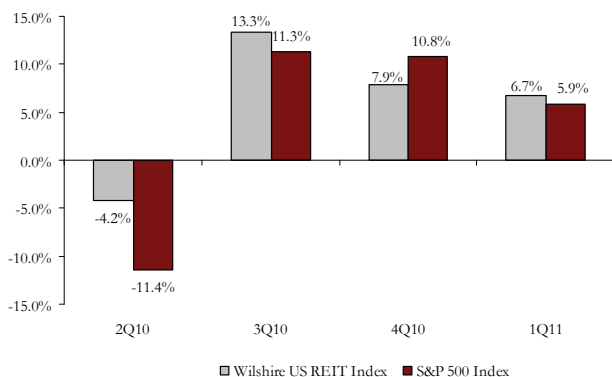


### REITs Overcome Significant Headwinds.

Investors were confronted by numerous headline risks in First Quarter: (i) the spread of social unrest (revolution/civil war) across the Middle East and North Africa, (ii) a massive 9.0-magnitude earthquake off the coast of Japan which was followed by a tsunami and a nuclear disaster which rivals Chernobyl in severity, (iii) the continuation of the European sovereign debt crisis resulting in the third bailout of a member state by the European Union in less than a year and (iv) a near-shutdown of the US government over the passage of the 2011 budget. Yet, despite the confluence of all the aforementioned events, the significance of which, by themselves, are greater than mere “noise” for investors, equity indices did very well; the 5.9% increase in the S&P 500 Index was the best first quarter result since 1998.

In total, the Wilshire US REIT Index advanced 6.7% in First Quarter, in line with both the S&P 500 and Russell 2000 Indices which advanced 5.9% and 7.9%, respectively. The advance was broad based; 76 out of the 95 constituents of the Wilshire US REIT Index produced positive total returns for the quarter. There was not significant dispersion in total returns; with the exception of a few outliers, most of the individual returns for the constituents were clustered between +15% and -5% with the best performing stock returning 35.7% compared to -15.6% for the worst.

**REITs vs. S&P 500 Index**  
Total Return



Source: Bloomberg and Wilshire Associates

### Sector Performance of the Wilshire US REIT Index

Ranked by First Quarter 2011 Performance

Sector	1Q 2011	Trailing 1-Year	Current Yield
Industrial	12.0%	28.8%	3.4%
Storage	11.0%	28.2%	3.0%
Industrial-Mixed	9.8%	12.6%	4.8%
Office	7.9%	17.5%	3.3%
Health Care	7.5%	19.7%	5.0%
Apartment	6.9%	43.0%	3.0%
<b>Wilshire US REIT</b>	<b>6.7%</b>	<b>28.6%</b>	<b>3.4%</b>
Regional Retail	6.3%	31.7%	3.2%
Diversified	5.4%	19.8%	3.5%
Mfd. Housing	5.1%	18.8%	3.8%
Factory Outlet	3.3%	25.7%	3.0%
Local Retail	3.1%	17.3%	3.8%
Hotel	-0.0%	16.6%	1.8%

Source: Wilshire Associates

**Growth outperforms.** Relative performance by sector within the Wilshire US REIT Index in First Quarter was mixed, not really reflective of any overriding themes. The Industrial sector continued to do well but its outperformance can certainly be attributed to the enthusiasm surrounding the M&A transaction between the two large constituents in the sector, which explanation can also be applied to Healthcare. The continued outperformance of the Apartment and Storage sectors reflects investor preference for short lease term assets poised to deliver better growth in an improving economy. The outperformance of the Industrial-Mixed sector is most likely a reversion to the mean for a property type which had found very little investor interest, both public and private, in 2010.

All three retail sectors underperformed, perhaps a recognition of the joblessness of this recovery and the potential tax on the consumer posed by higher oil prices, higher interest rates, etc. The underperformance of the Lodging sector may be attributable to a reversion to the mean from the sector’s torrid performance last quarter as well as sprouting doubts about the Lodging recovery.

**Two mega-mergers announced.** On January 31, AMB Property Corporation (“AMB”) and ProLogis announced a definitive agreement to combine through a “merger of equals,” creating the largest owner and operator of industrial real estate in the world. After one year of co-leadership, the combined entity will be led by Hamid R. Moghadam, the current CEO of AMB, and be headquartered in San Francisco, the current home of AMB.

