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 From the Los Angeles Times

HOUSING

So, what's up in downtown L.A.?

An Oregon partnership defies the real estate downturn by building new, environmentally friendly condominium towers in the area.

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Undaunted by recent discouraging news in the California housing market, condominium developer South Group is finishing up its third high-rise building in downtown Los Angeles and planning two more.

The Portland, Ore.-based builder is the largest developer of new residential buildings downtown and it is gambling \$750 million that demand for housing in condo towers in urban neighborhoods is still strong and that today's dip in the market will be brief.

By South Group's reckoning, the current building boom -- the largest in decades -- transforming many Los Angeles County neighborhoods with billions of dollars' worth of new residential and commercial development is unstoppable as long as the region's economic engine keeps growing.

"L.A.'s physical form does not match its economy," said Tom Cody, a South Group principal who described much of the local terrain as "a sea of mediocrity."

Angelenos are hungry for a more pleasing street scape and developers who help provide it will prosper as the city's trend of growing-in instead of just out picks up speed, he said, and downtown will continue to get a big share of the action.

Maintaining sunny optimism about one's prospects is a basic requirement for real estate developers, but so far South Group's perception about what the market wants has proven correct.

Following a model of environmentally friendly high-rise design it perfected in Portland, South Group has sold more than 470 units in downtown Los Angeles at prices ranging from the mid-\$300,000s to \$2.4 million. It was the first company in more than two decades to go beyond converting older buildings to trendy lofts and began building brand-new, high-rise condos.

Even in a neighborhood where the skyline changes almost every other month, South Group's work stands out. Their three buildings called Elleven, Luma and Evo fill almost an entire block at 11th Street and Grand Avenue, where a new urban neighborhood with shops, housing and a park is emerging.

Last month, South Group was recognized by the U.S. Green Building Council for building the first California condominium project to receive a "gold" rating for its environmental standards.

The Green Building Council, the country's largest arbiter of green real estate standards, singled out the Elleven tower for such features as bamboo floors and energy-efficient heating, air-conditioning and water systems.

The building also was credited for what has long been a rarity in high-rise residential construction: windows that actually open, allowing savings on air-conditioning costs.

Such green design elements should be standard in Los Angeles, Mayor Antonio Villaraigosa said at the award ceremony at the project site. He wants all new buildings of substantial size in Los Angeles to meet Green Building Council standards. "I want to see gardens on rooftops and more trees," he said.

South Group's designs were so outside the L.A. norm that city building codes intended to regulate low-rise suburban style residential projects conflicted with the big-city buildings the developer proposed.

As a result, the company had to get a series of code variances, such as reduced parking requirements and reduced setbacks from the street. Those changes later became part of the city's standards for high-rise residential buildings.

Then came the developers' plan for trees, wider sidewalks with gardens and street furniture, which South Group's James Atkins calls part of the "alchemy" of creating an urban community.

The city needed to change its codes to allow them. But it was worth the effort because they provided a blueprint for other developers, according to City Councilwoman Jan Perry.

"I hope projects that come after you actually copy you," Perry told South Group managers at the ceremony. "Thanks for dragging us kicking and screaming" to new development standards.

"They were pioneers in creating a real urban environment in L.A.," said competing Los Angeles developer Dan Rosenfeld, whose company has helped redevelop Pasadena and Wilshire Center. "Everyone assumed this would be a city of stucco and wood-frame dingbat apartments forever."

Portland, meanwhile, had become a model for its quality urban neighborhoods packed with residences, stores and other amenities including effective public transportation.

And two of the major residential development firms there -- Gerding Edlen Development Co. and Williams & Dame Development -- flourished among Portland's largest developers and got credit for creating a lot of the city's much-ballyhooed urban ambience.

The companies founded by four longtime Portland developers helped bring a fading industrial part of downtown called the Pearl district back to life and build a new neighborhood among old warehouses along the Rose City's Willamette River waterfront.

Six years ago, the two firms saw an opportunity to grow in Southern California, opened offices here and started a joint development project as South Group.

Together they checked out Los Angeles and saw potential for taking their Oregon ideas to a bigger stage. They looked at the dreary parking lots near Staples Center and saw "a clean slate with no baggage," recalled Homer Williams of South Group.

Another developer's successful condo conversion nearby convinced them there was a market for upscale condos downtown and emboldened them to reach beyond conversions and build from the ground up.

"They saw opportunities to build high-rise housing in downtown L.A. where no one who had been here for years and years, including ourselves, thought it was possible," said competitor Rosenfeld, a founder of Urban Partners.

Each firm still has a big presence in Portland and separate projects in Southern California. Williams & Dame, for instance, has an 800-unit condo development underway in Long Beach while Gerding Edlen has a 311-unit project on Sunset Boulevard.

The region's cooling residential real estate market pushed downtown condo prices a bit lower in the third quarter but there were still many sales, said real estate broker Mark Tarczyński of CB Richard Ellis.

Sales may drop quite a bit this fourth quarter, in part because uncertainty related to the credit crunch has sidelined buyers as they wait to see what happens to the market, he predicted. "This is a speed bump we'll get past. We are at a very weird time."

Tighter credit has made it harder for South Group's condo buyers, especially those who are self-employed, South Group's Atkins acknowledged. "This is a cyclical business, and we are in the downside of the cycle. But this isn't like 1991" when the Los Angeles economy began contracting and home values fell, he said.

City leaders also need to do more to reduce the number of homeless people on downtown streets, Atkins said.

The company still plans to break ground next year on two more condo buildings downtown, bringing South Group's total spending on downtown construction to \$750 million.

"Smart, urban, high-rise housing has very little competition," Cody said. "The need has been unmet for so long."

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