

THE INVESTOR'S GUIDE TO REAL ESTATE INVESTMENT TRUSTS (REITs)

# REIT BASICS

Real estate investment trusts (REITs) are companies that own and most often actively manage income-producing commercial real estate. Some REITs originate or invest in loans and other credit obligations secured by real estate collateral. The shares of most REITs are publicly traded on major stock exchanges.

The U.S. Congress created the legislative framework for REITs in 1960 to enable the investing public to benefit from investments in large-scale real estate enterprises.

REITs have much to offer the institutional and retail investing communities. They provide ongoing dividend income along with the potential for long-term capital gains through share price appreciation, and can also serve as a powerful tool for long-term portfolio diversification.

Research by Ibbotson Associates, a leading investment research firm specializing in asset allocation strategies, demonstrates the multi-faceted benefits of investing in REITs:

- The ownership of REIT shares has historically increased investors' total return and/or lowered the overall risk in both equity and fixed-income portfolios
- Dividend growth rates for REIT shares have outpaced inflation over the last decade
- The REIT business enterprise is based in large part on the value of tangible and quantifiable assets, namely large-scale commercial real estate, a defining attribute of the REIT industry.

Individual investors can choose to participate broadly in the investment opportunities available in the REIT industry by investing in one or more "pure-play" REIT mutual funds. These mutual funds are managed by portfolio managers with a high degree of expertise in the real estate industry and provide investors with an effective and cost-efficient opportunity to add to a balanced investment portfolio broad and diversified exposure to the real estate asset class.

## REAL ESTATE'S ROLE IN THE ECONOMY

The inclusion in 2001 of REITs in the Standard & Poor's 500 Stock Index, the most widely followed investment performance benchmark for U.S. equity markets, speaks to the increasingly widespread recognition of the importance of commercial real estate in public capital markets. REITs, alongside other mainstream industries, are now widely acknowledged for the integral role they play, both in the economy and in diversified investment portfolios.

The ongoing success of REITs is a reflection of many things, from the income generating and growth potential of the REIT enterprise, to the proven portfolio diversification benefits of owning REIT shares in balanced investment portfolios; and from the benefits of active and professional management of real estate properties, to the transparency and management accountability that are essential components of REIT corporate governance.

## REITS NOW IN THE MAINSTREAM

More than ever, REITs are vital public companies that share a multitude of similarities with other mainstream businesses:

### *Liquidity*

Investors can purchase shares in REITs as easily as they purchase shares in any other publicly traded company. REIT shares are traded on all major stock exchanges in the U.S., including the New York Stock Exchange (NYSE), Nasdaq, American Stock Exchange (AMEX), as well as various after-hours markets.

### *Shareholder Value*

Just like investors in other public companies, REIT shareholders receive value in the form of both dividend income and share price appreciation.

### *Active Management/ Corporate Governance*

Publicly-traded REITs generally are vertically integrated and professionally managed corporations. They adhere to the same corporate governance principles that apply to all major companies.

They have a senior management team that is headed by a chief executive officer (CEO) who actively manages the overall strategic vision and equity of the enterprise. The Board of Directors appoints the CEO, which in turn is elected by and accountable to the shareholders of the REIT.

### *Disclosure Obligation*

REITs, like other public companies in the U.S., are required to provide regular financial disclosures to the investment community, including quarterly and yearly audited financial statements with concomitant filings to the Securities and Exchange Commission.

### *Limited Liability*

As is the case with investments in other publicly traded companies, shareholders have no personal liability for the debts of the REITs in which they invest.

### *Low Leverage*

One reason so many REITs (65 percent, based on equity market capitalization) are rated investment grade is their moderate financial leverage. In fact, the average REIT debt ratio has generally been below 50 percent for much of the last decade.

