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Property Stocks Attractive Following Sell-Off

- Historically, following knee jerk sell-offs in response to a rise in interest rates, REITs deliver double-digit returns within the next 12 months during early economic expansions.

- Since 1981, there have been 22 times when interest rates have backed up and the end of the bull market in bonds has been declared. With modest inflation and GDP growth, low interest rates will likely persist for the next several years.

- The 1994 and 2004 interest rate fear-induced sell-offs are most similar to the current environment given the present point in the economic recovery. In both periods REITs delivered strong subsequent returns.

- Real estate cap rates have currently found a floor around 6% despite the low interest rate environment over the past 15 years and that largely prevailed through May; as such, ultra-low interest rates were not priced into real estate values.

- Land and Buildings' "must own" property stocks for 2013 were up 10% in the first half of 2013, outperforming the REIT index. The current list of "must own" stocks are: BRE Properties, CoreSite, General Growth Properties, Host Hotels, Kilroy Realty and Las Vegas Sands.

REITs are Stocks, Not Bonds

Real estate provides a growing stream of cash flow during economic expansions and a store of value during inflationary periods. Real estate fundamentals are healthy with steadily growing demand and low levels of new construction. Historically, low interest rates and high capital availability create a favorable backdrop which should allow for continued cash flow growth of 8-10% or more next year.

Despite the 19% sell-off in property stocks on tapering concerns, history tells us that when a fear-induced knee-jerk sell-off in property stocks ensues as interest rates rise, these stocks then rebound sharply on an absolute basis and outperform the broad market on a relative basis. REITs have recovered 6% since the close on June 20th, providing ample room for continued price appreciation given the underlying fundamentals. (Figure 1)

Figure 1. REITs Rebound Strongly Following Interest Rate Fear Periods

	Acute Period of Interest Rate Fears						Subsequent REIT Returns		Subsequent S&P Returns	
Period	Days	Rate Rise in Fear Period (bp)	Total Rise (bps)	REITs	S&P	REITs vs. S&P	30 Days	1 Year	30 Days	1 Year
Jun-94 - Nov-94	159	93	247	-11.1%	-1.4%	-9.8%	7.3%	24.1%	2.4%	36.5%
May-99 - Dec-99	217	68	263	-21.0%	4.4%	-25.4%	12.1%	38.0%	3.8%	-4.0%
Apr-04 - May-04	39	88	119	-17.7%	-3.8%	-13.9%	11.0%	42.4%	4.3%	9.2%
Mar-06 - May-06	67	39	91	-9.3%	-3.6%	-5.7%	3.5%	28.0%	-0.7%	23.4%
Nov-10 - Nov-10	11	31	134	-9.2%	-3.8%	-5.4%	2.3%	11.1%	5.7%	7.2%
Jul-12 - Aug-12	28	23	47	-3.0%	3.2%	-6.1%	4.5%	n/a	4.2%	n/a
May-13 - Jun-13	30	48	108	-16.0%	-4.7%	-11.3%	6.1%	n/a	3.4%	n/a
Interest Rate Fears	**79**	**56**	**144**	**-12.5%**	**-1.4%**	**-11.1%**	**6.7%**	**28.7%**	**3.3%**	**14.5%**

Note: Returns reflect closing prices; data of July 8th, 2013.
Source: Land and Buildings, Bloomberg, and NAREIT

22 False Starts to Bond Bear Market Over the Last 32 Years

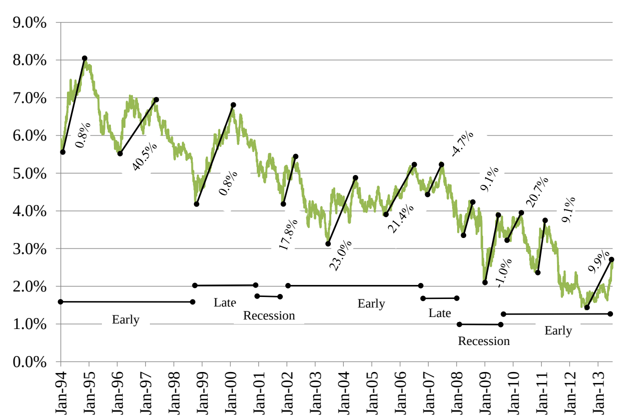
Green Street Advisors recently pointed out that since the bond bull market began 32 years ago, the 10-year treasury yield has gone up by at least 80 basis points 22 times. Recent commentary by the Federal Reserve Board of Governors suggests they are surprised by the backup in the 10-year treasury yield and remain supportive of an accommodative policy that will likely support a continued low interest rate environment as growth remains tepid and inflation muted.

