



REIT Growth and Income Monitor

REIT Sector Comments

Office REITs

09/08/2009

Notes:

Office REIT stocks increased 7% on average year to date for 2009, underperforming average stock price gain of 13% for all REITs followed by **REIT Growth and Income Monitor**. Signs of recession are clear in lower occupancy and declining tenant retention, as tenants take advantage of lease expirations to rent lower cost office space from other landlords. Rental rate increases have moderated and are likely to decline during the rest of 2009 and 2010, leaving Office REITs to contend with much lower revenue growth to cover higher expenses.

Yields for Office REITs reflect many dividend reductions during 2009, while low stock price prices keep average yields in a normal range. Yields (including cash only portion of dividend) range from 0.0% for **Maguire Properties** to 11.2% for **Winthrop Realty Trust**. Office REIT valuations appear reasonable, as measured by the ratio of total capitalization to annualized FFO, in a relatively narrow range of 15.5X for **Brandywine Realty Trust** to 29.2X for **Vornado Realty Trust**.

Like most REITs, Office REITs face difficulty in financing new projects, leading to reductions in development pipelines, accompanied by impairment charges. Divestitures below book value are another source of charges against equity. Largest impairments were recognized by **Maguire Properties** (\$92) million, **Cousins Properties** (\$88) million and **Boston Properties** (\$51) million for joint venture development properties. **SL Green Realty** recognized year to date loan loss reserves of (\$108) million for structured investment portfolio and writeoff of investment in Gramercy Capital.

Dividend reductions impacted many Retail REITs, with dividends reduced (73%) by **SL Green Realty**, (67%) by **Brandywine Realty Trust**, (50%) by **Parkway Properties**, (45%) by **Lexington Realty Trust**, (43%) by **HRPT Properties Trust**, (40%) by **Kilroy Realty**, (40%) by **Cousins Properties**, (30%) by **Mack-Cali Realty**, (25%) by **Mission West Properties**, and (23%) by **Winthrop Realty Trust**. **Maguire Properties** eliminated dividends completely, while **Vornado Realty Trust** plans to pay only 40% of the dividend in cash, and **Cousins Properties** will pay only 33% cash dividends.

Our BUY rankings among Office REITs all have unique factors of portfolio type or location to differentiate results, including **Digital Realty Trust** due to data centers, **Corporate Office Properties Trust** and **Washington Real Estate Investment Trust** due to DC location, and **HRPT Properties Trust** due to divestitures. We upgraded **Highwoods Properties** to BUY on higher FFO guidance and downgraded **Mack-Cali Realty**, **SL Green Realty** and **Kilroy Realty** to our lowest SELL ranking on exposure to troubled sectors and regional areas.

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