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Mr. Stanley Smalewitz

Director

City of Huntington Beach Economic Development Department

2000 Main Street

Huntington Beach, CA 92648

SUBJECT: Beach Boulevard/Edinger Corridor Economic Development
Revitalization Strategy Market Consultation

Dear Mr. Smalewitz:

L.S. Congleton & Associates was retained to conduct a market-oriented and economic review of the Beach Boulevard/Edinger Corridor study area (the "Study Area.") The goal of this consultation was to provide market-based revitalization development opportunity recommendations for incorporating into the City of Huntington Beach's long-range Economic Development Revitalization Study.

SCOPE OF WORK

Over the last four months, we have:

- Conducted in-field evaluations of all commercial sites in the Study Area.
- Identified commercial/retail strengths and weaknesses with respect to the most state-of-the-art retail industry trends.
- Reviewed available City taxable sales data.
- Evaluated the Study Area resident trade area demographics with respect to short and long-term commercial/mixed-use potential.

- Reviewed major planned and proposed commercial/mixed-use projects in the Study Area.
- Reviewed and evaluated the Study Area maps produced by Freedman Tung & Bottomley ("FTB") with respect to market-based criteria and economic feasibility.
- Participated in several meetings with City staff and FTB.
- Analyzed the market rents exhibited in the Study Area.
- Determined the market and investment feasibility of incorporating mixed-use products into the Study Area.
- Prepared land value criteria exhibits for producing successful mixed-use products into the Study Area.
- Developed a land model for determining the redevelopment potential of existing sites based on current rental rate performance.
- Prepared market-based conclusions and recommendations with respect to types of mixed-use products that have the greatest potential for success within the Study Area.

KEY FACTS & ISSUES

The Study Area exhibits a number of characteristics common to many Southern California state highways and other older, four to six-lane arterials zoned for commercial development, including the following:

- Many small strip centers without anchor stores, such as grocery/drug stores and discount department stores ("unanchored strip centers").
- Older commercial centers (15-20 years+) with outdated designs and minimal landscaping.
- Many individual, small property owners lacking deep financial resources.
- High numbers of single commercial and medical buildings owned by individual owners, including the Huntington Beach Hospital, the Hoag Health Center, and numerous, single-user medical practice buildings.
- Many unanchored strip centers charging relatively modest Orange County rents to small businesses, entrepreneurs, service companies and other non-retail users that cannot afford the higher rents charged in new and renovated grocery/drug and discount department-store-anchored shopping centers.

Because much of the building stock is aged, many sites suffer from unattractive facades and parking areas in comparison to newly-built and renovated centers. Similar conditions exist along many California commercial corridors, such as Pacific Coast Highway in Newport Beach and

Torrance; Sherman Way in Reseda; and El Camino Real in Palo Alto and Mountain View.

The following are the market-related issues the City of Huntington Beach wishes to address with respect to the Study Area:

1. What are the market and economic conditions affecting the ability of property owners to redevelop their properties?
2. What is the market potential for incorporating mixed-use as a form of revitalization?
3. What are the optimum development opportunities in the Study Area?

SUMMARY CONCLUSIONS & RECOMMENDATIONS

New Retail Square Footage

We project that net new retail development space in the Study Area is constrained to a maximum of one to two neighborhood or community centers anchored by a large gourmet/specialty grocer and/or upscale grocer that is not already serving the Study Area. Two potential scenarios include:

- (1) a 150,000-square-foot center anchored by a 50,000-square-foot community-serving gourmet/specialty grocery store; and
- (2) a 100,000-square-foot center anchored by a 40,000 to 50,000-square-foot upscale grocery store.

New added retail space is completely dependent upon securing one to two specialty/gourmet grocery anchor stores not already represented in the Study Area. If a new store cannot be secured because its operation cannot draw sufficient customers due to the impact of competitive grocery store offerings already housed in the Study Area, then a new center with small shop space is not viable. If only one new grocery store concept is secured without securing a second store, then the estimated supportable space is limited to 100,000 to 150,000 square feet, inclusive of an anchor store of about 50,000 square feet. Without a new anchor store, no Study Area site can support much small shop space. Retail development land owners are not interested in proceeding with a shopping center without an anchor store.

The critical constraint on the amount of new, supportable retail space is the scarcity of available large retailers to serve as anchor stores. The Study Area already successfully houses the following key community-oriented large anchor retailers: Wal-Mart, Target (on Beach Boulevard in a center technically in the City of Westminster), Kohl's, Mervyn's, Stein Mart and two home improvement stores, Lowe's (just off Beach Boulevard on Warner)

and Expo (Home Depot). No other large, community-oriented retailers exist that can generate spin-off shopping at a shopping center's small shop space.

Neighborhood center anchor stores, or traditional grocery stores, are also well represented in the Study Area by three outlets: two Albertsons, one on Edinger and one on Beach Boulevard, and a Vons Pavilions on Beach Boulevard just south of Freeway 405 (technically in the City of Westminster). Two, smaller specialty grocery stores on or just off Beach Boulevard include Mothers Market, a health and wellness grocer, and the gourmet discount retailer, Trader Joe's, on Main just west of Beach Boulevard in the 5 Points Plaza.

The Study Area's only community and/or neighborhood anchor retail void is a gourmet or specialized grocery store. Examples include Whole Foods, Wild Oats Market, Bristol Farms and Gelson's. Should such a store be secured, additional small shop space would be viable, with each center consisting of 100,000 to 150,000 square feet, including the anchor store.

A new grocery store-anchored shopping center would require an estimated 9.2 to 17 acres, based on a coverage ratio of 20% to 25%. Therefore, this development opportunity would require a large parcel of vacant or under-utilized land to build. Presently, only one available site, the former Montgomery Ward site on Edinger Boulevard, is large enough to accommodate this development opportunity.

In-Fill Commercial

A number of small parcels, ranging from less than one acre to over two acres are vacant or under-utilized in the Study Area, particularly along Beach Boulevard between the Freeway 405 and Adam Street. The most suitable uses for these parcels include in-fill commercial uses, such as the following:

- Expansion of car dealership space (if adjacent).
- Free-standing retailers, ranging from an estimated 8,000 to 10,000 square feet, including restaurant pads.
- Appliance, furniture, home furnishings outlets.
- Single-user office buildings.
- Doctor/dentist offices, including single-user or targeted medical professional multi-use space.

