

## VALUE DECLINES

# Hacienda del Mar REO sale could be first of many in '10

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In what could be a precursor of things to come, the 66,000-square-foot, three-story Hacienda del Mar office building in Del Mar Heights was sold for \$15.6 million on the last day of the year after being taken back by its lender.

The garden atrium-style property, nearly half vacant, was purchased by **OF 09 Hacienda, LLC**, an entity of **Davlyn Investments** of San Diego. Davlyn will be taking about 5,400 square feet for its own use.

The property last sold for \$27.5 million in late 2007, or about \$417 per-square-foot.

The 2009-ending REO sale was for \$236 per-square-foot.

John Hale, Davlyn office acquisitions director, said he expects to have the building largely leased by the end of this year.

The company, with offices currently in Mission Valley, has about 100 employees in San Diego and Orange counties.

The property seller -- assessor's parcel 304-101-03-00) was **Chinatrust Bank (USA)** -- of California. Michael Roberts and Steve Rowland, of **Cushman & Wakefield** represented the bank. Davlyn represented itself.

Hale and Roberts noted that rather than take what has been euphemistically called "extend and pretend" as many lenders have done with troubled commercial real estate, Chinatrust cleared the decks and foreclosed on the property last fall.

The building had been owned **Cardinal Real Estate Investments** of El Segundo, which had acquired the building at the peak of the market.

While Cardinal made substantial improvements to the property in anticipation of converting it to an office condominium, the exact cost of the improvements isn't known.

Enhancements included an improved entrance and lobby with digital directory, a conference room with video conferencing capability, updated bathrooms, locker rooms, a new roof, a new heating, ventilation and cooling tower system, a new elevator system, a new monument and building signage, and exterior landscaping.

Hale noted the building also includes operable windows, showers, a deli, lockers, balconies that open up to the 7,500-square-foot open-air courtyard featuring gardens, and stone-carved fountains.

The building may be unique, but in the end, not a single office condo unit sold and the occupancy went from near 100 down to 53 percent.

Roberts said he is convinced Hacienda del Mar is just the beginning of what he expects could be a wave of commercial foreclosures.

"This transaction represents the beginning of a trend in San Diego County toward larger, highly sought-after, REO commercial real estate sales. Commercial real estate lags the overall economy and the sale of Hacienda Del Mar is a signal the process of foreclosures to REO sales is underway locally," Roberts said.

Chris Pascale, a **CB Richard Ellis** (NYSE: CBG) senior vice president, agreed.

"There will absolutely be more foreclosures," Pascale said.

When asked how long he expects to see these foreclosures happening, Pascale said at least for the next two years and suggested that joint venture partners pulling out their assets could hasten the foreclosure process.

"Some investors want out," Pascale said.

Not everyone agrees that the San Diego region may experience a wave of foreclosures.

Ken Kisbert, a **Colliers International** senior vice president, said while there will be some commercial foreclosures, they will be a trickle rather than a flood.

"I don't think we're going to lose as many buildings as some people expect," Kisbert said. "The landlords aren't in dire straits for the most part and do banks want to take these back? I don't think so."

Whether or not many more foreclosures are coming, Hale said he is very glad to not only have the building, but an asset that he got for far below replacement cost.

"We've been trying to get a property in that submarket for almost four years," Hale said.

Hale and Roberts said the building generated lots of interest from prospective buyers, and then from prospective tenants once Davlyn was on board and it was known the property wasn't going to be an office condominium.

Davlyn will have plenty of competition.

Roberts said Del Mar Heights has a direct office vacancy of 17.3 percent and if sublease space is added to the mix, this climbs to 23.6 percent.

Roberts and Hale say Davlyn not have to give away the store to get tenants into its building.

Roberts said a new tenant is fairly typical.

In that case, Kirk and Ross Dove, owners of **Heritage Global Partners**, an auction services firm, signed a lease on 1,235 square feet for 36 months at an initial rate of \$3.25-per-square-foot with 10-cent increases each year.

The landlord gave two months of free rent as part of the lease but there were no tenant improvement allowances.

The Del Mar Heights submarket had a roughly \$4 average rent less than three years ago.

