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Special Report:
Commercial Real Estate
Building Expectations
Multi-Family Housing
Demand Stays Steady

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Everything is relative. Multiple new developments of multi-family housing across the Valley could give the impression of an existing glut or one just over the horizon. But looks can be deceiving.

"Looking at newly-built construction in the context of how much we built, it's really miniscule compared to the previous decade," said Raffi Krikorian, president and CEO of Investment Real Estate Associates.

"The things coming were set in motion a couple of years ago. Demand will be met. These projects should do well," he said.

As for the impact of the current credit crisis, it is too recent to have much impact on developments planned years ago.

"These projects started prior to any sign of the economic downturn," said Braemon Hanes of Hanes Investment Realty.

Five years ago, this newspaper reported 2,500 new apartments coming to the Woodland Hills/Canoga Park area alone. But in the previous five years, only 775 units had been built. Plus, using an industry standard of one-and-a-half jobs per home, the area could ostensibly absorb an additional 5,500 units of housing, based on the 45,000 jobs nearby at the time.

Since then, the Morgan Group built 700 units in two developments and Archstone Communities' built 522 units at Archstone Warner Center. Weintraub Investments is completing 855 units on the former Panavision property. There is room for more, according to developers.

Westfield Group is planning 160 residential units at its Village at Westfield Topanga mixed-use project located between its Topanga and Promenade mall properties. The site is destined to have a hotel, offices and retail.

A 438-unit development is planned on the property of the now-closed Valley Indoor Swap Meet in Canoga Park, near Vanowen Street and Canoga Avenue. That facility's operators said they made efforts to extend their use of the property, but were told by the developer to vacate. Despite economic uncertainties, the company isn't waiting to develop the land.

Likewise, the changes in the economy won't deter developer J.H. Snyder from going ahead with its planned development in North Hollywood, because the company figures any cycle the country is in currently will have run its course by the time the project is ready for residents.

"I imagine we'll be delivering product in a good cycle. The challenge is investing during a bad cycle," said Cliff Goldstein, Snyder senior partner.

"We have very strong financial wherewithal for this project, but it may require more equity than it would have a year ago," he said.

Laurel Canyon project

The 742 residential units on the land that was the Laurel Plaza mall includes adaptive reuse of the old May Co. building, now a Macy's department store, which will move a block north to the southwest corner of Laurel Canyon and Victory to anchor Snyder's Valley Plaza development.

"There are about 150 apartments and the rest are condominiums, some configured as townhomes with attached garages," Goldstein said. Others are referred to as "boathouses" surrounded by a water element," he said. The design is intended to create separate mini-neighborhoods within the larger neighborhood.

"It should commence following 2010," Goldstein said, adding "but it might not."

At Caruso Affiliated's \$400 million Americana at Brand mixed-use project in Glendale, the developer is including 100 luxury condos and 238 apartments. Although previews and sales will begin just before the mall's opening in mid-April, about 1,200 people have already expressed interest.

"I would much prefer to be selling these a year ago," Rick Caruso said, "but I'm not concerned."

"It's such a unique setting. They have great views and amenities," he said, referring to the maid service that will be offered and room service enabling residents to order from the restaurants in the project.

"It will be very similar to a 5-star hotel," he said. Caruso said he expects the proximity of the residential units to the high-end retail stores and restaurants to create the caché needed to keep vacancies low.

"We want people to walk by Armani and Kate Spade," he said.

Caruso said that price points haven't been set for the residential units, but according to IREA's Krikorian, it will be consistent with the trend that those units are to be priced for the well-heeled.

"Most things being built are high-end, mostly for white-collar residents," he said, and they're mainly situated along the 101 Corridor. "In the North Valley, you don't see a lot of new development," Krikorian said.

Todd Schwartz of Hanes Investment concurred. "The region doesn't have a lot of low-income housing," he noted. Consequently, "vacancy is tight."

Krikorian noted that regardless of the amount of high-end product, "There is still demand for reasonable rents for housing," he said.

Uneven indicators

Schwartz said there are many things keeping demand steady and prices consistent. But it's a matrix of uneven indicators that describe the marketplace ahead.

"Foreclosures mean homeowners will return to the rental market. But that also creates a shadow market of available housing," Schwartz said. "Unemployment increases will force people to double up in housing, diluting demand."

Some of the newer condominium stock may revert to



Apartments: Many high-end units, few for low-income

rental units, pressuring the vacancy rates for properties developed as apartments, Schwartz said.

That potential impacts Krikorian's opinion.

"I'm not enthused or optimistic about condominiums, but as time goes by the supply will be absorbed," he said.

Hanes said there is less property to sell and demand has softened quite a bit.

Furthermore, "those circumstances are region-wide. It's very indicative of what's happening in the L.A. area, San Gabriel Valley and Ventura County in general. It's almost identical," Hanes said.

An indicator of the relative vitality and cooling of the marketplace, Hanes said, is the sales frequency.

The firm's regional Apartment Advisor report reflects a fluid market, although comparisons between properties can be deceiving, Hanes said, because every property is unique, varying by number of units, age and location.

But in a sampling of the average indicators, the report compares activity from the first three quarters of 2007 to the same period of the previous year, Burbank is off by 72 percent; Canoga Park is off by 50 percent; Tarzana dropped by 86 percent. Yet Toluca Lake saw a 300 percent increase; Panorama City was up by 86 percent and Northridge saw no change.

Looking at Q4 of 2007, there were 80 apartment sales in the Valley region, down 32.8 percent from 119 for the same quarter in 2006.

"We see apartments that have come to market, where we once had 10 offers, now we have 3 offers. Once it may have sold in 60 days, now it takes a little longer," Krikorian said.

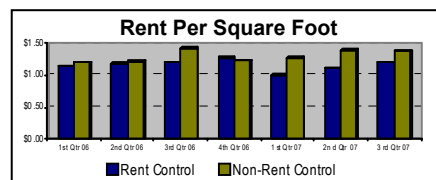
"I haven't seen a drastic decrease in sales of apartment buildings, though the particular effervescence the market once had has decreased," he said.

Because condos sales are impacted by the current credit crunch concerning mortgages in ways that apartments are not, Krikorian has short-term reservations about condominium developments.

"Investments will do well if bought as apartments. Land bought to be condominiums will be subject to the softening of the market," he said.

"We're on the verge of beginning of a cycle, but nothing like the early 90s when we had a perfect storm with the loss of aerospace jobs, the S&L crisis and the earthquake," Krikorian said.

"Short of that kind of tectonic movement in the economy," he said, values should remain stable.



Los Angeles	2005 to 2006	-23.6%
San Fernando Valley	2006 to 2007	-22.3%
San Gabriel Valley	2006 to 2007	-52.1%
Ventura	2004 to 2005	-32.2%