

CRITTENDEN Real Estate Buyers™

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RECAPITALIZATIONS AFOOT

What promised to be a bumper crop of distressed purchases may materialize as a focused effort for recapitalizations involving public and private equity investors. Buyers will augment opportunistic acquisitions with partnership recapitalizations and the creation of new structures. Though some investors acknowledge that recapitalizations and debt restructuring could remove a sizeable supply from the nonperforming and subperforming loan sectors — as lenders look at the possibility of reaping higher

RECAPITALIZATIONS AFOOT...

Continued from Previous Page

Further action between New York-focused companies SL Green Realty and The Moinian Group is forthcoming after an agreement with The Moinian Group to recapitalize the former General Motors headquarters at Three Columbus Circle Tower; SL Green Realty wrote a standby mortgage commitment and could kick in equity as part of the block-long Manhattan property's recapitalization.

Supporting a belief that luxury hotels will rebound faster than other hotel classes as the economy improves is The Blackstone Group's action in the sector earlier this month. The big equity player stepped into the general partner seat to recapitalize the KSL Resorts, Kohlberg Kravis Roberts & Co. (KKR) and Strategic Hotels & Resorts joint venture, which acquired interests in the Hotel del Coronado in 2006. Strategic Hotels & Resorts bought KKR's stake and will partner with KSL Resorts and The Blackstone Group. Similar deals in coming months will likely to involve more big-name equity partners looking to get in on the bottom of an expected value upswing. Following the recap, look for Strategic Hotels & Resorts to get serious about U.S. purchases, as indicated by a contract to acquire more than 300 keys at the Four Seasons Jackson Hole and Four Seasons Silicon Valley, respectively in Teton Village, Wyo., and East Palo Alto, Calif., in deals expected to close by March 31.

SINGLE-TENANT INDUSTRIAL ASCENDS FROM VALLEY FLOOR

A continued industrial market recovery could bode increasingly well for single-tenant industrial buyers considering smaller and value-added purchases. There will be interest in big-ticket items as well, although industry insiders have observed slightly decreased prices per s.f. for deals up to \$5M during the fourth quarter of 2010, a pricing trend that could shift with manufacturing industry changes.

According to the Institute for Supply Management, the 5% rise in customer inventories last month remains too low and furthers a 22-month trend. Additionally, growing inventories during the past seven months and a recent upward trend of customer backlogs could signal a turnaround. Watch for cap rates in the 7% to 10% range, depending on location, tenant quality and risk.

Venture One Real Estate, among a growing number of buyers scooping smaller assets, eyes \$50M to \$60M worth of acquisitions on behalf of its six-month-old VK Industrial I vehicle that's likely the first in a series of company-sponsored funds. With 18 to 28 months remaining in the current fund's investment period, look for buyer interest in value-added, vacant and stabilized properties throughout Chicagoland. Additional purchases involving more than 200,000 s.f. may also be on the horizon.

Deal sizes typically ranging from \$1M to \$10M will attract Venture One Real Estate, which is primarily interested in smaller single-tenant properties, with some multitenant properties considered for the mix. Acquisitions similar to a pair of buys at discounts to replacement costs in the western and northwestern Chicago suburbs of Elmhurst and Rolling Meadows, show what attracts buyer interest and capital. In Elmhurst, about 18 miles west of downtown, the buyer paid an estimated \$50 psf for a fully leased 17,000 s.f.-plus building. About 41 miles northwest of downtown, in Rolling Meadows, was the scene of a \$30 psf buy — or \$930,000 — of a 31,000 s.f.-plus value-added and occupancy challenged industrial building. Although the private buyer is tightlipped on cap rates, don't be surprised to see Chicago property cap rates trending in the mid 7%-plus range.

While it is unlikely buyers Venture One Real Estate or The GC Net Lease REIT will compete against deep-pocketed institutions, interest from LaSalle Investment Management and others should spark more interest and competition for assets as occupancy rates start a long-awaited rebound. Word on the street names LaSalle Investment Management as the buyer of an 800,000-plus s.f. property in Bolingbrook, that's 30 miles west of downtown. Investment-grade company Kimberly-Clark is the tenant.

