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IS LIVING ON TOP OF A COSTCO THE ANSWER TO AFFORDABLE-HOUSING CRISIS?

New development in Los Angeles includes plans for 800 apartments, pool above bulk-goods warehouse

By Rebecca Picciotto

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A real-estate developer in Los Angeles is testing a new blueprint for affordable housing: stack apartments on top of a Costco. Credit: AO

Thrive Living is planning to begin construction in early 2025 on an 800-unit affordable-housing complex with the megaretailer on the ground floor in the Baldwin Village neighborhood of South Los Angeles. The project, which includes a rooftop pool and fitness center, would have 184 apartments for low-income households.

The property would be the first residential development in the U.S. with a built-in Costco, which is best known for its fiercely loyal customers who load up carts with everything from bulk pickles to gold bars. The rent that Costco Wholesale pays Thrive will help the developer rely less on government subsidies for the affordable housing, according to Thrive's founder, Ben Shaoul.

If it works, Shaoul said he hopes to use the same tools elsewhere to create more affordable housing. “I want to build thousands and thousands of apartments every year, not hundreds,” said Shaoul, who also runs Magnum Real Estate Group, in New York.

The Baldwin Village location would give Costco access to a densely populated urban market as well as an automatic customer base in the apartments upstairs.

Many residents might join the tens of millions of Costco members who pay fees to shop there.

If there are two tenants per unit, for instance, that could lead to as many as 1,600 Costco members “right there,” said Karen Short, a Melius Research analyst.



Ben Shaoul, founder of Thrive, says rent paid by Costco will help the developer rely less on government subsidies for affordable housing. PHOTO: MICHAEL NAGLE/BLOOMBERG

Big-box retailers are known primarily for their suburban locations, where the stores are the size of a couple of football fields and surrounded by hundreds of parking spaces. In recent years they have been pushing more into cities with smaller stores and new designs.

Target and Whole Foods have anchored apartment buildings to gain access to urban populations. Costco has been exploring different urban strategies for more than two decades and today owns dozens of downtown stores.

The Los Angeles development is a novel approach for Costco, which likes to own, not rent, its stores. At 185,000 square feet, the store would be just over the average size for the company. Thrive plans to have two levels of underground parking.

Baldwin Village is a lower-income pocket of Baldwin Hills, a mostly upscale, predominantly Black neighborhood of Los Angeles.

Dubbed the “Black Beverly Hills,” Baldwin Hills has been home to such celebrities as Tina Turner, Ray Charles and Lenny Kravitz. Median home prices in the neighborhood hover around \$1 million, according to Redfin.

In contrast, Baldwin Village, where the new Costco apartment development is planned, has a poverty rate that is more than double the national average. The U.S. Treasury Department has classified the area’s economy as deeply distressed.



Los Angeles Mayor Karen Bass is a supporter of the affordable-housing development.
PHOTO:DANIELCOLE/REUTERS

Los Angeles Mayor Karen Bass used to live minutes from the site of the Costco project and joined other elected officials in supporting the development in an area she called historically neglected.

Shaoul got his start as a multifamily-housing developer in New York City in the late 1990s and has since closed billions of dollars in real-estate deals, including several mixed-use developments. With Thrive, he joins an emerging class of private developers who are trying to turn affordable housing into a private-sector profit model without government assistance in California, one of the states hardest hit by the housing shortage.

Costco first approached Thrive about renting the Baldwin Village location inspiring 2022, Shaoul said. He had previously planned a solely residential development on the land where an abandoned commercial building currently sits. But he welcomed the proposal from what he called “a darling of retail.”

Shaoul estimates the development will cost around \$425 million to build. Right now, his company is using its own cash and got a loan to buy the land. He is working on securing more loans to fund construction.

Shaoul is aiming to get a separate loan for the retail portion of the development, which he believes would likely get a favorable rate thanks to Costco’s strong credit rating.

For the Costco portion, Shaoul said Thrive is also exploring the use of New Markets Tax Credits, a government tax break to encourage private investment local economies. Thrive also bets that having Costco as a retail tenant could help attract additional investors.

The residential tower would be financed separately with a loan from a commercial bank or other source. Government subsidies wouldn’t be used to finance construction of the apartments. But once the property is open for lease, Thrive plans to join with the Housing Authority of the City of Los Angeles to provide rent vouchers to low-income tenants in at least 100 of the units.



Construction of the development, shown in this rendering, is expected to be completed in 2027. PHOTO: AO

Shaoul didn't apply for traditional affordable-housing subsidies such as the federal Low-Income Housing Tax Credit because he said the process is burdensome and can delay projects. Federal tax credits, for example, require developers to comply with environmental-impact reviews, which can face a long approval process.

Construction is expected to finish in 2027. To build the apartments faster, Thrive plans to use offsite modular construction.

Private businesses and elected officials throughout the U.S. have been looking for solutions to the affordable-housing crisis. The number of homeless people has surged to a record while U.S. home prices jumped in 2024. The U.S. is short 3.7million housing units, Freddie Mac has estimated.

The Costco project would be the first in Los Angeles to draw on Assembly Bill 2011, a California law that expedites the land-use approval process for developments that meet affordability and labor standards.

The law is an example of new legislation in California seeking to untangle the regulatory obstacles that make housing development time-consuming and expensive in the state. Since the law went into effect in 2023, it has been used to permit affordable-housing projects in San Francisco and two small cities in central California, according to California Assemblymember Buffy Wicks, the author of the law.

“We’ve made it so difficult to build housing in California over the past five, six decades,” Wicks said. “It’s why we are in the crisis that we are in now.”