

Impact on Industrial

REAL ESTATE: Manufacturing could rebound and e-commerce expand; meanwhile, deals dry up.

By **MICHAEL AUSHENKER** Staff Reporter

The business shutdowns caused by mandatory stay-at-home orders swiftly began to impact one of the most thriving real estate submarkets in the San Fernando and Santa Clarita valleys: industrial.

"You're going to have six months of no transactions, and that's the good scenario," said 30-year-veteran **Mike Tingus**, an industrial broker and president of **Lee & Associates/Los Angeles North-Ventura**.

Until early 2020, Tingus himself had helped transact substantial deals across the region with such colleagues as Lee Managing Director **Grant Fulkerson**, including the 2017 sale of a dual-building Calabasas Center Two for \$8.2 million; the **Rexford Industrial** purchase of a 49,585-square-foot industrial property at 851 Lawrence Drive in Thousand Oaks for \$6.6 million; the November 2019 sale of a 60,416-square-foot research and development building at 685 E. Cochran St. in Simi Valley for \$11 million; and, just last month, house-flip lender **Anchor Loans**' lease as it relocated its headquarters to 26,000 square feet at One Baxter Way in Westlake Village.

"We just came off of our best year ever," Tingus said.

Then last month, rapidly constricting shelter-at-home orders came from the state and federal levels that all but shut down many industrial companies.

"This is exactly what happened in 2008-09 (with the Great Recession)," Tingus recalled.

Last month, Los Angeles Mayor **Eric Garcetti**, in the same statement addressing the issue of apartment rent increases and tenant evictions during the crisis period, also kept intact a three-month period of deferred rents for commercial real estate.

As a result, commercial tenants will have three months to pay missed rent after the city's emergency period ends; currently that date is April 19.

"Three months is reasonable," **Richard LoGuercio**, owner of **Town and Country Event Rentals** in Van Nuys, told the Business Journal. "Every business is different. Right now, we're in financial good shape and we're going to weather this. Some of these buildings are big, big buildings and they have mortgage payments, too."

While industrial brokers, landlords and tenant didn't see the coronavirus coming, they had vague sense that the market was due for a slowdown.

"Commercial real estate as a whole was expecting a recession," Tingus said.

And while speakers at economic forecasts for the past two years have predicted a recession and even a black swan event to facilitate it and end the economy's unprecedented decade-long run-up, few could foresee the magnitude of the shutdown brought about by the coronavirus.

"I've had a few clients that have shut their doors," Tingus said, noting that they were reli-

Pre-Viral Sale: R&D building at 685 E. Cochran St. in Simi Valley fetched \$11 million.



ant on components made in China. "Others are pretty well insulated. (Some tenants) will have to ask landlords right away and see if they can get a rent deferral for 30, 60, 90 days."

He said that despite the forbearance agreements on real estate loans, "that doesn't protect the property owner from their lender."

Subsectors

Looking at discrete segments of the real estate market, Tingus said that unlike retail or office, his specialty should emerge well from the situation in the long term, although he's already heard of specific transactions not happening.

"Industrial is going to snap back really quick," he said. "Values haven't dropped today."

Based on anecdotal discussions with his industrial clients, Tingus feels that the U.S. will see an increase of manufacturing production in North America instead of outsourcing.

"We're going to take back all of our critical components in Asia; a lot of that is coming home," he said. "We're going to see an increase in Mexico and Canada production."

With entertainment content, production space had been running low throughout the valleys due to the streamer wars that began heating up among **Netflix Inc.** and its studio-backed rivals, including **Walt Disney Co.** Developers such as **Xebec** were busy converting traditional

warehouse space into soundstages in order to meet that demand. Pre-virus, many productions had gone to Europe — places like Hungary and Bulgaria — to save money.

But Tingus believes so-called runaway production will diminish post-coronavirus.

"You're going to see a significant return to North America to studios," he said. "No doubt."

Many reports have positioned the **AMC Theatres** chain as teetering on disaster since the pandemic shut down multiplexes completely for the first time in Hollywood's 115-year history.

Even before shuttering all locations March 17 in order to combat the spread of COVID19, AMC — a leading cinema chain with more than 8,200 screens in 661 theatres in the United States and 2,200 screens in 244 theatres in Europe — had already been struggling: AMC reported \$149 million in losses in 2019, compounding a \$5 billion-plus deficit, according to **S&P Global**.

The Wrap reported April 2 that the movie theater chain's credit rating had been downgraded by S&P with recovery unlikely.

"We do not believe AMC has sufficient sources of liquidity to cover its expected negative cash flows past mid-summer," S&P analysts wrote.

Tingus would not be surprised if AMC sites at **Macerich**-owned The Oaks mall in Thousand Oaks, **Unibail-Rodamco-Westfield's** Promenade mall in Woodland Hills, and other Valley locations will shutter.

In contrast, e-commerce is poised to capitalize on the current crisis.

"It's just going to skyrocket even more," Tingus said of **Amazon.com Inc.**-level storage and distribution properties supporting home delivery. "If you weren't doing it before, you're doing it now."

Going down the chain to big box and independent storefronts, there will be "further stress on the smaller retailer," Tingus said.

And Tingus believes that biotech in general should survive this period.

"**Amgen** has been spinning off companies," he said, ticking off a long list of ventures such as **Westlake Village BioPartners**, **Atara Bio-**

therapeutics and others.

But he believes the biotech real estate market will be impacted research and development facilities that include wet labs require an investment.

"The cost to build those out are so expensive," he said. "A lot of the Amgen spaces — of office buildings requiring specialized flooring in suburban areas. Conejo Valley, Camarillo has a lot of office converted to biotech med spaces."

In the electronics space, currently, many circuit boards come from China.

"A lot of these companies have capacity," Tingus said of entities such as **Semtech Corp.** in Camarillo, **Electronic Source Co.** in Van Nuys, **Teledyne Technologies Inc.** in Thousand Oaks, Westlake Village's **Interlink Electronics Inc.** and **Topaz Systems** in Moorpark. "We're going to have a steady supply in North America."

Cloudy crystal ball

Tingus —giving his best-scenario speculation on when the local economy may rebound — reckoned, "In my opinion, we won't see things get back to normal till September 1."

Because even if the virus situation ended tomorrow, Tingus anticipates the "psychological impact our entire nation is going to grapple with."

Attendant with the collective psychological hangover post-virus crisis will be "a complete change of social dynamics," he said.

Meanwhile, there is the day-to-day survival of his company. When the Business Journal reached Tingus April 2, the broker was distributing gift certificates to clients' employees.

"It's a fascinating time to be a 30-plus veteran and seeing what I can do to help," he said.

He expressed that companies should do all they can right now to help people down the chain stay afloat.

"Those worker bees are the most important people," he said.

In the meantime, Tingus will pace himself in response to the situation to stay afloat in the face of uncertainty as business comes to a near standstill for an undetermined period.

"I've cut my revenue by 60 percent," he said. "I can't cut my expenses by 60 percent."

Empty Seats: AMC cineplex at Oaks Mall in Thousand Oaks.

