

## RENT GROWTH BUOYS CLASS A APARTMENTS

Class A apartment rents continue to rise and, although increases won't reach last year's high water mark, plenty of competition remains for primary and secondary complexes. For instance, **Equity Residential** should be expected to hunt for more land and units in Seattle, South Florida and Denver, among other markets, where a lack of new supply and demand from population and employment growth will support higher rents. EQR competitor **UDR** exits some southern and western markets to instead capitalize on the relative security of top markets like Boston and New York.

Some private, institutional and public buyers will apply cash from new funds and follow new market entries to acquire urban and suburban product beyond recent transactions in Baltimore, Chicago, Fort Lauderdale, Fla., Portland, Ore., and California's San Diego and the San Francisco Bay area — where rent growth averages are near or above 5%. Luxury and stabilized Class A rent growth, which may outpace other sectors this year, will maintain demand; investors are paying into the high-3% to mid-4% cap rate ranges. More investors will also ramp up demand for Class A value-added properties, at least until new construction costs become more affordable to drive new unit deliveries.

With more than \$350M for stabilized and value-added Class A complexes, **Archstone** can be expected to expand footprints in Arizona, California, Massachusetts, New York, Virginia and Washington, D.C. The focus is on areas where it already holds a lot of properties. Expansion in Colorado is possible because of the Denver market's tight rental market and lack of new supply. Equity Residential (EQR), which owns in Boulder and Denver, could scoop up all of Archstone in a couple weeks. If that happens, more attention is likely for Colorado. The top REIT has acquired \$160M worth of apartments and land since January. This year's \$1.25B buy-side goal for stabilized and value-added properties compares to \$1.4B of activity last year. Rental growth upside potential and constrained supply should bolster company interest for units in Atlanta, Denver, Phoenix, San Diego and the Inland Empire region.

EQR dealmakers pursuing properties in Boston, Seattle, suburban Maryland, the New York Tri-State area, the San Francisco Bay area and South Florida, among others, will likely encounter **KBS Legacy Partners Apartment REIT**, which recently made its first East Coast purchase with a Maryland property. Other buyers in and outside the region include REIT competitor **AvalonBay Communities**, which recently added to California and New Jersey footprints with part of its \$82M worth of purchases since January.

UDR exits select southern and western U.S. markets and could use some of its targeted \$500M equity raise to grow holdings through stabilized core to opportunistic purchases in Boston, New York, San Francisco and Seattle. It will tap \$170M remaining in a \$450M venture with **Kuwait Finance House**, in addition to a JV with **MetLife**, plus a separate, maximum \$1.35B credit line. Consistent with its broader \$1.5B sales goal, the public REIT exits Phoenix, Jacksonville, Fla., and Fredericksburg, Va., and plans more sales in Dallas and Richmond, Va. The buyer has sold \$615M worth of assets since January, part of larger goal to eventually sell off \$1.5B. It acquired \$1.8B worth of properties during 2011.

West Coast market rent growth keeps the region on top. Rent growth is expected to contract into the 6% to 7% range next year. Regional specialist **Essex Property Trust** targets up to \$500M worth of buys in core Northern California, Southern California and Seattle core markets. It will also acquire with cash from institutional partners including **Wesco** and **Canada Pension Plan Investment Board**. Institutional investor **Capri Capital** has put out more than \$500M equity since mid-2011 and will seek additional properties beyond a luxury apartment/mixed-use property in San Jose — where rent growth is expected to decline into the 6% range next year, from a current 9% average.

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### STRAIGHT FROM THE MARKET

<u>Location</u>	<u>Property</u>	<u>Size</u>	<u>Price</u>	<u>Cap Rate</u>	<u>Occupancy</u>	<u>Age</u>
North Hollywood, Calif.	Multifamily	15 units	\$1.5M	8%	99%	48 yrs.

NOTES: For approximately \$100,000 per unit, private trust buyer The Koulakis 1997 Revocable Inter-Vivos Trust acquired this rent controlled building at 6935 Hinds Ave. The suburban Los Angeles property was financed by a Wells Fargo fixed five-year fully amortizing loan underwritten at a 71.9% LTV; no GSE financing was used in the buy utilizing Section 1031 Exchange sale proceeds. Comparison-wise, area market-rate complexes are trading in the 5% cap-rate range.

