



BAYSIDE

## BEAT

DOWNTOWN SANTA MONICA &  
THIRD STREET PROMENADE

## Bracing for Hard Times

**Across the nation**, homeowners are losing their homes in a tanking real estate market, and consumers are accruing record debt.

In California, the state faces a \$14 billion budget shortfall, while in Hollywood the writers' strike could drag well into the spring.

The economists all seem to agree that 2008 could be a sluggish – if not downright poor – year for national, state and regional economies.

According to Christopher Thornberg, a partner of Beacon Economics, a consulting firm specializing in the state and regional economies, "2008 looks pretty grim; consumers will cut back.

"We as consumers have been way overspending for a number of years," Thornberg said. "The adjustment is good. The transition is painful."

"We are in a recession watch for the nation, Southern California and the LA economy," said Jack Kyser, chief economist of the Los Angeles County Economic Development Corporation. "The economy is in a rather fragile state."

Although the writers' strike may be only a blip in the larger economic picture, if it lingers as it did two decades ago when television productions shut down for five months, the walkout could hit the Westside, including Santa Monica, hard, Kyser said.

"The ripple impact could be significant," he said. "People would be losing their homes, not buying cars, not going out to eat. It could mean a lot of people really struggling."

But the economic picture isn't all gloom and doom, Kyser and other economists agree.

They note that while the LA region's economy has slowed, it still is projected to grow by 1.8 percent in 2008,



HOLIDAY SHOPPERS FLOCK TO THE GAP IN SANTA MONICA.

although that represents a drop from an average growth of about 2.5 percent in recent years.

"Personal income is growing, but at a slower rate," said Jerry Nickelsburg, an economist for the UCLA Anderson Forecast. "Construction is declining, and auto sales are flat. 2008 is not going to be a growth year."

Although the economy has been hit by a slew of foreclosures in the "problematic" real estate sector, higher oil prices and a "troublesome" rate of consumer debt, a recession is not on the horizon, according to a report released last month by the Anderson Forecast.

"Weakness in the vast real estate sector will be the central component of a sluggish economy," the report stated, "but there will not be enough job loss to trigger a statewide recession."

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# Tourism Market Remains Strong



**Santa Monica's** tourism industry, already operating at a high level, can expect another solid year in 2008.

Hotel occupancy likely will be flat, but room rates will continue their march upward because of a tight market.

"We forecast another year of moderate growth in Santa Monica for 2008," said PKF Consulting in its annual hotel forecast presented by Bruce Baltin, senior vice president.

PKF expects no increase in occupied rooms, but predicted a 7 percent increase in average room rate.

Indeed, the hotel occupancy rate is predicted to dip to 81.2 percent in 2008 from an estimated 82.2 percent in 2007 and 81.4 percent in 2006.

The occupancy rate numbers are affected by hotel renovations that temporarily took some rooms off the market. That meant fewer rooms available in 2007 than in 2006 and expected in 2008.

Still, the Santa Monica tourism market remains solid.

"Tourism is thriving and is stronger than ever in Santa Monica," said Misti Kerns, president/CEO of the Santa Monica Convention & Visitors Bureau. "It has really surpassed all expectations. The destination is booked with visitors nearly all year long, and occupancy and room rates are the strongest on record."

Santa Monica remains one of the strongest hotel markets in Los Angeles County, with an occupancy rate of 83.9 percent for the first 10 months of 2007, up 0.3 percent from a year earlier. The average room rate increased 9.9 percent to \$275.73, according to PKF.

Despite its strong position, the Santa Monica tourism industry faces challenges in 2008. They include economic uncertainty and difficulties in international travel to the United States.

Kerns expects hotel occupancy in Santa Monica to flatten out in 2008 and average room rates to rise about 5 percent.

Santa Monica isn't immune from national, and international developments, and one of the most worrisome is the failure of international travel to the United States to fully recover since 9/11.

"Despite the weak dollar making the U.S. a travel bargain, overseas visitation to the U.S. has yet to surpass the record level set in 2000," according to the Travel Industry Association (TIA).

Santa Monica will be operating in a tourism industry climate that is expected to see moderate growth in travel, according to the TIA.

The trade group's forecast sees travel spending by domestic and international visitors rising 5.2 percent in 2008, compared to an estimated 5.7 percent increase in 2007.

Domestic leisure trips will rise 2 percent in 2008, and international travel will increase 3.7 percent, while business travel will rise only 0.4 percent, per TIA estimates.

Fortunately, Santa Monica has done better than many visitor destinations in the post 9/11 period.

