United States: Real Estate: REITs

US REIT View: Changing winds in property sector strategy

Industry context

Since the start of 3Q earnings, shorter lease term sectors have delivered relative outperformance versus the long lease term segments, marking a clear divergence in performance from the year-to-date trend. The gap was meaningfully apparent as Industrial and Apartments delivered amongst the strongest price performance over the last few weeks. Before we declare a shift in sector strategy, we point out that the data reflects our recent view that a more "balanced approach" to sector strategy will take hold in 2010, with a focus on growth leaders and income names.

Source of opportunity

We maintain our focus on our lists of growth leaders and income names as we think relative growth and the ability to pay an all-cash dividend should become increasingly important in 2010. It is becoming more evident that companies with access to capital and stronger balance sheets should be in a position to deliver higher growth in the near term. Our income list has a net cash yield of 5.4%.

Best buy idea

SPG – Simon has one of the strongest balance sheets in the industry and should be able to maintain modest SS NOI growth in the near term.

BPO – Brookfield trades at an attractive level in or view combined with a portfolio of high quality, infill assets for stable cash flows.

CBL – CBL remains one of our top ideas in REITs, with an improved balance sheet and current FFO multiple of just 4.8 times.

Best sell idea

ESS – Our top sell idea remains west coast apartment REIT Essex as we expect continued pressure on rents in 2010 given high unemployment in CA and WA.

REG – With the recent weakness in same-store NOI (50% FL, GA and CA), we remain concerned that Regency will again lag the industry in growth in 2010.

UPCOMING EVENTS

NAREIT, Phoenix – November 11-13, 2009

Goldman Sachs Commercial Real Estate Symposium – December 4, 2009

RELATED RESEARCH

US REIT View: Beyond the restructuring; positioning for eventual growth, current income – October 28 , 2009

US REIT View: Ignore the noise, follow fundamental trends- October 2, 2009

Growth leaders	Income	Growth laggards
SKT	LRY	CUZ
TCO	HCP	PLD
SPG	TCO	DDR
HCP	WRI	PPS
PSA	EQR	SLG
BXP	CLI	MAC
BPO	UDR	ESS
-2.0% FFO growth	5.4% dividend yield	-11.0% FFO growth

Note: Growth rates are based on a 2009-11 CAGR.
Source: Goldman Sachs Research.

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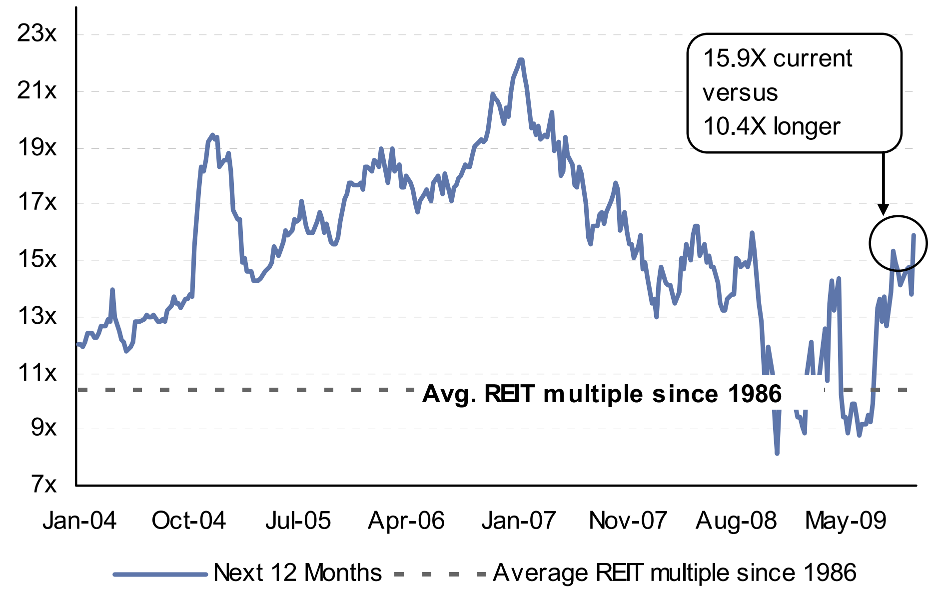
Portfolio Managers Summary: Changing winds in property sector strategy

Since the start of 3Q earnings, shorter lease term sectors have delivered relative outperformance versus the long lease term segments, marking a clear divergence in performance from the year-to-date trend. The gap was meaningfully apparent as Industrial and Apartments delivered amongst the strongest price performance over the last few weeks. Before we declare a complete shift in sector strategy (recall we have favored long lease term amid the downturn given more resilient cash flow growth), we point out that the data reflects our view that a more "balanced approach" to sector strategy should take hold in 2010, with a focus on growth leaders and income names, a move to bottom-up analysis.

Despite better than expected results from most REITs in 3Q 2009, we maintain our view that REITs should underperform in the near term as we simply see better growth and value in other parts of financials. There are several reasons for the expected underperformance:

- REITs need to de-leverage even as credit markets have improved for public REITs, with debt-to-EBITDA likely to return to the longer-term average (pre-bubble);
- We do not see a large pipeline of acquisition opportunities in the near term as long as banks continue to "extend and modify" existing mortgages – in fact, REITs that raised equity capital to execute acquisitions are now using that same capital to pay down debt and converts; and
- The stock are now screening as less attractive on a valuation basis as long as a recovery in growth pushed out to 2011-2012.

Exhibit 1: REITs are trading at a 40% premium to the longer term average of 10X – 11X
as of 11/9/2009



Source: SNL.

In short, we see downside risk for the shares in the near term, but far more modest than we have called for in the past, with the stocks expected to be down 5%-7%. While CRE fundamentals are soft, we note that trends should bottom in the next 12-18 months, which is already reflected in our earnings estimates.

The biggest surprise to date has been the availability of capital for public REITs, which has served to keep cap rates at the low-end of our 7%-10% expected range, a positive for companies with higher asset quality.

