

RE Weekly Update

Recently released Beige Book by the Fed presumes recovering mortgage lending activity. Mortgage lending helped to improve the quarterly results for commercial banks in the States, with recovering non-performing loans and less foreclosures, although this is a result of legislation in play to amend the foreclosure practice conducted through robo, or automated processes, which is highly inefficient. Proposed changes would include the current borrower's right to sue for monetary compensation from the bank, but they would not be allowed to reassume ownership of the property. Also, originations are up, most likely due to refinancing activities and loan modification programs. Construction permits picking up traction, on top of the reconstruction activity related to Hurricane Sandy that passed by the Northeast in late 2012.

Latest CCIM monthly newsletter reveals stellar returns from the self-storage REIT subclass in 2012 with a whopping 35% return, with apartments coming in at 2nd. Even RV storage is a hot item in the Los Angeles area, as construction in the El Toro airport converts to residential homes. RVs were stored in the empty runways but soon they will be evicted and they will need places to go. EXR, SSS, CUBE are some self-storage REITS available on the market. RMZ is the REIT index fund.

Public Storage (PSA)

The REIT owns 2000 self-storage facilities in 30 plus states. Co. is making \$1BB in cash flow and is taking advantage of the NOL balance, where they are not paying taxes on their NI. Even with the taxes, the NI margin is near 30%. \$8BB net asset with only \$800MM in debt outstanding. Phenomenal balance sheet.

We would buy the REIT out at \$15BB, but it is too expensive at \$25BB EV. We would buy it for \$80. We believe many investors are purchasing the stock at the premium level since the dividend yield is 3%, which is higher than the 10 year Treasury at 2%. The EV is backed by the actual real estate and the cash flow so there is a partial insurance for the investment. Nonetheless, this is a great example of a great REIT, that is generating tons of cash and distributing a lot back. (\$850MM) Overall, great REIT, but too pricey. Entry at ~\$80, or a 55% discount from the current price.