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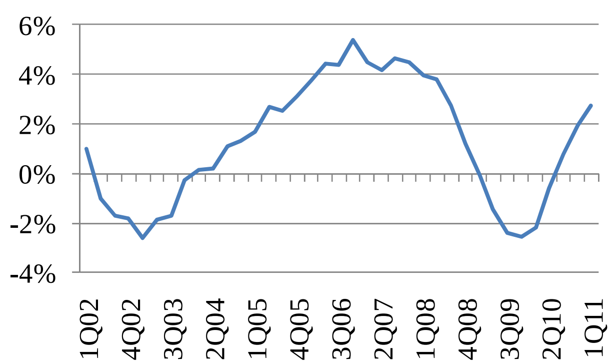
May 2011 Commercial Real Estate Outlook:
Powering Ahead

- Traditional REITs recorded first quarter FFO growth of 7%, ahead of expectations; full year FFO is now expected to rise by 15%, up from 12% at the beginning of the year.
- Real estate related companies (including lodging, gaming, brokerage, towers, amongst others) generated 17% EBITDA growth during the first quarter and saw estimated full year EBITDA growth rise to 22%, a 2% increase from the beginning of the year.
- Emerging markets and Asian real estate and related companies are expected to generate full year EBITDA growth of 33%. EBITDA estimates for 2011 are up 1% from the beginning of the year.
- Little new supply combined with global growth continues to drive strong fundamental opportunities for the property space.
- Low interest rates and strong investor demand for hard assets with inflation hedge characteristics continue to push valuations higher although still below peak valuations.
- Greatest risk to the global economy relates to the end of monetary and fiscal policy or a pronounced decline in housing prices.

Earnings Strong and Getting Stronger

Overall earnings met or exceeded already strong expectations, for the most part, in the real estate space. Real estate and real estate related stocks continue to be attractively valued despite the twin shocks of the earthquake in Japan and the unrest in the Middle East. While mid-teen or better returns are likely over the next 12 months, not all real estate is created equal. Specific sectors and companies are poised to post outsized returns while others will lag.

Figure 1: REIT Same Store NOI Continues to Improve



Source: Citi

The greatest risk to the global economic recovery is an abrupt ending of monetary and fiscal stimulus that was brought to bear during the financial crisis and a housing market that continues to sink. At the moment, an abrupt reduction to fiscal stimulus is at the top of our list. The housing market is weak in the aggregate due to distressed homes that experienced declines in value of 12% most recently accounting for just 40% of total sales. However, non-distressed homes saw prices rise 3% and will increasingly make up a larger and larger piece of the pie as distressed homes clear the market.

The stock markets of the emerging markets have been rocked by concerns about inflation and measures to curtail inflation. It appears increasingly likely that inflation will moderate, albeit at still uncomfortable levels, and tightening measures will slowly create a more hospitable investment environment. The commodity price spike was likely exacerbated by the Middle East crisis, related spikes in oil and weakening of the dollar. Commodities and the weak dollar have likely apexed in the near term.

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US REIT Earnings Top Expectations on Better Fundamentals

Earnings out of the U.S. REITs continued to top expectations with first quarter FFO growth of 7% ahead of expectations; full year FFO is now expected to rise by 15%, up from 12% in the beginning of the year. There were clearly winners and losers. The standouts were apartments and CBD office, with results coming in ahead of already strong expectations. The suburban office and shopping centers continue to lag, while industrial was the biggest negative surprise. The improvement in the capital markets thus far in 2011 is benefiting lower quality assets outside of the prime markets and in the past month, as evidenced by recent transactions at higher valuations. Transactions in the regional mall space are occurring at higher values as well, while suburban office transactions are occurring at lower valuations.

