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OFFICE BUYERS CRAVE CLASS A STABILITY

Major office investors pursue stability and upside to head off European debt problems, which could impact the market this summer. With a combined \$2B+ for acquisitions in primary and secondary markets, public REITs **Boston Properties**, **Parkway Properties** and **Piedmont Office Realty Trust** will encounter competition from funds sponsored by **Tishman Speyer Properties** and **Shorenstein Properties**, among others. The office market's average 16% vacancy rate is expected to shrink this year, but a coming wave of speculative and build-to-suit development will raise the bar for stabilized, long-term leased properties. Budget cuts aside, federal and state government properties could attract more investors because of limited supply and longer lease terms associated with government tenants.

Expect more pressure on Class A CBD buildings with long-term leases in primary markets, as well as value-added properties in markets with low unemployment rates. Because investors have noticed a thinner market for office sales nationwide, expect more action in markets such as Chicago and Charlotte, N.C., where unemployment rates have improved, in addition to coastal primary markets. Also anticipate growing interest in cities like Minneapolis and Oklahoma City, which have the nation's lowest unemployment rates.

Boston Properties' nearly \$1B note sale will drive additional buys and development throughout primary markets. So far this year the company has acquired more than \$600M worth of properties in core markets including Boston and the San Francisco Bay Area. The company also considers properties in New York, Princeton, N.J., and Washington, D.C., among others. More San Francisco Bay Area properties should be high on the buyer's list because of the rent juggernaut propelled by tech industry growth. There will be additional interest from national investors **Brookfield Office Properties/Brookfield Property Partners**, which has at least \$2B equity for acquisitions. Besides REITs, competitors in primary and secondary markets nationwide include the \$400M equity-plus Tishman Speyer's Real Estate Venture VIII fund, and more than \$1B equity from the Shorenstein Realty Investors X fund. Some investment funds could also ply the government-leased market if the spec and build-to-suit office market heats beyond planned new builds from **AREA Property Partners**, **Ivanhoe Cambridge** and **Hines**.

Competing REITs **Parkway Properties** could book more than \$500M in deals this year, following its first buy outside a JV with **Teacher Retirement System of Texas**, with a deal in Charlotte, N.C. **Piedmont Office Realty Trust** could \$300M for primary and secondary market expansions in coming months, but will be loath to chase expensive deals. A little less than half of **Beacon Capital Partners'** current \$2.5B fund remains for acquisitions. The value-added buyer wants CBD buildings in primary U.S. markets, and has been active in Denver, New York and Washington, D.C., this year, while also scanning Boston, Los Angeles, San Francisco and Seattle for offices.

Despite budgetary woes, government-leased properties will be hot because of inherent stability. Some corporations may boast a better credit rating than the U.S. government, but the feds' tendency towards long-term occupancies will attract buyers, especially if the western European debt crisis impacts U.S. economic and employment growth. Regardless of federal government flat rents, investors craving stability will pay a 100 to 150 cap rate premium for these assets compared to state-occupied properties averaging high-7% cap rates. Dedicated REITs **Government Properties Income Trust**, which eyes \$70M worth of deals nationwide, expects action. Yet it's unclear whether the company will reach approximately \$400M worth of properties acquired during 2011. **USAA Real Estate Co.'s Government Building Fund** will partner with value-added buyers, in addition to scanning the government-leased market for acquisitions.

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Outside the segment, the institutional investor's recent JV with **GlenStar Properties**, a value-added buyer and developer, suggests deeper interest in such rebounding primary markets as Chicago.

Piedmont Office Realty Trust and Parkway Properties minimally draw from the government leased sector. They, along with other buyers, are likely paying attention to the outcome of the Antarctica Capital Real Estate-led consortium's lawsuit against the state of California for breaking a \$2B-plus sale/leaseback contract in 2010 involving state occupied buildings. The case is still in litigation.

