United States: Real Estate: REITs

US REIT View: CRE trends indicating a return to early 1990s' occupancy levels; still Cautious

Industry context

Commercial real estate trends are eroding at a pace indicating that occupancy and rental declines should match the deep recession of the early 1990s. To that end, we ran a "stress test" for the 36 companies under coverage and now expect a 25% decline in earnings in 2009/2010, far below Street growth forecasts. Moreover, we expect most companies to reduce dividends to help address debt rolls of more than $100 bn into 2012.

Source of opportunity

We maintain our cautious view on the REIT Industry, a position we have held since November 2007. We add DRE (Sell) to the Americas Conviction List based on development/debt maturity concerns and remove REG from the List. We also upgrade LRY to Neutral from Sell.

Catalyst

Refinancing risk, falling rents, higher cap rates.

Risks

Improving credit markets and economic recovery.

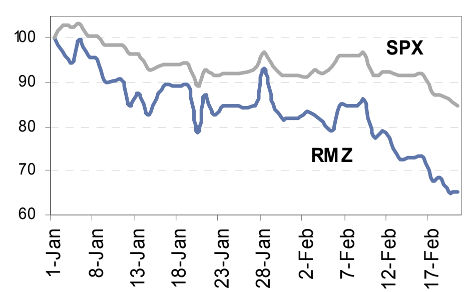
Best buy idea

We continue to focus on names with manageable refinancing risk and better balance sheets, including PSA, BXP, SKT and TCO.

Best sell idea

Our concerns on retail REITs are increasing amid slowing comp sales and reduced demand for space (and rent reductions). As such, we focus on our Conviction Sell ideas FRT in retail and DRE in suburban office/industrial, as well as other Sell ideas CUZ, KRG and REG.

RMZ versus SPX performance (YTD)



Source: FactSet.

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United States: Real Estate: REITs: 2009 Outlook: Bearish on CRE; REITs could re-test recent lows, January 8, 2009

Ticker	From	To
DRE	Sell	Conviction Sell
REG	Conviction Sell	Sell
LRY	Sell	Neutral

Source: Goldman Sachs Research

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Source: Company data, Goldman Sachs Research estimates
The prices in the body of this report are based on the market close of 2/20/2009

Overview: Key risks for REITs not yet fully priced in; reducing estimates and price targets

The REIT Industry is re-testing the lows of late last year based on several key concerns: (1) funding risk; (2) sharply decelerating fundamentals; and (3) continued dividend cuts. And yet, even with a 70% sell-off since the peak off the CRE market in early 2007, we still see remaining risks for REITs that in our view are not fully reflected in current pricing. To that end, as part of this report, we ran a REIT "stress test" and adjusted our models (yet again) to reflect changes in occupancy and rental rates that are comparable to the most recent recessions in 1991 and 2001. Of note, we focused more on the former than the latter, given the significant declines in CRE values that ensued and subsequent capital restructuring. In fact, as we have noted in prior research, REITs are likely entering a prolonged downturn which will be exacerbated by high leverage. As such, we still focus investors on companies with better-positioned balance sheets and superior near-term growth prospects – i.e., the likely survivors.

As part of our 2009 Outlook report ("2009 Outlook: Bearish on CRE; REITs could re-test recent lows") issued on January 8, 2009, we cautioned that a steep sell-off could drive REITs to current levels and, furthermore, we expect the group to remain volatile over the near term. In more recent news, the government's announced stimulus plan and bank "stress test" both could provide longer-term solutions to the ongoing economic and credit crisis, but we do not think they address companies with liquidity concerns in 2009-2010.

To briefly summarize the results of our "stress test," we believe there is downside risk to 2009/2010 expectations by as much as 5-10% (more so in 2010, given the lag in CRE fundamentals). CRE trends did not fully bottom following the 1991 and 2001 recessions until 18-24 months after each recession had concluded. Given our concerns on REITs, the stocks could continue to trade in a wide range over this time with an average FFO multiple of 5X-8X, well below the longer-term average of 10X-11X. Moreover, with close to $1.6 trillion of CRE debt maturing over the next several years and fundamentals just

beginning to worsen (i.e., the lag effect), CRE trends will not only deteriorate well into 2009, but the sector should underperform when the eventual recovery takes place.

We are also making a series of changes including reducing earnings estimates, price targets and net asset value estimates based on our "stress test" results. In addition, we move our price targets from a 12-month time frame to a 6-month time frame for all our companies, given the uncertainty in credit and overall economic conditions. We provide a summary of changes made in Exhibits 10 and 11. In terms of new stock ideas, we add office/industrial developer Duke Realty (DRE; Sell) to the Americas Conviction List and at the same time we remove shopping center REIT Regency Centers (REG; Sell) from the Americas Conviction List, as the stock is now approaching our six-month price target of $24. We also upgrade suburban office/industrial REIT Liberty Property (LRY) to Neutral from Sell. We maintain our Cautious coverage view on the industry.

Exhibit 1: Outline of key changes we make to our coverage universe—we now look for negative 25% growth over the next 2 years

Sector	FFO Growth ⇩		Price Targets ⇩	Rating Changes		
	2009E	2010E				
Industrial	-45%	-22%	-11%	DRE	⇩	CL Sell
Apartments	-22%	-11%	-11%			
Shopping centers	-19%	-6%	-19%	REG	⇧	Sell
Office	-15%	-7%	-17%	LRY	⇧	Neutral
Regional malls	-9%	-10%	-11%			
Other / Diversified	-13%	-2%	-13%			
Average / Total	**-18%**	**-8%**	**-13%**			

Source: Goldman Sachs Research estimates.

Exhibit 2: Outline of key assumptions changed in our models (beyond current assumptions)

Sector	Occupancy ⇩			Rental rate ⇩			Cap rates ⇧
	2009E	2010E	Aggregate	2009E	2010E	Aggregate	Average
Apartments	100-150 bp	50-75 bp	150-200 bp	2-4%	1-3%	4-5%	0-25 bp
Industrial	200-300 bp	300-400 bp	500 -600 bp	10-15%	20-30%	30-40%	25-50 bp
Office - downtown	100-200 bp	200-400 bp	300-400 bp	30-40%	10-20%	50-60%	50-100 bp
Office - suburban	200-300 bp	300-400 bp	400-500 bp	10-15%	20-30%	30-40%	50-100 bp
Regional malls	100-200 bp	100-300 bp	300-400 bp	20-30%	20-30%	40-50%	25-50 bp
Shopping centers	100-200 bp	100-200 bp	150-200 bp	10-20%	20-30%	30-40%	25-50 bp

Source: Goldman Sachs Research estimates.

Sector views: Apartments playing out as expected but fundamentals likely to worsen; now our concerns shift to retail, given retailer bankruptcy risk

We have been cautious on apartments since 2007 and our concerns largely were reflected in the disappointing fourth quarter 2008 earnings results and 2009 outlooks. In fact, our estimates for 2009 and 2010 had been well below the Street and are now at the low end of most company's 2009 forecasts. We projected that the 2009/2010 cycle could replicate the weak operating performance of 2001-2003. We now focus more of our attention on retail, given the challenges that are likely to affect the consumer over the near term. In addition, with the oversupply of retail space in the US relative to most countries globally, we see risk that retailers will be forced to close underperforming stores or, worse yet, file for bankruptcy. We also maintain our cautious views on suburban office and industrial REITs, given the risk of slowing demand and development exposure. We are more favorable on downtown office, given its lower lease rollover and companies with superior balance sheets. We provide additional details by sector in the section below.

As we review data on rising vacancy rates, we are most concerned that retail continues to lead the pack among the major property types in the current downturn compared to office in the 2001 downturn. In fact, our concerns this cycle are most focused on the strip centers, as these companies expanded at the greatest pace with asset management platforms (REG, KIM, DDR) and active development pipelines and also employed higher leverage. As we noted in our 2009 Outlook report in January, we believe the malls are better positioned, given the lack of new supply, but our concerns are growing as the risk of a large retailer either closing stores or filing for bankruptcy is increasing. In short, the expected acceleration in retailer store closings and bankruptcies should negatively affect same-center NOI growth for malls and strips alike, and we therefore are taking a less-constructive view.

Apartments (Cautious)—Given the short lease terms of roughly one year for apartments, we caution that fundamentals will worsen far more meaningfully compared to the other major property types over the near term (3-6 months). Of note, however, we also point out that we expect apartment trends to reach bottom sooner and therefore we could become more favorable on this segment in time. In the near term, we expect a sharp decline in earnings with FFO forecasts to fall roughly 30% over the next two years. On a positive note, the sector continues to benefit from stable lending (FRE and FNM) and valuation is becoming more attractive for large-cap names AVB and EQR, both rated Neutral.

Retail (neutral)—We are neutral on retail REITs with a positive bias on better-positioned malls, including SPG and TCO, as well as SKT in outlet centers. We prefer malls over strips as we remain concerned about the oversupply of community and power centers in growth markets in the US. In contrast, there has been far less new construction of regional malls over the past 5-7 years. While we like the long lease terms of retail REITs, we believe the risk of sharply higher vacancy exists with rising store closing as retailers scale back their store counts. We also have several Sell ideas, including CBL in malls and FRT, REG, and KRG in strips.

Office (neutral)—We continue to selectively favor downtown office REITs and our only recommended Buy name is BXP. We prefer BXP due to its solid balance sheet, more reasonable valuation and disciplined management team, which had sold close to $3.5 bn of assets at peak market pricing to raise capital. With office trends expected to deteriorate to the recession levels of the early 1990s (20% vacancy), we would still favor downtown names over companies with more suburban office exposures. As such, we maintain our Sell recommendations on CUZ and DRE.

Industrial (cautious)—Our cautious view on the Industrial REITs, including companies with global and domestic focuses, is based on our concerns on development, leverage, and weaker expected fundamentals. We rate several companies Sell, including AMB, PLD, and DRE. Each of these companies has a large in-process development pipeline that must be leased in a severe global recession. Hence, leasing activity will likely slow considerably. At the same time, these companies seek to sell assets and de-leverage their balance sheets in the tight credit environment. As such, we believe there is still substantial risk, as vacancy rates will likely rise and rental rates decline to levels consistent with the 1991 and 2001 downturns.

Refinancing risk for REITs not yet fully priced in; reducing estimates and price targets

Refinancing remains the largest overhang on REIT share prices as concerns over liquidity re-emerge

As we previously mentioned at the time of our 2009 Outlook report last month, REIT earnings could decline by as much as 25% over a multi-year basis as a result of refinancing activity. The calculation works as follows: most REITs were able to substantially reduce the average cost of debt over the past five years by refinancing activity and taking advantage of "all in" funding costs at the 5% level, such that most companies' weighted-average cost of debt is below 6%. By comparison, most REITs had a weighted-average debt cost of approximately 7.5% to 8.0% in the mid-to-late 1990s. By adjusting higher the cost of most REITs' current borrowing rates to the levels of the mid 1990s (again 7-8%), we would anticipate a decline in FFO of roughly 25% from the current level. Furthermore, this decline would likely take place during what we think could be a prolonged downturn for CRE trends, which could further depress REIT earnings.

