

THE WATCH LIST

MARK HESCHMEYER, EDITOR

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First Quarter Bank Results: Potential for CRE Armageddon Fading

Weakness, Trouble Remain but Healthy Lenders Could Carry CRE Markets to Better Days

By: Mark Heschmeyer

First quarter results of U.S. bank holding companies across the country are unmistakably downbeat about the short-term outlook for commercial real estate in general and their portfolios in particular, but they are also hinting at a growing sense that the problems are working themselves out.

For starters banks generally reported that troubled loan assets were moving their way through their books. For example, older construction loans on commercial developments and owner-occupied properties were being shifted to term loans giving borrowers a chance to work through slow cash flows periods.

Banks were also widely reporting that the inflow of new nonperforming commercial real estate loans was beginning to slow down. At the same time, more of the loans already being labeled as nonperforming were being shifted to the real estate owned category. From there, it was only a matter of time before those assets would be sold back into the marketplace. In the performing section of their portfolios, banks were reporting that a substantial portion of those assets have also already been renewed or restructured.

This month the International Monetary Fund released its April 2010 Global Financial Stability Report. The updated report contained a brighter outlook for bank losses in the near term, as expected write-downs on both the loan and securities books of U.S. banks decreased across the board compared to last fall, said Mark Fitzgerald, senior debt analyst for CoStar Group.

"These improved short-term losses are due primarily to two factors. First, signs of an improving economic environment have decreased loss expectations," Fitzgerald said. "Second, some write-downs have simply been pushed forward, as external factors, including low interest rates, have enabled banks to push off distress into the future."

In part because of that delay, the IMF report forecasts real estate loan charge-offs are still expected to increase in 2010 and may not peak until 2011.

"What are the implications for commercial real estate investors," Fitzgerald asked, and then answered: "The banks supply approximately 50% of all debt capital to the sector, so lending capital could be constrained for some time. However, there is a bright side. If we continue to follow our current path, and distressed assets bleed slowly into the market over time, then healthy lenders may have enough capacity to meet low transaction volumes (especially with depressed pricing). The large banks that have recently reported healthy earnings (primarily due to their trading and fixed-income operations) are a potential source of capital, and these banks have historically been underallocated to commercial real estate compared to the overall banking sector."

However, Fitzgerald added: "On the other hand, if an external factor pushed more distress into the marketplace (i.e. major interest rate increases, changes in regulator behavior), this could create significant opportunities for opportunistic investors."

What follows are comments and reports from specific large and medium-sized bank and bankers regarding current commercial real estate portfolio and market conditions and market outlooks. The statements come from first quarter earnings reports, earnings conference calls and monthly banking condition filings with the U.S. Department of Treasury. The statements are relatively indicative of what most banks reported.

BETTER TO LET A PROJECT WORK OUT THAN FORECLOSE

On the commercial side, CRE non-accrual loan inflows actually declined 27% in the first quarter, but it is typically in everyone's economic interest including ours to write the loan down to continue to have the developer work the project for us rather than foreclose. The process of structuring and executing these solutions can take several quarters to complete, and throughout this process, these loans are closely monitored, collaterals are re-evaluated and if necessary loss content is recognized.

John Stumpf – Chairman, President and CEO of Wells Fargo & Co.

HEADING IN THE RIGHT DIRECTION

When you talk about the uptick in commercial real estate charge offs and nonperforming asset inflow, I think it's important to put it in proper context to remember our overall credit trends. We've seen improvement for three quarters now in charge offs, nonperforming asset inflows and past dues and we've seen improvement for two quarters now in overall nonperforming assets, provision and the watch list.... We saw that the commercial real estate watch list was down by \$100 million in the first quarter and then we analyzed the commercial real estate migration for the last several quarters and all those items supported our belief that the negative migration is receding. That being said, there's still a lot of work to do on commercial real estate as you can see from the absolute numbers. While we think there may be variability as we certainly saw this quarter, and as we said in prior quarters, we think the overall trend is going in the right direction.

John M. Killian, Chief Credit Officer, Comerica Inc.

REITS DRIVING NEW BORROWING

In February, new commercial real estate (CRE) loan commitments totaled \$132.4 million, compared with \$47.4 million in the previous month. The increase in new commitments was driven by substantial capital raising activities undertaken by some of Citi's REIT clients, which issued both new equity and longer term debt to strengthen their balance sheets.

Citigroup in the latest Monthly Treasury Intermediation Snapshot

SHORT HOLD PERIOD FOR FORECLOSED ASSETS

Excluding \$243 million of nonperforming assets (NPAs) in our held-for-sale portfolio, where the loans have already been fully marked, portfolio nonperforming assets totaled \$3.1 billion. Portfolio non-performing loans were down over \$200 million sequentially, a 7% decline, while other real estate owned (OREO) was up about \$100 million largely commercial OREO. That was a really positive move for non-performing loans and as you would expect we are seeing some continued growth in OREO, which represents the combination of treatment strategies on problem loans, with those typically having moved into non-performing status in the year ago timeframe. I would note that only 10% of our OREO has been carried as OREO for more than 12 months.

Mary Tuuk, Chief Risk Officer, Fifth Third Bancorp

Fifth Third continues to monitor the CRE portfolios and continues to suspend lending on new non-owner occupied properties and on new homebuilder and developer projects in order to manage existing portfolio positions. We feel this is prudent given that we do not believe added exposure in those sectors is warranted given our expectation for continued elevated loss trends in the performance of those portfolios.

MATERIAL LIQUIDITY COMING BACK INTO THE MARKET

I'm not sure that I would necessarily call it seasonality but clearly the quarter started more slowly in January and early February, and there was a real crescendo through March in terms of sales activity... We started seeing some material liquidity coming back into the market in the second half of the first quarter and that's not seasonal. That is real and it is I think reflective of a recognition that number one, there's a lot of money out there that's been looking for somewhat better trends in commercial real estate in particular and are beginning to see it. So we've seen a great improvement.

Chuck Hyle, Chief Risk Officer, KeyCorp

KeyCorp's lending strategies remain focused on serving the needs of existing and new relationship clients while being mindful of risk-reward and strategic capital allocation. There was no change in underwriting standards in February. There was no change in loan demand trends in the CRE segment during February. The CRE market outlook continues to be weak. All new commitments originated in February were attributable to the middle market portfolio. During February, KeyCorp continued to extend and modify existing credits given the lack of liquidity and refinancing options available in the CRE market.

KeyCorp in the latest Monthly Treasury Intermediation Snapshot

A BIFURCATED MARKET

Class A properties are doing well and probably are doing better than anybody might mark them, so actually we're not in the business of selling those even though we might have taken a mark on them when we took them in. Those properties tend to come back with the economy, and that's the right thing to do. The C properties, you just sell. C property rarely come back so you take very strong marks on those right up front and you just sell them because they always have trouble recovering at all. So we've been actively doing that and we're comfortable with our marks. The B properties, obviously the majority of the portfolio, but those are the ones you mark down and you have to manage one by one... So that's a plus, and I think the commercial real estate business over time, if a property loses a tenant, clearly that property has less value as you know. But then they go resign somebody else at a lower lease rate, so the property is worth less, but it's not like it falls off the planet. There is some cash flow. So I think those B properties, I think will work their way through for the most part.

