The background image shows a wide city street with multiple lanes, lined with commercial buildings and parked cars. A blue semi-transparent overlay covers the entire image. In the upper left, a billboard is visible with the text "Start paying your own mortgage! We can help." and the "Aphs" logo. On the right side, a building with a sign that reads "TERRA MIA COFFEE" is partially visible.

City of South Gate Specific Plan for the Gateway District

Task 3.3 MARKET ANALYSIS

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 - Gateway District Specific Plan Location
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 - Qualitative Demand
 - Retail
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1. INTRODUCTION AND SCOPE OF WORK

The City of South Gate is currently evaluating different development scenarios for the Gateway District Specific Plan (“GDSP”) area. As part of this effort, AECOM Economics was requested to help identify the potential market for residential, flex space, retail and hotel uses for the GDSP area.

The scope of work included demand analysis for residential and flex space, with a high level review of indicators of demand based on performance metrics and previous studies for retail and hotel uses.

Information provided herein is a market analysis, which is intended to assist with formulating development scenarios and to be used as inputs for future financial feasibility testing. The analysis also assumes the eventual addition of a light rail station in the GDSP area.

2. BACKGROUND

- Gateway District Specific Plan Location
- Surrounding Market Area
- Field Survey & Broker Interviews

Geographical Location

Regional Market Position

- Proximity to I-710 allows for excellent regional accessibility.
- The area is centrally located within the southeast Los Angeles market.

Local Market Position

- The GDSP site is located across Atlantic Avenue from Azalea Shopping Center and only minutes from I-710.
- Currently, the GDSP site's primary land use is industrial and offers opportunities for a variety of land uses to be integrated into the site.



Gateway District Specific Plan Area location within South Gate. Source: Google Maps

Field Survey

A field survey was conducted by AECOM on January 26, 2016. During the field survey, area characteristics were reviewed firsthand with a focus on existing land uses, newer developments, proposed projects and also particular attention was paid to the proposed location of the future light rail station and how the station could impact future land uses.

Summary of Findings

- Transitioning area ranging from heavy industrial uses near the I-710 Freeway to new retail development at Azalea shopping center.
- Rear loaded commercial development along Firestone Boulevard leaves impression that most buildings in this area are vacant.
- Heavily trafficked intersection at Firestone Boulevard and Atlantic Boulevard. (+78,000 ADT).
- Light rail station could dramatically alter future land uses in this area.
- Challenging pedestrian-level infrastructure in terms of safe walkability of the GDSP area.



Azalea Shopping Center. Source: AECOM



Storefront on Firestone Blvd. Source: AECOM

Broker Interviews

AECOM conducted six broker interviews in February 2016 to gain a better understanding of current market trends and demand for residential, flex, retail, and hotel uses in the GDSP area. Only commercial brokers with active commercial listings in and around the immediate GDSP vicinity were contacted.

Summary of Broker Interviews

- Retail and housing are the top uses brokers noted as potentially successful development uses in the GDSP area.
- Brokers also reported there is a housing shortage in the area; they believe that market rents could support new apartment development.
- Retail in the GDSP could succeed since Azalea has taken retail demand from other surrounding commercial corridors; any retail in the GDSP area could benefit from the traffic being generated by Azalea.
- Currently there is a limited market for flex space in South Gate, however, this is due to the fact that there is no flex product in the market. If an attractive flex product were developed in South Gate it might generate increased flex demand.
- South Gate is a respected industrial market but the product is aging and users looking for newer stock are attracted to nearby Santa Fe Springs over South Gate.

Market Demographics

Compared to other cities in the area, South Gate has one of the larger populations, higher median age, and higher median household income.

	South Gate	Bell	Bell Gardens	Cudahy	Downey	Huntington Park	Lynwood
2015 Population	94,973	35,403	42,524	24,278	113,968	58,935	71,293
2020 Population	96,544	35,748	43,353	24,929	116,573	60,313	73,168
2015 Households	23,401	8,816	9,750	5,734	34,352	14,801	14,971
2020 Households	23,796	8,886	9,942	5,900	35,101	15,155	15,373
2015 Average HH Size	4.14	3.93	4.32	4.23	3.30	3.96	4.58
2015 Median Age	29.8	29.1	27.6	27.3	33.9	29.2	28.5
2020 Median Age	31.7	30.9	29.5	29.1	35.1	31.1	30.2
2015 Median HH Income	\$43,518	\$36,770	\$38,219	\$39,268	\$58,845	\$35,953	\$44,598
2020 Median HH Income	\$50,395	\$42,573	\$42,399	\$43,424	\$68,490	\$40,107	\$51,300

Source: ESRI

3. Market Analysis

- Residential
- Flex
- Retail
- Hotel

RESIDENTIAL

- Demand for new residential household units in the Total Market Area
- Demand for new residential household units in the GDSP

Residential Market Characteristics

The Market Analysis helped determine demand for new residential units in the Total Market Area and in the GDSP.

South Gate offers affordable options for buying a home in Los Angeles County. The median home sale price in LA County is \$519,400, which is 29% higher than the median home sale price in South Gate.

South Gate Residential Market

Median Home Sale Price	\$366,538
Median Sale Price per SF	\$334
% of HH Owner Occupied	46%
% of HH Renter Occupied	54%

Source: ESRI, Zillow



SFD in South Gate: 3277 Minnesota Ave. Listing Price: \$385,000



SFD in South Gate: 8109 San Luis Ave. Listing Price: \$349,900

Rental Market Comps

Calden Court Apartments

- Opened in 2015, the only new MFR product to enter the South Gate Market since 2008
- 216 units, 100% affordable
- Currently at 78% occupancy
- 151 units absorbed in 2015 and 17 units absorbed in 2016 YTD.



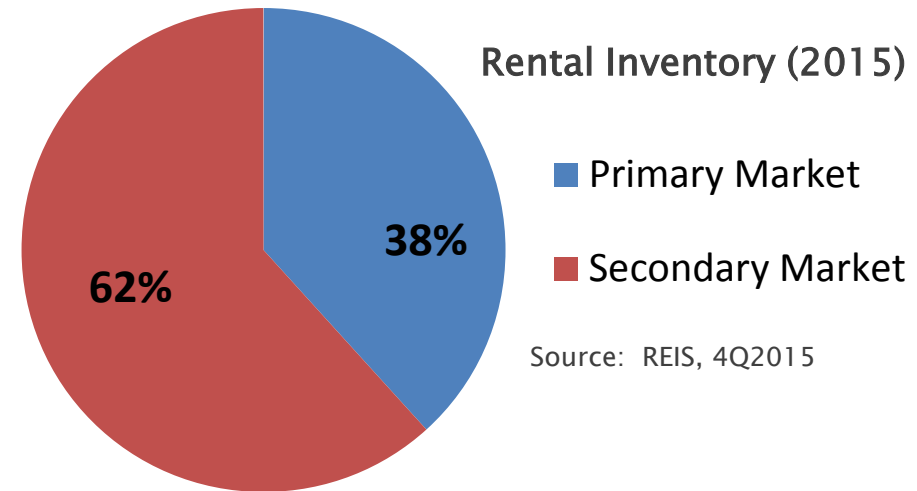
Source: CoStar, City of South Gate

Rental Market Characteristics

The Primary Market, the City of South Gate, consists of 14,065 rental units, or approximately 38% of the total market area's rental stock.

The Secondary Market has 22,688 rental units and represents 62% of the total market area's rental stock.

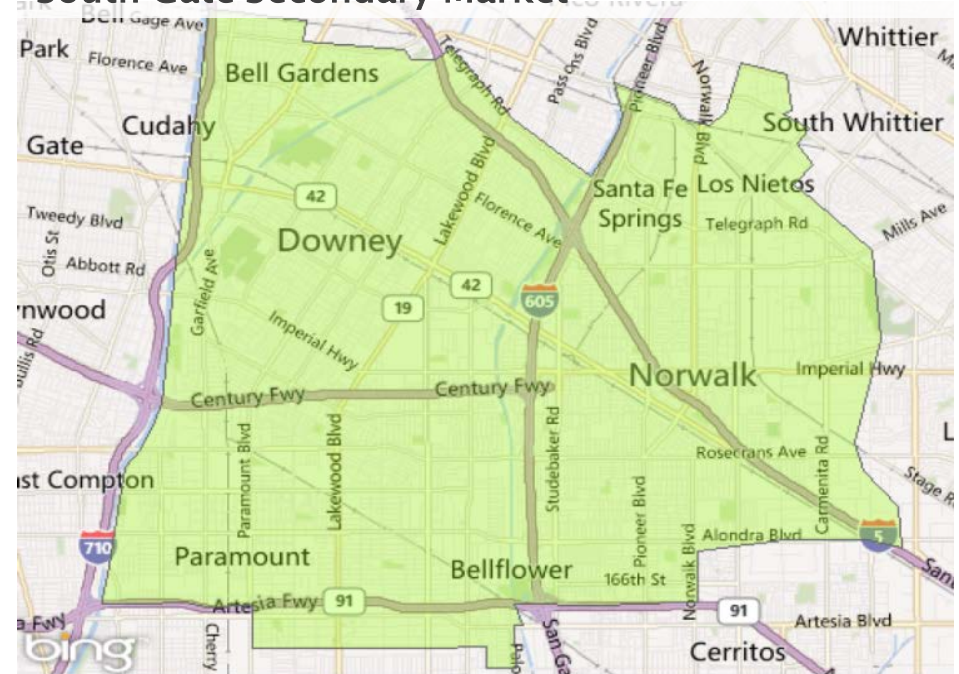
These two markets combined will be referred to as the Total Market Area and represent 5% of the rental housing stock in the LA Metro area.



