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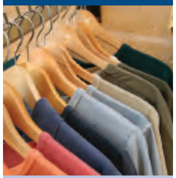
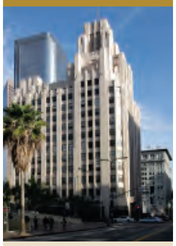
Up Front



Dry-cleaning entrepreneurs try new business model on for size. **PAGE 3**

News & Analysis



Why this historic downtown building sold for a skyscraper price. **PAGE 6**

Retail

Wetzel's Pretzels co-founders now cutting a slice of the pizza market. **PAGE 12**

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Gaining Ground: Howard Marks with logos of companies that went through his Start Engine accelerator in Westwood.

RINGO H.W. CHIU/LABJ

Pace Setters

Accelerators quickly establish value in driving startups

By TOM DOTAN *Staff Reporter*

THIS week, **Start Engine** will unveil the latest class of companies to emerge from its start-up accelerator program.

The group is the accelerator's fourth since it launched in 2011 and the unveiling is one of many during this graduation season for the regions' accelerators. In the past few weeks, both Santa Monica's **MuckerLab** and **Amplify LA** in Venice have also trotted out the companies under their tutelage in front of potential investors, family and the public.

The presentations are like a debutante ball for high tech, with a startup showing off its potential market size and revenue stream like an elegant curtsy. And companies carry the hope that a good showing in front of business's high society might catch the eye of an investor-gentleman suitor.

A bit more than a year after four startup accelerators popped up more or less simultaneously in Los Angeles, the programs already have established a central role in tech's local culture. About 80 companies have come through the area's most active accelerators – MuckerLab, Amplify, **Launchpad LA** in Santa Monica and Start Engine, which recently opened up a downtown Los Angeles office in addition to its Westwood location. Many of the emerging startups have gotten

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SPECIAL REPORT REAL ESTATE QUARTERLY

Long View in Long Beach

Seeing an opportunity to manage and encourage development downtown, officials in Long Beach took a deliberate approach to revamping the city's zoning code. The result: An accelerated exit from the recession. Read all about the resurgent urban core in this Special Report.

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RINGO H.W. CHIU/LABJ

Project Stalls In Parking Lot

REAL ESTATE: Saks moves to protect precious spaces.

By ALFRED LEE *Staff Reporter*

Saks Inc., angered that it might lose its parking lot at Wilshire Boulevard and Peck Drive in Beverly Hills due to a joint-venture deal gone south, has begun litigation with its partner in the project, **Cerberus Capital Management LP**.

Saks sold the site for $10.5 million in 2004 and got a 25 percent interest in the partnership that was to develop the site. The team, which included Cerberus and developer **Alan Casden**, planned to build a luxury two-building condominium project that would include parking for Saks customers and employees.

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Private Sector To Guide L.A.?

GOVERNMENT: City plans non-profit to boost business.

By HOWARD FINE *Staff Reporter*

$5 million
Budget for proposed non-profit economic development company.

Brad Cox knows first-hand how difficult it is dealing with city agencies to purchase property in the city of Los Angeles.

As senior managing director of **Trammell Crow Co.**'s L.A. office, Cox spent years negotiating with the now defunct Community Redevelopment Agency and other city departments to purchase a large contaminated industrial

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Shoemaker Opts To Sell Following String of Missteps

By BETHANY FIRNHABER *Staff Reporter*

By the time **K-Swiss Inc.** agreed to sell to an apparel company in South Korea earlier this month, the shoe company had long since lost pace with its competitors.

In recent years, the Westlake Village company had fallen out of touch with footwear trends. It scrambled and put millions of dollars into marketing with little effect and as a result, lost a lot of money.

For most of the past year, shares traded

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Government: Will L.A. Non-Profit Mean Business?

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tract just south of downtown. Even with the support of Mayor **Antonio Villaraigosa**, who wanted a home for "clean tech" companies there, the deal still took years, only closing last fall.

That's one reason why Cox is welcoming a new Villaraigosa administration initiative that would set up a separate non-profit entity run primarily by the private sector to promote economic development in the city. Similar organizations in New York and other major cities have for years been luring businesses, helping existing businesses grow, fast-tracking development projects, and selling or leasing surplus city property to private buyers.

