



WESTERN INVESTMENT CLUB

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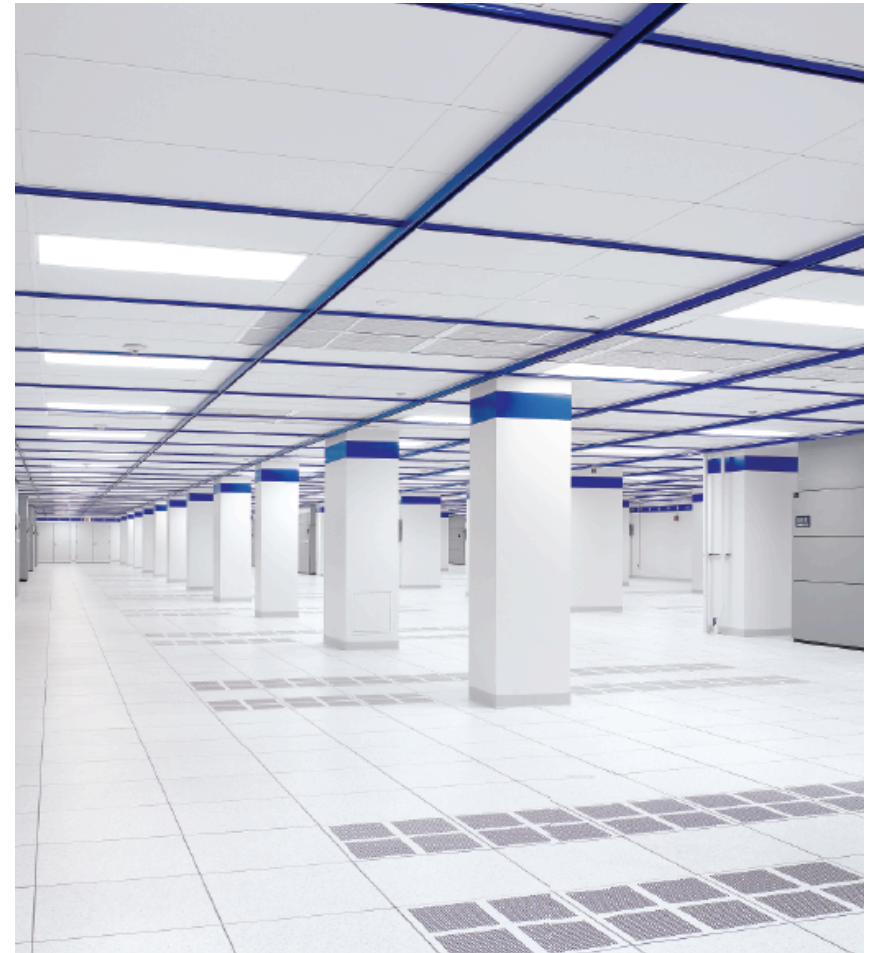
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Coresite Realty

Company Profile

- The third data center REIT to come into the market
- Property portfolio includes 11 operating data center facilities → Total portfolio value of \$850 million
- First center in portfolio purchased in 2000
- Previously part of a real estate fund managed by the Carlyle Group, the world's second largest private equity firm
- Carlyle still owns a 58% non-controlling stake in the company



Large backing from a renowned company

History Since IPO

September 23, 2010 IPO



**September 23,
2010**

- Coresite Realty has their IPO at \$16/share, with 19.65M Shares Sold

**November 12,
2010**

- Coresite Releases 3Q Earnings, beating management's estimates for revenue, earnings, and funds from operation

**November 15,
2010**

- Akamai Technologies leases another 16,000 square feet from Coresite, now fourth largest customer

Nearly 20% decline from IPO with no bad news coming out. Is this large drop warranted?

Industry Overview

Data Centers

- Costs of IT infrastructure and maintaining IT in-house is becoming increasingly expensive causing companies to outsource → Research poll suggests that within the next 2 years, two-thirds of companies expect to outsource at least 1,000 square feet of data center space for their IT needs
- Companies lack data center expertise → Outsourcing allows them to focus on value added activities
- Data Center REITs (Real Estate Investment Trusts) lease space to companies, and provide power, cooling and security for their tenants' servers, while storing and maintaining their information
- Data center market is estimated to grow from \$9.2 Billion in 2008 to \$18.5 billion in 2012 (19% CAGR)
- Demand for data center space is expected to outpace overall new supply in the next few years

Strong Industry Fundamentals

Industry Overview

Data Center Types

Fully Improved

- Landlord has paid for infrastructure (power, cooling, redundancy, security).



