

Commercial Real Estate

The New Playbook for Commercial Real Estate in Los Angeles

IN today's changing times, real estate players have had many months to contemplate the industry's big mistakes, and perhaps a few of their own. By now, most have realized that the most painful errors were learning experiences in a game where the only thing certain is that the rules remain fluid and subject to change.

The reality of fluidity may very well be one of the first lessons real estate participants come out of this new cycle having learned. Though investors and brokers obviously have key indicators — average prices per square foot, deal volume, unemployment rates, occupancy and construction completion — to gauge where the market is headed, one of the largest mistakes they may have made in this current cycle, was to assume that the rising — and rising, and rising — market would not be subject, sooner or later, to declines.

But no one was thinking that the bubble would burst, the market would turn or the credit would run out. Prices — not to mention power — changed hands before investors could even realize the degree of their losses in equity and appreciation.

"Both the residential and commercial markets have been on steroids due to the commercialization of mortgages. Like every effective detox program, you have to go through some tough times before you bridge the cycle. You're going to have to pay the price," says developer Robert Held, President of Held Properties, Inc.

Not everything on the horizon is doom and gloom, however. Though the real estate community may still be repeating past mistakes, many professionals are compensating for these oversights by being proactive and even tapping into their creativity to make sure deals still get done. Innovative ways of thinking range from creative financing options, such as off-market transactions, to investing in niche properties, such as self-storage facilities and medical offices. The resulting market activity allows them to stay in the game during a time when less right-brained real estate

players remain planted on the sidelines.

"It's tough out there but there are still tremendous opportunities for people with the right strategy and the right capital. Because of the stress in the current market and our favorable access to money, we have the ability to capture deals that would not have been a reality a couple of years ago," says Michael Frankel, Chief Financial Officer with Rexford Industrial.

As real estate professionals seek out ingenious ways to keep their debt and equity afloat, many have realized that one of the easiest ways to get creative deals done is to stay on top of current trends and market them accordingly.

Jennifer N. Taylor, Managing Principal with Arroyo Holdings, LLC, has more specific insight. "There are a lot of smart people on Wall Street who make their money off transactions. They are not going to sit around and twiddle their thumbs. They are already seeking out inefficiencies in the market and creating new strategies to capitalize on those inefficiencies. One strategy we're seeing is new debt vehicles such as 'fund of funds' coming on the market. Rather than giving a company capital to invest in real estate, a fund of funds would give that same company capital to invest in smaller companies that invest in real estate, thus attacking a larger quantity of smaller deals," she says.

The Green Movement

Across the board, the green movement has also had a huge effect on real estate. Whether it means incorporating LEED certification from the first planning stage or retrofitting a historical site for sustainability, nearly everyone, everywhere seems to be seeing green. This, of course, is one way investors and brokers can leverage their properties in a market where overbuilding, stagnant job growth, rising gas prices and highly competitive rents can easily dominate. Marketing a property as green, sustainable or energy-saving can often times persuade a tenant or buyer to pick that

property over another, if most other factors are equal.

"For the first time in history, tenants are demanding to be in green buildings. It was never a big deal before, but now it is really important. Both landlords and tenants want to be a part of the whole green contingency for a number of reasons, perception being a large one," says Dennis Thurman, Senior Vice President of Engineering/National Director of Energy Programs with Transwestern.

California Is Golden Still

The eternally bright side for local real estate personnel is that they live and work in Southern California, a place that is coveted by most, afforded by fewer and envied by all. With one of the largest GDPs in the world, California's fundamentals are solid. "We are in really good shape from that standpoint," says Madison Partners Principal Bob Safai. "We won't see the same numbers of foreclosures here as in other markets. We won't be hurt as badly."

Despite the decline in Southern California's—and, specifically, Los Angeles'—affordability, the desire to live, work and play in this eclectic paradise will endure. The current exodus the state is experiencing is due only to the lack of practical housing options. Cycles repeat, real estate ebbs and flows, but this idyllic corner of the world can be confident that its powerful engines will eventually drive it back in the right direction.

Such optimism is not misplaced. Each of the various challenges facing the U.S. has a solution waiting to be found in the new global game. Now is the time for the alert real estate professional to contemplate the lessons learned and to master the new playbook. Designed for fluidity, not certainty, it makes the game more interesting than ever before.

SPOTLIGHT: CAPITAL MARKETS



The More Things Change...

“TODAY’S uncertain financial outlook is influenced by many factors, including the war in Iraq, the rise in energy prices, and the changing political climate,” says John Carrick, Managing Director of Studley’s Structured Finance Group. “All of these macroscopic influences trickle down and have an impact on different industries,” he adds.

In the current capital markets, sales transaction volume has fallen off a cliff. “Real estate deals of \$50 million or more have declined more than 70 percent nationwide. The market in CMBS (commercial mortgage-backed securities), the finance vehicles of choice for the past two years, has plunged 90 percent, from \$60 billion in 2007 to \$6 billion in 2008” says Eric Hanke, Managing Director of Studley’s Structured Finance Group.

“We are in uncharted territory. We’ve never had a situation without lenders on the horizon. Until debt returns to the market place, business will be slow through this year,” predicts David B. Doupe, International Director, Jones Lang La Salle Americas, Inc. “I wouldn’t be surprised if conditions remain this way through the second quarter of 2009.”

“We deal with a lot of lenders who are starting to become very nervous. We expect to see them really loosening their requirements and value opinions on properties by the fourth quarter of 2008.

We’re finding that lenders are becoming aggressive in selling their properties whether they’re performing or not - just to get the properties off their books,” says Todd B. Wohl, Vice President, Braun Auctioneers & Appraisers.

There are, however, signs of life: Some portfolio lenders are still lending, but largely to clients with whom they had existing relationships. As with other sectors, the weak dollar has encouraged foreign investors who are very active and going after trophy assets. In regards to the various micro-markets within the LA area, experts agree that the west side markets, including West LA, Century City and the valley are continuing to show very strong rent growth and investor appeal. The Inland Empire however, has softened substantially with vacancy rising and rental rates and investor appeal declining. In the industrial market the air freight industry surrounding LAX has seen strong rental and sales growth, as has the Carson area which services the ports.

“It’s business as usual for us,” says Charles A. Bruni, Managing Principal of Arroyo Holdings, LLC. “We’re planning for the future with different platforms, reaching out to our network and finding out what they’re doing and how we can work together. The people who work hard now are the ones who will be better positioned when the market returns.”

LA’s Best Brokers Specializing in Capital Markets

Ranked by gross total consideration value of 2007 transactions



Barbara L. Emmons, EVP
Darla Longo, Vice Chairman
CB Richard Ellis, LA North (Universal City)
2007 Transactions:
\$4,277,594,681 in 53 sales and 8 leases
Focus: Investment properties in the Western U.S.



Fred B. Cordova, III, SVP
Colliers International, Los Angeles
2007 Transactions:
\$3,200,000,000 in 13 sales
Focus: Los Angeles County and surrounding areas



Michael C. Ross, Managing Director
Colliers International, Los Angeles
2007 Transactions:
\$3,200,000,000 in 14 sales
Focus: Western U.S.



