makers and artists. It hosts clusters of auto-oriented businesses and home design and furnishing businesses that help to define the district and attract visitors from around the East Bay. Over the past two decades San Pablo Avenue has seen considerable growth in retail and restaurants; its regionally-serving businesses and employment centers are increasingly complemented by neighborhood-serving businesses, especially at particularly defined nodes. Since the year 2000 the area has also experienced a demographic shift characterized by an outflow of people of color and an influx of white residents with higher incomes.

Recently, San Pablo has experienced a significant amount of new mixed-use housing development; over 600 housing units have recently come online or are in various phases of the development pipeline. The designation of San Pablo Avenue as a Priority Development Area (PDA) by the Metropolitan Transportation Commission indicates that there will continue to be public and private investment focused on this street. It is important for City staff and elected officials to work proactively to shape a future for San Pablo Avenue that preserves and builds on its assets, balances competing priorities, and promotes sustainable development.

CURRENT SITUATION & ITS EFFECTS

In fall 2016, OED researched the economic and demographic character of the San Pablo Corridor—including analysis of a variety of datasets, interviews with a dozen neighborhood stakeholders, and consultation with staff members from nearly every City department—and made the following findings:

Demographic Analysis¹

- **Approximately 12.7% of the City’s population lives in the residential neighborhoods immediately around San Pablo Avenue.** There are a total of 14,708 people living within roughly a quarter mile of San Pablo Avenue; 14.6% of the Berkeley housing stock is here (7,180 units). An estimated 57.4% of the households are homeowners and 42.6% are renters (see Attachment 1). The median income in the eight census tracts bordering San Pablo (\$66,151) is slightly higher than the citywide median income (\$65,283).
- **The percentage of students in the San Pablo area is smaller than the City-wide average,** yet the percent of households that are either cost-burdened or severely cost-burdened is on par with the citywide rate. About 50% of the households in the area are considered either cost-burdened or severely cost-burdened, meaning that their housing costs consume 30% or 50% of their income, respectively (see Attachment 2).
- **The residential areas around San Pablo Avenue contain a diverse population, but that population is becoming less diverse.** Within the eight Census Tracts that abut San Pablo, there is considerable racial and ethnic diversity. 49.6% of the population is non-Hispanic white, 16.8% is African American, 15.7% is Hispanic (of any race), 12.6% is Asian, and the remaining 5.2% is Bi- or Multi-racial, Native American, Hawaiian or Pacific Islander, or other; there is also variation in demographic composition along different segments of the corridor, with more people of color living in the southern part of the corridor (see Attachment 3).

However, between 2000 and 2014² there has been a significant outflow of people of color (27% decrease) and an influx of white residents with higher incomes (36% increase in non-Hispanic whites and 17% increase in median income) as the total population in the area increased by 4.6% (see Attachment 4). This data is corroborated by a region-wide demographic analysis conducted by UC Berkeley’s Urban Displacement Project, which concluded that the neighborhoods immediately adjacent to San Pablo Avenue are all undergoing displacement or experiencing advanced gentrification.

¹ Statistics cited in this section were obtained via ESRI, a private firm that compiles and analyzes data from various federal sources including, primarily, US Census Bureau and Bureau of Labor Statistics. The majority of the population and household characteristics are based on findings from the American Community Survey 2010-2014 5-year sample.

² Sources: US Census Bureau, 2000 Decennial Census, 2014 American Community Survey 5-year Estimates.

Urban Form

- **San Pablo Avenue’s historic function as a regional highway has helped to shape its development and character through the present day.** Its large right of way and cluster of auto-serving businesses is in part a remnant of that historic function. Additionally, its connectivity to the present day regional highway, Route 580/80, is advantageous for regional-serving businesses and development potential.
- **Architectural styles in this area are varied.** There are some well-maintained historical buildings suitable for retail uses, and at both the southern and northern ends of the corridor (near Ashby Avenue and Gilman Street, respectively) are industrial buildings that contribute to neighborhood character. The corridor also features many detached, 20th century, low-cost concrete structures which interrupt the pedestrian environment.
- **The urban form and aesthetics of San Pablo Avenue are frequently disrupted** by vacant buildings, frequent curb cuts into parking lots and auto-oriented businesses, or commercial spaces that have been converted into non-conforming uses. As one stakeholder described it, these create the appearance of “missing teeth” from the perspective of the pedestrian.
- **One major asset of the environment is the presence of mature trees,** particularly on the southern side of both the University and Dwight nodes. These areas are particularly pedestrian-friendly and have more sidewalk activation than other segments of the corridor. However, some stakeholders expressed concern that the trees are not trimmed frequently enough.

Geographic Nodes

While the entire corridor consists primarily of commercial uses, there are five major intersections which serve as focal points for retail activity and mixed-use density: Gilman Street, Cedar Street, University Avenue, Dwight Way, and Ashby Avenue. They generally serve as mixed-use commercial nodes rather than traditional retail districts. Each of these nodes hosts a different mix of businesses and possesses unique arrays of assets, opportunities and challenges.

- The **Gilman Node** is an auto-oriented, big-box retail district which also houses manufacturing facilities, office buildings, and auto shops. It is adjacent to industrial and warehouse uses to the west; those uses were also present on San Pablo Avenue until the Gilman Node began to transition in the 1980s into more of a retail district, with large big-box anchors arriving around that time. Recent private sector investments in this area include new restaurants, coffee shops, and a Whole Foods grocery, all of which have dramatically increased the area’s desirability as a commercial destination. The node is bordered to the east by a residential neighborhood, to the west by a Mixed-Use Light Industrial zone, and to the southwest by more residential neighborhoods.

- The **Cedar Node** is geographically smaller than the other nodes, with a mix of retail stores, restaurants, and eating establishments, as well as several accommodations facilities (Golden Bear Inn, Quality Inn) and auto shops. The northern side currently features inactive ground-floor uses, including a gas station and a vacant Honda repair shop (which has now been entitled for a major housing project with 170 units). The south end of the block between San Pablo and Virginia has graceful tree canopy, relatively continuous store-fronts, and a cluster of retail and food businesses, including Kermit Lynch Wines and Acme Bread. The surrounding area is low-density residential.
- The **University Node** is a heavily auto-trafficked area, with University Avenue serving as the main gateway into Berkeley for those visiting the Downtown and UC Berkeley campus. The business mix includes a cluster of South Asian restaurants, groceries, and clothing and accessories stores that has helped define the district since the 1980s. There are also a number of specialty and ethnic food businesses including the Spanish Table, Country Cheese, the Middle East Market and Mi Tierra Foods. Some newer restaurants, cafes, and exercise studios have recently come to the area. The area's attractive architectural features and brick facades, as well as its concentration of small business amenities, make it one of the most walkable nodes on San Pablo Ave. However, the area can also be challenging for pedestrians due to the prevalence of curb cuts and parking lot entrances. There is a buffer around this node of higher-density residences, but the balance of the surrounding neighborhood is low-density residential.
- The **Dwight Node** has, over the past three decades, transformed into a quaint, walkable center of mixed commerce. A local property owner assembled and rehabilitated three brick, low-density buildings on the west side of San Pablo south of Dwight, and over time tenanted them thoughtfully and deliberately. The node now features a cluster of food and beverage establishments, non-profit offices, and a number of independent home furnishing, design and craft businesses.
- The **Ashby Node**, like University Ave, is characterized by its connection to the freeway. The greatest share of business are either automotive-related or home furnishings. The Heinz building, a historic landmark, dominates the northwest corner and is an attractive architectural resource, and is now home to the Kala Art Institute and Gallery. This area immediately around this node has seen significant private sector investment in recent years since the establishment of Berkeley Bowl West, and more pedestrian traffic and housing development has ensued, including the recent construction of the Higby at 1200 Ashby. Other notable businesses in the area include Weatherford BMW and Meyer Sound.

Commercial Occupancy and Business Mix

San Pablo's vacancy rate has been relatively consistent since 2008, ranging from a low of 5.9% in 2014 to a high of nearly 8% in 2012 (see Attachment 5). The 2016 Q3 ground floor commercial vacancy rate for San Pablo addresses was 5.9% (see

Attachment 6), down from 7.3% in Q1. This was slightly lower than the average rate citywide (7.5%). Notable changes to tenancy this quarter include the Serena & Lilly Outlet at 2236 San Pablo, the Super Super restaurant at 1428 San Pablo, and two new art galleries/boutique shops, All Gold (2363 San Pablo) and the West End Real Estate Shop (2393 San Pablo).

As measured by square footage, the largest categories of ground-floor occupants along the San Pablo corridor are retail (29.9%), trade services (21.1%), and office/non-retail (19%) (see Attachment 5). San Pablo has a significantly higher concentration of trade services (consisting primarily of auto repair and services) than the city as a whole (21.1% vs. 6.9%). The percentage of commercial square footage occupied by food and beverage services (8.1%) is lower than the city overall (13.1%), and significantly lower than other neighborhood-serving commercial corridors (typically between 20 and 30%).

Sales Tax Trends

Since the recession, sales tax performance along San Pablo Avenue has recovered faster than the citywide performance (see Attachment 7). The most recent data shows that San Pablo's tax revenue collection is currently about 23% higher than it was for the first quarter of 2007, whereas the citywide tax revenue is currently about 17% higher than it was nine years ago. This performance is driven in part by new revenues related to medical cannabis dispensaries.

Businesses with San Pablo addresses generated 10.1% of the total sales tax revenue for the City of Berkeley between the second quarter of 2015 and the first quarter of 2016. The northern half of San Pablo Avenue (which runs from University Avenue to the Berkeley-Albany border) generated \$928,432 in sales tax revenue, while the southern half (from University Avenue south to the Berkeley-Oakland border) generated \$701,845. A much larger share of this revenue comes from retail along San Pablo (about 50%) as compared with Citywide (about 30%) (see Attachment 8). Within the retail category, recreation products are the largest sub-category of sales tax revenue generation, followed by drug stores.

