REIT Conversion Primer

Green Street Advisors

April 5, 2013

DJIA: **14,565** | RMZ: **990** | 10-Year T-Note: **1.69%**

Addressing a Hot Topic

Overview

- REIT conversions have created a lot of buzz
- Corporate tax savings have been a key motivator
- Higher P/E multiples for REITs have played a big role too
- Most conversion announcements have led to share price "pops"
- The favorable reaction has stirred speculation as to "who's next?"
- But some property types are unfamiliar to REIT investors…
- …and some companies don't own the majority of their properties
- These issues raise important valuation challenges
- The REIT conversion path is complex; you don't just flip a switch
- For some companies, it is a path worth taking
- This report outlines the key issues surrounding REIT conversions

Important Disclosure

Green Street's consulting group has completed several assignments for companies exploring REIT conversions. The role has typically involved helping management teams and Boards evaluate strategic alternatives. Some projects have included presentations on the state of the public REIT market. We have also had discussions with some companies regarding strategic positioning and best practices in the publicly traded REIT market. Our consulting group is currently engaged by companies considering REIT conversion. Green Street has not acted as an underwriter, placement agent for, or financial adviser or otherwise provided investment banking services to any of these companies. The firm has procedures in place that restrict access between Green Street's research and consulting groups. Consulting employees do not have influence on, or access to, research prior to publication. We do not accept consulting work from companies in our coverage universe.

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Executive Summary

A Hot Topic
Who's Next?

- C-corp-to-REIT conversions have been a hot topic
- Several have been completed in the last couple years; more are waiting in the wings
- The favorable share price reactions have investors asking "Who's next?"

Four Paths
A Loose Definition

- The term "REIT conversions" is used loosely by the market
- Companies that "converted" have actually followed four different paths:
  Conversions; Opco/Propco Splits; Spin-offs; and Mergers
- Each type of conversion has advantages and disadvantages

Is It Real Estate?
Own vs. Lease

- REIT investors are wrestling with a thorny question:
  Are some of these really real estate companies?
- Timber REITs and American Tower have been ***excluded*** from key REIT indices
- Prison REITs, by contrast, have been ***included***
- Where will billboard, records storage, and data center operators fit?
- Investors should be open minded that today's ugly duckling may someday become a swan

Two Key Drivers
Lunches Aren't Free

- There are two key drivers of the conversion trend
- Multiple Alchemy – REITs sport much higher P/E multiples than C-corps
- Tax Savings – huge at the corporate level; much smaller net to shareholders

Conclusions
More to Come

- The REIT conversion path is long and complex; you don't just flip a switch
- It's worth it for a select group of C-corps, but not for most
- Management must accept the high bar set for REIT disclosure and corporate governance
- Key risks: legislative changes, market acceptance, and operations/execution
- Speculation on "Who's next?" will continue as long as REITs trade at high multiples

