CRITTENDEN Real Estate Buyers™

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## COMPETITION HEATS FOR VALUE-ADDED APARTMENTS

Class B apartment buyers will have to scratch and claw — and employ new strategies — to find and close lucrative deals as competition heats up for a shrinking pool of properties. Value-added apartment buyer **Waterton Associates** could meet or exceed last year's $500M acquisitions volume by December as it moves farther west for deals. Waterton will encounter, among others, **Hamilton Zanze** and JV partner **The Praedium Group**, which uses cash from its $2B The Praedium Fund VII.

The Class B apartment sector has been hot for investors looking to capitalize on a growing renters market. Even as more competitors eye the sector, however, fewer Class B diamonds-in-the-rough properties remain, leading to more competition and higher prices. Compounding matters is significant Class A apartment rent growth during the past 24 months that has trickled into the Class B sector. Severely discounted note purchases and distressed asset pricing are fading into memory. What will ramp up demand is a realization that not all renters are able to shell out cash for top shelf assets that have entranced institutional buyers for the past two years.

Waterton Associates will pay closer attention to Denver, Phoenix, Seattle, and Portland, Ore., as part of a western U.S. focus on $5M to $100M one-off to portfolio deals for Class A and Class B complexes. Purchases on behalf of the company's $1.5B debt/equity fund will balance a 2011 East Coast acquisitions focus. Urban properties near transit hubs will attract buyer attention and place dealmakers in competition with big value added-focused regional buyer Hamilton Zanze & Co., as well as **The Bascom Group, Essex Property Trust, MG Properties** and **Pacific Urban Residential**.

Deep-pocketed buyers with value-added plays in their sights also includes **Clarion Partners**, which has $250M to $300M equity for Class A and Class B acquisitions and development as part of a broader $1B CRE acquisitions goal for the year, including industrial and CBD office buildings nationwide. The institutional buyer hasn't yet acquired a value-added complex this year but it may follow a recent core purchase and new development project with Class B buys in pricier Boston, Seattle, Austin, Texas, the New York Tri-State area, and the San Francisco Bay area. Class A apartments are also of interest in those markets, plus Denver, Houston, Raleigh, N.C., and San Diego, Calif. Competition is likely from **The Berkshire Multifamily Value Fund II**, the $2.5B **Westbrook Real Estate Fund IX**, and the $2.3B **Carlyle Realty Partners IV** fund targeting apartments as part of a broader value-added strategy in primary markets nationwide. Smaller cap REIT **Mid-America Apartment Communities** wants $250M to $300M worth of buys this year throughout the Midwest and South. **AIMCO** should also ratchet up demand in its top footprint markets of Boston, Chicago, Los Angeles, Houston, Phoenix, Miami, Orlando, Fla., and elsewhere. Additional buyers with appetites for Class B East Coast product include **Federal Capital Partners, Home Properties** and **Morgan Properties Trust**.

West Coast demand will stoke Pacific Urban Residential's interest in value-added Class B complexes, balancing interest in challenging Class A deals similar to a recent Silicon Valley buy. Dealmakers aim for $175M worth of acquisitions during the fiscal year ending in late March 2013, to follow $130M worth of buys last FY. Approximately $90M worth of buys in Seattle, the San Francisco Bay area and Southern California are planned in coming weeks. Area competitor Hamilton Zanze & Co. applies a value-added strategy in its familiar states Arizona, Colorado, Nevada, New Mexico, Oregon, Texas, Utah and Washington. California-focused **Davlyn Investments** could strike deals in the market this year depending on the outcome of a planned sale. Interest is plentiful for units constructed during the 1980s to 2000s. Competitor **MG Properties** has $200M for value-added buyers through December, and targets assets in the $20M to $40M per deal pricing range.

## SINGLE-TENANT SECTOR GOES FOR VALUE

Expect single-tenant buyers to push a renewed emphasis on value-added big-box industrial and office assets, while retail specialists can be expected to hunt value through portfolio buys and sale/leasebacks. **American Realty Capital Trust IV**'s targeted $1.5B equity raise underscores single-tenant buyers' aggressive plans to expand portfolios before the market tide turns against the current buyers' market. Rent increases haven't made up for dramatic losses suffered after 2008.

