CRITTENDEN Real Estate Buyers™

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FRACTURED CONDOS ATTRACT INVESTORS

The thrill isn't gone for value-added apartment investors looking for pieces of the condominium juggernaut that crashed into the economy's brick wall and broke out thousands of defaulted properties and nonperforming loans as a result. Fractured condominium-sales velocity this year isn't expected to mimic the fervor of 2009-10, but there should be more space for buyers to effectively bid on deals in markets such as Chicago, Southern California and South Florida, because big-bulk buyers already got what they wanted. Now that occupancy rates are again on the rise, lenders that were able to hold busted condos should be looking to dispose at better returns. Generally speaking, cap rates are pegged in excess of 5% for failed condos, which is a slight premium to apartment cap rates trending in the 4%-plus range nationwide.

Waterton Associates, Phoenix Realty Group and **R&V Management** are in the diverse group of interested buyers.

Waterton Associates' purchase of The Mondial River West condominium complex in Chicago for approximately $30M is the company's first fractured condominium deal since 2008 — acquired after one of the company's fastest closings in more than 10 years. Furious bidding kept Waterton Associates and other investors away during 2009-10. Look for the opportunistic buyer this year to put some of its estimated $500M equity/$1.5B all-in Waterton Residential Property Fund XI to work in acquiring fractured condominiums, as well as note purchases and affordable housing, to complement its main fare of Class A and Class B value-added through stabilized apartment complex purchases nationwide. During 2010 the buyer acquired $400M of debt; the buyer also foreclosed on some of the assets collateralizing the paper and was paid off on other notes.

Five days after contracting to acquire 124 units of the 141-unit property in Chicago's River West submarket, Waterton took title. Helping expedite acquisitions was due diligence performed before the contract; the 15-story property is less than two miles away from Waterton Associates' headquarters, and comprises a mix of one-, two- and three-bedroom units, plus one four-bedroom condo-turned apartment. Upgrades to the property will include an exercise facility.

Scouring Metro Areas

Following the buy, count on Waterton Associates' dealmakers to keep their eyes open for 150 unit-plus properties in primary metro areas nationwide. Urban and transit-oriented properties will rate high on their go-to list. Chicago's vacancy rate is expected to continue its declining trend and dip into mid- to low-5% range by December, with flat to negligible rent growth projected.

Rent growth in South Florida slowly inches northward, but painfully short of New York City. The buzz about South Florida will likely be minimal compared to the past two years — since much of the fractured condominiums were acquired and returned to the market as rentals. Approximately $1.134B worth of fractured Florida condominiums traded last year in 67 bulk-sale transactions, according to Apartment Realty Advisors' research that also notes southern Florida occupancies hovering above 95%. However, more deals should occur this year beyond recent buys including the 856-unit Villa Bellini in Miami Lakes and the 440-unit Oasis in Fort Myers.

Although many lenders decided to take their haircuts early, rather than wait for a market shift to potentially drive higher returns, more distressed assets will hit the market.

STRAIGHT FROM THE MARKET

Location	Property	Size	Price	Cap Rate	Occupancy	Age
W. Palm Beach, Fla.	Office	295,933 s.f.	$126.5M	6.5% to 7%	86%	3 years

NOTES: Public nontraded KBS Real Estate Investment Trust II paid an estimated $427.46 psf for the City Place Tower office and retail building in the West Palm Beach, Fla. central business district. The mixed-use buildng comprises 8,390 s.f. of ground-floor retail space topped by 17 stories of office space occupied by tenants Carlton Fields, Cleveland Clinic, Edwards Angell, INTECH Investment Management and Regions Bank, among others. The marketed deal took 50 days to execute from contract to an April 6 closing.

Attracting the buyer to the deal was City Place Tower's location that is part of the broader 1.9 million s.f. City Place mixed-use development.. The company will continue a South Florida market focus in addition to other markets nationwide. The market's vacancy rate is in the 18%-plus range, depending on who's crunching the numbers. Class A properties should rate the most attention from KBS REIT II, although Class B properties will be considered depending on location; assets valued at more than valued at more than $20M will be pursued. In addition to office, both multitenant and single-tenant industrial warehouse/distribution properties will be sought.

Affiliate company KBS Capital Markets recently appointed Jeffrey Pucker as regional VP of Florida. He is charged with managing broker/dealer and registered investment adviser relationships for the company.

