

Crittenden Research, Inc.  
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## UNUSUAL SUSPECTS MUSCLE INTO APARTMENTS

Buyers typically focused elsewhere will begin to chase the yield and relative stability of existing and to-be-built Class A apartments. These buyers will now shop for apartment portfolios with potential to produce better returns outside their core focus areas. The influx of new potential rivals, and a growing emphasis on new construction, means increased competition for dedicated apartment buyers. Office REIT **Mack-Cali Realty**'s pending Northeast portfolio buy will mark the company's largest diversification in history. Apartment-focused **Global Growth Trust**'s \$1.5B raise aims for existing assets and development throughout the Sun Belt and Southeast. Canada's **Ivanhoé Cambridge** scoops new development and ramps up San Francisco-area growth a year after entering the market.

Mack-Cali's soup-to-nuts buy — encompassing land, properties under construction and income-producing properties — shows how buyers are targeting both short and longer term growth. Rent growth for existing assets in the Boston-to-New York corridor is unlikely to maintain previous blockbuster levels topping 8%. New construction has the best chance of commanding higher rents, which will raise demand for construction and redevelopment in urban areas. At full build-out expected by 2015, Mack-Cali's recent

## OFFICE BUYERS CHASE VALUE IN EMERGING MARKETS

Value-added buyers clamor for office space in emerging to secondary markets, reflecting improved opinions and lender support for riskier deals. **Blackstone, Clarion Partners, Hines, Investcorp, SL Green Realty and USAA Real Estate Co.** strike offensive moves to acquire suburban assets at discounts to replacement costs in one-off and portfolio deals, since significant new builds won't roll into suburbs until late 2013 at the earliest. For the yield, big-ticket buyers will joint venture and hunt assets that were once the dominion of independent entrepreneurial capital. An emphasis on Class A value-added and stabilized assets requires buyers to drill deeper into submarkets for portfolios and one-off purchases, deals they would have written off as too risky a couple years ago.

Increased action heads for the Las Vegas, Raleigh-Durham, N.C., and Southern California office markets, where buyers will take an offensive posture for one-off and portfolio purchases to recapitalizations of assets available at discounts to replacement costs. Entrepreneurial and institutional capital can be counted to stalk various levels of vacancy, despite signs of lagging rental growth in pockets nationwide. Blackstone and New York specialist SL Green Realty will push boundaries in consideration of additional recapitalizations and operating company purchases. Infill market assets will attract the **BREP VII** fund nationwide, judging recent Southern California action. Institutional buyers Clarion Partners, Investcorp and USAA will acquire suburban assets for various platforms and joint ventures. Private buyers **American Real Estate Partners** looks toward \$1B of deals during 2013-14 throughout the Southeast.

Institutional investors will shift attentions farther South, where energy, healthcare and technology have stimulated growth, while providing a more attractive short-term alternative to declining occupancy and rents in suburban Washington, D.C., which has been impacted by government cutbacks and budgetary concerns. USAA's **Admiral Capital Real Estate Fund JV** will use \$94M for additional purchases this year and build on an initial Atlanta buy made earlier this year. In and independent of its JV with Admiral Capital Real Estate, look for USAA to also acquire for its **U.S. Republic Core Fund** across the property spectrum nationwide.

Also in the Southeast is **Brown Brothers Harriman Real Estate Income Fund II**, with approximately \$140M remaining for acquisitions. If the duo's Durham, N.C., buy hints at additional activity, count on the venture to seek Class A buildings in the market and the Southeast, for the all-in \$235M fund advised by Clarion Partners, which on its own has a \$1B appetite this year for all property types. Private buyer American Real Estate Partners, fresh from a sale to Investcorp, will shop Charlotte and Raleigh-Durham for core, core-plus and opportunistic strategies, while keeping Baltimore; New York; Philadelphia; Richmond, Va.; Washington, D.C.; and New Jersey in its sights.

In the West, bigger ticket portfolio buys and recapitalizations will frame a market where caps have declined into the 3% range for stabilized primary market properties. Hines' venture with **Oaktree Capital Management** in Las Vegas, and the Blackstone, **Gramercy Capital**, SL Green and **Square Mile Capital** consortium's portfolio purchase and recapitalization of 4 million s.f. in Southern California, hint at a broader trend of mergers and acquisitions as buyers chase yield ahead of a sharp recovery curve.

### DEALMAKER DATABANK™

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Admiral Capital Group 240 Central Park South Suite 41 (cq - I) New York, NY 10019	Daniel Bassichis (646) 405-4808	Office	Partners with USAA on office acquisitions through JV fund.
American Real Estate Partners 2350 Corporate Park Drive Suite 110 Herndon, VA 20171	Douglas Fleit (703) 435-4800 Fax: (703) 435-2479	Office	Private investor acquires suburban office parks.
Beacon Investment Properties 1140 E. Hallandale Beach Blvd. Hallandale Beach, FL 33009	Ariel Bentata (954) 454-4665 Fax: (954) 454-4749 ariel@beaconri.com	Office	Private buyer seeks office throughout the Southeast

