

# CRITTENDEN Real Estate Buyers™

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## **MALL REITs TO STEP UP EXPANSION**

Look for mall REITs to accelerate acquisitions with new refinancings and refreshed lines of credit that should lay foundations for additional purchases and development into 2012. The forecast has improved for mall REITs noticing lower debt costs, improving sales psf and larger market capitalizations compared to last year, despite retailer bankruptcies. REITs also hold the best properties in general, compared to

## MALL REITS TO STEP UP EXPANSION...

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The new line replaces a \$4B accordion-inclusive maximum credit line priced at 210 points over LIBOR. The difference could support increased acquisitions of malls and other retail properties similar to its King of Prussia Mall majority stake purchase with a rumored \$1B price tag earlier this summer; an \$86M buy of ABQ lifestyle center in Albuquerque, N.M., with sales of \$650 psf, complementing the company-owned Cottonwood Mall, or the August 2010 purchase of 21 Prime Outlet centers for \$2.3B.

Increased sales psf and lower interest rates could inspire some buyers to ramp up purchases. Pennsylvania Real Estate Investment Trust notices increasing sales psf falling about \$2 short of a 2007 high water mark in most of its 38-property mall portfolio, and that could signal renewed interest in acquisitions next year. For the time being, the mall owner will focus on redevelopment and new development throughout the Mid-Atlantic, greater East Coast and the Southeast. Company dealmakers have noticed decreasing interest rates to 5.86% during the third quarter 2011 compared to 6.19% a year earlier. PREIT has \$36M of cash and \$195M on its credit line.

As General Growth Properties spins off a 30-property portfolio to Rouse Properties, don't be surprised to see the company continue strategic JV purchases two and a half years after filing, then emerging, from Chapter 11 bankruptcy. Such deals could mimic a venture with the Canada Pension Plan Investment Board, to acquire a 482,000-plus s.f. St. Louis mall called Plaza Frontenac and jointly hold the company's 1.2 million s.f. St. Louis Galleria. Don't be surprised at additional sales beyond the big-ticket Faneuil Hall, sold to private mall buyer Ashkenazy Acquisition Corp. earlier this year. General Growth Properties recently refinanced four malls in Boston, suburban Chicago and Houston, plus southern California, at a 4.63% interest rate, compared to a previous 5.66% interest rate.

## SMALL SENIOR HOUSING DRAWS PRIVATE/PUBLIC CASH

Smaller private-pay independent- and assisted living transactions will take center stage as buyers enthusiastic about senior living but queasy about Medicare reimbursements ply markets under the radar of many institutional investors. Action could result in heating partnerships between local and regional buyers and deep-pocketed equity investors hunting higher returns through off-radar stabilized to distressed property buys.

Distressed/value-added independent and assisted living buyer **Cerulean Partners** seeks 80- to 150-unit properties priced from \$5M to \$15M nationwide, including Texas, Southern California and the Midwest. Activity will occur as part of a goal to assemble a 10-property portfolio during the next five years. The company struck its first deal since summer with the acquisition of Grand Court Belleville. The 76-unit property now known as The Atrium of Belleville, was purchased for \$1.3M in a fee-simple, all-cash to seller deal closing Sept. 30; the property had traded for \$3.8M in June 2010. The marketed deal took 75 days to close from contract. Companies teaming with Cerulean Partners on the deal are equity partner **Inland Real Estate Group** and operating partner **Arrow Senior Living**. Expect additional joint ventures from the company. As dust settles from a planned \$1.5M renovation and repositioning of The Atrium of Belleville, anticipate company dealmakers to be in the market for a follow-up acquisition during the next six months.

Cerulean Partners prefers independent living and assisted living properties with memory care/Alzheimer's care components located within an hour's drive of a regional airport; the buyer is disinterested in skilled nursing. Look for interest, however, in IL/AL nonperforming loans and fee-simple purchases. Overall targeted IRRs exceed 20% during an expected three- to five-year hold period.

