UBS

Wealth Management Research

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Real estate markets

2, 4, 6, 8, buy multifamily real estate...selectively

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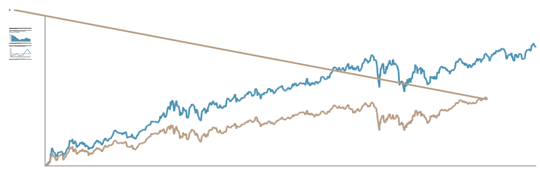
- The fundamentals of the multifamily sector remain very favorable with strong renter and investor demand, impressive rent growth and a dearth of new supply in many markets.
- We believe significant investment opportunities exist for private market multifamily assets. However, we believe substantially more attractive risk-adjusted returns can be realized in demographically attractive secondary and tertiary markets.
- Multifamily REITs with attractive fundamentals and favorable relative valuations include Home Properties (HME-Outperform), Apartment & Investment Management (AIV-Outperform) and Colonial Properties (CLP-Outperform).

Investment interest in both public and private multifamily (MF) assets has been extremely strong over the past several years. In terms of the public markets, the SNL Financial Multifamily REIT index has significantly outperformed both the broader SNL U.S. REIT Index and the S&P 500 over the past three years (Chart 1). In the private market, MF transaction cap rates have declined precipitously since 2001 and are approaching the lows of the past 12 years (Chart 2).

The MF sector has clearly benefited from the challenges in the economy, restricted access to home mortgage credit and the decline in homeownership rates. As can be seen in Chart 3, after peaking at just over 69% in 2005, homeownership has declined to its long-term average of approximately 65%. Based on some 113 mn U.S. households, the 400bp decline in homeownership rates has led to 4.5mn households seeking shelter by means other than owning a home. Invariably, many of these households found their way to the MF market. This is manifested in the national MF occupancy rates of approximately 95%. Given the impact of large decline in housing values following the bursting of the housing bubble (~ USD 7 trillion), it is certainly possible homeownership rates could continue to decline from current levels.

Chart 1 - SNL Financial Multifamily REIT Index Performance Relative to SNL U.S. REIT Index & the S&P 500



Additionally, the MF sector has benefited from a dearth of new supply. During the recent financial crisis, MF unit starts declined almost 80% from long-term averages. Despite a pickup in new starts and permitting, new MF construction remains well below the long-term average.

The attractive supply/demand fundamentals notwithstanding, we believe investors should be selective in their approach to investing in MF assets. In terms of public market investing, we are concerned that a number of MF REITs, with implied cap rates in the low to mid 4% range and multiples on 2013E free cash flow (AFFO) in the 24x-27x range, leave investors with little margin for error. We recognize that these REITs are very well managed and operate in strong markets. However, we believe REIT investors can attain MF exposure to attractive and improving markets on a more attractive risk-adjusted basis by being more valuation sensitive. Our preferred public MF investments include Home Properties (HME-Outperform), Apartment & Investment Management (AIV-Outperform) and Colonial Properties (CLP-Outperform).

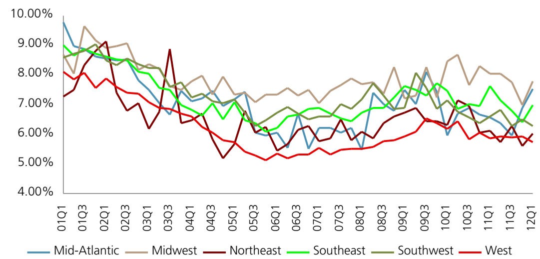
In terms of investing in private MF assets, we believe investors can achieve significantly more attractive risk-adjusted returns by purchasing/investing in assets in demographically attractive secondary and tertiary markets where transactional cap rates have been running 300-400 bps higher than the coastal markets. The industry's strong supply/demand fundamentals combined with the wide valuation gap and relatively more benign rent increases in the non-coastal markets provides for a total return potential from investment in the secondary and tertiary markets that is more attractive on both an absolute and risk-adjusted basis.

Valuation & asset pricing - coastal markets leading the pack

The strength of the MF market has led to fairly aggressive valuations and transaction prices, particularly for those companies/assets located in high barrier-to-entry coastal markets and Sunbelt markets that are experiencing in-migration (Chart 4). Although both the public and private MF markets have seen significant asset value growth, since late 2009 the valuations of publicly-traded MF companies have strongly outpaced private market transaction pricing (Chart 5). In fact, the cap rate spread between public company implied cap rates and private market transactional cap rates is at a 12 year high. Charts 6 and 7 provide a time series of asset pricing (price per unit [PPU] and average cap rate) for private market transactions in both garden style and mid/high rise style units. Clearly mid/high rise structures garner higher valuations as compared to their garden style peers. That said both styles have experienced asset value inflation over the past 12 years. In table 5 on page 12 we provide some supplemental data on average per door unit pricing trends over the past two years for a number of MSAs.

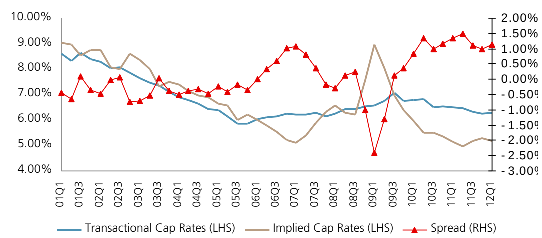
Looking a bit deeper into regional trends (Charts 8-13 on page 3), it is clear that there is a stark bifurcation in valuation between markets. Significant demand from REITs and other institutional investors in markets including Manhattan, Washington D.C., San Antonio, Austin, Seattle, San Francisco and San Jose/Silicon Valley have driven cap rates to multi-year lows, in some cases below 4% in select transactions.

