

Mall REITs: March 2008 Update
Tough Year Ahead – Now All Priced In?

March 7, 2008 ■ DJIA 11,894 ■ RMZ 812

HIGHLIGHTS:

- ***Economic Headwinds Mount:*** Mall REITs entered '08 with numerous economic headwinds. Housing price deflation, rising fuel and food costs, and anemic job growth are finally taking their toll on the psyches – and pocket books – of U.S. consumers. Retail sales have been weak, and tenant demand for mall space is diminishing in the wake of a disappointing Holiday season. A faltering economy bodes poorly for consumer spending, and retailers are beginning to retrench in light of this expectation.
- ***Share Prices Get Pummeled:*** Mall REITs in our coverage universe are down nearly 12% in '08 (vs. RMS = -3%) and roughly 42% off their highs (vs. RMS = -33%) reached in February of last year. Weighing on share prices is the notion that regional malls have been re-priced, despite the absence of validating transactions. Another culprit weighing on share prices is the dour outlook for retailers, as the retail property sector is by no means immune from the ailments of its tenants. A key question for investors is whether the negative news is now fully reflected in mall REIT share prices.
- ***Beginning to Dip Into their Embedded NOI Growth Cookie Jars:*** Mall REITs should continue reporting respectable increases in same-property NOI for some time. As rent growth has lagged the robust increases in mall sales over the past several years, the embedded NOI growth has widened considerably, particularly for owners of high-quality malls. If retail sales falter and/or occupancy levels dip, mall REITs should continue harvesting their embedded NOI growth reserves for some time, increasing property income as below-market leases roll over each year.
- ***Shadow Pipelines Are Stepping Back Into the Shadows:*** After several years of consistently ramping up development plans, the aggregate commitment to creating new mall supply fell at the end of '07. With retail sales falling and tenants pulling back on the reins of growth, and with store closures poised to pick up in the coming months, the typical 50% pre-leasing bogie before shoveling dirt has likely become harder to hit. It is unsurprising to see development pipelines scale back as a result.
- ***Profitability of Development Comes Into Question:*** Difficulties leasing up new retail space could erode the realized returns on many projects, possibly to levels that are insufficient to justify the risks of doing the project in the first place. The spread between expected returns and the cost of capital for many mall REITs is modest, and some companies may not receive appropriate compensation for the risks of development. This doesn't mean development is a bad business, but keeping the infrastructure in place during a cyclical trough can be costly.
- ***Liquidity Concerns Mute Buyback Activity:*** Mall REITs repurchased \$330 million in stock in '07, or less than 1% of their total shares/units outstanding. By comparison, apartment REITs were very active on the share buyback front, spending \$2.4 billion towards repurchases and reacquiring 5% of their total share base during the year. The fact that mall REITs invested more money on acquisitions and development than on share buybacks is disappointing.
- ***Recommendations:*** The key risk to the mall REITs continues to be a weak consumer, as the impact of faltering retail sales reaches into many other aspects of the mall business including core NOI growth, profitability of developments and redevelopments, and property values. Given that embedded NOI growth provides high-quality malls with a sizeable cushion against declining NOI, while lower-quality malls face greater risk of rising cap rates and occupancy erosion, we maintain our bias towards high-quality mall names.

At current prices, our BUY recommendations are Macerich (MAC) and Taubman Centers (TCO). Our SELL recommendations are CBL & Associates (CBL) and Pennsylvania REIT (PEI).

PROJECTIONS:

Sector	'08 AFFO Yield	AFFO Growth '08	Long-term AFFO Growth	Premium/(Discount) to NAV	Premium/(Discount) to Assets	Dividend Coverage	Leverage Ratio
Mall-REIT Average*	6.6%	8.9%	3.8%	(35.2)%	(17.8)%	130%	48%
REIT Average*	5.7%	5.7%	3.3%	(20.7)%	(11.0)%	119%	45%

*Averages are market-cap weighted as of 3/6/2008.

Important disclosure on the last page.

Mall REITs: March '08 Update
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I. Economic Headwinds Mount

The mall REITs entered '08 with numerous economic headwinds. Housing price deflation, rising fuel and food costs, and anemic job growth are finally taking their toll on the psyches – and pocket books – of U.S. consumers. Retail sales have been weak in recent months, and tenant demand for mall space is diminishing in the wake of a disappointing Holiday season. A faltering and possibly recessionary economy bodes poorly for consumer spending, and retailers are beginning to retrench in light of this expectation.

Major mall retailer store closures recently announced include Ann Taylor (117 stores), Bombay Company (384), Charming Shoppes (150), Pacific Sunwear (154), Sharper Image (90), Talbots (100), Wilsons Leather (160), and Zale (105). ICSC expects nearly 5,800 store closures in '08, which would be the highest level since '04, but still below historic norms. Other retailers are scaling back their expansion plans, allocating capital and management's attention towards enhancing profits at existing locations. Retail sales may indeed flatten out or fall in the coming year and the record-high occupancy levels reported by most mall REITs may soon become history.

II. And Share Prices Get Pummeled

Mall REITs in our coverage universe are down nearly 12% in '08 (vs. RMS = -3%) and roughly 42% off their highs (vs. RMS = -33%) reached in February of last year. Mall REITs currently trade at a record 35% average discount to NAV, which translates to an 18% discount to the unleveraged value their real estate. The weighted average implied cap rate at current share prices is 7.4%. This unusually large disconnect between public and private market real

estate valuations is likely attributable to the notion that regional malls have been re-priced, despite the absence of validating transactions. Another culprit weighing on share prices is the dour outlook for retailers, as the retail property sector is by no means immune from the ailments of its tenants. A key question for investors is whether the negative news is now fully reflected in mall REIT share prices.

III. Beginning to Dip Into their Embedded NOI Growth Cookie Jars

Despite these legitimate and mounting concerns, the mall REITs should continue reporting respectable increases in same-property NOI for some time. As rent growth has lagged the robust increases in mall sales over the past several years, the embedded NOI growth – the increase in NOI that would occur if all leases could be instantly marked to market – has widened considerably, particularly for the owners of high-quality malls. **If retail sales falter and/or occupancy levels dip, mall REITs should continue harvesting their embedded NOI growth reserves for some time, increasing their property income as below-market leases roll over each year.**

The high-quality mall REITs offer the greatest protection from a slump in consumer spending and declining occupancy levels, since these companies typically have: 1) the highest levels of embedded NOI growth tucked away; and 2) the smallest risk of falling occupancy. An earlier research note ([Mall REITs: May 2007 Update: Revisiting Embedded NOI Growth in the Mall Sector](#)) provides additional details surrounding this sometimes-underappreciated concept, as well as the methodology used to derive these estimates. Embedded NOI growth estimates for the mall REIT sector that include operating results for the full year '07 are shown in Exhibit 3. In general, growth in mall sales lagged the average

Exhibit 1

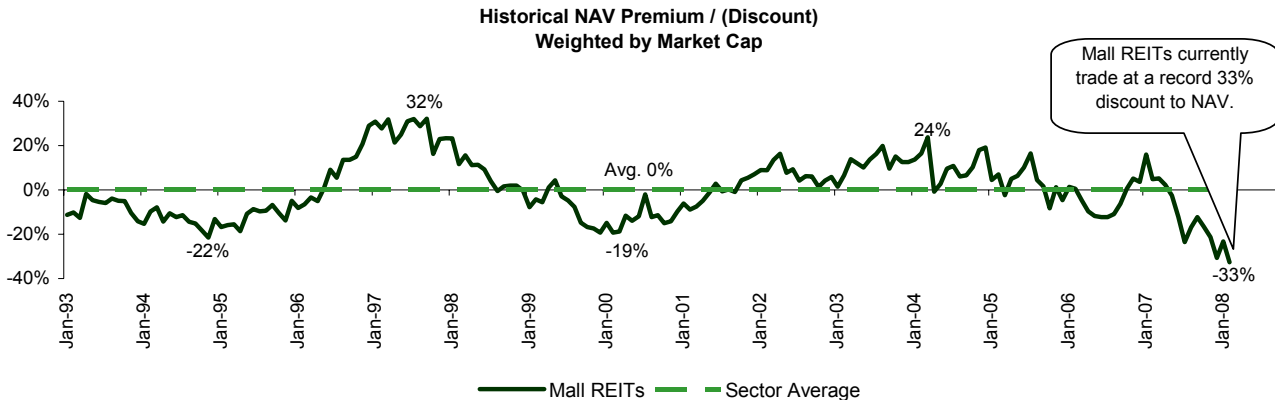
After having been the total return darling earlier this decade, mall REITs are on track to underperform the NAREIT Equity REIT Index for a third straight year. The key risk to the mall REITs continues to be a weak consumer, and the sector will be hard pressed to beat the other major property sectors in '08, despite already trading at a record average NAV discount.

Sector	2002	2003	2004	2005	2006	2007	YTD through 3/6/2008	Cumulative
Residential	-6.0%	25.9%	32.7%	13.7%	38.9%	-25.2%	1.9%	88.9%
NAREIT Equity REIT Index	3.8%	37.1%	31.6%	12.2%	35.1%	-15.7%	-8.0%	120.2%
Strip Centers	17.7%	43.1%	36.3%	9.3%	34.9%	-17.7%	-9.0%	153.5%
Office	-6.3%	34.0%	23.3%	13.1%	45.2%	-19.0%	-9.2%	87.0%
Malls	24.6%	52.2%	45.0%	16.5%	23.8%	-15.9%	-9.7%	201.7%
Industrial	17.3%	33.1%	34.1%	15.4%	28.9%	0.4%	-16.5%	161.1%

Source: NAREIT.

