

## VALUE-ADDED APARTMENTS HOT TICKET FOR BUYERS

Apartment buyers will strengthen their hunt for secondary market assets as rent growth is expected to stagnate for stabilized assets in primary markets. Demand for value-added Class A to Class C properties nationwide will increase as buyers scoff at the reality of 4% cap rates for primary assets without upside.

**Equus Capital Management**'s seeks Class B properties in the Midwest, Mid-Atlantic, Northwest and Southeast. For new market entries, Equus wants multiple properties, but would enter with a single asset as long as there's potential to acquire additional properties soon after entry. Investing will continue in 2014. A \$19M acquisition in the St. Louis suburb of Ballwin, Mo., is the company's latest deal and third complex in the St. Louis metro area. More deals are likely nationwide as the company — typically a portfolio buyer — could acquire one or two additional portfolios and a couple of single properties this year and next. It nears a final close in December on its \$250M closed-end, diversified value-add fund. Apartment acquisitions will comprise 33% to 50 % of available equity. To date, dealmakers have invested \$70M of equity — \$30M of which has been used for apartment buys.

**Praedium Group** spent \$680M on mostly apartment acquisitions last year and remains on the hunt. The company can be expected to narrow its focus on assets with rent growth potential in high-growth and secondary markets nationwide. Principals **David Dowell** and **Chris Hughes** will be among staff shopping for Class B+ to Class A- properties nationwide. Acquisitions this year and next will be made for the targeted \$600M-equity Praedium VIII Multifamily Value Fund, with marketed- and off-market deals of interest. Other buyers include the Brookfield Fairfield U.S. Multifamily Value Add Fund II, targeting a \$300M-plus equity raise.

Class A and Class B buyer **Capri Capital Partners** is on track to acquire \$500M to \$600M of apartments by December, with value-added buys accounting for half the volume and core to core-plus properties accounting for the remaining half. The investor will focus on Class A and Class B units in the top 15 markets nationwide including Chicago, where it recently acquired a Class A luxury property for a separate-account client. In 2014 the investor will eye from \$500M to \$1B of acquisitions — with upwards of 20% going to coastal urban retail, marking a return to existing retail acquisitions after a seven-year absence. Expect interest in \$25M to \$250M acquisitions in the apartment and retail segments. It will encounter Sentinel Real Estate, which recently paid slightly less than a 4% cap rate for a luxury Class A asset in Scottsdale, Ariz.

**RADCO Cos.** will hunt Class B and Class C value-added units within three hours of its Atlanta headquarters. Since January it has acquired a little more than \$200M of properties. Expect the private buyer's attention on its top markets of Atlanta, the Midwest and western Florida, in addition to Raleigh, N.C., and other Southeast markets. It will seek \$10M to \$15M equity investments under the radar of institutional investors including Capri Capital Partners, which shops properties in the \$25M to \$250M range. Expect RADCO COO and Principal **Peter Fitzgerald** to step up the company's pursuit of properties in Oklahoma City, Okla., Kansas City, Kan., and Kansas City, Mo.

In the Midwest and beyond, **Timberland Partners** will aim for \$75M acquisitions this year and \$75M to \$100M of acquisitions during 2014. Expect the Midwest garden-style and midrise specialist to venture southeast for acquisitions of value-added properties with at least 200 to 250 units. Dealmakers look to Kentucky, particularly Lexington and Louisville, as well as Knoxville and Nashville, Tenn. In existing markets the buyer will consider assets with more than 100 units.

*Continued on page 3*

**TOP BUYERS**  
**APARTMENT ACQUISITIONS FOR 2013**

<u>BUYER</u>	<u>VOLUME</u>	<u>DETAILS</u>
Equity Residential	\$9.7B-plus	
AvalonBay Communities	\$7B-plus	
Greystar Real Estate Partners	\$2B-plus	exceeds \$2B target and focuses on value-added buys
MAA	\$2B-plus	recently closed on acquisition of Colonial Properties Trust, boosting a Sun Belt footprint
General Investment & Development	\$1B	buys and develops in primary and secondary markets
The Bascom Group	\$900M	shops the West Coast and Sun Belt For Class A and Class B properties
Cortland Partners	\$800M-plus	emphasizes the Sun Belt and working on expansions into the Mountain and Southwest regions
The Praedium Group	\$680M	value-added buyer acquires nationwide
Carroll Organization	\$650M-plus	acquires Class A and Class B properties throughout the Southeast and Sun Belt regions
Steadfast REIT	\$550M-plus	buys in secondary markets nationwide
Capri Capital Partners	\$500M-\$600M	eyes \$500M to \$1B of acquisitions during 2014
CBRE Strategic Partners U.S. Value 6 Fund	\$500M	recently purchased an asset in Houston
The Laramar Group	\$500M	expanded footprint in Southern California; will acquire in primary and suburban markets nationwide.
Brookfield	\$414M	has raised \$300M for its new fund
Mack-Cali Realty	\$400M-plus	focused on acquisitions and development in the Mid-Atlantic
Waterton Associates	\$300M	private investor targets \$300M for 2014
ColRich	\$225M	acquires Class B properties in Salt Lake City, Portland, Ore.; Tacoma, Wash.; Arizona, Colorado and Texas
BlueRock Multifamily Growth REIT	\$150M-plus	acquires value-added properties in the Mid-Atlantic and Northeast