Moreover, with life insurance companies scaling back lending, bank lending also on hold, the unsecured and CMBS markets still frozen, and pension funds reducing CRE exposure, we believe the CRE industry will continue to experience refinancing pressure in the near term as debt matures and needs to be refinanced. The problem is further compounded by the fact that asset sales are not currently a viable option, given the lack of funding alternative for buyers and the uncertainty over pricing (rising cap rates and falling NOI levels).

Exhibit 3: Weighted-average cost of debt (WACD): cost of debt fell but should increase from here

	KIM	SPG	EQR	BXP	VNO(1)	AVB(2)
4Q98						
WACD	6.9%	7.0%	7.1%	6.9%	6.8%	6.5%
4Q08						
WACD	4.9%	5.1%	5.3%	5.3%	5.3%	5.3%
Delta	**2.0%**	**1.9%**	**1.8%**	**1.6%**	**1.6%**	**1.2%**

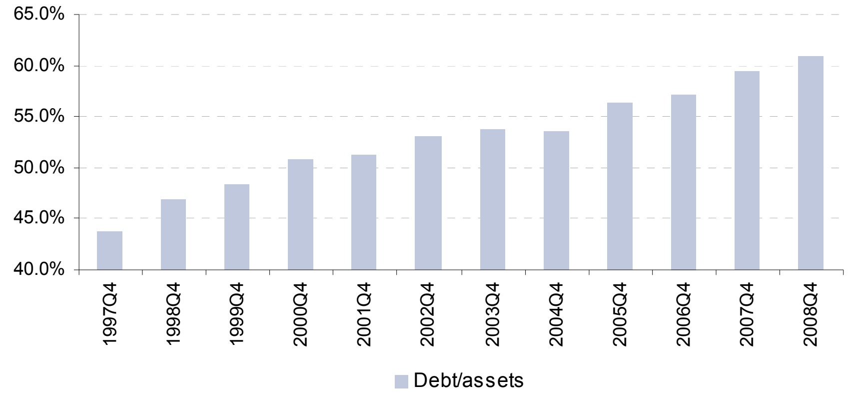
Notes

(1) VNO's historical WACD is as of 1Q99

(2) AVB's historical WACD is as of 4Q03

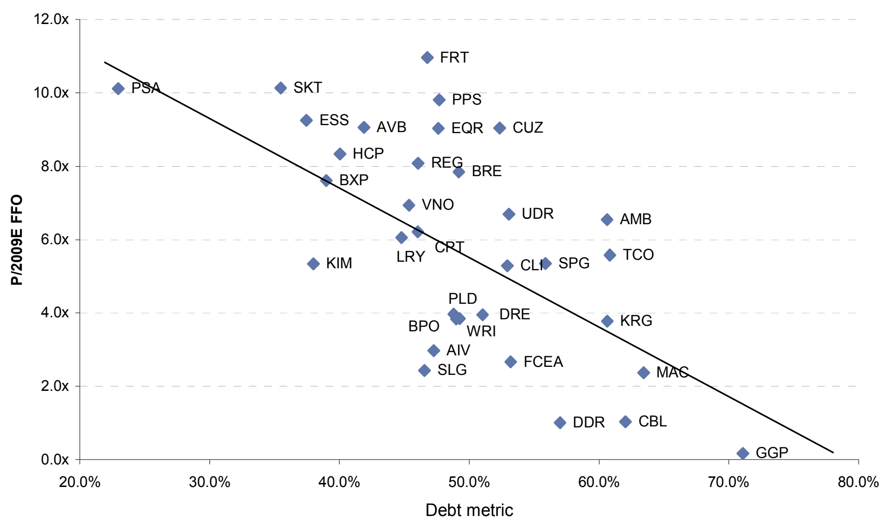
Source: Company data.

Exhibit 4: Average leverage for the sector has increased significantly over the years



Source: SNL.

Exhibit 5: Price performance and leverage have been highly correlated
as of 4Q08



Note: Debt metric is an average of consolidated debt to assets and % debt maturing in 2009-2011

Source: SNL, company data.

REIT "stress test" indicates that earnings could decline well below Street forecasts as property-level cash flows deteriorate at an accelerating pace (similar to the 1991 and 2001 downturns)

Even with our below-consensus estimates for the most recent quarter and the current year, we adjusted our average 2009 and 2010 FFO estimates by roughly 5-10% (Exhibit 10). As we pointed out in a report last July ("Stage 1 of CRE downturn under way, more to come; still at Cautious"), we note that the deterioration in CRE trends will likely be as severe as the 2001-2003 downtown (Exhibit 6). In fact, we anticipate a far worse outcome for the industry in the current cycle as a result of the twin challenges facing REITs/CRE—sharply deteriorating fundamentals and debt refinancing concerns. We recently ran a "worst case" scenario for 2010 to get a better sense of just how much further REIT earnings could decline and the result is meaningful. Based on results from our "stress test" analysis, we made several changes to our models, implying (in some cases) that trends could become as severe as, if not worse than, in prior downturns. For sectors with longer average lease terms (such as retail), we believe the declines may be drawn out over a number of years, and the changes shown below reflect our views.

Exhibit 6: Current recession versus prior downturns

	Current recession			1990's recession			2001 recession		
	Peak	4Q08	Delta	Peak	Trough	Delta	Peak	Trough	Delta
Occupancy									
Office	85%	83%	**-2%**	86%	81%	**-5%**	90%	82%	**-8%**
Retail	90%	85%	**-5%**	88%	81%	**-7%**	90%	87%	**-3%**
Industrial	91%	89%	**-2%**	93%	89%	**-4%**	93%	90%	**-3%**
Apartment (1)	94%	93%	**-1%**	94%	93%	**-1%**	95%	93%	**-2%**
Unemployment rate *	5%	8%	**3%**	5%	8%	**2%**	4%	6%	**2%**

** Unemployment is as of Jan-09*

(1) We note that apartment occupancy is historically more stable in lieu of higher volatility in rental rates

Fundamentals across all sectors have more to fall in our opinion as unemployment has already widened beyond past cycles.

Source: ERWIN, PPR.

Change in dividend policy could further reinforce liquidity concerns for REITs

While we agree with the decisions by Simon Property Group (SPG; Buy) and Vornado Realty (VNO: Neutral) to reduce the cash components of 2009 dividend distributions, we cannot overlook the primary reason we think most REITs will adopt such a policy—to de-leverage and conserve cash. With an average debt-to-asset ratio of 60%, the REIT industry boosted leverage over the past 10 years at a time when debt was cheap and higher LTV mortgages were priced similarly to previously more conservative underwriting levels (50-55% LTVs). With the amount of debt capital vastly reduced versus the levels of 2-3 years ago and property values likely to decline by as much as 30-40% in the ongoing CRE downturn, companies will need to contribute greater equity to refinance maturing loans at the same time that borrowing costs rise 200-300 bp. With roughly $20-30 bn of REIT debt maturing across the industry, there is risk that some companies will be forced to sell assets, restructure loans with banks and lenders, or worse yet lose ownership through default (least likely for REITs).

Given the challenging credit market for CRE, we believe most REITs will need to conserve cash and pay out the minimal amount via dividends. Furthermore, most companies could elect to distribute the dividends in stock as opposed to cash until credit markets open up again. As we noted in a report on February 3, 2009 ("Dividend conundrum and what "bad bank" might mean for REITs"), REITs can de-leverage with the change in dividend policy (especially if the stock versus cash option is extended several years), which, all else being equal, would result in superior balance sheets (i.e., lower leverage) at that time and, more importantly, normalized multiples for REIT shares (10X-11X).

We present below a summary of what annual cash savings could be, if REITs opted to pay the dividend in a combination of stock and cash—we highlight the savings could be significant. We believe that the decision to focus on liquidity and furthermore to de-leverage will ultimately be viewed as a longer-term positive event for most REITs and thereby result in higher valuation (superior FFO multiple) over time.

Exhibit 7: Annual cash savings from stock dividend versus near term debt maturing

Company	90%-10% stock / cash option	As % of next 2 years total maturities	60%-40% stock / cash option	As % of next 2 years total maturities	2009-2010 total debt	2009-2010 unsecured debt
VNO*	$595.4	41%	$396.9	27%	$1,457.1	$0.0
HCP	$420.7	38%	$280.5	26%	$1,093.2	$526.4
BXP	$351.3	36%	$234.2	24%	$974.6	$100.0
CPT	$147.2	30%	$98.1	20%	$489.9	$376.7
EQR	$501.2	28%	$334.1	18%	$1,816.9	$0.0
LRY	$173.9	23%	$115.9	15%	$765.6	$706.6
SPG*	$957.1	20%	$638.1	13%	$4,874.4	$2,000.0
DRE	$143.7	13%	$95.8	9%	$1,102.5	$885.5
MAC	$254.7	9%	$169.8	6%	$2,681.4	$1,545.8
DDR*	$163.1	9%	$108.8	6%	$1,786.2	$0.0
SLG	$80.3	7%	$53.5	5%	$1,133.2	$381.8
PLD	$239.3	5%	$159.5	3%	$4,775.7	$3,711.7
AMB	$101.9	5%	$67.9	3%	$2,062.1	$1,273.8
KIM	$170.0	13%	$113.3	9%	$1,300.9	$394.1
Total/average	**$4,299.7**	**20%**	**$2,866.5**	**13%**	**$26,313.6**	**$11,902.4**

Note: SPG and DDR have already elected to pay their dividend in 90% stock, and VNO elected tp pay their dividend in 60% stock

Source: Company data, Goldman Sachs Research estimates.

As part of the "stress test" we ran in our models, we reflect changes in occupancy and rental rates that are comparable to the most recent recessions in 1991 and 2001 (Exhibit 2). Further, we also examine in detail the balance sheets of companies we believe have meaningful refinancing requirements over the next several years (i.e., companies which we believe will need to de-leverage over the near term). As part of our analysis, we therefore incorporate in our 2009 estimates the companies listed below opting to pay the 2009 annual dividend in a combination of cash and stock. While the change would come at the expense of earnings growth and NAV dilution in the short run, we believe the trend could help the universe trade more in line with the longer-term average FFO multiple (10X) in this scenario versus 7X-8X today.

Exhibit 8: Goldman Sachs 2009 dividend payment assumptions

Company	GS assumed 2009 payment method	New FAD payout ratio	Old dividend	Revised 2009 cash dividend
SPG*	90% stock - 10% cash	6%	$3.60	$0.36
DDR*	90% stock - 10% cash	9%	$2.76	$0.15
VNO*	60% stock - 40% cash	61%	$3.68	$1.47
CBL	60% stock - 40% cash	36%	$2.20	$0.60
KIM	60% stock - 40% cash	64%	$1.76	$0.70
REG	60% stock - 40% cash	51%	$2.90	$1.16
MAC	60% stock - 40% cash	46%	$3.20	$1.28
AIV	60% stock - 40% cash	114%	$2.40	$0.90
PLD	60% stock - 40% cash	69%	$2.07	$0.55
AMB	60% stock - 40% cash	68%	$2.08	$0.45
BXP	60% stock - 40% cash	35%	$2.72	$1.09
CLI	60% stock - 40% cash	40%	$2.56	$1.02
SLG	60% stock - 40% cash	18%	$1.52	$0.60

*Note: SPG, VNO and DDR have already indicated as of 4Q2008 that the changed payment option will go into effect from 1Q2009

Source: Company data, Goldman Sachs Research estimates.

