

LA Waterfront Public Sites Opportunity Analysis Community Meeting

The Economics of Land Use



Oakland
Denver
Los Angeles
Sacramento



Economic & Planning Systems, Inc. (EPS)

November 29, 2016

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Agenda

- 1. Overview**
- 2. Site Assessment**
- 3. Conclusions**
- 4. Q&A**

Project Background

Study commissioned by:

- The City of Los Angeles Economic and Workforce Development Department (EWDD)
- Los Angeles Council District 15 (CD 15)
- Mayor's Office of Economic Development

Purpose:

- Determine **opportunities** for **residential, hospitality,** and **office** development on **publicly-owned** sites on the LA Waterfront.

Consultant Team

Economic & Planning Systems, Inc. (EPS)

- Real estate, public finance, land use policy analysis
- Public agencies, developers, non-profits throughout U.S.
- Founded 1983
- 40 economists in four offices: Oakland, Los Angeles, Sacramento, Denver

Community Design + Architecture (CD+A)

- Planning, urban design, architecture
- Based in Oakland, CA

Guiding Question

*For 16 publicly owned sites in the LA Waterfront area, what are the best near- and longer-term development options given **market** conditions, **zoning codes, regulatory constraints, physical site characteristics, and ongoing public and private investment in the LA waterfront?***

Methodology

1. Gather primary source material

- Site visits
- Interviews

2. Gather market and regulatory data

- Market trends
- Planning documents

3. Identify priority uses

- Market support
- Site characteristics
- Zoning and Tidelands Trust

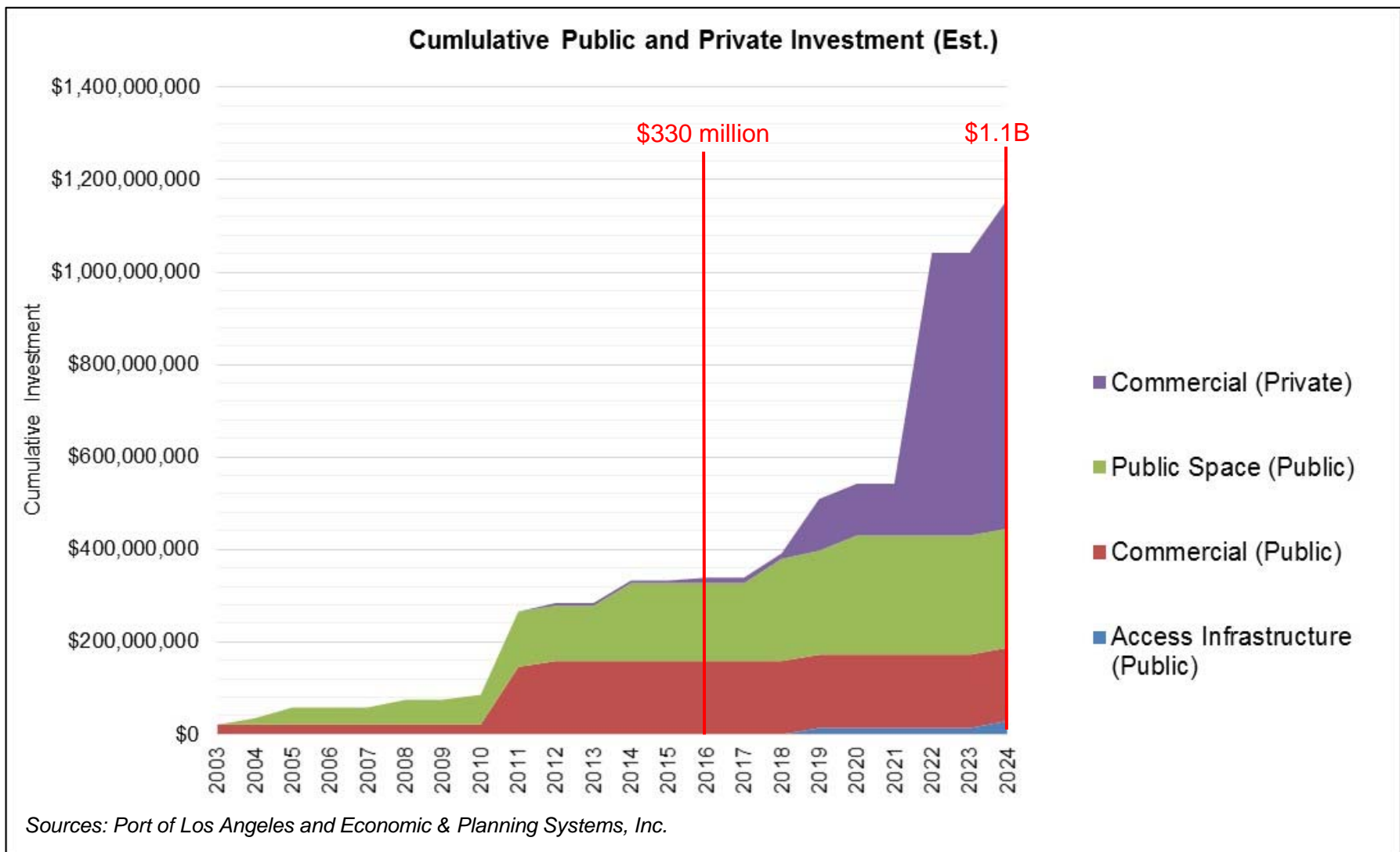
4. Assess feasibility of potential uses

- Current market conditions
- Longer-term



Area Context

LA Waterfront projects may represent over \$1B in public and private investment stimulus



LA Waterfront: San Pedro Public Market and AltaSea



SanPedro Public Market

- Redevelop Ports o' Call Village as retail/restaurant/entertainment/boutique office destination
- \$100 million 30-acre phase 1 ETA 2020

