

RESIDENTIAL INVESTORS TO WRAP THEMSELVES IN GREEN?

Apartment buyers may not be in the dumps quite like their office counterparts, yet some will acquire value-added properties to take advantage of the down cycle while using green techniques to boost buildings' value by cutting operations costs. Although there's less emphasis for certifications, more investors may pursue LEED and other types of green certification as the trend builds momentum in the sector, to distinguish themselves from other apartment owners, also known as sellers when the timing's right.

Apartment owners and buyers can slash operations costs from 10% to more than 30% by some estimates by introducing some green elements to their properties. However, unlike the office sector, fewer apartment buyers are striving to attain strict LEED or other types of certification because, for the most part, such designations won't immediately boost values through higher rents. Many are still working to adhere to some green standard though, as the potential cost savings offer plenty of incentive. Value-added buildings stand to benefit the most, because it's the implementation of energy savings through submetering, paint, light bulbs and other ways through which building values can be raised. Companies returning to the market for acquisitions are looking to apply a green strategy to apartments. Archstone, The Schuster Group, Wood Partners and Russo Development are among companies working with the green trend in their portfolios and for new deals. Insiders agree cap rates favor acquisitions and rehab more than new development, so that's where the emphasis will be until more jobs necessitate additional ground-up multifamily development.

Northwest Heats Up for Buyer

The Schuster Group could make its first buy in two years, as it looks at new and existing markets for apartment, condominiums, office, mixed-use and retail building acquisitions with equity. A recently introduced \$40M Schuster Realty Partners fund will be used to acquire various value-added properties for repositioning and redevelopment throughout the Pacific Northwest. Company dealmakers may expand into buying defaulted loans and make new market entries into Idaho and Oregon. An opportunistic strategy will include acquiring condominiums at least 75% occupied and everything from fully leased to entirely vacant buildings. To consider buying in the down cycle, the buyer/developer wants going-in cap rates from 7% to 8.5% for more stable properties, with returns depending on asset type and location.

Known in Seattle for its work developing a LEED-certified high-rise condominium and redeveloping buildings adhering to exterior and interior LEED requirements, The Schuster Group has seen demand rise for green buildings which can take less time to lease up, in addition to more than 30%-plus reductions in operating costs.

Archstone is among buyers looking in and outside the LEED-designated sector for properties to green up, acquire and add to an 80,000-unit portfolio. The former public REIT will acquire properties mostly throughout focus markets of Boston, New York, Washington, D.C., and California's northern and southern regions. For company dealmakers, going green can translate into what many consider common sense in cutting costs through installing LED lights in common areas, installing individual meters, temperature adjustments and, instead of leaving lights on all day, painting ceilings white. The buyer is among those who know the building's value can be boosted with little tweaks here and there.

For buyers and owners such as Wood Partners, who see the green trend slowly becoming the industry standard, the best approach is to look for properties to redevelop as green. That approach means an emphasis on 30-year-old and other aged housing with centralized meters that can be reconfigured into individual meters so that tenants pay their own utilities.

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Wood Partners could be in the minority when it comes to this strategy, because some owners view the central metering-to-submetering conversion costs as prohibitive. Don't be surprised to see the private investor in markets throughout the Mid-Atlantic, Northeast and Northwest, and other markets nationwide, to add more properties to a 50-complex portfolio.

Russo Development, familiar with the green trend through development of a LEED-certified data center, may also work apartments into its mix in coming months. The private investor eyes \$2M to \$50M deals for acquisitions of existing buildings and land throughout the Mid-Atlantic and Northeast, with pricing dependent on location and property type. Don't be surprised to see the buyer work green twists into an estimated 1,000 units in development as it investigates LEED certifications for various projects, including a mixed-use project in New Jersey with 232 multifamily units and 20,000 s.f. of retail. All things considered, if there were two equal parcels and one of them would make it easier for Russo Development to attain certification due to factors including proximity to transportation, the buyer would choose the greener option. Existing property purchases could exceed the \$25M to \$50M of land acquisitions volume slated for the next 12 months.

Tenants Take Lead on Green

Russo Development is among companies noticing tenants' increased awareness of green buildings. As at Archstone, company dealmakers have fielded questions from tenants about whether it uses volatile organic compound paints, along with building air flows and building materials and other ways their potential unit conforms to preconceived green ideals. Although these inquiries may not lead to an immediate bump in rents, the developer/buyer sees the potential to positively impact occupancies by taking the more environmentally friendly road.

Because the number of existing vacant buildings has put ground-up development deals in an unenviable position, don't be surprised to see Russo Development scout around infill locations near transit hubs for properties to redevelop as apartments, or up to three-acre sites for development of at least 120 units with entitlements or rezoning in place.

