

# CRITTENDEN Real Estate Buyers™

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## DEARTH OF CONSTRUCTION BOOSTS VOLUME FOR INDUSTRIAL REITs

Rising cap rates and decreasing valuations are expected by some investors before discernible recovery occurs. That recovery may happen faster than anticipated if national vacancies continue declining from an 11%-range high, however. Although cap rates shouldn't approach low 6%-range averages this year, investors are noticing Duke Realty and The Blackstone Group's big-ticket portfolio moves in the sector as upping the ante for investors nationwide. The waiting is over, and the multi- and single-tenant industrial sectors should further heat this year from interest by AMB Property, Monmouth Real Estate Investments, O'Donnell Strategic Gateway REIT and Terreno Realty.

As Duke Realty advances its transformation to become an industrial-dense REIT, with at least 60% of its portfolio comprising industrial by 2013, more activity will stimulate one-off, portfolio and joint-venture interest purchases beyond the REIT's deal for a 4.9M s.f./86%-leased portfolio of mostly bulk-industrial space highly concentrated in the Florida markets of Pompano Beach, Boynton Beach and Palm Beach, respectively. Look for the investor to grow increasingly bullish on value-added properties located in infill markets as a result. Meanwhile, The Blackstone Group works to solidify its industrial division following last year's blockbuster purchase agreement with ProLogis.

### More IPOs to Boost Activity?

In this climate, the industrial sector could inspire additional companies to go public. Regardless of success, warehouse and distribution-focused O'Donnell Strategic Gateway REIT's planned \$1.1B blind pool

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Don't be surprised to see Terreno Realty consider additional vacant space along the lines of an estimated \$9M purchase in Hialeah, Fla., with a projected 7.3% cap rate upon stabilization. One of its last deals of 2010 was a \$7.8M — or \$40 psf — acquisition of a multi-tenant industrial building in Miami Lakes, Fla., about 26 miles northwest of Miami. The company projects a 7.3% cap rate upon stabilization for the four properties in the San Francisco Bay area's Union City, Florida's Hialeah and Miami Lakes, as well as Kent, Wash. The investor wants warehouse/distribution, flex and trans shipment buildings in Los Angeles, Northern New Jersey, New York, San Francisco Bay area, Seattle, Miami and Washington, D.C., with more than 30,000 s.f. of space and less than a 10% office blend.

### **More Activity Ahead**

Single-tenant net lease specialist Monmouth Real Estate Investment looks forward to additional purchases following an estimated \$20M two-property buy totaling 448,000 s.f. Nearly half the company's portfolio comprises FedEx-leased buildings. Perhaps as a sign of things to come, Monmouth Real Estate Investment bought out a minority joint venture partner's interest for an estimated \$4.1M. Don't be surprised if other REITs look to buy out JV partnership interests in the future.

Following late 2010 financing from HSBC Bank USA and Sumitomo Mitsui Banking, AMB Property should be in the market for warehouse and distribution buildings. The HSBC-issued credit facility matures November 2015 and has an option to expand up to \$350M (€256M).

## **MARKET SNAPSHOT: LOS ANGELES OFFICE**

If this year is anything like 2010, expect REITs to dominate the Los Angeles metro area for Class A and B office deals beyond the tight, well-worn West L.A. submarket, to venture into other markets throughout the Basin. Douglas Emmett and Hudson Pacific Properties could springboard off December's acquisitions momentum and make additional purchases throughout Los Angeles, as pundits expect recent rent growth declines and vacancy rate increases to reverse for the better this year.

Scoring deals may be far from easy in a metro area with an estimated 17% vacancy rate. As is the trend nationwide, cap rates have decreased 1% for all classes of properties in the market. That trend may shift if the long-awaited dumping of upside-down assets finally happens, but don't bet on it. Whether or not a distressed property deluge will occur this year is anyone's guess, yet insiders remain hopeful that lenders will increase the slow sales trickle to a dependable flow of asset sales sometime this year, as the lending market returns.

### **Young REIT Eyes City of Angels**

Seven-month-old public REIT Hudson Pacific Properties may take additional bites out of the Los Angeles market following an estimated \$289.53 psf buy of a Class B multi-tenant building in the Culver City submarket. Attracting company dealmakers to the two-building property, and subsequent deals, is a media-tenant heavy mix. Additional deals should involve buildings occupied with companies in the entertainment, media and technology industries. Hudson Pacific Properties doesn't appear interested in 4% cap rates: its purchase of the 10950 Washington Blvd. building posted a 7% cap rate on existing income. The seller is Embarcadero Capital Partners.