Compare the 82.2 percent occupancy rate and \$269.41 average room rate estimated for 2007 with the 74 percent occupancy and \$188.21 average room rate in 2002.

"Its waterfront location and vibrant atmosphere assisted in making this market one of the quickest to recover after 2001," said PKF. "The stability of the market can be attributed to the presence of a stable commercial segment combined with high-end group and leisure business."

Hotel renovations also have helped, PKF said.

"With the recent renovations of many local hotel properties, Santa Monica is attracting many of those who desire a luxury destination," Kerns said.

With Santa Monica already a strong market for individual travelers, hotels now are turning more attention to the meetings and incentive markets, Kerns said.

Meanwhile, Hotel Shangri-La on Ocean Avenue is about to complete a major renovation. The hotel probably will reopen in June or July, said Dino Nanni, general manager.

Another Ocean Avenue hotel Downtown is undergoing a big change. The Ocean View Hotel dropped its affiliation with Best Western at the end of September.

The change caused a slowdown in business, which the hotel expects to reverse as its new marketing kicks in, said Robert Farzam, general manager.

Meanwhile, the hotel is offering greatly discounted rates through the end of February.

Farzam said business had been strong in 2007 until the hotel dropped out of Best Western to save on commissions and fees. The pain was eased a bit by business from the American Film Market in November.

"I think we will be okay because of our location," Farzam said.

Indeed, location is a key reason for the success of Santa Monica's visitor industry. PKF noted that the city is a prime location relative to area amenities, most notably the ocean.

Meanwhile, the Santa Monica Convention & Visitors Bureau, which marked its 25th anniversary in 2007, is pursuing initiatives to keep the local tourism industry strong.

It held the second Beach Summit in September and has developed a service excellence course in cooperation with the City of Santa Monica, the Santa Monica Chamber of Commerce and Santa Monica College. 



# Seasoned, Fresh Faces Take on the Downtown

**A founder of** the Bayside District who helped shape Third Street through the years has taken the helm as the City's mayor, while a new face has filled a seat on the district's board as the Downtown enters what is likely a defining year in its history.

Mayor Herb Katz, who helped create the Bayside Board as a council member in the 1980s, then served on it for two terms from 1992 to 2000, was sworn in as Santa Monica's new mayor during an emotional ceremony in the Council Chambers December 4.

Katz's swearing in came nearly a quarter century after he first was elected to the City Council.

But the stage for Katz to finally assume the post was set last year, when the council voted to make Richard Bloom mayor and Katz mayor pro tempore, with the two men switching places after one year. The two will retain their new posts until December 2008.

"Not everyone gets elected to a city council and less people get to be mayor anywhere in the United States," Katz said. "This is quite an honor, and I will cherish it."

Katz shed some tears and needed a moment to collect himself when he spoke fondly of his wife, Brenda, family and friends – who banded together to form a boisterous, standing crowd inside the Council Chambers.

Long a champion of the Downtown, Katz plans to continue having a hand in the area he helped shape into a thriving tourist, retail and job center.

"Bayside is precious to me, obviously," Katz said. "One of the problems with any success is that after ten years you have to revise it. We need to revitalize it."

**"BAYSIDE IS  
PRECIOUS TO ME."**

HERB KATZ

Katz is stepping into the City's top post at a time when the Bayside is in the process of overhauling the way it is managed, restructuring the makeup of its board and expanding its assessment district to bring in much-needed revenues.

The new mayor would like to see more money pumped into keeping the Downtown streets clean and a plan developed to upgrade the area's aging theaters so they can compete with neighboring state-of-the-art venues. He also wants to see a better mix of stores.


"We're looking at more restaurants," Katz said. "We want as much mom and pop as possible."

Katz also wants to continue working on the homeless problem, although he acknowledges there are no easy solutions.

"You've got to stay on top of that," he said. "We have to get them into housing. Are we going to succeed overnight? No."

**ALSO IN DECEMBER, TODD FLORA**, a member of the steering committee for Santa Monicans for Renters' Rights (SMRR) and a longtime Santa Monica resident, was sworn in as a new member of the 11-member Bayside Board.

A community relations manager covering Southern California for IBM, Flora wants to add to the board "a perspective that considers workers, ways to market and attract Santa Monicans, Angelenos and tourists, to our downtown businesses and attractions in a way that makes these venues 'the first-thought' stop for these individuals," he said on his application.

As well, Flora would like to help "strengthen the viability of Santa Monica's core downtown business development and balance its growth with community needs and interests." 



