

CRITTENDEN Real Estate Buyers™

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FUND HURDLES SIGNAL BIGGER DEALS AHEAD

Buyers will be hard-pressed to meet yield targets with stabilized primary market buys trading at or near peak pricing levels, so public and private equity funds will make contrarian moves and push deeper into redevelopment and value-added terrain. Plenty of interest remains for the main four property types, and the debt they collateralize. Forthcoming vehicles from **Brookfield Strategic Real Estate Partners** fund series could put more than half its \$5B targeted raise towards office and retail opportunity plays throughout the U.S. More equity will also compete for mortgage notes after **GE Capital Real Estate** starts buying up debt for its first of several U.S.-focused real estate fund, the \$450M U.S. Real Estate Debt REIT.

Regardless of GE's forthcoming funds, competition is heavy. **The Blackstone Group, Brookfield Strategic Real Estate Partners, CB Richard Ellis Global Investors, JBG Cos., Jones Lang LaSalle Property Income Fund and Warburg Pincus** are among active players.

Deep Pockets to Push More Deals

The Brookfield Strategic Real Estate Partners funds will target core-plus to value-added deals led by Brookfield Asset Management's spin-off called **Brookfield Property Partners**. Most of the acquisitions should be driven by the \$2B Brookfield Strategic Real Estate Fund. When it acquires in Washington, D.C., it will see The Blackstone Group, The Carlyle Group and JBG Cos.

The Blackstone Group's \$3B-plus limited-service hotel and shopping center buys this year have barely put a dent in the \$10B-plus equity Blackstone Real Estate Partners VII fund. Don't be surprised to see the private equity giant delve into industrial or other companies with stock trading at discounts to real estate portfolios. Deals nationwide are on the table. In Washington, D.C., smaller private equity buyer **JBG Cos.** has acquired roughly \$110M worth of assets on behalf of its \$2B all-in **JBG Investment Fund VIII** vehicle. A focus remains on development and stabilized and value-added building purchases

NOTE BUYERS TO CASH IN ON MORTGAGE WOES

Record-high CMBS mortgage delinquencies will motivate a grab for notes until fall. **Starwood Property Trust** plans to take advantage with a hefty equity raise, which will beef up dealmaker demand for \$25M to \$150M-plus rated and nonrated notes. And, as \$350B of commercial real estate loans mature this year nationwide, **ARES Commercial Real Estate** will jump into the market for senior notes to mezzanine loans and B-pieces; ARES boosts its debt limit to more than \$300M in addition to a \$250M equity raise.

Limited-service hotels and suburban office should be big on the buy list, since these sectors haven't rebounded as dramatically as other asset classes. CMBS lending and loan refinancings are up, yet not enough to save scores of high-leverage loans coming due. As a result, public and private buyers can be expected to pump up interest in note purchases and, for some, new loan originations, as part of a commercial real estate focus. Big note players will also include **The Blackstone Group**, **GE Capital Real Estate** and **Square Mile Capital Partners**. Buyers won't have to contend with **Brookfield Realty Capital**, which pulled its IPO earlier this year.

Starwood Property Trust's \$475M equity raise will fuel buys of mortgage notes to CMBS securities. The company has acquired more than \$125M worth of notes this year; during 2011 it spent \$801M for loans collateralized by mostly hotels, followed by office buildings. This is where Starwood Property Trust will mostly compete against The Blackstone Group. The big buyer has a \$4B mezzanine fund, and will vie for assets after acquiring a package of loans from **JP Morgan Asset Management's** parent JP Morgan Chase & Co.

There's plenty of action brewing among smaller note buyers as well. **Federal Capital Partners** will acquire some notes as part of a \$400M acquisitions goal for the year. Second deeds of trust or B-pieces to high-leverage senior loans and mezzanine notes are considered, in addition to new loan originations and real estate acquisitions throughout the mid-Atlantic. Competition will include **Madison Realty Capital's \$200M for East Coast notes acquisitions of notes throughout the East Coast**, and **Sabal Financial Group**, which targets upwards of \$1B of equity during the next three years for one-off and portfolio acquisitions nationwide.

