

CRITTENDEN Real Estate Buyers™

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Vol. 29, No. 1

January 7, 2013

BUYERS PLY SECONDARY MARKETS FOR APARTMENT VALUE

Richer financing will stimulate apartment buyers' appetites and pressurize cap rates on Class A and Class B properties in secondary markets this year. In a push to buy properties ahead of anticipated employment growth and a further drop in discount to replacement costs, buyers will squeeze cap rate spreads in secondary markets that have hovered 2% to 3% higher compared to primary markets.

Although this year's overall transaction volume could decline, expect larger acquisitions, portfolio trades and recapitalizations to increase. Active buyers **Fairfield Residential, KBS Legacy Partners Apartment REIT, Morguard North American Residential REIT, Pacific Urban Residential, Resource Real Estate Opportunity REIT, Steadfast Income REIT and Triumph Management,** prepare to stalk value in secondary, suburban and rebounding markets throughout the Midwest, South and West. Meanwhile, big public REITs and institutional buyers — including **AvalonBay Communities, Camden Property Trust, Equity Residential, Principal Real Estate Investors and TIAA-CREF** — will refine construction plans and target selective acquisitions in primary MSAs coast to coast.

Available fixed-rate money in the low-3% range will stoke competition and demand in and outside so-called flyover markets, as an option to pricey western U.S. product. Markets on the radar will include Kansas City, Oklahoma City and Minneapolis, in addition to Las Vegas, Phoenix and South Florida. With \$400M of maturing apartment loans coming due through 2016, expect to see more joint ventures, interest buys and portfolio recapitalizations.

Smaller Investors Step Up

Smaller U.S. and Canadian REITs will also eye expansions. Steadfast Income REIT could meet or exceed \$350M of secondary-market purchases this year, while it and other investors expect compression up to 70 basis points this year. The non-traded REIT has been an active buyer in such state capitol and large

Crittenden Acquisitions Forecast

Apartments

Buyer	2012 Acquisitions Activity*	Projected 2013 Acquisitions Activity*
Equity Residential	\$1.5B+	\$9.6B+
AvalonBay	\$205M	\$7.2B
Fairfield Residential	\$1.0B	\$1B
UDR	\$771M	\$900M-\$1.3B

SELF STORAGE POPULARITY TO SURGE...

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Although lenders won't bankroll new construction this year, expect accessible financing to drive demand for value-added and redevelopment properties. REITs and private investors will court occupancies less than 50%.

Investors will complement core strategies with acquisitions in supply rich Arizona, Florida and Nevada. However, they'll sidestep REO and other distressed assets if pricing remains inflated compared to risk. Buyers will opt for discounted pricing that reflects risk instead of paying up for distressed assets in hopes of higher returns.

Joint venture partnership buys will factor into 2013 acquisitions, as buyers shop portfolios for discounts to current market returns. CubeSmart, which bought \$450M of assets during 2012, is a leading example.

DEALMAKER DATABANK

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PRIMARY OFFICE DEMAND TO DRIVE VALUE IN SECONDARY MARKETS...

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In contrast, Dallas — with a near-20% vacancy rate and lack of new construction — is ripe for foreign and private investor interest.

Canada-based Agellan Commercial REIT and Brookfield Office Properties should be among active buyers. Brookfield Office Properties has \$950M of cash that could be used to support a Dallas entry and expand existing footprints in Denver, Los Angeles, Minneapolis and Seattle, in addition to its core Boston, New York and Washington, D.C., markets. During 2012 the company acquired more than \$300M of properties, compared to \$1B in 2011.

KBS Realty Advisors, with a \$1.5B acquisitions goal across all property types, should continue a focus on Texas and other secondary markets nationwide, for Class A and suburban space. The buyer acquired \$1.3B of assets last year in markets including Plano, Texas, where fellow non-traded REIT Cole Real Estate Investments also scooped a property. Watch for KBS Strategic Opportunity REIT to muscle into the entrepreneurial space in seeking high-vacancy buildings. By comparison, Cole Real Estate Investments should compete for stabilized corporate headquarters and suburban office coast-to-coast, as part of a diversified strategy. It booked \$3B of acquisitions during 2012 and will encounter **Hines**, **Jones Lang LaSalle**, **One Liberty Properties** and **STORE Capital** in shopping for Class A and corporate headquarters buildings this year.

