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In This Star-Studded City, Mixed-Use Shines Brightly

By Morris Newman

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Anyone seeking evidence of the runaway popularity of mixed-use development in Los Angeles need look no further than the $3 billion extravaganza downtown known as Grand Avenue. Spread over four city blocks and spanning 3 million sq. ft., this ambitious project of the Related Cos. makes all other in-town development pale by comparison. Indeed, Grand Avenue combines 1,200 units of housing with a high-rise hotel, an office building, 400,000 sq. ft. of retail and the possibility of a museum or other cultural uses. Still in the conceptual stage, the first phase of the project could be complete by 2009, according to the developer.

What's particularly unique about Grand Avenue is that it is far denser than most projects built heretofore in this traditionally low-density city. Another distinguishing feature is that the development is designed for people on foot, not automobiles, which suggests a lifestyle change in Los Angeles, a city famous for its love of cars and its teeming freeways.

The developers are devoting much attention to what is happening at street level, where visitors are expected to stroll through outdoor shopping streets on their way to and from existing destinations on Grand Avenue, including the new Cathedral of Our Lady of the Angels, the Los Angeles Museum of Contemporary Art, a performing-arts school and architect Frank O. Gehry's Walt Disney Concert Hall. (Related has hired the famed Santa Monica architect to design one of its high-rise towers, which would be a feat for Gehry, who has yet to see one of his high-rise schemes actually built.)

While Grand Avenue truly has designs on becoming a model urban development, infill is hardly new to Los Angeles or any other big city. The difference here is emphasis. Developers are scouring the city in search of under-utilized sites as never before, and are often joining forces with public agencies — including redevelopment officials and the local transit authority — to help them assemble multi-acre parcels.

Changing culture, lifestyle patterns

Several factors are sparking mixed-use mania in America's second-largest city, according to Nicole McAllister, director of development for the Lusk Center for Real Estate at the University of Southern California. One big factor is that an increasing number of residents are seeking a more urban way of life — particularly if that change means more time with their families and less time spent commuting on California freeways.

“Culture and lifestyle patterns have changed, even in the past five years,” McAllister says. “Many people are now trying to move back into the active centers of metropolitan life. They don't want to be isolated in the suburbs anymore.”

In a city with a very limited mass-transit system, traffic is fast approaching perpetual gridlock and people want to get out of their cars, according to Clifford Goldstein, a partner in J.H. Snyder Co., a Los Angeles-based developer with several mixed-use developments currently under construction. “There is a small group of people who are electing to sacrifice the large homestead for the smaller house and convenient transportation,” he says.

“There's a new, enlightened home-owner consumer who wants to have an alterative to being beholden to the automobile,” according to Michael Dieden, principal of Creative Housing Associates, a Santa Monica-based developer. “They don't want to drive the car to go to the video store, the dry cleaner and other neighborhood services.”

The success of mixed-use developments has emboldened the lending community, which historically steered clear of hybrid projects. “Traditional sources of capital feel this is a way to diversify risk,” says McAllister of USC. Developers that formerly specialized in one type of development, now want to expand their palette and “cash in on strong real estate segments” such as housing and retail, she adds.

The support of local government, including redevelopment agencies, also is spurring mixed-use development, according to

McAllister. “A lot of public agencies have made these types of development a priority, and that creates demand,” she says. In fact, Grand Avenue, which is being built on land owned by the City and County of Los Angeles, is one such public-private project.

Why mixed-use now?

Downtown Los Angeles, ablaze with apartment construction and condominium conversions, is arguably an ideal place for mixed-use development — particularly because downtown is largely lacking in neighborhood retail. The lack of a supermarket, due to a historically low population, has been a long-time frustration for the Los Angeles Community Redevelopment Agency, which has sought to create residential units downtown for 30 years.

However, the population is rapidly increasing in the city center, with 3,500 housing units completed since 1999, and up to another 8,500 either under construction or planned, according to the Los Angeles Business Improvement District, a non-profit group of downtown business owners.

In February, CIM Group of Los Angeles and The Lee Group of Santa Monica began work on the $110 million Market Lofts, an unusual project that combines a 56,000 sq. ft. supermarket at ground level with 267 residential units on upper stories, as part of the developer's South Village mixed-use scheme that covers a full city block.

Among the tenants that have leased space along the sides of the supermarket are UPS, a Coldstone ice cream parlor and a coffee shop. “If the market is strong enough and retailers' need to compete in that market is great enough, they will do just about anything to get in,” says CIM principal John Given.

