

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

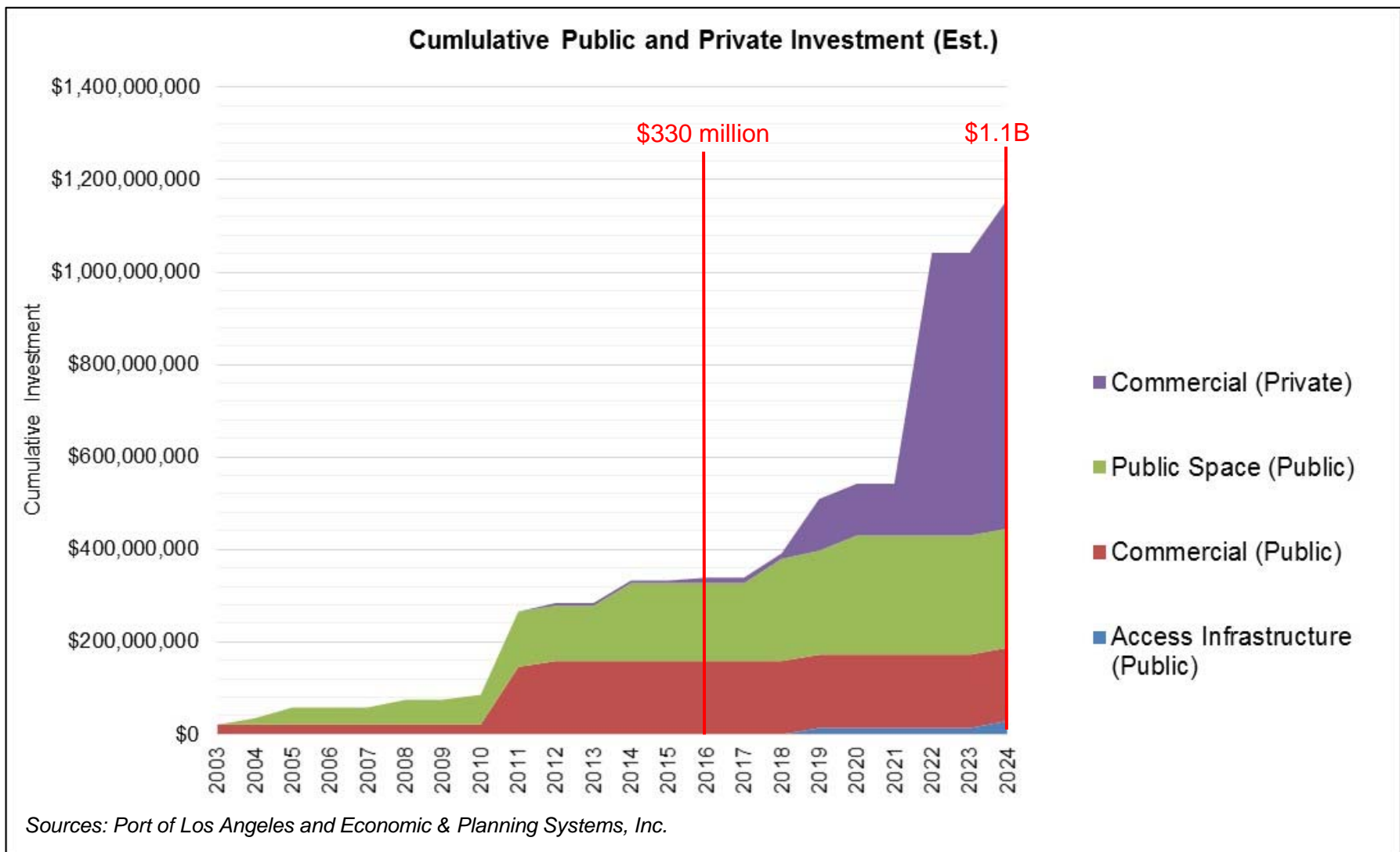
4. Assess feasibility of potential uses

- 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

