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Novato, CA 94948-1150
(800) 421-3483

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INDUSTRIAL SALE/LEASEBACKS TO SPIKE

Expect more big buyers to embrace industrial sale/leasebacks in the coming year as commercial real estate liquidity deteriorates with no end in sight. Companies owning and occupying industrial spaces will increasingly seek to tap equity trapped in real estate and put that money to better use. Since banks and lenders refuse to budge on loans, sale/leasebacks make the most sense for property owners seeking equity. Veterans like **AIC Ventures, W.P. Carey & Co., First Industrial Realty Trust** and **STAG Capital Partners** find cap rates have risen 0.75% to 1% over the past two years on industrial sale/leasebacks and expect pricing to correct itself slightly downward. These investors will use this shift to their advantage by cashing in on increasing opportunity and minimal competition through the use of various funds.

Although most buyers will seek quality properties in sale/leasebacks, yields are still attractive enough that deals will get done in secondary and tertiary markets. Stabilized industrial assets in primary locations will record cap rates in the mid-6% range, with a slight amount of give and take across the board. Buildings in lesser locations will trade at caps as much as 1% higher, depending on the credit of tenants and risk involved. These numbers are slightly higher and more promising than those of standard industrial buys.

AIC Ventures makes headway on its two funds in operation, NL Ventures VI and VII. Fund VI is in the final stages of its investment and once it closes on a handful of deals early next month it will have completed \$350M in investments. Fund VII seeks to close on the same amount of deals, with typical deal sizes from \$10M to \$15M. The most recent purchase for this investor was the sale/leaseback of a property in Los Angeles, AIC's third buy in the area this year. Construction limitations and barrier to entry in the area push cap rates down into the 5% range for industrial investors. The buyer's past emphasis has predominantly been on the Midwest, South and East but AIC can be counted on to invest more aggressively in the West in the coming year.

AIC finds more buying opportunity than in years past, having already exceeded last year's acquisition volume of \$175M. Although the last half of the year still holds plenty of uncertainty, AIC expects to close out 2008 with \$300M in purchases. Talks of the launch of Fund VIII are already taking place. The investor's current portfolio is nearly 90% industrial but AIC would like to bring that number down to 80% and up its office holdings in order to diversify across property types.

W.P. Carey pursues its \$1B acquisition goal for the year. Although the current climate dictates longer closings, the investor expects to meet its goal even if some deals spill over into the beginning of next year. W.P. Carey is on the tail end of its CPA 16 fund and the majority of its pending and future acquisitions will be on behalf of CPA 17. Most recent was the \$28M sale/leaseback purchase of two properties located in Alvarado, Texas, and Bossier City, La. Cap rates on these properties were likely in the 8% range, consistent with the investor's target. New assets in the nearby metropolitan areas are recording near low 8% and more secondary locations are on the higher end of the number.

Expect W.P. Carey to record more closings in the fourth quarter, both here and abroad. The investor's overall portfolio is split, with nearly half of its acquisitions stateside and the other half across the pond. While Europe's financial markets lag slightly behind the United States, both are experiencing similar distress. With some of its former competition sidelined, W.P. Carey hopes to take advantage of the pipeline of sale/leaseback deals coming to market.

First Industrial Realty Trust diversifies its portfolio by making a few sale/leaseback buys. The investor acquired a 405,000 s.f. distribution center in Atlanta last month through a sale/leaseback agreement.

Continued on Next Page

INDUSTRIAL SALE/LEASEBACKS TO SPIKE...

Continued from Previous Page

More recently, the investor purchased an industrial portfolio of properties located throughout California and in markets located outside of Houston, Seattle, Atlanta and Tampa, Fla. The \$82M buy includes assets in areas the buyer has shown special interest in this year, and with a 20-year lease involved, count on First Industrial to demonstrate additional interest in these markets.

STAG Capital Partners steps back into acquisition mode after a relatively quiet middle part of the year. The investor looks for deals structured as sale/leasebacks or as normal acquisitions but don't expect last year's acquisition volume of \$300M to be exceeded this year. After struggling with the market abroad, the investor backed down from the European game and will center its efforts back in the states. Expect STAG to be more active in the sale/leaseback arena in the coming quarters.

