LA's $103 Million Giveaway to NY Developer Stinks

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15 JANUARY 2018

LA WATCHDOG--The City of Los Angeles is proposing a $103 million tax break to subsidize the development of a $454 million, 1,130 room hotel complex at the corner of Figueroa and Pico, strategically located in the booming South Park area of DTLA, directly across the street from Gilbert Lindsey Plaza and the Los Angeles Convention Center.

This oversized project on a 55,000 square foot lot will consist to two high rise towers, including a 42 story erection that will house two Marriott owned hotels, a 410 room Moxy Hotel and a 410 room AC Hotel. The 25 story structure will house a 310 room Hilton Garden Inn.

There will also be 353 parking spaces and 17,200 square feet of commercial space.

Importantly, these three hotels will be select-service hotels which have limited conference space, banquet halls, and meeting rooms. As a result, they will be able to offer lower rates compared to full service hotels in DTLA and the Convention Center area.

The City is promoting this deal with the Lightstone Group, a New York City developer, because it will increase the number of hotel rooms within walking distance of the Convention Center to 6,500 rooms, still short of the desired level of 8,000 rooms. It will also create almost 1,200 full time equivalent jobs and 3,200 construction jobs, many of which will be paid the prevailing wage.

Despite all the benefits enumerated by the City Hall spinmeisters, the $103 million subsidy of this project in a booming part of DTLA is not warranted based on a closer review of the deal's finances, unless, of course, it is designed to pay a portion of the prevailing wage premium demanded by the City.

Based on information in the report provided by the City's financial consultant, the leveraged returns to Lightstone without any City giveaways are a home run, resulting in an annual cash return in the range of 14%. Upon the sale or recapitalization of the development in the next five to seven years, the return on equity is over 100%.

With the $103 million giveaway gifted to Lightstone, the developer's annual cash return is in the range of 20% and upon the sale or recapitalization of the project, the return is north of 200%.

The City is also selling Lightstone an 18,811 square foot parking lot on Figueroa for $9.6 million. But based on the value that Lightstone assigned to the land, the City is being short changed by almost $15 million.

The City is also violating the spirit of its policy of limiting the kickback to developers to 50% of the new revenues to the City. These new inflows consist primarily of the hotel tax (also known as the transient occupancy tax) as well as the City's share of the property tax and sales tax, the gross receipts tax, the utility user tax, and the parking tax.

Over the next 25 years, the tax giveaway of $103 million is only 21% of the new revenue to the City. However, for the eight year period once the hotels are up and running beginning in 2021, Lightstone will pocket 100% of the hotel tax that represents 83% of the new revenues to the City over that period.

This amounts to an average kickback of $13 million a year, an amount that would pay for over 100 new cops to combat the increase in crime, the repair of miles of lunar cratered streets, or provide much needed shelter for our homeless population.

This deal with Lightstone stinks and is not in the best interests of the City despite all the hot air that is being blown our way. Rather, the City, the Chief Legislative Analyst, the City Administrative Officer (this deal would never have been approved by our former CAO, Miguel Santana), and Controller Galperin need to review and analyze the economics of this lopsided transaction in an open and transparent manner before proceeding with this giveaway.

As the Los Angeles Times editorialized in December, "Los Angeles leaders should start asking hard questions before they approve more tax breaks. The public needs to know if incentives are legitimate tools for economic development or simply gifts to well-connected developers."

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