Exhibit 2

Since the early-'90s, mall REITs have traded at NAV parity. The sector now trades at a record 33% average NAV discount. This unusually large disconnect between public and private market real estate valuations is primarily attributable to the notion that regional malls have been re-priced, despite the absence of validating transactions. Another culprit weighing on share prices is the dour outlook for retailers, as retail property owners are not immune from the ailments of their tenants. The addition of Glimcher Realty Trust (GRT), a small cap name with a very large NAV discount, to the market cap-weighted average in Sep. '07 had a modest impact on the sector average in recent periods.



Source: GSA estimates

increase in portfolio rents this past year, and most REITs dipped into their embedded NOI growth cookie jars as a result. Hence, embedded NOI growth estimates for the sector fell by an average 100 basis points since the end of '06. Mall REITs that own the highest-quality portfolios still possess the largest NOI reserves. This group is expecting healthy (3-5%) same-property NOI growth in their portfolios in '08, despite the flattish sales outlook for the sector and the prospect of some occupancy slippage. Owners of lower-quality mall portfolios land at the bottom of the embedded NOI growth spectrum at an average 6%. Given the skinnier mark-to-market on in-place rents, the average same-property NOI growth forecast for these REITs in '08 is less than 2%.

While embedded NOI growth reserves provide a modicum of comfort to investors, it is also the case that extensive store closures could quickly erode these cushions. Occupancy losses approaching 100 basis points for high-quality portfolios over the next 12 months would not be unprecedented. Store closures will likely have an even greater impact on lower-quality malls, and owners of these properties could see occupancy levels in their portfolios dip by nearly 200 basis points during '08 if the retail environment continues its freefall. Some management teams are quick to point out that the level of store closures to-date is small. Yet, these anecdotal 'statistics' likely excludes non-renewals, and investors should not be fooled by the calm seas today, as there is typically a lag between terrible sales and

shuttered stores. Occupancy declines are sure to weigh on same-property NOI growth in the coming year.

IV. Shadow Pipelines Were Beginning to See the Light ...

Until recently, consumer spending has been exceedingly robust and surprisingly resilient even as economic turmoil was brewing. As the list of passengers with deep pockets grew, retailers placed both feet on the acceleration pedal and mall owners began building a superhighway to accommodate the increasing demands on their aging and space-constrained infrastructure. Occurring as it did at a time when interest rates/cap rates were declining, the higher space demand from retail tenants that resulted led to the best of all worlds for mall developers: high development yields and reduced return thresholds (i.e. cap rates).

Mall REITs accelerated the pace and size of their external growth plans to take advantage of these increasingly profitable and value-creating opportunities. The under-construction development and redevelopment pipeline for the mall REITs in our coverage universe increased by nearly four-fold over the last three years. The Federated-May merger of '05, which allowed the mall REITs to purchase 'duplicate' anchor space from the combined entity, also added to the euphoria and opportunities. New retail con-

cepts, expansion of existing formats, and foreign retailers seeking a U.S. audience created enormous demand for retail real estate.

V. ... But Are Now Stepping Back Into the Shadows

After a few years of consistently ramping up development plans to meet burgeoning demand, the aggregate commitment to mall construction fell at the end of '07. Recent and upcoming "re"-openings of reconfigured Federated-May boxes as well as scheduled deliveries/openings are likely contributing to this decline. Yet, comments from the recent 4Q earnings seasons suggest other factors are at play. Simon Property Group (SPG) "pushed a couple of potential deals back" on new mall development because the "retail demand was not quite there". General Growth Properties (GGP) will "defer the commencement of a number of non time-sensitive mall redevelopment and/or expansion projects".

Nearly all of the mall REITs have made similar adjustments to their external growth plans, for projects under construction and in their shadow pipelines. Pennsylvania REIT (PEI) and Glimcher Realty Trust (GRT) recorded write-offs of 'abandoned project costs' during '07, while Tanger Factory Outlet Centers (SKT) put a potential site on hold based on 'development challenges'. With retail sales falling

and tenants pulling back on the reins of growth, and with store closures poised to pick up in the coming months, the typical 50% pre-leasing bogie before shoveling dirt has likely become harder to hit. It is unsurprising to see the sector scale back as a result.

VI. Liquidity Concerns Mute Buyback Activity

The ongoing dysfunction of the real estate capital markets has placed a premium on capital and liquidity, particularly for those with shallower pockets. Although the equity and debt spigots are running dry, the collection plate for capital remains largely unchanged as mall REITs have to deal with upcoming mortgage maturities and recurring capital needs, on top of their planned investments in external growth. In light of these and other concerns, none of the mall REITs repurchased shares during 4Q07, and buyback activity throughout '07 was generally muted despite the considerable NAV discounts that persisted throughout the year.

As a group, mall REITs bought roughly \$330 million in stock since the beginning of '07, or less than 1% of their total shares/OP units outstanding. By comparison, apartment REITs have traded at a similar NAV and unleveraged asset value discount throughout '07. Yet, apartment REIT management teams were very active on the share buyback front, spend-

Exhibit 3

In general, growth in mall sales lagged the average increase in portfolio rents during '07, and the mall REITs dipped into their embedded NOI growth cookie jars as a result. Only TCO added to its embedded NOI growth bucket last year, since increases in mall sales within the REIT's portfolio outpaced rent growth in '07. Despite the ongoing deterioration in the retail sales environment, the mall REITs with the highest embedded NOI growth – which happen to also be the owners of the highest-quality properties – are expecting more robust increases in same-property NOI during '08. PEI's relatively healthy same-property NOI growth forecast for '08 is somewhat of an outlier given that it has the smallest embedded NOI growth in the group. This relatively healthy NOI increase is primarily driven by the sizeable redevelopment capital spent in recent years, with minimal contributions expected from stand-alone improvements in operating performance.

Company	Symbol	Estimated market base rent / s.f. of portfolio (1)	Embedded NOI growth (2)	Same-property NOI growth forecast in '08 (3)
Simon Property Group	SPG	\$45.85	23%	3 - 4%
Taubman Centers	TCO	\$52.96	22%	4.5 - 5%
General Growth Properties	GGP	\$43.45	20%	5%
Macerich	MAC	\$45.36	15%	3.5 - 4%
Tanger Factory Outlet Centers	SKT	\$18.40	8%	4%
CBL & Associates	CBL	\$31.51	8%	0 - 2%
Glimcher Realty Trust	GRT	\$28.45	7%	1 - 2%
Pennsylvania REIT	PEI	\$31.13	2%	2.5 - 3.5%

(1) Green Street estimate based upon the current sales/s.f. and the average rent-to-sales ratio over the last three years.

(2) Green Street estimate, reflecting growth in NOI that would result from instantly marking rents to current market levels.

(3) Company disclosures.

ing \$2.4 billion towards repurchases and reacquiring 5% of their total share base during the year. The fact that mall REITs invested more money on acquisitions and development than on share buybacks is disappointing.

The mall sector currently trades at 35% NAV discount, or roughly 18% below unlevered asset values. The weighted average implied cap rate for the mall REITs stands at 7.4%, while the nominal cap rate used to value the real estate in our NAV estimates is roughly 150 bps lower. Management teams should consider arbitraging the historically-wide gap between public and private market pricing in the mall space by selling real estate, or contributing properties to joint ventures, and using the proceeds to buy back shares at discounted pricing.

Management teams with limited financial flexibility and significant capital commitments in place, particularly relating to development that cannot stop on a dime, probably are unwise to engage in sizeable buyback activity. This constraint, however, begs the question of why many mall REITs are as highly levered as they are. While share buybacks in themselves may not always be the most appropriate capital allocation decision, a self-funded program (i.e. using proceeds from property sales to repurchase shares) is indisputably the right thing to do when NAV discounts are significant.

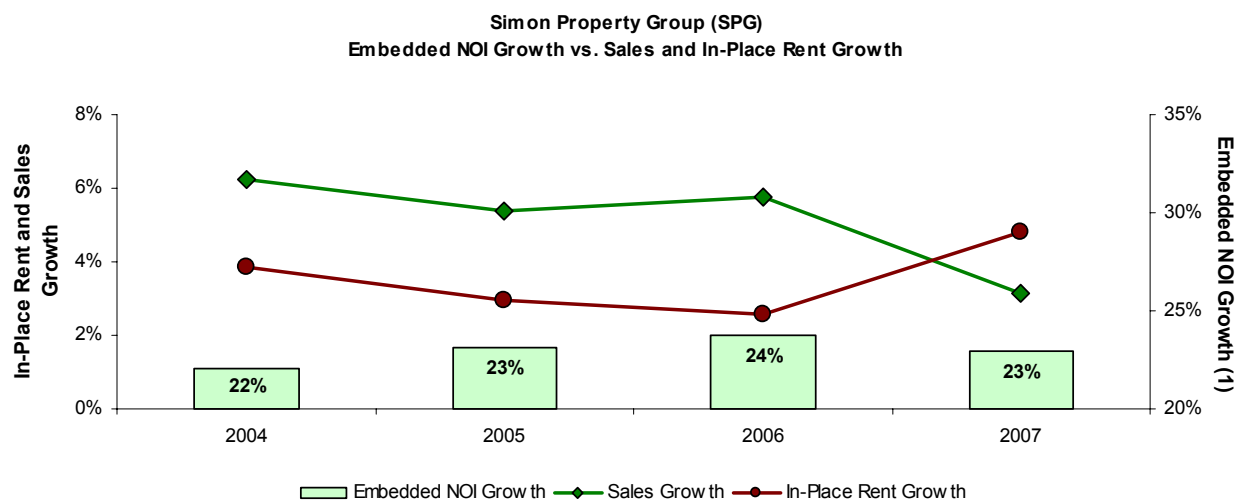
VII. Company-Specific Commentary

To access individual company updates published during the 4Q07 earnings season, please click the following links.