BIG CLASS B APARTMENTS WANTED

Apartment buyers scour the nation for Class B properties in growth areas and that need capital improvements and repositioning. These Class B apartment investors also target bigger properties for even larger returns. Count **Fieldstone Properties**, **The Milestone Group**, **MC Cos.**, **Federal Capital Partners**, **Mid-America Apartment Communities**, **The PPA Group/The Partnered Property Acquisitions Group** and **AvalonBay Communities** among active investors coast to coast.

Look for more purchases following a \$30M — or \$83,798 per unit — purchase of the Camden Arbors complex in Denver that punctuated The Milestone Group's re-entry into Colorado. The New York-based private investor wants more product in the area during the next two years. Employment growth prospects, the area's quality of life and the company's ability to acquire properties at relatively reasonable prices factor into its decision to pursue more purchases throughout the market. The 93%-leased Class B+ property is about 15 miles north of downtown Denver off of Interstate 25. The cap rate is estimated at 6.5%.

More Value-Added Sought

Dallas-based public REIT **Camden Property Trust** sells the asset, as it joins several other apartment REITs opting to sell rather than buy in this cycle. The Milestone Group plans property upgrades to the 22-year-old property. Look for the company to acquire more value-added complexes with \$600M to \$700M of purchasing power. Non-performing loans are considered and the company has acquired more than \$150M worth of broken condominium projects. Properties in Atlanta, Charlotte, Las Vegas, Nashville, Phoenix and Salt Lake City comprise the buyer's portfolio.

Scottsdale, Ariz.-based MC Cos. mostly wants Class B and Class C complexes in the Southwest markets of Oklahoma, Arizona, Texas and Nevada. Consistent with its focus, the private buyer likely paid from \$10M to \$15M for the Cooper's Hill and Bay Harbour Apartment complexes in Austin and Baytown, Texas, respectively.

Expect to see dealmakers in markets with employment and population growth angle for 150- to 200-unit plus properties with below market leases requiring exterior improvements. MC Cos. wants to acquire from 1,300 to 1,500 units this year, as it aims for initial cap rates in the upper 6% to low 7% range. A 400-unit complex under contract in Austin would boost the buyer's portfolio to more than 1,000 units.

New Jersey-based Fieldstone Properties' recent purchase of the 395-unit Somerset Estates underscores a focus on older, tired properties sorely needing repositioning throughout the southern New York/northern New Jersey to Washington, D.C. metro areas and Florida's Orlando and Tampa markets. It's likely that the buyer paid more than \$25M for the property.

The private buyer acquires assets on existing — not projected — incomes and eyes properties with 150 to 300 units. Smaller assets are considered in existing markets. The company wants larger properties — from 250 to 300 units — in the metro Washington D.C./Maryland markets. Targeted, leveraged IRRs exceed 18% during a projected 10-year hold.

Continued on Next Page

BIG CLASS B APARTMENTS WANTED...*Continued from Previous Page*

Federal Capital Partners competes with Fieldstone Properties in its core Washington, D.C., metro area market. The Washington, D.C.-based company aims for Class B and Class C purchases throughout the region. Recently the buyer paid an estimated \$74,000 per unit for the 242-unit Toledo Plaza in Hyattsville, Md. The investor plans an estimated \$8.5M worth of upgrades to the property. Look for more from the newly minted \$75M FCP Fund I that could acquire upwards of \$900M worth of value-added apartments throughout the Washington, D.C., market.

AvalonBay Value Added Fund II gears up for repositioning deals throughout the Northeast, Mid-Atlantic, Midwest and West Coast markets. Look for the investor to acquire more than \$300M worth of product during a 10-year investment period.

