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PUBLIC APARTMENT REITS BULLISH ON BUY/SELL, RISK AND DEVELOPMENT

Although insiders at the top U.S. public apartment REITs aren't turned off by cap rates in the 4% range for Class A product in coastal markets, expect to see more activity through joint ventures with institutional and private investors to shoulder some of the capital and risk, in addition to property sales, as REITs assume their positions for a coming wave of new development. Justifying acquisitions and development momentum is rental growth that has exceeded expectations in markets including northern California, Seattle and Washington, D.C. Development has become more attractive with new development cap rates posting a 100 to 200-plus basis point premium to existing property purchases.

If rent growth continues and cap rate compression becomes even more pronounced as a result, expect competition for Class A and Class B properties to heat even more for private investors able to delve into secondary markets for value-added product. Eventual joint ventures between regional companies and REITs may also result, especially if unemployment trends continue stifling an anticipated market rebound. Rental growth increases have inspired talk of a peak pricing climate in San Francisco and Seattle, among other markets.

Sector leaders **Equity Residential, AvalonBay Communities, UDR, Camden Property Trust and Essex Property Trust** each apply various strategies that will result in increased acquisitions or asset sales, to joint ventures and development plans. That several of the companies plan to exceed acquisitions goals for the year is of little wonder, since combined market capitalizations of the top-five REITs increased 73% in late May compared to June 30, 2008, according to statistics from the National Association of

DEALMAKER OF THE WEEK

Morgan Properties' planned \$800M IPO could inspire other private apartment investors to do the same, especially if interest rates increase for government-services entities' financing. The investor is known as a regional player with a 94-property/25,518-unit portfolio concentrated in the suburban submarkets of Baltimore, New Jersey, New York and Philadelphia, as well as Washington, D.C., metro areas. Comprising the portfolio are 33 suburban Philadelphia assets; a 31-property portfolio in suburban New Jersey and New York; a 10-property portfolio in suburban Baltimore and Washington, D.C., and 20 complexes in such markets as Indianapolis, Dover, Del.; Omaha, Neb.; the Ohio markets of Miamisburg and Toledo, and the South Carolina cities of Greenville and Spartanburg, S.C.

If successful, look for the investor to trade under MPT on the New York Stock Exchange, as it likely continues a core value-added strategy focused on Class B acquisitions. There is a potential wrinkle, however, which could be the company's exposure to debt, including a \$600M fixed-rate debt at 5.62%, and \$324M of additional variable-rate notes comprising a credit facility. The Fannie Mae interest-only debt matures October 2013.

Broadly speaking, Morgan Properties could beef up competition against regional investor BPG Properties, which recently named Dean Holmes as COO of its Madison Apartment Group affiliate. Public REIT Home Properties is also a competitor that acquired during the second quarter \$72M worth of properties totalling 613 units in Shrewsbury, Mass., Frederick, Md., and Westchester, Pa. The blended cap rate is 6.2%.

CONTACT: Morgan Properties/Morgan Properties Trust, 160 Clubhouse Road, King of Prussia, PA 19406. J. Patrick O'Grady, (610) 265-2800.

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AvalonBay Communities nears closeout of its \$800M AvalonBay Value Added Fund II, although that shouldn't slow acquisitions momentum. AvalonBay can access \$360M of cash, and potentially tap into credit, for future acquisitions. A successor fund isn't likely forthcoming. During the second quarter the investor acquired approximately \$400M worth of properties in Washington, D.C., and Southern California. The investor also eyes more than \$700M worth of development in markets such as Boston, New York City and Long Island, N.Y. Asset dispositions from the AvalonBay Value Added Fund I will likely occur in coming quarters.

Beating Expectations

In a low-cap rate environment, Essex Property Trust looks to exceed an estimated \$500M acquisition target this year through joint ventures and one-off deals, as the company looks to drive cash flow and boost net asset values per share. Don't be surprised to see the REIT's institutional joint ventures take center stage because of risk sharing and promoted interest. The buyer has approximately \$525M of equity and debt on hand to propel acquisitions in and independent of joint ventures such as its three-month-old, \$200M venture with Wesco I.

