



PALMDALE GENERAL PLAN UPDATE



*Socio-Economic Profile and
Market Analysis*

SPRING 2020 | FINAL REPORT

Envision
PALMDALE 2045
a complete community

Chapter 2: City of Palmdale Socio-Economic Profile and Market Analysis

Introduction

Palmdale General Plan Update Process

The City of Palmdale (“City”) is at a critical juncture in its history. Having been hard hit by the Great Recession of 2007-2009, the City has begun to recover and has the potential to capitalize upon certain opportunities that could change its economic trajectory. Major transformative projects anticipated to occur over the next two decades include the start of commercial air service to the Palmdale airport, the High Desert Corridor freeway project connecting Palmdale to Apple Valley, the Virgin Train from Las Vegas to Palmdale, as well as the planned California High Speed Rail connecting Palmdale to the rest of the state. At a time when land elsewhere in Southern California is becoming increasingly scarce, Palmdale may also be well-positioned to capture an increasing share of regional growth.

The City’s General Plan update process, begun in early 2019, is an opportune vehicle for the City to position itself for success over the next generation. The goal of the General Plan is to provide the City with a guiding document for future growth that aligns with community values and is responsive to market opportunities. As the City’s guiding visioning document, the General Plan should respond to anticipated changes, including the opportunities mentioned which can be capitalized upon, and safeguard against potential threats which may inhibit the City’s growth.

Report Overview

This report, conducted by HR&A Advisors, Inc. (“HR&A”), evaluates trends and conditions in the Palmdale economy to anticipate future development potential and inform its planning process, and is laid out in two main sections:

1. **Demographic and Socio-Economic Profile:** This profile assesses socio-demographic and economic characteristics to understand the existing conditions of the City and how it compares to the region. Analyzing the composition of Palmdale’s residents and businesses as well as future trends of population and employment helps inform current and future needs of the community and identifies strengths which can serve as a foundation for the City’s future growth.
2. **Real Estate Market Analysis:** The market analysis offers an overview of the size and scale of existing inventory and historic trends on development, rent and vacancy for major land uses. These land uses include office, residential, retail, hospitality, and industrial/flex.¹ For each land use, HR&A estimates future square footage or unit demand through 2045.

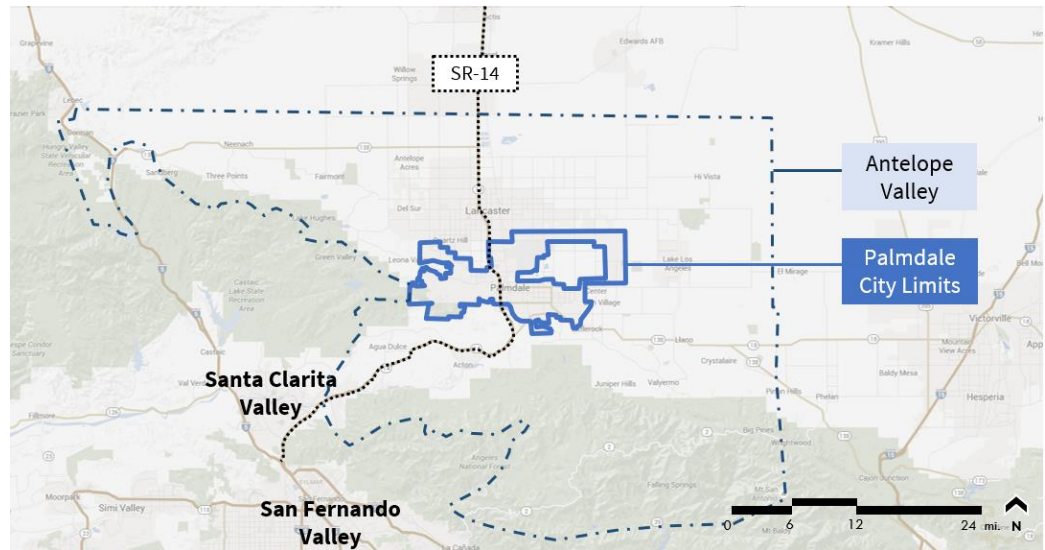
Demographic and Socio-Economic Profile

Regional Context

Palmdale is located within the Antelope Valley in northern Los Angeles County (“L.A. County” or the “County”). The City, which lies between the Angeles National Forest to the south and the City of Lancaster to the north, straddles the SR-14 freeway which connects the Antelope Valley to Santa Clarita and the San Fernando Valley. Palmdale is also connected to the San Fernando Valley and Downtown Los Angeles via Metrolink’s Antelope Valley Line commuter rail.

¹ HR&A defines “Flex” as buildings designed to be versatile and multi-tenanted; they may be used in combination with office, research and development and quasi-retail sales. Approximately 50% of rentable area is typically used as office space. Flex floorplates are typically smaller than standard industrial buildings.

Figure 2.1 Palmdale City Limits and Antelope Valley



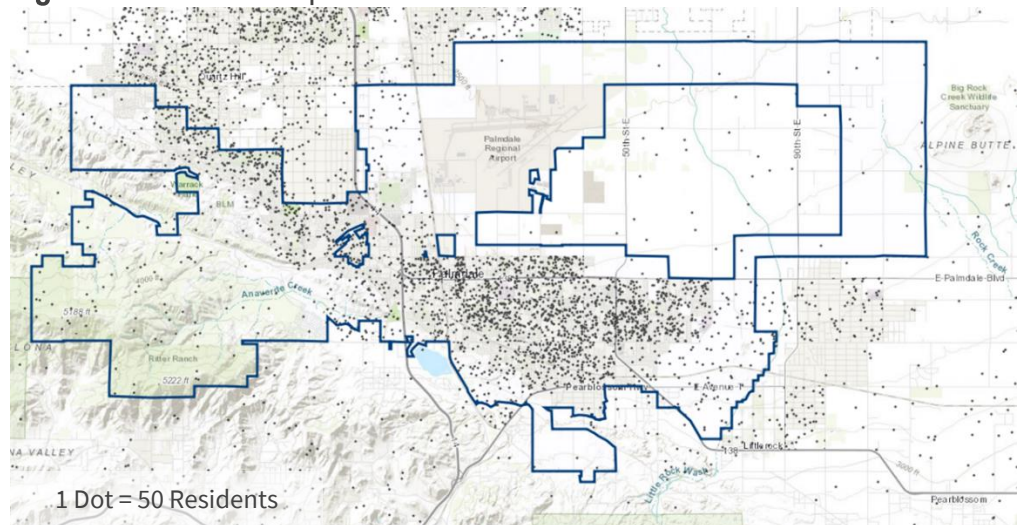
Source: ESRI, HR&A Advisors

Socio-Demographics

Palmdale Population and Households Today

As of 2018 per the California Department of Finance, Palmdale has a population of 158,905 in 43,880 households across its 106 square miles. Figure 2.2 demonstrates the population is geographically dispersed and lacking a clear center, though nearly 70 percent of the City’s residents live to the east of SR-14. Density of population is highest immediately east of SR-14 near the rail station where there is also the largest concentration of multifamily residential developments.

Figure 2.2 Palmdale Population Distribution



Source: ESRI, HR&A Advisors

Historical Population and Household Growth Trends

As shown in Figure 2.3, over the past two decades, Palmdale and the rest of the Antelope Valley have grown faster than L.A. County. For several decades, price pressures in the Los Angeles Basin and San Fernando Valley spurred growth in the Antelope Valley primarily with the creation of new single-family residential neighborhoods, driven by affordable land. Over the past 20 years, population across all the geographic areas grew at a faster rate than households due indicating growing average household sizes. In 1998 average household size was 3.3 people per household; by 2018 it had increased to 3.6 in the City.

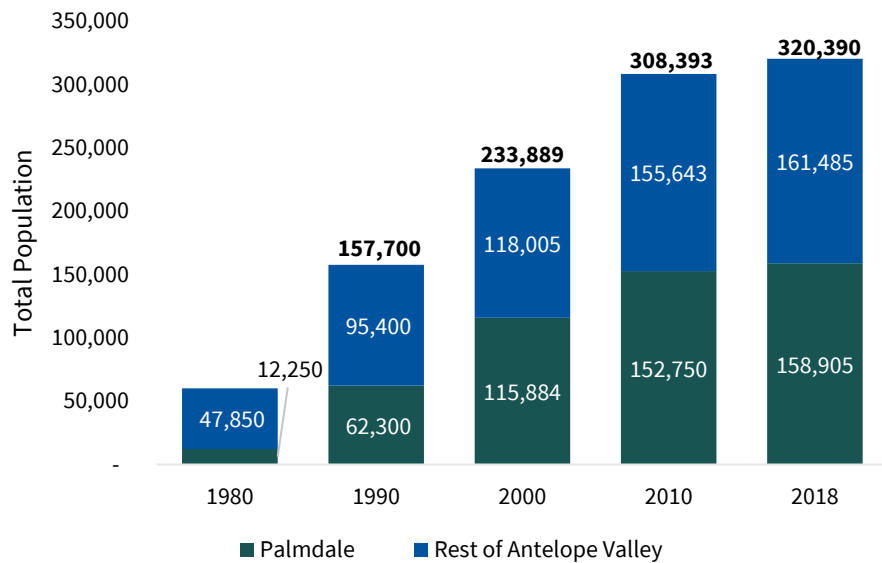
Figure 2.3 Historic Population and Household Growth

	Population Growth (1998-2018, CAGR)	Household Growth (1998-2018, CAGR)
City of Palmdale	1.5%	1.1%
Rest of Antelope Valley	1.4%	1.0%
Los Angeles County	0.5%	0.3%

Source: California Department of Finance E-4, E-5 and E-8

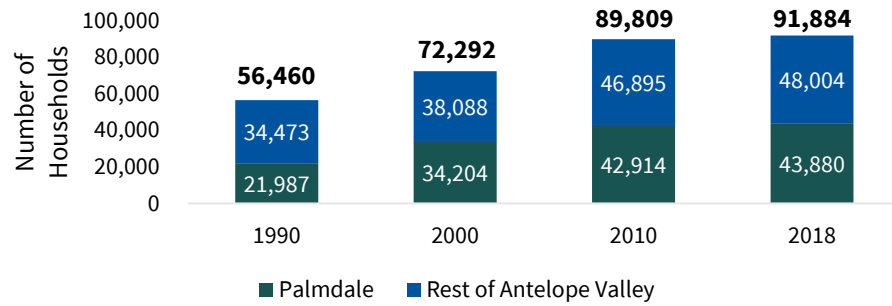
The Great Recession (December 2007 – June 2009), however, marked a slowdown in growth in the Antelope Valley and Palmdale. The City grew by 32 percent between 2000 and 2010 and only 4 percent since then. As seen in Figure 2.4 and Figure 2.5, the lower rate of population and household growth in the City continues into today.

Figure 2.4 Historic Population Growth



Source: California Department of Finance E-4

Figure 2.5 Historic Household Growth

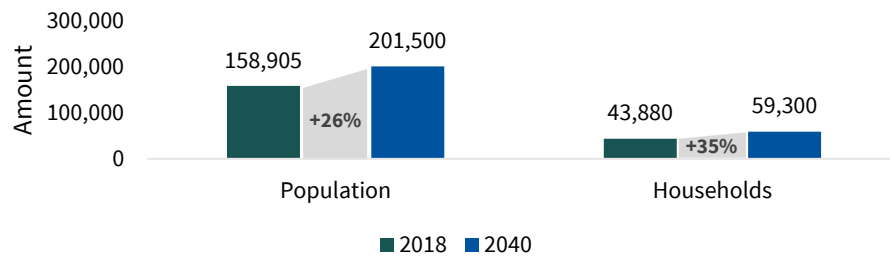


Source: California Department of Finance E-5 and E-8

SCAG Population and Household Growth Projections

Despite the recent slowdown, the Southern California Association of Governments (SCAG) forecasts that the City of Palmdale will grow to 201,500 persons and 59,300 households by 2040. In relation to 2018 estimates from the California Dept. of Finance, this is a gain of approximately 42,500 persons and 15,500 households between 2018 and 2040. Notably, household growth is expected to outpace population growth, suggesting decreasing household size. SCAG’s projections rely on Palmdale’s existing land use designations to approximate growth. Through the General Plan, the City can set policy decisions to influence its capture of future growth.

Figure 2.6 SCAG Projected Population and Household Growth



Source California Department of Finance E-4 and E-5, SCAG

As shown in Figure 2.7, SCAG projects that the City will capture a greater share of population growth than L.A. County between 2018 to 2040, counter to the prevailing trend since the recession which has seen limited growth.

Figure 2.7 Projected Population and Household Growth

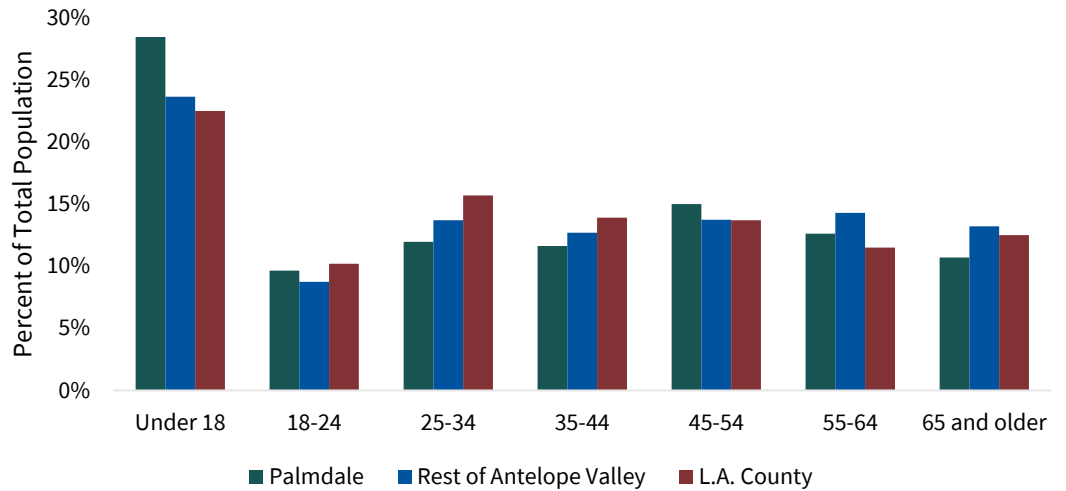
	Population Growth (2018-2040, CAGR)	Household Growth (2018-2040, CAGR)
City of Palmdale	1.0%	1.2%
Rest of Antelope Valley	1.1%	0.8%
Los Angeles County	0.5%	0.8%

Source California Department of Finance E-4 and E-5, SCAG

Population by Age

Palmdale’s population skews slightly younger than L.A. County as a whole, with almost 29 percent of the population under the age of 18 compared to 22.5 percent for the County. Per 2017 estimates, the median age of Palmdale residents is 31.3 years compared to 36.0 years for L.A. County. Palmdale is also more family oriented than the County, with an average household size that is 18 percent larger than the County and has a higher share of children under 18 years of age and persons aged 45 to 54 years, compared to L.A. County.

Figure 2.8 Population by Age



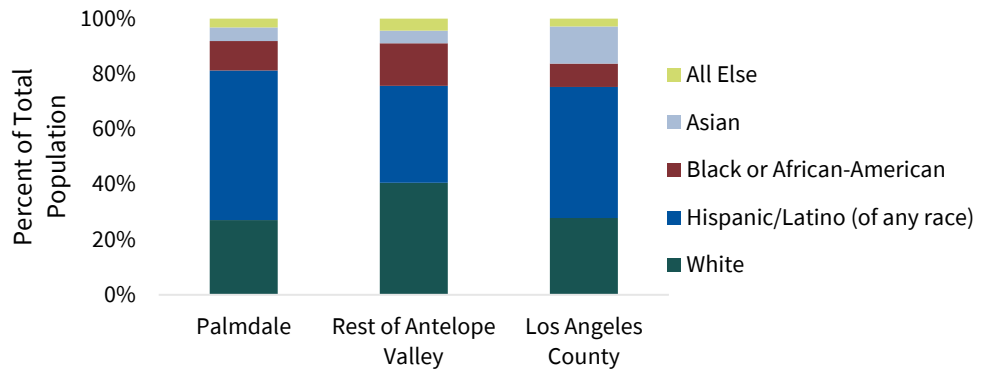
Source: 5-Year ACS 2017, ACS Public Use Microdata Series 2013-2017

Population by Race and Ethnicity²

The racial makeup of the City closely resembles L.A. County overall, with 54 percent of the City’s population identifying as Hispanic or Latino of any race, compared to 47 percent of County residents; the two geographies also share similar percentages of Black or African American and White residents. The rest of the Antelope Valley differs significantly, with only 35 percent identifying as Hispanic/Latino and a higher percentage of White residents (41 percent) than Palmdale (27 percent) or the County (28 percent). The most notable difference between Palmdale and the County is its much smaller concentration of Asian residents (3 percent in Palmdale compared to 13 percent in the County).

² Palmdale is a community where the majority of the population identifies as people of color (POC). Since the largest POC community is Hispanic/Latino, an ethnic identification, the POC representation in Palmdale would normally be understated when looking at traditional Census racial distribution information. For this analysis, HR&A custom calculated all racial distribution information using the Census’s public use microdata series. People identifying as Hispanic/Latino, regardless of racial designation, are classified separately and then the remainder of the population is classified in traditional racial buckets.

