EASTSIDE ECONOMIC MARKET REPORT

CITY OF WEST HOLLYWOOD

December 15, 2014

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ATTACHMENT A

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PURPOSE OF THIS REPORT

The City of West Hollywood ("City") commissioned this report as part of a greater process to evaluate the Eastside through a Community Plan Process. The Eastside Community Plan will focus on recommendations for the former Eastside Redevelopment Project Area. With the statewide elimination of redevelopment agencies, the City now is without the tools and financing that redevelopment provided to make infrastructure improvements to attract further investment. The purpose of this report is not only to provide current demographic and economic data, but to identify the priority decision points the City may have the option to influence in the immediate future through either policies, programs, or land use planning in the upcoming Eastside Community Plan.

It must be noted that while distinct in many ways, the Eastside is part of a geographically small City, only 1.9 square miles, in a highly urbanized area. Economic trends are not confined to municipal boundaries, let alone subsets of such boundaries; therefore, the Eastside is going to be influenced by greater market forces. Additionally, the Los Angeles metropolitan area is highly mobile – residents have access to jobs, goods, and services on a number of accessible scales. Thus, while this report makes every effort to relate data and trends directly to the Eastside, the economy does not operate within the confines of the area.

Major data sources incorporated in this report include the US Census, American Community Survey, ESRI*, Dun and Bradstreet, CoStar, HdL, First American CoreLogic, and On the Map, as well as qualitative data collected from a field survey of local businesses and outreach to developers currently working in the area.

REPORT STRUCTURE

This report is laid out in the following sections.

1. **Historical Perspective.** This section provides a brief history of the Eastside to offer context for the remainder of the report and the need for a path forward with the Community Plan.

2. **Demographics**. The Eastside is primarily a multi-family neighborhood, with mostly renters. This section provides some specific details about those living in the Eastside, and how they may be changing with the influx of new development.

3. **The Business Community.** This section focuses on jobs, both those held by residents, as well as those provided in the Eastside. Moreover, this section examines the growing trend of higher-wage industries that have recently been attracted to the Eastside.

4. **Real Estate**. This section looks at lease and sales rates of commercial land uses as they have changed over time, and as they compare to nearby areas. The influx of new development in the Eastside is leading to changes in how its real estate market will function in the future.

5. **Next Steps**. The purpose of this section is to highlight the opportunities and constraints facing the Eastside that will need to be addressed by the Community Plan. For those that wish to just review the key points of this report, this section offers a quick summary.

*Data from ESRI Business Analyst, based on the 2010 U.S. Census, 2008-2012 American Community Survey, Bureau of Labor Statistics, and ESRI projections. Additional data from OnTheMap, a Census data mapping program.

1 HISTORICAL PERSPECTIVE

EASTSIDE HISTORY

Though only about 340 acres in size, the Eastside of West Hollywood ("Eastside") has long had an identity of its own. City of West Hollywood began developing as an agricultural economy in the late 1800's. In the 1890s, a new line of the Pacific Electric Railway Company was extended along Santa Monica Boulevard, spurring growth and development in the area. By 1910, a small commercial district flourished along Santa Monica Boulevard to serve the community.[1]

In the early 20th century, the newly-emerging film industry spurred change in all of the communities surrounding Hollywood. Newcomers were attracted by the thriving film, oil and transportation industries in the area. Several studios sprung up in the West Hollywood area including the Mary Pickford studios, now known as "The Lot." The West Hollywood area also provided working class housing for the film industry.[2]

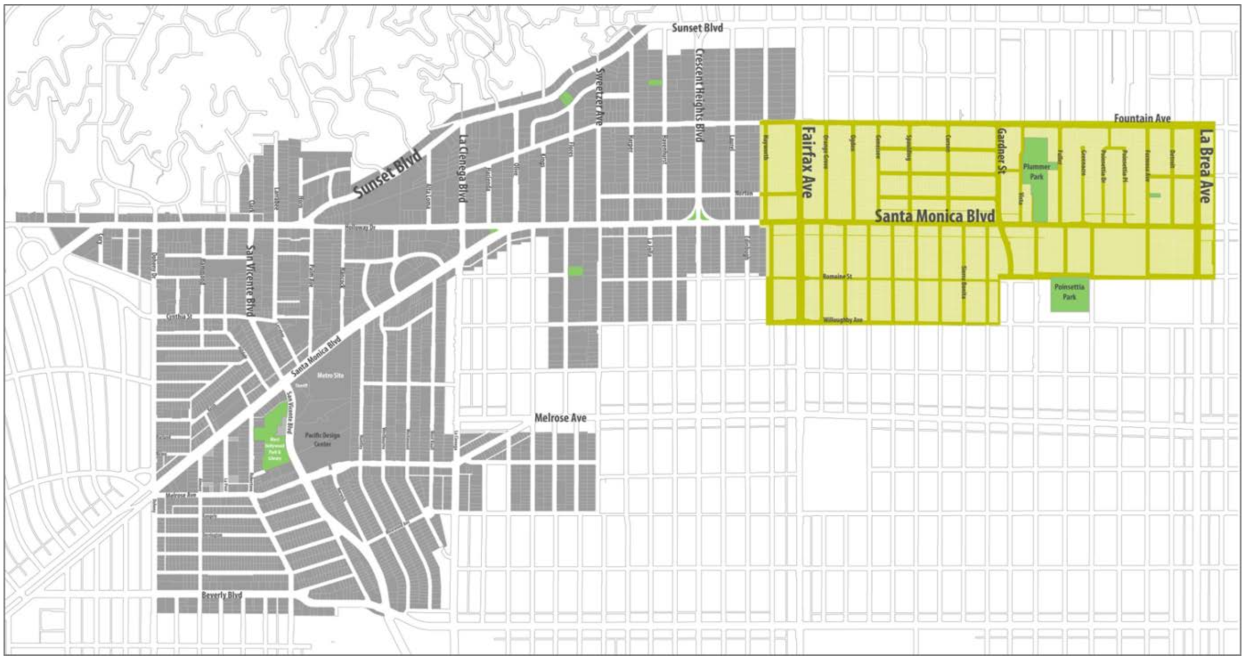
Its excellent location allowed the western side of West Hollywood to establish an identity related largely to nightlife, while the Eastside evolved into a quieter residential area, with a proportionally large population of seniors and Russian immigrants. This unique characteristic can likely be traced to the nearby Fairfax district, which established a strong Jewish presence in the late 1920's, and continued to attract Jewish Eastern Europeans through the end of World War II.[3] With the dissolution of the Soviet Union in 1989, a second large wave of Eastern European immigrants headed to the area. This population gravitated towards highly urbanized areas in New York and greater Los Angeles, and West Hollywood was a natural fit for those with Jewish heritage.[4]

[1] *2035 General Plan*
[2] *2035 General Plan*
[3] *Treiman, Jaak: Diplomatic Guide to Los Angeles, 2011*
[4] *Friedman, Murray and Albert Chernin, Editors, A second Exodus, 1999*

Redevelopment

In 1996, the City established a Redevelopment Agency, and in 1997 adopted its only Redevelopment Project Area – the Eastside Project Area, as shown in Figure 1.

Figure 1 - Eastside Map



Source: City of West Hollywood

The Eastside Project Area was adopted in order to allow the West Hollywood Redevelopment Agency to collect and channel locally-generated tax increment back into the area to alleviate blighting conditions (as defined by statute), and foster private investment. Physical and economic blighting conditions at the time of adoption included:

- Declining household incomes, and residents with comparatively higher unemployment and poverty levels;
- Increased overcrowding and increasing cost of housing;
- Extremely high crime rates;
- Large number of youth runaways, drug, and prostitution problems;
- Physical deterioration of structures, largely deferred maintenance, but some substantial deterioration;
- Aging building stock and no new construction;
- Minimal incentive for reinvestment;
- Potential seismic deficiency in primary structures;
- Parking inadequacies;

- Traffic congestion;
- Small commercial parcel sizes and dispersed ownership patterns that make it difficult to develop good projects;
- Not many real estate transactions occurring; and
- Low financial returns on real estate investments which discourages future investment.

Between 2007 and 2012, the Redevelopment Agency was able to leverage $40 million in tax increment investment to ameliorate blighting conditions and increase the assessed value of the Project Area by about $700 million (or a 181% increase), largely through catalyst projects and infrastructure improvements that opened up the area for increased private investment as listed in Figure 2. This investment helped catalyze a second wave of investment in the area provided by the private sector.

Figure 2 - Redevelopment Investment

Project	Description
Santa Monica Blvd Reconstruction	3-mile portion of roadway with 1/3 within Eastside
Commercial Façade Grants	17
Multi-family Residential Rehab Grants	24
Gateway Showcase Project (Target)	257,00 SF retail/restaurant center
Affordable Housing	134 units
Parking Development	800 off-street parking spaces

Eastside Today

The Eastside is still defined as the Project Area boundaries in Figure 1, but is now an area generating acute investment interest. By leveraging redevelopment investment as well as the return of the real estate market after the Great Recession, the Eastside's primary corridors are home to a unique mix of modern eateries, small traditional Russian markets, and new boutiques, all anchored by a large development on the eastern border that includes Target, Best Buy, and Bev Mo, as well as a Whole Foods shopping center on the western edge. New and upcoming development includes four large mixed use projects that will ultimately include about

900 new rental apartments, and 111,000 square feet of retail; plus a single office development of up to 200,000 square feet[5] of "creative" space.

Figure 3 - New Developments

Development	Market Units	Affordable Units	Retail/ Commercial SqFt	Office SqFt	Estimated Value
Huxley & Dylan	112	75	31,000 SF	0 SF	$150 Million
Movietown Plaza	293	77	32,300 SF	0 SF	$120 Million
Domain	133	33	7,100 SF	0 SF	$70 Million
Expansion of The Lot	0	0	0 SF	100,000 SF	$60 Million
Total	538	185	70,400 SF	100,000 SF	$400 Million

Source: City of West Hollywood

While some of the blighting conditions noted in 1997 still ring true today, such as parking inadequacies and small parcel sizes, other issues such as minimal incentive for investment and a low real estate transaction rate have changed dramatically, placing the Eastside community at a crossroads where it can make some strategic choices about its future that weren't available 10 or 20 years ago.

[5] *Includes 100,000 square feet for Phase 2, which is not yet constructed.*

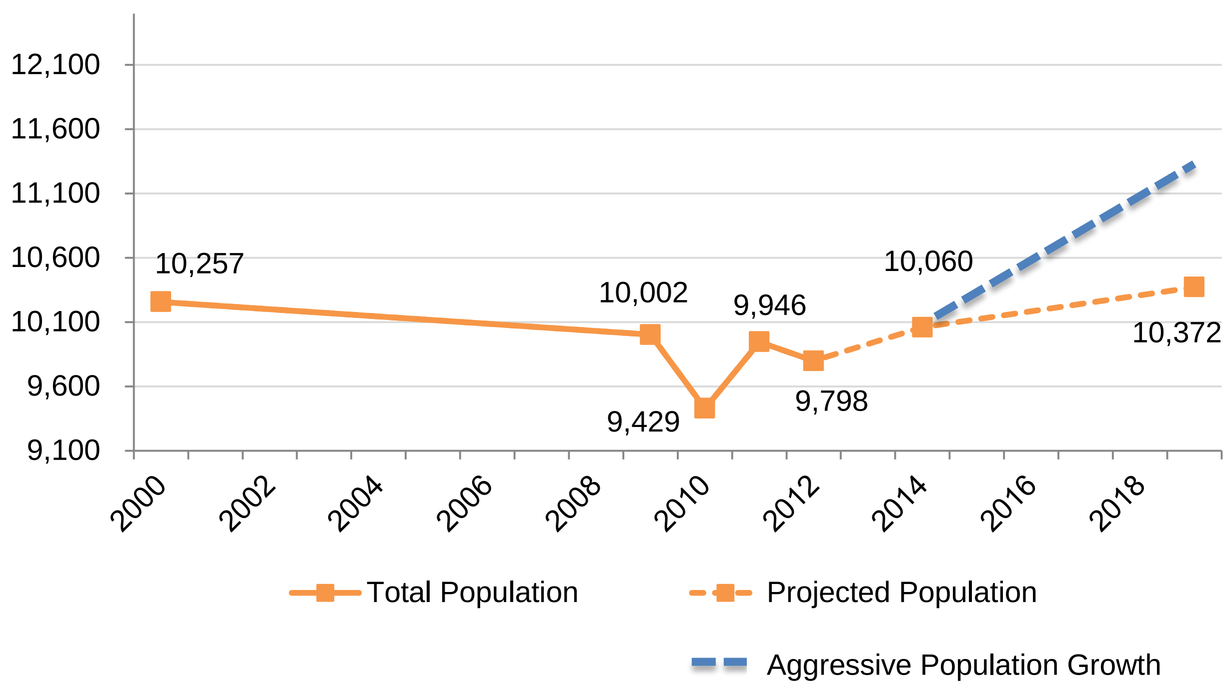
2 DEMOGRAPHICS

POPULATION TRENDS

As most Eastside land uses are dedicated to residential, this economic report first delves into the demographics of the Eastside. Overall, the Eastside has experienced very little fluctuation in total population over the last couple decades as the bulk of the housing stock was built more than 50 years ago. With the addition of new residential developments, the Eastside is poised to experience its first growth spurt in a long time.

Figure 4 represents historical trends and projections from the US Census and ESRI. The slight variations are in large part due to tenant turnover in residential units. Not all planned residential developments described earlier are included in the initial projection (the orange dotted line); therefore the blue dotted line represents a more aggressive projection which incorporates all planned developments at their current size and scope with a potential population reaching about 11,500 by 2020.

Figure 4 –Eastside Population Trends

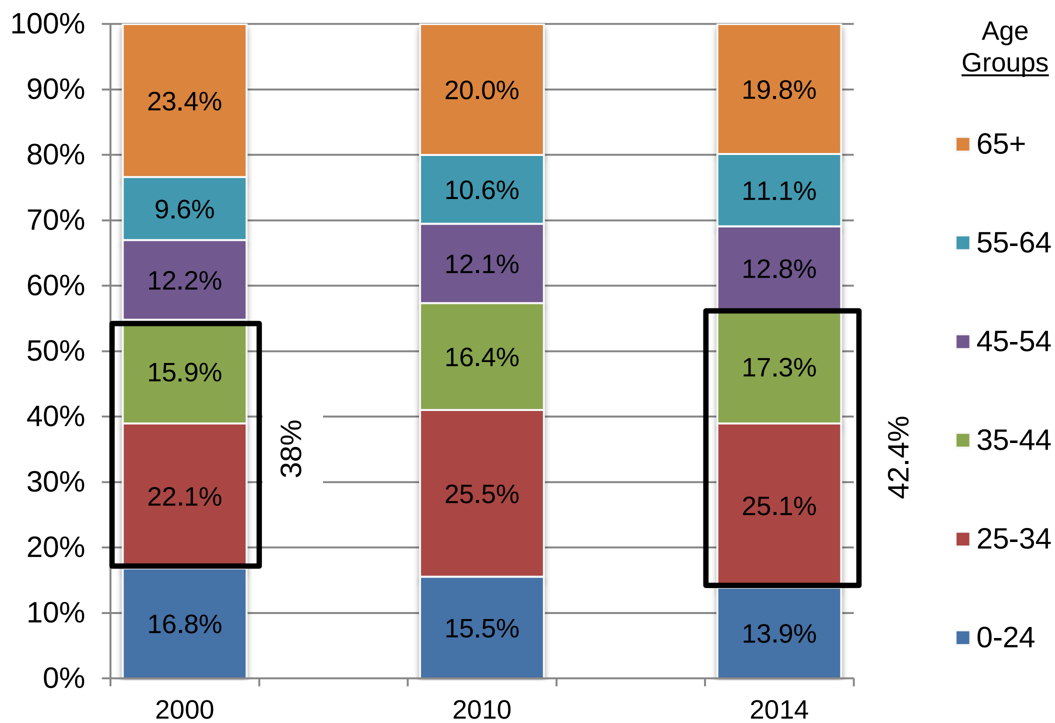


Sources: US Census Bureau, ESRI 2014 projections, RSG

AGE TRENDS

In the Eastside, the population stratification has remained relatively constant over the last 15 years. The total population age 55 and above has remained stable with only a slight decline since 2000. Other small changes include the continued decline of the 0-24 age group, and slight expansion of the 25-34, 35-44, and 45-55, all working-age cohorts, as seen in Figure 5.

Figure 5 – Eastside Population by Age



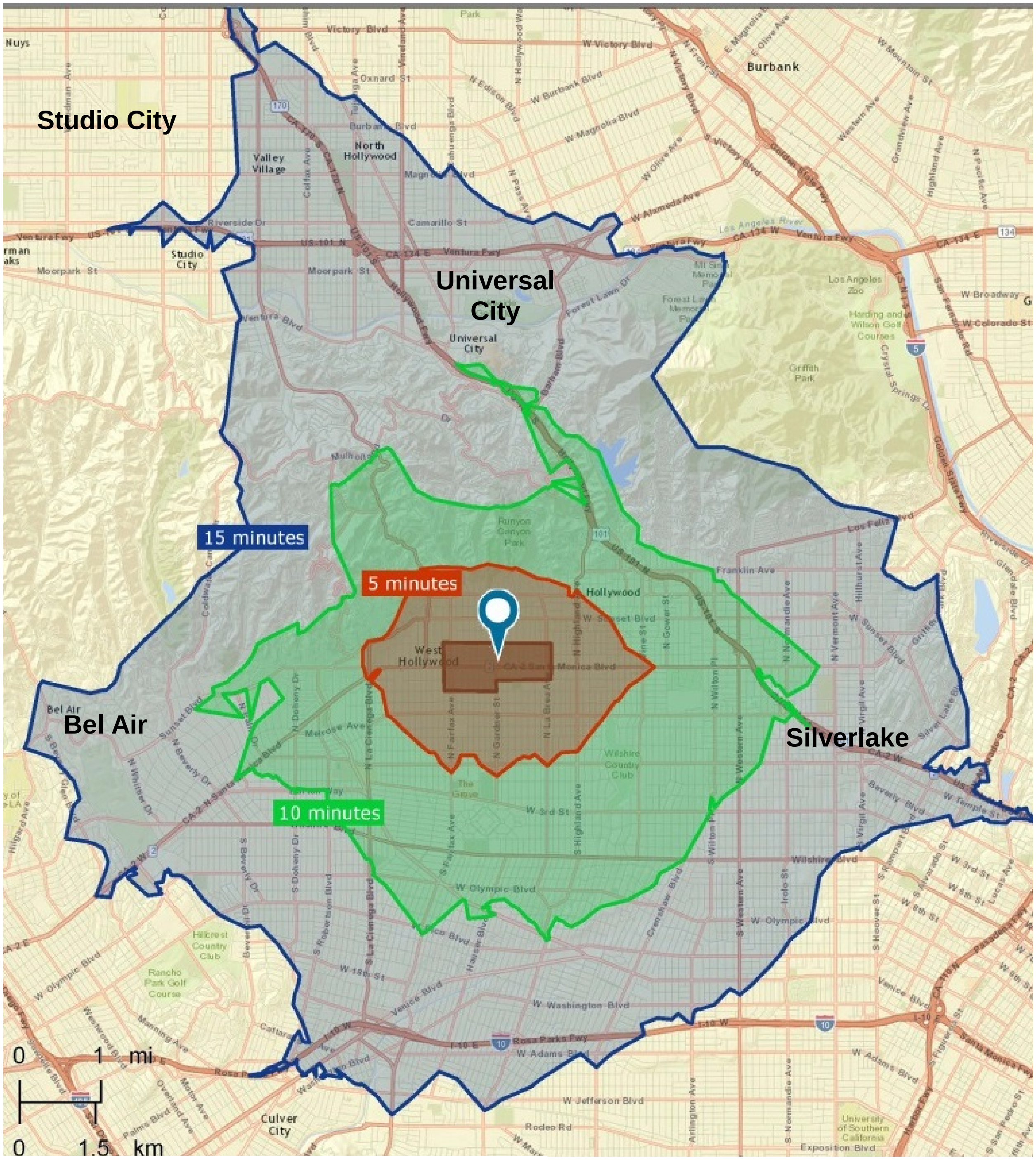
Sources: US Census Bureau and ESRI 2014 projections

The 900 new or planned residential units are likely to increase both the Eastside population and the proportion of working-age residents because units are sized for single or double occupancy and will be able to charge premium market rents for newness and amenities. Based on current trends, size of the units and the marketing strategies employed by those units that are coming on the market, it's likely these units will attract young professionals who do not have children.

