October 2006


| Contact | Phone |
| --- | --- |
| ***New York*** | |
| Philip Kibel, CPA | 1.212.553.1653 |
| Christopher Wimmer, CFA | |
| Merrie Frankel, Esq. | |
| Brian Harris, CPA | |
| Karen Nickerson, CPA | |
| Craig Emrick, CPA | |
| Lori Marks | |
| Maria Maslovsky | |
| Angela Burriesci | |
| Daniel Michles | |
| Griselda Bisono | |
| Elaina Kozyr | |
| Lin Zheng | |
| | |
| John J. Kriz | |
| *Managing Director* | |
| *Real Estate Finance* | |


# US REIT and REOC Industry Study

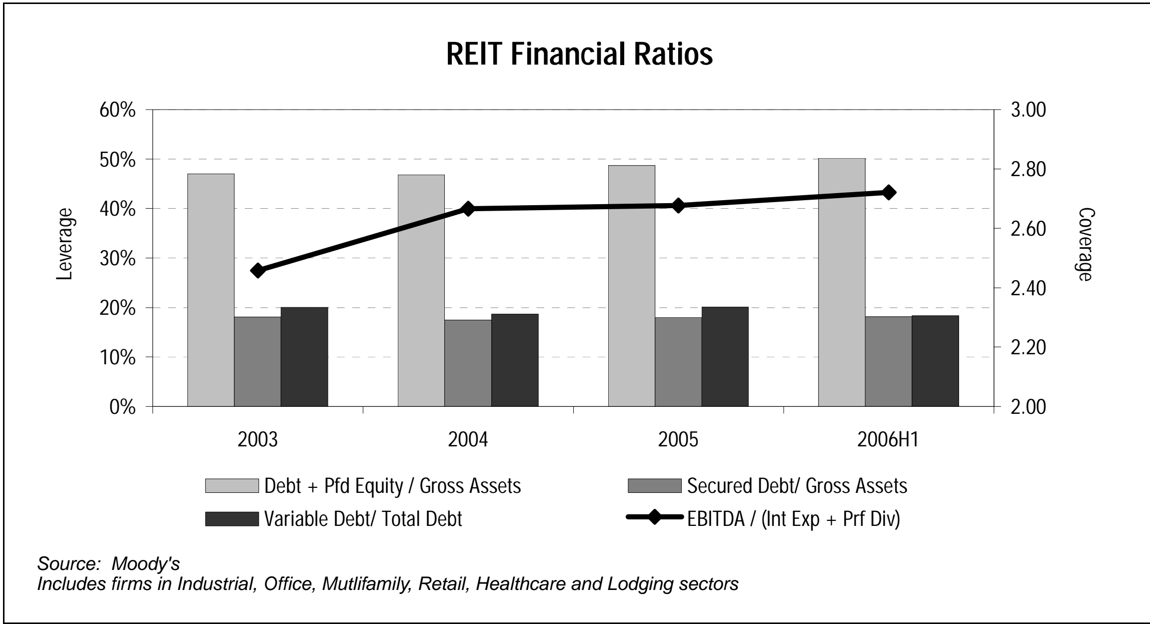
## *Stable Rating Outlook*

## Summary Opinion

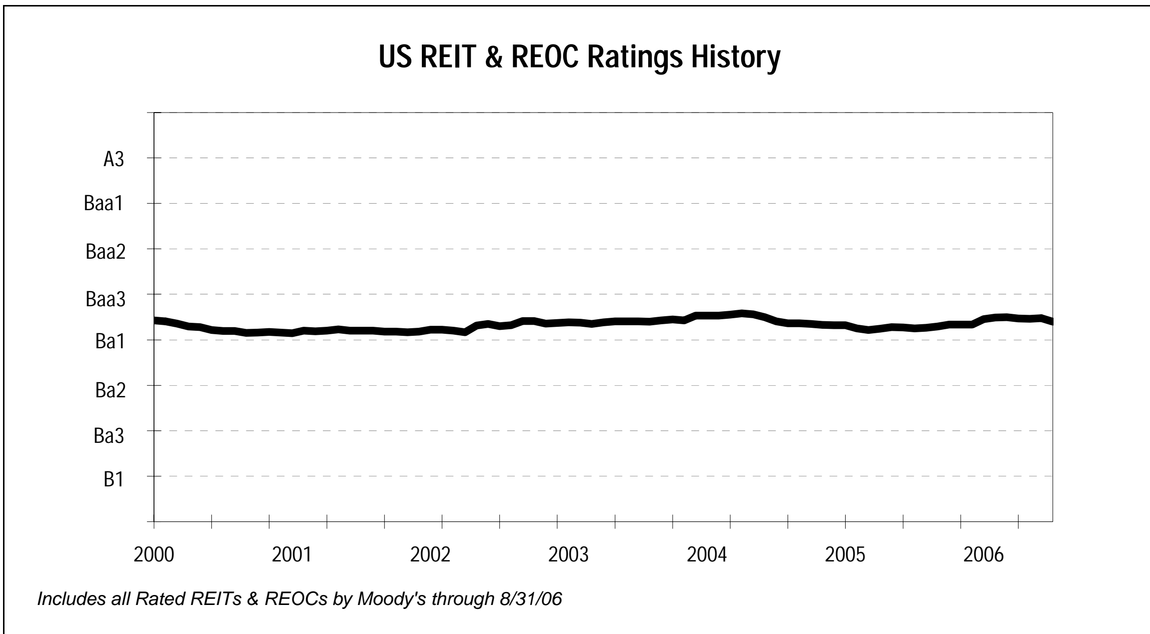

Moody's maintains a stable rating outlook for US REITs and REOCs. REITs have continued to prudently manage their balance sheets, with leverage and secured debt levels flat to up modestly in 2006, with increasing fixed charge coverage and operating margins. This is reflected by the mostly positive trend in Moody's rating actions that have occurred since the beginning of 2005, as well as the increased number of companies on the cusp of moving from the "Baa" category to the "A" category, and the percentage of companies with positive outlooks versus negative, 16% to 2%.

Despite mostly positive US REIT and REOC rating movement by Moody's, this has not been the case with M&A-related transactions, where increased leverage and secured debt often figure prominently. This activity may be waning as institutional investors' money is more fully put to work. Development has also been picking up in an effort to generate some earnings momentum in an environment where positive cash-on-cash acquisitions are difficult to source, though not (yet) to a level and of a character to create rating concern. Moody's remains cautious with respect to joint ventures and funds. These pursuits have enabled companies to enhance book earnings, build relationships and reduce concentrations, among other benefits. On the flip side, Moody's takes a cautious view here due to control issues, lower transparency, management diversion and cash flow uncertainty.

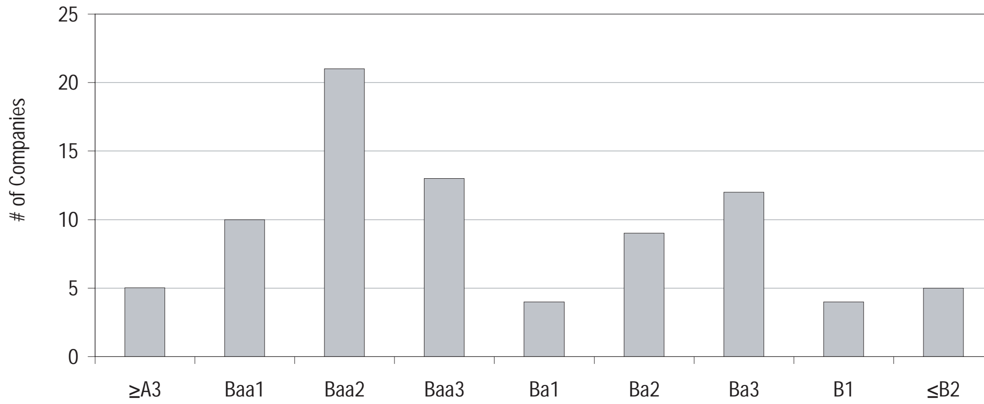

**Moody's Investors Service**
*Global Credit Research*

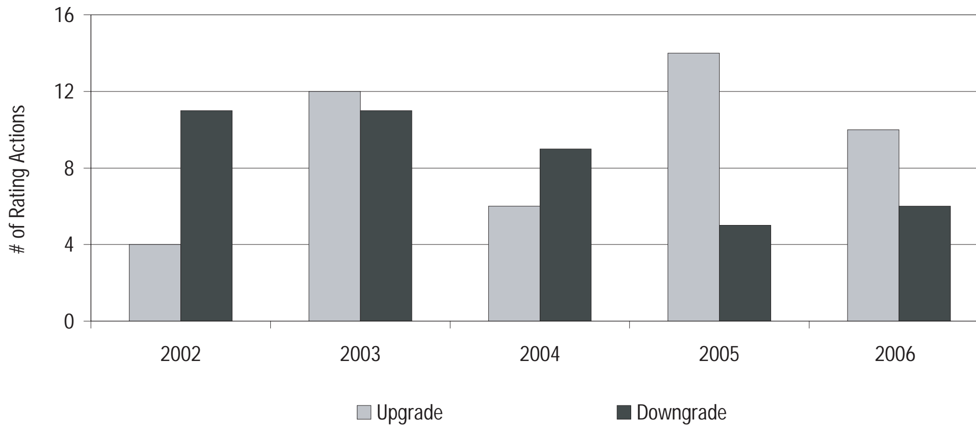



*Source: Moody's*
*Includes firms in Industrial, Office, Mutlifamily, Retail, Healthcare and Lodging sectors*




*Includes all Rated REITs & REOCs by Moody's through 8/31/06*


Moody's Rating Distribution for US REITs & REOCs
# of Companies
25
20
15
10
5
0
≥A3
Baa1
Baa2
Baa3
Ba1
Ba2
Ba3
B1
≤B2
Includes all U.S. REITs & REOCs with rated senior unsecured debt as of 8/31/06


REIT Rating Actions
Upgrades vs. Downgrades
# of Rating Actions
16
12
8
4
0
2002
2003
2004
2005
2006
Upgrade
Downgrade
As of 8/31/06

## Rating Assignments and Changes: 2005 and YTD2006

| REIT/REOC | Rating Event | Date of Change | Previous Rating | Previous Outlook/ Review Status | New Rating | New Outlook/ Review Status |
|---|---|---|---|---|---|---|
| Public Storage | Upgrade | Aug-06 | (P)Baa1 | Review for Upgrade | (P)A3 | Stable |
| Shurgard Storage Centers | Upgrade | Aug-06 | Baa3 | Review for Upgrade | A3 | Stable |
| American Real Estate Partners, L.P. | Downgrade | Aug-06 | Ba2 | Stable | Ba3 | Stable |
| Arden Realty L.P. | Upgrade | Jul-06 | Baa3 | Review for Upgrade | Aaa | Stable |
| CharterMac | First-time Rating | Jul-06 | — | — | Ba3* | Stable |
| CarrAmerica Realty Corporation | Downgrade | Jul-06 | Baa3 | Review for Downgrade | Ba3 | Stable |
| Developers Diversified | Upgrade | Jun-06 | Baa3 | Positive | Baa2 | Stable |
| Longview Fibre Company | Downgrade | May-06 | B1 | Review for Downgrade | B2 | Negative |
| CenterPoint Properties Trust | Downgrade | May-06 | Baa2 | Review for Downgrade | Baa3 | Stable |
| PS Business Parks | Upgrade | May-06 | Ba1** | Stable | Baa3** | Stable |
| MeriStar Hospitality Corporation | Downgrade | May-06 | B2 | Review for Downgrade | B3 | Stable |
| Jones Lang LaSalle Incorporated | First Time Rating | Apr-06 | — | — | Baa2* | Stable |
| Saxon Capital, Inc. | First Time Rating | Apr-06 | — | — | B2 | Stable |
| Felcor Lodging Trust | Upgrade | Apr-06 | B1 | Review for Upgrade | Ba3 | Stable |
| Pan Pacific Retail Properties | Upgrade | Mar-06 | Baa2 | Review for Upgrade | Baa1 | Stable |
| Prudential Real Estate Investors | Downgrade | Feb-06 | Aa3 | Review for Downgrade | A1 | Stable |
| iStar Financial Inc. | Upgrade | Feb-06 | Baa3 | Review for Upgrade | Baa2 | Stable |
| Clayton Holdings, Inc | First-time Rating | Jan-06 | — | — | B1 | Stable |
| Omega Healthcare Investors, Inc. | Upgrade | Jan-06 | B1 | Positive | Ba3 | Stable |
| Longview Fibre Company | First-time Rating | Dec-05 | — | — | Ba3 | Stable |
| Capital Automotive REIT | Downgrade | Dec-05 | Baa3 | Review for Downgrade | Ba3 | Stable |
| Ventas Inc. | Upgrade | Dec-05 | Ba3 | Positive | Ba2 | Stable |
| Hospitality Properties Trust | Upgrade | Oct-05 | Baa3 | Stable | Baa2 | Stable |
| La Quinta Properties | Upgrade | Oct-05 | Ba3 | Positive | Ba2 | Stable |
| Host Hotels & Resorts, Inc. | Upgrade | Oct-05 | Ba3 | Positive | Ba2 | Positive |
| Simon Property Group, LP | Upgrade | Sep-05 | Baa2 | Review for Upgrade | Baa1 | Stable |
| Corrections Corporation of America | Upgrade | Sep-05 | B1 | Positive | Ba3 | Stable |
| Brandywine Realty Trust | Upgrade | Aug-05 | (P)Ba2** | Stable | (P)Ba1** | Stable |
| Gables Residential Trust | Downgrade | Jul-05 | Ba1 | Review for Downgrade | Ba2 | Developing |
| Newkirk Master L.P. | First-time Rating | Jul-05 | — | — | Ba2* | Stable |
| Tanger Factory Outlet Centers, Inc. | Upgrade | Jun-05 | Ba1 | Positive | Baa3 | Stable |
| Camden Summit LP | Upgrade | Jun-05 | Ba1 | Review for Upgrade | Baa2 | Stable |
| AMLI Residential Properties | Downgrade | Jun-05 | Baa3 | Negative | Ba1 | Stable |
| Gables Residential Trust | Downgrade | Jun-05 | Baa3 | Stable | Ba1 | Review for Downgrade |
| Host Hotels & Resorts, Inc. | Upgrade | May-05 | B3** | Stable | B2** | Positive |
| Equity Inns, Inc | Upgrade | May-05 | B3** | Stable | B2** | Stable |
| Kimco North Trust III | First-time Rating | Apr-05 | — | — | Baa1 | Stable |
| CB Richard Ellis Services, Inc. | Upgrade | Apr-05 | B1 | Stable | Ba3 | Stable |
| TriNet Corporation Realty Trust | Upgrade | Apr-05 | Ba1 | Stable | Baa3 | Stable |
| Maguire Properties, Inc | First-time Rating | Mar-05 | — | — | (P)Ba2*** | Stable |
| Trustreet Properties, Inc | First-time Rating | Mar-05 | — | — | (P)B1 | Stable |
| Shurgard Storage Centers | Downgrade | Feb-05 | Baa2 | Stable | Baa3 | Negative |