Figure 2.9 Racial Distribution³

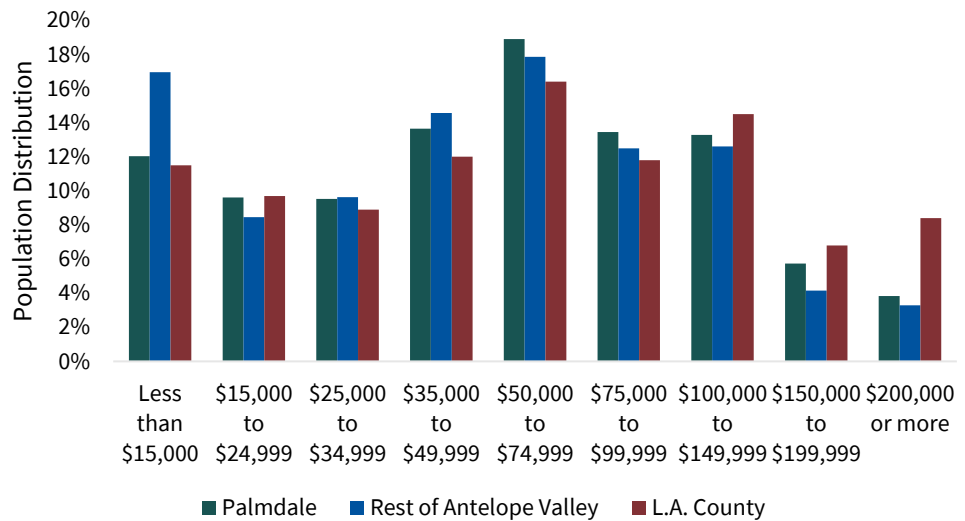


Source: HR&A, 5-Year ACS 2017, ACS Public Use Microdata Series 2013-2017

Household Income

As of 2017, Palmdale’s median annual household income was \$56,700, nearly \$5,000 higher than the rest of Antelope Valley but lower than L.A. County, which is \$61,015. Notably, Palmdale has a greater proportion of middle-income earning households, with 32 percent making between \$50,000 and \$99,999 annually compared to 28 percent for the County.

Figure 2.10 Household Income Distribution



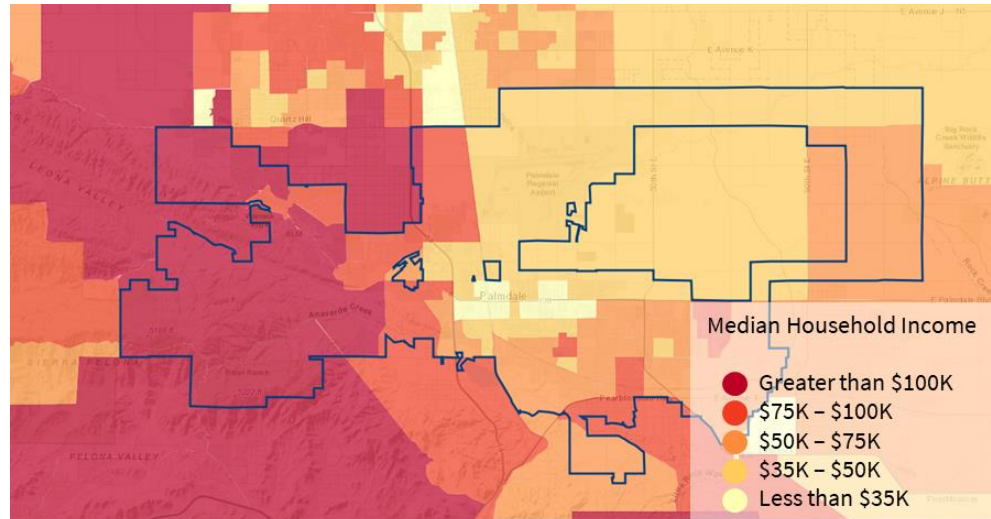
Source: Public Use Microdata Series 2013-2017

³ Approximately 3.2 percent of Palmdale residents identify as multiracial or another race apart from those listed in Figure 2.9. Due to the small sample size of this group of Palmdale residents in the Public Use Microdata Series, in subsequent tables HR&A is not able to include a confident statistical estimate about this population and therefore generally excludes it in figures and tables. Where PUMS data refers to households, HR&A refers to the race/ethnicity of the head of household as a proxy.

Palmdale Income Disparities

Income in Palmdale is not evenly distributed. As shown in Figure 2.11, geographically, higher income households are concentrated on the west side of the City near Quartz Hill where there are newer and higher-end foothills residences. Lower income households are more concentrated to the east of SR-14, in particular alongside Palmdale Boulevard and near the Metrolink station where the City’s oldest multi-family rental housing stock is located.

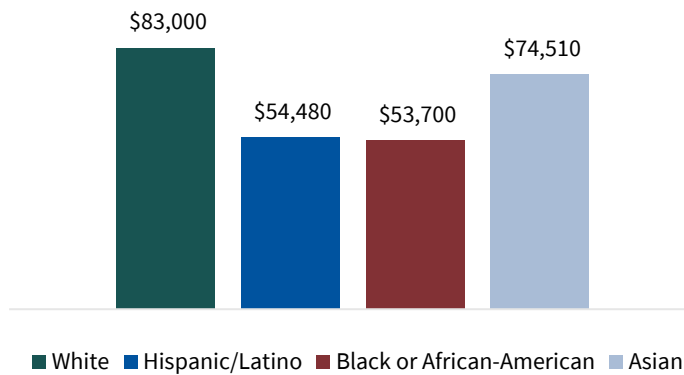
Figure 2.11 Income Distribution



Source: ESRI, HR&A Advisors

Just as income is not distributed evenly geographically, it is also not distributed evenly along racial and ethnic lines. White and Asian households both have median incomes well above the City median of \$56,700, whereas Hispanic/Latino and African American households fall below the City’s median.

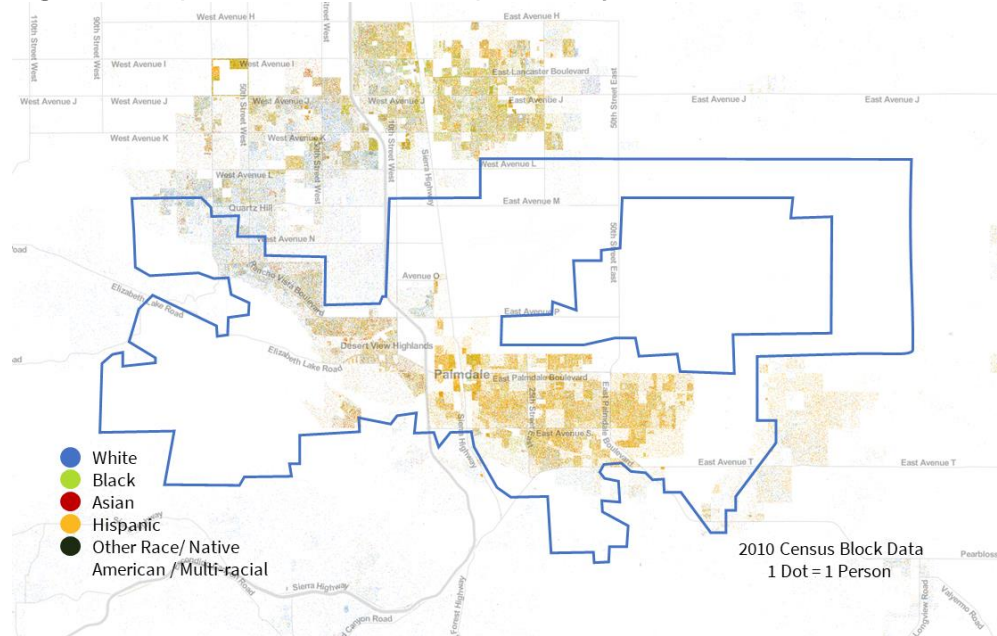
Figure 2.12 Median Income by Race/Ethnicity



Source: ACS Public Use Microdata Series 2013-2017

Palmdale’s racial distribution is also geographically imbalanced, and correlates closely with the household income distribution across the City shown in Figure 2.11. As seen in Figure 2.13, to the west of SR-14, the population is generally more diverse with a greater share of White residents; to the east, the City is more predominately Hispanic/Latino. Figure 2.13 also demonstrates that swaths of vacant land due to leapfrog patterns of growth separate various housing developments from one another on the east side of the City, reflective of what stakeholders have noted as a disjointed community without a strong urban center or neighborhood identities.

Figure 2.13 Spatial Distribution of Population by Race



Source: University of Virginia

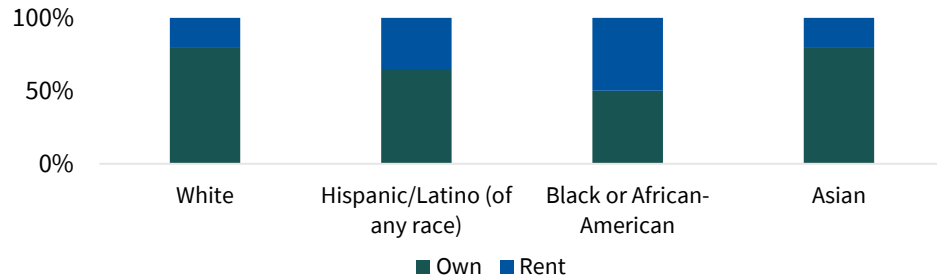
Homeowner and Renter Profile

On both sides of the SR-14, the City of Palmdale is predominantly a homeowner community, with 64 percent of households living in owner-occupied units compared to 36 percent in renter-occupied units, much higher than the County’s 46 percent homeownership rate. Homeownership is generally seen as an opportunity for wealth creation for households and given its relatively low-cost housing compared to the County, Palmdale has historically offered a lower barrier to entry to homeownership. Of course, the challenge with housing as a form of wealth creation is fresh on the minds of the City. The foreclosure crisis hit the housing market hard in Palmdale, which negatively impacted many owners in the Antelope Valley who had previously experienced equity gains in their home investments in the run up to 2007 but who soon found themselves underwater on mortgages that were overleveraged.

Housing values have very slowly recovered from the recession, and today White and Asian households have the highest rates of homeownership in the City (80 percent ownership for each group, as shown in Figure 2.14), corresponding with

their respective average income levels. African American households (50 percent) and Hispanic/Latino households (65 percent) have lower homeownership rates; however, these rates are significantly higher percentage points higher for these groups than in the County as a whole (34 percent and 37 percent, respectively).

Figure 2.14 Palmdale Homeownership Rate by Race/Ethnicity



Source: Public Use Microdata Series 2013-2017

In spite of the history of the foreclosure crisis in Palmdale, the 36 percent of the City’s households which rent their homes are generally more economically vulnerable than homeowners, evidenced by their rate of rent overburden (Figure 2.14). Renters are typically considered housing overburdened when they spend more than 30 percent of their household income on rent. While rents are cheaper in Palmdale compared to L.A. County, Palmdale has one of the highest renter overburden rates in the state, in the top 20 percent of all California cities.⁴ Palmdale’s rate of 37 percent rent overburdened households is about 7 percentage points higher than the County and 10 points higher than California, driven by the fact that Palmdale renter households tend to be poorer compared to the typical household in the County and State.

Figure 2.15 Housing Overburdened Renters

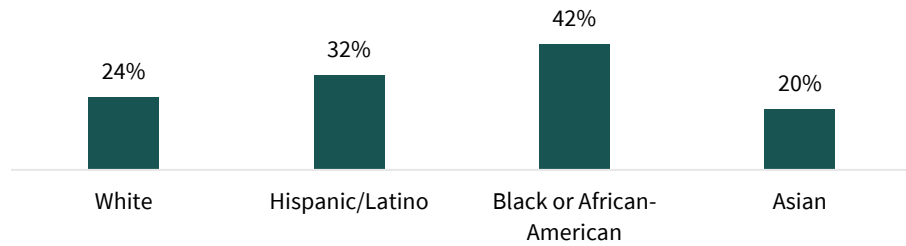
	Palmdale	L.A. County	California
Overburdened Households	5,800	523,665	1,572,055
% Housing Overburdened	36.8%	29.7%	27.1%
% of Households with Income ≤ 30% of Area Median Family Income	41.0%	29.3%	25.5%
% of Households with Income ≤ 50% of Area Median Family Income	61.2%	48.3%	43.4%

Source: HUD – Comprehensive Housing Affordability Strategy

As demonstrated by other metrics, there is a disparity in rent burden along racial and ethnic lines, with African-American households (42 percent) and Hispanic/Latino households, 32 percent, experiencing the highest rates (Figure 2.16).

⁴ The California Healthy Places Index: <https://map.healthypplacesindex.org/>

Figure 2.16 Rent Burden by Race/Ethnicity



Source: Public Use Microdata Series 2013-2017

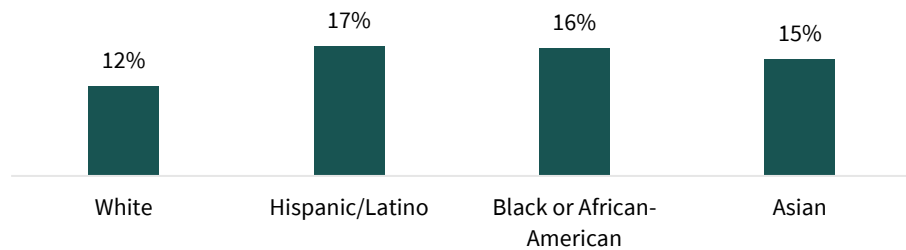
The Federal Department of Housing and Urban Development (HUD) defines severe housing overburden for homeowners as households that spend more than 50 percent of their income on housing costs.⁵ While homes are less expensive in Palmdale compared to L.A. County, like the County, Palmdale has one of the highest rates of severe housing overburden rates in the state at 14 percent compared to a California average of 12 percent. Unlike rent burden, housing overburden is generally evenly distributed along racial/ethnic lines, although homeownership is disproportionately White and Asian (Figure 2.18).

Figure 2.17 Housing Cost Burdened Homeowners

	Palmdale	L.A. County	California
Severely Overburdened	3,840	217,420	813,285
% Severely Overburdened	14.2%	14.5%	12%

Source: HUD – Comprehensive Housing Affordability Strategy

Figure 2.18 Homeowning Households Paying Greater than 30% on Mortgage



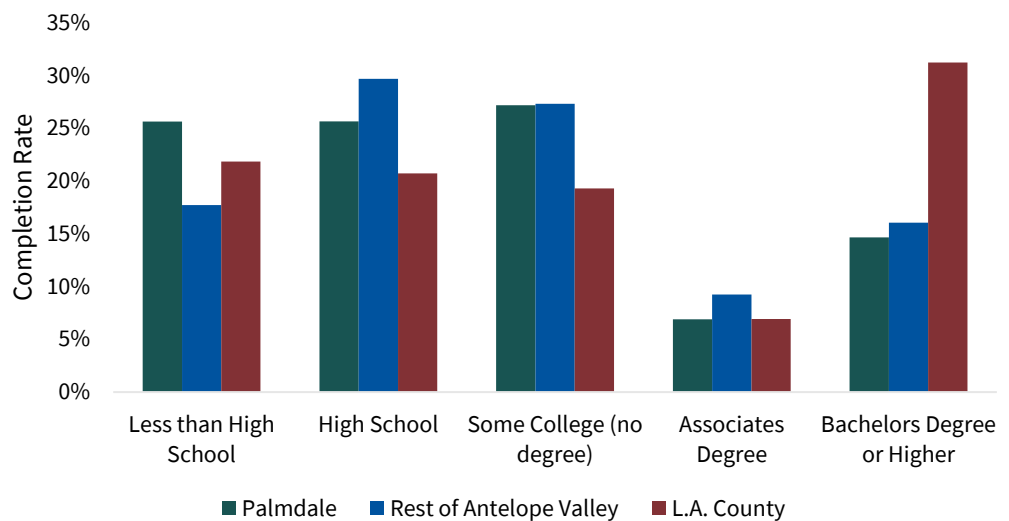
Source: Public Use Microdata Series 2013-2017

⁵ HUD Comprehensive Housing Affordability Strategy 2011-2015

Educational Attainment

The ability of residents in the City of Palmdale to improve their economic condition will largely be a function of their educational attainment and workforce readiness. Today, Palmdale has a lower educational attainment than Antelope Valley and L.A. County, with a higher proportion of residents without a high school diploma (Figure 2.19). Compared to L.A. County, the City and region have significantly fewer college graduates. Only 15 percent of Palmdale residents have a bachelor's degree, while 31 percent of L.A. County residents do. In spite of its lower educational attainment statistics, stakeholders have noted that the City's schools and Antelope Valley College have made significant strides in training residents for growing opportunities within the region, notably including skilled trades positions related to job openings at the City's major aerospace and defense employers.

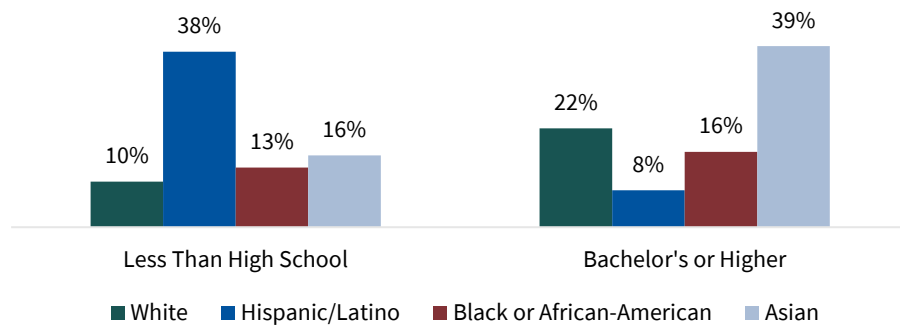
Figure 2.19 Educational Attainment



Source: 5-Year ACS 2017

Levels of educational attainment by race/ethnicity within the City help to clarify some of the discrepancies between racial/ethnic groups across income and wealth, as shown in Figure 2.20. Hispanic/Latino residents are the largest subpopulation without a high school degree (nearly 40 percent). Across residents with a bachelor's degree or higher, Hispanics have the lowest proportion at 8 percent, while Asians have a much higher rate of 39 percent.

