Apartment Killer

With the advent of Measure JJJ, developers often find it's simply too expensive to build the types of housing the Valley needs.

By Carol Lawrence

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Home builders have a message for the city of Los Angeles: it's been a good run, but we're moving on.

Large and small developers who for years have built single-family homes, condominiums and apartments in the Valley and in L.A., have pulled out of deals to buy land and build projects and are investing in other cities instead. They say the Measure JJJ ballot initiative that was approved by voters in November, which mandates that builders of most large projects include affordable housing and pay prevailing wage on construction sites, has turned developing into a high-cost endeavor that delivers low- to no-value returns.

"There's going to be no production because of JJJ," said Randy Johnson, who handles land acquisition as executive vice president for L.A.'s largest landlord, Brookfield Asset Management Inc. of New York. His company's San Diego multifamily division, Fairfield Residential, is building a 379-unit luxury mixed use apartment and retail complex on the former site of the Los Angeles Daily News headquarters near Oxnard Street and Canoga Avenue in Woodland Hills.

"In the Valley where it's not a high-value market, and there are typically lower densities, these measures eviscerate the land owners," Johnson said. "Prevailing wage is the death knell."

Pulling the plug

Projects trigger Measure JJJ's requirements if they need a General Plan amendment, a zoning use change or exemptions from height restrictions. Rather than seek changes, many developers have decided to cut their losses on projects. For example:

Brookfield killed an 80-acre land purchase in the West Valley where it planned to replace high-vacant office and industrial space with condominiums and apartments.

Mill Creek Residential in Dallas, a national builder of market-rate and affordable apartments, cancelled plans to buy land in Tarzana for a transit-oriented development.

Williams Homes Inc. in Santa Clarita, one of the larger private single-family and for-sale townhomes builders in L.A. County, terminated a pending land purchase in the North Valley where to intended to build 164 townhomes.

California Homes Builders in Canoga Park has rejected 15 to 20 land deals in neighborhoods including Van Nuys, Pacoima and Northridge since the measure passed, and won't break ground on any new projects next year. Instead, it's pursuing land in cities such as Burbank, and in high-rent, high-price sections of L.A.

Developer Gary Rodrigues, whose family spent three years trying to entitle land it owned in Van Nuys for workforce housing near public transportation, gave up after learning his project would lose money, largely due to Measure JJJ.

And Sherman Oaks apartment developer and manager IMT Residential terminated three projects it had planned for the Valley. The company's construction employees would be affected by the measure's mandate that workers on construction sites must live within the immediate area and be graduates of a state-certified apprentice program.

"(The passing of Measure) JJJ was like a stake in the heart," said David Tedesco, a principal with IMT. "What makes us successful is we do our own construction. The prevailing wage requirement would have put a lot of our people out on the street."

Factors such as insufficient land and the difficult project entitlement and approval process have also caused the company to slow down its local development activity in recent years, Tedesco said. Measure JJJ was just the final blow.

IMT is now more focused on building in Colorado and Texas, he added.

"It's unfortunate, but it's almost like we're being forced to," Tedesco explained.

The drop-off in activity seems to correspond to the sharp decline in project applications with the city of Los Angeles that would require Measure JJJ compliance.

Matt Modrzejewski, vice president of land development for California Homes Builders, and his staff reviewed applications since 2014, and found that the number of projects seeking the permissions that would trigger JJJ sank to 118 in Los Angeles so far this year. In 2014, those projects totaled more than 2,600.

This year's number suggests that a drastic drop in volume for the full year is likely.

That's significant, Modrzejewski added, because only 50 percent of projects that get entitled are built. Plus, the city of Los Angeles has declared a housing shortage, so shrinking supply will likely drive home prices and apartment rents higher, he noted.

"This is a disaster. For us it's not the end of world because we'll go to other places to build – but the average Angeleno is not going to be able to afford rent, or not going to be able to afford to buy a single-family home," Modrzejewski said.

Beyond Measure JJJ

Developers see a potential solution in updating the Community Plans so that old and irrelevant zoning and land use designations, and height limits, that trigger Measure JJJ requirements would be changed to allow for greater density at certain sites, making them more attractive.

Had there been updated zoning in Tarzana, Mill Creek Residential would have bought the ideal redevelopment site, said Managing Director Michael Genthe. Instead, building on it would have been "economically infeasible."

“It will continue to be the worn-out tired industrial park it is today,” Genthe said. “The property is worth more today than it would be for redevelopment, so it will remain as is.”

There are several such transportation corridors in the Valley with old and mixed zoning that could be redeveloped if zoning was updated, he explained, and other areas too if the strict height limitations were loosened.

“When allowed to densify where appropriate, that brings renewal because it allows projects to be economically feasible,” Genthe explained.

Even updated, however, Community Plans may not provide the high densities developers are hoping for, said Larry Kosmont, chief executive of real estate advisory firm Kosmont Cos. in Manhattan Beach. That’s because plan updates are ultimately a comprise.

“No one leaves a Community Plan saying, ‘We got 13,000 more housing units,’” Kosmont said. “I doubt – other than in very selective areas – that there will be a lot of housing stock victories.”

Valley loss

Average housing rents in Van Nuys and the Northwest Valley were $1,720 in the first quarter, compared to $3,331 in Santa Monica and $2,946 in Brentwood/Westwood/Beverly Hills, according to real estate brokerage firm Marcus & Millichap Inc. in Calabasas.

Rents and home prices in an area are based on local incomes, and what people can afford to pay – not on the costs to build those apartments and homes. That’s why the project that Rodrigues wanted to build in Van Nuys never got off the ground.

His family owns the land underneath a Chevrolet dealership at 6001 and 6059 Van Nuys Blvd. He wanted to build 384 apartments over retail at the site and charge market-rate – not luxury – rents that would attract local working people such as teachers.

Instead, Rodrigues has to pull the plug on the project. An independent financial analysis showed that when factoring in Measure JJJ’s higher prevailing wage for construction workers, the estimated $125 million cost to build would have soared to $142 million to $150 million. Additionally, building the required affordable housing would have dropped the project’s income return value to about 4 percent from that of 6 percent with market-rate units.

If he built it, Rodrigues and his family would have a project worth $30 million less than what it would cost to build, ADK&A, a real estate consultancy in Los Angeles, declared in its study.

“We said, ‘We can provide almost 400 units of housing for people with jobs in the Van Nuys area and be a positive catalyst for change,’ but in the end, we had to say ‘It’s too risky, no banks are going to finance it,’” Rodrigues said.

Other local issues also played a part in the project’s demise, so the family kept the site as is – a car dealership.

Kosmont, the real estate advisor, said he’s not surprised to hear developers are pulling out of projects.

“To carry the frontload and cost of the affordable unit per (Measure) JJJ really means that you’ve got to have a high exit value or you’re putting the project under water,” Kosmont said.

His clients are switching focus to Long Beach, Hawthorne, Gardena, Pomona and Laverne – which have public transportation to the city, and where zoning changes and development approvals are easier to get.

Williams Homes is building three communities in the Valley, but still cancelled plans for new townhomes, said Scott Ouellette, vice president of business development.

“We’ve loved building in the city of L.A.; it’s been good to us over the last couple of years,” Ouellette said. “But we see a lot of opportunities all over the place. We’ll go where it’s best and easiest.”