Exhibit 9: Summary of Goldman Sachs REIT coverage ratings

	Industrial	Office	Retail	Apartment	Other
BUY		BXP	KIM		HCP
			SKT		PSA
			SPG		
			TCO		
NEUTRAL	LRY	BPO	DDR	AIV	AXB
		CLI	MAC	AVB	BKD
		SLG	WRI	CPT	CBG
		VNO		EQR	FCEA
SELL	AMB	CUZ	CBL	BRE	
	DRE		FRT	ESS	
	PLD		KRG	PPS	
			REG	UDR	

Source: Goldman Sachs Research estimates.

Exhibit 10: Our 2009 and 2010 growth forecasts are widely below the Street—we now expect growth to decline about 25% over the next two years
as of 2/20/2009

		GS (old)		GS (new)		GS new vs. old		Consensus		GS Growth		Consensus Growth	
Company	**Ticker**	**2009E**	**2010E**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**
Brokers													
CB Richard Ellis	CBG	$0.65	$0.75	$0.65	$0.75	0%	0%	$0.67	$0.84	-33.5%	16.2%	-31.2%	25.1%
										55.6%	**48.8%**	**161.3%**	**69.3%**
Diversified													
Duke Realty	DRE	$1.75	$1.67	$1.75	$1.60	0%	-4%	$2.03	$1.90	-29.5%	-8.5%	-18.2%	-6.1%
Forest City Enterprises	FCEA	$2.07	$2.01	$2.00	$1.86	-3%	-7%	$2.31	$2.47	5.2%	-6.7%	21.4%	7.3%
Liberty Property Trust	LRY	$2.95	$2.80	$2.95	$2.75	0%	-2%	$3.01	$2.97	-8.0%	-6.6%	-5.9%	-1.4%
Vornado Realty Trust	VNO	$5.40	$5.70	$5.25	$5.15	-3%	-10%	$5.52	$5.69	-23.4%	-1.9%	-19.5%	3.2%
										-13.9%	**-5.9%**	**-5.5%**	**0.7%**
Office													
Boston Properties	BXP	$4.85	$4.90	$4.77	$4.67	-2%	-5%	$4.79	$4.80	-0.7%	-2.1%	-0.4%	0.2%
Brookfield Properties	BPO	$1.40	$1.37	$1.37	$1.30	-2%	-5%	$1.40	$1.36	-8.7%	-4.9%	-6.9%	-3.1%
Cousins Properties Corp.	CUZ	$0.85	$0.95	$0.85	$0.90	-1%	-5%	$1.03	$1.10	-30.4%	NM	-15.7%	7.0%
Mack-Cali Realty	CLI	$3.35	$3.25	$3.20	$2.82	-5%	-13%	$3.38	$3.27	-15.5%	-11.7%	-10.8%	-3.1%
SL Green Realty	SLG	$5.15	$4.85	$4.98	$4.44	-3%	-8%	$5.24	$5.08	-20.7%	-10.8%	-16.5%	-3.2%
										-15.2%	**-7.4%**	**-10.1%**	**-0.4%**
Apartments													
Aimco	AIV	$1.72	$1.60	$1.61	$1.48	-6%	-8%	$1.72	$1.53	-41.1%	-8.3%	-37.0%	-11.3%
Avalonbay Communities	AVB	$4.55	$4.15	$4.39	$3.86	-4%	-7%	$4.66	$4.45	-10.3%	-12.1%	-4.7%	-4.5%
BRE Properties	BRE	$2.42	$2.25	$2.32	$2.08	-4%	-7%	$2.45	$2.32	-17.8%	-10.2%	-13.0%	-5.3%
Camden Property Trust	CPT	$3.17	$3.00	$3.04	$2.70	-4%	-10%	$3.24	$3.11	-16.0%	-11.0%	-10.5%	-4.0%
Equity Residential	EQR	$2.09	$2.00	$2.02	$1.85	-3%	-7%	$2.20	$2.05	-21.7%	-8.1%	-14.4%	-7.1%
Essex Property Trust	ESS	$5.53	$5.19	$5.30	$4.70	-4%	-9%	$5.65	$5.45	-9.1%	-11.3%	-3.2%	-3.4%
Post Properties	PPS	$1.07	$1.00	$1.00	$0.87	-6%	-13%	$1.19	$1.14	-42.5%	-13.3%	NM	-4.8%
United Dominion Realty	UDR	$1.27	$1.18	$1.22	$1.04	-4%	-12%	$1.26	$1.18	-18.5%	-14.9%	-16.1%	-5.8%
										-22.1%	**-11.2%**	**-14.1%**	**-5.8%**
Shopping centers													
Developers Diversified	DDR	$2.90	$2.96	$2.23	$1.87	-23%	-37%	$2.73	$2.74	-30.8%	-16.1%	-15.2%	0.0%
Federal Realty Trust	FRT	$3.85	$3.93	$3.67	$3.48	-5%	-12%	$3.91	$3.95	-5.2%	-5.2%	1.3%	0.9%
Kimco Realty Corp	KIM	$1.72	$1.60	$1.65	$1.45	-4%	-9%	$1.82	$1.80	-34.4%	-12.2%	-27.5%	-1.0%
Kite Realty	KRG	$0.92	$0.93	$0.83	$0.75	-9%	-19%	$0.93	$0.96	-30.7%	-10.2%	-22.8%	3.0%
Regency Centers	REG	$3.34	$3.29	$3.26	$3.05	-2%	-7%	$3.44	$3.37	-20.5%	-6.5%	-16.2%	-2.1%
Weingarten Realty	WRI	$3.02	$3.03	$3.02	$3.03	0%	0%	$2.92	$2.97	-0.5%	0.5%	-3.5%	1.4%
										-20.4%	**-8.3%**	**-14.0%**	**0.4%**
Other													
Alexander & Baldwin Inc	AXB	$2.00	$2.45	$2.00	$2.45	0%	0%	$1.94	$2.32	-37.2%	22.3%	-39.2%	19.6%
Brookdale Senior Living	BKD	-$2.00	-$2.23	-$2.00	-$2.23	0%	0%	-$1.20	-$1.22	NM	NM	NM	NM
HCP, Inc.	HCP	$2.18	$2.21	$2.13	$2.09	-2%	-6%	$2.21	$2.31	-8.2%	-2.1%	-4.8%	4.4%
Public Storage	PSA	$5.09	$5.07	$4.98	$4.78	-2%	-6%	$5.07	$5.20	1.1%	-4.0%	3.0%	2.6%
Tanger Factory Outlet Centers	SKT	$2.72	$2.91	$2.72	$2.85	0%	-2%	$2.78	$2.90	-1.6%	4.9%	0.6%	4.3%
										-11.5%	**5.3%**	**-10.1%**	**7.7%**
Regional Malls													
CBL & Associates	CBL	$3.10	$3.00	$2.75	$2.32	-11%	-23%	$3.11	$3.03	-16.8%	-15.5%	-5.8%	-2.6%
General Growth Properties	GGP	$2.73	$2.49	$2.73	$2.49	0%	0%	$2.57	$2.46	-4.9%	-8.8%	-10.7%	-4.1%
Simon Property Group	SPG	$6.45	$6.52	$6.38	$6.01	-1%	-8%	$6.41	$6.45	-1.6%	-5.8%	-1.2%	0.7%
Taubman Centers	TCO	$2.83	$2.85	$2.69	$2.55	-5%	-11%	$2.75	$2.76	-13.0%	-5.1%	-11.0%	0.1%
The Macerich Company	MAC	$4.55	$4.40	$4.16	$3.63	-9%	-18%	$4.63	$4.24	-10.5%	-12.8%	-0.4%	-8.4%
										-9.4%	**-9.6%**	**-5.8%**	**-2.9%**
Industrial													
AMB Property Corporation	AMB	$1.95	$2.05	$1.90	$1.70	-3%	-17%	$2.02	$1.78	-35.4%	-10.6%	NM	-11.6%
ProLogis	PLD	$1.75	$1.20	$1.68	$1.11	-4%	-7%	$1.83	$1.58	-54.8%	-33.6%	-50.7%	-13.8%
										-45.1%	**-22.1%**	**-50.7%**	**-12.7%**
Average Ex-brokers						**-3.8%**	**-8.9%**			**-18.1%**	**-8.0%**	**-11.7%**	**-1.5%**

* 2008 growth numbers are generated using normalized 2007 numbers
' FCEA is on a January 31 year end calendar

Source: SNL, Goldman Sachs Research estimates.

