



Analyze. Advise. Act.

City of Commerce Green Zones

INDUSTRY CLUSTER ANALYSIS

November 2, 2017

Overview & Scope

- HR&A was retained by the City of Commerce (the “City”) to **prepare an industry cluster analysis to identify key industry clusters and analyze growth trends and linkages**, involving:
 - Assessing economic trends and indicators within Los Angeles County and the broader Southern California region, both on a sector-specific level and as a whole using numerous data sources;
 - Highlighting industry, employment, and real estate changes within the Production, Distribution, and Repair sector and articulating its likely future in the City;
 - Analyzing and incorporating local business input garnered through outreach, including in-person meetings and a survey, to understand City-specific challenges and opportunities;
 - Integrating various economic elements by sector such as size, projected growth, average wages, and existing concentrations to develop a comprehensive analytic framework; and
 - Applying widely accepted methodologies such as quadrant analyses and location quotients to determine the City’s comparative industry concentrations and future opportunities to position the City to attract growth industries.

Limiting Factors

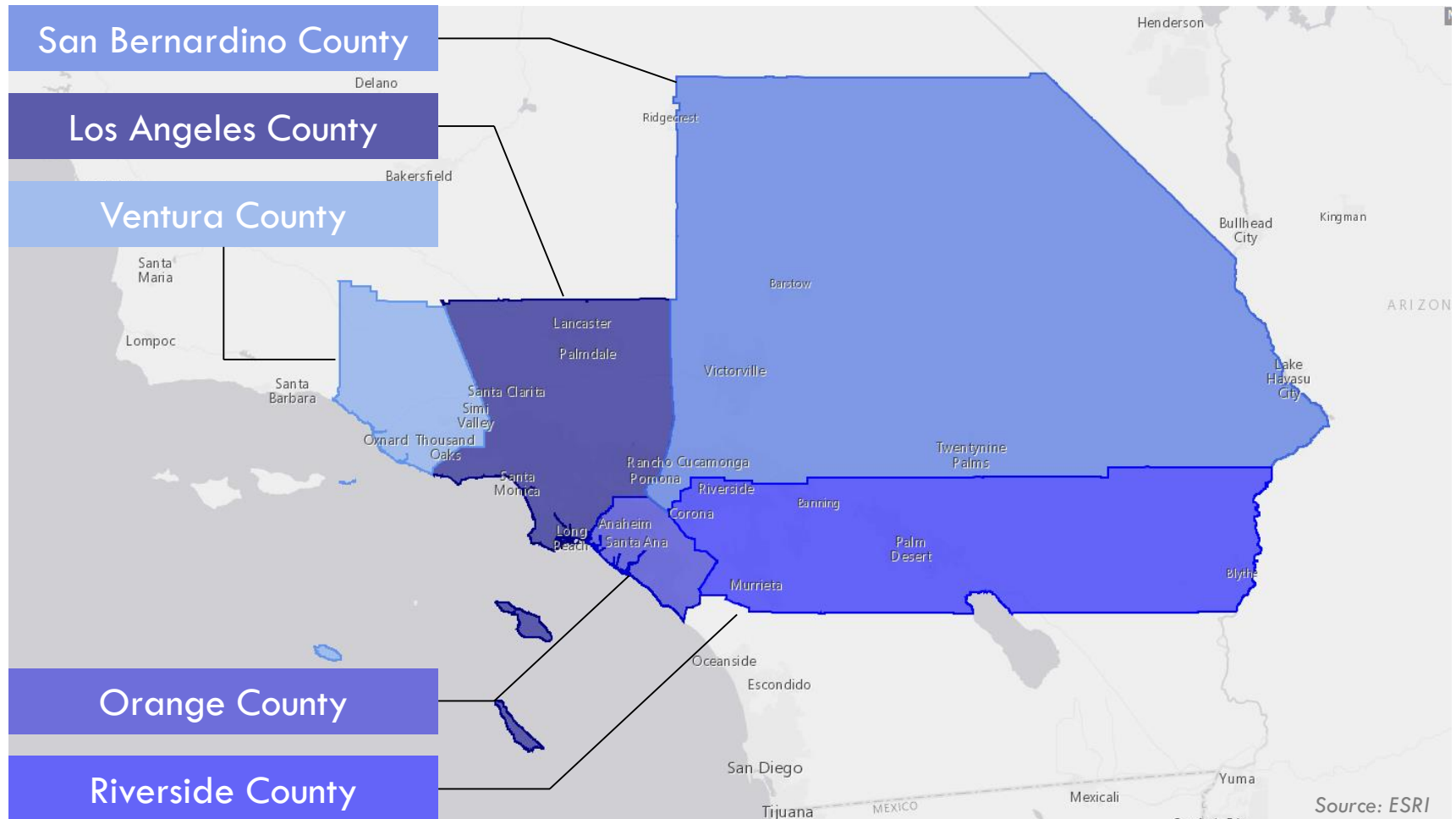
- While this industry cluster analysis provides economic context and high-level opportunities, **comprehensive City-specific considerations may drive land use and economic development policy decision making**, such as:
 - Real estate market demand and financial feasibility
 - Fiscal implications
 - Environmental impacts and adjacencies
 - Infrastructure capacity
 - Building stock and available land
 - Community needs and aspirations
- A limited number of survey responses and available local data **greatly constrained highly-specific inferences about the City's economy**.
- **The study uses available secondary data to supplement survey information** where possible, including:
 - InfoUSA
 - EMSI
 - US Census

Regional & Local Economic Trends

Survey Responses and Other Local Input

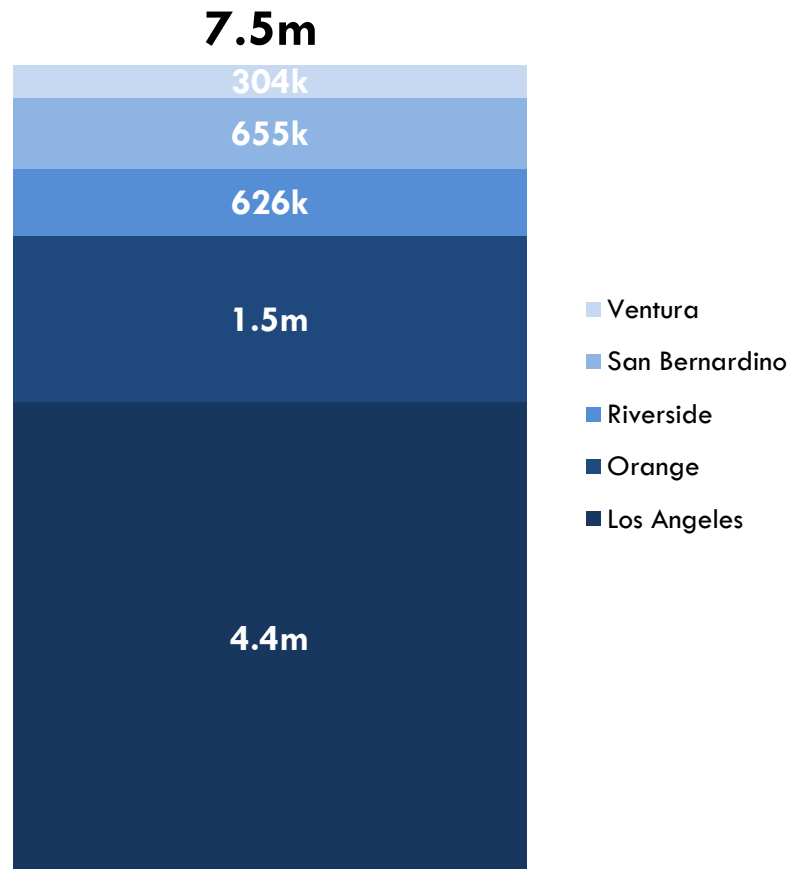
Cluster Analysis

The Southern California regional economy comprises 5 counties: Los Angeles, Orange, Riverside, San Bernardino, and Ventura.



Of the approximately 7.5 million total jobs in the region, Los Angeles County accounts for nearly 60 percent.

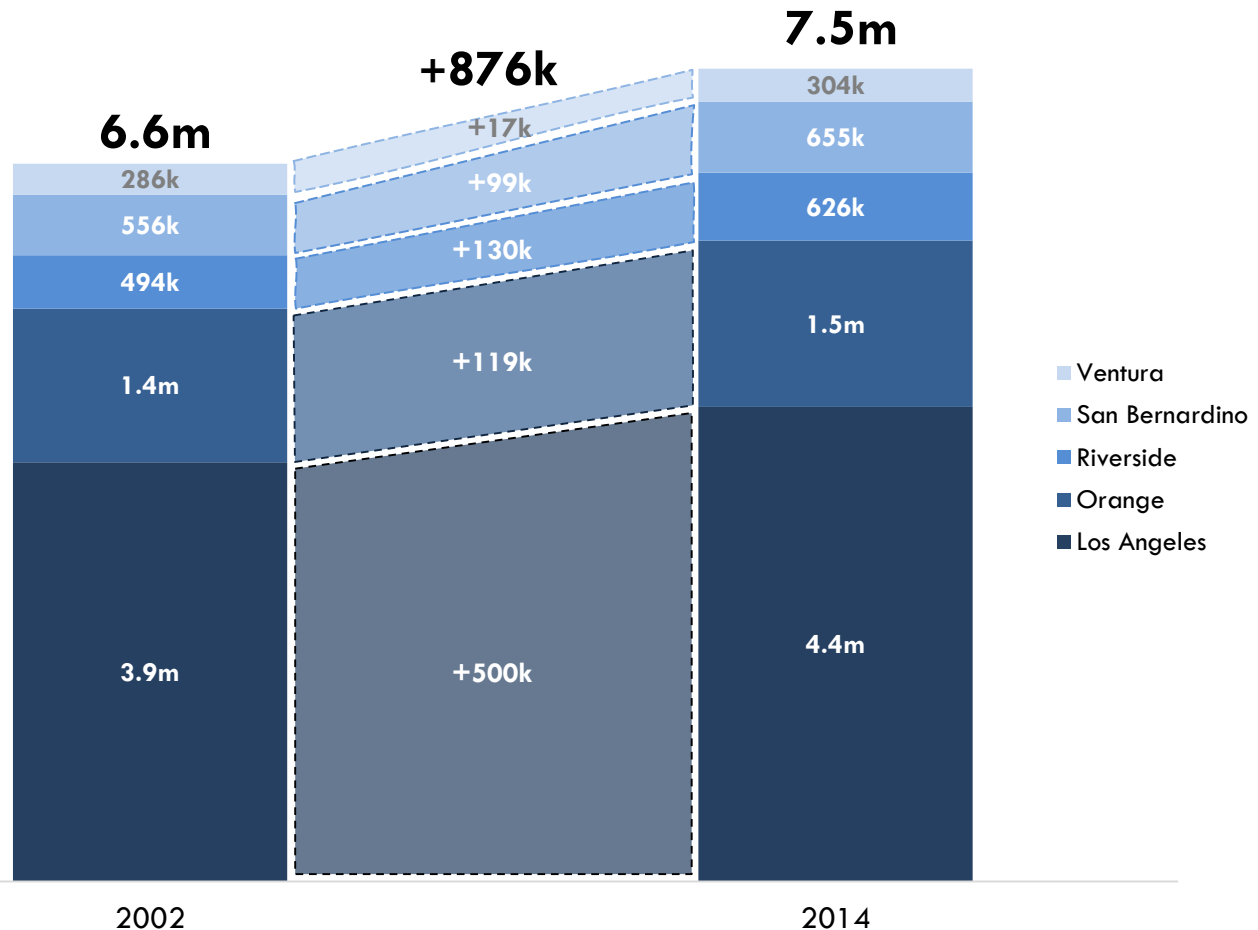
Total Jobs in 5-County Region, 2014



Source: US Census LEHD

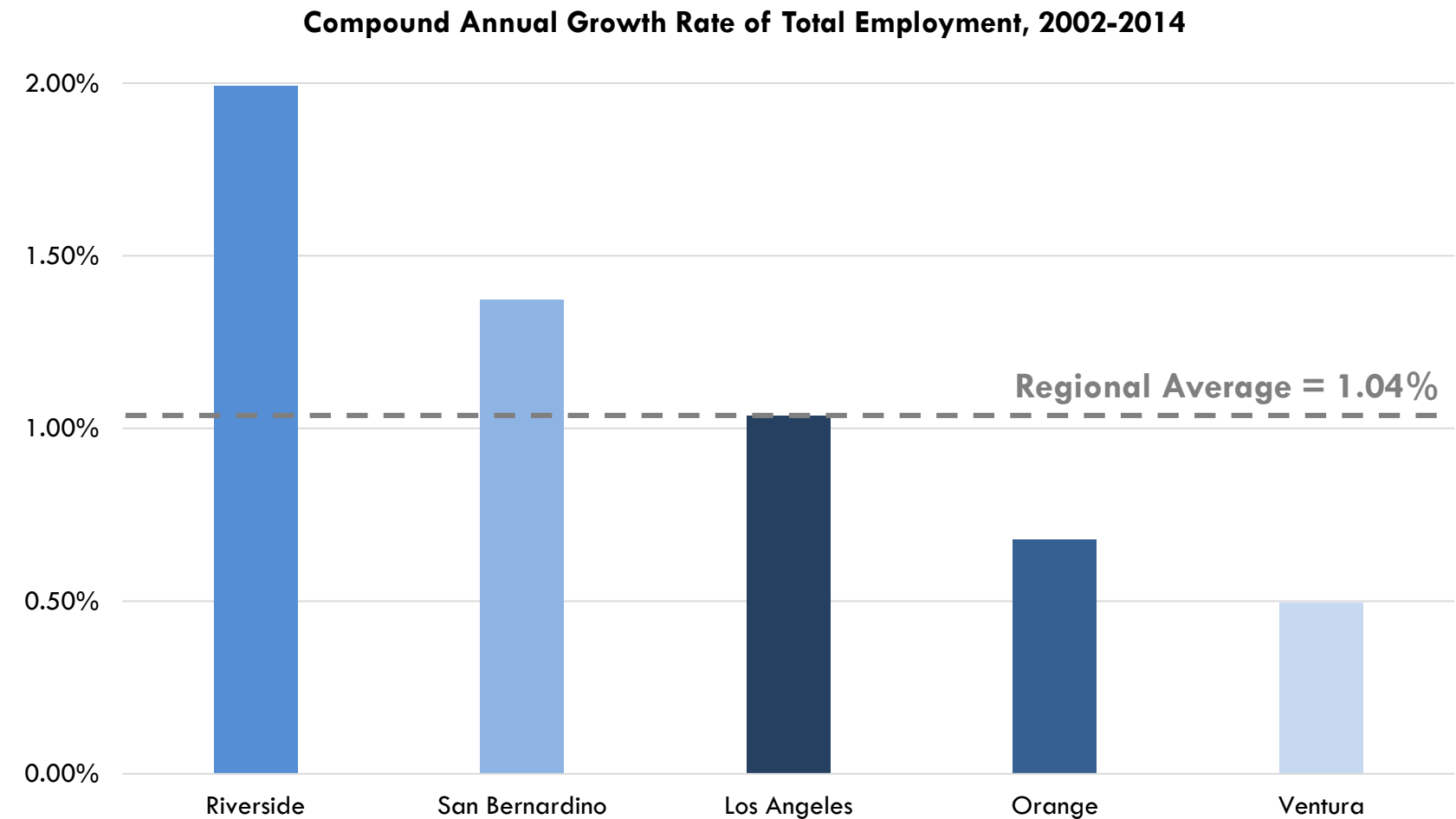
The region gained nearly 900,000 jobs between 2002 to 2014, with LA County accounting for nearly 60 percent.

