CRITTENDEN Real Estate Buyers™

Crittenden Research, Inc.
P.O. Box 1150, Novato, CA 94948
Customer Service: (800) 421-3483

Vol. 28, No. 7 **April 2, 2012**

HARD-HIT MARKETS GET MULTIFAMILY BOOST

Apartment investors facing trends of high pricing and low cap rates reminiscent of the previous cycle's peak will ratchet up action in recovering markets hardest hit by the recession. Las Vegas is on track to supplant Phoenix as the regional and entrepreneurial buyers' go-to recovery market for fee-simple and REO deals. While vacancy rates are expected to remain higher than the national average of 5.3% this year, occupancies in both markets have revived to the point of enticing buyers willing to dig into value-added stock. That marks a sea change compared to the immediate post-bust obsession with Class A assets from stability hunting institutional investors and REITs paying in the 4% range for new product.

Apartment investors' enthusiastic optimism underwritten by Fannie Mae and Freddie Mac financing will further impact the Class B and Class C sectors, where talk pegs coastal market cap rate compression into the sub-6% range. This will push investors into Las Vegas and Phoenix, where cap rates are slightly-to-markedly higher compared to coastal markets. Indicative of the developing trend, look for California-based investors to be among buyers migrating eastward once more in search of higher yields.

As it targets $200M worth of acquisitions this year, expanding private investor **MG Properties** will further its recent new-market footprint in Nevada while hewing to a Class B-seeking strategy from San Diego to Seattle and potentially west to Phoenix. The buyer returned to the buy-side market last year with a Seattle purchase. Watch for more action in Reno, Nev., following a recent buy in the city for approximately $83,000 per unit, at least 40% discount to 2008 pricing. Interest is high for Class A and Class B properties in Reno and Las Vegas, plus MG Properties' other key markets. The investor aims for 6%-plus cap rates upon stabilization, and typically considers properties in the $20M to $40M price range.

Among potential Nevada competitors is **Sequoia Urban Properties**, which aims to acquire $60M worth of Class B and Class C apartments with 200 units or less in Arizona, California and Nevada. During the next 12 to 18 months the buyer aims to acquire 1,000 to 1,500 units in Phoenix and Tuscon, Ariz., plus another 1,000 units in Nevada's Las Vegas and Reno — following its 2011 entry into the Silver State.

In Phoenix, after eyeing the apartment market for 12 months before making an initial entry with an approximately $35,472 per unit purchase of a Class B asset, there will be additional interest in $6M to $10M apartment complexes from Sequoia Urban Properties' dealmakers. Transactions will occur through fee-simple, distressed asset and nonperforming loan purchases throughout the Irvine, Calif.-based buyer's home turf, which includes Sacramento as well as the Central Valley and Inland Empire regions. Typically the buyer acquires properties able to produce returns of more than 7% upon stabilization.

Security Properties will put Arizona in its sites during 2013-15, in seeking assets for a forthcoming discretionary acquisitions fund. Although time will tell if the buyer warms to the Las Vegas market, it will ply Scottsdale and Tempe, plus Denver, Seattle, Portland, Ore. and primary California markets for Class A and Class B properties. Private investor competitors in Arizona, the West Coast and Sun Belt regions will include **The Bascom Group**, which eyes $5M to $500M acquisitions of Class A through Class D product; it has acquired at least $20M worth of properties so far this year, but could buy upwards of $500M worth of assets through fee-simple and distressed asset purchases. Also active throughout the West is **BH Properties**, which targets value-added complexes throughout Las Vegas, Phoenix and Tuscon, Ariz., and California, with a $100M acquisitions target in these and other western markets. **Colonial Properties Trust**'s portfolio rebalancing efforts could again put Las Vegas in its sites, as the REIT moves its portfolio towards a 90% mulitifamily concentration.

BUYERS' BUREAU...

Alternative asset classes will pick up steam during the next year, as investors feeling competitive heat from the main four asset classes may scope the data center and entertainment sectors for options. Boosted by the tech trend and close-to-home entertainment seekers, watch data center and entertainment properties move closer to prime time with increasing acquisitions and development action.

