CRITTENDEN Real Estate Buyers™

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EMERGING MARKETS, VALUE ADDED MARK KEY TRENDS FOR OFFICE BUYERS

Two trends will dominate office buyers' approaches for the rest of the year. Big office REITs will expand their reach into emerging markets where they see more opportunity for rent growth. More upside can also be had with value-added buildings. **Boston Properties** looks at submarkets around New York City to augment an acquisitions strategy that has already exceeded expectations for the year. Meanwhile, **Hudson Pacific Properties** searches Seattle for buildings with below-market rents and vacancies. Expect more buyers to follow suit.

Don't be surprised to see REIT leader Boston Properties looking at emerging areas in New York for Class A buildings with value-added components. Additional buys will complement $525M of YTD acquisitions. Expect buyer interest in San Francisco, Boston and New York, plus Princeton, N.J., and Washington, D.C., as VP of Acquisitions **Tom O'Connor** leads the search for opportunities to capture rent growth trends.

With an eye towards value-added properties, look for Hudson Pacific Properties to expand footprints in Seattle, San Francisco and west Los Angeles. The company recently expanded into Seattle and has acquired nearly $400M of properties since January. At least $200M-plus of credit could be tapped for additional one-off buys. SVP **Alexander Vouvalides** and SVP **Drew Gordon** are among company execs viewing Seattle's economy as on par with other key markets like West Los Angeles and the San Francisco Bay Area. Rent growth in the 3% range for Class A assets adds to Seattle's allure.

Expect Hudson Pacific to shop for more assets similar to a recent $441 psf portfolio purchase in Seattle's Pioneer Square, South Lake Union and Lynnwood submarkets. Off-market purchases in San Francisco, if they occur, will boost a value-added focus and complement an abundance of deals being evaluated in Los Angeles.

Parkway Properties, which could acquire another $550M of properties, will further expand into South Florida and seek an entry into Austin in the months ahead. EVP and Chief Investment Officer **David O'Reilly** will be among acquisitions execs leading a footprint expansion in search of value-added, core and core-plus properties. So far, Parkway has acquired and contracted to buy $450M of deal volume. Attention will be paid to CBD and suburban markets throughout the Sunbelt.

Highwoods Properties adds another $50M to $250M to its acquisitions purse and will pick up more properties in existing secondary markets as a result. Look for more buy-side action of value-added buildings in Atlanta; Kansas City, Mo.; Greensboro, N.C.; Greenville, S.C.; Richmond, Va., or the Florida markets of Orlando and Tampa. Leading the charge will be VP and Chief Investment Officer **Ted Klinck** and VP of Investments **Carman Liuzzo.**

Piedmont Office Realty Trust can be expected to pursue another $150M of value-added buys in its key markets of Atlanta, Boston, Chicago, Dallas, Detroit, Los Angeles, Minneapolis, New York, Washington, D.C. and Tampa, Fla. Dealmakers, including EVP of Real Estate Operations **Carroll A. (Bo) Reddic IV** and EVP **Ray Owens,** will be among staff evaluating buys.

American Realty Capital New York Recovery REIT has $1B available for New York office and retail acquisitions during the next year. Bigger deals will happen and eclipse dealmakers' largest acquisition to date — a $220M/$633 psf stabilized building in Midtown. That deal is part of nearly $425M of YTD office buys.

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Crittenden Acquisitions Forecast

Office

Buyer	YTD Acquisitions Activity*	Projected 2013 Acquisitions Activity*
Brookfield Office Properties	$550M	$800M
Boston Properties	$525M	$500M
Parkway Properties	$450M	$1B+
American Realty Capital New York Recovery REIT	$425M	$425M+
Hudson Pacific Properties	$400M	$400M+
SL Green Realty	$400M*	$400M
Piedmont Office Realty Trust	$245M	$400M
Franklin Street Properties	$185M	$350M
Kilroy Realty	$170M	$170M+
Highwoods Properties	$115M	$550M

***Other Buyers to Watch: Blackstone** should acquire more than $1B. **MetLife Real Estate Investments** will reach $800M-plus of acquisitions. **Lone Star Funds** will acquire more than $720M.*

**SL Green's volume includes a mixed-use building.*

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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Other buyers to watch in one-off and portfolio acquisitions include **Franklin Street Properties**, which has already spent close to $600M this year on acquisitions. More buys of $50M to $250M urban infill and CBD buildings will happen in Atlanta, Dallas, Denver, Houston and Minneapolis.

Keystone Property Group's appetite for suburban and value-added office will support more than $230M of YTD acquisitions in Illinois, Florida, New Jersey, New York and Pennsylvania. Dealmakers target a $300M-equity raise for Keystone Property Fund III, successor to the active $111M-equity Keystone Property Fund II. **Brookfield Office Properties** is busy with its pending $550M acquisitions stake in Los Angeles office owner MPG Office Trust.