Specialized Medical Professional Office Space

The presence of two medical institutions on Beach Boulevard, the Huntington Beach Hospital and the Hoag Health Center Huntington Beach, enhances the potential for additional medical facilities and office space that is directly tied to these two institutions. It is our understanding that Hoag is interested in developing non-speculative office space to house Hoag-related doctors and medical services. This would be an excellent commercial addition

to Beach Boulevard, perhaps strengthening the long-term desire of medical professionals to own and lease space along the street. Moreover, because many medical practitioners desire to own their office buildings, the expansion of Hoag's services along Beach Boulevard may strengthen the street's image as a desirable place to own or lease small one to two acre parcels and/or small vacant buildings for medical professions (see discussion in section above).

The announcement of Hoag Health Center's plans to add space for its services and doctors may spur additional interest in medical professionals to own or lease space in vacant, existing buildings or renovated, existing buildings. For example, we understand that a portion of The Plaza, the mixed-use office/retail project at Warner and Beach Boulevard, is slated for planned renovation. The project's owners are proposing to renovate the old theater space into commercial space suitable for medical professionals. This strategy is intended to replace under-performing commercial space with viable, rentable commercial space compatible with the strengths of Beach Boulevard. This re-use may constitute the optimum commercial strategy for this outdated space.

One To Two Limited Service Hotels

In spite of the expansion of limited service hotels across the U.S. in cities with high business and leisure travelers, the City of Huntington Beach has not recently benefited from this development trend. We recommend a limited service hotel on Edinger, and a limited service hotel on Beach near the ocean, as a free-standing use or part of a mixed-use project. A name-brand limited service hotel would provide a high-quality value-priced option for budget-minded business travelers and price-conscious leisure guests.

A 200-room hotel would necessitate a 3.5-acre site to accommodate a 5-level (30,000 square feet per level) hotel, with dedicated hotel-only parking. Limited service hotels have been successfully mixed with shopping centers, as well as high-density residential, particularly in transportation corridors, entertainment areas and visitor-oriented ocean settings.

Luxury For-Rent Residential

Building high-quality market-rate for-rent residential units has become a mainstay of a number of well-established REITS and private companies across the country, particularly in regions, such as Orange County, where housing prices have become extraordinarily expensive. New for-rent residential projects are being built at high densities (over 50 units/acre to 100 units/acre), with contemporary designs and numerous lifestyle amenities, such as WiFi, business meeting space, mini dog parks, live-work lofts, as well as the traditional pool/spa and exercise room. A number of these projects are targeting residents who rent as a lifestyle choice. These

lifestyle-oriented renters are willing to pay strong monthly rental rates to receive the abundant amenities provided.

In Orange County, one of the most prominent owners of luxury for-rent properties is The Irvine Company Apartment Communities, with 52 projects in the City of Irvine, 9 in the City of Newport Beach and 7 in Tustin Ranch, for a total of 68 properties. According to information provided in Rental Living, published by the Company, one-bedroom units in the City of Irvine and Tustin Ranch command rents broadly ranging from about \$1,395 to \$2,015 per month, with newly-built projects averaging about \$1,779 a month for one-bedroom units. Two-bedroom units are achieving rents ranging from \$1,600 to \$2,220 a month, with newly-built projects averaging about \$1,977—nearly \$2,000 a month. Most Irvine and Tustin Ranch for-rent projects are located within one and one-half miles of either the Freeway 405 or Freeway 5, providing convenient freeway access for commuting professionals. A broad array of master-planned community amenities and/or self-contained recreational/business/fitness facilities are found in these for-rent projects, creating added appeal to those residents seeking a superior rental lifestyle choice.

With its easy freeway access on Edinger, and its close proximity to the Pacific Ocean, the City of Huntington Beach has an excellent opportunity to incorporate top-quality, luxury for-rent projects in the Study Area. Our discussions with selected, experienced luxury for-rent apartment developers indicate strong interest to build luxury for-rent projects, provided that: (1) the sites are a minimum of 3.0 to 4.0 acres (for a minimum of 150 units); (2) zoning will allow such higher density (50 units to 100 units per acre) mixing of uses; and (3) land values realistically reflect a level that can economically support the construction and operation of the project.

Three types of luxury for-rent residential projects may have potential in the Study Area:

1. **Luxury For-Rent (Condo Map):** designed to condominium densities and standards and processed as a condominium project built adjacent to or near existing retail/dining offerings, with generous private parking arrangements.
2. **Mixed-Use For-Rent:** high-density residential designed to long-term rental standards, with some limited amount of ground floor retail facing major intersections only.
3. **Luxury For-Rent (Mixing Uses):** high amenity for-rent designed for long-term operations as a for-rent project adjacent to or near existing retail/dining offerings.

Recommended locations for developing this product include:

1. Edinger Boulevard, due to its ease of freeway ingress and egress; its close proximity to the newly-redeveloped Bella Terra shopping center; and its proximity to an older, large for-rent project called, Seawind Village apartments, on Center Drive.

2. Between Ellis/Main and Adams on Beach Boulevard within easy walking distance of two existing shopping centers, the Albertsons/Mother's Market-anchored shopping center, Newland Center, and the Loehmann's 5 Points Plaza (with Trader Joe's).

3. Between Adams and the ocean on Beach Boulevard, an area already dominated by residential uses.

issues; the minimum acres required and the market-based densities of the products; and comments regarding amenities and target customer segments.

