CRITTENDEN Real Estate Buyers™

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NEW MOVES IN NON-INVESTMENT GRADE RETAIL

Expect more action outside the investment grade retail tenant segment because of more demand attributed to attractive debt, possible capital gains tax expiration and <u>higher cap rates in the 8%-plus range</u>. A lack of shopping center development has stifled associated single-tenant pad construction; watch for redevelopment of dark boxes to increase. Anecdotally, nonrated to non-investment grade companies are considered to have better credit compared to pre-crash days, so the segment is considered less risky compared to a few years ago.

Realty Income, a third of the way to reaching a <u>$650M acquisitions target</u> for the year, will return to the non-investment and nonrated tenant segment. In doing so, the public REIT will reverse a trend of buying mostly investment grade properties with <u>average low-7% cap rates</u> since January. In the investment grade realm, where Realty Income has acquired $200M-plus of assets this year, it will encounter competition from active big buyers **American Realty Capital Trust**, **AEI Fund Management** and **Cole Real Estate Investments** and **Inland Real Estate**. Although Realty Income dealmakers want a portfolio with more than 50% of investment grade properties five years from now, expect it to return to the non-investment grade/nonrated space that is rich with competition from **Brauvin Real Estate**, **National Retail Properties**, **Realty Income**, **STORE Capital** and **W.P. Carey & Co.**.

With another $40M to go, public REIT competitor **National Retail Properties** plans to <u>meet or exceed $350M of nonrated/subinvestment buys this year</u>. Dealmakers recently corralled their largest property ever — a 30,000 s.f. L.A. Fitness in northern New Jersey — and will mix in medical retail buildings and fitness centers. The company looks for <u>cap rates averaging 8.5%</u> for second quarter acquisitions of all asset types. Regardless of the aggressive cap rate environment stimulated by rising prices and an increase of Section 1031 Exchange cash, more action will occur. Convenience stores may heat up as well from National Retail Properties, which holds a high concentration of convenience stores in several states including Florida, Illinois and Texas.

<u>Mergers and Acquisitions to Rise</u>

The compressing cap rate environment will also inspire mergers and acquisitions. Realty Income will likely grow through big trades motivated by mergers, acquisitions or leveraged buyouts. Competitor W.P. Carey & Co.'s pending REIT conversion and real estate motivated acquisition of invested CPA:15 fund sets the stage for additional moves. Look for the buyer to follow its REIT conversion with additional properties for its $2.3B CPA:17 fund that has acquired more than $234M of properties.

Nonrated to non-investment grade tenant buyers will move outside the box to stay ahead of the cap rate compression. Buyers navigate a decreasing cap rate environment that will trigger yield-seeking moves.

Big REITs' nonrated and sale/leaseback action will be met by private REITs Brauvin Real Estate and STORE Capital, which eye the segment with <u>new funds and an aggressive pace</u>. STORE Capital shops for <u>another $250M worth of acquisitions</u> on top of $500M worth of buys made since January. Anticipate more buy-side action for operating assets key to mostly non-investment grade to nonrated companies, such as grocery stores, fitness centers, movie theaters and the like; company dealmakers rarely consider office buildings. Most of STORE Capital's $2T net leased niche has involved sellers only able to secure 60% to 70% bank financing, compared to richer financing from the unsecured bond market favoring investment grade companies.

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New Moves in Non-Investment Grade Retail...

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Brauvin Real Estate will add unsubordinated ground leases and forward commitments to its buy-side stable, in pursuing deals for its $150M 17th fund. Unlike the $120M predecessor fund 16 dominated by investment grade assets, there should be an equal split between noninvestment and investment grade tenant assets. Expect the private REIT to acquire $75M worth of buildings this year; so far it has bought $40M of property occupied by non-investment grade/nonrated and investment grade tenants.