Shell

- Landlord provides the land and building shell. Tenant pays for infrastructure.

Internet Exchange

- Emphasis on interconnection between internet service providers, only certain number of locations (Supply Constrained)



Enterprise

- Data center that houses IT infrastructure for a business, can be built anywhere, requires high power density

Wholesale

- Larger users (> 5,000 SF)



Colocation

- Smaller users (< 5,000 SF)

Coresite's core business is leasing fully improved data centers, concentrating in internet exchange and co-location

Key Competitors

Digital Realty Trust



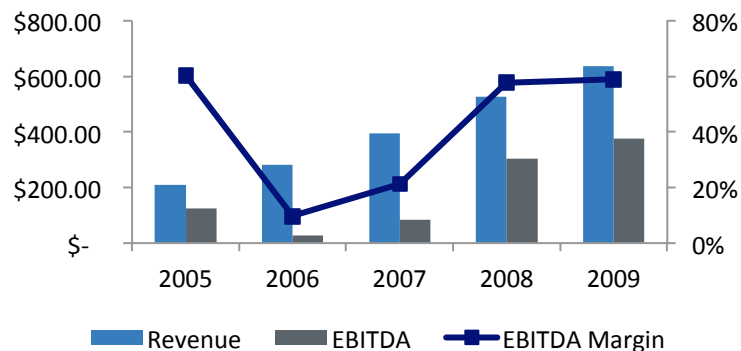
- Owns a portfolio of 94 properties, totaling 14.4 million square feet of rentable square feet → Total asset value of \$6.7 billion
- Data centers located in over 27 markets across North America and Europe with concentrations in Silicon Valley, Dallas, New York, and Chicago
- Focus on providing shell data centers, which cost less to build, but also lease out at a significantly lower rent versus fully-improved data centers → Average rent of \$47/SF versus \$89/SF for Coresite
- Portfolio is 95% leased → Little opportunity for leasing upside, rents at market
- Large portfolio size = less opportunities to grow substantially

DLR is a large established player, but has limited growth opportunities compared to COR

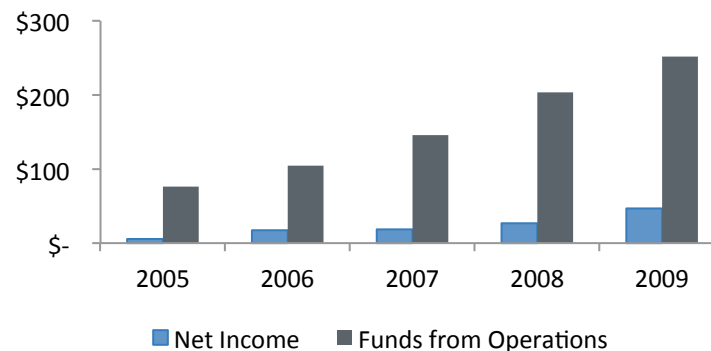
Key Competitors

Financial Performance - DLR

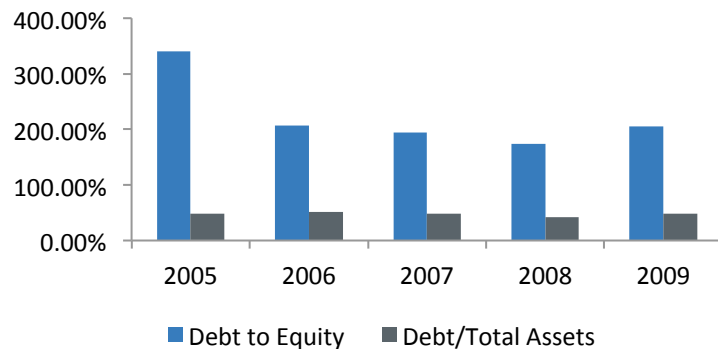
Profitability



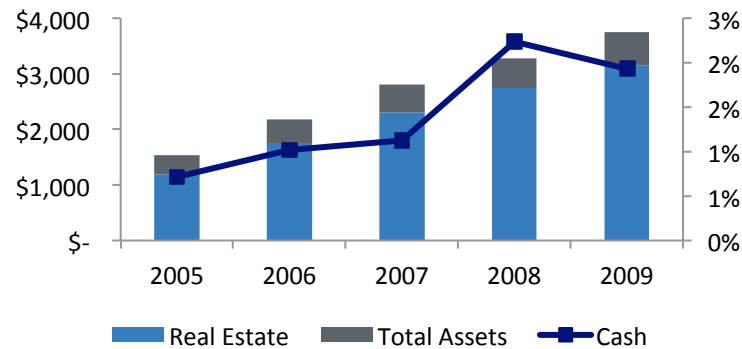
Funds From Operations



Leverage



Real Estate Assets



DLR has high leverage at around 50%, and a low cash balance, limiting future growth