Recent and Expected REIT Conversions

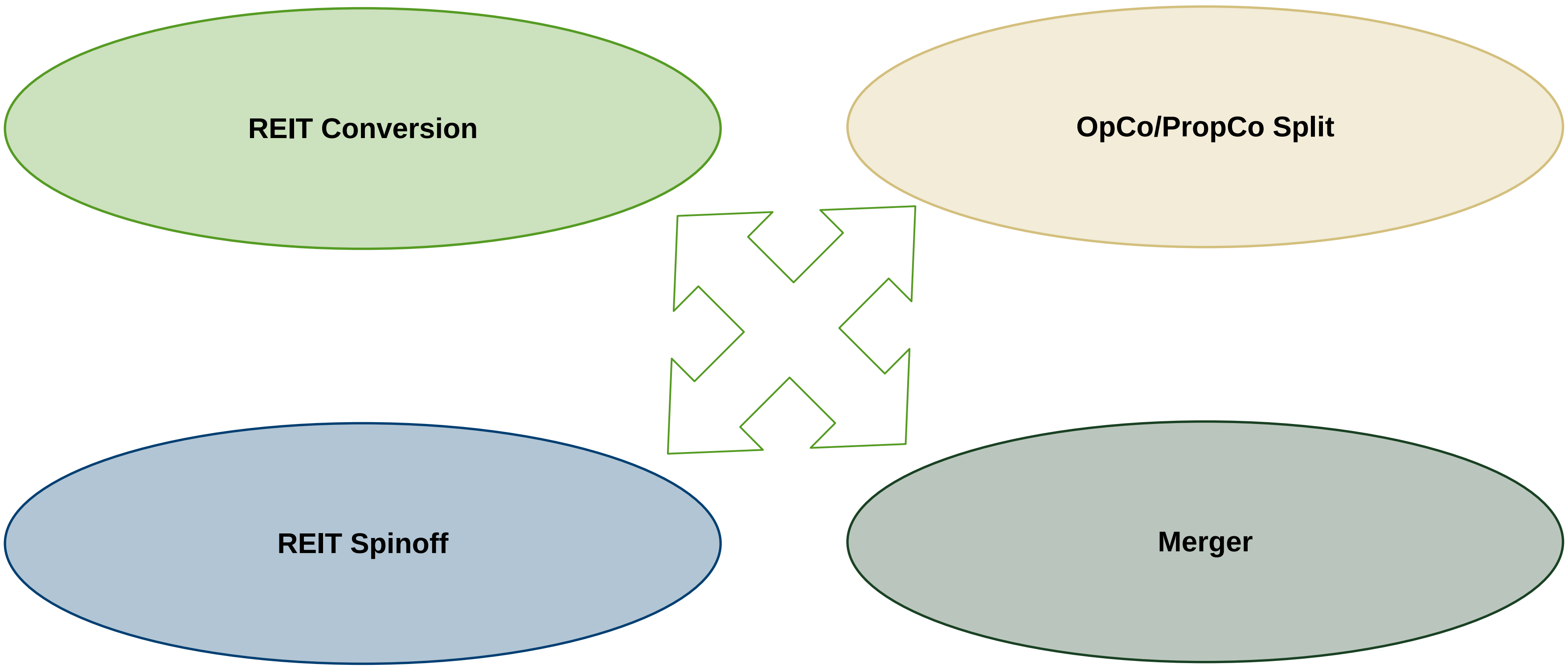
Jump In, The Water's Warm: REIT conversions have recently captured a lot of headlines. The share price response for nearly all of the companies that have announced conversions has been favorable. Those share price "pops" have investors asking "Who's next?"

Company	Ticker	Equity Market Capitalization ($ Millions)	Industry	Expected Completion
Weyerhauser	WY	$10,250	Timber	Complete
American Tower	AMT	$30,840	Cell Towers	Complete
Ryman Hospitality (f.k.a. Gaylord Ent.)	RHP	$1,950	Hotels	Complete
Cyrus One	CONE	$350	Data Centers	Complete
GEO Group	GEO	$2,010	Prisons	Complete
W.P. Carey	WPC	$3,590	NNN	Complete
Corrections Corporation of America	CXW	$3,710	Prisons	Complete
	Completed	$52,700		
Iron Mountain	IRM	$6,930	Document Storage	2014
Lamar Advertising	LAMR	$4,390	Billboards	2014
CBS Outdoor	CBS	n/a	Billboards	2014
Penn National	PENN	$4,200	Casinos	2014
Equinix	EQIX	$10,280	Data Centers	2015
Crown Castle International	CCI	$20,600	Cell Towers	2016
	Anticipated	$46,400		

This represents a nearly 9% expansion of the REIT industry's current equity market cap