APARTMENT FUNDS TO RAMP UP VALUE-ADD COMPETITION

Value-added apartment buyers' new and maturing funds will push into suburban and core markets throughout the Mid-Atlantic, Northeast and West. In coming weeks, action from diversified and specialist buyers **Alex. Brown Realty, Chestnut Hill Realty, Continental Realty Advisors** and **Pantzer Properties** will capture momentum started by an aggressive public REIT acquisitions campaign that has led the pack in pushing Class A rent growth in Boston, New York and San Francisco.

Public REIT leaders **AvalonBay Communities, Camden Property Trust, Equity Residential, Essex Property Trust** and **UDR** have successfully driven 5% to 10% range rent growth during the past 18 months and that hasn't escaped the notice of smaller, private counterparts aiming for gains with infill buys. Continued GSE financing despite approaching changes at Fannie Mae and Freddie Mac, a lack of construction and a softening economy will make the value-added segment even more appealing to buyers.

Middle-market dealmakers include the $500M all-in **Chestnut Hill Realty Property Trust Fund I,** which will vie for apartments and mixed-use properties in the Northeast. In pursuit of $10M to $80M properties in Connecticut, eastern Massachusetts, and southern New Hampshire cities including Nashua and Portsmouth, it will likely encounter **Archstone** and diversified buyer Alex. Brown Realty, among others. Approximately $400M remains in Chestnut Hill Realty's fund for acquisitions through 2014.

How deeply Archstone plans to compete in the region and the U.S. depends on the outcome of a planned $100M IPO. For the time being, the private company — courted earlier this year by Equity Residential — could use upwards of $300M for acquisitions of value-added and Class A properties nationwide. Recently it bought a Class A property in Dedham, Mass., southwest of Boston. Count on the buyer to expand in New York, Virginia and Washington, D.C., in coming months. Another active buyer, **Pantzer Properties**' targeted $150M equity Panco Strategic Real Estate Fund II, will compete for big-ticket deals beyond a recent value-added Washington, D.C., buy. Sticking to a Mid-Atlantic footprint means additional competition from public REIT **Home Properties**, which has approximately $50M of additional buys on tap for a $350M acquisitions goal. **The Praedium Group** also seeks regional and national value-added buys with partners including **The Milestone Group**.

Joint Ventures the Ticket

In and outside the Mid-Atlantic, count on interest from Alex. Brown Realty's $800M fourth fund that will focus on joint ventures with regional and local developers or operating companies. Approximately 20% of

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Company/Address	Contact/Phone/Fax	Property Type	Buying Criteria
Archstone 9200 E. Panorama Circle Suite 400 Englewood, CO 80112	Charles Mueller Jr. (303) 708-5959 Mark Peppercorn (303) 798-5959	Apartments	Coastal buyer plans $100M IPO and acquires via $350M equity Archstone Multifamily Partners AC.
Alex. Brown Realty 300 E. Lombard St. Suite 1200 Baltimore, MD 21202	Thomas R. Burton (410) 547-3009 tom.burton@abrealty.com		ABR Chesapeake Fund IV seeks value-added acquisitions of all major property types.
AvalonBay Communities 4440 Von Karman Ave. Suite 300 Newport Beach, CA 92660	Tim Walters (949) 955-6200 Fax: (949) 955-6200 twalters@avalonbay.com	Apartments	Public REIT acquires, builds apartments nationwide.

