

RETAIL BUYERS SET TO JV AND EXPAND

A groundswell of activity heads for the lifestyle center, mall and power center space targeting both value-seeking and fashion-oriented consumers. Talk of investors diving into the mid-4% and 5% cap-rate ranges for top-shelf suburban lifestyle centers and malls, respectively, are supported by available long-term CMBS debt hovering in the mid-3% range. For comparison, companies in early 2012 were refinancing debt in the high-4% range. As a result of lower interest rates, expect buyers to increasingly consider debt assumption, for upside sweetened by a solid rent roll of tenants paying below-market rents.

Highly capitalized retail buyers will partner up and extend their reach for Class A centers coast to coast, while smaller investors expand core and value-added portfolios into primary and tertiary markets. Grocery-anchored centers should retain their position as investor favorites until completed new development hits the market, with buyers expected to pay up for discount grocery and retail assets. Overall, retail volume could pick up this year with an increase of power center and mall trades. Low long-term interest rates will set the tone for big and small retail buyers this year, as vacancy rates for all types of product plod along an upward trend into the mid-9% range this year.

Grocery-anchored buyers will contend with lower cap rates and shrinking stock. A dearth of assets available at palatable prices will drive more development and redevelopment in coming months. Public and non-traded REITs **Equity One**, **Excel Trust**, **Kimco Realty**, **Phillips Edison-ARC Shopping Center REIT**, **Regency Centers** and **Weingarten Realty Trust** will all be active in the sector. Cap rates hovering in the 5% to 7% range depend on location, anchor tenant credit and rent rolls.

Buyers will redouble efforts to buy urban and infill suburban properties ahead of new project deliveries. Equity One can be expected to intensify an urban infill shopping center focus this year with acquisitions and development throughout California, the East Coast and the South. The public REIT, which acquired more than \$280M of properties during 2012, will encounter Phillips Edison & Co.-ARC Shopping Center REIT in California and Oregon, both markets where the non-traded REIT debuted late last year as part of \$300M-plus of 2012 activity nationwide. Independent of the REIT, Phillips Edison & Co. maintains an appetite for distressed and value-added shopping and power centers for its Strategic Investment Fund II, which should have a successor fund later this year. **Acadia Realty Trust** will buy stabilized and value-added assets throughout the East Coast, as well as Chicago, for core and value added vehicles that could acquire for \$500M this year. Excel Trust, which comes off its most active year in company history with \$440M of deals, will feed its appetite for grocery-anchored centers, shopping centers and power centers throughout the Mid-Atlantic, Northeast and West Coast. Buyers will also increasingly diversify into power centers featuring rich blends of discount retailers.

Demand for power centers could push cap rates to grocery-anchored levels, and motivate a wave of big portfolio trades in rebounding markets. Big buyer **DDR** could acquire \$250M worth of power centers and other properties nationwide this year. **Simon Property Group**, which booked nearly \$4B of acquisitions last year, can be expected to acquire and develop power centers, lifestyle centers and malls in and independent of joint ventures — including a recent purchase with **Institutional Mall Investors/Miller Capital Advisory**. DDR and Simon will encounter **Inland Diversified Real Estate Trust**, which recently picked up a half-dozen power centers in Nevada, as part of \$300M-plus of acquisitions during 2012. Other buyers include **USAA Real Estate Co.**, following its stabilized purchase in the rebounding Inland Empire market of Fontana, Calif., and **The Hampshire Cos.**, active from northern Virginia to the Northeast, for various property types including retail and power centers. **Federal Realty Investment Trust** this year could significantly exceed approximately \$125M of deals booked in 2012.

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Crittenden Acquisitions Forecast

Retail

Buyer	2012 Acquisitions Activity*	Projected 2013 Acquisitions Activity*
Simon Property Group	\$3.6B+	\$3B
Cole Real Estate Investments	\$1.8B	\$2.5B
Macerich	\$821M	\$500M+
DDR	\$760M	\$250M
Kimco Realty	\$540M	\$400M
Acadia Realty Trust	\$468.5M	\$500M
Excel Trust	\$440M	\$150M-\$200M
Glimcher Realty Trust	\$392M	\$100M+
Phillips Edison & Co.	\$300M	\$300M
Equity One	\$280M+	\$300M

* Projections are based on earnings reports and individual interviews,
as well as subjective editorial assumptions regarding anticipated future performance in the segment.

