

## OFFICE BUYERS ON THE MOVE AFTER TWO YEARS OF ANEMIC ACTIVITY

Big public office REITs **Boston Properties, SL Green Realty, Piedmont Office Realty Trust** and **Douglas Emmett** will step up for primary market buys, as improving institutional yields compared to other sectors shine a light on the 16%-vacant sector. Cap rate compression dipping into the 5% to 6% range will inspire real estate portfolio and operating company purchases and joint ventures. CMBS financing is slowly regaining steam to stir up sector interest; overall financing spreads will decrease to rally additional interest. Anticipate foreign investors to also ramp up competition independently and through JV partnerships with big buyers, especially if cap rates continue a downward trend. As big buyers strike, regional players and smaller cap REITs muscle up for primary and suburban market action.

The rumored plans of Boston Properties to buy its headquarter city's Bank of America tower would immediately surpass \$256M worth of transactions the top office REIT made during 2011. Company dealmakers tout \$1B of available cash and a combined \$1.75B of credit. Farther from home, all eyes will fixate on the San Francisco Bay area's Silicon Valley following a recent \$510 psf purchase of a 140,000 s.f. office building there, as part of the investor's core strategy to look at Boston, New York, San Francisco, Washington, D.C., and Princeton, N.J. Despite capitalization, the company plans to default on a \$25M loan at a 9% interest rate securing a 123,392 s.f. office building in Gaithersburg, Md., it built 25 years ago.

SL Green Realty could also best its 2011 acquisitions volume of \$4.5B but that may depend on how deeply the repositioning and renovation player delves into big institutional offices in its core midtown Manhattan and greater NYC markets, such as the 1.1 million s.f. 180 Maiden Lane that was recapitalized in a JV with **The Moinian Group**. Additional buys this year will follow a \$647 psf contract on a 390,000 s.f. office building at 10 E. 53<sup>rd</sup> St., as part of a joint venture buy. Sales-wise, expectations call for the second-largest office REIT to sell approximately \$500M worth of assets this year to include JV positions, in addition to anticipated capital raises in an effort to reload its balance sheet. The company divested \$161M worth of JV interests during 2011, preceded by \$1.4B in sales during 2010. SL Green Realty can expect competition from aspiring public REITs **Empire State Realty Trust**, which will target office and retail throughout NYC. SL Green Realty and other big sector REITs can expect to compete against a host of buyers including **Clarion Partners, HUB Properties Trust, JBG Cos., Long Wharf Real Estate Partners, Paramount Group, Rockwood Capital** and **Shorenstein Realty Partners X** fund, as well as foreign buyers **H&R REIT** and **Manulife Real Estate**. To a lesser extent, diversified owner **Moody National REIT I** could also compete for repositioning-quality properties.

Primary and suburban office buyer Piedmont Office Realty Trust anticipates approximately \$300M worth of property and debt purchases, likely occurring during the latter half of the year. Company dealmakers could hunt the Los Angeles and Chicago metro areas, where it has noticed stronger leasing action. Atlanta, Phoenix and Washington, D.C. have slowed down. It bought approximately \$390M worth of assets during 2011. Fresh from a recent \$150 psf majority interest sale of Chicago's 111 E. Wacker Drive, look for approximately \$200M worth of asset sales this year.

Count REITs among bidders on up-for-sale office/R&D space owner **Mission West Properties**. Although company brass asserts the purchase will technically be a stock play, it's the portfolio of mainly Silicon Valley properties that will draw cash to the table. Price is the issue, but company leader **Carl Berg** expects a sale by May at the latest.

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## OFFICE BUYERS ON THE MOVE AFTER TWO YEARS OF ANEMIC ACTIVITY...

*Continued from Previous Page*

Regional buyer Douglas Emmett could be among the 50 to 60 companies that have snooped around the portfolio. Company management recently reiterated a long-term goal of expansion into Northern California and Seattle. The REIT's current portfolio comprises 58 office properties and nine apartment buildings throughout Southern California and Hawaii. Approximately \$600M remains in the company's \$1B all-in Fund 10 for purchases, in addition to \$150M of available cash and potential equity through at-the-market offerings and potential debt. A pending \$33.4M ownership stake purchase in its fund from a foreign investor will put the buyer closer to exceeding a single \$42M deal booked last year.

## BUYERS' BUREAU...

*Opportunistic hotel buyer and equity partner RockBridge* this year wants to meet or exceed approximately \$300M of acquisitions made during 2011. Count on action in the 2.5- to 4-star market including full-service and limited-service hotels with flags including Hilton, Hyatt, Marriott, Starwood; independent hotels are of interest in primary and secondary markets. The investor, traditionally a B-traunch and mezzanine note investor, has stepped up its equity business during the past three years. It will partner with owners and operators who have some equity in the game, for deals coast-to-coast.