** Bank Line*
*** Preferred Stock*
**** Senior Secured*
*As of 8/31/06*

## REIT and REOC Industry Profile

### STRENGTHS/OPPORTUNITIES

- Greater size, diversity and scope
- Moderate leverage, manageable debt maturities and sound liquidity
- Key financial measures stable
- Asset type (real property) supports liquidity in distress, and should boost bondholder recoveries
- REITs are culling their underperforming or non-core assets, and replacing them with higher quality assets, even at the expense of lower yields

### WEAKNESSES/CHALLENGES

- Little capacity for cash retention, especially after accounting for capital expenditures
- Potential trend of weakening covenants, perhaps followed by higher leverage and secured debt tolerances
- Leveraged joint ventures and fee-generation platforms such as funds can create complexity, new-business risks, volatile cash flows, and weakened liquidity and transparency
- Dependant on capital market access
- Ample capital flows to real estate make accretive acquisitions challenging
- Higher development pipelines and more focus on purchasing vacancies

### FACTORS THAT WILL LIKELY DRIVE US REIT/REOC RATINGS

- Achievement of strong sector leadership
- Portfolio diversification by tenant, industry and geography
- Increase in JVs and funds or other fee generating structures, which can reduce transparency and increase management complexity and earnings volatility
- Maintenance of moderate financial leverage and a large, diverse unencumbered asset pools, which may be affected by bond covenant shifts
- Adverse capital structure effects of M&A

## Some Key Questions

### WHAT DOES MOODY'S RATING METHODOLOGY GRID TELL US?

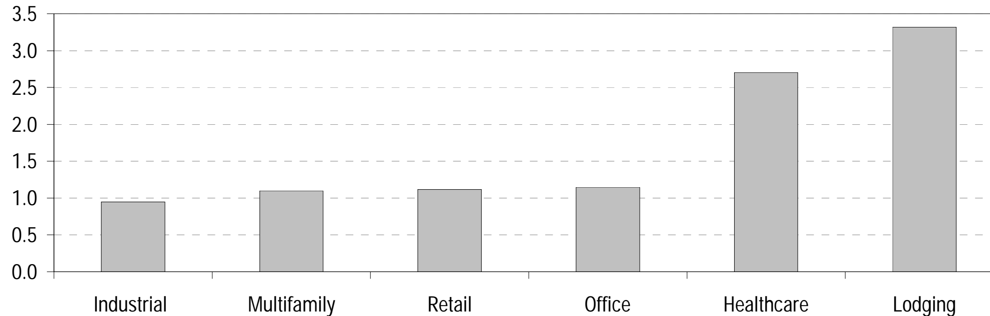
By using Moody's REIT Rating Methodology Grid[1], which encompasses the key factors that drive our ratings, you can not only determine where a REIT or REOC would likely be rated, but also the characteristics most likely to drive an upgrade or downgrade. Moody's Real Estate Finance Team uses this grid as a starting point to evaluate the creditworthiness of a REIT or REOC. Additional analysis using rolling averages for grid inputs, as well as the historical trend of individual rating drivers, is performed to generate sharper insight into performance. Furthermore, *pro forma* information and alternate outcomes from different stress scenarios generate insight into the likely credit path of a firm.

The table below summarizes the key rating drivers and sub-factors that comprise Moody's Rating Grid. Moody's has applied this rating grid to all of its rated REITs. The results have been within one to two rating notches of the existing ratings except for some REITs in the lodging and healthcare sectors. For companies in these sectors, volatility of earnings tends to influence the rating more than a strong balance sheet. Healthcare REITs, for example, are acutely exposed to operator business volatility and government funding shifts, the two being linked, and often-high levels of tenant concentration and performance correlation. Lodging REITs experience often-sharp cash flow volatility due to daily movements in occupancy and room rates, with particular sensitivity to economic conditions.

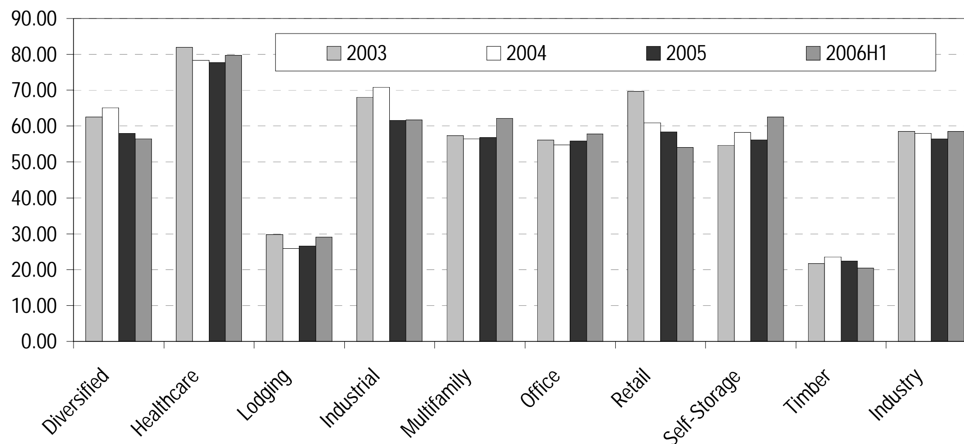
1. *"Rating Methodology for REITs and Other Commercial Property Firms," January 2006.*

## Moody's Methodology for REITs and Commercial Property Firms

| Rating Driver | Sub-Factors | Metric |
|---|---|---|
| Liquidity & Funding | Available bank line capacity<br>Debt maturity profile<br>Dividend payout ratio<br>Size of unencumbered asset pool | Total Line - Outstanding<br>Maximum Annual Maturity<br>Dividend / FFO<br>Unencumbered Assets / Gross Assets |
| Leverage & Capital Structure | Amount of effective leverage<br>Debt relative to operating income<br>Amount of secured leverage<br>Ability to access capital | Debt + Preferred / Gross Assets<br>Net Debt / EBITDA<br>Secured Debt / Gross Assets<br>Qualitative ("Excellent" to "Sporadic") |
| Market Position & Asset Quality | Degree of franchise and brand recognition<br>Size and market penetration<br>Level of diversity<br>Size of development business<br>Quality of assets | Qualitative ("Excellent" to "Low")<br>Gross Assets<br>Qualitative ("Excellent" to "Poor")<br>Development / Gross Assets<br>Qualitative ("Excellent" to "Low") |
| Cash Flow & Earnings | Operating margins<br>Earning power<br>Volatility of earnings<br>Ability to service debt | EBITDA / Revenues<br>Net Income / Average Assets<br>Standard Deviation of ROAA<br>EBITDA / Interest + Preferred Dividends |
| Internal & External Factors | Assessment of management<br>Joint venture and fund activity | Qualitative ("Excellent" to "Modest")<br>JV or Fund Revenues / Total Revenues |




*Source: Moody's; based on data from 1998 to 2005*




*Source: Moody's*

## HOW DOES MOODY'S LOOK AT BOND COVENANTS IN RATING REITs?

Moody's REIT Rating Methodology has no explicit criterion for bond covenants — their evaluation is implicitly incorporated into other financial and qualitative factors, including our assessment of management. The existence and tightness of covenants suggests the level of management's risk appetite, and covenant changes likely signal new thinking surrounding capital strategy that could drive ratings.

### "Standard" REIT Senior Unsecured Bond Covenants

*Typically, violation of these negative covenants (without remediation within 30 to 90 days) can constitute a default and trigger acceleration of payment of principal and accrued interest. The denominator in the leverage calculations is often defined as the undepreciated book value of real estate assets or total assets:*

- **60% Total Leverage**
- **1.5X Cash Flow to Debt Service**
- **40% Secured Leverage**
- **150% Unencumbered Assets relative to Unencumbered Debt**

Covenant changes thus far have been limited to a handful of the largest REITs, and the changes focus on the definition of leverage. Some REITs have labeled the covenants anachronistic, given the sector's lack of widespread, serious stress, and further maturation. The rebuttal cites the covenants as a primary factor in the companies' lack of stress. Moody's expects the trend of covenant changes to continue as long as the property market remains robust. For each REIT that seeks to weaken the terms of its covenants, Moody's will examine its tendency to increase secured or unsecured leverage, to diminish coverage, and to maintain unencumbered assets. Weaker covenants are not necessarily in and of themselves rating drivers. Nonetheless, investors are reexamining the importance of covenants in other industries particularly where LBO activity has been heavy, perhaps with an eye to the mostly favorable results for REIT bondholders in such situations.

Significant changes — either substantial weakening or elimination — in a REIT covenant package are likely to result in a rating downgrade. This reflects not only the greater capacity of a REIT to, say, boost leverage or to structurally subordinate its unsecured creditors, but also the attitude of management to these matters. Of the four common covenants, ratings are most sensitive to the secured debt test. Increased utilization of secured debt in the capital structure beyond the 40% threshold can mean a *de facto*, if not *de jure*, recapitalization, leaving little support for unsecured bondholders. There is also the likely commensurate increase in aggregate leverage to consider.

Issuers and investors need to be aware of another important aspect of covenants, which entails preferred equity ratings. Moody's has assigned preferred ratings two notches below senior unsecured debt for non-REIT corporate issuers. REITs, on the other hand, have enjoyed tighter notching between preferred stock and senior bonds. Three elements drive this policy. The first two have to do with the high marketability of real estate assets and the lack of subordinated debt in the capital structure, which translate to higher likely levels of recovery in default. The third element reflects the protection availed by the standard REIT covenants. Absent covenants, or the presence of a deflated variety, Moody's is likely to increase the notching of an issuer's preferred rating relative to senior debt[2].

General Growth Properties, a leading owner of US regional malls, and Capital Automotive REIT, which specializes in auto dealership properties, are examples of the relative rating effects altered covenants can produce. With respect to General Growth, it traditionally funded itself with secured debt and did not have any bond covenants until it acquired The Rouse Company, another mall owner and an unsecured bond issuer, in 2004. Given the presence of bond covenants at Rouse and lack thereof at General Growth, Rouse's senior unsecured rating is one notch higher than that of General Growth. The covenants at Rouse have prevented General Growth from substantially raising secured debt and total leverage at the Rouse level. Thus, on a stand-alone basis, Rouse's credit metrics are measurably stronger than its parent's on a consolidated basis. Capital Automotive was a Baa3 senior unsecured issuer prior to its LBO by institutional investors. The transaction entailed tendering for the firm's outstanding bonds with proceeds from a secured credit facility which was collateralized by virtually the entire portfolio of dealership properties. Once over half of the bonds had been tendered, the covenants were eliminated on the remaining bonds. Given this, and the absence of unencumbered assets, the senior unsecured bond rating was lowered to Ba3 — two notches below the senior secured rating and three notches below the pre-transaction senior unsecured rating.

2. *"REIT Rating Methodology: Notching for Differences in Priority of Claims and Integration of the Preferred Stock Rating Scale," August 2001.*

## WHAT DO MERGERS AND PRIVATIZATIONS SPELL FOR US REITs?

As a result of low capital costs and an abundance of capital looking for a home in commercial real estate, the level of merger and acquisition activity involving REITs is hardly surprising. Fostering this activity is the still-active "deal-making" mentality of some REIT managements.

M&A has preponderantly resulted in negative actions due to the higher level of leverage and secured debt such deals typically have, and we do not expect that to change. As the chart below demonstrates, the negative-to-positive deal-related rating outcome ratio is 3:1 from January 2005 through August 2006. Whether the M&A trend itself is petering out, or is still full of vigor, is an open question. Though funding sources of such deals are ample, that can change — quickly. In addition, much of the impetus behind such deals is the filling of institutional investors' higher allocations to property. As those allocations get filled, and as profit opportunities in "timing" sectors of the property business (such as office and lodging) wane, M&A may become less frequent. However, the properties that have gone into private hands, as opposed to inter-REIT mergers, will likely re-enter the REIT space before long — such private owners are often not long-term holders, and the public market is the easiest take-out for large asset pools. In the 1990s during the REIT IPO boom, it was suggested that REITs would take over most private property ownership. That was not true. The opposite is not true, either.

