Jonathan Litt
Founder & CIO

3Q15 Update: "Must Own" Real Estate Stocks

- Land and Buildings' "must own" real estate stocks for the next 12 months with expected returns of 25% or more are: American Residential Properties, CBRE Group, First Potomac Realty Trust, Hilton Worldwide, MGM Resorts, and SBA Communications.
- Land and Buildings' "must own" portfolio of stocks has returned 50% since being established in January 2013, outperforming REITs which returned 27%. Since the last report in February 2015, the "must own" stocks have declined 4%, outperforming the REITs by 400 bps.

Current "Must Own" Stocks

Land and Buildings' must own stocks, that we expect will likely generate a 25% or more total return are American Residential Properties, CBRE Group, First Potomac Realty Trust, Hilton Worldwide, MGM Resorts, and SBA Communications.

AMERICAN RESIDENTIAL PROPERTIES

American Residential Properties (NYSE: ARPI; Single-Family Home Rental)—*ARPI is an owner and manager of approximately 9,000 single family homes across the US that the company rents to customers. The company completed its IPO in May 2013.*

- **American Residential is trading at a significant discount to net asset value, which we believe will be unlocked through improved operating results or strategic alternatives.**

American Residential Properties has ~30% upside to the net asset value of the company's single-family homes. We estimate the company's NAV to be approximately $24, significantly above the $18.50 stock price at quarter-end. ARPI's current stock price implies the stock is trading below the purchase price of the homes despite meaningful home price appreciation since they were acquired over the past several years.

Land and Buildings believes this value can be realized in one of two ways. Either ARPI successfully proves out the business model through improved operating results, as first quarter results began to show, allowing the stock to trade closer to NAV, or strategic alternatives are likely to close the gap to NAV. Leverage levels are rising to above 50% debt to gross asset value, given recent acquisitions, creating urgency as the stated business plan would require equity issuance to provide capital for further acquisition-driven growth. Management and the Board of Directors should consider a sale or other strategic options such as asset sales and stock buybacks if the discount to NAV persists for much longer.

1 Landmark Square | 7th Floor | Stamford CT 06901 | 203.987.5827 | eb@lnbcg.com

CBRE Group (NYSE: CBG; Real Estate Brokerage)*—CBRE Group is a global full-service real estate services company with 372 offices across 44 countries. Business lines include investment sales brokerage, leasing brokerage, property management outsourcing and investment management.*

- **Global leasing activity is accelerating and a secular shift to property management outsourcing is driving strong earnings growth.**

CBRE Group stands to be among the largest beneficiaries of the continuing global real estate upcycle as well as is uniquely positioned to capitalize on the powerful secular trend toward property management outsourcing.

Institutional investors remain under-allocated to real estate, the search for yield remains a consistent theme and commercial real estate credit is likely to ease further, all driving robust growth in investment sales. Office leasing volumes and rental rates are seeing solid growth globally, particularly in the Americas, CBRE's largest market, as a modestly growing global economy, continued job growth, new business formations and pent-up demand from previously delayed decision-making all provide a tailwind. Property management outsourcing, over 40% of CBRE's revenue, should see top-line growth of 15-20% annually in the medium-term as corporate users look to further reduce costs and focus on core competencies.

CBRE is gaining market share through aggressive hiring and accretive acquisitions utilizing free cash flow. CBRE's recently announced $1.5 billion acquisition of the facilities management segment of Johnson Controls should be 10%+ accretive to EPS alone, displaying the value-creation of this strategy. Outsized growth in the high margin leasing and sales business segments and secular growth in outsourcing, in addition to acquisitions, should lead to earnings growth of 20%+ in 2015, above street estimates, with strength continuing into 2016 and beyond. This strong growth will be the principal driver of a likely 25%+ total return.

First Potomac Realty Trust (NYSE: FPO; Office)*—First Potomac primarily owns and operates office properties across the greater Washington D.C. region. The company's portfolio totals more than nine million square feet.*

- **First Potomac has 50% upside to Land and Buildings' estimated NAV of $16. We believe a combination of improved capital allocation, recovering DC office fundamentals and/or strategic alternatives should cause the company's discounted valuation to significantly narrow.**

First Potomac trades at among the largest discounts to net asset value in the entire public REIT universe with 50% upside to Land and Buildings' estimated NAV of approximately $16. A weak Washington D.C. office market, high leverage and perceived capital allocation missteps have weighed on the stock, with the stock now at a greater than 8% implied cap rate. The stock is down 13% year-to-date and 33% from its high in early 2013. During this time cap rates have declined across D.C., and recent transactions are well above the implied valuation of the stock suggesting strong investor demand for their properties. Same-store occupancy is strong with leased percent up to 91.8% as the portfolio is of higher quality than we believe investors perceive.