PENSION MONEY RICH FOR APARTMENTS

Institutional investor bullishness on the Class A apartment market will maintain through summer, but the deal-making process will change. Expect to see more buyers move farther outside primary hot spots, while others will continue plying core, primary market product trading at 4% to 5% cap rates. Regardless of extended low interest rates and aggressive lender interest in the sector, expect more joint ventures to share risk and returns in bid-up primary markets. **TIAA-CREF** pencils up to \$800M for primary market acquisitions and development this year. **TGM Associates** extends its reach nationwide for core-plus Class A to Class C properties to build on \$200M worth of buys during the past 12 months. **GID** may delve further into secondary markets to balance primary market plays. Market pundits predict another year of bang-up returns for the sector. Advisers should get more aggressive in rebounding primary markets Atlanta and Chicago, plus secondary markets Denver; Minneapolis; Seattle; Portland, Ore.; San Diego, Calif.; plus New Jersey.

While Washington, D.C., has been high on TIAA-CREF's buy list this year, additional primary markets of Boston, New York City, San Francisco, Seattle and Southern California are also in play. As it dives deeper into the \$20M-plus Class A market, the investor will also encounter **Clarion Partners, Invesco, Principal Real Estate Investors, Prudential Real Estate Advisers** and apartment-heavy **Sentinel Real Estate**, plus REIT leaders **Equity Residential, AvalonBay Communities, AIMCO, Essex Property Trust** and **UDR**. Acquisitions and a small amount of development will comprise a third to a half of TIAA-CREF's anticipated apartment acquisitions goal, which is part of a larger \$2B acquisitions target including industrial, office and retail properties. Clarion Partners' recent Atlanta purchase is part of a larger goal to use \$250M to \$300M equity for acquisitions and development. Subsequent deals could involve Class A apartments in Denver, Houston, Raleigh, N.C., and San Diego, in addition to Class B buys in primary markets including Boston, San Francisco, Seattle and New York.

Flexibility is Key

Near rock bottom cap rates will require advisers to take a more fluid approach to buys. TGM Associates, which considers Class A through Class C properties nationwide, will look at primary, suburban, secondary and tertiary markets. Cap rates in the 5% to 7.5% range will vary based on the asset, market and inherent risk, for acquisitions of 150-plus units priced at more than \$25M. Approximately \$155M worth of properties have been acquired since late December, as part of \$200M of activity since June 2011. For the first time in more than 10 years, the company has acquired and sold properties during the same cycle. Competitors in the core-plus and Class B space include private equity buyers **BPG, Waterton Associates** and **The Praedium Group**, which partially draw from institutional capital.

Up to half of BPG's \$250M equity BPG Investment Partnership IX could be used for Class B apartment buys in primary and secondary markets nationwide. The fund, which also acquires office and retail properties, has acquired close to \$100M worth of properties so far this year including a pair of apartments in Fredericksburg, Va. It has also been an active seller with dispositions of apartments, office and retail in Boston, Little Rock, Ark., Long Beach, Calif., and Morrisville, N.C., from predecessor funds' holdings. In addition to value-seeking institutional advisers, BPG and others could compete against Waterton Associates and its \$1.5B all-in fund for Class A and Class B urban assets located near transit hubs. Price ranges from \$5M to \$100M are in play for one-off and portfolio acquisitions. The Praedium Group's \$2B seventh fund should follow recent value-added plays in the San Francisco Bay area with similar Class A and Class B buys in primary and secondary markets coast-to-coast.

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>
Houston, Texas '80s	Apartments	1,038 units	\$20.4M	mid-7% range	90%	early

NOTES: BNC Real Estate's three-property workforce housing portfolio buy in Houston occurs as budding interest in the sector meets easier financing. The private investor paid approximately \$19,653 for each unit of the portfolio of mostly one-bedrooms and 35% two-bedroom units, in a deal that took 120 days to close because of a fire that wiped out 24 units at the Monticello Apartments, the smallest complex of the three with 244 units. Deals like these typically take 60 days to close. Still the distressed lender/seller closed the deal at contract price for the units with below-market rents. Financing for Class C apartment complexes has loosened to 75% LTV, compared to 50% LTVs a couple years ago. Agencies are more willing to write debt on these assets, plus there's a mix of bridge/mezzanine and gap equity to cover costs. Houston's economy continues to rebound because of gas, oil and broader energy sector gains in addition to the Port of Houston and expansion plans for the Bush Intercontinental Airport.