Comparative Population

In order to add context for the following population trends, the Eastside was compared to the areas that can be reached within 5, 10, and 15 minutes of driving in ideal traffic conditions. A map of these comparative areas is shown in Figure 6. These drive times do not account for congestion which extends typical travel times between neighborhoods in the area.

Figure 6 - Drive Time Map



Source: ESRI 2014

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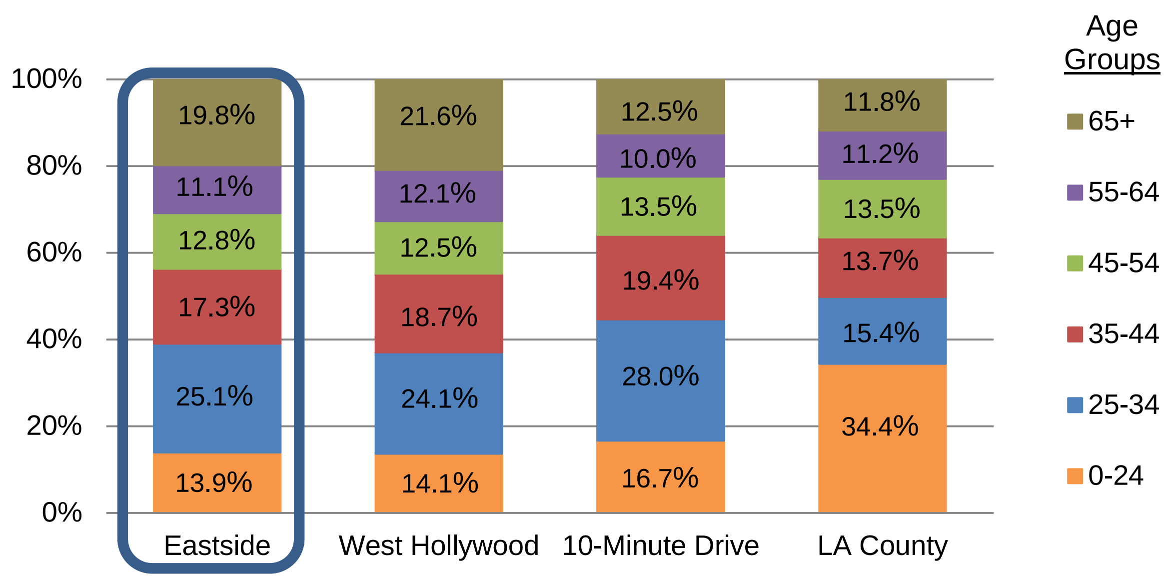
Comparative Age Trends

The Eastside, and West Hollywood as a whole, both have a large proportion of people ages 65 and older. This characteristic is more pronounced in the City than the surrounding area (10-minute drive time). The Eastside and City also have a very low percentage of people 24 and younger compared to the County as a whole. As a result, about 66 percent of the West Hollywood and the Eastside population can be considered working age (ages 25-64) compared to about 53 percent in the County as a whole.

The largest census age group in the Eastside is 25-34 as shown in Figure 7; and these conditions are slightly more distinct in the 10-minute drive time. Compared to the Countywide average, this stratification indicates the Eastside is attracting young professionals in addition to retaining its retirement-age population.

Figure 7 – Population by Age Groups in 2014

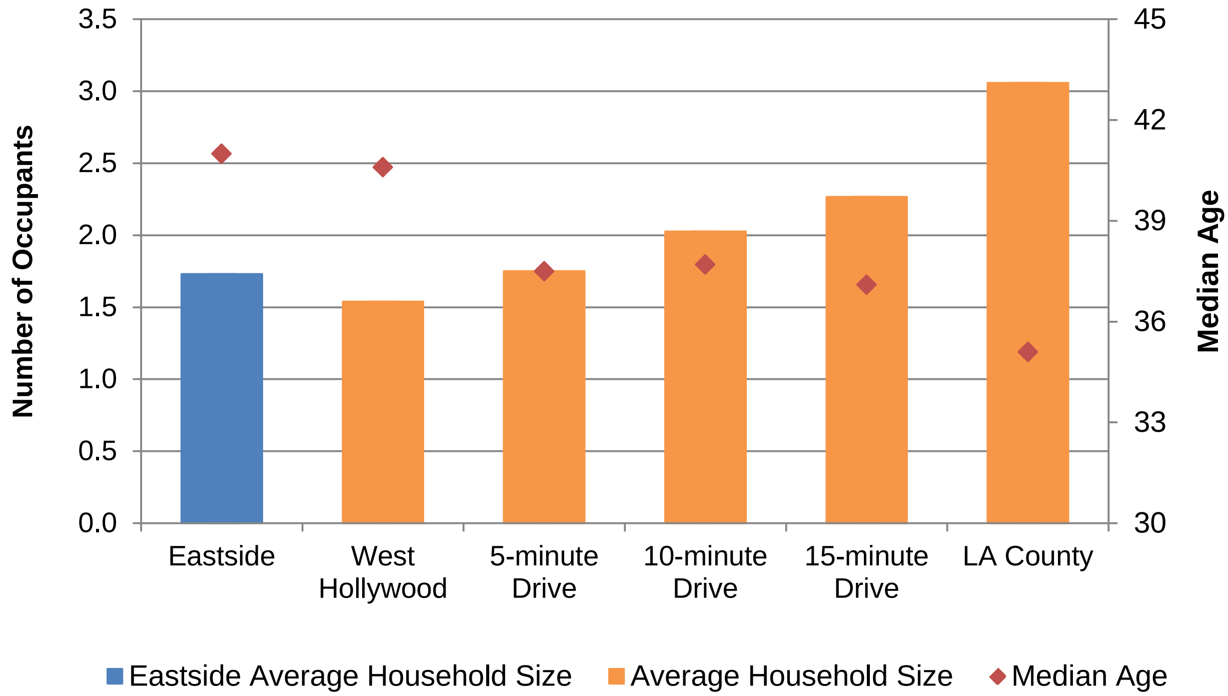


Sources: US Census Bureau and ESRI 2014 Projections

Median Ages

Median ages in the Eastside were comparatively high in 2014 with a couple contributing factors. First, as about 31 percent of the population is above age 55, the likelihood of children in the home is reduced; and second, the land use composition favors one and two bedroom rental units, which are generally thought to be too small to accommodate families when nearby communities can offer larger homes for the same or less money.

Figure 8 – Average Household Size and Median Age in 2012



Source: ESRI and American Community Survey 2012

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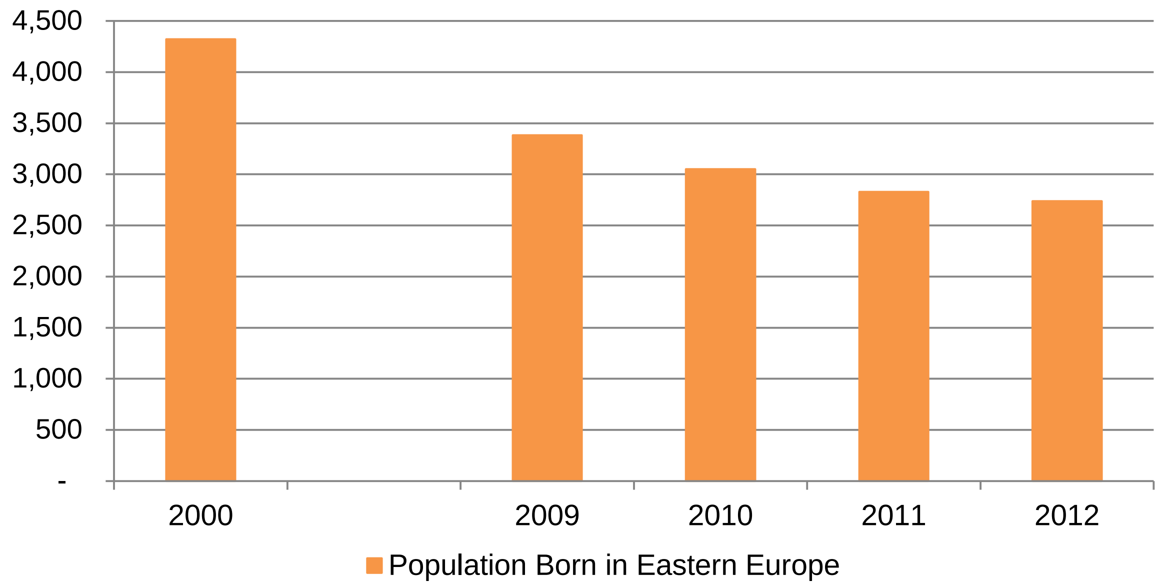
EASTERN EUROPEAN POPULATION

The Eastside has a uniquely large share of Eastern European immigrants, particularly those from the former Soviet Union as witnessed by the Cyrillic signs dotting the markets and shops along Santa Monica Boulevard. Figure 9 shows that in 2012, 28 percent of residents in the Eastside were born in Eastern Europe compared to 12.3 percent of the City and 0.8 percent for the County. However, the Eastside's share of Eastern European immigrants has been in decline, decreasing from 42 percent in 2000 to 28 percent in 2012. During a field survey conducted in August 2014, several Russian business owners conveyed that much of the Russian population had been relocating to the San Fernando Valley in recent years, where housing was more affordable. This was particularly true of the second generation that no longer needed the benefits of a Russian-speaking enclave as their immigrant parents had, and were seeking homes that could better accommodate children and offer more affordable housing prices.

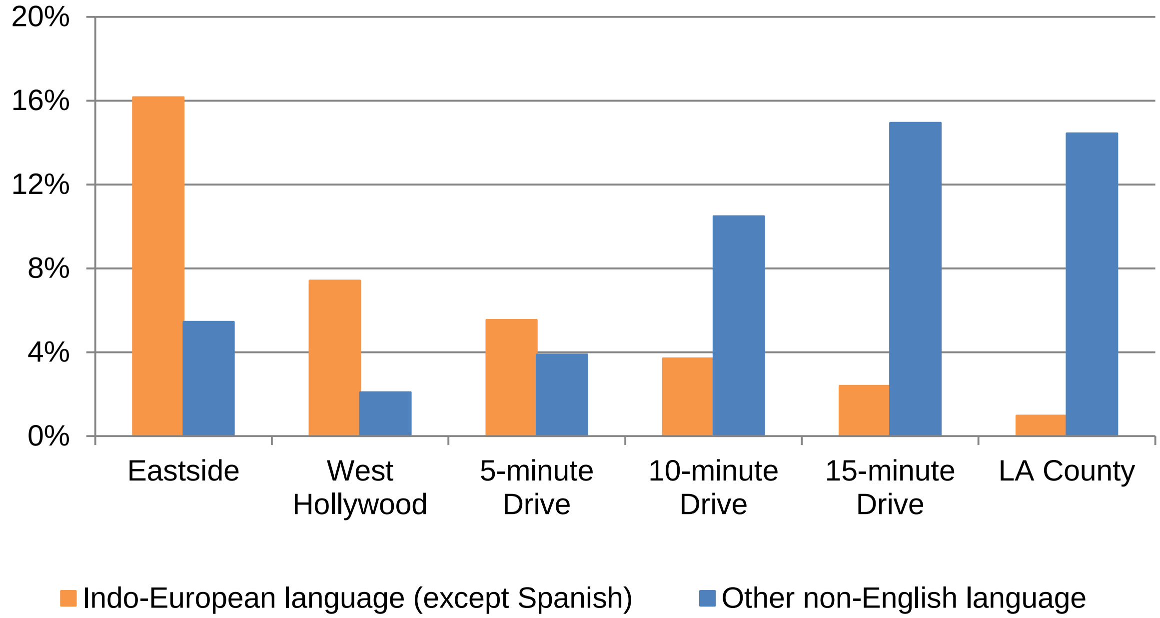
Figure 9 – Eastside Change in Eastern European Population



Source: US Census Bureau and American Community Survey 2012

Eastern European Languages
Despite the declining Eastern European population, the prevalence of Eastern European languages remains a unique characteristic of the Eastside, particularly in comparison to the 10-minute drive time area, wherein a similar total percentage of the population has a primary language other than English, but is instead leaning heavily towards Spanish, with some Asian languages and very few Indo-European[6] speakers.

Figure 10 – Share of Population Whose Primary Language is Not English in 2012



Sources: US Census, ESRI, and American Community Survey 2012

[6] *Indo-European languages include virtually all languages spoken in Europe, but other data illustrates that in the Eastside, this is primarily Russian with some other Slavic languages such as Ukrainian.*

HOMEOWNERSHIP

Homeownership is limited on the Eastside as compared to the County. Almost 94 percent of housing units in the Eastside are multi-family rental units, as shown in Figure 11. Rental units consist primarily of studios, and one- and two-bedroom units. This characteristic relates to a number of Eastside statistics, including smaller average household sizes, a lack of children, and lower per household incomes (one income vs. two). The average multi-family building was constructed in 1953[7]. With the exception of the new developments around La Brea Avenue and Santa Monica Boulevard there has been limited construction of new housing stock in the area.

Figure 11 – Share of Renter Households

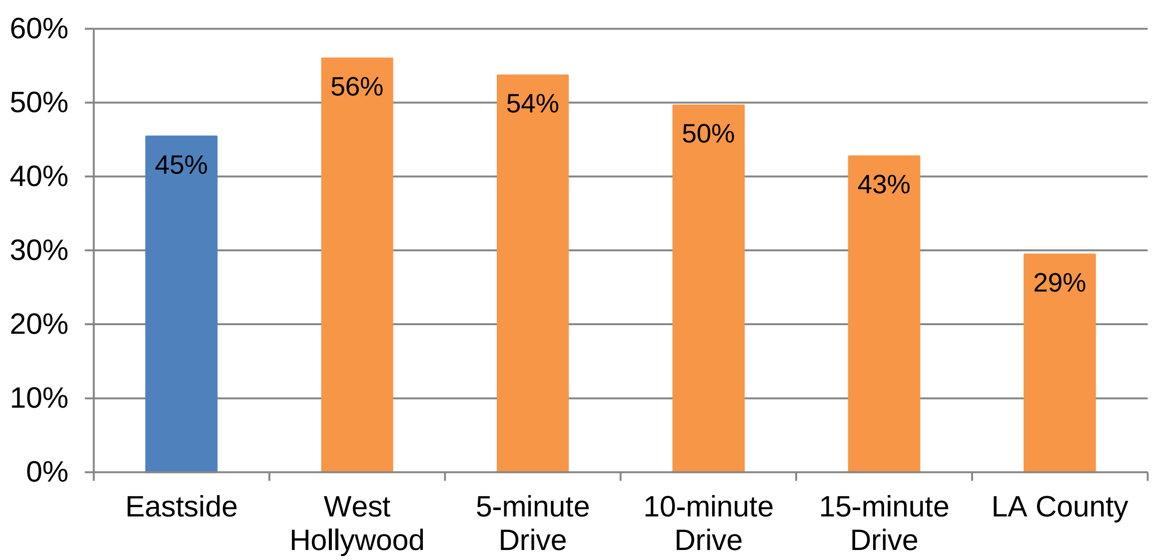
Eastside	West Hollywood	5-minute drive time area	10-minute drive time area	15-minute drive time area	Los Angeles County
93.5%	81.7%	84.3%	79.3%	76.8%	52.7%

Source: ESRI and American Community Survey 2012

EDUCATION

The City's residents over age 25 are well-educated compared to the surrounding areas and the County as a whole. The Eastside shows a smaller proportion of residents with at least a Bachelor's degree, but still well above the County rate. Foreign born residents in the Eastside are less likely to have a Bachelor's degree than native born residents, which is also true in the rest of the City and the County.

Figure 12 – Population Aged 25 and Over with at Least a Bachelor's Degree in 2012



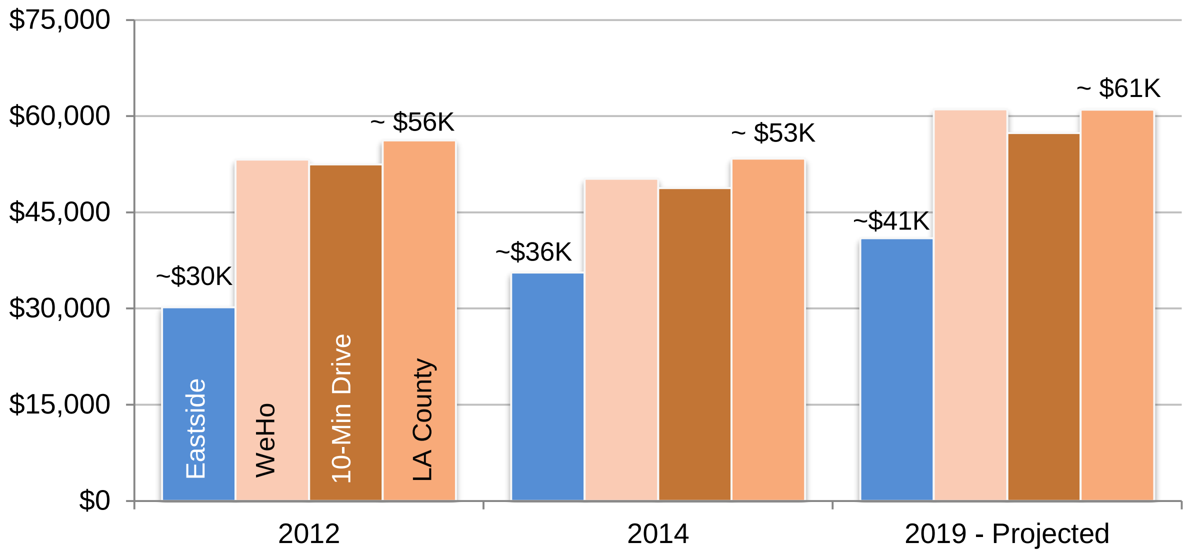
Sources: US Census Bureau, ESRI, and American Community Survey 2012

[7] *First American CoreLogic, 2014*

INCOME

Despite similar age groups compared to the City, the median household income in the Eastside is substantially lower than the City's, 10-minute drive time area, and the County, which has much lower educational attainment, as shown in Figure 13.

Figure 13 – Median Household Income Comparisons



Source: American Community Survey 2012 and ESRI Projections

A high number of retired residents contribute to the low median income of the Eastside. Estimated to be at least about a quarter of the Eastside population, this group is likely not registering an income, which impacts the median income for the area. RSG analyzed this impact by isolating incomes in employed households as shown in Figure 14. Unfortunately, the same data is not yet available for 2014 to perform the analysis, but the marginal differences are expected to hold true, and it is safe to assume that median incomes in employed households are $5,000 to $6,000 higher than the overall median incomes shown for the Eastside in 2014. Nevertheless, the working age population is still exhibiting a median household income below that which is required to dedicate only one-third of the income to rent.

Figure 14 – Total and Employed Household Income Comparison, 2012

Area	Household Median Income	Employed Household Median Income
Eastside	$30,196	$36,293
West Hollywood	$53,223	$57,841
Los Angeles County	$56,241	$56,405

Source: American Community Survey 2012, RSG Estimates using ACS 2012

This trend is also partially attributable to the abundance of studios and one-bedroom units which generate a higher level of single-occupancy units, reducing the household income compared to those occupied by two or more working adults.