Further west, private buyer and developer **Lehi Senior Living** makes its first purchase of the year with a 73-unit assisted living/Alzheimer's care property in the Provo, Utah, suburb of Lehi. The company's acquisition of the two-building property fits a criteria focused on 50 unit-plus buildings in Arizona, Colorado, Idaho and Utah, and selectively throughout New Mexico. The stabilized asset — valued at \$3.9M — was attractive to dealmakers because of pricing, in addition to assisted living and Alzheimer's care unit blends. Look for the buyer to seek mostly assisted living, Alzheimer's care, selective independent living and, for its development division, two acre-plus land parcels. *Continued on next page*

**SMALL SENIOR HOUSING DRAWS PRIVATE/PUBLIC CASH...***Continued from Previous Page*

Lehi Senior Living and its management division Wentworth Senior Living could compete against buyer/developer/manager **MBK Real Estate/MBK Senior Living**, if the company decides to grow its Utah portfolio. Don't be surprised to see MBK expand its Utah footprint more than four months after striking an initial market entry into metro Salt Lake City with a 419-unit portfolio of assisted living and Alzheimer's care properties. MBK Real Estate/MBK Senior Living seeks 75 unit-plus stabilized and value added properties in the western U.S. from low-occupancy and distressed-laden properties, in addition to Class A assets with 70% to 90% occupancy rates. On the development side, the company is interested in four-to 10-acre sites zoned for retail and located within five miles of hospitals or medical facilities, or within two miles of retail properties. Anticipate interest throughout such additional western states as Arizona, California, Nevada, Oregon and Washington.

MBK Real Estate/MBK Senior Living isn't the only big name to watch. Because it sees most growth in Canada, **Chartwell Seniors Housing Real Estate Investment Trust** isn't expected to grow more aggressive on stateside acquisitions through December. It could become active in 2012 if it sees potential in targeted markets of Colorado, Florida, New York and Texas. Such deals will follow the company's \$169M purchase of partner ING Real Estate Community Living Group's stake in a 15-property portfolio. The 86% leased portfolio comprising roughly 70% independent living and 30% assisted living likely posts a cap rate in the 7% to 7.5% range based on in place net operating income.

**Available Cash Could go to Senior Housing**

**The Carlyle Group** is active in the senior housing arena through its Carlyle Realty Partners VI fund. The private equity shop doesn't have a set acquisitions goal, but it could invest upwards of \$50M equity in the senior housing sector during the next 12 months. Earlier this year the company made its only acquisition since January with the \$20M purchase of a 203-unit independent living facility in Fort Worth, Texas called Franklin Park at Cityview that was subsequently renamed Vantage at Cityview.

Watch **Capital Senior Living** to follow its three-pack purchase of Carolinas assets with additional buys consistent with its strategy of converting and buying assisted living properties for its nationwide portfolio. Since January the company has booked \$83M worth of acquisitions. Its portfolio counts mostly Texas properties.

**BLACKSTONE BUYS RIPPLE EFFECT**

**Duke Realty** and **The Blackstone Group** will boost industrial and suburban office competition well into next year following action on an 85%-leased, 10 million s.f. suburban office portfolio of midwestern properties. **Duke Realty's** sale will take industrial and medical office space out of the market.

**BLACKSTONE BUYS RIPPLE EFFECT...***Continued from Previous Page*

Meanwhile, the Blackstone Group's imminent dive into relatively unchartered suburban office waters represents another milestone in the company's real estate strategy and portfolio that has expanded this year with industrial and retail portfolios from ProLogis and Equity One, respectively. If the buyer opts to fill out its suburban office portfolio, it could happen on behalf of the \$10B of equity for deals that include the current \$4B equity Blackstone Real Estate Partners VII fund. Company dealmakers are among those noticing increased office occupancies and rental rates which, coupled with a lack of new supply, put a rosier glow on the future and could spur additional value-added transactions.

