

Speculators Snag Their Entitlements, Then Take the Money and Run

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When Amir Kalantari paid 30 percent above the going rate for a half-acre lot at the corner of 11th Street and Grand Avenue, downtown property owners scoffed.

Two years later, Kalantari may be having the last laugh. After getting the plot entitled for the 25-story Glass Tower--and its 128 condominiums--the 25-year-old has the land for sale and is getting bids that are more than double what he paid.

"I wasn't influenced by what everybody else was saying," Kalantari said. "I saw where the market was going and I had confidence it would carry through."

A number of investors who paid above-market rates for downtown L.A. land a few years ago--and got approvals for projects on the sites--are now selling the entitled land to builders with deeper pockets.

Land brokers say a cottage industry has developed involving entrepreneurs buying land and spending up to \$1 million to get entitlements before flipping the site for up to a 100 percent profit.

"They are selling to companies that don't want to take the risk," said Mark Tarczynski, first vice president at CB Richard Ellis Group Inc., who has the Glass Tower listing. "Mainly those are the larger Wall Street-type development firms."

Downtown entitled land has fetched as much as \$575 a foot, and most brokers believe that the amount could rise to more than \$600 by year's end. Most of the sellers paid less than half as much.

"A lot of guys who own land are finding that their property has appreciated so quickly they can sell their land and still get 80 percent of the profits they had been anticipating," said Richard Plummet, senior director at Cushman & Wakefield Inc.

Kalantari, who came to Los Angeles to get a master's degree in business administration at Loyola Marymount University, got swept up in L.A.'s real estate market. After learning of the scope of development downtown, he put off his graduate degree and joined the fray.

To get started, Kalantari's father--a real estate investor based in Austin, Texas--came in on the deal. While the senior Kalantari put up most of the money, the son spent most of the last two years getting the condo project approved.

"Look at the market today, and there's such a scarcity of entitled land downtown," Kalantari said. "There's all this energy downtown and for the first time institutional

builders want to be there, so of course you're going to see a drastic increase in the price of these lots."

By buying entitled land, builders minimize the risk that the market will sour between the time they take on a project and finish construction. Getting entitlements in L.A. can take a year and a half and going through planning and permitting another six months. Construction of a high-rise can take about two years.

"Institutional builders, almost by definition and their nature, aren't the riskiest of ventures," said Jason Glasgow, a land broker in the downtown L.A. office of O'Donnell/Atkins. "Three years ago we couldn't bring land downtown to any of our institutional clients."

Times have changed. In July, a Lennar Corp. subsidiary paid Anschutz Entertainment Group \$80 million, or \$460 a foot, for a 4-acre parcel with entitlements for three condominium towers and 250,000 square feet of shops and restaurants.

The Lennar deal came on the heels of Bloomfield, Mich.-based Pulte Homes Inc. buying a 2-acre surface parking lot at the corner of Second and Rose streets in Little Tokyo. Pulte, the nation's second-largest homebuilder, plans to convert the site's entitlements for an office tower to a six-story condominium with 210 units.

Several real estate sources said that Los Angeles-based KB Home, Irvine-based Standard Pacific Corp. and Red Bank, N.J.-based Hovnanian Enterprises Inc. are hunting for sites downtown.

Homebuilders can afford to pay higher prices because buyers continue to snap up downtown condos at increasingly higher prices. Some condo projects are fetching average prices exceeding \$550 a foot.

Even at those prices, the units are being absorbed at Mach speed. Last month, the South Group sold out its 191-unit Luma condominium building at 11th and Hope streets in seven hours.

"Typically, developers would be happy to sell out that many units in seven months," said David Mgrublian, managing director of IDS Real Estate Group, a downtown developer. "Seven hours is amazing."

At those prices and demand levels, builders can afford to pay high land prices. Also, land costs make up a smaller percentage of a high-rise project compared with lower density construction.

Carol Schatz, president of the Central City Association, said higher land prices haven't affected the pace of downtown development. "Clearly it's a hot market, and that's a good thing," she said. "Whether or not it's overheated, only time will tell."

With publicly held homebuilders interested in downtown, owners are rushing to put their properties on the market.

At the southwest corner of Bixel and Ingraham streets, near where 1100 Wilshire Blvd. is being converted into luxury condos, RAD Management and the Martin Group

have listed a 57,000-square-foot lot that has entitlements for a 15-story building with about 260 condominiums.

The group also has on the market a nearby 14,000-square-foot parcel at the northwest corner of Seventh and Bixel streets. The quarter-acre lot has entitlements for a two-story mixed-use project. And Orthopedic Hospital of Los Angeles is selling a 7.5-acre surplus property at Adams Boulevard and Flower Street for a mixed-use highrise residential project.

There's also been a spate of recent land deals.

Richard Muerelo, downtown's largest landowner, is buying a 30,000-square-foot parcel at the northwest corner of Ninth and Flower streets from CIM Group Inc. for \$17.4 million. At that price, the deal works out to nearly \$575 a foot--the highest per-foot price so far paid for entitled land in downtown L.A.

Earlier this month, Hanover Development Co. paid \$7.5 million, or \$432 a foot, for a 17,370-square-foot lot at the northeast corner of Figueroa Street and Olympic Boulevard.

Also, the Community Redevelopment Agency of Los Angeles approved IDS Real Estate's proposed \$70 million purchase of a 6.3-acre site between Eighth and Ninth streets bordering the Harbor (110) Freeway. The lot has been entitled for 2.6 million square feet of development, including residential, hotel and retail projects, called the Metropolis.

Mgrublian believes prices for entitled land will only continue to rise, especially since many of the larger projects--approved in the late 1980s, before the real estate market crashed -have already changed hands. "This first wave is going through sites that stalled out in late 80s and all the land AEG got entitled around the Staples Center," he said. "The second phase is going to require assembling several lots, which is much more difficult."