NET LEASE BUYERS SET TO SPLURGE

Net lease REITs will ring up big acquisitions in the next three months as they try to stay ahead of a possible increase in interest rates. Many buyers will capitalize on the current low rates and are willing to pay a premium for the strongest properties in order to put their portfolios on a solid competitive footing against an increase in new development.

Opportunistic sellers hawking product to cash-flush buyers has reached a fever pitch in this historic low-rate environment. And buyers have plenty capital remaining for transactions. **Realty Income** has $400M remaining in its acquisitions purse for single-tenant retail deals. If it spends nearly another half million dollars in three months, Realty Income's SVP of Acquisitions **Sumit Roy** will be among dealmakers wrapping up this year with $4.5B of acquisitions that will also include American Realty Capital Trust and its 500-plus property portfolio of mostly investment grade assets. Supporting additional deal volume will be $1.5B of untapped credit.

National Retail Properties has at least $100M for retail acquisitions by December. It has acquired more than $500M since January, including a convenience store portfolio and a big portfolio of bank branches. If necessary, more acquisitions could be supported by an untouched $500M credit line. Dealmakers will scan marketing packages and evaluate off-market deals; they like portfolios and one-off buys. Acquisitions SVP **Steve Horn** is among company dealmakers hunting long leases and investment-grade tenants. Targeted cap rates will range from 7.5% to 8%, based on YTD transactions. *Continued on next page*

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Outside retail, a varied set of industrial and office buyers will be aggressive at a time of minimal speculative development.

STAG Industrial has $50M to $200M that could be used for more buys in the Midwest and nationwide. Acquisitions VP **Bradford Sweeney**, who handles the Central, Northwest and South Pacific regions, will also keep eyes on the Midwest, where it scooped a bulk of assets in the opportunistic markets of Illinois and Michigan, as well as single properties in Idaho, Pennsylvania and Texas. **Michael Chase**, Acquisitions SVP handling the East Coast and Southwest, is also among dealmakers evaluating $5M to $25M deal size ranges. STAG Industrial has acquired nearly $200M of property since January.

Expect **Gramercy Property Trust**'s focus on smaller buys of specialty office and industrial boxes, as company dealmakers prepare for well over $200M of acquisitions. The office and industrial buyer will snap up more truck terminals, refrigeration space — cold storage — and bank branches, alongside more standard industrial and office fare, meeting a focus on stabilized assets with value-added potential. Because big portfolios have been priced at premiums because of competition, count on a continued pursuit of $5M to $10M range buys that reflect 8.5% to 10% cap rates. Gramercy Property Trust has purchased $180M of assets since January in primary markets throughout Florida, Georgia, Maryland, North Carolina, Pennsylvania, Tennessee and Texas, led by Managing Director of Investments **Nicholas Pell.**

If **Liberty Property Trust** makes more deals, they'll likely emphasize urban infill office and single-tenant industrial that's value-added and stabilized. The company broke its acquisition goal sevenfold with plans to buy $1.5B of industrial, shattering its earlier goal of $200M. It will buy into the 6% cap rate range for office, as a recent Washington, D.C., deal shows, and go to Arizona for a vacant-but-new building. Chief Investment Officer and EVP **Michael T. Hagan** is among staff acquiring more than $161M of assets, aside from its pending mega deal from Cabot.

Other net-lease buyers to watch include **AG Net Lease Realty Fund III**, with a targeted $133M-equity raise; **Agree Realty**, which should exceed $50M of buys this year; **American Realty Capital**-sponsored nontraded REITs, with more than $5B of acquisitions; **Cole Real Estate Investments**, more than $2B; and **Griffin Capital Essential Asset REIT**, with more than $200M of acquisitions since January. The **W.P. Carey & Co.**-sponsored CPA:18 is in the market for a $1B equity raise that will buy in and outside the single-tenant spectrum nationwide.

BUYERS IN BRIEF...

► **Cedar Realty Trust** will target $250M in buys for 2014 following $200M this year. The REIT seeks neighborhood grocery-anchored shopping centers throughout the Mid-Atlantic and Northeast regions. Of the 67 centers the company owns, 18 of the grocery store anchors are operated by Ahold USA (i.e., Giant or Stop & Shop). Cedar's 9.8 million square foot portfolio is 92.7% leased at an average of $12.62 per square foot.

► **Capital Automotive** looks to spend $300M this year and another $300M in 2014 to acquire approximately 12 automotive retail properties each year. Deals start at $5M for sites (including dealerships, repair shops and auction yards) in the top 50 metro markets nationwide. Capital Automotive prefers NNN sellers, with lease primaries starting at 20 years.

► Apartment buyer **The Shoptaw Group** will scour suburban markets in Florida, Georgia, Tennessee, Texas and the Carolinas for Class A and B garden or mid-rise apartment communities between 100 to 400 units. The private investor will aim for $100M in buys both this year and next. Deals start at $10M and reach up to $40M.