BNC Real Estate owns a handful of Houston apartment and office properties and focuses on Class B and C properties.

CONTACTS: BNC Real Estate, 13151 Emily Road, Dallas, Texas 75240 Barry Nussbaum, Susan Stubblefield, (972) 437-9900; Fax: (972) 907-1304 acquisitions@bncrealestate.com

Seller's broker: Transwestern, 1900 West Loop South, Suite 1300, Houston, TX 77027. Ed Cummins (713) 272-1266; fax: (713) 270-6285. ed.cummins@transwestern.net

SINGLE-TENANT RETAIL BOOM AHEAD

Strong buyer interest for single-tenant retail properties fuels portfolio buys and action in primary through tertiary markets nationwide. Industry leaders including **American Realty Capital, Cole Real Estate Investments, National Retail Properties** and **One Liberty Properties Trust** can be counted on to pursue single-tenant buildings occupied by credit and nonrated companies.

Look to the \$2.5B Cole Credit Property Trust IV fund to pursue additional deals past nearly \$30M of acquisitions booked since April. American Realty Capital Properties Trust's recent portfolio buy signals growing interest in discount retail and federal properties. **One Liberty Properties could acquire up to \$100M worth of properties this year**, which would mark a threefold increase compared to 2011 volume.

Cole Credit Property Trust IV will be hungry for one off and portfolio plays after \$25M worth of buys involving Walgreens in Alabama, Illinois and Virginia, plus a pair of O'Reilly Auto Parts stores in Texas. Based on these deals, investor interest is high for more than 20 year lease terms, likely at cap rates in the 6% to 8% range. Competitors will include **Brauin Real Estate, W.P. Carey & Co.** and, among others, American Realty Capital Properties.

Investor Looks Nationwide

American Realty Capital Properties will also ply the segment nationwide for single-tenant buildings. The buyer's recent deal involving nearly two dozen properties shows investor willingness to plumb government-leased and corporate properties. Count on more action in the medium-term leased segment the company focuses on, because buyers will position themselves to capitalize on rental increases for upside, instead of longer term flat or minimally escalating rent bumps.

Recent deals totaling nearly \$30M expand American Realty Capital Properties portfolio in Pennsylvania and Virginia, as well as other markets coast to coast. Discount retailers like Dollar General, and government leased assets will become more popular with buyers preparing for an economic downturn. Cap rates will decrease as a result. Affiliate company Retail Centers of America will acquire single-tenant properties as part of a broader retail emphasis on neighborhood, community and power centers nationwide.

One Liberty Properties could acquire another \$80M worth of properties this year following \$20M worth of buys so far this year. The public REIT has a \$55M credit line and can be expected to acquire retail and industrial assets in top markets of Georgia, New York, Pennsylvania, Texas and beyond. It acquired \$31M worth of properties during 2011.