As American Realty Capital Properties rolls out a \$110M maximum raise in targeting a slot on the Nasdaq exchange — symbol ARCP — anticipate interest in industrial and warehouse buildings leased to investment and subinvestment grade tenants with targeted three- to eight-year lease terms as part of a broader single-tenant strategy.

Continued on next page

SINGLE-TENANT INDUSTRIAL ASCENDS FROM VALLEY FLOOR...

Continued from Previous Page

Sponsored by American Realty Capital II, the company brings to market a 768,730 s.f. portfolio dominated by a 465,600 s.f. Home Depot warehouse/distribution asset in West Columbia, S.C., with 19 years remaining on its lease, and rounded out by 60 Citizens Bank branches totaling 269,000 s.f. Slightly more than \$82M of debt connected to most of the portfolio is slated to mature Aug. 31.

Judging one of its final purchases of 2010, public non-traded The GC Net Lease REIT will buy properties occupied by tenants in tightening manufacturing industries. The investor's estimated \$69.78 psf purchase of a 169,816 s.f. building in Loveland, Colo., leased to printing company World Color USA, was acquired at a discount to an appraised \$73.60 psf value; the building houses what's believed to be the sole directory printing plant in the western U.S. It's unclear how much the printing industry's performance influenced the discount, or the 10.26% range cap rate. What's clear is the printing and related services sector was one of four manufacturing areas reporting declines during January, stated ISM. Textile mills, plastics/rubber products and nonmetallic mineral product manufacturers round out the list. Don't be surprised if value seekers hone in on industry sector ebbs and flows in targeting assets occupied by top tenants in sectors booking declines, to score better cap rates and prices per s.f.

While the company continues its blind-pool offering for another nine months, in targeting a maximum \$642M raise for investments, count on dealmaker interest in additional manufacturing, warehouse and distribution, along with office buildings, deemed central to tenant operations in primary, secondary and tertiary markets nationwide. Acquisitions, construction and development in and independent of joint ventures are also considered. About \$16M was raised from November 2009 to January.

RETAIL REGAINS POPULARITY

Inland Western Retail Real Estate Trust's targeted \$350M maximum raise signals game on for retail investors and REITs nationwide. Look for the company to target a slot on the NYSE under the symbol IWST, as it takes a 272-property portfolio heavy with northeastern and Texas properties to market. This move comes as pundits expect gradual retail sales increases in coming quarters.

Meanwhile, buyers Acadia Strategic Opportunity Fund III, Ramco-Gershenson Properties Trust and Retail Opportunity Investments Corp. are among buyers tapping the \$20M-plus market nationwide. Moving forward, expect more joint ventures to form around portfolio transactions that should increase as retail becomes more popular. Retail numbers are improving to make buyers hungrier for properties to ride into a market upswing.

Acadia Strategic Opportunity Fund III, in partnership with Charter Realty & Development, paid \$200 psf for the 95%-leased White City Shopping Center in Shrewsbury, Mass., located 40 miles southwest of Boston. The investor likely saw a 7% cap rate on the Shaw's Supermarket-anchored center measuring

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>
Los Angeles	Office	151,029 s.f.	\$58M	low-7% range	100%	31 yrs.

NOTES: Private investor Ocean West Capital Partners paid an estimated \$384 psf for the Class A office building Tribeca West at 12233 Olympic Blvd. Tenants at the eight-building complex include include Disney, HBO and NBC. A majority of leases roll during the next 24 months, activity that's attributed to the asset's use as post-production facilities for entertainment and media industry tenants. The property was renovated in 2002 and 2006. Several company principals knew the property from their days working at Maguire Investments, which maintained an office at nearby competitor property Lantana Media Entertainment Campus; Maguire Properties sold the 12-acre asset in late 2009 for an estimated \$200M.