"By bringing in the private sector, you take much of the politics out and can be much more aggressive in pursuing economic development," Cox said. "You're freer to set up public-private partnerships and to help existing businesses grow."

The non-profit economic development organization is part of a two-pronged approach by the Villaraigosa administration to boost economic development in the wake of last year's state-mandated dissolution of community redevelopment agencies. The termination of the L.A. CRA deprived the city of its biggest tool for economic development.

The other prong involves creating a department within the city that would consolidate economic development functions now carried out by several agencies. This new department represents the latest in a long line of proposals with the elusive goal of setting up a one-stop shop for companies seeking to locate or grow in the city.

Taken together, these proposals form a new approach to economic development at City Hall.

"This could become a powerful tool to drive smart citywide economic development that many can be proud of," said **Matt Karatz**, deputy mayor of the office of economic and business policy.

Tight deadline, little money

But the plan, outlined in a report issued late last month by consulting firm **HR&A Advisors Inc.**, faces daunting obstacles, the biggest of which is time.

Karatz said the goal is to set up the basic structure before Villaraigosa leaves office June 30. That would require City Council approval. Previous development and government reform proposals have often taken months to get council approval and even then, most ended up on the shelf due to bureaucratic inertia and infighting. If this plan isn't approved by June 30, it could be shunted aside by the next mayor

RINGO H.W. CHIU/LABJ

'Clean' Field: From left, Trammell Crow's Brad Cox and city of L.A. Department of Building and Safety General Manager Bud Ovrom at 'clean tech' site downtown.

if that person has different priorities.

There's also the issue of money. The non-profit would have an initial budget of $5 million, a drop compared with the gusher of millions of dollars in city subsidies that drove many economic development projects. Continually trying to get more money from a general fund that's running an annual structural deficit exceeding $200 million would be problematic.

"The $5 million will cover the administrative cost of the non-profit, but if someone approaches the city with a $150 million project for one of the city parcels and wants the city to kick in $15 million, where's the money going to come from to fund that?" asked **Larry Kosmont**, an L.A. economic development consultant.

While some money for the non-profit could come from the sale or lease of surplus city properties, Kosmont and other business leaders familiar with the plan said that might not be enough.

Finally, there's the prospect of union opposition, particularly if setting up the economic development department results in the loss of positions at other departments.

Nevertheless, business leaders remain cautiously optimistic.

"If set up right, this could be a great deal of help for existing businesses and a significant boost for economic development," said **Gary Toebben**, chief executive of the **Los Angeles Area Chamber of Commerce**. "Bringing in the private sector would also add some much needed flexibility to the economic development process."

With the demise of the redevelopment agency, Toebben and other business leaders say the city has few tools with which to attract and retain businesses. One of the only other tools, the state enterprise zone program that grants tax credits to companies if they hire employees from economically disadvantaged areas, is under constant threat of elimination.

'Game-changer'

Deputy Mayor Karatz described the creation of the non-profit economic development corporation as the centerpiece of the new proposal, with the key being the board of mostly private-sector appointees.

"This could be a real game-changer," he said. "The key is to team local government with a real commitment from the private sector."

The non-profit would have several tasks: figuring out which city properties should be sold or leased to the private sector; expediting major economic development and real estate projects; coming up with economic development strategies targeting key industries, such as technology or entertainment; and conducting economic research tracking business patterns in the city and the effectiveness of the city's economic development policies.

"This non-profit's job will be to target what the jobs of tomorrow will be and how Los Angeles will compete for those jobs," Karatz said. "It will look at how we use our city real estate, our transportation infrastructure and relations with academia to create these jobs and promote access to venture capital."

Karatz said some of the biggest successes at other non-profit economic development organizations have been deals involving a city's real estate assets. He cited the New York non-profit's strategy of taking an underutilized rail yard in western Manhattan and partnering with **Related Cos.** and **Oxford Properties Group** to develop it.

But one local land-use attorney said just relying on the city of L.A.'s own real estate assets might not be enough to jump-start economic development throughout the city.

"It's a good start and will provide some economic development opportunities," said **Amy Freilich**, land-use attorney at **Armbruster Goldsmith & Delvac LLP** in Santa Monica, who represents several clients with projects in Los Angeles.

"What's really needed, though, is a citywide economic development strategy, one that targets specific industries with incentives, then perhaps discounts land for initial projects within those industries," she said. "Other cities are doing this very effectively; L.A. is falling behind."

