

Property Sector Valuation

March 20, 2008 ■ 10-Year T-Note 3.36% ■ DJIA 12200 ■ RMZ 872

Private-Market Valuations are Excessive

Despite the fact that commercial real estate values have declined by nearly 10% over the last six months, a further decline of even greater magnitude (15-20%) will be necessary before prospective real estate returns become competitive with what is now offered by fixed income alternatives. On an absolute basis, values are too high in every property sector. On a relative basis:

- **Private market valuations are most attractive for apartments and strip centers.** Strip centers offer higher-than-average cap rates and relatively stable NOI growth prospects. Apartments are currently the recipient of a subsidy, in the form of financing that is both plentiful and cheap, from Fannie Mae and Freddie Mac. The size of this subsidy has become substantial enough that it should favorably impact valuations.
- **By contrast, office properties are overvalued.** Office market participants partied the hardest during the '07 cheap-debt-fueled transaction frenzy, which leaves the sector positioned to have the worst hang-over. Yes, strong cyclical NOI growth lies ahead, but this growth does not come close to justifying current valuations.

Public-Market Valuations: the Rich Side of a Fair Range

Weak share price performance over the last year has caused REIT valuation to improve from the "hard to justify" label we ascribed a year ago to a level that is now roughly appropriate.

- Large discounts to NAV (average = 16%) and asset value (8%) have become the norm. This provides a cushion that offsets some, but not all, of the warranted correction in private-market real estate values.
- **REITs now offer prospective long-term equity returns in the mid-9% ballpark.** This is a huge improvement from the low-7% figure observed a year ago, but in a climate where near-term NOI forecasts have become increasingly tenuous and fixed-income alternatives offer juicy yields, it represents pricing that is no better than fair.

Public-Market Sector Picking

- **Strip Center and Apartment REITs offer the most attractive valuations in the public market.** Private-market values in these two sectors are less stretched than is the case elsewhere, and, after factoring in NAV discounts observed in the public markets, these relatively attractive valuations extend into the public market. Strip center REITs look particularly tempting, as they stack up as cheap relative to historic norms despite the fact that their improved business models (i.e. asset management, development, etc.) should translate into values above the historic average.
- **Conversely, office REITs are materially overvalued; industrial REITs are pricey.** Further corrections in private-market office values should provide a big anchor on performance by office REITs. Industrial REITs are similarly overpriced relative to historic benchmarks, but improved business models and international exposure suggest caution is appropriate with regard to conclusions in this property sector.

Property Sector Conclusions

	Private Market			Public Market	
	Economic Cap Rate	5-Year Annualized Growth Forecast	Relative Valuation	Premium to NAV	Relative Valuation
Apartment	5.3%	3.1%	Cheap	-18%	Cheap
Industrial	5.5%	2.8%	Fair	0%	Expensive
Mall	5.2%	2.7%	Fair	-33%	Fair
Office	4.6%	3.9%	Expensive	-26%	Expensive
Strip Retail	5.9%	2.8%	Cheap	-7%	Cheap
Hotel	6.4%	2.7%	Fair	-33%	Fair

Important disclosure on the last page.

This page is intentionally left blank.

**Property Sector Valuation
Table of Contents
March 20, 2008**

Overview	3
Private Market Pricing	
All Properties	7
Sector by Sector	10
Public Market Pricing	
NAV Growth over Time	13
NAV Premium over Time	14
REIT Sector Pricing	16
REIT Pricing from a Capital Market Perspective	18
Appendices	
Cap Rates in the Private Market	A1
NOI Growth in the Private Market	A4
Sector IRR Premiums - How Large Should They Be?	A8
Hotels - How Does Lodging Fit In?	A9
Empirical Evidence	A12
Data & Methodology	A13

Note – Pricing data utilized herein consists of closing prices on March 12, 2008. On that date, the DJIA was at 12110, the RMZ was at 836 and the 10-Year Treasury note was priced to yield 3.47%. Conclusions regarding aggregate REIT valuations are, however, based on mid-day prices on March 20 (RMZ had risen by nearly 5% vs. data shown in exhibits).

I. Overview

Real estate values in the private market are the underpinning for the valuation of REITs in the public market. Indeed, our primary valuation model for individual REITs is predicated on this tenet, and an impressive body of evidence exists to support it. At the same time, real estate pricing in the private market is inextricably linked to trends in public capital markets. This report explores the circular interplay between return expectations in the capital markets, real estate pricing in private market, and REIT pricing. The objective is to assess the appropriateness of prevailing values in each of the major property sectors in both private and public markets.

This report, the eighth edition of *Property Sector Valuation* (the first was in '04), represents the unveiling of Version 2.0 of this analysis. The methodology – now based primarily on forward expectations for real estate returns – has been substantially altered, and the time series over which private-market values are assessed has been greatly extended (back to '86). The result is an analysis that is both more concise and, we believe, more insightful.

For the time being, the conclusions reached herein should be viewed as unrelated to our company-specific investment recommendations. The passage of time will demonstrate whether or not this approach consistently generates above-average sector-picking results, although anecdotal results have been encouraging. Until the track record can be more fully assessed, we intend to use the conclusions with caution. In the meantime, the output should help frame discussions of overall valuation levels for commercial estate and REITs, as well as the relative attractiveness of each of the major property sectors.

II. The Analysis

While the ultimate goal is to reach conclusions about property sector pricing in the REIT market, this can only be accomplished by breaking the analysis into manageable components. The first part (pages 7-11) of the analysis evaluates real estate pricing in the *private* market, while the second part (pages 13-20) is devoted to pricing in the *public* market.

Private-market valuations are assessed by comparing the prospective unleveraged returns (IRRs) that properties can reasonably be expected to deliver to the cost of long-term, fixed-rate mortgage debt.

Mortgage debt serves as a helpful reference point for two reasons. First, since real estate should always be priced to deliver a higher return than the debt used to finance it, the commercial mortgage rate provides an absolute valuation benchmark. Also, since rates on this debt are very highly correlated with rates on other long-term, fixed-income alternatives (especially corporate debt), the commercial mortgage rate provides a way to directly compare return expectations in the fixed-income market with what is available in real estate.

Over the last couple of decades, the size of the return premium real estate offers versus debt has varied considerably, from a low of 20 bps (observed in '91) to a high of 360 bps ('02). Times when return premiums have been high have been followed by outsized returns on real estate, and vice versa (see Appendix E). The extent to which the prevailing return premium exceeds (or falls short of) the long-term average premium is used to gauge the appropriateness of real estate valuations, both in general and at the property sector level. While it is fair to question an implicit assumption in this analysis — that historic return premiums have been about the right size — the magnitude of the historic premiums appears pretty reasonable when assessed by some common-sense-based tests (p. 8).

Before the conclusions regarding sector pricing in the private market are of much value to REIT investors, pricing dynamics in the REIT market need to be factored in. Fortunately, our extensive NAV database affords the opportunity to do just that. After taking into account the history of NAV premiums/discounts for each sector (e.g. industrial REITs “always” trade at high premiums), variances vs. long-term average NAV premiums are indicative of a valuation statement being made by public investors. Unusually high premiums may serve as a signal that private market pricing is too low, whereas low premiums may signal the inverse. Alternatively, unusual premiums could signal that external growth prospects are unusually good/bad.

III. What about Hotels?

Appendix D contains a review of hotel valuation in the private market and in the public market. Because our data series for hotels is neither as lengthy nor as complete as is the case for other major property sectors, the sector has been excluded from the primary analysis contained in the body of the report. However, a shorter data series for hotel IRRs and

NAV premiums helps to frame discussions of relative valuation for the sector. Current conclusions:

- As is the case with other major property types, hotels are overpriced in the private market. The magnitude of the overpricing is roughly consistent with what is observed elsewhere.
- Though discounts to NAV for hotels are unusually large, the extent to which this is true is in line with what is occurring in other sectors. On a relative basis, hotels appear to be fairly valued in the public market.

IV. Limitations

The conclusions herein are intended to help frame the discussion of sector pricing. They are not intended to serve as a definitive answer. There are inherent limitations on an approach of this sort, and big assumptions are necessary with regard to variables that profoundly influence the results. Most notably:

- A base assumption is that the average historic valuation levels for commercial real estate are more appropriate than current valuation levels. This assumption is consistent with the view that we can learn from the past, but it is not always accurate.
- It is assumed that each of the major property types should offer similar prospective return premiums (in excess of normal debt costs in the sector). This is fair as long as they have comparable risk profiles. Unfortunately, measuring risk in illiquid markets (e.g. real estate) is about as fruitful as measuring rainbows, so the appropriateness of this assumption can't be validated. An assumption that historic return premiums revert to their respective property-sector averages, and not to the all-sector average, yields a more charitable view toward mall and office pricing, and a less favorable view of pricing in the other sectors.
- Conclusions regarding absolute valuation levels assume that yields on long-term debt with moderate risk (e.g. commercial mortgages) will remain constant. If interest rates are poised to decline, real estate is more reasonably priced than is shown herein, but since odds are just as high that rates will go the other direction, status quo is the best assumption.

- The analysis begins in 1986. The selection of this date is somewhat arbitrary, and changes in the start date can affect conclusions. Over the span of this time period, the connection between the capital markets and real estate markets has become stronger and the quality of real estate data has improved greatly. Both facts render observations from the earlier time periods less useful than those in recent years.
- To the extent that REITs, in aggregate, have dramatically changed their business models, an analysis focused on historical data may be less useful. While this issue likely has a noticeable impact on the analysis as it pertains to public-market valuations (business models have improved markedly in some sectors), it is probably not large enough to detract too much from the conclusions.
- The best this analysis can hope for is to identify subtle pricing discrepancies. Unforeseeable variables, such as interest rate volatility, economic surprises, etc., will be the primary drivers of sector performance. Because of that, there are limits as to how much of a benefit this approach can provide.

Despite these limitations, insight at the margin is what makes some track records better than others, and that is what we're hoping to provide.

Mike Kirby

This page is intentionally left blank.

Private Market Real Estate Pricing

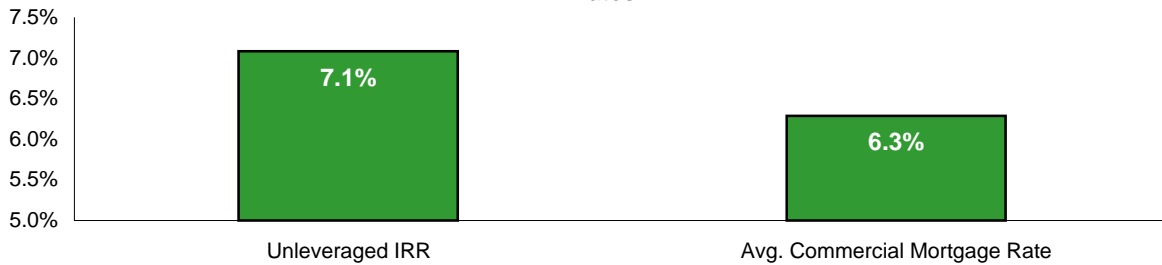
Private Market Real Estate Pricing Major Property Sector Average

Based on the weighted average major-property-sector cap rates and growth rates shown below*, it is possible to calculate the expected unleveraged returns (IRR) that real estate investors can currently expect to achieve. Expected returns should always materially exceed borrowing costs.

Nominal Cap Rate	Economic Cap Rate	Projected NOI Growth					Long Term
		'09	'10	'11	'12	'13	
6.0%	5.3%	3.3%	3.0%	3.0%	3.0%	3.0%	1.4%



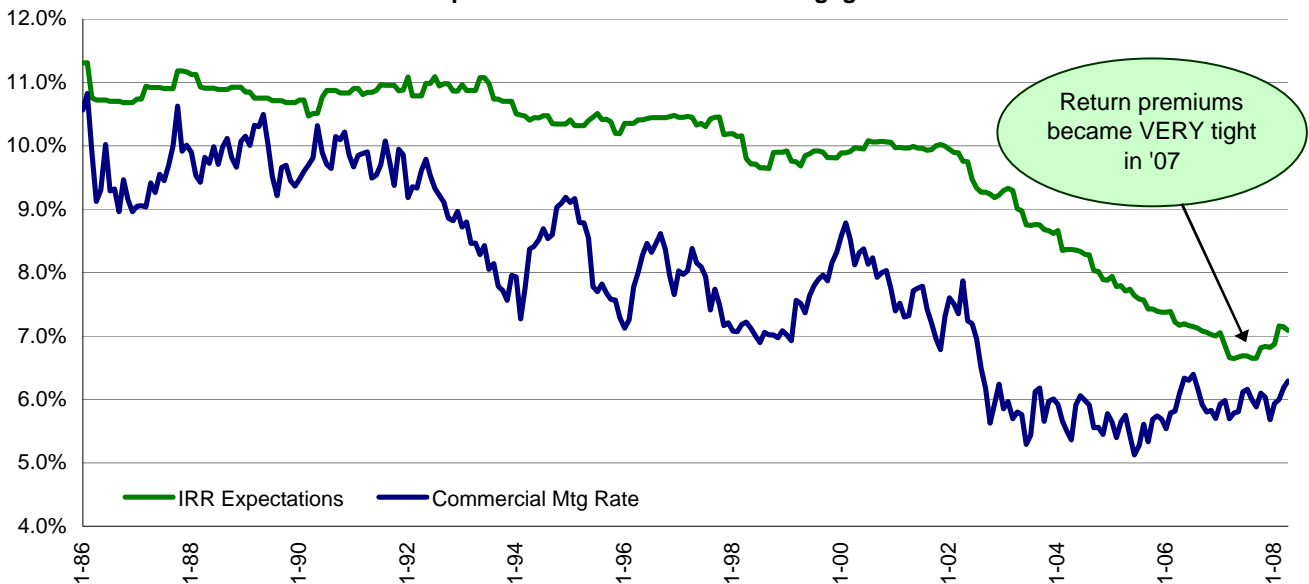
The Unleveraged Returns Currently Available on Real Estate vs. Commercial Mortgage Rates



Source for Mortgage Rates: American Council of Life Insurers

By combining historic cap rate, intermediate growth, and inflation expectations, it is possible to construct a time series of the unleveraged returns that real estate investors historically have expected to achieve. There is normally a sizable spread between projected returns and borrowing rates, but the spread between the two is now unusually tight.

IRR Expectations vs. Commercial Mortgage Rates

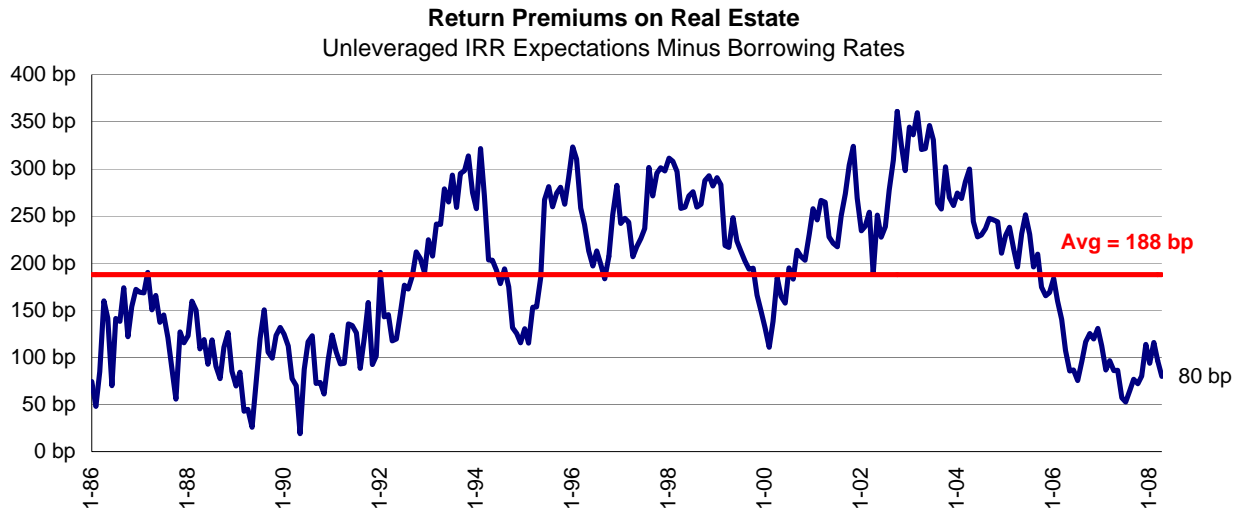


Proxy for historic IRR expectations = economic cap rates + expected intermediate-term growth + expected long-term growth (forecast inflation less 110 bps). Inflation source: Survey of Professional Forecasters 10YR inflation forecast.

*Major Property Sectors are Apartment, Industrial, Mall, Office & Strip Retail. Each sector is given a 20% weight. Long-term growth assumptions are discussed in more detail in Appendix B.

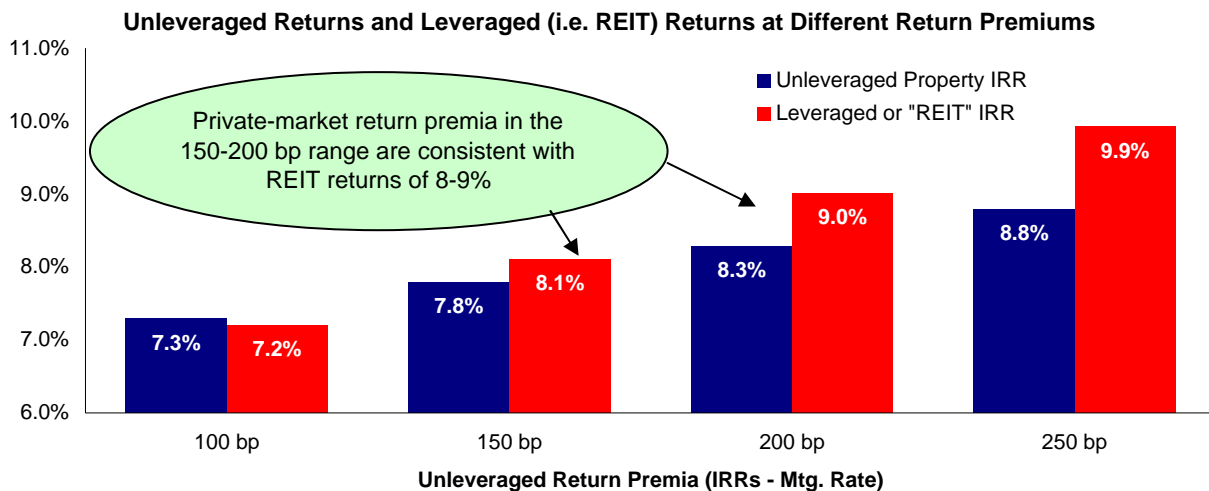
Private Market Real Estate Pricing Major Property Sector Average (Continued)

Current valuation levels can be assessed by comparing prevailing return premiums (i.e. expected IRRs less commercial mortgage rates) vs. historic norms. Risk premiums that have been higher than the historic norm have typically preceded periods of outsized appreciation in real estate values, and vice versa*.



