CITY OF BEVERLY HILLS
STAFF REPORT

Date: September 2, 2008

To: Honorable Mayor and City Council

From: David Lightner, Deputy City Manager

Subject: Development of 9400 Santa Monica Boulevard

Attachments:
1. Conceptual Plans
2. Financial Pro Forma

INTRODUCTION

The City owns a 7,184 square foot unimproved property at the south-west corner of Canon Drive and Little Santa Monica Boulevard. This report provides preliminary analysis and a request to proceed with architect selection to develop plans for a three story retail/office building on the property.

DISCUSSION

The vacant property is currently enclosed with a solid fence separated from the sidewalk by a landscaped setback area. It was used for construction staging during the Urban Design program and during development of the Beverly-Canon facility nearby. Although it is a small, pie-shaped lot at a corner with difficult vehicular access, the site is quite prominent in the Triangle. It is diagonally across the street from the proposed Annenberg Center for the Performing Arts and could be a marker for the eastern entry to the primary retail area of the Triangle.

Initial review of the potential for this site led to consideration of whether the site could be linked with the existing Beverly-Canon building, approximately 100 feet south of the site on Canon Drive. Two private buildings owned by a family trust separate the two properties; however, joint development could conceivably produce a shared structure adjacent to the Beverly-Canon. After many discussions with the private owners, it does not appear that a joint development scenario is possible in the foreseeable future.

The site remains an attractive opportunity as a stand-alone development. The prominent location along the curve of Little Santa Monica provides excellent visibility and the short Canon Drive frontage could be used to attract foot traffic into the building. The views out of the building from the upper floors would include the gardens and theater buildings at the Annenberg, the mountains beyond and the City Hall tower.

The second and third floors of the building could provide office space in a prime location in the Triangle with the burgeoning restaurant row of Canon Drive at the doorstep.

Preliminary conversations with office brokers indicate that this would be desirable space commanding the upper end of the range of office rents in the City. The ground floor space would be desirable for a retail tenant, but has also been evaluated as a potential site for a Visitors Center that might include a City store.

The question of whether the City should have a Visitors Center, and if so what that Center should be, is a separate question and a part of the current workplan of the Conference and Visitors Bureau (CVB). It is important to note that the proposed building is not based on an assumption of a Visitors Center and that the Visitors Center question is independent of the current evaluation of whether the CVB should be part of the Chamber of Commerce or not.

The Visitors Center option was developed because of the high visibility of the location, the desirability of drawing visitors who only know Rodeo Drive onto other streets in the Triangle and potential synergy with the future Annenberg Center across the street.

Our project administration consultants, Stegeman & Kastner have coordinated the work of Jeffrey Kalban & Associates, Architecture Inc. along with real estate advisors, Keyser Marston Associates, to complete feasibility analysis. A preliminary site plan and conceptual building layout are included in Attachment 1 of this report. A financial pro forma for the project is included as Attachment 2.

The concept drawings show a first floor of 4,500 net square feet; a second floor of 5,700 net square feet and a third floor of 6,000 net square feet, for a total of 16,200 net square feet. Building setbacks are included on the ground floor to create a welcoming pedestrian area along the street and an on-site loading space is also included at grade. The second floor includes a small area that could be open to the floor below creating a double-height space at the corner.

While the Kalban concept drawings show a very interesting approach to the architecture and highlight the potential for this building to have a stature beyond what would be typical for such a small building, we would propose a review process to select the firm that would ultimately design the building.

On-site parking was evaluated, but as a result of the limited footprint, the pie-shaped lot and the impracticality of access off of each of the border streets, it was not deemed feasible. However, the City garage under evaluation at 455 Crescent would be less than 400 feet away. If uses in the proposed building were daytime uses that would not overlap with the prime time for the cultural center, the garage could provide parking within the current code allowances for off-site parking within 500 feet of a building. Assuming ground floor retail and upper floor office uses, the building would require 46 parking spaces. The 455 Crescent Garage is proposed to have over 200 City parking spaces in a garage of over 300 spaces.