Kevin Shannon, Vice Chairman
CB Richard Ellis, Torrance
2007 Transactions:
\$2,989,001,596 in 84 sales and 4 leases
Focus: Investment properties in the Western U.S.



John Strauss, Executive Vice President
Jones Lang LaSalle Hotels, Los Angeles
2007 Transactions:
\$1,600,000,000 in 23 sales
Focus: Hotel properties



David Doupe, International Director
Larry Krasner, Managing Director
Jones Lang LaSalle, Los Angeles
2007 Transactions:
\$1,549,940,000 in 13 sales



Marc D. Renard, Managing Director
Cushman & Wakefield, Los Angeles
2007 Transactions:
\$812,415,332 in 28 sales
Focus: West Coast



Tom Bohlinger, Executive Vice President
CB Richard Ellis, Downtown LA
2007 Transactions:
\$619,763,039 in 12 sales
Focus: Investment properties in Los Angeles County



David Hasbrouck, Executive Vice President
Cushman & Wakefield, Los Angeles
2007 Transactions:
\$576,720,764 in 16 sales and 17 leases
Focus: Southern California



Stephen Algermissen, Executive Director
Cushman & Wakefield, Los Angeles
2007 Transactions:
\$475,800,000 in 7 sales
Focus: Retail properties (West Coast);
Office properties (LA County)



LA's Best Brokers Specializing in Capital Markets
Ranked by gross total consideration value of 2007 transactions



Sterling Champ, Executive Vice President
CB Richard Ellis, LA North (Universal City)
2007 Transactions:
\$276,531,986 in 25 sales
Focus: Investment properties nationwide



David Lachoff, Senior Vice President
Grubb & Ellis, Los Angeles
2007 Transactions: \$95,700,000 in 18 sales and 7 leases
Focus: Investment properties



Joe Kimaz, First Vice President
CB Richard Ellis, Beverly Hills (Century City)
2007 Transactions:
\$76,536,043 in 2 sales and 9 leases
Focus: Investment properties



David Ghermezian, Senior Vice President
Grubb & Ellis, Los Angeles
2007 Transactions: \$71,800,000 in 15 sales and 5 leases
Focus: Investment properties in Los Angeles



John M. Carrick, Managing Director, Structured Finance Group
Eric W. Hanke, Managing Director, Structured Finance Group
Studley, Inc., Los Angeles
2007 Transactions:
\$179,000,000 in 4 sales



John Battle, SIOR, Founding Principal
Lee & Associates - LA North/Ventura, Inc.
2007 Transactions:
\$160,600,000 in 6 sales
Focus: Investment sales, Southern California



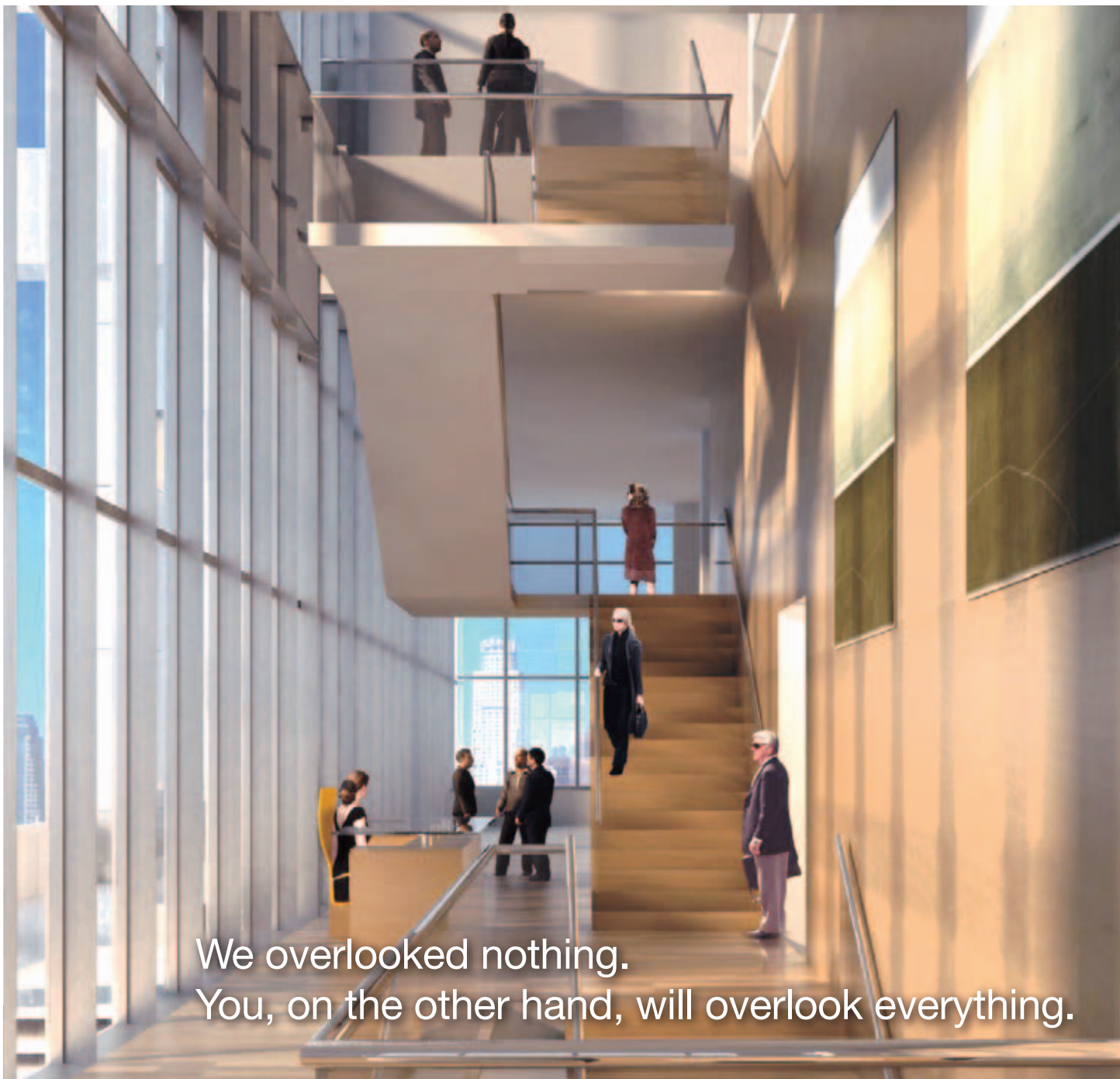
Mark A. Perry, Senior Vice President
Carlene O'Neil, Vice President
CB Richard Ellis, LA North (Universal City)
2007 Transactions:
\$149,875,000 in 13 sales
Focus: Investment properties in LA and Ventura Counties



Brent Avis, Principal
Lee & Associates - LA North/Ventura, Inc.
2007 Transactions: \$114,880,000 in 4 sales
Focus: National Investment Sales, Office, Industrial, Retail



Jim Donnerstag, Senior Vice President
CB Richard Ellis, Beverly Hills (Century City)
2007 Transactions: \$101,362,311 in 6 sales and 3 leases
Focus: Investment properties



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Another LBA Realty Development