Look for American Realty Capital Trust IV's focus on the investment-grade credit segment to span the U.S. for bond-type leases on industrial, office and retail properties nationwide. The double-net and triple-net lease buyer searches highly trafficked areas for product. In the industrial and office sectors, the buyer will cross paths with **Liberty Property Trust**, primarily in the Northeast, and two-month-old **Select Income REIT** in the Mountain region.

With a $100M to $300M target for acquisitions this year, look for Liberty Property Trust to spark acquisitions during the second half of the year; it has yet to acquire a property this year. The Northeast-heavy office and industrial owner will pay close attention to value-added deals for both single tenant and multitenant properties nationwide, while advancing $200M to $300M of expected new development starts. Select Income REIT will tap a $500M credit line for deals this year; such deals will follow plans to acquire a pair of Colorado and Utah single-tenant office buildings for more than $100M, which will be the company's first deals in these states if escrow closes.

Despite the hot market for office and industrial, retail is at the top of **National Retail Properties**' and Realty Income's lists. In a search for convenience stores and other retailer occupied properties, National Retail Properties may well surpass its $200M acquisitions target by December. The company has acquired $197M worth of assets since January, and acquired $772M worth of properties during 2011. Competitor **Realty Income** plans to close deals for more than $500M worth of properties this year, to follow approximately $11M worth of buys since January.

An appetite for single-tenant retail extends past big-ticket buyers: **Agree Realty** plans a California expansion and peruses $60M worth of potential acquisitions in its pipeline, while working its second California development in the Sacramento, Calif., suburb of Rancho Cordova. Additional purchases will add to approximately $6M worth of buys since January. Last year the buyer acquired nearly $40M worth of properties. The small-cap REIT shops nationwide for $2M to $20M properties leased to investment-grade tenants, and portfolios priced upwards of $100M.

### DEALMAKER DATABANK™

| Company/Address | Contact/Phone/Fax | Property Type | Buying Criteria |
|---|---|---|---|
| Agree Realty<br>31850 Northwestern Highway<br>Farmington Hills, MI 48334 | Richard Agree<br>(248) 737-4190<br>Fax: (248) 737-9110 | Single tenant | Public investor buys single tenant, ramps up West Coast development. |
| American Realty Capital Trust IV<br>405 Park Ave.<br>New York, NY 10022 | Carrington Guy<br>(212) 415-6500<br>cguy@arlcap.com | Single tenant | Investor raises cash for industrial, office and retail purchases nationwide. |
| Associated Estates Realty<br>One AEC Parkway<br>Richmond Heights, OH 44143 | John Hinkle<br>(216) 261-5000<br>jhinkle@associatedestates.com | Apartments | Expands to California for development. |
| AvalonBay Communities | Tim Walters | Apartments | Public REIT to expand Class B |