Heading into its second year of business, Ocean West Capital Partners targets \$200M to \$300M worth of acquisitions by December. The buyer acquired \$100M worth of properties during 2010. California office and apartment assets located throughout the Golden State's primary and suburban markets, from San Diego to the San Francisco Bay area, are of interest. Both multitenant and single-tenant office buildings are evaluated, as are garden-style and high-rise apartment buildings. Deal sizes can range from \$10M to more than \$100M for value-added and stabilized property buys. Besides making one-off purchases, the company will also acquire loan pools, modify loan portfolios, write debtor-in-possession financing and acquire REO properties. Joint ventures are considered.

CONTACTS: Buyer, Ocean West Capital Partners, 520 Broadway, Suite 600, Santa Monica, CA 90401. Phil Choi, (310) 899-6086; fax: (310) 899-6065. pchoi@oceanwestcp.com

Broker: Madison Partners, 12121 Wilshire Boulevard, Suite 959, Los Angeles, CA 90025. Bob Safai, (310) 820-5959; fax: (310) 826-3410.

Seller: Broadreach Capital Partners: 9200 Sunset Blvd., Suite 415, Los Angeles, CA 90069. David A. Simon, (310) 691-5760.

RETAIL REGAINS POPULARITY...

Continued from Previous Page

Additional interest in grocery-anchored and infill properties is likely as part of Acadia Strategic Opportunity Fund III's capacity to acquire more than \$1B worth of real estate.

Ramco-Gershenson Properties Trust dives into Waukesha, Wis., with an estimated \$176 psf acquisition of the Pick 'n Save-anchored center that's 18 miles southwest of Milwaukee. The investor liked the deal as part of a larger focus on Class A shopping centers; the area's \$73,843 median income also attracted the buyer. The cap rate was likely more than 8%.

Coastal-focused Retail Opportunity Investments Corp. (ROIC) gets into the San Francisco Bay area with two grocery-anchored centers located in San Francisco's northeast suburbs. The company, which seeks assets throughout the East and West coasts, paid a combined \$34.5M — or \$146 psf — for the Pinole Vista Shopping Center and the Pleasant Hill Marketplace, each less than 30 miles northeast of San Francisco.

Look for the company to seek out \$10M-plus acquisitions of drugstore and grocery-anchored community centers in California, Washington and Oregon on the West Coast, and from Washington, D.C., to Maine on the East Coast. Both stabilized and value-added plays are considered as the company eyes 65,000 s.f.-plus centers to acquire.

Sales to Purchase: A Section 1031 buyer?

As Harsch Investment Properties waits for distressed and REO properties to hit the market, it may or may not reinvest some of the cash pulled from its \$181M sale of the Alameda Towne Centre in December, to Jamestown Properties.

Look for the owner to pursue properties priced at discounts to replacement costs and, for operating properties, cap rates in the 8% to 9% range. The company will consider portfolios in cities like Boise or Salt Lake City in addition to other markets, but it should stick to its focus on West Coast acquisitions in urban and suburban areas for value-added acquisitions of properties measuring more than 10,000 s.f.; Las Vegas is the farthest eastern market where the company owns properties. The all-cash buyer seeks financing upon property stabilization.