DEALMAKER DATABANK™

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
American Realty Capital Properties 405 Park Ave. 15th Floor New York, NY 10022	Nicholas Schorsch (212) 415-6500 Fax: (212) 421-5799	Single tenant	REIT buyer seeks medium-term properties nationwide.
Apple REIT Cos. 814 E. Main St. Richmond, VA 23219	Sam Reynolds Justin Knight (804) 344-8121 Fax: (804) 344-8129 sreynolds@aplereit.com jknight@aplereit.com	Hotel	Nontraded REIT may acquire upwards of \$500M worth of limited-service hotels with Hilton and Marriott flags this year.
Beacon Capital Partners 200 State St. Fifth Floor Boston MA 02109	Jeffrey Brown (617) 457-0400 Fax: (617) 457-0499	Office	Private investor acquires office with cash from seventh commingled fund.
The Blackstone Group 345 Park Ave. New York, NY 10154	Stephen Schwarzman (212) 583-5000 Fax: (212) 583-5749 schwarzman@blackstone.com	Hotels	Private equity investor acquires limited- and full-service hotels.
Boston Properties 800 Boylston St. Suite 1900 Boston, MA 02199	Tom O'Connor (617) 236-3300	Office	Public REIT raises \$1B, could acquire additional properties.
Brauvin Real Estate 205 N. Michigan Ave. Suite 1900 Chicago, IL 60601	James Brault (312) 759-7660 Fax: (312) 759-7800 brauvin@brauvin.com	Single tenant	REIT acquires single tenant properties nationwide.
Brookfield Office Properties Brookfield Asset Management 200 Vesey St. 11 th Floor New York, NY 10281-1021	Steven Ganeless (212) 417-7000 sganeless@brookfield.com	Office	Public investor acquires office in primary U.S. markets.
Carey Watermark Investors 50 Rockefeller Plaza Second Floor New York, NY 10020	Thomas Zacharias (212) 492-1100	Hotels	Nontraded buyer acquires limited-service and value-added hotels nationwide.
Clarion Partners 230 Park Ave. 12th Floor New York, NY 10169	Brian Watkins (212) 883-2633 Fax: (212) 883-2834 brian.watkins@clarionpartners.com	Apartments	Institutional investor acquires Class A and Class B complexes nationwide.
Cole Real Estate Investments 2325 E. Camelback Road Suite 1100 Phoenix, AZ 85016	Chuck Vogel (602) 778-8700 cvogel@colecapi.com	Retail	Nontraded REIT sponsor acquires single and multitenant properties nationwide.
GID 125 High St. Boston, MA 02110	Thad Palmer (617) 973-9680 Fax: (617) 973-9646	Apartments, All	Pension fund adviser acquires Class A and Class B complexes and other property types nationwide.

DEALMAKER DATABANK™

Noble Investment Group 3424 Peachtree Road NE 1100 Monarch Tower Atlanta, GA 30326	Mit Shah (404) 262-9660 Fax: (404) 262-9244 mitesh.shah@nobleinvestment.com	Hotels	Private investor acquires limited- and full-service hotels nationwide.
One Liberty Properties Trust 60 Cutter Mill Road Suite 303 Great Neck, NY 11021	Lawrence Ricketts (516) 466-3100 Fax: (516) 773-2770 larry_r@1liberty.com	Single-tenant	Public REIT mostly acquires single tenant retail and industrial nationwide.
Parkway Properties Bank of America Center Suite 2400 390 N. Orange Ave. Orlando, FL 32801	Jim Ingram (601) 948-4091 Fax: (601) 949-4077 jingram@pky.com	Office	Public REIT plans to bolster Sun Belt portfolio in coming months.
Piedmont Office Realty Trust 11695 Johns Creek Parkway Suite 350 Johns Creek, GA 30097-1523	Ray Owens Bo Reddic (770) 418-8800 ray.owens@piedmontreit.com bo.reddic@piedmontreit.com	Office	Public office REIT acquires properties nationwide.
Principal R.E. Investors 711 High St. Des Moines, IA 50392	Rod Vogel (800) 533-1390 Fax: (866) 850-4022	Apartments, All	Pension fund could acquire \$2B of real estate by December.
RLJ Lodging Trust Three Bethesda Metro Center Suite 1000 Bethesda, MD 20814	Thomas Baltimore Jr. (301) 280-7777 Fax: (301) 280-7750	Hotels	Public investor acquires limited-service hotels in infill markets nationwide.
Shorenstein Properties 235 Montgomery St. 16 th Floor San Francisco, CA 94104	Charlie Malet (415) 772-7059 cmalet@shorenstein.com	Office Investors Ten fund.	Private investor could acquire with cash from Shorenstein Realty
Sitex Realty Group 351 W. Hubbard St. Suite 304 Chicago, IL 60654	David L. Friedman (312) 274-1700 Fax: (312) 274-1787 dfriedman@sitexgroup.com	Industrial	Email address incorrectly stated in the June 18 edition. <i>Real Estate Buyers</i> regrets the error.
TGM Associates 650 Fifth Ave. Floor 28 New York, NY 10019-6108	Steve Macy John Gochberg (212) 830-9302 Fax: (212) 399-6310	Apartments	Pension fund adviser scans U.S. for Class A through C properties.
TIAA-CREF 730 Third Ave. New York, NY 10017	Trevor Michael (212) 916-6046 Fax: (212) 916-4527	Apartments, All	Pension fund acquires apartments throughout the U.S.
Tishman Speyer Properties 45 Rockefeller Plaza New York, NY 10111	Paul Galiano (212) 715-0300 Fax: (212) 895-0377	Office	Investor acquires with cash from Tishman Speyer R.E. Venture VIII fund.
USAA Real Estate Co. 9830 Colonnade Blvd. Suite 600 San Antonio, TX 78230	Bruce Peterson David Buck David Reahl (800) 531-8182 Fax: (210) 641-8421 bruce.peterson@usrealco.com david.buck@usarealco.com david.reahl@usarealco.com	Industrial	Acquires value-added office and government-leased buildings.
W.P. Carey & Co. 50 Rockefeller Plaza New York, NY 10020	Trevor Bond (212) 492-1100 Fax: (212) 492-8922 tbond@wpcarey.com	Single tenant	Investment adviser acquires single-tenant retail, industrial and office buildings nationwide.

