



## Staff Report

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File #: REPORT 20-0255, Version: 1

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**Honorable Mayor and Members of the Hermosa Beach City Council  
Regular Meeting of May 12, 2020**

**IMPLEMENTING PLAN HERMOSA GOALS FOR  
PRESERVING DOWNTOWN GROUND FLOOR RETAIL  
AND RESTAURANT USES-NEXT STEPS**  
(Community Development Director Ken Robertson)

**Recommended Action:**

Staff recommends that the City Council refer the matter to the Economic Development Committee or the Planning Commission with direction to proceed with one or more of the following options;

- a. To hire an economic consultant to assess the market feasibility for economic uses and types of uses in the Downtown; and/or
- b. To bring back an interim urgency ordinance (moratorium) to address concerns about loss of retail and restaurant while the City studies the issue; and/or
- c. To establish regulations that give priority to preserving retail and restaurant uses on the ground floor and to address ground floor office conversions in the Downtown ahead of the City's Zoning Code update process.

**Executive Summary:**

The City Council has initiated this discussion of preservation of retail and restaurants. This report specifically studies the Downtown District as a first step to address this important concern, including market trends and office uses. The demand for office is expected to grow over the next several years.

Many of the City's studies and plans stress the need to use strategically located land resources to strengthen the economic vitality of the area and to facilitate the much needed daytime occupancies and foot traffic. Daytime uses, such as office uses, can promote foot traffic in the City's Downtown which is critical to businesses for economic growth and job creation. Recognizing that this is a time to be aware of the economic impacts to the business community is just as crucial as creating an environment to support the local economy during this challenging time. This is a time to retain and support the businesses, while allowing for an effective blend and mix of uses, while recognizing and adapting to the natural shift in the market.

Adopting an interim urgency ordinance (moratorium) would maintain the status quo pending the outcome of the City's studies. The ordinance could include exemptions-to recognize unique locations or buildings such as allowing conversions subject to approval of a conditional use permit (CUP), where certain specified criteria are satisfied. The following may be considered as pros and cons of enacting a moratorium:

Pros:

- A moratorium provides a “time out” in the approval and construction of new projects in the absence of consensus from stakeholders and decision makers on desired land uses, site design, etc. thereby increasing the likelihood of community support with the resulting outcome(s).
- A moratorium may create an incentive for multiple stakeholders to work together to jointly plan for the downtown.

Cons:

- A moratorium could delay entitlements for new projects, potentially missing a current, vital market opportunity.
- A moratorium may be viewed by stakeholders as “unfriendly” to investors interested in new project proposals, and potentially extend current vacancies.
- Postponing authorizations for applications which are currently in process could result in these applications being withdrawn.

Direction on this matter would help the City meet its General Plan goals and policies with the necessary flexibility to adapt as the economy and nature of businesses in the Downtown changes.

**Background:**

At its meeting held April 28th, the City Council requested a report and discussion of preservation of retail and restaurants in the City of Hermosa Beach.

The local and greater economy have enjoyed an economic growth cycle for over ten years. During this time of growth, the City of Hermosa Beach has invested in downtown infrastructure improvements along Pier Avenue and in Pier Plaza to support these businesses to help support the high quality of life and visitor experience in Hermosa Beach.

Downtown beach areas attract overnight visitors and day visitors to help support downtown businesses. Independent businesses can adapt more quickly to local market demands than national chains.

The sudden economic downturn beginning in March 2020, unprecedented quarantines, and resulting customers’ reliance on internet sales have created a perfect storm to negatively and severely affect businesses. Many businesses have had to close their doors during the pandemic and may be behind in rent and other business payments, which threaten the possibility of reopening. Customers may be unemployed or behind on payments and have fewer dollars to support businesses than at previous levels. The many economic factors could result in business closures and resulting commercial vacancies.

How can the City help to retain and strengthen local businesses citywide and specifically in its Downtown District? It is a time to be aware of the economic impacts to the business community and create an environment to support the local economy during this challenging time. This is a time to retain and support the businesses.

The City Council has initiated this discussion of preservation of retail and restaurants. This report

specifically studies the Downtown District as a first step to address this important concern, including trends and office uses.