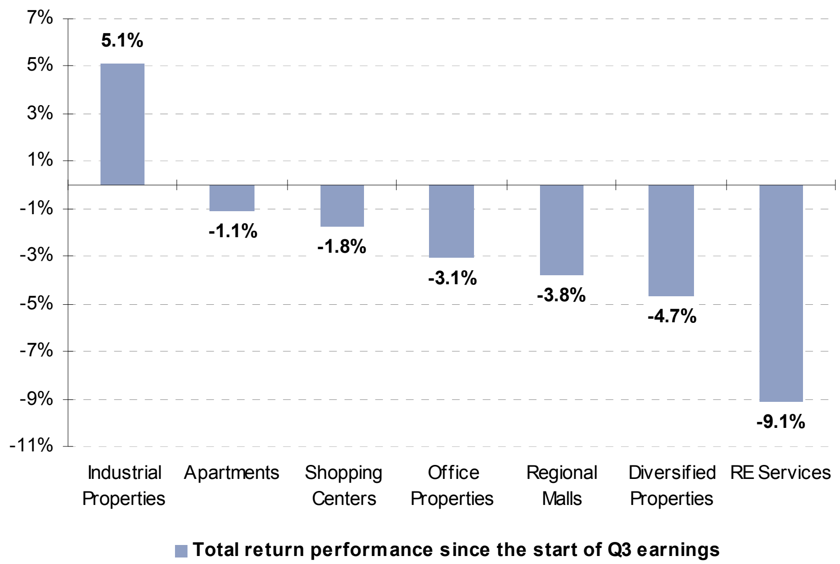
Our top Buy ideas are: SPG, TCO, BXP and BPO

Our top Sells are: AVB, ESS, REG and PLD

3Q earnings highlights – stronger than we expected

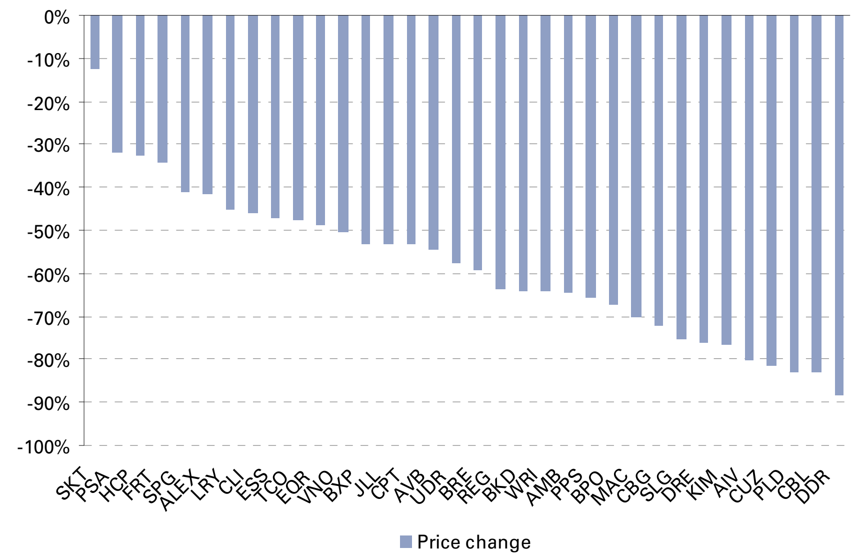
Many of the 36 companies we follow met or exceeded our 3Q estimates, a positive sign, but we caution that growth should remain at a depressed level in 2010 and 2011. In fact, 2010 should be another tough year, with FFO down roughly 15%, but a relief from the earnings steep slide of 2009 (down 25%); we see only modest positive growth in 2011. Several highlights from the most recent quarter: (1) 88% of REITs we cover met or exceeded consensus estimates, which is reflective of solid results and a focus on expense control in a market defined by weak fundamentals; (2) Lease term is still important, as SS NOI for malls and office exceeded results from apartments and industrial names, a relative call we have been making for most of 2009; but, as we pointed out already, we are increasingly focused on the near-term growth which should favor a more balanced sector strategy in time; (3) Focus will remain on two key areas in 2010 – operating performance and the balance sheet. In short, with declining rents and occupancy to persist next year, relative operating results will drive upcoming growth as well as REITs that can deliver external growth given their better balance sheet.

Exhibit 2: Price performance across the sectors since the start of 3Q09 – we are starting to see an inflection point
as of 11/9/2009



Source: Factset

Exhibit 3: Price performance since the peak in Feb 2007 – stronger balance sheet companies have held up better to date
as of 11/9/2009



Source: Factset

Exhibit 4: Summary of 3Q 2009 earnings – most companies met or exceeded our estimates for the most recent quarter
as of 3Q 2009 earnings