O&I PORTFOLIOS SET TO MOVE

On its surface, **Dividend Capital Total Realty Trust's** \$1.35B acquisition of a national industrial and office portfolio may signal increased investor confidence in the market or will, at the very least, reassure investors who seek debt financing. Future deals from the diversified REIT, in addition to affiliate **Industrial Income Trust**, can be expected despite the fact that other investors back away from the market and take their IPOs with them. Although net-lease buyers have a narrower margin of error in making sure their portfolios remain leased, financiers have made themselves available.

Cap rates may continue to rise because of prolonged economic uncertainty, which should impact rates throughout the multi-tenant industrial sector more significantly than single-tenant assets leased to credit and nationally recognized tenants. Dividend Capital's purchase of a 6.7 million s.f. portfolio of 32 net-leased properties from iStar Financial carries an 8.1% blended cap rate that's consistent with rising average cap rates for all types of industrial and office properties nationwide.

All the grousing about the lack of available debt obviously depends upon connections. Dividend Capital Total Realty Trust scoops one of the largest deals of the year with \$858M of loans averaging a 5.5% interest rate. The buyer, which owns a sliver of iStar Financial's preferred equity, states there are no material connections between the two companies. More lending relationships between REITs that own stock of other investment company/financiers — regardless how immaterial — could be likely if pedestrian investor demand falters for stocks. On the surface, it's easier to work with brand-name company buyers, instead of smaller, no-name firms for debt, at least on a national level. Dividend Capital Total Realty Trust signs up for \$105.6M of mezzanine financing from iStar, in addition to a two-year, \$443M floating rate loan.

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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>
Dayton, OH	Apartments	351 units	\$450,000	-23%	10%	11 and 39 years

NOTES: Private investor Inner City Properties' estimated \$1,282 per-key purchase of the Country Woods Apartments marks one of the lowest multifamily prices paid this year, and likely in the city's history. The Class D property, located four miles northwest of downtown at 3771 Cornell Drive, was acquired in an REO deal and was 90%-vacant at escrow's close. The buyer acquired the property in 30 days. Comprising the property are mostly two-bedroom, two-bath units.

Redevelopment of the asset is planned. A 7% to 10% cap rate is anticipated after a 24-month stabilization period. The stultifying negative 23% cap rate is attributed to less than 70 leased units at the 350-unit property. Area cap rates average in the 8% to 8.5% range, generally speaking. The buyer preceded this purchase with another REO deal in which it paid \$3,632 for each unit of the 117-unit Kings Court Apartment complex in Cincinnati.

Inner City Properties has \$25M to \$30M for acquisitions targeting additional Class C and Class D properties with more than 300 units throughout Ohio and, if it finds the right deals, nationwide. Company dealmakers at the eight-year-old company are known for their acquisitions, redevelopments or rehabs and flips of distressed single-family housing. In its search for apartment product, the investor will acquire additional REO properties as well as non-performing loans. Joint ventures, recapitalizations and also will be considered. The investor began acquiring properties four years ago; Country Woods Apartments is its largest deal in history.

CONTACT: Inner City Properties, 4882 Winston Road, Suite 20, Cincinnati, OH 45232. Lorin K. Buckner, (800) 517-3126.

<u>Location</u>	<u>Property</u>	<u>Size</u>	<u>Price</u>	<u>Cap Rate</u>	<u>Occupancy</u>	<u>Age</u>
Denton, and Lewisville, Texas	Medical Office	53,720 s.f.	\$13.5M	8% to 9% range	100%	10 years

NOTES: Healthcare Trust of America's \$251 psf purchase of two single-tenant buildings northwest of Dallas takes the company steps closer to surpassing last year's \$450M-plus acquisitions activity. It may acquire \$500M worth of properties by December. Since January, the public non-traded REIT has acquired \$211M worth of medical office, medical buildings and health care properties. Portfolio and one-off acquisitions are considered nationwide, likely in areas considered favorable to businesses.

Likely drawing the buyer to the 35,720 s.f. Denton building on Texas Health Presbyterian Hospital's campus, in addition 18,000 s.f. Lewisville building, were long-term leases, tenant credit and location within the Lone Star State market where the company owns an estimated 1.3 million s.f. of space. Credit-tenant Texas Health Resources has seven years remaining on its Denton lease and Texas Oncology, a division of U.S. Oncology, occupies the Lewisville building until 2014. Healthcare Trust of America has acquired portfolio and one-off deals nationwide and typically holds properties for 10 years.