## RETURNS DELIVERED BY REITS

### *REITs Deliver Income & Long-term Growth*

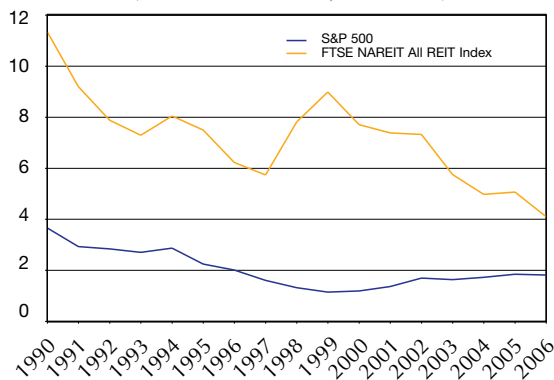
The special investment characteristics of income-producing real estate provide REIT investors with competitive long-term rates of return that complement the returns from other stocks and bonds.

### *High Dividend Yield*

REITs are required to distribute at least 90 percent of their taxable income to shareholders annually in the form of dividends. Significantly higher than other equities on average, the industry's dividend yields generally produce a steady stream of income through all market conditions.

### REIT Dividend Yield versus S&P 500 Dividend Yield

(Annual Dividend Yields, 1990 - 2006)



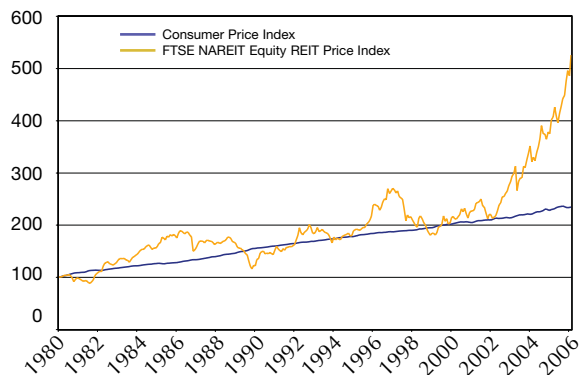
Source: National Association of Real Estate Investment Trusts® and Standard and Poor's.

### *Share Price Appreciation*

Approximately one-third of the total return from REIT stocks over the last 20 years came from moderate, long-term growth in share prices. This growth generally has matched or exceeded changes in the Consumer Price Index over the last two decades, protecting shareholders' capital from the ravages of inflation.

### FTSE NAREIT Equity REIT Price Index versus CPI

(January 1981 - January 2007)  
Indexed at December 1980 = 100.0



Source: National Association of Real Estate Investment Trusts® and U.S. Department of Labor Bureau of Labor Statistics.

## ADVANTAGES OF REAL ESTATE INVESTMENT

In addition to the investment performance and portfolio diversification benefits available from investing in REITs, REITs offer several advantages not found in companies across other industries. These benefits are part of the reason that REITs have become increasingly popular with investors over the past decade:

### *Predictable Revenue Stream*

REITs' reliable income is derived from rents paid to the owners of commercial properties whose tenants often sign leases for long periods of time or interest payments from the financing of those properties. In addition, the companies' ownership of tangible assets with established values tends to reduce risk.

### *Earnings Transparency*

Most REITs operate along a straightforward and easily understandable business model: By increasing property occupancy rates and rents, higher levels of income may be produced. When reporting financial results, REITs, like

other public companies, must report earnings per share based on net income as defined by generally accepted accounting principles (GAAP).

Another way year-to-year financial progress can be gauged is by comparing levels of Funds From Operations (FFO). FFO, the industry's supplemental performance measure, differs mainly from net income by excluding depreciation and amortization of real estate assets and gains and losses from most property sales.

Given the broad range of real estate property sectors and business lines, there also are a number of additional earnings metrics, which are used by REITs in order to provide investors with a greater level of insight into their performance.