### **Downtown Core Revitalization Strategy:**

The Downtown Core Revitalization Strategy is referenced in PLAN Hermosa, stated “Office development, whether on upper floors or in stand-alone buildings, is an important activity that can build economic support for local-serving retail and quality dining establishments.”

### **City's General Plan-PLAN Hermosa:**

The City's General Plan, PLAN Hermosa, identifies the Downtown District as Recreational Commercial (RC) in the area between the Strand and Hermosa Avenue, and as Community Commercial (CC) along Pier Avenue east of Hermosa Avenue up to Valley Drive. Office uses are allowed on upper floors only in the RC district. In the CC, office uses are encouraged on upper floors.

### **City's Current Rules and Regulations:**

The Zoning in Hermosa Beach Municipal Code divides the Downtown District into two zones: C-2 General Commercial in the area between the Strand and Hermosa Avenue, and SPA-11 Specific Plan Area 11 along Pier Avenue east of Hermosa Avenue up to Valley Drive. A map of the Downtown District Boundary with zoning classifications is included in the attachments section.

The Zoning Code does not preclude allowing office on the ground floor, although it does contain reference to encouraging ground floor uses that support pedestrian activity specifically in SPA-11. Office is a permitted use in both the C-2 General Commercial zone between the Strand and Hermosa Avenue and Specific Plan Area 11 SPA-11, the upper Pier Avenue area between Hermosa Avenue and Valley Drive.

C-2 General Commercial zone C HBMC Subsection 17.26.020 (B)(2) states:

C-2 Downtown Commercial Zone-a limited range of office, retail, and service commercial uses specifically appropriate for the scale and character of the downtown -- a resident and visitor serving pedestrian-oriented shopping/entertainment district.

HBMC Section 17.26.030 C-2 Land Use Regulations allow general offices as a permitted use.

SPA-11 Specific Area Plan 11 zone HBMC Subsection 17.38.540 (A) states:

A. General. The following permitted and conditional uses are intended to be consistent with the purposes of this zone. Uses that support pedestrian activity should be prominent, including day-time uses that serve the local residents and community.

"Pedestrian-oriented" means uses and activities that attract, accommodate and are highly visible to people who are walking. Most prominent on the ground floor are retail uses, restaurants or snack bars, and places for people to congregate, with offices, services and business services on second stories.

HBMC Subsection 17.38.540 (B) pertaining to the SPA 11 zone, Land Use Regulations, allow general offices as a permitted use.

This report reviews the City's business license data to identify current uses and analyze the changes and trends in the Downtown District.

### **Discussion:**

During the March 4, 2020 joint City Council/Planning Commission Study Session, the City discussed the Downtown District and stressed the importance of economic vitality and the ability to maintain and further the small-scale village environment of downtown Hermosa Beach. The City Council and Planning Commission agreed that while great progress has been achieved, specifically to upper Pier Ave and Pier Plaza, the Downtown has not seen the economic recovery and types of uses that the City had hoped for. The joint participants also suggested that insufficiencies in the zoning codes including, but not limited to stringent and inappropriately scaled parking regulations and lack of a sustaining and vibrant mix of business, could be the cause of the Downtown District not meeting previously set goals.

At the joint meeting, the City Council and Planning Commission initiated the creation of a Downtown Economic Development Committee, consisting of two City Councilmembers and two Planning Commissioners to drive the conversation of reinvesting in the economic sustainability of Downtown. The committee members have now been selected and have yet to hold its initial meeting. This report also responds to that direction, and the issues discussed and recommended for consideration in this report could be the first matters to be reviewed by the committee.

### **Zoning Code Assessment Update:**

The Zoning Code Assessment looks at the Code's ability to effectively implement the PLAN Hermosa's vision for neighborhood preservation and enhancement, economic development, environmental sustainability, and community health. The project consultants are currently in the process of compiling data collection, analysis, and review of the zoning code into an Assessment report that will be presented to the Planning Commission at the May 19, 2020 meeting. The next phase of the Project will be to initiate a multi-year, comprehensive zoning code update to reflect input from stakeholder interviews and the assessment of the existing code to better implement PLAN Hermosa.

