

AUGUST 11, 2014 - **DUVAL & STACHENFELD LLP** IN THE NEWS - By Bethany Firnhaber

Tenant Apple Shines in Deal



High Tech, High Price: Passers-by in front of the Apple store on the Third Street Promenade in Santa Monica.

The global appeal of Santa Monica's Third Street Promenade and the cachet associated with Cupertino tech giant Apple Inc. has made for another jaw-dropping real estate deal.

Two years after the glass-clad Apple store on the promenade sold for what was considered an eye-popping \$60 million, it has sold again for even more. Bridgton Realty, a private family real estate business in New York, late last month purchased it for \$100 million.

That means the 17,550-square-foot retail box sold for about \$5,700 a foot, a record for a retail property in West Los Angeles. Just three other retail properties in the county – all on tony Rodeo Drive in Beverly Hills – have sold for a higher price per foot.

The one-story built-to-suit building at 1415 Third Street Promenade, constructed in late 2012 on the site of what used to be a three-story Borders Books & Music store, has stone-paneled side walls, a glass façade and a 34-foot-high glass ceiling. The last sale of the site came in July 2012, when the Apple store was under construction. The buyer then was denim manufacturer Jordache Enterprises Inc.

Jonathan Bennett, director of real estate for Jordache, said he was loathe to sell the building so soon after acquiring it, but the off-market deal was too good to turn down.

“When we sold it, it was not an easy decision, because we typically do not seek to sell properties that we buy,” he said. “But this number allowed us to bring a lot of the future value of the property to the present a lot more rapidly than I expected.”

Alan Cohen, an attorney at **Duval & Stachenfeld** in New York representing Bridgton, said his client used proceeds from a previous sale, along with some debt, to purchase the property for long-term hold.

“They believe they paid market price,” he said.

According to records at the New York Secretary of State, Bridgton is registered to KLM Construction Inc., a private New York company owned by the Kefalidis family. Public records show the deal was financed by a 12-year, \$43 million loan from Massachusetts Mutual Life Insurance Co. and were signed by Elias Kefalidis on behalf of the borrower.

The New York Post reported in May that KLM sold a Manhattan building occupied by Old Navy for \$252 million and was in the market for a tax-advantaged 1031 exchange. As part of that, KLM purchased a 110,000-square-foot Manhattan office building for \$129 million.

Late last year, KLM, through an entity called Bevin West, purchased the TLC Chinese Theatre on Hollywood Boulevard for \$25 million from local developer CIM Group.

A call late last week to KLM was not returned.

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Meteoric rise

The latest sale of the Apple site is the second time it has traded in four years, during which it has appreciated by more than 280 percent. Jordache purchased the site from a partnership of Century City retail real estate firm Blatteis & Schnur Inc. and ASB Capital Management of Bethesda, Md. The partners originally acquired the building in 2010 for \$26 million when it was still a Borders.

Dan Blatteis, a co-chairman of Blatteis & Schnur, said he first learned of the recent sale at a retail real estate conference in Las Vegas. He said he ran into Jordache's founding Nakash family there and was told the news.

"I looked at them and said, 'Congratulations, I'm really happy for you.' Then I turned around, went down the hall to the restroom and got very ill, emotionally," he said. "But that's the way life is. It was great for us at the time and it's great for them as well. This just goes to show you that if you buy quality, it only appreciates in time."

Jay Luchs, an executive vice president in the Century City office of Newmark Grubb Knight Frank, said that even though Apple's retail

building is new and situated in a premier location, much of the property's value comes from its sought-after tenant.

"The sale says more about Apple than it does about the promenade," he said. "I doubt if there was the same size space next door for sale it would get close to that kind of price. The buyer gets bragging rights to have such a tenant in its portfolio."

Apple, which moved into the building in December 2012, typically signs 10-year leases with options to renew for an additional five years. That could keep Apple in the building through 2027.

Apple is known as a bankable, blue-chip tenant. In addition to its preference for long-term leases, the company boasts average annual retail sales of about \$4,550 a square foot, the highest of any U.S. retailer, according to a recent report by New York market research company eMarketer Inc.

Randy Starr, a principal at Avison Young who has been a real estate broker on the promenade since before it was a hot retail street, said Apple is not likely paying a percentage of its sales for rent. Instead, the tech retailer is probably paying an all-inclusive rate similar to its neighbors.

"Deals on the promenade, at least those I've done, are strictly based on rent," he said. "But those prices have doubled in the last decade, from something like \$14 a square foot a month on the 1400 block to \$26 a square foot a month."