

# CRITTENDEN Real Estate Buyers™

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## RETAIL RESURGENCE TO SPUR BIG AND SMALL MALL TRADES

Mall trades are on the upswing. Anticipate more institutional investor interest in big-ticket Class A deals bought in, or from, joint venture partnerships. Smaller entrepreneurial investors will likely return to the value-added and opportunistic sectors for Class A through Class C malls in far-flung secondary and tertiary markets. Motivating sales of all asset classes will be investors ready to ditch their interests to reinvest capital into other sectors or pay down debt. Though concerns of a possible double-dip recession dog some

**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>
Houston	Retail	100,000 s.f.	\$6.85M	8.3%	76%	41,33 yrs

NOTES: Private investor Festival Properties paid an estimated \$69 psf for this community center anchored by appliance store Conn's, clothing store Citi Trends and O'Reilly's Auto Parts. The Stella Link Drive center, near the Houston Astrodome and not far from the Meyer Park and Meyer Land shopping centers, is about 10 miles outside downtown and nearby Interstate 610. Tenant Giant Dollar Store closed its store in the center during negotiations, which increased the center's vacancy rate and likely played a role in the low-8% range cap rate. Seller Phillips Edison could use an estimated \$150M of equity this year for necessity retail centers nationwide.

Illustrating pricing differences by asset type and location, in suburban Los Angeles a private investor paid \$501.83 psf — or \$6.85M — for a triple net-leased Walgreens in Pomona, Calif., that's located 30 miles east of downtown. The acquisition of the 10-year-old building is unconnected to the Houston shopping center buyer and, although the two properties traded at the same price, the Walgreens posted a cap rate in the 6.8% range. About 18.5 years remain on the flat-rate lease.

CONTACTS: Festival Properties, c/o Hanley investment Group and M.M. Stapper Co. Hanley Investment Group: 8001 Irvine Center Drive, Suite 100 Irvine, CA 92618. Eric Hanley or Eric Wohl (949) 585-7610; fax: (949) 585-7611. MM Stapper Co., 1330 Post Oak Blvd., Suite 1600, Houston, TX 77056. Marvin Stapper, (713) 963-3604.

**RETAIL RESURGENCE TO SPUR BIG AND SMALL MALL TRADES...**

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Armstrong Capital Management could scout the Northeast for additional malls following its recent \$71.56 psf purchase of the Class B enclosed LedgeWood Mall in LedgeWood, N.J., from Acadia Realty Trust. The private buyer considers malls to acquire at discounts to replacement cost with inline space vacancies. Additional deals could resemble its recent New Jersey buy of the mall located 42 miles northwest of New York City. The property, anchored by Macy's, Marshalls and Wal-Mart, is nearly 80% occupied. Also look for interest in grocery- and discount-anchored properties to add to a portfolio of New Jersey, New York and Pennsylvania properties.

Not far from Armstrong Capital Management's recent buy is where institutional investor Morgan Stanley's **Prime Property Fund** inked a deal to acquire a 50% stake in the 2.7 million King of Prussia Mall anchored by Macy's, Neiman Marcus and Nordstrom, and known as the largest mall in the U.S. The institutional investor could strike additional big-ticket deals for retail, apartments, hotel, industrial, office and self storage nationwide, on behalf of the estimated \$6.3B vehicle.

**BUYERS' BUREAU...**

**The next wave of investments gains speed** as more investors shake off post-market crash inertia to fearlessly ply niches beyond usual fee-simple or JV partnership structures. Banks are loosening their hold on troubled assets, which will inspire a bigger wave of REO deals and note purchases. Meanwhile, private equity investors mindful of discounts to net asset values will seek to invest in operating companies coast-to-coast.

Newly formed Compatriot Capital watches the real estate operating company (REOC) sector and, during the next three years, plans to buy from 20% to 70% ownership stakes in companies focused on apartment, industrial and, potentially, hotel and retail properties. The Sammons Enterprises subsidiary eyes investment/asset management companies and development companies with access to multiple income streams from cash-flowing properties to generating capital from asset sales or management fees.

