INVESTMENT PROPERTIES DIGEST

H&R Retail's Investment Properties team, led by Michael Gorsage and Kate Howarth, is pleased to present the First Quarter of 2017 edition of the Digest. The Digest is an edited collection of articles that we gather from various publications. We hope you find the information useful.

Edens Sells Charlottesville's Shops At Stonefield For $121M

New York City-based O'Connor Capital Partners bought the 265,000 sf The Shops at Stonefield, for $121.1 million from Edens with plans for improvement. The center is 89.9% leased to such retailers as Trader Joes, Lululemon athletica, vineyard vines, Pottery Barn, Williams-Sonoma, Brooks Brothers, Orvis, bluemercury, and Regal Cinema. Meanwhile, L.L. Bean, has plans to move into 15,000 sf at the center. O'Connor is planning upgrades to the center to attract new retailers to the area.

The property is about two miles north of the University of Virginia located within a 43.5-acre, master-planned community in downtown Charlottesville. There is a recently completed 250-unit Stonefield Commons apartment complex nearby and 104 townhomes for sale currently under development at The Residences at Stonefield. The Shops at Stonefield was completed in two phases between 2013 and 2016, with the 231,761 sf Town Center portion delivering in 2013, and the 33,422 sf Northside portion added in 2016. The Northside portion includes a Costco, which was not included as part of the acquisition.

InvenTrust Expands Into Maryland With $54M Retail Center Purchase

Oak Brook, Ill.-based InvenTrust Properties has acquired The Shops at Town Center from The Artery Group for $53.6 million, or $429 per square foot. The 125,000-square foot, Safeway-anchored center also counts Chipotle, Baja Fresh, Sunco, and Verizon as its tenants. The retail center is part of Germantown's Town Center, which debuted in 2000. Locally-based Artery developed the residential portion, and one of the builder/developers of the overall Town Center.

"This transaction provides us with an opportunity to begin our expansion in the Washington, DC market," said Michael E. Podboy, Chief Investment Officer of InvenTrust. "This property provides us with a strong submarket location in one of the country's wealthiest counties, while giving us an opportunity to acquire a core grocer-anchored center located amidst a growing residential development."

InvenTrust, which changed its name in 2015 from Inland American Real Estate Trust, once owned several assets here and had an especially strong presence in in Northern Virginia, but it sold off many of these properties as part of its new incarnation as a pure play retail REIT, a process it began in 2014. As of September 30, 2016, InvenTrust owned 88 retail properties, representing 15.1 million square feet of retail space, and one non-core property.

Lidl Adds Second Location

While fending off an appeal to its planned Annapolis store, Lidl has gone north to find a Pasadena location. The second Anne Arundel store for the German grocer is planned for Route 2 and Wishing Rock Road, next to the present Festival at Pasadena shopping center. Lidl would occupy about four now-vacant acres split among three owners. As it plans in Annapolis, it would build its prototypical 35,962 square foot grocery store.

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Burtonsville Retail Sold to Saul for $75 Million

The Burtonsville Town Square shopping center now belongs in the portfolio of Saul Centers. As Burtonsville Center LLC, the Bethesda firm paid $75 M (4.6% cap) in late January for the shopping center, located at 15650 Old Columbia Pike, just off Route 29. Saul bought the 121,132 sf center from the partnership that originally developed it, a partnership headed by Bethesda-based BMC Property Group. It was Giant Food's leap across Route 29 that keyed the Town Square, and signaled the death knell for the Burtonsville Crossing center that it left.

Burtonsville is the second major retail center to trade in the county recently, after Edens acquired the Cabin John Center in Potomac for $165 M(3.5% cap) late last year. That center, at 214,204 sf including an office building, was larger and offered expansion potential, but likewise was anchored by a Giant Food. At Burtonsville, Saul will push ahead on two buildings that BMC put in motion: a final pad site, slated for a new Starbucks, coming across 29 from 'Crossing,' and a 14,000 sf retail addition to the larger center. The deal achieves for Saul a kind of triangulation on east county retail: it already owned the Briggs Chaney Marketplace – where it is newly installing Global Foods to replace the exited Safeway - and the White Oak shopping center.

Broad Street Realty Buys Glen Burnie Shopping Center

Bethesda Broad Street Realty bought the Cromwell Field Shopping Center in Glen Burnie recently, getting 233,486 sf of retail at 7383 Baltimore Annapolis Boulevard at a price tag of $18.4 million, Anchor tenants include Giant, Roses, and Dollar General , the center was 88 % leased

Sears Sells Mall Store to Westfield

Sears has sold a prime piece of real estate in its asset-shedding effort to stay alive: its store at Montgomery Mall.