TODD FLORA

# Downtown '07 in Review



ICE AT SANTA MONICA DELIVERED WINTER FUN FROM LATE NOVEMBER TO EARLY JANUARY.

The year 2007 was one of developing stories, not new beginnings. It was a year that saw major plans that will shape Downtown for years to come finally move towards reality.

In 2007, an ambitious plan to add parking spaces Downtown finally got underway after six years of planning. The proposed remodel of Santa Monica Place scaled its final hurdles after three years of debate, and a plan to change the way the Downtown is run got its initial nod after a year at the drawing table.

Issues that had been in the headlines for years continued to grab attention in 2007. The homeless continued to populate Downtown; City officials added teeth to a one-year-old smoking ordinance, and the Expo line continued its bumpy ride towards Santa Monica.

But 2007 also saw some new stories as well. Ficus trees became the focus of a battle that pitted the City against activists, and a skating rink with real ice turned Downtown into a real-life winter wonderland.

Here, in no particular order, are The Beat's choices for the top stories that impacted the Downtown in 2007.

## BAYSIDE TAKES STEPS TO CHANGE HOW DOWNTOWN IS RUN

In a move that could drastically change the way the Downtown is run for years to come, the City Council in April took steps to support an aggressive management plan for the thriving district.

Under the proposed plan, property owners in the heart of the city would agree to pay \$1.8 million more each year in taxes to enhance Downtown and keep it viable.

If approved by property owners and voted into law by the council, the plan would boost the number of businesses taxed to bankroll the improvements – which could include larger City clean-up crews, permanent attendants at the public restrooms, homeless outreach teams and “ambassadors” to help the public, especially at the bustling Third Street Promenade.

Nearly a year in the making, the plan will not only dissolve the current assessment district, which only taxes retailers, but it would form a much larger one that would include restaurants, hotels, offices and, perhaps, downtown residents.

If the law passes, it would mark the first major change in two decades in how the Bayside District manages Santa Monica's roaring economic engine.

## SKATING RINK HIGHLIGHTS HOLIDAY SEASON DOWNTOWN

Renowned skating star Sasha Cohen delighted a crowd with a glittering performance at the December 6 opening ceremony for *Ice at Santa Monica*, the City's first outdoor ice rink. The kickoff event also featured U.S. Men's Champion figure skater Evan Lysacek.

The rink was the brainchild of the Bayside District Corp. and was sponsored by Starbucks Coffee Company. The City of Santa Monica contributed the use of the real estate at 5th Street and Arizona Avenue for the rink.

*Ice at Santa Monica* was a central component of Downtown's *Winterlit* celebration, which featured a special appearance by Santa Claus, the Best Gift Ever program in partnership with Santa Monica Place to benefit kids from the Police Activities League, Christmas carolers, costumed characters, holiday stage performances and Chanukah celebrations, among other events.

Perhaps the real stars, however, were the 30,000 kids and adults who, throughout the holidays, filled the air with their whoops and giggles as they skated in a Santa Monica winter wonderland of ice.

CONTROVERSIAL FICUS TREES IN DOWNTOWN SANTA MONICA.

## FICUS TREE CONTROVERSY DELAYS STREETScape PROJECT

In what blossomed into an unexpected controversy, the fight over the Downtown ficus trees could come down, at least for now, to whether they once shaded environmental and political gatherings in the 1960s.

If the Landmarks Commission finds enough historical significance in the gatherings to save the ficus and palms along 2nd and 4th streets slated for removal, the saga would not end there. The City – which plans to remove the trees to pave the way for an \$8.2 million Pedestrian and Streetscape Improvement Project – plans to appeal the decision.



And even if the City Council were to uphold an appeal, the battle would then be taken up by the courts, where community activist Jerry Rubin and a group of environmentalists calling themselves the Treesavers plan to revive a lawsuit to halt the axe.



#### OUTDOOR DINING SMOKING BAN GETS MORE TEETH.

#### SMOKING BAN ENFORCED

As the year wound to a close, the City modified the smoking ordinance to hold restaurant owners liable if they facilitate patrons in smoking at their establishments.

Despite an expansive outdoor smoking ordinance instituted in November 2006 that bans smoking in outdoor dining areas and within 20 feet of entrances, exits and windows that can open, City officials worried that restaurant patrons were still lighting up.

To stamp out the problem, the City Council approved an amendment that holds restaurants and bars liable for patrons who smoke on outdoor dining areas and patios. Fines for violating the no-smoking-outdoors rule could range between \$250 and \$920. The former is a basic fine that other cities levy, and the latter includes fees added by courts.

