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MARKET OPENS UP FOR EQUITY INVESTORS

Expect equity investors to be more active in the coming months as they buy into stabilized and value-added properties. As the office and other market sectors recover, current property owners that bought at lower cap rates want to realize the returns they have earned through patience and hard work. But they also need to free up capital for new acquisitions. And some short-term investors have to sell out of their partnerships. This will provide more opportunity for equity firms looking to invest in partnerships.

Experienced equity investors such as **Investcorp** will see more competition from upstart companies such as **Kipling Partners LLC** and **ELF Capital Partners LLC**. These investors get their capital from institutions, trusts and foundations, and wealthy individuals.

Kipling Partners has created **Kipling Horizon Equity Program One** to buy out short-term institutional partners of long-term property investors. The company has \$40M to invest in all property types including office, warehouses, hotels, land, single-family homes and others. The partner does not have to manage the property, but it must have its own equity in the deal. Co-founder **Richard Hake** will target West Coast deals while partner **Bill Langelier** will focus on the East Coast.

Kipling Horizon Equity will buy ownership generally up to 50% in a property. Capital contributions range from \$2M to \$20M per property, but the program prefers deals of at least \$5M in the East. Deals are arranged for groups of private investors, but not in a tenant-in-common structure. The initial annual yield

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RISING HOTEL ROOM RATES FUEL BUYING FIRE

Increasing room rates portend a competitive market for U.S. resort hotels in the months to come. Waiting time is over. Investors are flush with frustrated cash, ready to apply funds to resorts and luxury hotels. Illuminating the shift even further is frenetic activity in resort gambling. Return rates won't increase to the levels according post-rate hikes as institutional investor interest will inspire sellers to keep prices high and EBITDA and cap rates slim. Caps for luxury and resort properties are in the 8% to 9% range, compared to a 10% range in the late 1990s.

A majority of respondents to Deloitte & Touche's global Hotel Benchmark survey noted increases in resort room occupancy rates during 2003. Past performance provides a foundation for future trends, although not all insiders see rates hitting and maintaining a post-9/11 high. This global trend reverberates throughout the U.S., where room occupancies for various hotel types are climbing. Buyers and advantageous sellers include **Host Marriott Corp.**, **Makar Properties**, **Kimpton Hotels and Restaurants**, **Fairmont Hotels & Resorts** and **Starwood Hotels Corp.**

Crescent Real Estate Equities plans to take advantage of the favorable climate for business-class hotels with its plan to sell Denver and Albuquerque hotels: the 613-room Denver Marriott City Center in Denver and the 395-room Hyatt Regency Albuquerque.

Host Marriott goes to the public market to help acquire its second Hawaii property: The 450-suite

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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>
Long Beach, Calif.	Office	129,451 s.f.	\$16.9M	6.1%	68%	21 yrs.

NOTES: WRA Real Estate Investment Co., a private investor, acquired 401 E. Ocean Blvd. Washington Mutual, Tetra Tech Inc., U.S. Department of Labor and Mercury Insurance are among the companies occupying the 10-story, multi-tenant building. Fowler Flanagan Partners sold the property. Grubb & Ellis' South Bay office handled the sale. WRA Real Estate Investment Co. has made several Southern California acquisitions in the last year. It is affiliated with WRA Property Management, which manages properties in Orange County, Los Angeles and Riverside, Calif.

CONTACT: WRA Property Management, 13 Corporate Plaza, Suite 150, Newport Beach, CA 92660. (949) 644-7800.
Fax: (949) 644-7816.

Auburn Hills, Mich.	Apartments	230 units	\$15.2M	7.5%	96%	15 yrs.
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NOTES: BR Meadowbrook LLC acquired the Townhomes of Meadowbrook from Equity Residential at an approximate \$66,086 per-unit price. The economic occupancy at the property is likely 91%. This fee-simple purchase includes one-, two- and three-bedroom units ranging from 950 s.f. to 1,200 s.f. Average monthly rent ranges from \$770 to \$1,095. Features include washer/dryers in each unit and covered parking. Hendricks & Partners represented the buyer and seller in this May 12 purchase.