*This predictive power is examined in Appendix E.

In theory, the increased acceptance of real estate as an asset class in recent years may warrant a smaller risk premium than what has historically prevailed, yet reversion of the premium to its long-term average is a key assumption in this analysis. One way to assess whether the historic premium seems too large is to add it to prevailing borrowing rates and translate the ensuing unleveraged return expectation (by taking into account leverage and G&A) into an expected return on REITs. The roughly 190 bp figure that has prevailed in the past translates into REIT return expectations just shy of 9%, a figure that "sounds about right". There is no compelling reason to believe that return premiums will be smaller in the future.

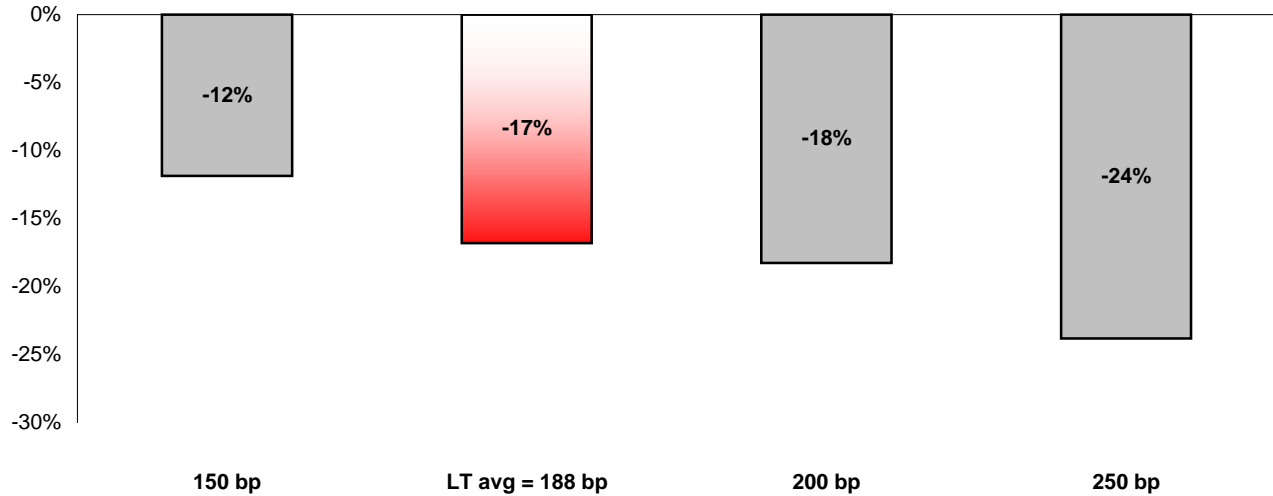


Unleveraged IRRs are translated into "REIT" IRRs based on prevailing borrowing costs, a leverage ratio of 45%, and G&A = 50 bps of assets.

Private Market Real Estate Pricing Major Property Sector Average (Continued)

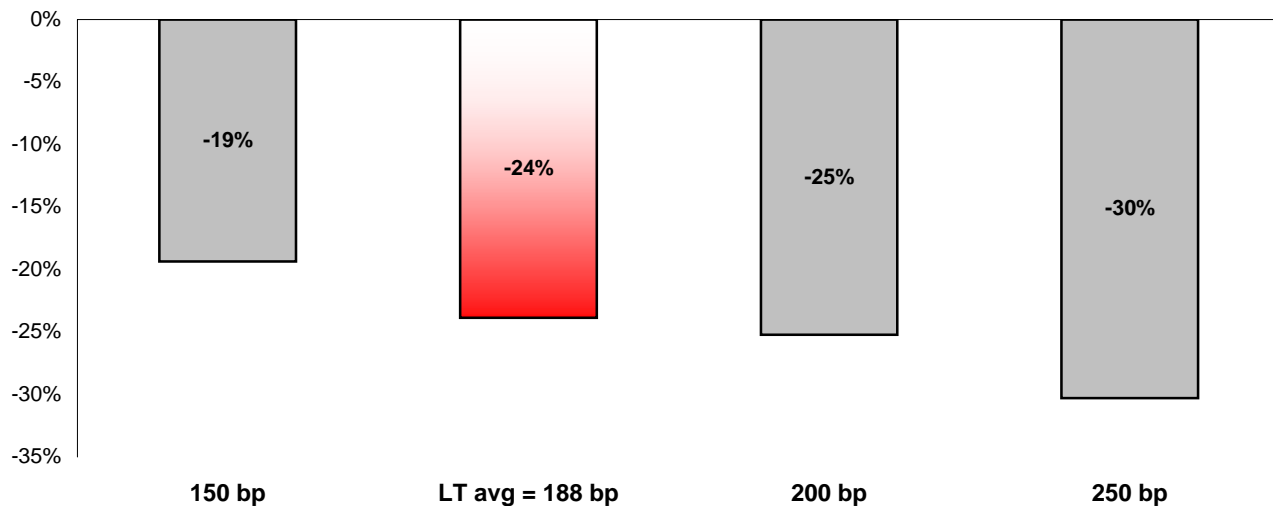
While the precise return premium that real estate should be expected to deliver vs. the cost of real estate debt is open to debate, it likely falls within the range of possibilities (150 - 250 bps) shown below. The expectation that real estate return premiums revert to their long-term average serves as the default assumption for our valuation conclusions.

Price Corrections Warranted Under Several Scenarios for Future Return Premia



Combined with the nearly 10% valuation decline that has already occurred since peak pricing was achieved in mid-'07, the total peak-to-trough corrections under the scenarios shown above would be substantial.

Cumulative Price Change That Will Have Transpired Subsequent to Mid-'07 Peak

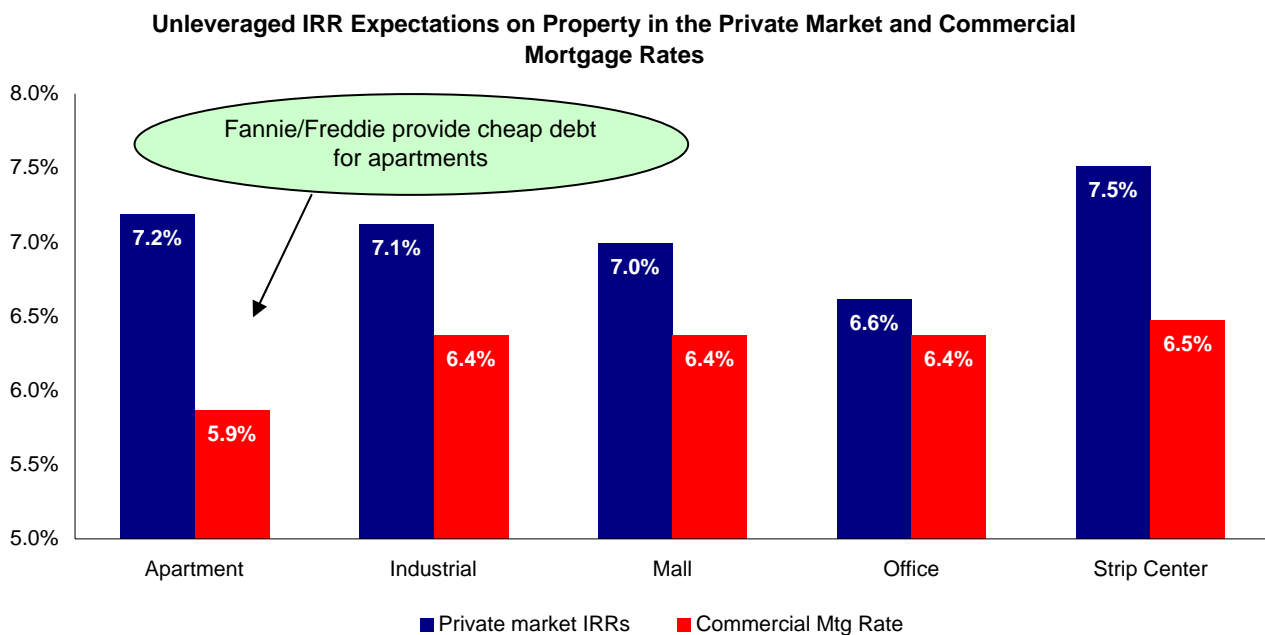


Private Market Real Estate Pricing Sector by Sector

The analysis shown on the prior pages can also be conducted at the property-sector level. The total returns that real estate owners in each property sector are likely to achieve can be assessed by combining the initial yield and growth forecasts shown below.

Sector	Nominal	Economic	Projected NOI Growth					Long Term
	Cap Rate	Cap Rate	'09	'10	'11	'12	'13	
Apartment	6.0%	5.3%	3.5%	3.0%	3.0%	3.0%	3.0%	1.5%
Industrial	6.1%	5.5%	3.4%	3.1%	2.8%	2.5%	2.5%	1.3%
Mall	5.9%	5.2%	3.3%	2.5%	2.5%	2.5%	2.5%	1.5%
Office	5.5%	4.6%	3.5%	3.7%	4.1%	4.3%	4.2%	1.5%
Strip Center	6.5%	5.9%	2.9%	2.8%	2.8%	2.8%	2.8%	1.3%

Based on these inputs, the respective property sectors are priced to deliver the unleveraged long-term total returns shown by the blue bars below. Expected unlevered returns should always materially exceed the cost of debt (red bars).

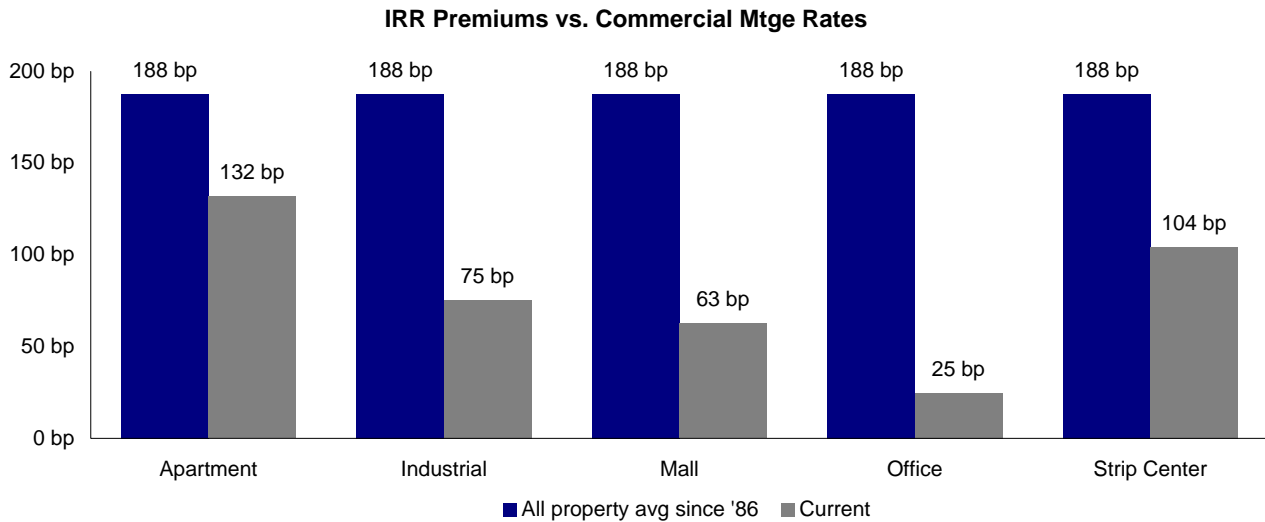


Sources: Green Street and American Council of Life Insurers.

Assumption: Prevailing borrowing rates on Fannie/Freddie paper are actually even cheaper than those shown above by, say, 30 bps. However, the gap between these rates and other commercial mortgage rates is so large that it seems imprudent to base a valuation exercise on an assumption that today's unusually large gap will persist indefinitely. Because of that, the borrowing rate for apartments is "fudged" upward.

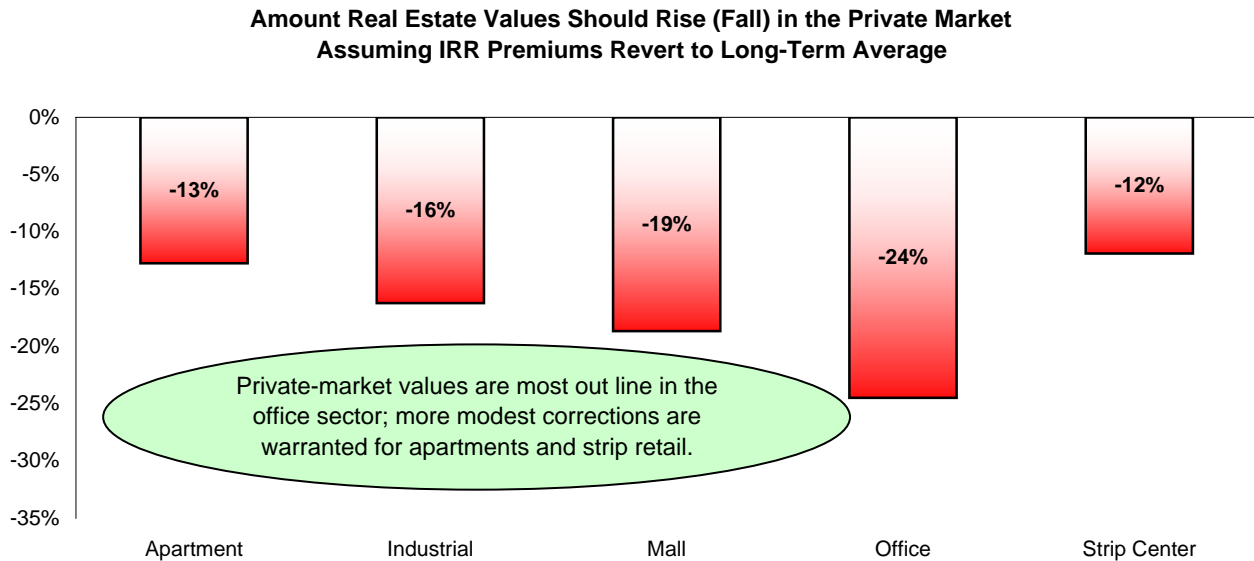
Private Market Real Estate Pricing Sector by Sector (Continued)

By comparing the historic return premium (i.e. IRR minus real estate borrowing rate) for real estate with the current return premium in each property sector, prevailing valuation levels can be put into historical perspective. Should return premiums revert to the same levels in each sector? That's the assumption used here, but another possibility is explored in Appendix C.



Historic IRR estimates are a function of prevailing cap rates, forward-looking inflation expectations, and intermediate-term growth expectations. Commercial Mortgage rates are from American Council of Life Insurers.

The extent to which the current sector-specific IRR premium (vs. mortgage rates) varies from the historic average (all property type) may be evidence of mispricing. The price declines shown below are expected if IRR premiums revert to their long-term norms.

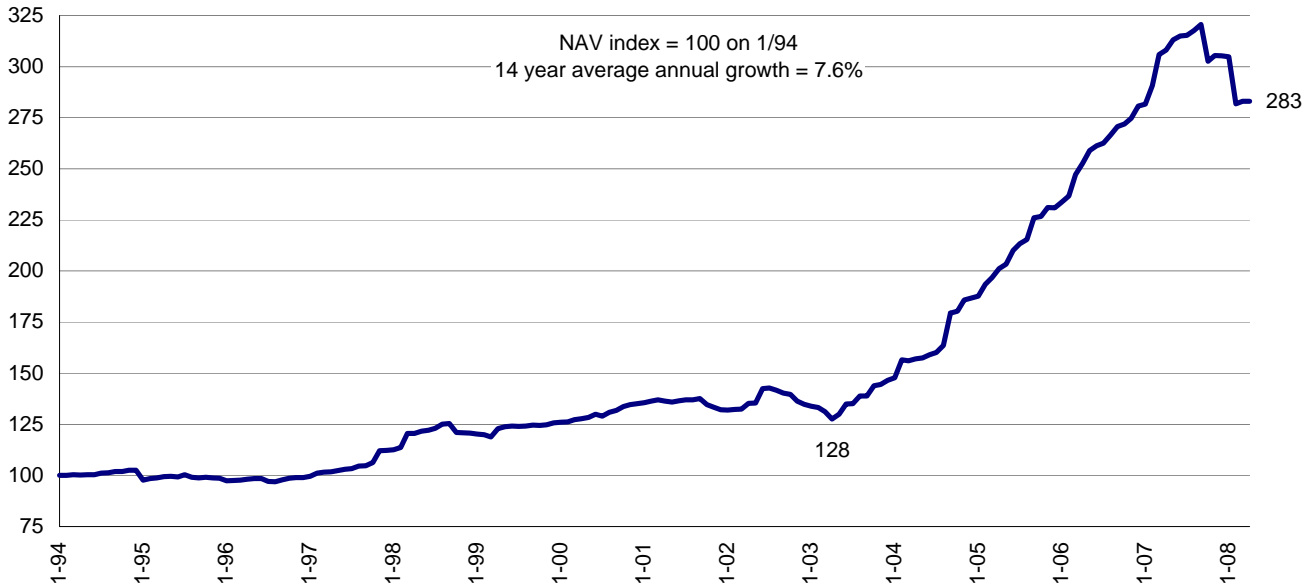


Calculation Note: Cheap financing is a good thing to have, but its impact on IRRs is derived solely from its impact on cost of debt (assumed to be 50% of the capital stack), whereas the cost of equity is the same for all property types. This explains the seeming disconnect between these two graphs: apartments *appear* to be easily the most reasonably priced sector in the top chart, but not the bottom one.

