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Oxford goes 'where others fear to tread'

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Story Highlights

- "We tend to go where others fear to tread," said CEO John W. Rutledge of Oxford's appetite for complicated transactions.
- The group is executing three transactions/turnarounds that each involved a significant amount of distress.
- The Godfrey Hotel Chicago is a perfect case-in-point for Oxford's persistent approach to deal making.

CHICAGO—The path of least resistance might be easy, but it often lacks rewards. That's why John W. Rutledge prefers to lead his team at Oxford Capital over riskier terrain.

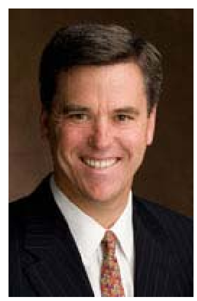
The Chicago-based investment firm has developed a steady track record as a turnaround expert since its founding in 1994 and now has interests in more than 20 assets around the country.

"We tend to go where others fear to tread. When we see a crisis, we tend to run toward (it) versus run away from it," Rutledge said.

That means capitalizing on the bumps and dips in the business cycle, he explained. After the dot.com bubble burst in the early 2000s, Oxford bought distressed hotels in New York, Chicago, San Francisco and Charleston, South Carolina—only to sell off a major portion of the balance sheet before the 2008 crash. The team's management also had the foresight to call off a significant portfolio transaction at approximately the same time.

"We pulled in the reigns aggressively …" the president and CEO said.

During the worst of times, Rutledge becomes very defensive in asset management, he said. But at first light, his team acts quickly and starts acquiring distress.


John W. Rutledge
Oxford Capital

The Oxford team has avoided any major disasters along the way.

"We've generally done well for many years through many cycles and many projects," Rutledge said. "But certainly every project, no matter how thoroughly you underwrite something, there are some things that are going to break your way and there are some things that break the other way.

"You just hope that you've underwritten it so the majority is going your way," he said.

Oxford is executing more than $400 million worth of acquisition and redevelopment at present, including three distressed deals that were acquired at a large discount to replacement:

- the 5-star Langham Chicago, which will occupy floors two through 13 of a landmark former IBM building;
- a 240-room hotel in Boston's Downtown Crossing, which Oxford acquired for $23.3 million last summer; and
- The Godfrey Hotel Chicago, which is adjacent to Oxford's Hotel Felix Chicago.

"We have been proactive," Rutledge said. "We're executing three large transactions, all of which have distressed origins right now, and we're actively hunting for more. We went back on offense after being very defensive in '08 and '09 and '10. And now we're certainly on offense trolling for opportunities, broken distressed situations that we specialize in. We're big believers in executing these complicated projects. They're more risk, they're more variables."

Gambling on the Godfrey
The Godfrey development in particular provides a perfect case study for Oxford's persistent and opportunistic approach to hotel acquisitions.

Located adjacent to the group's successful Hotel Felix, the Godfrey was built originally as a Staybridge Suites before its developers ran into trouble in 2008.

"Unfortunately, it was a perfect storm for them. The project was behind schedule and over budget," Rutledge said. "The bottom line was the project was broken," but not before developers topped off the box and completed approximately 55% of the construction.

"They had come a long way … and they ran out of money and the market collapsed and a series of circumstances resulted in them defaulting on their loan," he said.

Rutledge contacted the lender and offered to buy the loan and take over the project, but the lender said they were not ready to sell. They did, however, ask Oxford to step in as receiver and protect the collateral by tarping it and hiring security.

"But then before too long we kept gently prodding the lender to say we're ready to buy this when you're ready to sell it," Rutledge said. "Finally after a couple of

Oxford Capital is developing The Godfrey Hotel, which originally was designed as a Staybridge Suites before the project's first developers defaulted midway through construction.

years, they came and said, 'You know something, we're ready to do a transaction with you.'"

Oxford bought the loan all cash at a "dramatic discount."

"Then through a series of complicated legal moves and strategic moves and tactical moves began settling all the various liens—(with the project's original architect to obtain the intellectual property behind the design), with the original mezzanine lender, original developer/borrower in lieu of foreclosure.

"Then once we did that, we began remobilizing the project," Rutledge said.

The Godfrey is scheduled to open in early 2014 as an upper-upscale boutique hotel that will provide a perfect complement to the Hotel Felix, he said.

"We try to be highly creative where there are a number of obstacles. We try to see opportunities where other people only see roadblocks. We look at them, and we basically try to isolate each of the variables that are at risk," Rutledge explained. "We definitely stepped into a big unknown, a black hole of risks. But we felt we had evaluated each of the key variables thoroughly. … and analyzed all the information we could get our hand around … and then try to handicap each of those risks and assign a monetary value to the risk spectrum."

When asked if Oxford would continue to play the cycles and target similarly complicated, distressed-type deals in the future, Rutledge answered affirmatively.

"If you can get your hands around them and execute them properly, there's more meat on the bone."