

# CRITTENDEN Real Estate Buyers™

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## PRIMARY MARKET GROWTH INSPIRES NEW FUNDS

The private equity fundraising tide will crest higher this year as all types of buyers roll out mostly value added-focused funds for apartments, industrial, office and retail nationwide. Primary markets will reap more than their share of attention but investors will move into surrounding bedroom communities and suburbs if primary market pricing gets too hot and rent momentum slows. An increase in new construction and redevelopment jobs this year could push investors into adjacent markets that haven't yet caught the new-build bug justified by pent-up demand.

**CB Richard Ellis Global Investors** expects to acquire large value-added apartment, industrial and office buildings through its targeted \$1B equity **CBRE Strategic Partners U.S. Value 6**. The fund will

## DIVERSIFIED BUYERS LOOK TO SELF STORAGE

Big-ticket portfolio trades, compressing cap rates and potential migration into secondary markets will define the self-storage market through December, as pure-play and diversified buyers angle for a foothold in this sector dominated by smaller owners. Cap rates that compressed into the 6% to 7% range for urban and primary market properties in 2011 will propel investors towards larger properties in urban markets able to withstand an eventual onslaught of new construction. Although insiders don't expect new construction to meaningfully impact the market for a few more years, don't be surprised to see buyers hunting for conversion-quality assets in urban infill locations within primary markets.

If storage REITs retain upward market capitalization momentum that has outpaced other commercial real estate segments last year, sellers can expect increases in offers using blends of stock, operating partnership units and cash. Among public REITs pumping up transaction volume is sector leader **Public Storage**, which will peel off some cash from a \$400M raise to acquire properties. Deals this year will follow more than \$300M worth of buys booked during 2010-11 in partnership interest and asset purchases in a smattering of markets including California, Florida, Maryland, Nevada and Texas. Properties valued at more than \$3M are of interest. The investor will compete against a host of active buyers including public REITs **Extra Space Storage** and **Sovran Self Storage**, plus non-traded REIT **Strategic Storage Trust**.

Highlighting the approaching self storage craze is smaller closed-end fund manager and sponsor **Global Income Fund**, and its planned switch to become Nasdaq-traded REIT Self Storage Group. Expect eventual interest in Northeast properties to complement a two-property, self-storage portfolio in Clinton, Conn., and Millbrook, NY, totaling 320 units held by affiliate Tuxis Corp. It will encounter **Storage Pros Management**, with \$25M for opportunistic and financially troubled buys, throughout the Northeast. Also watch for action in the Midwest. Company dealmakers could surpass 2011 acquisitions volume as it scans the market for 8.5% to 10% cap rates.

In Connecticut, the New York Tri-State area and Pennsylvania, competitors will face **CubeSmart's** targeted core-market expansion eyeing high-barrier product. The former U-Stor-It Trust is in the midst of closing the second part of a \$560M purchase that will increase its New York portfolio, and boost holdings in contiguous Connecticut and Pennsylvania. Look for the portfolio's seller, **Storage Deluxe Realty**, to ratchet up new development, redevelopment and land buys in cities close to Manhattan — where it plans to build 40,000 s.f. to 150,000 s.f. buildings. Interest in land proximate to shopping centers or part of a retail center measuring from a half-acre to upwards of seven acres are of interest, in addition to office, industrial and warehouses.

Diversified storage buyer interest will remain. Look for **Virtus Real Estate Capital** to use up to one-third of its \$500M newly introduced Virtus Real Estate Evergreen Fund. Storage properties measuring more than 50,000 s.f., with 8% to 8.75% range cap rates, are targeted nationwide. The fund's focus marks an expansion outside dedicated self-storage funds; also expect interest in medical office, senior housing and student housing nationwide in off-market purchases and recapitalizations. **Harrison Street Real Estate Capital** will put some of a \$200M equity fund to work in pursue of self-storage, student housing and healthcare assets nationwide.

In addition to other property types, expect the \$750M all-in **Hampshire Partners Fund VIII** to acquire self storage throughout the Northeast and Mid-Atlantic regions. **W.P. Carey & Co.**, following its 42-property portfolio buy of California, Hawaii and Illinois self storage, should be expected to continue its buying pace with nationwide activity in and outside of joint ventures.

## NEW ENTRIES, INCREASED CAPITAL TO DEFINE 2012 LODGING

Expect private equity to continue filling the gap widened in late 2011 by receding hotel REITs. Don't count public REITs out, however: Like their apartment counterparts, insiders know the segment is riding a wave of renewed popularity as an investor favorite this year. They will expand, as will distressed and value-hunting buyers stalking the full-service segment in and independent of joint ventures.

