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SENIOR HOUSING'S FOUNTAIN OF YOUTH

Institutional investors stalking senior housing will further raise the sector's profile coast to coast. Independent living and age-restricted apartments will be in especially high demand in coastal markets where some homeowners are able to sell their homes and move into communities. **Clarion Partners, Columbia Pacific Advisors, Grubb & Ellis Healthcare REIT II, Healthcare Realty Trust, Kisco Senior Living, Prudential Real Estate Investors and Senior Housing Properties Trust** scan the market for all types of assets. Don't be surprised to see institutional investors get active in and independent of joint ventures for Class A independent living properties.

In an apparent recapitalization, Kisco Senior Living and partner Prudential Real Estate Investors pay \$53M — or \$301,136 per unit — for the 176-unit Woodland Terrace in North Carolina featuring a blend of independent living, assisted living and Alzheimer's care/memory care units. Don't be surprised if Kisco Senior Living steps up acquisitions following recent dispositions to institutional investors, and buy-side partnerships with Prudential Real Estate Investors.

In its Cary, N.C., deal, Kisco Senior Living sold off the Woodland Terrace once owned with Walton Street Capital, then reacquired the asset with Prudential Real Estate Investors. Future deals should include independent-living dominant properties constructed after 1985 and rounded out by specialized care services such as Alzheimer's, in addition to assisted living in and independent of joint ventures. The investor acquires properties off market and through distressed sales.

Institutional capital will also ferret out top-shelf assets in secondary markets. If Clarion Partners' willingness to pay sub-5% cap rates for Class A coastal senior apartments offers a sign, expect to see the institutional investor follow its three-property California purchase with additional core properties nationwide. The investor expanded its senior housing footprint by 586 units with purchases in the Southern California cities of Rancho Cucamonga and Rancho Santa Margarita, plus the San Francisco Bay area city of Rohnert Park, in deals penciling to \$170,648 per unit. It's likely the 95%-leased portfolio traded at a cap rate in the sub 5% range.

Skilled nursing facilities will become hotter as questions about Medicare/Medicaid reimbursements impact velocity. Grubb & Ellis Healthcare REIT II plans what's likely its largest acquisition of skilled nursing facilities since inception, with plans to pay approximately \$122,067 for each bed of a 1,300-plus unit portfolio comprising assets in Alabama, Georgia, Louisiana and Tennessee. The largest asset of the bunch is a 227-bed property at 1736 Irving Place, in Shreveport, La.; the 84-bed Atlanta asset at 560 Charles Ave. N.E., is the smallest. The company has also been active in the hospital segment.

The Ensign Group should encounter Clarion Partners in searching for additional senior housing in core coastal markets, company dealmakers should expect to see regional buyer The Ensign Group, which recently acquired its own coastal nugget with a 59-bed skilled nursing asset called The Springs at Pacific Regent La Jolla that's next door to larger independent living asset, the 148-unit The Pacific Regent Tower. The purchase of the Medicare-pay property is part of an estimated \$86M worth of purchases that the Ensign Group has made since January.

An aging population will also justify new development. Responding to population growth that has exceeded senior housing supply, watch for Columbia Pacific Advisors/Columbia Pacific Management to explore existing relationships with developers for new assisted living projects on behalf of its current \$40M development-focused Columbia Pacific Senior Housing Fund LP.

Continued on next page

SENIOR HOUSING'S FOUNTAIN OF YOUTH...

Continued from Previous Page

During an expected three-year investment period, the fund may invest in 10 to 15 projects throughout the U.S.; it's working a pipeline of deals involving 100-unit projects in Texas, the Midwest, Northeast and Southwest. The investor will also scan additional markets as part of its plan involving the construction of assisted-living properties averaging 100 units apiece. Equity investments will hover in the sub-\$7M range. Leveraged returns of more than 15% will likely be sought during the fund's expected seven-year hold period.