Tickers	3Q09 Actual	3Q09 adj*	3Q09 GS (Old)	Meet / Beat (in %)	2009 FFO outlook	Old guidance	2010 outlook
Shopping Centers							
KIM	$0.29	$0.30	$0.29	3.6%	$1.30-$1.33	$1.33 - $1.38	-
DDR	-$0.54	$0.44	$0.40	9.5%	$1.90 - $2.00	$1.90 - $2.00	-
REG	-$0.58	$0.69	$0.69	0.0%	$2.59 - $2.64	$2.47 - $2.61	-
FRT	$0.92	$0.92	$0.90	2.1%	$3.75 - $3.77	$3.72 - $3.77	$3.80 - $3.88
WRI	$0.25	$0.50	$0.44	14.1%	$2.08 - $2.16	$1.88 - $2.12	$1.54 - $1.78
SKT	$0.54	$0.47	$0.40	16.7%	$2.62- $2.68	$2.45 - $2.51	-
Regional Malls							
CBL	$0.50	$0.50	$0.48	3.6%	$2.28 - $2.39	$2.28 - $2.39	-
TCO	-$1.26	$0.74	$0.60	23.3%	$2.88-$2.93	$2.73-$2.93	-
SPG	$1.38	$1.38	$1.30	6.5%	$5.40 - $5.50	$5.35 - $5.50	-
MAC	$0.94	$0.97	$0.94	3.6%	$3.50-$3.80	$3.50-$3.80	-
Office Properties							
BPO	$0.34	$0.34	$0.32	6.8%	$1.34 - $1.36	$1.42 - $1.49	-
BXP	$1.13	$1.13	$1.09	3.9%	$4.59 - $4.61	$4.55 - $4.63	-
CLI	$0.81	$0.81	$0.74	8.9%	$3.15 - $3.25	$3.15 - $3.25	$2.80 - $3.00
SLG	$0.98	$0.98	$1.00	-1.9%	$4.35 - $4.50	$4.35 - $4.50	-
VNO	$1.25	$1.18	$1.02	15.2%	-	-	-
CUZ	-$0.70	$0.12	$0.08	47.5%	-	-	-
Industrials							
AMB	$0.71	$0.71	$0.61	16.2%	$1.45 - $1.46	$1.41 - $1.45	$1.29 - $1.36
PLD	$0.14	$0.21	$0.17	20.3%	$1.39- $1.43	$1.31 - $1.48	-
LRY	$0.72	$0.72	$0.67	7.0%	$2.81 - $2.83	$2.70 - $2.90	$2.60 - $2.80
DRE	$0.32	$0.32	$0.27	18.5%	$1.42 - $1.64	$1.42 - $1.64	-
Apartments							
UDR	$0.19	$0.31	$0.31	0.3%	$1.14 - $1.20	$1.23 - $1.35	-
EQR	$0.53	$0.53	$0.51	4.6%	$2.18 - $2.22	$2.10 - $2.20	-
CPT	$0.70	$0.70	$0.69	1.3%	$2.97 - $3.01	$2.91 - $3.05	-
BRE	$0.59	$0.59	$0.56	5.5%	$2.44 - $2.50	$2.42 - $2.52	-
AIV	$0.19	$0.41	$0.38	7.1%	$1.61 - $1.69	$1.55 - $1.75	-
ESS	$1.69	$1.26	$1.25	1.0%	$6.72 - $6.82	$6.20 - $6.40	-
AVB	$1.09	$1.09	$1.07	2.3%	$3.86 - $3.90	$4.15 - $4.30	-
PPS	$0.31	$0.31	$0.31	0.4%	-	-	-
Specialty							
HCP	$0.11	$0.52	$0.54	-4.6%	$2.10 - $2.16	$2.10 - $2.16	-

* Exclude the impairments, gains and other non-recurring items

Source: Company data, Goldman Sachs research estimates.

Focus on our growth leaders and income names

We maintain our focus on our lists of growth leaders and income names as we think relative growth and the ability to pay an all-cash dividend should become increasingly important in 2010. It is becoming more evident that companies with access to capital and stronger balance sheets should be in a position to deliver higher growth in the near term versus the laggards which still need to de-leverage or are focused on markets/segments that may lag in the eventual recovery. At the same time, with growth expected to be negative in 2010 and only modestly positive in 2011, we assert that income will become an increasingly important part of total return in the next cycle.

Exhibit 5: Growth leaders and laggards list

Growth leaders	Income	Growth laggards
SPG	LRY	ESS
TCO	HCP	PPS
BXP	CLI	CUZ
BPO	TCO	SLG
SKT	WRI	PLD
PSA	UDR	DDR
HCP	EQR	MAC
-2.0% FFO growth	5.4% dividend yield	-11.0% FFO growth

Note: Growth rates are based on a 2009-11 CAGR.

Source: Goldman Sachs research estimates

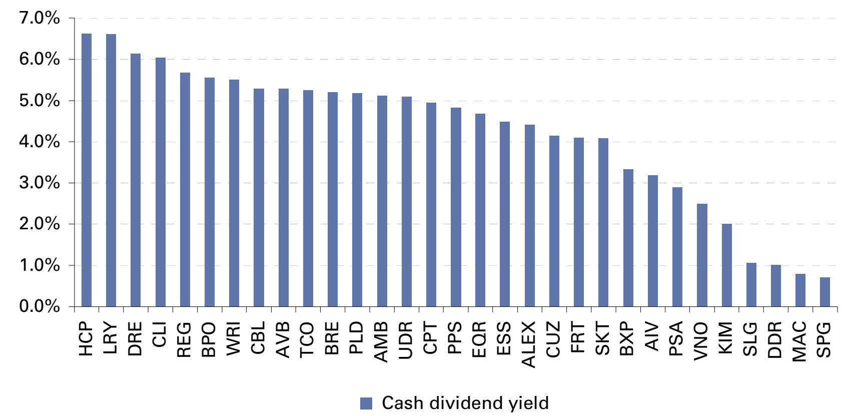
Exhibit 6: FFO growth outlook – we remain concerned in 2010
as of 3Q 2009

FFO by sector	2009E	2010E	2011E
Office	-14.6%	-16.6%	0.2%
Industrial	-37.3%	-20.9%	7.2%
Regional Malls	-15.6%	-14.9%	8.0%
Shopping Centers	-30.9%	-14.8%	0.2%
Apartments	-14.1%	-10.7%	4.4%
REIT Average	**-24.6%**	**-16.2%**	**3.7%**

…We expect **continued deterioration in fundamentals well into 2010,** with modest recovery in 2011

Source: Goldman Sachs research estimates

Exhibit 7: Cash dividend yield should become more important amid a down growth year in 2010 and modestly positive year in 2011
as of 3Q 2009



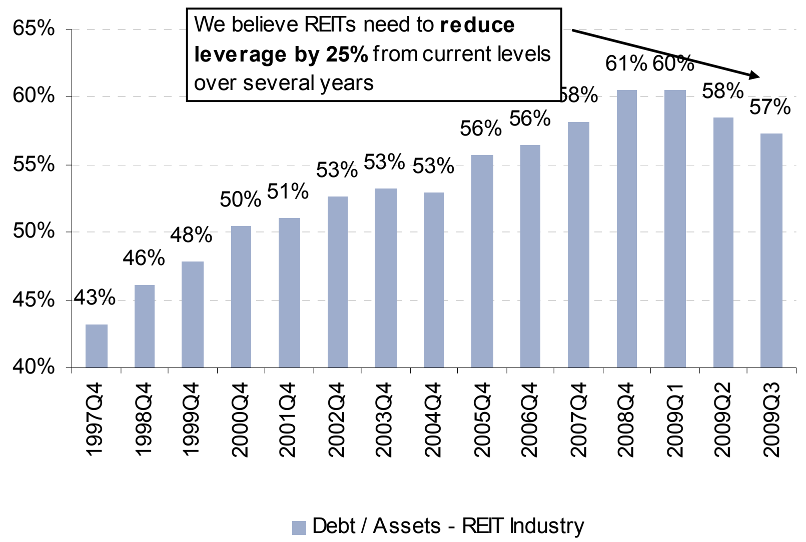
Note that SPG is moving to all cash dividend in 2010 which should increase the cash dividend yield going forward.

