# *REIT Valuation Techniques*

Presented to

SF-QWAFAFEW

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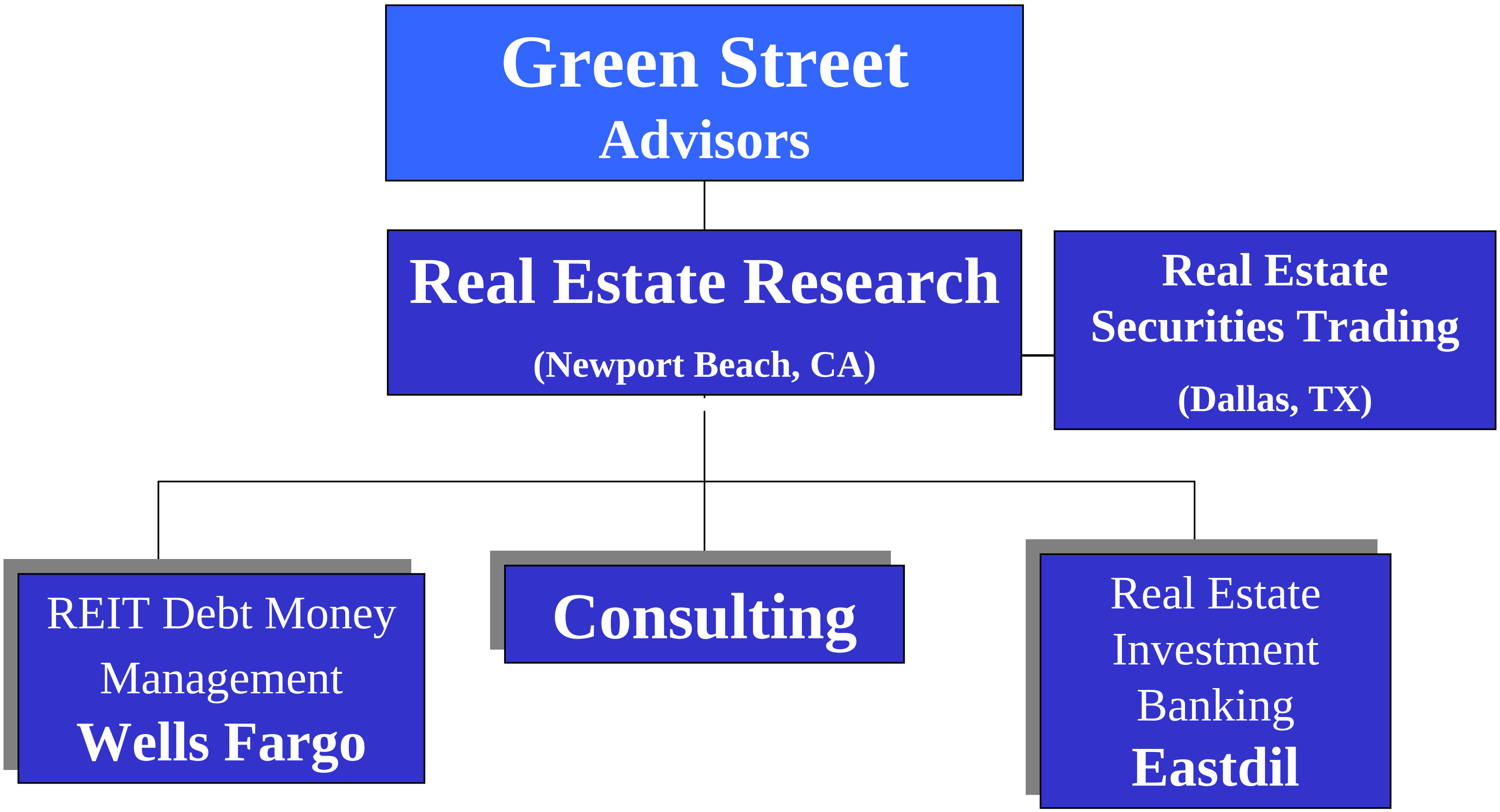
GREEN STREET ADVISORS

# Table of Contents

# I. Green Street Business Overview

# Green Street Business Overview



# Qualifications

- Green Street is widely recognized as the industry leader in REIT analysis.
- A staff of 10 senior analysts are focused solely on REITs, which makes Green Street significantly larger than any REIT team on Wall Street.
- The company has garnered numerous awards, including honors from The Wall Street Journal, Institutional Investor, and Realty Stock Review.
- Green Street's "Buy" recommendations have generated annualized total returns of 28% since 1993, as compared to 12% for the entire REIT universe.
- Through its Eastdil affiliation, Green Street has provided REIT related advisory services on transactions valued at more than $20 billion, providing unique private-market insights.

# Green Street Business Overview

- **Research**:
  - Green Street follows over 70 of the larger publicly traded real estate companies on an in-depth basis.
  - Green Street's primary stock valuation methodology focuses on Net Asset Values ("NAV").
- **Consulting**:
  - The techniques and expertise honed in our analysis of public REITs are applied to private real estate entities through Green Street's consulting practice.
- **Eastdil Affiliation**:
  - Green Street partners with Eastdil, a real estate investment bank that represents sellers of large real estate assets and portfolios.
- **REIT Debt Money Management**:
  - Green Street is a co-advisor with Wells Fargo on a $300 million collateralized bond offering that was sold to institutional investors by Bear Stearns in December 2000. Green Street also advises Wells' High-Yield Group on other REIT debt investments.

