

LOS ANGELES BUSINESS JOURNAL

Volume 36, Number 20

THE COMMUNITY OF BUSINESS™

May 19 - 25, 2014 • \$5.00

Up Front



How electric Fiats become mobile offices for property manager. **PAGE 3**

News & Analysis



Is the market for gourmet burgers overstuffed? **PAGE 5**

Real Estate



U.S. Bank renews as anchor tenant in tallest building in the West. **PAGE 61**

Op-Ed

Rep. Janice Hahn says truckers are being driven to strike at the ports. **PAGE 69**



Business Links: Navroz Haji, left, and Max McCombs across from One Wilshire building.

On the Line

Internet network rips royal rates at telecom hub

By **ALFRED LEE** Staff Reporter

U.S. Colo occupies two spaces on the fourth floor of downtown L.A.'s One Wilshire building. Neither is larger than a pingpong table. One measures only 4 feet by 4 feet – and rents for about \$5,400 a month. That's more than 100 times the average rent downtown on a square-foot basis.

It's the premium one has to pay to be near the action at One Wilshire, which behind its inconspicuous façade houses the biggest telecommunications hub in the Western United States.

The electronic activity is greatest in the huge fourth-floor Meet Me Room, where hundreds of telecom and Internet companies pay top dollar to plug directly into each other's networks. There, rows of component-filled cages and cabinets – just enough space to set up connection equipment – are stacked next to each other, with a labyrinth of cables running overhead. It's one of the world's densest Internet exchanges.

But the growth of the telecommunications industry has led to new and rising fees for a seat

Please see INTERNET page 65

VCs Catch Wave To Silicon Beach

TECHNOLOGY: Silicon Valley dives into local investment boom.

By **OMAR SHAMOUT** Staff Reporter

When online consumer rewards site **Swagbucks** last week took its first outside investment, a \$60 million infusion from Palo Alto's **Technology Crossover Ventures**, it was the latest indication that L.A.'s booming tech industry is coming of age.

Not only has the amount of money pouring into local tech firms surpassed sums raised at the same point last year, Silicon Beach is getting far more attention from the top tier of Silicon Valley's venture capital community.

L.A. information tech companies have raised more than \$620 million in roughly 50 deals thus far this year, according to data collected by

Please see TECHNOLOGY page 66

City Picks Up Business Pace

GOVERNMENT: Mayor pairs two permits to speed process.

By **HOWARD FINE** Staff Reporter

Richard Mount at L.A. real estate company **Kilroy Realty Corp.** has long suffered bureaucratic delays in getting city permits for even minor tenant improvement projects.

But a small step taken by Los Angeles Mayor **Eric Garcetti** last month will bring time savings for Mount as he tries to turn around space for new tenants. Garcetti consolidated two permits at two different city agencies into one.

The change chiefly applies to routine tenant improvement projects at commercial buildings and small restaurants. While fairly narrow in scope, it's nonetheless the first in what the

Please see GOVERNMENT page 64

SPECIAL REPORT 20TH ANNUAL WEALTHIEST ANGELENOS

COUNTING THE CHANGES



The face of affluence has changed in the last 20 years. The Business Journal's inaugural list of Wealthiest Angelenos in 1995 was topped by **KIRK KERKORIAN** and dominated by entertainment and industrial magnates. This year's list contains more faces from technology, such as **PATRICK SOON-SHIONG**, and from finance. We count the ways wealth in Los Angeles has changed and, for the 20th time, rank the 50 Wealthiest Angelenos. **BEGINNING ON PAGE 15**

NO. 1 THEN & NOW



1995:
KIRK KERKORIAN
NET WORTH: \$2.5 BILLION



2014:
PATRICK SOON-SHIONG
NET WORTH: \$13.9 BILLION

It's the little details that are vital. Little things make big things happen.

- John Wooden

squarmilner

Certified Public Accountants and Financial Advisors phone 310.826.4474 squarmilner.com

Government: City Steps Up With Permit Timesaver

Continued from page 1

Garcetti administration is promising will be a series of steps toward a wider streamlined permit process. Mount greeted it warmly.

