

## SINGLE-TENANT DEALMAKERS BUY AHEAD OF THE CURVE

**Real Estate Investment Firm** will take advantage of the days before a full economic rebound with an estimated \$2.5B acquisitions goal for 2010. Other investors plan to follow suit, such as **Retail REIT**, which wants to acquire an estimated \$170M of single-tenant properties nationwide, while **Real Estate Investment Fund** eyes \$100M worth of acquisitions through December. All investors will pursue trades in various ways, including fee-simple acquisitions and equity stake purchases of build-to-suit development deals. Until the rebound occurs, investors will take advantage of cap rates at least 2% higher for all types of single-tenant retail properties nationwide. Credit tenant-occupied properties with long-term leases will trade in the mid-6% to 7% range, and properties leased short term to sub- or non-investment grade tenants will hover in the 10% to 11%-plus range depending on location.

Single-tenant retail investors anticipate a busy year of buying, as the worst period for retail in 70 years may be nearing an end. Retailers and their landlord/owners have yet to regain total confidence in all retail sectors as indicated by the absence of new store openings and expansions. However, insiders feel this trend will reverse in coming quarters as sales per square foot slowly increase to give retailers reason to look for new space, which will fuel sale/leaseback transactions of single-tenant boxes.

**Real Estate Investment Firm** expects to bolster its portfolio this year but, like **Real Estate Investment Fund**, the investor isn't looking at debt purchases. Instead, real estate and tenant credit will take center stage. Company dealmakers expect to triple 2009 acquisitions volume to acquire an estimated \$2.5B worth of real estate on behalf of **REIT Contact Removed**. Anticipate company interest for investment-grade single-tenant assets occupied by companies such as Home Depot, Kohl's and Walgreens. Shopping centers are also on the radar, as are quick-service/fast food restaurants leased to credit tenants or well-performing franchisees.

The investor will acquire the seven-property remainder of a 10-property portfolio of **Contact Removed** convenience stores by month's end. So far, **Real Estate Investment Firm** has paid more than \$6M for three **Contact Removed** properties totaling 11,475 s.f. in the Arkansas cities of Bentonville, Lowell and Rogers. This volume is a drop in the bucket compared to the \$52M worth of purchases — made between Dec. 19 and Jan. 11 — of more than 208,000 s.f. of single-tenant properties leased to tenants such as CVS, Walgreens, FedEx and Stripes, formerly known as Circle K, with locations in Alabama, Arkansas, Illinois, Indiana and Texas. **REIT Contact Removed** also considers shopping center assets.

**Real Estate Investment Fund** will take further advantage of the cash-poor market to acquire more investment-grade properties in primary markets. Look for a 17<sup>th</sup> fund from the buyer later this year as a successor to its current fund with an estimated \$100M remaining for acquisitions. Real estate purchases are the main focus; the buyer won't buy debt. In one-off deals, company dealmakers contracted to acquire five properties in Atlanta, Minneapolis and Texas, as well as a new market entry into San Diego for a combined \$20M. A more than 9% average going-in cap rate is expected. Recently the company acquired two tractor supply stores in Indianapolis with three to four years remaining on lease terms, plus a Best Buy in Colorado with 12 years remaining on the leases. The company has been tempted to entertain joint ventures and construction deals but will stick to its fee-simple real estate knitting instead.

**Retail REIT** will consider sub-investment grade properties at more than 9% going-in cap rates, along with acquiring real estate in recapitalizations or as a result of leveraged buy outs. The investor nears its

first acquisition of 2010 with Arizona and Indiana exercise facility construction projects valued from \$12M to \$14M of exercise facilities in Arizona and Indiana.

### **DISTRESSED HOTELS MOTIVATE INVESTORS**

Prepare for an onslaught of acquisitions targeting hotels through one-off purchases and bankruptcies, as well as mergers and acquisitions of debt-heavy companies. While the U.S. hotel market slowly reels from the worst revenue declines and profit losses ever recorded, investors such as **Real Estate Investment Firm, Real Estate Investment Firm, Real Estate Investment Fund, Real Estate Investment Firm, Real Estate Investment Firm** and **Real Estate Investor** scoop heavily discounted assets from the bloodshed in expectation of higher returns upon a market rebound. Industry pundits and insiders should agree that revenues per available room losses will hover at 1.5% to 2% this year, compared to near-9% declines in RevPAR during 2008-09. The recovery will likely be in full bloom next year, which will motivate investors to buy now before pricing increase.