Retail/Business Subsectors

San Pablo Avenue features two distinct business clusters:

- **Auto-Oriented Businesses** - There are 60 auto-oriented businesses on and around (within ¼ mile) San Pablo Avenue – including smog check facilities, car washes, auto parts stores, and gas stations – employing approximately 300 people. These businesses are important drivers of business traffic, payroll, and sales tax, and any efforts to foster conditions for improved walkability and an increasingly dynamic retail sector will need to be balanced with concerns for job preservation and the continued viability of these regionally-serving businesses. An analysis of sales tax revenue from 2007-2016 shows that this sector declined slightly from 2007 through 2012, recovered from 2012 to 2014, and has been in decline since 2014 (see Attachment 9).

One interviewee from this business sector expressed concern regarding the long-term viability of these businesses as new technologies challenge existing models of auto ownership and repair. The distribution of auto-oriented businesses among the nodes is skewed heavily towards the University Avenue area (23 businesses); there are another 13 at Gilman, 12 at Dwight, 8 at Ashby, and 4 at Cedar.

- Home Improvement Businesses - There are 47 home improvement businesses along the corridor, spread fairly evenly among the nodes (13 businesses in the Ashby area, 12 at Gilman, 10 at University, 8 at Dwight, and 4 at Cedar). These businesses include furniture and home furnishing retail, building finishing contractors, textile mills, and lighting manufactures. Based on sales tax analysis, this sector has experienced a notable expansion since 2013 (see Attachment 9).

While home furnishing and design and auto shops are the most visible ground-floor business types in the area, the business mix in the area is highly varied. According to citywide business license data, 4.6% of the businesses licensed in Berkeley in 2016 have San Pablo addresses. 32% of the licenses are in property rental, 27% in retail trade, and 18% are in personal repair services (which include both car repair stores and nail salons) (see Attachment 10).

Employment and Wages

The San Pablo Avenue area is one of Berkeley's employment centers. According to the Quarterly Census of Employment and Wages (QCEW), within the quarter mile radius surrounding all five of the commercial nodes there are approximately 936 firms which collectively employ 10,600 people; these firms paid out \$212,717,027 in wages in the fourth quarter of 2015 alone. The proximity of manufacturing and mixed commercial districts has been a driver for retail, and restaurants and other businesses on the Avenue. OED's analysis of jobs data by node suggests that the areas with closer proximity to manufacturing districts also see higher employment in other industry categories.

Over the past five years, employment along San Pablo Avenue itself dipped before recovering, and is now at a higher level than it was five years ago (see Attachment 11). In 2011, there were 2,075 people employed by businesses with San Pablo addresses; this figure dipped to 1,900 in 2013, and then rose to 2,200 employees in 2015. Wages were much more stable over this time period and did not see the same significant dip. Wages and employment have performed well despite the introduction of various statewide and citywide minimum wage increases. The industry with the highest employment is wholesale and retail trade, followed by the professional/technical, management, and Financial, Insurance, and Real Estate (FIRE).

Real Estate Trends

San Pablo Avenue has and will likely continue to serve, along with Downtown and the Southside, as a frontier for infill development in Berkeley. There are a number of multi-unit housing development projects on San Pablo Avenue; 11 projects totaling 649 units, including 44 below market-rate units, are proposed, entitled, or recently constructed (see Attachments 12 & 13). In addition to three recently constructed totaling 209 units, 440 net new units are anticipated in 8 different projects that have either been proposed or entitled. Nearly all of the newly constructed, entitled or proposed mixed-use projects include ground floor commercial space, totaling nearly 49,000 square feet. Development projects include:

- **1200 Ashby “The Higby” (completed).** A five-story mixed-use building at the corner Ashby and Dwight, completed in 2015, includes 98 units, 15 of which are below-market rate. The ground floor space is leased to an exercise studio that is expected to open in fall 2016.
- **2700 San Pablo “Aventerra Apartments” (completed).** Located at the corner of Carleton Street, this 5-story, 30-unit building was constructed in 2008 and has a popular tattoo shop in its ground floor space.
- **2478 San Pablo “Grayson Apartments” (entitled).** This affordable housing project from Satellite Affordable Housing Associates will have 23 units for transition-aged youth and people with HIV/AIDS, will feature common spaces including a computer annex, library, and services office, and will have ground-floor commercial space and parking. SAHA purchased the site with support from the City’s Affordable Housing Trust Fund. The project was recently awarded grant funding from the Affordable Housing and Sustainable Communities Program and has nearly assembled all necessary financing.
- **1500 San Pablo (entitled).** This 5-story, 170-unit mixed-use building on the site of the former McNevin Cadillac, entitled earlier this year, is expected to begin construction in the second half of 2017 and open in 2019. This project will add nearly 11,000 square feet of new commercial space to the Cedar node.
- **2100 San Pablo (proposed).** At the site of a former U-Haul facility, just south of the University Avenue node, there is a proposal to construct a 5-story, 91-unit mixed use project that includes approximately 7,700 square feet of commercial space. The project has been previewed at the Zoning Adjustments Board and Design Review Committee and is pursuing entitlement.
- There is also one planned commercial development, a 3-story medical office building at 1050 Parker Avenue with frontage on San Pablo Avenue.

Rents have begun to rise in the area, and increasing retail options and the neighborhood’s unique character contribute to high housing demand and increasing development potential. Housing prices for single-family homes near the corridor have gone up dramatically in the last few years. In West Berkeley, the median home value rose from \$476,450 in 2010 to \$810,000 in 2016, an increase of 70% in just 6 years (see Attachment 14). Median condo prices have dropped from a high of approximately \$885,000 in 2014 to \$635,000 in 2016.

Multiple stakeholders noted that the ground-floor commercial spaces in some recently constructed projects are insufficiently built out or have insufficiently high ceilings, resulting in extended vacancies. In addition, stakeholders cited instance of buildings with ground-floor live-work spaces where the shades are perpetually drawn, deadening the pedestrian environment and undermining commercial vitality.

One non-profit developer indicated that there are few opportunities along the corridor to develop affordable housing because of unassemblable parcels – the land use opportunities in the area generally have parcel sizes that are too small to support the number of units necessary to propose competitive tax credit-financed affordable housing, according to this interviewee. Additionally, the few apartment buildings on the corridor are not yet at a point where they can be purchased for affordable housing conversion.

Another non-profit developer indicated that there are vacant parcels and other land use opportunities for building affordable housing, but recent increases in land prices in the area make affordable housing development less viable.

Land Use & Development Opportunity Sites

According to the City of Berkeley 2015-2023 Housing Element, 32 of approximately 350 parcels along the San Pablo corridor are considered to be “opportunity sites” for housing construction; these sites are concentrated mostly around the Dwight, Gilman, and University nodes. The large number of opportunity sites suggests that San Pablo is a commercial corridor with a tremendous amount of housing development potential for Berkeley: according to the 2015-2023 Housing Element, San Pablo could house 1,047 units, or about 20%, of the citywide total of 5,328 housing units identified in the plan.

However, 71% of these units on or adjacent to San Pablo would have to be produced on parcels that currently have operating businesses, and it is presently unclear on what timeline property owners would be willing to sell their properties, if at all. One stakeholder interviewee revealed that an attempt to purchase a parcel which the Housing Element classifies as an “opportunity site” was unsuccessful because the owner refuses to sell; this has been corroborated by older statements made by others in the real estate industry who find it unlikely that business owners in the area will sell their properties within the 2015-2023 period.³

All San Pablo-facing addresses along the corridor are zoned as C-W, meaning the maximum building height is 50 feet and the maximum numbers of stories is 4. The maximum floor-to-area ratio is 3, and permitted uses include both commercial and mixed-use (commercial and residential) buildings. Some recently completed and proposed development projects have, in accordance with California Density Bonus Law, included on-site affordable units in exchange for density bonuses that have allowed the projects to exceed these base-level maximums. The zoning ordinance also identifies a number of nodes on San Pablo, corresponding with those identified above, where active commercial uses are generally required for ground-floor spaces.

³ See letter from Peter Eakland, Appendix C, Berkeley Housing Element 2015-2023

Most block faces of San Pablo Avenue directly abut low-density residential districts (R-1, R-1A, and R-2) to the east and west. In some instances, this is a source of tension between existing single family homes and higher-impact uses (or proposed mixed-use development projects).

While housing production may not reach 1,047 units over the next seven years, there will certainly be many new residents moving to the neighborhood, which will likely generate additional demand for parking and transportation in the area. Surface parking lots in C-W zones are fairly common along the corridor,⁴ including at or near commercial nodes. At present many of the commercial uses in the area are automobile dependent and require parking for private automobiles; for example, people often rely on cars when making major home improvement purchases. Additionally, stakeholder business owners have remarked that a lack of parking is already a problem for businesses on San Pablo. More so than in other commercial corridors, the health of existing businesses may depend on continued parking availability. As the area densifies and as property owners receive increasingly high offers to convert their parking lots to more lucrative uses, alternatives to surface lots may need to be considered

Community Assets & Initiatives

The following assets and initiatives for San Pablo Avenue can be supported, leveraged and enhanced:

- **San Pablo Avenue is at the intersection of commerce and production in Berkeley, contributing to the district's distinctive character and economic vitality.** San Pablo Avenue is home to a number of businesses that are able to sell directly from their production sites. Businesses like Uncommon Grounds, Metro Lighting, Berkeley Mills, as well as a variety of artisans can draw consumers that are eager to see or experience the production process firsthand. This is an example of 'experiential retail' that can help stem the tide against online shopping and encourage in-person retail shopping, and may be a relevant strategy for the City's other commercial districts.
- **The San Pablo area has for decades been home to a thriving arts community.** A March 2008 field survey conducted by Civic Arts staff revealed a large concentration of artist studios and artist residences on and near the Avenue, particularly in the area to the west of San Pablo and between Dwight Way and Ashby Avenue. Additionally, there are several major arts complexes, including the Kala Institute, the Sawtooth Building, Berkeley Potters Guild, and many others.

