

City of West Hollywood

Technical Background Report

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prepared for:
City of West Hollywood



STRATEGICECONOMICS

TABLE OF CONTENTS

I.	EXECUTIVE SUMMARY	3
	Key Issues.....	3
	Fiscal Findings	3
	Retail Findings	3
II.	INTRODUCTION.....	6
	Setting the Context.....	6
	Key Issues.....	6
	Contents of the Report.....	6
III.	FISCAL ANALYSIS	9
	City of West Hollywood Fiscal Overview.....	9
	Transient Occupancy Tax and the Importance of Tourism.....	12
	Fiscal Analysis Summary	19
IV.	CITYWIDE RETAIL ANALYSIS	20
	Setting the Context.....	20
	Retail Leakage and Surplus.....	21
	Citywide Retail Analysis Summary	22
V.	ISSUE AREAS.....	23
	Nightlife	23
	Arts, home furnishings and design.....	30
	Neighborhood-Serving Businesses.....	37
	LGBT-Identified Businesses	47
	Russian-Oriented Businesses.....	52
	Social Services.....	55
	Issue Areas Summary.....	56
VI.	REPORT SUMMARY AND NEXT STEPS.....	57
	Summary of Findings	57
	Next Steps.....	58
VII.	APPENDIX.....	59

I. EXECUTIVE SUMMARY

The City of West Hollywood is currently updating its General Plan to address the changing needs, challenges and opportunities facing the community. In order to establish a future direction, it is important to examine the City's current economic and development environment. The purpose of this report is to determine the baseline fiscal and retail conditions, with a focus on specific areas identified by the City. The information contained in this report will contribute to the formation of land use alternatives and implementation strategies in the General Plan.

KEY ISSUES

The City of West Hollywood and Strategic Economics worked together to identify the following economic concerns related to the General Plan update:

- Maintaining fiscal diversity and sustainability
- Measuring the effect of retail gentrification on small businesses; moderately priced, neighborhood-serving businesses; businesses serving the Lesbian, Gay, Bisexual and Transgender/Transsexual (LGBT) and Russian communities; and the arts, home furnishings and design industry
- Preserving West Hollywood's cultural identity, particularly as it relates to the LGBT and Russian communities
- Staying competitive with emerging entertainment and luxury shopping areas

FISCAL FINDINGS

West Hollywood has an atypical mix of revenues and costs.

West Hollywood spends much more of its general fund on social services and city management than the average California city, and receives much more of its revenues from transient occupancy taxes.

Tourism is a major source of revenue in West Hollywood.

West Hollywood attracts visitors from around the region, the nation and abroad. In 2006, tourists contributed to the City's large retail surplus, with \$812.1 million in direct and indirect spending. Meanwhile, the transient occupancy tax accounts for 20 percent of general fund revenues, and about one-fifth of sales tax revenue is generated by tourism.

Fiscal contributions vary greatly by sub-area and retail category.

The Sunset Strip, followed by Santa Monica East, generates the highest proportion of West Hollywood's total tax revenue. The majority of sales tax revenues are received from the comparison goods, nightlife, and arts, home furnishings and design categories.

RETAIL FINDINGS

On the whole, West Hollywood retail is performing well.

Despite a dip after September 11, retail sales in West Hollywood have increased significantly from 1997 to 2006. The City also has a large retail surplus, supplying the surrounding region with convenience goods, food and drink establishments, and arts, home furnishings and design goods. With the opening of the West Hollywood Gateway center, sales of comparison goods in the City increased dramatically.

Nightlife in West Hollywood is evolving, but still performing well.

Despite a concern that West Hollywood is losing its nightlife, the number of establishments in the City has remained steady since 1997. The location of nightlife venues, however, is changing. The number of bars, clubs and restaurants on the Sunset Strip and in the Robertson/Melrose/Beverly area has declined, while Santa Monica West and Santa Monica Central have gained nightlife establishments. Sales per establishment are growing, and brokers report that West Hollywood's nightlife is evolving to serve a more mature, affluent and mixed demographic.

Arts, home furnishings and design businesses are complemented by the influx of luxury retail.

The Robertson/Melrose/Beverly sub-area, which traditionally has been home to West Hollywood's arts, home furnishings and design industry, has recently transformed to include luxury retail, fine dining and art galleries. Rather than being chased out by rising rents, however, the arts, home furnishings and design industry appears to be boosted by the increase in exposure and foot traffic. The number of arts, home furnishings and design businesses in West Hollywood has risen across the board in recent years, and sales performance has also improved, most dramatically in the Robertson/Melrose/Beverly sub-area.

West Hollywood is well served by grocery stores at a variety of price points.

The majority of West Hollywood's population lives within a 10-minute walk, or a five-minute drive, of a major grocery store. West Hollywood is home to both upscale and moderately priced grocery stores. However, not everyone has access to a moderately priced store. Residents of some parts of the Santa Monica Central sub-area, for example, cannot walk to a moderately priced grocery store, although they are a short distance away by car or public transportation.

Although West Hollywood is losing small neighborhood-serving retail stores, those that remain are performing better than ever.

The number of small neighborhood-serving stores in West Hollywood is shrinking, while large grocery stores are still on the rise. The small stores that remain, however, are stronger than ever, with a 20 percent increase in sales per establishment in some cases. Large grocery stores, meanwhile, face increased competition and lower sales. Stores with annual sales over \$10 million have seen a 15 percent decrease in sales per establishment since 1997.

Despite the strong performance of neighborhood-serving retail businesses, West Hollywood is losing neighborhood-serving services.

The number of neighborhood-serving services in West Hollywood fell 14 percent from 1997 to 2006. Declining sales of tangential retail goods suggest that a decline in overall revenues may play a role in the loss of service businesses.

LGBT-identified nightlife performs significantly better than all West Hollywood nightlife businesses.

LGBT-identified nightlife has 35 percent higher sales per establishment than the average West Hollywood nightlife venue. Although broker interviews suggest that West Hollywood's LGBT identity is changing, the strong sales performance indicates that the identity is still in demand.

Most Russian-oriented businesses are small, neighborhood-serving stores.

Concentrated in the Santa Monica East sub-area, the majority of Russian-oriented businesses are small, neighborhood-serving stores. Although they have lower sales per establishment, on average, than comparable stores, they serve a cultural niche that larger, more generic grocery stores cannot.

Most City-funded social services are located outside of the City.

Although West Hollywood spends 12 percent of its general fund on social services, almost two-thirds of that funding goes to programs located outside of the City. Out of 28 funded organizations, only eight operate within West Hollywood. Due to the fact that West Hollywood is a small city in terms of land area, and fairly high rents, only a limited number of social service institutions are able to located inside city limits. Therefore funding is given to social service organizations that serve the local population in nearby cities.

II. INTRODUCTION

SETTING THE CONTEXT

West Hollywood has a long history of progressive governance and city-funded social services. Since its incorporation in 1984, the City has evolved into a vibrant cultural and civic center. Today it is one of the most desirable locations in Los Angeles, all while providing more social services to its residents than most cities across the nation.

West Hollywood adopted its first general plan in 1988, which guided the City through 20 years of change and revitalization. As West Hollywood has evolved over the years, the General Plan must also change to reflect the current needs of its residents. To that end, the City is updating its General Plan to address the challenges and opportunities currently facing the community.

Before establishing a future direction, it is important to examine the City's current economic and development environment. The purpose of this report is to determine the baseline fiscal and retail conditions, with a focus on specific areas identified by the City. The information contained in this report will contribute to the formation of land use alternatives and implementation strategies in the General Plan.

KEY ISSUES

West Hollywood's commitment to maintaining its retail diversity, civic viability and cultural identity, coupled with its unprecedented commercial success over the last decade, has raised specific economic concerns related to the General Plan update. The City of West Hollywood and Strategic Economics worked together to identify the following key issues:

- Maintaining fiscal diversity and sustainability
- Measuring the effect of retail gentrification on small businesses; moderately priced, neighborhood-serving businesses; businesses serving the Lesbian, Gay, Bisexual and Transgender/Transsexual (LGBT) and Russian communities; and the arts, home furnishings and design industry
- Preserving West Hollywood's cultural identity, particularly as it relates to the LGBT and Russian communities
- Staying competitive with emerging entertainment and luxury shopping areas

CONTENTS OF THE REPORT

Fiscal Analysis

To establish the baseline fiscal conditions in the City of West Hollywood, Strategic Economics first analyzed General Fund expenditures and revenues over a nine-year period. Sales tax contributions were also broken down by sub-area and retail category and examined over time. Determining contributions of different taxes, industries and sub-areas will aid in the development of a diverse and sustainable fiscal strategy. This section also measures the impact of tourism on the City's fiscal stability.

Citywide Retail Analysis and Breakdown by Key Categories

This section begins with a citywide overview of retail sales, followed by an in-depth analysis of the issues identified above. In order to most effectively gather and analyze data on these issues, Strategic Economics decided to categorize businesses into the different issue areas (nightlife, arts, home furnishings and design, neighborhood-serving, LGBT community, Russian community), and analyze each category individually. Because most of these groups are loosely associated with a different neighborhood within West Hollywood, the City was also broken into sub-areas. Establishing these business groups and sub-areas enabled us to study each group through the lens of its most relevant issues.

Creation of Sub-Areas

Given in the unique economic and cultural character of different West Hollywood neighborhoods, Strategic Economics divided the City up into five distinct sub-areas (Map A). The sub-area analysis incorporates all businesses in each area, including home-based businesses and those located off of the major retail corridors.

Santa Monica Boulevard East

Santa Monica Boulevard East contains the easternmost portion of West Hollywood, extending from La Brea Avenue to (but not including) Fairfax Avenue. Its main commercial strips are La Brea Avenue and Santa Monica Boulevard. This sub-area also contains the largest concentration of Russian-oriented retailers and social services.

Santa Monica Boulevard Central

The Santa Monica Boulevard Central sub-area extends along Santa Monica Boulevard from Fairfax over to (but not including) La Cienega Boulevard. Its main commercial corridors are Santa Monica Boulevard and Fairfax Avenue. This sub-area contains a mix of the LGBT and Russian communities in West Hollywood, and is home to businesses either owned by or serving both communities.

Santa Monica Boulevard West

The Santa Monica Boulevard West sub-area extends from La Cienega Boulevard to the western edge of West Hollywood. This area is the heart of the Los Angeles LGBT community, and has a high concentration of LGBT-focused retail and nightlife.

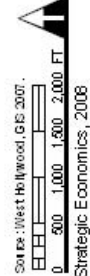
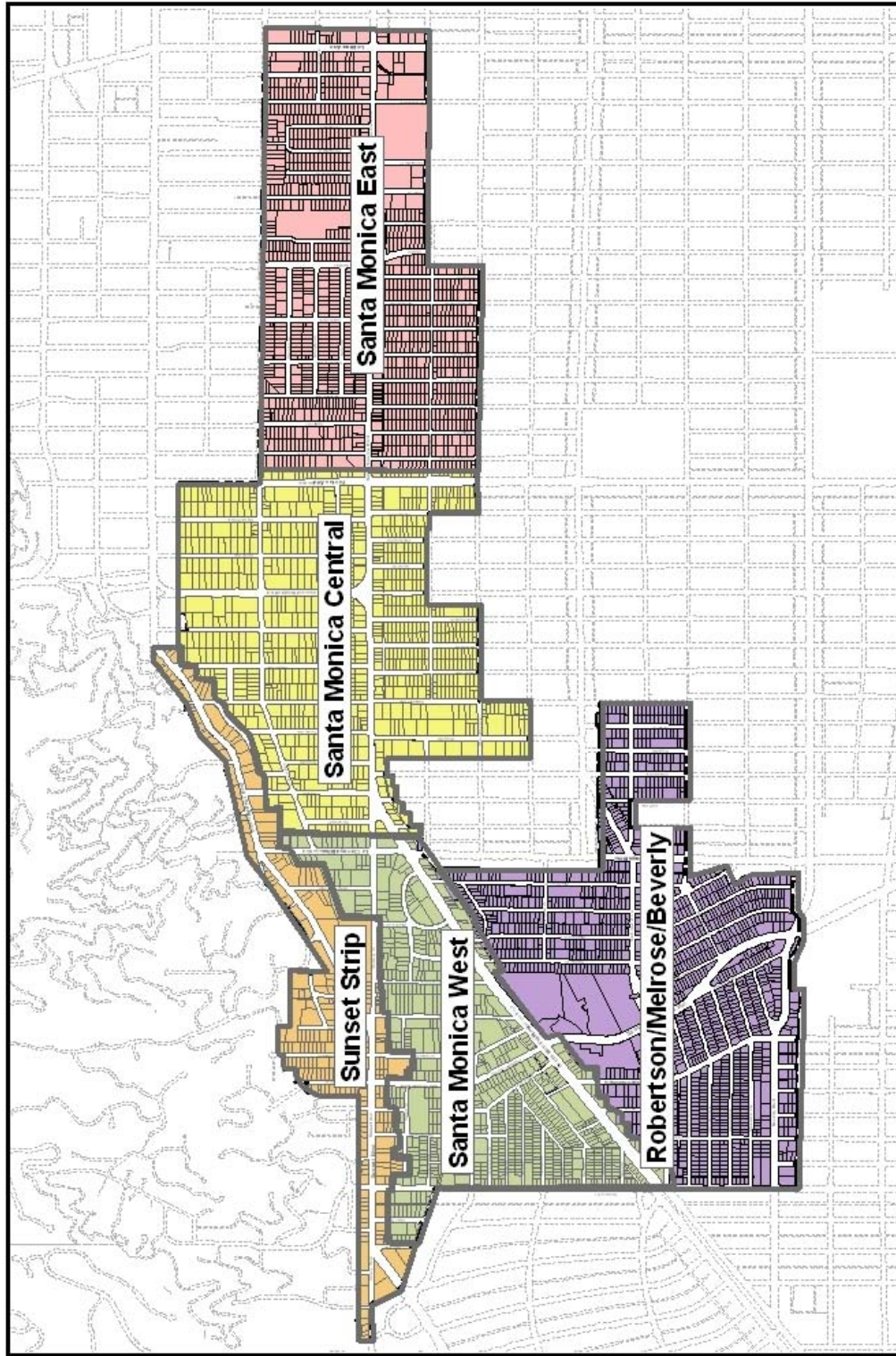
Sunset Strip

The Sunset Strip sub-area contains the entirety of Sunset Boulevard in West Hollywood. The Sunset Strip is service and entertainment oriented, populated by restaurants, nightclubs, hotels and gyms.

Robertson Boulevard/Melrose Avenue/Beverly Boulevard

This sub-area is the southernmost portion of West Hollywood, and contains the Robertson Boulevard, San Vicente Boulevard, Beverly Boulevard and Melrose Avenue commercial corridors, as well as the Pacific Design Center. This sub-area is the focus of the arts, home furnishings and design industry, as well as an increasing amount of luxury shopping and gourmet dining.

Map A: City of West Hollywood Sub-Areas



Source: West Hollywood GIS 2007.
Strategic Economics, 2008

West Hollywood Sub-Areas

West Hollywood
Los Angeles County, CA

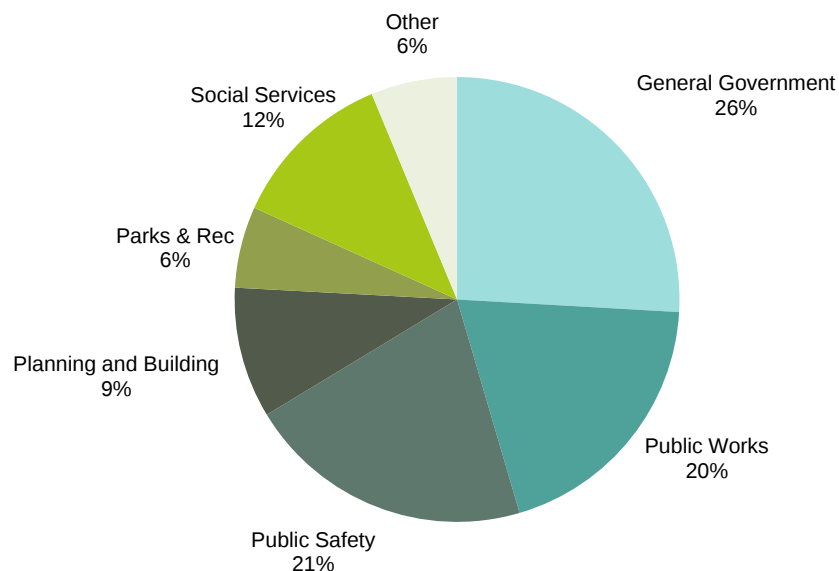
III. FISCAL ANALYSIS

The purpose of this section is to examine West Hollywood's fiscal revenues and expenditure, and determine the role of various industries, retail categories and sub-areas in the City's fiscal health.

CITY OF WEST HOLLYWOOD FISCAL OVERVIEW

City expenditures are generally divided into two categories: one-time capital costs such as infrastructure improvements, and ongoing operations and maintenance costs that occur year to year. Cities maintain many different funds and accounts to pay for different costs. The biggest of these is the General Fund, an unrestricted fund that can be spent on a variety of costs. West Hollywood uses its general fund to pay for City services such as general government, social services, public works, public safety (police services), planning and parks and recreation. West Hollywood's General Fund expenditures for fiscal year 2006 - 2007 are depicted in Figure 1.

Figure 1: West Hollywood General Fund Expenditures, FY 06-07

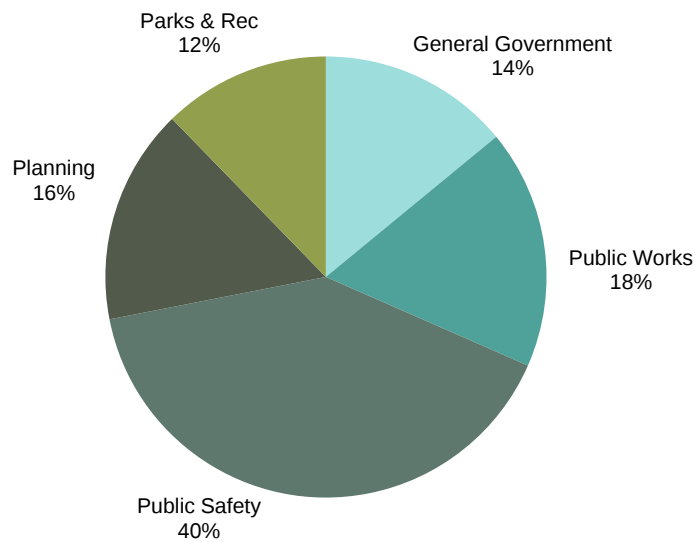


Source: City of West Hollywood, Comprehensive Annual Financial Report, Fiscal Year Ending June 30, 2007; Strategic Economics 2008

West Hollywood spends a much higher proportion of its general fund on social services and general government than the average California city (Figure 2), which does not include social services in its General Fund expenditures in any significant way. The largest components of the general government expenditure category include finance administration, human resources, information technology and public information services, among others¹. In order to better compare West Hollywood expenditures to those of the typical city, a new West Hollywood expenditure pie was created without social services (Figure 3).

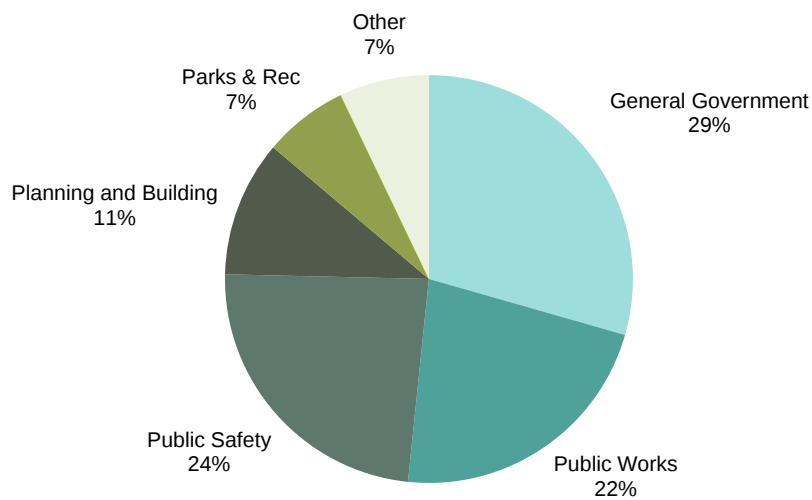
¹ The full list of general government subcategories, listed from largest to smallest share of actual spending, is as follows: finance administration, information technology, public information and prosecution services, human resources, legal services, city clerk, administrative services, city council, economic development department, city

Figure 2: Average California City General Fund Expenditures



Source: California Local Government Finance Almanac. League of California Cities. 12 May 2008
<www.californiacityfinance.com>; Strategic Economics 2008

Figure 3: West Hollywood General Fund Expenditures, Social Service Funding Removed, FY 06-07



Source: City of West Hollywood, Comprehensive Annual Financial Report, Fiscal Year Ending June 30, 2007;
Strategic Economics 2008

attorney, public safety administration, revenue management, city manager, budget and compensation and general accounting.