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**NEW ENTRIES, INCREASED CAPITAL TO DEFINE 2012 LODGING...***Continued from Previous Page*

As private equity peruses the value-added sector through joint ventures and management contracts, expect a broadening group of public REITs to increase profiles in urban markets including midtown Manhattan, where upper upscale and West Coast-heavy **Chesapeake Lodging Trust** recently made a new market entry with a \$427,868 per-key purchase, and urban-focused **La Salle Hotel Properties** paid \$424,197 for its largest NYC hotel yet.

Private buyer **Mast Capital** targets \$500M for acquisitions of primary market independent boutique hotels and full-service hotels/resorts during the next 12 to 18 months, in partnership with operating companies including **Hersha Hospitality Management**. Mast Capital dealmakers eye \$20M-plus assets and will pony up in primary markets such as Boston, Chicago, Los Angeles, Miami, New York, San Francisco, Seattle and Washington, D.C., plus Austin, Texas and Portland, Ore., as well as various university markets. One-off and portfolio assets in the \$100M-plus range have also been considered by the private buyer, which recently acquired properties in Washington, D.C., and Florida.

Separately, **Hersha Hospitality Management** aims to diversify a Northeast focus and eyes debt portfolios, independent flags and full-service hotels in primary markets as a direct investor or partner. Per-hotel pricing from \$20M to \$70M attracts the buyer outside JV partnerships; on the partnership side, the company eyes \$20M to \$25M equity investments. Past deal sizes have ranged from \$20M to \$400M. Anticipate increased interest in South Florida, the Pacific Northwest and West Coast regions, plus primary and secondary markets including Los Angeles, San Francisco, Seattle, Austin, Texas, and Portland, Ore.

A potential opportunistic/value-added segment competitor, **Gemstone Hotels & Resorts** readies an initial acquisitions foray targeting 150- to 300-key upper upscale and luxury assets in primary and resort markets nationwide; 16%-plus returns are targeted. REO buys, nonperforming loans and fee-simple acquisitions of stabilized to value-added/opportunistic product are of interest.

Competing management companies will partner or go it alone. Private equity shop **Stoneleigh Capital** seeks to build its hotel portfolio by a half-dozen hotels this year with asset buys and management contracts, primarily in JV partnership with **Capella Hotel Group**. On the buy side, look for Stoneleigh Capital to evaluate five-star properties in urban and resort markets. These properties will typically range from 60 to 100 keys on the small side, to 250-plus keys for hotels to convert to Capella or Solis flags. The investor has a \$60M sliver equity fund to acquire management contracts as well.

Limited-service buys from entrepreneurial and smaller investment shops are also expected. With eventual plans to roll out an acquisitions fund, look for **HRC Hotels** to dig into secondary midwestern markets for limited-service and extended-stay Marriott and Hilton flags. Dealmakers will pursue upwards of four hotels with a combined 1,600 rooms, with average per-deal pricing in the \$5M range. During 2011 the company bought one hotel in Fort Wayne, Ind., and will likely seek additional assets in new and familiar markets including Indianapolis and Marshalltown, Iowa, as well as the Michigan cities of Kalamazoo and Traverse City.

**DEALMAKER DATABANK™**

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
The Blackstone Group/ Blackstone Capital Partners VI Blackstone 345 Park Ave. New York, NY 10154	Stephen Schwarzman (212) 583-5000 Fax: (212) 583-5749	All	Private equity investor acquires for myriad funds including the Real Estate Partners VII fund.
CBRE Strategic Partners US Value 6 515 S. Flower St. Suite 3100 Los Angeles, CA 90071	Vance Maddocks (213) 683-4200 vance.maddocks@cbreglobalinvestors.com	All	Investor raises cash for new fund.
Capella Hotel Group Stoneleigh 3384 Peachtree Road NE Suite 375 Atlanta, GA 30326	Horst Schulze (404) 842-7280 Fax: (404) 842-7288 hschulze@capellahotels.com	Hotels	Hotel manager teams with Capital for full-service hotels.