The Kala Institute is currently leading a place-making initiative, ***Print Public***, whereby a number of artists are engaging with local merchants and residents on innovative public art projects. The project has enabled Kala to leverage its

⁴ While there are only 4 parking lots included in the opportunity sites analysis of the most recent Housing Element, many businesses have on-site parking lots with frontages on San Pablo which are not included in this count.

support from the City of Berkeley by earning grant awards from the National Endowment for the Arts, the James Irvine Foundation, the California Arts Council, and others. It will culminate in an exhibition at Kala Art Gallery (2990 San Pablo Avenue) in early 2017, with concurrent community programming around the neighborhood.

- **The West Berkeley Design Loop promotes and advances the cluster of independent home improvement merchants.** This business association, formally launched in 2011 with support from the Office of Economic Development, consists of home improvement and décor stores, with about 15 active merchants at present and 15 more that are more loosely affiliated. This organization has successfully marketed West Berkeley as a distinctive area for making home improvements because of the unique products that are both manufactured and sold in stores in the area. The Design Loop also promotes restaurants in the area by listing local eateries on their website that are in the vicinity of affiliated home improvement stores.
- **San Pablo’s distinctive concentration of ethnic restaurants, groceries and retailers has led to the designation of the area as the “International Marketplace.”** For the three years from 2006 through 2008, the many ethnic grocery stores and restaurants clustered near the San Pablo and University Avenue node participated in the International Food Festival, an OED-sponsored event celebrating the area’s unique mix of South Asian, Latino, and European culinary traditions.
- **A number of planned infrastructure projects will improve the pedestrian environment and urban form.** A rain garden is planned near the intersection of San Pablo Avenue and Harrison Street, funded by CalTrans as part of the regional Green Stormwater Spine Project, which will include a grade-separated sidewalk planter, curb extensions, grated trench drains, and a vegetated swale all designed to maximize absorption of stormwater runoff. Additionally, active transportation improvements are to be installed along with the new Grayson Street apartment buildings in partnership with AC Transit.
- **The City of Berkeley is partnering with regional transportation agencies to plan for significant investments in the roadway and public transportation.** These projects include the Countywide Multimodal Arterial Plan, signal upgrades, the I-80 Gilman Interchange, and AC Transit service upgrades. Ultimately these projects could result in significant multi-modal transportation and infrastructure investments on San Pablo Avenue. (See Background section for more information.)

Other major assets in the area include the West Berkeley Public Library, San Pablo Park, and the Berkeley Aquatic Park. Additionally, multiple merchant groups are in the area, including University Avenue Association, Gilman Corridor Merchants Association, and the recently emerging ‘B-Side Hood’.

Challenges

Council, staff and community stakeholders should be aware of the following challenges facing San Pablo Avenue:

- **The San Pablo area is losing its racial and economic diversity.** This trend is not unique to San Pablo Avenue; it is occurring in historically low-income communities around the core Bay Area, and in urban communities around the nation. Although Berkeley has a variety of measures in place that are intended to prevent displacement, such as no-fault eviction protections, rent stabilization, and inclusionary zoning, strong demand for housing in Berkeley and the Bay Area is putting pressure on the area's low- and moderate-income residents.

In addition to housing cost pressures, communities of color are also experiencing cultural displacement. Stakeholders expressed that businesses which served as community gathering points, especially for the African American community, have left the area.

- **There are competing local and regional interests for transportation and land use on San Pablo Avenue.** San Pablo's potential to become a dense, transit-oriented, pedestrian-friendly commercial district is reflected in ABAG's Plan Bay Area and fortified by AC Transit's multi-modal plans for the corridor, including the expectation of rapid bus service. The recently released draft update to the Berkeley Bike Plan envisions a reconfiguration of San Pablo Avenue that dedicates space to a cycle track. At the same time, Caltrans has interest in the San Pablo corridor as a release valve for traffic on the I-580 Freeway as means for reducing commute times, which would likely add personal vehicle traffic to the arterial. Each of these priorities will be competing for a limited amount of right-of-way.

In addition, the designation of San Pablo Avenue as a Priority Development Area indicates that planners expect continued investment and development in the district. This will help generate much needed housing stock for the region, on a transit corridor. However, by increasing the desirability of the neighborhood, this investment may also contribute to additional upward pressure on housing costs for the neighborhood's existing low-income people and artist community. Investments in new development will likely continue to cause friction with adjacent low-density residential districts.

- **Demand for development in the area threatens the existing cluster of auto-oriented businesses.** Many existing businesses in the area rely on customers that arrive via private automobile, whereas the PDA designation foretells a reduction in dedicated space for private automobiles in the area over the long term. In addition, a majority of auto repair and maintenance businesses (many of which feature surface lots) rent rather than own their spaces, meaning that they are vulnerable to displacement. The long-term viability of these businesses is further cast into question by increasingly likely changes in the automotive industry which may result in decreased demand for independent auto repair and maintenance stations.

Opportunities

Based on our analysis and consultations with City staff and community stakeholders, OED identified the following opportunities that Council and City leadership could consider incorporating into future work plans:

- **Leverage San Pablo Avenue’s development potential to preserve and increase housing affordability.** In Berkeley, as in the entire Bay Area region, there is dire need for affordable housing, and San Pablo Avenue has immense potential for transit-oriented infill development. The City should continue to promote below-market rate development through its inclusionary policy and, where possible, 100% affordable projects like Grayson Apartments. The City might also consider funding the acquisition of existing housing stock to preserve affordability levels for low- and low-middle income residents. Housing funds resulting from ballot initiatives passed in November 2016 could be considered for these purposes. Staff is currently engaged in developing a comprehensive Housing Action Plan to determine which housing affordability strategies are most appropriate and cost-effective; the results of this work should help guide development on San Pablo.
- **Engage with regional transportation agencies and private sector leaders to expand sustainable, multi-modal transportation, plan for infrastructure investments, and increase connectivity between West Berkeley and the BART network.** Given the competing transportation demands and the expected influx of new residents on San Pablo, it is crucial that City staff, elected officials and community partners engage proactively and deliberately. The City of Berkeley must identify its priorities for transportation on San Pablo, and balance those with priorities for the region and neighboring municipalities.
- **Pursue grant funding to conduct a comprehensive land use planning initiative for the San Pablo Avenue PDA.** A comprehensive planning process for San Pablo Avenue can help the City develop a long-term vision for the corridor, along with policies and strategies to mitigate the impact of increasing densification on neighborhood character (such as formal design guidelines and buffer zones), to accommodate multi-modal transportation demand, and to support and preserve existing business clusters. City staff anticipate that the next competitive process for funding for land use planning in PDAs will begin in July 2017. If the City is successful in winning funding, a planning initiative could possibly begin in late 2018.
- **Leverage planned development and regional transportation investments to enhance the pedestrian environment.** Interviewees expressed that streetscape improvements that would best support economic development include more regular tree-trimming, sidewalk improvements and amenities, and banners identifying the area as an “arts and innovation district.” The 2003 Public Improvements Plan can guide near term investments made by the City and private sector partners, and should inform future infrastructure investments by

Alameda CTC and other partners.

- **Promote walkable, active frontages, especially at the Nodes.** There are already zoning controls that require active uses at certain commercial nodes; the City could consider strengthening those controls, and supplementing them with form-based requirements to ensure high quality ground-floor commercial spaces, and by prohibiting live-work spaces that constrain interaction with the streetscape at and near commercial nodes.
- **Support the existing and emerging business associations and industry clusters.** Some stakeholders expressed a desire to restart City-sponsored events such as the International Food Festival, and reinvest in business assistance programs such as the 1998 San Pablo Revitalization Program. The City could also consider how to build on an existing asset by encouraging retailers which do on-site production.
- **Link existing commercial nodes with their adjacent neighborhoods and east-west corridors.** Commercial districts on San Pablo would benefit from increased connectivity with their adjacent neighborhoods, e.g., on University Avenue, which is experiencing a high volume of new housing. This might be achieved through pedestrian enhancements, marketing and branding campaigns, public art, and other local economic development strategies.

BACKGROUND

The San Pablo Commercial Corridor is defined for the purposes of this report as the entirety of the San Pablo Avenue from the Berkeley-Albany border to the Berkeley-Oakland border, plus the quarter-mile areas surrounding the five nodes of commercial activity in the area. San Pablo Avenue (State Route 123) was originally developed as a streetcar route, and later became the major north-south highway that connected cities in the East Bay. In the early 1900s, San Pablo Avenue served as the final leg of the Lincoln Highway, one of the earliest transcontinental automobile highways crossing the United States. In the middle part of the 20th century, the construction and establishment of the I-80/580 highway impacted development on San Pablo, diverting traffic and leading to disinvestment. By the 1980s, economic conditions in the district were poor; many buildings were vacant and blighted, and the area suffered from high crime and prostitution. Over the past several decades, San Pablo has reemerged as an important regional transportation corridor, and has gradually recovered economically.

The San Pablo area was historically an industrial and manufacturing district, and to this day its automotive businesses and industrially-zoned areas continue to be important contributions to the local and regional economy.

