



**Profit from Housing Shortage:
Buy Coastal Apartment REITs
Aimco and BRE for 50%+ Upside**

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- **Aimco (NYSE: AIV): \$40 stock trading at \$25**

- > 61% upside: private market value a 6.2% cap rate vs. forward implied cap rate of 7.9%
- > 15% annual AFFO growth 2013 - 2016
- > Focus on coastal markets boosting monthly average rent to \$1,400 from \$800 at year-end 2005
- > Market underappreciating nearly complete strategic repositioning: selling weaker assets, deleveraging and driving rent growth

- **BRE Properties (NYSE: BRE): \$70 stock trading at \$46**

- > 54% upside: private market value a 4.5% cap rate vs. forward implied cap rate of 6.4%
- > 12% annual AFFO growth 2013 - 2016
- > High quality coastal California and Seattle portfolio in high cost of home ownership markets should drive net operating income growth of 6% - 8% annually over next several years

- **AIV and BRE: M&A candidates if discounted valuations persist given abundant capital available to both public and private buyers**

- AIV & BRE are key beneficiaries of pent-up housing demand and current pace of underbuilding
- Apartment REITs as well as homebuilders have historically seen strong positive returns in prior housing recoveries
- Coastal apartment REITs historically generate 4 - 7 years of 6% - 8% average NOI growth in recoveries
 - › Years of runway ahead in current cycle: only in the 2nd year of NOI recovery
- Coastal apartments best positioned
 - › High cost of home ownership creates captive pool of renters by necessity
 - › Stronger household income growth supporting superior rent growth
 - › Limited new construction due to high barriers to entry

- Harvard estimates demand for 1.6 - 1.9 million homes annually between 2010-2020¹
- Shortfall of 1 million homes annually at current pace of 750,000 housing starts
- Apartment shortfall: multifamily starts at ~200,000 annually are 60% below necessary 500,000² units

Harvard University Study of Components of New Home Demand 2010 - 2020		
Thousands ('000)	Low Immigration Projection	High Immigration Projection
Projected Household Growth	11,802	13,828
Increase in Structural Vacancy	1,361	1,595
Projected Total Estimated Net Removals (Total Units * .025% / Year)	3,279	3,279
Projected Total Demand for New Units	16,442	18,702
Average Annual New Home Demand	1,644	1,870
Current Pace of Annual New Home Construction ³	750	750
Current Pace of Annual Underbuilding⁴	(894)	(1,120)

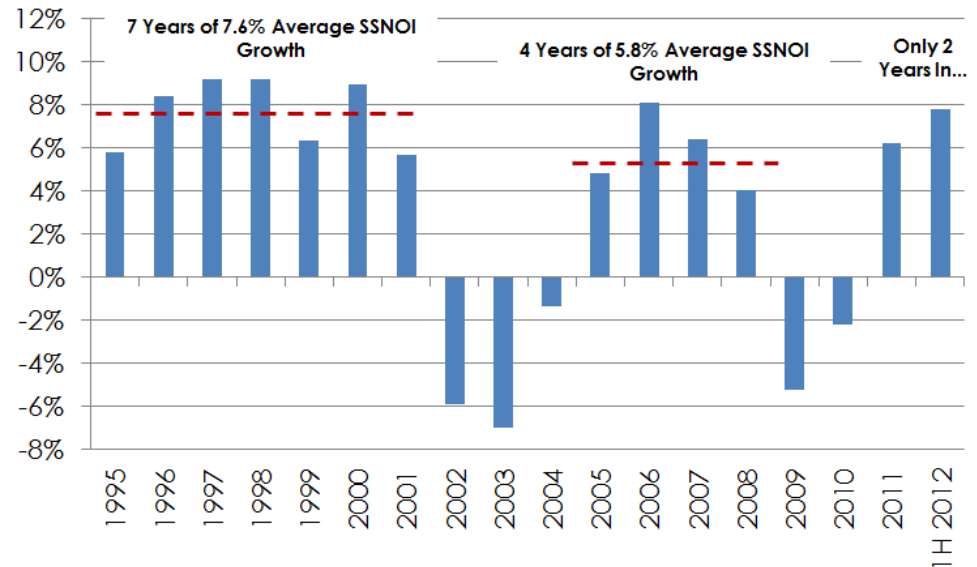
Housing shortage a boon for apartment owners and single-family developers

- > Apartment REITs and homebuilder stocks have strong positive correlation

For 2013-2016: 5% - 8% annual NOI growth likely for coastal apartments REITs

- > **Mid/late 1990's economic recovery:** Coastal apartment same-store NOI averaged 7.6% over a 7 year period
- > **Mid 2000's economic recovery:** Coastal apartment same-store NOI averaged 5.8% over a 4 year period
- > **National homeownership rate is 65.5%**, still above the long-run average of 64.5% prior to the housing boom and continues to decline¹
 - Year to date, the homeownership rate has declined 50 bps, supporting apartment demand and further declines are forecasted

