

HOTEL INVESTORS RETURN BEFORE PRICE INCREASE

Aspiring hotel buyers will compete with established investors and developers as all aim for acquisitions ahead of dramatic per-key price increases. Current pricing is about 25% less than pre-peak values but will rise more by December. Targeting up to \$1.7B for acquisitions during the next three to five years, AR Capital-sponsored affiliate **American Realty Capital Hospitality Trust** prepares to be one of the most active buyers in the midscale select-service segment. Developer **Stanford Hotels** revisits acquisitions after a nine-year absence. Apartment buyer Waterton Associates' **Ultima Hospitality** coinvestment vehicle gathers steam after an initial West Coast entry, carrying additional plans for acquisitions with regional and national joint venture partners. These buyers will contend with reviving REITs that plan to beat or exceed 2013 acquisitions volume this year.

Public companies will tap cash from initial offerings and credit lines to fatten portfolios. Nascent buyer American Realty Capital Hospitality Trust plans to whet an appetite for mostly select-service properties with an initial buy of 1,200 select-service keys in Connecticut, Georgia, Maryland, Rhode Island and Virginia, in and outside joint ventures; there's a mix of Hilton Garden Inn-, Courtyard by Marriott- and Westin-flagged hotels. Also expect interest in newly constructed hotels and some full-service, extended-stay and upper-upscale, full-service keys. Affiliate **ARC New York Recovery REIT's** diversified approach should leave more room for hotel buys after an estimated \$2B of acquisitions in 2013 that included a full-service hotel.

If it matches last year's acquisitions rate, Ultima Hospitality could use up to \$200M equity for 100-plus keys in urban and suburban infill markets. Such deals will include portfolios and one-off purchases of branded and independent full- and limited-service hotels. The Waterton Associates' affiliate has partnered with a variety of companies, including private equity shop **AREA Property Partners** and redeveloper **Oxford Capital Group**.

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TOP PRIVATE INDUSTRIAL BUYERS

BUYER	2014 ACQUISITIONS	
	VOLUME	DETAILS
Clarion Partners	\$750M-\$1B	Buys warehouse and distribution centers nationwide; targeted \$1B volume during 2013.
KTR Capital Partners	\$700M+	Buys warehouse and distribution buildings nationwide for \$1.2B-equity KTR Industrial Fund III.
Bentall Kennedy	\$650M	Mix of acquisitions and development; buys warehouse and distribution in primary and secondary markets.
Exeter Property Group	\$500M+	Buys for its targeted \$794M-equity Exeter Industrial Value Fund III.
Cabot Properties	\$400M	Will buy land, Class A and Class B industrial for targeted \$650M-equity Cabot Industrial Value Fund IV.
Hillwood Investment Properties	\$325M	Activity is part of a broader \$1.25B purchase and development goal for warehouse and distribution through 2016. Also plans \$75M of new construction.

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

HOTELS

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Additional purchases with existing and new joint venture partners should expand the company's 1,300-key portfolio of properties in and beyond Columbus, Ohio, metro and suburban Chicago, the San Francisco Bay Area, Massachusetts and Wisconsin.

Urban developer and buyer Stanford Hotels' confidence in the economy will support new entries into Boston, Philadelphia and downtown Los Angeles. Dealmakers also plan to build on 2013 entries into New York, a recent buy in Washington, D.C., plus action in existing markets of Charlotte, N.C.; Los Angeles, San Diego, San Francisco and Seattle. Future deals could include urban boutique assets with 125-plus rooms, to 600- to 700-key full-service properties, as well as mixed-use residential and retail properties. On the buy side, they may cross paths with public REIT **Sunstone Hotel Investors** and its \$500M-plus budget for full-service hotels nationwide. Expect action in its least penetrated markets of Philadelphia, Orlando, Fla.; Portland, Ore.; and Park City, Utah; as well as Houston, Boston, Chicago, New Orleans, New York and the Washington, D.C., metro area. The company may opt to sell off some assets in California, where hotel transactions volume should jump past \$4B this year. **Inland American Lodging Advisor's** \$500M goal could expand its table of urban-upscale and upper-upscale hotels and suburban midscale hotels with Hilton, Hyatt, Marriott and suburban upscale hotels. The Inland American Real Estate Trust subsidiary buys nationwide.

RLJ Lodging Trust could reach \$400M of buys this year and expand to the West Coast. Expect further inroads into urban markets and infill suburban areas for acquisitions and note purchases. Atlanta, Boston, Houston, Honolulu, Miami and San Francisco will be on the company's radar for full- and select-service assets. It bought \$188M of properties during 2013 and \$182M during 2012.