West Hollywood spends less than the typical city in several categories, most notably public safety. The lower than average public safety spending is mostly due to the fact that in West Hollywood, fire services are provided on a contract basis by Los Angeles County while other cities must fund an entire fire department.

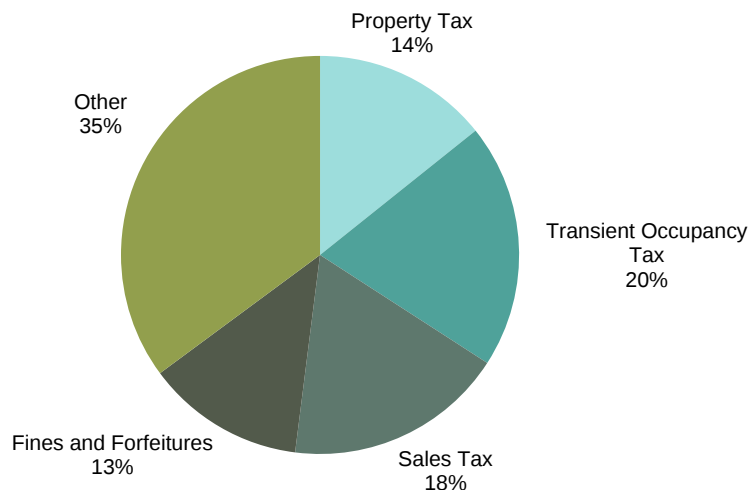
General Fund Revenue Sources

General fund revenues (Figure 4) come from a variety of taxes, fees and intergovernmental transfers. In West Hollywood, the top three sources of revenue are:

- **Property Taxes.** The City receives 16.5 cents for every dollar of property tax that property owners pay to the state. Property taxes comprise 14 percent of general fund revenue.
- **Sales tax.** One percent of every taxable dollar spent at businesses in West Hollywood goes to the City. Sales tax revenues make up 18 percent of the general fund revenue.
- **Transient Occupancy Tax.** The City levies a 14 percent tax on all lodging costs paid by visitors to West Hollywood, which is divided between the General Fund (12.5 percent) and the Business Improvement fund (1.5 percent). Transient occupancy taxes play a much larger role in West Hollywood than in most city budgets. In 2004-2005 the median percentage of revenues derived from transient occupancy taxes in California cities was 6.6 percent². In West Hollywood, the transient occupancy tax comprises 20 percent of the general fund revenue.

Other revenue sources for the general fund include vehicle license fees and business license taxes.

Figure 4: West Hollywood General Fund Revenues, FY 06-07



Source: City of West Hollywood, Comprehensive Annual Financial Report, Fiscal Year Ending June 30, 2007; Strategic Economics 2008

² California Local Government Finance Almanac. League of California Cities. 12 May 2008
<www.californiacityfinance.com

TRANSIENT OCCUPANCY TAX AND THE IMPORTANCE OF TOURISM

Sales tax and transient occupancy tax are major contributors to the general fund, indicating the importance of tourism to West Hollywood's economy. The City hosts approximately 1.2 million visitors each year, who generate \$624.7 million in direct spending and contribute \$19.6 million in tax revenues³. Eighty-one percent of this contribution is from the transient occupancy tax, while the remaining 19 percent is sales tax generated by visitor spending⁴. West Hollywood ranks 12th in the state for per capita transient occupancy tax revenues, just behind other major tourist destinations like San Francisco, Los Angeles, Anaheim, Santa Monica, Beverly Hills and Palm Springs⁵.

The importance of tourism to West Hollywood's economy extends beyond the hospitality industry. When visitors patronize local hotels and bed and breakfasts, they also contribute to spending and job creation in ancillary industries, such as linen services and food suppliers. This is called the tourism multiplier effect.

The decline in tourism following the September 11, 2001 terrorist attack had a major impact on the City's general fund. As shown in Figure 5, sales tax and transient occupancy tax fell sharply in 2002, and took several years to recover. The drop in tourism was also felt in the city of Los Angeles and the state of California, as indicated by Figure 6. West Hollywood's recovery was similar to that of Los Angeles and California.

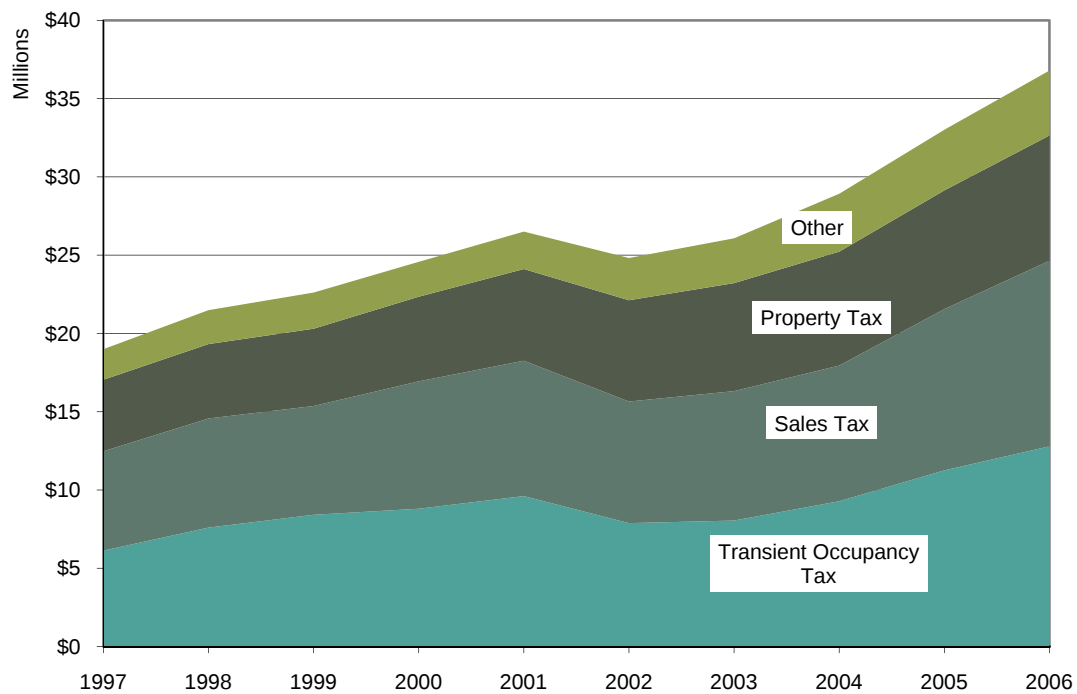
Despite the effects of September 11, tourism continues to be a large and growing sector of West Hollywood's economy. Transient occupancy tax revenues grew 49 percent from 1997 to 2006. Although the transient occupancy tax rate did rise from 13 percent to 14 percent in 2004, the 49 percent increase in revenues is still significant.

³ Lauren Schlauf Consulting, City of West Hollywood. Marketing and Visitors Bureau. Visitor Profile and Economic and Fiscal Impacts of Tourism in West Hollywood in 2006. 2007.

⁴ *ibid.*

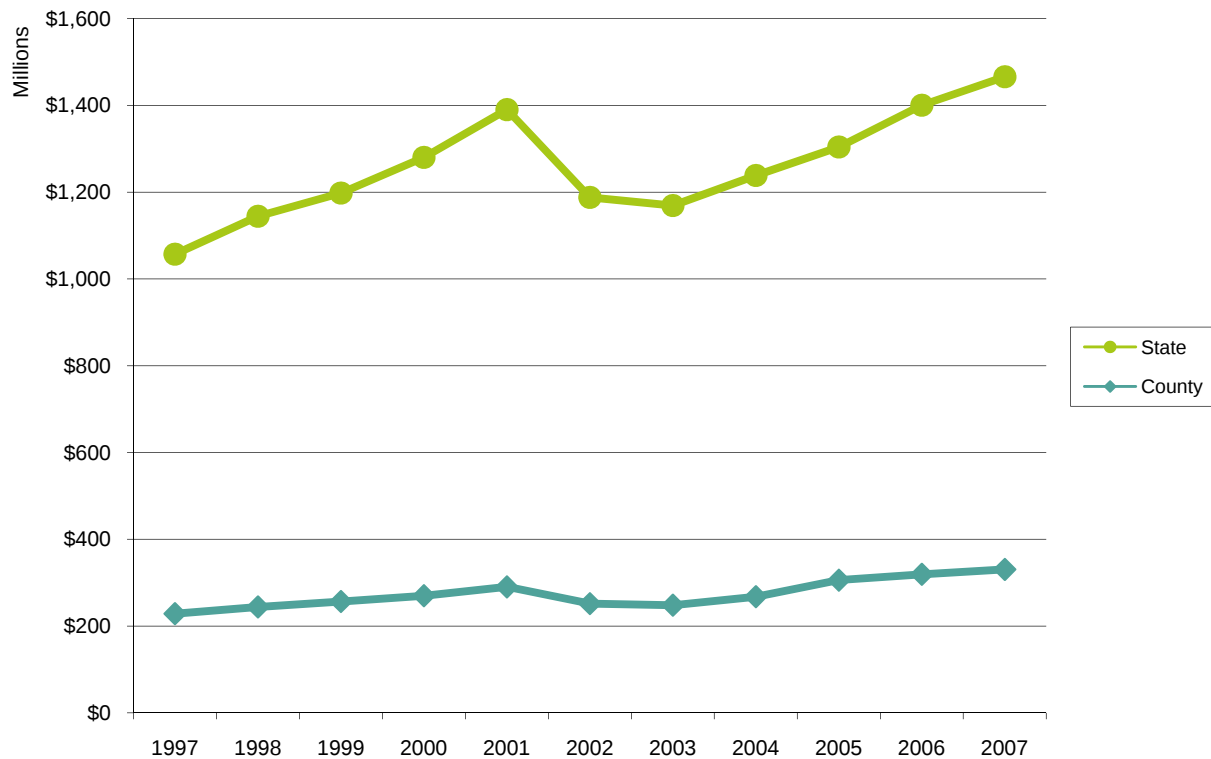
⁵ "Transient Occupancy Tax by City." California Local Government Finance Almanac. 05 May 2008. League of California Cities. 7 May 2008 <<http://www.californiacityfinance.com/>>.

Figure 5: West Hollywood General Fund Revenue by Source, 1997 - 2006



Source: City of West Hollywood, Comprehensive Annual Financial Report, Fiscal Year Ending June 30, 2007; Strategic Economics 2008

Figure 6: Los Angeles County and California State Transient Occupancy Tax Revenues, 1997 - 2006

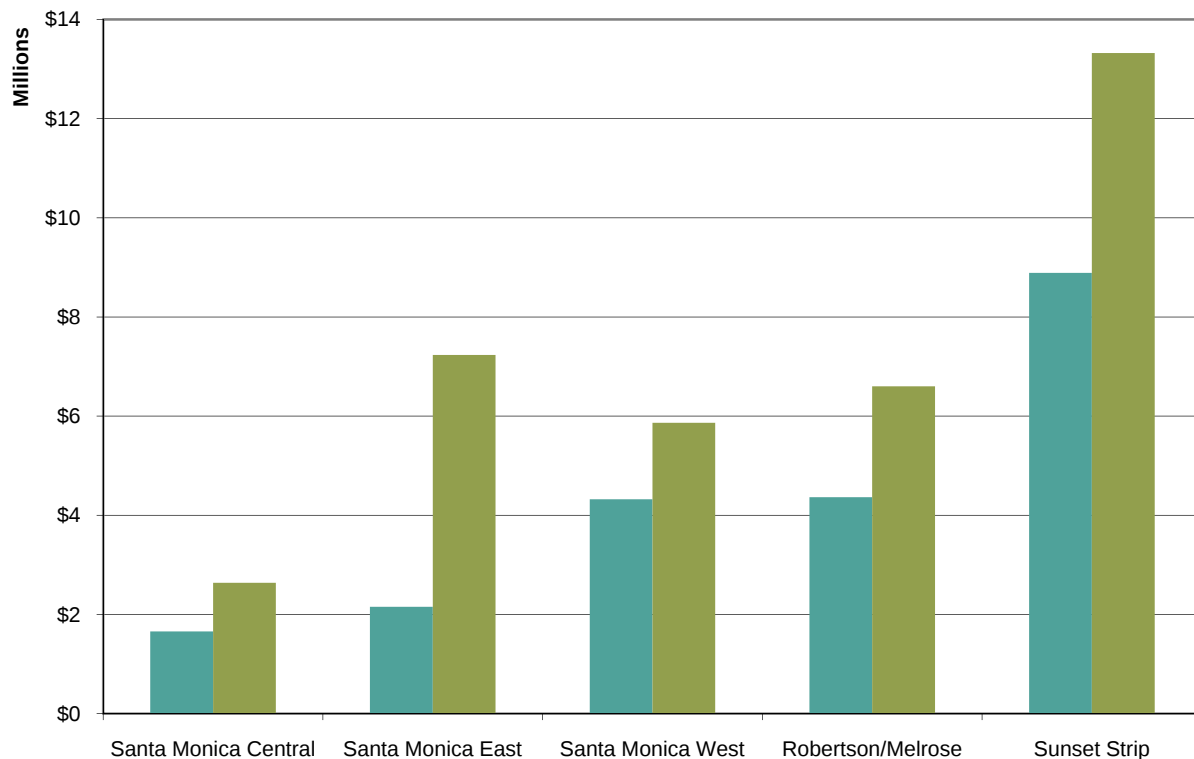


Source: Dean Runyan Associates; Strategic Economics 2008

FISCAL CONTRIBUTIONS BY SUB-AREA AND RETAIL CATEGORY

Figure 7⁶ shows the change in income from major revenue sources from 1997 to 2006. Contributions from Sunset Strip and Santa Monica East sub-areas grew the most, although from different sources. The Sunset Strip's increase in fiscal contributions was primarily due to a rise in transient occupancy taxes⁷, indicating the growing importance of tourism in that area. Santa Monica East's fiscal contribution grew primarily from a rise in property taxes. From 1998 to 2006 the average sales price of property in the Santa Monica sub-area rose 156 percent. In California properties are only reassessed upon sale. Therefore increased turnover and rising property values led to the large increase in property taxes in this sub-area.

Figure 7: West Hollywood Fiscal Contribution by Sub-Area, 1997 and 2006



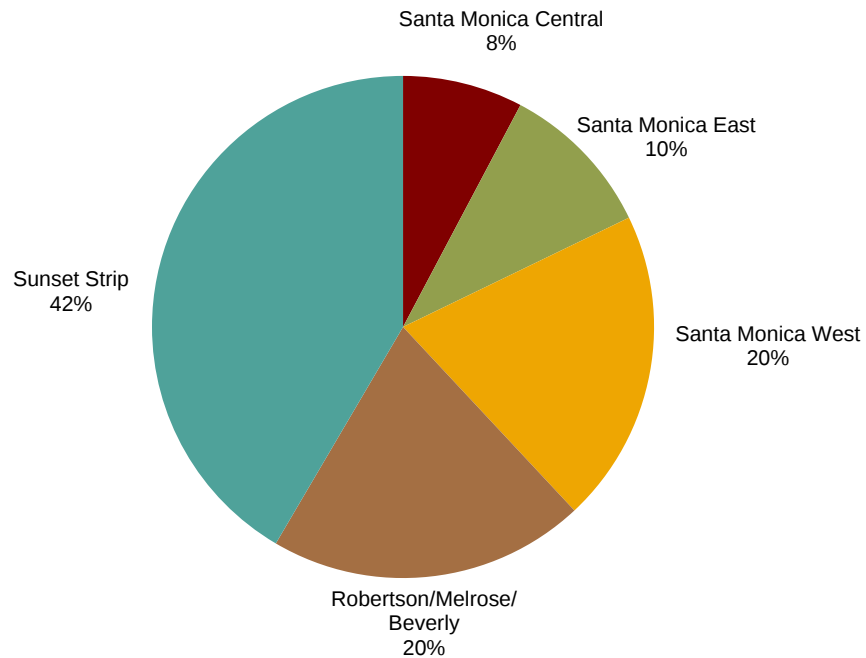
Source: City of West Hollywood, Comprehensive Annual Financial Report, Fiscal Year Ending June 30, 2007; Strategic Economics 2008

Figures 8 and 9 show the change in share of total fiscal contributions from each sub-area. The shares remained approximately the same, with the exception of Santa Monica East. This sub-area experienced a 10 percent increase in its share of total fiscal contributions due to a disproportionate rise in property tax revenues.

⁶ Precise fiscal contributions could not be reported by revenue source (sales tax, property tax, transient occupancy tax) due to the small number of businesses contributing taxes in some revenue categories. Reporting data at that level of specificity would compromise the confidentiality of the participating businesses.

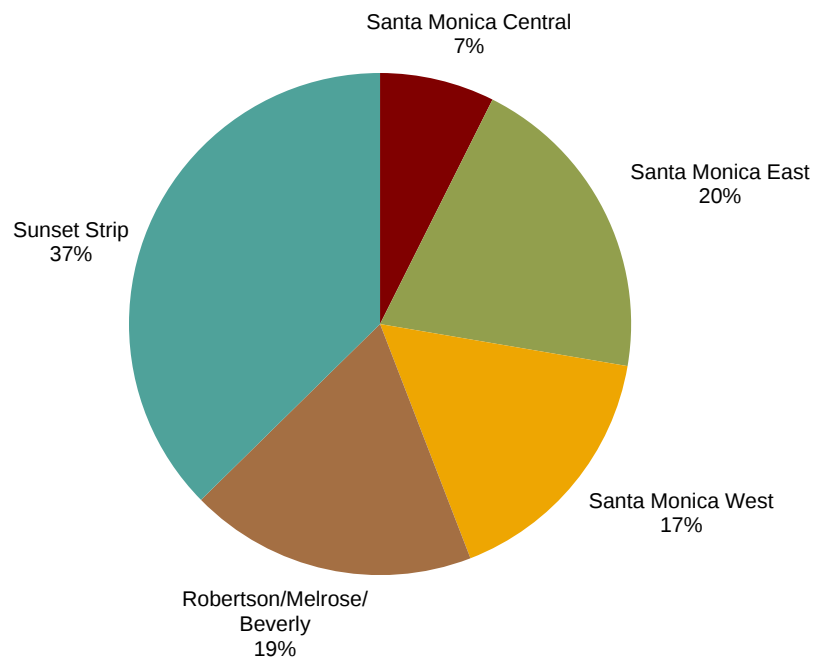
⁷The transient occupancy tax rate rose from 13 percent to 14 percent on January 1, 2004.

Figure 8: West Hollywood Major Revenue Sources by Sub-Area, 1997



Source: City of West Hollywood, Comprehensive Annual Financial Report, Fiscal Year Ending June 30, 1998; Strategic Economics 2008

Figure 9: West Hollywood Major Revenue Sources by Sub-Area, 2006



Source: City of West Hollywood, Comprehensive Annual Financial Report, Fiscal Year Ending June 30, 2007; Strategic Economics 2008

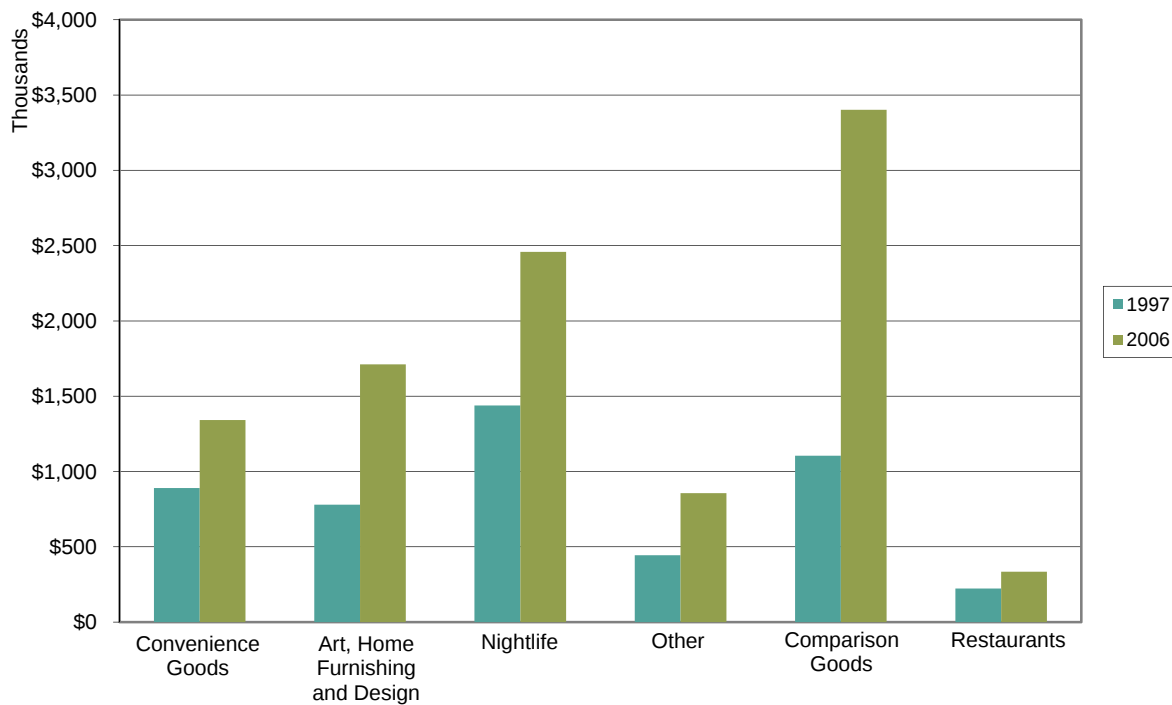
To analyze citywide retail sales, Strategic Economics used State Board of Equalization business codes to identify six categories, based on standard retail categories and the areas of specific concern to the city. The categories below represent the retail sales of tangible goods only. Sales of intangible services are not taxed, and therefore are not addressed in this section. The performance of service businesses is addressed separately in the Neighborhood-serving Businesses section of this report, but is not reflected in following retail categories. The State Board of Equalization codes for each retail category are defined below.