Anticipate further company interest in Class A and B properties in Los Angeles and Orange counties, as well as properties throughout the San Diego and San Francisco Bay area priced at dramatic discounts to replacement costs. Count on distressed and underperforming office properties located in central business districts, infill and suburban markets, in addition to redevelopment and development deals, to make Hudson Pacific Properties' short list. Joint venture purchases throughout the Los Angeles market are likely, similar to a recent contract with Beacon Capital Partners, to acquire a majority interest potentially leading to full ownership of the 581,000 s.f. San Francisco asset called One and Two Rincon Center.

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Powered by a continuous stock sale to raise \$250M, look for Douglas Emmett to compete against Hudson Pacific Properties for office buildings throughout L.A. County. Typically the investor hunts Class A, high-barrier to entry market properties occupied with tenants in the financial, legal and medical industries for redevelopment and repositioning. The company counts 53 properties in its Los Angeles office portfolio located in the submarkets of Beverly Hills, Brentwood, Burbank, Century City, Encino, Olympic Corridor, Santa Monica, Westwood and Woodland Hills. The company acquired more than \$275M worth of properties during 2010.

Although some insiders expect some Los Angeles buildings in default to be hawked for sale — as part of a larger \$200B-plus pool of office loans coming due this year — others can point to strategic defaults and debt restructurings as reasons why monumental numbers of distressed office purchases probably won't happen.

**Defaults to Balance Demand**

MPG Office Trust and Pacific Office Properties Trust illustrate the shadow side of the market populated by dealmakers wringing hands about impending defaults and canceled initial public offerings. Among financially distressed stock may be additional properties once owned by MPG Office Trust, formerly known as Maguire Properties. The company scooped up Class A office throughout downtown L.A. and southern California during better days, but has since defaulted on several properties.

More could follow MPG Office Trust's latest default of a \$470M CMBS loan secured by the 1.3-million s.f. downtown office building Two California Plaza, at 350 S. Grand Ave. While the company states the default is a step towards debt restructuring, its move was preceded by six defaults totaling more than \$1B during 2009-10, involving such buildings in the Los Angeles and Orange county markets as City Tower; Pacific Arts Plaza (acquired by The Irvine Co.); Stadium Towers Plaza; 2600 Michelson; 550 S. Hope; 500 Orange Tower, and a minority interest in the Quintana Office Campus. Average occupancies are in the 70% range for the 2.7 million s.f. portfolio. Foreclosure dead in line.

**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>
San Francisco	Office	39,000 s.f.	\$16M	7% range	98%	100 yrs.

NOTES: In an all-cash transaction taking 12 days from contract to close, institutional investor TA Associates Realty pays an estimated \$410.25 psf for a multitenant building at 340 Brannan St., located near a train station, the freeway and AT&T Park in the city's South of Market (SoMa) district. Building tenants occupy spaces ranging from 500 s.f. to 5,000 s.f. in what's considered incubator space for technology and smaller, developing companies. Tenant leases roll within five years. The century-old building was twice renovated 1985 and 2006. Vacancies in the SoMa submarket run about 5% higher than the 15% citywide average; higher occupancies are likely for incubator space classified as creative, with features including natural light and high woodbeam-exposed ceilings.

TA Associates' buy follows two other institutional investors—Rockwood Capital and JV cohort TMG Partners—into the market. A couple months before TA Associates' late December purchase, Rockwood/TMG acquired two buildings totalling 405,000 s.f., at 680 Folsom and 50 Hawthorne streets. Other active area investors include private buyer PMI Properties. HFF represented seller ATC Partners in this transaction.

CONTACT: TA Associates Realty, 28 State St., Boston, MA 02109. Greg Waxman, (617) 476-2700; fax: (617) 476-2799.

**PLAYERS AND THEIR PLAYS...**

**NorthStar Senior Housing Trust**, anticipating an environment where borrower demand outstrips lender capacity, targets a \$1.1B maximum raise from the public markets and will pay attention for net-leased, private-pay assisted living and skilled-nursing properties. Such scouted properties, which feature therapeutic and hospice programs, Alzheimer's care and other services and may have room for expansion, will likely be located in secondary and smaller suburban markets instead of large urban areas because of perceived affordability on a national level. Joint ventures will be considered.