CONTACTS: KBS REIT II, 590 Madison Ave., 26th Floor, New York, NY 10022. Shannon Hill, (212) 644-6662; fax: (212) 644-1372. shill@kbsrealty.com

Brokers: Eastdil Secured New York, Douglas Harmon 40 W. 57th St., 22nd Floor, New York, NY 10019. (212) 315-7200. Eastdil Secured Atlanta, 3414 Peachtree Road NE, Suite 1450, Atlanta, GA 30326. Michael McDonald and Miles Theodore, (404) 487-1100.

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In Miami, word on the street says public REIT iStar Financial recently foreclosed on the 346-unit Paramount Bay project built by developer Royal Palm Communities, and that an auction of the North Bayshore Drive high-rise asset is slated for early May; the asset secured a $200M-plus note.

What iStar Financial chooses to do with $588M worth of nonperforming apartment and residential loans, out of a total $1.35B nonperforming loan portfolio, could stoke additional deals. An estimated $268.5M and $214M worth of nonperforming loans, respectively collateralized by land and retail assets, also dominate the bulk of iStar's nonperforming note portfolio.

SoCal Occupancy Rates on the Rise

In San Diego, where occupancy rates are expected to improve to 96.5% to 97%, buyers such as R&V Management will pursue off-market buys to get the deal done. The private buyer approached developer Pardee Homes and scooped up 52 completed units from the planned 212-unit RiverEdge Terrace project, located in the South Bay submarket city of Chula Vista, about 14 miles south of downtown San Diego. Also included in the deal are 13 acres, plus plans and amenities including a clubhouse, swimming pool and tennis courts. At buildout, expected by third quarter of 2012, the property will comprise 21 buildings with 10 one-, two- and three-bedroom units, each with garages, per two-story building.

R&V Management manages the existing 52 units and will operate the property as apartments upon buildout while eyeing a potential exit through a sale to an institutional investor. The project, located within the Ocean View Hills masterplanned development, is in the latter stages of the permitting process.

Although R&V Management had studied and scanned the nearby Inland Empire market along with Las Vegas, Phoenix and Seattle, it didn't buy and will instead continue looking throughout San Diego County for 100 unit-plus apartment complexes. The company doesn't have a prescribed purchase price range but it seeks properties with more than 100 units. Cash-on-cash returns of more than 5%, and overall leveraged returns in the 15% to 20% range, are targeted. R&V Management focuses on the San Diego County apartment market and counts more than 6,000 units in its portfolio. Company brass has looked at a lot of fractured condo deals, but won't be interested in future deals unless there's control of the condominium homeowners' association. Lapsed condominium developments are on the table, however.

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Private workforce housing buyer Phoenix Realty Group could acquire additional fractured condominiums as part of a broader value-added apartment acquisitions strategy. Generally, condominium developments that were originally intended for sale will be held, operated and sold as apartment complexes. Exceptions will occur in markets — such as New York City — where expectations of 6% range rent growth and continued rising occupancies into to 97%-plus range could be enough for investors to instead adopt a buy-to-flip approach.

Look for company dealmakers to use an estimated $200M of acquisitions capital this year to mostly acquire operating and value-added apartments throughout the Los Angeles and New York metro areas, typically in deals priced from $20M to $70M. Similar to its apartment approach, the company will enter joint ventures for fractured condominium deals. Properties with lower than prevailing market cap rates will be considered if there's potential for a higher-than-average exit return.

More condominium purchases this year should occur and follow an acquisition of a sidelined 242-unit condominium project in the Inland Empire city of Rancho Cucamonga, Calif., about 42 miles northeast of downtown Los Angeles. The Sunridge Pines complex features a mix of one-, two- and three-bedroom units with two-car garages, and is close to Interstate 210. Before that purchase, the company in April 2009 acquired 71 unsold condominiums-turned-apartments in a Palisades Park, N.J. asset called The Trio, which comprises 140 units and is operated as an apartment complex.

OFFICE INVESTORS INCREASE EFFORTS

Private investors cast aside doubts about the office market's strength and will increase acquisitions in the multitenant sector this year. Spurring activity and heightening the acquisitions buzz is a projected 15% to [redacted]

DEALMAKER OF THE WEEK

Prism Capital Partners aims to ratchet up its acquisitions appetite this year for close-in Manhattan markets thorughout the New York Tri-State area. Look for the the private company to buy $100M worth of properties per year. Apartment, industrial, office and retail buildings are considered for various strategies including adaptive reuse and redevelopment and repositioning; vacant properties are also considered. There's interest for properties priced from $10M to $150M, which can also apply to total project values for construction and development. Total leveraged returns of more than 10% are on the buyer's radar, yet deals producing less may be considered depending upon location and asset quality.