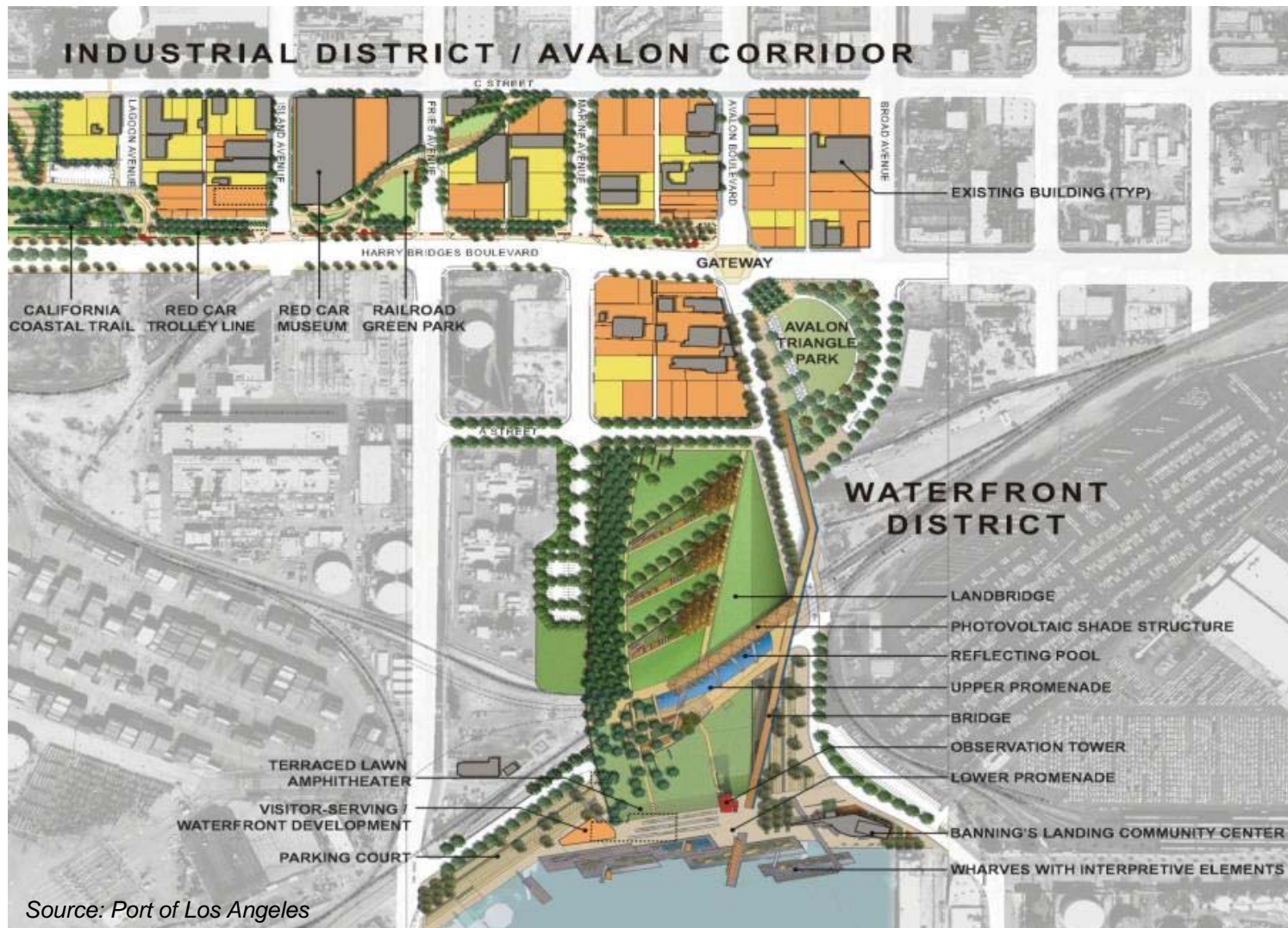


AltaSea

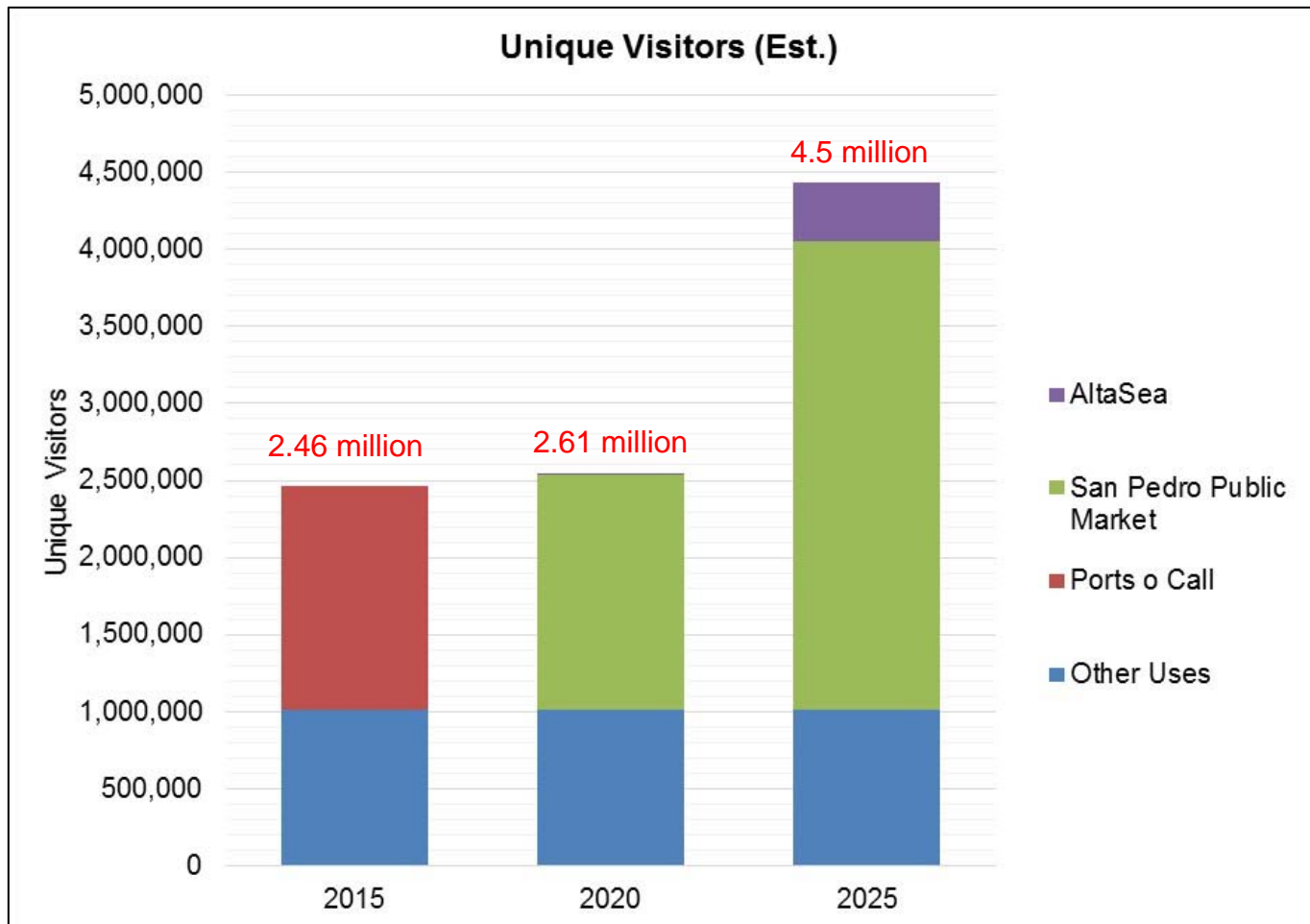
- Redevelop 28-acre City Dock #1 as a marine research and innovation center
- \$155 million Phase 1 ETA 2018-20

Sources: Jerico Development, Gensler, Port of LA

LA Waterfront: Wilmington Waterfront/Avalon Boulevard Master Plan



LA Waterfront pipeline projects could boost visitation and employment significantly

