

Crittenden Research, Inc.  
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## EMERGING MARKETS SPECIAL REPORT

Investors chase apartment and office buildings in second-tier markets, including value-added to core assets. Active buyers **Beacon Investment Properties, Cole Real Estate Investments, Hines Global REIT, Inland Real Estate Acquisitions, KBS Realty Advisors, MAA and Piedmont Office Realty Trust** pursue options outside primary, gateway markets that had sustained core buyers' flight to quality. These buyers will be among a growing competitive set to pursue strategies in secondary markets, where vacancies and rents have increased less dramatically and are less liquid than their primary counterparts, but can offer higher returns compared to primary-market properties.

### Office — Many Markets Heat Up

Action heats for buys in Atlanta, Chicago, Denver, Minneapolis and the Texas markets of Austin, Dallas and Houston, where office vacancies, as well as rents and pricing have improved since January. Southern U.S. buyer **Beacon Investment Properties** eyes \$250M of acquisitions this year and keeps tabs on primary markets while pursuing 150,000 s.f. to 200,000 s.f. core to value-added office buildings. It may buy another \$240M of properties next year. Planned diversification into new and existing markets in coming months will balance a deceleration in its top market of Houston, where it has booked a majority of deals this year. On its radar are Atlanta, Chicago, the Texas cities of Austin and San Antonio, plus southern cities Raleigh-Durham, N.C., and Charleston, S.C., to northern Virginia — areas rich with buyers **Boston Properties, Highwoods Properties**, with upwards of \$300M for buys this year, **Parkway Properties, Piedmont Office Realty Trust, Parmenter Realty Partners** and **Shorenstein Properties**.

In the West, energy and technology industry growth underscores confidence, with lower vacancies from Austin to Seattle and Salt Lake City. Investors active in these markets will include **Hines, Hudson Pacific Properties, Kilroy Realty, KBS Realty Advisors** and

## Who's Buying

► **The Herrick Company** has a \$300M acquisition goal for 2013, matching this year's activity. The Boca Raton, Fla.-based Investor seeks multi-family, hotels, industrial, office and retail properties nationwide.

► **MG Properties Group** will grab \$200M worth of multi-family, condo and senior housing facilities this year and in 2013. The San Diego-based private investor and management company is focused on the west for its acquisitions.

► **Hometown America** has freed up more than \$1B in equity following recent dispositions that it is actively looking to deploy. The private investor seeks manufactured housing, mobile home and RV parks primarily along the West Coast, Northeast and in Florida.

► **Rushmore Properties** will look to acquire \$50M of retail, industrial and office properties in 2013 on the heels of \$30M this year. The Chicago partnership seeks value-added and opportunistic buys nationwide.

► **Urdang** looks for \$300M in acquisitions in 2013, coming off \$200M this year. It will put much of its focus on the western region of the U.S. but will look elsewhere as well.

**EMERGING MARKETS: OFFICE — MANY MARKETS HEAT UP...**

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More action will come from Hines Global REIT, which counts concentrations in Boston, Minneapolis, Houston, Seattle and Durham, N.C. Add San Francisco, where it recently bought a single-tenant corporate headquarters building at an 8% cap rate. Corporate earnings declines will stimulate additional primary and secondary market plays. If the buyer chases credit into Chicago, despite the city's 17% vacancy rate that is among better Midwest performers, it will encounter a host of net lease buyers. Active in the single-tenant corporate headquarters space is Cole Real Estate Investments, which plies the market with various non-traded REITs, and STORE Capital. Brookfield Office Properties/Brookfield Property Partners, with more than \$2B, also scan emerging markets for a value-added strategy that could include single tenant buildings.

