



TO: Lake Forest General Plan Advisory Committee (GPAC)

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SUBJECT: General Plan Economic Development Memorandum

DATE: November 19, 2018

The fourth GPAC meeting, scheduled for December 6, 2018, will focus on the topics of economic development. This meeting packet includes specific reading materials related to economic development and land use and raises key issues to consider in preparation for the GPAC meeting. The Economic Development Element is an optional element to the City's General Plan, but one that the City has chosen to undertake in order to articulate clear economic development goals and policies that will guide the community over the next twenty years.

Required Reading

Prior to the meeting on December 6th, please read the following items:

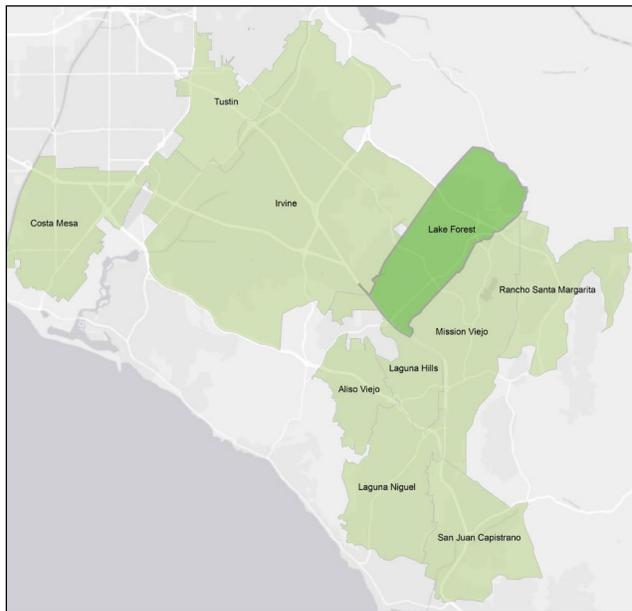
- [Draft Lake Forest Community Vision Statement](#)
- [Existing Conditions Report Chapter 3: Demographic and Market Trends](#)
- [Current General Plan Land Use Element](#) → **Select Pages Only** ←
 - Page 7: Economic Diversity, Expansion and Business Retention introduction, Goal 5.0, and Policies 5.1-5.7
 - Page 7: Revitalization of Older Areas introduction, Goal 6.0, and Policies 6.1-6.2
 - Pages 25 and 26: Additional discussion regarding Economic Diversity, Expansion and Business Retention and Revitalization of Older Areas
- [City of Lake Forest Economic Development Action Plan 2018-2020](#)
- [California Office of Planning and Research Guidelines Chapter 7: Economic Development and the General Plan](#)

Economic Development Issues and Opportunities

After reading the materials identified above, please consider the following key findings and questions and be prepared to discuss. The key findings developed in this analysis relate to Lake Forest's local economic and market dynamics and the City's position in a regional Trade Area. The Trade Area represents the immediate geography in which Lake Forest broadly competes for retail shoppers, home buyers and renters, commercial tenants, and office and manufacturing employers. Trade Area

boundaries are geographical features (specifically I-5 to the west and the Santa Ana Mountains to the east) that tend to focus a large share of regional circulation and economic activity within. For the purposes of this analysis, the Lake Forest Trade Area includes the ten cities of Aliso Viejo, Costa Mesa, Irvine, Laguna Hills, Laguna Niguel, Mission Viejo, Rancho Santa Margarita, San Juan Capistrano, and Tustin (as illustrated below and in Chapter 3 of the Existing Conditions Report).

FIGURE 1 MAP OF LAKE FOREST TRADE AREA



1. After decades of relatively strong growth as a traditional suburban community, Lake Forest appears to be experiencing increased market opportunity and pressure for more attainable, infill development, including the reuse and repositioning of vacant and/or under-performing properties. Lake Forest has experienced significant growth over the last 15 plus years due to the development of areas previously under the flight path of former MCAS El Toro. Like many maturing cities, as Lake Forest approaches the buildout of developable land, new growth will need to be accommodated primarily at smaller

infill sites, including through reuse and/or intensification. Strong regional growth trends, combined with the City's desirable community attributes (as described further herein), suggest that if built (and assuming the City is interested in this outcome), these infill opportunities are likely to be well received in the market (i.e. there appears to be strong consumer demand for a variety of real estate product types).

2. Lake Forest's relatively affluent and slightly older demographic has important implications for General Plan goals and outcomes, particularly in terms of the type and level of public services and facilities that can or should be provided. Lake Forest has experienced a gradual aging trend over the last 15 years, paralleling County-wide trends, with the over-64 age cohort growing and the under-19 cohort declining as a proportion of the total population. This trend appears to reflect an increase in "empty nester" households with residents "aging in place" combined with limited housing opportunities for young families and older adults looking to downsize. Meanwhile, the City median household income of about \$98,000 (in 2018-dollars) was 2 percent above the Trade Area and 18 percent above the County. These trends may have implications for the City's long-term planning, with increased demand for senior-age-appropriate housing and services (the City is currently constructing a dedicated Senior Center). Relatively affluent households may represent a strong source of demand for retail, recreation, and related entertainment activities, with corresponding economic and tax benefits to the City. To the extent that "aging in place" predominates, a

lack of turn-over in the housing stock can depress property taxes (due to State law related to property assessed value).