South Gate Primary Market



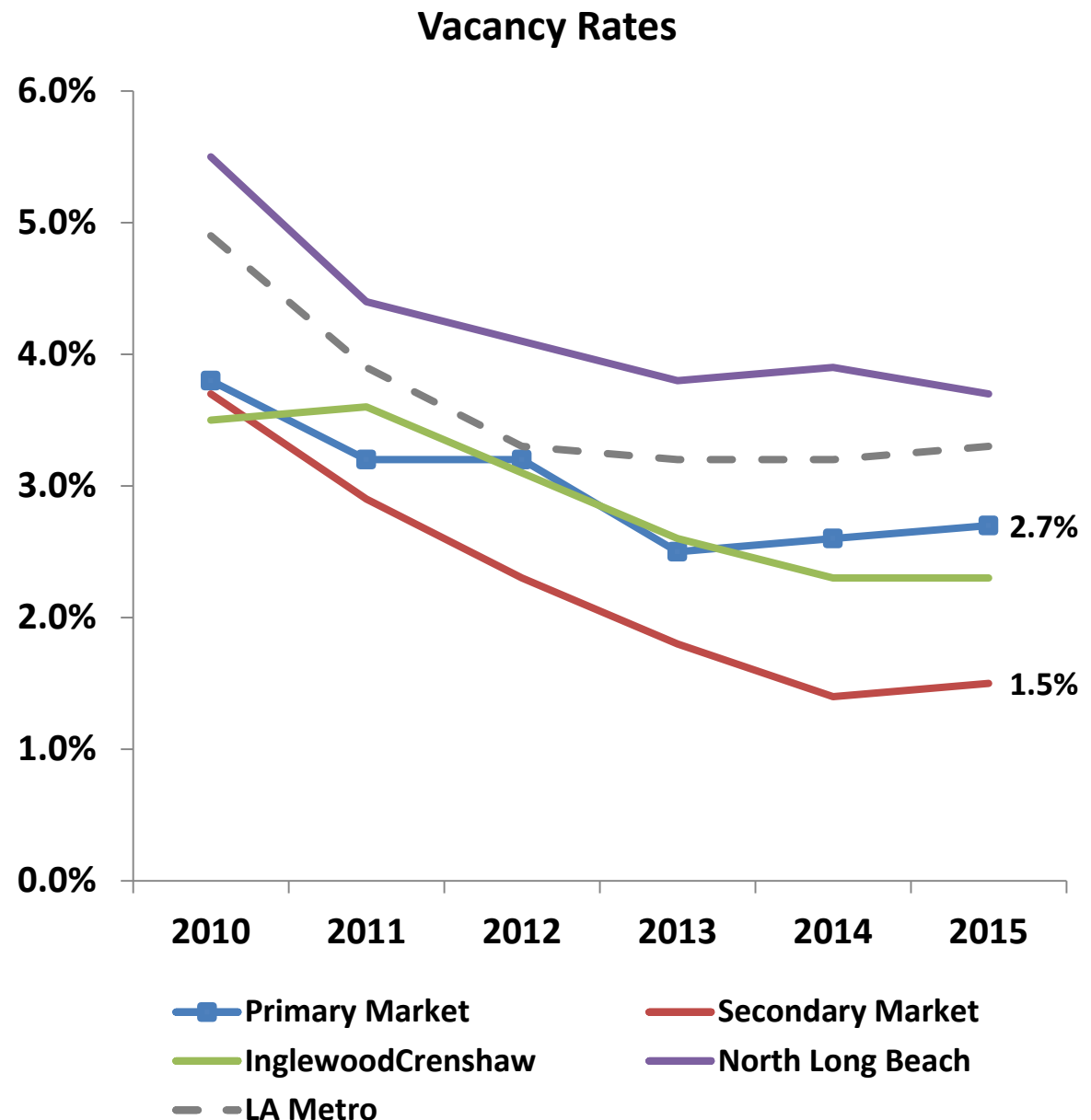
South Gate Secondary Market



Rental Market Vacancy Rates

- The Primary Market has experienced vacancy rates below 5% for the past 5 years, indicating a relatively strong rental market.
- The Secondary Market has exhibited the lowest vacancy rates of the Total Market Area, at 1.5%, as well as lower rates than the nearby markets of Inglewood/Crenshaw and North Long Beach.*
- The Total Market Area has vacancy rates that are notably lower than the vacancy rate for the LA Metro.

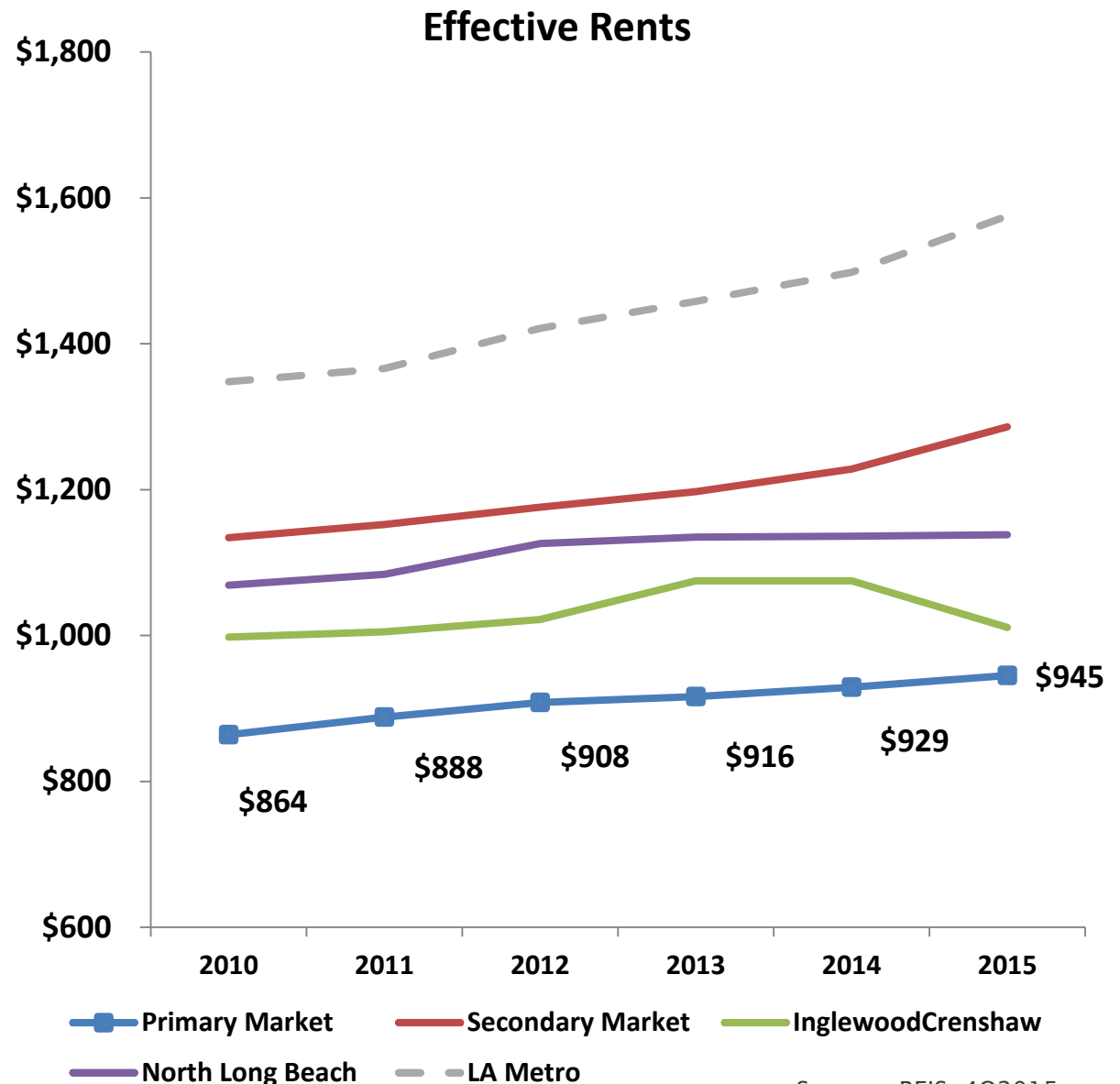
*The markets of Inglewood/Crenshaw & North Long Beach share similar characteristics with the Total Market Area and were included for comparison purposes.



Source: REIS, 4Q2015

Rental Market Effective Rents

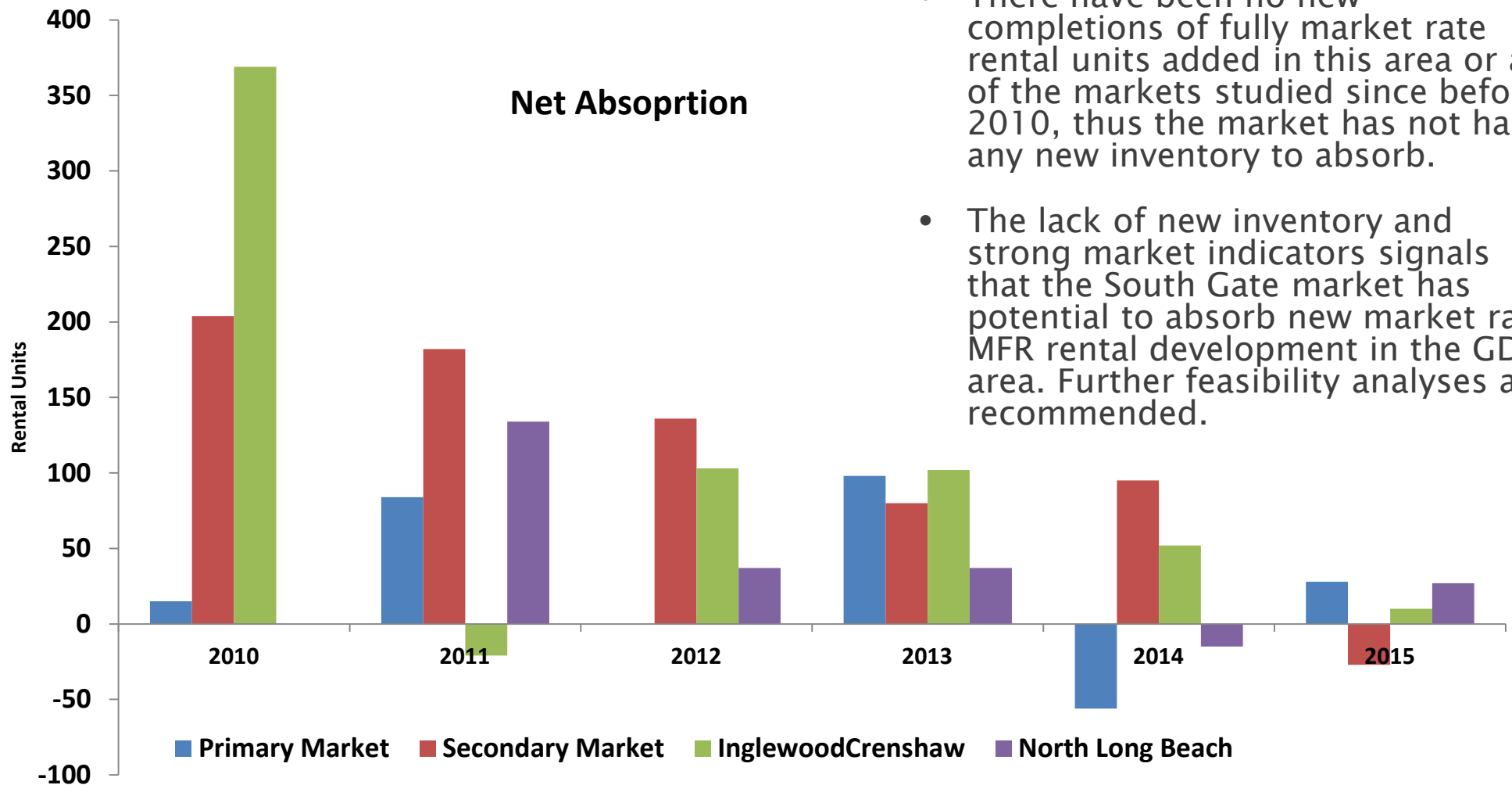
- The Primary Market has the lowest rents in both the total market area and in comparison to surrounding markets.
- Since 2010 rents have been steadily increasing in the Total Market Area. The Secondary Market rents have been increasing at average annual rate of 2.5% while the primary market has been growing at a slower rate of 1.8%.
- Since 2010, rents in the Secondary Market have been, on average, \$287 or 24% higher than rents in the Primary Market.



Source: REIS, 4Q2015

Rental Market Net Absorption

- Absorption in the Primary Market has fluctuated since 2010 but ended 2015 on a positive note.
- There have been no new completions of fully market rate rental units added in this area or any of the markets studied since before 2010, thus the market has not had any new inventory to absorb.
- The lack of new inventory and strong market indicators signals that the South Gate market has potential to absorb new market rate MFR rental development in the GDSP area. Further feasibility analyses are recommended.



Source: REIS, 4Q2015

Residential Projections

In order to quantify possible future residential demand, AECOM utilized market area historic household growth rates and 3rd party established future household growth rates. This potential growth in households was utilized to calculate a range of demand for new units. The final step was then to determine the potential capture rates of new units in the GDSP area compared to the market as a whole.

