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Building up: Big chains have helped fill Primestor Properties' new project in Huntington Park.

TODD FRANKEL/LABJ

The Next Frontier

WITH OTHER AREAS OVER-SATURATED, INNER CITY DRAWS BIG-BUDGET PROJECTS

By ELIZABETH HAYES
Staff Reporter

In the eight years since post-riot promises to rebuild inner-city L.A. filled the air, charity-minded redevelopment efforts have been largely a bust. Little surprise. That's been the case throughout L.A. history.

But now another force is starting to have a profound impact on the inner city: Private developers have discovered there is money to be made there.

And we're not just talking about the scrappy niche developers and non-profits that have traditionally built mom-and-pop centers and small housing complexes.

Katell Properties, **Trammell Crow Co.** and **Regency Realty Corp.** are among the major developers pursuing inner-city L.A. projects. And signing up for projects – south of the Santa Monica (10) Freeway – are such mainstream retailers as **Ralphs Grocery Co.**, **Old Navy**, **Target**, **Wal-Mart Stores** and **Edwards Cinemas**.

The trend has not been lost on major investment funds, either. A $100 million partnership between the California Public Employees Retirement System and L.A.-based **CommonWealth Partners** was set up recently to invest in urban infill projects. And just last week, real estate investment bank **Chadwick, Saylor & Co.** announced the formation of a fund that expects to invest $750 million in L.A.-area real estate, much of it in urban projects.

"(Developers are) more active in those inner-city areas over the last 12 to 18 months than we've seen in the previous 10 years," said Armando Aguirre, a broker at **Grubb & Ellis Co.**, who does a lot of business in the emerging markets of Central L.A. and the Mid-Cities. "The Westside, Orange County and affluent areas are reaching the point of being over-retailed and over-saturated. A lot of what drives housing and retail is population density."

Since the riots, communities south of the Santa Monica (10) Freeway have weathered a recession, the hype of post-riot rebuilding commitments, and disappointment from those commitments being broken. At the same time, a dramatic demographic shift has occurred in the area, from predominantly African-American to Latino dominance.

Today, new retail centers, multiplex cinemas, sit-down restaurants and big-box retailers are rising in places like South Central L.A., Watts, Lynwood, Carson, Inglewood and South Gate.

"It went from nothing, it was almost a forbidden area, to the hottest thing," said Arturo Sneider, founder and president of **Primestor Properties**, an active niche retail developer in Latino markets around L.A. "All developers are going after inner-city projects and (big-name retail) tenants to place there."

Primestor's new projects in Lincoln Heights and Huntington Park feature such familiar chains as Hollywood Video, Blockbuster, Radio Shack and Krispy Kreme Doughnuts, along with mom and pops that cater to the Latino customer base. Sneider and other niche developers say they have encountered more competition lately from new players on the scene who previously had confined their activities to more-suburban markets.

"We used to present projects to cities that would knock them off their chairs, and now we're just another one in a line of projects," Sneider said. "A few years ago, nobody was doing anything. Now you get a bunch of projects with good architecture and design."

Attracting the big developers, retailers and investment funds is the growing realization that returns on investment for inner-city projects are at least comparable, and even slightly higher in some cases, than returns from projects in other parts of the city.

Notably, the Kmart store at Vermont and Slauson, a

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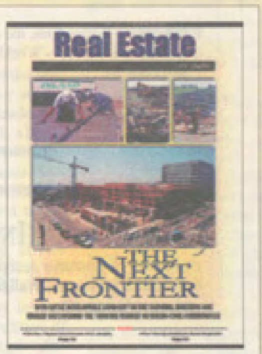

INSIDE...
A look at key trends transforming the inner city, plus a detailed breakdown of first-quarter real estate activity in all L.A. County submarkets.

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Cost of Doing Business to Go Up, Again

By HOWARD FINE
Staff Reporter

It seems that wherever local employers turn these days, someone is trying to get more money out of them.

