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## BRE – At \$68, Merger with Essex Would Be Accretive

### Sell The Company, Maximize Shareholder Value

First and foremost, we are fans of BRE Properties (NYSE: BRE) CEO Connie Moore. We have known her for 20 years and believe that she has always worked hard to create value for shareholders. Recent conversations reinforced that view. We are hopeful she will continue to strive to maximize shareholder value and form a committee of the Board to seek strategic alternatives.

### Timing of By-Law Changes Appears Designed to Entrench Board

On December 19<sup>th</sup>, 2012 BRE disclosed changes to their by-laws which prevented investors, for the first time, from nominating board members on the day of their shareholder meeting and required nominations to be submitted by December 30<sup>th</sup>, 2012. The timing of the change, without warning, during the holidays, appears to have been designed to entrench the Board. Shareholders will now be forced to wait a year to nominate a slate of directors given the increased threshold from 25% to 50% of shareholders needed to vote to call for a special shareholder meeting.

These by-law changes, whether administrative or not, are clearly designed to make it harder for shareholders to force change at the company. Given Essex Property Trust's (NYSE: ESS) disclosure that it acquired a stake in an apartment REIT for strategic reasons, and management of Essex not dissuading investors and analysts from concluding BRE was the investment, we believe BRE's board likely made these changes to thwart Essex's advance.

### **\$68 BRE Acquisition 3% Accretive to Essex '13 FFO**

	Essex Pre-Merger	BRE Impact	Essex/BRE Pro Forma
<b>NOI</b>	\$394,550	\$143,039	\$537,589
<b>Interest Expense</b>	(\$118,139)	(\$38,218)	(\$156,356)
<b>Other Items</b>	\$11,314	-	\$11,314
<b>FFO</b>	\$287,725	\$104,821	\$392,547
<b>Shares Outstanding</b>	38,096	12,500	50,596
<b>FFO/share</b>	\$7.55	\$0.21	\$7.76

Source: LANDandBUILDINGS, Company reports

Notes: Assumes 3Q13 acquisition closing; Estimated Prop 13 tax impact is \$15 million. No revenue or expense synergies are contemplated. Interest expense includes the amortization of assumed debt mark-to-market of \$20 million.

**\$68 BRE Acquisition by ESS Would Be Accretive, Similar to Archstone Acquisition on AVB/EQR**

A merger model of BRE and Essex assigning a value of \$68 per share for BRE would be 3% accretive to ESS 2013 earnings and neutral to NAV, similar to the impact of AvalonBay's and Equity Residential' s purchase of the \$16 billion Archstone portfolio in November.

Furthermore, given Essex's expertise in BRE's markets, the company's exceptional management and operations teams and the benefits of scale, Essex would likely see upside to the current consensus growth at BRE as well as realize expense synergies. If we were to consider such synergies, a \$68 BRE acquisition would become significantly more accretive for Essex.

**Essex Not The Only Potential Buyer**

A merger model of AvalonBay and BRE is 3% accretive to AVB's FFO in the first year and approximately 1% accretive to EQR's earnings.

In a sale of the company to a private buyer the first year cash on cash return to an investor would likely be in excess of 10% assuming a 4.5% cap rate, financing at 2.5% and 75% leverage.

We continue to see over 30% upside to BRE's fair value. BRE's management and board need to evaluate strategic alternatives today to maximize shareholder value.

**BRE Merger Confirms \$68 Fair Value Given Similar FFO Impact From Archstone**

Target	Acquirers		
	ESS	AVB	EQR
<b>BRE (\$68)<sup>1</sup></b>	2.8%	3.1%	0.7%
<b>Archstone</b>	n/a	7.2% <sup>2</sup>	-1.3% <sup>3</sup>

Source: LANDandBUILDINGS, Company reports  
 Notes: (1) Reflects full year 2013 impact, assuming 3Q13 acquisition closing of BRE at \$68 per share (2) AvalonBay disclosed 9 month accretion to 2012 FFO from Archstone acquisition announced in November. (3) Equity Residential disclosed full year 2013 impact to FFO at time Archstone acquisition was announced in November.

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