

# Exhibits

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## **National Association of Real Estate Investment Trusts® Response to HM Treasury/Inland Revenue Consultation Paper**

**July 14, 2004**

Unless otherwise indicated, all data in these exhibits are derived from, and apply only to, publicly traded real estate securities.



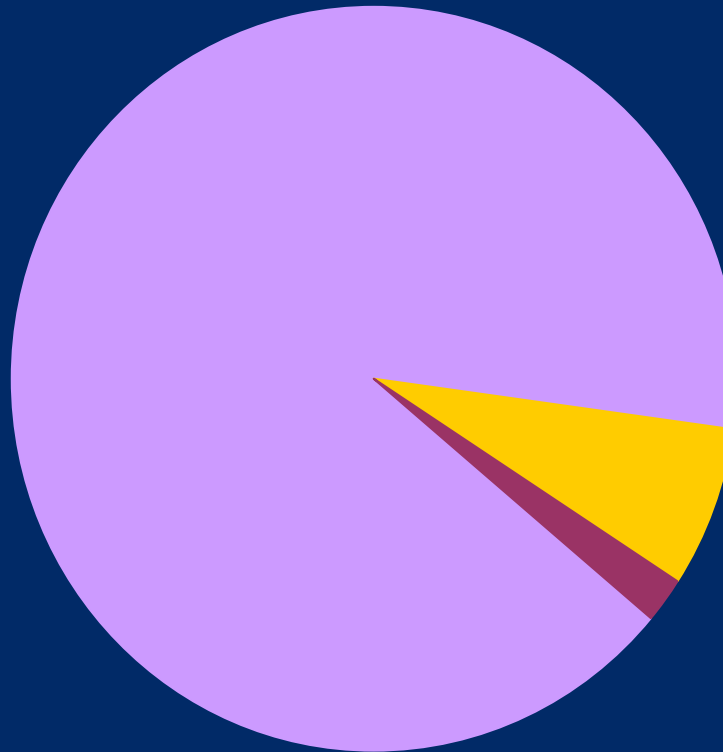
# Exhibit 1

## Types of Publicly Traded U.S. REITs By Total Equity Market Capitalization

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### 91% EQUITY REITs

Own Real Estate Assets and Revenues Come Principally from Rents



### 7% MORTGAGE REITs

Loan Money to Real Estate Owners or Invest in Existing Mortgages or Mortgage-Backed Securities and Revenues Come Principally from Interest on Mortgages

