

ANOTHER TURN FOR MIDWEST APARTMENTS

Improving unemployment rates, occupancy rates and bank impatience with delinquent borrowers will stimulate the Midwestern apartment market this year with more sales. Expect more attention on primary and secondary regional markets including Indianapolis, Minneapolis/St. Paul, St. Louis, and bordering markets such as Louisville, Ky. Regional vacancy rates are expected to shrink 10% this year compared to 2010. Local and out-of-state investors' attention on primary and secondary markets is part of a broader expansion trend as they grow portfolios through new market entries. Active buyers **AFL-CIO Building Investment Trust, Cohen-Esrey Real Estate Services** and **Westdale Investment Partners** could vie for additional value-added properties throughout the region.

In Minneapolis, insiders notice a tightening rental market with cap rates ranging from sub-6% to 9%-plus for Class A through Class C properties. After seeking an initial market entry into the state for the past three to four years, what drew Westdale Investment Partners to the 534-unit, Class B Hampshire Hill complex was the property's size, occupancy history and location. It's located in southwest Minneapolis suburb of Bloomington, near the employment-rich Interstate 494 corridor. The purchase price equates to \$87,078 per unit at a 6.5%-range cap rate. Had the company decided to enter the market this time last year, they would have found a concession-pocked market. Occupancy rates for all types of apartments in the Minneapolis/St. Paul market rose to an estimated 96%, compared to an estimated 92% to 95% during early 2010.

More Properties Sought

Westdale Investment Partners is on its way to exceeding an estimated \$50M worth of properties acquired during 2010. Company dealmakers want more 200- to 300-unit properties and consider initial cap rates ranging from 6.5% to 8%-plus. Besides Minneapolis, of interest to the private investor is Class A and Class B product throughout Chicago; Denver; the Texas markets of Austin, Dallas and Houston; the North Carolina markets of Raleigh-Durham and Chapel Hill; in addition to greater Orlando and the southeast Florida region.

Look for interest in area apartments from the AFL-CIO Building Investment Trust (BIT), which has an estimated \$150M equity for value-added, one-off purchases in secondary markets including Minneapolis, St. Louis and Portland, Ore. The investor has plans to get active this year and will seek deals in the \$30M to \$50M range.

More trades are expected by Indianapolis market insiders who anticipate an uptick of Class A along with Class B trades this year, especially if lenders call in their chips and foreclose instead of extending loans. Word on the street says Illinois company JVM Realty Group, an area owner, had defaulted on a loan secured by the 220-unit Inverness Apartment Homes. Whether that augurs a flood of distressed property sales remains to be seen. Marketwide, however, cap rates for Class A and Class B properties can range from the low-6% range to upwards of 8.25%-plus depending on location and asset quality. The vacancy rate is expected to decrease into the low-7% range.

Value-added buyer Cohen-Esrey Real Estate Services wants to make \$120M worth of acquisitions through March 2012. Count on additional interest in Class B and Class C properties to reposition as Class B properties beyond a recent acquisition in existing market St. Louis and a new market entry into Louisville, Ky. Initial cap rates of more than 10% are targeted.

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DEALMAKER OF THE WEEK

Specialty private investor Athena Real Estate hires Matthew Allen as business development VP, and looks at new market entries into South Carolina and the Class B apartment market. The six-year-old investor wants to invest from \$25M to \$35M this year, mainly in self-storage facilities and manufactured housing community parks along the East Coast and throughout the Southeast and Northeast regions.

Stabilized and value-added storage properties measuring from 25,000 s.f. to 75,000 s.f. will take much of the company's interest. Attracting the buyer will be assets in markets with daily traffic counts ranging from 15,000 to 40,000 cars. Leveraged IRRs of more than 20% are sought, or more than a 6.5% going-in cap rate.

The company is also on the hunt for three-star-plus senior-oriented and conventional manufactured housing parks with a blend of mixed double-wide and single-wide homes. Later this year the company may enter the Class B apartment market; it's seeking 25- to 125-unit properties with better than 85% occupancy rates.