## ADVANTAGES OF REAL ESTATE INVESTMENT

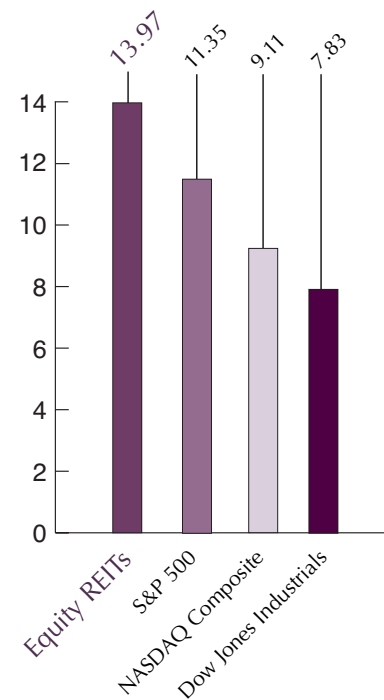
### *Total Return*

The combination of income returns from dividends and capital gains from share price appreciation can result in healthy overall returns for REIT investors. Analysis by Ibbotson Associates demonstrates that the combination of dividends and share price appreciation has made REIT returns competitive with other major investments, including a broad range of large-cap stocks, small-cap stocks and fixed-income securities.

In short, REITs over time have demonstrated a historical track record providing a high level of current income combined with long-term share price appreciation, inflation protection, and prudent diversification for investors across the age and investment style spectrums.

### REITs Outperform Leading U.S. Benchmarks

Compound annual returns, in percent, December 1971-December 2006



## REIT VALUATION

Many factors affect the value of a REIT's share price beginning with the earnings tied to oftentimes predictable and growing streams of rental revenue and a price-earnings multiple assigned by the marketplace.

The level and growth of rents are largely determined by economic fundamentals of supply and demand in real estate markets. These fundamentals include demographic information such as population size, population growth, employment growth, construction and the level of overall economic activity. While differing from region to region, all of these factors typically have a direct impact on rents and occupancy rates, which affect projected earnings and property values.

Other factors include:

### *Net Asset Value Calculation*

Many REIT analysts look at net asset value (NAV) as a reference point for the valuation of a company. NAV equals the estimated market value of a REIT's total assets minus the value of all liabilities. When divided by the number of common shares outstanding, the net asset value per share is viewed by some as a useful guideline for determining the appropriate level of share price. Thus, the value of a REIT's shares may be based on the value of its tangible real estate holdings.

### *Property Portfolio Enhancements*

The value of a REIT's property portfolio frequently can be either maintained or enhanced through consistent capital expenditures. This is significant because strategic property portfolio enhancements help to maintain or increase NAVs and provide the basis for price appreciation of a REIT's shares.

## PUTTING PORTFOLIOS IN BALANCE WITH REAL ESTATE

Given the investment strengths and historical performance of REITs, it is no surprise that REIT shares are commonly viewed as a good investment for all long-term, diversified investors.

Clearly, the inclusion of REIT shares in any investment portfolio is a prudent investment decision:

### *Market Variability Balance*

First, the variability of market returns over time and across all economic sectors makes it clear that balance and diversification are the keys to long-term investment success. Integral toward balance and diversification is the inclusion of equities representing all sectors of the economy, including real estate.

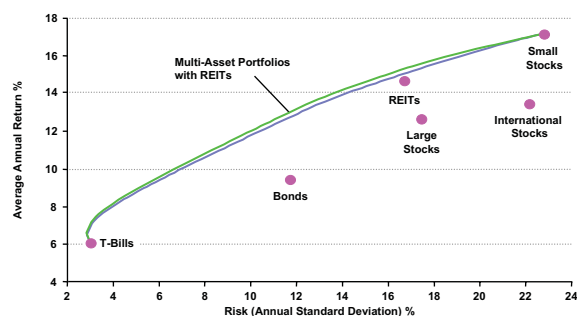
### *Attractive Risk/Reward Balance*

Second, REIT shares have proven to offer an attractive risk/reward balance in investment portfolios. Asset allocation analysis from Ibbotson Associates has found that investing in REIT shares historically has increased total portfolio returns or lowered overall portfolio risk for both equity and fixed income investors.

In fact, Ibbotson's research shows that, when REIT shares are added to an already diversified portfolio, the efficient frontier of the portfolio is raised. When portfolio investments are efficient, risk-averse investors can expect to realize higher portfolio returns with the low level of portfolio risk they prefer, while risk-tolerant investors can expect to realize lower risk along with the high level of returns they seek.