Projected Household Growth – Total Market Area*

Growth Area	Number	Source
HH Count in Total Market Area, 2015	225,355	ESRI
Forecast HH Count in Total Market Area, 2020	230,347	ESRI
Compound Annual Growth Rate	0.27%	calculation
Average Annual HH Growth	998	calculation
Occupancy Rate	90%	AECOM
Annual Demand for New Units	1,100	calculation
Cumulative Demand for New Units in Total Market Area (2016-2026)	11,100	calculation

Historic Market Share of Households

Area	Capture Rates by Year		
	2000	2010	2015
City of South Gate	10.6%	10.5%	10.4%
Primary Area*	43.6%	43.2%	43.2%
Secondary Area*	56.4%	56.8%	56.8%

Source: ESRI, AECOM

*Note – Markets for demand projections have slightly different boundaries than market definitions on slide 12 due to varying data sources

Projections Process

Overview of Residential Demand Projections Process

Review historic growth rates of households to understand trends

Identify current number of households in market areas

Identify future growth rate of market areas

Calculate future number of households

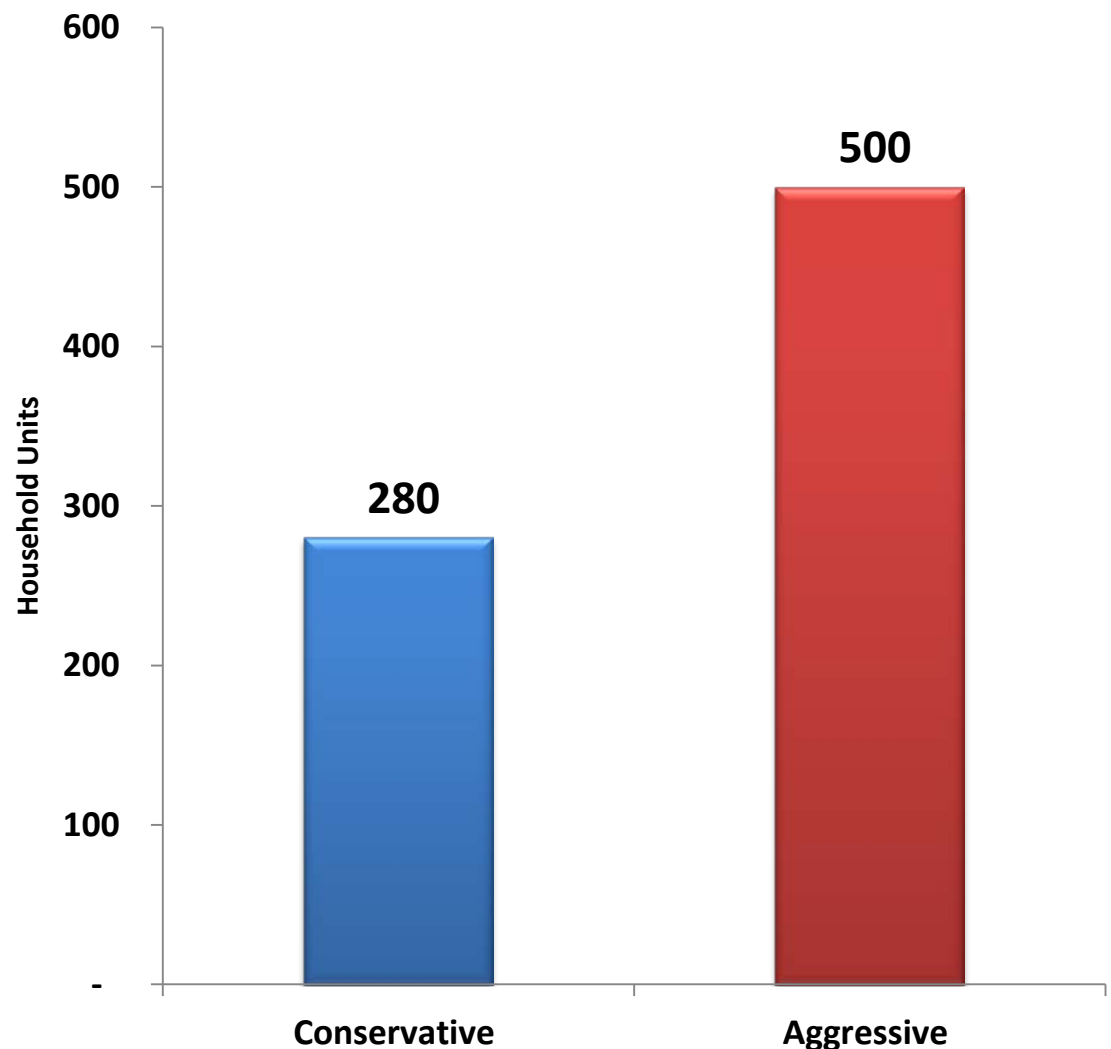
Calculate future number of units needed for new households

Calculate number of future units that will be captured in GDSP area.

Residential Demand Conclusions

- Currently there is a region wide housing shortage that is acutely felt in southeast Los Angeles. Broker feedback indicates that there could be demand for market rate rental properties with updated amenities and that rents in the City might support the development of this type of property. However, financial feasibility analysis would need to be done to confirm this assumption.
- Based on residential demand in the Total Market Area, AECOM projects that the GDSP Area can capture between 280 – 500 new residential units over the next 10 years.
- While there is clearly demand for residential for-sale and rental products in the market, the development economics need to be examined to understand the financial feasibility of residential development in the GDSP area.

New Residential Demand GDSP Site Capture (2016-2026)



Source: Individual brokers; AECOM; ESRI; Reis Reports

FLEX SPACE

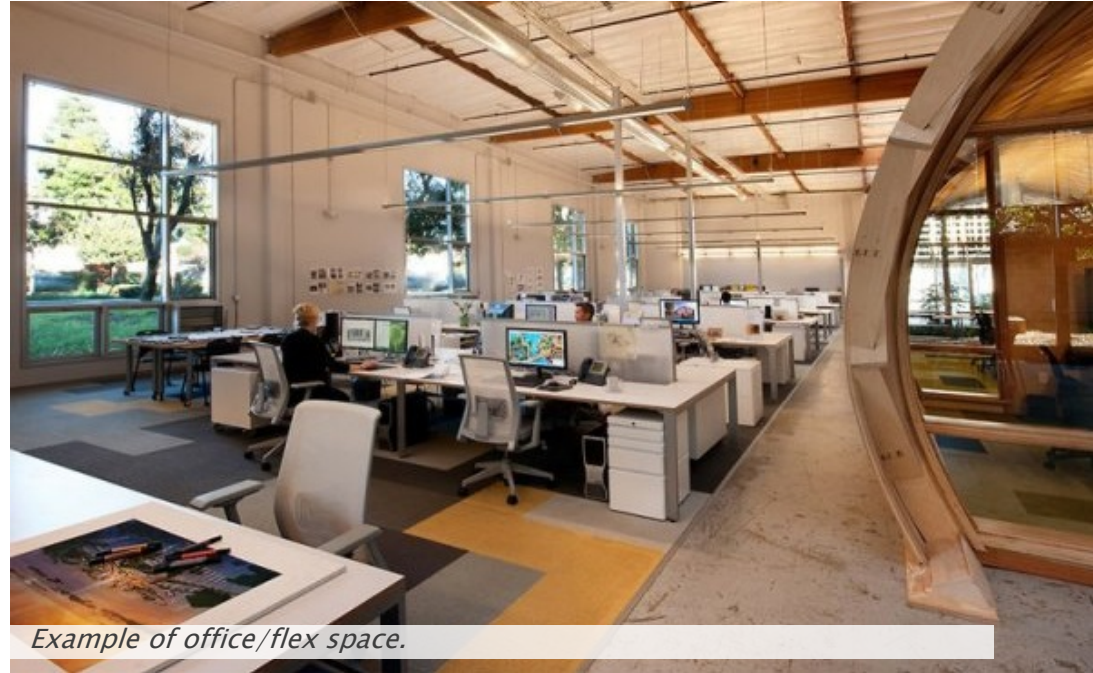
- Demand for new Flex Space (SF) in the City
- Demand for new Flex Space (SF) in the GDSP

Flex Space Market Characteristics

The Market Analysis helped determined demand for new Flex Space (SF) in the City and in the GDSP.

Flex Building Definition (LoopNet):

A type of building(s) designed to be versatile, which may be used in combination with office (corporate headquarters), research and development, quasi-retail sales, and including but not limited to industrial, warehouse, and distribution uses. At least half of the rentable area of the building must be used as office space. Flex buildings typically have ceiling heights under 18', with light industrial zoning. Flex buildings have also been called Incubator, Tech and Showroom buildings in markets throughout the country.



Example of office/flex space.



Example of office or flex space.

Flex Space Examples

Some primarily industrial areas in Los Angeles have successfully transformed underutilized industrial space into successful flex developments.



3049 S. La Cienega Blvd. (Culver City)



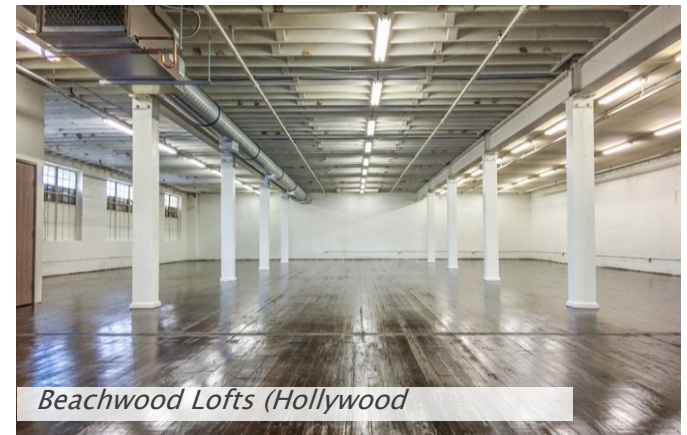
Sleepy Hollow Industries (El Segundo)



9000 Fullbright Ave. (Chatsworth)



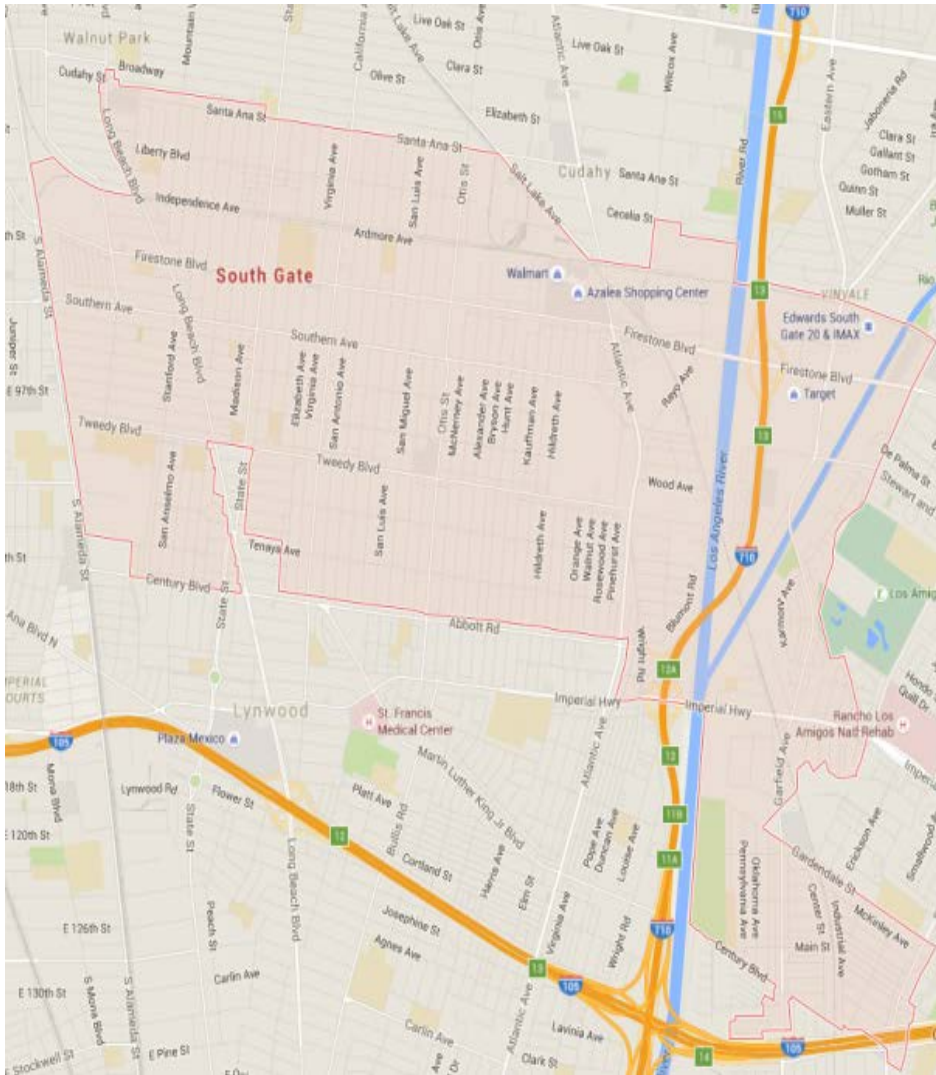
3033 N. Coolidge Ave. (Los Angeles)



Beachwood Lofts (Hollywood)

Definitions of Flex Markets

The City of South Gate is the Primary Market for Flex development. The Secondary Market includes the Mid Cities area.