Boosting Volume Before End of the Year

With \$225M remaining in its discretionary investment fund, look for Camden Property Trust to pursue acquisitions following some \$500M worth of properties it plans to acquire by Sept. 30. An additional \$100M worth of deals could be acquired by December. The investor is keen on stabilized Class A complexes, as evidenced in an eight-property portfolio purchase throughout the Texas markets of Austin, Dallas, Houston and San Antonio. Also on tap is \$400M to \$500M of new development during 2012, plus an estimated \$150M of new development planned through December.

Sales should be forthcoming from UDR, while the company evaluates close to \$600M worth of sales — twice the amount originally expected. Additional purchases will follow \$1.2B worth of acquisitions booked by the company since January, in Boston, New York City, San Francisco and Washington, D.C. Upwards of \$435M will be used for development and redevelopment as well.

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>
Towson, Md.	Apartments	495 units	\$26M	8%-plus	88%	61 yrs.

NOTES: Private apartment and senior housing buyer Tryko Partners paid an estimated \$52,525 for each unit of the Loch Raven apartment complex located 10 miles north of downtown Baltimore. Plans for the Class B-/C+ property include an estimated \$4M renovation plan to include interior and exterior renovations including installation of an air conditioning system, as part of upgrading the property to a Class B+ asset. Consistent with plans, Tryko Partners plans to pick up where the previous owner/seller left off after \$2M of upgrades. The property is located off major throughfare Loch Raven Boulevard. A cap rate in the 9% to 10% range is targeted following stabilization.

The property's proximity to transit was among reasons attracting the investor to a market it entered a couple years ago with the acquisition of 400-unit complex Marble Hill Gardens apartment complex that's located about three miles away from the complex. Additionally the buyer has contracted to acquire for approximately \$40M about 1,200 assets in one-off deals in Maryland, New Jersey and Pennsylvania expected to close by November.

CONTACT: Tryko Partners, 575 Route 70, Second Floor, Brick, NJ 08723. Uri Kahanow, (732) 961-9991; fax: (732) 961-9994.

SELF STORAGE BUYERS MOVE IN

Look for deep-pocketed self-storage buyers to stimulate middle markets in coming months as they dig into public markets for equity to invest in monomakers off the bi-coastal primary Class A market in

SELF STORAGE BUYERS MOVE IN...*Continued from Previous Page*

Western markets including Seattle, Phoenix and northern and southern California are of particular interest, in addition to such Northeast markets as Boston, New Jersey and New York. The investor would also like additional deals in Hampton, Va.

Extra Space Self Storage will ply middle markets and management ventures for assets following recent acquisitions and contracts to acquire 49 properties for a combined \$234M in separate deals, including a 15-property portfolio of assets around the Cincinnati market, of which 9 properties were sourced from a management joint venture.

Other investors move into Alabama, where observers have noticed cap rate compression of 1% to 2% for REO deals acquired by out-of-state, REIT and local buyers. Banks are finally letting go of properties that were newly constructed but failed to lease up. A couple of recent deals involving 2006 and 2009 vintage properties in the Alabama markets of Birmingham and Montgomery were scooped by regional and out-of-state investor Metro Storage of Birmingham, which paid an estimated \$2.5M for a two-year-old mostly climate controlled facility that's about 25% leased; construction costs totaled an estimated \$6.5M, which pencils out to \$10,366 per unit or \$86 psf. The investor acquired the property for an estimated \$3,987 per unit, or \$33 psf. In another deal, a private investor known as Hanover Holdings paid \$2.275M, or \$40.62 psf, for a 56,000 s.f. facility called Chantilly Storage in Montgomery, Ala. The property, constructed five years ago, is beset with concessions and posts a 55% economic occupancy rate and a 98% occupancy rate. The cap rate is likely in the 13% range.

W.P. Carey & Co. last month accelerated its self-storage footprint in California, Illinois and Hawaii with a \$53.75 psf purchase of a 24-property portfolio. Don't be surprised to see the public nontraded REIT scope for additional deals on behalf of its CPA:17 Global fund, which makes equity and debt investments in self storage and other asset types nationwide.

