

# CRITTENDEN Real Estate Buyers™

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## NEW FUNDS CHASE EQUITY, DEBT OPPORTUNITIES

Watch for proliferating public and private real estate funds to drive an acquisitions push through 2012, ahead of an expected economic upswing in 2013. Asset value deflation remains a chief concern so expect increased action in the distressed debt and value-added sectors for discounted deals that can pump out higher returns. Although a gaggle of maturing loans next year could default and be put up for sale, fire sale pricing like what was expected in 2009-10 — which never materialized — will elude buyers again thanks to institutional investors, which count high-net worth and corporate equity investors seeking real estate returns as an alternative to flat bond yields. This will raise competition for higher yielding deals. More competition may suppress returns if institutions bid up opportunistic and value-added deals in the same fashion as Class A primary market properties during the past 18 months.

All types of institutional and private investors will roll out big-ticket offerings for acquisitions capital that will likely be used for value-added and distressed debt purchases. To meet return goals, expect investors to ratchet up competition for southern U.S. properties — the only region that noticed increased yields during the third quarter compared to the previous period. Don't count the Midwest out either, where returns may have been slightly down compared to the previous three months, but didn't drop as

**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>
Elizabeth, NJ	Industrial	150,000 s.f.	\$10.4M	7.4%	100%	25 yrs

NOTES: Public REIT Terreno Realty paid approximately \$69.33 psf for a two-tenant industrial building at 620 Division St., close to the southwest end of the Newark Liberty International Airport, and proximate to Port Newark Elizabeth Marine Terminal. The asset is Terreno's sixth in the New Jersey market. Terreno Realty acquires industrial assets in Los Angeles, northern New Jersey/New York, San Francisco, Seattle, Miami and the Baltimore/Washington, D.C. metro area.

CONTACTS: Terreno Realty, 16 Maiden Lane, Fifth Floor, San Francisco, CA 94108. W. Blake Baird and Michael Coke, (415) 655-4580

**NEW FUNDS CHASE EQUITY, DEBT OPPORTUNITIES...**

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Employing conservative leverage, look for targeted leveraged fund-level IRRs ranging from 18% to 22%. The investor's current WHI Real Estate Partners I fund counts \$60M of equity commitments. WHI Real Estate Partners is a 22-month-old division of private William Harris Investors, that's active in public equities, fixed income and alternative asset investments.

The six-month-old Admiral Capital Real Estate Fund targets \$350M to \$500M worth of acquisitions and investments during 2012 through structures ranging from fee-simple purchases to preferred equity investments and debt deals on hotels and office, for now. Among the \$100M worth of deals planned or acquired this year is a stabilized office in Austin and a performing note purchase, in addition to a recent Texas hotel market entry. In Houston, Admiral Capital Real Estate Fund took a majority preferred equity stake in a 190-key Hilton Garden Inn in Houston's Energy Corridor submarket. The property broadens the company's Texas footprint, which also comprises two Austin office buildings.

Expect Admiral Capital Real Estate Fund to expand into primary, secondary and suburban markets

## NET-LEASE INTEREST SPIKES, CAP RATES TO DROP

Single-tenant retail buyers prepare for slight cap rate compression in 2012 after one of the most active years since 2008, and that momentum is undoubtedly on the minds of Spirit Finance dealmakers planning a return to the public markets with a \$500M IPO. Depending on success, Spirit Finance can expect to rejoin a market percolating with big deals driven by the likes of public and private investors Cole Real Estate Investments, National Retail Properties, Realty Income and W.P. Carey & Co.

Stakes are higher for public companies who desire accretive deals to bolster bottom lines and churn out higher dividend yields for investors cynical about the U.S. economy's short-term prospects. What will attract additional investors to the public realm is a chance to reap frustrated and uncertain public investor equity seeking higher returns based on bricks and sticks as an alternative to bonds, commodities or other investment types. The increased competition that's going to unfold next year as part of a larger market profile will result in 25 to 75 bp cap rate compression, to vary depending on tenant credit, real estate quality and location. Expect top-shelf retail to trend in the low 6% to low-7% range to the 8% range, and into the 9s for company tenants with lesser credit or lackluster P&L statements.

Cole Real Estate Income Strategy's targeted \$3.48B net equity raise will further single-tenant retail property and other types of buys nationwide, likely executed mostly through sale/leasebacks that could comprise the bulk of single-tenant retail activity. If Cole reaches its equity raise goal, expect it to drive single-tenant and multitenant retail, industrial and office acquisitions. The Cole Real Estate Investments-sponsored vehicle will seek out credit tenant-occupied properties with long-term leases. It plans to end the year with more than \$3B worth of acquisitions.