INVESTORS DRAWN TO HOTEL CYCLE'S SECOND ACT

Limited hotel investors get ready for more competition by burrowing deeper into urban and built-out suburbs for keys. Turning up the heat is **The Blackstone Group's** contract to buy more than 1,000 limited-service rooms later this year, a countercyclical move some buyers will interpret as a sign to buy big until development starts to elbow out available supply. Gateway markets coast-to-coast are under the microscope of public and nontraded REITs, to satisfy an appetite for portfolio buys and one-off purchases.

There's plenty interest in the segment besides the \$10B-plus **Blackstone Real Estate Partners VII** fund, with a contract to acquire Motel 6 keys in the U.S. and Canada by fall. Watch **Apple REIT Ten**, which could acquire up to \$500M worth of properties including its first buy of the year in Florida. **RLJ Lodging Trust** is hungry for urban and close-in suburban assets nationwide and will dip into credit lines and an approximately \$1B raise.

Increasing hotel acquisitions can be expected to maintain or slightly compress cap rates trending into the 7% range on the low side. This is especially true in markets such as Manhattan and the San Francisco Bay area, where RLJ Lodging Trust recently picked up a couple hotels for nearly \$120M. The pair of one-off deals makes but a small dent in a \$1B-plus acquisitions purse. Watch for the public REIT to strike additional San Francisco Bay area acquisitions after entering the market with a Hilton Garden Inn located in an infill suburb east of the city. Area technology and economic growth may also take the buyer to Silicon Valley and additional market cities, likely for 150 key-plus hotels. The buyer should encounter **Chatham Lodging Trust, DiamondRock Hospitality, Hersha Hospitality Trust, Inland American Lodging, Kimpton Hotels & Resorts, Pebblebrook Hotel Trust** and **Sunstone Hotel Investors** in the Bay Area and beyond.

With up to \$500M for acquisitions this year, Apple REIT Ten is a competitor. The nontraded REIT buyer recently acquired a Boca Raton, Fla., Hilton Garden Inn for \$11M, and scans the U.S. mainly for limited-service properties. Apple REIT Ten could acquire from 100 to 250 hotels in coming quarters, depending on the amount of leverage used and locations available. If the company decides on Louisiana, it will encounter buyers including **Carey Watermark Investors** and **Noble Investment Group**. Nontraded company Carey Watermark looks to raise \$1B and can be expected to acquire value-added properties independently and through joint venture purchases. The investor recently doubled its New Orleans portfolio with a downtown Hilton Garden Inn. Watch for additional interest in 150 room-plus hotels that can be repositioned with joint venture partners. Noble Investment Group, working with institutional and private investor cash, doesn't own in Louisiana but it could compete for limited-service keys in footprint markets including California, Georgia, North Carolina, Texas and Tennessee.

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