Heard on the Beach

Disruption

April 29, 2016

Green Street Advisors

Executive Summary

Real estate market participants typically do a great job assessing cash flow prospects over at least the next seven years when valuing properties, though effort wanes on what might happen after that. To some extent, this makes sense, as uncertainty in the distant future is high. However, considering that the value of a property seven years hence comprises roughly two-thirds of its current value, thoughtfully derived estimates of long-term growth are critical.

Good news on this front comes in the form of now-seasoned time series that show big differences in the NOI-growth/cap-ex profiles of the different property sectors. There is good reason to believe that many of these differences will persist going forward.

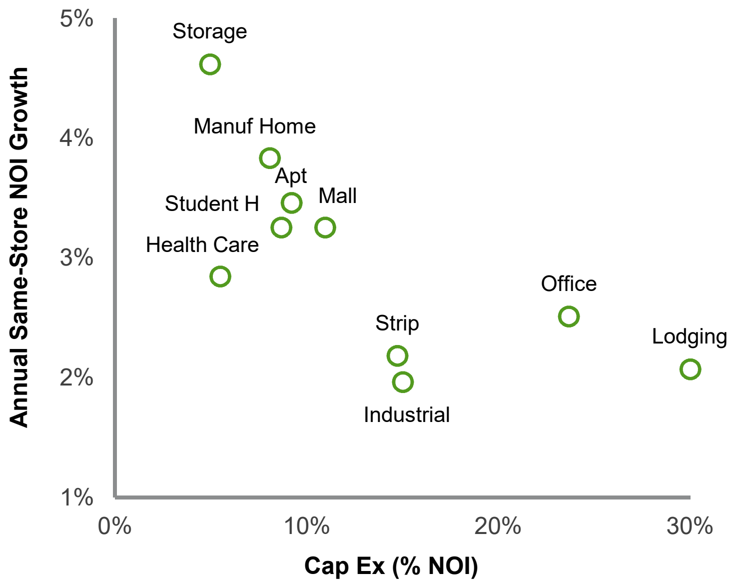
But the past is not destiny, and there are a number of obvious disrupters that seem likely to alter the relative performance of the various sectors going forward. These disrupters run a wide gamut, including innovations in web technologies (e.g., eCommerce, Airbnb, etc.), demographic swings, maturation of newer sectors, wage pressures, and even driverless cars.

Given the informational vacuum that prevailed until recently, there is reason to believe that cross-sector valuations are ripe with inefficiencies. A thoughtful framework for deriving long-term growth estimates – with one eye on lessons from the past and one eye on how the future might differ – should help identify them.

RMZ: **1129** | DJIA: **17,774** | 10-Year T-Note: **1.83%** | Baa Yield: **4.7%**

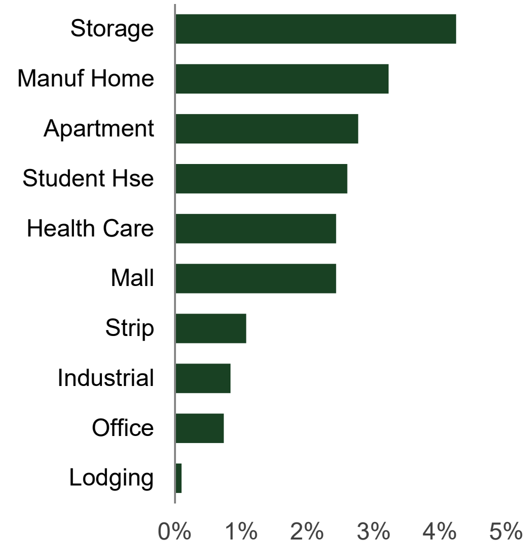
History Lessons: There have been remarkable differences in the NOI growth generated by the various property sectors over the last two decades. Curiously, the sectors with best NOI growth have often been the sectors with the smallest cap-ex required to generate that growth. After adjusting for NOI growth "bought" via cap-ex, the large differences in NOI growth become even more exaggerated.

REIT NOI Growth and Cap Ex: 1994-2015



Source: Green Street Advisors

REIT NOI Growth/Cap Ex Profiles



Reported NOI growth less "bought growth" assumes 7.5% return on capital

The Past is Not the Future: There are a number of important factors that should profoundly impact relative growth rates across sectors going forward. Quantifying them with precision is impossible, but educated guesses about the relative direction can add insight.

Factors That Will Cause Future Growth to Differ from the Past

Trend	Storage	Manuf Home	Apt	Student Housing	Health Care	Mall	Strip	Indust	Office	Lodging

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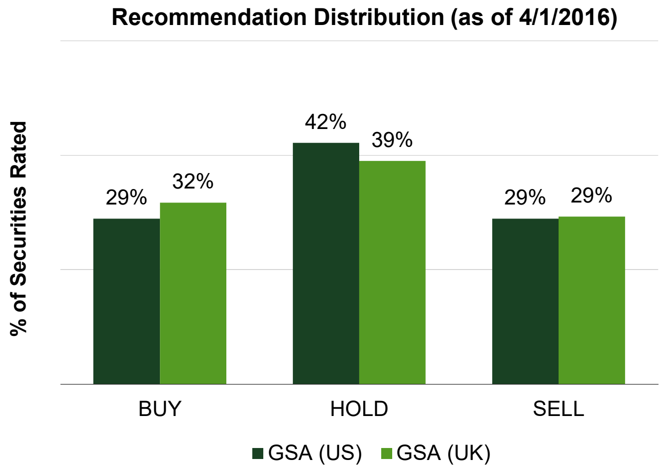

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Total Return of Green Street's Recommendations[1,2]

Year[3]	Buy	Hold	Sell	Universe[4]
2016 YTD	9.4%	7.4%	9.3%	8 5%
2015	8 3%	0.9%	-1.7%	2.4%
2014	41 6%	31.5%	27.3%	33 3%
2013	4.1%	0.6%	1.7%	2 2%
2012	24 5%	24.7%	18.9%	23 0%
2011	18 9%	7.6%	-4.7%	7 6%
2010	43 3%	32.8%	26.6%	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%
Cumulative Total Return	**15106.1%**	**1089.0%**	**25.7%**	**1275.5%**
Annualized	**24.2%**	**11.3%**	**1.0%**	**12.0%**

The results shown in the table in the upper right corner are hypothetical; they do not represent the actual trading of securities. Actual performance will vary from this hypothe ical 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 hypothe ical 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.

(1) Results are for recommendations made by Green Street's North American Research Team only (includes securities in the US, Canada, and Australia). Uses recommendations given in Green Street's "Real Estate Securities Monthly" from January 28, 1993 through April 1, 2016. Historical results from January 28, 1993 through January 4, 2016 were independently verified by an international "Big 4" accounting firm. The accounting firm did not verify the stated results subsequent to January 4, 2016. As of January 4, 2016, the annualized total return of Green Street's recommendations since January 28, 1993 was: Buy +24.0%, Hold +11.1%, Sell 0.6%, Universe +11.7%.

(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". Beginning April 28, 2000, Gaming C-Corps and Hotel C-Corps, with the exception of Starwood Hotels and Homestead Village, were no longer included in the primary exhibit and therefore no longer included in the calculation of total return. Beginning March 3, 2003, the remaining hotel companies were excluded.

(3) The returns for each year cover the period following the first "Real Estate Securities Monthly" issued in the respective year through the first "Real Estate Securities Monthly" issued in the following year and are not based on a calendar year.

(4) 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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