### Single-Tenant Deals On Tap

Public single-tenant counterpart Realty Income, which acquires single-tenant retail plus other assets, anticipates a lighter 2012 with \$350M worth of acquisitions, compared to approximately \$850M worth of deals booked this year. Single-tenant retail will likely dominate 2012 acquisitions; expect 80% of the deals to comprise single-tenant retail, compared to about 55% of this year's volume. The investor has also acquired and will seek out investment-grade and better credit tenants in the industrial warehouse/distribution and office sectors. Cap rates will likely hover around 8% across the board for Realty Income and other big-ticket buyers including National Retail Properties.

### Big Buys to Come

Don't be surprised at another big-ticket deal priced upwards of \$200M from National Retail Properties before New Year's Eve, which could catapult the buyer into \$600M-plus worth of deals for 2011. Although 2012 acquisitions plans for \$150M worth of buys during the second half of the year seem anticlimactic by comparison, the company could exceed its target if tenant retailer shareholders up the ante by pressing their companies to sell off assets for cash as an alternative to corporate financing.

Despite the been-there and done-that feel of single-tenant buyer Spirit Finance Corp.'s planned public offering, the move back to the markets after four years on the private sidelines augurs increased velocity in the single-tenant sector as companies maneuver to take bites out of the \$2T corporate real estate sector through sale/leaseback to fee-simple deals. A main factor in the move is likely an approaching \$2B of maturing company debt. Watch for the investor to use leftover capital to ply the small to middle-market retail sector populated by retailers pulling in from \$10M to \$2B in annual sales with 50 to 500 locations, for smaller to middle market companies, respectively. Acquisitions and originations of long-term commercial mortgages and equipment loans are also on tap, depending on the IPO's success. Back when it was public, Spirit Finance had booked \$500M to \$1.1B worth of triple net retail and industrial acquisitions during 2004 to 2006, respectively, and counted a \$4B-plus portfolio.

However, much has happened since the Macquarie Group-led 2007 acquisition that took Spirit Finance private, namely the eventual sprouting of competitor STORE Capital — founded by former Spirit execs Morton Fleischer and Christopher Volk. STORE Capital now searches for at least \$250M worth of buys, with deal sizes ranging from \$1M to \$100M through fee-simple to sales/leaseback and forward commitment structures.

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## NET LEASE INTEREST SPIKES, CAP RATES TO DROP...

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International buyer W.P. Carey & Co. might ratchet up stateside single-tenant retail action — if it plans to balance a blockbuster southern European deal with U.S. buys in 2012. The investor, which acquired \$1.09B worth of single-tenant properties from January through Sept. 30, counts \$16.4M worth of U.S. single-tenant retail deals so far this year, and more action has occurred in the industrial warehouse/distribution sectors by comparison. Earlier this year the international buyer did put out nearly \$400M for a retail portfolio in Italy, however.

## TOUGH FINANCING STUNTS SMALL-CAP HOTEL BUYERS

Fallout from the stalled CMBS market this summer will reverberate into 2012. Although fee-simple acquisition velocity slowed during the second part of 2011, expect accelerating volume from equity investors seeing potential for ongoing average daily room rates increases for all hotel types. U.S.-based and discount-hunting foreign investors will seek footholds through joint ventures to stock purchases, and that action may relieve public REIT buyers reeling from lower than expected RevPAR growth.

The drive to stabilized, full-service primary market hotel acquisitions may lose momentum if cap rates decrease from high-4% to 6% ranges next year. A lack of development and mounting debt maturities will ratchet up attention for value-added properties — likely resulting in compression next year past low-6% to 8% cap rates. Limited-service hotels will garner even more attention, as will management joint ventures as a way for companies to strike off-market deals for better pricing compared to widely marketed packages. Primary coastal markets may remain king, but expect to see princes crowned in value-added secondary markets through portfolio sales and possible mergers and acquisitions involving maturing debt-burdened companies during the next 12 months.

Fresh from striking its first deals of the year, extended-stay and limited-service hotel buyer **Chatham Lodging Trust** could become even choosier after acquiring \$232M of coastal primary and suburban assets in and independent of a JV with hedge fund Cerberus Capital Management. The acquisitions in and outside the JV ramped up Chatham Lodging Trust's portfolio by 69 hotels/9,903 keys nationwide — with market debuts in Washington, D.C., and Virginia, plus expansions in California, Texas and New York. The properties were previously owned by bankrupted REIT **Innkeepers USA Trust**, the former employer of Chatham Lodging Trust's founder Jeffrey Fisher, EVP/CIO Peter Willis and EVP/CFO Dennis Craven, who worked at Innkeepers until it went private four years ago.

