

Wednesday, December 16, 2009 As of 5:52 PM EST

THE WALL STREET JOURNAL.

DEAL OF THE WEEK

DECEMBER 16, 2009

L.A. Story: Tishman Woe

Few U.S. properties have as colorful a history as Playa Vista, a sprawling master-planned development in western Los Angeles.

In the 1940s, aviator and industrialist Howard Hughes built his famed Spruce Goose plane on the site. Decades later, in the 1990s, DreamWorks Animation SKG tried and failed to build a studio there, but later such movies as "Transformers" were filmed on the site. Today, about 3,100 residential units along with numerous office buildings and parks have been built, and more development is in the works.

The latest chapter: a 56-acre site, contained in nine separate parcels, is being put on the block by a receiver that took control of it from a joint venture of Tishman Speyer Properties and Walton Street Capital LLC. It is one of the many problem properties that has bedeviled Tishman Speyer, a developer and investor, in the downturn.

Trigild Corp. of San Diego, the receiver appointed in October, has hired CB Richard Ellis Group Inc. to market the property. The offering comes after a joint venture between Tishman and Walton Street, a Chicago private-equity firm, defaulted this year on a loan secured by the property. The loan, held by a group of lenders for which [KeyCorp's](#) Key Bank is acting as the administrative agent, was valued at \$155 million as of November, according to court documents.



Charlie Lenoir
Howard Hughes's Spruce Goose was built in this hangar, part of a 56-acre property now up for sale.

The property was part of a 64-acre parcel acquired by the Tishman and Walton group near the peak of the real-estate boom in 2007 for about \$200 million. The slightly smaller swath now up for sale has about 575,000 square feet of buildings, which includes older office space and Mr. Hughes's former airplane hangar that now contains what is billed as two of the largest sound stages in the U.S. The property also includes rights to build more office and movie-production facilities.

Despite the property's Tinseltown ties and a western Los Angeles location near the beach, it likely will be a tough sell. Brokers estimate Tishman and Walton's Playa Vista property will likely fetch between \$75 million and \$100 million.

"It's an albatross," said Matthew Brainard, a corporate managing director in Studley Inc.'s west Los Angeles office, who said he had shown the property to some potential corporate users who didn't bite. Studley specializes in representing tenants.

The parcel is coming onto the market as undeveloped land values have been hit hard in the downturn. Such properties must compete against brand-new empty office buildings also fighting for tenants as demand from would-be occupiers has cratered and financing for speculative development has dried up, Mr. Brainard said. Moreover, the percentage of total Class A office space vacant or available for lease in Los Angeles's Westside submarket rose to 21.5% in the third quarter from about 13.9% in the year-earlier period, while asking rents fell to \$42.47 a square foot annually from about \$47.63, according to Studley.

Tishman and Walton executives declined to comment. But a person familiar with the transaction said Tishman likely still would be interested in buying back the property, so long as it can get it at a lower price. The partnership opted to walk away from the deal when its investment no longer made sense with values plummeting, the person said.

To be sure, Playa Vista hasn't been a total bust for Tishman and Walton. They are holding onto the first phase of their development, an eight-acre slice with four office buildings. The University of Southern California and Belkin International Inc. have signed leases for about 222,000 square feet out of the 325,000 square feet of office space.

Playa Vista is one of a number of now-troubled properties acquired by Tishman-affiliated ventures at the top of the market. The company, whose holdings include Manhattan's Rockefeller Center and the Chrysler Building, also was part of a venture with a unit of [BlackRock](#) Inc. that purchased a Manhattan apartment complex known as Peter Cooper Village and Stuyvesant Town for \$5.4 billion in 2006. Debt on the apartment complex from that purchase is in danger of default.

The dominant developer of Playa Vista is Playa Capital Co. which purchased most of the project in 1997 from Maguire Thomas Partners. Since then, Playa Capital has sold off parcels to developers like Tishman and Walton or donated or sold to the state. Despite the recent troubles facing the piece of Playa Vista now in receivership, Steve Soboroff, chairman of Playa Capital, is confident that the overall Playa Vista development will be successfully completed to include more office, retail and residential units.

Mr. Soboroff said Tishman Speyer was one of many real-estate participants that has gotten caught with too much debt on a property in a market with declining values. "When you have leverage in a falling real-estate market you tend to have issues," said Mr. Soboroff.