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Drill Deal Gives Hope for CRC

ENERGY: Increased production, higher oil prices on horizon.

By STEPHANIE HENKEL *Staff Reporter*

Stevens

Chatsworth oil and natural gas producer **California Resources Corp.** has entered into a joint venture with New York asset management firm **Benefit Street Partners** to develop the company's properties, beginning with its crown jewel in the San Joaquin Valley.

The deal calls for Benefit Street Partners to invest up to $250 million, starting with an initial $50 million that will be used "to accelerate development in the San Joaquin basin through the summer," said **Todd Stevens**, chief executive of California Resources, during the company's Feb. 16 conference call.

Both companies expected the first investment to fund in early March. During the call, Stevens said initial activity associated with the joint venture will include one immediate drilling rig and potentially two more in the second half of 2017.

After the initial $50 million, Benefit Street Partners is set to make subsequent investments in four potential tranches up to $50 million each

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Biz School Targets Valley Grads

EDUCATION: Costs, benefits play into student recruitment.

By HELEN FLOERSH *Staff Reporter*

When **Sumantra Sengupta** was hired to direct the MBA programs at **California Lutheran University** School of Management, he had a specific approach in mind.

"Academia is a business, whether we like to admit it or not," he said. "I look at it as, 'What's the value that we are delivering?'"

The cost to enroll full-time in the university's general MBA program starts at $36,000, or $800 per credit unit; base tuition for one of six specialized MBA degrees is $38,400. Executives who have held management roles for at least five years qualify for admission into Cal Lutheran's "experienced professional" MBA program, a $44,000, 18-month curriculum

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PHOTO BY MIKE BAKER

Marketer: Cal Lutheran's Sengupta.

Merchants: REX's Jack Ryan and Ari Sternberg at property in Malibu.

PHOTO BY DAVID SPRAGUE

HOME SELLERS IN 3D

REX debuts Hollywood-quality virtual tours with Malibu mansion

By CAROL LAWRENCE *Staff Reporter*

In its quest to replace traditional real estate brokers with a website, **REX** has a new tool: ultra-high-quality 3D virtual reality home tours.

The Westlake Village company launched in 2015, offering to sell homes for 2 percent of the sales price rather than the higher commissions charged by brokers. While video tours are nothing new in residential real estate, REX has taken the technology to a new level by partnering with Hollywood studio **Legend3D** to assure high production values.

And the first property to benefit from a 3D campaign is a $57.5 million mansion in Malibu overlooking the Pacific Ocean.

REX Chief Executive **Jack Ryan** said his team screens potential buyers and mails virtual reality goggles to those with a confirmed interest in the property.

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SPECIAL REPORT ENTERTAINMENT

CRAFTSMEN: The Valley region hosts a cottage industry of luthiers, or master guitar makers, who create instruments for the biggest names in music. Learn how entrepreneurs such as Avi Shabat, shown above with two technicians, manufacture the old-fashioned way in local garages and workshops.

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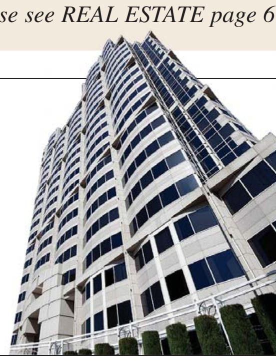

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Filling Nestle's Big Footprint

OFFICE: Food giant's exit will leave 15 floors empty in prime Glendale building.

By CAROL LAWRENCE *Staff Reporter*

Nestle USA's announcement that it will move its U.S. headquarters out of one of Glendale's prominent office buildings threatened to take a bit of the shine off the Jewel City's recent rebirth.

The subsidiary of Swiss food company **Nestle S.A.** revealed Feb. 1 that it plans to leave 800 N. Brand Blvd., its corporate home since 1990, for Rosslyn, Va. The company said the decision was made in response to the rapidly changing food industry and to be closer to most of its customers and stakeholders. The move is also part of a companywide consolidation plan.

The announcement comes as Glendale has started getting the kind of attention from retailers, restaurants, apartment developers and office tenants that has reinvigorated other neighborhoods and cities – think Santa Monica and Playa Vista.

Brokers cite falling vacancy rates and rising rents as evidence of the city's stronger position. But then Nestle released its plan to leave, meaning that the nearly 380,000 square feet of the Class A office tower it takes will go back onto the market. The food company plans to start its exit later this year and finish by the end of 2018.

"This is quite startling," said **Bill Boyd**, senior managing director of **Charles Dunn Co.**'s Glendale office. "If all the space was vacated today, it would cause the current 10 percent vacancy to jump to a 16 percent vacancy (among the primary types of buildings in Glendale competing for tenants)," Boyd said.

New normal

Nestle currently occupies 15 floors – about 73 percent – of the 21-story Brand Boulevard tower, which was built in 1990 with about 518,000 square feet of space.

That structure was typical of others going up at the time, as Glendale was in the midst of an office market boom, Boyd said. Employers were taking 300,000 square feet to 400,000 square feet of space a year.

Fast forward to 2016 and 2017. Efficiency is the new game for employers, and that means fewer employees and much less office space, Boyd explained. As a result, tenants are now taking only about 300,000 square feet in the Tri-City markets annually and about 100,000 square feet a year in Glendale.

Brokers say companies are moving into the city to be close to its newer lifestyle amenities – retail, restaurants and apartments. Leases from last quarter included entertainment firm **Bunim/Murray Productions** that took about 85,000 square feet; **PSI Services**, which signed for 25,000 square feet and Australia's **Cotton On Group**, which leased 18,000 square feet, according to **CBRE Group Inc.**

"There is a new tenant mix of media-related and post-production firms that want to be near Burbank but don't want to spend the Burbank rents," Boyd said.