Key Competitors

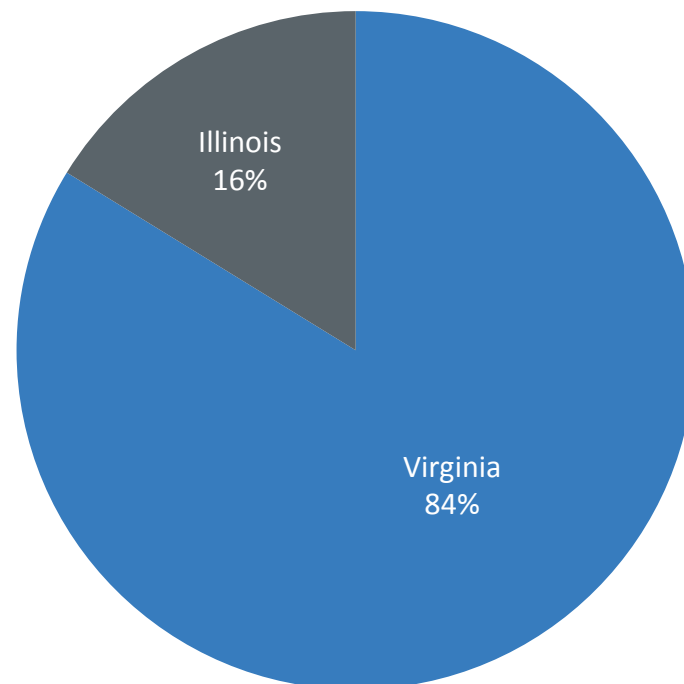
Dupont Fabros Technology



DuPont Fabros Technology

- Owns a portfolio of 7 properties, totaling 752,000 SF of rentable square feet → Total asset value of \$1.4 billion
- Data Centers are concentrated in two markets, Chicago and Virginia
- Three major tenants, Microsoft, Yahoo, and Facebook, account for 60% of rental revenue → 26 total tenants
- Portfolio is 100% occupied → little potential for leasing upside, growth is from development
- Entire portfolio focuses on Enterprise compared to the supply constrained internet exchange data centers that Coresite owns and operates

