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2Q14 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: Essex Property Trust, DiamondRock Hospitality, First Industrial, Jones Lang LaSalle, Las Vegas Sands, Mack-Cali and SBA Communications.
- Land and Buildings' "must own" portfolio of stocks has returned 31% since being established in January 2013, outperforming REITs which returned 12%. Since the last report in January 2014, the "must own" stocks have returned 9%.

"Must Own" List Historical Performance

Land and Buildings' "must own" stock list, issued quarterly, returned a compounded 32% since our initial report in January 2013, significantly outperforming a 12% total return for REIT stocks over the same time period. The annualized return of the "must own" stocks is 24% since inception. Each quarter, Land and Buildings' "must own" stocks met or exceeded the return of the REITs, including this past quarter when the "must owns" returned 9%.

Figure 1: Land and Buildings "Must Own" Stocks Generated a 31% Since Inception, 2,000 bps Above REITs

	1Q13	2Q13	3Q13	4Q13	1Q14	Cumulative
L&B "Must own" stocks	10%	-1%	4%	6%	9%	31%
REIT Index	10%	-4%	-3%	0%	9%	12%
L&B Outperformance	**0%**	**3%**	**7%**	**6%**	**0%**	**20%**

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 piece use a measure period of closing prices on July 10, 2013 to October 10, 2013. See Figure 2 for additional details.

Current "Must Own" Stocks

Land and Buildings' 2014 must own stocks, that we expect will likely generate a 25% or more total return, are Essex Property Trust, DiamondRock Hospitality, First Industrial, Jones Lang LaSalle, Las Vegas Sands, Mack-Cali and SBA Communications.

ESSEX
PROPERTY TRUST, INC.

Essex Property Trust (NYSE: ESS; Apartments) Up 19% in 1Q14—*Essex Property Trust is an owner and 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. ESS merged with BRE Properties as of April 2014.*

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- **Following Essex's merger with BRE, a second phase of shareholder value creation should occur as the combined entity is trading at a discount to underlying asset value with the best growth in the apartment sector and operating improvements likely.**

BRE's chronic underperformance of net operating income, funds from operations (FFO) and dividend growth relative to Essex presents an opportunity for outsized future growth at the combined entity. Essex is a best-in-class West Coast apartment operator trading at a discount to net asset value with significant upside to growth expectations as operational enhancements in the BRE portfolio occur. Same-store NOI growth should be mid to high single digits for several years.

Not only will the company enjoy a kicker from improved operations at BRE assets, but Essex's core west coast markets continue to have the best supply and demand characteristics in the country. Early industry data indicates the company is likely tracking above their initial internal growth guidance. March apartment rental growth was a strong 8% year-over-year in the San Francisco Bay Area and showed strength across Essex's entire portfolio. New job growth is outpacing new multifamily permits by over 7x in ESS's markets as the west coast leads in job creation, but new supply is not keeping up.

DiamondRock Hospitality (NYSE: DRH; Lodging) Up 3% in 1Q14—*DiamondRock Hospitality owns 25 hotels across major gateway and destination markets primarily in the United States.*

- **DiamondRock's asset renovations should translate into sustainable, superior EBITDA growth beyond 2014, which does not appear reflected in current earnings estimates.**

DiamondRock is poised to benefit over a multi-year period from renovation investments in its portfolio, which is evident in its 9%-11% RevPAR guidance for 2014. This outsized RevPAR and EBITDA growth should continue beyond this year, which does not appear to be understood by the investment community. DRH's consensus core EBITDA growth for 2015 is 9%, in-line with peers, and upward revisions to 2015 EBITDA estimates should occur as the multi-year nature of the renovation benefit becomes better appreciated.

DiamondRock's small asset base of 25 hotels allows for the 5 key renovations to have a significant positive affect on growth. These renovations include: the rebranding of a former Radisson in Midtown Manhattan into The Lexington, now part of Marriott's Autograph collection, two renovated Courtyard Marriott's in Midtown Manhattan and Westin hotels in San Diego and Washington D.C. The initial recovery of lost RevPAR and EBITDA during the renovation periods should occur in 2014 and the incremental RevPAR beyond the in-place revenue pre-renovation will show up in numbers later in 2014 and beyond as the assets gain recognition in the marketplace from corporate planners and leisure travelers. Initial channel checks have been positive and we expect this to momentum to build throughout this year and next.

First Industrial (NYSE: FR; Industrial) Up 11% in 1Q14*— First Industrial is an owner, operator and developer of industrial warehouses in the United States, with a current portfolio of over 60 million square feet.*

- **First Industrial's mid-teens cash flow growth potential is underappreciated and consensus estimates are likely too low for 2014.**

First Industrial has undergone a significant transformation with Bruce Duncan at the helm for the past five years, improving the quality of the portfolio and the balance sheet and putting the company in position to deliver strong results going forward. The company has set out a plan to grow cash flow in the mid-teens annually between 2014 and 2017, superior to its peers and the REIT universe, primarily through a combination of occupancy and rent increases. Development opportunities and interest savings from debt refinancing will enhance core operating growth.

