

CRITTENDEN Real Estate Buyers™

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NOTE PURCHASES AND LENDING BECKON

Madison Realty Capital and Velocity Commercial Capital will be among companies shaking up the market in pursuit of both non-performing and performing loans from national, regional and community banks. All types of assets are expected to trade, especially in the hotel sector as more banks and borrowers alike vote to stop the upside-down, inside-out madness by walking away.

In the weeks ahead, look for note buyer and lender Madison Realty Capital to activate a second fund for debt acquisitions and new loan originations that could meet or exceed the \$320M capacity of predecessor Madison Realty Capital Fund I. Watch for the company to use at least \$100M in coming months to acquire and write new loans secured by apartments, industrial, office and retail properties nationwide. The investor seeks to acquire more non-performing and subperforming debt in deals that may resemble a bundle sold by JPMorgan Chase late last year.

Madison Realty Capital paid an estimated \$15M for the loan portfolio secured by eight New York City apartment and apartment/retail mixed-use buildings constructed before World War II until the 1980s. It took three weeks for the buyer to underwrite and close on the legacy portfolio acquired by the seller in its 2008 takeover of Washington Mutual. The company acquired that loan portfolio with separate-account client funds.

Subperforming Loans on Horizon

Madison Realty Capital will likely dive further into the underwater loan world for subperforming and non-performing loans turning IRRs up to the 20% range during a two- to four-year hold. On the lending side, look for the buyer to write senior debt including mezzanine or bridge loans, and look for gap equity positions in deals where borrowers are buying back repriced CMBS first mortgage debt. For example, it would write a first mortgage loan up to 75% LTV, serving as gap equity to a borrower buying back a \$7.5M CMBS loan repriced from a \$12.5M high; it would also write debt for an 80% complete construction project, among other scenarios. Generally the company will seek to write loans at interest rates in the 10% to 13% range. It acquired \$50M worth of debt and wrote \$20M worth of mortgage debt during 2010.

IPO to Boost Investment

Banking on a small-balance loan portfolio upswing is private equity firm Snow Phipps, with plans to spin off Velocity Commercial Capital as a public REIT in a maximum \$175M offering that could happen in coming months. If the IPO proves successful, the investor should ratchet up a search for regional and

NOTE PURCHASES AND LENDING BECKON...

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Other investors to watch include Parmenter Realty Partners, as it aims for a \$500M raise to acquire properties including underperforming and distressed assets located in infill markets throughout the Southeast and Southwest. Future deals could resemble an estimated \$48 psf purchase in Dallas of a foreclosed upon and vacant building. The company seeks returns in the mid- to high-teens.

HEALTHCARE SEGMENT ON THE RISE

Skilled nursing property trades should increase this year. More investors will consider the skilled nursing sector's need-driven position in the broader senior housing market, which is expected to benefit from increased demand from aging Americans. Further driving interest is a relative lack of available debt, which should spur sale/leasebacks between buyers and owner/operators. Expect **JER Partners, Genesis HealthCare, Grubb & Ellis Health Care REIT II, Sabra Health Care REIT, Vi and AdCare Health Systems** to be among companies ramping their presence in coming quarters.

Expect a skilled nursing focus from JER Partners' forthcoming healthcare-dedicated investment platform targeting an estimated \$600M worth of acquisitions through 2013 and beyond. As the company nears closing on its first portfolio for an estimated \$90M at a 10.5% cap rate, look for further interest in Class A skilled nursing properties nationwide through sale/leasebacks with regional and national operators in portfolio purchases likely ranging from \$25M to \$125M.

HEALTHCARE SEGMENT ON THE RISE...*Continued from Previous Page*

AdCare Health Systems could springboard out of its 14-property Ohio portfolio and delve into the Southeast following a \$6.1M contract to make a North Carolina initial market entry with the 106-bed Mountain Trace Nursing Center in Sylva, N.C., that's located about 162 miles northwest of Charlotte. It holds a portfolio of skilled nursing, assisted- and independent living and dementia-care properties throughout Ohio. The North Carolina contract happened a month after the investor got a \$5M credit line from Geronimo Healthcare Finance.

