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REAL ESTATE QUARTERLY **L.A.'S MARKET MELTDOWN**

Some Businesses Riding Up Side of Down Market

By **HOWARD FINE** Staff Reporter

FOR James and Steve Donell, the downturn in the local commercial real estate market is proving lucrative.

The father-and-son duo that run **Jalmar Properties** specializes in managing properties that enter into court-ordered receiverships after notices of default are filed.

While most of the boom in the West Los Angeles company's business has come from the surge in distressed residential properties over the past couple of years, the last 90 days have brought an increase in commercial properties.

"We're seeing a lot of smaller office buildings purchased in the last two or three years where the owners are now having trouble paying their loans," said James Donell. "The lenders file notices of default and that's where we come in."

Donell said he expects the number of calls to manage commercial properties in receivership to soar in coming months as the slow-down grips the commercial real estate sector.

Jalmar is one example of a local real estate company poised to benefit during the commercial real estate downturn. Others include businesses that have amassed significant bundles of cash and are waiting to pounce on bargain properties — traditional bottom feeders.

Among this group are two local companies: Brentwood-based Mesa West Capital and Beverly Hills auction house and real estate services firm Kennedy Wilson. Mesa West Capital has raised a \$1.5 billion fund, while Kennedy Wilson recently announced a joint venture with LandCap Partners that starts with \$100 million to purchase distressed residential properties.

"If you have cash, it's a wonderful time to buy," said Steve Cauley, director of research for the Ziman Center for Real Estate at the UCLA Anderson School of Management. "It



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Just Managing: Steve, left, and James Donell at a Reseda property in receivership.

might not be the absolute bottom, but it's certainly an attractive time to buy. If you buy commercial real estate today, the likelihood is that five years from now, you'll be happy that you bought today."

Vulture investing

That's precisely the strategy at Kennedy Wilson, a Beverly Hills real estate auction house that has its eye on the investment side.

Earlier this month, it joined forces with LandCap Partners, an L.A.-based real estate finance company, to create a \$100 million equity fund "to purchase completed homes and condominiums which homebuilders and financial institutions are holding in inventory or

which have been foreclosed upon by lenders," according to a joint press release.

One Kennedy Wilson executive said that for now the venture is limited to homes, either in individual projects or as part of portfolios held by builders or lenders.

"Once we acquire the homes, we'll finish them if necessary and put them in position to hand to our auction company and sell the homes," said senior managing director Stuart Cramer.

The venture could eventually expand to other types of properties. "We're also in the market to buy a variety of other types of distressed product and financial facilities," Cramer said.

The company also expects that its original business of running one of the more estab-

lished real estate auction houses in the region should get a big kick.

The business has been booming on the residential side for nearly two years now. If the recent increase in receivership activity on the commercial side is any indication, Kennedy Wilson may soon see increased auction business from commercial properties.

Still standing

Meanwhile, Mesa West is one of those rare lenders that finds itself able to lend to developers and investors doing deals in a down market.

It was founded four years ago by real estate finance veterans Jeff Friedman and Mark Zytok to provide bridge mortgages on buildings leasing up or being renovations. In its first year, Mesa West raised \$1.5 billion from pension funds and other institutional investors and then used those funds to make the loans.

"The key was that we did not make one loan on condos or on land. We stuck to core commercial properties," said Friedman, co-chief executive. "We also never loaned more than 75 percent of the value of a property, while many of our competitors were leveraging up to 90 percent or even higher."

As a result, while many other mortgage finance companies were imploding or exiting the business, Mesa West has been preparing to capitalize on the rapidly shrinking industry, raising another \$1.5 billion fund.

"We're going to take advantage of great lending opportunities because of reduced competition. Leverage requests are lower and spreads are up. We can charge more and lend less" on each project, Friedman said.

"We're not vultures. We're simply executing our business model of making loans to high-quality sponsors on solid real estate at moderate leverage."