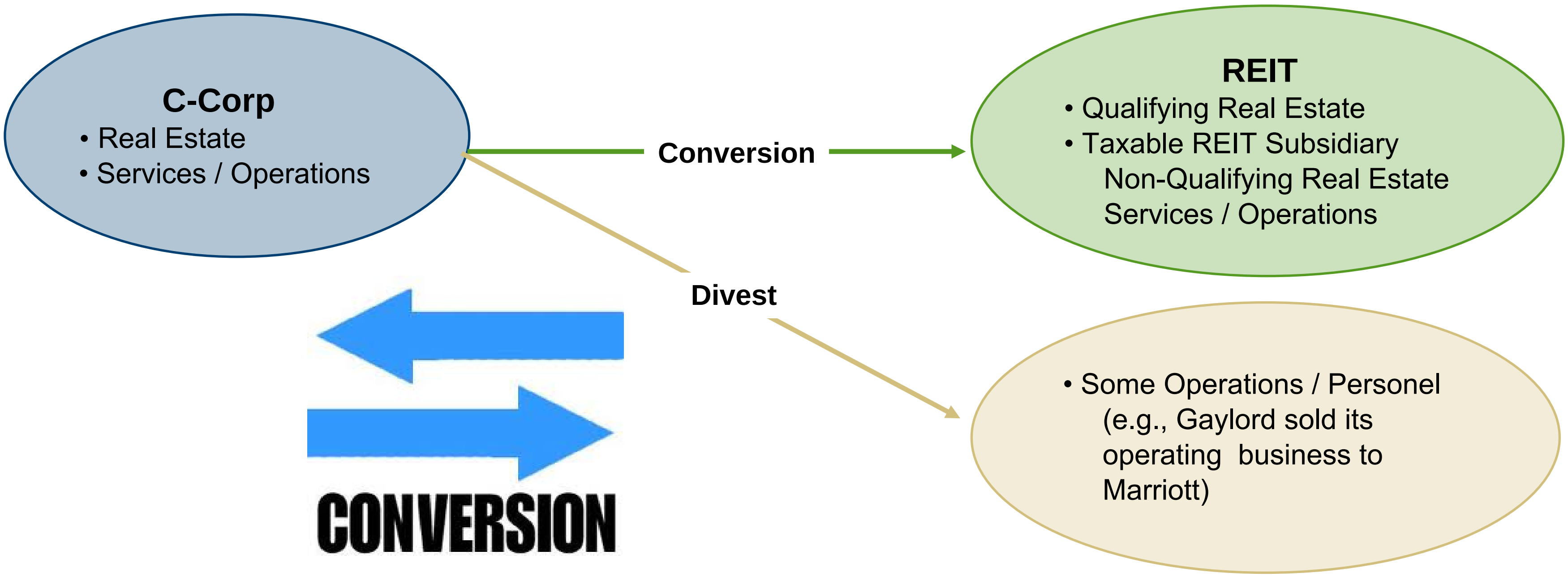
Types of Conversions

Four Paths: The term "REIT conversion" is used loosely by the market. The "conversions" recently announced have really followed four different structural paths. Each has important advantages and disadvantages.



Types of Conversions: The "Pure" REIT Conversion

Most Common Right Now: In a pure REIT conversion, a C-corp converts its entire business into a REIT. The real estate assets are subsequently owned by the REIT and the operating business is housed in a taxable REIT subsidiary (TRS). There is much debate among investors over what constitutes "real estate" particularly if a company leases, rather than owns, its properties. Nevertheless, creativity with regards to what constitutes "rent" has opened the door for companies far outside the core real estate property sectors to join the REIT industry.