James Rohr, Chairman and CEO, PNC Financial Services Group Inc.

RAMPING UP OWNER-OCCUPIED

We continue to produce our concentration of nonowner-occupied commercial real estate. We currently have \$1.4 billion in nonowner-occupied commercial real estate and \$630 million in owner-occupied commercial real estate. At quarter end, nonowner-occupied commercial real estate is down to approximately 45% of our total loan portfolio. Based on where we ended the first quarter, we're now projecting loans to be down approximately 5% to 8% the full-year and are optimistic that we might see some additional lending opportunities in the second half of year that may help us offset some of these decrease.

We have recently implemented an aggressive calling program for our bankers to actively pursue commercial industrial loans, owner-occupied commercial real estate consumer loans and residential mortgage loan opportunities. Despite low loan demands, we still manage the book over \$209 million in new loan commitments during the first quarter. Anecdotally, we're hearing from some of our customers that business had begun to pick up. However, we have not yet seen evidence of that in increased line usage or loan demand.

The sector within commercial real estate which has experienced the most stress has been hospitality... Over the last 15 months, the industry has experienced significant declines in occupancy of rates, average daily room rates and revenue per available room. As a result of this deterioration, we charged-off approximately \$9 million against the allowance for credit losses associated with this loan portfolio during 2010... We're in the process of finishing up a thorough review of this entire portfolio.

J. Downey Bridgwater, Chairman, President & CEO, Sterling Bancshares Inc.

GROWING INTEREST IN BANK-OWNED PROPERTIES

While commercial real estate administration and problem loan disposition continue to be quite challenging... we are starting to see increased inquiries and activities in the movement of some troubled commercial real estate. We had a large OREO sale in the first quarter; it was good to see and really the focal point of my comments about being some movement and some activity in the OREO account. As you might imagine, there is a lot of

multi-activity there. We have some properties coming in and some properties going out. We are continuing to value those properties each and every month to make sure that we have got an accurate balance based on the market value that we are carrying on our books.

But during the first quarter I am very pleased, we saw a number of, besides that large sale, we saw a number of sales to small properties throughout the quarter both on some commercial properties, some residential properties, amounts that made us approach that comment there about the activity in the marketplace, and there continues to be some offers and some interest heading into the second quarter. Whereas six months ago, nine months ago, a year ago, there was not a whole lot of interest in bank owned properties, we are starting to see some activity and some movement there as I indicated.

Bob Kaminski, Executive Vice President and Chief Operating Officer, Mercantile Bank Corp.

DEALING WITH CONSTRUCTION LOANS

The increase in the term commercial real estate loans is only partially a result of the decrease in the construction loans. We do have some construction loans that are moving to term loan because the properties are leasing up and they are qualifying. We have fairly strict standards for moving a loan from construction to term. They basically need to qualify as though they were being originally underwritten as a term loan before we move them into that category.

Doyle Arnold, Chief Financial Officer, Zions Bancorporation

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Bids for California's State Office Portfolio Top Estimates

The California Department of General Services (DGS) received more than 300 offers to purchase and lease back 11 state office properties. Multiple bids were received for the entire portfolio that totaled in excess of \$2 billion.

The bids were received after CB Richard Ellis placed the properties on the market in late February, which generated worldwide interest from numerous buyers eager for stable, leased investment properties.

The sale is also expected to net significantly more than the anticipated \$660 million in proceeds that was originally projected. Those proceeds will be funneled directly into the General Fund, helping to save Californians from increased taxes and deeper cuts in state programs and services.

"We are more than pleased with the competitive offers that have been submitted. I'm looking forward to proceeding with the next step of negotiations," said DGS Acting Director Ron Diedrich. "This transaction will generate a significant amount of capital for the state to retire debt and help contribute to the General Fund."

"We had anticipated a strong response on April 14 and were pleasantly surprised by the amount and quality of the capital that submitted purchase offers. The bids received confirmed that the current supply/demand imbalance for investment product is clearly playing into the State of California's favor," said Kevin Shannon, vice chairman of CBRE. "Based on the bids received, we will be focusing on portfolio buyers only in the next phase of the sales process."

Now that the offers have been received, CBRE will enter into negotiations with those portfolio buyers who have submitted the most competitive offers. The state anticipates announcing the selected portfolio buyer in late May.

Gov. Arnold Schwarzenegger and the state legislature authorized the sale of the properties, which total 7.3 million in rentable square feet in Los Angeles, Oakland, Sacramento, San Francisco and Santa Rosa. Once sold, the state anticipates retiring more than \$1 billion in bond debt, saving California nearly half a billion in interest payments over the next two decades.

Innkeepers U.S.A. Trust Misses Loan Payments; Evaluating Alternatives

By: Mark Heschmeyer

Innkeepers U.S.A Trust in Palm Beach, FL, did not make certain scheduled monthly interest payments on some of its debt obligations and may not make future payments on certain of its debt and franchisor obligations.

Accordingly, Innkeepers also announced that it had retained the services of financial and legal advisors to assist the company in an evaluation of financial alternatives, including a potential restructuring of the company's balance sheet.

Beilinson said that all 73 hotels owned by Innkeepers are open and operating in the ordinary course of business and that all hotel and corporate employees will continue to be paid and receive benefits as usual. The portfolio contains about 10,000 rooms and spans 19 states.

"Innkeepers has a long history as a leader in the branded extended-stay hotel segment," said Marc Beilinson, chief restructuring officer of Innkeepers. "It is our goal to preserve the company's reputation as a leader in the industry and continue to serve our guests at each of our 73 hotels."

Sears Looking To Profit from Extensive Real Estate Holdings

By: Mark Heschmeyer

Sears Holdings Corp., the nation's fourth largest broadline retailer with 3,900 full-line and specialty retail stores in the United States and Canada, has launched a web site to leverage its extensive real estate holdings, as well as to dispose of its closed Sears and Kmart locations. The site is to be officially announced next month at the International Council of Shopping Centers annual convention.

The site www.shcrealty.com currently lists 3,779 opportunities across a wide variety of formats within the operating store portfolio, including outlots, demised space, in-line leasing and store-in-store leasing.

As an example of such arrangements, this past week, Sears Holdings announced a multi-year agreement with Edwin Watts Golf Shops LLC, one of the world's largest specialty golf retailers, to establish the first U.S. based

'store-within-a-store' retail model for the golf industry. As a result, Edwin Watts will open 12 new service-oriented golf shops inside of existing Sears stores in key locations nationwide.

In addition, Sears Holdings also lists 67 closed properties for sale. Sears Holdings said it has the financial wherewithal and expertise to entertain opportunistic transaction terms including financing, redevelopment joint ventures, earn-outs, subdivisions or co-location. The value of the properties for sale could not be determined. However, as of Jan. 31, Sears Holdings reported holding \$38 million of property held for sale.

In the past three years, Sears Holdings has seen its gains on the sale of real estate dwindle from \$95 million in 2007, to \$86 million in 2008 to just \$23 million last year.