INCOME AND RENTS

The low median incomes warranted further investigation into the affordability of life in the Eastside. RSG concludes that a number of residents, especially those in younger age cohorts, are spending a high percentage of income on rent. According to the Harvard Joint Center for Housing Studies, about one quarter of households in the Los Angeles metropolitan area spend at least half of their income on housing, with renters faring slightly worse than homeowners. About 33 percent of renters are paying more than 50 percent of their income for housing.

Residential rents in the Eastside are quite high for the median incomes as seen in Figure 15. Housing costs are traditionally estimated at 30 percent of household income. By this logic, one would need to earn about $6,670 a month (or an annual salary of $80,000 per year) to afford a $2,000 monthly rental cost. This required annual salary is more than double the current $36,000 median for the Eastside.

Figure 15 –West Hollywood Asking Residential Rents

Unit Size	Avg Rent-Controlled Rent (2013)*	Avg Asking Rent (2014)	Asking Rents at New Developments (2014)
Studio	$1,297	$1,900	$2,300- $2,950
1-bedroom	$1,570	$2,150	$2,500- $3,400
2-bedroom	2,125	$3,220	$3,650- $5,370

**Rents are based on new re-registrations received in 2013*
(i.e. new tenants moving in after a vacancy and not long-term tenants)

Source: City of West Hollywood, Rent.com, apartments.com, hotpads.com, developer interviews

As of 2010, 33 percent of residents in City had moved[8]. Long-term tenure in rent-controlled units suggests some Eastside residents are paying significantly less than the numbers in the chart above. However, the large age cohort of 24-34 contains individuals new in their careers, seemingly child free, and willing to pay more for a good location even if it reduces their ability to afford other things. However, this audience may not be able to contribute to the local economy in the same way those with a larger discretionary income can. Lower discretionary incomes have some of the same effects as low incomes in general, and the availability of affordable local retail plays a pivotal role in maintaining the balance of a “desirable” neighborhood.

The younger working demographic is not living in the Eastside for its affordability, but for the lifestyle it offers. Maintenance of affordable, local retail to meet daily needs and preferences is critical, as well as lifestyle amenities like transit, walkability, and overall vibrancy.

Additionally, with the influx of new residential units over the next few years, Eastside median rents will likely come closer to those in other parts of the City. This means the Eastside will continue to lose some of its “affordability”, though it’s arguably not very

[8] *2010 Community Survey*

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affordable now to its residents, given income levels. Nevertheless, low vacancy rates clearly illustrate people are willing to pay a premium to live in the area, but are likely paying so much in rent that it dramatically decreases their total buying power.

TAPESTRY SEGMENTATION

The better understand demographic trends across the county and cities, market studies include a "tapestry segmentation" analysis. Using proprietary software, ESRI uses US Census and other data to generate profiles that represent the average person in a geographic area. While the results are based upon the theory that like begets like, in other words, people will choose to live in areas where they feel like they fit in, or share similar characteristics or values with their neighbors. The data is best used as a contextual setting, as it is still fairly generalized information. For example, ESRI's tapestry segmentation completely ignores that 25 percent of the population is above age 55, and instead reflected only the younger demographic, termed "the Trendsetters". The Trendsetters consist of well-educated, young singles that prefer urban environments and entertainment, tend not to own homes or vehicles, keep up on fashion and the latest technology, are attentive to good health and nutrition, and are socially and environmentally conscious. This does not describe all Eastside residents, but based on the other data reviewed, it appears to represent a growing majority of households in the Eastside.

The group's desire for urban living suggests that current residents in this category may have been attracted by urban amenities like walkability, a vibrant nightlife, and cultural or generational attractions, and will want the level of such amenities to be maintained or improved. Their spending patterns and interest in entertainment will lead to more demand for local art and culture, opportunities to dine out, and service-oriented retail stores that cater to their hobbies, which can include fashionable clothing stores, fitness centers, and health-oriented grocers. RSG has already found evidence that retail in the Eastside is changing to suit this growing population. For example, some of the Russian markets are choosing to specialize in specialty products that attract this population, and stay open into evening hours when they return home from their jobs outside of the City. Similarly, Voda Spa holds evening hours to capture patrons after work.

The key message provided by the Tapestry Segmentation, in combination with the other demographic data, is that the younger, working population that exists now on the Eastside is likely to stay as long as the area continues to offer amenities that validate the high rental costs. An increase in local employment opportunities, as discussed later, will help to maintain this population as well.

KEY DEMOGRAPHIC TAKE-AWAYS

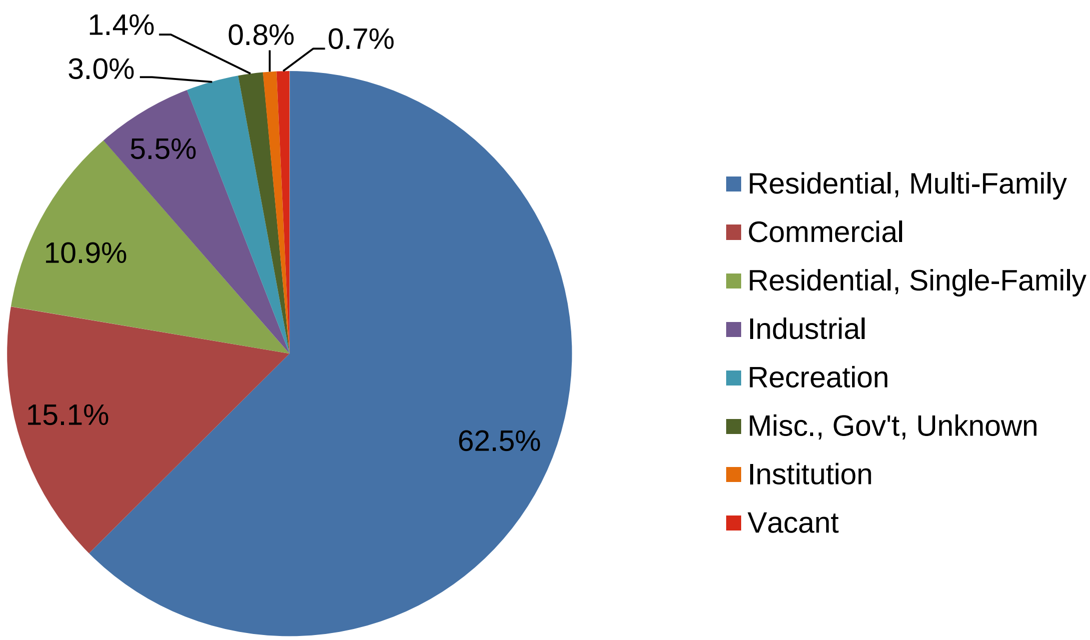
- The Eastside is likely to see a “growth spurt” in the coming years with the addition of 900 new units.
- The demographics of the Eastside have been shifting. The growth of the working-age demographic, particularly the younger half, will continue with the influx of new residents in high-rent apartments.
- The 65+ population has remained steady, though the Eastern European population is declining.
- There is an imbalance between income and rental prices, and existing residents may be spending a large percentage of their income on housing costs. However, vacancy rates remain low suggesting that residents are willing to pay a premium to live in the area. Overall, buying power is decreased though and the need for affordable, locally-serving retail is clear.
- The younger, working population that exists now on the Eastside is likely to stay as long as the area continues to offer amenities that validate the high rental costs.

3 THE BUSINESS COMMUNITY

LAND USE

As discussed in the Eastside History section, the Eastside was settled and areas divided into residential and commercial areas many years ago. As such, the Eastside has well established land use patterns. About 63 percent of available land in the Eastside (analysis excludes public right-of-ways) is multi-family residential. Commercial land uses are the second highest at 15 percent, followed by single family residential at 11 percent. In combination, residential and commercial uses make up 89 percent of all land uses as shown in Figure 16. Commercial uses are concentrated along Santa Monica Boulevard, Fairfax Avenue and La Brea Avenue with primarily multi-family housing in walking distance to commercial, north and south of Santa Monica Boulevard.

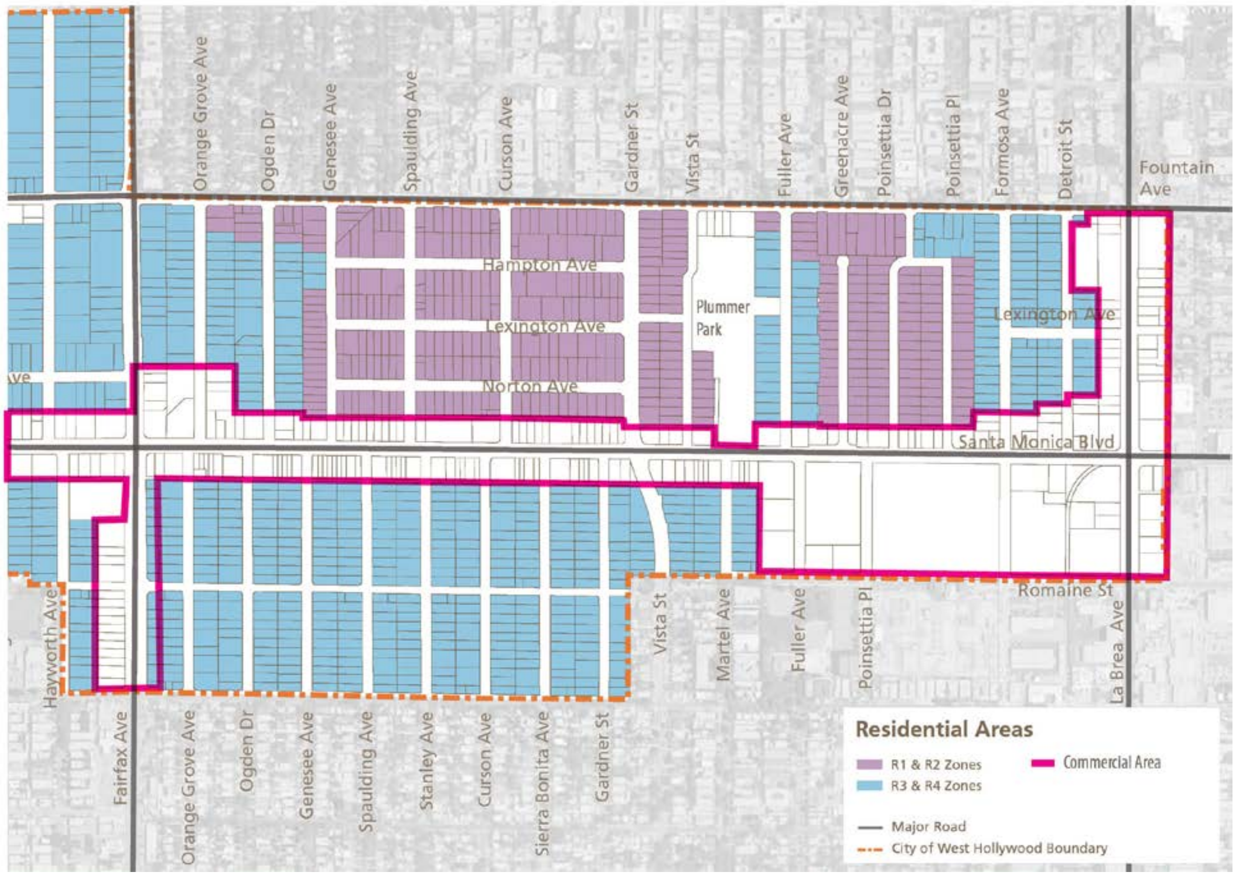
Figure 16 – Eastside Land Uses



Source: First American CoreLogic Solutions 2014

In order to better understand how the land uses explained on the previous page are situated throughout the Eastside, a land use map showing commercial and residential land uses has been included below.

Figure 17 – Commercial and Residential Land Use Map



Source: City of West Hollywood

EMPLOYMENT

About 76 percent of the Eastside population is of working age (24 to 64). Though not everyone in these age cohorts is employed (for any number of reasons), there remains an important pattern of information that shows those living in the Eastside do not work in the Eastside. According to the US Census Bureau's Center for Economic Studies[9], 94.3 percent of the people employed in the Eastside reside elsewhere, and 94 percent of residents commute out for work. This means the daytime population of the Eastside is a different set of individuals than the nighttime population, and ultimately speaks to two key points.

The Eastside experiences different daytime and nighttime populations. Local availability of jobs is an amenity that would be very appealing to working residents that currently commute to Beverly Hills, Santa Monica, Burbank, and downtown Los Angeles.

1. Local Eastside retailers will have greater success rates if they appeal to both the daytime and nighttime audiences.

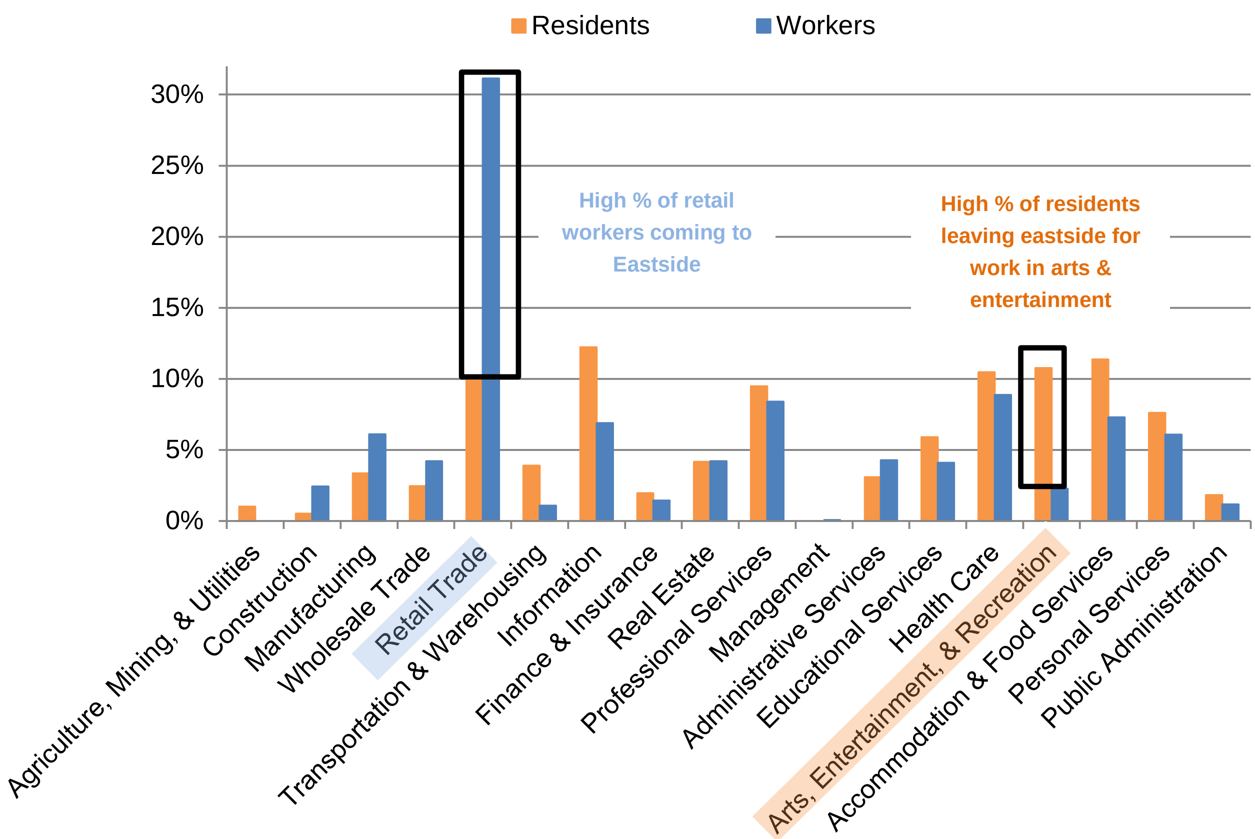
2. Certain desirable efficiencies exist when there is a balance of housing and jobs. Quality of life is generally improved by minimal commutes, and environmental impacts are lowered through shorter or even pedestrian-friendly commutes.

Keep in Mind:
In this section, industry or business categories and employment categories are discussed. You will see that the categories vary slightly because they represent different datasets. One dataset focuses on business and the number of workers employed in that industry, while the other focuses on people and the jobs. It is necessary to look at both because it is important to know the makeup of an area's businesses as well as the makeup of the workforce. However, it can be confusing to differentiate between the industry a person is occupied in and their profession. For example, a Chief Executive Officer of a film and television production company has a "Management and business" occupation in the "Arts, Entertainment, and Recreation" industry. As much as possible, the dataset being referenced is mentioned to help orient the reader.

[9] *This includes the labor force population only, and not retirees or those not yet in the labor force.*

Figure 18 looks at Eastside residents versus people employed on the Eastside and which industries they are employed in. The dataset referenced is the Business Dataset. The most outstanding difference lies in retail trade, which employs about 10 percent of Eastside residents, but the industry makes up almost 25 percent of the available jobs in the Eastside. See footnote below the chart for definitions of certain industries.

Figure 18 – Eastside Residents and Eastside Employees by Industry in 2012



Sources: US Census, ESRI, and Dun and Bradstreet 2014

Industry Definitions:

Administrative Services – office administrative services, facilities support services, employment services, business support services, travel arrangement and reservation services, investigation and security services, services to buildings and dwellings, and other support services.

Personal services – repair and maintenance for automobiles, electronic and precision equipment, other commercial and industrial machinery and equipment, and personal household goods, personal care (hair, nail, skin, barber, beauty, diet, and other personal care), death care, dry cleaning and laundry, and other (pet care, photofinishing, parking lots, and other) personal services.

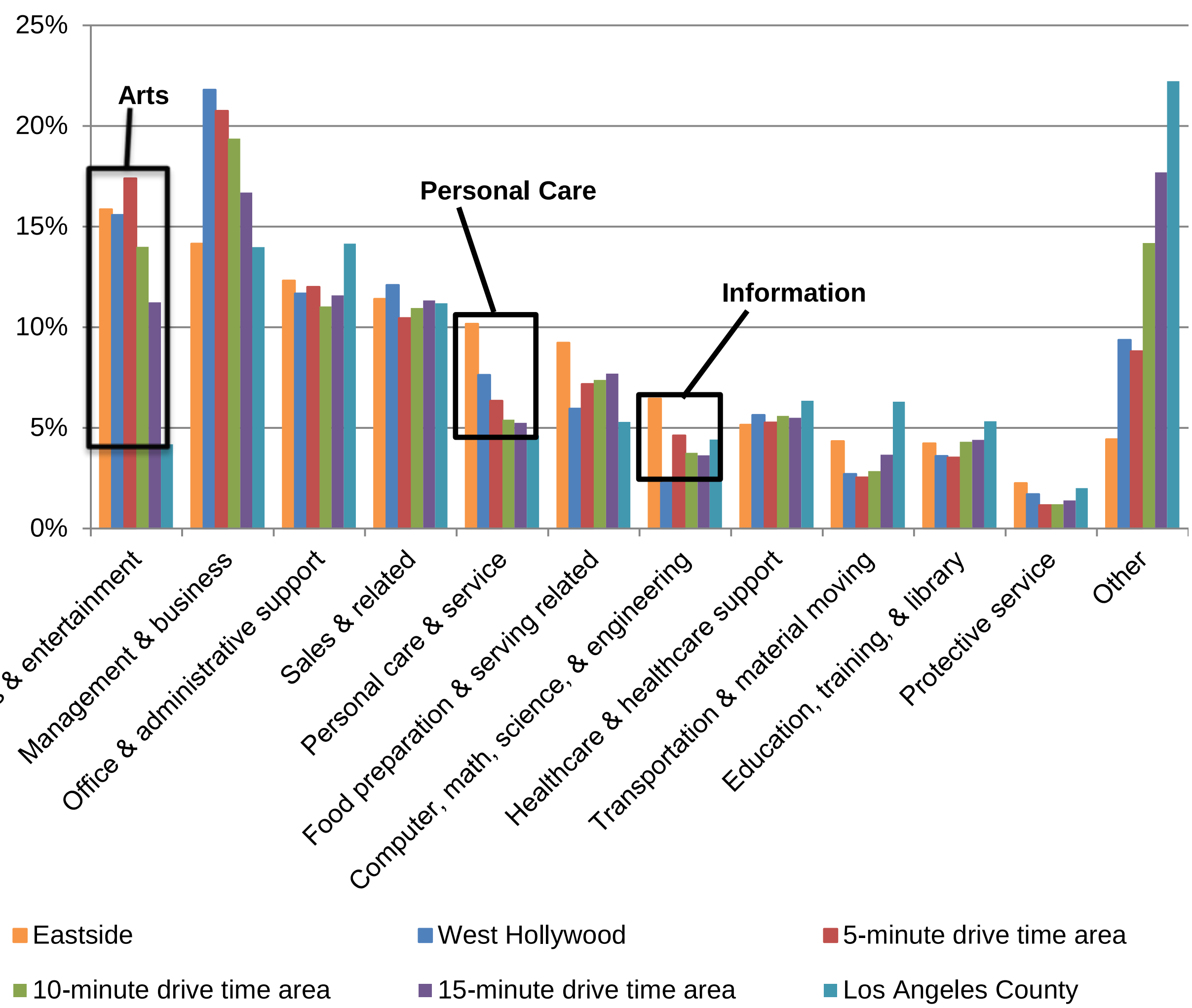
Professional services - attorneys, notaries, and other legal services, accounting, tax prep, bookkeeping, payroll, architectural, engineering, and related services, specialized design services (interior, industrial, and graphic design), computer systems design and related services, management, scientific, and technical consulting services, scientific research and development services, advertising, public relations, and related services, other professional, scientific, and technical services, waste collection, waste treatment and disposal, and remediation, and other waste management services.