FISCAL IMPACT

As detailed in the attached pro forma, the currently estimated development cost is approximately $8 million and the net annual operating income is projected to be $748,000. The supportable investment with an 8% incremental return is $9.35 million, making this an attractive project for the City to pursue.

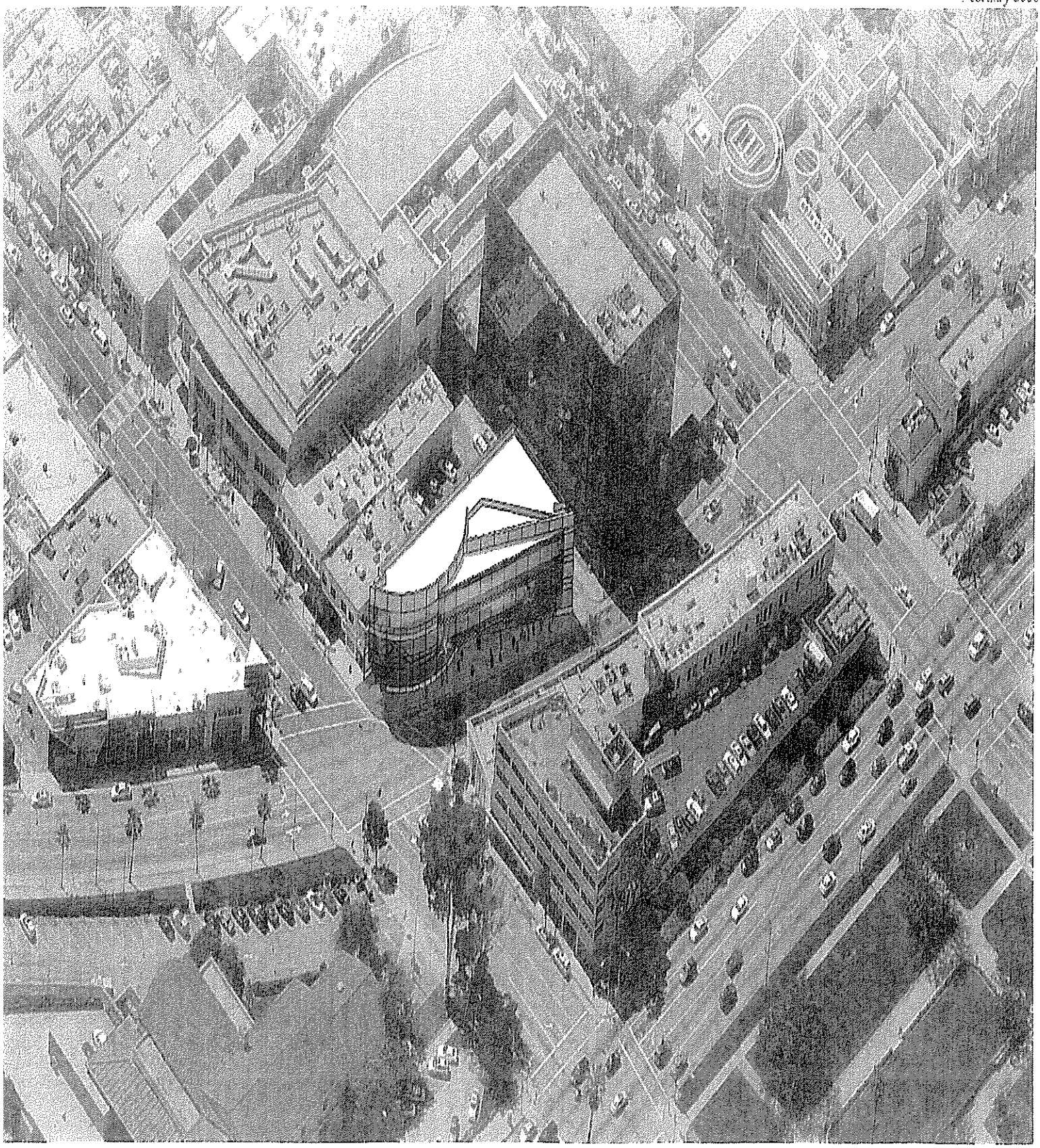
Specific recommendations about how to finance the project would be formulated if the City Council directs further development of this proposal and would be dependent on the ultimate timing of construction. The 2008/2009 CIP budget includes $100,000 for further development of this proposed project.