CONTACTS: The Koulakis 1997 Revocable Inter-Vivos Trust c/o Marcus & Millichap, 915 Wilshire Blvd., Suite 1700, Los Angeles, CA 90017. Rick Raymundo, (213) 943-1855; fax: (213) 943-1961. rraymundo@marcusmillichap.com

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Count on additional interest in luxury and Class A properties built since 2009. Northern California, Southern California, Boston, Chicago, New York and Washington, D.C., are on Capri Capital's short list. Kennedy Wilson (KW) sold the 213-unit asset to Capri Capital, and will reinvest cash into new deals primarily along the West Coast and internationally. The investor is on pace to exceed \$6B worth of buys through 2013. In Southern California, both Capri Capital and KW will encounter **Camden Property Trust**, and, in Chicago, institutional investor and pension-fund adviser counterparts **L&B Realty Advisors** and **TGM Associates**.

More action is promised for Chicago, as the region's improving occupancies and 8% rent growth from 2009-12 gives investors hope. Both L&B Realty Advisors and TGM Associates are hot for luxury buys. TGM Associates will ply suburban and urban assets in and outside the market, following a big-ticket play in the northwest Chicago suburb of Schaumburg. Word on the street says L&B Realty Advisors has contracted to pay around \$500,000 per unit for an urban luxury complex called Parc Huron. Both companies look nationwide for purchases, and could cross paths with KBS Legacy Partners Apartment REIT. The nontraded REIT, with \$1.8B for acquisitions, recently entered the East Coast market with a 255-unit property 15 minutes north of downtown Baltimore. The buys complement a portfolio counting one asset in Schaumburg, Ill., and one in the Dallas suburb of Irving, Texas. If KBS Legacy Partners Apartment REIT heads to Florida, it could compete against **DeBartolo Development** — a private investor, developer and pension-fund adviser that may meet or exceed \$500M worth of acquisitions during 2011; recently the company bought a 542-unit luxury property in South Florida and evaluates deals nationwide.

### INDUSTRIAL OCCUPANCY ATTRACTS INVESTORS

Investor confidence in industrial will grow alongside rising occupancy levels that could set off a flow of cash into new markets and million s.f.-plus portfolio deals. The rise in occupancy to a 91% average nationwide promises to build demand for big-ticket Class A portfolios and one-off deals, particularly in supply-constrained and recovering markets. Moves into new markets and big ticket trades will define the industrial segment this summer. **Industrial Income Trust's** entrance into Phoenix next month will bring competition to area investors such as **USAA Real Estate Co.** Industrial vacancy rates in Phoenix stand at 12%, among the highest in the western U.S. along with Las Vegas. Industrial Income Trust could also revisit the Indiana and Pennsylvania markets where it picked up \$137M worth of properties earlier this year. USAA Real Estate Co., which recently sold a Class A property in Illinois, is also active in the area and is working on a successor fund to its US Industrial REIT III acquisitions and development fund.

Look for Industrial Income Trust's search for bulk distribution, light industrial and flex space to extend to Atlanta, Chicago, Dallas, Los Angeles and the Baltimore/Washington, D.C., corridor, areas familiar to likely REIT competitors **KTR Capital Partners**, **DCT Industrial Trust**, **First Potomac Realty Trust**, **Terreno Realty** and **Cobalt Capital Partners**. A planned \$2.4B stock sale by nontraded REIT Industrial Income Trust could translate into more big-ticket purchases and new market entries. The company's estimated \$132M — or \$82.31 psf — contract to acquire its first Arizona property by this summer will boost company acquisitions volume to at least \$269M. Since January the company has purchased \$136M worth of assets. Cobalt Capital Partners, also with a Phoenix presence, recently entered Salt Lake City with a \$40M-plus portfolio buy.

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Victorville, Calif.	Single-tenant retail	14,740 s.f.	\$7.45M	5.7%	100%	1 year

NOTES: Private buyer HBP Trust of 1989 paid approximately \$506 psf for this newly constructed Walgreens in western Victorville. Walgreens signed a 25-year initial lease with 10 five-year extension options. The asset at 15318 Roy Rogers Drive. Is part of a master planned community in western Victorville. This trade is lauded as the lowest cap rate purchase for a single-tenant retail asset in four years. In 2011 a similar asset traded at 5.75% in Pasadena, Calif., about 73 miles southwest of Victorville.

