MARKET ANALYSIS FOR AMENDMENT TO THE HUNTINGTON BEACH ZONING AND CODE

RESEARCH AND TECHNOLOGY (RT) ZONING DESIGNATION

Prepared for:

City of Huntington Beach

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1. Introduction

This report provides a focused market analysis to ensure that the anticipated Research and Technology (RT) zoning classification is responsive to market demand and reflects the contemporary facility requirements of targeted business types. Along with allowing traditional industrial uses (e.g., various manufacturing, warehouses, and wholesale uses) in the plan areas, the City's goal with the RT zoning classification is to provide a zoning and planning framework that encourages a more flexible use of building space to attract new businesses to the area. As envisioned by the City, some of these new businesses would likely be in emerging industries with building space requirements more aligned with lower-intensity industrial and commercial uses.

The market analysis considers the two areas envisioned for the RT zoning classification: the Northwest Industrial Area (760 acres) and the Gothard Corridor (422 acres). The market analysis has two major purposes:

1. Describe potential market growth and development potentials for the types of industrial land uses envisioned for the RT designated areas; and

2. Provide the City of Huntington Beach ("City") insight on development standards issues (e.g., floor-to-area [FAR] thresholds, parking requirements, design standards, etc.) that may affect the economic feasibility of future development within the RT areas.

The report findings are largely based on a series of interviews with various stakeholders familiar with the local and regional industrial real estate market (industrial real estate brokers, industrial property developers, and existing Huntington Beach businesses). Along with the valuable insights provided by these local experts with "on-the-ground" experience in Huntington Beach and the surrounding region, The Natelson Dale Group, Inc. (TNDG) also researched the characteristics of comparable "creative industrial" development districts throughout California. Finally, as part of the market study process, TNDG has prepared a list of technology-oriented industry clusters that may be strong candidates for attraction to the City.

The remainder of the report is organized as follows. Chapter 2 provides a summary of the study's major findings. Chapter 3 provides a brief overview of industrial market trends in Huntington Beach and the surrounding region. Chapter 4 provides a working list of target industries and clusters[1] for the RT designated areas. Chapter 5 provides a summary of findings and insights gained from the stakeholder interviews. Chapter 6 provides a summary profile of other communities with established/emerging concentrations of "creative industrial" development.

[1] Clusters are groups of inter-related industry sectors whose growth potentials within a region tend to be closely aligned. The tendency of individual industries to co-locate in clusters reflects linkages through supply-chain relationships, as well as commonalities in terms of workforce requirements and infrastructure needs. The concept of industry clusters is an effective framework for economic development programming since it reflects a holistic understanding of the regional economic conditions driving the growth or retraction of individual sectors.

2. Executive Summary

Based on the research completed for this analysis, this executive summary provides specific City recommendations for the proposed RT zones. Recommendations are divided between those that would be achieved through *zoning/land use* amendments versus those through *general policy recommendations*.

Recommendations – Zoning/Land Use

- ***Floor-to-Area Ratio***. Market-driven FARs would likely range from 0.30 to 0.50. A prototypical RT-type development would have an overall FAR of 0.35 with approximately 30% of building space allocated to office uses. Market participants ***do not believe that development intensities would reach a 1.0 FAR***, given that this would translate to a two-story industrial building. There is no market for this type of development and it is not envisioned to develop for the foreseeable future. To accommodate special racking needs of some tenants, allowable building heights should be 36 feet.

- ***Office Space Allocation***. Based on the above and discussions with market participants (developers, brokers, end users), current development trends indicate that the office space allocation within modern industrial buildings would be expected to range from 10% to 30% of total floor area. The lower range (10%) would apply to more traditional industrial uses[2], while the more R&D- and RT-type tenants would typically require higher proportions of office space. As noted above, some creative industrial projects are developed with as much as 30% office space.

- ***Parking***. Parking requirements varied among market participants, with guidelines ranging from 1.8 to 3.5 spaces per 1,000 square feet. Whereas some industrial brokers highlighted a shortage of adequate parking along the Gothard corridor, others noted an excess of parking, with an estimated 60%-70% of industrial businesses not using all of their on-site parking capacity[3]. This is also an area where the City needs to be forward looking, as future trends (e.g., ride sharing, autonomous cars, etc.) may reduce traditional parking requirement thresholds.

- ***RT-use Example***. The following breakdown provides a concrete example of development characteristics of a relatively new RT-type tenant in Huntington Beach. Newlight Technologies is an advanced manufacturing company that converts greenhouse gases into thermoplastics that recently relocated to the City. The company recently leased a new modern industrial building with the following characteristics. On 2.44 acres of land, the business occupied a newly built 41,668 square foot industrial building, equating to an FAR of 0.39. Total office space at 7,111

[2] Historically, speculative industrial buildings were developed with as little as 3% to 5% office space. However, many new users beginning to embrace buildings with 10% allocated to office uses.
[3] Chad Frisby and Mark Carnahan, Building and Safety Department.

square feet accounts for about 17% of total building space. The property includes 89 parking spaces, equating to 2.14 spaces/1,000 square feet of building space[4].

Recommendations - General Policy Recommendations

The following general policy recommendations are provided, based on discussions and structured interviews with market participants, to help ensure the success of the two proposed RT zone areas.

- ***Light Industrial/Manufacturing***. There is significant value in attracting RT-type tenants, with the associated higher-paying, higher-quality job opportunities from such businesses. However, the City should not lose sight that light manufacturing and light industrial uses (in general, not just those associated with RT industries) are natural fits for the Huntington Beach industrial market. The City also has a strong concentration of entrepreneurs, operating across the entire value chain (e.g., initial assembly and distribution of goods) that could use modern, functional industrial space.

- ***Streamlining Process***. Although eliminating the Conditional Use Permit (CUP) for approved uses is a good start, anything additional to further streamline the administrative review process is positive for encouraging new development. Most developers have 60-90 days for due diligence activities, so any steps the City can take to reduce development timelines (zoning, permitting, etc.) and uncertainty will help facilitate new development in the zones.

- ***Incentives***. Given the fractionalized ownership of much of the property in the two zones, the City will need to give some incentives to encourage property owners to "play ball" to upgrade or sell properties. One intriguing example mentioned was City financial incentives for a couple existing building improvement projects (new paint, façade improvements, etc.). These could serve as pilot projects for the proposed RT areas, with the intention to "jumpstart" the process of improving other existing properties to more contemporary development standards. Such incentives combined with maybe two or three "before and after" financial analyses that show pre- and post-value of properties would help convince property owners of the potential value in improving their properties. This is one potential option to establish some momentum behind the plan[5].