Medical office diversity

Count on senior housing owners to further diversify portfolios with ancillary but necessary properties, to capture upside from this growing real estate segment. Additional diversification should occur from Healthcare Realty Trust, following the company's completion of eight outpatient/medical office buildings in Richmond, Va., for \$173.5M. The investor will compete against fellow REIT Senior Housing Properties Trust, which plans to acquire a 13-property MOB portfolio of assets in Arizona, California, New York, Ohio, Pennsylvania and South Carolina, for approximately \$167M, by year's end. Healthcare Trust of America recently added a pair of MOB's to an Arizona portfolio for an estimated \$32M.

EMPLOYMENT GAINS STROKE SECONDARY OFFICE FIRE

Improving employment will stimulate Class A and Class B downtown office trades in secondary markets. As the flight to quality Class A properties continues in primary markets, look for private, institutional and public investors including **Ascendant Holdings, Commonwealth REIT and Lowe Enterprises to scout smaller markets for stabilized and repositioning quality assets.** Buyers are paying attention to steadily improving employment rates and will take measured chances on properties requiring a little work.

Expect investors to strike new market entries in pursuing value-added properties. Commonwealth REIT enters Louisiana with its \$102M purchase of the 1.2 million s.f. One Shell Square building in downtown New Orleans, an 88%-leased building. Expect the buyer to scan the market for additional assets following its recent buy. If unemployment rates continue decreasing past an average 7.3% rate, anticipate additional big-name buyers beyond Equity Office and Commonwealth REIT to seek out properties in the CBD area posting slowly decreasing vacancies, now averaging 15%. One Shell Square expands the REIT's holdings in the South, where it holds assets in the adjacent states of Alabama, Arkansas, Tennessee and Texas.

In Denver, institutional investor Lowe Enterprises' approximately \$80 psf — or \$18.5M — purchase of a Class B building downtown augurs a sea change in what institutional investors will hunger for in coming months. The market's average 13.8% vacancy rate across all classes has tightened, with Class A vacancies averaging 10%. If the area's decreasing 8.5% unemployment rate — which is slightly higher than statewide averages — shrinks even more, expect to see increasing interest from Class B buyers hunting for repositioning quality properties as a higher cap rate alternative to Class A space. That, and negligible new construction outside build-to-suits, should further stimulate movement into the Class B value-added sectors. Lowe Enterprises' purchase of the 24-story/76%-leased building called Denver Club, fit within the company's goal of acquiring a building that appeals to various smaller and midsized tenants. Look for future interest in properties priced from \$10M to \$100M throughout the U.S.

Depending on risk, count on regional opportunistic investors to scope out deals in the Milwaukee CBD market averaging close to a 19% vacancy rate, and 12% for Class A buildings. Improving and steadily decreasing 8% metro area unemployment rates offer buyers and builders future hope. Recently, **Ascendant Holdings** paid approximately \$2.9M — or \$24.78 psf — for the Wells Building, a Class B asset located downtown at 324 E. Wisconsin Ave. Similar to Lowe Enterprises' Denver work, Ascendant Holdings plans to renovate and reposition the 117,000 s.f. building posting 60% occupancies. What drew the investor to its fifth acquisition made since January was the building's downtown location and the inability of some landlords to afford tenant improvements and lease space. One example of how a lack of tenant improvements can hamper building sales is found with the 50,000 s.f. Underwriters Exchange building located less than a half mile northwest of Ascendant Holdings' recent buy.

Continued on next page

EMPLOYMENT GAINS STROKE SECONDARY OFFICE FIRE...*Continued from Previous Page*

No one bid on the eight-story, 20%-leased office building that was recently on the auction block. The reason? Renovation and tenant improvement costs that exceeded pricing for more stable investments.

