Investment Outlook

Reinventing the Los Angeles River through public and private partnership

Los Angeles | Summer 2016
The LA River revitalization will bridge public and private financing in an unprecedented way in order to restore and reinvent this long-forgotten body of water on the West Coast. Specifically, the project will benefit from the Enhanced Infrastructure Financing Districts (EIFDs), a new legislation which promotes public financing for an expanded range of infrastructure improvements, including industrial and commercial developments.

The plan to restore the LA River will generate 10,500 new jobs and attract between $2.9 and $5.7 billion in development investment. Real estate investors have the opportunity to capitalize on an up-and-coming market segment. A future hub of the creative economy, the LA River is ripe for office, multifamily, and retail repositioning. Average commercial asset prices along the river have appreciated by 98 percent since 2010.
The LA River is the story of a flood plain engineered to make way for massive urban growth

The history of the LA River is the story of a flood plain reengineered to make way for the growth of a metropolis. Due to the semiarid climate, the river is seasonal, often with little or no flow during the driest parts of the year and risk of flooding during the rainy season. After experiencing decades of such destructive floods, the city of Los Angeles received federal assistance and the US Army Corps of Engineers embarked on a thirty year project to channelize the river.

Through their concerted efforts, the team completed the enormous public works project between 1938 and 1960. Upon completion, only a few sections of the riverbed were left unpaved, namely the Elysian Valley river stretch that runs through Griffith Park. The US ARMY Corps has left an imprint on the LA River to this day – it’s a functional industrial watershed with limited public access.

The city’s plans to revitalize the river, combined with private investment in surrounding parcels, promises to rejuvenate LA’s floodplain. Such proactivity will unlock new economic opportunities along the river. In 2010, the entire LA River was designated as a navigable waterway, and Angelenos organized kayaking tours in the Sepulveda Basin by 2011. The project has transformed the flood channel into a desirable, open space amenity after repositioning many of the dormant assets. The wave of development has resulted in new, mixed-use commercial and residential projects as well as industrial conversions to creative office and retail.
The ARBOR area, the 11.5 mile stretch of progress

The most exciting redevelopment opportunities are concentrated along a stretch of the river running from the 134 Freeway through the Glendale Narrows. This portion of the river has been identified as the Alternative with Restoration Benefits and Opportunities for Revitalization (ARBOR) Area. The US Army Corps of Engineers conducted a study on this terrain, outlining the one-billion dollar plan to restore this 11.5-mile stretch of the Los Angeles River. The Army Corps, in joint effort with the Department of the Interior and the U.S. Environmental Protection Agency, will fund half of the project, while local and state agencies will cover the remaining balance through the formation of Enhanced Infrastructure Financing Districts (EIFDs).

LA River ARBOR Distric Reaches

The Los Angeles River Revitalization Plan calls for multiple stretches to receive public and private funding.

The project will transform the flood channel into a desirable, open space. The City of Los Angeles estimates that river restoration will generate $2.9 to $5.7 billion in new development investment in addition to creating 10,500 new jobs over the next 25 to 50 years.

The following ARBOR Area redevelopment plans are gaining momentum signaling key locational growth.
All property types along the LA River will benefit from revitalization

A vast number of existing assets will benefit from the revitalization of the river. Industrial- manufacturing and industrial-warehousing remains the dominant property type composing 13.9 million s.f. of inventory. Government-owned assets are significant, but privately held product accounts for a majority of the market. A few larger assets near the river are owner occupied such as Disney’s Buena Vista 1.5 million s.f. warehouse building.

Vacancy for all property types along the river remains exceptionally low. Industrial remains the tightest market at 1.2 percent, well below the five percent average for the Los Angeles industrial market. This low vacancy suggests ripeness for new development.

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<th>Project name</th>
<th>Description</th>
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<td><strong>Cornfields Arroyo Specific Plan</strong></td>
<td>• 660-acre project area zoned to accommodate 26,000 new residents by 2035</td>
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| **(CASP)LA State Historic Park**    | • State planning grant to make the district friendly to green development  
                                       • Greenway zone dedicated along the river  
                                       • Parking requirements eliminated with no minimums or maximums for developers, a first of its kind in Los Angeles |
| **Piggyback Yard**                  | • 125 acre rail yard in Boyle Heights and Lincoln Heights  
                                       • Conceptual master plan proposes an open space park with mixed use development in a riparian landscape |
| **Taylor Yard G2 Parcel**           | • 41-acre abandoned rail yard in Glendale Narrows river stretch  
                                       • The City of Los Angeles purchased the site and plans to create public green space around the river  
                                       • Opportunity to restore wetlands and improve open space |
| **La Kretz Crossing**               | • Philanthropically-funded project bridging Atwater Village to Griffith Park  
                                       • Promoting better equestrian, bike, and pedestrian trail connectivity |