Despite grumblings from shareholders for the lack of a take-out premium, the management team of ProLogis, led by CEO Walt Rakowich, has done a good job bringing the company back from the precipice since 2008; by the end of 2010, the stock was trading at fair value and, as a result, a combination with a better capitalized partner made a lot of sense. The synergies of this merger go well beyond the \$80 million in estimated gross G&A savings per annum. The strength of AMB’s relationships with institutional capital will make monetization of ProLogis’ still sizable land bank far easier. ProLogis gives AMB entrée into China and the United Kingdom. Last, but not least, the greater size will help lower the cost of capital for a developer of commodity assets and potentially give the new company greater clout with tenants to fill completed projects. The reaction by investors was favorable. Industrial was the best performing sector for the quarter returning 12.0% vs. 6.7% for the Index and total returns for AMB and ProLogis were 14.4% and 11.5%, respectively.

On February 28, Ventas, Inc. announced that it will acquire all the outstanding shares of Nationwide Health Properties (“NHP”) in a stock-for-stock transaction valued at \$7.4 billion. In extolling the virtues of the transaction, Debra A. Cafaro, CEO of Ventas, cited “enhanced scale” and “greater portfolio diversification by geography, asset class, tenant/operator and operating model.” With the 15% premium paid, the accretion from the deal is modest; lowering the company’s weighted average cost of capital, making the rating agencies happy with greater diversification and garnering G&A savings seem insufficient rationale for a \$7.4 billion deal. With public healthcare companies trading at sizable NAV premiums, shareholders of Ventas would probably have been better served with a slow and steady acquisition strategy aimed at the private market. The disappointment of the REIT market over the deal was palpable. Despite the combination of the second and fourth largest companies in the sector, Health Care only outperformed the Index by 80 bps; total returns for Ventas and NHP were 4.6% and 18.4%, respectively.

### Observations from the Field – Luis Sanchez

In March I took a trip to Boston to meet with the local management teams of various REITs with a presence in the market, tour a small sampling of assets and meet with various brokers and private market participants.

Within the Apartment sector, I met with and toured assets owned by AvalonBay Communities, Equity Residential and UDR, Inc. My meetings confirmed the overall view that the Apartment sector continues to benefit from limited new supply, declining home ownership and favorable demographic trends. The Boston metro is expected to be one of the better performing markets in 2011; in the urban infill submarkets, owners are achieving rental increases of 6% to 7% on renewals and increases of 3% to 5% over expiring rents on new leases for vacated units. Over the past year, landlords have been able to achieve greater increases on renewals versus new leases as existing tenants have been reluctant to move given the uncertain economic outlook. Rental increases on vacated units have only recently started to turn positive as market conditions and rents have tightened. The convergence of the level of increase being achieved on both new and renewal rents is a positive sign for the market.

I also met with Peter Donovan, the head of CBRE’s National Multifamily Investment Sales Division. Peter indicated that the transaction market is continuing to recover. Total sales activity for apartments in 2010 of approximately \$32 billion was more than double the \$15 billion achieved in 2009. While still well below the levels of \$90 billion plus achieved in 2006 and 2007, the continued improvement in volume is a sign of healthy investor demand driven by both improved operating fundamentals and attractive financing that is available for buyers. Volumes in 2011 could increase by as much as 30% to 40% over 2010, putting overall activity above \$40 billion. The biggest constraint on transactions may be the limited quantity of quality assets on the market as owners are more reluctant to sell ahead of what is believed to be a two/three year window of favorable operating fundamentals.

