

## **HOTEL REITs BOOST ACQUISITION ACTION**

Several hotel investors will take advantage of continued low costs of capital while eyeing non-core properties for disposition as credit lines come due. Many REITs will likely extend their credit lines until next year, when revenues per available room (RevPAR) are expected to increase. In the meantime, companies will remain busy renovating assets in portfolio in hopes of scoring better refinancing when mortgages and credit lines mature. Insiders notice cap rates in the 5% to 6% range for full-service primary market hotels, while properties in lesser-demand interior markets offer returns in the mid-7% to 8% range. Look especially for public REITs, including **DiamondRock**, **Hospitality Properties Trust**, **Host Hotels & Resorts** and **LaSalle Hotel Properties**, to scour markets for available properties.

Because many REITs expect 7% to 8% portfolio RevPAR growth this year, expect more to increase sales efforts to capture momentum. While any increase is good, it is less than great when compared to an 18% RevPAR decline off the market's apex. Watch for increased interest in the business traveler and gateway segments, particularly if job growth speeds up. Buyers may peruse suburban markets of gateway cities and secondary markets if primary market properties are too hotly bid up.

The hotel market is lukewarm, at least if investors' hesitant bidding on **RLJ Lodging's** recent IPO reflects the wider sentiment about the hotel market. Last month's offering took the company's Fund II and Fund III to the next level and raised close to \$500M, but fell short of the company's per-share pricing expectations. Even so, look for RLJ dealmakers to pursue limited- and some full-service hotels with flags including Courtyard by Marriott, Embassy Suites, Homewood Suites by Marriott and Hyatt Place.

### **Business Travel Means Income Boom**

Host Hotels & Resorts has nearly \$600M of cash and available debt for acquisitions of full-service assets nationwide. The largest public U.S. REIT notices larger hotels performing better than smaller ones, a trend likely driven by the business travel segment. The investor notices strong growth patterns and expects occupancies to continue driving average daily room rates. There were notable first quarter RevPAR increases in its top market of San Francisco, followed by San Diego, Hawaii, New Orleans, Phoenix, Boston and San Antonio, Texas, with RevPAR increases from 1.3% to 24.3%. New York and Philadelphia were the company's worst performers because of property renovations. Dispositions later this year and into 2013 could be likely for non-core and larger hotels.

### **Capitalizing on Market Improvements**

Hospitality Properties Trust has more than \$650M of cash and credit for potential acquisitions. The company saw a 7.5% RevPAR increase during the first quarter, which was driven by average occupancy increases and slight rate hikes. The company's top-performing markets by RevPAR during the first quarter include New England and the Northeast. The suburban upscale and midscale hotel buyer noticed more than 10% RevPAR growth during the first quarter, compared to 2010, for Country Inn Suites, Radisson, Candlewood and InterContinental Hotels Group (IHG) flags. Don't be surprised if the REIT casts off more assets, beyond talk of selling four IHG-flagged properties for an estimated \$47M, if it makes additional efforts to capture a slightly improving market shift. As with other REITs, the suburban upscale and midscale hotel buyer faces debt maturities later this year, in October 2011, if it chooses not to exercise a yearlong extension option.

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**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>
Hillsboro, Ore.	Shopping Center	6,313 s.f.	\$1.8M	mid-7% range	100%	30 yrs.

NOTES: Private investor Atlas Investments LLC paid an estimated \$285.12 psf for this strip center at 2495-2515 NW Towne Center Drive, near 185<sup>th</sup> Street and Evergreen Parkway. The property is close to another asset the investor acquired a couple months before. The center, located 20 miles west of downtown Portland, is fully leased to tenants including Bank of the West. Cap rates for comparable properties could trend in the 7.5% range. Expansion at the Tuality Community Hospital, and a location relatively close to Nike headquarters, are among reasons why the deal was attractive. Other companies active in Hillsboro include biotechnology firm Genentech.

Look for the Oregon-focused investor's interest in various types of necessity-based retail such as drugstore- or grocery-anchored centers including shadow and strip centers. Atlas Investments does not want regional malls or power centers. The investor has acquired properties in Oregon cities including Bend, Eugene, Salem, Sandy and Tillamook. It has acquired properties valued up to \$36M. Properties ripe for value-added work including vacancies or slight repositioning are considered in addition to relatively stabilized properties. Investor/developer Atlas Investments holds a 14-property portfolio dominated by Oregon retail, as well as industrial and office properties.

