

From Vision to Reality: South Group Celebrates Opening of First of Three Downtown L.A. Towers

Four years ago, the **South Group**, a partnership of **Williams & Dame** and **Gerding/Edlen** staked out territory in the South Park neighborhood and envisioned a new Downtown community. This month, that dream begins to give way to reality with the opening of **Elleven**. In this TPR interview, **James Atkins** of **Williams & Dame** discusses the significance of this opening and the momentum that is driving the maturation of the Downtown residential market.

When TPR interviewed you and others from the South Group in November 2004, your projects in South Park were still on the drawing board; tell us what their status is today.



James Atkins

We're now under way with three projects that total 723 units. Phase 1, **Elleven**, is 176 units. We expect to begin moving people in by April, and the project is fully sold out. Phase 2 is **Luma**. It's 236 homes and has been under construction since last May; that project is fully reserved and we expect to complete it in May of 2007. Phase 3, **Evo**, is also under construction; it totals 311 units, and it will be 23 stories tall. We are developing our interest list for **Evo** right now, expect to have a reservation event in June, and to complete it in the spring of 2008. We've also received entitlement approval for our project at South Figueroa, which is the parcel bounded by 12th, Figueroa, and Flower. That site is entitled for 648 units and we expect to break ground in December. We also have a project in Koreatown, **Circa**, that we expect to break ground on in October.

TPR interviewed Kevin Ratner of Forest City in January, and he said the market for Downtown L.A. is around \$600 per square foot now and that he'd need almost \$800 a square foot to justify building a high rise. Your projects—Evo and Figueroa South—are both going to

be well over 20 stories. Give our readers a sense of the economics in 2006 for such projects.

Kevin is 100 percent right. High rises (buildings that stand taller than 240 feet) incur substantial increases in construction cost in order to comply with certain structural requirements. We expect to release **Evo** in the mid- to high-\$600 per square foot range. For South Figueroa I believe that we're going to have to be in the mid- to high-\$700 per square foot range. So I think

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Kevin's comment is valid and it's where the market in Downtown is headed.

The reasons that brought us to Downtown four years ago are all still valid today: the jobs to housing imbalance, apartment rents, job growth in the downtown core, average commute times, and the average cost of single family housing measured 30 or 60 minutes out of downtown. The only thing that has changed is that construction costs and land costs have risen substantially. So the effect to the market is a reduction of buyers being able to afford homes in this new price structure, but it's still a large market.

The South Group made its name in the Portland area, which is known for its elegant urbanism. As your interview in TPR year and a half ago noted, Downtown L.A. doesn't yet measure up to Portland. What needs to change Downtown to make the urban fabric and street life justify an \$800 valuation per square foot for home buyers?

It's going to be a combination of little things. For example, one of the things we talked about in the last interview was streetscape and making Downtown a more pedestrian friendly environment. We talked about needing to widen the street and we mentioned that we were going to undertake a process to change that. I believe we are going to be successful in convincing the Department of Transportation and the Bureau of Engineering that instead of widening the street, they should widen the sidewalk, which would facilitate things like outdoor cafés and more street trees. We developed neighborhood retail on the ground floor of our projects along with nine live/work units that have 1,000 square feet of commercial space with a 1,000 square foot loft up above.

As more people move in, more and more retailers are beginning to look seriously at downtown as an alternative. I think about the success of the **Daily Grill** at 6th and Flower, which I understand is their most successful site in the Los Angeles core. Those kinds of successes will bring other retailers here. Together with a lot of the large-scale neighborhood infrastructure projects and facilities—the **Dorothy Chandler**, the **Disney Concert Hall**, **Staples Center**, **Dodger Stadium**, **LA Live**—a vibrant life is finally building here in downtown.

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April 2006

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South's Plan: A 'Pedestrian-Friendly' Environment

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Is a public/private partnership necessary for such development and urban life to prosper? Although you're a developer seeking entitlement, could you share a critique of L.A.'s city officials? What kind of relationship with the new planning director and the new director of the Department of Transportation must South Group have to realize your goal of elegant density?

I'd like to see an emphasis within the engineering departments—the Department of Transportation and the Bureau of Engineering—to focus not just on moving automobiles up and down the street, but also on the big picture of building a community. That means also encouraging pedestrians to move up and down the street. I think we will be able to get approval for the kind of streetscape plan we have proposed for our projects here, and I think that they are receptive to that way of thinking. Also, the CRA is working on a set of draft design review guidelines, and we've had discussions with them about our experience and what's worked in Portland and other cities we do business in and how that could really help things here. That could help encourage development of that pedestrian friendly environment.

Getting back to the permitting, I want to compliment the work Andrew Adelman and his staff has done. For instance, we came to them with an idea to speed up construction on Evo called "top-down construction." It hadn't been done in Downtown in many years, but we are using it in Portland, and Andrew said, "I'm open to it. Show me. Explain it to us." We did, and ultimately we succeeded in getting that method of construction approved. So the city is open to new ideas. They just have to be presented in a thoughtful, organized manner, and the developer has to have the patience to work through a culture of maybe doing things differently in the past.

You mean Andrew Adelman's open to new ideas and approaches?

Yes, at least Andrew is.

South is seeking LEED certification for Elleven. What are the extra costs associated with a green high rise? Does such an effort make good economic sense for your buyers and downtown market?

We think so. It's part of our company culture. We believe, as does our partner Gerding/Edlen, not only in developing LEED buildings, but also in an emphasizing community building and neighborhood building. We're striving for a LEED Silver



The South Group's Evo

designation on Elleven, Luma and Evo. The incremental construction costs are about \$500,000 each for a building of this magnitude.

Presently there are no tax credit or rebate programs of any significance in California to create incentives for developers to do that. That's unfortunate. Oregon offers those programs, and that's why we've been able to develop a LEED Gold residential building in Portland. Buyers here are beginning to understand what a LEED building means and why it's good for them and the environment—both globally and locally—and over time our hope is that buyers place a premium on LEED-certified buildings.

Scores of high rises are going through the entitlement process and are in one phase or another for development Downtown. How many can the market absorb and how many of these projects do you think will be built?

Unfortunately, I think a lot of people got into this market perhaps not knowing all the details of the process and have been surprised by the steep escalation in construction costs. I am not certain which "press release projects" will actually break ground, but we would like to see some other projects in Downtown. We think that for every buyer we have today, other potential buyers are waiting in the wings with a "show me" attitude. In other words, they're not convinced Downtown's really going to happen, but success will beget success. I believe that when more buyers move down here, other people who are otherwise on the fence will make the decision to move Downtown.

How will we know when we have a vibrant Downtown L.A.? What will be the signs/benchmarks?

I don't know if it's one watershed event. Thinking back to the transformation in Portland over the last 10 years, it's a series of little things. Our first building in the Pearl District was completed in 1997 on the edge of a vacant rail yard. The Pearl is rich and vibrant today, but there was no one magical event that I could say during that time: "yeah, it happened." It happened over time as more people moved in and more retail took hold. The parks got completed, and eventually the national retailers moved in. Our partner, Gerding/Edlen, completed the Brewery Blocks project, bringing with it a host of national tenants including Whole Foods. Downtown L.A. may follow that same course. It will evolve. Residential projects will get done, LA Live will get done, and one day people will wake up and say, "Wow, Downtown is really and finally here." **TPR**