Source: Company data, factset

Expectations for NAREIT – better for some, less so for others

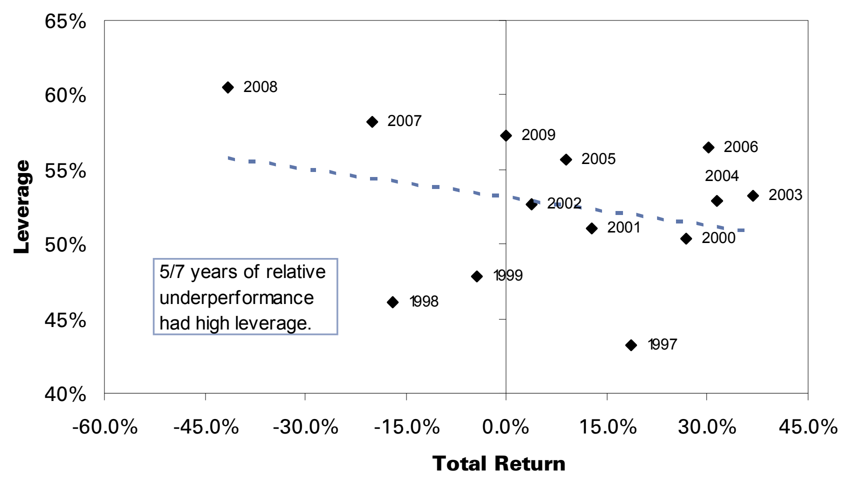
Having just concluded 3Q earnings season, we see the current NAREIT conference as less impactful than those in years past. First, companies are now focused on the basics – core operating results, de-leveraging and refinancing activity as opposed to M&A and portfolio acquisitions, which was the focus during the bubble years in commercial real estate (2004-2007). Second, 2012 remains the target for most REITs – specifically, senior executives have given clear assumptions for how they plan to run their companies for the next several years, with detailed plans that largely focus on maintaining or improving the balance sheet, with a select few in a position to grow (SPG, TCO, BXP, PSA, EQR). Last, with the recent compression in cap rates, we look for updates from senior managements that have publicly stated that they seek to acquire assets in the near term – i.e. will companies lower their return hurdles and how do the longer-term return profiles change given the higher equity requirements with today's underwriting.

Exhibit 8: We believe REITs should continue to de-lever going into 2010/11
as of 3Q 2009



Source: SNL

Exhibit 9: The small increase in leverage cause sharp increase in total return
as of 3Q 2009



Source: SNL

Sector summaries – sector weightings less relevant as relative growth outlook becomes our focus

With fundamentals weak across all sectors, access to capital improved and de-leveraging now a case-by-case process, we think the next period for REITs will be less defined by property sector weightings but more by individual company analysis, so a return to "bottom-up" investing. While we still favor Malls and Downtown Office, we point out that we have increased our exposure to Apartments with two buy ideas introduced this year. We remain overweight long lease term (malls, office, health care), but would look to pick up a greater position in apartments over time as we see unemployment peak (mid to late 2010) and the recovery in fundamentals resume (2011/12).

We provide specific details from 3Q as well as additional views by sector in the section that follows:

Retail (Over weight Malls / Cautious on Strips) – Still favor malls over strip

The key takeaway from 3Q retail earnings is that weaker rents are helping to preserve occupancy, and same-store sales seem modestly improved. What has changed, is that we now expect to recovery to be more prolonged and 2010 could be as tough as 2009. We provide further details below:

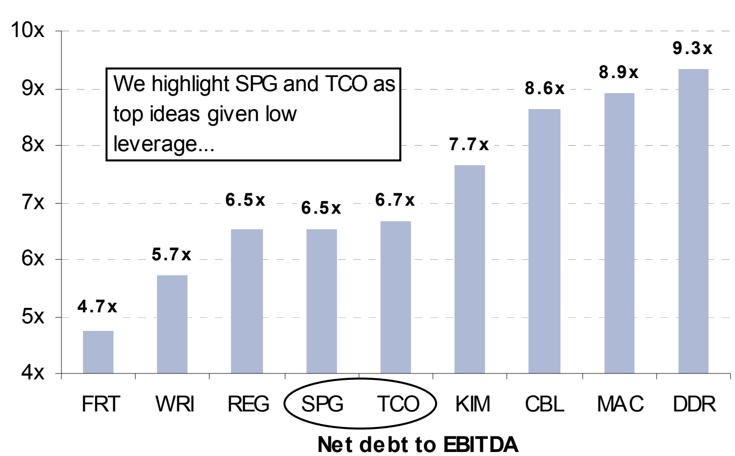
(1) We expect flat to modestly negative same store NOI growth in 2010 as a result of sustained pressure on SS sales, the potential for higher store closings in 1H2010, and continued weakness in rent spreads;

(2) Capital activity for retail REITs has been substantial since June. In fact, certain REITs such as MAC have successfully reduced leverage by as much as 20% over the past 3-4 months. We now view most retail REITs as well positioned to face debt maturities over the next 2 years; and

(3) Cap rates for class A malls and in-fill shopping center assets appear to be trending towards the lower end of our 7%-10% range. We note however, that overall transaction activity is still modest, and virtually nil for assets of lower quality.