*With the Empire State Building as its cornerstone*, a pending \$900M IPO from **Empire State Realty Trust** promises to further stir the tight NYC investment market. If the aspiring REIT hits its mark, expect future interest in Manhattan-area office and retail properties to include 1.5 million s.f. of properties with 36% to 100% occupancy rates in the Penn Station/Times Square South market. The investor, with 12 office buildings measuring 7.6 million s.f., and six retail assets measuring 8.3 million s.f., forecasts \$1B of proforma debt as well. Office, retail and residential owner Malkin Properties sponsors the offering.

*A \$1B blind pool IPO from Moody National REIT I* prepares for limited-service property buys, debt purchases and paper buys. The REIT counts two properties in portfolio. It is sponsored by **Moody National REIT Sponsor**, and is affiliated with TIC investor Moody National Cos., which defaulted on some loans following the crash.

*Manufactured housing buyers prepare for action* following a busy 2011. Private investor **Green Courte Partners** furthers a plan to double its portfolio to more than 3,200 MHC sites during the next few years with Bill Glascott, recently hired as managing director charged with acquisitions. Glascott, who previously worked at competitor and big-ticket seller **Hometown America**, will scan the U.S. for manufactured housing nationwide. Look for the investor to put its targeted \$412M Green Court Real Estate Partners III fund to work in acquiring three-star, 200-plus site parks. Of interest will be assets in California, Idaho, Nevada, Oregon and Washington.

The private buyer's competitive set is rich with public REITs **Equity LifeStyle Properties, Sun Communities and UMH Properties**. Sector leader Equity LifeStyle Properties acquired more than \$1.4B worth of assets during 2011, while Sun Communities buckled down \$175M worth of MHCs last year, and recently has focused on RV parks in Florida. Three days after joining the NYSE, don't be surprised if UMH Properties ramps up acquisitions past approximately \$57M worth of booked deals during 2009-11.

## People on the move...

Investment manager Grosvenor Fund Management taps **William P. Donohue** as managing director and head of asset management, and **Robert R. Kilroy** as managing director and chief portfolio manager. Watch for the appointments to signal a deeper push into U.S. activity as part of a broader emphasis on North America. Parent company Grosvenor Americas is in the market for apartments, land, office and retail nationwide.

Single-tenant REIT National Retail Properties appoints industry executive **Ed Fritsch** to its board. Whether this move augurs increased interest in office properties depends on company hunger for assets. Fritsch is president, CEO and director at office-heavy REIT Highwoods Properties.

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

Office Park buyer PS Business Parks taps new board of director members **Gary Pruitt** and **Peter Schultz** to replace a departing directors. Schultz is known to Southern California dealmakers as a past president, CEO and director of developer The Beacon Group Inc.

Boston Properties' President **Douglas Linde** adds COO to his title following the resignation of **E. Mitchell Norville**, who worked as the office REIT's EVP and COO. Norville, fresh into a two-month consultory stint paying \$40,000, waved goodbye with \$1.53M in commitments and \$950,000 bonus for 2011. Switching up positions at office REIT **Douglas Emmett** is **William Kamer**, the company's chief investment officer who previously worked as CFO. **Theodore Guth** fills the CFO slot; he previously worked as executive vice president and principal accounting officer at the Southern California- and Hawaii-focused owner holding a 58 office properties and nine apartment complexes. **Mack-Cali Realty** makes steps to become a diversified REIT active in the apartment and retail segments. The office REIT won't likely acquire office space this year, but it is considering retail redevelopment and apartment new builds. The company also bade adieu to 25-year veteran **Michael Grossman**, who will stay on for a couple months. The REIT isn't in acquisitions mode and is eyeing apartment and retail development.

