

# SAN DIEGO DAILY TRANSCRIPT

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## 'Fractured' condos wind down; some conversions may return

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*The Daily Transcript*

**SCRIPPS RANCH** — While a “fractured” condominium development known as Monarch at Scripps Ranch in San Diego was sold for \$46.2 million this month, there might not be many more here.

San Francisco-based **BRE Properties** (NYSE: BRE) acquired the 194 Monarch units — or 74 percent of what was a 262-unit apartment complex sold for \$81 million (\$309,160 per unit) in late 2005 and converted to a condominium.

The 68 units not involved in the BRE sale were previously sold or are in escrow.

A “fractured” condominium is a residential complex where some of the units were sold as condos, but the with the remainder unsold and rented out as apartments.

BRE Properties bought the multi-building complex at 10776 Scripps Ranch Blvd. at an average price per unit of \$238,144, from **AG/ICC Monarch Owner LLC**, an entity of **Angelo Gordon L.P. Co.** of New York.

AG/ICC Monarch acquired the 194 Monarch units on Christmas Eve 2009 with a bid of \$35.6 million (\$183,556 per unit) on outstanding debt of \$55.4 million (\$285,654 per unit).

Ed Rosen, John Chu and Alejandro Lombrozo, of **Cushman & Wakefield** negotiated the Monarch transaction for both the AG/ICC Monarch and BRE Properties.

A **MarketPointe Realty Advisors** survey from last month reported there were 201 units renting at Monarch with 188 occupied for a 6.5 percent vacancy rate.

BRE entities currently own about 15 multifamily complexes in San Diego County.

An Angelo Gordon partnership with **Pacific Office Properties Trust** (Amex: PCE)

paid \$75 million for the 356,500-square-foot Seaview Corporate Center in Sorrento Mesa in December.

The 194 Monarch units are in 12 three-story walk-up buildings on 9.13-acres.

The unit mix includes 80 one-bedroom units; 108 two-bedroom, two-bath units; and six three-bedroom, two-bath units. Units range from 800 to 1,450 square feet.

A team headed by Rodney Stone and Patrick Kruer in the early 2000s developed the apartment. Kruer is now a California Coastal commissioner.

The apartment was part of a mixed-use development that included two 60,000-square-foot office buildings, which are separately owned.

**Scripps LLC**, a partnership controlled by San Diego investor Christopher “Kit” Sickels, paid \$81 million for the apartment complex in December 2005.

The acquisition was financed with a \$77 million loan (\$293,893 per unit) from **Corus Bank**, which was taken over by the Federal Deposit Insurance Corp. last year.

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# Condos

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When Sickels, once a co-owner of the U.S. Grant Hotel, announced he was buying the apartments, he said he would be convert them to condominiums. He could not be reached for comment.

While Sickels and his partners managed to get some units sold or in escrow, they weren't moving quickly enough and the remaining 194 available units were sold at the December trustee's sale.

While the Monarch property is just one of several fractured condominium transactions that have been sold within the past year, the consensus is they are tapering off.

In November 53 of the 116 condominium units at the Heritage at Canyon Pointe development on San Pasqual Valley Road in Escondido were sold for \$5.25 million.

An **H.G. Fenton Co.**-controlled partnership sold the fractured condominium built in or around 1986.

Darcy Miramontes — who along with her mother Diane Miramontes, Kip Malo and Hunter Combs of what is now known as **Cassidy Turley BRE**

**Commercial** handled the Heritage sale — said she is still seeing very few large transactions of any kind.

"We may see a few fractured condo sales, but not a lot," she said.

Miramontes suggested that these fractured condo properties should be a good investment for those who can find them.

"We can at least rent these out," Miramontes said.

This is both because of the depressed prices and the fact that San Diego, which still has an apartment vacancy of 4.75 percent, according to a March survey by **MarketPointe Realty Advisors**, is a lot stronger than Phoenix, Las Vegas or some of the Florida markets.

Late in fall 2008, the mother-and-daughter Miramontes team oversaw the sale of 111, out of the total 168 condominium units, at Terra Vista at Otay Ranch in Chula Vista for \$18 million.

"This was an unusually complex transaction," Diane Miramontes said. "In addition to the challenge of representing a portion of a fractured condominium project, the sell-

er filed for bankruptcy during escrow."

John Chu, a **Cushman & Wakefield** executive director, agreed with Darcy Miramontes that few big fractured condominium projects are coming down the pike.

"There aren't that many larger ones out there. People are hanging onto what they have if they can, rather than trying to sell," Chu said.

Kent Williams, **Marcus & Millichap** regional manager, said with lenders bending backwards to do workouts and owners at least attempting to hold out until the market improves, broken condominium deals will be in short supply.

"Right now the chances of buying a distressed property is slim, but there are opportunities to buy the paper," Williams said.

In late summer 2008, a fractured condominium consisting of 143 units within a 200-unit conversion — known as Adagio on Lake Murray Boulevard in La Mesa — was sold for \$22 million, or \$153,850 per unit.

