**CRITTENDEN Real Estate Buyers™**

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## INDUSTRIAL REGAINS FOOTING: BUY AND SALES VOLUME TO RAMP

Value-added and development properties will take center stage as industrial REITs sidestep direct competition with institutional investors willing to pay premiums to replacement costs. With the rise in U.S. manufacturing comes a corresponding demand for space so anticipate a keener focus on big-box/warehouse distribution assets nationwide. As sellers readjust pricing to the current market, expect REITs to sell, increasingly focus on buying out JV partners, to gain control of properties upon a market upswing indicated by shrinking vacancy rates nationwide and higher institutional yields compared to other sectors during the fourth quarter 2011.

Industrial public REIT leader **Prologis** anticipates a more active year despite cap rate compression. Look for the company to put $200M into deals that could be worth $400M to $600M this year. Also expect Prologis to invest $1B to $1.4B in development and nearly $3B of dispositions from the company's global portfolio as it exits some smaller, non-core markets in coming quarters/years. The buyer will drill into such core markets as Chicago, Dallas/Forth Worth, New York, California and South Florida, plus Britain, France and Japan. Prologis, which recently acquired its partner's majority interest in the closed-end Prologis North American Industrial Fund II, will likely pursue similar fund interest purchases or sales as dealmakers aim to streamline funds. Additional action could occur this year for the $3.9B gross book value Prologis Targeted U.S. Logistics Fund and the $2.9B gross book value Prologis North American Industrial Fund I. The company could get active with additional new equity capitalization or capital recycling.

Anticipate value-added buyer and developer **DCT Industrial** to increasingly focus on coastal and inland national and regional distribution hubs, likely including Chicago, Houston, Texas, Seattle and Northern California, in addition to Southern California's Inland Empire West, Washington, D.C., and Miami. Competition in Southern California and beyond will include regional and national private buyers **KTR Capital Partners, Overton Moore Properties** and **BlackRidge Real Estate Group**. The bulk warehouse/distribution and light industrial buyer could surpass $222M worth of properties acquired during 2011 through value-added acquisitions, plus new development. Average acquisitions hover in the $12M range, and high-6% range plus targeted yields should be par for the course. DCT Industrial has more than $90M remaining on its credit facility.

Recognizing it can't be all things to all people, anticipate DCT Industrial's exit from some of its 21 markets in coming quarters. Although company leaders won't specify the what, where and when of future divestments past $122M of sales during 2011, future action will follow recent market exits from Kansas City, Minnesota and a pending exit from Charlotte, N.C. Whether or not DCT Industrial builds footprints or exits Indianapolis, Memphis, Nashville and New Jersey — minority markets with less than 10 properties apiece — will be influenced by demand and pricing. Although the buyer counts less than 10 assets in Miami and Seattle, don't expect exits from these coastal markets.

Count on dealmakers at **First Industrial**, the fourth-largest REIT by market cap, to weigh acquisitions against debt buybacks this year, as the company redoubles efforts to pare from $75M to $100M worth of properties from portfolio by December; First Industrial sold off $86M during 2011 and didn't buy any properties. Acquisitions versus buybacks aside, the buyer may delve deeper into joint venture interest purchases similar to a recent $55.89 psf purchase earlier this year of an 85% interest in a Pennsylvania warehouse/distribution building, at a 7.1% cap rate.

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### STRAIGHT FROM THE MARKET

| Location | Property | Size | Price | Cap Rate | Occupancy | Age |
|---|---|---|---|---|---|---|
| Stamford, Conn. | Office | 540,000 s.f. | $30.25M | N/A | 0% | 28 yrs. |

NOTES: Building and Land Technology further boosts its Stamford, Conn. portfolio with this $56 psf purchase of the former General Reinsurance headquarters building now called BLT Financial Centre. The private regional buyer is active in office throughout Connecticut, where it owns assets in Danbury and Norwalk. BLT dealmakers noticed the asset's CBD location that's opposite the Sheraton Stamford Hotel, a coincidence that likely attracted them to the deal.