Hospitality Properties Trust seemingly prepares for an onslaught of upper-upscale deals. It has an option for a \$2.3B maximum credit line and loan that's double the size of its current one. The public REIT plans at least \$200M of acquisitions nationwide, particularly in New Orleans; Orlando, Fla.; Duluth, Ga.; and Florham Park, N.J.

LaSalle Hotel Properties can tap \$800M-plus for upscale, luxury, full- and select-service hotels in urban and destination markets, following its credit line increase to \$1.05B. Similar to RLJ Lodging Trust, the company should continue an upward acquisitions pace started in 2012; it acquired \$300M of assets during 2013.

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CORRECTION: Crocker Partners' name was incorrectly stated in the Feb. 3 issue. Real Estate Buyers regrets the error.

SUBURBAN OFFICE MAKES COMEBACK

Long-avoided suburban office will emerge as the must-have property this year. Vacancy rates are declining, rents are slowly rising and all types of buyers are paying even closer attention. Count on them to employ a sub-market approach to the segment as office pricing and declining cap rates heat the market for opportunistic and value-added properties. Portfolio transactions should increase until interest rates rise later this year. A mix of active private and public buyers will include Brandywine Realty Trust, Crocker Partners, Met Life Real Estate Investments, Parallel Capital Partners and Parkway Properties.

Count on a surge of private equity capital in pursuit of higher than average returns. More big-ticket deals should follow **Greenfield Partners'** office-heavy \$400M buy throughout Maryland, New Jersey and Pennsylvania.

Look to new funds to aggressively shop for assets with and without JV partners. **Crocker Partners** has \$1B for acquisitions during the next 24 months in suburban, infill markets throughout the Sun Belt. The company will seek expansions into Nashville, Tenn.; and Charlotte, N.C., plus deals throughout its existing markets of Atlanta, Houston, Orlando and Tampa, Fla. It wants at least 30% discounts to replacement costs. Expect the company's Crocker Partners Fund VI — introduced in late 2013 — to also co invest.

Beacon Investment Partners looks for more than \$450M of deal flow and will expand its base in the recently entered Denver and suburban Chicago markets, as well as growing a presence in Atlanta as part of a broader Sun Belt focus that includes substantial footprints in Dallas and Houston. Expect the company to aim for 1 million to 1.5 million square feet of deals in coming years in newly entered markets. They'll also scout Class B and some institutional-grade buildings in suburban and CBD locales for repositioning; typically, these assets will measure at least 150,000 s.f., up to 1 million s.f. — with pricing in the \$20M to \$250M range. Buildings with a roster of national, regional and local credit tenants averaging 10% to 20% lease rollovers per year will be sought. Portfolios of smaller, incubator-type buildings aren't of interest. It will joint venture and buy for its sixth fund called Gimmel Investments.

Parallel Capital Partners could acquire more than \$500M of suburban office in Arizona, Hawaii, Texas and Southern California. It bought \$450M of assets in 2013. If it heads north, its dealmakers may encounter MetLife Real Estate Investments. The institutional investor is deepening its suburban foothold throughout the San Francisco Bay area and nationwide. **PS Business Parks**, also a Texas-heavy investor, could return to a \$500M deal volume posted in 2011. The buyer has acquired only \$100M of assets during 2012-13, so a big deal should occur this year.

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Deals in Detail

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Section 1031 Exchange buyer Fernside Family Partners paid \$439.90 psf for a newly constructed single-tenant retail property in Chesapeake, Va. The cap rate is 5.65%. Regional retailer Merchant's Tire & Auto Center signed a 25-year lease on the 6,922 s.f. asset. Deal terms include CPI-tied rent bumps every five years. Seller and builder, Charlotte N.C.-based Pavilion Development Co., completed construction in late 2013, according to the Chesapeake, Va., Planning Department. The Boulder Group represented buyer and seller in this mid-January transaction that took upwards of 60 days to close from initial contract.

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In another Section 1031 Exchange purchase that closed in late 2013, private investor North Windham Properties LLC paid an estimated \$59.45 psf for the North Ridge Plaza power center in the Chicago suburb of Joliet. The 240,000 s.f. center is 95% leased to such tenants as Hobby Lobby, Marshalls and Office Max. Approximately 50,000 s.f. of space at the 1985-built property will be renovated. A couple of leases are slated to expire in 2015, with the balance expiring in a staggered fashion in three to seven years. The property secures a four-year, 25-year amortizing loan underwritten at a 4.5% interest rate, with 75% LTV, from a community bank. Marcus & Millichap Capital Corp. handled the financing package.