**DEALMAKER DATABANK™**

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
ARC New York Recovery REIT 405 Park Ave. 15 <sup>th</sup> Floor New York, NY 10022	Michael Happel (212) 415-6500 Fax: (212) 421-5799 mhappel@aricap.com	All	New York focused fund acquires core properties.
The Carlyle Group 1001 Pennsylvania Ave. NW Washington, DC 20004-2505	Thaddeus Paul (202) 347-2626 Fax: (202) 347-1818	Senior Housing	Equity fund considers senior housing,
Capital Senior Living 14160 Dallas Parkway Suite 300 Dallas, TX 75254	Ralph Beattie (972) 770-5600 Fax: (972) 770-5666	Senior Housing	Public investor acquires senior housing.
Cerulean Partners/ independen- Capstone Real Estate Partners 1000 Skokie Blvd. Suite 270 Wilmette, IL 60091	Kerry Haskins  Rick Shamburg (847) 853-1946 (312) 909-0204 khaskins@ceruleanpartners.com rick@ceruleanpartners.com	Senior Housing	Private investor seeks distressed and assisted-living private pay properties.
Chartwell Seniors Housing REIT 100 Milverton Drive Suite 700 Mississauga, Ontario, CAN L5R 4H1	Gary Out (905) 501-9219 Fax: (905) 501-0813	Senior Housing	Canadian REIT acquires package of Independent living in JV.
Crescent Resources 227 W. Trade St. Suite 1000 Charlotte, NC 28202	(980) 321-6000	Apartments	Private investor boosts construction division and acquires land.
Duke Realty 600 E. 96 <sup>th</sup> St. Suite 100 Indianapolis, IN 46240	Jason Sturman (317) 808-6000 Fax: (317) 808-6794 jason.sturman@dukerealty.com	Industrial, Office	Public investor acquires, sells.
General Growth Ppts./GGP acquires. 110 N. Wacker Drive Chicago, IL 60606	Shobi Khan (312) 960-5000 Fax: (312) 960-5475	Retail	Public investor refinances malls,
Glimcher Realty Trust 180 E. Broad St. Columbus, OH 43215	George Schmidt (614) 887-5621 Fax: (614) 621-8863 gschmidt@glimcher.com	Retail	Public mall and retail buyer gets lower priced debt.
Greystar (National contact) 18 Broad St. Suite 300 Charleston, SC 29401	Wes Fuller (843) 579-3202 wfuller@greystar.com	Apartments	Private investor acquires Class A and Class B apartments.

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**DEALMAKER DATABANK™**

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<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Western U.S. contact: 17885 Von Karman Suite 450 Irvine, CA 92614	Kevin Kaberna (West) (949) 705-0100 kkaberna@greystar.com		
Eastern U.S. contact: 4030 Boy Scout Blvd. Suite 800 Tampa, FL 33607	Mark Hafner (East) (843) 579-3224 mhafner@greystar.com		
Home Properties 850 Clinton Square Rochester, NY 14604	John Smith (585) 546-4900 Fax: (585) 546-5433 johns@homeproperties.com	Apartments	Public REIT acquires Class A assets; to bolster Southeast presence.
Lehi Senior Living 4567 S. Holladay Blvd. Holladay, UT 84117	Rick Walker (801) 424-5280	Senior Housing	Private investor seeks assisted and some independent living throughout the Mountain region.
The Lightstone Group 1985 Cedar Bridge Ave. Suite 1 Lakewood, NJ 08701	Peyton Owen (732) 367-0129 Fax: (732) 363-7183 lightstone@lightstonegroup.com	Retail, Hotels	Public investor rolls out development subsidiary and raises for new fund.
MBK Real Estate/MBK Sr. Living 175 Technology Drive Suite 200 Irvine, CA 92618	Terry Howard (949) 789-8300	Senior Housing	Private investor acquires senior housing in and independent of joint ventures.
Pennsylvania REIT 200 S. Broad St. Third Floor Philadelphia, PA 19102	Daniel Donley Joshua Schrier (215) 875-0700 Fax: (215) 546-0240 donleyd@preit.com schrierj@preit.com	Retail	Public investor in repositioning mode.
Rouse Properties 1114 Ave. of the Americas Suite 2800 New York, NY 10036	Michael McNaughton Steven Shepsman (312) 960-5000	Retail	Mall investor spun off from GGP; rolls out offering.
Simon Property Group 225 W. Washington St. Indianapolis, IN 46204	Brian Warnock (317) 636-1600 Fax: (317) 685-7275	Retail	Public investor gets bigger credit line for less.
Taubman Centers 200 E. Long Lake Road Bloomfield Hills, MI 48304	Michael Cleary (248) 258-7584 Fax: (248) 258-7275	Retail	Public investor takes credit.
Terra Secured Income Trust 805 Third Ave. Eighth Floor New York, NY 10022	Bruce Batkin (212) 753-5100 Fax: (212) 753-5102	All	Investor plans \$550M blind pool offering to make CRE-secured equity and debt investments.
Western National Group 8 Executive Circle Irvine, CA 92614	Jerry LaPointe (949) 862-6200 Fax: (949) 862-6497 jlapointe@wng.com	Apartments	Private investor acquires Class A complexes in California, plus development for its Western National Realty Fund II.

