

ANNUAL INVESTMENT OUTLOOK ISSUE

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DEVELOPERS FIND A NEW VISION AS L.A. GROWS

AS LOS ANGELES EVOLVES INTO A GLOBAL CITY,
DEVELOPERS ARE FINDING THE BEST OPPORTUNITIES IN
MARKET-RATE RESIDENTIAL AND VERTICAL PROPERTIES



Century West Partners recently completed the massive mixed-use complex Next on Sixth in Koreatown. The luxury property includes 398 residential units, with retail, a residential lobby and parking on the first floor.

Greenland USA officially opened its \$1-billion Metropolis Los Angeles to guests and residents this summer. The 3.5-million-sf project features a 350-room Hotel Indigo, three residential towers of 38, 40 and 56 floors and such amenities as onsite fine dining and retail. Full completion is expected in 2019..



K2LA is a three-building “Work, Live, Play” urban luxury project in Los Angeles’ rapidly growing Koreatown district. A development of Century West Partners, the offer 476 units and feature fitness centers, business centers, rooftop spas and outdoor decks.

Los Angeles is growing—or has grown—into a global, gateway city. In the past few years, the city has seen tremendous expansion, with new development and revitalization of old neighborhoods. As such, developers are adjusting their strategies to supply the market with new, innovative projects. This includes denser, vertical development, transit-oriented projects and market-rate housing.

New development and innovation isn’t the only thing the city growth has bred. Los Angeles has also seen vocal community acrimony to the increase in development and affordability issues. We sat down with some of Southern California’s top developers to talk about how the city’s growth has driven new demand and changed development strategies, and how they are dealing with new legislation and development obstacles.

In this roundtable discussion, leaders from companies behind some of Los Angeles’ biggest projects share their insight behind the trends in, and outlook for, development in the market.

PARTICIPANTS

KELSI MAREE BORLAND (*moderator*) is the Los Angeles reporter for **GlobeSt.com**, the online platform of the ALM Real Estate Media and sister publication of REAL ESTATE FORUM.

KEVIN FARRELL is a senior vice president with **Century West Partners**, which recently completed the massive mixed-use complexes K2LA and Next on Sixth in Koreatown.

JONATHAN GENTON is CEO of **Genton Property Group**, which is building a \$300-million Four Season's Private Residences in West Hollywood.

HU GANG is CEO of **Greenland USA**, the developer behind the \$1-billion Metropolis project in Downtown Los Angeles.

KELSI MAREE BORLAND: Los Angeles is evolving into a global city. What types of development does the city need as it shifts toward a denser and more urban environment?

HU GANG: As L.A. continues to grow, the city will naturally become denser and more vertical to accommodate this population growth. When we look at other global cities experiencing similar growth, we know that more mixed-use projects will be in demand, so people can enjoy the convenience and excitement of urban life without the usual urban headaches like traffic and parking.

KEVIN FARRELL: The answer to the question of innovation used to be amenities, but now everyone has amenities. The amenities arms race is over. Everyone has everything: a golf simulator, a game room, a huge fitness center. The next thing now is building near transit. We know our renters don't want to drive their car to work every day.

In our Koreatown developments—all four of them—you can ride the train to work every day and be Downtown in 15 minutes. When we started this in South Park a few years ago, all but just a few residents had a car. At our most recent lease-up at K2LA, 12% of our residents didn't have a car. We are still in the early stages at Next on Sixth with 20% leased, but 15% of our residents don't have a car. That means that they are walking, using transit and taking Uber. We try to stay transit-oriented.

JONATHAN GENTON: The city has changed in a few ways. It's become a global gateway city, and that phenomenon has really been established over the past few years. Really, all parts of L.A. have been recognized internationally, and the high-end market is certainly seeking to address those needs. There are also needs through the whole column of housing. L.A. has gotten extraordinarily expensive, and everyone seems to be going to the higher end of the market—even in areas and buildings that aren't worthy of high-end product. There's an absence of middle-market housing. There's a lot of activity at the affordable end, between legislation and the Governor's ordinances. It's been a barbell effect, and the largest part of the demand curve, the middle, has been left without a lot of supply or attention.

BORLAND: Has the growth of the city changed your approach to development or your vision and strategy?

GANG: Greenland USA has strong faith in the strategy of building transformative projects in gateway cities like Los Angeles, and the continued growth we are seeing only bolsters our vision and strategy. When we first made the decision to invest in Los Angeles and Metropolis, we saw the potential impact we could make in supporting economic growth and creating opportunities for the local community. Now, we are seeing that impact in action. For instance, over the course of Metropolis' development, we will have created more than 15,000 full-time, high-paying jobs, while helping meet the need for more housing and hotel space.

FARRELL: Two things we always want are strong retail and a strong pedestrian environment. We really look at how we fit in with the greater community. At Next On Sixth, we lucked out and got Target; so, now our retail environment has a CVS pharmacy, produce, hard goods, soft goods and a Starbucks. That will ensure a great pedestrian environment. We also cut the project's corners at a 45-degree angle to make the sidewalk areas larger, and engaged two separate muralists to create custom murals on the two corners. It really set the theme for this to be not just an apartment building, but an art-focused apartment community.

GENTON: Of course, we do the Four Seasons as our base business, in very special locations since you can't do that everywhere. There's plenty of supply at the high end, but little to no supply from the high end down. So, we're starting to focus our attention on really establishing a condo market in a substantial way at the middle-market price point.