While Ascendant Holdings is comfortable with upwards of 40% to 50% vacancies, don't expect the buyer to ignore buildings like the Underwriters Exchange — as it pads footprint markets for office and retail throughout Southeast Wisconsin including the Madison and Milwaukee metro areas. Dependent upon strategy, the stabilized cash-flow or value-added buyer seeks to acquire at cap rates in the 8% to 13% range, for long-term holds of six to eight years. Mainly multitenant office and multitenant retail attract the private buyer scanning the market for properties ranging from 30,000 to 200,000 s.f., and priced from \$1M to \$10M.

NEW YORK IN FOCUS

New York's retail, apartment and office markets will continue to be the focus of myriad local and regional investors in a declining cap rate environment. Big buyers and up-and-coming names to watch in various sectors in the New York market include **Beck Street Capital, Equity One, SL Green Realty, Shorenstein Properties** and **Stonehenge Partners**.

Look for Beck Street Capital to acquire \$200M worth of upscale retail and mixed-use properties during the next couple of years, as it peruses the Manhattan landscape for \$25M to \$75M deals. Properties outside the pricing range may be considered with joint venture partners. Future acquisitions will follow a

spate of sales during the past 12 to 18 months. Expect a renewed focus on top-shelf luxury retail, or mixed-use blends, in higher income districts including Chelsea, Greenwich Village, SoHo, Tribeca, plus Madison and Fifth avenues, as the buyer considers value-added and core-plus properties. The company targets 15%-plus IRRs during projected four- to six-year hold periods.

Necessity Retail also Hot

Florida-based Equity One will draw from more than \$1B in sales to power expansions for grocery-anchored and necessity retail in urban markets throughout the state of New York. The company is flush with cash as it repositions its portfolio towards several urban markets. Earlier this year the company sold assets to Blackstone Real Estate Partners and Capital & Counties. Proceeds from those sales, in addition to an approximately \$575M credit line, will further grocery-anchored center purchases in primary markets nationwide.

NYC retail and office denizen SL Green Realty plans a significant apartment expansion by early next year, when its contract to acquire \$416M worth of apartments and retail properties closes. Apartments in NYC and nationwide are a relative no-brainer, since some insiders assert the sector continues to be subsidized by Fannie Mae and Freddie Mac and, accordingly, has avoided the steep pricing declines and lack of interest that plagued most other property types post-2008. The investor, along with Stonehenge Partners, has contracted to acquire a little more than 400 Midtown and Upper East Side apartment units, in addition to retail and office space in the eight-property portfolio.

Look for more action from both SL Green Realty and JV partner Stonehenge Partners in the city. SL Green boasts close to \$1B of credit-line cash and JV partner Stonehenge plies its \$500M equity Stonehenge Fund III outside the partnership. At the pace the four-year-old fund is acquiring properties, don't be surprised if a successor fund emerges in coming quarters.

Shorenstein Realty Investors Ten has yet to acquire a property, but look for the \$1.2B equity fund — which could acquire upwards of \$2B worth of properties in coming quarters — to consider assets in the market based on predecessor fund activity. The company seeks assets priced from \$50M throughout New York and other primary U.S. markets. It will compete against SL Green, **Boston Properties** and myriad other investors for NYC office space, where cap rates for Class A assets are expected to continue a decline from 5% averages.

