

# THE WATCH LIST



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## Hit by Slowing Growth at Home, Chinese Investors Shift Billions to U.S. Real Estate

### CRE Investments in U.S. Property by Chinese Investors Jumped More Than 900% Last Year

Chinese investors broke sales records in their drive to purchase U.S. commercial real estate in 2013, and analysts expect they will remain active in the global market, with untapped billions more to invest in coming years.

The U.S. real estate market attracted \$3.1 billion of capital from China last year -- an increase of more than 900% from just \$264 million invested in 2012, according Jones Lang LaSalle.

New York attracted the most money from China last year as Chinese investors poured \$2.9 billion to buy property in the global capital, representing a considerable increase over the 2012 investment level of \$200 million.

"There was a dramatic increase in the amount of Chinese investment in U.S. real estate in 2013, with transaction volumes more than tripling the previous high year," said Rob Hielscher, managing director, Jones Lang LaSalle's International Capital Group.

Migration for investment in overseas real estate markets has become a top choice for Chinese applicants, according to a report on China's capital migration status released by a Chinese think tank last week.

The Annual Report on Chinese International Migration 2014 found that a growing number of Chinese investors are rushing to go abroad in order to buy properties in places like North America.

The report, put out by the Center for China and Globalization and the Social Sciences Academic Press, noted that in 2011, China became the second-largest overseas property buyer in the United States.

### CHINA GIVES GREEN LIGHT TO CROSS-BORDER INVESTMENT

The main reason for the influx may have more to do with what is happening inside China more than what is happening in the United States.

China's GDP (gross domestic product) has slowed dramatically from an average of 9.2% from 2008 to 2012 to about 7.7% in the last two years, and GDP is projected to drop to 6.7% over the next four years.

At the same time, the Chinese government has encouraged outbound investment with the introduction of a new 'Go Global' policy. This relaxation of former government-imposed restrictions is actively encouraging outbound investment across all sectors of the economy.

"This is a long term structural shift where Chinese capital will become a permanent and growing feature of the global real estate markets," noted Alistair Meadows, director and head of JLL's International Capital Group in Asia Pacific.

Facing the prospects of slower economic growth in their own country, and with the approval by their government, Chinese investors increasingly are looking to invest some of their considerable real estate equity outside of their home country, according to Dan Cashdan, senior managing director and principal of HFF LLC.

"In 2013, some 18 investments totaling over \$2 billion of equity were completed," said Cashdan, a guest speaker last week on a Deloitte & Touche LLP webinar on the expanding Chinese investment in U.S. commercial real estate. "Among these were large investments in Los Angeles, San Francisco and New York, including the acquisition of stable, core office buildings and investments into large-scale new developments."

### **TOTAL INVESTMENT IMPACT LIKELY UNDER-REPORTED**

The reported investment numbers alone don't even begin to depict the scope of the inflow of Chinese money, Cashdan said. The sources of information for outbound capital flow comes from official Chinese government sources, which are not believed to take into account capital that first flowed to the Cayman Islands or other offshore money transfer points.

Nor do the private, fee-based data providers track residential investments or Chinese capital provided to private funds, which may then invest in U.S. commercial real estate, Cashdan explained.

He estimates that Chinese investors bought more than \$8 billion of residential properties in 2012, and he assumes they acquired even more last year.

The office sector continues to dominate as the preferred CRE property type among Chinese investors who are active overseas, accounting for 85 percent of all transactions they made in 2013, according to Jones Lang LaSalle.

However, they are increasingly interested in retail and hotels, as well as residential land development.

For example, China's largest real estate developer, China Vanke Co. Ltd, this week announced it has teamed up with U.S. real estate firm Tishman Speyer Properties to develop two residential towers in San Francisco.

It is the Chinese heavyweight investor's first venture into the U.S. market.

The project will cost about \$620 million with China Vanke contributing \$175 million and Tishman Speyer \$75 million, a source familiar with the deal told Reuters. Debt financing will cover the rest of the cost.

"After 30 years of development, our go-global strategy is ready to be implemented," Tan Huajie, Vanke's board secretary, told the China Daily. "And access to an open international capital market is necessary for such a strategy."

