CRITTENDEN Real Estate Buyers™

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## NEW RETAIL BUYERS TO BULK UP BEFORE RATES RISE

Retail values will escalate to pre-peak levels and rollouts of specialized retail buyers herald increased acquisitions volume. Hungry for investment-grade ratings, count on newly formed companies to bulk up through buys, in an effort to secure attractive financing ahead of a potential stock market dip and expected tighter financing in the months ahead.

**ARCenters** and **SpinCo** are among buyers noticing a 25% jump in pricing, supported by 6% vacancy rates for Class A properties — the lowest vacancy rate since the crash. **The American Realty Capital Properties** and **Vornado Realty Trust** spin-offs will encounter a planned rollout from Simon Property Group (SPG) and vie for stabilized, Class A retail in urban infill and suburban markets. Although too early to tell, ARCenters could seek $750M-plus of buys and sales based on retail-focused affiliates **Phillips-Edison-ARC Shopping Center REIT** and the targeted $1.8B **Phillips-Edison ARC Grocery Center REIT II**. After SpinCo.'s IPO as a public REIT, count on their dealmakers to shop stabilized and value-added strip centers to complement an 85-property portfolio concentrated in the Northeast. **Simon Property Group**, which has a 100-property package of strip centers to support a forthcoming IPO, can leverage the public markets to raise cash for acquisitions. Sales are likely as well.

Diversified buyers, including **Ashkenazy Acquisition Corp.** and **Retail Opportunities Investment Corp. (ROIC)**, will take advantage of the shift. Ashkenazy Acquisition Corp. has $500M to $1B for acquisitions that will likely pursue additional sales from divesting companies, similar to a $250M buy in Beverly Hills, Calif., from **Vornado Realty Trust**.

More sales from Vornado Realty Trust will be on the table, as the Manhattan-focused REIT responds to investor pressure to sell off a portfolio of retail throughout California, Oregon and Washington. ROIC has a $250M acquisitions target and may scoop the Vornado portfolio. Or, it may skip the deal and opt to continue shopping neighborhood and community centers throughout California, Oregon and Washington.

## TOP STUDENT HOUSING BUYERS

PROJECTED 2014 ACQUISITIONS

| BUYER | VOLUME | DETAILS |
|---|---|---|
| Blue Vista Capital Management | $400M | Anticipated development and acquisitions activity could meet 2013 volume. |
| Campus-Clarion Student Housing Partners | $300M+ | The joint venture between Clarion Partners and Campus Apartments targets a $500M equity raise that could be leveraged up to $1.5B for acquisitions during the next three to five years. |
| Harrison Street Real Estate Capital | $300M+ | Could meet or exceed 2013 acquisitions volume; will also develop properties for various investment vehicles. |
| Kayne Anderson Real Estate Advisors | $300M | Private investor and equity partner acquires properties nationwide. Could meet or exceed 2013 target. |
| The Preiss Co. | $300M | Buys properties for value-added and opportunistic strategies nationwide. Will also develop properties. |

**Other buyers to watch:** American Campus Communities, Campus Crest Communities, EdR and Place Properties

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

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## APARTMENT DEVELOPERS ACQUIRE TO BOOST PROFILE

Look for apartment developers and owner/operators to expand their footprints by blanketing markets where they are either developing or have portfolios in place in order to take advantage of obvious synergies. This approach will allow them greater access to inexpensive financing for future deals, along with the ability to implement more broad based advertising.

Some of the largest private developers, in terms of starts volume, will implement a "buy where we build" strategy. In these situations, most developers will acquire Class B to Class A- value-add assets in markets where they will deliver new product this year, in 2015 or early 2016. A number of buyers with plans to acquire more than $500M of product this year will be more aggressive in the second half — completing more than 50% of their yearly volume. Lastly, eyeing portfolio deals represents another strategy that will allow for quick expansion within a targeted market. The volume of portfolio transactions and listings should account for a significant number of deals during the second half, especially in the senior housing sector.

High volume buyers will complete 50% to 75% of their deals during the second half. With a maximum of $750M in 2014 for acquisitions, **Waterton Associates** expects 75% of its volume to occur between July and December. **Wharton Equity Partners** will close 60% of its $500M acquisition volume during Q3 and Q4. **JRK Investors** lines up a number of deals for Q3 closing. The firm expects $1.6B in yearly acquisitions.

**Mill Creek Residential Trust** (MCR) might be the largest proponent of the "buy where we build" strategy. The developer acquires a garden-style asset in Dallas — the firm's second recent acquisition in Big D — to complement a project that is currently underway and slated for summer 2014 delivery. MCR also purchased a high rise in Seattle around the same time as it started a project in that market. It's likely that MCR will acquire more than 1,000 units of product with redevelopment potential during the second half. The firm currently develops new product within primary and gateway cities in California, Florida, Texas, Denver, the Southwest, the Northeast and the Southeast.

