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APARTMENT BUYERS REFOCUS TO COMPETE

Equity Residential (EQR) is more than halfway to a $1.25B acquisitions goal this year, but will downshift new build plans. The sector leader sticks to coastal acquisitions and will be among buyers strategizing to get the most for its dollar in a low cap rate environment. EQR looks especially in New York City, where caps have dipped into the 3% range because of fierce competition for a smaller pool of Class A infill product. Although smaller by comparison, **CB Richard Ellis Global Investors** could take on another $250M or more of apartment buys across all investment platforms this year. The company could entertain smaller transactions in coming weeks for its value-added to core plus strategy. **AvalonBay Communities** recently exited Chicago and will become more selective on deals as it axes acquisitions goals for the year by one third, to $250M to $350M. And **Post Properties**, focused on the Sun Belt and East Coast, makes a $70M-plus buy in Charlotte — its first acquisition of the year, and possibly their largest since 2007 — as it continues to pursue development in its core markets, while eyeing assets as far north as New York.

High pricing and a lack of available product will acutely impact marquee-market trades in metro Boston, New York, San Francisco and Seattle, where rent growth will continue outpacing national averages and where buyers face a thinner pool of widely marketed properties. An appreciating rent-growth trend that far exceeds 5% primary market averages could hit the wall later this year if renter income falls below landlord rental expectations, or if home buying becomes a more accessible option. This movement will not only stimulate increased activity for infill product in the Chicago, Los Angeles and Washington, D.C., metro area submarkets, but also in Atlanta, Denver, Charlotte, N.C., and reviving Southern California, despite planned apartment construction and new home buying risk.

In an effort to unearth moneymaking gems in rich infill markets, Equity Residential should leverage its heft in scoring off-market deals utilizing operating partnership units, especially in New York where competition is thick with investors including **Invesco**, **Sentinel Real Estate**, **TIAA-CREF** and **UDR**. The structure may become a favorite for tax-skittish sellers wanting or needing to sell before demand lessens. That demand has pushed core market cap rates into the the 3% range in New York, to upwards of 4% in other high-profile coastal markets.

Equity Residential, which competes against a host of public and private capital including AvalonBay Communities and CB Richard Ellis Global Investors, has purchased $670M of apartments at a blended 4.8% average since January, and expects to hit its acquisitions goals for the year equal to $1.25B of anticipated dispositions. Expect another $320M of sales in coming weeks to follow more than $300M of sales in Atlanta, suburban Boston, Phoenix and Orlando, Fla. Additional buys could mimic recent action in Chevy Chase, Md., where the buyer paid a 5.2% cap rate for a 510-unit complex built in 1996. More interest from CB Richard Ellis Global Investors could follow a pair of Class A buys in Baltimore, its first area purchase in at least a year. The investment manager will scout additional primary market metro areas including Denver, where it recently added units, and will likely consider deals into the $25M range from a previous $50M floor. Joint ventures could also be on tap in coming months.

Additional purchases throughout the Mid-Atlantic and Northeast will put the buyers into **Home Properties**' turf; the value-added REIT could acquire $450M of East Coast product this year in addition to new development. Home Properties or another buyer/builder could consider a couple of entitled land parcels on EQR's sales block in South Florida, as the big REIT cuts $225M of new build projects; it has $525M of new starts planned and is considering three parcels in Seattle and Southern California.

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Before building boom talk turns to overbuilding, expect private and public equity investors to hunt larger deals in smaller markets. CB Richard Ellis Global Investors could exceed $500M worth of acquisitions and will likely consider joint ventures, and **AvalonBay Communities**' retains its new build schedule and is bullish on divesting assets from discretionary AvalonBayValue Added funds I and II. But the company will be highly selective on acquisitions and dispositions for its core portfolio, especially since it doesn't plan any new discretionary funds. About $250M to $350M of sales are planned this year — a third less than originally expected — since chances of selling and reinvesting into comparable product at similar pricing are relatively slender. In Charlotte, N.C., and the broader Southeast region, AvalonBay Communities will encounter Post Properties, which recently acquired a Charlotte asset at a 5% projected cash-on-cash return. Other buyers in the region and nationwide include **BPG**, **Bell Partners**, **Camden Property Trust** and **Greystar Real Estate Partners**.