Steve Collins, International Director, Jones Lang LaSalle's International Capital Group added, "We expect interest and activity from equity rich Chinese buyers in overseas real estate markets to continue to grow in 2014; we think it is possible that the total volume of spend by Chinese investors on commercial real estate outside of China could pass the \$10 billion mark in 2014."

Cashdan added that major segments of China's investment community, insurance companies and a large percentage of its high net worth individuals, have not as of yet joined the overseas investment trend.

HFF research shows no U.S. property investments by Chinese insurance firms to date, although there are indications they might allocate up to \$14.4 billion to overseas real estate in the future, with the U.S. likely to secure a large share.

In addition, HFF research suggests that \$180 billion of private family investable assets may be allocated to overseas real estate markets but not exclusively in the U.S.

As one example, Cashdan noted that Zhang Xin, CEO of SOHO China, Beijing's largest commercial real estate developer, and her family acquired a 40% stake in Manhattan's famous GM Building in June 2013 in a joint venture with Brazilian investment firm Safra, in a deal that values the trophy property at approximately \$3.4 billion. Xin used family money to buy the building, not money from SOHO.

### **OVERSEAS INVESTMENT CREATING OPPORTUNITY FOR U.S. FIRMS**

As more individual Chinese nationals begin investing here, U.S. firms are jumping in to help facilitate more deals.

Seattle-based North America Real Estate Investment Group Inc.(NAREIG) has partnered with Taikang Asset Management Co. Ltd. in Beijing to create the first QDII fund established to allow direct investment by Chinese investors into overseas real estate.

A Qualified Domestic Institutional Investor (also known as QDII), is a capital markets structure set up to allow financial institutions to invest in offshore markets such as securities and bonds -- and now, real estate.

In the past, it was illegal for Chinese individual investors, and extremely difficult for small- and medium-sized firms, to transfer more than \$50,000 out of China. By creating a new channel for individual investors and small- and medium-sized firms to make overseas real estate acquisitions, the new QDII fund is expected to facilitate the already robust Chinese outbound real estate investment market.

"We're aiming to innovate. Our goal in forming this partnership is to make the real estate transaction process as fast and smooth as possible for everyone involved," said Hunter Lin, the founder and CEO of NAREIG.

## **For U.S. Office Market, It Was a Very Good Year**

**Investors Have Cause to Celebrate Gains in 2013 as Office Recovery Hits Only the Halfway Point**

**By: [Randy Drummer](#)**

Investors are cheering the gains in asset values seen during 2013 from a strengthening recovery in the U.S. office market, and looking forward to an even brighter 2014 as virtually all the important metrics that drive rent growth and property income are expected to continue to improve over the next 12 months.

The robust office market performance was the highlight of the year-in-review analysis and forecast webinar presented by CoStar market experts Walter Page, director of office research; Hans Nordby, managing director and corporate officer, and Aaron Jodka, manager, U.S. market research.

According to CoStar's analysis, net absorption in the U.S. office market rose a solid 22% in 2013 over the previous year to 59 million square feet, with the increased demand helping push the vacancy rate down 50 basis points from 12.4% to 11.9%.

The growing demand for office space, combined with an extended period which has seen little to no new office construction, resulted in the average U.S. office rent to grow 3.1% last year - the first time rents have cracked the 3% annual growth mark since 2007, the year of the last office market ended.

New office construction remains muted with just 40 million square feet of new office space added in 2013, and another 78 million square feet under construction at the end of December. Any gains in construction were largely offset by the loss of existing office space as older buildings were demolished or converted, in many cases to be replaced with apartment or condominium properties.

Despite a flattening yield curve and expectations that 10-Year Treasuries will rise to nearly 5% over the next few years, investors increased office purchases by 20% last year, for a total office property sales of \$106.2 billion, driven in part because a 2.4% gain in office-using employment, well above the national employment growth average of 1.6%.

Looking ahead, the CoStar analysts expect the country should finally reach its pre-recession employment peak by summer 2014, building on the 750,000 new office-using jobs gained in 2013.

The office recovery continues to evolve in new and different directions. While CBD markets in top-tier gateway markets saw the lion's share of improvement earlier in the recovery, suburban office is now recovering at a dramatic rate, driven by gains in technology, health care, education and even energy industry jobs.

"Markets such as Charlotte are being driven by diversifying economies and lower business costs. Many of the jobs coming into the office sector such as call centers don't use CBD towers, but they do absorb space," Nordby said. "This is one of the few calls we've been on where it's hard to find much bad news at all."