There are living wage proposals in L.A. and Santa Monica, hundreds of thousands of union members demanding higher pay and benefits, and the threat of a multibillion-dollar hike in workers' compensation benefits.

When the economy turns south, wave of cost increases will hit employers hard

In the current booming economy, most employers can probably afford these hits – for now. But when the torrid rate of growth slows, as it inevitably will, a different story will emerge. Economists say the costs will hit hard, prompting employers to defer expansions, cut costs and even lay off workers.

"When that rainy day comes, it's going to pour," said Esmael Adibi, director of the Anderson Center for Economic Studies at Chapman University.

Added Carol Schatz, president of the Central City Association: "We acknowledge that there are serious problems out there that may require some funds from business. But we want to be a partner with others in solving these problems, not just an endless wallet for others to turn to."

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Party Is Ending For Hollywood Web Companies

By LAURA DUNPHY
Staff Reporter

At one time, Web sites could flash a little shiny animation on the screen and attract thousands of visitors a day. But online visitors are becoming more sophisticated.

And that spells bad news for local entertainment sites.

As more and more entertainment content sites crowd the market, investors are growing very cool to such operations. Meanwhile, entertainment sites are watching visitor numbers fall precipitously, forcing some local companies to rethink their strategies in the face of potential failure.

The downturn isn't surprising, considering the explosion of Internet use and the maturing of users over the past couple years.

"Imagine that the first day you turned on your television, instead of four channels, there were 200,000 channels," said Lew Harris, chief executive of E! Online.

That's what happened with the Internet, but now the novelty is wearing off. "People are going back to the sites they like," Harris said. "The infat-

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Inner-City: Buying Power Lures New Development

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Circuit City in Compton and a Sears outlet in Boyle Heights are among the top performers in their respective chains.

"There's big numbers. They're not in there for philanthropy," Aguirre said.

Trammell Crow has been developing low-rise office buildings, neighborhood shopping centers and industrial projects in Paramount, Northridge, Van Nuys and other infill areas, said Managing Director Thomas Bak. It also developed an Albertsons- and Rite-Aid-anchored center on South La Brea Avenue at Rodeo Road, where the former Thrifty distribution center was damaged in the riots.

"We've always found a better risk-adjusted investment in infill markets because of the density of tenant demand," Bak said.

As for industrial development, some see the Alameda Corridor as a major spur for new projects, as obsolete manufacturing plants are redeveloped with new distribution and warehousing projects along the rail line.

"All this ties together. Those industrial (projects) create employment and (demand) for service-related retail, where people will eat and shop," Aguirre said.

Still, some critics contend that elected officials, major corporations and banks and even members of the community itself have still not done enough to repair the riot damage, spruce up rundown streets and infuse the inner city with new development.

"There has been some progress," said Mark Whitlock, president of FAME Renaissance, the economic development initiative of First African Methodist Episcopal Church on Harvard Boulevard. "I am deeply concerned – as you drive down through South Central L.A., you still see vacant lots and homes in need of repair. There are still buildings that have facades that perhaps could be updated. Commercial real estate needs an injection of capital and creativity."

Whitlock noted that the church is building a 48,000-square-foot office building in South Central, housing projects have gone up on Vermont Avenue, and improvements have been made on Crenshaw Boulevard. But he also points to the failed efforts to revitalize Santa Barbara Plaza.

Scuttled effort

A partnership led by Earvin "Magic" Johnson was trying to redevelop the rundown retail center, but the two main anchor tenants pulled out and the Community Redevelopment Agency decided to end its exclusive negotiations with **Johnson Development Corp.**, leaving the project in limbo.

Even as other new projects progress through the planning stages, break ground and open, obstacles persist. First and foremost, there's the inner city's image as a crime-ridden, poor area. In addition, assembling a large enough parcel to accommodate a commercial project is often an expensive and difficult task, due to the inner city's hodgepodge of zoning and land uses, and variety of environmental problems. Also, some of the cities most in need of redevelopment can least afford to help finance projects.