Change in Total Regional Employment, 2002-2014



Source: US Census LEHD

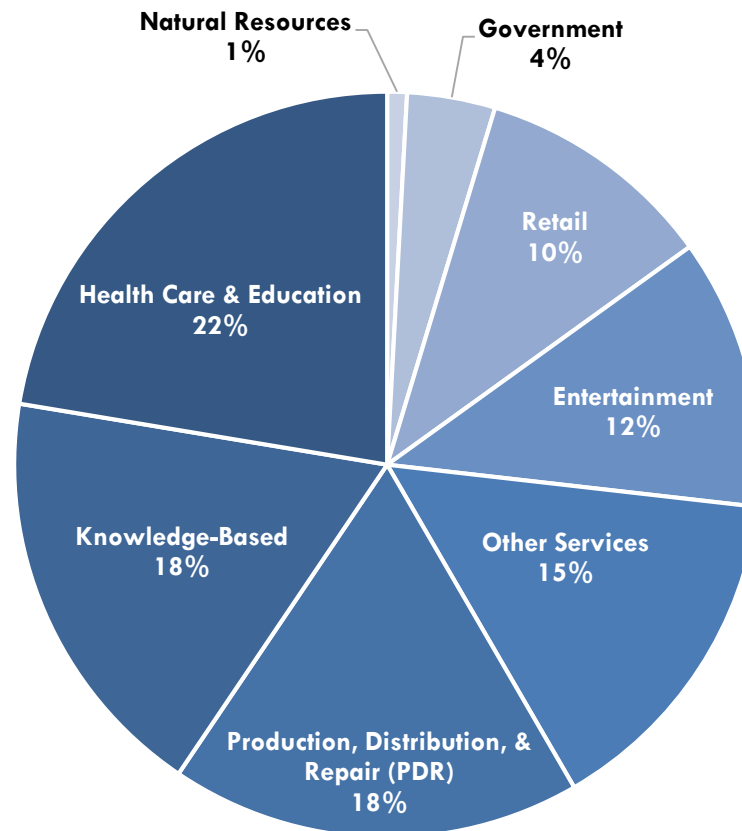
While the majority of nominal employment growth was focused in LA County, Riverside and San Bernardino County (the “Inland Empire” or “IE”) grew faster than the rest of the region.



Source: US Census LEHD

Regional employment is diverse; no single sector dominates the regional economy. The Health Care and Education sector represents the greatest share of regional jobs, followed by Knowledge-Based and Production, Distribution, & Repair (“PDR”) sectors.

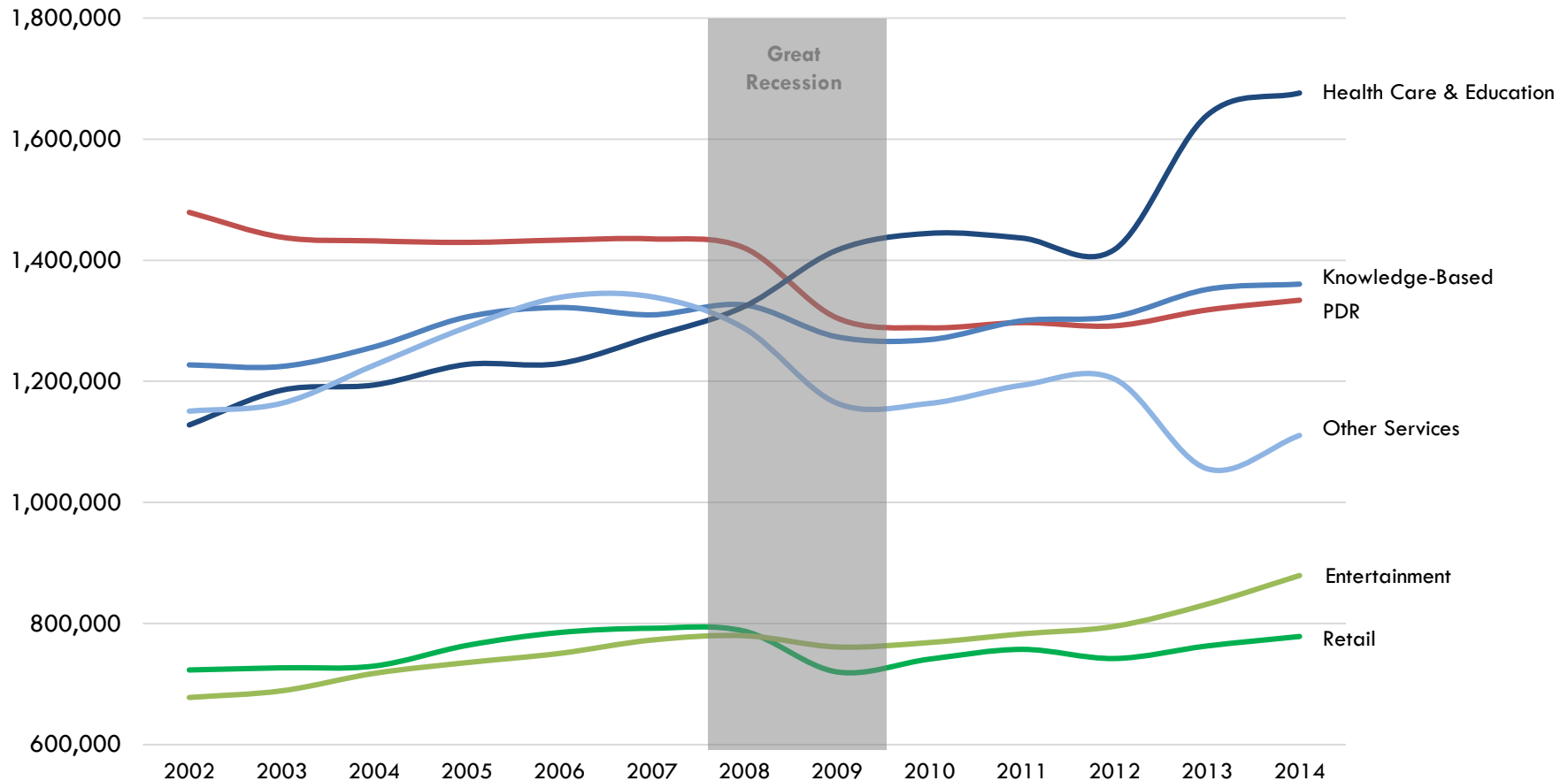
Regional Employment Composition, 2014



Source: US Census LEHD

Among the largest sectors, Health Care and Education grew exponentially and PDR jobs declined. Knowledge-Based, Retail, and Entertainment sectors gradually increased, and Other Services, which includes Construction, generally trended with economic cycles.

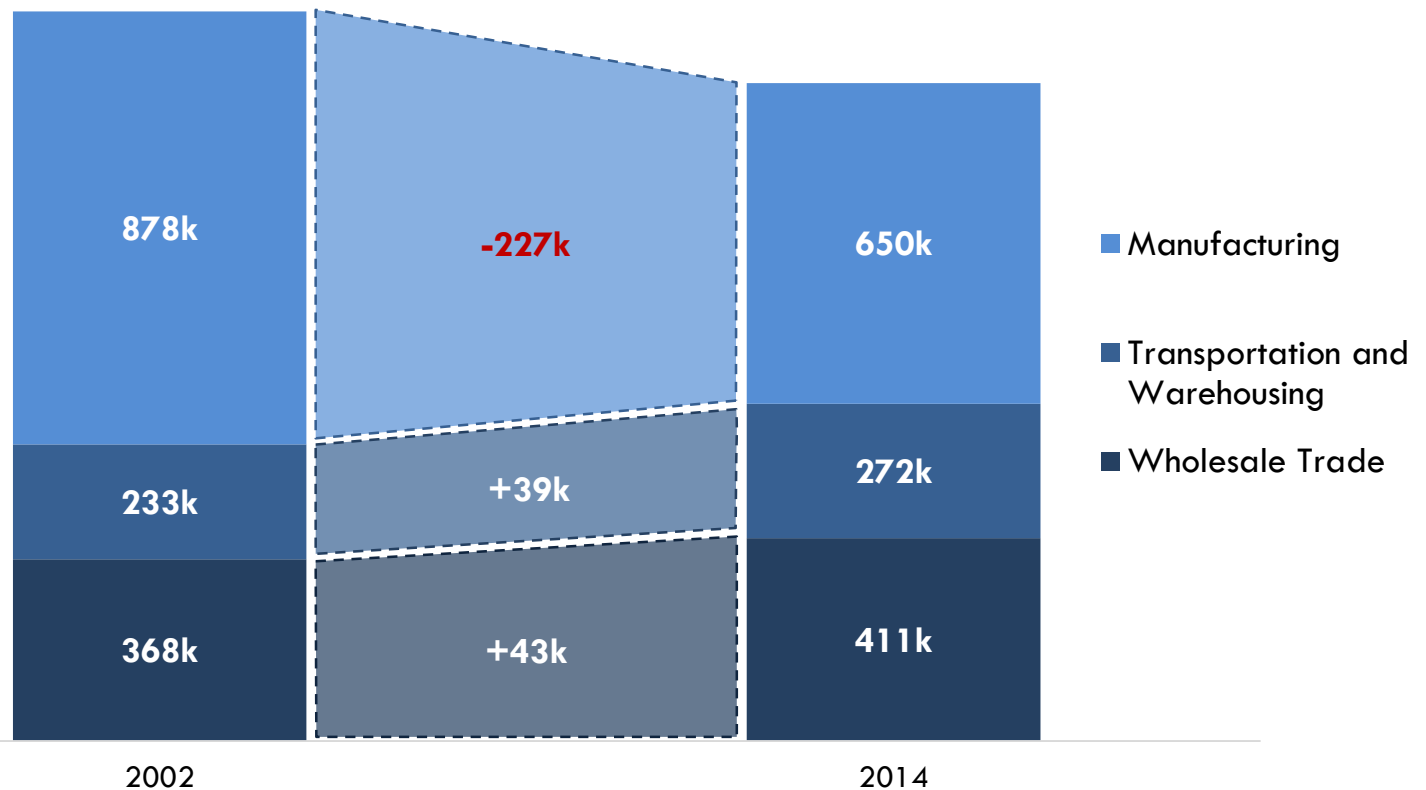
Change in Regional Employment by Sector, 2002-2014



Source: US Census LEHD

The PDR sector contracted due to a substantial loss of Manufacturing jobs that outnumbered increases in Wholesale Trade and Transportation and Warehousing jobs.

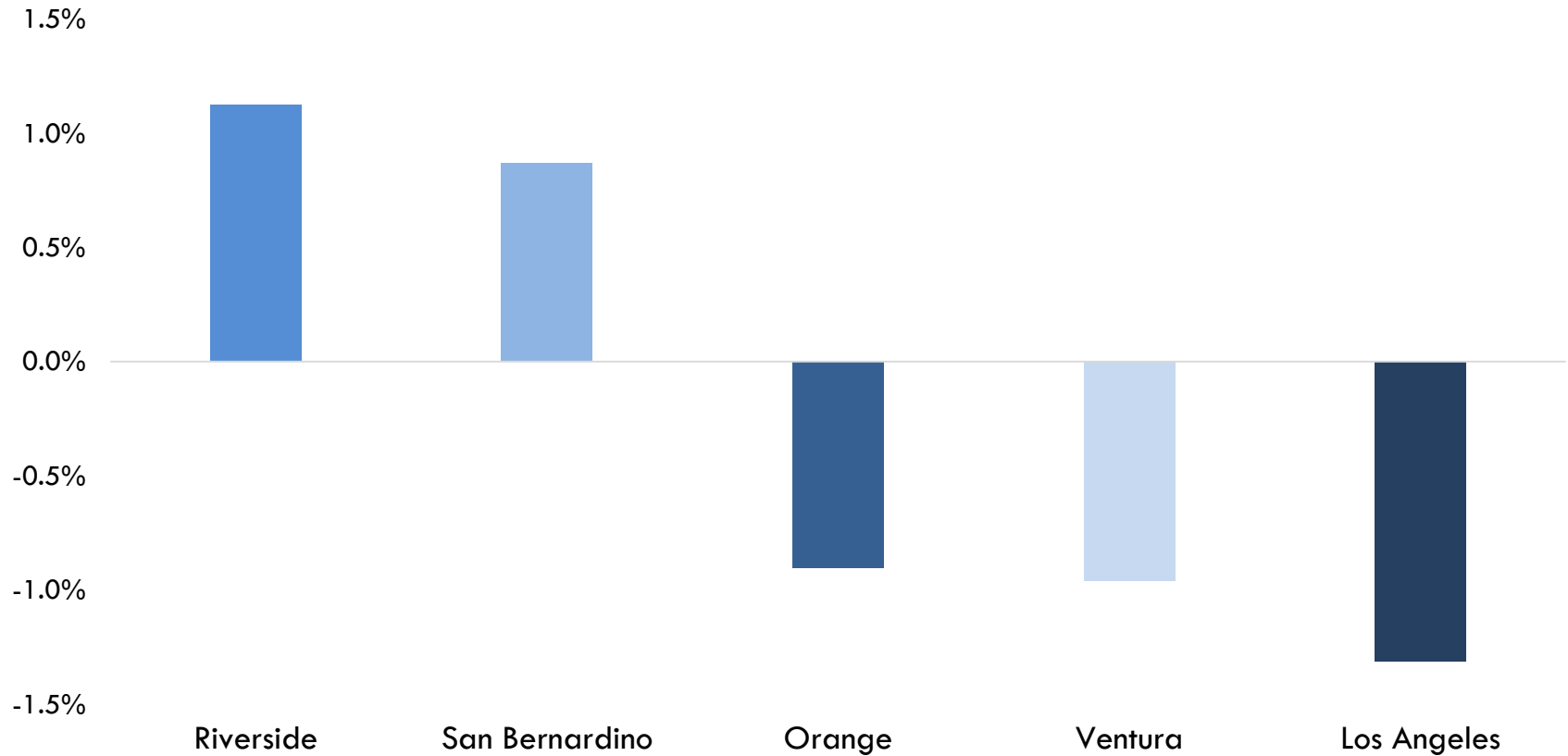
Change in Regional PDR Sector Employment, 2002-2014



Source: US Census LEHD

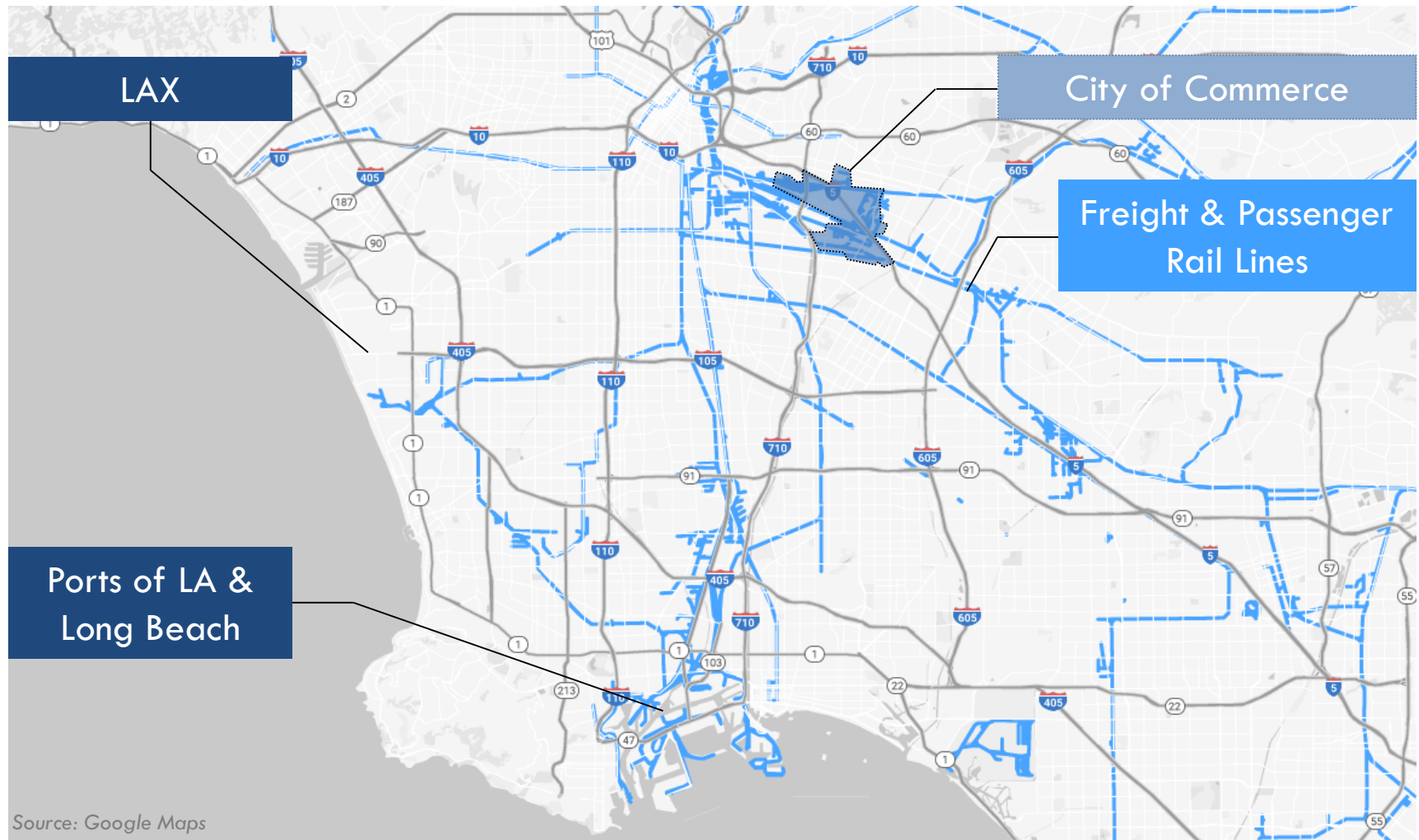
While the regional PDR sector has declined overall, PDR jobs have shifted to the Inland Empire and away from the region's other counties.

