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## CRE MARKET TO BE DRIVEN BY CALCULATED RISK

Partnership is the 2012 meme for CRE. Because of a stalled CMBS market and presidential election uncertainties, more investors will be inclined towards conservatism that will increase demand to acquire stakes in public companies priced lower than what their real estate is worth, motivate more equity stakes purchases in private companies, or expand joint venture partnerships to share risk. Expect ramping interest in markets where unemployment rates have remained stable or decreased; the primary market juggernaut will cool and smaller-but-steady markets will get their share of investor attention. Anticipated discounts in the REO/distressed sector should slightly temper aggressive buyers' appetite this year for stable fee simple deals.

Investors courting stability will look especially at apartments while value-seeking buyers will drill deeper into the hotel sector. Industrial trades should build upon its 2011 pace with investors burrowing into infill markets and scoping the next big hot spots, while office investors will scout suburban markets for values while keeping tabs on the relatively tapped out Class A/trophy segment. Retail momentum will spread outside the core grocery-anchored sector into power, lifestyle and mall properties.

### Apartments

Multifamily is poised to retain its top CRE position, but the hot market for primary Class A units will cool this year if unemployment rates don't decrease to show tangible signs of improvement. Boom-time pricing won't be the norm in 2012, as buyers bullish on recovery will pull back from the one-off deals and get craftier about finding the highest cap rates possible. Despite a continuation of historically low interest rates, investors will find it increasingly hard to stomach sub-4% cap rates for coastal product, especially if there's negligible anticipated economic growth.

If the economy drags along at the same pace this year, ramping interest in opportunistic deals is assured from buyers who venture outside the no-brainer primary and suburban Class A segment for less expensive and riskier deals that could eventually yield higher returns for product trading at 2% plus cap rate premiums compared to primary, coastal markets.

Highlighting the sector's maturation will be increasing partnerships similar to late 2011 action from **Equity Residential, Compatriot Capital and Heitman**. Equity Residential's \$1.3B play for a minority stake in the once-public Archstone that went private in 2007, will give put the top public apartment REIT in touch with nearly 60,000 stateside units, plus additional development and international holdings, at a low-5% cap rate at least 100 bp above some of EQR's 2011 deals.

Similarly, Compatriot Capital's 50% purchase of **Village Green** will augur additional movement from diversification-minded investors angling to boost positions in apartments and other sectors. The Sammons Enterprises subsidiary targets \$400M to \$500M of investments in apartment, hotel, industrial and office real estate operating companies and investment advisers. Another two to three deals are in the works involving apartment, office and limited-/full-service hotel companies; the industrial sector is also of interest to the dealmaker that has made \$225M worth of investments in three companies since 2008.

Look for Village Green to add \$250M worth of assets to portfolio by 2013, as a result of Compatriot Capital's interest purchase. The private investor counts a 40,000-unit portfolio heavy with Class A urban units in Chicago, Minneapolis and St. Louis, and will likely scout these and other Midwest markets for more \$10M to \$50M buys.

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Watch for more action from Heitman, following an investment in Behringer Harvard that was part of the company's plan to substantially increase acquisitions in all asset classes, including apartments. Look for Heitman's interest in \$25M-plus deals in the stabilized and value-added sectors in coming quarters. .

**Retail**

Retail investors will fan out in search of power, lifestyle and secondary market neighborhood and community centers, as they keep tabs on the highly competitive grocery- and drug-anchored center market. Single-tenant retail will remain highly competitive for credit tenant boxes, and sale/leasebacks will become more prevalent as sellers look for ways to finance expansions outside of issuing corporate debt. Private investors are more apt to seek out opportunistic deals while their large, public REIT counterparts will firm up portfolios and cast off lesser performing, or noncore assets.

If 2012 resembles the past couple of years, expect top retail REIT Kimco Realty to exceed 2011 acquisitions volume this year. Company dealmakers in late 2011 inked a \$1.75B credit facility that gives an additional \$250M of heft compared to the previous credit line. The stage is set for the company to exceed the more than \$262M worth of purchases booked last year, while continuing to peel off assets from a 934-property portfolio. So far the company has sold \$134M worth of properties since initiating its disposition program 15 months ago.

Attracting Kimco's interest will be assets priced from \$10M to \$25M, to grow a portfolio boosted by recent purchases in such suburban markets as the Fort Worth suburb of Burseson, Texas, plus Corpus Christi, Texas; Miami and Pensacola, Fla.; and the Denver suburb of Highland Ranch, Colo. Tenants will include Kroger, Wal-Mart, Kohls, Ross Dress for Less and Winn-Dixie.