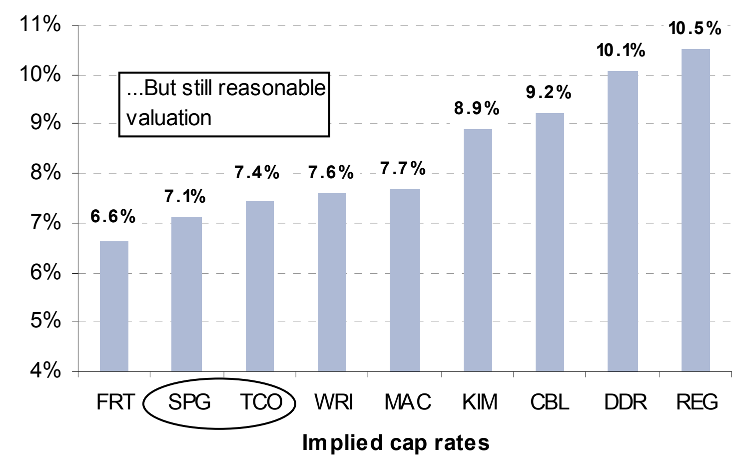
Key trade conclusion - We see more relative value in TCO and SPG given similar valuations (with implied cap rates in the low to mid 7% range), but lower leverage for both SPG and TCO. We also continue to highlight CBL & Associates as a top buy idea given the company's significantly improved balance sheet, but still depressed earnings multiple of 4.5X versus REITs at 13.0X.

Exhibit 10: Net debt to EBITDA - we favor SPG and TCO
as of 3Q 2009



Source: Goldman Sachs research estimates

Exhibit 11: Implied cap rates - CBL is attractive
as of 11/9/2009



Source: Goldman Sachs research estimates

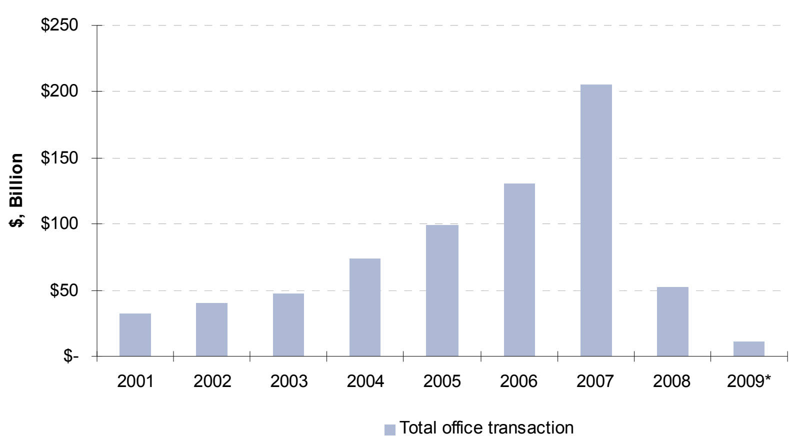
Office (Over weight downtown / Neutral on suburban names) – Prefer downtown exposure to suburban

Third quarter results confirmed our view that long lease term should hold up better amid the downturn as office companies delivered SS NOI growth of 1.5%. Moreover, both BXP and BPO have raised capital and are now in a position to complete acquisitions, especially over the next year as we think a higher number of properties will come to the market as over-levered owners are forced to sell (by banks). On a cautious note, cap rates high tightened far more than we had anticipated with rates for the best quality infill assets in the 6% range and close to 8% for average quality product. Hence, we have concerns should REITs pay up for assets in anticipation of higher rent growth to offset for the low initial yield. We summarize our views:

1. We favor downtown office over suburban names, especially companies with exposure to NYC where trends are beginning to show signs of reaching bottom;
2. Acquisition opportunities should begin to increase late in 2010 and 2011 as existing owners facing capital shortfalls are forced to liquidate their investments; and
3. Given the high rate if unemployment, we do not expect a meaningful recovery in office rents in the near term. But, with low in-place rents, we still see modestly negative SS NOI growth as likely in 2010.

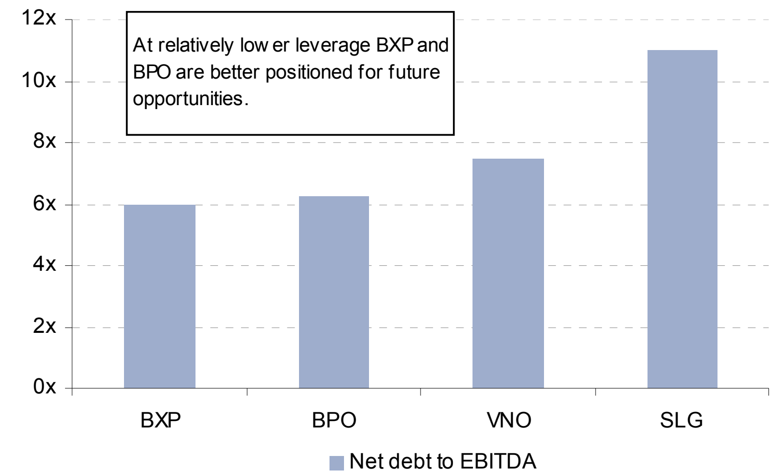
Key trade conclusions -- We maintain our focus on downtown office companies, including Boston Properties (BXP) and Brookfield Properties (BPO), both rated Buy. These names are in a position to grow through acquisitions as opportunities emerge amid the next phase of the cycle (banks force over-levered owners to sell assets). We also believe these names benefit most as cap rates have compressed for premier, infill assets (sub 7.0%).

Exhibit 12: Office transaction declined significantly during past two years with challenging credit markets…
as of 3Q 2009



Source: RCA

Exhibit 13: …at 6X-7X of net debt to EBITDA, BPO and BXP remain in a better position to acquire good quality assets when transactions pick up
as of Q3 2009



Source: Goldman Sachs research estimates

Industrial (Under weight) – Balance sheet position important

Third quarter industrial REIT earnings seemed to be a first step in de-emphasizing leverage as a key risk. Instead investor focus has shifted to differentiating factors for operating performance and earnings growth in 2010 and beyond. Our takeaways from 3Q earnings for the industrial sector were:

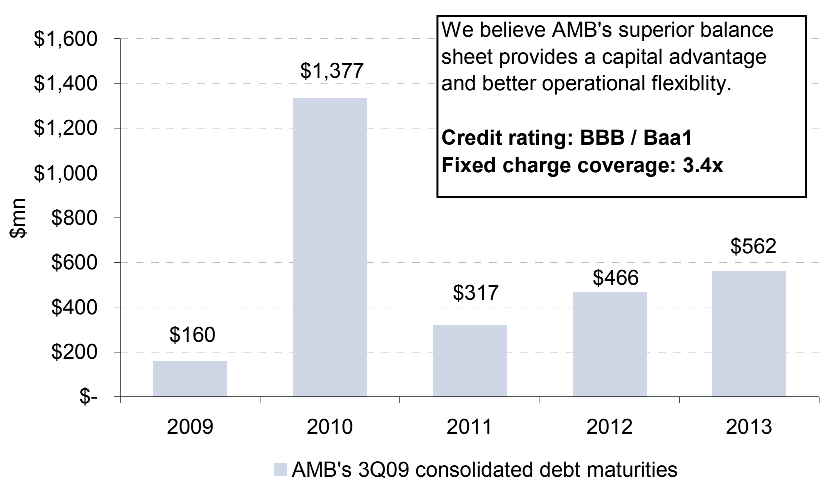
1) We expect US absorption trends to remain negative but improving over the course of 2010. Going forward, leasing strategy will be a key differentiator and we believe factors like leverage and geographic distribution can drive wide differences in performance.

2) Investor interest for industrial assets has improved markedly since mid 2009. Although transaction volumes remain low, it seems that cap rates have potentially stabilized in the 7%-9% range, which is better than 8%-10% we previously expected. That said, we believe opportunistic investment opportunities for industrial REITs should be a small driver of growth as most companies continue to reduce debt.

3) Refinancing is less of a risk but differences in leverage still matter. Since the recovery in credit, we no longer apply a NAV discount for industrial REITs with large scheduled refinancing. That said, we highlight how rising funding costs may disproportionately impact earnings for industrial REITs with higher leverage (Exhibit 14).

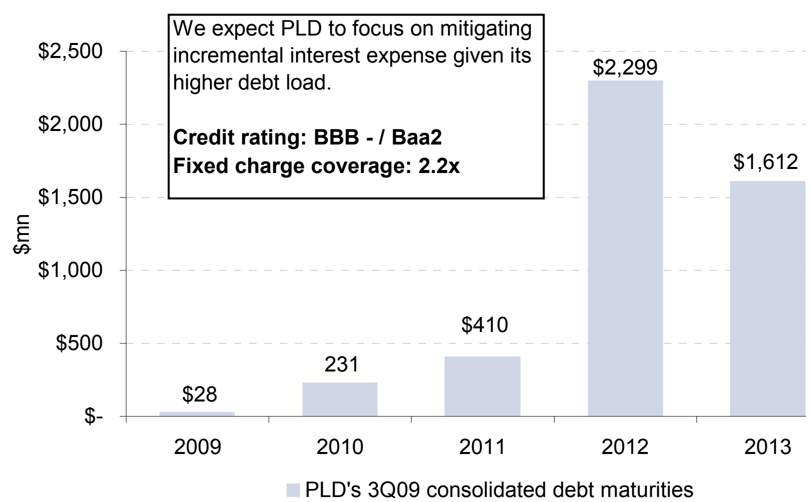
Key trade conclusion – as we have highlighted in our 3Q earnings preview (*US REIT View: Beyond the restructuring; positioning for eventual growth, current income;* 10/28/2009) and our company notes, we favor AMB Property Corporation (AMB; Neutral) over ProLogis (PLD; Sell) and Liberty Property Trust (LRY; Neutral) over Duke Realty (DRE; Sell). Please see our notes for details but in general we believe relative multiples remain too tight and do not capture how leverage can alter strategy and growth over the next 12-18 months.

Exhibit 14: AMB's debt maturity schedule
as of 3Q 2009



Source: Company data

Exhibit 15: PLD's debt maturity schedule
as of 3Q 2009



Source: Company data

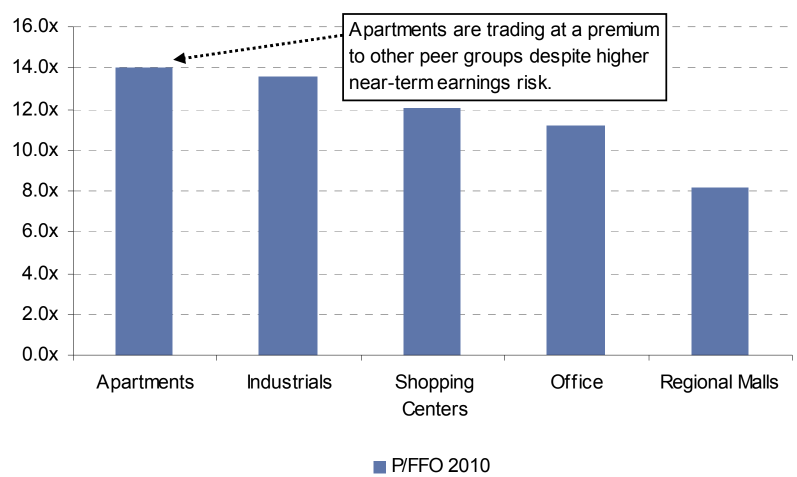
Apartments (Under weight) – Early call so only seeking relative value

We have begun to warm up to the Apartments in 2009, with the addition of two REITs to Buy, UDR and EQR. We recommended an underweight position for 2009 as we anticipated the negative impact from job losses and lower interest rates (positive for housing) to impair earnings for apartment companies. While this has largely been the case, based on 3Q 2009 SS NOI down 7.0%, we note that the shares are benefitting from two key items: stable lending from the GSEs and a recent compression in cap rates (to the 6%-7% level). We summarize our views:

1. We expect near-term operating results to remain challenging with sharply negative SS NOI growth over the next two quarters and a moderation in trends by yearend.
2. But, we expect apartments to become a more attractive investment opportunity in 2010 as unemployment peaks and the declines in rents flow through current cash flow. Hence, the apartment sector could reach the bottom sooner versus longer lease term sectors, such as retail and office, and therefore we expect a more meaningful rebound when apartment rental rates eventually rise again (much like the recovery in 2004-2007).
3. Of note, we remain most cautious on names with heavy CA exposure as well as markets that face oversupply of housing, such as Atlanta.