The Winners in 1Q11:

- ***Apartments Remain the Standout.*** Apartments had a strong start to the year, particularly companies with outsized exposure to southern markets, which generated 6.8% same store NOI versus 4.3% from the coastal focused companies. Among the standouts, Colonial Properties Trusts' (NYSE: CLP) southern focused portfolio is achieving 6% rent increases on renewals and should generate strong same store results, but is trading at a cap rate of 7%, nearly 200 basis points cheaper than peers.
- ***Malls Benefitting From a Healthier Consumer.*** Higher-end mall landlords had particularly strong results as the higher-end consumer has come back swiftly, with Taubman Centers' (NYSE: TCO) tenants generating same store sales growth of 14% during the first quarter, surpassing already high expectations. CBL & Associates (NYSE: CBL), an owner of lower-end malls, sold a stake in several of its stronger assets at an estimated 6%-6.5% cap rate, better pricing than the 8% implied cap rate, suggesting more upside for lower quality mall stocks.
- ***Central Business District Office Leading the Office Recovery.*** Boston Properties (NYSE: BXP) generated 7.6% same store NOI growth during the first quarter reflecting the improvements in operating results over the past year, most notably in Midtown Manhattan where the pace of hiring and tenant optimism has dramatically improved. Prime CBD assets are piercing through the 5% cap rate level with assets now trading into the 4's.
- ***Storage Generating 5%+ NOI Growth.*** Storage had robust same store NOI growth of 5.3% in the first quarter, ahead of our expectations, suggesting the full year guidance by management teams will likely prove conservative. Extra Space Storage (NYSE: EXR) is achieving 6%-9% rent increases on its existing tenants and is starting to see improving trends on new tenants.

The Losers in 1Q11:

- ***Industrial Missed Expectations.*** Industrial earnings were a disappointment given high expectations. Same store NOI was up less than 1% during the first quarter. The recovery will likely be slower than other sectors with occupancy needing to rise 2% or more in order for landlords to have pricing power.
- ***Shopping Centers Suffering From Lingering Tenant Issues.*** Shopping center fundamentals continue to bounce along the bottom with weakness from select national tenants shutting stores (e.g. Blockbuster) and many local tenants struggling to turn a profit. Equity One (NYSE: EQY) and Regency Centers (NYSE: REG), companies with greater exposure to small shop space, generated uninspiring same store NOI growth of less than 1% during the first quarter.
- ***Suburban Office Struggling.*** Suburban office markets are seeing limited pricing power and are fighting to keep occupancy levels flat. Many companies saw same store NOI decline 5%-8% during the quarter. There are signs of suburban office sales transactions starting to pick up, but the pricing is unattractive; Liberty Property Trust (NYSE: LRY) is looking to sell its non-core assets at a 10% cap rate, while the stock currently trades at a 7.5% cap rate.

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- ***Healthcare Thrown a Curve Ball.*** The healthcare space was thrown a curveball by Centers for Medicare and Medicaid Services' (CMS) proposal of a 11% reduction to Medicare payment rates for skilled nursing facilities (SNFs) for fiscal 2012. This should largely be a non-event for the healthcare REITs, but will be a more direct issue for the SNF operators given the buffer in the rent coverages of the REITs.

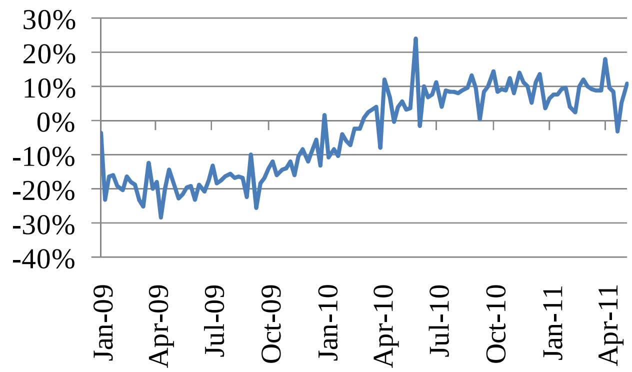
Real Estate Related Companies Benefitting from Secular and Cyclical Growth

Real estate related companies continue to put up big numbers, benefitting from the overall boost in economic activity and strong growth driven by a combination of secular and cyclical growth. This segment (including lodging, gaming, brokerage, towers amongst others) generated 17% EBITDA growth during the first quarter and saw estimated full year EBITDA growth rise to 22%, a 2% increase from the beginning of the year. While lodging had mixed results due to weather related issues, gaming posted strong results, with the big news being that Las Vegas is showing signs of bottoming.

