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Business Leaders Get It.

BUSINESS JOURNAL PHOTO | *Marcus R. Donner*

SWEET SPOT: Molly Moon Neitzel, right, owner of Molly Moon's Homemade Ice Cream in Seattle's Wallingford area, hands Patty Pomplun a cone of balsamic strawberry ice cream. Molly Moon's is getting ready to open another store on Capitol Hill.

Comforts still sell

Think ice cream, chocolate, cocktails, cigars

By HEIDI DIETRICH
STAFF WRITER

Now might not seem the time to splurge on a new sofa or Rolex, but how about a cupcake, cigar, or a gin and tonic?

Local consumers are finding ways to indulge in small luxuries throughout the economic downturn. While many Seattle companies cope with falling sales, companies specializing in the little splurges are actually seeing an uptick in business.

COUNTER CURRENTS
Opportunities in tough times

"If anything, the economy helps me," said Molly Moon Neitzel, owner of Molly Moon's Homemade Ice Cream. "If you can't buy your kid the new bike, you get them the little treats."

Those weathering the storm include cocktail bars, cigar stores, sweet shops, a caviar store and an upscale men's hair salon. The business owners say customers see their products and services as ways to treat themselves in tough times.

Not only are these businesses holding their own, many see significant growth. At least three — Molly Moon's, Cupcake Royale and Caffé Vita — are adding new locations and hiring employees. The store owners say they feel fortunate to be thriving right now, and are keeping their fingers crossed that their good luck continues. Many say they've felt less impact from this recession than from the period following Sept. 11, 2001.

"All in all, I feel blessed," said Maria Coassin, owner of Seattle-based Gelatiamo, who feels she is faring better than many other downtown Seattle retailers. Gelatiamo's cake sales are stronger

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NORDSTROM ADDS RACKS

The upscale retailer plans to open 10 discount outlets this year

By GREG LAMM
STAFF WRITER

A year ago, Nordstrom's plan for store growth in 2009 included opening five full-line department stores along with two discount Rack stores.

But that was before the bottom fell out of the economy. Now the Seattle-based retailer that caters to an upscale clientele is banking on its discount Rack stores to help it drive sales. In 2009, Nordstrom plans to open 10 discount Rack stores, out of 13 new stores overall.

The emphasis on opening more Racks is part of Nordstrom's strategy to navigate a serious economic downturn that has erased jobs and personal wealth, and eroded consumer confidence. Nordstrom executives say it makes sense to emphasize value and savings, even for a company that prides itself on its customer service and caters to shoppers looking for designer and luxury clothing, shoes and cosmetics.

"We are still focused on the same loyal Nordstrom core customer, but many have different needs than they did last year. They are shopping less and are making more deliberate purchases," President Blake Nordstrom told analysts in November.

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BUSINESS JOURNAL PHOTO | *Stephen Brashear*

TAKING STOCK: Sori Lee bought clothes at the Nordstrom Rack in Seattle. The upscale retailer is expanding its low-cost outlet business this year.

Apartments' allure weakens

Credit crunch, economy constrain 2008's best-performing sector

By JEANNE LANG JONES
STAFF WRITER

Multifamily apartment buildings stole the investment spotlight from office towers in 2008, helped by financing that eluded other real estate segments.

But the outlook is dim this year even for this favored market, experts say, as the credit crisis continues to constrain lending.

Of the top 25 King County property sales last year, 18 were multifamily apartment buildings. One Seattle broker notched up nearly a half-billion dollars in apartment deals alone.

Most of King County's big-ticket apartment deals took place in the first half of the year, with only two sales in September, two in October and none in the remainder of the year.

Now the pace of apartment deals is sputtering along with everything else, due to the contracting economy, the heavy supply of units being built and the expanding shadow market of condominium rentals. In fact, apartments hold the top spot largely because other categories have fallen so far.

What's it mean?

"Challenging times ahead for apartment owners," said Tom Cain, of Apartment Insights, which tracks multifamily properties with 50 or more units in the Puget Sound area.

Indeed, the local market is moving toward hypersupply, according to national real estate services firm Integra Realty Resources Inc., as thousands of units now under construction open this year and depress values.

Cain expects more than 7,600 units to be completed in 2009 in King and Snohomish

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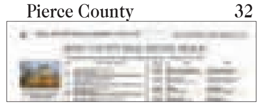

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LONGWELL CO. PHOTO

DIVING IN: Investor Stanley Xu added the $38.1 million Avante Apartments in Kent to his portfolio in 2008, a year in which he sold a Renton complex called The Madison at Fairwood for $43 million.

Bellevue investor Xu turns modest apartments to gold

By BRAD BERTON
CONTRIBUTING WRITER

For longtime Bellevue apartment investor Stanley Xu, the $43 million sale of Renton's The Madison at Fairwood was a fairly typical deal.

An affiliate of Xu's Longwell Co. had purchased the 382-unit property hardly 14 months earlier for less than $33.5 million. Then Longwell implemented Xu's value-added strategy: making key capital improvements and implementing more attentive property management.

In Madison at Fairwood's case, the upgrades included features sure to attract residents — carports and in-unit washers and dryers. And once the improvements and more intensive leasing efforts boosted rental rates and occupancy, Xu cut a deal with an investor motivated to outbid other suitors.

Xu

The buyer was an affiliate of Irvine, Calif.-based Passco Cos., a sponsor of so-called "tenant-in-common" real estate investment programs through which multiple investors purchase stakes in a property.