NOTES BUYERS SCOUR MARKET

Count on many mortgage note buyers to expand their focus to include office properties ahead of an expected notes and REO property uptick. Sector leaders **Colony Financial** and **Starwood Property Trust** should pump up their volume later this year with big portfolio buys. Mid- to small-cap investors **KBS Strategic Opportunity REIT**, **Independence Mortgage Trust**, **Kearny Real Estate Co.**, **Pathfinder Partners** and **United Realty Trust** prepare to ratchet up competition with smaller deals, joint ventures and equity raises.

Although banks are selling off properties faster compared to 18 months ago, the frequency of sales falls short of investor expectations. Low interest rates could suppress overall returns for loans secured by primary market and suburban assets. Expect to see note buyers hunt for value-added REO and fee-simple product while waiting for additional notes to hit the market.

Recent Raise Boosts Buying Power

Some of Colony Financial's $100M plus raise could bolster the company's loan buying appetite beyond more than $55M of acquisitions made so far this year. More action for performing through subperforming loans, in addition to real estate owned assets across all CRE sectors is likely. Single-family house purchases will also be on tap through its $25M investment in the Colony American Homes venture. Despite record low interest rates, expect single-family houses to become even more popular since **Blackstone**'s big moves in the sector. Meanwhile Colony Realty Partners scans the distressed segment for its targeted $490M Colony Realty Partners IV fund that will seek notes and assets nationwide.

Starwood Property Trust appeals to the market with a $250M offering to acquire distressed product nationwide. In scanning all CRE property types, the investor will compete against a host of buyers including KBS Strategic Opportunity REIT. The nontraded REIT recently acquired its first nonperforming note of the year collateralized by a package of Florida office buildings. The buy suggests ramping interest in office buildings as buyers bet on economic recovery, while diversifying a California and Texas-heavy portfolio. Earlier this year the nontraded REIT, working with $250M-plus equity, scooped an NPL secured by a 300-unit plus complex in New Jersey. Apartment competitors may include **RAIT Financial Trust** and **Investors Management Trust**.

Competition for office will build as vacancy rates decline. More joint ventures similar to Kearny Real Estate's recent buy with Morgan Stanley will happen. Private buyer Kearny Real Estate, which targets $2B of note purchases and value-added CRE buys, took down a portfolio of office, retail and industrial assets nationwide. If it ramps up its West Coast focus, the buyer will encounter smaller buyer Pathfinder Partners, which eyes $100M worth of buys this year. The private investor could use one third of its capital for nonperforming notes secured by apartments and other asset classes, plus fee-simple value added buys. Its Pathfinder Partners Opportunity Fund III will scour small and midsized markets in and around the Seattle area, plus Denver; Phoenix; Long Beach, Calif., and beyond. If successful, aspiring public REIT United Realty Trust's $997M targeted raise could result in more competition for distressed product coast-to-coast.