- ***Infrastructure***. To effectively target high-tech/clean-tech type industries, it would be valuable to evaluate potential industrial grade utility infrastructure improvements (this may be more financially feasible along the Gothard corridor, given the existing higher density and the higher number of users that could benefit from such improvements). Examples would include high-powered natural gas lines, specialized water delivery, etc. On a much larger

[4] According to the Chief Operating Officer (COO), Even Creelman, they currently have excess parking, as there are currently only about 25 people working onsite per shift (the company runs as a 24-hour operation with two 12-hour shifts).

[5] One example related to the above point, a local real estate broker indicated that the City could potentially put together an approved contractor list with pre-determined costs for specific desired improvements (e.g., new paint, façade improvements, etc.). Perhaps the City could subsidize some agreed upon portion of these costs. Anything to help with reducing direct and/or transaction costs associated with these property improvements would help at the margin.

scale, the Edmonton Energy and Technology Park (EETP) includes a cluster of petrochemical-based industries, general industrial, manufacturing, logistics and related support industries, all of which access an advanced industrial grade utility infrastructure system[6].

- ***Potential Funding Sources***. Potential funding sources for the above examples would include the following: City Resources (General Fund, Capital Improvement Program, User Fees), Outside Grants (Regional, State, and Federal Grants), Developer Contributions (Impact/In-lieu fees, Negotiated Agreements), and District-Based Tools (Assessment Districts, Community Facilities Districts, and Enhanced Infrastructure Finance Districts). These funding sources would be evaluated in more detail as the project progresses.

[6] This is potentially an important issue given that there are some existing electric power service issues in the Northwest area (as in other relatively older industrial and residential areas with aging infrastructure), according to City staff.

3. Overview of National, Regional, and Local Industrial Market

This chapter highlights local, regional, and national trends related to industrial development. On just about every market measure – vacancy rates, rental growth rates, etc. – the industrial real estate market is robust. As one commercial real estate survey put it, "***industrial markets continue to be where the action is*** in nonresidential commercial real estate development [emphasis added]"[7]. At the "global" level, this is a positive trend for the City in terms of opportunities to attract new industrial development related to traditional uses, and potentially emerging RT-type uses.

National Market

The relative strength of the industrial segment in the commercial real estate market is well documented. In a widely read annual report on commercial real estate trends, published by The Urban Land Institute (ULI) and PricewaterhouseCoopers (PwC), the *industrial* segment was singled out as the top ranked property type (in terms of both development and investment prospects) for 2018 as well as the previous four years[8]. Market fundamentals at the national level are extremely favorable for industrial development – with vacancies at historically low levels and rapidly rising rents. The following market statistics from Colliers International most recent national industrial research report (2nd Quarter, 2018) highlight the underlying strength on the industrial segment:

- The national industrial vacancy rate reached an all-time low of 5.0% (down from 5.3% in Q2 2017). Relative to Q2 2017, 71.5% of markets had lower vacancy rates in Q2 2018.
- Vacancy rates reached new lows even with significant new supply added to the market – more than 64 million square feet of industrial space was added in the second quarter alone.
- As of Q2 2018, year-to-date (YTD) net absorption[9] was approximately 122.5 million square feet, with 84% of markets experiencing positive net absorption.
- As of Q2 2018, year-over-year (YOY) average asking rents continued to rise for all three major industrial property types: Warehouse/Distribution (+5.2%), Flex/Service (+5.4%), and Manufacturing (+0.9%).

The ULI and PwC real estate trends survey points to two major structural changes in the economy as major driving forces for industrial real estate. First, although the rise of e-commerce has contributed to the challenges in the commercial retail market, it has been a boon to the warehouse/distribution sector of the industrial real estate market[10]. Second, health care and related industries have also been driving

[7] Allen Matkins | UCLA Anderson Forecast Commercial Real Estate Survey. Summer/Fall 2018, Issue No. 23. The survey covers the major Southern California and Bay Area markets for office, industrial, retail and multi-family space.
[8] PwC and the Urban Land Institute: *Emerging Trends in Real Estate® 2018*. Washington, D.C.: PwC and the Urban Land Institute, 2017.
[9] Net absorption is defined as net change in occupied square feet from period to the next.
[10] E-commerce sales have increased from a relatively small base in a rapid manner. In the first quarter of 2018, they were up 16.4% YOY, and now represent about 10.5% of total non-auto retail sales.

demand for industrial uses. For example, the aging population demographic trends have created a need for more medical equipment, devices, and pharmaceuticals. As noted, these are long-term structural changes in the economy that are favorable for industrial development for the foreseeable future.

Regional and Local Market

The positive national trends for industrial real estate are even more pronounced at the local and regional level. As the most recent California *Commercial Real Estate Survey and Index* prepared by Allen Matkins and the UCLA Anderson Forecast succinctly put it, "industrial markets continue to be *where the action is* in nonresidential commercial real estate development"[11].

Based on current (August 2018) industrial market data provided by The Reef Group (a local real estate services firm based in Huntington Beach)[12], the following bullet points highlight the major industrial market statistics for Orange County and Huntington Beach.

- Vacancy rates are at historic lows in Huntington Beach (2.8%) and in Orange County (2.5%). In the City, vacancy rates have declined by close to 500 basis points (bps) since 2012 (7.7%). For Orange County, vacancy rates have also declined significantly – falling by 420 basis points since 2010 (6.7%).
- Increase in demand for industrial space has driven commensurate increases in asking rental rates. During the six-year period from 2012 to 2017, average asking rents increased at a healthy 6.9% and 6.8% annual growth rate in the City and County, respectively. Since year end 2017, average rental rates have continued to increase throughout this year (through August 2018), up 3.5% in the City and in the County. Existing average rental rates in Huntington Beach ($1.06 per square foot) are close to the countywide average ($1.08).
- Market pricing trends in the recent six-year period have been as equally strong in the City and in the County. As of August 2018, industrial property sales averaged approximately $258 per square foot both in the City and County. Since 2012, average sales prices, on a per square foot basis, have more than doubled in the City (+106%) and in the County (+104%).

The Reef Group industrial market report, noted above, indicates than Huntington Beach is one of Orange County's largest industrial markets, accounting for about 6% of total County industrial inventory (the 6th largest market out of 26 total). Most of the industrial inventory is accounted for in Logistics and Specialized Industrial facilities. The market report shows that 17.5 million square feet of industrial space in the City is distributed by sub-category as follows: Logistics (42%), Specialized Industrial (41%), and Flex Industrial (17%).

[11] Allen Matkins | UCLA Anderson Forecast Commercial Real Estate Survey. Summer/Fall 2018, Issue No. 23. The survey covers the major Southern California and Bay Area markets for office, industrial, retail and multi-family space.

[12] The Reef group prepared Huntington Beach and Orange County industrial market reports, with the underlying data licensed from CoStar, a leading provider of commercial real estate market data. CoStar licensing requirements limits the use of the data to the general discussion provided above.