Table 1, following, summarizes the recommended products; the target locations; the realistic timing of the various products (one-to-five or six-to-ten years), based on competitive market conditions and land assemblage

**TABLE 1
EDINGER/BEACH BOULEVARD OPTIMUM DEVELOPMENT PROGRAM RECOMMENDATIONS
PRODUCT DESCRIPTIONS, TIMING, ACREAGE/DENSITIES, CUSTOMER SEGMENTATION & AMENITIES
REDEVELOPMENT AGENCY OF THE CITY OF HUNTINGTON BEACH**

PRODUCT DESCRIPTION/ TARGET LOCATIONS	TIMING: INITIATION OF DEVELOPMENT		MINIMUM ACRES/DENSITIES	COMMENTS/CUSTOMER SEGMENTS
	1-5 YEARS	5-10 YEARS		
GOURMET SPECIALTY MARKET-ANCHORED SHOPPING CENTER 150,000 S.F. & 100,000-150,000 S.F. EDINGER BLVD. AND/OR BEACH BLVD.	X		9.2 to 13.8 acres minimum (based on 25% coverage ratio) to 11.5 to 17.2 acres (based on 20% coverage ratio) for each center of 100,000 to 150,000 s.f.	Maximum new retail demand of 250,000-300,000 s.f., assuming one to two centers of 100,000 to 150,000 s.f. each, one anchored by a large specialty grocery store and the other anchored by an upscale gourmet grocery store. Retail square footage dependent upon securing anchor store. Timing must be initiated within next 5 years to secure designated anchor store, or otherwise retailer will select a neighboring, near-by city to serve its customers, and will not need a Huntington Beach location. No new net demand/need for unanchored small shop space. Target customers: upscale singles, couples, pre-retirees, retirees and health-conscious families.
IN-FILL COMMERCIAL USES: EXPANSION OF CAR DEALERSHIPS; FREE-STANDING RESTAURANT PADS; FREE-STANDING APPLIANCE/HOME FURNISHINGS/FURNITURE OUTLETS; SINGLE DOCTOR/DENTIST BUILDINGS; OWNER-USER OFFICE BUILDINGS BEACH BLVD. BETWEEN FREEWAY 405 & ELLIS/MAIN (DISTRICTS 1 - 2)	X	X	1.0 to 2.0+ acres, with site coverage dependent upon parking needs.	Beach Blvd. contains a number of small vacant or under-utilized parcels ranging from about one-quarter to 2.0-acres each, with most opportunity sites located north of Talbert. These sites benefit from close proximity to the Freeway 405 & the large retail users located from the Freeway to Ellis/Main. Proximity to the Huntington Beach Hospital is also a benefit for single-use medical owner/operators. Target customers: Huntington Beach destination-oriented shoppers & other appointment-oriented service customers.
LIMITED SERVICE HOTEL EDINGER AND/OR CLOSE TO OCEAN ON BEACH BLVD. (DISTRICT 4)	X		3.5 acre minimum size for 200-room name-brand limited service hotel, based on 5-levels, 30,000 s.f. per level, with dedicated hotel-only parking (not shared parking).	Limited service hotel may be combined in a mixed-use setting with high-density residential, a model successfully built in high transportation corridors & ocean settings. Target customers: business travelers and price-conscious leisure guests.
LUXURY FOR-RENT RESIDENTIAL; LUXURY FOR-RENT RESIDENTIAL WITH CONDOMINIUM MAP FOR FUTURE CONVERSION TO OWNERSHIP UNITS; & MIXED-USE RESIDENTIAL FOR-RENT WITH LIMITED GROUND FLOOR RETAIL AT STRONG INTERSECTIONS EDINGER BLVD. & BETWEEN ELLIS/MAIN & THE OCEAN ON BEACH BLVD. (DISTRICTS 3 & 4)	X	X	3.0-acre minimum size at densities at 50/acre for luxury for-rent and/or luxury for rent with condominium map for later conversion; 100 units/acre may fit selected in-fill/urbanized sites for long-term luxury rental products at transportation node-type locations. Minimum of 150 unites per project, with top-quality lifestyle amenities (see comments).	Luxury for-rent products should incorporate top quality lifestyle amenities, such as lap pools w/ spa, business center w/ computers/FAX, fitness center with equipment & clubhouse in order to be competitive w/ top Orange County rental living products and to attract discriminating, pedestrian-oriented residents. Target sites must be large enough to provide full array of amenities, and should be located on Edinger near Bella Terra's shopping or between Ellis/Main to Adams (District 3) to take advantage of two, existing neighborhood centers with several grocery offerings in place. Ground floor retail need not be required for any residential project. Very small quantities of ground floor retail may be incorporated as a project amenity for residents at strong corner intersections; however, because no strong demand exists, the retail will most likely be "stealing" demand from existing retailers-- not creating net new demand. Target customers: young professionals; singles; couples; empty nesters; pre-retirees; retirees; relocations to Orange county seeking temporary home while searching for new home to buy.
HOTEL ROOMS: 200-400 ROOMS RETAIL SQUARE FOOTAGE: 250,000-300,000 RESIDENTIAL: 150-500 UNITS PER PROJECT				

DISCUSSION OF MARKET CONDITIONS

Site Analysis Overview

The Study Area consists of two major arterials in Huntington Beach: (1) Beach Boulevard from the 405 Freeway to the Pacific Ocean (about 5.5 miles); and (2) Edinger Boulevard from the intersection of Edinger and Beach

Boulevard, and then west to the four corners of Edinger and Goldenwest (about 1.75 miles). The map below highlights the Study Area.

Beach Boulevard

The Beach Boulevard portion of the Study Area is an eight-lane state highway (Highway 39). It is the most direct route from the 405 Freeway to the beaches

along Pacific Coast Highway. The highway is segmented into 11 major blocks of about one-half mile each. Traveling north to south (to the ocean), the cross-streets include: Edinger, Heil, Warner, Slater, Talbert, Ellis (that turns into Main Street to the west), Garfield, Yorktown, Adams, Indianapolis and Atlanta.

Vehicular traffic along Beach Boulevard can be congested and noisy, with vehicles often traveling 50 miles an hour or more. Like many suburban state highways in Southern California, the highway's use is dominated by the travel of cars, buses and trucks. Vibrant, active pedestrian travel does not occur along Beach Boulevard's sidewalks.

