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Written by Mark Heschmeyer (mheschmeyer@costar.com)

Watch List (Oct. 7-13): Hiring Outlook Dims

A Weekly Column of Distressed Commercial Properties, Mortgages and Corporate News

In this week’s Watch List, small business owners say they're relatively optimistic about the economy and growth, but they're cutting their hiring plans nonetheless. Also, we report that the market for real estate derivative products continues to grow with a new housing index; an SBA lender pleads guilty leaving his firm to try to recover on some real estate collateral; and Carmel Partners forms new value-added multifamily fund. Plus, we give you news you'll find only in this column and the latest facility closures, permanent mass layoffs and properties on the Watch List.

Hiring Plans Near 7-Year Low

Small business owners are adjusting their housing outlooks and hiring plans downward following recent problems in the credit and housing markets, although they remain fairly optimistic about the economy.

Hiring plans among small business owners are at their second-lowest point in the seven-year history of the Open from American Express Small Business Monitor, a semi-annual survey of business owners.

However, steady interest rates and lower energy prices contributed to their stable outlook for sales and profits during the next six months compared with last spring's survey. That view is more positive compared with a year ago.

According to American Express this fall's hiring plans among business owners have dropped, with three in 10 business owners reporting plans (31%) to hire full and/or part-time staff in the next six-months. That is down from 34% in fall 2006 and 37% in fall 2005.

Despite a lack of robust hiring plans, growth remains a top priority for entrepreneurs, the survey found. More than one-third (37%) of small business owners report growing their business as their company's single most important priority over the next six months, on par with 35% last fall. In fact, more than half (57%) of business owners are willing to take on risk in order to grow their business, unchanged from 2006.

"Small business owners are on the front lines, dealing with issues like health care, the housing market and interest rates, so they know first-hand where we are as a country," said Susan Sobbott, president, Open from American Express. "It says a lot about the attitude of small business owners that they remain optimistic in the face of this difficult environment, as evidenced by their plans for growth and investment."

That optimism also showed up the PNC Economic Outlook survey.

"Small business owners are not yet ringing the recession bell," said Stuart Hoffman, chief economist for the PNC Financial Services Group Inc. "Based on our survey results, we expect the U.S. economy to remain on a path of slow but sustained growth."

Almost nine out of 10 (87%) business owners in the PNC survey said availability of credit is the same or easier to get than three months ago, while only 13% said it is more difficult now. At the same time, plans for capital spending have steadily increased from PNC's last two surveys, with technology remaining the top priority.

The business owners' tempered view on the housing market is evident in the PNC Outlook by the fact that four out of 10 (43%) expected local house prices to decline during the next six to 12 months while one-third (34%) expected prices to be flat. One out of four (23%) expected local prices to rise.

Of those who expect a decline in house prices, less than a quarter (22%) expect it will adversely impact their sales and profits.

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Data Driving Derivative Development

As the market for trading in U.S. real estate derivatives grows, the market for products to support that trading is also growing. The latest comes from Radar Logic, which last week introduced its residential sales index RPX Monthly Report.

The RPX report is designed to provide insights and detailed analysis of residential real estate prices in 25 metropolitan statistical areas across the United States. Radar Logic publishes daily per square foot price values for those markets.

The RPX monthly report is compiled from the daily prices and designed to compete with Standard & Poor's Case-Shiller index. To distinguish itself, the RPX includes new and foreclosed homes and condos, which S&P excludes.

Trading in derivatives based on the index began last month on the Residential Property Index (RPX). Dealers licensed to offer products in the RPX market include Morgan Stanley & Co., Lehman Brothers, Merrill Lynch, Deutsche Bank Securities, Goldman Sachs and Bear Stearns.

Jonathan Miller, executive vice president and director of research for Radar Logic, authors the report and provides data analysis and commentary based on the RPX Daily Prices for the 28 days ending July 31.

According to Miller, only five of the 24 metro areas Radar Logic analyzes in the monthly report in terms of change in price/square foot showed gains from the same period last year, while 14 showed declines and five were neutral. This is the opposite pattern of the prior year, which showed gains in 18 metro areas, two markets were neutral, and declines in five markets.

The five most expensive metro areas according to the RPX were located along the East and West Coasts, with the four highest areas in California.

San Jose, CA, was the highest priced metropolitan area at $465.40/square foot, while Cleveland, OH, was the least expensive at $96.91/square foot.