### **Downtown Core Revitalization Strategy:**

To increase the economic vitality of the downtown the City initiated the Downtown Core Revitalization Strategy (Strategy) in January 2013. The Strategy was designed to identify opportunities, focusing on how City assets, including the civic center property and downtown parking lots, could be leveraged in conjunction with redevelopment of key privately held sites and for increased economic vitality generally. The policies and goals of the Strategy are designed to transform the area into a more family-friendly atmosphere, and a more economically balanced business district. The principles of the Strategy speak to the need to develop the Downtown Core as a pedestrian and people- oriented place that will drive day-time population and vitality contribute to the eclectic beach character of Downtown. The Strategy also calls to create a "distinctive and well-defined retail district with quality shops and restaurants on the ground floor that are pedestrian oriented, family-friendly and appealing to a wide range of people."

### **City of Hermosa Strategic Plan:**

The City of Hermosa Beach's Strategic Plan 2016-2021-2031 articulates the mission, vision, values, and goals of its residents, business, and public agencies to more effectively serve the City over the course of 15 years. The City Council's primary goal in preparing the Strategic Plan was to provide guidance for the future decision-making as the community grows and changes.

The 2031 Vision statement Principle 4 (Eclectic Downtown) states the following:

We Value:

1. Unique, small and locally owned retail shops
2. Well-maintained, artistic and attractive public spaces
3. Pier Plaza area - our downtown
4. Diversity with all feeling welcome and respected in our community
5. Variety of locally owned quality dining and entertainment venues
6. Vibrant unique, locally owned businesses connected to the community

We Aspire for 2031:

1. Diverse character of residents and businesses
2. Welcome innovators, champions and iconoclasts
3. Sense of community with vibrancy
4. Spaces for business incubators and innovators

The 2021 Goal 5 (Enhanced Economic Development Through Revitalization Downtown and Entry Corridors) objectives are as follows:

1. Increase day-time "foot traffic" in Downtown
2. Provide flexible parking that support economic development goal and projects
3. More attractive Pacific Coast Highway and Aviation corridors with more quality businesses
4. Attract new businesses including entertainment/film industry to do business in Hermosa Beach during off season (September - May)
5. Stimulate economic development opportunities on vacant and under-utilized property
6. Increase green/high technology businesses in Hermosa Beach

**Summary of Other City Approaches:**

City of Manhattan Beach

The City of Manhattan Beach has undergone a similar inquiry into the vitality of their Downtown, specifically whether or not to allow certain uses on the ground-floor to promote the pedestrian-orientation and beach character of the Downtown.

In response to the community's concerns, the City Council adopted an Interim Zoning Ordinance (IZO) ORD U 14-0011 in 2014 prohibiting the conversion of any commercial use to a different commercial use classification in the downtown area of the City. The City Council found that additional planning and research were urgently necessary to develop appropriate standards to regulate the conversion of retail uses to office space. The moratorium gave the City time to study whether changed uses conflicted with

General Plan, Specific Plan, or Zoning Code proposals.

Interim regulations are one method enacted to call a “timeout” when a contemplated general plan, specific plan or zoning proposal, which the City intends, or plans to study within a reasonable period of time, is being evaluated.

As a result of the study and moratorium, the City adopted Urgency Ordinance No 18-0019-U in 2018 to regulate ground floor uses. Banks, catering services, and offices would be permitted above the ground floor. These uses would also be permitted if exclusively fronting on an alley, subject to Community Development Director’s approval. All other locations for these three uses would require a Use Permit, such as a ground floor space adjacent to a sidewalk. Additionally, communication facilities would only be permitted above the ground floor.

#### City of El Segundo

Adopted in 2000, the City of El Segundo Downtown Specific Plan (Plan) encourages retail and neighborhood uses which are permitted on the ground floor with a minimum building depth of 25 feet, above and behind street-front level, and adjacent to alleys. These uses consist of retail, restaurants, banks (not to exceed 500 square feet), medical-dental offices, and general offices. The Plan encourages ground floor retail, upper floor office space, and development of mixed-use projects. Uses that do not generate daily pedestrian traffic are discouraged. In the Zoning Code, office uses are allowed on the ground floor level in the Downtown Commercial (C-RS) Zone.

#### City of Lomita

In 2018, the City of Lomita adopted the Lomita Downtown Vision, a retail analysis and downtown strategy that provides a comprehensive policy and regulations analysis and assesses the market feasibility for economic uses and types of development at specific sites with the Downtown Commercial District. The Vision recommended adopting design standards for Downtown and creating an umbrella business organization such as a business improvement district (BID). The report notes that retail is moving away from big box and more towards smaller neighborhood retail and that food, place, and experience are today’s anchor tenants. Based on the retail analysis, the City was encouraged to develop policies that target community destination retail that creates a sense of place while allowing for effective blending and mixings of uses.