Figure 2.20 Educational Attainment by Race/Ethnicity

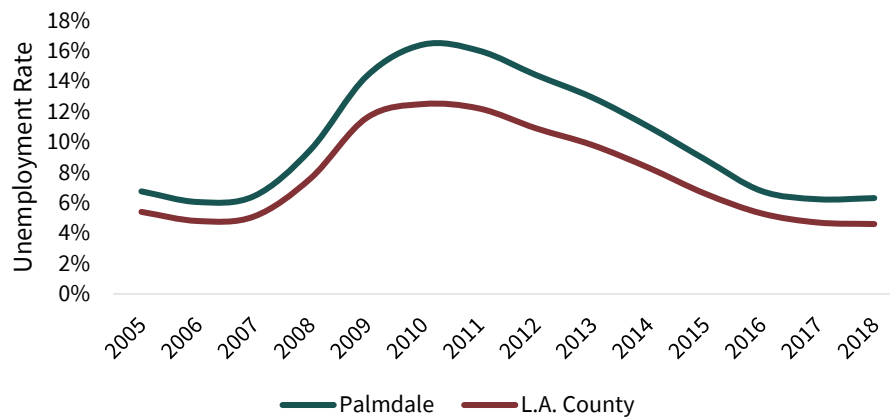


Source: ACS Public Use Microdata Series 2013-2017

Unemployment

Potentially related to lower levels of educational attainment, Palmdale residents have historically had higher levels of unemployment compared to L.A. County residents (typically 1.5 to 2.0 percentage points higher). Unemployment has also mirrored County trends, suggesting a close relationship between the two economies. Unemployment is back to pre-Recession levels for both Palmdale and L.A. County.

Figure 2.21 Unemployment Rate⁶



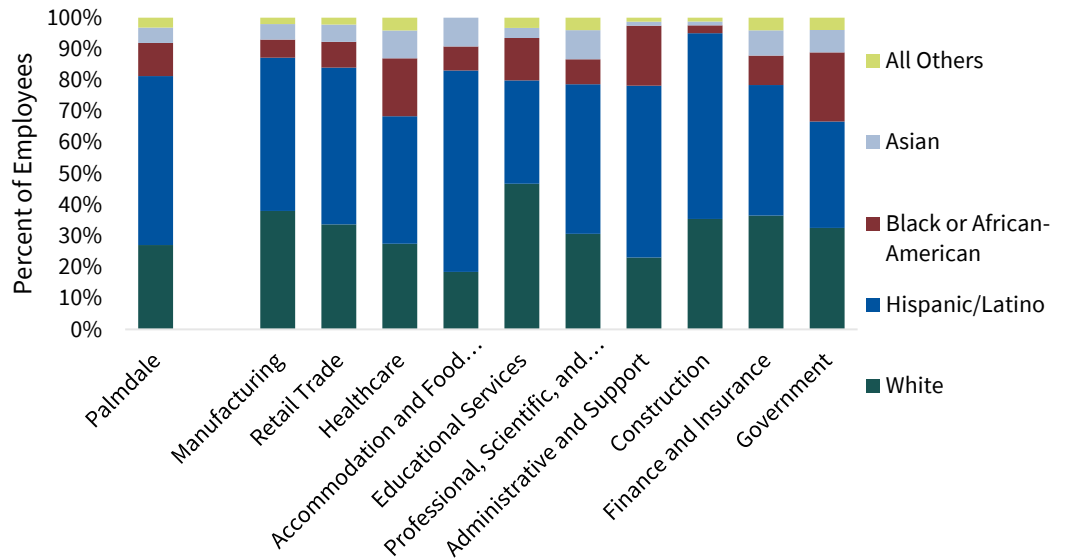
Source: CA EDD

⁶ Not seasonally adjusted. Unemployment was calculated on a yearly basis, averaging the unemployment rate for each month.

Racial/Ethnic Representation in Top Industries

Figure 2.22, which shows resident racial/ethnic representation in the City’s predominant industries, demonstrates that the Hispanic/Latino population is underrepresented in the high growth Healthcare and Educational Services industries and overrepresented in low wage Accommodation and Food Service jobs (discussed in more detail later in Figure 2.22). The White population is greatly overrepresented in Educational Services while the Black or African American population has strong representation in Healthcare and Government.

Figure 2.22 Racial/Ethnic Representation in Palmdale's Top 10 Industries



Source: ACS Public Use Microdata Series 2013-2017

Commuting Patterns

Commuting patterns suggest a mismatch between resident skills and jobs located in Palmdale. Of the jobs that exist within the City, nearly 75 percent of them are filled by workers living outside, largely from other parts of the Antelope Valley, the City of Los Angeles, and Santa Clarita.⁷ Additionally, although Palmdale is a jobs center for the Antelope Valley with many high quality jobs in manufacturing and aerospace (discussed in the next section), the City is a predominant bedroom community with a jobs-to-housing ratio of 0.56, compared to a ratio of 1.11 for L.A. County.⁸ With more residents than jobs and many jobs going to workers residing outside the City, 86 percent of employed Palmdale residents commute outside of Palmdale for work (Figure 2.23).

⁷ LEHD

⁸ CA EDD and California Department of Finance E-8

Figure 2.23 Commuter Patterns

	Number of workers	% of Workers in Palmdale	% of Palmdale Residents
Live outside Palmdale Commute to Palmdale	19,374	74%	
Live and Work in Palmdale	6,919	26%	14%
Live in Palmdale Commute outside Palmdale	43,731		86%

Source: LEHD

As a function of the employment mismatch, many Palmdale residents are subject to long commutes “down the hill” to other employment centers in L.A. County. This translates into Palmdale residents having some of the longest commutes in the County with more than a third of residents commuting over an hour each way. The mean commute time of Palmdale residents is 43 minutes, 12 minutes higher than L.A. County, creating a quality of life issue for many households (Figure 2.24).

Figure 2.24 Travel Time to Work

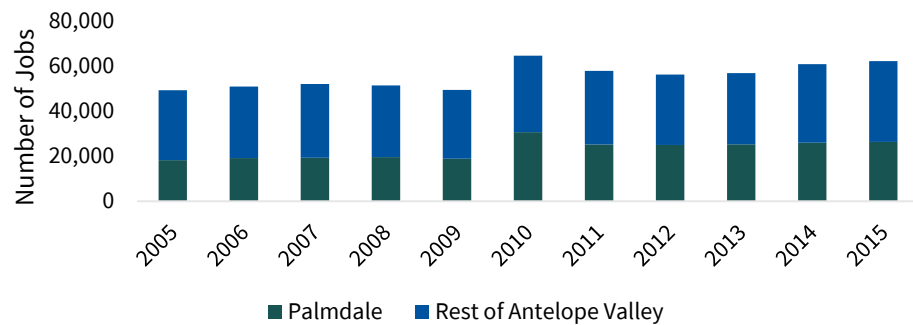
	Palmdale	L.A. County
Less than 15 minutes	18.2%	17.6%
15 to 29 minutes	27.8%	32.7%
30 to 44 minutes	7.2%	25.4%
45 to 59 minutes	11.9%	11.9%
60 or more minutes	35.0%	13.6%
Mean travel time to work (minutes)	42.7	30.9

Source: 5-Year ACS 2017

Employment

Historical Job Growth

Palmdale has historically outpaced the rest of Antelope Valley in job growth, increasing its share of total Antelope Valley jobs from 37% in 2005 to 42% in 2015. As of 2015, there were roughly 26,000 jobs in Palmdale.

Figure 2.25 Total Jobs⁹

Source: LEHD

Jobs and Key Industries

Figure 2.26 below shows Palmdale's industry sectors by employment size, average annual growth, and average annual income (Countywide). The size of each bubble represents the relative size of each industry in terms of employment while average annual job growth and the L.A. County average annual wage divide the figure into quadrants. The top left represents industries that are growing but are low paying; the top right represents industries that are growing and high paying; the bottom left represents industries that are declining and are low paying; and the bottom right represents industries that are declining and are high paying.

Manufacturing, which encompasses the majority of area aerospace jobs, is the largest contributor to Palmdale's employment and a source of high paying wages. Two of the City's largest employers, Lockheed Martin (3,700 employees) and Northrop Grumman (2,100), are located near Air Force Plant 42, which provides these companies with critical facilities and space to execute their defense contracts. Unlike the rest of the County, the Manufacturing Industry has expanded largely due to these contracts. Whereas the County shed 37,000 Manufacturing jobs from 2009 to 2015, Palmdale added 4,162 jobs.

Retail Trade and Accommodation and Food Services are also highly visible industries within the City but have average wages well below the L.A. County average wage. The City's concentration of regional retail around the Antelope Valley Mall represents the core of employment in these two industries.

The Healthcare industry, the City's third largest, has experienced significant growth since 2005, with major notable expansions of the Palmdale Regional Medical Center and related medical office spaces servicing an increasing healthcare need from residents in the community.

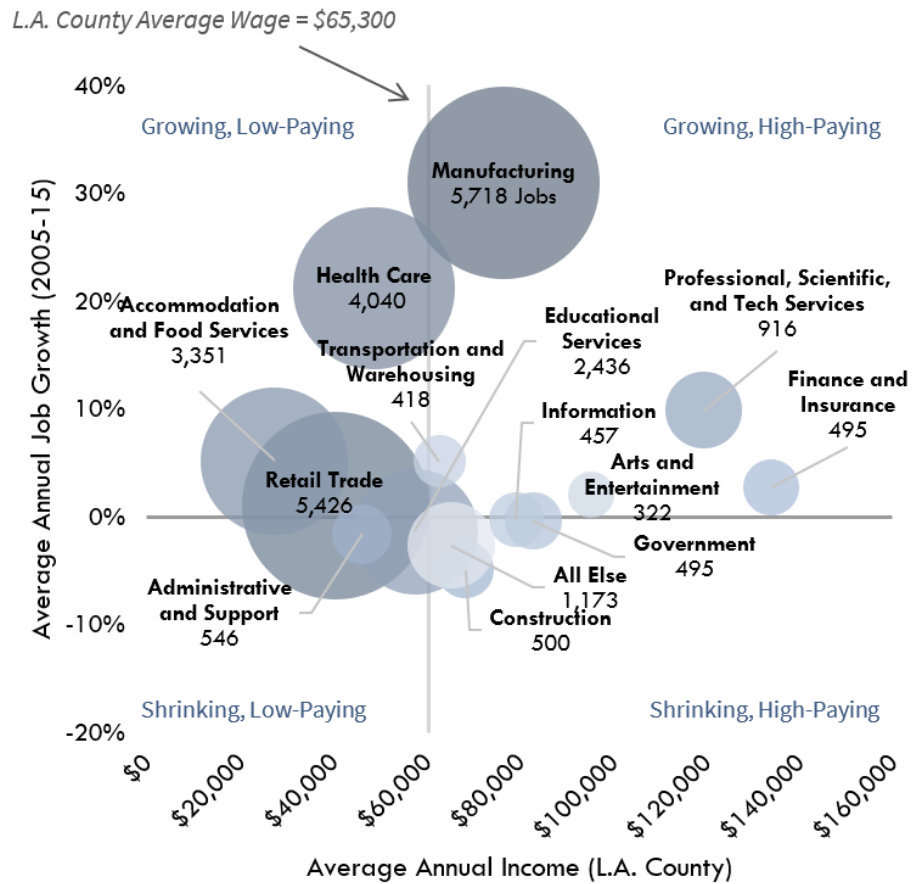
The City has few jobs in high wage industries, including Professional, Scientific, and Technical Services and Finance and Insurance. While these jobs are growing,

⁹ Jobs data provided by the Longitudinal Employer Household Dynamics ("LEHD") is a U.S. Census Bureau product which is the most accurate publicly accessible dataset for city-level employment statistics. This dataset was last updated in 2015.

they remain a small portion of Palmdale’s jobs ecosystem.

Stakeholders have noted that on the whole, the City’s employment base lacks diversity that would ensure its resilience in economic downturns and future changes to the nature of work (e.g., the automation of blue-collar jobs). During a roundtable work session with HR&A, these stakeholders noted that alternative forms of manufacturing, arts and entertainment, and tech jobs related to the City’s existing strengths would help to diversify the economy.

Figure 2.26 Palmdale Industry Sectors by Size and Concentration

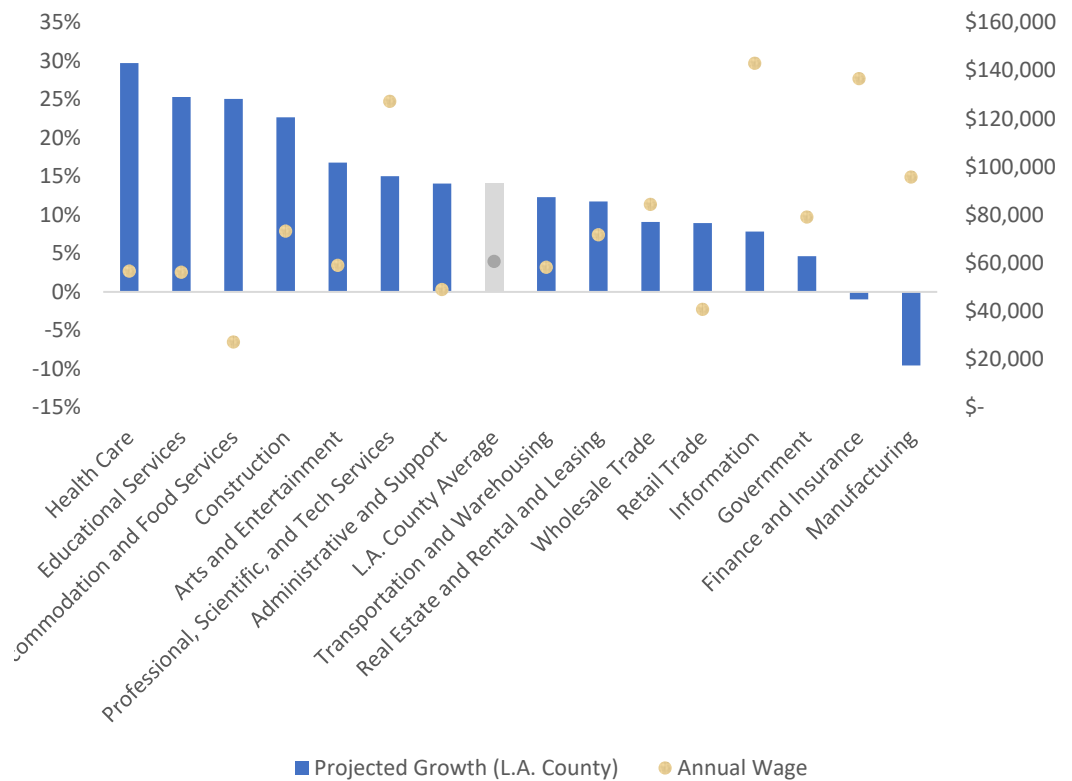


Source: LEHD, CA EDD

Projected Employment Growth

Based on industry employment projections for L.A. County (Figure 2.27 below), Palmdale can expect strong growth in Healthcare, Educational Services, and Accommodation and Food Services. Despite Manufacturing projected to shrink nearly 10 percent for the County (-1.0 percent annually), Aerospace Manufacturing specifically is projected to grow 0.7 percent annually through 2024.¹⁰ As key indicators of future potential growth, in 2015 Northrop Grumman was awarded an \$80 billion contract through the mid-2030s and in 2018 Lockheed Martin won a \$23 billion contract through the mid-2020s. As of 2018, Northrop Grumman has 250 job openings in the Antelope Valley, representing 6% of its workforce in the region.¹¹

Figure 2.27 L.A. County Industry Sector Projected Growth 2014-2024



Source: LEHD, CA EDD

¹⁰ CA EDD

¹¹ GAVEA, 2018 Economic Round Table Report

Key Takeaways

The City’s demographics and economic conditions and future projections impact how the City should consider policies and objectives of its General Plan. The following “SWOT” table (strengths, weaknesses, opportunities and threats) in Figure 2.28 below summarizes key considerations from this chapter which have implications on the future of the City’s land uses.