PRIVATE STORAGE BUYERS SCOPE VALUE, SCOOP DEALS

New and experienced private self-storage buyers will pursue value-added and stabilized assets. Expect cap rates to continue a compression trend powered by all-cash and public-equity driven investors' flight to quality, which may spur consolidation through mergers/acquisitions or majority JV stake buys. Private investors **The Hampshire Cos., Kayne Anderson Real Estate Advisors, Storage Pros Management and TKG-StorageMart Partners** are among companies vying for properties. Expect more private investors to diversify into the sector with capital from newly minted or forthcoming funds.

Private buyer TKG-StorageMart eyes \$50M to \$100M worth of acquisitions in 2011. Despite the company's search for U.S. properties to acquire since a \$416M purchase of Canada-based InStorage REIT earlier this year, it hasn't yet found any. In November the company made offers on \$60M worth of properties — out of \$100M evaluated — but hasn't yet gotten any of the deals; deal sizes ranged from \$2M to \$19M. Company dealmakers are currently looking over a 21-property portfolio. Also considered are non-performing loan purchases and assets in over built or saturated markets. Those acquisitions will be made on a bulk-buy basis.

Beyond that activity, look for TKG-StorageMart to search for properties producing an 11%-plus return on equity after two years, or 7%-plus cap rates for Class A properties in TKG-StorageMart footprint markets. The investor also seeks value-added properties in its core areas of northern California, Chicago, Kansas City, Minneapolis, New York, San Antonio, Texas, and Southeast Florida.

Kayne Anderson Real Estate Advisors will pursue additional joint ventures following its late 2009 entry into the market with Flagship Investment. The pair paid an estimated \$7,844 for each unit comprising the five-property central Florida portfolio, at a blended 8.2% cap rate. Don't be surprised to see the buyer ply its forthcoming fund for additional acquisitions, which may include development. Count on buyer interest in cash-flowing properties with some upside, low-barrier markets and increasing demand in tighter apartment markets. The investor anticipates a five-year hold period.

The Hampshire Cos. should expand its self-storage footprint with capital from its newly minted \$350M eighth fund, which also seeks value-added industrial, medical office and retail assets in the Mid-Atlantic and Northeast regions during the next two to three years. Value-added self-storage buys could resemble an estimated \$1.75M — or \$3,986 per unit — purchase of a 439-unit facility in Cherry Hill, N.J. The property, located near Interstate 295 and Route 70, is eight miles southeast of Philadelphia. The buyer typically seeks assets priced from \$5M to \$20M and aims for 10%-plus leveraged returns during a five- to seven-year hold period. Don't be surprised to also see the investor scout New Jersey for office buildings at severe discounts to replacement costs. The fund will likely mirror its predecessor seventh fund.

Storage Pros Management could expand beyond its core Michigan and New England markets in the coming year, as it works to scoop up six to 10 more financially troubled properties on the heels of acquiring the largest portfolio in its company's history. There's a focus on value-added purchases of cash-flowing assets producing 20%-plus leveraged IRRs during five year hold.

Busting out of the box of one-off and two-property portfolio buys, Storage Pros' recent \$10M acquisition of five Michigan properties included a four-property portfolio. It acquired the 3,200-unit package, including a one-off property, for a blended 9% to low-10% cap rate based on trailing 12-month income. The properties are located in Flint, Grand Rapids, Saline, Waterford and Wixom. It took the buyer less than two months to close escrow on those short sale and receivership purchases.