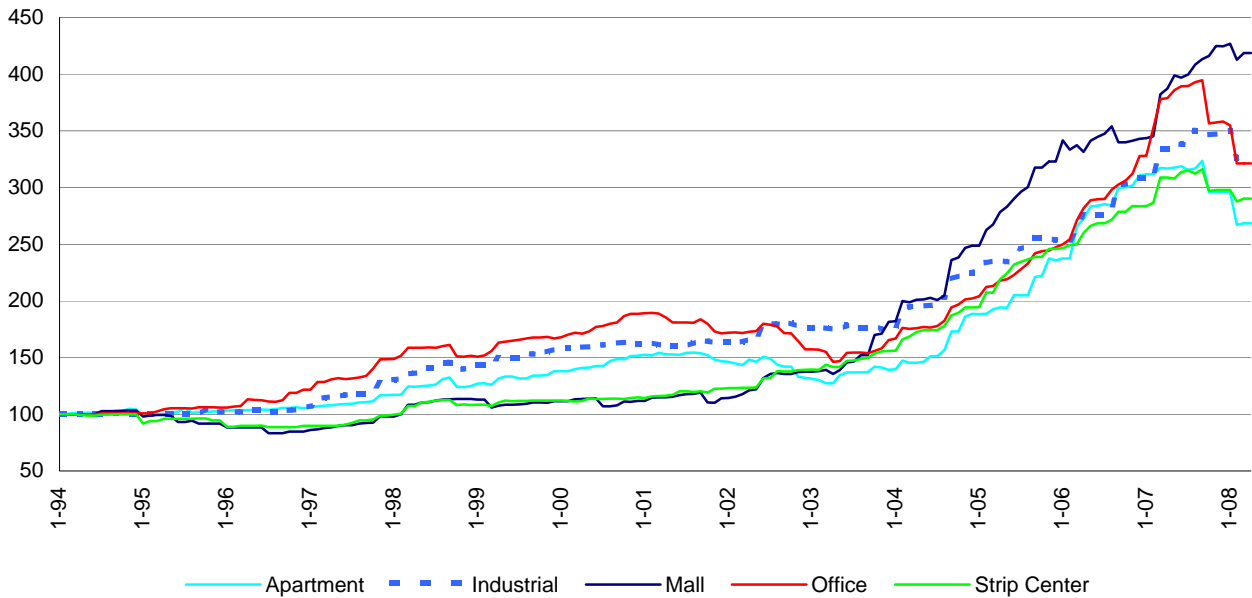
Public Market Real Estate Pricing

Public Market Real Estate Pricing NAV Growth over Time

NAVs shot higher in the '03-'07 time period at a rate that exceeded 20%/yr. The cap rate decline that turbocharged this growth reversed itself in the Fall of '07, and NAVs have subsequently declined.

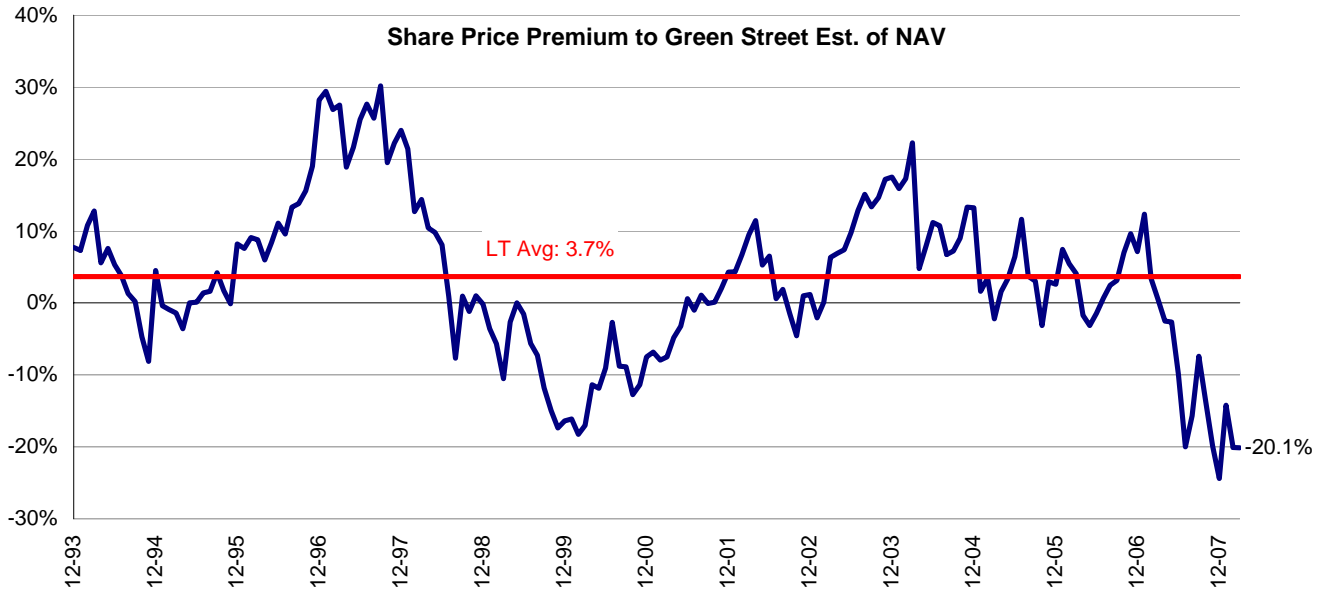


NAV growth has varied substantially by property type. Office, apartment, and industrial REITs were the leaders in NAV growth through the late '90s, while retail REITs led the way in the first half of this decade.



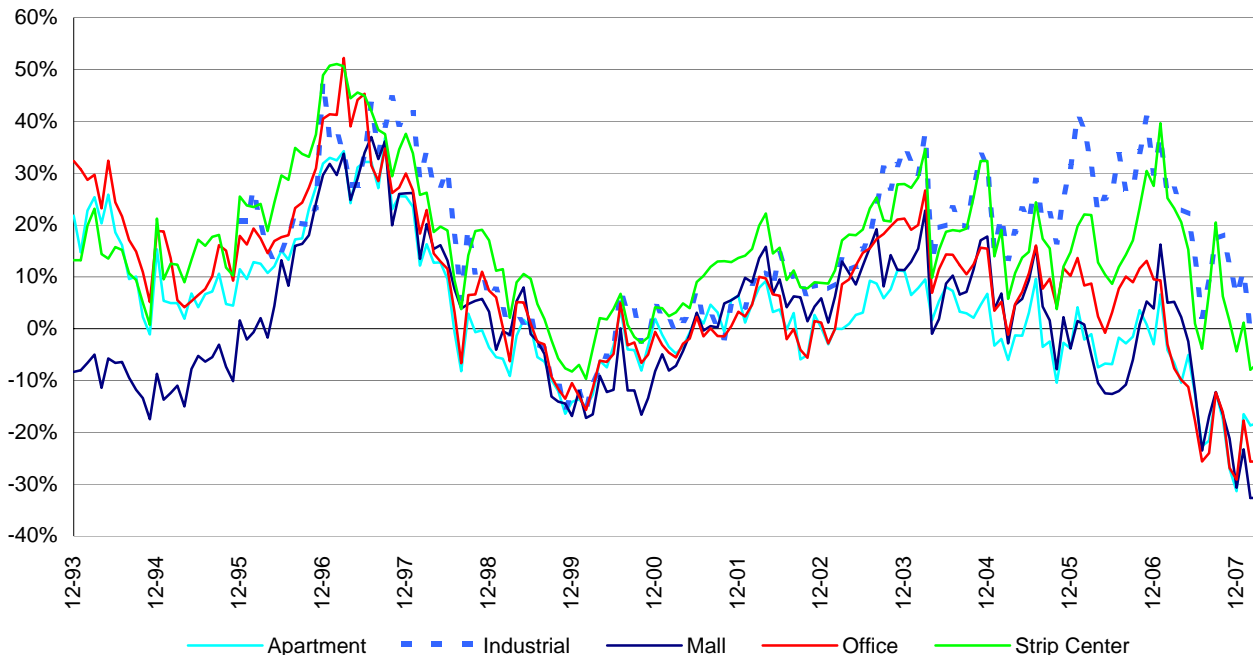
Public Market Real Estate Pricing NAV Premiums over Time

REITs are trading at one of the largest NAV discounts of the modern REIT era. This disconnect can be corrected by an increase in real estate prices or, more likely, a decline in private-market real estate values.



Equally-weighted average of all companies in Green Street's coverage universe, excluding Hotels.

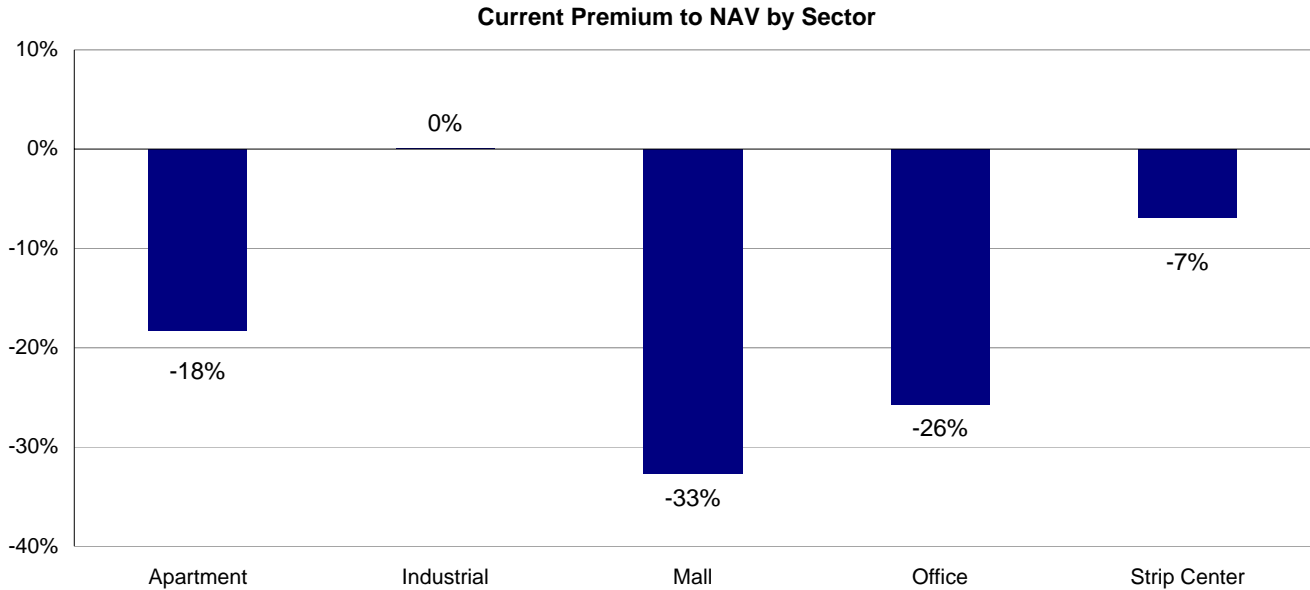
NAV premiums vary considerably by sector. The disparity in sector premiums has widened in recent years, in part due to implementation of new and improved business models in the strip retail and industrial sectors.



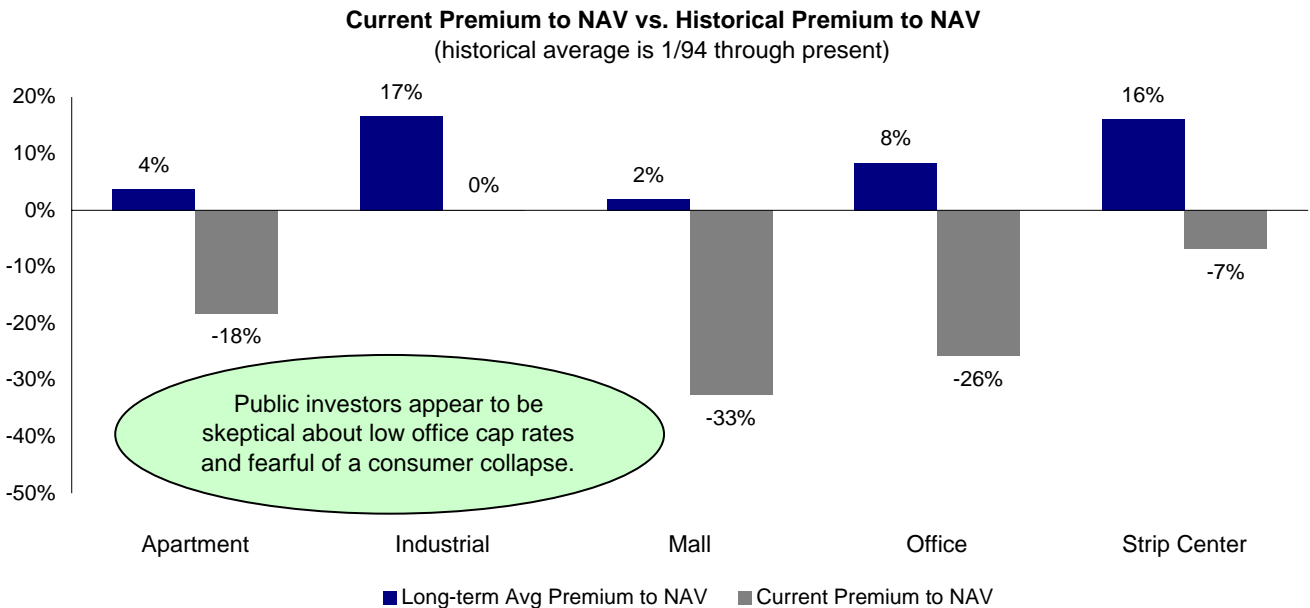
Sector level NAV premiums are market-cap weighted averages. Historic data excludes companies that Green Street no longer covers.

Public Market Real Estate Pricing NAV Premiums over Time (continued)

Apartment, mall, and office REITs all trade at large discounts to NAV.



But it is not unusual for industrial or strip center REITs to be priced at richer than average premiums, nor is it unusual for apartment and mall REITs to trade at below-average premiums. Each sector's current premium can be put into perspective by comparing it with its historic average. By itself, a premium that is small relative to historic norms suggests cheap pricing, while a larger premium suggests rich pricing. The historic relationship between share prices and NAV is currently most out of line in the mall and office sectors, while premiums have held up better (i.e. declined less) for industrial REITs.



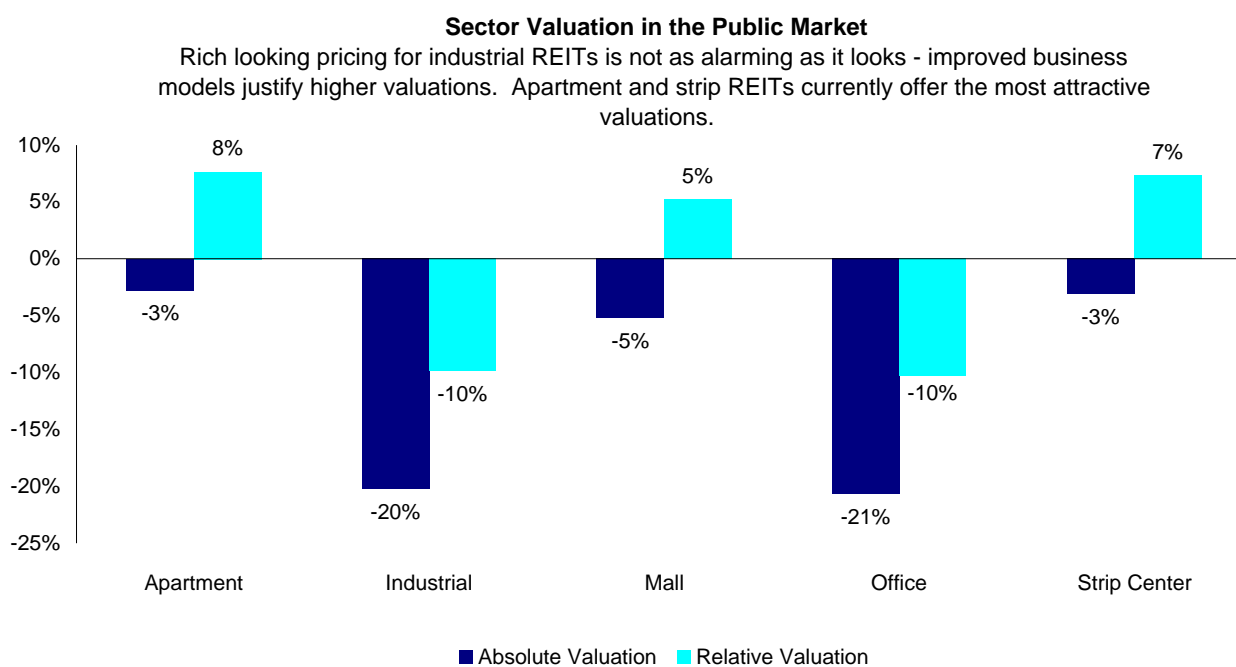
NAV premiums are market-cap weighted averages.

Public Market Real Estate Pricing REIT Sector Pricing

Valuation conclusions about sector pricing in the private market can be combined with observations about the appropriateness of prevailing NAV premiums in the public market to allow conclusions about sector pricing in the public market.