# Green Street Research

- Green Street follows over 70 of the larger publicly traded real estate companies on an in-depth basis.
- Green Street's primary stock valuation methodology focuses on Net Asset Values ("NAV") and recurring cash flows.
- To determine the NAV of a particular company, we first capitalize the net operating income of properties at prevailing Cap Rates; we then adjust the totals to account for idle or underperforming assets.
- After calculating NAV, we render an opinion as to the warranted discount or premium that should be ascribed to that NAV.
- Green Street supplements its NAV-based analysis with a Discounted Cash Flow ("DCF") model. The insight gained from a DCF analysis provides the conclusions reached through our NAV analysis with added integrity.

# Green Street's Track Record

### TOTAL RETURN OF GREEN STREET'S RECOMMENDATIONS[1]

| Year | Buy | Hold | Sell | NAREIT Eqty[3] |
|---|---|---|---|---|
| 2003 | 40.7% | 37.2% | 22.3% | 37.1% |
| 2002 | 17.7% | 2.6% | 1.9% | 3.8% |
| 2001 | 35.7% | 19.0% | 11.9% | 13.9% |
| 2000 | 53.7% | 29.2% | 4.4% | 26.4% |
| 1999 | 13.9% | -9.2% | -20.2% | -4.6% |
| 1998 | -1.3% | -15.2% | -16.4% | -17.5% |
| 1997 | 37.0% | 14.1% | 5.8% | 20.3% |
| 1996 | 47.8% | 29.7% | 17.5% | 35.3% |
| 1995 | 23.6% | 14.3% | -0.4% | 15.3% |
| 1994 | 20.5% | -0.7% | -9.3% | 3.2% |
| 1993[2] | 29.4% | 5.4% | 6.7% | 12.4% |
| **Total Return[2]** | **1413.2%** | **194.9%** | **16.2%** | **250.9%** |
| **Annualized** | **28.3%** | **10.4%** | **1.4%** | **12.2%** |

1) Historical results through January 2, 2003 were independently verified by Ernst & Young, LLP. E&Y did not verify stated results subsequent to January 2, 2003.

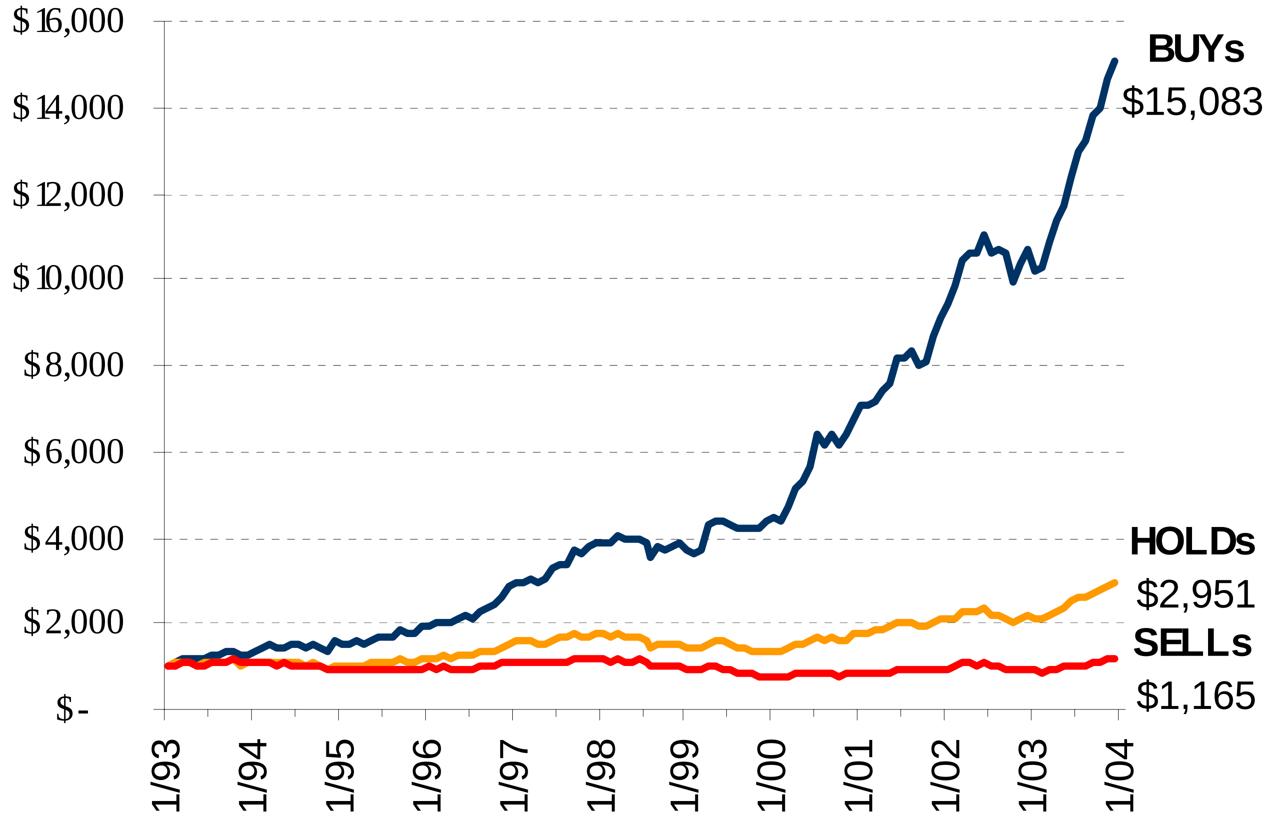
Past performance results cannot be used to predict future performance. For a complete explanation of study, see 5/9/03 report "How are We Doing?".

