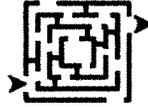


**Attachment 9:**

**Keyser Marston Associates Financial Study**



**KEYSER MARSTON ASSOCIATES**  
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

**MEMORANDUM**

ADVISORS IN:  
REAL ESTATE  
REDEVELOPMENT  
AFFORDABLE HOUSING  
ECONOMIC DEVELOPMENT

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**To:** Jonathan Lait, Assistant Director of Community Development  
City of Beverly Hills

**From:** Kathleen Head

**Date:** October 7, 2013

**Subject:** Gateway Overlay Zone: Potential Financial Impacts

In accordance with your request, Keyser Marston Associates, Inc. (KMA) reviewed the proposed Gateway Overlay Zone amendments to the City of Beverly Hills (City) General Plan and Zoning Code (Amendments). The purpose of the KMA review is to describe the financial checks and balances included in the Gateway Overlay Zone application, discretionary approval, and public hearing processes.

**BACKGROUND STATEMENT**

The Gateway Overlay Zone applies to three properties that are currently subject to T1 zoning. These properties can be described as follows:

Parcel Number	Address	Site Area (Square Feet)
1	9900 Santa Monica Boulevard	54,000
2	9848 Wilshire Boulevard	35,900
3	9817 Wilshire Boulevard	26,100

The Gateway Overlay Zone also applies to C3-zoned properties that are located immediately adjacent to the identified T1-zoned properties. The Amendments do not apply to any other T1 or C3-zoned properties in Beverly Hills.

No zone change will occur on any property as a result of the adoption of the Amendments. Instead, the Gateway Overlay Zone creates a process under which

property owners may apply for their property to receive a C-PD-G overlay. Before this application can be approved, each of the following steps must be successfully completed:

1. The property owner must propose a development that comports with the zoning standards defined in the Amendments;
2. The City must approve a Zoning Code amendment that applies the C-PD-G overlay to the property; and
3. The City must approve a Planned Development permit to the proposed project.

The purpose of the KMA analysis is to identify the Gateway Overlay Zone requirements that impact the opportunities for property owners to achieve potential gains in their property values. However, it is important to understand that the actual amount of value enhancement achieved by a property that receives a C-PD-G overlay cannot be quantified until the property owner submits a Gateway Overlay Zone application for a specific project.

#### **SUMMARY OF ZONING STANDARDS**

Currently, T1-zoned properties can only be developed with transportation related uses. Surface parking lots can potentially be developed, but only after receiving City approval to include the property in a Transportation Overlay Zone, and discretionary approvals of the project scope. As such, the current development potential for the T1-zoned properties is limited.

T1-zoned properties that receive approval for a C-PD-G overlay can potentially be developed with office, restaurant, hotel, and residential development.<sup>1</sup> The maximum allowable development intensities can be described as follows:

1. A T1-zoned property that is developed independently, without any other property assemblage, can be developed at a maximum height of 18 feet, and a maximum Floor Area Ratio (FAR) of .5:1.
2. The following maximum standards are applied to a T1-zoned property that is developed in conjunction with an adjacent C3-zoned property:
  - a. The portion of the T1-zoned property that is not contiguous with the C3-zoned property cannot be developed with anything except landscaping.

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<sup>1</sup> Medical office development is prohibited, and residential development cannot be located on the ground floor of the project.

- b. The portion of the T1-zoned property that is contiguous to the C3-zoned property can be developed at a maximum height of 45 feet, and a maximum FAR of 1.5:1.
- c. The C3-zoned property can be developed at a maximum height of 45 feet, and a maximum FAR of 2.0:1. These are the standards the City currently applies to C3-zoned properties.

If the proposed zoning standards are considered in a vacuum, it is clear that values for T1-zoned properties would be significantly enhanced by being included in the Gateway Overlay Zone. However, the Gateway Overlay Zone includes numerous approval requirements and development obligations that limit the potential value of the properties.