CONTACT: Blue Rock Real Estate/BR Meadowbrook LLC, 2582 Davison Ave., Auburn Hills, MI 48326.
Ron Joobeen, Tricia Alexander, (248) 377-2680. Fax: (248) 377-8136.

FOREIGN BUYERS COMPETE FOR CLASS A OFFICE

Investors are growing their portfolios in secondary cities in the South and Southwest, as states such as Florida, Texas and Arizona are showing the most growth potential in terms of population and jobs. Some foreign investors such as **IPC US REIT** of Canada, compete with regional investors to acquire the Class A office buildings.

Canadian investors in the U.S. have been mostly quiet, but IPC US REIT only invests in U.S. properties. It bought two properties for a total \$37.9M in Florida, building its Sunshine State portfolio to four buildings in about seven months. It competes with investors such as **St. Joe Commercial, Koger Equity, Parkway Properties, Teachers Insurance and Annuity Association, Highwoods Properties** and a number of European investors that have been targeting the South. The REIT also looks in Boston, Chicago and other larger markets. Chief Investment Officer **Y. Dov Meyer** wants to invest \$500M this year, about \$100M more than in 2003. The company occasionally buys with an equity partner or syndicates properties to other foreign and U.S. buyers. It is also interested in investing in joint ventures with other U.S. investors for Class A office buildings.

IPC paid \$31.2M for 5104 Eisenhower Boulevard outside Tampa. The property is the first disposition that was wholly owned by **Wells REIT**. The REIT paid \$21.2 M for it in December 1998. IPC's price is said to be the highest for a Tampa property. At \$240 per s.f., it is certainly more than the \$171.14 per s.f. TIAA paid for 4200 Cypress in Tampa Bay. But IPC's building is fully occupied by the International Academy of Merchandising and Design until 2013.

This property and the acquisition of the 88% leased 100 Second Ave. S. in St. Petersburg, Fla., earned a cap rate of 8.5%. IPC paid \$22.4M, or \$94 per s.f., for the 238,000 s.f. St. Petersburg building. IPC assumed a \$16.9M loan on this property at a 6.63% interest rate, which matures in 2010. It placed new financing on the Tampa building of \$21M. The five-year loan is split with \$18M at a fixed rate of 4.76% and \$3M on a floating rate.

Jacksonville, Fla.-based St. Joe Commercial is looking in Florida's Orlando and Tampa markets, as well as Northern Virginia; Washington, D.C.; North Carolina and South Carolina. **Scott Kaufmann**, director of real estate investments, could close nearly \$100M in deals this year, depending on sales. Parkway Properties, a public REIT based in Jackson, Miss., also shops in those markets as well as the Southwest. **Jim Ingram** oversees acquisitions.

MARKET-RATE APARTMENT BUYERS TURN TO AFFORDABLE

A dearth of market-rate complexes providing amenable returns heats up the affordable housing sector as many traditional market-rate investors angle in, much to the chagrin of stalwart affordable-housing investors. This trend is expected to abate once Treasuries increase and interest rates follow suit later this year.

Among the group of dedicated affordable-housing players remaining in the market are private investor groups **Baron Properties** and **AIMCO**. Real estate investment trusts **AIMCO** and **CAPREIT** have a significant affordable-housing presence in the market and are on the sidelines, either working with existing or market-rate properties in portfolio or focusing on new development deals.

Affordable housing investors are not yet decided on how the federal Housing and Urban Development Department's recently introduced SuperNOFA mandate will affect business. The \$2.3B program aims to create more affordable housing, affecting homeless people and community development. New affordable housing will be introduced to the market in an effort to meet rising demands.

Baron Properties hopes to acquire from \$75M to \$100M worth of properties during 2004. The investor primarily focuses on Class A and Class B properties in markets such as Colorado, Phoenix, Las Vegas and Austin, Texas. The investor contracted to pay approximately \$20M for the 252-unit Sempre Village, in its first deal of the year. The pro forma cap rate for the affordable housing property following first-year stabilization is 6.25%. Expect the investor to acquire from 500 to 750 additional units in the coming months: Typical price range is \$5M to \$25M per property. Both market-rate and tax-exempt, bond-financed properties are considered.