### Summary of M&A-Related Rating Actions, 2005 — YTD2006

| Date of Action | Acquiror | Target | Type | Action | New Rating | Old Rating |
|---|---|---|---|---|---|---|
| Aug 06 | Public Storage Trust | Shurgard Storage Centers | Public-to-Public | Upgrade | A3 | Baa3 |
| | Morgan Stanley | Glenborough Realty Trust | Public-to-Private | Review Down | — | (P)Ba1 |
| | Morgan Stanley | Saxon Capital | Public-to-Private | Review Up | — | B2 |
| | SL Green Realty | Reckson Associates | Public-to-Public | Review Down | — | Baa3 |
| Jul 06 | GE Real Estate | Arden Realty | Public-to-Private | Upgrade | Aaa | Baa3 |
| | The Blackstone Group | CarrAmerica Realty | Public-to-Private | Downgrade | Ba3 | Baa3 |
| | Centro Properties / Watt | Heritage Property | Public-to-Private | Review Down | — | Baa3 |
| | Kimco Realty | Pan Pacific Retail | Public-to-Public | Review Down | — | Baa1 |
| May 06 | Health Care Property Investors | CNL Retirement Properties | Private-to-Public | Review Down | — | Baa2* |
| | CalPERS / LaSalle | CenterPoint Properties | Public-to-Private | Downgrade | Baa3 | Baa2 |
| | The Blackstone Group | MeriStar Hospitality | Public-to-Private | Downgrade | B3 | B2 |
| Feb 06 | The Blackstone Group | La Quinta Properties | Public-to-Private | Downgrade | B2 | Ba2 |
| | CDP Capital-Financing | CRIIMI MAE | Public-to-Private | Upgrade | Baa2 | B3** |
| Dec 05 | DRA Advisors | Capital Automotive REIT | Public-to-Private | Downgrade | Ba3 | Baa3 |
| Oct 05 | Brandywine Realty Trust | Prentiss Properties Trust | Public-to-Public | Affirm | Baa3 | Baa3* |
| Jul 05 | ING Clarion | Gables Residential Trust | Public-to-Private | Downgrade | Ba3 | Ba1 |
| | Camden Property Trust | Summit Properties, Inc. | Public-to-Public | Upgrade | Baa2 | Ba1 |
| Apr 05 | Centro Properties / Watt | Kramont Realty Trust | Public-to-Private | Confirm | B3 | B3** |
| Mar 05 | Trustreet Properties | US Restaurant Properties | Public-to-Public | Downgrade | B3 | B1** |
| Jan 05 | Colonial Properties Trust | Cornerstone Realty Income | Public-to-Public | Confirm | Baa3 | Baa3* |

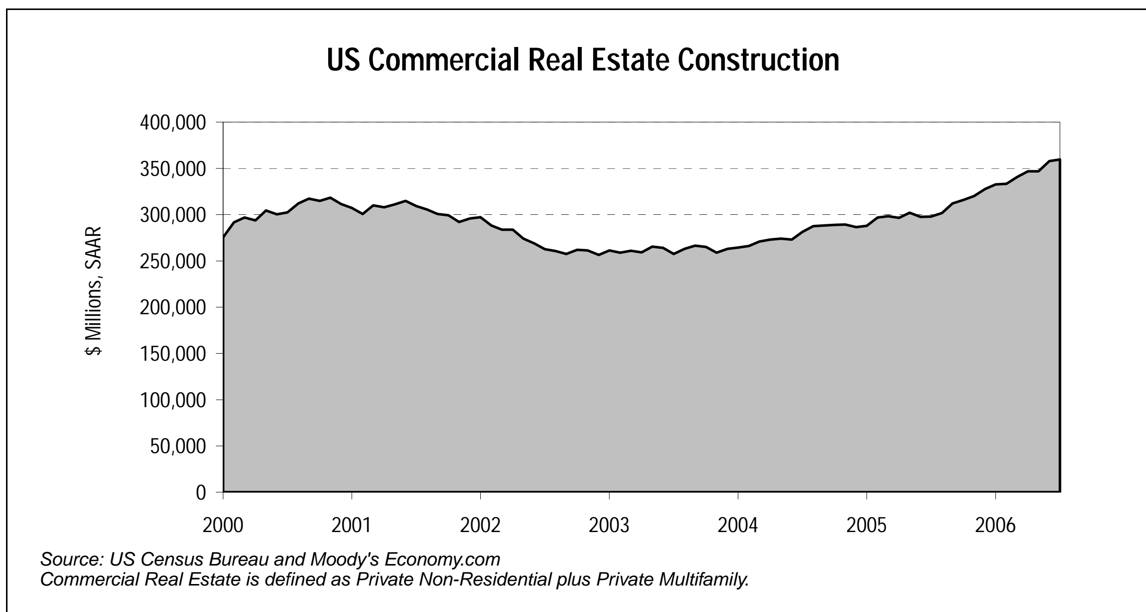
*Rating actions reflect latest or final with respect to target firm senior unsecured debt unless otherwise noted.*
**Reflects acquiring entity's senior unsecured debt. **Preferred equity rating.*

## WHEN DOES DEVELOPMENT BECOME A RATING CONCERN?

Moody's recognizes the need for REITs to grow and to drive earnings, including via development. The challenging acquisition environment has tipped the scales towards development as a growth vehicle. The following chart demonstrates this trend. In the early years of the decade, economic uncertainty combined with stressed real estate fundamentals characterized by high vacancies and low rents gave developers little reason to risk new construction, and total activity dipped to a low point below $260 billion during 2003 on a seasonally adjusted annual basis. More recently, low interest rates and an improved US economy have helped development yields trump acquisition yields compressed by

an overcrowded arena of buyers. As the chart demonstrates, construction activity has accelerated beginning in 2004, and REITs' development pipelines have generally reflected this trend.

A REIT or REOC with an aggressive pipeline can get ahead of itself and increase the odds that it may not find tenants for its properties, limiting its ability to repay creditors or maintain its dividend. This consequence is exacerbated by firms which employ higher levels of leverage and particularly secured debt on their balance sheets, wherein loss of control or ownership can quickly become an issue should a meaningful portion of their assets serve as loan collateral. Even when borrowers are able to "walk away" from collateral, Moody's will be concerned with the level of foregone cash flow.



Source: US Census Bureau and Moody's Economy.com
Commercial Real Estate is defined as Private Non-Residential plus Private Multifamily.

As shown in Moody's Rating Grid, development pipelines that represent more than 10% of gross assets are characteristic of a non-investment grade factor; however, there can be mitigants, such as low project risk, pre-leasing, staggered roll-out, redevelopment vs. greenfield development, lack of chunkiness and track record.

For example, the table illustrates how AvalonBay Communities, Liberty Property Trust and Duke Realty have added generously to their pipelines over the past 18 months. Whereas effective leverage for AvalonBay and Liberty has declined in this period, Duke's has increased by 12.5%, or nearly 25% higher than year-end 2004. This is reflected in recent rating actions related to each of these REITs. AvalonBay's Baa1 senior unsecured rating was assigned a positive outlook in early August 2006 and Liberty (Baa2) was also put on positive in September 2006. In both cases Moody's commented on their growth combined with a conservative stance on leverage. Conversely, Duke's Baa1 rating was recently affirmed. Relative to gross assets, the increase in development for Duke does not appear to be dramatic when compared to AvalonBay and Liberty. However, combined with the increase in effective leverage (versus decreases in the case of the other two REITs here), we believe the increased risks were multiplied and are creating a drag on the rating. For now, other factors such as the REIT's development track record and leadership in its markets mitigate these concerns.

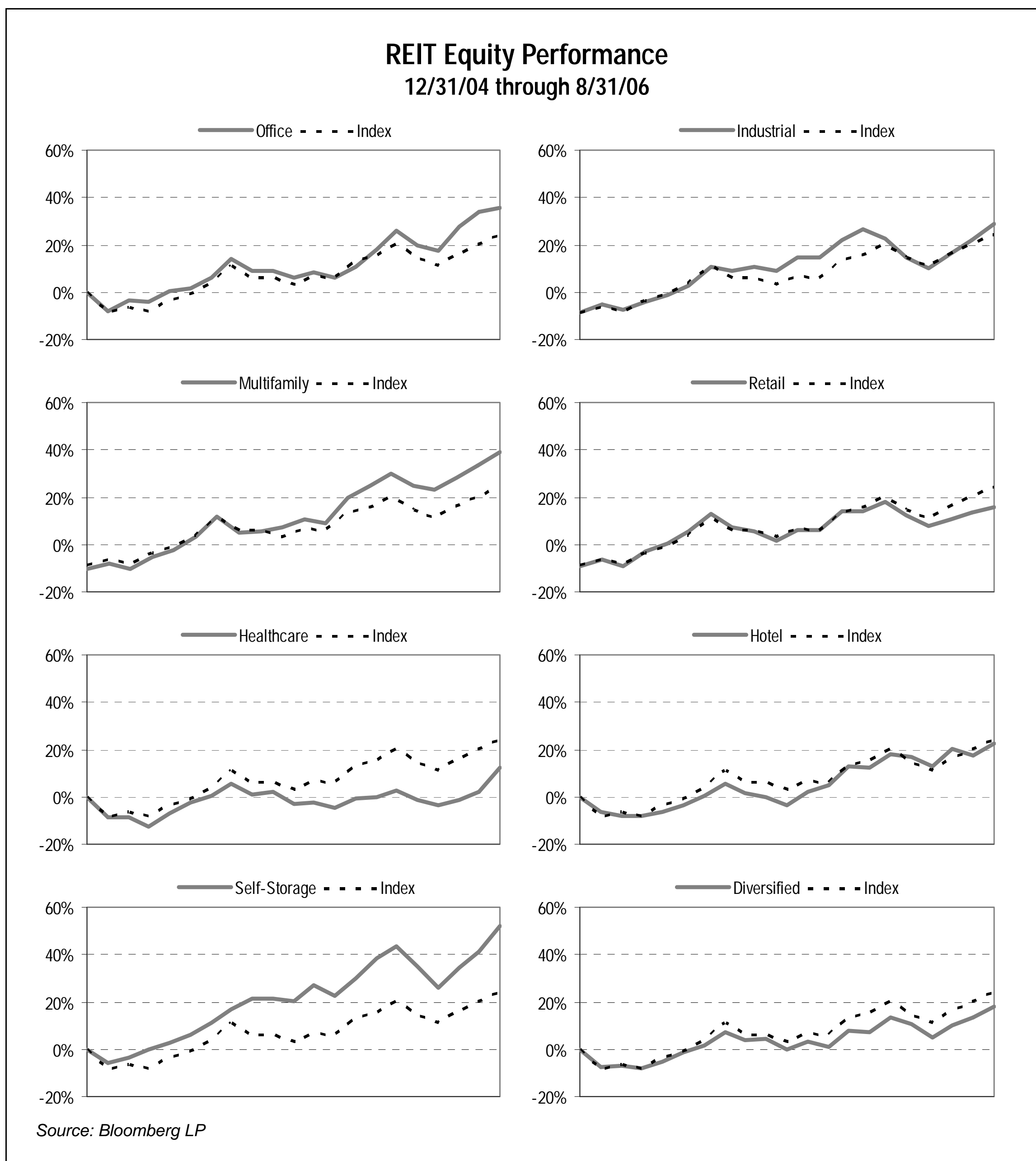
| | 12/31/04 | | | 6/30/06 | | |
|---|---|---|---|---|---|---|
| | Development Pipeline | % of Gross Assets | Effective Leverage | Development Pipeline | % of Gross Assets | Effective Leverage |
| **AvalonBay Communities** | $546.7 | 9.3% | 42.3% | $1,412.0 | 22.4% | 37.9% |
| **Liberty Properties** | 143.9 | 3.0 | 46.8 | 924.9 | 17.4 | 40.9 |
| **Duke Realty** | 194.9 | 2.9 | 47.5 | 772.9 | 9.8 | 60.0 |

*Source: Company reports, Moody's.*

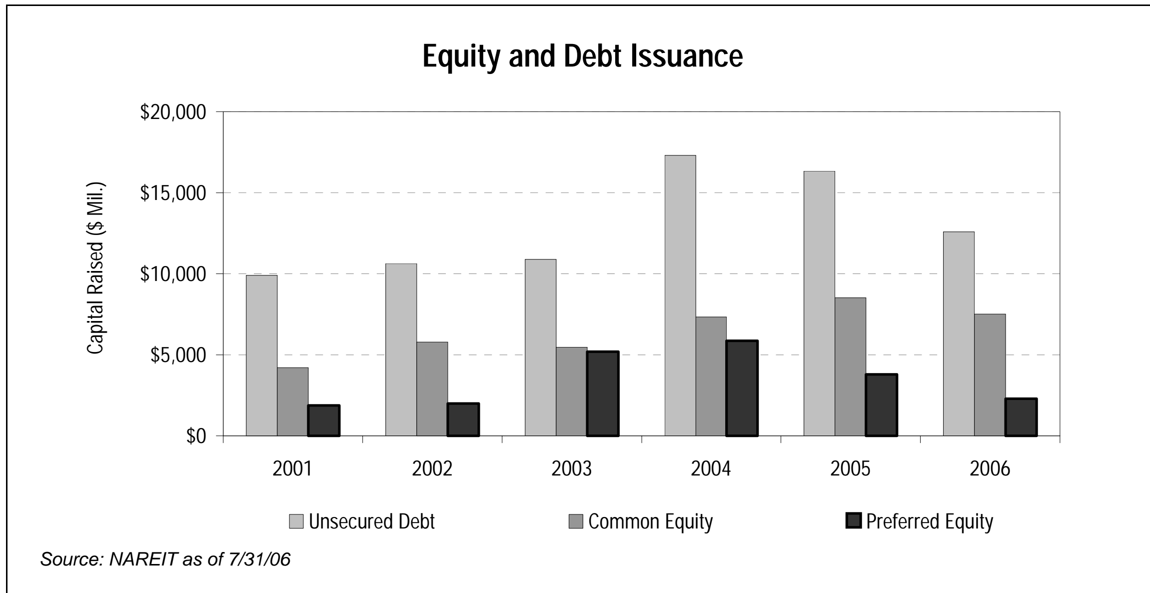
## HOW WILL A CHANGE IN THE CAPITAL MARKETS AFFECT REITs?

The upbeat capital and real estate markets have been a plus for most all REITs and REOCs, allowing them to boost returns by selling even mediocre assets at low cap rates, strengthening their balance sheets, and accessing all forms of funding easily and cheaply. The early 2000 recession was not a significant challenge for most REIT sectors, save lodging. Although revenues were crimped by wavering fundamentals, low and falling interest rates, low cap rates, a robust seller's

environment, high equity values and ready access to funding (including a large influx of foreign capital) were key supports. If one or more of these factors had been removed, the fortunes of at least some REITs would have likely reversed.




It is often overlooked that REITs depend on regular capital market access. We have not seen access diminish recently, but we do expect changes will take place, as some REITs have looked at shortening the maturity structure of their debt and we have also seen substantial increase in convertible debt issuance. With respect to the former, Moody's views its use as a credit negative. For an industry with almost no cash retention capacity, funding a substantial part of its business with short-term debt reflects a high risk appetite.

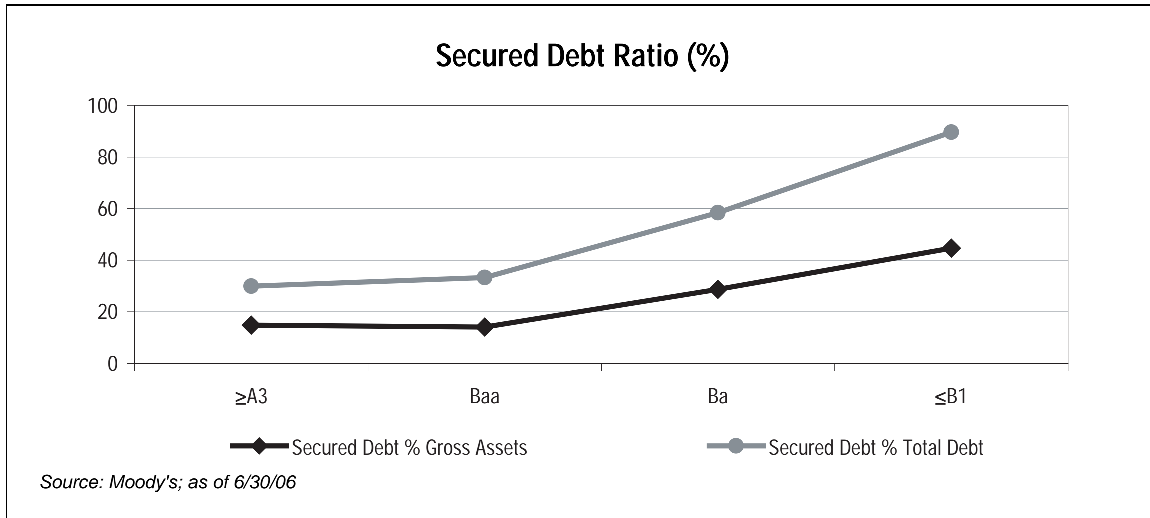



Convertible debt, a current fad, is considered debt, given the structures used. Recent issues provide the REITs with another source of inexpensive fixed-rate long-term financing. Yet the issuance of these instruments indicates that management believes it should be able to issue these instruments without much future dilution to its equity base or FFO per share (they are not incented otherwise to issue these securities), which begs the question whether the REITs' growth in stock prices, based on management's expectations, have hit a plateau.