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<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Allstate Insurance/ Current Creek Investments 3075 Sanders Road Suite G3B Northbrook, IL 60062	Michael Moran (847) 402-3746 Fax: (866) 695-0483 mmoran1@allstate.com	Office	Insurance company acquires JV with new partner Brandywine Realty Trust.
Boston Properties 800 Boylston St. Suite 1900 Boston, MA 02199	Tom O'Connor (617) 236-3300 Fax: (617) 236-3311 toconnor@bostonproperties.com	Office	Leading public office REIT entertains acquisitions, development and sales.
Douglas Emmett 808 Wilshire Blvd Suite 200 Santa Monica, CA 90401	Bill Kamer (310) 255-7710 Fax: (310) 255-7702 bkamer@douglasemmett.com	Office	Publicly held company could surpass 2011 acquisitions volume.
Dorvidor Management 25 SE 2nd St. Suite 1000 Miami, FL 33131	Spencer Bartram (305) 205-6737 spencer@dorvidor.com	Apartments	Private investor acquires value-added apartments throughout Florida.
Empire State Realty Trust One Grand Central Place 60 E. 42 <sup>nd</sup> St. New York, NY 10165	Anthony Malkin (212) 953-0888	Office	Plans for a \$1B IPO to trade under symbol ESB on the NYSE.
Equity LifeStyle Properties Two N. Riverside Plaza Suite 800 Chicago, IL 60606	Lance Beatch (312) 279-1400 Fax: (312) 279-1710 lance_beatch@mhchomes.com	MHCs	Public REIT acquires MHCs and RV parks nationwide.
Green Courte Partners 840 S. Waukegan Road Suite 222 Lake Forest, IL 60045	Jim Goldman (847) 582-9400 Fax: (847) 615-1631	MHCs	Private investor hires, plans to double portfolio in several years.
H&R REIT 3625 Dufferin St. Suite 500 Downsview, Ontario, CAN M3K 1N4	Nathan Uhr (416) 635-7520 Fax: (416) 398-0040 nuhr@hr-reit.com	Office	Canadian REIT strikes entry into Houston office market.
Long Wharf Real Estate Partners One Federal St. 26 <sup>th</sup> Floor Boston, MA 02110	Michael Elizondo (617) 250-7260 michael.elizondo@lwrep.com  Andrew Iglowski (617) 250-7260 andrew.iglowksi@lwrep.com	Office	Private equity manager acquires value-added properties for various institutional clients.