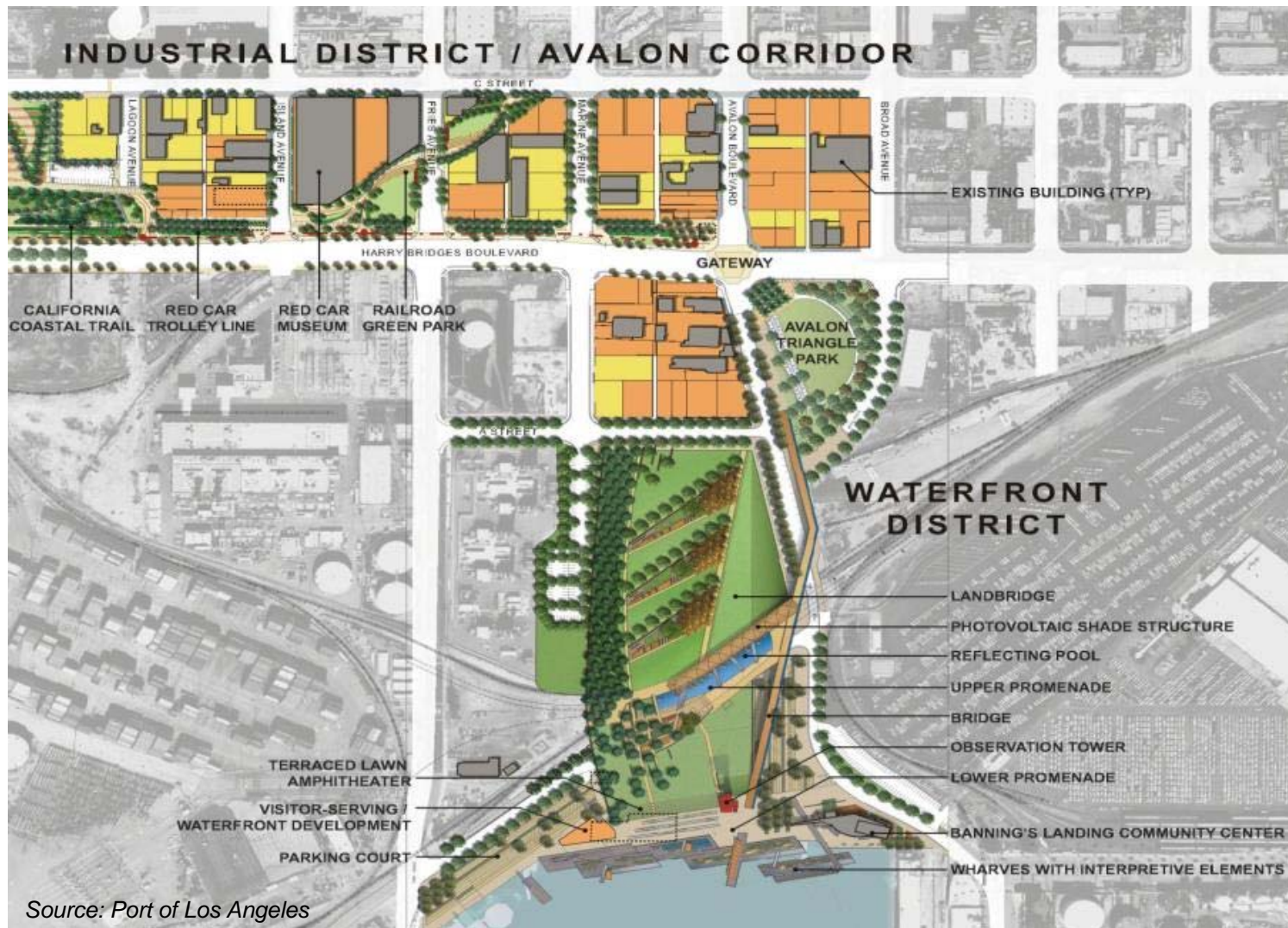


AltaSea

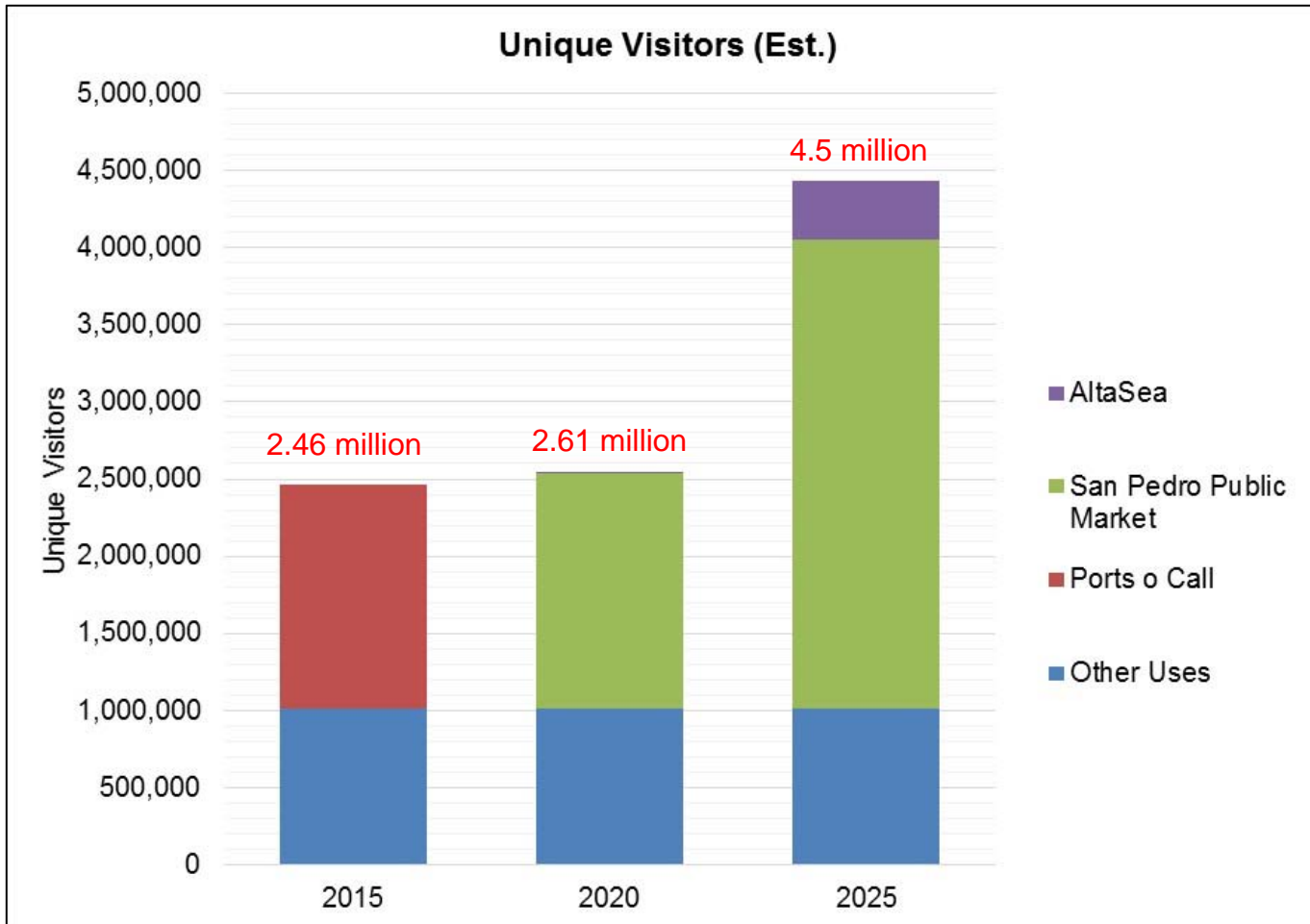
- Redevelop 28-acre City Dock #1 as a marine research and innovation center
- \$155 million Phase 1 ETA 2018-20