	<u>Apt</u>	<u>Indust</u>	<u>Mall</u>	<u>Office</u>	<u>Strip</u>
Assuming IRR return premia revert to their historic norm, values in the private market should rise (fall) by...	-13%	-16%	-19%	-24%	-12%
Average leverage on REITs in sector is...	46%	49%	50%	46%	47%
So, all else equal, on a leveraged basis the value of REIT equity (i.e. NAV) in the sector should change by...	-23%	-31%	-37%	-46%	-22%
But all else is not equal. Unusual premiums to NAV need to be considered.					
The current premium to NAV is...	-18%	0%	-33%	-26%	-7%
The historical average premium to NAV is...	4%	17%	2%	8%	16%
So, if REITs were to trade at their historical premium, it is reasonable to conclude that REIT values in the sector should rise (fall) by...	-3%	-20%	-5%	-21%	-3%
On a relative basis, the sector should outperform by...	8%	-10%	5%	-10%	7%

The extent to which each sector looks pricey or cheap in the public market is depicted below. Bear in mind the biggest limitation of this analysis: because it is based entirely on historical relationships, the extent to which pricing for a sector should have improved (e.g. due to better business models) will not be captured.



Absolute valuation - amount by which REIT values in sector should adjust. Relative valuation - amount by which each sector should outperform the other major REIT sectors.

Public Market Real Estate Pricing REIT Sector Pricing

The valuation opinions derived on the prior page should not be viewed as conclusive. At the very least, the limitations (see page 4) of this type of analysis should be considered to see if they may have resulted in misleading conclusions. A dose of common sense is also helpful in interpreting the results.

	<u>Value Impact from Other Issues</u>	<u>Relative Valuation Conclusion</u>
Apartment REITs		
The preceding analysis suggests apartment REITs should outperform by...	8%	
Factors not in this analysis, but which should be considered are...		
If the magnitude of the subsidy from Fannie/Freddie remains at current levels in perpetuity, values will be boosted more than assumed	Positive	
Apartment REIT Relative Valuation Conclusion		Cheap
Industrial REITs		
The preceding analysis suggests industrial REITs should outperform by...	-10%	
Factors not in this analysis, but which should be considered are...		
The quality of the companies has increased	Positive	
Increased international exposure adds a wildcard	Positive?	
Increasing creativity in creating value via JVs & other sources	Positive	
Industrial REIT Relative Valuation Conclusion		Expensive
Mall REITs		
The preceding analysis suggests mall REITs should outperform by...	5%	
Factors not in this analysis, but which should be considered are...		
Stable historic NOI growth suggests this may be the safest sector	Positive	
Fears of a consumer slowdown may have a bigger short-term impact than should be the case	Negative	
Mall REIT Relative Valuation Conclusion		Fair
Office REITs		
The preceding analysis suggests office REITs should outperform by...	-10%	
Factors not in this analysis, but which should be considered are...		
Volatile historic NOI growth suggests this may be the riskiest sector	Negative	
Office REIT Relative Valuation Conclusion		Expensive
Strip REITs		
The preceding analysis suggests strip REITs should outperform by...	7%	
Factors not in this analysis, but which should be considered are...		
Development cycle turning unfavorable	Negative	
The quality of the companies has increased	Positive	
Increasing creativity in creating value via JVs & other sources	Positive	
Strip Center REIT Relative Valuation Conclusion		Cheap

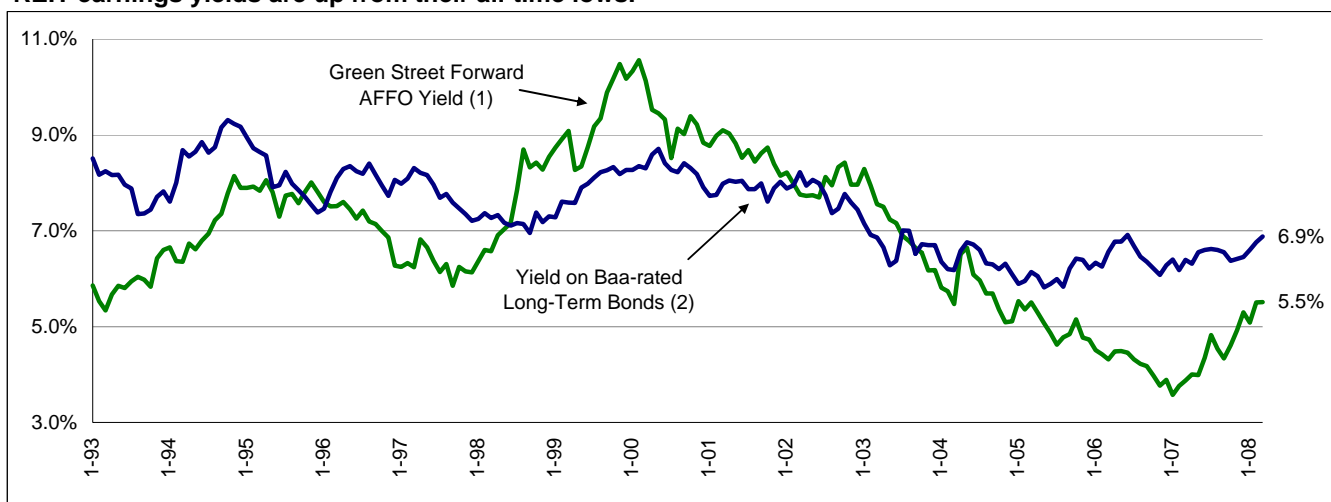
Public Market Real Estate Pricing

REIT Pricing from a Capital Market Perspective

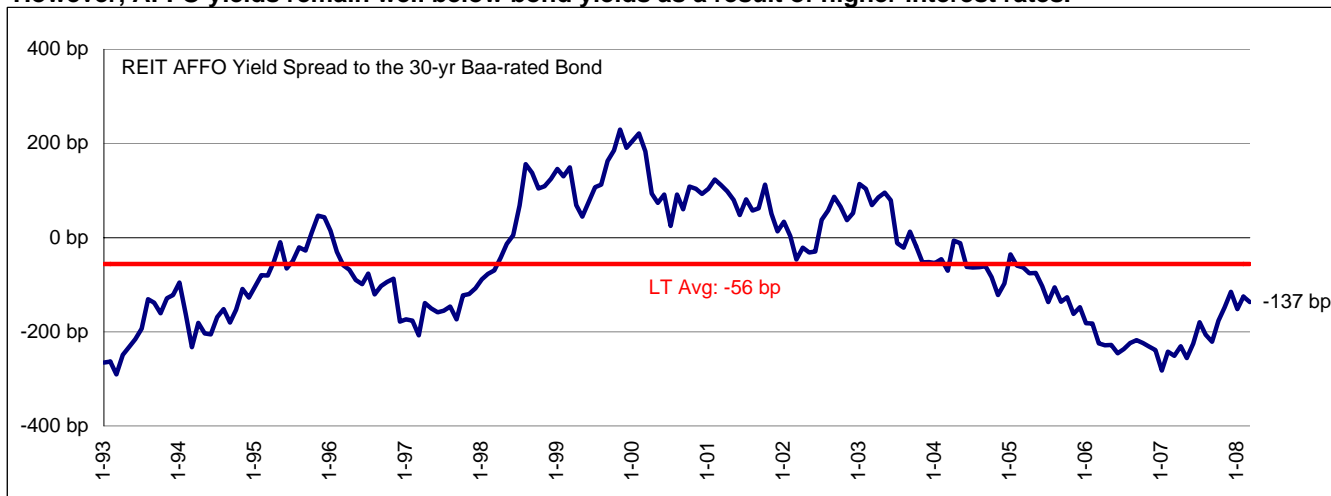
The analysis to this point has been a step-by-step, ground-up approach that results in conclusions regarding overall REIT valuation levels. A reality check is in order. The next two pages provide a macro-level comparison of REIT valuation levels vs. bonds and REIT valuation levels vs. stocks. REITs are fully priced based on these comparisons.

REITs versus Bonds

REIT earnings yields are up from their all-time lows.



However, AFFO yields remain well below bond yields as a result of higher interest rates.



(1) Historical AFFO estimates have been adjusted (lowered) to account for the current level of cap-ex.

(2) Average yield-to-maturity on selected Baa-rated long-term (30-year) corporate bonds, as calculated by Moody's Investors Service.

The Current Relationship of REITs to Corporate Bonds in Perspective:

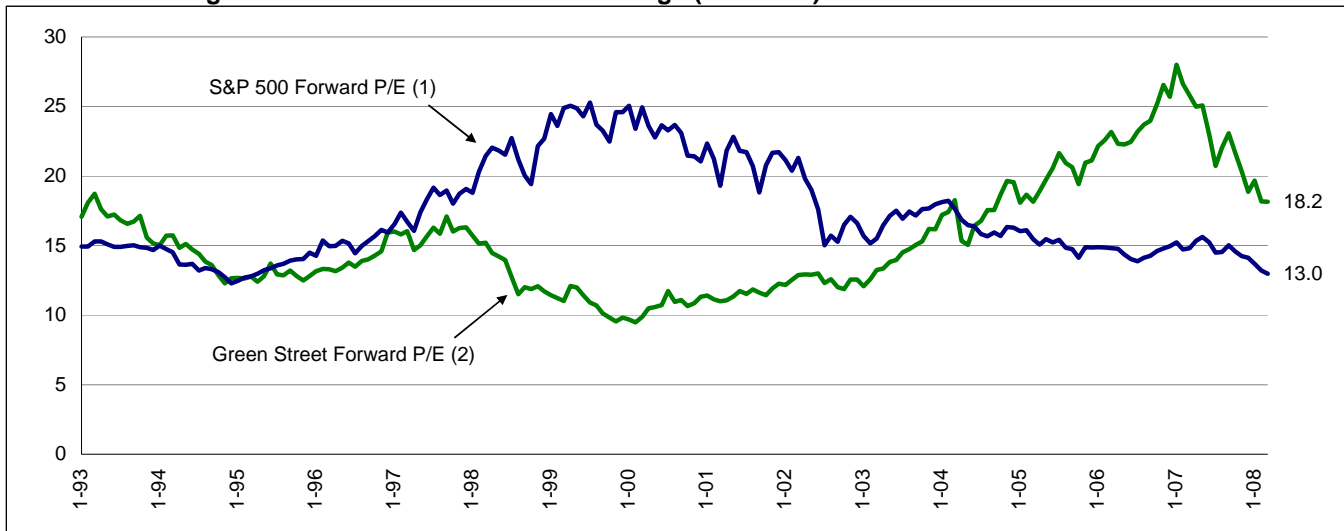
The current AFFO yield on REITs is...	5.5%
The current yield on Baa-rated long-term bonds is...	6.9%
The spread offered by REITs over bonds is...	-137 bp
The average spread offered by REITs over bonds since 1993 is...	-56 bp
The number of monthly observations in our data series since then is...	183
When those observations are ranked from the largest yield spread to the largest discount, today's yield spread falls in this percentile (i.e. Temperature)	70

Said differently, REIT pricing relative to corporate bond pricing has been as expensive, or more expensive (versus today's level), 30% of the time since 1993.

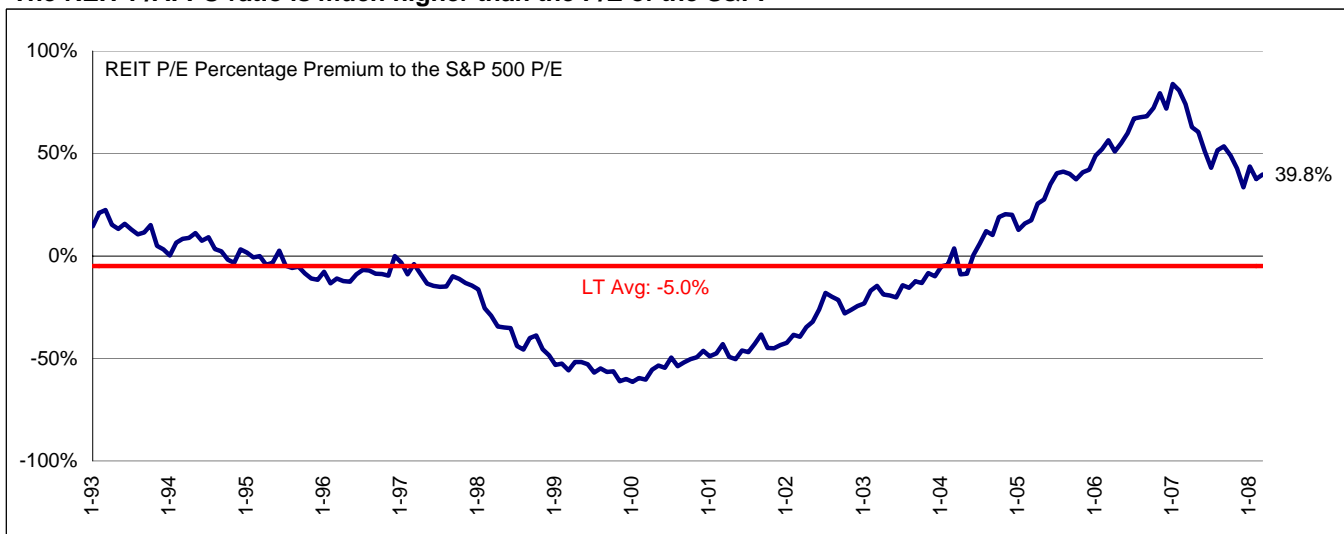
Public Market Real Estate Pricing REIT Pricing from a Capital Market Perspective (continued)

REITs versus Stocks

REITs are trading at 18X forward-twelve-month earnings (i.e. AFFO).



The REIT P/AFFO ratio is much higher than the P/E of the S&P.



(1) Based on bottom-up estimates of 52 week forward earnings per share provided by Thomson Financial and Standard & Poor's.

(2) Green Street's P/E uses AFFO in place of earnings. Historical AFFO estimates have been adjusted for cap-ex.

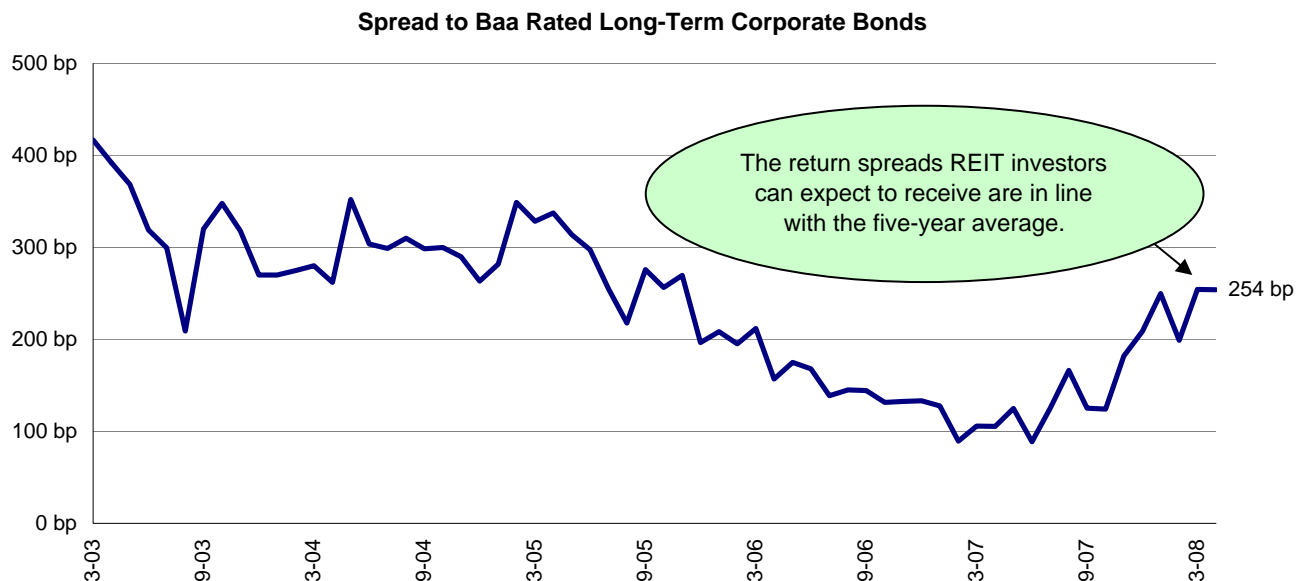
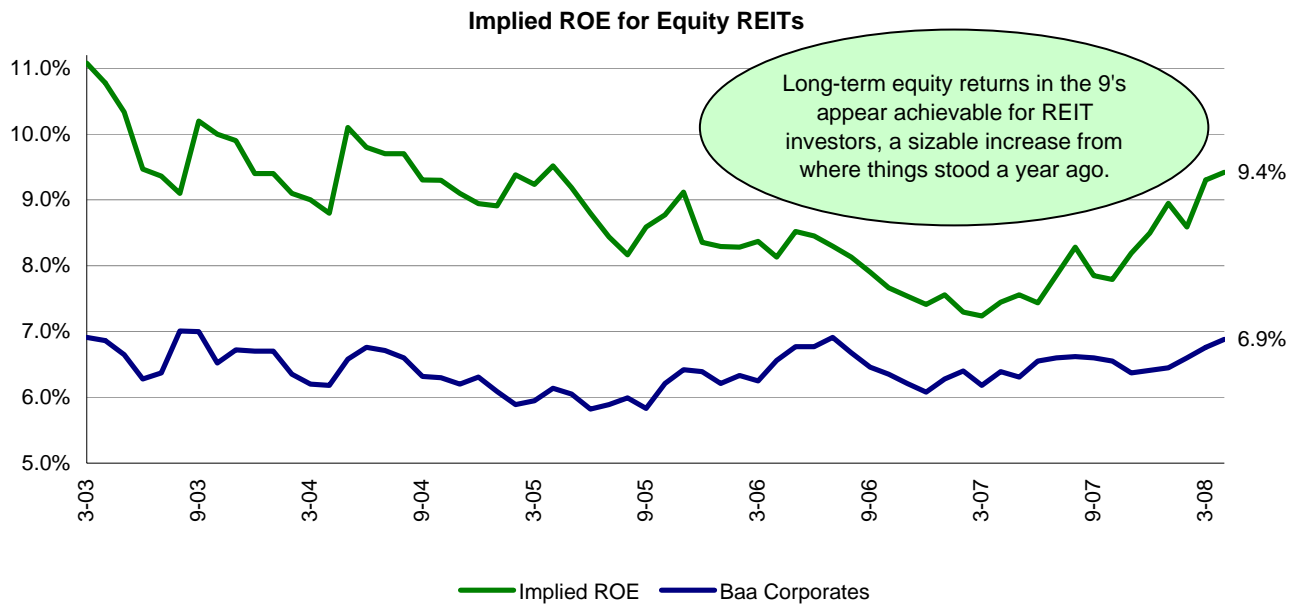
The Current Relationship of REITs to Large-Cap Stocks in Perspective:

The current P/E on REITs is...	18.2
The current P/E on the S&P 500 is...	13.0
The REIT P/E premium to the S&P 500 as a percentage of the S&P 500 P/E is...	39.8%
The average for this figure since 1993 is...	-5.0%
The number of monthly observations in our data series since then is...	183
When those observations are ranked from the largest discount to largest premium, today's P/E premium falls in this percentile (i.e. Temperature)	84

Said differently, REIT pricing relative to the pricing of stocks has been as expensive, or more expensive (versus today's level), 16% of the time since 1993.

