

MARKET STUDY

Historic Downtown Los Angeles Retail Project

January 2007

For purposes of this study, Downtown Los Angeles in the broadest context is generally defined as that physical area bounded by the Los Angeles River to the east; Harbor Freeway (110) to the west; Santa Monica Freeway (10) to the south; and, Hollywood Freeway (101) to the north. Central to this area is Historic Downtown, bounded by 2nd and 9th Streets to the north and south; and Olive and Los Angeles Streets to the west and east.

In measuring market potential for retail businesses, per household and per person annual expenditure rates are used. The market areas to which these expenditures are applied are three (3):

1. Residents – This market segment includes new residents to Downtown Los Angeles. These are people who have moved to the area since the late 1990's. They occupy two (2) types of housing units – market rate and affordable; and, these too have been constructed primarily since the late 1990's.
2. Employees – This market includes those people who work in Downtown Los Angeles, and live beyond the boundaries of the resident market area.
3. Visitors – This market consists of all visitors to Downtown Los Angeles, no matter the purpose of their visit, or where they live.

While the number of people constituting each group is important, of equal concern is the potential retail expenditures generated by each of the market areas. To this end, VEDC has relied on a report published by the U.S. Department of Labor, entitled, *Consumer Expenditures in 2004*. Unfortunately, this is the last year for which data is available. The expenditure levels presented therein for the Western United States, further refined for the median household income ranges of the Downtown Los Angeles market areas, have been adjusted to current dollar values through the application of an average annual growth rate of 2.75%.

In subsequent paragraphs the estimated retail expenditures for each of the market areas are shown. The level to which any retail business can capture a segment of these expenditures will depend on the attraction appeal of the particular business.

Residential Market Area

The resident market area, which includes new residents to Downtown Los Angeles, occupying both market rate and affordable housing units, who have moved to the area since the late 1990's. There were an estimated 36,800 people in this category in 2006 (please refer to Exhibit 1), occupying 18,200 housing units. By 2010, the population is expected to increase to 62,450, and the unit count to 34,500. While the median personal income level of those people occupying affordable housing units is difficult to obtain, it is known that the market rate housing unit dwellers, earn in excess of \$90,000 annually. This was determined by a study completed in 2005 by LAEDC for the Downtown Center Business improvement District.

There are more people living Downtown than are captured by these numbers, with the defined resident market area constituting about 40% of the total population. The remainder of the population has significantly lower median per person and per household income levels than the new residents, and demographic characteristics important to a market study of this time are difficult to compute.

Estimated per household retail expenditures (current dollars) for the resident market area are shown in Exhibit 1 for:

- Food Away From Home
- Apparel and Services
- Alcoholic Beverages
- Household Furnishings and Equipment
- Household Supplies
- Personal Care Products and Services
- Groceries

The total estimated expenditures were approximately \$224.8 million in 2006. This number is expected to increase to \$301.8 million for 2007, further growing to \$572.7 million in 2010. These estimated expenditures are not area specific. They are driven by the spender, and represent the approximate average total expenditure for each category, by each resident, no matter where the expenditure took (takes) place.

Exhibit 1 concludes with a supportable square feet of retail space assessment. This too is total square footage, irrespective of area. Whoever captures the expenditure creates demand for the square footages noted. The formula used to calculate these numbers is dividing category expenditure levels by an annual sale per square foot number. These numbers have been derived from a publication entitled *Dollars and Centers of Shopping Centers/The SCORE 2006*, a joint project of the Urban Land Institute and International Council of Shopping Centers. The numbers in this report were recently (2006) updated. This analysis shows that these residents will spend enough money in 2007 to fully support 244,873 square feet of restaurant space, increasing to 652,364 square feet by 2010. Using an average of 5,000 square feet per establishment, the estimated expenditures would support 49 facilities in 2007, increasing to 70 restaurants by 2010. If 75% of these expenditures are captured by existing facilities either Downtown or elsewhere in the region, that still leaves potential for 15 to 20 new outlets, without considering the added impact of employee and visitor expenditures. The same type of analysis can be completed for each expenditure group.

Employee Market Area

There are a range of estimates of the current number of employees in Downtown Los Angeles. For purposes of this study, we use an estimate contained in a report prepared by LAEDC for the Downtown Center Business Improvement District entitled *The Downtown Los Angeles Market Report & Demographic Survey of New Downtown Residents*, January 2005. The number therein is 451,000 (rounded by VEDC). This has been modified by VEDC to include only those employees who live beyond the previously defined resident market areas, estimated at 95% of the total. The resulting number is 429,400. No growth in this number has been projected because of the potential variance in the current true amount.

Annual per capita (as opposed to per household numbers used for the resident market area) are presented in Exhibit 2, and are estimated for:

- Food Away From Home
- Alcoholic Beverages
- Apparel and Services
- Personal Care Product and Services

The combined annual estimated total expenditure by these employees, for the previously stated categories, is \$1.58 billion. Of this total, food away from home and alcoholic beverages account for \$987.6 million.

Selected Visitor Expenditures

The retail expenditure number for this category is a potential dollar amount, for these groups of visitors:

- Conventioneers
- Events
- Attractions

An expenditure level is also shown in Exhibit 3 for weekend/holiday shoppers, but the visitor count is not presented. This number is not known.

For two (2) of the categories where populations are estimated, the numbers were taken from a May 2004 study released by The Convention and Visitors Bureau, *Downtown Los Angeles Travel Tourism Facts & Figures*. The potential per capita expenditure numbers have been obtained from various economic planning studies for similar types of venues and attractions. Numbers used herein have been stated in constant 2007 dollar amounts. No growth in numbers has been estimated. There are several projects underway which will significantly impact these numbers, however, with the primary one being *L A Live*.

Expenditures by conventioneers are estimated at \$156.0 million; event visitors at \$240.0 million; and attraction visitors at \$227.5 million. The combined total, excluding weekend/holiday shoppers, currently totals about \$623.5 million. These are estimates for food and beverage items, and general retail only.

According to a report recently released by LA Inc., hotel occupancy rates in Los Angeles County were 72.7% in 2004, up from 68.0% in 2003. Further average daily spending by these guests increased from \$90.77 to \$96.30 between 2003 and 2004, and the Downtown/Central component of the County-wide number, increased from \$84.46 to \$90.14.

In the same report, the total number of visitors to the County grew from 23.3 million in 2003 to 24.3 million in 2004, a 4.1% increase. The international component of the 2004 number was 4.2 million, registering the first year-to-year growth since 2000. In 2000, 5.5 million international travelers visited Los Angeles County, an all time high.

Of course, potential retail expenditures by the visitor market will grow as more people are attracted downtown by projects like a revitalized Historic Downtown, Grand Avenue and L A Live.