2) Study uses recommendations given in Green Street's "Real Estate Securities Monthly" from January 24, 1993 through January 2, 2004.

3) Not directly comparable to Green Street performance indices because NAREIT includes more companies and uses market-cap weightings (Green Street applies straight averages).

# Total Return of Green Street's Recommendations

**Cumulative Total Returns: The Value of $1,000 Invested in 1/93**

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# Green Street's Key Personnel - an Award-Winning Team…

### *OFFICE / INDUSTRIAL*

***John Lutzius***

- 1999 & 2000 winner of the *Wall Street Journal's* All-Star Analyst award
- recipient of *Realty Stock Review's* Outstanding Analyst award in 1997, 1998, 1999, 2000.

***Jim Sullivan***

- 1999 recipient of *Realty Stock Review's* Outstanding Analyst award
- named an All-Star REIT Analyst by the *Wall Street Journal* in 1999

### *HOTELS*

***John Arabia, CPA***

- published in *Barron's, The Wall Street Journal, Forbes, Business Week and Realty Stock Review*
- co-Author of Hotel Investments: Issues & Perspectives (2nd edition)

### *MULTIFAMILY*

***Craig Leupold***

- recipient of *Realty Stock Review's* Outstanding Analyst award in 1996, 1997, 1998, 2000
- 2001 recipient of *Zacks* Five-Star Analyst award
- co-manager of Sutter Real Estate CBO 2000-1 for Wells Fargo Bank

### *Jon Fosheim, CEO*

### *Mike Kirby, Director of Research*

- co-founders of Green Street
- recipients of numerous awards including the Industry Achievement Award from NAREIT in 2003, Outstanding Analyst Award – First Team by *Realty Stock Review* in 2003, Entrepreneur of the Year by Ernst & Young in 2002, Real Estate Mover and Shaker Award by *Realty Stock Review* in 1999

### *SELF STORAGE / HEALTH CARE*

***Warner Griswold, CFA***

- responsible for Green Street's proprietary pricing model application
- created Green Street's comprehensive REIT earnings model

### *MALLS / OUTLET CENTERS*

***Greg Andrews***

- named an All-Star REIT Analyst by the *Wall Street Journal* in 1999

### *CONSULTING SERVICES / EASTDIL*

***Adam Markman***

- responsible for Green Street's consulting practice
- manager of joint-venture with Eastdil, a leading real estate investment bank
- co-manager of Sutter Real Estate CBO 2000-1 for Wells Fargo Bank

### *STRIP CENTERS / MANUFACTURED HOUSING*

***John Herold***

# Green Street Trading Group

***Lynn Lewis, Director of Trading Services***

- active real estate securities trader for 23 years

***Carol Parker, Trader***

***David Auerbach, Trader***

- Combined 15 years in the industry; 9 years of trading experience

***Sherman Burns, Trading Manager***

- Over 20 years of trading experience

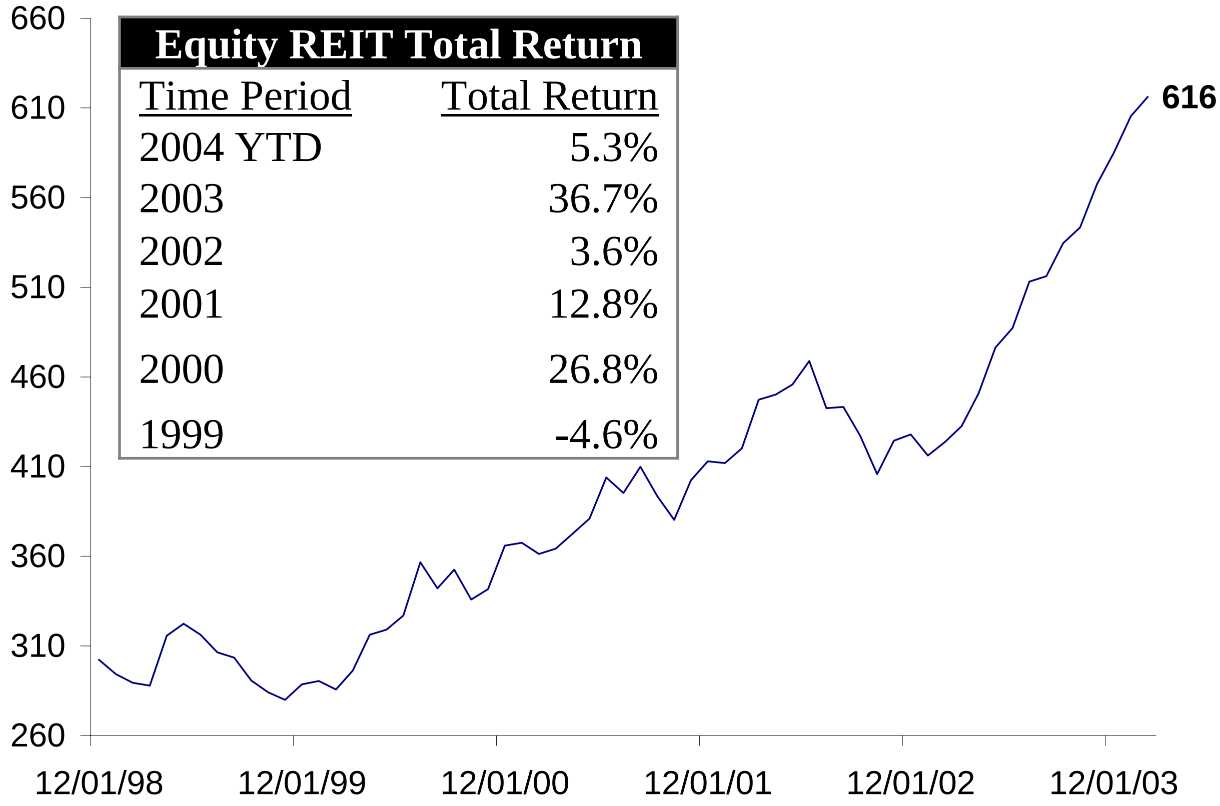
***Pat Lindsey, Liaison to Portfolio Managers***

