



REIT Growth and Income Monitor

REIT Sector Comments

Industrial REITs

09/08/2009

Notes:

Industrial REITs stocks gained 5% year to date for 2009, underperforming average stock price increase of 13% for all REITs followed by **REIT Growth and Income Monitor**. Industrial REITs face tough competition, with lower tenant retention and occupancy decline signaling impact of recession on demand. Although sheltered somewhat by long term contracts for warehouse and distribution space with major producers of consumer goods, demand for space leased by Industrial REITs is ultimately determined by consumer demand as reflected in retail sales.

Yields offered by Industrial REITs range from 0.0% for **First Industrial** to 11.1% for **Gladstone Commercial**. Valuations, as measured by ratio of FFO to total capitalization, range from 18.5X for **PS Business Parks** to 42.0X for **First Industrial**.

ProLogis Trust continues to divest portions of its \$14 billion portfolio through sale of non-strategic assets, with divestiture of Asian operations for \$1.3 billion earlier during 2009, followed by another \$1.0 billion in divestitures. Proceeds from sale of \$2.3 billion assets and \$1.2 billion common equity offering were used to delever the balance sheet. Dilution from the share offering forced lower guidance for FFO for 2009. **ProLogis Trust** reduced dividends by (40%) to preserve capital. We reduced our rank on **ProLogis Trust** to HOLD to reflect these actions.

We maintain HOLD rank on **EastGroup Properties** and **First Potomac Realty Trust**. We are concerned over regional exposure of **EastGroup Properties** to economically depressed areas, including CA and TX. **EastGroup Properties** reduced guidance for FFO for 2009 to indicate decline of (4%)-(6%), an estimate that may prove optimistic. **First Potomac Realty Trust**, despite strong presence in the healthy economy of metropolitan DC, is also facing a challenging year, with FFO down (10%). Capital constraints drove **First Potomac Realty Trust** to reduce dividends by (41%).

Duke Realty was the first Industrial REIT to accept unusual share dilution (increasing total shares outstanding by 41%), in order to raise \$575 million new equity capital during 2009. **Duke Realty** identified \$340 million assets to be divested, but has not yet completed transactions, despite recognition of (\$19) million asset impairments. Dividends were reduced twice by **Duke Realty**, now at a level only 35% of 2008 dividend distributions. Guidance for (35%)-(44%) FFO decline for 2009 compelled us to recommend investors SELL **Duke Realty**.

First Industrial, ranked SELL in the midst of a management transition, has seen FFO erosion as a result of lower occupancy and same property NOI. Guidance for FFO for 2009 indicates (20%) decline. **First Industrial** suspended dividend distributions. We also maintain SELL rank on **Gladstone Commercial**, with FFO barely supporting dividend distributions and high yield of more than 10% indicating pending dividend reduction.

We maintain HOLD rank on **AMB Property**, **DCT Industrial Trust**, and **Liberty Property Trust**, all providing guidance for sharply lower FFO for 2009.

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