CONTACT: Healthcare Trust of America, 26437 N. Scottsdale Road, Suite 440, Scottsdale, AZ 85254. Mark Engstrom, (480) 998-3478, markengstrom@htareit.com.

O&I PORTFOLIOS SET TO MOVE ...

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The loan has partial recourse and non-recourse carve outs from Wells Fargo Bank coming due in 2012, plus a \$125M senior loan from New York Life Insurance Co. for various properties in a portfolio with average lease terms of a little more than seven years.

Dividend Capital Total Realty Trust's ability to get almost a billion's worth of debt in a supposedly debt-starved market from willing lenders is likely of little consolation to smaller diversified owner Welsh Property Trust, which shelved its \$345M IPO for the second and possibly final time. The mostly industrial owner had planned to expand into Colorado and Tennessee for the first time with acquisitions planned as part of the IPO, along with expanding its 2.5 million s.f. portfolio with more office and industrial properties throughout the Midwest. But that didn't happen because demand was weak. Perhaps a joint venture is in the works for Welsh Property Trust instead.

Meanwhile, Dividend Capital Total Realty Trust affiliate Industrial Income Trust rides a \$2B capital wave from a December 2009 IPO. Look for investor interest in more single-tenant net leased properties similar to the \$12.6M buy of an industrial distribution building in the Seattle suburb of Renton. The property, leased to DHL Global Forwarding for 10 years, is close to the Seattle-Tacoma International Airport and area ports. Since the company has plenty of capital for deals, don't be surprised if it entertains a portfolio or two, especially as it changes and expands.

DEALMAKERS ON THE MOVE ...*Continued from Previous Page*

The flip side is that the dislocation has become the market's new normal and buyers will again surrender to expectations, albeit more conservative, of what a value-added property will be worth after anticipated stabilization.

Look for investor interest in \$10M to \$150M properties ranging from 200 to 600 units. Plans to expand outside of the New York and Philadelphia market comprising the bulk of its 1,000-unit portfolio are planned. Recently GoldOller paid more than \$20M for two Class B apartment complexes totalling 366 units in Greenville, N.C., called Tar River Estates and Wilson Acres with average occupancy rates in the 95% range. The company likely acquired these assets for more than its threshold cap rate range of 7%.

GoldOller Real Estate Investments struck a new market entry into Indianapolis earlier this year, in its fund's inaugural deal. Anticipate new market entries into Alabama, Florida, Georgia, Mississippi, South Carolina and Tennessee. Vacancies at more than 60% to 65% are considered; depending on the market anything below that may not make the cut. Additional non-performing senior debt purchases also are considered.

DEALMAKER DATABANK™

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Archstone 9200 E. Panorama Circle Englewood, CO 80112 2345 Crystal Drive Suite 1100 Arlington, VA 22202	Donald Davidoff (303) 798-5959 Fax: (303) 708-5999 Robert Seldin (703) 399-3532 Fax: (703) 399-3554 rseldin@archstonemail.com	Apartments	Private investor considers acquiring apartment complexes to reposition in accordance with green practices.
Inner City Properties 4882 Winton Road Suite 20 Cincinnati, OH 45232	Lorin Buckner (800) 517-3126	Apartments	Private investor scouts distressed apartments throughout Ohio and various markets nationwide.
CB Richard Ellis Realty Trust 515 S. S. Flower St. 31 st Floor Los Angeles, CA 90071	Phil Hench (West) Mike Burrichter (East) (213) 683-4222 Fax: (213) 683-4301 phench@cbreinvestors.com mburrichter@cbreinvestors.com	Office	Investor eyes opportunistic office, apartment, retail and mixed-use properties nationwide for acquisitions.
Dividend Capital Total Realty Trust 518 17 th St. 17 th Floor Denver, CO 80202	Ryan Dunlap (303) 228-2200 Fax: (303) 228-0128 dividend.capital@dividendcapital.com	Office	Private buyer acquires office building.
Douglas Emmett 808 Wilshire Blvd. Suite 200 Santa Monica, CA 90401	John Meehan (310) 255-7710 Fax: (310) 255-7702 jmeehan@douglasemmett.com	Office	Investor acquires one of Hawaii's largest office buildings and closes its tenth fund.
Equity LifeStyle Properties 2 N. Riverside Plaza Suite 800 Chicago, IL 60606	Lance Beatch (312) 279-1400 Fax: (312) 279-1710 lance_beatch@mhchomes.com	Apartments	Public REIT extends credit line.
Green Courte Partners 560 Oakwood Ave. Suite 100 Lake Forest, IL 60045	Jim Goldman Kian Wagner (MHCs) (847) 582-9411 Fax: (847) 615-1631 kianwagner@greencourtepartners.com	MHCs	Private investor could enter into new markets, as it aims to double a portfolio during the next three to five years.

