

EXHIBIT F.5:

Summary of Feasibility Results for Non-residential Projects

Downtown Community Plan

CF 22-0617; CPC-2017-432-CPU; CPC-2014-1582-CA; ENV-2017-433-EIR

Recommended by the City Planning Commission on September 23, 2021

September 2022

MEMORANDUM

To: Craig Weber & Brittany Arceneaux, Los Angeles Department of City Planning

From: HR&A Advisors, Inc.

Date: August 12, 2022

Re: Summary of Financial Feasibility Results for Community Benefit Requirements in New Office Projects in Downtown Los Angeles

HR&A Advisors, Inc. (“HR&A”) prepared this memorandum on behalf of the Los Angeles Department of City Planning (“LADCP”) to evaluate the financial feasibility of applying community benefit requirements to new office development projects in the Downtown area of the City of Los Angeles (the “City”). The evaluation of new office developments includes analysis of financial feasibility to provide on-site public amenities, such as publicly accessible open space or community space, in exchange for additional floor area. The memorandum concludes with a set of observations that could inform the City decision-making process as the Downtown Community Plan update (“DTLA 2040”) approaches adoption.

DTLA 2040 Context

Plan Overview

DTLA 2040 presents a long-term vision for the future of Downtown, focusing on the implementation of land use, urban design, mobility, and open space strategies to support significant anticipated growth. The strategies articulated in DTLA 2040 also inform a comprehensive zoning code update in Downtown, which is currently under development. The structure of the updated zoning code will be organized under five key pillars – Form, Frontage, Development Standards, Use, and Density – that together will govern various aspects of development.

As part of this new regulatory framework, LADCP has developed a “Community Benefits Program” that seeks to encourage private development to deliver a range of community benefits, including affordable housing, publicly accessible open space, community facilities, and various other public improvements, resources, and services, through appropriate incentives and regulations that consider financial feasibility. The Community Benefits Program as presented to the Los Angeles City Planning Commission (“CPC”) was elective in nature, meaning that community benefits were only required of development projects seeking additional (“bonus”) floor area. For example, as with multifamily residential projects, developers of office projects are authorized to build at or below a specified Base FAR without needing to provide any community benefits. However, a project would be granted an additional 1.0 FAR by-right, up to a maximum 40 percent FAR bonus, if they provide:

- 4% of lot area as Publicly Accessible Open Space, or
- 2.5% of incremental square footage plus 5,000 square feet for a community facility.

Due to significant changes in market conditions since the onset of the COVID-19 pandemic, LADCP requested HR&A to update feasibility analysis for office requirements.

Financial Feasibility Approach and Methodology

Residual Land Value Analysis

HR&A utilized a detailed Residual Land Value (“RLV”) Model for two office prototypes (defined in the next section) to test development feasibility at both Base and maximum Bonus FAR. A RLV Model, which was also used for other HR&A analysis for DTLA 2040, accounts for total development costs, net operating income and capitalized sale value, among other factors, to solve for the amount a well-informed, capable developer could afford to pay for land and earn a market-responsive return on investment. For this analysis, HR&A updated the RLV Model with current market-rate office rents, vacancy rates, construction costs, and land values. In these cases, RLV is based on land value.

Development feasibility is based on the degree to which each tested prototype supports a residual land value comparable to recent land sales within each prototype’s respective submarket. HR&A also applied a Return on Cost (“ROC”) threshold as a companion measure of developer return. Under this approach, a prototype must generate an investment return (measured as net operating income divided by total development cost) that is at least a 100 basis points (i.e., one percentage point) higher than the weighted average income capitalization rate for the prototype. In all cases, RLV was the lagging indicator of feasibility, and therefore the primary measure of financial feasibility used in this memorandum.¹

Development Prototypes

HR&A utilized two prototypes for new office projects in Downtown, which are aligned with typical site sizes, development standards, and were utilized in previous rounds of HR&A analysis. The prototypes are located in the two strongest office submarkets in Downtown Los Angeles, namely Pershing Square/Financial District and the Arts District. For each prototype, development standards are provided as both Base FAR (“Base FAR”) and Maximum Floor Area Ratio (“Max FAR”) in accordance with DTLA 2040. The Arts District prototype is located in the LM1 Form District, and is subject to a 10-story height limit.

The parameters of each office prototype are defined in Figures 1 and 2.