Shift to Class B

The Partnered Property Acquisitions Group/The PPA Group works to amass units throughout Texas and the greater Sunbelt region because of employment, population growth and lower costs of living. The Austin, Texas-based company aims to round out its portfolio with more Class B+/B properties with more than 100 units. This emphasis counters a previous focus on Class C assets. Expect to see the buyer scope out properties with below-market occupancies for repositioning and turnaround plays. Acquisition price ranges of \$5M to \$100M apply to single assets and portfolios and equity investments range from \$1M to \$20M. Generally, the buyer holds assets for three- to five-years and seeks 20%-plus leveraged internal rates of return, along with 8% leveraged cash-on-cash returns.

A San Antonio apartment trio comprising 942 units adds to The PPA Group's 17-property portfolio of assets throughout Texas and Washington, plus a development site in Missouri. It took eight months for escrow to close on the deal that was likely acquired for an estimated \$40M. It's possible the company's going-in cap rate is in the high-7%/low-8% range for the portfolio with a blended 92% occupancy rate. The PPA Group pencils an estimated \$1.2M worth of renovations for the Peppermill, Kenton and Sunset Canyon garden-style apartment buildings that feature one- to three-bedroom units. The buyer, busily amassing \$200M for its first-ever fund to be introduced by December, will target value-added plays for apartment, office and possibly retail.

BUYERS STRUGGLE WITH DISTRESSED PROPERTIES

Expect industrial buyers in search of distressed assets to find themselves adjusting acquisition goals downward in light of shrinking product. Properties percolate across all markets but those with significant discounts are still fewer and farther between than buyers would like. While cap rates generally trend upward across the country, caps in tight markets like Southern California top out 1% lower than what buyers really want. Until something changes, investors expecting higher returns will find it hard to place money. Buyers will bank on loans maturing in the next year or two, pressuring owners to find funding or sell assets. Investors like **Rexford Industrial**, **The Adler Group** and **Biltmore Holdings** ready their war chests to buy rapidly as soon as the distressed market picks up.

Rexford Industrial actively looks to acquire as much distressed property as possible, but finds there isn't a surplus of available product. The investor adjusted its \$200M acquisition goal dramatically downward to accommodate the lack of desired assets. That's not to say it hasn't had some success. The buyer recently snagged a 121,892 s.f. failed industrial condo conversion in Vista, Calif., for \$10.38M, a significant discount from the market. And a month earlier, Rexford bought 51,117 s.f. of industrial space in Glendale, Calif., for \$6.15M. Cap rates on Southern California transactions record in the 5% and 6% ranges due to high barriers to entry and a generally tight market, but value-added is likely on the upper end of that spectrum.

Rexford buys on behalf of two funds. The first acquires assets with high yields, in the high teens or above. The second acquires assets in the low teens. Due to the gap in expectations versus actualizations of IRRs, the fund with lower yields sees more activity. Rexford is in talks on as many as 10 properties and expects to see some closings in the final quarter of the year.

Continued on Next Page

BUYERS STRUGGLE WITH DISTRESSED PROPERTIES...

Continued from Previous Page

The Adler Group enters the Southwest Florida market with the \$31M acquisition of two industrial parks in Naples, Fla., late last month. The 11 buildings, which total 252,400 s.f., occupy infill sites in a relatively tight market and are 96% vacant. The asset attracted the investor in part because it boasts higher rents and was acquired at well below replacement cost. The acquisition fits in with The Adler Group's strategy of adding value through upgrades, lease up and redevelopment of lesser-quality assets. The investor ended its joint venture with **UBS Global Asset Management Real Estate**. The partnership committed \$300M of equity over a three-year period to purchase properties performing below their potential, but dissolved the JV prior to the target date.

Biltmore Holdings experiences a relatively quiet year after only \$55M of acquisitions in the first quarter. The investor set aside as much as \$200M to spend but fails to find deals in its preferred markets of Southern California and Arizona. The investor seeks assets at below replacement cost with leasing and improvement risks. Look for Biltmore to be on the prowl for deals unfolding in the next quarter, as sellers will feel increased pressure to get assets off their books by the end of the year.

