CRITTENDEN Real Estate Buyers™

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Vol. 29, No. 14 July 22, 2013

## SECONDARY APARTMENT ACTIVITY ON THE RISE

Anticipate even more action for value-added apartments in secondary markets as buyers respond to the sharpest interest rate increase since the downturn. **Azure Partners** plans to spend $200M this year, making 2013 its most active year since a 2010 inception. Other buyers, including **The Carroll Organization**, which will likely eclipse the more than half billion it spent last year, **Hamilton Zanze & Co.**, and several institutional investors, will follow suit nationwide, with many paying particular attention to markets in Texas, the Southeast and Mid-Atlantic states. **Cortland Partners** looks to buy $800M-plus this year, as it chases deals to expand outside a Southeast footprint. **Morgan Properties** targets up to $500M of purchases to expand a Mid-Atlantic portfolio and fuel potential expansions into the Sun Belt.

### Abandoned Deals to Garner Interest

Transaction volume should lag for borderline assets requiring upgrades. Fewer buyers will be able to justify higher renovation costs without the promise of immediate rent hikes. However, deals that fell apart because of the mid-June interest rate hike could command more attention. A lack of upward movement in cap rates could dampen their focus on value-added properties. Higher interest rates could also give buyers second thoughts about pricey deals where existing cash flow is already tight.

Azure Partners will focus on Class A- and Class B assets in secondary and suburban areas, which will pit the buyer against many regional and national players, including **FCP**, **Home Properties** and **Mack-Cali Realty**. While Texas and the Mid-Atlantic are main footprint markets, expect to see company investors scouting additional areas to add to the $85M it has already spent this year. Markets independent of a single industry, such as financial services, will be in play. Like many investors, it scouts diversity and looks to markets with technology, health, energy, education and other economic drivers. Austin, Denver, Orlando, Nashville, Raleigh, Salt Lake City, and the Baltimore/Washington metro area are hot spots for one-off and portfolio deals priced at $20M to $100M; the company targets a cap rate range of 6% to 7%. The buyer acquired $100M of assets during 2012. In Atlanta and Phoenix, count on the buyer to pursue tight submarkets for Class A- properties.

Other buyers will move to newer assets. **Hamilton Zanze & Co.**, which also shops the Class A-/B spectrum throughout Western states for 1990s–vintage and newer properties, plans expansion as it moves closer to a $100M to $150M acquisitions goal this year; dealmakers have acquired $65M of properties since January. The company has bought a large percentage of newer assets this year, a departure from its traditional focus on older properties. Moving forward, count on more activity in the new market of Boise, in addition to potential expansions into Dallas, Houston and San Antonio, where Milestone REIT III and Steadfast Income REIT will also continue activity. Depending on the property, dealmakers would consider cap rates as low as 5%, a little lower than deals booked in the 6%-plus range. Complexes with 150 to 600 units will rate interest. Buyers can be expected to tread lightly in Arizona, except for choice, no-brainer deals. **The Bascom Group**, more than halfway to meeting a $900M acquisitions goal, is also bullish on Class A properties in The Cactus State and other Western U.S. markets.

With cash from funds and joint venture partners, expect **Carroll Organization**'s dealmakers to pursue mostly core-plus Class A and Class B properties throughout Atlanta, Houston and the Florida cities of Jacksonville, Orlando, Miami and Tampa. The buyer has acquired $536M of properties since January and, if it maintains a current pace, could eclipse approximately $650M of acquisitions booked during 2012. Separately, it will buy for the $1B all-in/$250M Carroll Multifamily Real Estate Fund III, plus a $100M separate account that is close to fully committed. It, like Hamilton Zanze and Azure Partners, will scoop older vintage assets. The company also considers development deals.

*Continued on next page*

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## LAND BUYS TARGET GEN Y, HEALTH AND HOME

Apartment, medical office and single-family housing land buyers will opt to build instead of holding for future development in many markets, because of pricing that has increased from 15% to 20% during the past year. Apartment and land buyer **Armada Hoffler Properties** is expected to use some of its credit line for land deals in the Mid-Atlantic and North Carolina. **KB Home** expects more than $1B of activity. Medical office builder **Oman-Gibson Associates (OGA)**, will seek $20M of deals this year, and **Wheelock Street Capital** will continue to buy land. Serious competition awaits buyers in urban markets, where developers respond to an uptick of demand. Land sites are becoming tougher to get so expect a bigger push to suburban parcels close to big, primary markets.

Apartment land trades are expected to lead the pack for the remainder of the year. Builders and buyers want to be where Generation Y's action is. They expect a majority of that populace to rent long-term. Urban infill parcels will trade like hotcakes as a result. In Houston, talk says $200 per s.f. for a three-acre site is under contract. The city's diversified economic base will spur growth. Vacant building buys and conversions will heat. High-rise apartment sites in the Galleria are among the hottest. In Seattle, tech company expansion results in hot bidding for sites. A high-rise tower is expected from a recent $500-plus per s.f. sale near the city, where land pricing hits $500 to $600 per s.f.

Newly public Armada Hoffler Properties could use part of a $100M credit line for land acquisitions in Virginia, North Carolina, Washington, D.C., and Baltimore, Md., as part of a larger focus on the Mid-Atlantic region. The company buys and builds apartments, office and retail. Forest City's $500M credit line will support deals in Boston, Chicago, Dallas, Denver, Los Angeles, New York City, Philadelphia, the San Francisco Bay area and metropolitan Washington, D.C.