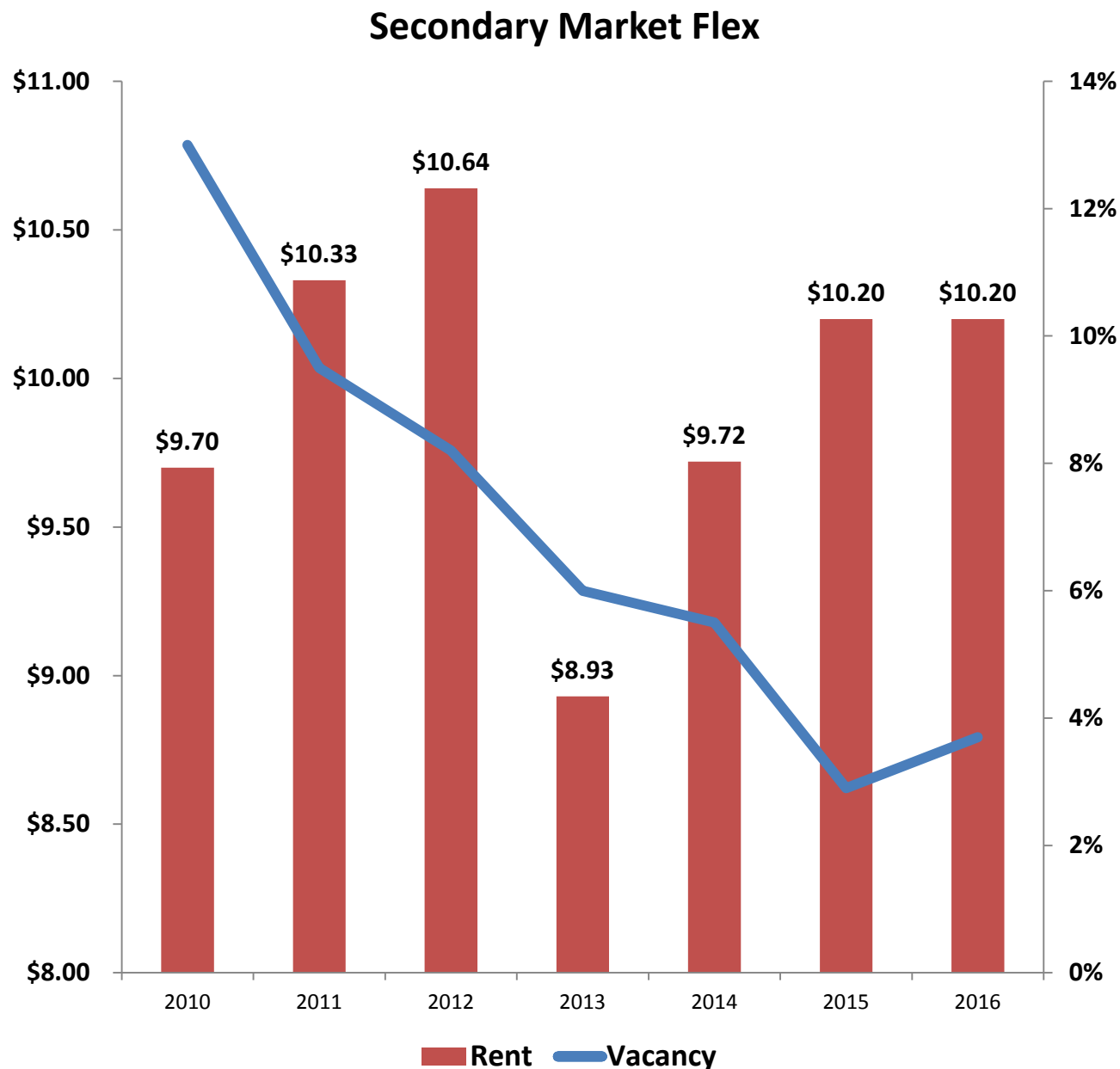
Primary Market: City of South Gate



Secondary Market: Mid Cities as defined by CoStar

Market Metrics

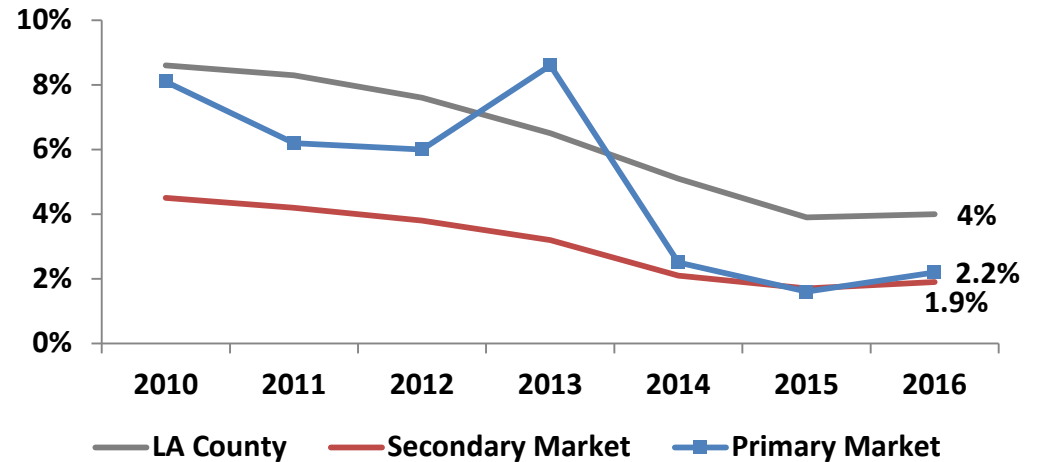
- Currently the Primary Market only has 6 flex properties. This is too small of a sample size to view a comparison between rent and vacancy.
- The Secondary Market has rising rents and vacancy rates below 5%, both of which indicate a relatively strong flex market.
- If South Gate were to introduce an attractive flex product it is likely that it would absorb demand from the surrounding flex market observed in the Secondary Market.



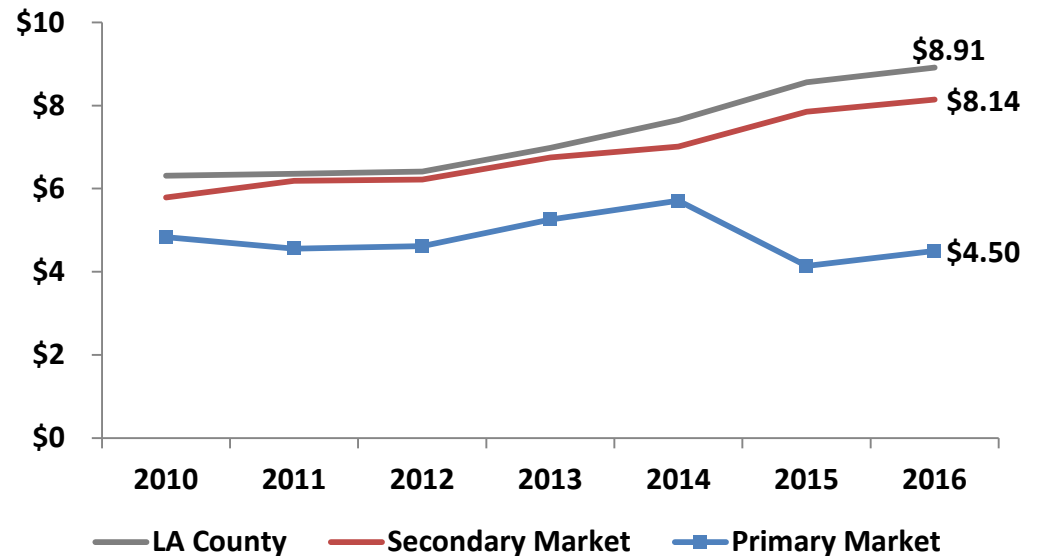
Vacancy Rates & Rents

- Due to the small size of the Primary Market's flex space inventory it is more informative to look at the industrial market, particularly since many of the industrial users in the GDSP area are heavy industrial users and GDSP may benefit from addition of flex space.
- Industrial vacancy in both the Primary and Secondary markets are notably lower than LA County.
- While the industrial rents in the secondary market are on par with LA County, the Primary Market's rents are nearly 50% lower, making this market quite attractive to potential end users.

Industrial Vacancy Rates



Industrial Rents



Source: CoStar

Flex Space Projections

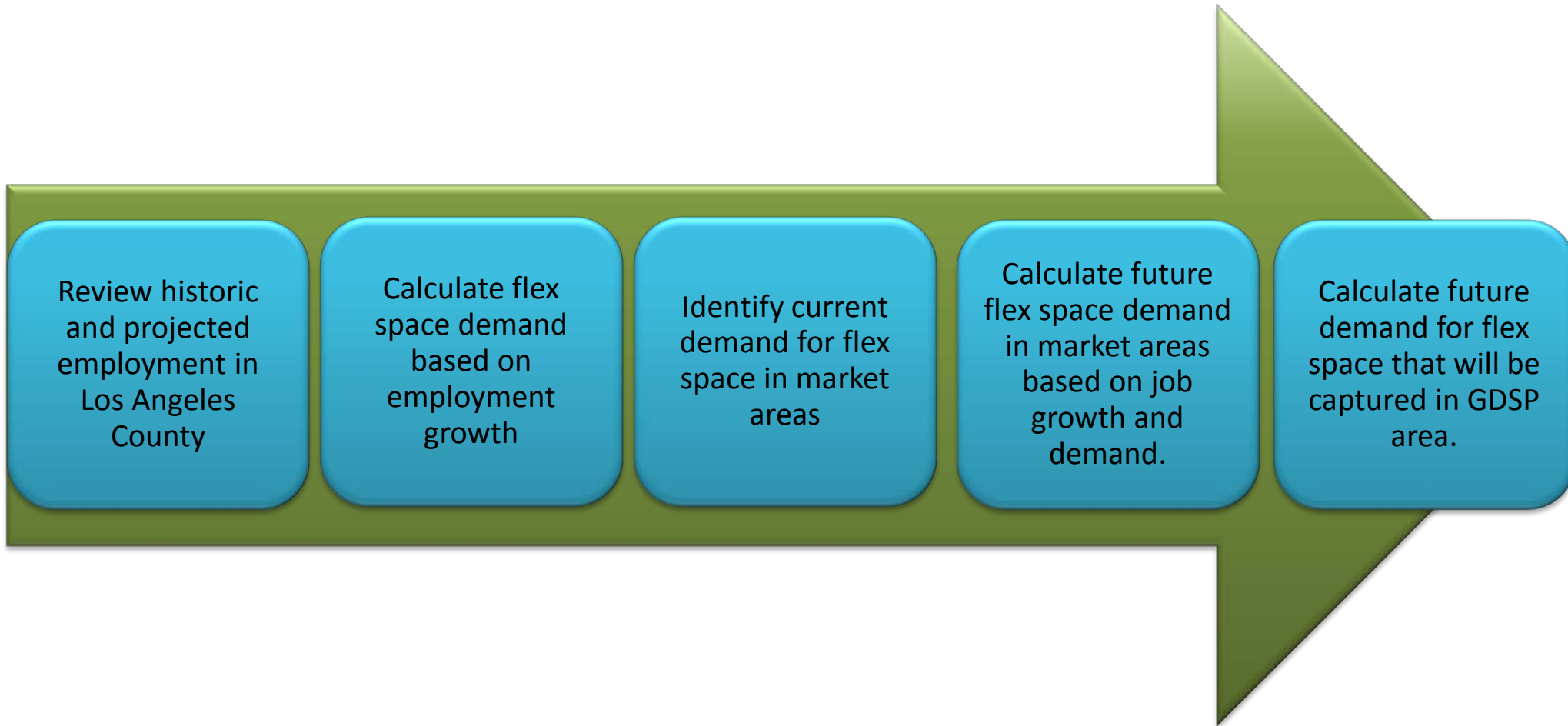
To determine possible future demand for flex space, AECOM analyzed employment trends for Los Angeles County. The percentage of projected employment growth that is considered to be industrial jobs was determined and then translated to projected demand for flex space. It was assumed that each new industrial job will require 1,000 SF of flex space. It was then reduced to the percentage of industrial space that would be demanded in the Total Market area and, lastly, the percentage of flex space demand that could potentially be captured in the GDSP area.