**Greystar** targets the San Francisco Bay Area, Southern California, Denver and Houston for acquisition and development opportunities. The group has 2014 starts lined up in Houston, SoCal and the Bay Area and will target value-add deals in these markets during the second half. Greystar also has a project underway in Denver. **Lincoln Property Co.** will close a deal in Fort Worth, Texas, in the coming months and start a new development in the city during the second half. The company has also recently completed deals in Denver and the Southwest, and targets the top 35 MSAs. Markets where Lincoln has second half starts lined up include Dallas, Los Angeles, New York City, Washington, D.C., and Nashville, Tenn. **Wood Partners** and **Atlantic | Pacific Companies** will also target markets where they have synergy across their platforms.

Roughly half of **Fowler Property Acquisitions** deals will close during the second half. Yearly acquisition volume for the firm should reach $500M.

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## APARTMENT DEVELOPERS ACQUIRE TO BOOST PROFILE...

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**Hamilton Zanze** will obtain 65% of its yearly acquisitions after the first half. The company will close $250M worth of deals.

Senior housing developers and JV equity groups with investments in ongoing ground-up deals will also buy where they build; however, the senior space is more apt to see a larger volume of portfolio-focused buyers. Expect to see more portfolios hit the market that feature six or more properties, typically a mix of independent and assisted living assets. More yield-chasing institutional capital is likely to enter the space with a focus on combination — independent coupled with assisted living — facilities.

**AEW Capital Management** acquires a three-property independent/assisted living portfolio with assets located in Colorado and Louisville, Ky. The firm purchased the nearly 300 units from **Balfour Senior Housing**. AEW will also team up with Balfour on a 205-unit, ground-up deal. Large capital aggregator **American Realty Capital** acquires a six-property portfolio in central Illinois for $37M. The firm also purchases a 2009-built property in Houston for $71M that features a mix of independent and assisted living units.

## BUYERS IN BRIEF...

►**CBRE Global Investors** has $200M of fresh capital for apartment and retail purchases in the largest 25 markets that will include Boston, Dallas, Denver and Seattle. Dealmakers will likely look outside New York and other yield-anemic markets which post less than mid-5% cap rates. Transactions in the $20M to $70M range will satisfy a core and core-plus strategy. Freestanding grocery stores, grocery-anchored centers and mostly garden-style, infill apartment properties will be considered, as will industrial and office buildings. On behalf of an Asia-based consortium of insurance companies, CBRE Global Investors will also write $100M worth of mezzanine debt. After the senior lender, CBRE could cover 55% to 75% of the loan-to-value capital stack.

►Class A office buildings in the top 20 markets attract foreign investment adviser **Falcon Real Estate,** with $250M for mostly Class A office building acquisitions. However, high-end retail buildings in Boston's Back Bay, Chicago's Magnificent Mile, plus New York and San Francisco will rate attention, in addition to apartment buildings. Falcon dealmakers will also partner on new builds involving office buildings and, rarely, hotels. The buyer will shop $20M to $200M transactions for a value-added to core strategy. Dealmakers are currently considering hotel development in New York City.

►**Great Point Investors** wants industrial and has $200M for midsized regional and local warehouse and distribution buildings this year. Roughly $125M of the cash will be used in JVs with developers of build-to-suit and speculative buildings, typically measuring from 150,000 s.f. to 300,000 s.f. The remaining capital will be used for acquisitions of existing properties. Favored buy and build markets include Houston, where the company would like to make a new-market entry in a submarket relatively unaffected by new construction, plus Boston, Indianapolis, Miami, Salt Lake City, St. Louis and Charlotte, N.C.

►**Essex Property Trust**'s $400M acquisitions target concentrates on San Diego; the company, which focuses on the Western U.S., bought $462M of assets during 2013. *Continued on next page*





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**BUYERS IN BRIEF...**

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## BUYERS IN BRIEF...

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Beyond boosting its western U.S. profile with the acquisition of BRE Properties, the Palo Alto-based apartment REIT will shop for Class B properties in footprint western U.S. markets from Seattle to Southern California and will build Class A assets.

►Private buyer **First Allied's** combined $1B transactions goal for 2014-15 augurs increased all-cash purchases of single assets and portfolios. Focused on $3M-plus purchases, company dealmakers are hungry for Class A stabilized, anchored and shadow-anchored multitenant centers and single-tenant buildings measuring more than 20,000 s.f. The nationwide buyer, which would consider entering Phoenix and Seattle, wants properties drawing from high-income residents and high-foot traffic markets in urban and suburban markets that have included Washington, D.C. Future purchases will grow a presence in small footprint markets of California, Colorado, Illinois, Indiana, Louisiana, Ohio, North Carolina, New Jersey, Minnesota and Maryland, in addition to key footprint markets of Georgia, Pennsylvania, Texas and Virginia.

►Institutional adviser **CRIC Capital** anticipates a bigger year with a $500M acquisitions goal for single-tenant and net lease properties, restaurants, self-storage, MHCs and trophy buildings. Deals start at $5M. The private investor spent $400M during 2013.