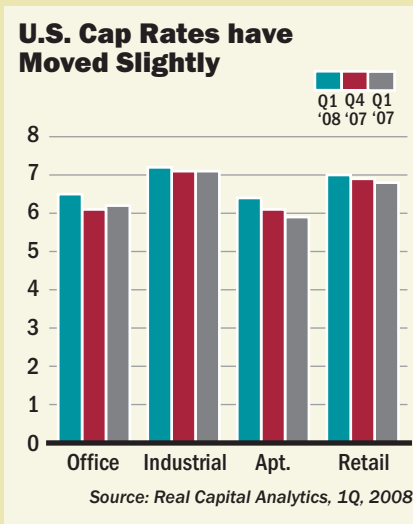
Global Investment Sales Await Narrowing of Bid/Ask Spread

By **RAYMOND G. TORTO, PhD, CRE**
Global Chief Economist,
CB Richard Ellis

SUBPRIME lending has dominated the news and conversations for over two years, as what was initially a serious deterioration in lending standards concomitant with increased speculation in the U.S. housing market has evolved into a global credit shortage and economic slowdown.

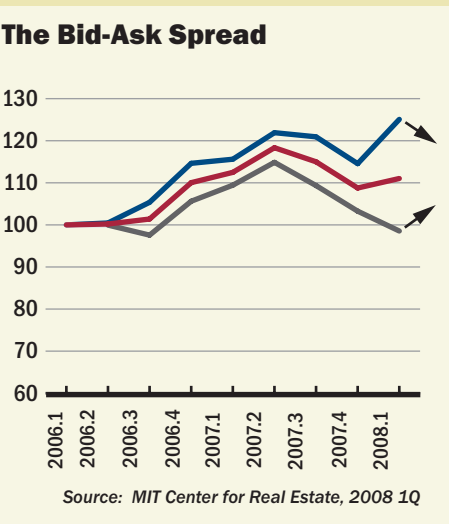
Thus far, the biggest impact on the commercial real estate markets is the decline in the volume of investment sales transactions. While volume is down sharply, the same cannot be said of asset pricing, expressed as cap rates. Recent data on cap rates (Figure 1) shows some upward movement in these rates, reflecting falling property values. However, most observers look at the data with a critical eye. First, as mentioned, the volume of transactions is down, so the data set is not robust. Second, better quality properties are primarily the ones selling right now. Therefore the sample is not representative of "normal" market conditions. Better properties sell at lower cap rates and may not provide an accurate comparison with last year's first quarter. Third, analysis of individual transactions shows that while the value of the very best "prime" space may be holding up well, secondary and tertiary property has seen much more significant reduction in values.

There is also a very big gap between what a buyer will bid and what a seller



will accept. Sellers are not feeling a need to adjust their asking price since they have little desire to sell into this environment. The cash flows on most properties are good since occupancies are high and rents have risen fairly well in the last two years. Only owners with debt distress-debt rolling on properties whose incomes cannot meet the debt standards-are in a situation where selling or some kind of restructuring may be the only solution.

Buyers, on the other hand, demand higher risk premiums for their investments and if looking for debt, they know that both the cost will be higher and the amount of proceeds will be lower, making it impossible to buy properties at the prices of 2006/07 and still achieve higher return thresholds or hurdle rates for 2008. Buyers await



the price adjustment; in most cases believing that prices have further to fall.

Research at the MIT Center for Real Estate has documented the widening bid-ask spread for commercial real estate. Using the National Council of Real Estate Investment Fiduciaries (NCREIF) database of properties, the research estimates the reserve prices-here labeled "bid"- of buyers versus the sellers' asking prices. As shown in Figure 2, the bid has steadily declined from quarter to quarter, while the sellers' prices ("ask") have held steady. The market is represented by the middle line.

Interestingly, the bid line is now at 100 on the index, about the same level as in mid 2006, indicating that buyers are looking for prices that are about

where they were two years ago. Most observers believe that the debt froth became prevalent about that time and into the first half of 2007.

In order to have transaction volumes pick up, the bid/ask spread needs to narrow. However, buyers remain reluctant due the uncertain economic outlook and its impact on leasing revenues as well as concerns about future levels of long term interest rates.

That said, it is our view that markets will bifurcate later this year. Core properties will see bidders moving toward asking prices, and opportunity properties will see sellers conceding more to buyers. Why will buyers need to move toward sellers for core properties and not the other way around? Our analysis of property fundamentals, in general, shows that office, industrial and retail properties with long leases in place (i.e., core properties) are advantaged. As leases roll over in the next few years, even into the slowing economy, tenants will find that their existing rents are below market rents. Hence tenants will face a rising rental cost and property owners will see rising net operating income.

While it is clear that cap rates need to adjust upward, stable-to-increasing incomes allow many property owners to take a "wait it out" attitude toward selling. Why sell when the income streams that make up much of your total return today continue to deliver? To coax sellers out of complacency, buyers will need to raise their bids so that owners who may wish to sell will



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John Ayoob

John Schumacher

Erin Coughlin

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see a benefit in doing so. Sellers, however, should not expect that rising income streams will make them immune to write-downs, especially in an environment with slower economic growth, increased risk premiums, and higher interest rates.

In particular, sellers of opportunity assets, with more vacancy than occupancy or heavy on short term debt, will be more receptive to a buyer's lower bid.

An adjustment in pricing still needs to occur; and once it does, commercial real estate will return to its roots as an asset with income returns comparable to bonds, but with some upside in value growth that places total returns

between those historically offered by bonds and stocks.

Crucial to the above analysis is the expectation that the U.S. economy is in a period of a mid-cycle slowdown, not a protracted contraction, and that this slowdown will not extend beyond 2009. Under such conditions, property markets will see only mild increases in vacancy rates, and rents will not decline deeply.

Certainly there will be better and worse performing markets across the country. Some markets, particularly in the Midwest, are suffering from the U.S. auto industry's woes, and markets that were heavily driven by local housing-market expansion, particularly on

the West Coast and Florida, are now being negatively impacted by the contraction of single-family home prices and weakened economies. But generalizations are never absolute, always failing to capture the subtle nuances that characterize local conditions in any market environment, especially one in which investor apprehension runs high.

Pricing movements in real estate have a strong tendency to overshoot -- down as well as up -- heightening the potential for attractive investment opportunities in the next couple of years. Particularly welcome will be the likelihood of a return to a more "traditional" real estate investment market,

rather than one dominated by debt and financial engineering. Equity investors who truly understand local property markets and can add value through asset selection and active management will once again be able to generate excess returns.

Raymond Torto, Ph.D., CRE, is CB Richard Ellis' Global Chief Economist. Dr. Torto, one of commercial real estate's most renowned economists and forecasters, directs CBRE's worldwide team of commercial real estate market analysts and serves as the company's primary spokesperson on macro economic issues and the global commercial real estate market.

