

INDUSTRIAL BUYERS OUTPACE EXPECTATIONS

Hungry industrial buyers with hefty budgets will exceed their own projections — in some cases significantly — as they capitalize on rising returns that outpaced all other CRE asset classes from January to June. Acquisitions momentum, propelled by declining vacancy rates and rental increases, stimulates cap rate compression into the high-5%- to 6%-range for core assets.

Liberty Property Trust's planned \$1.5B+ of buys shatters a previous \$100M to \$200M forecast. **Industrial Income Trust** has acquired for \$540M — roughly 20% more than expected for the entire year. Other buyers poised to pick up the pace include **Duke Realty**, close to \$400M, but could top \$500M. **The Blackstone Group**, with nearly \$250M of year-to-date acquisitions, is expected to reach \$500M. **Cabot Properties** rolls out a fourth fund and expects to book \$300M of buys by December. Hillwood, with \$55M of buys, wants to do \$350M+ of deals by December. **Rexford Industrial Realty** will leverage its \$225M IPO for Southern California buys. **Clarion Partners** has an estimated \$1B deal target, while **Bentall Kennedy** aims for \$500M by December.

Buyers will ramp up deal volume with acquisitions in Houston, Phoenix, northern New Jersey, central Pennsylvania, Southern California and South Florida. Although increased development plans and lukewarm GDP growth threatens to dampen enthusiasm, acquisitions plans won't be stifled.

Look for Cabot Properties' to acquire another \$200M beyond approximately \$100M of YTD acquisitions in the Class A and Class B bulk warehouse/distribution to light industrial segments, including vacant buildings. Deals will be made for the recently introduced Cabot Industrial Value Fund IV that could acquire \$1.5B of industrial through August 2017, from a targeted \$600M to \$700M equity raise. Don't be surprised to see an increase of build-to-suits and speculative development from the company that plans to use at least 80% of its fund for U.S. activity.

Hillwood Investment Properties and its **Hillwood-Brookfield Industrial Partners** JV should enter new markets and expand existing footprints for light-to-bulk industrial buildings ranging from 100,000 s.f. to 1 million s.f.. Miami and Houston are targeted for initial entries, and the company also scours familiar primary markets Atlanta, Chicago, Dallas, Indianapolis, Memphis, Phoenix, Pennsylvania and Southern California. It has purchased 1.3 million s.f. of space since January and aims for another \$350M-plus of acquisitions, plus more cash for development. During 2014 the investor will seek \$400M of acquisitions and likely \$100M of development for its core and joint venture platforms that include the Hillwood-Brookfield Industrial Partners.

Newly public **Rexford Industrial Realty** will tap a combined \$400M credit line for warehouse/distribution, light manufacturing and flex space industrial throughout Southern California. The buyer can be expected to shop its primary market of Los Angeles, in addition to expanding footprints throughout San Diego and Ventura counties, plus the Inland Empire. The company, trading on the NYSE under REXR, doesn't plan to expand into new markets anytime soon. Dealmakers may encounter Clarion Partners, which likes the segment and can be expected to shop the Inland Empire and greater Southern California, in addition to northern New Jersey and Pennsylvania for bulk warehouse/distribution and light industrial space.

Other REITs are slow to start but could ratchet up acquisitions later this year. **Terreno Realty** nudges \$100M of buys with deals under contract in northern New Jersey. Dealmakers have acquired \$73M so far this year. **EastGroup Properties**, with \$74M of acquisitions since January, will buy buildings and land to follow earlier deals in Dallas and Charlotte, N.C.

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Crittenden Acquisitions Forecast

Industrial

Buyer	YTD 2013 Acquisitions	Projected 2013 Acquisitions Activity*
Liberty Property Trust	\$1.5B	\$100M to \$200M
Industrial Income Trust	\$540M	\$425M
Duke Realty	\$388M	\$300M-\$500M
The Blackstone Group	\$241M	\$500M
Prologis	\$127M (prorata \$86M)	\$600M(global)
Bentall Kennedy	\$240M	\$500M+
Cabot Properties	\$100M	\$300M
Hillwood Investment Properties	\$55M	\$400M+
DCT Industrial Trust	\$193M	\$200M
STAG Industrial	\$181M	\$250M-\$400M

* 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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First Industrial Realty Trust expands a \$600M-plus credit line that will fuel additional buys past a \$20M purchase in Chicago earlier this year. The buyer scouts for warehouse/distribution and land buys in Southern California, the Midwest and South.