Exhibit 11: We now expect 5% downside for our 36-stock coverage universe

as of 2/20/2009

Ticker	Company	Current rating	Sector	Share Price	6 month dividend yield	Forward NAV	2009E FFO	2010E FFO	Current Price / 2009 FFO	Target Price / 2009FFO	Old Target Price	New Target Price	Target Price% change	Target Price Premium / (Discount) to NAV	Total return potential	Risk factors to price targets[1]
KIM	Kimco Realty Corp	Buy	Shopping Centers	10.01	3.5%	12.33	1.65	1.45	6.1	6.9	15.00	10.00	-33.3%	(18.9)%	3.4%	Consumer confidence, retailer bankruptcies, development risks
WRI	Weingarten Realty	Neutral	Shopping Centers	12.76	8.2%	12.19	3.02	3.03	4.2	3.3	12.00	10.00	-16.7%	(18.0)%	-13.4%	Consumer confidence, retailer bankruptcies, reliance on merchant building gains
REG	Regency Centers Corp	Sell	Shopping Centers	29.03	2.0%	32.23	3.26	3.05	8.9	7.9	24.00	24.00	0.0%	(25.5)%	-15.3%	Consumer confidence, retailer bankruptcies
FRT	Federal Realty	Sell	Shopping Centers	45.61	2.9%	42.48	3.67	3.48	12.4	10.4	39.00	36.00	-7.7%	(10.4)%	-18.2%	Consumer confidence, retailer bankruptcies
KRG	Kite Realty Group	Sell	Shopping Centers	3.56	11.5%	2.92	0.83	0.75	4.3	3.3	3.00	2.50	-16.7%	(14.4)%	-18.3%	Consumer confidence, retailer bankruptcies, development risks
DDR	Developers Diversified	Neutral	Shopping Centers	2.63	2.9%	15.40	2.23	1.87	1.2	1.6	7.00	2.00	-71.4%	(87.0)%	-21.1%	Consumer confidence, retailer bankruptcies
Average			**Shopping Centers**		5.2%		2.44		6.2X	5.5X			**(24.3)%**	(29.0)%	**(13.8)%**	
PSA	Public Storage Inc.	Buy	Self-Storage	55.07	2.0%	66.86	4.98	4.78	11.1	13.4	78.00	64.00	-17.9%	(4.3)%	18.2%	US & European economic weakness, slowing home sales
Average			**Self-Storage**		2.0%				11.1X	13.4X			**(17.9)%**	(4.3)%	**18.2%**	
GGP	General Growth	Not Rated	Regional Malls	0.46	NA	NA	2.73	2.49	0.2	NA	NR	NA	NA	NA	NA	Consumer confidence, retailer bankruptcies, weaker home sales
SPG	Simon Property Group	Buy	Regional Malls	36.22	0.5%	44.72	6.38	6.01	5.7	7.2	45.00	43.00	-4.4%	(3.8)%	19.2%	Consumer confidence, retailer bankruptcies, international exposure
TCO	Taubman Centers	Buy	Regional Malls	17.46	4.8%	22.00	2.69	2.55	6.5	7.0	22.00	18.00	-18.2%	(18.2)%	7.8%	Consumer confidence, retailer bankruptcies, development risks
MAC	The Macerich Company	Neutral	Regional Malls	11.20	5.7%	12.20	4.16	3.63	2.7	2.8	13.00	10.00	-23.1%	(18.0)%	-5.0%	Consumer confidence; retailer bankruptcies
CBL	CBL & Associates	Sell	Regional Malls	3.65	8.2%	3.52	2.75	2.32	1.3	1.3	3.00	3.00	0.0%	(14.7)%	-9.6%	Consumer confidence, retailer bankruptcies
Average			**Regional Malls**		4.8%				4.0X	4.6X			**(11.4)%**	-13.7%	**3.1%**	
BXP	Boston Properties	Buy	Office Properties	38.88	1.4%	47.01	4.77	4.67	8.2	9.2	52.00	43.00	-17.3%	(8.5)%	12.0%	US economic weakness, job losses, development risks
BPO	Brookfield Properties Inc.	Neutral	Office Properties	5.41	5.3%	5.45	1.37	1.30	3.9	3.8	6.00	5.00	-16.7%	(8.3)%	-2.3%	Slowing Calgary residential sales, US economic weakness, job losses
SLG	SL Green Realty Corp	Neutral	Office Properties	13.33	2.3%	12.86	4.98	4.44	2.7	2.7	16.00	12.00	-25.0%	(6.7)%	-7.7%	US economic weakness, job losses, concentration risk (NYC terrorism)
CLI	Mack-Cali Realty Corp	Neutral	Office Properties	19.23	2.7%	20.02	3.20	2.82	6.0	6.0	19.00	17.00	-10.5%	(15.1)%	-8.9%	US economic weakness, job losses
Average			**Office Properties**		2.9%				5.2X	5.4X			**(17.4)%**	-9.6%	**(1.7)%**	
AMB	AMB Property Corp	Sell	Industrial Properties	13.51	1.7%	16.84	1.90	1.70	7.1	7.7	15.00	13.00	-13.3%	(22.8)%	-2.1%	Global economic weakness, drop in international trade volumes
PLD	ProLogis	Sell	Industrial Properties	6.93	5.1%	7.14	1.68	1.11	4.1	5.4	6.50	6.00	NM	(16.0)%	-8.4%	Political risk (China), drop in international trade volumes, development risk
Average			**Industrial Properties**		3.4%				5.6X	6.5X			**-13.3%**	-19.4%	**-5.2%**	
HCP	HCP, Inc.	Buy	Health Care	20.16	4.5%	22.11	2.13	2.09	9.5	10.1	24.00	21.00	-12.5%	(5.0)%	8.7%	Acquisition risks, financing risk (Sourcing capital for funds)
Average			**Health Care**		4.5%				9.5X	10.1X			**(12.5)%**	-5.0%	**8.7%**	
SKT	Tanger Factory Outlet Centers	Buy	Factory Outlet Centers	29.49	2.6%	30.85	2.72	2.85	10.8	11.2	32.00	32.00	0.0%	3.7%	11.1%	Consumer confidence, retailer bankruptcies
Average			**Factory Outlet Centers**		2.6%				10.8X	11.2X			**0.0%**	3.7%	**11.1%**	
FCEA	Forest City Enterprises	Neutral	Diversified Properties	5.48	0.0%	14.25	2.00	1.86	2.7	3.2	6.00	6.00	0.0%	(57.9)%	9.5%	US economic weakness, job losses, development risk, weaker home sales
LRY	Liberty Property Trust	Neutral	Diversified Properties	19.16	5.0%	19.88	2.95	2.75	6.5	6.5	17.00	18.00	5.9%	(9.5)%	-1.1%	US economic weakness, job losses
VNO	Vornado Realty	Neutral	Diversified Properties	40.54	1.8%	44.42	5.25	5.15	7.7	7.4	50.00	38.00	-24.0%	(14.4)%	-4.4%	US economic weakness, job losses, consumer confidence
CUZ	Cousins Properties Inc.	Sell	Diversified Properties	8.47	5.9%	6.94	0.85	0.90	10.0	6.7	7.00	6.00	-14.3%	(13.6)%	-23.3%	US economic weakness, job losses, development risk, weaker home sales
DRE	Duke Realty Corp	Sell	Diversified Properties	7.48	6.7%	4.99	1.75	1.60	4.3	2.5	7.00	4.00	-42.9%	(19.9)%	-39.8%	US economic weakness, development risks
Average			**Diversified Properties**		3.9%				6.2X	5.3X			**(15.1)%**	(23.1)%	**(11.8)%**	
AVB	AvalonBay Communities	Neutral	Apartments	44.03	3.2%	52.28	4.39	3.86	10.0	11.4	46.00	44.00	-4.3%	(15.8)%	3.2%	US economic weakness, job losses, development risks
AIV	Apt. Inv. & Management	Neutral	Apartments	5.58	12.5%	4.95	1.61	1.48	3.5	3.4	7.00	5.00	-28.6%	1.0%	2.2%	US economic weakness, job losses, exposure to low barrier markets
CPT	Camden Property Trust	Neutral	Apartments	20.93	6.7%	20.86	3.04	2.70	6.9	7.0	20.00	19.00	-5.0%	(8.9)%	-2.5%	US economic weakness, job losses, development risk
BRE	BRE Properties Inc.	Sell	Apartments	20.58	5.5%	19.60	2.32	2.08	8.9	8.7	19.00	18.00	-5.3%	(8.1)%	-7.1%	US economic weakness, job losses, dividend coverage
EQR	Equity Residential	Neutral	Apartments	20.47	4.7%	19.89	2.02	1.85	10.2	9.2	18.00	17.00	-5.6%	(14.5)%	-12.2%	US economic weakness, job losses
ESS	Essex Property Trust	Sell	Apartments	55.17	2.6%	54.00	5.30	4.70	10.4	9.8	49.00	46.00	-6.1%	(14.8)%	-14.0%	US economic weakness, job losses, development risk
PPS	Post Properties Inc.	Sell	Apartments	11.46	3.5%	11.44	1.00	0.87	11.4	10.3	11.00	9.00	-18.2%	(21.3)%	-18.0%	US economic weakness, job losses, slowing condo sales, dividend coverage
UDR	UDR, Inc.	Sell	Apartments	9.24	6.1%	7.89	1.22	1.04	7.6	6.8	8.00	7.00	-12.5%	(11.3)%	-18.2%	US economic weakness, job losses, exposure to low-barrier markets
Average			**Apartments**		5.6%				8.6X	8.3X			**(10.7)%**	(11.7)%	**(8.3)%**	
Ticker	**Company**	**Current rating**	**Sector**	**Share Price**	**6 month dividend yield**	**Forward NAV**	**2009E FFO**	**2010E FFO**	**Current Price / 2009 FFO**	**Target Price / 2009FFO**	**Old Target Price**	**New Target Price**	**Target Price% change**	**Target Price Premium / (Discount) to NAV**	**Total return potential**	**Risk factors to price targets[1]**
BKD	Brookdale Senior Living	Neutral	Senior Living	4.32	0.0%	NA	(2.00)	(2.23)	NM	NM	7.00	7.00	0.0%	NA	NM	Oversupply in the market and operational, acquisition and integration risks
AXB	Alexander & Baldwin	Neutral	RE Developers	19.76	3.9%	57.50	2.00	2.45	9.9	7.7	19.00	19.00	0.0%	(67.0)%	0.1%	US economic weakness, job losses
CBG	CB Richard Ellis	Neutral	RE Services	3.33	0.0%	NA	0.65	0.75	5.1	6.0	4.50	3.00	-33.3%	NA	-9.9%	Global economic weakness, competition for intellectual capital
Average					1.3%				7.5X	5.9X			**(11.1)%**	(67.0)%	**(4.9)%**	
Coverage Universe Average ex-brokers					**4.3%**				**6.7X**	**6.7X**			**(14.1)%**	**(17.8)%**	**(5.3)%**	

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 (negative 5% - positive 5%) discounts / premiums to NAVs for Buy rated names, (flat - negative 20%) discounts for Neutral rated names, and (negative 10% - negative 30%) discounts for our Sell rated
(4) All price targets have a 6-month time frame

For important disclosures, please go to http://www.gs.com/research/hedge.html.

Source: Goldman Sachs Research estimates.

Adding Sell-rated DRE to the Americas Conviction List based on high refinancing and earnings risks

We add suburban office/industrial REIT Duke Realty (DRE; Sell) to the Americas Conviction List, as we continue to have concerns on suburban office/industrial owners and developers. In fact, we recommend that investors instead focus on better-positioned downtown office landlords (BXP; Buy) or suburban office/industrial REITs with lower leverage and better balance sheets (CLI, LRY; both Neutral).

We add Sell-rated suburban office/industrial REIT Duke Realty to the Americas Conviction List, given our view that significant refinancing challenges remain and that demand should deteriorate sharply over the next 12-24 months. Based on our new six-month price target of $4 (from $7), we now see negative 40% total return including DRE's 6.7% dividend yield. Key reasons for our call include the following.

1. **DRE's refinancing and liquidity risks remain our primary concern**—As we have highlighted in previous research, we believe DRE's long-term liquidity challenges represent a risk to earnings and ultimately valuation. In fact, we believe a 25% discount to our $5 NAV estimate is justified, given the outsized level of construction spending and refinancing needs relative to the ability to sell assets, secure new mortgage debt, or form new joint ventures in the current environment. Specifically we expect that DRE will rely heavily on its credit facility ($775 mn available) to fund nearly $1 bn of committed construction costs and debt maturities (mostly unsecured) through 2010 (Exhibit 12). While we believe DRE can fund these obligations in the near term, we note the expiration of its credit facility in January 2011 (assuming extension) poses a significant risk if the economic and credit downturn persists. We are especially concerned as DRE's current debt to undepreciated assets ratio is at 51% vs. a limit of 60% set in the company's covenants.

2. **Past cycles indicate that deteriorating rents and occupancy have just begun**—We expect DRE's suburban office/industrial markets to weaken sharply through 2009 and 2010. To date, most job losses have been focused in coastal markets via professional and financial services related layoffs, but, looking ahead, we believe the lagged effect of a weaker US consumer will negatively affect Main Street as well. We note that, in past cycles, DRE's suburban office and industrial occupancy rates fell 500 bp to 87% over a two-year downturn (2001-2003). In the current cycle, DRE's vacancy has increased only 150 bp since 1Q08, and we believe higher leasing risk exists over 2009/2010, as the company has expiring leases representing 36 mn square feet and 23% of total rental income (Exhibit 13). As such, we forecast a 300 bp decline in occupancy across DRE's portfolio in 2009 resulting in 1%-2% decline in SS NOI.

