

Real Estate Markets Geared For Slow Turnaround

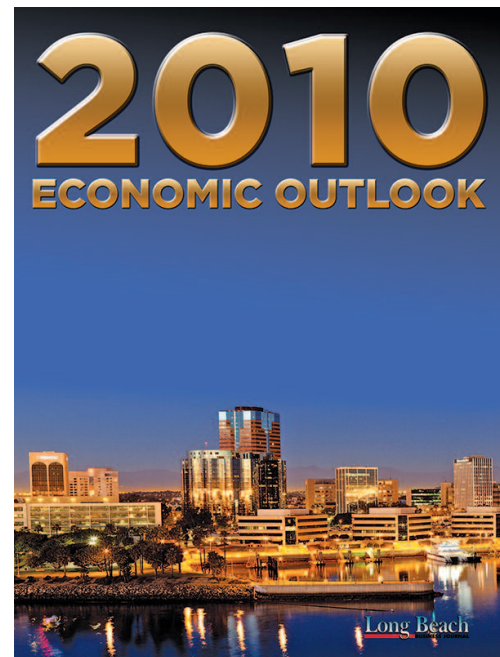
■ By **STACY LAWRENCE**
Staff Writer

Real estate experts in all sectors are bracing for markets to mirror much of 2009, with possible relief expected later this year or early next year. Financing continues to challenge prospective buyers, as banks employ stricter underwriting conditions and require more money up front, even though prices have hit or are near the bottom.

For commercial and industrial real estate, which are impacted by the decline in jobs, business and consumer confidence, experts predict a slow recovery. Negative indicators should improve in the second half of 2010.

"As long as companies are not hiring [and] are continuing to downsize, there's going to be a reduced demand for office space," says Tracey Seslen, senior research associate of the USC Casden Real Estate Economics Forecast. "We're going to see the office [market] continuing to decline all through 2010, probably into 2011 as well."

According to Wells Fargo Securities, deteriorating supply and demand fundamentals, as well as an increase in defaults and foreclosures, are straining the market.



Bob Alperin, senior director of Cushman & Wakefield Los Angeles South Bay, anticipates the local commercial market to be relatively flat.

"We're expecting the market to continue as it has in the second half of last year, until we start to see a transition in hiring and growth in the economy," Alperin says. "Landlords are



being aggressive to both maintain their tenants and attract new ones.

"On the sales [side], financing continues to be a challenge," he adds. "The underwriting criteria are such that it's difficult to do deals in the market."

While the downturn struck all areas in Long Beach, Alperin notes that properties located near the freeway appeal to a broader range of tenants.

Located near major freeways, the developer of Douglas Park recently finished phase one construction. That includes nine office buildings and 168,000 square feet.

"I think we're looking at 2010 to maybe seeing the bottom and showing some recovery," says Jackson Smith, partner of Newcastle Partners Inc. "We sold a couple buildings late in 2009, and then we'll start, hopefully in the next 30 days, on the DeVry build-to-suit. The difficulty with that one has just been the financing."

Currently, two buildings have been leased and two have been sold. Smith also notes an increase in activity for the available parcels.

"We had originally planned spec development of about 240,000 square feet," he says. "That market's pretty much dead. We've been waiting for the market to come around, and in the meantime, we are marketing the site for sale or build-to-suit. At the end of last year, we had a flurry of activity for that."

Though he can't yet disclose the interested parties, Smith confirms two separate companies are looking to build 100,000 square feet for light manufacturing and research and development. A third party is in negotiations for about six acres, he says.

"We're working very hard to make deals out there."

Doug Shea, president of INCO Company, says financing still plagues the commercial sector, which includes retail property. For example, he notes that transactions today require 50 percent loan-to-value – that means an investor must put 50 percent down up front, often with real estate collateral.

The trend for retail, which Shea expects to be flat, is moving from malls to outdoor centers. Places like Belmont Shore, Main Street Seal Beach and The Strand and Bella Terra in Huntington Beach are slightly more resilient.

"I think retail is changing in that regard," Shea says. "How often do you go to a mall? Wouldn't you rather stroll along the street?"

In Long Beach, he notes that restaurants appear more stable than retail stores. Oftentimes, restaurants are closing and new ones are opening in the same location, where the owners are retrofitting the building.

"Landlords are having to reduce their rents," he says. "But the retail sector isn't going strong at all. You don't have any new retailers really coming in – you don't have that book store, you don't have that clothing store."

