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AvalonBay Communities Inc. and Equity Residential purchase Archstone Inc. for \$6.5 billion

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Multifamily REITs AvalonBay Communities Inc. and Equity Residential have joined forces to purchase Archstone Inc. from Lehman Brothers Holdings Inc. for \$6.5 billion in cash and stock. AvalonBay will acquire 40% of Archstone and Equity Residential will get the remaining 60% of the company.

The news came on the heels of Lehman Brothers' November 19th announcement that it planned to raise up to \$3.45 billion in an initial public offering (IPO) of Archstone.

"Archstone had been on a path to come public through an IPO, but the underperformance of apartment REIT shares during 2012 appears to have convinced the parties controlling Lehman's assets to sell Archstone to the most logical buyers," said Andrew McCulloch, managing director with Green Street Advisors.

Year-to-date total returns for apartment REITs through November 26th were 1.32%, according to data from the FTSE NAREIT U.S. Real Estate Index Series. Returns for all U.S. equity REITs were 15.2% for the same time period.

Under the agreement, Equity Residential will acquire 78 properties that consist of 23,110 apartment units. AvalonBay will purchase 66 apartment communities that include 22,222 apartment homes. AvalonBay's acquisition includes six communities under construction.

The transaction is expected to close in the first quarter of 2013.

McCulloch said that while Equity Residential has been pursuing Colorado-based Archstone for the past year, AvalonBay had been less aggressive. It made AvalonBay's involvement in the deal a surprise, according to McCulloch.

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