## HOW MUCH SECURED DEBT IS TOO MUCH?

We focus on several ratios to evaluate the effects of secured debt on REITs' rated unsecured debt, financial flexibility and effective subordination. Moody's primary metric considers secured debt relative to gross assets, and levels below 20% are a "Baa" rating characteristic; less than 10% or lower is an "A" characteristic. Other ratios include the ratio of unencumbered assets to unsecured debt; interest coverages for unsecured debt generated by unencumbered assets; the mix and quality of the unencumbered asset pool; and the loan-to-value ratio of the secured assets. When rating unsecured debt, Moody's is cognizant of the ratio of unencumbered assets to total debt and, in particular, total unsecured debt. The larger the ratio, the more financial flexibility a REIT generally has (although high levels of mortgaged assets can render the unencumbered leverage ratio less relevant, so it is important to examine overall leverage as well). Another key factor in Moody's evaluation of the debt mix and refinancing risks is the REIT's or REOC's debt maturity schedule. The bunching of debt maturities presents financing risks: the more debt maturities are spread over time, the more flexibility the REIT or REOC will have — one of the plusses of mortgages, with their amortization schedules.

Examples of REITs that have levels of secured debt which constrain their rating (in these instances, below investment grade) include General Growth Properties and Apartment & Investment Management Company (AIMCO). Secured debt relative to gross assets at June 30, 2006 was 50% and 47%, respectively, with little in terms of unencumbered assets in either case. Conversely, Vornado Realty Trust, 52%, Boston Properties, 31%, and Archstone-Smith Trust, 20%, represent three issuers where relatively high levels of secured debt have been mitigated by other, positive factors which support investment-grade ratings, chief of which are a sizable unencumbered asset base marked by superior asset quality.



*Source: Moody's; as of 6/30/06*

## WHICH ACCOUNTING ISSUES WILL HAVE THE GREATEST EFFECT ON REITS?

The Financial Accounting Standards Board (FASB) recently completed several projects related to fair value, and it is possible fair value accounting treatment for investment properties under US GAAP will be introduced in 2008. International Financial Reporting Standards (IFRS) already require investment properties to be recorded at fair value on the balance sheet with changes in unrealized gains and losses in the income statement, or disclosure of fair value in the footnotes if preparers choose to continue to use historical cost in their financial statements (with no income statement impact for unrealized gains and losses). In the "Roadmap" for convergence between US GAAP and IFRS, released jointly by the respective standard setters in February 2006, investment property accounting was placed in the "short-term" convergence category. The FASB will evaluate the accounting for investment property as part of Phase II of its Fair Value Option project; an exposure draft for this project is expected in the fourth quarter of 2006 or the first quarter of 2007. It is unclear at this time if the US standard will mirror the international standard or contain differences.

There are diverse opinions on the positives and negatives of fair value accounting for investment property. Those in favor say depreciation has little meaning for investment property, and it reduces the relevance of both the income statement and the balance sheet. Fair value treatment is more representative of the economics of many REITs' business models. Those on the negative side fear a reduction in comparability, especially if fair value treatment is optional, and reliability, as a fair value number is more subjective than historical cost; fair value is also volatile.

Moody's believes there is validity in both sides of this argument. We agree that neither depreciated, nor undepreciated, cost is usually representative of the fair value of real estate assets, especially for those REITs with low asset turnover. However, fair value treatment can create distortions, the level of which depends on how often a company revalues its assets and the dependability of the revaluations. Moody's analysis incorporates both measurement bases. As it is widely available, undepreciated cost underlies many of our metrics, but in most instances fair value information is also incorporated. For example, leverage ratios are calculated using assets on both an undepreciated cost as well as a fair value basis, and the stability of asset values is reviewed as we consider stable asset values an enhancement of a REITs ability to sell or refinance properties in times of cash flow need. For those non-US REITs revaluing their real estate assets with a resulting income statement impact, Moody's eliminates any unrealized gains. This treatment is similar to that for realized gains and losses in the calculation of FFO.

A corollary issue is how a fair value accounting regime could change how the "total assets" component of REIT bond covenants is defined. The most common definition is currently undepreciated cost. A change to fair value accounting could make definitions with fair value aspects more common and accelerate the diversification of REIT covenant definitions that is already underway. Although we do not believe pure fair value will become the new "standard" definition of total assets in covenants over the short term, over the long term, with more acceptance of fair value accounting, it possibly will.[3]

We do not expect a move to fair value accounting to impact outstanding bonds unless management proactively changes covenant definitions. Most definitions of total assets are clearly defined as undepreciated cost and this would not change in a move to fair value accounting. In addition, many indenture agreements contain language that permits "old" accounting to be used to calculate covenant compliance if "new" accounting would result in non-compliance.

3. *"Fair Value Accounting for Investment Properties Is on the Horizon: How Will It Affect REIT Bond Covenants?" June 2006.*

## Watch for These Credit Topics

### JOINT VENTURES & INVESTMENT FUNDS

REITs have been increasing their use of joint ventures and funds to finance real estate purchases, diversify their revenues through advisory and management fees, and lever their businesses — both operationally and financially. We expect the rate of increase to accelerate, driven by managements' needs to achieve earnings growth in a low cap rate/easy-mortgage-finance environment. We also believe the growth in these structures would continue with a reversal in cap rates, albeit at a slower rate. In short, these vehicles are here to stay[4].

A few REITs have been successfully using these structures for some time which has helped provide them with revenue and funding diversification. However, these structures are a rising trend among a larger number and range of REITs. On a broad basis, the associated fees demonstrate little track record and a potentially high degree of variability. This variability is higher for acquisition, disposition and promote/success fees, but less so for the core property management and leasing fees.

Moody's sees the negative aspects of the rise of JVs/funds creating a rating counterweight to REITs' positive track record and momentum in building greater diversity, depth and leadership. JVs and funds will likely be one of the material business and creditworthiness factors for REITs for the rest of the decade. Some specific comments Moody's has about these structures:

- Unlike cash flows from rental properties, the JV/fund fee stream does not provide outright claim on and control of an asset.
- Senior management time and attention can be diluted by managing the relationship with JV partners or fund investors.
- The vehicles may be supplementing core nominal investment returns through potentially non-core fees and uncertain promote revenues.
- The structure could be a means to achieve a reported (if not actual) balance sheet condition, such as leverage and relative use of secured debt.
- The partnerships may result in higher hidden leverage with secured debt which is off-balance sheet, weakening REITs' financial and strategic flexibility.
- There are varying degrees of transparency and disclosure.
- There are conflict-of-interest concerns, with attendant fiduciary liability, which may arise over how opportunities and costs are allocated among REIT-owned properties and JV/fund properties.

Certain trends are likely to occur over the short term in regards to REITs' use of JV and fund structures. We see REITs lowering their stakes in these ventures in order to create additional operating leverage for the JV without increasing the REITs' financial leverage. For example, instead of earning $10 million in management fees over a $50 million dollar (or 50%) investment in a $100 million dollar venture, the REITs will choose to invest $20 million (or only 20%) to earn the same $10 million in fees from the same $100 million venture. However, alignment of interests with institutional partners will tend to increase the longevity of the venture and related fees. In addition, some REITs could become preponderantly real estate investment management firms, rather than direct investors. Moody's also sees a greater stratification between the REITs that are really adept at the JV/fund business and those that are not, with the latter perhaps finding themselves stuck with some awkward deals. Finally, because JV/fund arrangements limit cash outlays, they are particularly attractive when an otherwise profitable investment does not yield an immediate or attractive return. Some REITs employ JVs/funds to fund their development activities for this reason.

### BANK LINES & INTEREST RATE VOLATILITY

Revolving bank credit facilities are important components of REITs' funding. Almost all REITs actively use such revolvers, a reflection of REITs' fundamental, limited ability to retain cash because of their dividend distribution requirements, ongoing need for readily available investment funds, and small cash balances typically held on their balance sheets. These factors impel REITs to rely on bank lines of credit as their primary source of short-term liquidity. These revolvers provide REITs with maneuverability to quickly close on acquisitions, to fund development and other capital expenditures (capex), and to serve as bridge financing for maturing mortgages and bonds. However, without appropriate management and structure of the revolver, or a clear role for the facility in the REIT's capital structure, bank revolvers can create risks. Mismanagement or weak structuring of a bank facility can reduce a REIT's financial flexibility, which could create rating implications.

4. *"REIT Joint Ventures and Funds: Weighing the Pluses and Minuses," April 2006.*

If the bank credit facility balance outstanding is significantly over 50% for a sustained period of time, Moody's would likely see this as aggressive. Increasing percentages drawn imply increasingly aggressive funding postures. Total line availability above 50% on a regular basis is characteristic of companies rated "Baa" or higher. A persistently elevated outstanding balance may also indicate that the REIT is using its line of credit, which is by definition a short- to medium-term facility, as permanent financing, which Moody's would see as aggressive. High draw levels also weaken the REIT's liquidity resources. Other issues that would affect this analysis include large impending debt maturities, capital expenditures and acquisitions, cash retention, asset sales and likely issuances of term debt or equity.

Lines of credit are the primary source of variable rate debt for most REITs, though some REITs swap fixed-rate debt into floating-rate debt, and have variable-rate mortgages or construction loans. Variable rate debt can be risky for a REIT because of the potential for a rise in interest rates, counterbalanced by the typical fixed level of rent cash flows; the result can become a profit squeeze. Moody's has observed that there has not been a consistent, significant difference between investment grade REITs' and speculative grade REITs' variable-rate debt exposures. That said, Moody's would see as a negative rating factor a high level of variable rate debt — levels above 20% tend to equate to a below-Baa characteristic. In its analysis, Moody's adjusts down high levels of variable-rate debt to more normalized levels, with the difference being assigned a long-term cost of funds. This helps to highlight how much coverages are being supported by variable-rate debt, and assists in comparing REITs' performance. Moody's also stresses interest rates in its *pro forma* analyses. Many REITs hedge their lines of credit (such as via caps) to manage interest rate volatility and this can result in a higher tolerance for variable-rate debt.

We also recognize that a higher tolerance exists for sectors in which leases reset relatively more frequently. The lodging and multifamily sectors, with respective average lease durations of one day and less than one year, are more suited to carrying variable rate debt than the retail or office sectors, which typically have multi-year leases.

## "A" RATED REITs

While Moody's has a handful of REITs and REOCs rated "A", and more rated Baa1, a larger A-rated population would mean material progress on diversity and sector leadership, assisted by better balance sheet metrics, and a track record of consistent and sound performance in more challenging capital and property markets. These factors have been critical in the movement towards a larger group of A-rated REITs in 2006. The following are recent positive actions relating to senior unsecured on the Baa-A divide. These factors — especially diversity and leadership — will also be the key drivers for ratings into the upper end of the "Baa" category. These movements, over time, should result in a wider dispersion of ratings as some REITs pull away from the pack.

| REIT | Old Rating/Outlook | New Rating/Outlook |
|---|---|---|
| Equity Residential | Baa1/Stable | Baa1/Positive |
| AvalonBay | Baa1/Stable | Baa1/Postive |
| Simon Property | Baa1/Positive | Baa1/Under review up |
| Public Storage | Baa1/Under review up | A3/Stable |

## THE INTERNATIONAL ANGLE

International investing means different things to different investors, including: (1) property investments outside the USA by US REITs, (2) non-US property investors buying in the USA, (3) tapping overseas capital by US REITs, and (4) the establishment of more public property companies overseas, usually via a REIT vehicle.

### *Overseas Investment by US REITs*

More overseas investment by US REITs is occuring, and Moody's expects still more to come. Why? To drive growth in what is seen as a more constrained domestic market, and especially to leverage specialized skill bases and tenant relationships. However, most of the activity above nominal levels is concentrated in a few REITs, such as ProLogis, AMB, Simon, Kimco and Archstone — and even here the international numbers are not significant (yet).

Moody's sees overseas investments as a plus — a means of diversifying assets and cash flows, of strengthening the domestic franchise, and of extending that franchise globally. These efforts will take time to accomplish, however. Also, rapid growth, particularly in new markets, is often a precursor to problems, and there are a number of external, non-operating risks to consider, including foreign exchange, tax and regulatory risks. In addition, many such overseas investments utilize joint venture partners, with all of the usual complexity and leverage issues. That said, Moody's does recognize the prudence of enlisting local expertise, which helps REITs navigate unfamiliar territory. Furthermore, there is a particular tendency to employ significant leverage on non-US assets as a means of hedging FX risk and addressing tax issues. For the moment, for most all REITs, international investing is a minor analytical issue, and we expect it to remain so for the intermediate term.

