



REIT Growth and Income Monitor

REIT Sector Comments

Residential REITs

09/08/2009

Notes:

Investor concern over potential impact of recession on rents and tenant concessions impacts trading in Residential REITs, making the sector one of the worse performers for 2009, with stock prices up only 1% year to date for 2009, compared to average stock price gain of 13% for all REITs followed by **REIT Growth and Income Monitor**. Unemployment trends signal rental decline may continue for another year through 2010.

Yields for Residential REITs range from 3.4% for **Apartment Investment and Management** to 7.8% for **Associated Estates Realty**. Valuations for Residential REITs, as measured by ratio of total capitalization to annualized FFO, range from 22.2X for **Mid-America Apartment Communities** to 42.9X for **Apartment Investment and Management**.

Slowing NOI growth, with little contribution from development projects, impacts FFO growth for 2009. FFO trends for the second quarter of 2009 ranged from growth of 6% for **UDR** to decrease of (29%) for **Apartment Investment and Management**. Guidance range for FFO for 2009 reflects decline of as much as (39%) for **Apartment Investment and Management** to growth of 10% for **Essex Property Trust**.

Acquisitions are delayed pending resolution of tight credit markets. Development pipelines have been reduced, reflecting lower apartment demand. Residential REITs trimming development pipeline include **AvalonBay Communities**, **Equity Residential**, **Colonial Properties Trust**, **Camden Property Trust** and **BRE Properties**.

Dispositions provides funds to meet debt obligations. During 2009, **Apartment Investment and Management** sold 30 properties for net proceeds of \$317 million, **Equity Residential** sold 23 properties for \$354 million, **Post Properties** sold 3 properties for \$150 million, **BRE Properties** sold 3 properties for \$82 million and **Home Properties** sold 3 properties for \$68 million.

Joint ventures provide capital. **Mid-America Apartment Communities** announced new joint venture Mid-America Multifamily Fund II (33% owned) in June, 2009, with plans to acquire up to \$250 million properties. **AvalonBay Communities** announced second closing of AvalonBay Value Added Fund II with additional investment capacity of \$67 million and total investment capacity of \$1.1 billion (including 65% leverage) during April, 2009.

Debt restructuring through repurchase and refinancing lowers interest cost for Residential REITs, while share repurchase remains on hold, pending liquidity limitations. Residential REITs investing in debt repurchase during 2009 include **BRE Properties** for \$511 million, **Colonial Properties Trust** \$409 million, **Equity Residential** \$310 million, **UDR** \$239 million and **Camden Property Trust** \$182 million.

Reduction in dividend distributions and payment of dividends through combination of cash and stock reflects management efforts to preserve cash. **Equity Residential** reduced dividends by (30%) and **BRE Properties** (33%), following reductions of (41%) for **UDR**, (36%) for **Camden Property Trust**, (83%) for **Apartment Investment and Management** and (40%) for **Colonial Properties Trust**.

We upgraded **Mid-America Apartment Communities** to BUY rank, reflecting increased FFO guidance.

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