

Draft Executive Summary

Hermosa Beach Market and Economic Development Study Update

The Economics of Land Use



Prepared for:

City of Hermosa Beach

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1. INTRODUCTION

Economic & Planning Systems (EPS) was retained by the City of Hermosa Beach (City) to update its previous Downtown Core Revitalization Strategy: Market and Economic Analysis Report dated January 15, 2014. This updated report is intended to inform the City's efforts in formulate a citywide economic development strategy. In addition to updating the data included in the last report, the update expands the analysis to incorporate the City as a whole. Economic and market data available through third party sources have been updated to reflect the most current information, and the updated data are incorporated in the tables and text of the full report. Some aspects of the prior report were based on onsite research and observations. These elements have not been updated, due to the limitations of the Covid-19 pandemic, both in terms of observing business operations and mix, with so many businesses closed or operating at a reduced level.

For the most part, the recommendations of the last study are still valid, and useful as guides to economic development strategies. However, some conditions have changed since the original report was completed, and we have attempted to reflect these in the findings of the update. The most significant changes have to do with parking requirements and strategies; the trend toward working at home, which is likely to continue post COVID-19 and represents an opportunity the City can build upon; the evolution of the business mix and the reduction of externalities from bars on Pier Plaza; and the steps the City has taken to be more proactive in economic development and improving the business climate. We have explored the ramifications of these changes through interviews with key stakeholders in the community, and have reflected what we have learned in the summary observations described in this executive summary. We expect to further refine these observations based on input and feedback from City staff and the EDC.

2. HERMOSA BEACH DEMOGRAPHIC AND MARKET CHARACTERISTICS

Population, Income and Housing

- The total Beach Cities population is approximately 121,000, with Redondo Beach the largest at 68,000, followed by Manhattan Beach at 36,000, and Hermosa Beach at 20,000.
- Hermosa Beach's population grew just 0.7 percent between 2010 and 2019, but its population growth still exceeded its residential unit growth of -2.5 percent. The number of households in the City declined by 4.4 percent over the same period.
- In 2020, Hermosa Beach had a median home value of \$1.7 million, reflecting a 72 percent increase from 2010. Meanwhile, the median value of a home sold in Manhattan Beach increased to over \$2.3 million, reflecting a price growth of 73 percent over the same period. The Redondo Beach median home value of just over \$1 million is significantly lower than its Beach City neighbors but still much higher than the City of Los Angeles median of \$694,000.
- Hermosa Beach's median household income in 2019 was \$137,000, nearly 40 percent higher than its figure in 2010. Manhattan Beach still possesses the highest median household income of the Beach Cities at \$150,000, while Redondo Beach's has now exceeded six figures, standing at \$112,000
- As in 2010, in 2019 Hermosa Beach's residential population is the youngest, the most transient, and the least family-oriented of the Beach Cities. The median age of Hermosa Beach residents is 39, compared with 44 in Manhattan Beach and 41 in Redondo Beach. The percentage of owner-occupied households in Hermosa Beach is 42 percent, compared with 62 percent in Manhattan Beach and 48 percent in Redondo Beach.
- Single-family homes make up 54 percent in Hermosa Beach. The number of single-family homes in Hermosa Beach has increased since 2010 as the number of multifamily homes has continued to fall. This trend, along with the dramatic increases in home values, reflects the replacement of older multi-family dwellings with larger, more expensive single-family homes, similar to the trend in Manhattan Beach.

Employment

- Since 2011, job growth outpaced population growth in Hermosa Beach, with the 9 percent increase in jobs representing more than ten times the City's population growth.
- Much of the job growth in Hermosa Beach was in sectors associated with knowledge work. The combined finance, real estate, information, professional services, technical services, and executive management sectors now make up the second-largest segment in Hermosa Beach (19 percent).
- The importance of tourism, dining, and entertainment to the economies of all three Beach Cities is reflected in the job share for the accommodation and food services sectors, which contributed the largest category of Hermosa Beach jobs (24 percent). However, this category saw the largest drop in its share of total jobs since 2011, as knowledge-based jobs have grown at a faster rate. The Covid-19 Pandemic is also expected to have disproportionately impacted hospitality-related jobs.
- Despite the high growth of jobs relative to population in Hermosa Beach, the City maintained a strong bedroom community orientation with a jobs-to-household ratio of

0.71 in 2018. LEHD reported that the City had a net commuter outflow of 2,475 that same year.

Retail

- There is at least 3.7 million square feet of destination retail within nine miles of Hermosa Beach
- As of Q4 2020, Hermosa had a citywide average annual retail lease rate of \$3.54 per square foot, lower than Manhattan Beach (\$5.29 per square foot), but above Redondo Beach (\$2.98 per square foot). Retail vacancy in Hermosa Beach is the highest among the Beach Cities at 6.1 percent.
- Total taxable sales per capita in Hermosa Beach was \$12,202 in 2019, slightly higher than Redondo Beach (\$11,258), but significantly lower than Manhattan Beach (\$19,192). While Hermosa performed similar to Manhattan Beach in the Food Services and Drinking Places category, it lagged behind both Manhattan Beach and Redondo Beach in General Merchandise sales.

