CRITTENDEN Real Estate Buyers™

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SENIOR HOUSING REITs BULLISH ON BIG DEALS

Senior housing public REIT leaders **HCP**, **Ventas** and **Health Care REIT** will show little signs of slowing acquisitions appetite because of an increased potential for consolidation and portfolio sales inspired by a $3.8B cut to Medicare skilled nursing payments beginning in October. That, coupled with a continuing trend of operator-sourced sales or joint ventures, could further heat the market through year's end. Count on buyers working to gain even more market share on the heels of blockbuster portfolio and merger/acquisitions completed earlier this year.

If the top three REITs can sustain or exceed a 36% increase in market capitalizations posted from December 2010 to July 2011, cap rates could compress in the private-pay segment, because larger companies typically enjoy lower costs of capital and may be willing to jump on 6% to 7% cap rates. Depending on asset class and location, senior housing cap rates or yields on lease rates can range from 7% to more than 10%

Health Care REIT, with recent purchases that have hovered in the mid-7% to low-8% range, counts $2.4B of available cash and debt at a fortuitous time when dealmakers anticipate increased sector consolidation. Expect to see the company stalk both East and West coasts for senior housing and medical office properties. Additional purchases this year will happen beyond $4B worth of purchases the company has made since January, and could occur in its core markets of California, Florida, Ohio and Texas, or beyond.

Earlier this summer, Health Care REIT acquired a half dozen senior housing properties at a 7.7% lease rate/rental yield, plus a New Jersey skilled nursing property acquired for $21M and an 8.25% cap rate. Don't be surprised if future deals follow senior housing/skilled nursing footprint expansions earlier this year into Chicago, New York, Massachusetts, Maryland, New Jersey and Pennsylvania. Health Care REIT bought $1.8B worth of assets during 2010. Competitors throughout the Mid-Atlantic and beyond may include **Grubb & Ellis Health Care REIT II** and **Sabra Health Care REIT**, with access to $100M and $75M of credit for acquisitions and financing respectively. **Emeritus Senior Living**, fresh from a New England purchase, is also a potential Northeast competitor with a recent buy in the 8% cap rate range.

Ventas, which just earned a ratings upgrade, prepares for additional big-ticket or portfolio acquisitions [redacted]

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Ventas also grew market share following its $3B-plus acquisition of a more than 120-property package from **Atria Senior Living**, counting asset concentrations in California, Connecticut, Massachusetts, New York and Pennsylvania within the 27-state portfolio. Additionally the buyer acquired approximately $600M worth of assets at an 8% yield, as a result of NHP legacy deals.

In and outside the courtroom, Ventas' competitor HCP is also in ramp-up mode after an estimated $6.2B worth of acquisitions since January. With more than $1.4B of equity and debt available, HCP could delve deeper into skilled nursing and the broader senior housing sector for big deals including M&As. HCP hasn't named names, but company dealmakers see approaching changes afoot in the market and prepare to acquire. Future deals could occur in its core markets of California, Florida and Texas, in addition to Illinois, Ohio and Pennsylvania. HCP has acquired $6.4B worth of real estate since January, including the 334-property HCR Manor Care assisted living and skilled nursing portfolio, as well as development and JV interest purchases in markets including California. HCP buys senior housing, skilled nursing, life science, medical office buildings and hospitals. Look for both HCP and plaintiff Ventas in February 2012 to square off in the U.S. District Court of Louisville, Ky., concerning an ongoing suit alleging that HCP interfered with Ventas' 2007 purchase of Sunrise Senior Living REIT.

HOT OUTLOOK FOR APARTMENT BUYERS

Private apartment investors tapping value-added strategies pursue expansions through planned IPOs, new market entries and joint ventures. Increased transaction volume through December could result in further cap rate compression for both stabilized and value-added product outside core urban markets. If REITs become serious about value-added suburban and secondary market properties, then Class A and Class B cap rates now ranging from 5% to 7% range could compress. It might not be long before REITs begin their hunt in advance of a coming construction boom, since some public equity players including **Equity Residential** and **Essex Property Trust** are attracted to vacant Class A former condo projects based on rent growth potential; that bullishness could spread into the close-in suburbs and impacted secondary markets nationwide.

REITs aside, among private investors scoping for deals in the scorching hot Mid-Atlantic market — where occupancy rates close in on 2007 level highs — include **Federal Capital Partners**. Elsewhere, tightening occupancies and rental growth will inspire more action beyond **Canyon Johnson Urban Fund**'s recent Dallas entry, and **Holland Residential**'s latest buy in Seattle.