Existing Plans

A number of land use plans and economic development initiatives from the past two decades continue to shape San Pablo Avenue today.

- **West Berkeley Plan (1993).** Goals for San Pablo Avenue included fostering neighborhood retail development while protecting manufacturing businesses; improving transit connections; and improving environmental quality.
- **San Pablo Revitalization Program (1998)** – This economic development initiative designated \$266,000 for façade improvement grants, and increased code enforcement on blighted sites and facilitation of development of vacant and underutilized parcels.
- **San Pablo Public Improvement Plan (2003)** – This plan, prepared for OED and formally adopted by Council, identified community concerns about San Pablo Avenue conditions and identified strategies for pedestrian appeal, safety, and accessibility. It also subsequently resulted in the creation of design guidelines for San Pablo Avenue were never officially adopted but still inform development projects on the avenue.
- **Berkeley Pedestrian Master Plan (2010)** – This plan identified and ranked recommendations for pedestrian safety based on urgency (collisions and traffic backlogs), including a number of priority sites on San Pablo.
- **Plan Bay Area (2013)** – San Pablo Avenue is designated by the City and regional planning agencies as a Priority Development Area (PDA), meaning that future housing growth and transit resources will be concentrated in this area.

Planned Transportation Investments

The following investments in transportation planning, infrastructure and services on and around San Pablo Avenue are in varying phases of development:

- The Alameda County Transportation Commission (Alameda CTC) has identified San Pablo Avenue, from the Alameda County northern border to Oakland, as a priority transit corridor through their Countywide Multimodal Arterial Plan. The recent Alameda-Contra Costa Transit District (AC Transit) “Major Corridors Study Report”, adopted in September 2016, targets San Pablo for rapid bus upgrades in the near term, and as a potential bus rapid transit corridor in the long term. Alameda CTC has allocated \$4 million to plan improvements (including environmental review) on San Pablo Avenue across multiple jurisdictions. City of Berkeley Transportation Division staff are currently working with Alameda CTC and AC Transit to scope out the planning process, which is expected to begin in early 2017. Ultimately this project could result in significant multi-modal transportation and infrastructure investments on San Pablo Avenue.
- The City has applied for \$8.6 million from the Alameda CTC Fiscal Year 2018-20 Comprehensive Investment Plan for signal interconnect work, which includes \$1.3 million for transit signal priority at ten intersections along San Pablo Avenue

in Berkeley. The transit signal priority will extend the green time at a signal if a bus is detected approaching the signal when it is about to turn red.

- The I-80 Gilman Interchange project will improve vehicle, pedestrian and bicycle operations at the interstate 80 and Gilman Street interchange, increasing accessibility and providing a gateway for North Berkeley. The project is currently in the initial engineering and design phase, with construction expected in Fiscal Year 2020-2021.
- AC Transit is planning service expansions for a number of bus lines, primarily improve frequency of service and connectivity for east-west corridors (Gilman/Hopkins, Cedar, Dwight, and Ashby) and West Berkeley. These changes are planned for March 2017.

The research for this worksession report was conducted using both qualitative and quantitative methods, including stakeholder interviews, direct observation, and analysis of a variety of data sources including the Bureau of Labor Statistic's Quarterly Census of Employment and Wages, City of Berkeley Business License Data, sales tax data, OED's inventory of ground floor commercial spaces, and demographic data from ESRI Business Analyst and the U.S. Census and American Community Survey.

ENVIRONMENTAL SUSTAINABILITY

The continued development of San Pablo as a dense, walkable, transit-oriented commercial district and employment center has the potential to reduce the number of trips via private automobile, and is this well aligned with the City's environmental sustainability goals. Many of the City's environmental sustainability goals are inextricably tied to the overall health of the City's economy. The strong health of Berkeley's economy indicates that the City is well-positioned to pursue those goals. Furthermore, staff believes that the continued pursuit of environmental sustainability goals, as well as the programs and public policies that encourage that pursuit, represents a core economic strength for Berkeley and a competitive advantage of the City and the region.

POSSIBLE FUTURE ACTION

OED staff will continue to coordinate with other City agencies, merchant groups, property owners, arts organizations, and other stakeholders to promote economic vitality on San Pablo Avenue.

This report identifies a wide variety of possible future actions related to economic development, land use and transportation planning. No immediate, near-term Council actions are anticipated.

FISCAL IMPACTS OF POSSIBLE FUTURE ACTION

Activities to support the San Pablo Avenue business districts require the commitment of staff time and budget resources. Actions that facilitate increased economic activity tend

to boost revenues related to sales tax and property tax, and thus have positive fiscal impacts on the city.

Some of the major initiatives identified above, such as land use planning and transportation and infrastructure investments, would require significant commitments of staff time and budget resources and prioritization within the City's and various departments' work plan.

CONTACT PERSON

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Jordan Klein, Economic Development Project Coordinator, (510) 981-7534.

Attachments:

- 1: San Pablo Area Demographics
- 2: Cost Burdened Households, San Pablo Corridor and City of Berkeley
- 3: Racial/Ethnic Composition, San Pablo Area
- 4: Change in Population, Racial Groups, and Income, San Pablo-Adjacent Census Tracts, 2000-2014
- 5: Ground Floor Commercial Vacancy Rate (by Square Footage), 2008-2016
- 6: Ground Floor Commercial Occupancy by Category, by Square Footage, 2016 Q3
- 7: Sales Tax Performance Over Time, San Pablo and Citywide, 2007-2016
- 8: Sales Tax Revenue by Category, San Pablo and Citywide, 2015 Q2-2016 Q1
- 9: Annual Sales Tax Performance Over Time, Home Improvement and Auto-Oriented Business Clusters, 2007-2016
- 10: San Pablo Avenue-Adjacent Business Licenses, by Type of Business
- 11: Wages and Average Employment, Businesses with San Pablo Addresses, 2011 Q4-2015 Q4
- 12: Table: San Pablo Avenue-Adjacent Housing Projects, Recently Constructed and in the Development Pipeline
- 13: Map: San Pablo Avenue-Adjacent Housing Projects, Recently Constructed and in the Development Pipeline
- 14: West Berkeley Median Sales Price Over Time, Condos and Single-Family Homes, 2010 Q1- 2016 Q3

Attachment 1 (1 of 2) San Pablo Area Demographics

- Total population: **14,708**
- **7,180** Housing Units (14.6% of Berkeley housing stock)
- Renters: **42.6%**
- Homeowners: **57.4%**
- Median income: **\$66,151**
- Median income citywide: **\$65,283**
- Unemployment Rate: **7.13%**
- Workforce Participation (age 16+): **81.9%**

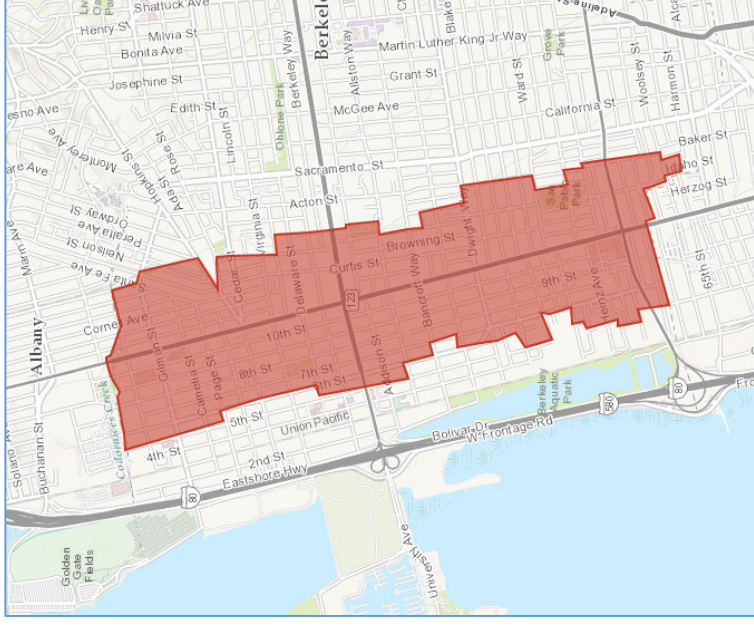
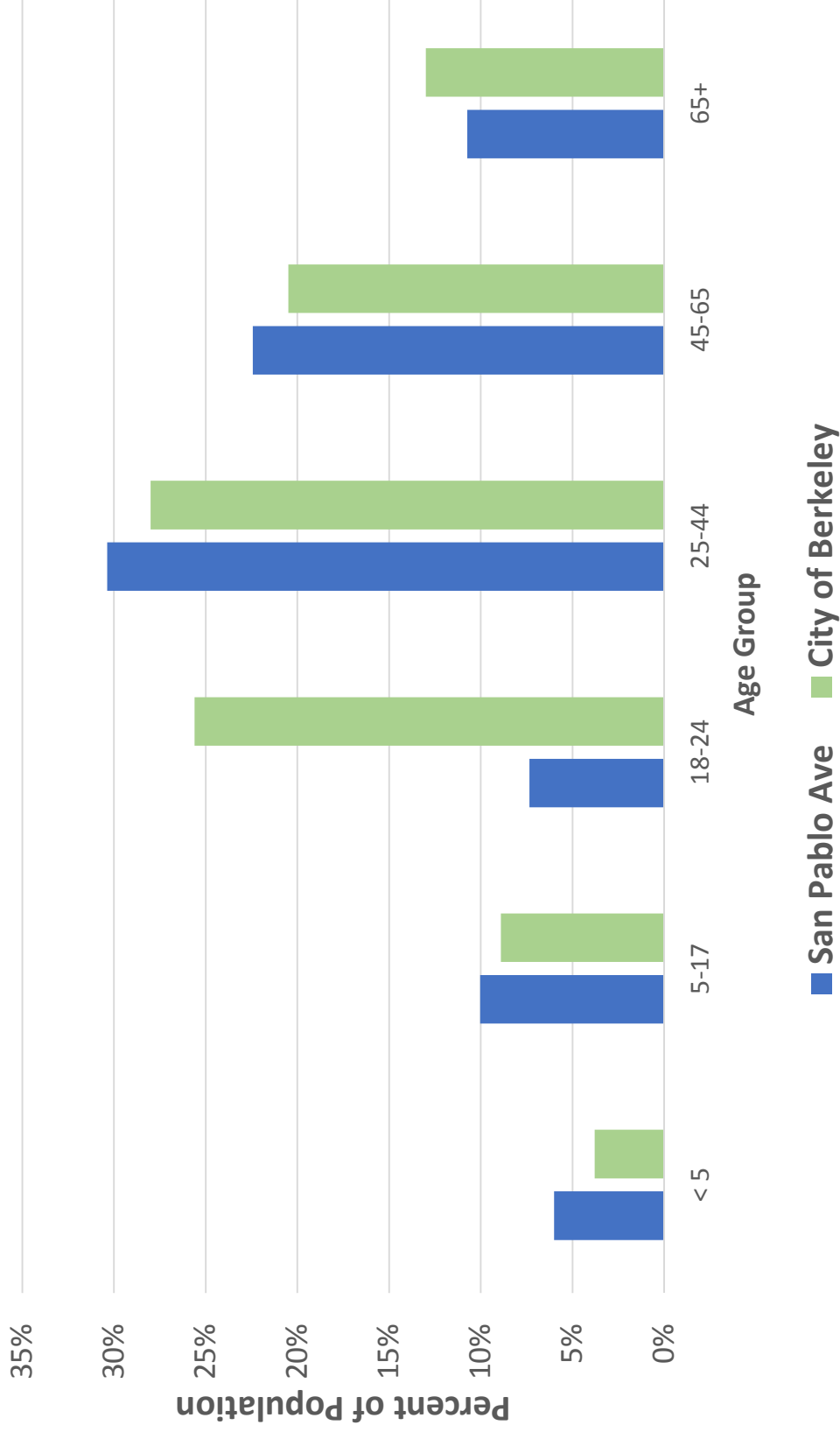


