

# CRITTENDEN Real Estate Buyers™

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## RETAIL REITs STAY AGGRESSIVE

Big REITs set the pace through acquisitions, redevelopments and sales in and independent of joint ventures. Talk of flagging consumer confidence and a buy-versus-sell cap rate gulf of more than 50 basis points shouldn't dissuade public REIT leaders **Kimco Realty**, **Federal Realty Investment Trust**, **Developers Diversified Realty (DDR)**, **Regency Centers** or **Weingarten Realty Investors** from their path, especially since consumer spending is largely up. If retailers continue expanding and rents rise as a result, don't be surprised if you see further consolidation in the REIT sector.

**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>
Las Vegas	Self Storage	475 units	\$4.8M	mid-7% range	75%	8 yrs.

NOTES: Private investor Spensa Development Group paid an estimated \$81.50 psf for a 59,201 s.f. self storage facility called Storage One. The Class A property, located at 3900 N. Tenaya Way, sits atop a 2.45-acre site located eight miles north of the Las Vegas Strip, and 10 miles northwest of downtown Las Vegas. The buyer likely saw a cap rate in the mid-7% range for the Class A, two-story property comprising mostly climate-controlled units.

Spensa Development Group owns self storage in California, Nevada and Tennessee, and will consider new market entries into urban or suburban markets nationwide. The private buyer has developed properties and acquired older properties for repositioning. What won't be on the company's radar are rural locations or properties with negative net operating incomes.

CONTACTS: Spensa Development Group, 601 Carlson Parkway, Suite 350, Minnetonka, MN 55305. Greg Engel, (800) 449-5526; greg@spensagroup.com

**RETAIL REITs STAY AGGRESSIVE...**

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Regency Centers plans to follow approximately \$16M worth of purchases made in and independently of joint ventures — independently 7.6% cap rate; in JV partnership paid a 6.4% cap rate. Look for the company to book an estimated \$140M to \$150M worth of purchases throughout high-barrier to entry markets this year, and pay accordingly. Targeted infill, grocery-anchored center acquisitions, redevelopment and development will be balanced with sales of noncore assets through year's end. With an estimated \$600M of available credit, and plans to extend maturities and terms, don't be surprised if the company dips beneath 6% for quality assets. Recently it sold a property in Alexandria, Va., at an estimated 4.9% cap rate.

If Weingarten Realty Investors completes close to \$100M worth of acquisitions this year, expect company dealmakers to chalk it up to a competitive market for primary market assets boasting higher than average income and population counts. The investor hasn't noticed pricing agreeable to investor risk-adjusted returns. Company dealmakers notice grocery-anchored centers trading at 5.75% to 6.75% cap rates.

So far this year Weingarten Realty Investors has acquired \$68.4M worth of centers totaling 563,000 s.f. Most properties are in Jacksonville and Palm Coast, Fla., with one apiece in Seattle and Glendale, Colo. The blended cap rate is 6.9%. Those buys compare to a \$45M of center and land sales in Atlanta, Las Vegas, Albuquerque, N.M., Cary, N.C., San Diego, Calif., Shawnee, Kan., and the Texas markets of Tomball and Rockwall posting an 8.4% aggregate cap rate. More sales are forthcoming from the investor, which has put \$400M worth of properties on the market as part of a \$600M dispositions plan.

**BUYERS' BUREAU...**

**Industrial sector exit: What's next?** Metro Washington, D.C.-area buyer Washington Real Estate Investment Trust could strike another \$150M to \$200M worth of purchases utilizing more Section 1031 Exchange cash following an imminent exit from the industrial sector. Besides keeping an active dispositions pace, the buyer has been busy this year with an estimated \$260M worth of activity, which includes a \$73.5M contract to buy a single-tenant office building in Tyson's Corner, Va., in addition to a \$58M grocery-anchored center buy in the Montgomery County city of Olney, Md. Anticipate further interest in Class A and Class B+ apartments, office, medical office and retail located within the Beltway, and throughout suburbs including Maryland's Howard and Montgomery counties, and Virginia's Arlington, Fairfax and Loudoun counties.