CONTACTS: Building and Land Technology, 100 Washington Blvd., Suite 200, Stamford, CT 06902. Carl Kuehner, (203) 846-1900. cwilliams@bltoffice.com

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If fellow REIT competitor DCT Industrial opts to exit the central Pennsylvania market, it could garner some interest from First Industrial brass, or a host of East Coast-based buyers and investors including **The Manzo Co.** and single-tenant industrial buyer STAG Industrial. The Manzo Co. took down a 1.1 million-s.f. portfolio of light manufacturing, retail and office space in its core metro Boston market in JV partnership with the Tambone Investment Group/Old Hill Partners; watch for The Manzo Cos. to seek additional value-added plays throughout the region in deals that will likely surpass 2011 volume.

Look for First Industrial to acquire and develop in Southern California, Seattle, Houston, Miami, New Jersey, the Baltimore-Washington corridor and central Pennsylvania, likely for $1M-plus one-off and portfolio acquisitions. Potentially stimulating the REIT to buy is a recent $450M to $500M interest-only credit line priced at 210 points over LIBOR, a 1.25% decrease compared to the previous line. .

**Industrial Income Trust's** $2.4B blind pool offering should inspire additional stabilized to value-added acquisitions throughout the U.S., as the company seeks core and core plus bulk distribution/, warehouse, light industrial and flex space nationwide. Anticipate interest in high barrier markets including, Atlanta, Austin, Charlotte, N.C., Chicago,Cleveland, Denver, Dallas, Houston, Memphis, Minneapolis, New York/New Jersey, Portland, Ore., Phoenix, the Baltimore-Washington, D.C. corridor, Seattle and Tacoma, Wash., the San Francisco Bay area, Southern California and South Florida.

Third-largest industrial REIT **EastGroup Properties** may not surpass $102M worth of acquisitions booked during 2011, as the company could acquire another $30M worth of properties later this year following a $4.6M acquisition of a Tampa, Fla., distribution center and adjacent land. EastGroup Properties recently boosted its San Antonio, Texas and Tampa, Fla. portfolios with a pair of properties for approximately $65M.

Further heating bulk warehouse during the next three years will be a newly formed $1B joint venture between Canada-based **Brookfield Asset Management** and Dallas-based **Hillwood Investment Properties**. Look for the development- and acquistions-focused pair to buy mostly value-added and core-plus warehouse space, as well as a smattering of stabilized assets, nationwide.

## BUYERS WEIGH MEZZ, SENIOR LOAN BUYS

Look for mortgage note purchases to heat this year as investors ramp up their search of real estate through performing and nonperforming loan buys. More investors will flood the riskier segment as pricing and competition for senior loans and bank loan portfolios ramps in advance of a CRE renaissance. Thinning discounts to par on senior loan portfolios will inspire investor movement into the mezzanine loan sector.

Heralding increased competition for mezzanine loans is **The Blackstone Group**'s $4B fund targeting such deals nationwide. **Thrivent Financial Aid for Lutherans'** $100M equity Thrivent White Rose Fund V Mezzanine Direct coinvestment fund will likely target mezzanine debt and equity deals nationwide. The financial services company will compete against public REIT buyer **Winthrop Realty Trust**, which is expected to seek additional mezzanine and senior loan debt following recent partnerships with public REIT **Mack-Cali Realty** and Israel-based **Elad Group** in Stamford, Conn., and Chicago respectively.

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## STRAIGHT FROM THE MARKET

| Location | Property | Size | Price | Cap Rate | Occupancy | Age |
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| Nahant, Mass. | Apartments | 18 units | $1.2M | 8% range | 100% | four yrs, 136 yrs. |

NOTES: On an island located 14 miles northeast of downtown Boston is where private buyer and manager The Samia Cos. paid approximately $66,666 for each unit of the Edgehill Apartments. The units were part of a larger condominium conversion and subsequent sales. The 18 units that didn't sell became market-rate apartments. It's likely the buyer saw a cap rate in the low 8% range for the resort community property. The Samia Cos. holds a portfolio of apartments, industrial, office and retail buildings throughout Massachusetts.

CONTACT: The Samia Cos., 60 Leo Birmingham Parkway, Brighton, MA 02135. Lynn Marks, (617) 783-1024; fax: (617) 782-1398.