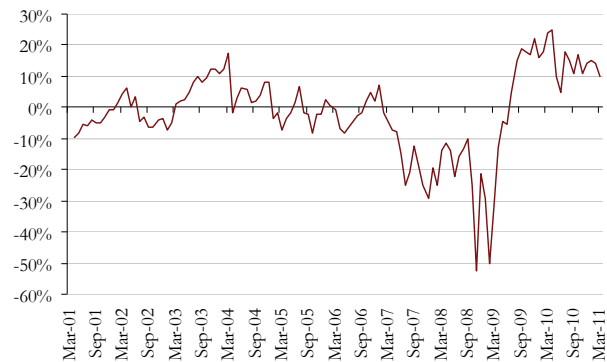
**Capital issuance spikes.** According to NAREIT, \$23.3 billion in capital was raised in First Quarter 2011, significantly more than the \$14.9 billion raised in the prior quarter and more than double the \$10.4 billion raised a year ago in First Quarter 2010. Most of the activity comprised secondary issuance of common shares; there were 37 offerings totaling \$15.1 billion during the quarter. There were two small initial public offerings (“IPOs”), American Assets Trust, Inc., a diversified REIT based out of San Diego, CA, and Summit Hotel Properties, a lodging REIT based out of Sioux Falls, SD; while the performance of the two IPOs have only been in-line with the REIT market, unlike a number of the blind-pools and make-a-REITs from the past year, the shares are at least trading above deal price.

With pricing attractive for companies, preferred issuance by companies has been brisk; there were seven offerings totaling \$1.5 billion, in line with \$1.9 billion issued in the prior quarter and significantly more than \$0.3 billion issued in First Quarter 2010. Finally, the unsecured bond market has again been fecund for REITs; there were 13 offerings by nine different companies during the quarter raising \$5.7 billion compared to \$3.8 billion in the prior quarter and \$7.7 billion in First Quarter 2010.

**Funds continue to flow into dedicated real estate funds.** According to AMG Data Services, net flows into dedicated real estate funds, excluding ETFs, were \$2.7 billion in First Quarter, more than flows of \$0.9 billion in First Quarter 2010 and close to \$3.4 billion in all of 2010. While the inflows are encouraging, it should be noted that the supply of equity, \$0.9 billion in IPOs and \$15.1 billion in secondary issuances, is still outstripping demand from dedicated investors.

**Transaction activity backs up REIT valuations.** While the volume of transaction activity was up substantially during First Quarter 2011, 70% year-over-year, pricing remained stable despite concerns about rising Treasury rates. According to Real Capital Analytics, cap rates were flat sequentially for the Apartment, Office and Retail sectors but decreased an additional 30 bps for the Industrial sector, perhaps attributable to excitement surrounding the REIT M&A activity. Investors continue to focus on core assets in major markets; for example, transaction volume in Washington, D.C. and San Francisco tripled from year ago levels and New York City, Chicago and Los Angeles all recorded substantial increases as well.

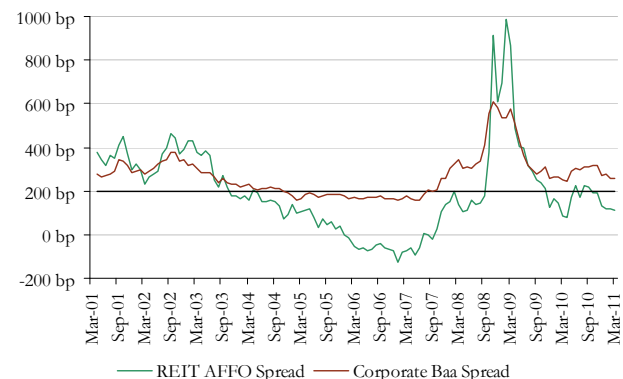
**Premium/Discount to Net Asset Value**  
REIT Universe  
March 31, 2001 – March 31, 2011



Source: Adelante Capital Management and Green Street Advisors

**Risk premium below ten-year average.** The risk premium for owning commercial real estate, as represented by the spread between REIT cash flow yields and the riskless rate of return, has fallen below the 10-year average. While the Wilshire US REIT Index continues to produce positive returns (resulting in declines in REIT AFFO yields), the yield on the 10-Year Treasury Note rose from 3.305% on December 31 to 3.454% on March 31 as investors sought assets more leveraged to an improving economy. As a result, the spread between REIT cash flow yields and the 10-Year Treasury Note Yield dipped from 128 bps at the end of 2010 to 110 bps at the end of First Quarter, well below the ten year average of 198 bps. Directionally and in magnitude, the move in Corporate Baa yields from 274 bps to 259 bps was comparable.