The amendment would be enforced by giving undercover City inspectors the authority to issue tickets to business owners and managers. Police officers could be involved in some situations.

#### HOMELESS COUNT UP

The Downtown area continued to claim the highest concentration of homeless in Santa Monica, with nearly 100 more people counted on the streets and in shelters this year than in 2005.

About one third of the homeless counted (376) on a January night in Santa Monica lived on the streets or in shelters in the census tract bordered by Wilshire, Pico and Lincoln boulevards down to the water's edge, according to the 2007 Greater Los Angeles Homeless Count.

That represented an increase of 91 individuals from the 285 counted in the Downtown area – including the beach and in the bluffs – over the course of one night two years ago.

The census, conducted by the Los Angeles Homeless Services Authority (LAHSA), projected that another 152 homeless individuals lived around the Downtown, bringing the total



CIVIC CENTER PARKING STRUCTURE.

number to 528, based in part on telephone interviews with property owners.

Since the count was taken a year ago, the City has boosted its efforts to reach out to Downtown's homeless population, said City officials, who attributed the increase in part to better counting methods.

The increase in Downtown's homeless population defied a general decrease in the number of individuals who live in Santa Monica without a home – 1,506 this year, down from 1,991 in 2005, or a 25 percent drop.

#### BUMPY RIDE FOR EXPO LINE

Resembling more of a roller coaster ride than a train trip, plans to bring light rail to Santa Monica saw a series of dizzying ups and downs in 2007.

After the Expo light-rail received \$315 million in September from the California Transportation Commission to kick-start the stalled project, it faced a \$640 million shortfall some three months later. The shortfall – due to optimistic construction estimates – threatened to cut short the first leg of the Exposition line to Culver City, until MTA officials announced the plan would move ahead.

Transportation officials remain confident the rail line – which is expected to alleviate congestion on the traffic-snarled Westside – will receive the funding to eventually reach Santa Monica, where City officials have purchased the Sears building for a possible terminal Downtown.

#### CIVIC CENTER PARKING STRUCTURE PAVES WAY FOR DOWNTOWN PARKING PLAN

After six years of planning, concrete steps were taken last year to add 1,700 parking spaces Downtown over the next decade.

The kickoff for the ambitious \$180 million plan was the grand opening in March of the new \$29 million Civic Center parking structure. This created 882 parking spaces. These spaces were needed before work on replacing three small Downtown parking structures could begin.

Months earlier, the City purchased land on 5th Street Downtown, laying the groundwork for a new parking structure to accommodate the demand created when the surface lots at the Civic Center are taken offline to make way for park space.

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## MORE '07 IN REVIEW...

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Planning officials note that the plan, which was approved by the council five years ago, must strike a delicate balance – adding enough parking in the bustling area to maintain the current ratio of 2.1 spaces per 1,000 square feet of development, while not encouraging additional motorists.

The plan also could give new meaning to the term “drive-in,” after the City Council authorized the solicitation of proposals to redevelop the site of Parking Structure 3, located at 1318-20 Fourth Street, for subterranean parking, ground-floor retail and cinema development.

City officials hope the proposal will help the Downtown successfully compete with a slew of state-of-the-art theaters cropping up in surrounding communities.

### **DOWNTOWN LEASING REMAINS STRONG**

It became harder to find an office space Downtown last year, as vacancies remained low and rental rates saw a substantial hike.

The tight market was driven by a strong economy, little new office construction Downtown and the many amenities that make the area attractive for tenants who hope to lure talented young workers in the Internet and entertainment industries, local brokers said.

The market was so strong that some brokers worried rents had moved too high for some tenants to survive economically.

“It’s getting to that crazy point,” said Eric S. Broida of Broida Commercial Brokerage Group. “How will this sustain itself? I’m counseling my landlords not to be too greedy.”



RARE “FOR LEASE” SIGN DOWNTOWN.

## “I’M COUNSELING MY LANDLORDS NOT TO BE TOO GREEDY.”

ERIC S. BROIDA

AN OPEN AIR PALM COURT IS PLANNED FOR SANTA MONICA PLACE.



### **MACERICH SUBMITS MODEST PROPOSAL FOR MALL REMODEL**

After three years in the works, Macerich Company will shut down Santa Monica Place on January 31 to make way for a modest remodel that will open up the 30-year-old indoor mall and connect it to the Promenade.

The plan will remove large portions of the roof, create an open-air dining area on the third floor, demolish a portion of Parking Structure 7 and create a stronger pedestrian orientation.

The proposed project will retain the two anchor department store buildings – one of which has yet to be leased – and maintain the existing building height of 56 feet, while reducing leasable square footage by 10,234 square feet, according to the proposal.

