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USA! USA! | July 2012

The MSCI US REIT Index (RMS) rose along with the broader indices, producing a total return of +5.6% for the month. Year to date, REITs are up +14.9%. This compares with the S&P 500 total return of +4.1% for the month, and +9.5% total return for the year to date period. With the Olympic Games about to begin at the end of July, we at Chilton would like to use this opportunity to wish all of the athletes representing the United States a successful journey after untold hours/years of preparation to be the best. In much the same way, US equity REITs have been improving every year since the modern REIT era began 20 years ago. REITs are poised to provide investors a relatively safe harbor in the storm of uncertainty that envelopes the world, which one of our colleagues highlights below. REITs provide a high dividend yield plus growth, ample access to low cost capital (both equity and debt) and are witnessing an environment of low levels of new supply.

Rob Lloyd, CFA is the Portfolio Manager for CCM Opportunistic Advisors, a subsidiary of Chilton Capital Management. We wanted to share a short summary note he wrote to our investment team that captures the essence of the broad economic landscape:

"Many companies who have reported earnings recently commented on weakness in U.S. consumer spending, weakness in Europe, and policy uncertainty hurting demand by causing customers to delay purchasing decisions. The key unresolved government policies companies are looking at are tax policy driven by elections, Fed policy driven by economic conditions, debt ceiling issues driven by spending, and healthcare policy driven by the Supreme Court.

Resolving these issues will allow a lot of delayed decisions to get acted upon. After all, kids grow up, hardware wears out, software needs upgrading, and food will be produced and consumed. In the meantime, markets will be extremely volatile. If 2010-2012 markets are the new normal, we can expect the equity markets to oscillate +/- 15% around a long term 6-8% growth trajectory. The growth trajectory is that of the underlying earnings growth expected by the market for 2012 and 2013. Forecasting growth beyond 2014 will depend on many issues that get resolved in the next 6 months."

REIT management teams are cognizant of the political and economic headwinds Rob mentioned above, but are bullish on the operating environment for REITs. Management teams we met with at the National Association of Real Estate Investment Trusts (NAREIT) conference in New York City in June were positive about earnings and operating fundamentals for REITs. This semi-annual conference brings together a large concentration of REIT management teams in one location. We held 25 one-on-one meetings with management teams including CEO's, CFO's and COO's, informally spoke with additional management teams at after-hours events, and visited 34 properties on a walking tour of office and hotel buildings. The NAREIT conference was an efficient use of time to extract updates from portfolio companies as well as meet management teams of prospective investments. The meetings generated further conviction in the securities we own, and in other cases, the incremental information reinforced why we don't own some securities.

All Properties are Not Created Equal: Data Center Focus

Fresh from NAREIT, which included a meeting with one of the three data center REITs, we decided to hone in on the data center property type in this month's outlook. While the business model of most REITs is relatively easy to grasp, the technology focus of data centers adds a level of complexity. Data centers are highly specialized and secure buildings that house networking, storage, and communications technology infrastructure. They are capital intensive, as development costs may run up to $1,500/sqft, and they must power, cool, and provide network connectivity. Also, the buildings must be highly secure due to the mission-critical nature of the data stored in the buildings.

There are several types of data centers, but most may be classified as either network-dense or enterprise data centers. Network-dense data centers act as key hubs for internet connectivity and are less common than enterprise data centers; therefore, they demand premium pricing. Enterprise data centers house mission-critical IT infrastructure, are less focused on internet connectivity, and are more commodity-like because they tend to compete on price. However, tenants tend to sign larger and longer leases for enterprise spaces.

Data centers consume an immense amount of power so access to cheap, reliable electricity is of the highest importance in order for data centers to operate efficiently. The consulting firm, McKinsey, estimates the average data center consumes as much power as 25,000 homes. It is imperative that data centers remain operational all of the time and avoid power or technical interruptions. The industry standard for network up time is 'five 9's', which means the network should be operational 99.99999% of the time (pretty close to 100%!). Data center REIT CoreSite (NYSE: COR) boasts a recent platform upgrade designed to exceed 'seven 9's' of network up time. Advanced backup systems and generators enable data centers to perform at this high level.