Portfolio Geographic Breakdown

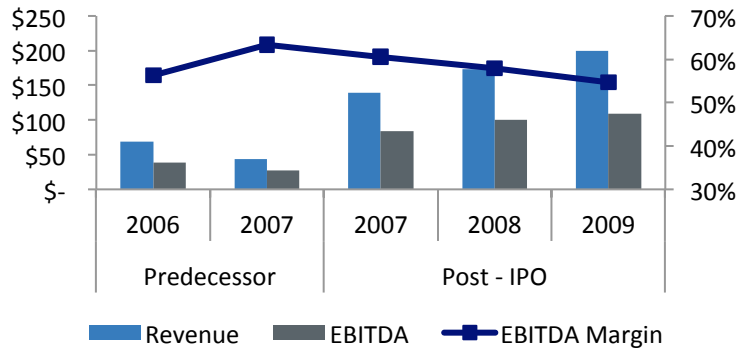


DFT's portfolio is highly concentrated and contains no internet exchanges

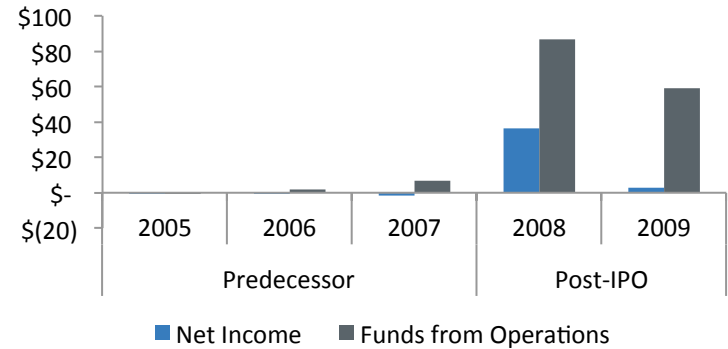
Key Competitors

Financial Performance - DFT

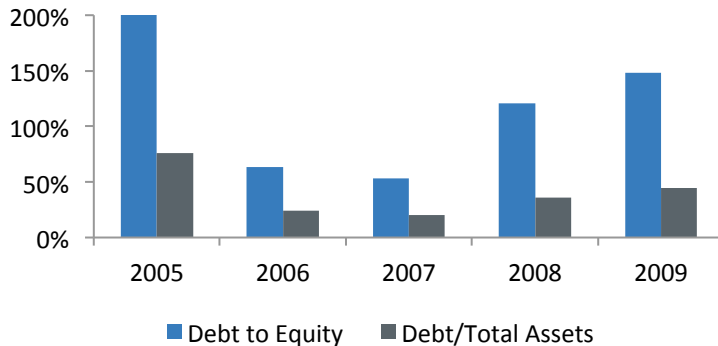
Profitability



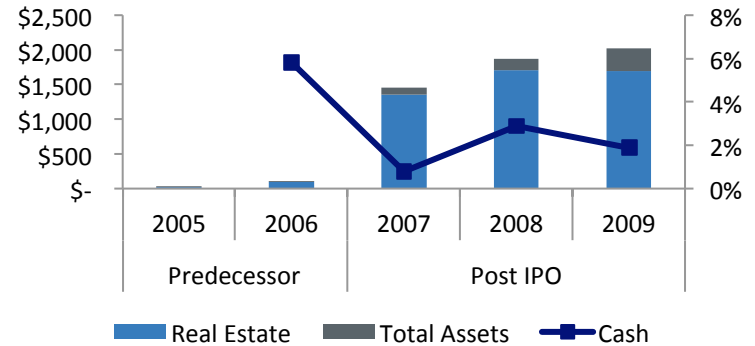
Funds From Operations



Leverage



Real Estate Assets



Similar to DLR, DFT has high leverage and a low cash balance

Coresite Realty

Tenant Overview

- Coresite has over 630 customers coming from several industries → Excluding office properties, data center rent is around \$90/SF on average
- Coresite's top ten tenants make up around 36.3% of Annualized Rent and 43.4% of total leased NRSF → Four of the top ten tenants rent out regular office space from Coresite
- Historical 75% renewal rate on leases → Several leases also have extension options

Top 10 Tenants	Total Leased NRSF	% of Annualized Rent	Annualized Rent	Rent/SF	Remaining Lease Term (Months)
Facebook Inc	74,104	13.30%	\$11,554	\$155.92	60
General Services Administration IRS	132,370	3.90%	\$3,427	\$25.89	20
Sprint Communications Corporation	104,789	3.70%	\$3,257	\$31.08	16
Verizon Communications	73,891	2.80%	\$2,454	\$33.21	53
Government of District of Columbia	22,118	2.40%	\$2,116	\$95.67	34
Tata Communications	52,942	2.40%	\$2,093	\$39.53	17
Nuance Communications	17,156	2.30%	\$1,979	\$115.35	96
Computer Sciences Corporation	18,950	1.90%	\$1,688	\$89.08	77
NBC Universal	17,901	1.90%	\$1,669	\$93.24	22
Akamai Technologies	13,010	1.70%	\$1,511	\$116.14	7
Total / Weighted Average	527,231	36.30%	\$31,453	\$59.66	40