Value-added or opportunistic REOCs would be considered if business models made long-term sense to Compatriot Capital dealmakers seeking specialized and experienced investors with established 15-plus year industry track records and defined property and market footprints. It's not interested in overlapping markets or property types, but would consider REOCs that complement each other. Although the long-term investor could target leveraged returns upwards of the low-20% range, it won't be looking to spin off companies through roll-up IPOs or other exit strategies.

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**BUYERS' BUREAU...**

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**Bolstering real estate through REOCs is the next step for parent company Sammons Enterprises, which is active in real estate as a private equity fund investor with additional development and partnership holdings.**

Whatever deals Compatriot Capital makes later this year will follow parent company Sammons Enterprises' 2008 REOC market entry with then-JV partner E2M Partners into the sector, when it acquired a 50% stake in office and data center owner KDC Real Estate Development and Investments. Since then, Sammons Enterprises has acquired a minority stake in E2M Partners and recently tapped Paul Rowsey and Mark Van Kirk from the company, to work as Compatriot Capital's president/CEO and senior VP, respectively.



**JCR Capital looks forward this fall to the first close of its targeted \$100M JCR Fund II, which will take a threefold approach equally split between debt such as first trust deeds, mezzanine loans and participating debt, in addition to preferred equity and equity investments. The investor recently teamed with Southern California-focused CapRock Partners for the acquisition of troubled industrial properties and notes throughout the region. JCR Capital targets unleveraged blended IRRs upwards of 18%.**



**Look for the blind-pool Medical Hospitality Group to kickstart a search to originate and service mortgage loans secured by limited- and extended-stay hotels near medical centers, government-leased properties and large office submarkets nationwide. If the company's targeted \$60M raise bears fruit, it will work to handle loans secured by adviser Medical Hospitality Capital Markets Group's properties.**



**Two years after entering the real estate segment, look for value-added and opportunistic private equity investor Freestone Capital Management to put up to \$50M of remaining capital into joint ventures with various-sized operating partners for small to midsized deals, likely priced from \$2M to \$10M, through debt and equity investments. An expansion into the industrial and office sectors is possible as the investor scans both the East and West coasts for apartments and other properties. Also considered are commercial and residential land parcels, single-family houses, REO properties and nonperforming loans (NPL) secured by various asset types. The investor is comfortable with NPLs as long as the loans are disentangled from a CMBS pool or there's a personal guaranty providing recourse if bankruptcy enters the picture.**

So far this year the company has invested an estimated \$20M. Freestone Capital Management dealmakers are talking with a couple of partners concerning single-family lots with entitlements valued at a combined \$5M. In May the investor partnered on a Scottsdale, Ariz. REO retail center purchase. Unleveraged net equity returns of more than 15% for holds of up to eight years are targeted, along with participating debt-level returns ranging from 12% to 14%.



**With another two years and \$1.5B remaining in its Harrison Street Real Estate Capital Fund III, look for the private equity investor to continue its focus on the student and senior housing sectors, along with medical office buildings and self-storage properties. About 15% to 25% of the current fund, which recently closed to investors, could be used for medical office building acquisitions. An estimated 50% to 75% of capital will likely be routed to the senior and student housing sectors. For senior housing, look for interest in demand-based services including assisted living and Alzheimer's/dementia care; Harrison Street dealmakers aren't interested in full continuum of care properties or CCRCs. It's likely the fund will seek opportunistic level returns in excess of 16%. An estimated 20% to 30% will be routed to development across all property platforms. So far the investor has acquired more than \$500M worth of assets in markets including California, Florida, Indiana, Montana, Oklahoma, Oregon, Michigan, Montana and New York.**



**Excepting one market, eight-month-old Dome Equities will sidestep the Midwest while working to acquire an estimated \$500M worth of apartments, office and flex space properties during the next 12 to 24 months through joint ventures.**

