

Final Report

LA Waterfront Site Development Feasibility Analysis

The Economics of Land Use



Source: Port of Los Angeles

Prepared for:

Los Angeles Economic and Workforce Development Department
Los Angeles City Council District 15

Prepared by:

Economic & Planning Systems, Inc. (EPS)

In association with:

Community Design + Architecture

*Economic & Planning Systems, Inc.
949 South Hope Street, Suite 103
Los Angeles, CA 90015-1454
213 489 3808 tel
213 489 3881 fax*

*Oakland
Sacramento
Denver
Los Angeles*

www.epsys.com

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1. SUMMARY OF FINDINGS

Overview and Acknowledgements

The City of Los Angeles Economic and Workforce Development Department (EWDD) in conjunction with the City of Los Angeles Council District 15 (CD 15) and the Mayor's Office of Economic Development commissioned this Feasibility Study of the market potential of residential and hospitality-related development along the Los Angeles (LA) Waterfront and Downtown San Pedro. The purpose of the study is to determine the opportunities and constraints for residential and hospitality development on publicly-owned sites on the LA Waterfront. These sites may have the potential to help catalyze additional private investment on the LA Waterfront in conjunction with the substantial public and private investments already completed and planned.

This Study is the outgrowth of an ongoing dialogue concerning opportunities for revitalization and development along the LA Waterfront. In March 2015, the Los Angeles Economic Development Corporation (LAEDC) held a charrette to discuss the LA Waterfront. The charrette concluded that there were genuine opportunities to stimulate catalytic residential and hospitality-related development on publicly-owned parcels controlled by the Harbor Department and the City of Los Angeles. The City of Los Angeles subsequently expanded the focus to include other publicly-owned sites, including land owned by the County and the State.

The study was conducted in four analytical phases, as follows.

1. Gather primary source material through site visits and interviews with developers, brokers, and community stakeholders. Interviewees included: Peter Hudnut, Ratkovich Company; Jenny Krusoe, AltaSea; Wayne Blank, Crafted; Kevin Tanna, Omninet Capital, llc; Michael Powers, DoubleTree Hotel San Pedro; Anthony Stanchina and Charay Compton Morris, Crowne Plaza Hotel; Daryl Sequeira, Vice President of Project Management, LaTerra Development; Mike Galvin and Michael Chan, Port of LA; Connie Pallini-Tipton, LA City Planning; Josh Rohmer, LA CAO Office; David Roberts, LA City Council District 15; Elise Swanson, San Pedro Chamber of Commerce; Jenny Scanlin, HACLA; Bea Hsu, Senior Vice President of Development and Forward Planning, Related; Eric Eisenberg, The Renaissance Group; Laurie Wixted, The Wixted Group; Shauna Mattis, Wilson Retail Group; Patti MacJennett, Senior Vice President, Business Affairs, LA Tourism and Convention Board.
2. Gather secondary source materials including socioeconomic and market data from the Census, CoStar, Trulia, and ESRI; regulatory documents including the Draft San Pedro Community Plan, Assessor Parcel data, Tidelands Trust Boundaries, and LA Waterfront EIR; independent studies including the LAEDC Charrette report, Proforma Advisors Ports O' Call Analysis, Kosmont AltaSea Fiscal Benefit Analysis; and general news and business literature searches.
3. Synthesize data to identify and prioritize potential uses based on: zoning and Tidelands Trust allowances; site location, size, and complementary adjacencies; viability in today's and/or future market.

4. Assess financial feasibility of priority uses in the near-term under current market conditions and longer-term given trends and influence of LA Waterfront project pipeline.

The report includes four sections following this summary: a discussion of the 16 opportunity sites within the context of the greater LA Waterfront Initiative; an assessment of the market context influencing new development potential; an analysis of the feasibility of five representative prototype uses under current and potential future market conditions; and a technical Appendix with backing data for the feasibility study.

Key Findings

Below is a topline summary of the study's key findings.

1. **LA Waterfront development initiatives are expected to result in major public and private investments totaling over \$1 billion.** About \$330 million of public and private investment in infrastructure, capital facilities, public amenities, and private development have occurred on the LA Waterfront since 2003. These improvements have paved the way for an additional \$700 million in planned investments, notably including the transformative Alta Sea project—a maritime innovation center and think tank—and the San Pedro Public Market—a major commercial development with retail and tourism-related uses. As well as bringing new investment to the LA Waterfront, these two projects are expected to draw millions of new visitors and establish a new employment center on the LA Waterfront. The overall catalytic impacts of these projects will not be fully known until they are built but are expected to be substantial.
2. **The 16 publicly owned sites considered in this study are clustered in four main sub-areas along the LA Waterfront, where other investments have occurred or are contemplated.** The 16 publicly owned sites includes five sites in the Outer Harbor area, six in or near Downtown San Pedro, one in the Cruise Center area, and four in Wilmington. The Outer Harbor sites are predominantly owned by the Harbor Department and include a number of significant visitor-servicing facilities as well as the 14-acre Outer Harbor site and the 5-acre historically designated Warehouse #1 site. The proposed AltaSea marine research center could strongly influence development potential in this sub-area. The Downtown San Pedro sites are owned by the City, County, and State of California, and mainly provide infill opportunities to develop parking lots or redevelop low-rise structures. The proposed San Pedro Public Market is expected to strongly influence future market opportunities in this sub-area. The Cruise Center sub-area includes the Caltrans Park and Ride lot opportunity site, for which future redevelopment could complement the cruise business. The four Wilmington sites, separated by some distance from the San Pedro sites, cluster near the proposed Wilmington Harbor Promenade redevelopment, which could have a catalytic effect on revitalizing the sub-area.

Opportunity Sites and LA Waterfront Project Initiatives



3. A review of site conditions, physical and regulatory constraints, and overall market conditions point to conclusions about potential future uses for the opportunity sites. The small size of the Downtown San Pedro sites, at between 0.7 and 1.8 acres, as well as the existing walkable urban fabric suggest development potential for medium-density residential and mixed-use products. The exception is the LA Maritime Museum, a public asset assumed to remain in its current use. In the Outer Harbor sub-area, the proposed AltaSea project, coupled with Tidelands Trust restrictions on residential uses, point to future hospitality, recreation, educational, and office uses. Sub-area sites with strong existing uses, such as the Cabrillo Marine Aquarium and the Cabrillo Beach Youth Water Center, are assumed to retain their current form. The configuration and location of the Caltrans Park and Ride lot site near the cruise terminal, Vincent Thomas Bridge, and 110 Highway suggests potential for either office/industrial uses or a select-service hotel. For the Wilmington sites, the legacy industrial context suggests a longer-term hold for potential industrial/flex space to follow progress on the Avalon Boulevard Corridor Master Plan vision and key LA Waterfront public investments including the Wilmington Promenade and the Avalon Triangle Park.

- 4. Real estate market conditions in Downtown San Pedro and along the LA Waterfront are improving and have spurred new development in some land use categories.** In addition to the major LA Waterfront Initiative projects discussed above, private developers and owners are pursuing a variety of development and renovation opportunities in San Pedro including new residential development and rehabilitation and renovation of older buildings. For some proposed new uses, including hospitality and office uses, current market conditions and development economics have not yet induced developer interest.
- 5. Feasibility analysis of proposed residential, hospitality, and office uses indicates that, with the exception of for-sale town homes, further market improvement and/or additional public subsidy is likely required before the opportunity sites can support substantial new development.** As elsewhere in Los Angeles County, town home condominiums offer developers a feasible model for the San Pedro area at current market prices. On the other hand, market rents, are generally unable to cover the substantial new development costs associated with denser mid-rise and high-rise residential products, which typically require expensive building materials and underground or structured parking as compared with less-dense uses. Tested hotel and office uses also indicate feasibility challenges, due to the relatively soft San Pedro hotel and office markets. The ability to cover development costs and land costs looks to be achieved only after San Pedro market rents improve substantially to a level consistent with recent projects in Long Beach. The feasibility analysis also suggests that, at this point in time, even with the availability of public sites with heavily discounted land costs, these uses fall short of covering development costs. However, modest market improvements of between 10 and 30 percent in San Pedro market rents may be required to support new development where public sites are provided at zero or modest costs. While still subject to market cycles and uncertainty, the \$700 million pipeline of LA Waterfront projects has potential to substantially increase area visitor and employment population and transform area market dynamics so as to make these uses feasible on public land.
- 6. The recommended uses and the expected timeframe for potential opportunity site development vary by area.** The site assessment, market context, and feasibility analyses contained in this report arrive at a range of conclusions for different clusters of opportunity sites. There is a strong connection between locations, most promising land uses, and likely timing of future development as summarized below and shown in the following exhibit:

Downtown San Pedro. New residential development in and near the Downtown area represents the best short-term (0 - 5 years) development opportunity. Pioneering developers are seeing opportunities at this time while others will likely wait for further progress on the first phase of the San Pedro Public Market project. Depending on site acreage and zoning parameters, the Downtown opportunity sites could potentially support a range of medium- and high-density residential and residential mixed-use projects. Site-specific conditions, parking needs, community benefit requirements, and the availability of public subsidies will also play a role in the timing of any development.

Outer Harbor and Cruise Terminal Area. New hotel and office development are longer-term opportunities that will depend on establishing a more robust tourist and employment node in the LA Waterfront area. Recovery of the cruise business, construction of the San Pedro Public Market, and/or construction of AltaSea in the next 5 to 15 years are likely pre-

conditions to unsubsidized development of these areas. The opportunity site locations in the Outer Harbor and Cruise Terminal Area, due to their size, adjacencies, and restrictions imposed by Tidelands Trust boundaries, could potentially support these new hotel and office/creative office uses.

Wilmington. The Wilmington Area opportunity sites, which are located in an under-utilized industrial area, are also longer-term opportunities. The proposed Wilmington Waterfront project and Avalon Triangle Park will be critical elements of any revitalization that occurs there. Because the opportunity site locations are small and non-contiguous, the best likely new uses are industrial or industrial flex. These recommended industrial uses are also aligned with the development concepts envisioned in the Wilmington Waterfront Master Plan. A more comprehensive redevelopment strategy that includes assembly of the opportunity site locations into larger contiguous parcels (which is outside the scope of this study) would present a stronger development opportunity.

Potential Opportunity Site Uses

Site	Existing Uses	Potential Uses	Market Contingencies	Market Timing
Outer Harbor				
1. Outer Harbor	Cruise ship berth & public events site	Small destination hotel	Establish San Pedro Public Market and AltaSea	5-15 Years
2. Warehouse #1	Storage, Navy Seals training	Adaptive reuse of historic warehouse for office uses	Establish AltaSea	5-15 Years
3. Cabrillo Way Marina Parking	Parking	Hotel, Creative Office	Establish AltaSea	5-15 Years
4. Cabrillo Marine Aquarium	Visitor-serving museum	Maintain existing facility	NA	NA
5. Cabrillo Beach Youth Water Center	Boy Scouts camp	Maintain existing facility	NA	NA
Downtown				
6. Parking Lot 641	RFP for MU/MF Development	Residential/Mixed Use	Establish San Pedro Public Market	0-5 Years
7. Parking Lot 684	Parking	Residential/Mixed Use	Establish San Pedro Public Market	0-5 Years
8. San Pedro Courthouse	Vacant	Residential/Mixed Use	Establish San Pedro Public Market	0-5 Years
9. LA County Health Clinic and Parking	LA County medical offices	Residential/Mixed Use (Master Plan Sites 9 and 10 together)	Establish San Pedro Public Market	0-10 Years
10. Municipal Building Visitor Parking	Parking			
11. LA Maritime Museum/Berth 84	Visitor-serving museum	Maintain existing facility	NA	NA
Cruise Center				
12. Caltrans Park and Ride Lot	Parking	Light industrial or hotel (if cruise business returns)	NA	5-15 Years
Wilmington				
13. Wilmington Harbor #1	Vacant Lot	Avalon Triangle Park (POLA Project)	NA	5-15 Years
14. Wilmington Harbor #2	Parking	Industrial/flex/creative office	Establish Wilmington Waterfront	5-15 Years
15. Wilmington Harbor #3	Parking	Industrial/flex/creative office	Establish Wilmington Waterfront	5-15 Years
16. Wilmington Harbor #4	Vacant Lot	Industrial/flex/creative office	Establish Wilmington Waterfront	5-15 Years

Source: Economic & Planning Systems

7. Over time, the publicly-owned opportunity sites could help catalyze residential and hotel development in Downtown San Pedro and elsewhere on the LA Waterfront.

Publicly owned sites have provided important support to attractive and community-benefitting private development projects in cities throughout the U.S. Key to their effective use is the ability to provide land at below-market rates to publicly beneficial private development that would not occur without this public support. The market and feasibility

analysis conducted in this report suggest that pioneering developers may be able to calibrate a higher density residential project that could work financially in the near term with the support of discounted land and/or other public subsidies. Other developers, of residential, hotel, and creative office, are likely to look for more support than public land alone or wait for other LA Waterfront investments to occur before committing to a public/private partnership of this nature. This will be especially true for the more challenging sites where regulatory, historic resource, replacement parking, or other constraints are present.

- 8. The City's issuance of Request for Proposals (RFPs) for public-owned sites in Downtown San Pedro will provide important additional insights into the likely timing of new development catalyzed by publicly owned sites.** The City of Los Angeles has recently issued developer RFPs for sites in Downtown San Pedro. These developer solicitations will help determine interest from developers in these sites and will provide further indication of the level of market interest as well as public support needed. If new projects are constructed and successful, this would provide a new and important indicator of potential to developers who are more risk-averse. The process of developer feedback, discussion, and negotiation associated with these RFPs will provide important additional insights to the results of this study. As demonstrated by the San Pedro Public Market, AltaSea, Crafted at Port of LA, and others, there are real opportunities for private investments when combined with a supportive regulatory environment, public land/subsidy, and pioneering investors and developers.

2. LA WATERFRONT OPPORTUNITY SITES

This chapter provides contextual information on the evolution of the LA Waterfront and the substantial public and private investments, activities, and development that are completed and proposed for this unique area of the City of Los Angeles. It also introduces the 16 publicly owned sites that are the focus of this Feasibility Study, placing them in this broader context and showing their proximity and inter-relationship with other investments and opportunities along the LA Waterfront.

LA Waterfront

History

The City of San Pedro evolved in tandem with the adjacent Ports of Los Angeles and Long Beach. Original port activities included shipping, shipbuilding, fishing, and—between 1940 and 1944—hosting the United States Navy Battle Fleet. After the Second World War, maritime activities expanded and San Pedro thrived.

A major turning point occurred in 1958, when the first 20 shipping containers arrived at the Port of Los Angeles, ushering in a revolution in global goods distribution. Container-based shipping enabled vast improvements in efficiency, as nearly 162 times more cargo per man-hour could be moved by container than by prior means.¹ While the Port grew to become the largest port complex in the country and a major driver of regional economic growth, the local economy declined. Automation of many labor-intensive tasks reduced personnel requirements, expansion of loading docks areas consumed private and public recreational space, and port-generated pollution all but ended the commercial fishing industry. Consequently, blighted areas began to appear throughout the City, especially in and around the Downtown San Pedro area. And despite numerous projects and planning initiatives by the Redevelopment Agency and other groups beginning in the 1960s, the vision of a popular waterfront destination did not materialize.

LA Waterfront Project

In recent years, the Port of Los Angeles has been engaged in a multi-year planning and investment process to revitalize portions of the San Pedro and Wilmington waterfronts for non-industrial uses. Called the LA Waterfront Project (formerly the “Bridge to Breakwater” vision), the initiative aims to:

- link downtown San Pedro with the waterfront;
- enhance visitor- and community-serving commercial opportunities;
- remove and re-locate cargo handling operations;
- promote non-vehicular access and circulation;
- maintain cruise terminal competitiveness;

¹ KCET: <http://www.kcet.org/socal/departures/710-corridor/brief-history-of-the-ports-of-los-angeles-and-long-beach.html>

- create economic opportunities for the surrounding area; and
- grow in a sustainable fashion.

Since its inception, a number of LA Waterfront projects totaling approximately \$330 million in public and private investment have been completed with another \$700 million proposed. A list of completed and proposed San Pedro Waterfront Project Initiatives is shown in **Exhibit 1**.