**Single-tenant acquisitions are poised** for a shot in the arm following AEI Core Property Trust's planned \$270M equity offering that could generate upwards of \$240M for acquisitions in coming quarters. Unlike other REITs, the all-cash buyer won't be in the market to write loans or purchase debt, except for construction loans written on predevelopment/build-to-suit properties it plans to acquire.

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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>
Scottsdale, Ariz.	Industrial	43,550 s.f.	\$5.45M	9.25%	100%	Five yrs.

NOTES: After scoping the Arizona market since early 2010, Canadian investor Enright Capital strikes its first U.S. purchase with an estimated \$125.14 per s.f. purchase of a showroom — occupied by Emser Tile, Today's Patio and Westar — in this city 20 miles northeast of downtown Phoenix. The private investor could have an annual appetite for \$6M to \$8M of equity investments that, with leverage, could support \$20M to \$25M of acquisitions. Additional properties in the Phoenix market will attract company attention, as the company peruses the industrial and office properties, and may also consider strip or shadow-anchored retail — all located in urban and tight infill markets outside urban cores.

What attracted Enright Capital to the market was company dealmakers' familiarity with Phoenix and the metro area's reputation as a distressed property-rich market. That the Phoenix metro area's industrial market is roughly twice the size of the industrial market in Enright Capital's headquarter city of Calgary, also appealed to company dealmakers. Hewing to a value-added strategy, expect acquisitions staff to pay close attention to pricing per s.f. and historical lease rates. The buyer typically acquires for five- to seven-year hold periods.

CONTACTS: Enright Capital, 450-340 12<sup>th</sup> Ave. S.W., Calgary, Alberta, CAN T2R 1L5. Derek Ney, (602) 954-3754; fax: (602) 228-2965.

Buyer broker: Cassidy Turley BRE Commercial: 2375 E. Camelback Road, Suite 300, Phoenix, AZ 85212. Michael Kittlica, Eric Wichterman, Mike Coover and Paul Boyle, (602) 954-9000; fax: (602) 468-8588.

Seller's broker: Lee & Associates, 3200 E. Camelback Road, Suite 100, Phoenix, AZ 85018. Jan Fincham, Pat Dempsey, Mark Linsalata, (602) 954-3754; fax: (602) 954-0510.

**BUYERS' BUREAU...**

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Anticipate interest in properties occupied by credit tenants under 10- to 20-year leases. Tenants could come from various industries including drug stores, food service, and medical office. Affiliate company AEI Capital, also a buyer, plans to hold a minority position in the public company. If AEI Core Property Trust emulates AEI Capital's approach to the market, an interest in properties priced from \$2M to \$10M will dominate. Within AEI Core Property Trust's competitive set are single-tenant sector leaders Cole Property Trust and American Realty Capital.

**Less than six months after completing its IPO**, Preferred Apartment Communities heads back to the market with an offering that could result in \$137M for increased acquisitions and lending subsequent to activity earlier this year.

The company generally aims for 8.5% to 10% cash-on-cash returns following a five-year hold, with cap rates on primary infill and suburban markets at 6%-plus for value-added, distressed, core and opportunistic purchases typically involving 200- to 600-unit properties. Markets on the company's radar include Atlanta, Boston, Chicago, Dallas, Phoenix, Seattle, and Washington, D.C., in addition to other metro areas with more than 1 million residents. Preferred Apartment Communities wants to obtain REIT status by December; its stock trades under APTS on the NYSE Amex exchange.

The investor raised \$45M from a targeted \$75M IPO earlier this year, and then paid \$86M for three properties totaling 765 units in Atlanta, Philadelphia and Hampton, Va. Besides buy-side action, more lending could occur subsequent to a \$6M mezzanine loan written earlier this summer to a developer of a 96-unit apartment complex in Hampton, Va., that's located near a company-owned asset acquired earlier this year. Preferred Apartment Communities' activity happens at a time when big retail REIT Developers Diversified Realty decides to leave the mezzanine financing sector for nonretail properties.