During fiscal 2009, the gain on sales included a \$44 million gain recognized by Sears Canada on the sale of its former headquarters in Toronto. During fiscal 2008, the gain on sale of assets included a \$32 million pre-tax gain recognized on the sale of Sears Canada's Calgary downtown full-line store. During fiscal 2007, the gain on sale of assets included a \$21 million pre-tax gain on the sale of our Sears fashion center in Los Angeles.

During fiscal 2008 and fiscal 2007, we purchased 9 and 28 previously leased operating properties for \$22 million and \$109 million, respectively. During fiscal 2009, we did not purchase any previously leased operating properties. In the normal course of business, we consider opportunities to purchase leased operating properties, as well as offers to sell owned, or assign leased, operating and non-operating properties. These transactions may, individually or in the aggregate, result in material proceeds or outlays of cash. In addition, we review leases that will expire in the short-term in order to determine the appropriate action to take with respect to them.

Apollo Upstages Thomas H. Lee Partners in Bid for CKE Restaurants

By: Mark Heschmeyer

CKE Restaurants Inc. in Carpinteria, CA, has entered into a definitive merger agreement to be acquired by an affiliate of Apollo Global Management, a leading private equity firm and asset manager, in a deal valued at \$1 billion including the refinancing of CKE's outstanding debt.

CKE Restaurants, through its subsidiaries, had a total of 3,141 franchised, licensed or company-operated restaurants in 42 states and in 16 countries, including 1,224 Carl's Jr. restaurants and 1,905 Hardee's restaurants.

CKE stockholders will receive \$12.55 in cash for each share of CKE common stock they hold, representing a 41% premium to the company's unaffected closing share price on February 25, 2010, and a 14% premium over the consideration provided by the merger agreement previously entered into with affiliates of Thomas H. Lee Partners LP.

Affiliates of Morgan Stanley, Citi and RBC Capital Markets have provided an aggregate \$700 million financing commitment in support of the transaction.

chief executive officer, said, "This is a very exciting and positive development for the company, its shareholders, franchisees and employees.

"The Apollo transaction provides substantial added value for our shareholders and is a testament to our Board's diligent efforts on behalf of our shareholders," said Andrew F. Puzder, CKE's CEO. "Our franchisees and employees will also benefit from Apollo's retail sector experience and widely acknowledged financial expertise."

Completion of the transaction, which is expected to occur by the end of the second quarter of fiscal 2011.



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7 Chicago-Area Banks Closed, Redistributing \$5.83 Bil. in Assets

By: Mark Heschmeyer

Illinois and federal banking regulators shuffled the makeup of the Chicago banking community this past week, closing seven banks and dividing up \$5.83 billion in assets among five other Chicago-area bank holding companies. The seven closed banks reported more than \$254 million in foreclosed properties and nonperforming loans related to commercial real estate properties.

AMCORE BANK

Harris NA, a part of Canadian-based BMO Financial Group, acquired the largest of the seven closed banks: Amcore Bank from the Federal Deposit Insurance Corp. (FDIC).

Harris assumed \$2.1 billion in deposits at Amcore's 58 branches for which it paid a premium of 0.01%. It also acquired \$2.5 billion in assets, including \$2 billion in loans. All loans are covered by an 80/20 loss share agreement with the FDIC covering 80% of potential loan losses.

Amcore Bank was closed by the Office of the comptroller of the Currency, which appointed the FDIC as receiver.

As of Dec. 31, 2009, Amcore Bank had \$3.8 billion in total assets and \$3.4 billion in total deposits. The FDIC estimates that the cost to its Deposit Insurance Fund (DIF) will be \$220.3 million.

Amcore Bank

Loans in Nonaccrual as of 12/31/09

Multifamily: \$7,100,000

Owner-occupied nonresidential: \$41,063,000

Other nonresidential: \$44,316,000

Foreclosed/Reposessed Real Estate as of 12/31/09

Multifamily: \$1,223,000

Nonresidential properties: \$7,040,000

BROADWAY BANK; NEW CENTURY BANK

MB Financial Bank acquired the deposits and loans of two Chicago-based banks – Broadway Bank with four branches and New Century Bank with three branches. These are MB's fifth and sixth FDIC-assisted transactions since 2009.

Broadway Bank was closed by the Illinois Department of Financial and Professional Regulation — Division of Banking, which appointed the FDIC as receiver.

As of Dec. 31, 2009, Broadway Bank had \$1.2 billion in total assets and \$1.1 billion in total deposits. MB Financial Bank did not pay a premium for the deposits. The FDIC and MB Financial Bank entered into a loss-share transaction on \$878.4 million of Broadway Bank's assets. The FDIC estimates that the cost to DIF will be \$394.3 million.

Broadway Bank

Loans in Nonaccrual as of 12/31/09

Multifamily: \$10,675,000

Owner-occupied nonresidential: \$7,557,000

Other nonresidential: \$14,741,000

Foreclosed/Reposessed Real Estate as of 12/31/09

Multifamily: \$1,283,000

Nonresidential properties: \$26,111,000

New Century Bank, was also closed by the Illinois Department of Financial and Professional Regulation — Division of Banking, which appointed the FDIC as receiver.

As of Dec. 31, 2009, New Century Bank had \$485.6 million in total assets and \$492.0 million in total deposits. MB Financial Bank did not pay a premium for the deposits. The FDIC and MB Financial Bank, entered into a loss-share transaction on \$429.1 million of New Century Bank's assets. The FDIC estimates that the cost to the DIF will be \$125.3 million.

New Century Bank

Loans in Nonaccrual as of 12/31/09

Multifamily: \$3,650,000

Owner-occupied nonresidential: \$2,317,000

Other nonresidential: \$23,875,000

Foreclosed/Reposessed Real Estate as of 12/31/09

Multifamily: \$0

Nonresidential properties: \$1,836,000

WHEATLAND BANK; LINCOLN PARK SAVINGS BANK

Two subsidiary banks of Wintrust Financial Corp., Northbrook Bank & Trust Co. and Wheaton Bank & Trust Co., acquired certain assets and liabilities and the banking operations of Wheatland Bank and Lincoln Park Savings Bank. Wheatland Bank had one location and \$435 million in total assets and \$438 million in total deposits as of Dec. 31, 2009. Lincoln Park Savings Bank operates four locations and had \$205 million in total assets and \$171 million in total deposits as of Dec. 31, 2009.

Wheaton Bank & Trust assumed the majority of the outstanding deposits of Wheatland Bank for a premium of 0.4% and acquired \$380 million of assets (subject to final adjustments) at a discount of 16%. The acquired assets are subject to loss-sharing agreements with the FDIC, whereby Wheaton Bank & Trust Company will

share in losses and the FDIC will cover 80% of the losses of certain loans and foreclosed real estate at Wheatland Bank.

As of Dec. 31, 2009, Wheatland Bank had \$437.2 million in total assets and \$438.5 million in total deposits. The FDIC estimates that the cost to the DIF will be \$133 million.