- **Convenience Goods:** Grocery no alcohol, Food stores non-grocery, Package liquor stores, Drug stores, Grocery stores beer/wine, Grocery stores liquor and Hardware stores.
- **Arts, Home Furnishings and Design:** Home furnishings and Textile and design; Additional individually-identified arts, home furnishings and design stores were included based on input from City staff.
- **Nightlife:** Restaurants beer and wine, Restaurants liquor and Hotels liquor
- **Other:** Newspaper stands, Specialty stores, Cigar stores, Secondhand stores, Garden/agricultural supplies, Wineries, Clubs/amusement places, Office equipment and Textiles/furnishings
- **Comparison Goods:** Women's apparel, Men's apparel, Family apparel, Shoe stores, Variety stores, Department stores, Discount department stores, General merchandise, Art/Gift/Novelty stores, Sporting goods/Bike stores, Florist Shops, Music stores, Stationary/Book stores, Jewelry stores, Specialty stores and Electronics/Appliance stores.
- **Restaurants:** Restaurants no alcohol.

Figure 10 shows that sales tax revenues have also increased across the different retail categories⁸ in the last decade. Sales tax contributions from comparison goods rose the most, due in large part to the 2004 opening of the West Hollywood Gateway center, a retail development anchored by Target and Best Buy. The nightlife, arts, home furnishings and design, and convenience goods industries also saw significant increases in tax contributions, most likely due to the growing reputation of the arts, home furnishings and design industry.

⁸ To analyze citywide retail sales, we used State Board of Equalization business codes to identify six categories, based on standard retail categories and the areas of specific concern to the city. See the appendix for a full description of how these categories were identified.

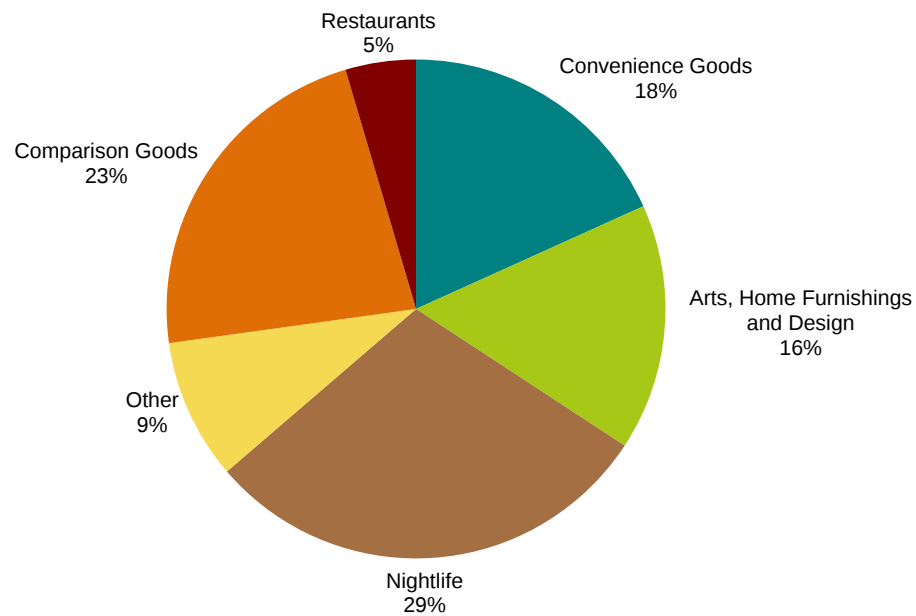
Figure 10: West Hollywood Sales Tax Revenue by Retail Category, 1997 vs. 2006



Source: City of West Hollywood, Comprehensive Annual Financial Report, Fiscal Year Ending June 30, 2007; Strategic Economics 2008

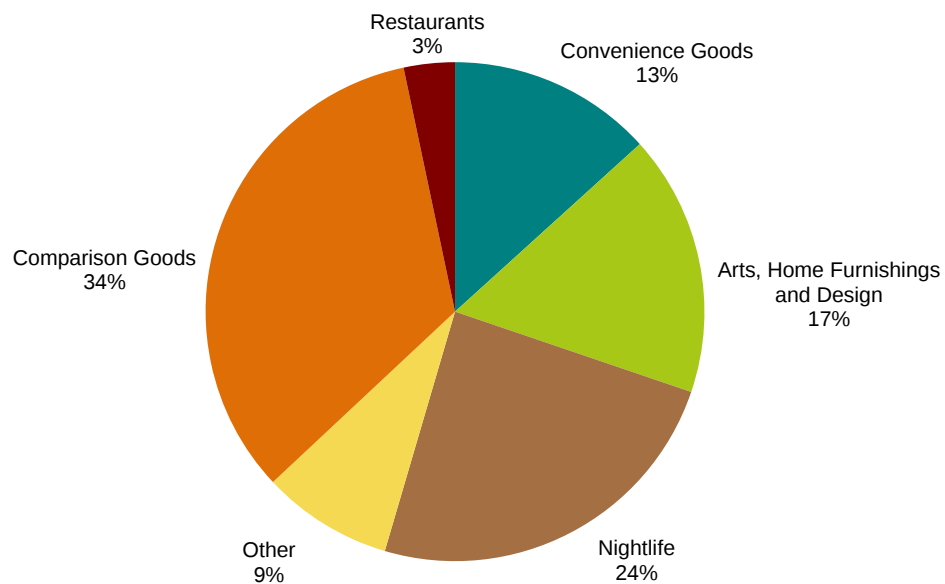
Figures 11 and 12 show the shifting proportions of each retail category's contribution from 1997 to 2006, demonstrating again the large increase in sales tax from comparison goods (from 23 percent to 35 percent of total sales tax revenue). Although every other retail category also saw an absolute gain in sales tax revenue in that time, their proportionate shares of total sales tax revenue fell due to the large increase in revenue from comparison goods.

Figure 11: West Hollywood Sales Tax Revenue by Retail Category, 1997



Source: City of West Hollywood, Comprehensive Annual Financial Report, Fiscal Year Ending June 30, 2007; Strategic Economics 2008

Figure 12: West Hollywood Sales Tax Revenue by Retail Category, 2006



Source: City of West Hollywood, Comprehensive Annual Financial Report, Fiscal Year Ending June 30, 2007; Strategic Economics 2008

FISCAL ANALYSIS SUMMARY

West Hollywood has an atypical mix of revenues and costs.

Compared to the typical California city, West Hollywood spends much more of its General Fund on social services, and receives much more of its revenues from transient occupancy taxes.

Tourism is vitally important to West Hollywood's fiscal health.

Transient occupancy taxes rose 49 percent from 1997 to 2006, and are currently the largest single source of revenue for the City's General Fund.

Fiscal contributions vary greatly by sub-area and retail category.

The Sunset Strip, followed by Santa Monica East, generates the highest proportion of West Hollywood's total tax revenue. The majority of sales tax revenues are received from the comparison goods, nightlife, and arts, home furnishings and design categories.

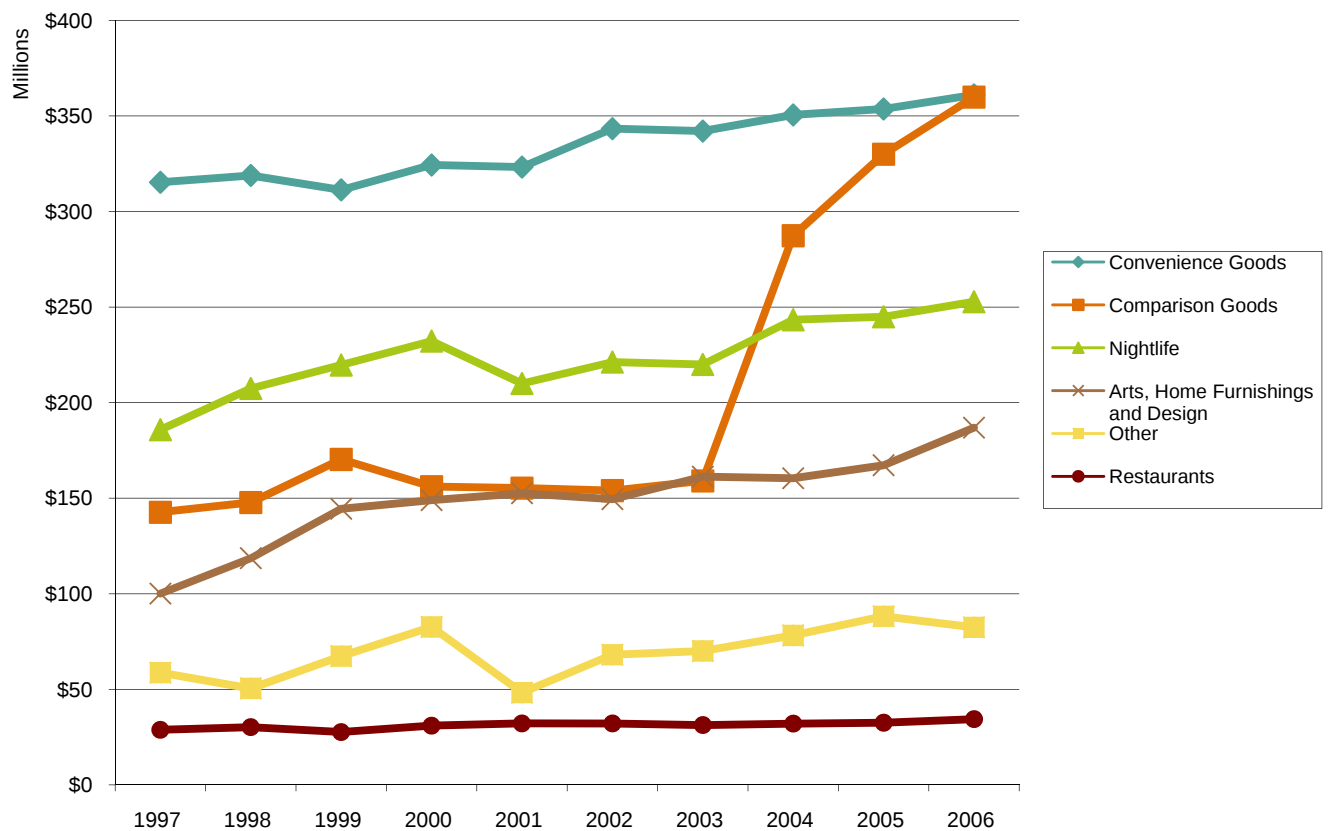
IV. CITYWIDE RETAIL ANALYSIS

This section provides an overview of retail sales in West Hollywood. The sales numbers in this section were derived from taxable sales data, and represent the sale of tangible retail goods only. Sales of intangible services are not taxed, and therefore are not addressed in this section. The performance of service businesses is addressed separately in the Neighborhood-serving Businesses section of this report. In order to reflect actual retail sales, we adjusted this data to account for non-taxable goods such as basic grocery items, vitamins and children's clothing. All numbers are reported in 2007 dollars. This overview sets the stage for more in-depth analysis conducted in Section IV, Issue Areas.

SETTING THE CONTEXT

Retail sales in West Hollywood have increased in all sectors in the last decade (Figure 13). There was a slight dip in sales after September 11, which echoed national sales trends. Sales of comparison goods jumped sharply in 2004, likely caused by the opening of the West Hollywood Gateway center. Convenience goods, comparison goods and nightlife have the highest total sales.

Figure 13: West Hollywood Retail Sales by Category, 1997-2006



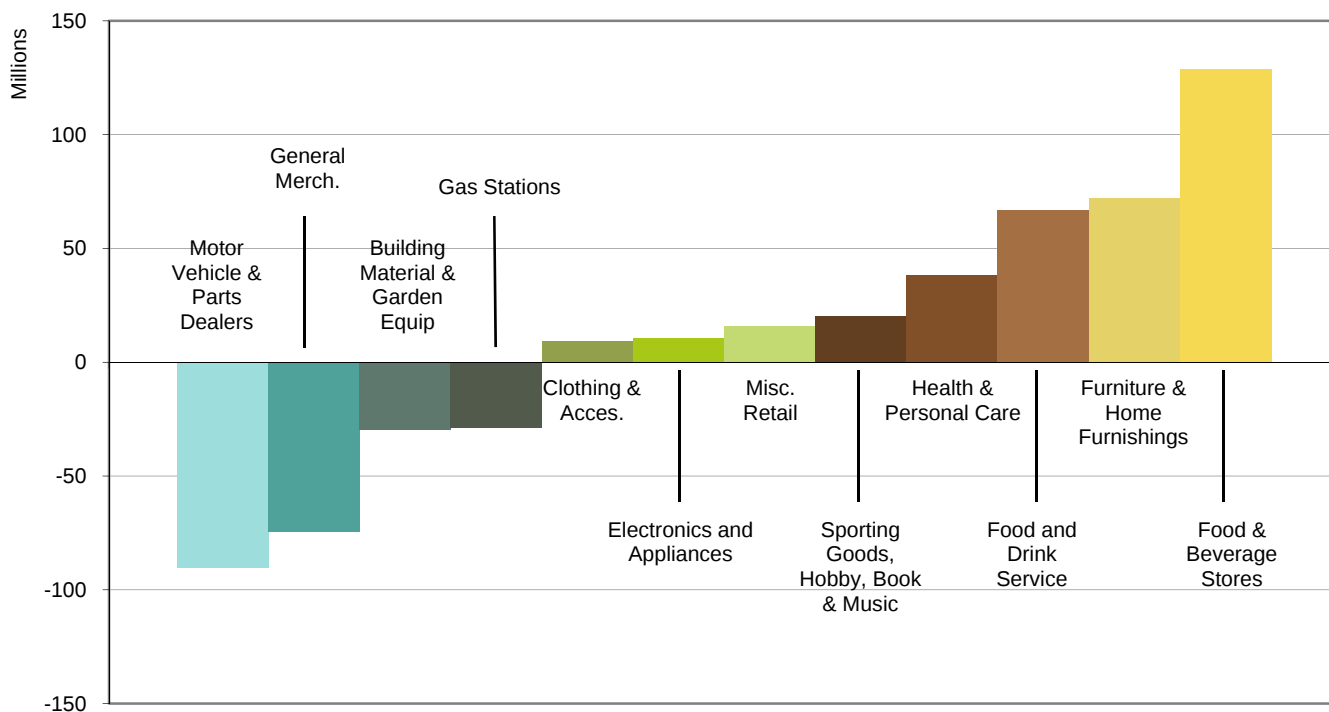
Source: California State Board of Equalization; Strategic Economics 2008

RETAIL LEAKAGE AND SURPLUS

West Hollywood draws in significant sales from non-residents. Figure 14 shows retail surplus and leakage in 2007. A retail surplus occurs when non-residents buy goods in West Hollywood. The amount of money earned by West Hollywood retailers from non-residents is known as a “surplus,” and is represented in the figure below in positive numbers. Retail leakage occurs when West Hollywood residents must go outside the City to obtain the goods they need. The amount of money spent by West Hollywood residents on goods outside of the City is known as the “leakage,” and is reported in negative numbers in the figure below.

Although West Hollywood residents travel outside the City to buy cars, building materials and general merchandise⁹, the City has a healthy surplus in many retail categories. The surplus in food and drink services, clothing and accessories, sporting goods, books and hobby stores indicates the strength of West Hollywood’s tourist economy, as visitors come to the City for shopping, dining and entertainment. The surplus in home furnishings reinforces West Hollywood’s reputation as a center of arts, home furnishings and design in the region.

Figure 14: West Hollywood Retail Leakage and Surplus, 2007



Source: Claritas, Inc, RMP Opportunity Gap - Retail Stores 2007, West Hollywood City

⁹ Defined as goods from department stores, warehouse clubs and superstores.

CITYWIDE RETAIL ANALYSIS SUMMARY

West Hollywood retail sales are on the rise.

Despite a dip after September 11, retail sales in West Hollywood increased 54 percent from 1997 to 2006, potentially due to the increasing popularity of the City's retail offerings.

West Hollywood Gateway Center has had a significant impact on sales of comparison goods.

Sales of comparison goods rose sharply after the center opened in 2004.

West Hollywood has a strong retail surplus.

West Hollywood's concentration of convenience, arts, home furnishings and design, and nightlife establishments has led to a significant surplus in these retail categories.

V. ISSUE AREAS

This section examines each issue area separately, incorporating the economic issues most pressing to that community or industry. A history and current snapshot of each area is given, followed by an individualized analysis of the relevant issues. This section's findings will alleviate or give weight to the City's concerns about individual communities and industries.

NIGHTLIFE

West Hollywood's vibrant nightlife continues to play an important role in the history and the glamour of Los Angeles. Stars are born on the Sunset Strip, bands are discovered at the Whiskey and the Troubadour, and generations of LGBT youth have found a place to be themselves on Western Santa Monica Boulevard. West Hollywood's nightlife is also an important source of tax revenue for the City, and draws tourists from around the country and abroad.

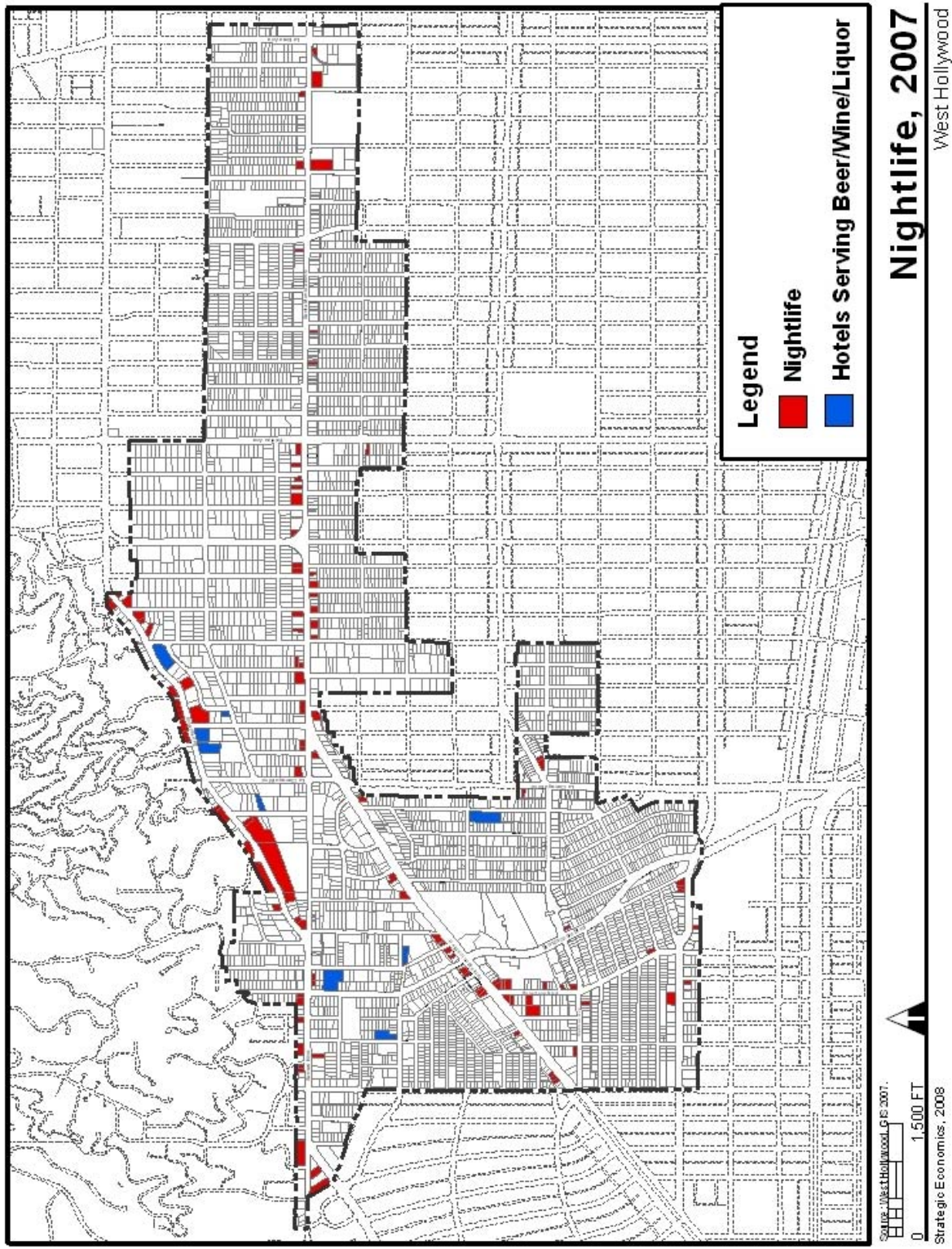
A Geographic and Economic Snapshot

Nightlife venues¹⁰ in West Hollywood are focused along the Sunset Strip and Santa Monica Boulevard corridors, with a few high-end restaurants and clubs in the Robertson/Melrose/Beverly area (Map B).