Baron's **Bryan Stern** looks for cash-on-cash returns in the 7% to 8% range and internal rates of return in the low- to mid-teens range. Stern believes Denver's market is starting to bottom out and improve, although it will take more time for improved job growth. Baron Properties may compete against Walnut Creek, Calif.-based Bridge Partners in coming months.

AIMCO is concentrating on redeveloping and retaining affordable status for HUD subsidized properties instead of adding new assets in this area. The investor owns 280,000 units nationwide with a substantial number of affordable-housing/tax-credit designated properties. Recently, AIMCO added 72 market-rate units in Manhattan to its portfolio for \$14.5M. **Millbrook Properties**, based in Manhasset, NY, is the seller.

RISING HOTEL ROOM RATES FUEL BUYING FIRE...

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Fairmount Kea Lani Maui resort on Wailea, for \$355M at an 8.4% cap rate, from **Fairmont Hotels & Resorts**. The property, expected to close escrow by August, will be funded with proceeds generated from a 25 million share sale valued at \$305M.

Host Marriott moves exclusively in high-end circles with its portfolio of hotel brands such as Four Seasons, Ritz-Carlton, Westin, Hyatt and Swissôtel. Fairmount Kea Lani Maui is the 12th resort, joining a list of properties mostly in Florida, followed by California, Virginia and Arizona. Host Marriott has pruned assets from its portfolio, selling to investors such as growing **HEI Hospitality**.

Newport Beach, Calif.-based Makar Properties goes after smaller, high-end hotels with its \$30M purchase of the historic Ritz Plaza Hotel in Miami's South Beach district. The investor acquires and develops resort, residential, mixed-use, industrial and office properties centered in the California and Texas markets. **Tim O'Byrne**, executive V.P. of acquisitions, added the Ritz Plaza to the company's growing resort holdings, which include the St. Regis Monarch Beach Resort and Spa and the Dos Pueblos Golf Links.

Don't be surprised if Crescent sells a boatload of assets during the next year or two. The primarily office-oriented company won't comment on rumors that it plans to sell from \$1B to \$2B worth of properties, on the eve of its June 28 annual shareholders' meeting. The rumors came after President **John Goff**'s attendance at the National Association of Real Estate Investment Trusts (NAREIT) conference in New York.

INVESTORS SEEK STRONGER INDUSTRIAL MARKETS

The industrial sector is at risk of stymied upside potential. The high prices for industrial properties have brought cap rates into the 6% to 7% range for stabilized product in the best markets. And even value-added properties will have a hard time earning positive returns as vacancy and rent decreases stress some markets. Private investors will continue to gravitate toward markets like New Jersey, Maryland and San Diego where rents are actually rising.

These areas are poised to see some substantial biotech growth. And their central location within and between large markets such as New York; Philadelphia; Washington, D.C.; and Mexico keeps demand for space high. **Kushner Companies** spent \$22M on a northern New Jersey portfolio that contains six, fully leased industrial buildings. And **Berwind Property Group** paid \$43M for three value-added office, industrial and R&D properties in central New Jersey.

Berwind Chief Operating Officer **Arthur Pasquarella** expects to have the \$384M equity **BPG Investment Partnership VI** invested by the end of the year. The Philadelphia-based investor has been busy this year, spending \$229M on office, industrial and apartment properties in the first five months. It will likely spend another \$250M and \$275M. Berwind also acquires retail and hotel properties nationwide. Leveraged IRRs are projected in the mid- to upper-teens.

The company entered the high-demand Exit 8A submarket with the acquisition of 51 Commerce Drive in South Brunswick, N.J. The 269,000 s.f. warehouse facility is 58% leased and has 10,000 s.f. of office space. In Bordentown, Berwind acquired the 223,000 s.f. Bordentown Business Park situated on 24 acres. Berwind can build another 250,000 s.f. in several buildings on the site. The property is currently 48% leased to Prince Racquets. It is situated in the growing Trenton/I-295 industrial submarket. Berwind also grabbed a biotech property in Princeton. The three-building corporate campus at 330-350 Carter Road consists of two office buildings and a 75,000 s.f. laboratory building.

