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Long Beach Office Investor Betting Big On LA's 'Burbs

Harbor Associates Hoping to Capitalize on Discounts as Growth Resumes Santa Clarita Valley, South Ventura County

Commons at Valencia Gateway

At a time when urban infill investment is all the rage, Harbor Associates LLC sees opportunity in L.A.'s outer suburbs.

The Long Beach, CA-based office investor has for years been buying and renovating buildings through huge repositioning plays. Harbor has acquired and worked on a number of major adaptive reuse projects in urban locations, including the plan to transform the 1981-vintage former Los Angeles Rams headquarters in Century City to low-rise creative office space.

The firm, which owns about 1 million square feet spread across 15 projects in Southern California and Denver, is now shifting its focus to the outskirts, acquiring large suburban office properties through joint ventures this year in Ventura County's Thousand Oaks and Valencia, CA, markets that are 52 and 35 miles northwest of downtown L.A., respectively.

Harbor and partner Goldman Sachs Asset Management Private Real Estate last week closed the purchase of the 157,000-square-foot Commons at Valencia Gateway at 25124-25152 Springfield Court in the Santa Clarita Valley for $33.1 million, a significant discount to the price previously paid by seller Barings, formerly as known Massachusetts Mutual Life Insurance Co. Barings bought the property in 2006 for $48.6 million, or about $315 per square foot, but Goldman Sachs and Harbor picked up the building for just $210 per square foot.

Also this year, Harbor acquired Conejo Corporate, a 198,478-square-foot office property in Thousand Oaks that traded for $23 million, or about $115 a square foot. The building, acquired from Cusumano Real Estate Group in a joint venture with Blue Vista Capital Management, is only 56% leased; nearly all of that occupied by Sage Publications Inc. Pine River Capital Management was the external manager for the lender.

Harbor is committed to spending up to $200 million on similar projects across Southern California over the next year.

"We see an opportunity in suburban office locations to buy quality Class A assets at prices that are still a pretty healthy discount, relative to replacement cost," said Paul Miszkowicz, principal at Harbor. "Given how the market has recovered from an occupancy standpoint, we are seeing more opportunity on a risk-adjusted basis in suburban office and are looking for similar asset types going forward."

His firm no longer wants to spend months or years completely repositioning properties when it can find top-quality building in the suburbs, where few investors are competing and market fundamentals continue to improve.

Kevin Shannon, co-head of U.S. Capital Markets at Newmark Knight Frank, who along with Scott Schumacher represented Cusumano in the Conejo deal, said Harbor’s strategy could pay off.

"Suburban is a contrarian bet, but candidly, there’s more suburban secondary deal flow right now than there is CBD (central business district) deal flow," Shannon said. "The yields are better and the suburban markets are recovering [and] are going to get stronger and stronger over the next few years."

In Santa Clarita Valley, for example, office vacancy peaked at

20% in 2010 but today hovers around 10%, according to CoStar data. The area’s rental rates jumped 4% year-over-year, which was double the submarket’s historical average and in some cases, higher than similar buildings in more centrally located San Fernando Valley offices to the south. Those numbers are projected to continue to improve.

The area tends to have ample housing, good schools and other strong demographics for businesses looking to expand. As more millennials grow up and start families, they may look to get out of the city for larger, more affordable housing in the suburbs, Shannon added.

Miszkowicz is bullish on that trend and vowed to find the "outlier good deals" in the Santa Clarita Valley.

He said the current investor focus on fundraising and deals for value-add and opportunistic acquisitions in urban environments enabled Harbor to pick up the Commons in Valencia for a discount. The Commons isn’t some vacant aging warehouse waiting to be converted to creative space for a hip tech company, however. It's a well-maintained Class A office property about 80% leased to good-credit tenants, mostly in the home or construction related industries.

Harbor has no plans to dramatically reposition the asset, opting for more modest improvements to vacant suites and common areas to bring the property up to more modern energy efficient building standards. After the update, the building's value should appreciate in the improving Santa

Clarita Valley market, where high-profile residential developments could help demand.

Developer Five Point Holdings LLC, which has offices in the Commons building, received approvals last year to build two of five proposed subdivisions for 21,000 homes at its nearby Newhall Ranch development site nearby. A short drive away, Walt Disney Co. has plans to turn part of its massive Golden Oak Ranch into Disney-ABC Studios at the Ranch, a soundstage and production complex on 58 of the site's 890 acres.

Tom Bohlinger, Ryan Smith and Justin Hager of Jones Lang LaSalle Inc. represented the seller in the Valencia transaction. Attorneys Albert Valencia and Elizabeth Dryden at Ervin Cohen & Jessup represented the Harbor-led JV in legal part of the transaction.