

## Hopes Riding on California's High-Speed Rail

**SACRAMENTO**—Business and real estate leaders are hoping that California's new 800-mile high-speed rail system will do more for the state than simply whisk passengers from one place to another. They're hoping that it will ultimately bring a lot of new jobs, development and other economic benefits.

"Any large-scale project increases job growth, which is the number-one factor affecting commercial real estate," says Kurt Strasmann, managing director of brokerage services at Voit Real Estate Services. "From a psychological standpoint, it increases the perception that California is trying to improve its approach to business with modern and efficient transportation."

Gary Mozer, principal and managing director at George Smith Partners, points out that infrastructure projects of this scale, such as the San Francisco Bay Area Rapid Transit, can produce significant positive ramifications around each station.

The new system, which is being developed by the California High-Speed Rail Authority, is being promoted as capable of operating at speeds of up to 220 miles per hour, connecting the state's urban centers, including the Bay Area, Fresno, Los Angeles and San Diego. The first phase of the project, estimated to cost about \$43 billion, will begin operation once the initial segment—150 to 200 miles—is built, connecting the system to at least one

major metropolitan center. The project is being funded through a voter-approved bond, federal grants and public-private partnerships.

"In this particular context, the railway will potentially aid the flow of labor between cities, thereby driving specific needs for development," explains Los

Angeles-based Saman Shams, a managing director at ICO Group of Cos.

He points out that the labor market—especially hit hard in the Central Valley—is seeking temporary and permanent jobs wherever they can find them. The rail system will help the jobs and the workers connect.—*Natalie Dolce* ♦

## Cash and Quality Still Reign in CA

The first quarter of 2011 has brought with it signs of optimism throughout the investment market. Aggressive fundraising activities by large investment funds and REITs have yielded significant capital, the stock market has returned to pre-recession levels and all the while, real estate continues to trade well below previous peak prices. This convergence of factors has led to an increase in investment activity as investors and lenders begin to leave the sidelines to place enormous amounts of capital.



### By Greg Merage

Despite this renewed optimism, many underlying market fundamentals remain tepid at best. High vacancy rates, depressed rents, lack of tenant demand and market volatility continue to impact the performance of all asset classes. These factors, combined with the abundance of capital, complicate the acquisition process for investors and underscore the importance of focused underwriting techniques to assure success.

While capital markets have loosened and deal flow has increased, it has not occurred at a pace swift enough to meet investment demand. Lenders remain highly selective in evaluating sponsors and well-capitalized investors continue to operate from a position of strength when looking to acquire best-in-class assets.

California's GDP ranks it as one of the largest economies in the world. That, coupled with its key location as a major gateway to the Pacific Rim, continues to make it a favorite for most institutional investors. In addition, the state continues to be an attractive place for people to live, which should help sustain the local economy.

Significant investor demand has been directed toward multifamily, industrial and certain retail product types, which have historically demonstrated a lower level of volatility throughout downturns. REITs and other institutional investors remain confident in the long-term viability of these products, and competition has significantly increased purchase prices over the past two years.

Conversely, office and hotel properties continue to suffer from depressed values and high vacancy rates. These assets, which are operating well below their peak performance levels, are positioned to begin a gradual recovery as job growth resumes and provide an opportunity for more robust returns over an extended recovery period.

In an improving economy, hotels tend to rebound more rapidly than property types that are constrained by in-place leases. As the recovery continues to take hold and corporate profits improve, business travel is expected to increase. This should contribute to higher lodging values, particularly in business-oriented hotels.

In California, the difficulty entitling and building new product should serve as a barrier to entry for new, competitive product on a large scale. Even though a return to pre-recession values may still be several years away, investors with strong cash positions will reap the greatest benefit of the improving conditions.

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### Executive Moves

**SAN DIEGO**—The new president and chief executive officer of Cassidy Turley BRE Commercial is **Daniel Broderick**. He will focus on driving the firm's strategic initiatives and growth strategies, including building a presence in Orange County and the Inland Empire.

**ONTARIO, CA**—**Alex Mogharebi**, the former EVP of investments at Marcus & Millichap Real Estate Investment Services, has joined Hendricks & Partners in Southern California. Mogharebi will be instrumental in the firm's continued expansion into the SoCal market.

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**Vital Signs.** . . With high vacancies and asking rents discounted 10% to 25%, it is still a tenant's market in San Diego.—*Jones Lang LaSalle*