Key Advantage: Clean way to capture benefits of the REIT structure

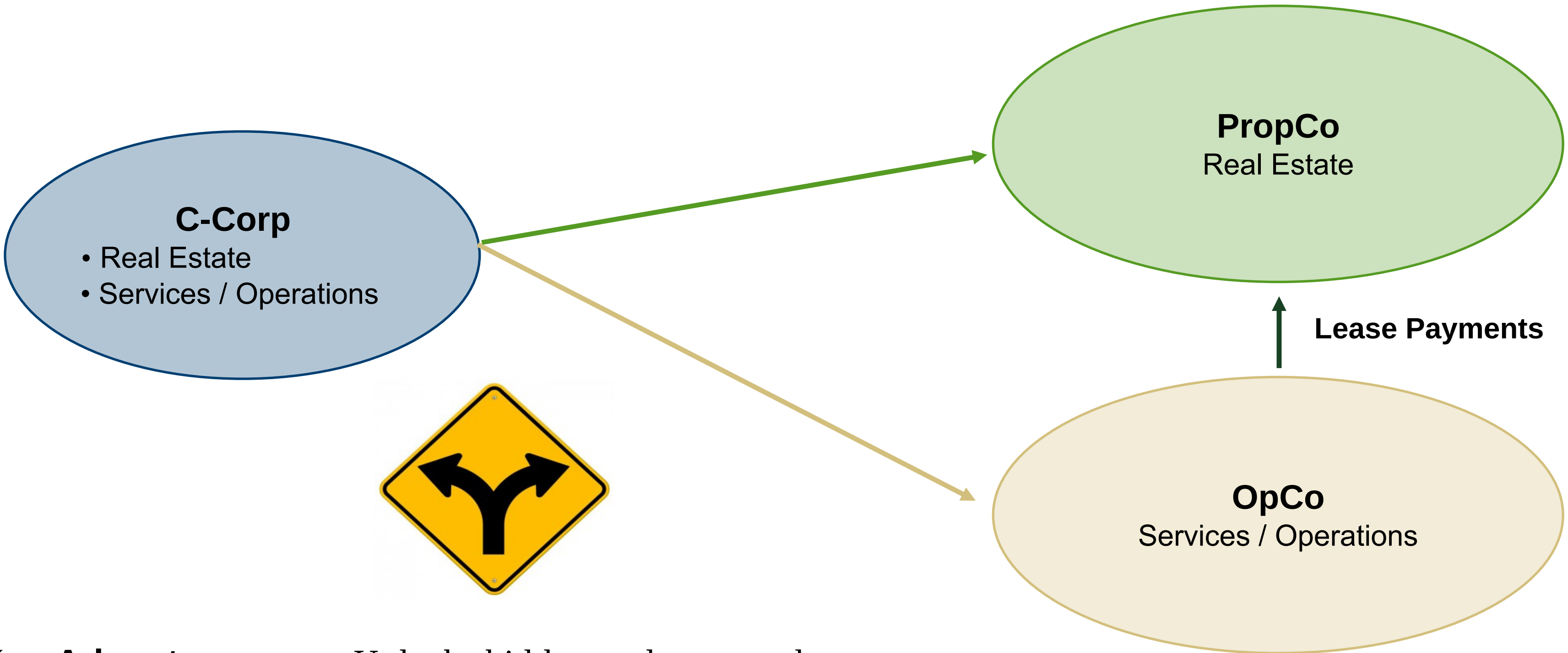
Key Disadvantage: Investors are asking "Is it really real estate?"

Case Studies

Weyerhauser
American Tower
Geo Group
Corrections Corp.

Types of Conversions: Opco/Propco Split

The Most Discussed: The Opco/Propco split results in two separate publicly traded companies. The property company (Propco) becomes a REIT and leases back the real estate to the operating business (Opco). Opco/Propco is the most commonly speculated REIT conversion structure for any C-corp that owns a lot of real estate (e.g., McDonald's, Target, J.C. Penney). However, the complexities are significant and there will be far more ideas floated than deals ultimately completed.



<u>Key Advantage:</u> Unlocks hidden real estate value

<u>Key Disadvantage:</u> Enhanced risk for any REIT with just one initial tenant

<u>Case Study</u>

Penn National Gaming

Types of Conversions: REIT Spinoff

The Clearest Path: The REIT spinoff involves an operating business distributing a real estate-intensive segment of its business as a stand-alone company to its existing shareholders. The key difference between a spinoff and an Opco/Propco structure is that the spinoff entity generates revenue from a variety of third-party customers. In the Opco/Propco scenario, by contrast, all of the REIT's initial rent comes from Opco. As a result, the spinoff is a much "cleaner" REIT conversion path.

Key Advantage: Avoids initial single-tenant risk of OpCo/PropCo

Key Disadvantage: Investors are asking "Is it real estate?"