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Consistent with strategy, Federal Realty Investment Trust wrapped up 2012 with a discount grocery-anchored power center buy in the dense, infill Alameda County market east of San Francisco; it will shop primary infill markets for more larger grocery-anchored centers, lifestyle and power centers.

Smaller buyers also plan to beef up expansion efforts in and outside the power center space. **Rubenstein Real Estate** could meet or exceed \$200M of acquisitions booked during 2012, as it expands its Midwest-heavy portfolio with Mid-Atlantic and western U.S. properties. And the properties are getting larger, with a recent \$107 psf purchase of a 700,000-plus power center in Harrisburg, Pa., from Pennsylvania Real Estate Investment Trust; the company also plans to buy a 300,000 s.f. center from the REIT in coming weeks. The company has acquired unanchored centers to power centers measuring 100,000 s.f. to 350,000 s.f.-plus, in fee-simple to debt assumption structures; the buyer doesn't shop enclosed malls or distressed assets.

Hutensky Capital Partners later this year plans to roll out a successor fund that could exceed or double the size of its current \$101M Hutensky Capital Partners II fund, with less than \$50M remaining for value-

INDUSTRIAL INVESTORS BULLISH WITH BIG BUYS...*Continued from Previous Page*

Brennan Investment Group's appetite for bulk warehouse and light industrial properties will deepen ties with joint venture partners and expand footprints in and beyond its focus markets of Chicago, Washington, D.C., Texas, central Florida and northern New Jersey. Potential to exceed the more than \$350M of purchases booked during 2012 this year is a strong possibility, especially with joint venture partners **DLJ Real Estate Capital Partners**, foreign investor **Gatehouse Bank, TriGate Capital and Westminster Funds**. Judging past activity, Brennan Investment Group will focus on buying infill assets at discounts to replacement costs through fee-simple to recapitalization structures. Private equity buyer Long Wharf Real Estate Partners also has been active in the value-added space, with a recent 1 million s.f.-plus acquisition; The Hampshire Cos. acquires value-added and distressed industrial and other properties on the East Coast, from northern Virginia to the Northeast. California is where **CapRock Partners** aims for \$50M of value-added acquisitions through October, for its CapRock Partners Fund I vehicle, which considers \$5M to \$25M properties to note purchases; DCT Industrial also shops in the state.

Texas competition heats up for properties with buyers Cabot Properties, Industrial Income Trust, KTR Capital Partners, Clarion Partners' Lion Industrial Trust and **Goodman Birtcher North America** active in the space as part of a nationwide strategy. Lion Industrial Trust has raised nearly \$2.5B of capital that it's using for development joint ventures and acquisitions nationwide. **Cabot Industrial Value Fund III** targets \$1.5B of warehouse and distribution nationwide, including in Dallas and Houston. The beefed-up Verde Realty can be expected to ramp up big portfolio buys and new development of bulk warehouse and distribution in and outside its primary markets of Baltimore, Northern California and Texas. National buyers KTR Capital Partners, with \$700M for acquisitions and Industrial Income Trust, with nearly \$500M of buys during 2012, will drive competition for warehouse and distribution space, in addition to the nearly \$900M Goodman Birtcher North America venture that evaluates big properties throughout Los Angeles and the Inland Empire region, Philadelphia, San Francisco, New Jersey and New York.

DEALMAKER DATABANK

ACADIA REALTY TRUST, 1311 Mamaroneck Ave., Suite 260, White Plains, NY 10605. Joel Braun, EVP and Chief Investment Officer, (914) 288-8100; Fax: (914) 288-2146; jbraun@acadiarealty.com

ALTISOURCE RESIDENTIAL, 402 Strand St., Frederiksted, Virgin Islands 00840-3531. Ashish Pandey, CEO, Rachel Ridley, CFO, (340) 692-1055.

ANNALY CAPITAL MANAGEMENT, 1211 Ave. of the Americas, Suite 2902, New York, NY 10036. Kris Konrad, co-Chief Investment Officer, Wellington J. Denihan, Vice Chair, CEO and Chief Investment Officer, (212) 696-0100; Fax: (212) 696-9809.