### **C-PD-G OVERLAY REQUIREMENTS**

The owners of T1-zoned properties in the Gateway Overlay Zone are given the opportunity to apply for a C-PD-G overlay to their property. As part of the application, the property owner must submit a proposed development scope to the City. If that development scope is deemed acceptable, the City and the property owner would then enter into a Development Agreement. The C-PD-G overlay would be provided in conjunction with the approved Development Agreement.

### **Development Objectives**

By design, the Gateway Overlay Zone does not identify specific development standards that will be imposed on the properties. Rather, the following basic tenets are established to guide development:

- 1. The project must promote the garden quality of Beverly Hills;
- 2. Pedestrian, bicycle and vehicular mobility must be improved around the property;
- 3. The project's architectural design must be iconic and innovative;
- 4. The project must be designed with pedestrian-oriented amenities and uses at the ground floor that encourage daytime and nighttime activity;
- 5. The property owner must agree to dedicate the land or easements that may be needed for future roadway and transportation improvements, including bicycle facilities, pedestrian mobility elements, bus shelters, pedestrian bridges, or similar improvements;

6. Additional parking spaces, above the Parking Code requirements, must be provided to mitigate neighborhood parking issues;
7. Substantial area must be dedicated to green space, public open space and pedestrian amenities to promote the appearance of a green belt; and
8. Lot consolidation is encouraged.

### **Financial Impacts**

KMA organized the development criteria in groupings tied to the potential cost ramifications associated with the requirement. These groupings can be described as follows:

1. Items 1 through 5: It is likely that these criteria would commonly be imposed on commercial and mixed-use development being proposed in Beverly Hills. As such, these criteria do not necessarily result in increased project costs. However, the City has significant discretion in defining the precise parameters that will be applied to each of these criteria. It is possible that the specific requirements could result in extraordinary development costs.
2. Items 6 and 7: These items carry premium costs that are not typically imposed on other developments in the community.
3. Item 8: T1-zoned properties that are assembled with adjacent C3-zoned properties receive a clear benefit in terms of the development intensity that will be permitted. Conversely, the scope of development allowed on T1-zoned properties that are developed independently is limited, although still greater than what is allowed under current zoning.

In addition to the identified development tenets, the Gateway Overlay Zone imposes an undefined public benefits requirement on development that receives a C-PD-G overlay. The magnitude of the public benefits requirement will not be identified until the property owner provides detail of the project and how it may benefit the community, and potentially through Development Agreement negotiations.

### **CONCLUSIONS**

Investment in real estate development is ultimately driven by a prospective investor's assessment of the project's risk and the potential rewards. As the inherent risk in a project increases, the profit margins demanded by investors increases commensurately. In addition to typical real estate development risks, an investor also must quantify the following risks:

**To:** Jonathon Lait, City of Beverly Hills  
**Subject:** Gateway Overlay Zone: Potential Financial Impacts

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1. The approval process for obtaining a C-PD-G overlay;
2. The specific development standards that will be applied by the City; and
3. The nature of the public benefits requirements for a specific project.

It is KMA's opinion that the broad discretion afforded to the City in the Gateway Overlay Zone application process, and the public benefits expectations, offsets the unquantifiable benefits that could possibly be generated by the intensified development opportunity. The creation of the Gateway Overlay Zone alone should not generate large potential increases in the properties' values. However, each prospective purchaser of a T1-zoned property will have their own risk parameters and land holding strategies that will influence their assessment of the property's value.

The Gateway Overlay Zone documentation should clearly state that the City will not consider the land acquisition price that was paid by the property owner when defining the parameters that will be imposed on a proposed development. The development standards and public benefits requirements should be based solely on the City's goals and objectives. In turn, the property owner is under no obligation to accept the City's terms. The property owner always has the option to maintain the currently applicable T1 zoning, or they can submit a new Gateway Overlay Zone application for consideration of a different scope of development, including an application to only develop the T-1-zoned property up to 18 feet in height.