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

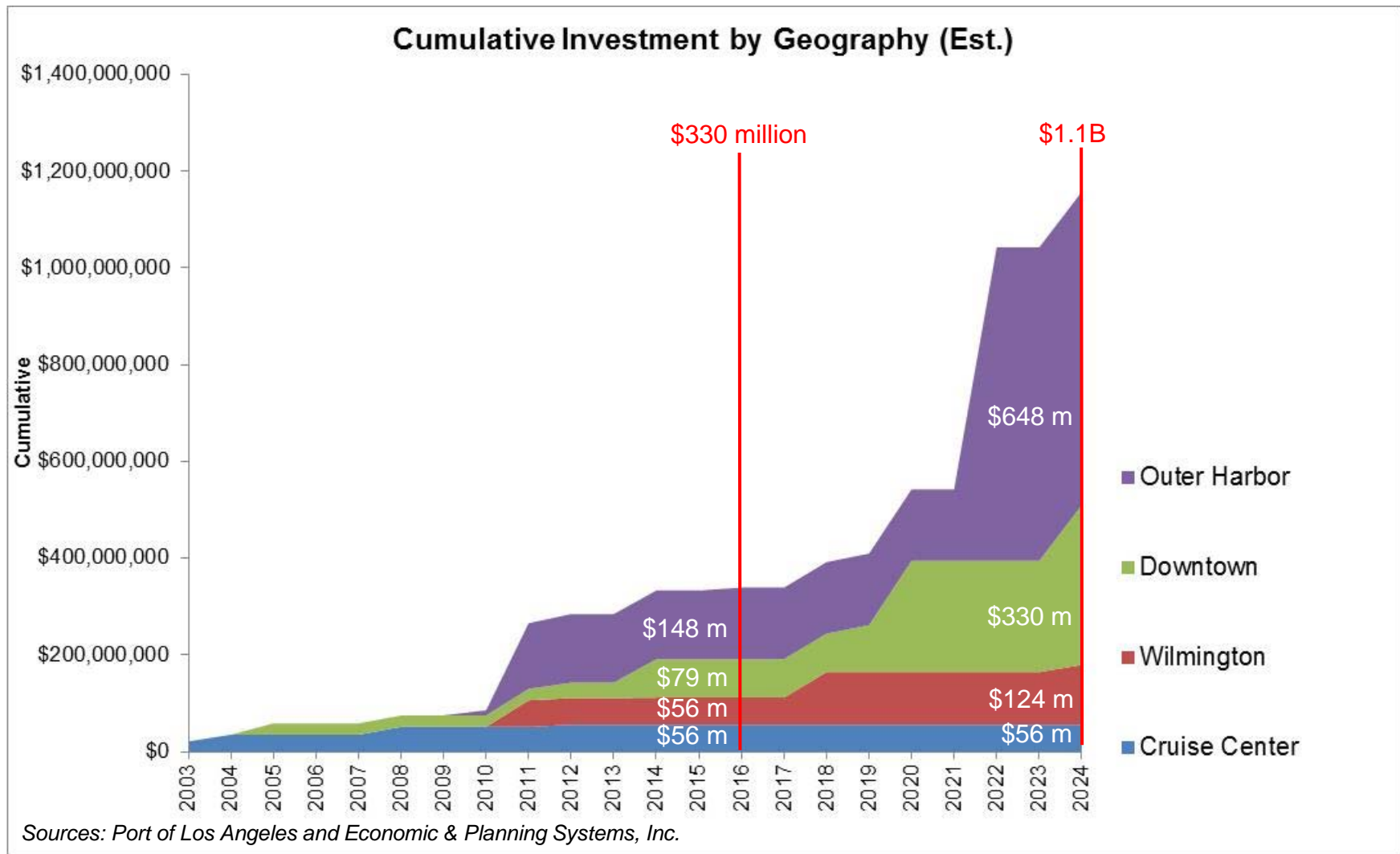


Source: Economic & Planning Systems, Inc.

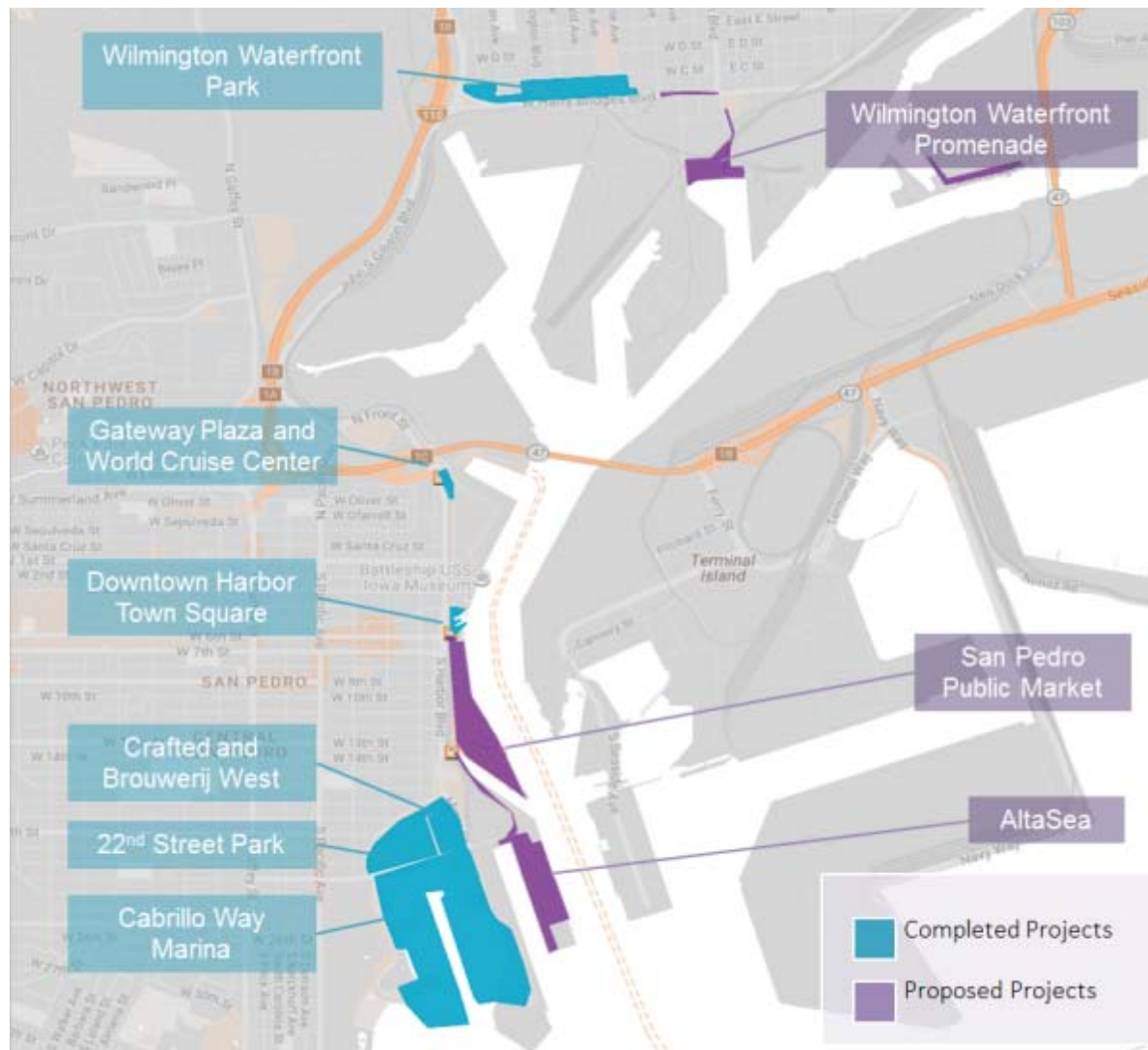
Projected Growth by 2025:

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

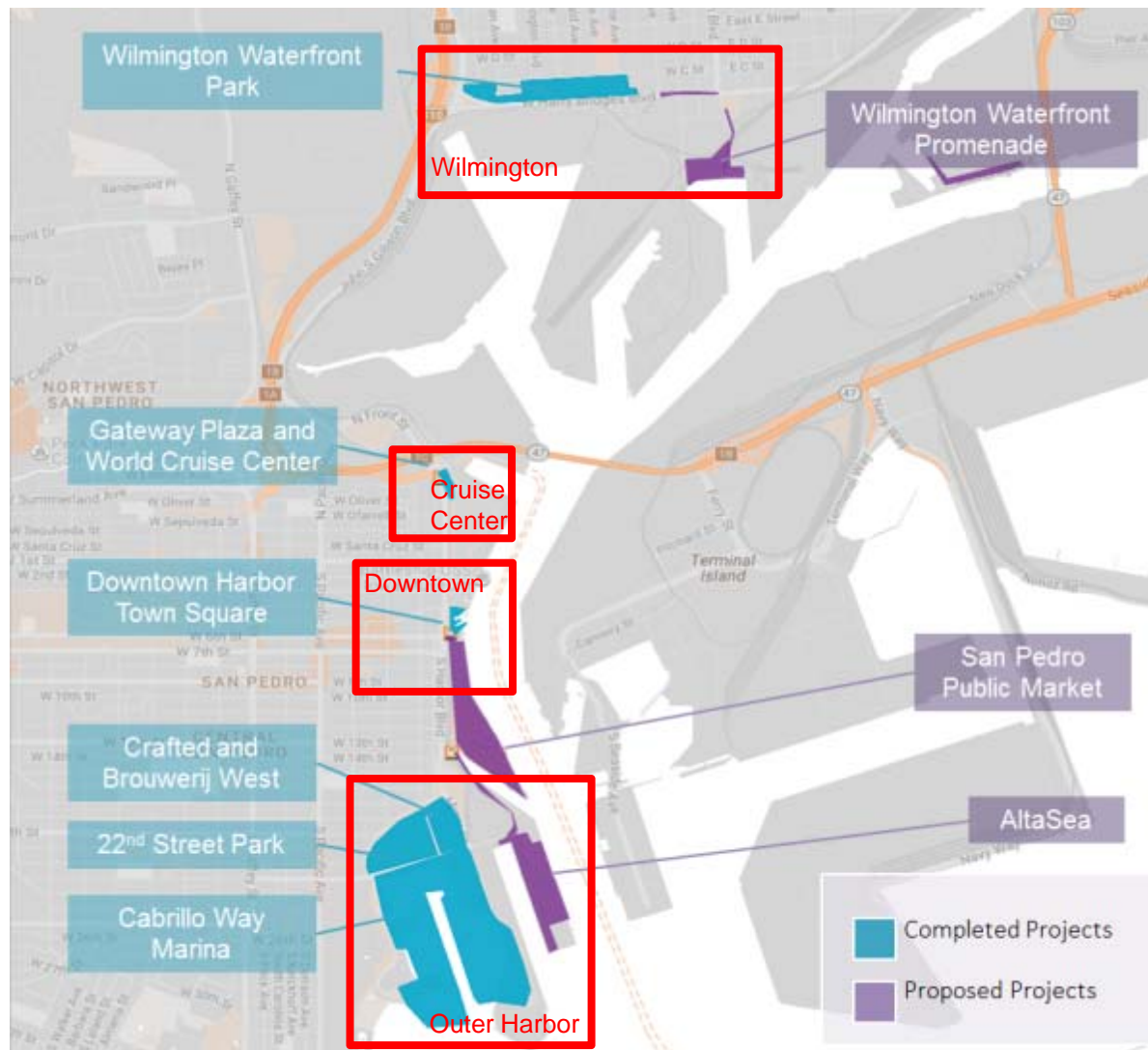
LA Waterfront investment: four geographical areas