Watch for Cole Real Estate Investments to cut a deeper presence this year with its targeted \$3.4B Cole Real Estate Income Strategy offering, that will broaden the investor's multitenant retail presence in addition to other property types nationwide. The company's competitors will include American Realty Capital Trust, Inland Group of Cos., and Phillips Edison & Co.

Among western U.S. competitors in the value-added, open air center niche is private buyer Vestar, which could double 2011 acquisitions volume if it meets a \$250M acquisitions goal by December. Following a recent Las Vegas market reentry with a \$205.67 psf purchase of an Class A open air center that's 82% leased, watch for first time buys in the Texas markets of Austin, Dallas, Houston, potentially San Antonio, plus Denver, Salt Lake City, Seattle and Albuquerque, N.M. Historically the company has

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Brookfield could acquire additional Denver and secondary market assets to complement deals in primary markets of New York, Washington, D.C., and beyond. **Brookfield Asset Management's \$4B Real Estate Opportunity Fund** shows an appetite for opportunistic office in addition to other asset types nationwide.

Diversified and yield-driven buyer **Investcorp** has been active in the secondary office market with more than \$300M worth of buys in 2011, in secondary coastal markets including Long Beach, Calif., near Los Angeles; Boynton Beach, Fla., south of West Palm Beach; and Princeton, N.J. Company dealmakers will exceed 2011 acquisitions volume this year if efforts to ink \$500M to \$800M worth of deals are successful. Besides office, the company also shops for medical office, hotels, retail and apartments coast to coast. Competitors will include the \$2B all-in Shorenstein Realty Investors Ten fund that seeks \$50M-plus properties throughout primary U.S. markets. **The Blackstone Group** could also strike suburban office deals for its \$4B equity Blackstone Real Estate Partners VII fund. Other office buyers to

**BOOST IN TIMBERLAND SECTOR...***Continued from Previous Page*

Expect to see the third-largest timberland REIT further plumb the Gulf States following a \$330M — or \$1,370 per acre — purchase in Alabama, Louisiana, Mississippi and Oklahoma. Additional interest this year for southeastern and Pacific Northwest softwoods is assured for species including cedar, fir, hemlock, pine and spruce; the company would also consider hardwoods that include alder, balsam, birch, cherry, elm and eucalyptus, as well as maple and oak, among others. Although the company will pursue additional deals in the Southeast, look for Pacific Northwest stands to attract additional interest owing to the Chinese export market, and the anticipated return of the U.S. housing market in 36 months, which won't see as much competition from Canadian timber because of pine beetle infestations. Those factors will spur Rayonier and other investors towards scooping more acreage from willing sellers.

Competitors in the Pacific Northwest will include Olympic Resource Management and Plum Creek Timber. Watch Olympic Resource Management's targeted \$100M to \$150M third fund to pursue Douglas fir and Hemlock spruce, or whitewood, in the western U.S. markets of Idaho, Montana, Oregon, Washington and northern California. Expect ORM Timber Fund III to be in the market for parcels ranging from 10,000 to 15,000 acres, with deal sizes ranging from \$15M to \$40M. A final fund close is expected by June; there's a three-year investment period.

Plum Creek Timber may continue to balance acquisitions with sales, and could continue to fill out a presence in the Southeast this year after a \$75M purchase — or \$1,500 per acre — in Georgia, one of the company's core markets. Watch for additional interest in softwoods and hardwoods in additional existing markets including top markets of Arkansas, Florida, Michigan, Mississippi, Montana and Oregon. Interest in Douglas fir in the Pacific Northwest and Loblolly pine in the South are popular with the company.

Don't be surprised to see The Lyme Co. tap its fresh \$160M equity fund called The Lyme Forest Fund III during the next three years, as it evaluates such markets as Delaware, Louisiana, Maine, Massachusetts, New Hampshire, New York, Pennsylvania, Tennessee, Vermont and Virginia, for a 446,000-acre portfolio. The acquisitions-focused company aims to invest from \$200M to \$300M during the next two years in deals ranging from \$10M to \$100M. Expect interest in one-off purchases in markets with high potential for conservation sales such as easements and fee-interests stemming core timberland, agriculture, ranch and undeveloped land. The investor pays close attention to conservation lands and mitigation banking that includes partnering with nonprofit conservation organizations for an aim of harvesting, partial development rights.