AGGRESSIVE BUYERS LOOK FOR MORE HOTEL DEALS

Hotel buyers will put out more cash by December, as more eager sellers recast pricing for assets. Big full-service buyers this year include **Sunstone Hotel Investors**, which could add another \$200M of properties. **Chesapeake Lodging Trust** may surpass \$400M of deal volume. Full- and limited-service buyer **Apple REIT X** could strike more than \$500M of acquisitions.

Sunstone Hotel Investors has acquired more than \$300M since January — including purchases in Boston and New Orleans — and could finish an active year with \$500M of full-service hotels. Chesapeake Lodging Trust, which has acquired \$331M since January, may follow recent deals in New Orleans, New York City, San Francisco and Santa Barbara, Calif.

Summit Hotel Properties has access to another \$150M to \$200M for buys but it has already spent \$414.2M this year and may decide to hold onto the remaining cash. The buyer considers OP units capitalizing on underpriced asset to stock values. It plans additional sales of smaller properties likely to smaller regional and local investors applying a value-added strategy as it pursues approximately \$20M of sales.

Although it has yet to acquire a property this year, value-added buyer **SoTHERLY Hotels**' eyes an initial entry into Houston — part of a plan to widen a southern footprint of upper-upscale and full-service keys. Dealmakers will shop primary and secondary markets for Crown, Hilton, Holiday Inn, Marriott and Sheraton flags which, based on its existing portfolio, could range from 150 to 350 keys. Execs will contend with larger buyers Noble Investment Group and RLJ Lodging Trust, also applying a repositioning strategy to upper upscale and upscale full-service keys in primary and secondary markets. **RLJ Lodging Trust** can be expected to easily acquire more than \$200M this year, with urban, infill full-service properties nationwide. More deals should occur in Houston, San Francisco or Hawaii.

LaSalle Hotel Investors will likely surpass \$50M action in San Francisco with more purchases of full-service properties in primary markets. **DeBartolo Development**'s diversification into hotels — part of a likely \$1B acquisitions purse targeting multiple property types nationwide. In Hawaii and other primary markets, DeBartolo Development will encounter **Host Hotels & Resorts**.

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Host Hotels & Resorts could acquire more than \$200M this year in primary markets, adding to a \$140M buy in Hawaii earlier this year. **Ashford Hospitality Trust**, which could also scout Hawaii to complement a Florida resort, has acquired for almost \$90M since January.

Chatham Lodging Trust searches for additional buys in the Northeast and beyond. The company plans \$125M-plus of additional acquisitions by October. Dealmaker acquisitions in the upscale, extended-stay market for value-added hotels will add to a \$55M YTD acquisitions volume. Additional deals will occur independently and through its two-year-old partnership with private equity company **Cerberus Capital Management**. The public REIT can be expected to shop for properties in urban, infill markets in the top 25 metro areas. However, a push to enter new markets could augur additional action beyond plans in Pittsburgh, where dealmakers bought a recently built downtown hotel.

Hersha Hospitality Trust will expand limited-service footprints in California and Florida with newer properties and dispose of older keys throughout its core Northeast market. Dealmakers have \$100M of available cash, which, when combined with planned sales, should also fuel additional buys of upper-upscale, upscale, midscale and extended stay keys in Los Angeles, Miami and South Florida. Such deals will add to \$217M-plus of YTD purchases in San Diego, Calif., Coconut Beach, Fla., and New York City.

Supertel Hospitality can be expected to book more acquisitions and sales. The REIT uses cash from a \$115M equity raise to expand a secondary and tertiary market portfolio of limited-service hotels. The buyer's plan to buy \$40M-plus of assets in the North Carolina markets of Charlotte and Pine Knoll Shores, as well as Columbia, S.C. and Wytheville, Va., satisfies a strategy targeting select-service, upper-upscale and upscale hotels nationwide. It will also sell at least 20 properties in coming months.

Nontraded **Apple REIT X**, with more than \$300M of closed and pending acquisitions, should reach a \$500M acquisitions goal for full- and limited-service and extended-stay hotels in primary and secondary markets. The nationwide buyer recently has been active in Arizona, Minnesota, Nebraska, Oklahoma and Texas, for Hilton, Hampton Inn, Homewood and Courtyard by Marriott hotels.