FIGURE 1: OFFICE PROTOTYPE – PERSHING SQUARE/FINANCIAL DISTRICT

	Base FAR	Max FAR
Acreage	0.84	0.84
Max. Stories	17	25
FAR	9.00	13.00
GBA	330,000	477,500
Construction Type	Type I	Type I

¹ For simplicity, the feasibility analyses presented in this memorandum only display results of the RLV analysis. Full analytic results, which include ROC metrics and their associated benchmarks, are included as Appendices.

FIGURE 2: OFFICE PROTOTYPE – ARTS DISTRICT

	Base FAR	Max FAR
Acreage	1.47	1.47
Max. Stories	5	10
FAR	1.50	6.00
GBA	95,000	382,500
Construction Type	Type II	Type II

Data Sources and Inputs

HR&A utilized a variety of data sources to update real estate market assumptions and relevant regulatory parameters, including:

- Commercial Real Estate databases, such as CoStar, Engineering News Record, Marshall & Swift, CBRE, Redfin;
- Expert opinion, based on interviews with developers, architects and related professionals; and
- DTLA 2040 and Updated Zoning Requirements, including updated development standards related to parking, building height, and density, among others.

Financial Feasibility Analysis Results

Under current market conditions and proposed regulations, the modeling indicates that new office development in the tested submarkets is financially feasible and increasingly so at higher densities. In Pershing Square/Financial District, office development is feasible at both Base FAR and Max FAR. By contrast, in the Arts District, office development is feasible only at Max FAR. These results are summarized in Figure 3.

Importantly, although the Pershing Square/Financial District prototype is financially feasible, performance of existing office buildings in the core area of Downtown Los Angeles has struggled for many years, with high vacancies and general oversupply in comparison to demand. It is not clear that market demand exists to support a new building of the scale evaluated. On the other hand, the Arts District has experienced strong demand for new office use over the past decade.

FIGURE 3: FEASIBILITY ANALYSIS – OFFICE PROJECTS

	Construction Type	RLV per SF	RLV Benchmark	Feasible?
Pershing Square/Financial District				
Base	Type I	\$622	\$550	Yes
Max FAR	Type I	\$650		Yes
Arts District				
Base	Type II	\$217	\$400	No
Max FAR	Type II	\$681		Yes

The feasible prototypes listed above can support varying levels of community benefit requirements.² Among them, the Arts District prototype at Max FAR can feasibly accommodate the most benefits overall, with either 30,700 SF of Community Space or 21,100 SF of Open Space.

Figure 4 lists the supportable set-aside requirements for both Community Space (presented as a share of each incremental unit of additional FAR) and ground-floor Open Space (presented as a share of total parcel area).

FIGURE 4: FEASIBILITY ANALYSIS – OFFICE PROJECTS

	Community Space		Open Space	
	% of Incremental FAR	Total SF	% of Parcel Area	Total SF
<i>Pershing Square/Financial District</i>				
Base	-	17,200	11%	4,000
Max FAR	4%	5,700	12%	4,400
<i>Arts District</i>				
Base	-	-	-	-
Max FAR	11%	30,700	33%	21,100

Summary of Results & Other Observations

Although the forecast for new office development remains unclear for the Downtown Core, but assuming there will be sufficient market demand for new buildings over the life of DTLA 2040, office buildings appear to be financially feasible. Office projects in the two major Downtown submarkets can generally support the provision of on-site Community Benefits in the form of Community Space and Open Space, especially at higher densities. However, given the lingering effects of the COVID-19 pandemic, it is unlikely that new large office projects will be proposed in the Downtown Core in the near-term as high vacancy rates and a lack of demand persist. Projects at Max FAR in the Arts District and smaller-scale projects – for which tenants are easier to secure – may be more likely to occur in the near-term.

² To model a supportable set-aside requirement for ground-floor open space, HR&A assumed smaller building footprint (but equal in FAR) to reduce overall lot coverage while still maintaining a feasible high-rise form. HR&A also modeled community space as non-rent producing, reducing the overall space dedicated to rent-producing retail and office uses.

APPENDIX A: FEASIBILITY TESTING DETAILED RESULTS

Overview

The subsequent tables provide detailed results from the feasibility tests performed for the office prototypes defined in this memorandum. These tests include baseline feasibility analysis for market-rate development and supportable set-aside calculations.