### *Foreign Buyers in the USA*

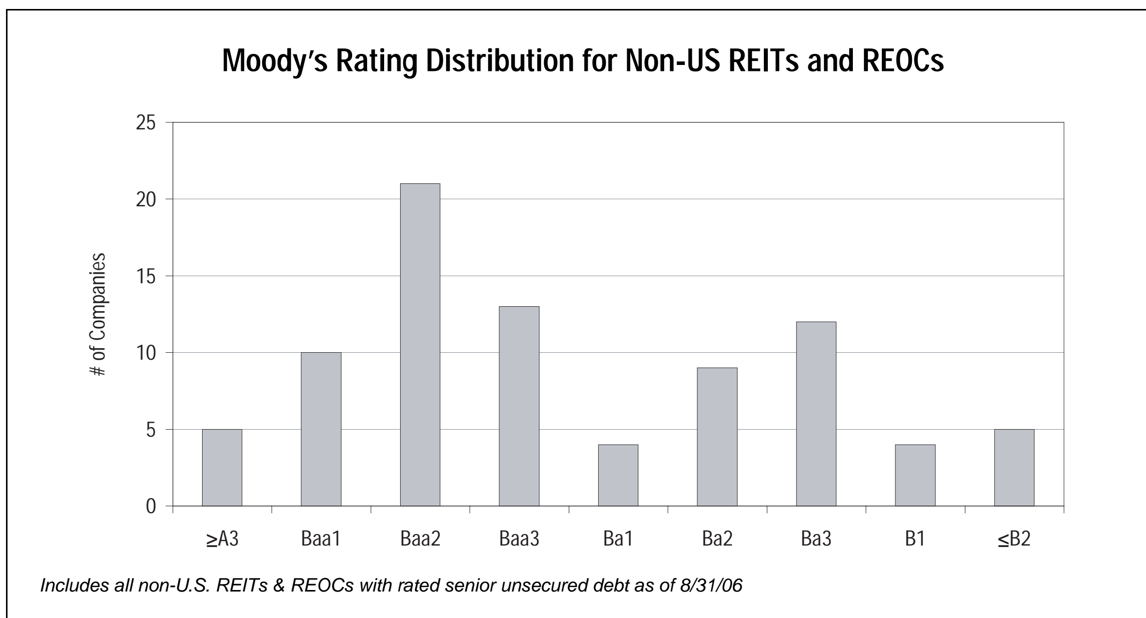
Foreign investors continue to be active buyers of US commercial property — including the purchase of REITs. Recent deals include Kramont and Heritage. Moody's view is that this trend is attenuating as cap rates have dropped (partly due to these investors, making acquisitions less appealing) and as allocations get put to work. It's unclear how sticky this recent wave of foreign money will be, so there may be a partial return of assets to the US public space in due course, providing renewed growth opportunities for REITs over the intermediate term. The ratings effects of these purchases of US REITs have been similar to those of other M&A events, with rating downgrades or withdrawals predominating.

### *Tapping Overseas Capital by US REITs*

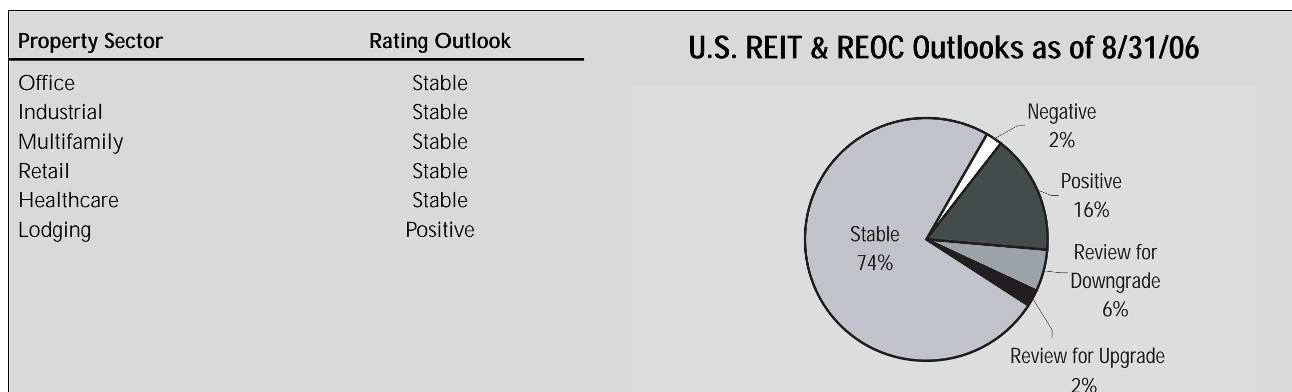
We are still in the early stages of what should be a positive long-term process for US REITs, as they build investor followings overseas to draw upon a wider range of capital sources — including common stock and unsecured bonds. We have also seen REITs utilize non-US investors via joint ventures and funds (such as ProLogis, a successful leader), as well as US REITs entering into joint venture-type structures, such as certain Australian property trusts, to access foreign capital. How long some of these more recent structures will last — including JV-like Australian property trusts — is an open question, and such restructurings could create challenges for REITs, but it does not appear at this stage that such challenges would be particularly disruptive. More important is how a waning of enthusiasm by foreign investors could affect REITs' capital access and costs — always a credit worry in a non-cash-retention business.

### *The Growth of REITs in Other Nations*

This trend continues, with the United Kingdom most recently joining the fold, and Germany a likely candidate. While the growth of REITs in new markets will steal some of the spotlight from US REITs, overall the globalization of REIT-like structures is a positive event for REIT credit. As REITs and public real estate firms grow in size, number and geographic reach, they reinforce the success and robustness of the public company concept, and the capital access that follows, and strengthen the long-term outlook for the industry.



## Moody's Rating Outlooks for Specific REIT Property Sectors



| Property Sector | Rating Outlook |
|---|---|
| Office | Stable |
| Industrial | Stable |
| Multifamily | Stable |
| Retail | Stable |
| Healthcare | Stable |
| Lodging | Positive |



### OFFICE SECTOR

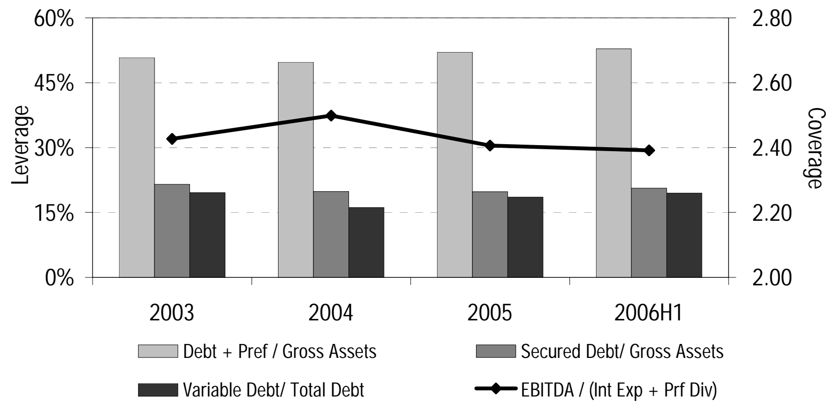
Moody's rating outlook for the US Office REITs is stable[5]. Office REITs have been active participants in M&A activity during 2006, comprising almost 50% of the total transaction volume. This activity, driven by the goal to invest early in the recovering office sector, and some large institutional investors' desire to reach their allocation targets sooner rather than later, has resulted in both positive and negative rating actions, determined primarily by prospective capital structures.

With the exception of other potential strategic transactions, Moody's does not anticipate any material shifts in the office REITs' ratings over the coming 18 months. This outlook reflects: 1) stabilizing office market fundamentals, and 2) limited delivery of supply scheduled in 2006 and 2007. The US national vacancy rate continues its decline year-over-year from 14.4% in 2Q05 to 13.1% in 2Q06[6], but local fundamentals vary widely by market. Moody's notes that the rate of employment growth is expected to slow over the next few years[7], which should attenuate the pace of improvement in many local office markets. Positively, high construction costs should continue to constrain new supply and to steady overall market fundamentals in the near term. Moody's expects that office cap rates will slowly begin to increase with rising interest rates, adding pressure on leveraged buyers and thus opening buying opportunities for REITs.

| Office Sector Strengths | Office Sector Challenges |
|---|---|
| • Access to capital is plentiful and diverse (for now)<br>• Current strength in balance sheets<br>• Improving market fundamentals: declining vacancy rates, pricing power shifting to landlords, supply growth limited for most markets<br>• Some REITs are becoming more diverse | • Capital-intensive asset class with vulnerability to economic cycles<br>• Competitive acquisition environment fostering more complex legal structures<br>• AFFO payout ratios remain high |

Moody's does not foresee any ratings upgrades for office REITs in the near term. Although many office REITs have achieved greater size and diversity, office REITs have yet to solidify their franchises — which are difficult to solidify in the first place. Franchise value will be a key driver in upward ratings, as most office REITs have achieved their target capital structures. Downward ratings will be largely balance sheet-driven.

5. *"U.S. Office REITs Sector Commentary," September 2006.*
6. *Torto Wheaton Research — TWR FLASH Office Vacancy Index, July 12, 2006.*
7. *Moody's Economy.com Industry Outlook.*




*Source: Moody's*
*Sector Includes: BXP, BDN, CEI, DRE, EOP, GLB, HIW, HRP, CLI, MPG, PSB and RA as of 6/30/06; data for ARI as of 2005YE, for CRE as of 3/31/06*

| Office REIT | Senior Debt | Subordinate | Preferred Stock | Outlook/Review Status |
|---|---|---|---|---|
| Arden Realty Inc. | | — | — | Stable |
| Arden Realty Limited Partnership | Aaa | — | — | |
| Boston Properties, Inc. | — | — | (P)Baa3 | Stable |
| Boston Properties Limited Partnership | Baa2 | — | — | |
| Brandywine Realty Trust | — | — | (P)Ba1 | Stable |
| Brandywine Operating, L.P. | Baa3 | (P)Ba1 | — | |
| CarrAmerica Realty Corporation | Ba3 | — | — | Stable |
| CarrAmerica Realty LP | Ba3 | — | — | |
| Crescent Real Estate Equities | — | — | B3 | Stable |
| Crescent Real Estate Equities L.P. | B1 | — | — | |
| Duke Realty Corporation | Baa1 | — | Baa2 | Stable |
| Duke Pass-Through Asset Trust | Baa1 | — | — | |
| Duke Realty L.P. | Baa1 | — | — | |
| Equity Office Properties Trust | — | — | (P)Baa3 | Stable |
| EOP Operating, L.P. | Baa2 | — | — | |
| Glenborough Realty Trust Inc. | — | — | Ba3 | Review for Downgrade |
| Glenborough Properties, L.P. | (P)Ba1 | (P)Ba2 | — | |
| Highwoods Properties, Inc. | Ba1 | — | Ba2 | Stable |
| Highwoods Exercisable Put Opt. | — | — | — | |
| Highwoods Realty, L.P. | Ba1 | — | — | |
| HRPT Properties Trust | Baa2 | Baa3 | (P)Baa3 | Stable |
| Mack-Cali Realty Corporation | — | — | Baa3 | Stable |
| Mack-Cali Realty, L.P. | Baa2 | (P)Baa3 | — | |
| Maguire Properties, Inc | — | — | — | Stable |
| Maguire Properties, L.P. | Ba2* | — | — | |
| Maguire Properties Holdings I, LLC | Ba2* | — | — | |
| PS Business Parks, Inc. | — | — | Baa3 | Stable |
| Reckson Associates Realty Corp | — | — | (P)Ba1 | Review for Downgrade |
| Reckson Operating Partnership | Baa3 | — | — | |

**Bank Line*
*As of 8/31/06*

## INDUSTRIAL PROPERTY SECTOR

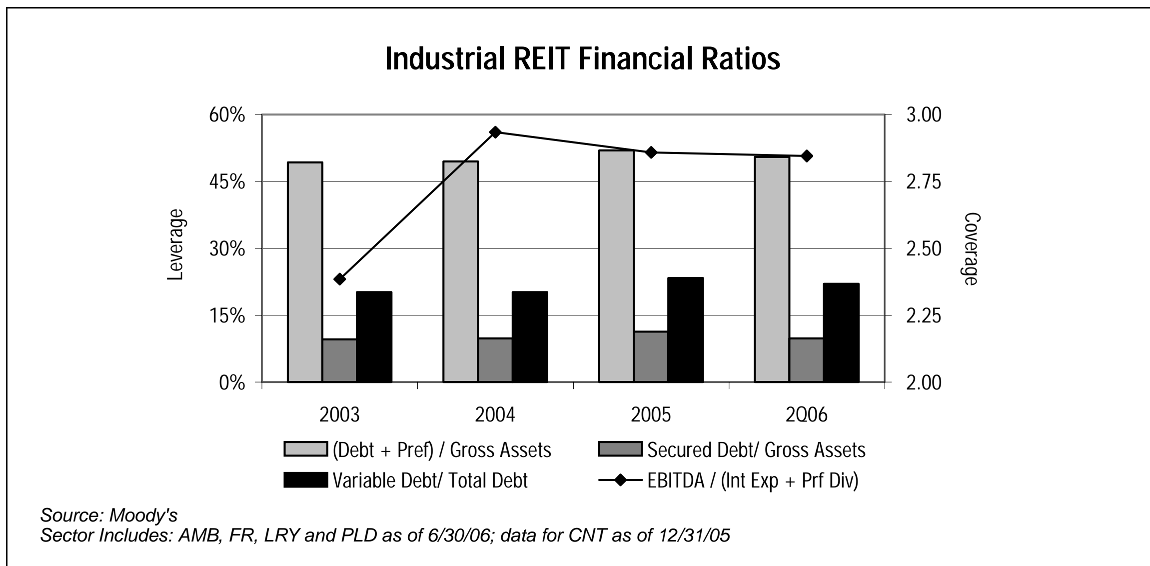
Moody's rating outlook for industrial REITs is stable, reflecting the sector's improving economic fundamentals and operating performance, combined with moderate leverage, ample unencumbered assets, few liquidity issues, aggressive tenant retention efforts and a sound global trade economy.

Moody's believes that the industrial property cycle is on an upswing. This optimism partly stems from the healthy Institute for Supply Management's Purchasing Managers Index (PMI) reading over the past year. The PMI decreased almost 300 basis points to 52.9% in September 2006 from 55.6% in December 2005 and below August's reading of 54.5%. A PMI reading of above 50% indicates that the manufacturing economy is expanding, while a reading below 50% suggests a contraction.[8] Manufacturing output is a key leading indicator of absorption in the industrial property markets, and the growth, albeit slower, still continues to positively affect industrial REITs, which continue to experience positive absorption of supply. This net absorption should lead to some measure of pricing power for market rents in the next 12 to 18 months. Global trade is also robust.

| Industrial Sector Strengths | Industrial Sector Challenges |
|---|---|
| • Low levels of secured debt<br>• Tenant improvement costs are trending down<br>• Tenant retention is solidifying<br>• More positive absorption momentum<br>• Rent roll downs are stabilizing | • Unabating reliance on fees and gains generated through joint ventures and real estate funds, international investments, and merchant building and fee development businesses<br>• Speculative building is growing<br>• Competitive cap rates are leading industrial REITs to purchase vacancy<br>• Lease terms have been getting shorter |

Key credit consideration for industrial REITs include driving NOI from core same-store portfolios (these are still slightly negative to slightly positive) and the tendency to increase leverage as development pipelines and vacancy purchases grow. Moody's sees the growing reliance by industrial REITs on fees and gains generated through joint venture and real estate fund structures, merchant building, fee development businesses and international investments as an important rating matter. Funds and joint ventures tend to involve complex structures that diminish transparency and require a substantial commitment of managerial resources; the same is true of international investments, which also expose REITs to foreign exchange risks. Moreover, merchant building activities produce more volatile earning streams than those typically associated with pure rental income, diminishing industrial REITs' earnings quality. As industrial REITs' growth becomes more dependent on funds, joint ventures, international investments, merchant building and fee development businesses, the cushion that industrial REITs have in their ratings and outlooks is reduced.