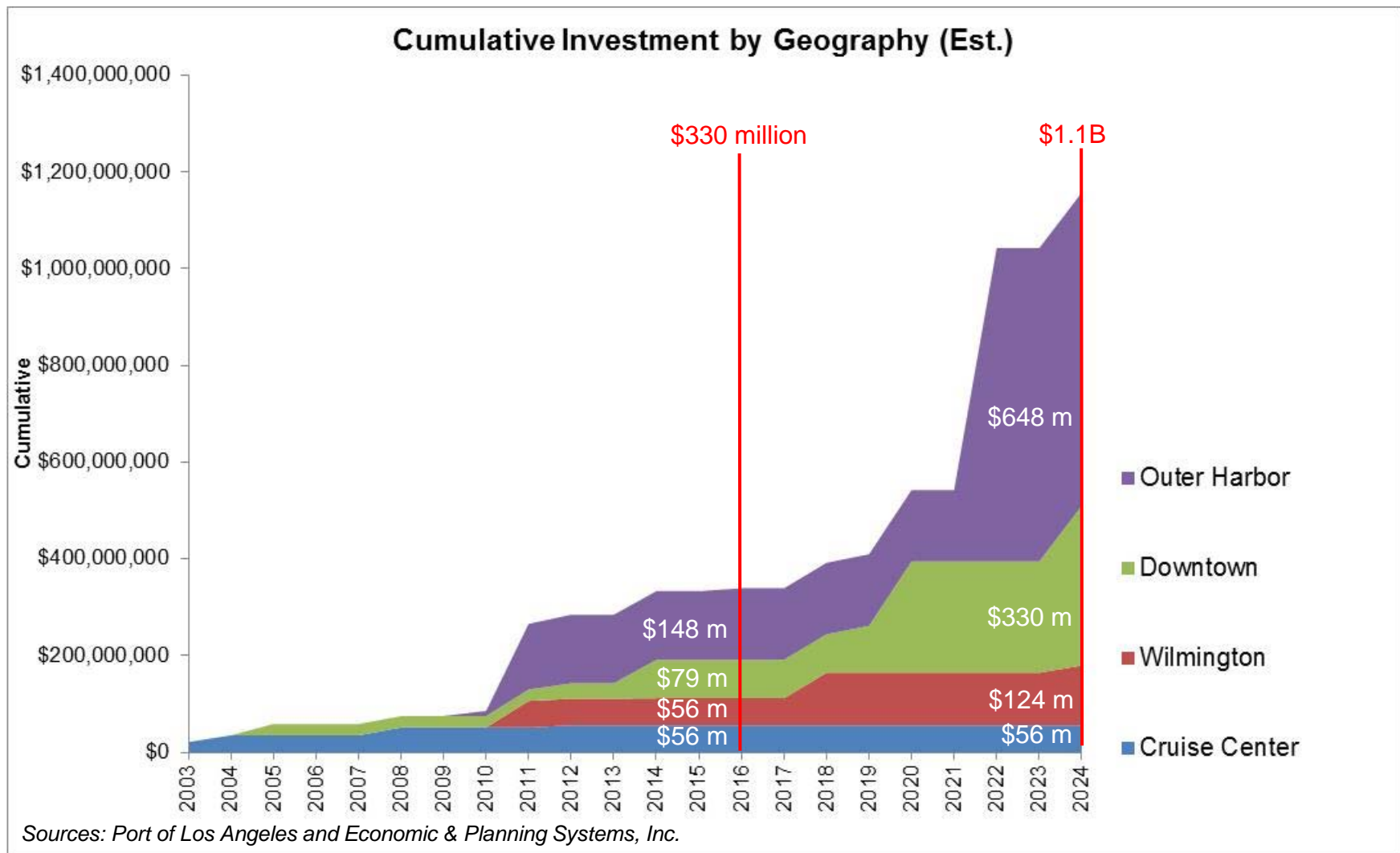


Source: Economic & Planning Systems, Inc.

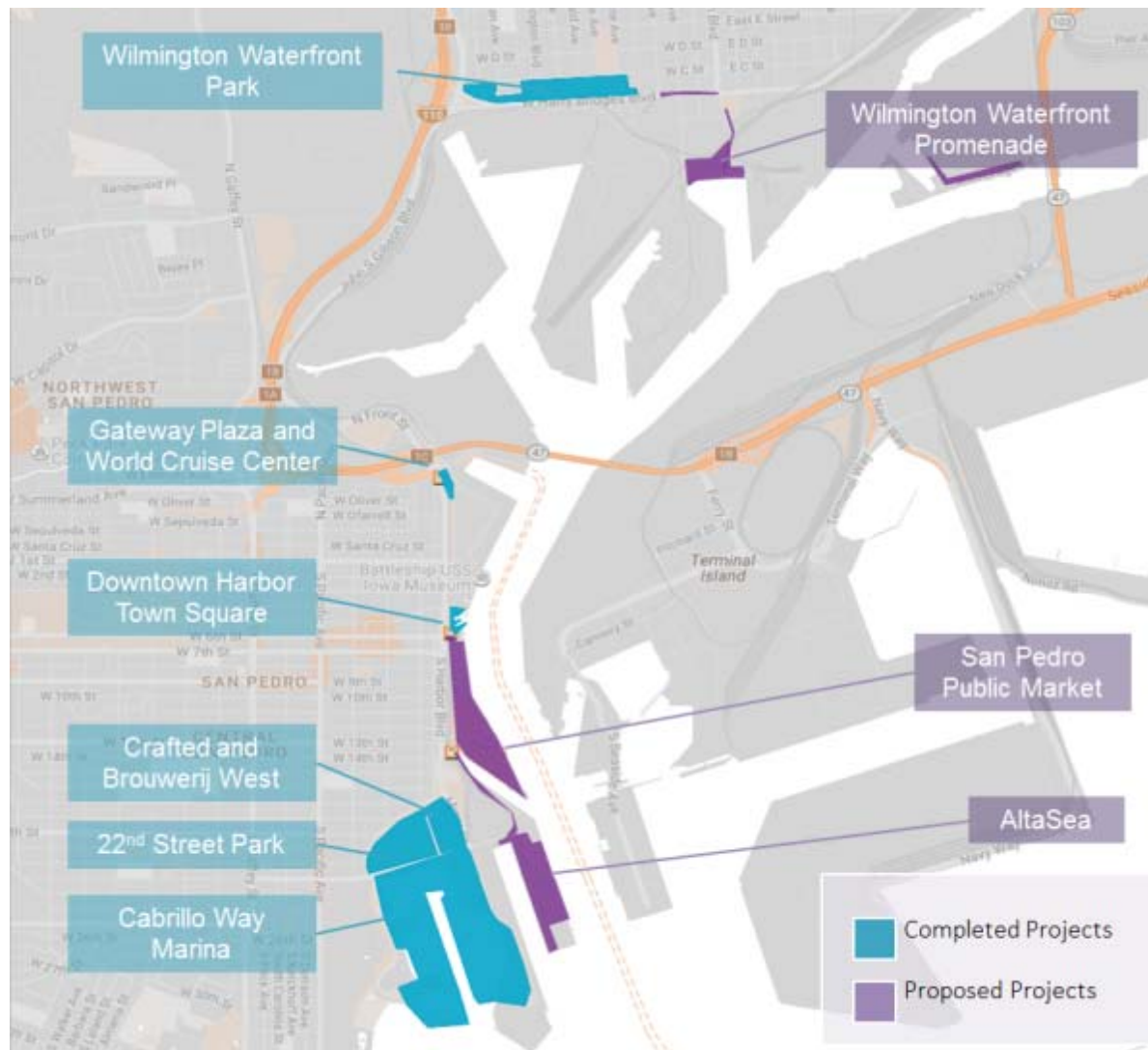
Projected Growth by 2025:

- 2.04 million net new visitors (+83%)
- 1,300 new jobs (+12%)