Against a sobering-yet-hopeful backdrop, expect more mergers and acquisitions of hotel companies, and trades of distressed assets, to follow **Real Estate Investment Fund's** estimated \$270M contract to acquire troubled hotelier **Hotel REIT** which filed for bankruptcy several years ago and was rumored to be heading down the same road again due to March and May loan maturities. For its part, **Real Estate Investment Fund** isn't a stranger to the distressed world, having purchased a portfolio of properties from bankrupted Sunwest Management in 2009. The company will look for more distressed commercial and residential acquisitions on behalf of various funds including **Opportunity Fund Removed**. The buyer operates in part with cash from the **Pension Fund Removed** and the **Pension Fund Removed**.

**Real Estate Investment Fund** expects to close the **Hotel REIT** purchase by June and will grow its diversified portfolio by 34 hotels/6,401 keys to midscale and select-service hotels such as Holiday Inn, Courtyard by Marriott, SpringHill Suites by Marriott and Residence Inn by Marriott. **Hotel REIT's** sale could signal the beginning of another hotel M&A trend reminiscent of 2006-07 when eight hotel companies, including Boykin Lodging Co., Equity Inns, Innkeepers USA Trust and Starwood Hotels & Resorts, were acquired and taken private.

### **Taking Advantage of Opportunities**

While the M&A trend builds this year, scores of private investors and funds will take to the streets in search of non-performing loans, REO deals and bankruptcy acquisitions. **Real Estate Investment Firm** sees the sector declining further and wants to take advantage of the opportunity to expand its portfolio this year. **Real Estate Investment Firm** has up to \$100M for acquisitions this year of hotels, triple-net office and retail properties. The investor won't consider unfinished projects like **Real Estate Investor**, but it will acquire non-performing paper secured by vacancy-ridden as well as stabilized assets in Florida, the Tri-State area of Connecticut, New Jersey and New York, and other primary, secondary, suburban and airport locations throughout the East Coast. Properties valued in excess of \$15M will also be considered.

### **Buyer to Re-Enter Market via Partnerships**

**Real Estate Investment Firm** angles to reenter the hotel market for distressed paper this year. Look for the buyer to pursue assets in Boston, Chicago, Los Angeles, Miami, San Diego, San Francisco, Seattle and Washington, D.C., in addition to Baltimore, New Orleans, Phoenix and Portland, Ore. **Real Estate Investment Firm** doesn't have specific acquisitions targets this year, however it does want to reenter the market in partnership with various private equity sources. The company acquired three properties after its 2006 formation and decided to halt acquisitions because of market pricing. The company wants unleveraged returns in the 10% to 12% range during a three- to five-year hold period. **Executive Contact Removed**, recently promoted as **Real Estate Investment Firm's** development VP, will be among company staff to ramp up acquisitions of upscale, branded and independent hotels with 150 to 500 keys.

**Real Estate Investment Firm** will compete against **Real Estate Investment Firm** and a host of other investors up and down the East Coast for non-performing loans and REO hotel deals, with \$500M of acquisitions power. Look for **Real Estate Investment Firm** to target performing and non-performing loans in addition to preferred equity positions. Select-service and boutique hotels in Boston, Miami, New York City and Washington, D.C., will be among pursued assets. The investor seeks returns in the 18% to 22% IRR range for debt investments; for equity plays, the buyer wants IRRs close to 25%. **Real Estate Investment Firm** recently acquired a trio of performing hotel notes secured by select-service and boutique

hotels in New York City. The buyer paid a discount to \$43M par value in its first note purchase of this cycle.

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### **STRAIGHT FROM THE MARKET**

<u>Location</u>	<u>Property</u>	<u>Size</u>	<u>Price</u>	<u>Cap Rate</u>	<u>Occupancy</u>	<u>Age</u>
San Diego	Apartments	56 units	\$4.5M	7%	93%	40, 42 yrs.