DEALMAKER DATABANK™

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
ALDA Office Properties 315 S. Beverly Drive Suite 211 Beverly Hills, CA 90212	Richard Ackerman (310) 734-2300 Fax: (310) 734-2298 rackerman@bigrockpartners.com	Office	Investor to go public, plans to acquire properties measuring less than 300,000 s.f.
AvalonBay Communities 4440 Von Karman Ave. Suite 300 Newport Beach, CA 92660	Tim Walters (West Coast) (949) 955-6200 Fax: (949) 724-9208 twalters@avalonbay.com	Apartments	Company may acquire additional properties and plans new development.
671 N. Glebe Road Suite 800 Ballston Tower Arlington, VA 22201	Pat Gniadek (East Coast) (703) 317-4781 Fax: (703) 329-9130 pat_gniadek@avalonbay.com		
Camden Property Trust 5100 W. Lemon St. Suite 209 Tampa, FL 33609	Sean Williams (Eastern U.S.) (813) 639-9333 Fax: (813) 639-9332	Apartments	Public REIT plans additional purchases acquisitions for its fund, along with new development.
3 Greenway Plaza Suite 1300 Houston, TX 77046	Todd Triggs (Western U.S.) (713) 354-2614 Fax: (713) 354-2708 ttriggs@camdenliving.com		
	Stanley Jones (713) 354-2637 Fax: (713) 354-2708		
Crossbeam Capital 7920 Norfolk Ave. Suite 501 Bethesda, MD 20814	Brad Blash (240) 223-0821 Fax: (240) 223-0825 bblash@crossbeamcapital.com	Apartment	Private investor could introduce successor fund later this year.

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DEALMAKER DATABANK™

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
DCT Industrial Trust 518 17 th St. Eighth Floor Denver, CO 80202	Teresa Corral (303) 597-2400 Fax: (303) 228-2201 tcorral@dctindustrial.com	Industrial	Public REIT extends credit facility maturity date, and could expand credit limit to \$500M.
Equity Residential Two N. Riverside Plaza Suite 400 Chicago, IL 60606-2639	Alan W. George (312) 928-1259 Fax: (312) 454-1962 ageorge@eqrworld.com	Apartments	Public REIT may acquire \$1.1B worth of properties this year, in addition to new development.
Essex Property Trust 925 E. Meadow Drive Palo Alto, CA 94303	Craig Zimmerman (650) 494-3700 Fax: (650) 858-0139 czimmerman@essexpropertytrust.com	Apartments	Public REIT may exceed acquisitions target; acquires properties throughout western U.S. in and independent of joint venture partnerships.
Extra Space Storage 2795 E. Cottonwood Parkway Suite 400 Salt Lake City, UT 84121	Kent Christensen (801) 562-5556 Fax: (801) 562-5579	Self Storage	Public REIT secures bank line, moves into second-tier markets for acquisitions and secures fresh credit.
The Hampshire Cos. 1140 Route 22 East Suite 200 Bridgewater, NJ 08807	Robert Schmitt (973) 734-4234 Fax: (908) 722-5776 rschmitt@hampshireco.com	Various	Private investor rolls out new fund. Will acquire in and independently of joint ventures.
HEI Hotels & Resorts 101 Merritt 7 Corporate Park First Floor Norwalk, CT 06851	Russell Urban (203) 849-8844 Fax: (203) 849-5918	Hotels	Private investor may use up to \$1.2B for acquisitions of midscale to upper upscale hotels coast-to-coast.
Home Properties 850 Clinton Square Rochester, NY 14604	John Smith (585) 546-4900 Fax: (585) 546-5433 johns@homeproperties.com	Apartments	Value-added buyer may acquire up to \$275M worth of properties throughout the Mid-Atlantic region this year.
Jamestown 3625 Cumberland Blvd. 1 Overton Park, 12 th Floor Atlanta, GA 30339	Clay Adams (770) 805-1000 Fax: (770) 805-1001 cadams@jamestownproperties.com	Apartments	Foreign investment adviser acquires value-added and stabilized apartment, mixed-use, office and retail in primary markets nationwide.
New Start Capital 5005 LBJ Freeway Suite 950 Dallas, TX 75244	Denny Landers (214) 560-0800 Fax: (214) 560-0822	Equity/TIC	Newly formed investor to pursue equity interests in tenant-in-common partnerships.
Public Storage 701 Western Ave. Glendale, CA 91201	Mike McGowan (818) 244-8080 mmcgowan@publicstorage.com	Self Storage	Public investor dips into JV partnerships for acquisitions.
Sovran Self Storage 6467 Main. St. Buffalo, NY 14221	Paul Powell (716) 633-1850, ext. 6167 Fax: (716) 633-3397 (attach cover page)	Self Storage	Public REIT may acquire upwards of \$300M worth of properties by December.
Strategic Storage Trust 111 Corporate Drive Suite 120 Ladera Ranch, CA 92694	H. Michael Schwartz (949) 429-6600 Fax: (949) 429-6606 hms@sstreit.com	Self Storage	Public nontraded REIT may acquire \$300M worth of properties this year.
U-Stor-It Trust 460 E. Swedesford Road Suite 3000 Wayne, PA 19087	Scott Levy (610) 293-5700 Fax: (60) 293-5720 slevy@ustorit.com	Self Storage	Public REIT seeks properties throughout U.S.; recently scooped up properties in Arizona, Florida, Georgia and New York, among other markets.
UDR 1745 Shea Center Drive Suite 200 Littleton, CO 80129	Matt Akin (Western U.S.) Hunter MacCleod (Western U.S.) Harry Alcock (Eastern U.S.) (720) 283-6120 Fax (Akin/MacCleod): (720) 283-2454 Fax (Alcock): (720) 283-2451	Apartments	Public investor could exceed acquisitions goal for the year; future sales are likely.
Velocis Partners 2305 Cedar Springs Suite 110 Dallas, TX 75201	Fred Hamm Steve Lipscomb Mike Lewis Jim Yoder (972) 490-5390	Office, Retail	Private investment fund previously known as Valeo Fund, scouts multitenant office and retail in one-off and portfolio deals.