CONTACT(S): Atlas Investments LLC, 333 NW 9<sup>th</sup> St., Suite 1009, Portland, OR 97129. Katy Durant, (503) 241-9309; fax: (503) 241-9299.

Broker(s): Norris Beggs & Simpson, 121 SW Morrison St., Suite 200, Portland, OR 97204. Chris Johnson and MaryKay West, (503) 223-7181. cjohnson@nbsrealtors.com and mwest@nbsrealtors.com

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DiamondRock Hospitality could use an estimated \$500M of cash and debt to acquire more deals for a growing portfolio that recently added two properties in Denver and New York City for approximately \$408M.

Look for DiamondRock to show interest in upper upscale full-service, to expand its footprint of urban markets and business-centered hotels. Properties in Los Angeles, Miami Beach, Fla., San Francisco and Seattle may be of interest to the buyer as it scans business-focused and primary markets nationwide for upscale hotels. The investor's portfolio is flush with properties in Atlanta, Boston, Chicago, Los Angeles and New York. Additional nonperforming loan purchases may also be considered subsequent to its purchase of the mortgage securing the Allerton Hotel in Chicago.

LaSalle Hotel Properties has approximately \$425M of cash and debt for acquisitions and saw 7.1% RevPAR growth during the first quarter. Time will tell if the full-service hotel buyer decides to acquire beyond its leasehold purchase of a Santa Monica, Calif., hotel. If the company decides to pursue additional purchases in the market, it may compete against fellow East Coast hotel REIT Hersha Hospitality Trust, which recently made an initial entry into California with a purchase in Los Angeles.

**INDUSTRIAL BUYERS STRIKE**

Slightly improved financing options and rising values will inspire increased interest in multitenant buildings coast-to-coast. Look for more purchases from **BlackRidge Real Estate Group, Cabot Properties, Heitman, Industrial Developments International (IDI), Lingerfelt Cos. and Overton Moore Properties**, which are all vying for industrial nationwide through portfolio and one-off value-added buys. Cap rates will remain tightest for coastal stabilized properties trading in the 5% to 6% range, and move up from there. Expect more interest in opportunistic and secondary markets if new construction becomes justified. Lenders warming to value-added deals will further spur competition and, potentially, drive down cap rates.

Private buyer BlackRidge Real Estate Group has \$150M equity for acquisitions this year and seeks larger single- and dual-tenant distribution properties, along with a core focus on value-added and stabilized warehouse and distribution buildings measuring more than 100,000 s.f. Look for the buyer to acquire a trio of properties totaling 500,000 s.f. by August.

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**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>
Austin, Texas	Apartment	45 units	\$2M+	6%	100%	40 years

NOTES: Private buyer Goldman Longland LLC likely paid more than \$44,000 for each unit of the garden style Chaparosa Apartments located at 3110 Red River St., about six blocks northwest of the University of Texas at Austin. The market rate-housing property counts students and nonstudents among tenants.

CONTACT(S): Goldman Longland LLC, 3110 Red River St., Suite 207, Austin TX 78759. Jenny Chang, (512) 662-0592; fax: (512) 335-8804.

Broker(s) for seller: 901 S. MoPac Expressway, Barton Oaks Plaza II, Suite 275, Austin, TX 78746. ARA Andrew Shih, (512) 637-1219. ashih@arausa.com

**INDUSTRIAL BUYERS STRIKE...**

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Typical deal sizes for BlackRidge Real Estate Group range from \$5M to \$100M. Interest in Phoenix, in addition to Southern California's Los Angeles and Orange counties, Inland Empire and San Gabriel Valley regions are on the short list.

Additional deals from BlackRidge Real Estate Group could resemble a recent purchase in the western Phoenix suburb of Tolleson, Ariz., where the company acquired a 69%-occupied property at a 50% discount-to-replacement cost. Cap rates could trend in the 5% to 7% range.

Look for IDI to strike additional buys for its core fund called North American Logistics Investors (NALI). The investor made its first acquisition of the year in mid-May, with a \$180M purchase of single-tenant and multitenant distribution and warehouse buildings constructed less than 10 years ago. Look for additional NALI interest in Atlanta, Memphis, Cincinnati, Chicago, Dallas, Los Angeles and Florida, for \$5M to \$500M deals. IDI is mostly focused on acquisitions in the top 30 U.S. markets for core through value-added acquisitions. The all-cash buyer wants warehouse/distribution properties with minimum clear heights of at least 24 feet. Additional markets on the company's go-to list are Baltimore/Washington, D.C., Indianapolis, Phoenix, New Jersey, and eastern Pennsylvania.