3. **Poor timing for development and market expansion**—DRE's strategy to increase development starts and enter new markets over the past few years has exposed the company to higher leasing risk in the current difficult economic and credit environment (Exhibit 13). Specifically we believe DRE's $1.4 bn development pipeline should continue to drag on FFO and FAD, as we expect new lease signings to become increasingly difficult (and expensive) to complete. Just 46% of DRE's development pipeline is currently leased, which means initial yields of just 3-4% vs. 8-9% originally underwritten could be dilutive. In addition, DRE's recent expansion into Sun Belt markets including Southern/Central Florida, Houston, and Phoenix could also drive declines in NOI, given the overbuilt single-family home inventories and the resulting drag on those local fundamentals.

4. **Valuation still expensive relative to DRE's risks**—At just 4.3X our 2009 FFO per share estimate of $1.75, DRE's valuation appears discounted vs. the REIT average of 6.7X. That being said, we believe shares of DRE should trade at a wide discount to NAV and instead represent a value trap, given the risks we have highlighted above. In fact, we believe that DRE's current P/FFO multiple may seem artificially low if the company needs to aggressively sell assets (reduce core earnings) or issue equity (dilute shareholders) to address its refinancing, leasing, and development risks.

Exhibit 12: Duke Realty—sources and uses through January 2011E
as of 4Q08

Sources	2009E	2010E	2011E
4Q08 asset sales	$ 201		
Annual dividend saving	150		
4Q08 secured financings			
Credit line availability	775		
Total sources	**$ 1,126**		

The gap between DRE's long term obligations and current liquidity remains wide.

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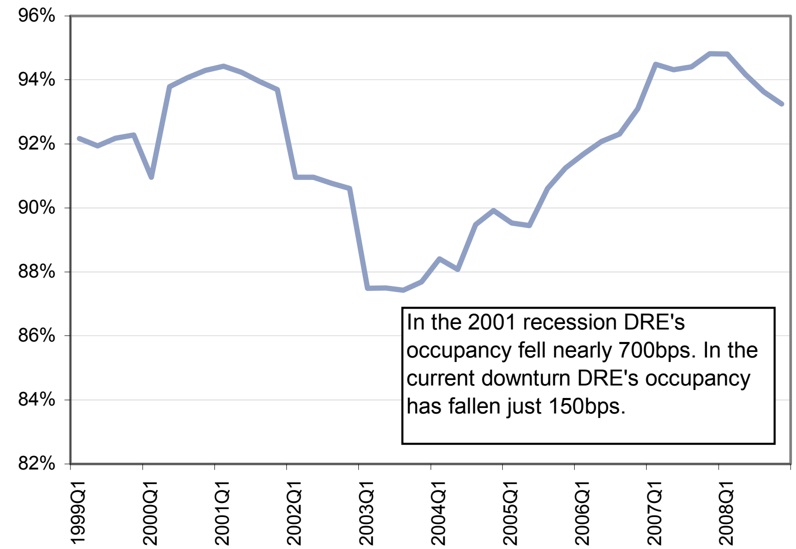
Uses	2009E	2010E	2011E
Ongoing development	$ 207	$ 23	$ 44
Unstabilized project costs	52	52	25
Debt maturities	273	332	1,067
Credit line *	-	-	1,300
Total uses	**$ 532**	**$ 407**	**$ 2,437**

$ 3,376

Note: This analysis assumes no asset sales, no new mortgage financing, and assumes all obligations are funded on DRE's $1.3bn credit facility.
** DRE's credit facility can be extended until Jan-09 assuming coventant compliance*

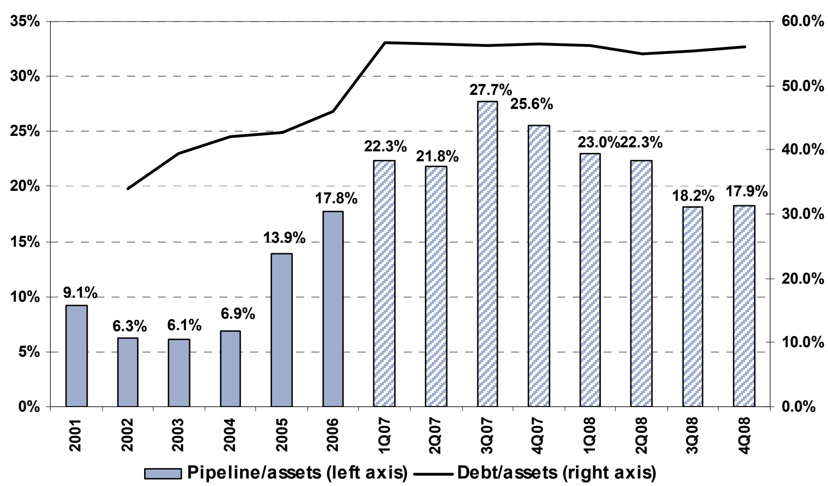
Source: Company data, Goldman Sachs Research estimates.

Exhibit 13: Duke Realty—2009/2010 lease expirations and market distribution
as of 4Q08



Source: Company data, Goldman Sachs Research estimates.

Exhibit 14: Duke Realty—historical development growth and leverage
as of 4Q08



Source: Company data, Goldman Sachs Research estimates.

Exhibit 15: Duke Realty—current development pipeline snapshot
as of 4Q08

	Sq Ft (000)	Leased (%)	Costs ($mn)	Est. stabilized return
Held for rental				
Q1 - 2009	92	100%	$16.8	10.42%
Q2 - 2009	523	0%	23.1	8.08%
Q3 - 2009	428	57%	96.2	8.26%
Thereafter	401	52%	113.7	8.24%
	1,445	**38%**	**249.8**	**8.38%**
Build for sale				
Q1 - 2009	112	90%	$18.2	8.72%
Q2 - 2009	655	18%	38.9	8.86%
Q3 - 2009	951	30%	261.6	8.28%
Thereafter	858	95%	160.7	7.98%
	2,576	**51%**	**479.4**	**8.24%**
Total	**4,021**	**46%**	**729.2**	**8.29%**

Low occupancy in DRE's developments exposes the company to higher leasing risk in a very challenging market. We believe DRE's stabilized yield forecast is likely too optimistic.

Square feet and project costs included at 100% for all JV's, in which the company has 50% ownership

Source: Company data, Goldman Sachs Research estimates.

FRT: We remain at Conviction Sell based on fundamental concerns and valuation premium

We maintain our Sell rating and on the Americas Conviction List for shares of shopping center REIT Federal Realty (FRT) based on concerns over near-term operating fundamentals, rising debt cost and what we view as a current unattractive valuation. FRT owns high-quality assets in in-fills markets in markets such as Washington DC, Baltimore, Philadelphia, and Boston with a large grocery anchor focus; however, with over 50% of in-line space expiring in the next four years and the stock trading at an 80% premium to the REIT universe, we believe the current relative valuation is unattractive in light of risks.

NOI growth to slow further; reducing our estimates—Federal has been a standout over time among shopping center REITs due its in-fill portfolio located in favorable markets from a demographics perspective (population density and high average household incomes); however, with the slowdown in the US economy affecting shoppers at all levels (wealth effect), we see risks even for centers of above average quality. FRT's moderation in fourth quarter earnings results supports this, in our view, and affirms our belief that the slowdown in core growth could be prolonged if consumer sentiment remains weak over a multi-year period. We therefore reduce our 2009/2010 FFO per share estimates to $3.67/$3.48 (from $3.85/$3.93) and also revise our PT to $36 (from $39) based on a 15% discount to our lowered forward NAV estimate That being said, we note that FRT's portfolio should still relatively outperform the peer group average based on long-term leases, positive rent spreads and tenant quality. In fact, we forecast same store could fall modestly in 2009 and 2010, down roughly 2-3% over this time. (We provide more details on FRT's 4Q results in the section below.)

Rising cap rates should affect even companies with in-fill assets—We regard FRT's portfolio as one of the better positioned for the current recession, with heavy exposure to the suburbs of Washington D.C., Boston, Philadelphia, Baltimore, and Chicago. The company also has a large grocery-anchor focus which we favor in the current environment (necessity-based shopping versus discretionary); however, as we have seen across all major property types, cap rates continue to increase from record lows; in the case of shopping centers, cap rates had fallen to the 6.0% to 6.5% range at the peak of the market and will likely increase substantially. We continue to think cap rates will increase 300 to 500 basis points from the record lows as a result of higher weighted-average cost of capital (driven by higher debt costs and higher equity requirements).

Valuation is simply too rich—While we view FRT as a solid owner and operator of shopping centers, we cannot look past the current valuation premium versus peers. In fact, the stock trades at 12.4X based on our 2009 estimate, nearly twice the level of peer KIM. Based on current pricing, the stock trades in line with our forward NAV estimate; we believe the risks of slowing core growth should warrant a discount. Alternatively with the stock trading at an implied cap rate of 8.4%, we still see downside risk, given our cap rate outlook. Finally, with a six-month forward dividend yield of roughly 3%, we see limited yield support with the average REIT dividend yield close to 4%.

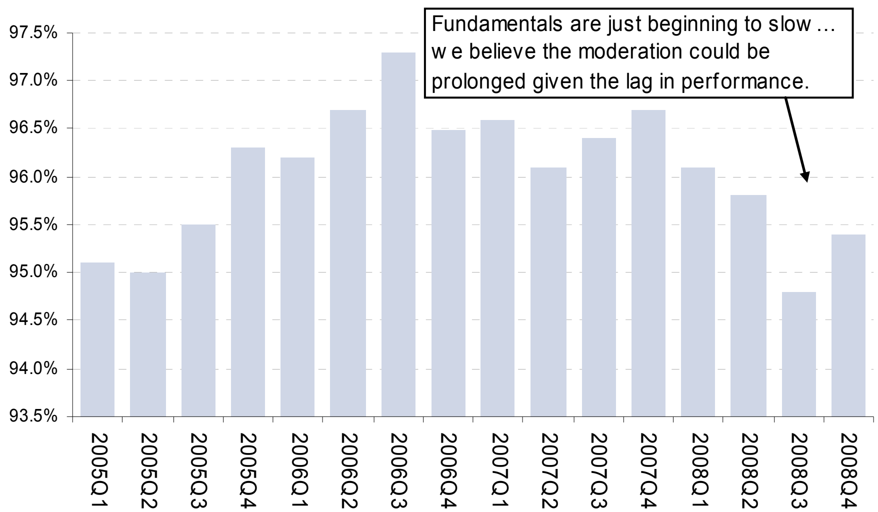
Moderation in 4Q operating fundamentals supports our Sell rating on FRT shares

Federal Realty Trust reported 4Q2008 FFO per share of $0.99 ($1.02 excluding $1.6 mn in litigation related charges) versus our $0.98 estimate. In general, fundamentals appeared to moderate further across the portfolio as reflected in SS NOI growth of 1.7% (versus a roughly 5.0%, longer-term average) and a decline in the portfolio leased rate 95.4% (160 bp yoy). Key highlights from the quarter include the following.