SPOTLIGHT: INDUSTRIAL PROPERTIES



Industrial Real Estate Buyers Can Gain in a Down Market

PRESSURES on the industrial sector of the commercial real estate market have begun to resemble those of the residential markets, but the slump was slow in coming. At the beginning of 2008, the industrial market in LA County was still positive, with 1.5 million square feet absorbed, although lower than the first quarter of 2007. As with other sectors, the economic slowdown coupled with the rising price of fuel is beginning to take a toll on the industrial industry. The once sought after affordable outlying industrial locations are now feeling the heat as drivers make their daily commutes to and from their warehouse storage areas. Particularly overbuilt areas such as the Inland Empire, who have been hit hard on the residential front, are struggling significantly.

"A lot of businesses are stressed. They aren't moving to new facilities if they aren't forced to. We're now beginning to see the industrial market experiencing some similar impacts to those of residential markets," says Michael Frankel, Chief Financial Officer and Partner with Rexford Industrial.

Valuable infill product in desirable locations is still selling at a premium in the Southern California market. But some companies are making advantageous deals by acquiring properties from owners who have suffered from the residential fallout, and are motivated to come into alignment to sell.

Experts agree that there are still good deals to be closed. With the huge influx of bridge loans coming due on many Southern California properties and banks unwilling to give generous loan extensions, there are opportunities for those with the right financing to purchase a functional product in an advantageous location. The quantity of sale/lease backs has also risen with companies trying to achieve higher proceeds than their bank is offering.

One factor that will be hard to beat is the mood of general hesitation about the current and future state of the market. "In past cycles, industrial always lags. How long will it last? That is the million dollar question," says Howard Schwimmer, Rexford's Co-Founder and Managing Partner.

LA's Best Brokers Specializing in Industrial Properties Ranked by gross total consideration value of 2007 transactions



Craig Peters, Executive Vice President
Bennett Robinson, Executive Vice President
Doug Sondregger, Executive Vice President
CB Richard Ellis, LA North (Universal City)
2007 Transactions:
\$433,007,306 in 78 sales and 86 leases
Focus: San Fernando and Santa Clarita Valleys



Arthur Rasmussen, Senior Vice President
David Norrie, Senior Vice President
CB Richard Ellis, Beverly Hills (Century City)
2007 Transactions: \$422,883,971 in 32 sales and 87 leases
Focus: Food facilities



Jeff Morgan, Senior Vice President
John Schumacher, Senior Vice President
Bret Quinlan, Senior Vice President
Scott Huber, Sales Assistant

CB Richard Ellis, South Bay (Torrance)
2007 Transactions: \$386,039,982 in 16 sales and 43 leases
Focus: Los Angeles County



John Minervini, Executive Director
Robin Dodson, Senior Director
Erik Larson, Senior Director
Cushman & Wakefield, Los Angeles
2007 Transactions: \$374,000,000 in 38 sales and 54 leases
Focus: Industrial and office properties in the San Gabriel Valley



John Privett, Executive Vice President
Jeffrey Stephens, Senior Vice President
Cameron Merrill, Senior Associate
CB Richard Ellis, LA Central (Commerce)
2007 Transactions: \$290,172,273 in 13 sales and 55 leases
Focus: Central Los Angeles



Chuck Belden, Executive Director
Cushman & Wakefield, Los Angeles
2007 Transactions: \$189,575,779 in 17 sales and 29 leases
Focus: Los Angeles County and Inland Empire



Sam Foster, Executive Vice President
Jones Lang LaSalle, Los Angeles
2007 Transactions: \$187,049,406 in 6 sales and 15 leases
Focus: Nationwide



Tres Reid, Senior Vice President
Greg Dyer, First Vice President
Bradley Hoy, Associate
CB Richard Ellis, South Bay (Torrance)
2007 Transactions: \$152,867,983 in 4 sales and 51 leases
Focus: South Bay



Jeff Smart, Senior Vice President
Grubb & Ellis, Torrance
2007 Transactions: \$150,000,000 in 22 sales and 16 leases
Focus: South Bay



Mike Foley, Senior Vice President
Dave Hess, Senior Vice President
CB Richard Ellis, LA Central (Commerce)
2007 Transactions:
\$148,030,116 in 6 sales and 39 leases
Focus: Central Los Angeles



David Stromath, Vice President
Dean Haney, Senior Associate
CB Richard Ellis, South Bay (Torrance)
2007 Transactions: \$147,600,851 in 5 sales and 19 leases
Focus: South Bay

LA's Best Brokers Specializing in Industrial Properties
Ranked by gross total consideration value of 2007 transactions



Henry Johnson, Executive Vice President
Mike Scimo, Executive Vice President
CB Richard Ellis, El Segundo
2007 Transactions: \$141,584,103 in 12 sales and 92 leases
Focus: Nationwide



Dave Harding, Senior Vice President
Greg Geraci, Senior Vice President
Matt Dierckman, Vice President
Billy Walk, Associate
CB Richard Ellis, LA North (Universal City)
2007 Transactions: \$139,030,154 in 26 sales and 63 leases
Focus: San Fernando Valley



Tim O'Rourke, Senior Vice President
Mike Fowler, Vice President
Ben Stapleton, Senior Associate
The Staubach Company, Los Angeles
2007 Transactions: \$117,900,000 in 3 sales and 19 leases



Robert Dubbins, First Vice President
CB Richard Ellis, Beverly Hills (Century City)
2007 Transactions: \$117,759,986 in 2 sales and 7 leases
Focus: West Los Angeles



Laird Perkins, Senior Vice President
Adam Deierling, Associate
CB Richard Ellis, South Bay (Torrance)
2007 Transactions: \$111,447,715 in 5 sales and 54 leases
Focus: South Bay



Rick Sheckter, Senior Vice President
Grubb & Ellis, City of Industry
2007 Transactions: \$106,000,000 in 11 sales and 23 leases
Focus: San Gabriel Valley



Scott Heaton, Senior Vice President
Mark Shaffer, Senior Associate
Patrick Barnes, Associate
Hugh Horne, Associate
Justin Wachs, Associate
CB Richard Ellis, LA Central (Commerce)
2007 Transactions: \$100,990,573 in 26 sales and 5 leases
Focus: Central Los Angles



Mark Latimer, Senior Vice President
CB Richard Ellis, LA Central (Commerce)
2007 Transactions: \$89,185,684 in 6 sales and 15 leases



David Fuets, Vice President
Brian McLoughlin, Senior Associate
CB Richard Ellis, LA Central (Commerce)
2007 Transactions: \$81,958,458 in 5 sales and 19 leases
Focus: Central Los Angeles, San Fernando Valley



Nigel Scout, Senior Vice President
Jim Linn, Senior Vice President
Grubb & Ellis, Sherman Oaks
2007 Transactions: \$68,400,000 in 7 sales and 49 leases
Focus: North Los Angeles



Lynn M. Knox, Vice President
CB Richard Ellis, LA North (Universal City)
2007 Transactions: \$67,444,727 in 8 sales and 27 leases
Focus: East Los Angles, San Gabriel Valley



John Biven, First Vice President
Chris Ehrlich, Associate
CB Richard Ellis, LA Central (Commerce)
2007 Transactions: \$66,352,570 in 7 sales and 74 leases
Focus: Central Los Angeles



David Kim, Corporate Managing Director
Studley, Inc., Los Angeles
2007 Transactions: \$64,000,000 in 2 sales and 8 leases
Focus: Inland Empire/Nationwide



John Hillman, Vice President
Gregory Stanton, First Vice President
Will Smith, Associate
CB Richard Ellis, LA Central (Commerce)
2007 Transactions: \$62,288,771 in 7 sales and 7 leases
Focus: Central Los Angeles



Brandon Gill, Vice President
Brandon Burns, Associate
CB Richard Ellis, LA Central (Commerce)
2007 Transactions: \$61,069,481 in 7 sales and 8 leases
Focus: Central Los Angeles



Jim Biondi, Senior Vice President
Terry Reitz, Senior Vice President
Grubb & Ellis, Torrance
2007 Transactions: \$60,000,000 in 11 sales and 9 leases
Focus: South Bay

Toxic Trash in Los Angeles



By RICHARD A. LUDT
Waste Management
Administrator/ LEED AP
Interior Removal Specialist, Inc.

