

## LOW RETURNS FUEL MOVES TO STABILITY

Underlying more mergers, acquisitions and big portfolio plays will be declining cap rates and hearty appetites from buyers pursuing less-risky deals leased long term to credit tenants. The investment-grade slice of the single-tenant retail property segment is set to spin with activity through December. Expect the growing trend of mergers and acquisitions to come between non-investment and investment-grade property owners. Investment grade property owners know their product is hot and non-investment grade buyers want the diversity and stability the segment brings.

### Acquisitions Activity to Push New Directions for Buyers

The sector's popularity is highlighted by big-ticket acquisitions and mergers on the horizon. Anticipate mounting action and new moves from **AEI Fund Management, Agree Realty, Cole Real Estate Investments** and **Griffin Capital**. Investment grade-seeking retail buyers facing continued cap rate compression can be counted on to expand into new areas complementing existing core single-tenant fare.

Because of gains made by diversifying companies active in and outside the niche, expect investment grade specialists to home in on ancillary markets and consider new structures to uncover yield. Stirring additional competition is Section 1031 Exchange investor capital contending with capital gains tax expirations on one hand, and owners tired of managing properties on the other. Both sets can be expected to put more capital into investment grade buyers, which will ramp up competition in coming weeks.

### Competition Heats

With \$1.5B of acquisitions capital between the two, public non-traded Griffin Capital Net Lease REIT and Griffin American Health Care REIT II will spur additional momentum through 2013. Griffin Capital Net Lease REIT targets more than \$200M worth of acquisitions this year. The buyer, active in the single-tenant office and industrial segments, considers forward commitments and build-to-suits as well. It has booked all investment-grade product so far this year. In the healthcare segment, Griffin American Health Care REIT II will consider net-leased medical retail buildings and outpatient centers as part of a broader focus on hospitals, assisted living and other assets nationwide. Competition includes AEI Fund Management's pair of newly minted REITs National Income Property Fund VII targeting a \$100M raise and the targeted \$300M AEI Core Property Income Trust.

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## Who's Buying

► **The Bascom Group** will bump up its acquisition volume to \$900M in 2013 from \$750M in 2012. Florida and Nevada are now prime targets for the investor, which seeks multi-family, mobile home properties and developable land.

► **Associated Estates** adds Baltimore/Washington D.C. in its search of acquisitions. The company wants to spend more than \$250M both this year and in 2013.

► Mobile Home investor **RHP Properties** takes a large leap this year, increasing its acquisitions target from \$40M in 2011 to as much as \$350M this year. The investor searches nationwide for properties.

► **AEI Capital Corp.** raises its budget substantially as it plans to spend at least \$125M in 2013, compared to \$75M this year and only \$30M in 2011. The company looks for a variety of property types, including Single-Tenant Retail and Office, as well as triple-net leased properties.

► Cleveland REIT, **Associated Estates Realty** will look for \$250M of multi-family buys in both 2012 and 2013, with focused efforts in Southeast Florida, Southern California, Baltimore, Washington, D.C., metro area and Dallas.

► **Paradigm Properties** seeks \$150M of core-plus, value-added, and opportunistic office and industrial properties in 2013 throughout the Northeast, Mid-Atlantic and Midwest.

► **Ezralow** will actively acquire multi-family properties in Seattle and Northern California at a minimum deal size of \$3M.

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While an expansion into big box centers is possible, expect \$1.5M to \$10M investment-grade, single-tenant retail to remain at the top of the buyer's list. Forward commitments and finance-to-own programs should increase, and contribute to AEI Fund Management's \$75M acquisitions target for 2012. Medical buildings including outpatient, surgical and urgent care, are also in the company's sights.

Cole Real Estate Investments retains a retail-heavy reputation in the investment-grade sector. Despite diversification into shopping centers and non-retail properties, expect the company's \$2.5B Cole Credit Property Trust IV to provide buy-side muscle similar to a pair of recent New Jersey c-stores totaling \$16M. Expect diversification into shopping centers and non-retail assets.

Realty Income's \$3B bid for American Realty Capital Trust will enhance its largely non-investment grade portfolio to include about a third of investment-grade properties. The company wants to further grow the investment-grade portion of its portfolio to about 50% to 60% within the next five years.

## CONSTRUCTION, ACQUISITIONS TO DRIVE SINGLE-TENANT INDUSTRIAL

Demand from office and industrial tenants will spark net-lease acquisitions, sale/leasebacks and build-to-suit transactions in the weeks ahead. Count **AIC Ventures**, **Lexington Realty Trust**, **STAG Industrial** and **W.P. Carey & Co.** among active buyers scooping up space for tenants outside the investment-grade sphere nationwide. Industrial is hot and office will heat as more buyers respond to tenant needs for space after several years of financial belt-tightening.