Chart 4 - Private Market Transactional Cap Rates by Region



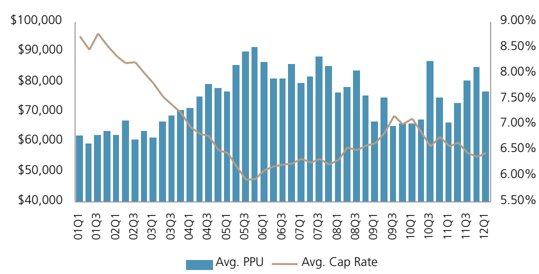
Source: Real Capital Analytics

Chart 5 - REIT Implied Cap Rates & Private Market Transactional Cap Rates



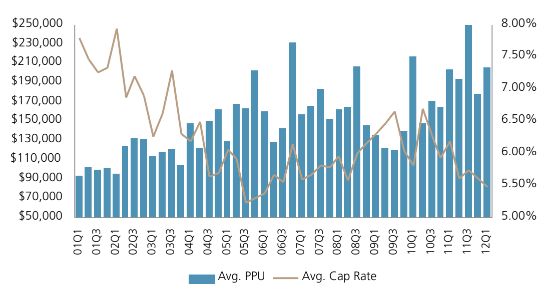
Source: Real Capital Analytics, UBS Estimates

Chart 6 - Garden Style Multifamily Pricing Trends



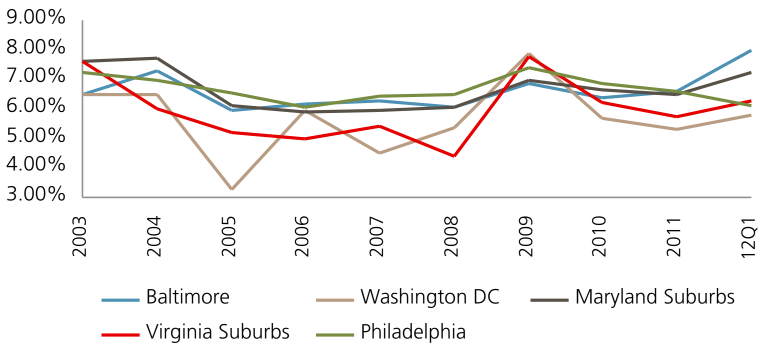
Source: Real Capital Analytics

Chart 7 - Mid/High Rise Multifamily Pricing Trends



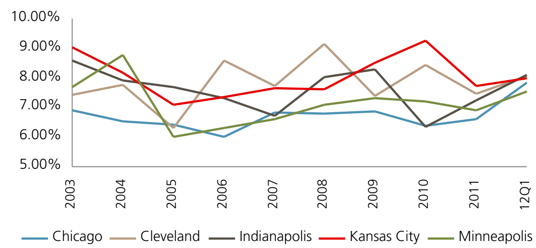
Source: Real Capital Analytics

Chart 8 - Mid Atlantic Multifamily Private Market Cap Rate Trends



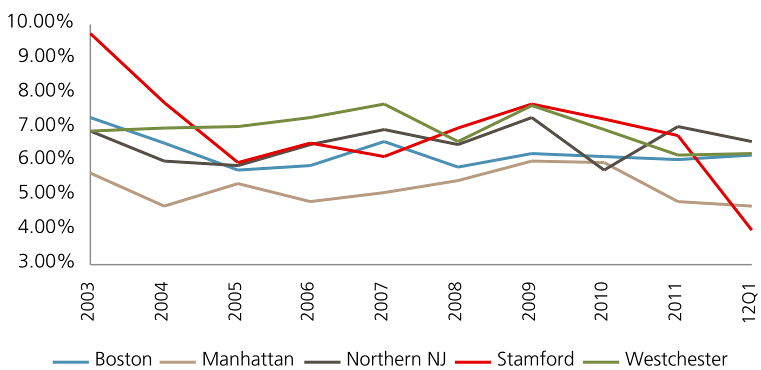
Source: Real Capital Analytics

Chart 9 - Midwest Multifamily Private Market Cap Rate Trends



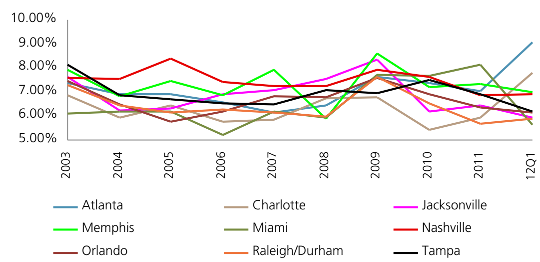
Source: Real Capital Analytics

Chart 10 - Northeast Multifamily Private Market Cap Rate Trends



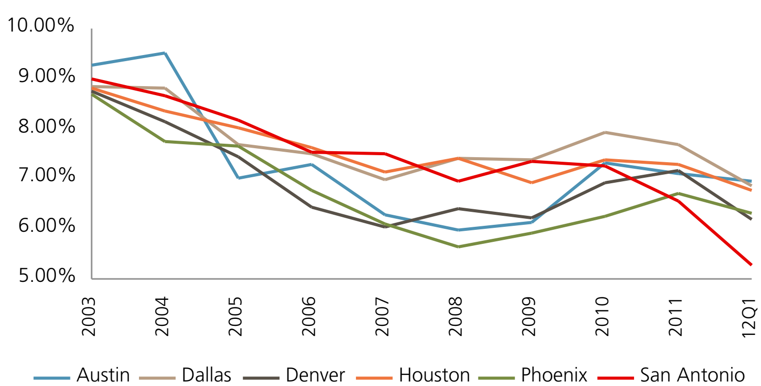
Source: Real Capital Analytics

Chart 11 - Southeast Multifamily Private Market Cap Rate Trends



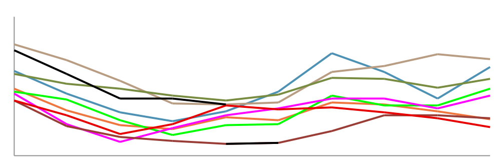
Source: Real Capital Analytics

Chart 12 - Southwest Multifamily Private Market Cap Rate Trends



Source: Real Capital Analytics

Chart 13 - West Multifamily Private Market Cap Rate Trends



Conversely, non-coastal markets and secondary business center MSAs display valuations that provide a much larger risk/reward cushion. We understand that rent growth in a number of coastal markets has substantially exceeded that of these non-core markets recently (rent trends are discussed a bit later). However, at a cap rate differential of 300-400 basis points between core and non-core markets, we believe the annual rent growth required to justify many of the core market asset valuations substantially raises the risk profile of these deals. We believe significantly better risk-adjusted returns can be found in a number of non-core, secondary markets, particularly in the Southeast and Mid Atlantic.