WITH the green movement in the United States we are all aware of the importance of recycling and the effect that it can have on our environment. We are encouraged to recycle at home and at work, and the concept of a “Carbon Footprint” has gone from the fringes of environmentalism into the mainstream. The US Green Building Council takes these concepts further. They taught us the very buildings we inhabit are some of the leading polluters and users of energy. Government reports show buildings consume 40% of all energy in the United States, and more than 66% of electricity produced here. These are the areas where the most work is being done to lessen the

impact of our existence. One largely ignored issue is the debris created when buildings are demolished or refurbished. In Los Angeles nearly 30% of all solid waste is produced by construction and demolition activity. The majority of this debris is recycled, nearly 80% by weight, but we concentrate on the easy, the profitable, and the heaviest materials to reach these diversion goals. Concrete, asphalt, dirt, metals, unfinished wood and cardboard are the most recovered materials in the construction and demolition recycling industry. While these numbers look good, the reality of the recycling is deceiving. Eighty percent diversion looks great on paper, but look at what we are actually sending to the landfill and frightening facts start to emerge. When we remove the inert materials, we are left with only the reactive materials in the

waste stream; this toxic 20% is what we send to the landfill. During interior construction dry-wall makes up nearly 27% of the debris by weight. This material is regularly sent to landfills where it produces Hydrogen Sulphur gas, a powerful greenhouse gas. Doors, desks and cabinets make up about 16% by weight of interior work and are rarely made of dimensional lumber. These materials are made of particle board, press board, and plywood. They cannot be mulched or composted and are sent to landfills where the adhesives, formaldehyde, and chemicals in the wood leach into the groundwater poisoning our aquifers. Carpet makes up nearly 18% of the interior construction and demolition waste stream. This material will never decompose and is largely made up of fossil fuel products that are not getting



Team DeGrinis – John DeGrinis, Senior Vice President
Patrick DuRoss, Senior Associate
Kate Russell, Assistant
Colliers International, Encino
2007 Transactions: \$51,096,892 in 7 sales and 15 leases
Focus: San Fernando Valley; Ventura County



Sean O'Donnell, Senior Vice President
Grubb & Ellis, Torrance
2007 Transactions: \$48,000,000 in 2 sales and 11 leases
Focus: South Bay



Jerry Gillman, Senior Vice President
Grubb & Ellis, Torrance
2007 Transactions: \$44,400,000 in 5 sales and 8 leases



Rudolph A. Lara, Executive Vice President
John Schneider, Associate
DAUM Commercial Real Estate Services, Gardena
2007 Transactions: \$17,000,000 in 1 lease
Focus: Mid-Counties

any less expensive.
These materials can be recycled, but they are not. There is one facility in all of California that treats these interior materials as a separate waste stream. ConstructionDemolitionRecycling.com of South Gate has not even opened their doors to the public but has earned 3 International Recycling Awards. If this one company can reach 73% diversion of the toxic 20%, so can Los Angeles. The time has come to re-think the way we view construction and demolition debris, and to start diverting based on the harm that the material can do rather than the weight or the value of the material. Only then can we believe we are doing what is right.

SPOTLIGHT:
MULTI-FAMILY
PROPERTIES

“Rent, Don’t Buy” Brings Pain to Condo Developers

CONDO developers in Los Angeles are hurting from the nationwide housing slump, but Downtown’s rental sector remains strong, and occupancy rates are high. In fact, renters are winning in Southern California.
“The difference between today and a year ago is the increased number of excess homes and condos being put on the rental market,” said Howard Sadowsky, Vice-Chairman, Creative Environments of Hollywood. “We experienced this in the early ‘90’s, but this time around, it won’t be as serious,” he predicts. “While there has been some overbuilding in the Downtown condo market, we are not seeing oversupply as we did before.”
“What we’ve learned is that the multifamily market is a cycle, which repeats itself historically,” said Sadowsky. “No matter what you were willing to pay, things can’t go on forever. At some point, condo

Continued on following page



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Continued from page 37

developers find they have paid too much for land and properties.”

Many condo developers are converting from sale to rentals, but having paid excessively for land and building, may find that rents don’t cover the mortgage and expenses. Many are forced to carry their properties until the market turns. Some may be able to do this, and others may not be able and will ultimately take a loss.

There is however, some encouraging news for operators in the multifamily market. “Though financing in 2008 has been difficult with pension funds and investors essentially on the sidelines, operating fundamentals have remained strong in urban infill areas. Places with easy access to public transportation and great living amenities like Pasadena, Korea Town and

pockets of downtown such as South Park and Little Tokyo are all performing well on the operating side,” says Curtis Palmer, Managing Director of Transwestern’s Multi Housing Capital Advisors. In addition, Mr. Palmer also expects areas like Beverly Hills and Hollywood which are surrounded by great retail and directly impacted by the ever growing entertainment industry to remain healthy.

LA’s multifamily market may be in the first stage of a three-phase process: giving back properties to the bank, leasing of properties once intended for sale, and the availability of properties for purchase at much reduced prices. Prices are continuing to drop in value, a process that is expected to go on for a long period of time.

LA’s Best Brokers Specializing in Multi Family Properties
Ranked by gross total consideration value of 2007 transactions



Laurie Lustig-Bower, Executive Vice President
Adrienne Barr
CB Richard Ellis, Beverly Hills (Century City)
2007 Transactions:
\$1,084,673,333 in 20 sales
Focus: Los Angeles County



Curtis Palmer, Managing Director
Herb Chase, Managing Director
Transwestern Commercial Services,
Beverly Hills
2007 Transactions: \$814,070,000 in 18 sales
Focus: Southern California



Alexander Sachs, Senior Vice President
Brian Peterson, Senior Vice President
Coldwell Banker Commercial Westmac,
Los Angeles
2007 Transactions: \$200,000,000 in 10 sales
Focus: Land development



Alexander Sachs, Senior Vice President
Coldwell Banker Commercial Westmac,
Los Angeles
2007 Transactions: \$150,000,000 in 6 sales
Focus: Land development



Jim Fisher, Principal
Lee & Associates – LA North/Ventura, Inc.
2007 Transactions: \$82,850,000 in 2 sales
Focus: Sales in Southern California



Mike McKinney, First Vice President
Brian Estes, Associate
Shawn Park, Associate
CB Richard Ellis, South Bay (Torrance)
2007 Transactions: \$49,392,450 in 13 sales
Focus: South Bay



Ryan Campbell, Associate Vice President
Grubb & Ellis, City of Industry
2007 Transactions: \$42,800,000 in 6 sales and 4 leases



Los Angeles Office Market: Why Is This Cycle Different?