BRENNAN INVESTMENT GROUP, 2340 River Road, Suite 310, Des Plaines, IL 60018. Robert G. Vanecko, Managing Principal (847) 813-6810; rvanecko@brennaninvestmentgroup.com

CREXUS INVESTMENT, 1211 Ave. of the Americas, Suite 2902, New York, NY 10036. Robert Karner, Global Head of Debt Investments, (646) 829-0160; rkarnr@crexusinvestment.com

DDR, 3300 Enterprise Pkwy, Beachwood, OH 44122-7249. Daniel E. Branigan, VP, Acquisitions and Dispositions, (216) 755-5804; dbranigan@ddr.com

EXCEL TRUST, 801 N. 500 West, Suite 201, Bountiful, UT 84010. Steven A. Farnsworth, VP, Acquisitions, (801) 294-2400, ext. 304.; sf@exceltrust.com

EQUITY ONE, 410 Park Ave., Suite 1220, New York, NY 10022. Lauren Holden, VP, Portfolio Management, Regional President Northeast, (212) 796-1746; lholden@equityone.net

FEDERAL REALTY INVESTMENT TRUST, Northeast office: 1 University Plaza, Suite 612, Hackensack, NJ 07601. Harold Nafash, Senior Director of Acquisitions, (201) 774-7000, hnafash@federalrealty.com West Coast office: 2041 Rosecrans Ave., Suite 245, El Segundo, CA 90245. Jeff Chambers, Senior Director, Acquisitions and Development, (949) 414-5286; jchambers@federalrealty.com

HARBOR GROUP INTERNATIONAL, 1412 Broadway, Suite 1400, New York, NY 10018. Ran Kaufman, Managing

DEALMAKER DATABANK

HUTENSKY CAPITAL PARTNERS, 100 Constitution Plaza, 7th Floor, Hartford, CT 06103-1703. Brad Hutensky, President and Principal, (860) 527-2222; Fax: (860) 706-0076; bhutensky@hcpfund.com

KTR CAPITAL PARTNERS, 140 Broadway, 43rd Floor, New York, NY 10005. John DiCola, Partner, (212) 710-5060; jdicola@ktrcapital.com

LINCOLN PROPERTY CO., 120 N. LaSalle, Suite 1750, Chicago, IL 60602, John Grissim, EVP, (312) 345-8780; Fax: (312) 345-8760; jgrissim@lpc.com

MORGUARD CORP., 2542 Williams Blvd., Kenner, LA 70062. John Talano, VP, (504) 904-8522; jtalano@morguard.com

NORTHSTAR REAL ESTATE INCOME II/NORTHSTAR REALTY FINANCE, 399 Park Ave., 18th Floor, New York, NY 10022. Daniel Gilbert and Albert Tyllis, Co-Presidents, (212) 547-2600.

PHILLIPS EDISON & CO., 175 E. 400 S., Suite 402, Salt Lake City, UT 84111. Hal Scudder, Chief Investment Officer, (801) 983-6302; Fax: (801) 521-6952; hscudder@phillipseedison.com

RUBENSTEIN REAL ESTATE, 6310 Lamar Ave., Suite 220, Overland Park, KS 66202. John Rubenstein, Owner, (913) 362-1999; Fax: (913) 362-1969; johnr@rubensteinre.com

SILVER BAY REALTY TRUST, 601 Carlson Parkway, Suite 250, Minnetonka, MN 55305. Griffin Wetmore, Business Development, (952) 358-4400; Fax: (952) 473-0105

SIMON PROPERTY GROUP, 225 W. Washington St., Indianapolis, IN 46204. Brian Warnock, SVP, Acquisitions and Matthew Lentz, EVP and Chief Investment Officer, (317) 636-1600; Fax: (317) 685-7336.

TRICAP CHICAGO LLC, 747 N. LaSalle St., Suite 210, Chicago, IL 60654. Bryan Pritchard, Principal, (312) 725-9440; Fax: (773) 409-5222; bpritchard@tricapchicago.com

CMBS TO SPUR INCREASED DIVERSIFICATION, DEBT AND EQUITY PLAYS

A rise in CMBS originations could mean more than \$40B of action this year. Lenders, including private investors, mortgage REITs, commercial banks and life insurance companies hunting stabilized core- and core-plus collateral, will further pressure owners holding cash-starved assets that haven't benefited from returning capital and record-low interest rates. A flurry of recapitalizations, portfolio buys and operating company acquisitions will occur this year if the chasm widens between CMBS-favored and non-favored assets. Volume will also increase from banks serious about selling assets instead of paper, as nearly \$1.5 trillion of debt is slated to mature during the next couple of years.

