Real Estate: Investor Opens Up Gateway to Japan

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Shemesh

Avi Shemesh, CIM's co-founder, said the deal is a means to facilitate growth for the company, which counts about $19 billion of assets under management.

"We are excited to partner with Mitsui to position CIM to be the first choice for Japanese investors interested in real estate and infrastructure investments in North America," Shemesh said in a statement. He declined interview requests.

More partnerships such as this could be in the pipeline, as Japanese investors seek to move capital out of Japan, said **John Livingston**, chief exewcutive at Century City developer **Aecom Capital**.

"Deals like this are good for both sides," he said via email. "They give Japanese investors access to a broad diversity of investment opportunities in the U.S. and they help them to deploy capital outside of Japan efficiently. For U.S. businesses, it's simple, these deals provide them with needed capital to grow their platforms."

Looking abroad

Mitsui's investment is the latest in what has recently been a trickle of Japanese investment into U.S. real estate, something industry professionals said is set to grow as Japanese investors look to the United States as an attractive alternative to the low returns found in their country.

"The Japanese market has not grown the way Japanese investors would like," said **Stephen Cheung**, president of L.A.'s **World Trade Center**, which promotes international commerce. "No matter where you look, the U.S. has continually been the most reliable place for stable investments that generate a good yield."

Mitsui, a 70-year-old company with a market capitalization of about $26 billion, pinpointed the same assertion in its announcement of the CIM deal.

"In Japan, due to poor performance caused by lasting low interest rates, Japanese investors' capital is expected to flow increasingly into overseas real estate and infrastructure investments," the company said. "U.S. real estate (is) expected to remain as the largest and most attractive segment."

Los Angeles may have a particular allure for acquisitions, as property values here rise but remain lower than in other major cities such as New York and San Francisco.

Japanese companies put nearly $540 million into L.A. real estate in the last five years, according to data compiled by **CBRE**. The bulk belonged to a single megabuy: **Aso Group**'s acquisition of the Spruce Goose hangar in Playa Vista, leased to **Google**, in December. A source close to the deal said the price ranged from $300 million to $320 million.

Past is prologue

The latest flurry of activity bears only a slight resemblance to the Japanese spending spree on L.A. real estate of the 1980s, when Japan's real estate grew into a bubble and investors sought to park money abroad. In an oft-cited example of Japanese zest for the L.A. market, **Shuwa Investments Corp.** purchased City National Plaza downtown for a record $650 million in 1986. That same year, Japanese companies wound up owning a quarter of the downtown office market across 16 towers.

The pop of Japan's bubble in the early 1990s plunged the country into recession, and Japanese companies pulled out of their high-profile U.S. real estate holdings, often selling them at a discount.

Industry observers say the new Japanese drive into U.S. real estate is very different.

"This is a new wave and a new type of investor," said **Reid McKay**, managing director at Tokyo-based asset manager **Eastgate EGW**, who represented Aso in the Spruce Goose deal.

Investors today are giant legacy corporations with diverse holdings, rather than smaller companies that were easily able to access cash and debt several decades ago, he said.

In addition to ASO and Mitsui, **Mori Trust Co. Ltd.**, and **Takenaka Corp.** have spent heavily for U.S. real estate in recent months, McKay said. He added that Japan's Government Pension Investment Fund recently hired a well-respected acquisitions expert to target overseas deals.

"They're all highly respected groups that were not heavily involved in the last cycle of Japanese investment," McKay said.

He described Mitsui's partnership with CIM as a creative and smart move, particularly as competition intensifies for desirable U.S. assets.

"It's a very intelligent transaction, because Mitsui is trusting the local expertise of CIM," he said.

Building future

CIM was co-founded in 1994 by Shemesh, **Shaul Kuba**, and **Richard Ressler**, who are still company principals. The business grew to encompass five offices with 615 employees, and has developed millions of square feet of office, retail, residential, and hotel projects in big cities around the country.

Shemesh, 54, a native of Israel, runs CIM's daily operations and heads its investments group. Before launching CIM, he worked with Kuba, a friend from Israel, to co-found Dekel Development, a commercial and residential developer.

Kuba, 53, oversees CIM's development and redevelopment projects.

Ressler, 57, a former Drexel Burnham Lambert employee, is the founder of **Orchard Capital**, a private equity firm that invests in technology companies and is located in the same building as CIM. His wife, **Alison Ressler**, is a partner at **Sullivan & Cromwell** specializing in mergers and acquisitions, and his brother, **Antony Ressler**, is a co-founder of private equity giant **Ares Management** who ranked 42nd on the Business Journal's Wealthiest Angelenos list last year.