CYCLES of economic slowing tend to resemble one another, but today’s downturn appears to many observers in the commercial real estate industry to have a slightly different flavor than previous cycles.

“In the past, most down cycles in LA’s office market have been caused by overbuilding, but with improved information, we’re getting better at not making those mistakes,” says urban infill developer Wayne Ratkovich, President & CEO of The Ratkovich Company.

No real estate cycle in living memory has started in the residential market. But today’s slowdown, which is hitting various segments across the real estate market, was triggered by the home mortgage crisis, which was more contagious than expected at first. At the end of 2007, many “experts” were still predicting that the fundamentals of the commercial real estate market were solid enough to withstand the impact of the subprime collapse and the decline in credit availability.

They weren’t entirely wrong. Another difference is that the impact of this downturn is not as equally distributed as in 1978 and 1991. In some markets, demand remains healthy and confidence high. “But there are few capital market solutions to the lack of funds available for loans. Essentially, sellers sense the demand and are still asking for last year’s prices which are simply higher than buyers can pay,” said PGP

Valuation Principal & CEO Kenneth R. Harrison, MAI. “The temporary lack of capital has forced a basic correction in market fundamentals that will likely work themselves out in 2009.”

Currently, markets are also more subject to the vagaries of global trends than in the past. “Today is different, because we are now operating in a global, not a local market,” said Madison Partners Principal Bob Safai. “We can’t look only at real estate as if we were in a vacuum. We’re waiting to see the impact of global factors, such as high energy prices, the low dollar, global unrest and illiquidity. Most people don’t believe that global influences affect our everyday living and businesses, but they do,” he added. 2008 has already seen a surge of foreign buyers eager to take advantage of the weak dollar through better yields.

Locally, geography is a major factor in predicting the health of the Southern California office market. Micromarkets rule. “The outlook varies from market to market. In Riverside today we can’t give property away. The overbuilding has flooded the area with vacancies and lowering rental rates. In places like Century City and West LA however, where the market has not seen the expansion of the Inland Empire, the demand is stronger. West LA has more alternatives and an affluent area that is resilient to the pitfalls of the marketplace,” said Robert Held, President Held Properties, Inc.

LA’s Best Brokers Specializing in Office Properties
Ranked by gross total consideration value of 2007 transactions



John McRoskey, Executive Vice President
Mike McRoskey, Executive Vice President
Frank Scott, Vice President
The Staubach Company, Los Angeles
2007 Transactions: \$1,393,875,938 in 4 sales and 68 leases



Bob Safai, President
Madison Partners, Los Angeles
2007 Transactions: \$1,195,602,303 in 29 sales and 4 leases
Focus: Beverly Hills, Santa Monica (Westside)



Stephen Bay, Executive Vice President
Clay Hammerstein, Executive Vice President
Kevin Bender, Senior Vice President
CB Richard Ellis, Downtown LA
2007 Transactions: \$1,189,219,416 in 4 sales and 93 leases
Focus: Los Angeles and Orange County



Carl Muhlstain, Executive Vice President
Cushman & Wakefield, Los Angeles
2007 Transactions: \$1,009,256,000 in 7 sales and 6 leases
Focus: Tri-Cities, Westside, Downtown LA, Hollywood

LA's Best Brokers Specializing in Office Properties
Ranked by gross total consideration value of 2007 transactions



Doug Marlow, Executive Vice President
CB Richard Ellis, LA North (Universal City)
2007 Transactions: \$754,628,198 in 9 sales and 56 leases
Focus: Los Angeles



Todd Doney, Vice Chairman
Nico Vilgiate, Senior Vice President
CB Richard Ellis, Downtown LA
2007 Transactions: \$732,715,030 in 13 sales and 83 leases
Focus: Los Angeles



Gary Hormitz, Executive Vice President
The Staubach Company, Los Angeles
2007 Transacations: \$727,964,420 in 58 leases



Grafton Tanquary, Executive Vice President
John Ayooob, Executive Vice President
Bill Bloodgood, Senior Vice President
CB Richard Ellis, South Bay (Torrance)
2007 Transactions: \$683,707,650 in 12 sales and 87 leases
Focus: South Bay



Lynn Williams, Executive Vice President
Jeffrey Welch, Senior Director
Cushman & Wakefield, Los Angeles
2007 Transactions: \$635,664,588 in 52 leases
Focus: Worldwide



Eric L. Olofson, II, Vice Chairman
Cushman & Wakefield, Los Angeles
2007 Transactions: \$619,192,779 in 3 sales and 61 leases
Focus: West Los Angeles



James N. Travers, President/CEO
Dennis E. Smith, Executive VP/Managing Director
William Lawson Martin III, Executive VP/Managing Director
Lee J. Polster, Executive VP/Managing Director
Travers Realty Corporation, Los Angeles

2007 Transactions: \$574,000,000 in 15 sales and 315 leases



Tony Morales, Executive Vice President
The Staubach Company, Los Angeles
2007 Transactions: \$533,297,928 in 1 sale and 21 leases
Focus: Office properties



Hunt Barnett, Principal
Rick Buckley, Principal
Chris Houge, Principal
Madison Partners, Los Angeles
2007 Transactions: \$526,053,711 in 5 sales and 84 leases
Focus: West Los Angeles



Jeffrey Pion, Executive Vice President
Michelle Esquivel-Hart
CB Richard Ellis, Beverly Hills (Century City)
2007 Transactions: \$484,742,935 in 16 sales and 112 leases
Focus: West Los Angeles



Mark Sullivan, Executive Vice President, So. California Regional Manager
Studley, Inc., Los Angeles
2007 Transactions: \$463,000,000 in 2 sales and 43 leases
Focus: Southern California



Brad Feld, Principal
Madison Partners, Los Angeles
2007 Transactions: \$456,698,224 in 2 sales and 42 leases
Focus: West Los Angeles



Peter Best, Managing Director
Lisa St. John, Managing Director
Jones Lang LaSalle, Los Angeles
2007 Transactions: \$404,028,482 in 4 sales and 84 leases



Patricia Gilbert, Senior Vice President
Jeff Lasky, Senior Vice President

CB Richard Ellis, Beverly Hills (Century City)
2007 Transactions: \$402,675,253 in 72 leases
Focus: West Los Angeles



Alan Aufhammer, Executive Vice President
The Staubach Company, Los Angeles
2007 Transactions: \$395,722,842 in 1 sale and 10 leases



E. Michael DeSantis, Executive Director
Cushman & Wakefield, Los Angeles
2007 Transactions: \$361,895,161 in 3 sales and 25 leases
Focus: West Los Angeles



Robert Waller, Senior Vice President
CB Richard Ellis, Beverly Hills (Century City)
2007 Transactions: \$325,793,131 in 4 sales and 47 leases
Focus: West Los Angeles



