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Fwd: Letter re State Clearinghouse No. 2015101073 - Crossroads FEIR

Alejandro Huerta <alejandro.huerta@lacity.org>

Mon, May 14, 2018 at 9:20 PM

To: Luciralia Ibarra <Luciralia.ibarra@lacity.org>

I received this comment letter below in advance of the Crossroads Hollywood hearing. I will print it for the case file and electronic files.

Alejandro A. Huerta
Planning Department
221 N. Figueroa St., Suite 1350
Los Angeles, CA 90012
(213) 847-3674

----- Forwarded message -----

From: **Liza Brereton** <Liza.Brereton@aidshhealth.org>

Date: Mon, May 14, 2018 at 9:09 PM

Subject: Letter re State Clearinghouse No. 2015101073 - Crossroads FEIR

To: "alejandro.huerta@lacity.org" <alejandro.huerta@lacity.org>

Dear Mr. Huerta, please see the attached letter regarding AIDS Healthcare Foundation's comments and objections to ENV-2015-2026-EIR (the Crossroads Project - State Clearinghouse No. 2015101073).

Thank you.

Liza M. Brereton

Counsel

AIDS Healthcare Foundation

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Letter to Huerta re Comments to FEIR Appendix 2 - Crossroads 5.14.18.pdf

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AIDS HEALTHCARE FOUNDATION

May 14, 2018

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Major Projects & Environmental Analysis
Department of City Planning
City Hall, City of Los Angeles
200 North Spring Street, Room 750
Los Angeles, CA 90012
E-mail: alejandro.huerta@lacity.org

Re: Comments on Environmental Impact Report ENV-2015-2026-EIR; State
Clearinghouse No. 2015101073

Dear Mr. Huerta:

AIDS Healthcare Foundation submits the following objections and comments to the Final EIR referenced above, specifically the Economic Feasibility Evaluation of the Historic Preservation Alternative (Alternative 5) at Appendix 2 (the "Evaluation"). Please see the summary of findings attached to this cover letter explaining the deficiencies in the Evaluation. Aaron Chawla, AHF's Associate CFO, will orally present the overview of these objections and comments at the May 15, 2018 hearing.

First, the estimated land cost in the Evaluation used outdated market comparables and warrants an independent analysis with more recent market comparables. Second, the estimated construction costs in the Evaluation have a high markup for general allowances plus soft costs. Third, the useable total floor area for the Historic Preservation alternative in the Evaluation is low, which artificially depresses revenue expectations. Fourth, the revenue from the useable total floor area for the Historic Preservation alternative in the Evaluation is low, which artificially depresses revenue. Fifth, the land purchase and development costs in the Evaluation assume 100% equity financing and the use of debt is typical for major construction projects.

Thank you for your consideration.

Sincerely,

A handwritten signature in blue ink, appearing to read "Liza M. Brereton".

Liza M. Brereton
Counsel, AIDS Healthcare
Foundation

Summary of Findings Contesting The FEIR Appendix 2 Economic Feasibility Evaluation And That The Historical Preservation Alternative (Alternative 5) Is Not Economically Feasible. [Environmental Impact Report ENV-2015-2026-EIR; State Clearinghouse No. 2015101073]

1. Estimated Land Cost in the Economic Feasibility Evaluation used dated market comparables and warrants new analysis with more recent market comparables

A CoStar based comps assessment of recent transactions shows lower "Estimated Land Cost" than in the Economic Feasibility Study