**ibbotson**

**Efficient frontier with and without REITs**  
Stocks, bonds, bills, and REITs 1972–2005



Source: Small Stocks—represented by the fifth capitalization quintile of stocks on the NYSE for 1926–1981 and the performance of the Dimensional Fund Advisors, Inc. (DFA) U.S. Micro Cap Portfolio thereafter; Large Stocks—Standard & Poor's 500<sup>®</sup>, which is an unmanaged group of securities and considered to be representative of the stock market in general; Government Bonds—20-year U.S. Government Bond; International Stocks—Morgan Stanley Capital International Europe, Australasia, and Far East (EAFE)<sup>®</sup> Index; Treasury Bills—30-day U.S. Treasury Bill; REITs—FTSE NAREIT Equity REIT Index.

This is for illustrative purposes only and not indicative of any investment.  
An investment cannot be made directly in an index.  
Past performance is no guarantee of future results. 5/1/2006

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Ultimately, a more efficient portfolio is something that all investors – from those looking for value or income, to those who are more growth-oriented – should find attractive.

## REIT SECTORS

With a very diverse profile, the REIT industry offers investors many alternatives across a broad range of specific real estate property sectors, including:

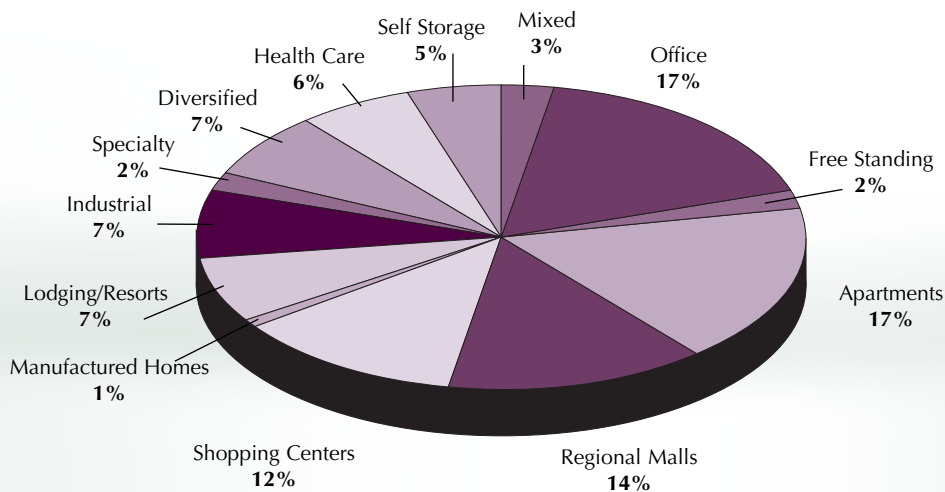
- Apartment communities
- Office properties
- Shopping centers
- Regional malls
- Storage centers
- Industrial parks and warehouses
- Lodging facilities, including hotels and resorts
- Health care facilities
- Natural resources.

REITs regularly explore new opportunities for income growth, from new acquisitions or development to providing income-producing leasing or tenant services. Regardless of specific business lines, REITs most often acquire and develop their properties primarily to actively manage and operate them as income-producing, ongoing businesses.

In addition, REITs that have a mortgage-focused investment strategy invest in commercial mortgages and commercial mortgage-backed securities (CMBS) or residential mortgages and mortgage-backed securities (MBS).

### REITs Invest In All Property Types

(as of December 31, 2006)



## REAL ESTATE INVESTMENT BENEFITS

REIT shares clearly can benefit most investors, whether value-driven or growth-oriented, individual or institutional. They offer the benefits of ongoing current income, with the potential for long-term capital appreciation that historically has met or exceeded inflation.

They are equities that derive a large part of their value from tangible, hard assets and the effective management of those assets.

And they have been proven to bring the benefits of balance, diversification and greater risk/reward efficiency to a broad range of investment portfolios.

We invite you to further explore what the REIT sector can offer you.

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