DEALMAKER DATABANK™

Company/Address	Contact/Phone/Fax	Property Type	Buying Criteria
American Realty Capital Trust 405 Park Ave. 15th Floor New York, NY 10022	Carrington Guy (212) 415-6500 cguy@arlcap.com	Single-tenant, etc.	Non-traded REIT buys single-tenant properties nationwide.
Artemis Real Estate Partners 5404 Wisconsin Ave. Suite 410 Chevy Chase, MD 20815	Deborah Harmon (202) 370-7450 Fax: (301) 652-1101 kim.luk@artemisrep.com	Apartments, Industrial, Office Retail and Senior Housing	Private investor to acquire on behalf of funds.
AvalonBay Communities 671 N. Glebe Road Suite 800 Arlington, VA 22203	Pat Gniadek (East Coast) (703) 329-6300 Fax: (703) 329-9130 pat_gniadek@avalonbay.com	Apartments	Public REIT readjusts acquisitions, dispositions expectations; remains in market for deals.
4440 Von Karman Ave. Suite 300 Newport Beach, CA 92660	Tim Walters (949) 955-6200 Fax: (949) 724-9208 twalters@avalonbay.com		
The Carlyle Group/ Carlyle Realty Partners VI 1001 Pennsylvania Ave. NW Washington, DC 20004	Rob Stuckey (202) 729-5626 Fax: (202) 347-1818	All	Private equity buyer advances deals for $2.2B equity fund.
CB Richard Ellis Global Investors 800 Boylston St. Suite 2800 Boston, MA 02199	Steve Gullo (617) 425-2844 steve.gullo@cbreglobalinvestors.com Steve Zaleski (617) 425-2842 Fax: (617) 425-2801 steve.zaleski@cbreglobalinvestors.com	Apartments	Across all platforms, company could acquire upwards of $500M of real Estate this year.
Colony Financial/ Colony Realty Partners 2450 Broadway Sixth Floor Santa Monica, CA 90404	Kevin Traenkle (310) 282-8820 Fax: (310) 282-8808 ktraenkle@colonyinc.com	Notes	Investor buys notes.
Dow Hotel Co. 16400 Southcenter Parkway Suite 206 Seattle, WA 98188	Murray Dow (206) 575-3600 Fax: (206) 575-0600 md@dowhotelco.com	Hotel	Private investor could acquire $100M of properties this year mostly in joint ventures.
34 Shadow Great Neck, NY 11021	Mark Rosinsky (516) 487-6789 Fax: (516) 487-6795 mjr@dowhotelco.com		
Equity Residential Two N. Riverside Plaza Suite 400 Chicago, IL 60606	Alan George (312) 928-1259 Fax: (312) 707-9810 ageorge@eqrworld.com Christina Purdue (312) 928-1251 cpurdue@eqrworld.com	Apartments	Public REIT scales back build plans; more than halfway to meeting 2012 acquisitions goal.
East Coast 60 Walnut St. Second Floor Wellesley, MA 02481	Alec Brackenridge (781) 694-0567 Fax: (781) 943-4516 abrackenridge@eqrworld.com		
Hines Interests 134 S. Main Salt Lake City, UT 84101-0000	Dusty Harris (801) 359-7522 Fax: (801) 359-7561 dusty.harris@hines.com	Office	Private investor partners on suburban assets.
Kearny Real Estate 1900 Avenue of the Stars Suite 320 Los Angeles, CA 90067	Hoonie Kang (310) 203-1840 Fax: (310) 203-1850 hkang@kearny.com	Notes	Private investor acquires notes and value-added properties with a western U.S. focus.
The Lightstone Group/ Lighstone Value Added Plus REIT II 460 Park Ave., 13th Floor New York, NY 10022	Akiva Elazary (212) 616-9984 akiva@lightstonegroup.com	Retail, Hotels	Public nontraded REIT acquires retail, hotels and apartments.
Northstar Healthcare Income Trust 2 Bethesda Metro Center Suite 1300 Bethesda, MD 20814	Douglas W. Bath David Gilbert (240) 479-7115	Medical	Aspiring REIT renames, plans to acquire private pay buildings and loans securing assets.

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DEALMAKER DATABANK™

National Retail Properties 450 S. Orange Ave. Suite 900 Orlando, FL 32801	Steve Horn (407) 650-3615 Fax: (407) 650-1046 steve.horn@nnnreit.com	Net Lease	Single-tenant buyer could meet or exceed $150M of deals this year.
Oaktree Capital Management 333 S. Grand Ave. 28th Floor Los Angeles, CA 90071	Todd Molz (213) 830-6300 Fax: (213) 830-8545 tmolz@oaktreecapital.com	Office	Private investor teams with Hines Global REIT.
Parmenter Realty Partners 1111 Brickell Ave. Suite 2910 Miami, FL 33131	Andrew Weiss (305) 379-7500 investorrelations@parmco.com	Office	Distressed private investor acquires office buildings nationwide.
Pathfinder Partners 4350 La Jolla Village Drive Suite 410 San Diego, CA 92122	Mitch Siegler (858) 625-5286 msiegler@pathfinder.com	Notes	Private investor buys notes.
Post Properties 4401 Northside Parkway Suite 800 Atlanta, GA 30327	Jeffrey W. Harris (404) 846-5000 jeffrey.harris@postproperties.com	Apartments	Public apartment REIT acquires and develops mostly throughout. Sun Belt region.
5040 Addison Circle Suite 200 Addison, TX 75001	David C. Ward (972) 851-3200 Fax: (972) 774-3333 david.ward@postproperties.com		
Realty Income 600 La Terraza Blvd. Escondido, CA 92025	Ben Fox (760) 741-2111 Fax: (760) 741-8617 bfox@realtyincome.com	Retail	Public REIT acquires retail assets and plans to buy $650M of properties during 2012.
Starwood Property Trust 591 W. Putnam Ave. Greenwich, CT 06830	Christopher Graham (203) 422-7700	Notes	Plans $250M raise for note buys.
United Realty Trust 44 Wall St. Second Floor New York, NY 10005	Jacob Frydman (212) 388-6800 Fax: (212) 388-6801 jacobf@urpa.com	All	Investor targets raise to acquire property in fee-simple to notes purchases. Targeting non traded REIT.
Velocis Partners 2305 Cedar Springs Suite 110 Dallas, TX 75201	Fred Hamm, Mike Lewis Steve Lipscomb (214) 702-0220 Fax: (214) 855-7865	Office, Retail	Private buyer acquires on behalf of various funds.