Gary Weiss, Principal
Madison Partners, Los Angeles
2007 Transactions: \$301,851,828 in 3 sales and 21 leases
Focus: West Los Angeles



Ted Simpson, Executive Director
Cushman & Wakefield, Los Angeles
2007 Transactions: \$300,000,000 in 4 sales and 62 leases
Focus: Los Angeles



Onno Zwaneveld, Executive Vice President
CB Richard Ellis, Downtown LA
2007 Transactions: \$295,752,493 in 1 sale and 8 leases
Focus: Los Angeles County



Randall Brown, Senior Vice President
CB Richard Ellis, Downtown LA
2007 Transactions: \$281,982,419 in 8 sales and 61 leases
Focus: Los Angeles



Anthony C. Gatti, Executive Director
Cushman & Wakefield, Los Angeles
2007 Transactions: \$280,000,000 in 1 sale and 25 leases
Focus: Los Angeles



Blake Mirkin, Senior Vice President
CB Richard Ellis, Beverly Hills (Century City)
2007 Transactions: \$271,577,178 in 7 sales and 38 leases
Focus: Los Angeles County



Jason Warner, Senior Vice Presideent
CB Richard Ellis, Downtown LA
2007 Transactions: \$210,821,272 in 25 leases
Focus: Southern California; National



Steve Wiseman, Senior Associate
CB Richard Ellis, Beverly Hills (Century City)
2007 Transactions: \$207,625,147 in 4 sales and 22 leases
Focus: West Los Angeles



Tim Vaughan, Senior Vice President
Dave Smith, First Vice President
Phil Brodtkin, Associate
CB Richard Ellis, South Bay (Torrance)
2007 Transactions: \$203,850,234 in 10 sales and 71 leases
Focus: LA County



Matt Hargrove, Executive Vice President
Cushman & Wakefield, Los Angeles
2007 Transactions: \$194,379,150 in 7 sales and 16 leases
Focus: Industrial & Office properties in Southern California/National



Kevin W. Duffy, Senior Vice President
Damon Feldmeth, First Vice President
Jenny Lyons, Associate
CB Richard Ellis, LA North (Universal City)
2007 Transactions: \$190,570,765 in 14 sales and 76 leases
Focus: Tri-Cities and Western San Gabriel Valley

LA's Best Brokers Specializing in Office Properties
Ranked by gross total consideration value of 2007 transactions



Arlene Sommer, Executive Managing Director
Mark Robinson, Corporate Managing Director
Studley, Inc., Los Angeles
2007 Transactions: \$187,351,486 in 51 leases
Focus: Westside/National



Deron White, Senior Vice President
CB Richard Ellis, Beverly Hills (Century City)
2007 Transactions: \$182,309,551 in 2 sales and 66 leases
Focus: West Los Angeles



Steve Kolsky, Managing Principal
Michael Arnold, Managing Principal
Newmark Knight Frank, Los Angeles
2007 Transactions: \$181,794,080 in 1 sale and 58 leases



Steve Solomon, Managing Director
Jones Lang LaSalle, El Segundo
2007 Transactions: \$168,059,047 in 4 sales and 34 leases



Andrew McDonald, Senior Director
Cushman & Wakefield, Los Angeles
2007 Transactions: \$165,000,000 in 3 sales and 20 leases
Focus: West Los Angeles



Stan Gerlach, Senior Vice President
CB Richard Ellis, Beverly Hills (Century City)
2007 Transactions: \$144,281,047 in 1 sale and 84 leases
Focus: West Los Angeles



Patrick Nally, Principal
Brad Feld, Principal
Madison Partners, Los Angeles
2007 Transactions: \$130,104,133 in 2 sales and 14 leases



Patrick Church, Senior Vice President
Anneke Greco, Associate
CB Richard Ellis, LA North (Universal City)
2007 Transactions: \$118,614,234 in 3 sales and 44 leases
Focus: Tri-Cities



Dan Sanchez, Senior Vice President
Grubb & Ellis, Sherman Oaks
2007 Transactions: \$113,000,000 in 5 sales and 39 leases
Focus: North Los Angeles



Jim Lindvall, Senior Vice President
Grubb & Ellis, Sherman Oaks
2007 Transactions: \$103,000,000 in 4 sales and 39 leases
Focus: North Los Angeles



Gregg Kirkpatrick, Senior Vice President
David Kudrave, Vice President
CB Richard Ellis, South Bay (Torrance)
2007 Transactions: \$101,759,821 in 4 sales and 22 leases
Focus: South Bay



Bob Healey, First Vice President
CB Richard Ellis, South Bay (Torrance)
2007 Transactions: \$94,565,319 in 7 sales and 18 leases
Focus: South Bay

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LBA would like to thank Matt Hargrove, Mike Shellow, Mike Sidney and Dave Mackenbah of Cushman & Wakefield for their assistance with the acquisition and the marketing of the property for lease.

Suite	SF	Rate
100	41,611	\$ 2.30 ^{NNN}
200	41,611	\$ 2.30 ^{NNN}



1149 South Hill Street, Suite H300, Los Angeles, CA 90015
www.LBArealty.com

Matt Hargrove
818.716.3000



LA's Best Brokers Specializing in Office Properties
Ranked by gross total consideration value of 2007 transactions



Trevor Belden, Principal
Lee & Associates – LA North/Ventura, Inc..
2007 Transactions: \$92,900,000 in 3 sales
and 7 leases
Focus: Westside, San Fernando Valley



Matthew R. Heyn, First Vice President
CB Richard Ellis, LA North (Universal City)
2007 Transactions: \$87,825,883 in 25
sales and 49 leases
Focus: North Los Angeles County



Mark Leonard, Principal
Lee & Associates – LA North/Ventura, Inc..
2007 Transactions: \$62,303,782 in 2 sales
and 13 leases
Focus: West San Fernando Valley, Conejo
Valley



Jonathan Larsen, Executive Managing Director
Transwestern Commercial Services,
Los Angeles
2007 Transactions: \$54,630,678 in 1 sale
and 45 leases
Focus: Downtown Los Angeles/Western U.S.



Jay Rubin, Principal
Lee & Associates – LA North/Ventura, Inc..
2007 Transactions: \$23,312,038 in 1 sale
and 30 leases
Focus: San Fernando Valley, Conejo Valley

SPOTLIGHT: RETAIL PROPERTIES



Will Retail Remain on Cruise Control?

TODAY's economic downturn appears to be having less impact on the retail sector of commercial real estate than has been seen in the past. Overbuilding, as well as scarcity of financing options, drove previous down cycles in retail. This time around, the constriction of financing is the factor that may slow the market down.

For the time being, however, the Los Angeles' retail market is alive, very healthy and, say some investors, outperforming other market sectors in the current climate. Passco Companies, LLC reports a high 90 percent occupancy that has not slipped down even minimally this year.


"One reason for the difference may be the presence of some constraint on the supply side, which has helped keep occupancy strong across Southern California retail markets," said Passco Vice President of Acquisitions Paul Mittmann. "This time, also, the government is stepping in, with the economic stimulus package and other help in the form of tax rebates, that may be strengthening the consumer," he added.