DEALMAKER DATABANK™

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Carlton Advisory Services 560 Lexington Ave. 10 th Floor New York, NY 10022	Joe Korbar (212) 716-5627 Fax: (212) 937-3561 jkorbar@cartlontgroup.com	Distressed Properties	Brokerage company handles distressed distressed loans and property sales.
Carter Validus Mission Critical REIT 4211 W. Boy Scout Blvd. Suite 500 Tampa, FL 33607	John Carter (813) 287-0101 Fax: (813) 287-0397	Data Centers Medical Office	Blind pool offering seeks to raise up to \$1.5B for acquisitions of net-lease and other types of data centers, medical office and education-related properties nationwide.
Dow Hotel Co. 16400 Southcenter Parkway Suite 405 Seattle, WA 98188	Murray Dow (206) 575-3600 Fax: (206) 575-0600	Hotel	Private investor could reenter acquisitions market this year with a projected \$120M for purchases.
Flagship Investment Group 3700 34 th St. Suite 302 Orlando, FL 32805	Chip Headley (407) 246-1144 Fax: (407) 246-1155 cheadley@flagshipig.com	Self Storage	Private investor joint ventures with Kayne Anderson Real Estate Advisors on a five-property Florida portfolio.
Genesis HealthCare 101 E. State Street Kennett Square, PA 19348	Mike Sherman (610) 444-6350 Fax: (610) 925-4000	Senior Housing	Division of JER Partners to acquire portfolio of assets and should target \$100M worth of acquisitions per year.
Grubb & Ellis Healthcare REIT II 1551 N. Tustin Ave. Suite 300 Santa Ana, CA 92705	Danny Prosky (714) 667-8252 danny.prosky@grubb-ellis.com	Senior Housing Skilled Nursing	REIT could increase holdings in the senior housing sector in coming quarters.
The Hampshire Cos. 15 Maple Ave. Morristown, NJ 07960	Robert Campo (973) 898-7291 Fax: (973) 267-9933 rcampo@hampshireco.com	Self Storage	Private investor and adviser scans the market for self storage.
JER Partners 1650 Tysons Blvd. Suite 1600 McLean, VA 22102	Frank Small (703) 714-8000 Fax: (703) 714-8100 frank.small@jer.com Clyde Robinson (703) 714-8016 Fax: (703) 714-8141 clyde.robinson@jer.com	Senior Housing	Private investor plans to roll out investment platform to acquire senior housing properties and other healthcare-related buildings nationwide.
Kayne Anderson R.E. Advisors 200 Business Park Drive Suite 309 Armonk, NY 10504	Kiva Iscol (914) 940-6050 Fax: (914) 273-1904 kisco@kaynecapital.com	Self Storage	Private investor and adviser enters self storage market and aims to acquire additional properties, likely through JV with Flagship Investment Group.
Madison Realty Capital 825 Third Ave. 37 th Floor New York, NY 10022	Josh Zegen (646) 472-1900 Fax: (646) 219-5643 josh@madisonrealtycapital.com	Distressed Debt/	Private investor acquires distressed debt and writes loans.
RIM Hospitality 915 17 th St. Modesto, CA 95354	Mark LeBlanc (209) 523-8331 Fax: (209) 523-2762 mleblanc@rimhospitality.com	Hotels	Investor may acquire properties in coming months.
Sabra Health Care REIT 18500 Von Karman Ave. Suite 550 Irvine, CA 92612	Talya Nevo (888) 393-8248 Fax: (949) 678-8868 tnevo@sabrahealth.com	Senior Housing Skilled Nursing	Public investor is in acquisitions mode and eyes skilled nursing among other asset classes.
Shaner Hotels 1965 Waddle Road State College, PA 16803	Plato Ghinos (814) 234-4460 Fax: (814) 278-7295 pghinos@shanercorp.com	Hotels	Private investor seeks hotels nationwide.

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DEALMAKER DATABANK™*Continued from last page*