"It's very difficult in comparison to other development, which is also difficult," said Mark Schurgin of **Festival Cos.**, a retail developer that has done several inner-city projects. "It's amazing the political and bureaucratic slowness at which things move in the inner city."

Yet if there are disadvantages to inner-city development, there are also pluses. Unlike the Westside and San Fernando Valley, where residents have mobilized against large projects in recent years, many inner-city areas welcome new development.

"One of the more interesting things is seeing the community roll out the red carpet. 'Can we help you? How fast can we get it done and operating?' It's not the typical experience you would have in the suburbs," said Jerry Katell, president of Katell Properties.

Katell is teaming with **Capital Vision Equities**, which has built 2,000 inner-city housing units, to build the $50 million Chesterfield Square at Western and Slauson avenues, the largest commercial development in South Central in more than a decade. So far, Home Depot, McDonalds and Food 4 Less have committed to the 300,000-square-foot project, and other deals are in the pipeline that will fill it up.

Opportunity: Developers are getting active in urban neighborhoods.

TODD FRANKEL/LABJ

Initial doubts

Katell didn't immediately jump into the project when he was approached about it a couple of years ago.

"I was a little bit skeptical, but I'm always open to new ideas," he said.

Once he studied the numbers, his outlook changed: 1.1 million people live within a five-mile radius of the site and there are only two shopping centers. The median family income may be less than in affluent areas, but it's not all that low, and besides, people still need to shop for food and other necessities, Katell said. And those kinds of basic-product stores tend to be more recession-proof.

"It's very under-served by retail compared with other parts of the country, which are over-served," Katell said. "Between that and meeting with people in the community who wanted a suburban-style shopping center, seeing how strongly people wanted a project of note, is what did it."

Lenders were "fighting over" the construction financing because the development represented a solid opportunity to fulfill their requirements on inner-city lending. But convincing retailers was another matter. While some were receptive, others had erroneous assumptions about the area and potential crime. Vons and Albertsons wouldn't consider it.

That kind of mixed reaction is one of many hurdles that will have to be overcome for inner-city development to gain more momentum. Another huge issue is cost. Often, the older properties being targeted for redevelopment were built on smaller grids and on shallow lots surrounded by residential properties, which requires assembling parcels from multiple owners and relocating existing tenants.

"There's less competition and the returns for developers are good. But it can be extremely difficult to get land assemblage at economical prices," said Ned Fox, CEO of **Center Trust Inc.**, which owns several inner-city retail centers. "We think it's smart business to be invested in those areas. They're very profitable and we know how to operate there."

Misunderstood value

Fox said it's easier to get financing from a very few receptive institutions than in the past. But there's still some reluctance or misunderstanding among many lenders, appraisers and Wall Street.

"Appraisers tend not to understand the value in those markets. They come in with a bias. If you don't have the correct appraisal method, it's difficult to do institutional financing," Fox said. "The public market is blind to it. If they perceive a company to be an infill company, they will not reward you for that. They don' understand it."

Even when all the pieces fall into place, inner-city projects are still not necessarily going to take their backers to new heights financially.

"Our project will come out OK, but financially it's not a grand slam home ru Katell said. "In terms of what I'll get out it, the psychic success is greater than the financial."

Rocky Delgadillo, deputy mayor for economic development, said city officials are keenly aware of the obstacles, and his office will help usher projects through the land ass bly and entitlement process. The Genesis L... program, which is raising a $75 million equi fund to invest in blighted areas and has targ 15 sites for redevelopment, should also help pave the way.

"If you sit down with us, we can show y how it's as good a deal economically as if y took green space in Ontario or Santa Clarita, Delgadillo said. "We want the private sector make money in the inner city, because if the do, they will come back."

As with most types of business ventures, once a few pioneers find success, others foll like lemmings.

"Ours might be a little bit of a test case. People are going to wait and see how it goe Katell said. "Do I see more opportunities i the inner city? Yes, sure. I'd like to get involved in the way of what I've done over the years in office and industrial development."

Said Fox, "My forecast is, we're going t see some strong successes and it's an emerg growth market for retailers, which will drive the development."