Kushner Cos.' new portfolio consists of manufacturing and warehouse buildings located at 125, 145 and 156 Algonquin Parkway and 30-40 Leslie Court in Whippany, and 341 and 344 Kaplan Drive in Fairfield. The buildings are 10 to 20 years old. It also includes a 35,000 s.f. retail center at 420 Route 10 in East Hanover. Kushner is negotiating leases to get that property fully leased. **Bert Kaplan** sold the 220,000 s.f. portfolio. The going-in cap rate is 8.5%.

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to investors is 8%. The company is working on hotels and apartment acquisitions in the San Francisco Bay Area and the Midwest.

Another new company is ELF Capital Partners LLC, founded by former CB Richard Ellis broker **John Stanfill**. This company also plans to buy out partnership interests, but only wants minority, non-controlling interests up to 20%. It also focuses exclusively on the West Coast, primarily California. It has between \$25M to \$40M to spend on all property types.

But they will find steep competition from heavyweights such as Investcorp, which has a \$2B portfolio of office, retail, industrial, residential and hotel properties nationwide. It often co-invests in properties. It recently acquired a 50% equity position in a portfolio of three suburban office properties in New York from **Broadway Real Estate Partners**. This portfolio is valued at more than \$130M. Investcorp includes it in a new \$273.7M portfolio, **U.S. Office Properties III**, for syndication to foreign investors. The other two properties in this group include the \$60.1M Broward Financial Center in Ft. Lauderdale, Fla., and the \$60M Westport Plaza in St. Louis.

Investcorp has invested a little more than \$100M toward its \$250M equity goal this year. The company, which has focused on more stabilized acquisitions in the last couple years, is now considering some leasing risk. The nearly 1 million s.f. portfolio averages 94% in leases. But approximately 40% of the rents will roll in the next three years.

DEALMAKER DATABANK

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
AIMCO 4582 S. Ulster St. Parkway Suite 1100 Denver, CO 80237	Harry Alcock (303) 691-4344 Fax: (303) 300-3261	Apartments	Public investor acquires and develops apartments nationwide as part of a portfolio comprised of tax-credit and market-rate properties.
Baron Properties 8400 E. Prentice Ave., Suite 900 Greenwood Village, CO 80111	Bryan Stern (303) 290-9007 Fax: (303) 290-9046	Apartments	Private investor acquires apartments throughout Colorado.
Berwind Property Group 3000 Centre Square W. 1500 Market St. Philadelphia, PA 19102	Arthur Pasquarella (215) 496-0400 Fax: (215) 496-0431	All types	Private investment adviser buys value-added suburban and CBD properties nationwide.
Bridge Partners 2950 Buskirk Ave., Suite 312 Walnut Creek, CA 94597	Greg Tripaldi, Steve Klein (925) 256-9448 Fax: (925) 256-1635	Apartments	Private investor acquires from affordable housing to market-rate complexes throughout the U.S.
ELF Capital Partners LLC 222 E. Huntington Drive Suite 118 Monrovia, CA 91016	John Stanfill (626) 803-5080 Fax: (626) 301-9242	All types	Private investment adviser seeks minority interests in West Coast properties.
Henderson Global Investors Olympia Centre 737 N. Michigan Ave., Suite 1950 Chicago, IL 60611	J.P. Rachmaninoff (312) 397-1122 Fax: (312) 397-1494	Apartments	Private investor acquires apartments throughout the U.S.
Investcorp 280 Park Ave., 36 th W. New York, NY 10017	Jon Dracos (212) 599-4700 Fax: (212) 983-7073	All types	Foreign investment adviser joint ventures on property acquisitions nationwide.
IPC US REIT 175 Bloor St. East South Tower, Suite 705 Toronto, Ontario Canada M4W 3R5	Y. Dov Meyer (416) 929-1473 Fax: (416) 929-5314	Office	Public Canadian REIT acquires Class A properties in secondary markets throughout the U.S.
Kipling Partners LLC 100 Shoreline Highway Suite 200B Mill Valley, CA 94941	Bill Langelier (415) 339-4094 Fax: (415) 339-4099	All types	Private investment adviser wants to make equity investments in properties on the East and West coasts for its Kipling Horizon Equity Program One.
Kushner Companies 26 Columbia Turnpike Florham Park, NJ 07932	Richard Stadtmauer (973) 822-0050 Fax: (973) 822-8481	Office Industrial Retail	Private investor buys properties in the East.
Makar Properties P.O. Box 780 4100 MacArthur Blvd., Suite 200 Newport Beach, CA 92660	David McKinney (949) 255-1100 Fax: (949) 255-1128	Hotel	Private investor acquires full-service Florida hotel. Bulk of portfolio in California and Texas.
SCI Real Estate Investments 11620 Wilshire Blvd., Suite 300 Los Angeles, CA 90025	Andrew Van Tuyle (310) 470-2600 Fax: (310) 470-6609	Retail	Private investor acquires retail and apartments through various 1031-exchange and TIC structures.
Spirit Finance 8910 E. Raintree Drive Scottsdale, AZ 85260	Jeffrey Fleischer (480) 606-0820 Fax: (480) 606-0826	Movie Theater	Private investor acquires single-tenant properties nationwide.
W.P. Carey & Co. 50 Rockefeller Plaza New York, NY 10020	Gordan DuGan (212) 492-1130 Fax: (212) 492-8922	Office Industrial Retail	Public investor seeks sale/leasebacks for its private REITs.
Weingarten Realty Investors 2600 Citadel Plaza Drive PO Box 924133 Houston, TX 77292	M. Candace DuFour (713) 866-6000 Fax: (713) 866-6049	Retail	Public investor acquires grocery-anchored centers throughout the South.
Wells Real Estate Funds 6200 The Corners Parkway Suite 250 Norcross, GA 30092	David Steinwedell (770) 449-7800 Fax: (770) 243-8510	Office Industrial	Seeks Class A properties nationwide, preferably single tenant, for its public, non-traded REITs.