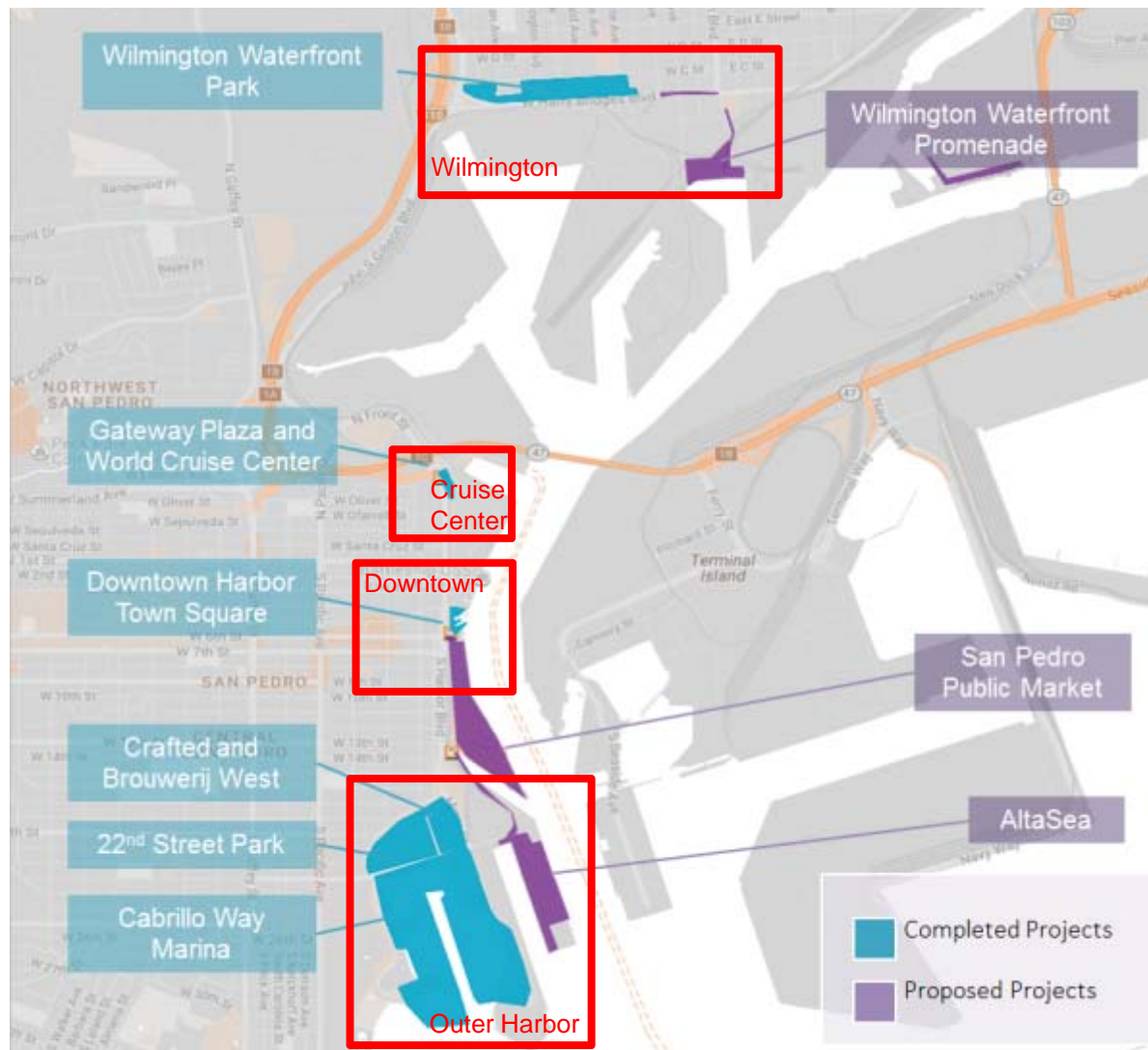
LA Waterfront investment: four geographical areas



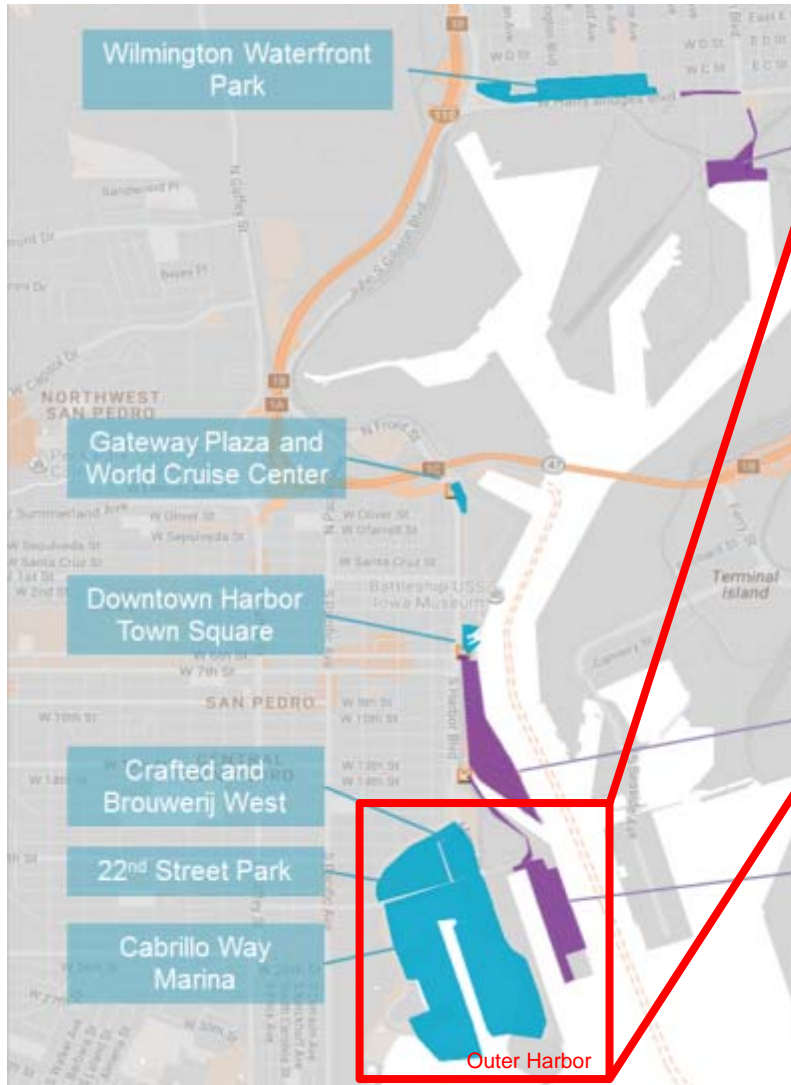
LA Waterfront major completed and pipeline projects



16 Opportunity Sites located in four economic geographies

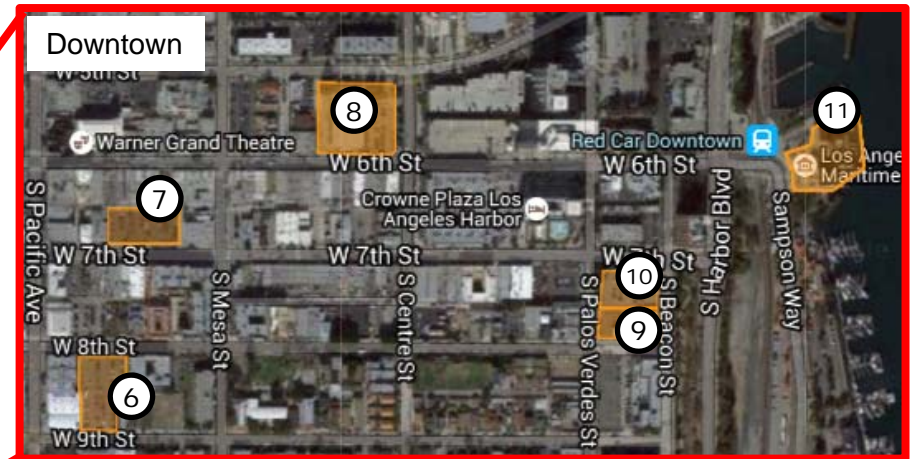
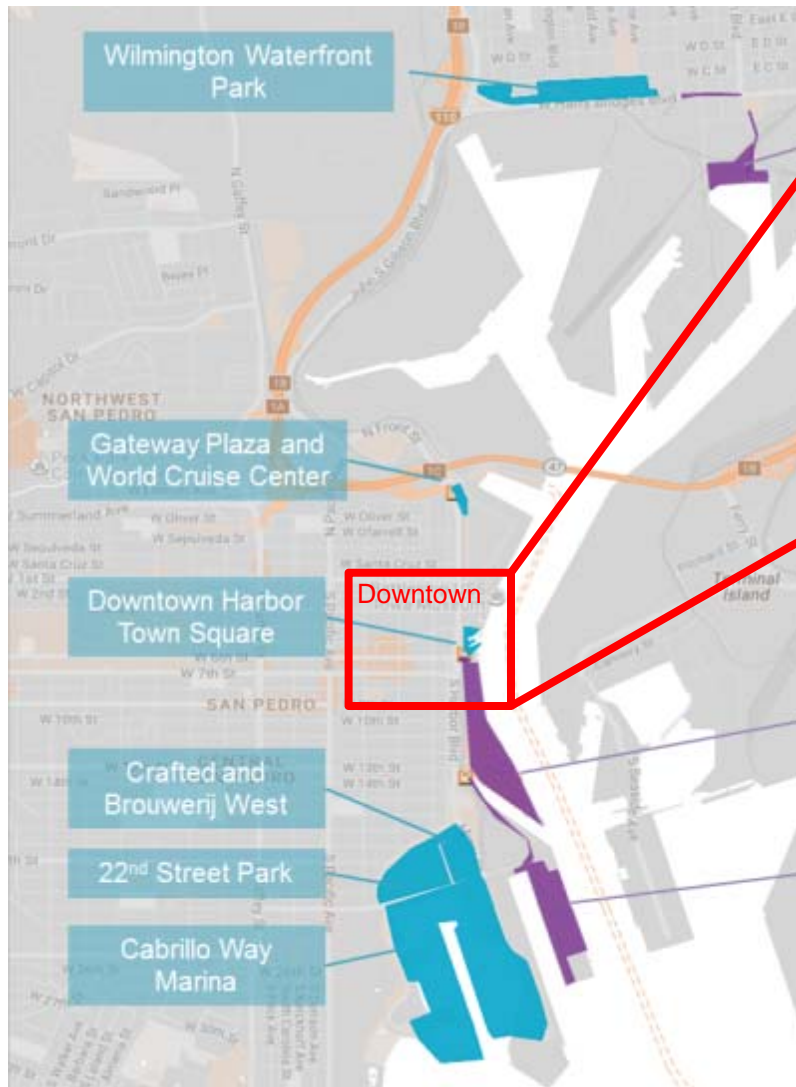