Figure 2.28 City Demographics and Socioeconomic SWOT Matrix

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> ▪ Large and diverse population ▪ Large amounts of undeveloped land available for development (unlike most of the County) ▪ Proximity to the L.A. metropolitan area ▪ Lower cost housing ▪ Jobs supporting middle-income households ▪ Access via SR-14 and Metrolink 	<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> ▪ Distance from core L.A. region economic nodes ▪ High out-commuter population ▪ Disconnect between resident skills and job opportunities ▪ Lower educational attainment ▪ Lack of job diversity ▪ Low jobs-housing ratio
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> ▪ Future passenger operations at Palmdale Airport ▪ Planned east-west infrastructure improvements (High Desert Corridor and Xpress West) ▪ Future enhanced connectivity to L.A. via California High-Speed Rail 	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> ▪ Future economic downturns ▪ Reliance on defense contracts (which are subject to political changes) ▪ Automation of existing jobs

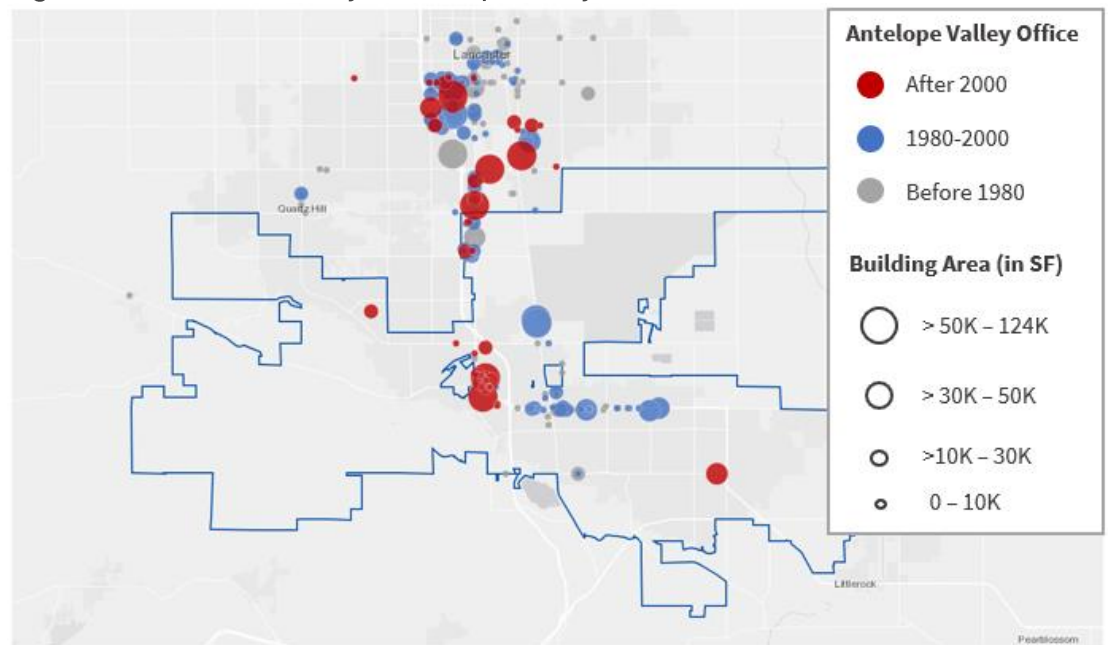
Market Analysis

Office Market

Office Inventory

There is 1.4M square feet of office space in Palmdale, making up 34 percent of office inventory in the Antelope Valley. Office space in Palmdale is concentrated along SR-14 and Palmdale Boulevard, with more recent office developments choosing to locate in closer proximity to the freeway. 86 percent of Palmdale office space was built prior to the year 2000. Major office developments, including the Palmdale Medical Plaza, occurred adjacent to the Palmdale Regional Medical Center. Though there has been increase in office inventory since 2000, overall office space in Palmdale lags behind total office space in neighboring Lancaster. Nearly 75 percent of office space in Palmdale is Class B. The only Class A office building in the City is the Palmdale Corporate Center. Older Class C office tends to be located along Palmdale Boulevard.

Figure 2.29 Office Inventory in Antelope Valley

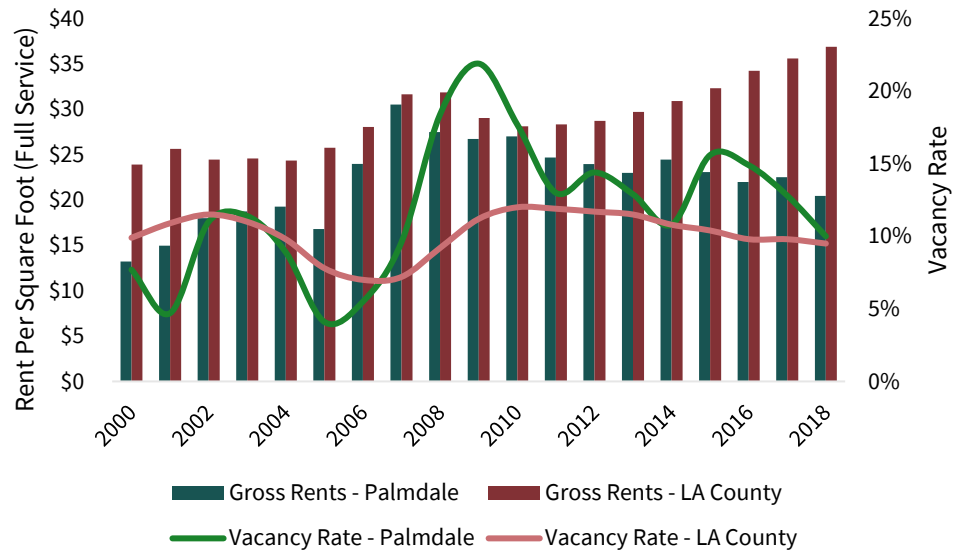


Source: CoStar

Office Rents and Vacancy

Leading up to the Great Recession, office rents in Palmdale had reached levels comparable to average office rents in L.A. County at approximately \$31 per square foot. After the Great Recession Palmdale saw a surge in office vacancy which has continuously pushed its office rents down since 2007 and have remained lower than pre-recession levels, while average office rents in L.A. County have since surpassed pre-recession levels. Most recently, Palmdale average office rents were almost half that of L.A. County in 2018.

Figure 2.30 Average Annual Rent per SF and Vacancy

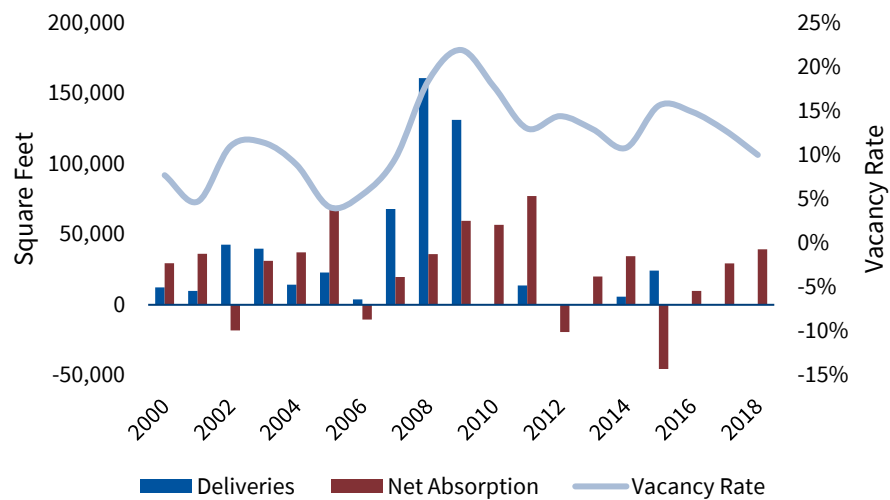


Source: CoStar

Office Deliveries and Absorption

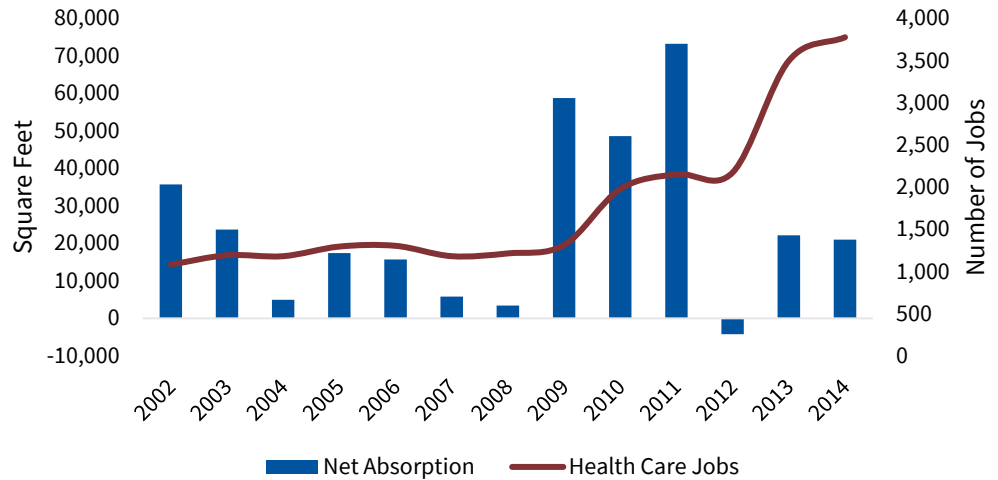
The Palmdale office market saw significant deliveries leading up to the Great Recession. From 2000 to 2009, Palmdale saw 500,000 square feet of office space delivered. Since then there has been little in the way of new construction, with office absorption going primarily toward occupying excess space vacated from the recession. As shown in Figure 2.32, medical office tenants have been a key source of demand, accounting for 80% of net absorption since 2010 as health care employment has grown significantly.

Figure 2.31 Palmdale Office Deliveries and Absorption



Source: CoStar

Figure 2.32 Palmdale Medical Office Net Absorption and Health Care Employment

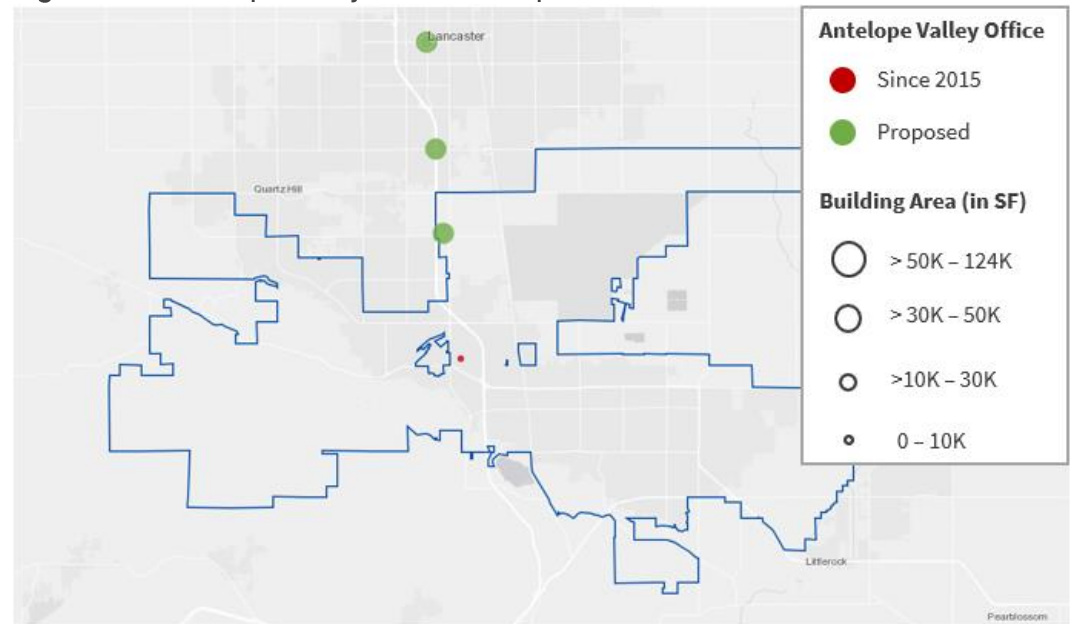


Source: CoStar, LEHD

Office Development and Pipeline

According to CoStar, only one office building has been constructed since 2015 and very little is planned in the development pipeline. Notably, this one office building and all planned developments are located near SR-14, mirroring the office development patterns observed since the 2000s.

Figure 2.33 Antelope Valley Office Development since 2015



Source: CoStar

Market Supportable Demand

In developing market supportable demand estimates for office space in Palmdale, the analysis considers both historic Antelope Valley employment growth from the Longitudinal Employer-Household Dynamic (“LEHD”) database maintained by the U.S. Census Bureau as well as Los Angeles County projections of future growth from the California Employment Development Department (“CA EDD”). These sources are used to estimate employment growth in the Antelope Valley between 2019 and 2045 and estimate the share of office-using employment. To estimate future market supportable office square footage, an industry standard assumption 250 square feet per office worker was assumed. Next, the share of office demand expected in Palmdale is estimated based on Palmdale’s existing proportion of Antelope Valley office space.

Two scenarios (low and high) shown in Figure 2.34 were created to offer a supportable range of office demand. The low and high scenarios represent Palmdale capturing less than (30 percent) or more than (45 percent) of its current share of office space in the Antelope Valley. Using this methodology, the analysis estimates total office demand in Palmdale to be 947,100 to 1,206,100 square feet through 2045. Discounting this range with a minimal pipeline, as estimated by CoStar, net additional demand for office is projected to be 907,500 to 1,166,500 square feet.

Figure 2.34 Cumulative Office Demand (2019-2045)

	Low	High
Total Demand	947,100 SF	1,206,100 SF
Less Pipeline (Planned and Proposed)	(39,600) SF	(39,600) SF
Net Additional Demand	907,500 SF	1,166,500 SF

Source: HR&A

Key Takeaways

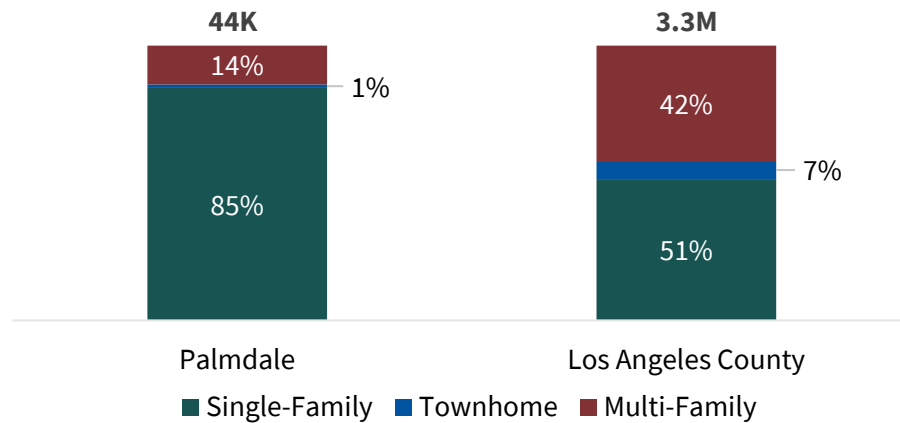
- Eighty-six percent of office space in Palmdale was developed prior to the year 2000. The location of new office developments has over time shifted away from Palmdale Boulevard toward areas adjacent to SR-14.
- With limited growth in office-occupying industries having occurred over the past decade and a glut of vacated space following the recession, the market for new office development in Palmdale has been nearly non-existent over the past decade.
- Palmdale’s current office vacancy of 10 percent is still more than double what it was leading up to the recession, suggesting that new demand for office will likely be absorbed into vacancy spaces for several years. Medical office, which has comprised the majority of recent absorption, is a potential exception given the increasing health care needs of the community.
- Looking at future trends, Palmdale can expect between 907,500 and 1,166,500 square feet through 2045.

Residential Market (Single and Multi-Family)

Housing Type and Tenure

As an exurban community largely built out over the latter half of the 20th Century, Palmdale's housing stock is characteristically suburban in nature. Palmdale has 44,000 total housing units, of which 85 percent are single-family homes. This contrasts with L.A. County where the housing mix is roughly equal between single-family and multi-family units (Figure 2.35).

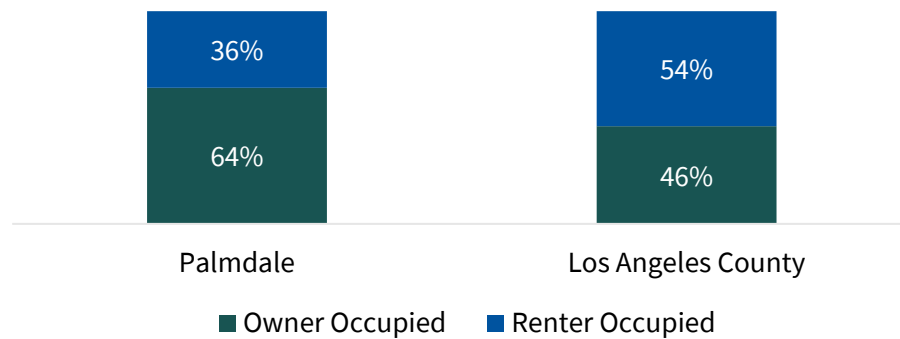
Figure 2.35 Housing Units by Type



Source 5-Year ACS 2017

As previously noted in the demographics section of this report, Palmdale has a much higher rate of homeownership than the rest of L.A. County, with nearly two-thirds of units occupied by the owner of the unit, significantly higher than the L.A. County rate which has a majority of renter occupied units.