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DEALMAKER DATABANK™

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
W.P. Carey & Co. 18111 Preston Road, Suite 805 Dallas, TX 75252	L. Jodi Loring (214) 661-7447 Fax: (214) 661-7441 jloring@wpcarey.com	Self Storage	Public investor evaluates multistate self-storage properties.

BUYERS' BUREAU...

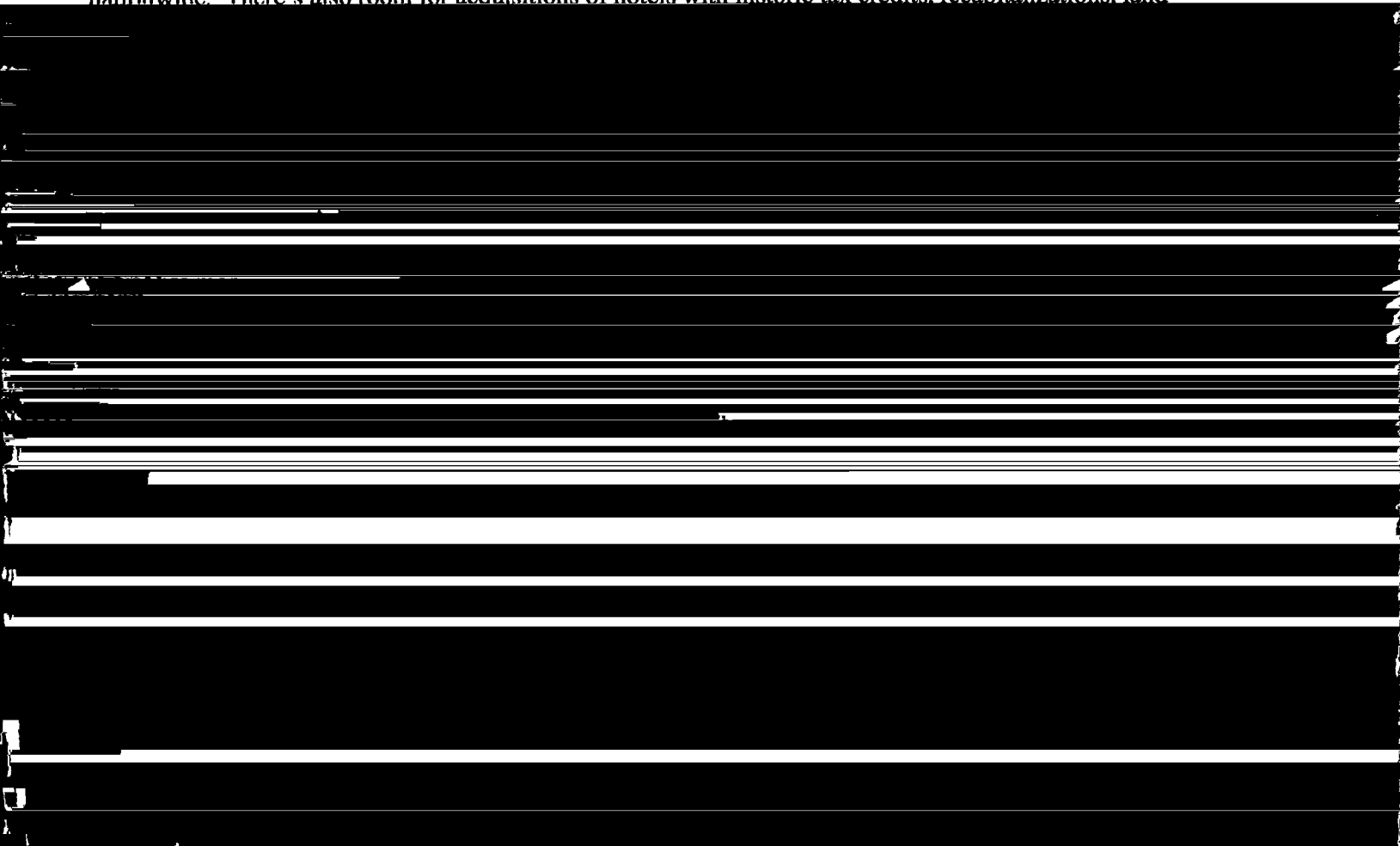
Newly formed gap equity investor New Start Capital targets the TIC market beset with loan maturity and refinancing issues. The private company — a partnership between TIC sponsor Kodiak Capital Partners and Tonti Properties — could use an estimated \$50M to restructure TIC partnerships as new TIC partnerships/LLCs. New Start Capital will take the managing member position. The investor aims for deal-based returns of approximately 19% during potential five- to seven-year investment periods.

Look for company interest in TIC partnerships formed around Class A properties, including 200- to 500-unit apartment complexes with 90% or better occupancy rates; 400- to 850-bed purpose-built student housing; 150,000 s.f.-plus single-tenant office with investment grade or high credit tenant; and 200,000 s.f. to 800,000 s.f. multitenant office buildings.

Among New Star Capital's recent deals is a 245-unit Class A apartment complex in Kansas City, Mo. The investor issued gap equity covering an estimated \$2.7M shortfall on the 94% leased complex that was valued at \$19.5M — far less than an estimated \$32M value in 2007. Preceding the apartment deal was the acquisition of an assisted living/Alzheimer's care properties that involved a loan workout and new LLC formation.



HEI Hotels & Resorts, through its current \$500M equity HEI Hotels & Resorts III fund, could use upwards of \$250M equity/\$1.2B through 2012 to acquire midscale through upper upscale hotels nationwide. There's also room for acquisitions of hotels with historic tax credits, recapitalizations, land



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>
Valley Village, Calif.	Apartments	44 units	\$6.56M	5.34%	95%	48 yrs.

NOTES: Private investor Premier Apartments paid an estimated \$150,000 per unit for a Class B complex located 13 miles northwest of downtown, in this city located between Sherman Oaks and North Hollywood. The buyer assumed a \$4.15M loan maturing in four years and underwritten to 4.85%. The 12311 Chandler Blvd. asset features a blend of one- and two-bedroom units. Marcus & Millichap represented Premier Apartments; Hendricks & Partners represented the seller.