NOTES: Reinvesting Section 1031 Exchange proceeds, private investor **Real Estate Investor** paid an estimated \$80,357 for each unit of the **Property Removed** complex. Student renters comprise an estimated 20% of the market-rate property's tenant mix. There's a blend of one- and two-bedroom units at the property. It took seven months for the deal to close. The buyer assumed a \$3.1M loan on the property. **Broker Contact Removed** represented the buyer. **Broker Contact Removed** represented the Los Angeles-based seller, **Seller Removed** and **Seller Removed**, is this transaction.

CONTACT: Real Estate Investor, 9999 Some Street Road, City, State Zip Code. Executive Contact Removed; Executive Contact Removed, (111) 111-1111. e-mailremoved@site.com

### **DISTRESSED HOTELS MOTIVATE INVESTORS...**

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Investors **Real Estate Investment Firm** and **Real Estate Investor** may be humming "Viva Las Vegas" following recent Sin City acquisitions. Look for **Real Estate Investment Firm** to follow its note purchase secured by the 64-key **Property Removed** with additional properties throughout the city and the western U.S. **Real Estate Investment Firm's** price was likely a substantial discount to the property's \$2.6M value, which decreased more than \$700,000 compared to 2009 values.

Word on the street says **Real Estate Investor** plans to pay less than 10% of the unfinished **Property Removed** resort's value in Las Vegas. The famous investor and letter writer apparently will pay \$150M for the 63-story tower at **Address Removed**, located next to the **Property Removed**. The property is valued at an estimated \$641M, an increase compared to a 2009 valuation estimated at \$450M.

**Hotel REIT** will ramp up acquisitions following **Executive Contact Removed's** appointment as president of acquisitions and development. **Executive Contact Removed** seek deals nationwide on behalf of various investment funds including the \$500M equity **Equity Fund Removed**. Look for company interest in note and fee-simple purchases of brands such as Embassy Suites, Hilton, Le Meridien, Sheraton and Westin.

### **FUNDS TO REBOUND IN 2010?**

Real estate funds are destined to heal this year from the two-fisted punch many encountered during 2008-09. As a result, expect to see new funds enter the market later this year for acquisitions. However, don't be surprised if investors take a wider view of the market to incorporate international, opportunistic and value-added strategies in their mixes. More investors may decide to put capital into the securities market and boost public REITs this year. Companies to watch include a mix of institutional and private investors including **Real Estate Investment Fund, Real Estate Investment Fund, Real Estate Investment Fund** and **Real Estate Investment Fund**.

Don't be surprised if **Real Estate Investment Firm** rolls out a successor fund in coming quarters to follow on the heels of its largest real estate fund to date, the \$3B **Opportunity Fund Removed** vehicle that had launched in 2006. Historically, the company has invested in all real estate types, including hotel, industrial, multifamily, office, retail and senior housing, in such markets as Boston, Chicago, Denver, Los Angeles, New York, San Francisco and Washington, D.C. Don't be surprised if a forthcoming fund is opportunistic in nature; since 1997, all of **Real Estate Investment Firm's** funds have focused on the opportunistic sector. And, viewed through the return lens, this is of little wonder. Opportunistic funds' returns outperformed the core and value added sectors through Sept. 30, according to the National Council of Real Estate Investment Fiduciaries, and averaged a -9.72% return loss compared to the core sector, which was -9.98%, and -11.84% for value-added returns during the first three quarters of 2009. **Real Estate Investment Firm** recently named **Executive Contact Removed** to its New York real estate department and **Executive Contact Removed** to its Washington, D.C., office.

Watch for **Real Estate Investment Firm** to roll out a \$5B successor fund called **Opportunity Fund Removed**. Perhaps the forthcoming vehicle will also acquire operating companies in addition to note purchases and real estate acquisitions if past is prologue. The vehicle should also acquire performing and non-performing debt, and real estate acquisitions nationwide.

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#### FUNDS TO REBOUND IN 2010?...

