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## Lawyers line up as apartment housing market heats up

*Increased legal work syncs with hot market for apartments in Los Angeles, other cities*

By Ameera Butt

The offices of Los Angeles-based Armbruster Goldsmith & Delvac LLP are seeing an upswing in the number of development projects they're handling.

Taking advantage of a hot apartment market, the firm is in the midst of 40 to 50 multifamily projects in various stages of development.

In concert with its client, NMS Properties Inc., a real estate and development management firm, it's working on mixed-use urban infill projects in downtown Santa Monica. But its clients and work stretch across the greater Los Angeles area. And that work - especially apartment building development - is on the rise.

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Multifamily housing is a "growing and robust area of our practice," said Dale J. Goldsmith, a founding partner of the firm. "It's been crazy, seems like there is a project every week. It just seems to be accelerating."

In the third quarter in Los Angeles, 36,099 units were rented, with an occupancy rate of 96.4 percent, according to Nick Grotjahn, a spokesman for RealFacts Inc., an apartment data source.

It's still relatively expensive to own a home and often hard to get financing in the post-bust market, so more and more people are turning to renting, say some experts.

Jerry Nickelsburg, professor of economics at UCLA and senior economist at the university's Anderson Forecast, said he's seeing an increase in multifamily housing construction.

"Home sales are actually not increasing in California, and the building of single-family homes is not increasing. The multifamily sales are increasing."

Many people who can't afford single-family homes are running to the rental market, said Michael L. Matkins of Allen Matkins Leck Gamble Mallory & Natsis LLP.

But attorneys say there are challenges in the bullish market. For starters, high demand for deals is driving up prices.

"It certainly has raised rents and raised prices and is causing a lot of development in the apartment market," Matkins said.

Many people are looking for deals, Goldsmith said. "It's simply supply and demand. Maybe a year or year and a half ago when some of our clients were taking steps back into the market, [there was] less competition. Now there's more."

Between the third quarter of 2010 and this year, the average asking rent in Los Angeles rose from \$1,830 to \$2,073, according to RealFacts.

Eric Wieggers, a senior vice president with the California Apartment Association, has seen rates rising in many markets.

"In fact, the San Francisco Bay Area is ranked No. 1 in the nation in rent growth," he wrote in an email. "Los Angeles is not far behind. Additionally, during the real estate downturn, there were not a lot of new apartment buildings being built. That has now changed."

According to the summer/fall 2012 Allen Matkins/UCLA Anderson Forecast's California Commercial Real Estate survey and index for Los Angeles, San Francisco and Silicon Valley, the panel (made up of developers and their investors) was optimistic about the prospects for revival of multifamily housing in the coming three years. The survey said that "while average rental rates for the [Los Angeles] County have not risen at the same rate as San Francisco, vacancies in specific markets are now under two percent and rental rates have been pushed up sufficiently to induce a rebirth of the apartment construction market."

Along with the slowly recovering single-family housing market and tight mortgage financing conditions, changing demographics are also fueling the demand for apartments.

"Now the millennials are starting to form households, and they are in the right demographic to be demanding multifamily housing," Nickelsburg said.

Newport Beach-based legal consultant Peter D. Zeughauser said the real estate sector is geared for a boom as a result of population shifts.

"People need to rent. On a macro level, 4 million people around the world are moving into cities every month. And between now and 2025, to meet that kind of urbanization, the world's population will have to build that real estate," he said.

Stephen C. Ryan, partner at the San Francisco office of Cox Castle & Nicholson LLP, said a lot of apartment housing demand is and will come from aging baby boomers and Generation Y, many members of whom are moving into urban centers. He said Cox Castle's real estate practice groups have been busy, from the predevelopment side to the construction and financial sides.

"The short-term reasons are compelling," he said. "You've got interest rates that are essentially free. Debt financing [is] incredibly strong, especially niches like affordable housing, which accounts for half of the multifamily housing."

But Zeughauser said there aren't enough real estate lawyers to meet the demand.

"The challenge for law firms, they've really thinned down those ranks," he said, "so it's not like there's a lot of people to do the work. We're still in recession mode in most firms."

Dean Pappas, a Goodwin Procter LLP partner in the firm's real estate capital markets group in Los Angeles, said the window to build a significant amount of apartments is probably two to three years nationally before that segment of the market reaches a saturation point. He said Los Angeles hasn't had as much multifamily development as other areas, such as Northern California and Washington, D.C.

"It'll be interesting to see how long we have this apartment development," he said.

But he added that apartment saturation wouldn't happen "immediately."

"Given the projects that are in the pipeline, you may see it in the next couple of months or years. What I have seen [is] clients taking projects off the grid that were literally ready to go, because they think the fundamentals might change."

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