4. Working List of Industries/Clusters and Tenant Types

This chapter identifies list of target industries and economic clusters that would represent candidates for new business growth in the two proposed zoning areas. The first section provides a brief overview of the broad industrial structure of the local Huntington Beach economy. Following this, the chapter provides an analysis of target technology industries identified in the City's Economic Development Trends report, prepared as part of the most recent General Plan update. Specifically, the analysis ties these to target technology industries to broader clusters that would be candidates for further growth in the City.

Industrial Structure

Figure 4-1, on the following page, provides a breakdown of major industry group employment in Huntington Beach (The industry descriptions are based on the North American Industry Classification System [NAICS] from the U.S. Census Bureau). As shown in the figure, manufacturing, at 18% of the City's total workforce, represents the largest share of industry employment in the City. This suggests, given the industrial structure of the local economy, that industrial development is a natural fit for the City. Further underscoring this is the list of the current top 10 private employers in the City, as shown on Figure 4-2 on page 9. Four out of the five top employers are in manufacturing industries.

As part of its efforts to consolidate its defense and space operations in other areas in Southern California and out of state, Boeing will be moving about 2,400 jobs out of Huntington Beach. However, the net impact to overall manufacturing employment base – and associated demand for industrial space – will likely be much lower than this headline number. As noted in The Reef Group market report, manufacturers such as Rocket Lab, Titan Footwear, and ASEA Power systems, have all moved into the surrounding area near former Boeing operations. And all three companies have committed to leasing more than 50,000 square feet of space. Further, Sares-Regis has recently purchased some of Boeing surplus property, and it has initial plans to develop new modern industrial space targeted to other manufacturing-related tenants.

FIGURE 4-1: DISTRIBUTION OF EMPLOYMENT BY MAJOR INDUSTRY GROUPING, CITY OF HUNTINGTON BEACH

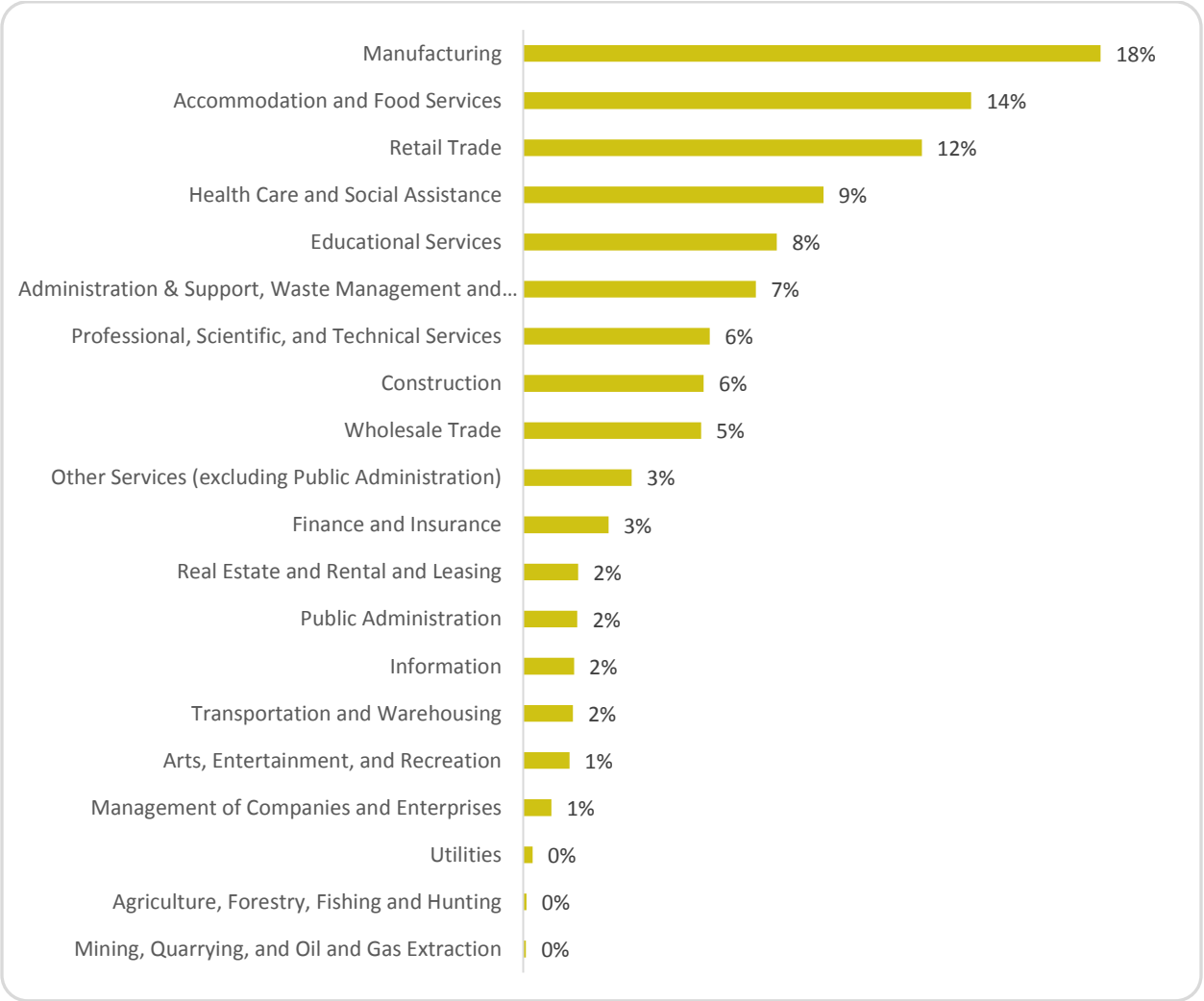
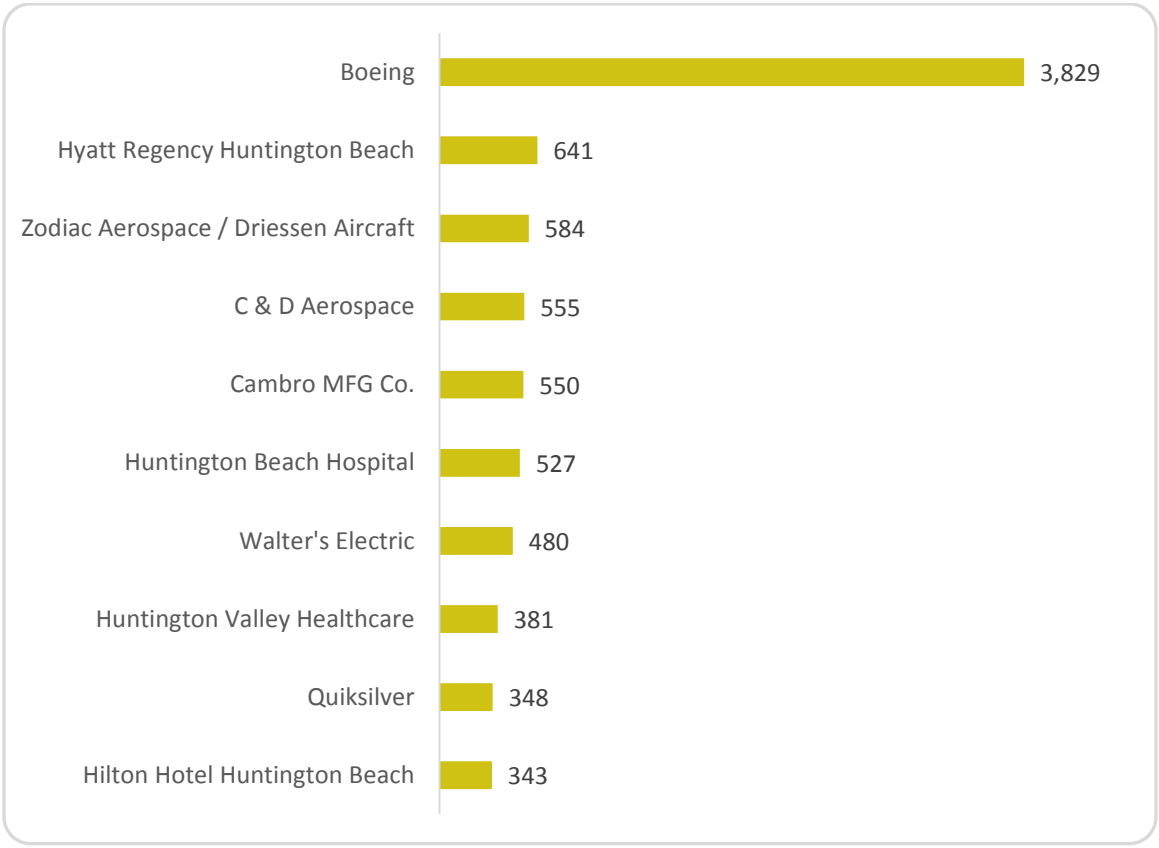