- [CBL & Associates \(CBL\): A Forgettable Year in '07](#)
- [General Growth Properties \(GGP\): Liquidity Concerns Mask a Sound Core](#)
- [Glimcher Realty Trust \(GRT\): Recipe for Falling Sales - One Part Definitional, Two Parts Fundamental](#)
- [Simon Property Group \(SPG\): Embedded NOI Growth: Medicine for the Economic Headache](#)
- [Pennsylvania REIT \(PEI\): A Peek Under the Hood Reveals a Weakening Core Portfolio](#)
- [Tanger Factory Outlet Centers, Inc. \(SKT\): Outlet Centers - No Longer the Retail Industry's Best-Kept Secret](#)

Exhibit 4

Simon Property Group (SPG) owns a large and geographically diverse portfolio of high-quality malls, so its holdings are a decent proxy for the U.S. mall business. Increasing sales have outpaced rising in-place rents for several years, causing the embedded NOI growth for SPG and most of its mall peers to rise. Sales growth in SPG's mall portfolio lagged the increase in average base rent during '07, and the embedded NOI growth fell as a result.



(1) Embedded NOI growth is Green Street's estimate of the amount by which NOI would grow if all leases could be instantly marked to market.

Source: Company disclosures and Green Street estimates.

VIII. Recommendation

After having been the total return darling earlier this decade, mall REITs are on track to underperform the NAREIT Equity REIT Index for a third straight year. The nearly -10% year-to-date total return for the sector falls short of this benchmark index by roughly 170 basis points. The key risk to the mall REITs continues to be a weak consumer, as the impact of faltering retail sales reaches into many other aspects of the mall business including core NOI growth, profitability of developments and redevelopments, and property values.

In general, higher-quality malls have reported better NOI and sales growth than their lower quality peers over the past few years. This performance gap is likely to persist, largely due to the sizeable embedded NOI growth built up from several years of strong sales. Mall REITs with high-quality portfolios have more of an NOI cushion if tenant sales flatten out and/or occupancies decline from current levels. Yet, significant occupancy losses could quickly erode this NOI cushion, particularly for owners of lower-quality malls.

The cap rate assumptions used to value malls in our NAV estimates were recently increased, from a low of +12 basis points for "A-" quality malls to a high of

Exhibit 5

Mall REITs allocated a paltry amount of capital towards share buybacks during '07, despite the sizeable NAV discounts that persisted throughout the year. By comparison, the apartment REITs – which traded at a similar NAV discount to mall REITs – spent nearly \$2.4 billion towards repurchases during '07, which represented roughly 5% of outstanding shares/OP units.

Company	Shares repurchased full year '07	% of shares /OP units reacquired	Remaining authorization (% of shares outstanding) (1)
TCO	\$100,000	2.4%	1.3%
MAC (2)	\$74,962	0.9%	No Plan
GGP	\$95,600	0.6%	2.0%
PEI	\$5,444	0.4%	10.1%
SPG	\$49,300	0.2%	3.9%
CBL	\$5,168	0.1%	3.5%
SKT	\$0	0.0%	0.3%
GRT (2)	n/a	n/a	No Plan
Totals	\$330,474	0.7%	

(in 000s, except per share amounts)

(1) Based on closing share prices on 3/7/2008.

(2) GRT and MAC do not have a share buyback program in place. MAC repurchased common shares in March '07 concurrent with a convertible notes offering.

Sources: GSA estimates and company disclosures.

Exhibit 6

A quality grade is assigned to each mall property based primarily on sales/s.f., supplemented by information from site visits and discussions with market participants. Cap rates are then assigned based on quality. Cap rates were recently increased across the board with small changes at the high-end of the quality scale and larger changes at the other end.

Quality Grade	Assumed cap rate	Sales/s.f. estimate
A+	4.5%	\$600
A	5.0%	\$500
A-	5.5%	\$400
B+	6.3%	\$375
B	6.8%	\$350
B-	7.5%	\$325
C+	8.3%	\$300
C	9.0%	\$250
C-	10.0%	\$200
D	12.0%	\$150

+100 basis points for those rated "D". Yet, the ongoing illiquidity of the real estate capital markets on top of a weakening economy suggest even higher cap rate assumptions may soon be warranted.

Given that embedded NOI growth provides high-quality malls with a sizeable cushion against declining NOI, while lower-quality malls face greater risk of rising cap rates and occupancy erosion, we maintain our bias towards high-quality mall names. That said, the low-quality mall names trade at a much larger NAV discount compared to their high-quality peers. While this gap is likely to narrow at some point, the timing of this appears to not be imminent.

At current prices, our BUY recommendations are MAC and TCO. Our SELL recommendations are CBL and PEI.

Jim Sullivan
Benjamin Yang, CFA
Andrew Johns

Development – Do the numbers work when share prices are weak?

A basic tenet of finance is that a typical capital investment needs to offer a prospective return that exceeds a firm's weighted average cost of capital (WACC). Higher risk investments – e.g. development – need to offer even higher returns. Unfortunately, the WACC for virtually every REIT has increased greatly over the last year as a result of a sizable increase in the cost of debt and an even larger increase in the cost of equity. Against that backdrop, it is appropriate to question whether the development pipeline for any given REIT offers prospective returns that are high enough to exceed the now-elevated WACC. With the WACC for the average REIT at about 8.0%, and return hurdles on development even higher than that, there are numerous examples of REITs that are plowing money into development projects that offer a negative net present value.

Indeed, it may well be the case that the majority of REIT development projects currently stack up as value-destroying projects when measured by this standard. This does not mean that development is inherently a bad business, nor does it mean that REITs with large development infrastructures and projects underway should pull the plug. It does mean that development is a risky business, and the next couple of years are likely to be a time when every dollar allocated to development is, at the very least, a sub-optimal allocation of capital, or worse, a foray into the land of negative net present value.

It wasn't too long ago when development economics looked great; how did things change so fast? The primary culprit is the bear market in REITs, but it is the more subtle message embedded in today's stock prices – cap rates are headed higher and real estate values are headed lower – that causes development to look like such a money losing venture. A typical developer might contend that he is developing to a 9% yield at a time when cap rates are 8%, but REIT investors are implicitly assuming that cap rates will be higher than 8% – probably even higher than 9% – when the development is delivered.

Most real estate executives aren't used to thinking of the world this way, and they pooh-pooh this type of discussion as an academic exercise that is not particularly relevant to how a developer needs to run its business. To the extent that development pipelines can't be opened and closed at a moment's notice, this view has merit, but the bigger point is that there are times when other capital allocations become far more compelling, and the economics of share buybacks are currently far more attractive (you can buy real estate at tomorrow's discounted prices!) than the economics of development (or acquisitions for that matter). While a healthy debate could be had with regard to whether a given REIT should be allocating any incremental capital it doesn't need to today, what is indisputable is that if capital is to be deployed, share buybacks currently trump any other alternative.

Company	Development Pipeline	As a % of Oper. RE	Expected Yield on Development	Implied WACC
CBL & Associates	\$390	3.3%	8.5%	9.5%
General Growth Properties	2,237	5.1%	9.3%	8.3%
Glimcher Realty Trust	215	7.3%	8.0%	11.5%
Macerich	1,160	7.6%	9.0%	8.0%
Pennsylvania REIT	658	15.1%	7.5%	9.7%
Simon Property Group	1,392	2.8%	9.3%	7.9%
Tanger Factory Outlet Centers	193	7.5%	9.3%	8.3%
Taubman Centers	263	3.1%	9.4%	6.8%
Weighted Average	\$6,508	4.7%	9.0%	8.1%

Acquisition and development outlays dwarfed share buyback activity last year. Similar strategies in '08 will be

Company	Recent Acquisitions (1)	Annual Developments (2)	Share Buybacks (3)
CBL & Associates	\$1,570,800	\$250,000	\$5,168
General Growth Properties	2,175,000	850,000	95,600
Glimcher Realty Trust	84,000	100,000	0
Macerich	13,500	500,000	74,962
Pennsylvania REIT	0	300,000	5,444
Simon Property Group	386,638	950,000	49,300
Tanger Factory Outlet Centers	0	150,000	0
Taubman Centers	133,100	200,000	100,000
Total (in 000s)	\$4,363,038	\$3,300,000	\$330,474

(1) Total asset value for recent acquisitions, over the trailing 12-months.

(2) Estimated investment in developments and redevelopments over next two years.

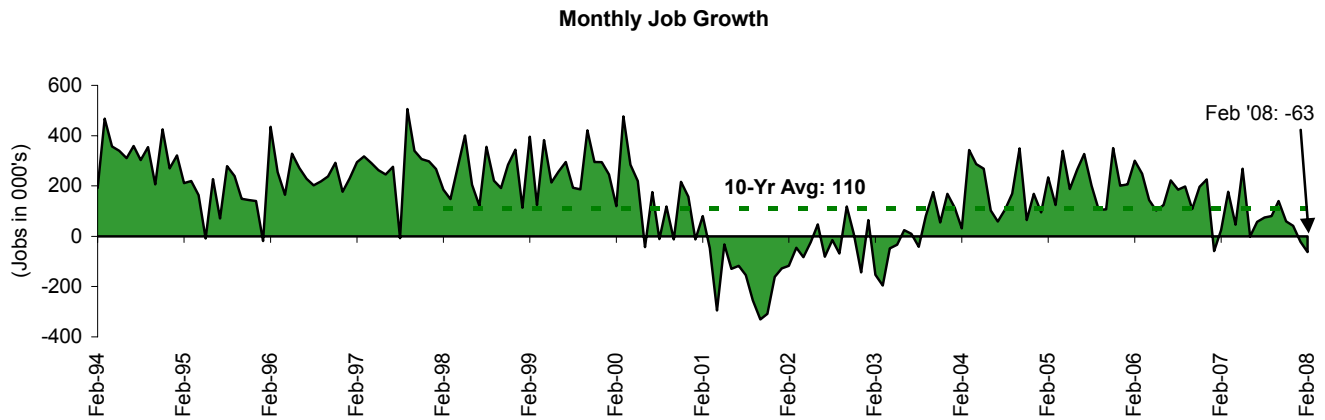
(3) Over the trailing 12-months.