Beach Boulevard may be divided into four segments that we have titled based on distinguishing uses:

1. **Freeway 405 to Warner:** Westminster Pavilions Center District.
2. **Warner to Ellis/Main Street:** Hospital and Wal-Mart District.
3. **Ellis/Main to Adams:** Loehmann's 5 Point Plaza/Hoag Health Center/Newland Center (Albertsons/Mothers Market center) District.
4. **Adams to the Ocean:** Ocean-Related Residential District.

Car dealerships are located all along the first three Beach Boulevard Districts, but are not located in the fourth District, Adams to the Ocean, a residential area, with the exception of an aged, non-contemporary shopping center at the southeast corner of Atlanta and Beach (the Big Lots and Rite Aid center).

The largest, single commercial use in the first District, Freeway 405 to Warner, is the Pavilions Place shopping center (about 310,000 square feet). This center is technically located in the City of Westminster. Anchored by Target and the Vons Pavilions grocery store, the center is located northeast of the intersection of Beach and Heil. Other notable retailers in this first District include two free-standing uses just north of the Westminster Pavilions Place shopping center, Office Max and Sport Chalet; the discount apparel store, Marshalls; and the discount beverage store, Beverages & More, in the 96,000-square-foot Huntington Collection shopping center at the northeast corner of Terry and Beach; and the following auto dealerships between Heil and Warner: Dodge, Jeep and Chrysler, Mitsubishi and Mazda.

The most significant commercial uses in the second District, Warner to Ellis/Main Street, are Wal-Mart, and the Huntington Beach Hospital with surrounding medical office uses. Other large commercial uses include The Plaza, a high-rise office project at the southwest corner of Warner and Beach, with ground floor retail, restaurants and an old-style cinema. Car dealerships in this District include Nissan, Honda Motorcycle, Chevrolet and Ford, all on the west side of Beach Boulevard.

The third District, Ellis/Main Street to Adams, is distinguished by the 155,000-square-foot lifestyle center, Loehmann's 5 Points Plaza, at the north end, and the nearly 150,000-square-foot, grocery-store-anchored Newland Center, at the south end. Loehmann's 5 Points Plaza's tenant mix includes Trader Joe's, the discount gourmet grocery store; Omaha Steaks; Farm Boy, a



fresh produce retailer; a number of apparel/shoe specialty retailers, including Old Navy, Ann Taylor Loft, Aeropostale, Aerosoles shoes, Chico's, Gap/Gap Kids/Baby Gap, The Childrens Place, Tillys, Vans Shoes, Nine West Shoes and World of Kalso Earth Shoes; and several home-oriented stores, including Pier 1 Imports, Mikasa (home accessories) and Party America. Other notable specialty tenant uses include Bath & Body Works, a beauty care supply store, a hair salon, a jeweler, a pet store, a bank, a cleaners and a coffee/pastry outlet, Java City. This center represents the most focused, lifestyle-oriented apparel and home furnishings tenant mix along Beach Boulevard, targeting residents living in neighborhoods close to the Civic Center, as well as neighborhoods located south toward the ocean.

Newland Center, anchored by Albertsons and Mother's Market, provides a focused neighborhood-oriented tenant mix for residents living near or south of this location. Mother's Market has been in this location for many years, serving health and diet-conscious consumers well before organic and natural foods became main stream. The center is attractively landscaped, and includes a number of quick food operators with an outdoor seating area.

Just north of Newland Center, between Yorktown and Adams, is the Hoag Health Center Huntington Beach. The three-story center contains a pharmacy, lab services, a Hoag Imaging Center and offices for 45 physicians. It is our understanding that Hoag is interested in developing 50,000 square feet of additional space in Huntington Beach to accommodate their doctors' needs and their own medical services.

Between 5 Points Plaza and Newland Center is the 94,000-square-foot Beach Garfield Center at the southwest corner of Garfield and Beach. Anchored by the 33,000-square-foot Stein Mart, a discount apparel/home furnishings retailer, this center offers additional community-oriented apparel/home furnishings stores.

The fourth District, Adams to the Ocean, is solidly filled with residential neighborhoods on both sides of the street, with the exception of a single parcel located at the southeast corner of Atlanta and Beach that houses an old, unattractive Big Lots/Rite-Aid center. The fourth District's close proximity to the ocean transforms this section of Beach Boulevard into a highly-desirable residential living enclave for both ownership and upscale, luxury rental housing. Unlike Districts 1, 2 and 3, with many small, narrow-depth commercial parcels lining the street, this segment is almost completely filled in with residential housing. In fact, the out-of-date Big Lots/Rite Aid center appears out-of-place given the abundance of attractive residential surrounding the site.

A number of market-based conclusions can be derived from the above site analysis of the four Beach Boulevard Districts:

1. District 4, Adams to the Ocean, is a residential segment. The residents living in this District are only about two large blocks away from the Albertsons/Mothers Market-anchored Newland Center, thereby precluding the need for any additional retail in District 4. In addition, a second grocery store-anchored center, the 73,000-square-foot Landmark Plaza, anchored by Vons, is located at Atlanta and Magnolia, only about one mile to the east of the existing Big Lots/Rite Aid center. No need exists for another grocery store to serve residents living in or near this District. Three grocery stores, totaling about 130,000 square feet, are all within about a mile of the Atlanta/Beach intersection, the location of the Big Lots/Rite Aid center. Not only is the Big Lots/Rite Aid site a poor location for a grocery store because three competing stores are close by, the site's resident trade area is not completely encircled by homes, with water comprising the south end of the grocery store's trade area. This type of resident trade area is usually not attractive to grocery stores because insufficient numbers of customers are immediately surrounding the location.

2. District 3, Ellis/Main to Adams, contains the most lifestyle and neighborhood retail uses. Three shopping centers with strong anchors and mini-anchors, including Albertson's, Mother's Market, Trader Joe's, Loehmann's, Pier 1 Imports, Old Navy, Mikasa and Stein Mart, provide an excellent stage for adding in-fill residential uses. This District already contains three grocery stores, plentiful services and a high quantity of specialty apparel/home furnishings uses. No need or demand exists for adding additional neighborhood or community-oriented retail space given that nearly 400,000 square feet already exists within a three block area of only about one and one-half miles. District 3 contains the most pedestrian-friendly shopping centers along Beach Boulevard (in Huntington Beach), with uses and shopping environments targeted to the immediate residential neighborhoods.