DEALMAKER DATABANK™

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
American Realty Advisors 801 N. Brand Blvd. Suite 800 Glendale, CA 91203	Gary Steinhardt (818) 545-1152 Fax: (818) 545-8460	Office	Institutional investor acquires suburban office and other property types.
Ascendant Holdings 2001 W. Beltline Highway Milwaukee. Suite 200 Madison, WI 53713	Eric Nordeen (608) 250-2099 Fax: (608) 250-2093 eric@ascendant-holdings.com	Office, Retail	Private investor acquires value-added office buildings in Madison and
Beck Street Capital 100 Vandam St. New York, NY 10013	Kevin Comer (212) 337-3173 Fax: (212) 337-3174	Retail	Private investor eyes New York City retail.
BIG Shopping Centers 9378 Wilshire Blvd. Suite 300 Beverly Hills, CA 90212	Stanley McElroy Jr. (310) 746-2210 Fax: (310) 746-2240 stan@bigcentersusa.com	Retail	Investor seeks fee-simple purchases and equity joint ventures and recapitalizations.
Clarion Partners 230 Park Ave. New York, NY 10169	Richard Pink (212) 883-2500 Fax: (212) 883-2700 richard.pink@clarionpartners.com	Senior Housing	Institutional investor acquires independent living assets.
Columbia Pacific Advisors Columbia Pacific Management 1910 Fairview Ave. East Suite 500 Seattle, WA 98102-3698	Schuyler Havens (206) 728-9063 Fax: (206) 694-2705	Senior Housing	Senior housing investor rolls out development fund.
CommonWealth REIT 255 Washinton St. Suite 300 Newton, MA 02458	John Mannix (617) 332-3990 Fax: (617) 332-2261 acquisitions-dispositions@cwhrefit.com	Office	Public REIT makes new market and regional entry into South with Louisiana acquisition.
The Ensign Group 27101 Puerta Real Suite 450 Newport Beach, CA 92691	Chad Keetch (949) 487-9500	Senior Housing	Public investor acquires skilled nursing facilities with repositioning opportunities.
GCA Multifamily Fund c/o GrayCo Inc. 5004 Monument Ave. Suite 200 Richmond, VA 23230	Robert Whittemore (804) 359-8444 Fax: (804) 359-2161 rwhittemore@graycorei.com	Apartments	Investor plans \$75M raise for new fund.
Kayne Anderson R.E. Advisors 200 Business Park Drive Suite 309 Armonk, NY 10504	Kiva Iscol (914) 940-6050	Student, Self-Storage	Investment fund, private equity manager introduces latest fund.
Karlin Real Estate 11755 Wilshire Blvd. Suite 1400 Los Angeles, CA 90025	Matt Schwab (310) 806-9728 Fax: (310) 806-9799 info@karlinre.com	Office	Opportunistic buyer shops western U.S. value-added apartments, industrial, office and retail.
Kisco Senior Living 5790 Fleet St. Suite 300 Carlsbad, CA 92008	Rob Haskins (760) 804-5900 Fax (760) 804-5909 haskins@kiscosl.com	Senior Housing	Private investor partners with institutional investors nationwide.
Lowe Enterprises 11777 San Vicente Blvd. Suite 900 Los Angeles, CA 90049	Bleecker Seamon (310) 820-6661 Fax: (310) 207-5139 phoughton@loweenterprises.com	Office	Private investor acquires Denver value-added office building.
MIG Real Estate 4350 Von Karman Ave. Fourth Floor Newport Beach, CA 92660	Greg Merage (949) 474-5850 Fax: (949) 474-5851 info@migcap.com	Office	Private investor acquires value-added properties throughout western U.S.

Continued on Next Page

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Property Type

Retail

Buying Criteria

Private investor rolls out second fund to
acquire value-added real estate.

VIRGIN FUNDS AGGRESSIVE IN ALL SECTORS

Watch for an onslaught of new funds rolled out by private equity investors and investment managers to target all types of assets nationwide. Fueling the trend will be workaday investors anxious to move cash for higher yield possibilities. Watch investors **GCA Multifamily, Kayne Anderson Real Estate Advisors, Phillips Edison & Co., RiverOak Investment, Siguler Guff and Stoltz Management** prepare acquisitions funds to pursue all types of assets in urban and suburban areas.

Apartments:

Southeast-focused Apartment investor **GrayCo** is tightlipped about budding plans for its targeted \$50M to \$75M equity GCA Multifamily Fund that should wrap up investments by March; the company has raised nearly \$40M towards its goal. Judging its portfolio of southeastern apartments, don't be surprised at additional acquisition, rehab or development deals in its asset concentrated footprint markets of Georgia, North Carolina and South Carolina, in addition to Alabama, Florida, Tennessee and Virginia. Such work will be met with competition by regional and national apartment buyers and developers including Charlotte, N.C.-based **Ginkgo Residential**, which eyes \$80M worth of acquisitions during 2012 in Alabama, Georgia, North Carolina, South Carolina, Virginia and Texas, in addition to Maryland and Missouri.