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DEALMAKER DATABANK™*Continued from Last Page*

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
GoldOller Real Estate Investments 1528 Walnut St. Suite 815 Philadelphia, PA 19102	Jake Hollinger	Apartments	Private investor acquires Class A and Class B apartments with fund.
Industrial Income Trust 518 17 th St. 17 th Floor Denver, CO 80202	Dwight Merriman (303) 645-4500 dividendcapital@dividendcapital.com	Industrial	Public investor expands management , acquisitions to follow.
Northwestern Mutual Life 720 E. Wisconsin Ave. Milwaukee, WI 53202	Tom Zale (414) 665-2431 Fax: (414) 623-2431	Office	Private institutional investor acquires Class A government-leased office building, topping its 2009 acquisitions volume in one deal.
RHP Properties 31200 Northwestern Highway Farmington Hills, MI 48334	Joshua Mermell (248) 626-0737 Fax: (248) 538-7746 jmermell@rhp-properties.com	MHCs	Private investor acquires MHCs nationwide.
Retail Opportunity Investments 3 Manhattanville Road Purchase, NY 10577	Stuart Tanz (914) 272-8080	Retail	Publicly traded investor hungry for retail property acquisitions.
Russo Development 578 Commerce Blvd. Carlstadt, NJ 07072	Omer Ahmed oahmed@russodevelopment.com	Apartments, Other	Private investor considers green property development and acquisitions throughout the Mid-Atlantic and Northeast.
The Schuster Group 16 W. Harrison Second Floor Seattle, WA 98119	Mark Schuster (206) 529-3900 Fax: (206) 529-3901 mschuster@theschustergroup.com	Apartments, other	Company's newly minted fund considers most all property types except industrial throughout the Pacific Northwest
StonebridgeCarras 4733 Bethesda Ave. Suite 800 Bethesda, MD 20814-5332	Kent T. Marquis (301) 913-9610 Fax: (301) 913-9615 marquis@stonebridgeassociates.com	Office	Private investor/developer to sell newly built asset. It has acquired properties in addition to development.
UMH Properties 3499 Route 9 North Suite 3-C Freehold, NJ 07723	Michael Landy (732) 577-9997	MHCs	Public REIT may acquire additional manufactured-housing properties following a two-property acquisition in Pennsylvania.
Walton Street Capital Partners 900 N. Michigan Ave. Suite 1900 Chicago, IL 60611	Jeffrey Quicksilver (312) 915-2843 Fax: (312) 915-2881	Office	Private buyer invests and sells development interests as well as partnering on acquisitions.
Wood Partners 1 Concord Farms 490 Virginia Road Concord, MA 01742	Adelaide Grady (978) 369-8111 Fax: (978) 369-8127	Apartments	Investor/developer may acquire apartments to reposition as green.

MANUFACTURED HOUSING PICKS UP SLOWLY

Despite the federal government's disallowance of Freddie Mac's expansion into manufactured home community lending, a slightly busier 2010 is expected. **RHP Properties'** acquisitions activity could surpass the \$50M worth of MHC properties the company acquired last year. Public REIT **UMH Properties** acquires two Pennsylvania communities and will likely take few chances of poorly leased product this year. **Green Courte Partners** is among companies that haven't acquired a property this year, but looks long-term at doubling its portfolio during the next three to five years, potentially funding acquisitions through a third fund.

Most product available on the market is REO and note purchases, but a flood of these assets won't likely trade until the third quarter and beyond. Lots of deals are going back to the lenders and a surge of properties trading for 60 cents or less on the dollar are forthcoming.

High-End Markets Sought

RHP Properties could surpass the estimated \$50M worth of properties acquired last year. The buyer recently acquired the 462-site Lantana Cascade MHC in Palm Beach County, Fla. As is typical with other purchases, the buyer plans to renovate the 90%-leased, gated, four-star asset that features a clubhouse and several swimming pools. The investor hasn't yet made a note purchase, but it will consider those as it also hunts for stabilized properties nationwide. Company dealmakers want areas where housing is relatively expensive. Properties in such East Coast markets as Baltimore, Connecticut, Florida, Massachusetts and New York, along with West Coast markets Arizona, Colorado, New Mexico, Nevada, plus Midwestern cities including Chicago and Minneapolis, are of interest.