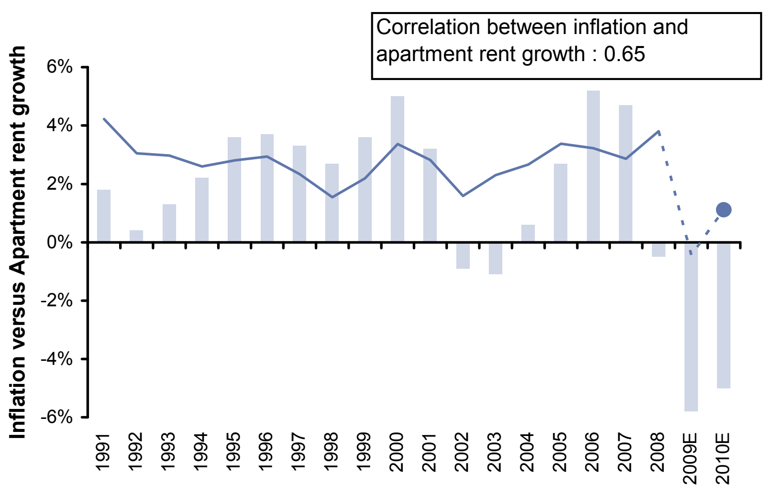
Key trade conclusions -- We favor EQR and UDR based on relative value as both companies offer diversified portfolio's by geography, stable balance sheets and trade discounts to peers. At the same time, we maintain our Sell rating on shares of names that offer less attractive value, including ESS, BRE, AVB and PPS.

Exhibit 16: Apartments are trading at 14.9X of 2010 FFO vs. REIT sector average of 13.4X
as of 11/9/2009



Source: Goldman Sachs research estimates

Exhibit 17: As the economy recovers, we expects shorter lease term sectors to benefit from rising rent
as of 3Q 2009