CONTACT: Athena Real Estate, 100 Mill Plain Road, Third Floor, Danbury, CT 06811. Richard O'Brien, (203) 791-3837 or Matthew Allen, robrien@athenarealestate.com or mallen@athenarealestate.com

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Earlier this year the buyer picked up the 76-unit Hampden Hall apartments in St. Louis, a property falling under a usual focus on 100- to 300-unit properties throughout the Midwest and Southeast. The 15-story Class B property, located five minutes west of downtown in the Central West End district, is close to the Cathedral Basilica of St. Louis, as well as shops and restaurants. Pundits expect area vacancy rates to decline into the high-6%/low-7% range this year; during 2010 vacancies straddled the high-7% to low-8% fence. Cohen-Esrey Real Estate Services counts asset concentrations in Illinois, Iowa, Ohio and Missouri, and will evaluate properties within a management footprint extending northeast from its Kansas

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> |
|-----------------|-----------------|-------------|--------------|-----------------|------------------|------------|
| Cincinnati | Apartments | 108 units | \$1.875M | 7% | 85% | 47 yrs. |

NOTES: Private investor PLK Communities paid an estimated \$17,361 per unit for the Class C Mayridge Apartments at 3179 Mayridge Court, in the city's Westwood district northwest of downtown. The deal is among a handful of Class B and Class C

Hotel REIT Performance
Equity Market Caps For the five largest U.S. public hotel REITs.

| <u>Company</u> | <u>Dec. 31, 2010</u> | <u>Dec. 31, 2008</u> | <u>Percent Change</u> |
|---------------------------------|----------------------|----------------------|-----------------------|
| 1. Host Hotels & Resorts | \$11.9B | \$3.9B | 205% |
| 2. Hospitality Properties Trust | \$2.8B | \$1.4B | 100% |
| 3. La Salle Hotel Properties | \$1.9B | \$453M | 319% |
| 4. Diamondrock Hospitality | \$1.85B | \$456M | 305% |
| 5. Sunstone Hotel Investors | \$1.2B | \$300M | 300% |
| Collective market cap: | \$20B | \$6.5B | 208% |

Source: National Association of Real Estate Investment Trusts. *Crittenden Real Estate Buyers* has rounded the market caps and calculated percent changes.

UPPER UPSCALE KEYS ATTRACT INVESTORS...

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Don't be surprised if more investors follow Ashford Hospitality Trust's lead in growing portfolios through foreclosures, joint ventures and majority interest purchases. The hotel REIT returned to the acquisitions fold for a 28-property portfolio of mostly upper-upscale and upscale hotels, in its first purchase since 2008. Ashford Hospitality Trust and JV partner Prudential Real Estate Investors (PREI) scooped up the properties following an Ashford Hospitality Trust-involved foreclosure and debt restructuring of the former Highland Hospitality portfolio. The portfolio comprises assets throughout the U.S., and deepens a foothold in Florida, Georgia and Texas, along with the Northeast and Mid-Atlantic regions. The blended cap rate is 6.1% based on income from the previous 12 months. Ashford Hospitality Trust takes a 71% majority position and PREI takes the balance.

Deep-pocketed REIT Host Hotels & Resorts has more than \$700M of acquisitions capital. Don't be surprised to see the big REIT acquire more than an estimated \$500M worth of deals booked during 2010, which comprised purchases in Chicago, New York, Brazil and New Zealand. The investor decides to add another slice to its Big Apple presence with the \$313M contract on the Helmsley Hotel in New York, a 775-key property it plans to upgrade.

Don't be surprised to see REIT Host Hotels & Resorts strike additional deals in the market, as New York properties rate among the investor's best by RevPAR, with Boston and New Orleans rounding out the lot. Expect more interest in markets able to support higher room rates by attracting more corporate travelers. Surprisingly, the Washington, D.C., market isn't at the top of the revenue heap. Caught in the throes of an austerity complex, the federal government shouldn't be expected to ratchet up demand for higher-priced rooms. Industry pundit PKF Consulting USA predicts the D.C. market's 2011 RevPAR growth at -0.4%.