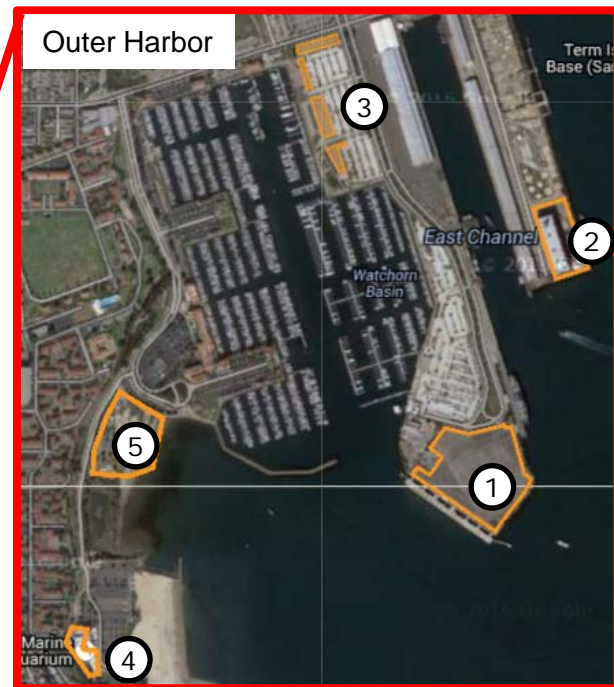
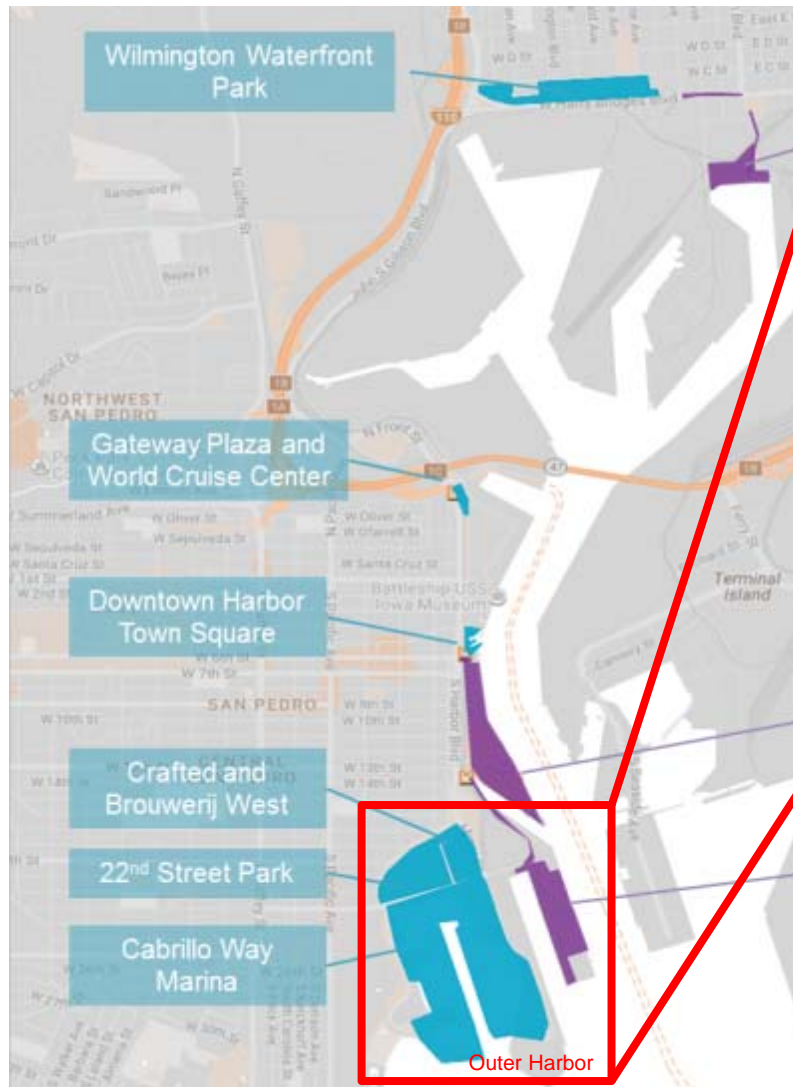
LA Waterfront major completed and pipeline projects