PERSHING SQUARE/FINANCIAL DISTRICT: MARKET RATE

	Base FAR	Max FAR
Category		
Development Program		
Acreage	0.84	0.84
Height	238 ft.	350 ft.
Stories	17 stories	25 stories
Retail	Type II	Type II
Office	Type I	Type I
Average Floorplate	19066 ft.	19066 ft.
FAR	9.0	13.0
GBA	330,000 SF	477,500 SF
Development Cost and Value		
Total Development Costs per GBA	\$615	\$635
Capitalized Value per GBA	\$807	\$808
Incentives		
Structured Parking?	Yes	Yes
Community Benefits		
Affordable Housing Linkage Fee	Yes	Yes
Ground Floor Community Space (% of Average Floorplate)	0%	0%
Resulting Community Space (Calculated)	0	0
Resulting Community Space (% of Incremental FAR)	0.00%	0.00%
Ground Floor Open Space (% of Parcel)	0%	0%
Resulting Open Space (Calculated)	0	0
Financial Returns		
RLV over Base Scenario		16.43%
Residual Land Value	\$22,804,679	\$23,840,959
RLV Per Acre	\$27,093,190	\$28,324,347
Residual Land Value per SF of land	\$622	\$650
Land sale comps benchmarks (average)	\$550	\$550
Return on Cost	5.59%	5.41%
Weighted CAP	4.18%	4.20%
FAR over Base Scenario		44%
Affordable Units per FAR Increase		
Feasible by 100 bps ROC Spread Over Weighted Avg. Cap Rate	Yes	Yes
Feasible by RLV?	Yes	Yes

PERSHING SQUARE/FINANCIAL DISTRICT: COMMUNITY SPACE

	Base FAR	Max FAR
Category		
Development Program		
Acreage	0.84	0.84
Height	238 ft.	350 ft.
Stories	17 stories	25 stories
Retail	Type II	Type II
Office	Type I	Type I
Average Floorplate	19066 ft.	19066 ft.
FAR	9.0	13.0
Ground Floor FAR (Fashion District)		
GBA	330,000 SF	477,500 SF
Total Development Costs per GBA	\$588	\$634
Structured Parking?	Yes	Yes
Community Benefits		
Affordable Housing Linkage Fee	Yes	Yes
Ground Floor Community Space (% of Average Floorplate)	90%	30%
Resulting Community Space (Calculated)	17,159	5,720
Resulting Community Space (% of Incremental FAR)	0.00%	3.88%
Ground Floor Open Space (% of Parcel)	0%	0%
Resulting Open Space (Calculated)	0	0
Financial Returns		
RLV over Base Scenario		\$0
Residual Land Value	\$20,476,060	\$20,623,095
RLV Per Acre	\$24,326,665	\$24,501,350
Residual Land Value per SF of land	\$558	\$562
Land sale comps benchmarks (average)	\$550	\$550
Return on Cost	5.55%	5.36%
Weighted CAP	4.18%	4.20%
Affordable Units per FAR Increase		
Feasible by 100 bps ROC Spread Over Weighted Avg. Cap Rate	Yes	Yes
Feasible by RLV?	Yes	Yes

PERSHING SQUARE/FINANCIAL DISTRICT: PUBLICLY ACCESSIBLE OPEN SPACE

	Base FAR	Max FAR
Category		
Development Program		
Acreage	0.84	0.84
Height	266 ft.	392 ft.
Stories	19 stories	28 stories
Retail	Type II	Type II
Office	Type I	Type I
Average Floorplate	16969 ft.	16778 ft.
FAR	9.0	13.0
Ground Floor FAR (Fashion District)		
GBA	330,000 SF	477,500 SF
Total Development Costs per GBA		
Structured Parking?	Yes	Yes
Community Benefits		
Affordable Housing Linkage Fee	Yes	Yes
Ground Floor Community Space (% of Average Floorplate)	0%	0%
Resulting Community Space (Calculated)	0	0
Resulting Community Space (% of Incremental FAR)	0.00%	0.00%
Ground Floor Open Space (% of Parcel)	11%	12%
Resulting Open Space (Calculated)	4033	4400
Financial Returns		
RLV over Base Scenario		-2.97%
Residual Land Value	\$20,840,793	\$20,220,953
RLV Per Acre	\$24,759,988	\$24,023,584
Residual Land Value per SF of land	\$568	\$552
Land sale comps benchmarks (average)	\$550	\$550
Return on Cost	5.53%	5.35%
Weighted CAP	4.18%	4.20%
Affordable Units per FAR Increase		
Feasible by 100 bps ROC Spread Over Weighted Avg. Cap Rate	Yes	Yes
Feasible by RLV?	Yes	Yes