Data center leader Digital Realty Trust touts $1.1B of cash on hand and a $1.5B credit line for acquisitions and build-to-suit activity involving vacant data center space and land nationwide. That much cash could bankroll an M&A, for which the company has put out feelers, or continue to drive individual acquisitions subsequent to a $150 psf building play with nearly 40 acres of adjacent land in the Dallas Metroplex. Watch for action in markets including Atlanta; Phoenix; San Francisco; Charlotte, N.C.; northern Virginia; and New Jersey. During 2011 the investor bought $246M worth of assets; it's plausible the company could meet or exceed this volume by December, given dealmaker expectations of an active third and fourth quarter. Although the top public data center REIT will also focus on western Europe and Pacific Rim expansions, especially after Asia Pacific Regional Head Kris Kumar's appointment as Digital Realty Trust's senior vice president, stateside action will occur. Competitors include **CoreSite Realty Trust, DuPont Fabros Technology** and, to some extent, **Corporate Office Properties Trust.**

In the movie theater and leisure realms, look for Entertainment Properties Trust to near its halfway mark targeting upwards of $300M worth of properties by December. The public REIT, which is active in the movie theaters, recreational assets and education center segments, spent approximately $137M on acquisitions during 2011. So far this year the company plans to strike $150M worth of deals in Florida, [redacted]

APARTMENT DEMAND TO FUEL PARTNERSHIPS, MORE LAND BUYS...

Continued from Previous Page

JLB Partners and **Forestar** are among developers with eyes on Arizona and Texas, respectively. In Texas, Forestar nears closing on 475 acres with more than 6,100 residential and mixed use lots. Look for company interest throughout the Sun Belt region and beyond, to follow $65M worth of buys in 2011.

National land buyer JLB Partners' appetite takes it to Scottsdale, Ariz., where it paid approximately $1.42M per acre in its first purchase of an apartment parcel planned for a luxury apartment complex, as part of 1,200 planned units in the region. Although the company doesn't have an acquisitions deal size range, the Scottsdale purchase is on the upper end of the per-acre pricing spectrum. Anticipate company interest in four- to 25-acre sites in Atlanta, Dallas, Houston, Charlotte, N.C., and Washington, D.C. The private buyer also owns assets in Virginia, where it will encounter a joint venture between apartment buyer and developer **Greystar** and its pension fund partner **Prudential Real Estate Investors.**

On a national level, JLB Partners may also compete against **Mountain Real Estate Capital** (MREC) and various development joint venture partners including Harridge Development, which recently picked up a residential site in the Los Angeles area. Expect Mountain to scan the U.S. for $300M worth of acquisitions, an increase compared to $115M acquired during 2011. MREC targets $10M to $100M equity investments.

DEALMAKER DATABANK™

Company/Address	Contact/Phone/Fax	Property Type	Buying Criteria
AREA Property Partners 60 Columbus Circle 20th Floor New York, NY 10023	Steve Wolf Jonathan Goldberg (212) 515 3400 Fax: (212) 515 3283 info@areaprop.com	Apartments	Investor partners with Seattle buyer and developer.
Apple REIT Ten 814 E. Main St. Richmond, VA 23219	Sam Reynolds Justin Knight (804) 344-8121 Fax: (804) 344-8129 sreynolds@applereit.com jknight@applereit.com	Hotels	Public REIT acquires mostly limited-service hotels.
Apollo Global Management investor 9 West 57th St. 43rd Floor New York, NY 10019	Joseph Azrack Coburn Packard (212) 515-3200	Enterrtainment	Private equity and real estate to acquire Great Wolf Resorts.
The Bascom Group 26 Corporate Park Drive Suite 200 Irvine, CA 92606	Jeffrey R. Fuller (949) 955-0888 Fax: (949) 955-0188 jfuller@bascomgroup.com	Apartments	Buyer scans western U.S. for value-added apartments.
Chatham Lodging Trust 50 Cocoanut Row Suite 216 Palm Beach, FL 33480	Jeffrey Fisher (561) 802-4477 Fax: (561) 835-4125.	Hotels	Public REIT acquires limited-service and extended-stay hotels.
Colony Realty Partnersl Two International Place Suite 2500 Boston, MA 02110	Scott Freeman assistant: Julie Grady jgrady@colonyinc.com (617) 235-6300	Mortgage	Investor rolls out fourth fund.
4 Park Plaza Suite 1950 Irvine, CA 92614	William Karnick, Ali Shah (310) 552-7137 wkarnick@colonyinc.com ashah@colonyinc.com		
DiamondRock Hospitality 3 Bethesda Metro Center Suite 1500 Bethesda, MD 20814	John Williams (240) 744-1150 Fax: (240) 744-1199 john.williams@drhc.com	Hotels	Public REIT acquires limited service hotels.