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Parkway Properties targets at least \$1B of mostly suburban assets throughout the Sun Belt, which will include additional one-off and portfolio buys throughout the Southeast and Southwest. The public REIT booked \$1.8B of buys in 2013.

Brandywine Realty Trust this year could surpass \$300M of suburban and some CBD buys in and outside its JV with DRA Advisors. The public REIT will shop for \$5M to \$750M transactions nationwide, including suburban markets around the Washington, D.C., metro area, California, Delaware, Maryland, New Jersey, Pennsylvania, Texas and Virginia. **MetLife Real Estate Investments** also has a penchant for suburban office in gateway markets, including San Francisco. Diversified buyer Kennedy Wilson will also be active.

Younan Properties will spend some of the \$400M it has set aside for acquisitions on suburban office properties throughout Southern California and the West.

PFs, INSTITUTIONAL INVESTORS AGGRESSIVE IN 2014

Pension funds, institutional investors and advisers will advance a mounting trend towards value-added buys throughout the main four property types. Count on more joint ventures, private equity and mezzanine financing from buyers and their partners looking for 9%-plus unleveraged yields to balance 4%- to 5%-plus unleveraged returns for core, stabilized investments.

Apartments will remain the go-to sector, but buyers will increasingly seek more value-added deals. **FCP**, which plans at least \$250M of mostly value-added Class B and Class C apartment complexes, will also slice off at least \$50M for preferred equity and mezzanine debt across property types. *Continued on Next Page*

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Simpson Housing, with a \$500M acquisitions target, will also be among active apartment buyers in the value-added space.

Berkshire Property Advisors — with a \$500M-plus deal goal — could ramp up mezzanine debt, development and acquisitions of senior loans and B-pieces in primary coastal markets, in addition to value-added purchases for its Berkshire Multifamily Value Plus Fund III. The adviser bought more than \$500M of real estate in 2013 and counts the San Francisco Public Employees Retirement System among investors.

Prudential Real Estate Investors will take a multipronged approach to value-added and alternative investments through various vehicles. Its year-old Senior Housing Partners IV fund, will acquire beds nationwide. Its \$1B all-in/\$430M equity US Property Fund V, launched in late 2013, considers a sliver of new apartment construction in primary and secondary markets that include Boston, Los Angeles, New York and Washington, D.C. Dealmakers should also partner on additional spec office development as an extension of its value-added approach, similar to a \$54M deal in Raleigh, N.C., last year with Dominion Realty Partners.

Clarion Partners has a \$3B acquisitions target for value-added and core investments in apartments, industrial, hotel and retail properties nationwide. Deals could also include mezzanine financing and preferred equity investments, in addition to select new apartment construction in secondary markets. **AEW Capital Management** will carve out at least \$300M for senior housing purchases from a \$2B acquisitions purse shopping for core and value-added apartments, industrial, office, retail and hotel joint ventures. **Northwestern Mutual Real Estate Investments'** \$700M equity investment goal anticipates \$20M to \$150M acquisitions and equity joint ventures with developers of apartments, multitenant and single-tenant industrial, neighborhood retail and office buildings. **Principal Real Estate Investors'** \$2B acquisitions target will bankroll apartments, hotels, industrial, office and retail property buys, in addition to select \$5M-plus equity investments. **USAA Real Estate Co.** aims for \$1.2B of value-added, core-plus and core acquisitions across property types nationwide, in and independent of joint ventures.

Higher average returns for office buildings compared to apartments and grocery-anchored retail will result in more transactions. Look for office and industrial to account for the bulk of **TA Associates Realty's** \$1B acquisitions activity, followed by apartments and retail. The adviser, which has counted Massachusetts Pension Reserves Investment Management among investors, could use upwards of \$400M for value-added and stabilized bulk warehouse and distribution and other industrial properties, plus \$400M for office buildings; another \$150M could be used for apartment purchases and \$50M for retail this year. It will encounter foreign PF adviser Bentall Kennedy and Exeter Property Group — with fresh cash from the New York State Teachers Retirement System — in the bulk distribution and warehouse segments. **Lone Star Funds**, with fresh cash from NYSTRS, can be expected to further their opportunistic to value-added strategy across property types through December.

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