Long-Term Holders Find Solace In Santa Monica

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SANTA MONICA, CA—The submarket's retail fundamentals are among the best in the nation, but the market is so tight and investors should expect to pay higher prices for lower yields, GlobeSt.com reports in this EXCLUSIVE interview.

Babak Ziai is the founder of Brandview Capital Partners.

SANTA MONICA, CA—The retail fundamentals in Santa Monica are among the best in the nation, according to **Babak Ziai**, founder of **Brandview Capital Partners**, which is **active in the submarket**. Investors looking to break into the market should expect to pay higher prices with lower yields, but can also expect big rewards for long-term hold strategies. To find out more about the market dynamics in Santa Monica, his business strategy and his advice to new investors in the market, we sat down with him for an exclusive interview.

GlobeSt.com: Give me a snapshot of the Santa Monica retail market today.

Babak Ziai: Downtown Santa Monica's retail market fundamentals are among the strongest in the country as evidenced by sub-3% vacancy and strict supply constraints set by geographic and regulatory barriers to development. There is no shortage of tenant demand driven by the area's high income demographic, customer traffic around 3rd Street Promenade, and, the "live-work-play" synergies with its high-performing commercial office hubs and dense rental housing.

GlobeSt.com: Retail properties in Santa Monica have extremely high barriers to entry. Why do investors want to be in this market and what does it take for an investor to break into the market?

Ziai: Given global macroeconomic concerns, there is no doubt we are in a tepid stage in the cycle. Downtown Santa Monica's fundamentals are attractive for investors seeking to trade higher prices and lower returns for safety in the form of capital preservation and liquidity. This translates into patient capital that will accept lower yields over the first 3 to 5 years to capture growth over a longer 10-plus year investment horizon. Given the limited sale offerings and the closely held nature of ownership in this market, we access opportunities through brokerage and off-market relationship channels for our investors.

GlobeSt.com: In light of investment fundamentals you describe, what is your investment strategy?

Ziai: We are focused on acquiring properties with below-market rents in place and under-performing tenants where the potential downside of vacancy creates upside opportunities to add value through re-merchandising, leasing and repositioning. We like this asymmetric relationship between limited downside and appreciation potential for capital that can be patient to unlock value when tenant spaces expire or vacate as the market continues to improve.

GlobeSt.com: Tell me about retail tenancy. What types of tenants are attracted to the market, and how difficult is it for tenants to find available space? What is your recommendation to tenants looking in this market?

Ziai: Generally speaking, Downtown Santa Monica provides one of the most attractive trade areas for small to medium-sized, higher-end retailers that operate at high rental occupancy costs. It is a mecca for apparel, fitness and health food brands given the active lifestyle of its residents and commuter employees.

The market for available space is extremely tight, especially in locations with valuable street retail frontage on walk streets such as Ocean Ave, Main Street and surrounding 3rd Street Promenade. We are also seeing many tenants plan their expansion to capture the customer traffic from the three new Metro Expo Line stations set to come online by the end of this year.

We encourage collaboration with tenants to collectively 'solve' to where retail customers want to be to drive foot traffic and sales. It is critical to ensure the physical space and location can be coupled with a distinctive merchandise, food or experiential lifestyle offering. We also seek to enhance the local community the proposed tenant mix.

GlobeSt.com: Have you seen tenants migrating away from Santa Monica to other hot but cheaper markets, like downtown, the South Bay or Hollywood? If so, is there a concern about decreasing demand?

Ziai: This is generally less common given the strong tenant demand seeking to pay-up to be in Santa Monica. On a relative basis, other urban markets such as Downtown LA and Downtown Culver City are better suited to enable newer, less tested, capital-intensive businesses such as restaurants to operate at lower rental occupancy costs.

GlobeSt.com: What is your forecast for the urban retail market sector in Santa Monica in 2016?

Ziai: Our outlook is positive. The benefits of Downtown Santa Monica's investment in revitalization and public infrastructure have yet to be fully realized. The extension of the Metro Expo Line station will transform it into a public transit-oriented neighborhood. Tongva Park will continue to centralize and link the north and sound ends of the market by increasing pedestrian traffic at Main Street and Ocean Avenue. Retail rents should continue to grow in correlation with job growth and corporate office demand from 'Silicon Beach' tenants as evidenced by Uber's corporate expansion on Ocean Avenue.