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**Real Estate Investment Firm's** anticipated fund could focus on all property types nationwide. The investor also recently tapped **Executive Contact Removed**, who co-founded and was CEO of **REIT Removed**, to lead its Americas real estate investing and global real estate investing department. Expect an entrepreneurial approach. The anticipated **Opportunity Fund Removed** vehicle will likely dwarf the \$1.75B **Opportunity Fund Removed** that closed to investments three years ago. Among other purchases made during 2004-07, the **Opportunity Fund Removed** vehicle acquired **Asset Removed**.

Although **Real Estate Investment Firm** looks toward a fifth fund, but won't say how much cash remains in its \$350M Hudson **Opportunity Fund Removed** fund, it will nonetheless apply a varied real estate acquisitions strategy this year to primarily target performing and non-performing first mortgage debt, in addition to financing companies' acquisitions of either their own or another company's debt. The investor considers apartments and hotels, in addition to industrial, office and retail buildings and associated debt nationwide. If the price reflects a severe discount to replacement cost, the buyer may also acquire land and other specialty assets.

What happens to **Real Estate Investment Firm's** real estate acquisitions executed by **Real Estate Investment Firm** remains unseen following **Real Estate Investment Firm's** more than \$550M payment for, among other things, failure to disclose to investors the overexposure to subprime real estate. **Real Estate Investment Firm** advises SSgA.

#### DEALMAKER DATABANK™ *Continued from Previous Page*

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Private Equity Firm XXX St, N Suite Third Floor City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx Fax: (xxx) xxx-xxxx	All	Private equity investor plans to acquire performing and non-performing senior debt, along with financing third-party debt purchases and buybacks.
Real Estate investment Firm XXX St, N Suite Third Floor City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx Fax: (xxx) xxx-xxxx emailremoved@site.com	Hotels	Private equity investor to acquire notes secured by hotels and other types of real estate nationwide.
Real Estate investment Firm XXX St, N Suite Third Floor City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx Fax: (xxx) xxx-xxxx emailremoved@site.com	Apartments	Private investor partners with A Real Estate Firm to acquire a Florida complex.
Real Estate investment Firm XXX St, N Suite Third Floor City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx Fax: (xxx) xxx-xxxx emailremoved@site.com	Hotels	Public investor to be acquired by Real Estate Firm.
Real Estate investment Firm XXX St, N Suite Third Floor City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx Fax: (xxx) xxx-xxxx emailremoved@site.com	Hotels	Private equity investor to acquire REIT
Real Estate investment Firm XXX St, N Suite City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx emailremoved@site.com	Office	Private investor partners with institutional investors to acquire value-added office nationwide.
Real Estate investment Firm XXX St, N Suite Third Floor City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx Fax: (xxx) xxx-xxxx emailremoved@site.com	All	Public investor to acquire properties through forthcoming funds.
Real Estate investment Firm XXX St, N Suite Third Floor	Executive Removed (xxx) xxx-xxx, ext. xxx Fax: (xxx) xxx-xxxx	Retail	Public investor acquires single-tenant buildings and focuses on quick-service and sub-investment grade credit

City, State Zip Code	emailremoved@site.com		nationwide.Real Estate investment Firm
XXX St, N Suite	Executive Removed	Office	Foreign investor acquires San Francisco
City, State Zip Code	(xxx) xxx-xxx, ext. xxx		office building.
	emailremoved@site.com		

