

Walton Street Pushing Rents at 118 Industrial Buildings

REAL ESTATE: Co. picked up 19 OC sites in \$400M buy last year

By MARK MUELLER

A little more than 10 months after finalizing the biggest industrial portfolio acquisition Orange County's seen in years, Walton Street Capital LLC is moving forward with a plan to bolster its estimated \$400 million local investment.

The Chicago-based company, which manages a number of private equity real estate investment funds, bought about 3.3 million square feet of local warehouses and business parks last April from CalWest Industrial Holdings LLC.

The OC portfolio includes 19 properties, totaling about 118 buildings. It's Walton Street's first foray into the industrial market here.

Other than a few office buildings, the properties are largely split between larger warehouse and distribution buildings and small business park sites.

The buildings are spread among 19 sites across the county, including multiple locations in Santa Ana, Garden Grove, Anaheim, Irvine and Tustin.

Coming out on top of a reportedly highly competitive bidding process for the buildings might have been the easy part for Walton Street, which now is looking to grab some big rent increases. The buildings are close to 97% full, according to the company's asset management division, WCV Commercial Properties.

The landlord's looking at rent increases of around 20% for many of the buildings. That's well above the 10% to 15% increase in asking rates seen for most of the county's industrial buildings in the past year.

So far, so good. The company's getting those rents, according to Katherine Flynn, senior asset manager for WCV Commercial.

"The market here's is still strong. We're getting a lot of good activity," Flynn said.

The landlord isn't handling the leasing chores on its own. WCV Commercial's signed on two brokerage teams from Voit Commercial Brokerage LP to handle leasing for the industrial buildings.

Louis Tomaselli and Mitch Zehner from Voit's Orange office are handling most of the buildings in Central and North County, totaling about 1.9 million square feet.

Mike Hartell and Kevin Turner from Voit's Irvine office are in charge of most of the South County buildings, which run about 1.3 million square feet.

Big Portfolios

"There hasn't been a larger portfolio that's been listed to one team" in OC, Tomaselli said.

It's also the biggest-ever industrial leasing assignment awarded to Voit.

Last year's acquisition effectively made Walton Street the county's second-largest industrial landlord in Orange County, industry watchers say.

The county's counts some 250 million square feet of industrial space, but only a few big institutional owners. Newport Beach's The Irvine Company is believed to be the largest industrial owner with its vast holdings of research and development buildings.

Walton Street's OC buildings were just part of a national portfolio buy from CalWest, a venture of California Public Employees' Retirement System and San Francisco's RREEF Funds LLC.

The entire CalWest sale included 95 assets totaling 23 million square feet of industrial space, with the largest region being in OC. The

portfolio sold for an estimated \$2.8 billion.

Along with the OC buildings and more than 2 million square feet in Los Angeles, the CalWest portfolio includes big pockets of space in Dallas, Phoenix, Portland and Seattle.

The CalWest sale was announced last April, just before the credit markets went south, making it one of the last big national commercial real estate portfolio sales of the year.

While the OC assets are likely to perform well, the changing economic landscape could make it hard for Walton Street to reach the returns it's looking for from the entire portfolio, according to other investors that had looked into buying the CalWest assets.

The changing market doesn't appear to be fazing Walton Street, at least on the West Coast. The company is said to be one of the final group of bidders looking to buy Los

Angeles-based office landlord Maguire Properties Inc., according to industry newsletter REIT Newshound.

Leasing Assignments

The two Voit industrial teams got the WCV Commercial leasing assignment in two phases, one in June, and the other last month.

The first phase was for about half the buildings, and were mostly the larger warehouse and distribution buildings, running from about 20,000 square feet to 200,000 square feet, Tomaselli said.

While the buildings are almost all full, a majority of them have leases that expire in the next two to three years, he said.

Most of these building had monthly rents in the range of 50 cents to 55 cents. The goal now is to bring rents up closer to 65 cents and

75 cents, Tomaselli said.

Properties in the first assignment included Anaheim's Tower Park, a four-building, 245,192-square-foot property, and O'Donnell IBC, a pair of properties in Tustin and Irvine that total about 473,000 square feet.

The second assignment from WCV was finalized in February, and is primarily for the multitenant business parks. These buildings are typically 1,000 square feet to 10,000 square feet.

These business parks include the 208,200-square-foot Garden Grove Business Center, which counts 12 buildings and 102 suites; the 192,000-square-foot Harbor Business Park in Santa Ana with 12 buildings and 85 suites; and the 226,000-square-foot Spectrum Centre Business Park in Lake Forest, which has 16 buildings and 72 suites. ■

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