Sources: GSA estimates and company disclosures.

IX. Consumer Spending

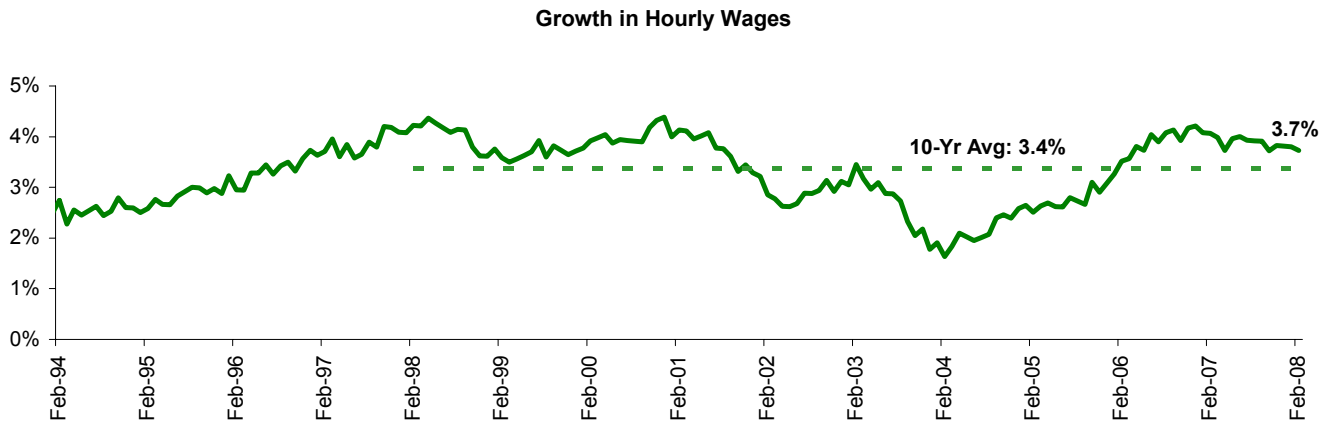
Employment

Employment growth in the U.S. has been anemic in recent months.



Source: U.S. Bureau of Labor Statistics

Despite this, wage growth has held firm.



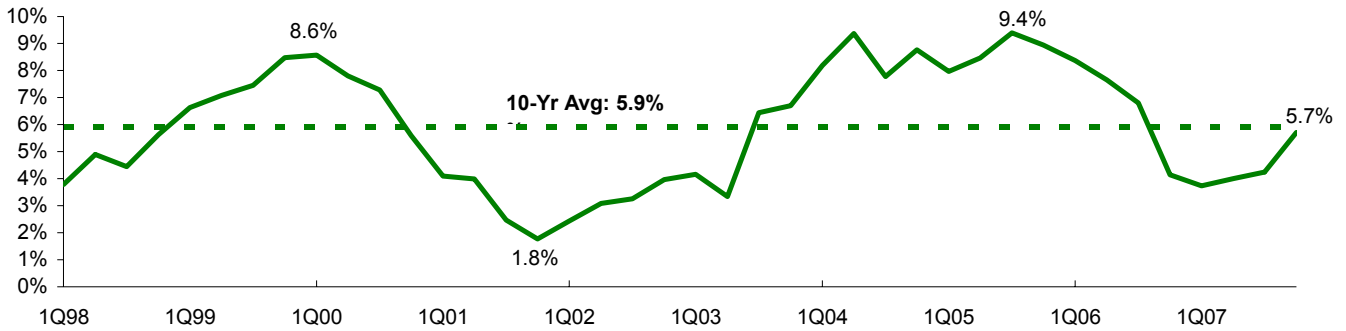
Source: U.S. Bureau of Labor Statistics

IX. Consumer Spending

Sales Growth

Higher fuel and food costs are likely major contributors to the seemingly-robust increase in retail sales. Taking these and other inflated costs out of the picture, the overall trend for retail sales is positive but decelerating.

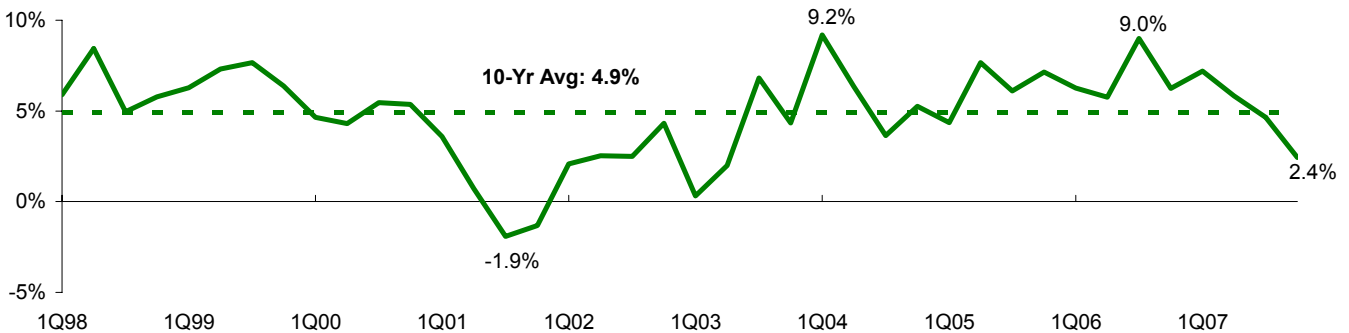
**Ex-Auto Retail Sales
(year-over-year)**



Source: U.S. Census Bureau

Sales growth for apparel and accessories is arguably a better indicator of mall sales and performance. Growth in these categories of merchandise has decelerated since mid-'06. Substantial store closings announced by Ann Taylor, Talbots, Charming Shoppes, and Pacific Sunwear speak to the challenges in this segment.

**Aggregate Apparel Retail Sales Growth
(year-over-year)**



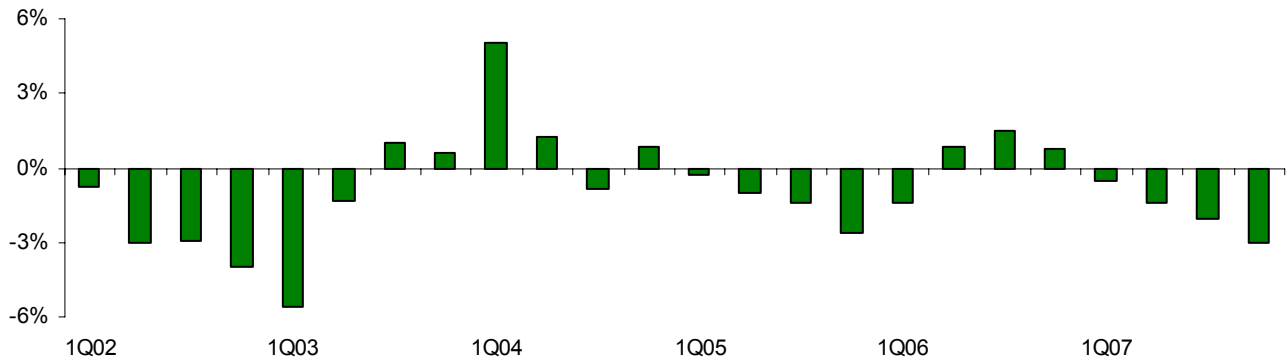
Source: U.S. Census Bureau

X. Retail Environment

Comp-Store Sales

After a couple of quarters of reporting positive comp-store sales in '06, department stores resumed their downward sales trends during the last year. Comp-store sales for the department stores were down 3% during the most recent quarter. The dismal results reported by Bon Ton, Dillard's, and Sears leave the long-term viability of these anchor stores in question.

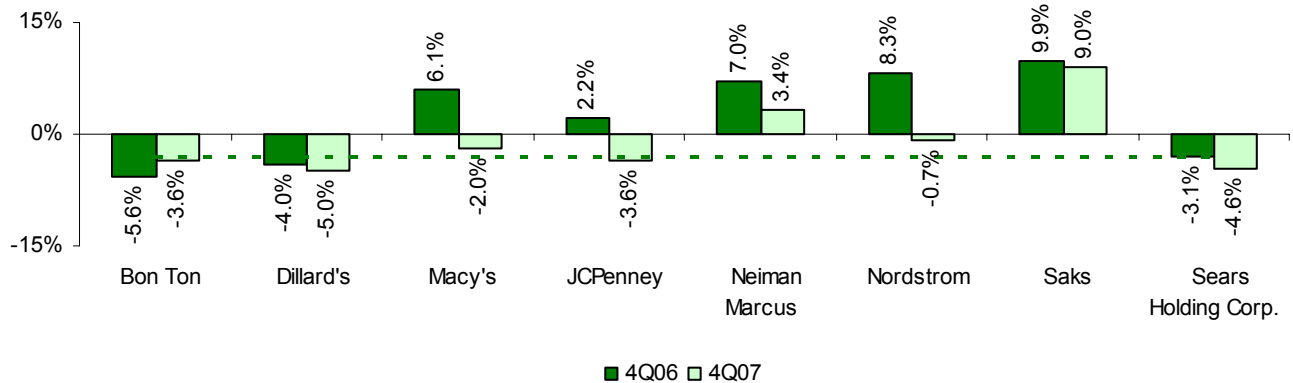
Department Store Comp-Store Sales (1)



(1) Sales weighted average of same-store sales for major department store operators, including Bon Ton, Dillard's, Federated, JCPenney, May (through '05), Neiman Marcus, Nordstrom, Saks, and Sears.

Higher-end department stores (Neiman Marcus, Nordstrom, and Saks) reported relatively good comp-store sales growth compared to their moderately-priced peers.