The buyer was **DAV-H La**

**Mesa LLC** with Paul G. Kerr as managing member, c/o **Davlyn Investments**, a San Diego-based, real estate investment firm headed by Kerr. **Bank of America** (NYSE: BAC) provided a loan of \$18.5 million.

The seller was **SCb-Adagio LLC**, with **SCb Management Inc.** as managing member. Kerr is president of SCb Management.

In mid-2005 the property, then known as Lake Village Apartments, was sold for \$42 million to SCb-Adagio.

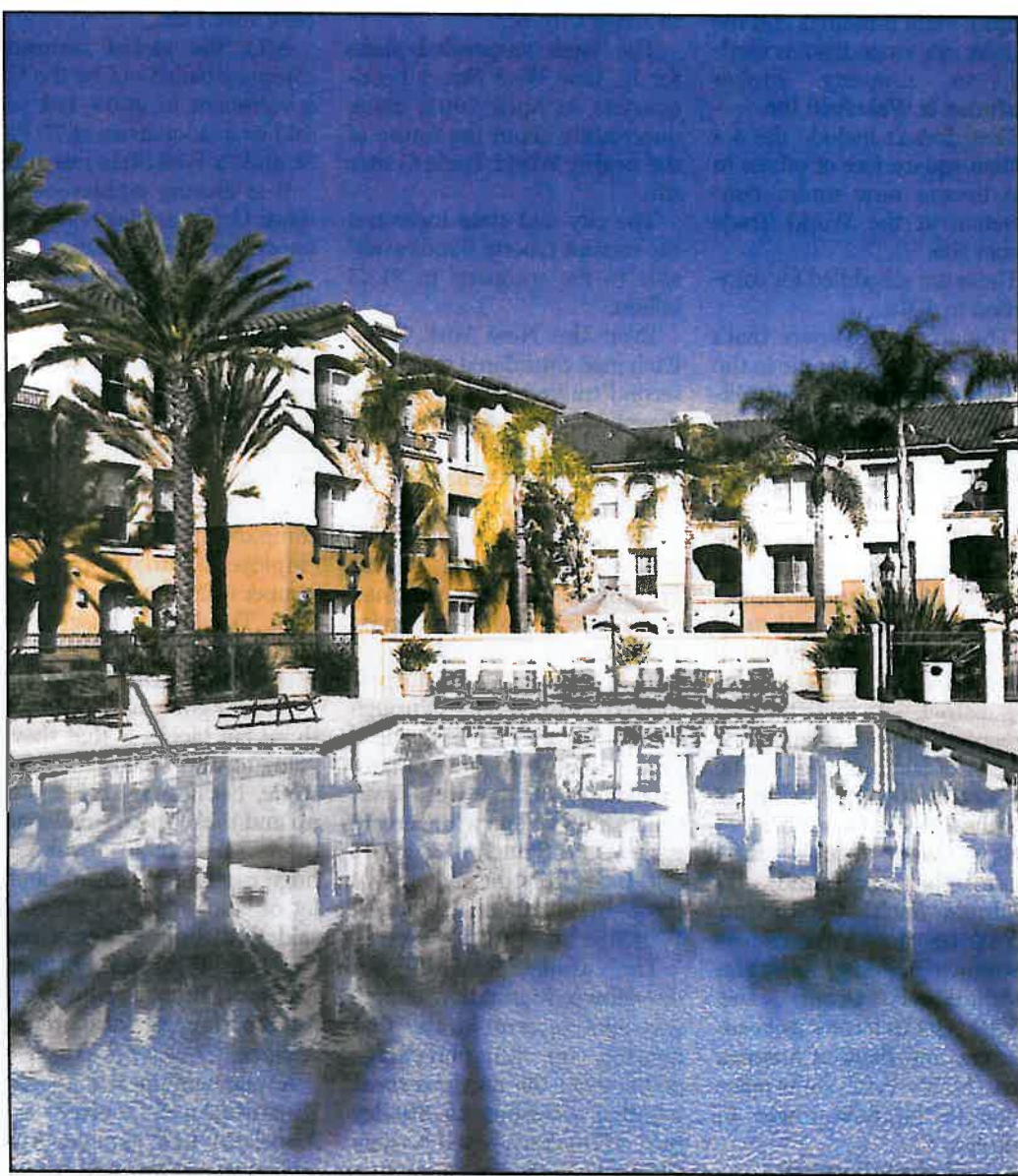
BofA provided a construction loan of \$42.6 million on top of subordinate financing of \$7.7 million.

If fractured condominium transactions are winding down, does that mean that rentals may once more go condo?

Russell Valone, **MarketPointe** president, said such a trend may happen as early as the end of the year, but it will be a trickle rather than a flood.

"You will see it happen in the smaller projects first. It's something that will be phased in," Valone said.

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## Fractured condo conversion in Scripps Ranch sold

A fractured condominium (194 of 262 units) known as Monarch at Scripps Ranch in San Diego was sold for \$46.2 million this month.

At foreclosure in December 2009, the 194 units were acquired for a bid of \$35.6 million on outstanding debt of \$55.4 million. As a 262-unit, multi-building apartment complex, the property was sold in late 2005 for \$81 million and converted (*see top story*).