FIGURE 4-2: TOP 10 EMPLOYERS IN HUNTINGTON BEACH

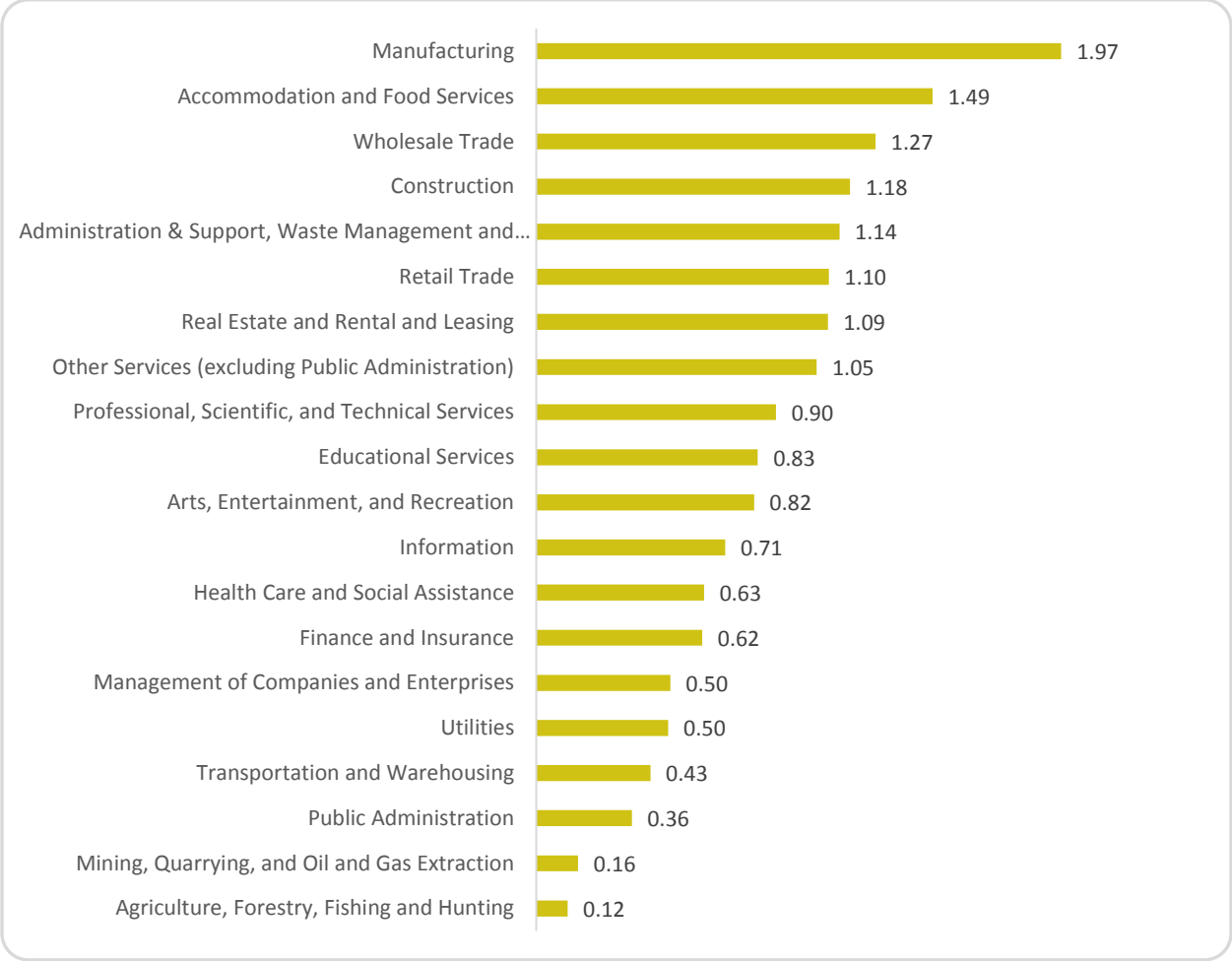


Source: City of Huntington Beach Comprehensive Annual Financial Report (CAFR), 2017.

Further illustrating the relative strength of the Manufacturing industry, Figure 4-3, on the following page, shows location quotients for existing Huntington Beach industries. A location quotient (LQ) compares the relative proportion of a given industry in the local economy to the proportion of total employment in that industry for a reference area, in this case the United States. If the proportions are equal, then the location quotient equals 1.0. For example, in Huntington Beach the Other Services (exc. Public Administration) industrial sector has a location quotient close to 1.0. This means that the proportion of Other Services employment in Huntington Beach is the same as the national average.