**DEALMAKER DATABANK™**

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
American Realty Capital Trust 405 Park Ave., 15th Floor New York, NY 10022	Nicholas Schorsch (212) 415-6500 nschorsch@aricap.com  William Kahane (212) 415-6500 wkahane@aricap.com	Retail	Nontraded REIT targets \$225M to \$250M equity towards grocery anchored centers in JV with Phillips Edison & Co.
106 York Road Jenkintown, PA 19046	Jason Slear (212) 415-6569 jslear@aricap.com		
Roston Properties	Tom O'Connor	Office	Public investor raises \$871M. some

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<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Brookfield Office Properties Three World Financial Center 200 Vesey St. 11 <sup>th</sup> Floor New York, NY 10281-1021	Ric Clark (212) 417-7000 Fax: (212) 417-7214	Office	Investor buys value-added office nationwide.
Cole Real Estate Investments 2555 E. Camelback Road Suite 400 Phoenix, AZ 85016	Kim Kundrak Chuck Vogel (602) 778-8700 kkundrak@colecapi.com	Retail	Retail buyer scans multitenant and single-tenant retail, in addition to other property types.
Compatriot Capital 5949 Sherry Lane Suite 1900 Dallas, TX 75225	Paul Rowsey (214) 210-5015, or (214) 443-1998 Fax: (214) 443-1975 paul.rowsey@compatriotcapital.com	Apartments, Industrial, Office	Investor acquires interests in real estate operating companies nationwide.
DCT Industrial Trust 518 17 <sup>th</sup> St. Eighth Floor Denver, CO 80202	Phil Hawkins (303) 597-2400 poneill@dctindustrial.com	Industrial	Public REIT acquires industrial.
Equity Residential Two N. Riverside Plaza Suite 400 Chicago, IL 60606	Alan George (312) 928-1259 Fax: (312) 454-1962 ageorge@eqrworld.com	Apartments	Public REIT makes play for private owner Archstone.
Fountain Investments 11490 Emerald Coast Pkwy. Suite 300, Box 3 Miramar Beach, FL 32550	M.C. Davis (850) 424-3240 Fax: (850) 424-3242 info@fountaininvestments.com	Land	Private investor acquires land.
General Growth Properties 110 N. Wacker Drive Chicago, IL 60606	Kevin Berry (312) 960-5000 kevin.berry@ggp.com  Michael Berman (312) 960-5000 michael.berman@ggp.com	Retail	Public mall REIT hires Berry as investor relations VP, and Berman as EVP and CFO.
Independence Mortgage Trust 2929 Arch St. 17 <sup>th</sup> Floor Philadelphia, PA 19104	Raphael Licht (215) 243-9000 Fax: (215) 243-9039 rlicht@raitsp.com	CMBS	Investor to go public.
Investcorp 280 Park Ave. 36 <sup>th</sup> Floor West New York, NY 10017	Jon Dracos (212) 599-4700 Fax: (212) 983-7073	All	Private investor and syndicator to acquire all property types.
Kimco Realty 1631-B S. Melrose Drive Vista, CA 92081	Matt Golden (760) 598-2032 Fax: (760) 727-1430 mgolden@kimcorealty.com	Retail	Public investor gets \$1B-plus credit facility and plans acquisitions and dispositions.
Olympic Resource Management 19245 Tenth Ave. NE Poulsbo, WA 98370	Kevin Bates (360) 697-6626 Fax: (360) 697-1156 kbates@orminc.com	Timberland	Investor seeks timberlands for fund.
Overton Moore Properties 19300 S. Hamilton Ave. Suite 200 Gardena, CA 90248	Timur Tecimer (310) 323-9100 Fax: (310) 608-7997 ttecimer@omprop.com	Industrial	Private investor acquires industrial throughout southern California.
Phillips Edison - ARC Shopping Center REIT 11501 Northlake Drive Cincinnati, OH 45249	John Bessey (513) 554-1110 Fax: (513) 554-1009 jbessey@phillipsedison.com	Retail	Private investor partners with American Realty Capital Trust for neighborhood and community centers.

