Shopping Center Inventory, Survey & Redevelopment Opportunities

City of Huntington Beach

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#C-6

Objectives of Assignment

- Create a database of shopping centers, tenants and anchors within the city
- Identify possible opportunity sites for revitalization
- Identify possible funding sources for revitalization
- Utilize information gathered as a business development tool
- Identify economic realities within city and immediate region

Economic Realities - Retail Sales

- Regional shopping centers in Costa Mesa (South Coast Plaza), Newport Beach (Fashion Island), and Westminster (Westminster Mall) draw shoppers from Huntington Beach, generating "leakage"
- Huntington Beach lacks a regional shopping center
- Long stretches of underperforming corridors
- Strongest performing centers
  - Bella Terra
  - Seacliff Village
  - Five Points

Retail Outlook for Future

- Given leakage report data, lack of regional shopping center and rising median incomes; supply is insufficient to meet current demand
- Anchors currently in community
  - Wal-Mart, Target, Home Depot, Lowes, Loehmann's, Trader Joes, Ralphs, Vons, Alberstons, Walgreen's, CVS
- New housing growth would generate new demand (1,558 Units)
  - Bella Terra Phase II (503 Proposed Units)
  - Brightwater (349 Units)
  - Pacific City (516 Units)
  - Parkside (170 Proposed Units)
- Future outlook
  - Weaker players dropped out (Montgomery Ward, K-Mart, Good Guys, Levitz)
  - Stronger players will expand (Apple, Banana Republic, Coach)
  - Product types will change ("lifestyle" centers, Tesco)

Survey Methodology

- Conduct windshield survey
  - Identify tenant mix
  - Detail exterior physical conditions
    - Survey sheets
    - Phot o Documentation
- Establish criteria for categorization
  - Recently (Re) Developed Centers (Tier 1)
  - Cosmetic/Minor Upgrades (Tier 2)
  - Extensive Upgrades Required (Tier 3)

Shopping Center Characteristics

- Fifty (50) centers surveyed
- Survey Area Approx. 150 acres
  - Over 1,250,000 sq.ft. of retail space surveyed
- Shopping Center Age
  - 14 built during the 1960's
  - 19 built during the 1970's
  - 5 built during the 1980's
  - 12 built post 1990

Recently Developed Centers (1)