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<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Private Equity Firm XXX St, N Suite Third Floor City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx Fax: (xxx) xxx-xxxx	All	Private equity investor plans to acquire performing and non-performing senior debt, along with financing third-party debt purchases and buybacks.
Real Estate investment Firm XXX St, N Suite Third Floor City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx Fax: (xxx) xxx-xxxx emailremoved@site.com	Hotels	Private equity investor to acquire notes secured by hotels and other types of real estate nationwide.
Real Estate investment Firm XXX St, N Suite Third Floor City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx Fax: (xxx) xxx-xxxx emailremoved@site.com	Apartments	Private investor partners with A Real Estate Firm to acquire a Florida complex.
Real Estate investment Firm XXX St, N Suite Third Floor City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx Fax: (xxx) xxx-xxxx emailremoved@site.com	Hotels	Public investor to be acquired by Real Estate Firm.
Real Estate investment Firm XXX St, N Suite Third Floor City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx Fax: (xxx) xxx-xxxx emailremoved@site.com	Hotels	Private equity investor to acquire REIT
Real Estate investment Firm XXX St, N Suite City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx emailremoved@site.com	Office	Private investor partners with institutional investors to acquire value-added office nationwide.
Real Estate investment Firm XXX St, N Suite Third Floor City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx Fax: (xxx) xxx-xxxx emailremoved@site.com	All	Public investor to acquire properties through forthcoming funds.
Real Estate investment Firm XXX St, N Suite Third Floor City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx Fax: (xxx) xxx-xxxx emailremoved@site.com	Retail	Public investor acquires single-tenant buildings and focuses on quick-service and sub-investment grade credit nationwide.
Real Estate investment Firm XXX St, N Suite City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx emailremoved@site.com	Office	Foreign investor acquires San Francisco office building.
Real Estate investment Firm XXX St, N Suite City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx emailremoved@site.com	Apartments	Company acquires assets on behalf of \$900M Anonymous Fund VII. Executive handles East Coast acquisitions. The company acquires properties in, and independent of, JV partnerships.
Real Estate investment Firm XXX St, N Suite Third Floor City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx Fax: (xxx) xxx-xxxx emailremoved@site.com	Hotels	Private investor acquires hotel in Las Vegas out of foreclosure.
Real Estate investment Firm XXX St, N Suite City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx emailremoved@site.com	Office	Public investor to acquire properties through fee-simple and note purchases.
Real Estate investment Firm XXX St, N Suite Third Floor City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx Fax: (xxx) xxx-xxxx emailremoved@site.com	Hotels	Private investor wants to expand hotel portfolio through non-performing loan purchases during 2010.

Real Estate investment Firm XXX St, N Suite Third Floor City, State Zip Code	Executive Removed (xxx) xxx-xxx, ext. xxx Fax: (xxx) xxx-xxxx emailremoved@site.com	Office	Private investment adviser seeks value-added office properties in coastal U.S. markets.
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## OFFICE INVESTORS SEE PROFITS BEYOND THE RED

Weak office performance will open doors previously closed to investors angling to buy on the down cycle. Institutional investors, along with receivers and banks, will put more Class A properties on the market this year. As the trend grows of pension funds and endowments firing advisers due to unprecedented declines in real estate values, profit losses and inability to satisfy capital calls, institutional investors figure the time is now to sell properties before performance gets worse. Primed for increased attention are buildings in Boston, New York, San Francisco and Washington, D.C., among the top U.S. primary office markets by square footage and better-than-average unemployment rates. What draws **Institutional Buyer**, **Real Estate Investment Firm**, **Real Estate Investment Firm**, **Office REIT** and **Institutional Buyer** to these markets is the perception that employment growth will return fastest to the top U.S. office markets, which justifies taking a short-term hit for the sake of longer-term appreciation.

Unemployment rates will assume greater urgency and importance in an 18.5% vacant U.S. office market. An estimated \$21B worth of properties traded during 2009. Stability-minded buyers will take chances in non-primary markets with unemployment rates near the country's 10% average. Expect transaction volume to also spike in secondary markets such as Houston; Las Vegas; Minneapolis; New Orleans; Philadelphia; San Diego; Hartford, Conn.; Portland, Ore.; Raleigh and Durham, N.C.

### Foreign Investors' West Coast Foothold

San Francisco will get more attention from institutional and foreign investors this year led by trailblazers **Institutional Buyer** and **Real Estate Investment Firm**. Pension fund/institutional buyer **Institutional Buyer** likely paid a family trust seller more than \$110M — or \$295 psf — for a single-tenant building leased long term to **Real Estate Investment Firm** at 211 Main St. Word on the street says **Institutional Buyer** bought the **Real Estate Investment Firm**-occupied building at an 8.5% yield. A few blocks away, at 49 Stevenson St., is where Taiwan-based **Real Estate Investment Firm** acquired a 126,000 s.f. multi-tenant Class A building that's 80% leased. The cap rate is estimated at 6%. **Real Estate Investment Firm** is the seller. Some consider both the **Institutional Buyer** and **Real Estate Investment Firm** recent deals as part of San Francisco's financial district, while others consider these assets in the city's South of Market district.