Hotels

- Hermosa Beach has an estimated 480 hotel rooms as of 2021, approximately half the amount in Manhattan Beach and less than one third the amount in Redondo Beach.
- The most prominent hotel in downtown Hermosa is the Beach House Hotel, located on the Strand. It serves mainly leisure, business, and group travel, rather a vacation destination clientele. It has continued to operate during the Covid-19 pandemic, but at lower occupancies. Early check in and late check out has allowed some rooms to be occupied by those who want to work outside the home, but in the community.
- The H2O is a new 30-room hotel on Hermosa Avenue that opened in Late 2020.

Office

- Hermosa Beach's office inventory stands at approximately 367,000 square feet, and remains small compared to Manhattan Beach and Redondo Beach, which have about 1.6 million and 2.4 million square feet of office space, respectively. According to CoStar, all of Hermosa Beach's office inventory is classified as Class B or C space.
- Overall, the Hermosa Beach market for Class B and C office space in Hermosa Beach occupies a viable segment priced below Manhattan Beach but above Redondo Beach. As of the fourth quarter of 2020, Class B and C rents in Hermosa Beach average \$3.75 per square foot and are trending up, compared with \$3.17 per square foot in Redondo Beach and \$4.25 per square foot in Manhattan Beach.
- Hermosa Beach office vacancy rate in Q4 2020 of 11.7 percent is nearly double that of Redondo Beach (5.7 percent) and triple that of Manhattan Beach (3.9 percent).
- Marlin Equities expanded its office presence in its building along Pier Avenue. Baker/Burton Lundy has also expanded and upgraded its office presence on Upper Pier Avenue.
- A remodeled office building on upper Pier Avenue (200 Pier) was originally intended to offer for-sale office condominiums. It has turned out to be leased space and houses numerous small businesses.
- There are a few co-working office spaces in Hermosa, including Unita on Hermosa Avenue. There are quite a few more in Manhattan Beach, and there is potential to

develop more in Hermosa as an extension of the work from home trend, offering flexibility between a home office and a more typical workplace.

3. KEY TRENDS: ISSUES AND OPPORTUNITIES

Parking

- Many interviewees noted that parking requirements in Hermosa Beach often prove to be a major barrier to economic growth, smart urban design, and maintaining the vitality of the historic downtown area. Reducing the City's parking standards in some cases would allow otherwise infeasible projects to be realized, facilitate rehabilitation and re-tenanting of historic buildings, and remove barriers to potential businesses wishing to locate in Downtown Hermosa.
- Restaurants in particular are less concerned about parking due to the growth in alternative transportation options, including ride sharing, carpooling, bicycling, and walking from nearby neighborhoods that have reduced car travel and the demand for customer parking.
- Employee parking takes up a lot of capacity that could serve patrons and visitors. Off-site could free up more customer parking and provide parking for beach goers and visitors in the summer months.
- One suggestion for off-site parking is converting the tennis courts at Civic Center to structured parking. The City's in lieu parking fee could be used to help finance parking on this site instead of on Lot A, north of 11th Street between Hermosa Avenue and Beach Drive. Several interviewees stated that this site would be better used for mixed-use development and/or civic uses in light of its proximity to the Strand and frontage on Hermosa Avenue.
- Parking uphill from the downtown commercial district would facilitate foot traffic passing by businesses. This juxtaposition has contributed to the vitality of the retail district in Manhattan Beach.
- It is generally agreed that onerous parking requirements likely made the hotel proposed on the Mermaid site financially infeasible. On-site parking requirements were also often cited as a major impediment to the rehabilitation and re-tenanting of older buildings that were built without off-street parking.
- Alternative parking and TDM (Transportation Demand Management) strategies could alleviate the financial burden of on-site parking. TDM measures may include valet parking, shuttles, off-site employee parking, and the encouragement of bicycle and pedestrian access, for example.
- Some business owners commented that fewer parking spaces can be beneficial to their bottom line, as it sometimes translates to lower lease rates.
- Interviewees were mixed in their assessment of the existing garage. While some noted that it removed demand for street and surface lot parking in the Downtown, and praised the public art component, others noted that it remains largely empty during off-peak periods and occupies a valuable piece of real estate adjacent to the Strand.

Business and Land Use Mix

- As a means of identifying the appropriate tenanting strategy for Downtown, multiple interviewees suggested an organized means of obtaining residents' input on their desired category of establishments.
- It was overwhelmingly agreed that the public safety concerns associated with a late-night bar scene have subsided significantly in the past decade, though the problem remains to some degree, particularly late at night.