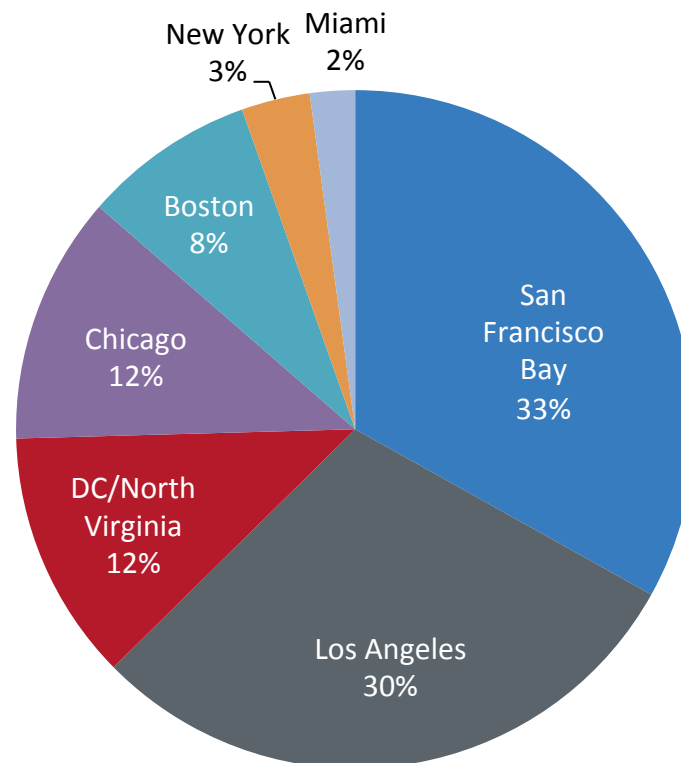
Well Diversified Portfolio of Tenants

Coresite Realty

Portfolio Overview

- Coresite has Data Centers located in 5 of the 6 key data center markets in the United States
- The top two geographical locations are some of the most desirable locations → LA for Media Firms and San Francisco for Technology Firms
- One Wilshire, Coresite's "Crown Jewel" property is located in LA, and is one of the most network dense locations on the west coast. → One of the main points of connectivity between the US and Asia
- 41% of Coresite's portfolio are internet exchange data centers with significant network density

Portfolio Geographic Breakdown



Coresite's Data Centers are located in strategic locations around the US

Coresite Realty

Technology

- “Any2” internet exchange is one of the largest in the United States → Allows companies to quickly exchange information with each other at a lower cost by connecting to the internet exchange
- Coresite also enables companies to physically connect to each other, eliminating the Internet Service Provider and associated costs
- Both technologies allow peering, which is the rapid exchange of information between two companies → Typically much faster than the internet (sort of like DC++)
- Example – Zynga (Farmville) peering with Facebook, allowing faster exchange of information