San Francisco office occupancies average 15% and will likely continue a slow decrease as the economy continues to stabilize. It typically takes a couple quarters for gross domestic product growth to translate into increased performance for the commercial real estate and other markets. These buyers capitalize on the in-between cycle to scoop up deals.

Seven miles north of downtown Washington, D.C., **Institutional Buyer's Opportunity Fund Removed** makes the fourth acquisition in a joint venture partnership with local developer/investor **Real Estate Investment Firm** to pay an estimated \$75M for a 492,304 s.f. office complex called **Property Removed** in Silver Spring, Md. **Institutional Buyer's** JV partner developed the complex comprising 10-, 12- and 14-story office buildings and held the assets until 2005. **Institutional Buyer** and **Real Estate Investment Firm** likely bought the buildings at a cap rate in the 6.5% to 7% range. Several years ago, cap rates hovered in the 4% range for Class A assets in the District. The **Office REIT** JV between **Real Estate Investment Firm** and the **Pension Fund Removed** is the seller.

**Institutional Buyer** wants to acquire an estimated \$750M worth of real estate this year. And, with less than \$200M remaining in its current **Opportunity Fund Removed**, don't be surprised to see company dealmakers plan for a successor fund later this year. The buyer scans primary coastal markets for value-added apartments, industrial, office and retail buildings requiring lease-up, repositioning or redevelopment/adaptive reuse. Office buildings measuring more than 100,000 s.f. and priced from \$25M to \$75M attract attention with CBD and suburban market locations.

**Real Estate Investment Firm's** recent 90% interest purchase, for \$203M, of the 385,000 s.f.

Washington, D.C., office building at 1625 I St. from **Real Estate Investment Firm** suggests similar recapitalization plays ahead. Expect **Real Estate Investment Firm** — working with cash from **Real Estate Investment Firm** — to increase portfolios in the Washington, D.C., metro area in addition to Boston and New York and other primary markets. Fully leased buildings such as the “Eye” Street property will make the short list.

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### **OFFICE INVESTORS SEE PROFITS BEYOND THE RED...**

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Among **Real Estate Investment Firm** competitors in New York and Boston will be **Office REIT** and **Office REIT**. Expect to see **Office REIT** focus on acquiring performing and non-performing debt as a way to boost a 60-property portfolio of office buildings throughout New York City and its suburbs. The investor recently took title to a 1 million s.f. New York City office building at 100 Church St. after acquiring 50% interest in three mezzanine loans during 2007 from **Private Lender**. It scooped another mezzanine loan and will likely continue to do so throughout New York City this year.

### **PRIVATE, PUBLIC APARTMENT BUYERS WANT VALUE-ADDED**

**Apartment REIT**'s \$475M grab of three high-rise complexes in Manhattan augurs a shift in how apartment buyers will approach the market this year. Don't be surprised to see relatively cash-flush public investors dig into the better performing markets of Boston, New York, San Diego, San Francisco and Washington, D.C., for large fee-simple and REO transactions. While distressed property purchases will be prominent on the acquisitions scene this year, so will big-ticket transactions. **Apartment REIT**, the largest U.S. apartment REIT, could use operating partnership units as a competitive edge against a diversified investment world counting **Brokerage Firm, Real Estate Investment Firm** and **Real Estate Investment Firm** in its ranks. Plan on these and other buyers to take advantage of historic net operating income declines to swoop in and acquire Class A and Class B properties in markets including New York, South Florida and Washington, D.C.

How private regional investors execute strategies this year will greatly differ from how public investors approach the market. Regardless of approach, apartment acquisitions volume through December will likely exceed last year's estimated \$16B to \$17B volume. Unlike their public counterparts, private regional investors unable to tap cash from return-hungry stock investors will instead team with institutional investment advisers and larger investors for larger and pricier deals. They will also focus on smaller one-off deals flying under the public REIT and institutional investor radar screens. Anticipate public REIT investors to make their presence known this year through acquisitions of large portfolios and complexes from institutional sellers, along with potentially acquiring operating companies in real estate-motivated plays.