Another CIM-Lee collaboration, a 476,000 sq. ft. office building, 801 S. Grand, is a layer cake of office space on the bottom and condominiums on the top. CIM Group will provide the new ground floor retail and the first 10 floors of office space, while the Lee Group plans to spend $40 million turning the top 11 floors into luxury condominiums. Completion of the 132 condos is expected by January 2006.

Mixed-use is a mixed blessing, however, for developers providing retail in locations where foot traffic is comparatively thin. At 801 S. Grand, CIM must settle for modest rents and wait for the market to mature, according to Given. “It's a wash at best on your balance sheet,” he says, “but you go ahead because you know renting the retail space is ultimately the best way to create value in the real estate.” Retail rents at 801 S. Grand are in the range of $2 to 2.50 per sq. ft. monthly, as opposed to rents up to $4 per sq. ft. in downtown's best retail space.

New student housing emerges

With capital looking high and low for multifamily opportunities, one growing market is student housing. The $135 million, eight-story University Gateway combines 421 units of student housing with about 70,000 sq. ft. of neighborhood retail, including a bookstore and restaurant. Each unit will accommodate four students and is expected to rent for about $2,800 monthly.

In July, the University of Southern California took out a master lease on the entire building, which has been designed in consultation with the university. The developers are Urban Partners of Los Angeles in a joint venture with equity partner Blackstone Real Estate Advisors.

The new student housing is the largest project yet on Figueroa Boulevard, the corridor connecting downtown with the University of Southern California, the largest employer in the downtown area, which lies a few miles south of the Central Business District.

Infill and mixed-use is not limited to downtown, however. The craze for hybrid buildings has spread to the suburbs, and to affluent cities like Santa Monica and Beverly Hills. Although Beverly Hills has stringent standards for design and use, developer J.H. Snyder managed to build a residential mixed-use neighborhood in one of the small, coveted infill sites remaining on Wilshire Boulevard, the city's main commercial drag.

The city discourages residential development on Wilshire, so the developer solved the problem by fronting the project with 40,000 sq. ft. of office space on the boulevard, while orienting the front doors of the townhouses in the opposite direction, facing a residential neighborhood. Cleverly, the architects allow the townhouses to peek over the office space for an elevated view of Wilshire. The project is believed to be the first mixed-use project combining retail and office space in Beverly Hills, as well as the first new rental units in the city in nearly 25 years.

Mall owner eyes hot housing market

Few projects demonstrate the appeal of multifamily construction more than the proposed demalling of Santa Monica Place, a conventional regional mall. Although the portfolio of the owner, The Macerich Co., is almost entirely composed of malls, housing is so expensive and so popular in Santa Monica that the developer wants to scrap the 21-year-old mall, which generated only $200 of sales per sq. ft. last year, according to city figures, compared with $391 sales per sq. ft. on average by Macerich's retail portfolio 10 years ago. The developer now wants to replace the mall with 300 luxury condominiums as well as another 560,000 sq. ft. of retail and a seven-story office building.

Macerich's original proposal to build three, 300-foot-high residential towers was not well received in this low-lying city, which prizes its ocean views. The developer is currently hosting community workshops on a redesign.

Yet another example of mixed-use in non-traditional places involves a proposal by retail developer and Los Angeles Police Commission President Rick Caruso, who is proposing up to 1 million sq. ft. on 85 acres of the Santa Anita racetrack in suburban Arcadia.

Caruso's project, which is still in the planning and environmental review stages, could be worth up to $400 million, and is expected to include up to 800,000 sq. ft. of retail restaurant and entertainment uses, and possibly housing. A Caruso spokesperson describes the project as “designed to celebrate the track's exquisite grounds and historic facilities.”

Hybrid projects are pariahs no more

Today's acceptance of mixed-use development is a far cry from the negative response that greeted the hybrids of residential, retail and office space just a few years ago. “I can remember back in the early 1990s, when we would talk about mixed-use and people would look at us like we were crazy,” recalls developer Dieden, a longtime advocate.

Multifamily broker Kitty Wallace of brokerage Sperry Van Ness agrees. “If you mentioned you had a mixed-use project for sale, the nose crinkle would come.” Back then, of every 10 multifamily investors, perhaps one would be interested in buying a mixed-use project, says Wallace.

The few mixed-use projects that hit the market had to be sold at a discount, says Wallace, “because the apartment investors did not want the retail, and the retail investors did not want the apartments, and office investors did not want either.”

Now, the success of mixed-use projects like Third Street Promenade, an open-air shopping street in Santa Monica where developers installed rental units above retail space, has helped changed their minds. “Far from a discount,” Wallace explains, “mixed-use is getting a premium.” She declines to discuss prices or cap rates, however, because very few projects are currently on the market.