ARTS DISTRICT: MARKET RATE

	Base FAR	Max FAR
Category		
Development Program		
Acreage	1.47	1.47
Height	42 ft.	210 ft.
Stories	3 stories	15 stories
Retail	Type II	Type II
Office	Type II	Type II
Average Floorplate	33333 ft.	25579 ft.
FAR	1.5	6.0
Ground Floor FAR (Fashion District)		
GBA	95,000 SF	382,500 SF
Total Development Costs per GBA	\$663	\$707
Structured Parking?	Yes	Yes
Community Benefits		
Affordable Housing Linkage Fee	Yes	Yes
Ground Floor Community Space (% of Average Floorplate)	0%	0%
Resulting Community Space (Calculated)	0	0
Resulting Community Space (% of Incremental FAR)	0.00%	0.00%
Ground Floor Open Space (% of Parcel)	0%	0%
Resulting Open Space (Calculated)	0	0
Financial Returns		
RLV over Base Scenario		322%
Residual Land Value	\$13,891,305	\$43,519,386
RLV Per Acre	\$9,462,457	\$29,644,468
Residual Land Value per SF of land	\$217	\$681
Land sale comps benchmarks (average)	\$400	\$400
Return on Cost	6.17%	5.83%
Weighted CAP	4.31%	4.26%
Affordable Units per FAR Increase		300%
Feasible by 100 bps ROC Spread Over Weighted Avg. Cap Rate	Yes	Yes
Feasible by RLV?	No	Yes

ARTS DISTRICT: COMMUNITY SPACE

	Max FAR
Category	
Development Program	
Acreage	1.47
Height	210 ft.
Stories	15 stories
Retail	Type II
Office	Type II
Average Floorplate	25579 ft.
FAR	6.0
Ground Floor FAR (Fashion District)	
GBA	382,500 SF
Total Development Costs per GBA	\$687
Structured Parking?	Yes
Community Benefits	
Affordable Housing Linkage Fee	Yes
Ground Floor Community Space (% of Average Floorplate)	120%
Resulting Community Space (Calculated)	30,695
Resulting Community Space (% of Incremental FAR)	11%
Ground Floor Open Space (% of Parcel)	0%
Resulting Open Space (Calculated)	0
Financial Returns	
RLV over Base Scenario	154%
Residual Land Value	\$26,167,972
RLV Per Acre	\$17,825,059
Residual Land Value per SF of land	\$409
Land sale comps benchmarks (average)	\$400
Return on Cost	5.52%
Weighted CAP	4.27%
Affordable Units per FAR Increase	
Feasible by 100 bps ROC Spread Over Weighted Avg. Cap Rate	Yes
Feasible by RLV?	Yes

ARTS DISTRICT: PUBLICLY ACCESSIBLE OPEN SPACE

Category	Max FAR
Development Program	
Acreage	1.47
Height	308 ft.
Stories	22 stories
Retail	Type II
Office	Type II
Average Floorplate	17138 ft.
FAR	6.0
Ground Floor FAR (Fashion District)	
GBA	382,500 SF
Total Development Costs per GBA	\$750
Structured Parking?	Yes
Community Benefits	
Affordable Housing Linkage Fee	Yes
Ground Floor Community Space (% of Average Floorplate)	0%
Resulting Community Space (Calculated)	0
Resulting Community Space (% of Incremental FAR)	0.00%
Ground Floor Open Space (% of Parcel)	33%
Resulting Open Space (Calculated)	21103
Financial Returns	
RLV over Base Scenario	161%
Residual Land Value	\$26,870,491
RLV Per Acre	\$18,303,599
Residual Land Value per SF of land	\$420
Land sale comps benchmarks (average)	\$400
Return on Cost	5.49%
Weighted CAP	4.26%
Affordable Units per FAR Increase	
Feasible by 100 bps ROC Spread Over Weighted Avg. Cap Rate	Yes
Feasible by RLV?	Yes