(1) Core NOI growth moderated to 1.7% based on a 95.4% leased rate (down 160 bp yoy) and 13.0% leasing spreads. (2) FRT faces the maturity of its $200 mn term loan (at LIBOR plus 57.5 bp) in November of this year. The company is in talks toward securing a $250 mn term loan (which could close as early as 2Q), the proceeds of which would go largely toward addressing the November maturity. Further, FRT's portfolio continues to be largely unencumbered, and the Trust currently has access to more than $3 bn in assets which it could place mortgage debt on. (3) FRT continues to make progress on its $188 mn redevelopment pipeline (expected yields in the 9-11% range) and has not significantly altered the timing or volume of targeted stabilizations. (4) The company provided assumptions supporting FY2009 FFO/share of $3.80-$3.92 including roughly flat SS NOI growth and a further decline in occupancy of 100-150 bp. Also included in FY results is higher interest expense associated with the early retirement of 2009 debt of $0.13-$0.15 per share. As mentioned above, we are lowering our 2009/2010 FFO estimates to $3.67/$3.48 and also revise our NAV-derived, six-month price target to $36. Our new price target, along with the company's 2.9% dividend yield, now implies 18% downside potential.

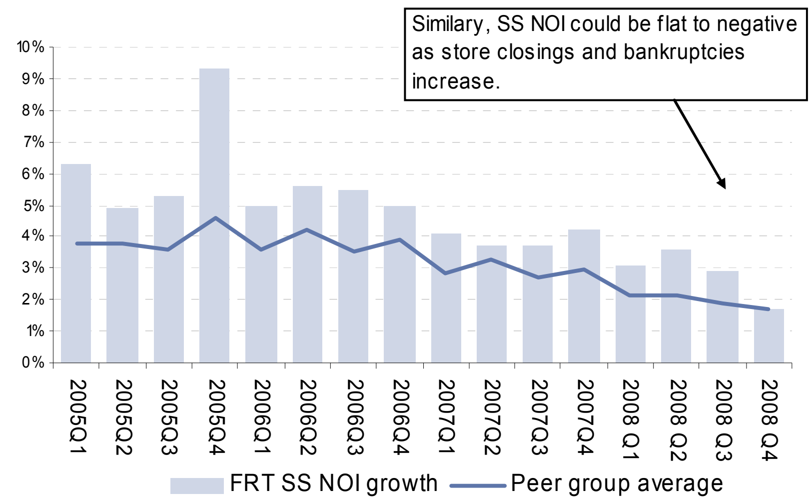
Risks to the upside include fewer store closings and tenant bankruptcies, and a sooner-than-expected recovery in credit market conditions.

Exhibit 16: Historical portfolio occupancy
As of 4Q2008



Source: SNL, Company data.

Exhibit 17: Historical SS NOI growth
As of 4Q2008



Source: SNL, Company data.

Removing Sell-rated REG from the Americas Conviction List, as stock now approaching our six-month price target

We remove shopping center owner and developer Regency Centers (REG; Sell) from the Americas Conviction List, as the recent sell-off in the shares has reduced the downside potential to our $24, six-month price target. Since we added REG shares to the Conviction List on January 15, the shares have declined 19.8% versus an 18% decline for the RMZ REIT Index and an 8.7% decline for the S&P 500 Index. Also, REG shares have decreased 52.3% over the past 12 months versus respective declines of 42.2% for the S&P 500 and 59.6% for the RMZ. That being said, we continue to have longer-term concerns on Retail REITs in light of the recent abysmal comp sales posted by most retailers (department stores as well as specialty), likely pressure on rents for most REITs in 2009/2010, and the expected increase in store closing/bankruptcies as the consumer continues to rein in spending, especially on luxury and aspirations categories. In line with our more cautious view on retail REITs in 2009, we remain Sell rated on REG shares based on our concerns about decelerating fundamentals particularly in the company's California and Florida portfolios, near-term debt maturities, and development risk. We provide further details behind our Sell rating below.

Fundamentals to remain weak for longer than we had originally anticipated. Our belief that fundamentals deteriorate significantly during this downturn has been a strong driver of our Sell rating on REG shares; however, we are only now beginning to see the moderation we had anticipated several quarters ago. Our revised views therefore anticipate NOI growth remaining weak for longer than we had originally expected, given the lag in operational performance amid a steadily worsening retail environment. Further, Regency's exposure to weaker housing markets in Florida, California, and Georgia supports our view of meaningful deterioration in leasing activity and asking rents amid the current US recession.

Higher relative debt maturities; exposure to co-investment platforms raises risk profile significantly. First, Regency ranks less favorably than peers in our analysis of companies with debt maturities over the next several years. Specifically, the company has roughly $1.05 bn of consolidated debt coming due between now and 2012, as well as total unconsolidated debt maturities of roughly $2.0 bn (around $440 mn at pro-rata share) over the same time frame. We note the refinancing risk REG faces as debt capital is marked to rates substantially higher versus in-place costs. Finally, we have highlighted our favored view of companies with transparent and recurring income streams for some time now. With the potential for additional write-downs and abandoned project costs curbing investor appetite for higher risk-return forms of investment, we will continue to favor companies with strong core earnings capacity and less dependence on external growth.

Higher relative development exposure. Along the lines of our previous point, we highlight Regency's large development pipeline with existing projects totaling $1.1 bn (net of partner participation) as a significant risk to our view. In fact, the company began construction on two additional projects in Greeley, Colorado, and Los Angeles in the quarter, bringing total projects under development to 48. With development yields of 8%- 9% likely to fall short of cap rates on assets in the 10%-12% range, or higher, over time, we expect the returns on development to be disappointing compared to prior returns from this activity.

Risks to the upside include fewer store closings and tenant bankruptcies, and a pick up in transactional activity from current levels.

Exhibit 18: Summary of REG share price performance since 1/15/2009
as of 2/19/2009

Company	Ticker	Primary analyst	Price currency	Price as of 2/20/2009	Price as of 1/15/2009	Price performance since 1/15/2009	3 month price performance	6 month price performance	12 month price performance
Americas REITS Peer Group									
Regency Centers Corporation	**REG**	**Jonathan Habermann**	**$**	**29.03**	**37.08**	**(19.8%)**	**(1.4%)**	**(53.8%)**	**(52.3%)**
Alexander & Baldwin, Inc.	AXB	Jonathan Habermann	$	19.76	22.83	(12.2%)	(19.2%)	(56.9%)	(57.4%)
AMB Property Corp.	AMB	Jonathan Habermann	$	13.51	18.51	(27.0%)	13.5%	(72.2%)	(74.2%)
Apartment Investment & Manageme	AIV	Jonathan Habermann	$	5.58	9.97	(44.0%)	(42.6%)	(85.7%)	(85.7%)
AvalonBay Communities Inc.	AVB	Jonathan Habermann	$	44.03	53.78	(18.1%)	(9.8%)	(57.8%)	(56.3%)
Boston Properties, Inc.	BXP	Jonathan Habermann	$	38.88	46.31	(16.0%)	(15.4%)	(62.2%)	(56.8%)
BRE Properties, Inc.	BRE	Jonathan Habermann	$	20.58	26.48	(22.3%)	(8.1%)	(61.4%)	(55.7%)
Brookdale Senior Living Inc.	BKD	Jonathan Habermann	$	4.32	5.88	(26.5%)	36.2%	(76.7%)	(79.6%)
Brookfield Properties Corp.	BPO	Jonathan Habermann	$	5.41	5.74	(5.7%)	(16.3%)	(73.2%)	(71.7%)
Camden Property Trust	CPT	Jonathan Habermann	$	20.93	27.11	(22.8%)	(9.1%)	(59.1%)	(57.5%)
CB Richard Ellis Group Inc.	CBG	Jonathan Habermann	$	3.33	4.01	(17.0%)	(19.1%)	(76.2%)	(84.0%)
CBL & Associates Properties	CBL	Jonathan Habermann	$	3.65	5.46	(33.2%)	(5.6%)	(84.4%)	(85.6%)
Cousins Properties Incorporated	CUZ	Jonathan Habermann	$	8.47	11.43	(23.7%)	(23.4%)	(64.6%)	(68.4%)
Developers Diversified Realty	DDR	Jonathan Habermann	$	2.63	6.21	(57.6%)	(37.3%)	(90.6%)	(92.3%)
Duke Realty Corp.	DRE	Jonathan Habermann	$	7.48	9.43	(18.5%)	13.3%	(71.2%)	(70.0%)
Equity Residential	EQR	Jonathan Habermann	$	20.47	26.22	(21.9%)	(18.9%)	(55.8%)	(50.8%)
Essex Property Trust, Inc.	ESS	Jonathan Habermann	$	55.17	67.95	(18.8%)	(20.0%)	(56.0%)	(51.3%)
Federal Realty Invmt Trust	FRT	Jonathan Habermann	$	45.61	50.52	(9.7%)	(7.0%)	(41.6%)	(41.4%)
Forest City Enterprises	FCE__A	Jonathan Habermann	$	5.48	7.43	(26.2%)	21.6%	(81.5%)	(85.5%)
General Growth Properties	GGP	Jonathan Habermann	$	0.46	1.18	(61.0%)	15.0%	(98.0%)	(98.7%)
HCP, Inc.	HCP	Jonathan Habermann	$	20.16	22.70	(9.4%)	3.1%	(47.3%)	(37.2%)
Kimco Realty Corp.	KIM	Jonathan Habermann	$	10.01	16.06	(37.7%)	(28.0%)	(73.5%)	(72.3%)
Kite Realty Group Trust	KRG	Jonathan Habermann	$	3.56	5.62	(36.7%)	20.6%	(70.5%)	(73.3%)
Liberty Property Trust	LRY	Jonathan Habermann	$	19.16	18.99	0.9%	16.7%	(50.6%)	(37.1%)
Mack Cali Realty Corporation	CLI	Jonathan Habermann	$	19.23	21.38	(10.1%)	8.8%	(54.0%)	(48.5%)
Post Properties Inc.	PPS	Jonathan Habermann	$	11.46	14.31	(19.9%)	(10.6%)	(66.5%)	(75.7%)
ProLogis	PLD	Jonathan Habermann	$	6.93	11.83	(39.1%)	94.5%	(85.1%)	(87.6%)
Public Storage, Inc.	PSA	Jonathan Habermann	$	55.07	64.59	(14.7%)	(10.3%)	(39.3%)	(29.3%)
Simon Property Group	SPG	Jonathan Habermann	$	36.22	44.60	(17.0%)	(16.0%)	(63.0%)	(58.6%)
SL Green Realty Corp	SLG	Jonathan Habermann	$	13.33	16.11	(17.3%)	(29.4%)	(85.2%)	(85.6%)
Tanger Factory Outlet Centers, Inc.	SKT	Jonathan Habermann	$	29.49	30.05	(0.7%)	3.7%	(27.5%)	(21.4%)
Taubman Centers, Inc.	TCO	Jonathan Habermann	$	17.46	21.63	(19.3%)	(24.9%)	(66.8%)	(67.3%)
The Macerich Co.	MAC	Jonathan Habermann	$	11.20	15.24	(21.1%)	(8.8%)	(81.4%)	(83.2%)
UDR, Inc.	UDR	Jonathan Habermann	$	9.24	11.80	(21.7%)	(25.4%)	(65.7%)	(61.6%)
Vornado Realty Trust	VNO	Jonathan Habermann	$	40.54	51.25	(19.4%)	(20.6%)	(61.3%)	(56.3%)
Weingarten Realty Investors	WRI	Jonathan Habermann	$	12.76	16.55	(22.9%)	(6.8%)	(61.8%)	(61.9%)
S&P 500	SPX		$	770.05	843.74	(8.7%)	(3.4%)	(38.5%)	(42.2%)

Note: Prices as of most recent available close which could vary from the price date indicated above
This table shows movement in absolute share price and not total shareholder return. Results presented should not and cannot be viewed as an indicator of future performance.