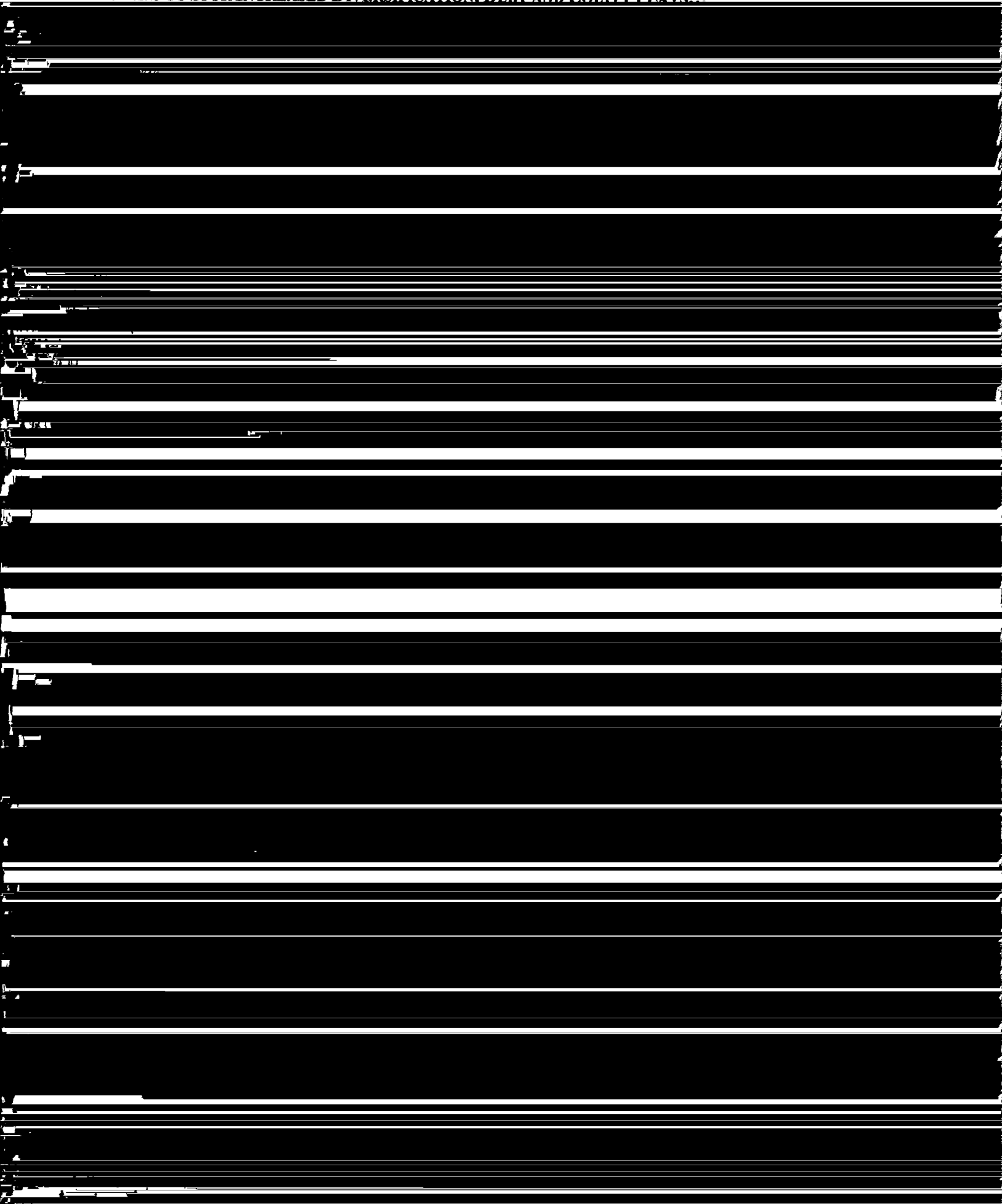
Plentiful CMBS debt will ripple through the investment market this year to support an upward trend of recapitalizations, real estate-owned asset trades and a heightened motivation to seek returns outside traditional CRE sectors. Count on buyers **Harrison Street Real Estate Capital**, **PCCP** and **SL Green Realty** to be among opportunistic buyers in pursuit of recapitalization and preferred equity positions in deals that won't benefit from an upsurge of demand from play-it-safe CMBS originators' and bank lenders' 65% to 70% LTV fixed-rate paper. Expect investors to refine strategies around single-family housing purchases — a market with diversified investors including leaders **Blackstone Group**, **Colony Financial** and **Starwood Capital Group**.

