



Los Angeles

A fragmented metropolis in transition

by Stewart Rubin

Transportation linkages have significant influence on surrounding land uses and property values. Car-centric Los Angeles is poised to undergo important changes in its transportation infrastructure. I believe this will result in certain areas becoming more valuable and others becoming less so. Astute real estate investors will capitalize on the changes before the impact on land use becomes manifest.

The Los Angeles conurbation is undergoing two fundamental changes to its transportation infrastructure: (1) the Los Angeles City Council–approved Mobility Plan 2035 that would redesign the Los Angeles roadway transportation infrastructure over the next 20 years (2) and the Los Angeles County Metropolitan Transportation Authority Metro Rail system expansion. These changes will

alter access patterns across the metroplex and spawn new commercial real estate opportunities.

Los Angeles has been described as “72 suburbs in search of a city.” This decentralized metropolis may become even more diffused in the wake of Mobility Plan 2035. The resulting reduced roadway capacity and new mass-transit opportunities will likely recalibrate the metroplex in a way that benefits certain self-contained pods and areas with improved mass-transit accessibility.

The average population density throughout urban Los Angeles is the highest in the United States, although the core is much less dense than other large metro areas such as New York City or Boston. “Despite its international reputation for endless urban sprawl, the densest major city is Los Angeles. Los Angeles covers one-half the land area

of New York, with two-thirds the population (12.2 million). With an area of 1,736 square miles, Los Angeles has an urban density of 6,999 per square mile. The urban core of Los Angeles is much less dense than New York, but the suburbs (where most people live) are twice as dense,” notes urban planner Wendell Cox, principal of Demographia, on *The Huffington Post* (“America’s Densest Cities,” Nov. 26, 2014).

One consequence of this mix of diffusion and density is some of the worst traffic congestion in the United States, according to a study released in November 2015 by the American Highway Users Alliance. Successful solutions to Los Angeles traffic congestion have been caught between the Scylla of an overburdened roadway system and the Charybdis of inadequate mass transit. But most



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important is the diffused nature of the Los Angeles metroplex, which fosters the sclerotic nature of metro area traffic circulation.

Los Angeles has a series of medium-size business nodes spread across the metropolitan area, but only 2.4 percent of area jobs are in Downtown Los Angeles, or DTLA, notes Demographia’s Cox. This lags behind metro areas such as New York City, where the CBD represents 22.2 percent of area employment; San Francisco, at 14.4 percent; and Washington, D.C., at 13.1 percent. Los Angeles even lags behind the car-centric Sunbelt metropolises of Atlanta, at 7.1 percent; Nashville, at 6.5 percent; and Houston, at 6.4 percent, according to figures from Cox at Demographia.

Further fragmentation is now being encouraged. In September 2015, Los Angeles Mayor Eric Garcetti was quoted in *The New York Times*: “The old model of a car-centric, different-neighborhood-for-every-task city is in many ways slipping through our fingers whether we like it or

not. We have to have neighborhoods that are more self-contained.” Areas that may benefit from this further division include DTLA, as well as various pods that are close to mass transit or have a critical mass of office space within a 40-minute drive of diverse and considerable housing options.

Mobility Plan 2035

On Aug. 11, 2015, the Los Angeles City Council approved Mobility Plan 2035 by a vote of 12 to 2. This is a well-intentioned, far-reaching transportation plan that would redesign the Los Angeles transportation infrastructure over the next 20 years. (Mobility Plan 2035 is being challenged in court, but even if it is partially implemented, there will be a significant impact.) Mobility Plan 2035 outlines a development initiative for 117 miles of new bus-only lanes and another 120 miles of streets where bus-only lanes would operate during rush hour. It also identifies an additional 300 miles of protected bike lanes, which are separated from traffic by curbs or other physical barriers, as noted by David Zahniser in the *Los Angeles Times* (“L.A. maps out sweeping transportation overhaul,” Aug. 9, 2015). The plan also includes discussion of the rail system. Currently, Los Angeles County has 87 miles of subway and light rail, with five projects under way that will add 32 miles.

Mobility Plan 2035 incorporates “Complete Streets” principles and “Road Diets.” Smart Growth America defines Complete Streets as roadways designed and operated to enable safe access for all users, including pedestrians, bicyclists, motorists, and public transportation users of all ages and abilities. The aim is to redirect certain street usage away from speeding cars or creeping traffic jams to include pedestrian, bicycle, bus, rail, and slow-moving vehicles. A Road Diet is generally described as “removing travel lanes from a roadway and utilizing the space for other uses and travel modes,” according to the Institute of Transportation Engineers’ *Road Diet Handbook: Setting Trends for Livable Streets*, written by Jennifer Rosales. The reduction of lanes allows the roadway cross-section to be reallocated for other uses, such as bike lanes, pedestrian refuge islands, transit uses and/or parking, noted Rosales.