Figures 15 and 16 show that the Sunset Strip has the highest concentration (27 percent) of nightlife establishments in West Hollywood, and it also attracts more than its share (49 percent) of nightlife sales. Santa Monica West runs a close second, with 26 percent of the businesses and 20 percent of sales.

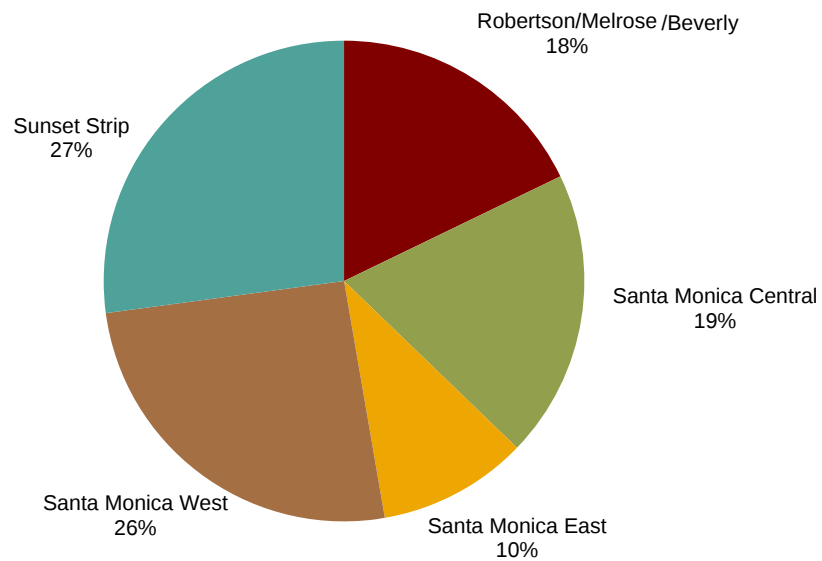
¹⁰ State Board of Equalization codes were used to identify businesses that fell into the nightlife category. Since there is no SBOE code for nightclubs or bars, restaurants and hotels serving beer, wine or liquor were categorized as nightlife.

Map B: Nightlife Establishments in West Hollywood, 2006



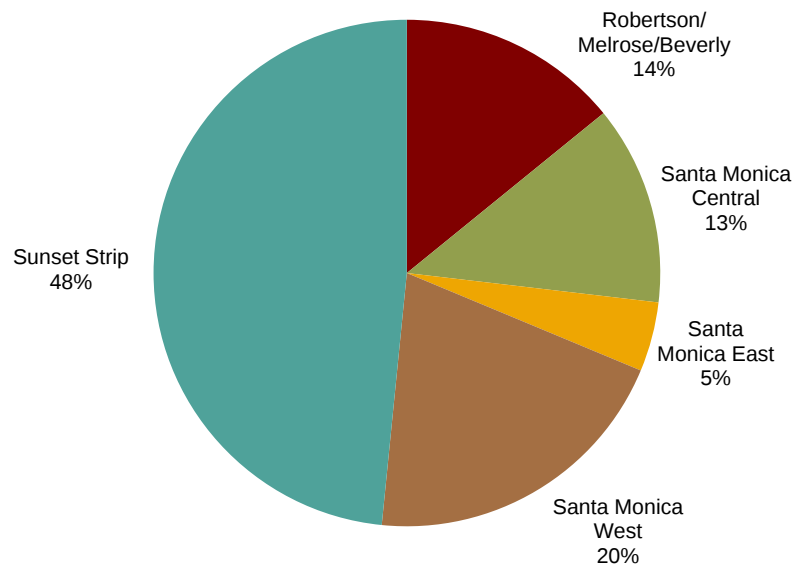
Source: California State Board of Equalization

Figure 15: Location of Nightlife Establishments by Sub-Area, 2006



Source: California State Board of Equalization; Strategic Economics 2008

Figure 16: Share of Nightlife Sales by Sub-Area, 2006



Source: California State Board of Equalization; Strategic Economics 2008

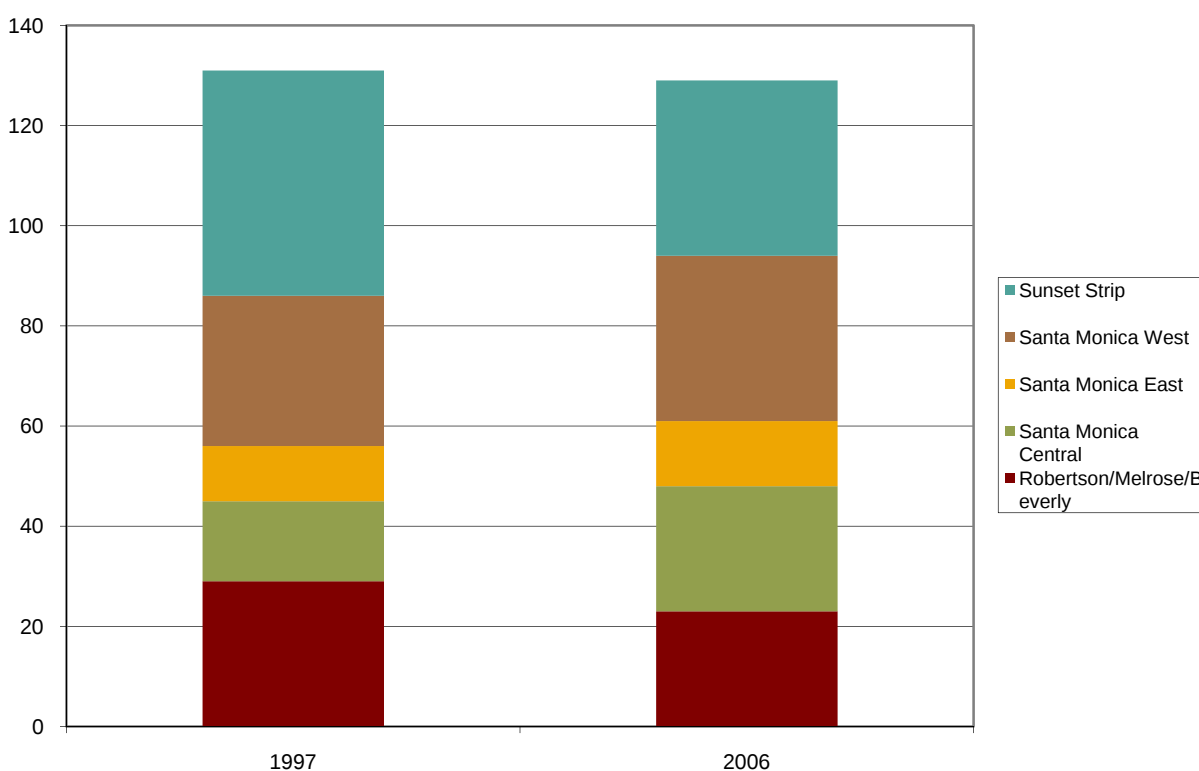
In addition to locals, visitors from the region, the nation and abroad frequent West Hollywood's bars, clubs and restaurants. Nightlife is an important factor in the City's tourist economy. In 2006, over half of all day visitors and 63 percent of those staying in hotels reported sightseeing, entertainment and nightlife as their main purpose for visiting the West Hollywood.¹¹ In 2007, outside visitors generated \$66.9 million in sales.

West Hollywood Nightlife on the Move

There is some concern that West Hollywood is losing its nightlife establishments to neighboring Hollywood in the city of Los Angeles and nearby areas such as Culver City and Silverlake.

Figure 17 illustrates that, while the number of nightlife establishments in West Hollywood has stayed roughly the same over the last decade, the location of the businesses within the City is changing. Although the Sunset Strip and Robertson/Melrose/Beverly sub-areas have lost nightlife venues in the last decade, all of the Santa Monica Boulevard sub-areas have seen a gain in these establishments. The Santa Monica Boulevard East subarea has also experienced an increase in nightlife establishments since 2006, with Bar Lubitsch and Winston's opening in the area.

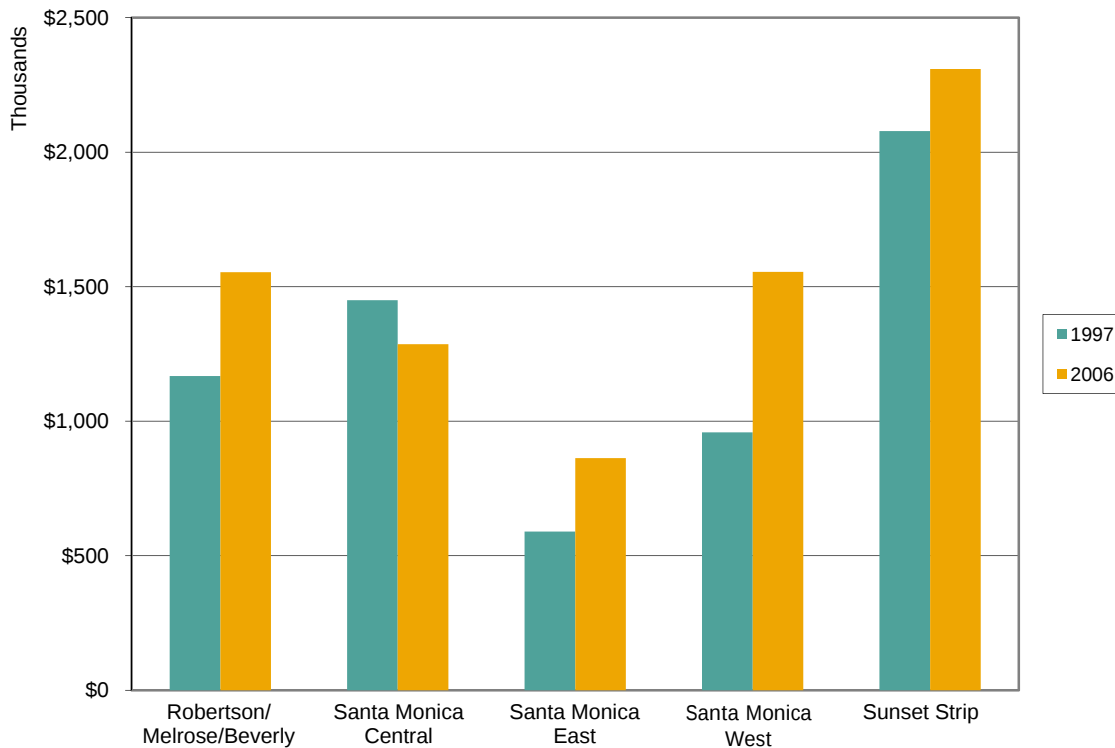
Figure 17: Number of Nightlife Establishments by Sub-Area, 1997 vs. 2006



Source: California State Board of Equalization; Strategic Economics 2008

¹¹ Lauren Schlau Consulting. West Hollywood. Marketing and Visitors Bureau. Visitor Profile and Economic and Fiscal Impacts of Tourism in West Hollywood in 2006.

Figure 18: Sales Per Nightlife Establishment by Sub-Area, 1997 vs.2006



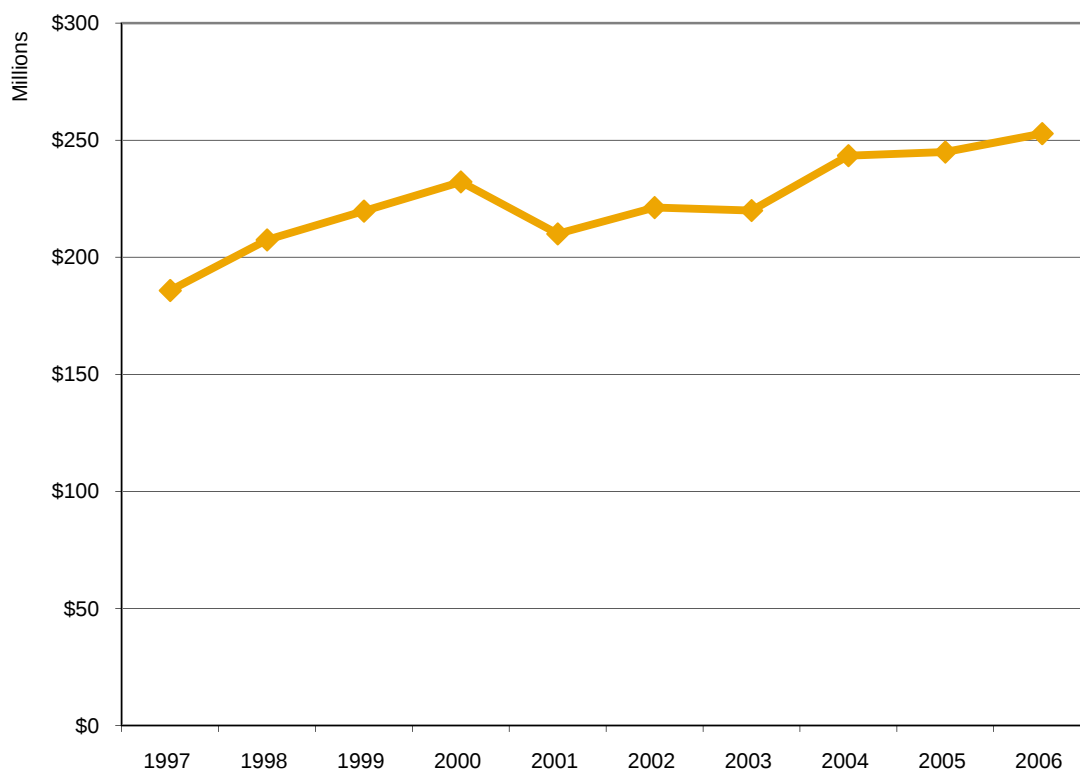
Source: California State Board of Equalization; Strategic Economics 2008

Figure 18 shows that, on the whole, nightlife sales performance in West Hollywood has improved in the last decade. Despite the decline in number of establishments, sales performance has improved in both the Sunset Strip and Robertson/Melrose/Beverly sub-areas. This may be a function of increased competition in these neighborhoods: as rents increase, businesses that cannot compete are forced out, and only the most successful remain. The Santa Monica West and Santa Monica East sub-areas are thriving, with an increase in both absolute number of businesses and in sales per establishment. While the number of business is Santa Monica East has grown, sales per establishment have fallen. Although the exact cause cannot be determined from the data available, it may be that increased competition from the new establishments is driving down sales per establishment throughout the sub-area.¹² Alternatively, the new businesses may have not yet reached their full sales potential, and sales could improve as the businesses become more established.

A look at the nine-year trend (Figure 19) shows that, with the exception of the post-9/11 dip, nightlife sales in West Hollywood have been on the rise. Nightlife sales revenue rose 36 percent from 1997 to 2006, which mirrors the statewide increases in revenues (35 percent). West Hollywood nightlife venue, however, have much higher sales per establishment than the typical California venue (Figure 20).

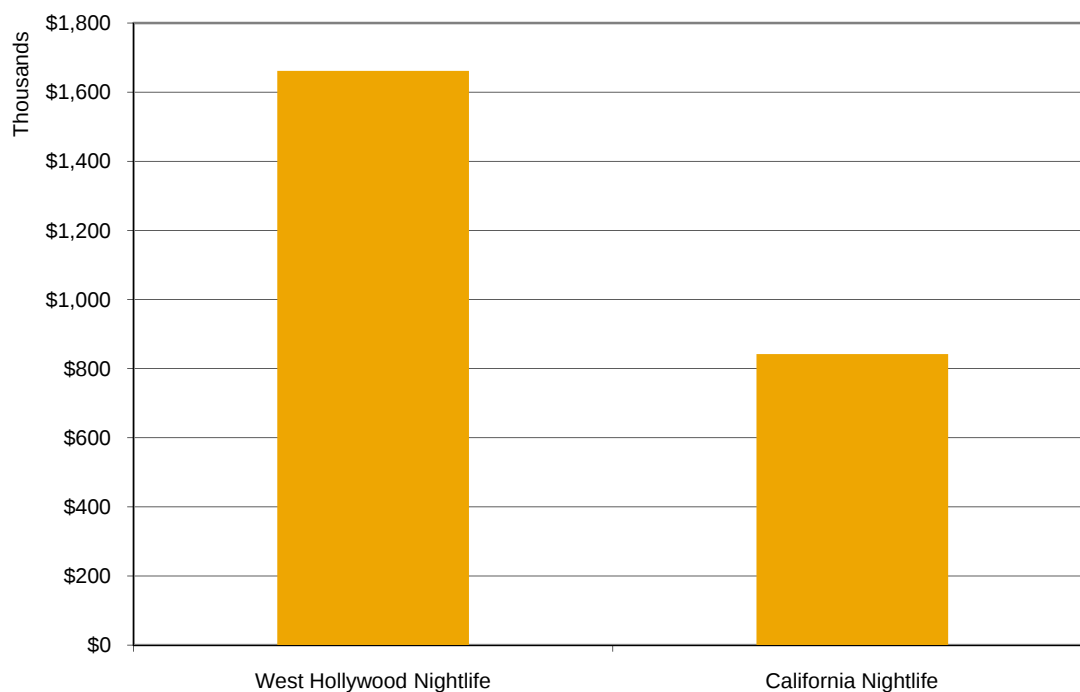
¹² The sales per establishment figure represents the ratio of total nightlife sales in a subarea to the total number of nightlife businesses in that subarea. An increase in the number of new business without a matching increase in sales would have the impact of lowering the total sales per establishment in a subarea. In this scenario, the decrease in sales per establishment is a function of many new businesses entering the market, rather than a decrease in sales among more established restaurants and bars. New businesses may take time to “get off the ground” and match the sales of longer-serving establishments.

Figure 19: Nightlife Sales Performance, 1997-2006



Source: California State Board of Equalization; Strategic Economics 2008

Figure 20: Nightlife Sales Per Establishment, 2006



Source: California State Board of Equalization; Strategic Economics 2008

The evolution of Nightlife in West Hollywood

Although there is a perception among the retail brokers interviewed for this report that the hippest clubs are opening their doors elsewhere, in reality nightlife in West Hollywood is performing better than ever. The changes in West Hollywood nightlife observed by residents reflect not a loss of revenue, but the changing nature of the City itself.

West Hollywood's median age in 2000 was 39.4 years old, compared to 31.6 in the surrounding county¹³. According to focus groups conducted as part of the 2008 General Plan program, many residents no longer frequent or even want to live near the rowdy nightlife that drew them to West Hollywood in their 20s. Both the focus groups and brokers report that neighbors are unhappy with the traffic, lack of parking, noise and light pollution created by some bars and clubs.

Rather than disappearing, West Hollywood nightlife may be evolving to better suit the needs of residents. Young, hip and loud clubs are opening elsewhere, but the brokers interviewed by Strategic Economics report that West Hollywood is transitioning to a “premier upscale destination,” with restaurants, bars and hotels catering to a more mature, affluent audience.