Expediting projects

But one major developer noted that such projects will still need to go through the city's Planning Department and get City Council approval.

Bill Witte, president of **Related Cos. California**, said that given this, the best role for a non-profit would be to expedite that process. He noted that a non-profit organization was created specifically for the Grand Avenue project that Related is developing in downtown.

"That non-profit was tasked with moving the project forward through the entitlement process and negotiating with all the city and county agencies involved," he said. "That part of the process worked very well."

The part that didn't work well was the financing, which was delayed after the 2008 economic meltdown. The first phase of the project finally broke ground this month.

Witte, though, said he sees the biggest benefit from the Villaraigosa administration proposal coming from the new economic development department.

"A department that can coordinate expeditious action to occur will make a huge difference," he said. "The day-to-day blocking and tackling to allow small businesses to expand and open in the city will have a greater impact than a few large developments."

Real Estate: Plan for Condos Moves Into Court

Continued from page 1

Exclusive parking for any upscale retailer in the Golden Triangle of Beverly Hills is prized.

But the deal stalled amid the real estate downturn and, more recently, because of a rancorous split between Casden and Cerberus, a New York private-equity firm that had long been a financial backer of Casden.

Late last year, Saks claims, Cerberus identified a buyer for the property. The upscale retailer is seeking a preliminary injunction that would block the pending sale. Saks also wants a declaration that any future development of the property must include 171 parking spaces, among other things.

A spokeswoman for Casden would only confirm that he no longer had any ownership interest in the Saks site. Representatives of Cerberus and Saks declined to comment. It is unclear whether Cerberus bought out Casden's stake in the Saks site or took it back in some other manner as part of the breakup.

The Saks lot, in the heart of one of the most exclusive shopping districts in the country, is at

RINGO H.W. CHIU/LABJ

Park Place: Saks' lot in Beverly Hills.

least the seventh property Cerberus has taken from Casden and is yet another indication of how the sour real estate market has affected what was once a very profitable relationship.

Casden's rise to prominence in local real estate circles was capped with the $1.5 billion sale in late 2001 of his 17,000-unit apartment portfolio, built with Cerberus' backing, to **Apartment Investment & Management Co.** Casden's take was reportedly $800 million, with Cerberus taking most of the remainder.

After the sale, Casden, Cerberus and Aimco rode the real estate boom and partnered on new residential developments in Los Angeles and Ventura counties, acquiring a number of properties in 2004 and 2005. Six of the sites – in the Fairfax District, West Hollywood, Simi Valley, Oxnard, Ventura and Santa Clarita – were never developed; Cerberus replaced Casden as managing member of those partnerships in 2011. Since then, the company has been selling off the properties.

Stalled project

Casden's plans for the Saks site called for two residential buildings on the lot, situated between the Saks and Barneys New York stores on Wilshire. Casden proposed a five-story, 20-condo building with 12,000 square feet of ground-floor shops or restaurants fronting Wilshire, and a six-story, 44-unit building with two levels of subterranean parking to the south.

Previewing his plans to the Los Angeles Times in 2003, Casden boasted it was "the premier location in the city." It's unclear whether Cerberus was involved in the project from the beginning.

But the project stalled amid the condo market collapse, never making it through the approval process. The most recent attempt to receive approvals halted in 2011, during the height of the partnership dispute between Cerberus and Casden over their joint investments. Casden told Beverly Hills officials at the time that there was an ownership dispute, and Cerberus informed officials last September that it was the new owner, according to city documents.

According to the suit filed in Los Angeles Superior Court by Saks, Casden agreed to build 171 parking spaces for Saks employees and customers as part of the deal.

Helping facilitate that deal was the close relationship between Saks and Casden. Casden's wife, socialite and fundraiser **Susan**, has worked with Saks in the past. Most recently, she and Saks partnered to host a fashion show at the

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Technology: Accelerators on Industry Fast Track

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investments within weeks of graduating; others have stumbled out of the gate. But beyond money, the local accelerators have helped bring credibility to a startup community yearning for respect.

"We've definitely carved out our piece of the puzzle," said **Howard Marks**, who manages Start Engine. "It's definitely not the only part, but accelerators are good fit for a company that can benefit from a college-type community and atmosphere."

RINGO H.W. CHIU/LABJ

Quick Study: Start Engine's Howard Marks at the accelerator's Westwood office.