Wheatland Bank

Loans in Nonaccrual as of 12/31/09

Multifamily: \$25,751,000

Owner-occupied nonresidential: \$5,629,000

Other nonresidential: \$17,072,000

Foreclosed/Reposessed Real Estate as of 12/31/09

Multifamily: \$0

Nonresidential properties: \$0

Northbrook Bank & Trust assumed the outstanding deposits of Lincoln Park Savings Bank for a premium of 0.4% and acquired \$190 million of assets (subject to final adjustments) at a discount of 10.7%. The acquired assets are subject to loss-sharing agreements with the FDIC, whereby Northbrook Bank & Trust will share in losses and the FDIC will cover 80% of the losses of certain loans and foreclosed real estate at Lincoln Park Savings Bank.

As of Dec. 31, 2009, Lincoln Park Savings Bank had \$199.9 million in total assets and \$171.5 million in total deposits. The FDIC estimates that the cost to the DIF will be \$48.4 million.

Lincoln Park Savings Bank

Loans in Nonaccrual as of 12/31/09

Multifamily: \$2,824,000

Owner-occupied nonresidential: \$0

Other nonresidential: \$4,452

Foreclosed/Reposessed Real Estate as of 12/31/09

Multifamily: \$2,492,000

Nonresidential properties: \$449,000

PEOTONE BANK AND TRUST

First Midwest Bank acquired certain deposits and loans of Peotone Bank and Trust Co.

Peotone Bank and Trust was closed by the Illinois Department of Financial and Professional Regulation – Division of Banking, which appointed the FDIC as receiver.

As of Dec. 31, 2009, Peotone Bank and Trust had two branches and \$130.2 million in total assets and \$127 million in total deposits. First Midwest Bank paid the FDIC a premium of 1% to assume all of the deposits. The FDIC and First Midwest Bank entered into a loss-share transaction on \$57.5 million of its assets. The FDIC estimates that the cost to the DIF will be \$31.7 million.

Peotone Bank and Trust

Loans in Nonaccrual as of 12/31/09

Multifamily: \$0

Owner-occupied nonresidential: \$31,000

Other nonresidential: \$991,000

Foreclosed/Reposessed Real Estate as of 12/31/09

Multifamily: \$0

Nonresidential properties: \$0

CITIZENS BANK & TRUST OF CHICAGO

Republic Bank of Chicago assumed all of the deposits of Citizens Bank & Trust Company of Chicago, which was also closed by the Illinois Department of Financial and Professional Regulation — Division of Banking, which appointed the FDIC as receiver.

As of Dec. 31, 2009, Citizens Bank & Trust had branch and \$77.3 million in total assets and \$74.5 million in total deposits. Republic Bank of Chicago paid the FDIC a premium of 0.00013% to assume all of the deposits. The FDIC estimates that the cost to the DIF will be \$20.9 million.

Citizens Bank & Trust of Chicago
 Loans in Nonaccrual as of 12/31/09
 Multifamily: \$899,000
 Owner-occupied nonresidential: \$1,494,000
 Other nonresidential: \$2,548,000
 Foreclosed/Repossession Real Estate as of 12/31/09
 Multifamily: \$0
 Nonresidential properties: \$1,456,000

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FEATURED NON-PERFORMING NOTES

 MASSAPEQUA PARK, NY Starting Bid: \$400,000 SQ FT: 8,075 Prop Type: Retail Building Unpaid Balance: \$1,676,846	 MANSFIELD, TX Starting Bid: \$1,000,000 1.57 Acres Prop Type: 59 Room Hotel Unpaid Balance: \$3,384,988
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FEATURED COMMERCIAL PROPERTIES

 WESTLAND, MI Starting Bid: \$90,000 Former Hollywood Video SQ FT: 7,500 Prop Type: Retail	 GRANBURY, TX Starting Bid: \$700,000 America's Best Value Inn SQ FT: 39,388 Prop Type: 53 Room Hotel
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Canadian Pension Fund, Kimco Team To Buy U.S. Shopping Centers

Kimco Realty Corp. and the Canada Pension Plan Investment Board have formed a joint venture to acquire prime neighborhood shopping centers throughout the U.S. The initial investment of \$370 million includes five former PL Retail properties which Kimco purchased during the fourth quarter of 2009.

CPPIB will acquire a 45% interest in the venture and Kimco will retain a 55% interest in addition to acting as the operating partner. As the operating partner, Kimco will manage the properties and earn asset management and other customary fees for a joint venture of this size and scope.

These properties are in well-established neighborhoods and anchored by national retailers including Costco and Wal-Mart.

The five properties include:

- Oakwood Plaza, Hollywood, FL, 871,723 SF
- Morena, San Diego, CA, 411,375
- Redhawk Town Center, Temecula, CA, 345,113
- Pentagon Centre, Pentagon City, VA, 337,429
- Rancho San Diego, El Cajon, CA, 98,396

Wheelock, McGuyer Team Up on Land Deals

Wheelock Street Capital formed a joint venture partnership with McGuyer Homebuilders Inc. of Houston, TX, to purchase and develop residential land for lot sales and homebuilding. Together, the firms will seek to acquire single assets, portfolios and other homebuilders with the goal of investing in excess of \$50 million.

The joint venture recently closed on their first transaction, which included the acquisition of more than 3,000 homesites across eight communities in Texas originally from lender GMAC / RFC. The all-equity investment totaled more than \$15 million, and is the first of what both firms expect to be a growing relationship.

The eight communities are in Austin, Dallas and Houston. The diversified portfolio will include product for buyers ranging from first time buyers to second time move up buyers. MHI will manage the land development responsibilities. Both firms will work to market the homesites for sale to homebuilders.

Capital Raisings & Property Financings

Starwood Hotels & Resorts Worldwide Inc. closed a \$1.5 billion senior credit facility that matures on Nov. 15, 2013, and replaces an existing \$1.875 billion revolving credit agreement set to mature next February. The facility is expected to be used for general corporate purposes.

Americold Realty Trust launched its initial public offering of 43 million common shares of beneficial interest. The IPO price was expected to be between \$14 and \$16 per share. Underwriters have the option to purchase up to an additional 6.45 million common shares. The minimum amount that could be raised if all shares were sold is \$692 million. Americold intends to use the net proceeds to finance the acquisition and consolidation of certain warehouses and operations of Versacold International Corp. in the United States, Australia, New Zealand and Argentina.

BioMed Realty Trust Inc. priced a private placement of \$250 million aggregate principal amount of 6.125% senior notes due 2020 at 98.977% of face value. The operating partnership intends to use the net proceeds from the private offering to repay in full the outstanding indebtedness under its secured term loan, to fund the purchase of potential near-term property acquisitions, to repay a portion of the outstanding indebtedness under its unsecured line of credit and for other general corporate and working capital purposes. In addition, BioMed Realty sold 13.225 million shares of common stock, raising gross offering proceeds of \$228.1 million.