Throughout the U.S. and particularly in the Southeast, **Extended Stay America/ESH Hospitality's** \$100M equity raise targets the midpriced extended stay market. Cash will be used for repositioning and sales will be considered; if the buyer books any new deals, they'll likely happen in top markets of California, Florida, Georgia, Illinois, North Carolina, Ohio, Texas and Virginia.

DEALMAKER DATABANK

APPLE REIT Cos./APPLE REIT TEN (hotel): 814 E. Main St. Richmond, VA 23219, Sam Reynolds, EVP, Director of Acquisitions/Dispositions and Portfolio Management, (804) 344-8121, fax: (804) 344-8129, sreynolds@applereit.com; Justin Knight, President, (804) 344-8121, fax: (804) 344-8129, jknight@applereit.com

ASHFORD HOSPITALITY TRUST (hotel): Brian Hughes, SVP, Acquisitions and Sales, 14185 Dallas Pkwy., Suite 1100, Dallas, TX 75254, (972)778-9333, fax: (972) 980-2705 bhughes@ahtreit.com

ASHLEY CAPITAL (industrial): 60 E. 42nd St., Suite 4530, New York, NY 10165, Lori Roth, VP, (212) 755-1900, fax: (212) 750-1850, lroth@ashleycapital.com; Paul Rubacha, Principal, (212) 755-1900, fax: (212) 750-1850, prubacha@ashleycapital.com; Rick Morton, Principal, 2575 S. Haggerty Road, Suite 500, Canton, MI 48188, (734) 394-1900, fax: (734) 394-1925, rmorton@ashleycapital.com

BENTALL KENNEDY (industrial): Paul Boneham, EVP, Head of Transactions, 2 N. Riverside Plaza, Suite 2150, Chicago, IL 60606, (312) 596-9122 or (312) 596-9140

CABOT PROPERTIES (industrial): Andrew Ebbott, Chief Investment Officer, EVP of Investments, 1 Beacon St., Suite 1700, Boston, MA 02108, (617) 723-2397, aebott@cabotprop.com

CAREY-WATERMARK INVESTORS/WATERMARK CAPITAL PARTNERS (hotels): Michael Medzigian, Chairman, CEO, 272 E. Deerpath Road, Suite 320, Lake Forest, IL 60045, (847) 482-8600, Gil J. Murillo, VP, Thomas Zacharias, COO, 50 Rockefeller Plaza, 2nd Floor, New York, NY 10020, (212) 492-1100

CHATHAM LODGING TRUST (hotels): Peter Willis, EVP, Chief Investment Officer, 50 Coconut Row, Suite 200, Palm Beach, FL 33480, (561) 227-1387 or (561) 802-4477, pwillis@cl-trust.com

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CHESAPEAKE LODGING TRUST (hotel): D. Rick Adams, SVP and Chief Investment Officer, 710 U.S. 46, Fairfield, NJ 0704, (410) 972-4140

CORNERSTONE REAL ESTATE FUNDS/CORNERSTONE CORE PROPERTIES REIT (senior housing, industrial): Kent Eikanas, President, 1820 Main St., Suite 400, Irvine, CA 92814, (949) 852-1007, fax: (949) 852-2729, keikanas@crefunds.com

DCT INDUSTRIAL TRUST (industrial): 518 17th St., Suite 800, Denver, CO 80202, (303) 597-2400, Teresa L. Corral, EVP, Investments and Portfolio Management, (303) 597-2400, fax: (303) 228-2201; Phil Hawkins, CEO, (303) 597-2400, fax: (303) 228-2201, poneill@dctindustrial.com

DEBAROLO DEVELOPMENT (hotel): Edward Kobel, President and COO, 4401 W. Kennedy Blvd., Suite 300, Tampa, FL 33609, (813) 676-7677, fax: (813) 676-7696 ekobel@debartolodevelopment.com

DUKE REALTY (industrial): 600 E. 96th St., Suite 100, Indianapolis, IN 46240, Jason Sturman, VP, Acquisitions, Nick Anthony, Chief Investment Officer, (317) 808-6000, jason.sturman@dukerealty.com