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<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Cobalt Capital Partners 5605 N. Macarthur Blvd. Suite 350 Irving, TX 75038	Lewis Friedland (972) 893-7000 Fax: (972) 893-7001 lew.friedland@cobaltcapitalpartners.com	Industrial	Value-added Cobalt Industrial REIT III acquires properties in southern California and nationwide.
CubeSmart 460 E. Swedesford Road Suite 3000 Wayne, PA 19087	Scott Levy (610) 293-5700 slevy@cubesmart.com	Self Storage	Former U-Stor-It Trust bolsters NY presence with two-part portfolio.
Extra Space Storage 795 E. Cottonwood Parkway Suite 400 Salt Lake City, UT 84121	Scott Stubbs (801) 562-5556 Fax: (801) 562-5579 sstubbs@extraspaces.com	Self Storage	Public REIT acquires self storage nationwide.
Gemstone Hotels & Resorts 1912 Sidewinder Drive Suite 104 Park City, UT 84060	John Plunket (435) 658-1594 Fax: (435) 658-2175 jplunket@gemstoneresorts.com	Hotels	Management company plans to diversify into acquisitions.
Global Income Fund 11 Hanover Square New York, NY 10005	Thomas Winmill (212) 344-6310 info@globalincomefund.net	Self Storage	Investment company plans to become self storage REIT, called Self Storage Group
HRC Hotels 3495 Coolidge Road East Lansing, MI 48823	Rebecca Keenan (517) 337-8900 Fax: (517) 337-8906 rkeenan@harcpa.com	Hotels	Private investor seeks hotels in secondary Midwest markets.
Harrison Street R.E. Capital 71 S. Wacker Drive Suite 3575 Chicago, IL 60606	Christopher Merrill (312) 920-0500 cmerrill@harrisonst.com	All	Private investor plans diversified fund.
Hersha Hospitality Mgmt. 44 Hersha Drive Harrisburg, PA 17102	Shawn Tuli (717) 236-4400 shawn.tuli@hersha.com	Hotels	Hotel manager and buyer acquires in and independent of JVs.
The JBG Cos. 4445 Willard Ave. Suite 400 Chevy Chase, MD 20815	Matt Kelly (240) 333-3600 Fax: (240) 333-3610	Fund	Private investor works with new \$752M fund focused on Washington, D.C. metro area.
KTR Capital Partners 601 S. Figueroa St. Suite 2225 Los Angeles, CA 90017	Phil Prassas (213) 784-4000 Fax: (213) 489-4092 pprassas@ktrcapital.com	Industrial	Private investor acquires industrial nationwide for a pair of funds.
Mast Capital 5200 Vineland Road Suite 220 Orlando, FL 32811	Charlie Muller (786) 360-0555 cmuller@mastcapital.com	Hotels	Private investor acquires full-service hotels in and independent of joint ventures.
Overton Moore Properties 19300 S. Hamilton Ave. Suite 200 Gardena, CA 90248	Timur Tecimer (310) 323-9100 ttecimer@omprop.com	Industrial	Private investor acquires industrial throughout southern California.
Storage Pros Management 11 Charles River Terrace Highlands, MA 02461	David Levenfeld (617) 658-1200 Fax: (617) 658-1201 dlevenfeld@storageop.com	Self Storage	Private opportunistic investor acquires in Midwest and Northeast footprint.
Strategic Storage Trust 111 Corporate Drive Suite 120 Ladera Ranch, CA 92694	H. Michael Schwartz (949) 429-6600 Fax: (949) 429-6606	Self Storage	Non-traded REIT expands Florida, Georgia footprint; acquired \$245M worth of assets during 2011.
Stoneleigh Capital 55 N. Water St. Suite 4 South Norwalk, CT 06854	Frank Palmer (203) 663-4200 fpalmer@stonecaps.com	Hotels	Private equity partner invests in management company; plans to boost hotel portfolio in 2012.
Storage Deluxe Realty 28 W. 17 <sup>th</sup> St. Suite 801 New York, NY 10011	Steve Novenstein (212) 904-0406 Fax: (212) 904-0407 snovenstein@storagedeluxe.com	Self Storage	Private investor to route sale proceeds to new development, redevelopment and land buys.

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<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Virtus Real Estate Capital 7004 Bee Caves Road Bldg. III, Suite 300 Austin, TX 78746	Kevin White (512) 891-1213 Fax: (512) 891.1210 kwhite@virtusre.com	Self Storage	To acquire self-storage on behalf of first diversified fund.

**Correction:** Redwood Real Estate Partners acquires multitenant properties. This fact was misstated in the Jan. 16 Dealmaker Databank buying criteria column. Real Estate Buyers regrets the error.

**INLAND EMPIRE INDUSTRIAL: ACQUISITIONS AND SPEC ON THE WAY**

Improving manufacturing and distribution occupancies signal rising activity in southern California's Inland Empire from big-ticket institutional players to regional private equity investors hunting stabilized to value-added buys and scoping the new construction market. Vacancies throughout the area comprising Riverside and San Bernardino counties south of Los Angeles are expected to decrease this year from an average 14% vacancy rate. As a result, institutional Class A warehouse and distribution facilities' cap rates will likely compress into the high-6% to low-7% range for properties housing long-term investment grade tenants:

Speculative and build-to-suit projects aside, expect 500,000 s.f.-plus warehouse and distribution facilities to be the hottest existing product type among institutional investors. Smaller value-added investors will dig into the 25,000 s.f. to 100,000 s.f. building space that was overbuilt and smacked the region with high vacancies post-downturn. Some of those buildings could be redeveloped with contiguous land parcels in response to demand for 250,000 s.f.-plus boxes.