While the Strategy does not specifically mention ground floor uses, the Zoning Code establishes the D-C (Downtown, Commercial) Zone “to promote the revitalization and development of the downtown area.” The D-C zone allows the following uses located above the ground floor:

1. Office, business and professional, including medical.
2. Personal improvement uses such as: music studio, tutoring, children's group classes, fitness center/health club, and dance/karate studio, with less than fifty (50) persons based upon occupant load as determined by building and safety.

Comprehensive background information on these specific items are provided in the attachment section,

which includes links to the Joint City Council/Planning Commission Study Session, the City of Hermosa Beach Strategic Plan, and the Downtown Core Revitalization Strategy.

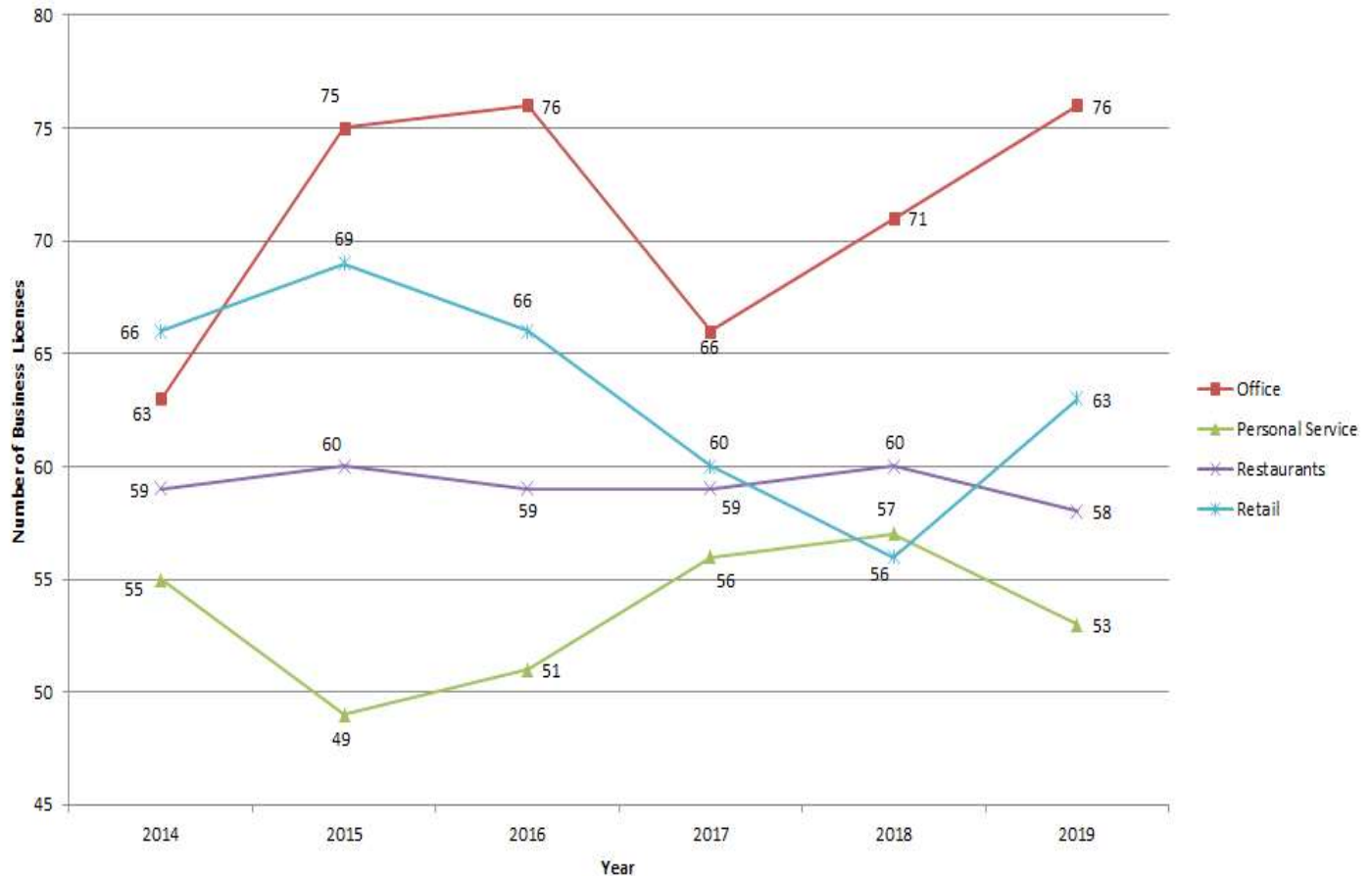
### **Analysis:**

Communities are facing a challenge as retail businesses vacate the traditional brick and mortar stores to ecommerce. This change typically results in an increase in office uses (medical, professional, and financial); as well as personal services (fitness studios, gyms, classes, beauty salons and barbershops, nail salons, dry cleaners, and laundromats). To understand how this change in shopping habits has affected Hermosa Beach, staff conducted an analysis of business licenses that were active within downtown between 2014 and 2019. Business licenses were classified as hotel/motel, office, personal service, restaurants, retail, and other. For the purposes of this analysis, all businesses were included in a general use category, but under the zoning code could be classified into a more specific category. Other uses are those that do not fit into the general categories, such as self-storage, manufacturing, and pay for use parking lots. A summary of the annual business licenses for downtown follows:

	2014	2015	2016	2017	2018	2019
Hotel/Motel	4	4	4	4	4	4
Office	63	75	76	66	71	76
Personal Service	55	49	51	56	57	53
Restaurants	59	60	59	59	60	58
Retail	66	69	66	60	56	63
Other	5	4	3	5	3	3
<b>Total</b>	<b>252</b>	<b>261</b>	<b>259</b>	<b>250</b>	<b>251</b>	<b>257</b>

For all intents and purposes, the total number of businesses in downtown has remained consistent with 2017 having the lowest number of active licenses (250) and 2015 having the highest (261). It is important to note that this analysis is a snapshot in time, and does not take into consideration the length of time each business was open. If a tenant space changed from one business to another mid-year, each business was accounted for in the survey.

