

Los Angeles in Limbo

No end in sight to lack of liquidity in lending markets as both homebuyers and real estate developers feel pain.

By **P. JACOB YADEGAR**

IN Los Angeles County, numerous residential condominium projects are now being marketed as apartments as developers scramble not only to find interested buyers but ones who can qualify for a mortgage.

Developer Fred Afari, who converted the Chapman building in downtown Los Angeles into 163 condo units for sale, has switched the project to a rental building because of changing market conditions.

Tighter lending guidelines and a substantial contraction in the money supply are helping fuel the current real estate crisis. Regardless of the property type, borrowers are having difficulty securing financing.

With the severely tightened restrictions and the unhealthy balance sheets of most lenders, liquidity continues to be a major driving force of the continued deterioration. Although the Federal Reserve has reduced rates dramatically over the last six months, lenders are still reluctant to lend, as they are under heavy pressure from regulatory agencies to clean up their delinquent and nonperforming loans.

Federal regulators that conduct audits of the banks and lenders are increasingly agitated with the level of risk in the lenders' balance sheets. While the Federal Reserve advertises and promotes the lowering of interest rates to assist the economy, it continues to restrict the lenders' ability to lend.

Most recently, several well-known local lenders have either entirely pulled out of the market or have massively cut back by tightening their guidelines to levels that very few borrowers can meet.

In addition, a lot of nontraditional lending sources have completely dried up. The flow of readily available cash from Wall Street firms – which accounted for a very large part of the real estate lending market – has all but disappeared. Billions of

dollars have been taken out of circulation as a result of the failure of Wall Street firms to manage their risk.

Continued losses in the tens of billions are still being reported by the largest financial institutions, insurance companies, banks and lenders. As a result, the contraction in the overall money supply is starting to take a severe toll on the real estate market and the consumer.

Like the “busted” condo projects, many residential developments, commercial projects and retail centers are having difficulty in securing the necessary financing to keep the projects afloat. Downtown Los Angeles has seen several large projects delayed, put on indefinite hold or scrapped in their entirety as a result of the current liquidity crisis.

The current turn-down is proving to be unbiased and nondiscriminating, as the effects are being felt by people of all financial backgrounds. Both consumers and major developers are reeling to make ends meet, and contrary to what many believe to be a “bottoming out,” the lack of liquidity in the market leads me to believe that we have yet to hit bottom.

Short on reserves

Historically, consumers and sophisticated professionals have an average of six months of reserves to help in weathering storms. The current liquidity crisis has entered its third quarter and many who have been able to hold on until now are starting to feel its effects.

Consumers are being asked to pay more than \$4 per gallon for gasoline, which in a transportation-heavy city like Los Angeles is a very difficult burden and drain on their cash flow. In addition to the higher gas prices, consumers are feeling the pinch of higher food prices. All of this coupled with the lack of liquidity will lead to a dramatic decline in consumer spending.

While tough times are still ahead, there are some bright spots in the local economy. Los Angeles is becoming more recognized as a metropolitan city of the world. With the weakness in the dollar, foreign investment in Los Angeles continues to soar as real estate prices in Los Angeles are still considered to be some of the lowest in the world compared with other cities



RINGO H.W. CHIU/LABJ

Signed Up: An L.A.-area home for sale.

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like London, Tokyo and Paris.

Additionally, exports to the Far East continue to climb, and aid in boosting the local economy and local businesses. The diversified business base has also been a tremendous boost to the local economy as the film and production industry, defense, import-export and manufacturing sectors continue to help sustain the underlying economy and jobs.

Now more than ever, cash is king and those who have saved up for difficult times will have an easier time working their way through this muddled economy as we continue on the downward cycle for the foreseeable future.

P. Jacob Yadegar is founder and chief executive of Empyrean Funding, a Los Angeles mortgage company specializing in residential and commercial loans.

Urban Zones Rising From Ashes

By **KOFI SEFA-BOAKYE**

OVER the past three decades, urban professionals from various disciplines within and outside academia have pointed fingers at suburban sprawl as the key culprit for the continued decay of L.A.'s inner cities. Businesses that decamped Watts, Boyle Heights and Compton for the suburbs, the argument goes, also saddled these communities with empty storefronts and polluted lots requiring expensive cleanup. Massive redevelopment efforts unveiled to stem urban decay in these neighborhoods failed to reverse the urban exodus.

