



# REIT Growth and Income Monitor

## REIT Sector Comments

### Specialty REITs

09/08/2009

#### Notes:

Specialty REIT stocks outperformed most other REIT sectors, up 8% year to date for 2009, compared to average 13% stock price gain for all REITs followed by **REIT Growth and Income Monitor**. Specialty REITs include a diverse group of stocks, with portfolios invested in many kinds of specialized properties, including educational housing, manufactured home communities, self-storage, franchises, timberlands, cinemas, vineyards and resorts.

Valuation (based on ratio of current total capitalization to annualized FFO) ranges from 11.8X for **Rayonier** to 39.3X for **American Campus Communities**. Yields for Specialty REITs range from 0.00% for **Extra Space Storage** to 14.2% for **Sun Communities**. **Entertainment Properties Trust** reduced dividends (23%) for the third quarter of 2009, following (50%) dividend reduction for **Education Realty Trust**. **Equity Lifestyle Properties** increased dividends 25%, still providing yield of only 2% while **Getty Realty** increased dividends 1%.

Equity financings provide liquidity, while dilution impacts FFO guidance. **Education Realty Trust** sold 21 million shares, increasing total outstanding shares by 71%. Dilution was also accepted by **U-Store-It Trust** 35%, **American Campus Communities** 22%, and **Equity Lifestyle Properties** 15%.

Certain Specialty REITs have been impacted by residential credit crisis, particularly those with portfolios of manufactured home communities, including **UMH Properties**, **Sun Communities**, and **Equity Lifestyle Properties**. Also impacted by residential credit crisis are Specialty REITs with FFO drawn from sales of timberland, sawlog mills, and wood products, including **Plum Creek Timber**, **Potlatch**, and **Rayonier**.

Specialty REITs include 2 stocks in the S&P 500 Index, **Plum Creek Timber** and **Public Storage**. Best performing of the S&P 500 Index REITs for 2008, **Public Storage** stock is down (12%) for 2009 as investors realize that recession drives self storage renters to find other options. **Plum Creek Timber** stock is down (17%) year to date for 2009, reflecting impact of residential housing market on demand for wood products.

Reduction or suspension of dividend distribution by Specialty Self Storage REITs reflects management's efforts to preserve cash. Demand for self-storage space may decline as a result of recession, unemployment and lower consumer spending. **Extra Space Storage** suspended dividends for the second and third quarters of 2009. Management expects to distribute \$0.24-\$0.30 per share for the fourth quarter of 2009, with 90% to be paid in stock and only 10% in cash. **Sovran Self Storage** reduced dividend distributions by (30%) for the third quarter of 2009 while **U-Store-It Trust** reduced dividends (86%) for the first quarter of 2009.

We upgraded **Realty Income** to BUY, reflecting stable FFO. We think **Realty Income**, with dividend yield of more than 6% and no debt maturity until 2013, provides excellent opportunity for income investors.

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