Source: JLL Research and CoStar
Average commercial asset prices along the ARBOR area have appreciated by 98 percent since 2010. Over half of the buyers were private buyers. REITS accounted for 18 percent, while 14 percent were institutional buyers. Sales volumes have increased a staggering 383.6 percent since 2010.
The LA River ARBOR Area is already home to several prominent entertainment and media powerhouses, including Disney, ABC, DreamWorks, Cinelease, and Quixote Studios. As the revitalization moves underway, these Griffith Park sites will create a closer connectivity to the Elysian Valley and the downtown river corridor (the Arts District, Chinatown, and Lincoln Heights). With a lack of available space in Hollywood, the ARBOR area may start accommodating industry tenants' requirements for all those seeking to pioneer a new area. To service this infill of creative tenancy, the district may also prove an apt location for multifamily residential development.

Tenants comprised of tech, entertainment, and design (TED) have also asserted their presence in the southern portion of the LA River. For example, Hyperloop just migrated to Sacramento Street in the Arts District. The company, backed by Tesla and Space X billionaire Elon Musk, has vowed to develop a sophisticated, high-speed transportation system. Their new quarters consist of 6,500 s.f. of leased warehouse space adjacent to the LA River in the Arts District. The company plans on expanding into 38,000 s.f. over the next 12 months as they bolster their employee roster.

And, Hyperloop marks just one of the many newly announced tenants streaming into this revitalized district, including the one and only Soho House, HD Buttercup, and predictably a tech giant once Shorenstein’s much anticipated Ford Factory converts to creative office. All HBO’s True Detective fans would be happy to hear that most of this season was filmed along the LA River terrain as well.

The Los Angeles creative sectors will continue to drive economic growth, with gains in the following segments:

- Architecture and Interior Design: +3.0%
- Art Galleries: +5%
- Arts and Education: +1.2%
- Communication Arts: +4.9%
- Digital Media: +10.4%
- Entertainment: +6.6%
- Fashion: +2.9%
- Visual and Performing Arts: +5.8%
- Furniture and Home Furnishings: -1.7%
- Product and Industrial Design: +7.5%
- Toys: +0%
Is “Frogtown” the next Arts District?

A pocket of Elysian Valley, popularly referred to as Frogtown (in due part to an overwhelming frog presence in the riverfront), has sprung forward as the next frontier for active redevelopment. Similar to the Los Angeles Arts District, the area continues to transform a formerly declining industrial base to a burgeoning creative epicenter.

Elysian Valley developers are successfully repositioning legacy industrial buildings to accommodate this wave of creatives along the LA River. Contemporary furniture designer Modernica moved its headquarters from the Arts District into the former Hostess Brands bakery plant, already restoring its interior to house progressive tenants.

**Frogtown sales volume accelerating as opportunistic investors vie for limited inventory**

There are 57 industrial buildings totaling 670,000 s.f. in the Elysian Valley. Recent land comps indicate average price points ranging from $109 per s.f. to over $130 per s.f. Average cap rates for 2014 were 7.9 percent. Only six percent of the buyers are owner occupiers. On the capital markets front, Elysian Valley investment activity has increased by 19 percent from 2013 through 2015.

**Redevelopment impacts and density remain questions in Frogtown**

A new development, dubbed the “Elysian Valley Riverfront Creative Campus,” sits at the end of Allesandro Street, abutting the LA River path. The campus will adaptively reuse portions of an existing industrial building built in 1947, but will clear the remainder of the site for their ground-up design. The four-story project will contain 40 live/work units, 16,000 s.f. of commercial space, and one level of underground parking. The 52,476-square-foot residential complex will be broken up into 33 one-bedroom and seven three-bedroom apartments. Sustainable features include a state-of-the-art storm water recycling system that captures, treats, and re-uses water on-site. The density bonus by-right here enables 10 additional live/work units, eight of which will be reserved for affordable housing for low-income and very-low-income residents. The project’s environmental assessment does not suggest a significant environmental impact on Frogtown, but the resultant economic and physical alterations surely signal dramatic changes for the neighborhood.
Frogtown is strategically located between Elysian Valley and Elysian Park, making it an ideal location for mixed-use development. The neighborhood is characterized by a strong working-class community, small single-family homes, and former manufacturing sites. The current Frogtown landscape poses challenges to certain types of development, but the goal remains to tread carefully and responsibly when entering the arena of gentrification.