### 2% HYBRID REITs

Combine the Investment Strategies of Equity and Mortgage REITs

Data as of June 30, 2004

Source: NAREIT®

## Exhibit 2

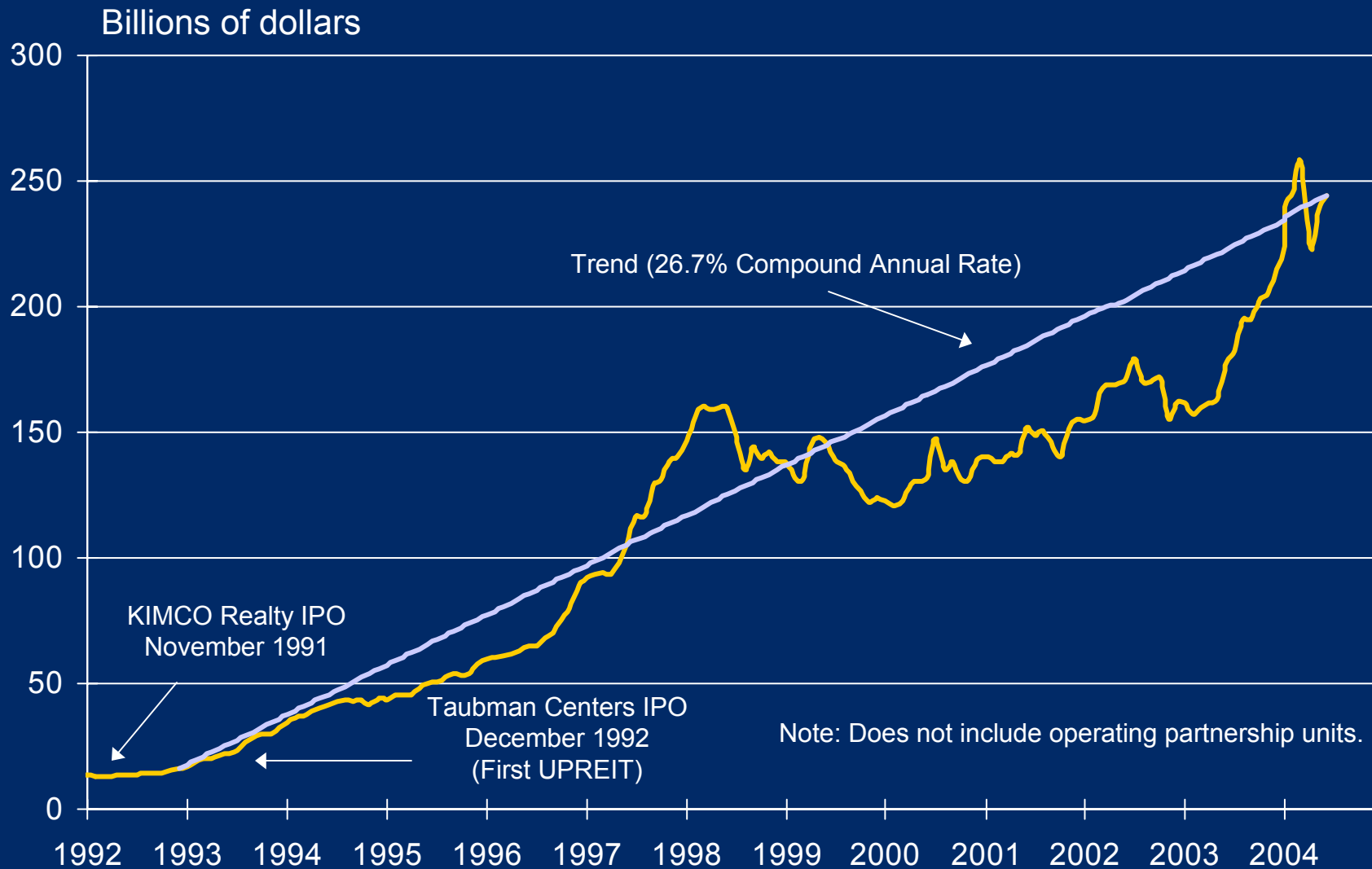
### Listed U.S. REITs Invest in All Property Types

| Property Sector               | 1994 | 2004 |
|-------------------------------|------|------|
| Office Buildings              | 4    | 17   |
| Residential                   | 28   | 17   |
| Regional Malls                | 13   | 15   |
| Shopping Centers              | 22   | 14   |
| Industrial Facilities         | 5    | 7    |
| Diversified                   | 6    | 6    |
| Health Care                   | 8    | 5    |
| Mixed (Industrial and Office) | N/A  | 5    |
| Lodging/Resorts               | 2    | 5    |
| Specialty                     | 7    | 5    |
| Self Storage                  | 5    | 4    |

Data is percentage by equity market capitalization of listed U.S. equity REITs, as of June 30, 2004  
Source: NAREIT®