CONTACT: Premier Apartments c/o Marcus Millichap, 915 Wilshire Blvd., Suite 1700, Los Angeles, CA 90017. Rick Raymundo, (213) 943-1855; rraymundo@marcusmillichap.com

Seller's Broker: Hendricks & Partners, 6300 Canoga Avenue, Suite 1550, Woodland Hills, California 91367. Chris Malcolm, (818) 615-1605. cmalcolm@hpapts.com

<u>Location</u>	<u>Property</u>	<u>Size</u>	<u>Price</u>	<u>Cap Rate</u>	<u>Occupancy</u>	<u>Age</u>
Williamsburg, Va.	Hotel	128 rooms	\$750,000	N/A	N/A	31 yrs.

NOTES: Private investor AP Investment's approximately \$5,859 per key REO purchase of the limited-service Williamsburg Outlet Mall Inn pencils out to nearly a 100% discount compared to 2010 values. In August 2010 the seller, United Central Bank of Texas, foreclosed upon the property valued at \$1.4M. Five years before, in 2005, the property traded at an estimated \$1.2M.

The new owners plan renovations to the property with less than half its rooms open to lodgers. The two-story Williamsburg Outlet Mall Inn, at 6493 Richmond Road, is close to Williamsburg Premium Outlet Malls and Busch Gardens Waterpark, and isn't far from Colonial Williamsburg.

CONTACTS: AP Investment, 2241 S. County Canyon Road, Hacienda Heights, CA 91745. Sanjay Patel and J.R. Patel c/o

MID SIZED FUNDS POP

Expect additional activity from midsized funds scanning the market for all types of opportunistic and value-added acquisitions across the commercial real estate spectrum. **Crossbeam Capital, Velocis Fund and Hampshire Cos.** will tackle the market through joint ventures, new construction and value-added buys, depending on individual strategies.

By late September look for Velocis Fund to acquire a portfolio of office buildings and a retail asset for approximately \$100M. Beyond deals under contract, the investor could use an additional \$100M for multitenant office, medical office and multitenant, specialty infill retail acquisitions in high-barrier-to-entry markets nationwide. Of interest are properties in the primary Texas markets of Austin, Dallas, Houston and San Antonio, in addition to Atlanta and Denver, and southern markets including North Carolina markets of Charlotte and Raleigh, as well as throughout South Florida. Assets throughout primary California markets will be selectively considered and, separately, mixed-use properties with a blend of office and retail throughout the company's target markets could also be of interest. Velocis Fund has slightly expanded its acquisitions parameters to accommodate \$10M to upwards \$55M for portfolio deals.

Velocis recently closed the fund's first tranch and looks forward to additional closings during the next 12 to 18 months. Future deals could happen through fee-simple acquisitions, joint venture partnerships, or recapitalizations of nonperforming and subperforming notes. The fund, previously known as Valeo Fund, kicked off activity in March with a medical office building acquisition. Overall, the company looks for leveraged IRRs of more than 18% during a five to eight year hold.

Apartment specialist Crossbeam Capital plans to roll out a successor fund to its current \$146M equity Workforce Housing Fund that could wrap up activity by mid-August with an acquisition/rehab and its first new construction project in four years. Look for the private investor, which bought a stake in apartment-focused **Concierge Asset Management** earlier this year, to make its first Colorado purchase in coming weeks as it closes out fund activity. Acquisitions on behalf of the successor Crossbeam Apartment Fund could begin in December. Up to two-thirds of fund capital could be used for acquisitions, with development deals comprising the balance. Look for company interest in 200- to 400-unit properties built after 1980. Typical price points range from \$25M to \$40M. The company will scour growth markets such as Texas' Austin, Houston and San Antonio; Atlanta and Nashville, and primary and coastal markets including Boston, San Francisco, Washington, D.C., Florida and the Pacific Northwest region. The company returns to its roots in laying foundation for new construction.

Count on Hampshire Cos. interest in industrial, office and retail properties along the East Coast on behalf of the estimated \$200M equity **HUH U.S. Real Estate Income Fund**. The vehicle is a joint venture between the private company and international investment houses, U.K.-based **Hermes Real Estate Investment Management** and Singapore-based **UOB Global Capital**. Count on interest in likely underwater or financially troubled, but well-leased properties in suburban and secondary markets. The investor acquires across the risk spectrum from stabilized properties to vacant and financially challenged properties.

Customer Service

Tel: (800) 421-3483 Fax: (949) 900-3760
E-mail: market@crittendenonline.com



Newsroom Fax: (415) 475-1576

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