**BORDERLINE CLASS A/B APARTMENTS ATTRACT**

Public and private investors look to dig up value-added gems in high-barrier markets. Don't be surprised to see atypical deals in coming months, as the apartment market's popularity has resulted in a growth of value-hunting buyers willing to hold long-term as opposed to a quick flip.

Watch for additional Class A and Class B purchases from Mid-Atlantic and Northeast-focused **Home Properties**, which has made \$388M worth of acquisitions since January, and has exceeded 2011 expectations of \$200M to \$350M worth of acquisitions. In a recent suburban Washington, D.C. deal, proximity to an existing property less than a mile away drove the somewhat uncharacteristic purchase of the Class A Somerset Park former condominium in Leesburg, Va., acquired for approximately \$20M, at a projected 5.2% cap rate after 12 months. The five-year-old property constructed as a condominium was converted to apartments when developer/seller Arcadia Building Co., realized the success of selling such properties was fast eroding. Anticipate Home Properties to further expand its portfolio in the market it first entered in 1998. The company will also seek \$10M-plus properties in such markets as Philadelphia, Long Island, NY, northern New Jersey, as well as Florida, Illinois, Massachusetts and New York.

New construction is also on the radar for Home Properties, as the buyer plans 1,078 units in and outside Virginia. Should company dealmakers decide to widen their land holdings for future development, they can expect to cross paths with the **Lightstone Group's Phoenix Development Partners (PDP)** division, which will seek additional properties and sites in the New York City metro area after its first purchase on Long Island, NY, to support a 220-unit complex development at 50-01 Second St. Outside PDP, expect the \$510M-targeted Lightstone Value Plus Real Estate Investment Trust II to hunt paper, equity interest and acquisitions of primary market apartments, multitenant retail, industrial, office and hotels. Fund sponsor Lightstone Group was recently fined \$100M because of its Chapter 11 bankruptcy on hotelier Extended Stay Hotels a couple years ago.

In New York and Washington, D.C., Home Properties and Lightstone Group may compete against **UDR**, which has ramped up its presence in those and other markets through approximately \$1B of acquisitions in the city, in addition to acquisitions in San Francisco and Boston. UDR actively seeks additional

**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>
Vancouver, Wash.	Flex industrial	33,000 s.f.	\$2.8M	N/A	Vacant	7 yrs

NOTES: Owner/user Moor Enterprises LLC paid approximately \$84 psf for a flex industrial building at 12303 NE 56<sup>th</sup> St., in this city 10 miles northeast of downtown Portland, Ore. The buyer plans to use the building as headquarters for screen printing and design company Ryonet Corp. The all-cash deal took four months to close from initial contract following 18 months on the market. It's likely the buyer will expand the property to 37,000 s.f. Industrial vacancies in the market range from 13% to 14%, and office vacancies average 16%. Battle Ground, Wash.-based Concannon Investments is the seller. Norris, Beggs & Simpson represented both buyer and seller in this transaction.

CONTACTS: Moor Enterprises LLC c/o Norris, Beggs & Simpson, 700 Washington St., Suite 608, Vancouver, WA 98660. Garret Harper, (360) 852-9600.

**BORDERLINE CLASS A/B APARTMENTS ATTRACT...**

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Greystar draws capital from myriad sources including its targeted \$600M Greystar Equity Partners VII fund rolled out in May. The East Coast and Sun Belt region-heavy buyer also counts Southern California, Texas and Kansas among its top markets.

On the West Coast, despite a penchant for high-barrier to entry markets, Western National Group/Western National Realty Advisors paid \$259,347 for each unit of Class A Seacrest Luxury Apartments located about a mile from the Pacific Ocean and a mile east of a mostly undeveloped 248-acre project called Marblehead. The 92%-leased property is constructed on a 25-acre parcel, and likely traded at a cap rate in the mid-4% range based on average area cap rates.