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**DEALMAKER DATABANK™**

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Blackstone 1299 Ocean Ave., Suite 320 Santa Monica, CA 90401	Christopher Chee (310) 310 6949 chee@blackstone.com	Office	Buys, recapitalizes office and other property types nationwide.
Colonial Properties 2101 Sixth Ave. North Suite 750 Birmingham, AL 35203	Bob Given (205) 250-8700 Fax: (205) 250-8890 bgiven@colonialprop.com	Apartments	Buys apartments throughout the Southeast.
	Reynolds Thompson (205) 250-8735 Fax: (205) 250-8890 rthompson@colonialprop.com		
801 N. 500 West Suite 201 Bountiful, UT 84010	Steven A. Farnsworth (801) 294-2400, ext. 304 sf@exceltrust.com		
Essex Property Trust 925 E. Meadow Drive Palo Alto, CA 94303	Michael Schall (650) 494-3700	Apartments	Public REIT acquires and develops properties in western U.S. target markets.
Fairfield Residential 5510 Morehouse Drive Suite 200 San Diego, CA 92121	Richard Boynton (858) 824-6424 Fax: (858) 457-3982 rboynton@ffres.com	Apartments	Acquires properties in and outside venture with Brookfield Asset Management.
Global Growth Trust/CNL Comm'l 450 S. Orange Ave. Orlando, FL 32801	Rick Coe (407) 650-1000 rick.coe@cni.com	Apartments Office	Non-traded REIT develops, acquires throughout Southeast and Sun Belt regions.
Hines 499 Park Ave. 12 <sup>th</sup> Floor New York, NY 10022	Eastern U.S. Christopher Hughes David Perry (212) 230-2300 Fax: (212) 230-2276	Office	Private investor and developer targets emerging markets, rolls out fund.
Investcorp 280 Park Ave. 36 <sup>th</sup> Floor West New York, NY 10017	Herb Myers (212) 599-4700 Fax: (212) 983-7073 hmyers@investcorp.com	Office	Institutional buyer acquires single buildings and portfolios nationwide.
	Jon Dracos (212) 599-4700 Fax: (212) 983-7073 jdracos@investcorp.com		
Lennar Property Group 1111 Alderman Road, Suite 270 Alpharetta, GA 30005	David Welch (404) 817-3900 Fax: (404) 817-3915	Apartments	Buys, builds apartments.
Mack-Cali Realty 343 Thornall St. Edison, NJ 08837-2206	Mitchell Hersh (732) 590-1000 mhersh@mack-cali.com	Apartments, Office	Public REIT diversifies into apartments.
Ivanhoé Cambridge Western North America markets. 4200, 525 – Eighth Ave. SW Calgary, AB, CAN T2P 1G1	Arthur Lloyd  (402) 539-2242 arthur.lloyd@ivanhoecambridge.com	Apartments	Acquires apartments and other property types in select U.S.
Eastern North America 1001 Rue du Square-Victoria Bureau C-200 Montreal, QC, CAN H2Z 2B1	Adam Adamakakis (514) 673-1232 adam.adamakakis@ivanhoecambridge.com	Apartments	
SL Green Realty 450 Lexington Ave. New York, NY 10170	Andrew Mathias David Schonbraun Isaac Zion (212) 594-2700	Office	Acquires, recapitalizes office in and outside JVs.
STAG Industrial 99 High St. 28 <sup>th</sup> Floor Boston, MA 02110	Ben Butcher Steve Mecke (617) 574-4777 Fax: (617) 574-0052	Industrial	Acquires single-tenant industrial.

## INDUSTRIAL BUYERS GO LARGE; PORTFOLIOS IN PLAY

Industrial portfolios will become the go-to segment for national buyers contending with a wave of speculative and build-to-suit development and cap rate compression. EastGroup, STAG Industrial and USAA Real Estate Co., among recent buyers in the space, can be expected to build upon existing and new market entries in coming months. In doing so, these buyers will encounter a range of private to institutional capital equally hungry for yield in the warehouse and distribution space through acquisitions and new development.

The volume of capital focused on the segment, which includes the \$1.5B Birtcher Goodman North America venture, a \$1B buy-and-build Hillwood Brookfield Industrial Partners venture, plus a targeted \$700M from KTR Capital Partners, has increased seller confidence and suggests average cap rates will bump along or even decrease from the mid-5% to the 6% range in the multitenant space.

The segment's vaunted status isn't without grey clouds. Developers latching onto increased occupancy rates and compressed yields as a reason to build run the risk of revisiting an overbuilding scenario that once plagued the segment. As a result, buyers can be expected to balance new construction with value-added and stabilized assets in infill markets, which will pressurize going-in cap rates for existing properties with contiguous land for development. Buyers will take a measured approach in California and Texas — where developers have hit the ground running in build-to-suit and speculative construction — while beefing up square footage in existing footprint markets and second-tier inland and southern markets, including Georgia, Kansas and Michigan.

Single-tenant specialist STAG Industrial should deepen its footprint in familiar markets while branching into new markets with smaller assets ahead of capital pressure. The public REIT exceeds \$200M of targeted acquisitions this year with a multistate portfolio purchase.

Expansion widens a network that could circumvent declining cap rates. STAG Industrial, which has made numerous deals in the 9% cap rate range, recently increased holdings by more than a third in Alabama, Indiana, Kansas, Michigan, New York and Pennsylvania. Additional Alabama purchases may be on the table, following a 117,568 s.f. building entry that's part of a larger 4 million s.f.-plus portfolio. Also active in the Southeast is USAA, which bought nearly 3 million s.f. of single-tenant space occupied by national credit tenants in neighboring Georgia. Watch the \$350M to \$400M-targeted AIC Ventures' NL Ventures IX fund targeting sale/leaseback and forward commitments, in addition to Duke Realty, Lexington Realty Trust and W.P. Carey & Co.

Farther west, EastGroup moves closer to exceeding 2011 volume — if it books a \$40M portfolio in Dallas that's currently under contract. Moving forward, expect the big public REIT to juggle portfolio buys and new development throughout its core markets of Arizona, California, Florida, North Carolina and Texas. It is also developing more than 1.4 million s.f. in Orlando, Fla; as well as in Houston and San Antonio.

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