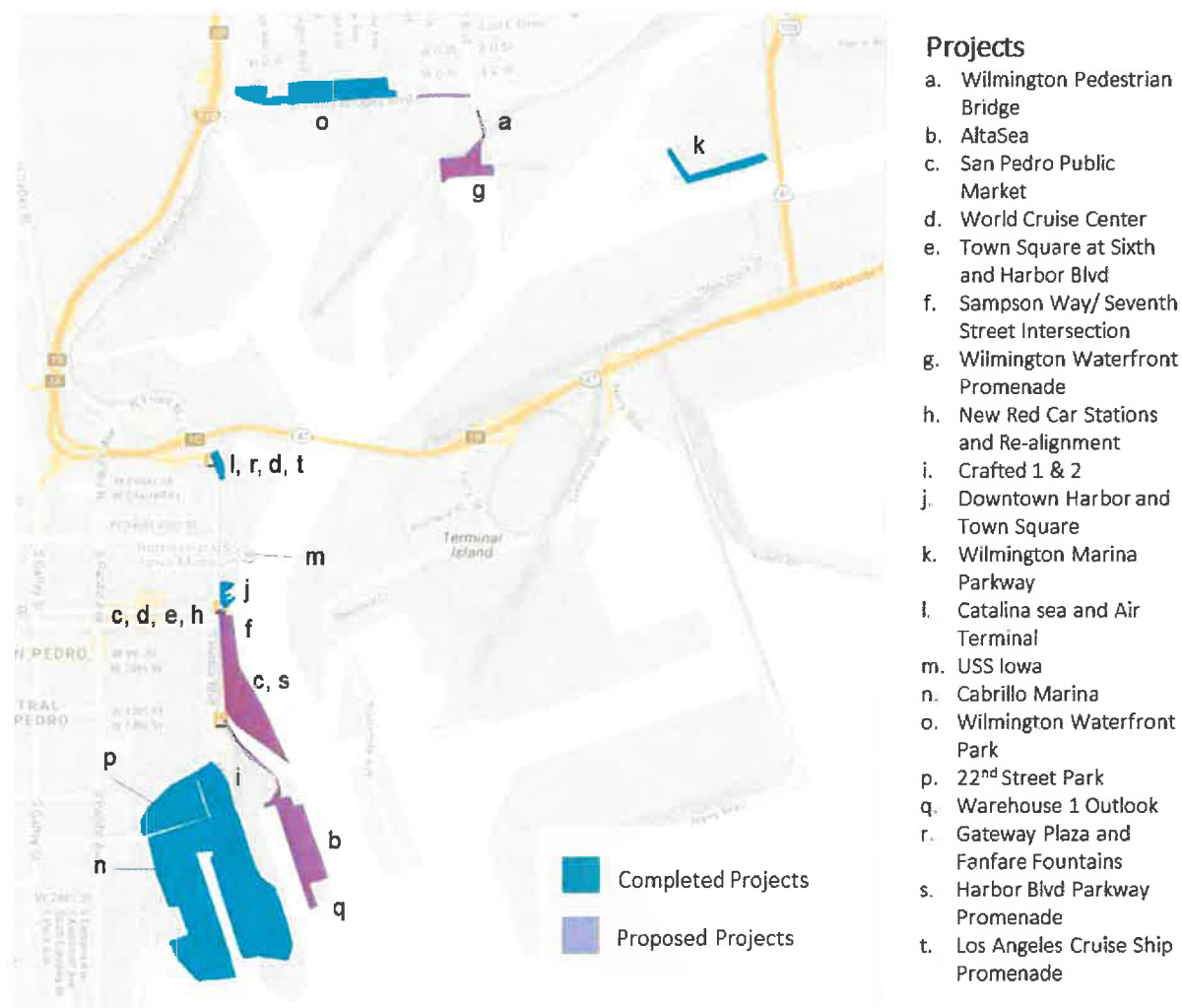
Exhibit 1 LA Waterfront Development Initiatives Planned and Completed

Project	Description	LA Waterfront Area	Budget	Status	Completed (and estimated)
Wilmington Pedestrian Bridge	Ped. bridge accessing Wilmington Promenade.	Wilmington	\$14,900,000	Planning	2024
Alta Sea	Ocean-based innovation center and think tank.	Outer Harbor	\$500,000,000	Phase 1 to begin late 2016	2022
San Pedro Public Market (Phase 1)	30-acre site with retail and tourism-related uses.	Downtown	\$100,000,000	Negotiating ground lease.	2020
San Pedro Public Market (Phase 2)	Intensify uses, add structured parking.	Downtown	TBD	As market permits	TBD
Ports O' Call Promenade and Parking	Public open space.	Downtown	\$32,900,000	Planning	2020
Town square at Sixth St. and Harbor Blvd.	Public open space.	Downtown	\$4,100,000	Design documents.	2019
Sampson Way/Seventh Street intersection	Improve vehicular and non-vehicular access	Downtown	\$13,600,000	Design documents.	2019
Wilmington Waterfront Promenade	8-ac site with a waterfront promenade, ped plaza, parking.	Wilmington	\$52,700,000	Planning	2018
New Red Car Stations and Re-alignment	DT San Pedro Circulator.	All San Pedro	TBD	Planning	TBD
Brouwerij West: (CRAFTED Phase 2)	Craft Brewery in the historic Warehouse #9.	Outer Harbor	NA	Completed	2016
Downtown Harbor and Town Square	1.2-acre waterside public space, marina, and promenade.	Downtown	\$47,400,000	Completed	2014
Wilmington Marina Parkway	3-acre landscaped promenade.	Wilmington	\$1,200,000	Completed	2014
CRAFTED (PHASE 1)	140,000-sq.ft. artisans marketplace in historic warehouse.	Outer Harbor	\$6,000,000	Completed	2012
Catalina Sea and Air Terminal	Upgraded terminal complex for Catalina Express.	Cruise Center	\$4,300,000	Completed	2012
USS Iowa	Floating Museum.	Downtown	\$8,500,000	Completed	2012
Cabrillo Marina	Update of the 87-acre 700-slip marina and waterfront.	Outer Harbor	\$125,000,000	Completed	2011
Wilmington Waterfront Park	30-acre park.	Wilmington	\$55,000,000	Completed	2011
22 nd Street Park	18-acre park on former tank-farm site	Outer Harbor	\$10,500,000	Completed	2010
Warehouse 1 Outlook	Parking, outlook, and benches over Main Channel.	Outer Harbor	\$400,000	Completed	2009
Gateway Plaza and Fanfare Fountains	Interactive fountain and open space area.	Cruise Center	\$16,300,000	Completed	2008
Harbor Boulevard Parkway Promenade	Promenade with parks, and landscaping near Harbor Blvd.	All San Pedro	\$23,400,000	Completed	2005
Los Angeles Cruise Ship Promenade	4-acre open space and waterfront promenade.	Cruise Center	\$14,000,000	Completed	2004
World Cruise Center	Renovate/expand the Port of LA World Cruise Center.	Cruise Center	\$21,000,000	Completed	2003
Public Investment to Date			\$327,000,000		
Private Investment to Date			\$6,000,000		
Pipeline Planned Public Investment			\$103,300,000		
Pipeline Planned Private Investment			\$600,000,000		
Total (rounded)			\$1,040,000,000		

Sources: Port of Los Angeles, public literature, company websites

The LA Waterfront initiative projects are located in four general areas spread over 400 acres that stretch from the southeastern tip of San Pedro to the southern edge of Wilmington as shown in **Exhibit 2**. These areas are designated here as Outer Harbor, Downtown San Pedro, Cruise Center, and Wilmington. Completed projects include recently opened commercial/tourist destinations such as Crafted and Brouweij West and renovations of the Cabrillo Marina and World Cruise Center. Additional investments in public amenities have included the Wilmington Waterfront Park, the 22nd Street Park, and Downtown Harbor and Square among others.

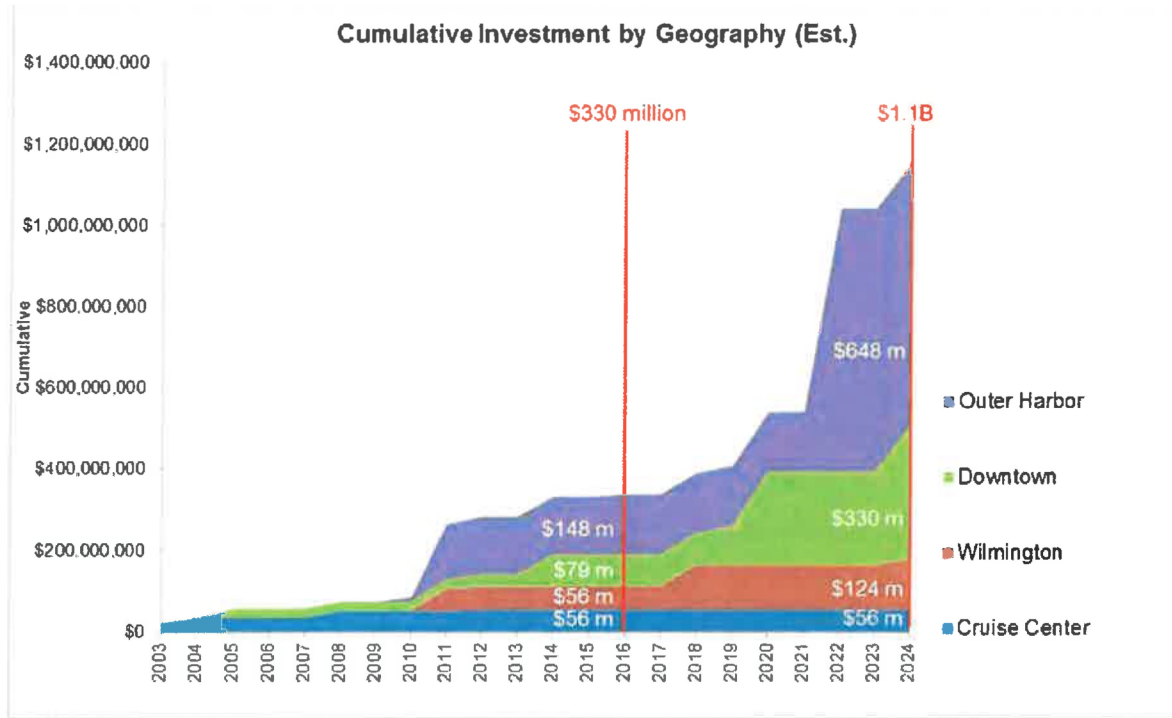
Exhibit 2 LA Waterfront Development Initiatives Planned and Completed



Source: EPS

Because the LA Waterfront encompasses a broad area, investment to date—while substantial—has been widely distributed. The remaining proposed investment, as indicated in **Exhibit 3**, should add greatly to revitalization of the Outer Harbor, Downtown San Pedro, and (to a lesser extent) Wilmington areas.

Exhibit 3 LA Waterfront Development Investment Schedule by Geography



Overall, the LA Waterfront Project should help induce market conditions supportive of additional new development and investment in San Pedro and Wilmington. When complete, nearly \$30 million in mobility improvements will support better access and circulation, \$250 million in open space improvements will increase the sense of place and appeal to visitors, workers, and residents, and \$750 million in commercial development will establish several new large-scale retail and employment destinations.

Together, these improvements could increase annual visitation by over 2 million and full-time employment by an estimated 1,300 over the next ten years. Additionally, the five residential projects currently in the San Pedro development pipeline could add 3,330 new residents, with more residential projects likely to follow. For a summary of estimated new visitation, employment, and residential population, see **Exhibit 4**.

Exhibit 4 LA Waterfront Estimated Visitation, Employment, and Residential Growth

Item	Status	Total	% Unique ¹	Unique by Year ¹		
				2015	2020	2025
Visitation						
AltaSea ²	Pre-Approval	500,000 /year	75%	0	7,500	375,000
San Pedro Public Market ³	Pre-Approval	4,053,000 /year	75%	0	1,519,875	3,039,750
Brouwerij West ⁴	Existing	190,000 /year	35%	0	66,500	66,500
Existing Uses ^{5,6,7,8,9,10}	Existing			2,459,652	1,015,902	1,015,902
Crafted ⁵	Existing	117,000 /year	75%	87,750	87,750	87,750
Cabrillo Marina ⁶	Existing	20,160 /year	95%	19,152	19,152	19,152
Cabrillo Marine Aquarium ⁷	Existing	300,000 /year	75%	225,000	225,000	225,000
World Cruise Center ⁸	Existing	560,000 /year	95%	532,000	532,000	532,000
Battleship Iowa ⁹	Existing	160,000 /year	95%	152,000	152,000	152,000
Ports o' Call ¹⁰	Existing	1,925,000 /year	75%	1,443,750	0	0
Subtotal (rounded)				2,460,000	2,610,000	4,500,000
# new from 2015					150,000	2,040,000
% growth from 2015					6%	83%
Full-Time Employees (FTE)						
AltaSea ²	Pre-Approval	726 FTE		0	713	726
San Pedro Public Market ¹¹	Pre-Approval	522 FTE		0	261	522
Brouwerij West ¹²	Existing	54 FTE		54	54	54
San Pedro ¹³	Existing	11,195 FTE		11,195	11,195	11,195
Subtotal (rounded)				11,200	12,200	12,500
# new from 2015					1,000	1,300
% growth from 2015					9%	12%
Residential Population						
San Pedro ¹⁴	Existing	79,316 residents		79,316	79,316	79,316
Pipeline Residential Projects¹⁵						
Holland Parters Project	Pre-Approval	702 residents		0	702	702
Omninet Project	Pre-Approval	900 residents		0	900	900
Nelson One	Pre-Approval	153 residents		0	153	153
LaTerra Project	Engineering	54 residents		0	54	54
High Park	Grading	1,521 residents		0	507	1,521
Subtotal (rounded)				79,320	81,630	82,650
# new from 2015					2,310	3,330
% growth from 2015					3%	4%

(1) Source: EPS estimate of unique visitors.

(2) Sources: Kosmont Fiscal Benefit Analysis (2013), EPS AltaSea interview (6/2016), City of LA Report of Approval of Dock No. 1 lease with Rockefeller Philanthropy Advisors (12/2014).

(3) Source: Ports o' Call Redevelopment Financial Analysis, "Optimum Scenario," Proforma Advisors. EPS averaged high, low estimates, distributed over two phases.

(4) Source: EPS est. based on 13,500 non-brewery sq.ft. generating \$350/Sq.Ft. (a benchmark for moderate profitability) and \$25/patron avg. spending.

(5) Crafted Source: 2013, <http://www.sanpedrobeacon.com/2014/03/21/crafted-brouwerij-west-to-transform-warehouse-nine-into-beer-and-foodie-destination/>

(6) Cabrillo Marina Source: EPS Estimate: 700 slips, 80% @ 6 visits/year/slip, 20% @ 24 visits/year/slip, 3 visitors/visit

(7) Cabrillo Marine Aquarium Source: Ports o' Call Redevelopment Financial Analysis, Proforma Advisors.

(8) World Cruise Center Source: Port of Los Angeles

(9) Battleship Iowa Source: Ports o' Call Redevelopment Financial Analysis, Proforma Advisors, based on June 2013 - May 2014 recorded visitation

(10) Ports o' Call Source: Ports o' Call Redevelopment Financial Analysis, Proforma Advisors, average of high and low estimates.

(11) Source: Ports o' Call Redevelopment Financial Analysis, "Optimum Scenario" recommendation, Proforma Advisors. Distributed by EPS over two build-out phases

(12) Source: EPS estimate of 1 employee per 500 square feet of commercial area

(13) Source: LEHD On the Map for 2014. (Assumed inclusion of Crafted, Cabrillo Marina, World Cruise Center, Battleship Iowa, and Ports o' Call)

(14) Source: 2008-2012 U.S. Census American Community Survey 5-Yr Estimate.

(15) Sources: LA City Council District 15, new literature surveys for project descriptions. EPS assumes 2.25 residents per new unit.

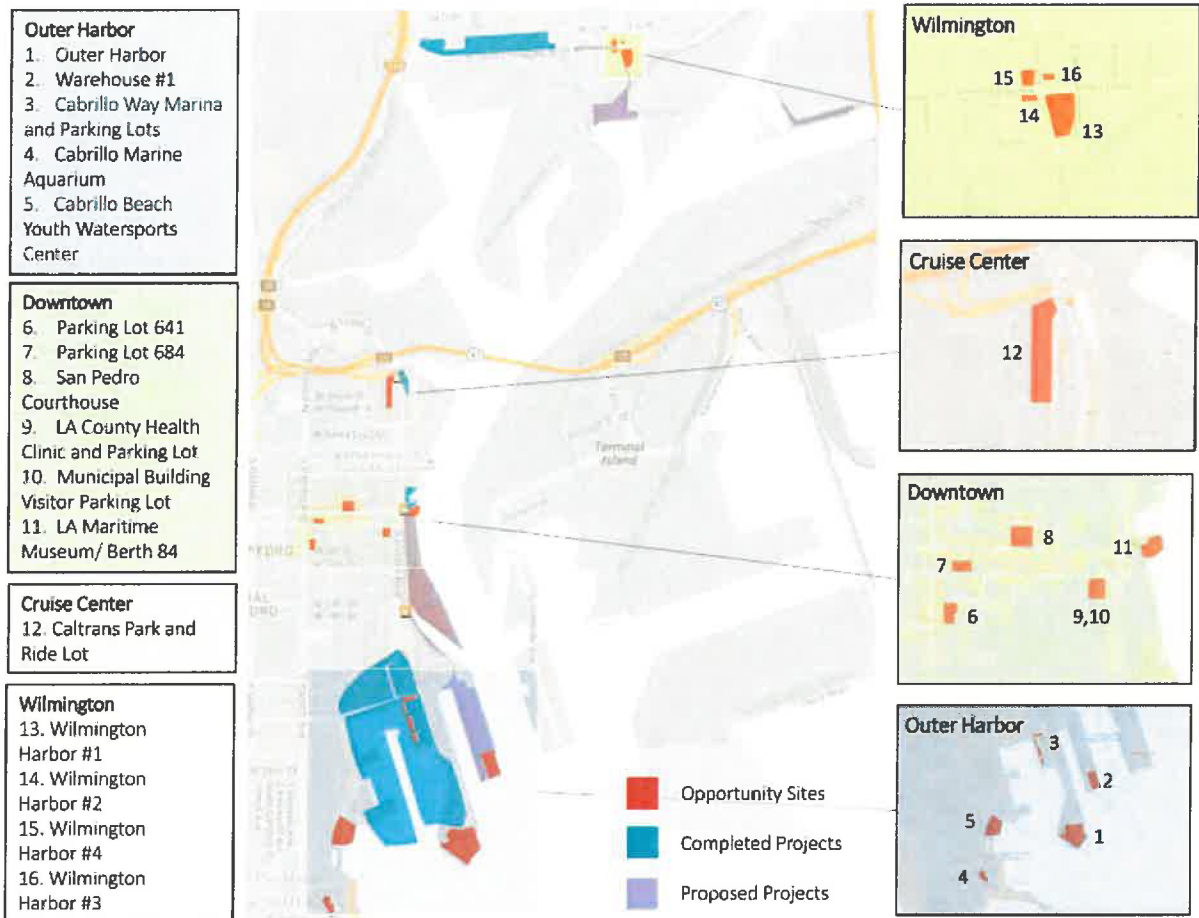
Development Opportunity Sites

Sixteen publicly-owned opportunity sites that are the subject of this study are grouped in four distinct sub-areas: Outer Harbor, Downtown, Cruise Center, and Wilmington. The majority of the sites are owned by the City of Los Angeles and the Harbor Department, with additional sites

owned by Los Angeles County and the State of California. As public sites, depending on the preferences and interests of the owners, they could represent opportunities for new development through a public/private partnership.