4Q07 vs. 4Q06 Department Store Comp-Store Sales

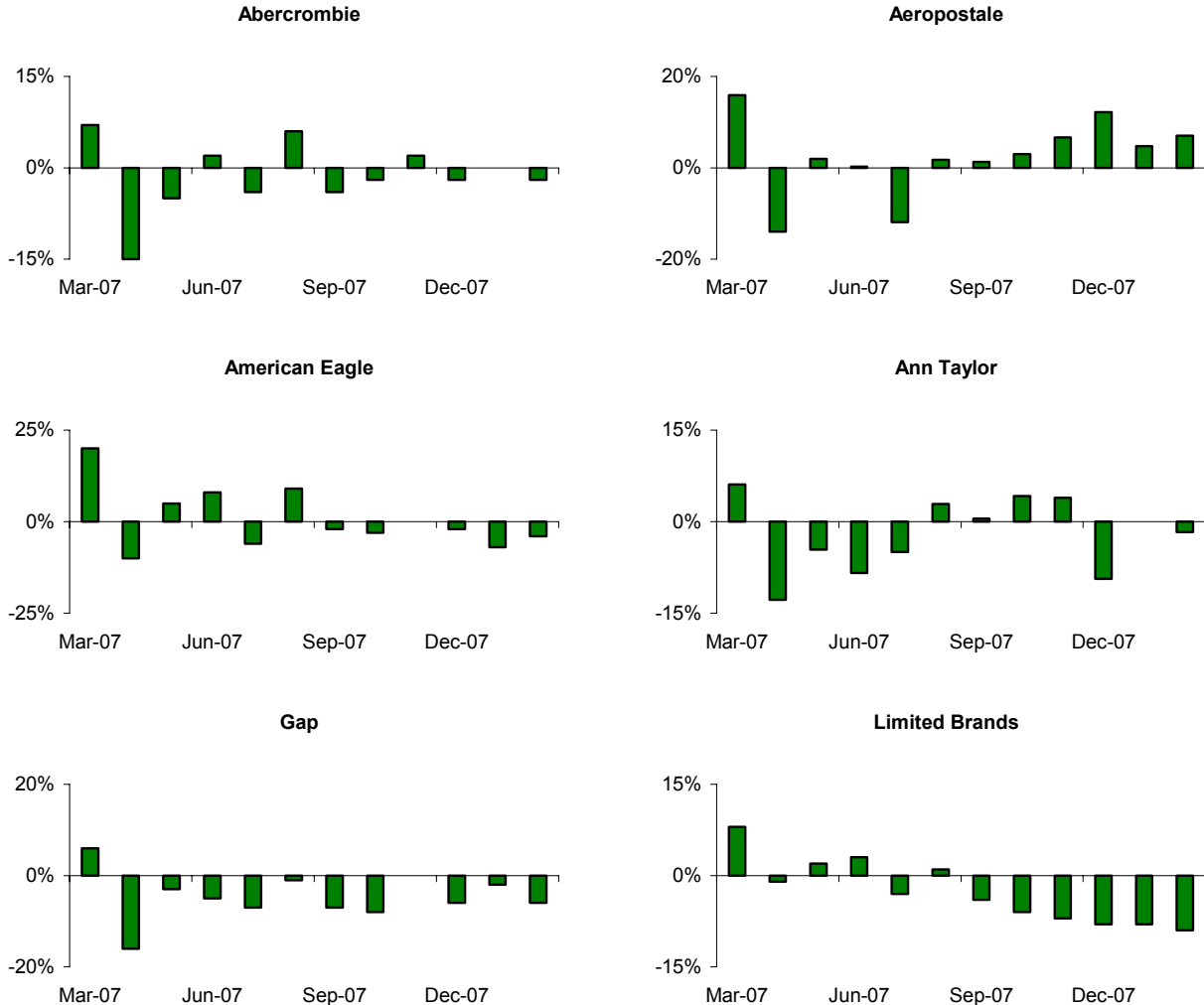


Source: Company disclosures

XI. Mall Retailers

Comp-Store Sales

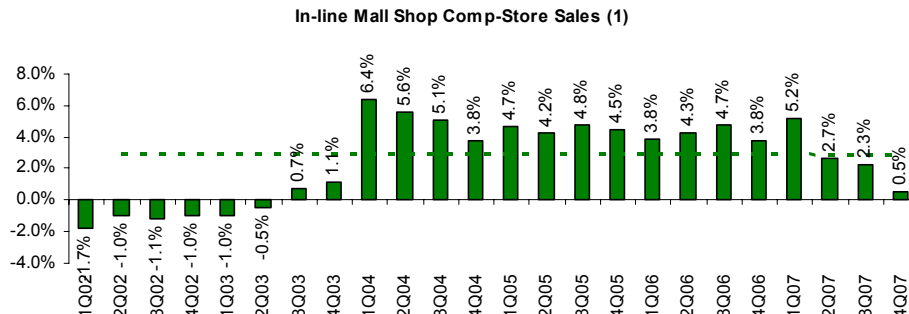
Sales at popular mall-based retailers remain weak and are not expected to pick up anytime soon. Retailers are retrenching as a result, with nearly 5,800 store closures expected in '08. Successful concepts continue to open new stores, but many have slowed the pace of expansion.



Source: Company disclosures

In-Line Sales

Comparable-store sales growth during 4Q07 fell to their lowest levels since mid-'03. The Holiday season was generally a bust for both retailers and landlords. The deceleration in sales growth suggests that '08 could mark a return to the negative growth scenario last seen in '02-'03.



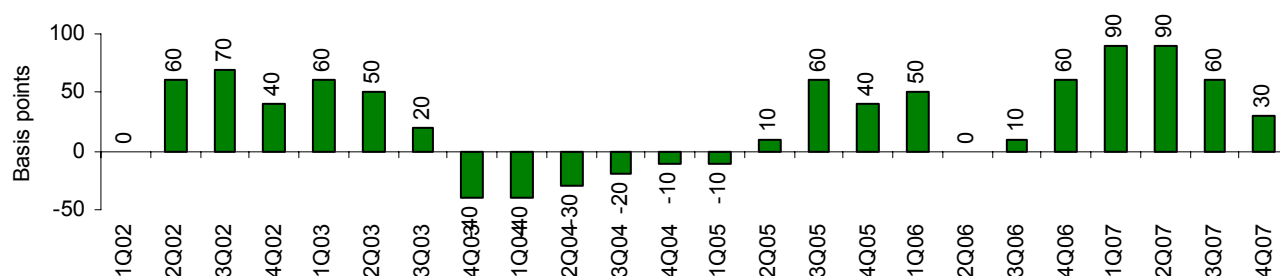
(1) Mall-shop GLA weighted average for all mall REITs in Green Street's coverage universe.

XII. Recent Operating Performance

Occupancy

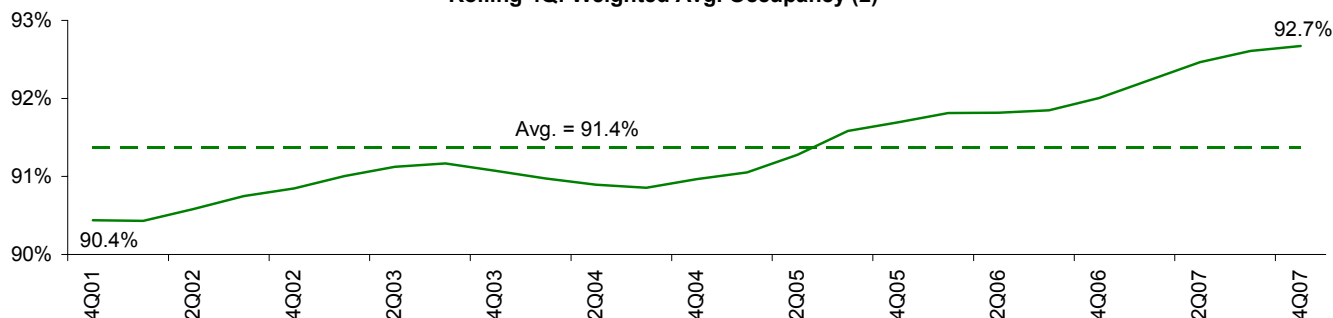
Occupancy was up an average of 30 basis points in 4Q07. With retailers retrenching and store closures expected to reach 5,800 in '08, occupancy levels are at risk of falling in the coming year, albeit from record-high levels for most mall REITs.

Year-over-year Change in Mall-Shop Occupancy (1)



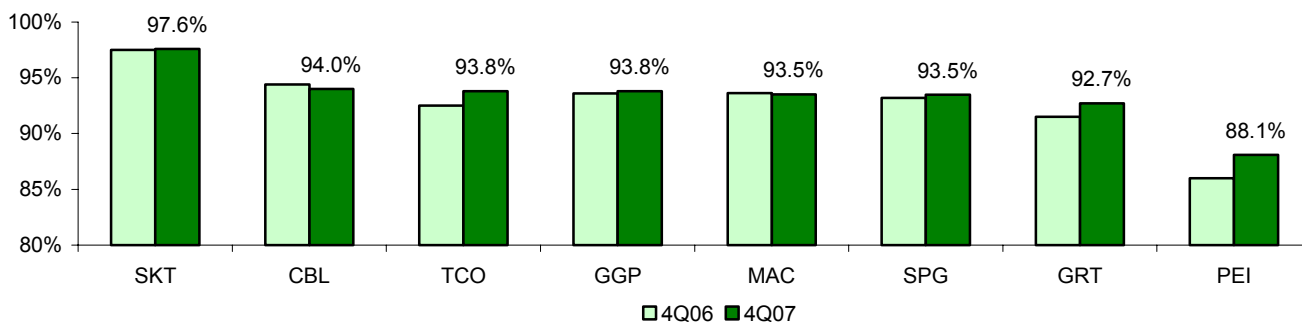
Record-high occupancy levels for the mall REITs may soon be history if consumer spending continues stalling under the weight of a weakening economy. The '03-'04 timeframe was a reasonably healthy period for malls, and the average occupancy was about 150 basis points lower than the level at the end of '07.