The three weakest performing MSAs over the last five years were in the Midwest and did not realize the uptick in housing prices that characterized the recent housing boom in the first half of the decade.

Miller says the condo market has underperformed the single-family market in 14 of the 24 MSAs over the past year.

Guilty Plea Could Lead To Sell of Properties

Patrick J. Harrington, a former Business Loan Express LLC (BLX) employee in its Troy, MI, office that was closed in August 2006, pleaded guilty last week in the U.S. District Court for the Eastern District of

Michigan to one count of conspiracy to fraudulently originate 10 SBA-guaranteed loans in a total amount of approximately $6.5 million. Harrington also pleaded guilty to making a false statement before a grand jury.

In January 2007, Harrington and 18 others were originally charged with conspiring to fraudulently originate 76 loans in a total amount of approximately $76.9 million.

All losses attributable to Harrington's admitted criminal conduct will be borne entirely by BLX. The 10 loans in Harrington's plea are secured by commercial real estate collateral, which may result in some recovery to BLX.

According to the original indictment, Harrington and others conspired to fraudulently qualify loan applicants for SBA-guaranteed loans, primarily for the purchase of gas stations. The indictment claims that loan applicants were qualified for the loans by overstating or misstating the applicants' financial and other qualifications, and by falsifying the amount of the money being contributed to the small business by its owners.

In a statement following the verdict, BLX, a national non-bank small business and commercial real estate lender, said it remains committed to preventing fraud in SBA lending and has instituted a number of enhancements to its processes to prevent and detect fraud. BLX is cooperating fully with the government's ongoing investigation.

BLX is owned by Allied Capital and is one of the largest lenders participating in the SBA 7(a) Loan Guaranty Program.

Carmel Partners Closes $700M Multifamily Fund
By: Randyl Drummer

San Francisco-based private investment firm Carmel Partners Inc. closed a third discretionary institutional real estate fund totaling $700 million in equity commitments to invest in value-added multifamily assets in major U.S. markets.

The firm's plan for the new fund is to acquire select underperforming properties in high barrier to entry, supply constrained markets, and making capital improvements to reposition the properties. The firm also participates in ground-up developments and joint ventures. Carmel Partners is currently pursuing deals in its core markets of Northern and Southern California, Seattle, Denver, Washington, DC, and Hawaii.

"With 26 return investors and four new investors, we believe the market has expressed its confidence in our strategy, which has endured numerous market cycles to consistently produce strong risk-adjusted returns," said Ron Zeff, founder and CEO.

Carmel closed its second institutional fund in April 2005 with $400 million in equity commitments. To date, Fund II has made 20 investments in six markets comprising 4,900 units. Fund I closed 2003 with $215 million in equity commitments. To date, the first fund has returned 100% of the capital investment to its investors.

With the close of Fund III, its largest fund to date, Carmel has raised equity totaling $1.7 billion, and the firm's investments to date tally 68 properties totaling 18,500 units in its core markets of California, Seattle, Denver, Washington, D.C. and Hawaii.

Facility Closures and Permanent Mass Layoffs

(Editor's Note: In the Oct. 1-6 issue we reported that Alutiiq-Wackenhut is permanently laying off 55 workers at Ft. Meade. Wackenhut Services notified us that this is not a permanent closure but a normal transition to a new contract that will be run by Wackenhut Services Inc. and all incumbent employees at Ft. Meade have been offered employment with no loss of wages or benefits.)

Dean Foods Co., the nation's largest processor and distributor of milk and dairy products, is planning a reduction in workforce that is expected to affect approximately 600-700 positions. Implementation will begin immediately with a voluntary reduction program followed by an involuntary reduction, if necessary. The Dallas, TX-based company is expected to conclude the program by late October.

Journal Sentinel Inc. in Milwaukee, WI, has begun a voluntary employee separation program. Effective immediately, full-time employees of Journal Sentinel Inc. with 10 years of service or more are eligible to apply. The company anticipates that it will accept the voluntary separations of between 35 - 50 employees, or 3.5% - 5.0% of the Journal Sentinel’s full-time personnel. If insufficient voluntary separations are accepted, the Journal Sentinel will consider an involuntary program as well.