As shown in **Exhibit 5**, the 16 opportunity sites, totaling approximately 53.5 acres, are located near many completed and proposed LA Waterfront projects and are expected to benefit directly from the associated public and private investment.

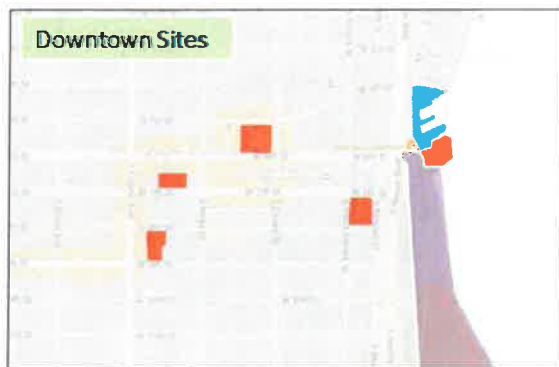
Exhibit 5 Map of Opportunity Sites



Source: Economic and Planning Systems

Following is a brief description of the opportunity sites and sub-areas. For a summary of opportunity site existing conditions, see **Exhibit 6**.

Outer Harbor. The Outer Harbor area has five opportunity sites totaling 40.6 acres. The sites are located nearby or within the completed Cabrillo Marina project and the proposed Alta Sea. Existing uses include a storage warehouse, parking lot, the Cabrillo Marina Aquarium, and general facilities for gathering purposes. All five sites are zoned for light industrial and commercial uses, with sites 4 and 5 also zoned as agricultural areas. Four of the five sites are currently owned by the Harbor department, with the fifth being owned by the Department of Recreation and Parks.



Downtown. There are six opportunity sites in the Downtown area totaling 6.2 acres. The sites are near the Warner Grand Theater and Crowne Plaza Hotel and west of the future San Pedro Public Market. Existing uses include the Los Angeles Maritime Museum, San Pedro Courthouse (closed), County medical offices, parking and vacant lots. All sites are zoned for commercial uses with four of the six also zoned for multifamily. Ownership is by the City and State.

Cruise Center. There is one opportunity site in the Cruise Center area totaling approximately 3.1 acres. The site is located south of the Vincent Thomas Bridge and east of the completed Gateway Plaza and Fanfare Park. It is currently owned by the State of California and used as a CalTrans Park and Ride lot. Existing zoning allows limited industrial uses, while surrounding areas are zoned for residential to the west and manufacturing to the east and south.



Wilmington. Four area opportunity sites totalling 3.7 acres are vacant lots or parking lots owned by the Harbor Department. The sites are located at the intersection of North Avalon and Harry Bridges Boulevards and flank the proposed Wilmington Pedestrian Bridge and Harry Bridges Boulevard Beautification projects. All are zoned for commercial manufacturing. Site 13 is also the location for the proposed Avalon Triangle Park.

Exhibit 6 Opportunity Sites Existing Conditions

Site	Zoning	Zoned Uses	Per- mitted FAR	Site Acres ¹	Ownership	Improvements	Existing Uses
Outer Harbor							
1. Outer Harbor	[Q]M2-1	Lt. Industrial/ Commerc.	1.5	13.6	Harbor Department	Asphalt pavement and a concrete wharf	Cruise ship berth & public events site
2. Warehouse #1	[Q]M2-1, [Q]M3- 1, M2, M3	Lt. Industrial/ Commerc.	1.5	5.0	Harbor Department	475,000 sq.ft. historically designated warehouse	Storage, Navy Seals training
3. Cabrillo Way Marina Parking	[Q]M2-1	Lt. Industrial/ Commerc.	1.5	2.8 or 12 ²	Harbor Department	2.75 ac graded pads, 9.25 ac paved parking	Parking
4. Cabrillo Marine Aquarium	A1-1, R1, [Q]M2-1	Agri., Lt. Industrial/ Commerc	3.0	2.0	Dept. Recreation and Parks	44,000 square foot facility with exhibits, laboratories, and offices	Visitor-serving museum
5. Cabrillo Beach Youth Water Center	[Q]M2-1, A1-1, R1, R4	Agri., Lt. Industrial/ Commerc	1.5	8.0	Harbor Department	25,000 sq.ft. recreational center plus waterfront area	Boy Scouts camp
Downtown							
6. Parking Lot 641	[Q]C2-1-CDO, [Q]C2-1XL-CDO	Commercial, Multi- family	1.5	0.9	City of Los Angeles	Paved parking	RFP for MU/MF Development
7. Parking Lot 684	[Q]C2-1-CDO, C2-1-CDO	Commercial, Multi- family	1.5	0.7	City of Los Angeles	Paved parking	Parking
8. San Pedro Courthouse	CM-2-CDO	Commercial Manufacturing	6.0	1.8	State of California	Two-story structure and paved parking.	Vacant
9. LA County Health Clinic and Parking	C2-2-CDO	Commercial, Multi- family	6.0	0.5	County of Los Angeles	One-story structure.	LA County medical offices
10. Municipal Building Visitor Parking	C2-2-CDO	Commercial, Multi- family	6.0	0.8	City of Los Angeles	Paved parking	Parking
11. LA Maritime Museum/Berth 84	[Q]M2-1	Lt. Industrial/ Commerc.	1.5	1.5	Dept. Recreation and Parks	Three-story structure housing numerous exhibits	Visitor-serving museum
Cruise Center							
12. Caltrans Park and Ride Lot	M1-1VL-CDO	Limited Industrial	1.5	3.1	State of California	Paved parking	Parking
Wilmington							
13. Wilmington Harbor #1	[Q]C2-1VL	Commercial Manufacturing	3.0	2.6	Harbor Department	Vacant Lot	Vacant Lot
14. Wilmington Harbor #2	[Q]C2-1VL	Commercial Manufacturing	3.0	0.3	Harbor Department	Small Structure	Parking
15. Wilmington Harbor #3	[Q]CM-1VL-O	Commercial Manufacturing	3.0	0.6	Harbor Department	Vacant Lot	Parking
16. Wilmington Harbor #4	[Q]CM-1VL-O	Commercial Manufacturing	3.0	0.2	Harbor Department	Vacant Lot	Vacant Lot

(1) All site areas are approximate

(2) Parking lot pads total 2.8, up to 12 acres with adjacent parking field

Sources: Economic & Planning Systems, Community Design + Architecture

It is important to note that a number of the opportunity sites are located in Tidelands area and are subject to Tidelands Trust restrictions. The Trust area is defined as the portion of the shore covered and uncovered by the daily ebb and flow of the tides. Permissible uses in the Tidelands Trust area are generally interpreted to mean maritime in nature and/or visitor-serving uses. The restriction generally excludes residential uses but may include some office uses.²

Exhibit 7 represents an initial set of potential land uses, considering Tideland Trust Restrictions, continuing viability of existing uses, and compatibility with adjacent uses.

Exhibit 7 Tideland Restrictions, Strong Current Uses, and Potential New Uses

Opportunity Site	Tidelands Trust Requirement?	Strong Current Use?	→ Potential New Uses
Outer Harbor			
1. Outer Harbor	maritime or visitor-serving	no	Hotel/Events/Terminal
2. Warehouse #1	maritime or visitor-serving	no	Office/Flex
3. Cabrillo Way Marina Parking	maritime or visitor-serving	no	Office/Flex
4. Cabrillo Marine Aquarium	maritime or visitor-serving	Visitor-serving museum	<i>maintain existing</i>
5. Cabrillo Beach Youth Water Ctr.	maritime or visitor-serving	Boy Scouts camp	<i>maintain existing</i>
Downtown			
6. Parking Lot 641	no restriction	no (parking)	Mixed Use/Multifamily
7. Parking Lot 684	no restriction	no (parking)	Mixed Use/Multifamily
8. San Pedro Courthouse	no restriction	no (vacant)	Mixed Use/Multifamily
9. LA County Health Clinic & Parking	no restriction	LA County medical	Mixed Use/Multifamily
10. Municipal Building Visitor Parking	no restriction	no (parking)	Mixed Use/Multifamily
11. LA Maritime Museum/Berth 84	maritime or visitor-serving	Visitor-serving museum	<i>maintain existing</i>
Cruise Center			
12. Caltrans Park and Ride Lot	no restriction	no (parking)	Hotel/Light Industrial
Wilmington			
13. Wilmington Harbor #1	maritime or visitor-serving	no (parking)	Avalon Triangle Park
14. Wilmington Harbor #2	maritime or visitor-serving	no (parking)	Office or Industrial/Flex
15. Wilmington Harbor #4	maritime or visitor-serving	no (parking)	Office or Industrial/Flex
16. Wilmington Harbor #3	maritime or visitor-serving	no (parking)	Office or Industrial/Flex

Sources: Economic & Planning Systems, Community Design + Architecture

² As noted by the Port of LA website, Tidelands law has evolved considerably since 1911, when state granted to the City of Los Angeles control over all state tidelands and submerged lands in the San Pedro-Wilmington area "solely for the establishment, improvement, and conduct of a harbor... for all purposes of commerce and navigation." Since California Assembly Bill 2769 in 2002, Trust lands can be used not only for traditional maritime commerce, navigation, and fisheries purposes, but also for other purposes that "comply with the terms of the trust and are matters of statewide, as distinguished from local or purely private, interest and benefit." These other purposes have been interpreted to include: establishment of harbors, commercial and industrial purposes, airports, highways, streets, bridges, belt line railroads, parking facilities, transportation and utility facilities, public buildings, convention centers, public parks, public recreation facilities, small boat harbors and marinas, snack bars, cafes, cocktail lounges, restaurants, motels, hotels, protection of wildlife habitats, open space areas and areas for recreational use with open access to the public, and "any other uses or purposes of statewide, as distinguished from purely local or private, interest and benefit which are in fulfillment of those trust uses and purposes described in this act."

3. MARKET CONTEXT

This section reviews the market context governing development potential for residential, hotel, and office uses at the opportunity sites.

Summary of Market Observations

1. **Residential Opportunity.** Downtown San Pedro area offers many attributes desired by home buyers and renters, including waterfront location and a walkable street grid. Furthermore, the pipeline of LA Waterfront projects will enhance area livability and the neighborhood image. While San Pedro market rents and home values lag those of other waterfront cities that have attracted residential development, recent residential project proposals signal a strong bet by developers that higher residential rents and sales prices are achievable in the near-to-medium term.
2. **Hotel Opportunity.** The San Pedro hotel market depends heavily on cruise business that operates out of the Port of LA, and as passenger volume from the port has fallen due to structural changes in the market, hotel performance has also been affected. Future hotel development potential thus likely depends on a comeback by the cruise business and/or successful completion of the San Pedro Public Market and AltaSea projects, which could enhance the profile of San Pedro as a leisure destination and employment node.
3. **Office Opportunity.** San Pedro functions predominantly as a bedroom suburb for out-commuters and is not a strong office market. Modest office rents and high vacancies provide little short-term incentive for new office development. However, construction of the proposed AltaSea project could create a new industry cluster and corollary office demand. Coupled with the appealing waterfront location and growing base of amenities from San Pedro Public Market and other LA Waterfront projects, the area has significant longer-term potential for office and creative office uses.

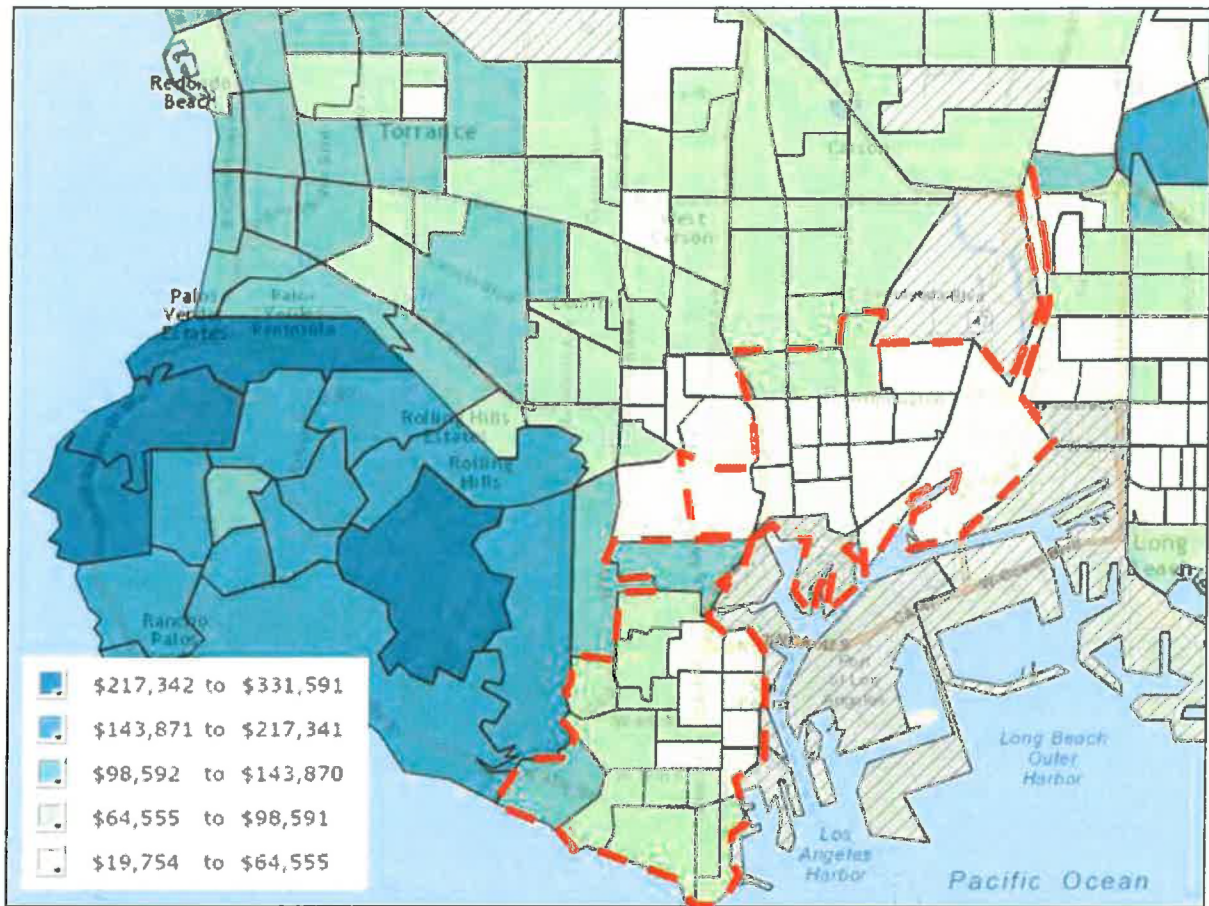
Residential Market Opportunity

This section describes the historical and current market trends that support residential development potential in Downtown San Pedro. The six Downtown San Pedro opportunity sites are all candidates for new residential development (other opportunity sites in the study fall in the Tideland Trust Zone, which generally precludes residential development).

Location Characteristics

San Pedro and Wilmington are located at the southern end of the Palos Verdes Peninsula and surround the Port of Los Angeles area. As broadly indicated in **Exhibit 8**, San Pedro and Wilmington are less affluent than Palos Verdes and the Beach Cities to the west and northwest, with the Downtown San Pedro tracts in particular exhibiting some of the lowest household incomes.

