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RECAP - FOURTH QUARTER 2009: L.A.'s Transactional Market Shows Modest Improvements

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The best thing that can be said about the sales volume for Los Angeles commercial real estate for the final quarter of 2009 is that it was far better than the first quarter.

The transactional volume for office properties valued at \$5 million or more reached \$296 million in fourth-quarter 2009 compared with the anemic \$60 million posted in first-quarter 2009, according to **Real Capital Analytics**.

Despite the 393 percent increase in dollar amount, the actual increase in the number of transactions was modest. The office market numbers were bumped up significantly last quarter when the largest office sale in Los Angeles for 2009 closed in December. In that deal, **Maguire Properties** sold the 12-acre Lantana Media Entertainment Campus in Santa Monica for \$200 million to **Lionstone Group**, a Houston-based investment firm.

"I felt that in the fourth quarter, end of the third quarter, that the office market in Santa Monica started to form a bottom," said Jim Jacobsen, a managing principal for **Lee & Associates**/Los Angeles-West. "As that started to play out, it spawned more transactions."

The end of a year usually is not a busy time in the office market, he said, but this year was different. "You don't usually see new transactions start, but we saw new transactions start and finish in December," said Jacobsen, who represented Lionstone Group in the deal.

Office building sales in Los Angeles totaled \$755 million in 2009, down 93 percent from the \$11.3 billion posted in the market's peak year of 2007, according to data from Real Capital.

Sale prices averaged \$242 per square foot in Los Angeles County in 2009, down 25 percent from 2008 and a price-per-square-foot level on par with prices in 2005, according to a year-end 2009 report from **Transwestern**.

Like the office market, the industrial and retail markets in Los Angeles had a much better finish than start. The sales volume for Los Angeles industrial properties grew to \$322 million in the fourth quarter from \$33 million in first-quarter 2009, according to Real Capital. In retail, the sales numbers grew to \$129 million by the fourth quarter from \$42 million in the first quarter.

The first eight months of 2009 were characterized by fear in the industrial market, but limited demand started to reenter the market in early September, said Luke Staubitz, a principal with Los Angeles-based **The Klabin Co.** during a forecast event in January presented by the **AIR Commercial Real Estate Association**.

"There are preliminary signs of price stabilization in leases and sales," Staubitz said. "Transaction volume, which began building in September, will continue to increase throughout the year with tenants holding the pocket aces."

The apartment market finished up 2009 pretty much where it started. The sales tally for first-quarter 2009 in the apartment market was \$214 million, with the fourth-quarter numbers turning in a slightly higher \$236 million total.

"The fourth quarter was relatively slow, but we expect a big first quarter," said Kitty Wallace, a senior vice president in the downtown Los Angeles office of **Colliers International**. "A couple of loan assumptions are taking longer than we suspected."

Wallace said that velocity began to pick up in the third quarter because a couple of deals that occurred in the second quarter helped determine pricing and woke buyers up.

The first reawakening occurred in second-quarter 2009, when Joe Leon, a partner with **Hendricks & Partners**, brokered the sale of a small portfolio of apartment buildings in Orange County for **Northwestern Mutual Life** at a 7.5 percent capitalization rate. Investors **Sequoia Equities, Pacific Coast Management** and **Stoneridge Capital Partners** acquired 1,366 units in three separate properties located in Aliso Viejo and Rancho Santa Margarita for a total of \$201.3 million. The deal helped motivate multifamily buyers throughout Southern California, Wallace said.

"When they came to market, no one was buying," she said. "Everyone had trepidations, but as soon as that deal closed cap rates came up by 50 basis points."

Today, that deal would be a 6.5 percent capitalization rate, Wallace said.

The average cap rate for Los Angeles multifamily was 6.2 percent in the fourth quarter, according to **LoopNet**. By comparison, the cap rates for industrial, office and retail were notably higher at 7.3 percent, 8.3 percent and 7.3 percent, respectively, during the same period.

The second factor that nudged buyers into the multifamily market came when **Behringer Harvard** began purchasing properties, Wallace said. Through its fund, Behringer Harvard Multifamily REIT I, the investor purchased properties throughout California in 2009, including the 438-unit Gallery at NoHo Commons from **Fairfield Residential** in a \$96 million deal on Sept. 29. The Behringer Harvard fund and **PGGM Private Real Estate Fund** then purchased the 140-unit Redwood Lofts at 4055 Redwood Ave. in Marina del Rey for \$46 million on Oct. 14. It has since been renamed Forty55 Lofts.

"People were seeing nice product start to come to market and regretted not bidding," Wallace said. "After they missed out on that Northwestern Mutual deal they decided they better get off the sidelines."

Even though investors are shopping for Class A apartment communities, Wallace said the market is far from frothy. Her most memorable deals in the fourth quarter were two sales of entitled lots on Ventura Boulevard in Sherman Oaks.

"There have not been enough transactions to say the fourth quarter is better than the third," she said. "There weren't 20 or 30 deals in the fourth quarter. It was more like 20 or 30 deals in 2009."

So far, the broken condominium deals and bank-owned properties Wallace has sold were in tertiary markets of California as Fresno or Mammoth Lakes, but she expects to be marketing similar deals in Los Angeles soon.

"Banks do have to sell, but with all the stuff on their plate, they are not starting with the high-quality assets that are still cash-flowing," Wallace said. "When land doesn't pencil at a cost basis to be built on, you have to move it. The same with broken condo deals. That is why that stuff is getting cleared out before other assets."
