Jonathan Litt
Founder & CIO

2015 "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: CBRE Group, DiamondRock Hospitality, Kilroy Realty Trust, MGM Resorts, Pennsylvania REIT and SBA Communications.
- Land and Buildings' "must own" portfolio of stocks has returned 56% since being established in January 2013, outperforming REITs which returned 38%. Since the last report in October 2014, the "must own" stocks have returned 13%.

Current "Must Own" Stocks

Land and Buildings' 2015 must own stocks, that we expect will likely generate a 25% or more total return, are CBRE Group, DiamondRock Hospitality, Kilroy Realty Trust, MGM Resorts, Pennsylvania REIT and SBA Communications.

CBRE Group (NYSE: CBG; Real Estate Brokerage)*—CBRE Group is a global full-service real estate services company with 349 offices across 42 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.

2014 global commercial real estate transaction volumes are estimated to be up over 20% industry-wide, hitting $710 billion with further growth anticipated in 2015. 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. Outsized growth in the high margin leasing and sales business segments and secular growth in outsourcing should lead to earnings growth of 20%+ in 2015, above street estimates. This strong

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growth will be the principal driver of a likely 25%+ total return. Valuation is undemanding at 17x 2015 earnings given robust earnings prospects and its historical multiples.

***DiamondRock Hospitality (NYSE: DRH; Lodging)**—DiamondRock Hospitality owns 27 hotels across major gateway and destination markets primarily in the United States.*

- **DiamondRock's consensus earnings estimates appear too low due to Wall Street underappreciating the company's asset renovation uplift.**

The tailwinds from DiamondRock's renovation program should continue to propel outsized results in 2015, which should lead to upwardly revised 2015 consensus EBITDA estimates.

DiamondRock's small asset base of 27 hotels allows for the 5 key renovations to have a significant positive impact on growth. DRH's successful hotel renovations are now ramping and the repositioned assets should drive both increased group business, as well as drive higher transient rates. DiamondRock generated 19% RevPAR growth in the third quarter, with over 500 basis points of margin expansion and both RevPAR growth and margin expansion should be above the peer average in 2015.

DRH has also clearly outlined 2015 growth drivers yet this guidance does not appear to be fully appreciated by the investment community. The recovery of lost RevPAR and EBITDA during the renovation periods should result in multiple years of outsized growth of which is still in the early innings.

The stock is trading at 14x 2015 EBITDA, near peers despite above average multi-year growth prospects. EBITDA growth of 15-20% will likely be the primary driver of total returns over the next year.

***Kilroy Realty Trust (NYSE: KRC; Office)**—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 approximately 13.5 million square feet.*

- **Rapidly rising rents are compressing cap rates in Kilroy's markets and combined with a significant value-creating development pipeline, KRC should continue to see large NAV increases over the next 12 months.**

Kilroy Realty offers investors the opportunity to invest in the hottest office market in the country, Northern California, and a best-in-class management team that is creating significant value beyond what the market is already giving them.

San Francisco saw the strongest office leasing year since 2000 with 9.8 million square feet signed in 2014. Vacancy closed the year at 7.4% citywide, helping drive asking rents up another approximately 14% during the year. Notably, Los Angeles also experienced its strongest leasing activity in seven years and is heating up after treading water for several years. Kilroy is 50% exposed to Northern California/Seattle and 50% exposed to Southern California.

The company is currently underway on over $1 billion of fully leased developments with well over $1 billion of additional developments either in the pipeline or currently being evaluated. Development

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continues to be a compelling investment for Kilroy, with yields routinely in the 7-9% range and market cap rates in the 4% range across the west coast for Class A product.

KRC currently trades at a ~5% implied cap rate, a discount to NAV given the high quality of the portfolio. Strong internal growth due to increasing rents and outsized value creation through developments will likely cause large NAV increases, helping drive a 25% or greater total return.

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 should benefit from a discounted valuation, an improving Las Vegas Market and development value creation potential.**

Las Vegas, which generates ~70% of MGM's pro rata EBITDA, is enjoying a strong recovery with limited new supply and strong demand from both business and leisure travel. Declining oil prices should also translate into cheaper travel costs and lead to greater disposable income for guests. In the fourth quarter, RevPAR results for Las Vegas are likely to beat company guidance of 5% growth and forward bookings for 2015 should also be robust.

Macao, which represents only ~20% of MGM's pro rata EBITDA, is undergoing what is likely a cyclical downturn, driven by a host of new government policies, in a secular growth market. MGM currently operates one asset in Macao and construction is underway on a new asset on the Cotai Strip that is expected to open in 2016. The company's Cotai asset should be materially additive to the company's valuation as the asset stabilizes; if the new asset can generate EBITDA similar to its existing asset, that would translate to an approximately 30% return on the project's $3 billion cost.

Development value creation potential is significant beyond Macao, with projects in Maryland and Massachusetts underway and the company is actively pursuing numerous other projects, including Japan and Korea opportunities.

MGM is trading at 10x EBITDA, an attractive valuation given strong hotel trends in Las Vegas, which should continue in 2015. EBITDA growth of at least the mid-single digits and valuation expansion should drive returns over the next year.