**Familiar Golden State Markets Beckon**

Look for Western National Group/Western National Realty Advisors to seek additional acquisitions throughout California on behalf of its \$240M equity Western National Realty Fund II, with \$85M equity remaining that could support \$180M to \$190M of buys. Since January the company has used \$75M to \$80M equity for its strategy. Attracting the buyer, developer and manager are Class A and Class B apartments in its primary Southern California markets of Orange County, Inland Empire, Los Angeles and San Diego counties, plus the secondary San Francisco Bay Area and Sacramento markets. Generally, anticipate interest in 100 unit-plus garden-style assets in one-off or portfolio buys, although smaller properties will be considered throughout Orange County, for a repositioning strategy.

Obviously the Seacrest Luxury Apartments' proximity to Marblehead, a low-density residential project that was recently detangled from six years worth of borrower and lender bankruptcies, could be a blessing to the area that draws about 20% of its apartment residents from U.S. military, if the high-end luxury homes are built. Lender Lehman Brothers and developer/borrower SunCal Cos. apparently

**BUYERS' BUREAU...**

**Talk that NYC property valuations have decreased hasn't impeded the ARC New York Recovery REIT**, which has acquired \$100M worth of core real estate throughout the city and its boroughs during the past 12 months. Although the REIT doesn't adhere to an acquisitions goal, it is working on closing a pair of deals totaling \$32M involving a package of Greenwich Village and Tribeca district retail condominiums. Expected to close by late November, the purchases will follow a recent \$14M — or \$1,433 psf — acquisition of the long-term triple net-leased and Walgreens-guaranteed Duane Reade pharmacy in the Howard Beach district located in southern Queens, about 11 miles southeast of New York City. The buyer acquired the three-year-old asset at a 6.9% cap rate. ARC New York Retail Recovery REIT considers additional core-plus properties priced up to \$500M throughout the market.

**IPO Watch:** If its maximum \$500M blind-pool offering is successful, look for Terra Secured Income Trust to eventually consider real estate equity investments in a few years. For the time being, company dealmakers will get active in writing new loans, in addition to acquiring and structuring mostly fixed-rate paper in the \$3M to \$15M range; look for interest in all levels of the capital stack from bridge loans to B-pieces and senior mortgages. Sponsor Terra Capital Partners is an affiliate company of real estate investment banker The Greenwich Group International.

**People on the Move:** Institutional fund managers and joint venture partners grow staff. **Grosvenor Americas** has tapped Jonathan E. Carr from its San Francisco office for a development manager slot in Washington, D.C. ... No stranger to institutional joint ventures, **Hines** recently named Jay Despard as vice president of the Southwest region. ... **Henderson Global Investors** names Michael Samuel as asset manager charged with commingled and separate account funds counting apartment, industrial and retail in portfolio. Previously Samuel worked as a senior associate and loan officer at Pearlmark Real Estate, formerly Transwestern Investment.

**Look for land buyer and developer Crescent Resources** to ramp up development in core southern markets following four hires to development positions. The private company seeks two to 20-acre parcels for urban high-density to suburban garden-style apartment projects. Look for the investor to scoop a parcel in Durham, N.C., for a 300-unit apartment development — a deal preceded by acquisitions this year in Austin, Texas, and Raleigh, N.C., with total land equity costs of more than \$17M. The investor could start from four to six new developments during 2012 and invest more than \$30M equity in land deals. Count on interest in additional Mid-Atlantic and southern markets including Washington, D.C., Atlanta, Houston, Nashville, Tenn., and South Florida, including Orlando and Tampa. Larger parcels from 2,000 to 15,000 acres are sought for Crescent Resources' Land Investment division that buys and sells rural land tracts.

Among recent hires and promotions at the company's multifamily division are **Denon Williams**, regional VP and regional construction manager; **Elam Hall**, senior development associate, and development managers **Susana Granda** and **Brian Nicholson**. The private company holds a portfolio of apartment, industrial and office parks, retail and single-family throughout the Southeast.

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