LOW DEBT COSTS STOKE TRIPLE NET FIRE

Investment-grade credit properties will be hotly bid up in coming weeks as buyers aggressively grow and diversify portfolios ahead of eventual interest rate hikes. Yield and cap rate compression into the low-7% range won't likely deter buyers **American Realty Capital**, **National Retail Properties** and **Realty Income**, since equity and debt costs remain very attractive compared to previous cycles. Expect more sales as buyers notice more hunger from the Section 1031 Exchange market and other private investors pursuing assets for longer-term holds.

Attractive capital costs will inspire diversification. Despite nixing a $316M big-ticket deal with an existing tenant company, Realty Income plans to meet or exceed a $650M acquisitions goal for the year. The public REIT can be expected to dive deeper into investment-grade retail segment for additional properties on top of $220M worth of buys since January. Dealmakers will draw from a $1B credit line and can be expected to ramp up sales into the $50M to $70M range this year, as they envision a portfolio counting at least 50% of investment-grade credit during the next five or more years.

American Realty Capital is among competitors. Look to ARC affiliates including American Realty Capital Properties and American Realty Capital Trust IV, to book more than $2B of buys this year, mainly expected in the net-lease and healthcare segments. The investor recently inked $64M of restaurant, discount stores and distribution facilities and will pursue additional investment-grade/corporate credit and sale/leaseback deals. Big-ticket buyer Cole Real Estate Investments, and National Retail Properties, which will acquire more than $200M of properties this year, are also active.

YIELDS TO DRIVE SECONDARY, SUBURBAN ACTION

Secondary markets will increasingly appeal to yield-chasing buyers following corporations into new markets outside pricier primary markets. Action in states including Florida, North Carolina, Oklahoma, Texas and Utah could benefit if more corporations relocate or expand operations as an alternative to higher corporate tax states of California, Massachusetts and New York, among others.

Parmenter Realty Partners deepens a Charlotte, N.C., footprint and eyes $190M of additional purchases for its current fund. Deep pocketed **Oaktree Capital Management** and the **Paramount Group** respectively partner with **Hines Interests** and **Colony Financial** in suburban New York City and Salt Lake City buys. Count on action from various Brookfield Office Properties and Brookfield Property Partners' vehicles, which have a combined $2B of equity for buys. **Brookfield Asset Management's Real Estate Opportunity Fund II** strikes a corporate credit deal in Texas. Competitors could include Kennedy-Wilson's targeted $500M real estate fund as part of a broader $6B U.S. and international acquisitions goal by 2013. **KBS Realty Advisors**, active in deals nationwide will also contend for properties, as will **Crocker Partners —** which strikes a troubled Miami deal and has partnered with big equity player Five Mile Capital Partners in Houston.

Smaller Markets and Distressed Properties in Play

Secondary markets will rake in more attention if the economy continues to plod along towards recovery, prompting corporate tenants to lower operations costs. Distressed assets will be in play as the nation's average 15% vacancy rate slims and value-added buyers reach for risk-based discounts to fatten yields.