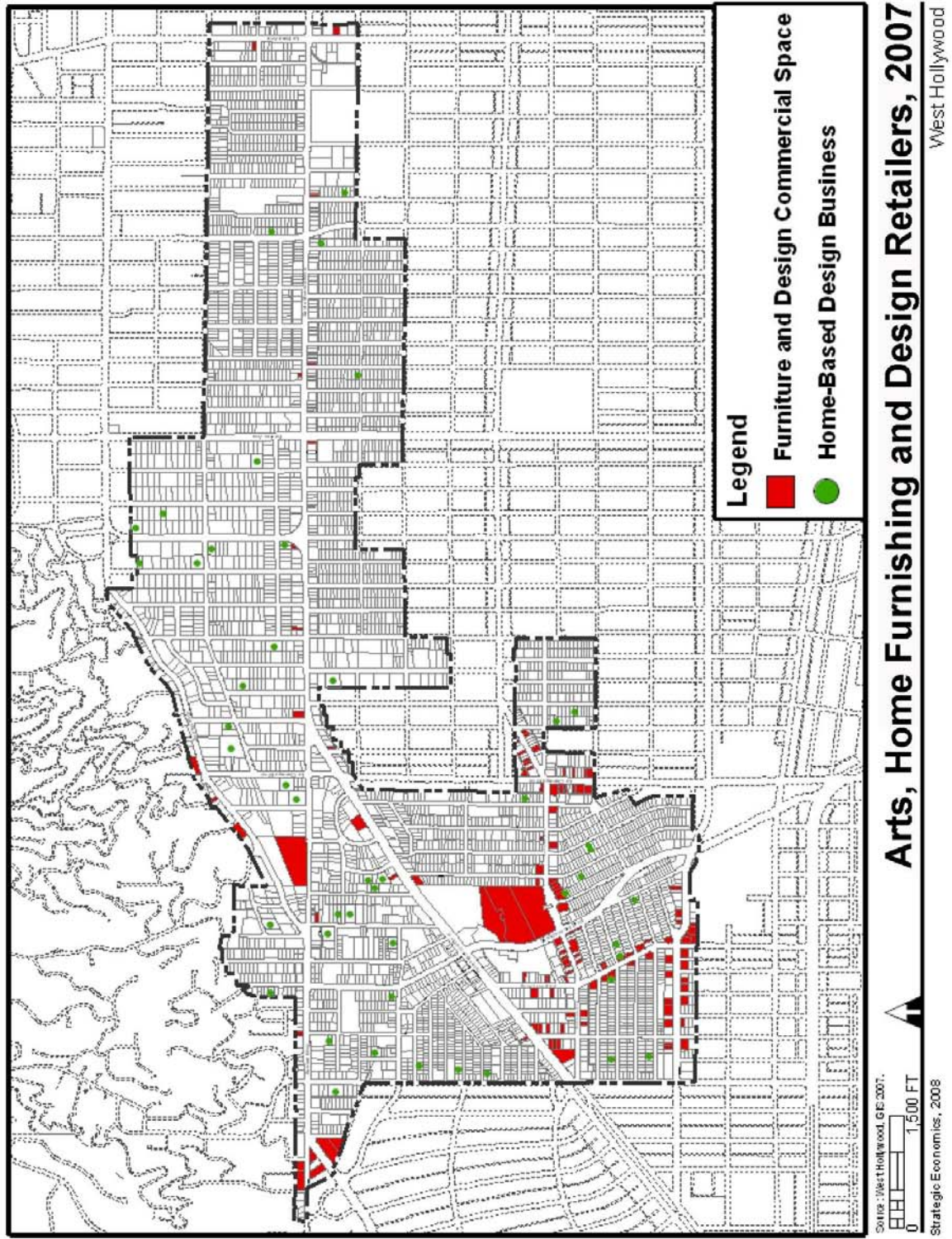
¹³ Sara Kocher Associates, City of West Hollywood. Human Resources Department. City of West Hollywood Demographic Profile. 2002.

ARTS, HOME FURNISHINGS AND DESIGN

West Hollywood, anchored by the Pacific Design Center, is the regional hub of the arts, home furnishings and design industry in Southern California. In 2007, the arts, home furnishings and design retailers in West Hollywood sold \$71 million of goods to those living outside the City. As with many creative industries, the bulk of West Hollywood's arts, home furnishings and design businesses¹⁴ are located in a small geographic area. There are also a large number of home-based design businesses in West Hollywood, perhaps reflecting high commercial rents in the area or the ability of many designers to work from home.

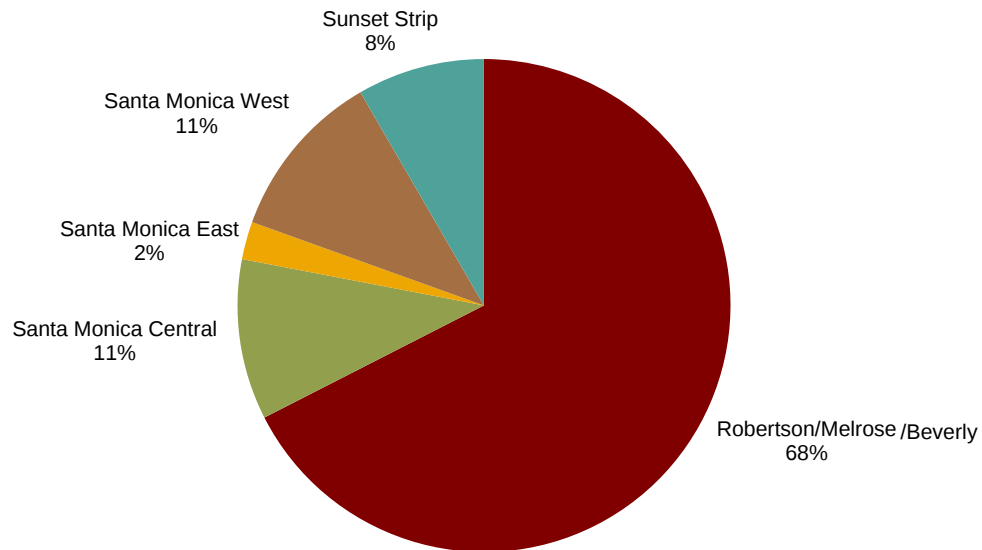
¹⁴ State Board of Equalization codes were used to identify businesses that fell into the arts, home furnishings and design category. The SBOE codes Textiles/Furnishings and Home Furnishings were categorized as arts, home furnishings and design businesses. Additional businesses that fell outside these SBOE codes were identified with the help of the Avenues of Art and Design website (www.avenuesartdesign.com) and City staff.

Map C: Arts, Home Furnishings and Design Retailers in West Hollywood, 2007



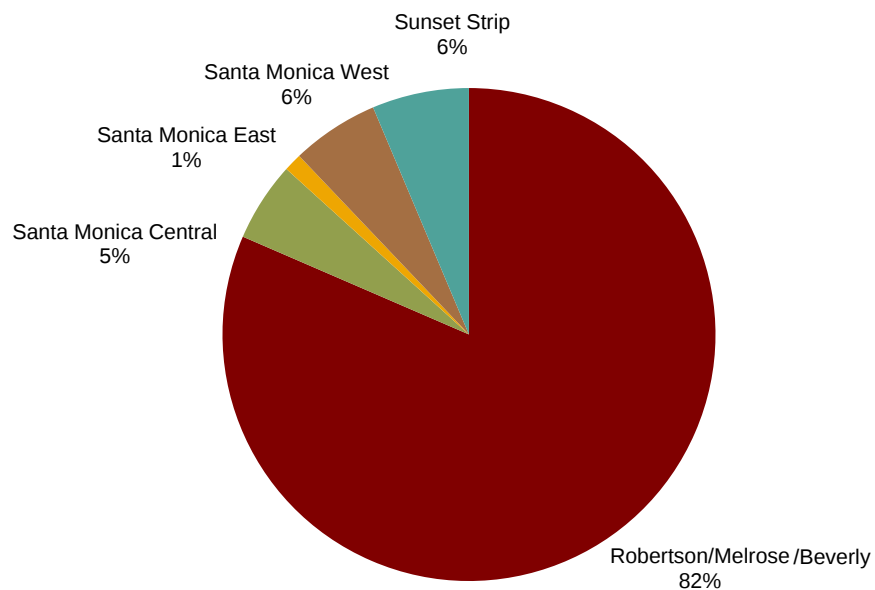
Source: California State Board of Equalization

Figure 21: Location of Arts, Home Furnishings and Design Businesses by Sub-Area, 2006



Source: California State Board of Equalization; Strategic Economics 2008

Figure 22: Share of Arts, Home Furnishings and Design Sales by Sub-Area, 2006



Source: California State Board of Equalization; Strategic Economics 2008

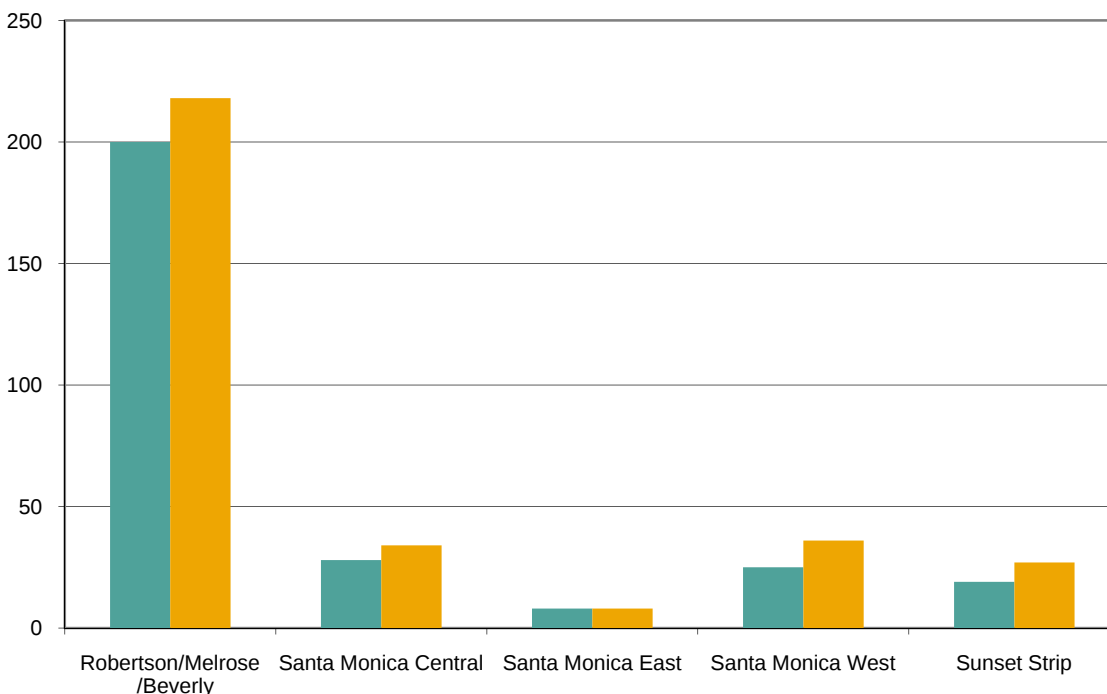
The Robertson/Melrose/Beverly sub-area has 68 percent of the arts, home furnishings and design businesses in West Hollywood, and generates 82 percent of the total arts, home furnishings and design sales. The Pacific Design Center plays a major role in this neighborhood, housing over 80 showrooms and hosting lecture series, exhibitions and special events.

The Effect of Rising Rents on the Arts, Home Furnishings and Design Industry

West Hollywood has been a center of arts, home furnishings and design for over 50 years, but in 1996 the City of West Hollywood established the Avenues of Art and Design Business Improvement District, and shifted the neighborhood's identity to include fine dining, art galleries and luxury retail. This effort has been a profound success, with brokers describing the neighborhood as the "hip version of Rodeo Drive." Success has also brought substantial increases in rent, as high as \$22.00 per square foot on some blocks. There is a concern that small, locally owned arts, home furnishings and design businesses cannot compete for space with international luxury retail chains in today's West Hollywood.

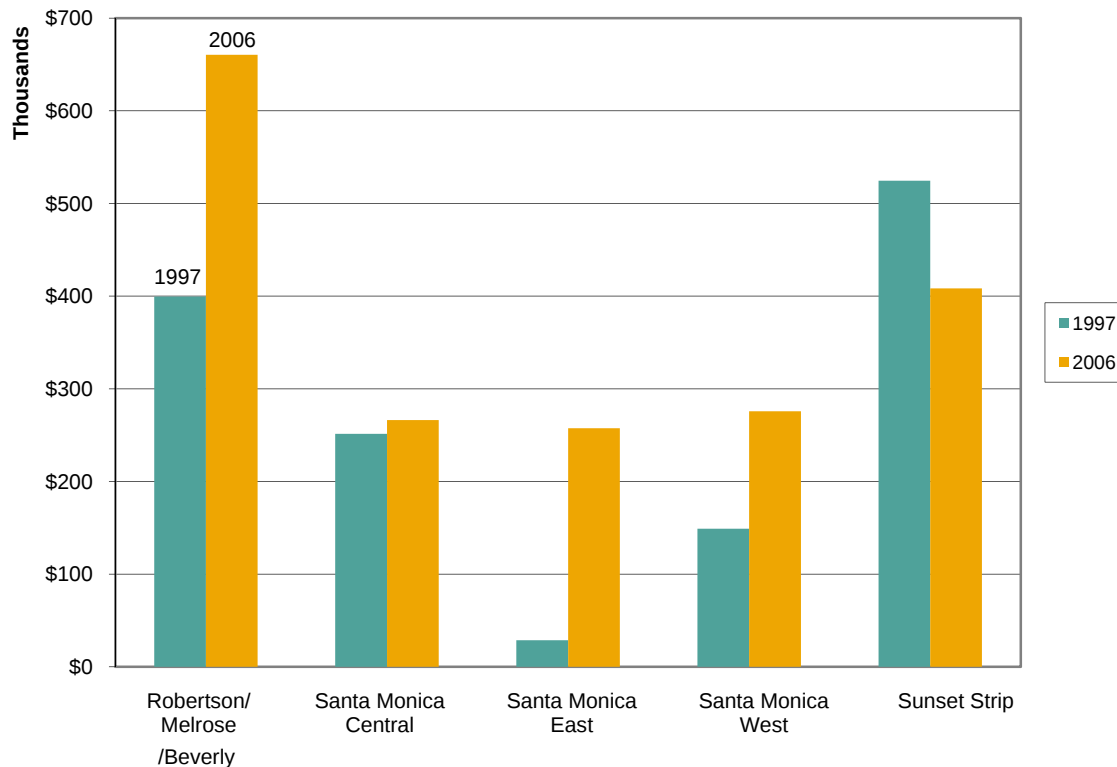
Industry trends in the last decade, however, indicate that the arts, home furnishings and design industry is holding its own on the Avenues of Art and Design. Figure 23 shows that that number of arts, home furnishings and design businesses in this sub-area has actually risen in the last decade.

Figure 23: Number of Arts, Home Furnishings and Design Establishments by Sub-Area,



Source: California State Board of Equalization, Strategic Economics 2008

Figure 24: Sales Per Arts, Home Furnishings and Design Establishment by Sub-Area, 1997 vs.2006



Source: California State Board of Equalization; Strategic Economics 2008

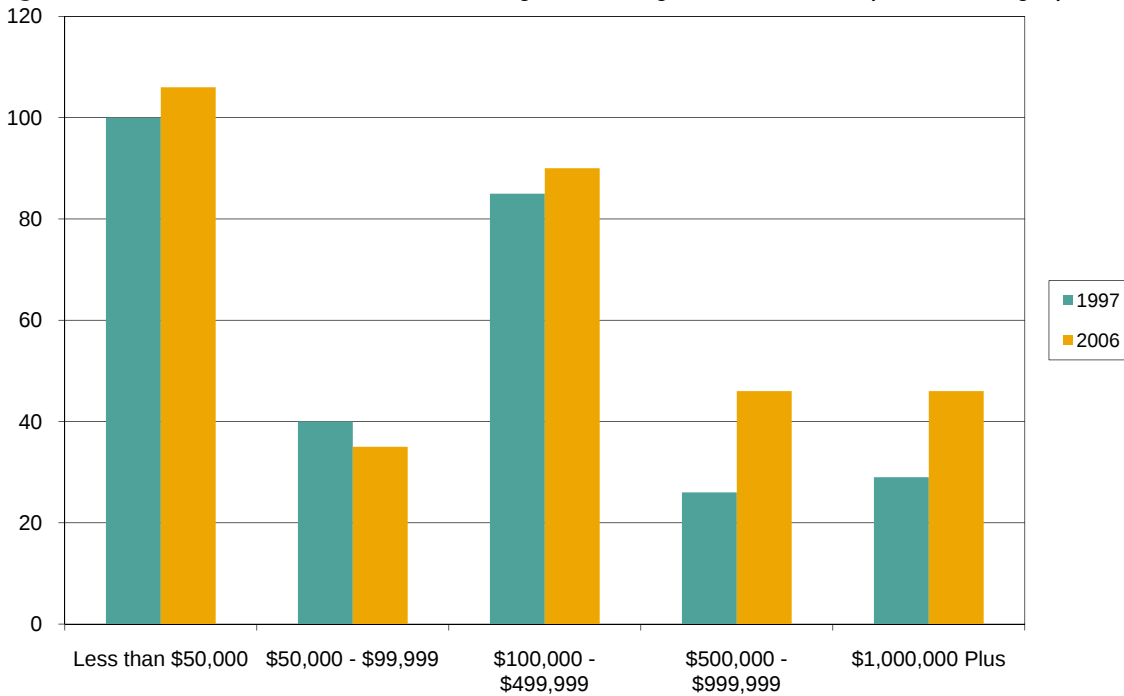
While the number of arts, home furnishings and design business rose across West Hollywood from 1997 to 2006, the most telling metric is the dramatic increase in sales per establishment in the Robertson/Melrose/Beverly area. Figure 24 shows that sales per establishment grew in every sub-area but the Sunset Strip, which may be a reflection of the increase in number of businesses, and therefore increase in competition, in the area.

The gourmet restaurants, art galleries and luxury retailers are complementing the arts, home furnishings and design industry, rather than competing with it. By enhancing the reputation of the neighborhood and attracting affluent and design-oriented customers, the new businesses have given the entire area an economic boost.

Business Size

As sales continue to grow, it is important that West Hollywood's arts, home furnishings and design industry maintain its status as an incubator for new designers and small businesses. In order to determine how the success of the industry has affected business of all sizes, the arts, home furnishings and design industry was broken into five categories by total sales, representing five tiers of business size. Figure 25 illustrates the number of businesses of each size in 1997 and 2006.

Figure 25: Number of Arts, Home Furnishings and Design Establishment by Sales Category, 1997 vs.2006

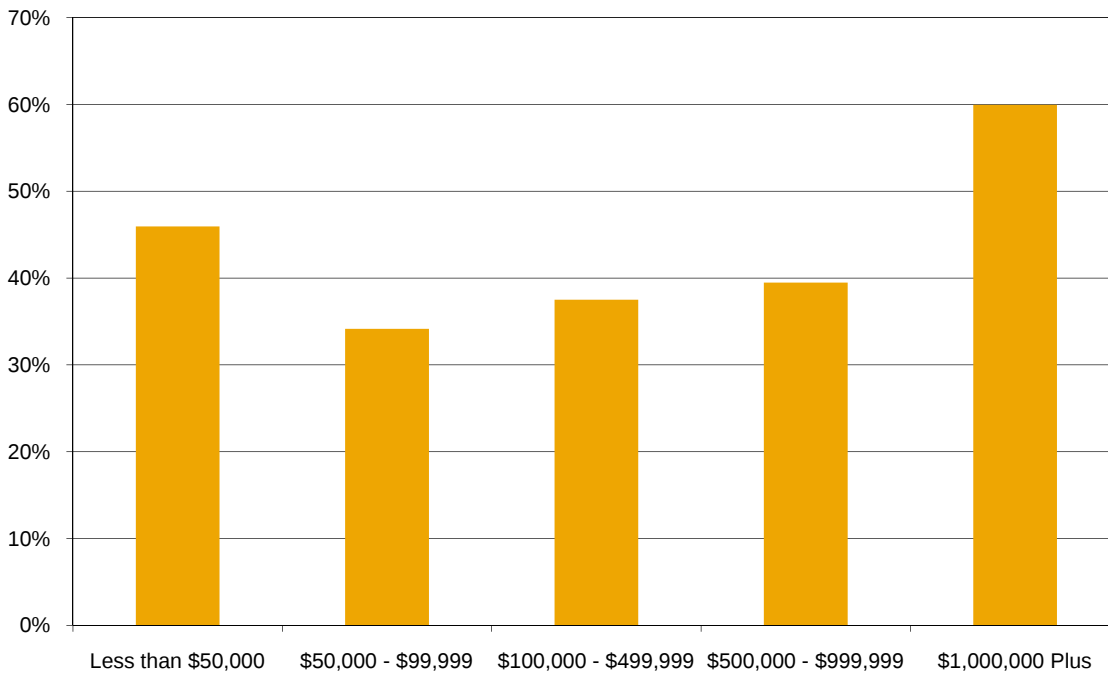


Source: California State Board of Equalization; Strategic Economics 2008

While the number of large arts, home furnishings and design businesses grew the most, the number of the smallest businesses also increased. This indicates that the success of the arts, home furnishings and design industry is attracting both big and small businesses to West Hollywood.

In addition, sales performance data (Figure 26) shows that sales per establishment have increased for businesses in all sales categories. The most significant increases in sales performance were found in the largest (\$1,000,000 plus) and smallest (less than \$50,000) categories.

Figure 26: Percent Change in Sales Per Establishment from 1997 – 2006, by Sales Category



Source: California State Board of Equalization; Strategic Economics 2008

The evolving status of the Robertson/Melrose/Beverly subarea and the success of the arts, home furnishing and design industry have benefitted businesses of all sizes. The ability of small businesses to thrive in this highly competitive environment may be a result of the low overhead required for home-based businesses or shared workspace. It may also be a sign of the symbiotic relationship between creative enterprises, in which more established businesses benefit from proximity to up-and-coming designers, and small, up-and-coming designers benefit from the foot traffic and visibility provided by large businesses.

NEIGHBORHOOD-SERVING BUSINESSES

As West Hollywood continues to attract high-end retail, it has become a shopping destination for the greater Los Angeles region. However, local residents still need to access basic necessities, and there is a concern that small, neighborhood-serving businesses are being pushed out by luxury goods and that residents will not be able to afford the stores that remain.