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Storage Pros. 11 Charles River Terrace Newtown Highlands, MA 02461	David Levenfeld (617) 658-1200 Fax: (617) 658-1201 dlevenfeld@storageop.com	Self Storage	Private buyer plans further expansion outside Michigan and New England; it seeks financially distressed properties.
TK-Storage Mart Partners 215 N. Stadium Blvd. Suite 207 Columbia, MO 65203	Mike Burnam (573) 874-2303 Fax: (573) 874-1857 mike.burnam@storage-mart.com	Self Storage	Private buyer considers value-added properties nationwide.
Morningside House Senior Living P.O. Box 1314 Leesburg, VA 20177	Kelly Mason (888) 332-6161 Fax: (703) 669-1810 kmason@morningsidehouse.com	Senior Housing	Private investor teams with Harrison Street Real Estate Capital for senior housing buys.
Velocity Commercial Capital 30699 Russell Ranch Road Suite 295 Westlake Village, CA 91362	Joseph Cowell (866) 505-3863 Fax: (818) 532-3800 info@velocitycommercial.com	Notes	Public investor acquires small-balance loan portfolios and is willing to acquire CMBS, ABS and RMBS loans.
Vi 71 S. Wacker Drive Suite 900 Chicago, IL 60606	Randal Richardson Bill Sciortino (312) 803-8800 Fax: (312) 803-8801	Senior Housing	Private investor formerly known as Classic Residence by Hyatt, acquires, develops continuing care retirement communities nationwide. Targets the upscale market.
Younan Properties 5959 Topanga Canyon Blvd. Suite 200 Woodland Hills, CA 91367	Gregory Zack (818) 703-9600 Fax: (818) 703-5907	Office	Industry vet joins Younan Properties.

INVESTORS BUY IN ANTICIPATION OF HOTEL UPTURN

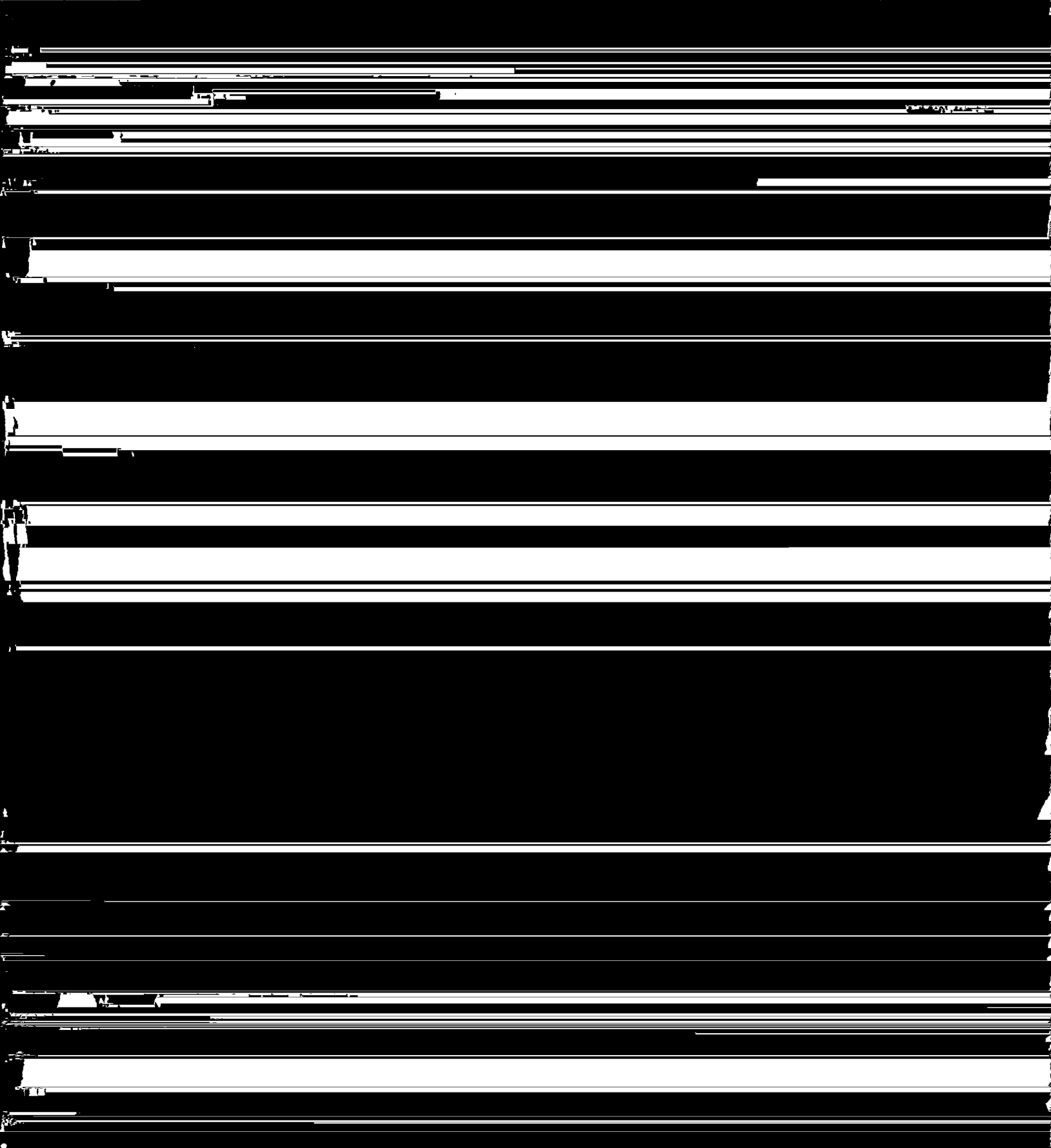
Private investors expecting the hotel market to heat during the third and fourth quarters prepare for action while there's still abundant value to be had. Although hotel acquisitions could become easier if debt loosens to support more value-added buyers, expect investors to mostly search for properties to reposition.