- 3. *Strong community attributes and home values suggest that variety of housing types would likely be well received in the marketplace, including opportunities for upscale, higher-density products that could help retain and attract younger residents, "empty-nesters", and seniors.*** While Lake Forest median home values fall below the Trade Area (but above the County), they have fully recovered from the Recession and continue on an upward trajectory. Meanwhile, relatively low rents for multifamily units reflect a less established market for this product type and an opportunity for newer and better inventory. The City's low share of multifamily units (22 percent compared to 36 percent in the Trade Area) make it difficult to accommodate new residents who desire high quality housing but who may not be able to afford the high cost of single-family, for-sale units. But the City's strong community attributes, such as low crime, good schools and strong recreation facilities make it a highly attractive residential market for a variety of housing types.
- 4. *Lake Forest has grown significantly as a jobs center within the Trade Area with the entry of a number of large corporate entities over the last 15 years.*** Between 2002 and 2015, Lake Forest added jobs at a faster rate than either the Trade Area or the County. Most of this growth came in manufacturing and in white-collar jobs for professional services, finance and insurance, professional management, and healthcare. Recent corporate arrivals such as Panasonic and LoanDepot, each with over 1,000 employees, were drawn to Lake Forest by its convenient freeway access, suburban business parks with slightly lower costs than neighboring cities, attractive residential lifestyle, and appealing physical setting. The City seems to have several emerging economic niches related to scientific and medical instruments, recreation and entertainment, and home improvement/hardware that could be further cultivated.
- 5. *Lake Forest contributes a relatively small share of the Trade Area's inventory of commercial real estate, but new development on the I-5 south of the I-405 indicates the growing attraction of Lake Forest and its environs for new work space.*** Since 1977, the Trade Area underwent a great amount of large business center development mostly centered in Irvine near the intersection of the I-405 and I-5 freeways and around the Irvine train station. Lake Forest has served as a smaller and more peripheral market with higher proportion of industrial rather than office uses. However, in recent years, the direction of growth has extended south, generally in keeping with population expansion. Most of this more recent growth is at a smaller scale, reflecting the availability of smaller parcels. As Lake Forest continues to prove itself an attractive location for corporate entities, this southward vector of office development should further benefit the City.
- 6. *Strategic and proactive efforts will be required to preserve and expand the Lake Forest retail sector given a variety of challenges facing traditional "brick and mortar" outlets and significant concentrations of highly competitive shopping venues in the Trade Area, including several just outside the City boundaries.*** While the Lake Forest retail inventory has expanded at a faster rate than the Trade Area over all since 2006, the City still performs below the norm in terms of per capita sales, square feet,

and occupancy. The biggest sources of sales leakage are likely the Irvine Spectrum and auto centers in Irvine, Tustin, and Mission Viejo. However, as the need for retail has declined in the face of e-commerce, smaller-scale growth may be available in differentiated environments that provide shoppers with a unique sense of place and retail programming. In addition, many brand retailers still seek to maintain a physical presence in larger and affluent communities due to the cross-marketing benefits with on-line shopping (aka the “click and mortar” approach).

7. While the City’s General fund experienced strong revenue growth over the last six years, corresponding to improvements in the regional and national economy, a significant expansion in City services and facilities will likely require strategic fiscal management. The City’s General Fund revenues increased by 4.4 percent per year in nominal dollars, or 35 percent since FY 2010/11, substantially above the average annual inflation rate of about 1.4 percent and population growth of 0.9 percent, during this same period. While encouraging, the growth in real per capita General Fund revenues of about 2 percent per year is more in line with the generalized economic recovery that occurred during this same time frame and as such may not be sustainable over the long-term. Consequently, substantial improvements to existing City service levels may be difficult absent structural changes, particularly if these services rely on budget factors that increase faster than inflation.

Potential GPAC Discussion Topics

Economic Development

- What economic sectors have the strongest growth potential in the City? How can the General Plan help promote growth in these sectors, assuming the City is interested in this outcome?
- In developing a goal and policy framework to address economic development, what top three issues or actions should the City prioritize?
- What policies are appropriate in the General Plan to support an environment that is conducive to economic vitality and business growth, while maintaining the City’s character?

Fiscal Sustainability

- How will various General Plan land use alternatives or policies affect the long-term fiscal health of the City and its ability to effectively provide adequate public services and infrastructure?
- Are there new policies or actions that the City should include in the General Plan to ensure that both new and existing development receive adequate services?
- Should the City focus on any specific types of development or locations for development in order to generate increased revenues?

Economic Impacts of Land Use Policy

- What are the economic implications of various policies or land use regulations being considered as part of the General Plan Update?