Image source: ESRI Business Analyst. The highlighted region represents the area within a quarter mile of the five nodes on the San Pablo commercial corridor.

Source: US Census Bureau. Median income estimates reflect weighted average of median incomes for eight Census tracts bordering San Pablo Ave, American Community Survey, 2010-2014 Rolling Sample. All other figures are for the area highlighted on the map, above right, accessed via ESRI Business Analyst.

Attachment 1 (2 of 2)

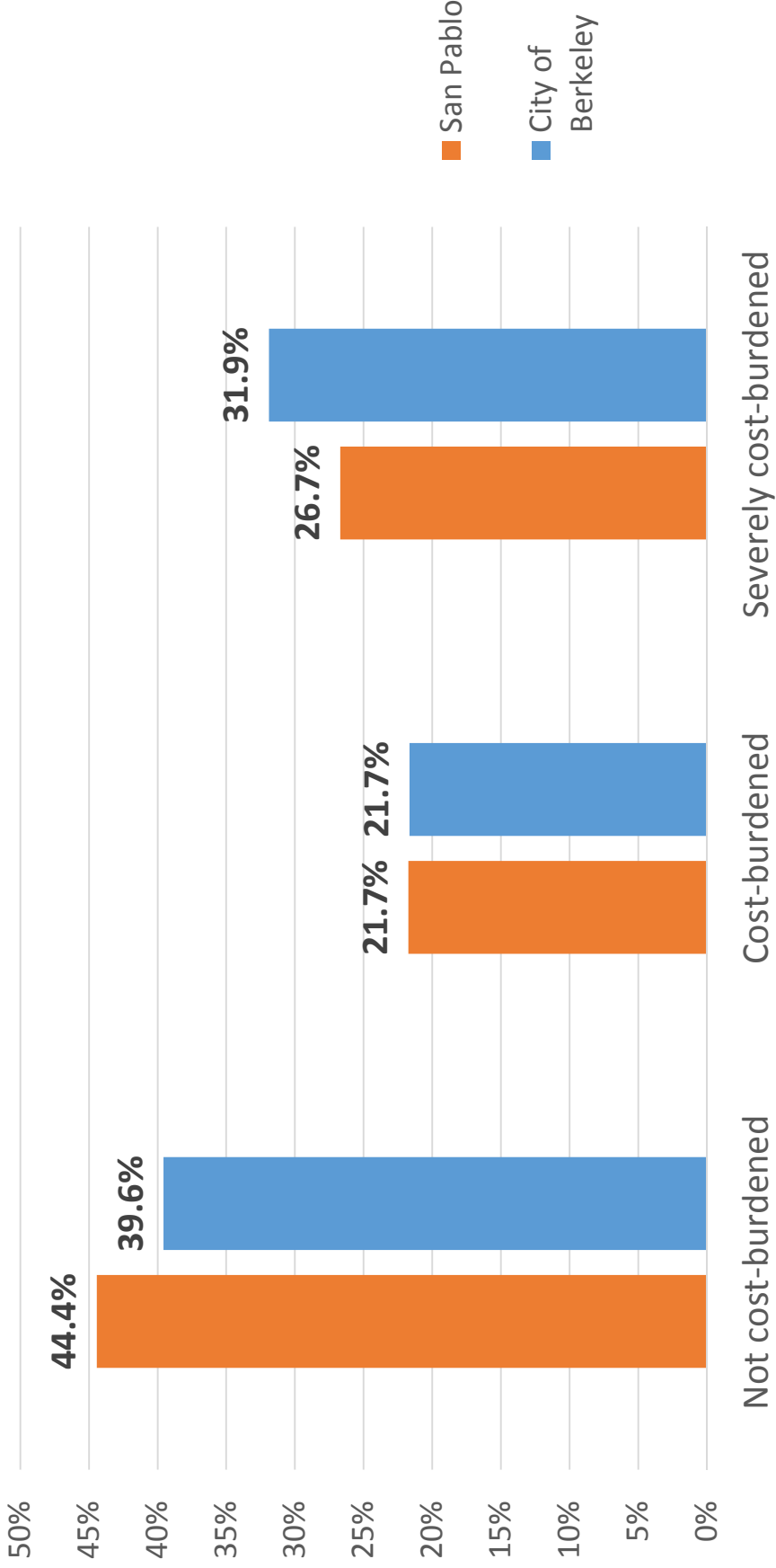
Residents by Age Group, San Pablo Avenue-Adjacent Tracts and City of Berkeley, 2010-2014 Estimates



Source: US Census Bureau, American Community Survey, 2010-2014 Rolling Sample

Attachment 2

Cost Burdened Households, San Pablo Corridor and City of Berkeley

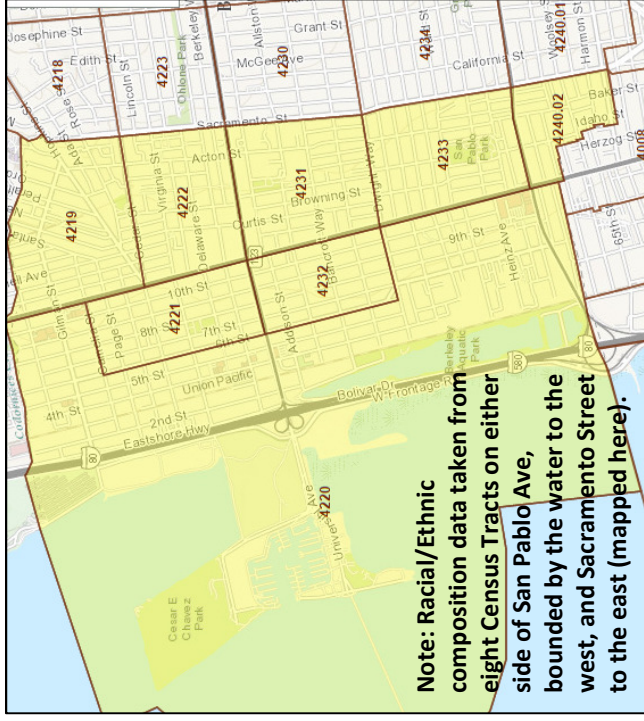


Ratio of Household Income to Rent

Note: The U.S. Department of Housing and Urban Development defines households as “cost-burdened” when they are paying 30% or more of their income towards housing costs, and “severely cost-burdened” when they are paying 50% or more of their incomes towards housing costs. Data Source: ESRI Business Analyst

