

Mossberg's Investor Digest

Best Idea Profile:

Reis Incorporated (NASDAQ:REIS)

DESCRIPTION:

Headquartered in New York City, Reis Incorporated provides the commercial real estate market information and analytical tools for its customers. Reis maintains a proprietary database containing detailed information on commercial properties in metropolitan markets and neighborhoods throughout the U.S. This database contains information on apartment, office, retail and industrial properties and is used by real estate investors, lenders and other professionals to make informed buying, selling and financing decisions. In addition, Reis data is used by debt and equity investors to assess, quantify and manage the risks of default and loss associated with individual mortgages, properties, portfolios and real estate backed securities.

KEY INVESTMENT CONSIDERATIONS:

Mission Critical Information – Participants in the U.S. commercial real estate market demand timely and accurate information to support their decision-making. Participants in the asset market, such as property owners, developers and builders, banks and non-bank lenders, and equity investors, require access to information on both the performance and pricing of assets. This information includes detailed data on market transactions, supply, and absorption. The information is critical to all aspects of valuing assets and financing their acquisition, development and construction. Additionally, brokers, operators and lessors require access to detailed information concerning current and historical rents, vacancies, concessions, operating expenses, and other market specific and property specific performance measures. The volatility of commercial real estate in recent years has made timely information and due diligence even more of a concern to all market participants.

Strong Franchise – Reis is a leading provider of information on the US real estate market (including transactional data). The company's database contains information on 169 metro areas and 1800 submarkets. Reis provides real estate data to nearly 700 companies.

Cyclical Bottom – '08 and '09 were not typical years for the commercial real estate market. For property types that Reis covers, Reis estimates that the value of commercial real estate transactions in the US declined by approx. 35% from '08 to '09. Transaction volume fell by 87% from a peak of \$72B in the 2Q07 to \$9B in 4Q09. Separately, new commercial mortgage backed securities issuances, which totaled over \$230B in '07, tumbled to \$12B in '08. Reis has reported two consecutive increases in service rev. on y-o-y basis.

Ample Growth Opportunities – Reis still has a lot of opportunities to move into new areas of data collection and expand distribution in U.S. and international markets. In September, Reis expanded apartment market coverage into 31 markets and announced an agreement to integrate Reis' market data into SNL's Real Estate Unlimited information service.

Attractive Target for Acquisition – As a cash rich software target in a niche, Reis may remain a candidate for acquisition by other market participants. In June '08, CoStar made an initial, non-public, unsolicited offer to acquire Reis for \$8.75 per share, which was rejected by Reis. In Aug '08, the Board rejected a second unsolicited proposal by CoStar, which it made public, to acquire Reis for the same \$8.75. In the view of the Board, the price offered by CoStar was inadequate as it was below the long-term value Reis could realize for its stockholders by the pursuit of its business as an independent entity and the continued disposition of its real estate assets, or by an organized sale.

VALUATION:

Reis is experiencing improvement in both its operating environment and financial results. The MRO showed improvement in subscription revenues, margin and renewal rates. Reis is also in the last stages of a phase out of its real estate's development activities. Improving results and the transition to a "pure play" as a software company should create a valuation transition in the stock price. The cash balance and attractive business also makes Reis an attractive take out candidate.

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Investment Data (as of 1/24/11)

Recent Price	\$6.71
52-Week Range	5.30 - 7.85
Fiscal Year End	Dec
Shares Outstanding	10.6MM
Average Trading Volume (3 mos)	23k
Market Capitalization	\$71MM
Cash	\$20
Long Term Debt	\$13MM
Enterprise Value (EV)	\$64MM
LT Debt/ Equity	NA
BV/ Share	\$6.99
TTM Revenue	\$28MM
P/ Revenue	2.6x
TTM EPS	\$0.04
P/ EPS	nmf
TTM EBITDA	\$4MM
EV/ EBITDA	16x

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