MALL BUYERS TO INCREASE RETAIL STAKE

Private mall buyers will drive up demand for Class A properties in response to institutional capital needs for higher yields. Buyers will flock to quality and pay into the 5% cap rates for properties in densely populated, moneymaking submarkets. If **Ashkenazy Acquisition**, **CBL & Associates**, **Glimcher Realty Trust**, **Macerich Co.**, **Simon Property Group** and **Taubman Centers** continue 2012 action, expect heating pressure on average 7% range cap rates that will also raise demand for debt recapitalization and joint venture purchases.

Institutional investors and REITs will stoke demand for stabilized malls in markets populated by high-income shoppers. **Miller Capital Advisory** could acquire $500M of properties by summer. The private buyer counts California Public Employees' Retirement System and Simon Property Group among equity and joint venture partners. In and outside its Institutional Mall Investors JV with Simon, dealmakers will shop regional and superregional centers similar to a one million-plus s.f. Nordstrom- and Macy's-anchored center in Mission Viejo, Calif. A search for upscale malls and lifestyle centers means encountering the likes of fellow nationwide buyers **Glimcher Realty Trust** and **Macerich**, which will respectively acquire more than $100M and $500M of assets by December. **TIAA-CREF** and **USAA Real Estate Co.** are also active buyers.

Deep pockets will also pursue greater yield by sidestepping stability in off-market purchases and recapitalizations. **Ashkenazy Acquisition** can be expected to scope off-market deals for a $700M-equity investment goal initiated last year. The private buyer and institutional JV partner wrapped up 2012 with more than $225M Class A mall and retail condominium acquisitions, including a Class A mall stocked with higher-end retailers in Seattle, plus malls and retail condominiums in Boston, New York and Washington, D.C. Expect the buyer and institutional JV partners to supplement an appetite for infill, value-added properties with loan purchases. Recapitalizations fueled by borrowers unable to refinance maturing CMBS debt could kick up the company's acquisition pace nationwide. Meanwhile, expect REITs to also tap joint ventures and selectively hunt new construction. **Simon Property Group** will employ a multipronged strategy targeting upscale, stabilized deals and new construction of outlet centers. The largest retail REIT could acquire more than $3B this year; it bought $3.6B-plus of centers during 2012. In and outside the outlet mall space the buyer will encounter **Taubman Centers**, the joint venture partner and developer buying stakes in upscale malls and continuing new outlet mall construction coast-to-coast. Taubman acquired more than $400M during 2012, which reflects a big-ticket JV with developer partner The Forbes Co. in Florida.

Buyers will pursue new markets with extraordinary economic growth. Expect an upsurge of joint ventures in fracking country — North Dakota, Ohio and Pennsylvania — this year, as the energy sector is expected to continue pumping up employment and discretionary income. **CBL & Associates** likes what it sees in its new market of North Dakota, so it shouldn't be a surprise if the company shops additional assets there and throughout the U.S., to follow $300M of buys during 2012. Other buyers and sellers to watch include and **Pennsylvania Real Estate Investment Trust**, **Retail Properties of America** and **The Rouse Co.**

NET LEASE BUYERS POISED TO STRIKE

A consolidation trend highlights single-tenant buyer need for diversification across the credit spectrum. Deals involving **American Realty Capital Trust**, **Cole Credit Property Trust II**, **Realty Income** and **Spirit Realty Capital** will heat competition for nonrated and investment-grade portfolios, as buyers seek to hedge their bets in a bubbling CRE climate. Buyers, in search of stabilized properties to satisfy investor need, will diversify portfolios and extend their reach into a $2 trillion market dominated by corporate real estate owners, who will continue to sell and lease back assets. Buyers are positioning themselves for eventual interest rate increases that will dramatically spur sale/leaseback deals.

More capital will target properties core to company operations. Demand for credit tenants will spike later this year if economic uncertainties aren't quelled. In a search for balance, opportunistic buyers will ratchet up noninvestment grade buys through portfolios instead of one-off deals. As the economy firms, cap rates will decrease from 8% ranges for properties leased to non-investment grade tenants.

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NET LEASE BUYERS POISED TO STRIKE...

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Spirit Realty Capital's expected merger with big non-traded REIT Cole Credit Property Trust II will diversify the public REIT's portfolio with investment-grade properties. Expected to close by March, the deal will follow Realty Income's play for investment grade-heavy American Realty Capital Trust.

Separate from Property Trust II action, sponsor/investor Cole Real Estate Investments will eye more than $1.4B worth of acquisitions in the single-tenant retail space this year, an increase compared to approximately $1.1B-plus of buys during 2012, part of a broader $3.2B worth of acquisitions activity. Count on a strong appetite for retailer tenants like Big Lots, Costco, CVS, Kohl's and Walmart, for its Cole Credit Property Trust IV vehicle. The buyer will also shop outside the A-rated credit space for its Cole Credit Daily NAV Strategy vehicle, which will buy a range of properties including dialysis and outpatient centers, plus discount retail stores including Dollar General. It will encounter single-tenant buyers **Agree Realty**, **AEI Fund Management**, **Brauvin Net Lease Realty**, **Broadstone Realty** and **STORE Capital**, as well as **Griffin Capital** and its $1.3B **Griffin-American Healthcare REIT III**.