CONTACTS: HBP Trust of 1989 c/o Marcus & Millichap, Vince Schwab, 750 Battery St., Fifth Floor, San Francisco, CA 94111. Vince Schwab, (415) 625-2171; fax: (415) 989-9220. vschwab@marcusmillichap.com  
**Seller's broker:** Hanley Investment Group, 8001 Irvine Center Drive, Suite 100, Irvine, CA 92618. Patrick Kent, (949) 585-7672; fax: (949) 585-7619. pkent@hanleyinvestment.com

## INDUSTRIAL OCCUPANCY ATTRACTS INVESTORS...

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Likely attracting Cobalt Capital Partners to the 94% occupied market is the large technology base and growing population. This year the nontraded REIT may exceed the \$125M worth of purchases made during 2011. In California, a recently formed JV between **CT Realty Investors** and **American Realty Advisors** could use upwards of \$50M equity for value-added warehouse and distribution plays in the state's primary industrial markets. Additional deals are expected by June and will follow the pair's approximately \$79 psf purchase of two fully leased properties in the Los Angeles-area's City of Industry and Rancho Dominguez markets.

Expect a rise in value-added deals as demand compresses cap rates below the high-6%/low-7% range and positive net absorption triggers developer interest. Right now, more value-added properties are on the market instead of core product, so expect cap rate compression to trickle into the value-added sector later this year with an associated increase in development. **The Alter Group** will be among developers and buyers constructing new bulk distribution properties.

Expect KTR Capital Partners to further dip into \$2B combined KTR Industrial Fund II and **Keystone Industrial Fund**, for additional purchases in coming quarters to follow a couple of big deals in Houston and Atlanta totaling 688,000 s.f. Future South Florida activity could put the buyer in institutional buyer **AEW Capital Management's** cross hairs for stabilized, value-added and land plays.

Chicago and Miami will attract industrial investors this summer. Class A multitenant and single tenant properties leased to credit tenants will remain hot throughout Chicagoland, at least until the market's 89% occupancy rate rises closer to national averages. **CB Richard Ellis Realty Trust** will consider shorter, three- to five-year leases throughout Chicagoland and other major distribution hubs nationwide to diversify its stable of standard 10-year range leases. The diversified buyer's industrial activity this year could surpass 2011 acquisitions volume of \$65M. Anticipate CB Richard Ellis Realty Trust's interest in credit-tenant leased multitenant and single tenant bulk distribution and warehouse buildings generally constructed after 2007. The buyer recently buckled down its first stateside purchase of the year of a 1.4 million s.f. single-tenant asset in south suburban Chicago, likely for \$46 psf, marking its first million s.f.-plus buy since scooping a warehouse last May in the suburban Dallas market of Wilmer, Texas. Speculative development has reemerged along the Interstate 55 corridor in northwest Chicago, especially near Romeoville, where occupancies have improved into the 91% range.

In Miami, AEW Capital Management could stalk additional product complementing a 4 million s.f. Class A portfolio in west Miami. Growing occupancies into the 94% range will spur a new wave of development, redevelopment and joint ventures. Institutional buyers see this and pay up for Class A stabilized product. AEW Capital Management will fuel buys from vehicles including the \$1.4B AEW Core Property Trust open-end vehicle. Last year the company acquired a Class A warehouse distribution building in West Chester, Ohio. Competitor DCT Industrial Trust, which has averaged deal sizes in the \$12M range during 2010-11, will likely prove formidable in Miami even as it reduces its footprint elsewhere. In fact, its planned exit from Charlotte, N.C., and, potentially, Indianapolis, the Tennessee markets of Memphis and Nashville, and New Jersey, could give the buyer more juice to expand its footprint in Florida and other markets coast to coast.