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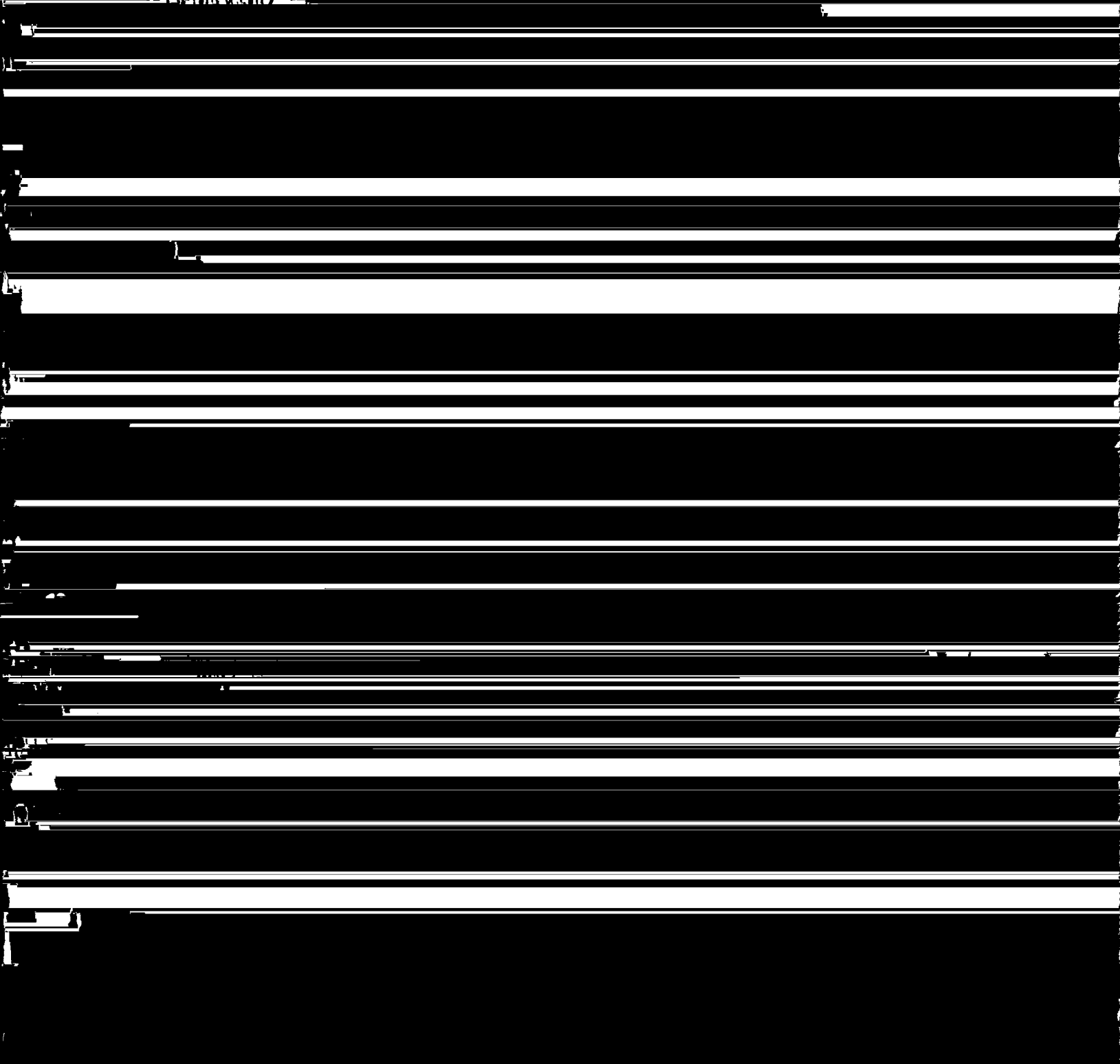
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Manulife Real Estate 250 Bloor St. East 8th Floor Toronto, Ontario, CAN M4W 1E5	David Shaw, Joseph Shaw Office (416) 926-5500 Fax: (416) 926-5509 realestate@manulife.com	Foreign life company enters office market.
Parkway Properties Bank of America Center 390 North Orange Ave. Suite 2400 Orlando, FL 32801	David O'Reilly Office (407) 581-2909 doreilly@pky.com	Public REIT won't continue fund series; seeks Class A properties.
Paramount Group 1633 Broadway Suite 1801 New York, NY 10019	Dan Lauer Office (212) 237-3109 dlauer@paramount-group.com	Private investor acquires in and outside joint ventures.
Parmenter Realty Partners 1111 Brickell Ave. Suite 2910 Miami, FL 33131	Andrew Weiss Office (305) 379-7500 investorrelations@parmco.com	Distressed private investor acquires office buildings with targeted fund capital.
Piedmont Office Realty Trust 11695 Johns Creek Parkway Suite 350 Johns Creek, GA 30097	Ray Owens, Bo Reddic Office (770) 418-8800	Public office REIT plans acquisitions and sales during 2012.
PWA Real Estate 4900 Perry Highway Suite 300 Pittsburgh, PA 15229	Jose Raymundo Office (412) 931-5264 Fax: (412) 931-2772 jraymundo@pwarealty.com	Private investor expands into Chicago office market; plans diversification into apartments.
Regency Centers One Independent Drive Suite 114 Jacksonville, FL 32202	Brian Smith Retail (904) 598-7000 bsmith@regencycenters.com	Public REIT acquires shopping centers nationwide; strikes initial New York market entry.
RockBridge 4100 Regent St. Suite 6 Columbus, OH 43219	Jim Merkel Hotels (614) 246-2400	Private equity and debt provider could exceed 2011 transactions volume this year. Also known as RockBridge Capital.
SL Green Realty 420 Lexington Ave. New York, NY 10170	Andrew Mathias Office (212) 594-2700 Fax: (212) 216-1785	NYC office, retail and apartment buyer acquires and repositions.
Shorenstein Properties 235 Montgomery St. Floor 16 San Francisco, CA 94104	Richard Chicotel Office (415) 772-7000 Fax: (415) 772-7048 rchicotel@shorenstein.com	Private investor has yet to acquire Shorenstein Realty Investors Ten that could acquire upwards of \$2B of assets nationwide.
New York office 850 Third Ave. 17th Floor New York, NY 11022	Robert Underhill (212) 843-7250 Fax: (212) 854-7497	
Stonehenge Partners 888 Seventh Ave. Third Floor New York, NY 10106	Ofer Yardeni Apartments Retail (212) 750-0707 Fax: (212) 246-2410	Private investor uses \$500M equity to acquire NYC assets in and independent of joint ventures.
Sun Communities 27777 Franklin Road Suite 200 Southfield, MI 48034	Jonathan Colman MHCs (248-208-2557 jcolman@suncommunities.com	Public REIT acquires MHCs and RV parks.
UDR 2745 Shea Center Drive Suite 200 Littleton, CO 80129	Tom Toomey Apartments (720) 283-6120	Public REIT acquires apartments.
UMH Properties 3499 Route 9 North Suite 3-C Freehold, NJ 07723	Michael Landy MHCs (732) 577-9997	Public REIT acquires MHCs, recently switched stock exchanges.

**SECONDARY OFFICE LURES FAT CASH, SALES AFOOT**

With post-crash doldrums becoming a memory, all types of buyers will delve into secondary and suburban office markets for upside. Divesting REITs may prove a boon to both buyers and sellers of assets. The office sector's slow emergence from rental losses head towards rental growth nationwide. Count on smaller regional buyers to target smaller stabilized and value-added product, while larger investors can be counted on to sell off assets and put capital into markets with anticipated supply/demand imbalances.

**Sun Belt:** Watch for Parkway Properties' growing interest in Class A stabilized through value-added office to prompt an initial entry into Austin, Texas, while hunting for product in secondary Sun Belt region markets this year. Expect heightened attention to submarkets with dramatically improved occupancy rates among the reasons for recent buys in Tampa, Fla. and Tampa, Fla. where the buyers



## APARTMENT INVESTORS SEEKIN MORE BUY FOR BUCK

Capital-flush private apartment buyers will move into new markets, while regional investors apply core market strategies. Investors will tackle the apartment market independently or through JV.