

**Sung Nam**  
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**Select Income REIT (SIR)** owns real estate in Hawaii (228 properties) and mainland USA (14 office, 11 industrial buildings), for a combined 21,000 sq. feet of rentable area. SIR is a subsidiary of [CWH](#), a \$7.8 BB real estate investment firm. REITS must distribute 90% of taxable income, excluding net capital gains. CWH will own 70% of the shares, and receive \$35 MM in dividends, which implies dividend payout of \$50 MM, which is roughly 90% of NOI. The Form S-11 reveals \$250 MM from the equity offering will go toward repaying part of the \$400 MM outstanding from CWH, thereby recouping part of the seed capital. Total acquired assets are around \$1 BB, so it is a pro rata equity offering - \$300 MM recoupment for relinquishing 30% ownership. CWH seems like a competent investment firm, highlighted in a recent PPT presentation, by exiting lower grade commercial buildings with realized gains during the bottoming out in 2008-2011, and acquiring CBD, newer buildings with the gains at rock bottom prices.

The portfolio will be managed by RMR. Is it the actual portfolio management, or more administrative tasks? Paying out 0.5% management fee based off the historic cost of buildings, which is about \$5 MM (\$900 MM x 0.5%) plus 3% of revenue, which is about \$2.5 MM, for a grand total of \$7.5 MM, or 8.5% of revenue. I remember when I interned at a multi-family property investment firm, they would only 1) run models, 2) round up financing, 3) monitor the properties from a high level perspective, while all the ground work was finished by third party companies like RMR. In So. Cal., companies like MacBeth ring a bell and many others were small scale operations, with employees ranging from 10 to 50 people. Barry and Adam Portnoy, trustees of the fund, are also Managing Trustees at CWH and they own RMR. This cross ownership explains why the fund is willing to pay a seemingly hefty management fee, since it is out one pocket, into the other.

Rev is \$88 MM, with \$55 coming from Hawaii and \$25 from mainland. 60-65% NI off \$90 MM revenue, or \$55-\$60 MM. These are fantastic margins, not visible in most sectors. Average effective rental rate is \$4.00/sq. ft. The Hawaiian property rents reset annually so we could anticipate revenue growth of +20% come expiration of the leases, without further investments. The co. owns the land on 215 properties in Hawaii, with leases averaging 14 years. 95% leased, 238 different tenants, avg. 12 year lease term. NOI, FFO averaging about \$70 MM. With a cap rate of 6%, the portfolio is worth about \$1.17 BB. A cap rate of 6%, is similar to a Price/EBITDA of 16x.

Capital structure will be 70% equity from CWH, 30% equity from public. CWH's equity piece will disappear as the revolving credit is drawn to repay the seed capital, thereby leveraging the balance sheet. Plans are to draw \$200 MM, which will go toward repaying CWH and operational usage. So assets are \$900 MM, FCF is roughly \$55 MM, of which \$50 MM will be paid out. We use 5 years of FCF. Assets will stay relatively the same so no realized capital is assumed. Disposition price will include 3 more years of FCF, which gives us a \$1.3 BB EV value. Backing out the \$200 MM in revolving credit, the equity piece will be \$1.1 BB (inclusive of dividend distribution), or a 22% return over 5 years, equivalent to 4% annualized return. This assumption is a base case scenario, assuming the value of properties are not reflected in stock and property value stays the same. We can expect a greater alpha if property value rises.

# SN VALUATION

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	Year Ended December 31,					Nine Months Ended September 30,				
	2006	2007	2008	2009	2010	2010	2011	2011	2011	
	(unaudited)	(unaudited)				Pro forma (unaudited)	(unaudited)	(unaudited)	Pro forma (unaudited)	
<b>Operating information</b>										
Revenues:										
Rental income	\$ 59,230	\$ 64,416	\$ 67,966	\$ 77,551	\$ 80,735	\$ 80,735	\$ 59,067	\$ 68,959	\$ 68,959	
Tenant reimbursements and other income	10,550	12,511	13,322	14,057	14,924	14,924	11,202	12,816	12,816	
Total revenues	69,780	76,927	81,288	91,608	95,659	95,659	70,269	81,775	81,775	
Expenses:										
Real estate taxes	9,415	11,195	12,115	13,073	13,771	13,771	10,400	11,009	11,009	
Other operating expenses	4,361	5,238	6,987	7,317	7,704	7,704	5,757	6,560	6,560	
Depreciation and amortization	4,202	5,419	6,198	8,016	8,078	8,078	5,983	8,296	8,296	
Acquisition related costs	—	—	—	185	386	386	6	131	131	
General and administrative	3,798	4,212	4,406	4,992	5,291	5,291	3,846	4,114	4,114	
Total expenses	21,776	26,064	29,706	33,583	35,230	35,230	25,992	30,110	30,110	
Operating income	48,004	50,863	51,582	58,025	60,429	60,429	44,277	51,665	51,665	
Interest expense	—	—	—	—	—	(6,105)	—	—	(4,579)	
Net income	\$ 48,004	\$ 50,863	\$ 51,582	\$ 58,025	\$ 60,429	\$ 54,324	\$ 44,277	\$ 51,665	\$ 47,086	