**Yield Comparison**  
REIT Cash Flow and Corporate Baa Yields vs.  
10-Year Treasury Note Yield  
March 31, 2001 – March 31, 2011



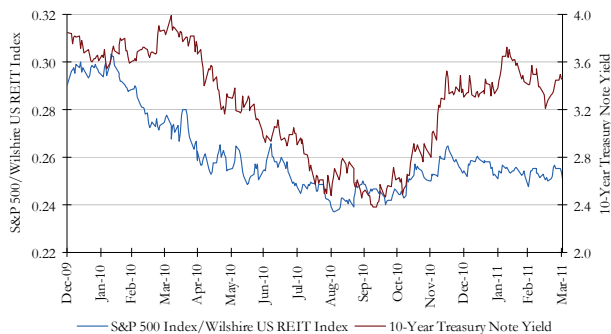
Source: Adelante Capital Management and Green Street Advisors

**What Happens When the Punch Bowl Gets Taken Away?** While the uptick in the volume of transactions taking place in both private and public markets for commercial real estate connotes confidence in asset pricing, investors face the potential for near- and longer-term volatility as changes in monetary and fiscal policies lie ahead. First up, the Federal Open Market Committee’s (“FOMC”) program of purchasing \$600 billion of longer-term Treasury securities (“QE2”) will come to an end by the end of Second Quarter 2011. Largely credited for the 22.3% total return through March 31, 2011 for the Wilshire US REIT Index since the program was announced on August 27, 2010, the end of QE2 portends greater uncertainty for buyers of commercial real estate (as well as all risk assets) in the next few months.

How well REIT pricing holds up on both an absolute and relative (to the S&P 500 Index for example) basis may hinge on the direction of Treasury rates and on that score, there seems to be very little unanimity of opinions. On the one hand there are bond investors like Bill Gross of PIMCO who believe that Treasury prices will have to fall (and rates rise) when a large artificial buyer gets taken out of the market. On the other hand there are bond investors like Jeffrey Gundlach of DoubleLine Capital who believe that Treasury prices will rise (and rates fall) as the FOMC stops its QE2 program which is, by its very nature, inflationary. Moreover, Gundlach believes that the removal of monetary and fiscal stimuli will lead to a slowdown in the economy, which in turn will lead investors back to Treasuries.

While the sample size is small (two), the historical precedence of QE and QE2 suggests that yields will rise with the advent of FOMC intervention and fall with its exit. Advantage – REITs.

### S&P 500/REIT Relative Performance vs. 10-Year Treasury Note Yield December 31, 2009 – March 31, 2011



Source: Bloomberg and Wilshire Associates

In the long-run, the accommodative policies of the FOMC must come to an end and investors in risk assets are at least aware of that possibility. In the same manner, the fiscal policies of both lowering taxes and raising spending too must come to an end but investors were probably less prepared for the following shot across the bow delivered by one of the rating agencies:

We have affirmed our “AAA/A-1+” sovereign credit ratings on the United States of America.

The economy of the U.S. is flexible and highly diversified, the country’s effective monetary policies have supported output growth while containing inflationary pressures, and a consistent global preference for the U.S. dollar over all other currencies gives the country unique external liquidity.

Because the U.S. has, relative to its “AAA” peers, what we consider to be very large budget deficits and rising government indebtedness and the path to addressing these is not clear to us, **we have revised our outlook on the long-term rating to negative from stable.**

We believe there is a material risk that U.S. policymakers might not reach an agreement on how to address medium- and long-term budgetary challenges by 2013; if an agreement is not reached and meaningful implementation is not begun by then, this would in our view render the U.S. fiscal profile meaningfully weaker than that of peer “AAA” sovereigns.

Standard & Poor’s, April 18, 2011

According to Standard & Poor’s, assuming a baseline 3% annual real growth, net general government debt would reach 84% of GDP by 2013. With the potential for a prolonged political gridlock, the rating agency said that there was at least a one-in-three chance that they would lower the long-term rating on the US within two years. Ironically, as the press release precipitated selling in all risk assets, investors fled into the arms of Treasuries (the yield on the 10-Year Treasury Note dropped 1.1% during the day). What will happen when investors no longer find comfort in the long-term obligations of the US government?