The major threats to industrial REITs' stable ratings are a significant decline in their core portfolio quality, resulting in a material deterioration in earnings and cash flow contribution, and JV or fund structures coming off the rails. The industrial REIT sector is the highest rated sector in Moody's US REIT universe. A positive shift in the sector's rating outlook would be predicated upon a stronger focus on asset and earnings growth from core portfolios, coupled with continued growth in size, diversity and leadership. Having a more diverse JV/fund business, with a stronger track record and structures would mitigate risks over the long term.



Source: Moody's
Sector Includes: AMB, FR, LRY and PLD as of 6/30/06; data for CNT as of 12/31/05

8. *Institute for Supply Management — Report on Business, October 2006.*

| Industrial REIT | Senior Debt | Subordinate | Preferred Stock | Outlook/Review Status |
|---|---|---|---|---|
| AMB Property Corporation | — | — | Baa2 | Stable |
| AMB Property, L.P. | Baa1 | — | — | |
| CenterPoint Properties Trust | Baa3 | — | Ba1 | Stable |
| First Industrial Realty Trust | — | — | Baa3 | Stable |
| First Industrial, L.P. | Baa2 | — | — | |
| Liberty Property Trust | — | — | (P)Baa3 | Positive |
| Liberty Property L.P. | Baa2 | (P)Baa3 | — | |
| ProLogis | Baa1 | — | Baa2 | Stable |

*As of 8/31/06*

## MULTIFAMILY SECTOR

The rating outlook for this sector is stable, with a positive bias. Moody's currently maintains positive outlooks on four of ten rated apartment owner-operators. The multifamily sector is enjoying its most successful period since 2001. Fundamentals have reached levels near or better than their prior peak five years ago, which is translating to solid cash flows and debt service coverage. Portfolio occupancies are in most cases at 95% or above, giving landlords meaningful pricing power and virtually eliminating concessions. Moody's has also been encouraged by the improvement in operating margins and the maintenance of healthy balance sheets, which should provide better flexibility should markets become more challenging. Progress is also being made in growing and diversifying the REITs.

Much of this improvement can be attributed to higher job growth, a sound supply-demand relationship due to (until lately) little apartment development, reduction of the rental unit population by condominium conversions, and the slowdown in home-buying fostered in part by historical discrepancies in the cost of homeownership relative to leasing. What is more, the REITs' recent investments in various technology platforms related to leasing, revenue and procurement management should reduce NOI volatility and improve pricing skills.

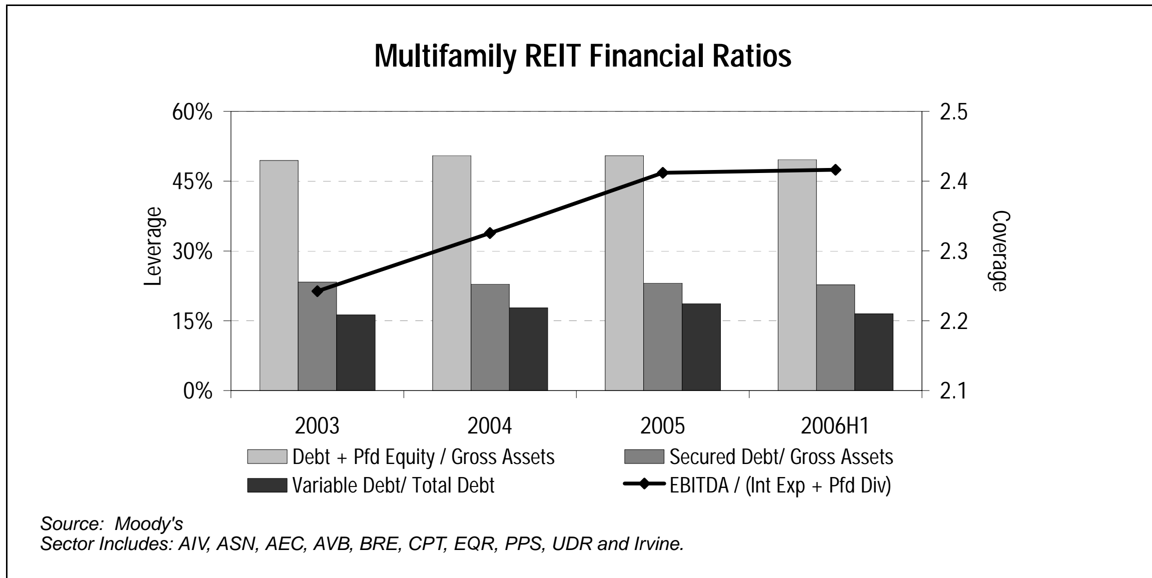
Similar to other sectors, the apartment sector has responded to the challenging acquisition environment with augmented construction pipelines. We are also concerned about the emerging condo bust, with those units competing for renters' attention. The weakening single-family housing market should help the apartment business by encouraging would-be homeowners to wait for prices to fall further, but it can also have adverse economic effects, which would hurt the apartment space.

### Multifamily REIT Development Pipelines

| | 6/30/2006 | 12/31/2005 | 12/31/2004 | 6/30/2006 vs. 12/31/2005 | 6/30/2006 vs. 12/31/2004 |
|---|---|---|---|---|---|
| Archstone | $1,215.5 | $1,295.0 | $952.5 | *-6.1%* | *27.6%* |
| AvalonBay | 1,412.0 | 1,025.5 | 546.7 | *37.7%* | *158.3%* |
| BRE Properties | 316.4 | 355.1 | 276.9 | *-10.9%* | *14.3%* |
| Camden | 520.0 | 357.0 | 135.6 | *45.7%* | *283.5%* |
| Equity Residential | 964.7 | 464.4 | 326.7 | *107.7%* | *195.3%* |
| Post Properties | 178.7 | 99.0 | 95.0 | *80.5%* | *88.1%* |
| United Dominion | 352.8 | 145.2 | 125.6 | *142.9%* | *180.9%* |
| **Total / Average** | **$4,960.0** | **$3,741.2** | **$2,459.0** | ***33.6%*** | ***101.7%*** |

*Source: Company reports, Moody's*

*Generally includes joint venture activity and excludes redevelopment, condo conversion or TRS-related activity. Amounts represent total expected pipeline cost, and often reflect the use of projections and estimates by the companies. Properties not stabilized or in lease-up are excluded. Companies with little or no new development pipelines, or which focus on redevelopment, have been excluded. Camden 12/31/04 figures have not been adjusted to include Summit Properties, which it acquired in 2005.*



*Source: Moody's*
*Sector Includes: AIV, ASN, AEC, AVB, BRE, CPT, EQR, PPS, UDR and Irvine.*

| Multifamily Sector Strengths | Multifamily Sector Challenges |
|---|---|
| • Landlord pricing power rising<br>• Homeownership is expensive, albeit falling<br>• Asset recycling facilitated by compressed and undifferentiated cap rates<br>• Fannie Mae and Freddie Mac funding access<br>• Liquid asset class | • Supply levels threatened by new development and unabsorbed "for-sale" product,<br>• Condo market weakness<br>• Lowest fixed charge coverage<br>• High secured and variable rate debt |

| Multifamily REIT | Senior Debt | Subordinate | Preferred Stock | Outlook/Review Status |
|---|---|---|---|---|
| Apartment Investment & Management Co. | (P)Ba1 | (P)Ba2 | Ba3 | Stable |
| Archstone-Smith Trust | Baa1 | — | Baa2 | Stable |
| Associated Estates Realty Corp | B2 | — | B3 | Positive |
| AvalonBay Communities, Inc. | Baa1 | (P)Baa2 | Baa2 | Positive |
| Avalon Properties, Inc. | Baa1 | — | — | |
| BRE Properties, Incorporated | Baa2 | (P)Baa3 | Baa3 | Stable |
| Camden Property Trust | Baa2 | (P)Baa3 | (P)Baa3 | Positive |
| Camden Summit Partnership, L.P. | Baa2 | — | — | |
| Equity Residential Properties Trust | — | — | Baa2 | Positive |
| ERP Operating L.P. | Baa1 | — | — | |
| Lion Gables Residential Trust | — | — | — | Stable |
| Lion Gables Realty, L.P. | Ba2 | — | — | |
| Irvine Apartment Communities, L.P. | Baa2 | — | — | Stable |
| Post Properties, Inc. | — | — | Ba1 | Stable |
| Post Apartment Homes, L.P. | Baa3 | — | — | |
| United Dominion Realty Trust | Baa2 | (P)Baa3 | Baa3 | Stable |

*As of 8/31/06*

## RETAIL SECTOR

Moody's rating outlook for US Retail REITs ratings remains stable. Moody's does not anticipate any material shifts in retail property REITs' credit metrics in 2006, partly a reflection of continued consumer spending and retail REITs' often market-leading assets. We therefore do not expect any sector-wide upgrades or downgrades. Worry levels are highest for B and C regional malls, and for community centers with weak grocery and/or discount anchors, anchor sites that are too small, have too little line store space, or are not in in-fill locations.

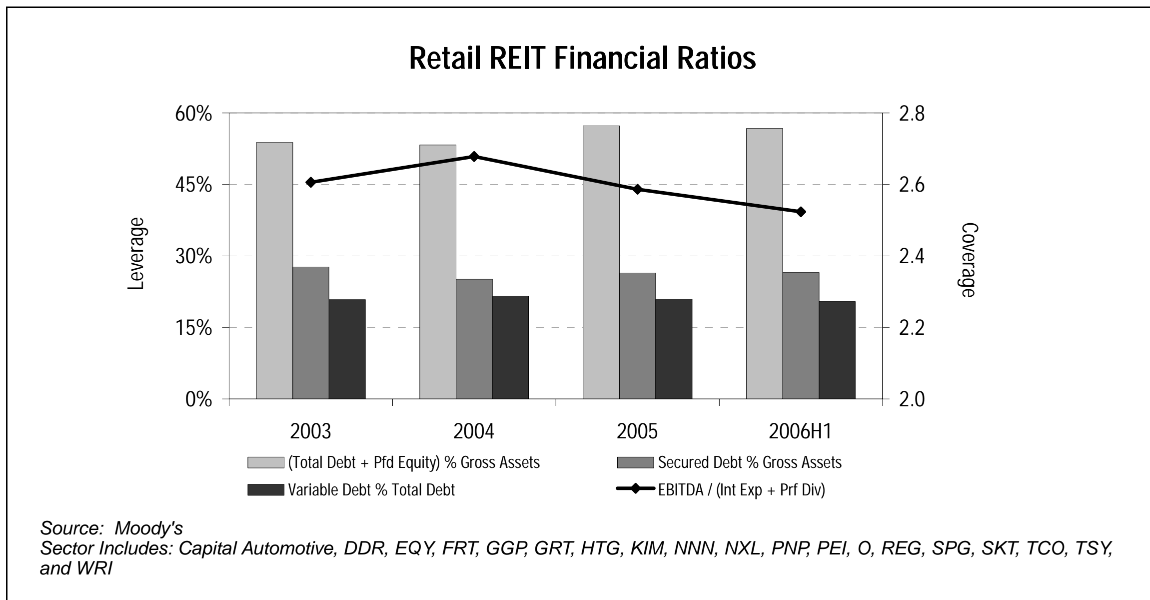
| Retail Sector Strengths | Retail Sector Challenges |
|---|---|
| • Sound balance sheets<br>• Small levels of supply growth<br>• Resilience of the consumer<br>• Quality and well-located malls, shopping centers and outlets continue to thrive<br>• Premium on asset management and development skills, which REITs have | • Consolidation of REITs and retailers<br>• Upward trend in operating expenses and leverage<br>• Investment activity is strong, with low cap rates, which creates competition from the private sector for portfolios<br>• Pressure on home values and high energy prices may constrain consumers' purchasing power |

Retail is dependent upon consumer spending, which has continued to be robust. Whether consumers will continue to spend in the face of static wages and weakening home equity is questionable. Although the REITs lease space on relatively long term leases, prolonged pressure on consumer sales would crimp the ability of landlords to drive rents.

Major trends in the retail space include consolidation of REITs and retailers, retailer expansion, property redevelopment and international expansion. Recent M&A examples include Kimco/Pan Pacific and Centro Watts (an Australian REIT)/Heritage. Consolidation of property ownership can be positive for ratings if it creates a more geographically and tenant-diverse company, better performance and less debt, or a larger platform from which to negotiate with tenants and build a franchise. It can be a credit negative if it is debt-financed.

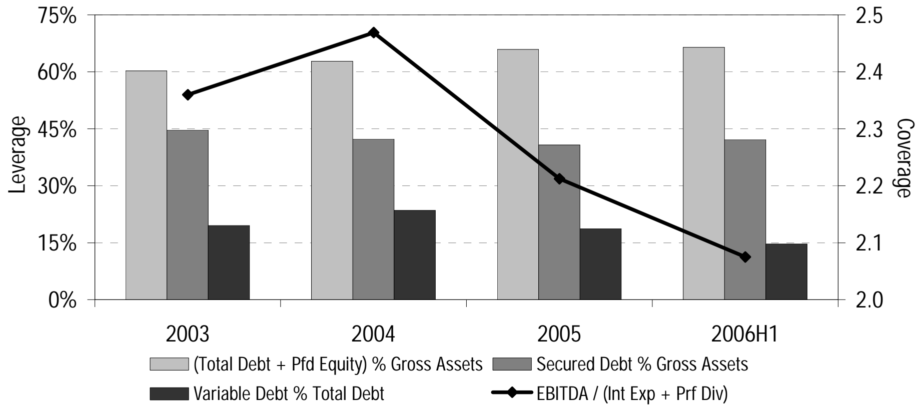
Consolidation among large retailers such as Federated/May and the Supervalu Inc./CVS Corporation acquisition of Albertson's (in which Kimco participated) fuels discussion about the future of department stores and large chains, their value as anchors, their influence over mall and community center owners, and store closings. Retailer consolidation can be a credit challenge for REITs by decreasing the supply of tenants, creating empty spaces, concentrating tenant credit exposures and adversely shifting negotiating power. This is a moderate, but growing, risk. Many REITs with tenant diversification view these changes as opportunities, and can work through the consolidations and bankruptcies by shifting tenants, or adding new tenants to vacant spaces.