If there are tenants who are struggling,

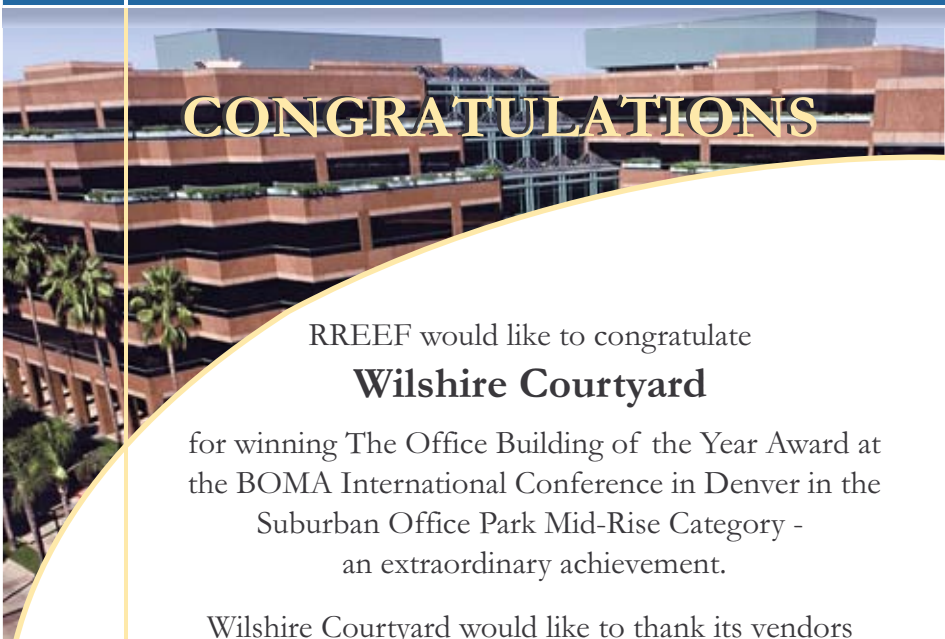
owners can help support and retain them through a number of methods including improving their placement, stepping up their marketing programs, and making efforts to lower operating costs through greater efficiency, from energy consumption to maintenance and janitorial services.

But will this consumer-driven sector continue to thrive? "Retail is going to take a hit," said John Carrick, Managing Director of Studley's Structured Finance Group, wryly predicting that "the government's stimulus package will likely go to pay for the soaring cost of gas."

While retail has seen a long good run with tenants experiencing a boom in the past, the slow economy is influencing the retail sector with more companies cutting back on inventory, closing underperforming stores and in cases like Linens 'n Things, closing their doors altogether. The home improvement and home accessory industries have already seen a big decline, exacerbated by the housing slump. And economists warn of excessive caution in the market.



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Industrial

John Biven
Robert Dubbins
Mike Foley/Dave Hess
David Fults/Brian McLoughlin
Dave Harding/Greg Geraci
Brandon Gill
John Hillman
Henry Johnson/Mike Scimo
Lynn Knox
Mark Latimer
Jeff Morgan/John Schumacher/
Bret Quinlan
David Norrie/Arthur Rasmussen
Laird Perkins
Craig Peters/Bennett Robinson/
Doug Sonderegger
John Privett/Jeff Stephens
Tres Reid/Greg Dyer
David Stromath/Dean Haney

Investment Properties

Tom Bohlinger
Sterling Champ
Jim Donnerstag
Barbara Emmons/Darla Longo
Scott Heaton
Mark Perry
Kevin Shannon

Multi-Family

Laurie Lustig-Bower/Adrienne Barr
Mike McKinney

Office

Stephen Bay/Clay Hammerstein/
Kevin Bender
Randall Brown
Brad Chelf
Patrick Church
Todd Doney/Nico Vilgiate
Kevin Duffy/Damon Feldmeth
Stan Gerlach
Patricia Gilbert/Jeffrey Lasky
Bob Healey
Matthew Heyn
Gregg Kirkpatrick
Doug Marlow
Blake Mirkin
Jeffrey Pion/Michelle Esquivel-Hart
Grafton Tanquary/John Ayooob/
Bill Bloodgood
Tim Vaughan/Dave Smith
Robert Waller
Jason Warner
Deron White
Steve Wiseman
Onno Zwaneveld

Retail

Sam Alison/Dan Riley
Timothy Bower
Tony Chamberlain
Ted Lawson
Jay Luchs
Geoff Martin
Stan McElroy
Richard Rizika
James Rodriguez
Greg Whitney
Allen Young

For more information, please contact

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LA's Best Brokers Specializing in Retail Properties

Ranked by gross total consideration value of 2007 transactions



William Bauman, Managing Director
Colliers International, Los Angeles
2007 Transactions: \$689,810,469 in 6 sales and 55 leases



Bryan Norcott, Senior Vice President
Colliers International, Los Angeles
2007 Transactions: \$651,360,562 in 5 sales and 37 leases



Timothy Bower, Senior Vice President
CB Richard Ellis, Beverly Hills (Century City)
2007 Transactions: \$382,857,637 in 6 sales and 8 leases
Focus: Southern California



Jay Luchs, Senior Vice President
CB Richard Ellis, Beverly Hills (Century City)
2007 Transactions: \$380,117,871 in 4 sales and 49 leases
Focus: Beverly Hills



Greg Whitney, First Vice President
CB Richard Ellis, El Segundo
2007 Transactions: \$311,567,731 in 11 sales and 75 leases
Focus: Southern California



Sam Alison, Senior Vice President
Dan Riley, Senior Vice President
CB Richard Ellis, Downtown LA
2007 Transactions: \$264,729,767 in 12 sales and 1 lease
Focus: Los Angeles County



Richard Rizika, Executive Vice President
CB Richard Ellis, El Segundo
2007 Transactions: \$246,360,177 in 12 sales and 92 leases
Focus: Southern California



Allen C. Young, Senior Vice President
CB Richard Ellis, LA North (Universal City)
2007 Transactions: \$195,481,244 in 11 sales and 34 leases
Focus: Southern California



Geoff Martin, First Vice President
Ryan Burnett, Associate
CB Richard Ellis, LA North (Universal City)
2007 Transactions: \$110,721,033 in 3 sales and 30 leases
Focus: North Los Angeles County



Ted Lawson, Senior Vice President
Scott Silberberg, Associate
CB Richard Ellis, El Segundo
2007 Transactions: \$41,481,083 in 3 sales and 25 leases
Focus: South Bay



James Rodriguez, First Vice President
Juan Jimenez, Associate
CB Richard Ellis, LA Central (Commerce)
2007 Transactions: \$41,400,187 in 23 leases
Focus: Southern California



Stan McElroy, First Vice President
CB Richard Ellis, El Segundo
2007 Transactions: \$23,371,654 in 16 leases
Focus: West Los Angeles



Christine Deschaine, Principal
Lee & Associates – LA North/Ventura, Inc.
2007 Transactions: \$5,763,656 in 7 leases
Focus: Greater Los Angeles/San Fernando Valley

Rankings seen in this supplement are in no way inclusive of all commercial real estate professionals in Los Angeles County. Data is based on gross total consideration value of 2007 transactions as supplied by representatives of the companies themselves.