RECOMMENDATION

It is recommended that the City Council direct staff to initiate the architect selection process with the understanding that a phased contract would be developed allowing environmental assessment and schematic design to be completed during the current fiscal year. It is further recommended that a City Council ad hoc committee be appointed to work with staff as the development of this project proceeds.

David Lightner DCL
Approved By

February 2008

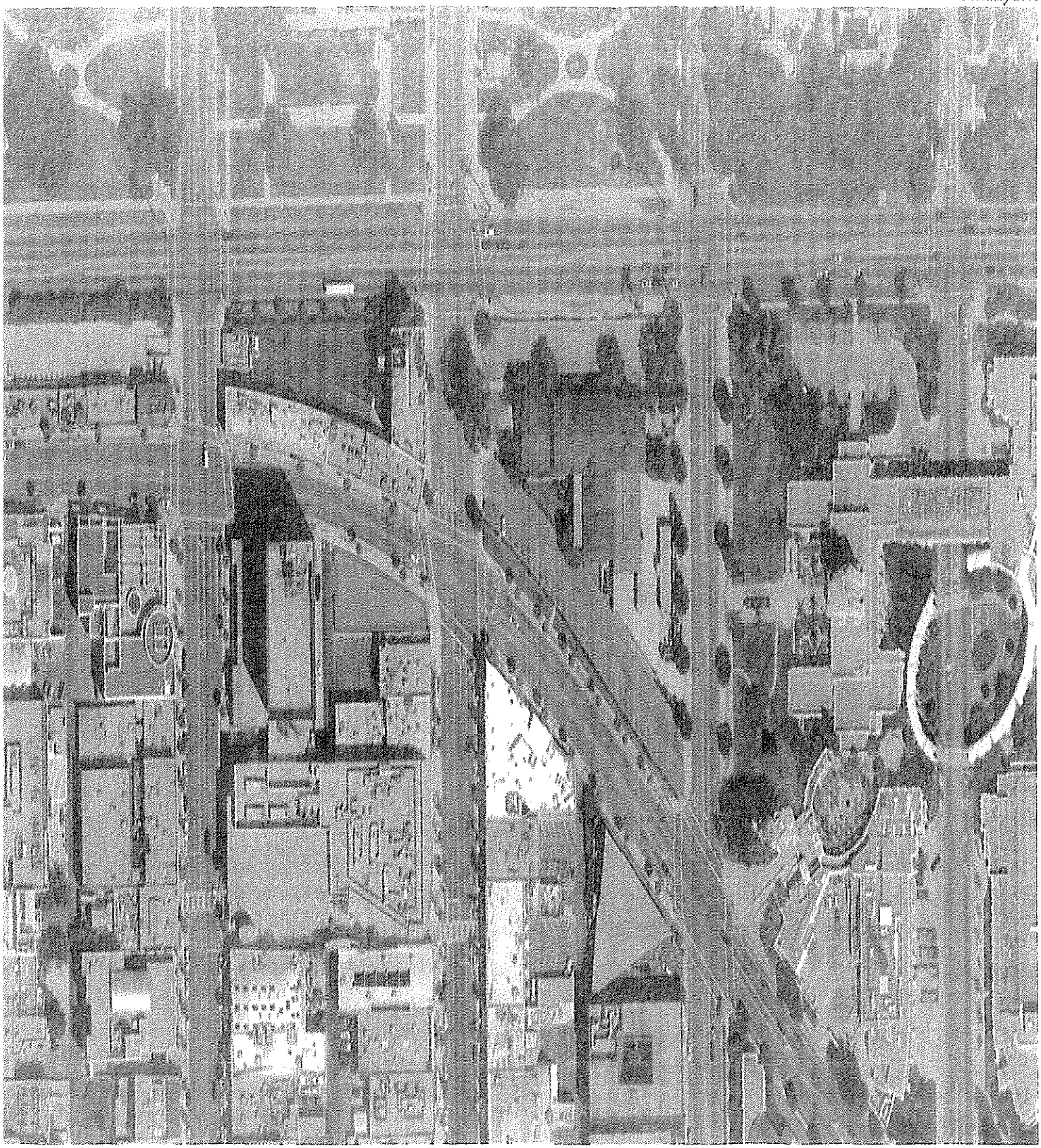


Development Study and Pro Forma Economic Analysis

9400 S. Santa Monica Boulevard, Beverly Hills, CA 90210

Stegeman and Kastner, Inc.
DEVELOPMENT PROJECT AND CONSTRUCTION MANAGEMENT

Jeffrey M. Kellum & Associates
Architecture Inc.