16 Opportunity Sites located in four economic geographies

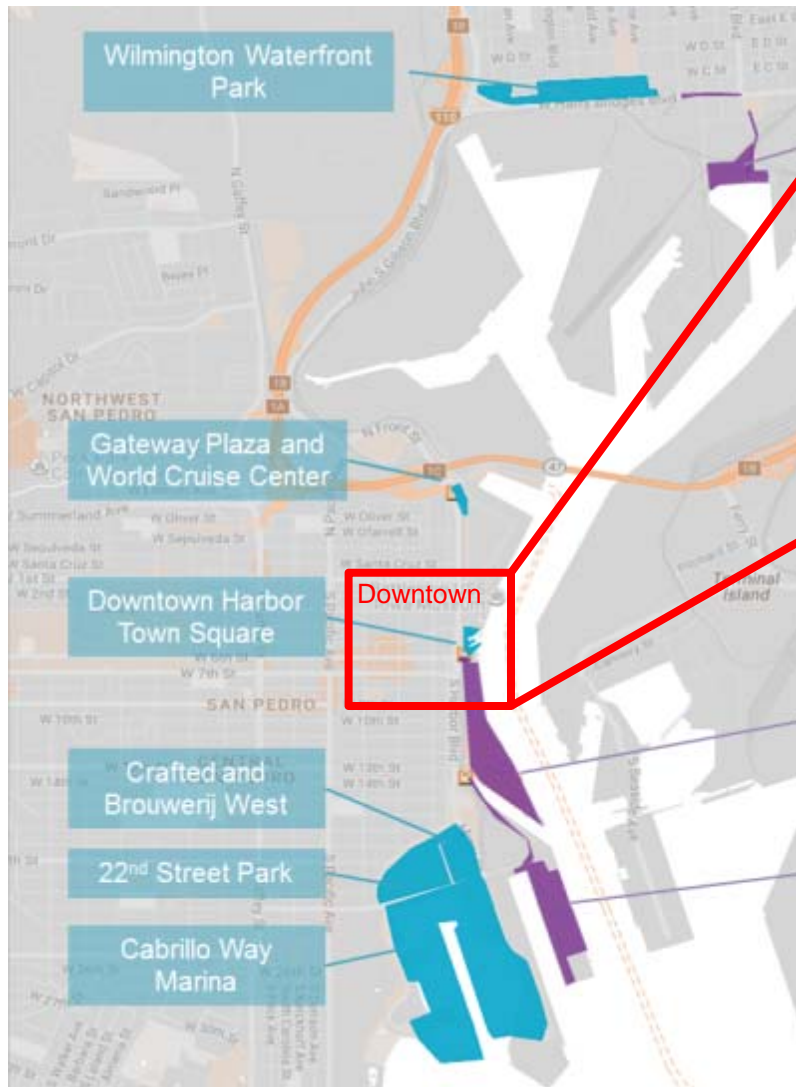


5 Outer Harbor Opportunity Sites



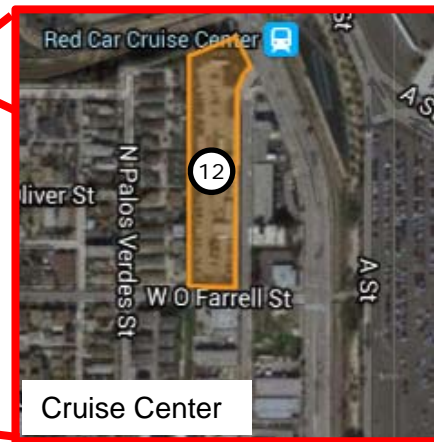
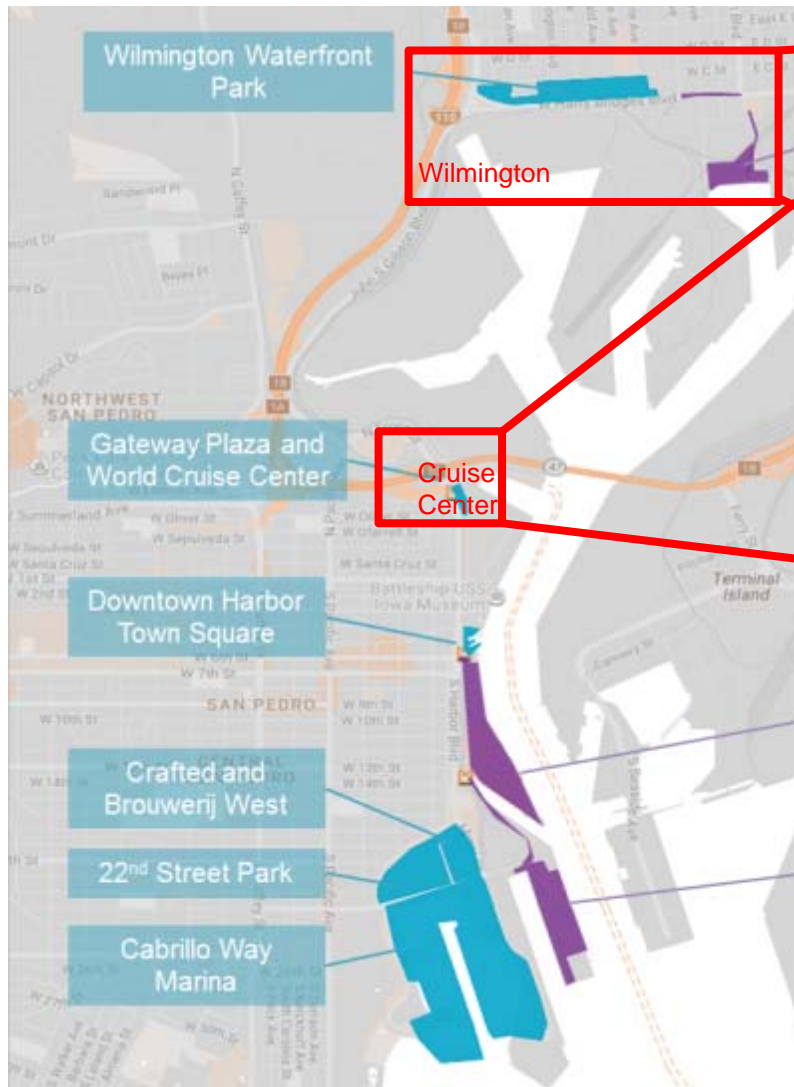
Site	Owner	Existing Use
1. Outer Harbor	Harbor Dept.	Cruise ship berth, events
2. Warehouse #1	Harbor Dept.	Storage
3. Cabrillo Way Marina Parking	Harbor Dept.	Parking
4. Cabrillo Marine Aquarium	Dept. Rec. and Parks	Museum
5. Cabrillo Beach Youth Water Center	Harbor Dept.	Scouts camp