PDR Sector Annual Growth Rate, 2002-2014



Source: US Census LEHD

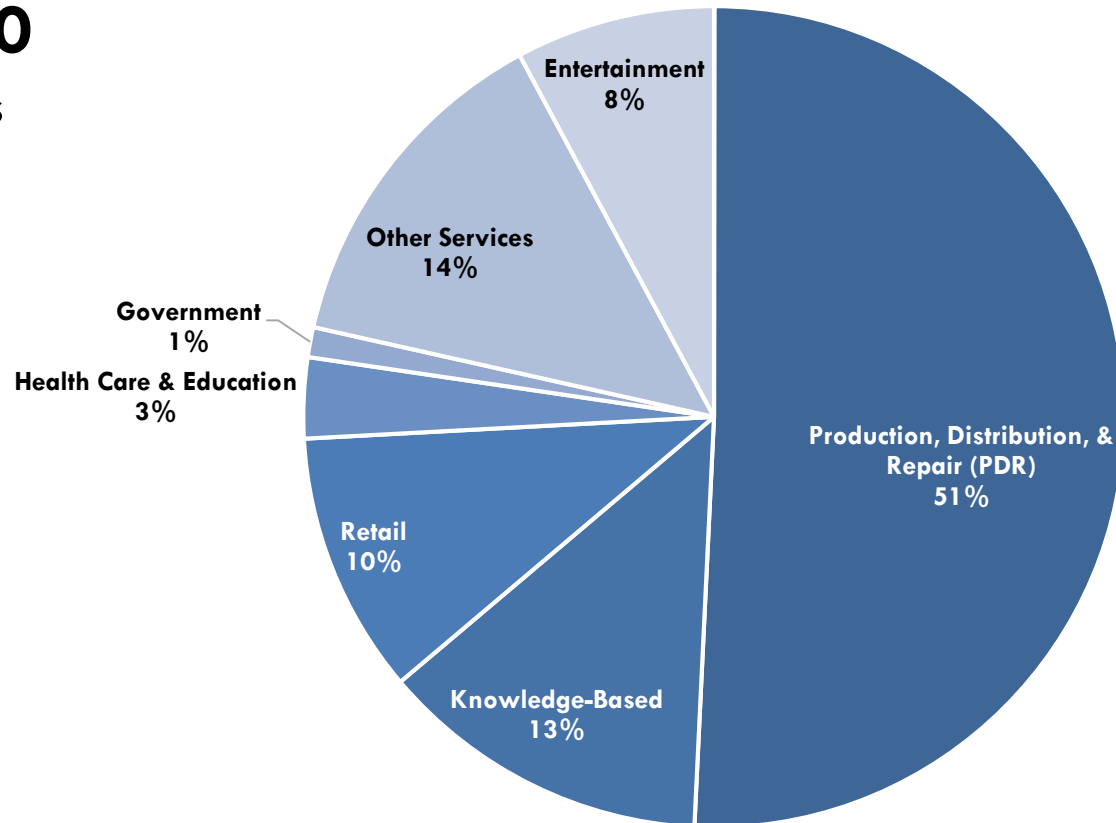
The City of Commerce is located centrally within Los Angeles County, linked by freeways and freight lines to major logistics centers, including the Ports of Los Angeles and Long Beach, and Los Angeles International Airport (LAX).



Employment within Commerce is predominantly within PDR industries, followed by Knowledge-Based and Other Services, and Retail and Entertainment.

~49,000
Total Jobs

Commerce Employment Composition, 2014



Source: US Census LEHD

Commerce's residents work in a fairly diverse set of sectors, but the highest proportion work in the PDR sector, followed by Health Care & Education and Other Services.

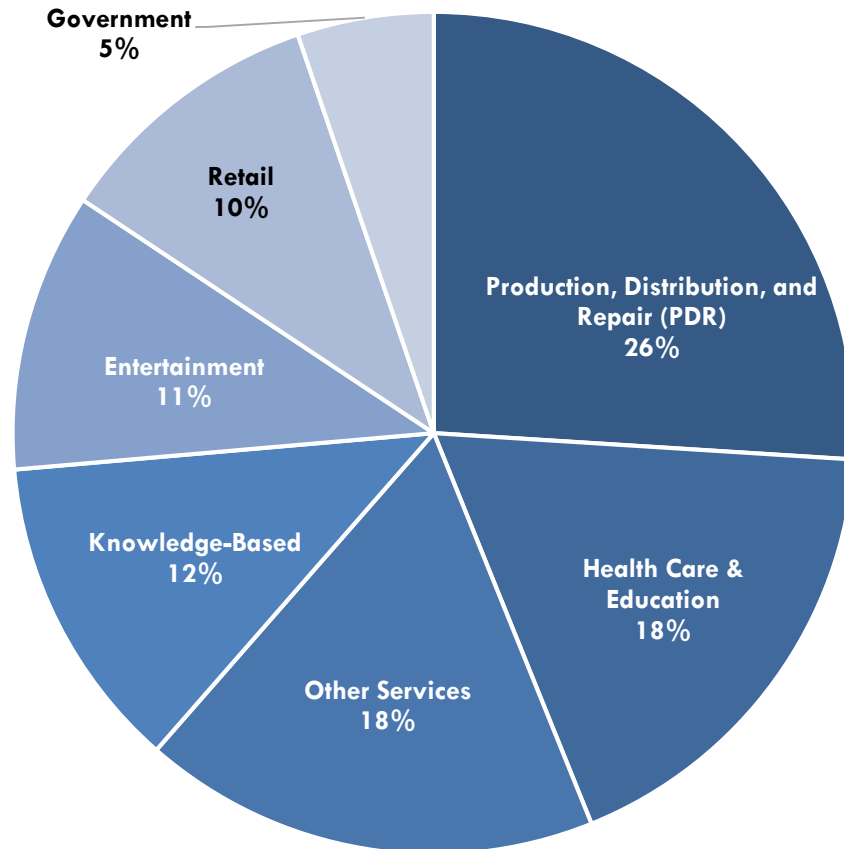
~13,000

Residents

~5,100

Employed Residents

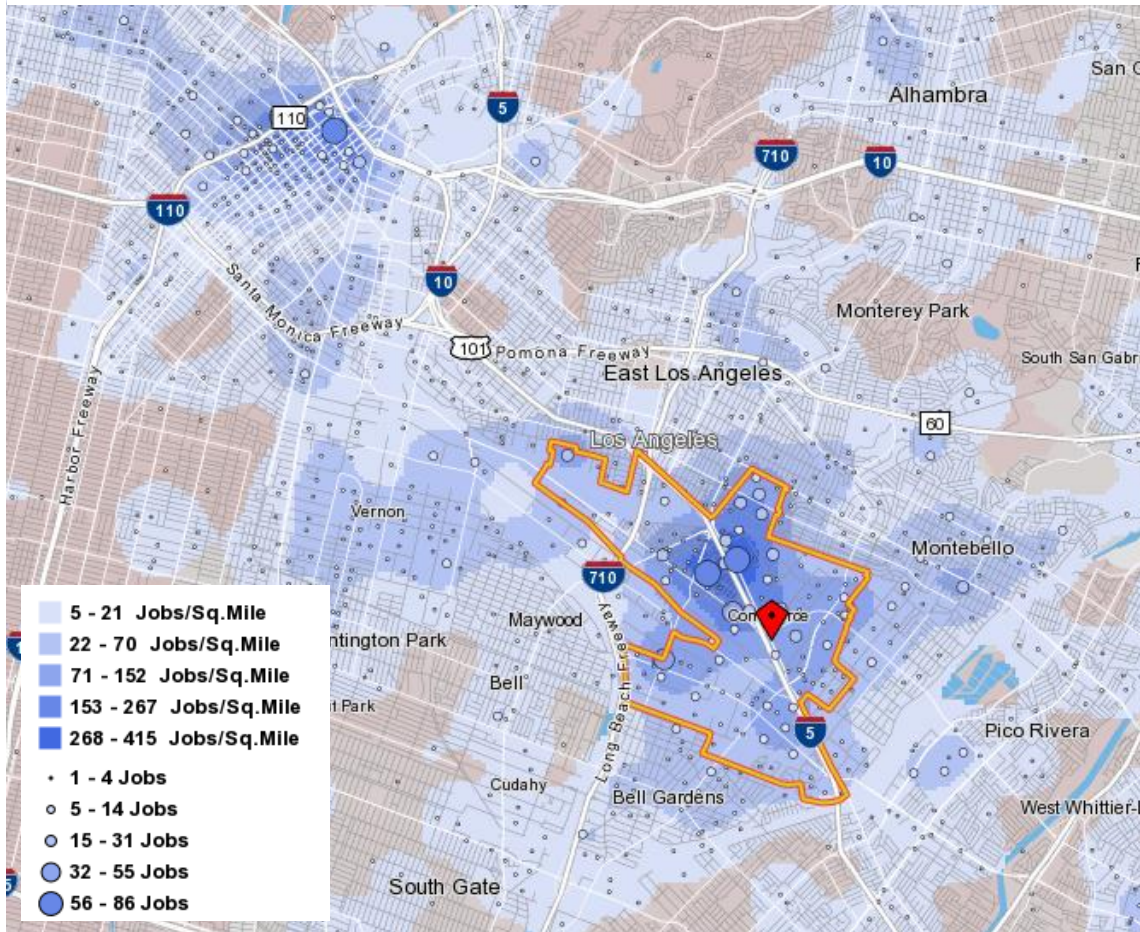
Commerce Resident Employment Composition, 2014



Source: US Census LEHD; American Community Survey 2011-2015 5-Year Estimates

Of the City's approximately 5,100 employed residents, 15 percent work in the City, and the remaining share generally commute to nearby areas such as DTLA and Vernon.

Commerce Resident Commute Patterns



~800

Residents

Live & Work in the City

~4,300

Residents

Commute out of the City

~48,000

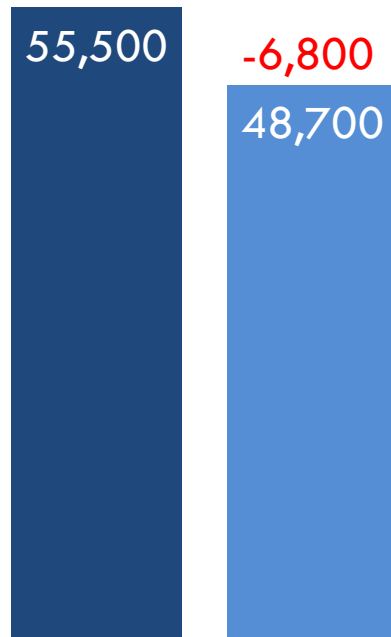
Employees

Commute into the City

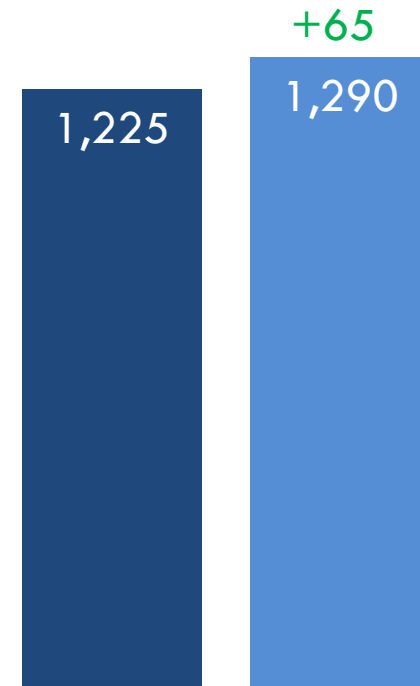
Source: US Census LEHD

Over the past decade, Commerce gained businesses but lost jobs; a change of 45 jobs per business in 2004 to 38 jobs per business in 2014.

Change in Jobs in Commerce, 2004-2014



Change in Businesses in Commerce, 2004-2014

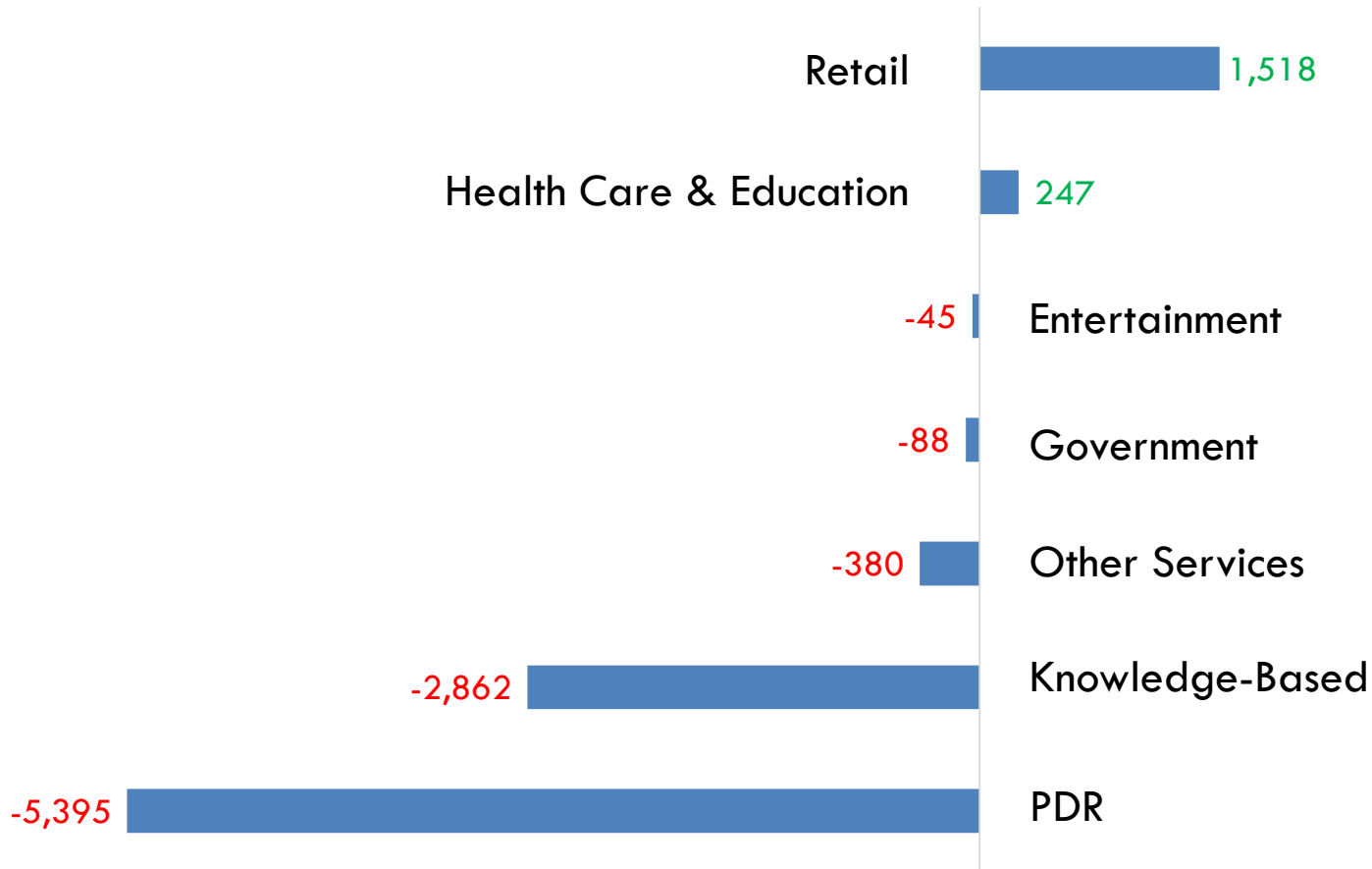


■ 2004 ■ 2014

Source: US Census LEHD; County Business Patterns

Commerce lost jobs in nearly every sector over the past decade, particularly in PDR and Knowledge-Based; only the Retail and Health Care and Education sectors experienced job increases.