Property Stocks Typically Rise in Rising Rate Environment

REITs have risen 18% on average since 1990 during 11 periods when the economy is in an early expansion and the 10-year treasury yield rose 60 basis points or more for a sustained period.

Often times the total rise in rates during these periods has been as much as 200 basis points. (Figure 2)

Figure 2: REITs Have Generated Strong Returns as 10-Year Rates Rise During Early Economic Expansions



Note: Returns are REIT returns during the specified rate rising period

Source: Land and Buildings, Bloomberg, NAREIT

A Look Back at 1994 and 2004 Suggests a Strong Rebound

The REIT sell-off experienced over the past month is notably similar to the sell-offs of 1994 and 2004 when 10 year treasury yields rose in anticipation of tighter monetary policy due to a strengthening economy. The returns subsequent to each of the 1994 and 2004 declines were robust off the bottom.

- In 1994 REITs fell 11.1% and, after bottoming, rose 7.3% in the subsequent 30 days. Over the 1 year subsequent period from the trough REITs rose 24.1%.

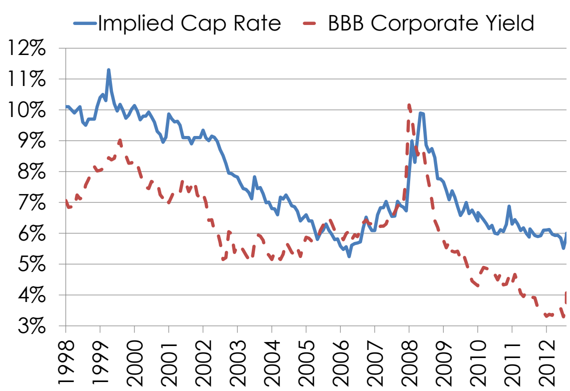
- In 2004 REITs fell 17.7% and, after bottoming, rose 11.0% in the subsequent 30 days. Over the 1 year subsequent period from the trough REITs rose 42.4%.
- In the current period REITs fell 19% intraday and have risen 6% since the June 20th close.

Cap Rates Never Priced in Ultra Low interest Rates

A look back over the past 15 years reveals that REIT implied cap rates have stopped declining around 6% regardless of interest rates. Today cap rates are around 6%, BBB bond yields are ~4.4% and there is a strong foundation for fundamentals and capital markets. Cap rates have previously been at 6% in higher interest rate environments, including when the BBB bond yield was as high as 6%.

Historically, cap rates trade at tighter spreads to borrowing costs in periods of accelerating net operating income growth or the early part of economic expansions. Cap rates will unlikely move significantly higher given 1) they are trading close to the average spread between cap rates and borrowing costs today, and 2) fundamentals are strong with net operating income growth accelerating from the 3-4% level. (Figure 3)

Figure3: Implied Cap Rates Wide to BBB Bond Yields



Source: Land and Buildings, Bloomberg, Citi

2013 "Must Own" Property Stocks Continue To Outperform

An equal weighted portfolio of Land and Buildings' seven "must own" 2013 property stocks returned 10% in the first half, outperforming the REITs which returned 6%. See below for an update on six of the "must own" stocks and why we remain bullish on each name. Extra Space (NYSE: EXR; Storage) has been removed from the "must own" list following a 17% return in the first half of the year, making the valuation less attractive (all year-to-date returns as of 6/30/2013):

- ***BRE Properties (NYSE: BRE; Apartments) Up 4% in 2Q13, Flat YTD****—BRE Properties is an owner, operator and developer of apartment communities throughout the supply-constrained markets on the West Coast, including San Francisco, Los Angeles, Orange County, San Diego and Seattle.*

  BRE Properties trades at a ~30% discount to the private market value of its assets. This discount is likely to narrow one of two ways: the company's operating fundamentals will improve and come in well ahead of expectations or BRE will seek strategic alternatives, including selling the entire company. BRE's first quarter results came in ahead of expectations and 2013 continues to look like a "beat and raise" year for the company. Channel checks in the lagging Southern California markets, including San Diego, continue to show an improving rental market and a region on the precipice of breaking out.

  Private market apartment cap rates have not budged in BRE's high barrier to entry coastal

California markets and remain in the 4's or sub-4 for high-quality assets. Over the past decade, Class A/B apartments in BRE's markets have averaged a 4.6% cap rate spanning varied interest rate and growth environments.