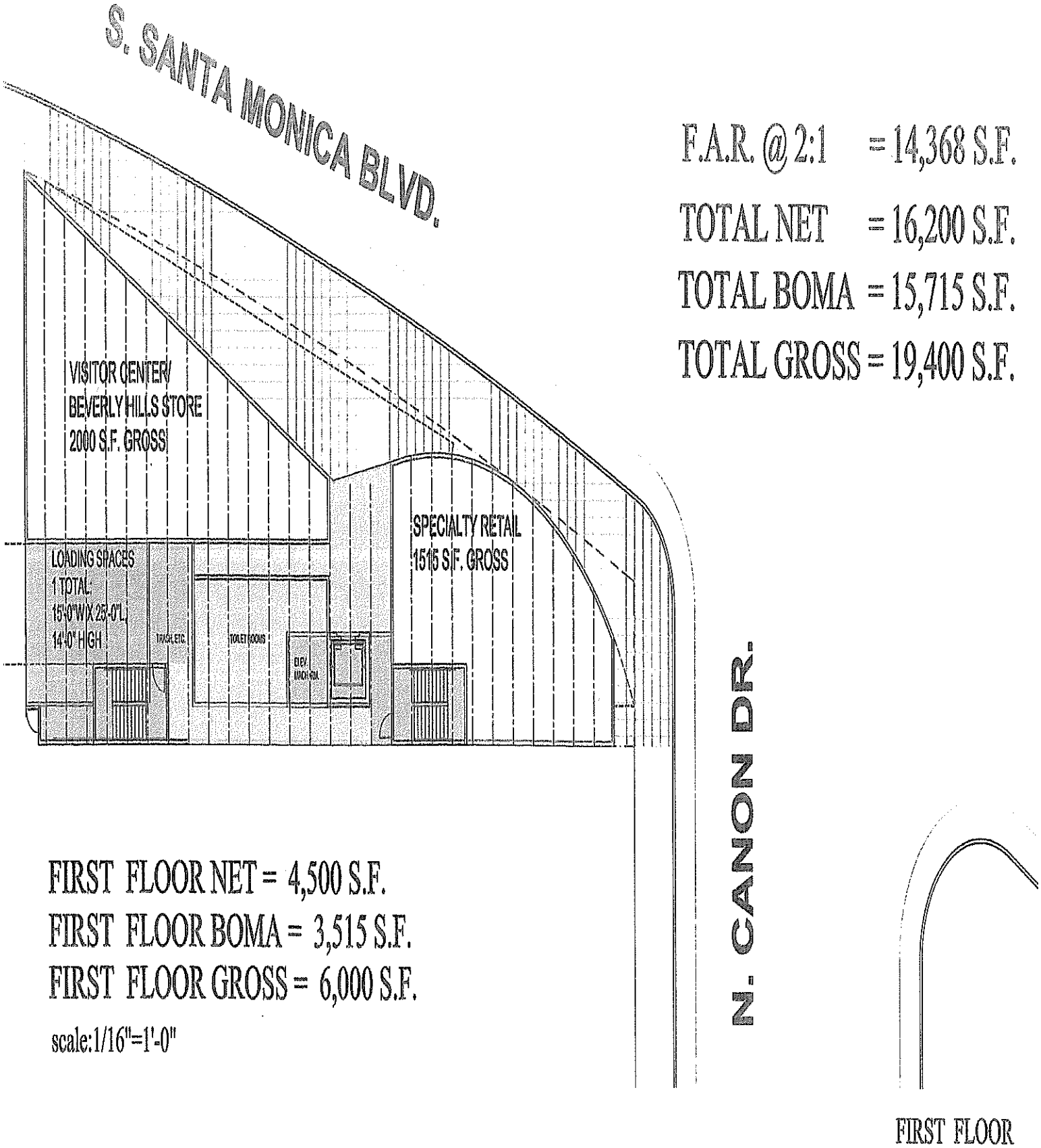


Development Study and Pro Forma Economic Analysis

9400 S. Santa Monica Boulevard, Beverly Hills, CA 90210

Stegeman and Kastner, Inc.
DEVELOPMENT PLANNING AND CONSTRUCTION MANAGEMENT

Architecture Inc.



F.A.R. @ 2:1 = 14,368 S.F.

TOTAL NET = 16,200 S.F.

TOTAL BOMA = 15,715 S.F.

TOTAL GROSS = 19,400 S.F.

FIRST FLOOR NET = 4,500 S.F.

FIRST FLOOR BOMA = 3,515 S.F.