WEST HOLLYWOOD RESIDENTS AND THEIR JOBS

Now to look at the other dataset, the Employment Dataset. About 75 percent of West Hollywood and 73 percent of Eastside residents have jobs in the following categories:

- Arts and entertainment: about 16%, which is three times higher than the County;
- Management and business operations: about 14%, which is on par with the County;
- Office and administrative support: about 13%;
- Sales and related services: about 12%;
- Personal care and service: about 10%, which is double the County;
- Food preparation and serving related: 9%.

Figure 19 – Occupation of Residents by Area

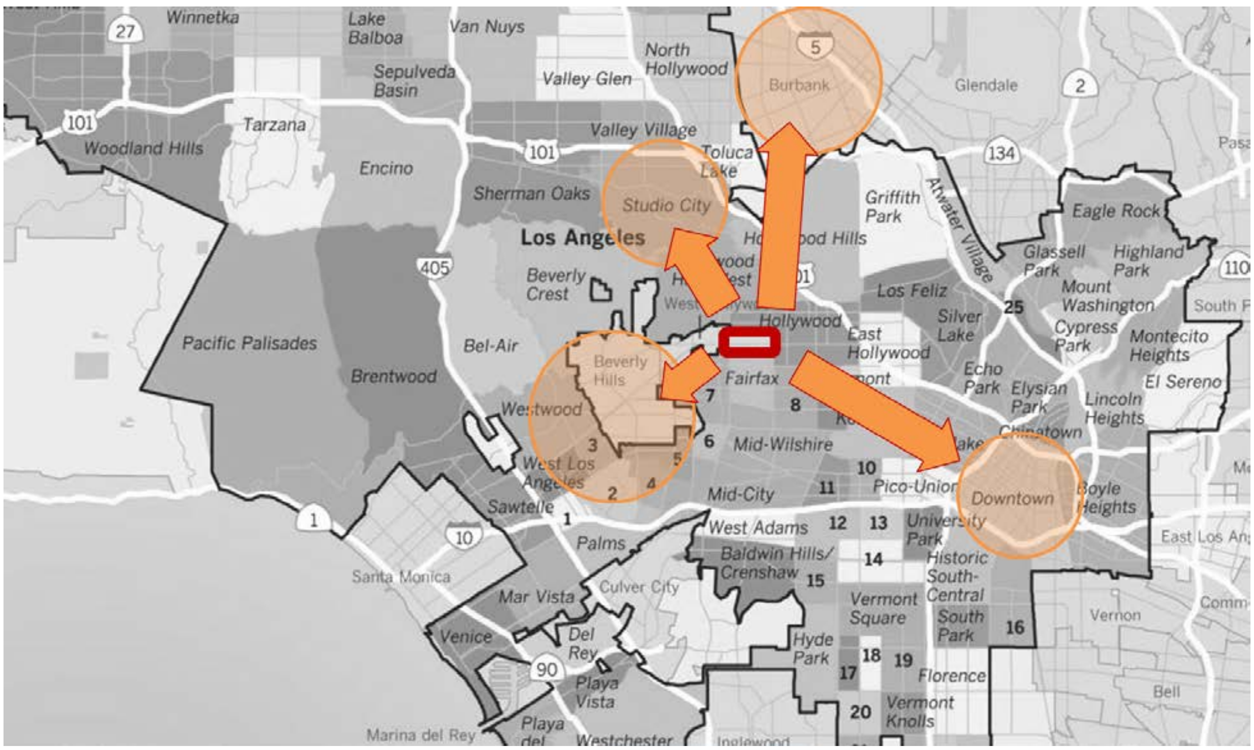


Sources: US Census, ESRI, and American Community Survey 2012

In comparison to the County, Eastside residents have a significantly higher proportion of jobs in arts and entertainment; personal care and services; food preparation and serving related; and computer, math and science related jobs.

Keeping in mind the average Southern California commute time is about half an hour, the pattern itself is reasonable. Employment centers focus along Santa Monica Boulevard, particularly to the immediate west of the Eastside, including West Hollywood and Beverly Hills. Other job centers include the Studio City/Universal City area, Burbank, and downtown Los Angeles as shown in Figure 20. These areas are hubs for business and professional firms, and film and television operations, which supports data that shows "arts and entertainment" and "management & business operations" are the most common occupations for Eastside residents.

Figure 20 – Where Eastside Residents Work

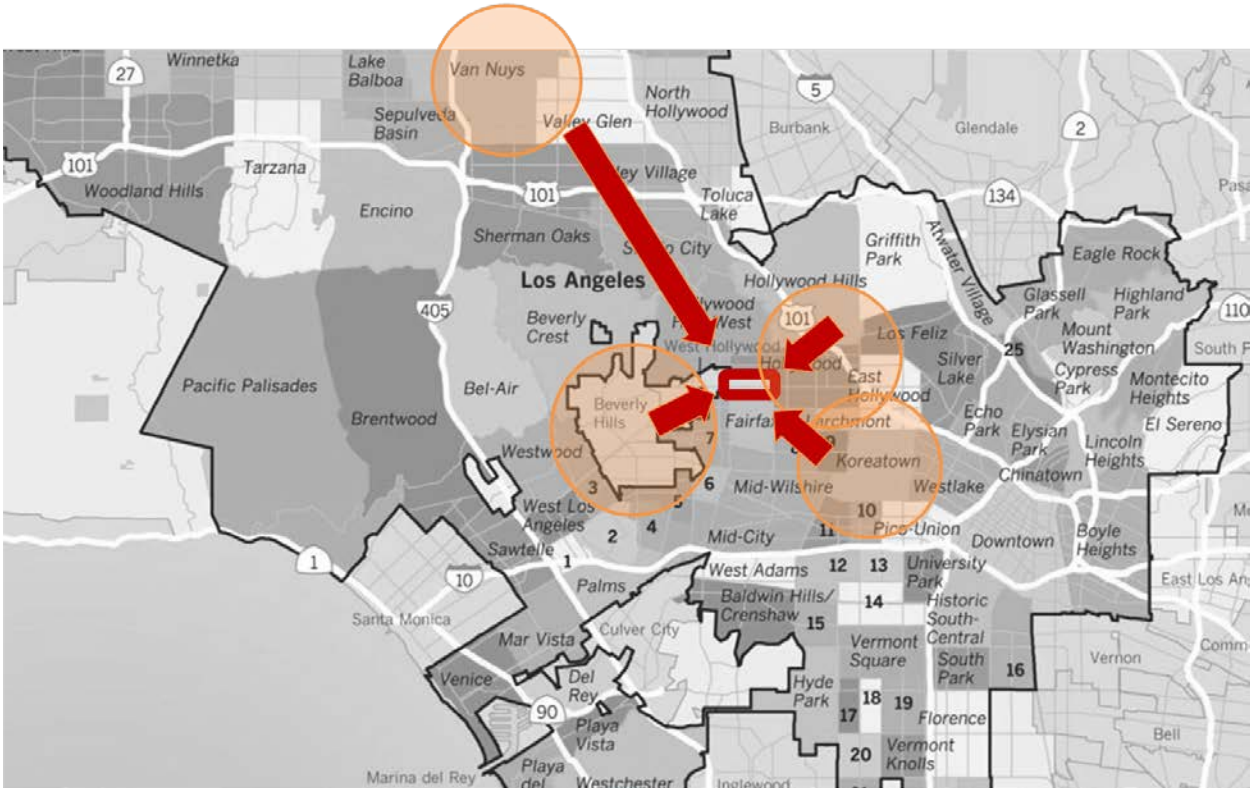


Source: US Census Bureau and On the Map 2013

WEST HOLLYWOOD EMPLOYEES AND BUSINESSES

As noted, most of the employees that work in the Eastside live in another place. Eastside employees travel into West Hollywood for work from all over Los Angeles County. However, the highest concentrations seem to be in the areas to the south of West Hollywood, and in the San Fernando Valley.

Figure 21 – Where Eastside Employees Live



Source: US Census Bureau and On the Map 2013

Most of the businesses located in the City and the Eastside offer jobs in the following categories.

- Retail Trade,
- Information (primarily film- and TV-related work),
- Professional Services,
- Administrative Services, and
- Personal Services.

The businesses in the five industries mentioned above make up 57.5% of businesses in the City and 44.8% in the Eastside, compared to 30.5% of all businesses in the County.

Some of the Top 5 industries mentioned above pay comparatively low wages. For example, according to the Bureau of Labor and Statistics, a "Retail Salesperson" job in the Los Angeles-Long Beach-Glendale Metropolitan Division earns on average $25,370 per year, while a lawyer in the same area earns on average $164,620 per year. The commute patterns support the fact that employees are commuting into West Hollywood for lower-paying jobs from areas of the County that tend to have more affordable housing and living options.

On the other hand, the Professional Services and Information employment categories have the potential to offer higher wages. In particular, the Information industry represents a strong advantage to the City in comparison with Countywide norms. The Information industry is

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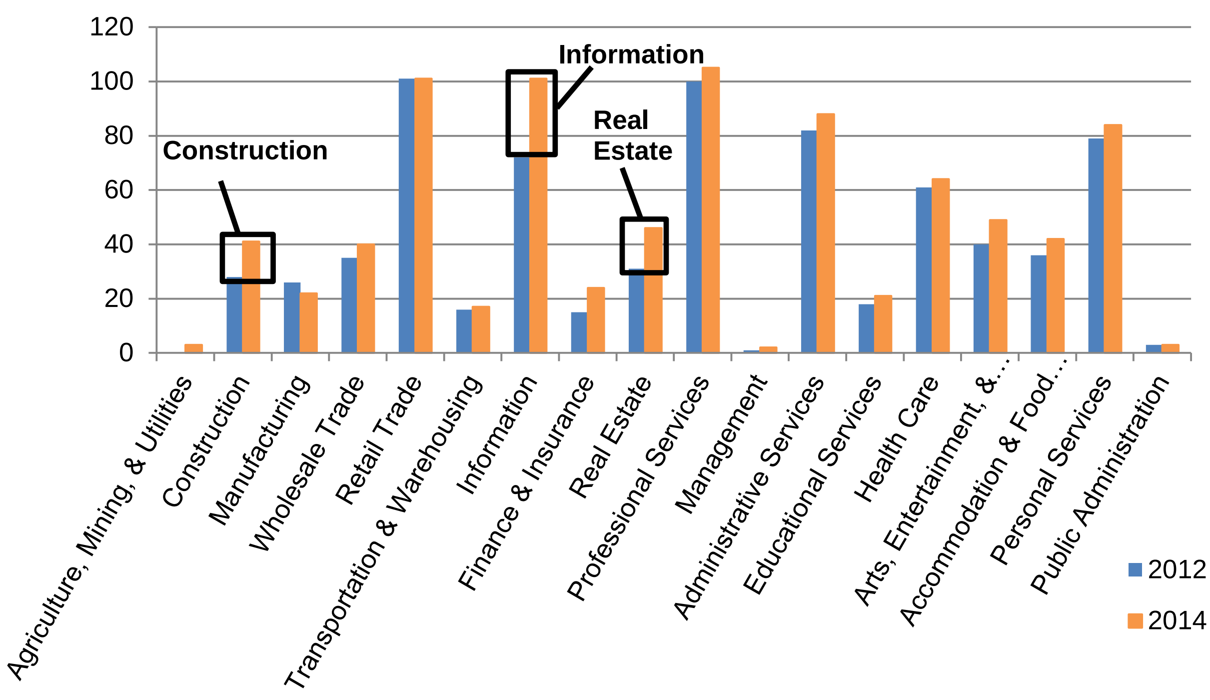
particularly notable for its recent growth in the Eastside. Including sub-industries such as publishing, motion picture and sound recording, broadcasting, telecommunications, and data processing, this industry has seen the largest increase in the number of businesses in the Eastside from 2012 to 2014. However, it is important to note that these businesses appear to be smaller firms, and therefore while the number of businesses is large, the number of employees remains small. Figures 22 to 24 show the incremental change in businesses over the last two years, post-recession.

Figure 22 highlights the growth in the construction, information and real estate fields from 2012 to 2014. The construction industry has grown with new development in the area, as has the real estate field. As mentioned above, the information industry seen a recent boost especially in the publishing, motion picture and sound recording, broadcasting, telecommunications, and data processing fields.

Figure 22 – Number of Eastside Businesses, 2012 and 2014



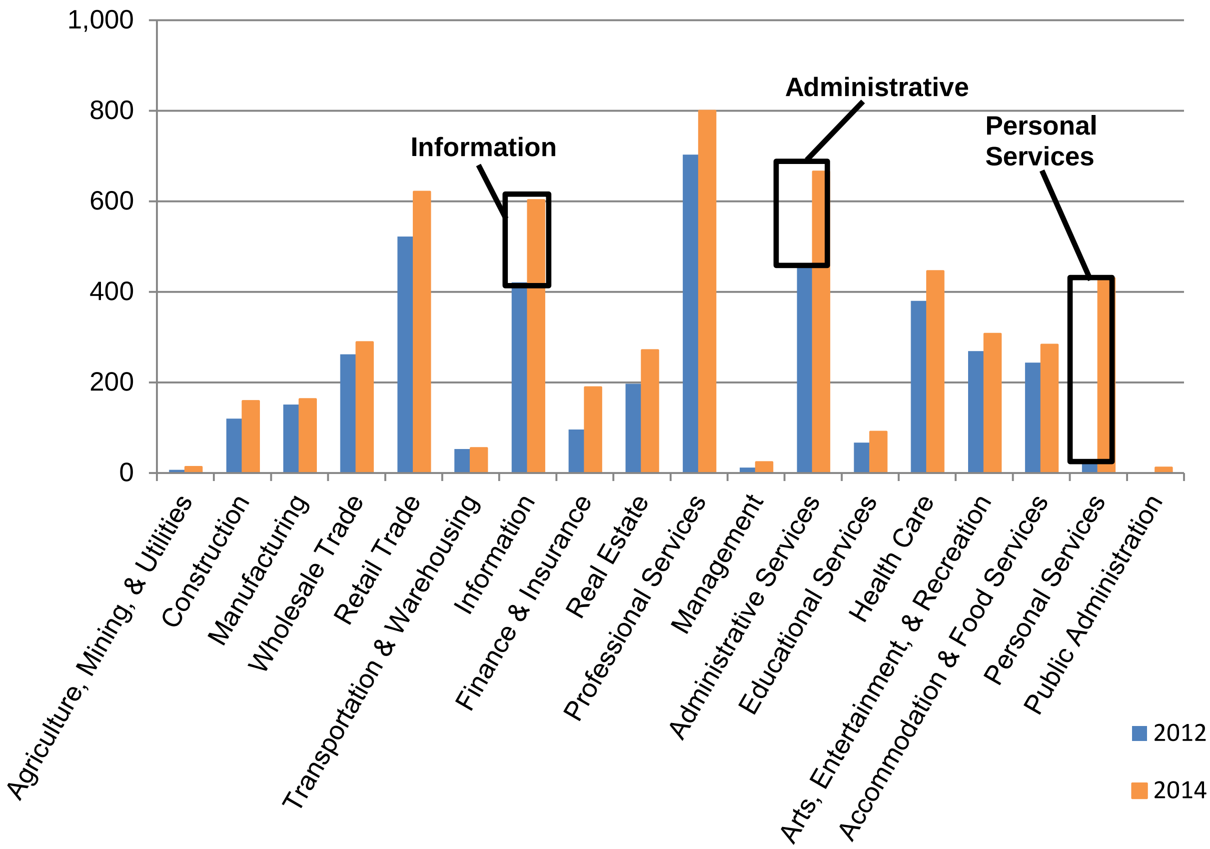
Source: ESRI and Dun and Bradstreet 2014

Figure 23 shows the growth or decline of certain industries in the City as a whole. Like the Eastside, West Hollywood has seen growth in the Information industry, in addition to growth in the Administrative and Personal Services[10] industries. While Personal Services can offer

[10] *Personal services includes salons and beauty services, dry cleaning, repair of goods including appliances and automobiles, housekeeping, carpet cleaning, and similar services.*

lucrative careers to business owners, median wages are typically lower than those in Information or Administrative Services.

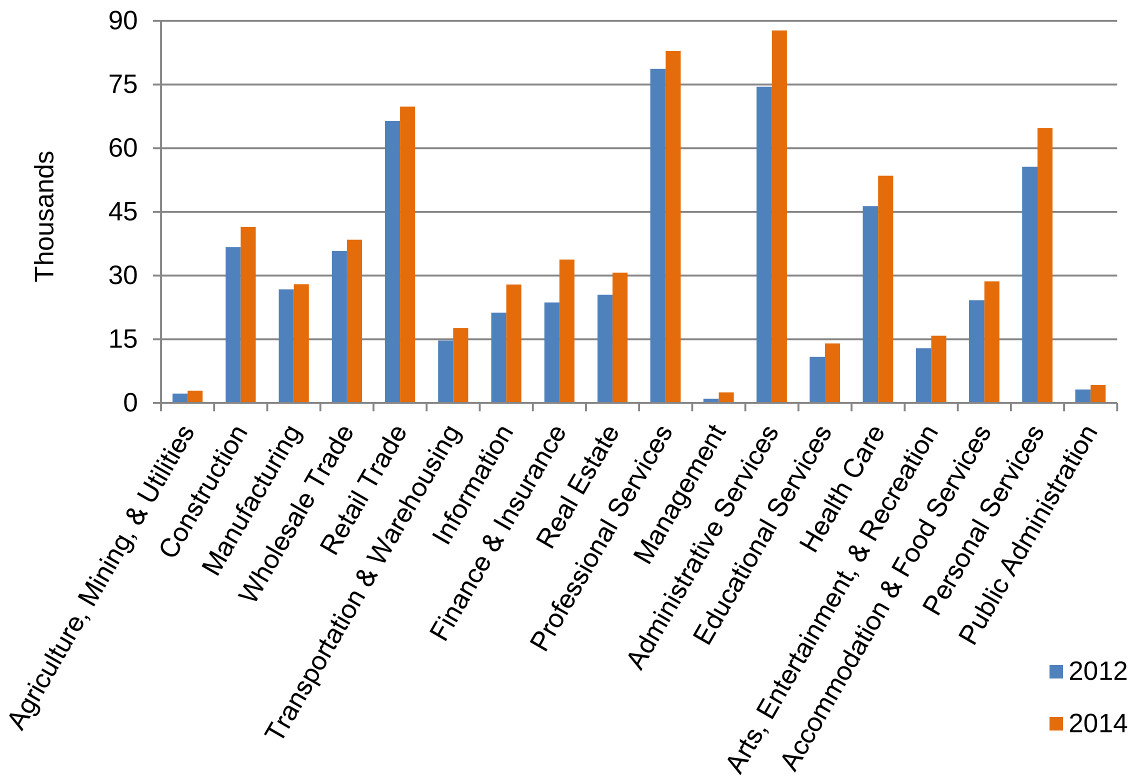
Figure 23 – Number of West Hollywood Businesses, 2012 and 2014



Source: ESRI and Dun and Bradstreet, 2014

Figure 24 shows the change from 2012 to 2014 in businesses in the County. As a much larger area, the County is unlikely to see the dramatic changes the Eastside or the City has seen in recent years, which highlights how significant the growth and changes in the Eastside are.

