SoCal BUZZ

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LOS ANGELES

New Economy Creates New Investor Breed

Roughly a year ago, the net lease group at BRC Advisors in Los Angeles had a client assignment to dispose of a small portfolio of investment-grade tenant assets, which was composed of a number of well-located commercial properties around the country. The assets had absolute NNN, long-term lease structures with assumable low-interest debt at a fixed rate, according to managing director, Sean O'Shea. They were "secure, predictable income streams with renewal options at fair market value," he explains.

BRC utilized the broker and investor network it had developed over the past five years of specializing in net lease investments and went through its usual deliberative process of fielding inquiries. "We drafted a number of LOIs, which lead to a completed assignment on behalf of our client," O'Shea explains. "As we completed our own after-action report, it was stunning to realize that of the 250 qualified and interested parties with whom we had interacted in the five months to complete our work, only about 15% to 18% of those buyer/investors had Euro-centric names."

In fact, the majority were Persians, Koreans, Japanese, Chinese, a range of Spanish-speaking investors and a few West Germans—all naturalized citizens with cash-in-hand.

What this taught BRC, O'Shea explains, was how to listen and communicate more effectively to new investors. "They understood the impact of inflation on real estate based on their country of origin; they understood the value of fixed-rate, assumable debt, based primarily on the tenant's credit worthiness, not just their own; they have an investment horizon that might be 15 years to 20 years into the future, unlike their other American counterparts who were negotiating primarily for next-quarter or immediate high-yield cap rates, which are merely a snapshot of short-term value."

So, this year, as the firm is preparing for a new portfolio-sale assignment with a Newport Beach investment group, it is updating its website and marketing strategies for the "new investment world of 2009 and beyond," he says. The revamped site is now translated into 10 languages, and BRC's net lease group staff is multilingual.

"We appreciate these new opportunities to be of service," O'Shea says. *—Natalie Dolce*

REPORT PREDICTS '09 SOCAL TRADE DECLINE

A new report from the Los Angeles County Economic Development Council predicts Southern California's international trade will decline further in 2009 before showing a modest rebound next year. For 2009, the report projects a 13.5% decline in container volume at the combined ports of Los Angeles and Long Beach and a 15.8% decline in two-way trade through the Los Angeles Customs District to $300 billion.

According to the report, this year's decline follows what it calls a "dismal performance in 2008." However, it forecasts a 1.6% rise in port volumes for next year.

"2008 was a year full of unhappy surprises for the international trade industry," admits LAEDC chief economist Nancy Sidhu. "The industry saw employment fall by 1.1%, or 5,600 jobs, while industrial vacancy rates spiked up to 9.9% at year-end 2008 in the Riverside-San Bernardino area," which she describes as a former hotbed of new construction based on speculation that international trade would continue to boom. Unfortunately, she adds, international trade-related employment is expected to fall by 9.3%, or 46,000 jobs, this year.

"Despite the barrage of bad numbers, there were some positive events for international trade during 2008," Sidhu observes, noting movement on projects such as expansion of the Transpacific and China shipping terminals at the Port of Los Angeles and Pier G at the Port of Long Beach, as well as the environmental impact report for the Middle Harbor project in Long Beach. "There will be a two-part impact from these projects," she explains. "Jobs will be created and capacity will be increased."

Jack Kyser, founding economist for LAEDC's Kyser Center for Economic Research, calls the global economic downturn a huge challenge for the region, with the economies of four of the Customs District's top trading partners expected to record declines. Environmental remediation presents further challenges, he adds, though he stresses that considerable progress has been made on this front.

"Despite the barrage of bad numbers, there were some positive events for international trade during 2008." —Nancy Sidhu

"The ports of Los Angeles and Long Beach can claim to be the greenest ports in the nation," he states, noting that many solutions such as on-dock rail, use of low-sulfur diesel and reliance on low-emission trucks and diesel locomotives are being closely watched by other ports.