Access to capital - this is not the home mortgage market
Unlike the challenges in the single family housing market, access to mortgage capital for credit-worthy acquirors of MF properties is both robust and attractively priced. Fannie Mae and Freddie Mac (the Agencies) account for almost 40% of the outstanding USD 843 billion MF mortgage market (Chart 14). The Agencies continue to be active lenders to the MF market given the attractive economics and low default rates. In addition to the Agencies, banks and insurance companies are also prominent in the MF market.

Regarding pricing, the underwriting terms for MF debt are very attractive. Table 1 highlights the current MF loan pricing from Freddie Mac. As the table indicates, a seven year, fully amortizing mortgage loan can be underwritten at a loan-to-value of 80% with a debt service coverage ratio of 1.25x. Spreads will clearly vary according to the quality of the borrower and the property. In the current environment, spreads for credit-worthy borrowers in the range of 200-250bps are not unreasonable.

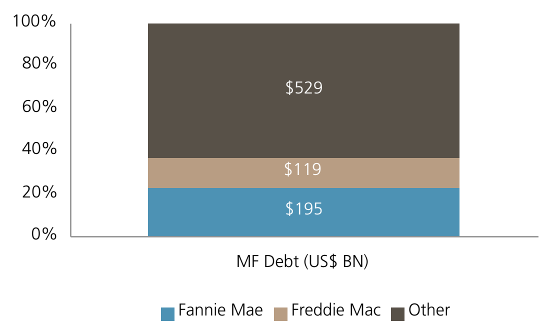
Rent trends - has growth peaked for some markets?
Table 2 on page 5 highlights REIT MF rent growth rates for a number of MSA's across the country annually for the periods 1Q of 2010, 2011 & 2012 as well as for the two-year period 1Q 2010-1Q 2012. Following a challenging year in 2010 (1Q year-on-year), rents rebounded sharply in 2011 and 2012 with many markets showing high teens rent growth over the 2010-2012 period. The hottest market from a rent perspective has been San Francisco, which boasted a 22.2% increase in rents between 1Q 2010 and 1Q 2012. Despite these robust figures, a number of MSAs have begun to show a decline in the rate of rent growth (sometimes referred to as a negative second derivative). Per Table 2, of the 28 MSA we highlighted, 17 (61%) showed slower rent growth in 2012 vs 2011 (highlighted in red). We believe this is a trend that bears close scrutiny.

Table 1 - Freddie Mac Multifamily Loan Pricing as of 23 July 2012

	Fixed rate LTV/DSCR		
	Amortizing	Partial I/O	I/O
Acquisition / No cash out refi			
>=7-year term	80%/1.25x	80%/1.25x	65%/1.35x
<7-year term	70%/1.30x	60%/1.35x	60%/1.40x
Cash Out Refi			
>=7-year term	75%/1.30x	75%1.30x	60%/1.40x
<7-year term	65%/1.35x	60%/1.40x	60%/1.45x

Source: Freddie Mac

Chart 14 - Multifamily Debt Outstanding by Issuer



Source: Fannie Mae, Freddie Mac, FRB

Table 2 - REIT Multifamily Rent Growth by MSA

	REIT Multifamily Rent Growth			
	1Q '09 - 1Q '10	1Q '10 - 1Q '11	1Q '11 - 1Q '12	1Q '10 - 1Q '12
San Jose	-6.13%	9.25%	11.87%	22.23%
San Francisco	-3.19%	8.46%	9.53%	18.80%
Boston	-2.65%	8.57%	8.25%	17.53%
New York	-4.23%	8.59%	6.16%	15.28%
Denver	-2.83%	5.75%	7.90%	14.10%
Pittsburgh	0.44%	7.55%	5.96%	13.96%
Portland	-4.76%	9.05%	3.94%	13.35%
Seattle	-8.31%	7.47%	4.94%	12.78%
Chicago	-1.00%	7.82%	3.77%	11.88%
DC	2.31%	7.04%	3.93%	11.26%
San Antonio	0.16%	4.80%	6.08%	11.17%
Houston	-2.21%	6.07%	4.63%	10.99%
Detroit	-4.12%	2.99%	7.54%	10.76%
Miami	0.43%	6.85%	2.64%	9.66%
Dallas	-5.29%	3.89%	5.09%	9.18%
Phoenix	-6.31%	4.84%	3.83%	8.86%
Tampa	-2.65%	5.97%	2.47%	8.59%
Minneapolis	-4.32%	6.32%	1.35%	7.76%
Orlando	-0.15%	2.25%	4.90%	7.26%
Los Angeles	-2.08%	3.04%	3.55%	6.70%
St. Louis	-2.77%	2.42%	4.03%	6.55%
Riverside	-2.79%	3.17%	2.72%	5.98%
Aggregate	-5.18%	2.95%	2.69%	5.72%
Atlanta	-5.05%	2.09%	3.17%	5.32%
Sacramento	-6.08%	3.15%	1.42%	4.62%
San Diego	-2.07%	1.87%	2.33%	4.25%
Baltimore	2.39%	2.16%	1.89%	4.09%
Philadelphia	4.36%	2.22%	1.27%	3.51%

Source: Axiometrics

Rent vs. buy - the plot thickens

As we wrote in our 18 July 2012 report entitled *U.S. Housing Market, The Good, The Bad, The Questions*, housing affordability in many markets is at multi-year highs and mortgage rates are at 40 year lows. As such, there are a number of markets in the country where it is, substantially in some cases, less expensive on a monthly after-tax basis, to own rather than rent. This is best demonstrated in Chart 16 on page 7, which highlights the current rent premium (discount) to monthly after-tax ownership costs as well as where this relationship is relative to its long-term average. In short, many of those markets that were hit very hard during the housing downturn, including Atlanta, Chicago, Miami, Orlando and the Inland Empire appear attractive on a relative ownership basis.

