

# CRITTENDEN Real Estate Buyers™

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## SYNDICATIONS REGAIN GROUND

The syndication market is poised for growth this year as investors using the Delaware statutory trust and, to a lesser extent, tenant-in-common structures, prepare for increased purchases and offerings following industry consolidations and a transaction-poor 2008-10. The landscape is littered with cautionary tales from investors that ramped up during the sector's heyday of 2004-07.

AEI Capital, Inland Private Capital and PASSCO will engage the market this year. AEI will stick to its TIC knitting and acquire for a recently formed private fund, while Inland Private Capital and PASSCO further diversify through new REITs and opportunity funds. For the time being, DSTs will remain popular with lenders and investors until the pendulum swings in favor of financing once more, to accommodate other than all-cash buying TIC sponsor investors. Until lenders can again get comfortable with underwriting and issuing new debt to almost three dozen qualified individual investors, expect the single-entity DST preferred by government-services entities and other lenders to remain popular.

AEI Capital may sponsor \$20M to \$30M of real estate offerings through all-cash purchases; last year the company sponsored \$10M worth of properties offered to and acquired by TIC investors. Look for AEI's interest in the Midwest, Plains and Southeast regions for free-standing net lease properties on behalf of its private \$100M Fund VII. The company may also boost its presence in the medical office sector.

### Medical Office What the Doctor Ordered for AEI

Interest from AEI in medical office, as part of a broader acquisitions strategy targeting net-lease retail and office typically priced from \$2M to \$10M, augurs more activity for medical clinics guaranteed by hospitals and regional health care operations, in addition to on-campus medical office buildings. The investor will consider multi-tenant medical office or other property types under master lease structures. Targeted cap rates exceed 7.75%.

Inland Private Capital (IPC), formerly known as Inland Real Estate Exchange, could acquire \$250M to \$300M worth of properties this year for various structures including DSTs and TICs. IPC, in addition to sponsored funds and joint ventures, generally will seek Class A single-tenant properties priced from \$25M to \$35M, including retail, industrial and apartments at 7%-plus going-in cap rates; higher cap rates are sought for less-than Class A properties or locations.

IPC works on its first DST offering of the year, comprising a pharmacy, grocery store, pet store and Kohl's for approximately \$50M. Most deals may happen on behalf of DSTs, followed by partnership and LLC structures. IPC booked an estimated \$200M worth of acquisitions during 2010, which reflects a

## SYNDICATIONS REGAIN GROUND...

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About half the deals will be made for the DST/TIC platform; the other half will be acquired for the forthcoming public, non-traded PASSCO Apartment REIT. Look for the REIT's strategy to almost mirror deals made for the DST sector, as the investor/sponsor seeks to further expand a Southeast footprint.

So far, PASSCO has acquired three properties in Atlanta, Montgomery, Ala., and Orlando, Fla., for the DST program. For both platforms, the investor's Atlanta office will likely scan Cincinnati, Kentucky, North Carolina and South Carolina for \$15M to \$25M properties, at cap rates in the 7%-plus range. Company dealmakers will likely shy away from coastal and primary market areas. An initial market entry into Memphis by the end of the first quarter and an acquisition in Pensacola, Fla., are likely. Both assets comprise 400 units valued at an estimated \$40M. The Class A Memphis property could be rolled into the DST program. In revisiting retail deals after a two-year absence, look for PASSCO to consider \$8M to \$12M all-cash purchases of retail properties turning a 10% return.

## FOREIGN INVESTORS SCOPE OFFICE

Despite talk of office dropping out of favor with some investors, look for foreign investors and their advisers to stalk office buildings in must-have primary markets and some secondary markets. New York and Washington, D.C., top investor lists as the go-to cities for all types of investments as nearly three-quarters of queried foreign investors plan to acquire more U.S. properties this year compared to 2010, according to the annual Association of Foreign Investors in Real Estate (AFIRE) survey.