Projected Flex Space Growth – Total Market Area		
Growth Area	Number	Source
Current Employment in LA County , 2012	4,235,143	SCAG
Projected Employment in LA County, 2035	5,051,183	SCAG
Compound Annual Growth Rate (2012-2035)	0.77%	calculation
Total Job Growth (2012-2035)	816,040	calculation
Industrial Jobs as a Percent of LA County Employment	16.9%	Cal EDD
Uncaptured 10 Year Demand for Flex Space - Secondary Market (SF)	403,618	calculation
Uncaptured 10 Year Demand for Flex Space - Primary Market (SF)	221,053	calculation
Projected 10 Year Capture Rate of South Gate Specific Area – (SF)	165,800- 221,100	calculation

Source: Costar, Cal EDD, SCAG, AECOM

Projections Process

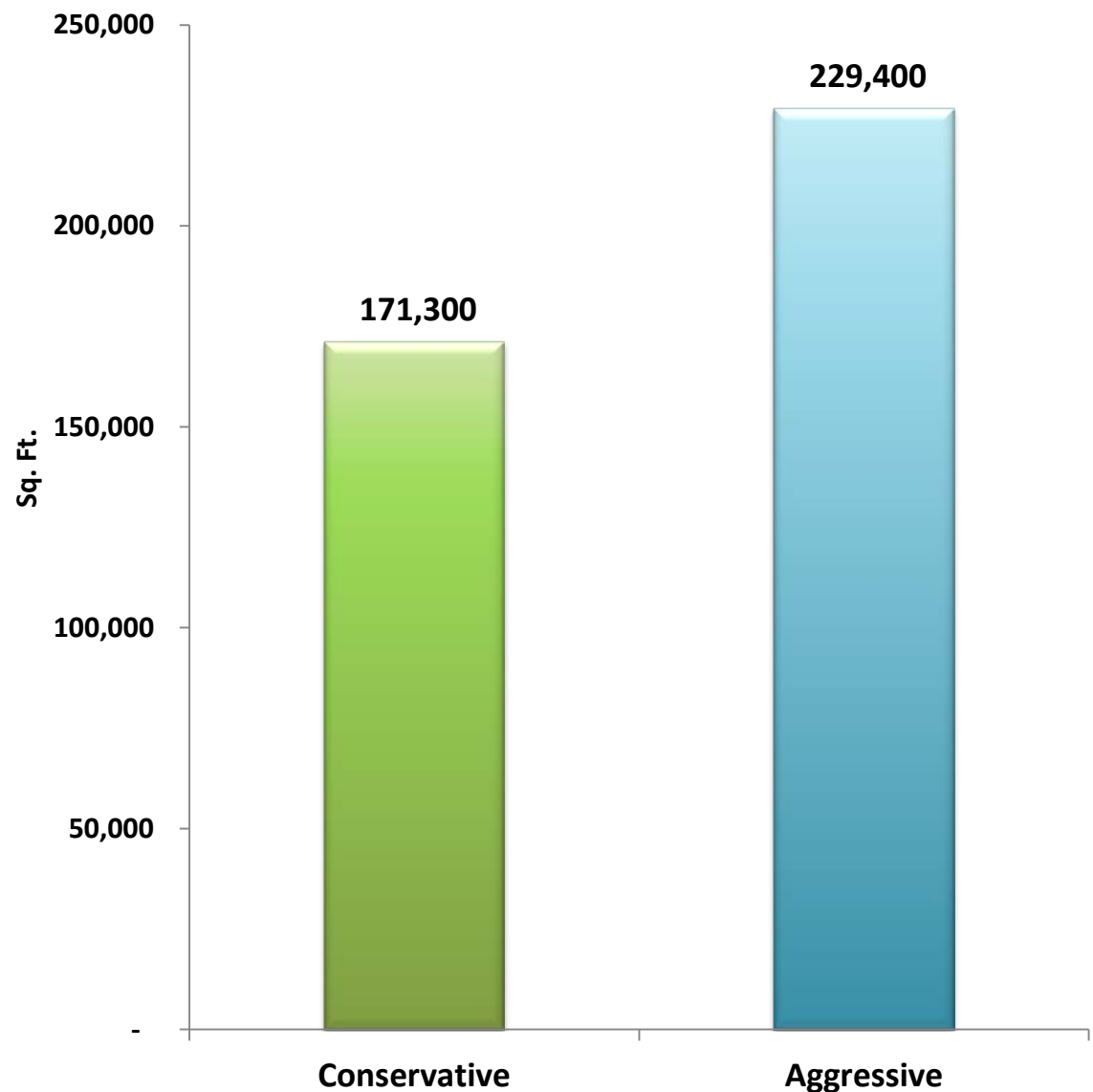
Overview of Flex Space Demand Projections Process



Flex Space Demand Conclusions

- In order to understand the total flex market, AECOM looked at office demand in the primary and secondary markets and combined that office demand in the totals listed to the right.
- AECOM projects that the GDSP area can capture between 171,300 – 229,400 SF of new flex space development over the next 10 years.
- South Gate's history as a desirable industrial market offers a unique opportunity for the City to position itself as the first major flex market in the southeast Los Angeles submarket.
- The City should consider evaluating financial feasibility of new flex space and the potential to shift demand for light industrial space into flex space uses.

GDSP Flex & Office Capture 2016-2026



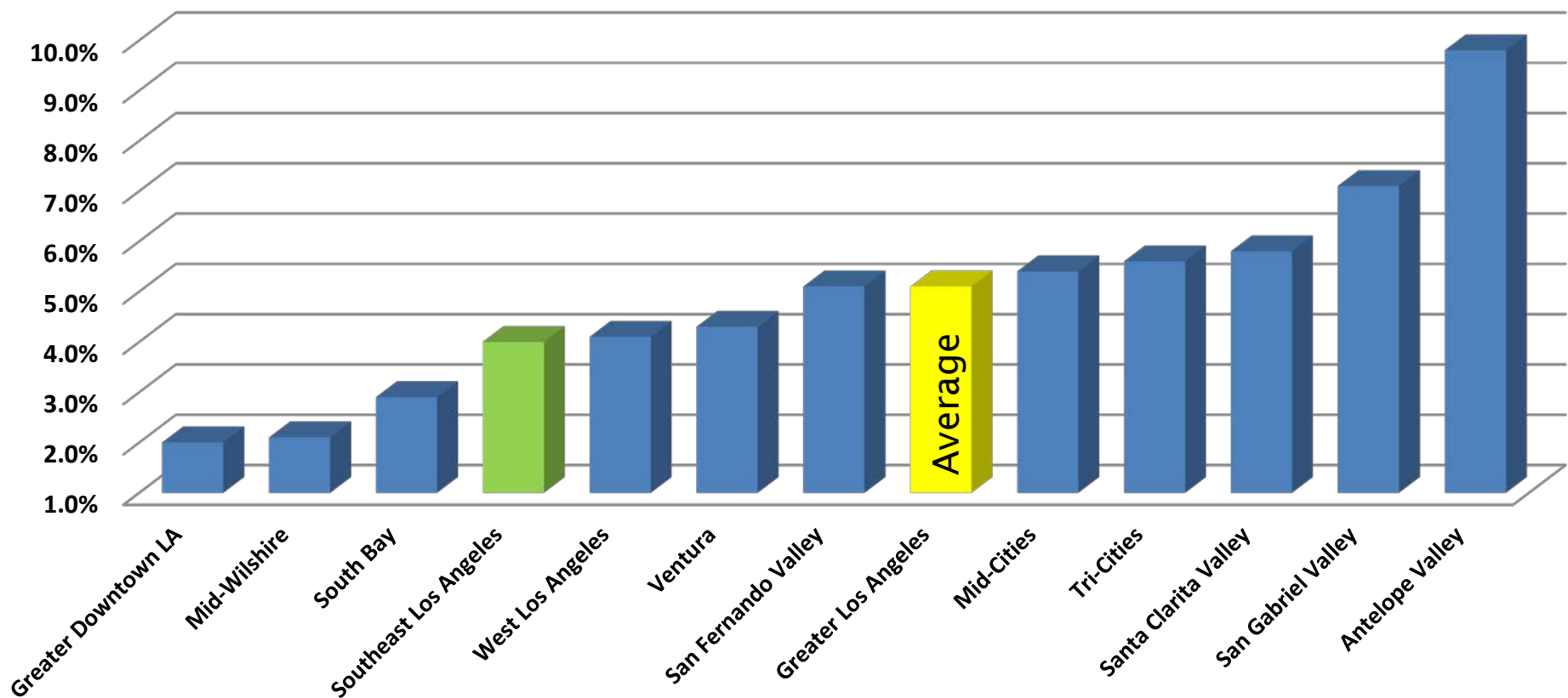
Source: AECOM, CoStar, Cal EDD, SCAG

RETAIL

Retail Vacancy Rates

- Greater Los Angeles retail vacancy rate is approximately 5.1%.
- The Southeast Los Angeles market, where South Gate is located, has a retail vacancy rate of approximately 4.0%