**Also watch BRE Properties, with \$125M-plus and KBS Realty Advisors, with \$120M of acquisitions so far this year.**

**VALUE-ADDED APARTMENTS HOT TICKET FOR BUYERS...***Continued from Previous Page*

Driving acquisitions will be the Timberland Partners Apartment Fund IV, targeting a \$25M- to \$40M-equity raise. Earlier this year, dealmakers, including VP of Investments **Matt Fransen**, scooped up properties in Shelby Township, Mich., and Omaha, Neb.

Timberland Properties has acquired nearly \$30M of properties since January and has a couple of acquisitions slated to close in coming weeks. The private buyer will encounter a wealth of competition as it pursues additional buys not only in the South and Southeast, but in primary and secondary and tertiary markets throughout Arkansas, Colorado, Florida, Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Ohio, Oklahoma, Nebraska, Tennessee, Texas and Wisconsin.

**BUYERS IN BRIEF...**

- ▶ Western U.S. apartment buyer and developer **Security Properties** wants to buy \$300M of Class A and Class B buildings during 2014. Expect the buyer to reenter the Nevada market, likely with a 100-plus unit asset. Also on its radar will be buildings with more than 50 units in primary and secondary markets throughout Arizona, California, Colorado, Oregon, Utah and Washington. The private buyer aims for \$250M to \$300M of deal volume by December.
- ▶ Diversified buyer **Ezralow Co.** eyes a new-market entry into Portland, Ore., and will target \$100M of mostly apartment acquisitions during 2014. Washington state is also on the company's go-to list and more deals should follow an estimated \$75M of recent buys in the Seattle suburb of Bellevue and Ellensburg — located about 100 miles southeast of The Emerald City. In future deals, count on interest in 125 unit-plus apartment complexes for Ezralow's value-added strategy that aims for minimum 7% cap rates following an 18-month stabilization period. The company also considers business parks, industrial, urban infill self-storage and manufactured housing communities (MHCs), priced at \$5M-plus.
- ▶ **O'Connor Capital** targets \$2B of apartment and retail acquisitions in 2014. The pension-fund adviser and private investor will apply value-added and core-plus strategies in primary U.S. markets to \$50M-plus deals. It has acquired \$2B of properties during 2013.
- ▶ **ScanlanKemperBard Cos.** wants \$250M to \$300M worth of acquisitions during 2014, with a focus on industrial, office and retail buildings in Arizona, California, Colorado, Oregon, Utah and Washington, priced from \$5M to \$75M. The investor's portfolio is valued at \$550M.
- ▶ **Pacific Realty Advisors** eyes \$100M of deal flow both this year and in 2014, as it evaluates apartments, industrial and office buildings in Arizona, California and Hawaii. Typical deal sizes range from \$7M to \$60M. Its portfolio is valued at \$300M.
- ▶ Diversified buyer **Weston** has \$25M to \$50M for acquisitions during 2014. The buyer will shop for apartments, industrial, MHCs, office and retail buildings priced from \$10M to \$100M in primary to tertiary markets east of the Mississippi River. It will consider various levels of occupancy up to full vacancy for all property types, but industrial comprises the bulk of vacant property acquisitions in this space.
- ▶ **The Broe Group** looks toward more than \$500M of apartments, business parks, industrial, land, office, medical office, retail and senior housing acquisitions this year. The company shops nationwide and considers deals in the \$5M to \$1B range, for an estimated \$1.5B portfolio.
- ▶ **Upside Investments** will buy \$80M of properties this year, including a recent \$90,000 per-unit purchase in South Los Angeles. Additional purchases throughout Southern California, and the San Francisco Bay could accompany a potential reentry into Arizona after an 18-year absence, if the pricing's right for Class C+ or better urban infill properties. The private buyer shops deals in the \$2.5M to \$200M range. It prefers assets with at least 40 units but also acquires properties in the 100- to 200-unit range. Dealmakers were attracted to the Los Angeles complex Crenshaw Village because of its location near three transit stops and a planned outpatient medical center. The going-in cap rate is 6.5%.