Macerich has agreed to improve the streetscape on Colorado Avenue and the sidewalk paving on Second and Fourth Streets and upgrade the elevators and staircases in the two City-owned parking structures attached to the mall.

The proposal – which won final approvals from the California Coastal Commission and the Santa Monica Architectural Review Board late last year – is central to the vitality of Downtown, is well-integrated with the existing urban fabric and increases available open space and pedestrian walkways, City officials said. 🌊

For more about Downtown...  
**[thirdstreetpromenade.org](http://thirdstreetpromenade.org)**

For more news ... [surfsantamonica.com](http://surfsantamonica.com)

## MORE BRACING...

TONY AYOUB, OWNER OF THE JEWEL SHOP, SHOWS CÉSAR AND INÉS POZA A SELECTION OF WATCHES.



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Ironically, a recession would be staved off because “the manufacturing sector has never recovered the jobs it lost from the last recession and, as a result, doesn’t have enough jobs to lose,” UCLA economists said.

And although there will be jobs lost in the construction sector and real estate-related financial services, it will not be “nearly enough to trigger a recession,” said Edward Leamer, the forecast’s director.

If the weakening housing market were going to trigger a recession, it would already have done so, according to UCLA economists.

“Recessions have traditionally trailed a housing peak by no more than a year,” the forecast found. “At this point, the business cycle is trailing the housing cycle by seven quarters without a recession.”

Still, the Los Angeles area housing market – which saw sales prices dip by 8 percent over the past year – is expected to worsen, with economists predicting a 10 to 12 percent drop in 2008 and another 5 to 6 percent decrease the following year.

“If the median housing price drops, that means a lot of people who bought are going to be underwater,” said Thornberg, who was formerly with the UCLA Anderson Forecast. “A lot of people used the equity to live the high life. It’s not going to be a pretty picture.”

While Santa Monica has not been hit by the sub-prime housing debacle, sales taxes – which account for 58 percent of the City’s general fund revenues – have leveled off, City officials cautioned.

“The sales tax is starting to go flat on us and . . . auto industry (sales) are starting to decline too,” said City Manager Lamont Ewell. “Those are bellwethers for us.”

### “THE SALES TAX IS STARTING TO GO FLAT ON US.”

LAMONT EWELL

The City’s biggest concern is how Governor Arnold Schwarzenegger’s declaration of a fiscal emergency last month could impact the City’s bottom line, Ewell said.

“The fiscal emergency gives (California) the right to come in and borrow from local economies,” Ewell said. “Our economy is cooling, and to have someone come in and start robbing our coffers could have an impact.”

But not all City revenue sources seem to be threatened by a weakening economy, Ewell said. The Transient Occupancy Tax (TOT), or bed tax collected by hotels, actually could see a slight increase, thanks to Santa Monica’s thriving tourism industry and the weak dollar.

“Because we have such a diversified set of revenues, one seems to offset the others,” Ewell said. But, he added, “I’m advising the council to be cautious.”

Tourists will be lured to the LA area by a rich offering of attractions that include the opening of the Broad Museum of Contemporary Art and the Chinese Gardens at the Huntington Museum, the 5th anniversary of Disney Hall, the 50th anniversary of the Dodgers, even the new Simpsons ride at Universal Theme Park, Kyser said.

“This will draw a lot of media attention and draw a lot of people to Southern California,” Kyser said. “The tourism news is very good news for Santa Monica.”

In addition, a recent agreement between the U.S. and Chinese governments could soon bring more leisure travelers from the world’s largest country to the West Coast, Kyser said.

Santa Monica business leaders are confident the local economy – which has been powered by tourism, retail and the Internet and entertainment industries – will continue to thrive.

“We feel very encouraged about the economic outlook for Santa Monica in 2008,” said Laurel Rosen, president and CEO of the Chamber of Commerce. “With the City’s retail and tourism industries, we should be strong in comparison with the national and even other local economies.” 🏰



# BAYSIDE BEAT

1351 Third Street Promenade, Suite 201  
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2008

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*On behalf of the City of Santa Monica, to promote economic stability, growth and community life within the Bayside District through responsible planning, development, management, and coordination of programs, projects and services designed to benefit the community as a whole; which includes the District's businesses, property owners, visitors and residents.*

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Sasha Cohen, Olympic Silver Medalist and 2006 National Figure Skating Champion, kicked off *Ice at Santa Monica*. Open during the holiday season, the area's first outdoor skating rink attracted some 30,000 skaters and thousands of spectators.