## BUYERS WEIGH MEZZ, SENIOR LOAN BUYS...

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Expect these buyers, in addition to Madison Realty Capital and others, to increasingly flock to the note purchasing and debt origination sector because of higher returns compared to other classes. That the Blackstone Group has reaped higher than expected returns on its mezzanine debt investments signals increased movement that's driven by investors scoping out potentially higher returns.

Madison Realty Capital's plans to acquire $200M worth of performing, nonperforming and subperforming notes during 2012 will mark a two-fold increase compared to 2011. The investor acquires loan portfolios from mostly local and regional savings banks. Watch for the company to target bridge loan originations secured by assets in and outside the New York City metro area, as it targets mid-teens blended IRRs for the debt acquisitions and originations segments. Look for more action this year to follow an approximately $5.2B unpaid balance nonperforming loan secured by a Brooklyn office and retail complex.

Competitors on the note buying side include **Independence Mortgage Trust** with a planned net $1.3B offering to acquire first and second mortgages CMBS, B-notes, mezzanine loans and subordinated debt securing apartments, hotels, industrial, warehouse distribution and retail among other property types, priced from $5M to $50M for cash-flowing assets. **CreXus Financial** will write new senior and mezzanine debt beyond a blended $53M worth of loans secured by Indiana retail, a Southern California office portfolio and a New Jersey condominium.

Besides the hot market for mezz debt, watch for bank loan portfolio buyers to plot their course and stake claims to some of an estimated $6 trillion worth of bank debt insiders expect to mature during the next four years. PF and foreign investment adviser **Invesco Real Estate** also has an appetite for loan portfolios and this year could follow an approximately $880M Bank of America loan portfolio it acquired in late 2011 with partners Square Mile Capital and Colony Financial. The buyer acquired approximately $2.75B worth of properties and debt during 2011.

Private investor competitors include **Sabal Financial Group**, and its anticipation of a hot 2012 that will propel workouts and loan purchases of $75M-plus portfolios. The buyer seeks 15% to 20%-plus returns and will scout performing and nonperforming commercial and residential loans through acquisitions, construction and development loans, in [redacted]

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| Cole Real Estate Investments<br>23025 E. Camelback Road<br>Phoenix, AZ 85016 | Chuck Vogel<br>(602) 778-8700<br>cvogel@colecapital.com | Net Lease | Investor introduces $2.275B offering for its Cole Credit Property Trust IV vehicle that will acquire single tenant and multitenant properties nationwide. |
| DCT Industrial<br>518 17th St.<br>Eighth Floor<br>Denver, CO 80202 | Phil Hawkins<br>(303) 597-2400<br>Fax: (303) 228-2201<br>poneill@dctindustrial.com | Industrial | Public REIT this year could surpass more than $200M of acquisitions volume booked during 2011. |
| ECM Realty Trust<br>offering.<br>200 W. Madison St.<br>Suite 3250<br>Chicago, IL 60606 | Shelby Pruett<br>(312) 827-2270 | Net Lease | Aspiring public REIT shelves |
| EastGroup Properties<br>190 E. Capitol St.<br>Suite 400<br>Jackson, MS 39201 | Jann Puckett<br>(601) 354-3555<br>Fax: (601) 352-1441<br>jann.puckett@eastgroup.net | Industrial | Burrows into Florida and Texas; may follow with smaller, one-off purchases later this year. |
| First Industrial Realty Trust<br>311 S. Wacker Drive<br>Suite 3900<br>Chicago, IL 60606 | Johannson (Jojo) Yap<br>(312) 344-4300<br>Fax: (312) 922-6320 | Industrial | Public REIT plans to sell, could boost JV purchases this year. |