There are increasingly green shoots in DC economic growth and office leasing markets. Job growth has accelerated to 2.3% growth over the past year, better than the national average. Vacancy in high-quality CBD office is falling and rents are rising. The suburbs have seemingly bottomed with Northern Virginia seeing vacancy decline in the second quarter of 2015 for the first time in two years. DC metro year-to-date leasing volumes are up 22% from last year and seeing the strongest first half since 2011.

Conversations with management suggest an improved capital allocation discipline, beginning with the recent authorization of a stock buyback program up to 5 million shares. To further unlock value we would expect to hear from management that they will stop acquiring assets and instead sell assets to facilitate share repurchases and deleveraging, including a pay down of the company's high cost preferred stock. If after these steps are pursued the shares continue to trade at a steep discount to NAV, we would like to hear from management that they will consider all options to maximize shareholder value, including a sale of the company.

HILTON WORLDWIDE

Hilton Worldwide (NYSE: HLT; Lodging)*—Hilton owns or manages over 4,300 hotels, resorts and timeshare properties comprising more than 720,000 rooms in 94 countries and territories.*

- **Hilton is a best in class operator trading at a discount to its peers with numerous catalysts on the horizon to drive shareholder returns.**

Hilton is a blue-chip owner and manager of hotels trading at a discounted valuation despite superior growth prospects with several upcoming catalysts to push the stock higher. Hilton is trading at 12x 2016 EBITDA, a 10%+ discount to its peers and below the private market value of its owned real estate, which represents more than one-third of the company's EBITDA. The external growth profile is attractive as Hilton adds new rooms under management and its RevPAR growth is above peers, which should drive 10%+ EBITDA growth annually.

Hilton is likely evaluating a host of strategic options to unlock value, including a potential monetization of its real estate through a REIT spin-off or sale. Additionally, HLT is evaluating monetizing its timeshare business as peers have already successfully done and the company will likely begin a return of capital program near-term through instituting a dividend and also repurchasing shares. Once these items are complete, we would expect the stock to trade at a premium to its peers reflecting Hilton's high quality platform and strong growth profile.

MGM RESORTS INTERNATIONAL

MGM Resorts (NYSE: MGM; Gaming)*—MGM Resorts is an operator and developer of casino resorts including lodging, retail and entertainment facilities located in Las Vegas and Macao as well as other regional destinations in the United States.*

- **MGM Resorts appears to be actively pursuing a REIT conversion and, combined with other potential initiatives, is making progress towards unlocking the significant embedded value in its portfolio.**

MGM Resorts is severely undervalued, in our view, with a net asset value of at least $30 per share, and there are numerous viable paths for improving performance and creating sustainable shareholder value. It is our understanding that MGM has a team of investment banks working expeditiously through a complex process to evaluate all options to unlock value for all MGM shareholders, including a REIT conversion.

The outlook for MGM's domestic business, which represents more than 85% of the Company's pro-rata EBITDA, is strong. The outlook for the fourth quarter and 2016 appears particularly robust based on early reads into the convention schedule and group bookings as many of the same drivers of strong US lodging demand and improving consumer confidence and spending should benefit Las Vegas.

Gaming and Leisure Properties (Nasdaq: GLPI; Gaming) recently agreed to buy the real estate of Pinnacle Entertainment (NYSE: PNK; Gaming), a supportive data point highlighting the significant undervaluation of MGM. MGM is trading at 10x EBITDA, below the 13x multiple GLPI is purchasing PNK's real estate for and far below the 15x multiple GLPI trades at, despite the far superior real estate quality and growth profile of MGM.

SBA Communications (NASDAQ: SBAC; Cellular Towers)—*SBA Communications owns and leases over 24,000 multi-tenant cellular towers across North and South America.*

- **Cash flow growth estimates continue to be too low for this cell tower company that continues to trade at a multiple discount to traditional REITs; 2015 results should well exceed street estimates and company guidance.**

SBA is benefitting from strong occupancy gains leading to increased pricing power as the wireless carriers are seeking to improve network quality by adding more antennas to their networks and upgrading to the latest technology.

Same-tower revenue growth of nearly 10% is likely to accelerate in the near and medium-term as AT&T increases spending after a temporary slowdown, Sprint embarks on a new network upgrade plan, DISH network spectrum is deployed and the Public Safety Network (FirstNet) begins its build-out.

