

# If You Lived Here, You'd Be Home By Now

BY MARK TARCZYNSKI AND ED ROSENTHAL

There has been considerable talk over the last five years about the renaissance of Downtown Los Angeles. With the opening of Staples Center, the new Cathedral, and Walt Disney Concert Hall, it's clear that our Downtown center is fast becoming the core of business and culture in Los Angeles. But why are people choosing to live Downtown?

Average commute time in Los Angeles today is 90 minutes. It's predicted to top 120 - 130 minutes by 2015, when there will be an additional 3 million cars on L.A. County roads - with no increase in freeways to accommodate them.

The 500,000 people who work in Downtown Los Angeles, as with most residents in this region, spend far too much time commuting. If only they could live closer to their work, things would be so much easier.

That's precisely what Geoff Palmer and Tom Gilmore thought when, individually, they determined that there was enough demand to justify developing housing in Downtown Los Angeles.

In the late 1990s, Geoff Palmer saw that L.A. employment had been rising faster than the number of new housing permits issued. He viewed this as evidence of a need for housing in L.A. County, and an opportunity to build Downtown. After securing financing, he began developing the 600-unit Medici west of the Harbor Freeway.

About the same time, Tom

Gilmore learned that L.A. City Council adopted the Adaptive Reuse Ordinance, which allowed old office or industrial/warehouse space to be redeveloped as residential space. He was the first to recognize the opportunity this held to develop live-work loft units Downtown, and he set his sites on what is now the Old Bank District - on the eastern edge of Downtown's Historic District.

People thought they were crazy. There hadn't been a new housing complex built in Downtown in 15 years, and they didn't believe anyone would actually want to live Downtown. They couldn't fathom spending millions on two huge housing projects in a completely unproven and unlikely residential market.

But they weren't crazy at all. There was so much pent up demand for housing in the Downtown market that both projects leased up rapidly at rates that were 25-30% over pro forma. Developers took notice.

## Downtown Residential Absorption

Over the last 18 months, nearly 1,500 residential units have opened in Downtown, which equates to about 79 units per month. Amazingly, 67 units per month were absorbed with no dip in overall Downtown occupancy levels. This means that all of the absorption has been net positive.

An 85% average monthly absorption rate doesn't seem very strong; however, if you look closely at the numbers,

over half of the 1,500 units opened after June 1, 2003. This means that the new projects have not had near enough time to reach stabilization.

## Downtown Condo Market

Only 5 condominium projects were open in Downtown Los Angeles, providing 751 units. This month, the 6th condo complex, The Flower Street Lofts, located just east of Staples Center and adjacent to the new Palm Restaurant, put another 91 condo units on the market.

Interest level in the loft-style homes in the historic UPS Building has been nothing short of remarkable. The Developer, The Lee Group, was able to generate an "Interest List" of nearly 2,600 names within six months of publishing its website. Starting prices for the condos were around \$350,000, and have increased, as demand for the condos remained strong. Today, 92% of these units are sold out, including the \$1.1 million, 2,500-square-foot penthouse.

continued

**SELECT TRANSACTIONS**

<b>Thermo Companies</b> Condominium Redevelopment \$7,500,000	
<b>Bolour Trust</b> Eastern Columbia Building \$24,000,000	
<b>Gilmore &amp; Associates</b> Old Bank District Assemblage \$35,000,000	
<b>CIM Group</b> Ralphs Market Development \$40,000,000	
<b>Evergreen International</b> Relocation of Parker Center \$43,000,000	

**And they said it couldn't be done.**



L to R: Chris Ligan, Mark Tarczynski, Ed Rosenthal, Mark Moniz

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Downtown's first for-sale lofts were a 20-unit condominium re-development that was once an abandoned toy warehouse at the northwest corner of Third Street and Santa Fe Avenue. Vacant for 10 years, it now lies amid the Artist District's greatest concentration of artist lofts, and is adjacent to the Southern California Institute of Architecture. Developed by Decoma Industries of Torrance, the building features units ranging from 1,200 - 2,000 square feet and has approximately 20,000 square feet of subterranean parking.

Like Flower Street Lofts, demand was strong long before completion in 2001. Decoma received multiple offers for each of the available units, and all of the units sold within two months of the project's completion.

### **New Downtown Housing Planned**

There are 2,800 new residential units scheduled to open by year-end 2004. Compare this with 250 in 2001, 410 in 2002, and 1,800 in 2003. New housing projects include market-rate units like the Pegasus Apartments project, and the conversion of older office buildings into loft-style units typified by the Old Bank District.

Interest in for-sale product is increasing daily. In fact, Goodwin Gaw actually re-permitted his current venture, the 1898-built Douglas Building, mid-stride to accommodate the growing need. While initially planned to be for-rent apartments, the Developer received

so many phone calls asking if the units would be available for purchase that he and his team of investors are now developing about 50 for-sale condos. Units in the Douglas Building will be priced similarly to the Flower Street Lofts.

Gaw is also partnering with Tom Gilmore to convert the 1898-built El Dorado Hotel at 4th and Spring into for-sale condos. The \$15-million project is slated to contain 66 units.

### **Profile of the Downtown Residential Buyer**

So what does the new Downtown resident look like? Most are urban pioneers, young professionals, and empty-nesters looking for diversity, culture, and a sense of community. Developers are also attracting many young and first-time buyers with the lease-to-own trend, as seen in the Higgins Building.

Perhaps the biggest change brought on by Downtown's housing boom is not the altered skyline, but the new attitude of Los Angelinos towards their city center. People want to live, work, and play Downtown. The loft space - a type of housing completely unheard of in Southern California - is becoming fashionable.

With nearby amenities ranging from Grand Central Market to the Dorothy Chandler Pavilion, the burgeoning residential market is becoming more like those of New York, Chicago, Atlanta, and Denver - cities that have already embraced the loft-space lifestyle.

There's an energy that goes along with this type of residential space, intermingling with commerce and culture. For many, the choice to live Downtown goes beyond the desire to reduce commute times and improve quality of life. They choose to live Downtown, because they want to be part of something extraordinary.

### **The Bottom Line**

Prior to 1993, San Diego had virtually no housing in its Downtown center. Once the Ralph's supermarket opened its doors in Downtown San Diego, housing demand took off. Downtown Los Angelinos are about to get their own supermarket. CIM Group is redeveloping the old Gas Company headquarters complex at 9th and Flower Streets (dubbed "South Village"), which will include a Ralph's grocery as well as other retail.

Now the biggest impediment to living in Downtown is gone. The 10,000+ existing and planned housing units will have a 50,000 square foot supermarket in the first quarter of 2005.

Luring a major grocery store to an emerging urban housing market proved to be the catalyst to Downtown San Diego's incredible revitalization. The same will be true of Downtown Los Angeles.

Mark Tarczynski and Ed Rosenthal are partners in CB Richard Ellis' Downtown Los Angeles Urban Redevelopment Team specializing in Adaptive Reuse projects and development land sales.