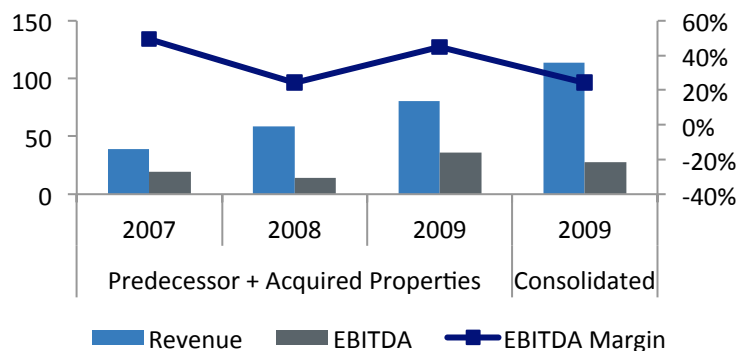


Coresite's technology is a key selling point to attract customers

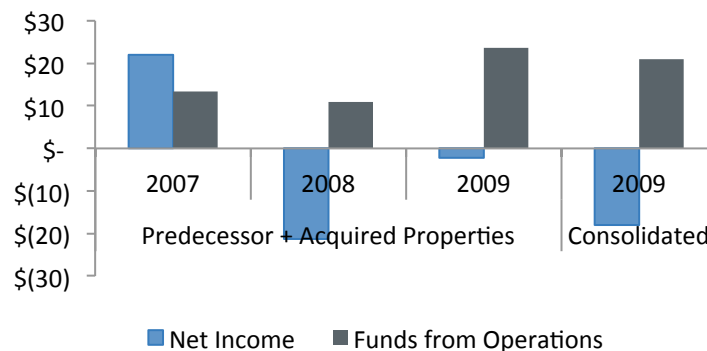
Coresite Realty

Financial Performance

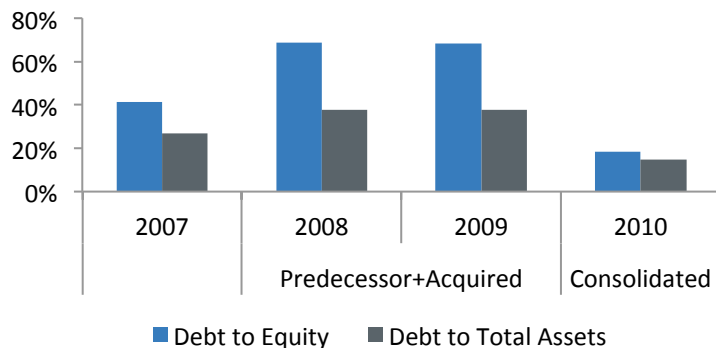
Profitability



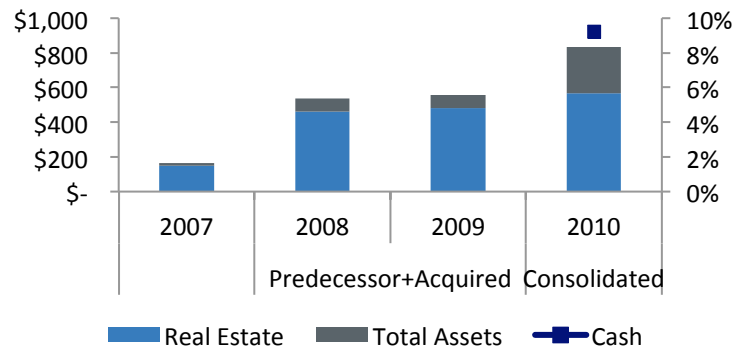
Funds From Operations



Leverage



Real Estate Assets



Coresite has low leverage and a high cash balance

Coresite Realty

Management / Corporate Governance

- Capable and experienced management team that has a good reputation in the industry
- Several members are either from Carlyle, or have previous REIT experience
- Thomas Ray - President, CEO & Director
 - Was a managing director of The Carlyle Group
 - Held senior roles in ProLogis and Archstone, both REITs



- Carlyle owns a 58% non-controlling interest in the company and are allowed to nominate two directors to the board of directors that consists of seven directors → Alignment of interests, as Carlyle seeks to profit, but will not be able to do so at the detriment of future investors

Coresite's Management is experienced

Coresite Realty

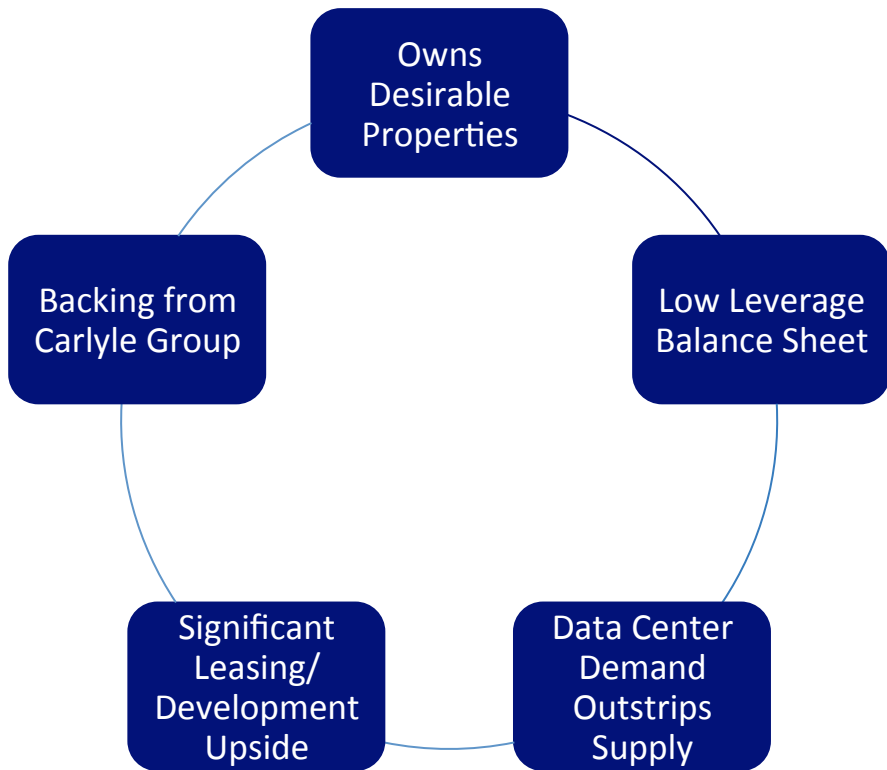
Future Developments

- Coresite's portfolio is only 81.9% leased → Significant upside potential from leasing
- Management projects between 125,000 – 225,000 square feet of new data centre space will be leased up in 2011
- Leases that are coming due in 2011 are expected to be renewed at market rents, which is projected to be an upside of 10-15% over current rents
- Coresite has significant amount of land and buildings held for development and redevelopment → Coresite has the ability to nearly double its data center space
- Typical development yields for Coresite have been around 14%, which is quite high for this industry