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

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
General Growth Properties 110 N. Wacker Drive Chicago, IL 60606	Michael McNaughton Marvin Levine (312) 960-5000	Retail Shopping Centers Malls	Public REIT picks up several assets from The Macerich Co.
Harrison Street Real Estate 415 N. State St. Chicago, IL 60610	Mike Gordon (312) 920-1854 mgordon@harrisonst.com	Various	Private investor acquires and partners with developers and operators nationwide.
JCR Capital Partners 1225 17 <sup>th</sup> St. Suite 1850 Denver, CO 80202	Jay Rollins (303) 531-0202	Industrial	Investor seeks debt and equity positions.
The Macerich Co. 401 Wilshire Blvd. Suite 700 Santa Monica, CA 90401	Mike Charron (310) 394-6000	Retail Malls	Public investor acquires and develops malls nationwide.
MacFarlane Partners 201 Spear St. 14th Floor San Francisco, CA 94105	Greg Vilkin (415) 356-2500 Fax: (415) 356-2599	Apartments	Investment manager acquires opportunistic complex and looks for deals on behalf of MacFarlane Real Estate Partners III.
199 Elm Street New Canaan, CT 06840	Chuck Berman (203) 972-2984 Fax: (203) 972-2987		
Medical Hospitality Group 3241 Preston Road Suite 7 Frisco, TX 75034	Billy Brown (214) 618-8288 Fax: (214) 618-2791	Hotels	Aspiring public REIT plans to write, service hotel loans for limited- and full-service properties.
Morgan Stanley 1585 Broadway New York, NY 10036	John Klopp (212) 761-4000	Retail Malls	Institutional investor acquires properties with PRIME Property Fund.
Simon Property Group 225 W. Washington St. Indianapolis, IN 46204	David Contis (317) 636-1600	Retail Shopping Centers	Public REIT sells, acquires.
TIAA-CREF 730 Third Ave. New York, NY 10017	Trevor Michaels (212) 916-6046 Fax: (212) 916-4527	Malls	Pension fund adviser partners with CBL & Associates Properties on mall deals.
Tabani Group 16600 Dallas Parkway Suite 300 Dallas, TX 75248	Mushtak Khatri (972) 417-5835 Fax: (972) 248-8772 mkhatri@tabanigroup.com	Retail Malls	Private investor acquires malls, retail and apartment buildings nationwide.
Pine Tree Commercial Realty 40 Skokie Blvd. Suite 610 Northbrook, IL 60062	Todd Zinsmaster (847) 574-3347 Fax: (847) 574-3348 tzinsmaster@pinetreecommercial.com	Retail	Private investor forms joint venture to acquire stabilized to value-added centers along with considering opportunistic purchases.
Silverpeak Real Estate Partners 1330 Ave. of the Americas Suite 1200 New York, NY 10019	Mark Walsh (212) 716-2000 Fax: (212) 716-2022 info@silverpeakre.com	Retail	Independent advisory company succeeds Lehman Brothers Real Estate Partners private equity funds, and expands into the retail segment with joint venture.

## PRIVATE EQUITY PARTNERS AND PUBLIC REITs TO HEAT RETAIL

Expect a hot summer from shopping center buyers ready to scoop properties for value-added and opportunistic strategies. A rise in transactions should result, even though cap rates have generally declined into the 6% to 8% range nationwide. Look for regional and local buyers to delve into REIT, institutional and REO retail product in marketed and off-market deals. REITs, meanwhile, have moved past maturing debt issues and look forward to routing sales capital into newer assets through acquisitions or development, in an effort to take advantage of low capital costs.

More joint ventures and property swaps are on the horizon as owners reconcile recovering values during a tenuous economic recovery. Private investor **Pine Tree Commercial Realty** eyes the \$10M-plus sector and moves closer to striking its first deals of the year that will consummate a newly formed joint venture with private equity investor **Silverpeak Real Estate Partners**. Expect Pine Tree Commercial Realty to acquire across the retail spectrum with additional partners, as it seeks stabilized to value-added, and development/redevelopment properties nationwide in suburban and metro areas with above average employment figures, as well as infill markets with minimal construction during the past four years.