Pennsylvania REIT (NYSE: PEI; Regional Malls)*—Owner and operator of 33 regional malls and 7 other retail properties across 12 states in the eastern half of the United States with concentration in the Mid-Atlantic and Greater Philadelphia region.*

- **Pennsylvania REIT has significant upside to the private market value of its assets, based on Land and Buildings analysis, which we believe can be unlocked through a liquidation of the lowest productivity retail assets.**

Pennsylvania REIT has significant upside to the estimated net asset value of the company's real estate and closing this discount to NAV and potential for better than expected core growth should drive total returns over the next year. Land and Buildings has been in discussions with management

on various ways to close the gap to net asset value. The PEI portfolio has been substantially upgraded over the past several years with 80% of estimated asset value derived from malls generating an average sales productivity of $480 per square foot. Land and Buildings believes these 16 high quality "Keeper" malls are worth $24 per share alone, or more than the current stock price as of year-end 2014.

Land and Buildings, in October 2014, outlined in a public presentation (available here) what we believe is the clearest path to maximize shareholder value and drive the share price closer to NAV: 1) PREIT should liquidate its lowest productivity retail assets in a timely manner, transforming the "Keeper" company into a high quality $480 sales per square foot mall REIT and 2) Management should communicate a strategic plan to narrow the discount to NAV, including a liquidation of lowest quality assets, and state that if the valuation gap is not closed within a finite timeframe that PREIT will explore strategic alternatives, including a sale of the entire company.

SBA Communications (NASDAQ: SBAC; Cellular Towers)—*SBA Communications owns and leases over 17,500 multi-tenant cellular towers across North and South America.*

- **Cash flow growth estimates continue to be too low for this cell tower company that should grow AFFO at more than 25% again in 2014; 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. 2014 was a record year for leasing activity and 2015 should build off of that strength.

We view the recently completed AWS-3 spectrum auction, in which the national wireless carriers spent nearly $45 billon, as a material positive for the tower companies. The high prices paid highlight the carriers need to solve expected capacity constraints and deploying this new spectrum will almost certainly require additional tower leasing. Additional potential catalysts include the build-out of DISH Network spectrum, the entrance of Google into the wireless space in a major way and the build-out of FirstNet, the United States government's new public safety network.

We expect SBAC cash flow growth will continue to be in the 15-20%+ range. SBAC trades at a ~10% cash flow multiple discount to the REIT sector overall and we anticipate further valuation upside.

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"Must Own" List Historical Performance

Land and Buildings' "must own" stock list, issued quarterly, returned a compounded 56% since our initial report in January 2013, significantly outperforming a 38% total return for REIT stocks over the same time period. The annualized return of the "must own" stocks is 24% since inception.

Figure 1: Land and Buildings "Must Own" Stocks Generated a 38% Since Inception, 1,900 bps Above REITs

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	Cumulative
L&B "Must own" stocks	10%	-1%	4%	6%	9%	7%	-1%	13%	56%
REIT Index	10%	-4%	-3%	0%	9%	8%	3%	12%	38%
L&B Outperformance	**0%**	**3%**	**7%**	**6%**	**1%**	**-1%**	**-4%**	**1%**	**19%**

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.

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

1Q13 Must Own List		2Q13 Must Own List		3Q13 Must Own List		4Q13 Must Own List	
BRE	1%	BRE	0%	BRE	1%	BRE	13%
COR	22%	COR	-8%	COR	5%	COR	-4%
EXR	11%	EXR	6%	GGP	-1%	DRH	6%
GGP	8%	GGP	-2%	HST	0%	GGP	3%
HST	7%	HST	0%	KRC	-5%	KRC	0%
KRC	12%	KRC	2%	LVS	25%	LVS	20%
LVS	7%	LVS	-4%			PLD	-4%
						SBAC	14%
L&B "Must own" stocks	**10%**	**L&B "Must own" stocks**	**-1%**	**L&B "Must own" stocks**	**4%**	**L&B "Must own" stocks**	**6%**
REIT Index	10%	REIT Index	-4%	REIT Index	-3%	REIT Index	0%
L&B Outperformance	0%	**L&B Outperformance**	3%	**L&B Outperformance**	7%	**L&B Outperformance**	6%
Dates: 1/9/13 to 4/10/13		Dates: 4/10/13 to 7/9/13		Dates: 7/9/13 to 10/10/13		Dates: 10/10/13 to 1/13/13	

1Q14 Must Own List		2Q14 Must Own List		3Q14 Must Own List		4Q14 Must Own List	
ESS	12%	ESS	15%	AEC	8%	AEC	29%
DRH	6%	DRH	8%	OUT	-12%	DRH	7%
FR	16%	FR	0%	ESS	3%	ESS	18%
JLL	16%	JLL	8%	DRH	7%	JLL	22%
KRC	17%	CLI	6%	JLL	-1%	KRC	14%
LVS	-3%	LVS	-3%	MGM	-13%	MGM	-12%
SBAC	2%	SBAC	14%	CLI	-11%	PEI	20%
				SBAC	8%	SBAC	6%
L&B "Must own" stocks	**9%**	**L&B "Must own" stocks**	**7%**	**L&B "Must own" stocks**	**-1%**	**L&B "Must own" stocks**	**13%**
REIT Index	9%	REIT Index	8%	REIT Index	3%	REIT Index	12%
L&B Outperformance	1%	**L&B Outperformance**	-1%	**L&B Outperformance**	-4%	**L&B Outperformance**	1%
Dates: 1/13/2014 to 4/17/2014		Dates: 4/17/2014 to 7/22/2014		Dates: 7/22/2014 to 10/27/2014		Dates: 10/27/2014 to 2/4/2015	

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 quarter's "must own" list through the day prior to the release of the next quarter's report.

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