We expect SBAC to remain a "beat and raise" earnings story for the foreseeable future and estimate cash flow growth will continue to be more than double traditional REITs at 15 – 20%+. SBAC still trades at a multiple discount to other high quality, high growth traditional real estate companies and we anticipate further valuation upside.

"Must Own" List Historical Performance

Land and Buildings' "must own" stock list returned a compounded 50% since our initial report in January 2013, significantly outperforming a 27% total return for REIT stocks over the same time period. The annualized return of the "must own" stocks is 17% since inception.

Figure 1: Land and Buildings "Must Own" Stocks Generated a 50% Since Inception, 2,300 bps Above REITs

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	Cumulative
L&B "Must own" stocks	10%	-1%	4%	6%	9%	7%	-1%	13%	-4%	**50%**
REIT Index	10%	-4%	-3%	0%	9%	8%	3%	12%	-8%	**27%**
L&B Outperformance	**0%**	**3%**	**7%**	**6%**	**1%**	**-1%**	**-4%**	**1%**	**4%**	**23%**

Note: Performance of the "must own" list is measured by calculating the total returns of each stock/index from the day prior to the release of the each respective quarter's "must own" list through the day prior to the release of the next quarter's report. For example, the measurement period for the "must own" stocks in the July 11, 2013 ("3Q13") piece use a measure period of closing prices on July 10, 2013 to October 10, 2013. See Figure 2 for additional details.

1 Landmark Square | 7th Floor | Stamford CT 06901 | 203.987.5827 | eb@lnbcg.com

Figure 2: Land and Buildings "Must Own" Stocks Historical Detail and Performance

1Q13 Must Own List	
BRE	1%
COR	22%
EXR	11%
GGP	8%
HST	7%
KRC	12%
LVS	7%
L&B "Must own" stocks	**10%**
REIT Index	10%
L&B Outperformance	0%

Dates: 1/9/13 to 4/10/13

2Q13 Must Own List	
BRE	0%
COR	-8%
EXR	6%
GGP	-2%
HST	0%
KRC	2%
LVS	-4%
L&B "Must own" stocks	**-1%**
REIT Index	-4%
L&B Outperformance	3%

Dates: 4/10/13 to 7/9/13

3Q13 Must Own List	
BRE	1%
COR	5%
GGP	-1%
HST	0%
KRC	-5%
LVS	25%
L&B "Must own" stocks	**4%**
REIT Index	-3%
L&B Outperformance	7%

Dates: 7/9/13 to 10/10/13

4Q13 Must Own List	
BRE	13%
COR	-4%
DRH	6%
GGP	3%
KRC	0%
LVS	20%
PLD	-4%
SBAC	14%
L&B "Must own" stocks	**6%**
REIT Index	0%
L&B Outperformance	6%

Dates: 10/10/13 to 1/13/13

1Q14 Must Own List	
ESS	12%
DRH	6%
FR	16%
JLL	16%
KRC	17%
LVS	-3%
SBAC	2%
L&B "Must own" stocks	**9%**
REIT Index	9%
L&B Outperformance	1%

Dates: 1/13/2014 to 4/17/2014

2Q14 Must Own List	
ESS	15%
DRH	8%
FR	0%
JLL	8%
LVS	-3%
SBAC	14%
L&B "Must own" stocks	**7%**
REIT Index	8%
L&B Outperformance	-1%

Dates: 4/17/2014 to 7/22/2014

3Q14 Must Own List	
AEC	8%
OUT	-12%
ESS	3%
DRH	7%
JLL	-1%
MGM	-13%
SBAC	8%
L&B "Must own" stocks	**-1%**
REIT Index	3%
L&B Outperformance	-4%

Dates: 7/22/2014 to 10/27/2014

4Q14 Must Own List	
AEC	29%
DRH	7%
ESS	18%
JLL	22%
KRC	14%
MGM	-12%
PEI	20%
SBAC	6%
L&B "Must own" stocks	**13%**
REIT Index	12%
L&B Outperformance	1%

Dates: 10/27/2014 to 2/4/2015

1Q15 Must Own List	
CBG	12%
DRH	-10%
KRC	-5%
MGM	-9%
PEI	-9%
SBAC	-1%
L&B "Must own" stocks	**-4%**
REIT Index	-8%
L&B Outperformance	4%

Dates: 2/4/2015 to 7/24/2015

Note: Performance of the "must own" list is measured by calculating the total returns of each stock/index from the day prior to the release of the each respective "must own" list through the day prior to the release of the next report.

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