# Exhibit 3

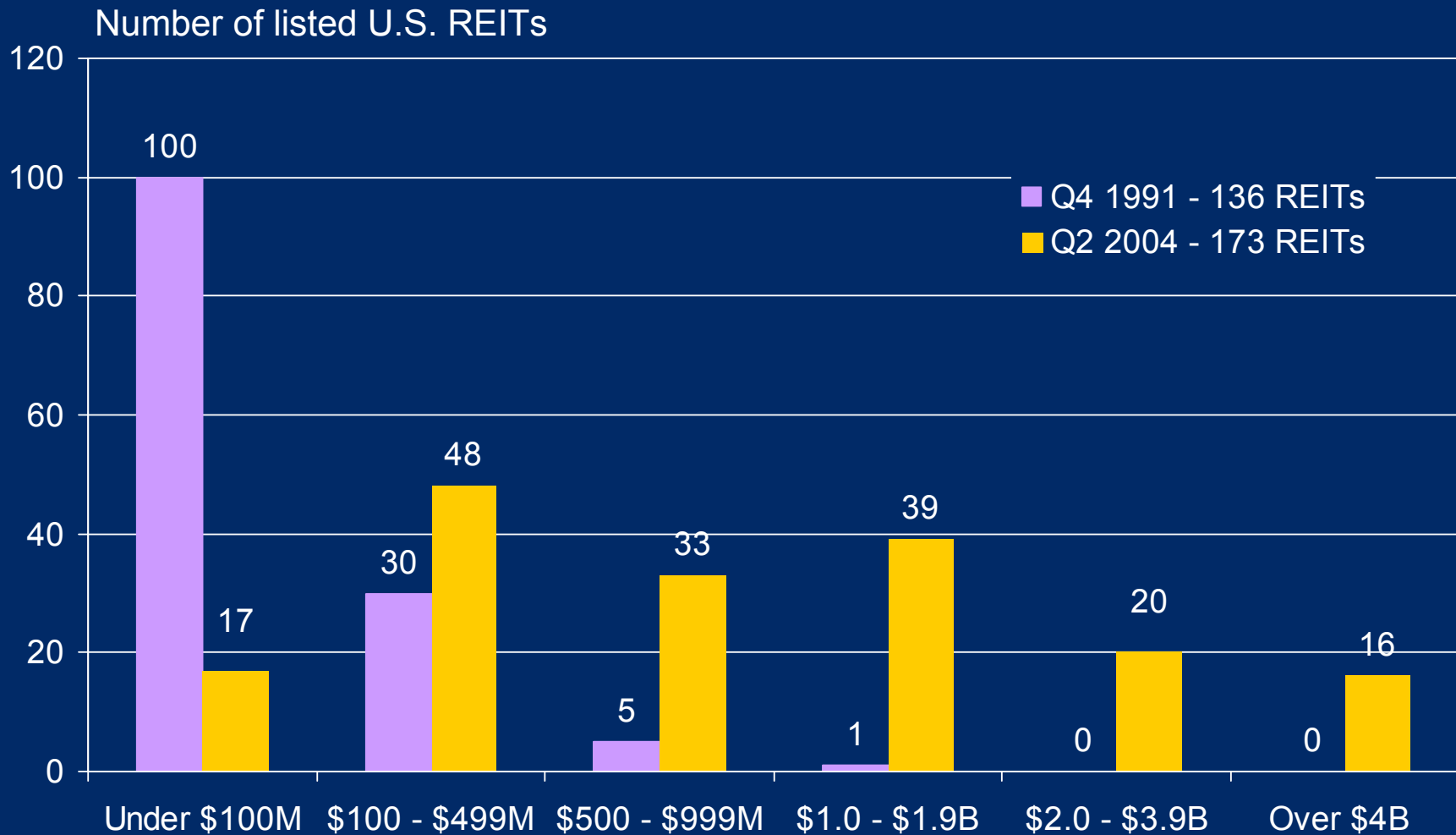
## Equity Market Capitalization of Listed U.S. REITs