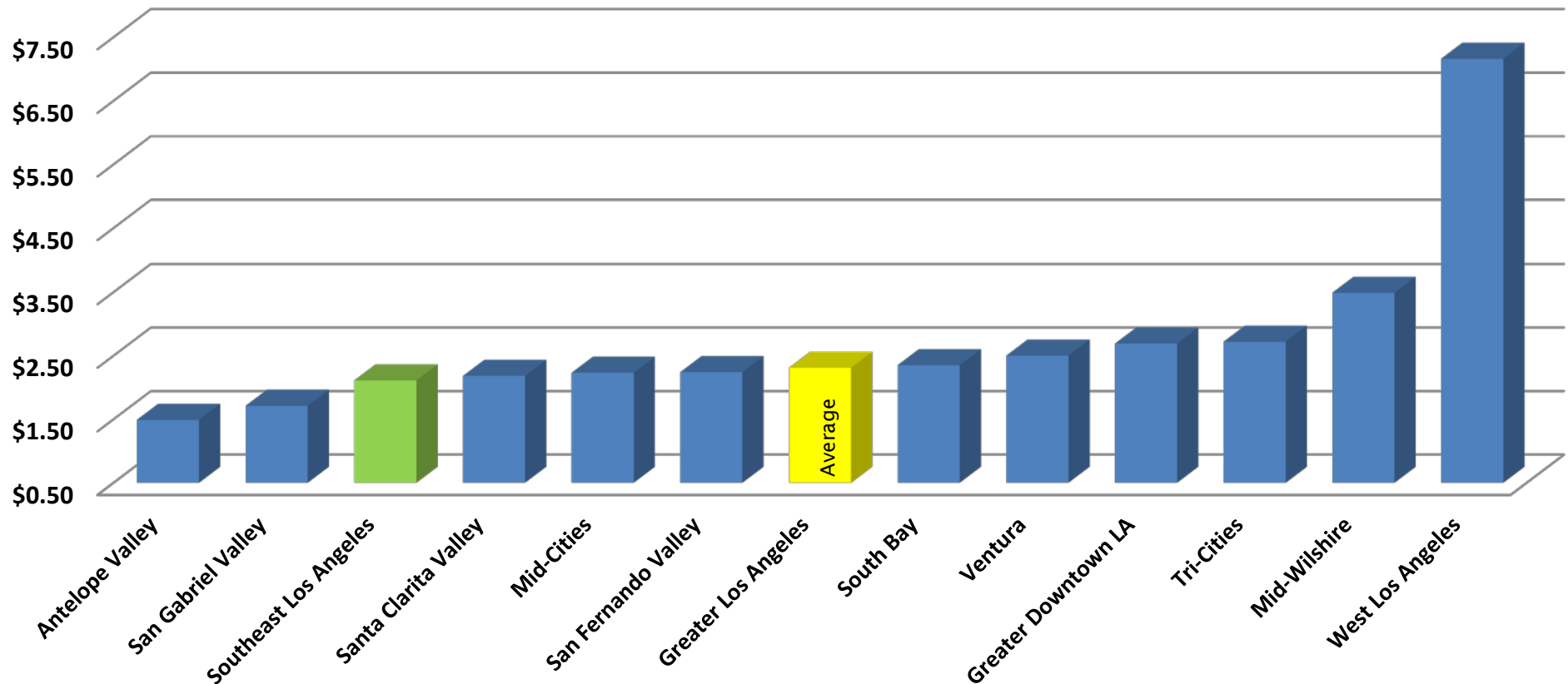
Retail Vacancy Rate Q4 2015 (%)



Asking Lease Rates

- Greater Los Angeles retail asking lease rate is approximately \$2.30.
- The Southeast Los Angeles market, where South Gate is located, has retail asking lease rate of approximately \$2.11.

Retail Asking Lease Rate SF Per Month Q4 2015



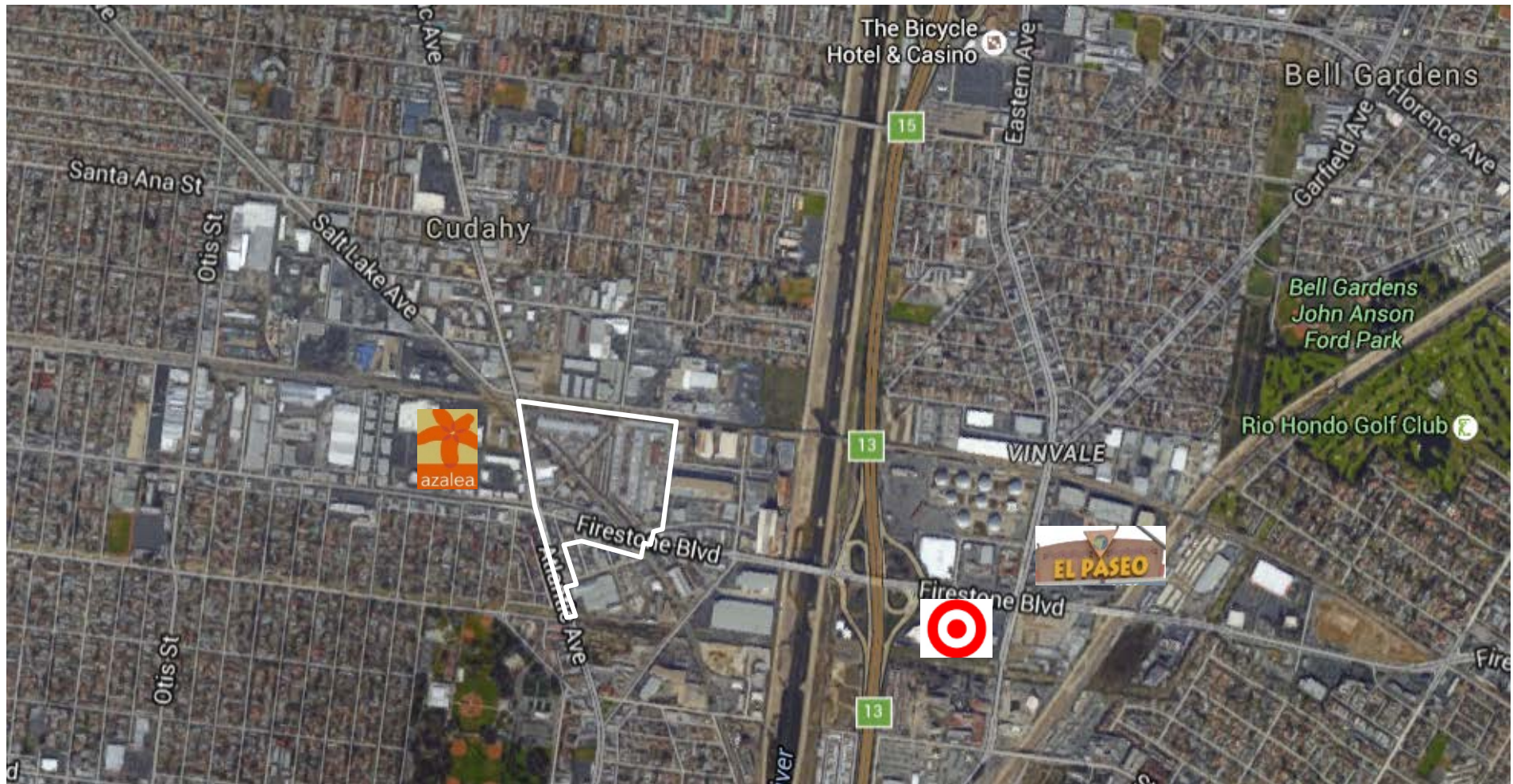
Retail Market Characteristics

- Outside of Azalea, South Gate retail vacancies are much higher than the Southeast Los Angeles area and somewhat above the County averages.
- Outside of Azalea, asking lease rates are also considerable lower than the surrounding and County markets.
- Azalea occupancy and lease rates are higher than City averages due to new construction and quality of available spaces and built-in amenities.

	South Gate	Southeast Los Angeles	County of Los Angeles
Vacancy	5.3%	4.0%	5.1%
Asking Lease Rate	Citywide Average \$1.50 Azalea Center \$3.00 - \$4.50	\$2.11	\$2.31

Retail Market Characteristics

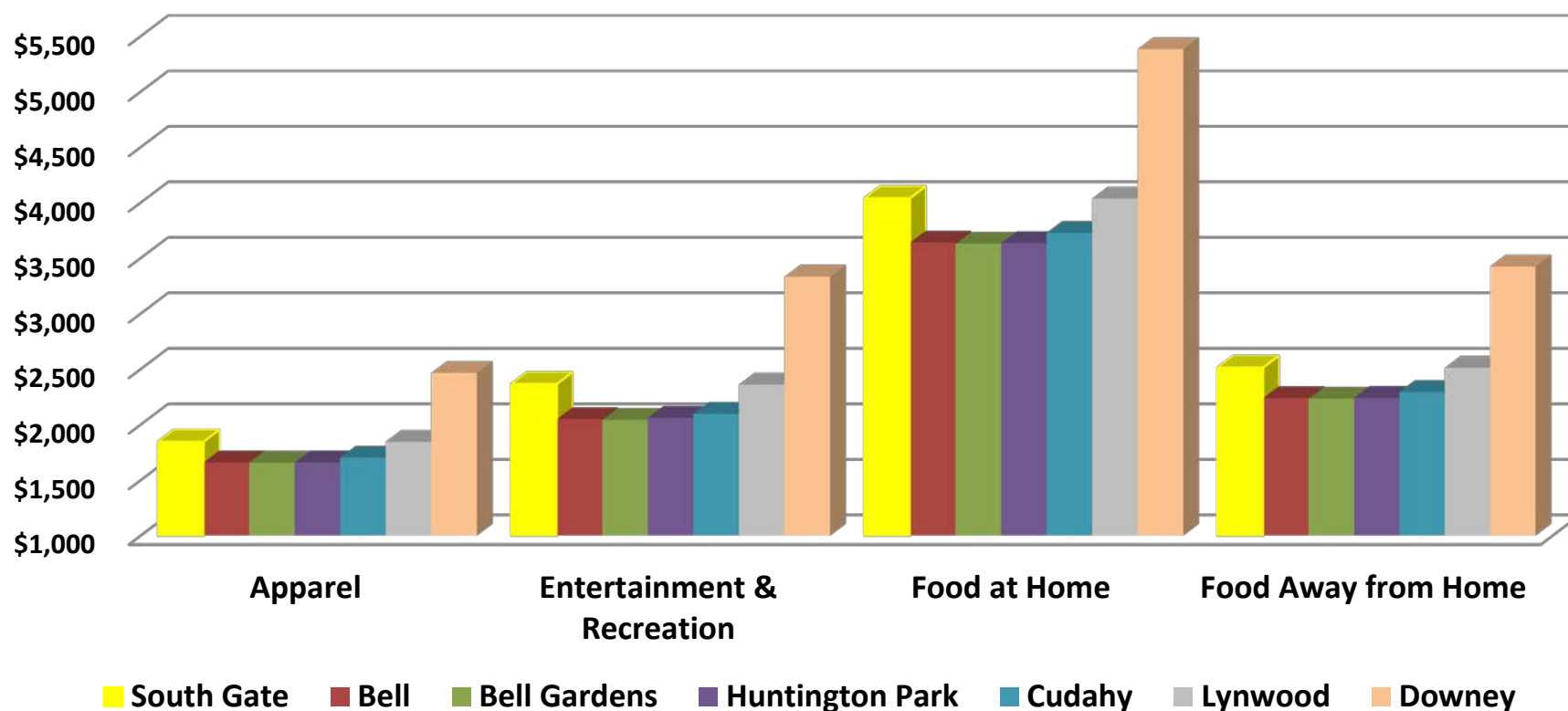
- The GDSP area is adjacent to Azalea Shopping Center, as well as other larger retail centers across the I-710 to the east.
- More retail is also planned just south on Atlantic Boulevard to the south.



Per Capita Spending

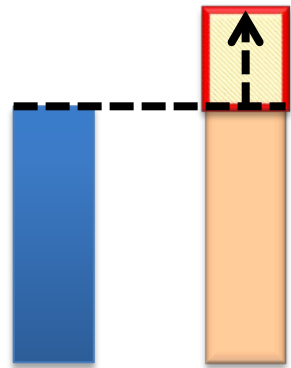
- When reviewing per capita spending in the identified categories below, South Gate residents outspend Bell, Bell Gardens, Huntington Park and Cudahy residents.
- South Gate is on par in terms of per capita spending in these categories with Lynwood.
- Downey residents are the highest per capita spenders in these categories for this market.