Case Studies

CyrusOne
CBS Outdoor

Types of Conversions: Merger

Non-Traded REIT Nirvana: Merging a C-corp into an existing REIT is a rare circumstance. However, rapid evolution in the conflict-laden, non-traded REIT world has spurred a couple of these recently. Non-traded REIT sponsors are finding that merging their advisory entities into existing REITs they manage is an efficient way to monetize the lucrative advisory and property management contracts they hold with those REITs. The key question is whether the REIT shareholders are paying a reasonable price.

C-Corp
Services / Operations

+

REIT
Real Estate

=

REIT
- Real Estate
- Taxable REIT Subsidiary
  Services / Operations

Key Advantage: Eliminates conflicts of interest

Key Disadvantage: Hard to tell if REIT shareholders are getting a fair deal

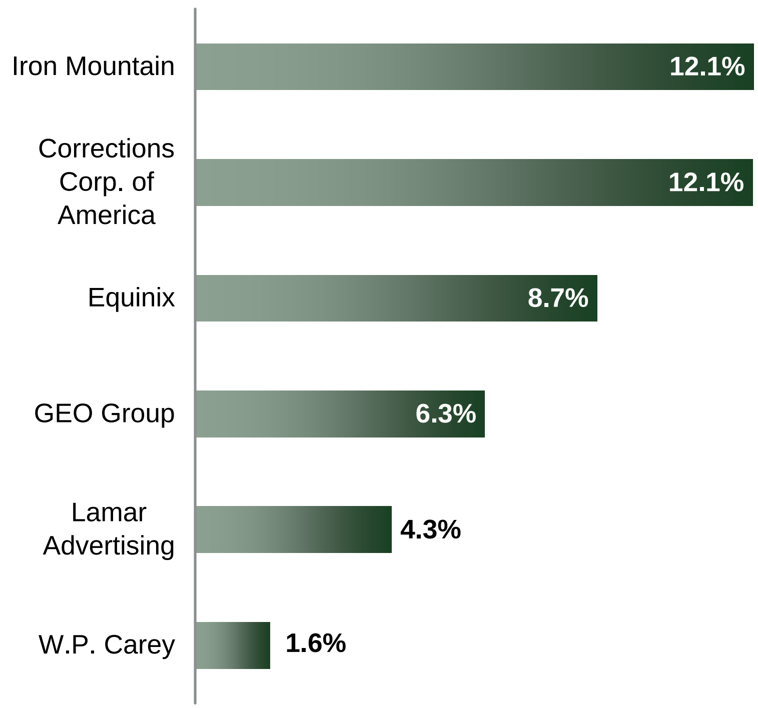
Case Study

W.P. Carey
Cole / Cole III (Pending)

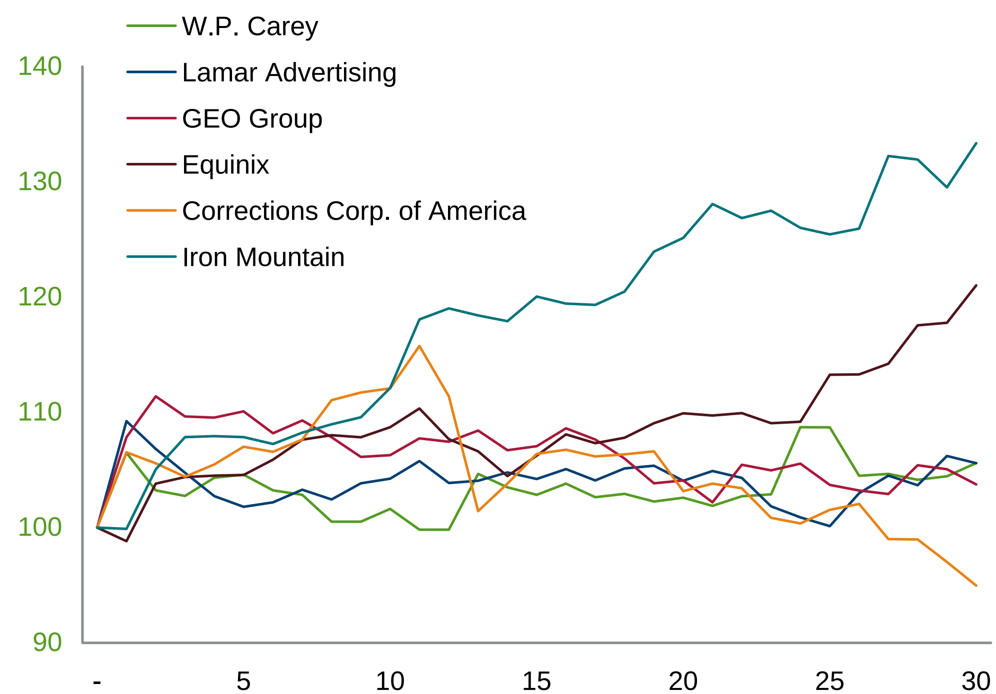
Appendix B: Post-Announcement Share Price Performance