Data as of June 30, 2004  
Source: NAREIT®

# Exhibit 4

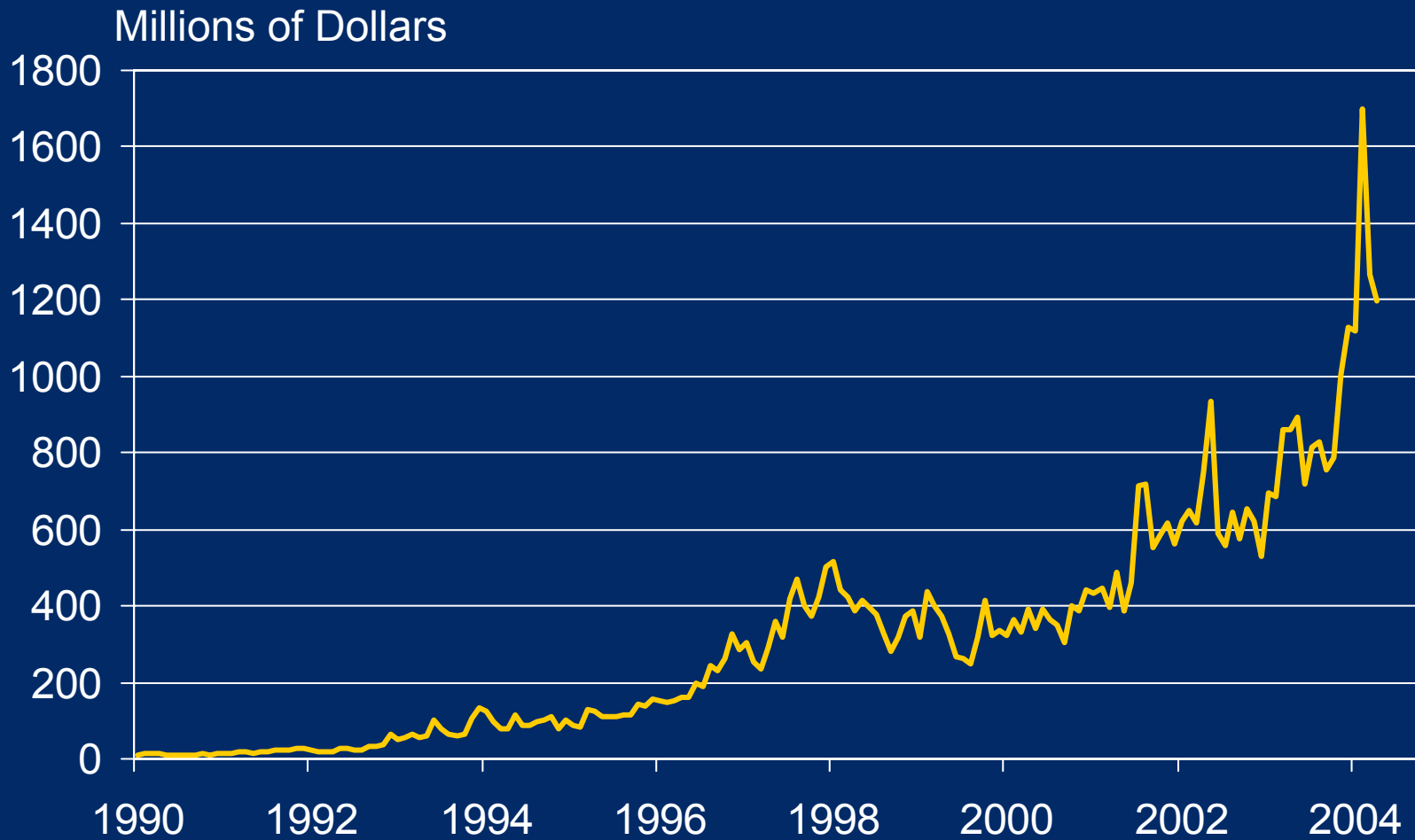
## Growth in Company Size



Source: NAREIT®