Deeper-pocketed buyers can be expected to lead recapitalizations, and regional investors will shop more REO assets from enthusiastic bank sellers willing to write loans to long-term borrowers. Watch PCCP and its targeted \$700M-plus PCCP Capital II to make at least \$100M of recapitalization and distressed real estate and note purchases, in addition to writing new loans secured by the big-four types and hotels. Its targeted \$500M PCCP Equity VI opportunistic vehicle also shops stabilized assets, including mixed-use, with distressed financial structures.

Other buyers to watch in the REO and recapitalization sphere this year include **Admiral Capital Real Estate Fund** and **Broadreach Capital Partners II**. **Harrison Street Real Estate Capital**, with more than \$1B of equity, will populate the so-called opportunistic segments including medical office, self-storage properties, senior housing and student housing; expect preferred equity and debt activity through joint venture partnerships as a result.

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APARTMENTS AND OFFICES ATTRACT IN CHICAGO, MIDWEST...

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Lincoln Property Commercial has been active with partner **Angelo, Gordon & Co.** in other U.S. markets. **MetLife Real Estate Investments** should continue its buying spree in the Windy City and its suburbs, as part of a national push towards yield in the apartment and office sectors. **Investcorp**, which has steadily increased holdings during the past couple years, is another foreign buyer that will likely execute deals in suburban Chicago and secondary markets following 2012 action with partners including Golub & Co. USAA Real Estate Co., which buys on behalf of several funds targeting value-added and government-leased space, may also ramp up activity in the CBD and suburbs in and independent of joint ventures with buyers including **GlenStar Properties**. **Ivanhoé-Cambridge** will also make waves with new development.

While **Five Mile Capital Partners'** long-awaited acquisition of **Prime Group Realty Trust** in late 2012 puts a downtown Chicago office building into its portfolio, don't expect the company to aggressively compete for properties as a result. By comparison, **Cedar Street Co.** plans diversification outside apartments with a \$100M to \$150M acquisitions goal this year. Expect increased interest in 30,000 s.f. to 100,000 s.f. multitenant office buildings throughout the city this year, in addition to 10,000 s.f. to 100,000 s.f. retail properties and hotels.

Windy City Apartments

Big-ticket deals will follow a ramping trend of institutional and foreign buyers expanding footprints in 2012, including MetLife and **Morguard Corp.** These and other buyers will increasingly mix redevelopment and off-market purchases into their strategies as alternatives to marketed deals. In chasing yield, expect to see more of MetLife in the Class A Chicago market, following more than \$200M of activity since late 2011. The institutional investor will likely expand interest into the suburbs — similar to its San Francisco Bay Area moves in the office market — if city apartment pricing becomes too unwieldy. Canada-based **Morguard Corp.** and affiliate Morguard North American Residential REIT should be expected to continue last year's enthusiasm, with more than \$300M of acquisitions in the market, as part of the company's plan to expand a U.S. footprint beyond core markets of Alabama, Florida and Louisiana.

Smaller, national buyer **Waterton Associates** will shop the Class A and Class B value-added segments and eye more adaptive apartment reuse involving hotels and industrial in Chicago, as it could meet or exceed last year's approximately \$500M of property purchases. Beyond Chicago, the investor will target initial entries and footprint expansions in Southern California — including the Inland Empire — a Seattle-market reentry, in addition to Las Vegas, Colorado, the New York Tri-State area, Charlotte, N.C., and Washington, D.C., where it could encounter **Fifield Cos.** Later this year the company should introduce a successor to its current Waterton Residential Property Fund X, which has \$100M of remaining equity. Smaller investor **Tricap** will seek smaller Class B and Class C properties outside Chicago's CBD, plus other Midwestern markets like Detroit, Indianapolis and Columbus, Ohio, as it considers \$3M to \$10M deals for a \$20M-plus acquisitions target this year.

Customer Service
Tel: (800) 421-3483 Fax: (619) 923-3518
E-mail: membership@crittendenresearch.com



Newsroom Fax: (415) 475-1576

Crittenden Real Estate Buyers™ is published by Crittenden Research, Inc., 45 Leveroni Court, Suite 204, Novato, CA 94949. Send address changes to *The Crittenden Real Estate Buyers™*, P.O. Box 1150, Novato, CA 94948-1150. Contents copyright © 2013 Crittenden Research, Inc. Sample reports may be requested online at www.crittendenonline.com.

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