### **VACANCIES DOWN, RENTS UP**

In fact, the CoStar analysts said, 2013 was a great year for the office market. Even better, the office recovery is only at about the halfway point -- the vacancy rate is expected to plummet another 100 bps to 10.9% by the end of 2015, noted Page, adding that the 59 million square feet of net absorption included a strong year-ending 20 million square feet in the fourth quarter.

"For office investors in particular, the second half of this recovery is what they like," Page said. "With the occupancy gains, we should see rent, NOI and value gains.

"We are reaching what I'd call a sweet spot -- and we're also reaching a tipping point, the 11.6% vacancy line which is the historical average between 2004 and 2012," Page added. "At that point, we will really see accelerating rents."

Rough half of major markets have already reached or are near that point, including Pittsburgh (8.2%), New York City (8.8%), San Francisco (9.3%), Baltimore (11.6%), Philadelphia (11.7%) and even St. Louis (11.6%).

While the majority of U.S. office markets experienced notable gains, others still have a ways to go, like Detroit and Phoenix, but they've also come down from stratospheric vacancy numbers.

### **THE AMAZING SUBURBS**

While suburban office markets were still largely lackluster as recently as a year or two ago, CoStar analysts now describe the recovery in the suburban office sector using superlatives such as amazing, remarkable and "on fire."

The suburbs are benefitting from fast-growing tech, health-care and other suburban-based employment sectors, which are driving 90% of office absorption, although lingering higher vacancies have prevented additional construction in many suburbs.

"Some of the recovering markets would have been in tough shape a year, 18 months ago," Nordby said. "The economy has become much more broad-based, and normal, low-cost back-office places like Tampa and Phoenix have been posting very good job growth."

## **Industrial Portfolios Attracting Big Spenders**

In the latest of a string of major sales involving industrial property, American Realty Capital Properties agreed to pay nearly \$223 million or about \$47.50 per square foot to Cardinal Industrial and its partner Fortress Investment Group LLC, to buy a six-building, 4.7 million-square-foot distribution center portfolio leased to Goodyear Tire & Rubber Co.

The sale also continues a portfolio exit strategy Los Angeles-based Cardinal Industrial and Fortress began in the middle of 2012, with the bulk of those properties being acquired by ARCP. From October 2013 through this past week, American Realty Capital Properties through wholly owned subsidiaries of its operating partnership has acquired 120 properties from affiliates of funds managed by Fortress Investment Group. The Goodyear portfolio sale was included as part of that \$1 billion purchase agreement.

Cardinal Industrial once owned a portfolio of mostly single-tenant industrial warehouse assets throughout the United States containing 14 million square feet, valued in excess of \$600 million.

George Hicker, president and founder of Cardinal Industrial, said the partnership decided to put the portfolio on the market in mid-2012 due to a variety of reasons, including the recent death of a key partner who had helped to assemble the portfolio, the uncertainty ahead of the then-approaching presidential election and the prospect capital gains taxes increases and declining cap rates.

At the same time, Fortress was starting the process of exiting from some of its early post Great Recession property purchases. In the firm's third quarter earnings conference call this past October, Peter Lionel Briger, co-chair, president, principal and head of Fortress' credit and real estate business, said, "We feel like it's a mediocre credit market for making new investments, but a very good market for realizing on investments. And we will try to create realizations where we can get paid for them in our portfolio."

Last fall, Fortress also started cashing out on some of its \$6.89 billion investment bet on the senior housing business at the last height of the market in early 2007. In November, it cut two separate deals to sell a combined 77 communities for \$1.5 billion.

Cardinal still owns approximately 4.9 million square feet of industrial property in 14 buildings with an average lease-term of four years.

Hicker said he believes it would be harder to find a buyer for the remainder of its portfolio since it has average lease terms of just four years. Hence, he said the company is seeking a joint venture partner to own 50% to 80% of the properties. Cardinal would hang on to the remaining 20% to 50%. The intent would then be to payoff the debt as it comes due on each asset, and would end owning the properties free and clear.

Hicker estimates the value of the 14 remaining assets at \$215 million; and some of the tenants include Exel, Office Depot, Amcor, Cott Beverage and Mars.