Omega Healthcare Investors Inc. entered into a \$320 million revolving senior secured credit facility that matures on April 13, 2014, provided the company has refinanced or repaid its \$310 million, 7% senior notes due April 2014, prior to Dec. 31, 2013. If not refinanced or repaid, the maturity date will become Dec. 31, 2013. The facility includes an "accordion feature" that permits the company to expand its borrowing capacity to \$420 million during its first three years. The facility is priced at LIBOR plus an applicable percentage (ranging from 325 basis points to 425 basis points). The money will be used for acquisitions and general corporate purposes.

The Ryland Group Inc. priced a public offering of \$300 million of 6.625% senior notes due 2020. The proceeds will be used to purchase existing notes.

Kilroy Realty Corp. sold a total of 9.2 million common shares for aggregate net proceeds of \$299.7 million.

Bridlie Hospitality Management reached an agreement with a California based private investment firm to make \$250 million of capital available to Bridlie Hospitality to pursue acquisition of hotels and resorts in major metropolitan and urban markets throughout the U.S.

Excel Trust Inc. priced its initial public offering of 15 million shares of common stock at \$14 per share. The company will use net proceeds of about \$193.8 million to acquire retail real estate properties.

Chatham Lodging Trust completed its initial public stock offering raising \$160.4 million to be used to acquire hotel properties.

Orleans Homebuilders Inc. executed a \$120 million debtor-in-possession credit facility, which will provide a \$40 million revolving line of credit, including up to \$25 million of cash funding and up to \$15 million of letters of credit capacity. The company intends to use the proceeds to fund business expenses, including housing restarts and closings.

Two Harbors Investment Corp. priced a public offering of 11.5 million shares of its common stock at \$8.90 per share, for gross proceeds of \$102.4 million. Two Harbors focuses on investing in residential mortgage-backed securities.

Glimcher Realty Trust priced an underwritten public offering of 3.5 million shares of its 8.125% series g cumulative redeemable preferred shares. The shares have a liquidation preference of \$25 each and are redeemable for cash, plus accrued and unpaid distributions. The shares were priced at \$21.51 per share including accrued distributions equating to a yield of 9.5% per annum. Gross proceeds are expected to be about \$75 million, which will go to reduce the outstanding debt.

Cushman & Wakefield Sonnenblick Goldman, serving as the exclusive advisor to an affiliate of **Bloomingdale Properties Inc.**, arranged a \$35 million first mortgage financing for 1385 Broadway, a 500,000-square-foot office and showroom building in Manhattan. The 10-year loan was provided by a commercial bank.

Canyon Capital Realty Advisors provided a \$25.5 million senior bridge loan to **Park Place KC LLC** for the purchase of an existing construction loan and the completion of the remaining 85 unsold condominium units at One Park Place, a residential tower positioned between downtown Kansas City and Country Club Plaza and adjacent to the 176-acre Penn Valley Park.

Monmouth Real Estate Investment Corp. sold 4 million common shares at \$7.50 per share. The company received net proceeds of \$28.3 million, which it intends to use to purchase additional properties.

Investment in Recession Years Was Primarily on a Need To Grow Basis

By: Mark Heschmeyer

Despite challenging economic conditions, industrial companies continued to invest cautiously for the future, according to the newly released 2010 U.S. Investment Monitor prepared by the Quantitative Economics and Statistics (Quest) practice of Ernst & Young LLP. Financial services, real estate and automotive companies had significantly lower investment and employment growth than previous years, but continued to make strategic investments in operational infrastructure and customer support facilities.

The report analyzed major U.S. business investment projects in each state. The report analyzed 4,600 business investments with \$189 billion of capital invested in business facilities and more than 438,000 new and retained jobs during a the 22-month period of severe recession from December 2007 to September 2009.

The report shows that investors pursued locations with supply chain potential and advantageous resources, input cost and quality, positive state and local tax structures, business incentives and industry clusters.

However, the report also shows that while companies continued to invest at record levels through the second quarter of 2008, beginning in the third quarter of 2008, business investment in facilities and equipment dropped precipitously, falling nearly 21% by the third quarter of 2009.

During the 2001 recession, real business investment continued to fall through 2003, signaling that 2010 may be another year of lean investment by U.S. businesses, the report suggests.

"The announced projects reflect the general business climate during the recession, which is focused on reducing costs, increasing efficiency and creating new facilities to produce new products, such as clean energy and consumer technologies," said Andrew Phillips, senior manager of Quest. "The nature of these projects - predominantly investments in alternative energy and semiconductors for use in computers, hybrid automobiles and solar panels - indicates the market's trend toward cleaner, leaner technology."

The average capital investment per job created or retained during the recession was nearly \$432,000, compared to \$405,000 in 2007 and \$324,000 in 2006. Coal gasification, petroleum refining and natural gas projects were the most capital-intensive projects, with average capital investment of nearly \$8 million per job created. Energy and industrial facilities accounted for 80% of proposed capital investments.

"Capital investment is the cornerstone of long-term economic development and even during a recession, states continued to attract capital investments in new facilities," said Tom Neubig, director of Quest. "Many states lost jobs, but we saw a number of bright spots, particularly with alternative energy equipment manufacturers, which report greater total investment and employment than in previous years. We can trace this to fundamental market shifts and state and federal policies that encourage investment in this sector."

Top states for mobile capital investment:

- Texas: \$13.8 billion
- Ohio: \$13.4 billion
- Michigan: \$10.0 billion
- North Carolina: \$9.5 billion
- Pennsylvania: \$9.2 billion
- Montana: \$7.5 billion
- Tennessee: \$7.0 billion
- Illinois: \$6.4 billion
- Kentucky: \$5.8 billion
- New York: \$5.8 billion

Manufacturing projects accounted for nearly half of the jobs created by the 20 largest projects, with health care industry projects the next largest job creator, accounting for 20% of the announced employment.

Companies announced 179 new or expanded headquarter facilities during the recessionary years, signaling companies' eagerness to revamp management facilities, streamline operations and reduce costs. Investments and employment in office and research facilities decreased from 2007, with announced spending falling by 22% and new jobs by 24%. Headquarters relocations and office expansions partially explain why investments in office and research facilities did not fall off entirely; 35,423 new and retained jobs were announced in new and expanded headquarters facilities. Texas attracted nearly one-third of the total headquarters jobs.

Top states ranked by new and retained mobile project jobs:

- Michigan: 49,162
- Texas: 44,085
- North Carolina: 37,500
- Ohio: 27,900
- Pennsylvania: 26,788
- Indiana: 24,900
- Virginia: 23,100
- Georgia: 16,400
- New York: 15,100
- Florida: 13,600

"Some businesses continued to invest in new facilities and employees despite an uncertain business climate," said Phillips. "States that focus on economic development efforts to attract and retain companies making strategic investments may be positioned for growth as the economy improves."

Local Closures & Layoffs

Navistar Inc. is permanently closing its Indianapolis Casting Corp. (ICC) foundry. Citing current market conditions, the Chicago-based commercial trucking company plans to permanently shut down the 1.2 million-square-foot facility at 5565 Brookville Road in Indianapolis, IN, in July. The closure will affect 219 active employees and 196 inactive employees.

