

## San Diego named one of top five sites for foreign investment

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San Diego is one of the top five U.S. cities attracting foreign investors' commercial real estate investment dollars, according to a survey released by the Association of Foreign Investors in Real Estate (AFIRE), but there are indications the activity is slowing down.

The AFIRE ranking marks the first time San Diego has been among the top five, ousting seven-year veteran Chicago. The 14th annual survey was conducted by San Francisco-based **Kingsley Associates** among the 173 AFIRE members around the world who collectively have nearly \$470 billion invested globally.

"With new residential construction, the rejuvenation of the Gaslamp Quarter, the development of several full-service hotels, and the new Petco Ballpark, San Diego has become a vibrant, 24-hour CBD (commercial business district)," said Albert P. Behler, president and CEO of **Paramount Group Inc.** The Paramount Group, a portfolio owner backed largely by German investors, purchased the 27-story, Class A First National Bank Building in downtown San Diego for \$167 million in September.

"San Diego benefits from a broad-based economy that has been transformed from a military-based economy to one powered by defense, aerospace, biotechnology and telecommunications," Behler added.

"Longer term, San Diego and its seaport will continue to benefit from its rapidly growing population, world-class research facilities and its proximity to Mexico, which is emerging as a robust manufacturing center. San Diego is no longer a 'sleeper.'"

Petros said part of San Diego's appeal is due to not only its climate, but also to what has been happening downtown in recent years, making it a 24/7 city. "They (investors) like what they see in terms of San Diego's future" added Don Petros, Paramount property manager.

"What is there not to like about San Diego?" he asked before adding that some of those who may have come to live here may be investing in its commercial real estate as well.

Australian money is also heavily invested here. **Macquarie Bank Ltd.**, a unit of the **Macquarie** group, a Sydney, Australia-based, diversified international provider of specialist investment, advisory and financial services, supplied \$31 million in participating debt to Cortez Lofts -- an office to residential condominium conversion downtown -- and a \$13.7 mezzanine loan for a 113-unit condominium tower and retail center adjacent to Petco Park. **Macquarie Office Trust**, an Australian listed property trust in joint venture with Los Angeles-based **Maguire Properties**, also owns a portfolio of five major office properties here, including San Diego Tech Center in Sorrento Mesa. In addition, **Macquarie Infrastructure Group** owns 100 percent of South Bay Expressway (state Route 125 south), the planned toll road from state Route 54 in Spring Valley to the Otay Mesa border crossing.

Mark Baillie, head of real estate for the North America and European divisions of **Macquarie Property Inc.**, said he likes San Diego because of its strong population growth.

"It has very good demographics. There's more demand for retail space, so that's good for our retail properties," Baillie said. In addition, he noted that the office part of the business is also doing very well because of San Diego's healthy market.

Eugene Marchese's **Constellation Property Group** is another Australian firm heavily invested here.

In National City, Constellation is developing Revolution, a 360-unit high-rise condominium on National City Boulevard.

Other Constellation projects under construction or in the works in downtown San Diego include a planned 86-unit condominium tower on Hancock Street called Stella, and a 98-unit project at Ash and Columbia streets called Embassy 1414.

Another big foreign player in San Diego is **Slough Estates International**, a British firm that paid \$36.2 million for 40.74 acres in the Bressi Corporate Center in Carlsbad in June. The land-planning firm intends to develop 700,000 square feet of space in the project.

Slough also is developing as much as 960,000 square feet at and near the junction of Kirkham Way and Scripps Poway Parkway in the South Poway Business Park. Slough has been a long-time developer of the biotech community in La Jolla.

Officials from neither Slough nor Constellation could be reached for comment.

This year, AFIRE survey respondents projected that nearly 40 percent of foreign investment in U.S. real estate would come from Australia and that another 49 percent would come from Germany. For the last several years, Germany had been considered by far the largest investor in U.S. real estate; however, respondents say that in 2006, the Middle East and Ireland are also expected to move up in the survey rankings.

"Foreign investors say even though the U.S. is regarded far and away as being the most stable and secure country for real estate investments and has the best capital appreciation, they will spread their dollars more globally in 2006," AFIRE states. "Survey respondents said that the percentage of their 2006 global investment plans allocated for U.S. properties will drop to 47 percent from 55 percent in 2005. Respondents identified Western Europe and the U.K. as additional key markets for their real estate dollars."

In support of this assessment, a new report by the University of Southern California's Lusk Center for Real Estate concludes that what had seemed to be an unrestrained flow of investment capital into the U.S. will become much more constrained.

"Investors will stop signing blank checks," said Stan Ross, chairman of the board of the Lusk Center. "That's a healthy sign for property markets," he added, noting that investors continued to throw money into development projects and commercial property acquisitions despite signs that property values were beginning to level off.

"While foreign and U.S. investors are continuing to acquire properties, they are showing more discretion," observed Stuart Gabriel, Lusk Center director. "On the residential side, flipping of properties has come to a virtual halt as markets have cooled," he said. "On the commercial side, property investors have been playing the appreciation game. They have bought properties, held them for a time, and then sold them in the expectation of realizing substantial capital gains."

"They've invested in the real estate equivalent of growth stocks," Ross said. "Now, capital is beginning to retreat from properties that offer relatively low returns."