

Silicon Beach—The New Frontier

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The tech scene in Los Angeles has finally come into its own, bringing with it major changes to the face of real estate on the Westside. Now known as Silicon Beach, the LA technology corridor follows the coast from Santa Monica south through Venice, Culver City, Playa Vista and El Segundo. This rapidly growing community is now reportedly home to 631 Tech Start-ups, 28 Incubators, 15 Accelerators, 50 Investors, 28 Co-working spaces, 75 Start-up Services and 3 Hackerspaces.

According to Built-in-LA which tracks the area's tech community, LA startups raised more than \$3 billion in 2014, three times as much as 2013 and more than seven times as much as 2010. Venture capitalist Adam Lilling says LA's size and diversity provide a much better laboratory for startups to test new products than Silicon Valley.

The region is considered the second or third largest tech hub in the world. According to the LA Economic Development Council, LA has more people employed in high-tech jobs (368,500) than any other metro region in the U.S.

This growth of the tech sector has had major impacts on the availability and cost of office space and housing.

SANTA MONICA—CONSTRAINED GROWTH

The epicenter of the technology boom has been in Santa Monica, where tech jobs

account for a quarter of all employment. This has put pressure on the market for office space and housing in a city where residents actively oppose new growth. Activists recently caused the City Council to reduce allowable densities in the 2010 Land Use and Circulation Element (LUCE) which was originally intended to provide higher-density residential and mixed-use development on the city's major boulevards.

The Council recently voted down the long-planned Bergamot Transit Village, which would have brought nearly 375,000 sf of office space and 427 apartments to a site next to the soon-to-open Expo Light Rail line. Over the past 12 years, Santa Monica has approved only ~67,000 sf of new non-residential development and +/-230 new multifamily housing units. The population of the city has grown by only 4,000 residents since 1970.

This lack of significant new supply of office and residential space has resulted in rapidly rising rents, which in turn have caused expanding companies to look for space in other areas, and workers to find less expensive housing outside the area. Major tech companies such as Google and Yahoo are already defecting to Playa Vista, Culver City or Venice.

VENICE—ECLECTIC EXPANSION

The funky and eclectic Venice district of

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Los Angeles has long been home to tourists, beach goers, movie stars and street people. Now it is also the home of major technology companies, and the impact on the local real estate market has been staggering.

Snapchat recently signed a ten year lease for the Venice Connection and Studio Village, an older 47,000 sf, low-rise office complex. This will displace 40 small businesses who had occupied the space. Snapchat, currently valued at \$15 billion, started in a small beachfront property on Ocean Front Walk, but their rapid growth required them to find a larger facility, which was no small challenge in this former small town of mom-and-pop commercial space.

A local broker notes that in the past few years he sold one property in Venice for \$925/sf, and the following year he sold another property on the same street for over \$2,000/sf. A high water mark was recently reached when the former Hal's restaurant building on Abbot Kinney sold to an investor for \$44,750,000 or \$5,498/sf. This was more than double what the sellers paid for the property two years prior. Abbot Kinney, recently dubbed "the coolest block in America" by GQ Magazine, was named for the founder of "Venice of America" in the early 1900's. It has seen other high priced sales this year including the Wabi-Sabi Restaurant building for \$7,143,000 or \$4,762/sf.

Other notable technology companies operating in Venice include Google in the Frank Gehry designed

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“Binoculars Building” on Main Street, as well as JibJab, Mogreet, ChowNow, GOAT, Pogoseat and Earbits.

CULVER CITY—RENAISSANCE

Culver City’s revitalization continues with current development of two new TOD projects, The Platform, an upscale outdoor mall, and Access Culver City, a 115-unit mixed-use development.

Tech companies are concentrated in the 86-acre Hayden Tract, a former industrial area where 1.4 million sf of warehouse space has been transformed into an eclectic mix of creative office and studio space. Headline tenants include SteelHouse, Nike, Smash Box Studios and award-winning architect, Eric Owen Moss.

Earlier this year, Beats by Dr Dre, a subsidiary of Apple, Inc. made headlines when they purchased a 1976 built, 127,447 sf warehouse building on six acres for \$108,000,000 or \$847/sf. The former dental equipment manufacturing building has been redesigned by Bestor Architecture into a new, state of the art creative space.

Instead of moving to Silicon Valley, Beats chose to stay in LA at the WorkSpace in the Hayden Tract, an innovative development designed by Eric Owen Moss. The location is already a cluster of media, tech and advertising companies including Maker Studios, Anonymous Content, Ogilvy, Popsugar and Media Temple.

PLAYA VISTA—A NEW CITY WITHIN A CITY

In the 1940’s Howard Hughes bought a site just north of LAX where he built a private airfield runway and an aircraft factory with large hangars for his Hughes Aircraft Company.

After a 25 year entitlement process, the site has been transformed into Playa Vista, a 1,087 acre master-planned community. Phase I includes 3,100 completed houses, townhouses, condominiums and apartments as well as Concert Park, restaurants and amenities. Phase II is under construction and will include 2,800 residential units, 220,000 sf of retail in the Town Center, and 100,000 sf of community oriented office space.

Playa Vista has become a major technology center due to its large blocks of new or newly renovated creative space which cater to technology and entertainment tenants. Projects such as 5300 McConnell, The Reserve, The Bluffs at Playa Vista, I/O, The Campus at Playa Vista, and The Collective have attracted significant tenants including YouTube, Facebook and Belkin.

Google recently spent \$120,000,000 to purchase a 12 acre site in Playa Vista where they will develop their major campus facility. Yahoo just moved its headquarters and 400 employees from Santa Monica to The Collective, a newly built office complex. The Reserve, a 1971 vintage 399,373 square foot building was renovated in 2015 into

creative offices, and recently sold for \$316,000,000 or \$791/sf.

EL SEGUNDO—GROWTH IN THE SOUTH BAY

Formerly known as the aerospace hub of LA, El Segundo has become a desirable location for tech companies, and the real estate market has responded to the demand. Tech and media companies in El Segundo include Time Warner Cable, DirecTV, Oracle, IBM, Activision and Trip Advisor.

Continental Development is currently building the next phase of Campus El Segundo, a mixed-use 46.5 acre campus combining office, retail, athletic fields and hospitality. This phase, known as Elevon, will include a 210,000 sf office development with 13,500 sf of high-end retail and restaurants. Units within the 15-building campus will range from incubator spaces for start-ups to build-to-suit buildings up to 750,000 sf.

CONCLUSION

The rapid growth and expansion of technology companies in Silicon Beach is having a dramatic impact on the real estate market throughout the Westside of Los Angeles. Synergy resulting from tech giants and start-ups alike growing throughout the region is giving rise to new and innovative uses of space, and tech-sized property prices seem to follow these innovations. This region appears poised to remain on a solid path of growth.