Count on investors to be net buyers this year, and roll out new investment funds for fee-simple and sale/leaseback-structured buys and forward commitments. AIC Ventures' fresh \$350M to \$400M NL Ventures IX fund will pursue construction-related deals during the next 18 months. More than \$100M could be spent to back developers through forward commitment purchases in primary markets, in addition to redevelopments known by some as dark-to-suits. Remaining fund capital should pursue sale/leaseback transactions. AIC Ventures moves closer to investment grade-sized companies in the \$500M to \$3B range, compared to historical \$25M to \$250M range company sizes.

STAG Industrial buys and builds for tenants on both sides of the investment curve. In targeting upwards of \$200M of buys this year, company brass will hunt additional product beyond recent buys in Dallas, Indianapolis and Spartanburg, S.C., among other markets nationwide. More than \$120M of assets have been acquired since January, at average 9% cap rates. Both AIC Ventures and Lexington Realty Trust will encounter the buyer as it plies a \$5M-plus buy strategy in secondary markets. **Cobalt Capital Partners**, **Exeter Property Group** and **KTR Capital Partners** are also active, in addition to Griffin Capital Net Lease REIT, for investment grade product.

### Acquisitions Creates Net Buyer

Diversified REIT Lexington Realty Trust's contract to acquire a \$480M portfolio from Inland American will catapult the buyer past \$200M-plus of targeted industrial, office and retail deals this year. In one swoop the portfolio buy will reverse a 2011 net-sales trend from the public REIT eyeing an investment-grade rating. Since January the company has put out \$89M for a pair of industrial in Louisiana and Texas, plus two office buildings in South Carolina and West Virginia. Cap rates in the 8.5% to 9.5% range reinforce the buyer's focus on secondary market buys, where regulars also include STAG Industrial and others. Lexington Realty Trust also has committed to \$150M of build-to-suit developments in Colorado, Georgia, Missouri, New York, Oregon and Pennsylvania, with expected completions by June 2013. Watch for action in the healthcare segment, a market rich with sector heavyweights **HealthCare REIT** and **Ventas**, non-traded REIT **Griffin-American Healthcare REIT II**, and public REIT **Duke Realty**.

W.P Carey & Co. has more than \$2B for its CPA:17 fund that acquires single-tenant properties worldwide. More than \$250M of buys have been booked for the fund so far. Anticipate interest in industrial, office, retail and self storage.

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**CONSTRUCTION, ACQUISITIONS TO DRIVE SINGLE-TENANT INDUSTRIAL...**

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Additional capital competing for single-tenant properties, as part of a broader O&I focus, include \$1.5B from **Birtcher-Goodman North America**, \$1B from **Hillwood-Brookfield Industrial Partners** joint venture and \$650M from Duke Realty. Watch the \$2.4B-targeted **Industrial Income Trust** for moves in the bulk distribution and warehouse space.

**DEALMAKER DATABANK™**

## DEALMAKER DATABANK™

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
GID 125 High St. 27 <sup>th</sup> Floor Boston, MA 02110	Thad Palmer (617) 973-9680 tpalmer@gid.com	Apartments	PF adviser acquires core and value-added assets nationwide.
Griffin Capital 2121 Rosecrans Ave. Suite 3321 El Segundo, CA 90245	Michael Escalante (310) 469-6100 Fax: (310) 606-5910 mescalante@griffincapital.com	Single tenant	Non-traded REIT sponsor companies that buy net-leased, office, industrial, medical buildings and healthcare-related assets.
101 N. Wacker Drive Suite 615 Chicago, IL 60606	Don Pescara (310) 469-6141 dpescara@griffincapital.com		
Home Properties 850 Clinton Square Rochester, NY 14604	John Smith (585) 546-4900 Fax: (585) 546-5433 johns@homeproperties.com	Apartments	Acquires value-added apartments throughout the East Coast.
Landmark Apartment Trust of America 4901 Dickens Road Suite 101 Richmond, VA 23230	Seth Harris (804) 237-1341 Fax: (804) 237-1345 sharris@atareit.com	Apartments	Non-traded REIT to acquire Class A stabilized to Class B value-added properties mainly throughout the Sun Belt region.
Lexington Realty Trust One Penn Plaza Suite 4015 New York, NY 10119	Richard J. Rouse (212) 692-7200 Fax: (212) 594-6600 rrouse@lxp.com	Single tenant	Public REIT to acquire Inland American net-lease portfolio.
Liberty Property Trust 500 Chesterfield Parkway Malvern, PA 19355	Michael T. Hagan (610) 648-1716 Fax: (610) 644-4129 mhagan@libertyproperty.com	Single tenant	Acquires single-tenant industrial.
Lincoln Property Co. 900 South Capital of Texas Hwy. Suite 150 Austin, TX 78746	Mike Crockett (512) 322-3210 Fax: (512) 322-3224 mcrockett@lpc.com	Land	Private investor acquires land and other property types nationwide.
The Lionstone Group 100 Waugh Drive Suite 600 Houston, TX 77007	Alan Arnold (713) 533-5860 Fax: (713) 533-5897 aarnold@lionstonegroup.com	Land	Private investor acquires land in and independent of joint venture partnerships. Also acquires urban properties apartments, retail and office buildings.
PCCP 222 N. Sepulveda Blvd. Suite 2222 El Segundo, CA 90245	Daniel Gordon (310) 414-7870 dgordon@pccpllc.com	Apartments Mixed-use	Investor uses pension fund cash for buys nationwide.
Phillips Edison & Co. ARC Shopping Center REIT 222 S. Main St. Suite 1730 Salt Lake City, UT 84101	Hal Scudder (801) 521-6970 Fax: (801) 521-6952 hscudder@phillipsedison.com	Retail	Private investor acquires grocery anchored and lifestyle centers for various non-traded REITs and funds.
Corporate headquarters 11501 Northlake Drive Cincinnati, OH 45249	(513) 554-1110 Fax: (513) 554-1820		
Realty Income 600 La Terraza Blvd. Escondido, CA 92025	Ben Fox (760) 741-2111 Fax: (760) 741-8617 bfox@realtyincome.com	Single tenant	To acquire ARCT in approximately \$3B deal.
	John P. Case (760) 741-2111		