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| Brookfield Asset Management<br>Three World Financial Center<br>200 Vesey St.<br>11th Floor<br>New York, NY 10281-1021 | Steven Ganeless<br>(212) 417-7000<br>Fax: (212) 417-7196<br>sganeless@brookfield.com | Office | REIT to roll out Brookfield Property Partners as acquisitions platform. |
| Cole Real Estate Investments<br>2325 E. Camelback Road<br>Suite 1100<br>Phoenix, AZ 85016 | Chuck Vogel<br>(602) 778-8700<br>cvogel@colecapital.com | Single tenant | Acquires net lease assets nationwide. |
| Clarion Partners<br>230 Park Ave.<br>12th Floor<br>New York, NY 10169 | Edward M. Rotter<br>(212) 883-2534<br>Fax: (212) 883-2834<br>ed.rotter@clarionpartners.com | Apartments | Institutional investor plies Class A and Class B sector in select U.S. markets, with $250M to $300M for acquisitions and development. |
| Davlyn Investments<br>19700 Fairchild<br>Suite 320<br>Irvine, CA 92612 | Aaron Pacilio<br>(949) 756-1110<br>Fax: (949) 756-1112 | Apartments | Smaller investor plans acquisitions and sales. |
| Gingko Residential<br>301 S. College St.<br>Suite 3850<br>Charlotte, NC 28202-6024 | Nazar Elwazir<br>(704) 944-0100<br>nazar.elwazir@ginkgomail.com | Apartments | Value-added buyer plans IPO, scans Southeast for properties. |
| Hamilton Zanze & Co.<br>The Presidio, 37 Graham St.<br>PO Box 29454<br>San Francisco, CA 94129 | Kurt Houtkooper<br>(415) 561-6800<br>Fax: (415) 561-6801<br>kurt@hamiltonzanze.com | Apartments | Buys value-added and distressed properties. |
| Health Care REIT<br>4500 Dorr St.<br>Toledo, OH 43615-4040 | Chuck Herman<br>(419) 247-2800<br>Fax: (419) 247-2826<br>cherman@hcreit.com | Senior Housing | Senior housing buyer seeks U.S. assisted and independent living product. |
| Healthcare Realty Trust<br>3310 W. End Ave.<br>Suite 700<br>Nashville, TN 37203 | Todd Meredith<br>(615) 269-8175<br>Fax: (615) 269-8461<br>tmeredith@healthcarerealty.com | Senior housing | Public REIT strikes $21.3M of acquisitions during first quarter. |
| Liberty Property Trust<br>500 Chesterfield Parkway<br>Malvern, PA 19355 | Michael Hagan<br>(610) 648-1716<br>mhagan@libertyproperty.com | Single tenant | Public REIT plans buy-side action through December. |
| National Retail Properties<br>450 S. Orange Ave.<br>PO Box 4920<br>Orlando, FL 32802 | Steve Horn<br>(407) 650-3615<br>Fax: (407) 650-1046<br>steve.horn@nnnreit.com | Single tenant | Public REIT may surpass $200M projected acquisitions goal for 2012. |
| Pacific Urban Residential<br>777 California Ave.<br>Palo Alto, CA 94304 | Alfred Pace<br>(650) 856-9800<br>Fax: (650) 213-8849<br>apace@purapts.com | Apartments | Private investor wants Class A and Class B assets; has $90M under contract. |
| Prudential Real Estate Investors<br>Two Ravinia Drive<br>Suite 400<br>Atlanta, GA 30346-2110 | John Dark<br>(770) 395-8635<br>john.dark@prudential.com | Senior housing | Institutional investor has upwards of $1.2B mainly for private-pay assisted living and independent living assets nationwide. |
| Prudential Real Estate Investors<br>7 Giralda Farms<br>Madison, NJ 07940 | Steve Blazejewski<br>(973) 683-1600<br>steve.blazejewski@prudential.com | | |
| Realty Income<br>600 La Terraza Blvd.<br>Escondido, CA 92025 | Ben Fox<br>(760) 741-2111<br>Fax: (760) 741-8617<br>bfox@realtyincome.com | Single tenant | Plans $500M worth of deals this year. |

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| Select Income REIT<br>Two Newton Place<br>255 Washington St., Suite 300<br>Newton, MA 02458 | David Blackman<br>(617) 332-3990<br>Fax: (617) 332-2261 | Single-tenant | Public REIT considers single-tenant assets. |
| SL Green Realty<br>420 Lexington Ave.<br>New York, NY 10170 | David Schonbraun<br>(212) 594-2700<br>Isaac Zion<br>(212) 594-2700 | Office | Public REIT has $1B of capital for acquisitions. |
| Waterton Associates<br>30 S. Wacker Drive<br>Suite 3600<br>Chicago, IL 60606 | Mark Stern, Peter Vilim<br>(312) 948-4500, ext. 450<br>Fax: (312) 948-4501<br>pvilim@wallc.com | Apartments | Private investor could meet or exceed 2011 acquisitions volume; West Coast assets are of interest. |
| Westbrook Real Estate Partners<br>3300 PGA Blvd.<br>Suite 820<br>Palm Beach Gardens, FL 33140 | Paul Kazilonis<br>(561) 598-6700 | Apartments | Company's Westbrook Real Estate Fund IX considers value-added apartments and other property types nationwide. |
| 645 Madison Ave.<br>18th Floor<br>New York, NY 10022 | Kashis Sheik<br>(212) 849.8800<br>Fax: (212) 849-8801<br>info@westbrookpartners.com | | |

## MIDDLE GROUND AHEAD FOR APARTMENT AND OFFICE BUYERS

### Office:

Returning CMBS debt financing will spur breakneck competition for stabilized, trophy Class A office space in primary markets. Last summer's CMBS slowdown won't repeat this year. Lenders are more comfortable with the new paradigm of a piecemeal economic recovery. Their preference for stability has demanded buyers leave little room for risk — no matter how low the cap rate. Demand has increased for larger office transactions compared to late 2011. Although acquisitions velocity has declined compared to the fourth quarter 2011, cap rates have dropped and prices psf have increased for bigger-ticket office buys. As a result, additional buyers are expected to pay up in primary markets. Assets outside primary markets will benefit as buyers spread farther for returns. Smaller, regional buyers will explore these markets for stabilized and value-added deals, while big buyers will scout tech-heavy urban pockets.