Parmenter Realty Partners' distressed asset focus will push additional buys beyond a Class A trophy in downtown Charlotte, where 11% vacancy rates beat national averages. The discount-seeking investor focuses on the southern U.S. and can be expected to ply additional Charlotte properties, plus assets in Atlanta, Dallas and Houston. Don't be surprised if the company eventually pursues assets in low vacancy, familiar markets like Denver, St. Louis and Nashville, or Birmingham, Ala.; Tuscon, Ariz.; Louisville, Ky.; and Oklahoma City, Okla. Parmenter Realty's buy follows Parkway Properties' Charlotte-market action. The public REIT buyer expanded its Sun Belt base with a recent Charlotte high-rise building earlier this year. It could acquire $500M of mostly Southeast properties this year.

Lone Star State Interest

Brookfield Asset Management's interest in value-added Texas buildings remains strong. Its Real Estate Opportunity Fund II will compete for properties in and beyond Sun Belt markets. The investor revisited the metro area for a nearly vacant value-added property a couple months after selling off another Dallas asset. If its purchase of the 620,000 s.f. Dallas building offers indications, expect fresh interest in deep value-added assets in primary and secondary markets coast to coast. Brookfield Office Properties/Brookfield Property Partners has more than $2B for purchases.

In Denver, where Beacon Capital has been active as part of a value-added focus, additional big money will encounter private capital bulking up portfolios. Velocis Partners, which could have $250M to upwards of $400M for acquisitions, makes an initial Denver-area entry with a suburban office building. Its hunger will motivate the buyer into additional deals to include medical office and retail buildings throughout the city and Colorado Springs. It also seeks potential new market entries into Atlanta, Florida, North Carolina and South Carolina. The company is bullish on the Denver market and took its recent high-7% to 8% cap rate buy because of upside through rents, which are still at recession levels. The investor has contracted to acquire $90M of properties consisting of one office and three shopping centers to add to a portfolio of Colorado and Texas properties.

Denver-area competitors will include regional buyer Westfield Cos., which recently took a north suburban Denver campus from the harvesting Hines Office Value Added Fund. Plenty of secondary market interest remains from the buyer that recently teamed with **Oaktree Capital Management** in the Salt Lake City suburb of Sandy. In Dallas the company will likely compete against **American Fidelity Assurance Co.,** which recently bought an Oklahoma City property, following an initial entry with a recent buy from the Hines/Oaktree venture in Arlington, Texas.

FUNDS LOOK AT HOTEL, SENIOR HOUSING

Hotels and senior housing interest will increase, as indicated by the action of funds from the **Artemis Real Estate Partners**, **The Carlyle Group**, **The Lightstone Group**. The Carlyle Group could be hot for additional properties following an inaugural deal for its $2.2B Carlyle Real Estate Partners IV fund. The institutional investor and first-time JV partner **Dow Hotel Co.** were attracted to the Austin market's job growth and repositioning options through renovation completion; word on the street says the deal could have been a loan purchase, but turned into a real estate sale instead. The pair will encounter hotel REIT leaders **Host Hotels & Resorts**, **Hospitality Properties Trust**, **La Salle Hotel Properties**, **RLJ Lodging Trust** and **Carey Watermark Investors**. Private buyer Dow Hotel Co. also partners with **AEW Capital Management** and **Prudential Real Estate Investors** on full-service hotel purchases in primary and secondary U.S. markets, through REO and loan purchases. The company could acquire $100M of assets this year.

If it ever ventures into the limited service space, Dow Hotel Co. and its partners will cross paths with The Lightstone Group. The diversified buyer, best known for retail outlet center activity, is in the market for a $300M targeted raise that could power acquisitions of limited-service hotels nationwide, plus apartments and retail throughout the East Coast. The Lightstone Group has more than $500M for acquisitions this year, across all platforms. During 2011 it acquired approximately $500M across investment vehicles and private equity ventures.

Although coming senior housing deals may not be as large as some of the mergers, acquisitions and big portfolio deals that have increased the profile's sector since the downturn. The renamed $1B targeted offering from Northstar Healthcare Income Trust and interest from the planned $500M Artemis Real Estate Partners II fund will give the segment even more attention. Artemis will consider senior housing through joint ventures, as part of a larger strategy for apartments, industrial, office and retail. Northstar's latest offering, once known as Northstar Senior Care Trust, will eye private-pay assisted living and mortgages.