Continued on Next Page

DEALMAKER DATABANK™

Continued from Previous Page

Digital Realty Trust 560 Mission St. Suite 2900 San Francisco, CA 94105	A. William Stein Scott Peterson (415) 738-6500	Data Center	Public REIT acquires and develops data centers nationwide.
Entertainment Properties Trust 908 Walnut St. Suite 200 Kansas City, MO 64106	Jon Weis (816) 472-1700 Fax: (816) 472-1700 jonw@eprkc.com	Movie theaters	Public specialty REIT acquires Movie theaters, resort and other entertainment-related properties.
Forestar Group 14755 Preston Road Suite 710 Dallas, Texas 75254	Craig Knight (972) 702-8699 Fax: (972) 702-8372	Land	Public investor acquires land.
Harbor Urban Properties 304 S. Broadway Suite 400 Los Angeles, CA 90013	Matt Burton (213) 437-0470 mburton@urbanpartners.net	Apartments	Private investor will acquire land following partnership with AREA Property Partners.
Hospitality Properties Trust Two Newton Place 255 Washington St. Suite 300 Newton, MA 02458	John Murray (617) 964-8389 Fax: (617) 969-5730 acquisitions-dispositions@hptreit.com	Hotels	Public REIT could exceed 2011 acquisitions volume this year.
JLB Partners 909 Lake Carolyn Parkway Suite 960 Irving, TX 75039	Hudson Hooks (214) 271-8480 Phoenix: Kevin Ransil (480) 717-6575 kransil@jlbpartners.com	Land	Apartment builder acquires Arizona land and considers additional action.
MG Properties 10505 Sorrento Valley Road Suite 300 San Diego, CA 92121-1608	Justin Smith (858) 366-6500 Fax: (858) 526-0800 justin@mgproperties.com	Apartments	Private investor acquires apartments throughout the western U.S.
Phoenix office 1031 Stewart St. Mesa, AZ 85202	Greg Stobert (480) 461-6659	Apartments	
Madison Realty Capital 825 Third Ave. 37th Floor New York, NY 10022	Josh Zegen (646) 442-4200 josh@madisonrealtycapital.com	Notes	Note buyer and lender paid $5.2M in a recent note purchase. This fact was misstated in the March 19 edition of *Real Estate Buyers*.
Moody National REIT 6363 Woodway Drive Suite 110 Houston, TX 77057	Brett Moody (713) 977-7500 bmoody@moodynational.com	Hotels	Investor plans public offering.
Mountain Real Estate Capital 13860 Ballantyne Corporate Place Charlotte, NC 28277	Peter Fioretti (704) 540-7400 Fax: (480) 718-8365	Land	Private equity investor buys land.
RLJ Lodging Trust 3 Bethesda Metro Center Suite 1000 Bethesda, MD 20814	Thomas Baltimore (301) 280-7777 Fax: (301) 280-7750	Hotels	Mostly limited-service hotel buyer acquired $247M worth of properties during 2011.
Square Mile Lodging Opportunity Partners 450 Park Ave. New York, NY 10022	Jeff Citrin Craig Solomon (212) 605-1000 Fax: (212) 605-0999	Hotels	Lodging fund targets hotels nationwide.
Summit Hotel Properties 2701 S. Minnesota Suite 2 Sioux Falls, SD 57105	Daniel P. Hansen (605) 361-9566 Fax: (605) 362-9388	Hotels	Public REIT acquires limited-service hotels, recently expands.