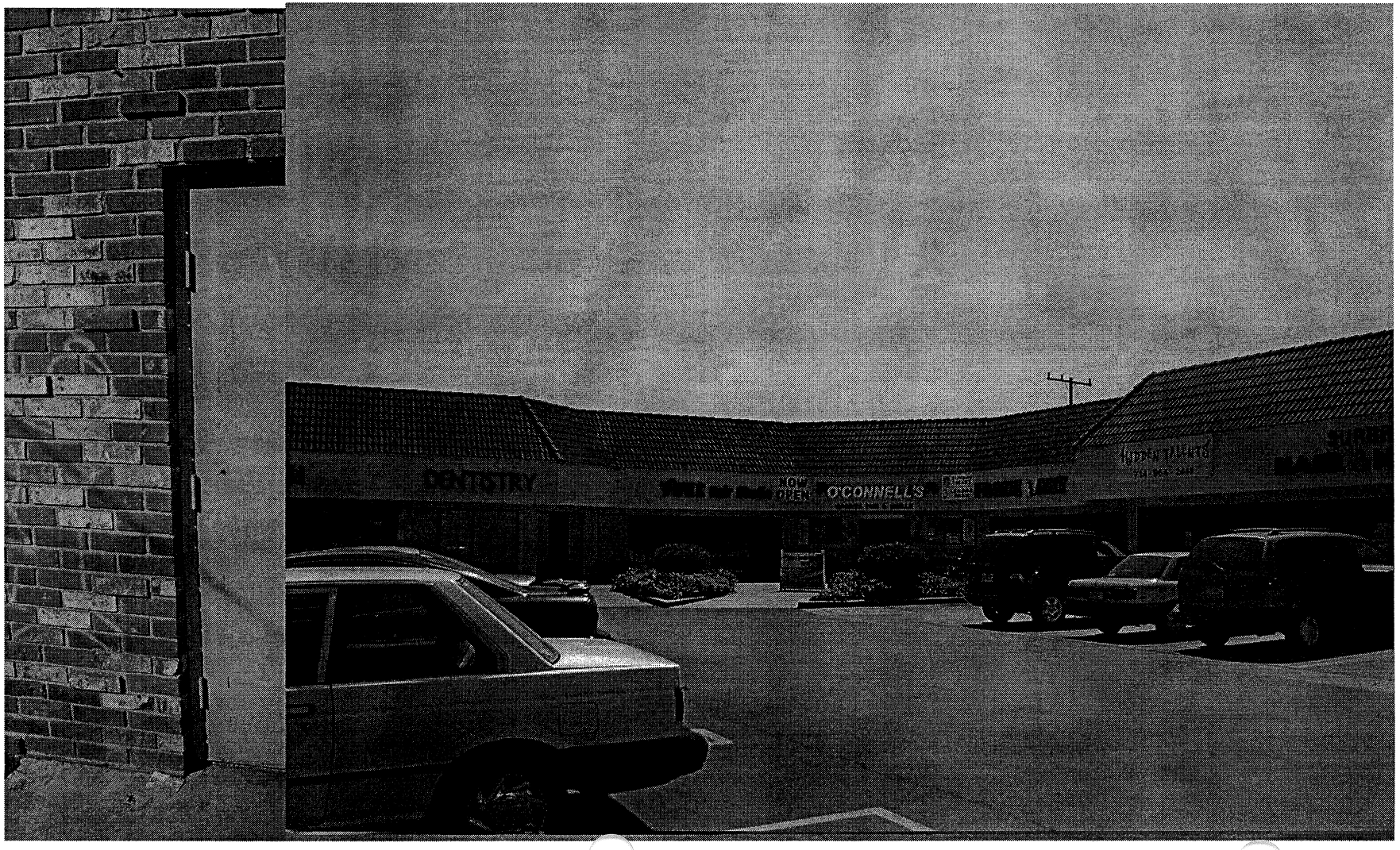
- Generally anchored by national tenant
- Design and aesthetics consistent with 1990's and later retail centers
- Center is well maintained and free of graffiti and debris
- Most are found along larger corridors with high traffic volumes
  - Bella Terra
  - Five Points
  - Seacliff Village

Recently Developed Centers (1)

Cosmetic/Minor Upgrades (2)

- Lack major tenants, in some cases
- Presence of physical deterioration, graffiti & other reuse constraints
- In need of minor upgrades to attract/maintain quality retail tenants
- Rents are at or above market rate
- Long time owners – low basis, risk adverse
  - Risk Adverse = No reason to make any modifications
- Rent to service & office businesses, entrepreneurs
- Generally, with commercial zoning, limited upside in rents doesn't justify risk & cost of upgrade
  - Owner will not realize revenue to offset improvement costs