First Industrial had a very strong 2013, with portfolio occupancy increasing 300 basis points during the year to 92.9%, through lease-up and upgrading the portfolio quality. We expect this momentum to continue in 2014, which should result in better than expected earnings growth. Consensus FFO for 2014 currently stands at $1.16, the midpoint of company guidance, representing 7% core FFO growth, which seems too low based on strong occupancy gains and conservatism built into guidance on several items, including occupancy and bad debt expense. Cash same store NOI guidance has been set at 3%-5% in 2014, better than 2013's 3.5% growth at the midpoint. Occupancy gains should be strong as the company has set a target of 95% portfolio occupancy by the end of 2015. As occupancy approaches that level, pricing power will continue to increase and will become a material driver of net operating income growth.

First Industrial is trading at an implied cap rate of 6.5%, 75basis points cheaper than public peers and attractive relative to private market cap rates given the strong interest in industrial assets based on recent transactions in the market. On a forward NOI basis for 2014 growth, the implied cap rate rises to near 7%.

Jones Lang LaSalle (NYSE: JLL; Real Estate Brokerage) Up 16% in 1Q14*—Jones Lang LaSalle specializes in commercial real estate services across 70 countries globally. Business lines include leasing brokerage, investment sales brokerage, property management outsourcing and investment management.*

- **Momentum is building across the commercial real estate investment sales market as credit eases and a wall of capital looks to acquire global real estate; leasing volumes are accelerating as well.**

Jones Lang LaSalle stands to be among the largest beneficiary of a global real estate recovery that continues to gain momentum. Market share gains, accretive acquisitions and outsized growth in the high margin leasing and sales business segments should cause company margins to expand, likely leading to annual earnings growth of 20%+ in 2014 and 2015, above street estimates.

Excellent fourth earnings caused 2014 EPS estimates to be revised up 4% since we first highlighted the stock 3 months ago. We believe first quarter estimates remain too low and are bullish on the name

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into earnings. Global investment sales were up 23% year-over-year in the first quarter, including up over 60% in the Americas. Office leasing in the US was up nearly 15% and UK leasing saw a strong first quarter as well. As new broker hires increase productivity, JLL should continue to gain market share. Wall Street first quarter estimates for teens growth in investment sales and single-digit growth in leasing appear too conservative.

Las Vegas Sands (NYSE: LVS; Gaming) Up 3% in 1Q14*—Las Vegas Sands is the pre-eminent operator and developer of integrated casino resorts predominantly located in Macao and Singapore, featuring a combination of gaming, lodging, entertainment and retail facilities.*

- **Las Vegas Sands worth $120 based on sum of the parts analysis, representing over 50% upside from current levels**

Macao gaming revenues surged in the first quarter, up 20% year-over-year with the mass market segment, which represents over 75% of Las Vegas Sands' gaming EBITDA in Macao, growing 39% year-over-year. Las Vegas Sands' market share continued to grow, driving outsized growth for the company. Analysts have begun to update estimates for strong first quarter results, with more to come.

On March 31st Land and Buildings issued a report highlighting the $120 per share sum of the parts valuation for Las Vegas Sands portfolio of integrated resorts in Macao, Singapore and Las Vegas: ***Las Vegas Sands — Buying Opportunity with 50%+ Upside***. The Fund published its initial LVS report in September 2012 titled ***Las Vegas Sands: Unleashing The Best Mall and Lodging REITs in the World (And Why the Stock Can DOUBLE)***. The report highlighted that the then estimated value of the portfolio was $85 while the stock was mired in the low $40s, with the upside in fair valuation for the company driven by the strong EBITDA growth generated since that time. LVS reached a high of over $87 in early March and

Mack-Cali (NYSE: CLI; Office) Down 2% in 1Q14*—Mack-Cali is an owner and operator of office, flex and apartment buildings predominately in New Jersey and throughout the Northeast.*

Mack-Cali shares came under considerable pressure in January when management lowered guidance, at which point we began a dialogue with the board. We felt that the shares had 40% upside to get back to the underlying value of the real estate assets. After meeting with several CLI board members, we believed that they were open to ideas to close the valuation gap and the company agreed to provide one board seat. Settling with the company and working with management and the board on a friendly basis will likely prove the optimal way for us to maximize shareholder value.

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SBA Communications (NASDAQ: SBAC; Cellular Towers) Up 1% in 1Q14*—SBA Communications owns and leases 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; expect a reversal of recent underperformance following strong 1Q14 earnings.**

Robust organic leasing and a high level of accretive acquisitions powered results well above initial analyst expectations in 2013. This phenomenon is primed to repeat in 2014 as well with accelerated tower leasing activity from Sprint & T-Mobile and increased high growth international exposure. Additional catalysts for increased growth include a potential build-out of DISH Network spectrum as well as early work on FirstNet, the dedicated national public safety network. Verizon and AT&T are also very active on SBA towers relative to peers given the company's lower exposure to the top 2 carriers and less mature towers.

Current tower leasing fundamentals can continue to be described as the "strongest ever" with prospects for 2014 and 2015 underappreciated by the market. SBAC is likely to grow same store EBITDA above market expectations at 10-12%+ annually over the next 3 years. A March meeting with SBAC senior management at the company's headquarters in Florida further reinforced our above consensus views.

SBAC's recent underperformance relative to REITs should reverse as the stock trades at a lower cash flow multiple than REITs despite SBAC growing cash flow per share more than twice as fast as traditional real estate.

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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	
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	0%
Dates: 1/13/2014 to 4/17/2014	

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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