5 Outer Harbor Opportunity Sites



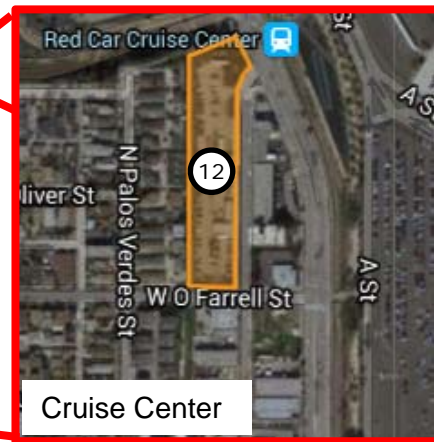
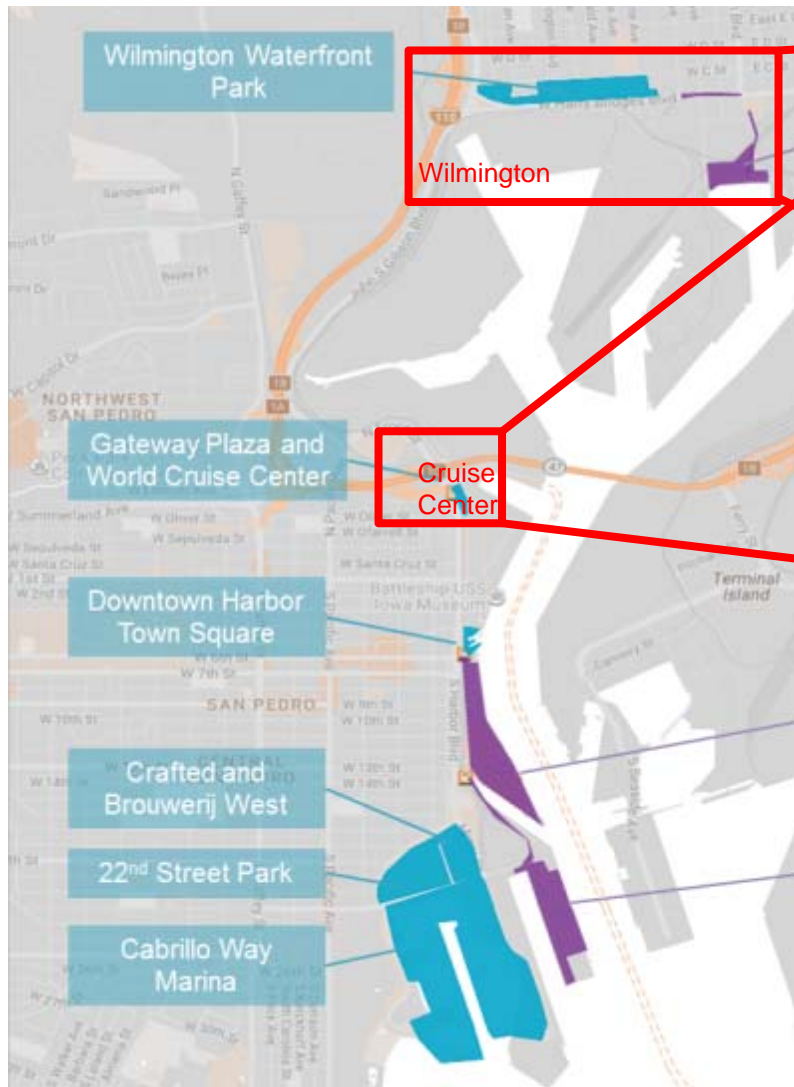
| Site | Owner | Existing Use |
|--------------------------------------|----------------------|---------------------------|
| 1. Outer Harbor | Harbor Dept. | Cruise ship berth, events |
| 2. Warehouse #1 | Harbor Dept. | Storage |
| 3. Cabrillo Way Marina Parking | Harbor Dept. | Parking |
| 4. Cabrillo Marine Aquarium | Dept. Rec. and Parks | Museum |
| 5. Cabrillo Beach Youth Water Center | Harbor Dept. | Scouts camp |

6 Downtown San Pedro Opportunity Sites



| Site | Owner | Existing Use |
|--|----------------------|-------------------|
| 6. Parking Lot 641 | LA City | Parking |
| 7. Parking Lot 684 | LA City | Parking |
| 8. San Pedro Courthouse | State of CA | Vacant |
| 9. LA County Health Clinic and Parking | LA County | LA County offices |
| 10. Municipal Building Visitor Parking | LA City | Parking |
| 11. LA Maritime Museum/Berth 84 | Dept. Rec. and Parks | Museum |

1 Cruise Center and 4 Wilmington Opportunity Sites



| Site | Owner | Existing Use | |
|------|----------------------------|--------------|------------|
| 12. | Caltrans Park and Ride Lot | State of CA | Parking |
| 13. | Wilmington Harbor #1 | Harbor Dept. | Vacant Lot |
| 14. | Wilmington Harbor #2 | Harbor Dept. | Parking |
| 15. | Wilmington Harbor #4 | Harbor Dept. | Vacant Lot |
| 16. | Wilmington Harbor #3 | Harbor Dept. | Parking |

Opportunity Sites: Impact of Tidelands Trust Restrictions and Existing Uses

| Tidelands Trust and Existing Uses Diagnostic | | | |
|---|-----------------------------|------------------------|-----------------------------|
| Opportunity Site | Tidelands Trust? | Strong Current Use? | Available Uses |
| Outer Harbor | | | |
| 1. Outer Harbor | maritime or visitor-serving | no | Hotel/Events/Ship |
| 2. Warehouse #1 | maritime or visitor-serving | no | Office/Flex |
| 3. Cabrillo Way Marina Parking | maritime or visitor-serving | no | Office/Flex |
| 4. Cabrillo Marine Aquarium | maritime or visitor-serving | Visitor-serving museum | <i>maintain existing</i> |
| 5. Cabrillo Beach Youth Water Ctr. | maritime or visitor-serving | Boy Scouts camp | <i>maintain existing</i> |
| Downtown | | | |
| 6. Parking Lot 641 | no restriction | no (parking) | MU or MF |
| 7. Parking Lot 684 | no restriction | no (parking) | MU or MF |
| 8. San Pedro Courthouse | no restriction | no (vacant) | MU or MF |
| 9. LA County Health Clinic & Parking | no restriction | LA County medical | MU or MF |
| 10. Municipal Building Visitor Parking | no restriction | no (parking) | MU or MF |
| 11. LA Maritime Museum/Berth 84 | maritime or visitor-serving | Visitor-serving museum | <i>maintain existing</i> |
| Cruise Center | | | |
| 12. Caltrans Park and Ride Lot | no restriction | no (parking) | Hotel/Light Industrial |
| Wilmington | | | |
| 13. Wilmington Harbor #1 | maritime or visitor-serving | no (parking) | <i>Avalon Triangle Park</i> |
| 14. Wilmington Harbor #2 | maritime or visitor-serving | no (parking) | Office/Flex |
| 15. Wilmington Harbor #4 | maritime or visitor-serving | no (parking) | Office/Flex |
| 16. Wilmington Harbor #3 | maritime or visitor-serving | no (parking) | Office/Flex |
| Sources: Economic & Planning Systems, Community Design + Architecture | | | |