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Inland Real Estate *(Cont'd)*	Bill Anderson (630) 218-7354 Fax: (630) 218-7357 anderson@inlandrealestate.com		
Equity One 410 Park Ave., Suite 1220 New York, NY 10022	Lauren Holden (212) 796-1746 lholden@equityone.net	Retail	Public REIT acquires grocery anchored centers and will pursue additional West Coast assets.
Excel Trust 17140 Bernardo Center Drive Suite 300 San Diego, CA 92128	Steven A. Farnsworth (801) 294-2400, ext. 304 st@exceltrust.com	Retail	Public REIT could exceed $250M of buys this year.
Government Ppts. Income Trust 255 Washington St. Suite 300 Newton, MA 02458	David Blackman (617) 219-1440 Fax: (617) 219-1441 acquisitions-dispositions@govreit.com	Office	Public investor acquires properties nationwide.
Home Properties 850 Clinton Square Rochester, NY 14604	John Smith (585) 546-4900 Fax: (585) 546-5433 johns@homeproperties.com	Apartments	Public investor to acquire in East Coast infill markets; targets $350M of buys.
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 investor acquires apartments through fee-simple and note buys.
Kilroy Realty 12200 W. Olympic Blvd. Suite 200 Los Angeles, CA 90064	John Fucci (310) 481-8400 Fax: (310) 481-6501 jfucci@kilroyrealty.com	Office	Public REIT acquires in West coast markets.
100 First St. Suite 250 San Francisco, CA 94105	Mike Sanford msanford@kilroyrealty.com		
Lowe Enterprises 11777 San Vicente Blvd. Suite 900 Los Angeles, CA 90049	Bleecker Seamon (310) 820-6661 bseaman@loweenterprises.com	Apartments	Investment manager acquires value-added assets and notes nationwide.
National Retail Properties 450 S. Orange Ave. PO Box 4920 Orlando, FL 32802	Jay Bastian (407) 650-1144 Fax: (407) 650-1046 jay.bastian@nnnreit.com	Retail	Public REIT targets $350M of acquisitions by December.
	Steve Horn (407) 650-3615		
Pacific Urban Residential 2600 Michelson Drive Suite 780 Irvine, CA 92612	Rory Gardner (949) 757-0428, ext. 108 Fax: (949) 757-0434 rgardner@purapts.com	Apartments	Private investor seeks value-added buys along West Coast.
Pantzer Properties 540 Madison Ave. Suite 32A New York, NY 10022	Jordan Pantzer (212) 310-6403 Fax: (212) 310-6410 jordan@pantzerproperties.com	Apartments	Private investor acquires value-added and luxury properties with $150M equity fund.
Phillips Edison & Co. ARC Shopping Center REIT 175 E. 400 South Suite 402 Salt Lake City, UT 84111	Hal Scudder (801) 521-6970 Fax: (801) 521-6952 hscudder@phillipsedison.com	Retail	Private investor acquires grocery anchored and lifestyle centers for various nontraded REITs and funds.
The Praedium Group 825 Third Ave. 36th Floor New York, NY 10022	Chris Hughes (212) 224-5600 Fax: (212) 224-5671	Apartments	Acquires apartments and other property types nationwide.
Realty Income 600 La Terraza Blvd. Escondido, CA 92025	Ben Fox (858) 741-2111 Fax: (858) 741-8617 bfox@realtyincome.com	Single tenant	Aims to acquire $650M of investment and noninvestment grade credit tenant properties nationwide.
STORE Capital 8501 E. Princess Drive Suite 190 Scottsdale, AZ 85255	Mary Fedewa (480) 256-1100 Fax: (480) 256-1101	Single tenant	Private investor could acquire $250M of additional single-tenant properties leased to noninvestment/nonrated companies.
UDR 1745 Shea Center Drive Suite 200 Highlands Ranch, CO 80129	Andrew Cantor (720) 283-6120 Fax: (720) 283-2451 acantor@udr.com	Apartments	Public REIT acquires and builds apartments nationwide.

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USAA Real Estate Co. 9830 Colonnade Blvd. Suite 600 San Antonio, TX 78230-2239	David Reahl (800) 531-8182 Fax: (210) 641-8425	Office	Government Building Fund converts To open end fund and considers government leased buildings in primary markets and beyond.
W.P. Carey & Co. Inc. 50 Rockefeller Plaza New York, NY 10020	Trevor Bond (212) 492-1100 Fax: (212) 492-1130 [redacted]	Single Tenant	Acquires nonrated/noninvestment grade buildings with $2.3B CPA:17 fund.