Figure 2.36 Housing Units by Tenure

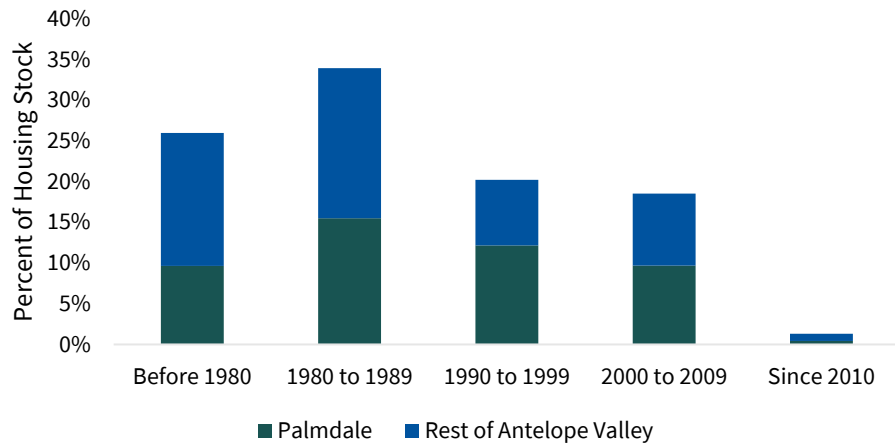


Source 5-Year ACS 2017

Housing Deliveries

As shown in Figure 2.37, construction of new homes boomed in the Antelope Valley during the 30-year period from 1980 to 2009, with 72 percent of the area’s housing stock completed during that time, with a peak in deliveries during the 1980s. Since the Great Recession, however, only a handful of additional housing units have been built. Stakeholders from the development community have noted since the foreclosure crisis, there has been trepidation about the market and a general consensus that many projects planned before the recession still do not “pencil” given prevailing home values in the Antelope Valley.

Figure 2.37 Housing Units by Year Built

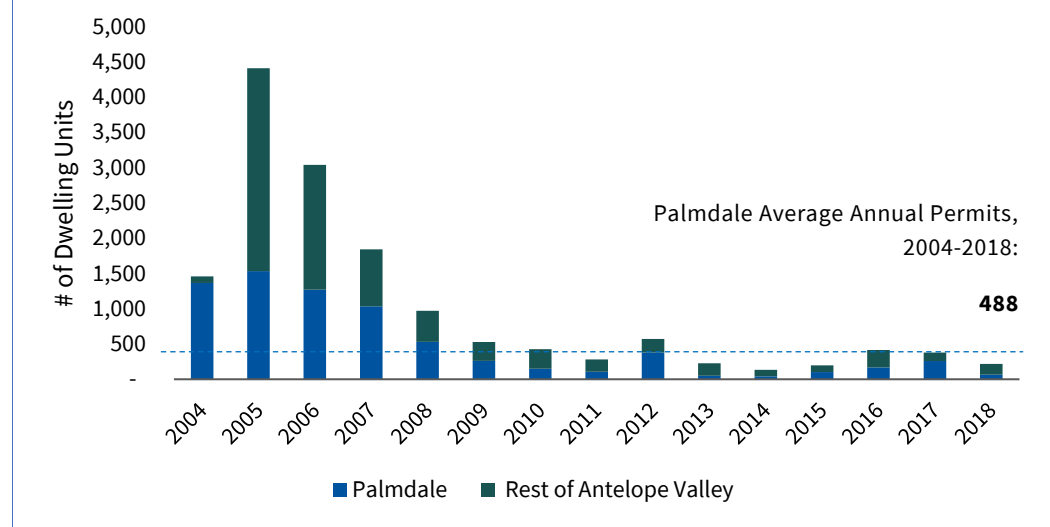


Source 5-Year ACS 2017

As a function of developer skepticism about the Antelope Valley market, building permit activity is still only a fraction of pre-recession levels. Permit activity peaked in the 1980’s, during which an average of 2,200 permits were issued annually. Activity slowed slightly during the next decade, with 700 permits issued annually in the 1990’s, but picked up to 950 per year in the 2000’s. Since the Recession, however, activity has stagnated to 200 permits issued per year.

Of the trickle of approved housing units over the past decade, many are likely designated affordable housing projects. Although the dearth of permits over the past several years suggests that Palmdale and the Antelope Valley can expect little residential development in the short-term, stakeholders have noted that developers have expressed interest in resuscitating stalled housing projects given improving economic conditions and housing values, but new housing development has been limited, and new multifamily housing development has consisted solely of subsidized affordable and senior products.

Figure 2.38 Permitted Units for Dwelling Units of Any Type

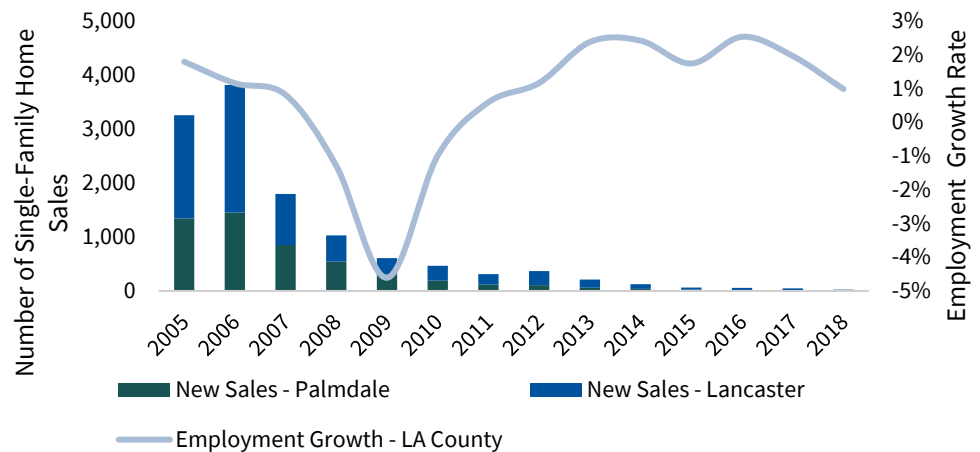


Source U.S. Census Bureau

New Single-Family Home Sales

For the City’s single-family home market, activity has essentially decelerated to a stop as homes delivered prior to and immediately after the recession have gradually been absorbed (Figure 2.39). Several years of job growth in the City suggest that there may be demand in the future for new housing products.

Figure 2.39 New Single-Family Home Sales versus Employment Growth

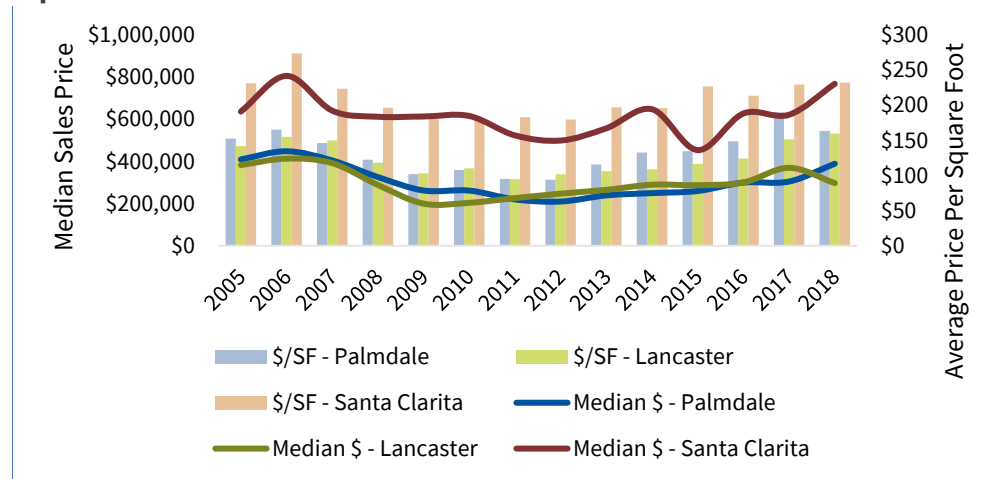


Source: DQNews, CA EDD

New Single-Family Home Price Trends

In Palmdale, the median new home price of \$390,000 in 2018 is still far short of the pre-recession peak of approximately \$450,000, but it is 58 percent greater than the post-recession low of \$247,000 in 2012 (Figure 2.40). Unlike median home price, sales price per square foot in the City has fully recovered, demonstrating that on average, new homes being sold are smaller than they were at the pre-recession peak. Nearby Santa Clarita continues to experience higher home values than communities in the Antelope Valley, but median home sales prices in that city were also just under pre-recession levels as of the end of 2018.

Figure 2.40: New Single-Family Homes - Median Price and Price per Square Foot

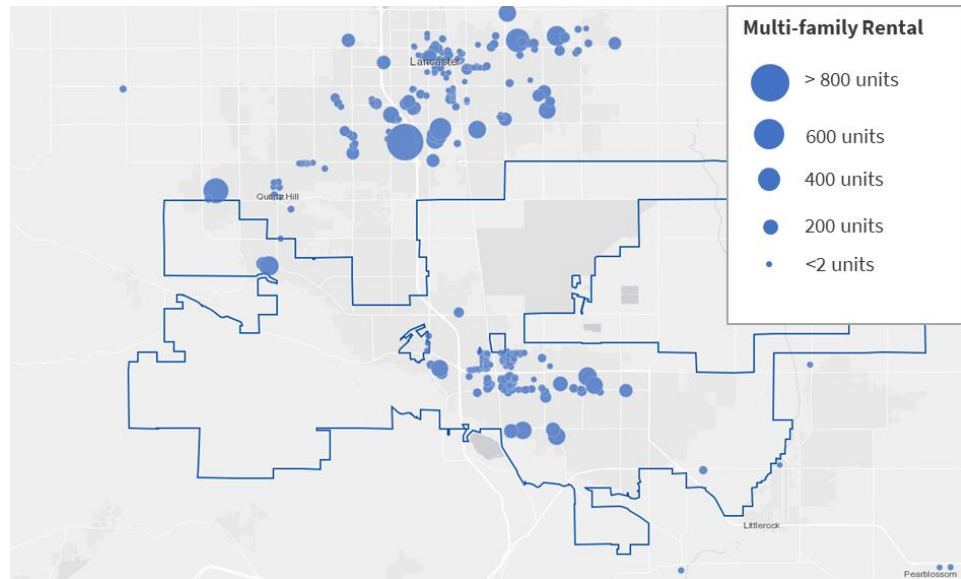


Source: DQNews

Multifamily Residential Inventory and Pipeline

Palmdale has approximately 7,700 multi-family residential units which are generally concentrated in central Palmdale. There is little new market rate multi-family development in the Antelope Valley, with almost all new deliveries considered rent restricted (84%) and/or designated for senior housing (56%). This housing also tends to be part of single-use, surface parked developments, rather than more mixed-use urban typologies. Santa Clarita has also seen limited multi-family rental residential development activity, with only 167 units delivered since 2010 in townhome formats; however, Santa Clarita does have a more robust market-rate pipeline of over 500 units.

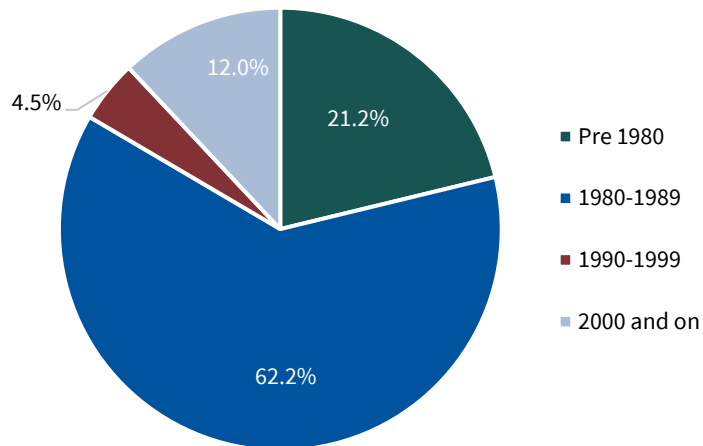
Figure 2.41 Multi-family Rental Inventory



Source: CoStar

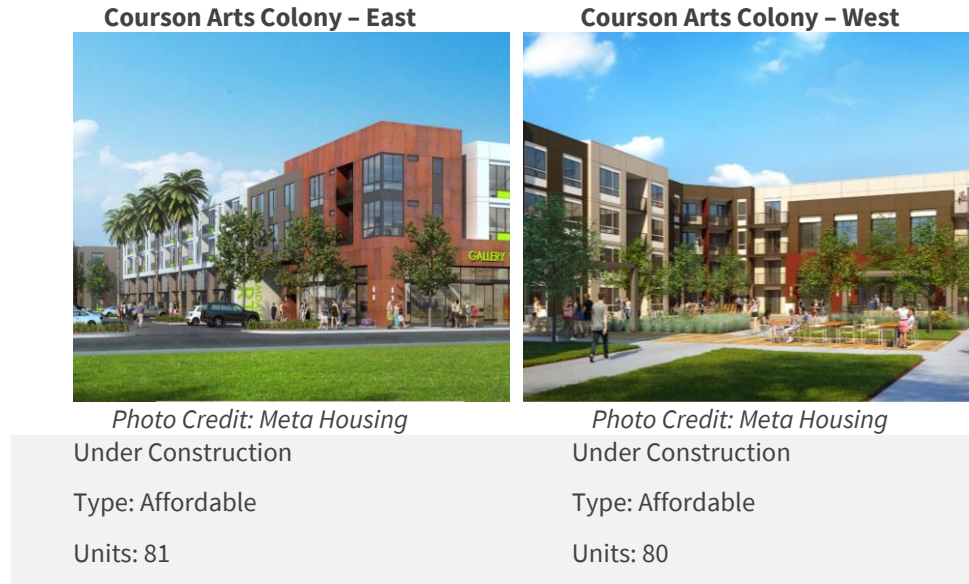
More than 80 percent of the City’s multifamily rental inventory was built prior to 1990. The most recent delivery was Wright Brother’s Court which was completed in December of 2013 and consists of 156 affordable units. According to City permits, there are currently 164 multifamily units in the pipeline. Two affordable housing projects, comprising 161 of these units, are currently under construction as part of Courson Arts Colony (Figure 2.43).

Figure 2.42 Multi-Family Rental Inventory by Building Age



Source: CoStar

Figure 2.43 Multi-Family Pipeline Examples

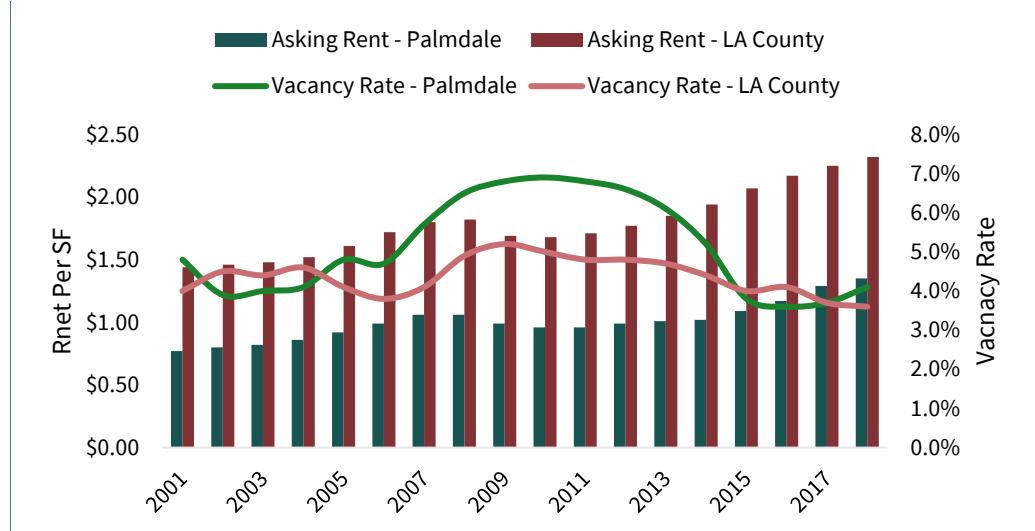


Source: CoStar, City of Palmdale

Multi-family Rental Residential Market Trends

As shown in Figure 2.44, multi-family (apartment) rents in Palmdale have surpassed pre-recession peaks but are still well below L.A. County levels. Following the recession, the vacancy rate in Palmdale increased to nearly 7 percent, but has steadily declined since 2010 and is today similar to the County with approximately 4 percent vacancy.

Figure 2.44 Multi-family Average Monthly Rent and Vacancy

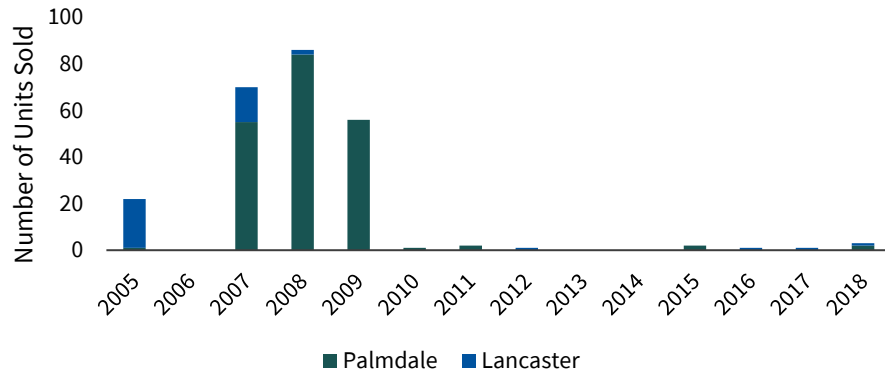


Source: CoStar

Multifamily For-Sale Market

The Antelope Valley’s condominium market is weak, evidenced by few recent condominium transactions in recent years. During the lead up to and during the Great Recession, around 200 new condos sold in Palmdale, averaging around \$213,000 per unit. Heading towards Los Angeles, the Santa Clarita market has seen condominium price and production recover from the recession.