We took this analysis a step further and factored in housing costs as a % of income to our analysis of the rent/own premium relationship. The results of this can be found in Chart 17 (primary MSAs) and Chart 18 (secondary MSAs) on page 8. As can be seen in the charts, there are a number of MSAs where not only is rent at a significant premium to after-tax monthly ownership costs, but housing costs as a multiple of income are quite modest. We believe this further complicates the rent/buy calculus.

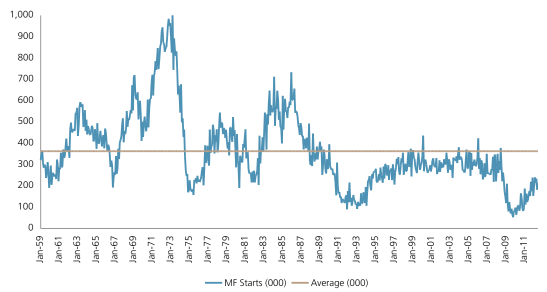
We wish to emphasize that the above analysis assumes that a prospective homeowner has sufficient funds for a down payment and can secure a mortgage - neither of which are a given in this environment. In addition, the analysis excludes the ancillary maintenance costs of homeownership that would (normally) be covered by the landlord in a rental situation. Therefore, it would be erroneous to conclude that just because a given market has a large rent/own premium and a low home cost/income ratio that MF ownership in these markets is a bad idea. That said, markets demonstrating these characteristics could likely see below average rent growth and higher levels of vacancy relative to MSAs with stronger housing markets.

New capacity - the siren song of the bears

As can be seen in chart 15 MF development dropped precipitously during the 2008 financial crisis as construction lenders effectively withdrew from the market, many merchant builders exited the business and REITs significantly scaled back on their development pipelines. An economic recovery coupled with a normalization in the capital markets has brought new MF starts significantly off the bottom. That said, at an annualized rate of 213,000 (June 2012), MF starts are still well below the long-term average of 363,000. Although construction lending has picked up from the depths of the downturn, we do not believe the market is in danger of overheating anytime soon.

We do agree that in selected sub markets, there is a risk of substantial new capacity coming online. In Table 3 we examine the MSAs that have sub markets that are exposed to sizeable new construction activity. As the data in the chart indicate, some of the more aggressive development markets include Dallas, Denver, San Antonio and Washington D.C. We do wish to stress that sub market analysis is crucial in determining those markets that face potential overbuilding. This is based on the data in Chart 19 on page 9 which highlights new construction as a % of existing inventory for 24 select MSAs. As can be seen in the chart, the MSA with largest current construction activity was San Antonio with just 2% of existing inventory currently under construction.

Chart 15 - New Multifamily Starts History



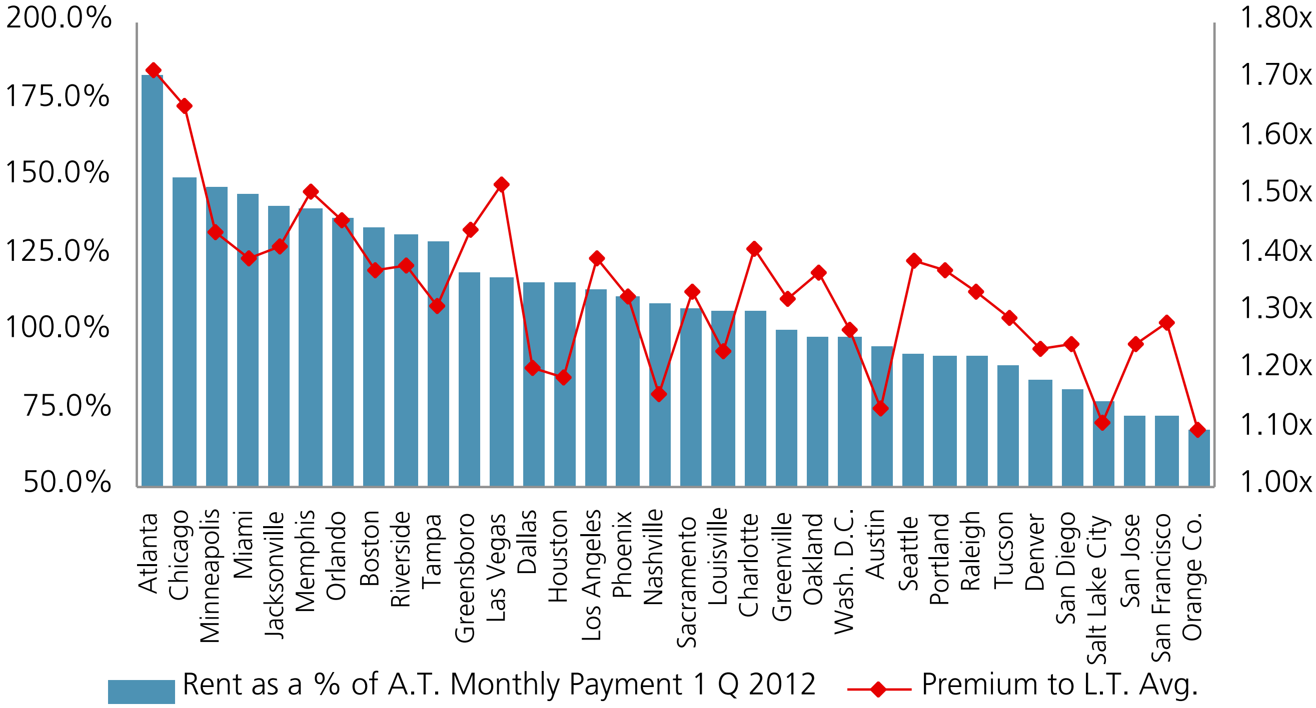
Source: U.S. Census

Table 3 - New Capacity Under Construction as a % of Existing Inventory for Select Sub markets