While Chatham Lodging Trust dealmakers were busy expanding portfolios, they also squashed a \$25M contract to buy the Residence Inn Pittsburgh University/Medical Center. Now that the company has a 10% stake in a 64-property portfolio with Cerberus, don't be surprised if it eventually grows through buying ownership positions with cherry picked deals from that venture when the time is right. The two-year-old Chatham Lodging Trust has acquired 85- to 147-key hotels, with deal sizes ranging from \$8.5M to \$32M. Expect the value-added to opportunistic buyer to also consider short-term debt purchases for the real estate collateral in coming months. The company has \$192M of outstanding debt.

Dealmakers at upper upscale and upscale hotel owner **MHI Hospitality** allude to potential acquisitions next year and that activity may occur through equity partnerships. Activity in 2012 will fall

**TOUGH FINANCING STUNTS SMALL-CAP HOTEL BUYERS...***Continued from Previous Page*

The company did recently refinance a South Dakota hotel; the \$960,000 loan was underwritten at a 5.75% rate, and has also extended loans with regional and national banks. Slipping occupancies and RevPAR were met by slightly improved average daily room rates so far this year compared to 2010, a bright spot. Potential for ADR growth undoubtedly attracted Argentina-based equity investor **Real Estate Strategies**, held by Inversiones y Representaciones Sociedad Anónima (IRSA), which recently bought a chunk of stock in the company hawking a quartet of Days Inn and Super 8 hotels in Shreveport, La., the Nebraska cities of Aksarben and Columbus, plus Antigo, Wis. IRSA's buy raises the profile of debt-stressed U.S. REITs as cash-flush South American buyers deepen footholds in stateside real estate. If financing doesn't loosen for smaller cap hotel buyers next year, don't be surprised to see additional partnerships or a new wave of mergers and acquisitions.

Beyond economy flags, it's possible Supertel Hospitality will further prune its 3,579-key economy portfolio and 2,147-key midscale portfolio including such brands as Comfort Inn and Suites, Super 8 and Days Inn. Dispositions will follow \$8.35M worth of sales earlier this year of four hotels/392 keys in Georgia, Kansas and South Carolina. Supertel Hospitality, which owns 101 hotels nationwide, counts a majority of assets in the Midwest, Mid-Atlantic and southeastern U.S.

**DEALMAKER DATABANK™**

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Admiral Capital R.E. Group 240 Central Park South #41 New York, NY 10019	Dan Bassichis (646) 405-4808	Hotel, Apartments Retail, Office	Value-added buyer partners with USAA Real Estate Co.
Beztak Properties 31731 Northwestern Highway Suite 250W Farmington Hills, MI 48334	Samuel Beztak (248) 855-5400	Apartments Land	Private investor acquires property in and outside JV partnership in Miami.
Cerberus Capital Management 299 Park Ave. New York, NY 10171	Ronald Kravit (212) 891-2100	Hotels	Private equity group buys hotels in JV with Chatham Lodging REIT.
Chatham Lodging Trust 50 Coconut Row Suite 216 Palm Beach, FL 33480	Jeffrey Fisher (561) 802.4477 Fax: (561) 835-4125	Hotels	Public REIT strikes first deals of year, expands extended-stay and select- service footprint.
Cole Real Estate Investments 2555 E. Camelback Road Suite 400 Phoenix, AZ 85016	Kim Kundrak (acq.) Chuck Vogel (development JV/acq.) (602) 778-8700	Retail	Single tenant retail buyer acquires net lease, prepares fund.
Core Properties 1515 Lake Shore Drive Suite 325 Columbus, OH 43204	Benjamin Horn (614) 485-2500	Apartments Industrial Medical Office Senior Housing	Private investor and equity partner acquires properties.
Fir Tree Partners 505 Fifth Ave. 23rd Floor New York, NY 10017	Jim Walker (212) 599-0090	Distressed	Private investor introduces fund.
<b>Miami Office:</b> 7301 SW 57th Court Suite 410 South Miami, FL 33143	(305) 667-9040		
First Market Properties 11900 Biscayne Blvd. Suite 502 North Miami, FL 331	Aaron Kurlansky (333) 349-3234 firstmarket@fmm.com	Condos, Office	Private buyer acquires assets in Miami and beyond.
Host Hotels & Resorts 6903 Rockledge Drive Suite 1500 Bethesda, MD 20817	James Risoleo (240) 744-1000 Fax: (240) 744-5494 jim.risoleo@hosthotels.com	Hotels	Public hotel REIT ramps up acquisitions in 2011.