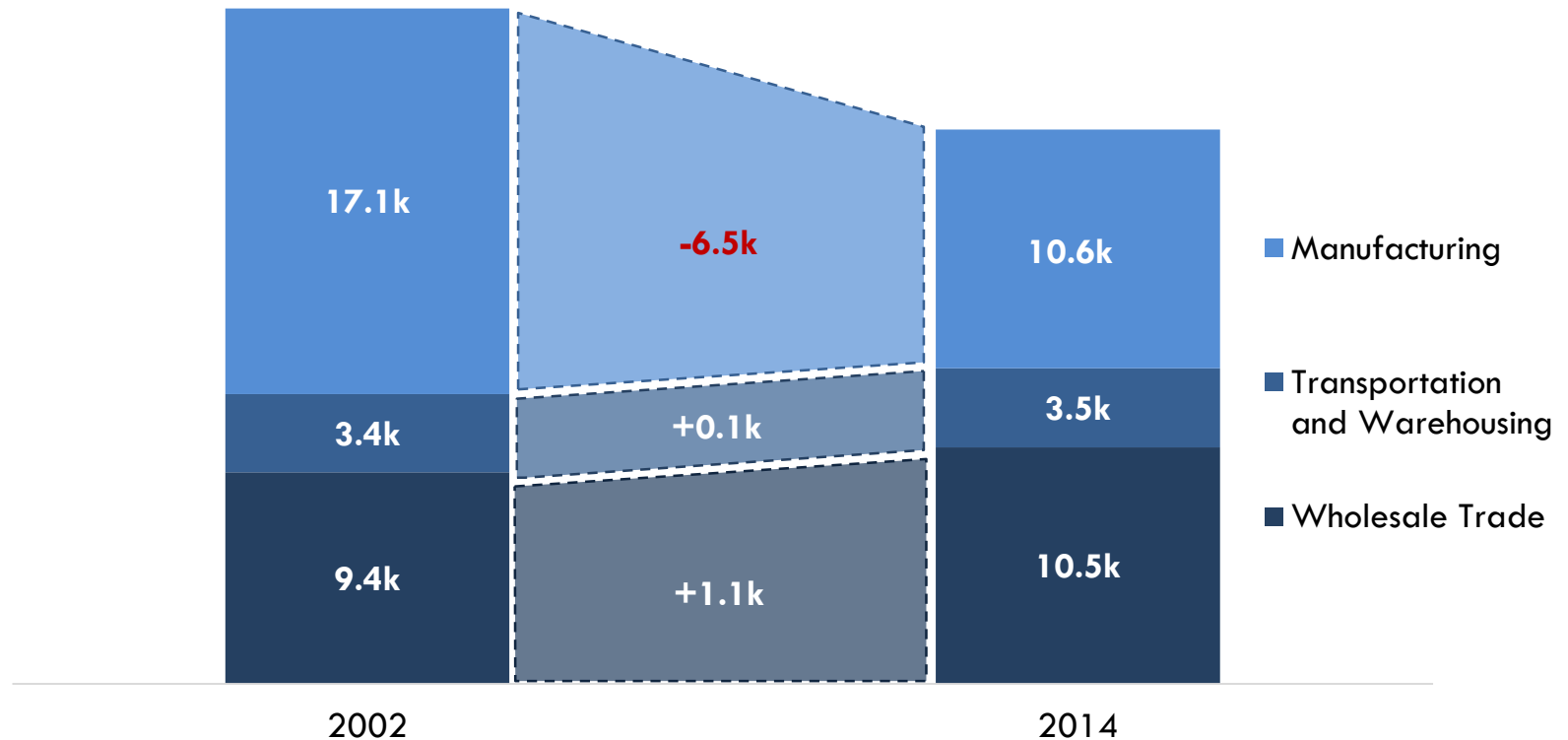
Change In Employment in Commerce by Sector, 2002-2014



Source: US Census LEHD

In line with regional trends over the past decade, the PDR sector in Commerce shrunk due to steep losses in Manufacturing jobs with only modest increases in Wholesale Trade and Transportation and Warehousing Jobs.

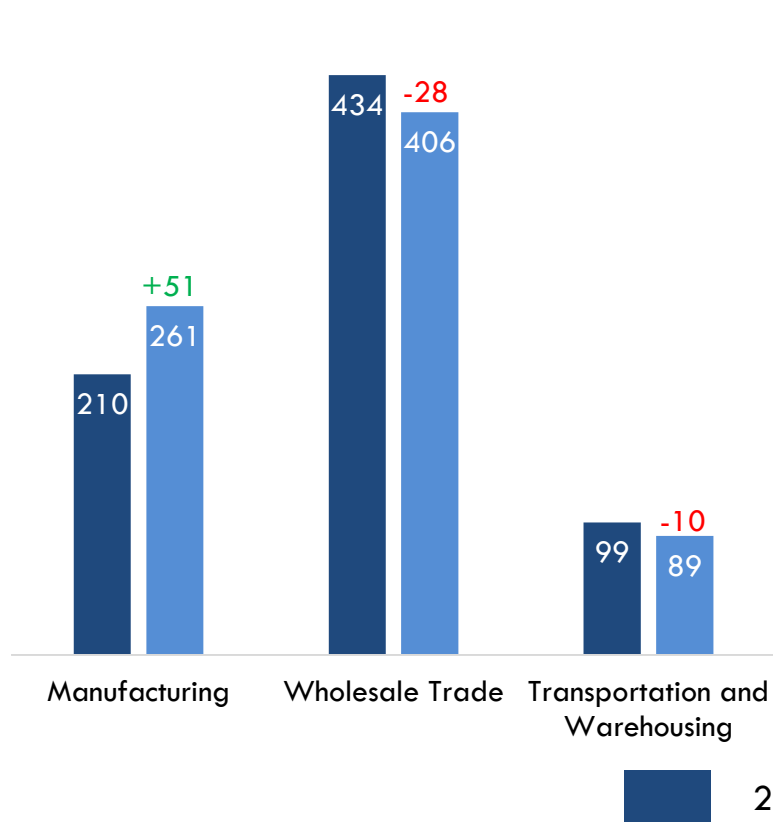
Change in Commerce PDR Sector Employment, 2002-2014



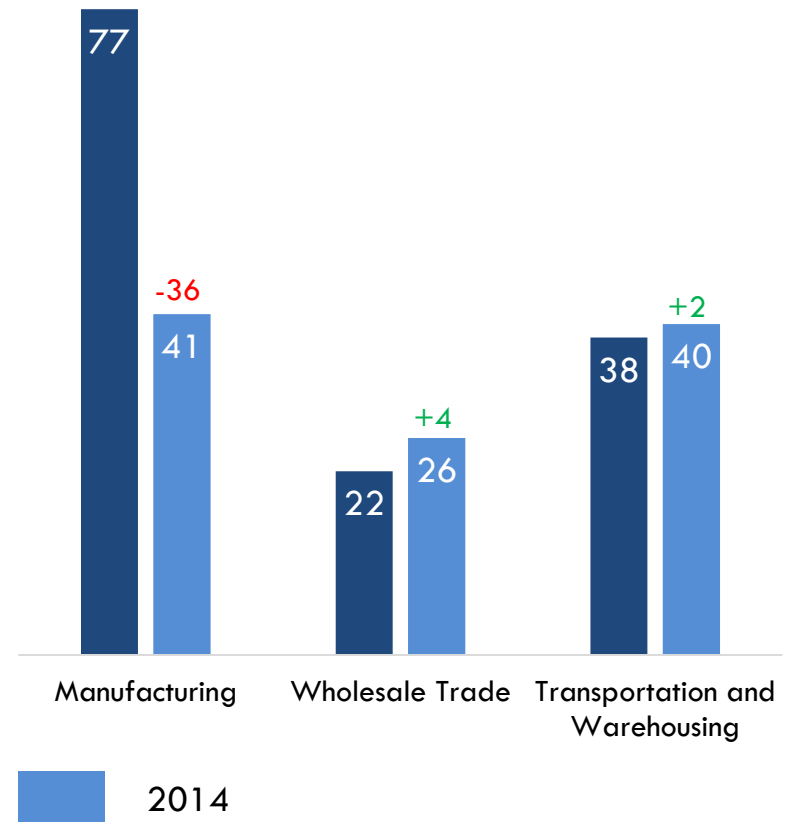
Source: US Census LEHD

Although the number of Manufacturing business increased, jobs per business considerably decreased, representing an overall shift to less job-intensive industries within the PDR sector.

**Change in Commerce PDR Sector
Businesses, 2004-2014**



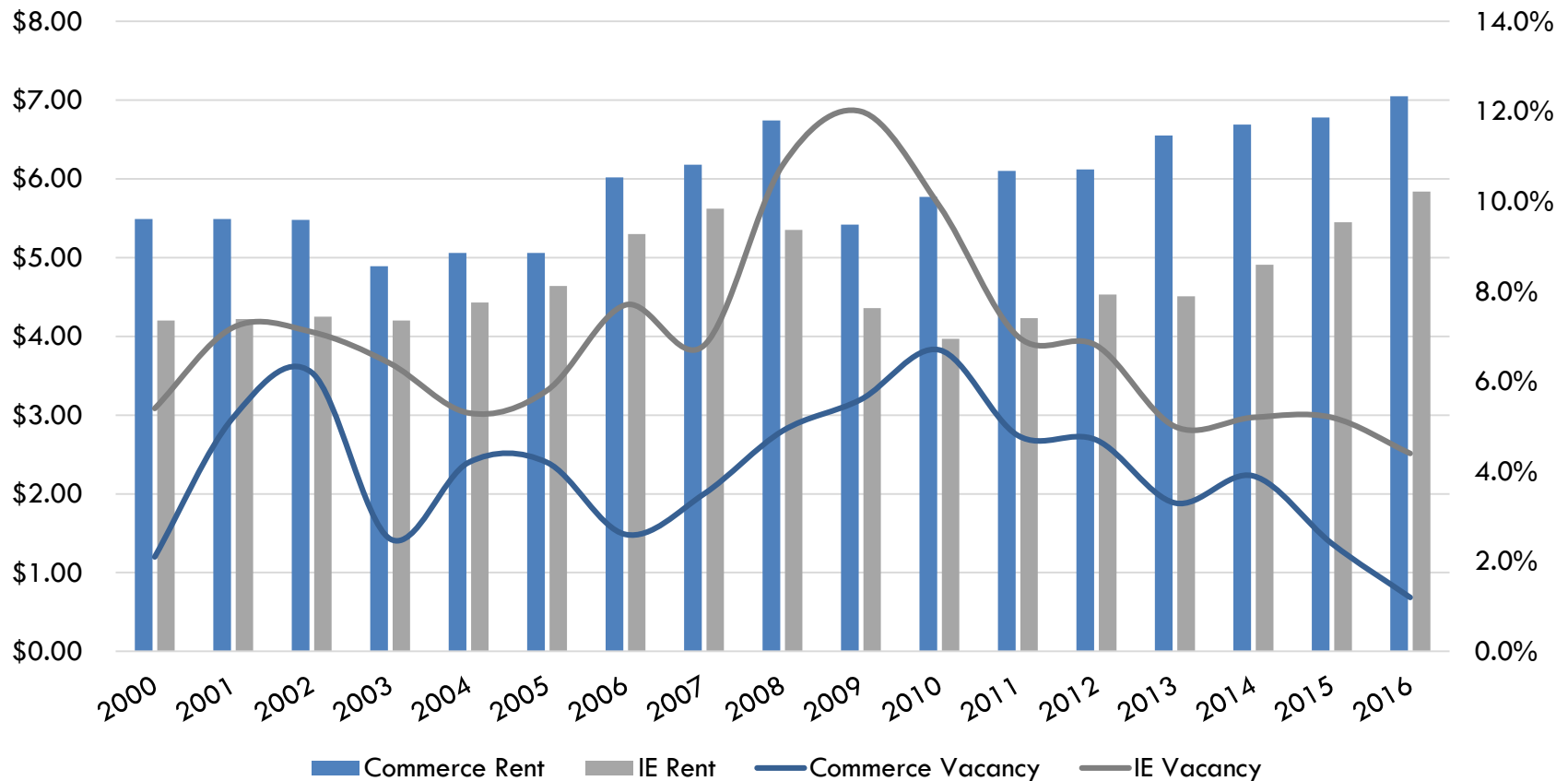
**Change in Commerce PDR Sector Jobs
per Business, 2004-2014**



Source: US Census LEHD; County Business Patterns

Despite PDR job contraction in Commerce and growth in the IE, industrial rents are higher and vacancy rates are lower in Commerce, suggesting that industrial space is still in demand but the nature of its use is changing.

Industrial Rents/SF and Vacancy Rates in Commerce and the IE



Source: CoStar

Conclusions: Regional & Local Economic Trends

Region

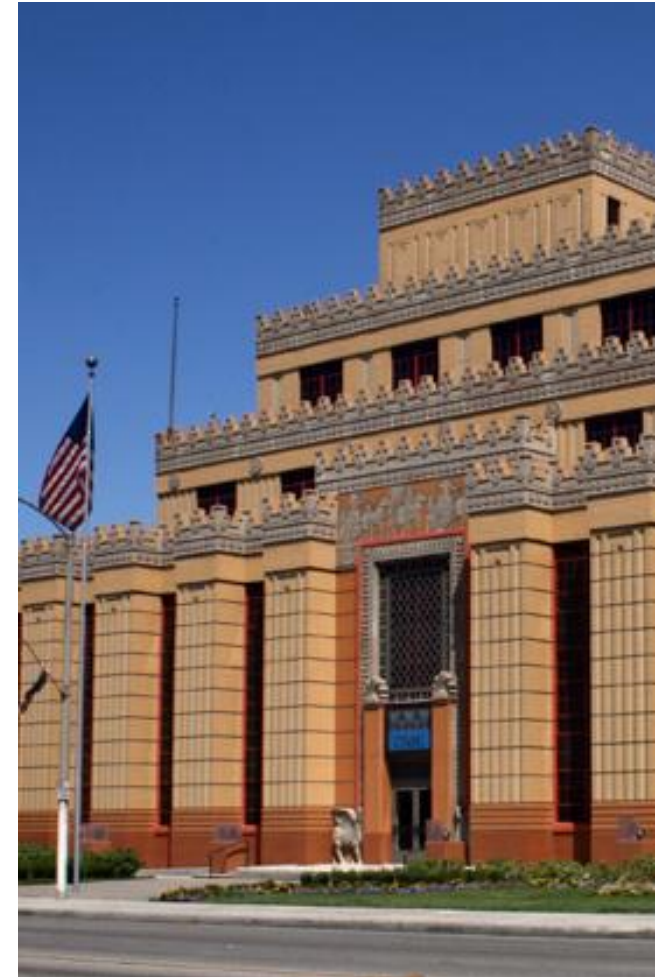
- The regional economy is diverse and job growth in the region has been positive over the past decade.
- LA County gained the most jobs nominally, while Riverside and San Bernardino Counties are the fastest growing.
- The most robust job growth has been in Healthcare and Education, with gains also in the Knowledge-Based, Retail, and Entertainment Sectors.
- PDR has declined, and its composition has shifted away from Manufacturing to Wholesale Trade, and Transportation and Warehousing.