MSA	Submarket	Under Construction as a % of Inventory
Atlanta	Vinings	4.1%
Atlanta	Buckhead	3.6%
Atlanta	Kennesaw/Woodstock	3.5%
Atlanta	Downtown/Midtown	2.3%
Atlanta	Far East Atlanta Suburbs	2.2%
Baltimore	North Anne Arundel County	5.8%
Baltimore	Columbia/Ellicott City	3.2%
Boston	Quincy	3.3%
Boston	Waltham/Newton/Lexington	2.0%
Chicago	Streeterville/River North	4.0%
Dallas	Frisco / Prosper	9.7%
Dallas	Las Colinas / Coppell	9.1%
Dallas	Intown Dallas	5.4%
Dallas	Allen / McKinney	4.0%
Dallas	Carrollton / Farmers Branch / Addi	3.4%
Dallas	Lewisville Area	2.7%
Dallas	Denton	2.2%
Denver	Broomfield	11.9%
Denver	Parker/Castle Rock	4.5%
Denver	Northeast Denver	3.7%
Denver	Arvada/Golden	3.1%
Denver	Thornton/Northglenn	2.1%
Houston	Medical Center/University	4.0%
Houston	Downtown/West Inner Loop	2.7%
Houston	Greenway Plaza/Upper Kirby	2.6%
Houston	Galleria/Uptown	2.4%
Houston	The Woodlands	2.1%
Minneapolis	Bloomington	4.5%
Minneapolis	Downtown/University	2.3%
Philadelphia	Burlington	2.5%
Phoenix	Deer Valley	5.9%
Phoenix	Chandler	4.1%
Pittsburgh	Central Pittsburgh	5.3%
Portland	Lake Oswego/Tualatin/Wilsonville	3.4%
Riverside	Corona	5.0%
San Antonio	Alamo Heights	10.5%
San Antonio	Far West San Antonio	9.4%
San Antonio	Far North Central San Antonio	5.3%
San Antonio	New Braunfels/Universal City	4.4%
San Antonio	Central San Antonio	2.7%
San Antonio	South San Antonio	2.6%
San Antonio	West San Antonio	2.4%
San Diego	Northeast San Diego	4.4%
Seattle	Intown Seattle	2.7%
Tampa	New Tampa/East Pasco County	4.4%
Tampa	Central Tampa	3.5%
Washington, DC	Fredericksburg/Stafford	5.3%
Washington, DC	North Arlington	3.9%
Washington, DC	Tysons Corner/Falls Church/Merrifield	3.7%
Washington, DC	Navy Yard/Capitol South	3.2%
Washington, DC	Reston/Herndon	3.1%
Washington, DC	Northeast D.C.	2.8%
Washington, DC	Gaithersburg	2.8%
Washington, DC	Woodbridge/Dale City	2.6%
Washington, DC	Downtown Silver Spring	2.5%
Washington, DC	East Alexandria	2.4%