Exhibit 8 Regional Household Income by Census Tract



Source: ESRI; U.S. Census Bureau American Community Survey 2008-2012 5-Yr Average; EPS

However, developers and local land use experts interviewed for this study noted a number of factors that are making Downtown San Pedro an increasingly attractive place for residential development. The Port provides an authentic atmosphere with a unique sense of place, which is particularly appealing to millennial-aged singles and couples. Downtown San Pedro is walkable and offers a growing number of amenities valued by younger home seekers. Because San Pedro is relatively underdeveloped compared to other seaside area in Los Angeles, land costs are relatively low and may provide a lower-cost alternative for residents priced out of more expensive cities. Commute times to workplaces in Long Beach, the South Bay, and Downtown Los Angeles are manageable.

Developers are enthusiastic that the pipeline of LA Waterfront projects such as San Pedro Public Market and AltaSea will contribute to a transformation of both the LA Waterfront area and Downtown San Pedro. These investments will complement other signs of revitalization. A growing community of artists and galleries has led the *LA Weekly* to call San Pedro an “emerging artists’ mecca.”³ A recent development proposal by Holland Partners for a mixed-use residential mid-rise

³ <http://www.laweekly.com/arts/san-pedro-a-different-kind-of-burgeoning-art-scene-4304963>

on the County Courthouse site in Downtown San Pedro would also house a South Bay outpost of the Los Angeles County Museum of Art (LACMA) and further establish San Pedro as an arts destination. Finally, the historically designated Warner Grand Theater has shown drawing potential as a regional performance venue, and the City has received interest from several national entities to operate and program the 1,489-seat theater.

Residential Market

Despite a number of new residential projects completed between 2006 and 2015, most of the existing housing stock in San Pedro is dated. Only 3 percent of the city's 33,000 units have been constructed since 2000, while over 80 percent of units are more than 35 years old, as shown in **Exhibit 9**. Compared to the Los Angeles average, San Pedro housing is older, more renter-oriented, and includes a larger share of multifamily projects of between 3 and 9 units.

Like elsewhere in California and the nation, San Pedro saw a run-up in home values during the mid-2000s followed by a steep decline during the Recession. As shown in **Exhibit 10**, from 2000 to the market peak in 2006, median home values based on sales transactions rose 178 percent from \$203,000 to \$565,000 before falling to a floor of \$300,000 in 2012. Since then, the San Pedro residential market has rebounded, and median sales prices have recovered nearly 92 percent of peak value.

Exhibit 9 Residential Market Key Statistics

Category	San Pedro		City of LA
	Units	Share	Share
Total Housing Units	32,927	100%	100%
Owner Occupied	13,050	40%	43%
Renter Occupied	17,469	53%	51%
Vacant	2,408	7%	6%
Single-Family (Attached and Detached)	16,238	49%	56%
2 Units	1,226	4%	2%
3-9 Units	8,632	26%	14%
10+ Units	6,571	20%	26%
Mobile Home	260	1%	2%
Unit Built 2000 or Later	1,076	3%	6%
Unit Built 1999-1980	5,580	17%	18%
Unit Built 1979-1940	19,677	60%	61%
Unit Built 1939 or Earlier	6,594	20%	15%

Source: ESRI; U.S. Census Bureau ACS 2009-2013; EPS

Exhibit 10 San Pedro Median Residential Sales Price Trend, 2000-2016



Source: Trulia

Even with the rebound, San Pedro median home sale values and median rents are significantly lower than those in other waterfront cities including Santa Monica, Venice, El Segundo, and the South Bay, which offer residential developers a stronger revenue incentive, as shown in **Exhibit 11**.

Exhibit 11 Residential Values by City

City	6/22/2016		
	Median Sales Price	Average Price/Sq.Ft.	Median Rent
Wilmington	\$387,500	\$303	\$1,450
Long Beach	\$480,000	\$408	\$2,350
San Pedro	\$500,000	\$372	\$2,462
Redondo Beach	\$945,000	\$585	\$3,800
El Segundo	\$1,050,000	\$604	\$3,722
Santa Monica	\$1,280,000	\$1,022	\$6,500
Hermosa Beach	\$1,315,000	\$1,020	\$5,400
Venice	\$1,700,000	\$1,258	\$6,800
Manhattan Beach	\$2,240,000	\$1,170	\$7,322

Source: Trulia

The three new residential projects initiated in Downtown San Pedro during the pre-Recession boom were the first new residential construction Downtown in decades. To a large extent, these projects, listed on **Exhibit 12**, were the legacy of two unsustainable inputs: an overheated real estate market and subsidies from the enthusiastic and now defunct Community Redevelopment Authority (CRA). When the Recession hit, each project fared poorly:

- The Vue, a glossy 15-story condominium tower constructed for \$175 million, could not find buyers for its 318 units. The project went into foreclosure and sold for \$80 million in 2011. The Vue now operates as a rental property, and while rents there are the highest in San Pedro (averaging \$2,528 per unit and \$2.34 per square foot, as shown on **Exhibit 13**), they are discounted significantly from that would be required to support development of a similar project.
- San Pedro Bank Lofts, another high-profile condominium project, also opened during the Recession. Like Vue, Bank Lofts couldn't find buyers and now operates as a rental property, commanding rents averaging \$2,174 per unit and \$2.02 per square foot. These rents would not support feasible development of a similar project today.
- Centre Street Lofts opened in 2006 and managed to sell out before the impact of the Recession was strongly felt, but the project lost significant value during the Recession due to the foreclosure on buyers of several units. Without the CRA development subsidy, which included land, \$4.5 million for public parking and retail support, and over \$3 million in soft second mortgage financing,⁴ the project would be difficult to build today.

Exhibit 12 Downtown San Pedro Residential Projects Completed since 2006

Project	Location	Developer	Status	Units	Type	Stories	Rent/ Sale
Completed							
Pacific Ave. Arts Colony	Downtown San Pedro	Meta	2015	48	Affordable Artist Lofts	3	Rent
The Vue	Downtown San Pedro	Galaxy/Carlyle	2008	332	Condos turned rental	15	Rent
San Pedro Bank Lofts	Downtown San Pedro	Urban Pacific	2007	89	Condos turned rental	4	Rent
Centre Street Lofts	Downtown San Pedro	CIM	2006	116	Residential/Retail MU	5	Rent
Total Completed				585			

Source: CoStar, newswire reports, literature search

⁴ http://www.crala.org/internet-site/Projects/Beacon_Street/centre_street_lofts.cfm

Exhibit 13 Top-of Market Downtown San Pedro Rental Comps

Item	Sq.Ft./ Unit	Rent ^{1,2}	Rent/ Sq.Ft.
The Vue (Downtown San Pedro)			
<i>15-Story Highrise with structured parking built in 2008</i>			
1 Bed	605	\$2,108	\$3.48
2 Bed	1,229	\$2,509	\$2.04
3 Bed	1,578	\$3,428	\$2.17
Average	1,080	\$2,528	\$2.34
San Pedro Bank Lofts (Downtown San Pedro)			
<i>4-Story Midrise with subterranean parking built in 2007</i>			
Studio	1,004	\$2,083	\$2.08
1 Bed	1,562	\$2,676	\$1.71
Average	1,089	\$2,174	\$2.02

(1) Rent is average effective rent as of June 2016

(2) Rental rates taken from apartment listing website and are not obtained directly from CoStar or Property Manager

Source: CoStar, Online Rental Website, Economic & Planning Systems, Inc.

Despite the impact of the Great Recession on other recent projects, residential developers have expressed optimism regarding new residential development in Downtown San Pedro. Four proposed Downtown projects, if completed, could increase the city's residential stock by 804 units or 2.4 percent. The proposed projects, listed in **Exhibit 14**, range from a for-sale town homes to high-density mid-rise and high-rise projects. While the town home project represents a relatively low-risk initiative given current San Pedro market rates, the mid-rise and high-rise proposals would likely require higher rents than are currently seen in the city.

Exhibit 14 Downtown San Pedro Residential Development Pipeline

Project	Developer	Status	Units	Type	Stories	Rent/ Sale
Holland Parters Project	Holland Partners	Pre-Approval	312	MU Mid-Rise	7	Rent
Omninet Project	Omninet Capital	Pre-Approval	400	MU Mid-Rise	5	Rent
Nelson One	T.L. Pacific	Pre-Approval	68	MU Tower	12	Rent
LaTerra Project	LaTerra	Engineering	24	Detached TH	3	Sale
Total			804			

Source: CoStar, newswire reports, LADCP

SWOT Summary

A summary of strengths, weaknesses, opportunities, and threats for residential development in Downtown San Pedro are shown below:

Exhibit 15 Downtown San Pedro Residential Development SWOT

Strengths and Opportunities	Weaknesses and Threats
<ul style="list-style-type: none"> • Unique sense of place and walkable grid are appealing to millennial-aged singles and couples. • Lower land costs in San Pedro may provide an attractive alternative to residents priced out of other cities. • Commute times to job centers in Long Beach, the South Bay, and Downtown Los Angeles are reasonable. • Developers are enthusiastic that LA Waterfront projects will be transformative. 	<ul style="list-style-type: none"> • Current market rents and home values are likely too low to support proposed higher-density residential development. • Downtown San Pedro is moving towards but has not yet reached a critical mass of sophisticated urban amenities like restaurants, bars, and retail outlets. • San Pedro is near Long Beach and Palos Verdes, but popular destinations such as Downtown Los Angeles, Hollywood, and Santa Monica are relatively distant. • Downtown San Pedro is perceived by some as having a high crime rate and a large number of homeless residents.

Residential Development Implications

Downtown San Pedro area offers many attributes desired by home buyers and renters, especially those in the millennial age cohort (those born since 1982, currently aged 34 and younger). These attributes include the waterfront location, “authenticity” and strong sense of place, and a walkable scale and street grid. The pipeline of LA Waterfront projects, if completed, should significantly expand the area’s retail and commercial options while also creating additional demand for Downtown residential and commercial uses. However, current market rents and home values in San Pedro—while improving—lag those of other waterfront cities that have attracted recent residential development. Furthermore, Downtown San Pedro is still evolving the sophisticated urban amenities that complement successful residential markets in other urban infill areas like Downtown Los Angeles and Venice (of the recent past). Nonetheless, recent residential project proposals for Downtown San Pedro signal a willingness by developers to be pioneers and a strong bet that rents and sales prices higher than what the market is currently supporting are achievable.

Hotel Market Opportunity

This section describes historical and current market trends that support existing and potential new hotel development in the LA Waterfront Area. opportunity sites for hotel uses potentially include the Outer Harbor, the Cabrillo Marina Parking lots, and the CalTrans Parking lot.

Market Area and Sources of Demand

San Pedro and Wilmington Hotels compete within a coastal community market with lodging concentrations in Long Beach, the South Bay Beach Cities, and LAX/El Segundo, as shown on **Exhibit 16**. Visitation to Long Beach, LAX/El Segundo, and Wilmington is primarily by business travelers, with the Long Beach Convention Center and Los Angeles International Airport as the primary draws. Beach Cities visitation is primarily by leisure travelers, while San Pedro visitation is a combination of leisure and business travelers.

The Los Angeles County lodging market has experienced strong growth in recent years due to the income recovery following the Great Recession, expansion in technology- and creativity-driven industries, continued strength in international trade centered on the Ports of Los Angeles and Long Beach, and record-breaking tourism. Each factor has contributed to San Pedro lodging demand as well, as strong regional demand creates "compression" that spills over to all areas. The primary drivers of regional and San Pedro hotel demand are discussed in further detail below:

- In 2015, Los Angeles County attracted a record 45.5 million tourists and is on track to surpass 50 million in 2016, according to the Los Angeles County Economic Development Corporation. The city's cultural and business attractions continue to exert a strong domestic and international pull, especially from China due in part to a new visa agreement between China and the U.S. In 2015, Chinese tourists made up the second-largest percentage of international visitors (after Mexico) at 12 percent of the total, and this number is expected to continue to grow in tandem with China's quickly expanding middle class.
- Demand for lodging in the Long Beach area is a function of Port activity, Long Beach Convention Center booking, and Long Beach Airport use, all of which have grown in this economic cycle. San Pedro typically captures a portion of strong Long Beach hotel demand.
- The Port of Los Angeles cruise business, which operates from the World Cruise Center at Berths 91-93 in San Pedro, has traditionally generated strong demand for San Pedro lodging. In 2015, according to the Port of LA, 560,000 cruise passengers used the terminal, which represents a 54 percent decline from the 2005 peak of 1.22 million passengers. Most of this decline is attributable to the sharp reduction in the number of cruises to Mexico due to security concerns. Because shorter cruises make up a large segment of the cruise business, the loss of the Mexican destinations has had a significant impact on Southern California cruise ports, which have fewer short-cruise itinerary options than do other ports. New and/or growing destinations from Southern California ports such as Hawaii, the Panama Canal, Australia, Alaska and China can only be accessed on longer cruises, which make up a smaller portion of the market. For these reasons, recovery of prior passenger volume from the World Cruise Center (and the associated San Pedro hotel demand) is highly uncertain.
- Build-out of the San Pedro Public Market and AltaSea should generate additional hotel demand both to support construction and after stabilization. As shown previously in **Exhibit 4**, the two projects could, by 2025, increase the number of San Pedro full-time-employees by 12 percent (1,300 net new employees) and tourist visitation by 83 percent (2.04 million net new annual visitors). While San Pedro Public Market and AltaSea will function mainly as destinations for day trippers, the critical mass of uses and activity will create a strong amenity in San Pedro that could increase the city's attractiveness as an overnight tourist

destination. Furthermore, the establishment of a research and employment node at AltaSea is likely to generate additional demand from business travelers.

Hotel Market Performance

The impacts of Los Angeles County hotel market growth can be seen in **Exhibit 17**, which shows rapid increases since 2010 in hotel occupancy, average daily hotel rate (ADR), and revenue per available room (REVPAR). Hotel developers have responded by initiating a large number of new projects. From 2010 through 2016 (as forecasted by PKF Consulting), Los Angeles County will have added 5,095 rooms, a net growth of 5 percent, with several thousand more rooms under construction or approved for construction.

The South Bay and Long Beach submarkets near San Pedro have also thrived in recent years, as shown in **Exhibit 18** and **Exhibit 19**. Occupancy in both the South Bay and Long Beach markets, at 85.3 and 76.8 percent tops the 75 percent occupancy threshold usually regarded as a market signal signifying potential demand for new hotel development.

Exhibit 16 South Los Angeles Hotel Market

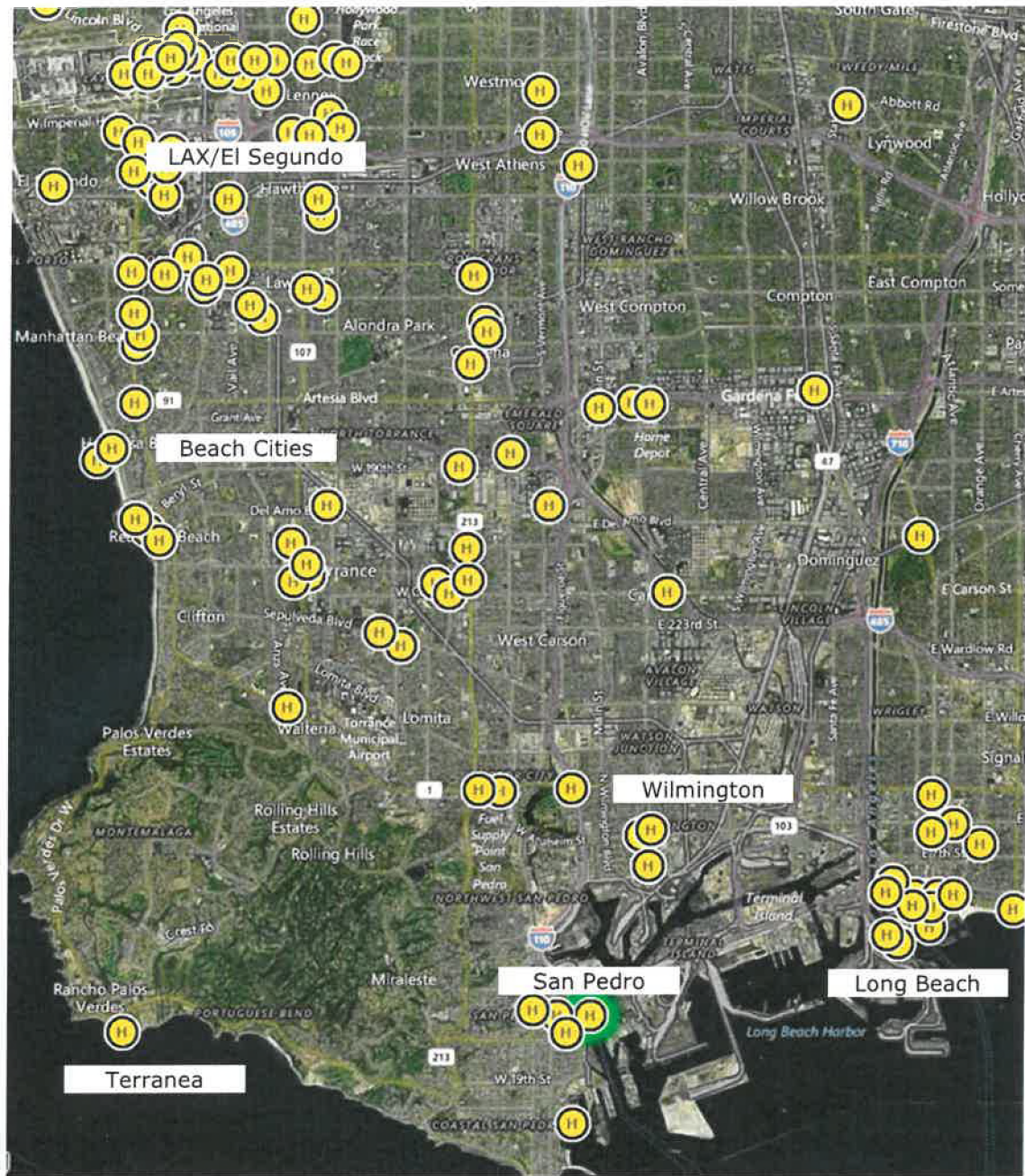


Exhibit 17 Los Angeles County Lodging Performance 2010-2016F

Year	Rooms	Change	Occu- pancy	ADR	Change	REVPAR	Change
2010	97,555	N/A	71.7%	\$138	N/A	\$99	N/A
2011	96,380	-1.2%	75.1%	\$147	6.4%	\$110	11.4%
2012	95,354	-1.1%	78.1%	\$155	5.4%	\$121	9.6%
2013	99,220	4.1%	80.0%	\$162	4.7%	\$130	7.3%
2014	100,308	1.1%	81.2%	\$175	7.8%	\$142	9.4%
2015E	100,932	0.6%	81.6%	\$188	7.4%	\$153	8.0%
2016F	102,650	1.7%	81.5%	\$198	5.5%	\$161	5.3%
CAAG	0.90%			6.20%		8.50%	