Figure 24 – Number of County Businesses, 2012 and 2014



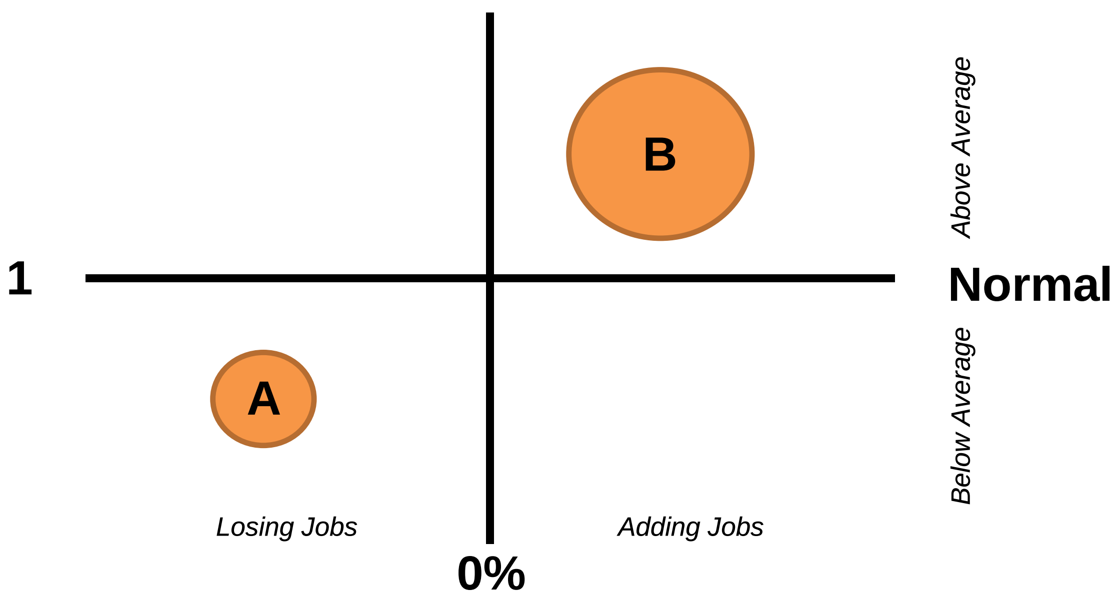
Source: ESRI and Dun and Bradstreet 2014

JOB CLUSTERS / LINKAGES

The prevalence of jobs and industry trends can be captured by a location quotient, or LQ. An LQ demonstrates whether or not a particular industry is concentrated in limited area compared to a greater region. An LQ of "1" is essentially normal, while a niche market might be defined as having an LQ closer to 1.5 or above. A lack of jobs would score less than a 1. Figures 26 and 27 are bubble diagrams that provide a variety of information about Eastside jobs, as compared with the County as a whole. The charts should be read as follows.

1. The size of the bubble indicates the number of jobs the industry provides. Larger bubbles have more jobs.
2. LQs are shown as the horizontal lines stemming from the numbers on the left axis. A "1" LQ means the industry size is normal. Bubbles above the 1 LQ line are industries that have an above-average presence. The higher up the bubble, the more of an industry cluster it is within the given time period.
3. The bubbles also indicate changes in the number of jobs over the time horizon described, as shown on the bottom axis. The 0% line indicates that no change in employment has occurred over the time period shown. Bubbles to the right of the 0% line are industries that have been adding jobs. Bubbles to the left are decreasing in jobs.

Figure 25 – Sample Bubble Diagram, Years 1-5



Thus, Figure 25 can be interpreted as follows.

1. Industry B employs more people than Industry A.
2. Industry A has an LQ less than 1, indicating a lack of jobs in the area compared to the regional norm. Industry B is above the LQ 1 line, conveying a job concentration or cluster.

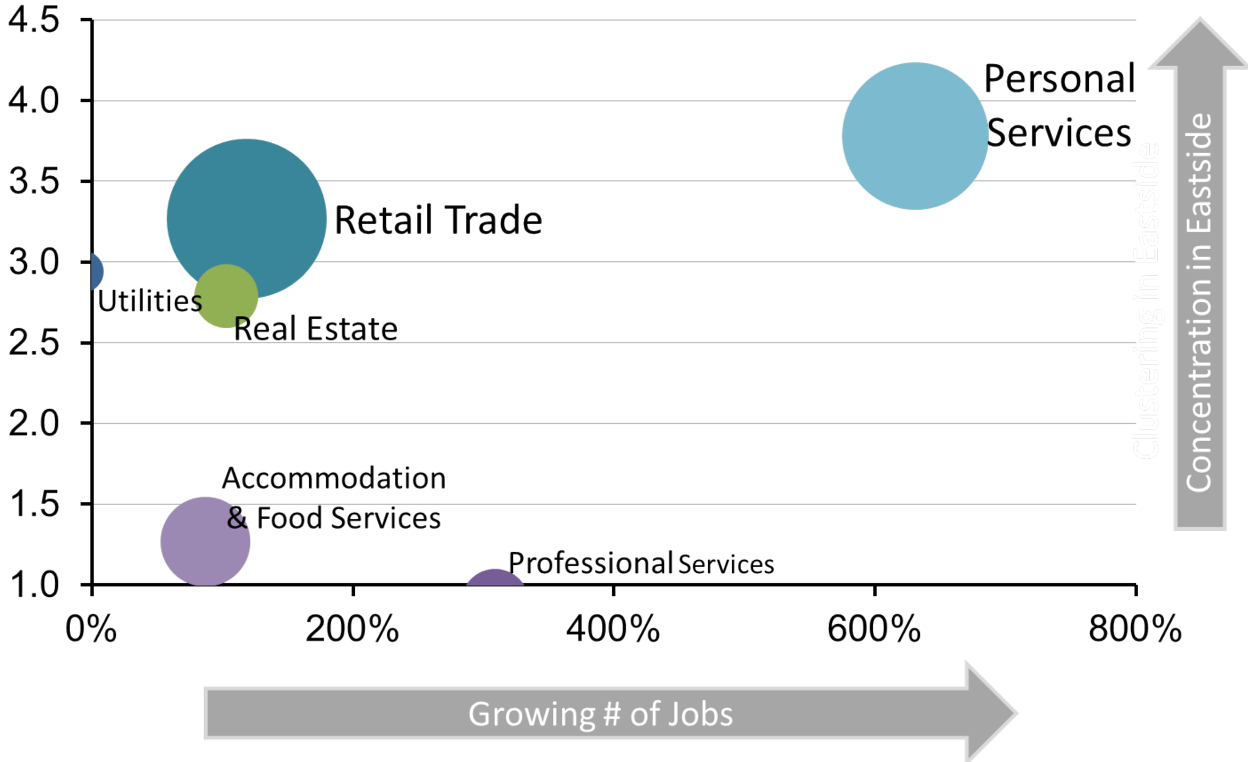
3. Industry A is to the left of the 0% growth line, showing a loss of jobs over the five year time period presented. Industry B is showing an increase in jobs over the five years.

4. Therefore, Industry A is in decline, and is not concentrated in the area. Industry B is quite important to the area's economy – it is both concentrated and growing. Quick tip: pay close attention to industries in the top right quadrant of the following Figures 26 and 27.

5. The top right square on the chart is of greatest interest to the City as it represents growing industries that are clustering in the area.

Figure 26 shows the top right quadrant of the cluster diagram over a ten year historical period, trending back to 2002. The long time frame allows the reader to see where growth has been ongoing and consistent.

Figure 26- Eastside vs. County Clusters 2002-2011



Source: US Census Bureau, On the Map 2013

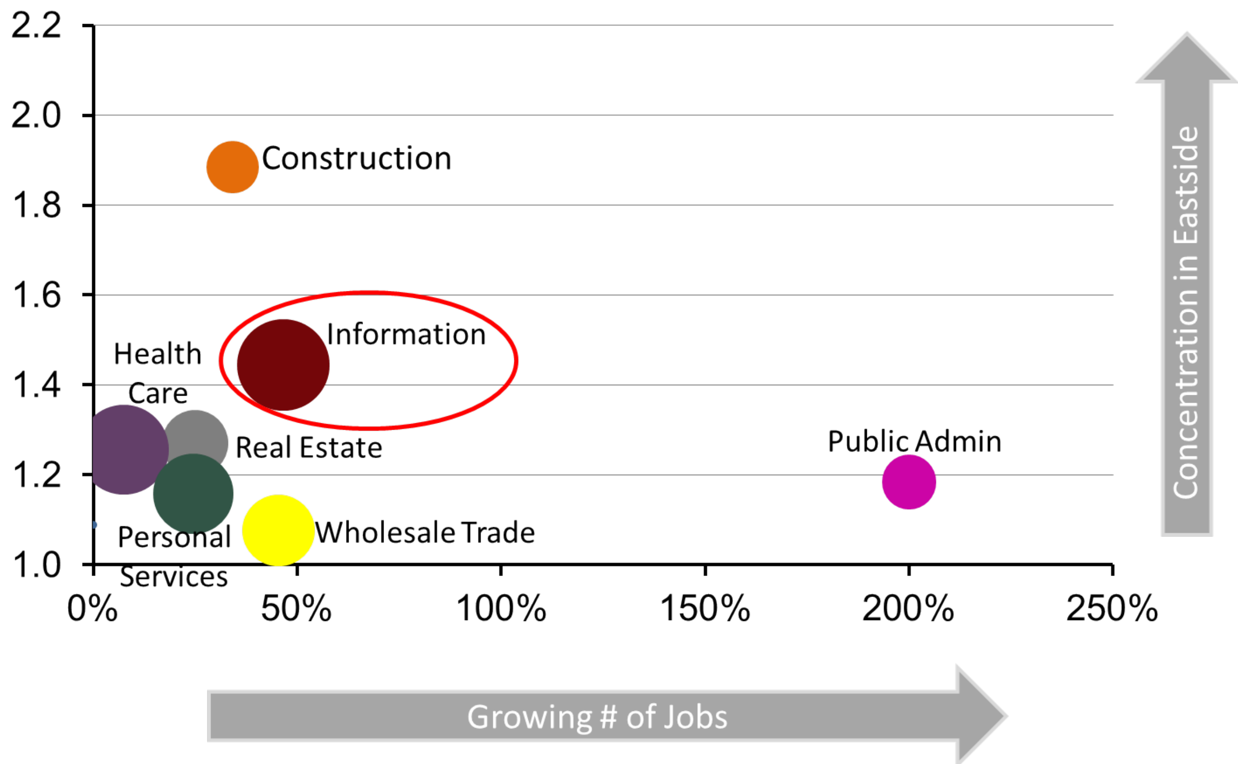
Growing Industries from 2002-2011 with concentration on the Eastside:

- Personal Services - Employment up 631%; Highly concentrated
- Retail Trade - Employment up 119%; Highly concentrated
- Real Estate - Employment up 103%; Concentrated
- Accommodation & Food Services - Employment up 87%; Mildly concentrated

- Professional Services - Employment up 320%; Average concentration

Figure 27 shows a current snapshot of employment available in the Eastside compared to the County over the last two years, post-recession, and allows the reader to see a couple acute – though recent – trends in the Eastside.

Figure 27 - Eastside vs. County Clusters, 2012-2014



Source: US Census Bureau, ESRI, Dun and Bradstreet 2014

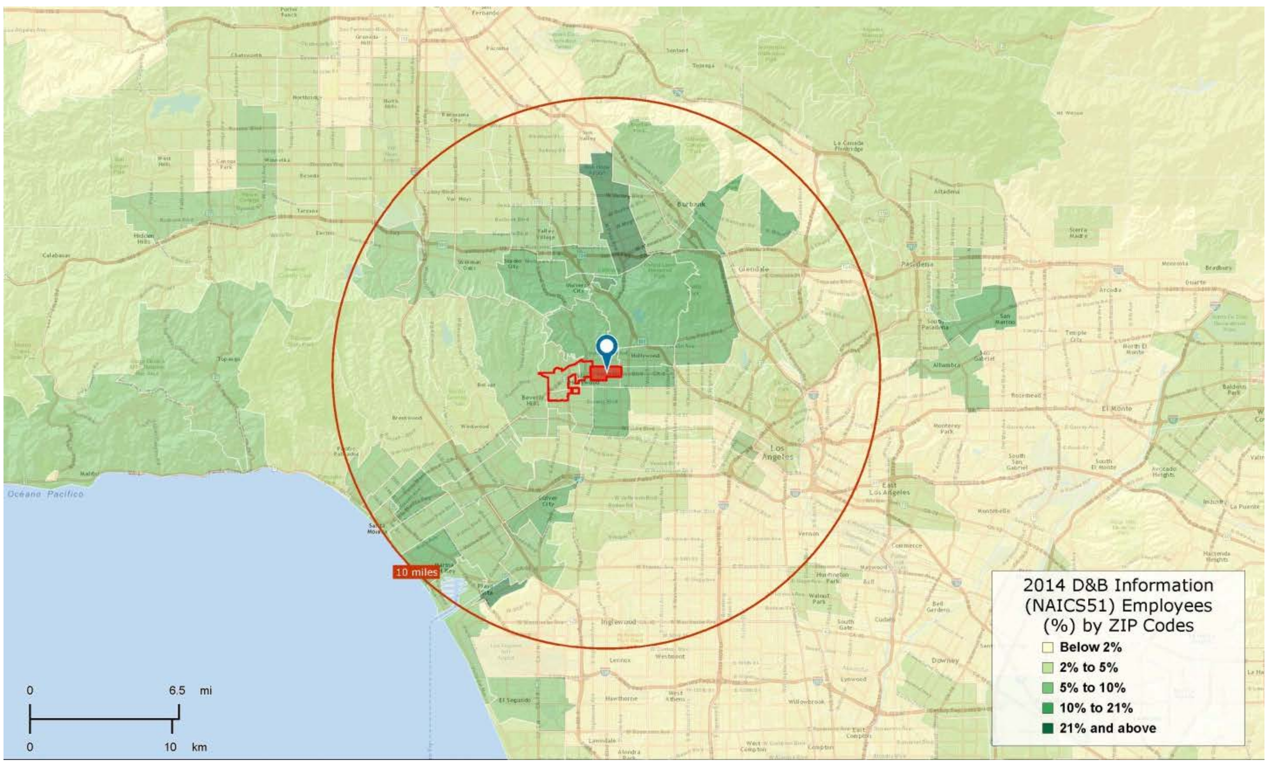
Industries growing from 2012-2014 with concentration on the Eastside:

- Construction - Employment up 34%; Mildly concentrated
- Information - Employment up 47% Mildly concentrated
- Real Estate - Employment up 25%; Very mild concentration
- Personal Services - Employment up 25%; LQ of Mildly concentrated
- Public Administration - Employment up 200%; Average concentration

Industries for which success depends on consumer access tend to spread geographically in order to reach their consumers better. These industries include Retail Trade, Health Care, and Personal Services. Industries for which success depends more on access to common resources, like a highly educated workforce, supply chain, or peer companies tend to concentrate. The Eastside community will need to decide how proactively it wants to attract niche businesses like Information and can do so, in part, through land use choices. Higher-wage jobs require office space, not retail. Fortunately, Information and Professional Services can vary in terms of space requirements. For example, while an established production business may want a brand new office space, a start up may be quite happy to be located nearby in a small, older, former retail location if it offers some needed amenities.

To provide a little perspective on the Eastside's competition for Information jobs, Figure 28 shows the geographic Information industry concentrations in two specific areas within 10 miles of the Eastside. One area, to the north and east of the Eastside, includes Burbank, Hollywood, and Universal City. The second area, to the southwest of the Eastside, includes Santa Monica, Culver City, and Venice. It appears that the Eastside is benefitting from spillover of the Information industry from the area to the north and east, which aligns with qualitative information from developers indicating that proximity to residences in Beverly Hills and Santa Monica make the Eastside a desirable area for production industry jobs.

Figure 28 - Information Jobs, Regional Viewpoint



Source: ESRI, Dun and Bradstreet, 2014

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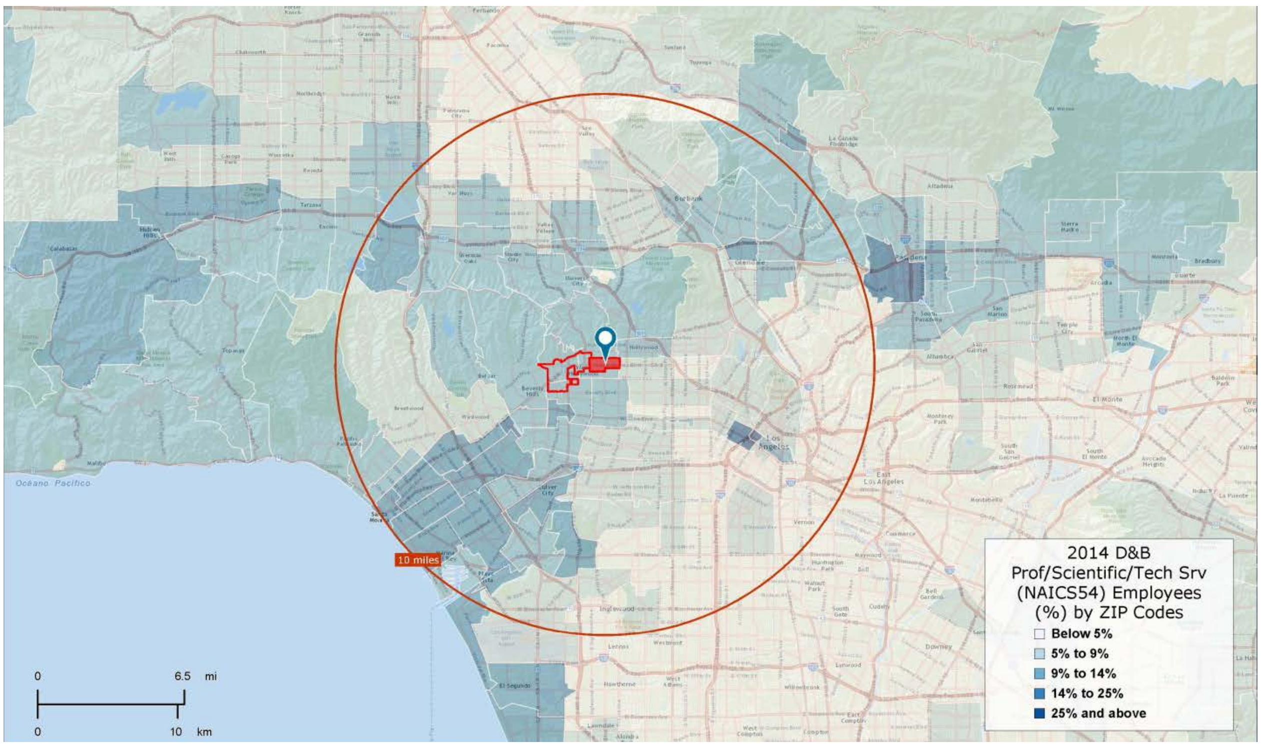
The Professional Services industry, though not clustered in the Eastside, has remained a stable point of employment for the last decade with higher-wage jobs, and includes sub-industries such as legal, accounting, architectural and engineering, computer systems design, scientific research, advertising, and marketing services. The map of the Professional Services industry shows strong concentrations in three areas within or just outside of a 10-mile radius of the Eastside. The Professional Services industry in the Santa Monica-Venice-Culver City area is strong, close to the Eastside, and connects to the Eastside through continuous above-average concentration. The area therefore represents the best potential for spillover growth in the Professional Services industry in the Eastside. In conjunction with Information, these industries present opportunities to balance the jobs/housing relationship in the Eastside.

