# CRITTENDEN Real Estate Buyers™

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## BUSY FOREIGN BUYERS

The pack of foreign investors clamoring to buy more office and industrial buildings between the coasts will be led by Canadians. Confidence in overlooked U.S. markets is improving with employment gains, while gateway markets will retain their places on foreign buyers' core-plus and value-added lists. Vancouver, B.C.-based **Second City Capital Partners** works to take **City Office REIT** public, which will lay the groundwork for expansion in familiar markets Denver; Boise, Idaho; Orlando and Tampa, Fla.; and Allentown, Pa. The company will build upon a $200M value-added portfolio, depending on the outcome of the targeted $115M City Office REIT IPO. Though these plans pale in comparison to soon-to-be-private **Brookfield Office Properties**' $1.25B credit line, Second City's ambitions show significant interest in markets with little new construction that have been historically sidestepped by non-U.S. buyers.

Canadian buyers' interest should drive the bulk of the market, yet their action will be met with a host of capital from northern and western Europe, as well as Asia and the Middle East. **Norges Bank Investment Management** will expand its $1B-plus appetite for Class A office and new development in partnership with MetLife Real Estate Investments and TIAA-CREF through buys, builds and recapitalizations. **Metzler North America**'s $450M acquisitions target homes in on core to core-plus buildings in primary and secondary markets including New York, Chicago, Los Angeles, the San Francisco Bay Area, South Florida and Washington, D.C.

Brookfield Office Properties, with $900M of purchases in 2013, will likely consider smaller and more opportunistic properties to expand in its smaller footprint markets of Boston, Denver, Los Angeles, Seattle and the San Francisco Bay Area. The **Brookfield Property Partners**' subsidiary may opt to sell off some holdings in its largest markets of Houston, New York and Washington, D.C. *Continued on Next Page*

## TOP RETAIL BUYERS

RETAIL ACQUISITIONS FOR 2014

| BUYER | VOLUME | DETAILS |
|---|---|---|
| Phillips Edison-ARC Shopping Center REIT | $1B | Acquires grocery-anchored centers in infill markets nationwide. Bought $914M of assets during 2013. |
| DDR | $250M | Plans to sell $250M of centers; bought $2B of assets in 2013. |
| Kimco Realty | $750M | Buys shopping centers and power centers. |
| Macerich | $550M | Will likely scout for malls, power centers and lifestyle centers. |
| Acadia Realty Trust | $500M | Primarily buys value-added and core neighborhood centers. |
| General Growth Properties | $450M | Buys malls and mixed-use properties in and outside joint ventures. |
| Kite Realty Group | $350M | Buys portfolios and builds centers throughout the Midwest and Southeast. |
| Rouse | $300M | Buys malls nationwide. |
| Inland Real Estate | $300M | Could match the $300M spent in 2013. |
| Glimcher Realty Trust | $270M | Typically looks for community centers, malls and power centers. |
| Simon Property Group | $250M | Creating SpinCo for its strip centers and smaller shopping centers. |
| Weingarten Realty | $150M | Buys centers throughout the West and the Sun Belt. The company sold $278M of assets in 2013. |

*2014 numbers are based on interviews, editorial assumptions and recent acquisitions activity.*

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Diversified buyer **Ivanhoe Cambridge**, with more than $2B of apartment and office action last year, will be an active buyer, builder and JV partner in and outside Chicago, San Francisco and Seattle for $100M-plus deals. Secondary and primary markets will also rate interest from Canada-based **Triple Properties**, which has at least $500M for value-added to core markets including Boston, Chicago, Detroit, Las Vegas and New York.

An upsurge of Asian investors will ply core to value-added buys and redevelopment with a focus on multitenant space. **Overseas Union Enterprises** (OUE) could put more than $600M of cash to work this year, for big-ticket office building buys similar to last year's $370M multitenant purchase in Los Angeles. OUE will generate cash at home through an OUE Hospitality Trust offering. The company may also acquire more retail properties and hotels. A recent U.S. entry means **Oceanwide Real Estate Group** will likely consider more redevelopment and value-added purchases of multitenant office, retail and apartments along the West Coast. **Mirae Asset Global Investments** will be active in Chicago, where it made an initial stateside buy last year. It will be looking for $150M-plus transactions.