Source: PKF Consulting, CBRE Hotels

Exhibit 18 South Bay Lodging Performance 2010-2016F

Year	Rooms	Change	Occu- pancy	ADR	Change	REVPAR	Change
2010	6,052	N/A	71.9%	\$120	N/A	\$86	N/A
2011	5,987	-1.1%	74.7%	\$125	4.6%	\$94	8.8%
2012	6,052	1.1%	76.4%	\$131	4.7%	\$100	7.1%
2013	6,052	0.0%	79.1%	\$138	5.4%	\$109	9.1%
2014	6,143	1.5%	82.8%	\$145	5.0%	\$120	9.9%
2015E	6,371	3.7%	84.2%	\$156	7.6%	\$131	9.3%
2016F	6,412	0.6%	85.3%	\$166	6.5%	\$142	7.9%
CAAG	1.00%			5.60%		8.70%	

Source: PKF Consulting, CBRE Hotels

Exhibit 19 Long Beach Lodging Performance 2010-2016F

Year	Rooms	Change	Occu- pancy	ADR	Change	REVPAR	Change
2010	3,907	N/A	64.1%	\$124	N/A	\$80	N/A
2011	3,907	0.0%	68.4%	\$124	-0.1%	\$85	6.5%
2012	3,907	0.0%	72.5%	\$129	4.3%	\$94	10.6%
2013	4,035	3.3%	73.9%	\$131	1.2%	\$97	3.1%
2014	4,066	0.8%	76.4%	\$138	5.4%	\$106	9.0%
2015E	4,066	0.0%	76.8%	\$153	10.9%	\$118	11.4%
2016F	4,066	0.0%	76.8%	\$163	6.5%	\$125	6.5%
CAAG				4.60%		7.80%	

Source: PKF Consulting, CBRE Hotels

A survey of projects within central Los Angeles County (defined here as including the Downtown, South Bay/Beach Cities, Long Beach, Beverly Hills, West LA/Santa Monica, Pasadena, Arcadia/Monrovia, and LAX submarkets) shows that 4,126 rooms were constructed from 2010 through June 2016 and another 5,120 are under construction for a total of 9,256 rooms of new inventory, as shown on **Exhibit 20**. Several hotel formats dominate this new inventory, including Boutique hotels at 44 percent, Suites hotels at 27 percent, and Select Service hotels at 16 percent. The key characteristics of each format and its appropriateness for the LA Waterfront Area is summarized below.

- **Boutique hotels** embody several trends driving growth and profitability in the lodging sector today. Many of these trends originate with Millennial travelers, who are the fastest-growing customer segment. Marketers have noted that Millennials are less interested in standardized brands and instead seek novelty and unique experiences, which has helped propel boutique hotel chains such as ACE or Shade and the creation of boutique brands by legacy operators, such as Marriott Edition, Intercontinental Indigo, Hilton Canopy, and Hyatt Andaz.

Boutique hotels are usually located in resort destinations or urban centers that provide walkable access to area resources and often complement the revitalization of a downtown area. They are typically distinguished by unique and fashionable design, stylish communal areas that accommodate a fluid range of professional and social activities, and sophisticated technologies for user check-in, in-room entertainment, and concierge services. Boutique hotels generate “buzz” that often translates into high occupancy and room rates. A selected and tailored mix of amenities further helps differentiate each boutique hotel while also providing additional sources of profitability.

San Pedro’s authentic and gritty port environment, walkable downtown, walkable waterfront promenades (once infrastructure improvements are completed), and new retail and institutional space (once completed) may offer a supportive context for a boutique hotel. Because the closest boutique hotel to San Pedro is in Redondo Beach (the under-development Shore), a San Pedro boutique hotel could be competitively differentiated in the San Pedro/Wilmington/Long Beach area.

- **Suites hotels** in the upper-midscale range, including such brands as Hampton Inn & Suites, Residence Inn, and Candlewood Suites, make up the next category. Rooms in a suites hotel typically include expanded living areas and an additional living room or kitchenette. Suites hotels target business travelers who may use the additional room as workspace.

If AltaSea successfully jump-starts the LA Waterfront area as an employment node, there may be sufficient demand to support a suites hotel.

- **Select-service hotels**, including brands such as Courtyard by Marriott, Hyatt Place, and Hilton Garden Inn, bridge the gap between economy hotels and full-service hotels, offering business travelers and tourists basic amenities at a lower price point. The select service hotel format is popular with global chains because it represents a competitive, low-cost, and relatively low-risk product.

A select-service hotel could potentially serve a newly established employment node in San Pedro and/or provide additional supply to support a growing cruise business.

Exhibit 20 Central Los Angeles County New Hotel Inventory

Item	Hotels	%	Rooms	%
Total¹	45	100%	9,256	100%
By Status²				
Constructed 2010-2Q16	22	49%	4,136	45%
Under Construction	23	51%	5,120	55%
By Type				
Boutique ³	20	44%	3,749	41%
Suites ⁴	12	27%	2,049	22%
Select Service ⁵	7	16%	1,156	12%
Luxury ⁶	4	9%	2,131	23%
Economy ⁷	1	2%	72	1%
Casino	1	2%	99	1%

(1) Surveyed area for "Core" Los Angeles County includes Submarkets for Downtown LA, LAX, South Bay/Beach Cities, Long Beach, Beverly Hills, West LA, Santa Monica, Pasadena, Arcadia/Monrovia.

(2) Set includes hotels constructed from 2010 to 2016 and hotels currently under construction (but excludes other pipeline/approved projects)

(3) "Boutique" hotels, as compared with legacy brand hotels, are typically stylized, unique, and feature high levels of amenities. Examples: ACE, Shade, Indigo

(4) "Suites" hotels include additional living area. Examples: Residence Inn, Hampton Inn and Suites

(5) "Select Service" hotels are a hybrid between budget and full-service. Examples include Courtyard Marriott, Hyatt Place

(6) "Luxury" hotels offer the highest level of service. Examples include: Intercontinental, Waldorf-Astoria, W
Sources: CoStar, PKF, Economic & Planning Systems, Inc.

The local hotel market in which San Pedro competes includes coastal communities stretching from LAX to Long Beach. As shown in **Exhibit 21**, this market consists of almost 23,000 rooms, to which San Pedro and Wilmington contribute 918, or 4 percent (from 12 hotels). Within the

greater Los Angeles County Trade Area, San Pedro and Wilmington contribute 1 percent of all rooms.

Exhibit 21 San Pedro/Wilmington Hotel Competitive Area

Hotel Submarket Area	Rooms	Share of Competitive Area	Share of County
Competitive Area			
LAX	11,124	48%	11%
South Bay (less San Pedro/Wilmington)	5,494	24%	5%
San Pedro/Wilmington	918	4%	1%
Long Beach	4,066	18%	4%
Marina del Rey	1,499	6%	1%
Subtotal	23,101	100%	23%
Other LA County	79,550		77%
Total LA County	102,650		100%

Sources: PKF Consulting, Economic & Planning Systems, Inc.

Exhibit 22 San Pedro and Wilmington Hotels

Establishment ¹	Class	Open Date	Rooms
San Pedro			
Crowne Plaza Los Angeles Harbor Hotel	Upscale	1990	244
DoubleTree Hotel San Pedro	Upscale	1989	226
Sunrise Hotel	Economy	1978	110
Vagabond Inn San Pedro	Midscale	1973	73
Best Western Plus San Pedro Hotel & Suites	Upper Midscale	1986	60
All Star Inn	Economy	NA	25
Pacific Inn	Economy	NA	20
Subtotal San Pedro			758
Wilmington			
Best Western Los Angeles Worldport Hotel	Midscale	1987	72
Hotel Del Mar	Economy	NA	24
Islander Motel	Economy	NA	22
Crescent Inn	Economy	NA	22
West Coast Inn Motel	Economy	NA	20
Subtotal Wilmington			160
TOTAL			918

(1) STR does not include a number of smaller independent operators in its competitive set
Source: 2016 STR, Inc.

Of these San Pedro and Wilmington hotels, four are major flags (the Crowne Plaza, Doubletree, and Best Western Plus in San Pedro and the Best Western in Wilmington), contributing 602 rooms and 66 percent of the total. The Crowne Plaza and the DoubleTree in the San Pedro waterfront area are the pre-eminent hotels in the City. Brief profiles of each are shown below:

- The **Crowne Plaza** hotel, which is located Downtown next to two of San Pedro's primary office sites, is outperforming the South Bay average in terms of its year-over-year ADR growth and occupancy growth, a hotel representative reports. The strongest demand comes from cruise travelers with secondary demand from leisure transient and business transient travelers, including Long Beach Convention Center attendees. Hotel officials are enthusiastic about the San Pedro Public Market and AltaSea projects, because they see a strong opportunity to support both the initial construction process and to grow organically with the resulting increased area visitation. The Crowne Plaza is undergoing a renovation with upgrades to all rooms and common areas. Hotel officials believe this renovation will help attract more high-value business transient customers and improve ADR performance.
- The full-service **Doubletree** hotel is south of the Crowne Plaza in a relatively remote location near the Cabrillo Marina. Unlike the Crowne Plaza, a 10-story tower, the DoubleTree's spread-out plan and waterfront location caters more strongly to leisure travelers. Hotel officials report that on an ADR basis, the DoubleTree is underperforming the South Bay average. Its relatively remote location far from the high-volume business and leisure traveler hubs place it at a competitive disadvantage to better-located hotels. Typical visitors are said to be cruise passengers and spill-over demand due to "compression" in the overall market. Throughout 2015, the hotel underwent a complete renovation, which they hope will help capture more business travelers. Looking ahead, hotel officials believe the LA Waterfront projects can help San Pedro become more appealing and help overcome the perception that San Pedro is not an attraction.

SWOT Summary

A summary of strengths, weaknesses, opportunities, and threats for hotel development in the LA Waterfront Area are shown below:

Exhibit 23 San Pedro Hotel Development SWOT

Strengths and Opportunities	Weaknesses and Threats
<ul style="list-style-type: none"> Recovery and/or growth of the cruise market could boost demand. County-wide hospitality demand has caused market compression and spill-over for San Pedro hotels. San Pedro Public Market and AltaSea will create a one-time cycle of demand from development/construction teams. AltaSea could establish a new employment node and generate new demand from business travelers. San Pedro Public Market and AltaSea could enhance San Pedro as a tourist destination and increase leisure traveler demand. 	<ul style="list-style-type: none"> The San Pedro hotel market is dependent on cyclical demand from leisure and cruise travelers. Uncertainty about whether volatile cruise business can be recaptured. Until AltaSea and San Pedro Public Market can catalyze growth, San Pedro lacks a strong employment node that can generate consistent and counter-cyclical business traveler visitation. While boutique hotels often accompany Downtown revival, they typically follow other revitalization efforts rather than lead them.

Hotel Development Implications

San Pedro hotels are benefitting now from an economic upcycle, which has created region-wide “compression” that has spilled over into the market. However, uncertainty about future cruise travel volume from the Port of LA, which generates a large amount of demand for San Pedro hotels, could undercut future performance. The proposed San Pedro Public Market and AltaSea projects could enhance the profile of San Pedro as a leisure destination and employment node, which could increase both leisure and business traveler hotel demand and potentially support construction of a boutique and/or select-service hotel.

Office Market Opportunity

This section describes historical and current market trends that potentially support new office development in the LA Waterfront Area. opportunity sites with zoning that could allow office development, either stand-alone or as part of a mixed-use development, include the Cabrillo Marina Parking lots, Warehouse 1, Lot 641, Lot 684, the San Pedro Courthouse, and the LA County Medical Clinic and adjacent parking lot sites.

Office Market Performance

San Pedro has not had a strong office market in recent years. The City is not a major jobs center and functions primarily as a residential suburb for out-commuters to locations north, northwest, northeast, and east. As shown in **Exhibit 24**, the day population of 62,000 workers reflects a daily net outflow of 18,000 working residents, which decreases the San Pedro day population to

78 percent of its residential population. Another indication of the strong out-commuter tendency is the low jobs-to-households ratio: in San Pedro, there are 0.37 primary jobs for each household, compared to 1.15 jobs-per-household for the City of Los Angeles.

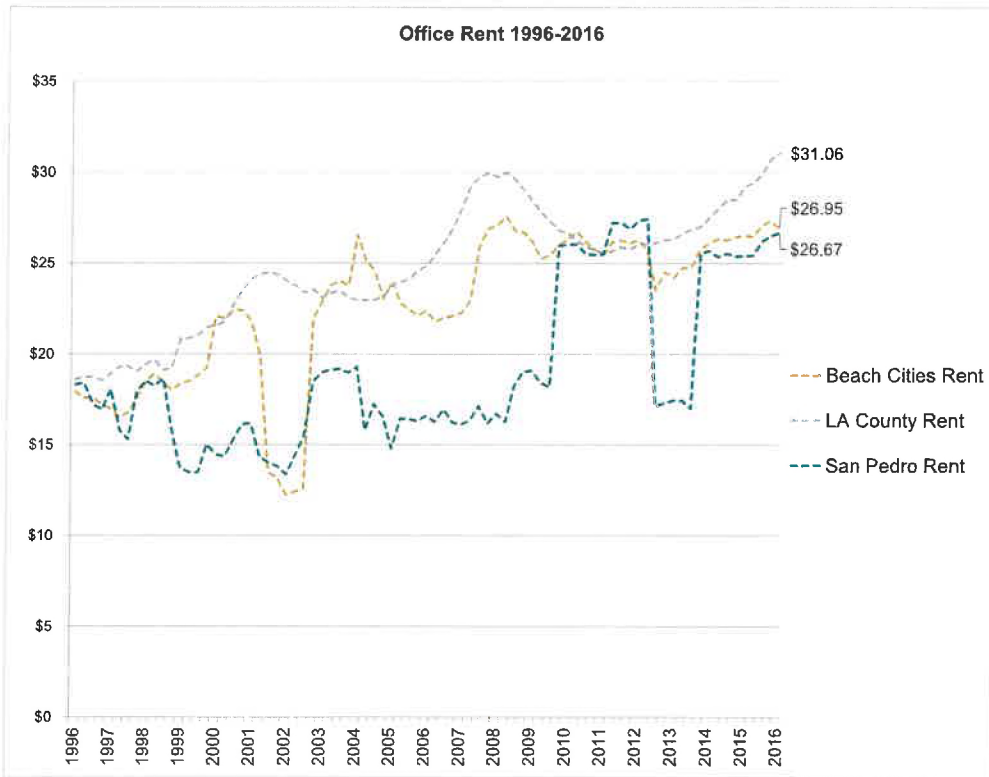
Exhibit 24 San Pedro Day Population and Jobs Concentration

Item	#
San Pedro Day Population	
Residential Population	80,450
Live in San Pedro but Employed Outside	(29,262)
Live Outside but Employed in San Pedro	<u>11,195</u>
Day Population	62,383
<i>Day Population as % of Total Population</i>	<i>78%</i>
San Pedro Jobs-to-Households Ratio	
Households	29,977
Primary Jobs	<u>11,195</u>
San Pedro Jobs:Households Ratio	0.37
<i>(Los Angeles Jobs: Households Ratio)</i>	<i>1.15</i>