The plan will affect major thoroughfares, including Sunset Boulevard, Hollywood Boulevard, Van Nuys Boulevard, Sherman Way, Venice Boulevard, La Brea Avenue and Martin Luther King Jr. Boulevard. Some corridors, including Sunset Boulevard, would get both bus-only lanes and protected bike lanes under the plan, while Franklin Avenue, among others, is being slated for greater bicycle and pedestrian movement. Collectively, the measures favor buses, bicycles and pedestrians over cars.

A catalyst to accelerate and perpetuate fragmentation

Mobility Plan 2035 is admirable and — if executed — will increase quality of life, lower pollution, increase pedestrian and cyclist safety, and produce a healthier lifestyle for Los Angeles residents. It will encourage more self-contained areas, and in the long term, it is hoped it will result in fewer car trips and less traffic congestion. In the short to medium term, however, it will increase traffic congestion and make it more difficult to navigate the metroplex. The increase in congestion may lead more people to limit their car commute range and to use mass transit. It will encourage more walking and biking for shorter trips and less car-centric, more self-contained neighborhoods.

The increased traffic congestion — even if the plan is partially implemented — will be a catalyst for further fragmentation of the MSA, as it becomes even more difficult to navigate between various metro area quadrants by automobile.

Indeed, the mobility report itself and the associated environmental study both reference increased traffic congestion. According to the *Los Angeles Times'* Zahniser, the mobility report found that during the evening rush hour, the number of major streets operating with the highest levels of rated congestion (an E or F level) would double. (Level of Service, a measure of traffic congestion, examines the number of vehicles that move through an intersection during a particular period.) Officials concluded the percentage of major street segments with E and F grades during the evening rush hour would grow from 18 percent to about 22 percent in 2035, without the proposed mobility plan. With the plan, the percentage of streets with the lowest grades would climb to nearly 36 percent.

Juan Matute, associate director of UCLA's Institute of Transportation Studies, maintained that regardless of the tool used to assess the city's plan, some drivers will face added delays. "There are going to be people who are going to be worse off as a result of implementation" of the plan, Matute told the *Los Angeles Times*. "And those are going to be the people that continue driving the same or greater distances as they do now."

The removal of car lanes from several major boulevards will significantly increase traffic congestion according to the city's own environmental analysis. The more painful it is to drive, however, the more likely Angelinos will limit car usage. "The unstated secret of most bike or alternative commuting plans is that it has to get more expensive to use the car, Lisa Schweitzer, associate professor and Bedrosian Center facility affiliate, acknowledged to *The New York Times* last September. Mayor Garcetti conceded as much, stating the "changes may make traffic 15 percent worse instead of just 5 percent worse each year."

Expansion of rail transit

The other major infrastructure change is Los Angeles County's expanding rail transit system. The Los Angeles County Metropolitan Transportation Authority has embarked on one of the most aggressive mass-transit infrastructure projects in the United States. The system currently has 80 stations and 87 miles of rail. By 2024, it is expected the Metro Rail system will expand to 110 stations and more than 119 miles of rail to destinations across L.A. County. The new and expanded transit system will strengthen existing self-contained nodes and expand to include others. It also will knit together certain disparate areas of the metroplex.

Areas currently linked to the mass-transit system — including DTLA, Hollywood, Koreatown, Pasadena and Culver City — are advantaged and will benefit more as Mobility Plan 2035 advances. At the end of 2015, Metro Rail had several rail-line projects under construction:

1. Second Phase of the Expo Line: The extension of the Exposition Transit Corridor along the Metro Expo Line west to Santa Monica from Culver City is expected to be completed in 2016. The 6.6-mile second phase will connect Santa Monica by rail to DTLA and points in between.

2. Purple Line Subway Extension: The Metro Purple Line Subway Extension will connect West Los Angeles to the region's growing rail network. From the current terminus at Wilshire/Western, the Purple Line Extension will extend westward for about nine miles with seven new stations. It will provide access to and from Miracle Mile, Beverly Hills, Century City and Westwood. The Purple Line subway extension down Wilshire Boulevard will add stations at La Brea, Fairfax and La Cienega initially and will eventually reach West Los Angeles. The Phase 2 three-station, 3.9-mile section under way now is expected to be finished in late 2023. Phase 3 is expected to be completed in 2036.

3. Downtown Regional Connector: The new Metro Regional Connector Project is expected to add multiple subway stops to downtown Los Angeles and allow for easy transfer between metro lines. The project extends from the Metro Gold Line Little Tokyo/Arts District Station to the 7th Street/Metro Center Station in downtown Los Angeles, allowing passengers to transfer to Blue, Expo, Red and Purple Lines, bypassing Union Station. The 1.9-mile alignment will serve Little Tokyo, the Arts District, Civic Center, The Historic Core, Broadway, Grand Avenue, Bunker Hill, Flower Street and the Financial District. This project is expected to be completed in 2020.