Middle Eastern capital will be led by **Investcorp**, which is targeting $1.2B of acquisitions across property types. The Bahrain-based private equity firm's value-added and opportunistic strategy suggests more suburban office buys — including medical offices — in the Chicago, Denver, Houston, Los Angeles, Minneapolis and New York metro areas are likely. Office buys in Austin and Las Vegas this year could add to apartment and student housing purchases booked by Investcorp a couple months ago. Recovering markets such as Las Vegas should only see interest in solid, Class A product until employment improves.

Foreign investors' appetite for bulk warehouse/distribution properties should catapult deal volume past the $3B worth of deals booked in 2013. Canada-based buyers, led by Agellan Commercial REIT, Bentall Kennedy, Brookfield Property Partners and Dalfen America, capitalize on proximity to American cities and could again capture most of the deals. With $650M for mostly development transactions, expect diversified CRE buyer **Bentall Kennedy** to carve out some cash for multitenant and single-tenant bulk warehouse and distribution buildings in primary and secondary market hubs including Baltimore, Houston, Seattle and Southern California. However, most of that cash will likely be used for new construction as a continued lack of ground-up construction amid declining vacancy rates justifies new projects. **Dalfen America/The Dalfen Group** has at least $100M equity for value-added industrial and mortgage notes secured by such properties nationwide. The buyer's Ashrei Opportunistic Industrial Fund II fund will support buys in and outside familiar markets such as Dallas; Las Vegas; Phoenix; Orlando, Fla.; Charlotte, N.C.; and Memphis, Tenn., as well as Illinois, Indiana and Minnesota.

**Brookfield Property Partners**' $1B buy of Industrial Developments International lays the groundwork for a flurry of sales and purchases nationwide. **Agellan Commercial REIT**, heavily invested in Texas, could expand its value-added strategies in Illinois, Indiana, Maryland and Ohio, for multitenant and single-tenant buildings measuring 50,000 s.f. to 500,000 s.f. *Continued on Next Page*

**BUYERS IN BRIEF**

**CAPITAL AUTOMOTIVE** *(Auto Dealerships)*: 8270 Greensboro Drive, Suite 950, McLean, VA 22102, Jay M. Ferriero, President and COO, (703) 394-1319; fax: (703) 288-3375, jferriero@capitalautomotive.com

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Overseas buyers will also partner with stateside investors. **The National Pension Service of Korea** could again team with **Heitman** on portfolio transactions. **Kuwait Finance House** could form joint ventures with REITs, similar to a past partnership with **First Industrial Realty Trust**, in addition to other asset classes that have included apartments, senior housing and self-storage.

## RETAIL GIANTS TO SPEND BILLIONS

Retail buyers backed with fistfuls of cash will claw into infill markets for grocery-anchored centers. Phillips-Edison & Co.'s joint venture with AR Capital, which plans to acquire nearly than $3B of centers in coming quarters, will be among the country's most active buyers.

This year the two companies will seek $1B of acquisitions for their **Phillips Edison-ARC Shopping Center REIT** venture and increase footprints in Connecticut, Kentucky, Michigan, Missouri, New Mexico and Wisconsin. The REIT will also expand toeholds nationwide. Shopping should also start for a targeted $1.8B **Phillips Edison-ARC Grocery Center REIT II**, which could peel off cash for a few power and lifestyle center developments and mortgage note purchases. Both vehicles will target centers stocked with national and regional credit tenants. There should be a heightened focus on portfolio buys with palatable pricing, but the likelihood of such deals has become even more difficult with the influx of big private-equity jockeying for larger pieces of the grocery-anchored segment.