3. Districts 1 and 2 are dominated by regional-serving, big box uses. District 2 contains the behemoth retailer, Wal-Mart, a store designed for serving a wide regional market. The large parking area and mammoth store size are geared towards vehicular access—not intimate neighborhood shopping patronage. The Huntington Beach Hospital and medical office space, adjacent to Wal-Mart, are also large land users that serve a wide community area. District 1's retailers desire regional-serving locations near freeway access points. Examples include Sport Chalet, Office Max, several restaurants near the freeway, and Marshalls. The long-standing existence of big box and destination-oriented retailers in Districts 1 and 2 will continue to assist in generating interest by single commercial users on one- to two-acre sites that are vacant or under-utilized.

Edinger Boulevard

The Edinger portion of the Study Area extends two large blocks from Beach Boulevard at the Freeway 405 through the intersections of Gothard and Goldenwest. Edinger Boulevard is a six-lane arterial that experiences little pedestrian activity on the sidewalks.

Edinger Boulevard's most distinguishing feature is the recently renovated Bella Terra shopping center. Bella Terra provides an attractive, walkable atmosphere for entertainment and dining venues, as well as discount/value/"lifestyle"-type stores, such as Bed Bath & Beyond, Barnes & Noble and REI. With nearly 800,000 square feet of anchor, mini-anchor, small shop and restaurant pad space, the Bella Terra site also includes about 14 acres of land consisting of a former Montgomery Ward building (vacant) and surface parking.

Bella Terra anchor retailers include Mervyn's and Burlington Coat Factory, major tenants that were retained from the former center's tenant mix, and the Kohl's department store, added as part of the renovation. Other large tenants include the 76,740-square-foot Century Theaters. Mini-anchor tenants, occupying over 10,000 square feet, include Circuit City, Staples, Barnes & Noble, REI, Cost Plus, Shoe Pavilion and Bed Bath & Beyond. Four new, free-standing restaurant pads joined the existing Macaroni Grill pad at the corner of Beach and Edinger, with three pads fronting Edinger Boulevard: Cheesecake Factory, California Pizza Kitchen, Islands, and King's Fish House. Other restaurants, cafes and quick foods include Pei Wei; Corner Bakery; Starbucks; and the following quick foods/restaurants in or near a central courtyard close to the cinema: Kabuki restaurant, Johnny Rockets, Daphne's Greek, Pomodoro Cucina, Cravery, La Salsa, Peet's Coffee, Jamba Juice, Ben & Jerry's ice cream, and several others. Notable non-food specialty tenants include Huntington Surf and Sport, Jos. A. Bank, Loehmann's Contemporary (apparel) and ULTA Cosmetics.

West of Bella Terra is Golden West College, a community college bounded by Edinger to the south, Gothard to the east, Goldenwest to the west and McFadden to the north. Technically outside the Study Area, the community college hosts a swap meet in its parking lot area facing Edinger. Directly across from the Golden West College parking lot is an Albertsons/Toys R Us shopping center, located at the southeast corner of Edinger and Goldenwest. This shopping center represents the only other anchored center besides Bella Terra in the Edinger Boulevard portion of the Study Area.

Four older shopping centers are located on the south side of Edinger: (1) Sher Lane, with Men's Wearhouse and Office Depot; (2) the 149,000-square-foot Edinger Plaza, with Michaels and Petsmart (in a retail/services strip center totaling about 149,000 square feet) west of a rail line and directly across the street from the vacant Montgomery Ward building; (3) a small, less than 3-acre site with Frazee Paints, a dog groomer and a bike store; and (4) the Expo (Home Depot) Design Center at the southwest corner of Edinger and Goldenwest. An 112,000-square foot home furnishings strip center, called the Huntington Furnishings Mart is located just east of an EZ Lube outlet on the northwest corner of Edinger and Gothard.

Other major commercial uses include a Levitz warehouse, showroom and parking lot on about 11-12 acres at the northeast corner of Edinger and Gothard, immediately east of a rail line. Retail outlets on the south corners of Gothard and Edinger include the Orange County Mattress and the large, kitchen/bath/appliance store, Standards of Excellence, serving both homeowners and contractors. To the south of the Study Area along Gothard, behind the Orange County Mattress store and the small Frazee Paints shopping center, are older, industrial and warehouse buildings.

Key market-based conclusions can be derived from the site analysis of Edinger Boulevard:

1. Edinger Boulevard contains the largest vacant, developable parcel. The former Montgomery Ward building and surrounding parking lot comprise about 14 acres of land immediately adjacent to the existing Bella Terra shopping center. No other vacant parcel in the Study Area provides as much land area as this single site.

2. Bella Terra already has a pedestrian-oriented atmosphere on-site--but few homes are nearby to take advantage. Bella Terra has a strong array of dining and entertainment offerings, key attractions for mixed-use residential living. However, for most patrons, shopping at the center requires taking a car. The creation of adjacent high-density residential homes would enhance the pedestrian shopping patronage at the center. Residents would be able to shop, dine, go to a movie and patronize banking and other personal services without using a car.

3. Freeway 405 access time is short. Both commercial and residential uses near this portion of the Study Area benefit from the ability to access the Freeway 405 within a short time. Resident commuters, shoppers and employees can quickly go north or south from venues along Edinger.

4. Rail line has future potential for connecting to downtown. Should future alternative transportation be built using the rail line between the Montgomery Ward site and the Levitz site, Golden West College students, workers and residents would have non-traditional transportation between Edinger and central Huntington Beach.

5. Bigger revitalization impact with larger parcels. Edinger Boulevard's large vacant or under-utilized parcels—under single ownership or control—are more likely to achieve redevelopment goals quicker than the many, smaller sites on Beach Boulevard.

MARKET/ECONOMIC CONDITIONS AFFECTING REDEVELOPMENT

New Retail Revitalization Constrained By Lack Of Anchors

Few large retailers exist that would be willing to serve as the critical anchor stores for any new or renovated property in the Study Area. Nearly all potential neighborhood and community anchor stores have already found homes in Huntington Beach or the immediately neighboring city of Westminster to serve the residents living in and around the Study Area.