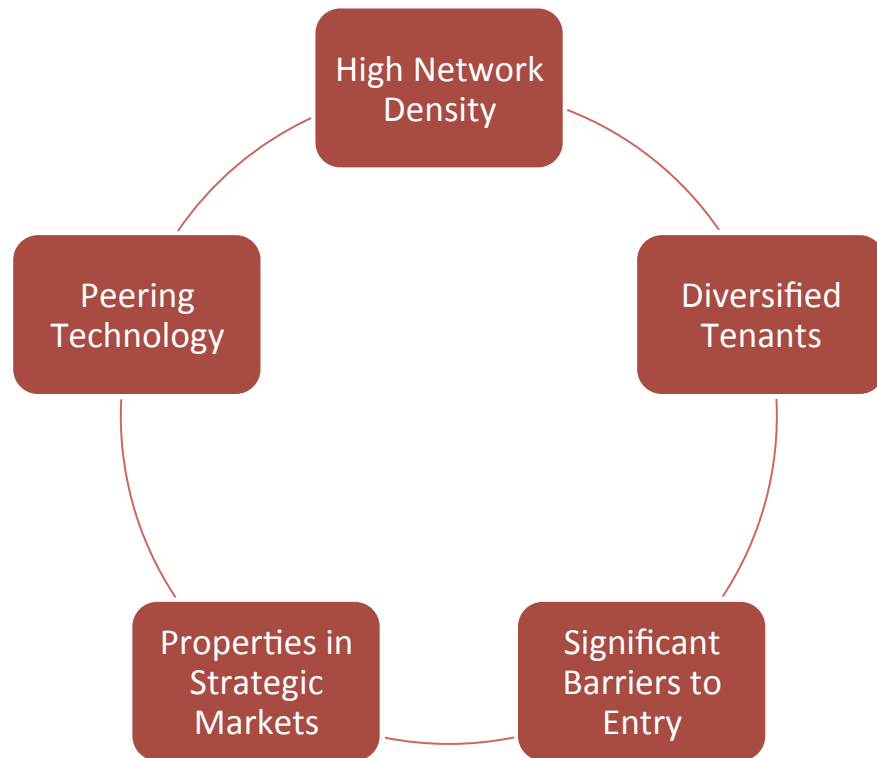
Coresite has significant leasing and (re)development upside

Coresite Realty

Investment Thesis



Economic Moat



Coresite is well positioned to take advantage of data center industry growth

Valuation

P/FFO

- Coresite should trade similar to its competitors
 - Leasing / Development Upside
 - High Network density compared to competitors
 - Diversified data center portfolio located in key markets
- 2010E FFO is calculated as if the company had conducted their IPO on January 1st, 2010, adding back one-time IPO and acquisition costs to give a real indication of performance
- 2011E FFO is forecasted based upon a 75% renewal rate, with low end 10% rent increases, with new leases ranging from 125,000 – 225,000 SF