Shea, who recently advised a restaurateur to open on the eastside rather than downtown, says shorter terms and reduced rents also drive down retail property values.

Declines in consumer spending have a ripple effect: decreased port traffic directly influences demand for industrial and commercial property in the region. Bruce Choate, president and CEO of Watson Land Company in Carson, sees 2010 as another year of uncertainty.

"I think most of the people in our sector are viewing 2010 as a year of defense, focusing on fundamentals [and] trying to maintain occu-

pancy in a market that continues to deteriorate," Choate says of the commercial sector. "There are some hopeful signs on the horizon: global factory output is starting to pick up; there are signs of growing consumer confidence. But I think we all view the economy as still very fragile."

"I would be very surprised if we build a single building in 2010," he adds.

For industrial, Choate says that although the South Bay shows more stability than other markets across the nation, he's following port activity closely. With the Panama Canal widening project expected to be completed in 2014, he wonders how the local ports will remain competitive.

"We think that even if there is recovery, the ports of L.A. and Long Beach will lose market share," he says. "Even if shipping starts to pick up, a larger portion of that will go to the other ports. We're trying to figure out exactly what that means, and plan our business accordingly. So, like a lot of other people, we are looking at other cities on the East Coast for possible expansion."

Meanwhile, the residential market is trying to recoup from one of the most severe drops on record, with foreclosures peaking at 236,000 in 2008.

Media outlets often "paint a story in broad strokes" that don't accurately portray what's really happening in the residential market of a particular city, county or state, says Robert Kleinhenz, deputy chief economist of the California Association of Realtors (CAR). He notes sales and prices bottomed out early last year in L.A. County and California, where the inventory has been "lean" for the past year.

"We expect sales for 2009 to be up about 22

percent over the prior year," Kleinhenz says.

"That's a lot stronger than the numbers that you're seeing in the national news."

"We still have a ways to go before we get back to what anybody would consider normal."

CAR projects a 3.3 percent increase in the state's median price and a 2 percent decline in annual sales, averaging about 528,000.

"We'll be moving into 2010 . . . with a much smaller number of distressed properties," Kleinhenz explains. "While we think the number of discretionary sellers is going to increase, it's not going to fully offset the decline in distressed sellers."

Although CAR forecast a \$280,000 median price for existing detached homes, Kleinhenz believes that figure will be \$10,000 more in 2010 based on recent data.

"As of November, the median price was \$304,000," he says.

For new, existing, attached and detached homes in Long Beach, the median price last year fell just 1.8 percent.

"We're probably seeing more stability in the local median price than in some other parts of the state," Kleinhenz says, noting that it's a coastal community with a fairly constrained housing supply.

Tammy Newland, operating principal of Keller Williams Realty in Los Alamitos, expects the first quarter to be similar to 2009.

"We're not having a lot of release of inventory; the banks are still holding off on foreclosures," Newland says. "The Obama administration is mandating the banks to have short-sale departments to work with homeowners who are upside down [on loans]."

Although this gives hope to struggling

homeowners and prospective buyers, Newland says there isn't enough short-sales activity happening. Because banks are trying to avoid reporting losses, they're not releasing foreclosed properties in the market.

"They're trying to maintain high prices in neighborhoods without having a foreclosure come into the area and bringing prices down," she says. "The consumers aren't getting a true picture of what the market really looks like today."

Newland's office offers loan modification and home retention workshops "because consumers just don't know what to do [and] don't know where to turn."

"There should be no up-front fee for loan modification or negotiation of any kind for a consumer," she warns of shady practices. "There are so many people who are upside down and really don't know their options. Last year, we specialized in pre-foreclosure certification to help homeowners stay in their homes. Today, we're trying to give education on . . . what options they have."

Regardless, Newland says real estate is still the number one investment anyone can make.

While the foreclosure market doesn't traditionally affect the apartment sector, investors who bought high and are posting a negative cash flow have "reached the end of their rope," says Nancy Ahlswede, executive director of the Apartment Association, California Southern Cities.

"They've got to start moving those properties," Ahlswede says. "I think that we're going to be seeing stabilization, hopefully, in 2010 – no further decline of rents or prices of apartment buildings."

She notes apartment buildings priced at market rates are holding their value. But landlords are also experiencing increased vacancies.

"Some of our management companies that have been holding on at 5 and 6 percent vacancies are now seeing up to 10 percent," Ahlswede says. "We really are hoping that the employment sector [improves], so that the vacancies will fill up." ■