



Douglas Emmett

Tight zoning restrictions, height limitations, aggressive homeowner groups, determined environmentalists and proximity to highly desirable office buildings have combined to make West Los Angeles one of the country's strongest real estate markets.

With its portfolio of West LA office buildings and apartments, we think that real estate investment trust (REIT) Douglas Emmett, Inc. is well positioned to achieve significant growth.

Douglas Emmett, 2.5% of Baron Real Estate Fund as of 12/31/11, also has properties in the San Fernando Valley and Honolulu. About 83% of its assets are commercial office buildings; the rest consist of high-quality apartment buildings.

The situation in West LA could hardly be better for Douglas Emmett. New supply is severely limited by zoning while demand continues to grow. Due to the easy commute from West LA's exclusive residential areas, highly compensated executives prefer the West LA office market to downtown. That makes the West LA market even less price sensitive than midtown Manhattan.

Additionally, the West LA market is highly diversified both by tenants and industry, making Douglas Emmett's portfolio less susceptible to a downturn in any given economic area. Only four tenants represent more than 1% of the annualized rent. Major industries include legal, financial services, entertainment, real estate, health services, accounting/consulting and insurance.

As the economy recovers from the recession, we think the company is well positioned to grow. Its current occupancy rate is 87% vs. a peak of 96%. Many of its leases are short term, an advantage as the rental market improves. The company is well capitalized and recently refinanced \$2.5 billion of debt at a favorable interest rate and staggered debt maturities. Further debt reduction is planned.

(Baron Real Estate Fund invests primarily in real estate and real-estate related companies that we believe have significant growth potential over the next five years. In this column, Portfolio Manager Jeff Kolitch presents his views on the companies and developments that he believes will be important in the months to come.)

Current and future portfolio holdings are subject to risk. 🏠