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## Downcycle Survivor: L.A. Developer Has History on His Side

*Ratkovich Co. President Bullish on Urban Infill Projects Despite Housing Woes, Financing Challenges and Rising Costs*

Over the course of 40 years in commercial real estate, Wayne Ratkovich has helped turn around some of Los Angeles' most historically significant buildings. Among others, he's directly guided or played a role in the revival of the Wiltern Theater, the Pellisier Building, the Oviatt, and the Fine Arts and Terminal Annex properties in downtown Los Angeles.

His downtown L.A.-based firm, The Ratkovich Co., is currently involved in two major revitalization efforts - The Alhambra in Alhambra, CA and 5900 Wilshire on Los Angeles' "Miracle Mile." The real estate development and investment company has completed, owns or has under development, more than 13 million square feet of office, industrial, retail and residential projects in Southern California; much of it is concentrated within a 5-10 mile radius of the L.A. CBD.

Befitting the region that put amusement parks on the map, Ratkovich has endured many a market rollercoaster ride during his career. He's circumspect, not panicked, about the current downturn in which lenders have turned back the once-gushing construction financing tap to a thin trickle.

"We've been through a few ups and downs in the market and most of them seem to be more severe than this one -- at least for us -- as we're heavily weighted in commercial as opposed to residential," Ratkovich told CoStar Advisor recently. "Our strategy is to keep our organization functioning and in line for the opportunities that will come our way -- but to always keep our eyes on the market and our financial performance.

"If we need to make adjustments, we will, but at the moment, we're staying right where we are."

The Alhambra is a 1 million-square-foot office campus acquired by Ratkovich in 1999. Originally serving as the headquarters for the C.F. Braun Company between 1925 and 1985, the property fell into disrepair after Braun was acquired by Santa Fe International in the early '90s. It was less than 30% leased when Ratkovich bought it nine years ago.

The developer has revived the 45-acre Alhambra site and its offices are now 95% leased. In July, construction will be complete on the 50,000-square-foot LA Fitness center, which Ratkovich Co. built on a parking lot across from the main Alhambra campus adjacent to other retail projects anchored by a Kohl's department store.

But the plan's housing element hasn't fared as well. Ratkovich received approval from the city to build 320 condominiums and town homes on the northern section of the office campus, but the market downturn has frozen the project.

5900 Wilshire is a 50-story high-rise office tower located immediately across from the rapidly expanding Los Angeles County Museum of Art. Ratkovich and partner, Prudential Real Estate Investors, purchased the 500,000-square-foot property in December 2005 at 70% occupancy -- and in need of an extensive renovation, including replacement of outmoded elevators, boilers and chillers.

The building, designed by iconoclastic architect William Pereira -- who also designed the Transamerican Pyramid tower in San Francisco's Financial District and the Disneyland Hotel in Anaheim -- is an LA landmark typical of his futuristic style. But 5900 Wilshire, across from the Los Angeles County Museum of

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Art (also designed by Pereira), became a cornerstone of a major redevelopment of the museum and other Wilshire corridor buildings.

The cost of the 5900 Wilshire renovation is a higher-than-expected \$34 million, but the second phase of the facelift is under way and the company recently announced 60,000 square feet of new leases. Plans also call for a new pavilion and café on the corner of Ogden and Wilshire directly across the boulevard near the new entrance to the museum, which is undergoing a \$160 million renovation.

CoStar Advisor spoke with Ratkovich about his four decades in urban infill development and the challenges facing cash-thirsty developers.

Advisor: When do you expect to begin the condos at The Alhambra?

Ratkovich: We're ready to go except for the market. We have the entitlements and the plan. We haven't even tried to get the financing. We've decided to put it on hold for six-month periods and we're going to continue to explore the financing and market opportunities. But for now, we have to wait until things get a little better. The overall project has been terrific: there's 1 million square feet of office space that's consistently been at 90-95% occupancy for the last couple of years; retail's at 100%. We built our first new parking structure for 750 cars, which will free up the land for the residential.

CoStar Advisor: Is Southern California's for-sale condo market in a better or worse place than saturated markets like South Florida and Las Vegas?

