



[Insider Q&A told slump holds ‘tremendous opportunities’](#)

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Irvine-based Birtcher Development and Investment sold much of its properties during the past 2-3 years, capitalizing on the commercial real estate boom and avoiding the slump and the credit crunch.

President and sole owner Brandon Birtcher, great-grandson of the company's founder, said he never expected the magnitude of the current economic crisis, but yes, he said, he did foresee a downturn in the market.

“You can't view a seven-year run,” Birtcher said, “without some high probability of it's almost immediate end.”

Now, Birtcher is looking past the current crisis and planning for the next boom. Birtcher Development's specialty is partnering with high-net worth families to develop planned business communities, build-to-suit developments as well as investing in existing industrial sites and business parks. Birtcher currently has 3.5 million square feet under development from San Diego to Seattle and west to Denver. Locally, Birtcher projects included the Lake Shore Towers in Irvine, the Xerox Center in Santa Ana and the South Coast Home Furnishings Center in Costa Mesa. So we asked Birtcher ...

Us: Have you been a little more jittery lately?

Birtcher: Let me answer it two ways. I think these are very tumultuous times, and they are times clouded in extreme uncertainty and have created extreme caution through the debt and equity markets that real estate relies solely upon. As a result, there is a great deal of uncertainty in

pricing as well how to deal with the appraisal process associated with loans. That's created a great deal of consternation for both lenders and sellers and buyers and developers.

But on the other hand, it is times such as these that offer tremendous opportunities, and as a result, it is well advised for all of us in the equity communities and for those of us (seeking) ... to acquire real estate to be alert and aggressive in our pursuit of opportunistic real estate acquisitions.

Us: How have things changed for your company since the credit crunch hit?

Birtcher: Obviously debt and equity has become a lot more cautious and the underwriting much more difficult. Therefore, we are seeing that it's more difficult to get the returns on properties we plan to develop to qualify under the new underwriting standards. As such, returns have increased between 50 to 100 basis points higher than they were a year ago and land, as a result, needs to be valued at a more conservative price per square foot. It's harder to find deals that actually qualify for acquisition or development. But there are many deals that do qualify, and cherry-picking those in the better markets are our highest priority.

The markets we're looking in (are ones that have) the highest barriers to entry and/or the lowest vacancy or other compelling characteristics, such as proximity to the port (or) the freeway systems.

Us: How much longer until we see significant recovery in the residential and commercial real estate markets here in O.C.?

Birtcher: I think that recovery is an interesting term in itself. Is it when the downward slide and bouncing off the bottom turns into a consistent rise on the graph? Or is it when we return a "normal" absorption or a "normal" vacancy rate? To benchmark that moment is a complicated answer.

But normal times I would characterize as where tenants are confident in expanding (their leases) or buying (new) facilities. It's also when capital is aggressively looking to loan on conservatively underwritten projects. I'm going to guess that that might be anywhere between 12 to 18 months out from now, but for Southern California it will be a fairly rapid recovery. Maybe over an additional two to three years. So once it starts to recover, it should recover within 36 months.

And what I see driving that are a strong import and export industry, primarily through the port of LA-Long Beach, the biosciences and some sectors of technology, driving the expansion.

And I am also hearing stories of Southern California-based manufacturers who have put all of their manufacturing in China considering bringing that manufacturing back to the U.S. because of labor uncertainties, particularly labor shortages, labor unions, rising costs of labor abroad as well as shortages of electrical power. There's rolling brownouts occurring in some manufacturing submarkets. And as a result, the delay caused for deliveries, and the certainty of that delivery, disrupt the just-in-time format that many distributors and retailers depend upon. ...

(So) I think we'll see more manufacturing brought back to the U.S. and the U.S.-Mexican border in the next 10 years.

Us: What advice do you have to small investors who may be looking to put some of their assets into real estate? Should they act now, or wait?

Birtcher: Well, small investors, one is be patient. Two, avoid the temptation to gamble on these extreme highs and lows in the stock market. Stay with quality. Do your homework and due diligence thoroughly. And when it comes to commercial real estate investment, I would stay with the smaller industrial and retail properties that require fewer tenant improvements than office projects do, especially the industrial sector. ... Compared to retail and office, (industrial has) a lower per-square-foot valuation, and as a result your mortgage per square foot is less, you're personal exposure to payments when the building is empty are less than retail or office.

Us: Do you have any recommendations as to residential investments?

Birtcher: I would yield to a good residential developer to give advice there. But I think the same principles apply. You want to do your homework thoroughly, be patient, not let an acquisition become an emotional buy. And I would probably buy a quality product at the lower price in an upper-end neighborhood, so the price is being pulled by its neighbors upwardly rather than (improving) the price for the neighbors.

I'll tell you what else will be attractive in the next wave of investment in residential will be proximity to excellent schools and lifestyle amenities and shopping and entertainment nodes.

Us: Where do you see development and investment opportunities for Birtcher?

Birtcher: I think they'll be in areas where barriers to entry (are high) and absorption projections look strong for the next three to five years. Those will be port-related, industrial communities where there is a strong presence of multi-tenant properties (and) access to the freeway systems. I think (they'll also be) joint ventures with land owners or building owners who want to reposition their property or buildings.

Us: What markets have the best opportunities, and where does Orange County and Southern California fit into that picture?

Birtcher: Let's just start with the macro West Coast. From the West Coast perspective, I think California's in the best position because of its transportation and its lifestyle amenities and its diversification of labor base. Those are enormous amenities that will attract industry.

The detractors will be our elected officials who create either divisive or negative incentives — that's almost an oxymoron. Negative legislation, that will either through greed or mismanagement will attempt to dissuade industry to expand or grow in California. And there has been an enormous amount of legislation in the last five years that have been going to the detriment of industry locating in California. And there needs to be an aggressive reorientation of

our political rhetoric to focus on keeping existing industry that are here and growing them and attracting new industry.

We have become a victim of aggressive predatory states and metropolitan areas in the West that are licking their chops when they see what California is doing to dissuade industry to stay and therefore make our industries prime targets for relocation.