Without an anchor store, no commercial center can be realistically built or redeveloped successfully. It is a retail industry tenet that anchored centers out-perform unanchored (mini-mall strip) centers in terms of shopping center sales and rents. Any new or fully renovated large shopping center (greater than 5-6 acres) requires an anchor store in order to attract the small shop tenants to fill the entire center. Without an anchor, the renovated or new center cannot charge the needed market rate rents to cover the costs of new construction.

The following neighborhood and community center anchor stores already have homes on or near the Study Area:

- **Wal-Mart** on Beach Boulevard.
- **Target** on Beach Boulevard, just south of Freeway 405, technically in City of Westminster.
- **Kohl's** and **Mervyn's** on Edinger in Bella Terra.
- **Expo (Home Depot)** on Edinger, and **Lowe's** on Warner just south of Beach.
- **Stein Mart** on Beach.
- Three traditional grocery stores: Two **Albertsons**, one on Edinger and one on Beach and a **Vons Pavilions** on Beach just south of Freeway 405, technically in Westminster.
- Two specialty grocery stores: **Mother's Market** on Beach and **Trader Joe's** on Main, just off Beach Boulevard.

The only large retail anchors not represented include the following:

- Large specialty/health grocery store, such as Whole Foods.
- Upscale grocery store, such as Gelson's.

All other community anchor store possibilities have already been secured. Therefore, the amount of new or total renovated retail space in the Study Area is severely hampered because no anchor stores are available.

No amount of creative leasing or demand analyses can replace the reality that any newly renovated or built commercial center will require an anchor store. Therefore, even under the most optimistic scenario, only two shopping center development scenarios are possible: (1) an upscale grocery-anchored center; and (2) a large, specialty grocery-anchored center. A large, specialty grocery store with city-wide appeal may be more likely secured for the Study Area due to the existence of three traditional grocery stores already represented that would directly compete with any upscale grocery store.

The following summarizes the maximum amount of new retail center space supportable based on an optimum scenario of two 50,000-square-foot anchors:

HUNTINGTON BEACH BOULEVARD & EDINGER CORRIDORS
POTENTIAL NEW OR RENOVATED RETAIL SPACE
OPTIMUM SCENARIO

Large Specialty Grocery Store Center	150,000 sq. ft.
Upscale Grocery Store Center	100,000 to 150,000 sq. ft.
Grand Total	250,000 to 300,000 sq. ft.

The lack of available community center anchors dictates that a maximum of two centers, under the most optimistic scenario, can be newly built on vacant land or on land with existing commercial structures in the Study Area. Therefore, any revitalization strategy must encourage other non-retail uses in order to economically justify attracting new development.

The optimum scenario described above does not reflect a worst case scenario in which no developer is able to secure even one sought-after anchor store. Should this "worst case" situation occur, no new shopping centers would be supportable in the Study Area. Any revitalization strategy, therefore, could not count on building or renovating any shopping centers.

This "worst case" scenario does not account for individual, destination-oriented commercial, retail or office enterprises that may wish to ground lease or buy their own parcel in order to build their own building on small sites. Typically, this would occur on parcels that are less than 3 acres in size, and the users would build their own buildings or contract to have their operations constructed on a build-to-suit basis. Usually, this type of commercial space is not built on a speculative basis.

Examples of commercial users that fit this category include:

1. Expansion areas for car and motor bike dealerships;
2. Doctor and dentist offices, as well as other health care offices;
3. Home appliance and improvement stores;
4. Restaurant pads;
5. Bank, credit union, or other financial institution pads.
6. Other single-user destination-oriented businesses housed in spaces of about 30,000 square feet or less.

New Commercial Revitalization Constrained By Other Market Conditions

A number of other limiting factors contribute to the inability to expand and renovate commercial space in the Study Area, including the following:

1. Lack Of Significant Residential Growth

The resident trade area for the Study Area includes the cities of Huntington Beach, Westminster and Fountain Valley. Although this area represents a highly populous area of about 353,000 people and nearly 123,700 households, with strong median and average household incomes (nearly \$70,000 median and \$87,000 average), the average annual growth in new households has been less than half of one percent over the six-year period, 2000 through the year 2006. The expected five-year growth is also projected to be less than 1.0% per year.

The lack of new household growth means that new or expanded shopping center development cannot thrive based on the growth of new households. Because the resident trade area is virtually built-out, ambitious expectations of strong sales, rents and demand for new shopping center space cannot be saved by future new household growth to support the demand for shopping center space. It is a major shopping center industry principle that retail follows residential growth. Without new residential growth, new retail center growth cannot occur.

2. Study Area Dominated By Unanchored (“Mini-Mall”) Strip Centers

The most successful retailers seek locations with strong anchored shopping centers. Of the 7 shopping centers along the Edinger Corridor, only 3 are anchored:

1. The Albertsons Center;
2. Bella Terra (Kohl’s, Mervyn’s); and
3. Expo Center (Home Depot).

The remaining 5 centers are occupied by furnishings stores and mini-anchor stores, such as Petsmart and Michaels—but are not anchored by grocery stores or discount department stores.

Of the 27 shopping centers along the Beach Corridor, only 6 are anchored by major retailers:

1. Pavilions Place (Target and Vons Pavilions), located in the City of Westminster;
2. Newland Center (Albertsons, Mother’s Market);
3. Wal-Mart Center;
4. Beach Garfield Center (Stein Mart);
5. Loehmann’s 5 Point Plaza (Loehmann’s and Trader Joe’s); and
6. Huntington Collection (Marshalls).

A seventh center contains Big Lots in a former grocery store space (at the southeast corner of Beach and Atlanta), but this discounter is not considered a traditional anchor store.

The Study Area is dominated by unanchored strip centers, the weakest type of center in the retail industry. Of the 34 shopping centers evaluated, less than 30% of the centers are considered anchored by retail industry standards.