Price Pop: The C-corps that have recently announced REIT conversions have experienced share price "pops" averaging about 5% over the first 10 days and 7% over 30 days. The size of the equity value increase has usually been a function of a multiple applied to the anticipated corporate tax savings.

Indexed Returns: 10 Days Following Announcement



Indexed Returns: 30 Days Following Announcement



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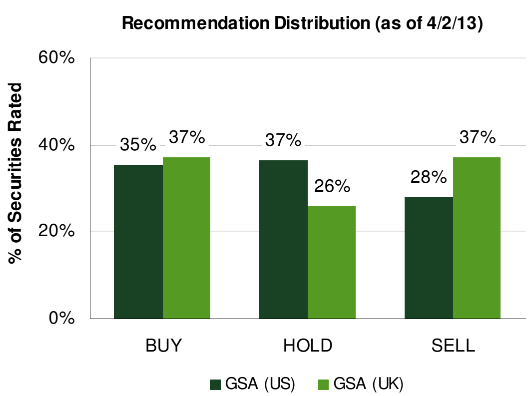

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Total Return of Green Street's Recommendations[1,2]

Year	Buy	Hold	Sell	Universe[3]
2013 YTD	7.2%	7.1%	11.9%	8.5%
2012	24.5%	24.7%	18.9%	23.0%
2011	18.9%	7.6%	-4.7%	7.6%
2010	43.3%	32.8%	26.6%	33.8%
2009	59.0%	47.7%	6.0%	37.9%
2008	-28.1%	-30.9%	-52.6%	-37.3%
2007	-6.9%	-22.4%	-27.8%	-19.7%
2006	45.8%	29.6%	19.5%	31.6%
2005	26.3%	18.5%	-1.8%	15.9%
2004	42.8%	28.7%	16.4%	29.4%
2003	43.3%	37.4%	21.8%	34.8%
2002	17.3%	2.8%	2.6%	5.4%
2001	34.9%	19.1%	13.0%	21.1%
2000	53.4%	28.9%	5.9%	29.6%
1999	12.3%	-9.0%	-20.5%	-6.9%
1998	-1.6%	-15.1%	-15.5%	-12.1%
1997	36.7%	14.8%	7.2%	18.3%
1996	47.6%	30.7%	18.9%	32.1%
1995	22.9%	13.9%	0.5%	13.5%
1994	20.8%	-0.8%	-8.7%	3.1%
1993	27.3%	4.7%	8.1%	12.1%
Cumulative Total Return	**9231.9%**	**788.5%**	**1.0%**	**885.5%**
Annualized	**25.2%**	**11.4%**	**0.1%**	**12.0%**

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(2) Company inclusion in the calculation of total return has been based on whether the companies were listed in the primary exhibit of Green Street's "Real Estate Securities Monthly". Beginning April 28, 2000, Gaming C-Corps and Hotel C-Corps, with the exception of Starwood Hotels and Homestead Village, are not included in the primary exhibit and therefore not included in the calculation of total return. Beginning March 3, 2003, all Hotel companies are excluded.

(3) All securities covered by Green Street with a published rating that were included in the calculation of total return. Excludes "not rated" securities.

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