Fast-forward to 2008. Today, the very communities left for dead are suddenly enjoying an unprecedented comeback. Like the phoenix rising from its ashes, Compton last year unveiled an unprecedented

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\$80 million shopping center at its southern fringes and a \$40 million residential development to boot in the heart of downtown. Boyle Heights is putting finishing touches on a proposal for a \$2 billion upscale commercial and residential development in an area that has been blighted for decades. Watts, a community that has struggled for decades with grinding poverty and crime, has become the venue for market-rate residential developments. And the list goes on.

Why this sudden back-to-the-city frenzy? What happened to sprawl? Undoubtedly, a confluence of several factors might have something to do with it. Yet, truth be told, compact growth is trouncing suburban sprawl not because the destructive environmental consequences of the latter have made it unacceptable. It is simply because high commuting costs – pain at the pump – have been demagnetizing the draw of the suburbs and suddenly catapulted compact development to the forefront.

Sprawl, the antithesis of compact growth, gained prominence in the L.A. metropolis and other regions during the '60s, '70s, '80s and '90s simply because powerful developers and the apostles of the unfettered free-market model deemed sprawl as the consequences of

market choices and hence the epitome of economic efficiency, freedom and property rights. Ironically, during the same period, others took an opposite view of sprawl by arguing that Los Angeles and its haphazard land-use policy had transformed the metropolis through its unplanned, unchecked, profit-driven growth machinery.

Sprawl's impact

For example, during the early years of this decade, the Southern California Studies Center at USC and the Brookings Institution Center on Urban and Metropolitan Policy in a classic paper demonstrated the environmental inequities of sprawl by showing graphic evidence of unequal concentration of air pollution and health hazards in L.A.'s inner cities. Yet such warnings were not enough to dethrone the politically entrenched proponents of sprawl because sprawl was deemed economically, scientifically and politically good, so long as gasoline prices ranged from \$1 to \$1.20 per gallon.

But today's pain at the pump, occasioned by record gasoline prices at more than \$4 a gallon, is affecting behavior and the thinking process of commuters. According to the Federal Highway Administration, travel on public roads fell in March for the first time since 1979, and public transit ridership is up. Smart growth developments that enable people to live within walking distance of work, shops, schools, parks and transit stops have become desirable today.

Suddenly, the once “market” poor communities have become strategic locations for compact mixed-use developments that are not auto dependent. The inner-city communities, which had historically been dumping grounds for the region's NIMBY transportation projects (highways, freeways and transit routes), have ironically become diamonds in the rough. Metrolink Blue Line transit systems that were once considered symbols of inner-city blues have now become symbols of inner-city boom – and are enjoying the envy of suburbanites. Along the major corridors of these communities is the proliferation of mixed-use, transit-oriented developments (retail, residential and entertainment centers).

Ironically, as affluent neighborhoods of Westside Los Angeles shudder and resist the intrusion of dense, so-called Manhattan-style mixed-use developments in their fortresslike neighborhoods, distressed urban communities on the Eastside are having the last laugh. If affluent L.A. is giving “Manhattanization” a lukewarm reception, smart growth is earning a front-row seat in the theater of inner-city revitalization – a paradigm shift in L.A. land-use policy, indeed!

Kofi Sefa-Boakye is director of the Community Redevelopment Agency in Compton.

► LETTERS

Nay to Nanny

Re: Comment column of July 7 headlined “Not So Fast on Food Ban”:

Charles Crumpley's column expressing skepticism about Councilperson Jan Perry's proposed limit on new fast-food restaurants in her district is on the money.

I'd be more comfortable with a nanny government if I could trust the nanny. But so far, the nanny has done a pretty poor job meeting her basic job duties: providing good schools, sound roads and other infrastructure, an adequate police force (in terms of numbers), and a fire department that doesn't spend more on lawsuit settlements over employment issues than on its many worthy on-the-line firefighters themselves.

Get those things right first, nanny, before you tell me what food I should eat. Get those things right, and maybe I will listen.

*Jeffrey C. Briggs
Hollywood*

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