An approaching market shift should compel LaSalle Hotel Properties to acquire additional properties beyond an \$80M leasehold purchase in Santa Monica, Calif., a western Los Angeles suburb. The REIT plans to use some of an estimated \$250M equity raise for acquisitions; an estimated \$516M worth of acquisitions were completed during 2010. Expect Boston, Chicago, Los Angeles, New York, San Diego, San Francisco, Seattle and Washington, D.C., upper-upscale keys to be high on LaSalle Hotel Properties' buy list. Properties requiring renovation and repositioning are favored, as are properties available at discounts to replacement costs.

DEALMAKER DATABANK™

| <u>Company/Address</u> | <u>Contact/Phone/Fax</u> | <u>Property Type</u> | <u>Buying Criteria</u> |
|----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------|--------------------------------------------------------------------------------------------|
| AFL-CIO BIT 1425 K St. N.W. Suite 900 Washington, DC 20005 | Jim Lingberg (202) 898-9190 jlingberg@aflcio-itc.com | Apartments | Pension fund to acquire, invest in secondary market apartments. |
| Alexander Mortgage REIT 245 Park Ave. 42 nd St. New York, NY 10167 | Forest Wolfe (212) 692-2000 Fax: (212) 338-9611 fwolfe@angelogordon.com | Securities | Aspiring public investor could diversify into CMBS market acquisitions from an RMBS focus. |

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|-------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|-----------------------------|-----------------------------------------------------------------------------------------|
| Ashford Hospitality Trust 14185 Dallas Parkway Suite 1100 Dallas, TX 75254 | Brian Hughes (972) 980-2700, ext. 9333 Fax: (972) 490-9605 bhughes@ahtreit.com | Hotels | Public investor acquires hotel portfolio with partner Prudential Real Estate Investors. |
| Behringer Harvard 15601 Dallas Parkway Suite 600 Addison, TX 75001 | Jason Mattox Kymberlyn Janney (214) 655-1600 Fax: (214) 655-1610 | Correction | Corrects contact listed in March 14 edition. |
| Brennan Investment Group 2340 River Road Suite 310 Des Plaines, IL 60018 | Kevin Brennan (847) 257-8800 Fax: (847) 257-8888 kbrennan@brennaninvestment.com | Industrial Value added | Private investor aims to acquire an estimated \$150M worth of industrial this year. |
| Broad Street Realty/ Broad Street Ventures 4833 Bethesda Ave. Bethesda, MD 20814 | Thomas M. Yockey (240) 482-1283 or (301) 828-1200 Fax: (301) 828 1201 | Industrial Single tenant | Private investor acquires single-tenant industrial buildings. |