The neighborhood-serving business category¹⁵ includes both retailers selling tangible goods, such as grocery stores, drug stores and hardware stores, and businesses offering services, such as hair salons, shoe repair, dry cleaning and auto repair shops. Because services are not subject to sales tax, service businesses are only included in this analysis to the extent they sell incidental retail items, such as accessories at an auto repair shop, or shampoo at a hair salon. While the sale of these items may provide some insight to the performance of an establishment, it does not represent total revenues. Therefore this analysis considers the sales performance of neighborhood-serving retail and service businesses separately.

The following section, however, considers retail and service businesses together, in order to provide a comprehensive overview of the number and location of neighborhood-serving businesses in West Hollywood.

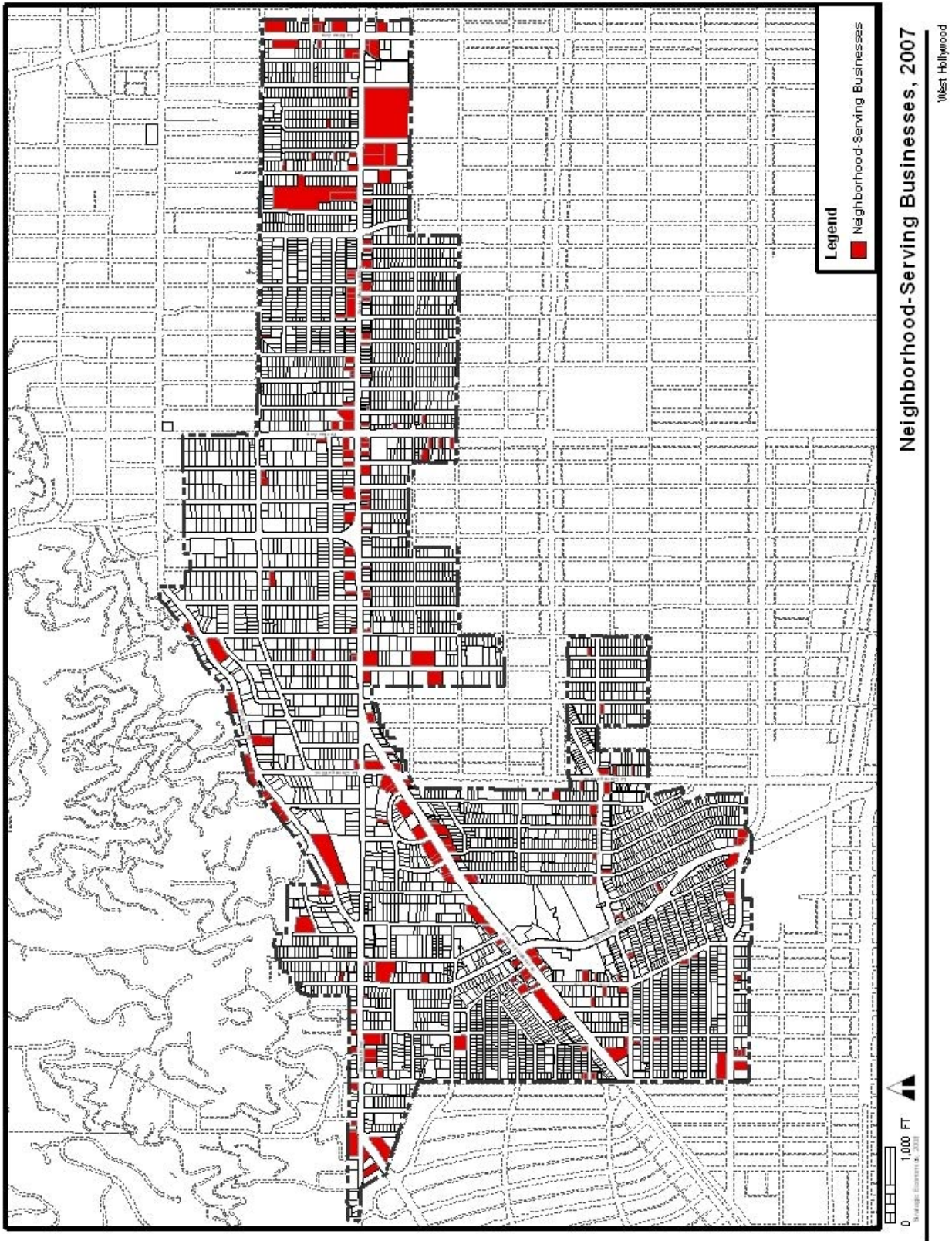
Geographic Snapshot

West Hollywood currently has 184 neighborhood-serving retail and service businesses, of which nine are grocery stores. In reality, some neighborhood-serving retail serves a far wider clientele than just the neighborhood. In 2007 food and beverage stores in West Hollywood sold over \$128 million of goods to persons living outside of the City.

The majority of businesses are concentrated along Santa Monica Boulevard, Sunset Boulevard and La Brea Avenue, where rents average \$3.00 to \$5.00 per square foot.

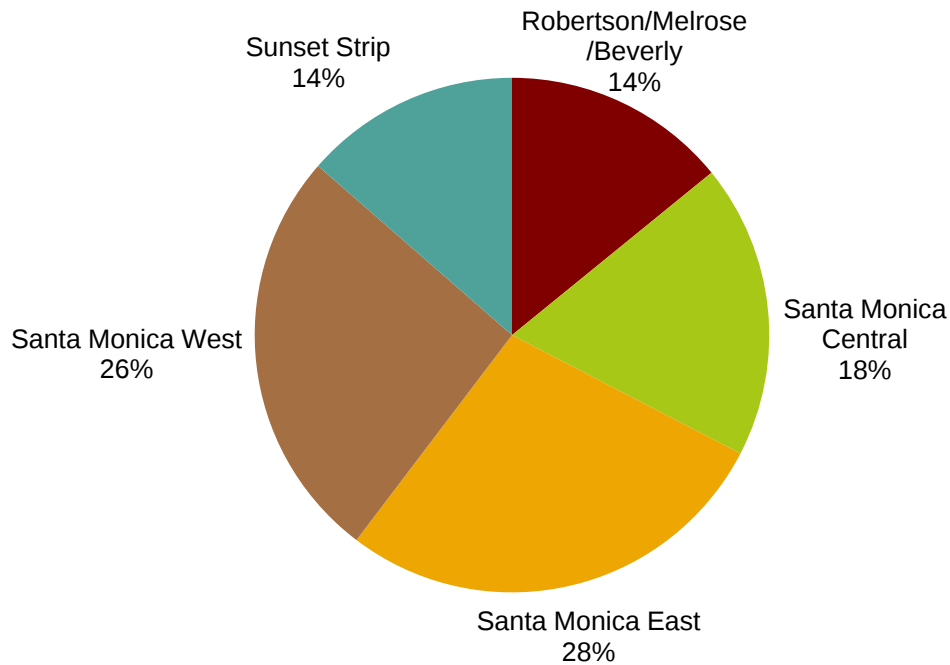
¹⁵ The Neighborhood-serving Business Category includes both retail and service businesses. Retail businesses included in this category include Drug Stores, Liquor Stores, Hardware Stores and Grocery Stores, derived from State Board of Equalization Codes. Neighborhood-Serving Services include businesses from the following SBOE categories: Auto Repair Shops, Business Services, Health and Medical Services, Personal Services, Repair Shop/Hand Tool Rentals and Shoe Repair Stores. The list of potential Neighborhood-Serving services was reviewed and edited by City Staff to better reflect actual Neighborhood-Serving businesses.

Map D: Neighborhood-Serving Retail and Service Businesses in West Hollywood, 2007



Source: California State Board of Equalization

Figure 27: Location of Neighborhood-Serving Retail and Service Businesses by Sub-Area, 2006



Source: California State Board of Equalization; Strategic Economics 2008

Almost three quarters (72 percent) of West Hollywood's neighborhood serving retail and service businesses are located along Santa Monica Boulevard. The Sunset Strip and Robertson/Melrose/Beverly subareas each contain 14 percent of the City's neighborhood-serving businesses.

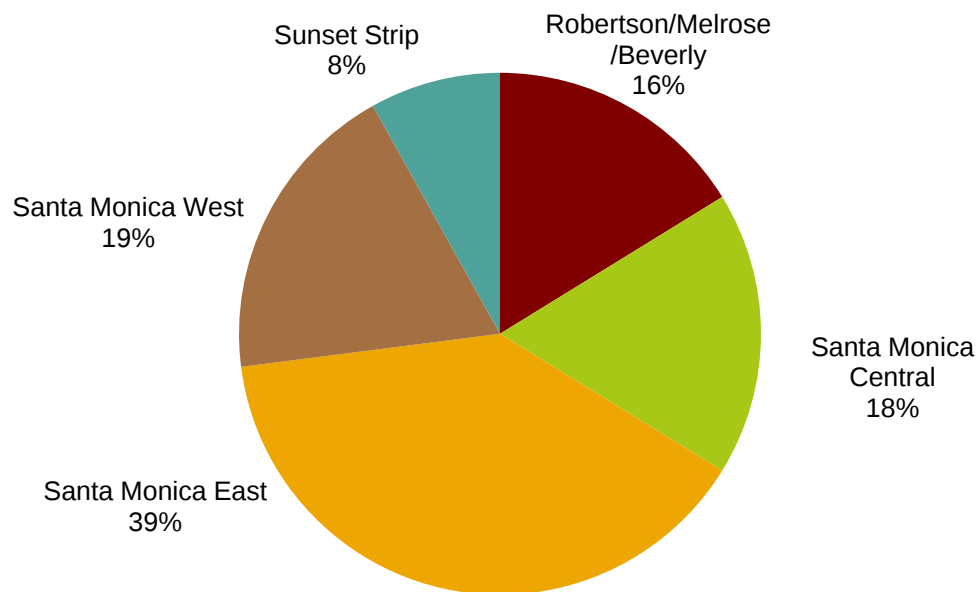
Neighborhood-Serving Retail Businesses

Neighborhood-serving retail businesses sell tangible goods, such as grocery stores, hardware stores and drug stores. Service businesses, such as auto repair shops and hair salons, are considered separately in the Neighborhood-Serving Services subsection, on page 43 of this report.

With three grocery stores and many smaller outlets, Santa Monica East has both the largest number and the highest sales revenue from neighborhood-serving businesses (Figure 28)¹⁶. Santa Monica West and Robertson/Melrose/Beverly also have multiple grocery stores and significant sales revenue. Santa Monica Central has just one large grocery store, and the narrow Sunset Strip has both the fewest stores and the lowest sales revenue. This may reflect the higher rents on the Strip, or simply the smaller geographic size of the sub-area.

¹⁶ Precise neighborhood-serving sales are not reported by sub-area to protect the confidentiality of participating businesses.

Figure 28: Location of Neighborhood-Serving Retail Businesses by Sub-Area, 2006

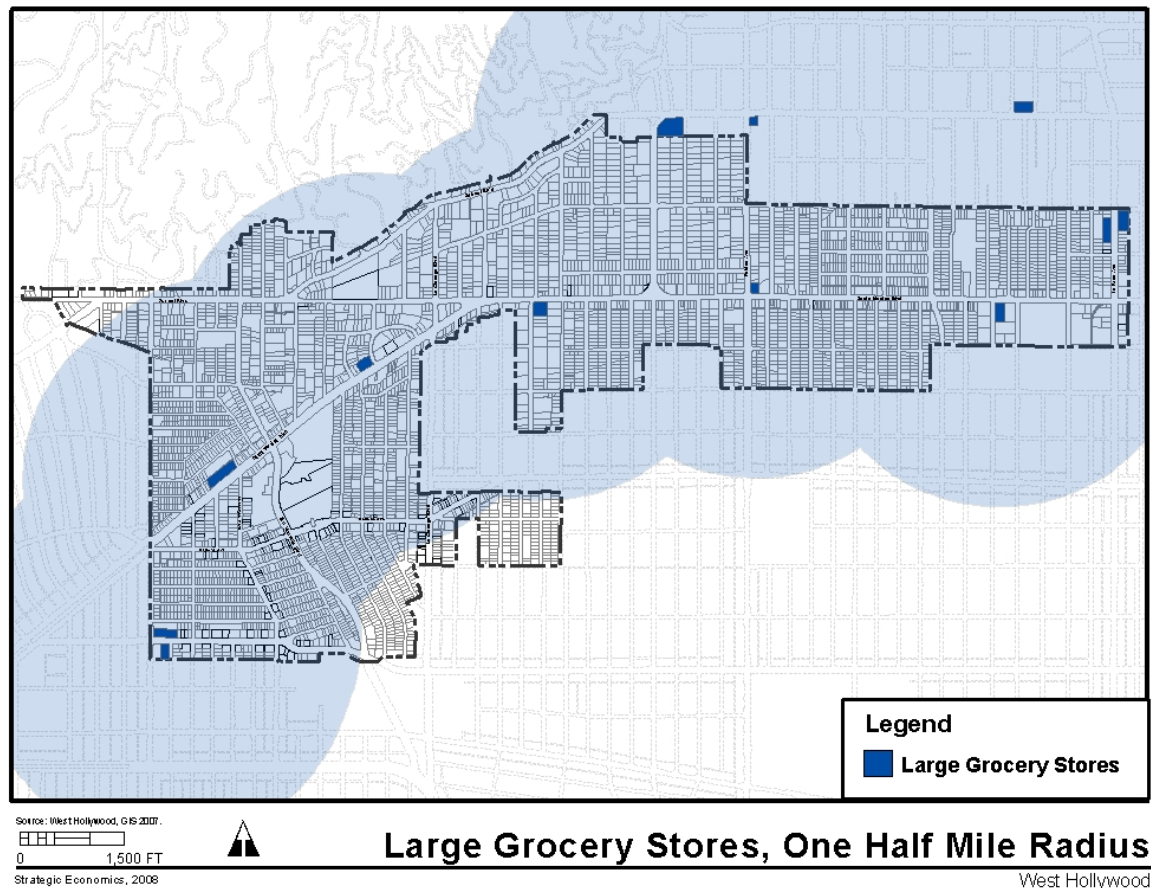


Source: California State Board of Equalization; Strategic Economics 2008

Accessibility and Affordability

It is important to the City that all residents are able to shop locally. In order to estimate accessibility, Strategic Economics mapped a half-mile radius (10-minute walk or a 5-minute drive) around all of the major grocery stores in and around the City.

Map E: Accessibility of Large Grocery Stores in West Hollywood, 2006

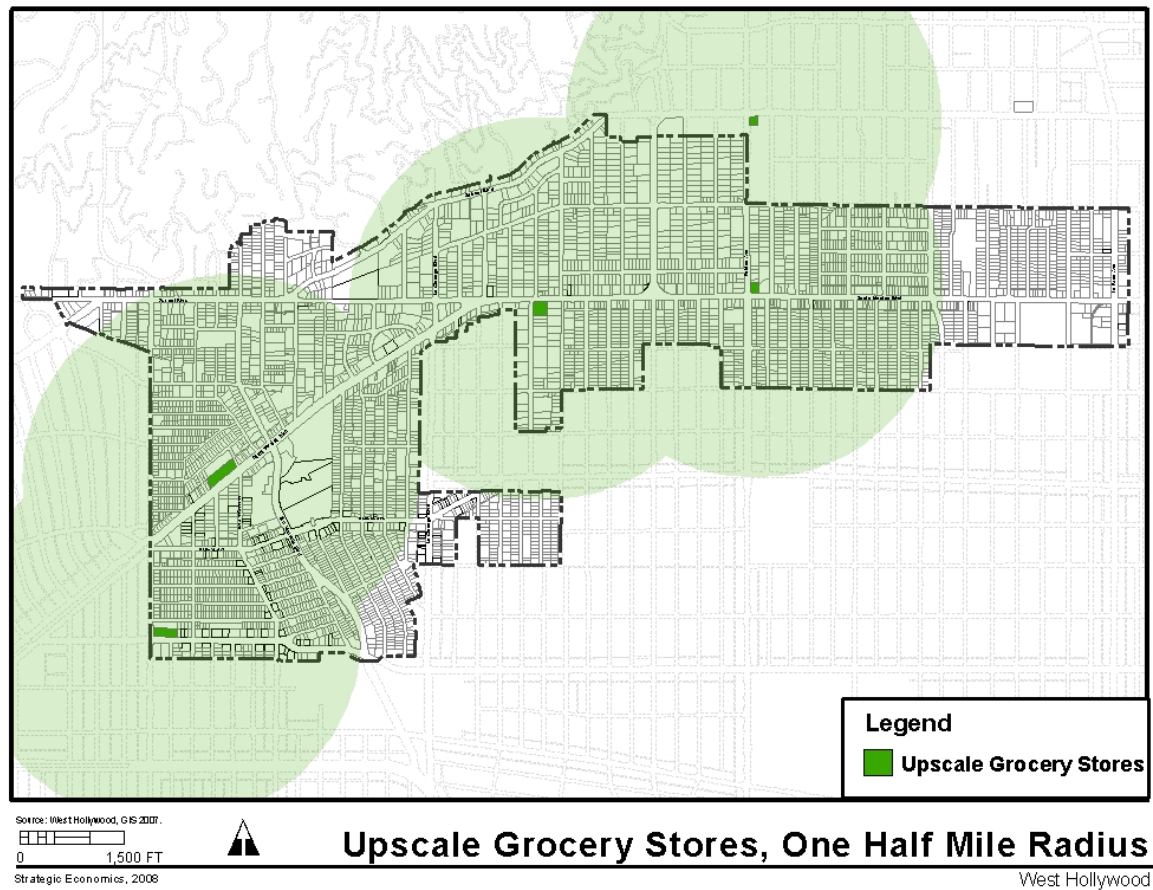


Source: California State Board of Equalization, Strategic Economics 2008

Overall, the City is well served by grocery stores. Most residents live within a half-mile radius of a full-service grocery store.

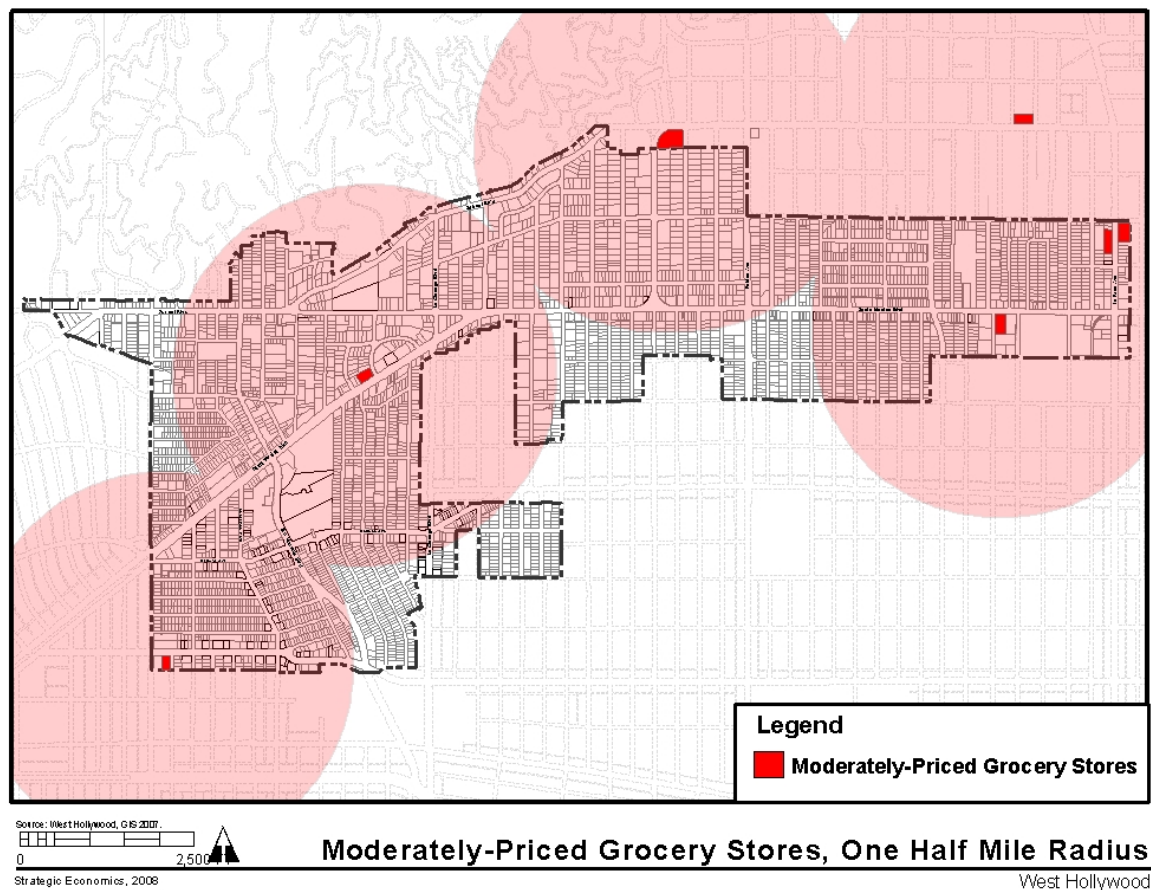
West Hollywood is also a strong proponent of affordable housing, and some residents cannot afford to shop at the more expensive grocery stores. Whole Foods and Ralphs, for example, have different price points and serve different economic segments in the community. In order to determine access to different levels of affordability, upscale and moderately priced grocery stores were mapped separately.