KB Home's ramping appetite lays a foundation for more than $1B of land and development action this year. Dealmakers respond to growing demand for houses, particularly in coastal California and Texas, where a big chunk of this year's deals will occur. Since January, KB execs have purchased more than $575M of lots. Expansion could also occur in familiar markets Arizona, Colorado, Florida, Maryland, Nevada, New Mexico, North Carolina and Virginia. Lennar Corp. and Lennar Multifamily Partners will also be active.

Medical office builder Oman-Gibson Associates (OGA) wants $20M of parcel buys this year, and looks toward expansion into Dallas, New Orleans, the Florida Panhandle and West Palm Beach, Fla. Increasing interest in land is a result of more foot traffic into urgent care, surgical and specialty medical centers. The fee developer and joint venture equity partner will shop for minimum two-acre or three-acre parcels, rarely exceeding four or five acres. It has existing footprints in Alabama, Kentucky, Illinois, Indiana, Michigan, Ohio, South Carolina, San Diego and Eatonton, N.C. Duke Realty has acquired more than $5M of land parcels since January. It could exceed approximately $12M of acquisitions booked during 2012.

In lieu of obvious opportunities, buyers will increasingly consider smaller deals. Wheelock Street Capital has money left in its Wheelock Street Real Estate Fund and will raise capital for a new fund shortly that should fuel additional acquisitions of mostly suburban land throughout the top 5 to 25 markets nationwide; deals outside major markets will also be considered. Dealmakers have no strict upper boundary in terms of equity; the company will buy as small as $10M-equity and last year completed a $100M deal. Earlier this year it bought a parcel in Denver. Other active buyers include Associated Estates Realty, CNL Growth Properties, Forest City Residential and JP Morgan Investment Management/Junius Real Estate Partners and Legacy Partners.

## NET LEASE BUYERS TO BANK ON BIG DEALS

Pricier debt results in higher cap rates and will trigger more net-lease trades as a result. **American Realty Capital**-sponsored REITs will exceed $15B of acquisitions this year across all property types. Others, including **W.P. Carey & Co.** and **Cole Real Estate Investments**, all are active with huge deals and fresh funds, and several look to match or exceed $1B to $2B of transaction volume this year.

The wind is at the backs of buyers riding CRE's momentum into new property segments and markets. Larger buyers will scoop big single-asset deals and portfolios. Cap rates should continue hovering in the high-5% to 6%- range for bulk buys of credit tenant-occupied buildings.

Public REIT American Realty Capital Properties' appetite for operating companies and big portfolios will extend into 2014. Look for the company to spend another $300M this year and target $1B of net-lease buys next year. There will be continued interest in investment-grade properties. ARCP's plans to acquire ARCT IV will bring an expansion into the quick-service and fast-casual restaurant segments with a nearly 1,000-property portfolio. Sponsor American Realty Capital expects $4B-plus of deals for all its REITs, including ARCP. ARC-sponsored REITs have booked $11.2B of acquisitions so far this year. Several non-traded REITs sponsored by American Realty Capital — including ARC Daily Net Asset Value, ARC New York Recovery REIT, ARC Healthcare Properties and American Realty Capital Trust IV — should cross paths with other heavy hitters by December. Dealmakers should encounter **STORE Capital** and its $1B acquisitions goal for restaurants, grocery centers and other specialty property types leased to credit and nonrated tenants. STORE Capital has made $400M of acquisitions since January.

W.P. Carey & Co. prepares deals for the targeted $1B CPA: 18. It will stalk rated and non-rated tenant boxes across the property and pricing spectrum. Deals in the $5M to $500M range should mirror decelerating CPA: 17, with $70M of industrial, retail, self-storage and warehouse/distribution property acquisitions since January, plus $84M of child care, retail and corporate headquarters buildings for its own account. Corporate CRE owners will remain a hearty source of sale/leaseback product, as they choose sales instead of new, higher financing. Watch for Cole Real Estate Investments and sponsored funds to easily exceed $2B of volume this year, for all types of properties.

The recently introduced $130M-equity AG Net Lease Realty Fund III vies for 15 year-plus leases. Pricing ranges from $5M to $200M for all types of assets nationwide. Gramercy Property Trust should spend more than $200M this year on a variety of properties, including truck terminals. ARC Property Trust's focus on regional credit will expand a Mid-Atlantic- to-Washington, D.C.-area portfolio. The investor could acquire another $75M of retail, mixed-use and land assets on top of $100M of properties acquired since January. It will execute via joint ventures and fee-simple transactions. Smaller fee-simple buyers, including AEI Fund Management, Agree Realty and Brauvin Net Lease Realty, will encounter an abundance of Section 1031 Exchange buyers expanding sub-$10M footprints.

Watch for shorter lease terms to become more popular, as buyers push deeper to unearth value in shorter, riskier deals instead of 15- or 20-year coupon clippers.

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*Crittenden Real Estate Buyers*™ is published by Crittenden Research, Inc., 45 Leveroni Court, Suite 204, Novato, CA 94949. Send address changes to *The Crittenden Real Estate Buyers*™, P.O. Box 1150, Novato, CA 94948-1150. 