Source: FactSet, Qube.

Removing LRY from the Americas Sell List; upgrading to Neutral

We remove suburban office/industrial REIT Liberty Property Trust (LRY; Neutral) from the Americas Sell List and upgrade the stock to Neutral. Since we added LRY to the America's Sell list on 11/27/2007 the stock decreased 29.0% versus a 46.1% decrease for the S&P 500 and a 59.5% decrease for the RMZ REIT index. Also, LRY shares have decreased 35.2% over the past 12 months versus respective declines of 41.5% for the S&P 500 and 58.8% for the RMZ. While we continue to have concerns on suburban office/industrial owners and developers, we note that LRY has done a solid job of reducing development starts and overall exposure to spec development. The company also has a better-positioned balance sheet that its direct peers in the segment (DRE, AMB, and PLD all remain Sell rated).

We upgrade LRY to Neutral from Sell based on our view that the company's development and liquidity risk has been greatly mitigated and that current valuation is appropriate, given our lowered earnings expectations. In fact, we raise our six-month target price to $18 from $17 based on a lower 10% discount (from 11%) to our unchanged forward NAV estimate of $20. Specific reasons for our upgrade include the following.

1. **Capital availability for LRY's smaller assets is a positive**—In 4Q08, LRY displayed how credit was available if asset or loan amounts were small enough. In fact, LRY secured $300 mn of new mortgage financing and sold $75 mn of assets in 4Q08, which was a positive surprise, in our view. As a result, we believe that higher liquidity for assets smaller than $50 mn provides LRY with better capital flexibility (Exhibit 18) than other REITs and that LRY therefore deserves a lower discount to NAV.
2. **LRY's development exposure has been tempered**—We believe LRY did a better job of limiting new development starts throughout 2008 and as a result reduced risk better than other suburban office/industrial developers such as Duke Realty (DRE; Sell). Specifically since the delivery of the $116 mn Comcast Center office tower in downtown Philadelphia in 2Q08, LRY's overall development pipeline as a percentage of assets has fallen to 12% from 14% (Exhibit 21). It is important to note that we still expect LRY's current development pipeline to be a drag on earnings, given the challenging leasing environment, but acknowledge that the exposure has become more manageable.
3. **Downside risk still exists for LRY's suburban market distribution**—As we highlighted in our 4Q08 earnings note, we remain cautious that rents and occupancy across LRY's suburban markets could rapidly deteriorate in 2009 (Exhibit 20). REIT fundamentals tend to lag economic trends by as much as 18-24 months, and in our 4Q08 note we lowered our 2009/2010 FFO per share estimates to $2.95/$2.80 based on our view that LRY's 1.0-2.5% SS NOI expectation in 2009 remains too high, especially given 9% and 12%, respectively, of LRY's total leases expire over the course of 2009/2010 (Exhibit 23).

Exhibit 19: Summary of LRY share price performance since 11/27/2007
as of 2/20/2009

Company	Ticker	Primary analyst	Price currency	Price as of 2/20/2009	Price as of 11/27/07	Price performance since 11/27/07	3 month price performance	6 month price performance	12 month price performance
Americas REITS Peer Group									
Liberty Property Trust	**LRY**	**Jonathan Habermann**	**$**	**19.16**	**29.90**	**(29.0%)**	**16.7%**	**(50.6%)**	**(35.2%)**
Alexander & Baldwin, Inc.	AXB	Jonathan Habermann	$	19.76	48.08	**(57.1%)**	**(19.2%)**	**(56.9%)**	**(54.6%)**
AMB Property Corp.	AMB	Jonathan Habermann	$	13.51	56.93	**(75.3%)**	**13.5%**	**(72.2%)**	**(74.1%)**
Apartment Investment & Manageme	AIV	Jonathan Habermann	$	5.58	36.57	**(75.7%)**	**(42.6%)**	**(85.7%)**	**(85.5%)**
AvalonBay Communities Inc.	AVB	Jonathan Habermann	$	44.03	94.83	**(49.5%)**	**(9.8%)**	**(57.8%)**	**(54.5%)**
Boston Properties, Inc.	BXP	Jonathan Habermann	$	38.88	91.03	**(52.6%)**	**(15.4%)**	**(62.2%)**	**(56.8%)**
BRE Properties, Inc.	BRE	Jonathan Habermann	$	20.58	42.69	**(48.4%)**	**(8.1%)**	**(61.4%)**	**(54.5%)**
Brookdale Senior Living Inc.	BKD	Jonathan Habermann	$	4.32	28.66	**(84.1%)**	**36.2%**	**(76.7%)**	**(78.0%)**
Brookfield Properties Corp.	BPO	Jonathan Habermann	$	5.41	19.98	**(71.6%)**	**(16.3%)**	**(73.2%)**	**(70.5%)**
Camden Property Trust	CPT	Jonathan Habermann	$	20.93	48.86	**(53.3%)**	**(9.1%)**	**(59.1%)**	**(55.1%)**
CB Richard Ellis Group Inc.	CBG	Jonathan Habermann	$	3.33	21.12	**(84.2%)**	**(19.1%)**	**(76.2%)**	**(82.3%)**
CBL & Associates Properties	CBL	Jonathan Habermann	$	3.65	27.74	**(84.9%)**	**(5.6%)**	**(84.4%)**	**(85.0%)**
Cousins Properties Incorporated	CUZ	Jonathan Habermann	$	8.47	22.74	**(58.3%)**	**(23.4%)**	**(64.6%)**	**(69.0%)**
Developers Diversified Realty	DDR	Jonathan Habermann	$	2.63	41.32	**(93.1%)**	**(37.3%)**	**(90.6%)**	**(92.7%)**
Duke Realty Corp.	DRE	Jonathan Habermann	$	7.48	25.42	**(66.4%)**	**13.3%**	**(71.2%)**	**(68.5%)**
Equity Residential	EQR	Jonathan Habermann	$	20.47	34.74	**(37.1%)**	**(18.9%)**	**(55.8%)**	**(50.2%)**
Essex Property Trust, Inc.	ESS	Jonathan Habermann	$	55.17	100.25	**(42.1%)**	**(20.0%)**	**(56.0%)**	**(50.7%)**
Federal Realty Invmt Trust	FRT	Jonathan Habermann	$	45.61	81.62	**(41.7%)**	**(7.0%)**	**(41.6%)**	**(40.0%)**
Forest City Enterprises	FCE__A	Jonathan Habermann	$	5.48	47.60	**(88.2%)**	**21.6%**	**(81.5%)**	**(85.9%)**
General Growth Properties	GGP	Jonathan Habermann	$	0.46	44.12	**(98.9%)**	**15.0%**	**(98.0%)**	**(98.6%)**
HCP, Inc.	HCP	Jonathan Habermann	$	20.16	31.40	**(30.5%)**	**3.1%**	**(47.3%)**	**(35.8%)**
Kimco Realty Corp.	KIM	Jonathan Habermann	$	10.01	36.29	**(70.4%)**	**(28.0%)**	**(73.5%)**	**(72.1%)**
Kite Realty Group Trust	KRG	Jonathan Habermann	$	3.56	15.70	**(74.9%)**	**20.6%**	**(70.5%)**	**(72.9%)**
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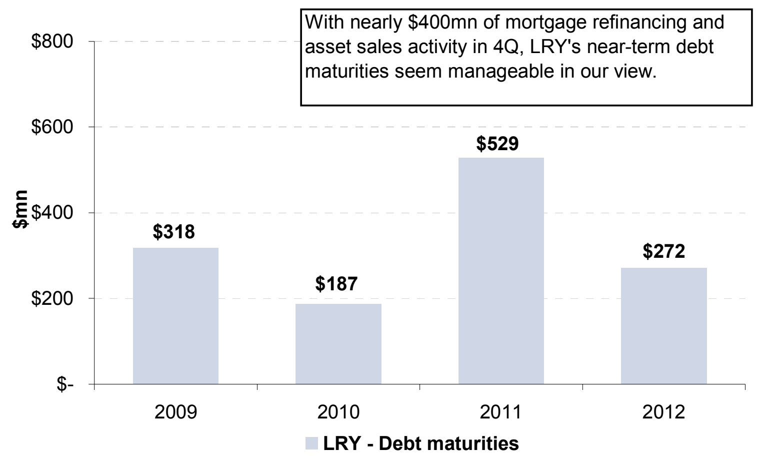
Post Properties Inc.	PPS	Jonathan Habermann	$	11.46	35.70	**(65.7%)**	**(10.6%)**	**(66.5%)**	**(74.8%)**
ProLogis	PLD	Jonathan Habermann	$	6.93	62.80	**(87.6%)**	**94.5%**	**(85.1%)**	**(88.5%)**
Public Storage, Inc.	PSA	Jonathan Habermann	$	55.07	74.06	**(22.3%)**	**(10.3%)**	**(39.3%)**	**(27.0%)**
Regency Centers Corporation	REG	Jonathan Habermann	$	29.03	64.03	**(50.8%)**	**(1.4%)**	**(53.8%)**	**(52.1%)**
Simon Property Group	SPG	Jonathan Habermann	$	36.22	90.68	**(57.3%)**	**(16.0%)**	**(63.0%)**	**(58.4%)**
SL Green Realty Corp	SLG	Jonathan Habermann	$	13.33	96.80	**(85.5%)**	**(29.4%)**	**(85.2%)**	**(85.2%)**
Tanger Factory Outlet Centers, Inc.	SKT	Jonathan Habermann	$	29.49	41.57	**(25.2%)**	**3.7%**	**(27.5%)**	**(26.9%)**
Taubman Centers, Inc.	TCO	Jonathan Habermann	$	17.46	50.80	**(63.9%)**	**(24.9%)**	**(66.8%)**	**(66.1%)**
The Macerich Co.	MAC	Jonathan Habermann	$	11.20	71.86	**(82.0%)**	**(8.8%)**	**(81.4%)**	**(81.6%)**
UDR, Inc.	UDR	Jonathan Habermann	$	9.24	20.80	**(48.4%)**	**(25.4%)**	**(65.7%)**	**(60.6%)**
Vornado Realty Trust	VNO	Jonathan Habermann	$	40.54	87.09	**(50.5%)**	**(20.6%)**	**(61.3%)**	**(56.1%)**
Weingarten Realty Investors	WRI	Jonathan Habermann	$	12.76	34.52	**(59.2%)**	**(6.8%)**	**(61.8%)**	**(60.6%)**
S&P 500	SPX		$	770.05	1428.23	**(46.1%)**	**(3.4%)**	**(38.5%)**	**(41.5%)**

Note: Prices as of most recent available close which could vary from the price date indicated above
This table shows movement in absolute share price and not total shareholder return. Results presented should not and cannot be viewed as an indicator of future performance.