UMH Properties, the third-largest public MHC REIT, could afford to go further for acquisitions, yet it is likely the company will stay close to its focus markets of New York, Ohio, Pennsylvania and Tennessee, which comprise the bulk of a 28-property portfolio. That UMH's portfolio occupancies are at the lowest levels in six years should translate into company dealmakers targeting fully or near-fully leased properties in subsequent purchases, similar to the two-pack of Pennsylvania properties it purchased last month, which averaged a 96% occupancy rate and boosted its portfolio by approximately 7%. Before those purchases, the buyer's portfolio was 78% leased, compared to an 86%-leased portfolio in 2004. As far as acquisitions cash, it would be understandable if the company liquidated part of its \$37M REIT securities portfolio. As talk of a double-dip recession gets louder, the time could be now for companies such as UMH to reap some gains and invest in property, instead of stock.

Successor Fund to Boost Acquisitions

Green Courte Partners recently ramped up its acquisitions focus since digesting the American Land Lease deal it completed in March 2009. While a successor fund to the buyer of American Land Lease — Green Courte Partners II, which may acquire upwards of \$600M of properties — is planned, expect the current fund to acquire a few more properties at least. Green Courte Partners' dealmakers want communities that fit into economies of scale, as it considers additional properties throughout Arizona and Florida.

Green Courte Partners' plan to double its 1,600-site portfolio during the next three to five years may also propel new market entries into California, Idaho, Oregon, Nevada and Washington, in addition to expanding an existing portfolio nationwide. Generally the buyer considers three star-plus, stabilized family and senior communities with more than 200 sites located adjacent to company-owned properties or existing markets. Among considered deal structures will be recapitalizations with IRR earnout components, in addition to joint ventures.

An extension option taken by **Equity LifeStyle Properties**, MHC Trust and T1000 Trust offers a glimpse into how many lenders could deal with maturing loans in the future. The banks sliced ELS' line from \$350M to \$100M. If ELS and company hadn't opted for another amendment from Bank of America, LaSalle Bank, U.S. Bank and Wells Fargo, who knows what would have happened. The company's four-year-old credit line matures on June 29, 2011. ELS has acquired mobile home parks and RV parks nationwide.

BIG-TICKET TRADES IN LARGE METRO MARKETS APPEAL

Institutional and public equity flex muscles for big-ticket Class A opportunistic office buys in second-tier primary markets, while a growing uncertainty about economic and employment recovery takes center stage. Look for **CB Richard Ellis Investors'** fund CBRE Strategic Partners U.S. Value V to scout more regional and national primary markets follow last month's office acquisition in Oakland, Calif. Also, expect public REIT **Douglas Emmett** to boost its Hawaiian presence following its \$232M acquisition of two office towers in Honolulu. The REIT also looks to primary markets in and around Los Angeles.

Confidence could lead to additional Class A deals, although buyers will become pickier in only seeking properties with near-100% occupancy rates. This necessity, likely borne from commonplace future performance projections that failed to materialize and led to billions of overpaid dollars several years ago, isn't lost on buyers dealing with recession-affected equity investors still smarting from losses. With Class A office cap rates likely ranging from 6% to mid-7% depending on location, some investors will justify acquisitions.

Likely powering Douglas Emmett's Honolulu acquisition is its desire to bulk up its Hawaiian presence. Given Hawaii's past popularity with Japanese investors and other Pacific Rim investors, the REIT could benefit from resurgent foreign investor interest in the market, although some Japanese funds will sit on their hands until returns match or beat returns found at home. In its first deal of the year, Douglas Emmett pays an estimated \$241.66 per s.f. for the Bishop Square office buildings in Honolulu, where occupancies average in the 12% range. It has an estimated \$267M of equity remaining for acquisitions on behalf of its Douglas Emmett Fund X, so additional interest in Class A office — along with apartments — in the Los Angeles metro areas Brentwood, Century City and Santa Monica, in addition to Honolulu, could be a strong possibility. It likes office properties in infill markets near executive housing. While Honolulu's office vacancy rates could further increase, the buyer is obviously comfortable with Bishop Square's 92% occupancy rate.

Look for CB Richard Ellis to seek recapitalizations and acquisitions with \$1B remaining in the \$5B fifth fund for value-added and opportunistic office, apartment and industrial purchases nationwide. There's interest in regional and national primary markets such as Atlanta, Chicago, Dallas, Los Angeles, Seattle and Washington, D.C. The company buys distressed deals where it can own the asset; other types of distressed deals involving note purchases to take title to the asset are handled by CBRE Capital Partners. CB Richard Ellis Investors' CBRE Strategic Partners U.S. Value V fund recently moved into the Oakland CBD for its first office acquisition involving a five-property portfolio called the City Center, plus a parking garage. The investor liked the 91%-leased portfolio because of its character as a regional hub.

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