3. Many Unanchored Centers With Non-Retail Sales-Generating Uses

Successful retailers tend to seek locations where many like-kind businesses exist that generate strong retail sales. Many centers in the Study Area, however, are occupied by non-retail uses. Although a number of unanchored shopping centers are occupied by convenience stores, quick and fast foods and some specialty retail outlets, many are also filled with store types that generate minimal amounts of retail sales tax dollars, or none at all.

Examples of Study Area businesses that do not generate retail sales include:

- Small personal and financial service (office) tenants, such as finance and insurance companies; brokerage/real estate offices; accounting specialists; employment offices; consulting companies;

- Doctors, optometrists, dentists, chiropractors, and other health professional offices;
- Entrepreneurial non-retail businesses, such as computer service companies;
- Non-profit users of commercial space, such as organization offices, union halls, fellowships and churches; and
- Personal service businesses that do not sell any goods.
- Automotive services and repair.

Many Study Area commercial (unanchored) centers serve as modest-priced destinations for individual and small businesses that do not generate retail sales.

4. Wal-Mart Is A Deterrent For Many New Retailers

Wal-Mart is generating retail sales about equivalent to that of a successful 200,000+ square-foot shopping center. The presence of this powerful discount merchant in the Study Area is a deterrent to attracting new retailers, both independent and regional/national in nature. Many retailers do not want to compete so close to this mammoth store. The discounted prices at Wal-Mart are so compelling that it is difficult for independent and regional/national retailers to successfully compete against the deep discounts offered. Moreover, the store is located so conveniently close to many Huntington Beach residents, that is difficult for many shoppers to justify patronizing elsewhere for similar goods, particularly when the store is so easily accessible.

5. Anchored Centers Are Reporting Solid Retail Sales—Many Unanchored Not

Based on our review of available retail sales tax data, most of the anchored retail shopping centers report solid retail sales. However, many unanchored centers report only modest or weak retail sales (such as less than \$100 to \$150 per square foot a year) for individual stores that report sales. Modest and weak sales levels are an indication that many retail businesses are small and independent merchants that are not performing at thriving sales levels, based on retail industry standards. Typically, a weak sales level for any individual store indicates that the retailer may not survive over a long term period, or the entrepreneurial, independent business is just making a modest living for the owner. Regional or national chain retailers, owned by companies with multiple locations, typically cannot thrive in today’s market without reporting sales for individual stores in excess of \$250 to \$300 per square foot.

6. Study Area Retail Rents Are Not Consistently Strong

Cities or shopping center districts in Orange County with consistently strong retail space report retail rents for both anchored and unanchored centers in excess of \$2.00-\$2.25 per month for small shop space, with prime shopping

centers commanding rents in the \$3.00-\$3.50 range and higher. Strong retail rents in fully occupied shopping centers typically indicate that retailers are thriving at sales-per-square-foot levels that are successful enough to pay the rents asked. If the retailers cannot afford the rent levels, high vacancy levels are observed over a period of time.

Rents for the Study Area broadly range from \$1.25 to \$3.00 per square foot, with most centers reporting small shop rents in the \$1.50 to \$3.00 per square foot per month range. Shopping centers anchored with grocery stores, discount apparel stores or national chain convenience stores (e.g., 7-Eleven) report the highest rents. The weakest rents are reported for unanchored (mini-mall) strip centers, with many strip centers exhibiting small shop space rents of \$1.50 per square foot per month. The domination of unanchored shopping centers in the Study Area, with many reporting \$1.50 per square foot in monthly small shop rents, is a clear indicator that the Study Area is not home to shopping centers that consistently perform at top Orange County sales levels.

Notably, however, not many shopping centers in the Study Area report rents at the \$1.25 or less level. Extremely weak shopping centers in Southern California report rents of \$1.00-\$1.25 per square foot per month, or less, for small shop space. This level of rent often indicates that retailers are making marginal annual sales, and that the shopping center owner is not making an excellent return. It is not uncommon to see low maintenance levels and deteriorating building and common area space in these shopping centers. Landlords of the shopping centers cannot afford to renovate the centers to contemporary standards because typically the retail space is located in locations that are structurally impaired due to the lack of demand. No matter how much the landlord would spend on the shopping center, retail demand has been eclipsed by competition or major demographic shifts in the trade area.

7. Big Renovation Monies Not Likely To Improve Most Study Area Unanchored Center Rents

Sizable renovation expenditures for the Study Area's unanchored shopping centers will not greatly improve the rental rates achieved, particularly if the expenditures include a combination of façade improvements, new generous landscaping, parking lot resurfacing, new signage, and interior tenant improvement allowances. Although market retail rents broadly range from about \$1.25 to \$3.00 per square foot, with most centers reporting \$1.50 to \$3.00 per square foot per month, the weaker centers needing renovation tend to report rents in the lower ranges. Complete center renovations are costly and cannot be justified unless the center can be re-leased with tenants that can afford the highest market rents in Huntington Beach.

As mentioned earlier, only two large retailers exist that are potential candidates for anchoring newly renovated centers or newly built centers around which new small shops could be leased. Even small unanchored centers require mini-anchors, such as 7-Eleven or other regional or national chain convenience stores, in order to attract the best small shop tenants.

The lack of candidate anchor or mini-anchor tenant possibilities restricts the ability of shopping centers to spend major renovation monies to redo their centers to contemporary standards, with new facades, signage, parking resurfacing and landscaping.

8. Office Rents Do Not Support Construction Of Traditional, Speculative Space

Study Area new-deal office rents tend to top out at about \$1.75 to \$2.00 per square foot per month, reflecting modest regional office rents. This office rent level is not high enough to warrant construction of non-specialized speculative (multi-tenant) office buildings in the Study Area. In fact, these rents are well below top market rents for retail space, and are not high enough to support new multi-story or mid- to high-rise construction into traditional office space.