FIGURE 1: SELECT TENANTS AS OF 1Q12

COR	DLR	DFT
Facebook	CenturyLink	Microsoft
Computer Science Corp	Equinix Operating Co	Yahoo!
Akamai Technologies	TelX Group	Facebook
IRS	Facebook	Google
Nuance Communications	Morgan Stanley	Rackspace

SOURCES: COMPANY SUPPLEMENTALS, INVESTOR PRESENTATIONS, & SNL

Data Center Supply and Demand

As Figure 1 points out, many tenants of data center REITs are household names. Major demand drivers for data center REITs include growing IT budgets and the internet as it relates to the growth of mobile data, applications, and streaming information. Increased regulation surrounding disaster recovery planning (partly due to Sarbanes Oxley) has spurred companies to outsource their data storage to offsite locations, a trend that benefits data center REITs. Companies that have their own data centers may wish to upgrade their technology but may not want to spend the capital to do so. In this case, it may make more sense to lease space from a data center REIT that already has these newer features in place.

At the NAREIT conference, CoreSite CEO Tom Ray cited that the current ratio of electronic devices to humans in the world is about 1:1, but it is expected to climb to 2:1 by year 2015. Not all of the new electronic devices that will be purchased between now and 2015 will have internet capability, but an increasing number of smartphones, tablet computers, global positioning systems (GPS), and many other data-hungry devices will land in the hands of consumers. IDC, a market research and analysis firm, forecasts smartphone unit shipments will nearly triple to 1.2 billion in 2016 from the 494 million units last year. As a society, we are becoming more mobile and people desire to have their data follow them around via the 'cloud', as opposed to carrying it themselves, such as on the hard drive of a laptop. Cisco's Global Cloud Index white paper predicts overall data center IP traffic will grow at a compound annual growth rate (CAGR) of 33% from 2010 to 2015. Gartner Research estimates the global market for cloud services is expected to grow about 45% from 2011 to 2013. Lastly, according to IBM, the capacity to store information has roughly doubled every three years since the 1980s; therefore 90% of the data that exists on Earth today has been created in the past two years alone!

Supply is naturally limited for network-dense data centers because they must be located near internet hubs, typically metropolitan cities. The need for data centers to be located in relatively safe locations, away from fault lines and other potentially hazardous areas also limits supply. Data center supply is influenced by the high initial capital outlay to build, lease, and operate a data center. Location, access to cheap power, and the ability to find employees with the necessary technical skills are also important factors.

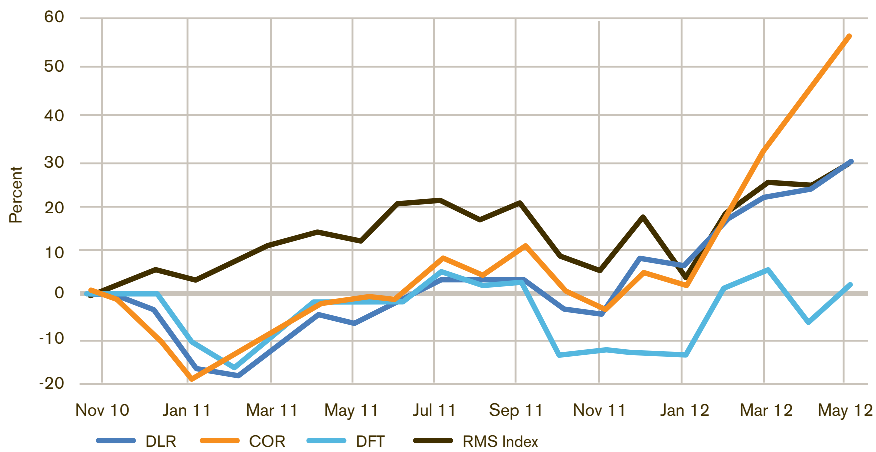
The high cost to develop these assets (up to $1,500/sqft as previously mentioned) tends to obstruct private owners from materially entering this market due to their higher cost of capital and lower access to funds. In comparison, public data center REITs have substantially superior access to capital at lower costs. In April 2012, Digital Realty Trust (NYSE: DLR) raised $175 million of 6.625% coupon preferred shares. More recently, DLR issued 10 million common shares (not including the greenshoe) raising over $700 million to partially fund a $1.1 billion acquisition in the greater London area which the company anticipates will be $0.11-$0.125 accretive to funds from operations (FFO) in 2013.

