

Some Real Estate Services Thrive In Challenging Market



■ REALTY VIEWS
By Terry Ross

While many of the professional facets of real estate – from brokerages, lenders and title insurance companies to escrow firms – have found the current economic climate to be challenging at best, those that are in the business of trying to navigate these shaky waters for clients and make sense of the current market are finding that their business is in a definite up cycle.

Gone for the foreseeable future are the days when real estate developers, investors, owners and lenders could conduct business as usual, using the tried and true text book approach. New and creative ways are finding solid footing in buying, managing, developing and selling in all areas of real estate and new expertise is required in a field that has changed dramatically over the past few years.

Two sister Southern California firms – Land Interests, Inc. and Paladin Asset Preservation &

Management, Inc. of Irvine – are finding that their services are becoming more popular as the demand for the expertise to decipher complex real estate issues in commercial, residential and land assets is becoming more necessary. With foreclosures, loan workouts, repositioning properties and many other specialties called into play that weren't as widely used when the economy was thriving, problem solving has become one of the most valuable real estate services in the current market.

"From our standpoint, our job is to provide a good strategy for the asset – to maximize its value, minimize the risk and provide the expertise to do these things," said David Mudgett, who was recently hired to oversee the operations of both Land Interests and Paladin. "Our business has become a competitive market, but the need for our type of services is definitely growing. We have positioned ourselves to assist all classes of assets and work with banks, private investors, developers, trusts and individuals."

Mudgett, a former president of the Irvine Company and president of Koll Development's Retail Division in the 1990s, sees a U.S. economy that is going to be fragile for the foreseeable future.

"We are in a period of excess sup-

ply and limited concurrent demand that will last well into at least 2012," Mudgett added. "This has a direct bearing on commercial properties such as shopping centers and the like. If the consumers in the market within 12 miles of a shopping center cannot support those tenants, then it has a direct bearing on the viability of those tenants and their ability to pay the rent. If the rents attainable will not support the debt, then you have to either increase the equity or reduce the size of the note. The value of the property is established in relation to the income it can generate."

He also noted that banks now find themselves in a situation where many commercial mortgages that were originated over the past 10 years or so are becoming due, but because of declining values, these notes can't be paid off with a refinance or sale and will become a troubled asset. Mudgett noted that on the commercial side there hasn't been the mountainous number of foreclosures as in the home market, although potentially the damage could be as great based on the number of loans that can't be refinanced.

In today's situation, he noted, banks are really faced with the option of working new loan terms with the current borrower or doing the same thing for the next owner

who picks up the property in a foreclosure at a huge discount.

"Sometimes it is not the borrower's fault that when he purchased the property rents were going for \$2.5 (per square foot per month) and now they are \$1.50," said Mudgett. "It is just the way it is."

He also noted that one of the bigger challenges today for developers is that many assets can be had below the cost of building, making it impossible for new projects to pencil out and turn a profit. Mudgett also noted that the location is a key factor.

"When you look at the housing market, a home in Newport Beach has held value better than a home in the Inland Empire, and the same goes for commercial properties," he added. "A Class C building is still a Class C location. When the demand comes back, tenants will want to go back to the Class A locations and those will still command higher rents. Consumer demand is the key to the economic recovery in real estate. It has a ripple effect and rents won't increase significantly in commercial properties until this changes."

(Terry Ross, the broker-owner of TR Properties, will answer any questions about today's real estate market. E-mail questions to Realty Views at terryross1@cs.com or call 562/498-1049.)

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PUBLISHER

George Economides

VICE PRESIDENT

SALES & MARKETING

Martha Rangel

DIRECTOR CREATIVE/

TECHNICAL SERVICES

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Sean Belk

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PHOTOJOURNALIST

Thomas McConville

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