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COMMERCIAL REAL ESTATE QUARTERLY REPORT

Commercial brokers are swimming in empty space

In a distressed market, the stakes are higher and deals are more elusive.

By Roger Vincent

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Real estate broker Carl Muhlstein maneuvered his silver BMW convertible through downtown Los Angeles traffic, one hand steering the car and the other pressing a cellphone to his ear.

"Come on," he teased. "Insult me with an offer."

While some who swim the deep and often lucrative waters of commercial real estate have retreated to the golf course, Muhlstein is among those pushing on -- joking, nudging and networking in hopes of making deals in a time of no deals.

"The conversations are tougher, the challenges are greater, the stakes are higher," Muhlstein said, as odds grow that a multimillion-dollar transaction may end badly for somebody. "Will the landlord lose the building? Will the tenants stay in business?"

Among his tasks is finding a buyer for Park Fifth, a stalled \$1-billion high-rise condominium and hotel development proposed for a block next to Pershing Square downtown. At Playa Vista, he advised the owners of the enormous Spruce Goose hangar -- built by famed aviator Howard Hughes -- to take it off the block because prices are depressed.

Muhlstein tries to use humor to cope with hard times in the commercial real estate industry, a business in such pronounced distress that some experts predict its problems will thwart the nation's hopes for an economic recovery.

Nearly 16% of office space in Los Angeles County is sitting vacant as tenants close up shop or move out of expensive properties. Nearly a third of the space around up-market Playa Vista sits empty; office buildings in the Inland Empire and parts of Orange County are completely vacant.

It all adds up to less work for brokers like Muhlstein, who make their living facilitating the sale and leasing of these properties.

Commercial brokerages such as CB Richard Ellis, Grubb & Ellis, Jones Lang LaSalle, and Cushman & Wakefield, where Muhlstein works, have contracted during the recession, collectively shedding thousands of workers as profits plummeted in the slow market. Many brokers, who survive on commissions, are among the departed.

Still, brokers are a persistent lot, drawn to the business by the opportunity to earn lots of money. When the market is good, top producers can earn \$100,000 to more than \$1 million a year on commissions of 2% to 5% on the value of a deal. The risky, competitive field is still made up almost exclusively of men, a disproportionately high number of whom learned to battle at the top levels of collegiate sports.

Although brokers sometimes dress casually to woo laid-back clients in creative fields, the default uniform is a dark, well-tailored traditional suit, starched shirt with French cuffs and perhaps a pocket square to complement an expensive tie.

The entrepreneurial underpinning of the job is a draw to many, giving them control of their destinies in a way most salaried employees can't achieve.

"I have never been a big fan of somebody telling me how much money I can make," said Matt Heyn, who at 31 is among the younger generation of brokers at CB Richard Ellis.

Heyn drives about 25,000 miles a year leasing office space in northern Los Angeles County and parts of Ventura County. Like other brokers, he said his job is increasingly demanding, with little time truly off duty, even on nights and weekends.

"These days, if you don't return an e-mail within an hour, people ask why you haven't gotten back to them," said Heyn, who confessed that he was initially interested in commercial real estate because he thought the flexible hours would give him time to play golf.

Even though he is working fast and putting in long hours, anxiety about the economy has meant that transactions are taking longer to put together. Deals that could have been reached in six months in the past now are taking as long as a year to fall into place -- if they go through at all, he said.

Retail broker Myron Sokolsky of Grubb & Ellis said he worked for almost a year on a transaction that would have brought a new branch of a big national bank to Palmdale. At the last minute the bank decided that Palmdale wasn't ready, Sokolsky said, and canceled the move.

To meet its contractual obligations, the bank has paid rent on the space for a year and a half but hasn't moved in, which means Sokolsky is still waiting for the second half of his commission, an amount due only when the tenant takes occupancy. Meanwhile, Sokolsky spends hours

each weekend visiting shopping districts to see how the stores are doing.

The former fashion retailer is trying to outsmart the slow market by divining which businesses are struggling, and then approaching their landlords to suggest replacement tenants.

A few brokers seem to have lost hope; many are living on savings. They may not be poor, but they're not on the gravy train.

Said Muhlstein: "Too many brokers are defeatist. Some guys are going to matinees and playing golf instead of focusing on their clients."

On a recent afternoon the tall, broad-shouldered broker devoured a tuna sandwich at his desk in Cushman & Wakefield's downtown offices. A shimmering view of Los Angeles stretched out before him, Muhlstein reviewed pending deals with two junior brokers on his team.

Between bites, he talked strategy and fielded calls from clients, occasionally stopping to tap on his computer keyboard. His office, perched on the 47th floor, was jammed with knickknacks and awards.

After lunch, Muhlstein packed up a battered brown briefcase and set out for NBC Studios in Burbank.

The network recently sold its 34-acre complex to M. David Paul & Associates, and now the new owner must help NBC attract tenants to studios formerly occupied by "Last Call With Carson Daly" and "The Tonight Show with Jay Leno."

Muhlstein pulled off his jacket and ambled around the NBC lot in the hot afternoon sun, examining the studios and other empty buildings that he hoped to help lease.

From NBC, Muhlstein rolled to Los Angeles City Hall. After half undressing to get through the metal detector without setting off the alarm, Muhlstein rode the restored gold elevator to the 13th floor, where Deputy Mayor Bud Ovrom seemed happy to slip out of a meeting in a conference room to huddle in his office with the salesman.

Ovrom, who heads the city's Office of Economic Development, offered cold water and chatted amicably about the real estate market while Muhlstein got around to the point of his visit. It was high time, he told the policymaker, for the city to offer incentives for companies to move into office buildings in the Playa Vista area, where vacancy rates are nearly 30%. The budding office market there looked unstoppable not long ago but now could use a lift.

"The president of a company needs to say the city came through for him," Muhlstein said. "They need bragging rights to tell their board."

Ovrom offered sympathy but no concessions. He said he was "nauseated" about Fox Interactive Media's decision last month to bail out on a planned move to Playa Vista, where it would have occupied half a million square feet.

Maybe, the men allowed, they could find a way to woo Comcast Corp. to Playa Vista.

The nation's biggest cable TV operator plans to consolidate regional offices by renting about 400,000 square feet in Burbank, Playa Vista or downtown Los Angeles -- a deal that could save a struggling landlord's bacon and lift the fortunes of a wilting neighborhood. The broker's commission wouldn't be so bad either.

Coaxing people to move ahead is a required skill for a broker. Earlier in the day as he inched through freeway traffic from Burbank, Muhlstein tried to get a better offer on a building he's trying to sell in Santa Monica.

Muhlstein barked into his phone with mock sternness, this time playing the role of the aggrieved defender as a prospective buyer questioned the worth of a building in Santa Monica.

"This is USDA Prime real estate," he said.

For a broker, red meat.

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