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| Sabal Financial Group<br>4675 MacArthur Court<br>Suite 1550<br>Newport Beach, CA 92660 | R. Patterson (Pat) Jackson<br>(877) 900-6272<br>acquisitions@sabalfin.com | Debt | Private investor acquires bank loan portfolios as part of focus on nonperforming and performing note purchases. |
| Tambone Investment Group<br>200 Wheeler Road<br>South Tower<br>Burlington, MA 01803 | Richard Tambone<br>(781) 494-4000 ext. 200<br>Fax: (781) 494-4001 | Office, Industrial | Private investor teams on portfolio acquisition; eyes $200M of value-added and stabilized industrial throughout the greater Boston region. |
| Thrivent Financial for Lutherans<br>625 Fourth Ave. South<br>Minneapolis, MN 55415 | David Royal<br>(612) 844-4249<br>david.royal@thrivent.com | Debt | Mutual life insurance company raises fifth mezzanine debt fund. |
| W.P. Carey & Co.<br>50 Rockefeller Plaza<br>New York, NY 10020 | Trevor F. Bond<br>(212) 492-1130<br>tbond@wpcarey.com | Net Lease | Public investor seeks properties for CPA:17 — Global and other funds. |

Established public companies **National Retail Properties, Realty Income** and **W.P. Carey & Co.**, among others, prepare to go long where single-tenant owner **Equity Capital Management** fell short last month. Equity Capital Management's shelving of its $380M ECM Realty Trust last month belies the $2T net lease sector's allure coast to coast. The industrial, office and retail player, which should be known as **Equity Global Management** by year's end, pulled its offering at a time when net-lease buyers are preparing for and expecting a deluge of deals from corporate to retail tenants across the credit spectrum.

Anticipate continuing compression that has lowered cap rates by at least 50 basis points since 2011. As a result, expect more REITs to sell into a lower interest rate environment to reroute capital to corporate

## INTERNATIONAL BUYERS WARM TO U.S. INVESTMENTS

Foreign investors will pile into the market for primary and secondary market CRE assets. Anticipate additional movement in Houston, New York City and Washington, D.C., metro areas, among others, as foreign investors vote with their dollars in favor of U.S. real estate. Despite an ongoing worldwide capital crunch, expect to see small-shop entrepreneurial investors and larger buyers scout square footage coast-to-coast.

Whether Canada-based public company **H&R REIT** tops the $1B/$360M equity worth of U.S. acquisitions made during 2012 is anyone's guess. Don't be surprised to see the buyer in Houston follow up a $523.81 psf purchase of an 844,763 s.f. CBD building. Watch for company interest in assets leased long-term to investment grade tenants nationwide. Competitors include Israel-based **Azrieli Group** in western Houston with its recent buy of the 344,295 s.f., Class A The Plaza at Enclave office building that's 21 miles west of downtown.

New Jersey is where **Manulife Real Estate/Manulife Asset Management** decided to strike an initial entry into the New York metro office market with an estimated $381.01 psf acquisition of a 748,000 s.f. building four miles west in Jersey City. The investor acquired $600M worth of U.S. acquisitions during 2011, and will be scanning the market for more core apartment, industrial and office properties in Atlanta, Boston, Chicago, Los Angeles, San Diego, San Francisco, Seattle and Washington, D.C; the investor conducts half its business in the U.S.

Competition from buyers could include **Brookfield Office Properties** and joint ventures including the **Canadian Pension Plan Investment Board (CPPIB)** and **SL Green Realty**. Expect interest from CPPIB in office and retail purchases this year, and don't be surprised if the deals mimic big portfolio and trophy action similar to a $1.8B equity investment in mall owner **Westfield Group** for portfolio of U.S. malls. The pension fund taps EVP Mark Wiseman as president and CEO, to replace retiring David Denison in late June.

Adviser **Invesco Real Estate** can be expected to hunt core asset types nationwide on behalf of its $3.7B core property equity fund that could acquire assets similar to a recent $207M — or $345 psf — disposition of a Class A office building in Midtown Manhattan.

Texas-focused **International Capital** should use more than $10M equity this year for stabilized to value-added apartment, industrial, small retail and flex-space. Alsoexpect the buyer to ramp up its apartment equity JV program, in addition to on- and proximate-to-campus medical office, plus land purchases. Targeted, unleveraged IRRs hover in the 12% to 16% range. It will likely surpass 2011 acquisitions volume this year.

Additional joint ventures between **Jamestown** and **Rockwood Realty**, **Winthrop Realty Trust** and **Elad Group** will compete against a host of foreign advisers and investors including **Falcon Real Estate Investment Management**, **Metzler North America** and Japan-based **NSP Ventures.**

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