Still Early in Coastal Apartment SSNOI Growth Cycle



- **Aimco and BRE concentrated in high rent growth coastal markets**

- › BRE is in the top 9 and Aimco is in 12 of top 15 markets with strongest Axiometrics rent growth projections
- › Axiometrics estimates likely conservative as portfolios have superior locations, are better managed and will be at the center of the coming housing shortage

- **Fundamentals support robust coastal growth**

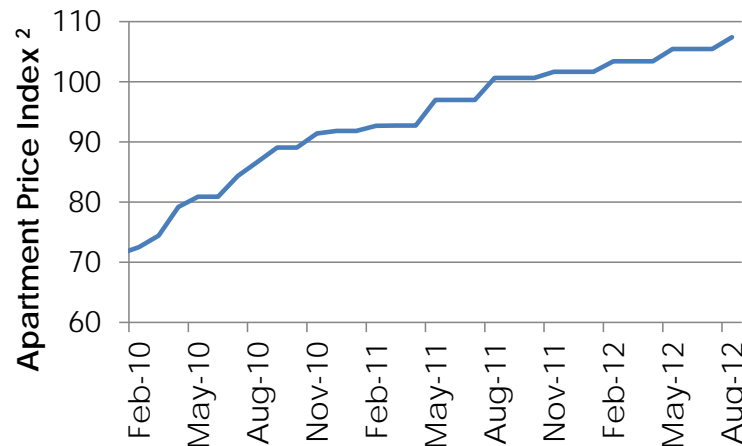
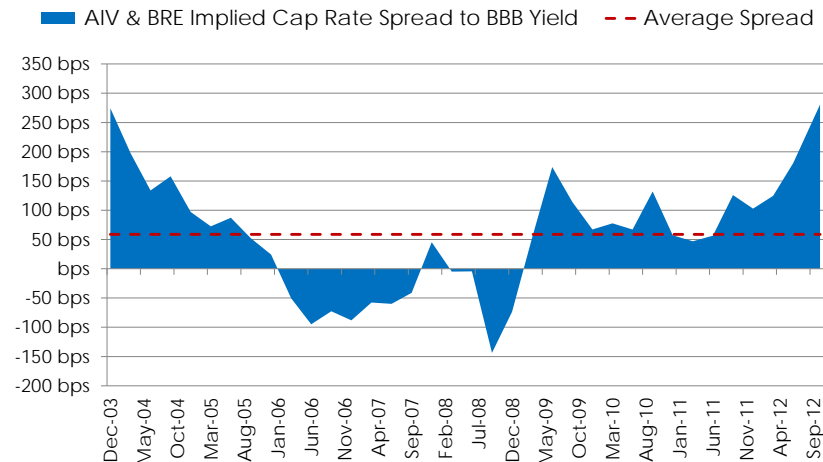
- › Superior job growth supporting household formations and income growth
- › Limited new supply due to high barriers to new construction
- › Cost of owning prohibitive making renting the only option for many
- › Room for upside in apartment rent to income ratios

Top Projected Rent Growth Markets				
Rank	MSA	2013 - 2016 Cumulative Growth	AIV Markets	BRE Markets
1	Los Angeles, CA	20.8%	✓	✓
2	San Francisco, CA	20.0%	✓	✓
3	Phoenix, AZ	19.6%	✓	✓
4	Oakland, CA	19.4%	✓	✓
5	Santa Ana-Irvine, CA	19.3%	✓	✓
6	San Jose-Santa Clara, CA	18.7%	✓	✓
7	Riverside, CA	18.3%		✓
8	Denver, CO	18.2%	✓	✓
9	San Diego, CA	18.0%	✓	✓
10	Oxnard-Ventura, CA	17.9%		
11	Newark, NJ-PA	17.7%	✓	
12	Nassau-Suffolk, NY	17.2%		
13	Washington, DC	17.1%	✓	
14	Boston, MA	17.0%	✓	
15	Atlanta, GA	16.6%	✓	

- **Expected annual job growth of 2.2% 2013 - 2016 will drive strong household formations and income growth in the coastal markets**
 - › Job growth will unlock pent-up demand from doubled-up households
 - › Income growth in key coastal markets already surging, supporting apartment pricing power
 - Annual personal income growth of 9.5% annually last 2 years in San Jose, 4.9% in Los Angeles¹
- **Limited new supply of single and multifamily homes at 0.8% of inventory annually between 2013 - 2016**