Attachment 3

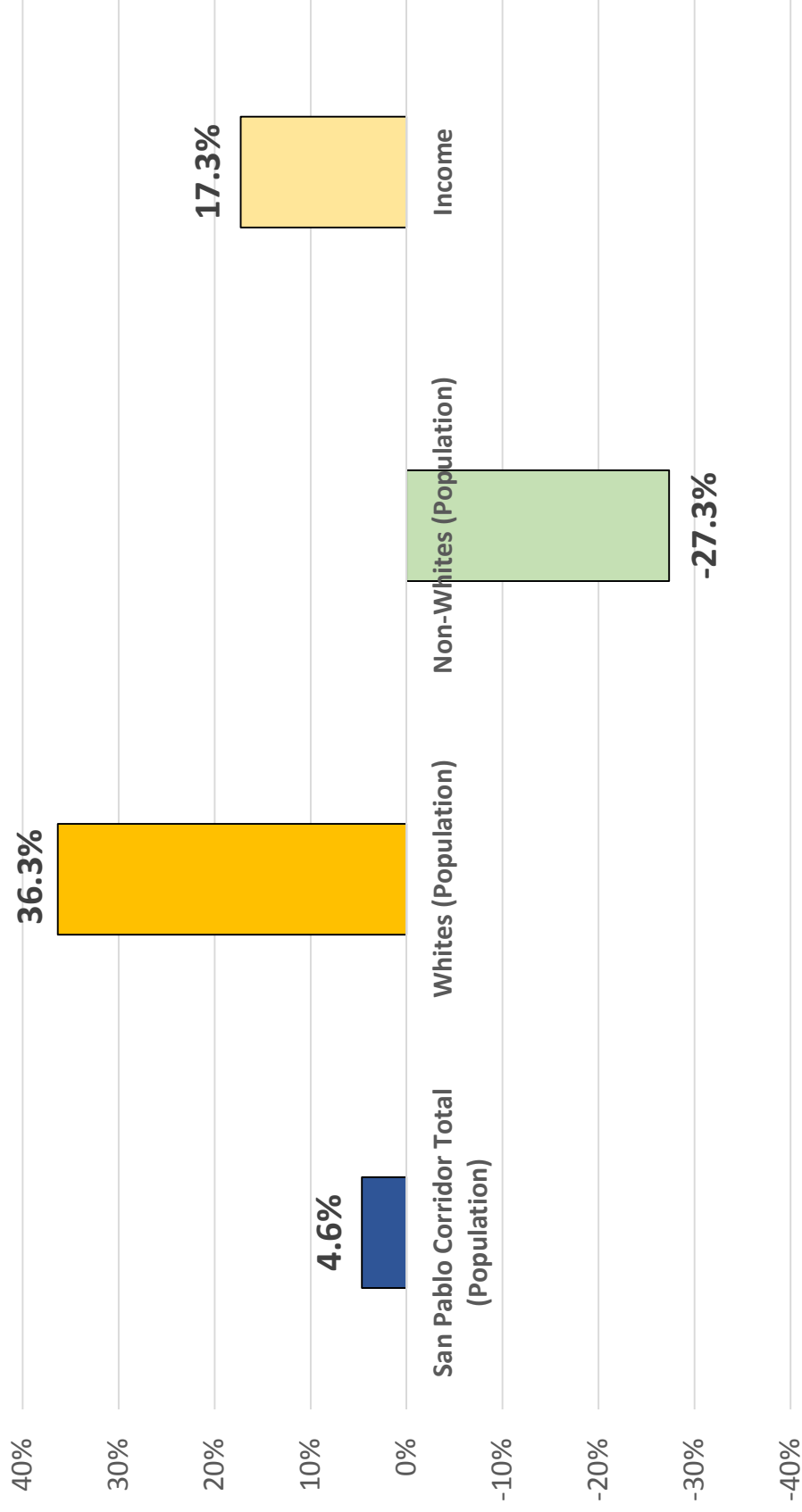
Racial/Ethnic Composition, San Pablo Area



Source: US Census Bureau, American Community Survey, 2010-2014 Rolling Sample

Attachment 4

Change in Population, Racial Groups, and Income, San Pablo-Adjacent Census Tracts, 2000-2014



Note: Income is in 2014 Dollars. Source: American Community Survey (ACS) Estimates 2010-2014; 2000 Census

Attachment 5

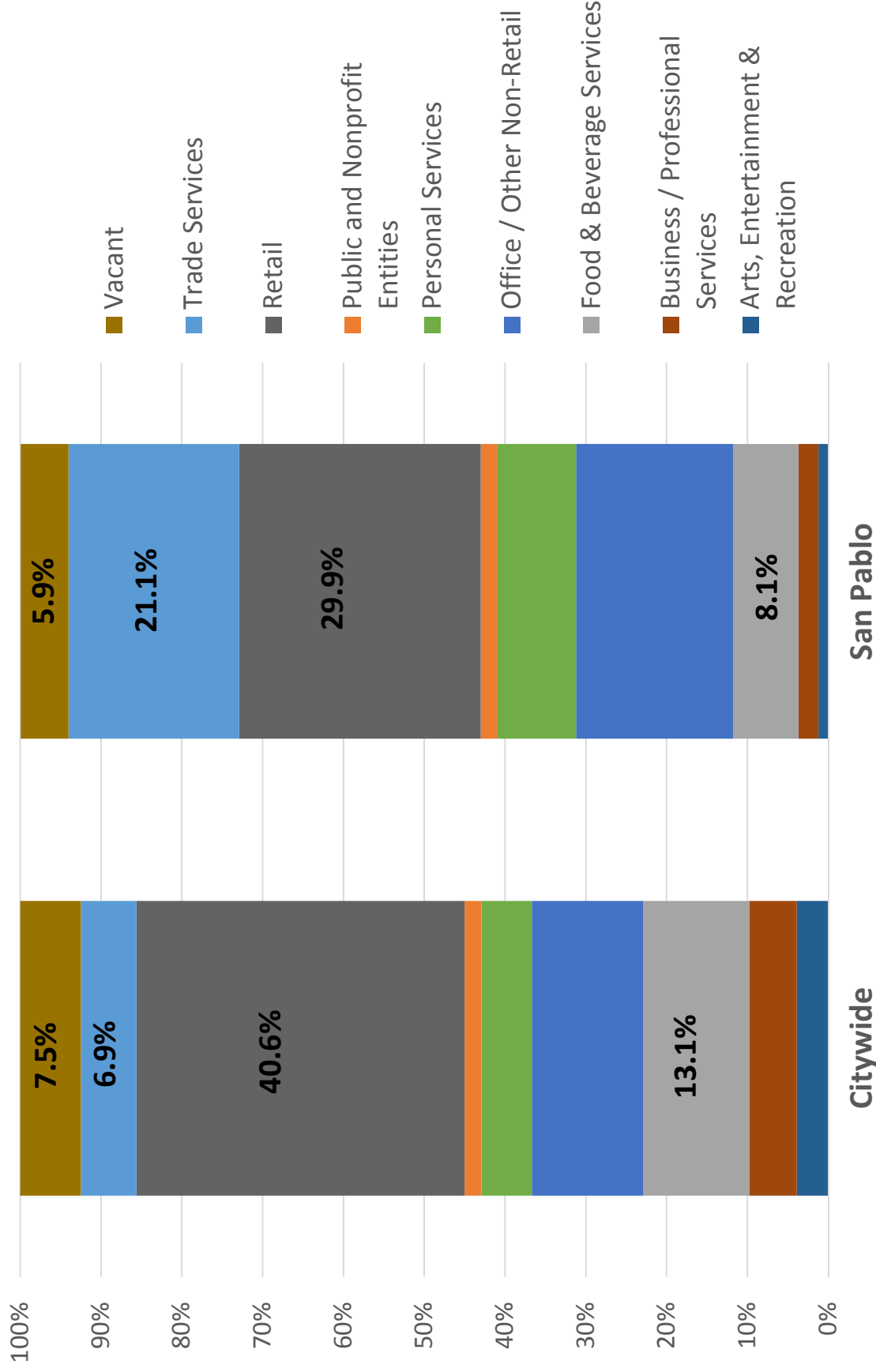
Ground Floor Commercial Vacancy Rate (by Square Footage), 2008-2016



Source: Vacancy Database, Office of Economic Development, City of Berkeley

Attachment 6

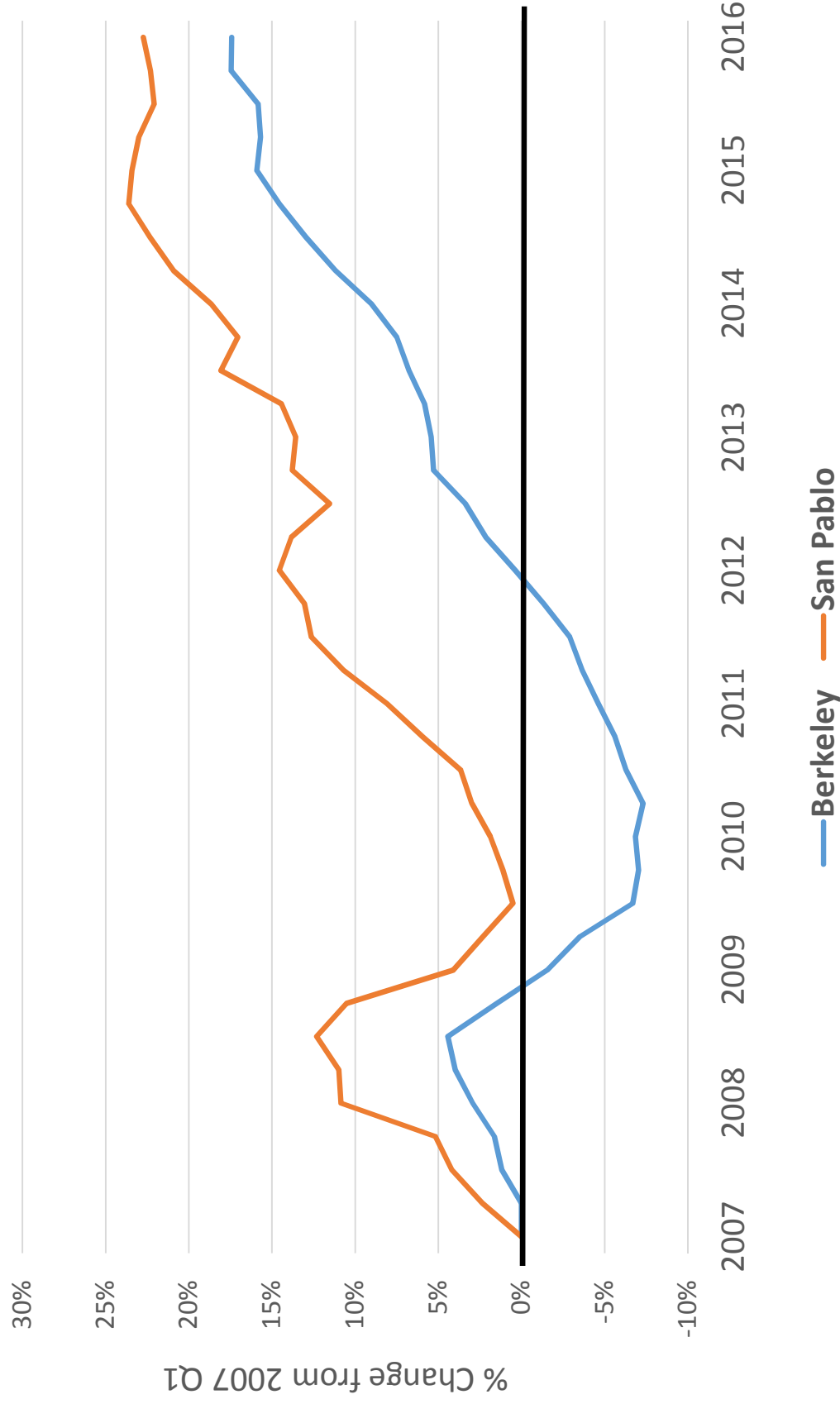
Ground Floor Commercial Occupancy By Category, by Square Footage, Q3 2016