Buyers to watch include value-added, light industrial buyer **Cobalt Capital Partners'** non-traded **Cobalt Industrial REIT III** and its targeted \$500M equity raise, some of which may be used to acquire additional assets in the region after an initial 2011 entry into Ontario, Calif., with a pair of vacant buildings. The buyer prepares for more acquisitions this year and considers \$3M-plus properties throughout the market and nationwide, in areas with at least 25 million s.f. of light industrial space and more than two million residents.

Regional private buyer **Overton Moore Properties** plans approximately \$75M worth of acquisitions this year as it emphasizes new development to capitalize on a lack of new construction projects. The investor's **OMP Industrial III** fund will power value-added buys, land purchases and development to follow 2011 activity that included a couple of buys for new, spec development. Count on company interest in the Inland Empire East market and elsewhere in southern California, as well as Arizona and Nevada.

Also watch public REITs **DCT Industrial Trust** and private equity investor **KTR Capital Partners** — each with more than a dozen buildings in the Inland Empire market. KTR Capital Partners' non-traded **KTR Industrial Fund II** and **Keystone Industrial Fund** — with a combined \$2B debt/equity — seek distribution and warehouse facilities nationwide, including its top market of California. The company already owns nearly a dozen assets in the Inland Empire East and Inland Empire West submarkets, ranging from 1.3 million s.f. to 88,323 s.f. Subsequent purchases of one-off assets and portfolios in plain-vanilla to sale/leaseback transactions are likely. DCT Industrial Trust could acquire from \$50M to \$150M worth of properties nationwide this year, plus \$50M to \$100M of new development, and seeks bulk distribution and light industrial assets. The buyers should encounter distribution/warehouse buyer and non-traded REIT **Industrial Income Trust**, which acquired more than \$286M worth of assets during 2011; it extends a \$2B offering to December 2012.

On the institutional buying front, anticipate **Clarion Partners** to put Inland Empire product in its sights while targeting \$1B worth of industrial and other types nationwide, if this year at all resembles 2011. Don't be surprised if the investor follows a late 2011 Inland Empire East submarket buy at Heacock Business Center in the Riverside County submarket of Moreno Valley, with additional Class A buildings that are leased to investment grade tenants.

**BUYERS' BUREAU...**

**Foreign investors' confidence in the CRE market** will maintain primary market competition until the global economy recovers. More investors will move to value-added and opportunistic acquisitions as a medium-term alternative to stalking top-tier, stabilized urban buildings.

Joint ventures, including a big-ticket partnership between Russia-based **Alfa Group** and New York-based **Rosen Partners**, can be expected to grow this year as investors continue seeking returns outperforming treasury bond yields and other securities. The value added property-focused Alfa Group/Rosen Partners venture is hungry for \$25M to upwards of \$100M-priced Class A and Class B apartments, full-service hotels and office buildings in metropolitan Boston, the New York Tri-State Area, Washington, D.C. metro area, Miami and southern Florida, in addition to Atlanta, North Carolina and South Carolina. Also considered are debt purchases of senior and junior positions, REO assets, recapitalizations and partnership interest deals. Development may also be on tap for the buyers looking for leveraged portfolio returns of more than 20% during a three- to five-year hold period.

Foreign investor enthusiasm in the U.S. has dampened compared to 2011 but New York, San Francisco and Washington, D.C., remain on most short lists, according to the recent Association of Foreign Investors in Real Estate (AFIRE) survey — whose respondents count nearly \$340B in U.S. real estate assets. Anticipate more foreign capital in the industrial and office segments, while slightly receding interest in hotels and retail buildings should become more noticeable.

**Value-added secondary and tertiary market retail heats**, as regional buyers take a hard look at the public market to raise cash and propel acquisitions. Timing is everything, so expect additional investors to evaluate little neighborhood moneymakers before retail values substantially increase.

Although small, the planned \$24M **Wheeler Real Estate Investment Trust** IPO could ramp up the profile of assets in secondary and tertiary markets in Florida, North Carolina, Oklahoma and Virginia. Expect additional interest in southern U.S. properties, where the investor expects to focus on long term-leased strip to community centers and single-tenant net lease properties. Company namesake Jon Wheeler is known to some from his time at Perrine & Wheeler and Wheeler Interests. Wheeler Real Estate Investment Trust aims for a slot on Nasdaq as WHLR.

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