Conclusions: Regional & Local Economic Trends

Local

- Commerce is centrally located and well-connected to the region via infrastructure.
- The number of businesses has increased, although jobs have decreased.
- Commerce's local economy is heavily dependent on PDR, although it has lost the most jobs over the past decade among sectors and is shifting to lower job generating industries.

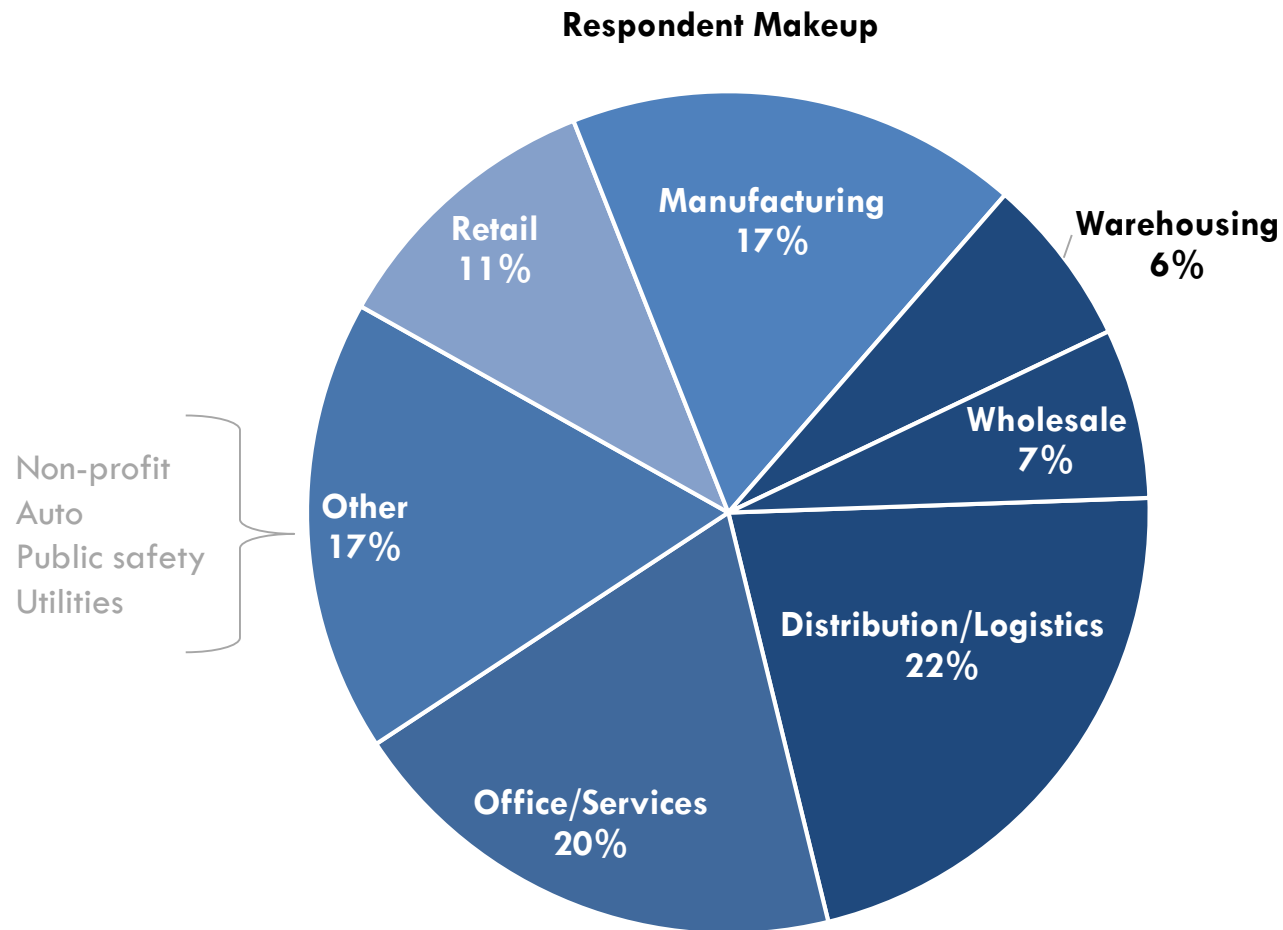


Regional & Local Economic Trends

Survey Responses and Other Local Input

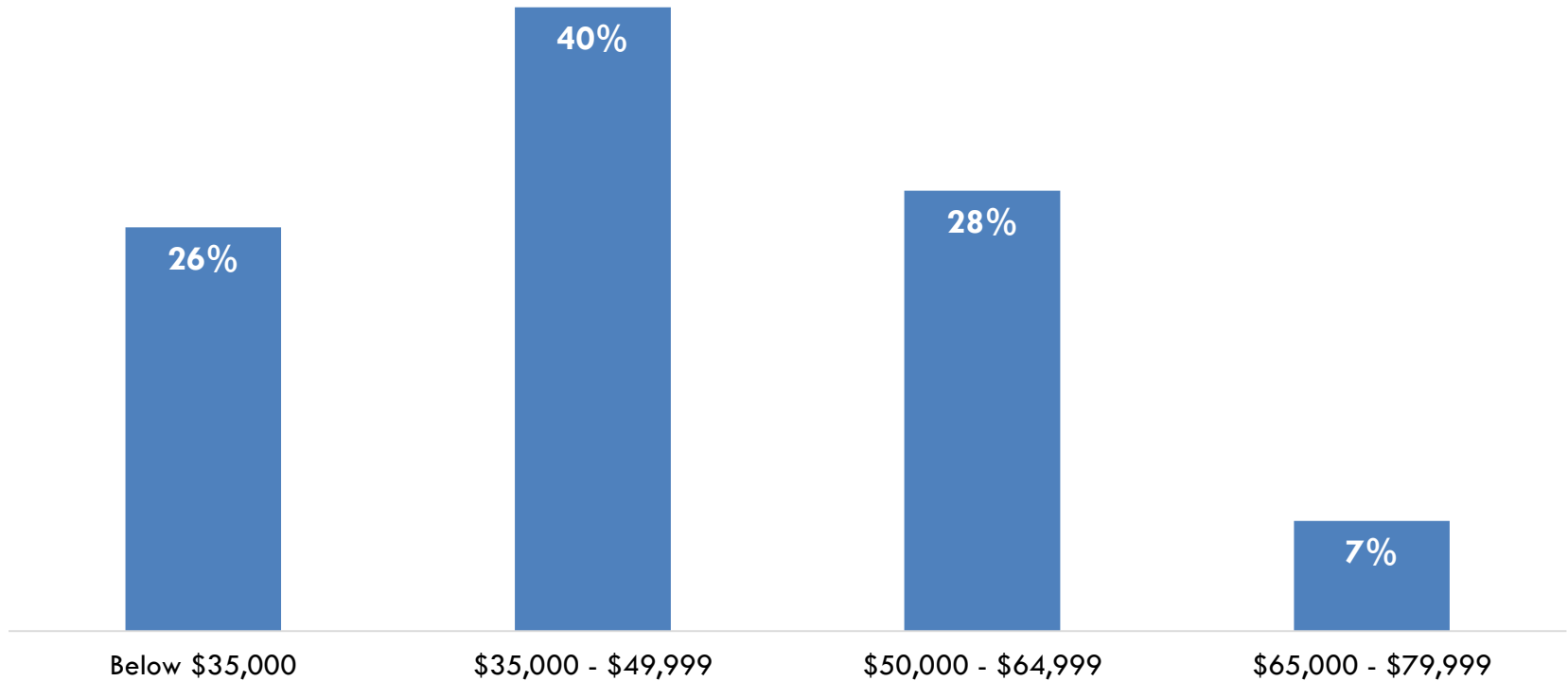
Cluster Analysis

Survey respondents represented a fairly diverse set of business interests, although a majority were industrial businesses and property owners.



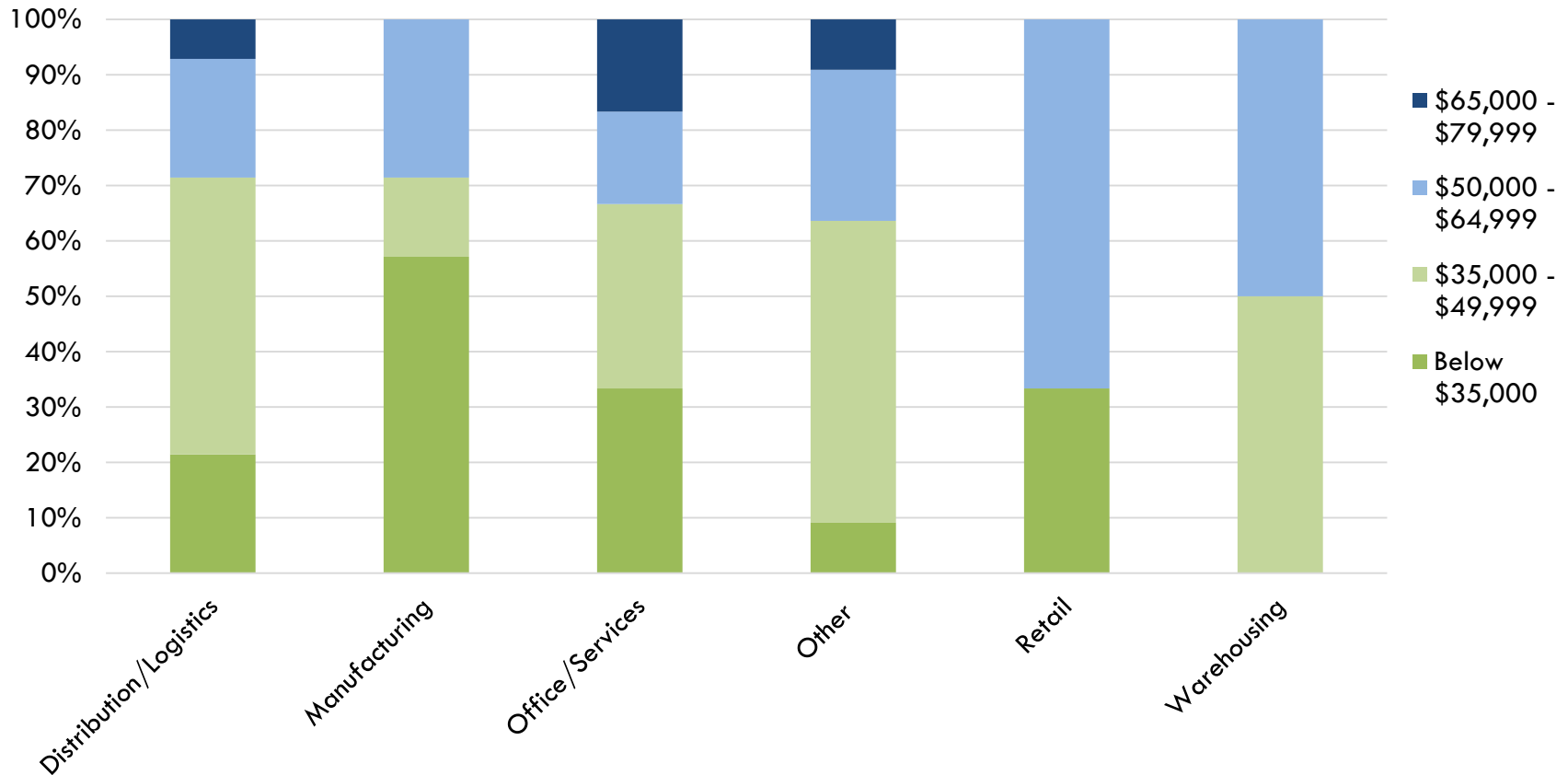
Most respondents reported average annual employee wages in the range of \$35k to \$50k.

Reported Average Annual Wages per Employee



Few businesses reported average annual employee wages above \$65k, and high shares of industrial businesses reported wages below \$50k.

Reported Average Annual Wages per Employee by Business Type



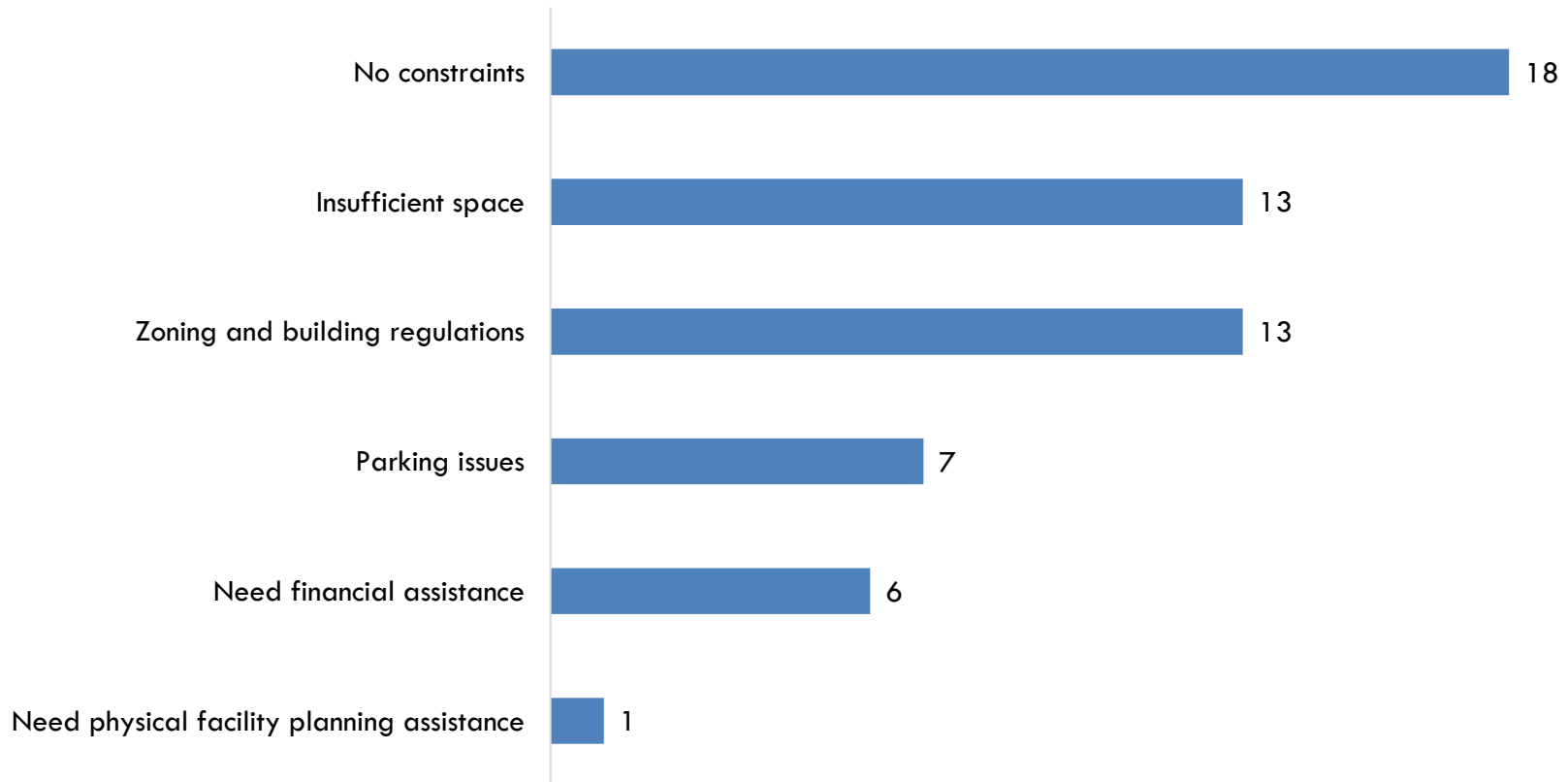
Commerce businesses value the City's prime location, namely its freeway access.