► **Amstar** seeks to acquire $200M of office, multifamily, retail, hotel and industrial properties during 2014. The private investor, developer and property manager looks for long-term investments in major metro markets nationwide, recently favoring joint venture buys of Class A industrial properties and portfolios, as well as developing a luxury apartment complex.

DEALMAKER DATABANK

INTERNAP NETWORK SERVICES ***(data centers)*:** Rich Shank, SVP, Global Sales and J. Eric Cooney, President and CEO, One Ravinia Drive, Suite 1300, Atlanta, GA 30346, (404) 302-9700

KILROY REALTY ***(office)*:** 100 First St., Suite 250, San Francisco, CA 94105, Brendon Lydon, Director of Acquisitions, (415) 778-5693, blydon@kilroyrealty.com; Eli Khouri, EVP and Chief Investment Officer, (415) 778-5600, ekhouri@kilroyrealty.com

LIBERTY PROPERTY TRUST ***(single tenant)*:** Michael T. Hagan, EVP and CIO, 500 Chesterfield Pkwy., Malvern, PA 19355, (610) 648-1716, fax: (610) 644-4129, mhagan@libertyproperty.com

PARKWAY PROPERTIES ***(office)*:** David O'Reilly, EVP and Chief Investment Officer, 390 N. Orange Ave., Suite 2400, Orlando, FL 32801, (407) 650-0593, fax: (407) 650-0597, doreilly@pky.com

PIEDMONT OFFICE REALTY TRUST ***(office)*:** Carroll A. (Bo) Reddic IV, EVP, Real Estate Operations, 11695 Johns Creek Pkwy., Suite 350, Johns Creek, GA 30097, (770) 418-8800, bo.reddic@piedmontreit.com

QTS REALTY TRUST ***(data centers)*:** Jeffrey H. Berson, Chief Investment Officer, 12851 Foster St., Overland Park, KS 66213, (913) 814-9988

SERVER FARM REALTY ***(data centers)*:** Mitch Kralis, VP, Real Estate, 999 N. Sepulveda Blvd., Suite 600, El Segundo, CA 90245, (310) 563-1700, mitch@sfrdc.com

THE SHOPTAW GROUP ***(apartments)*:** Walt Plyler, President, 3050 Peachtree Road N.W., Suite 540, Atlanta, GA 30305, (678) 538-1060, wplyler@sgatl.com

SL GREEN REALTY ***(office)*:** Andrew Mathias, President and Chief Investment Officer, 420 Lexington Ave., New York, NY 10170, (212) 594-2700, andrew.mathias@slgreen.com

STAG INDUSTRIAL ***(single tenant)*:** Bradford Sweeney, 99 High St., 28th Floor, Boston, MA 02110, (617) 226-4962, fax: (617) 574-0052, bsweeney@stagindustrial.com

W.P. CAREY & CO. ***(single tenant)*:** 50 Rockefeller Plaza, New York, NY 10020, Jason Fox, Co-Head of Global Investments, (212) 492-8978, fax: (212) 492-8922, jfox@wpcarey.com, Gino Sabatini, Co-Head of Global Investments, (212) 492-1138, fax: (212) 492-8922, gsabatini@wpcarey.com

INVESTORS COVET DEALS FOR DATA CENTERS

Buyer demand for data centers is on the rise in both established and emerging markets. Technology companies with primary market footholds can be expected to command attention from private equity investors **ABRY Partners, Berkshire Partners, GI Partners** and **Silver Lake Partners.** Big private capital's search for yield will lead them to primary markets with established power grids and fiberoptic networks perceived to have lower risk compared to smaller power sources in budding secondary and emerging markets. A continued influx of capital and demand threatens to compress yields for stabilized, core assets to less than 6%-range averages.

However, secondary markets will become more desirable as cloud computing innovations support operations outside primary or Tier One markets. Miami will emerge as a go-to spot despite hurricane risk. The city's proximity to South America will fuel demand for new construction and redevelopment. If QTS Realty Trust's pending IPO is well-received, expect the buyer to strike deals in Miami and other secondary markets nationwide. Cap rates will touch 10% ranges for value-added and secondary-market properties. However, a shift may come later this year if the buying boom's tide – supported by accessible financing in the 65% LTV range for stabilized, Class A properties – turns to sales by December.

Private investors will be more opportunistic and eye redevelopment. **Server Farm Realty** is in the market for more purpose-built and redevelopment/retrofit properties in Tier One/primary markets. Buys will add to $100M of acquisitions volume booked since January. More acquisitions and new entries in U.S. and international markets will follow expansions into Charlotte, N.C., and New Jersey, as well as Toronto, Canada. Dealmakers evaluate buildings measuring 10,000 s.f. to 1 million s.f. and priced in the $5M to $100M range.

ElmTree Funds plans $400M of acquisitions next year in the single-tenant and data center sectors. The company has purchased $50M of data centers this year and will scan Georgia, Illinois, North Carolina, Minnesota, Ohio, Texas, Virginia and the Midwest for more acquisitions in the $25M to $50M range.

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