Source: LEHD Census Data, ACS Housing Data

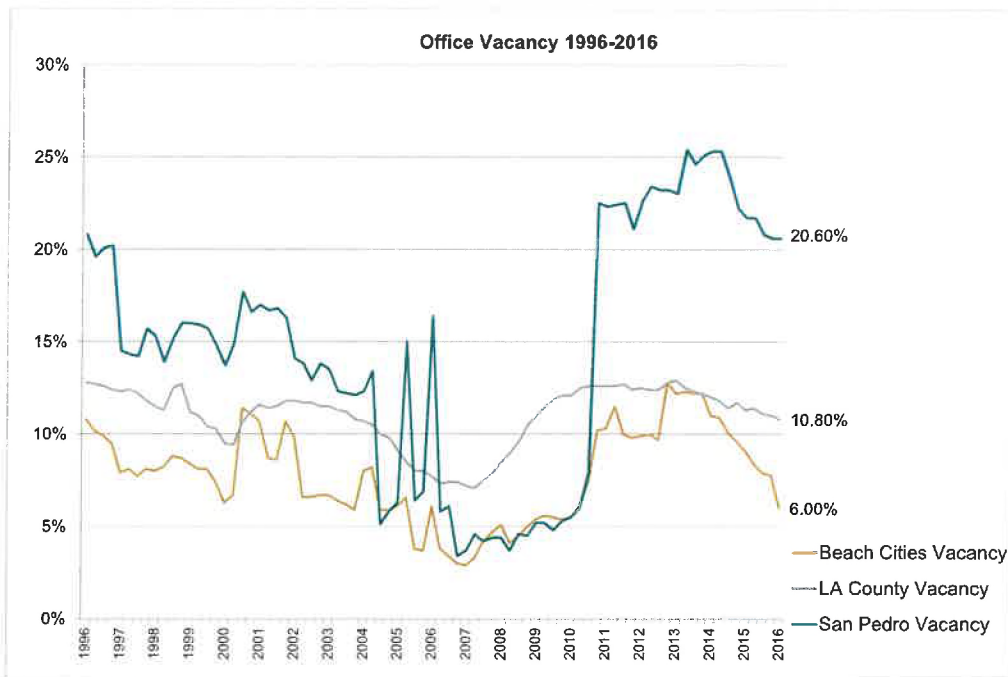
San Pedro office performance has historically lagged the Beach Cities submarket, which is made up of Manhattan Beach, Redondo Beach, Hermosa Beach, Palos Verdes, Rolling Hills, San Pedro, Wilmington, and portions of neighboring cities in the area between the waterfront, State Highway 1, and Rosecrans Boulevard. As shown in **Exhibit 25** and **Exhibit 26**, San Pedro rents are lower and vacancy higher than submarket averages. Furthermore, since 2000, San Pedro's office inventory has contracted by 15 percent compared to a 1 percent decline in the Beach Cities and 6 percent increase in LA County, as shown in **Exhibit 27**. Since 2000, only two small office buildings totaling 6,400 square feet have been constructed.

Exhibit 25 San Pedro and Beach Cities Office Rent 1996-2006



Source: CoStar and EPS

Exhibit 26 San Pedro and Beach Cities Office Vacancy 1996-2006



Source: CoStar and EPS

Exhibit 27 Office Market Performance and Inventory

	San Pedro	Beach Cities ¹	LA County
Performance²			
Gross Rent Per Sq.Ft.	\$2.22	\$2.25	\$2.59
Vacancy Rate	20.6%	6.0%	10.8%
12 Mo. Net Absorption (Sq.Ft.)*	7,879	196,387	4,727,812
% of Total Inventory	0.7%	3.4%	1.1%
Sale Price Per Sq.Ft.*	\$242	\$287	\$331
Inventory			
2Q2016	1,156,749	5,788,952	430,639,094
San Pedro Share	100%	20%	0.27%
2000	1,359,268	5,869,478	407,951,649
San Pedro Share	100%	23%	0.33%
Inventory Change 2000-1Q16	(202,519)	(80,526)	22,687,445
% Change	-15%	-1%	6%
Under Construction*	0	20,811	3,312,129
% Change	0%	0.4%	0.8%

(1) The Beach Cities/Palos Verdes Office Submarket Area extends to the North along the Coastal Cities of Manhattan Beach, Redondo, and Hermosa, with the Northern portion bordering Rosecrans Ave and loosely bound by Hawthorn Boulevard to the East. The Submarket also includes all of the Palos Verdes, Rolling Hills, and San Pedro areas which are geographically clustered on the peninsula bordered by the ocean and State Highway 1. Additionally, Wilmington is included in the Submarket as well as small portions of neighboring cities.

(2) As of 2Q2016

Sources: CoStar, Economic & Planning Systems

Despite this soft current office market, there are several factors and initiatives that may foretell a new era of San Pedro office development. Communication technology has enabled workers in many sectors to loosen ties with central offices and has given rise to a wider dispersion of employment centers. "Silicon Beach," which broadly describes a growing set of Los Angeles-based technology-oriented start-ups, has outposts all over the city. These companies tend to favor non-traditional office space in communities with attractive amenities and a strong sense of place, which has led to a wave of new and adaptive-reuse creative office development in areas such as Santa Monica, Culver City, El Segundo, and Downtown Los Angeles. San Pedro's waterfront location and Port backdrop offers the differentiation, uniqueness, and interest for such firms. And while San Pedro occupies the remote southernmost edge of Los Angeles County, convenient access via the 110, 405, and 710 Freeways reaches a huge residential population within a 45-minute drive time, as shown in **Exhibit 28**.

The revamped Topaz building in Downtown San Pedro represents a strong vote of investor confidence in San Pedro's potential as a creative and high-tech office environment. The 11-story Topaz, the only San Pedro building graded as Class A, is the largest in the community with 289,000 square feet of buildable area representing 22 percent of San Pedro's inventory. The

building once housed 500 employees of Northrop Grumman, but after the company moved its headquarters out of Los Angeles in 2010, it stood vacant for nearly two years. In 2014, new ownership completed a renovation that converted the building into creative-style office space with open floor plans, exposed ducting, and upgraded technology.

While vacancy at Topaz is currently high (over 60 percent according to CoStar), the building owners feel strongly that the LA Waterfront vision of a vibrant and revitalized waterfront area will eventually attract firms looking for an environment to attract lifestyle-conscious employees. As noted earlier, the proposed San Pedro Public Market project could contribute to this vision by greatly upgrading the number and quality of retail and restaurant amenities along the Waterfront, which would provide the strong mix of local amenities that creative office tenants and developers seek.

Exhibit 28 45-Minute Commuting Radius to and From San Pedro



Source: ESRI

The most important LA Waterfront catalyst for re-establishing San Pedro as a jobs center is the AltaSea project, a 35-acre marine research, development, and education complex that will be constructed on the Outer Harbor. Several AltaSea tenants have already been announced, including Boeing Catalina Sea Ranch, the Southern California Marine Institute (SCMI), and the E/V Nautilus, a large marine research vessel that will dock winters at AltaSea from 2016 to 2019.

AltaSea buildout is expected to begin in 2016 and be complete by 2022, resulting in 250,000 square feet of space.

According to a Fiscal Benefit Analysis prepared by Kosmont Companies in 2013, AltaSea could generate over 500,000 annual visitors and 726 permanent jobs, equivalent to a 6.5 percent increase in San Pedro's current job base. What's more, it is hoped that AltaSea will act as a business incubator for marine-related, sustainability, and high-tech start-ups, which could generate additional demand for office space. AltaSea together with San Pedro Public Market could by 2025 increase the number of San Pedro full-time-employees by 12 percent (1,300 net new employees) and tourist visitation by 83 percent (2.04 million net new annual visitors).

SWOT Summary

A summary of strengths, weaknesses, opportunities, and threats for office development in the LA Waterfront Area is shown below:

Exhibit 29 San Pedro Office Development SWOT

Strengths and Opportunities	Weaknesses and Threats
<ul style="list-style-type: none"> Establishment of AltaSea could create a new industry cluster and corollary office demand. San Pedro Public Market could create a critical mass of office-tenant amenities. The San Pedro waterfront location offers a source of differentiation and interest, especially for creative office. Low current rents could attract tenants priced out of more expensive office markets. 	<ul style="list-style-type: none"> Strong out-commuter orientation until completion of San Pedro Public Market and AltaSea. While promising, the impact of LA Waterfront projects on office demand is uncertain. San Pedro location may not be close enough to residential and job centers in Santa Monica and Hollywood for some employers. Low market rents and high vacancies provide little-short-term incentive for new office development.

Office Development Implications

The San Pedro office market does not appear likely to support significant new development in the near term due to the lack of a strong employment node, but trends in creative office development coupled with the LA Waterfront initiative could, over time, lead to growth in this area.

Implications for Opportunity Sites

New residential development in and near the Downtown area, which is already under way with a number of under-construction and proposed projects, represents the best short-term new

development opportunity, both now and within the next five years as the first phase of the San Pedro Public Market project is developed. Depending on site acreage and zoning parameters, the Downtown opportunity sites could potentially support a range of medium- and high-density residential and residential mixed-use projects.

New hotel and office development are longer-term opportunities that will depend on establishing a more robust tourist and employment node in the LA Waterfront area. Recovery of the cruise business, construction of the San Pedro Public Market, and/or construction of AltaSea in the next 5 to 15 years are likely pre-conditions to (unsubsidized) development of these uses. The opportunity site locations in the Outer Harbor and Cruise Terminal Area, due to their size, adjacencies, and restrictions imposed by Tidelands Trust boundaries, could potentially support these new hotel and office/creative office uses.

The Wilmington Area opportunity sites, which are located in an industrial area typified by a high degree of blight, are also longer-term opportunities. The proposed Wilmington Waterfront project, a 30-acre contiguous landscaped area, and the Avalon Triangle Park will be critical elements of any revitalization that occur there. Although the Avalon Boulevard Corridor Master Plan anticipated visitor-serving, maritime-related retail, the opportunity site locations are small and non-contiguous. Thus, the best likely new uses are industrial or industrial flex. These recommended industrial uses are also aligned with the development concepts envisioned in the Wilmington Waterfront Master Plan. A more comprehensive redevelopment strategy that includes assembly of the opportunity site locations into larger contiguous parcels (which is outside the scope of this study) would present a stronger development opportunity.

For a summary of potential opportunity site land uses along with market contingencies and timeline, see **Exhibit 30** below.

Exhibit 30 Potential Opportunity Site Uses

Site	Existing Uses	Potential Uses	Market Contingencies	Market Timing
Outer Harbor				
1. Outer Harbor	Cruise ship berth & public events site	Small destination hotel	Establish San Pedro Public Market and AltaSea	5-15 Years
2. Warehouse #1	Storage, Navy Seals training	Adaptive reuse of historic warehouse for office uses	Establish AltaSea	5-15 Years
3. Cabrillo Way Marina Parking	Parking	Hotel, Creative Office	Establish AltaSea	5-15 Years
4. Cabrillo Marine Aquarium	Visitor-serving museum	Maintain existing facility	NA	NA
5. Cabrillo Beach Youth Water Center	Boy Scouts camp	Maintain existing facility	NA	NA
Downtown				
6. Parking Lot 641	RFP for MU/MF Development	Residential/Mixed Use	Establish San Pedro Public Market	0-5 Years
7. Parking Lot 684	Parking	Residential/Mixed Use	Establish San Pedro Public Market	0-5 Years
8. San Pedro Courthouse	Vacant	Residential/Mixed Use	Establish San Pedro Public Market	0-5 Years
9. LA County Health Clinic and Parking	LA County medical offices	Residential/Mixed Use (Master Plan Sites 9 and 10 together)	Establish San Pedro Public Market	0-10 Years
10. Municipal Building Visitor Parking	Parking			
11. LA Maritime Museum/Berth 84	Visitor-serving museum	Maintain existing facility	NA	NA
Cruise Center				
12. Caltrans Park and Ride Lot	Parking	Light industrial or hotel (if cruise business returns)	NA	5-15 Years
Wilmington				
13. Wilmington Harbor #1	Vacant Lot	Avalon Triangle Park (POLA Project)	NA	5-15 Years
14. Wilmington Harbor #2	Parking	Industrial/flex/creative office	Establish Wilmington Waterfront	5-15 Years
15. Wilmington Harbor #3	Parking	Industrial/flex/creative office	Establish Wilmington Waterfront	5-15 Years
16. Wilmington Harbor #4	Vacant Lot	Industrial/flex/creative office	Establish Wilmington Waterfront	5-15 Years

Source: Economic & Planning Systems

4. DEVELOPMENT FEASIBILITY ANALYSIS

In this section, the near-term financial viability of potential uses on opportunity sites is evaluated based on current market conditions.

Tested Land Uses

Building upon Market Context findings in **Chapter 3**, five different “prototypes” for a range of land uses reflecting potential market support and opportunity site zoning parameters were selected. The five tested uses include high-rise and mid-rise multifamily projects, for-sale town homes, two-story creative office, and a select-service “lifestyle” hotel. The residential prototypes were picked to represent a range of density types. The office and hotel product types were selected as the product types that would be most likely to be feasible given the market context and site characteristics.

The land use prototypes are described further below and summarized in **Exhibit 31**.

1. **High-Rise Residential with Ground Floor Retail.** At 12 stories, the high-rise residential tower prototype is at a similar scale to the existing Vue and the proposed multifamily Nelson One project. With a site footprint of just under 2 acres and subterranean parking, the prototype is potentially appropriate for the San Pedro Courthouse and the combined LA County Health Clinic and Municipal building opportunity sites.
2. **Mid-Rise Residential with Ground Retail.** With five stories and semi-subterranean parking (one level at grade, one below), the prototype allows high density on a relatively small lot, which makes it potentially applicable for Parking lot 641, Parking Lot 684, San Pedro Courthouse, and the combined LA County Health Clinic and Municipal building opportunity sites. The prototype differs from the proposed Omninet Project at 550 South Palos Verdes Street, which has six rather than five stories and utilizes structured rather than subterranean parking.
3. **Town Home Condominium.** The 3-story residential use is a cost-effective typology that has been widely adopted throughout California in recent years. The under-construction LaTerra Town Home project in Downtown San Pedro is similar to the tested prototype. The prototype can be effective on smaller lots, which makes it potentially applicable for the Parking lot 641 and Parking Lot 684 sites.
4. **2-Story Creative Office.** “Creative Office” when applied to a ground-up project typically refers to a Class A or Class B building with tenant improvements and amenities that support flexible and collaborative work. These features may include open floor plans, emphasis on natural light, polished concrete floors to facilitate easy reconfiguration, bicycle lockers, and other amenities preferred by workers in the Millennial age cohort. The tested prototype represents the maximum feasible density that can be surface-parked for the opportunity sites, which allows the prototype to be considered for the Cabrillo Marina parking lots in the Outer Harbor and the Wilmington Harbor opportunity sites.

5. **Select-Service "Lifestyle" Hotel.** This prototype, exemplified by the Starwood Aloft brand, combines the construction and operating cost efficiency of the select-service category with style and amenities commonly associated with a boutique hotel. The prototype assumes a site of just under 2.5 acres, which makes it applicable for the Outer Harbor, Cabrillo Way Marina Parking, and Caltrans Park and Ride Lot opportunity sites.

Exhibit 31 Tested Land Use Prototypes

Item	12-Story MF w/ Ground Retail and Subterranean Parking	5-Story MF w/ Ground Retail and Subterranean Parking	3-Story Single- Family Townhome Condo	2-Story Creative Office with Surface Parking	132-Room Limited-Service "Lifestyle" Hotel
Site Area (Acres)	1.9	1.00	1.00	1.00	2.4
Units/Keys	299	101	25	NA	132
Net Commercial Sq.Ft.	26,807	3,150	0	19,994	NA
Dwelling Units/Acre	156	101	25	NA	NA
FAR	4.3	2.7	1.0	0.5	0.65

Source: Economic & Planning Systems

Analytical Approach and Assumptions

Financial feasibility analysis is based on a static pro forma model, which aims to simulate the economics a private-sector developer would consider in deciding whether or not to pursue a project. As such, the model includes typical hard and soft costs a developer would incur; market-based revenue potential; and a typical rate of return to compensate the developer for time and assumed risk. Total estimated project costs (including the assumed return) are subtracted from estimated project revenue to arrive at a net residual value.

All cost and revenue assumptions used in the "Baseline" analysis are based on 2016 market rates except where noted. The purpose of the "Baseline" is to test feasibility at current market rates. As discussed in the **Chapter 3** Market Context, these rates reflect an improving residential market but a relatively weak market for new neighborhood retail, office, and hotel development. The proposed San Pedro Public Market and AltaSea megaprojects have not yet impacted current market rates significantly, which is reflected by the "Baseline" analysis. Sensitivity analysis is also conducted to quantify the impact of rent appreciation on Baseline findings. A discussion of key assumptions for the "Baseline" analysis follows below.

