

SoCal BUZZ

Covering Los Angeles, Orange County, San Diego and Inland Empire

LOS ANGELES

Commercial Real Estate Industry Adjusts to Cope With Job Losses

One of the big questions that the industry is grappling with these days is how seriously the job losses of this recession will impact the industry. While there is little that real estate leaders can do to directly affect job growth, some of the solutions that industry leaders are turning to are designed to cope with the impact of rising unemployment. Western National Property Management, for example, recently launched a program that allows renters who lose their jobs to cancel their leases without penalties.

the end of 2007. However, "LA County is shedding jobs, causing demand for office space to wane and rental rates to decline," the report states. —*Bob Howard*

LAND USE PLANNING MAY SAVE CALIFORNIA AIR

The adoption of AB 32, the California Global Warming Solutions Act of 2006, and subsequent law SB 375, recreated the first legislation in the US to reduce greenhouse gas emissions. The moves could have long-lasting effects on urban planning around the state. Elizabeth Watson, a partner at LA-based law firm Greenburg Glusker, recently spoke with GlobeSt.com regarding the promise and pitfalls of AB 32 and SB 375 in California, and what it might mean for development elsewhere. Below are some highlights of the interview.

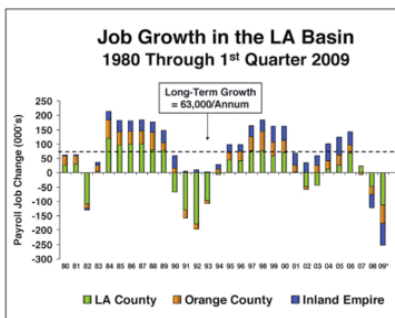
ing plan to identify strategies to reduce greenhouse gas. AB 32 was adopted in 2006, and they've been working on that in the meantime. You can imagine the enormity of that task. To figure out how to reduce greenhouse gas emissions, the state had to take a clear-eyed inventory of the sources. Not surprisingly in California, fossil fuel combustion constitutes over 80% of greenhouse gas emissions.

GlobeSt.com: How does this affect development?

Watson: In the land-use arena, SB 375 is focused on reducing vehicle miles traveled and putting an emphasis on transit-oriented development as a means to reduce VMT. That's relatively new, so we're still several steps away from knowing what it means. But one of the most interesting aspects is that it involves having the regional municipal planning organizations coordinate residential development and transportation plans over the long range. But there isn't a mechanism to require the individual local agencies and the municipalities to change their general plans to match the regional plan.

Instead of a requirement, there's an incentive, tying state transportation funding dollars to compliance by the local agency by making their planning documents consistent with the regional planning documents. But all of this is going to take several years. It's just at the initial stages, which is to have targets set at the state level for the different regions.

(To read the full interview, go to http://www.globest.com/resocal/0506_09/caemissions.html) —*Debra Hazel*



Source: Delta Associates

Commercial real estate experts say that parsing out how much property values have fallen because of job cuts is a difficult, if not impossible, task because job cuts are just one of the factors dragging down values. Some idea of the relationship between jobs and real estate can be found in the latest quarterly outlook for Southern California from Delta Associates in conjunction with Transwestern. Los Angeles County continues to maintain one of the lowest office vacancy rates in the nation as of the first quarter of 2009, although the rate has risen steadily since

GlobeSt.com: Why is California leading the US in terms of emissions?

Watson: With our economy and our transit-starved fate, our issues with greenhouse gas have caused us to focus on that before a lot of regions. So we've been grappling with that longer.

GlobeSt.com: What are AB 32 and SB 375, and how do they factor into this?

Watson: AB 32 was the pronouncement that California would reduce greenhouse gas emissions to 1990 levels by 2020. That really represents a 29% reduction in emissions below business as usual. The California Air Resources Board was directed to devise regulations for mandatory greenhouse gas reporting and verification and a scop-

FIRST SOCAL HOTEL AWARDED LEED GOLD FOR NEW CONSTRUCTION

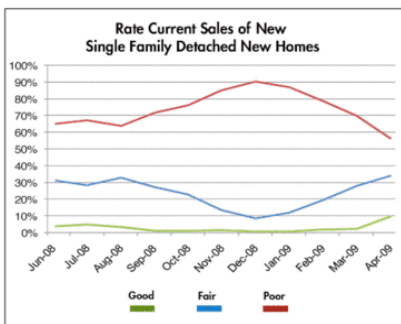
Montage Beverly Hills, the 201-room luxury hotel that opened November 2008, has earned Gold certification under the USGBC LEED for New Construction rating system. The property is the first ultra-luxury hotel in Southern California to gain Gold status, and is one of just four Gold-certified hotels worldwide designated by this third-party benchmarking system, which encourages the design, construction and operation of more sustainable buildings. Designed by HKS Hill Glazier Studio and developed by the Athens Group Montage Beverly Hills is the second in a growing portfolio under the Montage Hotels & Resorts banner. —*Natalie Dolce*