Figure 2.45 New Multi-family Housing Sales



Source: DQNews

Figure 2.46 New Condominium Sales Transactions

	Peak Years (2007-2009)	Since 2010
Antelope Valley¹		
Sales	212	11
Average Price	\$212,547	\$146,955
Average Price/SF	\$127	\$116
Santa Clarita		
Sales	274	470
Average Price	\$498,418	\$521,341
Average Price/SF	\$229	\$228
(1) Including Palmdale		

Source: DQNews

Market Supportable Demand

To estimate future residential demand in the City of Palmdale, HR&A projected the high and low range for household growth through 2045 and split it across an estimated proportion of single-family (including townhomes) and multi-family housing. HR&A used historical permit activity as a benchmark for Palmdale’s potential capture of household growth. HR&A used two longer-term projections periods which correspond with variability in growth that corresponds to pre- and post-recession spurts or periods of stagnation. For the low range of growth, the average annual number of permits issued from 2000-2018 was used to project into 2045 and the high range of growth used the average annual number of permits issued from 1993-2018.

HR&A also estimated the likely split of single-family and multi-family demand based on Census information on tenure and units in structure for the City. Given this opportunity to increase the multi-family stock, an alternative scenario resulting from the average of Palmdale and L.A. County’s mix of residential typologies was applied to both the low and high growth projections.¹² Unlike the County, Palmdale does not have a significant multi-family market. Stakeholders have noted that a lack of housing diversity is likely a factor for why 75 percent of workers in the City choose to live elsewhere. New multi-family rental housing might not currently be financially feasible at prevailing rents. However, in nearby Santa Clarita, average rents are nearly double the City’s on a per square foot basis and the development community is responding.¹³ This suggests that there may be a market for market-rate multifamily housing in the future if job growth continues and price pressures in the rest of L.A. County remain high.

Based on the methodology described above, the minimum and maximum demand range estimated a supportable range of residential demand for both single-family and multi-family. This analysis estimates that total residential units in Palmdale will increase between 14,000 and 19,840 through 2045. Discounting for the current pipeline based on City permits, net additional residential demand is between 13,352 and 19,191 units.

Figure 2.47 Cumulative Residential Demand (2019-2045)

	Low	High
Total Demand	14,000 units	19,840 units
Less Pipeline (Planned and Proposed)	(648) units	(648) Units
Net Additional Demand	13,352 units	19,191 units

Source: HR&A

Key Takeaways

- As an exurban community that experienced its largest growth during the latter half of the 20th century, the City of Palmdale has a characteristically suburban residential market that is predominantly composed of owner-occupied single-family homes. The City’s market rate multi-family housing stock is aging; virtually all new multi-family developments are designated affordable or senior housing.
- Unlike most other parts of the County, housing prices in the Antelope Valley have not recovered from the foreclosure crisis and Great Recession. After a major growth spurt in the 1980s through early 2000s, Palmdale’s pace of residential growth has slowed to a virtual standstill since the Great Recession. Developers have expressed reluctance to invest until

¹² According to the Census, only 14 percent of housing in Palmdale is multi-family. The alternative single/multi-family split tested was 25 percent multi-family, which moves closer to the 42 percent of units that are multi-family in the County.

¹³ CoStar

housing values fully recover and projects begin to “pencil” given current construction costs.

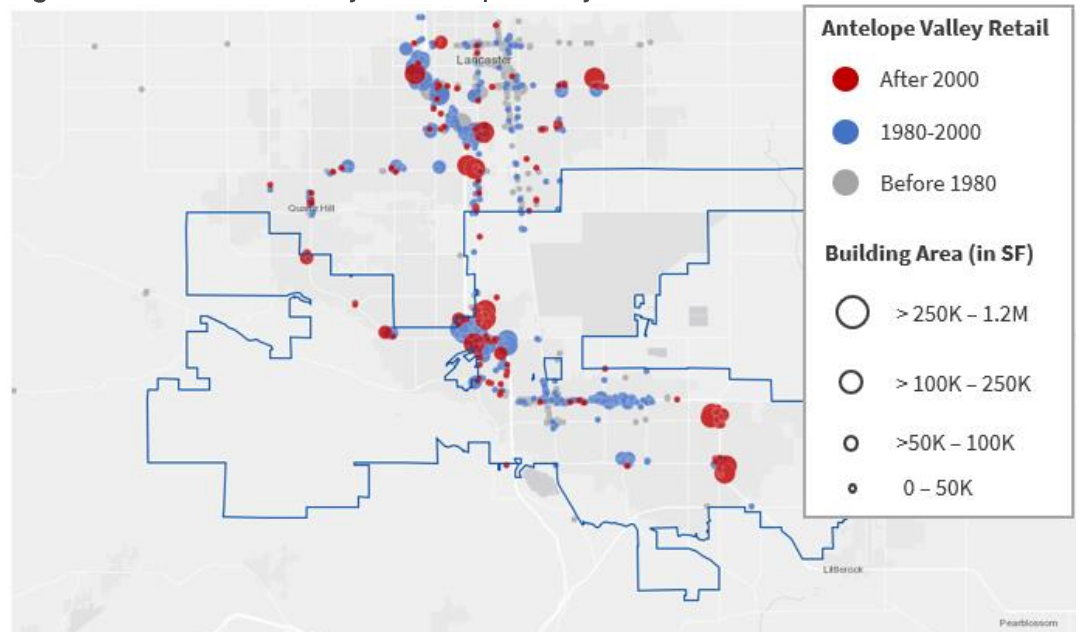
- Looking at future trends, Palmdale can expect demand for 13,352 and 19,191 new units through 2045. Achieving the upper end of the demand projections will require the City to return to significantly higher rates of growth than what it has experienced since the Great Recession. The City’s ability to achieve growth beyond this baseline will relate to policy decisions made during the General Plan process and the realization of catalytic infrastructure investments such as the High Desert Corridor, potential passenger air service and California High-Speed Rail and Virgin Rail.

Retail Market

Antelope Valley Retail Context

There is 8.9M square feet of retail space in Palmdale, making up 52 percent of inventory in the Antelope Valley. Retail in Antelope Valley is clustered in central locations within both Palmdale and Lancaster, with recent deliveries focused along the freeway. In Palmdale, neighborhood and community serving retail has generally followed rooftops and are located along Palmdale Boulevard and other major arterials, while regional-serving retail, like the Antelope Valley Mall and Palmdale Marketplace, has concentrated around SR-14. Newer big box-anchored shopping centers on the east side of the City have reflected general housing growth in that direction.

Figure 2.48 Retail Inventory in Antelope Valley



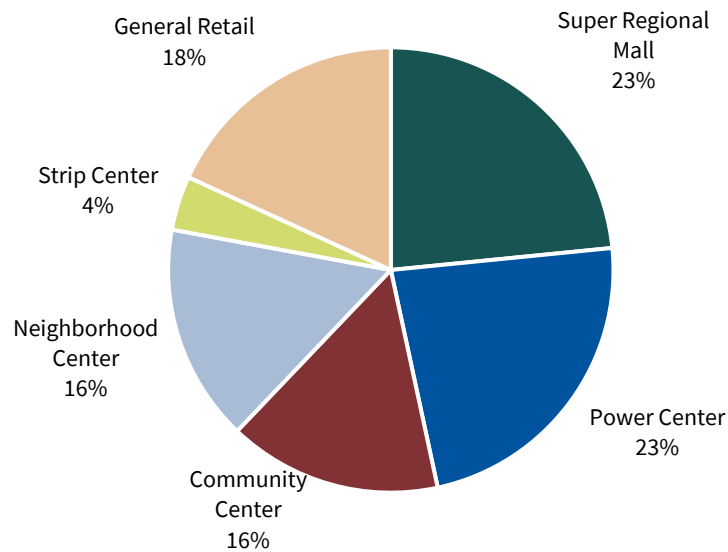
Source: CoStar

Retail Inventory

Over 80 percent of retail square footage in Palmdale is situated within a shopping center (Figure 2.49). Much of the City’s general or “stand alone” retail is located along arterials in the City’s oldest neighborhoods around Palmdale Boulevard and the Metrolink station and is generally lower in quality than the larger shopping center retail near the highway and new housing developments.

With the super-regional Antelope Valley Mall and several other power centers, community centers and neighborhood centers, Palmdale has more retail square footage per capita than surrounding cities and L.A. County (Figure 2.48; Figure 2.50) and is able to attract a large number of shoppers from the rest of Antelope Valley. The abundance of retail per-capita, however, suggests an oversupply of retail space in the entire region (Figure 2.50).

Figure 2.49 Palmdale Retail by Type of Center



Source: CoStar

Figure 2.50 Retail Square Footage Per Capita

	All Retail	Shopping Centers	General Retail
Palmdale	55.9 SF	45.6 SF	10.3 SF
Lancaster	49.3 SF	29.3 SF	20.0 SF
Santa Clarita	22.3 SF	15.1 SF	7.2 SF
L.A. County	42.8 SF	20.3 SF	22.6 SF

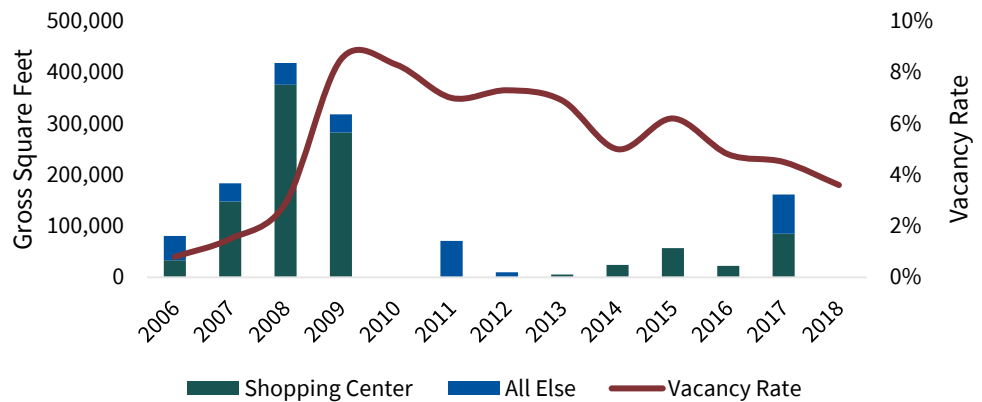
Source: CoStar

Palmdale’s retail generally consists of big box chain stores and large retailers, like Target, Sears, and Kohl’s. Grocery stores consist of mid-range supermarkets with several ethnic groceries. The City lacks higher-end retailers and grocery stores.

Retail Deliveries

Shopping center retail has made up 76% of new deliveries both before the Great Recession and since. Similar to trends for other land uses following the downturn, retail deliveries were insignificant from 2010 to 2016 but development has picked up modestly over the past several years. However, this scale of deliveries is still only a fraction of growth experienced leading up to 2009. A falling vacancy rate suggests that in addition to new developments, existing vacant space is being re-absorbed into the market, although at lower rents than the pre-recession period. The most recent retail is the 47th Street Pavilion. Built in 2008, its anchor tenants include Home Depot and the only Super Target in the regional trade area.

Figure 2.51 Palmdale Deliveries by Retail Type

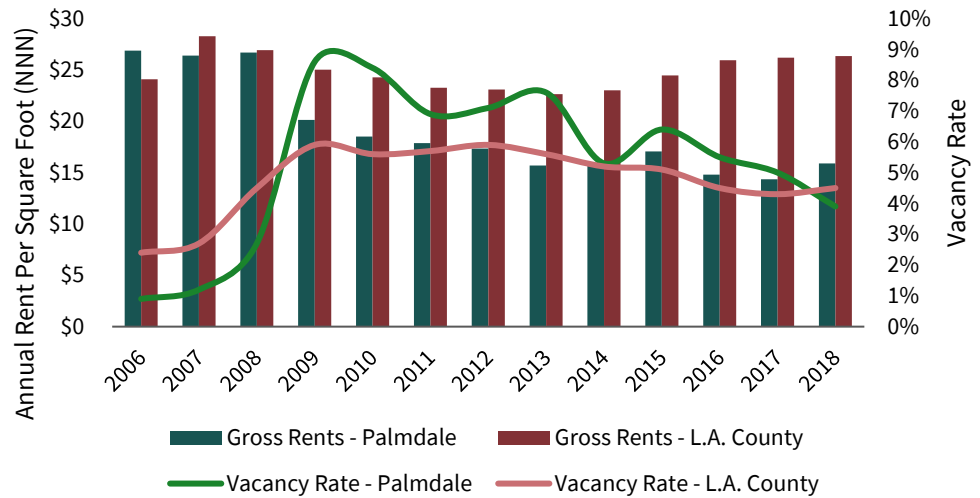


Source: CoStar

Retail Rents and Vacancy - Shopping Centers

Before the Recession, shopping center rents for Palmdale were comparable to rents in L.A. County. After, Palmdale rents dropped to and have stabilized at under \$20 per square foot whereas County rents were affected only slightly and have since recovered. Palmdale’s retail vacancy rates have stabilized due to lower rents that have not been able to climb back to pre-Recession levels.

Figure 2.52 Shopping Center Annual Rents and Vacancy

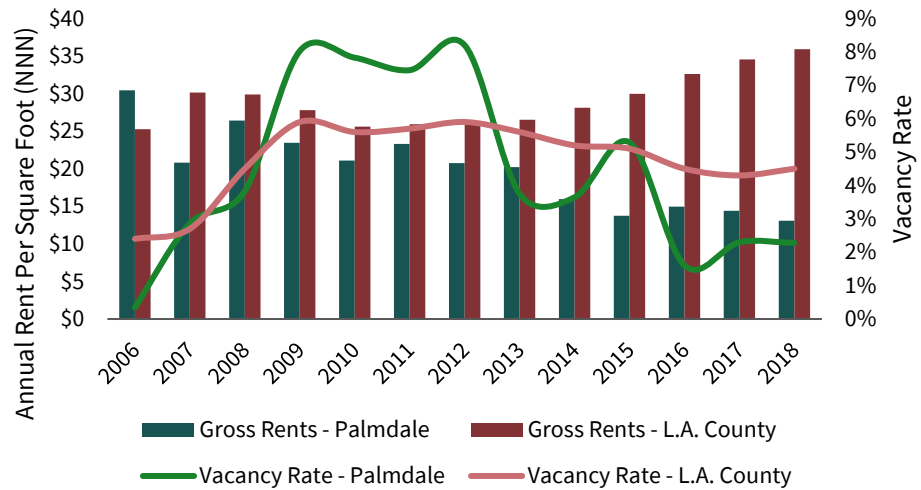


Source: CoStar

Retail Rents and Vacancy - Non-Shopping Center

Non-shopping center retail rents have progressively decreased in price over time. Palmdale’s non-shopping center rents in 2018 were half the price they were in 2006. This trend of extremely low vacancy paired with very low rents reflects a high demand for affordable retail space in the market, which is often located in non-shopping center retail establishments.

Figure 2.53 Non-Shopping Center Annual Rents and Vacancy

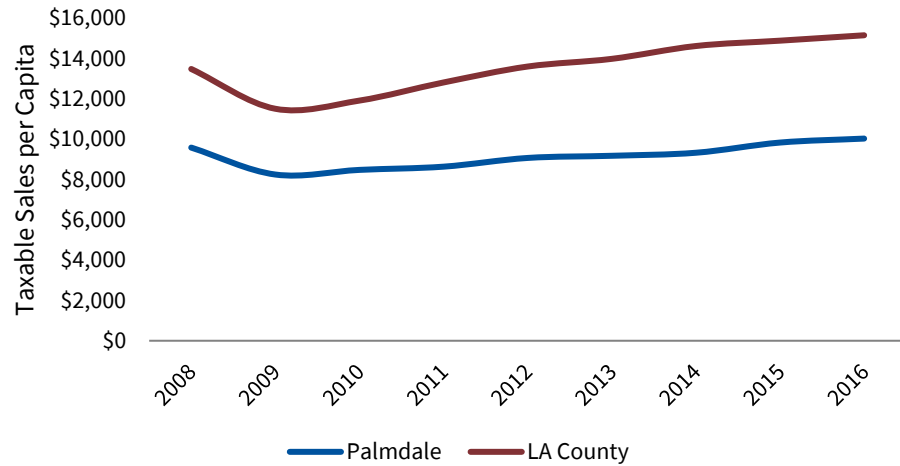


Source: CoStar

Taxable Retail Sales Trends

Taxable retail sales per capita dropped during the Recession but has since recovered. Of note, despite having a greater amount of retail space per capita than L.A. County (Figure 2.50), the performance of this retail inventory in terms of taxable sales generated per capita is lower than L.A. County (Figure 2.54).

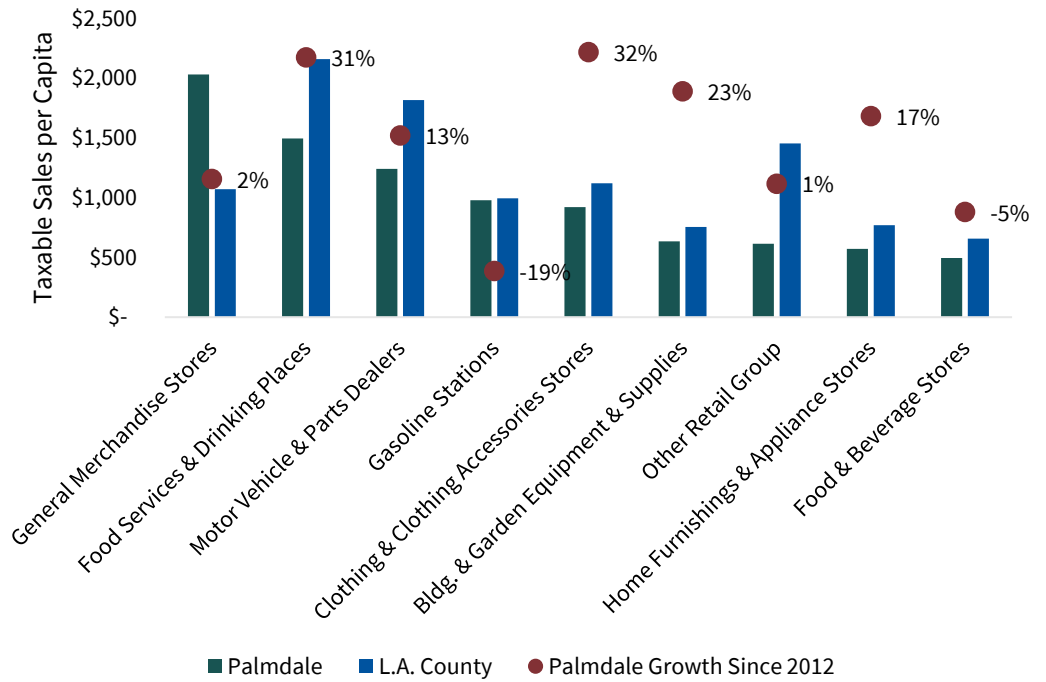
Figure 2.54 Taxable Retail Sales Per Capita



Source: California Board of Equalization

Looking closely at taxable retail sales capita by retail category, General merchandise sales make up the largest retail expenditure in the City, followed closely by Food & Drink and Automotive. The fastest growing expenditures in the past five years are in the Food & Drink and Clothing category.