Smaller Buyers Plan Action

CapRidge Partners eyes \$100M of value-added buys in Texas metro areas during the next 12 to 24 months. The Lone Star State specialist will home in on 50%- to 75%-leased buildings priced from \$20M to \$50M. CapRidge, Beacon Capital Partners, International Capital and Velocis Partners will be among smaller buyers noticing an increase of out-of-state and international capital because of increased growth and unemployment rates besting national averages.

Count on mounting action outside Texas as well, as buyers pinpoint overlooked markets for value. Transwestern Investment Management's **Diversified International Partners** targets a \$200M raise, some of which could be used for stabilized and value-added deals in secondary-market CBDs, in addition to Texas properties and gateway markets including Chicago. Targeted prices range from \$5M to \$30M. In late 2012 the buyer acquired a 125,000 s.f. property outside Denver.

Minneapolis will also emerge this year as a go-to spot, despite mid 18% vacancies. Shorenstein Properties, which acquired \$600M of property during 2012, could deepen its foothold in the market on behalf of its latest fund. If the private buyer heads to Pennsylvania to complement an East Coast portfolio, company dealmakers could encounter active buyer Highwoods Properties. The public REIT bemoans a lack of product for sale but slightly upped its 2012 acquisitions goal to \$330M and bought another building in downtown Pittsburgh, which touts a mid-10% vacancy rate and rising rents. REIT Parkway Properties, which wrapped up 2012 with nearly \$700M of deals, could also shop for additional space in Atlanta, and Phoenix and Charlotte, N.C., as part of a Southeast and Sun Belt focus.

INDUSTRIAL BUYERS BRACE FOR SURGE IN DEMAND

An onslaught of interest from institutional investors and REITs will ratchet up 2013 activity. Buyers will increasingly target large deals and portfolios as a way to bulk up market share of stabilized and value-added warehouse and distribution space. **Bentall Kennedy**, **Clarion Lion Properties Fund**, **Goodman North America Partnership**, **KTR Capital Partners** and **STAG Industrial** will be among active buyers this year in the 87%-leased sector, which is expected to improve, at least until speculative development again outpaces demand and causes cap rates to rise above 6% to 8% averages. Buyers expect manufacturing and warehouse growth to outpace the general economy this year, especially since the cost of U.S. energy remains competitive compared to other countries.

Bentall Kennedy's likely \$500M-plus of industrial action this year further highlights the segment's ramping popularity.

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INDUSTRIAL BUYERS BRACE FOR SURGE IN DEMAND...*Continued from Previous Page*

Watch for the pension fund adviser to show interest in Class A multitenant warehouse and distribution buildings priced from \$25M to \$30M-plus, with a focus on northern New Jersey and Southern California. While most of the capital will be used to acquire assets built after 2000 with at least seven years remaining on lease terms, about 25% will fund speculative developments. Other markets considered on the buy and, potentially, build sides include Baltimore, Dallas, Houston, Seattle, Washington, D.C., and eastern Pennsylvania.

In pursuing a strategy that reverses a two-year trend of buying up apartments, Bentall Kennedy will encounter other pension-backed buyers, including Clarion Lion Properties Fund and Goodman North American Partnership — two companies with close to \$8B of combined buying power. Clarion Lion Properties, targeting a \$6.6B equity raise, will likely seek acquisitions and development of core and core-plus bulk warehouse and distribution properties in primary industrial markets nationwide. The Goodman North America Partnership with the Canada Pension Plan Investment Board will continue buying and building on behalf of an \$890M equity venture. It, and Clarion Lion Properties, should cross paths with Bentall Kennedy on the West Coast, plus buyers KTR Capital Partners and STAG Industrial on the East Coast.

STAG could fuel upwards of \$250M worth of Class B assets buys and selective build-to-suit development. The investor bought approximately \$450M worth of properties during 2012. STAG will encounter **Industrial Income Trust** and KTR Capital Partners as it scans the Midwest, Northeast and Southeast regions for buildings measuring 150,000 s.f.-plus, and priced from \$5M to \$25M.

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