Data Center REIT Analysis

Taking a closer look, COR is the smallest of the three pure-play data center REITs with a market cap of $512 million as of June 25, 2012. The portfolio includes 12 operating data centers and one development site totaling 2 million sqft. COR's assets are strategically located in LA, San Francisco, Chicago, Boston, New York, Miami, and Northern Virginia, which are some of the largest and fastest growing data center markets in the US. COR differs from data center peers DuPont Fabros (NYSE: DFT) and Digital Realty (NYSE: DLR) in that the business model focuses on high barrier to entry and network-dense assets, and their services are marketed to a larger swath of tenants. COR also has a greater emphasis on colocation facilities, which are data centers that tend to attract smaller retail tenants that sign shorter leases for less space (typically less than 5,000 sqft). We view this as a benefit due to the tenant diversification and enhanced opportunity for rent growth during periods of rising rates. COR has a low debt to EBITDA ratio at 1.8x, which is favorable compared to peer companies DFT and DLR at 3.7x and 4.1x, respectively. COR has a dividend yield of 2.9% as of June 25, 2012, which positions it in the middle of the peer group (DFT's is 2.2% and DLR's is 4.0%).

In contrast to COR, DLR is much larger with a market cap over $8 billion and 103 properties in the portfolio totaling 19.7 million sqft as of June 25, 2012. DLR operates in many of the same domestic markets as COR, but also operates internationally in Europe and the Asia Pacific regions. DLR offers 4 data center solutions to clients: Turn-Key Flex, Powered Base Building, build-to-suit/buy-to-suit, and colocation. With the Turn-Key-Flex option, the customer selects components while the data center is being designed to fit their needs. Under the Powered Base Building

FIGURE 2: DATA CENTER REIT PERFORMANCE (9/30/2010 - 6/30/2012)



SOURCE: SNL

model within DLR's master-planned facilities, the customer designs, builds, and maintains the environment. The build-to-suit option provides site selection, design, and construction services to the customer which allows for more flexibility than traditional pre-built colocation sites. DLR has consistently grown earnings since coming public in 2004, and continues to post above average growth rates. Its diversified approach to network and data storage solutions has solidified DLR as the blue chip leader in the data center space worldwide.

We think favorable demand dynamics in the data center space in conjunction with limited supply creates an environment for strong sector returns. We began investing in data center REITs in September 2010. COR was the first name we added to portfolios, followed by DLR in December 2010. Today, COR and DLR represent 2.2% and 2.4% positions in the composite, respectively. For comparison, COR and DLR represent 0.1% and 0.4% positions in the Bloomberg REIT Index, respectively, as of June 26, 2012. Our in-depth research leads to our conviction in names that allows us to differentiate our portfolio from the index and other managers. Data center REITs have performed well historically, as depicted in Figure 2, and we believe the operating environment is positioned to offer future growth.

Please feel free to forward this publication to interested parties and make introductions where appropriate.

Previous editions of the Chilton REIT Outlook are available at www.chiltoncapital.com/publications.html

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RMS: 1249 (6.29.2012) vs. 1087 (12.31.2011) vs. 1000 (12.31.2010) vs. 792 (12.29.2009) vs. 933 (9.30.2008) and 1330 (2.7.2007)