Look for the planned REIT to acquire, manage and write new loans specifically for these types of assets. On the mortgage side, acquisitions of senior and subordinate loans, in addition to writing new loans to owners with single-tenant senior housing net-lease private pay assets. The investor scans senior and junior loans, mezzanine and bridge loans in addition to preferred equity investments.

**Capping off at least six months of market observations** in looking for better risk/reward investments outside the soon-to-be well worn Class A yield play track, Declaration Management & Research unfurls its recapitalization-focused DMR CRE Debt Fund I. The fund will target yields from 10%-plus through note purchases, restructurings and writing new debt. Look for Manulife Asset Management affiliate to follow this fund with others in coming quarters.

**After 28 months out of the acquisitions game**, look for BH Properties to jumpstart its acquisitions platform with an estimated \$100M target for value-added purchases throughout primary and secondary western U.S. markets this year. The private buyer puts apartments at the top of its list, which is a change compared to previous activity; industrial and retail will be the second most sought-after property types, followed by office space. Anticipate a major interest in properties with more than 25% occupancies throughout Phoenix and Tucson, Ariz., Las Vegas and southern California, as well as Utah and Texas. Thirty-year-old or newer apartments with more than 50 units are wanted, as are Class B and C industrial facilities measuring 40,000 s.f. to 500,000 s.f., and priced up to \$30 psf. Retail-wise, big-box, community/neighborhood centers and strip centers measuring more than 40,000 s.f. with daily traffic

**PLAYERS AND THEIR PLAYS...**

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There won't likely be a lack of interested JV partners. AEI Capital could be one of those booking deals with investors. The company wants to scoop up assets through forward commitments and pre-sale agreements as well as writing development financing and buying properties in fee-simple deals with a new \$100M private fund focused on single-tenant medical office, office and retail properties. Sale/leasebacks are also on tap.

**Kayne Anderson Real Estate Advisors** picks up a 3,803-unit REO portfolio in its first California self-storage buy with partner Flagship Investment Group. The central California portfolio counts a majority of units — some 1,104 units — in Ceres, off Route 99, about four miles southeast of Modesto and 96 miles southwest of San Francisco. The buyer also scores units in nearby Escalon, followed by Riverbank, Soulsbyville, Stockton and Elk Grove. The team plans light renovations to the properties. The pair's recent buy is within a six-hour drive of public non-traded REIT Strategic Storage Trust (SST), which had booked an estimated \$126M worth of acquisitions during 2010. SST has been aggressive in the Las Vegas metro area, where it wrapped up last year with a 740-unit purchase.

**Strategic Hotels & Resorts'** wicked case of debt indigestion from its part in the minority interest purchase of the Hotel del Coronado is reprieved until Feb. 9, when the upper-upscale hotel REIT's loan extension that allows for a restructuring expires. The investor is also working in advance of a September 2011 loan maturity for \$180M of mortgage and mezzanine debt on the Fairmont Scottsdale, for a refinancing, likely in addition to loan maturities later this year on a pair of Intercontinental hotels in Chicago and Miami. The investor is hopeful about restructuring these loans. Look for additional sales beyond its recent Prague disposition, as the company continues its long-term plan of restructuring as a North American lodging company targeting upper-upscale assets. It holds interests in 16 hotels and resorts counting more than 7,600 keys worldwide.

**People on the Move...**

**MHI Hospitality** renews COO David R. Folsom's employment contract and adds president to his title. Folsom, who has worked at the hotel REIT for six years, fills a slot vacated by Drew Sims — who will continue as MHI Hospitality's CEO and chairman. Last year the company didn't acquire any assets; don't be surprised if its appetite returns this year for upper-upscale and upscale full-service hotels in the Mid-Atlantic and southern U.S. The company counts more than 2,400 keys in its portfolio of