A location quotient above 1.0 suggests that the local area possesses some sort of competitive advantage in that industry. The Manufacturing industry in Huntington Beach has a location quotient close to 2.0, meaning that as a percentage of the total workforce, close to two times as many jobs for that industry are located in Huntington Beach compared to the national average. These competitive advantages usually result from natural resource availability, locational characteristics, or any combination of labor force, supply chain or other market conditions. A location quotient less than 1.0 indicates that a given industry is under-represented in the Huntington Beach economy. This could represent an underserved market or could simply be a reflection of local market conditions.

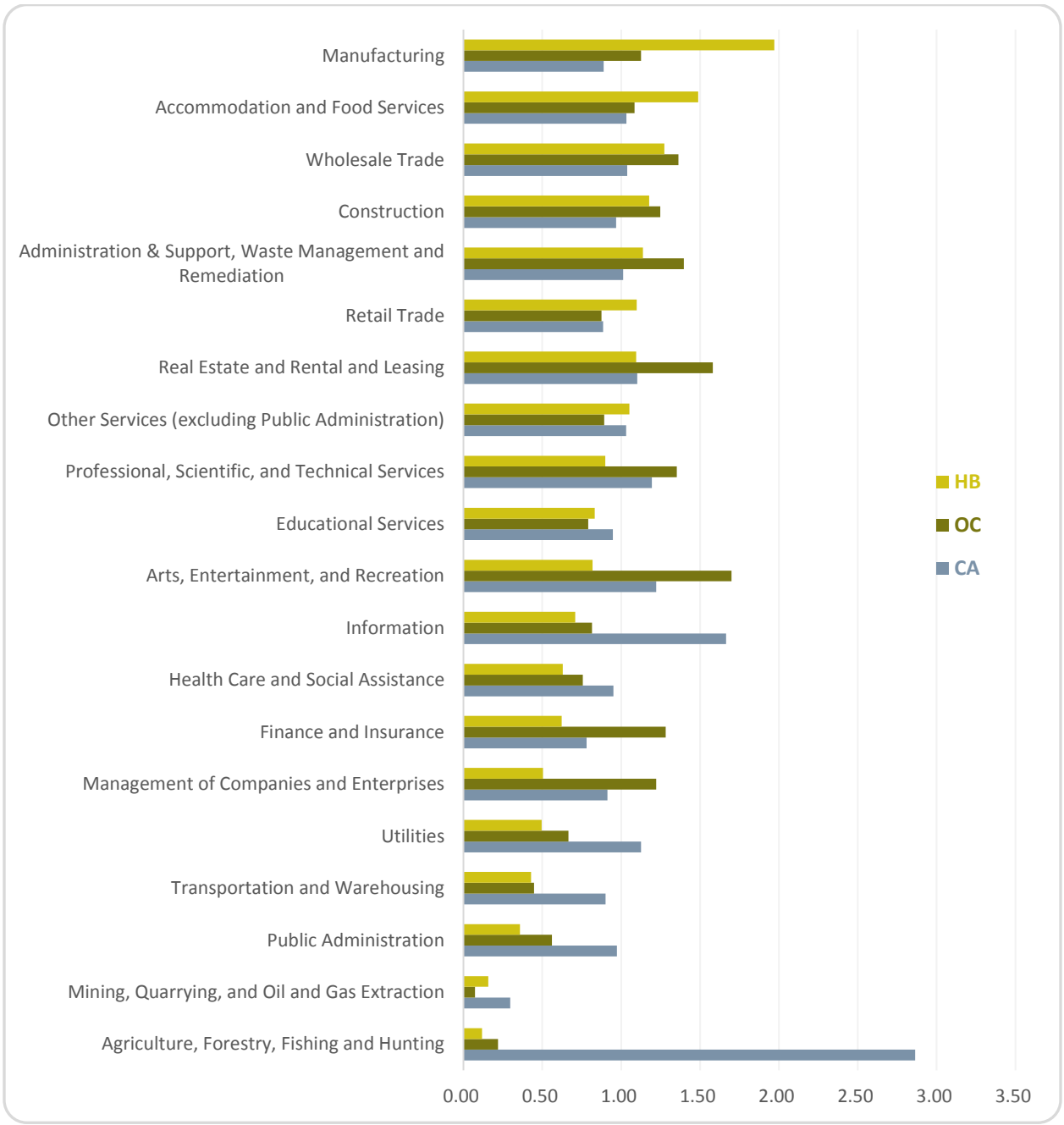
FIGURE 4-3: LOCATION QUOTIENTS (LQS) FOR MAJOR INDUSTRY GROUPS, HUNTINGTON BEACH



Source: U.S. Census Bureau. 2015. LEHD Origin-Destination Employment Statistics, OnTheMap application.

Figure 4-4, on the following page, provides additional context on the local LQs provided above. It shows industry LQs in Huntington Beach relative to regional and state benchmarks – Orange County and California. As shown in the figure, Manufacturing employment is much more concentrated in Huntington Beach relative to Orange County (LQ-1.13) and California (LQ-1.97). The chart shows that Wholesale Trade – another industry sector that generates significant demand for industrial space – is also strongly represented in Huntington Beach (LQ-1.27) and in Orange County (1.36). Given the significant tourist/visitor component to the Huntington Beach economy, Accommodation and Food Services is also heavily represented in Huntington Beach (LQ-1.49) relative to Orange County (LQ-1.09) and California (LQ-1.03).

FIGURE 4-4: LOCATION QUOTIENTS (LQS) FOR MAJOR INDUSTRY GROUPS, HUNTINGTON BEACH, ORANGE COUNTY, AND CALIFORNIA



Source: U.S. Census Bureau. 2015. LEHD Origin-Destination Employment Statistics, OnTheMap application.

Target Technology Industries and Related Clusters

The City's Economic Development Trends Report, prepared as part of the most recent General Plan update, identified several technology-related industries as appropriate targets for the Northwest industrial area and the Gothard corridor. These industries are shown on Table 4-1 on the following page. The table also shows the corresponding cluster to which each target industry belongs to. Consistent with standard approaches to regional economic analysis, this study broadens the traditional targeted industry analysis, and the City's associated employment base, to industry clusters. Clusters are groups of inter-related industry sectors whose growth potentials within a region tend to be closely aligned. The tendency of individual industries to co-locate in clusters reflects linkages through supply-chain relationships, as well as commonalities in terms of workforce requirements and infrastructure needs. The concept of industry clusters is an effective framework for economic development programming since it reflects a holistic understanding of the regional economic conditions driving the growth or retraction of individual sectors.