Although AFIRE's respondents have knocked office down a couple notches to what's anticipated as the fourth most popular asset class preceded by hotel, retail and the top pick of apartments, investors including Falcon Real Estate, Metzler North America, along with Greek, Korean and other investor groups could acquire office this year.

Perhaps an indication of activity to come for the sector, investment adviser Falcon Real Estate's estimated \$93M purchase of the 147,000 s.f. Farragut building in Washington, D.C., marks the company's largest deal in at least two years. The Class A office complex is located near the White House and is fully occupied. The buyer should be in the market for additional types of assets in seeking to acquire an estimated \$500M worth of mostly Class A office this year on behalf of southern and western European clients. It acquired an estimated \$120M worth of properties during 2010.

Look for interest from Falcon Real Estate in office and retail, including grocery-anchored properties valued at more than \$15M, in the primary U.S. markets of Boston, Chicago, Los Angeles, New York, San Francisco and Washington, D.C. Some vacancy will be considered depending upon the market.

Metzler North America has an estimated \$200M for acquisitions during the next year after sitting out 2010. The company will evaluate \$75M-plus properties throughout national and regional primary markets, including Atlanta, Dallas, Miami, New York, San Francisco, Seattle and Washington, D.C. Also look for company dealmakers to scan secondary and gateway markets including San Diego, Orange County, Calif., and Austin, Texas, for core and core plus office buildings. Cap rates could range from 5% to 8% for primary through secondary/suburban market properties, depending on location and risk.

San Francisco is where the Korean Teachers' Credit Union/Korean Federation of Community Credit Cooperatives last year struck a deal to acquire a 657,000 s.f., fully occupied Class A office building for more than \$300M. Even if the pair doesn't acquire assets this year, its purchase has been noted by Chinese, Japanese and other Asian Pacific Rim investors.

Don't be surprised to see more foreign investors descend upon the market for distressed deals and note purchases. There's talk in Texas about Greek investors scooping up notes secured by two office properties 24 miles northeast of Dallas. The investors will likely pay \$7.2M for loans with an \$8.5M unpaid balance. Securing the loans are two Class A buildings totaling 110,000 s.f., at 1301 S. Central and 1101 S. Center Expressway, in Allen, Texas. Both buildings were constructed during 2007-08, and average a blended 80% occupancy rate.

## PLAYERS AND THE PLAYS THEY'RE MAKING

**Apple REIT Ten's targeted \$2B maximum raise** could bankroll acquisitions of up to 250 select-, extended-stay and full-service hotels nationwide. Or not. Up to or more than \$400M, or 20% of the maximum raise, could be used for some office, retail and other real estate purchases besides hotels and apartments. For its primary hotel strategy using all-cash, the buyer could acquire 120 to 160 hotels; the number grows to 250 hotels assuming 50% debt to "fair market value." On the flip side, if the buyer only strikes a \$100M minimum raise, anticipate two to 10 purchases, or four to 20 with 50% debt.

**Public REIT Alexandria Real Estate Equities expands** their buying capacities to an estimated \$2.25B, from a previous \$1.9B, as a result of a recent credit facility amendment. The LIBOR-based unsecured bank lines comprise a \$1.5B credit line, with a \$300M extension option, and a \$750M term loan from lender Bank of America. The company could use some of the cash for...

## PLAYERS AND THE PLAYS THEY'RE MAKING...

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Adding to this is increased employment throughout the metro area. According to the federal Bureau of Labor Statistics' November numbers, the 9% unemployment throughout Chicagoland compares to a 9.3% average. For comparison, the unemployment rate posted 10.3% in November 2009, above the then 9.4% national average.

**Foreign investors survey:** The annual Association of Foreign Investors in Real Estate (AFIRE) survey found a sizeable minority of investors and advisers hopeful that this year will be an improvement over 2010. U.S. assets will remain popular among investors viewing the market as the best in the world for capital appreciation this year, followed by China, England, Brazil and Australia.