Up to speed

An accelerator is essentially a boot camp for startups, where companies can get guidance and some funding while working out the kinks of their business model. The ultimate goal is to attract investors at the course's conclusion. Unlike incubators, such as **Idealab** in Pasadena or Santa Monica's **Science Inc.** that traditionally develop business models in-house and then hire outside talent to build the companies, accelerators only accept existing startups. In return, the accelerators get a piece of equity in each business.

Generally, accelerator classes involve eight to 12 companies that work alongside each other for a few months while mentors help them develop their businesses. To the classes of entrepreneurs, that professional camaraderie has a big appeal.

"Being a CEO of a company can be a lonely job; we're known as the hardest working people in Silicon Beach," said **Jerry Jao,** whose startup, **Retention Science**, was part of MuckerLab's first class "It's nice to see other people struggle too."

The local accelerators all tout the big names – well, big for the local tech scene – who serve as professional mentors to the programs: both MuckerLab and Launchpad list **ShoeDazzle Inc.** founder **Brian Lee** on their team of advisors; Amplify works with **Jason Nazar** of **Docstoc**, among others.

Like colleges, each accelerator has crafted a distinct identity that helps it stand out. Start Engine is the lenient one and appeals to companies at the earlier stages (though it takes the largest equity stake at 10 percent). MuckerLab lays claim to a sterling record, saying all eight of the companies from its first class received follow-up funding. Amplify is the most flexible and accepts startups on a rolling basis. Launchpad is the "entrepreneur friendly" one and takes the smallest equity stake, 6 percent in common stock.

Most of the accelerators in Los Angeles are backed in part by local venture capital firms. Amplify is financed by **Rustic Canyon Partners**, Launchpad is bankrolled by **GRP Partners**. Start Engine is backed by private investors.

Directors at the accelerators are still tinkering with the programs, however, trying to find the right balance after feedback from graduates.

"For six weeks there was a class every day almost – marketing, HR, legal – to the point that there was no time to build our product," Jao remembered. "I've heard that they really toned it down with the classes."

Funding race

This year, Launchpad threw down the gauntlet of funding battles among the accelerators when directors announced it was upping the initial funding of its companies to $100,000. (It's actually $50,000 up front with an option for entrants to take the remaining money as a follow-on investment.)

That amount eclipses the standard $20,000 that MuckerLab and Start Engine offer, as well as the $50,000 Amplify uses for its standard up-front investment. **Sam Teller**, managing director at Launchpad, said the move to up the ante for incoming companies will give more help to companies at a time when venture capital investments have slowed.

This year, he said, "will be a more challenging year for fundraising. The goal of the $100,000 is not for the companies to hire more people or spend faster, but to last longer without the fear they're going to run out of money."

The other accelerators have taken notice of Launchpad's increase, though none have yet to make any changes to their models. **Erik Rannala**, who heads MuckerLab, said he's considering raising the initial investment, but pointed out the accelerator already offers follow-on rounds even though it's not as explicitly stated as Launchpad does.

There's also a question of whether the increased funding really makes a difference in the continuing success of a startup. **Y Combinator**, the Mountain View firm that's considered the originator and reigning standard-bearer of accelerators, only fronts about $18,000 a company. That amount has apparently been enough for tech hits such as **Airbnb** and **Reddit**.

Indeed, the bigger selling point for most of the local accelerators has been the ability for startups to come out of the program with a good shot of attracting a quick investment from angels or venture capitalists.

Richard Wolpert, who manages Amplify, said his goal is to see companies receive funding of between $500,000 and $1 million within four to six months of graduating. Of the 18 companies to come from the program, he said, 12 have received seed funding. Those include crowdfunding site builder **Invested.In,** which raised $875,000, and **StackSocial,** which took in $800,000 for its technology that lets publishers engage in e-commerce.

"Taking on a company that can't raise money quickly is too early for us," Wolpert said. "Sometimes there will be an applicant who's a great tech guy but doesn't have a business guy, and we'll say 'Come back with a well rounded team before you join us.'"

Still, getting money is no guarantee of continued success in a startup landscape where a majority of new companies fail.

Last year, **Pop-Up Pantry** came through Launchpad's third class and quickly raised $1.7 million to fund its high-end frozen meal delivery service. But after barely half a year in business, the company shuttered after it was unable to scale the business to where it could offset its huge shipping and production costs.