- ***Lodging Posted Mixed Results Due To Weather.*** As expected, results were dragged down by bad weather and renovations in some portfolios, but activity levels have picked up recently with 11% RevPAR growth in the most recent week, setting the stage for a strong balance of the year and upside potential to estimates following modest reductions during earnings season for some companies (Figure 2). Starwood Hotels and Resorts (NYSE: HOT) delivered particularly strong results in the first quarter with 10% RevPAR growth and its exposure outside the US, core markets in the US and strong brands put the company in position to continue to generate strong results.

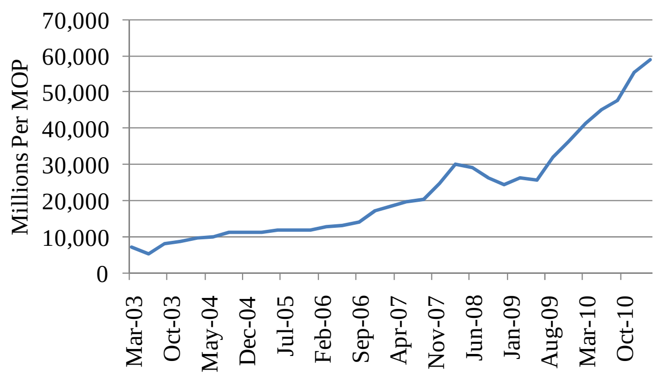
- ***Gaming Surprises to the Upside.*** The gaming operators had strong results with signs that Las Vegas is turning the corner and Macau surprising on the upside once again, while Singapore is still working through some growing pains and high expectations (despite already being some of the most profitable casinos in the world) (Figure 3). MGM Resorts (NYSE: MGM) had its first upside surprise in quarterly results in several years, aided by improvements in Las Vegas with revenues up 4% and EBITDA up 15% year-over-year despite low table hold during the first quarter.

Figure 2: Lodging RevPAR Up 11% In The Most Recent Week



Source: Citi

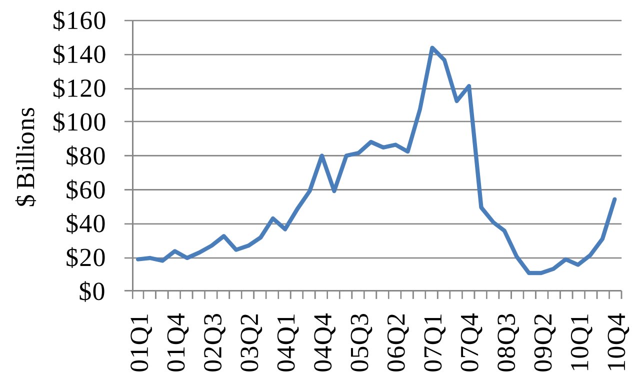
Figure 3: Macau Gross Gaming Revenue Up In Excess of 40% Year-Over-Year



Source: Bloomberg, DICJ

- ***Real Estate Brokerage Demand Trends Robust.*** Commercial real estate brokerage companies are highly leveraged to improvements in transaction and leasing volumes which are likely to accelerate further as financing returns (Figure 4). Expenses creeping back into the system caused a temporary hiccup versus high expectations in the quarter. CB Richard Ellis (NYSE: CBG) generated revenue growth of 16% and EBITDA growth of 51% during the first quarter.

Figure 4: Property Transaction Volumes Picking Up Steam



Source: Real Capital Analytics

Note: Represents quarterly transaction volumes in billions of dollars through 12/31/2010.

- ***Towers Delivered.*** Tower owners generated 19% EBITDA growth during the first quarter and the bright outlook for the business is unaltered by the planned merger of AT&T and T-Mobile. American Tower (NYSE: AMT) noted that in prior carrier mergers, revenues from the combined company two years following the merger were 30% - 40% above the levels of the two separate companies prior to the merger, suggesting potential upside from the merger, not downside as many fear.