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<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Rouse Properties 110 N. Wacker Drive Chicago, IL 60606	Michael McNaughton (312) 960-5000 michael.mcnaughton@ggp.com	Retail	Investor to be spun off from GGP in a couple weeks.
RAIT Financial Trust Cira Center 2929 Arch St. 17th Floor Philadelphia, PA 19104	Jack Salmon (215) 243-9000 Fax: (215) 243-9039 jsalmon@raitf.com		Public investor to sponsor offering.
Rayonier 1301 Riverplace Blvd. Suite 2300 Jacksonville, FL 32207	Lynn Wilson (904) 357-9100	Timberland	Public investor in acquisitions mode.
RLJ Lodging Trust 3 Bethesda Metro Center Suite 1000 Bethesda, MD 20814	Thomas Baltimore (301) 280-7777 Fax: (301) 280-7750	Hotel	Public investor plans a \$1B raise.
Steele Properties 6795 E. Tennessee Ave. Fifth Floor Denver, CO 80224	David Garcia (303) 226-9120 dgarcia@steelellc.com	Affordable Housing	Private investor aims to exceed 2011 acquisitions volume this year.
USAA Real Estate Co. 9830 Colonnade Blvd. Suite 600 San Antonio, TX 78230-2239	Bruce Petersen (800) 531-8182 Fax: (210) 641-8421 bruce.petersen@usrealco.com	Industrial	Institutional investor acquires industrial nationwide.
Vestar 2425 E. Camelback Road Suite 750 Phoenix, AZ 85016	Rick Kuhle (602) 866-0900 rkuhle@vestar.com  David J. Larcher (602) 866-0900 dlarcher@vestar.com	Retail	Private investor seeks value-added retail in western U.S. markets; recently reentered Nevada market.
Village Green 30833 Northwestern Highway Suite 300 Farmington Hills, MI 48334	Diane Batayeh (248) 932-2706 Fax: (248) 538-2706 dbatayeh@villagegreen.com	Apartments	Private investor and developer to increase apartment holdings through 2013.

**BUYERS' BUREAU...**

**Cold feet now, hot deals later? Don't be surprised** to see public hotel REIT sector leader Host Hotels & Resorts make waves in 2012 following its decision to squash what would have been one of the largest Washington, D.C., deals in 2011. Although the public REIT will ante up some \$15M in deposit fees after backing out of a \$439M contract to acquire the 888-key Grand Hyatt Washington, D.C., don't be surprised if it puts that cash to work by December.

The full-service hotel buyer's \$1B acquisitions volume marked a twofold increase compared to 2010; company dealmakers were on track to a threefold increase had the Grand Hyatt deal closed. Expect the hotel sector to heat with competitors seeking to buy on a market upswing driven by anticipated increases in average daily room rate and revenues per available room. Among competitors will be Marriott- and Hilton full-service buyer RLJ Lodging Trust, which recently rolled out a \$1B raise. Don't be surprised to see the company grow its select-service and full-service hotel presence in top markets like Chicago, New York, and the Washington, D.C., metro area, in addition to Austin, Texas, the Colorado markets of Boulder and Denver, plus Louisville, Ky. The investor is in growth mode but is saddled with \$1.34B of outstanding debt risk, especially if interest rates increase.

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**BUYERS' BUREAU...***Continued from Previous Page*

**Clean up:** Land purchases will garner increased attention and capital this year with investors scouting the sector for acreage to bank in advance of an anticipated construction boom driven by four years of negligible construction and resulting pent-up demand. However, insiders anticipate a continuing decade-long agricultural land pricing appreciation in markets including Illinois and Iowa, and a stagnant to decreasing pricing environment for developable land outside infill markets. Sellers will heed the call, so expect deals to roll in stabilized through value-added bank-seller transactions.

Land pricing bottomed out in 2009-10. However, watch for banks to continue culling properties from their balance sheets. Markets to watch include metro Washington, D.C., North Carolina, Virginia, Texas, southern California and South Florida. Infill properties will continue garnering demand in markets with stable to positive employment prospects. Insiders notice single family land in resort markets has dropped, but commodity pricing/resource land mining land values are up.

Against this backdrop, look for additional buyers to follow Fountain Investments' footsteps into land used for other than development, called resource land. The investor's blockbuster purchase of approximately 1.28 million acres of land in northern Nevada was motivated by rights to any minerals, including gold and silver, which could be unearthed.