CIM has owned 60 properties in Los Angeles over the course of its history, according to its website. Its most prominent project under development is Sunset La Cienega, a pair of buildings on West Hollywood's Sunset Strip that will house apartments, a hotel, and retailers including **Fred Segal**.

Current holdings include the Hollywood & Highland Center; the former **Farmers Insurance** campus in Mid-Wilshire; and downtown's Two Cal Plaza, a 52-story office tower that is on the market. According to a source familiar with the downtown market, CIM is seeking roughly $400 a square foot for Two Cal Plaza, about $560 million.

The company also has holdings in San Francisco, Oakland, and New York, among other places.

Mitsui is poised to take a share of the equity CIM holds in a wide span of investments as well as in the investor returns on individual funds to which it contributes – a move that signals long-term faith in the company, said **Sean Burton**, chief executive at Westwood-based multifamily developer and investment manager **CityView**.

"It gives them great access to a future pipeline of opportunity," he said, adding that other Japanese investors might be eager to follow the lead of a respected company such as Mitsui.

For CIM, the only potential challenge could be loss of control.

"An investor who writes a check of that amount is going to want input into your growth and your strategy," Burton said. "That can be a big change for your firm to give a third party say into those kinds of decisions."

Housing: Homeowners Dwelling on Added Units

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can make things more difficult for homeowners to build granny flats.

The Los Angeles Department of Building and Safety has received 55 granny flat applications since Jan. 1 and issued four permits to start construction, according to agency data. From 2003 to 2016, the agency issued just 680 permits – 52 a year, on average. Most people are unlikely to apply unless they are fairly certain they will qualify considering how expensive it is to draft plans and submit an application, said the L.A. city official.

Department officials expect applications to pour in at a faster rate as more people discover their property is eligible for an additional unit.

Catching up

The Los Angeles Planning Commission voted in December to approve an updated ordinance that is compliant with state law but also introduces restrictions on unit size and the ability to build on hillside areas. The City Council could vote on the ordinance as early as next month, according to a commission official who asked to remain anonymous.

"If there are a lot of people that object to this, is the city going to try to pull back or impose stronger restrictions?" Duvivier said. "We're trying to rush as quickly as we can to get them permitted so that they can use these assets and not lose the money they're spending on architectural structural services."

Under the California law, homeowners who meet all the requirements must be allowed to build the requested unit and cities can take no longer than 120 days to issue a permit. The Los Angeles Department of Building and Safety typically takes between three to five weeks to review an application, said **Jeff Napier**, the department's public information officer. Application costs vary depending on the project, with some fees topping $1,000.

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Architectural Support: Isabelle Duvivier says clients are hurrying to modify homes.

The new regulations mean homeowners are free to add a second kitchen to an existing part of their home such as a garage, without restrictions based on lot size or having to provide additional parking. This offers a path to legalization for the many homeowners that have already illegally converted their garages into dwellings.

Parking requirements have been relaxed. Previous rules called for a dedicated off-street spot, but tandem spots in existing driveways are now allowed. An unobstructed passageway extending from the street to one entrance of the additional dwelling is also no longer required, while the mandated distance that a granny flat must be set back from the boundaries of a property has also been reduced.

Municipalities still have the ability to regulate the size of accessory dwelling units. Under the updated guidelines approved by the Los Angeles Planning Commission, the maximum allowed size for detached accessory dwelling units would be either 640 square feet or 50 percent of the total floor area of the main house, excluding garages, up to a maximum of 1,200 square feet, a limit set by state law. Attached granny flats would not be allowed to increase the house's total floor area by more than 50 percent.

While Los Angeles has so far done away with a minimum lot size requirement necessary to build an ancillary unit, other local cities have proposed keeping theirs in place. Pasadena's minimum lot size stands at 15,000 square feet, Beverly Hills' at 6,000 square feet, and Santa Monica's at 4,000 square feet.

Rental rewards?

Mel Wilson, owner of Northridge real estate brokerage **Mel Wilson & Associates**, said the additional units could eventually help ease the affordable housing crisis in Los Angeles while also providing a windfall to homeowners.

"In the long term, it may push rental rates down to a lower level because you'll have more places available for people trying to rent," he said. "As more people have granny flats and more boomers are getting older, having a granny flat will make that house more valuable."

But there could be a downside to the new law according to **Mario Fonda-Bonardi**, an architect and member of the Santa Monica Planning Commission. He said that neighborhoods will get denser, causing single-family-zoned areas, known as R-1 neighborhoods, to lose their exclusivity.

"When you have a home with a real front yard, your own backyard, and you don't have to deal with your neighbor – it's the American dream," Fonda-Bonardi said. "Now we can no longer afford to have strictly R-1 neighborhoods. As a society, as a culture, they're no longer sacred."