OFFICE BUYERS FLOCK TO SMALLER DEALS

Expect mid-sized office buyers to hone in on smaller buys, typically in the \$5M to \$75M range, more frequently in hope of reaching their acquisition volume goals. These investors will count on personal relationships with other investors and lenders to gain an advantage. Smaller deal sizes allow mid-sized buyers to dominate a niche that large investors ignore and in which smaller investors lack the cash to compete. Regardless of the price tag, buyers of a trophy office require as much due diligence as those of a \$5M office, so they tend to turn a blind eye to smaller deals, viewing them as not worth the time. As a result, mid-sized buyers will increasingly be able to secure assets for prices they want, as less competition keeps prices from being bid up. Watch as investors like **Fenway Properties**, **CT Realty Corp.**, **Granite Capital Investments** and **Holt Lunsford Commercial** rise to meet the market and the surplus of available properties.

Fenway Properties buys well-located assets that have been neglected or need repositioning to bring them to higher standards. Last month, the buyer purchased two four-story office buildings in Phoenix for \$9.5M and just closed escrow on another Arizona property from the same seller. The investor will add finishes to the 70%-occupied buildings to make them on par with Class A assets.

Because Fenway is a value-added buyer, the investor buys on an IRR basis, with an objective of returns from the high teens to the low 20's. While it favors markets in Southern California and Arizona, don't be surprised if the buyer expands into new markets. Fenway wants properties in Las Vegas, Orange County and Northern California, although Fenway isn't sure when the first deals will close. Meanwhile, look for the investor to buy more office while keeping its eyes and ears open for industrial deals.

Nearing Volume Goal

CT Realty Corp. forges ahead on its acquisition goal of nearly \$100M for the year, with almost \$70M already under its belt. Included in this number is a three-building property in Ventura, Calif., which the investor landed late last month for \$11.75M. The purchase was on behalf of CT California Fund VI, which targets deals from \$5M to \$75M. The property is 63% occupied and the investor plans to dedicate \$1.2M into repositioning efforts, in hopes of attracting more tenants. The cap rate reached near 6%, slightly higher than those in supply-constrained Los Angeles to the south. Look for the investor to make one or two more acquisitions before the end of the year in order to meet its goal.

Granite Capital Investments buys across all property types with a focus on assets with high projected long-term yields. The investor recently snagged a fully-leased Class A office in Phoenix for \$10.5M. The cap rate for the building was likely from 6.5% to 7%. **Frontier Equity**, a division of Holt Lunsford Commercial, bought a 75%-occupied office building in Plano, Texas, where cap rates record in the low- to mid-7% range. Look for these investors to go after more office with value-added components and potential for long-term gain.

