



# REIT Growth and Income Monitor

## REIT Sector Comments

### Financial Commercial REITs

09/08/2009

#### Notes:

Despite abysmal financial results, Financial Commercial REITs enjoyed a strong rally, up 19% year to date for 2009, outperforming average gain of 13% for all REITs followed by **REIT Growth and Income Monitor**. All Financial Commercial REITs on our list trade under \$5 per share, with most under \$2 per share, so a small change in sentiment may produce a large stock price gain.

Inclusion of CMBS in Federal Reserve's TALF Program (Term Asset Backed Securities Loan Facility) as of May, 2009, has yet to provide assistance to Commercial REITs. Assets qualified for TALF Program include only the highest rated CMBS securities. Many "legacy assets" held in Commercial REIT portfolios have been downgraded by credit agencies or were never rated, and are thus unable to meet these stringent credit quality thresholds.

Only 2 of 8 Commercial Finance REITs on our list pay a dividend, with yield ranging from 5.6% for **CapLease** to 10.7% for **NorthStar Realty Finance**. Valuations, as measured by FFO to Capitalization rates (excluding those Financial REITs that are currently reporting net losses) range from 23.2X for **CapLease** to 53.0X for **North Star Realty Finance**.

Costly investment in condominiums may prove perilous for **iStar Financial**, as demonstrated by adjusted net loss of **(\$2.51)** per share for 2Q 2009, with **(\$435)** million in impairments. **iStar Financial** now reports 40% of total loan portfolio is on non-performing status. Equally disturbing is **iStar Financial's** liquidity position, down an alarming **(58%)** from March, 2009. This sudden evaporation of liquidity appears ill-timed, as **iStar Financial** faces \$800 million maturities on unsecured bonds due 2009 and \$500 million due 2010. We maintain SELL rank on **iStar Financial** despite strong management record prior to 2008.

**Arbor Realty Trust's** troubles continue, as they reported another FFO loss of **(\$1.90)** per share for 2Q 2009, reflecting loan loss provisions and debt restructuring. We expect **Arbor Realty Trust** to continue to report losses, with an unresolved \$30 million exposure to preferred stock of bankrupt Extended Stay Hotels. **Arbor Realty Trust's** dubious relationship with investment manager Lichtenstein's LightStone Value Fund raise questions, with timing of asset swaps appearing to boost LightStone's equity position, while enabling **Arbor Realty Trust** to avoid recognition of loss. We maintain SELL rank on **Arbor Realty Trust**, expecting more negative news on these issues.

We also maintain SELL rank on **Capital Trust**, **Gramercy Capital**, **Newcastle Investment**, and **RAIT Financial Trust**. We maintain HOLD rank on **NorthStar Realty Finance** and BUY rank on **CapLease**.

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