#### **MORE BIG MONEY DELVING INTO INDUSTRIAL REAL ESTATE**

Big buyers of major industrial portfolio buys have been easier to come by lately. This week, industry newsletter Real Estate Alert reported that Blackstone has agreed to pay GE Capital roughly \$550 million for a 9.6 million-square-foot industrial portfolio, capping a long marketing campaign. The portfolio represents nearly all of GE's industrial holdings with about half of the space in Texas. Eastdil Secured is brokering the sale.

It's the latest big industrial acquisition for Blackstone, which stormed into the sector a few years ago and has become a major force. For GE, the deal fits with its long-range strategy of reducing its property holdings as it shifts its real estate focus to lending, Real Estate Alert reported.

## **Diving In: Starwood Capital Acquires Large Pool of REO Office, Retail Assets**

Big investors continue to whittle away at the dwindling supply of distressed CRE assets from special servicers. In the latest such transaction, Starwood Capital Group acquired a pool of real estate-owned (REO) assets from CWCapital Asset Management for \$191 million.

The pool contains seven office assets comprising 1.3 million square feet and four retail assets comprising 295,000 square feet. The 11 properties have a cumulative unpaid principal balance of \$310.3 million.

"We intend to sell several assets in the near term, and deploy our in-house REO/workout team and operating platforms to create value on the remainder of the pool," said Mark Keatley, senior vice president at Starwood Capital Group.

Chris Graham, senior managing director at Starwood Capital Group, said Starwood paid significantly below replacement cost for the pool of assets, drawing on expertise in distressed investing and asset management.

According to Morgan Stanley Research, CWCapital got a "better than expected" result.

Morgan Stanley's analysis suggests a 50.4% loss severity for the REO portfolio after considering appraisal reductions, principal and interest advances and T&I advances (but before any fees and expenses associated with the sale).

"This compares to an [appraisal reduction amount]-implied severity of approximately 60%," the firm wrote. "Additionally, the purchase price was 26% higher than the most recent appraisal value implies."

#### THE PORTFOLIO ACQUIRED BY STARWOOD

- 3800 Chapman, an office property in Orange, CA,
- 500 Orange Tower, an office/retail property in Orange, CA,
- Arrowhead Creekside, an office property in Glendale, AZ,
- Avion Lakeside, an office property in Chantilly, VA,
- East Thunderbird Square North, a retail property in Scottsdale, AZ,
- Greenfield Gateway, a retail property in Mesa, AZ,
- Howe Corporate Center, an office property in Sacramento, CA,
- Lincoln Ridge Retail, a retail property in Lincoln, CA,
- Plaza Squaw Peak, an office property in Phoenix, AZ,
- Shoppes at Home Depot, a retail property in Antioch, TN, and
- Southcreek Corporate Center II, an office property in Overland Park, KS.

## A Look at the Growing Condo Market...

### And Why Multifamily Owners Don't Have To Worry, Just Yet

By: [Luis Mejia](#), CoStar's Director of U.S. Research, MultiFamily

The condo market seems to get stronger every day. The trend, which often raises concerns about a potential weakening of the apartment renter pool, was first anticipated back in the 2012 and confirmed last year.

This article seeks to put these observations in perspective, comparing the current condo upswing with that observed during the housing bubble period.

Exhibit 1 shows total existing home sales and the corresponding share of condo sales over the last 13 years, as reported by the National Association of Realtors. In the 2009-13 post-recession period, the condo portion of existing home sales surged nearly 250 basis points, although with large fluctuations reflecting the wobbly housing recovery. Condo sales in this period increased more than 55% while total existing home sales grew by only 29%.

In contrast, between 2001 and 2005 condo sales increased more than 50% while total home sales multiplied by 37% as the housing bubble inflated. At that time, the condo share grew by only 150 basis points, albeit with small variations.

But while today's condo share of the total existing home sales is approaching pre-recession levels, the absolute number of sales is still more than 30% short of the previous peak. And today's condo market does not involve the irrational speculation of the mid-2000s, when renters fled apartments to get a share of the expanding home price pie.



A portion of the current sales are often to foreign investors in condo-rich markets like South Florida and to current homeowners looking to downsize.

The trend also likely includes a lingering effect of the Great Recession: Today's renters still face financial, credit and mobility constraints, which make condos more affordable and flexible than single-family homes.