Ratkovich: Any time you have 250,000 new people coming into your market area every year, that's a good thing. Those are people that have to be housed, and Southern California is in a better place than a lot of places around the country. That's not to say we're not overbuilt in a number of areas, but the situation here isn't nearly as dire as it is elsewhere. The big issue is the matchup between incomes and the price of housing. Fortunately for us in Alhambra, we're not building million-dollar houses. We're in the middle market. I think we can be among the first people to start new development. We're four or five miles from downtown L.A. and Pasadena, so we're in a little better place than for example a developer in the Inland Empire holding a lot of land.

Advisor: How about 5900 Wilshire? Are you finding tenants?

Ratkovich: It's quite remarkable; we've been leasing up space faster than we can produce it. We had to do a lot more work on the building than we expected. We're spending more money than we projected, but we're getting higher rents than we projected as well, so it's turning out to be a very successful project.

Advisor: What's the economy doing to your business?

Ratkovich: Well, it's no fun. We're in a similar situation as a lot of people at the moment. It's very, very difficult to get financing for new development. It's not impossible, but we're back to much more traditional, conservative underwriting. The amount of capital that's available for transactions is so limited that you've got to have something very, very good. We're focusing on the opportunity in the marketplace right now. To be good at what you're doing, you have to be able to create value. We're not simply playing a financial engineering or cap rate game anymore. This is value creation in the ways developers have more traditionally functioned in the past.

The way some of the issues have been handled in the press and those running for office isn't helping. That's kind of the wild card. Absent that, we should be able to get back on track within a year. It's sad to see so many foreclosures. But relative to the healthy side the of the market, the numbers are not so overwhelming that they should be dramatized in the media quite so much as they are.

Advisor: Over 40 years, you've seen a lot of real estate cycles. Does anything set this one apart?

Ratkovich: The fact that this cycle is so focused on residential is different. When I first got into the real

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estate business in the early '60s, interest rates were around 6 percent. They were not at that level again until the last few years. When you have such a dramatic increase in the availability of capital and it's so inexpensive, you run the risk of having pretty significant disruptions. The good thing is that the non-residential market has managed to maintain a pretty healthy state of affairs.

Advisor: How does it feel, turning around some of the old buildings in L.A., which some have suggested can ill afford to lose the architectural history it does have?

Ratkovich: Without question, that's really why we do it. We have an interest in it and I would say a passion. It adds relevance to what we do for a living. We'd like to think that we're going to not only do well as a business but do some good for the community we live in. What I've found over the years is that [historic preservation] is quite attractive to young people coming into the industry, judging from the interest we have from people getting their MBAs from USC and UCLA and other places. They like to be part of something where they are contributing to an improvement in urban life. It's flattering at times to hear why they want to explore an interest in our company. There was always a sense of satisfaction to peek in the door of the Wiltern Theater and see 2,000 people - I think over the course of our ownership it was over 2 million people that walked through the doors of a theater that was going to be demolished.

Advisor: What are some of the specific challenges about redeveloping historic buildings? What's your most gratifying project?

Ratkovich: The principal challenge is on the construction side, and on occasion, the code enforcement. We've learned over the years that the right way to go about it is to conduct a very, very thorough analysis of the work required for the building -- and then to expect that you haven't caught everything, and to put a contingency factor that covers the things you're not going to be able to cover. Happily, we've learned how to deal with it. We're usually pretty well covered on our budgets these days. On the marketing side, I think we've had an advantage. This was something that surprised us: when we did a historic building, we were quite surprised at the interest.

I've often cited the Oviatt Building, a relatively small building at 100,000 square feet. When we redid that building in the late '70s and early 80s, we got more publicity than you would have received to build a million-square-foot building downtown. The tenants who were interested would look right past the relative inefficiency of our floors. They enjoyed being in a place that had an aura about it from its historic and architectural past. From a marketing standpoint, we looked at it as an advantage and still do. People like to see things make a transition. It's kind of fascinating.

CoStar Advisor: Real estate runs in your family, no?

Ratkovich: My daughter [Lindsay] is in the business in Philadelphia, where she went to school at the University of Pennsylvania, and my son [Milan] is working for the company after serving nine years in the Marine Corps. So I guess I started something.