In 2014, retail uses were the largest percentage of the total active business licenses in downtown; however, by 2015, the number of office businesses passed the number of retail uses. As noted in the following chart, office uses continue to be the primary business in downtown, with a 20.6% increase from 2014 to 2019. Conversely, retail uses have not bucked the trend with a 15% decrease from 2014 to 2018; however, 2019 resulted in a rebound of retail business operations. Restaurants have remained flat, while personal services had a slight decrease in the overall number of businesses in operation from 2014 to 2019.



### **General Plan Consistency:**

This report and associated recommendations have been evaluated for their consistency with the City's General Plan. Relevant Policies are listed further below:

The intent of the Downtown District Character area is to enhance the building form and orientation and to preserve the pedestrian realm along Pier Avenue while transforming the realm on Hermosa Avenue. The Downtown District should offer an array of uses for residents and visitors, and new buildings should take heed to contribute to the pedestrian-orientated nature of the Downtown. The intended land use distribution located within the Downtown should serve the daily needs and activities of residents and visitors and accommodate coastal-related recreation and commercial uses, which serve the year-round needs of residents.

In addition, PLAN Hermosa indicates that, "first floor street front businesses," in the Downtown District, "should include retail, restaurants, and other sales tax-generating commercial uses to promote lively pedestrian activity on Downtown streets," (PLAN Hermosa pg. 90). Although retail, restaurant and other similar uses are encouraged on the ground-floor, it is important to note that the General Plan is a guiding document that utilizes permissive language, such as "should" versus the more definitive "shall." Since



general plans incorporate numerous policies, some of which may have competing goals, it is impossible to meet all goals and policies, thus the use of permissive terminology. Plan Hermosa is a guide for City staff to evaluate projects and decide whether to pursue new opportunities (PLAN Hermosa pg. 19). As mentioned above, changing trends have led cities to pursue new opportunities for their Downtown districts.