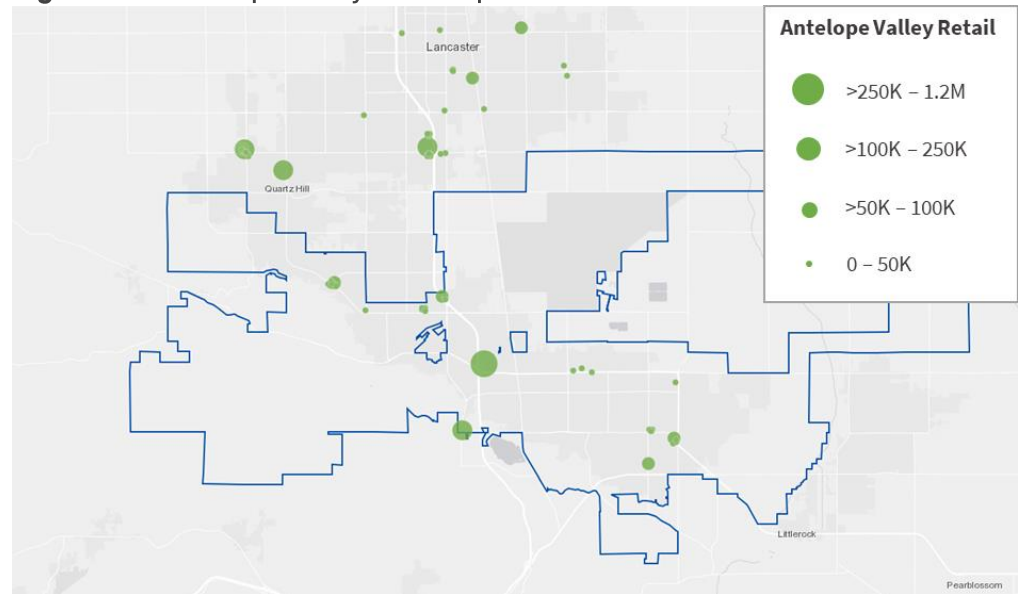
Figure 2.55 2016 Taxable Sales Per Capita by Business Type



Source: California Board of Equalization

Retail Pipeline

According to CoStar, there is an estimated 1.3M square feet of retail space under construction or proposed. Most of the pipeline, shown in Figure 2.56 is from expansion of existing shopping centers as new shopping centers have stalled due to financing issues. The largest of these projects in Palmdale are the Palmdale Crossroads, a 550,000 square foot regional mall, and Tierra Crossings, a 115,000 square foot neighborhood center.

Figure 2.56 Antelope Valley Retail Pipeline

Source: CoStar

Retail Gap Analysis

A retail gap analysis compares current sales for a trade area to spending expectations for the area based on residential composition and size of employment (“capturable spending”).¹⁴ Capturable spending higher than current sales means there is retail leakage to other markets, suggesting an opportunity to capture more of that spending in the trade area. Current sales higher than capturable spending means the trade area has surplus spending, suggesting the trade area draws consumer spending from outside the trade area.

The retail gap analysis is broken down by retail categories based on the North American Industry Classification System (NAICS) to offer a nuanced understanding of the types of business driving analysis. For retail categories that show retail leakage, that dollar value is translated into additional retail space demand. This translation is based on retail sales per square foot data, which is compiled from Retail Maxim, a third-party real estate data clearinghouse.

Several categories of retail are regional-serving due to their concentration within the City and are “oversupplied” to the local Palmdale market, including General Merchandise, Restaurants, and Electronics & Appliance Stores. However, there are also other types of retail that are “undersupplied,” causing retail leakage that can be potentially captured within the trade area. These retail categories include Clothing & Clothing Accessory Stores, Health & Personal Care Stores, and Grocery,

¹⁴ Capturable spending is the percentage of non-online sales a community can expect for each retail category benchmarked to ESRI estimates of the current Palmdale resident spending per person and adjusted International Council of Shopping Centers estimates of office worker spending. Comparing capturable spending to current sales indicates where a community is over or underperforming in a retail category.

Specialty Food, and Liquor Stores. Across both Palmdale and the rest of Antelope Valley, the retail gap analysis suggests that 604,300 square feet of retail space could potentially be supported today by recapturing 100% of leakage, however not all the current leakage can be practically recaptured.

Figure 2.57 Current Unmet Demand (SF) for All Trade Areas



Source: ESRI, U.S. Census LEHD On the Map, International Council of Shopping Centers, Retail MAXIM

Market Supportable Demand

In addition to the current leakage in certain categories that could be captured, over the General Plan period through 2045 new residents, workers and visitors will contribute new spending potential that can catalyze more retail development. HR&A used the existing retail gap as a baseline for future needs as well as adding in the spending potential from these populations through 2045. Specifically, projections were based on several factors, including:

- The projected increase in households
- New employees in the City of Palmdale and the Antelope Valley
- Capture of current Palmdale retail leakage

For each retail category, a low and high capture range of Antelope Valley retail demand was established. This range was based on HR&A’s analysis and benchmarked to historic Palmdale capture rates of retail development in Antelope Valley. When the retail square footage demand by category is totaled, a high and low range of supportable retail demand for Palmdale is established.

Using the above methodology, the analysis estimates total retail demand in Palmdale to be 733,000 to 1,138,500 square feet through 2045. Discounting this range with a CoStar estimated pipeline, net additional demand for retail is projected to be 95,000 to 500,500 square feet.

Figure 2.58 Cumulative Retail Demand (2019-2045)

	Low	High
Total Demand	733,000 SF	1,138,500 SF
Less Pipeline (Planned and Proposed)	(638,000) SF	(638,000) SF
Net Additional Demand	95,000 SF	500,500 SF

Source: HR&A

Retail Demand Considerations

While there is minimal new retail construction in the Antelope Valley, there is a sizeable pipeline of proposed projects totaling 1.2M SF.¹⁵ If this retail is targeted towards the retail categories with supportable demand outlined in this analysis, there may be little need for additional retail beyond the current pipeline. This however would not mean no new construction would occur. Rather, new retail space would go towards upgrading and replacing existing retail developments.

The nature of retail also continues to evolve. As of Q4 2018, online spending accounts for 10 percent of all retail sales, growing 0.8 percentage points year over year.¹⁶ As online spending continues to grow, capturable spending at brick-and-mortar retail might not increase at rates seen in the past. Furthermore, retailer's space needs will continue to evolve. The physical retail landscape of the future is difficult to predict. In recent years, developers in more urban areas have been building more "experiential" retail environments in the form of walkable outdoor "Lifestyle Centers" and ground floor retail as part of larger scale mixed-use developments. Currently, Palmdale lacks a true downtown walkable core that would be well-positioned for this type of development that may also be more attractive to young professionals seeking out experiences and a high-quality of life.

With these other caveats aside, community retail needs and desires might change as well, potentially shifting the retail categories on which residents focus their expenditures. This evolution is important to consider, since some categories (e.g., Restaurants, which average 4,737 SF) are less space-intensive than others (e.g., Building Materials, Garden Equip. & Supply Stores, which average 57,975 SF).¹⁷ Some change should be expected, given aging populations and new generations entering their peak income earning (and spending) years. This shift, however, could be potentially more dramatic for Palmdale if the City begins to attract different types of residents, such as younger renters with higher educational attainment. Spending patterns of future households might look significantly different than households of today.

Ultimately, retail development should complement residential and employment strategies, rather than being considered a standalone land use separate from policies on housing and business development.

¹⁵ CoStar. HR&A assumes only 50% of proposed projects will actually be built.

¹⁶ U.S. Census Bureau Quarterly Retail E-Commerce Sales 4th Quarter 2018

¹⁷ Retail MAXIM, eMarketer

Key Takeaways

- Palmdale’s retail inventory is largely focused in shopping centers, both in the super-regional Antelope Valley Mall as well as other power or community centers which follow the City’s highways and rooftops. Much of the City’s non-shopping center retail is lower quality and located on Palmdale Boulevard and nearby streets.
- Retail rents in the City have not recovered from the Great Recession even while vacancy has declined. With rent growth and population having stagnated in the City, there are few market indicators that would attract developers to build retail in the City in the near term.
- With most new retail in generic shopping centers, the City has the opportunity through the General Plan to lay out policies and principles to support pedestrian-oriented retail as part of larger mixed-use districts, potentially near the future high-speed rail station. This type of retail would also help the City to create an attractive environment for young professionals and others looking for more urban-style offerings that the City lacks.
- Despite being a regional center for retail, Palmdale may lack offerings in certain categories such as Building Materials, Garden Equip. & Supply Stores and Clothing & Clothing Accessories Stores.
- HR&A estimates that the City can capture up to 1,138,500 SF of total retail demand by 2045, but there is a very large pipeline of planned and proposed development which could capture much of this demand. The type of retail establishments in demand in the future may change due to demographic and consumer spending shifts.

Hospitality Market

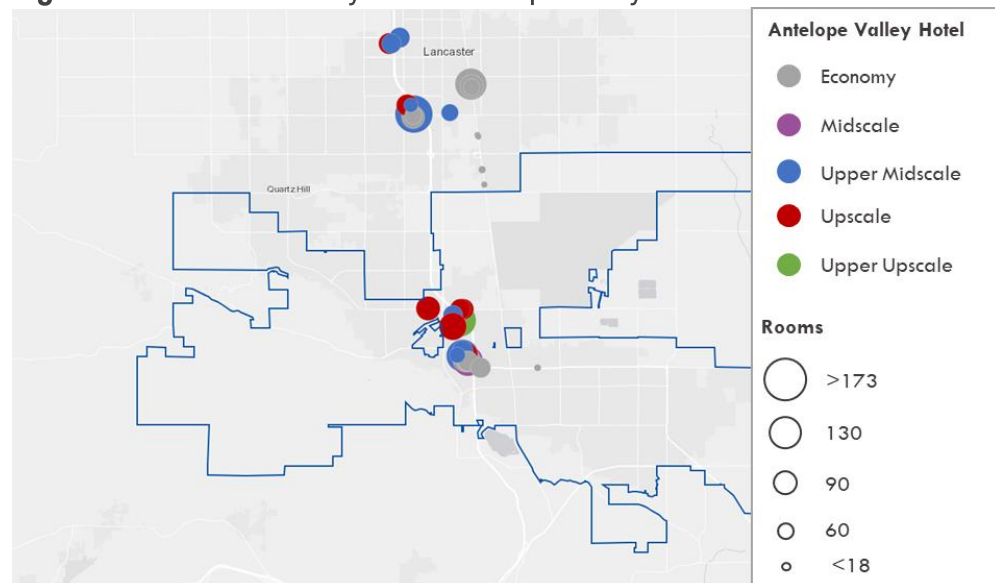
Key Drivers of Hotel Demand

From 2005 to 2018 the number of hotel rooms in Palmdale increased 69 percent, while Palmdale's population increased 18 percent and number of jobs increased 44 percent.¹⁸ Room occupancy data provided by STR shows that 60 percent of stays occur Monday through Thursday. These data points suggest that historically, Palmdale's hotel demand has been driven by both its growing population and uptick in jobs, with business travel having a larger impact than leisure. In a stakeholder meeting with HR&A, business leaders and community members noted that hotel demand has been driven by the aerospace industry, which frequently brings in employees and related businesspeople during the weekdays in long term stay hotels and suites. Notably, some aerospace industry representatives have noted that this is one way that the industry deals with the challenge of getting skilled employees to live full-time in the City.

Hotel Room Inventory in the Antelope Valley

As of 2019, there are 2,935 hotel rooms in the Antelope Valley, of which Palmdale has 1,604 hotel rooms (55 percent) in 16 properties mainly clustered around SR-14. Most hotels in Palmdale serve the upper midscale and upscale markets with a few options on the higher 'Upper Upscale' and 'luxury' end. This contrasts with L.A. County, where over a third of the market is comprised of Upper Upscale and Luxury hotels (Figure 2.50).

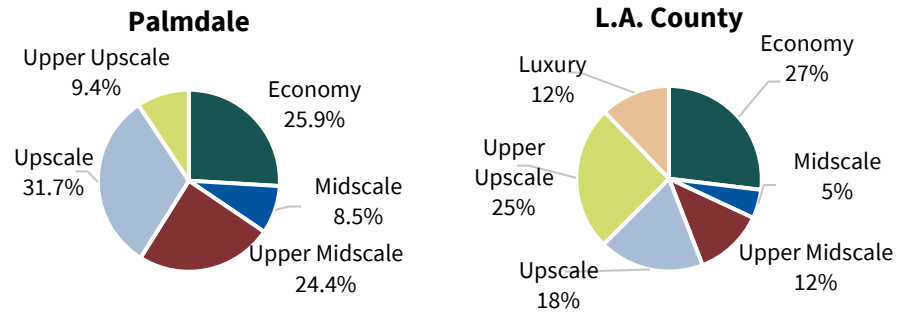
Figure 2.59 Hotel inventory in the Antelope Valley



Source: STR

¹⁸ Job growth is noted through 2015 per most recently available LEHD data.

Figure 2.60 Hotel Room Breakdown by Class



Source: STR

Hotel Market Trends

As shown Palmdale hotels have experienced strong growth in Average Daily Rates (“ADR”) and occupancy since 2013, suggesting that Palmdale is growing from an “economy” market to a more mature midscale market driven by employment growth. Room rates have continued to grow despite increases in inventory. ADRs in Palmdale remain lower than LA County (which includes many leisure and luxury-oriented products) and neighboring Santa Clarita, but that is primarily driven by the market orientation of the hotels and are likely to grow.

Figure 2.61 Comparative Average Daily Rate and Occupancy Trends

Year	Palmdale		Santa Clarita		L.A. County	
	ADR	Occupancy	ADR	Occupancy	ADR	Occupancy
2013	\$91.00	63.3%	\$109.77	76.1%	\$161.71	80.4%
2014	\$93.19	68.2%	\$119.60	78.3%	\$173.82	81.4%
2015	\$97.88	68.5%	\$128.58	82.0%	\$187.76	82.1%
2016	\$100.91	73.2%	\$149.07	86.8%	\$204.32	83.6%
2017	\$109.12	73.0%	\$141.43	85.4%	\$206.89	82.3%
2018	\$117.73	71.3%	\$147.79	87.4%	\$209.82	82.3%
5-Year Change	+26%	+3.1%	+24%	+9.1%	+21%	+0.9%

Source: STR, CBRE

Hotel Development Pipeline

Palmdale has increased the number of hotel rooms by 15 percent in 2017 with the opening of Home2Suites by Hilton and *element* by Westin, both of which are geared towards capturing high weekday demand generated by business travelers (Figure 2.62). Building on this trend, there are currently two hotel projects in the pipeline likely totaling around 200 rooms.¹⁹

¹⁹ Hotel count is based on issued permits in Palmdale. Hotel room counts have not been released but are assumed to be around 100 rooms each based on recent developments in the City.

Figure 2.62 Recent Hotel Development
element by Westin

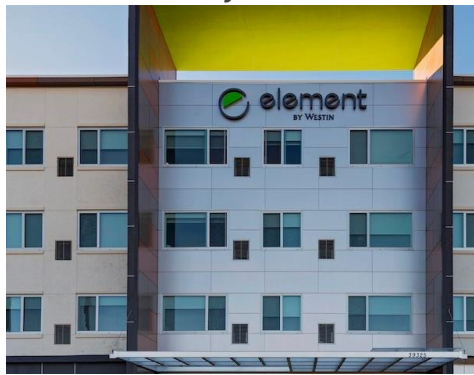


Photo Credit: Marriot

Opened Nov 2017
Class: Upscale
Rooms: 123 keys

Home2Suites by Hilton



Photo Credit: Hilton

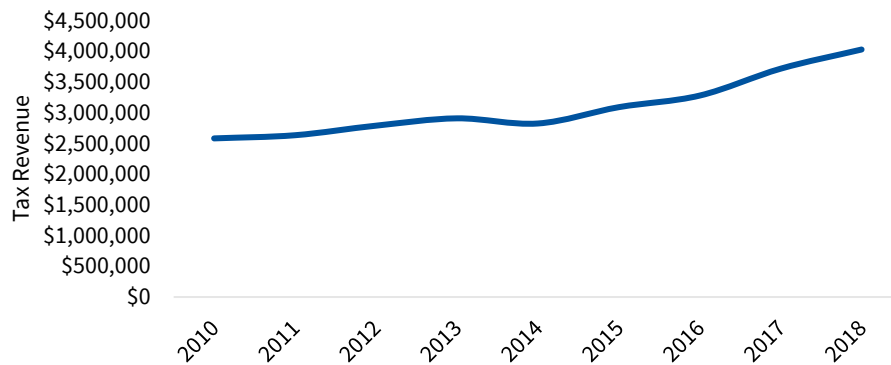
Opened Feb 2018
Class: Upper Midscale
Rooms: 93 keys

Source: STR

Transient Occupancy Tax (“TOT”) Revenue

With the opening of these two new hotels, after being relatively stable since 2013, revenue from the Transient Occupancy Tax has increased 23 percent since 2016. Notably, this percentage increase was larger than the increase in hotel room supply due to improved ADR. Transient Occupancy Tax revenues should continue to increase as ADR and occupancy rates continue to improve.