CBD rent growth, expected 16% nationwide vacancy rates and shrinking unemployment numbers will spike suburban and secondary market acquisitions velocity. Submarket sensitivity will increase, especially as tech companies seek more space. Secondary markets on smaller, regional buyers' radars include Atlanta, Denver, Miami, Nashville and Phoenix. Despite an uptick of sales, available refinancing for properties saddled with maturing debt this year and next will dictate sector trade volume. Lenders have become more willing to write on Class B properties with solid numbers, but most of the attention will be on the Class A market.

**Boston Properties** is halfway through its most active buying year since 2010. Action from hungry insurance companies, banks and CMBS lenders stir office buyer competition with loans in the 4% range for 10-year fixed rate debt. Boston Properties is also considering a multibillion buy-side pipeline of buildings in Boston and the San Francisco Bay area, plus New York and Washington, D.C. **Brookfield Asset Management**'s planned public spin-off of buy and development focused **Brookfield Property Partners** will vie for product. The company will acquire for the $4B Brookfield Real Estate Opportunity Funds targeting 12% to 20% leveraged IRRs, and development in U.S. and international markets are planned. Core-plus and value-added acquisitions in the investor's minority-share Boston, Denver, Los Angeles and Minneapolis markets will complement the bulk of office assets in primary markets Houston, Los Angeles, New York and Washington, D.C.

**SL Green Realty** reloads its balance sheet with more than $1B of capital, feeding an appetite for value-added and core New York assets, which will drive competition for buildings typically occupied by tech and media companies. The company will compete against **RXR Realty** and potentially new REIT **Empire Realty Trust**.

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**MIDDLE GROUND AHEAD FOR APARTMENT AND OFFICE BUYERS...**

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Tech-occupied offices in Manhattan could carry similar cache as trophy assets. Established, emerging and support companies are pushing up demand in urban submarkets, especially in midtown Manhattan, where SL Green Realty and **Canada Pension Plan Investment Board** (CPPIB) bought a 390,000 s.f. building earlier this year. SL Green also sold off a pair of properties there as part of $572M worth of sales at a sub-5% cap rate. Low cap rates have turned off competition like **Piedmont Office Realty Trust** but expect to see sideline sitters ratchet up sales in coming months, which will extend office buying momentum when net sellers resume acquisitions. Piedmont Office Realty Trust sidesteps its $300M acquisitions goal for the year and will be a net seller. Opportunistic Sunbelt properties are in the buyer's sights, as well as core plus deals in Boston, the Washington, D.C., metro area, Los Angeles Basin, New Jersey, New York and San Francisco.

**Apartments:**

Class B urban apartments will supplant Class A apartments as the must-have product type this summer. Instead of going it alone, big buyers will team on Class A primary market buys to build accretion. Meanwhile, they are holding Class A price points and waving goodbye to market tenants choosing lesser-priced Class B apartments. Increasing transaction volume this year will be attributed to more big buyer interest in Class B apartments that will complement new development plans. Class A units in secondary and improving markets Atlanta, Chicago, Denver, Phoenix and San Diego, Calif., will sizzle as employment numbers match or beat statewide averages. Hunger for urban locales will spur a new round of joint ventures in high-growth markets where buyers can't touch most anything for more than a 4% to 6% cap rate for Class A and Class B product.

Impressive West Coast rental growth means there's little room for Chicago in **AvalonBay Communities**'(AVB) plans. The big REIT buyer and developer plans to buy $100M worth of assets soon, from its $1B-plus war chest. Class B value-added apartments and new construction will be a main focus this year — given 3% development and 1.5% range Class B apartment yield premiums compared to Class A. Opportunistic buyers will push Southern California as a go-to market because of improving regional employment and rising occupancy rates. Midwest-based **Associated Estates Realty** expands to California for its first development deal in Los Angeles, which follows an AVB buy in nearby Pasadena. Other buyers chasing Southern California value includes AvalonBay Communities, **Equity Residential**, **Essex Property Trust**, **MG Properties** and **Western National Realty Advisors**. Public and private investors will purchase equity interests in big portfolios if they can't find deals better than 5.5% to 6% cap rates in Seattle, Portland, Ore., as well as Northern and Southern California.