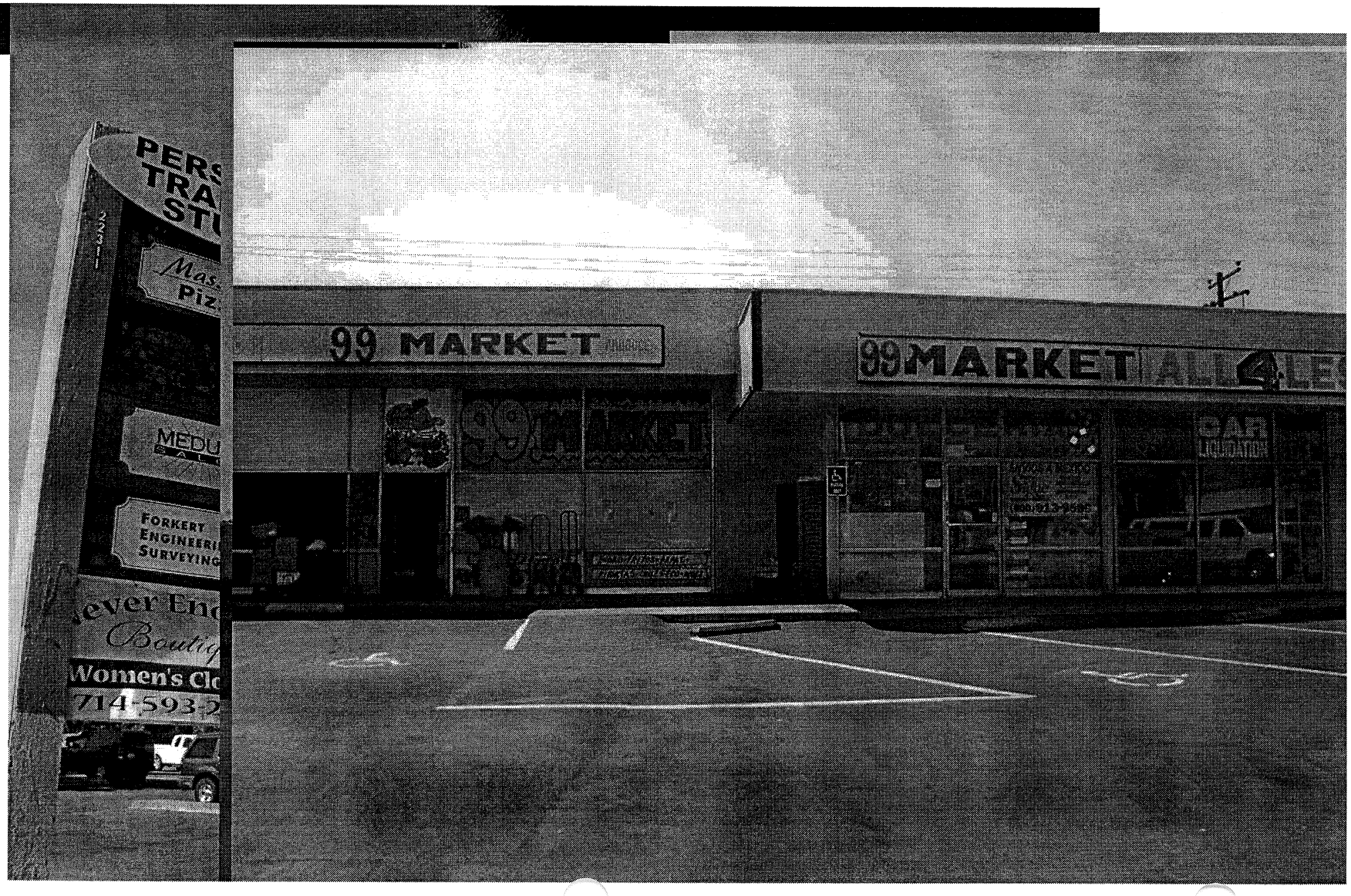
Cosmetic/Minor Upgrades (2)



Extensive Upgrades Required (3)

- Lack major tenants, in most cases
- Prevalence of physical deterioration, graffiti & other reuse constraints
- In need of extensive upgrades to attract/maintain quality retail tenants
- Office & service tenants instead of retail
- Rents at or near market
- Retail tenants struggling
- Obsolete designs
- Property owner risk adverse, asset producing great income given condition, no incentive to reinvest

Extensive Upgrades Required (3)



Retail Study – Staff Observations

- 40 of the 50 centers surveyed require some form of upgrade
  - 22 of the 40 have been identified as needing extensive upgrades (Tier 3)
  - 18 centers are in need of cosmetic/minor upgrades (Tier 2)
- 10 of the 50 centers surveyed have been recently developed, revitalized and are well maintained (Tier 1)
- 22 centers lack a national retail anchor and/or the anchor store is in need extensive remodeling
- Most common tenants identified within centers surveyed: Donuts, Nails and Cleaners
- Many centers lack sufficient landscaping
- Many centers do not present an appealing shopping experience