FIRST FLOOR GROSS = 6,000 S.F.

scale:1/16"=1'-0"

Development Study and Pro Forma Economic Analysis
9400 S. Santa Monica Boulevard, Beverly Hills, CA 90210
Stegeman and Kastner, Inc.
DEVELOPMENT, PROJECT AND CONSTRUCTION MANAGEMENT
Jeffrey M. Kalban & Associates
Architecture Inc.
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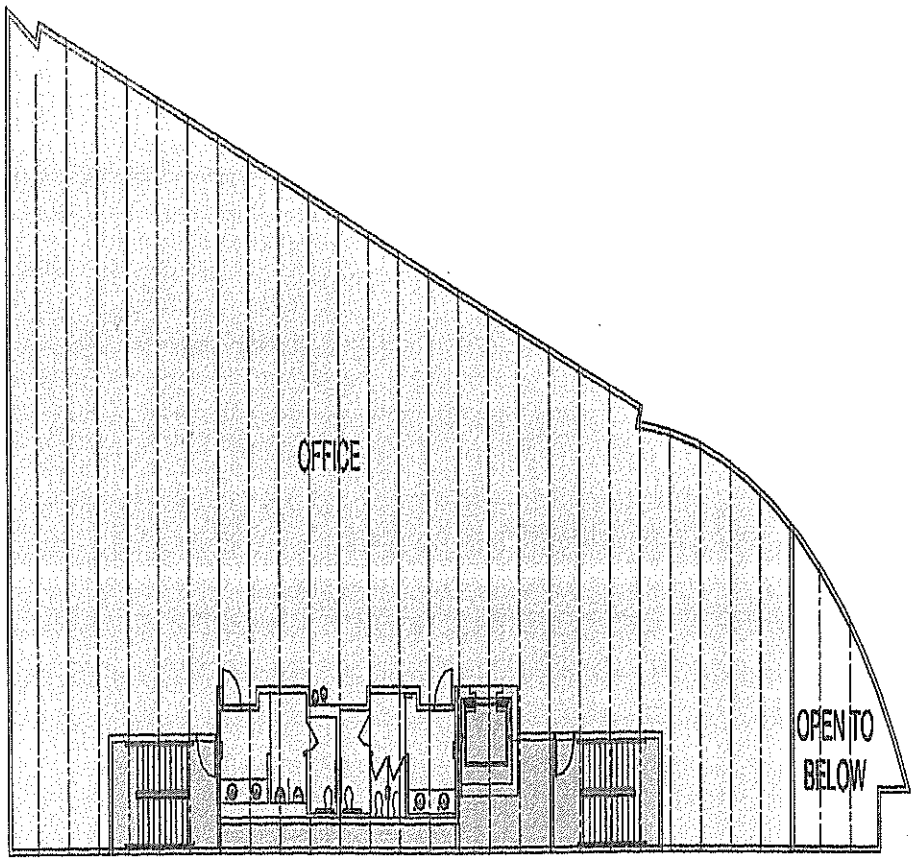
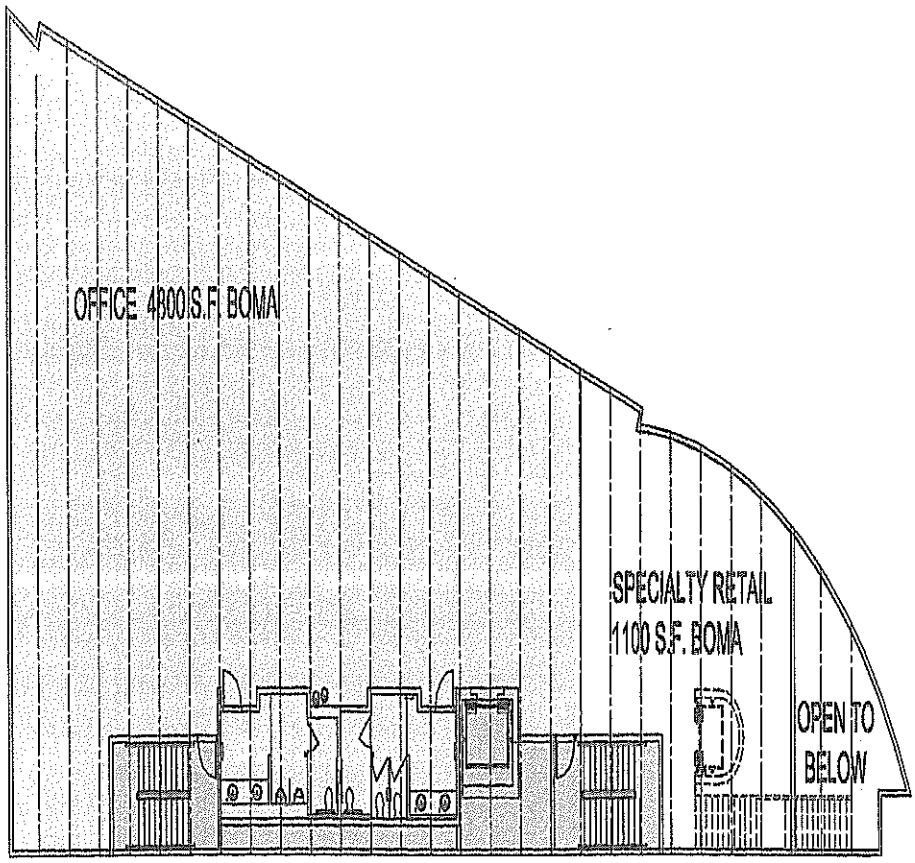