4. Crenshaw/LAX Connection: The Crenshaw/LAX Connection is an 8.5-mile light rail line connecting Los Angeles International Airport with the city's subway system. Completion is expected by 2019.

5. Gold Line Foothill Extension: The Metro Gold Line Foothill Extension is extending the existing Gold Line east from Pasadena. This will increase suburban service into the San Gabriel Valley and opened in March 2016.

Small share of commuters currently use mass transit

The most recent American Community Survey revealed that 83 percent of Los Angeles County residents commute to work by car, 7 percent by public transportation, 3 percent by foot, 1 percent by bike, 1 percent by taxi/other, and 5 percent work from home. Los Angeles City did better with transit commuters accounting for 11 percent of residents in 2014, representing a 16 percent

increase since 2005, according to the U.S. Census. Metro Transit's 11 percent share is low compared with other major cities such as New York City (57 percent); Washington, D.C. (36 percent); San Francisco (34 percent); and Boston (34 percent).

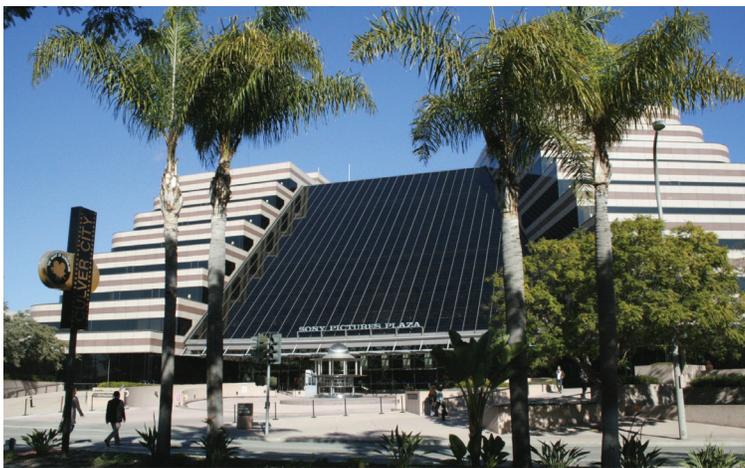
There is also an economic divide. Mass transit in Los Angeles is used by lower-income individuals who earn 54.7 percent of the metro median household income in contrast to New York (96.1 percent), Boston (85.0 percent), Washington (88.9 percent), Seattle (87.7 percent), and San Francisco (88.1 percent), according to an article by Mike Maciag for *Governing* magazine's website ("Public Transportation's Demographic Divide," Feb. 25, 2014). Although upper-income participation lags in Los Angeles compared with the aforementioned cities, it is similar to San Diego (49.3 percent), Phoenix (55.2 percent) and other Sun Belt cities.

It is expected that the expanded rail system combined with the increased traffic spawned by Mobility Plan 2035 will generate increased non-automobile commuting, in particular among the more affluent. The affluent have an outsize impact on where high-value residential, retail and office spaces are located, and both an increased use of mass transit by the wealthy and the decision to limit car trip length can change property demand, rent and value patterns. Areas currently attached to the rail mass-transit system will benefit. There is much upside because even a small percentage increase in rail commuting at the expense of the automobile will have a significant impact in the greater Los Angeles metro area.

Areas close to mass transit should benefit

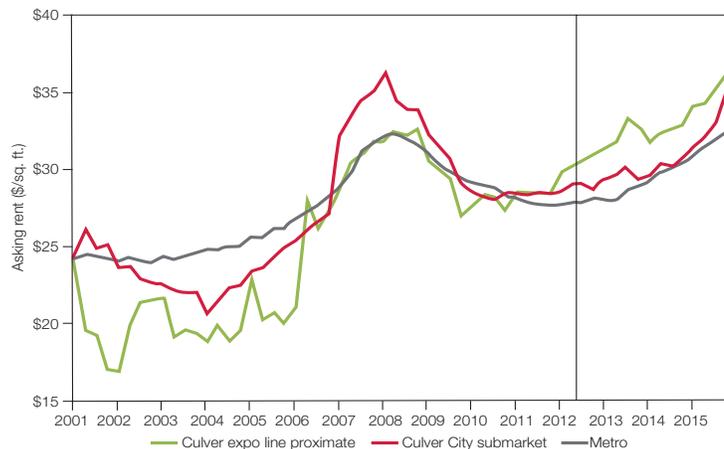
Expanded rail transit is likely to have an impact on various types of income-producing properties. In the past year (from March 2015 to March 2016), there have been significant increases in one-bedroom apartment rental rates within a half-mile of several new expo line rail stations scheduled to be opened this year. According to a recent RadPad study, the most considerable are a 46 percent annual increase in rental prices near the almost complete Westwood/Rancho Park station, a 43 percent increase in median rental prices around the planned 26th Street station on Olympic Boulevard in mid-city Santa Monica, and a 39 percent increase in rental prices around the Bundy station in West Los Angeles. This compares with a 6.6 percent 2015 calendar-year apartment rent increase experienced in the Los Angeles metro, reported by CoStar Portfolio Strategy.