# II. REIT Market Summary

# Morgan Stanley REIT Index

**REIT returns have been strong recently, continuing a 4-year trend.**

**December 1, 1998 – February 13, 2004**




| Equity REIT Total Return | |
|---|---|
| Time Period | Total Return |
| 2004 YTD | 5.3% |
| 2003 | 36.7% |
| 2002 | 3.6% |
| 2001 | 12.8% |
| 2000 | 26.8% |
| 1999 | -4.6% |

*Source: MSN Investor*

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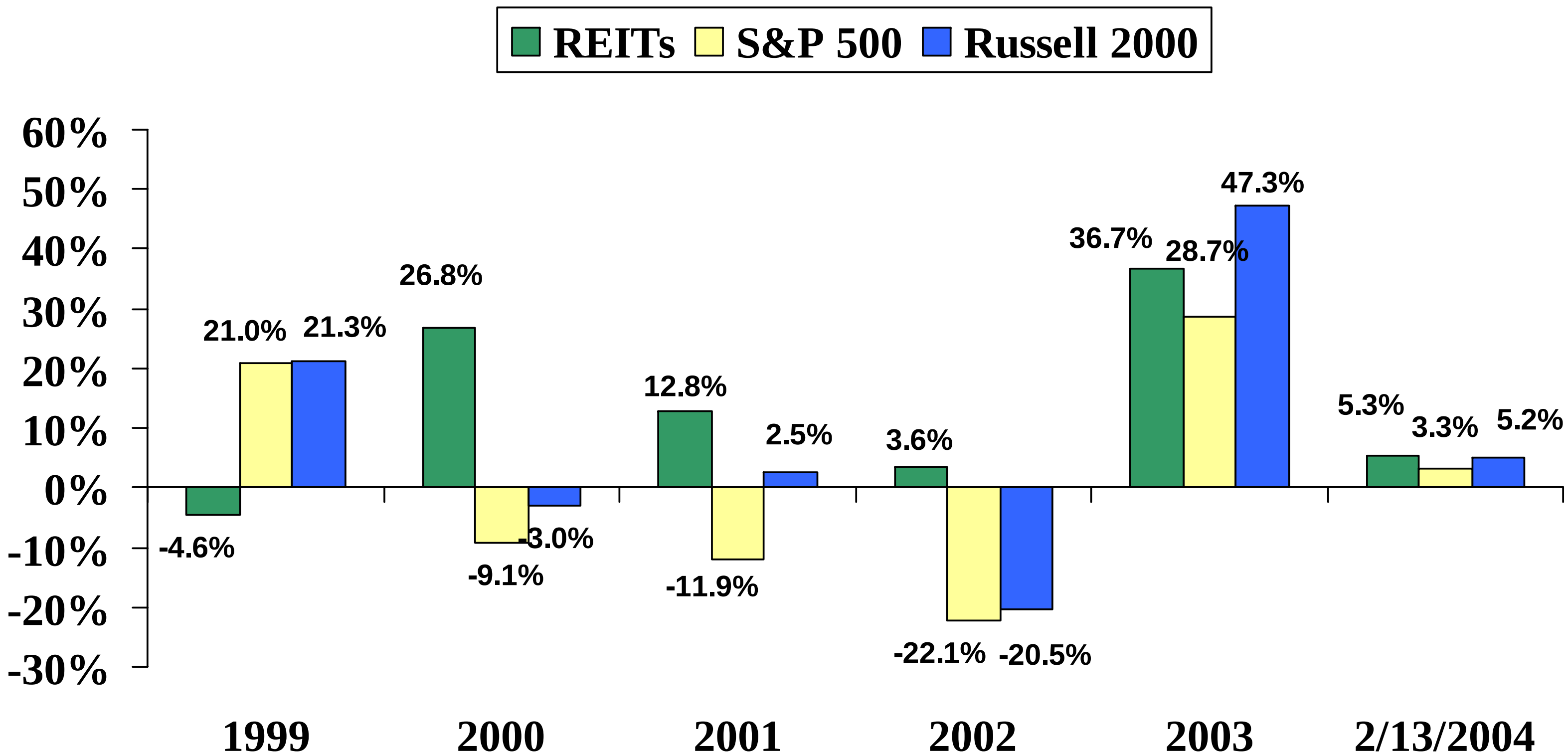
# REIT Total Return vs. S&P 500 and Russell 2000

