



LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION

**POLICY BRIEFING
ON THE PROPOSED ORDINANCE (APPENDIX C)
REVISING SIGNAGE REGULATIONS
IN THE CITY OF LOS ANGELES**

A large, light gray watermark of the LAEDC logo, tilted to the right, is positioned in the lower right quadrant of the page. The letters "LAEDC" are in white, bold, sans-serif font, set against a light gray square background.

EXECUTIVE SUMMARY

The Los Angeles City Planning Commission has prepared an ordinance amending sections of Chapter 1 of the Los Angeles Municipal Code as it relates to business signage. The Los Angeles County Economic Development Corporation Consulting Practice agreed to review the proposed ordinance based on its potential impact on the City's ability to attract businesses. We evaluated the potential impacts of the amended on-premises signage restrictions primarily based on economic theory.

The Economic Impact of Reduced of Signage:

The intent of the ordinance is to reduce signage in commercial and industrial development within the City of Los Angeles. Insofar as signage performs a service to businesses and consumers, and a reduction of signage leads to a reduction in such services, such reduced signage will negatively impact sales by reducing the following signage benefits:

- *Providing information to passing consumers of location and goods and services offered*
- *Creating brand awareness and recognition*
- *Inducing purchases by heightening awareness of incipient demand*

The Distributional Impact of Changing On-premises Signage Regulation:

The proposed ordinance will alter the competitive environment in the city, favoring some businesses and locations at the expense of others:

- *Existing businesses favored over new businesses because existing signage is grandfathered*
- *High visibility locations favored over less visible ones where signage is more critical*
- *Locations far from the city borders will escape competitive pressures which are faced by other locations that are closer to competitors subject to more permissive rules*
- *Businesses that can afford alternative marketing strategies, such as larger national businesses, can purchase name recognition through advertising to substitute for on-premises signage*
- *Property owners of preferred locations favored over owners of newly undesirable locations as new businesses choose locations less dependent on signage*

The Economic Impact on Consumers:

Consumers may be affected by the proposed ordinance in several ways:

- *Increased search time due to loss of advertising services provided by on-premises signage*
- *Reduced commercial product availability and higher prices as businesses relocate over time*
- *Increased congestion as consumers slow down to search for desired destinations in unfamiliar neighborhoods*
- *Potentially higher property values for residences near commercial areas as visual clutter declines*

INTRODUCTION

The Los Angeles City Planning Commission has prepared an ordinance amending sections of Chapter 1 of the Los Angeles Municipal Code as it relates to business signage. The intention of the ordinance is to set total sign area limits, to limit the area and height of individual signs, to prohibit off-premises signs, and to establish other measures to reduce “visual clutter and otherwise mitigate the potential impacts of signs on the visual environment.” The proposed ordinance (Appendix C) was approved by the City Planning Commission (CPC) on March 26, 2009 and forwarded to the Los Angeles City Council on April 6, 2009, with recommendation for approval.

The Los Angeles County Economic Development Corporation (LAEDC) is a 501(c)(3) non-profit corporation dedicated to attracting, retaining and growing businesses and jobs in the regions of Los Angeles County. The LAEDC Consulting Practice agreed to review the proposed ordinance based on its potential impact on the City’s ability to attract businesses. We evaluated the potential impacts of the amended on-premises signage restrictions primarily based on economic theory.

SUMMARY OF ORDINANCE

The ordinance establishes a three-tiered system for sign regulation based upon citywide sign standards which include: a prohibition of off-premises signs, digital signs and roof signs; total area ratio of on-premises signage limits of approximately 2.5:1 for all allowable signs (including wall signs, pole signs and window signs); limits to the surface area of each type of allowable sign; and a reduction in the height of on-premises pole signs.

A second tier of regulation, the Comprehensive Sign Program, applies to development projects with special signage needs which allows increases in some sign limits and establishes clear guidelines for community notification and input.

The third tier of regulation allows specific areas of the city to apply for special designation as a Sign District in which more flexibility is allowed on the types and sizes of signage, including permitting off-premises signage, such as billboards, and digital and electronic signage. To ameliorate the potential for mushrooming signage in Sign Districts, the ordinance mandates that each new digital or off-premises signage must be accompanied by a reduction of equal surface area in existing signage within the district or in its proximity of equal surface area.

In this brief, we focus on the impact of the proposed changes to on-premises signage regulation. Our analysis is based on economic theory given the underlying political and economic structure and conditions in the City of Los Angeles and surrounding region.