Apartments and retail in New York and Washington, D.C. will heat even more. The cities top a list of U.S. and global city preferences among respondents. Rounding out the third through fifth most popular U.S. cities for foreign investors in 2011 are Boston, San Francisco and Los Angeles, respectively.

**Reflecting perceived discounts and eventual recovery** is an expected investor preference this year for retail assets, which moved up as the second most popular asset type behind apartments. Illustrating possibilities for a stronger year is Jamestown's recent \$316 psf purchase of the Alameda Town Centre, a lifestyle center located in the eastern San Francisco suburb of Alameda, Calif. The adviser's cap rate is likely about 6.3% for the center that's 91% leased to tenants including Bed Bath & Beyond, Ross Dress For Less, Safeway, T.J. Maxx and Trader Joe's. Escrow closed Jan. 6. Last year respondents rated retail in the fourth slot above hotels.

**And don't be surprised to see increased demand for hotels**, as the property type moves to third place this year from its fifth-place position on AFIRE's 2010 survey. Although some investors won't agree, office is expected as respondents' fourth most popular asset type among investors this year, reflecting a drop from second place last year. Industrial rounds out the list in fifth position; it held the third position during 2010. AFIRE counts 200 member companies with staff in 21 countries.

### People on the Move:

Later this month **Richard W. Ingram** will join **Illinois Teacher Retirement System (Illinois TRS)** as executive director at the pension fund with an estimated \$33B of assets. He has a three-year contract and will replace Executive Director **Stan Rupnik**, who has retained his other role as Illinois TRS' chief investment officer. Ingram will join the PF from the \$5B in assets **New Hampshire Retirement System (NHRS)**, where he has worked as executive director since January 2009; Friday will be his last day. **Kim France**, NHRS' director of administration, has been named interim executive director.

**Stephen Schutte** plans to leave his senior VP and general counsel position at DCT Industrial Trust Jan. 31, to work as general counsel for a Singapore-based real estate company.

Investment manager **MayfieldGentry Realty Advisors (MGRA)** taps **Carmen Ortiz-McGhee** for the investor relations and business development VP position, which may signal increased attention to the foreign investor community. Ortiz-McGhee previously worked as president of The Marathon Club in Washington, D.C., where she forged business relationships with Chinese and Americans of Chinese descent on TMC's behalf. MGRA considers apartment, industrial, office and retail properties nationwide. It holds a 5 million s.f. portfolio valued at more than \$850M.

Private, regional investor **Farley White Interests** names **Len Briggs, Gloria Selvitella** and **Jim Zolner** as regional VPs handling part of the company's 2.5 million s.f. portfolio, including industrial, land and office buildings throughout Connecticut, Massachusetts and New Hampshire. The investor also promotes **Rita Sheridan** into the VP Finance seat; previously she worked as the company controller.

### DEALMAKER DATABANK™

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
AEI Capital 1300 Wells Fargo Place 30 E. Seventh St. St. Paul, MN 55101	Ian Harrison (800) 328-3519 Fax: (651) 227-7705 iharrison@aeifunds.com	TIC	Private investor acquires single-tenant assets nationwide.