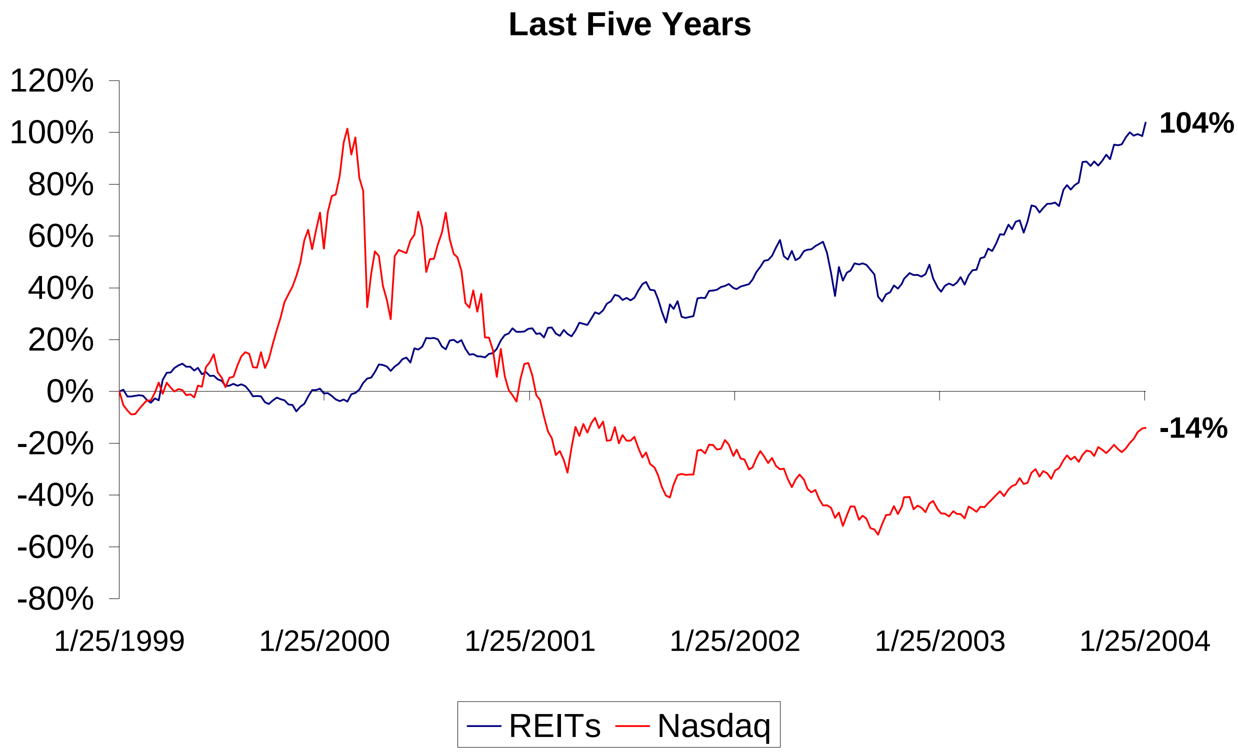
**As a result of high dividend yields and relatively strong real estate fundamentals, REIT returns have outpaced other equities over the prior few years.**




*Source: MSN Investor*

# REITs vs. Nasdaq

**REIT returns have experienced significantly less volatility than the technology-heavy Nasdaq composite index.**




**REIT returns measured by the Morgan Stanley REIT Index ("RMS").*

*Source: MSN Investor*

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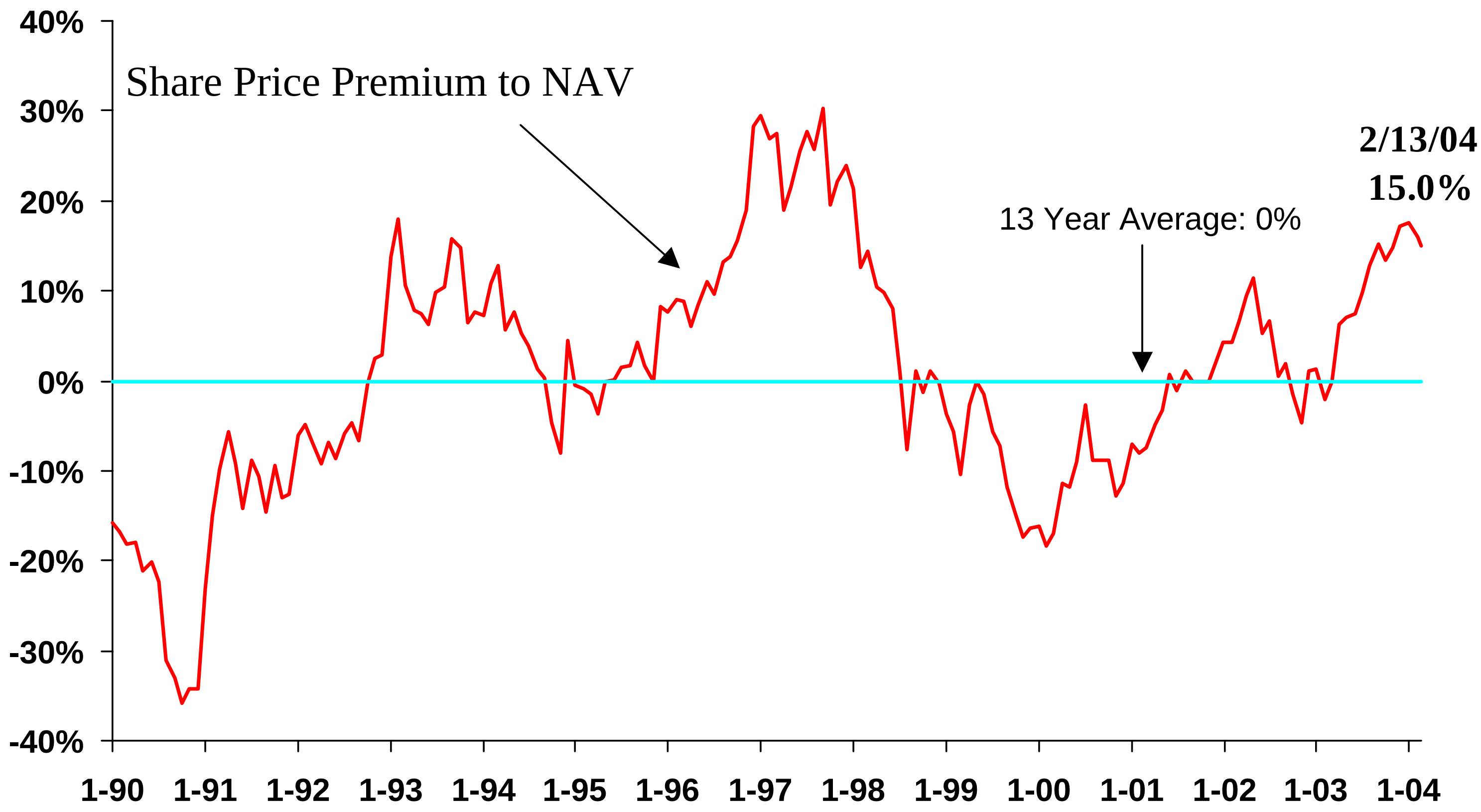
# REIT Pricing vs. Real Estate