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			



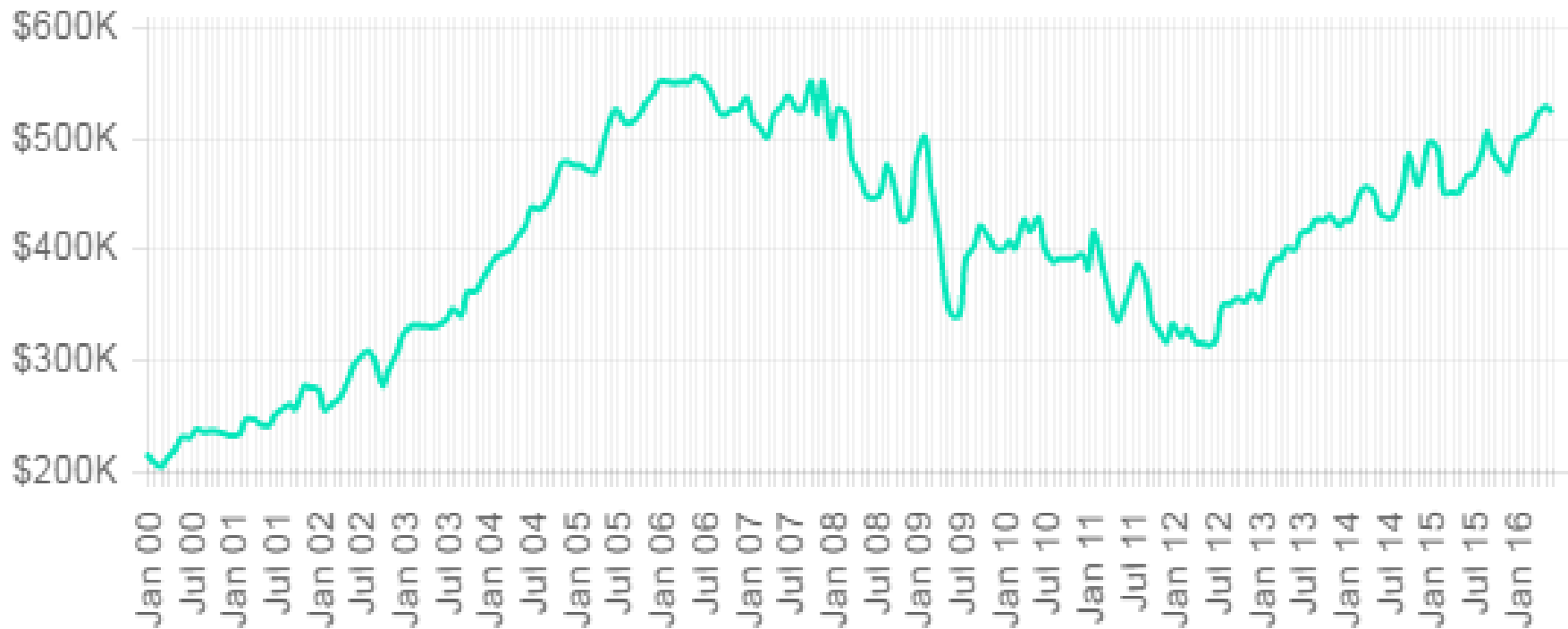
Residential Market Opportunity

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

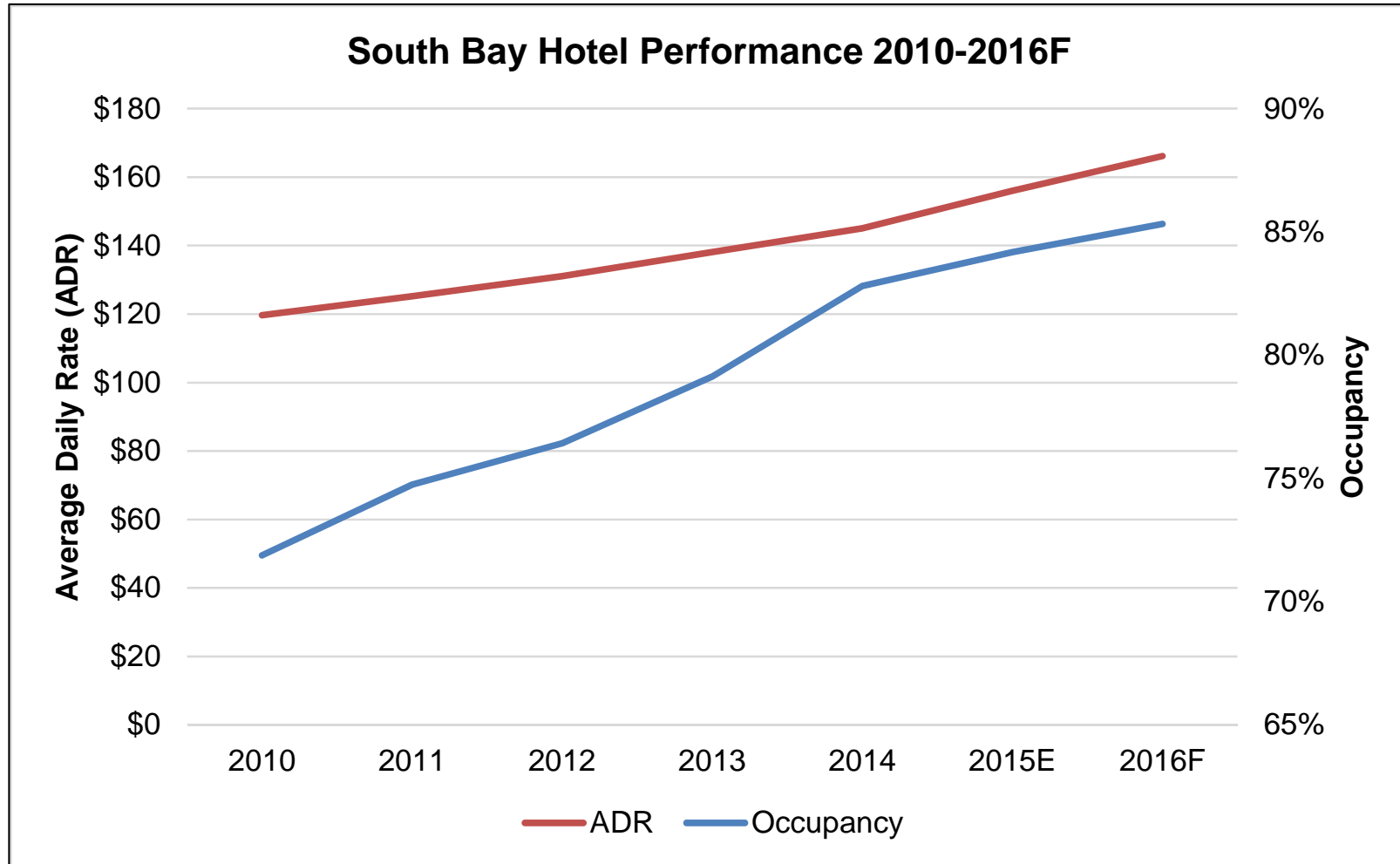
Office Market Summary

- **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.**