Resident Per Capita Spending Comparisons



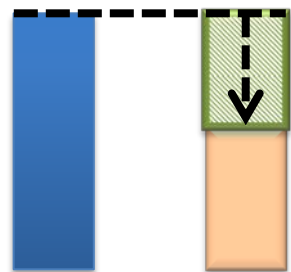
Retail Leakage

Surplus and Leakage Analysis



Demand Supply

Supply exceeds demand creating “surplus” (red in Table to right)



Demand Supply

Demand exceeds supply creating “leakage”(green in Table to right)

	Demand (\$M)	Supply (\$M)	Gap (\$M)
South Gate			
Retail	621	1,027	- 406
Food & Drink	68	84	-16
Bell			
Retail	207	328	- 121
Food & Drink	22	37	- 14
Bell Gardens			
Retail	227	247	-19
Food & Drink	25	36	-11
Cudahy			
Retail	137	105	32
Food & Drink	15	9	6
Downey			
Retail	2,574	4,015	-1,440
Food & Drink	285	361	-76
Huntington Park			
Retail	348	545	-197
Food & Drink	38	68	-30
Lynwood			
Retail	397	303	93
Food & Drink	43	60	-17

Retail Demand

Summary Findings

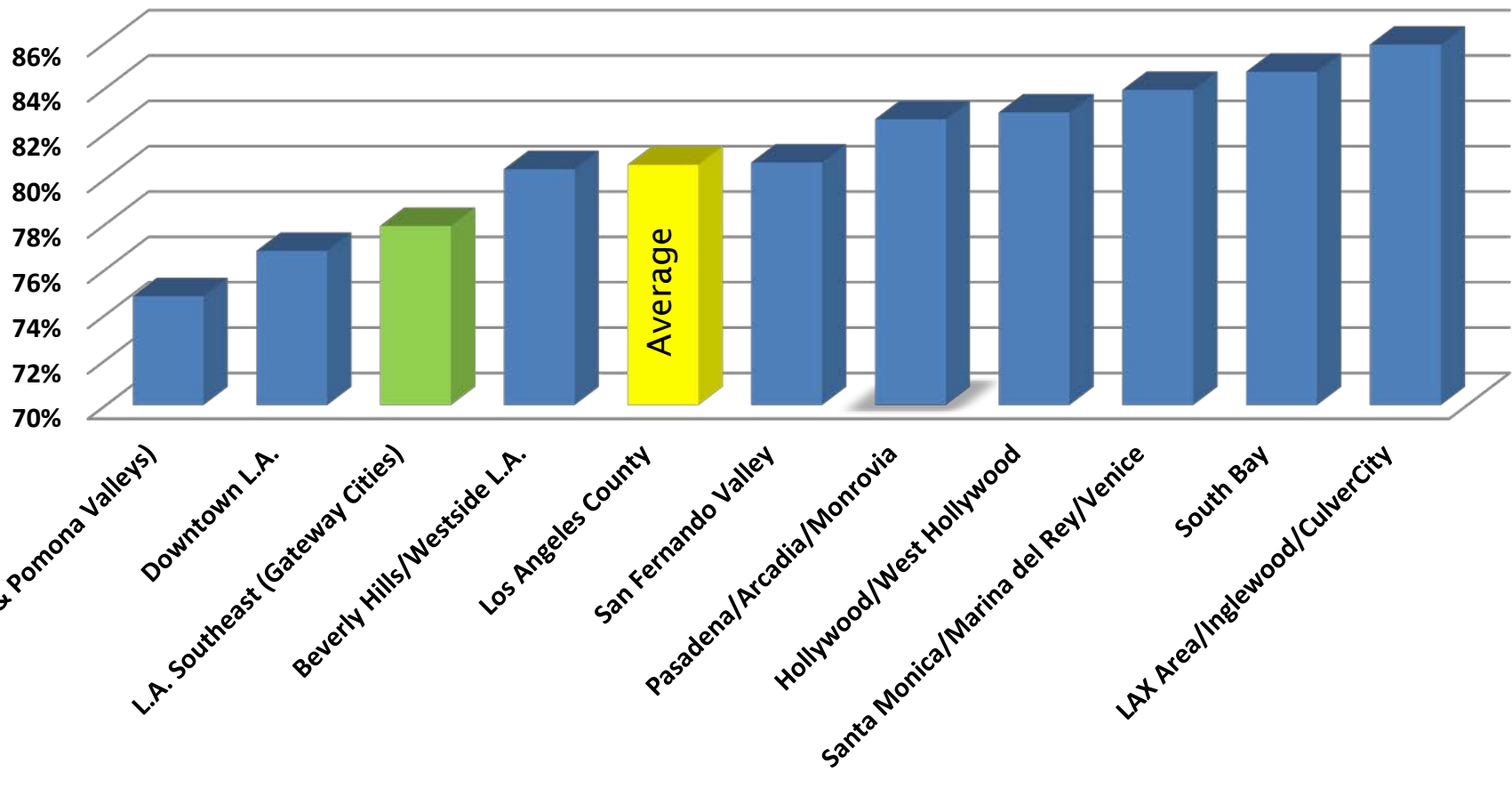
- For the City overall, retail sales are higher than the retail spending potential of City residents based on households and average household income. This means that the City is capturing retail spending from people outside the City boundary. This is known as retail “surplus.”
 - However, there are certain retail categories that are exhibiting a retail “leakage.” This means that City residents are traveling outside the City boundary to make certain retail or food purchases. Examples of categories of “leakage” include office supply and specialty food services
- Higher than market average vacancies.
- Lower than market average lease rates.
- Site is adjacent to Azalea and other regional retail likely limiting large amounts of retail on the GDSP site for foreseeable future. However, new project specific or neighborhood retail could benefit from additional traffic being generated by Azalea.

HOTEL

Regional Hotel Occupancy

- Los Angeles County hotel occupancy is approximately 80%.
- Southeast Los Angeles, where South Gate is located, has hotel occupancies of approximately 78%.

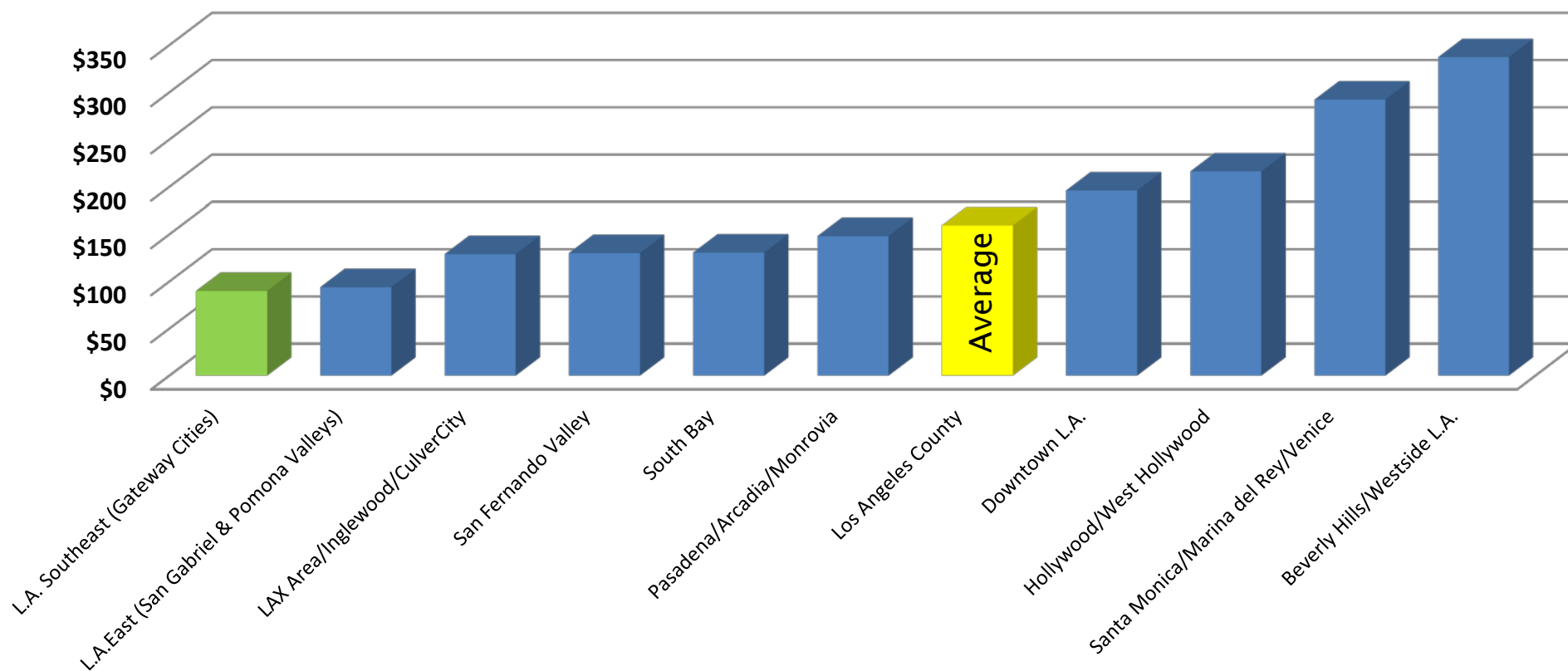
Hotel Occupancy January - November 2015 YTD (%)



Average Daily Rates

- Los Angeles County hotel market ADR is approximately \$160.
- Southeast Los Angeles, where South Gate is located, has hotel market ADRs of approximately \$90.

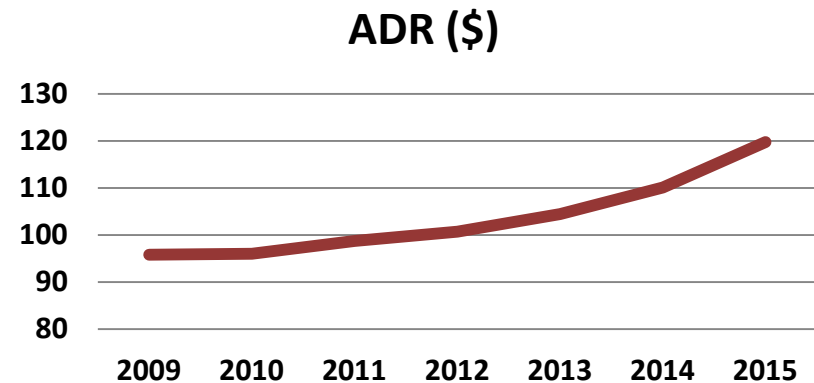
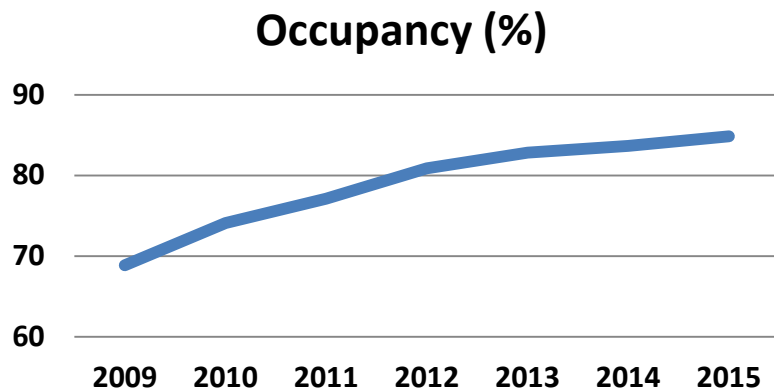
Average Daily Rate (ADR) for Jan-Nov 2015



