

Land Is on Sale in California

Distress seen in state's southern markets may reach northern cities

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Land is on sale in California, but the state's northern markets haven't caught up with conditions that are providing relative bargains for regions to the south.

Brokers in Southern California note land was trading at fire-sale prices in outlying areas last year, with reductions in value moving closer to the coast this year. In Northern California, the level of distress in other markets has not been felt yet in the San Francisco Bay Area, but inland markets are beginning to feel the heat.

The Irvine-based **Hoffman Co.** has 13 brokers in Southern California specializing in land sales from San Diego County and north into the Central Valley.

Tom Dallape, a principal at the Hoffman Co., said land sales are picking up, but most of the activity this year is in the stronger housing markets.

After home sales began a dramatic slide a few years ago soon followed by the land market, Dallape said the first land sales were in outlying areas with high levels of foreclosures and extreme declines in housing demand, such as Riverside County, Imperial County and the Coachella Valley.

Now lenders and some homebuilders are beginning to sell land in stronger markets where developers now are in distress - north San Diego County, the Eastvale and Chino Hills marketplace, and the San Gabriel Valley between Los Angeles and the Inland Empire.

"Land is the first [commercial real estate] market today that's really found an equilibrium, not so much a bottom, but the bid and ask price are close enough that we can make deals today," Dallape said.

He said land values in general have come down 50 percent to 70 percent from the peak a few years ago. Homebuilders that are buying lots in top markets typically will offer more than an investor because they plan to restart homebuilding, so they won't hold the land for as long as an investor would.

"The buyer pool may be a little smaller on the unimproved lots, but we've reached a [price] point in the marketplace for investors that want to buy unimproved lots," Dallape said. "Their time-hold horizon is longer than other investors or developers."

Many of the investors who are acquiring land now appear to be the same buyers who were buying and

holding unimproved land in the early to mid-1990s as passive investors.

“There’s such a discount on that, that we’re seeing the number of investors increase substantially,” Dallape said.

Consistent Demand

For the most part, he said land buyers in this market largely have been local and regional investors. Opportunistic groups and vulture funds have been looking but have yet to make major investments in Southern California land.

On the sellers’ side in Southern California, Thomas Doyle, principal at Irvine-based land brokerage **Whittlesey Doyle**, also noted that lenders finally are selling land closer to the coast this year, as opposed to last year when publicly traded homebuilders in the high- and low-desert markets were willing to take a hit on land sales.

Doyle said lenders are willing to lower land prices in the more desirable housing markets and clear those assets off their books before borrowers begin to let commercial real estate assets fall into foreclosure. Lenders are looking to brokers for opinions of value for larger homebuilding sites in north and south San Diego County and in Riverside County and Southwest Riverside along the Interstate 215 and I-15 corridors.

Doyle said there is little debt available for land transactions, but if sellers can offer some sort of financing they can garner higher prices. Some lenders are looking at more strategic approaches to prop up prices and provide financing, such as participation in future profits from developing the land.

“I do think buyers will be receptive,” Doyle said. “People need and want to keep their teams engaged. If they don’t get more activity, there will be more layoffs. If it takes being more flexible in the structure, they will act to facilitate sales.”

Each land sale has a different set of conditions, but Doyle is seeing pricing at 10 to 40 cents on the dollar compared with peak pricing.

“I think that there is consistent and good demand for well-located, correctly priced properties in downtown San Diego,” said Victor Krebs, senior vice president at **Colliers International** in San Diego.

Land buyers in downtown San Diego have been developers buying sites at low prices now as they wait for the condominium or hotel markets to rebound and high-net-worth private investors. Sellers have been lenders that have taken back development sites or individuals who are not in distress but have owned land for a long time at a low-enough basis that they will still turn a reasonable profit.

Krebs and Rob Morgan of Colliers brokered the \$7 million sale of a 58,314-square-foot site at 2045 Pacific Coast Highway on the north end of downtown San Diego earlier this year. The site is home to the Body Beautiful Car Wash and will be held by the San Diego-based **Pacifica Cos.** for future development.

Krebs and Morgan also represented the seller, **Dunham & Associates** of San Diego, when it sold a 20,000-square-foot parking lot at Ash and States streets for \$6.25 million to San Diego developer **Chhatrala Group**, represented by Tim Winslow and Jason Kimmel of San Diego-based **Grubb & Ellis|BRE Commercial**.