Expect even more movement throughout the Mid-Atlantic region from regional specialist Federal Capital Partners. The investor is working on a new fund and may strike $500M worth of apartment deals this year on the debt and equity sides. Since January the company has booked $300M worth of deals that include a mezzanine debt investment, which marks an initial Philadelphia entry. Similar interest for acquisitions, plus debt and equity investments will likely occur in Philadelphia, Raleigh, N.C., and Washington, D.C. metro areas, in deals similar to the $7.5M mezzanine loan written for a planned 111-unit redevelopment. Attracting the investor was the property's downtown Philadelphia address in a market where occupancy rates could best 2006-07 activity.

Additional purchases will be made for Federal Capital Partners' targeted $500M equity FCP Realty Fund II. Earlier this summer the company had raised approximately $326.5M on behalf of the fund. Leveraged returns for the fund may pencil to the 16% to 18% range. Besides mezzanine financing, don't be surprised to see the buyer form partnerships involving interest purchases and fee-simple acquisitions througohut the [redacted]

HOT OUTLOOK FOR APARTMENT BUYERS...

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Part of that capital could be used to further Texas expansion into the new markets of Austin and Houston, in addition to the existing San Antonio market, as well as markets nationwide including Atlanta, Baltimore, Boston, New York, San Diego, Seattle, Portland, Ore. and Washington, D.C. The company also looks for properties in what it calls the high-growth markets of Chicago and Phoenix, as well as Denver and Las Vegas. Typically the company seeks to invest $15M-plus of equity per deal, with deal sizes hovering above $30M. Besides apartments, the company seeks hotels, industrial, retail and, selectively, office assets.

What attracted CJUF dealmakers to Dallas was the 125-unit Class A property's estimated 95% occupancy rate in a market with relative employment stability compared to other regions. The former condominium property comprises a blend of one and two bedroom units, in addition to 90 units built as a one-story complex and 35 three-story townhouse units with a rooftop terrace. It was constructed by one-time active area developer CLB Partners, through a joint venture with Olympus Real Estate.

In Seattle, occupancies and rent growth hitting near pre-recession highs has made the Puget Sound a West [redacted]

BUYERS' BUREAU...

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Despite company coyness surrounding the price it paid, the likelihood it acquired paper at startling [redacted]

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Company/Address	Contact/Phone/Fax	Property Type	Buying Criteria
Artis REIT Suite 300 360 Main St. Winnepeg, Manitoba, CAN R3C 3Z3	Kim Reilly (204) 947-1250 Fax: (204) 947-0453 kreilly@artisreit.com	Office	Toronto-based REIT strikes office and industrial purchases south of the border.
Dome Equities 400 Park Ave. Suite 810 New York, NY 10022	Louis Caiola Jr. (646) 278-1361 lcaiola@domeeq.com	Varies	Private investor adds to private equity division.
Emeritus Senior Living 3131 Elliott Ave. Suite 500 Seattle, WA 98121	Granger Cobb (206) 298-2909	Senior Housing	Public investor expands into new Northeast market.
Farley White Interests 155 Federal St. Boston, MA 02110	John Power (617) 654-9400 Fax: (617) 338-2387	Office	Private investor acquires office throughout Connecticut, Massachusetts and New Hampshire.
Federal Capital Partners The Flour Mill 1000 Potomac Street, N.W. Suite 120 Washington, DC 20007	Lacy Rice (202) 333-6030 Fax: (202) 333-6098 lacy@fcpdc.com	Apartments	Private investor makes equity/debt investments and acquisitions in and independent of joint ventures.
Franklin Partners 55 Shuman Blvd. Suite 75 Naperville, IL 60563	Don Shoemaker (630) 572-7555 Fax: (630) 572-7556 don@franklinpartners.net	Office, Industrial	Private investor acquires Class B+/B value-added properties throughout primary, secondary Midwestern markets in and independent of joint ventures.
Gaia Real Estate Group 152 W. 57th St. New York, NY 10019	Amir Yerushalmi (partner) Danny Fishman (partner) Dave Kusy (acquisitions) (212) 563-2726	Office	Private investor partners with foreign investors on office, apartments, retail and mixed use
Government Ppts. Income Trust Two Newton Place 255 Washington St. Suite 300 Newton, MA 02458	David Blackman (617) 219-1440 Fax: (617) 219-1441	Office	Government specialist strikes new market entry into Alabama, plans additional purchases nationwide.
Health Care REIT 4500 Dorr St. Toledo, OH 43615	Chuck Herman (419) 247-2800 Fax: (419) 247-2826 cherman@hcreit.com	Senior Housing	Public REIT acquires across the senior housing/health care property spectrum.
Holland Residential 1111 Main St. Suite 500 Vancouver, WA 98660	Scott Vanderhoff (360) 694-7888 Fax: (360) 905-0153 svanderhoff@hollandresidential.com	Apartments	Private investor acquires apartments througohut the western U.S..
Lowe Enterprises 11777 San Vicente Blvd. Suite 900 Los Angeles, CA 90049	Peter Houghton (310) 820-6661 Fax: (310) 207-5139 phoughton@loweenterprises.com	All	PF adviser and developer taps Houghton as SVP.
Paladin Realty Income Properties 10880 Wilshire Blvd. Suite 1400 Los Angeles, CA 90024	Michael Lenard (310) 996-8704 Fax: (310) 996-8708	Industrial, Office Apartments, Retail, Hotels	Aspiring public company to pursue $650M IPO. Investor acquires apartments, office industrial, retail and hotels.
Pembroke Realty Capital 767 Third Ave. 18th Floor New York, NY 10017	Stuart Boesky (646) 388-5906	Notes	Private investor and adviser plans to acquire CMBS notes and eyes NYSE slot.
Sabal Financial Group 4675 MacArthur Court Suite 1550 Newport Beach, CA 92660	R. Patterson Jackson (877) 900-6272	Notes	Private investor formerly known as Milestone Asset Resolution seeks note purchases and writes financing secured by commercial real estate Nationwide. Expansion follows Oaktree Capital Management investment.