According to deeds in the Land Records, Sears sold the mall store and the land it sits on to the mall ownership. The transaction turned control of the retailer's long-time North Bethesda store over to a Westfield Property Management partnership for $73.5 million.

It appears to be part of an effort by Sears to monetize its real estate, some of which it has been selling into REITs, and some in outright sales. Where Sears was in a GGP or Simon mall, the retailer transferred the real estate into a real estate investment trust.

What Westfield got was a two-story, 211,087 square foot department store appended to a larger mall, with the balance of the acreage in parking. Sears remains open at the Democracy Boulevard mall, and thus likely signed a lease-back agreement. But the deal also gives Westfield a clear path to long-term redevelopment without keeping a major landowning tenant happy. Westfield will, in effect, be driving the bus.

Westbard Plans

Two years after it first unveiled its ambitious 1.8 M sf plan, developer Equity One/now Regency is readying its Westbard project for Montgomery County review. The 24.45 acres marked for redevelopment include the site of a former Manor Care nursing home, two gas stations, the Bowlmor Lanes, the Westwood Shopping Center (a one-story strip mall anchored by a Giant), the Westwood II office building and associated surface and structure parking.

In its place, Manhattan-based Equity One plans 1.29 million square feet residential and about 510,000 square feet commercial. While the overhaul is in keeping with the Westbard Sector Plan, approved by the Montgomery County Council last May, the sector plan itself was met with skepticism from nearby residents. Equity One's statement of justification says the neighborhood will transform from "an auto-dominated area into a multi-model area, attractive for vehicles, pedestrians and cars alike." But redevelopment — even with planned bike lanes, 13-foot sidewalks and a shuttle to public transportation — can't change that Westbard is about two miles from the Friendship Heights Metro station and three miles from the Bethesda stop.

The project is expected to be developed in phases over roughly 10 years. The first step will not be vertical development at all, but rather the realignment of Westbard Avenue to directly connect it with River Road, as recommended in the sector plan.

At the Manor Care site, EYA is planning to build 34 townhouses. Replacing Bowlmor will be a 122-foot tall, mixed-use building with street-level retail and commercial

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topped by residential. Westwood II is planned for residential over retail, while the strip center will be redeveloped with townhouses, retail (Giant included), commercial, and civic space. A 15-story multifamily building, Westwood Towers, will remain, with additional mixed-use buildings added to that property at 5401 Westbard Ave.

Number of distressed U.S. retailers at highest level since Great Recession

The number of U.S. retailers ranked at the most-distressed level of the credit-rating spectrum has more than tripled since the Great Recession of 2008-2009 and is heading toward record levels in the next five years, said Moody's Investors Service. The rating agency is the latest to weigh in on the state of the sector, and has 19 names in its retail and apparel portfolio, or 14% of the total, that are now trading at Caa/Ca. That's deep into speculative, or "junk," territory. The rise is part of a wider trend affecting sectors across Moody's coverage that has retail replacing oil and gas as the most-troubled industry. Retailers are in the midst of a secular shift to online sales led by juggernaut Amazon.com Inc. and that's forcing many of them to spend heavily on their e-commerce operations. At the same time, mall traffic has slowed dramatically as consumer behavior changes, forcing many to discount heavily, hurting profit margins. The 19 issuers on Moody's list have more than $3.7 billion of debt maturing in the next five years, with about 30% of that total coming due by the end of 2018. The number is even higher when private credit is included. While credit markets continue to provide ready access for companies spanning the rating spectrum—allowing many to proactively refinance debt and bolster balance sheets—that could change abruptly if market conditions or investor sentiment shift. The increase in distressed retailers comes after a long period of low interest rates, during which sponsor activity speeded up to meet investor appetite for yield. Each leveraged buyout cycle tends to produce a new pool of B2/B3 companies, a number of which inevitably get downgraded to Caa. That was the case for Claire's Stores Inc., J. Crew Group parent Chinos Intermediate Holdings A Inc., Tops Holding II Corp., and Rue 21 Inc., all of which now have weak credit metrics after taking on high levels of leverage to

S&P Global Ratings, meanwhile, said the majority of outlooks across retail and restaurants are stable but the ratings trends are negative. "Shifting consumer preferences and patches of global economic and policy uncertainty are contributing to the increasingly negative outlook bias," the agency said in a recent report. A bigger pool of low-rated retailers also poses challenges for their stronger competitors. "As they struggle to survive, distressed retailers can take more desperate measures, including highly promotional pricing that can border on irrational. This leaves stronger firms with the choice of either competing in a race to the bottom, or giving up sales in order to compete. Other retailers on Moody's list include Sears Holding Corp.described by some as 'one sick puppy,' and there may be no remedy, Bon-Ton Stores Inc. 99 Cents Only Stores Inc., Nine West Holdings Inc., True Religion Apparel Inc. and Fairway Group Holdings Corp.