A number of retailers with successful platforms are spinning off new concepts and companies to fill niches in the retail experience or market to specific age-groups. Examples include Abercrombie & Fitch (Ruehl, Concept V, Hollister), Anthropologie (Urban Outfitters, Free People), Chico's (Soma, White House/Black Market, Fitigues), and Claiborne Concepts (Lucky/Lucky Kids, Liz, Sigrid Olsen, Juicy). Such expansions are positive credit events as they utilize space vacated by anchor consolidation and tenant downsizing, as well as create demand for space. International expansion — Simon, Taubman and Kimco, for example — is also happening. While we do not expect this to become a dominant theme anytime soon, such activities provide additional pillars for value creation.



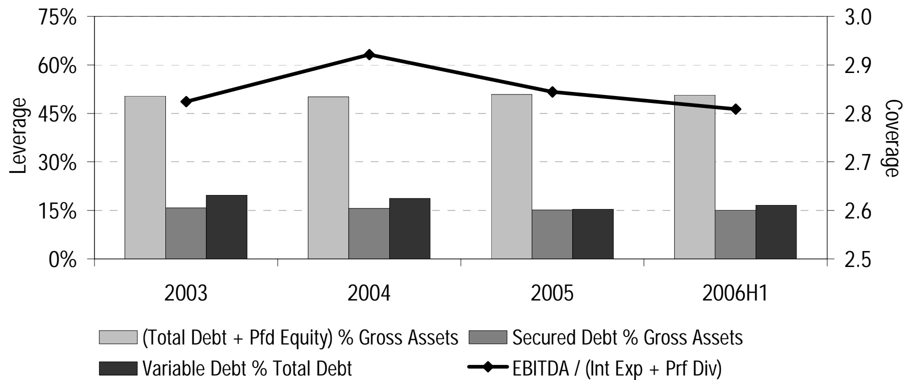

*Source: Moody's*
*Sector Includes: Capital Automotive, DDR, EQY, FRT, GGP, GRT, HTG, KIM, NNN, NXL, PNP, PEI, O, REG, SPG, SKT, TCO, TSY, and WRI*

## Mall and Outlet REIT Financial Ratios



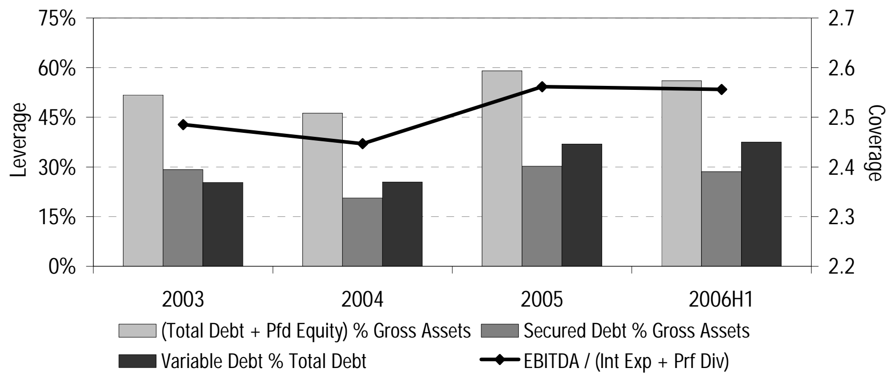

*Source: Moody's*
*Sector Includes: GGP, GRT, PEI, SPG, SKT, and TCO*

## Shopping Center REIT Financial Ratios




*Source: Moody's*
*Sector Includes: DDR, EQY, FRT, HTG, KIM, NXL, PNP, REG and WRI*

## Triple Net Lease REIT Financial Ratios



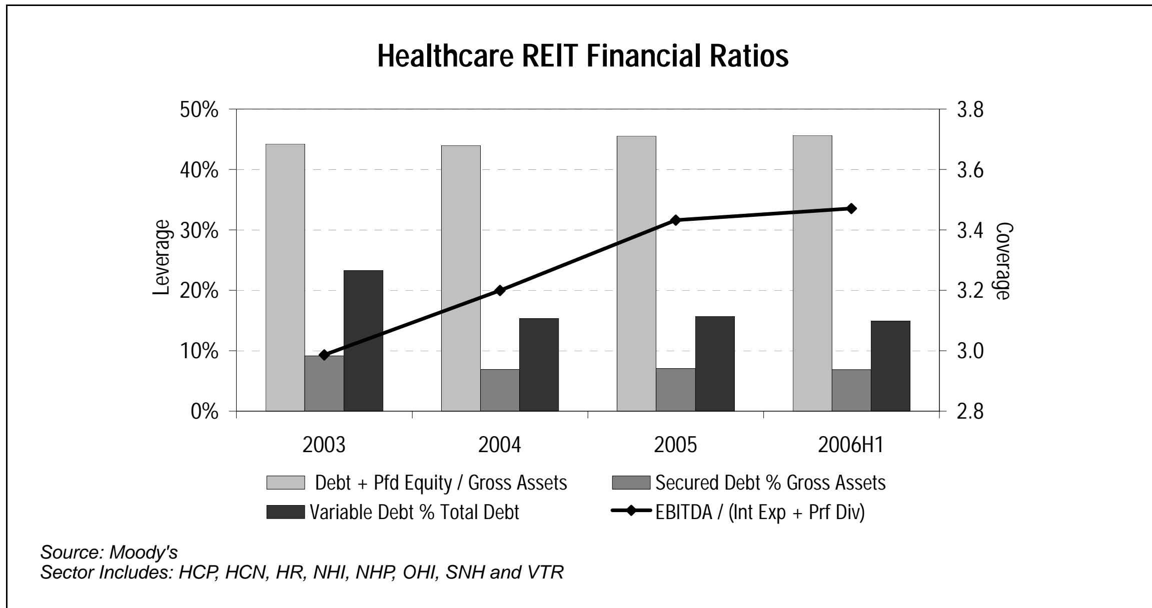

*Source: Moody's*
*Sector Includes: Capital Automotive, NNN, O and TSY*

| Retail | Senior Debt | Subordinate | Preferred Stock | Outlook/Review Status |
|---|---|---|---|---|
| Capital Automotive REIT | Ba3 | — | B1 | Stable |
| Capital Automotive L.P. | Ba1* | | | |
| Developers Diversified Realty | Baa2 | — | Baa3 | Stable |
| JDN Realty Corporation | Baa2 | — | — | |
| Equity One | Baa3 | — | (P)Ba1 | Positive |
| Federal Realty Investment Trust | Baa2 | Baa3 | Baa3 | Stable |
| General Growth Properties, Inc. | (P)Ba2 | — | (P)B1 | Stable |
| GGP Properties Limited Partnership | (P)Ba2 | — | — | |
| Price Development Company, L.P. | Ba1 | — | — | |
| Rouse Company (the) | Ba1 | — | — | |
| Glimcher Realty Trust | (P)Ba2 | (P)Ba3 | B1 | Stable |
| Heritage Property investment Trust, Inc. | — | — | — | Stable |
| Heritage Property Investment L.P | Baa3 | — | — | |
| Bradley Operating Limited Partnership | Baa3 | — | — | |
| Kimco Realty Corporation | Baa1 | — | Baa2 | Stable |
| Kimco North Trust III | Baa1 | — | — | |
| Price REIT, Inc. (The) | Baa1 | — | — | |
| Pan Pacific Retail Properties, Inc. | Baa1 | (P)Baa2 | (P)Baa2 | Review for Downgrade |
| Western Properties Trust | Baa1 | — | — | |
| National Retail Properties, Inc. | Baa3 | (P)Ba1 | Ba1 | Stable |
| New Plan Excel Realty Trust | Baa2 | (P)Baa3 | Baa3 | Stable |
| New Plan Realty Trust | Baa2 | — | Baa3 | |
| Excel Realty Trust, Inc | Baa2 | — | Baa3 | |
| Pennsylvania Real Estate Investment Trust | — | — | B1 | Stable |
| Realty Income Corporation | Baa2 | (P)Baa3 | Baa3 | Positive |
| Regency Centers Corporation | — | — | (P)Baa3 | Stable |
| Regency Centers, L.P. | Baa2 | — | — | |
| Simon Property Group, Inc. | — | — | Baa2 | Positive |
| Chelsea Property Group, Inc. | Baa1 | — | — | |
| CPG Partners, L.P. | Baa1 | — | — | |
| Simon DeBartolo P.A.T. 1996-1 | Baa1 | — | — | |
| Simon Property Group, L.P. | Baa1 | — | — | |
| Corporate Property Investors | Baa1 | — | — | |
| Tanger Factory Outlet Centers | — | — | Ba1 | Stable |
| Tanger Properties, L.P. | Baa3 | (P)Ba1 | — | |
| Taubman Centers, Inc. | — | — | B1 | Stable |
| Trustreet Properties, Inc | B1 | — | B3 | Stable |
| Weingarten Realty Investors | A3 | Baa1 | Baa1 | Negative |

**Bank Line*
*As of 8/31/06*

## HEALTHCARE SECTOR

Moody's has a stable rating outlook for healthcare REITs. Our sector outlook reflects strengthening fundamentals across the major healthcare property types, particularly the important skilled nursing facility (SNF) and assisted living facility (ALF) segments. The SNF sector's health is highly reliant on government reimbursement via the Medicare and Medicaid programs. The Centers for Medicare & Medicaid Services (CMS) recently announced that SNFs will receive a 3.1% market basket increase for 2007, so we expect continued steady performance from this sub-sector for the next 12-18 months. Given federal and state budget deficits, skilled nursing could experience reimbursement cuts for 2008, although we do not expect significant changes would occur in an election year. Furthermore, property-level coverages have been improving, and Moody's believes operators generally have sufficient cushion to absorb what would likely be modest cuts. The assisted living facility sector — another leading investment category for REITs — is also performing well. ALFs have largely recovered from the supply-demand imbalance that plagued the sector in the late 1990s and early 2000s. The decrease in new supply has helped ALF operators begin to realize revenue growth via both higher rental rates and occupancy.




| Healthcare REIT Sector Strengths | Healthcare REIT Sector Challenges |
|---|---|
| • Sound balance sheets characterized by modest leverage, good fixed charge coverage and sizable pools of unencumbered assets<br>• Government reimbursement outlook for SNFs is stable through 2007<br>• Low levels of new supply has helped assisted living sector<br>• Tenant creditworthiness is improving<br>• Positive demographic trends with aging baby boomer generation<br>• More diversification by property type | • Property sub-types such as SNFs and hospitals are heavily reliant on government reimbursement; vulnerability to government actions is an endemic challenge<br>• Tenant concentration is increasing due to operator consolidation<br>• Increasingly competitive acquisition environment is reducing yields and prompting some firms to enter joint ventures or boost development<br>• Specialized properties |

Healthcare REITs best positioned for positive rating actions will be those that demonstrate consistent, profitable growth, coupled with an ability to diversify by property type. Most healthcare REITs are concentrated in one or two property types — typically SNFs and ALFs. To the extent a REIT is able to gain size and leadership across at least three sub-sectors, it diversifies its value-creation capacity, its tenants (which are linked to asset types) and its reimbursement sources — all good for creditworthiness. This size and scope issue will be a key factor driving healthcare REITs' ratings over the long term.

| Healthcare REIT | Senior Debt | Subordinate | Preferred Stock | Outlook/Review Status |
|---|---|---|---|---|
| Health Care Properties Investors | Baa2 | — | Baa3 | Review for Downgrade |
| Health Care REIT, Inc. | Baa3 | (P)Ba1 | Ba1 | Positive |
| Healthcare Realty Trust, Inc. | Baa3 | (P)Ba1 | Ba1 | Stable |
| National Health Investors Inc. | Ba3 | B2 | B2 | Positive |
| Nationwide Health Properties | Baa3 | — | Ba1 | Stable |
| Omega Healthcare Investors | Ba3 | — | B2 | Stable |
| Senior Housing Properties Trust | Ba2 | (P)Ba3 | (P)B1 | Stable |
| Ventas, Inc. | — | (P)B2 | — | Positive |
| Ventas, Limited Partnership | Ba2 | — | — | |

*As of 8/31/06*

## LODGING SECTOR

Moody's rating outlook for the lodging REITs remains positive, reflecting a rebound in the industry fundamentals, which has led to improvements in credit metrics. Since the beginning of 2005, Moody's upgraded four lodging REITs, and maintains positive outlooks on two lodging REITs. During this period, Moody's took only one negative rating action, which was related to a levered acquisition.

During the first six months of 2006, expansion in the hospitality industry, which began in the second half of 2004, forged ahead, and lodging REITs benefited from it with strong operating results, in addition to pursuit and growth of a number of new markets and lines of business. In tandem with this strength in fundamentals, these REITs' credit profiles have been moving in the positive direction. The solid lodging fundamentals are evidenced by enduring growth in revenue per available room (RevPAR), driven by both average daily rates (ADR), and occupancy increases. The majority of RevPAR growth came from rises in ADR; this is especially favorable for driving operating income.