**Apartments — Fed Action Spurs Apartment Buys**

Demand for apartments in Las Vegas, Phoenix and South Florida will increase in coming weeks, due to rising cap rates brought on by low long-term interest rates. Construction and redevelopment, which has been the hottest in primary and urban core markets, will spread into emerging and suburban markets for higher upside potential. Owing to battered reputations reeking of risk, construction in non-core markets won't dramatically increase in the short term. Supporting opportunistic strategies, however, will be the Federal Reserve's plan to buy long-term bonds until unemployment decreases to 7%. Because of this, opportunistic regional and national buyers can expect to move deeper into emerging markets in coming weeks. Watch for big buyers to quietly evaluate Class A and Class B units in formerly shunned markets where job growth has increased but new construction is stifled. Smaller public REITs and regional apartment buyers will navigate bid-asked spreads to contend with public REITs searching for accretion with value-added, redevelopment and development plays in Las Vegas, Phoenix, South Florida and other markets where 90% to 94% occupancies mark positive increases.

Class A assets in emerging and secondary markets will support MAA's goal of buying another \$100M or more of properties, for a \$300M to \$350M overall acquisitions goal this year. The buyer's northward expansion into Kansas City, Mo., hints at additional new market entries to diversify a Sun Belt portfolio

**EMERGING MARKETS...***Continued from Previous Page***Retail — Cautious Investors Still Looking**

Sputtering retail sales growth and growing inflation means investors will cautiously consider emerging market buys on a one-off basis. Transaction volume will happen through JV partnerships, buyouts and portfolio purchases. Most big buyers that have or are close to clearing and restructuring poorly performing assets will think twice about diving into higher vacancy markets including Las Vegas and Phoenix, for anything less than Class A assets. Contiguous undeveloped land or redevelopment potential will sweeten deals for buyers nervous that the economy will erode progress made post-crash.

Testing the market through portfolio acquisitions, to continue a trend led by **Blackstone, RioCan Investment Trust** and **Starwood Capital Group** earlier this year, will be essential for buyers wanting emerging market upside with stabilized market and asset diversity.

**DDR** will also pursue value-added deals in emerging markets in and outside JV portfolio deals. An open-air power center buy in Arizona earlier this year shows buyer hunger for big-ticket buys with associated upside through undeveloped parcels. Expect DDR to expand its portfolio with Class A power centers following purchases in **Chicago; Phoenix; and Portland, Ore.** In this space the buyer will compete against **Macerich Co.** and, in the Midwest and nationwide, **Glimcher Realty Trust** and **Inland Retail Real Estate Trust's** JV with PGGM.

**DEALMAKER DATABANK™**

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Apollo Commercial R.E. Finance 9 W. 57 <sup>th</sup> St. 43 <sup>rd</sup> Floor New York, NY 10019	Scott Weiner (212) 515-3200 weiner@apollopl.com	Notes	Public REIT acquires debt.
Beacon Capital Partners 200 State St. Fifth Floor Boston, MA 02109	Dane Rasmussen (617) 457-0400 Fax: (617) 457-0499 drasmussen@beaconcapital.com	Office	Private investor acquires office buildings for various commingled and separate-account client funds.
Beacon Investment Ppts. 1140 E. Hallandale Beach Blvd. Hallandale Beach, FL 33009	Ariel Bentata (954) 454-4665 Fax: (954) 454-4749 abentata@beaconvi.com	Office	Private buyer acquires core and value-added office; expects \$240M of acquisitions during 2013.
Boston Properties 800 Boylston St. Suite 1900 Boston, MA 02199	Thomas O'Connor (617) 236-3300 Fax: (617) 236-3311 toconnor@bostonproperties.com	Office	Public REIT acquires office buildings nationwide.
CreXus Investments 1211 Ave. of the Americas Suite 2902 New York, NY 10036-8701	Robert Karner (646) 829-0160 Fax: (212) 696-9809	Debt	Public REIT acquires debt.
DivcoWest 200 Fifth Ave. First Floor Waltham, MA 02451	Keith Wallace (781) 577-5350 Fax: (781) 890-0471	Office	Private buyer acquires office flex and R&D space in one-off and portfolio acquisitions.
DivcoWest — San Francisco 575 Market St. 35 <sup>th</sup> Floor San Francisco, CA 94105	Sam Hamilton (415) 284-5700 Fax: (415) 995-5555	Office	
Highwoods Properties 3100 Smoketree Court Suite 600 Raleigh, NC 27604	Carman Liuzzo (919) 872-4924 carman.liuzzo@highwoods.com	Office	Public REIT raises equity for acquisitions, development.
Hines 134 S. Main Salt Lake City, UT 84101	Dusty Harris (801) 359-7522 Fax: (801) 359-7561 dusty.harris@hines.com	Office	Private investor acquires suburban buildings.