SECOND FLOOR NET = 5,700 S.F.
SECOND FLOOR BOMA = 5,900 S.F.
SECOND FLOOR GROSS = 6,500 S.F.

scale:1/16"=1'-0"

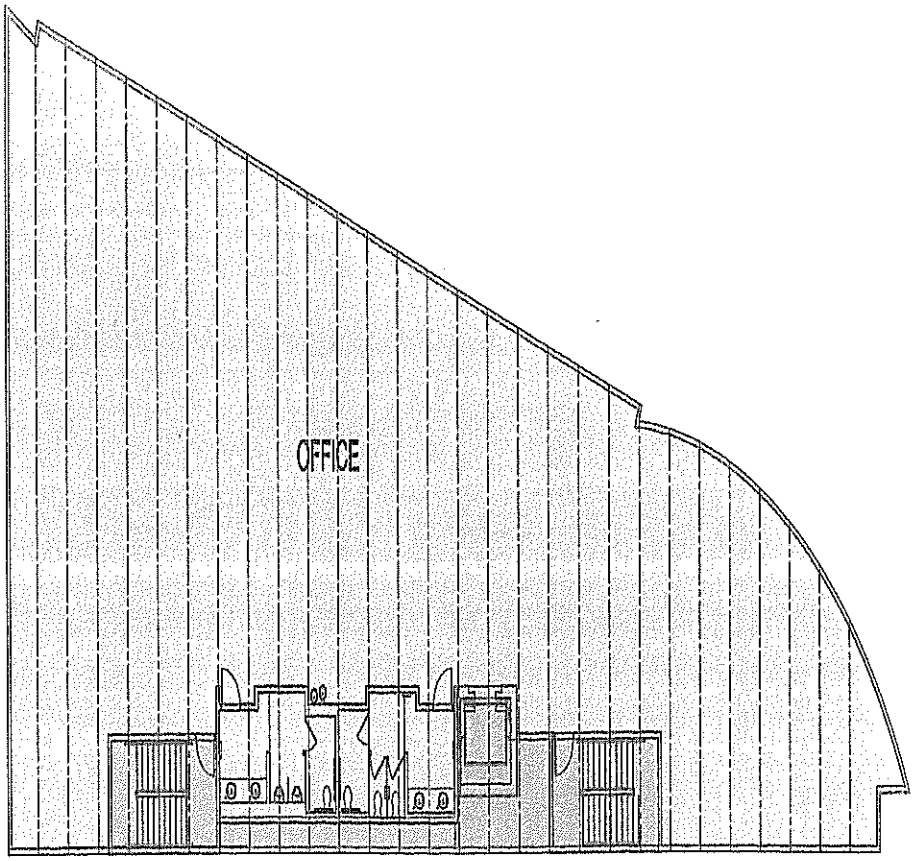
SCHEME 1
SECOND FLOOR



SECOND FLOOR NET = 5,700 S.F.