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Spirit Finance Corp. 14621 N. Scottsdale Road Suite 200 Scottsdale, AZ 85254	Peter Mavoides (480) 606-0820	Net Lease	Investor plans \$500M IPO, acquires nationwide.
STAG Industrial 99 High St. 28 Floor Boston, MA 02110	Steve Mecke (617) 574-4777 Fax: (617) 574-0052 smecke@stagindustrial.com	Industrial	Public REIT acquires single-tenant properties nationwide.
Waterton Associates 30 S. Wacker Drive Suite 3600 Chicago, IL 60606	Mark Stern, Peter Vilim Apartments (312) 948-4560 Fax: (312) 948-4501 mstern@wallc.com, pvilim@wallc.com	exceed 2011 acquisitions volume;	Private investor could meet or West Coast assets are of interest.

**PENSION FUNDS, REITs TO DRIVE APARTMENT ACTION**

PF advisers and lesser-known REITs will drive core and value-added Class A and Class B apartment momentum this fall. Deals will reverse a sector lull caused by buyers' flights to urban, infill markets. Because pricey, core deals have become less tenable for yield-oriented investors, expect a shift to more complicated deals, plus value-added buys and development. Recapitalizations similar to **Landmark Apartment Trust of America**, will also become more commonplace as buyers stalk cap rates exceeding 4% to 5.5% averages. Big portfolio buys, recapitalizations and new construction provide alternatives

penclining higher returns. Competitors on the buy, redevelopment and build sides include PF advisers **Canada Pension Plan Investment Board, Cornerstone Real Estate Advisers, GID, Principal Real Estate Investors, TIAA-CREF and Waterton Associates**, plus REITs, **AvalonBay Communities, Equity Residential, Essex Property Trust, Camden Property Trust and Home Properties**.

GID wants another \$1.5B worth of core and value-add units during the next 12 to 18 months, with a targeted 50/50 split between core and strategic/opportunistic buys that will include forward commitments. In scanning SMILE-state markets, plus Chicago and Denver, the buyer will encounter **BPG and Waterton Associates** among others, for value-added and core deals in urban markets. GID has acquired \$700M worth of properties that include a recent buy outside Boston, where **Archstone, Equity Residential and UDR** have made recent moves. **PCCP** is also a competitor with cash from the California State Teachers' Retirement System.

Construction joint ventures will also heat. **Cornerstone Real Estate Advisers'** recent development JV in Washington, D.C., won't dissuade the company from existing Class A and Class B apartments nationwide. In the buyer's sights are \$10M to \$100M equity investments, and \$15M to \$150M debt financing through various structures including mezzanine and bridge debt. Competitors in and beyond Washington, D.C., where the company has partnered with developer **MRP Realty**, will include **Praedium Group** and **TIAA-CREF**. Additional primary market and suburban buys are expected following a suburban Washington, D.C., purchase earlier this summer, from the company's approximate \$2B purse for mostly value-added assets. **TIAA-CREF** has less than \$800M remaining this year for acquisitions and development of \$20M-plus assets. **Canada Pension Plan Investment Board** digs into apartments and industrial as part of a \$2.7B stateside acquisitions campaign this year. Competitor **Principal Real Estate Investors** will acquire and step into construction joint venture equity positions nationwide, in working towards a \$2B overall acquisitions goal.

**Principal Real Estate's** interest in the Southern region will complement recent Mid-Atlantic activity. In future deals the company should cross paths with freshly recapitalized **Landmark Apartment Trust of America**, which will pursue \$15M to \$40M properties throughout the Southeast and Southwest. Another \$500M worth of acquisitions will be sought during 2013. Additional buys should resemble the company's purchase of a 350 unit-plus Class A asset in suburban Houston, its first since the recapitalization and an associated 21-property purchase. Company investors include apartment buyer **DeBartolo Development**.

**LAND BUYERS RAMP UP IN ADVANCE OF BOOM**

