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L.A. developers keep active with out-of-town projects; among largest is Hapsmith's \$800 million trade center - The Hapsmith Co - Real Estate

Bob Howard

The time-honored advice "Go West," which brought so many developers to Southern California, has given way to "Go East," "Go North" and "Go South" for Los Angeles-based commercial development firms.

Faced with little or no construction opportunities in Los Angeles, especially in the speculative office market that fueled so much of the 1980s development surge, L.A.-based developers are finding greener pastures in other parts of the country.

Among the biggest out-of-town projects being developed by a Los Angeles-based company is the \$800 million International Cultural and Trade Center, a 3 million-square-foot development under construction in Washington, D.C. The center is being developed by Beverly Hills-based The Hapsmith Co., the same firm that is developing the \$200 million Walt Disney Concert Hall in downtown Los Angeles, scheduled to be completed in 1997.

Frederick M. Nicholas, president of The Hapsmith Co., said the Washington project will be the second-largest building in the nation's capital, surpassed only by the Pentagon. Nicholas further said the project, which his company is developing in a joint venture with the William Zeckendorf Co. and Larry Silverstein Co., both based in New York, was originally designed as a trade and cultural center for the chancelleries and passport offices of the major countries of the World. The concept was later changed to make it more a general office building for the federal government. The Clinton administration is currently studying its final use.

The Hapsmith Co. is also developing a 1.5 million-square-foot, \$130 million shopping center, called The Super Mall of the Great Northwest, in Auburn, Wash., which is scheduled for ground breaking this month. Another current Hapsmith project is the 100,000-square-foot Norwood Shopping Center near Sacramento. That project broke ground last September and is scheduled for completion in June.

Nicholas said that, before the Disney Concert Hall project, his company's last major development in the Los Angeles area was the remodeling of the Culver City Shopping Center in 1991.

Based in Los Angeles since 1956, Hapsmith traditionally has built more in Northern California than in Southern California, he said. With today's lack of demand for new construction in Los Angeles, however, Nicholas said he sees little prospect of significant work in L.A.

One of the busiest out-of-state markets for developers is Las Vegas, according to Jack Hileman, vice president of Koll Real Estate Group's Los Angeles office. Hileman said several factors have transformed Las Vegas into a busy market for commercial construction.

First, there is the general business growth in Las Vegas, where companies have been relocating and expanding in recent years. Second, the increased demand for office and industrial space, combined with a lack of construction of that type of space, have reduced office and industrial vacancy rates. Third, the City of Las Vegas and the State of Nevada are aggressively marketing themselves as business-friendly places, opening their arms to developers.

Koll has already built a \$22 million, 175,000-square-foot built-to-suit office for Sierra Health Services, one of Nevada's largest HMOs, and did so in record time, according to Hileman. Koll was awarded a contract by Sierra in September 1992 to develop two buildings and a parking garage. Fourteen months later, on Nov. 1, 1993, the tenant moved into the finished project.

In addition, Koll has formed a partnership with the city to pursue the development of two 10-story office buildings on a six-acre site in downtown Las Vegas.

Hileman said Las Vegas, where the office vacancy rate for Class A space is about 4.9 percent, is one of the few cities in the United States with an increasing demand for commercial office space. The low vacancy rate has prompted the City of Las Vegas to enter an agreement with the Koll Real Estate Group to pursue development of a mixed-use project called City Center on the six-acre site, which is in Las Vegas' downtown redevelopment area. The project is slated to be built on the former Minami Tower site, which has been empty ever since a Japanese developer walked away from a planned office project in 1991. The city received the land free and clear when developer Masao Nangaku, who bought the property in April 1989 with plans to build the 35-story Minami Tower office building, chose to abandon the project. Nangaku gave back the property to the city in exchange for the city not holding him to his redevelopment agreement.

Hileman said Las Vegas' cooperative attitude toward developers was evident in the speed with which Koll completed the Sierra Health project.

"The project sailed through approvals faster than anything I've ever done before," Hileman gushed. In contrast to the 14 months

it took to complete the Sierra development, he said, "It took us 18 months of negotiations with the City of Los Angeles Department of Recreation and Parks and the Street Lighting Bureau of the Department of Public Works before we got approval to remove two ficus trees in front of our new office building in downtown Los Angeles."

Koll went to Las Vegas because it found "a very tight real estate market" there, Hileman said. "Their vacancy rates, even for industrial, are in the single digits. For a 50,000-square-foot industrial tenant, the only option right now is a build-to-suit. Industrial and office, which are the mainstays of our company, represent good opportunities there. So we are pursuing build-to-suits in both of those categories."

Hileman said that, since completing the Sierra Health project last November, Koll currently has no construction under way out of its Los Angeles office. Its Newport Beach office has projects under way in Mexico and San Diego County, however, and recently landed a deal to develop a State of California building in Sacramento.

"The development climate is definitely better in other parts of Southern California and other parts of the state than it is in the Los Angeles Basin," Hileman said. He explained that Koll operates out of regional offices, each of which focuses on a specific area. He said one of Koll's busiest offices is in Dallas, which has projects under way in Dallas, Phoenix, Utah and northern Mexico.

Another L.A.-based developer looking outside the L.A. area is Woodland Hills-based The Voit Cos.

John Gebhardt, senior vice president at Voit, said his employer thus far has been sticking to development in California. Voit developed the 122,000-square-foot first phase of Olympus Point, a shopping center in Sacramento that is designed to eventually contain 266,000 square feet of space. Voit completed the first phase in April 1992 and is scheduled to break ground this month on the center's 44,000-square-foot second phase. That second is slated to be done in late October.

Voit has offices throughout the state and is making development proposals from a number of those offices, Gebhardt said. He said most of those are proposals for build-to-suits because those projects make the most sense for an out-of-town developer moving into another market.

"With build-to-suits, it's easier to travel to another city and make the project happen. To go to another market far from L.A. and do something on a 'spec' basis is a different story. That's where a lot of people got into trouble in the 1980s," Gebhardt said. "They tried to take their show on the road with 'spec' buildings."

Despite the general lack of development in the Los Angeles area, Voit and other developers are still doing a few projects for build-to-suit clients in niche markets. Voit, for example, is developing a build-to-suit warehouse in the Ventura County community of Moorpark and an office building in the San Fernando Valley for San Fernando-based U.S. Sales. Gebhardt would not comment on the projects because of a confidentiality agreement with the client. But Dick Davega, executive vice president of U.S. Sales, said the 410,000-square-foot warehouse in Moorpark will be a mail distribution facility and the 300,000-square-foot office building in San Fernando will be an administrative headquarters for the company, which is a direct response advertising firm.

In Valencia, the Newhall Land and Farming Co. signed a deal in December to have a 197,000-square-foot, \$14 million build-to-suit project developed for ITT Aerospace Controls Inc. on 10.5 acres in Valencia Commerce Center. Newhall Land and Farming hired Sylmar-based The Hewson Co. to develop the project on a for-fee basis. The project is designed to house approximately 400 workers from ITT's aerospace controls unit and some related operations.

Such build-to-suits are among the few signs of life in the L.A. development industry. For the most part, Los Angeles-based developers are having to cast their nets outside the county. Although there is a demand for some build-to-suits and for more space in certain categories - like "big box" industrial warehouses - developers said their activity in L.A. is likely to stay slow and spotty for a long time to come.

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