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<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
ATC Partners 1000 Sansome St. Suite 180 San Francisco, CA 94111	Tom Keane (415) 951-0500 Fax: (415) 273-2901	Office Multi-tenant	Private investor sells San Francisco office building and acquires properties primarily in Los Angeles and San Francisco.
The Blackstone Group 345 Park Ave. New York, NY 10154	Jonathan Gray (212) 583-5000 Fax: (212) 583-5712	Industrial	Public investor hires Tim Beaudin for industrial division. Beaudin resigned his position at AIMCO.
Douglas Emmett 808 Wilshire Blvd. Suite 200 Santa Monica, CA 90401	John Meehan (310) 255-7710 Fax: (310) 255-7702 jmeehan@douglasemmett.com	Office Multi-tenant	Public office REIT acquires Class A properties in Los Angeles.
Duke Realty 600 E. 96th St. Suite 100 Indianapolis, IN 46240	Jason Sturman (317) 808-6000 Fax: (317) 808-6770	Industrial Multi-tenant	Public investment and development REIT eyes bulk industrial as it shifts portfolio concentration.
HFF 100 California St., Suite 720 San Francisco, CA 94111	David Karol (415) 276-6933 Fax: (415) 276-6306 dkarol@hffip.com	Office	Brokerage company handles office sales.
Hudson Pacific Properties 11601 Wilshire Blvd. Suite 1600 Los Angeles, CA 9025	Alexander Vouvalides (310) 445-5700 Fax: (310) 445-5710 alex@hudsonppi.com	Office Multi-tenant	Public investor eyes Class A and B properties throughout Los Angeles.
ING Clarion Partners 230 Park Ave. 12 <sup>th</sup> Floor New York, NY 10169	Ed Rotter (212) 883-2534 Fax: (212) 883-2834 ed.rotter@ingclarion.com	Mixed use	Pension fund adviser, institutional investor acquires mixed use assets.
MPG Office Trust 355 S. Grand Ave. Suite 3300 Los Angeles, CA 90071	David Weinstein (213) 626-3300 Fax: (213) 687-5748	Office Multi-tenant	Office REIT sells, eyes debt restructuring of Los Angeles buildings.
Monmouth R E. Investment Juniper Business Plaza 3499 Route 9 North Suite 3-C Freehold, NJ 07728	Michael Landry (732) 577-9996	Industrial Single-tenant	Public investor acquires properties for its FedEx-heavy portfolio.
NorthStar Senior Care Trust 399 Park Ave. 18 <sup>th</sup> Floor New York, NY 10022	Daniel Gilbert (212) 547-2600	Senior Housing Notes	Investor to go public; will seek note purchases secured by senior housing.
O'Donnell Strategic Gateway REIT 3 San Joaquin Plaza Suite 160 Newport Beach, CA 92660	Douglas O'Donnell (949) 718-9898	Industrial Multi-tenant Single-tenant	investor plans \$1.1B IPO. It will seek properties in the \$5M to \$50M deal size range.
Pacific Office Properties Trust 10188 Telesis Court Suite 222 San Diego, CA 92121	Matt Root (858) 678-8500 Fax: (858) 678-8504	Office Multi-tenant	Investor cancels IPO. Deals with defaults secured by properties in Arizona and Hawaii.
Strategic Hotels & Resorts 200 W. Madison St. Suite 1700 Chicago, IL 60606	Cory Warning (312) 658-5000	Hotel Upper upscale Resort	Public REIT pursues loan modifications, restructuring on Arizona, California and Illinois assets.

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<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Terreno Realty 16 Maiden Lane Fifth Floor San Francisco, CA 94108	Andrew Burke John Meyer (415) 655-4580 Fax: (415) 655-4599	Industrial Multi-tenant	Public buyer acquire expands credit line and acquires properties coast to coast.
Wood Partners 1110 North Chase Pkwy. Suite 150 Marietta, GA 30067	Curtis Walker (770) 951-8989 curtis.walker@woodpartners.com	Mixed use	Private investor/developer acquires land for mixed-use development.

**CORRECTION:** Philip Payne's first name was misspelled in the Jan. 17 edition's Dealmaker Databank. Kayne Anderson Real Estate Advisors, with JV partner Flagship Investment, entered the self storage market in late 2010, a fact misstated in the Jan. 3 edition of Real Estate Buyers. *Real Estate Buyers* regrets the errors.

**CLASS A OFFICE TRADES SPREAD**

Transactions from Cole Real Estate Investments and The Irvine Co. in Buffalo, N.Y., and Chicago reflect investors' improving attitude about Class A office pricing and a slowly improving market. More importantly, the purchases also indicate buyers' growing confidence about buying big-ticket multi- and single-tenant properties far removed from New York and Washington, D.C.

