

Beverly Hills Site Will Be Developer's Make-or-Break Test

By **HILARY POTKEWITZ**
Staff Reporter

What makes a couple of Wall Street guys decide to build an environmentally sensitive, green building?

It helps if the building is an ultra-luxury condo designed by noted architect Richard Meier and it can be expected to draw premium prices, in the millions.

"While we think that it's 'the right thing to do,' we would never say that's why we're doing it," said David Margulies, chief executive of **New Pacific Realty Corp.**, the developers behind the 9900 Wilshire project on the site of the former Robinsons-May department store in Beverly Hills. "It has to make sense economically in order for the green building movement to become main stream."

In other words, it has to make money.

Since founding New Pacific Realty four years ago, Margulies and Chairman Arnold Rosenstein have set out to prove people wrong.

One of the company's first projects was the Transamerica Center, a 1960s skyscraper in downtown Los Angeles that was 1.4 million square feet of nostalgia and had "been on the wrong side of Dodge for 40 years," as Margulies put it.

The building was less than half-occupied, but New Pacific acquired it not with the idea of tearing it down – which is what some would have preferred – but with the idea of bringing it back to life.

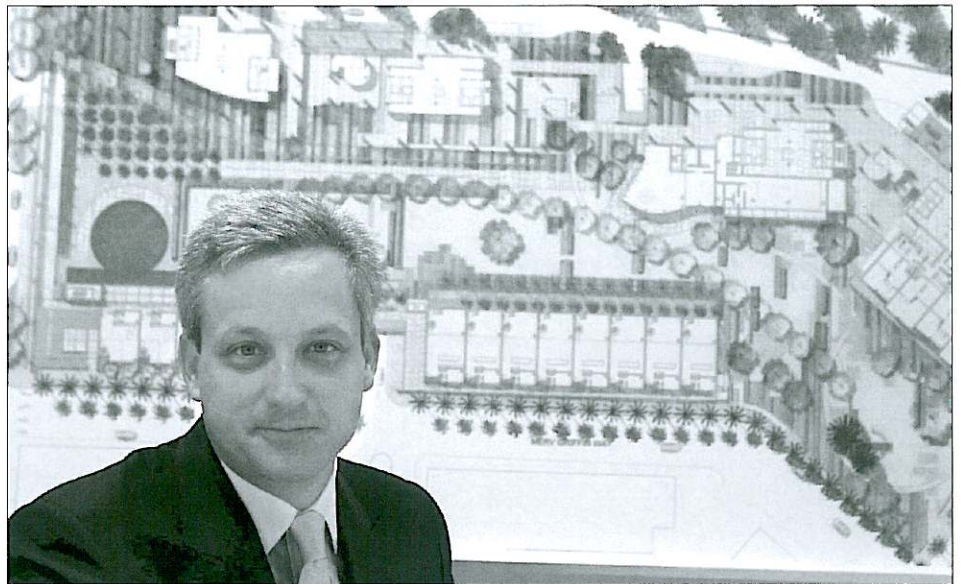
It was a tough sell. Twenty-one banks turned them down.

"The market believed that no one would live in downtown L.A.," Margulies recalled.

But the company eventually secured a loan from Magic Johnson's venture fund, Canyon-Johnson Realty Advisors. And a year and a half later, the building was 98 percent occupied and helping reshape the downtown scene.

New Pacific has developed 5 million square feet of buildings and completed \$2 billion in real estate transactions in its short existence. It's now taking a leap into sustainable design – all the more remarkable considering the partners' backgrounds.

Margulies came to L.A. in 1988 as head of West Coast operations for Apollo Real Estate Advisors, a large private real estate investment trust. Rosenstein's background is in Southern California development, but in the type of big projects and condos rarely associated with the warm, fuzzy aura of environmentalism.



RINGO H.W. CHIU/LABJ

Pipeline: David Margulies' New Pacific Realty is banking on seven 'green' projects.

But New Pacific Realty aims to create landmark projects and break new ground. So far the duo has completed 49 successful deals, a noteworthy track record.

"Robinsons May chose New Pacific Realty over any other developer because of their fresh thinking, understanding of what the city of Beverly Hills wants, and what the luxury homeowner demands," said John Cushman, chairman of Cushman & Wakefield Inc., the New York-based real estate firm. "Their track record with complex projects is second to none."

The company will transform the old Robinsons-May site into what would be the only LEED-Gold certified private residential building in the country – stretched out over 8 acres and with more than 250 residential units. The key point: it's being done with private money.

"There is a popular notion that because of the investment level required to build green buildings, that the investment payback isn't there," said Margulies.

The notion isn't baseless. Green buildings can cost from 5 percent to 25 percent more to build. In addition, green designs often call for lots of open space, which means fewer housing units, further reducing returns.

But New Pacific Realty insists it's being realistic,

betting buyers will be willing to bear the added costs because the green elements of the building will improve quality of life. "We know that our premium will be substantial," Margulies said.

There is also the hybrid car analogy: buyers are willing to spend thousands more to drive a hybrid car, often with the belief that lower long-term fuel costs will make it a worthwhile investment. Similarly, the building's design and use of natural light promises to use 25 percent less energy, 50 percent less water and emit fewer greenhouse gases than similar housing developments.

But just like a hybrid, it could be years – decades, in fact, in the case of buildings – before any savings are ever seen.

But the company chose well to test the project in Beverly Hills. New Pacific made a presentation at a City Council meeting in December to introduce the project to the community, and over the next three days the firm was overwhelmed with inquiries. About 26,000 hits crashed the project's Web site.

The firm has six other green building projects in its pipeline in varying stages of infancy – but all eyes are on 9900 Wilshire to see whether green development can actually make money. Even Margulies admitted it could be a make-or-break project. "The math has to be there, otherwise you can't build the next one," he said.