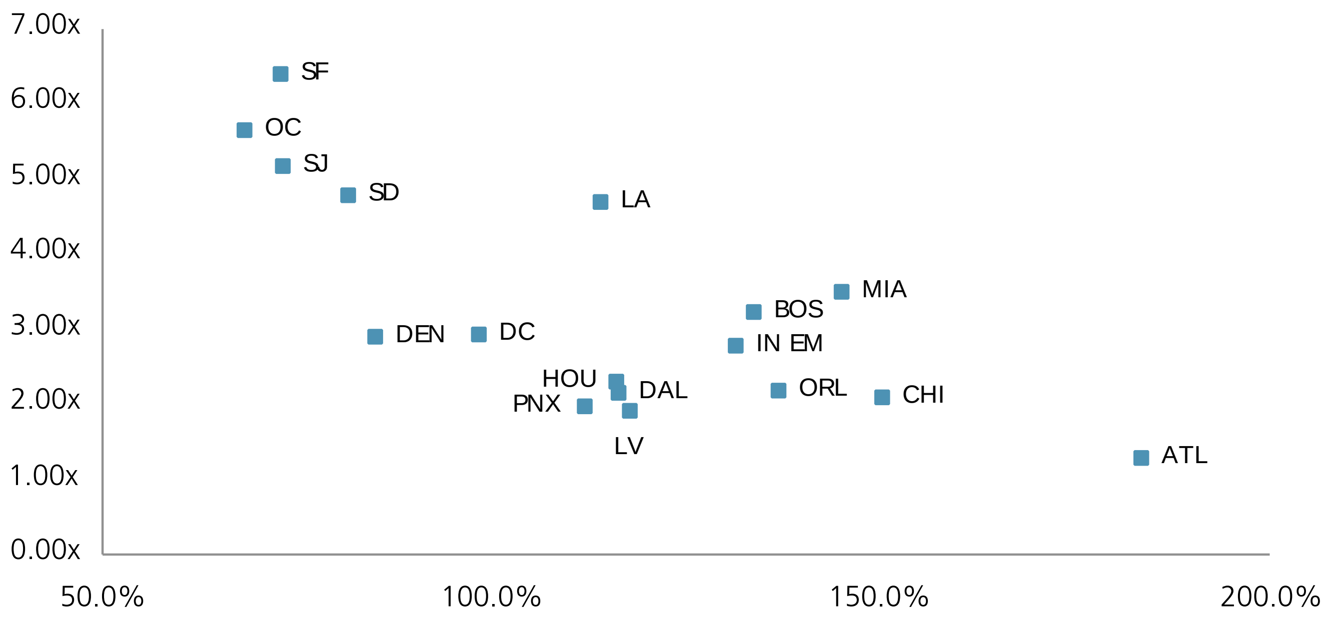
Source: CBRE

Chart 16 - Rent/Buy Premium for Select MSAs



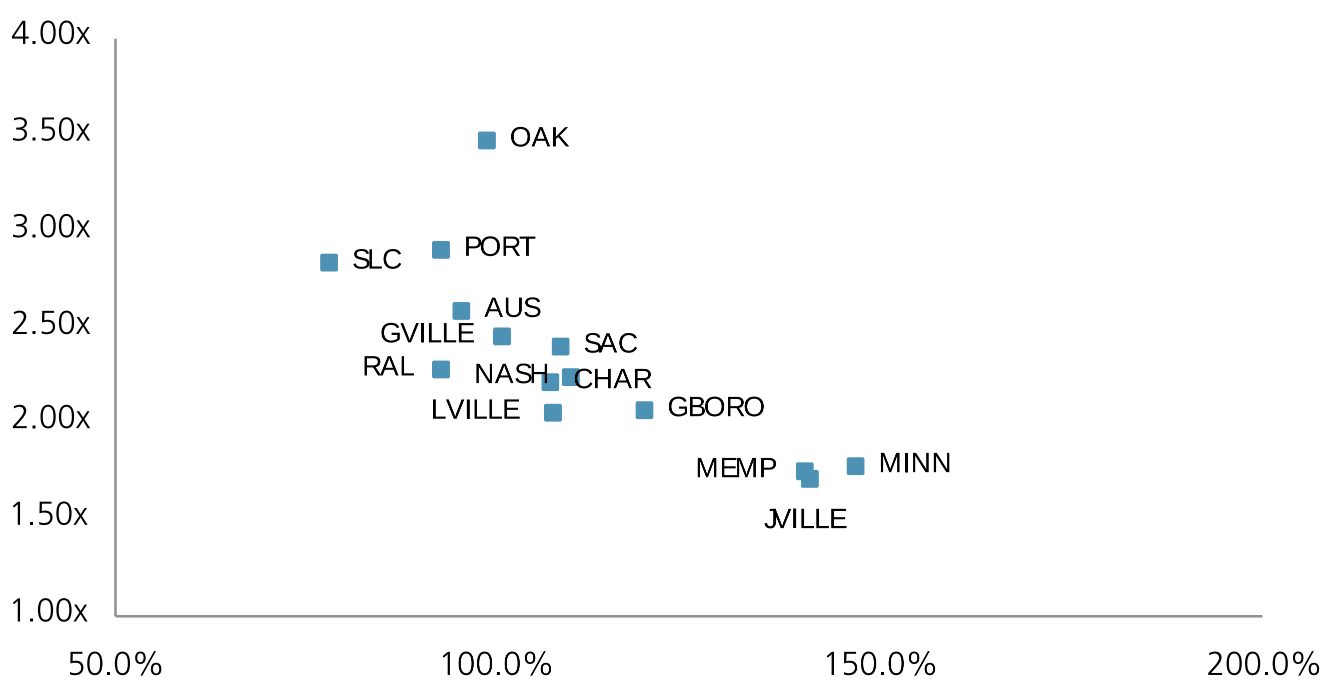
Source: Axiometrics, NAR, Local MLS, UBS Estimates

Chart 17 - Home Price/Income (Y axis) vs Rent as a % of After-Tax Monthly Ownership Costs - Primary MSAs (X axis)



Source: Axiometrics, NAR, Local MLS, UBS Estimates

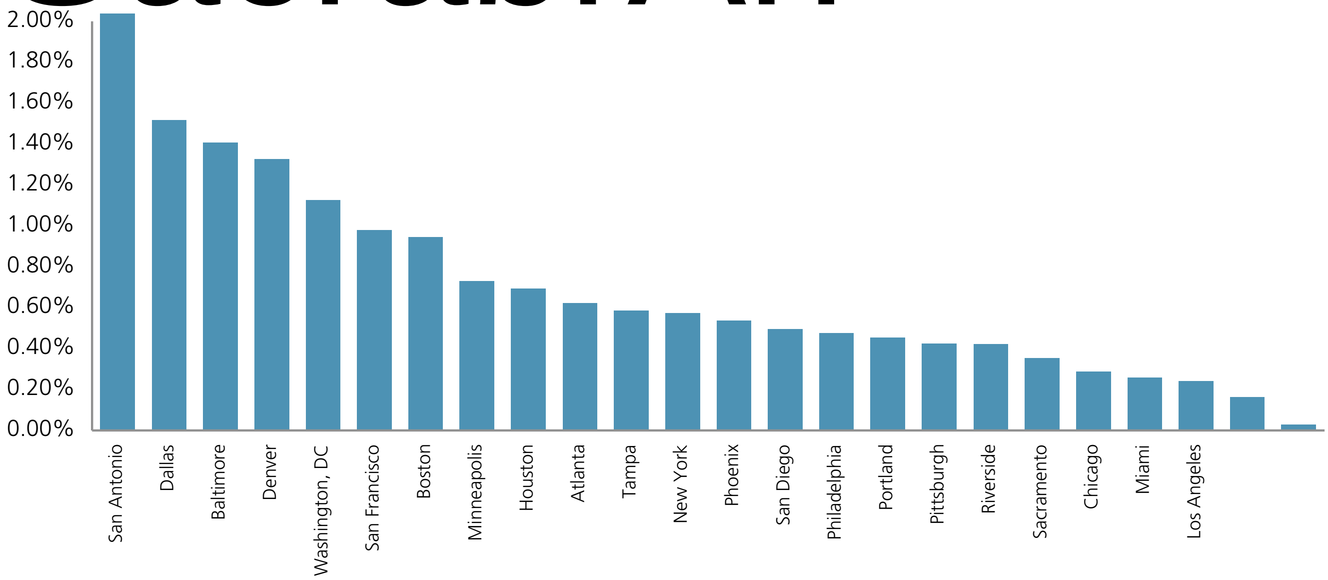
Chart 18 - Home Price/Income (Y axis) vs Rent as a % of After-Tax Monthly Ownership Costs - Secondary MSAs (X axis)



Source: Axiometrics, NAR, Local MLS, UBS Estimates

SacrabrAh

Chart 19: New Capacity Under Construction as a % of Existing Inventory for Select MSAs



Another focus of the bears has been new MF permitting activity. In Table 4 on page 11 we compare the MSAs with the greatest permitting activity (as a % of existing inventory) to annual employment growth for the past two 12 month periods ended in June. As can be seen in the chart, we few exceptions, each MSA experienced employment growth over the previous two 12 month periods. Of note, those MSAs with the largest permitting activity also experienced some of the strongest employment growth. Although we do have some concerns that new construction in select markets could become an issue into 2014 and 2015, we believe permitting/construction should not be viewed in a vacuum. We believe employment growth and in/out-migration trends need to be a key part of the analysis.