# Exhibit 5

## Average Daily Trading Volume of Listed U.S. REITs

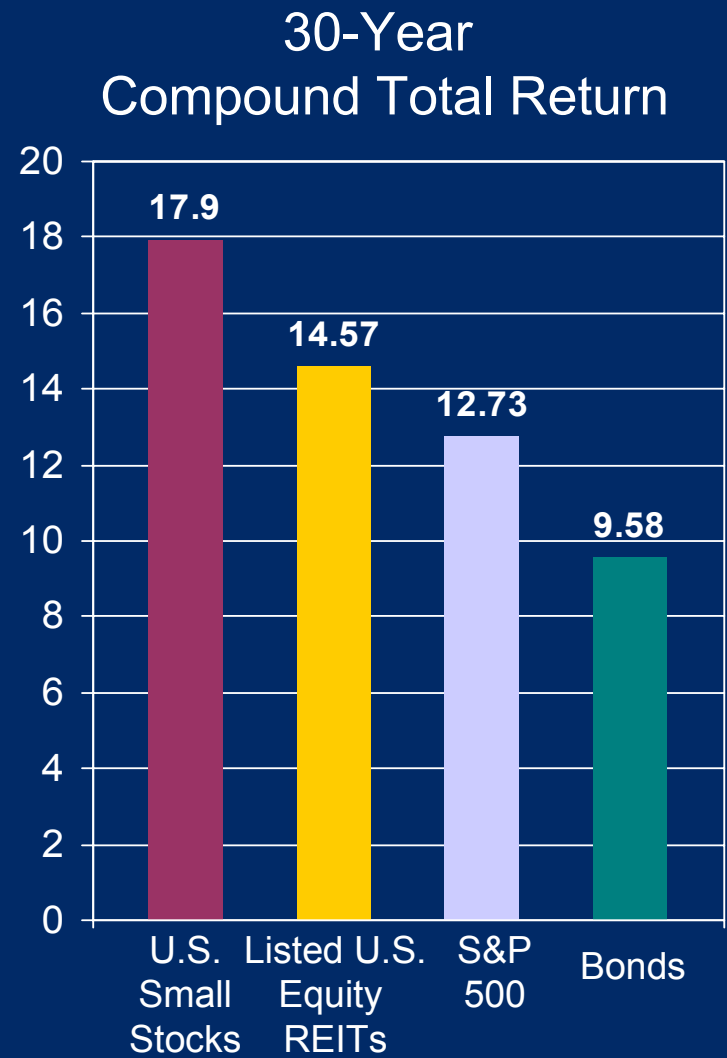
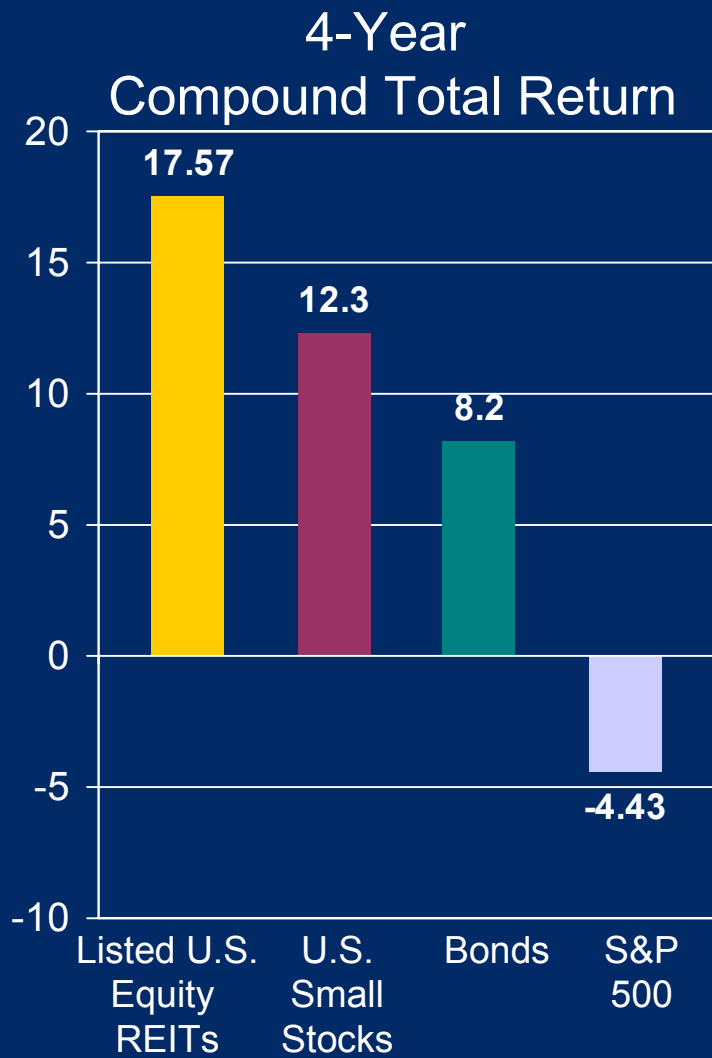