DEALMAKER DATABASE™

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
AIC Ventures 301 Congress Ave. Suite 320 Austin, TX 78701	David H. Steinwedell (512) 382-8923 Fax: (512) 334-4678 davidsteinwedell@aicventures.com	Industrial	Investor will use its funds on more industrial sale/leaseback deals with an emphasis on the West.
Adler Group Inc. 1400 N.W. 107 th Ave. Miami, FL 33172	Michael M. Adler (305) 392-4000 info@adlergroup.com	Industrial	Investor works with JV partner to acquire underperforming assets in Florida and Virginia.
Biltmore Holdings 2555 E. Camelback Road Suite 180 Phoenix, AZ 85016	Donald D. Morrow (602) 324-5328 Fax: (602) 324-5341 dmorrow@biltmoreholdings.com	Industrial	Investor will scour deals on distressed assets throughout Arizona and Southern California.
CT Realty Corp. 20151 S.W. Birch St. Suite 200 Newport Beach, CA 92660	Robert Campbell (949) 752-5115 Fax: (949) 752-5334 rcampbell@ctrealtycorp.com	Office	Investor works toward a \$100M acquisition goal, acquiring properties in its headquarters of Southern California.
Fenway Properties 3721 Valley Centre Drive Suite 100 San Diego, CA 92130	Larry Jackel (858) 436-3610 Fax: (858) 436-3636 ljackel@fenwayproperties.com	Office	Investor seeks value-added assets in Southern California and Arizona and will show an interest in industrial.
Fieldstone Properties 1719 State Route 10 Suite 217 Parsippany, NJ 07054	Bob Kremp (973) 455-8882 Fax: (973) 455-0092 bkremp@fieldstoneprop.com	Apartments	Private investor acquires Class B apartments in the New Jersey and New York markets.
First Industrial Realty Trust 311 S. Wacker Drive Suite 4000 Chicago, IL 60606	Art Harmon (312) 344-4320 Fax: (312) 922-6320 aharmon@firstindustrial.com	Industrial	Investor will enter sale/leaseback agreements with companies located in areas with long-term growth potential.
Granite Capital Investments Inc. 7114 E. Stetson Drive Suite 300 Scottsdale, AZ 85251	Peter Kleis (480) 315-8290 Fax: (480) 273-6044 peter@graniteci.com	Office	Investor buys office, retail and apartments throughout its primary markets in Arizona.
The Harp Group 1110 Jorie Blvd. Third Floor Oak Brook, IL 60523	Peter Dumon (630) 559-0070 Fax: (630) 559-0073 info@theharpgroup.com	Hotel	Private investor acquires hotels in and independent of joint ventures.
Holt Lunsford Commercial 5055 Keller Springs Road Suite 300 Addison, TX 75001	R. Holt Lunsford (972) 241-8300 Fax: (972) 241-7955 hlunsford@hldallas.com	Office	Investor seeks long-term growth opportunities throughout its headquarters of Texas.
MC Companies 8553 E. San Alberto Drive Scottsdale, AZ 85258	Jake Johnson (480) 998-5400 Fax: (480) 998-8099 jjohnson@mccompanies.com	Apartments	Private investor looks for Class B and Class C assets in Arizona, Texas, Oklahoma and Nevada.
McCann Realty Partners 2520-B Gaskins Road Richmond, VA 23238	Brand Inlow (804) 852-6657 Fax: (804) 747-7848 binlow@mrapts.com	Apartments	Private investor acquires properties mainly throughout the southern U.S.
The Milestone Group 3 W. 57 th St. 10 th Floor New York, NY 10019	Jeffrey Goldberg (212) 871-5903 Fax: (212) 871-5917	Apartments	Opportunistic buyer pursues value-added complexes nationwide.
The Partnered Property Acquisitions Group/The PPA Group 11940 Jollyville Road Suite 330 Austin, TX 78759	Dave Carter (512) 651-0513 Fax: (877) 630-5798 property submissions@ppagroup.com	Apartments	Private investor acquires Class B complexes in select markets.

Continued on Next Page

DEALMAKER DATABANK™*Continued from Previous Page*

<u>Company/Address</u>	<u>Contact/Phone/Fax</u>	<u>Property Type</u>	<u>Buying Criteria</u>
Rexford Industrial 11620 Wilshire Blvd. Suite 300 Los Angeles, CA 90025	Howard Schwimmer (310) 966-3804 Fax: (310) 966-1690 howards@rexfordindustrial.com	Industrial	Investor buys distressed and value-added industrial on behalf of two separate funds.
STAG Capital Partners 99 Chauncy St. 10 th Floor Boston, MA 02111	Steve Mecke (617) 574-4777 Fax: (617) 574-0052 smecke@stagcapital.com	Industrial	Investor will focus its investment strategy on industrial assets in the U.S.
Strategic Hotels & Resorts 200 W. Madison St. Suite 1700 Chicago, IL 60606	Laurence Geller (312) 658-5000 info@lstrategichotels.com	Hotel	Full service investor could acquire hotels nationwide.
Sunstone Hotel Investors 903 Calle Amanecer San Clemente, CA 92673	Robert Alter (949) 369-4000 investorrelations@sunstonehotels.com	Hotel	Public investor acquires land and hotels in select markets.
Trinity Hotel investors 410 Park Ave. Suite 430 New York, NY 10022	Todd Ruff (212) 433-1600 Fax: (212) 377-9775 info@trinityhotels.com	Hotel	Private investor acquires and sells full-service hotels nationwide.
W.P. Carey & Co. 50 Rockefeller Plaza New York, NY 10020	Chad F. Edmonson (212) 492-8903 cedmonson@wpcarey.com	Industrial	Investor will use its fund to acquire \$1B of industrial each year through sale/leaseback transactions.