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|--------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|---------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| Insight Realty Gro/Green Realty Trust 40 Chicago Ave. Suite 203 Chicago, IL 60610 | Rob Hannah (630) 470-9105 | All | Plans Green Realty Trust offering. |
| Homeown USA 112 N. Curry St. Carson City, NV 89703 | Pieter du Plooy (775) 321-8288 Fax: (775) 245-0036 | Apartments Distressed | Private investor plans to introduce public offering to acquire distressed apartments. |
| Host Hotels & Resorts 6903 Rockledge Drive Suite 1500 Bethesda, MD 20817 | James Risoleo (240) 744-1000 Fax: (240) 744-5494 | Hotels Upper upscale | Public REIT acquires upper upscale keys in Boston, Chicago, Los Angeles, New York, San Diego, Seattle and Washington, D.C. |
| LaSalle Hotel Properties Three Bethesda Metro Center Suite 1200 Bethesda, MD 20814 | Michael Barnello (301) 941-1500 Fax: (301) 941-1553 | Hotel Upper upscale | Public REIT acquires upper upscale keys nationwide. |
| PNC Realty Investors 1601 K St. N.W. Suite 1100 Washington, DC 20006 | Kevin McCarthy Rinse Brink (202) 496-4700 | Apartments Value-added | Investment manager acquires properties for AFL-CIO BIT. |
| The Rockefeller Group 1221 Ave. of the Americas New York, NY 10020 | John Bottomley (212) 282-2100 Fax: (212) 282-2574 | Industrial Multitenant Single-tenant | Institutional investor seeks properties nationwide. |
| Schottenstein Property Group Schottenstein Realty Trust 4300 E. Fifth Ave. Columbus, OH 43219 | Jeff Gould Joseph A. Schottenstein (614) 445-8461 Fax: (614) 445-7373 | Retail Shopping Center | Investor prepares a \$517M public offering that could result in an NYSE listing under the symbol SCRT. |
| Waterton Associates 30 S. Wacker Drive Suite 3600 Chicago, IL 60606 | David Schwartz (312) 948-4500 Fax: (312) 948-4501 dschwartz@wallc.com | Apartments Value-added Note purchases | Private investor rolls out fund to acquire Class A and Class B apartments nationwide. |
| | Mark Stern (312) 948-4500 Fax: (312) 948-4501 | | |
| Westdale Investment Partners 55 W. Monroe St. Suite 3625 Chicago, IL 60603 | Bill McDougall (312) 263-9440, ext. 12 Fax: (312) 263-9441 bmcdougall@westdaleip.com | Apartments Value-added | Private investor scans Midwest and Southeast for Class A and Class B apartments. |

PLAYERS AND THE PLAYS THEY'RE MAKING...

Expect Waterton Associates' \$1.5B Residential Property Venture XI to pursue apartments in a blend of fee-simple and distressed property acquisitions. The private investor will target such primary markets as Boston, Chicago, Dallas, New York and Washington, D.C., and other cities for properties priced from \$5M to \$100M. Fee-simple and note purchases will be on their radar.

With a \$1B acquisitions target for 2011 and more than half its \$900M equity fund ready for buys, **The Praedium Group** could be a Waterton Associates competitor. The private equity group will focus on Class A and Class B apartment complexes typically priced from \$15M to \$75M. Of interest are properties in Boston, Los Angeles, New York and Washington, D.C., as well as Florida and Texas and other primary markets throughout the East and West coasts. It also looks at office properties priced at more than \$20M. The Praedium Group has acquired notes and will consider recapitalizations for all property types.

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|-----------------|-----------------|-------------|--------------|-----------------|------------------|------------|
| Boston | Hostel/Lodging | 22,000 s.f. | \$4.75M | N/A | N/A | 100 yrs. |

NOTES: Private investor and fund sponsor Charles River Realty Group/Hemenway Realty Ventures LLC paid an estimated \$215.90 psf for a hostel/lodging property at 12 Hemenway St. in Boston. The sale/leaseback of the four-story building was triggered by seller Hostelling International Boston's plan to construct another property at 25 Stuart St., with completion scheduled mid-2012. Charles River Realty Group plans to acquire mainly apartment and retail properties throughout the Northeast; it's working on a couple of deals in New Hampshire and Maine. Colliers International was the broker.

CONTACTS: Charles River Realty Group/Hemenway Realty Ventures LLC, 1461 VFW Parkway, West Roxbury, MA 02132. Michael Argiros, (617) 469-7368; fax: (617) 325-6800. karen@charlesriverrealty.com

Broker: Colliers International, 160 Federal St., 11th Floor, Boston, MA 02110. Leigh Freudenheim, (617) 330-8116.

PLAYERS AND THE PLAYS THEY'RE MAKING...



TICs TALK DOUGH

Cracks in newly formed Daymark Realty Advisors' tenant-in-common portfolio highlights widespread challenges partially triggered by decimated property values unable to support original underwriting — especially when debt matures. Although what's approaching Daymark Realty Advisors won't likely