Public Market Real Estate Pricing REIT Pricing from a Capital Market Perspective (continued)

Our discounted cash flow (DCF) valuation model provides a framework for assessing overall REIT valuation levels. The DCF model is conceptually similar to the approach used on pages 7 and 8, but subtle differences (e.g. sector weightings, G&A, company-level growth, the length of the time series, etc.) make the other approach more appropriate for assessing private-market real estate values. By contrast, the DCF model provides the better gauge of the total returns REIT investors can reasonably expect to receive at any point in time. Based on current growth prospects and initial yields, REITs are currently priced to deliver returns of 9-10%. These returns greatly exceed the unleveraged returns on real estate discussed earlier because REITs are leveraged, are trading at big discounts to NAV, and are engaged in activities such as development that boost the expected return.

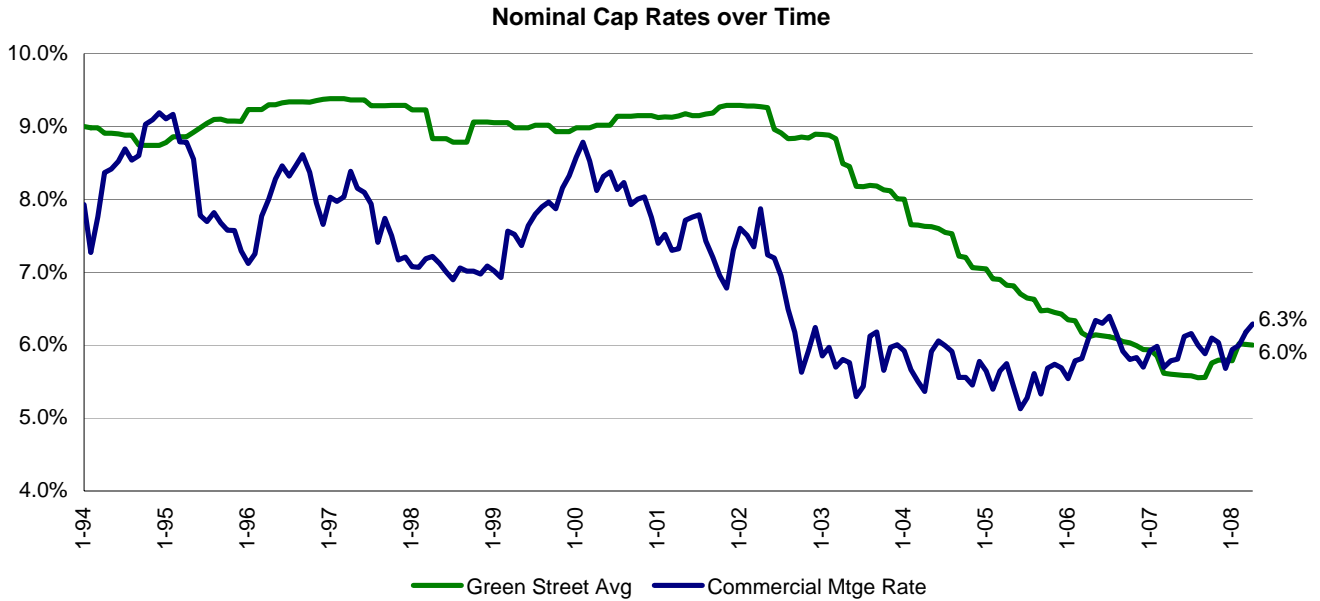


This page is intentionally left blank.

Appendices

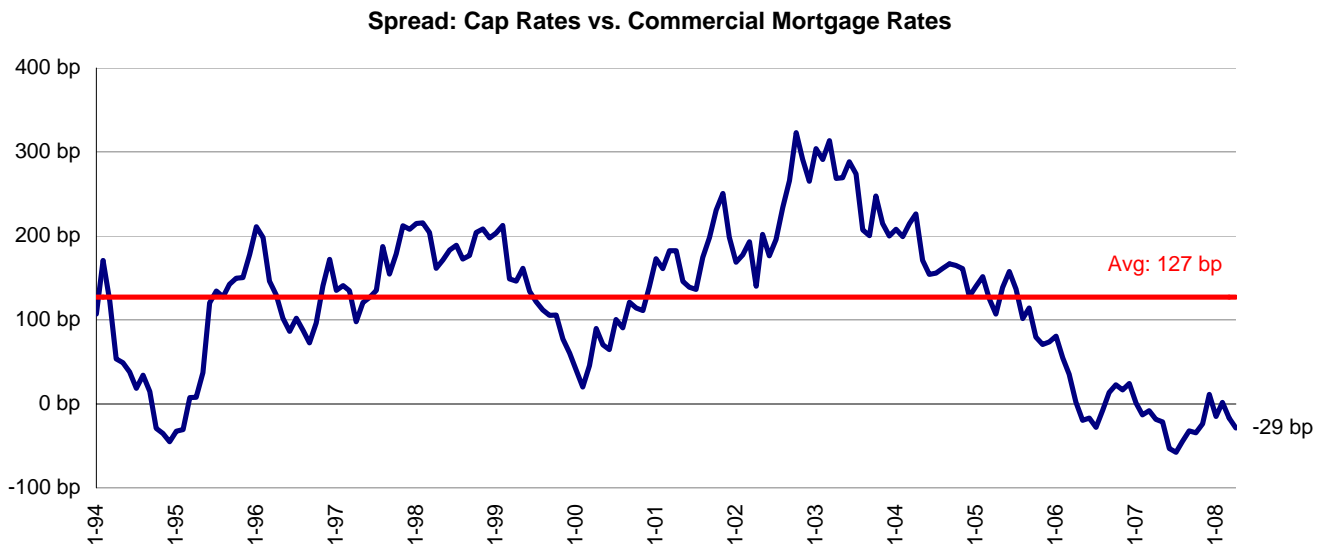
Appendix A - Private Market Cap Rates

Cap rates and interest rates began to move downward in tandem nearly six years ago. The downward move in interest rates reversed itself in '05, but cap rates have only recently begun to increase.



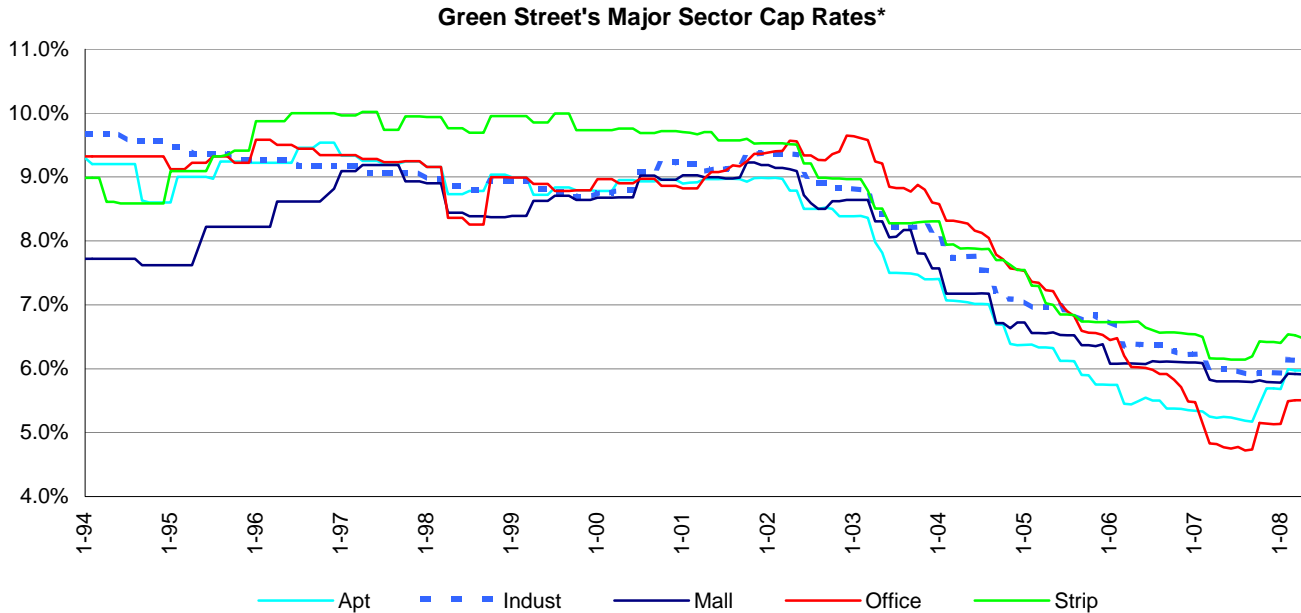
Green Street Avg is the average nominal cap rate for apartments, industrial, mall, office, and strips. These sector cap rates, in turn, represent the weighted average of the company-level cap rates we use in computing NAVs. Commercial Mtge Rate is the rate on 60-65% LTV loans originated by life insurance companies. Source: American Council of Life Insurers.

While cap rates have recently increased, so have interest rates on long-term, fixed-rate real estate debt. The spread between cap rates and mortgage rates remains unusually skinny.

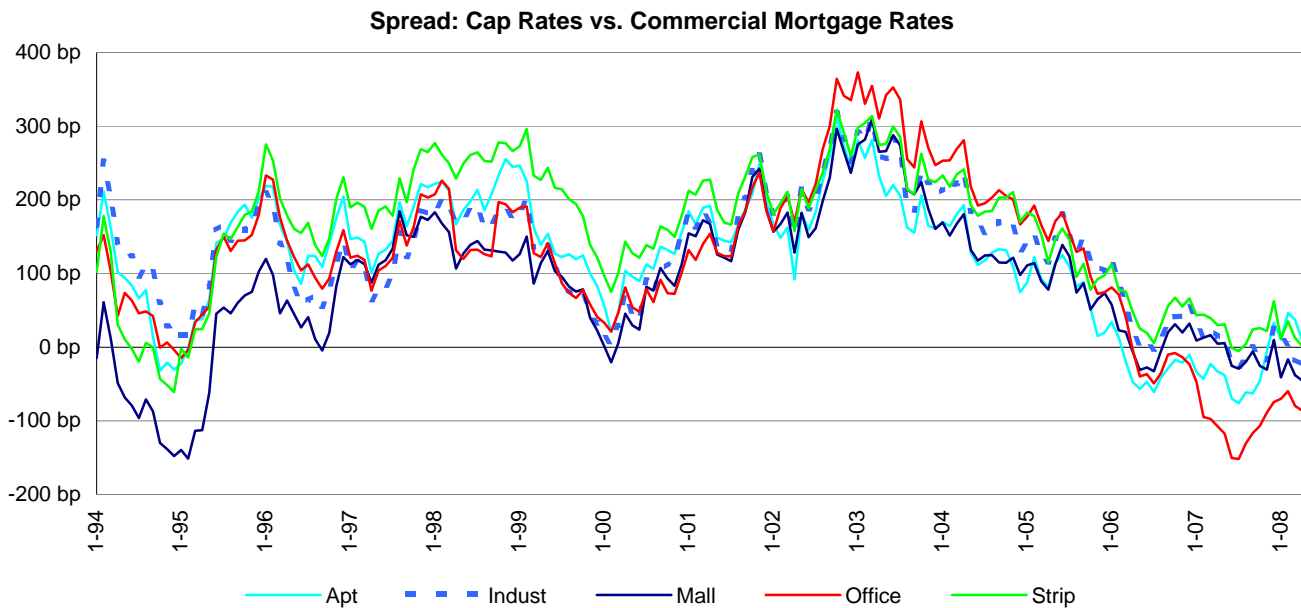


Appendix A - Private Market Cap Rates (continued)

Cap rates in all sectors have dropped significantly. Since the beginning of '02, the declines have been largest for office (-388 bp) and smallest for strips (-304 bp). Real estate investors have been willing to utilize ambitious rent growth forecasts when underwriting office acquisitions, but they appear skittish about the sustainability of consumer spending.



*Cap rates shown are nominal, market-cap weighted averages for each property sector. The underlying company-specific cap rates are those that have been used by Green Street in computing NAV estimates.

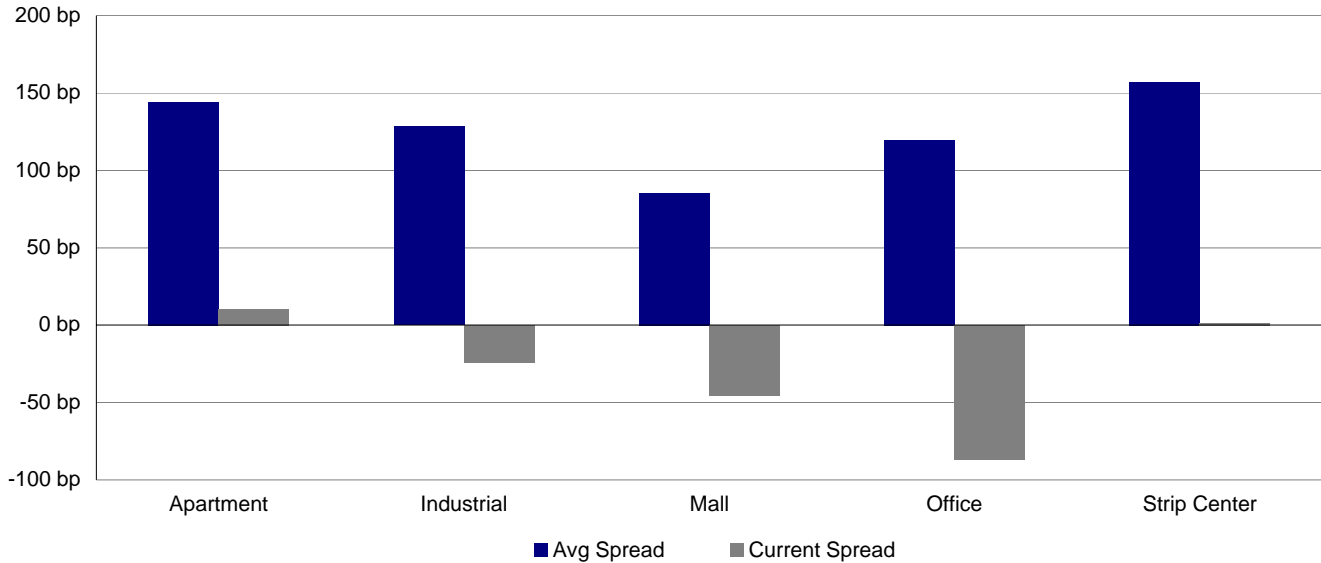


Appendix A - Private Market Cap Rates (continued)

Cap rate spreads in all sectors are materially below their long-term norms.

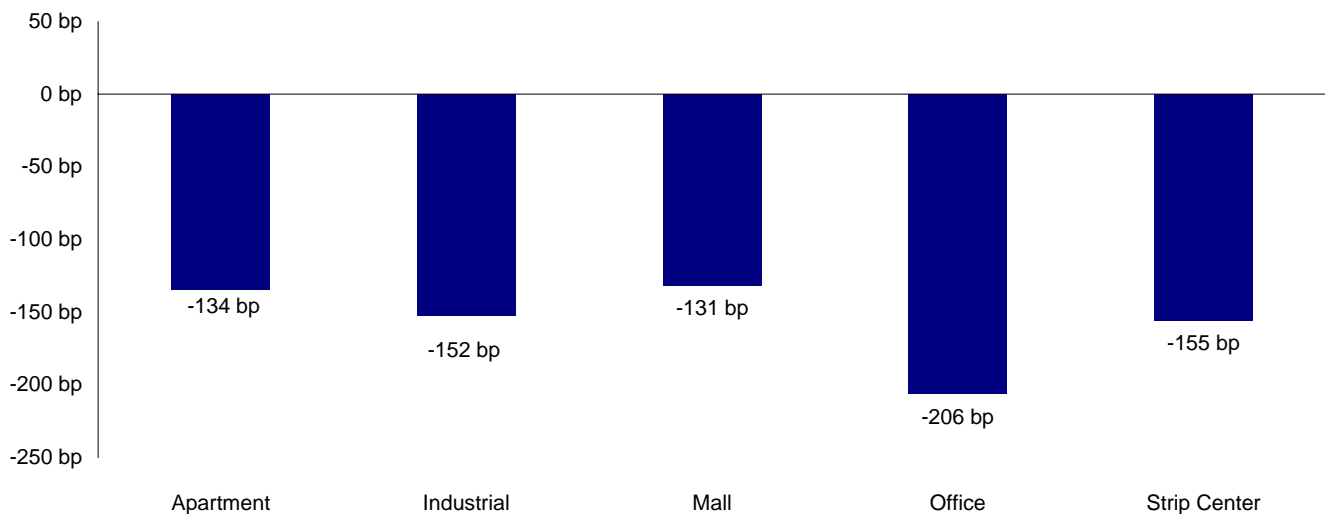
A Comparison of Current Cap Rate* Spreads over Commercial Mortgage Rates Versus Historical Spreads

(historical average is 1/94 through present)



A negative spread between current and historical cap rate spreads, taken by itself, suggests a sector may be overpriced, whereas positive spreads suggest attractive pricing. An important caveat: the quality and location of REIT-owned portfolios have generally improved in recent years, so some of the narrowing in cap rate spreads (guesstimate = 25-50 basis points) is likely due to non-comparability issues.