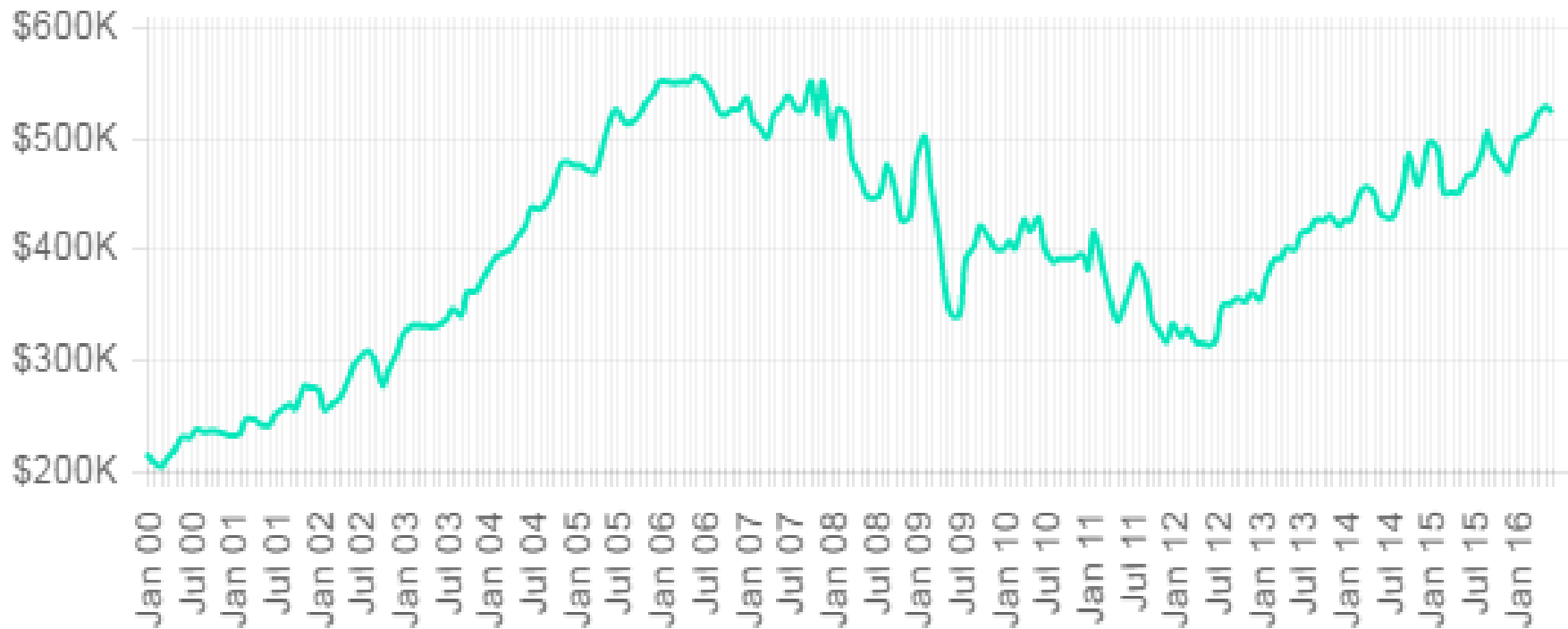
Residential Market Opportunity

Downtown San Pedro attributes for residential development

- **Authentic** Port atmosphere and **unique** sense of place
- **Walkable** Downtown San Pedro
- Growing number of **amenities** plus LA Waterfront pipeline
- Burgeoning community of **artists** and galleries
- **Lower-cost** alternative to other Beach Cities
- A number of **developable sites**
- **Manageable commute** to Long Beach, South Bay, and Downtown Los Angeles workplaces

The San Pedro residential market is rebounding from the recession

San Pedro Median Residential Sales Price, 2000-2016



Source: Trulia

A significant pipeline of proposed residential projects for Downtown San Pedro

DT San Pedro Residential Pipeline

| Project | Developer | Status | Units | Type | Stories | Rent/ Sale |
|-------------------------|------------------|--------------|------------|-------------|---------|---------------|
| Holland Parters Project | Holland Partners | Pre-Approval | 312 | MU Mid-Rise | 7 | Rent |
| Omninet Project | Omninet Capital | Pre-Approval | 400 | MU Mid-Rise | 5 | Rent |
| Nelson One | T.L. Pacific | Pre-Approval | 68 | MU Tower | 12 | Rent |
| LaTerra Project | LaTerra | Engineering | 24 | Detached TH | 3 | Sale |
| Total | | | 804 | | | |

Source: CoStar, newswire reports, LADCP

Top San Pedro rents lower than recent Long Beach project rents

| Top-of-Market Rents (9/2016) | | |
|------------------------------|--|------------------------------------|
| Item | Mid-Rise | High-Rise |
| San Pedro | San Pedro Bank Lofts (4-story, b. 2007) | The Vue (15-Story, b. 2008) |
| | \$2.02 | \$2.34 |
| Long Beach | Urban Village (5-Story, b. 2015) | The Current (17-Story, b. 2016) |
| | \$2.65 | \$3.71 |

Source: Building websites, Economic & Planning Systems

Future rent appreciation will make a range of residential uses feasible

| Land Use Feasibility Analysis | | | |
|--|--|---|--|
| Item | 3-Story Singlefamily Townhome Condo | 5-Story Multifamily, Ground Retail | 12-Story Multifamily, Ground Retail |
| Current Market Rents (9/2016) | Feasible | Infeasible | Infeasible |
| Rent Appreciation Until Feasible <u>with Land Subsidy</u> | 0% | 30% | 38% |
| Rent Appreciation Until Feasible <u>(no Subsidy)</u> | 0% | 41% | 50% |

- **3-story townhome condos** are feasible at current rates
- Rent appreciation of 30-50% (= Long-Beach) makes **higher-density multifamily** feasible.

Source: Economic & Planning Systems

Residential Market Summary

- Desirable **location attributes** of Downtown San Pedro
- LA Waterfront project pipeline will **expand area amenities** and appeal
- **Current rents** and home values do not support some development uses
- Developers of pipeline proposals **betting on rent expansion** to achieve feasibility
- **LA Waterfront projects** should also drive rent growth



Office Market Opportunity

San Pedro office market marked by high vacancy and inventory contraction

| Office Market and Inventory Comparison | | | |
|--|-----------|--------------|-------------|
| Item | San Pedro | Beach Cities | LA County |
| Performance | | | |
| Gross Rent/Sq.Ft. | \$2.22 | \$2.25 | \$2.59 |
| Vacancy | 21% | 6% | 11% |
| Inventory | | | |
| 2Q2016 | 1,156,749 | 5,788,952 | 430,639,094 |
| 2000 | 1,359,268 | 5,869,478 | 407,951,649 |
| Change 2000-2Q16 | (202,519) | (80,526) | 22,687,445 |
| % Change | -15% | -1% | 6% |

Sources: CoStar, Economic & Planning Systems

Day population decline and low jobs-to-households ratio in San Pedro

San Pedro Day Population and Jobs Concentration

| Item | # |
|--|---------------|
| San Pedro Day Population | |
| Residential Population | 80,450 |
| Live in San Pedro but Employed Outside | (29,262) |
| Live Outside but Employed in San Pedro | <u>11,195</u> |
| Day Population | 62,383 |
| <i>Day Population as % of Total Population</i> | 78% |
| San Pedro Jobs-to-Households Ratio | |
| Households | 29,977 |
| Primary Jobs | <u>11,195</u> |
| Jobs:Households Ratio | 0.37 |
| <i>Los Angeles Jobs: Households Ratio</i> | 1.15 |