- ***CoreSite (NYSE: COR; Datacenters) Down 8% in 2Q13; Up 17% YTD***—*CoreSite is a national provider of datacenter products and interconnection services with 14 datacenter across nine major U.S. markets including Los Angeles, San Francisco, Chicago, Washington DC and New York City.*

  CoreSite continues to have among the best growth profiles in the REIT universe with double-digit same-store NOI growth likely and enough land and buildings currently on the balance sheet to double the size of the company in a few years' time. At an implied cap rate of 8%, the company has significant valuation upside potential as well.

  A June meeting with management as well as channel checks across the industry continue to indicate a robust leasing environment for retail/colocation datacenters. COR is now over 90% complete with the vertical integration and expansion of their sales force and the benefits of that investment are likely to start showing up in numbers in the second half of the year.

- ***General Growth (NYSE: GGP; Regional Malls) Up 1% in 2Q13, Up 1% YTD***—*General Growth Properties owns and operates 123 high-quality regional malls across the United States and 18 malls in Brazil.*

  Recent meetings with General Growth and industry contacts confirmed that the company is executing on its business plan of driving occupancy and rents higher. Accelerating tenant demand will allow for at least 4% same store net operating income growth over the next several years.

  As the company fulfills its strategic objectives, GGP's valuation discount to the private market and its publicly traded high quality mall peers should narrow. The stock is trading at a 5.9% implied cap rate, a 60 bps discount to its public peers and an even greater discount to the private market value of the company's real estate.

  Redevelopment of several of General Growth's key assets is increasingly an avenue of growth for the company with attractive returns. The company has identified $1.6 billion of projects with strong returns of 9-10% on the incremental investment which should improve sales productivity and result in further upwards revaluations of the company's assets.

- ***Host Hotels (NYSE: HST; Lodging) Down 3% in 2Q13, Up 9% YTD***—*Host Hotels owns high quality lodging assets in prime urban, airport and resort/convention locations across the United States.*

  Host should be a significant beneficiary from improving group lodging business, which is perking up for the fourth quarter of 2013 and next year. As business confidence improves, the booking window lengthens and conference travel and budgets increase. Second quarter industry RevPAR growth of ~5% was soft due to the sequester, but indications for demand after this summer are strong and should drive the stock higher. If economic growth further accelerates allowing the Fed to tighten policy, Host stands to benefit as the company will be able to quickly re-price nightly rates as demand picks up. Valuations of lodging assets in the private market should rise in concert with growing profitability, supporting further upside for shares of HST.

Host had significant renovation activity in its hotels over the past year, which had previously depressed RevPAR growth. The company is on the other side of this disruption now and should experience a RevPAR tailwind as occupancy and pricing power improves as the renovations at the hotels are complete.

- ***Kilroy Realty (NYSE: KRC; Office) Up 2% in 2Q13; Up 13% YTD****—Kilroy owns, operates and develops high quality office properties that span top coastal market locations from Seattle to San Diego. The Company's portfolio totals more than 12.5 million square feet.*

  Kilroy is creating significant value for shareholders by allocating capital to the right markets at the right time first through acquisitions and now through development. Additional value creation is likely imminent. The company is currently underway on over $800 million of fully leased developments with over $1 billion of additional developments either in the pipeline or currently being evaluated. With development yields of 7.5-8% and market cap rates of sub-5%, the company is creating over 10% net asset value growth with the current active pipeline.

  Kilroy's core portfolio is enjoying the tailwind of strong job growth in California and Seattle, which should translate into further upside in rents and occupancy. Same store NOI growth guidance of 3.5% in 2013 is likely conservative.

- ***Las Vegas Sands (NYSE: LVS; Gaming) Down 5% in 2Q13, Up 16% YTD****—Las Vegas Sands is the pre-eminent operator and developer of integrated casino resorts predominantly located in Macao and Singapore, and feature a combination of gaming, lodging, entertainment and retail facilities.*

  Macao gross gaming revenue growth (GGR) continues to accelerate and exceed expectations. June GGR was up 21% and July's growth is expected to meet or exceed that. The recent spike in China SHIBOR drove gaming stocks down nearly 20%, but approximately half of those losses have been recovered.

  Neither credit tightening nor a slowdown in China has or is expected to materially impact gaming revenues. LVS has been reinforcing this view both publicly and privately. For LANDandBUILDINGS full analysis, please see our September 2012 presentation, *Las Vegas Sands: Unleashing The Best Mall and Lodging REITs in the World (And Why the Stock Can DOUBLE)*.

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