Morgan Stanley is restructuring of its residential mortgage business. The restructuring will result in a net reduction-in-force of approximately 500 employees in the United States. Morgan Stanley’s new U.S. residential platform will be based in Irving, TX, and will retain the firm’s existing regional operations centers in Ft. Worth, TX; Foothill Ranch, CA; Riverwoods, IL; and Tampa, FL. Several offices will be closed as part of the restructuring with operations transferred to Texas.

The following future closings and permanent mass layoffs were reported in Arizona.
· Clover Technologies Group LLC is laying off 188 employees at 1845 S. MacDonald Ave. in Mesa starting Oct. 12 and rolling through Dec. 30.
· EquiFirst is laying off 161 employees at 4811 Thistle Landing, Suite 105, in Phoenix on Oct. 26.
· Farmers Group Inc. is laying off 94 employees at 18444 N. 25th Ave. in Phoenix on Oct. 31.
· InPulse Response Group is laying off 177 employees at 5260 W. Phelps Road, Suite B in Glendale on Oct. 15.
· JPMorgan Chase is laying off 600 employees at 100 W. University Drive in Tempe, starting Dec. 31 and rolling through March 31, 2008.
· Semiconductor Industries LLC -Com 1 is laying off 110 employees at 5005 E. McDowell Road in Phoenix starting Nov. 7 and rolling through June 30, 2008.
· STMicroelectronics Inc. is laying off 885 employees at 1000 E. Bell Road in Phoenix over the next three years.

Belk is closing its department store at 9407 W. Colonial Drive in Ocoee, FL, next February, laying off 86 employees.

Gibraltar Industries Inc. plans to sell the assets and cease the operations of its Hubbell Steel subsidiary. Hubbell’s main operation is at 11305 Franklin Ave. in Franklin Park, IL; and has a branch location at 7001 Valley Road in Fairfield AL. Hubbell Steel specializes in coated and painted products and the two plants employs approximately 40 people. Gibraltar expects to complete the Hubbell shutdown and the sale of its assets before the end of this year.

The Adidas Group will relocate certain service functions at its Reebok world headquarters at 1895 J.W.Foster Blvd. in Canton, MA, to the new Adidas Group facilities under construction in Spartanburg, SC. The new facilities will also house the U.S. distribution centers for footwear and apparel for both the Reebok and Adidas brands. The Reebok brand service functions, which will be relocated in the spring of 2008 Include the customer service, credit and collections, accounts receivable and customer compliance departments. The relocation will affect approximately 100 Canton-based employees. Affected employees will be eligible to apply for new positions being created in Spartanburg.

The following future closings and permanent mass layoffs were reported in Michigan, no specific dates were provided.
· Asset Acceptance Capital Corp. is closing down its plant at 48325 Alpha Drive in Wixom laying off 124 employees.
· Hillsdale Tool is closing down its plant at 135 E. South St. in Jonesville laying off 113 employees.
· TI Automotive is closing down its plant at 12345 E. 9 Mile Road in Warren laying off 59 employees.

The following future closings and permanent mass layoffs were reported in New Jersey.

· InTest Corp. will vacate and surrender 41,700 square feet of the total 121,700 square feet of space it currently leases at 7 Esterbrook Drive in the Cherry Hill Industrial Park in Cherry Hill Township to the landlord Brown Pelican LLC on or before Oct. 15. The rent on the space will be reduced by about $160,000/year.

· Topps Meat Co. decided to shutdown operations at 1161 E Broad St. in Elizabeth, six days after it was forced to issue the second-largest beef recall in U.S. history (21.7 million pounds, approximately one year of production for the company). The decision will cost 87 people their jobs.

Bear Stearns Cos. is laying off 310 workers and combining its two mortgage businesses. Most of the layoffs will come in New York, NY in its commercial mortgage-backed securities division. Bear said it is integrating its Bear Stearns Residential Mortgage and Encore Credit divisions into a single subsidiary.

The following future closings and permanent mass layoffs were reported in Ohio.

· GE Consumer & Industrial in Louisville, KY, intends to restructure its lighting business, which involves the closing of six lighting operations in Northeast Ohio, impacting approximately 425 jobs, with a portion of those jobs being transferred to other GE Lighting facilities in the U.S., and the transfer of some operations from facilities in Mexico and the U.S. to other GE locations or suppliers impacting about 80 positions. The plants are in: Austintown (280 N. Meridian Road), Cleveland (1975 Noble Road), Conneaut (880 Maple Ave.), Euclid (1814 E. 45th St.), Niles and Willoughby.