Sysco is consolidating its Ohio operations, shuttering its Columbus facility in July. The food distribution company has occupied the 80,000-square-foot warehouse at 2400 Harrison Road for about 30 years, according to CoStar information. The closure affects 251 employees, however, about half of them are expected to keep their jobs, a company spokesperson said.

Raytheon is cutting 225 jobs in Tucson, AZ. The missile manufacturer, which happens to be Tucson's largest employer, said the workforce reductions are part of an effort to remain competitive.

Pilgrim's Pride is closing its corporate headquarters in Pittsburg, TX, as well as its satellite office in Atlanta. The chicken producer is moving operations to Greeley, CO, where majority stock owner JBS USA is headquartered. The relocation was announced earlier this year, when Pilgrim's Pride cut 230 jobs company-wide. The company said in a statement that while many of its employees have been offered jobs in Greeley, 158 positions would be eliminated in Pittsburg and 55 jobs would be cut in Atlanta. The job cuts are expected to begin in June.

Hostess is closing its bread bakery in Akron, OH. The baked goods manufacturer said that the facility, which is due to close in June, employs about 100 people. Faced with declining bread sales in the local area and other market changes, Hostess opted to consolidate operations into its bakery in Northwood. Additionally, the Akron facility has been operating since 1923 and would need to be modernized for Hostess to continue using it, the company said.

CombiMatrix Corp. is closing its 31,000-square-foot office at Harbour Pointe Tech Center in Mukilteo, WA, and consolidating operations at its facilities in Irvine, CA. The biotechnology company said in a recent filing that it expects the shutdown to be completed in about six to eight weeks and anticipates \$1 million to \$1.5 million in restructuring charges. The actions are a part of new restructuring plan that CombiMatrix estimates will save \$4 million to \$5 million annually. The company did not specify how many jobs will be cut, but according to its 10-K annual report for 2009, CombiMatrix has 69 full-time employees, 34 in Irvine. Based on those numbers, it would appear that CombiMatrix has 35 employees in Mukilteo that will either be relocating to Irvine or laid off.

Company	Address	Closure or Layoff	# Affected	Impact Date
Navistar (Indianapolis Casting Corp.)	5565 Brookville Rd, Indianapolis, IN	closure	415	7/16/2010
Sysco Central Ohio	2400 Harrison Rd, Columbus, OH	closure	251	7/3/2010
Raytheon	3240 1151 East Hermans Rd, Tucson, AZ	layoff	225	immediately
Pilgrim's Pride Corp.	4845 US Hwy 271 N, Pittsburg, TX	closure	158	6/14/-2010-7/1/2010
Pilgrim's Pride Corp.	244 Perimeter Center Pky NE, Atlanta, GA	closure	55	6/14/-2010-7/1/2010
Hostess	178 S Forge St, Akron, OH	closure	100	6/25/2010
Lear Corp	1789 Ellsworth Bailey Rd SW, Warren, OH	closure	74	6/24/2010
USAA	9800 Fredericksburg Rd, San Antonio, TX	layoff	109	6/18/2010
Fiserv (BillMatrix Corp.)	8750 N Central Expy, Dallas, TX	layoff	71	6/24/2010
Fiserv (BillMatrix Corp.)	Irving, TX	layoff	37	6/17/2010
TurboCare Inc.	11241 Gemini Ln, Dallas, TX	closure	81	6/21/2010
Allstate Insurance Co.	555 S Executive Dr, Ste 150, Brookfield, WI	closure	54	6/19/2010
Restaurant Associates at ABC Disney	47 W 66th St, New York, NY	closure	41	4/30/2010
World Alliance Financial Corp.	3 Huntington Quadrangle, Ste 201N, Melville, NY	layoff	28	7/20/2010
Exide Technologies	Spring Valley Rd & Montrose Ave, Laureldale, PA	closure	128	6/7/2010
Pitney Bowes Government Services	Quantico, Falls Church, Arlington, VA	layoff	116	4/30/2010
Boeing	Puget Sound, WA	layoff	125	6/18/2010
Hancock Bank	1002 W 23rd St, Panama City, FL	closure	57	12/31/2010
Chrysler/ Parts Distribution	10300 Boggy Creek Rd, Orlando, FL	closure	51	6/12/2010-9/11/2010

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Lease Cancellations: Fuddruckers Files Ch11

By: Andrew Deichler

Magic Brands LLC, which owns the Fuddruckers and Koo Koo Roo restaurant chains, received approval to move forward with its Chapter 11 reorganization plan as it prepares to sell all of its assets.

Private investor Tavistock Group is acquiring the Fuddruckers and Koo Koo Roo restaurant chains in a \$40 million deal, expected to close this summer. To complete the sale, current owner Magic Brands LLC signed an asset purchase agreement that required it to file for Chapter 11 bankruptcy and restructure its business. The reorganization plan was approved last week. The asset sale is expected to save about 1,500 jobs.

Prior to the filing, Magic Brands evaluated its property portfolio and deemed about 50 of its restaurants to be unprofitable. The company then proceeded to shut down a number of these locations as of the petition date, with the remainder scheduled to close on April 30. None of these locations are owned; Magic Brands leases the space and is rejecting the contracts.

Several of the leases had already expired on or around the petition date, and one had been reassigned to a third party. Magic Brands included these leases among its list of rejections in the filing as a precaution.

The pending sale only affects Magic Brands' 98 corporate-owned restaurants (85 Fuddruckers, 13 Koo Koo Roo locations). None company's 135 franchised restaurants will be affected, Magic Brands said.

According to Magic Brands' web site, the bankruptcy filing allows the company to become more financially flexible and focus on a strategic growth, while giving Tavistock the opportunity "to purchase assets free and clear of any liens and encumbrances."

The reorganization plan allows Magic Brands to pay pre-petition employee wages, salaries and benefits during the restructuring period, as well as honor its customer programs. Additionally, Wells Fargo Capital Finance is providing an interim financing for Magic Brands, so that the company can continue operations.