Rolling 4Q: Weighted Avg. Occupancy (2)



Occupancy gains were hard to come by during 4Q07. CBL & Associates (CBL) and Macerich (MAC) reported modest occupancy losses during the quarter. Pennsylvania REIT (PEI) continues to benefit from filling space in malls previously impacted by extensive redevelopment.

4Q07 vs. 4Q06 Portfolio Occupancy



(1) Weighted average for all mall REITs in Green Street's coverage universe based on mall-shop GLA.

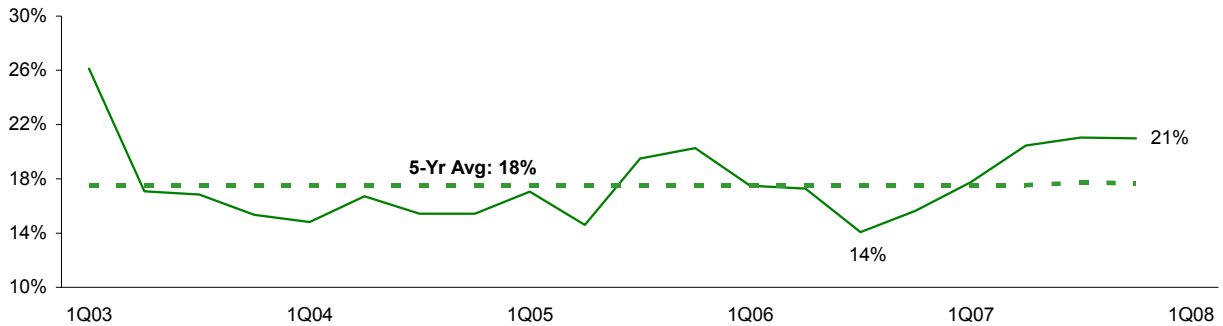
(2) Readers should exercise caution in interpreting this data. A material portion (i.e. perhaps half or more) of the improvement shown here is attributable to the acquisition of better-occupied malls over the period. Unfortunately, few mall REITs provide same-property occupancy so that a meaningful historical comparison can be made.

XII. Recent Operating Performance

Internal Growth

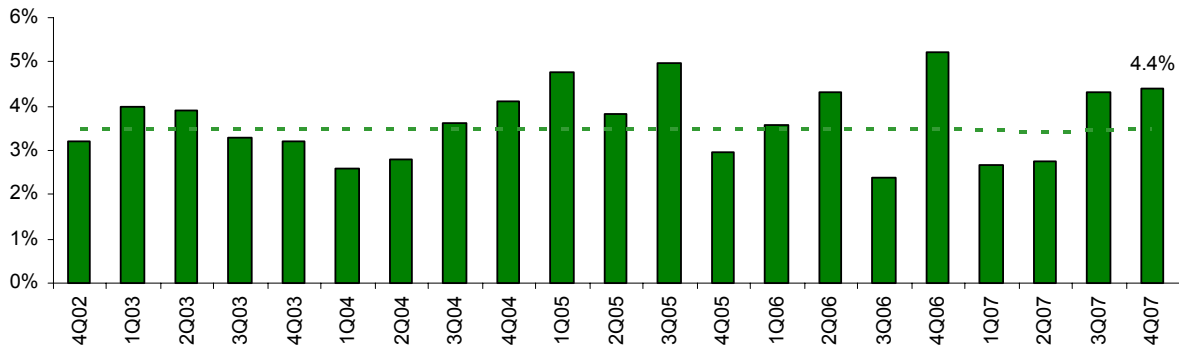
Despite weakening sales, the average re-leasing spread remained solid. Given long-term leases and robust sales growth over the past few years, there is significant upside to in-place rents for most mall REITs, even if market rents flatten out at current levels.

Re-leasing spreads (1)



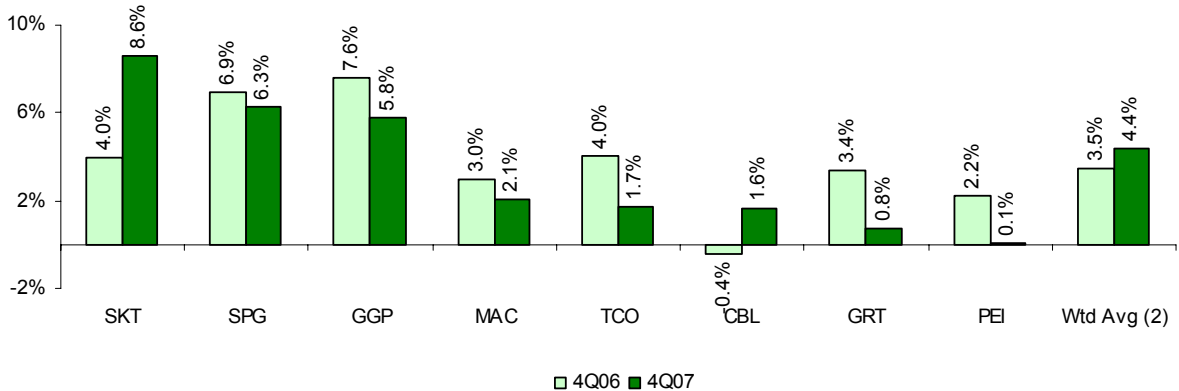
At 4.4% during the recent quarter, increases in same-property NOI remain robust. Growth forecasts for '08 average a solid 3.5% for the sector, which may strike some investors as too "rosy" given the backdrop of retailer weakness. Sizeable embedded NOI growth is the key reason why the forecast remains so robust, although occupancy slippage remains a key offsetting risk.

Same-property NOI growth (2)



Mall REITs that own higher-quality properties continued reporting relatively better same-property NOI growth.

Same-Property NOI Growth



(1) Many mall REITs report re-leasings spreads that are not comp-space. Use caution in interpreting this data. The data is a weighted average (by pro rata shop GLA) of each mall companies reported re-leasing spreads.

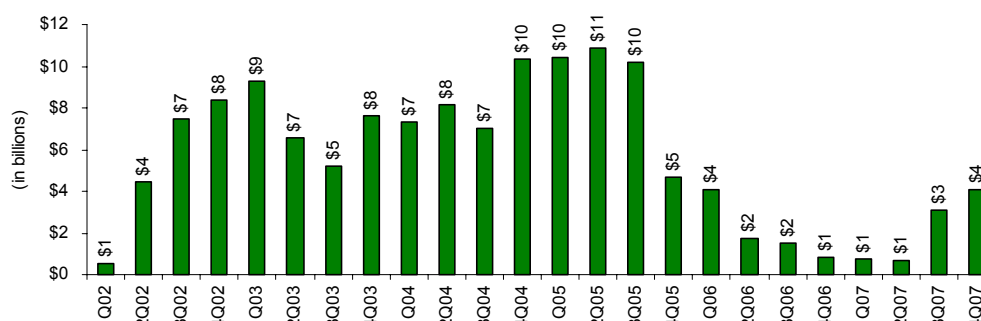
(2) Weighted average for all mall REITs in Green Street's coverage universe based on mall-shop GLA.

XIII. External Growth

External Growth - Acquisitions

CBL & Associates (CBL) was very active on the mall acquisition front during 4Q07, having acquired four malls in St. Louis for roughly \$1 billion and a retail/office property portfolio in North Carolina for over \$500 million. CBL plans to shed some of the non-core assets picked up in the Blue Devil state. Financial distress is unlikely to cause a significant increase in high-quality mall sales during '08, since the REITs already own the vast majority of A/B-quality malls. Buying interests in their own portfolios via share repurchases remains a more compelling investment for all mall REITs at current prices.

Mall REITs: Rolling 12-month Acquisition Pace (1)



(1) Excludes the \$13B Rouse acquisition in 4Q04 and roughly \$4B share of the Mills purchase in 2Q07.

External Growth - Development & Redevelopment

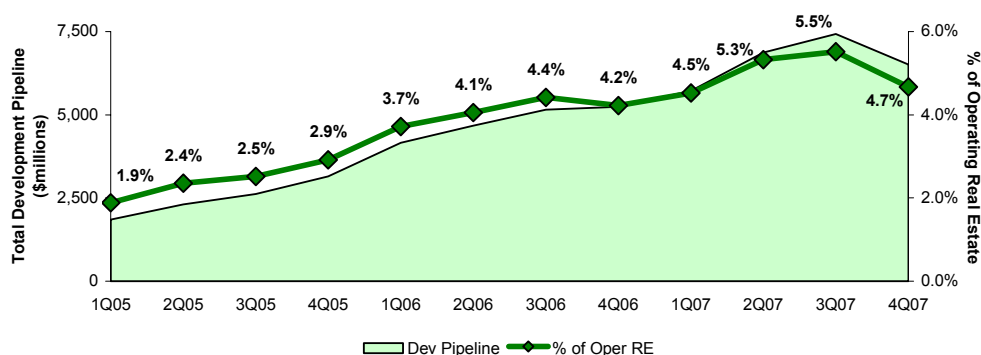
The aggregate pipeline of the mall REITs in our coverage universe fell by nearly \$1 billion during the recent quarter. Scheduled deliveries/openings as well as a slowdown in new activity is contributing to this decline.