· Mueller Plastics Corp. is closing down its plant at 625 W. Johnson in Upper Sandusky and laying off 69 employees by Nov. 30.

· Nationstar Mortgage LLC is closing down its office at 1 Crowne Point, Suite 300, in Cincinnati and laying off 54 employees; layoffs started Sept. 21.

The following future closings and permanent mass layoffs were reported in Pennsylvania.

· US Airways plans to reduce mainline flying in Pittsburgh, PA, in January from 31 to 22 daily flights as the airline continues to maximize the financial stability of its Pittsburgh operation. With the reduced schedule, the airline's flight crew base will close and approximately 500 pilots and flight attendants will now bid for trips that originate from other locations within the US Airways system. Also with the new schedule, US Airways mainline airport agents and ramp employees will take over customer service and ground-handling duties for 350 US Airways Express employees at wholly owned carrier PSA Airlines Inc. Those Express employees, along with about 100 US Airways mainline airport employees, will be offered jobs elsewhere throughout the US Airways system. US Airways will meet with Pittsburgh airport officials in the near future to discuss its current and future space requirements; it currently operates out of 29 gates there. The airline will maintain its frequent flyer club, heavy base maintenance operation and operations control center in Pittsburgh.

· East Penn Financial Corp. is laying off a combined 52 employees at 22 S. Second St. and 731 Chestnut St. in Emmaus on Nov. 30.

· Foamex, Inc. is laying off 89 employees at 1500 E. 2nd St. in Eddystone on Dec. 21.

· Penn's Best, Inc. is laying off 136 employees at Route 6 West in Meshoppen on Nov. 3.

· Wholey's is laying off 30 employees at 1501 Penn Ave. in Pittsburgh on Nov. 1.

· Yorktowne Inc. is laying off 385 employees at North 10th Steet in Mifflinburg on Nov. 11.

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Property Watch List

Property: 400 North State
Address: 400 N. State St.
City: Chicago
State: IL
Special Servicer: Centerline Servicing Inc.
CMBS: Bear Stearns 2004-PWR4
Property Type: Mixed Use, 31,955 square feet
The loan was transferred to special servicing as a result of payment default. The borrower filled for Chapter 11 bankruptcy protection due to lawsuits relating to affiliated companies. The borrower has received several offers to purchase the property in excess of the outstanding obligation, however has not accepted any. The borrower is attempting to market the property for an amount "far in excess of the amounts offered to date" according the special servicer.

Property: Various multifamily
Address: 1650 Highway 98 West; 326 Guilbeau Road; 2959 Apalachee Pkwy.; 202 Hackberry St.
City: Mary Esther; Lafayette; Tallahassee; Clute
State: FL; LA; FL; TX
Special Servicer: ARCap Servicing Inc.
CMBS: BofA 2002-2
Property Type: Multifamily, 120 units; 122 units; 27 units; n/a
Three separate loans cover the properties that were transferred to special servicing after the borrower refused to reimburse for force-placed windstorm insurance on the properties. The trust is currently in litigation regarding the dispute and a trial is scheduled for December. The borrower still makes monthly debt service payments.

Property: Hampton Hills Apartments
Address: 715 Washington Drive
City: Arlington
State: TX
Special Servicer: Capmark Finance Inc.
CMBS: LB 1999-C1
Property Type: Multifamily, 144 units
The loan was transferred to the special servicing in December 2006 for failure to maintain the property in good and safe condition. The borrower has kept the loan current though the property is currently 31% vacant. The master servicer had provided a list of items that needed immediate repairs. The asset manager has visited the property three times since the transfer and some items have been addressed but certain items on the list continue to be neglected. A property condition assessment was ordered in July 2007 and it identified immediate needs of $564,000.

Property: Blue Garden Apartments
Address: 330 Hubbard Court
City: Westland
State: MI
Special Servicer: Capmark Finance Inc.
CMBS: LB 1999-C1
Property Type: Multifamily, 172 units
The loan was transferred to special servicing in July because of payment default. The borrower had indicated that a pending sale and assumption transaction had failed, and the borrower is not willing to continue to fund debt service. Legal counsel has sent demand and acceleration letter.