THE VALUE OF SIGNAGE

Most businesses in markets with many producers and many consumers depend to some extent on advertising to differentiate themselves from their competitors and to direct potential customers to their doors.

The value of signage is based on a number of services it provides:

- *Advertising – Information:*
Signage is an important component of advertising. It provides information to passing consumers of an establishment's location and the goods and services it offers at that location. This service is especially important in regions such as Los Angeles characterized by high mobility in that a changing residential population brings newcomers to the area who are without prior knowledge or familiarity with the goods and services available. Thus signage provides consumers passing by the information needed to make a decision on purchases.
- *Advertising – Promotion:*
Signage encourages recall and recognition. It encourages the development of memory for a specific location and the products or services available. Seeing the same signage frequently reinforces memory and extends consumers' recall of other advertising efforts.
- *Advertising – Inducement to Purchase:*
Signage induces purchases by prompting customers to make impulse visits or purchases by enhancing the customer's awareness to his or her demand for the goods or services that are immediately available at that location. It encourages customers to modify their previously-formed purchase decisions or habits by introducing new concepts or awareness of product availability, features and prices.

Some businesses benefit more from signage than others. For example, in an industry dependent on impulse-oriented purchases such as those specializing in non-essential goods like snack foods, clothing accessories, and entertainment, good signage can make the difference between success and failure if it draws in customers.

This is especially true for the businesses that depend on freeway drivers noticing their location. Drivers need to see the signage with sufficient notice to accurately assess the business's location and to safely negotiate freeway traffic to make it to the exit ramp.

Yet, in a dynamic city where people move frequently, even those businesses with an established customer base and not as dependent on impulse buys still need to attract new customers as others simply move away.

Other establishments that are particularly dependent on signage are those whose locations are less than optimal, perhaps less visible from the street or less accessible to vehicular traffic. This is particularly common in Los Angeles where changing regulatory regimes have left a varied built environment. Businesses with storefront parking are sometimes located next to buildings that extend

to the sidewalk. Signage is vital in areas where building offsets and heights differ from one parcel to the next.

Businesses that specialize in one area but offer extra services and products, such as a gas station with a mini-mart, or the dry-cleaner who also performs alterations, are dependent on signage to advertise their line extensions. These additional services are often particularly profitable but because they are not the main services offered by the firm they are often overlooked; signage becomes an important vehicle to inform potential customers of these products and to add to the bottom line for these businesses. Certain types of signs, such as electronic message centers, are especially effective for alerting potential customers to these types of services.

Finally, for marginal businesses such as small mom-and-pop firms, and those that operate on very slim margins such as retailers, signage is the most affordable advertising vehicle available. In these cases, signage offers a variety of services that are not available in other avenues simply due to budget limitations.

THE IMPACT OF REDUCED SIGNAGE

The intent of the ordinance is to reduce signage in commercial and industrial developments within the City of Los Angeles. Insofar as signage provides services to businesses and consumers as discussed above, a reduction of signage leads to a commensurate reduction in such services.

Because existing signage is grandfathered, in the short term the impacts will be limited. Over time, however, as businesses move or close and new businesses open, the regulations will take effect. As they do, overall sales may fall. To believe otherwise is to deny that advertising influences purchase decisions.

While it may not be possible to quantify in advance the potential cost of restrictive signage regulations, the direction will almost certainly be a decrease in sales. Providing consumers with information on the location and price of particular goods and services can be critical to making a sale. For example, an electronic message center advertising a special on ice-cream bars may be the inducement for a family to make a purchase there rather than at their planned visit to a fast-food restaurant. Encouraging another family to buy ice-cream bars when it was not even thinking of purchasing a food product at all is an example of inducing purchases by making a potential customer aware of incipient demand.

If businesses are less effectively able to convey location and price information to potential customers, and it leads to sales in other jurisdictions, total sales will fall in the City of Los Angeles.

If businesses are less effectively able to induce purchases to satisfy incipient demand, total sales may fall in the region.

To the extent that overall sales in the City of Los Angeles decline, the collection of sales tax revenues and business license taxes that are based upon gross receipts will fall.

THE DISTRIBUTIONAL EFFECT OF CHANGING ON-PREMISES SIGNAGE REGULATION

The proposed ordinance will alter the competitive environment in the city, favoring some businesses and locations at the expense of others. Among the winners will be: existing businesses; businesses with high visibility locations; businesses far from competitors subject to more permissive rules; certain property owners; and businesses that can afford alternative marketing strategies. Among the losers will be: new businesses; businesses in locations with poor visibility or poor access; and smaller businesses, particularly those competing against national and regional chains.