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Welsh Property Trust 4350 Baker Road Suite 450 Minnetonka, MN 55343-8695	Scott Fredericksen (952) 897-7700 Fax: (952) 842-7737 stf@welshco.com	Industrial	Private investor expands portfolio a year after shelving IPO.
Velocis Partners 2305 Cedar Springs Suite 110 Dallas, TX 75201	Fred Hamm Steve Lipscomb Mike Lewis Jim Yoder (972) 702-0220 Fax: (214) 855-7865	Office, Retail	Please refer to updated telephone number for company appearing in the Aug. 15 edition on Page Eight.
Ventas 111 S. Wacker Drive Suite 4800 Chicago, IL 60606	Raymond Lewis (312) 660-3800 rlewis@ventasreit.com	Senior Housing	Public investor hungry for deals after two big ticket purchases during 2010-11.

SUBURBAN OFFICE DRAWS DIVERSITY

Smaller regional, national and international buyers will delve deeper into the suburban and secondary market office sector for properties too small or risky for larger buyers. Low interest rates coupled with slowly but steadily improving occupancy rates will stimulate future activity for buyers able to hold properties until the next wave of development occurs. It could take awhile, yet average 17% vacancy rates nationwide and negligible new construction give buyers hope for future improvement.

Expect a diverse group including **Artis REIT**, **Farley White Interests**, **Franklin Partners**, **Gaia Real Estate Group** and **White Oak Realty Partners** in and independent of joint ventures with equity partners, to stimulate Class A and Class B office property trades through fee-simple to distressed purchases in markets such as suburban Boston, Chicago, New York and Phoenix, for starters. Count on 6% to 9% cap rates, which vary depending on location and risk, to hold relatively steady unless public REIT buyers pour into the sector or the economy suddenly improves to support higher rents and, as a result, aggressive and pricey redevelopment or new construction.

Wooing the Windy City

Throughout Chicagoland, expect more value-added suburban office plays now that marketwide occupancies have decreased to approximately 19%. Expect aggressive investors to include Franklin Partners, a value-added investor scoping the multitenant office and industrial sectors in and independent of joint ventures. The industrial-heavy buyer wants to book $50M worth of office purchases during 2012 and will acquire vacant and occupied Class B buildings to reposition as Class A space. Single-tenant properties won't make the cut, yet multitenant properties measuring more than 75,000 s.f. will. Typical pricing hovers above $2M for fee-simple or distressed asset purchases. Expect dealmakers to target 20%-plus leveraged returns post stabilization.

In a recent purchase, Franklin Partners again paired with longtime JV partner Bixby Bridge Capital, for a likely $15M purchase in the southwestern Chicago suburb of Naperville. The pair walked away with a 205,000 s.f. multitenant building acquired in a distressed sale. Potential competition exists from White Oak Realty Partners, which is 12 months into a 48-month plan to acquire upwards of $400M worth of value-added office and apartments throughout Chicago and other markets including Boston, Orange County, Calif., and Southern Florida.