Map F: Accessibility of Upscale Grocery Stores in West Hollywood, 2006



Source: California State Board of Equalization, Strategic Economics 2008

Map G: Accessibility of Moderately Priced Grocery Stores in West Hollywood, 2006



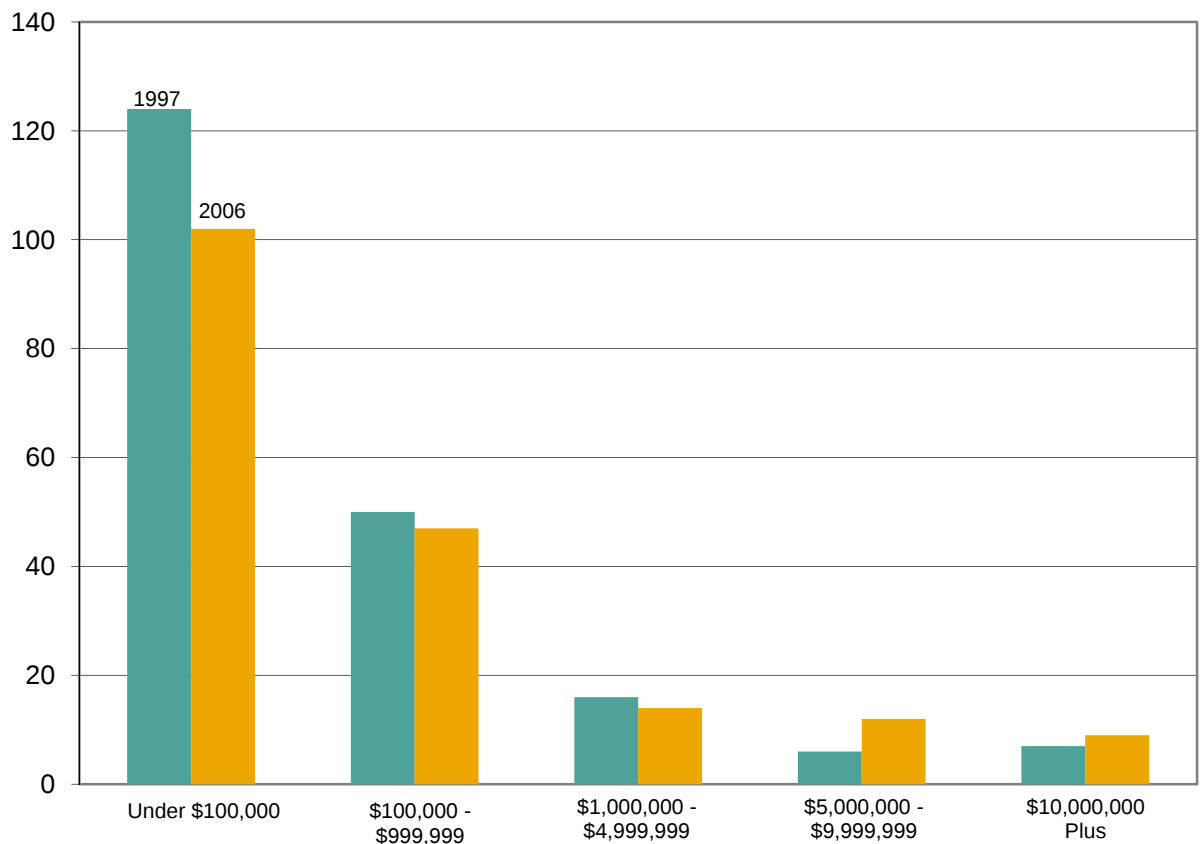
Source: California State Board of Equalization, Strategic Economics 2008

Most residents live within walking distance of a moderately priced grocery store, with the exception of parts of the Santa Monica Central and Santa Monica East sub-areas. Residents of these areas have walking access to high-end grocery stores or small retailers who are likely to have higher prices. They must drive or use public transit to reach more affordable stores.

Business Size

West Hollywood is also concerned that small, mom-and-pop businesses are losing ground to large chain stores as is occurring nationally. Rising rents and the influx of luxury retail increases this concern. In order to examine this phenomenon, neighborhood-serving retail was broken into five categories by total sales, representing five tiers of business size. This analysis includes only retail businesses, because accurate total sales data for service businesses was not available. Figure 29 illustrates the number of businesses of each size in 1997 and 2006.

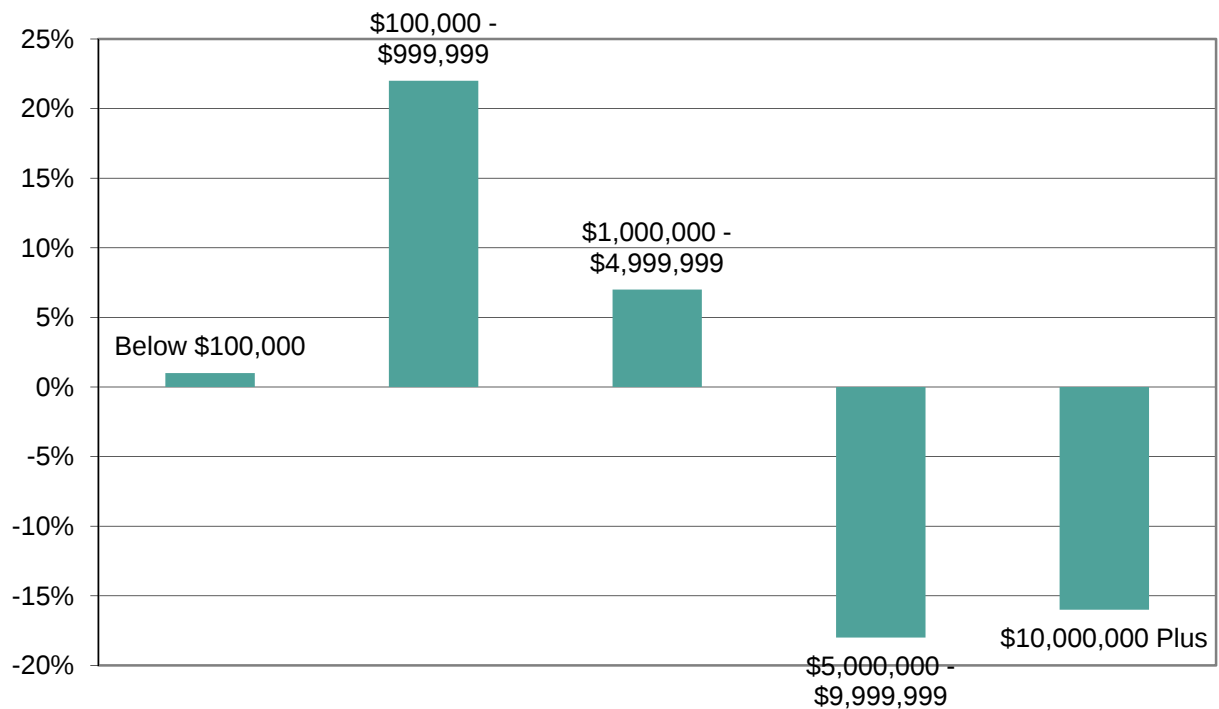
Figure 29: Number of Neighborhood-Serving Retail Stores by Sales Category



Source: California State Board of Equalization; Strategic Economics
2008

The number of small retail businesses, especially those with sales below \$1 million, has declined significantly in the last decade, while larger stores are increasing in number. However, as Figure 30 shows, the performance of small businesses has improved significantly in the last decade, while most large businesses have seen a reduction in sales per establishment. The number of small, neighborhood-serving businesses in West Hollywood may be going down, but those that remain are stronger than ever. There are more large stores than in the past, but they face increased competition and shrinking sales. In addition, since the sales tax data for West Hollywood does not show any evidence of leakage in neighborhood-serving categories, the decline of small businesses is not a concern at the present time. Given that this trend is occurring nationally, this issue should be revisited periodically.

Figure 30: Percent Change in Sales per Establishment for Neighborhood-Serving Businesses from 1997-2006, by Sales Category



Source: California State Board of Equalization; Strategic Economics 2008

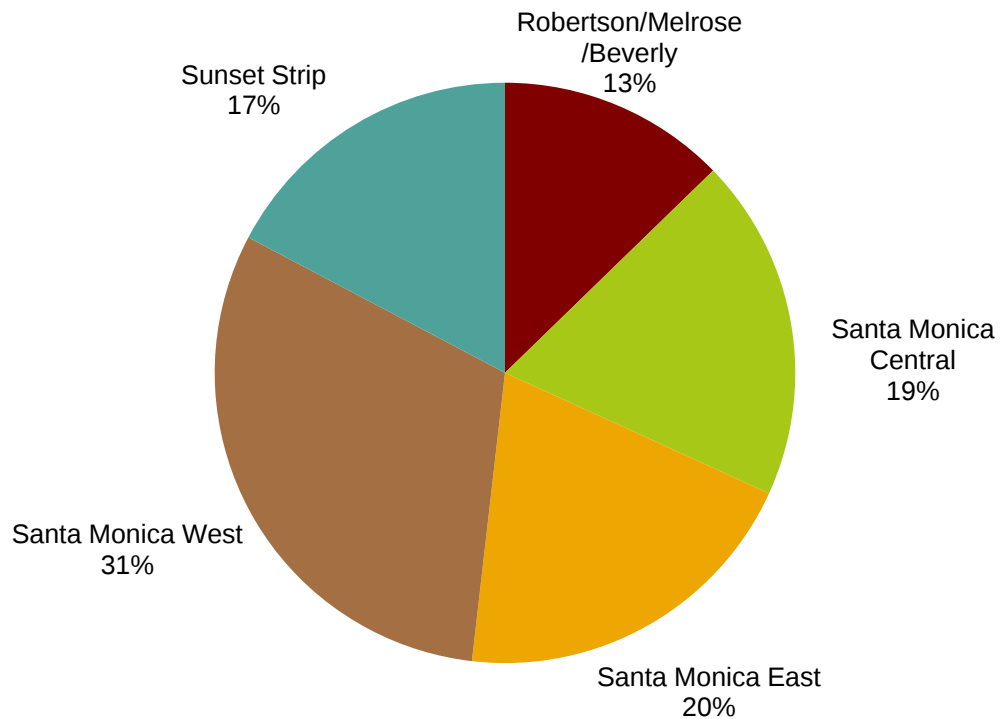
Neighborhood-serving Service Businesses

Service businesses primarily offer non-tangible services¹⁷, such as hair salons, shoe repair, dry cleaning and auto repair shops. This analysis is able to count and assess the performance of service businesses only to the extent that they sell incidental retail items, such as accessories at an auto repair shop, or shampoo at a hair salon. While the sale of these items does not represent total revenues, it may provide some insight to the performance of an establishment.

In 2006, West Hollywood contained 110 service businesses. Almost two thirds (70 percent) of those businesses are located along Santa Monica Boulevard, with the largest concentration in the Santa Monica West subarea (31 percent, Figure 31)). The Sunset Strip and Robertson/Melrose/Beverly contain relatively smaller proportions of neighborhood-serving services (17 percent and 13 percent, respectively).

¹⁷ Neighborhood-serving service businesses were identified through a collaborative process with the City. City Staff identified specific neighborhood-serving businesses from a comprehensive list of services provided by Strategic Economics. That list included the following State Board of Equalization Categories: Auto Repair Shops, Business Services, Health and Medical Services, Personal Services, Repair Shop/Hand Tool Rentals and Shoe Repair Stores.

Figure 31: Count of Neighborhood-serving Services by Subarea, 2006



Source: California State Board of Equalization; Strategic Economics 2008

The number of neighborhood-serving services in West Hollywood fell 14 percent from 1997 to 2006, from 126 to 110. One reason for this decline might be falling revenues – the average retail sales per establishment fell 7 percent from 1997 to 2006. Although this number does not represent total revenues, declining sales of tangential retail goods does suggest that overall revenues may have been declining.

LGBT-IDENTIFIED BUSINESSES

The LGBT community has been an integral part of West Hollywood from the City's incorporation to its current evolution as one of Los Angeles's most desirable locales. In a time when closets were firmly sealed shut, members of the LGBT community could be themselves in West Hollywood, outwardly and openly. Today the City hosts the LA Pride parade, and has the highest concentration of LGBT-identified businesses in the region. In 2006, 39 percent of the City's population identified themselves as gay, bisexual or lesbian.¹⁸ However, as the stigma of homosexuality decreases, other neighborhoods are opening their doors to the LGBT population. At the same time, heterosexual singles and couples are drawn to the high quality of life in West Hollywood. There is a concern that West Hollywood is losing its LGBT identity and population.

Economic and Geographic Snapshot

The section of Santa Monica Boulevard from Crescent Heights to Robertson Boulevard is the historical and geographical heart of the LGBT community. As Map H indicates, there is also significant spillover onto the central portion of Santa Monica and onto Robertson Boulevard. In addition, there are a number of hotels on the Sunset Strip that identify themselves as LGBT-friendly. The majority of LGBT-identified businesses¹⁹ fall into the nightlife category. Most of the LGBT-identified social services are in and around West Hollywood Park.

¹⁸ Sara Kocher Consulting and Cathryn Berger Kaye Consulting, City of West Hollywood. West Hollywood Speaks Community Report.

¹⁹ The Go Gay West Hollywood website¹⁹ was used to find businesses that identify as serving an LGBT or mixed clientele. The list was supplemented with businesses identified by users of the Yelp¹⁹ website as serving this community.

Map H: LGBT-Identified Businesses in West Hollywood, 2006

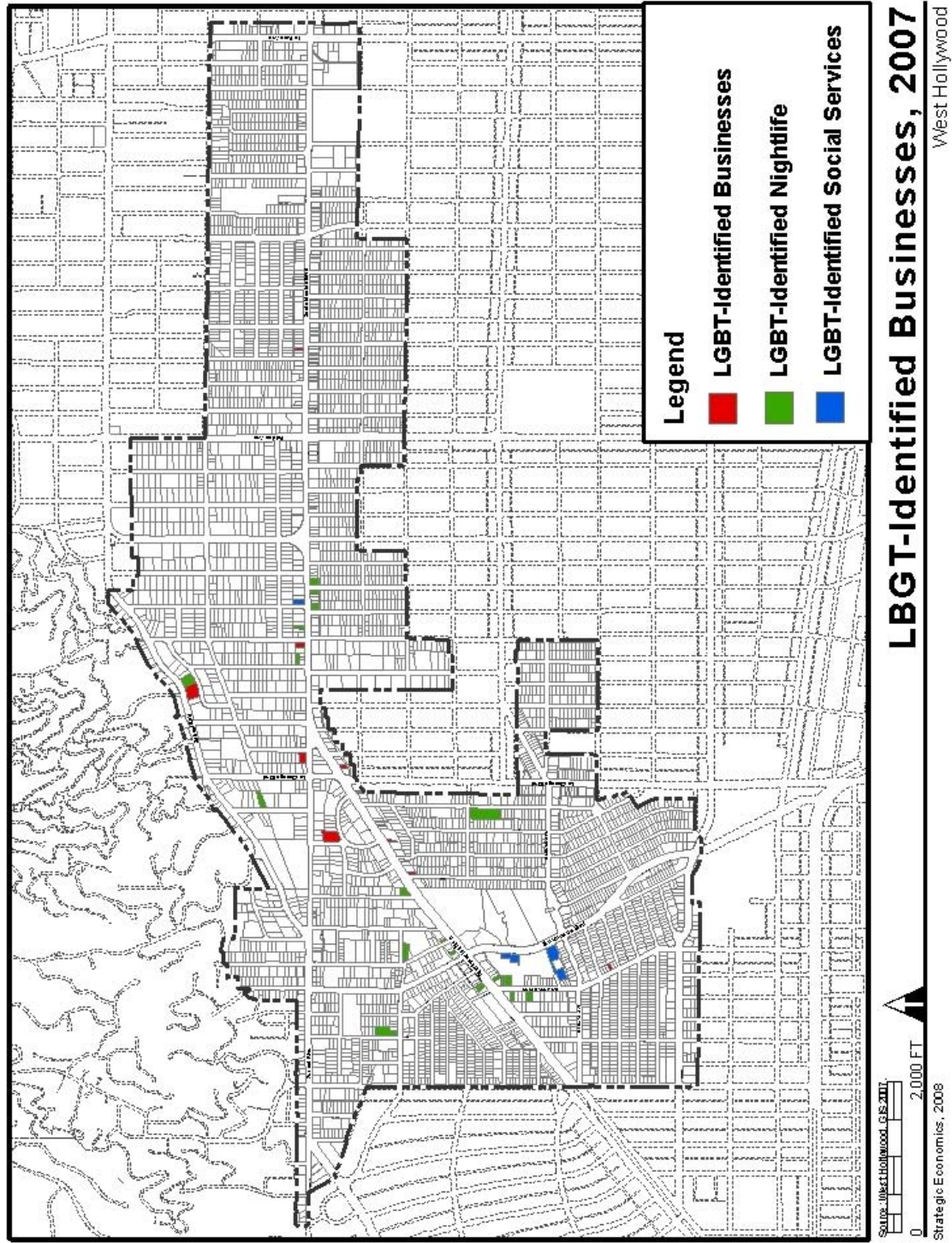
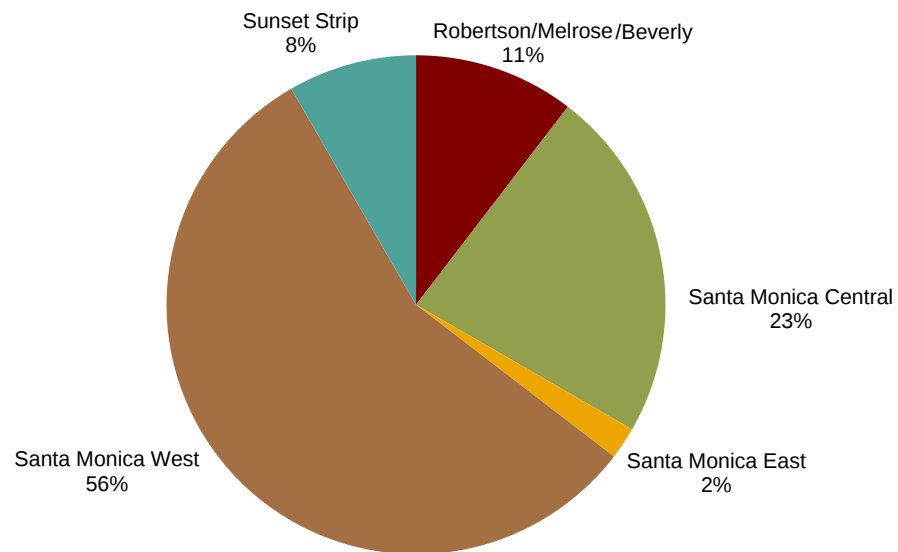


Figure 32: Share of LGBT-Identified Businesses by Sub-Area, 2006



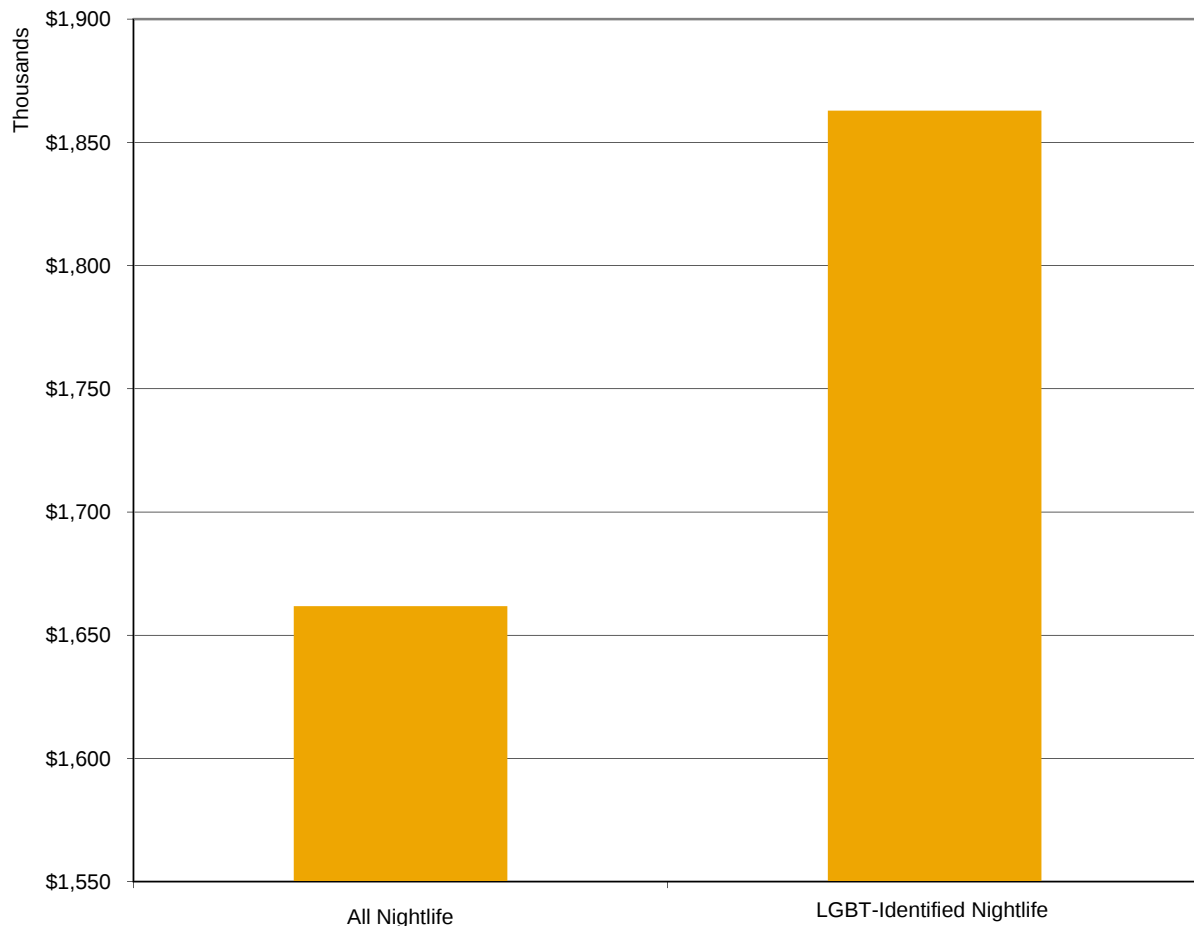
Source: California State Board of Equalization; Strategic Economics 2008

As illustrated on the previous page in Figure 32, the Santa Monica West sub-area has the highest concentration of LGBT-identified businesses, followed by Santa Monica Central. Each sub-area's share of sales revenue²⁰ is roughly proportional to its number of businesses, with the exception of the Sunset Strip. The Sunset Strip reports proportionately higher sales from LGBT-identified businesses than other sub-areas. This may be due to its high concentration of hotels, which typically earn higher sales revenues than nightclubs or restaurants.