A Passco-affiliated group also owned the adjacent 260-unit Mission Ridge Apartment Homes, Xu said, and the prospect of controlling nearly 650 apartments in one location provided quite the incentive to win the bidding for Madison.

Other than sheer size of the prop-

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Portfolio builds to 2,200 units

XU | From 22

erty and price tag, the Madison story was vintage Xu. The profitable upgrade and disposition reflect an unwavering emphasis on what the affable Xu characterized as basic "work force" housing stock.

Longwell Co.'s primary strategy entails acquiring modest-rent Class C or B-minus apartment properties, upgrading them to Class B or B-plus status through improvement programs and expert management, then selling at what has typically been a hefty return on investment.

Longwell's primary lender, GE Real Estate, went so far last year as to issue a press release quoting director Angela Azizian specifying that Longwell has sold a half-dozen properties "at an average sales price 34 percent above their purchase price."

In building the portfolio to about 2,200 apartment units since founding Longwell in the early 1990s, Xu and his wife, Nanling Chen, have in many cases held properties for three years or more. Hence, not only was Madison an exceptionally large property for Longwell, it was also a relatively short — but quite profitable — hold period.

All the more impressive is that Xu bought Madison when competition for available local multifamily properties was fervent, and then sold it at a strong price even as real estate capital markets were becoming increasingly skittish amid the economic malaise.

Xu and others stressed that Longwell's focus on working-class housing insulates its portfolio from recessions to some degree — at least relative to luxury-grade apartments.

Indeed, while the most expensive apartments can be tough to lease when employment falls, work force housing remains in strong demand throughout the economic cycle, observed prolific apartment broker Kenny Dudunakis at Hendricks & Partners in Seattle.

"Those renters," Dudunakis said, "will always be there."

Hence, even as many lenders continue shying away from apartments and other commercial real estate, Dudunakis isn't surprised to encounter Xu still actively tapping the brokerage community for attractive deals on what he calls "Class B properties in B locations."

No doubt buying and operating second-tier apartment buildings entails no shortage of risks and challenges. There's a seemingly perennial demand for work force housing, but older apartment buildings command lower rents than more modern properties, and often require more maintenance, as well.

Rents at apartment properties built during the past 15 years currently average about $1,267, or $1.38 per square foot, according to data supplied by Seattle apartment researcher Dupre + Scott. At projects completed during the previous 15 years, the average is $967 ($1.13 a foot).

But Xu's experience turns these issues into opportunities. The trick to profitably investing in this price point, he said, is to buy prudently while focusing only on properties where meaningful and cost-effective upgrades, along with enlightened property management, will boost rental revenues and property values over a relatively short ownership period.

That starts with buying the right properties at the right prices — which requires strong negotiating skills.

"We always aim to remain disciplined, to avoid ever overpaying," said Xu, a native of Dalian City, China.

And while many older properties suffer from deferred maintenance, Xu frequently seeks opportunities to significantly boost a property's revenues.

> "Those renters will always be there."
>
> KENNY DUDUNAKIS
> HENDRICKS & PARTNERS

Another recent example is the 382-unit Avante Apartments in Kent that Xu acquired for $38.1 million. The site has room for an additional 23 apartments Longwell plans to develop when market conditions allow.

Of course, it helps to have experienced on-site management and maintenance crews, and Longwell now employs about 60. And especially amid the still-crunched credit climate, access to capital via GE Real Estate and other sources is proving to be a meaningful competitive advantage.

Xu and company to date have tapped GE Real Estate, an affiliate of industrial giant General Electric Co., to the tune of more than $150 million. Most recently, GE helped finance Longwell's $19.3 million purchase of the 249-unit Parkridge Apartments in Everett last fall. Part of Parkridge's upgrade plan entails adding fitness equipment and a business center to the community's clubhouse.

Xu likewise has forged a fruitful relationship with Cascade Bank, which offered attractive terms as management was looking to lend after the bank's Everett-based corporate parent received some $39 million in federal Troubled Assets Relief Program funding. Longwell tapped Cascade Bank for financing in acquiring the 190-unit Brittany Park Apartments in Auburn late last year for $13.2 million.

Those late-year acquisitions illustrate Xu's strategy for truly troubled economic times. He's only pursuing properties where rents are clearly below current "market" rates — or at least the competition down the street. His aim in this environment is simply to bring rents up to "street level" rather than looking to beat the market rate as he might during better times.

"That's the strategy we pursue in a downturn," said Xu — who's been through a few already.

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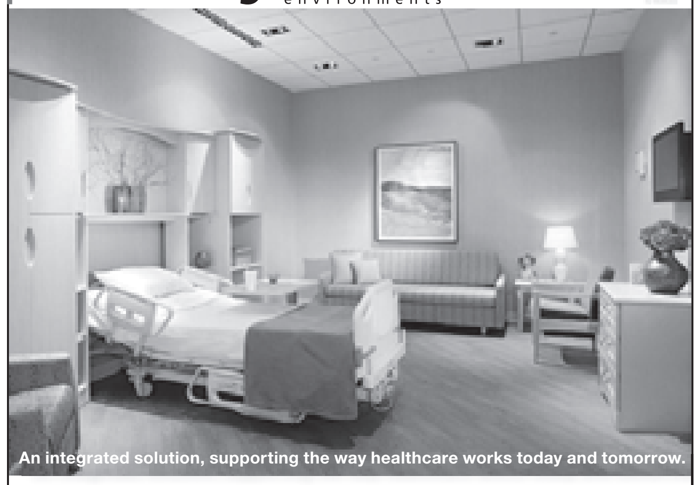

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