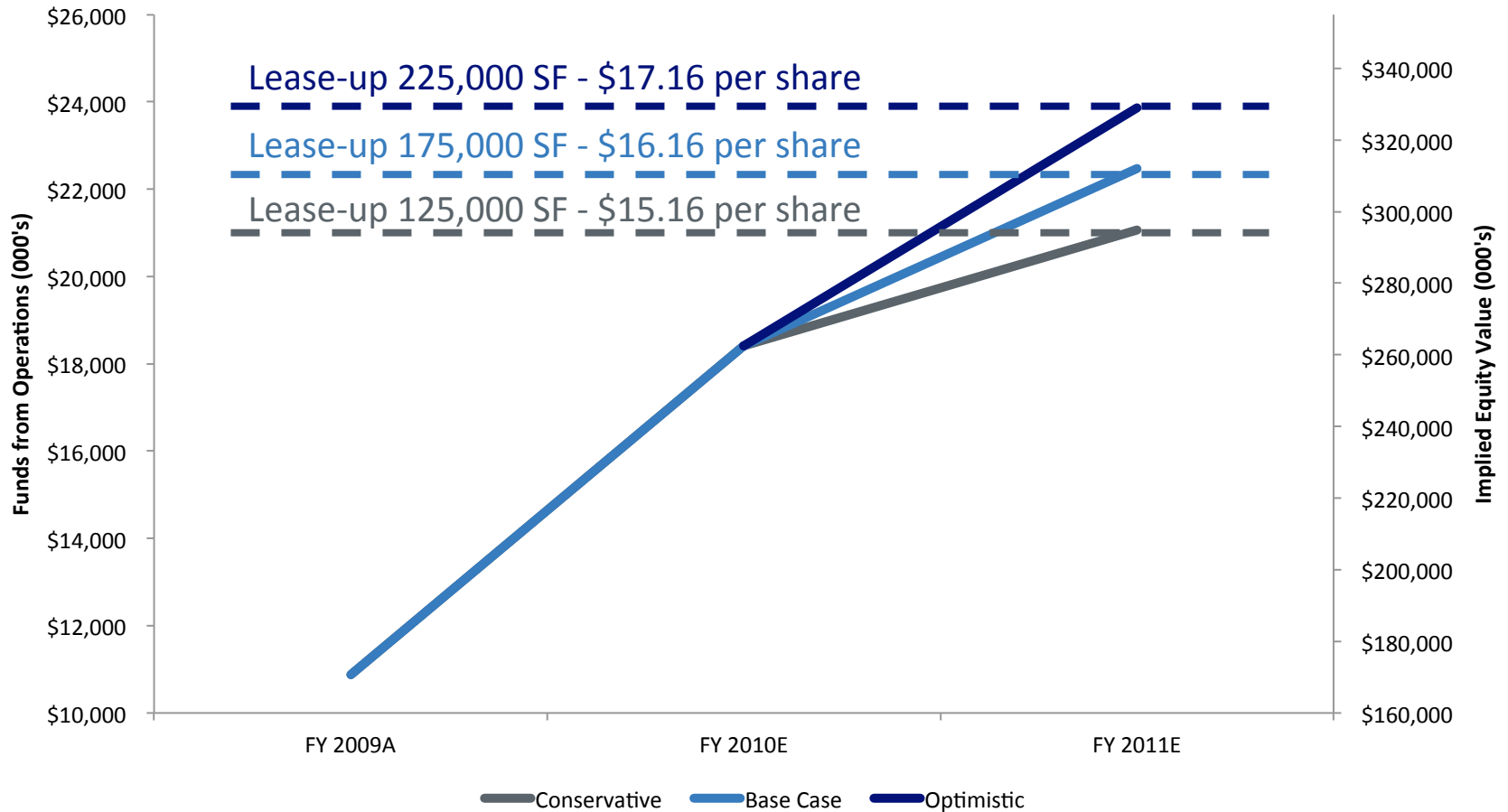
Competitor	Share Price (\$)	FFO/Share '10E (\$)	P/FFO '10	FFO/Share '11E (\$)	P/FFO '11
DLR	52.79	3.34	15.81x	3.80	13.89x
DFT	22.86	1.34	17.06x	1.59	14.38x
Avg			16.43x		14.13x

	FY 2010E	FY 2011E Low	FY 2011E Mid	FY 2011E High
FFO/Share	0.94	1.07	1.14	1.21
P/FFO Mult	16.43x	14.13x	14.13x	14.13x
Share Price	15.43	15.16	16.16	17.16
Current Price	12.88	12.88	12.88	12.88
Premium (Discount)	19.8%	17.7%	25.5%	33.3%

Even at the lower end of estimates, Coresite trades at a discount

Valuation

Lease-up drives Valuation



Coresite trades at a discount regardless of lease-up scenario

Valuation

Sensitivity

Rent Increase vs. Lease-up

		Lease-Up		
		Conservative	Base-Case	Optimistic
Rent/SF	High	19.5%	27.6%	35.8%
	Mid	18.6%	26.6%	34.5%
	Low	17.7%	25.5%	33.3%

2011 P/FFO vs. Lease-up

		Lease-Up (SF)		
		Conservative	Base-Case	Optimistic
P/FFO	13.0x	8.2%	15.4%	22.6%
	13.5x	12.4%	19.8%	27.3%
	14.0x	16.6%	24.3%	32.0%
	14.5x	20.7%	28.7%	36.7%
	15.0x	24.9%	33.2%	41.4%

Range of Valuations from 7.9% - 41.0% premiums

Coresite Realty

Key Risks & Mitigating Factors

- Their “crown jewel” One Wilshire, is actually under a leasehold → Coresite used to own the property, however, sold the property to the current landlord and has a 30 year leasehold interest on 25% of the property, they lease at \$67.79/SF but lease out to tenants at an average of \$168.91/SF
- Currently being sued by their previous general counsel → Will not have a material affect on the business, regardless of outcome
- Their CFO Deedee Beckman has indicated that she would like to voluntarily step down from her CFO position for personal reasons → The search for a new CFO is progressing well, and Deedee has indicated that she will stay until a new CFO is found and the transition of responsibilities is complete
- Demand for data center space may drop significantly → Seeing as where the industry is going, and given the push towards global connectivity, this is not likely to happen

Recommendation

Buy 200 Shares @ 12.87



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