## Deals in Detail

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**Beachwold Residential's** \$116,000 per-unit purchase of an expiring low-income housing tax credit property in suburban Washington, D.C., is consistent with the buyer's focus on value-added apartments throughout the Mid-Atlantic. The purchase reflects at least a 30% discount to replacement costs. The cap rate is 5.5% based on 2012 NOI. There's a 10-year restriction on raising rents at the property, where monthly rents average \$875. Market-rate rents start at \$1,100 per month. The 20-year-old property is located in a submarket that's 95%- to 96%-leased. Greysteel brokered the deal on behalf of sellers Boston Capital and Humphrey-Stavrou Associates.

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Boise, Idaho-based **30 Liberty LLC** buys a 40-unit senior housing complex in the Tampa Bay, Fla. suburb of Palm Harbor, located in northwest Pinellas County. The private investor paid close to \$60,000 for each unit of the asset built in 1970, which traded at an 8.3% initial cap rate. The deal took 35 days to close from contract and includes \$350,000 of seller financing. There's a 5% to 6% vacancy rate for Class B properties. Sperry Van Ness represented the seller in this early October transaction.

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**Sonoma Terrace LLC** paid an estimated \$35,000 per unit for the Class B Northern Terrace apartment complex in suburban Phoenix. The regional buyer takes title to the 260-unit property after a yearlong escrow, during which time the price was readjusted to a 4% premium compared to the original asking price. The fully-leased building located in Glendale, Ariz., was constructed in 1979. Colliers International represented seller Northern Terrace Apartments LLC and the buyer in this late September transaction.

Core Commercial  
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In an all-cash deal, **Pacific Castle Willow Creek** paid approximately \$220 psf for a community center in suburban Sacramento, Calif. The property, anchored by pad-owners Save-Mart and CVS, at 1001 E. Bidwell St. in Folsom, was previously owned by a lender and sold at a late September auction. The cap rate is 6.5%, based on current income and a 76% occupancy rate. The Willow Creek Shopping Center is occupied by 13 inline tenants with staggered lease expirations. Area retail occupancy rates average 90%. Core Commercial represented the buyer and seller.

Rein & Grosseohme  
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Private buyer **1966 LLC** paid a little more than \$3,000 for each unit of Allstate Self Storage, an 840-unit property in Phoenix, at 10411 N. 19<sup>th</sup> Ave. The 6.5% cap rate on the 63%-leased building reflects current income. The Albuquerque, N.M.-based buyer struck its all-cash deal in late September, after another buyer dropped out because of rising interest rates. 1966 LLC paid all cash for the property. Rein & Grosseohme represented the buyer and the Phoenix-based seller, Pacific Storage Peoria Co.

