CRITTENDEN Real Estate Buyers™

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1031 EXCHANGES TO PROMPT M&As

Look for consolidation in the 1031 exchange market to lead to mergers and acquisitions in the coming months, much like the M&As that were a hallmark of 2006 with bigger fish of the commercial real estate world swallowing up the assets of the smaller 1031/Tenant In Common investment intermediaries. This activity is spurred by the fundamentals of the market itself. TIC investments have been red hot for the past decade with $3.2B in equity in the market in 2005 to $4B in equity in 2006. The real estate industry has leveled off somewhat, leaving the bigger fish no other option but to feed on the smaller ones. Of particular interest to larger firms are other companies with strong reputations for management of their assets.

Some of the larger 1031 Exchange firms like **NNN Realty Advisors**, the parent company of **Triple Net Properties**, are willing to look at acquiring even just the management portion of smaller firms – especially now that Triple Net has raised $160M from an assortment of institutional investors of which a portion targets growth in the industry sector. Not on the block to be taken over is another TIC sponsor **DeSanto Realty Group**, which, after a successful 2006 that included three office deals totaling more than $55M in Harrisburg, Pa., is now keeping its eyes peeled for potential deals in Pittsburgh, Indiana, Ohio, and Texas.

On behalf of TIC investors, Triple Net Properties acquired Northwoods II, a 115,770 s.f., three-story office building in Worthington, Ohio. The property is leased to an assortment of 16 tenants and was 100% leased at time of acquisition. The seller was Philadelphia-based **BPG Properties**, which acquired the asset in July 1998. The Northwoods II tenant base presently includes Molina Healthcare, Lawyers Title, AIG and General Motors. The acquisition fits closely with Triple Net's strategy of acquiring assets with high credit tenants in place. This acquisition is unique since it involves the potential to transform into a medical office building in the future — an area of commercial real estate that Triple Net entered in 2006 and with which it hopes to make hay in the form of a separate public offering that will give the medical office section of the company its own REIT status.

All signs point to this being the case, including the fact that one medically-related tenant, Molina Healthcare, recently renewed its lease and increased its space in the building from 8,067 s.f. to 47,082 s.f. Triple Net has been active in Ohio in recent months, acquiring a Class A, 537,400 s.f. office tower in Cincinnati for $92.75M. That deal was opportunistic in nature in that the building was only 78% leased at time of acquisition. Cincinnati is a hot market right now for value-added and opportunistic buyers — a situation that is bolstered by a flurry of office buildings hitting the market in the latter part of last year.

The capital gains on a suburban shopping center would have been tremendous for **Glenrock Joint Venture** and **WM&D**, which developed the asset in 1985 and has managed the property in the time since. The companies recently sold the 62,000 s.f. Travillah Square Shopping Center to an entity owned by **Walgreen Co.** for $22M in favor of Gateway Tower, a 251,600 s.f., Class A office building, in an off-market deal valued at $70M. The Glenrock partners had originally developed the Travillah center, which includes a two-story, 16,000 s.f. office complex, and wanted to take advantage of market conditions in the region to maximize their investment while avoiding capital gains. Both assets are located in Rockville, Md., a submarket of Washington, D.C. The nation's capital was one of the hottest areas in the country for commercial office in 2006.

Transwestern Commercial Services had acquired the office building back in 2003 for $39M and completely renovated the asset before selling it last summer to a local investor, along with two other office properties. With the retail and office markets thriving in the D.C. area, the timing was right for the transaction, which saw a cap rate in the 8% range. The nine-story Gateway Tower is presently 93% leased.

DeSanto Realty Group added three office properties to its growing Harrisburg portfolio the past months with the most recent being the $13.5M acquisition of the Yellow Breeches Office Complex. The acquisition of the 93,000 s.f. building was spread out among10 investors in what was a $4.5M equity investment. DeSanto focuses on deals on the smaller side of things with a minimum acquisition price of $7.5M and requires a minimum seven-year base term on leases. Property types include office, flex, industrial/industrial, retail, government buildings and some residential. DeSanto also collects fees from property management.