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OVERLOOKED OFFICE GEMS WITH UPSIDE YIELD INTEREST

Office buyers show mounting interest in secondary market and value-added space in hotly bid up primary markets, partially because of slightly improved financing. Value-added buyers will spur additional growth in tech rush markets like Seattle and northern California. They will also increase competition in recovering markets throughout the South and West. Value-added buyers can expect to contend with big funds from **Brookfield Asset Management**, **Hines** and **KBS REIT III**, among others, who are refining their aim for higher yields. In coming weeks, also expect action from middle-market buyers **CommonWealth Partners, CommonWealth REIT, Corporate Office Properties Trust, Government Properties Income Trust, Hudson Pacific Properties, Kilroy Realty** and **Parkway Properties**.

The technology rush will prompt more value-added plays and submarket buys. Value-added buyer Hudson Pacific Properties drills into short-term lease rollovers and repositioning to ride the maturing and burgeoning tech wave in the San Francisco and Los Angeles metro areas. A pending $89M acquisition of a West Los Angeles office campus for repositioning will take the company to more than $170M worth of acquisitions including a 65% leased mixed-use property in San Francisco's South of Market district; yield growth through expiring leases and vacant space underscore future acquisitions. During 2011 the [redacted]

LOWER CAP RATES PROMPTS SECONDARY RETAIL INVESTORS TO DIVERSIFY

Hunger for grocery-anchored shopping centers in high-density markets spreads from primary markets into secondary cities, which will likely increase compression for properties beyond average 6% to 7% rates. As the squeeze tightens on grocery centers, investors will likely add more development and non grocery-anchored centers to their mix. Expect **Inland Real Estate** to ramp up acquisitions in secondary Midwest markets primarily through an extended venture with foreign pension manager partner **PGGM**. **Excel Trust** adds mixed-use to its bailiwick as part of $450M worth of acquisitions this year. Phillips Edison & Co. vies for grocery-anchored and lifestyle center properties through various ventures including **CBRE Global Investors** and **ARC Properties**, for a $1.5B platform.

Inland Real Estate counts approximately $200M equity to bankroll further expansion into secondary Midwest markets Cleveland and Cincinnati. Future expansion will diversify the buyer's core Chicago and Minneapolis/St. Paul, Minn., portfolio. The fresh initiative is another venture between Netherlands-based pension fund manager PGGM and Inland Real Estate Corp., and will grow the venture's approximate $470M portfolio.

Class A infill product in Cleveland and Cincinnati will be among REIT go-to cities, and will follow sales in Indiana, Michigan and Missouri. Inland Real Estate Corp. will also scan properties for Section 1031 Exchange buys on behalf of a short-term venture with affiliate Inland Private Capital Corp. Active buyers may turn to sellers, including **Equity One**, which has been on a mission to revamp portfolio assets towards highly populated primary markets throughout California and New York. If Inland Real Estate decides expansion outside its core Midwest market, eventually, for infill Class A product, it will be met with revamping REITs Equity One and **Weingarten Realty Investors**, plus **Phillips Edison — ARC Shopping Center REIT**, which has bought $153M of assets.

The hunger that could suppress caps under 8% to 8.5% averages to 7% percent averages on the coasts will push demand higher for acquisitions outside the grocery-anchored space. Investment-grade Excel Trust will exceed $250M of expected acquisitions this year with mixed use assets and power centers in reemerging markets, plus core grocery-anchored fare mainly sourced off market throughout the Northeast, Northwest and Mid-Atlantic. Several off-market deals are in the works, including a mixed-use apartment/retail building in Richmond, Va., power centers in northern California and Texas, plus a five-pack of centers, for more than $130M.

The deals follow $150M of buys including a value-added suburban Phoenix center bought at a mid-7% cap rate; the surrounding area's average $107,000 household income made sense to the buyer. As it strives towards an investment grade rating for less expensive debt, expect action. Developments including a mixed-use redevelopment in the resort town of La Costa, Calif., are in the works at an 8% cap rate. On the grocery-anchored and power center fronts, the company will compete