About 27 miles northeast from Franklin Partners recent buy is where White Oak Realty Partners and partner **Angelo, Gordon & Co.** likely paid close to $40M for a 608,000 s.f. office building called Columbia Centre in Rosemont, Ill. Watch for the investor to continue seeking assets at discounts to replacement cost through similar financially distressed asset purchases. Angelo, Gordon & Co. has also been busy in Honolulu and Phoenix, where it paired with Pacific Office Properties Trust to own Pacific News Building and City Square Office Towers that the REIT defaulted on in late 2010. *Continued on next page*

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Regardless of U.S. budgetary woes threatening defaults that didn't materialize, look for foreign investors and government leased specialists including Artis REIT, Gaia Real Estate Group and **Government Properties Income Trust** to plumb the segment for space. Canada-based Artis REIT contracts to buy a northeast Phoenix asset in development at a time when marketwide occupancies have risen into the 25%-plus range, depending on who's crunching the numbers. A 10-year government lease likely offers some peace of mind for Artis REIT, which plans to pay $75M — or $356.79 psf — for the 210,202 s.f. building slated for completion by February 2012. The property, which could be the foreign buyer's second-largest U.S. office building, could accommodate a 52,000 s.f. future expansion. It's likely the cap rate will hover in the 7% plus range.

Judging past activity, anticipate Artis REIT interest in stateside buildings <u>to focus on office buildings in addition to some industrial and retail assets located in secondary and suburban markets</u>. In U.S. office deals the foreign investor has acquired $124M worth of properties since November 2010, in deals adding to a portfolio of assets in the footprint markets of Phoenix and Minneapolis/St. Paul, in addition to Lithia, Fla., and New York.

If Artis REIT pursues additional GSA leased-buildings, its dealmakers may cross paths with U.S. public REIT Government Properties Income Trust, which has purchased more than $370M of assets since Jaunary and is <u>on track to outpace its 2010 acquisitions volume of $421M</u>. In a recent spate of deals the company marked new entries into Montgomery, Ala., and Milwaukee, Wis. Earlier this summer Government Properties Income Trust made an initial Alabama entry with a $199.77 psf — or $11.5M — purchase of a 57,185 s.f. building in Montgomery. The property, acquired out of foreclosure, traded at a cap rate in the low-8% range. The buyer also expanded into Milwaukee with a $6.7M purchase of a 29,297 s.f. building. Additional secondary markets are on the REITs radar through a $13.6M contract in Sacramento, Calif., an estimated $40M contract for a Holtsville, N.Y., asset, and a trio of assets in Indianapolis the company plans to acquire for $88M.

<u>More Buyers Chase Value</u>

In the Mid-Atlantic and Northeast regions, where occupancy rates range from outperforming to falling short of national averages, expect to see regional and international buyers Gaia Real Estate Group and Farley White balance diversification with core property acquisitions.

Powered by Israeli institutional partner capital, Gaia Real Estate Group is in the market for more office properties after sealing an initial entry into the sector with an estimated $240 psf purchase of a 325,000 s.f. single-tenant office building in Jersey City, N.J. — a market averaging 7%-range vacancy rates — at a likely 8% cap rate. Since January the company has purchased approximately $200M worth of residential assets and is looking forward to additional core and office purchases.

An eventual <u>diversification into multitenant office buildings with 90%-plus occupancies is likely</u>, in addition to single-tenant office buildings throughout <u>Manhattan</u> and the <u>Washington, D.C.</u>, metro areas of Maryland and Virginia. Only single-tenant buildings will be considered in <u>Jersey City</u> and <u>New Jersey</u>, however. Targeted deal sizes can range from $20M to $200M in all-cash or debt-assumption transactions; there's typically a $50M minimum threshold. Cap rates of more than 7% are targeted, consistent with its cap rate on the recently acquired New Jersey office building that's leased until 2018. If it moves into Virginia, Gaia Real Estate Group could compete against a host of investors including the AFL-CIO Building Investment Trust which recently paid approximately $138M for a five-property portfolio in Tyson's Corner, Va.

Further north, Boston-based Farley White Interests expects to plumb its core states of <u>Connecticut, Massachusetts</u>, and <u>New Hampshire</u> for Class A value-added office buildings and parks, and scope <u>the Southeast</u> for a potential expansion. The investor <u>may put another $10M to $25M into acquisitions this year</u> following a $9.8M — or $123.43 psf — purchase of a suburban Boston building it had originally constructed. Attracting the company to the 150 Apollo Drive asset in Chelmsford, about 33 miles northwest of downtown Boston, was the asset's perceived long-term value. Marketwide Boston vacancies hover in the high-17% range and slightly outpace national averages.

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