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<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Alexandria R.E. Equities 385 E. Colorado Blvd. Suite 299 Pasadena, CA 91101	Peter M. Moglia (626) 578-0777	R&D, Office	Public REIT expands credit line to access more than \$2B of debt.
Apple REIT Ten 814 East Main St. Richmond, VA 23219	Glade Knight (804) 344-8121 Fax: (804) 344-8129 bwalker@applereit.com	Hotels	Investor plans to raise up to \$2B for hotel acquisitions nationwide
The Cogsville Group Cogsville Capital Partners 1370 Avenue of the Americas, 20th Floor New York, NY 10019	Sebastian Hardy (212) 245-8338 Fax: (212) 581-2901 sgh@cogsvillegroup.com	Notes	Private investor has JV with Colony Capital to acquire failed bank note portfolios.
Colony Capital 2450 Broadway Sixth Floor Santa Monica, CA 90404	Todd Sammann (310) 282-8820	Notes	Investor acquires failed bank portfolio with JV partner Cogswell Group.
ConAm Group 3990 Ruffin Road Suite 100 San Diego, CA 92123	Rob Singh (858) 614-7200 Fax: (858) 614-7525	Apartments	Private investor acquires Class A and Class B apartments mainly throughout the western U.S., and seeks value-added properties.
Falcon Real Estate 5005 LBJ Freeway Suite 1130 Dallas, TX 75244	Kenneth Lorman (972) 934-2300 Fax: (972) 934-2305	Office	Foreign investment adviser acquires Class A office buildings and will likely look for more this year.
Farley White Investments 155 Federal St. Boston, MA 02110	Sam Altreuter John Power (617) 338-2387	Industrial, Office	Regional investor promotes four to EVP positions.
Free and Clear Equity 201 N. Illinois St. 16 <sup>th</sup> Floor, South Tower Indianapolis, IN 46204	Jeffrey J. Jinks (317) 610-3252 Fax: (317) 610-3202	Notes	Blind pool offering seeks a \$306M raise to acquire notes secured by triple net-/leased warehouse/distribution, office and retail properties.
GJ Realty 16 E. 34 <sup>th</sup> St., 16 <sup>th</sup> Floor New York, NY 10016	Gabriel Jeidel (212) 889-4417 Fax: (212) 889-4838 gjeidel@aol.com	Malls	Value-added buyer considers malls and other types of retail with more than \$30M of capital for acquisitions this year.
Ginkgo Residential 301 S. College St. Suite 3850 Charlotte, NC 28202-6024	Phillip Payne (704) 944-0100	Apartments	Investor seeks value added apartments. Company was previously known as Babcock & Brown Residential.
Illinois TRS 2815 W. Washington St. P.O. Box 19253 Springfield, IL 62794-9253	Richard W. Ingram (217) 753-0370	Pension fund	Ingram tapped to replace Stan Rupnik as the fund's chief investment officer.
Inland Private Capital 2901 Butterfield Road Oak Brook, IL 60523	Patricia Del Rosso (630) 218-4900	DST, TIC	Investor buys single-tenant office, retail and other assets independently and through JV partnerships.
JP Morgan Asset Management 245 Park Ave. New York, NY 10167	Joseph Azelby (212) 648-2112 Fax: (212) 648-2261 joseph.azelby@jpmorgan.com	Apartments	Investment adviser buys stake in Chicago apartment complex.

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Mayfield Gentry Advisors 100 River Place Drive Suite 300 Detroit, MI 48207	Carmen Ortiz-McGhee (313) 221-1270 Fax: (313) 221-1271	All	Pension fund adviser taps Ortiz-McGhee as investor relations and business development VP.
PASSCO 96 Corporate Park Drive Suite 200 Irvine, CA 92606	Gary Goodman (949) 442-1000 Fax: (949) 442-2460 ggoodman@passco.net	DST, TIC	Investor plans multifamily REIT and looks to acquire apartments and retail for DST and other structures.
Starwood Property Trust 591 W. Putnam Ave. Greenwich, CT 06830	Barry Sternlicht (203) 422-7700 Fax: (203) 422-7784	Notes	Investor/lender acquires notes.
Thompson National Properties 1900 Main Street Suite 700 Irvine, CA 92614	Tony Thompson (949) 833-8252 Fax: 949.252.0212	Notes	Investor and sponsor secures credit line to acquire properties.
Virtu Investments 456 montgomery St. 22 <sup>nd</sup> Floor San Francisco, CA 94104	Mike Green (415) 398-4641 Fax: (415) 398-3476 mgreen@virtuinvestments.com	Apartments	Private investor will scan secondary and tertiary markets for Class A through Class C apartment complexes.
Vornado Realty Trust 888 Seventh Ave. 44 <sup>th</sup> Floor New York, NY 10019	Michelle Felman (212) 894-7000 Fax: (212) 894-7035	Notes, Malls	Public investor acquires notes and issues operating partnership units in exchange for ownership stakes.