Thanks to Matthew Kann for his detailed research and contribution to the production of this report.

Table 4 - New Permitting Activity & Employment Growth For Select MSAs

MSA	May '12 TTM MF Permitting as % of Inventory	Employment Growth June '10- June '11	Employment Growth June '11- June '12
Dallas	2.03%	2.13%	1.62%
San Antonio	1.91%	1.32%	1.22%
Houston	1.71%	2.41%	3.27%
Denver	1.66%	1.52%	2.19%
Baltimore	1.61%	0.88%	0.05%
Seattle	1.48%	1.90%	2.90%
Portland	1.44%	1.73%	2.06%
Washington, DC	1.39%	0.58%	1.31%
Riverside	1.04%	-0.55%	1.84%
San Diego	1.00%	0.26%	1.94%
San Francisco	0.93%	1.23%	3.55%
Minneapolis	0.91%	1.85%	1.50%
Atlanta	0.88%	1.15%	1.40%
Tampa	0.88%	1.26%	2.08%
Boston	0.85%	0.96%	2.16%
Miami	0.84%	2.37%	1.09%
Phoenix	0.73%	1.11%	2.69%
Los Angeles	0.72%	0.21%	1.50%
St. Louis	0.72%	0.86%	-0.08%
New York	0.53%	1.47%	1.79%
Chicago	0.47%	1.18%	0.88%
Philadelphia	0.44%	0.58%	0.20%
Sacramento	0.40%	-1.45%	1.36%
Pittsburgh	0.12%	1.62%	1.33%
Detroit	0.06%	0.93%	0.79%

Source: Axiometrics & CBRE

Table 5 - Average Per Door Transaction Prices in Select Markets 2010-June 2012

	Average Transaction Price Per Door
Manhattan	$286,364
NYC Metro	$238,565
San Francisco	$192,612
Boston	$179,434
Orange Co	$175,948
Los Angeles	$173,934
DC Metro	$152,031
Seattle	$145,599
East Bay	$145,036
San Diego	$138,912
Long Island	$136,954
San Jose	$135,197
No NJ	$125,338
Chicago	$114,179
Denver	$113,672
Philadelphia	$109,950
Baltimore	$103,516
Portland	$96,124
Inland Empire	$96,092
Miami	$91,603
Sacramento	$79,732
Minneapolis	$76,098
San Antonio	$71,495
Atlanta	$62,586
Tampa	$58,602
Phoenix	$57,160
Dallas	$48,402
Houston	$36,151

Source: Real Capital Analytics

Investment Thesis Summary - REITs

UBS WMR Financials: REITs - Sector Outperform List

Company	Ticker	Investment Thesis Summary
American Assets Trust	AAT	AAT trades at a significant discount to our estimate of NAV, has the highest AFFO growth rate of its peer group, has a strong balance sheet and the capacity to raise its dividend.
Apartment Invt & Mgmt	AIV	AIV had made significant strides focusing its portfolio on the top 20 markets in the U.S. and trades at a significant discount to the multifamily group.
Boston Properties	BXP	BXP has a best in class management team and property portfolio, an excellent balance sheet and access to significant liquidity. BXP operates in the four best office markets and the country - Manhattan, Boston, San Francisco and Washington D.C. The quality of the management and portfolio proved to be quite defensive in periods of economic and market turmoil and we believe this will be the case again.
Home Properties Inc	HME	HME trades at a significant multiple and cap rate discount to the attractive multifamily group despite having the highest dividend yield, the lowest tenant turnover and highest full cycle same store NOI growth in the group.
Simon Property Group	**SPG**	**SPG is a best in class operator with a best in class portfolio trading at an attractive relative and absolute valuation.**

UBS WMR Financials: REITs - Sector Underperform List

Company	Ticker	Investment Thesis Summary
Corporate Office Properties	OFC	OFC's significant exposure to the U.S. Government and government suppliers coupled with an aggressive development portfolio, occupancy and NOI pressures in certain core markets and high leverage limits upside potential in the shares.
Government Properties Trust	GOV	Despite the attractive yield and valuation we see the lack of upside catalysts keeping a lid on the stock and the significant risks in the bear case could lead to substantial downside.
Hudson Pacific Properties	HPP	Significant near-term lease rollovers, large tenant concentrations, substantial near-term dilution from an equity offering to acquire and reposition two new properties gives the shares an unattractive risk/reward profile in our opinion.
Piedmont Office Realty Trust	**PDM**	**PDM has a number of structural impediments includingan uncovered dividend, negative re-leasing spreads, exposure to a number of weak markets, a high level of secured debt and an unattractive valuation.**
Ramco-Gershenson	RPT	Centers concentrated in Florida and Michigan where housing markets are challenged an unemployment is high. Facing large lease rollovers and negative rent roll downs on new leases/renewals.
UDR Inc	UDR	UDR's dilutive capital recycling and equity issuance combined with an aggressive development and re-development program that will likely lead to a significant cash flow shortfall through 2013 has enhanced the risks for UDR's stock, particularly given its valuation.

Source: UBS WMR, as of 24 July 2012

Note:Companies in **BOLD** represent High Conviction Calls. See Appendix for a definition.