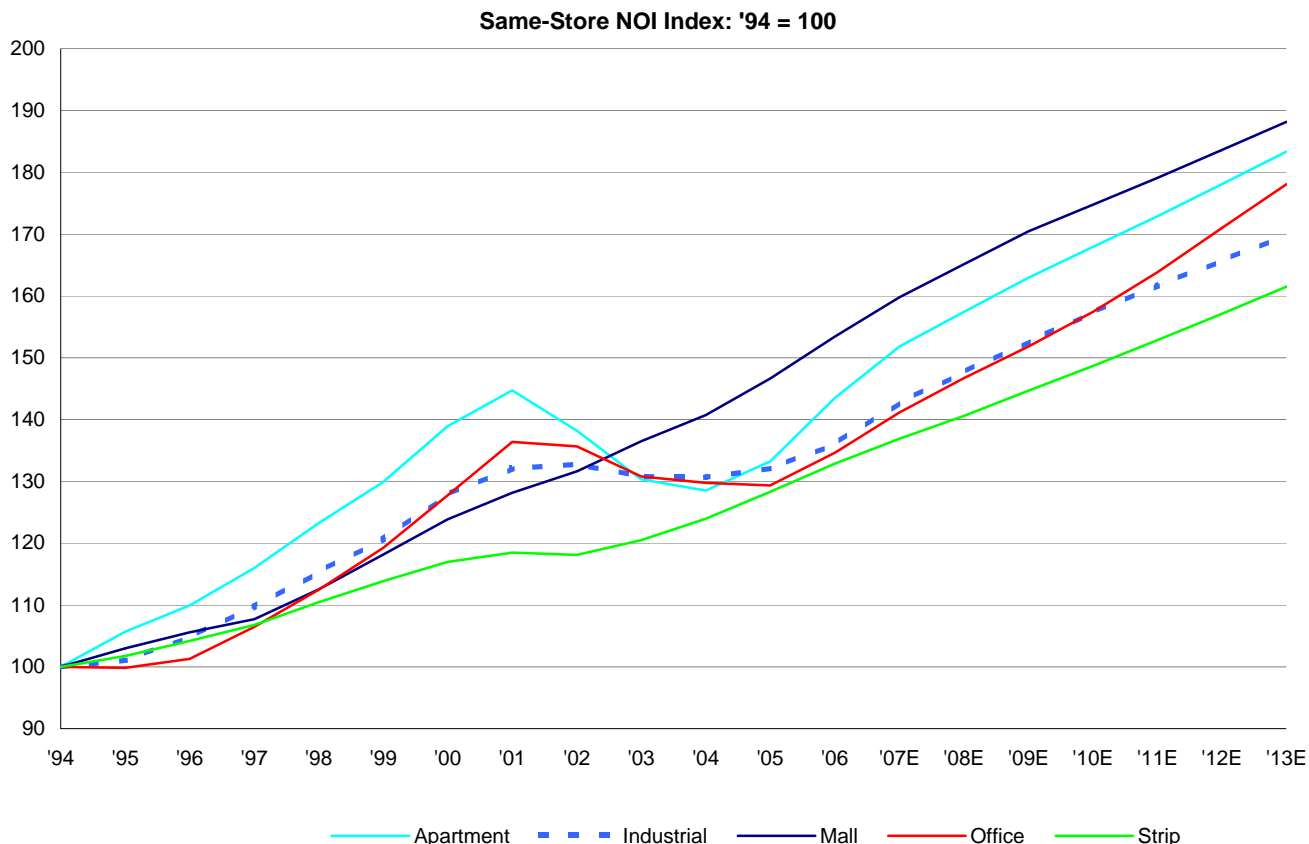
The extent to which current cap rate spreads* exceed long-term norms



*All cap rate data represent company-specific cap rates used by Green Street in computing NAV estimates. The sector averages represent market-weighted averages of this data.

Appendix B - Private Market NOI Growth Cyclical Factors

NOI growth rates show substantial variance by property sector. Malls and strip retail have shown steady growth, whereas the cycles have been much more severe in apartments and office. The apartment recovery peaked in '06 and NOI growth is now decelerating. By contrast, the office sector should enjoy solid NOI growth for several years, as leases signed during tough conditions in the early part of this decade are reset at higher rental rates.



NOI Growth by Sector* - Historical and Estimated																			
	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06	'07E	'08E	'09E	'10E	'11E	'12E	'13E
Apartment	5.7%	4.0%	5.5%	6.2%	5.4%	6.9%	4.2%	-4.5%	-5.7%	-1.4%	3.7%	7.7%	5.8%	3.7%	3.5%	3.0%	3.0%	3.0%	3.0%
Industrial	1.1%	3.7%	4.7%	5.1%	4.6%	6.0%	3.3%	0.5%	-1.5%	-0.1%	1.1%	3.0%	4.9%	3.4%	3.4%	3.1%	2.8%	2.5%	2.5%
Mall	3.0%	2.5%	2.0%	4.5%	5.0%	4.8%	3.4%	2.7%	3.7%	3.1%	4.2%	4.6%	4.1%	3.3%	3.3%	2.5%	2.5%	2.5%	2.5%
Office	-0.2%	1.5%	5.1%	5.7%	6.0%	7.1%	6.7%	-0.5%	-3.6%	-0.8%	-0.3%	4.1%	4.8%	3.9%	3.5%	3.7%	4.1%	4.3%	4.2%
Strip	1.8%	2.4%	2.5%	3.4%	3.1%	2.7%	1.3%	-0.3%	2.0%	2.9%	3.5%	3.5%	3.1%	2.7%	2.9%	2.8%	2.8%	2.8%	2.8%

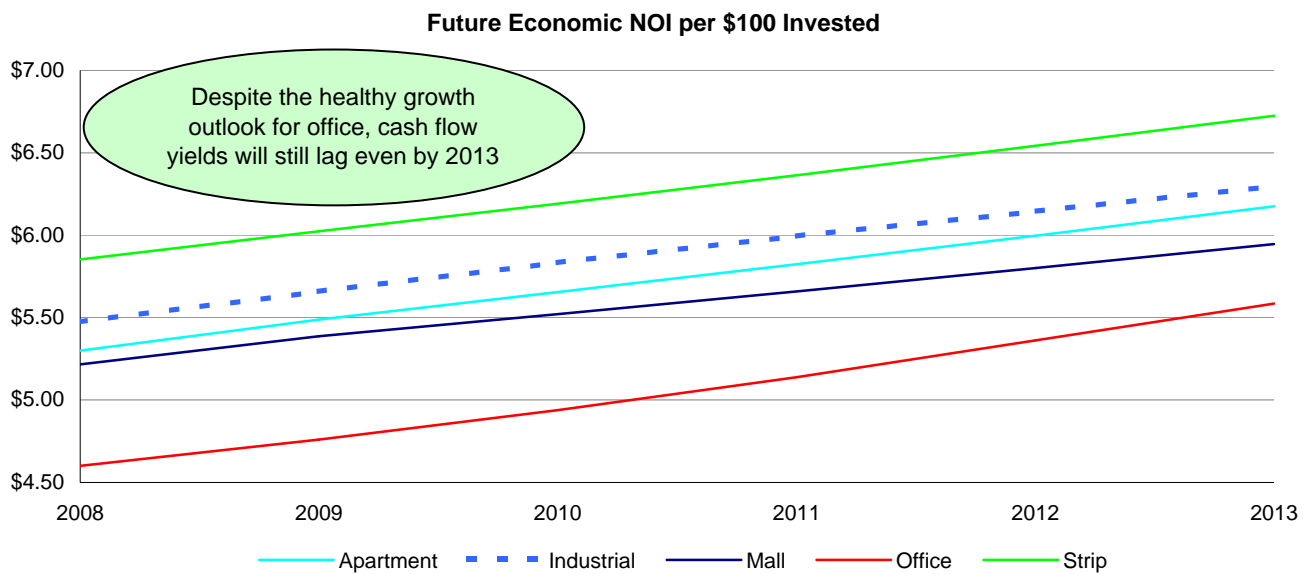
*Sector data represent weighted average of companies in our coverage universe. Estimates are made by senior analysts for each sector. These estimates are predicated on a consensus view of the economy, and take into account dynamics impacting each sector. More detail is typically found in the respective sector quarterly reviews. The largest difference for different growth outlooks pertains to lease structures and, more specifically, the level of embedded NOI growth in each sector.

Appendix B - Private Market NOI Growth Cyclical Factors (continued)

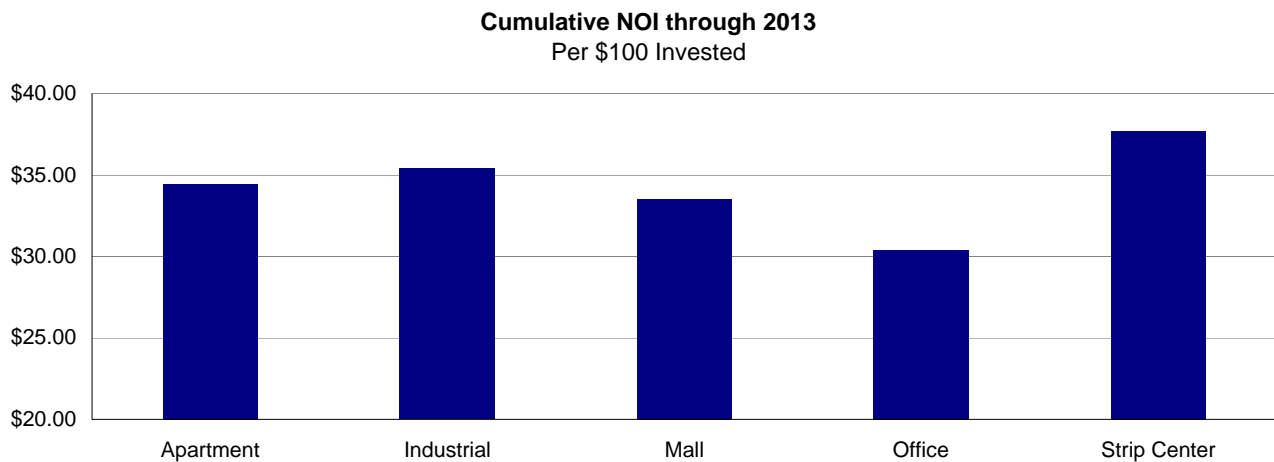
The economic cap rates employed by Green Street, based on data from the private real estate market, are a proxy for the initial yield that an investor will receive.

	Current Cap Rates				
	Apartment	Industrial	Mall	Office	Strip Center
Nominal Weighted Avg	6.0%	6.1%	5.9%	5.5%	6.5%
Cap Ex as % of NOI	10.8%	10.2%	11.3%	16.0%	9.3%
Economic Weighted Avg	5.3%	5.5%	5.2%	4.6%	5.9%

By combining these initial returns with the growth rate estimates outlined on the prior page, forward-looking NOI forecasts for each property sector can be derived.



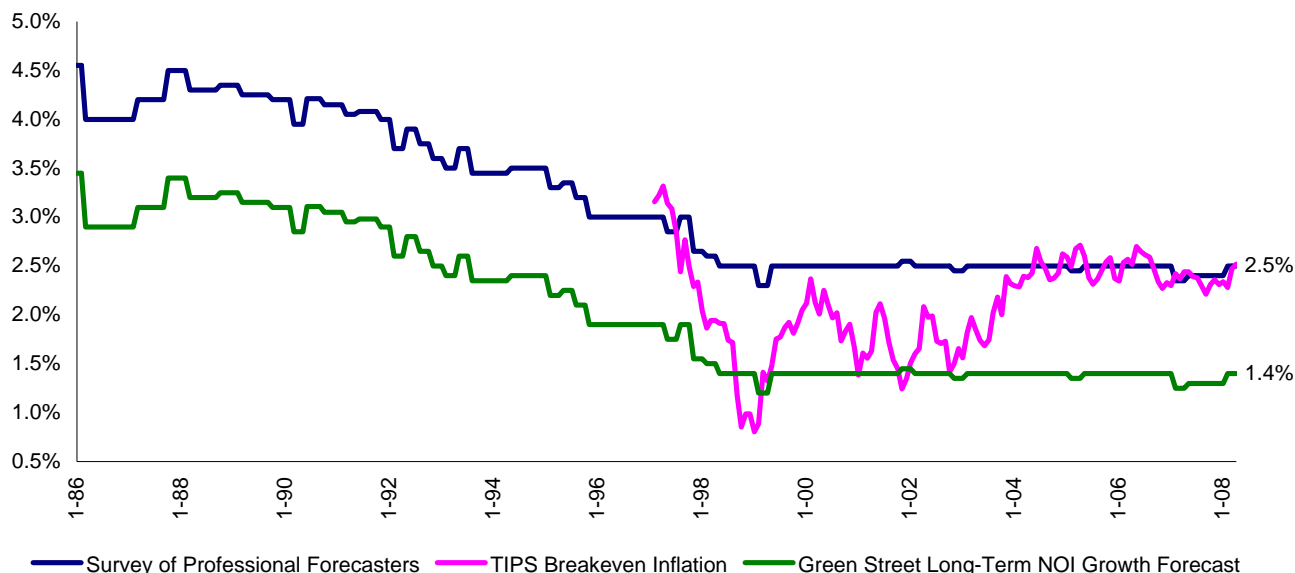
The relatively anemic near-term NOI growth outlook for the strip retail and industrial sectors is more than made up by relatively high prevailing cap rates. Meanwhile, office cap rates are so low that growth won't be sufficient to allow them to catch up. Why are investors willing to tolerate such paltry returns on office buildings?



Appendix B - Private Market NOI Growth Long-term Outlook

The estimates of prospective unleveraged return expectations on real estate that appear in the body of this report are heavily impacted by the assumption used for long-term NOI growth. We assume that long-term growth in every property sector is directly tied to inflation (i.e. real estate serves as a perfect inflation hedge), and that the long-term NOI growth rate lags inflation by an average of 110 bps (with modest variance by property type). The inflation forecasts come from a survey of economists conducted by the Philadelphia Fed. The consistent manner in which this survey has been conducted and its much longer track record make it a better choice than the TIPS-implied inflation forecast.

Inflation Expectations and Long-Term NOI Growth Forecasts



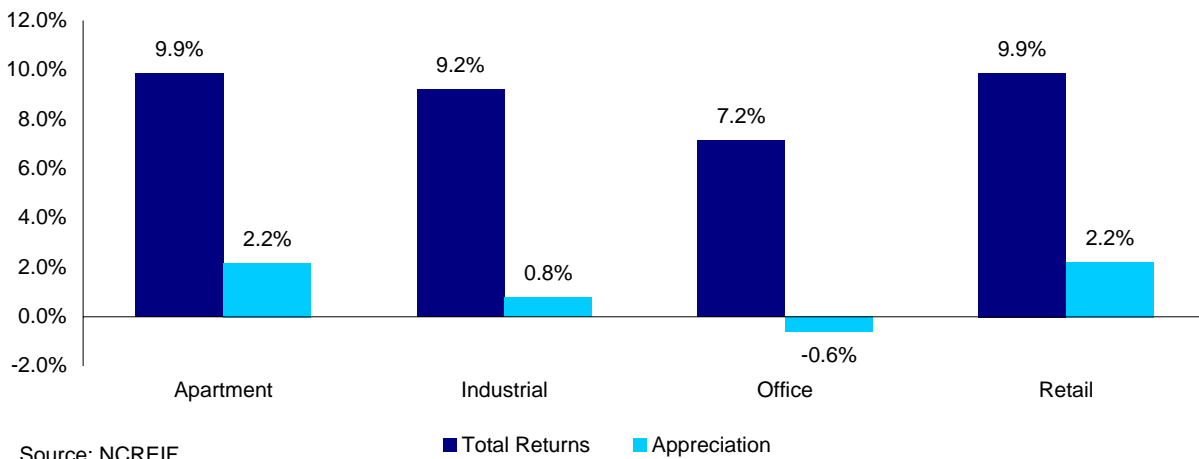
Survey of Professional Forecasters 10YR inflation forecast. This survey is conducted quarterly by the Federal Reserve Bank of Philadelphia. Prior to Nov 1991 data is from Blue Chip Economic Indicators and the Philly Fed's Livingston Survey. TIPS breakeven inflation is equal to the yield on 10YR Treasuries minus the yield on 10YR TIPS.

Appendix B - Private Market NOI Growth Long-term Outlook (continued)

Long-term growth assumptions are a critical input in evaluating prospective long-term returns (i.e. IRRs). They are generated by deducting an average of 110 basis points from economists' estimates of inflation over the next 10 years. Why are these growth estimates so low? Because the best long-term data series of real estate returns (NCREIF) suggests that NOI growth has been minimal in most property sectors.