**Mortgage note buyers can look for more competition in the sector** pumped by public REITs, noticing more than \$350B of commercial real estate loans slated to mature next year. Don't be surprised to see residential mortgage REITs turn their head towards the sector in response to financing demand expected to last through 2020, by which time \$2.4T of debt is expected to mature. In the short term, insiders prepare for this year's maturing commercial real estate loans.

Independence Mortgage Trust's maximum targeted \$1.5B blind-pool offering could yield \$1.328B for acquisitions of first and second mortgages secured by stabilized assets and properties in repositioning, CMBS, and to originate or acquire and purchase B-notes, mezzanine loans and other subordinated debt. Asset types are expected to include apartments, flex space, hotels, industrial and warehouse/distribution, manufactured housing, retail and self-storage. RAIT Financial Trust-sponsored Investors Management Trust will scan the \$5M to \$50M deal size range for paper collateralized by cash-flowing assets. About 88.6% of the raise is targeted to expand a real estate loans and securities portfolio.

Sponsor RAIT Financial Trust carries a 157-loan, \$1.1B portfolio comprising commercial, mezzanine, preferred equity, an \$849M real estate portfolio and additional holdings in the CMBS, unsecured REIT notes and securities markets. The investor has acquired office and apartments as well.

**People on the Move**

**Apartment REIT Mid-America Apartment Communities** taps **Thomas L. Grimes** as executive VP and COO. The 17-year company vet previously worked as executive VP and director of property management at the midcap REIT that counts 49,175 units across the Sun Belt region. The company recently expanded holdings in Little Rock, Ark. and Fredericksburg, Va. ... Private investor **Grosvenor Americas** taps **Sommer Johnson** as investment manager charged with value-added apartment, office and retail acquisitions in California's Los Angeles, Orange County and San Francisco Bay Area markets. The buyer, a division of U.K.-based Grosvenor, also scans the Washington, D.C. metro area, Illinois, Washington and Virginia for multifamily, net-lease and multitenant retail, office buildings and land for a \$1.3B-plus U.S. portfolio. ... **General Growth Properties (GGP)** taps **Kevin Berry** as investor relations VP, and **Michael B. Berman** as executive VP and chief financial officer. Berry previously worked at **Equity International** and **Equity Office Properties Trust**; Berman joins the company from **Equity LifeStyle Properties**. GGP should continue 2011 transaction momentum this year, as the company looks forward to spinning off **Rouse Properties** in a couple weeks. GGP acquired an estimated \$174M worth of big-box and mall retail assets last year, while selling \$764M of malls, office buildings and strip centers from a portfolio now totaling approximately 193 properties. As the year unfolds, anticipate action between the mall REIT and joint venture partners including foreign pension funds **Abu Dhabi Investment Authority** and the **Canada Pension Plan Investment Board**, in addition to such stateside counterparts as the **California Public Employees' Retirement System**, **The New York State Common Retirement Fund** and the **Teachers Retirement System of the State of Illinois**.

## AFFORDABLE HOUSING ACTIVITY HINGES ON GOVERNMENT ACTION

Uncertainty about upcoming fiscal government budgets will give affordable housing investors pause for thought, but acquisitions volume shouldn't slow unless there are severe cutbacks to low income housing tax credits (LIHTC) and Housing and Urban Development project-based Section 8 funding. If deep cutbacks occur, expect investors to become choosier about deals requiring additional first mortgage debt financing to cover shortfalls from government, state and local affordable housing programs. On the flip side, because most markets nationwide require affordable housing, investments may continue a 2011 rebound highlighted by tax credit appreciation of more than 10% compared to a couple years ago, and compressing yields into the 6% range.

Among investors planning action in the segment are national player **Boston Capital** and **Hunt Cos.**, plus expanding regional buyer **Steele Properties**, with plans to increase acquisitions through December. Watch for Boston Capital to introduce its 36th fund and aim for \$650M to \$660M of equity investments this year, compared to \$630B of equity invested during 2011. There's interest in urban, suburban and rural properties typically ranging from 40 to 250 units. In one of its last deals of 2011, Boston Capital invested approximately \$4.1M equity in a 72-unit Lumberton, N.C., development located 126 miles southeast of Charlotte.

Smaller private investors also prepare for new funds. Colorado-based Steele Properties targets up to \$250M of acquisitions this year, and plans to roll out a \$20M equity fund. Steele Properties acquired \$126M worth of properties in 2011. The Steele Fund I vehicle will target HUD Section 8 properties that could qualify for eventual LIHTC financing. The buyer owns properties in 10 states and aims to strike