Look for The Lingerfelt Cos. to seek out value-added and stabilized industrial properties with approximately \$100M of acquisitions capital for deals through December. It currently evaluates an estimated \$40M worth of properties, which may include some industrial assets. Anticipate interest in single-tenant and multitenant properties valued in excess of \$2M. Properties south of Pennsylvania and throughout the Sun Belt region are preferred. For new market entries, expect the private buyer to seek \$5M-plus deals. Targeted cap rates for stabilized assets hover in excess of 7.5% to 7.75%. Value-added properties turning 10%-plus cap rates also have been acquired, depending on the risk.

An estimated \$150M of acquisitions capital remains in Overton Moore Properties' OMP Industrial III fund, mainly scanning for Class A and Class B properties throughout the Arizona cities of Phoenix and Tempe, in addition to Reno and Las Vegas and, in California: Lathrop, Tracy, Stockton, and the Silicon Valley and Southern California regions. The investor has an estimated \$35M worth of properties under contract that it expects to close on sometime this summer. Properties are acquired at discounts to replacement costs, similar to a \$55 psf purchase of a 50%-leased Class A warehouse/distribution asset in Riverside, Calif. For its repositioning strategy, expect interest in properties that can be renovated from grade level to dock-high levels, or renovations to increase dock door space and property ingress and egress. Flex, light industrial and warehouse/distribution space with single or multiple tenants are of interest.

**DEALMAKER DATABANK™**

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
American Realty Capital Trust 405 Park Ave. 12 <sup>th</sup> Floor New York, NY 10022	William Kahane (212) 415-6503 wkahane@aricap.com	Single-tenant	Public investor acquires net-leased properties nationwide.
106 Old York Road Jenkintown, PA 19046	Jason Slear (215) 887-2189 jslear@aricap.com		
BlackRidge Real Estate Group 215 Union Blvd. Suite 405 Lakewood, CO 80228	Anthony Brent (310) 428-2444 abrent@blackridgereg.com	Industrial	Private investor seeks value-added properties nationwide.
Cabot Properties 1 Beacon St. Suite 1700 Boston, MA 02108	Pat Ryan (617) 305-6121 Fax: (617) 723-4200 pryan@cabotprop.com	Industrial	Private investor and developer could exceed last year's acquisitions volume.
Cole Real Estate Income Trust 2555 E. Camelback Road Suite 400 Phoenix, AZ 85016	Kim Kundrak (602) 778-8700 Fax: (602) 778-8780	Single-tenant	Public investor acquires single-tenant properties nationwide.
DiamondRock Hospitality Three Bethesda Metro Center Suite 1500 Bethesda, MD 20814	John Williams (240) 744-1150 Fax: (240) 744-1199	Hotel	Public investor acquires upscale full-service hotels nationwide.
Government Ppts. Income Trust 255 Washington St. Newton, MA 02458	David Blackman (617) 219-1440 Fax: (617) 219-1441	Government-leased	Public investor acquires government-leased properties.
Heitman 191 N. Wacker Drive Suite 2500 Chicago, IL 60606	John Clement (312) 541-6771 Fax: (312) 855-0455 john.clement@heitman.com	Industrial	Institutional investor acquires industrial nationwide.
Hospitality Properties Trust Two Newton Place 255 Washington St. Newton, MA 02458	John Murray (617) 964-8389 Fax: (617) 969-5730 acquisitions-dispositions@hptreit.com	Hotel	Public investor typically acquires suburban midscale and upscale hotels.
Host Hotels & Resorts 6903 Rockledge Drive Suite 1500 Bethesda, MD 20817	Jim Risoleo (240) 744-1000 Fax: (240) 744-5494 jim.risoleo@hosthotels.com	Hotel	Public investor acquires full-service assets.
Industrial Developments Intl. (IDI) Eleven Hundred Peachtree 1100 Peachtree St. Suite 1100 Atlanta, GA 30309	Greg Ryan (404) 479-4000 Fax: (404) 479-4162 gryan@idi.com	Industrial	Private investor scans core to value-added segments for properties.
Inland Private Capital 2901 Butterfield Road Oak Brook, IL 60521	Matt Bigham (630) 218-8000 Fax: (630) 645-2702	Single-tenant	Non-traded REIT acquires single-tenant and other types of assets nationwide.