Restaurant	Address	Affected Parties	Rejected as of:
Fuddruckers	8725 Metcalf Ave, Overland Park, KS	Golden & Co. LLC	petition date
Fuddruckers	842 N Main St, Layton, UT	JTR Layton Crossing LC	petition date
Fuddruckers	6144 Cleveland Ave, Columbus, OH	World Business Service, Inc.	petition date
Fuddruckers	Aurora, IL	Nick Poulos	subtenant; lease and sublease rejected on petition date
Fuddruckers	2710 S Woodland Village Rd, Flagstaff, AZ	Price Development Co., c/o GGP	subtenant; lease and sublease rejected on petition date
Fuddruckers	8317 W Broad St, Henrico, VA	A.T. Andrews	expires 3/21/2010, rent waived in exchange for equipment
Fuddruckers	155 N Randall Rd, Batavia, IL	Batavia 2005 LLC, Chody Real Estate Corp.	restaurant only partially constructed
Fuddruckers	2225 W Ina Rd, Tucson, AZ	Casa Adobes Baptist Church c/o PICOR	restaurant not constructed
Fuddruckers	1335 Hansel Dr, Florence, KY	LPF Corp.	expires 4/23/2010
Fuddruckers	Cincinnati, OH	Monfort Investments, Inc.	expires 4/16/2010
Fuddruckers	2740 S Snelling Ave, Roseville, MN	P&D Realty Corp.	expires 3/31/2010
Fuddruckers	Studio City, CA	Six Point Co.	lease assigned to Chipotle
Fuddruckers	4141C Duke St, Alexandria, VA	4141 Duke Street LLC	4/30/2010
Fuddruckers	12020 Pennsylvania St, Thornton, CO	AEI Real Estate Fund XVIII LP	4/30/2010
Fuddruckers	100 Hanes Square Cir, Winston-Salem, NC	BE Waterhouse LLC, AJ Waterhouse LLC	4/30/2010
Fuddruckers	1030 Elden St, Herndon, VA	Crossroads/Herndon LP	4/30/2010
Fuddruckers	2871 Plank Rd, Fredericksburg, VA	Rappaport Cos.	4/30/2010
Fuddruckers	3315 N George Bush Expy, Garland, TX	Garland Retail LLC	4/30/2010
Fuddruckers	2700 W Anderson Ln, Austin, TX	JBD Village Shopping Center Ltd.	4/30/2010
Fuddruckers	1216 18th St, Washington, DC	Jemal Vent Limited Partnership	4/30/2010
Fuddruckers	7231 Lemont Rd, Downers Grove, IL	Kimco North Trust II	4/30/2010
Fuddruckers	14075 Shoppers Best Way, Woodbridge, VA	KIR Smoketown Statopm LP, c/o Kimco	4/30/2010
Fuddruckers	1000 N Rohlwing Rd, Addison, IL	LaSalle National Bank TN	4/30/2010
Fuddruckers	5076 S Wadworth Blvd, Littleton, CO	Diamante Property Services LLC	4/30/2010
Fuddruckers	4800 Signet Dr, Raleigh, NC	MKT Properties LLC	4/30/2010
Fuddruckers	4400 S Noland Rd, Independence, MO	Noland South Development Co. LLP	4/30/2010
Fuddruckers	3953 LaVista Rd, Tucker, GA	Northlake Festival LLC	4/30/2010
Fuddruckers	1809 Martin Luther King Pky, Durham, NC	Polaris Commercial Assets LP	4/30/2010
Fuddruckers	240 Perimeter Ctr Pky NE, Atlanta, GA	RB 240 PC LLC	4/30/2010
Fuddruckers	1700 Reisterstown Rd, Pikesville, MD	Gordon Sugar	4/30/2010
Fuddruckers	401 N Moorpark Rd, Thousan Oaks, CA	Newmark Merrill Co.	4/30/2010
Fuddruckers	26771 Ranco Pky, Lake Forest, CA	Turtle Investments II LLC	4/30/2010
Fuddruckers	1928 E Highland Ave, Phoenix, AZ	Westcor Partners	4/30/2010
Fuddruckers	8200 Perry Hall Blvd, Baltimore, MD	White Marsh General Partnership, c/o GGP	4/30/2010

Restaurant	Address	Affected Parties	Rejected as of:
Koo Koo Roo	3294 N Sepulveda Blvd, Manhattan Beach, CA	RREEFF	expires 4/30/2010
Koo Koo Roo	5757 Wilshire Blvd, Alexandria, VA	5757 Wilshire ILC	4/30/2010
Koo Koo Roo	11066 Santa Monica Blvd, Los Angeles, CA	Sandstone Property Mgmt. Co.	4/30/2010
Koo Koo Roo	6020 Canoga Ave, Woodland Hills, CA	Gefico Warner Properties LLC	4/30/2010
Koo Koo Roo	255 S Grand Ave, Los Angeles, CA	Grande Promenade	4/30/2010
Koo Koo Roo	264 S Beverly Dr, Beverly Hills, CA	Beverly 268 Partnership	4/30/2010
Koo Koo Roo	10123 Riverside Dr, Toluca Lake, CA	Lakeside Properties Inc.	4/30/2010
Koo Koo Roo	4325 Glencoe Ave, Marina Del Rey, CA	RAR-2 Villa Marina Center CA LLC	4/30/2010
Koo Koo Roo	21424 Hawthorne Blvd, Torrance CA	The Torrance Co.	4/30/2010
Koo Koo Roo	238 Lake Ave, Pasadena, CA	Ruth Beasley Hooker Trust	4/30/2010

Loan Maturities

The following information for these lead listings was provided by Investcap Advisors LLC, an industry leader in providing surveillance data on loan and commercial real estate performance underlying the Commercial Mortgage Backed Securities (CMBS) market.

Property	Address	Property Type	Mat. Date	Note Rate	End Bal. \$
BRHEBA Inc	200 Theodore Conrad Drive, Jersey City, NJ	Industrial	8/1/2010	8.55%	\$8,373,928
Stewart & Stevenson Building(21)	2707 North Loop West, Houston, TX	Office	8/1/2010	9.04%	\$8,230,330
Regent at Summerfield House	1111 Ulatis Drive, Vacaville, CA	Health Care	8/1/2010	8.69%	\$7,626,235
Informatica	3460 West Bayshore Road, Palo Alto, CA	Office	8/1/2010	8.25%	\$5,249,728
The Eisner Building(21)	52 - 54 Broad Street, Red Bank, NJ	Office	8/1/2010	8.67%	\$4,060,816
West Bench Plaza	8055 West 3500 South, Magna, UT	Retail	8/1/2010	8.33%	\$3,215,834
801 Hanna Drive	801 Hanna Drive, American Canyon, CA	Industrial	8/1/2010	8.59%	\$3,125,679
Mischer Building(21)	2727 North Loop West, Houston, TX	Office	8/1/2010	8.41%	\$2,450,134
Squirrel Hill	1717 - 1731 Murray Avenue, Pittsburgh, PA	Retail	8/1/2010	8.10%	\$2,433,312
Coorstek/Tetrafluor(21)	2051 East Maple Avenue, El Segundo, CA	Industrial	8/1/2010	8.89%	\$1,833,520
Affinity Office Building(21)	1201 Main Street, Columbia, SC	Office	9/1/2010	8.18%	\$17,274,775
Covina Marketplace(21)	942-960 West Arrow Highway; 1, Covina, CA	Retail	9/1/2010	8.98%	\$8,801,107
Southview II Industrial Park(21)	5-9 Nicholas Court; 174 178, South Brunswick, NJ	Industrial	9/1/2010	8.07%	\$7,573,343
The Woods of Centerville	33 Meeting House Road, Centerville, OH	Multifamily	9/1/2010	8.49%	\$6,651,214
Mar Realty	2 10 & 17-20 Industrial Road, Fairfield, NJ	Industrial	9/1/2010	8.51%	\$6,258,180
Quail Creek & Quail Ridge Apartments	2097 Dutchmen Drive, Rock Hill, SC	Multifamily	9/1/2010	8.35%	\$5,578,963
Spalding Woods Village Shopping Center(4015 Holcomb Bridge Road, Norcross, GA	Retail	9/1/2010	8.87%	\$5,123,287
Southview I Industrial Park(21)	303 Ridge Road; 3-9 Chris Cou, South Brunswick, NJ	Industrial	9/1/2010	8.07%	\$4,778,419
Meadow View Village(21)	600 South Airport Road, Longmont, CO	Retail	9/1/2010	8.56%	\$4,647,277