Many buyers are responding to a lack of new development at a time of declines in returns on institutional real estate. Non-retail specialists will increase stakes in established companies, which could stimulate a new round of sales as buyers use fresh equity to reassess and reconfigure portfolios. East Coast-focused **Edens & Avant** could use more than $700M for acquisitions in coming months as a result of recent investments from private equity and pension-fund capital.

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## Deals in Detail

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In a foreclosure purchase, private buyer Shantinath CW LLC paid $2.2M for the 59-unit Candlewood Suites Newport News Yorktown extended stay hotel in Yorktown, Va. The three-story property was constructed in 2002 and traded at $37,288 per key. The cap rate is 7.67%, with average 65% occupancies The property, on the market for a little more than seven months, is near Newport News International Airport, Norfolk International Airport and Busch Gardens. Mumford Co. represented the buyer and seller in this December transaction.

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In an all-cash deal, institutional buyer TIAA-CREF paid $400.36 psf for an eight-story building in Boston's Seaport District. All tenants' leases at the fully occupied building are slated to roll in 10 years. The building, renovated in 2006-07, likely traded at a high 5% cap rate. HFF represented the buyer, and seller DivcoWest, in this mid-December deal.

### RETAIL GIANTS TO SPEND BILLIONS...

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It's possible **Edens & Avant** could sell off some assets and reinvest capital into new deals or development. If it expands westward, it will encounter Inland Real Estate, with at least $300M for retail buys including grocery-anchored centers. **Queensland Investment Corp.**, **Slate Properties** and **Simon Property Group** will also be active independently and with joint venture partners.

### BUYERS IN BRIEF...

► **Strategic Storage Trust II** targets an $861M equity raise to acquire stabilized self-storage properties with 70% or higher occupancy rates, as well as senior debt, mezzanine and B-piece notes, property expansions, developments and redevelopments. The REIT, targeting primary and secondary markets nationwide, could also invest up to $175M in auto, RV and boat storage properties. Predecessor REIT Strategic Storage Trust counts California, Dallas and Austin, Texas, plus Miami and Fort Lauderdale, Fla., among its top markets.

► Private equity investor **CrossHarbor-Capital Partners'** $500M acquisitions goal will sidestep assisted living and focus in its coast-to-coast purchases of apartments, hotels, industrial, land, medical office, mixed-use, office, retail and parking garages. CrossHarbor emphasizes core-plus, value-added and opportunistic strategies. Its dealmakers acquired $500M of properties during 2013 and hold a CRE portfolio totaling $15B.

► Manufactured housing buyer **RHP Properties** sets a $500M acquisitions target for three- to five-star parks nationwide. Deals at $4M-plus will involve a mix of fee-simple and mortgage note purchases. Stabilized and value-added properties will be considered. The private investor and developer bought $1.6B of assets during 2013.

► **Capital Automotive** sharply increases its acquisitions goal to $300M this year, compared to $111M of deals booked during 2013. True to its name, the company will buy car dealerships, auto body repair shops and other auto-related CRE priced at $5M-plus nationwide. Most deals should happen via sale/leasebacks with solvent companies. The DRA Advisors subsidiary shops the largest 50 U.S. metro areas and Canada.

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## BUYERS IN BRIEF...

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▸ Farmland buyer **UBS AgriVest LLC** pencils in $100M for acquisitions. The pension fund adviser adds to its buy list acreage in Illinois, Montana, North Carolina, Ohio, Pennsylvania, South Carolina, Washington and Wyoming. The long-term owner considers agricultural land priced from $1M to $50M, and holds a $950M portfolio.

▸ **Madison Realty Companies**' $100M acquisitions target for assisted-living facilities will involve $3M-plus assets in Alabama, Arizona, California, Colorado, Florida, Georgia, Mississippi, Nebraska, Nevada, Ohio, Oklahoma and Texas, The private investor, with $75M of buys during 2013, also considers self-storage properties.

▸ Diversified buyer **Maier Siebel Baber** shops for $100M of apartments, industrial, office and retail priced at more than $5M. The value-added and opportunistic buyer pays all-cash to seller and shops Arizona, California, Colorado, Hawaii, Oregon, Texas, Utah and Washington.