**DEALMAKER DATABANK**

- 1966 LLC (self storage):** Thomas D. Growney, 6749 Academy Road N.E., Suite B, Albuquerque, NM 87109
- BEACHWOLD RESIDENTIAL (apartments):** 192 Lexington Ave., New York, NY 10016, (212) 949-5000, info@beachwold.com
- BLUEROCK MULTIFAMILY GROWTH REIT (apartments):** James G. Babb, Chief Investment Officer and Director, 712 Fifth Ave., Ninth Floor, New York, NY 10019, (212) 843-1601
- BERKSHIRE FAIRFIELD MULTIFAMILY FUND/FAIRFIELD RESIDENTIAL (apartments):** Richard Boynton, 5510 Morehouse Drive, Suite 200, San Diego, CA 92121, (858) 457-2123
- CAPRI CAPITAL PARTNERS (apartments, retail):** 875 N. Michigan Ave., Suite 3430, Chicago, IL 60611, Louis Hoyes, Vice Chairman and Chief Investment Officer, (312) 573-5300, fax: (312) 573-5270, kglasScott@capricapital.com and Doris Nolan, Principal, Investments, (312) 573-5300, dnolan@capricapital.com
- COLRICH (apartments):** Steve Butler, VP, Multifamily Acquisitions, 444 W. Beech St., Suite 300, San Diego, CA 92101, (858) 490-2300, ext. 332, steveb@colrich.com
- DIGITAL REALTY TRUST (data centers, funds):** A. William Stein, Chief Investment Officer and CFO, 4 Embarcadero Center, Suite 3200, San Francisco, CA 94111, (415) 738-6500
- DIVCOWEST (industrial, office):** Keith Wallace, VP, 575 Market St., 35<sup>th</sup> Floor, San Francisco, CA 94105, (415) 284-5700, fax: (415) 995-5555, kwallace@divcowest.com
- GENERAL INVESTMENT & DEVELOPMENT (apartments):** Thad Palmer, SVP, Real Estate Acquisitions, 125 High St., High St. Tower, 27<sup>th</sup> Floor, Boston, MA 02110, (617) 854-6634, tpalmer@gid.com
- GREYSTAR REAL ESTATE PARTNERS (apartments):** Wes Fuller, Executive Director of Investments, 18 Broad St., Third Floor, Charleston, SC 29401, wfuller@greystar.com
- KBS REALTY ADVISORS (apartments, all):** 620 Newport Center Drive, Suite 1300, Newport Beach, CA 92660. Bill Milligan, Regional President, Western U.S., (949) 417-6500, fax: (949) 417-6520, bmilligan@kbsrealty.com; Rodney Richerson, Regional President, (949) 417-6510, fax: (949) 417-6520, rricherson@kbsrealty.com
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- PACIFIC CASTLE WILLOW CREEK LLC (retail):** Wayne Cheng, Owner, 2601 Main St., Suite 900, Irvine, CA 92614, (916) 875-0700
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- STEADFAST INCOME REIT (apartments):** Ella Neyland, President, 18100 Von Karman Ave., Suite 500, Irvine, CA 92612, (949) 852-0700
- TIMBERLAND PARTNERS (apartments):** Matt Fransen, VP, Investments, 8000 Norman Center Drive, Suite 830, Minneapolis, MN 55437, (952) 843-2031, mfransen@timberlandpartners.com
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## FRESH FUNDS ESCHEW PRIMARY MARKETS IN SEARCH OF HIGHER YIELDS

An abundance of new funds will target opportunistic apartment, industrial, land and office acquisitions, as buyers fan farther afield to capitalize on yields that are there now but will compress as a result of increased competition for value-added properties. Buyers need yield and they won't find it in primary markets where pricing has overshot true asset values and potential for upside. A combined \$1.6B of targeted equity raises from O&I buyer **DivcoWest Real Estate Investments**, apartment owner **Praedium Group** and land buyer **The Holt Group** will lay a foundation for increased national and regional deal flow.

DivcoWest's targeted \$888M equity raise for its planned fourth fund reflects the heating market for value-added office and industrial research and development properties. A lack of new industrial and office construction has sparked increased demand for properties. Although the investor is expected to wrap up buying for its \$500M current fund in coming months, acquisitions velocity in the long term should increase with the forthcoming fund that's 40% larger. Heftier capital could promote office and R&D footprint expansions beyond its favored markets of Boston, the San Francisco Bay area and Austin, Texas — areas highly sought after for concentrations of tenants willing to pay market-rate rents. If DivcoWest expands into new markets, they'll likely do it with big-ticket portfolios and through the TechCore venture with the California State Public Employees' Retirement System. DivcoWest has raised more than \$125M of equity for its newest fund.

Praedium Group's \$600M-equity Praedium VIII Multifamily Value Fund will support buys in secondary markets and primary markets with assets needing renovation or repositioning to support higher, market-rate rents. As rent growth in primary markets reaches a plateau compared to the past 24 months, count on increased interest in markets including Phoenix, where rent escalations are expected to surpass 6% this year. Dealmakers shop the \$10M to \$75M deal size range and will also acquire industrial, office and retail buildings nationwide. It will buy through joint ventures with partners. It booked \$700M of deals during 2012.

The Holt Group will shop entitled to raw land parcels in California, Oregon and Washington with cash from its largest fund in history — the targeted \$100M Holt Opportunity Fund 2013. The private buyer, which has acquired assets priced from \$200,000 to \$10M, can be expected to develop parcels and sell finished lots to developers. Count on interest in the Portland, Ore., metro area for assets conforming to urban growth boundaries or those with strong potential for annexation, in addition to land parcels in Washington's Clark, Clallam, Clackamas and Washington counties, including the cities of Happy Valley, Olympia, Port Orchard, Poulsbo, Puyallup, plus California cities Bakersfield, Tulare and Visalia. The Opportunity Fund is twice the size of its predecessor.

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