CONTACT: Prism Capital Partners, 50 Grand Ave., Englewood, NJ 07631. Eugene Diaz, (201) 567-2711, ext. 5517; fax: (201) 567-5517. Eugene.diaz@prismpartners.net

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New York City has been a popular market for Savanna Investment Management. During 2010 it acquired six office buildings totalling 2.2 million s.f.

Downtown Pittsburgh is where private investor Mark Karasick, who has been tied to various single-asset entities and joint ventures including the 601 West Associates entity, led an investment group's acquisition of the 2.3 million s.f. U.S. Steel building. The estimated $108.69 psf deal likely closed at a cap rate in the 6% to 7% range. If other secondary market vacancies continue tightening in line with Pittsburgh, expect to see even more competition. Pittsburgh posts an estimated 12% vacancy rate. Karasick, as part of a joint venture with Shorenstein Properties, is also on the sale side. REIT RXR Realty will acquire the 2.3 million s.f. Starrett-Lehigh Building in New York from the pair, at a price estimated at $391.30 psf.

Don't be surprised if CB Richard Ellis Realty Trust furthers its stake in suburban office markets through joint venture partnerships. The buyer recently acquired 13 properties in the Ohio markets of Cincinnati and Columbus, along with Minneapolis and Fort Lauderdale, Fla., with public REIT partner Duke Realty. Rounding out the acquisitions is a pair of Chicago properties. The company also further boosted holdings in its top market of New York, where it recently acquired the 70/90 Hudson building. So far this year CB Richard Ellis Realty Trust has purchased an estimated $585M worth of properties; during 2010 the buyer acquired $800M worth of assets.

Watch for Hudson Pacific Properties to move multitenant and single-tenant buildings and loans secured by assets in suburban markets throughout California. The investor has targeted infill suburban markets and central business districts throughout the Golden State.

DEALMAKER DATABANK™

Company/Address	Contact/Phone/Fax	Property Type	Buying Criteria
Brookfield Office Properties Three World Financial Center 200 Vesey St. 11th Floor New York, NY 10281	Ric Clark (212) 417-7000 Fax: (212) 417-7214	Office Value-added	Investor considers value-added office acquisitions in markets including Houston, New York and Washington, D.C.
New Generation Fund 315 W. Ninth St., Suite 801 Los Angeles, 90015	Jacqueline Waggoner (213) 787-8229 jwaggoner@enterprisecommunity.org	Affordable housing	Fund issues loans to developers and buyers.
Denver TOD Fund 899 Logan St. Suite 300 Denver, CO 80203	Melinda Pollack (303) 376-5405 mpollack@enterprisecommunity.org	Affordable housing	
1 Whitehall St. 11th Floor New York, NY 10004	Shola Olatoye (212) 284-7186 solatoye@enterprisecommunity.org	Affordable housing	

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Company/Address	Contact/Phone/Fax	Property Type	Buying Criteria
Gemini Real Estate Advisors 200 Park Ave. South Suite 1305 New York, NY 10003	Dante Massaro (704) 895-7845 dmassaro@gemini-re.com	Hotels	Private investor has an estimated $300M to $500M for hotel purchases.
Grubb & Ellis Co. 1151 N. Tustin Ave. Suite 300 Santa Ana, CA 92705	Mike Rispoli (714) 667-8252 Fax: (714) 667-6860		Public investor on NYSE watch list.
Hudson Pacific Properties 11601 Wilshire Blvd. Suite 1600 Los Angeles, CA 90025	Victor Coleman Howard Stern (310) 445-5700 Fax: (310) 445-5710	Office Value-added	Public investor acquires office buildings throughout California.
Phoenix Realty Group 645 Madison Ave. Fifth Floor New York, NY 10022	Stephen A. Scioscia (East Coast) (646) 502-4479 sscioscia@phoenixrg.com	Apartments Condominiums Value-added	Private investor considers fractured and broken condominiums in addition to a main focus on apartments nationwide.
Watt Plaza Suite 2150 1875 Century Park East Los Angeles, CA 90067	Alex Saunders (West Coast) (310) 598-2691 asaunders@phoenixrg.com		
RREEF 101 California St. 26th Floor San Francisco, CA 94111	Andrew Harper (415) 781-3300	Office Stabilized	Pension-fund adviser acquires suburban office buildings in addition to apartments, industrial and retail.