Contacts not listed can be found in the 2004 Crittenden Directory of Real Estate Investors & Buyers.

DEALMAKER OF THE WEEK

Greenlaw Partners wants to invest \$100M this year in joint ventures with institutional and high-net-worth investors in California. The private owner and developer launched its business about a year ago and has already spent \$175M. It buys and develops office, industrial, retail and resort properties as well as land. Its portfolio currently consists of 400,000 s.f. of commercial space plus land for new development.

Its most recent deal was the acquisition of Tustin Centre in Santa Ana, Calif., for approximately \$45M. The 196,000 s.f., Class A office building was purchased in partnership with a core-plus institutional fund. The 10-story building is located at 1501 and 1551 N. Tustin Ave. in Santa Ana. The site includes a developable pad and a new 35,000 s.f. L.A. Fitness Club. The cap rate is north of 8% for the 94% leased property. In Anaheim, Greenlaw Partners is developing a 125,000 s.f. mixed-use business park at Stadium Centre in partnership with **Newport Federal** and a five-acre mixed-use complex with **Saunders Property Co.**

CONTACT: Greenlaw Partners, 4425 Jamboree St., Suite 280, Newport Beach, CA 92660. John Tuminello or Wil Smith, (949) 221-8051. Fax: (949) 221-8191.

SINGLE-TENANT OFFICE, INDUSTRIAL DEALS HEAT UP

Don't be surprised to see more single-tenant property deals later this year. These properties had been hard to buy in the first half as cap rates fell. But sellers, knowing rising interest rates can cut into competition, are looking to take advantage of buyer desire for these stabilized assets. Those that specialize in this property type and can close quickly may still have an advantage. **Wells Real Estate Funds** goes back to its single-tenant roots with the acquisition of 9 Technology Drive in Boston. Other recent dealmakers include **W.P. Carey & Co.**, which made \$90M in acquisitions in seven states through sale/leaseback deals for its private REITs.

Wells REIT II is trying to raise more than \$7B for acquisitions of primarily single-tenant office and industrial properties. But the dearth of deals has forced the trust to buy buildings with several tenants or that have retail space. The second REIT has raised more than \$92M in a public offering and used a line of credit to acquire nearly \$77M in real estate during the first quarter.

Since then, it has spent another \$137.7M on acquisitions. And it is armed with a new \$350M line of credit through **Bank of America** to jump start acquisitions. The REIT has at least another \$335M under contract. The company has always prided itself on being able to pay cash for deals. But using a line of credit instead of long-term debt is almost as good to close deals quickly, as long as the income on the property can help repay the debt quickly and meet the company's returns to investors. Wells recently raised dividends to 6%.