Retail

In competing for urban mixed-use retail with a targeted \$300M all-in fund, expect RiverOak Investment to focus on \$5M to \$30M retail and mixed-use properties in higher-end and emerging submarkets in Boston, New York and Washington, D.C. Watch for the buyer to take a value-added approach to acquire buildings with high vacancies, and occupied buildings with short-term lease rollover, in such upscale, established markets as New York's SoHo, Chelsea and Fifth and Madison avenues, Boston's Newbury Street and the Georgetown district in Washington, D.C. Tenant-driven, longer term deals will be sought in these cities' respective emerging districts of NoHo, and Hell's Kitchen west of midtown Manhattan — that's also referred to as Clinton district — plus areas around Boston's Downtown Crossing and South End, and D.C.'s Columbia Heights West near 14th Street, southeastern Anacostia and northwestern Shaw districts. The investor plans a two-year investment period following a final fund close in five months, with a five- to seven-year hold period.

Meanwhile, secondary and suburban assets will likely appeal to Phillips Edison Strategic Investment Partners II that has upwards of \$60M for acquisitions, as the investor eyes an approximately \$100M raise to acquire value-added and distressed properties nationwide. The investor recently made its first purchase for the opportunistic vehicle with a mixed use property in Brookfield, Wis., anchored by grocer Sendik's Fine Foods, and topped with 32,000 s.f. of office space. Overall the company has a \$150M equity goal for

VIRGIN FUNDS AGGRESSIVE IN ALL SECTORS...

Continued from Previous Page

Based on previous activity, also watch for Kayne Anderson to show interest in the self-storage segment. Competitors will include Virtus Real Estate Capital, in a search for self-storage and student housing on behalf of \$1.5B Virtus Real Estate Capital LP fund, plus upwards of \$200M of targeted activity on behalf of its Virtus Storage Investment funds III and IV. So far the two vehicles have acquired an estimated \$75M worth of assets between them.

UPSIDE VALUE ATTRACTS TO SUBURBAN OFFICE

Concerns about short-term economic performance haven't stifled value-seeking investors from stalking suburban office properties. Buyers likely look for high discount-to-replacement costs, among other risk-management tools, to mitigate concerns, regardless of the hold period. With insecurity dominating the market place in many ways, look for buyers to capitalize on any profit generation, whether it be revenue stream, quick sales or long-term holds. Buyers to watch include **American Realty Advisors, Carr Properties, Karlin Real Estate and MIG Properties.**

Opportunistic buyer Karlin Real Estate will put more than \$1B into acquisitions, following its first suburban office buy with a \$112 psf REO purchase outside Sacramento. Look for the buyer to strike additional deals in the urban and suburban multitenant office, industrial, retail and apartment sectors throughout Arizona, California, Colorado, Florida, Nevada and Texas.

Karlin Real Estate was especially attracted to the 50% or higher discounts to replacement costs it achieved in the deal for the 531,000 s.f. Rancho Cordova, Calif., property, and similar conditions will likely be sought in subsequent acquisitions. The 76%-leased Class B office park is the buyer's second in the Sacramento area and one of \$300M-plus worth of acquisitions made since January that include recent mixed-use and retail buys in Scottsdale, Ariz., and Portland, Ore. Karlin Real Estate, which worked on the marketed deal for four to five months before closing, generally eyes 20%-plus leveraged IRRs during a three- to five-year hold. Additional activity through all-cash purchases in footprint markets through year's end can be expected from the buyer, which already surpassed an earlier, \$200M acquisitions goal for 2011.