	As of December 31,					As of September 30,		
	2006	2007	2008	2009	2010	2011	2011	
	(unaudited)	(unaudited)	(unaudited)			(unaudited)	Pro forma (unaudited)	
<b>Balance sheet information</b>								
Total real estate properties (before depreciation)	\$ 699,394	\$ 747,681	\$ 790,947	\$ 828,399	\$ 892,233	\$ 902,098	\$ 902,098	
Total assets (after depreciation)	\$ 727,228	\$ 779,404	\$ 827,424	\$ 870,050	\$ 943,710	\$ 955,257	\$ 952,779	
Total debt	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 225,000	

	Year Ended December 31,			Nine Months Ended September 30,		
	2008	2009	2010	2010	2011	2011
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Cash flow information</b>						
Provided by operating activities	\$ 59,328	\$ 66,108	\$ 67,252	\$ 46,966	\$ 54,310	\$ 54,310
Used in investing activities	\$ (51,642)	\$ (48,124)	\$ (75,233)	\$ (1,326)	\$ (11,159)	\$ (11,159)
Provided by (used in) financing activities	\$ (7,686)	\$ (17,984)	\$ 7,981	\$ (45,640)	\$ (43,151)	\$ (43,151)

	Year Ended December 31,				Nine Months Ended September 30,		
	2008	2009	2010	2010	2010	2011	2011
	(unaudited)	(unaudited)	(unaudited)	Pro forma (unaudited)	(unaudited)	(unaudited)	Pro forma (unaudited)
<b>Other information</b>							
Shares outstanding at end of period	—	—	—	—	—	—	—
Number of properties at end of period	246	248	252	252	248	253	253
Percent leased at end of period	96.2%	95.1%	96.3%	96.3%	95.3%	95.2%	95.2%
Property NOI <sup>(1)</sup>	\$ 62,186	\$ 71,218	\$ 74,184	\$ 74,184	\$ 54,112	\$ 64,206	\$ 64,206
FFO <sup>(2)</sup>	\$ 57,780	\$ 66,041	\$ 68,507	\$ 62,402	\$ 50,260	\$ 59,961	\$ 55,382
Normalized FFO <sup>(2)</sup>	\$ 57,780	\$ 66,226	\$ 68,893	\$ 62,788	\$ 50,266	\$ 60,092	\$ 55,513

# SN VALUATION

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Year	Rented Square Feet Expiring <sup>(1)</sup>	Percent of Total Rented Square Feet Expiring <sup>(1)</sup>	Cumulative Percent of Total Rented Square Feet Expiring <sup>(1)</sup>	Annualized Revenues Expiring <sup>(2)</sup>	Percent of Total Annualized Revenues Expiring <sup>(2)</sup>	Cumulative Percent of Total Annualized Revenues Expiring <sup>(2)</sup>
2011	361	1.8%	1.8%	\$ 1,645	1.5%	1.5%
2012	830	4.1%	5.9%	3,474	3.2%	4.7%
2013	520	2.5%	8.4%	3,968	3.7%	8.4%
2014	116	0.6%	9.0%	564	0.5%	8.9%
2015	598	2.9%	11.9%	5,127	4.7%	13.6%
2016	1,259	6.2%	18.1%	9,313	8.6%	22.2%
2017	378	1.9%	20.0%	5,338	4.9%	27.1%
2018	1,006	4.9%	24.9%	8,050	7.4%	34.5%
2019	1,629	8.0%	32.9%	5,101	4.7%	39.2%
2020	318	1.6%	34.5%	4,629	4.3%	43.5%
Thereafter	13,378	65.5%	100.0%	61,489	56.5%	100.0%
Total	20,393	100.0%		\$ 108,698	100.0%	
Weighted average remaining lease term (in years):	13.2 <sup>(3)</sup>				12.3 <sup>(4)</sup>	

## Hawaii Properties (all on the island of Oahu)

Type of Property	Number of Properties	Rentable Square Feet	Total Revenues for the Nine Months Ended September 30, 2011	Weighted Average Remaining Lease Term as of September 30, 2011 <sup>(1)</sup>
Rentable Hawaii Lands	215	17,360,166	\$ 50,246	14.8 years
Rentable Hawaii Buildings	9	414,796	\$ 4,177	7.3 years
Rentable Hawaii Easements	4	N/A	\$ 1,395	11.5 years
Total	228	17,774,962	\$ 55,818	14.2 years

## Historical Rent Resets At Hawaii Lands (dollars in thousands)

Date of Acquisition by CWH through 12/31/2005	Annual Rents Before Reset	Annual Rents After Reset	Average Percentage Change in Annual Rents
1/1/2006 - 12/31/2006	\$ 4,067	\$ 4,735	16.4%
1/1/2007 - 12/31/2007	1,259	1,481	17.6%
1/1/2008 - 12/31/2008	1,674	2,228	33.1%
1/1/2009 - 12/31/2009	1,770	2,531	43.0%
1/1/2010 - 12/31/2010	7,423	10,667	43.7%
1/1/2011 - 9/30/2011	3,639	4,156	14.2%
1/1/2011 - 9/30/2011	1,137	1,447	27.3%
Total/Average	\$ 20,969	\$ 27,245	29.9%