Hotel Comparables

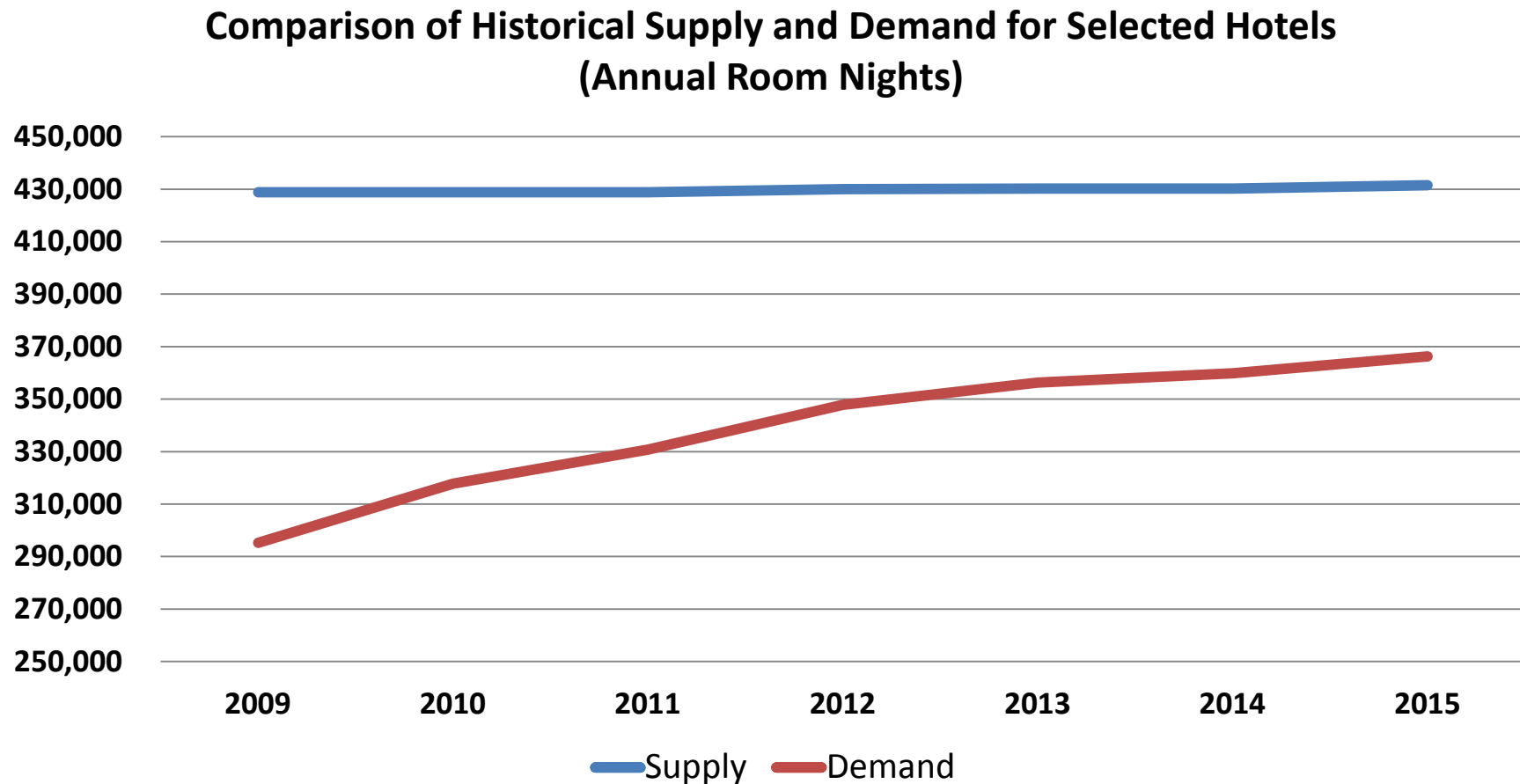
Select comparable hotels (3/3.5 star limited service) in the immediate market area have experienced an increase in occupancy and increase in ADR over last five years. While still lower than countywide averages, the ADR in the immediate area is higher at \$120.

Name of Hotel	Location	Classification	Open Date	Rooms
Crowne Plaza Los Angeles Commerce Casino	Commerce, CA	Upscale	Oct 2001	194
Ramada Commerce Los Angeles Area	Commerce, CA	Midscale	Aug 1986	155
Doubletree Los Angeles Commerce	Commerce, CA	Upscale	Jan 1992	201
Comfort Inn & Suites Bell Gardens	Bell Gardens, CA	Upper Midscale	Jul 1966	115
Embassy Suites Los Angeles Downey	Downey, CA	Upper Upscale	Dec 1985	220
Hilton Garden Inn Montebello	Montebello, CA	Upscale	Dec 2002	121
Quality Inn & Suites Montebello	Montebello, CA	Midscale	Mar 1965	149
Hampton Inn Los Angeles Carson Torrance	Carson, CA	Upper Midscale	Jul 1990	137
Total				1,292



Supply and Demand

Select comparable hotels in the immediate market area have experienced an increase in demand while supply has remained relatively constant.

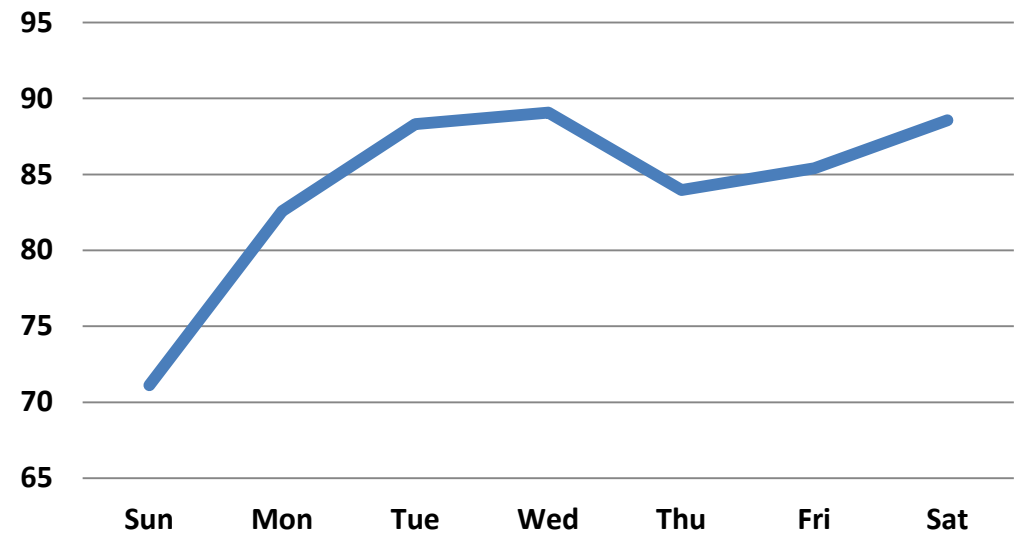


Occupancy and Average Daily Rate

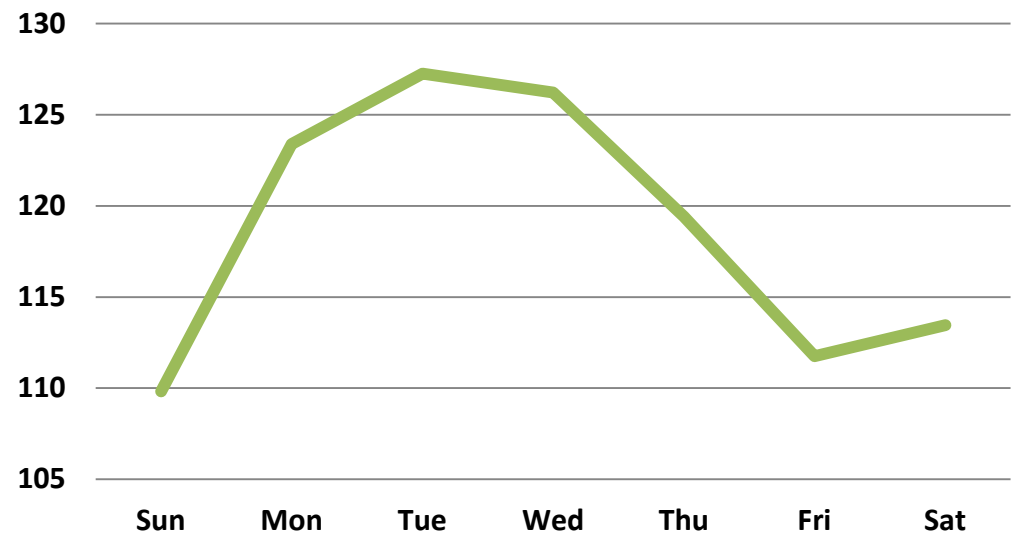
- Occupancy peaks on Wednesday
- Recovers Saturday night before dropping Sunday night
- Typical business traveler market

- ADR peaks on Tuesday
- Unlike occupancy, no recovery of ADR on Friday or Saturday
- Typical business traveler market

2015 Occupancy by Day of Week (%)



2015 ADR by Day of Week (\$)



Source: STR

Hotel Market Analysis

When comparing hotels in the immediate South Gate area to the southeast gateway cities, the local hotel market is relatively positive from the given performance market metrics. However, using the same metrics, local hotels in the 3/3.5 star limited service category lag behind in ADR and RevPar while having slightly better occupancy rates than County averages.

	South Gate Area	Southeast Gateway Cities	County of Los Angeles
Occupancy	84.9%	77.9%	80.6%
Average Daily Rate	\$119.75	\$89.98	\$159.31
RevPar	\$101.62	\$70.07	\$128.38

Defined Term:

RevPar: Revenue per Available Room (RevPAR) is the total guest room revenue divided by the total number of available rooms. RevPAR differs from average daily rate (ADR) because RevPAR is affected by the amount of unoccupied available rooms, while ADR shows only the average rate of rooms actually sold.

Source: STR

Hotel Demand

Summary Findings

- The South Gate market demonstrates an improving and above immediate market average hotel performance metrics in RevPar, ADR and vacancy when compared to the southeast market area. However, these metrics trail behind County averages.
- Limited large scale office/flex businesses in area to support new hotel.
- Limited short/mid term demand for hotel, however longer term demand could exist with development of new businesses and/or light rail station.
- Limited sites available for hotel development given current trends suggesting ideal hotel location closer to the Freeway.

4. SUMMARY OF FINDINGS

Housing

- Lack of newer residential options in the total market area, including rental options with modern amenities (pool, gym, lounge, Wi-Fi).
- Potential for between 280 to 500 residential units in the GDSP.

Flex

- Limited flex space options area, access to I-710, and potential transitional use between retail/residential on the west and industrial on the east.
- Potential for 172,000 to 230,000 SF of demand for flex space in the GDSP, which includes a mix of office and light industrial uses.

Retail

- Adjacent to large amounts of retail at Azalea and other regional retail.
- However, potential for project specific and/or neighborhood serving retail in GDSP area given traffic being generated by Azalea.

Hotel

- Limited short/mid term demand based on performance metrics, market conditions, and site availability.
- Long term potential for hotel with light rail station and more flex/creative/office uses in GDSP area but hotel site likely closer to the Freeway.

5. NEXT STEPS & IMPLEMENTATION



Implementation Tools – Federal & State

- AB2: Community Revitalization and Investment Authority (CRIA)
 - Revitalize disadvantaged communities through planning and financing infrastructure improvements and upgrades.
- SB 628: Enhanced Infrastructure Finance Districts (EIFD)
 - New tool to finance public infrastructure, affordable housing and other economic/community development projects.
- Both tools are similar to former Redevelopment Agency's ability to collect incremental property taxes.
 - Big difference now is that schools maintain their full share of property tax.
 - Issuance of bonds by CRIA does not require voter approval.
 - Issuance of bonds by an EIFD requires 55% voter approval.
- PACE, Cap & Trade, EB-5, I-Bank, New Market Tax Credits, and others.

Implementation Tools – Local

Revenue

- Site-specific tax revenue pledges (TOT, Sales, etc)
- Impact fee reductions / waivers / deferrals
- General Fund or Special Fund investments

Real Estate

- Ground leases
- Operating covenants
- Land transfers or trades

Planning

- Special Districts (Tourism, Business Improvements Districts, Maintenance Assessment Districts, etc)

Financing

- Tax-exempt revenue & utility bonds
- Tax increment financing
- Lease-leaseback financing

Implementation – Next Steps

Secure Rail Station Funding and Construction

Establish City (re)development fund

Evaluate Public Finance Options

Conduct Feasibility Studies on Identified Land Uses

Implement Land Evaluation & Acquisition Strategy

Activate Initial Developer Outreach

General Limiting Conditions

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