Source: Vacancy Database, Office of Economic Development, City of Berkeley

Attachment 7

Sales Tax Performance Over Time, San Pablo and Citywide, 2007-2016

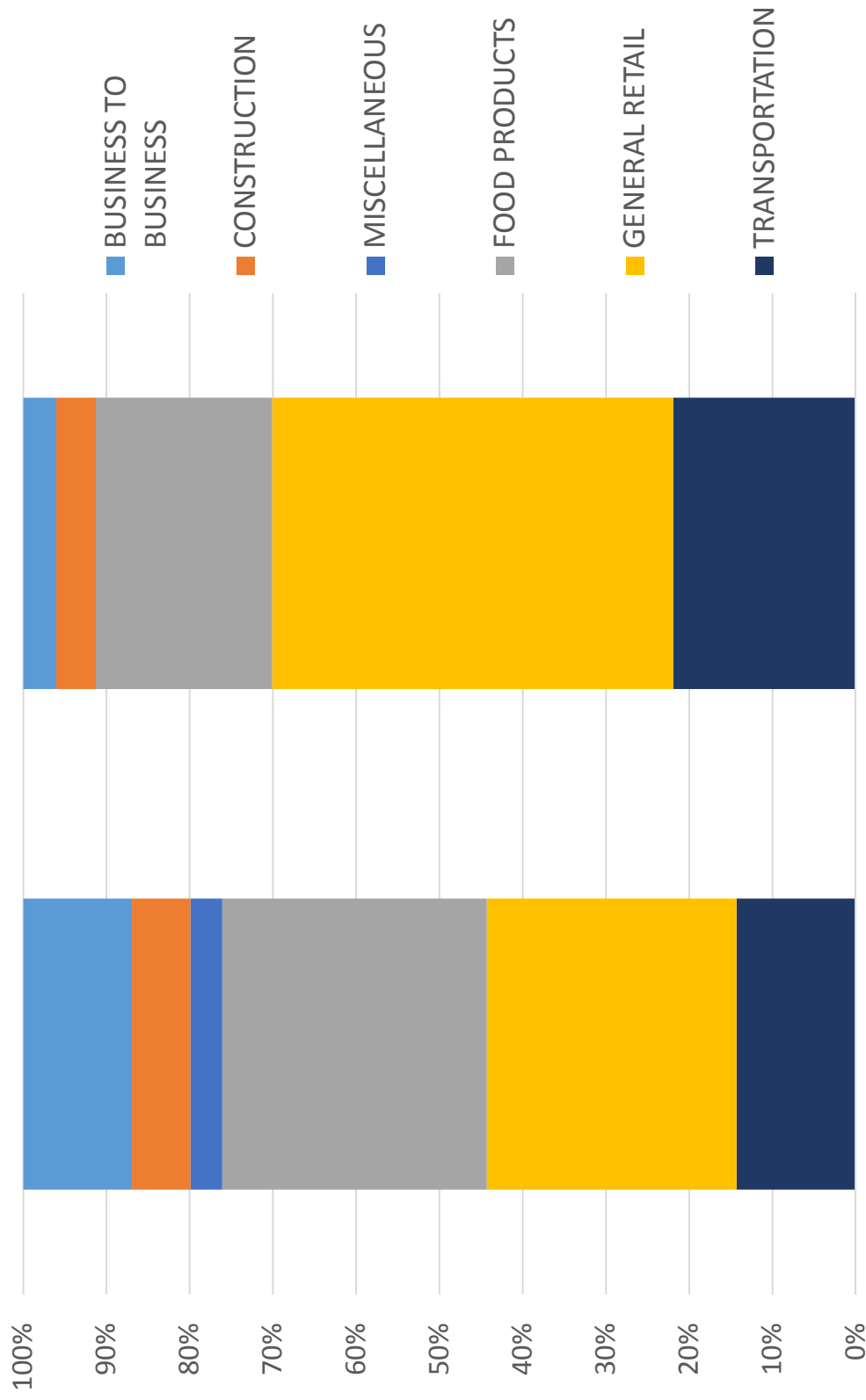


Source: MuniServices, OED Analysis

Attachment 8

Sales Tax Revenue by Category, San Pablo and Citywide, 2015

Q2 – 2016 Q1



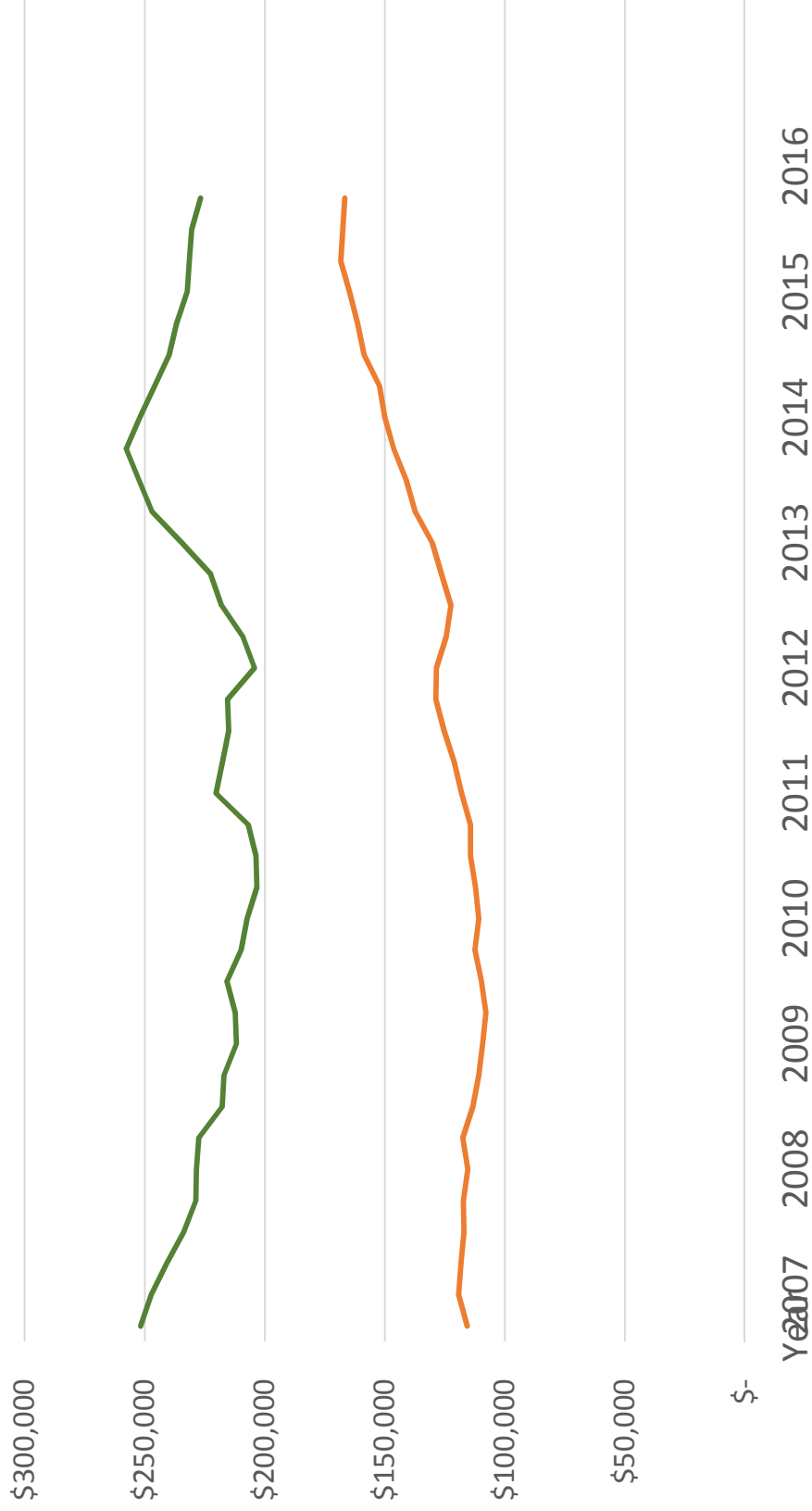
Berkeley

San Pablo

Source: MuniServices, OED Analysis

Attachment 9

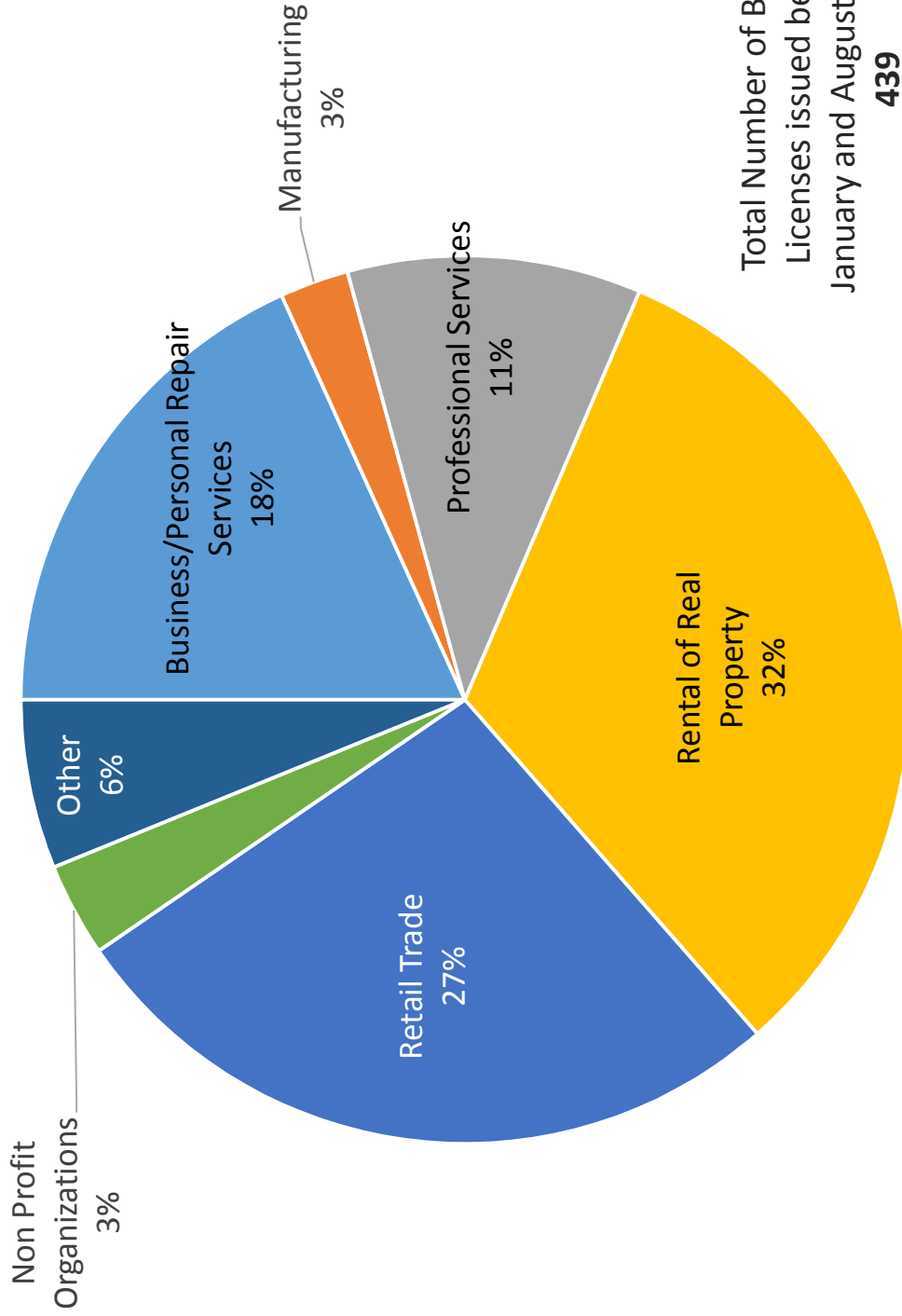
Annual Sales Tax Performance Over Time, Home Improvement and Auto-Oriented Business Clusters, 2007-2016



Source: MuniServices, OED Analysis

Attachment 10

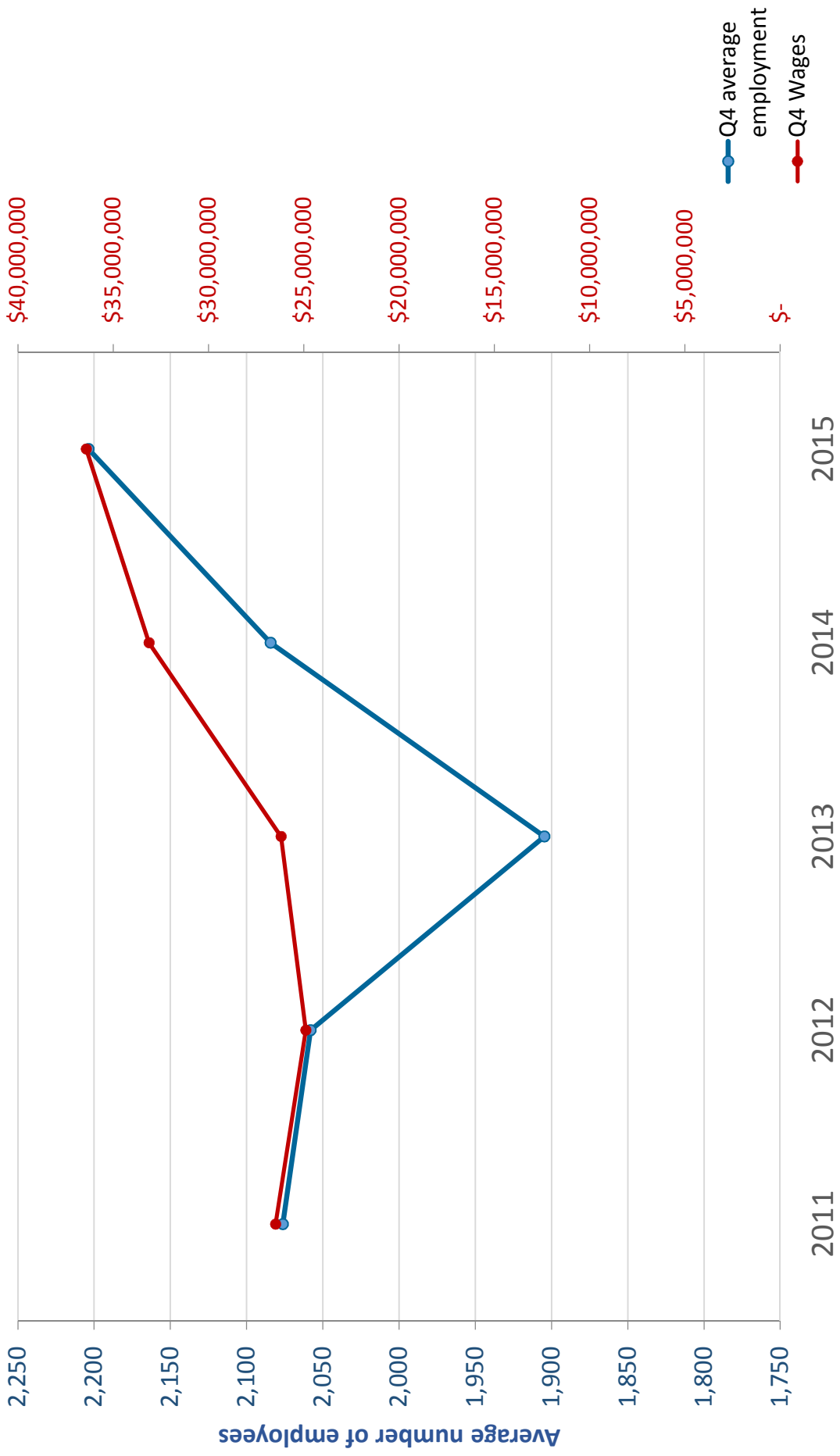
San Pablo Avenue-Adjacent Business Licenses, by Type of Business



Source: City of Berkeley, Finance Department

Attachment 11

Wages and Average Employment, Businesses with San Pablo Addresses, 2011 Q4-2015 Q4



Source: Quarterly Census of Employment and Wages (QCEW), Bureau of Labor Statistics

Attachment 12

Table: San Pablo Avenue-Adjacent Housing Projects, Recently Constructed and in the Development Pipeline