Source: PPR, Goldman Sachs ECS Research

Exhibit 18: We see total downside potential of -6% for our coverage universe

as of 11/9/2009

Ticker	Company	Current rating	Share Price (11/09/2009)	Dividend yield	Forward NAV	GS cap rate	2009E FFO	2010E FFO	Current Price / 2010 FFO	Target Price	Target Price Premium / (Discount) to NAV	Total return potential	Risk factors to price targets[1]
KIM	Kimco Realty Corp	Buy	$12.81	1.9%	$12.72	8.8%	$0.80	$1.13	11.3	$13.00	2.2%	3.4%	Weaker consumer confidence, retailer bankruptcies, development risks
DDR	Developers Diversified	Neutral	$8.65	0.9%	$10.31	9.8%	($0.37)	$1.24	7.0	$9.00	(12.7)%	5.0%	Better than expected consumer confidence, retailer bankruptcies
REG	Regency Centers Corp	Sell	$34.45	5.4%	$34.40	9.3%	$1.04	$2.42	14.2	$30.00	(12.8)%	-7.5%	Stronger consumer confidence, fewer than expected retailer bankruptcies
FRT	Federal Realty	Sell	$66.98	3.9%	$51.22	7.8%	$3.76	$3.77	17.8	$54.00	5.4%	-15.5%	Stronger consumer confidence, fewer than expected retailer bankruptcies
WRI	Weingarten Realty	Neutral	$19.06	5.2%	$14.24	8.5%	$1.86	$1.64	11.6	$15.00	5.3%	-16.1%	Better than expected consumer confidence, retailer bankruptcies, reliance on merchant building gains
Shopping Centers Average				3.5%		**8.8%**	1.42		**12.4X**		(2.5)%	**(6.2)%**	
PSA	Public Storage Inc.	Buy	$79.15	2.8%	$67.73	8.3%	$5.33	$4.72	16.8	$73.00	7.8%	-5.0%	US & European economic weakness, slowing home sales
Self-Storage Average				2.8%		**8.3%**			**16.8X**		7.8%	**(5.0)%**	
CBL	CBL & Associates	Buy	$8.90	4.9%	$10.85	9.5%	$2.42	$1.84	4.8	$12.00	10.6%	39.8%	Weaker consumer confidence, more retailer bankruptcies
TCO	Taubman Centers	Buy	$32.81	5.1%	$35.24	7.3%	$0.89	$2.58	12.7	$38.00	7.8%	20.9%	Weaker consumer confidence, retailer bankruptcies, development risks
SPG	Simon Property Group	Buy	$71.72	0.7%	$62.72	7.5%	$5.48	$5.57	12.9	$67.00	6.8%	-5.9%	Weaker consumer confidence, retailer bankruptcies, international exposure
MAC	The Macerich Company	Neutral	$31.85	0.8%	$26.47	8.3%	$3.68	$3.07	10.4	$27.00	2.0%	-14.5%	Stronger consumer confidence, higher than expected retailer bankruptcies
GGWPQ	General Growth Property	Sell	$4.17	0.0%	$12.25	9.0%	$2.30	$2.06	2.0	$3.00	(75.5)%	-28.1%	Stronger consumer confidence, lower than expected retailer bankruptcies
Regional Malls Average				2.9%		**8.1%**			**10.2X**		6.8%	**10.1%**	
BPO	Brookfield Properties Inc.	Buy	$10.81	5.3%	$12.00	7.8%	$1.35	$1.12	9.6	$13.00	8.3%	25.6%	Slowing Calgary residential sales, US economic weakness, lower than expected job losses
BXP	Boston Properties	Buy	$63.42	3.2%	$59.55	7.0%	$4.60	$4.12	15.4	$64.00	7.5%	4.1%	US economic weakness, job losses, development risks
CLI	Mack-Cali Realty Corp	Neutral	$31.52	5.7%	$28.80	9.5%	$3.30	$2.82	11.2	$28.00	(2.8)%	-5.5%	US economic weakness, lower than expected job losses
SLG	SL Green Realty Corp	Neutral	$40.86	1.0%	$28.76	7.5%	$4.43	$3.64	11.2	$29.00	0.8%	-28.0%	US economic weakness, fewer job losses
Office Properties Average				3.8%		**7.9%**			**11.9X**		3.5%	**(1.0)%**	
AMB	AMB Property Corp	Neutral	$23.54	4.8%	$19.80	8.5%	$0.75	$1.30	18.2	$20.00	1.0%	-10.3%	Global economic recovery, lower than expected international trade volumes
PLD	ProLogis	Sell	$12.55	4.8%	$9.11	8.8%	$1.34	$0.74	16.9	$9.00	(1.2)%	-23.5%	A rise in international trade volumes, lower development risk, credit recovery
Industrial Properties Average				4.8%		**8.6%**			**17.5X**		-0.1%	**-16.9%**	
HCP	HCP, Inc.	Buy	$28.85	6.4%	$26.58	8.0%	$1.69	$2.09	13.8	$28.00	5.3%	3.4%	Acquisition risks, financing risk (Sourcing capital for funds)
Health Care Average				6.4%		**8.0%**			**13.8X**		5.3%	**3.4%**	
SKT	Tanger Factory Outlet Centers	Buy	$39.43	3.9%	$34.53	8.3%	$2.66	$2.68	14.7	$39.00	13.0%	2.8%	Weaker consumer confidence, retailer bankruptcies
Factory Outlet Centers Average				3.9%		**8.3%**			**14.7X**		13.0%	**2.8%**	
FCEA	Forest City Enterprises	Neutral	$9.88	0.0%	$14.63	8.5%	$1.95	$1.62	6.1	$11.00	(24.8)%	11.3%	US economic weakness, lower than expected job losses, development risk, weaker home sales
CUZ	Cousins Properties Inc.	Neutral	$7.42	5.4%	$6.56	9.3%	($1.60)	$0.43	17.3	$6.25	(4.7)%	-10.4%	US economic weakness, fewer job losses, lower development risk, stronger home sales
LRY	Liberty Property Trust	Neutral	$30.57	6.2%	$24.69	9.0%	$2.82	$2.62	11.7	$24.00	(2.8)%	-15.3%	US economic weakness, fewer job losses
VNO	Vornado Realty	Neutral	$64.19	2.4%	$55.83	7.5%	$4.46	$4.34	14.8	$55.00	(1.5)%	-11.9%	US economic weakness, lower than expected job losses, consumer confidence
DRE	Duke Realty Corp	Sell	$11.74	7.2%	$9.41	9.0%	$1.50	$1.00	11.7	$9.00	(4.4)%	-16.2%	US economic recovery, higher development gains
Diversified Properties Average				4.2%		**8.7%**			**12.3X**		(7.6)%	**(8.5)%**	
UDR	UDR, Inc.	Buy	$14.76	4.9%	$14.75	7.5%	$1.18	$1.17	12.6	$16.00	8.5%	13.3%	US economic recovery, higher than expected job losses, lower exposure to low-barrier markets
EQR	Equity Residential	Buy	$30.07	4.5%	$26.03	7.3%	$2.19	$2.04	14.7	$28.00	7.6%	-2.4%	US economic weakness, job losses
CPT	Camden Property Trust	Neutral	$38.25	4.7%	$30.87	8.0%	$2.98	$2.67	14.3	$32.00	3.7%	-11.6%	US economic weakness, fewer job losses, development risk
BRE	BRE Properties Inc.	Sell	$30.01	7.5%	$24.27	7.5%	$2.48	$2.30	13.0	$23.00	(5.2)%	-15.9%	US economic recovery, fewer job losses
AIV	Apt. Inv. & Management	Neutral	$13.34	3.0%	$10.27	8.8%	$1.34	$1.40	9.5	$11.00	7.1%	-14.5%	US economic weakness, fewer job losses, exposure to low barrier markets
ESS	Essex Property Trust*	Sell	$79.67	4.4%	$67.04	7.5%	$6.72	$4.78	16.7	$62.00	(7.5)%	-17.8%	US economic recovery, fewer job losses, lower development risk
AVB	AvalonBay Communities	Sell	$70.92	5.0%	$57.54	7.3%	$3.87	$3.92	18.1	$54.00	(6.2)%	-18.8%	US economic weakness, fewer job losses, development risks
PPS	Post Properties Inc.	Sell	$17.40	4.6%	$15.35	8.0%	($0.35)	$0.95	18.4	$12.00	(21.8)%	-26.4%	US economic recovery, fewer job losses, stronger condo sales, better dividend coverage
Apartments Average				4.8%		**7.7%**			**14.7X**		(1.7)%	**(11.8)%**	
Ticker	**Company**	**Current rating**	**Share Price (11/09/2009)**	**Dividend yield**	**Forward NAV**	**GS cap rate**	**2009E FFO**	**2010E FFO**	**Current Price / 2010 FFO**	**Target Price**	**Target Price Premium / (Discount) to NAV**	**Total return potential**	**Risk factors to price targets(1)**
JLL	Jones Lang LaSalle	Neutral	$51.51	0.4%	NA	NA	($0.04)	$2.50	20.6	$45.00	NA	-12.3%	Global economic weakness, lower competition for intellectual capital
ALEX	Alexander & Baldwin	Neutral	$29.28	4.3%	$23.00	NA	$0.80	$1.45	20.2	$25.00	8.7%	-10.3%	US economic weakness, fewer job losses
CBG	CB Richard Ellis	Neutral	$11.14	0.0%	NA	NA	$0.30	$0.50	22.5	$10.00	NA	-10.2%	Global economic weakness, lower competition for intellectual capital
BKD	Brookdale Senior Living	Neutral	$16.46	0.0%	NA	NA	$1.87	$2.15	NM	$19.00	NA	15.4%	Further declines in the residential housing market and lower than expected recurring operating costs
Average				1.2%					21.1X		8.7%	**(4.3)%**	
Coverage Universe Average				**3.8%**		**7.97%**			**13.4X**		**0.1%**	**(5.8)%**	

Note

(1) A higher than expected rise in interest rates generally poses a risk to real estate valuation across all REITs. Similarly higher than expected construction and operating costs are a risk across the entire REIT sector.

(2) Price targets are derived using a premium/discount to our forward net asset value (NAV) estimate

(3) Our Price Targets have been derived on average using (0% - 10%) premiums to NAVs for Buy rated names, (flat - negative 5%) discounts for Neutral rated names, and (negative 5%) discounts for our Sell rated names

(4) All price targets have a 12-month time frame.

(5) Forest City is fiscal 2010 and 2011, due to January year end.

(6) BKD estimares are cash net income per share.

* Conviction List ideas

Source: Goldman Sachs Research estimates.

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