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<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Hospitality Properties Trust Two Newton Place 255 Washington St. Newton, MA 02458-1634	John Murray (617) 964-8389 Fax: (617) 969-5730	Hotels	Public hotel REIT buys full service, plans to sell limited service.
Innkeepers USA Trust 340 Royal Poinciana Way Suite 306 Palm Beach, FL 33480	Marc A. Bellinson (561) 835-1800 Fax: (561) 835-0457	Hotels	Public hotel REIT sells assets following a 2010 bankruptcy filing..
Jones Lang LaSalle Income Property Trust 200 E. Randolph Drive Chicago, IL 60601	Wade W. Judge (312) 782-5800	All	Former Excelsior LaSalle Property Fund goes to market for targeted \$2.7B offering.
La Salle Hotel Properties 3 Bethesda Metro Center Suite 1200 Bethesda, MD 20814	Michael Barnello (301) 941-1500 Fax: (301) 941-1553	Hotels	Public hotel REIT has acquired \$552M worth of assets so far this year.
National Retail Properties 450 S. Orange Ave. Suite 900 Orlando, FL 32801	Jay Bastian Steve Horn (800) 666 7348 Fax: (407) 650 3650	Retail	Public net-lease REIT acquires one-off and portfolios nationwide.
MHI Hospitality 410 W. Francis St. Williamsburg, VA 23185	David Folsom (757) 229-5648	Hotels	Public REIT could acquire targeted upper upscale and upscale hotel segment in 2012.
Noble Investment Group 3424 Peachtree Road NE 1100 Monarch Tower Atlanta, GA 30326	Rodney Williams (404) 262-9660 Fax: (404) 262-9244	Hotels	Private investor acquires full- and select-service hotels.
10440 Little Patuxent Parkway Suite 300 Columbia, MD 21044	(410) 740-5631		
Realty Income 600 La Terraza Blvd Escondido, CA 92025-3873	Ben Fox (760) 741-2111 Fax: (760) 741-8617 bfox@realtyincome.com	Net Lease	Public REIT enters warehouse retail segment with a portfolio of BJ's
Spirit Finance Corp. 14621 N. Scottsdale Road Suite 200 Scottsdale, AZ 85254	Peter Mavoides (480) 606-0820	Net Lease	Investor plans \$500M IPO.
STORE Capital 8501 E. Princess Drive Suite 190 Scottsdale, AZ 85255	Mary Fedewa (480) 256-1107 mfedewa@storecapital.com	Net lease	Private investor acquires net lease nationwide.
Supertel Hospitality 309 N. Fifth St. Norfolk, NE 68701	Steven C. Gilbert (402) 371-2520 Fax: (402) 371-4229	Hotels	Public hotel REIT gets foreign investor capital, plans additional sales.
Virgin Management USA/ Virgin Hotels 65 Bleecker St. Sixth Floor New York, NY 10012	Anthony Marino (212) 966-2310 Allie Hope (development) (646) 845-3493 allie@virginhotels.com	Hotels	Private investor seeks hotels and office buildings for repositioning in U.S. gateway markets.
W.P. Carey & Co. 50 Rockefeller Plaza New York, NY 10020	Trevor Bond Jason Fox Gino Sabatini (212) 492-1100 Fax: (212) 492-8922 tbond@wpcarey.com	Single tenant	Public investor buys net lease retail, among other types.

**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>
New York, NY	Mixed-use	10 units	\$6.1M	approx. 6%	90%	120 yrs.

NOTES: Private investor Jayvanka LLC was the successful bidder on this Greenwich Village district mixed-use building that includes eight apartments and two ground-floor retail spaces. Eight fully leased apartments comprise about 80% of the space at 82 Christopher St., west of NYC, with retail picking up the remaining 20%. One of the two retail boxes is vacant, yet the property is less than a half-mile from one of the city's most expensive shopping areas behind Madison Ave. and Fifth Ave., which may positively affect leasing. The Bleecker Street shopping district, home to American Apparel, Burberry Brit, Village Tannery and others, was rated by *New York Magazine* as the city's third priciest shopping district in 2010.

CONTACTS: Jayvanka LLC, c/o Aldad & Associates (counsel and property manager), 350 Fifth Ave., Suite 5507, New York, NY 10118. Lior Aldad, (212) 268-5050.

**HOTEL BUYERS RETOOL. REFINED APPROACHES**

## MIAMI INSPIRES BUYERS TO FIRSTS

Miami has shaken off its untouchable reputation and has become a destination for value-added investors noticing increased pricing in tightening multifamily and retail compared to 2009-10. Industry watchers see slimmer cap rates for bulk condo-cum-apartment rental buys and an improving retail market. This movement in Miami and elsewhere will inspire investors to diversify into other property types.

Traditionally an apartment buyer, **First Market Properties** recently bought its first retail condominium