There is no question: The for-sale housing market is recovering, and with it, the condo market. But although the improving housing market gives renters a reason to think about homeownership, today's rent-to-own transition is taking longer and is not likely to accelerate while interest rates and home prices rise, even if it involves a more-affordable condo option.

Homebuying may continue to be supported by the improving economy, but the number of renters moving out of apartments, including those moving to condos, is not likely to outnumber-at least not yet-those coming in as new households are formed.

## **Oaktree Funds Investing \$100 Million in New SFR Lending Platform**

Genesis Capital LLC, an investment manager for funds that invest in commercial loans in the residential real estate markets, plans to expand its business operation following a direct investment provided by certain investment funds managed by Oaktree Capital Management.

Genesis Capital provides short-term loans to qualified real estate investors active in the distressed, single-family home marketplace. An affiliate of the Oaktree funds has committed an initial \$100 million to a new vehicle formed by Genesis Capital to invest in loans made to these investors.

Oaktree can also increase its investment up to \$250 million after Genesis Capital registers as an investment adviser with the Securities and Exchange Commission.

Genesis Capital-managed funds have been providing commercial loans to residential real estate investors since 2007.

"Genesis Capital is well prepared to capitalize on strong market demand for investor financing of distressed residential home properties," said Brian Laibow, managing director, Oaktree Capital Management. "With shadow inventory still significant, and sister firm Genesis Auctions' ability to access it directly from banks, servicers and private sellers, Oaktree recognized the firm's competitive advantages in this lending market, as well as the benefits of making investments in the firm and this new fund."

## **Downsizing Opportunities: Corporations Launching 2014 Cost Reduction Initiatives**

**Albemarle Corp.** in Baton Rouge, LA, initiated a workforce reduction plan which will result in a reduction of 230 employees worldwide.

**Ashland Inc.** in Covington, KY, expects to capture \$150 million to \$200 million of savings through a combination of: workforce reduction; job relocations in conjunction with a related global office consolidation; and a number of smaller cost-reduction plans. It expects that from 800 to 1,000 people to leave the company in calendar 2014 through either a voluntary severance program or job elimination. In addition, it expects another 800 - 1,000 jobs to be relocated to existing, lower-cost regional centers in the U.S. and abroad as it consolidates its global office network.

**Cbeyond Inc.** in Atlanta implemented a workforce reduction plan to rebalance its resources. The workforce reduction plan resulted in reducing headcount by 100 employees. Cbeyond currently estimates that it will recognize pre-tax charges to its GAAP financial results of \$2 million in the first quarter of 2014 consisting largely of severance and one-time termination benefits.

**Compuware Corp.** has started the final phase of its cost rationalization initiative, including reductions in the global workforce across all general, administrative and shared services divisions. The plan also includes the early termination of some operating leases and the closing or reduction in size of office facilities worldwide. This final phase of restructuring is influenced by the anticipated disposition of three operating business units. Lease and related facilities costs savings are expected to be about \$7 million a year.

**Dialogic Inc.** in Milipitas, CA, initiated a restructuring plan designed to reduce operating costs. The restructuring plan is expected to result in a total workforce reduction of 90 full-time positions, or 16% of the company and its affiliates' combined workforce.

**Flextronics International Ltd.** based in Singapore said it plans to reduce its workforce and initiate other cost reduction activities this quarter. The company expects to recognize \$30 million to \$35 million in pre-tax cash charges comprised primarily of employee severance and benefit costs. These cost reduction activities will yield potential annualized savings of \$60 million principally to selling, general and administrative expenses through reduced employee expenses and lower operating costs.

**Ironwood Pharmaceuticals Inc.** in Cambridge, MA, is reducing headcount by 10%. Ironwood's field-based sales force and medical science liaison team are excluded from the workforce reduction. Following the changes, Ironwood expects to have 480 full-time employees. It expects to complete the reduction in workforce during the first quarter.

**Lexicon Pharmaceuticals Inc.** in The Woodlands, TX, committed to narrow its strategic initiatives and focus resources on its late-stage drug development programs. The decision will result in a workforce reduction of 115 employees, primarily in research, discovery and support positions, representing 45% of the company's total workforce. Lexicon expects to complete the workforce reduction near the end of the first quarter of 2014.