Time will tell whether compressed cap rates and increased pricing inspire additional joint ventures beyond a recent transaction where WRIT took a 90% ownership position in a 150-unit apartment complex development at 650 N. Glebe Road in Arlington, Va., that's close to apartment REIT competitor/developer Avalon Bay Communities' headquarters office. Medical office — a sector the company hasn't invested in since late 2009 — will also make the go-to list for assets located on campus or next to large area hospitals. Retail-wise, anticipate interest in both grocery-anchored and power center assets to follow its \$291.45 psf/6.7% projected cash-on-cash yield purchase of the Olney Village Center that's 99% leased to tenants including anchor Shoppers Food Warehouse, HomeGoods and TJ Maxx.

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**BUYERS' BUREAU...**

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Multitenant office in and outside the Beltway is also of interest. As with all properties sought outside the Beltway, dealmakers will pay attention to properties near major intersections, or located within demand-rich areas, as well as proximity to commuter train stations. In Tyson's Corner, Va., where WRIT plans to pay \$329.59 psf for the single-tenant 223,000 s.f. John Marshall II building occupied by consulting firm Booz|Allen|Hamilton, the asset's location about 500 feet from a new commuter train station Tyson's Corner, Va., was a big attractant.

Section 1031 Exchange acquisitions happen as a result of a two-pronged \$350M sale to AREA Property

**BUDGET CUTS A BOON TO STUDENT HOUSING BUYERS...**

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EDR typically prefers larger properties in the 300- to 400-bed-plus range. The smaller Virginia deals involving an 82- and 152-bed property were chosen for their proximity to EDR's 641-bed asset.

EDR's most recent buy in Berkeley, Calif., is an initial entry into the local market and the first California purchase made by the company in almost one year. Typically, EDR might not strongly consider a 167-bed asset, but the deal made sense because of a management agreement already in the market. EDR paid an estimated \$95,500 per bed for the two-phase Westminster House located near the University of California, Berkeley campus, and proximate to the Graduate Theological Union and an area known by locals as Holy Hill. Also on the table for EDR is \$182M worth of planned developments near the University of

**DEALMAKER DATABANK™**

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
3340 Peachtree Road NE Tower Place 100, Suite 1660 Atlanta, GA 30326	Howard Huang (southern U.S.) (678) 538 1900 Fax: (678) 538 1901 hhuang@areaprop.com		
Campus Crest Communities 2100 Rexford Road Suite 414 Charlotte, NC 28211-3484	Mike Hartnett (704) 496-2500 Fax: (704) 496-2599	Student Housing	Public student housing REIT develops and acquires properties nationwide.
Clarion Partners 2650 Cedar Springs Road Suite 850 Dallas, TX 75201	Dayton Conklin (214) 775-7681 Fax: (214) 647-4901 dayton.conklin@clarionpartners.com	Industrial	Private investor acquires industrial portfolio.
Developers Diversified Realty 3300 Enterprise Parkway Beachwood, OH 44122-7249	Daniel Branigan (216) 755-5804 Fax: (216) 755-1804 dbranigan@ddr.com	Retail	Public REIT counts \$1.7B of debt and equity. Recently swapped an open air mall in Kansas, for a power center in Ohio, in an arrangement with Glimcher Realty Trust.
Education Realty Trust 530 Oak Court Drive Suite 300 Memphis, TN 38117	Thomas Trubiana (901) 259-2500 Fax: (901) 259-2594 trubiana@edrtrust.com	Student Housing	Public investor acquires and sells student housing nationwide.
Excel Trust 17140 Bernardo Center Drive Suite 300 San Diego, CA 92128	Matt Romney (858) 613-1800 Fax: (858) 487-9890	Retail	Public investor has at least \$150M to \$200M for acquisitions through December.
Federal Realty Investment Trust 7015 Beracasa Way Suite 204 Boca Raton, FL 33433	Barry Carty (Mid-Atlantic) (561) 347-6520 Fax: (561) 368-6623	Retail	Public REIT buyer bullish on Boston, California.
89 Headquarters Plaza North Tower, Third Floor Morristown, NJ 07960	Steven LaBold (973) 993-1614		
Glimcher Realty Trust 180 E. Broad St. Columbus, OH 43215	Christopher Ellis (614) 887-5673 Fax: (614) 621-8863 cellis@glimcher.com  George Schmidt (614) 887-5619 Fax: (614) 621-8863 gschmidt@glimcher.com	Retail	Public REIT buys an open-air mall in Kansas; to sell power center in Ohio to DDR.
Kimco Realty 1631-B S. Melrose Drive Vista, CA 92081	Matt Golden (760) 598-2032 Fax: (760) 727-1430 mgolden@kimcorealty.com	Retail	Public REIT may acquire another \$190M worth of properties this year.
New School Advisors/Properties 5646 Milton St. Suite 888 Dallas, TX 75206	Thomas Herbelin (214) 234-0696	Student Housing	Investor to roll out blind pool offering for student housing buys.
Pembroke Realty Capital 767 Third Ave. 18 <sup>th</sup> Floor New York, NY 10017	Stuart Boesky (646) 388-5906 Fax: (646) 388-5907	Notes	Private investor and adviser plans to acquire CMBS notes and eyes NYSE slot. Company's name in the Sept. 5 Dealmaker Databank was spelled Incorrectly. <i>Real Estate Buyers</i> regrets the error.
Preferred Apartment Communities 3625 Cumberland Blvd. Suite 400 Atlanta, GA 30339	John Williams (770) 818-4100 Fax: (770) 818-4101 jwilliams@corporate-holdings.com	Apartments	Could generate more than \$100M for 200- to 600-unit property acquisitions.
Regency Centers 915 Wilshire Blvd. Suite 2200 Los Angeles, CA 90017	Mac Chandler (Western U.S.) (213) 553-2200 Fax: (213) 624-2280 macchandler@regencycenters.com	Retail	Public investor may acquire upwards of \$150M worth of properties in coming months.
One Independent Drive Suite 114 Jacksonville, FL 32202	Brian Smith (904) 598-7000 bsmith@regencycenters.com		