Current Performance

Due to a lack of historical data on LGBT-identified businesses, their performance could not be tracked over time. To test their current performance, Strategic Economics compared the sales per establishment of LGBT-identified businesses to that of comparable businesses throughout the City. The analysis was narrowed to just the nightlife industry because most LGBT-identified businesses are bars, restaurants and clubs. Hotels were removed from this analysis because their high earnings might have distorted the findings.

Figure 33: Sales Per Establishment, LGBT-Identified Nightlife vs. All Nightlife, 2006



Source: California State Board of Equalization; Strategic Economics 2008

²⁰ Precise sales revenue for LGBT-identified businesses cannot be reported by sub-area, in order to protect the confidentiality of participating businesses.

Figure 33 shows that LGBT-identified nightlife businesses perform significantly better (12 percent higher sales per establishment) than all nightlife in West Hollywood.

The strong performance of LGBT-identified nightlife suggests that, at least for the moment, the LGBT identity in West Hollywood is in demand. It is unclear, however, which population is generating this demand. The brokers interviewed report that the City's LGBT identity is in flux, and that single, straight women and young married couples are increasingly drawn to the high quality of life and sense of safety provided in West Hollywood.

It may be that rising numbers of heterosexual singles and couples are frequenting historically gay clubs, and are responsible in part for the success of these institutions. As the acceptance of homosexuality becomes more widespread, it is possible that "straight" and "gay" bars will become obsolete. A recent article in *Entrepreneur* magazine put gay bars on their lists of businesses facing extinction in the next 10 years²¹. As in similar communities across the nation, the LGBT identity in West Hollywood is evolving, and the business community is evolving with it.

²¹ Williams, Geoff. "10 Businesses Facing Extinction in 10 Years." *Entrepreneur Magazine* 17 Sept 2007 08 May 2008 <<http://www.entrepreneur.com/extinction/index.html>>.

RUSSIAN-ORIENTED BUSINESSES

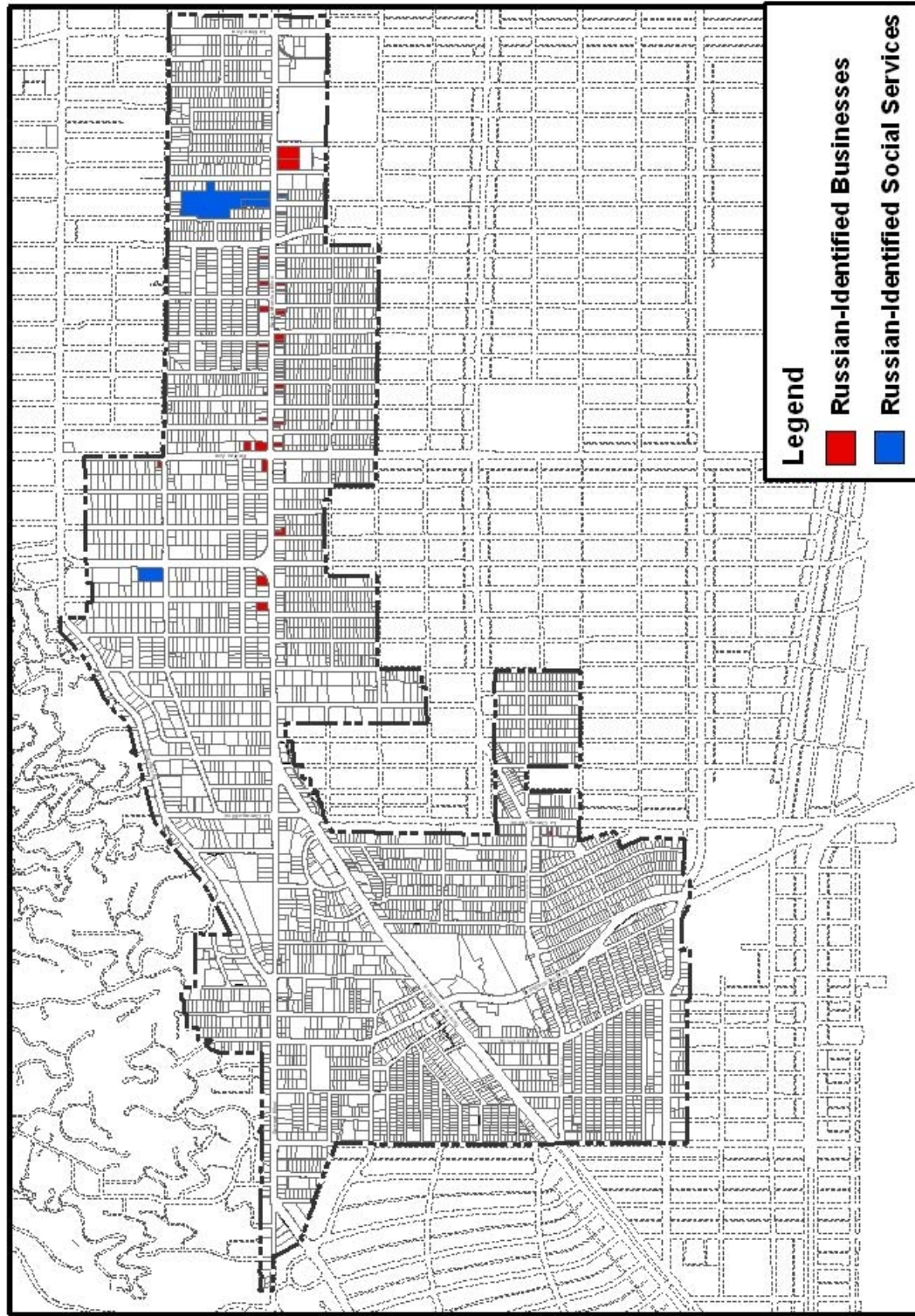
West Hollywood is also home to a large population of Russian immigrants, the majority of whom are Jewish. As of 2002, eight percent of the City's population reported being an immigrant from the former Soviet Union²². This group has been very active, both politically and culturally. While the bulk of Russian immigration to West Hollywood has concluded, the City's Russian Community Outreach Coordinator reports that many of the community's younger generation, who left the neighborhood to pursue an education, are returning to start businesses and families in West Hollywood. There are conflicting opinions on the trend, however, and many brokers report that the Russian immigrant community is aging and losing its younger population to Russian enclaves in other parts of the Los Angeles region.

Evidence of West Hollywood's Russian community can be witnessed in the row of Russian-language stores²³ lining Santa Monica Boulevard in the east.

²² Sara Kocher Associates, City of West Hollywood. Human Resources Department. City of West Hollywood Demographic Profile. 2002.

²³ Russian businesses were initially identified from a list provided by the city's Russian Outreach Coordinator. Strategic Economics supplemented the list with additional businesses identified on the Yelp website.

Map I: Russian-Oriented Businesses in West Hollywood, 2006



Russian-oriented stores and social services are concentrated in the Santa Monica East sub-area (Map I²⁴). With the exception of the intersection of La Brea and Santa Monica Boulevard, where the West Hollywood Gateway development is located, this sub-area has not seen the same commercial success (and rising commercial rents) as the rest of the City. Most Russian-oriented businesses are small grocery stores, and serve a niche within West Hollywood that larger, more generic grocery stores cannot. Sales tax revenues could not be found for many of the businesses on this map, indicating that they have recently shut down, report under different names, or do not report sales taxes. Due to the inconsistencies in the data, Strategic Economics could not analyze sales tax revenues from Russian-oriented businesses as in other key categories. On average, however, sales per establishment for Russian-oriented businesses in Santa Monica are significantly lower than for comparable businesses.

Although Russian-oriented businesses may not be as large as other businesses, they play an important role in preserving diversity within the City and supporting West Hollywood and the region's Russian community.

²⁴ A complete listing of Russian-oriented businesses was not available at the time this report was written. Although Strategic Economics worked with City Staff to identify Russian-oriented businesses in West Hollywood, it is likely that this map is not complete, given the lack of available information.

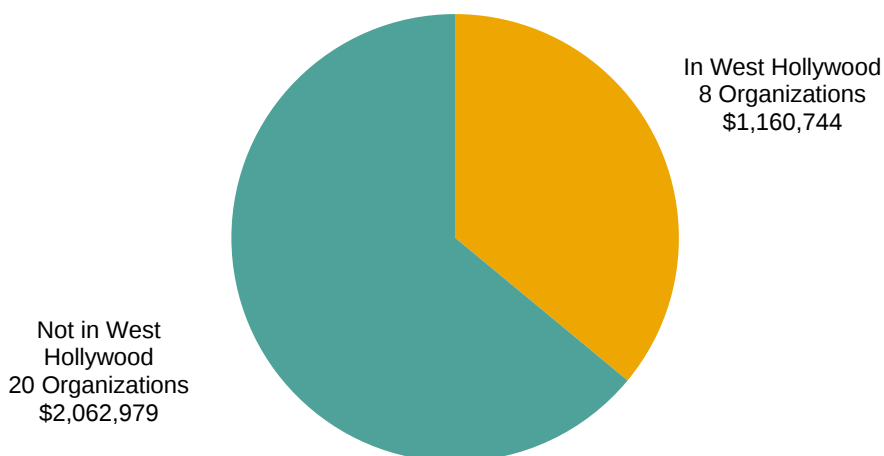
SOCIAL SERVICES

Since incorporation in 1984, West Hollywood has strived to provide residents with access to high-quality social services. With 12 percent of its general fund going to social services, the City spends far more per capita on these programs than the typical California city.

In an effort to provide the access to the most programs possible, West Hollywood funds many organizations that operate in nearby cities. In fact, due to limited land area and high rents, the number of city-funded, social service programs within West Hollywood's corporate limits is relatively few. Out of the 28 organizations funded by the City, only eight are located within West Hollywood.

In addition, the vast majority of West Hollywood's social service funding goes to programs located in nearby cities to ensure adequate social services are accessible to residents (Figure 34).

Figure 34: Social Service Funding by the City of West Hollywood, FY07-08



Source: City of West Hollywood, Social Services Funded Agencies, Fiscal year 2007 – 2008; Strategic Economics 2008

Social service organizations might have difficulty locating in West Hollywood due to small parcel sizes, parking requirements, high rents and land values. In addition, the communities that many of these social service organizations serve, such as the LGBT community, have significant populations in other cities such as Hollywood, where these social service organizations might choose to locate instead of West Hollywood.

ISSUE AREAS SUMMARY

West Hollywood nightlife is evolving, not disappearing.

Although West Hollywood may face competition from other cities for the hottest clubs, it is still performing well. The City's nightlife is evolving to meet the needs of a more mature, affluent and increasingly non-gay demographic.

Arts, home furnishings and design businesses are boosted by additional luxury retail.

Rather than pushing out arts, home furnishings and design businesses, the new luxury retail in the Robertson/Melrose/Beverly sub-area actually benefits existing businesses through increased foot traffic and exposure.

Small neighborhood-serving retail businesses are lost to increased competition, not retail gentrification.

As more neighborhood-serving retail stores flock to West Hollywood, those that are unable to compete go out of business. Although there are fewer small neighborhood-serving stores today than in 1997, those that remain are performing better than ever, with higher sales growth than their large counterparts.

Although neighborhood-serving retail businesses remain strong, West Hollywood is losing neighborhood-serving services.

The number of neighborhood-serving services in West Hollywood fell 14 percent from 1997 to 2006. Declining sales of tangential retail goods suggest that a decline in overall revenues may play a role in the loss of service businesses.

The City's LGBT identity is in flux.

While West Hollywood maintains a large LGBT population, straight singles and couples are increasingly drawn to the City. LGBT-identified nightlife still outperforms the average nightlife establishment by 12 percent, however, indicating a high demand for these venues.

Most Russian-oriented businesses are small, neighborhood-serving stores.

Concentrated in the Santa Monica East sub-area, the majority of Russian-oriented businesses are small, neighborhood-serving stores. Although they have lower sales per establishment, on average, than comparable stores, they serve a cultural niche that larger, more generic grocery stores cannot.

Most city-funded social services are located in nearby cities.

Although West Hollywood spends 12 percent of its General Fund on social services, almost two-thirds of that funding goes to programs located in nearby cities due to high rents and limited land area. Out of 28 funded organizations, only eight operate within West Hollywood.

VI. REPORT SUMMARY AND NEXT STEPS

SUMMARY OF FINDINGS

West Hollywood has an atypical mix of revenues and costs.

West Hollywood spends much more of its general fund on social services and city management than the average California city, and receives much more of its revenues from transient occupancy taxes.

Tourism is a major source of revenue in West Hollywood.

West Hollywood attracts visitors from around the region, the nation and abroad. In 2006, tourists contributed to the City's large retail surplus, with \$812.1 million in direct and indirect spending. Meanwhile, the transient occupancy tax accounts for 20 percent of general fund revenues, and about one-fifth of sales tax revenue is generated by tourism.

Fiscal contributions vary greatly by sub-area and retail category.

The Sunset Strip, followed by Santa Monica East, generates the highest proportion of West Hollywood's total tax revenue. The majority of sales tax revenues are received from the comparison goods, nightlife, and arts, home furnishings and design categories.

On the whole, West Hollywood retail is performing well.

Despite a dip after September 11, retail sales in West Hollywood have increased significantly from 1997 to 2006. The City also has a large retail surplus, supplying the surrounding region with convenience goods, food and drink establishments, and arts, home furnishings and design goods. With the opening of the West Hollywood Gateway center, sales of comparison goods in the City increased dramatically.

Nightlife in West Hollywood is evolving, but still performing well.

Despite a concern that West Hollywood is losing its nightlife, the number of establishments in the City has remained steady since 1997. The location of nightlife venues, however, is changing. The number of bars, clubs and restaurants on the Sunset Strip and in the Robertson/Melrose/Beverly area has declined, while Santa Monica West and Santa Monica Central have gained nightlife establishments. Sales per establishment are growing, and brokers report that West Hollywood's nightlife is evolving to serve a more mature, affluent and mixed demographic.

Arts, home furnishings and design businesses are complemented by the influx of luxury retail.

The Robertson/Melrose/Beverly sub-area, which traditionally has been home to West Hollywood's arts, home furnishings and design industry, has recently transformed to include luxury retail, fine dining and art galleries. Rather than being chased out by rising rents, however, the arts, home furnishings and design industry appears to be boosted by the increase in exposure and foot traffic. The number of arts, home furnishings and design businesses in West Hollywood has risen across the board in recent years, and sales performance has also improved, most dramatically in the Robertson/Melrose/Beverly sub-area.

West Hollywood is well served by grocery stores at a variety of price points.

The majority of West Hollywood's population lives within a 10-minute walk, or a five-minute drive, of a major grocery store. West Hollywood is home to both upscale and moderately priced grocery stores.

However, not everyone has access to a moderately priced store. Residents of some parts of the Santa Monica Central sub-area, for example, cannot walk to a moderately priced grocery store, although they are a short distance away by car or public transportation.

Although West Hollywood is losing small neighborhood-serving retail stores, those that remain are performing better than ever.

The number of small neighborhood-serving stores in West Hollywood is shrinking, while large grocery stores are still on the rise. The small stores that remain, however, are stronger than ever, with a 20 percent increase in sales per establishment in some cases. Large grocery stores, meanwhile, face increased competition and lower sales. Stores with annual sales over \$10 million have seen a 15 percent decrease in sales per establishment since 1997.

Despite the strong performance of neighborhood-serving retail businesses, West Hollywood is losing neighborhood-serving services.

The number of neighborhood-serving services in West Hollywood fell 14 percent from 1997 to 2006. Declining sales of tangential retail goods suggest that a decline in overall revenues may play a role in the loss of service businesses.

LGBT-identified nightlife performs significantly better than all West Hollywood nightlife businesses.

LGBT-identified nightlife has 35 percent higher sales per establishment than the average West Hollywood nightlife venue. Although broker interviews suggest that West Hollywood's LGBT identity is changing, the strong sales performance indicates that the identity is still in demand.

Most Russian-oriented businesses are small, neighborhood-serving stores.

Concentrated in the Santa Monica East sub-area, the majority of Russian-oriented businesses are small, neighborhood-serving stores. Although they have lower sales per establishment, on average, than comparable stores, they serve a cultural niche that larger, more generic grocery stores cannot.

Most City-funded social services are located in nearby cities.

Although West Hollywood spends 12 percent of its general fund on social services, almost two-thirds of that funding goes to programs located in nearby cities due to high rents and limited land area. Out of 28 funded organizations, only eight operate within West Hollywood.

NEXT STEPS

The findings of this report will be used to shape land use alternatives and implementation strategies for the General Plan update. These alternatives and implementation strategies will create a policy framework to guide West Hollywood as it seeks to meet community vision and goals over the next 20 years. Strategic Economics will work closely with City staff and the rest of the consultant team to generate alternatives and strategies that collectively address community needs, strengthen West Hollywood's economic and fiscal situation, and provide tools to allow the City to accommodate future growth and change consistent with its goals.

VII. APPENDIX

Citywide Retail Categories

In order to compare retail sales in different categories over time, Strategic Economics used State Board of Equalization Business codes to identify six retail categories.

These categories are somewhat different than those used to identify key categories because they allow an analysis of retail sales over time. Lack of historical data for the LGBT and Russian-oriented businesses means only present-day analyses can be conducted.

The citywide retail categories are defined as follows. Individually-identified arts, home furnishings and design stores that did not use typical SBOE codes were included based on the input of City staff.

Retail Category	SBOE Description
Comparison Goods	Women's Apparel
Comparison Goods	Men's Apparel
Comparison Goods	Family Apparel
Comparison Goods	Shoe Stores
Comparison Goods	Variety stores
Comparison Goods	Department stores
Comparison Goods	Discount department stores
Comparison Goods	General Merchandise
Comparison Goods	Art/Gift/Novelty Stores
Comparison Goods	Sporting Goods/Bike Stores
Comparison Goods	Florist Shops
Comparison Goods	Music Stores
Comparison Goods	Stationery/Book Stores
Comparison Goods	Jewelry Stores
Comparison Goods	Specialty Stores
Arts, Home Furnishings & Design	Home Furnishings
Arts, Home Furnishings & Design	Textiles/Furnishings
Comparison Goods	Electronics/Appliance Stores
Convenience Goods	Grocery no alcohol
Convenience Goods	Food stores non-grocery
Convenience Goods	Package Liquor Stores
Convenience Goods	Drug Stores
Convenience Goods	Grocery stores beer/wine
Convenience Goods	Grocery stores liquor
Convenience Goods	Hardware stores
Restaurants	Restaurants No Alcohol
Nightlife	Restaurants Beer And Wine
Nightlife	Hotels - Liquor
Nightlife	Restaurants Liquor
Other	Newspaper stands
Other	Specialty Foods
Other	Cigar stores
Other	Second-hand stores
Other	Garden/agricultural supplies
Other	Wineries
Other	Clubs/amusement places

Other	Office equipment
Other	Textiles/furnishings