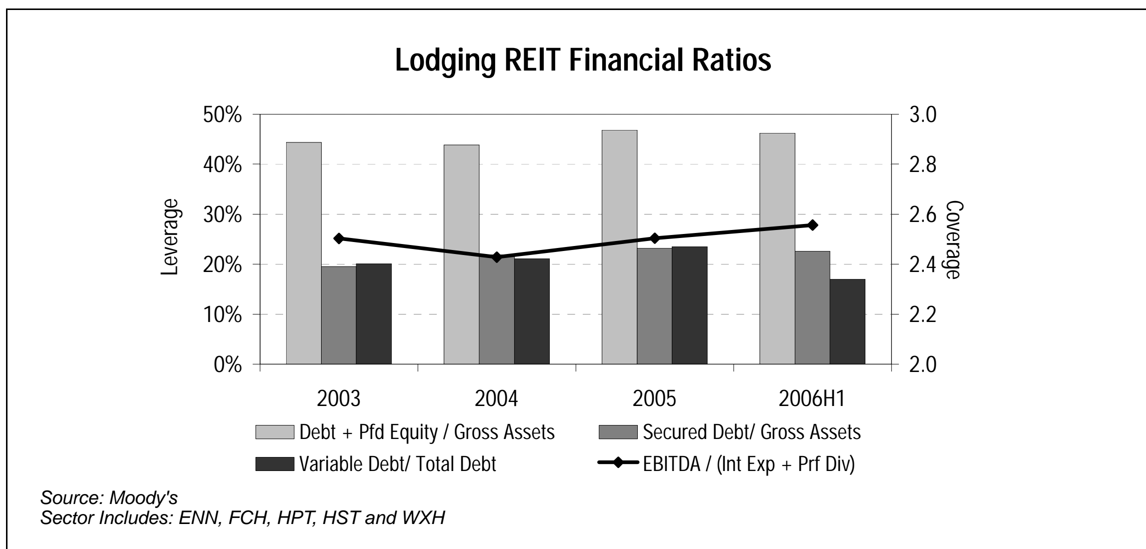
Lodging REITs' business growth and surging earnings have manifested themselves via improved credit metrics for the sector. Coverages have been on a steady rise since 2004, reflecting increased cash flows. Both total and secured leverage have remained stable on a book basis, and we would not anticipate historical figures to be immediately affected by the resurgence in the sector's earnings (other than through debt repayment). Positively, floating rate debt has decreased, which is especially favorable in a rising interest rate environment.

Moody's expects that strong hospitality fundamentals will persist into at least early 2007 (assuming no major exogenous stresses, such as a terrorist attack). The supply-demand equilibrium of the lodging industry has been tilted in REITs' favor for a number of quarters. This beneficial imbalance is supported by stable national economic growth (US GDP is forecasted to increase by a healthy 3.4% in 2006[9]) and by limited new construction. Although a recession or an economic slowdown, along with expense pressures, could pose a risk to the lodging environment, near-term curtailment in business travel, one of the key demand drivers, is unlikely in light of the 21% growth in corporate profits forecasted for 2006[10]. While consumers, another vital source of lodging demand, have felt the pinch of high gasoline prices, this seems to be moderating. Still, lodging REITs are experiencing some cost pressures — particularly in labor and insurance. However, in this cycle the threat of overbuilding does not loom as large as it has often had in the past due to high construction costs that curtail new development, as well as improved market transparency.

Moody's anticipates that lodging REITs will continue to reap the benefits of the upswing in the industry to strategically grow and improve the quality of their property portfolios without sacrificing balance sheet stability. Further rating upgrades will primarily reflect performance improvements, and in particular, balance sheet strengthening, as well as broadening of size, scope and diversity.

| Lodging REIT Sector Strengths | Lodging REIT Sector Challenges |
|---|---|
| • Strong demand from both business and leisure segments<br>• Limited new construction<br>• Stable leverage<br>• Improved profitability and coverages<br>• Decreased variable debt | • Pressure on consumer spending from high gas prices, debt, weak housing market<br>• High gasoline prices affecting "drive-to" destinations<br>• Increasing expenses (labor, insurance) |

9. *Source: Moody's Economy.com, Precis Macro.*
10. *Ibid.*



*Source: Moody's*
*Sector Includes: ENN, FCH, HPT, HST and WXH*

| Lodging REIT | Senior Debt | Subordinate | Preferred Stock | Outlook/Review Status |
|---|---|---|---|---|
| Equity Inns, Inc. | B1 | — | B2 | Stable |
| Equity Inns Partnership, LP | Ba3 | — | — | |
| FelCor Lodging Trust Inc. | — | — | B2 | Stable |
| FelCor Lodging L.P. | Ba3 | (P)B2 | — | |
| Hospitality Properties Trust | Baa2 | (P)Baa3 | Ba1 | Stable |
| Host Hotels & Resorts, Inc. | Ba2 | — | B1 | Positive |
| Host Marriott L.P. | Ba2 | — | — | |
| Interstate Hotels & Resorts, Inc. | — | — | — | Positive |
| Interstate Operating Company L.P. | B2* | — | — | |
| MeriStar Hospitality Corporation | (P)Caa1 | (P)Caa2 | — | Stable |
| MeriStar Hospitality Operating Partnership L.P. | B3 | (P)Caa2 | — | |
| Winston Hotels, Inc. | — | — | B3 | Positive |

** Bank Line*
*As of 8/31/06*

# Other Property Sectors

## SELF-STORAGE

The self-storage REITs maintained their dominance in this sector — expanding leadership through acquisitions of private portfolios, IPOs and, most recently, the acquisition of Shurgard Self Storage by Public Storage. REITs provide critical liquidity for this sector, and their success has made self-storage properties more mainstream investment assets. Self-storage facilities evidence certain operating-business characteristics. Like lodging, self-storage is a management-intensive business: high levels of customer interaction (especially commercial clients) and constant lease rollover require experienced and responsive on-site and back-office management. Though the self-storage industry continues to be dominated by small local and regional owners, consolidation continues. Brand awareness is growing, and companies that are able to build a recognizable and respected franchise, with regional leadership helping to drive efficiencies, will be able to capitalize on opportunities and outpace other owners.

| Self-Storage REIT Sector Strengths | Self-Storage REIT Sector Challenges |
|---|---|
| • Relatively stable cash flows over real estate cycles<br>• Modest capital maintenance burden<br>• Operational acumen and sophisticated cost management systems, client service and marketing plans<br>• Established brand names<br>• Stabilized facilities with low breakeven occupancies<br>• Larger REITs with diversification and national presence | • More akin to an operating business than to real estate business<br>• Locations can be difficult for alternative use, though sometimes have attractive higher-and-better-use characteristics<br>• Low barriers to entry and long stabilization periods<br>• Commodity-type characteristics can be vulnerable to new supply |

## CORRECTIONS

### *Rating Drivers*

- High occupancy
- High barrier to entry market
- Demand for space expected to continue
- Lack of alternative use for space
- Short-term nature of contracts
- Reliance on government appropriations for payment of contracts
- Industry is sensitive to public opinion, liability and complex regulation
- Limited market share of the corrections space
- Material leverage

## TIMBER

### *Rating Drivers*

- Pricing volatility can be mitigated by accelerating or reducing harvests, or land sales
- Overharvesting may lead to distribution gaps in timber age classes
- Heightened sale of land threatens decapitalization
- Three of the four timber REITs rated by Moody's possess virtually unencumbered asset bases
- Lower EBITDA margins than typical REITs, yet superior fixed charge coverage
- HBU (higher-and-better-use) properties command premiums to traditional timberlands
- Ancillary businesses add volatility
- Solid record of cash flow generation

| Correctional Company | Senior Debt | Subordinate | Preferred Stock | Outlook/Review Status |
|---|---|---|---|---|
| Cornell Companies, Inc. | B3 | — | — | Stable |
| Corrections Corporation of America | Ba3 | — | (P)B2 | Positive |
| GEO Group Inc. | B1 | — | — | Stable |
| *As of 8/31/06* | | | | |

| Property Service | Senior Debt | Subordinate | Preferred Stock | Outlook/Review Status |
|---|---|---|---|---|
| CB Richard Ellis Services, Inc. | Ba3 | B1 | — | Stable |
| Clayton Holdings, Inc. | B1 | — | — | Stable |
| Jones Lang LaSalle Incorporated | Baa2* | — | — | Stable |
| *As of 8/31/06* | | | | |

| Timber | Senior Debt | Subordinate | Preferred Stock | Outlook/Review Status |
|---|---|---|---|---|
| Longview Fibre Company | Ba3* | B3 | — | Negative |
| Plum Creek Timber Company, Inc | — | — | (P)Ba2 | Stable |
| Plum Creek Timberlands, L.P. | Baa3 | (P)Ba1 | — | |
| Potlatch Corporation | Ba1 | Ba1 | — | Stable |
| Rayonier Inc. | Baa3 | — | — | Stable |
| Rayonier Timberlands Operating Company, LP | Baa3 | — | — | |

** Senior Secured*
*As of 8/31/06*

| Diversified/Other | Senior Debt | Subordinate | Preferred Stock | Outlook/Review Status |
|---|---|---|---|---|
| American Real Estate Partners, L.P. | Ba3 | — | — | Stable |
| CharterMac | Ba3* | — | — | Stable |
| Colonial Properties Trust | — | — | Ba1 | Stable |
| Colonial Realty L.P. | Baa3 | (P)Ba1 | — | |
| Forest City Enterprises, Inc. | Ba3 | (P)B2 | (P)B2 | Stable |
| iStar Financial Inc. | Baa2 | (P)Baa3 | Ba1 | Stable |
| LNR Property Corporation | B3 | Caa1 | (P)Caa2 | Stable |
| Newkirk Realty Trust | Ba2** | — | — | Stable |
| Prime Property Fund, LLC | A3 | — | — | Stable |
| Prudential Property Investment Separate Acct. | A1 | — | — | Stable |
| Public Storage, Inc. | (P)A3 | (P)Baa1 | Baa1 | Stable |
| Shurgard Storage Centers, Inc | A3 | — | — | |
| Vornado Realty Trust | (P)Baa2 | — | Baa3 | Stable |
| Vornado Realty L.P. | Baa2 | (P)Baa3 | — | |
| Washington Real Est. Inv. Trust | Baa1 | (P)Baa2 | (P)Baa2 | Stable |

** Bank Line*
*** Secured Facility*
*As of 8/31/06*

## MORTGAGE REIT SECTOR

As expected, the housing market continued to slow during 2006. The slowdown has accelerated during the second half of the year raising concerns regarding the likelihood of achieving a "soft landing." The open question remains "how much will the housing market decline and how quickly." According to Moody's Economy.com, there is a significant probability of price declines in 100 of the nation's 379 metropolitan areas. Furthermore, these areas represent almost 50% of the value of the US single-family housing stock.

Home builders have reported significantly slower new home sales, as well as increases in the number of homes deferred or cancelled, which has led to their declining profitability. Meanwhile, existing home sales declined to 6.6 million units in June 2006, which is 4.1% below the prior month's and 11.2% lower year over year. Declines occurred in all US regions: Northeast, Midwest, South and West. June 2006 represents the third consecutive month in which home sales declined according to the National Association of Realtors (NAR).[11]

House price appreciation is slowing, which may further strain borrowers, especially subprime borrowers that purchased their homes during 2005 and 2006. Median home sales prices in June 2006 eked out a 0.9% increase over the prior year according to the NAR due to a 3.2% increase in sales price in the South. Home sale price declines are more pronounced in fast growth markets such as California and Florida. The Realtors' Association in California and Florida reported sequential median price declines of 7% in the second quarter.

Prime lenders have had difficulty increasing profitability with the flat interest rate yield curve. This has led some mortgage REITs to develop additional mortgage acquisition channels in order to maintain volumes offsetting declining margins. Other strategies include moving down the credit spectrum into Alt-A product and purchasing ancillary businesses. These strategies have worked reasonably well so far. However the strategies expose the firms to additional risks that may compound issues should the market turn against them.

11. *According to the California Association of Realtors, "C.A.R. reports sales decrease 30.1 percent in August, median price of home in California at $576,360, up 1.6 percent from a year ago" on September 25, 2006 and the Florida Association of Realtors, "Florida's Existing Home Market in August 2006: Sales Ease, Median Price Level" on September 5, 2006.*

The interest rate environment is also affecting the subprime sector. Slowing origination volumes have pushed mortgage REITs, as well as others in the mortgage industry, to lower underwriting standards in order to maintain volumes. In Moody's view this is the age old reaction to slowing volumes and it has never ended on a good note. Deterioration in underwriting standards coupled with risk stacking that has occurred over the last few years is a significant concern. Over the past few years rising home values fueled by low interest rates and readily available capital has mitigated concerns regarding risk stacking. However, higher interest rates coupled with price appreciation that is flat to negative may create payment problems for adjustable rate borrowers, especially subprime borrowers. In the second quarter of 2006, the delinquency rate on first mortgages posted its first substantial increase since mid-2002, according to CreditForecast.com.

Moody's expects modest decline in home prices, as well as declines in origination volume to limit growth opportunities. The declines should be manageable as long as the economy remains healthy and unemployment does not increase significantly. However, REITs with significant product (e.g., option arm, interest-only, etc.) or geographic concentrations may not fare as well. As the housing economy moderates declines in mortgage related employment, a significant contributor to employment growth over the last several years, is a significant unknown.

| Mortgage REIT | Senior Debt | Subordinate | Preferred Stock | Outlook/Review Status |
|---|---|---|---|---|
| Saxon Capital, Inc. | B2 | — | — | Review for Upgrade |
| Thornburg Mortgage, Inc. | Ba2 | — | B1 | Stable |
| *As of 8/31/06* | | | | |

## Related Research

**Rating Methodologies:**

Rating Methodology for REITs and Other Commercial Property Firms, January 2006 (96211)

Key Ratios For Rating REITs And Other Property Firms, December 2004 (91014)

**Special Comments:**

U.S. Office REITs Sector Commentary, September 2006 (99289)

Lodging REIT Sector Strong - Performance Continues, September 2006 (98987)

Healthcare REITs - Getting Better, August 2006 (98885)

Rating Triggers in Real Estate Finance Companies – 2006 Update, August 2006 (98648)

Fair Value Accounting for Investment Properties Is on the Horizon: How Will It Affect REIT Covenants?, June 2006 (97738)

REIT Joint Ventures and Funds: Weighing the Pluses and Minuses, April 2006 (97276)

*To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.*

PAGE INTENTIONALLY LEFT BLANK

*To order reprints of this report (100 copies minimum), please call 1.212.553.1658.*
Report Number: 100092


| Authors | Senior Associate | Production Associate | Production Specialist |
| --- | --- | --- | --- |
| *Christopher Wimmer, CFA*<br>*Philip Kibel, CPA* | *Lin Zheng* | *Shubhra Bhatnagar* | *Yung Louie* |



© Copyright 2006, Moody's Investors Service, Inc. and/or its licensors and affiliates including Moody's Assurance Company, Inc. (together, "**MOODY'S**"). All rights reserved. **ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT**. All information contained herein is obtained by **MOODY'S** from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and **MOODY'S**, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall **MOODY'S** have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of **MOODY'S** or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if **MOODY'S** is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. **NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.** Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

**MOODY'S** hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by **MOODY'S** have, prior to assignment of any rating, agreed to pay to **MOODY'S** for appraisal and rating services rendered by it fees ranging from $1,500 to $2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

This credit rating opinion has been prepared without taking into account any of your objectives, financial situation or needs. You should, before acting on the opinion, consider the appropriateness of the opinion having regard to your own objectives, financial situation and needs.