**REITs are trading at material premiums to NAV.**




*Source: Green Street Advisors*

# Investment Performance by Property Sector

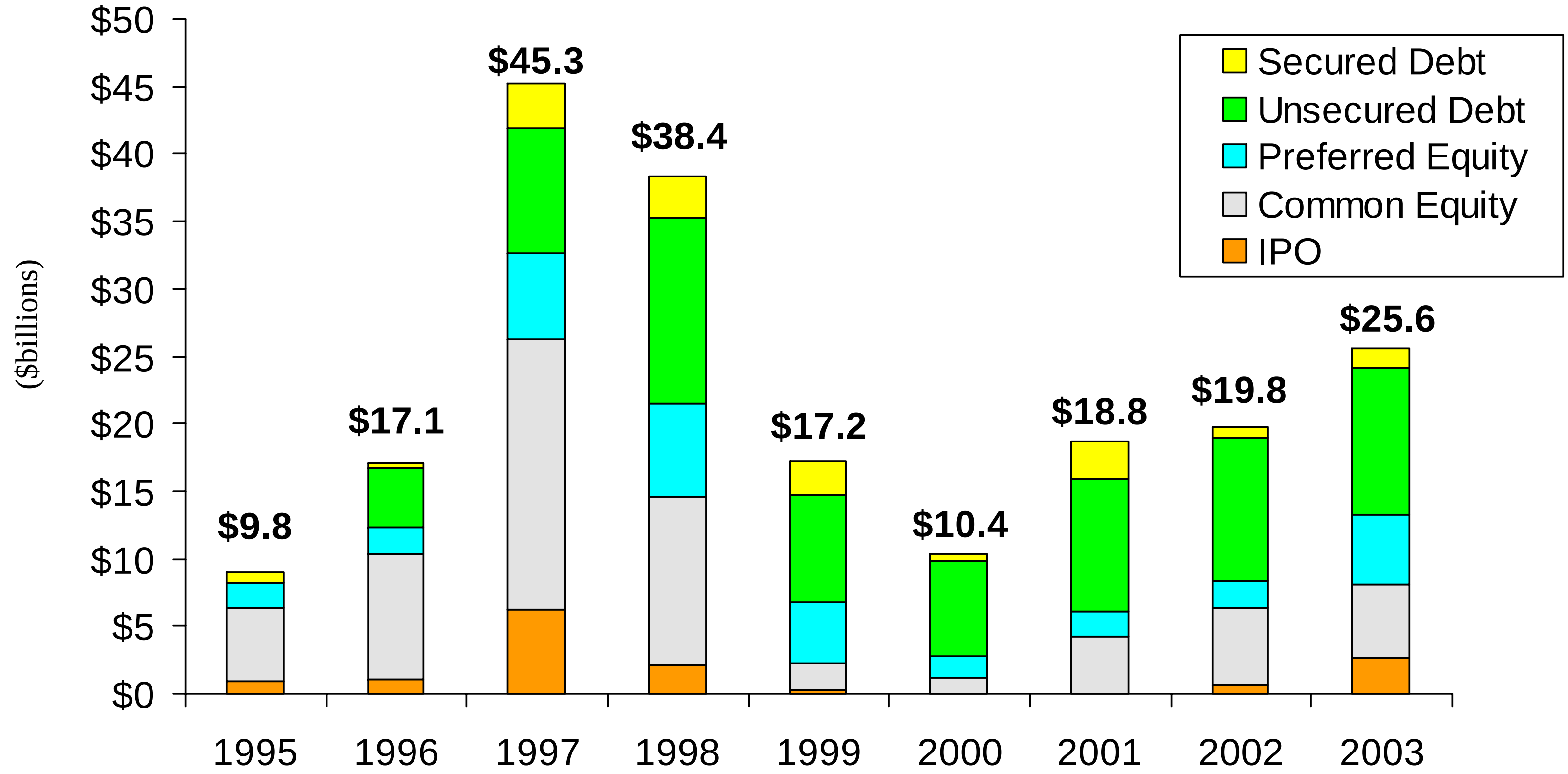
**All REIT sectors generated strong results last year, with retail REITs soundly beating the average.**