FT² in an Acre

43,560

Address	Sale Date	Land Area (SF)	Land Area (Acre)	Price	Land \$ / Acre
1534 N McCadden	10/6/2016	5,663	0.13	1,298,153	9,985,440
1540 N McCadden	10/6/2016	5,702	0.13	2,951,847	22,550,413
1600 N Highland	11/18/2015	76,230	1.75	39,900,000	22,800,000
6705-07 W Sunset	8/20/2014	11,252	0.26	5,000,000	19,356,559
1527 N McCadden	5/14/2014	6,874	0.16	3,150,000	19,961,303
1533 N McCadden	5/14/2014	6,875	0.16	1,375,000	8,712,000
1403 Bates Ave	4/27/2018	6,793	0.16	1,179,000	7,560,318
4455 De Longpre	11/22/2017	7,592	0.17	1,475,000	8,462,987
6516 Selma	6/10/2016	20,738	0.48	12,000,000	25,205,902
1342 N Sycamore	8/11/2016	8,062	0.19	1,325,727	7,163,070
1600 Hudson	10/18/2016	14,299	0.33	5,200,000	15,841,108
4773 Hollywood	11/2/2017	28,493	0.65	7,000,000	10,701,576
1825 New Hampshire	4/2/2018	9,270	0.21	1,966,244	9,239,438
3256 Colony Cir	12/22/2016	6,826	0.16	1,100,000	7,019,631

Recent Comps

Feasibility Study

Feasibility Study Comps (Grey)	Avg
Median	17,227,619

Recent Comps from CoStar (Green)	Avg
Median	11,399,254
	8,851,213

Feasibility study went with \$15M per Acre @ 7 acres

Note: Column I and M are formulas

Grey highlighted are Feasibility Study comps

Green highlighted are updated Market Comps from CoStar on 5/14/18

Comps using updated market comps suggest \$10M per acre is a more relevant price point

For the purposes of testing economic feasibility Kosmont utilized a baseline estimated land cost of \$15 million per acre applied to the amount of land area that would need to be acquired / controlled to permit development of the project. For reference, while the Historic Preservation alternative would retain many existing buildings and improvements, the overall Site area would not differ from the Original Project, and thus the area of the ground lease would not change. A summary of the total estimated land cost (for the purposes of evaluating economic feasibility) follows in Table 4 below. The cost of land assuming a cost of \$10 million per acre and \$20 million per acre is also provided in the table for reference and scale.

Table 4: Estimated Land Cost for Economic Feasibility Evaluation

Figures in \$1,000,000	Original Project	Modified Project	Historic Preservation
Site Acres	7.0	8.3	7.0
Estimated Cost / Acre	\$15.0	\$15.0	\$15.0
Total Estimated Land Cost	\$105.0	\$124.5	\$105.0
Total Cost at \$10 MM / Acre	\$70.0	\$83.0	\$70.0
Total Cost at \$20 MM / Acre	140.0	166.0	140.0

Source: Page 3 of the Kosmont Memorandum

2. Estimated Construction Costs in the Economic Feasibility Evaluation have a 40% markup including General Allowances (10%) + Soft Costs (30%)

Project Markup of 40% warrants additional review

Figures in \$1,000,000	Original Project	Modified Project	Historic Preservation
Direct Construction Cost	647.9	628.4	189.0
General Allowances (10% of Direct Construction Cost)	64.8	62.8	18.9
Soft Costs (30% of Direct Construction Cost)	194.4	188.5	56.7

Note: Historic Preservation scenario in Economic Feasibility Study assumes only 33% of the Original Project Total Floor Area is rentable

Table 5: Estimated Construction Costs

Figures in \$1,000,000	Original Project	Modified Project	Historic Preservation
Direct Construction Cost	\$647.9	\$628.4	\$189.0
General Allowances	64.8	62.8	18.9
Soft Costs	194.4	188.5	56.7
Total Construction Cost	\$907.0	\$879.8	\$264.6

3. Useable Total Floor Area for the Historic Preservation scenario in the Economic Feasibility Evaluation is low which artificially depresses revenue expectations

The architectural illustration for the Historic Preservation scenario only using 1/3 of the Floor Space of the Original Project warrants a design review

The original project projects 1,432,500 SF of useable floor space, while the Historic preservation scenario projects a Total Floor Area of 474,018 SF
 (474,018 SF) / (1,432,500 SF) = 33%