►**The Michelson Organization** slightly downshifts its acquisitions volume to $200M this year. The private buyer will target $10M to $50M acquisitions. The Michelson Organization seeks mainly Class A, Class B and Class C+ garden-style and midrise apartments in primary to tertiary markets, for core-, core-plus and value-added strategies. Additionally, dealmakers can be expected to peruse the industrial, office, retail and single-tenant office markets in CBDs and suburban areas throughout the Midwest, Southeast and Southwest. The private company bought $240M of assets during 2013.

►**Rosen Associates Management's** $50M acquisitions goal will power $2M-plus acquisitions of stabilized and value-added industrial, office, land, retail shopping and single-tenant, neighborhood and community centers.

## Deals in Detail

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Regional buyer **The Solomon Organization**'s Hamden Partners LLC paid $118,000 per-unit for the recently renovated Class B Broadmoor Apartment Homes, marking close to a 40% discount-to-replacement costs. The regional buyer plans another round of renovations at the 498-unit property, which will follow $12M of upgrades during 2006-13. The Hamden, Conn. midrise complex is 95% occupied and traded at an estimated 6% cap rate. Marcus & Millichap's Institutional Property Advisors unit represented Fairfield Apple Hill LLC in this late February transaction which took 90 days to close from initial contract.

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California-based buyer ES River Crossing Storage plunks down nearly $50 per square foot for a 63%-leased storage facility in Avondale, Ariz. The initial cap rate is 6.62%. River Crossing Storage, located about 20 miles east of downtown Phoenix, comprises 257 storage units and 89 RV spaces; it is 18 years old. Rein & Grossoehme represented the buyer and seller, River Crossing LLC, in this all-cash-to seller transaction which closed in early February.

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Based on trends, national buyer W.P. Carey & Co. likely paid a high-6% cap rate in a $53 per s.f. purchase of more than one million s.f. The south suburban Chicago industrial and distribution property is occupied by The Dart Container Corp.'s Solo Cup division, which uses the property for its national distribution facility. Avison Young represented the seller in this mid-January transaction.

## BUYERS BOOST ALTERNATIVE PROPERTY ACTION

REIT buyers of RV parks, manufactured housing communities and self-storage buildings will ramp up acquisitions volume and fine tune strategies to sidestep mounting competition from private equity. Cap rates declining into the 6%-plus range remain attractive enough to investors looking for slightly better returns compared to the main four property sectors.

**Sun Communities'** focus on RV parks and MHCs could drive an estimated $300M of buys this year. Class A parks in the South catering to retirees will remain a key focus and drive further expansion in Florida, Texas and Virginia. EVP Jonathan Colman is among acquisitions staff seeking to buy properties where stable, annual leases account for at least half of the net operating income. Mirroring criteria for MHCs, count on interest in 200 plus-site parks. These properties have dominated more than $100M of acquisitions since January, but there should be more room for MHCs with minimum 50- to 100-foot sites in markets with occupancies at or above 80%, as well as assets supporting property-level expansions throughout the Midwest, East Coast and southern regions.

Opportunistic **Equity LifeStyle Properties'** taste for MHCs and RV parks sets the stage for expansions in and outside key markets of Arizona, California, Florida, Texas, Pennsylvania and Washington. Deals could meet or exceed $140M of acquisitions booked during 2013. Fracking-related economic growth should influence future MHC buys, if dealmakers share UMH Properties' enthusiasm about growth in the seven-state Marcellus and Utica Shale deposits region that extends southeast from New York into northeastern Tennessee. Equity LifeStyles, which owns close to 30 properties in the region, could opt to expand, hold or sell in coming months. More transactions are likely in Ohio, where the state's Department of Natural Resources expects a substantial increase in fracking. *Continued on next page*

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## BUYERS BOOST ALTERNATIVE PROPERTY ACTION...

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**UMH Properties** could acquire more than $50M of MHC as part of a $100M multiyear buy-side plan that will include more deals in the Marcellus and Utica Shale region, plus potential for a Florida entry. Look for more value-added transactions resulting from job growth in familiar markets New York, Ohio, Pennsylvania and Tennessee, in addition to Indiana, Michigan and New Jersey. President and CEO Sam Landy will respond to more competition and higher prices by staying within his key markets, likely for one-off and portfolio deals in the $3M- and $10M-plus ranges, respectively.

The REITs will encounter **RHP Properties** and its $500M acquisitions goal for $4M-plus buys of three- to five-star parks, for a stabilized- and value-added strategy. Expanding **Inspire Communities** shops three- to five-star communities with more than 200 sites. California, Colorado, Louisiana, New Jersey, Texas, as well as the Northeast and Northwest, are among targeted markets for the value-added buyer's $100M acquisitions goal. **Harrison Street Real Estate Capital, NorthStar Realty Finance** and **YES! Communities** will be among private equity competing for MHCs nationwide.

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