**INVESTORS STRATEGIZE PAPER PLAYS**

Expect more buyers to make room for commercial note purchases and employ various acquisitions strategies for the task. Sales volume should increase this year for performing and non-performing notes, so look for investors to scoop up deals through the FDIC for failed bank loan packages, in addition to perusing senior note purchases, small-balance loan portfolios and writing new loans. Colony Capital, Starwood Property Trust and Free and Clear Equity will be among buyers.

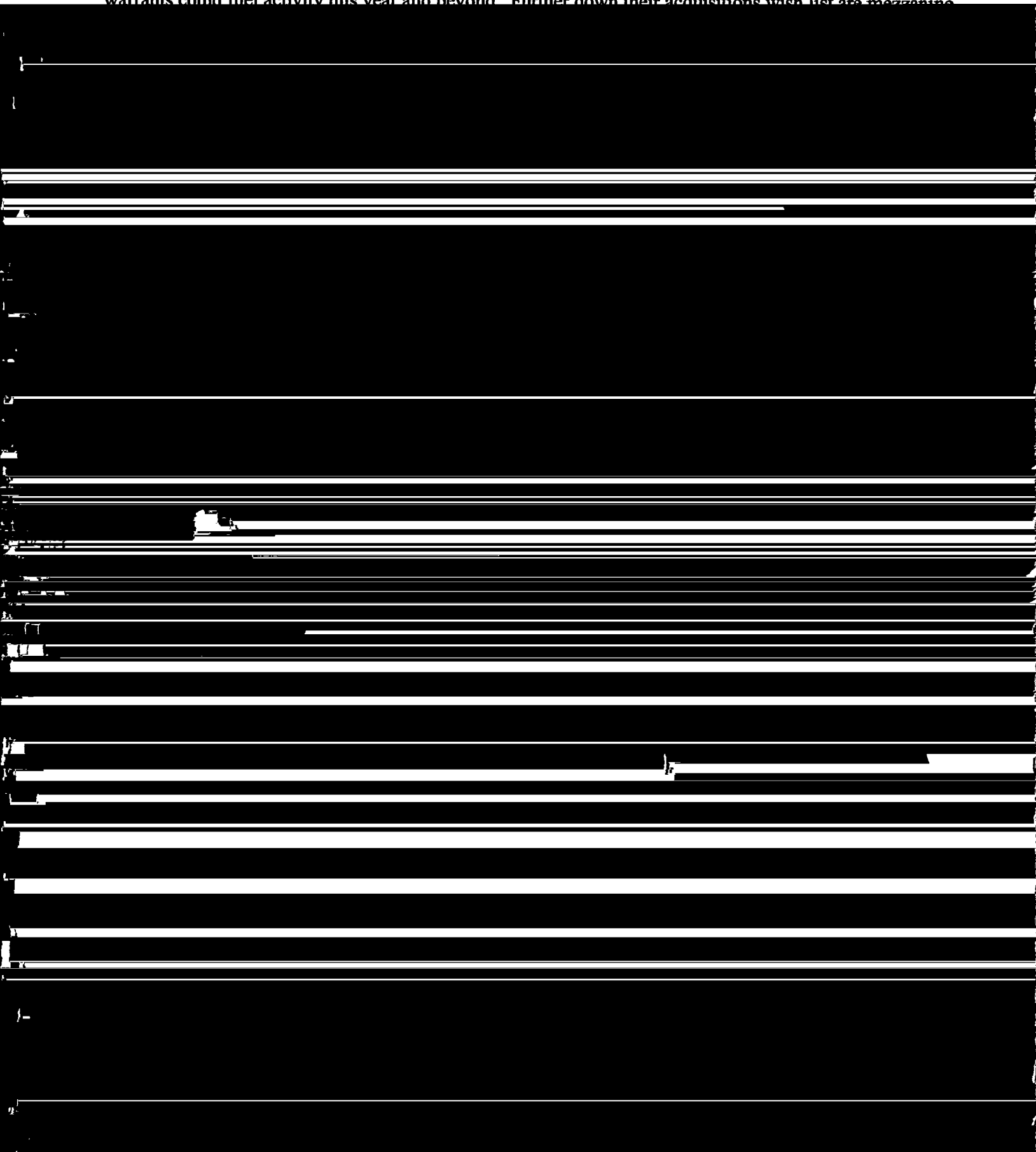
Further interest in FDIC loan pool assets should be in the offing, depending on how quickly 2,735 assets with a \$2.5B appraised value wends through the system. For comparison, last year the FDIC sold 2,915 of owned real estate assets valued at \$776M as of Nov. 30.