The economic clusters analyzed for this study are based on definitions (consisting of industry groupings) from the U.S. Cluster Mapping Project[13]. In this system, detailed industry sectors are assigned to unique clusters based on linkages among the sectors. Per the North American Industry Classification System (NAICS), the U.S. economy is composed of a total of approximately 1,100 detailed industry sectors at the "6-digit" level of detail (the most detailed level of industry specification under NAICS). The U.S. Cluster Mapping Project assigns each 6-digit sector to unique clusters based on the types of linkages described above. Clusters are classified as "local" clusters or "traded" clusters. ***Local clusters*** primarily provide goods and services for the local (resident) population. ***Traded clusters*** are "export-oriented," engaged in producing goods and services for end-use customers outside the community, thereby having a more material role in producing wealth in the community than the Local clusters[14].

The final column in Table 4-1 lists the detailed component industries in each cluster that belong to the eight broader target technology industries shown in the table. For example, the Electronic Product Manufacturing (NAICS 334) 3-digit NAICS industry includes 20 detailed 6-digit NAICS industries that belong to the Information and Technology and Analytical Instruments cluster[15]. Following on, NAICS 334 also includes three 6-digit NAICS industries that belong to the Production Technology and Heavy Machinery cluster. In total, the NAICS 334 target technology industry is represented in four different clusters, as illustrated in Table 4-1.

The Appendix table extends the analysis provided in Table 4-1 to "subclusters" that make up the larger cluster.

[13] The U.S. Cluster Mapping Project provides county-level data and analytical tools for the major industry clusters composing the U.S. economy. It is led by Harvard Business School's Institute for Strategy and Competitiveness in partnership with United States Economic Development Administration.

[14] As shown in Table 3-1, there is only one *local cluster* (Local Commercial Services) tied to the target technology industries identified in the Economic Development Trends report.

[15] Electronic Computer Manufacturing (NAICS 334111), Computer Storage Device Manufacturing (NAICS 334112), and so on.

TABLE 4-1: TARGET TECHNOLOGY INDUSTRIES IDENTIFIED IN HUNTINGTON BEACH ECONOMIC DEVELOPMENT TRENDS REPORT INDUSTRIES CROSS REFERENCED WITH RELEVANT ECONOMIC CLUSTER

NAICS	Description	Cluster	Component Industries
334	Electronic Product Mfg.	Information Technology and Analytical Instruments	20
		Production Technology and Heavy Machinery	3
		Communications Equipment and Services	3
		Aerospace Vehicles and Defense	1
3364	Aerospace Products and Parts Mfg.	Aerospace Vehicles and Defense	6
3254	Pharmaceutical and Medicine Mfg.	Biopharmaceuticals	4
5112	Software Publishers	Information Technology and Analytical Instruments	1
518	ISPs, Web Portals, and Data Processing	Business Services	1
5415	Computer Systems Design and Services	Business Services	4
5416	Management, Scientific, and Technical Consulting	Business Services	5
		Marketing, Design, and Publishing	1
		Local Commercial Services	1
5417	Scientific R&D Services	Education and Knowledge Creation	3

Source: *Economic Development Trends and Conditions, City of Huntington Beach General Plan Update* , August 25, 2014, Stanley R. Hoffman Associates; U.S. Cluster Mapping (http://clustermapping.us); TNDG.

Note: NAICS = North American Industrial Classification System.

The U.S. Cluster Mapping project (referenced above) provides employment data by cluster at the county-level of geography. Using this resource, Table 4-2, on the following page, provides summary Orange County employment data for the clusters identified in Table 4-1 above. It includes the following:

- Total cluster employment in Orange County
- Orange County's rank for each cluster in terms of total employment (e.g., for all counties in the U.S., Orange County has the 5th highest amount of employment in both the *Information Technology and Analytical Instruments* and *Production Technology and Heavy Machinery* clusters)
- High Specialization indicator – LQ of cluster employment is greater than the 75th percentile when measured across all counties (e.g., the Communications Equipment and Services LQ of 1.73 is greater than the LQ for this cluster in at least 75% of the counties in the U.S.)
- High Employment Share – Share of national cluster employment is greater than the 90th percentile when measured across all counties (e.g., Orange County accounts for approximately 2.4% of national cluster employment in the *Information Technology and Analytical Instruments* cluster, which is a higher share for this cluster than 90% of the counties in the U.S.)
- Location Quotient (LQ) – As discussed above in the previous section, a location quotient (LQ) compares the relative proportion of a given industry in the local economy to the proportion of total employment in the United States. Thus, an LQ>1.0 shows a higher than average cluster concentration in the region.
- Job Change – absolute job change in the County during the 1998-2016 period
- Expected Job Change – expected job change in the County given national growth trends for the 1998-2016 period

In the U.S. Cluster Mapping project system, clusters that meet both the "High Specialization" and "High Employment Share" are classified as strong clusters. Table 4-2 shows that four clusters meet this strong cluster criteria: Information Technology and Analytical Instruments, Communications Equipment and Services, Marketing, Design, and Publishing, and Local Commercial Services. However, the table provides additional data to evaluate the relative attractiveness of the clusters beyond whether they meet the "strong" criteria. For example, although the *Education and Knowledge Creation* cluster does not meet the "High Specialization" (and correspondingly "strong" criteria), the cluster added well over 17,000 jobs during the 1998-2016 period. This increase in jobs was more than 2.6 times the expected job growth of 6,677 jobs given national growth trends.

TABLE 4-2: ORANGE COUNTY EMPLOYMENT FOR SELECTED CLUSTERS IN 2016
CLUSTERS THAT INCLUDE IDENTIFIED TARGET TECHNOLOGY-RELATED INDUSTRIES

Cluster	OC Cluster Employment	County Employment Rank Nationally	High Employment Specialization	High Employment Share	LQ	Job Change 1998-2016	Expected Job Change 1998-2016
Information Technology and Analytical Instruments	27,634	5	X	X	1.87	-21,401	-13,220
Production Technology and Heavy Machinery	9,639	5		X	0.78	-2,199	-2,880
Communications Equipment and Services	9,697	4	X	X	1.73	2,571	-918
Aerospace Vehicles and Defense	6,911	22		X	1.02	-11,632	-4,836
Biopharmaceuticals	6,504	6		X	2.04	1,407	708
Business Services	132,280	11		X	0.84	21,751	70,539
Marketing, Design, and Publishing	20,188	8	X	X	1.15	5,254	3,581
Local Commercial Services	113,529	6	X	X	1.13	1,870	22,205
Education and Knowledge Creation	27,596	20		X	0.68	17,396	6,677

Source: U.S. Cluster Mapping (http://clustermapping.us), Institute for Strategy and Competitiveness, Harvard Business School; TNDG.

Notes:
OC = Orange County; LQ = Location Quotient
High Employment Specialization : LQ of Cluster Employment must be greater than the 75th percentile when measured across all counties.
High Employment Share : Share of National Cluster Employment must be greater than the 90th percentile when measured across all counties.
Expected Job Change : indicates expected job creation given national growth trends for cluster.