INDUSTRIAL SQUEEZE LIGHTS UP VALUE-ADDED

INDUSTRIAL SQUEEZE LIGHTS UP VALUE-ADDED...*Continued from Previous Page*

If DRA Advisors, Exeter Property Group or KTR Capital Partners choose one-off deals to further expand East Coast or Midwest holdings, they may compete against emerging **Sitex Realty Group** or **Jackson-Shaw**, and their deep-pocketed PF partners. The industrial market's velocity attracts pension fund cash that will boost the profile of smaller, value-added buyers including Sitex Realty Group — which could mark its biggest year yet if it meets a **\$70M to \$85M acquisitions goal** by December — or Jackson-Shaw, working with Prudential Real Estate Investors. Sitex Realty Group's recent allocation from the **Ohio State Teachers' Retirement System**, opens the door to larger properties into the 250,000 s.f. range, compared to 75,000 s.f. previously. Targeted cap rates range from 9% to 11% returns after first year stabilization. Markets of interest include Chicago, New Jersey and New York, for multitenant and single tenant properties. Jackson-Shaw and JV partner Prudential Real Estate Investors can be expected to hunt value-added buys in Florida, California, Texas, Nevada, Maryland and Arizona.

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<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Ares Commercial RE Corp. Two N. La Salle St. Suite 925 Chicago, IL 60602	(312) 324-5900	Notes	Public REIT increases credit line, seeks mezzanine to senior position loans.
Artis REIT Suite 300 360 Main St. Winnipeg, Manitoba, CAN R3C 3Z3	Kim Riley (204) 947-1250 Fax: (204) 947-0453 kriley@artisreit.com	Office	Canada REIT buys office and industrial purchases coast-to-coast.
CalSTRS 100 Waterfront Place Sacramento, CA 95605	Mike DiRe (916) 414-7980	Mixed use, All	Pension fund's latest partnership to buy apartments and mixed use West buildings.
Crown Acquisitions 362 5 th Ave. Suite 1201 New York, NY 10001	Brittany Bragg (212) 563-6400 bbragg@cacq.com	Mixed use, Retail	Private buyer acquires mixed use in and outside joint ventures.
Exeter Property Group 140 W. Germantown Pike Suite 150 Plymouth Meeting, PA 19462	Henry Steinberg (610) 234-3215 hsteinberg@exeterpg.com	Industrial	Private investor acquires in Northeast, nationwide.
DRA Advisors 330 E. 42 nd St. 27 th Floor New York, NY 10017	David Luski (212) 697-4740 Fax: (212) 697-7403 dluski@draadvisors.com	Industrial	Institutional adviser acquires industrial portfolio from REIT casting off noncore properties.
701 Brickell Ave. Suite 1550 Miami, FL 33131	Matthew Shore (East Coast) (305) 728-5155 Fax: (305) 728-5156 mshore@draadvisors.com		
FCP 5425 Wisconsin Ave. Suite 202 Chevy Chase, MD 20815	Lacy Rice (240) 395-2000 lacy@fcpdc.com	Notes	Private investor partners on note purchases.
GE Capital Real Estate Global Investment Mgmt. North America 901 Main Ave. Norwalk, CT 06851	Skip Wells (203) 750-2944 skip.wells@ge.com	Notes/All	Pension fund and private equity investor to roll out first series of real estate funds.
Hudson Pacific Properties 11601 Wilshire Blvd. Suite 1600 Los Angeles, CA 90025	Alexander Vouvalides (310) 445-5700 Fax: (310) 445-5710	Office	Acquires multitenant office and could expand footprint.