Diversified buyer STORE Capital aims to acquire $1B worth of properties this year. Both full- and quick-service restaurants could account for roughly one-third of the acquisitions volume, with retail, private education centers, plus a handful of manufacturing/warehouse and distribution centers picking up the slack. The buyer will shop $3M to upwards of $60M to $80M deals leased to so-called mission critical tenants able to provide unit-level profit and loss statements. The national buyer acquired $750M worth of assets during 2012.

Single-tenant industrial buyers also plan a busy year. **STAG Industrial** looks at $250M of Class B industrial acquisitions in secondary markets this year. The company will scout the Midwest, Northeast and Southeast for properties. **Monmouth Real Estate Investment Corp.** this year could meet or exceed an estimated $100M of acquisitions during 2012, and will pursue additional build to suits nationwide. Clarion Partners, ElmTree Partners, Industrial Income Trust and One Liberty Properties are also active nationwide.

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CRE HEAT BECKONS FOREIGN CAPITAL

Foreign investor appetite for U.S. assets should increase this year despite international monetary concerns. Buyers will complement core, primary market strategies with secondary market purchases, financing joint ventures and new construction. Canadian buyers will lead a surge of foreign investor activity throughout the U.S. but count on Asian, European, Middle Eastern and South American cash to make waves of their own.

An apparent lack of Class A properties in Canada will translate into more stateside action, regardless of a diminished exchange value that now equals the U.S. dollar. Companies to watch include **Artis REIT, Agellan REIT, Brookfield, CPPIB, Ivanhoe Cambridge, Morguard North American REIT, Pure Multi-Family REIT** and **RioCan REIT**. These and other companies will stimulate U.S. acquisitions, joint ventures and development mainly in primary markets, but they'll explore farther outside for yield compared to eastern and western counterparts.

Buyers of all stripes, however, will chase improving employment in secondary markets including Houston, where the Association of Foreign Investors (AFIRE) sees increased interest from foreign capital. The city joins New York, San Francisco and Washington, D.C., as top global cities, according to the group's annual member survey. Besides active investor Brookfield, don't be surprised to see retail buyer North American Development Group or Morguard Corp. expand a Southeast apartment and retail presence. Azrieli Group and H&R REIT will seek additional CBD office space. Pension fund CPPIB — through a nearly $900M platform called Goodman North America Partnership — will power industrial buys and builds with Australian partner Goodman Group. CPPIB has invested in office and retail properties outside the venture. Adviser Metzler NA, which works with German capital, eyes $600M of buys and will pursue office while eyeing diversification into apartment and industrial. Beacon Investment Partners, which works with South American capital, will encounter Diversified International Partners, which eyes a $200M equity raise to acquire core and core-plus assets in gateway markets including Texas. In and outside Texas the Transwestern Investment Management affiliate will encounter Bahrain-based Investcorp and South America capital-driven Beacon Investment Partners.

Primary markets will garner more attention this year from core and value-added buyers and builders. Pramerica Real Estate Investors (PREI) will shop core-plus office for a $315M equity US Property Fund V, to add to a late 2012 buy in Manhattan. Swedish buyer and developer **Skanska** plans $1B of commercial development during the next five years. Recently it bought a parcel in Boston for an office project.

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APARTMENT BUYERS WORK HARDER FOR GROUND

Apartment buyers anticipating rapid development growth will wrestle for infill value across the property spectrum. A diverse set of private and public buyers will push deeper into infill pockets and target growth in primary, suburban and secondary cities. Private investment funds will pepper acquisitions strategies with debt buys, originations and new development, as higher interest rates approach.

Portfolio trades will define the year and follow a combined $17B-plus of deals inked by **Goldman Sachs, Greystar Real Estate Partners, AvalonBay Communities** and **Equity Residential**. Besides big-ticket portfolios, watch for newly minted and existing investment funds — such as the targeted $400M-equity Berkshire Multifamily Value Fund III — to employ a diversified strategy.

Demand supported by tightening occupancy rates and rich GSE financing will give rise to a rash of new development from REITs and private equity investors. A construction wave, plus an inevitability of higher interest rates, doesn't bode well for institutional-led ventures paying into the mid-4% range for fat portfolios whose size brings higher risk. Expect to see big buyers pare down portfolios to raise cash for new development and redevelopment at higher yields. Office buyer **Mack-Cali Realty** could seek additional apartment plays in infill East Coast markets, to complement new construction and a late 2012 portfolio buy. **Camden Property Trust**, which booked $600M-plus of acquisitions in 2012, including a portfolio of Dallas, Houston, Las Vegas, Phoenix and Southern California assets, may strike more than $300M of buys this year.

Whether apartment transaction volume repeats a 2012 high-water mark of approximately $80B depends on how much buyers will focus on acquisitions instead of new development. Value-added deals will lead the pack. Class A assets remain popular, but investors grouse about a lack of supply, especially at palatable cap rates at a time of cheap debt. Class A properties in gateway markets will remain attractive to international capital shopping top shelf product, yet value-added strategies similar to the **Brookfield Fairfield U.S. Multifamily Value Add** fund will become more prominent. Houston, a must-see market for apartment buyers, is known for its population of smaller international buyers shopping Class B units for value-added plays.

Don't be surprised if foreign and institutional capital fuels joint venture buys in Las Vegas, Phoenix and South Florida — and triggers a flood of sales from hawkish commercial banks and owners who bought post-crash and can't help but notice current U.S. apartment pricing exceeding the previous cycle's peak.

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