BORLAND: What areas of Los Angeles do you think are ripe for development, and what characteristics do you look for in a development site?

GANG: Los Angeles is a prime example of a true international metropolitan city undergoing major revitalization. We see the growth happening in Silver Lake, Echo Park, Culver City and others, but we believe the transformation of DTLA is one of the most exciting changes taking place here. As the area becomes an increasingly desirable and vibrant place to live, and job opportunities continue to increase, this is a big moment for the growth of Downtown L.A.

FARRELL: There are a lot of markets in Los Angeles and Orange County where the rent would support new construction. We are constantly looking for sites and for people that own sites and want to partner with a developer. We haven't been active in Culver City or Mar Vista or the San Fernando Valley or Orange County, and we like all of those markets.

BORLAND: What are some of the challenges of being a developer in a growing city like Los Angeles?

FARRELL: The global demand in L.A. is insatiable. Some of the challenges change the way that we finance a deal. With increased costs or the union labor requirements, it makes it tougher for a deal to pencil. We need to have a different type of equity partner and a different type of leverage on the construction loan. It is a more patient investment strategy. All of the major real estate investors realize that we need to keep building apartments in Los Angeles.

GENTON: I see deals all over town and landowners are using me as a comp, and it is for product that is nowhere near what we're producing. Land sellers need to get more realistic about the market. In per-square-foot numbers, and in order to get middle-market housing built, you would need to get land for less than \$1,000 per square foot. I am looking to see if you can get \$800- or \$700-per-square foot-kind-of numbers. That's where it needs to be to speak to that mid-market demographic.

The Four Seasons Private Residences is a \$300-million development by Genton Property Group in West Hollywood. Residents of the 12-story tower's 59 luxury units may enjoy a courtyard pool with cabanas, fitness center and IMAX private theater, as well as the dining and spa services of the nearby Four Seasons Hotel.



BORLAND: How do you overcome those obstacles?

GANG: We've built a strong team of local experts in Los Angeles and work with key partners to move us forward. Whether we are working with the community, unions, construction companies or the city for approvals, the importance of having local experts to provide guidance and mitigate potential challenges cannot be overstated.

FARRELL: We can't change policy or sentiment, but we have been very successful getting our projects approved by meeting with community groups and working with staff. It is a matter of being out there and showing people that you are responding to their concerns. With CEQA, you have a process that is going to be very public no matter what you do. We are happy to go through that process and be very open and honest no matter what we build.

GENTON: We overcome them by going to fringe locations and focusing on land that can benefit from density bonuses. We're really embracing those plans.

BORLAND: We've seen some community backlash in response to density, some of which has manifested in ballot measures, like Measure JJJ. Has that impacted you?

GANG: As we saw with the passage of Measure JJJ, the residents of Los Angeles overwhelmingly voiced that the only way for our city to move forward is to create a more inclusive space by developing housing for people at all income levels. As Greenland assesses new opportunities here, we will continue to work alongside the city, our general contractors and union partners—who helped make Metropolis what it is today—to help grow the economy and create more jobs. Greenland always aligns its development plan with the vision of the community. We will welcome new opportunities to develop affordable housing in L.A. if the project is proven to be viable for the local community and developer.

FARRELL: We always say that we are happy to provide affordable housing; just tell me upfront if it is a requirement. It is better to have a carrot out there than a stick. The L.A. zoning allows for increased density via a vehicle called SB1818. If you include 11% very low-income housing, you get a density bonus. We haven't used it yet, but we look at it all the time. For Measure JJJ, the issue is that it only kicks in if you are rezoning, but the problem is that the general plan is so old that sometimes rezoning is necessary. It makes it harder to provide the housing that everyone knows L.A. needs. It is also going to be prohibitive on mid-rise projects because of the union labor requirement. On high-rise projects, you are generally dealing with prevailing wages anyway, so it doesn't really move the needle.

GENTON: We always use union labor, so that isn't a concern for us. I think Measure JJJ is tying the privilege of development with some of the responsibilities of development. So, while some of these things make it more costly on the margin, they really pale in comparison to the cost of the land or the cost of unpredictable entitlements. If you have certainty and you have predictability, you can certainly overcome what others might perceive to be deal killers, and they are really not. We tend to stay out of contentious entitlement deals, having said that, every deal evolves into some sort of animosity or densification. I think that is why we tend to peruse those battles in areas and markets where you are going to pro-

duce a luxury-class project because of the time and the dollar commitment that you need to get through the system. If you look at a mid-market product, you can't afford to battle for three to four years and change your product in a way that it becomes uneconomic. You need more certainty, and the thing about JJJ is that it does give you some certainty, even if others don't like it. It comes at a cost, but you can start to underwrite that and factor that in. As long as you check yourself, you can be successful.

BORLAND: Despite the backlash and challenges, what are the benefits of developing in Los Angeles?

GANG: We are witnessing the longest and strongest development boom in Los Angeles in recent history. For instance, the permit valuation in 2017 is roughly \$7.7 billion—more than 40% more than what it was 12 years ago. As a result, we're seeing a strong commitment to local development and tremendous support to investors. Additionally, property prices in L.A. are much lower than in other comparable international metropolitan cities, which greatly attracts both individual homebuyers and developers to the L.A. market.

GENTON: Los Angeles is a global community. When the creative office market comes in and housing follows, it creates a whole fabric of a city. Downtown Los Angeles is a great example. You are starting to see housing and creative office come in, and I think that you will start seeing interesting retail. ♦