GRASPING FOR FULL-SERVICE HOTELS

Value-added buyers of full-service hotels will take assets where they can. Prices aren't close to stabilizing and smaller deals will dominate the scene until wary lenders unleash debt. Loan constriction is the main reason for 80% fewer transactions so far in 2008 compared to the first eight months of last year. Occupancy rate nosedives don't help. Many investors may hold on to their cash and delay buying rather than battle increasingly negative variables at an unknown point in the cycle.

Expect buyers to look toward rebounds in future deals that will occur in primary through tertiary markets. **The Harp Group, Trinity Hotel Group, Sunstone Hotel Investors and Strategic Hotels & Resorts** peruse smaller properties, airport locations and land deals nationwide. They are among buyers unwilling to pay extra in hedging against potentially positive future performance. More capital will position itself to grasp higher returns when the rebound happens. Look for more joint ventures and recapitalizations nationwide on larger properties. Single, non-institutionally driven buyers can't shoulder the load on their own. Some buyers will pay into the high-5% to 6% going-in cap rate range for primary market keys. Cap rates for secondary and tertiary properties, depending on the market's supply and demand features, could move into the 8%-plus range.

The Harp Group pays an estimated \$97M — or \$120,947 per key — at a likely 7% cap rate upon stabilization for the full-service Sheraton Gateway Hotel in Los Angeles. Airport hotels nationwide have taken a hit because of reduced air travel. The buyers take a measured chance in Los Angeles. The 802-key property is a block away from the 580-key Radisson Hotel at Los Angeles International Airport that The Harp Group owns. Most likely the buyer would have passed on its most recent Sheraton Gateway buy if not for JV partners **Fidelity Investments Real Estate Group and Blue Vista Capital Partners**.

Continued on Next Page

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>
Hayward, Calif.	Apartments	68 units	\$7.1M	5%/8%	90%	46 yrs.

NOTES: Mill Valley, Calif.-based Thompson|Dorfman|Talbutt Ventures paid an estimated \$104,411 for each unit of Dorchester House. The four building asset, that includes one- and two-bedroom units, was acquired from another Bay Area-based company called Seaview Financial. The buyer plans renovations to the early-1960s vintage property and projects an 8% cap rate upon stabilization. With an estimated \$100M for acquisitions, the private buyer mostly looks for repositioning deals throughout San Francisco Bay Area's Silicon Valley and Peninsula regions, along with West Los Angeles.

Thompson|Dorfman's deals range from \$10M to \$25M. Larger deals will be considered, however, as the company is considering a \$50M apartment complex. The investor acquires and develops properties.

CONTACT: Thompson|Dorfman|Talbutt Ventures, 38 Forrest St., Suite 201, Mill Valley, CA 94941, Bruce Dorfman, (415) 381-3001, fax: (415) 381-3003.

GRASPING FOR FULL-SERVICE HOTELS...

Continued from Previous Page

This is the first time that mutual fund Fidelity Investments Real Estate Group has partnered with the Oak Brook, Ill.-based buyer; Blue Vista Capital Partners and The Harp Group have worked with each other before.

The Harp Group acquires hotels from \$25M to \$250M and buys three properties each year. In these uneasy times, buyers see falling LTVs that can range from 55% to 65% at best. Capital shrinkage means more companies will look to recapitalize into developments and the promise of higher risk/reward returns. The Harp Group wants full-, limited- and extended-stay hotels in Chicago, primary California cities, and other U.S. markets. Company dealmakers seek acquisitions and construction projects at discounts to replacement cost. Markets with slim to no discounts to replacement cost because of easy construction, such as Dallas, Denver and Atlanta, are avoided.

Rental Income Drives Purchase

San Clemente, Calif.-based Sunstone Hotel Investors picks up a 32.6-acre parcel at an estimated \$30.4M — or \$932,515 per acre — underneath the Renaissance Orlando Resort at SeaWorld. Driving the purchase was the hotel and the \$2.8M annual rent connected to the ground lease. Sunstone Hotel Investors holds interest in a 45-hotel portfolio comprising 15,349 rooms in the upper upscale sector including Marriott, Hilton, Hyatt, Fairmont and Starwood. Gaylord Hotels also has an appetite for land. Gaylord Entertainment gets active in Mesa, Ariz.