SECOND FLOOR BOMA = 5,900 S.F.
SECOND FLOOR GROSS = 6,500 S.F.

scale:1/16"=1'-0"

SCHEME 2
SECOND FLOOR



THIRD FLOOR NET = 6,000 S.F.

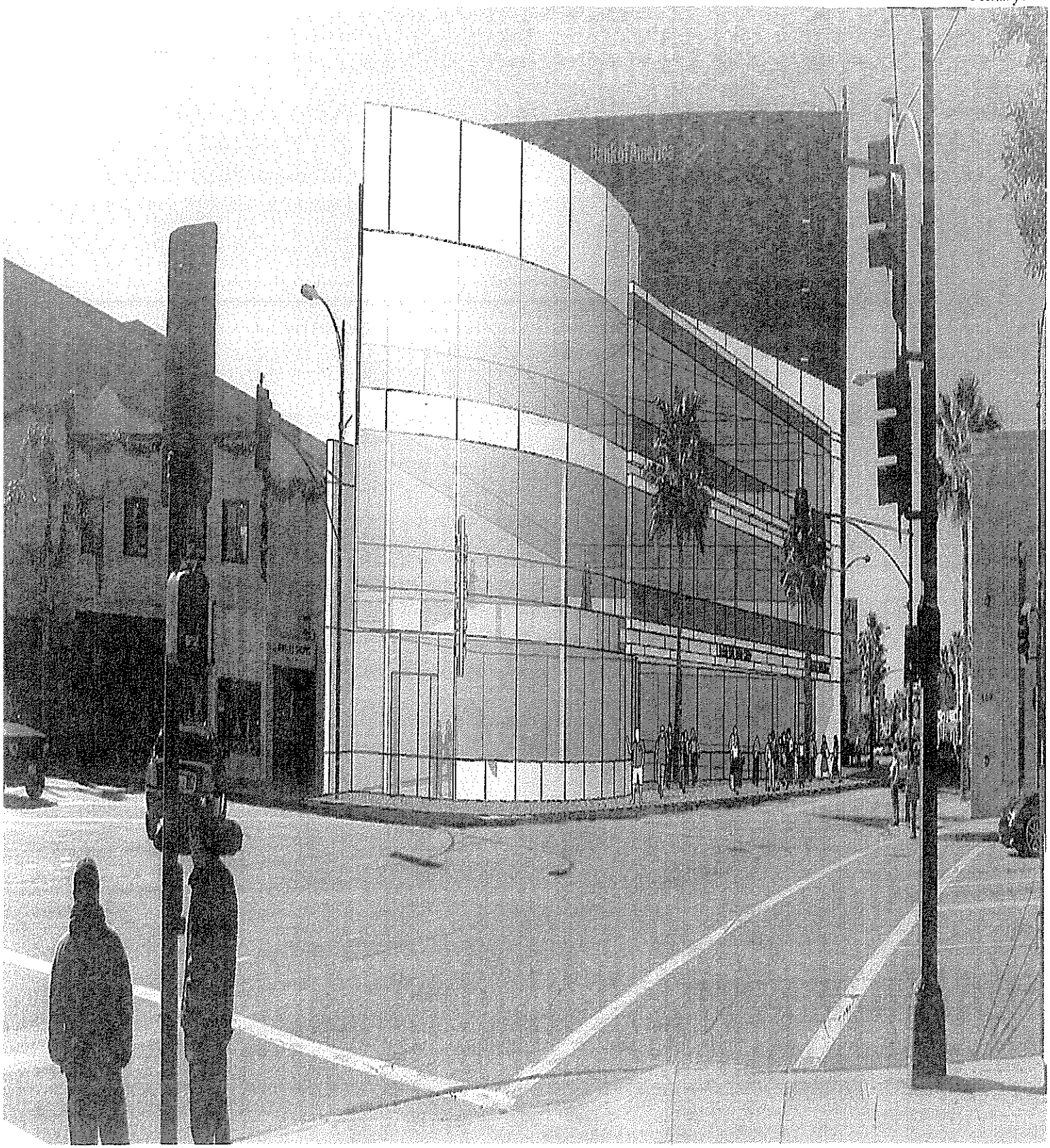
THIRD FLOOR BOMA = 6,300 S.F.