Investment Thesis Summary - REITs *(continued)*

UBS WMR Financials: REITs - Sector Marketperform List

Company	Ticker	Investment Thesis Summary
Alexandria R E Equities	ARE	We believe life sciences represent a solid asset class and that ARE is a best in class operator. Our enthusiasm is tempered by a lofty valuation.
American Capital Agency Corp	AGNC	Our Marketperform rating reflects a positive long-term outlook, but we believe the current environment for RWT needs to show more evidence of picking up before we become more bullish.
Annaly Capital Management	NLY	We think the strong operating conditions are likely to persist over the next year, in large part, due to the Fed's recent commitment to keep the fed funds rate low. However, given the strong operating environment, we do not see significant price appreciation opportunities.
AvalonBay Communities	AVB	We recognize the investment community's desire to "hide" in select preferred REITs. As such, we believe the stock will continue to trade at a premium valuation and, therefore, has a balanced risk/reward profile at current prices.
Camden Property Trust	CPT	Multifamily fundamentals are turning faster than previously anticipated. CPT is well positioned in its target markets given its operating strategy, management strength and balance sheet. However, risk/reward is balanced at the current valuation.
CBL & Associates Properties	CBL	Given the positive turn in CBL's releasing spreads and NOI we see risk/reward fairly balanced, particularly given the valuation gap between CBL and its class A mall peers.
Colonial Properties Trust	CLP	Attractive relative FFO multiple is offset by the geographic concentration in more challenged markets combined with unsold condo inventory risk and a portfolio with a number of assets in excess of 20 years old (and likely requiring additional capital dollars).
Digital Realty Trust	DLR	We believe data centers represent a solid asset class and that DLR is a best in class operator. Our enthusiasm is tempered by a lofty valuation.
Douglas Emmett	DEI	Risk/Reward fairly balanced as West L.A. strength and removal of debt refinancing overhang balanced by San Fernando Valley weakness and California Economy.
EastGroup Properties	EGP	We believe EGP trades at an aggressive valuation in light of its large negative re-leasing spreads, significant pending lease rollovers in weaker markets, limited AFFO & dividend growth potential and no exposure to faster growing international and emerging markets. However, the market appears more focused on those submarkets that are improving, occupancy gains and the potential for acquisitions and new development.
Equity Residential	EQR	Multifamily fundamentals are turning faster than previously anticipated. EQR is well positioned in its target markets given its operating strategy, management strength and balance sheet. Our enthusiasm for the shares is tempered by valuation concerns.
Essex Property Trust	ESS	ESS has a best in class management team and portfolio with exposure to some of the strongest apartment markets on the West Coast. However the riskreward profile is fairly balanced at current stock prices.
Federal Realty Investment Trust	FRT	FRT is a best in class operator in the strip center business. Our enthusiasm is tempered by a lofty valuation.
Hatteras Financial	HTS	Attractive yield, moderate risk. Mortgage REITS should benefit from Fed's commitment to low funding costs through mid-2013. Risks include higher prepayments, SEC review of industry.
Kimco Realty	KIM	We are seeking further clarity on joint venture debt repayment/refinancing and re-leasing spreads.
Mack-Cali Realty Corp	CLI	Strong balance sheet, undemanding valuation and 6%+ dividend yield offset by pressure on occupancy and re-leasing spreads.
Parkway Properties	PKY	PKY's discounted valuation is offset by the dilutive impacts and operational risks associated with the portfolio restructuring.
Post Properties	PPS	Given the improvement in MF fundamentals and the negative sentiment towards the stock it is hard to see this stock underperforming if MF continues to improve, as I believe it will.
ProLogis	PLD	Bottoming fundamentals combined with PLD's dominant industrial platform, strong management team & balance sheet, broad access to capital, a still-skeptical investment community, solid growth prospects in developing markets and coordinated fiscal stimulus in developed markets point towards a stock with a much more balanced risk/reward profile.
Realty Income	O	At an implied cap rate of 6.1% O is trading almost 200 basis points below its long-term average (and almost 400bps below its peak). Aggressive valuation offset by near 5% annual dividend yield (paid on a monthly basis).
Redwood Trust	RWT	Our Marketperform rating reflects a positive long-term outlook, but we believe the current environment for RWT needs to show more evidence of picking up before we become more bullish.
SL Green	SLG	SLG's recent aggressiveness in the acquisition market combined with the opaqueness of the structured finance book leave us neutral at the current valuation.
Tanger Factory Outlet Ctrs	SKT	Although we continue to believe SKT is extremely well positioned in the very attractive Premium Outlet business, has an excellent balance sheet and a strong management team, we believe the current valuation reflects theses strengths.
Taubman Centers Inc	TCO	TCO is a solid operator of luxury malls. However, at the current valuation we see better value and portfolio mix with SPG.
Vornado Realty Trust	VNO	We believe the quality of its management and property portfolio will provide VNO with a strong competitive advantage. The company has an excellent balance sheet and access to liquidity (which should be further enhanced by the Toys R Us IPO). Our enthusiasm is only tempered by the valuation given the strong run the shares have had. We view the current risk/reward ratio as fairly balanced
Weingarten Realty Investors	WRI	The defensive nature of WRI's retail portfolio is offset by it heavy exposure to Florida and California retail and its Southwestern industrial exposure.

Source: UBS WMR, as of 24 July 2012

Note:Companies in **BOLD** represent High Conviction Calls. See Appendix for a definition.

Appendix

Analyst certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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Stock market returns are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions and other important variables.

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Analysts provide a relative rating, which is based on the stock's total return potential against the total estimated return of the appropriate sector benchmark over the next 12 months.

Industry sector relative stock view system	
Outperform (OUT)	Expected to outperform the sector benchmark over the next 12 months.
Marketperform (MKT)	Expected to perform in line with the sector benchmark over the next 12 months.
Underperform (UND)	Expected to underperform the sector benchmark over the next 12 months.

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Appendix

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