Notwithstanding the lack of economic factors favoring multi-tenant, traditional office space, the Beach Boulevard presence of Huntington Beach Hospital and the Hoag Health Center Huntington Beach are positive factors for attracting specialized medical/institutional commercial space. For example, a number of individual medical users have shown interest in recent years for single-user space. Several new dentist offices, for example, have retrofitted or renovated old, small building space to house their own offices. Continued revitalization potential exists for this owner-occupied, small parcel/building space in the Study Area. Moreover, the interest by Hoag to add 50,000 square feet of commercial space for their institution's medical services and doctors is a positive sign that specialized, institution-related medical space has a long-term interest in being housed in the Study Area.

REVITALIZATION STRATEGY RECOMMENDATIONS

In order to encourage revitalization of vacant and under-performing commercially-zoned sites in the Study Area, the optimum strategy is to consider selected development of residential products on prime sites of significant size (i.e., three acres and larger). It is unrealistic to assume all vacant and under-performing commercial sites in the Study Area can be successfully revitalized with retail development, and therefore, an alternative, viable strategy must be adopted to encourage aesthetic upgrading of parcels.

Nearly all new major regional shopping centers today, as well as on-street shopping districts, are incorporating some kind of residential products on sites adjacent to or mixed in with the shopping experience. Moreover, hotel products are also being incorporated into shopping/residential districts. Overnight visitors are viewing shopping/entertainment areas as amenities to their visitor experience.

Residential parcel sizes require at least 3.0 to 4.0 acres in order to accommodate a minimum of 150 to 200 units in a contemporary podium-style or wrap-style design, with or without ground floor retail. Limited service hotel parcels require a minimum of 3.0 to 3.5 acres of land, with parking that that is not shared with other, adjacent uses.

Recommended residential products include luxury for-rent units built as long-term lifestyle-oriented apartments, or built to condominium standards for potential conversion in future years. The residential units should be located adjacent to prime, existing anchored shopping centers along Edinger or on Beach. New luxury for-rent rental rates are estimated at \$2.00 per square foot, or an estimated range of \$1,500 to \$2,000 per month for one- and two-bedroom units. Any ground floor retail should be minimized, limiting any small amount of new space to frontage space along Edinger or Beach.

Site criteria for locating new luxury residential for-rent projects should include the following:

1. Walking distance to shopping and dining.
2. Parcel should be large enough to include self-contained amenities, such as pool/spa, fitness facilities, meeting/business center and other lifestyle amenities.
3. Minimum of 150 units.
4. Excellent ingress and egress from parcels, allowing for good access onto busy Beach and Edinger Boulevards going either direction.
5. Consideration of parcels near transportation hub sites, such as bus or rail lines.
6. Allowable densities of at least 50 units per acre, with selected sites at 100 units per acre, assuming that product is designated as a long-term rental (with no condominium map).

The following table summarizes the optimum recommended product types, the acres required, the estimated number of parking spaces required and the typical price for the parcel, stated in terms of per-unit value ranges.

- They attract urban-oriented residents who enjoy walking to shopping/entertainment adjacent to or near their residences.
- Because it is a shopping center industry tenet that retail follows residential, the addition of new residents generates new retail demand. Although new, large shopping centers require thousands of new customers to support an entire center, even the addition of a modest number of residents

**DEVELOPER PRICING PARAMETERS
EDINGER & BEACH CORRIDORS
PRODUCT PROGRAM**

USE/PRODUCT	BUILDING UNITS	ACRES COVERED	PARKING SPACES REQUIRED	PER UNIT VALUE
Luxury For-Rent/Ground Floor Retail	150 - 200 Units (minimum)	3.0 - 4.0 (minimum)	225 - 300	\$40,000 - \$45,000
Condominiums/Ground Floor Retail	150 - 200 Units (minimum)	3.0 - 4.0 (minimum)	225 - 300	\$80,000 - \$80,000
Limited Service Hotel	200 Rooms (5-Levels)	3.5 - 3.5	200 - 200	\$15,000 - \$20,000

A limited service hotel is a commercial use for the Study Area that may mix very well with residential and retail uses in the Study Area. One to two sites in the Study Area, such as near the 405 Freeway on Edinger, or possibly near the ocean end of Beach Boulevard, may be considered for incorporating this visitor-generating use. A limited service hotel would require about 3.5 acres for a 200-room product, and the market price ranges from about \$15,000 to \$20,000 per hotel room, or about \$20 to \$26 per square foot of land (see table above).

RESIDENTIAL MIXED-USE PRODUCT ADVANTAGES

Luxury for-rent residential projects located in or adjacent to commercial districts provide the following advantages to shopping centers:

- They attract younger, professional residents with excellent discretionary spending potential, particularly for restaurants, quick foods, electronics, fashion and accessories and services, thereby spinning off additional retail spending.

can add liveliness and energy to a shopping location, if the residences are located immediately nearby.

- High-density residential housing can provide an attractive village-like atmosphere to a shopping district or street, and provide a sense of safety for all shoppers.

CONCLUDING REMARKS

Not all vacant or under-performing sites in the Study Area will be suitable for renovation or redevelopment as residential, mixed-use products or revamped new destination-oriented commercial uses.

Many old, non-contemporary commercial properties in the Study Area are performing at rent levels of at least \$1.50 per square foot per month. At this average rent level and above, the operating properties may be sold today at prices that exceed the land values many residential developers can afford to pay. The aggressive, commercial investment market will currently pay more for the operating project than many residential developers can afford to pay to demolish and build a new residential or mixed-use project. Therefore, in

the short-term, many old commercial sites may not be suitable for alternative development options—even if the shopping centers appear unattractive and non-contemporary in design.

Condominium for-sale developers are currently having a difficult time securing financing due to the slow-down of sales in this sector. In contrast, luxury for-rent projects are still expanding and major for-rent development REITS are seeking locations. Moreover, a number of for-sale condominium developers in Orange County are retooling their projects into upscale for-rent projects (with condominium zoning). Therefore, for sites that may be suitable for long-term for-sale as high-density residences, the greatest near-term opportunity is to develop the parcels as luxury for-rent projects with condominium maps for later potential conversion when the for-sale market returns.

We look forward to seeing the City proceed with its efforts to successfully revitalize the Beach Boulevard/Edinger Corridors.

Very truly yours,

LINDA S. CONGLETON & ASSOCIATES

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Principal