Equity Residential goes deeper into Southern California as part of $1.25B in expected acquisitions this year. The coastal Marina del Rey buy, plus action in the San Francisco Bay area and metro Seattle, match the buyer's desire for product in supply constrained markets. Rent growth in Boston and New York may have hit a peak, as evidenced by increased tenant exodus during the first quarter. That could raise Equity Residential's pursuit of Class B value-added or redevelopment plays in these markets to capture Class B tenants and rental growth. If it delves deeper into Class B East Coast markets, competition will include aspiring REITs **Morgan Properties Trust** and **Ginkgo Residential**, plus stalwart REIT **Home Properties**. Out West, competitor Essex Property Trust has spent a quarter or more of its $300M to $500M projected acquisitions capacity this year for land and property buys along the West Coast. UDR, which scooped up urban San Francisco dirt for new development, has $954M of cash on hand and will focus on additional urban dirt plays coast to coast. A tough acquisitions game in primary markets won't stop the company from buying units for its own portfolio, or for joint ventures with **MetLife** and **Kuwait Finance House**. Like EQR, company brass has noticed increased move outs in Boston, but have retained rental rates with newer tenants. More Class B buys may be on the horizon if dealmakers work to capitalize this trend.

Smaller entrepreneurial and mom and pop investors can be counted on to acquire and sell in response to pending capital gains increases. Big buyers could ply this segment in portfolio deals rolling up smaller properties for a blend of cash, stock and operating partnership units, if their appetite for smaller assets that don't normally merit attention grows. Cap rates are slightly up compared to the fourth quarter, but that trend won't likely hold with big buyer attunement to micromarket trends and smaller properties.

## SENIOR HOUSING POPS AS ALTERNATIVE TO MAIN FOUR FOOD GROUPS

Senior housing investors eyeing the sector's relative stability compared to apartments, industrial, office and retail buildings will drive competition this year. A dearth of new senior housing construction, plus an uptick of interest from apartment developers buying land, will result in increased demand. Private-pay assisted living and independent living properties will be high on the $1.2B all-in **Prudential Real Estate Investors** Senior Housing Partners IV fund, which will compete against a plethora of nationwide buyers including leaders **Ventas, HCP** and **Health Care REIT**.

PREI's $560M-plus equity fund has $200M worth of deals it has acquired or is evaluating to buy. Subsequent to the fund's first buy in North Carolina's Raleigh-Durham metro area late last year, expect attention nationwide for independent living and assisted living facilities with Alzheimer's care services. Targeted cap rates are in the 6% to 7% range for institutional-quality assets constructed or repositioned since 2002. About 10% of the fund could be used for new development. The company's focus will include core-plus and value-added plays executed through joint ventures with operators nationwide.

Top REIT Ventas' plan to take down a big portfolio shows that medical office hasn't yet overshadowed senior housing. The company's pending $362M contract to acquire 16 Sunrise-managed senior housing communities is slated to close by summer, and will follow $56M worth of purchases booked since January. Ventas' competitor Health Care REIT is also hungry for portfolios and one-off deals following more than $330M worth of acquisitions during the first quarter. Company dealmakers will be hot for independent and assisted living buildings at 6% to 7% cap rates in California, Georgia, Illinois, Tennessee and Texas.

At HCP, approximately $250M of repriced debt should be used for acquisitions this year. The investor hasn't made any meaningful deals since last year's purchase of HCR Manor Care. HCP interest should include portfolio deals, repositioning assets to Alzheimer's/memory care and mezzanine and note purchases. Deals for assisted and independent living plus congregate care retirement services will occur in company footprint markets of California, Florida, Illinois, Ohio, Pennsylvania and Texas. In the South and western U.S., the company will compete against smaller and newer buyer Care Investment Trust. The REIT acquires independent and assisted living, plus skilled nursing and medical office primarily throughout the South.

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