Capturing dealmaker interest will be grocery-anchored and other community centers measuring 50,000 s.f. or more, in addition to five-acre-plus unentitled or entitled land parcels. Look for the company to acquire a fully leased regional center and community center in suburban Nashville and Auburn, Ga., for a combined \$50M in coming weeks. Overall, the investor seeks unleveraged returns in the 6% to 8.5% range for stabilized assets and 8.5%-plus returns for development projects. Naturally, redevelopment returns could trend in the middle of the range. Pine Tree Commercial Realty's interest extends to various transaction types including general partnership interest purchases, recapitalizations, along with participating debt and equity positions. The investor acquired an estimated \$50M worth of properties in Florida and Texas during last year's fourth quarter. Its partner Silverpeak Real Estate Partners, which teams with various investors, was formed from the Lehman Brothers Real Estate Partners Fund and breaks into the sector with its Pine Tree Commercial Realty partnership that had been in the works since October 2010.

In its first dedicated JV initiative, look for potential competitor **Cole Real Estate Investments** to team with regional and local investors and developers nationwide in targeting an estimated \$100M worth of deals involving power centers, grocery anchored centers, single tenant office and industrial buildings. Taking a short-term view, anticipate Cole's interest in partnering with owners or developers of existing shopping centers needing recapitalizations and repositioning in primary and secondary markets nationwide. Deal sizes could range from \$15M to \$100M, and performing and nonperforming loans will also be considered. Longer-term, expect to see interest in newer power and grocery-anchored centers with 80% or more of the space pre-leased to credit tenants with 10-year-plus leases. For development and redevelopment deals the buyer needs entitlements and approvals in place, since Cole Capital isn't interested in speculative risk.

Look for Cole Real Estate Investments to target unleveraged development level returns of more than 10%; for existing assets it's likely the company will seek value-added returns of 150 to more than 200 basis points above prevailing retail cap rates, depending on the property and region. Cole counts a bulk of assets in Florida, Illinois and Texas. The company moves closer to its \$3B acquisitions goal for the year. Half of the capital will be used for single-tenant retail purchases, with the \$1.5B balance equally split between net-leased, single-tenant office and industrial properties and multitenant retail. It has acquired more than \$625M worth of properties since January.

Forthcoming sales from shopping center REIT **Developers Diversified Realty** may eventually translate

## INSTITUTIONAL AND PUBLIC INVESTORS JV FOR MULTIFAMILY

With pundits projecting higher apartment rent growth during the next 24 months, expect institutional and public investors to fan out in search of value-added deals through note purchases, recapitalizations and renovations. Big national investors will partner with regional buyers to drive deeper into the market for value.

Among the group ratcheting up acquisitions in an already squeezed market include big names AREA Property Partners, MAA, MacFarlane Partners and Angelo, Gordon & Co., in addition to smaller investors including The Donaldson Group and ECI Group.

Private buyer ECI Group will deepen its foothold in existing markets following recapitalization of a 10-property Florida and Georgia portfolio with AREA Property Partners. Look for the value-added buyer to scout additional assets in higher job growth areas throughout the Southeast. Additional Class A and Class B purchases could expand a 36-property portfolio of assets in Alabama, Florida, Georgia and Mississippi. Value-added garden-style properties should attract the value-added buyer. Don't be surprised if AREA Property Partners scouts more recapitalization deals with regional partners throughout the U.S.

Private investment adviser The Donaldson Group is hot for acquisitions after returning to the apartment market earlier this year. It shouldn't come as a surprise if the company again teams with private equity player Angelo, Gordon & Co., likely for additional 400-plus unit properties throughout Maryland and Virginia. Expect interest in \$25M-plus deal sizes to follow acquisitions of 1,550 units for a combined \$85M, in the Maryland cities of Temple Hill, Forestville and Suitland. The Donaldson Group recently tapped industry vet John J. Majeski as VP and director of acquisitions.

Competitors in the value-added realm could include MacFarlane Partners, which recently rolled out the \$211M equity MacFarlane Urban Real Estate Fund III for opportunistic acquisitions including note purchases, redevelopment and renovations in urban corridors nationwide. Expect more interest in value-added deals with a development twist from MacFarlane Partners, which recently took title to a half-acre development site in San Francisco following a nonperforming note purchase. A mixed-use complex comprising more than 100 units and 5,500 s.f. of retail is slated for delivery in two years.

Among REITs to watch include MAA, which will likely focus on additional Class A luxury units throughout the Sun Belt on behalf of its Mid-America Multifamily Fund II. The investor recently expanded its Virginia footprint and should be in the market for additional assets to add to a more than \$2B portfolio.

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