[redacted]

STRAIGHT FROM THE MARKET

Location	Property	Size	Price	Cap Rate	Occupancy	Age
Chandler, Ariz.	Land	18 acres	$3.5M	N/A	N/A	N/A

NOTES: Private investor Investment Property Associates (IPA) and joint venture partner The P.B. Bell Cos. paid an estimated $80.34 psf — or $194,444 per acre — for a development-ready parcel located at Arizona Avenue and Queen Creek Road. The pair plan to take advantage of signs pointing to a potential supply/demand imbalance in coming quarters. Employers expanding in the market include Intel Corp., and the PayPal division of eBay, which translates into additional area jobs that could further shrink the area's estimated 9.29% vacancy rate. IPA and The P.B. Bell Cos. plan to construct a 322-unit Campanello project, a Class A complex comprising one-, two- and three-bedroom units. In 2009 IPA struck initial market entry into Arizona with its purchase of the 488-unit San Melia apartment complex that's located about 12 miles northwest of the development site.

CONTACTS: IPA, 1600 S. Beacon Blvd., Suite 260, Grand Haven, MI 49417. Erin Mock, (616) 846-6900; fax: (616) 846-9251.

The P.B. Bell Cos.: 8434 N. 90th St., Suite 100, Scottsdale, AZ 85258. Debbie Willis, (480) 951-2222; fax: (480) 951-2426.

Brokers: Colliers International, 2390 E. Camelback Road, Suite 100, Phoenix, AZ 85016. Brad Cooke and Cindy Cooke, (602) 222-5088; fax: (602) 222-5001. brad.cooke@colliers.com

THE BUYER'S BUREAU...

Following its merger with ZMI Real Estate, look for Peregrine Realty Partners to descend upon multitenant office and industrial properties throughout Southern California. The combined company, which targets $50M to $100M worth of acquisitions through December, mainly considers stabilized properties with more than 70% occupancy rates. Value-added acquisitions of sub 70%-leased buildings will be complemented with value-added acquisitions of even lower occupancy to vacant buildings throughout Southern California. Cash-on-cash returns of more than 7% are sought; leveraged IRRs of more than 15% are sought in value-added deals.

The merger closed in late February, after six months of discussions between principals who were acquainted with each other long before the deal. Peregrine Realty Partners counts two office properties in the Southern California cities of Long Beach and Temecula. ZMI Real Estate's Stephen Zotovich has [redacted]

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In New York City, through its $150M New York City Acquisition Fund, Enterprise Community underwrites land and developed property acquisitions, in addition to predevelopment, remediation and additional real estate-related costs.

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Talk that the suburban office market is slowly regaining traction grows louder. Watch for additional institutional investors and pension-fund advisers, such as RREEF, to join the conversation and dive deeper into markets such as the Silicon Valley city of Palo Alto., Calif. Word on the street says the pension fund adviser likely paid $850 to $900 psf for a 71,827 s.f., fully leased multitenant office building at 100 Hamilton Ave. The cap rate for similarly sized and occupied assets could trend into the mid-6% range. [redacted]

APARTMENT REITS HEAT UP ACQUISITIONS TEMPO

Public apartment REITs prepare to further dig their heels into the value-added sector. Uncertainties swirl around Fannie Mae and Freddie Mac long-term stability, so expect REITs to acquire while debt costs remain low. The projected 6% nationwide vacancy rate is expected to further decline because of the relative lack of construction during the past three years. Expect to see more land purchases for new construction and redevelopment plays as the sector does its part to address a potential supply/demand imbalance. Cap rates have dipped into the 4% range for tight, primary markets. Expect this compression to drive buyers into more opportunistic markets with higher cap rates and vacancy rates.

Associated Estates Realty, a buyer and developer, plans to acquire $50M to $150M worth of properties through December. The company plans to further its presence through acquisitions and development in markets such as Dallas, Nashville, Tenn., and northern Virginia, while it continues a dispositions plan for older assets and those in markets lacking economies of scale.

Don't be surprised if the company further steps outside its footprint markets of Florida, Georgia, Indiana, Maryland, Michigan, Ohio, Tennessee, Texas, Virginia and Washington, D.C., for properties valued from $15M to $250M, in one-off and portfolio deals.

Home Properties' growing confidence in net operating income growth through 2013, along with stabilizing cap rates, supports a belief that the time is now to acquire properties. The company has approximately $275M for acquisitions this year. Of interest are the Northeast and Mid-Atlantic markets as Boston, Baltimore, Washington, D.C. and northern Virginia, in addition to New Jersey, New York, Pennsylvania and Virginia.

Look for company interest in Class A, Class B and Class C properties with more than 150 units; one-off and portfolio deals are considered. The investor acquired more than $300M worth of properties during 2010.

Watch for Colonial Properties Trust to balance its development plans with Class A apartment complexes throughout the Sun Belt and beyond. Consistent with its plan to acquire newly constructed properties, look for additional interest in Las Vegas — where it paid an estimated $120,821 for each unit of the Acapella complex. The North Las Vegas property is 95% leased.

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