Source: FactSet, Qube.

Exhibit 20: Liberty Property Trust—debt maturity schedule
as of 4Q08

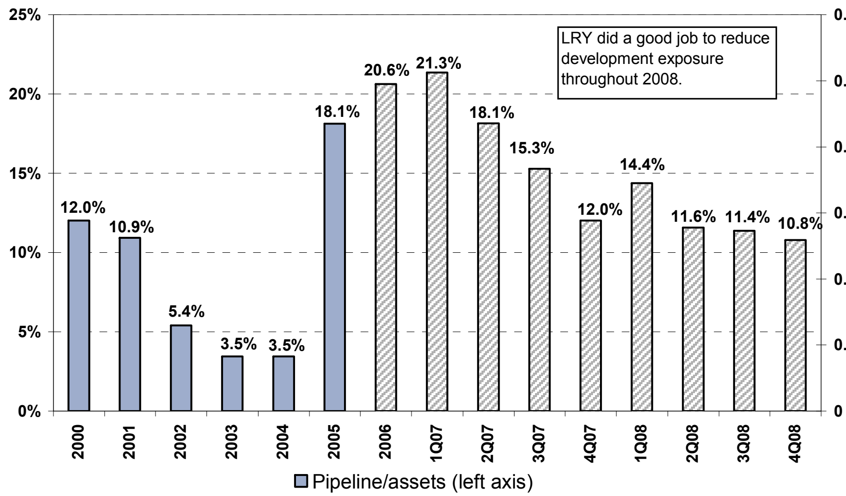


Note: Consolidated maturities only

Assuming the credit facility ($260 mn outstanding) is extended to 2011

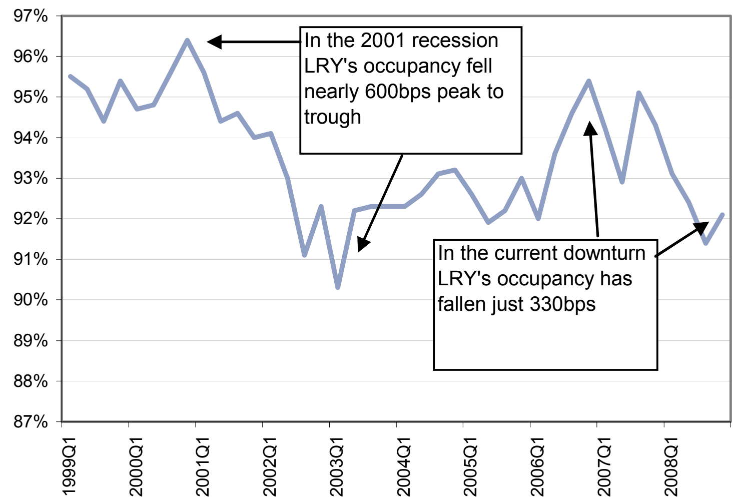
Source: Company data, Goldman Sachs Research estimates.

Exhibit 21: Liberty Property Trust—historical development as a % of assets
as of 4Q08



Source: Company data, Goldman Sachs Research estimates.

Exhibit 22: Liberty Property Trust—historical same-store occupancy
as of 4Q08



Source: Company data, Goldman Sachs Research estimates.

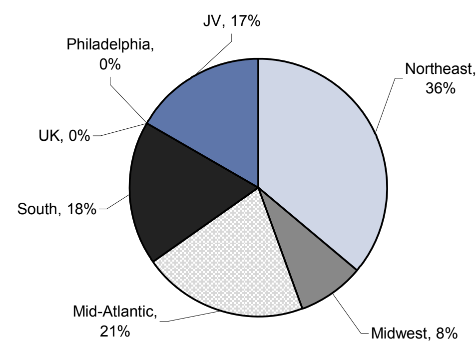
Exhibit 23: Liberty Property Trust—2009/10 lease expiration breakout
as of 4Q08

% of total rental revenues

Region	2009	2010
Northeast	3.0%	4.8%
Midwest	0.6%	1.2%
Mid-Atlantic	1.8%	2.6%
South	2.3%	1.6%
Philadelphia	0.0%	0.0%
UK	0.0%	0.0%
JV	1.6%	2.1%
Total	**9.4%**	**12.4%**

Asset type	2009	2010
Industrial		
Distribution	2.3%	3.0%
Flex	1.8%	2.2%
Total - Industrial	4.1%	5.3%
Office	5.2%	7.1%
Total	**9.4%**	**12.4%**

Geographic distribution of rents expiring in 2009-10



Source: Company data, Goldman Sachs Research estimates.

What we need to see to become more positive on REITs/Commercial Real Estate

While we remain Cautious on REITs, a position we have held since November 2007 ("REITs: Moving to a more conservative scenario; reducing REITs to Cautious"), we are often asked what specific factors could cause us to reassess our sector view and become more positive on REITs. Our primary concerns focus on the near-term challenges for the industry: debt refinancing, weaker trends, and dividend cuts (stock versus cash). At the same time, we recognize that valuation for REITs is now approaching levels not seen since late 1999, just before REITs began a long period of relative outperformance versus the broader market. In our view, there are several key differences in the current cycle versus the late 1990s, including leverage as well as full utilization (occupancy is already at peak levels today, so there is likely limited upside from here). In addition, institutions are seeking to reduce CRE exposure now versus the late 1990s when they sought to diversify amid the tech bubble.

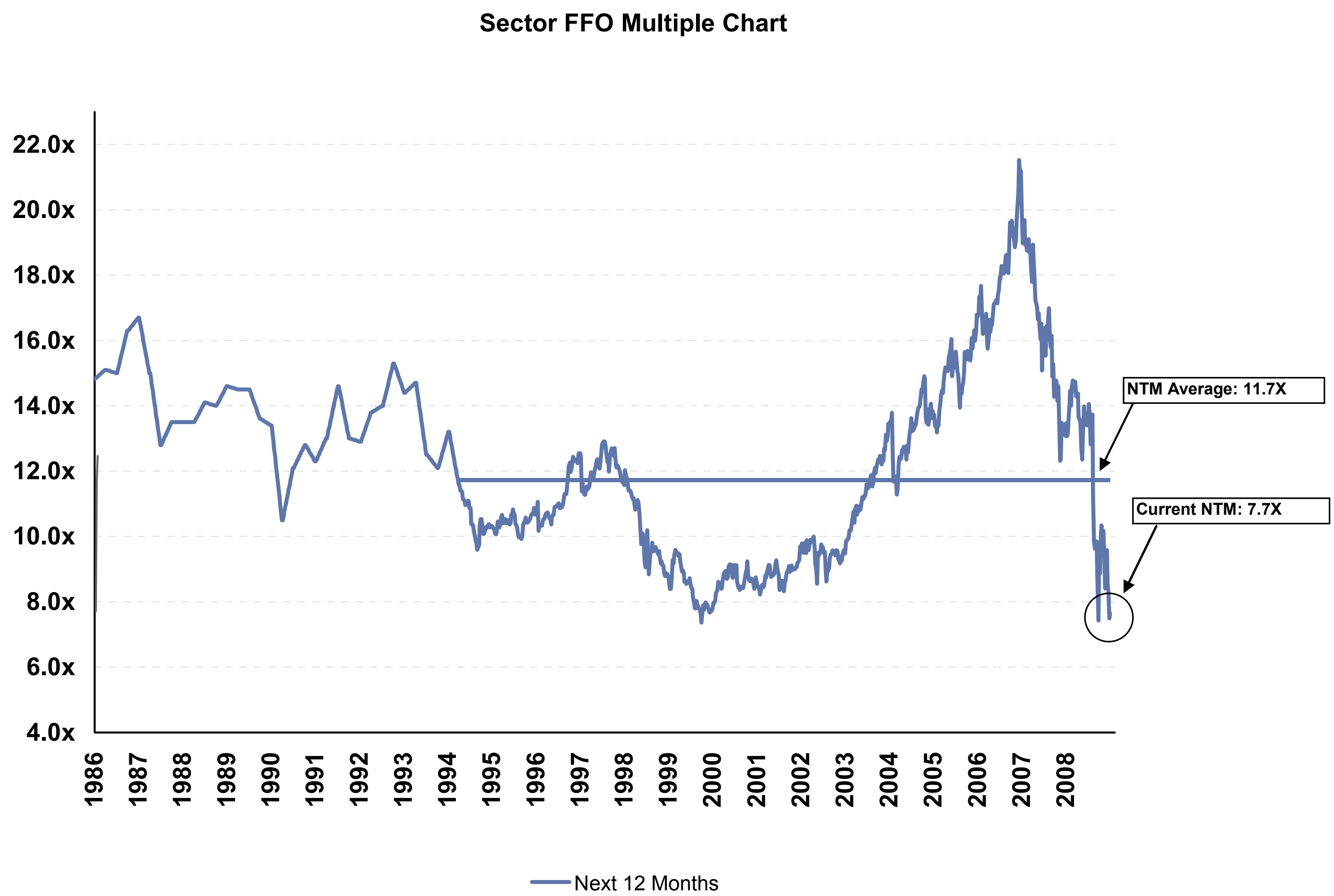
As we pointed out in our 2009 Outlook report, the key factor that could cause us to become more positive on REITs is investment return, or the spread between returns on invested capital versus the weighted-average cost of capital. With the cost of debt increasing to the 7-8% level (or higher) and the weighted-average cost of capital now above 10% (50% equity), we estimate that cap rates still need to adjust higher to the 9-12% range, thereby allowing REITs to once again fund their investments at profitable levels. Of concern, some REITs grew rapidly during the 2003-2007 period when cap rates fell to all-time lows and debt was inexpensive; as the debt matures and is refinanced, those companies will likely experience a more significant deterioration in future earnings growth, especially companies with large joint ventures.

In short, we still think it is too early to call the bottom for REITs, given the many concerns we have discussed, most directly the large amount of CRE debt coming due through 2013 (more than $1.6 trillion). We will continue to closely monitor the CMBS and unsecured markets, as any near-term recovery in credit could force us to change our view as REITs gain access to debt at better-than-expected pricing.

Exhibit 24: CRE refinancing schedule

Source: Goldman Sachs Research estimates.

Exhibit 25: REIT valuation is now below the longer term average range of 10-12X
as of 2/20/2008



Source: Factset, Goldman Sachs Research estimates.

Reg AC

We, Jonathan Habermann, Sloan Bohlen, Jehan Mahmood and Aigerim Kabdiyeva, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Investment profile

The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

Disclosures

Coverage group(s) of stocks by primary analyst(s)

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Company-specific regulatory disclosures

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Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	23%	56%	21%	54%	48%	40%

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Return potential represents the price differential between the current share price and the price target expected during the time horizon associated with the price target. Price targets are required for all covered stocks. The return potential, price target and associated time horizon are stated in each report adding or reiterating an Investment List membership.

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