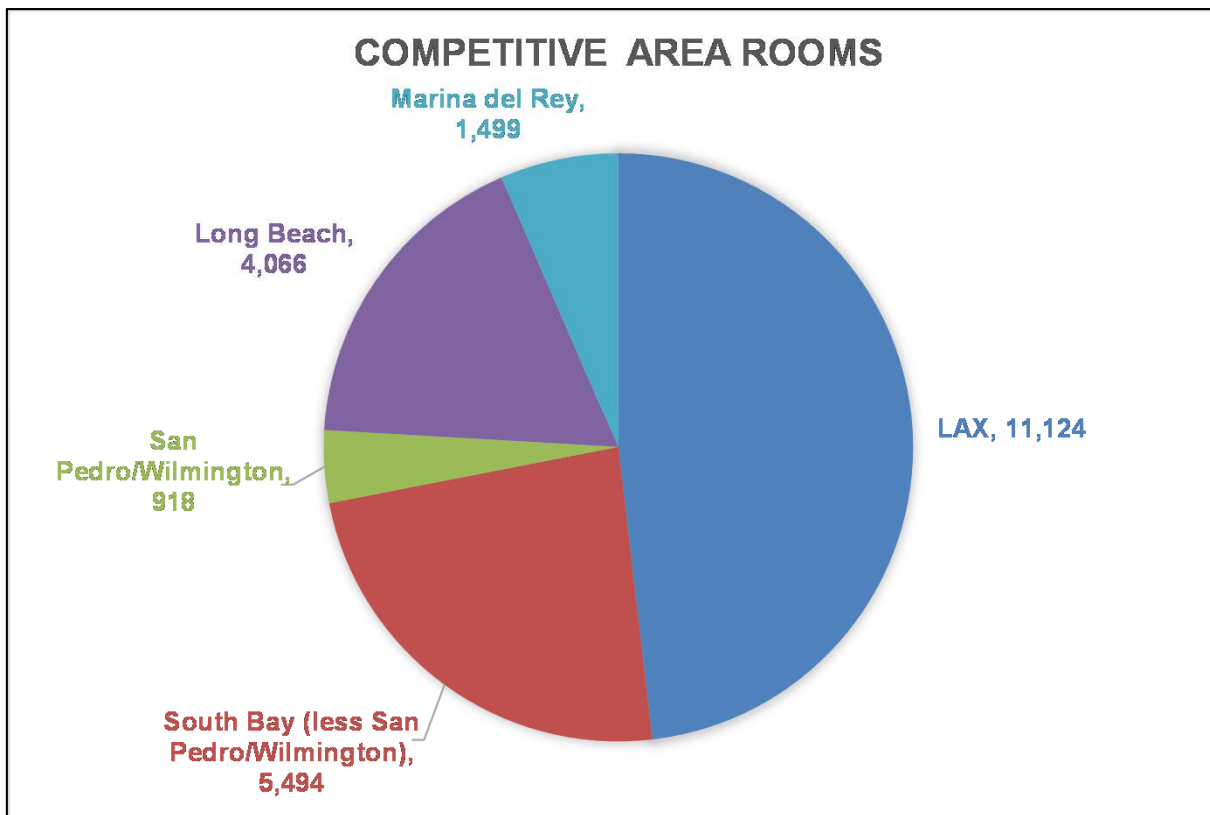
Hotel Market Opportunity

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



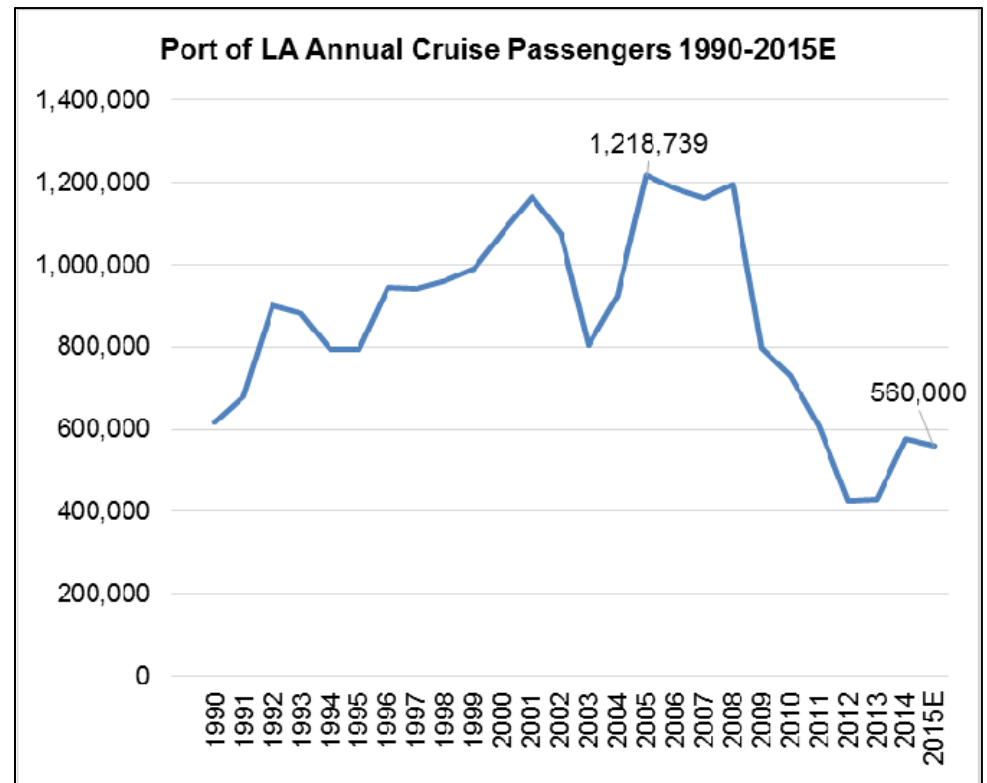
918 rooms in San Pedro/Wilmington contribute:

- 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