Also, expect Wells to make new acquisitions for its first REIT, which had been fully invested, after selling a single-tenant Tampa, Fla., property. That program should close on an office building by the end of July. Don't be surprised if it churns more properties this year.

Wells REIT II's most recent acquisition was 9 Technology Drive for \$47.7M. The 250,000 s.f. building, completed in 1992, is fully leased by EMC until 2012. The property includes 16 developable acres in the Westborough Technology Park, situated in Boston's 495 West submarket. The Milken Institute identified Boston as the second fastest growing biotech market in the nation.

W.P. Carey buys office, industrial and retail properties that are leased back mid- to long-term, usually from sub-investment grade tenants. Its recent acquisitions include two industrial deals and two corporate headquarters for its **Corporate Properties Associates 15 Inc.** (CPA:15) REIT, and one corporate headquarters for its newest program, **Corporate Properties Associates 16 – Global Inc.** (CPA:16 – Global). All the properties are leased for an initial 20 years.

The CPA:15 deals include two manufacturing facilities for \$7.2M, which total 253,000 s.f. and are located in Mentor, Ohio, and Franklin, Tenn. The other industrial facility, located in Omaha, Neb., was purchased for \$28.6M. The corporate headquarters buildings are a 57,507 s.f. property in Peachtree City, Ga., for \$8.7M, and a \$32.5M property in Pleasanton, Calif., with 124,000 s.f. The CPA:16 – Global's \$13.7M acquisition consists of two properties, totaling 233,000 s.f., in Englewood, Co., and Chandler, Ariz.

PUBLIC INVESTORS BUY FULLY LEASED SHOPPING CENTERS

Public shopping center investors take a bite out of fully leased shopping centers as tenant-in-common investors ply secondary markets for hairier deals. **Weingarten Realty Investors'** (WRI) and **SCI Investments'** recent purchases signal a reversal of market dominance. TIC investors were a pesky burr in the sides of many institutional investors' acquisitions plans because of their aggressive bidding strategy; TIC/1031 investors once confined to smaller markets branched out with increased debt and cash from eager folks new to real estate.

Relationships brought about SCI's first entry into Ohio as state native and acquisitions officer **Scott Derrick**, generated the \$19M deal for the 146,278 s.f. power center called Tri County Crossing in the Cincinnati suburb of Springdale. The investor got an 8.29% cap rate on the nine-year-old center mostly due to the dark Barnes & Noble that moved into a new location nearby. Other power center anchors include Dick's Sporting Goods and Best Buy. SCI has a 5.69%, 10-year loan from **Wachovia Securities** that amortizes in 30 years and is par. Look for the investor to add another \$100M perhaps in Phoenix and South Florida. There's a \$250M goal for 2004; SCI's portfolio is valued at more than \$350M.

This shifting tide will become even more discernable toward year's end. Investors such as WRI are reaping larger rental returns so far in 2004 when compared to 2003. Real estate investment trust WRI closed a spate of deals in California and partnership interests in Georgia, Texas and New Mexico, including the El Camino Promenade in Encinitas, Calif.; the Village Shoppes of Sugarloaf, Lawrenceville, Ga.; along with interest purchases in the Pavilions at San Mateo, Albuquerque, N.M.; Alabama Shepherd Shopping Center, Houston; Rockwall Market Center, Rockwall, Texas and the Lone Star Pavilion in College Station, Texas.

WRI, led by acquisitions chief **M. Candace DuFour**, has invested \$362.5M in properties during 2004, adding to its approximately 278-center portfolio of mostly grocery-anchored properties nationwide, including Texas, Florida, North Carolina and newly added Kentucky. WRI also holds 61 industrial properties. Active retail competitors include fellow grocery-/drug-anchor center buyer REIT **Equity One** in the Southeastern market and WRI surely encounters SCI in New Mexico, Nevada and Florida.

MOVIE THEATERS ATTRACT SINGLE-TENANT BUYERS

Real estate is on the cusp of an active single-tenant market, from fee-simple to sale/leaseback transactions, including movie theater purchases. Companies will look toward investors as a cheaper debt source in the coming months. Increased budgets, credit lines and shifting of executive management are among the ways investors are positioning themselves for coming changes. Private investor **Spirit Finance Corp.** is among the field of investors also occupied by public real estate investment trusts **One Liberty Properties (OLP)** and **Entertainment Properties Trust (EPT)**.

