

# LANDandBUILDINGS

## Land and Buildings Issues Letter to NSAM Shareholders

- *Believes consideration to NSAM shareholders should be at least \$2.9 billion, above the \$2.4 billion currently proposed in tri-party merger to reflect NSAM being the Crown Jewel asset –*
- *Numerous corporate strategy and governance improvements necessary for deal that is in best interests of all shareholders –*
- *Continues to believe superior alternatives to the currently structured tri-party merger exist for NSAM shareholders –*

**Stamford, CT** (September 14, 2016) – Today Land and Buildings Investment Management LLC (“Land and Buildings”) issued the following letter to NorthStar Asset Management’s Shareholders:

September 14, 2016

Dear Fellow NorthStar Asset Management Shareholders:

We have heard from numerous constituents interested in NorthStar Asset Management, and the Colony NorthStar merger to discuss Land and Buildings' views with respect to the shortcomings in the tri-party merger between Colony Capital (“CLNY”), NorthStar Realty Finance (“NRF”) and NorthStar Asset Management (“NSAM”). We continue to believe that there are superior alternatives for NSAM shareholders and the tri-party merger as currently structured does not present the most compelling opportunity. However, to specifically address the question about what Land and Buildings would consider as fair compensation for NSAM shares in the tri-party merger, we offer the following:

### Consideration

NSAM is the Crown Jewel of the proposed Colony NorthStar tri-party merger, in our view. The value assigned in the exchange ratio in the merger agreement for NSAM amounts to about \$2.4 billion, well below our estimate of the value we determined for NSAM in our January letter in the mid \$3 billion<sup>1</sup> range and can be found at [www.landandbuildings.com](http://www.landandbuildings.com). Further, as we outlined in our presentation last week, NSAM management themselves argued a 40x-plus multiple for NSAM was appropriate, which would translate into a \$10 billion valuation for NSAM.

We have argued since that time that shareholder representation was desperately needed on the board of NSAM to ensure that value was being maximized for all shareholders. We do not believe that using last price and billing the transaction as a merger of equals adequately reflects the true value of NSAM.

In our view, the NSAM consideration must be improved and the exchange ratio adjusted to reflect at least \$2.9 billion to represent an acceptable alternative for shareholders. While it is up to the boards of each company to determine how this additional consideration is paid for, we believe NSAM’s management contract is a liability of NRF as is confirmed in the fairness opinions and thus should be reflected in a lower exchange ratio in the tri-party merger for NRF.

Only if the consideration is significantly boosted to fairly compensate NSAM shareholders, would the tri-party merger represent a viable option. However, even with a fair valuation the transaction must still reflect a value-enhancing corporate strategy and governance structure.

### Corporate Strategy

To date in our discussions with the presumptive management team at Colony Northstar, we are concerned that they are reluctant to let go of the more complicated real estate investments of their past and embrace changes which would maximize value for all shareholders. To earn shareholder support management would have to:

- Clearly state that Colony NorthStar will be an equity REIT which will concentrate on the ownership of core and core plus traditional real estate in predetermined sectors, such as warehouse, rental residential, net lease and healthcare.
- Clearly state that the company will generate outsized returns in these asset classes by making co-investments in funds which Colony sponsors, generating additional fee revenue on top of traditional real estate returns.
- Clearly state that the company will avoid esoteric investments which have hurt both Colony's and NorthStar's valuations over time.
- Articulate a strategy that will drive G&A/operating margins higher and leverage lower.

### Governance

In addition to the consideration outlined above and a more focused corporate strategy, the tri-party merger must envision stronger corporate governance to represent an acceptable alternative. The corporate governance of Colony NorthStar is inadequate on several fronts and must be meaningfully enhanced by the following:

- Reduce the proposed size of the Board, given that a 13 person board could be unwieldy and expensive.
- Add highly regarded shareholder representatives, to a smaller more nimble board, who can help craft a clear, compelling strategy for fellow shareholders.
- Require board members to step down from the board, if the person's investment in the Company goes below a predetermined threshold.
- Maintain an annually elected board and permanently opt out of the Maryland Unsolicited Takeover Act (MUTA), which would eliminate the Company's ability to re-stagger the board without shareholder approval. We note that NSAM is currently incorporated in Delaware, so the optimal solution would be to keep NSAM domiciled in Delaware. There is no economic reason to domicile in Maryland and in fact, domiciling in Maryland represents a shareholder expense to move to a state with a shareholder-unfriendly regulatory climate.
- Clearly state that Colony NorthStar will strive for best in class corporate governance in all facets.

Sincerely,



Jonathan Litt

Founder & Chief Investment Officer

Land and Buildings

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**About Land and Buildings:**

Land and Buildings is a registered investment manager specializing in publicly traded real estate and real estate related securities. Land and Buildings seeks to deliver attractive risk adjusted returns by opportunistically investing in securities of global real estate and real estate related companies, leveraging its investment professionals' deep experience, research expertise and industry relationships.

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<sup>1</sup> The \$200 million largely perpetual, non-cancelable annual management fee NRF/NRE pays to NSAM, if sold, could be worth nearly \$2.6 billion at a 7% yield and combined with the other businesses total in the mid \$3 billion range.