## DEALMAKER DATABANK™

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
AEW Capital Management 2 Seaport Lane Boston, MA 02210	Robert Plumb (617) 261-9325 Fax: (617) 261-9555 rplumb@aew.com	Apartments	Institutional investor acquires with capital from myriad funds.
Archstone 9200 E. Panorama Circle Englewood, CO 80112	Charles Mueller Jr. (303) 708-5959 Fax: (303) 708-5999	Apartments	Private investor courted by Equity Residential; rolls out apartment fund.
Beck Ventures 12222 Merit Drive Suite 120 Dallas, TX 75251	Scott Beck (469) 828-4282	Malls	Private investor acquires malls.
CBL & Associates 2030 Hamilton Place Chattanooga, TN 37421	Keith Honnold (423) 490-8639 Fax: (423) 893-4302 keith_honnold@cblproperties.com	Malls	Private investor acquires malls, enters outlet sector.
CBRE Realty Trust 515 S. Flower St. 31 <sup>st</sup> Floor Los Angeles, CA 90071	Michael Kane (213) 683-4384 mkane@cbreinvestors.com	Industrial	Investor acquires industrial and other asset types nationwide.
CT Realty Investors 65 Enterprise Aliso Viejo, CA 92656	Carter B. Ewing (949) 330-5777 Fax: (949) 330-5771 cewing@ctrinvestors.com	Industrial	Private investor teams with American Realty Advisors to acquire warehouse and distribution assets in California.
Cobalt Capital Partners 5605 N. Macarthur Blvd. Suite 350 Irving, TX 75038	Lewis D. Friedland (972) 893-7000 Fax: (972) 893-7001 lew.friedland@cobaltcapitalpartners.com	Industrial	REIT enters new market.
DDR 3300 Enterprise Parkway Beachwood, OH 44122	Mark Bratt (216) 755-5511 mbratt@ddr.com Nan Delahunt (Chicago and Minneapolis) (216) 755-6447 ndelahunt@ddr.com	Malls	Public REIT acquires malls and power centers.
Industrial Income Trust 518 17 <sup>th</sup> St. 17 <sup>th</sup> Floor Denver, CO 80202	Dwight Merriman (303) 228-2200	Industrial	Public REIT to enter new market.
KBS Legacy Partners Coast Apartment REIT/ KBS Realty Advisors 5141 California Ave. Suite 100 Irvine, CA 92617	Eddie Prosser (949) 930-6600 Fax: (949) 509-6491	Apartment	Nontraded REIT buys first East luxury complex.
Kennedy Wilson 9701 Wilshire Blvd. Suite 700 Beverly Hills, CA 90212	Robert Hart (310) 887-6400 Fax: (310) 887-6230 rhart@kennedywilson.com	Apartments	Public REIT sells, considers apartment purchases.
KTR Capital Partners 140 Broadway 43 <sup>rd</sup> Floor New York, NY 10005	John DiCola (212) 710-5060 Fax: (212) 710-5061	Industrial	Nontraded REIT acquires industrial, considers more for pair of funds.
L&B Realty Advisors 8750 N. Central Expressway Suite 800 Dallas, TX 75231	Daniel Plumlee (214) 989-0800 Fax: (214) 989-0600 dplumlee@lbrealty.com	Apartments	Pension fund adviser to acquire luxe Chicago complex.
Legacy Income Properties 5600 Tennyson Parkway Suite 115 Plano, TX 75024	Mark J. Solomon Jr. (972) 782-9760 Fax: (972) 378-0504 mjs@legacyincomeproperties.com	Mineral Rights	Private investor acquires interests in land with shale deposits, and considers properties in Louisiana and Texas, among other markets.
Starwood Capital Group 591 W. Putnam Ave. Greenwich, CT 06830 1255 23 <sup>rd</sup> St. NW Suite 675 Washington, DC 20037	Jeffrey G. Dishner (203) 422-7709 dishnerj@starwood.com Christopher Graham (202) 470-1550	Malls	To acquire primary market mall portfolio.

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Public REIT acquires malls.

**BUYERS' BUREAU...**

**Student Housing:** Primary and secondary university markets are heating with fresh joint ventures responding to increased enrollment and expected population growth. Expect to see apartment buyers pay closer attention to the sector. Cap rates between the two asset classes will narrow with more student housing interest. Spreads between student housing and apartments are 200 to 300 bps. Apartment, office and retail buyer **Lutz Real Estate Investments** enters the segment with JV partner **Harrison Street Real Estate Capital**. The pair will likely pursue \$300M worth of buys during the next five years. Count on interest for 70%-plus or better leased properties nationwide. Value-added and redevelopment deals priced from \$10M to \$75M deals are considered. Leveraged IRRs in the 17%-plus range during a three- to seven-year hold are targeted. A new market entry into the segment earlier this spring was marked by a two-property, fully occupied portfolio near the University of Connecticut. Potential competitors will include joint ventures between sector newcomer **Arch Street Capital Advisors** and the **Scion Group**. The pair mainly seek Class A product in primary markets. **Inland American Communities Group** pursues stabilized to value-added properties and new developments nationwide. Public REIT leaders **American Campus Communities**, **Education Realty Trust** and **Campus Crest Communities** could meet or exceed last year's activity with acquisitions and planned development projects.

**Senior housing:** With a growth rate insiders say outpaces the U.S. economy, watch for new funds and expansions to increase competition for beds. Expect to see a deeper emphasis on existing Class A assets and value-added deals ripe for repositioning as the country's economic performance muscles up.

**Prudential Real Estate Investments'** estimated \$570M equity Senior Housing Partners IV fund will scan the country for acquisitions, development and financing plays on assisted and independent living and Alzheimer's disease units nationwide. Former **Health Care REIT** exec **Steve Blazejewski** was tapped as principal. He will direct Senior Housing Partners IV in buys in and outside joint ventures; forward commitments to developers are also planned.