THIRD FLOOR GROSS = 6,900 S.F.

scale:1/16"=1'-0"

THIRD FLOOR

February 2008



Development Study and Pro Forma Economic Analysis

9400 S. Santa Monica Boulevard, Beverly Hills, CA 90210

Steggman and Kastner, Inc.
DEVELOPMENT, PROJECT AND CONSTRUCTION MANAGEMENT

Jeffrey M. Kalban & Associates
Architecture Inc.

Pro Forma

Economic Analysis

9400 Santa Monica Boulevard
Beverly Hills, CA 90210
Projection based on 2008 market conditions

February 2008

A Estimated Development Costs:

1. Land Value		NA	
2. Direct Costs			
Site Costs	Off Site Work	NA	
	On Site Work 7,184 sf	72,000	
	Parking Structure	see Indirect Costs	
Total site and parking costs			$72,000
Building Shell & Core:			
	Gross: $ 230 / sf	4,462,000	
			4,462,000
Tenant Allowance:			
	Retail: $ 40 / sf	185,000	
	Office: $ 40 / sf	444,000	
			629,000
Total Direct Costs			5,163,000
3. Indirect Costs:			
A&E fees:		516,000	
Permits :		291,000	
Taxes, Insurance, Legal & accounting		155,000	
Leasing commissions		26,000	
Development management		258,000	
Parking contribution 48 cars		1,028,000	
Contingency		130,000	
Total Indirect Costs			2,404,000
4. Financing Costs:			
Building		231,000	
Financing fees		96,000	
Total Financing Costs			327,000
5. Contingency :			incl.
Total Estimated Development Costs :			**7,894,000**

B Estimated Income: Scheme 2

1. Scheduled Gross Income:			
1st Floor Retail	$ 72 / sf	253,000	
2nd Floor Retail	$ 48 / sf	53,000	
Office	$ 48 / sf	230,800	
3rd Floor Office	$ 48 / sf	302,000	
			838,000
Less Vacancy and Collection Losses:			(42,000)
Parking Income	48 stalls		37,000
Effective Gross Income			833,000
2. Operating Expenses:			
Management fee		(32,000)	
Reserves		(16,000)	
			(48,000)
Net Operating Income (NOI)			**785,000**

C. Supportable Private Investment:

Net Operating Income:	785,000	
Return on Investment:	8%	
1. Supportable Investment:		9,813,000
2. Estimated Development Cost:		(7,894,000)
3. Residual Land Value:		1,919,000
Residual land value per sf of GBA		98,91
Residual land value per sf of land		267,12

D. Estimated Project Return:

NOI	785,000
Development Cost	7,894,000

ESTIMATED RETURN on Investment : 10.0%