Rent as an Obstacle to Revitalization

- Major renovation expenditures for most unanchored shopping centers will not greatly improve the rental rates achieved
  - Façade improvements, landscaping, parking lot resurfacing and tenant improvement allowances
- Market retail rents range from $1.25 to $3.00 per sq.ft., with most centers reporting $1.50 to $3.00 per sq. ft. per month
  - Given these reported values, costs for modifications to centers cannot readily be absorbed through higher rents
  - Without higher rents, center owners must be willing to accept less income in order to realize a more attractive center
- Major 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.
- 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 anchor or mini-anchor tenants 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.
- No incentive to reinvest without grants **"free money"**

Summary

- 40% of the shopping centers surveyed are underperforming
- Retail opportunities in city appear to be fully built out
  - Much of the marginal retail space surveyed used by office & service users
- Revitalization of centers may provide additional retail opportunities and square footage
- Mixed use developments may provide economic feasibility for some center owners to afford revitalization
- Higher density residential provides the highest land residual

Revitalization Cost Scenarios

- Tier 2 - Rehabilitation
  - 400,000 sq.ft. of retail (remodel)
  - Assumed $65 per square foot for remodel
  - Total cost to remodel (only) Tier 2 centers $26,000,000
- Tier 3 - Repositioning & Redevelopment
  - 870,000 sq.ft. of retail (new development)
  - Assumed $135 per square foot
  - Total cost to redevelop centers $117,450,000

All costs are projected in 2007 values and account for prevailing wage costs

Strategies for Revitalization

- Establish and provide for closer coordination of:
  - Chamber of Commerce
  - Economic Development Department
  - Business Attraction Program
  - Shopping Center Owners
- Efforts will be centered in finding suitable locations for businesses wishing to enter community

Strategies for Revitalization

- Community Development Block Grant
  - Limited Funding (Approx. $600,000 available-one time only funds)
    - Funds available will rehabilitate approx. 9,230 square feet per year or construct 4,444 square feet per year
    - At rate identified, it will take 43 years to rehabilitate all Tier 2 centers and an additional 196 years to redevelop the Tier 3 centers
  - Funding allotment subject to fluctuation and restrictions on use

Strategies for Revitalization

- Revolving Loan Fund
  - City to provide initial pool of available funds from General Fund
  - Property owners will have difficulty meeting terms of repayment
  - Requires extensive City participation
- General Fund Assistance
  - Funds would draw from other projects/programs

Strategies for Revitalization

- Add shopping center islands into the Merged Redevelopment Project Area
  - Added territory will include only shopping centers
    - No residential
    - No adjacent properties
    - Add ed territory will have absolutely no power of condemnation
  - Redevelopment provides self funding mechanism for revitalization
  - Ability to bond against future tax increment
  - Adding to Merged Project Area allows the Agency to have immediate funds available to assist in revitalization efforts

Next Steps

- Staff requests City Council direction on how to proceed given survey findings and strategies for revitalization including:
  1. Reach out to existing owners to discuss upgrading of Tier 2 centers
  2. Expend $600,000 of unobligated CDBG one time only funding
  3. Initiating an amendment to the merged project area with limited conditions that would include NO eminent domain authority or include any residential housing areas

2007
HUNTINGTON BEACH
PLANNING COMMISSION
GOALS
(Updated July 2007)

1. Recommend measures to establish an effective green building program for Huntington Beach (Commissioners Horgan and Shier-Burnett, Livengood).

2. Monitor progress of the Edinger/Beach Blvd. Corridor specific plan development (Commissioners Dwyer, Speaker, Horgan).

3. Monitor progress of the Bella Terra Phase II development (Commissioners Dwyer and Farley, Livengood).

4. Monitor progress of the Downtown Specific Plan and Parking Master Plan revisions (Commissioners Scandura, Farley).

5. Monitor progress of the Strip Mall Development study by the Economic Development Department (Commissioners Scandura, Farley).

6. Recommend measures to promote neighborhood compatibility (Commissioners Dwyer and Horgan).

7. Provide recommendations to City Administration on implementing the findings of the Entitlement/Development Processing (a.k.a. Zucker) Report (Commissioners Shier-Burnett and Livengood).

8. Identify and implement improvements to setting meeting agendas and conducting meetings (To be discussed at an upcoming Planning Commission study session).