(in \$millions)

Company	Development Pipeline	Operating Real Estate	% of Operating Real Estate	Expected Value Creation (1)	Value Creation As a % of NAV
PEI	\$658	\$4,353	15.1%	\$40	1.7%
MAC	1,160	15,210	7.6%	488	5.3%
SKT	193	2,571	7.5%	57	2.9%
GRT	215	2,927	7.3%	19	1.4%
GGP	2,237	43,790	5.1%	904	4.5%
CBL	390	11,730	3.3%	70	1.3%
TCO	263	8,408	3.1%	149	2.7%
SPG	1,392	50,365	2.8%	562	1.7%
Total / Avg.	\$6,508	\$139,354	4.7%	\$2,289	2.7%

(1) Present value of development profits for developments and redevelopments currently under construction, based on current cap rates and the extent to which projected yields are expected to exceed an appropriate hurdle rate.

The aggregate development pipeline for the mall REITs in our coverage universe represented a 4.7% expansion of their operating real estate portfolios.



Sources: GSA estimates and company disclosures.

XIV. Appendices

Appendix A



Source: Bloomberg, as of 3/6/08.

MALL REITs - SAME-PROPERTY NOI GROWTH

	<u>Symbol</u>	2005	2006					2007				
		Full Yr	1Q	2Q	3Q	4Q	Full Yr	1Q	2Q	3Q	4Q	Full Yr
CBL & ASSOCIATES	CBL	6.0%	1.5%	3.5%	-0.5%	-0.4%	1.5%	-1.8%	2.6%	-0.7%	1.6%	0.4%
GENERAL GROWTH (1)	GGP	4.6%	4.0%	8.0%	2.5%	7.6%	6.3%	3.9%	3.4%	5.6%	5.8%	5.1%
GLIMCHER REALTY TRUST	GRT	1.4%	-0.5%	-0.2%	1.2%	3.4%	1.5%	3.1%	1.8%	3.5%	0.8%	0.8%
MACERICH	MAC	3.1%	4.1%	2.7%	2.7%	3.0%	3.0%	1.7%	3.4%	2.4%	2.1%	2.4%
PENNSYLVANIA REIT	PEI	-2.8%	-0.5%	-1.2%	-0.5%	2.2%	0.8%	0.3%	1.1%	0.8%	0.1%	0.6%
TANGER FACTORY	SKT	3.8%	4.2%	4.6%	0.1%	4.0%	3.1%	3.0%	2.3%	6.2%	8.6%	5.3%
SIMON PROPERTY GROUP	SPG	4.0%	4.4%	2.9%	3.9%	6.9%	5.0%	3.7%	1.6%	5.6%	6.3%	4.5%
TAUBMAN CENTERS	TCO	6.3%	3.8%	3.8%	3.5%	4.0%	3.8%	4.5%	6.4%	9.8%	1.7%	5.3%
MALL REIT AVERAGE		3.3%	2.6%	3.0%	1.6%	3.8%	3.1%	2.3%	2.8%	4.2%	3.4%	3.1%
MALL REIT WTD. AVERAGE (2)		3.8%	3.6%	4.4%	2.4%	5.2%	4.3%	2.7%	2.7%	4.3%	4.4%	3.6%

MALL REITs - PORTFOLIO OCCUPANCY (3)

	<u>Symbol</u>	2005	2006					2007				
		Full Yr	1Q	2Q	3Q	4Q	Full Yr	1Q	2Q	3Q	4Q	Full Yr
CBL & ASSOCIATES (4)	CBL	92.8%	91.1%	91.4%	92.3%	94.4%	92.3%	91.2%	91.7%	92.8%	94.0%	92.4%
GENERAL GROWTH	GGP	91.4%	91.1%	91.2%	92.4%	93.6%	92.1%	92.9%	92.9%	93.2%	93.8%	93.2%
GLIMCHER REALTY TRUST	GRT	89.5%	86.5%	87.3%	88.6%	91.5%	91.8%	89.1%	90.3%	91.3%	92.7%	92.7%
MACERICH	MAC	92.9%	92.5%	92.1%	93.0%	93.6%	92.8%	92.8%	93.2%	93.5%	93.5%	93.5%
PENNSYLVANIA REIT	PEI	86.1%	85.2%	85.4%	85.7%	86.0%	86.0%	86.0%	86.5%	87.3%	88.1%	88.1%
TANGER FACTORY	SKT	97.0%	95.0%	96.2%	96.0%	97.5%	96.2%	95.1%	96.6%	97.3%	97.6%	96.7%
SIMON PROPERTY GROUP (5)	SPG	92.4%	91.6%	91.6%	92.5%	93.2%	92.2%	91.8%	92.0%	92.7%	93.5%	93.5%
TAUBMAN CENTERS	TCO	91.1%	90.9%	91.8%	92.4%	92.5%	91.9%	92.1%	92.4%	93.3%	93.8%	92.9%
MALL REIT AVERAGE		91.7%	90.5%	90.9%	91.6%	92.8%	91.9%	91.4%	92.0%	92.7%	93.4%	92.9%
MALL REIT WTD. AVERAGE (2)		91.9%	91.1%	91.4%	92.3%	93.2%	92.1%	92.0%	92.2%	92.8%	93.5%	93.1%

(1) Management's same-property pool excludes roughly one-half of its properties.

(2) Weighted by total mall-shop GLA.

(3) Occupancy is defined as percent of mall shop and freestanding GLA leased (excludes anchors).

(4) CBL figures are for stabilized regional malls only (excludes new developments and redevelopments).

(5) SPG figures are for regional malls only.

Appendix C

Development Pipeline (\$ thousands, as of 12/31/2007)

<i>Mall REITs</i>	SYM	Under Development (1)	Funded to-date	Percent Complete	Estimated Value of Operating Prop (2)	Pipeline as % of Oper Props Value	Equity Mkt Cap (3)	Pipeline as % of Equity Mkt Cap	Expected Stabilized Yield on Cost (4)
PENNSYLVANIA REIT	PEI	\$658,400	\$286,100	43%	\$4,352,986	15%	\$990,073	67%	8.1%
MACERICH	MAC	\$1,159,529	\$511,297	44%	\$15,210,094	8%	\$5,300,558	22%	9.0%
TANGER FACTORY	SKT	\$193,067	\$87,126	45%	\$2,571,198	8%	\$1,438,523	13%	10.2%
GLIMCHER REALTY TRUST	GRT	\$215,000	\$15,200	7%	\$2,927,110	7%	\$442,544	49%	8.0%
GENERAL GROWTH (5)	GGP	\$2,237,200	\$1,310,514	59%	\$43,789,950	5%	\$9,970,613	22%	9.8%
CBL & ASSOCIATES	CBL	\$390,029	\$206,455	53%	\$11,729,692	3%	\$2,693,248	14%	8.1%
TAUBMAN CENTERS	TCO	\$263,000	\$105,000	40%	\$8,407,749	3%	\$3,888,096	7%	10.0%
SIMON PROPERTY GROUP	SPG	\$1,392,257	\$610,100	44%	\$50,365,137	3%	\$24,312,507	6%	10.3%
Average		\$813,560	\$391,474	48%	\$17,419,240	5%	\$6,129,520	13%	9.2%
Total		\$6,508,482	\$3,131,792	48%	\$139,353,916	5%	\$49,036,162	13%	

(1) In general, includes only projects where a site has been acquired and construction commenced. Includes substantial expansions and redevelopments (incremental cost only). Includes joint venture development on a pro rata share basis. In general, follow-on phases of projects are not included if the project has several phases.

(2) As of the date of GSA's last NAV calculation.

(3) Includes shares and OP/DownREIT units.

(4) Measured on an unleveraged nominal (i.e. pre-"cap ex" reserve) first calendar year basis. Excludes straight-line rent.

(5) Funded to date amount estimated.

Regional Mall REITs - Comparative Analysis

PORTFOLIO DATA I

	Primary Market		Estimated NOI Break-Out			Mall Portfolio sf (000s):	Number of Malls	Average GLA/Mall (X's 1,000sf)	Avg. Percent Ownership (1)	Mall Quality Grade	Recent Occup (2)	Last 12 Months Sales/sf (3)	2007 Sales/sf	YTD Same-Store Sales Growth	2007 Same-Store Sales Growth	In-Line Tenant Occ Costs (4)
			Malls	Strips	Other											
CBL & ASSOCIATES	CBL	National	94%	6%	0%	71,383	84	803	94%	B/B-	94.0%	\$346	\$346	0.0%	0.0%	12.3%
GENERAL GROWTH	GGP	National	96%	2%	2%	167,264	200	836	82%	A-/B+	93.8%	\$462	\$462	1.4%	1.4%	12.5%
GLIMCHER REALTY TRUST	GRT	National	98%	2%	0%	20,629	23	897	95%	B-	91.3%	\$351	\$351	-0.8%	-0.8%	NA
MACERICH	MAC	National	94%	7%	0%	64,921	74	877	79%	A-/B+	93.5%	\$472	\$472	-0.7%	1.7%	12.2%
PENNSYLVANIA REIT	PEI	Eastern U.S.	90%	10%	0%	22,577	38	594	97%	B-	87.3%	\$358	\$358	0.3%	0.3%	12.1%
SIMON PROPERTY GROUP	SPG	National	76%	4%	20%	164,000	168	976	82%	A-/B+	92.7%	\$491	\$491	0.0%	3.2%	12.9%
TANGER FACTORY	SKT	National	0%	0%	100%	8,697	29	300	98%	NA	97.3%	\$342	\$342	1.2%	1.2%	7.5%
TAUBMAN CENTERS	TCO	National	85%	15%	0%	19,774	23	860	72%	A/A-	93.3%	\$555	\$555	4.0%	4.9%	14.2%
Average:			79%	6%	15%	67,406	80	768	87%		92.9%	\$422	\$422	0.7%	1.5%	12.0%