	2013E - 2016E				AIV Markets	BRE Markets
	Average Annual Job Growth	Average Annual Housing Starts as a % of Stock	Average Annual Multifamily Starts as a % of Stock			
Major Coastal Metros	2.2%	0.8%	0.8%			
Baltimore, MD	2.2%	0.9%	0.9%		✓	
Boston, MA	2.0%	0.7%	0.7%		✓	
Miami, FL	2.1%	1.0%	1.0%		✓	
New York / New Jersey	2.1%	0.7%	0.7%		✓	
San Francisco, CA	2.6%	0.6%	0.6%		✓	✓
San Jose, CA	2.5%	0.6%	0.6%		✓	✓
Seattle, WA	2.6%	1.3%	1.3%		✓	✓
Washington D.C.	1.9%	1.6%	1.6%		✓	
Los Angeles, CA	2.3%	0.5%	0.5%		✓	✓

- Aimco and BRE implied cap rates relative to BBB bond yields are the widest since 2003
- The average of Aimco and BRE implied cap rates on current NOI is **281bps above BBB bond yields vs. historical average spread of 59bps**
- Prices in private market continuing to rise
 - › Valuations have been stable to higher in 2012
 - › NOI growth continues to be robust, further driving up apartment values
 - › CBRE, the leading US commercial real estate broker, expects valuations to rise further¹





Aimco (AIV): National owner and operator of 344 apartment properties increasingly focused on high-barrier-to-entry coastal markets with large exposures to the Northeast US, Washington DC and California.

Fair Value	\$40.00
Upside	61%
Current Price	\$25.50
Market Cap	\$3.7B
Implied Forward Cap Rate	7.9%
AFFO CAGR '13 - '16	15%
Dividend Yield	3.1%

- 1) Aimco has ~60% upside to private market values: trading at a 7.9% forward implied cap rate vs. 6.2% private value
- 2) Strong same-store NOI growth of 5% - 7% annually likely over next several years
- 3) Repositioning strategy close to completion



CEO finally gets it: “If you can’t beat them, join them.” – March 2012

- **Significantly improved portfolio quality**

- › Sold low-quality, low growth properties

- › Aimco has sold ~\$7 billion of lower-rent, lower-growth properties since 2006

- › Committed to selling an additional \$1 billion of lowest-quality properties (bottom ~10%) that will sell at a 7.0% cap rate or better (current NOI), a richer valuation than the entire company at 7.9% (forward NOI)

- › Sold asset & property management businesses

- › Reduced leverage to 8x debt to EBITDA, more in-line with REIT peers at 7x

- **Average rent per unit following portfolio repositioning: \$1,400+¹**

- › Well above the apartment sector average and up from ~\$800 year-end 2005

- › Conventional portfolio will be ~70% coastal following repositioning

- **Repositioning will lead to comparable valuation to its higher-valued REIT peers**

- 61% upside¹ to forward NAV assuming a 6.2% warranted cap rate vs. 7.9% forward implied cap rate
 - > A detailed review of Aimco's assets by market reveals significant under valuation
- AIV should post NOI growth of 5% - 7% annually next several years
 - > Company's current heavier concentration on the coasts and benefit from improved revenue management system will allow for growth consistent with prior coastal apartment cycles
- Redevelopment to drive both earnings and NAV increases
 - > Will spend approximately \$150 million annually on major renovations at 200 basis point spread

Aimco (AIV) NAV Analysis	Forward 12 Months
Fair Value	\$40
Current Price	\$25.50
Total Return Potential	61%
<i>Conventional NOI</i>	\$540,186
<i>Applied Cap Rate</i>	5.89%
Conventional Asset Value	\$9,173,193
Affordable NOI	\$79,615
<i>Applied Cap Rate</i>	8.50%
Affordable Asset Value	\$936,646
Cash	\$566,474
Redevelopment Assets/Value Creation	\$428,010
Other Assets	\$371,834
Total Assets	\$11,476,157
Pro Rata Debt	(\$4,765,136)
Other Liabilities	(\$237,483)
Preferred Stock	(\$366,216)
Total Liabilities	(\$5,368,835)
Net Asset Value	\$6,107,322
Common Shares/OP Units Outstanding	152,142

- AIV upside clearly illustrated when valued market by market using CBRE private market cap rate transaction and valuation data