"Any time you don't have to go through another department, it saves time," said Mount, senior vice president for construction at Kilroy. "For our smaller, more routine projects, this will have a big impact and will allow us to commence our leases sooner."

For a restaurant, the change could eliminate only a day or two from the process. For tenant improvements, the time savings could be similar, but could have a bigger cumulative impact because building owners have a steady flow of such work and timing can be critical when office tenants are on the move.

Local architects and land-use consultants were pleased with the change. Business groups such as **Building Owners and Managers Association of Greater Los Angeles** and the **Central City Association** also voiced approval. But they agreed that this was only a small step, that much more is needed to change the city's longstanding reputation as a bureaucratic nightmare for businesses and developers.

Indeed, Los Angeles compares poorly with other major U.S. cities when it comes to construction permits. According to an annual U.S. Chamber Foundation study released last week, a typical new commercial construction project requires 14 separate permitting procedures, takes about 105 days and costs \$85,000. That placed Los Angeles behind eight other major cities, including New York and Chicago, though it was better than San Francisco.

Business and development advocates say the city should take these additional steps: consolidate more permits and update the city's zoning code and community plans to bypass the need for so many permits and variances.

Previous administrations, especially that of **Antonio Villaraigosa**, had touted grand plans to streamline the city's permit process, but those plans often went nowhere. Villaraigosa pushed a plan to reduce the number of city agencies doling out building permits from as many as 12 to just two. But after two years of bureaucratic intransigence inside City Hall, that plan was dropped, leaving businesses, building owners and developers frustrated.

The Garcetti administration has taken a lower-key approach by implementing a series of small steps, rolled out one at a time instead.

Baby steps

The first permit consolidation debuted April 28 at a single counter inside the Building and Safety Department. The projects subject to this modest streamlining used to require Fire Department approval as well. The consolidation



On Clock: David Green, left, and Juan Pablo Torre at downtown L.A. hotel project.

only applies for eateries with less than 100-person capacity and changes to office buildings that don't involve changes to fire and safety systems – in other words, small, routine tenant improvement projects, such as reconfiguring office space and replacing carpeting and lighting.

Next, said Garcetti spokesman **Jeff Millman**, will be a move to transfer zoning interpretations now conducted by the Building and Safety Department to the Planning Department. This will start July 1 for large projects and gradually apply to all projects in order to address developer complaints about conflicting requirements.

That change should eliminate the possibility of building officers contradicting decisions by planning administrators. Such a bureaucratic crossfire can pin down a project for weeks, maybe more.

Other steps the administration hopes to announce before year's end: putting all building permit records online and choosing a vendor to develop a single online portal with the ability to track a project through the permit process. There will also be a measure to reduce the burden for single-family residential homeowners seeking permits for remodels.

"These are significant steps, being rolled out piece by piece when they are ready," Millman said. "We expect these changes to make a significant difference and improve the lives of

Angelenos, businesses and residents alike."

Dale Goldsmith, a partner at the Brentwood land-use consulting firm **Armbruster Goldsmith & Delvac** who served on a development permit reform committee during the administration of **Richard Riordan** 20 years ago, said this strategy could finally achieve some of the results many in the development community have been waiting decades for.

"As lofty as Antonio Villaraigosa's goals were, the fact is, on permit reform he whiffed a number of times," Goldsmith said. "Garcetti is trying to bump the runner to second with small measures that can be implemented quickly."

Time savings

The building and safety-Fire Department permit consolidation has already made a difference in the permit application for a restaurant in downtown L.A.'s Fashion District.

Partners **David Green** and **Juan Pablo Torre** are planning a boutique hotel and bar and grill restaurant serving tapas in a converted older building on Spring Street.

Torre, who came to Los Angeles several years ago from Europe, told the Business Journal last week that when he first discussed the project with friends and business associates early last year, they tried to dissuade him with dire warnings about the city's permit process.

"They were all telling me it was going to be a disaster, that dealing with the Fire Department, the building and safety people, the Health Department and all the other departments was going to be too much and take way too much time," Torre said.