- While some hope for a continued trend away from Hermosa’s image as a nightlife destination, others view the City’s drinking culture as integral to its identity and heritage. It was also noted that some restaurants/bars depend on the post dining hours drinking to make sufficient revenue to cover their costs.
- Among those hoping for a continued shift, a culinary-driven scene appears to be desired by many as a means of replicating the success of Downtown Manhattan Beach, and attracting a crowd that is less likely to cause police and EMT calls in the late hours.
- One resounding point of unison among interviewees is that outdoor dining which has increased as restaurants struggle to survive during the pandemic should be retained permanently and encouraged moving forward.
- While Hermosa Beach has historically not been a strong location for Class A office space, it is in a unique position to capitalize on certain office trends given its demographic characteristics and quality of life. It was noted that the desirable environment, ample food and business services, and the trend toward business decision-makers wanting to work closer to home are supportive of the demand for Class A office space.
- The likely ongoing trend of increased work from home could be augmented by coworking office space that offers an alternative to the home office some of the time.
- The PCH corridor offers a general business location in an accessible South Bay coastal community, and has attracted larger users recently, the national headquarters of the shoe company, Sketchers. Aviation Boulevard also has potential for market-driven revitalization.
- Many businesses are shut down or operating at reduced levels due to the restrictions of the Covid-19 pandemic. However, it appears that a number of apparently closed restaurants and entertainment venues are remodeling and planning to reopen with new offerings post COVID-19.
- The Comedy and Magic Club is an institution in Hermosa Beach and a valuable asset for the downtown. The owner has expressed concerns that he says make it problematic for him to reopen the club. City staff are engaging with him to see what can be done to maintain this unique asset.
- The opening of other small venues for live music or other entertainment would be a benefit for the downtown and offer an alternative to venues that are more focused on alcohol sales.
- Residential uses are largely absent from the downtown core. The development of mixed-use residential on infill sites downtown would add “rooftops” to support downtown restaurant and retail businesses, and activate the streets in the downtown core, as well as provide more ground floor commercial space.

Work From Home

- Beach cities in the LA metro area are very desirable locations due to the clean air, access to the beach as an amenity, and the charm of historic downtowns that have become increasingly vital. This is likely to increase the value and attraction of these areas for residents, but also as business locations as entrepreneurs and executives seek to reduce commuting on congested roads and highways.
- More people are working from home as a result of the Covid-19 pandemic. As people have found that work from home is a viable option for many, this trend is likely to continue after the pandemic is over.
- Work from home increases the market support for local businesses and restaurants and should be encouraged by the City.

- Allowing and encouraging small scale coworking spaces, perhaps in mixed-use buildings could support work from home for those who need to be an office part of the time, or prefer to have an option to work outside the home part of the time for other reasons.
- Small scale vertical mixed-use buildings with ground floor commercial and shared coworking office space above could be accommodated on small, infill sites downtown. Parking requirements could be reduced since many users would walk or bike to those locations from their homes.
- There is at least one coworking space in Hermosa, Unita, on Hermosa Avenue. Manhattan Beach has a number of them, and it is likely more could be supported in Hermosa as an adjunct to the work at home trend.
- Multiple interviewees noted the potential benefits of converting second floor office along Upper Pier into live-work lofts. They anticipate that this will both ease some pressure on the residential market and add to the vitality of the Upper Pier commercial district, which has traditionally seen less foot traffic than the area surrounding Pier Plaza.

City Policy and Role of Civic Organizations

- Multiple interviewees noted that, in the past, Hermosa Beach's business environment had a subpar reputation. Most clarified that this was no longer so, but that certain actions could be taken to further enhance the City's image as it interacts with existing and potential businesses.
- A common theme was Hermosa's use of conditional use permits (CUPs). Many understood that this tool was necessary to curb negative externalities of the City's bar scene in the 2000s, but felt that conditions were often over-prescriptive, complicated the transfer ownership for certain businesses, and that the application process to amend CUPs can be extremely cumbersome.
- Some interviewees expressed that the City does not have a comprehensive commercial strategy. However, they were heartened to hear that the city has appointed a downtown business liaison and created an Economic Development Committee and a stakeholder's group to address the business climate in the city.
- Those familiar with the Chamber of Commerce feel that the entity has a strong potential role, but has historically has not been as effective as it could be in providing guidance and advocacy for the City's business community. Recent changes in leadership may reinvigorate the Chamber and make it more effective.
- Another issue mentioned during the interviews was the perception that the City has focused on Downtown Hermosa at the expense of other commercial nodes within the City. However, recent policy changes have assisted the Cypress district in the southern part of the City, and the City is looking at the PCH corridor and Aviation Blvd. as places for larger businesses and employers, and considering how the City can help nurture that.
- The City has recently made code amendments to reduce costs for new businesses, including adding a Minor Sign Review and added a Minor Conditional Use Permit process.