

# Partners for Richer, for Poorer

■ **Real estate:** Hutton Development linked up with Tobishima Corp. hoping for a supply of ready cash. But the Japanese firm's profits have plunged as it seeks to pay off a crushing debt, leaving Hutton to fall back on its own resources.

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**B**ack in 1986, when Japanese investors started spending heavily on U.S. real estate, Tobishima Corp. went a step further: It bought into an American development company.

SANTA ANA

Hutton Development Co., then a medium-size Santa Ana developer that built mostly nondescript office buildings, now had a partner with deep pockets and connections to Japanese banks from which it could borrow even more money to put up office towers and shopping centers.

But it hasn't worked out quite as planned. In fact, Hutton is just the latest example of the Japanese retreat from the U.S. real estate market in the wake of big financial trouble back home in Japan. After becoming big players in just a few short years, Japanese companies are now buying fewer buildings here, striking fewer deals and lending less money.

Tobishima—a big, old-line Japanese engineering and construction firm that has been in the United States about nine years—is now in hot water back home. In May it demoted its president and began selling off land and stocks to pay down an enormous debt. Profits plunged. The company's biggest lender installed one of its own officers as chairman. And for the first time in its 44-year history as a public company, Tobishima skipped paying an annual dividend to stockholders.

Tobishima was stung when a resort developer called Nanatomi Co. went belly up, owing Tobishima and others more than \$700 million. Tobishima had guaranteed the loans as part of several real estate projects the two companies were doing.

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## Hutton Development Co.



AURELIO JOSE BARRERA / Los Angeles Times

Hutton's office tower project goes up on Flower Avenue in Santa Ana.

### MAJOR PROJECTS:

Project	Square Feet	City
Hutton Centre	1.3 million	Santa Ana
Orange County Sheriff's Department's Forensic Science Center and Environmental Management Agency Headquarters Building	315,000	Santa Ana
Orange County Probation Building	97,000	Santa Ana
Orange County Environmental Health Building	52,000	Santa Ana
Orange County Marshals Building	20,000	Santa Ana
Hutton Imperial Centre	750,000	Norwalk

### KEY EXECUTIVES:

- Christopher J. Felix, president.
- Gary S. Isaac, vice president.
- Savoy M. Bellavia, vice president.

### COMPANY HISTORY

- **1977:** Hutton Development Co. founded by Betty Hutton Williams of Orange after selling off Asian real estate holdings and her international oil services firm.
- **1985:** Betty Hutton Williams retires from active control of the trust, and Hutton Development is sold to Schneider Group of Pittsburgh. Christopher J. Felix is named president of Hutton Development.
- **1986:** Tobishima Corp. and Hutton Development management buy out Schneider's interest in Hutton Development.



GLENN KOENIG / Los Angeles Times

Christopher J. Felix, president

Source: Hutton Development Co.

## ORANGE COUNTY

## HUTTON: Hard Times for Tobishima Affect U.S. Firm

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As a result, Tobishima has curbed most of its development projects, including a big resort in Japan that it was jointly developing with Nanatomi. In March, the company also bagged plans for a big ice complex in Washington that was to be its beachhead in the vital.

Now, says an executive at Tobishima's U.S. subsidiary in Los Angeles: "Including factors such as soft market and tight financing, we cannot say that Hutton's borrowing will remain the same."

Japanese banks, in fact, have been warned by the government to stop making too many real estate loans at home or abroad.

It's very bearish over there at now," says Stephen J. Duffy, Kenneth Leventhal & Co. consultant who visits Japan regularly.

On the other hand, Hutton says she can make up some of the financial shortfall from its own lenders. Until, the bleak financing picture—which almost every developer faces—has pushed Hutton to catch gears. It is rounding up tenants for entire buildings before buildings go up.

There aren't many companies out there that need that much office space. So Hutton's tenants are increasingly government agencies, usually county government.

While hardly anybody is building, Hutton is putting up two 11-story office buildings in Santa Ana. One tower is for the sheriff's crime lab, and the other is for the county Environmental Management Agency. Hutton will lease the buildings and collect the rents.

Hutton says it really didn't expect the government business to become such a large part of its operations.

Hutton wasn't in the development business when it was founded as Hutton Associates in 1977 by William Hutton Williams. Williams, who has been an active supporter of charitable and philanthropic causes in Orange County, was looking for a place to invest money and had made investing in real

estate in Asia.

Williams sold petroleum products such as asphalt and jet fuel to Japan beginning in the 1950s. She also sponsored Japanese students in the United States, one of whom had a husband who worked for Tobishima.

When Tobishima came looking for American investments in the early 1980s, it was natural for the Japanese—with their predilection for personal relationships—to look up Williams. Her new company was merely a real estate investor that didn't build its own buildings. It wasn't until later that Hutton decided to dump its partners and do its own developing.

"The rationale was as simple as that we wanted to have control over our own destiny," says Hutton President Christopher J. Felix.

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TERUMOTO HAMAZAKI  
Tobishima Corp.

As Hutton got into her 70s, though, she elected to sell the company and many of its buildings in 1984 for \$75 million. The buyer was Schneider Inc., a Pittsburgh construction firm that soon developed financial problems.

The marriage was not happy, and Schneider wound up selling the Hutton Centre office complex in Santa Ana—Hutton's biggest project—to Tobishima. Tobishima also bought a half interest in the development company—sans any property—for what Tobishima says was \$300,000. Hutton executives own the other half of the company and have an option to buy an additional 10% stock that the executives already vote as part of the deal and which gives them

control of the company.

The company is known as a cautious and conservative outfit, especially compared to its overextended Japanese stockholder. Hutton says it owns a portfolio of buildings—including the two towers now under construction—worth \$150 million.

But that figure doesn't tell the whole story. A high percentage of that portfolio is office buildings, and office rents are dirt cheap these days.

The company also gets low marks from some local real estate experts for marketing savvy—in other words, effectively pitching its buildings to prospective tenants.

And Hutton owns land around Anaheim Stadium on which it wants to build offices. But prospective tenants are scarce, and, even if they could be found, the rents aren't high enough to satisfy reluctant lenders.

Hutton, meanwhile, probably isn't the start of a trend toward Japanese ownership of American developers. The development business is getting more competitive and is going through consolidation. And it is unlikely that the nation will ever see the commercial building boom unleashed in the 1980s by financial institutions.

Then there's the fact that most Japanese companies prefer joint real estate ventures with American companies because it gives them some flexibility about which deals to back and which to pass on.

While the gigantic Japanese trading concern Mitsui & Co. paid

\$100 million to acquire half of the big Laguna Niguel developer Birtcher last year, few other Japanese companies have taken a similar plunge in recent years.

For its part, Tobishima says it is satisfied with its American developer and that it has not plans to sell the company.

Terumoto Hamazaki, executive vice president at Tobishima, says of the partnership: "So far, Tobishima has been a good husband and, as usual in the United States, Hutton has been a wise wife with a stronger voice over the husband."