

LOS ANGELES BUSINESS JOURNAL

WHO'S WHO IN REAL ESTATE: GREGORY KARNS

By Bethany Firnhaber
September 1, 2014



Lawyer

Gregory J. Karns

Title: Partner

Company: Cox Castle & Nicholson

Location: Century City | Age: 57

Gregory J. Karns began practicing real estate law more than three decades ago, and for most of that time he has worked almost exclusively with investors and lenders from Asia, particularly China. He began working with the local Chinese banking community in 1992 when the savings and loan crisis created opportunities for overseas investors. In recent years, he has represented parties that have played a hand in some of the biggest local real estate deals made by Chinese investors, including the purchaser of the Torrance Marriott Hotel and one of the joint-venture investors in a residential development at Olympic Boulevard and Olive Street in downtown Los Angeles.

What types of investors do you work with?

Our clients range from private, entrepreneurial groups to some of the largest companies in China. Our Pacific Rim banking clients include Bank of China, Bank of East Asia, Cathay Bank, CUBT (formerly United World Chinese Commercial Bank), East-West Bank and Oversea Chinese Banking Corp. Our Chinese investor clients include A&J Capital Investment, Asia Pacific Capital, Elite Investment Fund, GAW Capital, GreenTree Inns Hotel Management Group, Guangzhou Yihe Group Ltd., President Asset Group, Shandong Wanbao Group and Yudu Group.

How have you seen Chinese investment in L.A. real estate grow?

I have witnessed tremendous growth. In the early to mid-1990s, Chinese investors, largely from Taiwan, were buying L.A. hotels, offices and apartment buildings. However, they were largely overshadowed by their local counterparts. By the mid-1990s, Korean investors – primarily construction companies – began investing in Southern California. All this came to an abrupt halt in 1997 as the financial crisis hit Asia. It took several years for Asian investors to return to California, and much of the activity in the new millennium originated from local Chinese groups that had been investing here since the previous downturn. But as U.S. investors and lenders grappled with our most recent real estate recession, Chinese investors returned to our market, and this time more were from mainland China. Much of this capital first took the form of EB-5 immigration loans and investments, but more recently, high-caliber real estate investors and developers from China have been aggressively investing in the Los Angeles real estate market. Today we are seeing levels we have not seen before, which is quite remarkable.

Why do Chinese investors you work with say they are interested in U.S. real estate? Why are they investing now?

Diversification is an important factor, and the United States is a top choice for foreign investors. Another important factor is experience. Several Chinese investor groups seek to expand their core holdings and expertise by entering into strategic joint ventures with experienced local developers. Some hope to obtain needed technology and management capabilities, while others are attracted by our world-class universities for their children's education. Currency devaluation, politics and pollution are also key factors. And given China's history of strong currency controls, it hasn't always or maybe ever been possible to move such substantial capital into investments outside China. Now that it is possible, many are taking advantage.

What challenges do Chinese investors face investing in Los Angeles?

Real estate is a local business. Most of the local players in our key markets have been investing here for decades and are well known in the real estate community. Chinese investors, most of whom have extensive real estate experience in China, are unknown here, with little or no local experience, so it is difficult for them to compete. This is one of the primary reasons I decided to work almost exclusively in the Chinese arena. A law firm such as Cox Castle & Nicholson ... provides credibility as well as important introductions to some of the biggest real estate companies in the country. This in turn has led to several off-market investments for our clients.

What types of real estate investments are your clients making?

Chinese are investing in a full spectrum of Los Angeles real estate opportunities. Some investors prefer outright acquisition, while others stick to joint ventures with experienced local partners who can handle the operative elements. Three years ago I would have said commercial and residential income properties such as hotels, some office and apartment buildings were their preferred asset classes. But with the advent of EB-5 capital came investment in ground-up developments. By 2013 we began to see Chinese real estate developers acquiring or investing in Los Angeles development opportunities, largely in downtown Los Angeles. I believe the attraction to downtown is the availability of large and significant sites, such as Metropolis, Fig-Central and the Luxe Hotel property. The investor groups that followed these heavyweight investments initially only wanted to invest in attached

residential development, but pretty quickly have broadened their scope to include retail, commercial and hospitality. I am currently assisting some private companies investing in single-family home projects and even mining assets. About the only asset class where I have not seen too much activity is industrial, but I would not be surprised to see that change as well.

Where do your clients see opportunity for future investment?

I believe we are only in the early stages of this Chinese investment cycle and I fully expect it will continue through our next market fluctuation. Their investment motivations are somewhat different than those of local investors, and those objectives can still be met even if the price of real estate here is declining. We have yet to see much investment activity from Chinese construction companies, but I believe that is not far off, and that will bring an entirely new group of substantial investors from China.