PORTFOLIO DATA II

	Primary Market		Avg Anchors/Mall	% of Mall sf Super-regional (5)	Approx. Avg Trade Area Pop	Approx. Average Household Income	Avg Rent through Portfolio	Estimated Market Rent	Embedded NOI Growth	Average remaining lease term	Estimated Recurring Cap-Ex as % of NOI (6)	Nominal Cap Rate	Economic Cap Rate
GENERAL GROWTH (7)	GGP	3.8	76%	475,000	\$64,000	\$36.78	\$43.45	20%	4.9	10.5%	5.90%	5.28%	
GLIMCHER REALTY TRUST	GRT	3.8	70%	546,000	\$55,000	\$26.50	\$28.45	7%	3.7	12.9%	7.40%	6.44%	
MACERICH	MAC	3.7	77%	552,000	\$62,000	\$39.51	\$45.36	15%	4.4	11.2%	5.70%	5.06%	
PENNSYLVANIA REIT	PEI	3.5	41%	375,000	\$53,400	\$30.53	\$31.13	2%	4.3	13.3%	7.35%	6.36%	
SIMON PROPERTY GROUP	SPG	4.0	78%	495,000	\$61,600	\$37.09	\$45.85	23%	4.8	10.2%	5.80%	5.19%	
TANGER FACTORY	SKT	NA	NA	NA	NA	\$18.01	\$18.40	8%	3.6	12.4%	6.25%	5.48%	
TAUBMAN CENTERS	TCO	3.4	96%	1,340,000	\$78,000	\$42.63	\$52.96	22%	4.9	13.8%	5.45%	4.70%	
Average:		3.8	72%	597,571	\$61,000	\$32.53	\$37.14	13%	4.3	12.4%	6.35%	5.55%	

Footnotes:

- 1) Based upon REIT's pro rata economic interest in each mall's gross leasable area.
- 2) Percentage of in-line mall shop space leased.
- 3) Average sales/sf for in-line mall shop space.
- 4) Ratio of rent + reimbursements to sales for in-line mall shop tenants.
- 5) Based upon percent of gross leasable area found in malls of greater than 800,000 sf.
- 6) As of last published report. Subject to change based upon a review currently underway.
- 7) GSA estimate of average rent through portfolio excludes recoverable CAM costs.

Regional Mall REITs - Comparative Analysis

STRUCTURE

FINANCIAL RATIOS

		UP-REIT	Percent of NOI from JVs	New Mall Dev.Capability	Corporate Governance (8)	Insider Ownership	As a % of Current Value Assets			
							Overhead (9)	Leverage (10)	Var. Rate Debt	Curr Assets-Curr Liabs
CBL & ASSOCIATES	CBL	Yes	5%	Yes	30	21.9%	0.30%	57%	10.4%	-3.5%
GENERAL GROWTH	GGP	Yes	29%	Yes	42	17.7%	0.40%	60%	6.6%	-14.2%
GLIMCHER REALTY TRUST	GRT	Yes	4%	Yes	18	6.0%	0.53%	59%	6.2%	-7.1%
MACERICH	MAC	Yes	34%	Yes	41	15.3%	0.42%	47%	5.6%	-7.1%
PENNSYLVANIA REIT	PEI	Yes	10%	Yes	52	10.2%	0.76%	53%	9.2%	-12.8%
SIMON PROPERTY GROUP	SPG	Yes	20%	Yes	59	20.1%	0.27%	44%	6.2%	-4.0%
TANGER FACTORY	SKT	Yes	3%	Yes	60	15.3%	0.57%	29%	1.2%	-9.8%
TAUBMAN CENTERS	TCO	Yes	34%	Yes	31	36.8%	0.47%	38%	2.6%	-0.8%
Average:			17%		42	17.9%	0.46%	48%	6.0%	-7.4%

PERFORMANCE

PRICING (As of 3/6/2008)

		'07A FFO	'08E FFO	'09E FFO	'07A AFFO	'08E AFFO	'09E AFFO	'09 vs. '08 Growth in AFFO	Share Price	Annual Dividend	Dividend Yield	'08 AFFO Yld	'08 AFFO/ Dividend	Estimated NAV/sh	Warranted Premium	Warranted Share Price	Prem/(Disc) v Warr. Price
CBL & ASSOCIATES	CBL	\$3.10	\$3.51	\$3.76	\$2.07	\$2.22	\$2.43	9.5%	\$22.94	\$2.18	9.5%	9.7%	102%	\$45.75	-52.8%	\$21.59	6.3%
GENERAL GROWTH	GGP	\$2.97	\$3.60	\$3.89	\$2.18	\$2.43	\$2.68	10.3%	\$33.09	\$2.00	6.0%	7.3%	122%	\$66.25	-51.4%	\$32.22	2.7%
GLIMCHER REALTY TRUST	GRT	\$1.37	\$2.03	\$2.21	\$1.40	\$1.51	\$1.65	9.3%	\$10.88	\$1.28	11.8%	13.9%	118%	\$32.00	-66.1%	\$10.84	0.4%
MACERICH	MAC	\$4.62	\$5.10	\$5.52	\$3.22	\$3.68	\$4.09	11.1%	\$60.08	\$3.20	5.3%	6.1%	115%	\$104.00	-38.0%	\$64.51	-6.9%
PENNSYLVANIA REIT	PEI	\$3.90	\$3.67	\$3.90	\$2.51	\$2.61	\$2.78	6.5%	\$23.89	\$2.28	9.5%	10.9%	115%	\$54.75	-56.6%	\$23.78	0.5%
SIMON PROPERTY GROUP	SPG	\$5.90	\$6.45	\$7.01	\$4.70	\$5.06	\$5.56	9.9%	\$82.36	\$3.60	4.4%	6.1%	141%	\$111.00	-28.4%	\$79.50	3.6%
TANGER FACTORY	SKT	\$2.48	\$2.67	\$3.02	\$1.87	\$2.04	\$2.33	14.2%	\$34.32	\$1.44	4.2%	5.9%	142%	\$47.00	-26.7%	\$34.46	-0.4%
TAUBMAN CENTERS	TCO	\$2.88	\$3.09	\$3.32	\$2.11	\$2.22	\$2.42	9.0%	\$48.12	\$1.66	3.5%	4.6%	134%	\$69.25	-27.7%	\$50.07	-3.9%
Average:								10.0%			6.8%	8.1%	123%				

Footnotes:

8) Green Street's corporate governance score on scale of 1-100 (100 is best), reflecting numerous variables including board structure and composition, entrenchment devices, and potential conflicts.

9) No consistent definition of overhead exists. Therefore, reporting of this variable can vary widely, and the data should be interpreted with caution. An attempt has been made to "look through" this structure to determine overhead, but the data should be interpreted with caution.

10) Leverage ratio includes perpetual preferred stock as debt; also includes convertible preferred stock if out-of-the-money.

Note: Company Snapshots Removed from sample report.

Please see website for sample snapshot.

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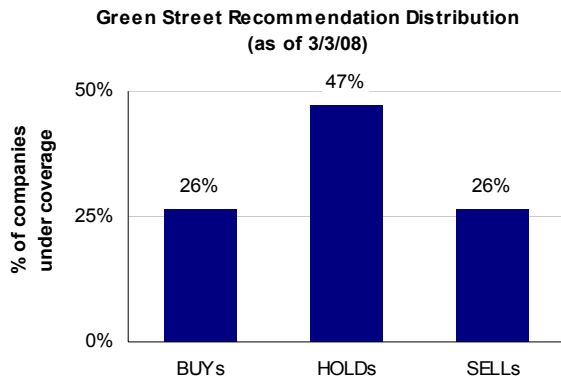
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At any given time, Green Street publishes roughly the same number of "BUY" recommendations that it does "SELL" recommendations.



Green Street's "BUYs" have historically achieved far higher total returns than its "HOLDs", which, in turn, have outperformed its "SELLs".^{1,2}

Total Return of Green Street's Recommendations

Year	Buy	Hold	Sell	NAREIT Eqty ⁴
2008 YTD ³	0.8%	-1.6%	-0.5%	-4.5%
2007	-6.5%	-22.3%	-27.6%	-15.7%
2006	45.4%	29.9%	18.4%	35.1%
2005	26.3%	18.3%	-1.9%	12.2%
2004	42.3%	28.4%	15.6%	31.6%
2003	42.7%	37.2%	20.9%	37.1%
2002	17.7%	2.6%	1.9%	3.8%
2001	35.7%	19.1%	11.9%	13.9%
2000	53.6%	29.3%	4.4%	26.4%
1999	14.2%	-9.2%	-20.2%	-4.6%
1998	-0.6%	-15.1%	-16.4%	-17.5%
1997	37.1%	14.2%	5.8%	20.3%
1996	47.3%	30.2%	17.5%	35.3%
1995	23.6%	14.3%	-0.4%	15.3%
1994	20.5%	-0.7%	-9.3%	3.2%
1993 ³	29.4%	5.4%	6.7%	12.4%
Total Return³	3703.9%	347.9%	11.0%	462.7%
Annualized	27.3%	10.5%	0.7%	12.1%

1) Historical results through January 3, 2005 were independently verified by Ernst & Young, LLP. E&Y did not verify stated results subsequent to January 3, 2005. Past performance results cannot be used to predict future performance. For a complete explanation of study, see 5/9/03 report "How are We Doing?".
 2) Company inclusion in the calculation of total return has been based on whether the companies were listed in the primary exhibit of Green Street's "Real Estate Securities Monthly", pg. 13-16. Beginning with May 2000, Gaming C-Corps and Hotel C-Corps, with the exception of Starwood Hotels and Homestead Village, are not included in the primary exhibit and therefore not included in the calculation of total return. Beginning with March 2003, all Hotel companies are excluded.
 3) Study uses recommendations given in Green Street's "Real Estate Securities Monthly" from January 29, 1993 through March 3, 2008.
 4) Not directly comparable to Green Street's performance indices because NAREIT includes more companies and uses market-cap weightings. Green Street's returns are equally-weighted averages.