**Apartment REIT** expects a 5.5% blended going-in cap rate on its purchase of 910 apartment complexes, 23,339 s.f. of retail space and 50,000 s.f. of parking lots. The portfolio, previously owned by **Real Estate Investment Firm**, mainly comprises the 323-unit **Property Removed** and the 294-unit **Property Removed** complexes; **Apartment REIT** expects to acquire a 293-unit complex at 305 W. 50<sup>th</sup> St., by May 1, when it will be allowed to prepay the senior debt. Don't be surprised to see company dealmakers acquire additional primary market Class A and Class B complexes in the mid-5% to low-6% cap rate range this year. Washington, D.C., area complexes account for a slim majority of real estate company net operating income, followed by the New York area, South Florida and Boston.

On the private side, **Real Estate Investment Firm**'s recent JV with **Real Estate Investment Firm** to acquire the 631-unit **Property Removed** complex in St. Petersburg, Fla., suggests that JVs will be one of the primary ways for non-institutional investors to buy. The cap rate on the pair's purchases likely hovered in the low-7% range; word on the street says the buyers paid \$24M for the early 1980s-era complex. **Real Estate Investment Firm**'s wants to make \$100M worth of equity investments by December. **Real Estate Investment Firm**'s uses cash from its \$900M private equity Praedium Fund VII.

**Real Estate Investment Firm**'s targets San Francisco and Washington, D.C., in recent purchases from lenders and institutional sellers. The company bought 200 apartment units, as well as some retail space, in San Francisco from **Institutional Investor**. It's likely the buyer paid an estimated \$35M for the mortgages defaulted by **Real Estate Investment Firm / Real Estate Investment Firm**, which was considered to hold

one of the largest portfolios of San Francisco apartment complexes. Word on the street pegs **Real Estate Investment Firm/Real Estate Investment Firm** and **Real Estate Investment Firm** as other buyers of the more than 50-complex portfolio once owned by **Investment Firm./Real Estate Investment Firm**. Look for **Real Estate Investment Firm**, through myriad platforms and funds, to also target institutional-quality apartments to follow a more than \$70M purchase of the **Property Removed** in Washington, D.C.

## REITS BOUNCE BACK TO BUY?

Watch for a REIT revival to gain more traction this year in the hotel, office, mall and manufactured housing sectors, which will excite buyers and sellers to do what they do best: Buy and sell! As a group, public equity REITs watched equity market capitalizations increase an estimated 70% from January through December 2009. This momentum should build as 2010 unfolds because of higher stock values and market caps, which give REITs more clout as bidders. They'll be able to get more creative in property acquisitions. Don't be surprised to see UPREIT and downREIT structures proliferate this year because REITs need accretion, and acquisitions are the fastest way to boost bottom lines and assuage shell shocked shareholders' concerns about receiving dividend checks in the mail.

Although lots of good buys will abound this year, which will happen as owners and lenders make peace with losses and decide to cut ties; the best deals will be found in the hotel, mall, manufactured housing and office sectors. A mergers and acquisitions trend will hit these sectors first, not only because of nonexistent NOI and profits, but because hotel and office REITs saw the highest total returns during 2009, as compared to 2008.

According to the National Association of Real Estate Investment Trusts, hotel REITs posted a 67% total return last year, reversing a 60% return loss in 2008. Although manufactured housing REITs rebounded to 41% total returns in 2009 — compared to a 20% loss in 2008 — the sector's specialty status outside the main four property types could limit the number of institutional, public and foreign investors looking to buy, unless stock trades at severe discounts to net asset values to partially limit risk. Watch for discount-minded buyers to delve into the mall sector because, as a group, these REITs wrapped up 2009 with returns nearing 63%, compared to a 60% loss during 2008.

Much of the action will likely occur in the office sector this year, however, as buyers able to ignore the current financing and economic climate will busy themselves with the property purchases in primary markets, as they count the days until an average 5.5% unemployment rate is the reality instead of a dream. REITs in the office sector saw their total returns increase to an estimated 35% in 2009, compared to a 41% drop during 2008.

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