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Industrial Income Trust 518 17 th St. 18 th Floor Denver, CO 80202	Dwight Merriman (303) 228-2200	Industrial	Acquires industrial in Sun Belt and beyond.
Invesco 13155 Noel Road Suite 500 Dallas, TX 75240	Greg Kraus (972) 715-5837 Fax: (972) 715-5814 greg.kraus@invesco.com	Mixed use, All	Institutional adviser acquires mixed use and other property types nationwide.
JP Morgan Asset Management 245 Park Ave. New York, NY 10167	Joseph Azelby (212) 648-2112 Fax: (212) 648-2261 joseph.azelby@jpmorgan.com	Notes	JP Morgan Chase division buys notes.
Jackson-Shaw 4890 Alpha Road Suite 100 Dallas, TX 75244	Michele Wheeler (972) 628-7400 Fax: (972) 628-7444 mwheeler@jacksonshaw.com	Industrial	Private investor partners with Prudential Real Estate Investors.
KTR Capital Partners 140 Broadway 43rd Floor New York, NY 10005	John DiCola (212) 710-5060 Fax: (212) 710-5061	Industrial	Nontraded REIT acquires industrial for funds.
9500 W. Bryn Mawr Ave. Suite 130 Rosemont, IL 60018	Ryan Stoller (847) 737-4840 Fax: (847) 928-2008		
Kilroy Realty 12200 W. Olympic Blvd. Suite 200 Los Angeles, CA 90064	Eli Khouri (310) 481-8400	Office	Public REIT could exit industrial sector with sale; targets office in primary West Coast markets.
LCOR 850 Cassatt Road Suite 300 Berwyn, PA 19312	Peter P. DiLullo III (610) 251-9110 Fax: (610) 408-4420	Apartments, Mixed-use	Private investor teams with CalSTRS on apartment-focused venture that will also acquire mixed use properties.
SL Green Realty 420 Lexington Ave. New York, NY 10170	Andrew Mathias David Schonbraun Isaac Zion (212) 594-2700 Fax: (212) 216-1785	Mixed use Office Retail	Public REIT acquires throughout Manhattan.
Sitex Realty Group 351 W. Hubbard St. Suite 304 Chicago, IL 60654	David L. Freeman (312) 274-1700 Fax: (312) 274-1787 dfreeman@sitexgroup.com	Industrial	Acquires with cash from State Teachers Retirement System of Ohio, considers larger deals.
Starwood Property Trust 1255 23 rd St. NW Suite 675 Washington, DC 20037	James Rizzo (202) 470-1546 Fax: (202) 618-5097	Notes, All	Acquires notes, opportunistic deals.
State Teachers Retirement System of Ohio 275 E. Broad St. Columbus, OH 43215-3771	Stanton West (888) 227-7877, Ext: 7843 Fax: (614) 233-8713	Industrial, All	Pension fund puts cash into industrial with Sitex Realty Group.
Terreno Realty Corp. 16 Maiden Lane Fifth Floor San Francisco, CA 94108	Andrew T. Burke (415) 655-4580 Fax: (415) 655-4599 andy@terreno.com	Industrial	Public industrial REIT strikes largest deal so far this year, looks for more.
USAA Real Estate Co. 9830 Colonnade Blvd. Suite 600 San Antonio, TX 78230	Bruce Peterson David Buck (800) 531-8182 Fax: (210) 641-8421 bruce.peterson@usrealco.com david.buck@usarealco.com	Industrial	Acquires and develops on behalf of various funds, joint ventures.

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Warburg Pincus
450 Lexington Ave.
New York, NY 10017

Dave Hardman
(212) 878-0600
Fax: (212) 878-9351

All

Could acquire real estate with cash from forthcoming investment New York, funds.

Weingarten Realty Investors
2600 Citadel Plaza Drive
Suite 125
Houston, TX 77008

Mark Witcher
(713) 866-6049
mwitcher@weingarten.com

Retail

Public REIT dumps industrial, buys neighborhood, community and lifestyle centers mostly throughout Sun Belt region.

SUBMARKET TO SUBURBS SUPPLANTING CBD OFFICE?

Decreasing vacancies and rising rents push office buyers deeper into primary and suburban markets for value-added and stabilized buildings. A continued emphasis on primary CBDs from big buyers **Boston Properties**, **SL Green Realty Corp.** and **CommonWealth Partners**, on top of a response to a surge of tech-based companies' space demands, will result in choosier buyers scoping submarkets and transit-serviced suburbs for core and value-added acquisitions.

The JBG Cos.' \$2B Investment Fund VII take the CBD and submarket angle in recent Washington, D.C., deals. The investor's regional focus makes D.C. its obvious choice. Also, the market has received quite a bruising from federal cutbacks and lackluster employment growth, which probably made the properties easier to come by compared to last year. It will be tougher this summer as more buyers follow **CommonWealth Partners'** first purchase in the city. **CommonWealth Partners** adds a big-ticket downtown property to a portfolio that has a hefty assortment of Class A primary and secondary office properties on behalf of its venture with the **California Public Employees' Retirement System**. More interest in D.C. buildings will complement a portfolio of suburban Boston, Chicago, New York, San Francisco, Salt Lake City, Seattle and Texas holdings.