DEALMAKER DATABANK™

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
American Realty Capital Properties 405 Park Ave. New York, NY 10022	Nicholas Schorsch (212) 415-6500	Industrial	Planned public REIT to acquire all types of properties including single-tenant industrial.
The Adler Group 1400 NW 107 th Ave. Miami, FL 33172	Matthew Adler (305) 392-4106 Fax: (305) 392-4004 mladler@adlergroup.com	Office Multitenant	Private investor acquires properties with The Adler Real Estate Fund, among other vehicles.
Broadreach Capital Partners 9200 Sunset Blvd. Suite 415 Los Angeles, CA 90069	David Simon (310) 691-5760 Fax: (310) 691-5769	Office Multitenant Apartments	Private equity investor has capital remaining in second fund for acquisitions and recapitalizations throughout the western U.S.
ING Clarion Partners 230 Park Ave. 12 th Floor New York, NY 10169	Stephen J. Furnary (212) 883-2500 Fax: (212) 883-2700	M&A	Private equity investor to acquire U.S. real estate business from ING Group.
Feldman Equities 1010 Northern Blvd. Suite 314 Great Neck, NY 11021	Larry Feldman (516) 684-1239 Fax: (516) 684-1059 lfeldman@feldmanequities.com	Office Multitenant	Private investor in joint venture to acquire suburban office buildings throughout Florida.
Five Mile Capital Partners Three Stamford Plaza 301 Tresser Blvd. 9 th Floor Stamford, CT 06901	David J. Lattimer (203) 905-0950 Fax: (203) 905-0954	Office	Private investor and hedge fund to acquire Prime Group Realty Trust.
The GC Net Lease REIT 101 North Wacker Drive Suite 615 Chicago, IL 60606	Don Pescara (312) 780-7521 Fax: (312) 780-7579 dpescara@griffincapital.com	Industrial Single-tenant	Public nontraded REIT seeks net lease property acquisitions.
Inland Western Retail Real Estate 2901 Butterfield Road Oak Brook, IL 60523	Stephen Grimes (630) 218-8000 Fax: (630) 368-2308 grimes@inland-western.com	Retail	REIT plans to go public.
Kindred Healthcare 680 S. Fourth St. Louisville, KY 40202	Greg Miller (502) 596-7300 Fax: (502) 596-6466	Senior Housing Health care-related	Public REIT to expand through pending \$1.3B purchase of RehabCare Group.
Lightyear Capital 375 Park Avenue 11 th Floor New York, NY 10152	Donald Marron (212) 328-0555 Fax: (212) 328-0516	M&A	Company to acquire part of ING Group's real estate investment management division.
Medical Properties Trust 1000 Urban Center Drive Suite 501 Birmingham, AL 35242	Charles Lambert (205) 969-3755	Health care-related	Public REIT acquires hospital and other health care assets
The Matteson Cos. One Lagoon Drive Suite 200 Redwood City, CA 94065	Matt Matteson Graham Chernoff (650) 802-1800 Fax: (650) 802-1811 gchernoff@mattesonrealty.com	Office Multitenant	Private investor acquires suburban office.
Mountain Real Estate Capital 13860 Ballantyne Corporate Place Suite 130 Charlotte, NC 28277	Arthur Nevid (704) 540-7400 anevid@mountainregroup.com	Recapitalizations Land, Office, Retail	Private equity investor could use upwards \$600M for investments including NPL acquisitions and recapitalizations this year.
Prime Group Realty Trust 330 N. Wabash Ave. Suite 2800 Chicago, IL 60611	Jeffrey A. Patterson (312) 917-1300 Fax: (312) 917-1310	Office	REIT to be acquired by hedge fund Five Mile Capital Partners.
RehabCare Group 7733 Forsyth Blvd. Suite 2300 St. Louis, MO 63105	Sam Duggan (800) 677-1238 Fax: (214) 863-0769	Health care-related	Publicly held company to be acquired by public REIT Kindred Healthcare.

Continued on Next Page

DEALMAKER DATABANK™

Continued from last page

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Venture One Real Estate 250 Parkway Drive Suite 370 Lincolnshire, IL 60069	Matt Goode (847) 243-4300 Fax: (847) 243-4307 mattg@v1realestate.com	Industrial Single-tenant Multitenant	Private investor mostly acquires single tenant properties throughout Chicago metro area.

GOVERNMENT WATCH...

President Obama's proposed fiscal year 2012 budget mentions changes which could impact real estate, from senior housing to brownfields. A sampling of proposed cuts:

On the chopping block is the \$18M **Brownfields Economic Development Initiative (BEDI)**, that's part of the Housing and Urban Development department. That local governments can access other sources of public and private capital was chief among the reasons for BEDI's cut. Citing a 1999 then-General Accounting Office report, the feds state BEDI-issued grants equated to \$25M of an estimated \$469M of federal capital directed to brownfield-related work during 1997-98.

Typically the funds had been used by municipalities to spur redevelopment of industrial, office, retail and other types of commercial real estate properties and sites tainted or potentially impacted by environmental contamination. The average grant size had been \$1.1M.