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<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Virtus Real Estate Capital 7004 Bee Cave Road Building III, Suite 300 Austin, TX 78746	Jeffrey Schneider (512) 891-1250 Fax: (512) 891-1210	Student Housing Senior Housing Self Storage Medical Office	Private equity investor targets all property types through various funds.
Washington Real Estate Inv. Trust 6110 Executive Blvd. Suite 800 Rockville, MD 20852	Tom Regnell (301) 984-9400 Fax: (301) 984-9610 tregnell@writ.com	Industrial exit	Washington, D.C. area-focused public investor considers apartments, medical office and retail following planned exit from industrial sector.
Weingarten Realty Investors 2600 Citadel Plaza Drive Suite 125 Houston, TX 77008	M. Candace DuFour (713) 866-6000 Fax: (713) 866-6049 cdfour@weingarten.com	Retail	Public investor could acquire up to \$100M worth of properties this year.
Whitestone REIT 2600 S. Gessner Road Suite 500 Houston, TX 77063	Bradford Johnson (713) 435.2208 bjohnson@whitestonereit.com	Retail	Public REIT acquires assets in secondary markets.

**BUYERS PARTNER TO BOOST INDUSTRIAL ACTIVITY**

Recent big ticket industrial portfolio buys signal firsts of the year and a broader trend of joint ventures and expansions, as investors **Adler Group**, **AREA Property Partners**, **Clarion Partners** and **Washington Real Estate Investment Trust** expand portfolios. Continued expansion in this sector with the least amount of transaction velocity compared to other property types will occur and further heat as vacancies tighten from a national 16% average. With a dearth of planned construction, expect to see cap rates compress from an average mid-7% range later this year; for perspective, cap rates averaged in the low-8% range during late 2010. Pressure on cap rates and pricing augur additional portfolio trades as buyers link up to share risk and reward. Don't be surprised to see joint ventures for industrial properties become *de rigueur* in an even tighter market by second quarter 2012.

