

# The REITrader

September 13, 2011 |

DJIA: 11,106

RMZ: 756

10-Yr Treasury Note: 1.99%



Green Street Advisors

**What is the REITrader?** There are two sources of volatility for the shares of any REIT. First, intrinsic value is a moving target, as the primary determinants of value (e.g., the outlook for cash flow, appropriate discount rates, etc.) are themselves constantly changing. The other source of volatility is “noise”, the temporary but frequent departure of price from intrinsic value. Whereas the preponderance of our research efforts revolve around divining the best possible estimate of intrinsic value, this weekly publication is designed to identify potential trading opportunities in a noisy market.

**How it Works:** "Cheap" REITs currently trade at larger positive (or smaller negative) implied cap rate spreads than has historically been the case relative to property sector peers. The opposite is true for "Expensive" REITs. Comparisons of the current implied cap rate spread with what prevailed over the last week, month, and year are made to identify the twelve stocks in our coverage universe where pricing has strayed farthest from historic norms. The output of this tool is purely mechanical, so "false positives" (i.e., flagging a stock that has gotten cheap/expensive because bad/good news has occurred) are not uncommon.

**Cheap ≠ Buy; Expensive ≠ Sell:** The output from this tool should **not** be confused with Green Street's published Buy, Hold, Sell recommendations. So as to minimize confusion, this tool will neither identify a stock as "Cheap" if our published opinion is a Sell, nor as "Expensive" if a Buy.

**Does it Work?** Backtesting shows that hypothetical returns based on buying the "Cheap" REITs and selling the "Expensive" REITs would have generated outsized returns (see page 6). While high transaction costs make it impossible to closely replicate the hypothetical results, the signals sent from the tool should help portfolio managers identify lucrative trading opportunities.

Cheap REITs	Share Price	Recommendation	Expensive REITs	Share Price	Recommendation
Washington REIT	\$29.56	HOLD	Education Realty Trust	\$9.42	SELL
Associated Estates	\$17.25	HOLD	Piedmont Office Realty Trust	\$18.19	HOLD
ProLogis	\$25.90	BUY	Vornado	\$84.10	HOLD
Essex Property	\$141.20	HOLD	Taubman Centers	\$56.45	HOLD
Pennsylvania REIT	\$9.13	HOLD	Federal Realty	\$86.91	SELL
Regency Centers	\$37.88	HOLD	Duke Realty	\$11.19	SELL

*This excerpt is from Green Street Advisors' The REITrader, September 13, 2011*

**Important disclosure on pages 2-3**

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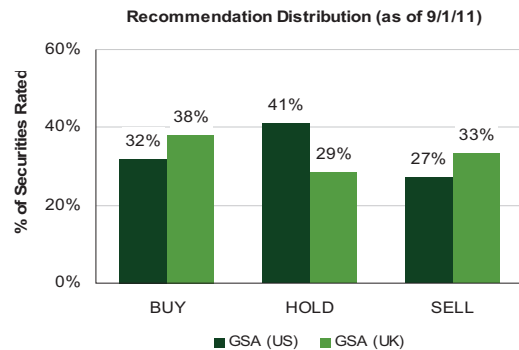
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**Total Return of Green Street's Recommendations<sup>1,2</sup>**

Year	Buy	Hold	Sell	Universe <sup>3</sup>
2011 YTD	10.8%	4.5%	-5.8%	3.6%
2010	43.3%	32.7%	26.5%	33.8%
2009	59.0%	47.7%	6.0%	37.9%
2008	-28.1%	-30.9%	-52.6%	-37.3%
2007	-6.9%	-22.4%	-27.8%	-19.7%
2006	45.8%	29.6%	19.5%	31.6%
2005	26.3%	18.5%	-1.8%	15.9%
2004	42.8%	28.7%	16.4%	29.4%
2003	43.3%	37.4%	21.8%	34.8%
2002	17.3%	2.8%	2.6%	5.4%
2001	34.9%	19.1%	13.0%	21.1%
2000	53.4%	28.9%	5.9%	29.6%
1999	12.3%	-9.0%	-20.5%	-6.9%
1998	-1.6%	-15.1%	-15.5%	-12.1%
1997	36.7%	14.8%	7.2%	18.3%
1996	47.6%	30.7%	18.9%	32.1%
1995	22.9%	13.9%	0.5%	13.5%
1994	20.8%	-0.8%	-8.7%	3.1%
1993	27.3%	4.7%	8.1%	12.1%
<b>Total Return</b>	<b>6416.5%</b>	<b>545.6%</b>	<b>-25.1%</b>	<b>611.1%</b>
<b>Annualized</b>	<b>25.2%</b>	<b>10.6%</b>	<b>-1.5%</b>	<b>11.1%</b>

The results shown in the table at right are hypothetical; they do not represent the actual trading of securities. Actual performance will vary from this hypothetical performance due to, but not limited to 1) advisory fees and other expenses that one would pay; 2) transaction costs; 3) the inability to execute trades at the last published price (the hypothetical returns assume execution at the last closing price); 4) the inability to maintain an equally-weighted portfolio in size (the hypothetical returns assume an equal weighting); and 5) market and economic factors will almost certainly cause one to invest differently than projected by the model that simulated the above returns. All returns include the reinvestment of dividends. Past performance, particularly hypothetical performance, can not be used to predict future performance.

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- (3) All securities covered by Green Street with a published rating that were included in the calculation of total return. Excludes "not rated" securities.

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