No more paper trail, seizure list to go online: Listings of seized and otherwise forfeited property is heading online, in an effort to shave \$1M from the budget. The Customs and Border Protection division of the department of Homeland Security plans to make the switch in 2012.

Senior housing getting old? Senior housing under the Department of Housing and Urban Development (HUD) Section 202 program is up for a 68% cut compared to 2010. If the proposed \$757M budget is approved, expect new construction and expansion to account for an estimated \$387M, as well as \$20M for apartment-to-senior housing conversion projects. The remaining capital will be directed to subsidy contract renewals, amendments and grants for ancillary services including support and congregate housing services.

On the flip side, nonprofit developers could tap the federal government's FY 2010 Assisted Living Conversion Program, for an estimated \$30M slated for conversion of apartments to assisted-living facilities. The deadline is March 29 for proposals; the competition ID is ALCP-33, and the funding opportunity number is FR-5415-N-33.

PLAYERS AND THE PLAYS THEY'RE MAKING...

Going where another company has gone before: Hedge fund investor Five Mile Capital Partners' pending \$5 per preferred stock purchase of REIT Prime Group Realty Trust, expected to close by the end

PLAYERS AND THE PLAYS THEY'RE MAKING...

Continued from Previous Page

Staying on is Prime Group Realty Trust President and CEO Jeffrey Patterson, along with John Sabin, Shawn Tominus and George Whittemore.

Also on the M&A front is the reported \$100M sale of ING Group's U.S. real estate investment management division to a joint venture between private equity company Lightyear Capital and ING Clarion Partners, in a deal likely giving pension fund and other partners pause for thought. The forthcoming acquisition follows an estimated \$940M sale of The Netherlands-based ING Group's international real estate investment management business to CB Richard Ellis Group.

SECONDARY MARKET SUBURBAN OFFICE ON THE UPSWING



HEALTHCARE WATCH...

Consolidation heads to the healthcare segment as dust from the Patient Protection and Affordable Healthcare Act of 2010 settles. Some companies will leap to further long-term goals, while others will take baby steps. More action is likely from senior housing public REIT Kindred Healthcare this year, after it solidifies by second quarter's end the first big ticket M&A of the year with a \$1.3B purchase of public company RehabCare.

Kindred Healthcare could have another \$250M to \$300M to fund what it calls continued growth opportunities, in addition to operations. With the RehabCare purchase, company execs look at bolstering their portfolio to 344 hospitals, nursing and rehabilitation centers encompassing more than 35,000 beds nationwide. The deal will give Kindred Healthcare a broader anchor in the long-term skilled nursing and acute-care hospital market. The investor expects to use \$1.6B of a \$1.9B mostly secured debt credit line when the acquisition is finalized. Writing that syndicated debt is JP Morgan, Morgan Stanley and Citigroup.

Typically the buyer has acquired and developed \$50M to \$100M worth of properties each year, and has pursued properties in the 100- to 150-bed range, while steering clear of assisted- and independent-living properties. It has looked in such markets as Boston, Indianapolis, Las Vegas and Louisville, Ky. Fellow healthcare REIT Ventas, among other companies, has sold assets to Kindred Healthcare.

Between now and 2013, Sunrise Senior Living could acquire from its JV partner all the interests in 29 senior housing properties located in Chicago, Detroit, Los Angeles, Minneapolis, New York, San Francisco, St. Louis, Washington, D.C., Colorado Springs, Colo., New Jersey and Ohio. Last month the buyer and JV partner CNL Lifestyle Properties took a majority position in the 2,082-bed portfolio comprising mostly assisted-living, followed by Alzheimer's care and independent living properties. CNL holds a 60% interest and Sunrise Senior Living owns 40%.

Medical Properties Trust looks at growing its stable of hospitals after coming off \$213M worth of acquisitions last year. Look for the company to deepen its foothold in the sector with a pending \$70M purchase of Alvarado Hospital in San Diego, Calif. Initial yields on new purchases are expected between 9.75% to 10.5%.

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