5. Summary of Findings and Insights from Local Stakeholders

As part of this analysis, consulting team members participated in two stakeholder focus group meetings and a quarterly real estate brokers briefing/roundtable at the City's offices. The meetings and roundtable included structured interviews and discussions with industrial brokers and developers, who have unique local market knowledge and experience in the local and larger regional market, along with key members of City staff. TNDG also conducted additional phone interviews with industrial market professionals active in Huntington Beach and surrounding market areas.

Along with direct recommendations (both zoning/land use and general policy) summarized in the Executive Summary (Section 2), the interviews also revealed the following major themes with respect to the proposed RT zones:

- Huntington Beach is a prime location for light manufacturing/light distribution uses, with many businesses participating across the entire economic value chain (e.g., from goods assembly, distribution, and final sales). In addition, the City is strongly situated to capture overflow demand from the South Bay and other regions in Los Angeles. Many industrial users are beginning to be "priced out" in these areas, and Huntington Beach is in a prime location to capture this demand.

- The area has a significant number of entrepreneurs that could use appropriate industrial space. Related to this observation, some experts indicated that a potential mixed-use zone incorporating residential along with industrial uses (e.g., live/work) would represent a strong market development opportunity for the City (at least in some parts of the RT zones – potentially portions of the Gothard corridor)[16]. Such entrepreneurs with start-up type companies represent a market segment often drawn to this type of development. Given the pent-up demand for housing, and the existing concentration of independent businesses and smaller startups that are open to combining living and working environments, this would be a "no-brainer" from a market viability perspective[17].

- Huntington Beach is lacking in reputation and other amenities (proximity to major research university, alternative transit options, innovative retail/entertainment districts, etc.) that make it difficult to attract some of the RT envisioned uses: technology, medical/life sciences, R&D, and advanced manufacturing[18]. The Gothard corridor represents an additional physical challenge in this respect, given the presence of small lots, which make it difficult to obtain the necessary

[16] This has been successfully implemented in several residential overlays in transitional industrial districts in West Costa Mesa.
[17] However, it is noted that the City's official position is not to encourage residential development in the proposed RT zones.
[18] Specific industries such as medical devices will always be a challenge for these districts. These types of users usually require a "higher-tech" look, characterized by more open space with grassy areas. It is challenging in infill-type development environments, such as Huntington Beach, to attract this type of development.

space to create these types of creative industrial development projects. That said, staff is aware that small lots and fractionalized ownership nature represent significant development challenges in the Gothard corridor. However, the City is firmly committed to the long-term economic health of the corridor and acknowledges that desired change will be a long-term process.

- It was generally argued that Irvine and the surrounding area near the airport would have significant advantages in attracting research/technology oriented industrial development. Factors cited included greater land availability and less expensive land; and proximity to the airport, other Research & Development uses, and the University of California, Irvine (UCI) campus. That said, given the available space, the 30 acres of the Boeing campus at Bolsa Chica Street and Bolsa Avenue (immediately adjacent to the RT designated areas), recently purchased by Sares-Regis would be a key opportunity to encourage this type of development in the City[19]. Depending on the types of tenants that are ultimately attracted to this proposed project, it could potentially act as catalyst in redevelopment of other properties in the surrounding area.

- Given the lack of population density, neither zone would likely be appropriate for a full-scale entertainment district with a primary focus on breweries, wineries, etc. (e.g., similar to the Funk Zone district in Santa Barbara). However, some local-employee serving restaurant/retail (potentially including a limited number of strategically placed breweries and/or wineries) would be appropriate for the area.

- Some participants noted that auto-related uses (repair, customization, etc.) are a natural fit for the Gothard corridor, especially. With an entrenched "car culture" in the City (with some estimates 25% of households have a "classic/fun" car in addition to a daily driver), there is pent-up demand for anything auto-related. However, other market participants argued that some of the lower-value auto service/repair businesses represent an image problem in the two zones, and that higher-value RT-type tenants would prefer not to be located next to such uses. Thus, the City should be cognizant that there is potentially an inherent tension in promoting auto-related uses while simultaneously fostering the "high-tech" type image that some RT tenants would preferer for their locations.

- The City received mainly positive comments concerning the overall development/entitlement process, especially with respect to more recent trends in the City becoming more “business friendly”. However, anything that can be done to further streamline the review process is always a positive force for encouraging new development. Most developers have 60-90 day timelines for due diligence activities, so anything the City can do to further reduce development timelines and uncertainty helps at the margin.

- In addition to the electric service upgrades noted in the Executive Summary, potential strategic infrastructure upgrades would include other power/gas/water capacity upgrades to attract high-tech manufacturing users. Related to this issue, the ability to provide power from renewable

[19] According to staff, the City is currently in discussions with Sares-Regis over potential development proposals/concepts on former Boeing campus site.

sources would be valuable (including from an image/marketing perspective to RT-type industries). As with many areas, improvements to City's high-speed internet infrastructure would be a strong selling point to attract RT-related industries[20].

- Since Huntington Beach is traditionally not associated with high-tech and/or RT-related industries, some type of City-led marketing/branding campaign would be valuable to get the City's name out there as potential fit for these businesses. One idea would be to provide an annual award to a top company in a key targeted industry.

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[20] This is an issue the City is aware of, as shown by the recently completed Broadband Strategic Plan, prepared in August 2016.

6. "Creative Industrial" Districts in California

Table 6-1, on the following four pages, provides a summary matrix of other plan area/zoning districts in California that have some connection to the overall concept of "creative industrial" development. The consultant team identified some of the profiled districts, while City staff requested the profile of others. The table provides the name of the district, a brief description (including location, size, proposed uses, etc.), features that may be relevant for Huntington Beach with respect to the proposed RT zone, and the overall applicability in the Huntington Beach context.

TABLE 6-1: PROFILES OF SELECTED INDUSTRIAL PLAN AREAS/ZONING DISTRICTS.

