FAR is Key to Success for Commercial Investments

Owners of commercial and investment property throughout the San Fernando Valley stand to benefit if their property is zoned to fit the new market that is evolving throughout the region, a speaker at a symposium said recently.

"This is one of the most exciting times for commercial real estate," said Brad Luster, president of Major Properties and a speaker at the recent Investment Real Estate Symposium presented by the Commercial and Investment Division of the Southland Regional Association of Realtors. "What we're seeing is the emergence of a new type of market that Los Angeles has never seen before."

Gone is the era of sprawl. Instead, starting downtown then spreading region wide, developments will rise vertically, with floor area ratios — known as FAR — dictating the value of commercial properties.

Some developments, especially those with at least a half-acre, could spur what Luster called "catalytic development," a huge explosion of growth in one development that will spill over onto surrounding properties.

"If I had property on Ventura Boulevard," he said, "I'd get the FAR increased."

Demand to be in Los Angeles is "unbelievable," he said, and as urbanization of downtown continues, plus the possible addition of a NFL football team and redevelopment of the Convention Center, a dramatic leap in development will occur.

As urbanization spills over the passes into the San Fernando Valley, Luster said the challenge for investment property owners will be to convince very strong Valley homeowner groups that development is a benefit.

"The way to get it done is to create pocket parks or rooftop parks or centers that you donate to the city," Luster said. "If you do some community service or include affordable housing, you can get an increased FAR."

This budding era of vertical growth will impact virtually every property — from mid-rise to high-rise, from downtown to mom-and-pop centers in the Valley. Increasing numbers of properties will have retail on the ground floor with residential above.

James Arom, who was also a speaker at the symposium, said he sees a strong market, with lease rates going up, and strong demand, especially for apartments in areas like Sherman Oaks.

"I see office space demand in medical becoming a real necessity," the vice president and senior commercial loan officer at Wells Fargo Bank told the more than 100 investors and commercial real estate professionals who attended the symposium.

When deciding on a loan application, Arom said he's looking at the property's income, at liquidity post funding—at a total package. Each property, he said, gets graded: What is its use? Commercial zoning? Parking? Any easement issues? Most importantly, the lender will want to make sure the borrower has a clean background with no bankruptcies and no liens.

"We're seeing a lot of cash buyers," Arom said, "yet there are people who will leverage. When you leverage, you want to be realistic with the borrower, showing some income."

Obtaining a lender's initial commitment could be wrapped up in as little as two weeks, Arom said, subject to further background investigation, an environmental report, if necessary, and an appraisal report, which could take one to two weeks and must be based on sales and data of comparable properties to justify the transaction. The whole process of obtaining a loan on an investment property could be concluded in 45 days to 60 days, he said.

Randall Blaesi, vice president, commercial division manager, of Property Sciences Group, Inc., said that part of an appraiser's job is to "review everything.

"We like to see three years of income and expenses," he said, "do a preliminary title report, and look at a range of issues — including, zoning, utilities — anything that can effect value of the property.

"We want to make sure there are no extraordinary expenses, like bringing in water lines," Blaesi said. At the end of the day, he said, an appraiser gives their client, the lender, a confidential opinion of value of a particular parcel.

The Investment Symposium was made possible by a grant from the National Association of Realtors.

This is the third of four reports on the recent Investment Real Estate Symposium. The other stories are available at www.commercialdataexchange.com.