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3Q14 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: Associated Estates, CBS Outdoor, Essex Property Trust, DiamondRock Hospitality, Jones Lang LaSalle, MGM Resorts, Mack-Cali and SBA Communications.
- Land and Buildings' "must own" portfolio of stocks has returned 41% since being established in January 2013, outperforming REITs which returned 19%. Since the last report in April 2014, the "must own" stocks have returned 7%.

Current "Must Own" Stocks

Land and Buildings' 2014 must own stocks, that we expect will likely generate a 25% or more total return, are Associated Estates, CBS Outdoor, Essex Property Trust, DiamondRock Hospitality, Jones Lang LaSalle, MGM Resorts, Mack-Cali and SBA Communications.

Associated Estates
Great Living – It's What We Do

Associated Estates (NYSE: AEC; Apartments) Up 8% in 2Q14— Owner and operators of over 50 high quality apartment communities containing over 13,000 units across 9 states. AEC is the smallest of the major public apartment REITs with ~$2 billion in total assets.

- **Associated Estates trades at a significant discount to NAV which we believe can be closed through a sale of the company.**

Land and Buildings believes AEC has substantial upside to the private market value of its assets. This discounted valuation is due to several factors, including a misunderstanding by the public markets of the company's high quality assets as well as capital allocation missteps by management. Wide-open capital markets, historically low interest rates, and expectations for continued strong apartment net operating income growth are creating a robust, liquid private market with institutional appetite for apartment assets. This environment is both conducive to an outright sale of the company as well as improved capital allocation through asset sales and buying back stock.

Following repeated failed attempts to establish a dialogue with Chairman and CEO Jeff Friedman regarding maximizing shareholder value, Land and Buildings issued a public letter on June 3, 2014 encouraging a sale of the company and a potential board or management refresh (Land and Building Sends Letter to the Board of Associated Estates). Land and Buildings continues to actively pursue numerous pathways to close the valuation gap at AEC.

CBS Outdoor (NYSE: CBSO; Billboards) Up 13% in 2Q14—*CBS Outdoor is one of the largest owners and operators out-of-home advertising structures and sites across the U.S., Canada and Latin America. The company's portfolio primarily consists of billboard displays located in densely populated major metropolitan areas and along high-traffic expressways and major commuting routes.*

- **CBS Outdoor is an attractive opportunity given its discounted valuation, robust internal growth and accretive acquisitions opportunities.**

CBS Outdoor has executed on numerous of its stated business goals since its IPO in late March, including receiving its REIT private letter ruling, converting to a REIT, successfully splitting off from CBS Corp. (NYSE: CBS) and making meaningful, accretive acquisitions. Looking forward, CBS Outdoor has the potential to be added to both the MSCI US REIT Index (RMZ) as well the S&P 500 in the near-term. Neither event appears priced into the current share price.

At approximately 12x 2015 AFFO, CBS Outdoor trades at a discounted valuation given its strong growth profile, trades cheap relative to the 20x multiple for the REIT sector overall and has one of the lowest cash flow multiples in the entire US REIT universe. The valuation should expand as CBSO management executes at a high level and the market begins to appreciate billboards as an attractive, growing sector, as evidenced by the company's more than 20% OIBDA growth over the past 3 years. Future cash flow growth should be double-digit annually as mid-single digit internal growth is augmented by significantly accretive acquisitions, such as the $690 million Van Wagner acquisition announced on July 21st that we estimate could be 10%+ accretive to AFFO on an annualized basis. A 5% dividend yield further enhances total return potential.

DiamondRock Hospitality (NYSE: DRH; Lodging) Up 10% in 2Q14—*DiamondRock Hospitality owns 25 hotels across major gateway and destination markets primarily in the United States.*

- **DiamondRock's consensus earnings estimates appear too low due to Wall Street conservatively modeling the asset renovation uplift and recent group business recovery.**

DiamondRock's RevPAR growth should accelerate over the balance of the year and earnings will likely come in well ahead of current consensus estimates in 2015. Successful hotel renovations are now ramping and strong RevPAR growth in the lodging industry, particularly in group business, should drive top-line growth and margin expansion above expectations. DiamondRock's portfolio growth has been accelerating, with 8.4% RevPAR growth in the first quarter and stronger growth likely over the next three quarters. Industry RevPAR growth in DiamondRock's markets improved by 300 bps in the second quarter relative to first quarter growth, a positive signal that acceleration in growth at the portfolio-level is occurring. Group business, which has lagged in the recovery this cycle, is recovering, with DRH's portfolio seeing 13% RevPAR growth in the segment during the first quarter; forward bookings are promising for continued strong results.