Property	Address	Property Type	Mat. Date	Note Rate	End Bal. \$
Ramfair	111 - 112 Lehigh Drive 159 D, Fairfield, NJ	Industrial	9/1/2010	8.26%	\$3,642,672
155 Bellwood Drive(21	155 Bellwood Drive, Greece, NY	Office	9/1/2010	8.74%	\$3,407,824
Cavalier Manor Apartments	24575 Kelly Road, Eastpointe, MI	Multifamily	9/1/2010	8.27%	\$2,082,820
The Crossings Shopping Center	2108-2118 Clemson Road, Columbia, SC	Retail	9/1/2010	8.31%	\$1,903,361
Carolina Commerce Center(21	2008-2078 Carolina Place Driv, Fort Mill, SC	Industrial	9/1/2010	8.91%	\$1,865,574
Parkside Apartments	1470 Parkside Avenue, Ewing, NJ	Multifamily	9/1/2010	7.92%	\$1,617,397
Sky Park I & II(21	21000 - 21500 Aerospace Parkw, Brook Park, OH	Industrial	10/1/2010	8.39%	\$6,728,958
Wymore Grove Apartments	360 South Wymore Road, Altamonte Springs, FL	Multifamily	10/1/2010	8.41%	\$4,730,473
MSDW 2000-Life2					

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Watch List: Beacon Capital Portfolio Goes into Special Servicing

By: Mark Heschmeyer

A portfolio of 20 office properties split between Seattle, WA, and Washington, DC, moved into special servicing this month as the borrower, Beacon Capital Partners, seeks a restructuring of \$2.5 billion in loans backing the buildings.

Beacon Capital purchased the 9.4 million-square-foot portfolio in 2007 at the peak of office market from The Blackstone Group, which had purchased the properties through its buyout of Equity Office Properties.

The original \$2.7 billion loan that financed the acquisition was split into six pieces and contributed to six different CMBS deals. According to servicers notes in the CMBS bondholder reports revenue levels for the portfolio have been slowly declining while operating expenses have been rising.

At the portfolio-level, revenues reported for year-end 2008 were essentially in line with the underwritten revenues (\$339 million vs. \$340.4 million). However, for the nine months ended Sept. 30, 2009, the portfolio was on pace to due \$335 million for 2009, which is \$4 million less than in 2008.

Reported occupancy as of year-end 2008 was 93% down slightly from year-end 2007 reported occupancy of 94%. Overall occupancy currently is closer to 91%.

Operating expenses reported for 2008 were 23% higher than the original underwritten expenses (\$132.5 million vs. \$108 million). As there were still numerous vacancies throughout the properties, Beacon Capital reportedly expected these expenses to continue through 2009.

The debt on the properties is interest only and still has two years until maturity. According to a Fitch Ratings CMBS Focus Performance Report published this month for one of the six CMBS deals carrying a portion of the loan, Beacon is reportedly seeking the restructuring as pre-emptive move. Fitch also reported that Beacon estimates it will need to spend \$300 million that has not been set aside in reserve to address pending lease expirations.

In addition to this portfolio, Beacon Capital's 1.5 million-square-foot Columbia Center office building in Seattle was also transferred to special servicing this month. The building was purchased at the same time in the same Blackstone/EOP transaction. The \$380 billion loan for the deal was split into two pieces and placed into one CMBS offering.

Like the larger portfolio, the loan was transferred at borrower's request for restructuring. During third quarter of 2009, the property's occupancy dropped to 73.5%, which was a decrease from the 2008 level of 76.27%. According to servicer's notes, the debt service coverage ratio for the property dropped to 0.72 or 55% of the underwritten level in 2007.

Property Name	Property Address	City	State	Size SF	% Current Total Space Available for Lease
Polk & Taylor	2521 S Clark Street & 2530 Crystal Drive	Arlington	VA	904,868	0.00
1616 North Fort Myer Drive	1616 North Fort Myer Drive	Arlington	VA	294,521	2.40
1300 North Seventeenth Street	1300 North 17th Street	Arlington	VA	380,743	5.30
Key Center	601 108th Avenue NE	Bellevue	WA	477,899	5.20
Sunset North	3060 - 3180 139th Avenue SE	Bellevue	WA	319,367	90.20
City Center Bellevue	500 108th Avenue NE	Bellevue	WA	490,372	39.30
Plaza Center	10800 - 10900 NE 8th Street	Bellevue	WA	490,095	30.60
Eastgate Office Park	15325 SE 30th Place	Bellevue	WA	281,913	18.40
Lincoln Executive Center	3380 146th Place SE & 3310 146th Place SE, 14432 SE Eastgate Way, 3245 146th Place SE & 3290 146th Place SE	Bellevue	WA	195,382	38.50
Plaza East	11100 NE 8th Street	Bellevue	WA	157,509	41.00
Booz Allen Complex	8251 Greensboro Drive; 8281 Greensboro Drive; 8283 Greensboro Drive	McLean	VA	567,022	0.00
11111 Sunset Hills Road	11111 Sunset Hills Road	Reston	VA	216,238	3.60

Reston Town Center	11911 Freedom Drive	Reston	VA	512,186	56.20
Wells Fargo Center	999 Third Avenue	Seattle	WA	983,600	12.20
Washington Mutual Tower	1201 Third Avenue	Seattle	WA	1,114,849	5.60
American Center	8300 & 8330 Boone Boulevard	Vienna	VA	326,113	4.80
Market Square	701 & 801 Pennsylvania Avenue, NW	Washington	DC	703,998	7.90
Lafayette Center	1120 20th Street NW; 1133 21st Street, NW; 1155 21st Street, NW	Washington	DC	739,658	3.60
Liberty Place	325 7th Street, NW	Washington	DC	167,518	9.20
Army and Navy Building	1627 I Street, NW	Washington	DC	109,430	19.70
Columbia Center	701 Fifth Avenue & 403 Columbia Street	Seattle	WA	1,527,107	20.30
CMBS Deals: BofA07-2; BSC07PWR16; MSC07HQ12; MSC07IQ14; WBCMT07C31; WBCMT07C32					

Bonus Item: School Defaults on Mortgage, Owner Negotiating Deed in Lieu

LTC Properties Inc. in Westlake Village, CA, received notice from a borrower that the borrower had ceased operations at a charter school property in Minnesota. Prior to that notice, the borrower was current with all payments on the \$3.75 million loan. The loan carries an interest rate of 7.6% and wasn't set to mature for another nine years.

The company reported that for the first quarter of fiscal 2010, the company's results of operations will include a \$852,000 provision for doubtful accounts related to this mortgage loan. Additionally, the company reported that this loan represented \$230,000 of interest income for the remaining nine months of calendar 2010.

LTC stated that it is working with Minnesota counsel to perfect a deed-in-lieu and that the company has been contacted by at least one other party interested in the property.