- **High-Rise residential rent** is based on asking rents for the Vue, reflecting current top-of-the Downtown San Pedro market rents.
- **Mid-rise rents** are based on those from the Bank Lofts in San Pedro, which are the top-of-the market for mid-rise housing in Downtown San Pedro.
- **For-sale town home residential pricing** is the median value from a set of recent San Pedro transactions of newer town home units.

- **Creative office** rent is based on current average gross rent at Topaz, a Class-A office tower in Downtown San Pedro that has been remodeled as creative office space.
- **Retail rent** in the mixed-use prototypes is based on current top asking rents for Downtown San Pedro (\$1.60 per CoStar), to which a premium has been added to account for the new construction.
- **Hotel ADR** assumption is based on the STR 2016 ADR forecast average for the City of Long Beach that has been discounted by approximately 10 percent to account for the weaker San Pedro market.
- **Hotel Occupancy** assumption is set at 75 percent, which is a commonly accepted benchmark for healthy hotel operation. Achieving this occupancy level is a function of sufficient demand, which is assumed in the pro forma to test room rate assumptions but is unlikely to be available in the current market.
- **Cap rate** assumptions are based on EPS expectations that “going-in” cap rates for valuations will exceed by 1% the “exit” cap rates from the CBRE 2015 H2 Cap Rate survey for Los Angeles, in the Suburban Class B Office, Suburban Class A Multifamily, Class B Neighborhood Retail, and Select Service Hotel categories.
- **Vertical construction costs** are based on RS Means vertical costs estimator (Q316 set), interviews with developers, and EPS experience with similar product types. All costs assume open, non-prevailing-wage construction and a 14 percent General Contractor overhead fee.
- **Threshold developer returns on vertical costs** may vary widely from project to project, depending on land use type, perceived risks, and the investment philosophy and time horizon of particular developers. The developer returns assumed in the analysis are based on developer interviews and EPS’s experience with similar product types and risk profiles. For the high-rise residential, the analysis assumes a 15 percent return on cost; for mid-rise and townhome residential uses, the analysis assumes a 12 percent return on cost; and for office and hotel uses, a 10 percent return on cost.

For a summary of key assumptions used in the pro forma analyses, see **Exhibit 32**. For the backing static pro formas used for each land use prototype, see **Appendix A**.

Exhibit 32 Key Assumptions for Financial Feasibility Analysis

Item	12-Story MF w/ Ground Retail and Subterranean Parking	5-Story MF w/ Ground Retail and Subterranean Parking	3-Story Single- Family Townhome Condo	2-Story Creative Office with Surface Parking	132-Room Limited-Service "Lifestyle" Hotel
Base line Rent/Price per Sq.Ft./ADR¹					
Residential/Hotel/Office	\$2.34	\$2.02	\$340	\$2.32	\$150
Retail	\$2.00	\$2.00	NA	NA	NA
Parking Space/Month	\$100	\$100	NA	\$150	NA
Cap Rates²					
Res./Industrial/Flex/Hotel/Office	5.50%	5.50%	NA	7.00%	8.00%
Retail	7.00%	7.00%	NA	NA	NA
Parking	7.00%	7.00%	NA	7.00%	NA
Construction Costs per Sq.Ft./Space³					
Site	\$15	\$15	\$15	\$15	\$15
Res	\$195	\$150	\$140	\$145	NA
Retail	\$195	\$150	NA	NA	NA
Office/Industrial	NA	NA	NA	NA	\$200
Parking/Space	\$30,000	\$26,000	\$1,500	\$2,500	\$2,500
Tenant Allowance	\$40	\$40	NA	\$40	NA
Developer Profit/Cost	15%	12%	12%	10%	10%

Notes

(1) High-Rise rents are based on asking rents from the Vue, and mid-rise rents are based on the Bank Loft rents.

For-sale townhome residential pricing is based on recent transactions in San Pedro of newer Townhome units.

Assumed commercial retail rent a new-construction premium over the current top Downtown San Pedro retail rents of \$1.60 (per CoStar).

Creative office rent based on current average rent at Topaz, a Class-A creative office tower in Downtown San Pedro

Hotel ADR assumption is based on 2016 average forecast ADR for City of Long Beach (STR forecast), discounted by approximately 10 percent to account for the weaker San Pedro market.

(2) Cap rate assumptions are based on EPS expectations that 'going-in' cap rates for valuations will exceed by 1% the 'exit' cap rates from CBRE 2015 H2 Cap Rate survey for Los Angeles, Suburban Class B Office, Suburban Class A Multifamily, Class B Neighborhood Retail, and Select Service Hotel categories.

(3) Vertical construction costs based RS Means vertical costs estimator (Q316set), interviews with developers, and EPS experience with similar product types.

Sources: Economic & Planning Systems and where noted above

Baseline Residual Land Value Findings

Under Baseline estimated construction costs, market rents, and sale prices, the near-term **financial feasibility** of the tested land uses range from feasible (3-Story Town Home Condo), to infeasible (High-Rise Residential, Mid-Rise Residential, 2-Story Creative Office, Limited-Service Hotel). Feasibility designations are defined as follows:

- A prototype is **financially feasible** if the project value less development costs yields a residual land value that is between 10 and 20 percent of total costs. In this case, the developer can theoretically pay market value for the land, develop it, and achieve a desired return.
- A prototype is deemed **feasible with subsidy** if the project yields a residual land value that is near zero or slightly positive. In this case, the developer can achieve a desired return so long as some or all land costs are subsidized by the land owner. With this approach, the public agency land owner could "contribute" land value to make a desired project financially feasible.⁵
- A prototype is **financially infeasible** if the project value less development costs yields a residual land value that is negative. In this case, the developer cannot achieve a desired return even with a land subsidy, unless additional public subsidies are available.

A summary of Baseline residual land values and financial feasibility designations is shown in **Exhibit 33** and described above.

The tested feasibility of the **3-story Townhome condominium** is consistent with market evidence showing widespread development of this prototype in Los Angeles County, including the 24-unit LaTerra town home project currently under construction in Downtown San Pedro. At the tested market rate of \$340 per square foot, the town home condominium yields a residual land value equivalent to \$79 per site square foot, which at 32 percent of project costs offers a strong developer incentive.

The **select-service hotel** use is infeasible because the assumed Baseline ADR, reflecting the relatively weak San Pedro market, is inadequate to support development costs and generates a \$2.7 million development shortfall before land.

The **2-Story Creative Office** use is infeasible and generates a negative land value because Baseline rents typical of the current San Pedro market generate a value that falls \$980,000 short of development costs before land.

The **residential high-rise** use is infeasible because the high rents required to finance construction are currently unavailable in San Pedro. The assumed rents, taken from the Vue⁶, a

⁵ The mechanism for delivering this subsidy can range from a fee-simple transaction with written-down land value, a ground lease with below-market rents, or an off-setting grant from another source.

⁶ Because the Vue sold in foreclosure for less than half of its development costs, its rents support a lower cost basis than required for building it anew.

high-rise residential tower with the highest rents in San Pedro, generate a value that is \$42 million short of development costs, equivalent to 29 percent of development costs before land.

Likewise, current San Pedro rents are too low to support development of the **residential mid-rise**, which produces a \$10 million revenue shortfall equivalent to 26 percent of development costs before land.

Exhibit 33 "Baseline" Financial Feasibility Summary

Item	12-Story MF w/ Ground Retail and Subterranean Parking	5-Story MF w/ Ground Retail and Subterranean Parking	3-Story Single- Family Townhome Condo	2-Story Creative Office with Surface Parking	132-Room Limited-Service "Lifestyle" Hotel
Value					
Project	\$102,395,956	\$28,336,105	\$14,131,250	\$6,012,869	\$23,242,032
Per Unit/Key	\$342,461	\$280,555	\$565,250	NA	\$176,076
Gross Sq.Ft.	\$285	\$200	\$323	\$271	\$337
Cost					
Project	\$144,308,322	\$38,306,357	\$10,702,723	\$6,992,293	\$25,975,496
Per Unit/Key	\$482,637	\$379,271	\$428,109	NA	\$196,784
Gross Sq.Ft.	\$402	\$271	\$245	\$315	\$377
Residual Land Value					
Parcel	(\$41,912,367)	(\$9,970,253)	\$3,428,527	(\$979,424)	(\$2,733,464)
Per Unit/Key	(\$140,175)	(\$98,715)	\$137,141	NA	(\$20,708)
Gross Sq.Ft.	(\$117)	(\$70)	\$78	(\$44)	(\$40)
Site Sq.Ft.	(\$501)	(\$229)	\$79	(\$22)	(\$26)
RLV % of Total Costs	-29%	-26%	32%	-15%	-11%
Feasibility of Baseline	Infeasible	Infeasible	Feasible	Infeasible	Infeasible

Source: Economic & Planning Systems

Sensitivity Analysis to Test Future Feasibility

As discussed earlier, the Baseline feasibility analysis reflects the current San Pedro market. While sale prices are rising for town home condominiums (as well as other for-sale residential types in San Pedro), rents for other proposed uses reflect a market that has not yet responded to the potential transformative impact of the \$700 million LA Waterfront development pipeline.

In order to better understand this development upside, the sensitivity analysis explores the rent appreciation that would be required for the tested land use prototypes to achieve zero land value (reflecting feasibility after a large land subsidy), or market feasibility (indicating returns sufficient enough to trigger developer investment).

For the high-rise tower, subsidized feasibility (where residual land value is zero) requires current market rents of \$2.34 per square foot to appreciate by 38 percent to \$3.22 per square foot, as shown in **Exhibit 34**. For market feasibility, where residual land value is high enough to pay for land at market rates, appreciation of 50 percent to \$3.52 per square foot is required. Put in perspective, for a market-feasible project, San Pedro rents would have to appreciate to a level similar to those for asking rents at The Current in Long Beach, a recently constructed high-rise residential tower, as shown in **Exhibit 35**. Given the magnitude and scope of future LA Waterfront development and likely continued demand for residential in general, achieving Long-Beach-equivalent rents is a believable future outcome.

For the mid-rise tower, subsidized feasibility requires current market rents of \$2.02 per square foot to appreciate by 30 percent to \$2.63 per square foot, and for market feasibility, by 41 percent to \$2.86 per square foot. As with the high-rise tower, appreciation to feasibility brings rents to a level roughly equivalent to an analogous Long Beach project, in this case the Urban Village Apartments also noted in **Exhibit 35**. This lower rent threshold for the mid-rise project as compared with the high-rise tower suggests that market feasibility for the mid-rise may be achievable in a shorter term than for the high-rise.

The 2-Story Creative Office Prototype requires 22 percent rent appreciation to \$2.83 for subsidized feasibility and 50 percent to \$3.48 for market feasibility. The latter rent is typical for a higher-performing office market, which reinforces the market finding that only after establishing a viable new employment node in the LA Waterfront area will ground-up office development become feasible.

Finally, for the proposed hotel prototype to achieve subsidized and market feasibility, ADR must appreciate by 12 percent and 34 percent to \$168 and \$201 respectively. However, while a land subsidy can lower the ADR threshold for feasibility, there also needs to be adequate demand from a growing market to achieve a stabilized occupancy in the 75 percent range. As noted in the market assessment, this is likely to require a return of the Port of LA cruise business and/or the establishment of viable tourist and employment nodes by the successful development of the San Pedro Public market and AltaSea projects.

Exhibit 34 Appreciation Required for Development Feasibility

Item	12-Story MF w/ Ground Retail and Subterranean Parking	5-Story MF w/ Ground Retail and Subterranean Parking	3-Story Single-Family Townhome Condo	2-Story Creative Office with Surface Parking	132-Room Limited-Service "Lifestyle" Hotel
Baseline Rents¹					
Rent/Price per Sq.Ft./ADR¹	\$2.34	\$2.02	\$340	\$2.32	\$150
Residual Land Value/Site Sq.Ft.	(\$501)	(\$229)	\$79	(\$29)	(\$26)
"Zero" Residual Land Value Rents²					
Rent/Price per Sq.Ft./ADR¹	\$3.22	\$2.63	NA⁴	\$2.83	\$168
Change from Baseline	38%	30%	NA ⁴	22%	12%
Residual Land Value/Site Sq.Ft.	\$0	\$0	NA ⁴	\$0	\$0
"Feasible" Residual Land Value Rents³					
Rent/Price per Sq.Ft./ADR¹	\$3.52	\$2.86	NA⁴	\$3.48	\$201
Change from Baseline	50%	41%	NA ⁴	50%	34%
Residual Land Value/Site Sq.Ft.	\$172	\$88	NA ⁴	\$26	\$49

(1) "Baseline" refers to current San Pedro market rents

(2) "Zero" Residual Land Value is the rent at which land value is zero, meaning a project is feasible with free land

(3) "Feasible" Residual land value is rent at which land value is positive and equivalent to 10% of vertical costs for the high-rise and mid-rise, 20% for the other uses.

(4) Because the Town Home prototype is feasible under Baseline prices, it is not tested for sensitivity.

Source: Economic & Planning Systems

Exhibit 35 Asking Rents for Analogous Long Beach Multifamily Projects

Item	Sq.Ft./Unit	Rent ^{1,2}	Rent/Sq.Ft.
Urban Village Apartments			
<i>5-Story Mid-Rise with subterranean parking built in 2015</i>			
Studio	565	\$1,784	\$3.16
1 Bed	717	\$1,835	\$2.56
2 Bed	931	\$2,457	\$2.64
Average	752	\$1,993	\$2.65
The Current			
<i>17-Story High Rise with structured parking built in 2016</i>			
Studio	701	\$2,453	\$3.50
1 Bed	810	\$2,967	\$3.66
2 Bed	1,144	\$3,965	\$3.47
Average	861	\$3,196	\$3.71

(1) Average effective rent as of September 2016

(2) Rates from apartment listing website

Source: CoStar; Online Rental Website; LoopNet; Economic & Planning Systems, Inc.

APPENDIX A:
Prototype Development Pro Formas



12-Story MF w/ Ground Retail and Subterranean Parking
Appendix 1

Item	Assumptions	/Unit	/Gross Bldg Sq.Ft.	Total
DEVELOPMENT PROGRAM ASSUMPTIONS				
Site Area				83,701
Building Footprint				67,329
FAR				4.3
Gross Building Square Footage				358,806
Resi Gross Building Sq Ft	329,021 square feet			329,021
Resi Net Leasable Area (Sq. Ft.)	86%			284,050
Units	950 leasable sq.ft. / unit			299
Gross Building Square Footage (Retail)	29,785 square feet			29,785
Retail Net Leasable Area (Sq. Ft.)	90%			26,807
Residential Parking Spaces	1.10 spaces per resid. unit			329
Retail Parking Spaces	4.00 spaces/1,000 sq.ft. retail			120
Parking Sq.Ft.	350 sq.ft./space			157,115
REVENUE ASSUMPTIONS				
Resid. - Base Rental Revenue (Market Rate) ¹	\$2.54 NLA sq.ft./month			\$8,657,844
(less) Operating Expenses	\$5,000 per unit			(\$1,495,000)
(less) Vacancy	5.0% of gross income			(\$432,892)
(less) Share of Real Estate Taxes	1.10% of capped value			(\$1,278,691) ²
Resid - Building Revenue Subtotal				\$5,451,261
Retail - Base Rental Revenue ²	\$2.00 NLA sq.ft./mnth (NNN)			\$643,361
(less) Vacancy ³	8.0% of gross income			(\$51,469)
Retail - Building Revenue Subtotal				\$591,892
Gross Parking Revenue-Reserved ²	\$100 /space/month			\$538,680
(less) Operating Expenses	\$400 per space (unattended)			(\$179,560)
(less) Share of Real Estate Taxes	1.10% of capped value			(\$53,611) ³
Parking Revenue Subtotal				\$305,509
Capitalized Value (resid/retail/parking cap rates) ⁴	5.50%	7.00%	7.00%	\$111,933,838
Capitalized Value per Unit and per Bldg. Sq.Ft.		\$374,361		\$312
COST ASSUMPTIONS				
Direct Costs				
Basic site work ⁵	\$15 per site sq.ft.			\$245,574
Resid - Building Construction Cost ⁵	\$195 per gross sq.ft.			\$64,011,839
Retail - Building Construction Cost ⁵	\$195 per gross sq.ft.			\$5,794,789
Parking - Construction Cost ⁵	\$30,000 per subterranean space			\$13,467,000
Total Direct Costs		\$279,328	\$233	\$83,519,203
Indirect Costs⁵				
Tenant Allowance Costs	\$40 per NLA (retail sq.ft.)			\$1,072,268
Soft Costs				
Predevelopment	0.50% of direct costs + \$250,000 for EIR			\$667,596
A&E	7.5% of direct costs			\$6,263,940
Pre-opening, marketing	1.5% of direct costs			\$1,252,788
Legal	1.0% of direct costs			\$835,192
Other Prof Services	1.0% of direct costs			\$835,192
Hard + Soft Cost Contingency	7.0% of direct costs+soft costs above this item			\$6,611,232
Real Estate Taxes	1.1% 12 months, construction+land value			\$1,199,291
Permit Costs	2.0% of direct costs			\$1,670,384
Impact Fees	\$8 /sq. ft. (res.)		\$10 /sq. ft. (retail)	\$2,765,508
Development Fee	3.0% of direct+TA+soft costs			\$3,200,778
Total Indirect Costs			\$74	\$26,374,169
Financing				
Interest	4.5% int rate and 65% LTC			\$1,607,191
Financing Fees	2.0%			\$517,935.20
Total Financing Costs			\$6	\$2,125,126
Net Costs before Land and Profit		\$419,684	\$350	\$125,485,498
Project Profit	15%	\$62,953	\$52	\$18,822,825
Total Costs Before Land		\$482,637	\$402	\$144,308,322
LAND VALUE				
Total Residual Land Value		(\$108,276)	(\$90)	(\$32,374,484)
Residual Value per Site Sq.Ft.				(\$387)

Notes and Sources

Many assumptions above are based on EPS's standard assumptions for pro formas based on our review developer pro forma's over our 30-year firm history. Sources for selected assumptions are below.