**National Beef Packing Co.** plans to close its beef processing facility in Brawley, CA. The last day of production is expected to be April 4. Approximately 1,300 employees working at the facility will be impacted by this closure. A declining supply of fed cattle available for the Brawley facility was a key driver of the decision to close the plant.

**Oshkosh Corp.** in Oshkosh, WI, announced that it will continue consolidating facilities and operations as it undergoes review its overall manufacturing footprint. Last year, the company implemented significant reductions to its production and office workforce in its defense segment due to lower production levels mandated by significant reductions in U.S. government funding for defense vehicles.

**Sears Canada Inc.** is modifying its in-store management structure to increase the effectiveness of the chain of communication between management and the store associate teams within the stores. The company will eliminate primarily a mid-tier level of employees within its full-line stores, resulting in an average reduction of five associates per store. There will also be an alignment of the regional and head office structures to reflect the new store model. This will result in a staff reduction of 624 associates.

**Semtech Corp.** in Camarillo, CA, committed to a plan to reduce its workforce by 6%, with positions to be eliminated at multiple facilities and offices by the end of the first quarter. The plan was developed to capture the synergies associated with the combination of the advanced communications and Gennum product groups. The company estimates that the workforce reduction will result in total pre-tax charges of \$2.5 million.

**Sprint Corp.** in Overland Park, KS, began implementation of a workforce reduction plan that is expected to be largely completed by June 30, 2014 and will include management and non-management positions throughout the company. The company expects to recognize a charge of \$165 million for severance and related costs.

**Tessera Technologies Inc.** in San Jose announced that it was restructuring DigitalOptics Corp. to cease its remaining manufacturing operations. In connection with the restructuring the company is undertaking a related workforce reduction of over 300 employees primarily in Taiwan, the United States, and Japan. As part of these efforts, the company will be closing its facilities in Arcadia, CA, Rochester, NY, and in Taiwan and Japan. The restructuring, workforce reduction and facility closures are expected to be completed during the first and second quarters of 2014.



**Weatherford International Ltd.**, a Switzerland-based oilfield services company, has decided to reduce its international workforce by 7,000 employees, primarily from its fixed support cost base. This reduction will not affect the non-core businesses of Weatherford that have been earmarked for divestiture in 2014. Instead, it is designed to lighten the support structure of Weatherford to compensate for the divestiture program. The workforce reduction is expected to be completed during the first half of 2014, resulting in annualized savings of \$500 million. Concurrently, additional strategic reviews are also ongoing with a view to eliminating operations that do not have critical mass and are currently unprofitable and a drain on Weatherford's cash flow.

**Zynga Inc.** is undertaking a cost reduction plan expected to generate pre-tax savings in the range of \$33 million to \$35 million in 2014. As part of the plan, Zynga expects to complete a workforce reduction of 314 employees or 15% of its current workforce, and implement additional cost reduction measures, including lowering its spend on datacenter infrastructure.

#### ADDITIONAL FACILITY DOWNSIZINGS

Company	Address	City	State	Closure or Layoff	No. of Layoffs	Impact Date
<b>Pilgrim's Pride</b>	1 Gold Kist St.	Boaz	AL	Closure	1,154	Immediately
<b>Rich Products Corp.</b>	One Robert Rich Way	Buffalo	NJ	Unknown	238	3/10/2014
<b>FJC Security Services</b>	26 Journal Concourse Square W #1202	Jersey City	NJ	Unknown	594	3/1/2014
<b>St. Mary's Hospital</b>	350 Boulevard	Passaic	NJ	Unknown	1,179	3/17/2014
<b>Abbott Point of Care</b>	400 College Road E	Princeton	NJ	Unknown	80	3/31/2014
<b>McKesson Medical</b>	1130 Commerce Blvd.	Swedesboro	NJ	Unknown	140	3/14/2014
<b>YM LLC</b>	12 Vreeland Ave.	Totowa	NJ	Unknown	69	6/19/2014
<b>Carolina Furniture</b>	406 Brooklyn St	Sumter	SC	Layoff	68	3/6/2014
<b>Esterline Defense Technologies</b>	25A Ledbetter Gate Road	Milan	TN	Closure	103	6/27/2014
<b>SuperValu</b>	#1 James River Turnpike	Milton	WV	Closure	94	Unknown
<b>West Point Products Acquisition</b>	184 Schoolhouse Lane	Valley Grove	WV	Closure	94	Unknown

## Heeding Calls To Do So, Chatham Puts 51-Hotel Portfolio Up for Sale

Chatham Lodging Trust, in a joint venture with private equity investor Cerberus Capital Management, has put the entire 51-hotel, 6,847 room Innkeepers portfolio up for sale.