Launchpad's Teller said he was disappointed to see the subscription food service go belly-up, but the harsh reality for startups is that the guidance from an accelerator isn't enough.

"You can always say 'what if,' but we were proud to have invested in that company. Pop-Up Pantry took on an incredible challenge," Teller said. "That doesn't worry us or change anything; it's expected that most companies will not ultimately succeed."

The founders of Pop-Up Pantry didn't return requests for comment.

Lid on money

StartEngine's Marks, a former executive at Activision Inc., said the true worth of a program isn't how quickly it can get a company to raise money. For his accelerator, which unlike the others will take on startups long before they're ready to bring in outside capital, the value comes through building up the business model and assembling the right team for future success. Y Combinator may have the advantage of working in a region that's flush with tech capital, but L.A. accelerators have to manage the rougher investment climate.

"In a market where there's a nearly infinite amount of money it's different, but in Los Angeles there's a lid on money and resources," Marks said. "Going through a grind that builds team character is better than just raising money."

As the success of local accelerators raises their profile, their greatest addition to the local scene may be an ability to attract talent from outside the area. Amplify has taken in startups from Oregon, Utah and Canada; at MuckerLab's recent demo day there were two companies from outside Los Angeles, including **GetMeRated**, a picture-based social network that began in San Diego.

But after four months spent working in MuckerLab's Santa Monica offices and building up contacts and potential investors from the area, **Duncan McLaren**, GetMeRated's founder, is seriously considering making the move up the coast permanent.

"It's been a tremendously valuable experience," McLaren said. "There's a huge value to the footprints we've made in Los Angeles that will benefit us for a long time to come."

Development: Former Casden Project Spins Wheels

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Casdens' Beverly Hills home in October.

But Saks now asserts that Cerberus has taken control and is refusing to lease parking spaces to the department store or to transfer the parking agreement if it sells the property.

The suit claims Cerberus has a deal to sell the property to a third party, although it does not disclose a price or buyer.

A source close to the situation said Cerberus had recently received an offer for more than $20 million, and that Hollywood developer **CIM Group** had previously indicated a willingness to buy the property. A CIM spokeswoman declined to comment.

The source added that the cost of building parking for Saks could be up to $10 million, making it difficult to sell the property.

"It doesn't make sense unless you resolve how the parking gets replaced and how it gets funded," the source said.

The lawsuit also states that no agreement was hammered out regarding Saks' parking prior to the condo project's construction.

"It was almost as if they assumed that the entitlements were a done deal and construction would commence almost imminently," said **Dale Goldsmith**, an attorney at **Armbruster Goldsmith & Delvac LLP** who reviewed the case for the Business Journal. "You look back at the mid-2000s when the market was hot and things were being developed left and right, and perhaps it didn't occur to them that things would grind to a halt and the site wouldn't be developed."

Financial woes

In addition to the battle with Cerberus, Alan Casden, whose wealth was estimated by the Business Journal in May at $1.3 billion – less than half of the estimate of $2.63 billion a year earlier – has shown other signs of financial strain.

In 2011, he put up his personal coin collection, estimated to be worth nearly $40 million, as collateral for loans, and has been hit by lawsuits from former partners over nonpayment of loans. Three Beverly Hills office buildings he controlled, including his headquarters, went into foreclosure in 2012. And in December, he was sued in federal court in the Southern District of New York by **Citigroup Inc.**, which claimed he had defaulted on a $43 million loan for his private jet.

Yet despite his property losses and disputes with lenders and partners, Casden is moving forward in the entitlement process for one of his largest projects, a 638-apartment, 160,000-square-foot retail development next to a planned Metro Expo Line station at Sepulveda and Pico boulevards.

The source familiar with the Saks dispute said real estate investment firm **PCCP LLC**, which has offices in El Segundo, Sacramento, San Francisco and New York, is the money partner on the West L.A. project. A Delaware corporation called **PCCP CSGF Casden West LA LLC** was formed in 2007, and PCCP backed Casden's last completed project, the 276-unit Empire Landing apartment complex in Burbank. A partner in the firm, **Nicholas Colonna**, serves with Casden on the advisory council of the USC Lusk Center for Real Estate.

Representatives of PCCP did not respond to a request for comment.