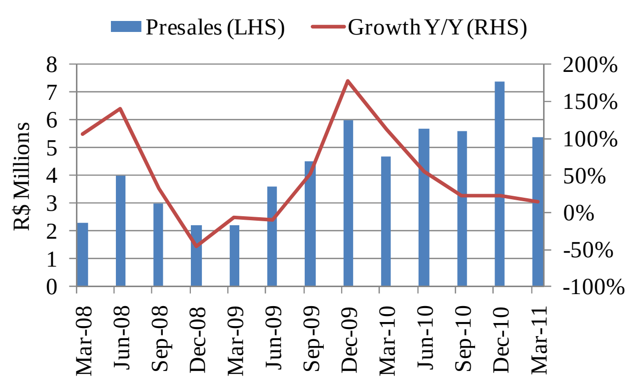
- ***Demographics a Tailwind for Senior Housing Operators.*** Strong growth in the senior housing sector was led by Brookdale Senior Living (NYSE: BKD), generating 4.5% same store revenue growth and is expected to generate 12% EBITDA growth for the full year. Healthy demographics, limited new supply and a principally private pay business model for senior housing operators are creating a favorable backdrop. With the healthcare REITs on the prowl for acquisitions and seeking exposure to the sector, senior housing companies could be targets. The stocks are trading at attractive cash flow multiples of 12-15x with ~10% growth versus the healthcare REITs at 17x cash flow and 10% growth.

Emerging Markets to Benefit from Tamer Commodity Costs

During the first quarter, emerging markets faced a host of headwinds, but the recent pullback in commodity costs could provide a respite in monetary tightening as inflation concerns ebb. Despite the concerns, emerging markets and Asian real estate and related companies are seeing full year EBITDA growth expectations of 33%. EBITDA estimates for 2011 are up 1% from the beginning of the year.

- ***Brazil Malls Show Impressive Growth.*** BR Malls (Bovespa: BRML3) led the pack in positively surprising, with same store NOI growth of 26% principally driven by

Figure 5: Brazil Home Presales Continue To Be Robust



Source: JP Morgan

Note: Represents Brazil Homebuilder group contracted sales growth.

strong rent increases as retailers improved profitability. Strong sales growth supports higher rents paid to landlords. External growth is robust, supplementing this organic growth.

- ***Brazil Homebuilder Sales Strong***. Underlying demand for housing remains robust in Brazil, evidenced by pre-sales for the first quarter generally up double digits from the prior year (Figure 5). Margin pressure from higher construction costs are crimping margins on units sold a few years ago but are just now being recognized in earnings. Margins on units being sold today are strong, with many targeting in excess of 25%, and if inflation pressures lessen the earnings profile of the companies should be attractive.
- ***China Homebuilders Posted Strong Sales Despite Government Tightening.*** The China homebuilders generated strong contracted sales growth of 35% year-over-year through April despite government policy tightening to cool the rise in home prices. The government has met some success in cooling house price growth. Evergrande (Hong Kong: 3333), a builder focused in tier 2 and tier 3 cities where the government is less focused, continued to generate particularly strong sales, with 113% growth year-over-year through April, achieving 37% of its full year sales target.

Note: All figures are as of May 12, 2011.

LANDandBUILDINGS Background:

Jonathan Litt is the Founder and CEO of LANDandBUILDINGS, a long/short investment firm that actively invests in securities of global real estate and real estate related companies. Prior to LANDandBUILDINGS, Jonathan Litt was Managing Director and Senior Global Real Estate Strategist at Citigroup where he was responsible for Global Property Investment Strategy from 2000 to March 2008. Jonathan Litt led the #1 Institutional Investor All American Real Estate Research Team for 8 years and was top ranked for 13 years while at Citigroup, PaineWebber and Salomon Brothers. Craig Melcher, Co-Founder and Principal at LANDandBUILDINGS, was a key member of the Citigroup team. LANDandBUILDINGS was seeded by funds advised by Citi Alternative Investments in the summer of 2008, now SkyBridge Capital. Land & Buildings Investment Management is a Registered Investment Adviser with the SEC.

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