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telephone 213.624.1213 facsimile 213.624.0858 www.ccala.org



June 23, 2014

The Honorable Curren Price Chairman, Economic Development Committee Los Angeles City Council 200 N. Spring Street Los Angeles, CA 90012

RE: CF 13-0991 Economic Development Incentives for Hotels - Support, if Amended

Dear Chairman Price:

Established in 1924, Central City Association (CCA) is L.A.'s premier business advocacy association whose 450 members employ over 350,000 people in the Los Angeles region. CCA is committed to building a strong economy for Los Angeles and to the revitalization of Downtown as the City's strongest economic driver.

CCA thanks the City for realizing that it needs a comprehensive, citywide program to incentivize building much needed hotel rooms in Los Angeles. The current, ad hoc process of negotiating hotel transient occupancy tax subventions is cumbersome, time consuming and fails to give developers an understanding of the City's parameters before they begin to pencil out a project. CCA supports the approach to standardize the hotel incentive program and we agree with many of the recommendations put forth by the CLA.

Convention Center Hotels

CCA supports planning efforts that create a long-term, vibrant vision for Downtown. Among the issues that we have vigorously supported is the City's plans to remake the Convention Center into a top five convention destination. The huge shortfall of hotel rooms within walking distance of the Convention Center and throughout Downtown is a significant hurdle to achieving this goal and must be addressed with urgency.

Convention Center-adjacent hotels should be of a certain size and scope - but building this type of hotels in the Downtown environment is much more difficult than in most other areas of Los Angeles. Land values have skyrocketed, and high-rise construction is substantially more costly than its low- or mid-rise analogs. Therefore, Downtown and the Convention Center demand unique treatment – and the City should use its proposed hotel incentive program to support large, full-service, high-rise hotels in the

Convention Center-adjacent area. For these reasons, CCA support the CLA's recommendations for incentives for these hotels types.

Downtown Enhanced Incentive Area

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As Downtown has become a hot real estate market and is being recognized as the "coolest" area in the country by various media, the demand for properties throughout the area outside of the Convention Center Zone has also skyrocketed. Downtown Los Angeles should be given additional incentives as it has long been a destination for business travelers but is now also growing as a destination for leisure and entertainment seeking travelers.

CCA supports the one-half mile radius Convention Center Zone, but does not believe that the Zone should preclude smaller hotels that would otherwise qualify elsewhere in Downtown. Not every location in the Zone is conducive for a 450 room, let alone a 600 room hotel. Therefore, the Downtown Enhanced Incentive Area should be amended to include the Convention Center Zone north of the 10 freeway and east of the 110 freeway.

Downtown Adaptive Reuse Incentive Area

The emergence of boutique hotels that are developed using the City's adaptive reuse process, and are revitalizing historically neglected portions of Downtown should be encouraged. These hotels draw in tourists and locals who then patronize other, new businesses in the immediate area – bringing economic development to areas that were previously stagnant. But this development comes at an added price. Not only are building prices rising with demand, but the costs of retrofitting a hotel in 100 year old buildings is considerably higher than those for ground up construction. The reasons are many including: adding bathrooms, updating electrical and plumbing systems, remediating lead paint and asbestos, seismic compliance, to list a few. While new construction for a hotel runs \$250 to \$300 per square foot, a hotel developed using adaptive reuse costs between \$315 and \$365 per square foot.

As the PKF report and CS&L report state, average room rates for hotels in these areas are often not able to go high enough to meet their development costs in Los Angeles and these incentives are necessary to grow our room stock. Therefore, hotels built using the adaptive reuse process should be able to receive additional development incentives.

Card Check Neutrality

States throughout this country adopted the secret ballot in the 1880s and 1890s due to pressure and intimidation caused by the public display of someone's vote. Employers, neighbors and coworkers could see who you voted for and, in many cases, retaliate. The secret ballot ended this awful practice. It should remain in unionization efforts – to protect the rights of supporters and opponents of organizing efforts.

Many hotels, especially boutique hotel companies, but also some international branded hotel companies (known for their good pay and high quality working environment), are not "union hotels" and may be discouraged from developing, buying or managing hotels in Los Angeles because of this provision. The basis of the incentive program is to bring new hotels to Los Angeles, especially in the area around the Convention Center. Rather than incentivize development, the card check provision may act as a weight that drags down this program.

It is also difficult to justify card check neutrality as a community benefit when it only benefits a special interest and not the community at large – and when the City is already requiring a "living wage" scale for hotel employees. CCA encourages this committee to remove this provision form the community benefits package requirement.

Summary

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CCA wants to support this package of amended incentives in order to encourage economic investment in the area, and to begin chipping away at the large shortfall of hotel rooms near the LA Convention Center. However, we are unable to support the program in its current form. We ask the City to amend the Downtown Enhanced Incentive Area to include, rather than exclude part of the LACC Incentive Area, and we ask that the card check neutrality provision be removed from the community benefit package requirements. With these amendments, CCA will gladly support the hotel development incentive program.

Should you have any questions, please do not hesitate to contact John Howland, CCA's Director of Government Relations, at <u>jhowland@ccala.org</u> or 213-416-7535.

Sincerely,

Carol E. Schatz President & CEO

cc: Councilmember Paul Krekorian, vice-chair Councilmember Jose Huizar, committee member Councilmember Gil Cedillo, committee member Councilmember Nury Martinez, committee member Miguel Santana, City Administrative Officer Gerry Miller, Chief Legislative Analyst