Chicago-based Strategic Hotels & Resorts focuses on renovations and development in London, Paris, San Francisco Bay Area and Santa Monica, Calif., and may appear as a net seller this year. Its renovations of the Loews Santa Monica, Westin St. Francis, Ritz-Carlton Half Moon Bay, Renaissance Paris Hotel Le Parc Trocadero and Marriott London Grosevenor Square attracted billionaire **Bill Gates**' attention long enough for him to acquire more than 5% of the company's stock that trades at a serious discount to net asset value. Strategic Hotels & Resorts holds ownership in 19 hotels throughout the U.S., Canada, Mexico, England and France.

Trinity Hotel Investors plans to cast off three properties acquired as part of a portfolio purchase from Sunstone Hotel Investors. The New York-based investor and seller won't say much about what comes after it sells a three-package portfolio comprising a 226-key Holiday Inn in Renton, Wash., a 164-key Courtyard by Marriott in Lynnwood, Wash., and the 152-room Hawthorn Suites in Kent, Wash.

New York-based Trinity Hotel Investors scours primary through tertiary markets for urban and suburban product including three- to four-star full-service properties, resorts, and select- or limited-service hotels. The six-year-old private company eyes hotels without management contracts and wants both single assets and portfolio deals. It has partnered with Goldman Sachs' **Whitehall Street Global Real Estate LP** and **Glenmont Capital Management**. The investor owns interests in hotels such as the 106-key Miraval Resort Spa in Tucson, Ariz., the 479-room Crowne Plaza St. Paul Riverfront and the 935-room Park Central in New York City.

BEWARE OF DISTRESSED DEBT

Proliferating distressed debt funds all need to take a step back before barreling into the busted-yet-trendy market for paper and properties. The market has yet to find itself following the surreal estate era of 2003-07 when overconfident buyers, jacked up on low cost debt, forgot about basic real estate tenets. Easy debt had a way of making geniuses out of ordinary investors.

Yesterday's unrepentant geniuses and dealmaker junkies appear ready to flock to the market for paper deals and other types of distressed acquisitions coast to coast. But what's approaching the sector promises to be a mirror image of the last cycle. Dealmakers parrot the too much capital and not enough deals line.

Regional and local banks, up to their ears in bad paper and loathe to make errors public, won't have a choice toward the end of the quarter. Expect distressed funds to seek out regional and local paper. Although insiders say they won't overpay for paper, they'd be wise to acquire on actual performance instead of promised future performance. Some banks work to reposition properties borrowers walked away from, but these are the exception rather than the rule. The tidal wave of distressed assets hasn't hit the market yet.

Word is that **Sam Zell** — founder of **Equity Residential** and **Equity Office Properties Trust** — plans to enter the distressed debt market. Zell can't seem to shake the real estate bug despite talk of possible loan defaults tied to his December 2007 purchase of Tribune Co. He paid \$8.2B for the media company whose holdings include the Chicago Tribune, Los Angeles Times and Hartford Courant newspapers.

If Zell defaults on the loans by year's end while seeking deals for his distressed real estate fund, he can commiserate with **The Carlyle Group**. The Washington, D.C.-based investor has been there, done that and doesn't seem to mind. It seeks distressed debt and investments for its fresh \$1.35B Carlyle Strategic Partners Fund II, which looks across several industries, including real estate.

But now is not the time for distressed buyers to head into the market whole hog. It's one thing to have cash on the backburner available for when opportunities arise, and another to pursue distressed paper with the same fervor that tanked the "stabilized" real estate market.

The Real Estate Buyers Team
E-mail: editor@crittendenrealestatebuyers.com

Customer Service
Tel: (800) 421-3483 Fax: (415) 475-1516
E-mail: market@crittendenonline.com

Editorial
Newsroom Tel: (415) 475-1522
Newsroom Fax: (415) 475-1576

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