The diversified portfolio of newly renovated hotels is being offered unencumbered by management contracts and has a \$950 million interest-only loan in place with a floating interest rate of LIBOR + 4.8%. The loan is assumable subject to certain conditions.

Chatham and Cerberus invested \$171 million in capital expenditures on the portfolio since 2007 or \$25,000 per room. The investment attracted more guests, with estimated RevPAR growth of 5.5%, a RevPAR penetration index of 129 and estimated EBITDA of approximately \$101 million in 2013.

"Having owned or operated the portfolio for quite some time, we know these hotels very well, its results are very strong, and with industry experts projecting attractive growth in the future, we would expect the portfolio to continue to produce great results," said Jeffrey H. Fisher, Chatham's CEO. "The joint venture has already returned 92% of our original capital investment, so if a sale occurs, the potential value that may accrue to Chatham because of our promote interest could be meaningful."

Eastdil Secured is acting as exclusive advisor for the offering.

Last fall, Chatham rejected an unsolicited proposal from BlueMountain Capital Management to acquire the hotel REIT and its 23 wholly owned hotels, independent of the 53 hotels it owns in the cerebus joint venture.

That offer prompted Chatham Lodging's largest shareholder, Charles P. Fitzgerald, senior managing member and general partner of V3 Capital Management LP, to recommend the company conduct a full sales process for the entire portfolio, saying that the REIT's stock price did not reflect the higher value of its assets.

## **Heslin To Invest \$100 Million in Value-Add Retail Properties in 2014**

With its recent purchase of Oceanside Plaza, a retail center located in Oceanside, CA, Heslin Holdings Inc., expects it will be the first of several deals in the firm's 2014 pipeline. The privately owned commercial real estate investment and development firm founded in 2003 by Matthew Heslin has plans to buy more than \$100 million in property acquisitions during 2014.

Heslin acquired this property from Oceanside Plaza LLC for \$11.25 million as a value-add opportunity with upside potential to be generated through renovations and lease-up activity. Mike Grannis and Brent Cunningham of Highland Partners Corp. represented both buyer and seller in the transaction.

"Heslin hopes to add 500,000 square feet to its commercial portfolio this year primarily throughout the western United States in all major commercial property sectors, including retail, industrial, office and multifamily.

## **Major Mall Moves: TIAA-CREF Buys Nearly Half of Taubman's International Plaza Mall in Tampa**

A pair of big institutional investors bought into Tampa's 1.2 million-square-foot International Plaza, paying Taubman Centers Inc. \$499 million for a 49.9% stake. The buyers were TIAA-CREF and APG Asset Management US, through the joint venture they formed to buy stakes in dominant super-regional malls in major U.S. markets.

The purchase price consists of \$337 million of cash and approximately \$162 million of beneficial interest in debt. Based on that amount for just under half the mall, the retail property is valued at about \$998 million.

Taubman will use the proceeds to pay off a loan on its Stony Point Fashion Park retail center in Richmond, VA, and for general corporate purposes.

International Plaza is adjacent to the Tampa International Airport, at the center of the Tampa metroplex. The 1,202,000 square foot center, which opened in September 2001, is anchored by Dillard's, Neiman Marcus, and Nordstrom. Taubman will continue to lease and manage the center. Eastdil Secured arranged the investment by TIAA-APG.

Also, Taubman surprised analysts last week by agreeing to sell the 39-acre Long Island site where it had long planned to build the Mall at Oyster Bay to rival Simon Property Group. The land sale was packaged along with Taubman's 50% interest in the Arizona Mills mall, giving Simon full ownership of that property.

Simon agreed to pay \$60 million in cash and give Taubman 555,150 partnership units based on a value of \$154.91 per unit. As part of the sale, Taubman will be relieved of its \$84 million share of the current \$167 million mortgage loan on Arizona Mills, bringing the transaction's total value to \$230 million.

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