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## DEALMAKER DATABANK™

Hudson Pacific Properties 11601 Wilshire Blvd. Suite 1600 Los Angeles, CA 90025	Alexander Vouvalides Office (310) 445-5700 Fax: (310) 445-5710 alez@hudsonppi.com	Acquires multitenant office on West Coast.
Inland Real Estate Acquisitions/ Inland Real Estate Group of Cos. 2901 Butterfield Road Oak Brook, IL 60523	Joe Cosenza, Matt Tice Office (630) 218-8000 Fax: (630) 218-4935 joe@inlandgroup.com	Acquires core and value-added properties nationwide.
JBG Cos. 4445 Willard Ave. Suite 400 Chevy Chase, MD 20815	Matt Kelly Office (240) 333-3600 Fax: (240) 333-3610 mkelly@jbg.com	Private investor acquires office in Washington, D.C. metro area.
KBS Realty Advisors 620 Newport Center Drive Suite 1300 Newport Beach, CA 92660	Bill Milligan All (949) 417-6500 Fax: (949) 417-6520 bmilligan@kbsrealty.com	Non-traded REIT sponsor buys Various asset classes and risk through KBS Strategy Opportunity Fund, KBS REIT and other vehicles.
Kennedy Wilson 9701 Wilshire Blvd. Suite 700 Beverly Hills, CA 90212	Robert Hart Apartments (310) 887-6400 Fax: (310) 887-6230 rhart@kennedywilson.com	Acquires existing properties and notes secured by apartments.
Kilroy Realty 12200 W. Olympic Blvd. Suite 200 Los Angeles, CA 90064	Joe Hanen Office (310) 481-8420 Fax: (310) 481-6501 jhanen@kilroyrealty.com	Is an active multitenant West Coast office REIT.
100 First St. Suite 250 San Francisco, CA 94105	Eli Khouri (415) 778-5600 ekhouri@kilroyrealty.com	
MVP REIT 8880 W. Sunset Road, Suite 240 Las Vegas, NV 89148	Michael V. Shustek Debt (702) 227-0965	Aspiring REIT eyes \$500M equity raise and western U.S. note buys.
MetLife — San Francisco 425 Market St. Suite 1050 San Francisco, CA 94105	Joel Redmon Office, all (415) 536-1075 Fax: (415) 536-1098 jredmon@metlife.com	Institutional investor acquires urban, suburban market assets.
MetLife — Dallas Two Lincoln Center Suite 1310 5420 LBJ Freeway Dallas, TX 75240	Kurt W. Day (972) 404-4370 Fax: (972) 404-4375 kday@metlife.com	
MetLife — Washington, D.C. 10 Park Ave. Morristown, NJ 07962	Brian V. Casey (973) 355-4501 bvcasey@metlife.com	
MetLife — Chicago 125 S. Wacker Drive Suite 1100 Chicago, IL 60606	Betsy Clark (312) 529-2140 Fax: (312) 529-2133 bclark1@metlife.com	
Mid-America Apartment Comm. 6584 Poplar Ave. Memphis, TN 38138	Tom Cowens Apartments (901) 682-6600 tom.cowens@maac.com	Public REIT buys in emerging markets to complement core strategy.
Northstar Realty Finance nationwide 399 Park Ave. 18 <sup>th</sup> Floor New York, NY 10022	Dan Raffe Debt (212) 547-2600 Fax: (212) 547-2700	Public REIT acquires debt through NorthStar Real Estate Income Trust division.
PCCP 280 Park Ave., 35 <sup>th</sup> Floor W New York, NY 10017	John Randall (646) 308-2100 jrandall@pccpllc.com	
ROC Bridge Partners 5295 S. Commerce Ave. Suite 100 Salt Lake City, UT 84107	Kelley Hansen Office (801) 716-4547 kelley@roc-bridge.com	Private investor acquires office throughout the western U.S.
Starwood Property Trust 1255 23 <sup>rd</sup> St. N.W., Suite 675 Washington, D.C. 20037	Christopher Graham Debt (203) 422-8100 cgraham@starwood.com	Public REIT acquires debt secured by various types of commercial real estate.
TMG Partners 100 Bush St. Suite 2600 San Francisco, CA 94104	Matt Field Office (415) 772-5900 Fax: (415) 772-5911 mfield@tmgpartners.com	Private developer and investor acquires office.