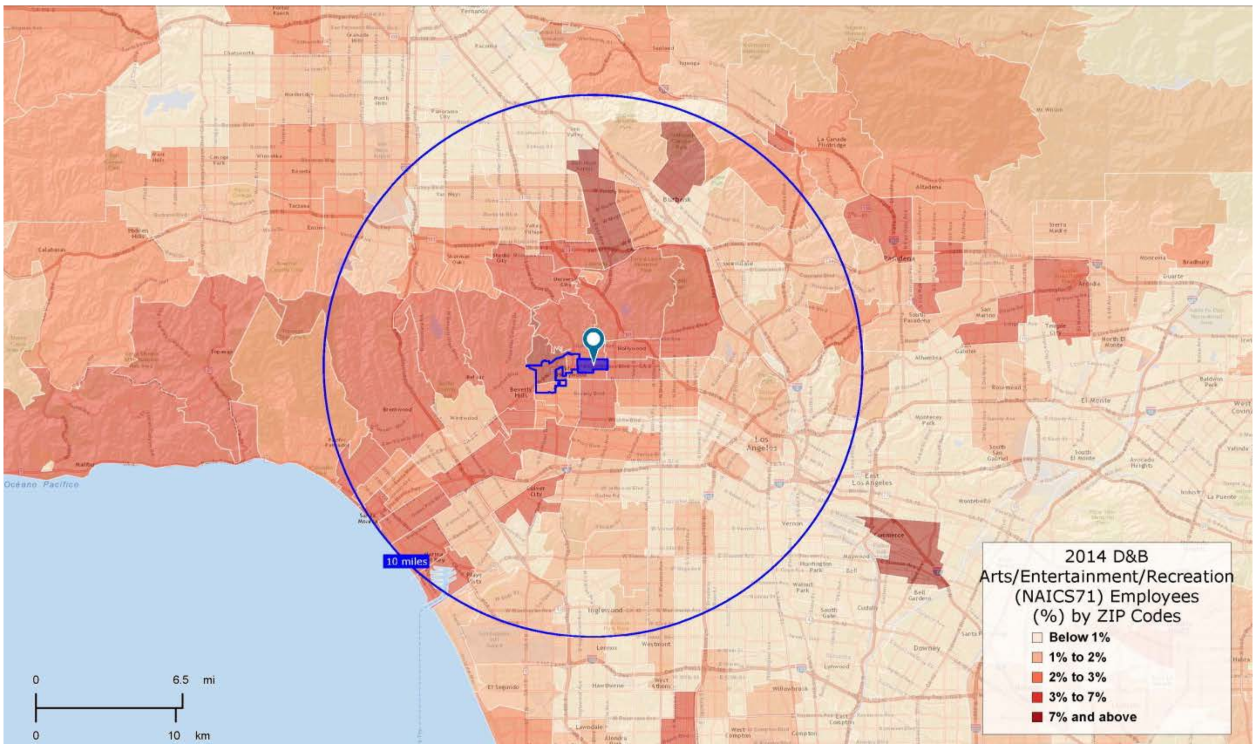
Figure 29 - Professional Services Jobs, Regional Viewpoint



Source: ESRI, Dun and Bradstreet, 2014

Arts, Entertainment, and Recreation includes artists, writers, performers, athletes, promoters, agents, and managers, as well as museums, historical sites, and amusement and theme parks. The map for this industry shows strong concentrations in the Burbank area, Universal City, the Westside of West Hollywood, and stretching westward to Santa Monica. This industry therefore represents an opportunity for growth in the Eastside because of proximity to other geographic areas with strong concentrations in this industry as well as the industry's operational connections to the Information industry (i.e., writers work with publishers, performers work with motion picture recorders, etc.).

Figure 30 - Arts, Entertainment, and Recreation Jobs, Regional Viewpoint



Source: ESRI, Dun and Bradstreet 2014

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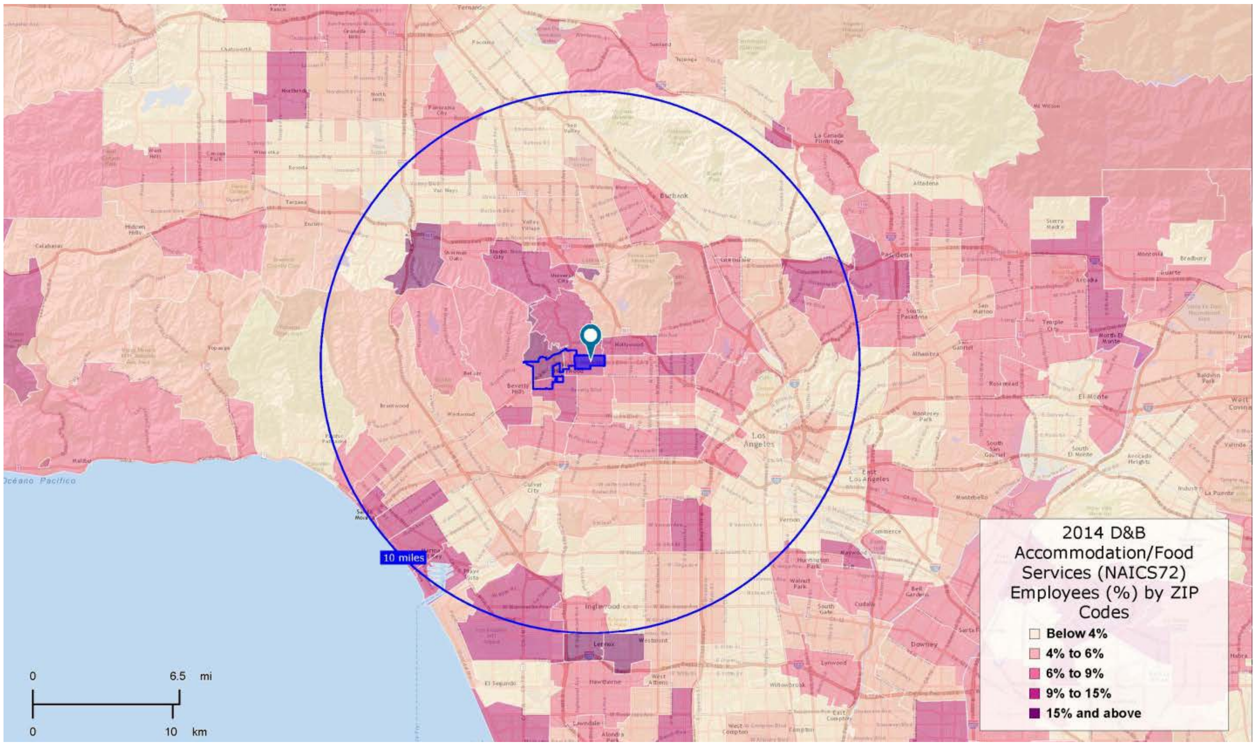
The Accommodation and Food Services industry includes hotels, recreational camps, caterers, and restaurants. The concentration near the LAX airport probably reflects the presence of hotels in that area. The concentration in Santa Monica, on the other hand, is more likely the result of restaurants. There is also a concentration in and around the Eastside due to restaurants located in the area.

Figure 31 - Accommodation and Food Services Jobs, Regional Viewpoint



Source: ESRI, Dun and Bradstreet 2014

Growing employment opportunities that match the Eastside population and their desired jobs will require adequate office uses, and the associated infrastructure to support the use including parking. This growth can potentially be captured in part by redevelopment or reuse of existing office space in the Eastside, which is currently dominated by medical or medical-related uses. This observation was confirmed during a field survey and when talking to local businesses. Many of the existing office spaces house medical offices and many are aging and potentially underutilized. While many medical uses are professional and often higher-wage jobs, they tend to not be concentrated employment centers. A single doctor's office may take up quite a bit of square footage to accommodate private patient rooms. As such, repurposing some of the office uses on the Eastside into offices for other types of businesses would create additional professional jobs and allow more Eastside residents to also work on the Eastside.

KEY BUSINESS TAKE-AWAYS

- Given the very small size of the Eastside, the issue is not necessarily that its residents commute, but that they are seeking higher-wage jobs than are offered nearby. Eastside residents leave the neighborhood for work and tend to work in professional services and the television and film industries. The residents commute to Santa Monica, Beverly Hills, Downtown Los Angeles, Culver City and Burbank.
- Most Eastside jobs are in retail and the employees commute from other areas of Los Angeles into the Eastside. This means the daytime population is quite different than the night time population, resulting in two audiences for retail goods and services.
- A recent expansion of technology-related businesses and stable presence of professional service businesses represent an opportunity to offer the young and educated residents a chance to work closer to home.

The Information Industry

The Information industry is showing growth and some clustering on the Eastside, and may be desirable to attract given its higher wages and prominence amongst the residents of the Eastside. As such, additional attention was given to this sector. The following addresses opportunities and constraints specific to the Information Industry.

The industry includes sub-industries such as publishing, motion picture and sound recording, broadcasting, telecommunications, and data processing. Below is an analysis of the opportunities and constraints to growing the Information industry on the Eastside for consideration:

Opportunities

- **Phased development at The Lot**. As proposed, The Lot is specifically designed to attract information-related businesses, especially those in entertainment production. While anticipated rents were not specifically disclosed, it's fair to say the target tenant is not a start up, but firms with enough experience and working capital to pay the higher costs associated with the campus-like amenities ultimately planned for the site. Despite a higher price point, The Lot will continue to drive the synergy already building in the area.

- **An educated workforce**. Not only does the City offer educated residents itself, but feedback from current developers in the area indicated that West Hollywood's close proximity to Beverly Hills and Santa Monica – other highly-educated areas – is a contributing factor to its desirability.

- **Proximity to Venture Capital Firms.** Access to a plethora of venture capital sources in the Greater L.A. Metro Area, which are critical to funding high-risk/high-reward tech startups.

- **4G LTE Coverage.** The Eastside is well covered by the nation's four largest carriers for high-speed mobile internet usage. According to OpenSignal, both Verizon and Sprint show great 4G LTE coverage throughout the Eastside, while AT&T and T-Mobile both also have great coverage around major corridors, where a tech firm would be likely to locate.

- **Connectivity.** The Eastside offers some degree of connectivity to other tech sectors, specifically those in Downtown L.A. and West L.A., as well as local universities. While the area may not yet have the access to tech-related professionals that allows technology-based ecosystems like Silicon Valley and parts of Seattle to become self-sustaining, it does have access to the highly specialized movie, television, and online entertainment market.

- **Distinction from Westside.** The Eastside is notably separate from the nightlife and entertainment scene that the Westside is known for, which may attract different types of businesses.

Constraints:

- **High Rental Rates.** The average rental rate for Class A and Class B office in West Hollywood is $4.25 net of real estate taxes (discussed in more detail later), building insurance and common area maintenance, also known as triple net ("NNN"). This is compared to $2.86 NNN within a 10-mile radius of the City and $2.54 NNN for all of LA County. This may be a deterrent to tech startups, which lack the capital to justify paying leases so much higher than those in the surrounding area. Lower Eastside rents, particularly in the older retail units that could also house some office uses, has likely fostered some of the information business growth seen over the last two years. If those options dwindle over time, it will be difficult for start-up firms to locate in the area on their own. Co-operative-style models have been increasing in popularity, and would be a viable option for larger spaces.

- **Parking Shortage.** Without onsite parking development, there would likely be a significant shortage of parking to sustain the influx of employees that a large or even medium-sized firm would bring in after converting a space from retail to office. This problem is compounded by the fact that most street parking in the Eastside north and south of Santa Monica Boulevard requires a resident permit. This is further hampered by the fact that West Hollywood has more stringent parking requirements for office uses than other nearby cities, at 3.5 spaces per 1,000 square feet for the first 25,000 square feet. This standard is even higher for restaurants.

- **Development Standards.** West Hollywood's floor-area ratio requirements are restrictive when compared to nearby communities. These nearby communities have been more successful in attracting tech firms, like Santa Monica.

- **Culture.** In a neighborhood with many smaller, locally-owned businesses, a large tech firm like Google or Facebook could conflict with the existing culture and character of the community. It could also force unwanted competition for parking with local businesses. However, a small technology firm could still fit well in the neighborhood.

- **Available infrastructure.** The City is reviewing the potential for upgrading technology-related infrastructure. Existing capacity may be below what is needed. The OWN network has already requested dark fiber high speed connectivity. Private firms are beginning to provide gigabit access, such as Google Fiber (available in only three cities nationwide now, with the Bay Area being the only planned location in California for the foreseeable future.) Other internet providers have the ability to offer similar service, but the cost of implementation is significant and has deterred early programs, such as Verizon's fiber-to-home plans. The City may be able work with local providers to ensure high-quality internet access remains available and up to date.

While the City cannot control all market forces, nor infuse capital into land assembly for development, it can seek ways to incentivize future users in Information, or other industries as desired. Part of the community's next steps will be to focus on whether it wants to pursue greater workforce development in the Eastside, or continue to focus on being primarily a retail area – which has benefits as well.

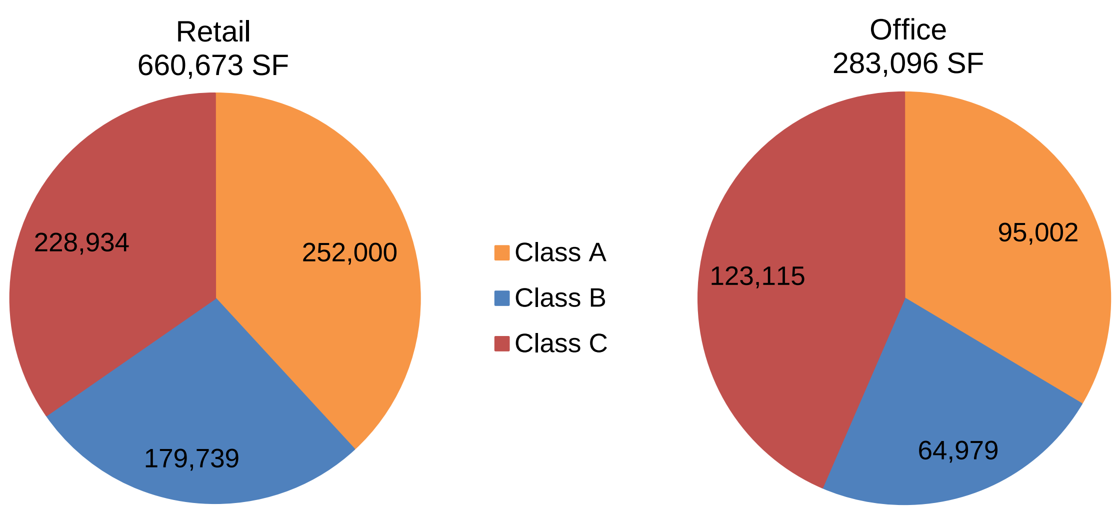
4 REAL ESTATE

REAL ESTATE

The core of a traditional market study is measuring the performance of real estate through a variety of metrics. The following section first discusses existing commercial space types, followed by retail metrics, including sales tax, sales leakage, lease and sales rates, and finally office metrics of sales and lease rates.

The Eastside's commercial land uses make up about 15 percent of the gross area in total, and include approximately 944,000 square feet of retail and office uses. Office makes up about 30 percent of the total, and based on field observations, medical office is the dominate use at this time. Figure 32 identifies existing retail and office space by building class according to CoStar. Building class is defined using a number of considerations including architecture and design, age and attributes of a structure, amenities, and site. Building class does change over time, for example, what may have been considered Class A at the time of construction would likely be downgraded to Class B 15 to 20 years later unless appropriate upgrades and investment has taken place. At this time, the Gateway Center is an example of a Class A retail space, while most of the older small markets and shops along Santa Monica Boulevard would be considered Class C.

Figure 32 – Eastside Office and Retail Space by Class



Source: CoStar 2014

Class A Characteristics: Three or more stories, high levels of architecture and design, glass and steel construction, common area amenities.

Class B Characteristics: Two to four stories, moderate levels of architecture and design, brick and stucco construction. May include outdated or obsolete Class A structures in some cases.

Class C Characteristics: One to two stories, minimal to no architectural or design features, stucco or concrete construction. May include outdated Class B in some cases.

Overall, the retail mix is quite good with a strong Class A showing for the Gateway Development, and a mix of Classes B and C for other users. In an area with a large independent retailer presence, Class C space offers the more affordable rents required by small businesses. New mixed use developments will increase the amount of Class A space in the Eastside, supporting further retail building investment.

The office mix is slightly less favorable, with almost half of the square footage as Class C. While Class C office also provides an entry point for smaller businesses, a large percentage of office space is for medical and medical-related uses, which are not as conducive to reuse as other types of office. More specifically, if the City is looking to increase the number of high-paying jobs in the production and technology fields, a larger percentage of "creative" or open floor plan office space would be more desirable.

Office growth to capture more technology and professional jobs will be a viable reuse option for some small retail storefronts, but more importantly for reuse or redevelopment of existing office uses that are less job-intense. Maintenance of locally-serving retail should remain a priority.

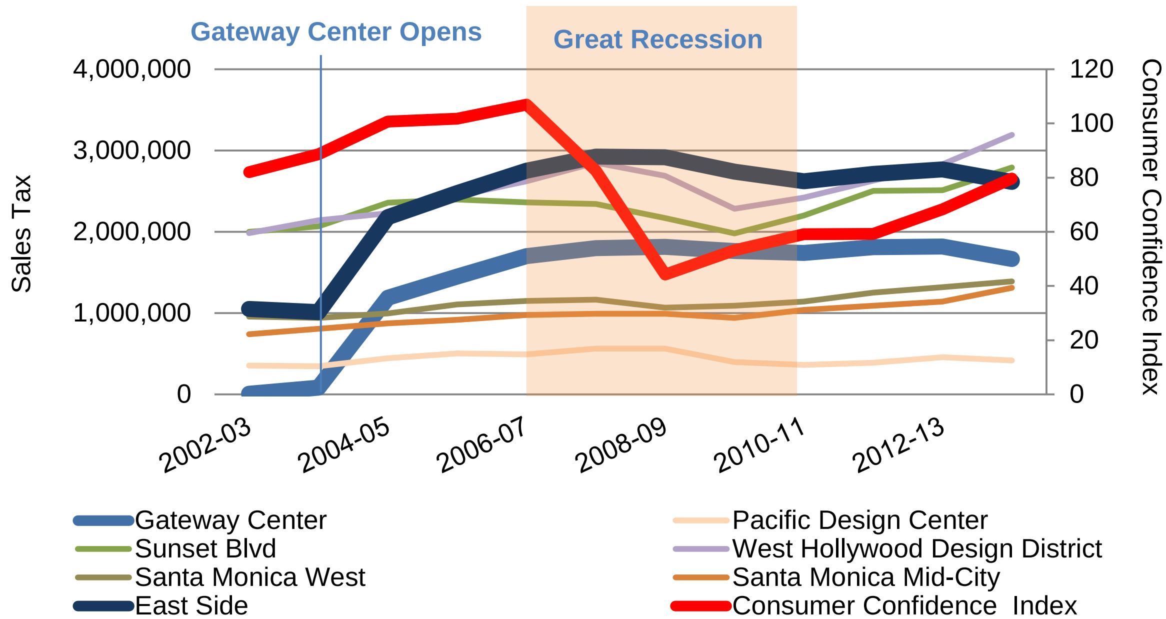
The ongoing challenges faced by all commercial uses along Santa Monica Boulevard are the small parcel sizes, and parcel depths of only about 150 feet deep, which limit redevelopment without land assembly and deter many investors. Some commercial lots are under the municipal code minimum lot size of 5,000 square feet. Approximately 50 percent of parcels are over 5,000 square feet, but under 10,000 square feet, which is still a small lot size for a modern commercial use, particularly given parking demands.