But they aren't typically taking the hundreds of thousands of square feet that the city's traditional financial, insurance and real estate servicers have, he added.

Still, attracting newer and different types of companies has been a concerted effort by Glendale and its economic development agency since the Great Recession. Vacancy rates skyrocketed then because of troubles faced by banking and mortgage companies, many of which were in the city, said **Darlene Sanchez**, deputy director of the **Glendale Economic Development Corp.**

"It was a big wakeup call to ensure we're diversifying the types of tenants that are here," Sanchez said. "The Council wants us to focus our strategies on that."

Upside

Despite a seemingly emptier future for 800 N. Brand, there are upsides.

For one, some of Nestle's space already has been leased.

Children's Hospital Los Angeles, which currently rents two floors at the building, has agreed to take another two floors for administrative purposes and occupy them in the spring, the health care provider said. The tower's owner, **Piedmont Office Realty Trust Inc.** of Johns Creek, Ga., reported in its four-quarter earnings report that Children's Hospital signed a 10-year lease for 97,000 square feet in December.

Piedmont commented on the impact to 800 N. Brand, saying that Nestle's lease doesn't expire till 2021. At that time, with the Children's Hospital lease, the impact from Nestle's departure would be about 66 percent, Piedmont added.

The building has numerous features that tenants like, Boyd said, such as a prime location a block from the 134 freeway and access to two others; its centrality to L.A. County; proximity to multiple labor pools and amenities such as the Glendale Galleria and Americana at Brand – which employers use as recruitment tools.

Asking rents – which average now at about $2.62 – will likely stop increasing. Landlords, in order to sign new leases and lease renewals, will probably increase the concessions they offer tenants, such as several months of free rent, and tenant improvement allowances, he added.

"Currently, it's an average of five months of free rent on a five-year (lease) term," Boyd said. "That was starting to disappear. But with an increase in vacancy, that abatement could go easily to six or seven months."

Glendale sees an opportunity to secure a new prime tenant that it hopes will headquarter there, Sanchez said. The city has new initiatives to attract new industries, such as technology, and a plan to consider building a park over a portion of the 134 freeway near the building that could attract employers.

Meanwhile, Nestle's pending vacancy is getting attention. Her department is getting calls, and Sanchez has signed a nondisclosure agreement, she said.

"I think because of the visibility and attractiveness of the building, and the media (attention), that it's on people's radar," Sanchez said.

In Flux: Nestle plans to vacate 800 N. Brand Blvd. in Glendale by the end of 2018.

B. Riley to Purchase East Coast Investment Bank

FINANCE: Proposed deal for $160 million will create national small-cap financier.

By STEPHANIE HENKEL *Staff Reporter*

Financial services company **B. Riley Financial Inc.** is ready to acquire East Coast brokerage **FBR & Co.** for $160 million in a deal that will create a national small-capitalization investment bank and brokerage firm with 600 companies under research coverage.

Per the agreement, FBR shareholders will receive 0.671 share of B. Riley stock as well as an anticipated pre-closing cash dividend of $8.50 a share. FBR will pay a minimum of $33.5 million to B. Riley at closing, which is expected before June.

"This merger with FBR represents a great strategic and cultural fit for B. Riley with strong franchises in areas complementary to our existing businesses," Chief Executive **Bryant Riley** said in a statement. "The combined firm will enjoy an increased capital base as well as meaningful revenue and expense synergies."

The new investment banking and brokerage business will retain the FBR name and brand and become a subsidiary of Woodland Hills-based B. Riley Financial. Both companies have over 200 employees each and currently have no layoff plans in relation to the merger. **Richard Hendrix**, current chief executive of FBR, headquartered in Arlington, Va., will serve as chief executive of the combined entity.

A huge draw to the deal is the fact that the firms have limited overlap in client base, research coverage and capital-raising activities. Each has a concentration of customers in their respective geographic regions, while the combined company will have locations throughout the United States, including offices in Los Angeles, New York, San Francisco and Dallas. In addition, B. Riley is more researched-focused, while FBR is better established on the equity-transaction side, allowing the companies to have offerings throughout a company's life cycle, from formation capital through initial public offering.

However, less companies are going public these days. Last year was the weakest IPO year since 2013, according to **EY**'s Global IPO Trends: 2016 Q4 report. Initial public offerings in 2016 fell 16 percent year-over-year, and capital raised was down 33 percent. Yet with the Trump Administration now in office, **Karim Anani**, a partner in EY's financial accounting advisory services practice, said the market is starting to see an uptick.

"There's a lot of pent-up demand for IPOs in 2017," he said. "There should be some rebound, but the question is, how big of a rebound?"

If Trump deregulates the industry as promised and more companies move from private to public, this could mean big business for B. Riley's new subsidiary that specializes in the below $2 billion capitalization market. In fact, **Lloyd Greif**, chief executive of L.A. investment bank **Greif & Co.**, said if the combined company proves successful, it could become an acquisition target itself.

"This could be a very insightful, strategic move by Bryant (Riley) to position the firm for the next four years under Trump," he said.

As of press date, B. Riley released preliminary 2016 full-year financial results with revenue ranging between $190 and $192 million and net income of approximately $21.6 million. FBR had a pre-tax operating loss of $27.8 million on $98.3 million of revenue in 2016.