Figure 2.63 Transient Occupancy Tax Revenue in Palmdale



Source: City of Palmdale

Market Supportable Demand

The main source of hotel demand in Palmdale are business travel and visiting friends and relatives (VFR), and these are expected to remain the fundamental drivers in the Palmdale hotel market for the foreseeable future. Therefore, increases in employment and residential population will likely be the key drivers

of future business travel and VFR hotel room night demand. Future employees and residents were translated into an estimate of hotel room nights, based on the benchmarks of current room nights supported by Antelope Valley residents (weekends) and employees (during the week). STR data was used to benchmark this demand to current supply to determine the additional supportable new hotel rooms assuming a healthy 70 percent occupancy rate.

A range of supportable hotel room demand (Low and High) was created based off the historic fair share capture of the Antelope Valley hotel market. The Low range assumed Palmdale only captures 50 percent of total rooms delivered in the Antelope Valley, which was the City’s historic performance prior to 2000. The High range considered the fact that since 2010 Palmdale has captured over 65 percent of hotel room deliveries in Antelope Valley. With two new hotels in the pipeline and employment growth in aerospace, it is plausible that Palmdale continues to be a strong place for Antelope Valley hotels to locate.

Using the above methodology, the analysis estimates total hotel room demand in Palmdale to be 780 to 1,010 keys through 2045. Accounting for the two permitted hotels, net additional demand for hotel rooms is projected to be 580 to 810 keys.

Figure 2.64 Cumulative Hotel Demand (2019-2045)

	Low	High
Total Demand	780 keys	1,010 keys
Less Pipeline (Planned and Proposed)	(200) keys	(200) keys
Net Additional Demand	580 keys	810 keys

Source: HR&A

Key Takeaways

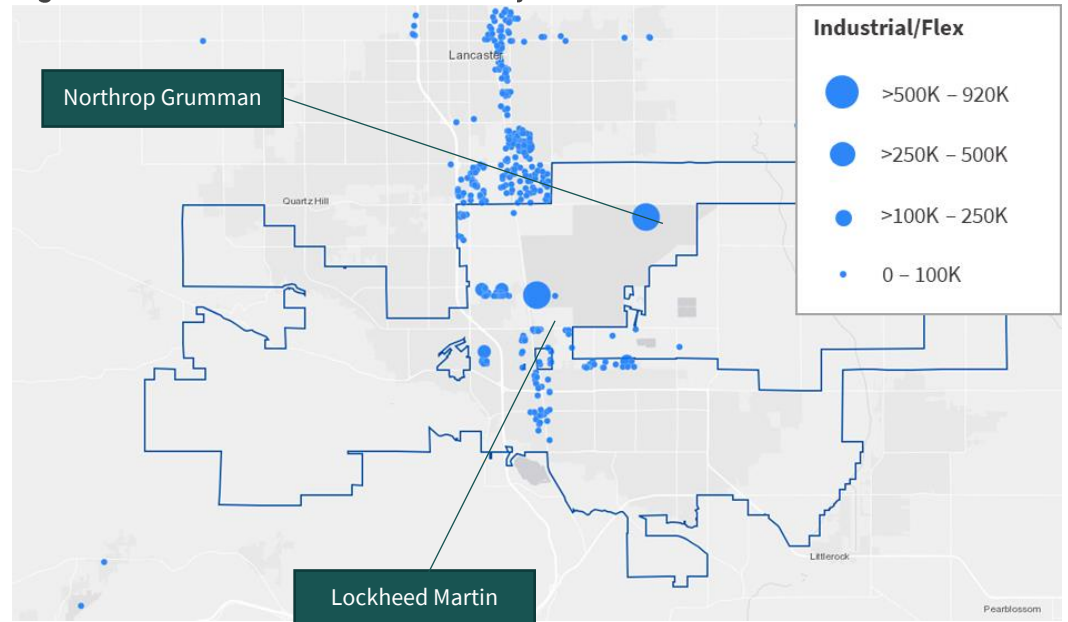
- The Palmdale hospitality market has matured over the past several years as ADRs and occupancy have experienced significant growth in response to employment growth. Although ADRs and occupancy are below L.A. County levels where there are more luxury products, rates have increased despite an increase in inventory.
- Palmdale is growing from an “economy” market to a more mature midscale market driven mostly by employment growth. As job openings continue to get filled, demand is likely to continue.
- TOT has increased significantly since 2016 with the addition of two new hotels. This revenue source has increased at a faster rate than hotel room inventory increase.
- As the economy and population continue to grow, Palmdale can expect moderate demand for new hotel rooms in the years to come. Through 2045, the City can expect demand for 580 to 810 additional rooms.

Industrial Market

Regional Context

There is 10 million square feet of industrial inventory in the Antelope Valley, with a little more than 40 percent of it located in Palmdale. Most of the industrial and flex development is located parallel to SR-14 along Sierra Highway and around Plant 42, where the aerospace facilities for large defense contractors and the U.S. Airforce are located.²⁰

Figure 2.65 Industrial and Flex Inventory

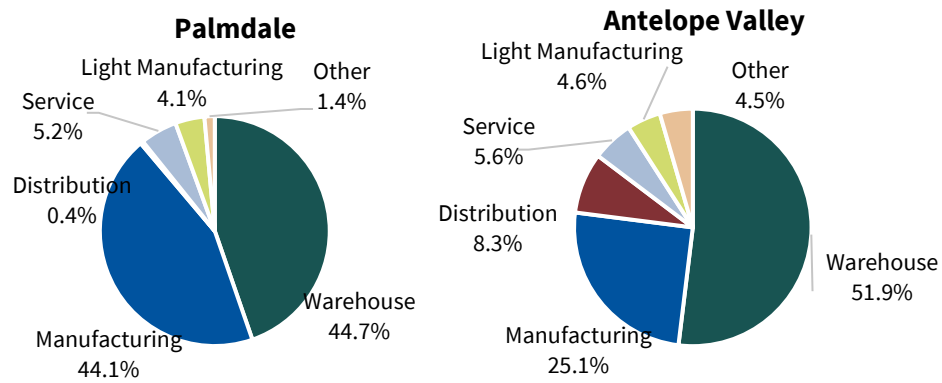


Source: CoStar

Approximately 60 percent of industrial and flex space in the Antelope Valley is used for warehousing and distribution. Palmdale has a significantly higher percentage of manufacturing square footage than the Antelope Valley overall, with 48 percent of industrial inventory dedicated to that use (including light manufacturing) compared to 29 percent in the Antelope Valley.

²⁰ CoStar is limited to reported market data. Plant 42 and Boeing both have large facilities around Palmdale Airport which are not represented in this data.

Figure 2.66 Industrial Inventory Breakdown by Use



Source: CoStar

Figure 2.67 shows average floor plate for various industrial types. Since Manufacturing tends to have larger floorplates than Warehouse, Palmdale industrial spaces tend to be larger than Antelope Valley as a whole. Average floor size for Palmdale is 38,000 square feet compared to 28,000 square feet for the Valley.

Figure 2.67 Average Industrial Floor Plate Sizes for the Antelope Valley

	Average Floorplate
Distribution	153,000
Manufacturing	60,000
Warehouse	30,000
Light Manufacturing	13,000
Service	8,000

Source: CoStar

Industrial Deliveries and Absorption

Historically, industrial growth in Palmdale and the Antelope Valley has outpaced L.A. County (Figure 2.68). Across the County, the industrial market has been very strong since the recession as there has been increasing demand for large floorplate warehousing and distribution facilities in proximity to highways. In many parts of the County, there is not adequate space to accommodate these needs, but the scale of vacant land in Palmdale is an opportunity for the City.

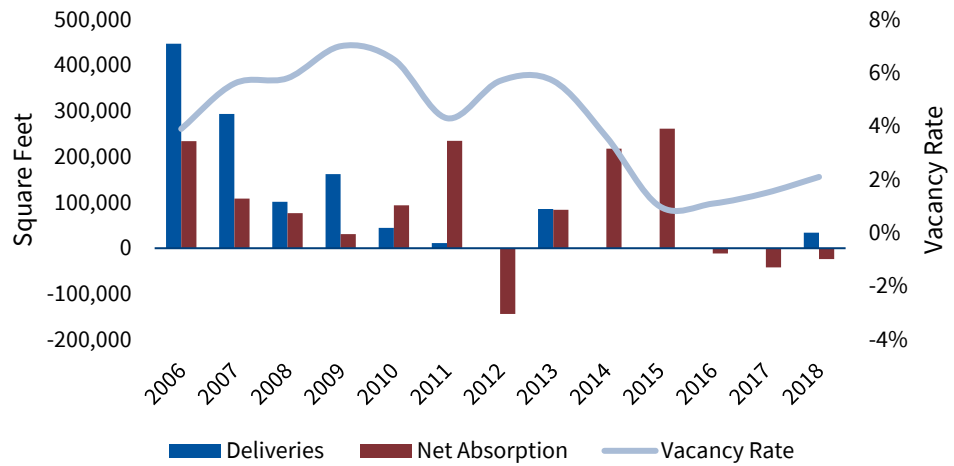
Figure 2.68 Comparative Industrial Inventory Growth

	Palmdale	Antelope Valley	L.A. County
CAGR 2000-2018	1.5%	1.6%	0.7%

Source: CoStar

However, there have been few meaningful deliveries of new industrial and flex space in Palmdale since 2008. At the same time, the City’s industrial market has experienced positive net absorption, pushing vacancy rates to under 2 percent citywide. The County’s vacancy rates have also dropped significantly, suggesting that developers may see Palmdale’s land and freeway proximity as an attractive location for new industrial spaces.

Figure 2.69 Antelope Valley Industrial Deliveries and Absorption

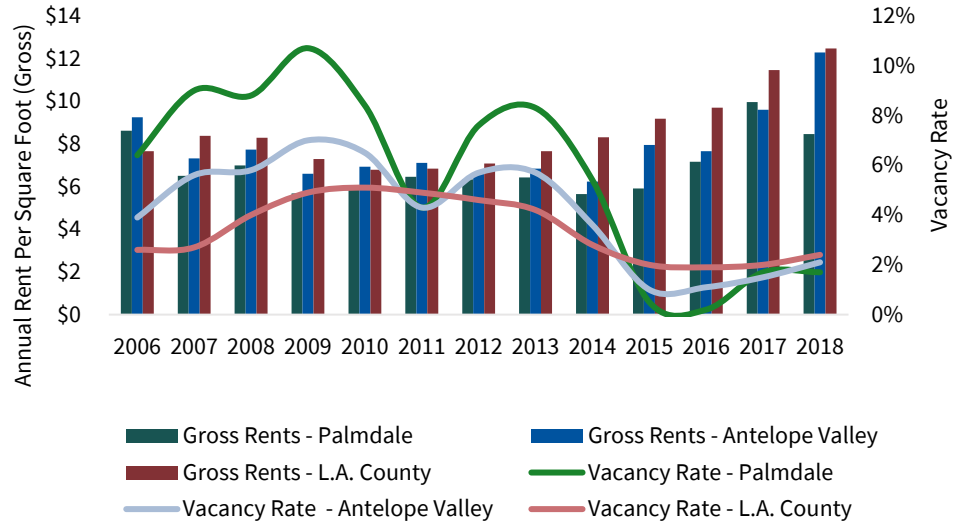


Source: CoStar

Rents and Vacancies

Industrial rents per square foot for industrial and flex spaces only dropped slightly during the Great Recession and have been on the uptick since. Unlike other land uses, industrial and flex rents and vacancies have been relatively on par with L.A. County, suggesting a much stronger market for Palmdale and the Antelope Valley and the potential to capture more demand into the future.

Figure 2.70 Industrial and Flex Annual Rents and Vacancy Rates

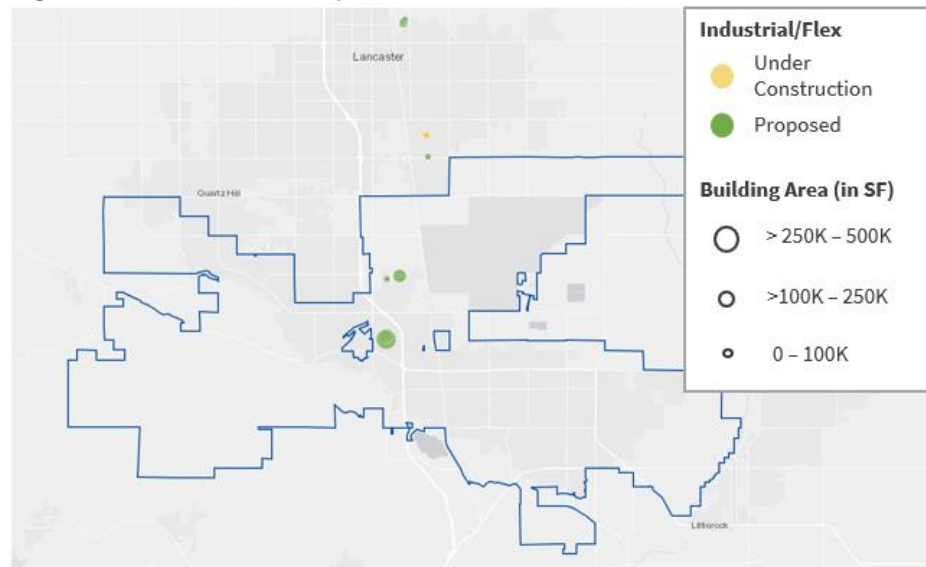


Source: CoStar

Industrial Pipeline

A strong appetite for industrial space (higher relative rents and low vacancy rates) have spurred new development for more industrial and flex space in the City. There is currently 1.3M SF of new industrial space proposed for Palmdale, nearly 60 percent of the total pipeline for the Antelope Valley. Given the overall tight market for industrial spaces in the region, Palmdale could potentially capture more value if land near the airport was serviced with infrastructure that stakeholders have noted is insufficient.

Figure 2.71 Antelope Valley Industrial and Flex Pipeline



Source: CoStar

Market Supportable Demand

In developing the demand model for industrial and flex space in Palmdale, the analysis considers both historic Antelope Valley employment growth from the LEHD database maintained by the U.S. Census Bureau as well as L.A. County projections of future growth from CA EDD. These sources are used to estimate employment growth in the Antelope Valley between 2019 and 2045 and estimate the share of industrial and flex-using employment. To estimate future industrial and flex square footage, it was assumed that space per employee for these uses was 488 square feet. Next, the share of industrial and flex demand expected in Palmdale was estimated based on Palmdale's existing proportion of Antelope Valley industrial and flex space.

Two scenarios (Low and High) were created to offer a supportable range of industrial and flex demand. The Low scenario represents a baseline demand for Palmdale based on its historic fair share capture of the Antelope Valley industrial and flex market. The High scenario considers the possibility that the Transportation and Warehousing industry in the Antelope valley might continue to expand well above L.A. County growth rates (4.2 percentage points higher annually from 2005-2015)²¹ due to better transportation connections, such as investments at the airport and completion of the High Desert Corridor.

Using the above methodology, the analysis estimates total industrial/flex demand in Palmdale to be 3,050,000 to 5,500,000 square feet through 2045. There is a substantial pipeline according to CoStar of 1,300,000 square feet for Palmdale. With an expectation that only a portion of this new development will be realized, net additional demand for industrial/flex space is projected to be 2,250,000 to 4,700,000 square feet.

Figure 2.72 Cumulative Industrial and Flex Demand (2019-2045)

	Low	High
Total Demand	3,050,000 SF	5,500,000 SF
Less Pipeline (Planned and Proposed)	(800,000) SF	(800,000) SF
Net Additional Demand	2,250,000 SF	4,700,000 SF

Source: HR&A

²¹ LEHD

Key Takeaways

- Palmdale’s industrial inventory is different from the rest of the Antelope Valley, with a larger amount of space dedicated to manufacturing rather than distribution and warehousing. Proximity to Plant 42 and the Palmdale Airport is in demand by businesses supporting the aerospace industry.
- Unlike virtually all other land uses, the performance of industrial space in Palmdale has kept pace with the County since the Great Recession. Rents have increased significantly since a modest depression following the recession and are on par with the County as a whole. Extremely low vacancy rates and rising rents suggest a healthy market that can support future demand.
- Despite recent indicators of demand, few new deliveries have occurred since the recession. Local brokers have noted that a lack of adequate infrastructure near the Palmdale Airport has inhibited industrial development opportunities.
- With a healthy pipeline of proposed industrial space, additional demand for new industrial space may be tempered. Through 2045, Palmdale can expect demand for between 2,250,000 and 4,700,000 square feet of industrial/flex space.