Office rents can be affected as well, as shown in two case studies. The chart to the left, "Effect of Culver Expo Line on office rents," exhibits the office rental rates for the Los Angeles metro, for the Culver City submarket, and for office buildings located



Culver City, Calif.

Effect of Culver Expo Line on office rents



As of Q4 2015

Source: CoStar Portfolio Strategy

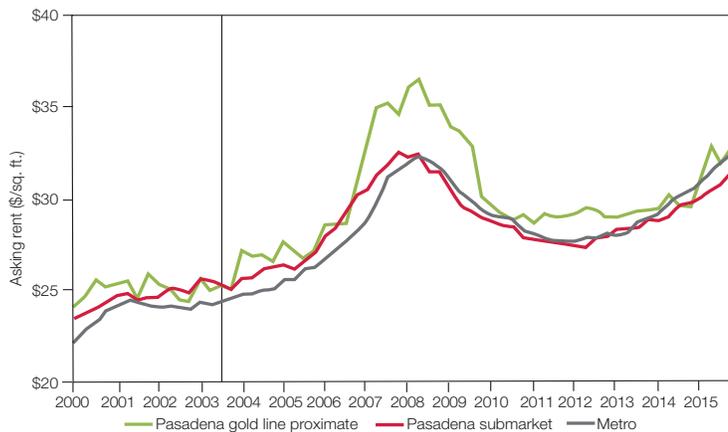
within a half mile of one of the four new Culver City rail stations that opened in 2012 as part of the initial phase of the Expo Line.

Between 2001 and 2006, future Expo Line-proximate office properties leased at a discount to both the submarket and the metro. Five years prior to the line opening, however, rents began to rise swiftly and drew parallel with the metro. One year prior to the opening, the station-proximate office buildings began to lease at a premium to the metro



Del Mar Gold Line station in Pasadena, Calif.

Effect of Pasadena Gold Line on office rents



As of Q4 2015

Source: CoStar Portfolio Strategy

and submarket, and the gap widened when Expo Line service started in 2012. Over the past two years, rental growth in the greater Culver City market has accelerated at an increased pace, reflecting the desirability of the area to tech tenants and the positive impact that the new transportation linkages have had on the entire submarket.

The chart above, “Effect of Pasadena Gold Line on office rents,” details the office rental rates for the Los Angeles metro, for the Pasadena submarket, and

for office buildings located within a half mile of one of the Pasadena rail stations that opened in 2003 as part of the initial phase of the Gold Line.

After the completion of the two newest rail lines, rents increased in Culver City and Pasadena. The marginal benefit of an office building being proximate to a rail station was more pronounced in Culver City than it was in Pasadena. Nevertheless, the two case studies may imply a range of expectations for selected future mass-transit expansion for the second phase of the Expo Line and the Purple Line. Further fragmentation should amplify the benefits of certain rail-proximate office markets.

Impact on high tech

The expansion of the mass transit system should have a particularly positive effect on existing high-tech corridors, reports Neal Ungerleider in *Fast Company* (“Why A Subway-Building Binge Could Transform L.A.’s Tech Culture,” Oct. 31, 2014). Los Angeles’ high-tech companies are scattered over a wide metropolitan area with multiple hubs. Tech, creative and media centers such as DTLA, Culver City, El Segundo and Pasadena already benefit from such service. The rail expansion will knit tech, creative and media centers, such as Santa Monica’s “Silicon Beach,” Westwood, mid-Wilshire and Century City, to the metro. These markets may see values increase as they integrate with each other and the rest of Los Angeles through the expanding mass-transit system.

Favored sections

Mobility Plan 2035 will result in further fragmentation, which will favor sections of the metro area that are self-sufficient and/or near mass transit. I believe self-contained areas with a critical mass of employment opportunities, diverse housing, schools and retail facilities that are commute-proximate will most likely benefit. As Mayor Garcetti indicated, the new plan will encourage such self-contained areas.

Clearly, DTLA fits this characterization. Other areas that may benefit include Koreatown, mid-Wilshire, Hollywood, Playa Vista, Venice Beach and Century City. Tech hubs such as Culver City, El Segundo and Santa Monica will benefit from fragmentation and new transit access. Suburban nodes such as Irvine, Pasadena, Burbank and Glendale have the characteristics of self-contained districts with a critical mass of employment and housing within proximate commuting distance. ❖

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