Net-leased headquarter office buildings will be in Cole Real Estate Investments sights as the company plans to buy approximately \$3B worth of industrial, office and retail. During 2010 the buyer shelled out \$250M in further nationwide expansion. Its recent \$85M purchase of a 430,458 building in Buffalo, N.Y., leased to HealthNow New York, augurs increased attention to secondary and suburban markets for corporate credit tenants on bond-type leases.

Attracting Cole Real Estate Investments to the Buffalo LEED Silver building leased for another 14 years to the parent company of BlueCross BlueShield of Western New York, was the tenant's strong credit and the estimated \$197 psf purchase price. In its first Class A office buys of the year, the buyer paid \$29M for an Oklahoma City building and \$22M for a LEED Silver building in Lincoln, Neb.; the assets are leased to California State Automobile Association and Dell Perot Systems respectively. Tenant credit and low unemployment in the market attracted the buyer to acquire the nearly 300,000 s.f. of combined office space.

**More Single-Tenant on Tap**

Look for Cole Real Estate Investments to show interest in additional single-tenant assets leased to triple-A credit tenants under double and triple-net leases valued at more than \$3M. The buyer made a splash last summer into the suburban Seattle market with a \$310M purchase of City Center Plaza housing the 583,179 s.f. Microsoft Bing headquarters in Bellevue, Wash.

Chicago is where California-based The Irvine Co. could further build upon market action in coming months. Clearly the company is sanguine about the market's 9% unemployment rate that bests the national average. The Irvine Co.'s \$416 psf purchase of the Hyatt Center, a 48-story building in downtown Chicago was an asset play. Look for the company to consider additional purchases outside its core markets of California's Los Angeles, San Diego, Silicon Valley and Orange County markets. Attracting the private, California-focused buyer and developer to the 1.5 million s.f. trophy, LEED Platinum-rated building that's Hyatt Hotels world headquarters was a tenant roster that also includes Goldman Sachs, IBM and Royal Bank of Scotland (RBS). Count on additional-but-limited interest in \$500M-plus acquisitions similar to the recent Hyatt Center buy.

If The Irvine Co. decides to pursue additional acquisitions outside the West Coast, it may compete against KBS REIT II, a fellow California-based investor which made a big splash six months ago with a \$655M buy of a 1.3 million s.f. Chicago office building called 300 N. La Salle St., located about a mile northeast of the Hyatt Center's 71 S. Wacker Drive address.

## MIXED USE ON THE RISE

A smattering of mixed-use deals involving Behringer Harvard, Essex Property Trust, ING Clarion Partners and Wood Partners on the buy side, signal a resurgence of demand this year as investors again get comfortable with risk tied to operating two distinct property types. Expect more interest in Class A, newly built apartment/retail blends in suburban markets outside major metro areas such as Los Angeles and Washington, D.C., in addition to secondary markets such as Orlando. Cap rates have compressed since this time last year, with Class A suburban primary market assets hovering in the high-4% to low-5% range; in farther flung markets the cap rate could increase into the 6%-plus range, depending on current performance and risk.

Recent action in Virginia by ING Clarion Partners and Wood Partners mirrors investor enthusiasm about the market. ING Clarion Partners said it paid \$118.5M for the Class A Millennium at Metropolitan Park, comprising a property with a 300-unit apartment complex and 7,800 s.f. of ground-floor retail space. The year-old complex was chosen for increased investment as a result of ING Clarion Partners' market-driven focus in which the investor has preferred the submarket for its above average population and income. The buyer acquired \$500M worth of real estate during 2010, compared to an estimated \$1B of acquisition during 2009.

Wood Partners votes for the Virginia market with a recent \$68M purchase of a three-acre parcel in Alexandria. The company's The Heights at Groveton is slated to feature 290 units and 10,000 s.f. of retail space. The project is scheduled for completion by December 2012. Future deals could be funded through an estimated \$155M equity/\$400M deal size for acquisitions through a JV with CB Richard Ellis Investors; an estimated \$300M of capital has been committed.

In Orlando, Fla., Behringer Harvard Multifamily REIT I's JV purchase of the year-old apartment/retail The District at Universal in Orlando, Fla. for an estimated \$57M, features a 425-unit complex and 25,000 s.f.