▸ Investment Manager **Somera Capital** anticipates $75M to $100M of deal volume focused on western U.S. apartments, hotels, industrial, office and retail properties via fee-simple purchases, joint ventures, mezzanine debt and preferred equity investment structures. Properties throughout the Southeast and Mid-Atlantic will also be evaluated. Per-deal pricing will range from $3M to $25M.

▸ **Lutz Real Estate Investments**' $75M acquisitions goal will exclusively focus on value-added student housing properties nationwide. The private buyer and developer bought $100M of properties during 2013.

▸ **HarborView Properties** has $75M for acquisitions and has added Florida and Texas to its list for value-added buys of apartments, hotels, shopping centers and mixed-use assets throughout California, Connecticut, Maine, Massachusetts, New Jersey, New York and Pennsylvania. The private buyer considers $2M to $50M transaction ranges.

▸ **Prime Property Investors** will exclusively focus on metro and suburban Class A properties to meet a $50M to $100M acquisitions goal this year. The buyer will target Chicago and Houston, in addition to Austin and Dallas, as well as markets throughout Illinois and Indiana. Acquisitions will balance a portfolio of student housing and apartments. The private investor seeks larger properties in the 200-unit-plus range with price tags ranging from the high-$20M to low-$30M range. Company dealmakers wrapped up 2013 with $50M of buys.

▸ **Pantheon Properties** eyes $50M of industrial and non-performing purchases this year, and could mark a return to the market after making no acquisitions during 2013. The private investor will consider $3M-plus deals and consider vacant industrial in northern New Jersey and New York.

▸ Value-added buyer **Capretta Properties** adds office buildings to its must-have list. With a $50M acquisitions goal for 2014, the private investor and developer shops for $10M-plus properties, including land parcels, mixed-use assets and shopping centers in California, Nevada, Oregon and Washington.

▸ Milwaukee, Wis.-based **Northwestern Mutual** — with an estimated portfolio value of $6.7B — looks ahead to 2014 and 2015 with ambitious plans. The company expects to spend $700M each year to enhance its already hefty portfolio. Northwestern looks nationwide for a diverse mix of apartments, industrial, office and retail.

## SMALLER INVESTORS HUNGRY FOR GOVERNMENT TENANTS

Buyers of government-leased building will be on the hunt despite the federal government's reduced need for space in primary markets. Active buyers will include **Government Properties Income Trust, USAA Real Estate Co.** and **Urban Investment Research Corp.** They can be expected to ramp up purchases of smaller, sub-$20M properties in secondary and tertiary markets. Cap rates can trend into the 8% range for shorter term leases.

Larger buyers should be preparing for action. Institutional investor USAA Real Estate Co.'s appetite for Class A office and industrial buildings could be sparked this year if a successor fund to the $1B US Government Building Fund rolls out later this year. Don't be surprised to see a redevelopment emphasis, consistent with the feds' approach to buildings. Newly developed assets nationwide with long-term leases will also be sought.

### Attention on Larger Markets

Government Properties Income Trust (GOV) — active in primary through tertiary markets — could acquire and put under contract more than the $100M of transactions booked during 2013. Properties in suburban markets leased to the U.S. Army, National Institute of Health and Social Security Administration should continue to attract this buyer, in addition to state-leased buildings. Expect to see sales in larger markets similar to Phoenix and San Diego, Calif., and Oklahoma City, Okla., because the reduced demand for space means the government may not renew short-term leases. Most of GOV's 2013 deals ranged from $10M to $20M and were located in Alabama, and the suburbs of Sacramento, Calif.; Richmond, Va.; and Washington, D.C.

Urban Investment Research will acquire government properties under long-term leases to complement non-government leased office and industrial buildings throughout suburban Chicago. The buyer has acquired sub-$10M properties leased to the U.S. Border Patrol and Department of Homeland Security.

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