Additional note plays could take the shape of FDIC Multibank CRE Venture Loan and REO Structured Transaction LLC deals with partners Colony Capital and The Cogsville Group. Together the companies recently scooped up a 40% ownership stake in two FDIC-formed LLCs holding 755 commercial loans originated by 17 failed banks and mostly secured by collateral in Michigan and Utah; more than 300 loans are non-performing. As a result of their winning bids to acquire a 40% interest in the LLCs, Colony

**INVESTORS STRATEGIZE PAPER PLAYS...**

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Depending on success, the aspiring publicly traded REIT's \$306M blind-pool offering of stocks and warrants could fuel activity this year and beyond. Further down their acquisitions wish list are mezzanine



## BUYERS TO POUNCE ON VALUE-ADDED MALLS

Private and public investors will cherry pick value-added malls this year. **GJ Realty** expands into South Dakota while **Vornado Realty Trust** buys back its own defaulted debt — at a discount.

In its first deal in almost a year, value-added buyer GJ Realty paid more than \$6M for the 303,008 s.f. Watertown Mall, in an all-cash deal which marks an initial South Dakota market entry. Attracting the investor to the 75%-leased asset occupied by tenants with short to mid-term lease expirations, such as Dunham's Sports, Herberger's, Hy-Vee, JCPenney and OfficeMax, was the property's location in a secondary market with lower than national average unemployment rates, distance from competing malls, familiarity with existing tenants and proximity to another company-owned asset in Fremont, Neb., off Interstate 29.

Look for additional interest in secondary and tertiary market properties with populations hovering around 30,000. Typical deal sizes will range from \$5M to \$20M; targeted unleveraged internal rates of return of more than 15% sought during four years. Besides all-cash deals, GJ Realty also will consider non-performing, sub-performing notes and is working on a couple deals in the New York area. It will also scan subordinate debt and additional structures fitting an opportunistic strategy. Malls in Idaho, Kansas, Nebraska, North Carolina and South Dakota comprise approximately one-third of GJ Realty's 5 million s.f. portfolio. The investor also acquires other types of retail including strip, grocery-anchored and single-tenant properties.

Public REIT Vornado Realty Trust's maneuvers probably signal a trend of investors defaulting on and subsequently winning bids to acquire back their debt at discounts to unpaid balances. Last month the company paid \$115M for a non-recourse loan it defaulted on, which is secured by 726,750 s.f. of the Springfield Mall in Fairfax County, Va., that the buyer is redeveloping.

Their acquisition of the securitized debt reflects a discount to the \$171M unpaid balance on the property valued at \$59.4M in 2010. Previously the regional mall carried a \$128M value in 2009 and \$145M during 2006. Seemingly by acquiring the note and buying out its JV partner for \$25M in partnership units, the company is banking on the property regaining some of the value it lost between 2009-10, especially after the 467,000 s.f. is redeveloped. Vornado owns six additional malls in New Jersey, New York and Puerto Rico, totaling 8 million s.f.

Vornado could acquire additional assets this year, including malls, for its targeted \$1B fund with a three-year investment period to acquire debt from loan servicers and invest in performing and non-performing debt, as well as land and existing developments, assets and international purchases.

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