

SUBJECT: EASTSIDE MARKET STUDY UPDATE

INITIATED BY: COMMUNITY DEVELOPMENT DEPARTMENT

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STATEMENT ON THE SUBJECT:

The City Council will receive an update on the completed Eastside Market Study by Rosenow Spevacek Group (“RSG”) to provide background information for the upcoming Eastside Community Plan.

RECOMMENDATION:

1) Receive and file.

BACKGROUND ANALYSIS:

*Overview of Study*

The Eastside Market Study (“Study”) is intended to serve as a technical background document to inform the Eastside Community Plan. The Study provides an overview of changing demographics and market dynamics in the Eastside, which is defined by the City’s blocks north and south of Santa Monica Boulevard, from Hayworth on the west to La Brea on the east. RSG is a consultant firm that specializes in real estate analysis and economic development strategies. To complete the Study, RSG –

- Collected and analyzed demographic and census data, real estate information on land leases, sales, vacancies, and tenant types, and sales tax data
- Reviewed relevant city reports and data;
- Performed a field survey, which included meetings with 25 business owners, speaking with them in English and in Russian about their customer base, business trends, and changes in the neighborhood;
- Interviewed three developers of large new projects in the Eastside and the Chamber of Commerce on market trends, target tenants, and development opportunities and barriers that impact business and development;
- Presented preliminary findings to the Eastside Working Group for comment and input; and

- Worked closely with staff from Long Range and Mobility Planning and Arts and Economic Development.

The Eastside Market Study (Attachment A) seeks to answer the following questions:

1. Who lives in the Eastside? How is the residential population changing?
2. Who works in the Eastside? What business sectors are growing in the area? What sectors have potential for further growth?
3. What is the condition of the existing building stock? Does it suit the needs of current and future commercial tenants? How are rents and vacancies changing? How does the real estate market compare to other parts of the City and region?

Answering these questions is a critical first step to having informed and productive conversations with the community and Eastside Working Group to develop recommendations for the Eastside Community Plan. RSG presented key findings from the Study, discussed below, to the Eastside Working Group on October 22, 2014. Raimi & Associates, the lead consultant of the Eastside Community Plan has included RSG as a team member. Hence, RSG will continue to work with the City, community, and Eastside Working Group to identify and evaluate economic development and real estate strategies based on their findings for the Eastside Community Plan.

#### *Key Findings from the Eastside Market Study*

The Eastside Market Study shows that the real estate market is quite strong in the Eastside with low vacancies, rising rents, and a flux of new residents and employees coming to the area to live and work in new development and growing sectors. Below is a brief summary of the key findings from the Study, which are discussed in detail in the full report (Attachment A).

1. **The Eastside real estate market is strong.** The Eastside Redevelopment Area was very successful in leveraging public investment to increase property values. Over fifteen years, the assessed property value of the Eastside grew by 181% from \$409 million in 1997 to over \$1 billion in 2012. These investments laid the ground work for the recent boom of private investment to the area (e.g. the Huxley and the Dylan, expansion at the Lot, Movietown, and Domain/Faith Plating), which when taken together have an estimated worth of \$400 million. In the last 10 years, over half (54%) of commercial properties were sold in the project area, suggesting a strong interest in owning commercial real estate in the Eastside.
2. **Average household incomes for Eastside residents (around \$30,000/year) are lower than their neighbors in Los Angeles and other parts of West Hollywood (around \$55,000/year).** Despite lower than average incomes, the cost of housing in the Eastside is high with studio-unit rents ranging from \$1,300 in rent controlled units to \$2,500 in new, market-rate buildings. Lower than average incomes and high rents limit disposable income that could be spent in the area on dining, shopping, and other

services.

3. **The Eastside population is changing.** The young professional population (25-44 years) is growing, while the elderly population (over 65) is declining. The Russian-speaking population is also shrinking as Eastern European immigrants age and no new immigrant population is entering the Eastside to maintain that presence.
4. **Most people are commuting to and from the Eastside; only 6% of the employed Eastside population live *and* work in the area.** While the Los Angeles region is known for its “jobs-to-housing mismatch” where a high percentage of the population leaves their neighborhood to commute to work, the Eastside jobs-to-housing mismatch is particularly high. Approximately 94% of employed Eastside residents leave the area for work. Census data shows that a high percentage of Eastside residents work in the Arts & Entertainment sector (typically a higher paying sector) and commute to jobs in Downtown LA, Burbank, Studio City and Century City. This differs from the data on Eastside employees, many of which work in retail (typically low paying jobs) and commute from East Hollywood, Koreatown, the Valley, and Beverly Hills. New high-end office development and apartments in the Eastside may help reduce this imbalance.
5. **Asking rents for retail and office space in the Eastside are below the City average.** Rents in the Eastside are comparable with Culver City, Burbank, Hollywood, and Downtown LA, but are lower than Santa Monica, Beverly Hills, and the greater West Hollywood area. However, vacancy rates for retail and office space in the Eastside are very low, showing strong demand for space and a potential for rents to increase.
6. **Rents for new residential and commercial space are significantly higher than those for existing buildings.** New buildings in the area offer a wide array of amenities for tenants (e.g. gyms, screening rooms, communal kitchens for cooking classes). These amenity-rich buildings will attract a new demographic of residents and employers that can afford higher rents.
7. **The Eastside market for retail and restaurants is saturated.** In other words, there is almost no unmet demand for retail shops in the Eastside with the exception of Auto Repair & Parts shops. The surrounding area is also saturated with retail shops and restaurants. This suggests that new shops and restaurants seeking to be successful in the Eastside meet a special niche or have caché.
8. **There is some clustering and job growth in the Information, Construction, and Real Estate sectors.** There may be additional growth and clustering in production related industries that are synergistic with the new creative office space tenants at the Lot (e.g. Funny or Die and the Oprah Winfrey Network).

**9. Future development and business expansion may be hindered by small commercial lots with dispersed ownership patterns, aging building stock with few amenities, and constraints on public parking to serve businesses that cannot provide parking on-site.**

RSG continue to work with the City, community and Eastside Working Group as part of the consultant team working on the Eastside Community Plan. As part of this Plan, RSG will continue to explore the findings discussed above and identify and evaluate economic development and real estate strategies for the Eastside.

Staff will return to City Council in early 2015 to give a presentation on the findings from the Eastside Market Study.

CONFORMANCE WITH VISION 2020 AND GOALS OF THE GENERAL PLAN

This item is consistent with the Vision 2020 Primary Strategic Goals and Core Values to promote economic development.

This item is consistent with the *General Plan 2035* Goal ED-9 to continue the revitalization of the Eastside Redevelopment Area.

EVALUATION

The Eastside Market Study will be incorporated into the overall Eastside Community Plan, which will identify economic development strategies for the Eastside project area.

ENVIRONMENTAL SUSTAINABILITY AND HEALTH:

The Market Study provides useful information for the development of the Eastside Community Plan, which will include goals and policies relating to environmental sustainability and community health.

OFFICE OF PRIMARY RESPONSIBILITY:

Long Range and Mobility Planning Division (Community Development Department)

FISCAL IMPACT:

None

ATTACHMENTS

A. Eastside Market Study