RETAIL METRICS

Sales Tax

The Eastside contributes significantly to the City's sales tax revenues. Driven primarily by the Gateway Center retail hub, the Eastside produced $2.6 million in sales tax revenue in fiscal year 2013-14, as shown in Figure 33, which identifies various areas of the City by sales tax produced.

Figure 33 - Sales Tax Revenue Trends



Sources: HdL, Conference Board 2014

On average, the Gateway Center brings in about $1.75 million in sales tax revenue per year, with the balance of the Eastside adding just under another $1 million. Interestingly, despite the sharp drop in the National Consumer Confidence Index between 2007 and 2009, City sales tax revenues saw relatively minor dips in 2009 and 2010. The next few years will be very telling for the City to track, as the Consumer Confidence Index has been trending upwards.

Overall, the Eastside remains an important sales tax contributor, however, as the bulk of the revenue is attributable to the Gateway Center, it's unlikely that natural business turnover in the remaining retail areas will have a dramatic impact upon revenues from a Citywide perspective. In other words, the existing zoning code includes provisions to safeguard retail as a component of the commercial land uses, and at this time, such provisions should be adequate to ensure enough sales tax is generated in the area as to not negatively impact the City's annual budget.

Retail Leakage

Residential incomes, and more specifically discretionary incomes, are directly related to retail demand. Utilizing consumer spending patterns reported by the US Census, as well as other proprietary data from credit card spending and business records, ESRI was used to define retail demand in the Eastside. Demand is then compared to supply for types of retail in the market area. A “leakage” report is generated (see Figure 34), identifying if existing retail exceeds demand (surplus), or fails to meet demand (leakage). It is important to note that a leakage report should not be taken on face value.

One way to look at leakage is that residents of a trade area must leave the trade area in order to consume that particular good. If there were a leakage of everyday goods like grocery stores or drug stores, leakage would be a concern as those products should be locally available. On the other hand, not all leakage is bad or unexpected. The best example is probably automobiles. Dealerships can take up quite a bit of space, and cars simply aren’t something that is consumed every day. As residents have ample car dealerships in the greater area from which to acquire a vehicle, it is not necessary that a car dealership be present in the Eastside, taking up a great deal of highly coveted space.

Similarly, a surplus may mean that the trade area cannot afford to support that particular good, and the City might be concerned with losing some stores to lack of demand. Or, a surplus can also identify a niche market – something the area is known for, and therefore creates a larger draw than the immediate trade area. In summary, it’s critical to look at leakage in a greater context.

The Eastside has virtually no leakage of retail goods. Only the "Motor Vehicle & Parts Dealers" retail category has a significant gap. In fact, the Eastside enjoys a retail surplus overall, which may be underestimated as discretionary incomes are believed to be lower than average. While new residents of the new apartment units recently constructed or in the development process will add to the retail demand, it will not materially impact the leakage or surplus enough for the attraction of more retailers than those included in the developments themselves.

Future retailers interested in the area need to be willing to carve out their own demand, as they will not be filling a supply gap

Figure 34 – Eastside Retail Leakage

Data Note: Negative numbers indicate an excess in supply while positive numbers show an unmet demand in the retail category.

Source: Esri and Dun & Bradstreet 2013

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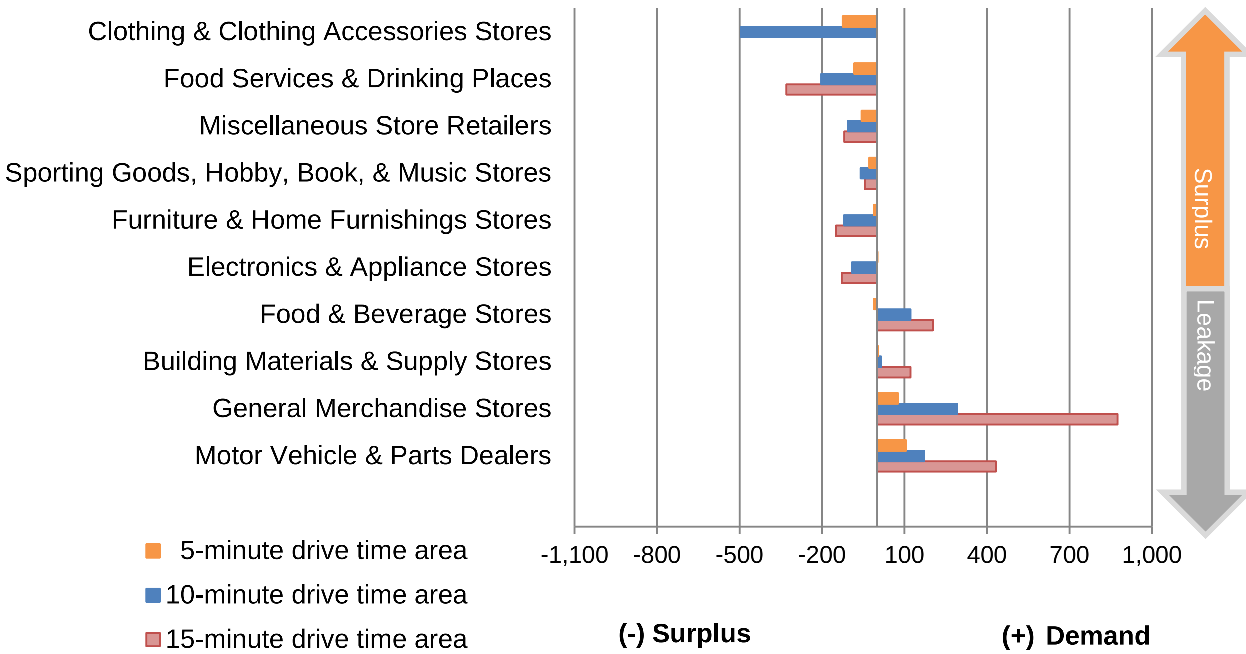
The Eastside is a very small geographic area, therefore the leakage analysis was expanded to a larger area in order to better understand the retail market. This analysis leads to similar conclusion. The 5-, 6- and 7-mile radii as shown in Figure 35 do not contain meaningful demand gaps for new retailers. Besides Motor Vehicle and Parts Dealers, General Merchandise, Building Materials and Supply, and Food and Beverage stores present some opportunities, but not enough to warrant a retail-focused development strategy in the Eastside, particularly as most of these retailers require a large floor plate area that will be difficult to assemble in the Eastside.

Figure 35 – Market Area Leakage Comparisons



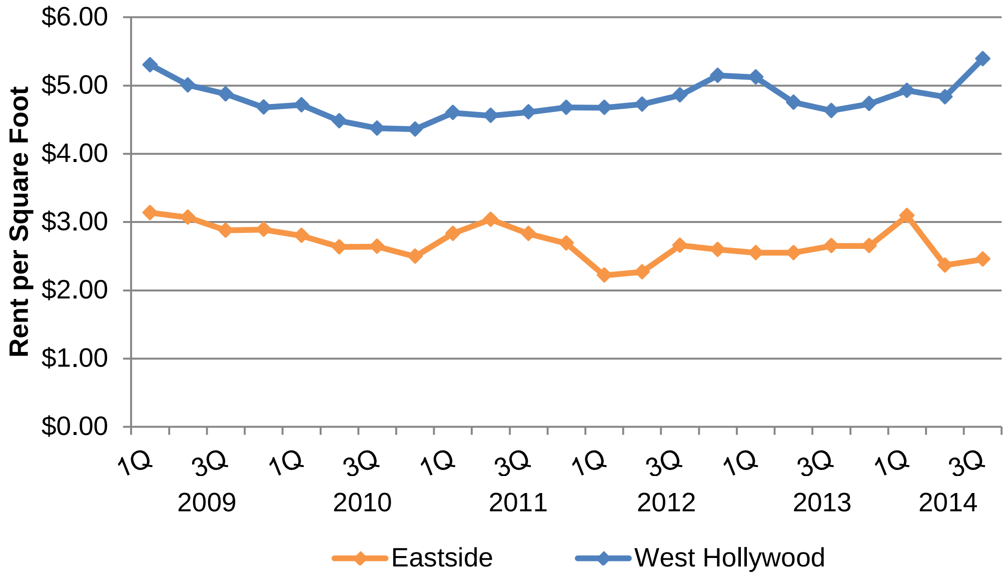
Data Note: Negative numbers indicate an excess in supply while positive numbers show an unmet demand in the retail category.

Source: Esri and Dun & Bradstreet 2013

Retail Asking Rents

Retail rents in West Hollywood have remained consistently above $4.30 PSF since 2009, reaching above $5.00 PSF several times, including currently. Retail rents in the Eastside have been equally consistent, but on average about $2.00 PSF lower than rents in the City as a whole.

Figure 36 - Retail Asking Rents

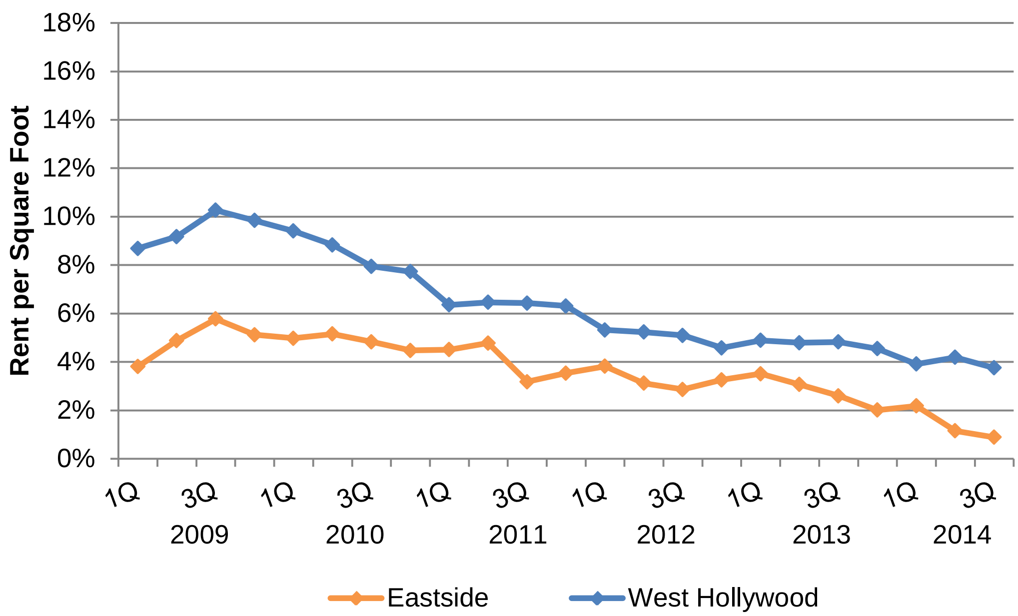


Source: CoStar 2014

Retail Vacancy Rates

Despite the relatively high retail rents, vacancies have declined from a high of 10.3% in the second quarter of 2009 to 3.8% in 2014 in the City, evidence that retailers both desire West Hollywood locations and have somewhat limited supply of space. This trend could ultimately make the area very challenging for small start-up and local businesses to use as a point of entry as demand usually leads to increased asking rents. The Eastside has historically offered comparatively inexpensive rents for the City, allowing for independent retailers and/or start-up businesses to locate there.

Figure 37 - Retail Vacancy Rate



Source: CoStar 2014

One potential result for the Eastside as rents increase is that spaces are priced out of the start-up economy. The outcome is often the influx of national credit tenant retailers, also known as chain stores. However, as discussed earlier, the retail market is saturated in the area, and chain retailers look for demand. One possibility is that a chain retailer may close a nearby location to relocate to the Eastside, if an ideal space can be located. However, for better or worse, existing retail spaces in the Eastside, exclusive of those being built in new mixed-use developments and the Gateway Center, may not suit credit tenants. Outreach to developers revealed credit tenant concerns with the small store sizes and the amount of tenant improvements that would be needed to convert an older unit to a “brandable” space. The City has an interesting opportunity at this time to influence the reuse of smaller, existing spaces as well as future redevelopment that may occur.

Maintenance of locally-serving retail is important to keeping local residents who pay a high percentage of income to rent. This amenity may need to be incentivized by the City.

Keep in mind:

- Residential incomes and rents indicate that many Eastside residents have below average disposable incomes due to high housing costs. Local-serving retail will remain critical to their day-to-day quality of life.
- While the Eastern European population has been declining, the age cohorts of 55-64 and 65 plus are not shrinking commensurately, indicating that many residents are aging in place through retirement.
- Much of the Eastside's appeal is the pedestrian-friendly nature of the community, which reduces the need for vehicle travel.

All of these factors point towards the importance of maintaining affordable community-serving retail in the area. Developers have commented that a number of up and coming chefs (a la Top Chef and similar competitions etc.) have expressed interest in opening restaurants in Eastside space coming on line, but cannot afford the rents. The interest speaks both to the recognized desirability of the area (theoretically such a restaurant would be a good fit) as well as the importance of rent pricing.

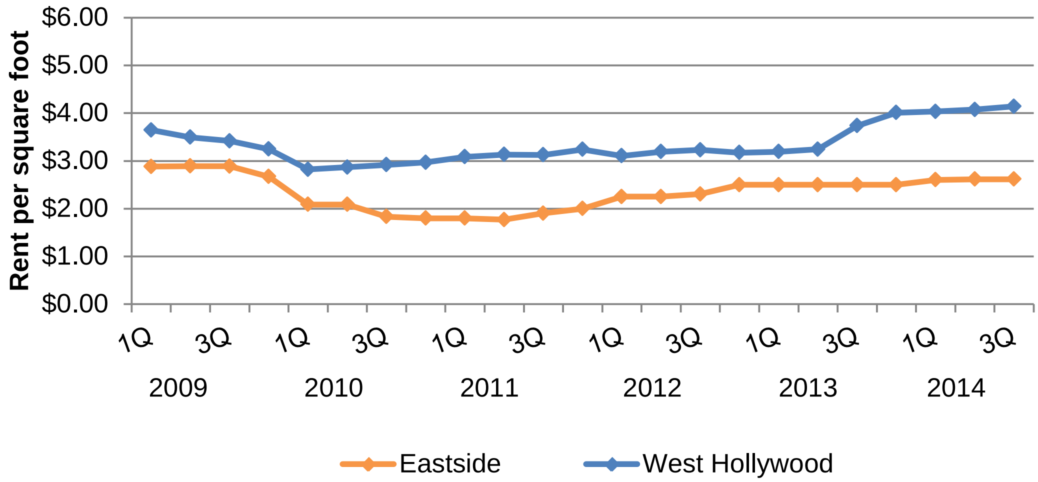
Other communities have taken a variety of approaches to similar situations. San Francisco is the most well-known Californian example, which has instituted additional City review of "formula" businesses as defined in its municipal code, and requiring a conditional use permit for occupancy. Other communities limit street frontage or gross leasable area for retail uses in order to maintain small unit sizes that are more likely to be occupied by independent businesses. The City might also consider certain incentives like density bonuses for mixed use projects that maintain below market retail rents on the ground floor; or structural rehabilitation or façade grants that impose certain covenants with the property owners for a number of years afterwards that ensures rents are affordable.

OFFICE METRICS

Office Asking Rents

The average rent for office space in West Hollywood increased steadily since 2009 to reach $4.13 PSF currently. Though CIM group was not willing to share its rents for the new creative office space at The Lot, it is believed they were slightly higher than the $4.13 PSF rate. RSG would expect the additional 100,000 square feet of planned office space by CIM to also be slightly above market. However, the audience for that property is most likely to be established firms looking to expand or relocate, and not smaller or newer production operations. These types of firms would likely be similar to the established media firms that recently leased new space at The Lot, including Funny or Die and the Oprah Winfrey Network. As with retail rents, office rents in the Eastside are below their counterparts in the City as a whole, by $1.00 per square foot on average since 2009, which is still a significant reduction at 25%.

Figure 38 - Asking Office Rents



Source: CoStar 2014

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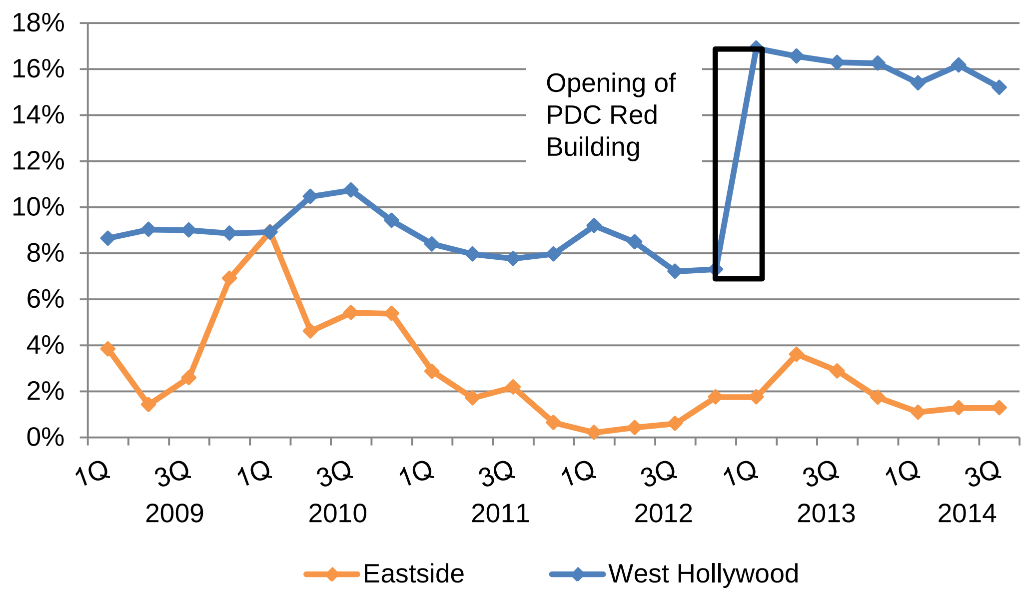
Office Vacancy Rates

Available office space in the Eastside is very limited, with a vacancy rate below 2.0% since the end of 2013 – a clear indicator of demand. The recent office building at The Lot, a 100,000-square foot building, completed in the early part of 2014, already has committed tenants from the film and television industry to use its space. The vacancy rate in the City as a whole is significantly higher, however about 60% of the vacant space in the City is part of the Pacific Design Center, without which the Citywide office vacancy rate would be less than 10%. The Red Building at the Pacific Design Center is over 400,000 square feet of office and not yet leased.