Property: Arbors of West Bloomfield
Address: 7517 Arbors Blvd.
City: West Bloomfield
State: MI
Special Servicer: ARCap Servicing Inc.
CMBS: BofA 2002-2
Property Type: Multifamily, 201 units
The borrower remitted a partial payment for the August loan payment. Operating expenses have been increasing and the complex is experiencing strong competition with near-by complexes that are offering smaller, less luxurious apartments at lower rents. Borrower is offering 1-month concession with a 1-year lease.

Property: Ravencrest Apartments
Address: 10003 Forum West Dr.
City: Houston
State: TX
Special Servicer: Centerline Servicing Inc.
CMBS: Bear Stearns 2004-PWR4
Property Type: Multifamily, 240 units
The loan was transferred to special servicing due to payment default. The borrower has been unable to present a satisfactory resolution of the delinquencies. Legal counsel made formal demand in August and posted the property for foreclosure.

Property: Woodfield Gardens
Address: 4700 Arbor Drive
City: Rolling Meadows
State: IL
Special Servicer: Midland Loan Services Inc.
CMBS: J.P. Morgan 1999-C8
Property Type: Multifamily, 692 units
The loan was transferred to special servicing in May because of payment default. While the borrower brought the loan current after the transfer, the loan is now 90-plus days delinquent. The property is under contract and could close this month.

Property: LBJ Oates/Summit Shopping Center
Address: 1900 Oates Drive
City: Mesquite
State: TX
Special Servicer: Capmark Finance Inc.
CMBS: LB 1999-C1
Property Type: Retail, 118,283 square feet
The loan was transferred to the special servicing due to imminent default. The borrower has indicated that it was unable to make the balloon payment due at maturity on Aug. 1. The borrower has requested to extend the maturity 24 months, reduce the interest rate from 8.2% to 6%, require interest only payments, and to waive any defaults as it relates to Albertson's vacancy. The special servicer instead wants to negotiate a short-term forbearance agreement. The property's anchor tenant, Albertson's, vacated the property in October 2006. The property is currently 61.6% vacant.

Property: New Market Madison
Address: U.S. Highway 220 and Ridge Street
City: Madison
State: NC

Special Servicer: CWCapital Asset Management LLC
CMBS: Morgan Stanley 1999-RM1
Property Type: Retail, 168,843 square feet
Since going into special servicing, the focus has been on leasing the vacant Winn-Dixie space and retaining tenants. The property is being marketed for sale. The special servicer has received offers and is now negotiating a contract.

Property: Burke Self Storage
Address: 1009 Burke Road
City: Pasadena
State: TX
Special Servicer: Capmark Finance Inc.
CMBS: LB 1999-C1
Property Type: Self storage, 468 units, 48,725 square feet
The property foreclosed in January with a bid of $1.125 million. As of July 30, the property was 65% occupied. According to the property manager, 80 of the vacant units are damaged due to water leaks or exterior door damage. Marcus & Millichap is marketing the property for sale. Three written offers have been received, and the broker is currently negotiating terms with two of the potential buyers.

Bonus Items: Food, Pharmacy Properties Go on the Block

PDL BioPharma Inc. has decided to seek offers for the sale of the company as a whole or of its key assets. The decision is the result of PDL's ongoing evaluation of strategic alternatives. PDL owns its 92,000-square-foot, two building headquarters at 34801 Campus Drive in Fremont, CA. The company will continue the previously announced process for the potential sale of its commercial products as part of the overall process. A final decision regarding the specific deal structures or transactions the company may enter into will be driven by the goal of maximizing stockholder value.

The U.S. Bankruptcy Court for the Northern District of Illinois approved procedures for the sale by Universal Food & Beverage Co. in St. Charles, IL, of all of its Georgia assets. Universal Food & Beverage Company manufactures and packages private label and branded beverage and food products out of its facility at 11 Artley Road in Savannah, GA. The real property consists of a 125,000-square-foot manufacturing facility on 14.5 acres. The auction will be on Oct. 25. A stalking horse bid of $6.56 million has been made for the Georgia assets, including equipment on the property.

Compiled by CoStar Group from the following sources: Fitch Ratings, Standard & Poor's, Moody's Investors Service, CoStar Property Professional, Securities & Exchange Commission CMBS filings; CMBS bondholder reports, Worker Adjustment and Retraining Notifications and corporate news releases.