Private buyers that weren't able to get deals or decided to sit out the market because of skyrocketing pricing mainly driven by REITs, have cash and are ready to buy during the next 12 months. Yet it's unlikely that buyers, including **Dow Hotel Co.**, **RIM Hospitality** and **Shaner Hotels**, will be all ears for REIT-type pricing that dipped into a 5% cap rate range and posted per-key pricing at more than \$250,000 per door for full-service luxury properties in primary markets.

Shaner Hotel Group has an estimated \$200M for full- and limited-/select-service hotel acquisitions in its East Coast core markets, although dealmakers will also go nationwide for both independent and flagged

STRAIGHT FROM THE MARKET

<u>Location</u>	<u>Property</u>	<u>Size</u>	<u>Price</u>	<u>Cap Rate</u>	<u>Occupancy</u>	<u>Age</u>
Shelby Township, Mich.	Retail	92,000 s.f.	\$3.5M	9% plus	65%	nine, 10 years



PRIVATE INVESTORS TO REBOUND

Coming off a REIT-dominated 2010, expect private investors to take center stage with increased acquisitions across all property types during the next year. Investors expect a busier year after sitting on their hands or just simply being outbid by more aggressive, bottom-line driven investors. Expect more value-added investors to populate the market if banks liquidate their bad-apple loan portfolios as expected. However, private buyers will also scan Class A properties and likely make new market entries outside markets favored by institutional and public REIT investors.

Investors expect a mildly to wildly better acquisitions market this year, which is illustrated by projected acquisitions volume from a cross-section of buyers, including The Abbey Co., Advance Realty, Brauvin Real Estate, Cardinal Capital, PASSCO Cos. and Wohl Investment.

Diversified buyer The Abbey Co. anticipates \$500M worth of acquisitions in coming months, and searches for industrial, office and retail. Last year the company acquired \$100M worth of properties. Performing and non-performing notes will be considered as part of a broader value-added acquisitions strategy applied throughout Arizona, California, Nevada, Oregon and Washington, as company dealmakers work to grow a \$1B portfolio. The buyer typically hunts for \$2M to \$50M deals.

Company Advances New Property Type

Advance Realty adds apartments to their list this year and expects a four-fold increase to \$200M worth of deals compared to 2010. Look for the development-focused investor to buy not only multifamily, but single-tenant industrial, office and R&D buildings as well. Deals and projects throughout Maryland, New Jersey and Virginia priced from \$7.5M to \$100M will likely appeal to the buyer working to increase its \$1B portfolio. Company dealmakers will scan core markets for redevelopment properties likely near urban transit-oriented hubs. On the development side the company is busy with gaining approvals for various land sites in portfolio. About four years ago the investor had gained approvals and sold land in Lynnhurst, N.J., and Rockville, N.Y. Advance Realty's portfolio is valued at \$1B.

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