Sources: 2014 LEHD, 2010-2014 ACS Housing Data

Potential for a stronger future San Pedro office market

- **AltaSea** at buildout could add >700 jobs and could create a new industry cluster
- The **San Pedro Public Market** at build-out will provide a strong mix of retail and restaurant amenities
- The renovated Topaz in Downtown San Pedro represents **an investor vote of confidence** in San Pedro's potential
- **Unique location** may offer attractive environment for creative and high-tech office users

Future rent appreciation could support creative office development

| Land Use Feasibility Analysis | |
|---|-------------------------|
| Item | 2-Story Creative Office |
| Current Market Rents (9/2016) | Infeasible |
| <u>Rent Appreciation Until Feasible with Land Subsidy</u> | 22% |
| <u>Rent Appreciation Until Feasible (no Subsidy)</u> | 50% |

- **2-story creative office is not** feasible at current rates
- Rent appreciation of 22-50% necessary for feasibility

Source: Economic & Planning Systems

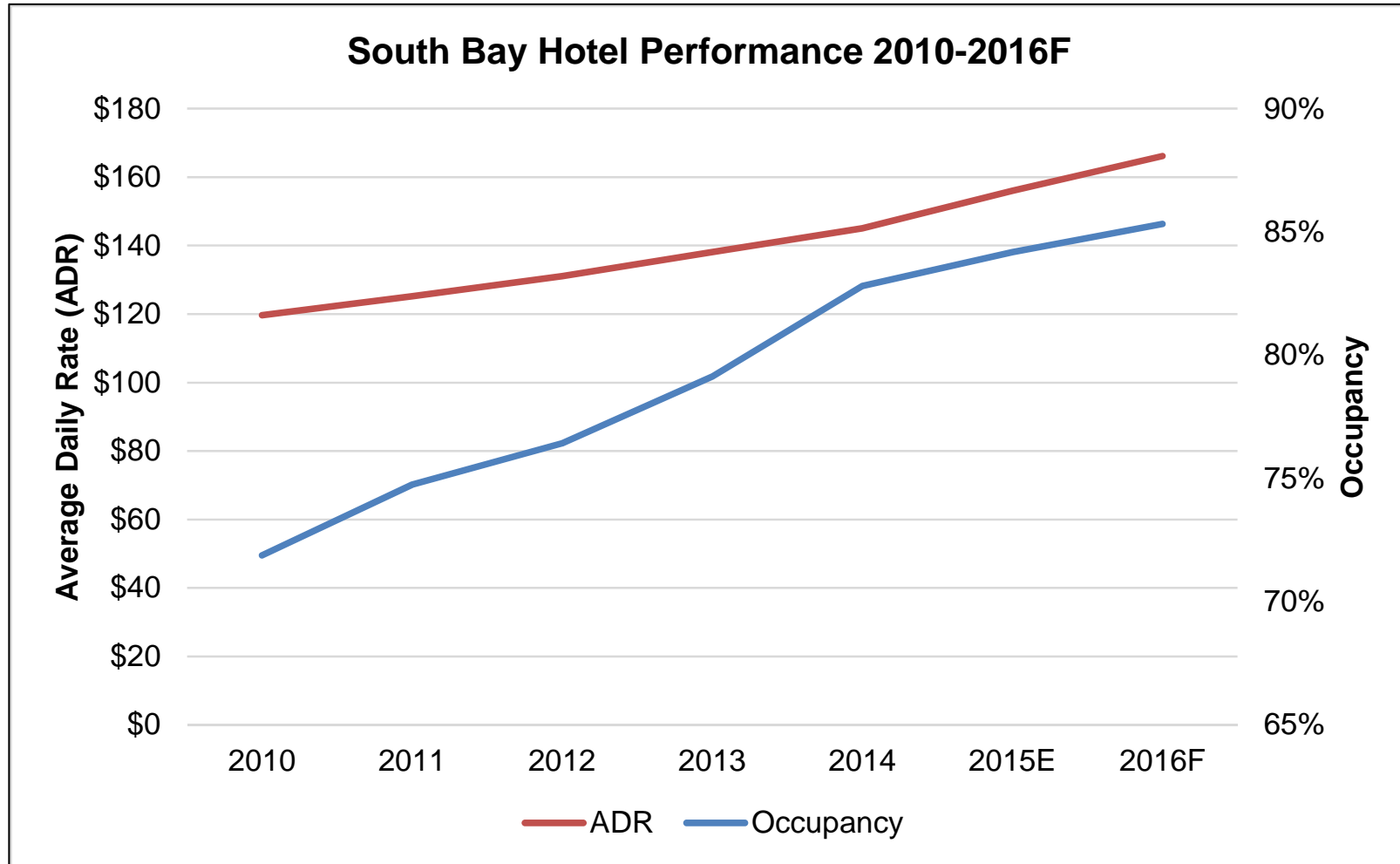
Office Market Summary

- **Lack of a strong employment node** likely limits new office development in the short-term.
- But the LA Waterfront initiative could **catalyze office development longer-term.**