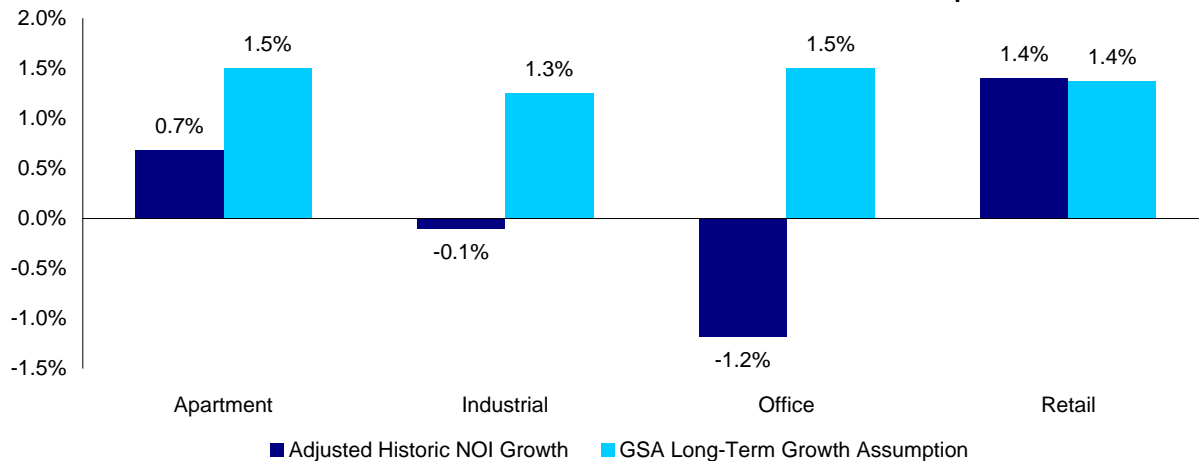
Components of Real Estate Return since '86

The vast majority of the return generated by real estate comes from the income return (i.e. the initial yield). The appreciation return emanates from a combination of NOI growth and cap rate compression. The fact that long-term appreciation is unimpressive amidst an environment where declining cap rates have had a big positive impact on values suggests that real (i.e. not bought with cap-ex) NOI growth has been very low, perhaps even non-existent. Long-term growth has been strongest in retail and apartments, weakest in industrial and office.



Presumably, the appreciation that occurred in the NCREIF index as a result of cap rate compression should be viewed as non-recurring. Backing that out, long-term appreciation (after deducting capital expenditures) has been anemic. Also, it varies substantially by property type. Our long-term NOI growth projections are both more optimistic and more uniform, but the historic record should not be ignored.

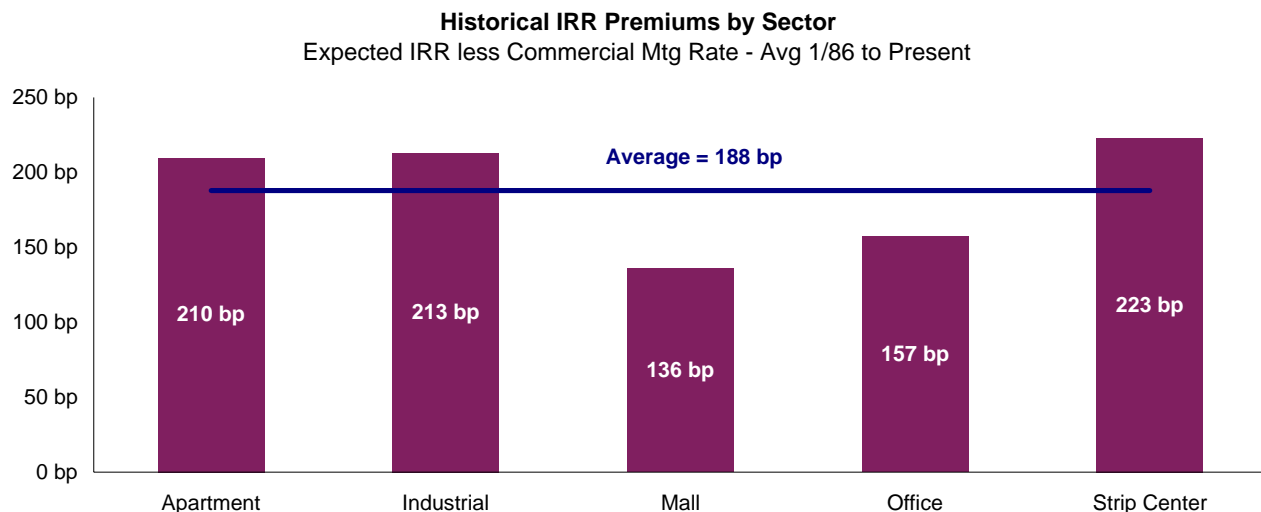
Historic NCREIF NOI Growth vs. GSA Forward NOI Growth Assumptions



Adjusted historic NOI growth is calculated by subtracting the portion of appreciation in the NCREIF capital return index that was directly attributable to cap rate compression in the last few decades. As shown, the NCREIF series effectively backs out all growth purchased with cap-ex, whereas our assumptions assume moderate cap ex.

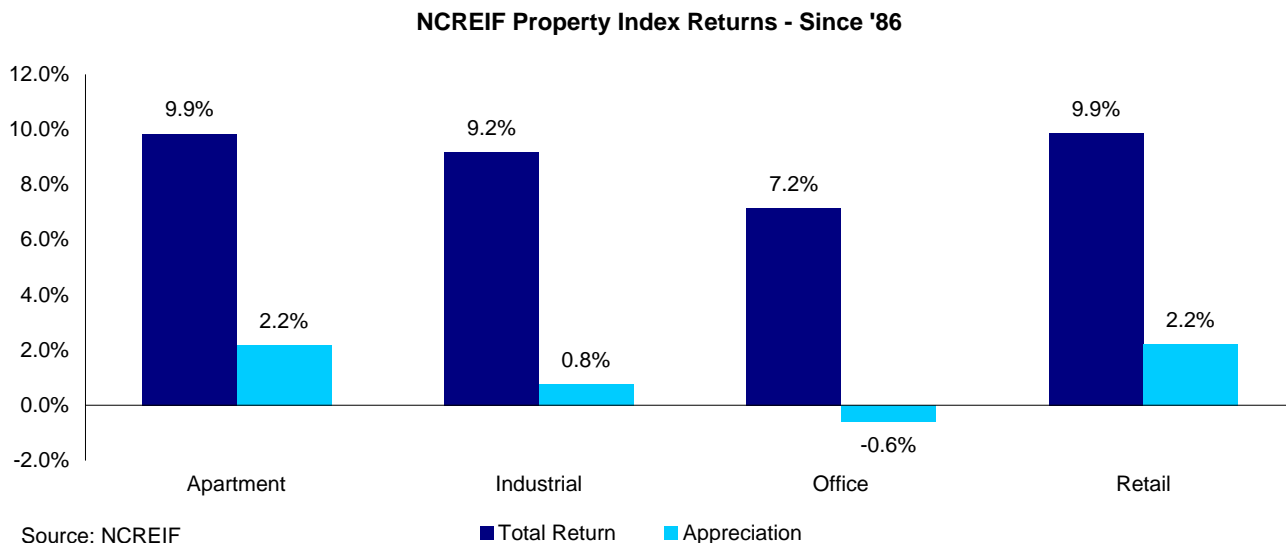
Appendix C Sector IRR Premiums - What's the Right Approach?

A key assumption underlying the analysis in the body of this report is that the premium between expected unleveraged returns (i.e. IRRs) and the commensurate cost of debt should, in each property sector, revert back to the long-term ALL SECTOR average. An equally defensible assumption would call for sector-level return premiums to revert to the long-term average for the respective sector. Malls and office buildings have historically been the most richly priced (smallest premiums), while the apartment, industrial, and strip center sectors have offered much larger premiums. Thus, an analysis utilizing this assumption would lead to a more favorable view toward prevailing mall and office pricing, and the other sectors would look pricier.



The apartment premium represents the premium over a non-subsidized borrowing rate (average borrowing rate of the other sectors).

However, with the benefit of hindsight, it appears that at least some of these premiums have been inappropriate. By way of example, office has historically been priced to deliver moderately smaller returns than are available elsewhere, yet the actual results have been even worse: office has dramatically underperformed.



Appendix D Hotels - Private Market Pricing

The total returns that Hotel owners are likely to achieve can be assessed by combining the initial yield and growth forecasts shown below.

Sector	Economic Cap Rate	Projected NOI Growth					
		'09	'10	'11	'12	'13	Long Term
Hotels	6.4%	3.0%	3.0%	2.5%	2.5%	2.5%	1.4%
Major Property Sectors	5.3%	3.3%	3.0%	3.0%	3.0%	3.0%	1.4%

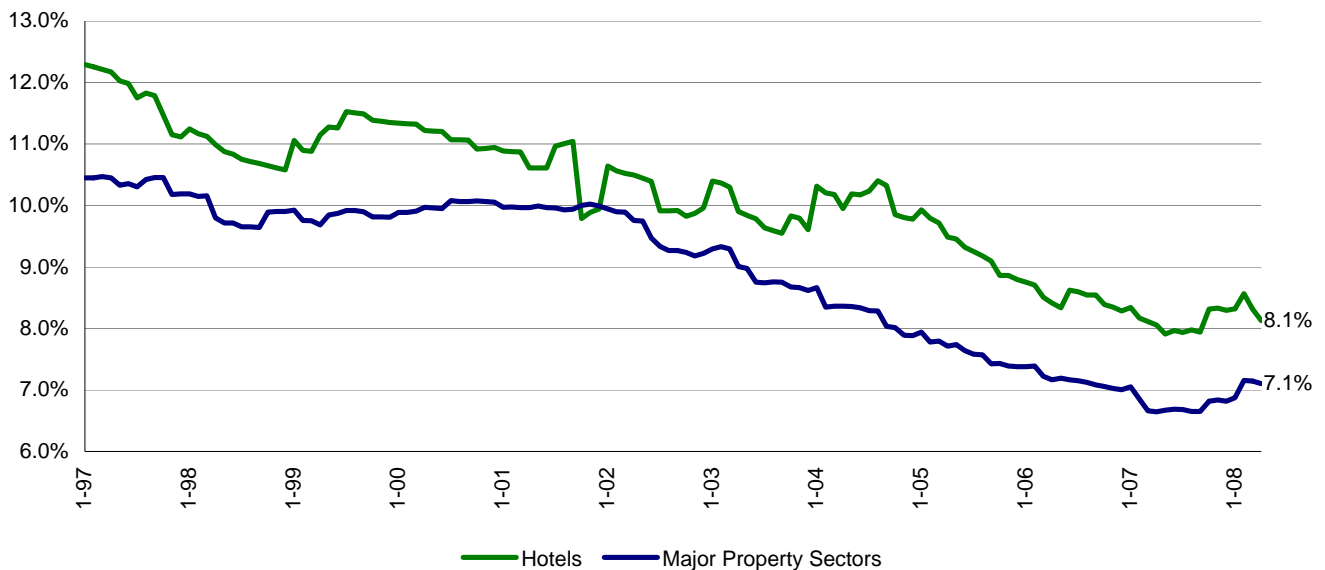
If the forecasts above prove to be correct, Hotels are priced to deliver an additional 100 basis points of return over other property types.

Unleveraged Return Expectations - Hotels versus Core Property Types



But hotel fundamentals are more volatile than those of the core property types and investors have historically demanded a premium to be compensated for this incremental risk.

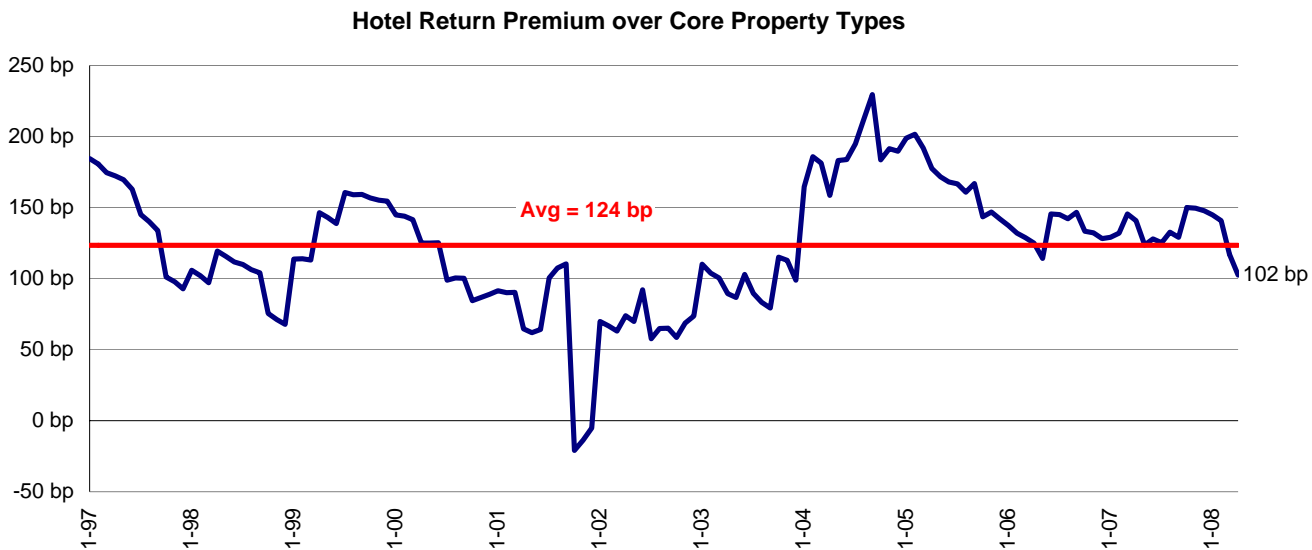
Unleveraged IRR Expectations on Property in the Private Market



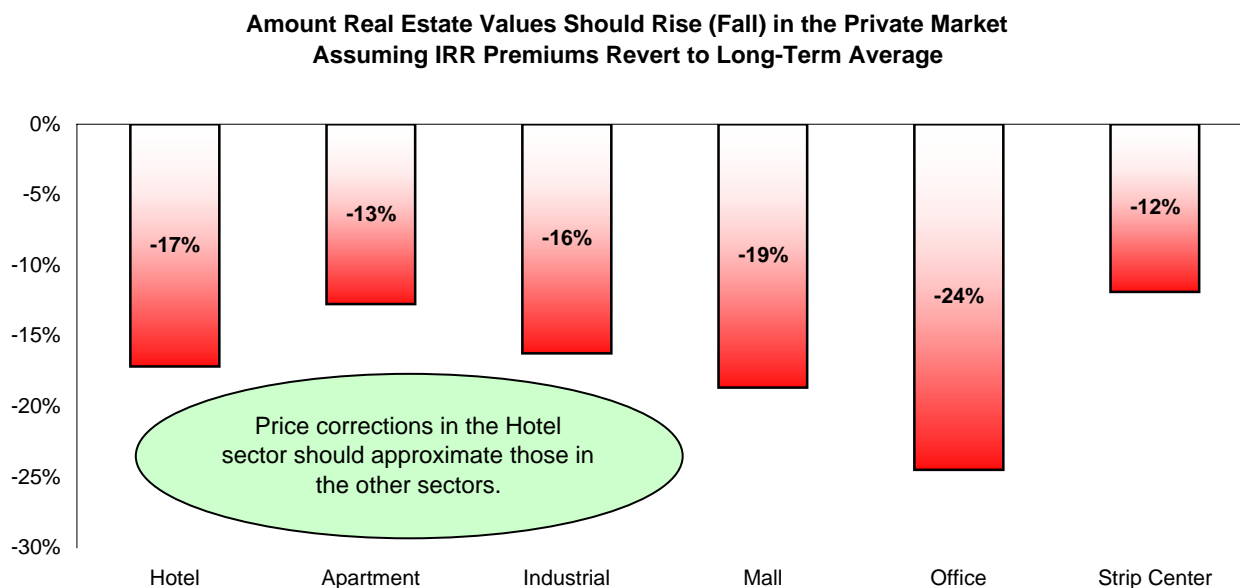
Proxy for historic IRR expectations = economic cap rates + expected intermediate-term growth + expected long-term growth (forecast inflation less 110 bps). Inflation source: Survey of Professional Forecasters 10YR inflation forecast. Intermediate-term growth estimates are from Green Street. Hotel cap rates prior to Oct 2003 are based on cap rates from HVS International. Subsequent cap rates are from Green Street. Historical cap rates have been adjusted to reflect the current cap-ex reserve used by Green Street.

Appendix D Hotels - Private Market Pricing (Continued)

The current return premium offered by Hotels is near its long-term average.

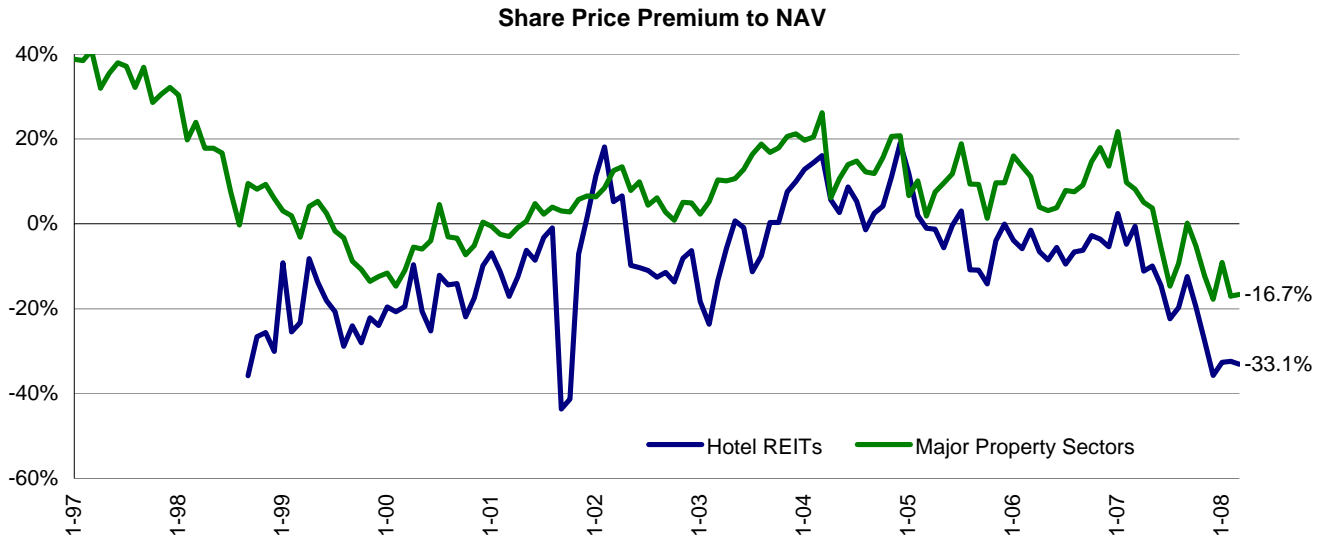


The price declines shown below are warranted if return premiums on core real estate revert to historic norms and the spread between Hotel IRRs and core real estate IRRs widens to its long-term average.