What are the top 3 reasons for locating or keeping your business in the City of Commerce?



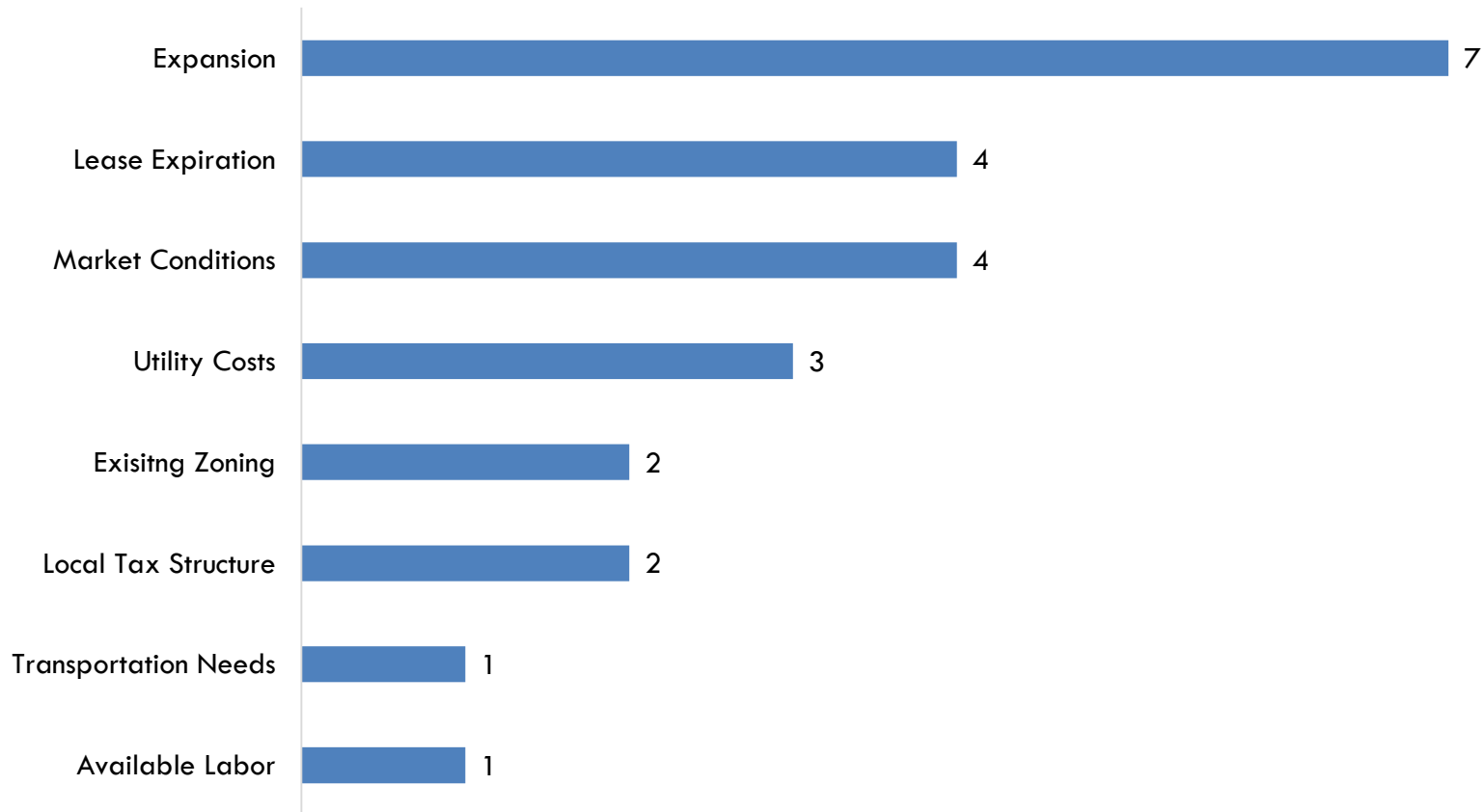
While many businesses do not see any obstacles to expansion in Commerce, others face spatial (parking and land) and regulatory (zoning and other codes) constraints.

If you were to expand your business in the City of Commerce, would you face any constraints?



Among firms considering moving, the most cited reasons are expansion needs, expiring leases, and changing market conditions.

If you are considering moving, what are the reasons motivating you to move?



Based on a business focus group meeting, industrial brokers and property owners see Commerce as a local, “last stop” warehousing distribution node as distinct from larger regional fulfillment centers like those in the Inland Empire.

Commerce

6000-6040 Bandini Blvd
~115k SF



San Bernardino

Amazon Fulfillment Center
~1m SF

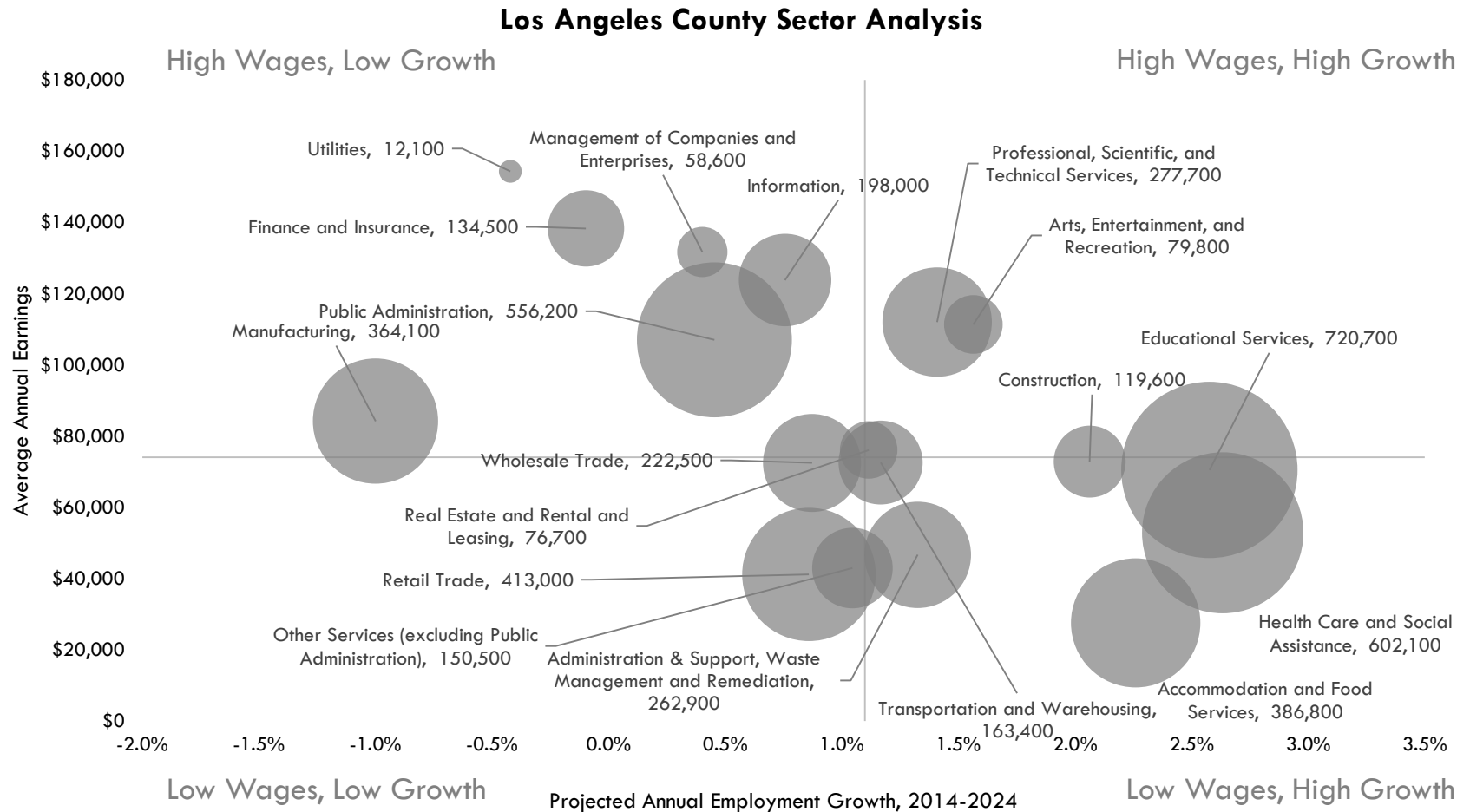


Regional & Local Economic Trends

Survey Responses and Other Local Input

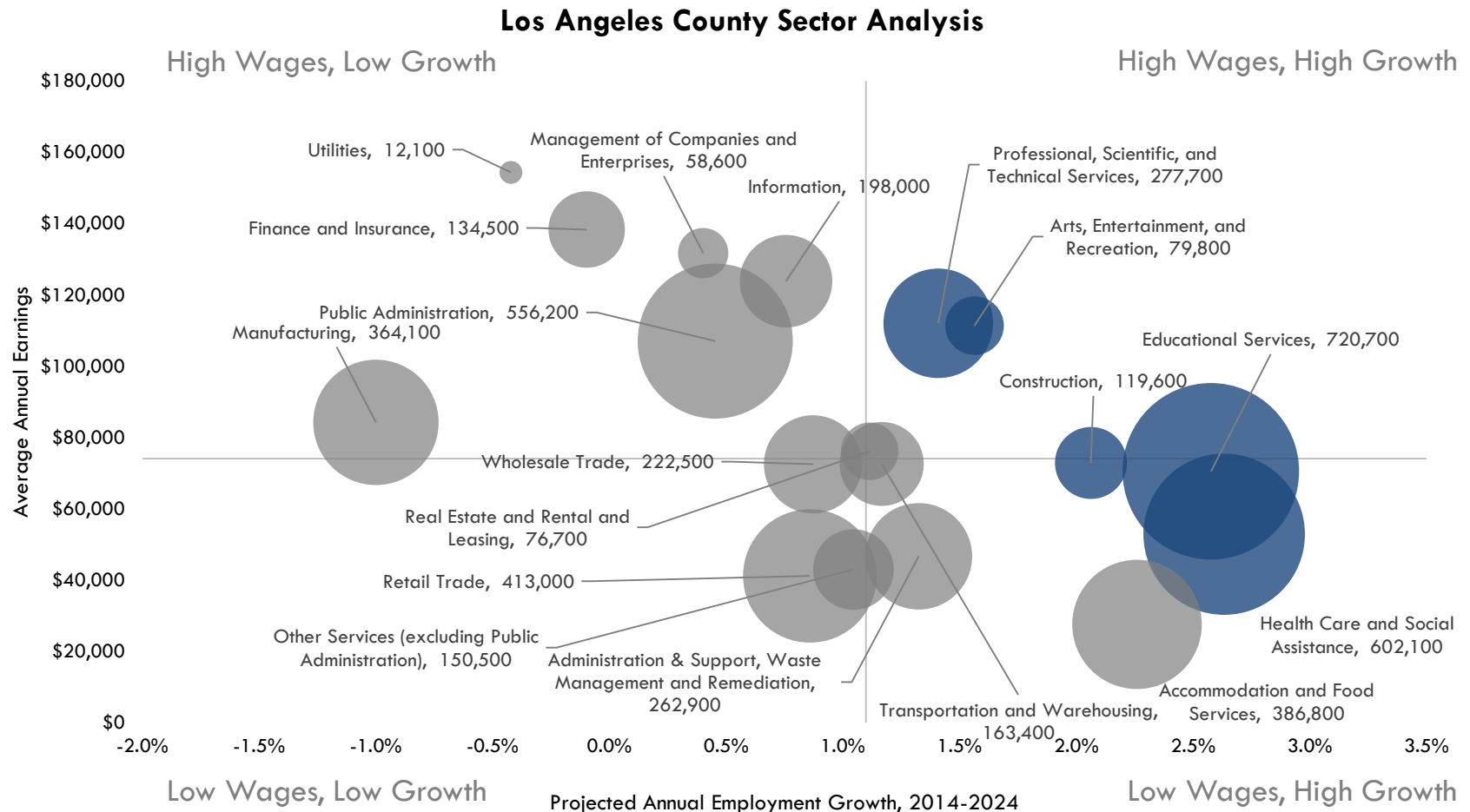
Cluster Analysis

HR&A analyzed economic sectors in **Los Angeles County** by assessing average annual earnings, projected employment growth, and existing sector size.



Source: CAEDD; EMSI

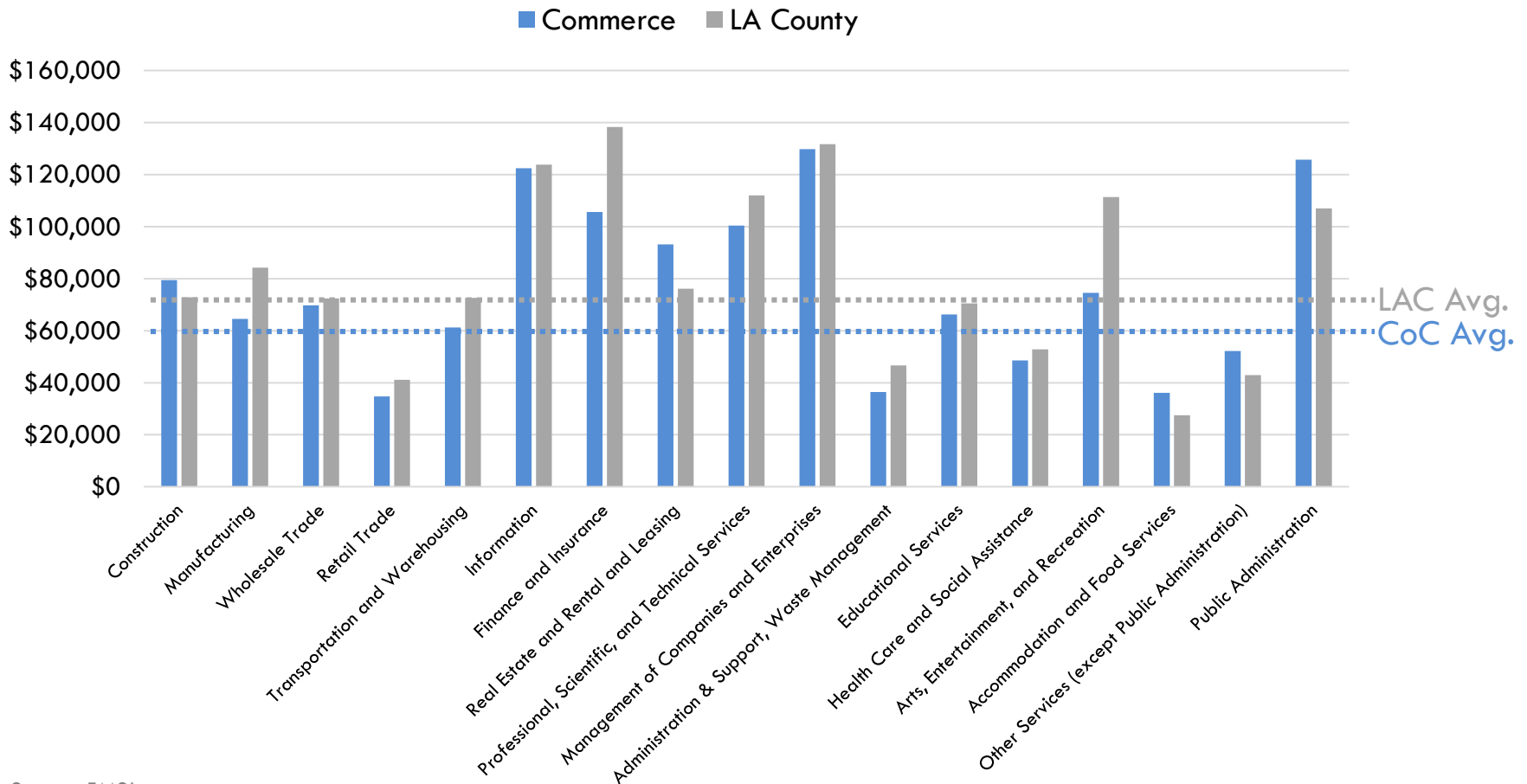
Jobs in Professional, Scientific, and Technical Services; Education; and Health Care offer middle to high wages, the most growth potential, and are well-established in the County. Jobs in Construction and the Arts also offer favorable wages and growth potential, but are comparatively small sectors.