In addition to the above, Sidhu and Kyser point out that both railroads that serve Southern California are increasing their track capacity, while the federal economic stimulus package should also help fund important highway and bridge projects in the area. At the same time, they concede the ports of Los Angeles and Long Beach "have a lot of competitors nipping at their heels trying to get business," particularly Gulf and East Coast ports looking to benefit from expansion of the Panama Canal to handle ships that currently have no choice but to dock on the West Coast. "International trade activity in Southern California will start growing again in 2010," predicts Kyser. "But we can no longer assume that growth will come automatically." ***—John McCloud***

ORANGE COUNTY

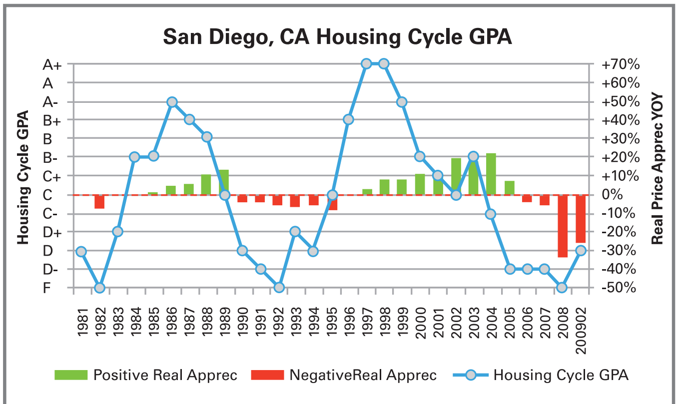
NEW INDICATOR TO IDENTIFY HOUSING BOTTOM

John Burns Real Estate Consulting Inc. has introduced a new market indicator to help identify the bottom of the current housing cycle. "In our quest to be the first to properly call a bottom in this housing cycle, we have developed a tool called the Housing Cycle GPA," the Irvine-based firm states.

An analysis by the Irvine-based company has shown that the health of market fundamentals such as demand, supply and affordability has proven to be a very good one-to-two-year leading indicator for home-price appreciation and decline. "By monitoring the early signs of recovery or decline in fundamentals, our clients will be better able to prepare for the future," Burns says.

The Housing Cycle GPA assigns letter grades to the current market cycle. "When the GPA increases from a D to a B, it is time to invest," Burns explains. "When the GPA falls from a B to a D, it is time to divest."

As an example, the Housing Cycle GPA for San Diego indicates that the 1984 to 1986 and 1996 to 1997 periods were the times to invest, while 1989 and 2004 to 2005 were optimal times to shed assets. Right now, San Diego has improved from an F to a D, so it is too early to invest there, the analysis indicates.



Source: John Burns Real Estate Consulting (Pub: Apr/09)

Data by the company show that demand is the most important indicator, but this factor carries more weight in markets that have traditionally not been oversupplied or shifted significantly in price, such as in the Midwest. On the other hand, supply is a more significant leading indicator in markets that have few barriers to entry and have fluctuated wildly in supply, such as in Texas.

Affordability is a more significant leading indicator in markets with high barriers-to-entry markets where wild price fluctuations typically occur, such as the coastal areas in California. The GPA also reveals that, while most markets are faring well regarding affordability due to falling prices and historically low interest rates, extreme weakness in demand and relative weakness in supply mean that no metro area is currently earning a grade higher than a C.

Burns notes that while the overall housing cycle GPA is very important, recent history and trends are just as significant. Its analysis shows how the changes in the direction of fundamentals have played out historically, and what that means for the future.

For example, when fundamentals improve after an economic collapse, "it is time to consider taking more risk and planning on a recovery," the study reports. "Rising fundamentals usually means price appreciation is likely to occur."

By contrast, when fundamentals erode near the end of an expansion, "it is time to consider taking less risk," Burns advises. The firm asserts that the greatest price appreciation often occurs after fundamentals begin eroding. "Therefore, declining fundamentals do not mean that you should sell all your holdings immediately. It just means that the risks are very high."***—Bob Howard***