STRAIGHT FROM THE MARKET

Location	Property	Size	Price	Cap Rate	Occupancy	Age
Rocky Hill, Conn.	Retail	109,000 s.f.	$10.1M	8.8%	83%	24 yrs.

NOTES: Private buyer Woodgreen Management paid approximately $92.66 psf for this suburban Hartford center off Interstate 91. Occupants include majority tenant and for-profit regional trade school Porter and Chester Institute, with 56,850 s.f. of space and 12 years remaining on its initial lease term, plus Da Vita Dialysis and home accessories retailer Namco. Vacancies are attributed to 18,350 s.f. of vacant second-floor office space. Marcus & Millichap's Joseph C. French Jr. represented both buyer and seller in this transaction.

CONTACTS: Woodgreen Management, 6545 Main St., Suite 12, Trumbull, CT 06611. Jeffrey R. Miller, (203) 268-4466; fax: (203) 268-4740. jeffm@woodgreenmgt.com

LIMITED-SERVICE HOTELIERS TO SHINE

Existing limited-service hotel buyers will compete against planned funds and endeavoring public REITs, as pundits and insiders alike expect increased room demand and a rise in average daily room rates. Cap rates, which can range from 7% to upwards of 10% depending on the market, will further compress with additional interest for assets expected this year. With revenues per available room growth of 5% to 8%

MEDICAL OFFICE BOOM REGARDLESS OF SUPREME COURT DECISION

Anticipate medical office buyers to remain keen on their sector as the U.S. Supreme Court wrestles with the constitutionality of individual mandates and other parts of the Patient Protection and Affordable Health Care Act. Slightly higher cap rates past 7% averages could result if the court does rule against the penalty, or tax, as some call it, to be levied against citizens opting out of health coverage. If the court rules in favor of the penalty, in addition to Medicaid expansion, expect the sector to bubble with even more acquisitions and development action as millions of uninsured are added to the healthcare sector.

Regardless of what the court decides, insiders know they are in the midst of a hot market for their sector because of a continued move towards outpatient services coupled with rising demand from an aging populace. Among investors to watch this year include **HCP**, **Healthcare Trust of America**, **LaSalle Investment Management** and **Ventas**.

Ventas looks toward a $2B credit line and $270M of cash that could be used for acquisitions this year. Its pending close of Cogdell Spencer won't put the brakes on acquisitions, as it increases medical office NOI to 15%. One-off to portfolio acquisitions will be chock full of buyers including HCP and smaller investors such as **Archway Holdings**. Don't be surprised if Ventas decides to expand its presence through portfolio to one-off deals in new markets including Alabama, Kentucky, New York and North Carolina after closing the estimated $765M purchase of Cogdell Spencer. Additionally, acquisitions in contiguous markets including Arkansas, Mississippi, New Mexico or Oklahoma, could be a possibility with Medicaid expansion.

With federal government actions shining a light on the sector, expect to see players increasingly move towards off-market deals. Healthcare Trust of America will be keener on off-market deals, in searching for on and off-campus medical office following $105M worth of buys in Michigan and Pennsylvania since January. Expect to see the buyer hunt for credit tenant-leased product in these markets, in addition to primary and secondary markets nationwide. Deals ranging from $20M to $200M will catch dealmakers' attention.

HTA dealmakers could cross paths with institutional investor La Salle Investment Management interest in properties following a San Diego portfolio acquisition, at a likely mid-5% range cap rate. The buyer will acquire properties nationwide in portfolio and one-off acquisitions

Customer Service
Tel: (800) 421-3483 Fax: (619) 923-3518
E-mail: membership@crittendenresearch.com

Newsroom Fax: (415) 475-1576

Crittenden Real Estate Buyers™ is published by Crittenden Research, Inc., 45 Leveroni Court, Suite 204, Novato, CA 94949. Send address changes to *The Crittenden Real Estate Buyers*™, P.O. Box 1150, Novato, CA 94948-1150. Sample reports may be requested online at www.crittendenonline.com.