| | Total Return in Percent | | | | |
|---|---|---|---|---|---|
| **Property Sector** | **YTD 2/13/2004** | **2003** | **2002** | **2001** | **2000** |
| Health Care | 10.8 | 53.6 | 4.8 | 51.9 | 25.8 |
| Mall | 10.7 | 52.2 | 24.6 | 31.9 | 23.5 |
| Manufactured Homes | 10.2 | 30.0 | 3.6 | 13.7 | 20.9 |
| Self Storage | 7.9 | 38.1 | 0.6 | 43.2 | 14.7 |
| Industrial | 6.9 | 33.1 | 17.3 | 7.4 | 28.7 |
| Shopping Centers | 5.8 | 43.1 | 17.7 | 29.9 | 15.1 |
| Diversified | 5.7 | 40.3 | 4.2 | 12.5 | 24.1 |
| **NAREIT Equity REIT Index** | **5.2** | **37.1** | **3.8** | **13.9** | **26.4** |
| Office | 3.4 | 34.0 | -6.3 | 6.7 | 35.5 |
| Lodging/Resorts | 3.3 | 31.7 | -1.5 | -8.6 | 45.8 |
| Specialty | 1.4 | 38.6 | -5.4 | 7.6 | -31.6 |
| Apartments | -0.5 | 25.5 | -6.2 | 8.7 | 35.5 |

*Source: NAREIT*

# REIT Capital Raising Summary

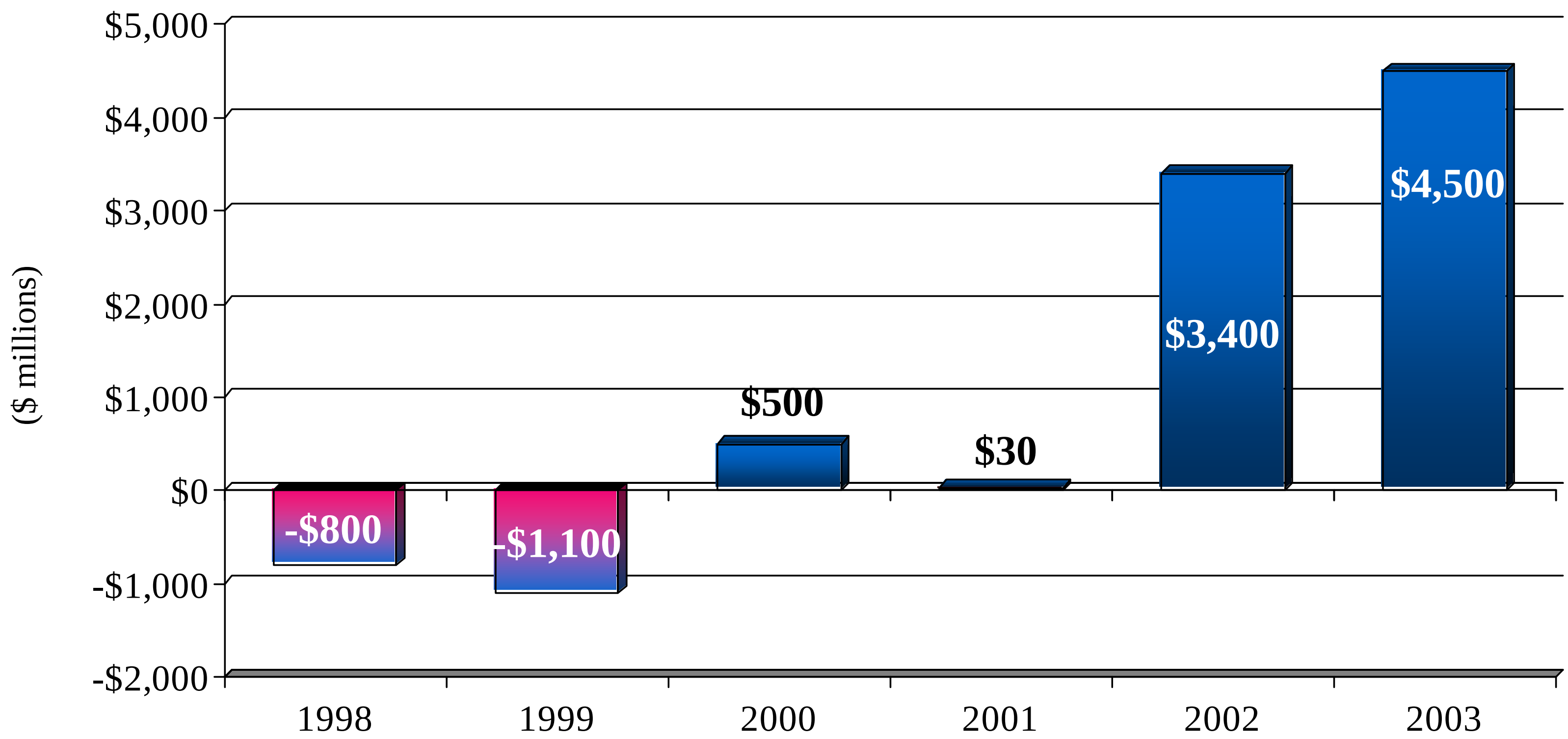
**REITs continue to have access to a variety of capital sources.**




*Excludes approximately $8 billion raised by closed end funds and unit investment trusts since May 2001.*
*Source: NAREIT*