“Another thing we’ve seen some activity on is affordable housing,” Krebs said.

Colliers closed one land transaction for an affordable-housing project last year at Sixth Avenue and Cedar Street and the brokerage has another affordable-housing site in escrow in downtown San Diego.

“There are good conditions for those guys in that land prices have come down, construction costs are coming down and the number of competitors for that land is coming down,” Krebs said.

Cities Looking for Deals

The Centre City Development Corp., the city of San Diego’s planning and redevelopment agency for downtown, is trying to benefit from lower land prices as it acquires sites for parks and affordable-housing commitments.

David Allsbrook, vice president of contracting and public works at the CCDC, said he has approval from the agency’s board of directors to move forward with appraising and acquiring land for the balance of the properties on the future St. Joseph’s park site covering the block between Third and Fourth avenues and Beech and Ash streets.

The CCDC owns two properties totaling 22,500 square feet and has three parcels left to buy for the 60,000-square-foot park.

The CCDC also is working on acquisition of the rest of a mega-block - about 120,000 square feet of land - for the planned three-block, 180,000-square-foot park called East Village Green. The CCDC has owned a portion of the mega-block at 14th and G streets for three years and is in the process of appraising and acquiring the rest of the land between 14th,15th, F and G streets.

At the south end of another block between 13th, 14th, Market and Island streets, an affordable-housing project called Parkside Terrace is under construction. The CCDC previously bought 22,500 square feet of the remaining 40,000 square feet on that block and is appraising the rest of the parcels. The property will remain in the CCDC’s inventory as available for future affordable-housing or market-rate development.

Other than sites already approved by the CCDC board, Allsbrook said the agency is not actively looking for land to accommodate park plans or fulfill affordable-housing requirements in downtown. However, there is one site in Little Italy that San Diego-based **CityMark Development** planned to use for a condominium project called Pier for which the CCDC is looking at options for affordable housing or parking facilities.

“If something else came along that made sense from a project point of view and we could afford it, it’s something we could consider,” Allsbrook said.

In other areas of Southern California, the Hoffman Co. has seen city governments look at a few strategic sites for public facilities, but Dallape noted that cities also are suffering from major budget issues, so they may not have money to act on reduced land prices.

Sitting on the Sidelines

In Northern California, Andre Walewski, senior vice president at Colliers International in San Jose, said Silicon Valley has not seen much land trade hands yet in the downside of this real estate cycle.

“I don’t think our land values have dropped significantly enough to make builders confident enough to build something,” Walewski said. “Commercial development has slowed because of the difficulty in getting financing.

There is no speculative development going on in our market.”

He estimated that Silicon Valley is six months to a year behind Southern California and markets such as Las Vegas and Phoenix that headed into a downturn earlier because of major drops in home sales and high levels of speculative development.

“Lenders are just now starting to take back land and deciding what to do with it,” Walewski said.

So far, land prices have not taken a big dive because there has been little speculative development in Silicon Valley and because there is not much undeveloped land available due to the constraints of mountains on the east and the San Francisco Bay on the west.

Where land prices have fallen dramatically in Northern California is in outlying areas such as Stockton and Tracy, where developers planned massive housing developments on large tracts of land.

“Buyers are just sitting on the sidelines waiting for prices to drop,” Walewski said. “Sellers are looking to see how far down they have to go.”

Bob Sullivan, vice president at **CB Richard Ellis** in San Francisco, said land buyers are on the sidelines in San Francisco since planned developments are being delayed by market conditions.

Sullivan sold 7.43 acres to **Alexandria Real Estate Equities Inc.** last year at \$35 per square foot in South San Francisco for a 144,000-square-foot, four-story lab building, but the project is on hold.

Sullivan is marketing 2,150 acres with 1,200 acres of almond groves in Merced and a 1,200-acre site for a solar farm in Madera. He said agricultural land and large sites bought by residential developers 10 years ago are going on the market now.

In contrast to the Northern end of the state, Kimmel said land is selling all over San Diego County, though not at a rapid pace or high volume. He estimated that 90 percent of the sellers his team is working with are lenders that have taken back property.

Even with such signs of distress in the market, he said opportunistic funds have focused on buying loans and large tracts of land in bulk directly from banks while waiting for even lower pricing on local land transactions.

“I think the land market has maybe stabilized somewhat in Riverside, but it still will drop in San Diego,” Kimmel said.