**DEALMAKER DATABANK™***Continued from Previous Page*

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Kaufman Jacobs (cont'd)	Scott Goldman sg@revisiongrp.com	See Previous Page for Property/Buying Criteria	
Lingerfelt Cos. 3811 Westerre Parkway Suite G Richmond, VA 23233	Alan Lingerfelt Ryan Lingerfelt (804) 270-0015 Fax: (804) 270-0775	Office, Industrial	Private investor acquires office and industrial properties throughout the Mid-Atlantic and Southeast regions.
Hersha Hospitality Trust 510 Walnut St. Ninth Floor Philadelphia, PA 19106	Ashish Parikh (215) 238-1046 Fax: (215) 238-0157 ashish@hersha.com	Hotel	Public company strikes West Coast expansion.
NGP V 1750 Tysons Blvd. Suite 200 McLean, VA 22102	Kimo Phillips Fran Cowan (703) 760-9215 kp@ngpv.com fc@ngpv.com	Government- leased	Company acquires government- leased properties nationwide.
Overton Moore Properties 19300 S. Hamilton Ave. Suite 200 Gardena, CA 90248	Timur Tecimer (310) 323-9100 Fax: (310) 608-7997 ttecimer@omprop.com	Industrial	Private investor acquires various Class A and Class B properties throughout Arizona, California and Nevada.
RLJ Lodging Trust 3 Bethesda Metro Center Suite 1000 Bethesda, MD 20814	Kate Henriksen (301) 280-7777 Fax: (301) 280-7791	Hotel	Public investor looks to acquire hotels following recent IPO.
STORE Capital 8501 E. Princess Drive Scottsdale, AZ 85255	Chris Volk (480) 256-1100 Fax: (480) 256-1101 cvolk@storecapital.com	Single-tenant	Investor to acquire single-tenant properties.
Stonewater Partners 487 E. Main St. Mount Kisco, NY 10549	Jeffrey Toporek (914) 218-8599 Fax: (914) 470-4011 jtoporek@fdstonewater.com	Office, Retail	Company to merge with FD Partners on July 1. New company will seek corporate and government leased properties, advisory and brokerage services.
USAA Real Estate Co. 9830 Colonnade Blvd. Suite 600 San Antonio, TX 78230	Bruce Petersen (210) 641-8400 (800) 531-8182 realestateacquisitions@usrealco.com petersen@usrealco.com	Government buildings, Various	Institutional investor in market for government-leased buildings in addition to other property types nationwide.

**PRIME TIME FOR SINGLE TENANT**

Single-tenant asset buyers wrangling for rock-solid deals will pound the pavement for credit tenant-leased properties with likely cap rates in the 7% range. Drastically compressed cap rates haven't yet defined this market's rebound however, so insiders expect more deals to hit the market as potential sellers evaluate alternatives to refinancing at lower loans to value, or sale/leasebacks as a capital alternative to securing cash for expansion. Cap rates for non-investment-grade tenant properties could post in the 8% to 10% range or higher.

Approximately \$3B worth of single-tenant properties during the next 18 months could be acquired if **American Realty Capital Trust** and **American Realty Capital Trust III's** targeted equity raises are successful. American Realty Capital Trust could have an estimated \$1B of purchase power for deals by July. The successor vehicle, American Realty Capital III, will target a \$1.5B raise. Both REITs will adhere to a focus on properties with 10-year-plus lease terms.

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**GOVERNMENT-LEASED ACTION TO PICK UP AS TRADITIONAL OFFICE STALLS...***Continued from Previous Page*

Kaufman Jacobs' first deal of the year could involve a \$30M deal not entirely leased to government agencies. Beyond that transaction, expect additional interest in non-governmental and government-leased properties. Targeted going-in cap rates will range from 7% to 9%.

Despite access to lower costs of capital, public REIT competitor Government Properties Income Trust eyes slightly higher-than-average going-in cap rates in the 8% to 10% range. Look for additional activity this year to follow an estimated \$609.69 psf contract to purchase a 187,060 s.f. office building fully occupied by the United Nations, as well as \$152.2M worth of mostly federal government leased-building acquisitions in Indianapolis, Montgomery, Ala., Plantation, Fla. and Stafford, Va. Federal government tenants account for the bulk of Government Properties Income Trust's net operating income. Massachusetts comprises the bulk of income among the owner's six state tenants.

Will future deals go the way of the California's litigious jumble following the state government's agreement to sell an 11-property office portfolio for \$2.3B to Hines and Antarctica Capital? Who knows, but depending upon the outcome—which has yet to make it to trial—the aspiring buyers could have extra cash for government buildings.

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