District	Description	Key Features – Relevance for Huntington Beach RT Zone	Applicability to Huntington Beach
Smokey Hollow El Segundo, CA	120-acre older industrial area next to Chevron refinery (central portion of the City). City recently completed Specific Plan (SP) with goal to transform area into an eclectic mix of creative office, R&D and light industrial. Previously area dominated by manufacturing companies.	Take the next steps in bringing a complete fiber optic network to area Identifies allowable uses by zoning district, including Permitted Use (P), Administrative Use Permit (AUP), Conditionally Permitted Use (CUP), and Accessory Use (A). Identifies *prohibited uses*. Two key examples: Retail Stores (unless accessory to an allowed use) and Gyms/Fitness Studios. Max FAR ranges from 0.75-1.0	**Medium-High** Beach community looking to revitalize older industrial district. Different industry targets: more focus on "creative" economy – technology and new media companies in the region. Beyond Zoning District – using SP to regulate district character.
Industrial Technology and Innovation Corridor Hayward, CA	Crescent-shaped industrial area located along Hayward's western Urban Limit Line and southwestern city limits and contains approximately nine square miles (approx. 285 acres). Corridor identified as key economic asset in Hayward 2040 General Plan.	Targeting advanced technology industries. Does allow non-industrial uses that are conducive and supportive of vibrant employment areas (e.g., office, retail, lodging, and service commercial uses). Max FAR is 0.8.	**Medium** Similar effort to create user friendly development regulations and procedures to encourage targeted industries to locate in the district. Broader type of development targeted in the district – 5 proposed land uses (Warehouse Distribution is one use that is encouraged)

District	Description	Key Features – Relevance for Huntington Beach RT Zone	Applicability to Huntington Beach
Warm Springs Innovation District (WSI) Fremont, CA	Intended to facilitate the creation of a vibrant, urban, mixed-use district in the vicinity of the Warm Springs/South Fremont BART station. Established to implement the Warm Springs/South Fremont Community Plan (WS/SFCP). 879 acres.	One stated goal of plan is to increase employment opportunities by focusing on innovation and advanced manufacturing industries. Min FAR for industrial and R&D uses: 0.50 (within ½ mile of BART station) and 0.35 for remainder of Plan Area.	**Low-Medium** Strong mixed-use focus with emphasis of compatible residential uses Plan emphasizes connections to existing/future public transit infrastructure
Arts District Los Angeles, CA	Mixed use residential district on eastern edge of Downtown Los Angeles (boundaries: Alameda St – West, First St – North, L.A. River – East, Violet St – South) Designated by City in the mid-1990s as a result of thriving underground arts scene Predominantly live/work developments with many artists and those in other creative industries: green technology, architecture, and entertainment (w/ limited amount of industrial uses)	N/A	**Low** Significant concentration of artist/creative loft developments developed as part of the focus on live/work arrangements. Limited industrial component. Abundant access to public/alternative forms of transportation, given location next to Downtown L.A., influences character of development (e.g., less parking)

District	Description	Key Features – Relevance for Huntington Beach RT Zone	Applicability to Huntington Beach
Funk Zone Santa Barbara	16-block district between ocean and Hwy 101 characterized by boutique tasting rooms, cafes, galleries (former industrial/warehouse area) Includes largest part of the urban wine trail (a self-guided trail of 30+ tasting rooms)	N/A	**Low** Although previous uses dominated by industrial/warehouses, the district has evolved into tourist destination focused on boutique retail and alcohol tasting rooms
Cedros District Solana Beach	Former industrial district in Downtown Solano Beach. Adjacent to Solana Beach Transit Center and Hwy 101. Pedestrian-friendly retail district w/ 85 boutique establishments (cafes, galleries, decorators, antique dealers, entertainment)	N/A	**Low** Although formerly an industrial district, the evolution into a tourist-focused retail district, reflects unique locational characteristics (adjacent to beach, public transit, etc.), similar to the Funk Zone district in Santa Barbara.

District	Description	Key Features – Relevance for Huntington Beach RT Zone	Applicability to Huntington Beach
Alexandria Illumina Campus (formerly Nobel Research Park) San Diego, CA	43-acre site located in University Town Center (UTC) area of San Diego (north of Nobel Dr, east of Judicial Dr, and west of I-805 Existing industrial development on-site includes approx. 844,000 square feet of R&D, light manufacturing, corporate office and accessory uses within six buildings	Proposed expansion of the campus would include 351,000 square feet of mixed corporate headquarters and R&D uses, and 100,00 square feet of ancillary mechanical and accessory uses on previously	**Low** Includes uses envisioned by RT zone: research laboratories, supporting facilities, headquarters or administrative offices and personnel accommodations, and related manufacturing activities. Existing and future uses are supported, in part, by proximity to UC San Diego campus. Natural synergy between R&D/scientific uses on the Illumina Campus and scientific research focus of UC San Diego.

Appendix

Expanded Cluster Analysis
(including relevant subclusters)

Appendix Table

Orange County Employment Summary in 2016

Relevant Subclusters that Include Identified Target Technology Industries

Cluster	OC Cluster Employment	County Employment Rank Nationally	High Employment Specialization	High Employment Share	LQ	Job Change 1998-2016	Expected Job Change 1998-2016
Information Technology and Analytical Instruments							
Software Publishers	9,609	13	X	X	1.36	3,800	5,321
Electronic Components	8,330	2	X	X	4.03	-9,908	-10,546
Medical Apparatus	2,734	6	X	X	2.60	1,146	344
Process and Laboratory Instruments	2,364	12		X	1.07	-2,512	-1,304
Computers and Peripherals	2,234	3	X	X	3.68	-5,170	-6,104
Semiconductors	1,548	26		X	1.01	-5,724	-3,838
Audio and Video Equipment	637	2		X	5.06	-931	-1,102
Software Reproducing	178	16		X	1.43	-2,182	-1,914
Production Technology and Heavy Machinery							
Air Handling Equipment	998	26		X	0.61	-433	-369
Communications Equipment and Services							
Communications Equipment	6,097	2	X	X	5.42	2,830	-2,238
Aerospace Vehicles and Defense							
Search and Navigation Equipment	765	32			0.49	-4,430	-1,838
Aircraft	5,829	14		X	5.29	41	-1,224
Missiles and Space Vehicles	317	26			0.45	-7,243	-2,367
Biopharmaceuticals							
Biopharmaceutical Products	5,323	5		X	2.34	990	489
Diagnostic Substances	1,006	9		X	2.84	252	-185
Biological Products	175	55			0.31	165	10
Business Services							
Computer Services	31,012	13	X	X	1.06	11,545	19,329

Appendix Table

Orange County Employment Summary in 2016

Relevant Subclusters that Include Identified Target Technology Industries

Cluster	OC Cluster Employment	County Employment Rank Nationally	High Employment Specialization	High Employment Share	LQ	Job Change 1998-2016	Expected Job Change 1998-2016
Marketing, Design, and Publishing							
Other Marketing Related Services	8,040	7	X	X	1.56	4,130	1,804
Local Commercial Services							
Local Professional Services	76,900	6	X	X	1.14	-549	19,136
Education and Knowledge Creation							
Research Organizations	9,596	16	X	X	1.01	7,411	2,981

Source: U.S. Cluster Mapping (http://clustermapping.us), Institute for Strategy and Competitiveness, Harvard Business School; TNDG.

Notes:
OC = Orange County; LQ = Location Quotient
High Employment Specialization: LQ of Subcluster Employment must be greater than the 75th percentile when measured across all counties.
High Employment Share: Share of National Subcluster Employment must be greater than the 90th percentile when measured across all counties.
Expected Job Change: indicates expected job creation given national growth trends for Subcluster.