Table 1: Development Program

Component	Original Project	Modified Project	Historic Preservation
Hotel	348,500 SF 308 Rm	320,000 SF 308 Rm	0
Commercial / Retail			
New	185,000 SF *	122,000 SF *	14,908 SF
Existing to Remain	0	18,000 SF **	5,478 SF
Entertainment / Theater	0	50,000 SF	0
Office			
New	95,000 SF	0	65,871 SF
Existing to Remain	0	0	19,700 SF
Residential (Sale)	219,000 SF 190 DU	0	0
Residential (Rental)			
New	585,000 SF 760 DU	871,000 SF 950 DU	307,200 SF 435 DU
Existing to Remain	0	0	60,861 SF 84 DU
Total Floor Area	1,432,500 SF	1,381,000 SF	474,018 SF
Affordable Housing (Very Low)	84 DU	105 DU	84 DU

KOSMONT ANALYSIS OVERALL METHODOLOGY

The Kosmont Analysis utilized a form of static pro forma methodology (i.e., measured at the point in time when development is completed and occupied), including components of development cost, net margin, and capitalized value of completed development to evaluate the financial feasibility using the RODC metric for all three Development Scenarios. The floor areas assumed for each land use were based on architectural illustrations of the Development Scenarios prepared by Skidmore Owings & Merrill, LLP ("SOM") and Rios Clementi Hale Studios ("RCH"). The Kosmont Analysis then used a series of assumptions and calculations to complete the financial feasibility analysis of the Development Scenarios, including:

Source: Page 2 of the HR&A Memorandum

Estimated Development Values - Original Project						
	Commercial / Retail	Restaurant	Supermarket	Office	Residential (Rental)	Residential (Affordable)
Lease / SF	\$ 48	\$ 60	\$ 36	\$ 54	\$ 54	\$ 12

Lease / SF	General Commercial / Retail / Restaurant	Office		
\$ 36		\$ 48	\$ 42	\$ 12

Table 6: Estimated Development Values – Original Project

Commercial / Retail								
Lease / SF	\$48	Restaurant	\$60	Supermarket	\$36	Office	\$54	
Vacancy	5%		10%		0%		10%	
Net Margin	90%		90%		95%		85%	
Cap Rate	4.5%		4.5%		4.5%		4.0%	
Value / SF	\$910		\$1,080		\$760		\$1,030	
Residential (Sale)					Residential (Rental)	Residential (Affordable)	Hotel	
Lease / SF			\$54		\$12		ADR	\$275
Vacancy			5%		5%		Occupancy	80%
Net Margin			75%		0%		RevPAR	\$220
Cap Rate			4.0%		4.5%		Other Depts	40%
							Net Margin	30%
							Cap Rate	6.0%
Value / SF	\$900		\$960		\$0		Value/Key	\$562,000

Table 8: Estimated Development Values – Historic Preservation Alternative

	General Commercial / Retail / Restaurant	Office	Residential (Rental)	Residential (Affordable)
Lease / SF	\$42	\$48	\$42	\$12
Vacancy	5%	10%	5%	5%
Net Margin	90%	85%	70%	0%
Cap Rate	5.0%	4.5%	4.0%	4.5%
Value / SF	\$720	\$820	\$700	\$0

5. Land purchase and development costs in the Economic Feasibility Evaluation assume 100% equity financing and the use of debt is typical for major construction projects

A model that assumes no debt financing excluded the benefit of tax breaks, as well as a higher return on equity a developer would receive from using debt

- General Allowances: The Kosmont Analysis added 10 percent of hard cost for "general allowances," which includes hard cost items specifically excluded in the BuildGroup cost estimates (e.g., dewatering, methane remediation, demolition and abatement, fixtures, furnishings and equipment, tenant improvements, any building balconies, and for existing buildings, structural and seismic work).
- Soft Costs: Kosmont added another 30 percent of hard cost to account for soft costs also specifically excluded from the BuildGroup cost estimates (e.g., insurance, professional fees, permits and plan check, testing and inspection) and presumably real estate taxes and financing costs.

Source: page 4 of the HR&A Memorandum