DiamondRock's small asset base of 25 hotels allows for the 5 key renovations to have a significant positive affect on growth. 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.

Essex Property Trust (NYSE: ESS; Apartments) Up 10% in 2Q14—*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***.**

- **Following Essex's merger with BRE, a second phase of shareholder value creation should occur as the combined entity should have the best growth in the public apartment sector.**

Essex Property Trust's integration of BRE Properties appears to be exceeding expectations. The merger closed in April and Essex is already confident it can close the vast majority of the significant performance gap at BRE's assets. We expect the high single-digit NOI growth Essex is currently experiencing will persist longer than investors expect as the company's core west coast markets continue to have the best supply and demand characteristics in the country and outsized growth occurs at the BRE apartments.

ESS's growth plus dividend alone should earn investors' a nearly 20% return and additional multiple expansion is likely given the company continues to trade at a discount to net asset value. The company should beat and raise 2014 same store and earnings guidance given the strong performance of the company's markets year to date, combined with the integration synergies the company is realizing with BRE.

Jones Lang LaSalle (NYSE: JLL; Real Estate Brokerage) Up 7% in 2Q14*—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.*

- **Commercial real estate investment sales momentum is building 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.

JLL looks to be well-positioned heading into second quarter earnings as high-single digit growth estimates for global investment sales appear to low given that industry-wide transactions grew nearly 30% year-over-year. Second quarter global leasing revenue growth estimates in the low-single digits look conservative as well, especially given JLL grew leasing revenue 18% year-over-year in the first quarter and industry leasing volumes continue to improve.

MGM Resorts (NYSE: MGM; Gaming) Up 2% in 2Q14*—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 an improving Las Vegas Market, a new project opening in Macao in 2016 and potential significant value creation on a project in Japan.**

MGM is set to benefit from a Las Vegas market recovery that is taking hold, continued growth in the Macao market and development value creation in Macao, Maryland and potentially Japan or other new international markets.

MGM generates over 60% of EBITDA from Las Vegas, a market that is rebounding strongly. In the second quarter, based on Land and Buildings' channel checks, results are likely to beat guidance and street estimates.

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 early 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 a project in Maryland and the company actively pursuing numerous other projects, including Japan and Korea opportunities. A Japan development could represent in excess of 20-30% of additional value beyond the current share price. Legislation to legalize casinos in Japan may pass this fall and MGM would be a leading candidate to be awarded a license to build a new casino, most likely in Osaka.

MACK-CALI® Realty Corporation

***Mack-Cali (NYSE: CLI; Office) Up 5% in 2Q14**—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.

SBA

***SBA Communications (NASDAQ: SBAC; Cellular Towers) Up 12% in 2Q14**—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; 2Q14 should exceed street estimates.**

SBA continues to benefit 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. Cell tower leasing fundamentals continue to be described as the "strongest ever." On May 1st the company released robust earnings coupled with an increasingly bullish outlook by management, causing the stock to rise ~5% that day alone.

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. SBAC still trades at a multiple discount to other high quality, high growth traditional real estate companies and we anticipate further valuation upside.

A potential Sprint/T-Mobile merger is likely just noise as not only is regulatory approval unlikely, but prior carrier mergers have almost always resulted in more cellular antenna growth, not less.

"Must Own" List Historical Performance

Land and Buildings' "must own" stock list, issued quarterly, returned a compounded 41% since our initial report in January 2013, significantly outperforming a 19% total return for REIT stocks over the same time period. The annualized return of the "must own" stocks is 25% since inception.

Figure 1: Land and Buildings "Must Own" Stocks Generated a 41% Since Inception, 2,100 bps Above REITs

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	Cumulative
L&B "Must own" stocks	10%	-1%	4%	6%	9%	7%	41%
REIT Index	10%	-4%	-3%	0%	9%	7%	19%
L&B Outperformance	**0%**	**3%**	**7%**	**6%**	**1%**	**0%**	**21%**

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.

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

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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