Source: CAEDD; EMSI

Earnings per job in Commerce are generally lower than elsewhere in the County across sectors, except for Construction, Real Estate, Accommodation and Food Services, and Public Administration.

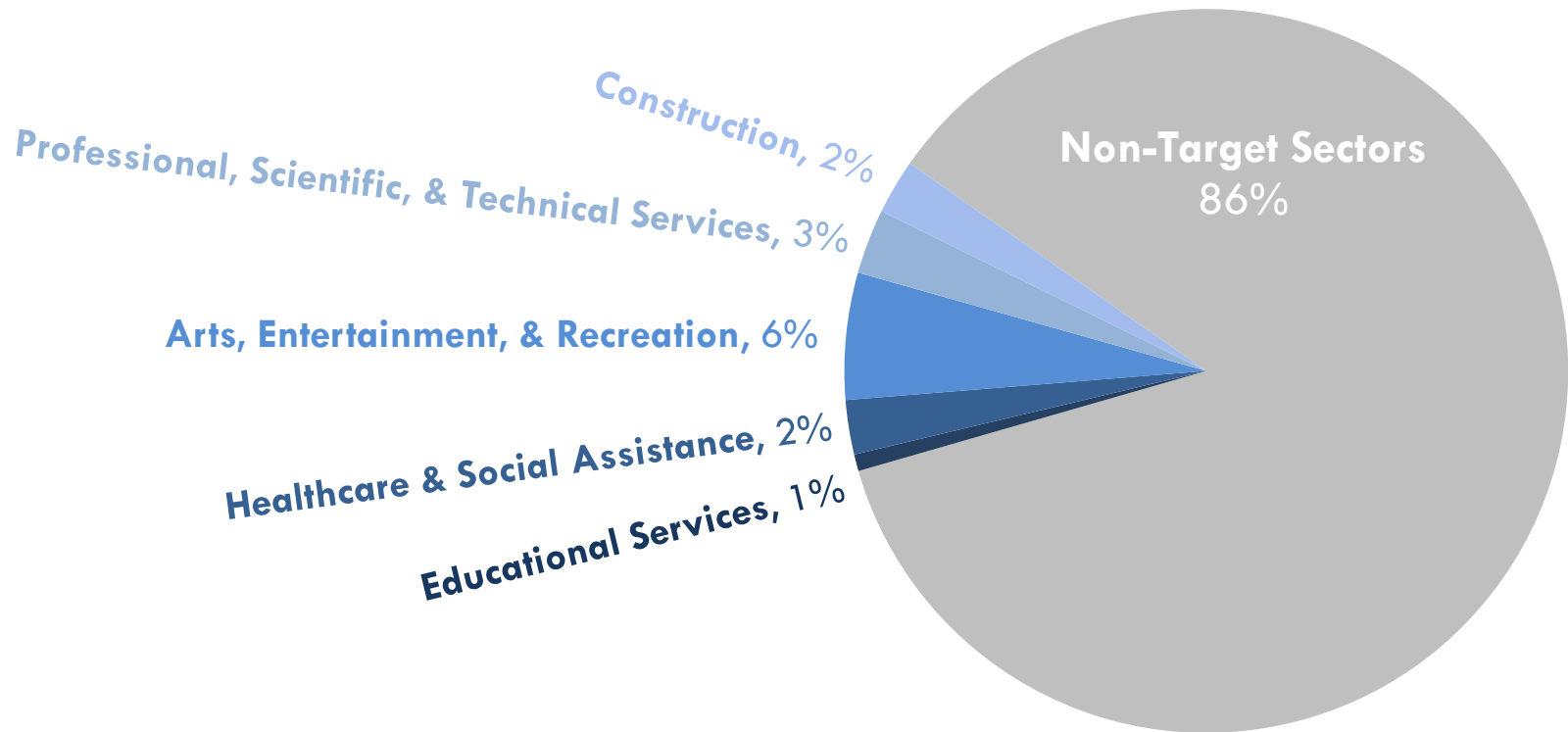
Average Annual Earnings Per Job by Sector, 2016



Source: EMSI

High wage, high growth sectors make up 14 percent of Commerce's employment, nearly half of which is attributable to Arts, Entertainment, and Recreation, which is largely driven by the Commerce Casino.

Target Sector Share of Commerce Employment



Source: LEHD

HR&A applied a location quotient analysis to determine industry concentrations in the City compared to the region.

Location Quotient Methodology

**Sector “X” Employment
in City**

**Total Employment
in City**

>1

**High Job Concentration in
City vs. Region**

=1

**Avg. Job Concentration in
City vs. Region**

<1

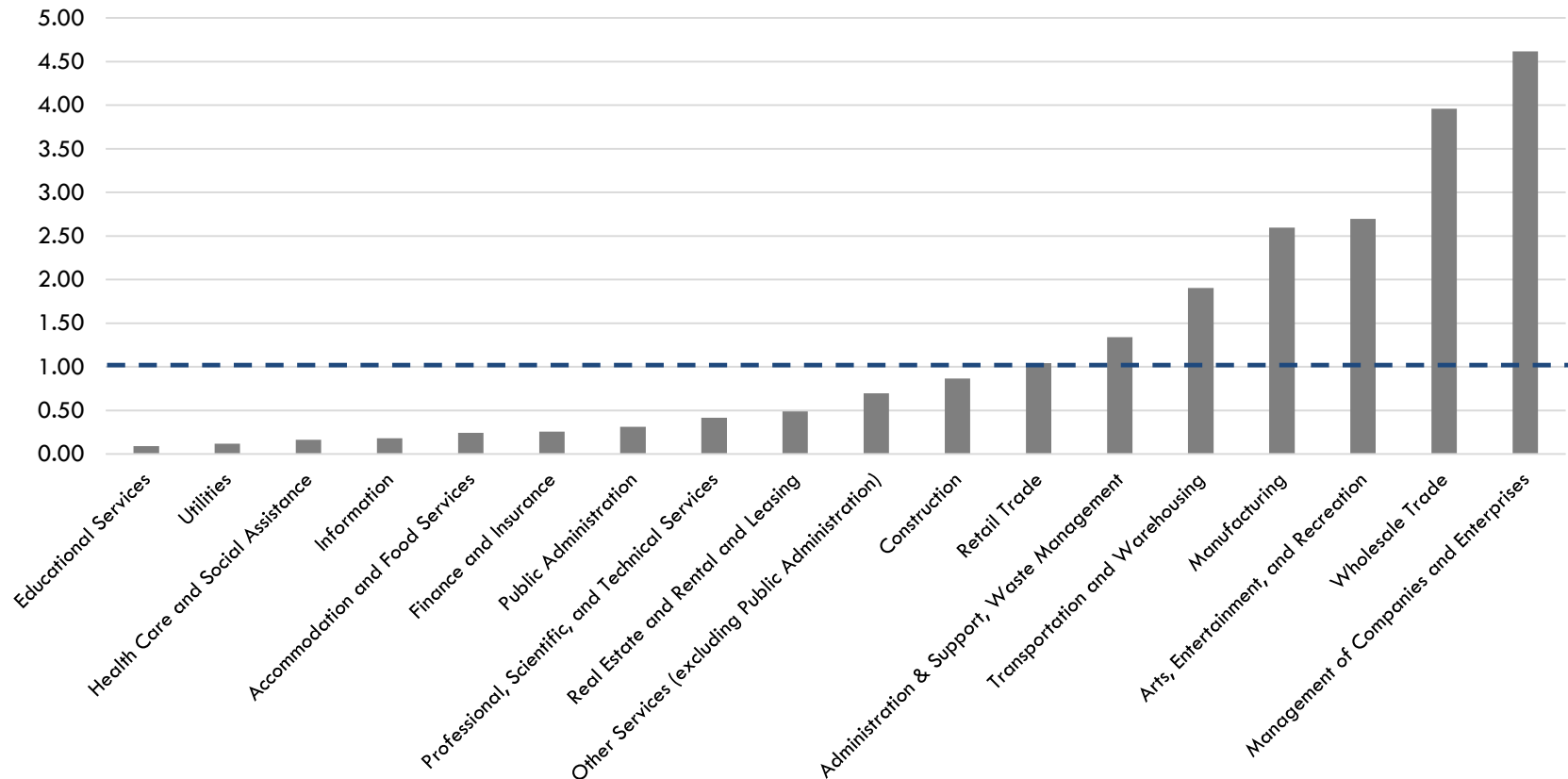
**Low Job Concentration in
City vs. Region**

**Sector “X” Employment
in Region**

**Total Employment
in Region**

The City of Commerce has a high concentrations of industrial-using sectors like Transportation and Warehousing, Manufacturing, and Wholesale Trade, as well as in Arts and Entertainment and Management of Companies.

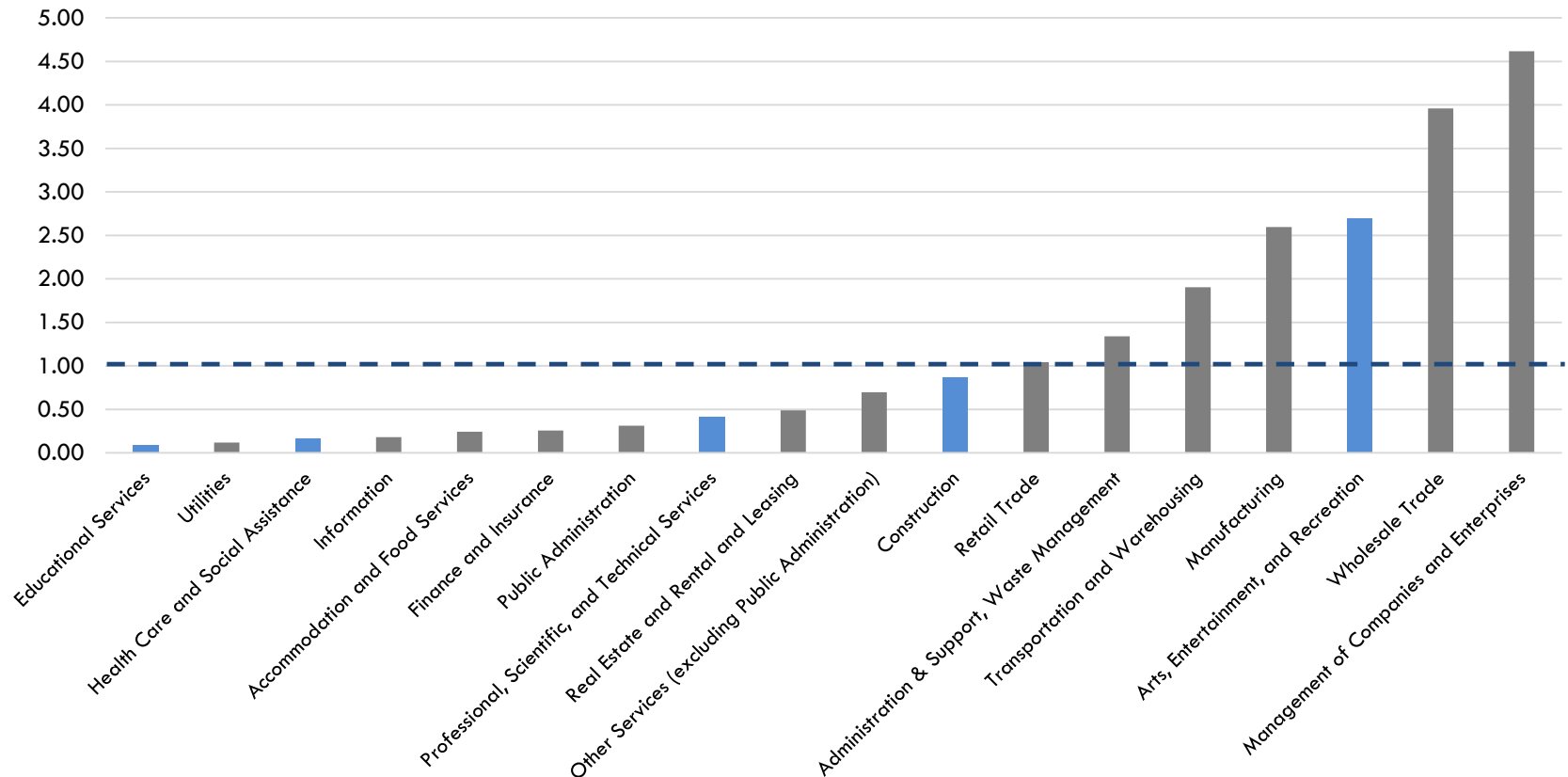
Commerce Location Quotient Analysis



Source: US Census LEHD

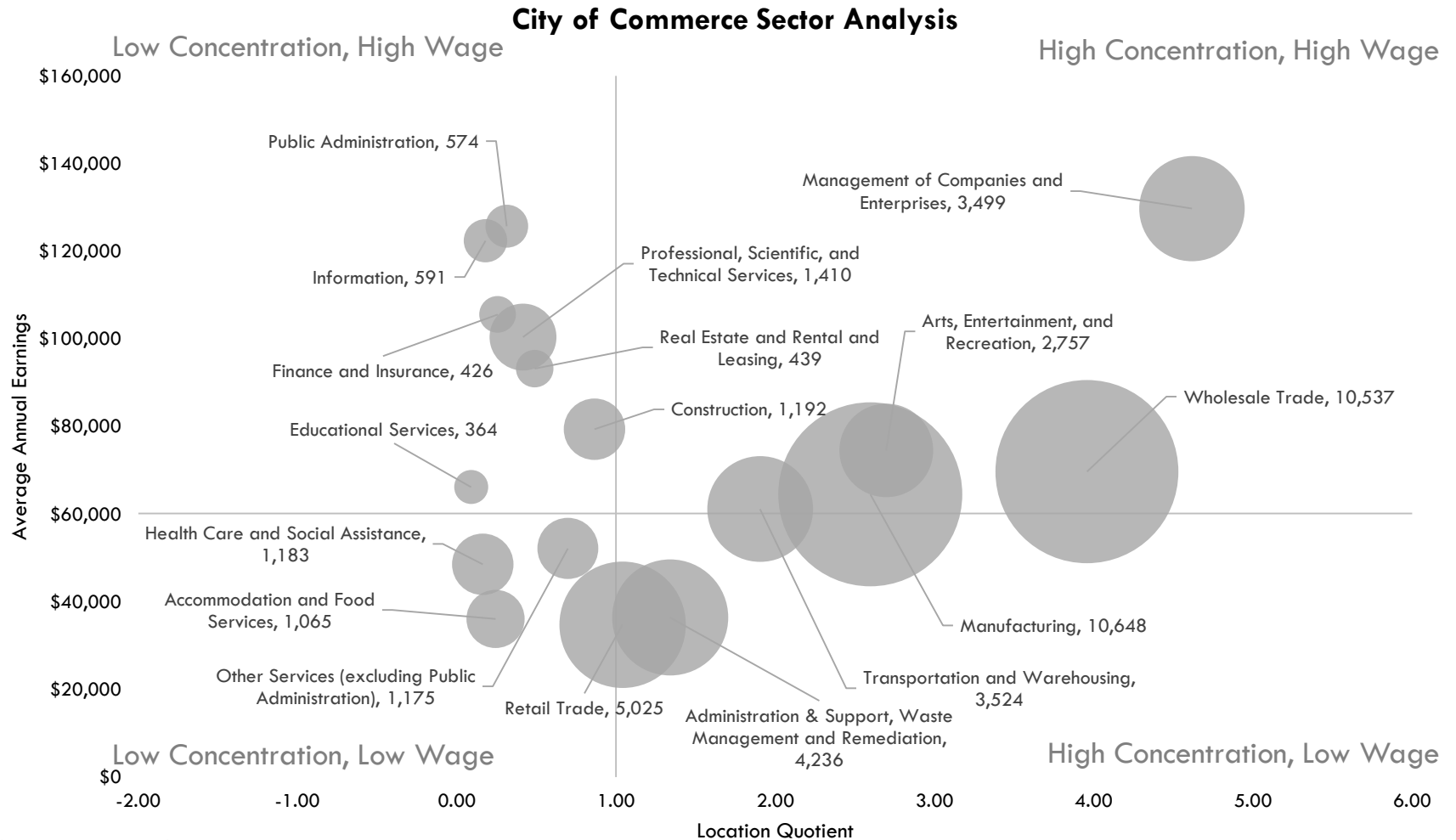
Among the high wage, high growth industries in the County, Commerce only has a higher than average concentration in the Arts and Entertainment Sector, which is again due to the Commerce Casino.