Institutional investors will also stalk value, but with a little less risk. For a core to value-added strategy aimed at Class A and Class B properties, American Realty Advisors targets CBD and suburban primary and secondary U.S. markets for \$30M to \$150M office properties measuring at least 125,000 s.f., with less than 25% of in-place leases rolling per year. Don't be surprised at more action throughout suburban Chicago, as well as Denver and the San Francisco Bay Area, where the company acquired nearly 547,000 s.f. of Class A office space. The investor works with capital from the open-end American Strategic Value Realty Fund, which raised \$100M in equity in 2010. Although American Realty Advisors won't talk, based on previous activity it likely targets \$500M-plus worth of deals per year. American Realty Advisors also seeks apartments, Class A grocery-anchored and power center retail, in addition to Class A and Class B bulk distribution and warehouse industrial properties.

Competitors for occupancy-challenged properties throughout the West include MIG Properties. Recently the buyer paid \$152.58 psf for a portfolio of suburban San Diego, Calif., buildings. The four properties averaging a 76% occupancy rate are located in Kearny Mesa, Mission Valley and Sorrento Mesa. Look for additional value-added purchases from the private investor, which will scan primarily the Southwest, with a focus on Arizona, California, Colorado, and Nevada, as well as Hawaii, for Class A to Class C properties priced from \$5M to \$100M. The diversified private investor applies a value-added strategy that also includes distressed apartments, hotels, flex industrial, office and retail, through fee-simple and nonperforming note purchases.

Private REIT Carr Properties focuses on \$10M-plus office and apartment complexes throughout Washington, D.C. Additional smaller asset sales may follow a recent \$5M sale in Reston, Va. Watch for the value-added investor to pursue apartments, land, office and selective hotel, industrial and retail properties throughout the Washington, D.C. metro area.

BUYERS' BUREAU...

Diversifying its position as an international shopping center developer, anticipate necessity retail-focused equity investor BIG Shopping Centers USA to strike fee-simple purchases in addition to equity investments in joint ventures, plus acquisitions and recapitalizations with operators throughout the U.S. The company, which counts Kimco Realty and RED Development among joint venture partners, is compelled by Class A- and Class B+ neighborhood/community and power centers priced from \$20M to \$25M-plus, and anchored by top-producing grocery stores or value-oriented retail tenants including Marshalls, Ross and TJMaxx. Performing, non-distressed assets with 85% to 90% occupancy rates — and, generally 6.5% or better cap rates — will merit attention. The investor wants assets that need some repositioning to boost to Class A or Class A- quality.

Although the long-term investor/owner prefers majority stakes in ventures, it will consider other ownership splits in working to grow a stateside portfolio beyond approximately \$100M worth of equity investments booked since June 2010. Those deals involved 25 centers totaling 4.5 million s.f., and expanded the company's portfolio of assets in Las Vegas, Omaha, Neb., Long Island, N.Y., as well as California, Maryland, Oregon, Texas and Washington. Look for additional interest in its existing markets, particularly Texas, as the company seeks investments in primary and other markets with the best chances of retaining long-term employment growth. BIG Shopping Centers USA is a subsidiary of Israel-based BIG Shopping Centers, which develops and owns centers in its headquarter country, in addition to India and southeastern Europe.

Watch RED Development to also get active with Cole Real Estate Investments for recapitalizations, note and property buys of multitenant grocery store-anchored centers and power center retail priced from \$15M to \$100M throughout the Midwest and West Coast.

Prime Group Realty Trust and Five Mile Capital Partners can't let go of each other. Three months after squashing a merger/acquisition by the hedge fund, the pink sheet-traded REIT's shareholders have given a thumbs up to Five Mile's \$625,000 common stock buyout with additional purchases of preferred shares at \$5 apiece. Prime Group Realty Trust has ownership stakes in three buildings totaling 1.24 million s.f.

Upscale and upper upscale hotel buyer Summit Hotel Properties builds an appetite for renovation and repositioning-quality hotels with a \$57M offering. The offering follows the company's \$229M IPO in February. Look for interest in Marriott, Hilton, Holiday Inn, Hyatt and IHG-flagged hotels as the public