Investing near transit stations

Access to large sites that are otherwise unavailable has persuaded mainstream developers to work with public agencies with plentiful land holdings, such as the Metropolitan Transportation Authority of Los Angeles County (MTA). Perhaps the largest transit-oriented development is NoHo Common, a retail and residential complex under construction at the subway station in North Hollywood, located north of downtown Los Angeles.

With more than 700 residential units under construction, the $200 million project is the largest residential project yet to be built on the Metro Rail line, according to the developer, J.H. Snyder. A phased project, the first residential units open later this year, while a second phase will feature 300 loft residential units, 20,000 sq. ft. of live-work space and 60,000 sq. ft. of retail. A third phase will provide a 200,000 sq. ft. office building, and a gourmet food market and other neighborhood-oriented shops.

The developer believes that NoHo Commons should appeal to people working in strongholds of the entertainment industry, such as Universal Studios a mile to the south, and Burbank, which lies two miles east. The headquarters of The Walt Disney Co., NBC television, and the West Coast operations of both ABC and Warner Bros. are located in Burbank.

Another large-scale collaboration with the transit authority is located at Hollywood and Vine in Hollywood, where a venture of Legacy Partners and Gatehouse Capital of Dallas plans a 300-room hotel, 140 condominiums and about 60,000 sq. ft. of retail on a site occupied mostly by asphalt parking lots and a bus layover; the historic Taft Building will remain on the corner. The developers envision the project as “the eastern gateway to Hollywood,” says architect John Waldron, project architect with McLarand Vasquez Emsiek & Partners, which is designing the project.

Density comes to small towns

A very different project, conceived on a small-town scale, is Mission-Meridian Station in South Pasadena, a project of Creative Housing Associates. The Craftsman-style project is literally inserted into an existing neighborhood of single-family bungalows, and creates a mix of new high-density housing and retail.

Situated on a 1.65-acre site, the developer has managed to fit 4,000 sq. ft. of new retail space, two levels of underground parking, 67 condominiums and three new single-family houses. Many condos are arranged in courtyards, hidden behind imposing, historic-looking facades.

The condominiums were sold out in 2003 before construction began, according to Dieden, the developer. “I would have made a lot more if I were selling them at 2005 prices,” he says wistfully.

In different ways, projects like Mission-Meridian Station and Hollywood and Vine are a sign that greater Los Angeles, the archetypal car-centered metropolis, is “becoming more urban, more compact,” says Waldron. “Densification,” he adds, “is part of the natural evolution of the city.”

Morris Newman is an L.A.-based writer.

LOS ANGELES - BY THE NUMBERS

POPULATION OF METRO AREA:

10 million
(Los Angeles and Orange County)

UNEMPLOYMENT RATE: 5.2%
(Los Angeles)

LARGEST EMPLOYERS:

1. Kaiser Permanente
   27,635 employees
2. Boeing Co.
   23,468 employees
3. Ralph's Grocery Co.
   17,211 employees

Source: Los Angeles Economic Development Department

METRO AREA STATS OFFICE:

15.9% vacancy (CBD), 2Q 2005

17.7%, vacancy, (CBD) 2Q 2004

Source: Cushman & Wakefield

INDUSTRIAL:

5.3% vacancy, 2Q 2005

6.8% vacancy, 2Q 2004

Source: Delta Associates/Transwestern

HOTEL

79.39% occupancy, June 2005

76.68% occupancy, June 2004

Source: PKF Consulting

MULTIFAMILY

3.3% vacancy, 2Q 2005

3.4% vacancy, 2Q 2004

Source: Marcus & Millichap

RETAIL

4.1% vacancy, 2Q 2005

4.6% vacancy, 2Q 2004

Source: Marcus & Millichap

UNDER CONSTRUCTION:

Grand Avenue is spread out over four city blocks and spans 3 million sq. ft. It combines 1,200 units of housing with a high-rise hotel, an office building and 400,000 sq. ft. of retail.

Cost: $1.8 billion

Developer: The Related Cos.

Completion: Phase I, 2009

NoHo Commons is a transit-oriented mixed-use project in North Hollywood, at a Red Line subway station, developed by J.H.

Snyder of Los Angeles.

Cost: $200 million

Developer: J.H. Snyder Co.

Completion: Phase I, 2005

Hollywood and Vine has more than 700 residential units under construction and is the largest project yet to be built on the Metro Rail Line.

Cost: $325 million

Developer: Legacy Partners

Completion: 2007

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