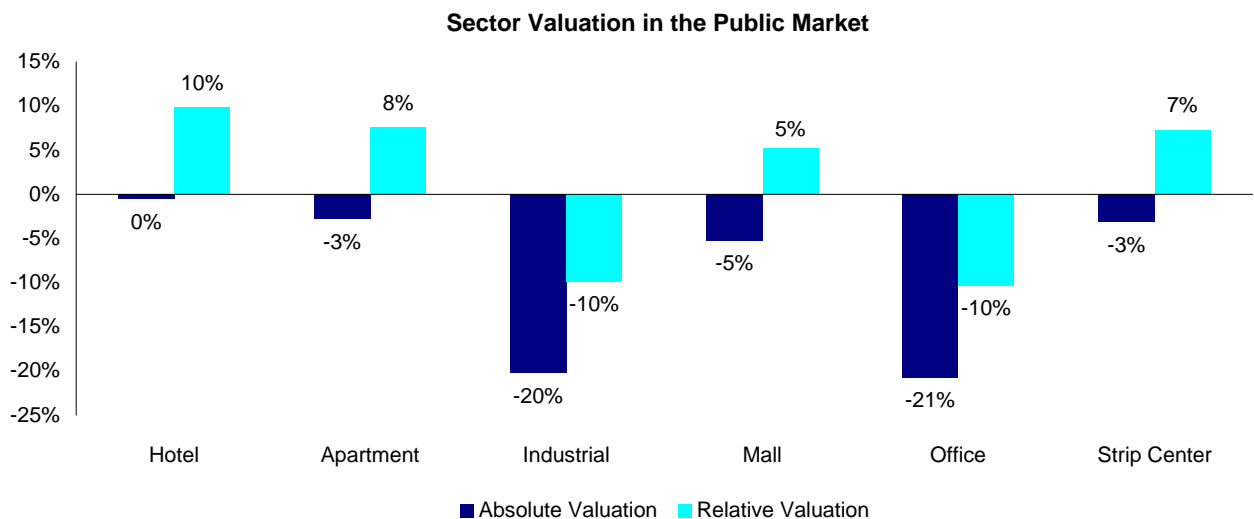
Appendix D Hotels - Public Market Pricing

Before the conclusions on the prior page can be turned into conclusions about public market pricing, premiums (discounts) to NAV need to be considered. Hotel REITs currently trade at a 33% discount to NAV, which is significantly larger than the 17% discount to NAV that REITs in the major property sectors are priced at. But it is not unusual for Hotel REITs to trade at much smaller premiums (larger discounts); since September 1998 Hotel REITs have traded at an NAV premium that is 1400 bps lower than that of REITs in the major property sectors.



Major Property Sectors is an equally-weighted average of Apartment, Industrial, Mall, Office, and Strip Retail. These sector level NAV premiums, as well as the Hotel premium, are market-cap weighted averages. Historic data excludes companies that Green Street no longer covers. Hotel data series begins in September 1998.

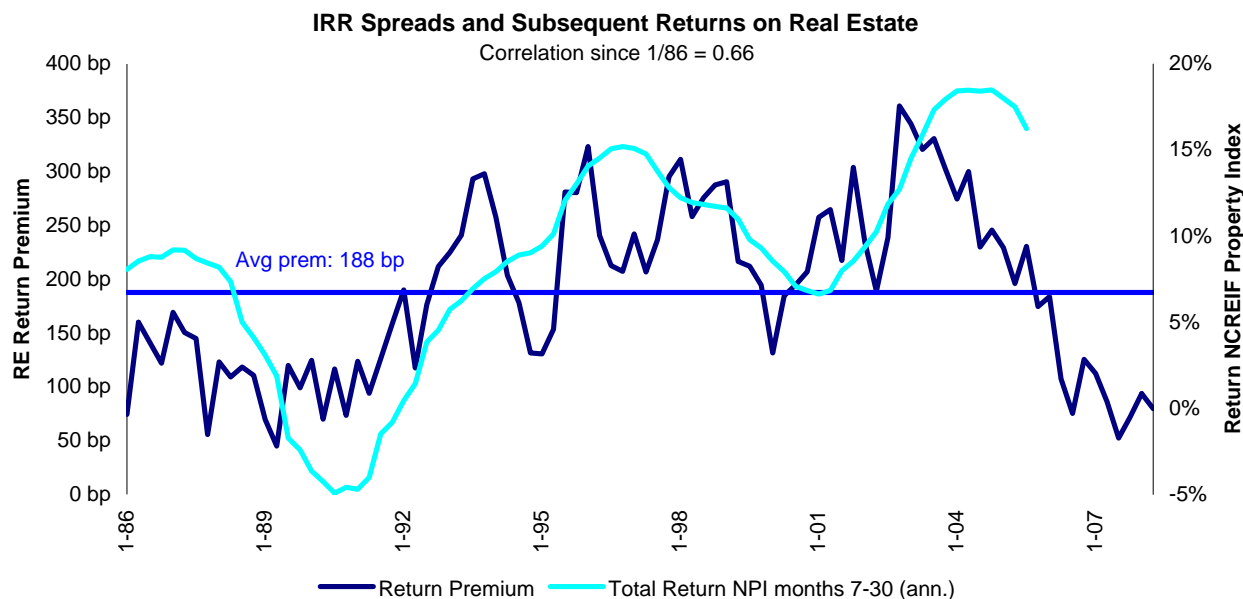
Big discounts to NAV (and even bigger discounts to asset value) relative to the other sectors causes Hotel pricing to appear to be attractive. Because there is considerable economic uncertainty and Hotels are operating without the backstop of embedded NOI growth, cash flows could disappoint, so valuations are probably closer to fair than might appear to be the case based solely on the graph below.



Absolute valuation - amount by which REIT values in sector should adjust. Relative valuation - amount by which each sector should outperform the other major REIT sectors.

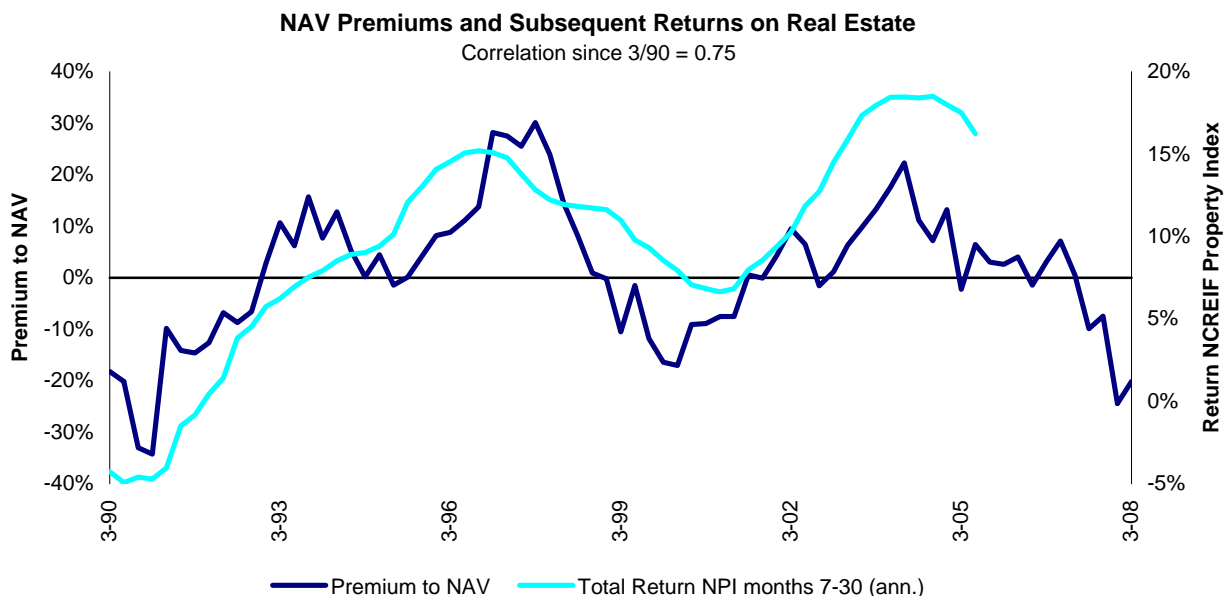
Appendix E The Empirical Evidence

The analysis contained herein is based on the assumption that real estate return premia revert to historic norms. Common sense tells us that this should be the case, but what about empirical evidence? As shown below, periods in which expected unleveraged returns have substantially exceeded borrowing costs have been followed by outsized returns on real estate, and vice versa.



NPI is the NCREIF Property Index. NPI returns are measured over a 24-month period that starts 6 months after the premium observation. The lag is designed to address appraisal lag in the NCREIF series.

Observed NAV premiums (discounts) for REITs have a high correlation with future real estate returns. High premiums to NAV have preceded robust real estate returns over the 24-month period that begins 6 months after the premium observation, and vice versa.



NPI is the NCREIF Property Index. NPI returns are measured over a 24-month period that starts 6 months after the premium observation. The lag is designed to address appraisal lag in the NCREIF series.

Appendix F Data & Methodology

There is a good reason why studies of long-term real estate valuation have typically had big shortcomings. The data required to conduct these studies has either been non-existent or is of such poor quality that the conclusions are tainted with a serious GIGO (garbage in/garbage out) problem. Much of the key data utilized herein comes from databases proprietary to Green Street. Other key inputs are driven by the extensive research we have conducted on critical issues, such as cap-ex, that have profound impacts on valuation. Below is a brief discussion of each of the key data series that serve as the cornerstone of this analysis.

Net Asset Value – The NAV database that we have maintained for many years adds unique insight regarding public market pricing. This database contains consistently prepared NAV estimates for each of the companies we have followed since 1990. This information can not be replicated anywhere else, and is critical in translating valuation conclusions from the private market into conclusions about public market pricing.

Unleveraged Returns from Real Estate (Internal Rates of Return, or IRRs) – Estimates of unleveraged return prospects for real estate are the key driver of this analysis. The historic time series of IRR estimates is comprised primarily of data that we had used in past analyses. By way of example, IRRs in, say, January of 2002, were a function of the economic cap rates we were then using in our NAVs, NOI growth we were forecasting from '03-'07 and the inflation rate economists were then predicting for the '02-'12 time period. More detail on some of the key components of this analysis follows.

- **Nominal Cap Rates** – Over most of the period analyzed herein, the cap rate data is a compilation of cap rates Green Street has utilized in calculating NAV estimates. The quality of this data is bolstered by the fact that these cap rates have been ascribed in a consistent fashion and for an analysis on which we place great weight. External data sources, including National Real Estate Index and some company-specific disclosure (e.g. Rouse Company), are utilized for earlier time periods.
- **Economic Cap Rates** – The translation of nominal cap rates into economic cap rates (based on NOI after a cap-ex reserve) requires a thorough understanding of sector-specific cap-ex requirements. Our extensive past studies of this topic provide insight that is often lacking. Current cap-ex reserves we employ in each sector are extrapolated into historic cap rate time series to improve the comparability of current IRRs with those of the past.
- **NOI Growth – Intermediate Term:** Since the mid-'90s, our NOI data series has contained not only the growth that actually occurred on a same-store basis for REITs, but also what was expected in future years. The forward-looking nature of this data makes it invaluable in assessing return expectations that prevailed at any point in time in the past. NOI data available in the marketplace is generally of questionable quality and the data that is available (e.g. NCREIF) is limited solely to what was observed, not what was expected. Since our data series only goes back to the mid '90s, a proxy linked to inflation expectations is used for earlier periods.
- **Long-term NOI Growth** – Our long-term NOI growth expectations are directly linked to inflation expectations. Forecast inflation over the next ten years is provided from a survey of economists conducted by the Philadelphia Fed. The fact that this forecast has been conducted for nearly two decades makes it a more consistent data source than, say, the inflation forecast embedded in TIPS pricing (TIPS didn't exist before '97). Long-term NOI growth is assumed to lag inflation by slightly more than 100 basis points, on average. While more conservative than estimates often employed by market participants, this assumption is more generous than the NOI growth that has occurred in the NCREIF Property Index over a very long span of time (see Appendix B).

Green Street's Disclosure Information

Conflicts of interests can seriously impinge the ability of analysts to do their job, and investors should demand unbiased research. In that spirit, Green Street adheres to the following policies regarding conflicts of interest:

- Our employees are prohibited from owning the shares of any company in our coverage universe.
- Our trading desk does not commit capital or make markets in any securities.
- Our employees do not serve as officers or directors of any company in our coverage universe.
- Companies that we cover do not, in any manner, compensate us for inclusion in our coverage universe.
- A number of companies we cover pay us an annual fee to receive our core research product. We do not solicit this business and, in aggregate, it represents less than 3% of our revenue.
- We do not directly engage in investment banking, underwriting or advisory work with any of the companies in our coverage universe. However, the following are related potential conflicts that should be considered:
 - ♦ GSA is affiliated with Eastdil Secured, a real estate brokerage and investment bank that sometimes engages in investment banking work with companies in GSA's coverage universe. Green Street does not control, have ownership in, or make any business or investment decisions for, Eastdil Secured.
 - ♦ GSA has an advisory practice servicing investors seeking to acquire interests in publicly-traded companies. GSA may provide services to prospective acquirers of companies which are the subject(s) of GSA's research reports. GSA may receive fees that are contingent upon the successful completion of a transaction or other fees for its work on behalf of prospective acquirers.
- GSA publishes research reports covering issuers that may offer and sell securities in an initial or secondary offering. Broker-dealers involved with selling the issuer's securities or their affiliates may pay compensation to GSA upon their own initiative, or at the request of GSA clients in the form of "soft dollars," for receiving research reports published by GSA.
- An affiliate of Green Street Advisors is the investment manager of an equity securities portfolio on behalf of a single client. The portfolio contains securities of issuers covered by Green Street's research department. The affiliate is located in a separate office, employs an investment strategy based on Green Street's published research, and does not trade with Green Street's trading desk.

While minimization of potential conflicts will remain a very important priority for us, we reserve the right to change any of these policies at any time. We encourage a careful comparison of these policies with those of other research providers, and welcome the opportunity to discuss them.

Investment advice proves to be wrong about as often as it is right. While we strive to do better than this, our recommendations will include bad calls and we are certain to make other mistakes as well. This document may well contain errors of fact. We have done our best to utilize data that we believe to be reliable, but no assumption should be made that the data has been verified, or is accurate and complete. This report should not be considered to represent an offer to buy or sell the securities discussed herein, and all opinions are subject to change without notice.

Green Street Advisors is an accredited member of the Investorsidesm Research Association, whose mission is to increase investor and pensioner trust in the U.S. capital markets system through the promotion and use of investment research that is financially aligned with investor interests.



Analyst Certification: I, Mike Kirby, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject companies or securities. I also certify that my specific recommendation(s) or view(s) in this report are in no way, directly or indirectly, influenced by the source or the structure of my compensation.

I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms of Use:

This report is the proprietary and confidential information of Green Street Advisors, Inc., and is protected by copyright. This report is not sold, but is licensed for personal, limited, non-transferable use as follows: You may use this report solely for reference for internal business purposes. You may not use this report for any other purpose. You may not reproduce, distribute, sell, lend, license or otherwise transfer or provide this report or a copy of it or any of its contents for any purpose. You may not disclose this report or any of its contents to any person except to fellow employees working at your work location. Except for the rights expressly granted to you above, all rights with respect to this report are reserved by Green Street Advisors, Inc.

United Kingdom Recipients: For use only by Investment Professionals

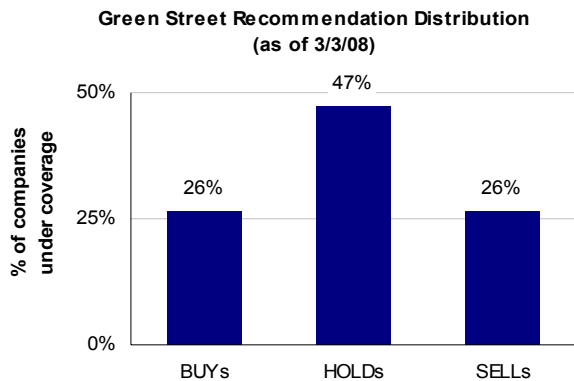
The following provisions apply to the extent that this report is provided to recipients in the United Kingdom.

Green Street is not authorised or regulated by the Financial Services Authority of the United Kingdom. Where issuing this report to recipients in the United Kingdom, Green Street is an "overseas person" for the purpose of Article 72(5) of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. This report is provided in the United Kingdom only for the use of the addressees and is intended for use only by a person or entity that qualifies as an authorised person or exempt person within the meaning of section 19 of the Financial Services and Markets Act 2000 ("FSMA") or that qualifies as a person to whom the financial promotion restrictions imposed by the FSMA do not apply by virtue of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

Consequently, this report is intended for use only by persons having professional experience in matters relating to investments. This report is not intended for use by any other person. In particular, this report is not intended for use by "retail clients" in the United Kingdom, as defined by the rules of the Financial Services Authority. Any such person who receives this report should not act on the contents of this report.

Green Street reviews all investment recommendations on at least a monthly basis.

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.