(1) High-Rise rents are based on top-of-market asking rents from the Vue

(2) Cap rate assumptions are based on EPS expectations that 'going-in' cap rates for valuations will exceed by 1% the 'exit' cap rates from CBRE 2015 H2 Cap Rate survey for Los Angeles, Suburban Class A Multifamily

(3) Vertical construction costs based RS Means vertical costs estimator (Q316set), interviews with developers, and EPS experience with similar product types.

Source: Economic & Planning Systems

**5-Story MF w/ Ground Retail and Subterranean Parking
Appendix 2**

Item	Assumptions	/Unit	/Gross Bldg Sq.Ft.	Total
DEVELOPMENT PROGRAM ASSUMPTIONS				
Site Area				43,560
Building Footprint				28,314
FAR				2.7
Gross Building Square Footage				141,570
Resi Gross Building Sq Ft				115,406
Resi Net Leasable Area (Sq. Ft.)	85%			98,095
Units ²	970 leasable sq.ft. / unit			101
Gross Building Square Footage (Retail)	3,500 square feet			3,500
Retail Net Leasable Area (Sq. Ft.)	90%			3,150
Residential Parking Spaces ³	1.50 spaces per resid. unit			152
Retail Parking Spaces	1.00 spaces/1,000 sq.ft. retail			4
Parking Sq.Ft.	350 sq.ft./space			54,425
REVENUE ASSUMPTIONS				
Resid. - Base Rental Revenue (Market Rate) ¹	\$2.02 NLA sq.ft./month			\$2,377,825
(less) Operating Expenses	\$5,000 per unit			(\$505,000)
(less) Vacancy	5.0% of gross income			(\$118,891)
(less) Share of Real Estate Taxes	1.10% of capped value			(\$333,247) ³
Resid - Building Revenue Subtotal				\$1,420,687
Retail - Base Rental Revenue	\$2.00 NLA sq.ft./mnth (NNN)			\$75,600
(less) Vacancy	8.0% of gross income			(\$6,048)
Retail - Building Revenue Subtotal				\$69,552
Gross Parking Revenue-Reserved	\$100 /space/month			\$186,600
(less) Operating Expenses	\$400 per space (unattended)			(\$62,200)
(less) Share of Real Estate Taxes	1.10% of capped value			(\$18,571) ³
Parking Revenue Subtotal				\$105,829
Capitalized Value (resid/retail/parking cap rates) ²	5.50%	7.00%	7.00%	\$28,336,105
Capitalized Value per Unit and per Bldg. Sq.Ft.		\$280,555	\$200	
COST ASSUMPTIONS				
Direct Costs				
Basic site work	\$15 per site sq.ft.			\$228,690
Resid - Building Construction Cost ³	\$150 per gross sq.ft.			\$17,310,900
Retail - Building Construction Cost ³	\$150 per gross sq.ft.			\$525,000
Parking - Construction Cost ³	\$26,000 per subterranean space			\$4,043,000
Total Direct Costs		\$218,887	\$156	\$22,107,590
Indirect Costs				
Tenant Allowance Costs	\$40 per NLA (retail sq.ft.)			\$126,000
Soft Costs				
Predevelopment	0.50% of direct costs + \$250,000 for EIR			\$360,538
A&E	7.5% of direct costs			\$1,658,069
Pre-opening, marketing	1.5% of direct costs			\$331,614
Legal	1.0% of direct costs			\$221,076
Other Prof Services	1.0% of direct costs			\$221,076
Hard + Soft Cost Contingency	7.0% of direct costs+soft costs above this item			\$1,751,817
Real Estate Taxes	1.1% 12 months, construction+land value			\$315,370
Permit Costs	2.0% of direct costs			\$442,152
Impact Fees	\$8 /sq. ft. (res.)		\$10 /sq. ft. (retail)	\$958,248
Development Fee	3.0% of direct+TA+soft costs			\$854,806
Total Indirect Costs		\$71,691	\$51	\$7,240,766
Financing				
Interest	4.5% int rate and 65% LTC			\$429,220
Financing Fees	2.0%			\$381,529
Total Financing Costs			\$6	\$810,748
Net Costs before Land and Profit		\$338,635	\$242	\$34,202,105
Project Profit				
Project Profit	12%	\$40,636	\$29	\$4,104,253
Total Costs Before Land		\$379,271	\$271	\$38,306,357
LAND VALUE				
Total Residual Land Value		(\$98,715)	(\$70)	(\$9,970,253)
Residual Value per Site Sq.Ft.				(\$229)

Notes and Sources

Many assumptions above are based on EPS's standard assumptions for pro formas based on our review developer pro forma's over our 30-year firm history. Sources for selected assumptions are below.

(1) Mid-Rise rents are based on asking rents from the Bank Lofts project, the top-of-market midrise project in San Pedro.

(2) Cap rate assumptions are based on EPS expectations that 'going-in' cap rates for valuations will exceed by 1% the 'exit' cap rates from CBRE 2015 H2 Cap Rate survey for Los Angeles, Suburban Class A Multifamily.

(3) Vertical construction costs based RS Means vertical costs estimator (Q316set), interviews with developers, and EPS experience with similar product types.

Source: Economic & Planning Systems

**3-Story Attached Townhome Condo
Appendix 2**

Item	Assumptions	/Unit	/Gross Bldg Sq.Ft.	Total
DEVELOPMENT PROGRAM ASSUMPTIONS				
Site Area				43,560
Building Footprint				25,483
FAR				1.0
Resi Gross Building Sq Ft	43,750 square feet			43,750
Resi Net Sellable Area (Sq. Ft.)	100%			43,750
Units	1,750 sellable ft./unit			25
Residential Parking Spaces	2.00 spaces per resid. unit			50
REVENUE ASSUMPTIONS				
Sale Price ¹	\$340 /sq.ft.			\$14,875,000
(less) Marketing and Commissions	5.0% of gross sales			(\$743,750)
Net Sales Revenue		\$565,250	\$323	\$14,131,250
COST ASSUMPTIONS				
Direct Costs				
Basic site work	\$15 per site sq.ft.			\$653,400
Building Construction Cost ²	\$140 per gross sq.ft.			\$6,125,000
Parking Construction Costs	\$1,500 per tuck-under space			\$75,000
Total Direct Costs		\$274,136		\$6,853,400
Indirect Costs				
Soft Costs				
Predevelopment	0.50% of direct costs + \$250,000 for EIR			\$284,267
A&E	7.5% of direct costs			\$514,005
Pre-opening, marketing	1.5% of direct costs			\$102,801
Legal	1.0% of direct costs			\$68,534
Other Prof Services	1.0% of direct costs			\$68,534
Hard + Soft Cost Contingency	7.0% of direct costs+soft costs above this item			\$552,408
Real Estate Taxes	1.1% 12 months, construction+land value			\$97,250
Permit Costs	2.0% of direct costs			\$137,068
Impact Fees	\$8 /sq. ft. (res.)			\$350,000
Development Fee	3.0% of direct+soft costs			\$270,848
Total Indirect Costs				\$2,445,715
Financing				
Interest	4.5% int rate and 65% LTC			\$136,000
Financing Fees	2.0%			\$120,888
Total Financing Costs			\$6	\$256,888
Net Costs before Land and Profit		\$382,240	\$218	\$9,556,003
Project Profit	12%	\$45,869	\$26	\$1,146,720
Total Costs Before Land		\$428,109	\$245	\$10,702,723
LAND VALUE				
Total Residual Land Value		\$137,141	\$78	\$3,428,527
Residual Value per Site Sq.Ft.				\$79

Notes and Sources

Many assumptions above are based on EPS's standard assumptions for pro formas based on our review developer pro forma's over our 30-year firm history. Sources for selected assumptions are below.

(1) For-sale townhome residential pricing is based on recent transactions in San Pedro of newer Townhome units.

(2) Vertical construction costs based RS Means vertical costs estimator (Q316set), interviews with developers, and EPS experience with similar product types.

Source: Economic & Planning Systems

2-Story Creative Office with Surface Parking
Appendix 4

Item	Assumptions	/Gross Bldg Sq.Ft.	Total
DEVELOPMENT PROGRAM ASSUMPTIONS			
Site Area			43,560
Building Footprint			11,108
FAR			0.51
Gross Building Square Footage			22,216
Office Net Leasable Area (Sq. Ft.)	90%		19,994
Office Parking Spaces	4.00 spaces/1,000 gross sq.ft. office		89
Parking Sq.Ft.	350 sq.ft./space		31,150
REVENUE ASSUMPTIONS¹			
Rent	\$2.32 NLA sq.ft./month		\$556,634
(less) Vacancy	5.0% of gross income		(\$27,832)
Effective Gross Revenue			\$528,802
(less) Operating Expenses	30% of Effective Gross Expenses		(\$158,641)
(less) Share of Real Estate Taxes	1.10% of capped value		(\$55,260)
Building Revenue Subtotal			\$314,902
Gross Parking Revenue-Reserved	\$150 /space/month		\$160,200
(less) Operating Expenses	\$400 per space (unattended)		(\$35,600)
(less) Share of Real Estate Taxes	1.10% of capped value		(\$18,601)
Parking Revenue Subtotal			\$105,999
Capitalized Value (office, parking) ²	7.0%	7.0%	\$271
			\$6,012,869
COST ASSUMPTIONS			
Direct Costs			
Basic site work	\$15 per site sq.ft.		\$653,400
Building Construction Cost ³	\$145 per gross sq.ft.		\$3,221,262
Parking - Construction Cost ³	\$2,500 per surface space		\$222,500
Total Direct Costs		\$184	\$4,097,162
Indirect Costs			
Tenant Allowance Costs	\$40 per NLA Sq.Ft.		\$799,762
Soft Costs			
Predevelopment	0.5% of direct costs (no EIR)		\$20,486
A&E	7.5% of direct costs		\$307,287
Pre-opening, marketing	1.5% of direct costs		\$61,457
Legal	1.0% of direct costs		\$40,972
Other Prof Services	1.0% of direct costs		\$40,972
Hard + Soft Cost Contingency	7.0% of direct costs+soft costs above this item		\$375,767
Real Estate Taxes	1.1% 12 months, construction+land value		\$68,696
Permit Costs	2.0% of direct costs		\$81,943
Impact Fees	\$5 /sq. ft. (office)		\$111,078
Development Fee	3.0% of direct+TA+soft costs		\$180,167
Total Indirect Costs		\$94	\$2,088,586
Financing			
Interest	4.5% int rate and 65% LTC		\$90,467
Financing Fees	2.0%		\$80,415
Total Financing Costs		\$8	\$170,881
Net Costs before Land and Profit		\$286	\$6,356,630
Project Profit	10%	\$29	\$635,663
Total Costs Before Land		\$315	\$6,992,293
LAND VALUE			
Net Residual Land Value		(\$44)	(\$979,424)
Residual Value per Site Sq.Ft.			(\$22)

Notes and Sources

Many assumptions above are based on EPS's standard assumptions for pro formas based on our review developer pro forma's over our 30-year firm history. Sources for selected assumptions are below.

(1) Creative office rent based on current average rent at Topaz, a Class-A creative office tower in Downtown San Pedro

Hotel ADR assumption is based on 2016 average forecast ADR for City of Long Beach (STR forecast)

(2) Cap rate assumptions are based on EPS expectations that 'going-in' cap rates for valuations will exceed by 1% the 'exit' cap rates from CBRE 2015 H2 Cap Rate survey for Los Angeles, Suburban Class B Office.

(3) Vertical construction costs based RS Means vertical costs estimator (Q316set), interviews with developers, and EPS experience with similar Source: Economic & Planning Systems

132-Room Limited-Service "Lifestyle" Hotel
Appendix 5

Item	Assumptions	/Room	/Gross Bldg Sq.Ft.	Total
DEVELOPMENT PROGRAM ASSUMPTIONS				
Site				105,536
FAR				0.65
Footprint				15,990
Gross Area				68,869
Room Area	56,413 Sq.Ft.			
Lobby Area ¹	4,276 Sq.Ft.			
Recreation ²	2,079 Sq.Ft.			
Spa	750 Sq.Ft.			
Function Space	690 Sq.Ft.			
Back of the House	4,661 Sq.Ft.			
Hotel Rooms				132
Parking	1.10 /room			145
REVENUE ASSUMPTIONS				
Gross Operating Revenue ³				
Hotel	\$150 ADR	76.8% Occupancy		\$5,550,336
Other Room Revenue ⁴	10% of room revenues			\$555,034
Spa	5% of room revenues			\$277,517
Subtotal				\$6,382,886
(less) Operating Expenses ⁵				
Hotel	35% of revenue			(1,942,618)
Other Room Revenue	70% of revenue			(388,524)
Spa	90% of revenue			(249,765)
Subtotal				(\$2,580,906)
Operating Income				
Hotel				3,607,718
Other Room Revenue				166,510
Spa				27,752
Subtotal Operating Income				\$3,801,980
Undistributed Operating Expenses ⁶	35% of room revenues			(1,942,618)
Net Operating Income				\$1,859,362.56
Capitalized Value ⁷	8.0%	\$176,076	\$337	\$23,242,032
COST ASSUMPTIONS				
Direct Costs⁸				
Sitework	\$15 /sq.ft.			\$1,583,040
Hotel	\$200 /sq.ft.			\$13,773,733
Parking	\$2,500 /surface space			<u>\$362,500</u>
Total Direct Costs		\$119,085	\$228	\$15,719,273
Indirect Costs				
FF&Es				
FF&E Hotel	10% of direct costs			\$1,571,927
FF&E Spa	\$200 /sq.ft.			\$150,000
Soft Costs				
Development Related Legal				\$240,000
Franchise Fee				\$60,000
Predevelopment	0.5% of direct costs + FFE (+\$250,000 for EIR)			\$337,206
A&E	7.5% of direct costs			\$1,308,090
Pre-opening, marketing	1.5% of direct costs			\$261,618
Legal	1.0% of direct costs			\$174,412
Other Prof Services	1.0% of direct costs			\$174,412
Hard + Soft Cost Contingency	7.0% of direct costs+soft costs above this item			\$1,399,786
Real Estate Taxes	1.1% 12 months, construction+land value			\$247,491
Permit Costs	2.0% of direct costs + FFE			\$348,824
Impact Fees	\$5 /sq. ft.			\$344,343
Development Fee	3.0% of direct+FFE+soft costs			<u>\$641,902</u>
	\$55,000	\$105		\$7,260,011
Financing				
Interest	4.5% int rate and 65% LTC			\$336,072
Financing Fees	2.0%			\$298,731
Total Financing Costs				\$634,803
Net Costs before Land and Profit		\$178,895	\$343	\$23,614,087
Project Profit	10%			<u>\$2,361,409</u>
Total Costs, Profit, & Land (for RE Tax Basis)		\$196,784	\$377	\$25,975,496
LAND VALUE				
Total Residual Land Value				(\$2,733,464)
Residual Value per Site Sq.Ft.				(\$26)

Many assumptions above are based on EPS's standard assumptions for pro formas based on our review developer pro forma's over our 30-year firm history. Sources for selected assumptions are below.

(1) Entry foyer, restrooms, and large lobby area.

(2) Pool, workout room

(3) Hotel ADR assumption is based on 2016 average forecast ADR for City of Long Beach (STR forecast) discounted by 10 percent to reflect the weaker San Pedro market

(4) E.g., F&B, wifi, movie rental. Estimated as net of expenses

(5) Includes variable operating expenses for day-to-day staffing. Fixed operating expenses for the building are calculated separately.

(6) Includes Administrative, Sales, Utilities, Maintenance, Franchise Fees, Management Fees, Property Insurance, FF&E Reserve, and Real Estate Taxes

(7) Cap rate assumptions are based on EPS expectations that 'going-in' cap rates for valuations will exceed by 1% the 'exit' cap rates from CBRE 2015 H2 Cap Rate survey for Los Angeles, Select Service Hotel category.

(8) Direct construction costs based RS Means vertical costs estimator (Q316set) for Long Beach area, interviews with developers, and EPS experience with similar product types. Direct costs include non-union labor and 14% General Contractor's overhead and profit.