Following a new market entry into the Washington, D.C., market and its largest purchase to date, look for JV partner and buyer Adler Group to utilize \$100M to \$150M of equity for acquisitions of multitenant flex, industrial and office space during the next 12 months. Deals will be made for its various funds and in joint venture partnerships. One of those partnerships — with AREA Property Partners — is in the midst of acquiring a 3 million s.f. portfolio of Maryland and northern Virginia properties for approximately \$113 psf, in a deal marking seller Washington Real Estate Investment Trust's exit from the sector. The 79% leased package averaging 25 years old fits Adler Group's focus and AREA Property Partners' interest in properties with upside through rent growth and occupancies, in addition to value-added product. Don't be surprised to see the company raise a successor fund to the \$20M equity Adler Real Estate Fund that was the likely minority capital source in the industrial buy.

Watch for Adler Group's majority JV partner AREA Property Partners to continue its hunt for portfolios, following its recent industrial purchase. The company is confident in the Washington, D.C., market's performance and potential stoked by the federal government, law enforcement and technology companies. So far this year the investor has made approximately \$2.5B worth of worldwide acquisitions year-to-date, and has partnered with Adler Group since 1998. For its part, portfolio seller Washington Real Estate Investment Trust gets out of the industrial sector and will likely ramp up presence in apartments, medical office, office and retail throughout the Washington, D.C. metro area.

Meanwhile, look for competitor Clarion Partners to acquire another \$400M worth of properties in and outside the industrial sector, to possibly exceed more than \$1B worth of acquisitions volume by December. Joint ventures with mostly developers are of interest to the company that recently struck its largest industrial purchase of the year and entered the new markets of Salt Lake City and Tracy, Calif., in the Central Valley region as part of a \$118M — or \$42.14 psf — purchase of distribution assets. The baker's dozen package averages a 90% occupancy rate and also comprises assets in Dallas, Indianapolis, Phoenix and Columbus, Ohio. Watch for further interest from the buyer favoring all types of industrial properties, from stabilized to vacant assets, close to growing and transportation-heavy areas. Seller Prologis divested the assets following its merger earlier this year with AMB Property.

## PHOENIX HEATS FOR SMALL CAP REITs

Big REITs' smaller-cap counterparts **Excel Trust** and **Whitestone REIT** are among companies to watch as they boost shopping center footholds in secondary markets. Both buyers are hot for Phoenix-area properties, where cap rates are compressing into the mid-7%-and-less range and vacancy rates could decrease from an 11% to 12% average. Clearly these and other buyers will bank on upside found through contracting vacancy rates and the resultant increasing rents. Anticipate Excel Trust and Whitestone REIT to continue acquisitions momentum through year's end following \$203.5M and \$34M worth of purchases made since January, respectively.

Don't be surprised to see Excel Trust step up its presence throughout Phoenix, San Diego, Calif., Washington, D.C., and northern California in coming months with \$150M to \$200M worth of acquisitions potential by year's end. Activity in Atlanta is also likely with a newly constructed property that could turn an 8.5% cap rate upon stabilization. However, the Phoenix metro area is where the company recently struck its largest deal in history with the \$110M, high-7% cap rate purchase of The Promenade, a 730,000 s.f. center in Scottsdale, Ariz. Attracting the investor were average household incomes of \$116,000 plus within a three-mile radius, in addition to a tenant roster including Trader Joe's, CostPlus, Sleep America, Urban Exchange and OfficeMax. This deal falls on the heels of an acquisition near Highway 101 in Gilroy, Calif., a city fairly proximate to San Francisco. Also watch for future deals in Montgomery, Ala., Tennessee, and Texas in coming months. In Phoenix, however, the company may compete against a host of investors including Macerich Co. and Whitestone REIT.

Nearing its first anniversary as a public company, Whitestone REIT has aggressively ramped up acquisitions and could continue the pace through year's end with more than \$75M for acquisitions. Dealmakers seek 50,000 s.f. to 200,000 s.f. properties generally priced from \$5M to \$30M. So far this year the company has already surpassed the three acquisitions made during 2009-10, with four purchases located in the Arizona cities of Gilbert, Scottsdale and Phoenix totaling 287,331 s.f. The company may compete against Excel Trust for deals.