As it turned out, the hardest part so far has been the six months it took to get a conditional use permit to sell alcohol. Since that came through in March, the other permits have all gone more quickly than expected, he said, including the consolidated permit he received two weeks ago as one of the first applicants through that program.

"From our side, it's all gone pretty quickly," he said.

Bruce Miller, Torre's land-use consultant – who actually has been the one picking up the various permits – said the biggest savings came from the city's two-year-old restaurant and hospitality express program.

"That chopped about 50 percent off the time it took to get permits for small restaurants of this type," Miller said. In most cases, that meant only a few days less time. But in more complicated cases that previously had been prone to delays from conflicting code interpretations or other problems, the time savings could be weeks.

The most recent building and safety-Fire Department permit consolidation has cut an additional 20 percent off the permit turnaround time, Miller said.

Faster turnaround

Such time savings are more important when it comes to tenant improvements in office towers, since a new tenant often has a limited window to make a move and sometimes every day counts.

So the consolidation is welcome news for **Gensler**, an architectural firm in downtown that does lots of tenant improvement work for building owners.

"Our clients will be pleased," said **Arpy Hatvikian**, a principal at Gensler. "This means when our people go down to City Hall to pull the permits, they will only have to spend three or four hours instead of a full day or even two."

More important, Hatvikian said, the consolidation sharply reduces the chances that conflicting building code interpretations will arise between city departments. Not only can such conflicts take weeks to resolve but they have been known to scuttle a project.

In high-rise office towers, the time savings for individual tenant improvement projects might be small. But they add up when it comes to large towers or high-rise complexes where tenant improvement projects take place more frequently, said **Martha Cox-Nitkman**, vice president of public policy at BOMA of Greater Los Angeles.

"For them, this is more than just a minor change," she said.

Dining: Franchise Fee May Be Tough to Swallow

Continued from page 5

franchise fee for the development of up to five Counter locations as well as an estimated 8 percent fee from gross sales for royalty and advertising costs, the suit says.

The Yoos, owners of **CTCY Burger**, operated three franchises in deals dating to 2006: Carlsbad, their earliest; Del Mar, in a license struck in 2010; and San Diego, which it signed up for in 2011. All three, the Counter's complaint says, were closed in January. No reasons were given in court filings, to which CTCY has yet to respond.

The company has also sued franchise partners **John Shapiro** and **Curtis Magleby**, saying they owe more than \$480,000 in damages for what it alleges is a breach of contract after the owners closed their Hermosa Beach loca-

tion in November. That 2011 agreement, included in court filings, outlined a minimum \$15,000 spend for grand-opening advertising and promotion, a \$50,000 initial franchise fee and the same 8 percent royalty.

The Hermosa Beach franchise was the second operated by Shapiro and Magleby – their first, in Torrance, remains open – and was open for just 21 months before they notified the Counter that they were shutting it down and selling their location.

Shapiro and Magleby have not responded to the Counter's complaint, and no reasons were given for the closure in the company's suit.

Neither set of franchisees responded to requests for comment.

Kurtz, the franchise attorney, said franchisees are sometimes able to negotiate with the company to change the terms of their

'Very often ... the franchisees weren't successful, and as a result, go against the parent. But you don't often see a parent company suing a franchisee for (alleged) breach of contract.'

DARREN TRISTANO,
Technomic Inc.

agreement, and it's generally the same for those who sign up during the same registration period or year.

While California law is slightly inconsistent, he said, if a franchisee were to sign a 10-year contract but close its store before the

term expired, it might still be liable for the fees due for the remaining eight years.

Jerry Prendergast, a restaurant consultant with West L.A.'s **Prendergast & Associates**, said the Counter is an expensive franchise to run based on several agreements he's read.

"I'm paying for waiters. I'm paying for busboys. I have a bartender working, making drinks," he said, noting it's more costly than having customers order at a counter.

Technomic's Tristano said because of the high operating and labor costs there needs to be a higher return to attract franchisees.

"Very often, like in Quiznos, Krispy Kreme and others, the franchisees weren't successful," he said. "And as a result, go against the parent. But you don't often see a parent company suing a franchisee for (alleged) breach of contract."