The scale of project strikes the inevitable question: What type of real estate development best integrates into a community, still largely composed of a working class, small single family residences, and former manufacturing sites? The pricing per s.f. in the Elysian Valley has increased to a point where large, dense multi-family developments appear to be the most viable option for substantiated return. Since the neighborhood comprises of narrow, residential streets, limited street parking, and a dearth of public transit options, the current Frogtown landscape may pose challenges to certain types of development at first. The goal thus remains: treading carefully and responsibly when entering the arena of gentrification so as to strike the correct balance. Developers should strive for lower density while devising a plan still desirable enough to motivate continued investment in the area. Balancing the number of conversion/rehabilitative projects with innovative ground-up plays should thus be at the forefront of all real estate actors’ minds as they hop into this unchartered territory.

On the flip side, other sections of the LA River already seem well-suited for such an influx of mixed-use investment. Not only do some of the neighborhood physical layouts align well with developers’ visions, they offer better transit accessibility. Some local groups and organizations have even welcomed such change with open arms. For one, Lincoln Heights has embraced the Cornfield Arroyo Specific Plan (CASP) specifically calling for mixed use projects, a zero parking requirement, and development bonuses for providing affordable housing and other community benefits.
Portland’s River District; from underused rail yard to successful mixed use neighborhood

In Portland, revitalization around the Willamette River is a shining example of the great potential in reuse of urban industrial space linked to river recovery. In 1998, the Portland Development Commission created the River District Urban Renewal Area (RDURA). The project canvasses 351 acres of space that was originally home to Portland’s rail yards and warehouses. As transportation shifted away from rail during the 21st century, the district lost tenants and rents dwindled. Recognizing the opportunity to repurpose this district, developers produced a high density residential neighborhood through the incorporation of housing, office, retail, parks, and open space. As testament to the success of economic revitalization, Moody’s upgraded the Oregon’s River District Urban Renewal and Redevelopment Bond rating to A1 in 2012. The upgrade was granted in response to the area’s favorable credit characteristics and growing tax base.

Transformative power of river revitalization – it worked in other cities

Every major global city has a river or body of water driving up property values, and the economic and social benefits are well-documented. Several cities have embarked on ambitious river revitalization projects in the past, and the outcomes have garnered universal acceptance. This government and private sector collaboration has yielded tremendous economic returns and a propelled tax base.

All these cities have shared similar utilitarian roots as basic flood channels, yet managed to dramatically increase the value of surrounding properties through clever alteration and planning. Below we’ve highlighted some of these national standouts:
San Antonio’s Paseo Del Rio; Once an industrial flood channel, today a vibrant retail and residential corridor.

Like the LA River, the San Antonio River resembles an industrial grade design on the West Coast historically engineered to control flooding. In 1962, the city of San Antonio proposed a public project to make the river a friendlier space. As the city improved access along the river, private investors saw an opportunity to reuse riverside real estate for commercial activity. Soon after, the city of San Antonio established its downtown “River Walk District.” Today, the San Antonio River Walk offers a 7.5 mile public park that meanders through downtown San Antonio. The walk boasts a vibrant pathway of activity filled with retail shops, restaurants, hotels, and bars.

New York’s Meatpacking District & Adjacent; Former industrial staple turned fashion, hospitality, and commercial gem along the Hudson River

The waterfront in New York has similarly experienced spurts of change over time, transitioning from a strictly industrial use to a commercial haven. As the name suggests, open air meat markets, packers, and slaughterhouses predominately occupied the land at one point, but new refrigeration and distribution trends in the meat industry led to the waterfront’s deterioration by the 60’s. The area underwent numerous transformations including a period of crime until it ultimately captured the attention of younger professionals and ‘hipsters’ by the early 90’s. Now the territory showcases high end boutiques, clubs & restaurants, and notably: Related Co’s massive Hudson Yards project. The developer envisioned a beautiful future for this Hudson-adjacent district, and the infamous Highline exemplifies one of their prime accomplishments post-remodel.

By enhancing the landscape and design at key points along the river, the City of Los Angeles has reopened the floodgates to a new and improved southern California. Redeveloping the Los Angeles River presents a unique opportunity for the City to unlock neighborhood wealth in one of LA’s last underutilized corridors, while preserving its architectural and ecological charm. New economic hubs will not only cater to high-growth industry subsectors and bolster our economy, they will create a comfortable, livable community for our generations to come. A largely abandoned section of the city has been re-infused with promise yet again, and it’s time for Angelenos to make up for lost time by embracing the grandeurs of our eastern border.

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Cover: LA River Revitalization Corporation
For more information:

**Brokerage**

Ben Stapleton  
Senior Vice President  
ben.stapleton@am.jll.com

**Research**

Henry Gjestrum  
Senior Analyst  
henry.gjestrum@am.jll.com

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