EASTGROUP PROPERTIES (industrial): Florida and North Carolina, 2966 Commerce Park Drive, Suite 450, Orlando, FL 32819. John Coleman, SVP of Florida regional office, Chris Segrest, VP of Florida regional office (407) 251-7075, (407) 854-7167; Arizona, California, Colorado and Nevada, Bill Petsas, SVP, Head of Western regional office, 2200 E. Camelback Road, Suite 210, Phoenix, AZ 85016, (602) 840-8600, fax: (602) 840-8602; Texas, 4220 World Houston Pkwy., Suite 170, Houston, TX 77032, Dallas, El Paso, Houston and San Antonio, Brent Wood, SVP and Head of Houston regional office, Kevin Sager, VP, (281) 987-7200, fax: (281) 987-7207, also for Dallas and San Antonio: David Y. Hicks Jr., VP, 5440 Harvest Hill Road, Suite 154, Dallas, TX 75230, (972) 386-8700

ESH HOSPITALITY/EXTENDED STAY AMERICA (hotel): Daniel A. Sterns, EVP, 11525 N. Community House Road, Suite 100, Charlotte, NC 28277, (980) 345-1000

ENDURANCE REAL ESTATE (industrial): 1 Bala Ave., Suite 502, Bala Cynwyd, PA 19004, Ben Cohen and Bill White, Principals, (610) 664-8300, fax: (610) 664-8500, bcohen@endurance-re.com and bwhite@endurancere.com

FEIL ORGANIZATION (various): Jay Anderson, COO, 7 Penn Plaza, New York, NY 10001, (212) 563-6557, fax: (212) 563-6567, janderson@feilorg.com

FIRST INDUSTRIAL REALTY TRUST (industrial): Kevin Czerwinski, SVP, Development Services Group, 2425 E. Camelback Road, Suite 785, Phoenix, AZ 85016, (602) 381-6824, fax: (602) 381-6830

FIRST POTOMAC REALTY TRUST (industrial): Nicholas Smith, Acquisitions, 7600 Wisconsin Ave., 11th Floor Bethesda, MD 20814, (301) 986-9200, fax: (301) 986-5554, nsmith@first-potomac.com

HCP (senior housing): 3760 Kilroy Airport Way, Suite 300, Long Beach, CA 90806, Paul F. Gallagher, EVP and Chief Investment Officer and Thomas D. Kirby, EVP, Acquisitions and Valuations, (562) 733-5100 or (888) 604-1990, fax: (562) 733-5200

HEALTH CARE REIT (senior housing): Scott M. Brinker, EVP, Investments, 4500 Dorr St., Toledo, OH 43615, (419) 247-2800

HERSHA HOSPITALITY TRUST (hotel): Robert C. Hazard III, SVP, Acquisitions and Development, 510 Walnut St., Ninth Floor, Philadelphia, PA 19106, (215) 238-1046, fax: (215) 238-0157

HILLWOOD INVESTMENT PROPERTIES (industrial): Tom Fishman, EVP, 3090 Olive St., Suite 300, Dallas, TX 75219, (972) 201-2874, fax: (972) 201-2989, tom.fishman@hillwood.com

HOST HOTELS & RESORTS (hotel): Tim Marvin, Managing Director, Americas, 6903 Rockledge Drive, Suite 1500, Bethesda, MD 20814, (240) 744-1000

INDUSTRIAL INCOME TRUST (industrial): Peter M. Vanderburg, VP and Director of Acquisitions, Western Region, 518 17th Street, 17th Floor, Denver, CO 80202, (303) 645-4500

LIBERTY PROPERTY TRUST (industrial): Michael T. Hagan, EVP, Chief Investment Officer, 500 Chesterfield Pkwy., Malvern, PA 19355, (610) 648-1716, mhagan@libertyproperty.com

NOBLE INVESTMENT GROUP (hotel): Rodney Williams, Chief Investment Officer, 3424 Peachtree Road, N.E., 2000 Monarch Tower, Atlanta, GA 30326, (404) 419-1000, rodney.williams@nobleinvestment.com

RLJ LODGING TRUST (hotel): Ross H. Bierkan, EVP, Chief Investment Officer, 3 Bethesda Metro Center, Suite 1000, Bethesda, MD 20814, (301) 280-7777, fax: (301) 280-7750

REXFORD INDUSTRIAL (industrial): 11620 Wilshire Blvd., Suite 300, Los Angeles, CA 90025, Howard Schwimmer, Acquisitions, (310) 966-3804, howards@refordindustrial.com; Patrick Schlehber, Acquisitions, (310) 966-3807, pschlehber@refordindustrial.com

SENIOR HOUSING PROPERTIES TRUST (senior housing): David Hegarty, President and COO, 2 Newton Place, 255 Washington St., Suite 300, Newton, MA 02458-1634, (617) 796-8350, acquisitions-dispositions@snhreit.com