Figure 39 - Office Vacancy Rate



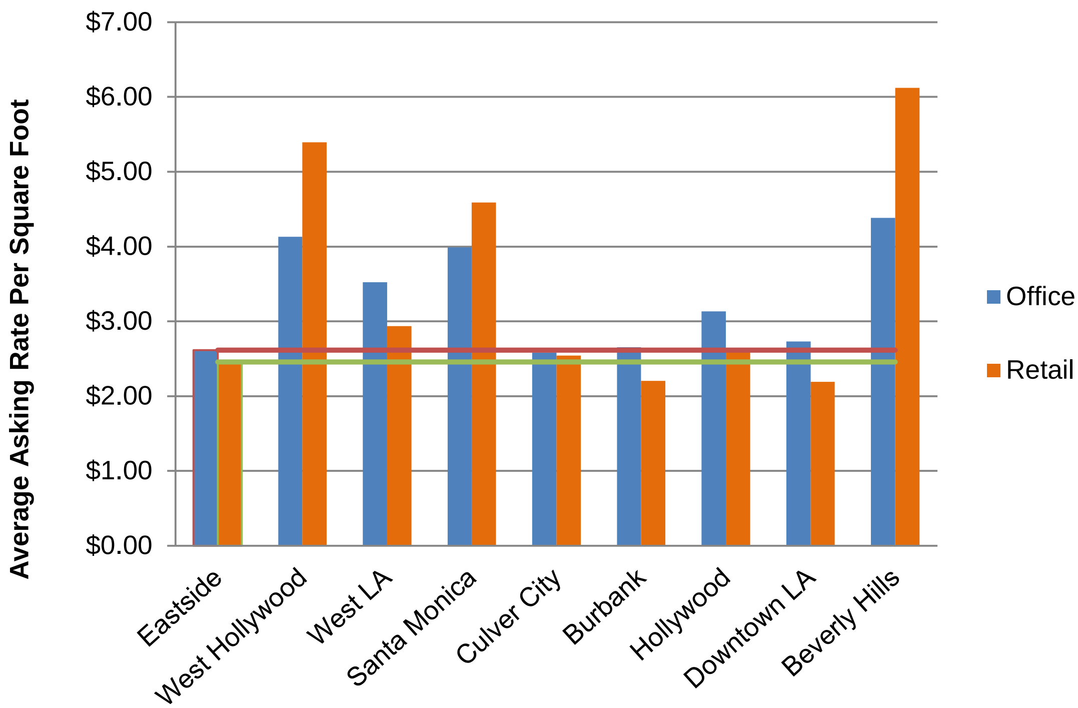
Source: CoStar 2014

LEASE AND SALES RATES REGIONAL COMPARISONS

Lease Rates Regional Comparison

Current asking commercial rents in West Hollywood as a whole average $4.13 per square foot ("PSF") per month for office space and $5.39 PSF per month for retail space, which places it above nearly all competing areas with the exception of Santa Monica and Beverly Hills. The Eastside experiences lower asking rates; Culver City, Burbank, Hollywood, Downtown LA, and even West LA could be considered "peer" areas, with competitive lease rates as seen in Figure 39.

Figure 39 –Lease Rates by Property Type and Jurisdiction (3rd Quarter 2014)



Source: CoStar 2014

Sales Rates Regional Comparison

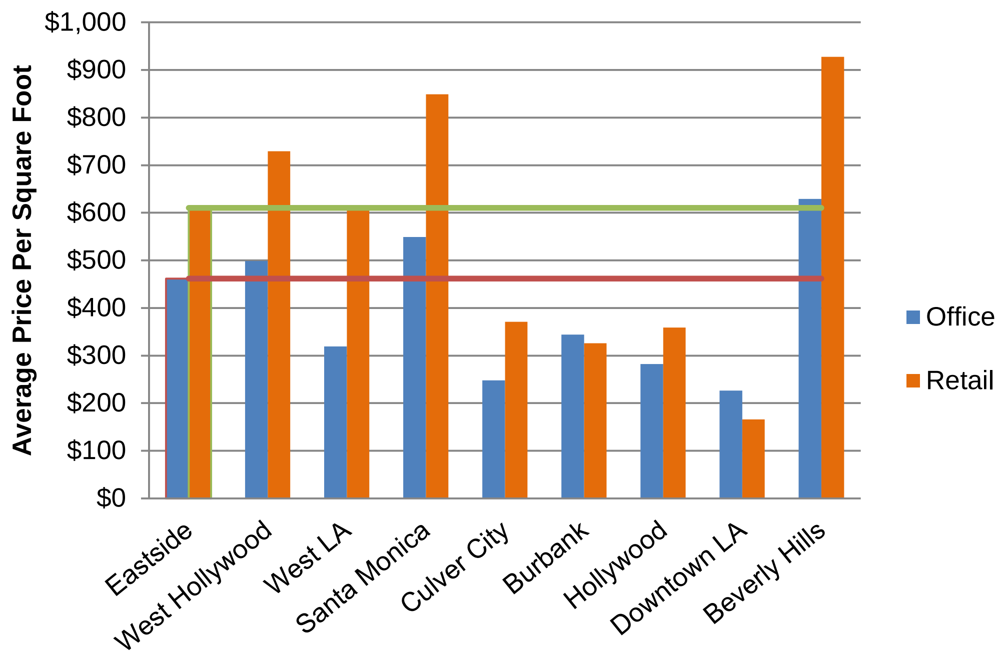
Recent property transactions show a very interesting trend in the Eastside though, where properties are selling at rates above the Eastside's rental market peers of Culver City, Burbank, Hollywood, and Downtown Los Angeles. These sales prices are showing the long-term effects of the investment and developer interest in the Eastside, making it a more expensive ownership market. Developer outreach has indicated that the Eastside is no longer being looked upon as a less viable area than the west side of the City, but in fact a place that is ripe with opportunity for those with the means to assemble and redevelop property.

Based on recent sales, property values are rising, rents will follow.

Higher land sales prices are, more specifically, an assurance that the investment community believes commercial space in the Eastside can command a higher asking rent than it does on average now. As recent property sales values in the Eastside are very similar to the City as a whole, rents are likely to increase to more closely mirror City lease averages in order to make investment "pencil" for new owners.

There are repercussions for rising lease rates as discussed. During RSG's business survey, three businesses indicated they had located in the Eastside because they had the ability to purchase property there. This option will decline in viability for independent retailers or businesses. Furthermore, while a vast number of smaller Eastside tenants have held their spaces for ten or more years, and appear to have "settled" into landlord relationships that often result in almost no property improvements, rents are likely to spike to accommodate rising land values as tenants and owners turn over making entry into the market area more challenging for small businesses.

Figure 40 – Sales Prices by Property Type and Jurisdiction (2012-2014)



Source: CoStarr 2014

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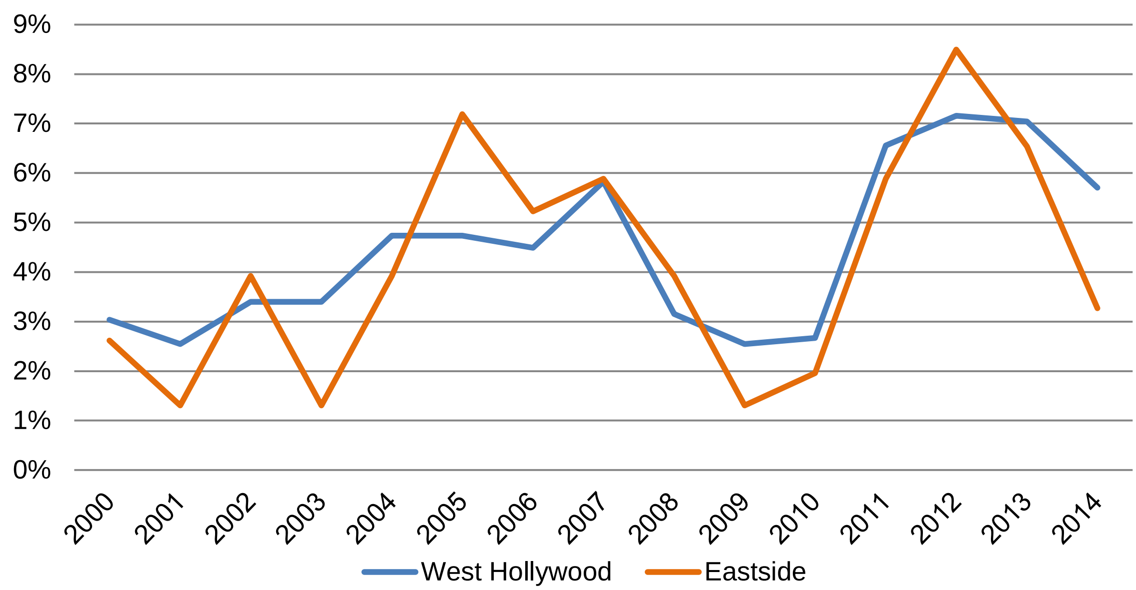
COMMERCIAL TURNOVER

The final metric examined is commercial turnover, which supports the prior analysis of lease and sales values of properties. The Eastside has seen two notable peeks in investment. The first was in 2005, where the real estate market was booming and investors were seeking out secondary and tertiary market areas that were likely to support higher lease rates such as the Eastside. As with the entire nation, this interest dropped off with the Great Recession. However, starting again in 2012, sales of commercial property in West Hollywood grew significantly. There were close to $107 million worth of retail properties sold in the second quarter of 2012, $39 million worth of office properties sold in the third quarter of 2012, and almost $30 million worth of retail properties sold in the second quarter of 2014. In addition, sales in between these two periods were fairly consistent, averaging almost $12 million per quarter. It is clear that the investor community sees the Eastside as a place where money can be made.

Currently, there are 153 commercial parcels in the Eastside. A little more than half (54%) have sold in the last 10 years. The Citywide average is about 4.5% annual turnover, which is a bit high, in RSG's experience, but not completely atypical. The turnover rate in the Eastside – an area that was considered to be stagnant with no investment 20 years ago – has made a remarkable turnaround.

Figure 41 –Commercial Property Turnover Comparison



Source: First American CoreLogic 2014

Given the highly developed nature of the area, future investment and development is likely to be redevelopment of underutilized sites. Developers would seek out larger lots to the best of their ability in order to limit the amount of land acquisition required. A limited number of lots containing larger office buildings or carwashes in the Eastside present the most likely candidates for eventual reuse. The smaller street front retail buildings are often in multiple ownership, and do not have lot depth adequate enough for redevelopment. However, the City may see some private consolidation of adjacent parcels to develop a larger retail unit as many existing spaces are small in nature, well under 1,000 square feet based on field observations.

KEY REAL ESTATE TAKE-AWAYS

- Small lot sizes and multiple ownership issues continue to present an investment challenge, but the development community is proving it may be worth the effort right now.
- An increase in land values is being followed by an increase in commercial rents. While investment is critical to long-term viability of the Eastside, it may also act as a deterrent to independent retailers or start-up businesses.
- Vacancy rates are low in Eastside, indicating high demand for commercial uses and supporting increased lease rates.
- Based on retail leakage indicators, there is no gap in the retail market. New shops and restaurants will most likely be successful if they fill a particular niche or add cache to the area. There is a history of successful independent retail in the area and that trend will likely continue.
- Existing office uses, both those occurring in spaces that could be retail use as well as those concentrated in largely medical office may be encouraged for reuse or even redevelopment into land uses with higher employment density to accommodate expansion.
- Parking will remain a challenge for all commercial uses, particularly for those that redevelop or change.

5 NEXT STEPS

NEXT STEPS

Redevelopment in the Eastside has been successful thus far, including public engagement and careful planning for new developments. Overall, improvements have been well received by the existing retail community, and certainly by the investment community which has renewed its interest in the Eastside over the last few years. The Eastside Community now faces the challenge of setting the course for the future after a long period of relative stagnation has ended. This final section summarizes the opportunities and constraints facing the Eastside, highlighting key decision points to be addressed in the Community Plan.

HOUSING OPPORTUNITIES AND CONSTRAINTS

As an area primarily comprised of multi-family residential uses, the future of the Eastside is deeply entwined with its population. Moreover, most recent investment has been an expansion of residential uses with high lease rates and amenity-driven apartment complexes. This market will continue to draw younger, working professionals that are seeking the right location for their lifestyle, which is likely to be a bit more upscale than the audience has historically been.

Opportunities

- Redevelopment of underutilized parcels, including commercial properties, for new multi-family residential
  - Perceived high quality of life in area
  - Millennial generation leans towards rental
- Rehabilitation of aging housing stock could continue to provide for lower comparative rents but still contribute to the overall viability of the area
  - Could add units or improve quality of existing units
- Potential future integration of for-sale options, either through new development (most likely condominiums) or through the conversion of rental units to condominiums.
  - Diversifies the market to retain residents that are interested in owning.

Constraints

- Older housing stock is a financial challenge to maintain. Even the highest construction standards 60 years ago are subject to degradation over time. Additionally, things like standard window and door sizes have changed over the years, making replacement of even basic items more costly for owners. As rents continue to rise and vacancies remain low, there is little incentive for property owners to invest in their properties, especially when even minor improvements are costly.
- There are limited ownership opportunities for those that may wish to invest in their own home, driving them out of the area.
- Limited units are available to accommodate families, particularly with multiple children.
  - People starting families will most likely continue to move away, just when they are reaching levels of financial stability that would support higher-end retail and restaurant uses that are coming into the Eastside.
- Parking requirements continue to be an issue for many uses.

  - Can increase costs for new development that has to utilize structured parking, or is prohibitive to a change of uses such as converting existing retail to a restaurant use.

RETAIL OPPORTUNITIES AND CONSTRAINTS

Santa Monica Boulevard has been, and remains, a retail environment. Its walkability and unique nature make it a perfect accompaniment to the residential areas north and south of it. However, as new investment drives lease rates up, the ability of independent retailers to be successful will be challenged. Furthermore, the Eastside is able to support more office uses, which begs the question as to whether the area should remain as focused on retail as it has been, or plan for more flexible uses.

Opportunities

- The City could seek to incentivize small, local retailers by placing limitations on gross leasable areas or linear storefront sizes, having additional review procedures for chain retailers, or similar policies.

- When new developments are presented, the City could work with developers to encourage smaller floor plates and seek locally invested or interested tenants.

- Older units continue to provide some entry-level spaces. The City may encourage owners of older, Class C buildings to continue to invest in their properties by considering grant programs that foster investment without overly incentivizing rent hikes.

- The limited discretionary income of most residents will continue to support local-serving retail and services in the Eastside.

- With demand for office, and the desirability of higher-wage jobs, future policies can consider incentivizing the conversion of older retail spaces to Flex and office uses.

Constraints

- As seen in the leakage reports, there is very little unmet demand for new retail. This means local retailers need to be more business savvy than in areas where the “right” location will bring in business through high demand.

- Rising rents can discourage independent retailers.

- Parking requirements are difficult to meet on-site for conversion of retail to restaurant or new use. Pooled or credit programs may be effective, or, if necessary, more drastic measures to help fund publicly available parking lots that are metered or have monthly fee charges.

OFFICE OPPORTUNITIES AND CONSTRAINTS

Office uses are currently focused largely on older medical or medical-related uses, with the notable exception of The Lot and the influx of technology and production related businesses. Medical use buildings are typically constructed to certain standards that behoove that industry specifically, and are difficult to repurpose. In the future, while medical uses will remain important, they may not be needed in the volume currently found today.

Opportunities

- Reuse of older space for tech-related or professional “start ups” is a very viable option with the right infrastructure.
    - Recent clustering of production industries
    - Synergy from The Lot
    - Proximity to Beverly Hills for employees
- The conversion of existing medical uses to employee-rich office buildings is possible with significant rehabilitation or redevelopment to attract more users with higher wage jobs.
- Additional jobs, that are already those sought by residents, will keep residents working locally and increasing the balance between costs of living and wages.
- The community must carefully evaluate policies on office vs. retail uses to determine how to focus its business outreach and land use planning efforts.

Constraints

- Rising lease rates can be a barrier for companies that are sensitive to high costs.
- Older building stock is not always conducive to incoming uses.
    - Former medical or older retail is not attractive to industries seeking amenities, “creative space” etc., particularly those that are more established firms and able to afford higher rents.
- Limited on-site parking remains an issue for all uses.
- Outdated/slow internet infrastructure may deter technology firms, particularly if the City falls behind its competition from Santa Monica and the Silicon Beach area.
- Current medical office use has low employee per SF ratio, which reduces the available jobs of the Eastside.
- Shifts in office use for the new generation of employees are a bit of a wildcard. On the one hand, the Eastside offers a number of attractive amenities including its unique character, on the other hand, telecommuting and “hotel-style” office space (on-site employee is assigned a desk for the day) is becoming more common which will influence the amount of investment occurring in future office uses.

6 Appendices

APPENDIX 1 –INTERVIEWS WITH LOCAL REAL ESTATE DEVELOPERS

METHODOLOGY

RSG staff members reached out via phone or email to real estate developers working on the Eastside. The following are some sample questions that were asked:

1. What was the impetus for your project?
2. What do you expect your target audience will be for your development?
3. What are your expected asking rents for residential and retail?
4. What marketing strategy, if any, did you employ to advertise your development?
5. Why apartments and not condos?
6. What sort of retailers do you envision?
7. What is your business model following development and occupancy?

FINDINGS

- National credit tenants might be preferred, but the area is already relatively saturated.
- There are good opportunities to purchase land on the Eastside.
- The Eastside is still West Hollywood, which is a very attractive area to developers.
- Rental prices in newer buildings are very high.
- Many residents have dogs.
- Few residents in newer buildings have children.
- Leasing of retail spaces has been slow, but developers do not seem too worried. They are just waiting for the right tenants willing to pay relatively high rental prices.
- Parking is difficult in the area.
- Developers feel there could be a market for a mid-range hotel. This would cater to people that cannot afford more expensive options throughout the City or business travelers.

APPENDIX 2 – INTERVIEWS WITH BUSINESS OWNERS

METHODOLOGY

RSG staff members walked through the Eastside and spoke with business owners when available and willing, and in some cases with employees. Small, independent businesses were targeted with a focus on identifying why they located or continue to operate in the Eastside; whether their customer base consists mostly of Russian speakers, local residents, or other areas of draw; and what kinds of trends they have noticed in their business, customers, and the neighborhood. RSG also reached out by phone to several specific business owners that were not available during the field work. A total of 27 businesses participated in the field survey or phone discussions.

Russian[11] business owners were almost always surveyed in Russian in order to make them feel more comfortable answering questions. A few Russian business owners chose to speak in English. Questions were customized based on the participant's willingness to interact, the type of business, and earlier answers from other businesses.

FINDINGS

- Among the most common businesses are those selling Russian language-oriented groceries, elderly-oriented goods and services, and clothing. Other commercial land uses include automotive repair stores, two large-format grocery stores, two car washes, two automotive rental businesses, pawn shops, service retails such as nail salons and dry cleaners, pet supplies and grooming, and an assortment of credit tenant retailers located in the West Hollywood Gateway.

- Many of the businesses, particularly the ones owned by and oriented toward Russian speakers, have been owned by their current owners for a long time. The average length of tenancy among all businesses is twelve years; some businesses have been in operation for as many as 30 years.

- Everyone concurred that the local area is becoming less Russian and younger. Several people said that many Russians are moving to more affordable areas in Santa Monica and the San Fernando Valley. Since many of the Russian residents are senior citizens, mortality also plays a role in the decline of the local Russian population. High housing costs were widely recognized as one of the most influential factors in the local client base.

- Business owners who rely more on Russian clientele felt that this demographic shift will hurt their businesses. Owners and employees of businesses directed at more affluent and/or younger audiences were generally happy to see more of their target audience attracted by the new development.

- The surveyors noticed that the neighborhood includes many medical offices. Although the occupants of these offices were not surveyed, several of the surveyed business owners and employees noted a connection among the high proportion of older residents,

[11] *RSG recognizes that there are many distinctions and conflicts among Russian speakers, including people from various former Soviet Republics, people from former Soviet bloc countries, and Jews of Soviet origin. For the sake of simplicity, this summary of findings refers to all of these subgroups as Russian because of their common consumer preferences within West Hollywood and shared language.*

the presence of medical offices (largely with Russian-speaking doctors), and businesses focused on goods and services for the elderly.

- In addition to the pet food and pet service stores, there were two fitness studios, several bars, and several cafes / restaurants, all of which are geared toward a younger customer base than the elderly Russian population served by the medical offices and medical supply stores.

- Respondents had mixed feelings about whether the Eastside had changed over time and whether those changes were positive. Some said that it has gotten better with new development and public improvements. Others said that the community has gotten worse, citing homelessness and dirty streets as causes of community deterioration.

- The home furnishing store and the motorcycle sales and repair store are notable for their regional and even international customer bases. In both cases, the opportunity for the business owners to own the buildings is a primary reason for their current location.

- Several businesses identified larger trends that are presenting challenges to operational success. State and national changes in public policy relating to medical insurance are making it more difficult for businesses specializing in elderly-oriented goods and services. Internet commerce (i.e., internet-based retailing) was cited a couple of times as making it more difficult for brick and mortar stores to compete.

- The surveyors noticed that a couple of Russian groceries (identified by their business names still on the building) have gone out of business. One of them was temporarily used as a dance studio for children until its recent sale to an undisclosed buyer.