Competition will likely include big buyers **Griffin-American Healthcare Trust**, **HCP**, **Health Care REIT** and **Ventas**, which could use some of a \$596M targeted offering to acquire senior housing and medical office. Institutional investor competitor **AEW Capital Management** also shops the segment with its opportunistic AEW Capital Partners VII fund that considers senior housing, hotels, apartments, industrial, office and retail nationwide. Buyers will also encounter smaller REIT **Sentio Healthcare Properties**, which targets core-plus, value-added and opportunistic senior housing deals. The former **Cornerstone Healthcare Plus REIT** holds a 15-property portfolio valued at approximately \$150M.

**Mineral rights/land:** Mineral rights owner and buyer **Legacy Income Properties** eyes \$10M worth of acquisitions this year to expand its portfolio of shale deposit-rich acreage. The private buyer seeks raw land typically measuring more than 640 acres separately or with combined acreage. Such land parcels, also referred to as production units or measured by metes and bounds, are sought throughout Colorado, Louisiana, New York, Ohio and Texas. The investor typically acquires from original mineral owners and assumes or inks new leases with oil and gas operators. Cash-on-cash returns of more than 10% are sought after the first year.

**Retail:** Value-added retail buyer **Blue Ridge Capital** taps **Jeff Enck** as executive VP of acquisitions. The Southeast-focused investor stalks the nonperforming note and distressed asset market for discounts, and could acquire roughly \$6M to \$7M worth of mostly vacant strip centers measuring more than 25,000 s.f., to add to a \$100M portfolio. It's evaluating a 10-asset portfolio.

**Data centers:** Data center buyer and developer **Digital Realty Trust** recently appointed **Mark T. Stephenson** to vice president of sales. His hiring follows the departure of Brent Behrman, who worked as senior vice president of sales. The public REIT has booked \$123M worth of acquisitions since January; it acquired \$246M during 2011.

## MALLS FAR FROM GONE, FOR NOW

**Starwood Capital Group's** \$1B majority interest play for a handful of malls in the Midwest, East and West coasts, shows that malls can still attract big money. Retail sector confidence through increased sales per s.f. meets discounts to replacement costs, even though some owners will continue seeking nontraditional mall tenants to fill vacancies until some usual suspects return to aggressive expansion. Value-added buyers anticipating increasing retail pricing will drive competition for malls nationwide.

The private equity group will delve into its \$1.83B Starwood Global Opportunity Fund VIII for the purchase that's expected to close in coming weeks. Mall insiders and dealmakers in Chicago, Miami, San Francisco and Nebraska will take notice and likely stir up the market for interest purchases to value-added and redevelopment plays in these markets and coast-to-coast. Competitors for big product include **CBL & Associates**, which recently made its first outlet mall acquisition, as well as institutional buyer **CIM Group** and private buyer **Beck Ventures**, with separate value-added and redevelopment action in Los Angeles and Dallas, Texas. **Rouse Properties**, which spun off from General Growth Properties earlier this year, could pursue additional buys this year beyond a Detroit-area purchase.

**CBL & Associates'** recent entry into the outlet mall center could bring more deals besides the pair of assets in El Paso, Texas and Gettysburg, Pa. The investor already has exceeded 2011 acquisitions volume nearly tenfold, with \$108M worth of buys since January; last year it bought \$11.5M worth of properties. CBL & Associates will compete with outlet mall sector leader **Taubman Centers** nationwide for both acquisitions and development.

### Urban plays are large

With a renewed emphasis on transit-oriented development and walkable cities, more investors will dial into the urban market for value-added mall plays. Opportunistic buyers will emerge to scoop up big deals similar to Beck Ventures' planned purchase of a 1.5 million s.f.-plus Dallas regional mall. The buyers could acquire additional properties throughout the market, as part of a diversified focus on real estate, structured finance, energy and technology investments. If they delve deeper into the Class B malls, they'll encounter newly spun off Rouse Properties. The public REIT will pursue Class B malls in downtown, urban locales for its opportunistic strategy. It holds a \$1.7B portfolio. In Chicago, institutional adviser CIM Group scoops a 305,000 s.f. State Street mall, and **KKR** partners to acquire a 1.5 million s.f. center in the western Chicago suburb of Lombard, not far from the headquarters of revived **General Growth Properties**, which may follow some parcel plays with mall deals later this year.

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