Commerce Location Quotient Analysis

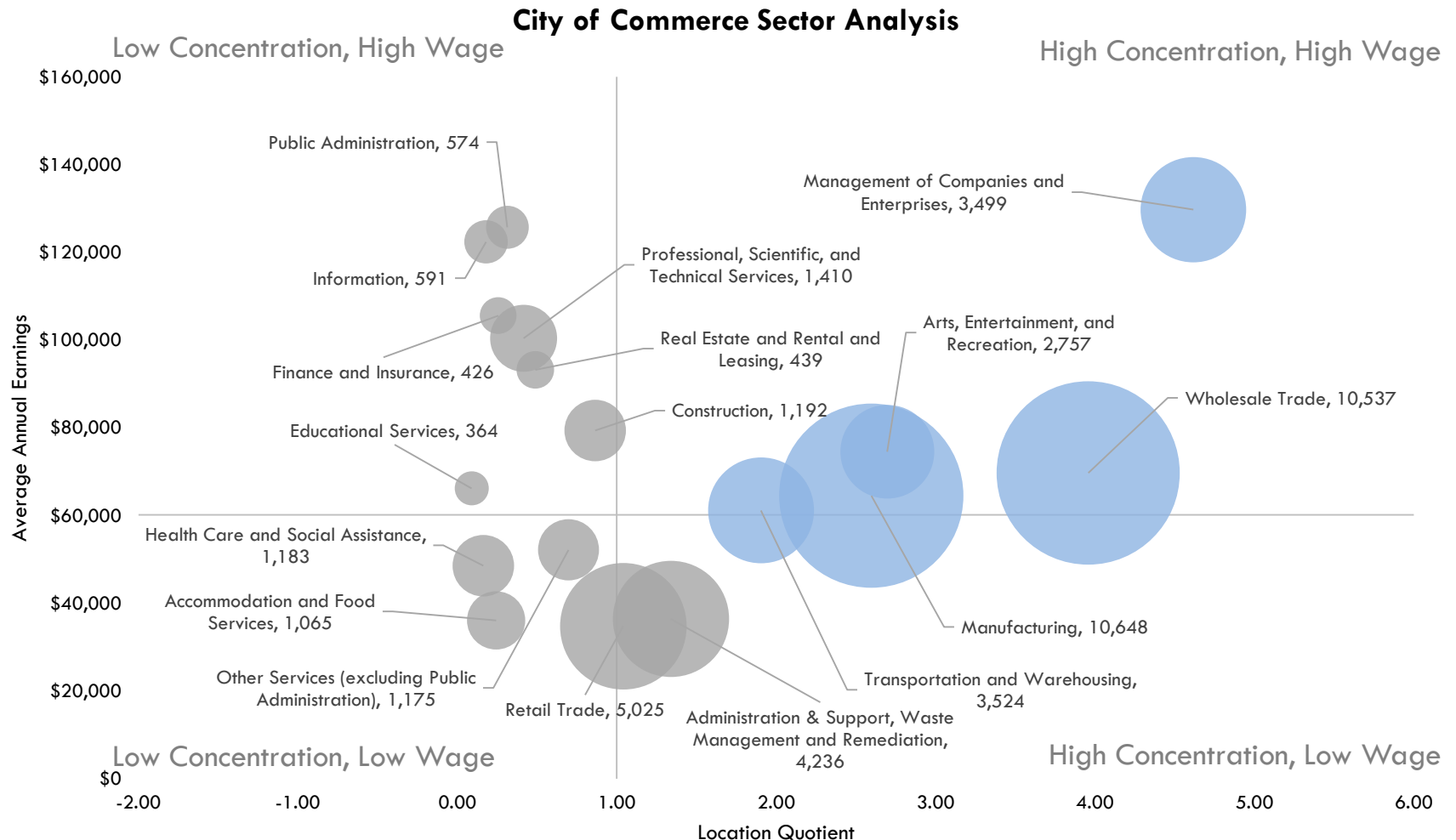


Source: US Census LEHD

HR&A analyzed **Commerce's** industry concentrations, average annual earnings, and sector size.

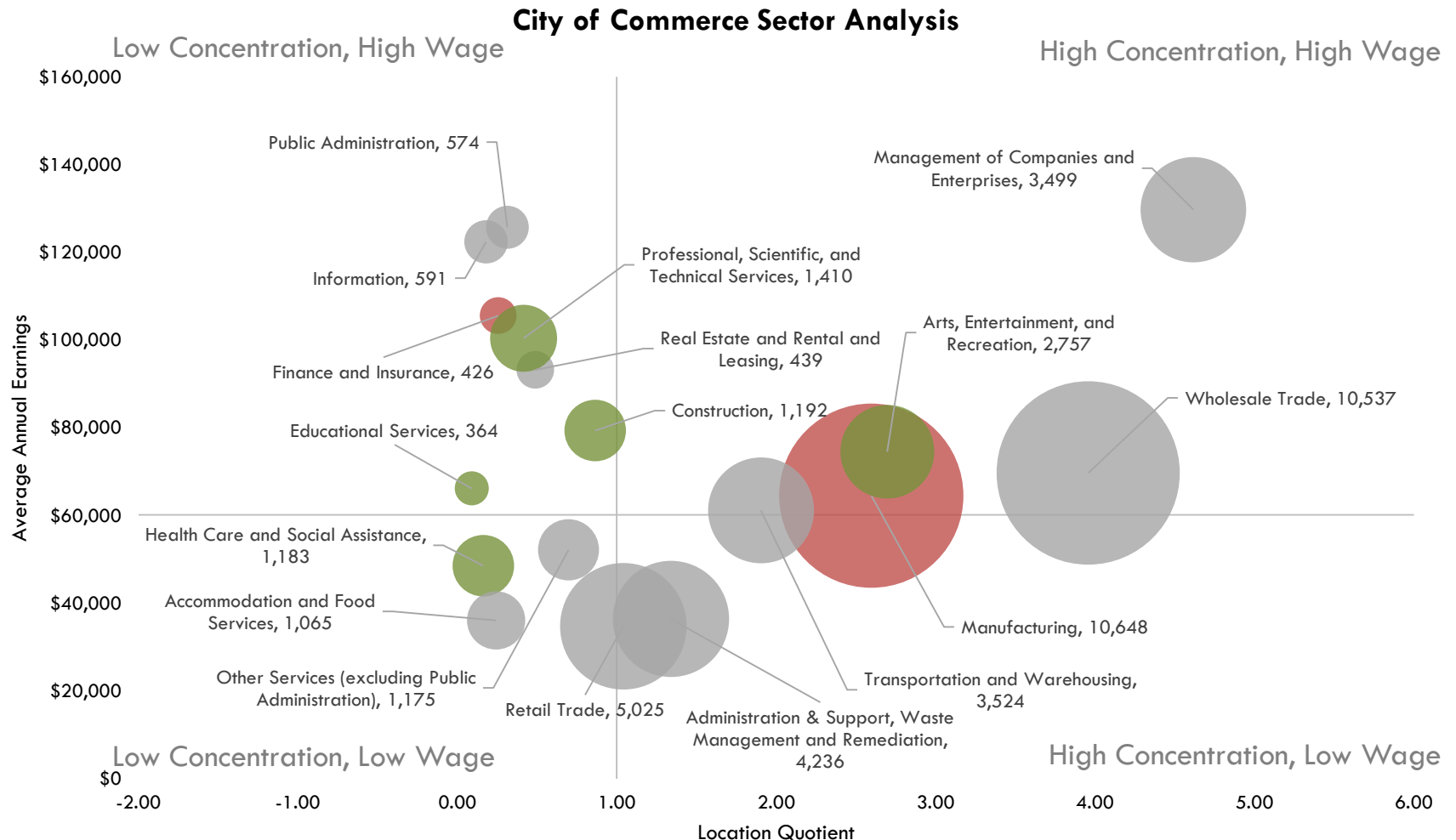


Management, Arts, and the three PDR sectors offer higher than average annual wages, and are strong clusters in Commerce.



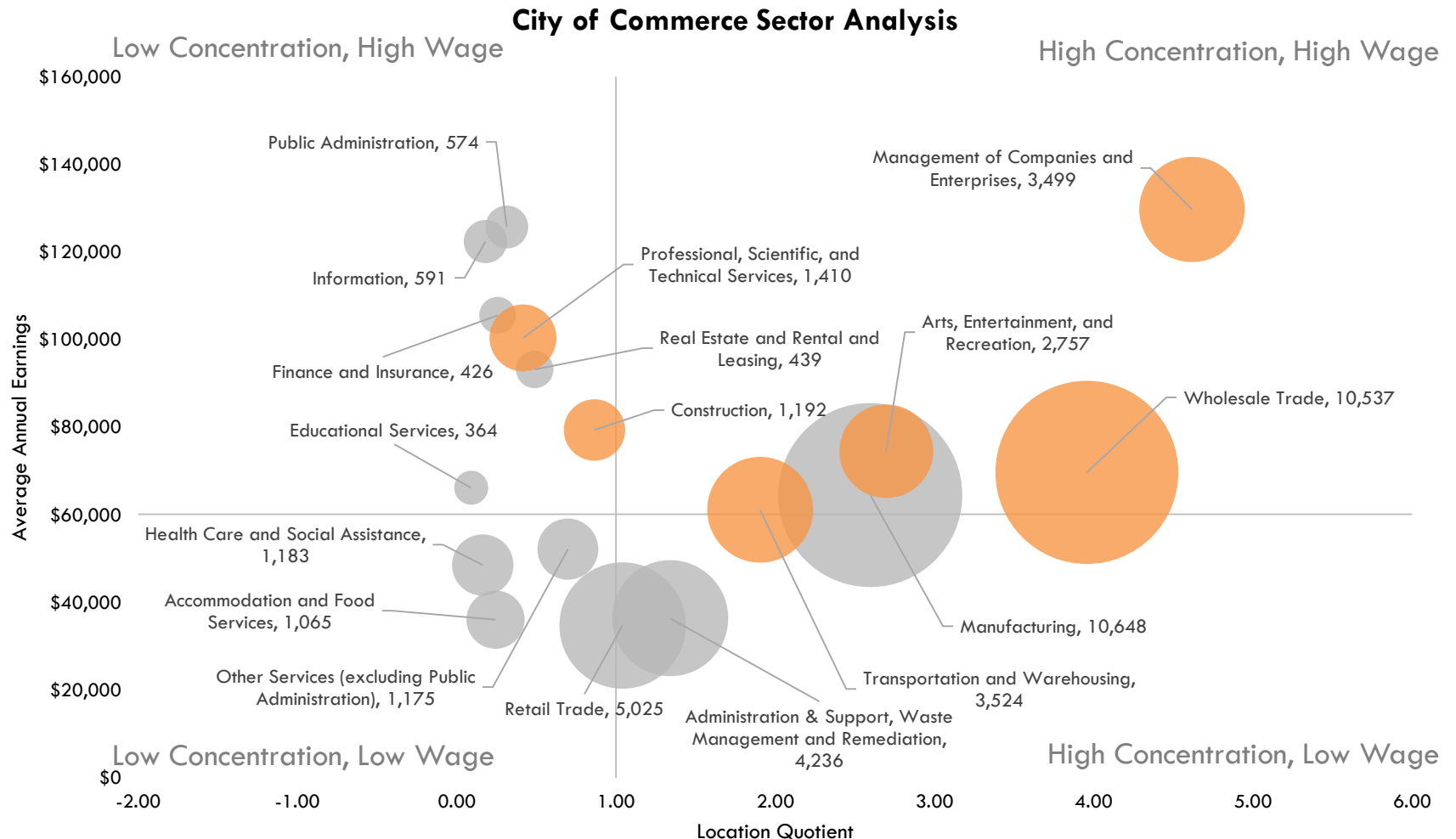
Source: LEHD; EMSI

Among the high concentration/high wage sectors, the Arts sector is the only projected to grow in the County, while Manufacturing is projected to decline, and the others are growth neutral.



Source: LEHD; EMSI

Combining regional growth projections, current concentrations in the City, and average earnings potential, a number of sectors present opportunities for the City to bolster and expand its economic base.



Source: LEHD; EMSI

Sectoral opportunities need to be weighed against a number of other market factors, as well as City fiscal, social, and environmental goals.

- **Logistics and Distribution*** – The City’s industrial building stock, concentration of industries, infrastructure, and centralized location position it well to continue to draw businesses within this sector, although planning efforts should consider **land use adjacencies, fiscal contributions, and decreasing employment intensity.**
- **Arts, Entertainment, and Recreation** – The Casino represents the majority of employment in this sector within the City; **a real estate strategy that builds on entertainment** and seeks to enhance its surrounding area as a destination may be more appropriate to capitalize on this asset than an industry attraction strategy.
- **Professional, Scientific, and Technical Services** – Although the City does not have an existing cluster, projected robust regional growth coupled with high average wages indicate the potential to **capture businesses from the surrounding region by providing quality corporate amenities and infrastructure.**
- **Construction** – This sector benefits from many of the same characteristics as Small-Scale Logistics and Distribution, but fluctuates with economic cycles making it **an unreliable source of long-term employment.**

*Includes Wholesale Trade and Transportation and Warehousing, as well as Management of Companies and Enterprises (due to how corporate subsidiaries and regional branches are recorded by the US Census Bureau, which in Commerce are largely within industries related to logistics and distribution).

Key Takeaways

- Although Commerce has 48,000 jobs within the City, only 800 of those are held by City residents.
- Employment grew regionally but contracted in Commerce, largely due to losses in manufacturing jobs and a reduction in the number of jobs per business.
- The PDR sector is largely shifting away from Los Angeles County to the Inland Empire; however, there is strong market support for industrial space in Commerce due to business needs for local last stop distribution facilities coupled with constrained industrial supply regionally.
- Commerce businesses prize the City's location, although spatial and regulatory constraints are the most cited obstacles to business expansion.
- Commerce has higher than average concentrations of logistics and distribution and the arts and entertainment (attributed to the Commerce Casino) sectors; it also has sectors anticipated to grow regionally including professional and technical services and construction.
- However, Commerce' business attraction and retention strategy will need to balance the City's fiscal, quality of life and environmental goals with the right set of market opportunities and industry clusters.

Potential Next Steps

- Evaluate the City's fiscal health and the contribution of industrial and warehouse uses towards the City's fiscal resources, now and in the future.
- Assess fiscal scenarios 5, 10, and 15 years into future, identifying key contributors to the City's fiscal revenues and costs to inform sound policy direction.
- Conduct a wider real estate market opportunities analysis to identify ways of diversifying and growing the City's tax base.
- Evaluate key physical planning and infrastructure interventions that minimize the conflict of truck traffic with neighborhood quality and other quality of life factors.
- Identify and evaluate peer cities that have adopted successful strategies to balance industrial and warehouse uses with long-term fiscal and economic development goals.
- Consider ways to bolster the City's retail and entertainment destinations to support economic and fiscal vitality.



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INDUSTRY CLUSTER ANALYSIS

November 2, 2017