# Real Estate Mutual Fund Net Flows

**Recent strong performance has been accompanied by a significant net inflow of money to dedicated real estate mutual funds.**




*Excludes approximately $8 billion raised by closed end funds and unit investment trusts since May 2001.*
*Source: AMG Data*

# III. REIT Valuation Techniques

# REIT Valuation Techniques

- Dividend yield
- Funds from Operations (“FFO”) yield or multiple
- Adjusted Funds from Operations (“AFFO”) yield or multiple
- Net Asset Value (“NAV”) premium or discount
- Dividend discount or discounted cash flow model

# Dividend Yield

- Dividend yield is an inappropriate way to value a REIT
- Easy to calculate and communicate
- Can be manipulated or “goosed”
- Ignores “true” recurring cash flow
- Ignores payout ratio
- Doesn’t take growth prospects into account

# Dividend Analysis

Kimco's (KIM) dividend would grow by 13% simply by increasing their debt to levels in-line with the REIT average. The yield would increase more if they surpassed the REIT average.

| | Kimco (KIM) - Today | KIM If Adjusted to the Green Street REIT Universe Average |
|---|---|---|
| **Leverage Ratio** | 44.5% | 52.7% |
| **% of Debt that is Variable Rate** | 7.0% | 7.2% |
| **'04 AFFO (1)** | $2.70 | $2.78 |
| **Payout Ratio (2)** | 84.4% | 92.6% |
| **Dividend Pace** | $2.28 | $2.57 |
| **Current Price** | $48.60 | $48.60 |
| **Dividend Yield (3)** | **4.7%** | **5.3%** |

(1) '04 AFFO is adjusted for blended new debt expense of 5.0% and the repurchase of $584 million of shares (12 million shares).

(2) As % of Green Street '04 AFFO estimate.

(3) As of 2/17/04.

# FFO Yield or Multiple

- Most widely used method
- FFO = Net income + Real estate depreciation – Gains on the sale of depreciated assets
- Better than dividend yield, but can also be manipulated
- Ignores recurring maintenance costs
- Ignores value of development and land

# AFFO Yield or Multiple

- AFFO = FFO less a reserve for recurring maintenance items that are capitalized.  Other deductions may also apply (i.e. straight-line rents, gains from the sale of land)
- Best measure of recurring cash flow of a REIT, and therefore, the best measure of operating performance
- Ignores growth prospects
- Ignores value of development and land

# Net Asset Value ("NAV")

- The value of underlying real estate is the key component in valuing real estate securities
- An NAV-based approach relies on prices in the private real estate market for guidance
  - Private markets tend to work efficiently, and represent the collective opinions of thousands of willing buyers and sellers
- Pricing in the REIT sector has a long-term tendency to revert back to NAV parity
- Green Street's NAV-based Pricing Model starts by estimating the value of what the REIT owns, and separately addresses the question, "how much value will be created or destroyed by the REIT's growth strategy?"

# Discounted Cash Flow ("DCF")

- A DCF model is the most theoretically-based methodology to utilize in deriving value estimates for any stock
  - Values in-place cash flow
  - Values near-term and long-term growth prospects
  - Assesses riskiness of various business lines
- DCF applies appropriate risk-adjusted hurdle rates to estimates of all current and future cash flows generated by a business
- DCF is attractive because all determinants of value are boiled down to quantifiable inputs
  - Coming up with the inputs forces the user to explicitly address tricky issues such as risk and long-term growth prospects

# IV. Green Street's Proprietary NAV-based Pricing Model

# NAV Calculation

- Similar to NAV of a mutual fund
- Starts with fair market value of assets and liabilities
- Measure "internal" growth prospects and risk of existing portfolio
- Primary challenge is selecting appropriate cap rate(s)

# Variables That Impact REIT Pricing

- Franchise value
- Focus
- Insider ownership
- Balance sheet strength
- Overhead expenses
- Potential conflicts of interest
- Liquidity

# NAV Pricing Model Variables

- Franchise Value
  - REITs are operating companies, not just real estate portfolios
  - External growth prospects and management talent
  - Fully-integrated and capable of adding value
  - Does property sector offer lucrative opportunities?
  - Access to attractively priced capital?
  - Does REIT have ability to create value through intelligent capital allocation?
- Focus
  - Geographic and product type
  - "Local sharpshooter" concept
- Insider Ownership
  - Are interests aligned with public shareholders?
  - Are insiders "cashing out"?

# NAV Pricing Model Variables

- Balance Sheet Strength
  - Total Leverage
  - Variable Rate Debt
  - Current Assets vs. Current Liabilities
- Overhead Expenses
  - NAV does not capture economic impact
  - Higher expenses result in smaller premium or larger discount
- Potential Conflicts of Interest
  - Self dealing
  - Independent Board of Directors
  - Commitment to REIT's business
- Liquidity
  - Can large investors move capital efficiently?
  - Larger companies enjoy a lower cost of capital

# Benefits of NAV Approach

- Reduces likelihood of being “suckered” by riskier, lower grade real estate
- Explicitly differentiates low and high quality assets
- Captures internal growth prospects and the quality of cash flow
- NAV is not affected by the use of short term or variable rate debt

# V. Discounted Cash Flow Approach

# A Discounted Cash Flow Approach to Valuing REITs

- GSA's DCF is broken down into three distinct parts:
  - Estimating long-term AFFO growth
  - Deriving the weighted average cost of capital, cost of equity and warranted share price
  - Comparing our results with cost of equity and cost of capital implied by market pricing as a reality check

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