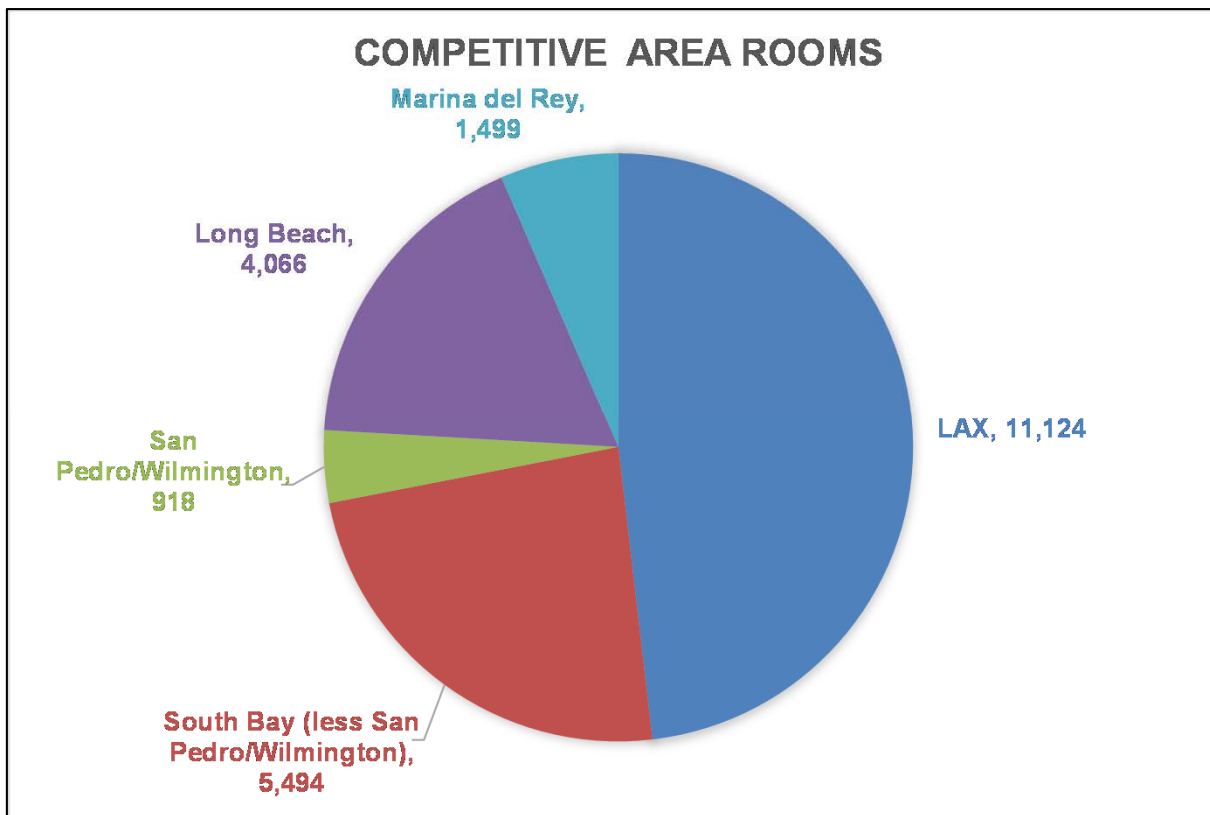
Hotel Market Opportunity

The economic cycle has lifted Hotel Occupancy and ADRs throughout the County



Source: PKF Consulting, CBRE Hotels

San Pedro/Wilmington Hotels a small portion of Area and County share



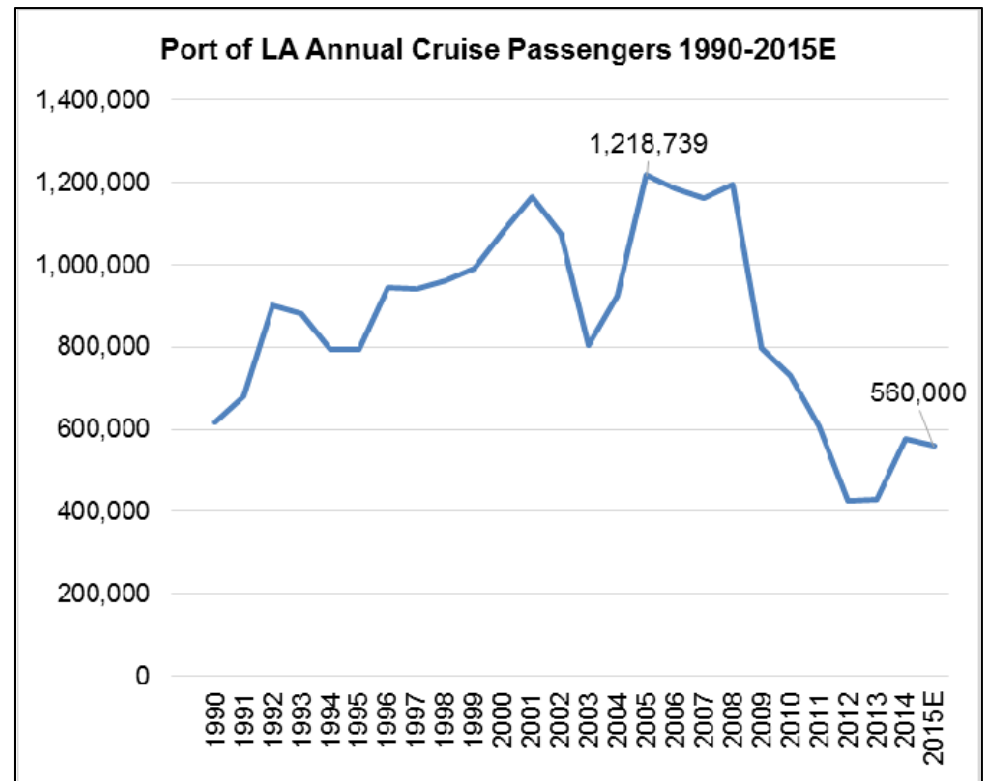
918 rooms in San Pedro/Wilmington contribute:

- 4% of competitive area (Long Beach, South Bay, Marina del Rey, LAX)
- 1% of County

Source: PKF Consulting, Economic & Planning Systems

San Pedro Hotel Demand from a number of current and potential future sources

- **LA County tourism** is growing at record pace
- Spillover from **Long Beach Convention center**
- The Port of LA **cruise business** declined 54 percent 2005-2015
- **AltaSea** could generate business traveler demand
- **San Pedro Public Market** could enhance San Pedro as tourist destination



Source: Port of LA

San Pedro's premier hotels having moderate success during economic upcycle

| | Crowne Plaza LA Harbor | DoubleTree San Pedro |
|-----------------------------|--|---|
| Location | Downtown San Pedro | Outer Harbor |
| Size | 244 rooms | 226 rooms |
| Competitive Position | <u>Central</u> DT location can address demand from cruise travelers, convention center, and general County tourism | <u>Remote</u> location a <u>disadvantage</u> for capturing demand from cruise travelers, convention center, |
| Performance | <u>Outperforming</u> South Bay year-over-year ADR and occupancy growth | <u>Underperforming</u> South Bay average ADR |

Future room rate appreciation is necessary to support new hotel development

| Land Use Feasibility Analysis | |
|---|-----------------------|
| Item | Limited-Service Hotel |
| Current Market Rents (9/2016) | Infeasible |
| <u>Rent Appreciation Until Feasible with Land Subsidy</u> | 12% |
| <u>Rent Appreciation Until Feasible (no Subsidy)</u> | 34% |

- **A limited-service hotel is not** feasible at current rates
- Rent appreciation of 12-34% necessary for feasibility

Source: Economic & Planning Systems

Hotel Market Summary

- San Pedro hotels **benefitting from an economic upcycle** that has spilled over into the local market.
- Uncertainty about future **cruise travel volume** from the Port of LA
- **San Pedro Public Market** and **AltaSea** projects could better establish San Pedro as a leisure and business traveler destination.

Summary of Catalysts, Timing, and Potential Uses

| Potential Uses and Catalysts | | | |
|--|----------------------------|------------|---------------------------------|
| Site | Catalyst | Timing | Recommended Uses |
| Outer Harbor | | | |
| 1. Outer Harbor | AltaSea | 5-15 years | Hotel |
| 2. Warehouse #1 | AltaSea | 5-15 years | Adaptive Reuse Office |
| 3. Cabrillo Way Marina Parking | AltaSea | 5-15 years | Flex/Office |
| 4. Cabrillo Marine Aquarium | <i>viable existing use</i> | NA | <i>maintain existing</i> |
| 5. Cabrillo Beach Youth Water Center | <i>viable existing use</i> | NA | <i>maintain existing</i> |
| Downtown | | | |
| 6. Parking Lot 641 | San Pedro PM | 0-5 Years | Residential/Mixed Use |
| 7. Parking Lot 684 | San Pedro PM | 0-5 Years | Residential/Mixed Use |
| 8. San Pedro Courthouse | San Pedro PM | 0-5 Years | Residential/Mixed Use |
| 9. LA County Health Clinic and Parking | San Pedro PM | 0-10 Years | Residential/Mixed Use |
| 10. Municipal Building Visitor Parking | | | |
| 11. LA Maritime Museum/Berth 84 | <i>viable existing use</i> | NA | <i>maintain existing</i> |
| Cruise Center | | | |
| 12. Caltrans Park and Ride Lot | San Pedro PM | 5-15 Years | Light Industrial or Hotel |
| Wilmington | | | |
| 13. Wilmington Harbor #1 | Avalon Triangle Park | 5-15 Years | Park |
| 14. Wilmington Harbor #2 | Avalon Blvd. MP | 5-15 Years | Industrial/Flex/Creative Office |
| 15. Wilmington Harbor #3 | Avalon Blvd. MP | 5-15 Years | Industrial/Flex/Creative Office |
| 16. Wilmington Harbor #4 | Avalon Blvd. MP | 5-15 Years | Industrial/Flex/Creative Office |

Source: Economic & Planning Systems



Conclusions

Summary Conclusions

- Townhome condominium development **currently** viable in Downtown Area.
- Pioneering multifamily developers **seeking new high rent threshold** for mid- and high-density projects in the Downtown Area.
- San Pedro Public Market and AltaSea could **boost visitation and employment** and create demand for office and hotel development in the Outer Harbor Area.
- Wilmington Sites a **longer-term opportunity** contingent on Avalon Boulevard Master Plan

Q&A