- *Existing businesses favored over new businesses*
Under the provisions of the ordinance, existing (lawful) signs that become non-conforming due to the new legislation will be permitted to continue provided maintenance and modifications are kept within stringent limitations. Given that these signs exceed the rules of the proposed ordinance, their continued installation would provide service to existing businesses that would be unavailable to new businesses. Thus two companies of different vintage offering similar services would face differential signage restrictions, at least until the existing signage is replaced.
- *High visibility locations favored over less visible ones*
Location is a critical ingredient for retail success. High-traffic, easy-access, visible locations are preferred. For locations with limited or restricted visibility, or for locations that are difficult to reach, new businesses will be disadvantaged compared to businesses with better visibility. New businesses with restricted signage will be even more disadvantaged compared to businesses with better visibility than they are today.
- *Locations far from competitors subject to more permissive rules*
Los Angeles is a sprawling city surrounded on all sides by developed urban areas. The City itself completely surrounds several smaller cities, including West Hollywood and San Fernando, and its perimeter stretches south to San Pedro and northwest through the San Fernando Valley. This means the City touches a multitude of independent municipalities and unincorporated areas of the county, all subject to different zoning boards and signage regulations. A business in the City of Los Angeles faces immediate competition from close-by businesses in neighboring jurisdictions – often just across the street – many with more lenient regulatory and tax environments. Under existing pressure to offer similar services at competing rates, new businesses in Los Angeles will be faced with restrictions on business attraction through visual means. New businesses may therefore choose to locate in neighboring cities instead of the City of Los Angeles.
- *Owners of preferred locations favored over owners of newly undesirable locations*
Changing property market conditions on the demand side as a result of the new ordinance will affect market values. For example, locations that are less visible (and therefore more dependent on signage for directional purposes) will lose market value as the pool of potential new users for the property shrinks. Similarly, commercial property close to city borders where the neighboring region has more permissive sign regulations and where signage is an important component of the typical business’s marketing strategy will also fall in value. While in the longer term, other uses and tenants may find

such locations suitable, the immediate change to current property owners is an unanticipated economic impact.

- *Businesses that can afford alternative marketing strategies favored over small local businesses*
The proposed ordinance limits the most affordable method of advertising for most companies. In practice, this probably means favoring larger businesses over smaller ones. Smaller, non-franchised or non-chain merchants are especially dependent on signage as a type of local advertising since they lack national name recognition. Thus limiting on-premise signage favors larger corporations that can afford intensive media advertising in substitution of reduced on-premises signage. Independent small businesses are limited in their ability to communicate with their potential customers; signage is a major component of their outreach effort.

THE ECONOMIC IMPACT ON CONSUMERS

Consumers may be affected by the proposed ordinance in several ways, including: increased search time; reduced commercial product availability and higher prices; increased traffic congestion; and impacted property values.

- *Increased search time*
Over time, the loss of advertising services which would have been provided by signs translates into less immediately available information for consumers in their purchase decisions, leading to higher search costs and missed opportunities. For example, a consumer looking for a barbershop may not be aware of the business in the mini-mall on his block because he has not been drawn in by the firm's sign. In this case, the customer will be compelled to look for a barbershop in another location or area. In some cases, the customer will purchase services from a business that may not be his first choice had he been aware of his options at the beginning of his search.
- *Reduced commercial product availability and higher prices*
Over time, if businesses choose to locate elsewhere, customers will have fewer choices and competition can suffer, leading to higher prices of the goods and services offered by those businesses remaining in the market. This is more likely in areas with either poor locational choices or in areas where signage makes a real difference.
- *Increased congestion*
Over time, if it becomes harder for businesses to locate in areas because their signage is less visible to drivers, customers travelling by road to unfamiliar locations will slow to search for their desired destination, causing traffic delays. This is especially relevant to traffic on freeways or busy commercial streets as non-locals slow down to safely exit to their anticipated destination. This additional traffic congestion is a cost to all other residents in the area. Moreover, to the extent that neighborhood-serving businesses which close are not replaced because new entrants choose alternate locations, people will have to travel further to make their purchases.

➤ *Potentially higher property values*

The stated intention of the ordinance is to reduce “visual clutter.” Homeowners in areas with excessive amounts of commercial signage may prefer less advertising in their visual environment. If so, residential property values in those affected areas may be enhanced by a reduction in signage.