According to PLAN Hermosa, “development along Pier Avenue and Hermosa Avenue should conform to recommendations of the Downtown Revitalization Strategy to realize a town-scale Main Street environment that support pedestrian activity and local serving commerce (PLAN Hermosa pg. 90). The 2015 Downtown Core Revitalization Strategy referenced in Plan Hermosa, stresses the need to utilize strategically located land resources to strengthen the economic vitality of the area and enhance the quality of life in the community as a whole and to facilitate the much needed daytime occupancies and foot traffic by spurring additional second floor office and service uses (PLAN Hermosa pg. 237). Offices uses can be classified as the much needed daytime occupancies, as mentioned in the Downtown Revitalization Strategy. Daytime uses, such as office uses, can promote foot traffic in the City’s Downtown. Office uses and the employment, services and daytime activity they bring are also critical to businesses for economic growth and job creation. Allowing office uses on the ground floor meet the intent of desired daytime uses that will feed into the Downtown, which will ultimately assist with the pedestrian orientated nature of the Downtown.

It is also noted in the 2015 Downtown Core Revitalization Strategy, that office development, is an important activity that can build economic support for local-serving retail and restaurant. (Downtown Core Revitalization Study pg. 6). Uses that increase the day-time population, and longer stay visitation, such as office uses, will contribute to the market support for retail development in the City’s Downtown and will bolster the pedestrian realm.

This report and the associated recommendations are consistent with General Plan Land Use and Design Goal 1 which aims to create a sustainable urban form and land use patterns that support a robust economy and high quality of life for residents through implementing the following policies:

#### *Land Use and Design Element*

### **Goal 1. Create a sustainable urban form and land use patterns that support a robust economy and high quality of life for residents.**

*Providing a balance of housing, employment, retail and services, recreation, culture and arts, education, and entertainment for the City’s residents and businesses helps to promote sustainability, safety, prosperity, and well-being of the community and improves the quality of life for residents.*

#### Policies:

- **1.5 Balance resident and visitor needs.** Ensure land uses and businesses provide for the needs of residents as well as visitors.
- **1.7 Compatibility of uses.** Ensure the placement of new uses does not create or exacerbate

nuisances between different types of land uses.

- **1.9 Retain commercial land area.** Discourage the conversion of commercial land to residential uses.

**Goal 3. A series of unique, destination-oriented districts throughout Hermosa Beach.**

*Well-designed districts provide space for recreational uses, creative industrial, and civic or community uses and help to increase access to jobs, provide amenities for residents, and improve the fiscal stability of the City.*

Policy:

- **3.4 Emerging employment sectors.** Strive to create districts that support increased employment activity, particularly for growing or emerging economic sectors.

**Fiscal Impact:**

No fiscal impacts are associated with the recommendation, however, potential changes to downtown use mixtures may spur potential increases to sales tax revenue from downtown retail and restaurant uses due to increased daytime occupants and foot traffic generated from a balance of offices uses. If a consultant is approved, funds would be transferred from Prospective Expenditures to cover the expenditure, which is estimated to be less than \$30,000.

**Next Steps:**

After City Council direction on this matter, City staff would work with the Economic Development Committee or Planning Commission to assess and respond to Council direction and would return with recommendations to implement PLAN Hermosa goals for preserving downtown ground floor retail and restaurant uses while addressing market trends and office uses in the downtown. Direction on this matter would help the City meet its General Plan goals and policies with the necessary flexibility to adapt as the economy and nature of businesses in the Downtown changes.

**Attachments:**

1. Downtown District Boundary on Zoning Map
2. Link to March 4, 2020 joint PC and CC study session video and agenda
3. Excerpt of Downtown Core Revitalization Study
4. Full 2015 Downtown Core Revitalization Strategy
5. Planning for a Resilient Retail Landscape (APA PAS Memo)
6. Retail Realities (APA Article)
7. Tech Job Growth Continues to Create Demand for Office Space (National Real Estate Investor Article)
8. Principles and Guidelines- Reflecting the Downtown Core Revitalization Strategy
9. Strategic Plan 2016-2021-2031

**Respectfully Submitted by:** Ken Robertson, Community Development Director

**Concur:** Nicole Ellis, Associate Planner  
Yuritzy Randle and Melanie Emas, Assistant Planners  
David Blumenthal, AICP and Christy Teague, AICP, Senior Planners

**Noted for Fiscal Impact:** Viki Copeland, Finance Director

**Legal Review:** Mike Jenkins, City Attorney

**Approved:** Suja Lowenthal, City Manager