Larger private and public companies where real estate is an integral part of business may source many of the Spirit Finance's expected \$800M worth of purchases during 2004. The Scottsdale, Ariz.-based company will have acquired more than \$200M worth of properties by the quarter's end. An additional \$200M worth of properties is either under letter of intent or under contract.

Spirit Finance President and Chief Operating Officer **Chris Volk** targets 12% internal rates of return for retail, service and distribution outlet real estate that includes restaurants, automotive retailers, grocery/drug stores to bowling alleys. Competition includes 1031 exchange buyers and REITs such as EPT and OLP. Volk's company aims to complement seller debt needs rather than replace sources. The \$12.9M purchase of the Esplanade is the company's first movie theater. In this fee-simple deal, Spirit Finance captured an approximate 9% cap rate based on NOI derived from an initial 20-year lease.

Entertainment Properties Trust continues as a national leader in the movie theater segment, through independent and joint venture purchases. The investor put an AMC Tampa Veterans 24 theater into its venture with Hamburg, Germany-based Atlantic, called Atlantic-EPT. The value is \$24.2M with \$14.6M of debt. One Liberty Properties increases its credit line to \$62.5M in anticipation of net-leased property purchases. President and Chief Executive Officer **Jeffrey Fishman** plans to expand the company's net-leased portfolio.

INVESTORS BALANCE AFFORDABLE, MARKET-RATE BUDGETS

Affordable housing properties inch toward an increasingly competitive future as investors new to the segment and weary old-timers prepare for higher returns as the market changes. The abundance of new investors to the affordable housing market has slimmed down returns to the point where previously dedicated investors prepare for more market-rate housing. This trend is not expected to abate as previously silent investors with cash return to the market when cap rates rise.

Investors straddle both sides of the apartment fence – both affordable-housing and market-rate – motivated by upside opportunities and smaller complexes. Mid-scale to larger investors, who are attributing a large part of business to affordable-housing properties, are looking elsewhere. This trend will grow during 2004 across investor type. Pension fund adviser **Henderson Global Investors** and **Bridge Partners** are considering both affordable and market-rate housing.

Henderson Global Investors' forthcoming CASA III fund will have a capacity for 50% or more of market-rate complexes, a marked difference compared to its second fund, nested with 80% to 85% of tax-exempt bond financed properties. This is equity-raising time for the forthcoming CASA III Fund with initial soft commitments. Final closing is slated during the first quarter of 2005. There's potential for \$600M worth of purchases seeded with \$200M of equity. A 36-month investment window is planned, although Henderson Global hopes for an 18- to 24-month timeline in which to add properties to its 14,000-unit portfolio.

Walnut Creek, Calif.-based Bridge Partners, on the other end of the spectrum with an approximate 5,000-unit portfolio, pursues properties with high-rate in-place debt, along with market-rate properties. The investors may compete for assumed-debt and value-added deals, as Bridge owns properties in 14 states, including California, Texas, Florida and Nevada where Henderson also is active.

Debt assumption is poised to take a much larger role in investors' strategies during the time rates go up and sellers eventually readjust asking prices to reflect the change. Drawing from funds allocated toward high-rate debt assumption, the investor acquired the 178-unit Meadowcrest complex in San Antonio for \$3.5M. A \$3.2M debt originated as a 10-year loan amortizing in 30 years assumed by **GE Capital**, carries a 7.39% rate that's pre-payable in seven years. **Greg Tripaldi**, a company acquisitions contact, sees more debt assumed deals. His company wants from \$50M to \$100M worth of properties during 2004. Fleet Bank gives steam with a \$50M refueled credit line.

Chicago-based Henderson Global aims for \$250M worth of properties and will hone in on value-added properties in the months ahead. Active markets include Florida and Texas, in addition to Minneapolis; Delaware; suburban Washington, D.C.; Kansas City; San Diego and a recent market-rate purchase in suburban Detroit. Both grocery-anchored retail and core suburban office buildings are considered for value-added and core separate-account clients retaining discretion. Company acquisitions officer **J.P. Rachmaninoff** will consider JVs likely on repositioning deals.

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