Markets	Average Monthly Rent	# of Units	Occupancy	% Portfolio	Cap Rate
Southern CA	\$1,813	8,144	95.8%	18%	4.75%
Washington DC-NoVA-MD	\$1,440	7,851	96.4%	14%	6.00%
Florida	\$1,169	8,971	95.6%	13%	5.75%
Sunbelt	\$942	8,363	94.8%	9%	6.50%
Boston	\$1,318	4,129	96.1%	7%	6.50%
Philadelphia	\$1,472	3,888	94.7%	7%	6.25%
Chicago	\$1,358	3,993	95.7%	7%	5.75%
Northern CA	\$1,780	1,845	96.1%	4%	5.00%
Manhattan	\$2,685	999	n/a	3%	4.75%
Suburban NY-NJ	\$1,387	1,162	97.1%	2%	6.25%
Seattle	\$1,653	239	97.9%	1%	4.50%
Other	\$960	11,729	94.9%	14%	7.00%
Total Conventional	\$1,290	61,313	95.5%	100.0%	5.89%
Total Conventional				88.0%	5.89%
Total Affordable				12.0%	8.50%
Aimco Applied Average Cap Rate				100.0%	6.20%
<i>Aimco Implied Forward Cap Rate</i>					<i>7.90%</i>

- In first half of 2012, AIV sold 8 non-core properties (\$155 million) at a 6.6% cap rate
 - › Average rent per unit was under \$800, or about 55% of the rent of AIV's repositioned portfolio



BRE Properties (BRE): Owner, operator and developer of 79 apartment throughout the supply-constrained markets on the west coast, including San Francisco, Los Angeles, Orange County, San Diego and Seattle.

Fair Value	\$70
Upside	54%
Current Price	\$46.50
Market Cap	\$3.6B
Implied Forward Cap Rate	6.4%
AFFO CAGR '13 - '16	12%
Dividend Yield	3.3%

- 1) BRE has ~50% upside to private market values: trading at a 6.4% forward implied cap rate vs. 4.5% private value
- 2) West coast markets earlier in the recovery: same-store NOI accelerating and will be 6% – 8% for several years
- 3) M&A target if discounted valuation persists
 - a) High-quality portfolios in high demand and rare in the private markets
 - b) Financing plentiful for public and private buyers
 - c) Tax-efficient structures available to address Prop 13 and capital gains taxes



- 54% upside¹ to forward NAV assuming a 4.5% warranted cap rate vs. 6.4% forward implied cap rate
- BRE will likely enjoy NOI growth of 6% – 8% annually over next several years
 - > California is in initial 2 years of what has historically been a 4 to 7 year cycle of strong NOI growth
 - > Newly implemented revenue management system will provide a boost to growth in the short-term and more robust revenue growth over the long-term
- Development to drive both earnings and NAV increases
 - > 4 high-quality assets under construction and strong pipeline of future projects

BRE Properties (BRE) NAV Analysis	Forward 12 Months
Fair Value	\$70
Current Price	\$46.50
Total Return Potential	54%
Property NOI	\$287,821
Applied Cap Rate	4.54%
Private Market Value of Properties	\$6,336,388
Share of JV Property NOI	\$5,125
Applied Cap Rate	6.00%
Private Market Value of JVs	\$85,419
Cash	\$45,006
Construction in Progress/Land	\$459,100
Development Value Creation	\$205,638
Other Assets	\$54,645
Total Assets	\$7,186,195
Debt	(\$1,683,481)
Other Liabilities	(\$65,715)
Perpetual Preferred Stock	(\$53,993)
Total Liabilities	(\$1,803,189)
Net Asset Value	\$5,383,006
Common Shares/OP Units Outstanding	76,796

- BRE upside clearly illustrated when valued market by market using CBRE private market cap rate transaction and valuation data

Markets	Average Monthly Rent	# of Units	Occupancy	% Portfolio	Cap Rate
San Diego	\$1,600	4,056	94.9%	19%	4.75%
Inland Empire	\$1,475	1,173	94.2%	5%	5.25%
Orange County	\$1,574	3,789	95.8%	17%	4.75%
San Francisco Bay Area	\$1,933	4,197	95.3%	24%	4.25%
Los Angeles	\$1,800	3,267	95.4%	17%	4.25%
Seattle	\$1,356	3,456	96.0%	14%	4.25%
Non-core	\$1,050	1,302	n/a	4%	5.75%
BRE Average/Total	\$1,599	21,240	95.4%	100.0%	4.54%
<i>BRE Implied Forward Cap Rate</i>					<i>6.40%</i>

Jonathan Litt is the Founder and CEO of LANDandBUILDINGS, a long/short investment firm that actively invests in securities of global real estate and real estate related companies. Prior to LANDandBUILDINGS, Jonathan Litt was Managing Director and Senior Global Real Estate Strategist at Citigroup where he was responsible for Global Property Investment Strategy from 2000 to March 2008. Jonathan Litt led the #1 Institutional Investor All American Real Estate Research Team for 8 years and was top ranked for 13 years while at Citigroup, PaineWebber and Salomon Brothers. Craig Melcher, Co-Founder and Principal at LANDandBUILDINGS, was a key member of the Citigroup team. Land & Buildings Investment Management is a Registered Investment Adviser with the SEC.

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