ORANGE COUNTY

EXPECTATIONS RISE IN HOME SALES

A new survey of homebuilders around the state revealed that land purchases and new home sales have increased, and developers are expressing more optimism. The latest poll conducted by Irvine-based John Burns Real Estate Consulting Inc. marks the third consecutive month of improvement.

The survey asked new home builders to rate a number of homebuilding and buying metrics, including sales, land buying, traffic of potential buyers and projected sales. The company attributes the huge gains to the state's \$10,000 bonus buyer tax credit. Yet it notes that although many of the respondents in California mentioned the tax credits,



Source: John Burns Real Estate Consulting

their views differed on whether they were directly responsible for the boost in demand. —*Bob Howard*

SAN DIEGO

TROUBLED MORTGAGE PLAN OK, BUT OVERALL PROBLEM MUCH LARGER

Like investment funds across the country, Home Equity Partners has been pouring over details of the Treasury Department's new plan to partner with private investors to buy as much as \$1 trillion in troubled mortgages and related assets from financial institutions. The Carlsbad-based investment group sees both positive and negative aspects to the plan for the vast mortgage crisis that has seized up the financial market in Southern California.



Larson

HEP president and managing partner Chip Larson's initial reaction to the plan is that although it is great that the government has come up with a plan instead of "throwing more taxpayer money at" banks

with public-private investment funds, the overall problem is much larger. "The Treasury plan would cover over \$500 billion to \$1 trillion of toxic mortgage assets," he says, noting that the problem is at least \$2 trillion.

He continues that the administration's plan is designed to help banks with large toxic mortgage pools stabilize by getting these toxic assets off their books and injecting them with capital. "But it may not help smaller banks that are in trouble, and it certainly won't help other private owners of mortgage assets," he says. "Most of the mortgage pools we're looking at in this market are not held by banks, but by private institutional funds, investment management companies and hedge funds."

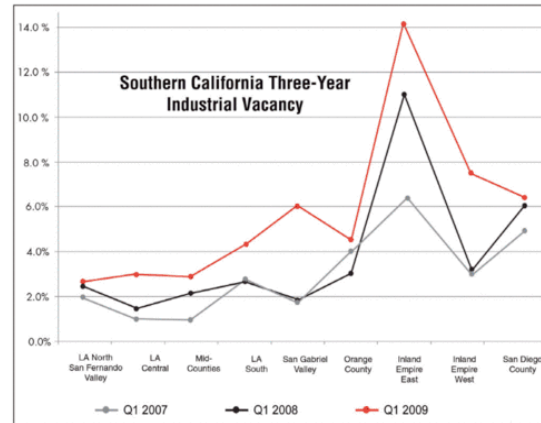
Larson explains that these players "hold a tremendous inventory of troubled mortgage assets in Southern California; the bank plan won't change that landscape."

What this plan will do, he says, is "establish a price for these toxic assets, and that's what this stagnant market needs to get moving. But it also could drive up the price if the investors overpay for bank assets because they can leverage their buying power with inexpensive government loans." —*Natalie Dolce*

INLAND EMPIRE

VACANCY SPIKES IN EAST INLAND EMPIRE

The majority of Southern California industrial submarkets have weathered the storm to date, although all markets have experienced reduced demand and year-over-year vacancy increases. "The greatest effect of the global economic slowdown and dramatic reduction in consumer spending can be seen in the East Inland Empire industrial submarket as vacancy rates have spiked to over 14%," says Tim O'Rourke, an EVP at Jones Lang LaSalle Inc. "The lack of demand from the ailing retail, housing and construction sectors, coupled with the delivery of over 12 million square feet of new inventory during 2008, created an imbalance which currently favors tenants seeking to renew or relocate their existing leases." And although the storm is not over, O'Rourke says, "developers have attempted to control the supply side of the equation by halting almost all new development activity." —*Natalie Dolce*



Source: Jones Lang LaSalle Inc.