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Western Asset Mortgage Capital  
c/o Western Asset Management  
385 Colorado Blvd.  
Pasadena, CA 91101

Stephen P. Fulton      Debt  
(626) 844-9400  
sfulton@westernasset.com

Plans \$100M offering to acquire  
debt including CMBS.

**CMBS DELINQUENCIES PROMPT NOTES ACTION**

Investors hungry for yields will buy more mortgage debt in coming weeks, as commercial mortgage-backed securities (CMBS) delinquency rates approach mid-2011 high water marks. Suppressed long-term interest rates through 2015 will ramp up sector demand for senior and mezzanine pieces at a time when talk says CMBS originations will be collateralized by riskier, higher vacancy properties moving forward.

Bank-originated loan defaults have steadily decreased as CMBS defaults rise because of borrower

## OFFICE BUYERS SEEK ALTERNATIVES TO CORE

Near rock-bottom cap rates will go even lower for primary CBD office space following Federal Reserve moves that suppress long-term rates. This action raises the bar for return hurdles and makes an even more competitive environment, which will motivate even more institutional, private and public investors to go outside core areas for submarket to secondary market space. Cash heavy opportunistic and value-added buyers will benefit from increased volume heading to market, in addition to joint venture partners and sellers. Core funds will adjust criteria to increase value-added product. The coming sales storm will add more capital to the market, and more REITs will conduct UpREIT transactions ahead of a capital gains tax hike.

Mid-3% cap rates for trophy assets and higher pricing for value added CBD space kicks up transactions in suburban and submarket pockets as investors scurry towards yield. Although big-ticket trade volume isn't expected to plummet in primary markets, institutional-level yields could fall short of last year's mark — and put even more pressure on value- and opportunistic funds to scour for upside.

With a combined \$5B-plus acquisitions purse, **Beacon Capital Partners**, **Boston Properties**, **DivcoWest**, **KBS Realty Advisors** and **MetLife Real Estate Investments** will spark trades including groundlease deals, redevelopment and construction with JV partners ahead of a cap rate dip. However, tightening office vacancy rates nationwide lend confidence to institutional, public and private capital heading to peripheries for higher yields. Yet momentum could smack into a road bump if unemployment doesn't improve.

Look for REIT leader Boston Properties to exceed \$1B of asset buys this year, adding to approximately \$900M of buys this year in Boston, San Francisco, Mountain View, Calif.; and Reston, Va., a Washington, D.C. suburb. More joint ventures and redevelopment will happen, judging deals that recently included an all-in buy of a San Francisco South of Market office building for redevelopment.

Also vying for space in the big REIT's well-worn markets are **DivcoWest**, with more than a \$1B remaining in its technology-directed third fund, though that number could be less if there is truth to speculation that it will buy Mission West's Silicon Valley R&D portfolio. Big life insurance firm MetLife bought a suburban trophy east of San Francisco; the 5% cap rate deal and price per s.f. is considered the biggest deal to hit the Contra Costa County market since 2007. With a little more than \$1B remaining in a \$2.5B fund, Beacon Capital Partners will buy more Class A assets similar to buys this year in Boston's Back Bay and Denver, in addition to go-to markets Los Angeles, San Francisco and Seattle.

Western-focused REIT competitors **Hudson Pacific Properties** and **Kilroy Realty** will get more active if stock popularity holds; they have acquired assets in urban infill and suburban markets throughout Los Angeles and San Francisco, while looking north to Seattle for more.

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