Address	Status	Number of Units	Commercial Square Footage
1122 University Ave	Built	81	5,320
1200 Ashby Ave*	Built	98	6,500
2700 San Pablo Ave*	Built	30	1,100
2747 San Pablo Ave	Entitled	39	3,842
2748 San Pablo Ave*	Entitled	23	2,094
3020 San Pablo Ave	Entitled	29	2,287
1201 San Pablo Ave	Entitled	27	3,468
1500 San Pablo Ave	Entitled	170	11,500
1155 Hearst	Proposed	18	-
2100 San Pablo Ave	Proposed	91	11,111
2720 San Pablo Ave	Proposed	43	1,600
*Includes Affordable Units: 44 (total)	Total	649	48,822

Source: City of Berkeley, Office of Economic Development, Planning Department, October 2016

Attachment 13

Map: San Pablo Avenue-Adjacent Housing Projects, Recently Constructed and in Development Pipeline



Source: City of Berkeley Office of Economic Development

Attachment 14

West Berkeley Median Sales Price Over Time, Condos and Single-Family Homes, 2010 Q1-2016 Q3



Note: Figures are for Condos/Lofts and Homes west of Sacramento Street in Berkeley. The yearly medians represent the average values of the median figures for each quarter. Source: Red Oak Realty, Multiple Listing Service (MLS Data), October 2016.