Lots of Action Out West

By comparison, opportunistic buyers will rock the West Coast with core and stabilized plays throughout submarkets and suburbs. Tech industry-driven rental gains in San Francisco and Seattle will attract more opportunistic buyers in coming weeks. And foreign buyers move into the ground floor of projected upswings elsewhere in the West. Public REIT **Kilroy Realty** will acquire its largest chunk of Seattle-area properties in history with three office properties for \$394 psf. These deals take the company to nearly \$500M worth of acquisitions so far this year. Last year it acquired \$638M of assets. Expect interest in value-added to development projects, and core asset plays, in primary regional markets from San Diego to Seattle. Later this year the company could become an office and mixed-use focused owner, if it sells off its industrial portfolio. The buyer scans a blend of mixed-use properties featuring apartments, office and retail proximate to transit and employment-rich corridors throughout the region.

California competitor **Hudson Pacific Properties** may compete for Seattle and Silicon Valley assets. So far this year the public REIT has acquired two big office and mixed-use properties in West Los Angeles and San Francisco for \$402.60 psf, in addition to a smaller, sub-\$3M building near an existing Los Angeles asset. During 2011 the value-added and core buyer acquired \$300M worth of properties. A focus on coastal market buildings attractive to technology, media and traditional financial, insurance and real estate companies will stoke interest in well-performing pockets throughout San Francisco's South of Market, West Los Angeles, and others. Both **Hudson Pacific Properties** and **Kilroy Realty** will compete against **KBS REIT III** and opportunistic player **MG Properties**, among others.

Cities nearby red hot regions could benefit. **Artis REIT's** planned second purchase in the Phoenix metro area signals growing confidence outside big cities, where cap rates remain compressed into the 4% to 5% range for stabilized product. The Canadian-based REIT dives into Scottsdale for a \$305 psf Class A office tower at a mid-6% range. More buyers will scope the market sandwiched between red-hot Texas and California. More companies may also seek suburban Denver assets, as technology-based industries there gather steam.

BUYER ACTION TO PICK UP FOR MIXED USE

A newly minted **LCOR and California State Teachers' Retirement System** joint venture puts mixed use in its sights, from New York to Washington, D.C., to diversify a main apartment focus. Institutional investment manager **Invesco's** interest heats for this property type, with more than \$200M worth of acquisitions since January. Additional interest in primary markets should occur and complement earlier acquisitions in Miami, New York and San Francisco.

Expect more buyers to show interest as mixed use with heavy office concentrations in primary markets will regain popularity among private equity- and institutionally backed buyers in and outside joint ventures. The pricing froth surrounding Boston, New York and San Francisco will spread into other primary markets as rent growth and investor demand for stability continue depressing returns and raising prices for pure office or apartment space.

Invesco's mixed-use appetite has meant more than \$200M worth of buys in the sector since January. The investor has more than \$4B on hand through its planned \$750M Invesco Real Estate Fund III and other vehicles. Drawing the buyer to New York for its biggest mixed use deal of the year, at \$1,596 per s.f., was the property's 96% occupancy rate and location near a transit hub. Additional buys will take place in and independent of joint ventures in primary U.S. markets, to complement a broader strategy of buying apartments, industrial, office and retail buildings.

For additional New York mixed-use properties, Invesco will contend with a gaggle of deep-pocketed institutional and public equity capital to include big buyer SL Green Realty to smaller buyer **Crown Acquisitions**. SL Green Realty scouts the midtown Manhattan market for properties and has acquired 724 Fifth Ave. with ground floor retail topped by office. That deal follows a \$400M JV deal last year with Stonehenge Partners and Wharton Properties' Jeff Sutton. Among its partners, the public REIT counts institutional buyers the **Canada Pension Plan Investment Board, JP Morgan Investment Management, Prudential Real Estate Investors, SITQ Immobilier and Vornado Realty Trust**.

Smaller investors are also getting into the action. **Crown Properties** makes a big impression in its JV with **Olympic Tower Associates**, for a minority stake in a four-property, 98%-leased package, including a 51-story cornerstone called Olympic Tower with office and ground floor retail. The private investor will encounter Manhattan specialist **RXR Realty's** Real Estate Value Added fund, its almost fully invested \$240M Real Estate Opportunity Fund, Vornado and others in pursuit of Big Apple mixed-use.

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