Data as of June 30, 2004  
Source: NAREIT®

# Exhibit 6

## Short-Term and Long-Term Performance

Compound annual total returns in percent, June 30, 2004



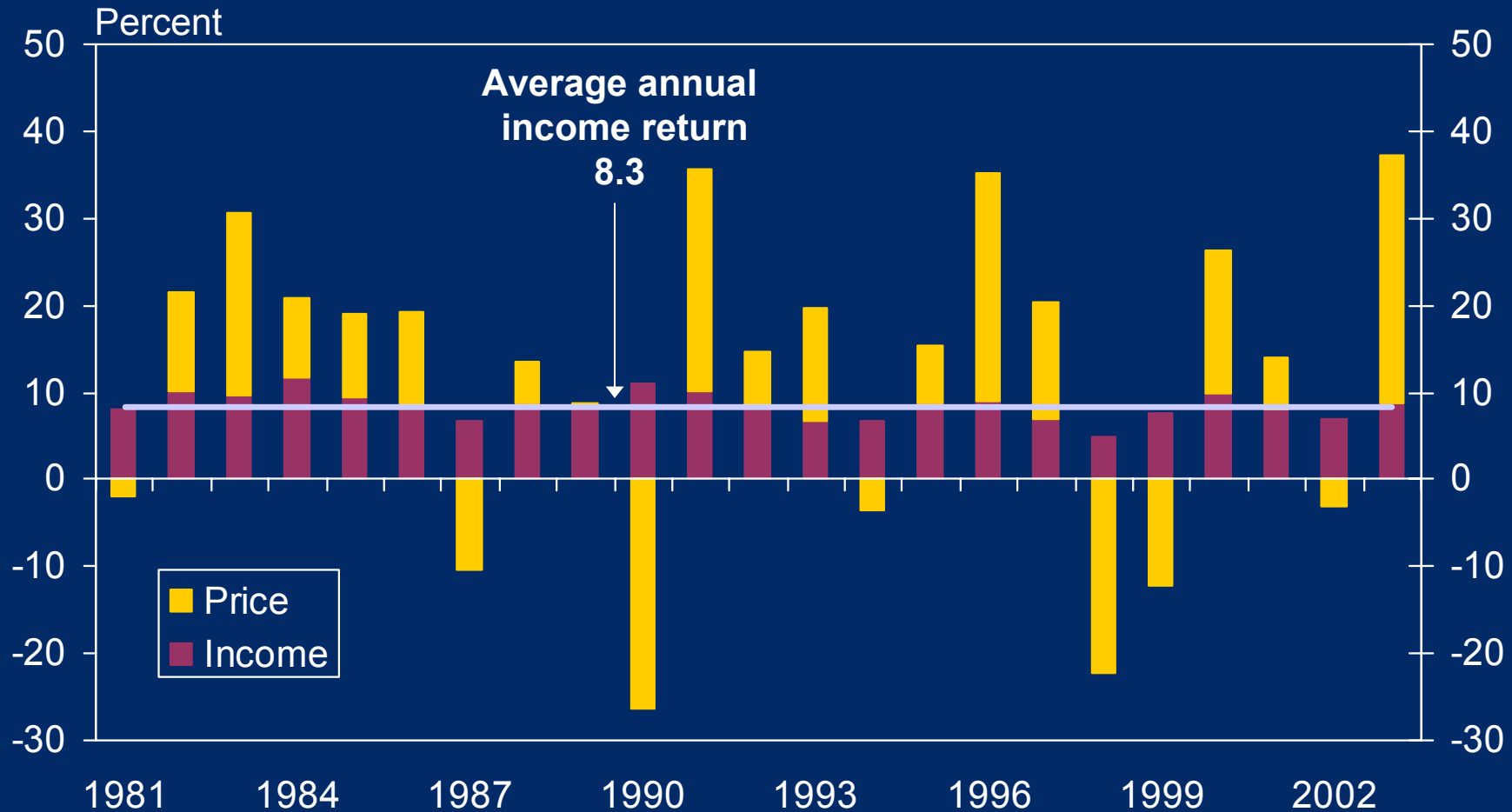
Source: NAREIT®, Ibbotson Associates

# Exhibit 7

## Stability of Listed U.S. Equity REIT Dividends

Average annual total return: 13.3 percent

Average annual income return: 8.3 percentage points or 62 percent of total return

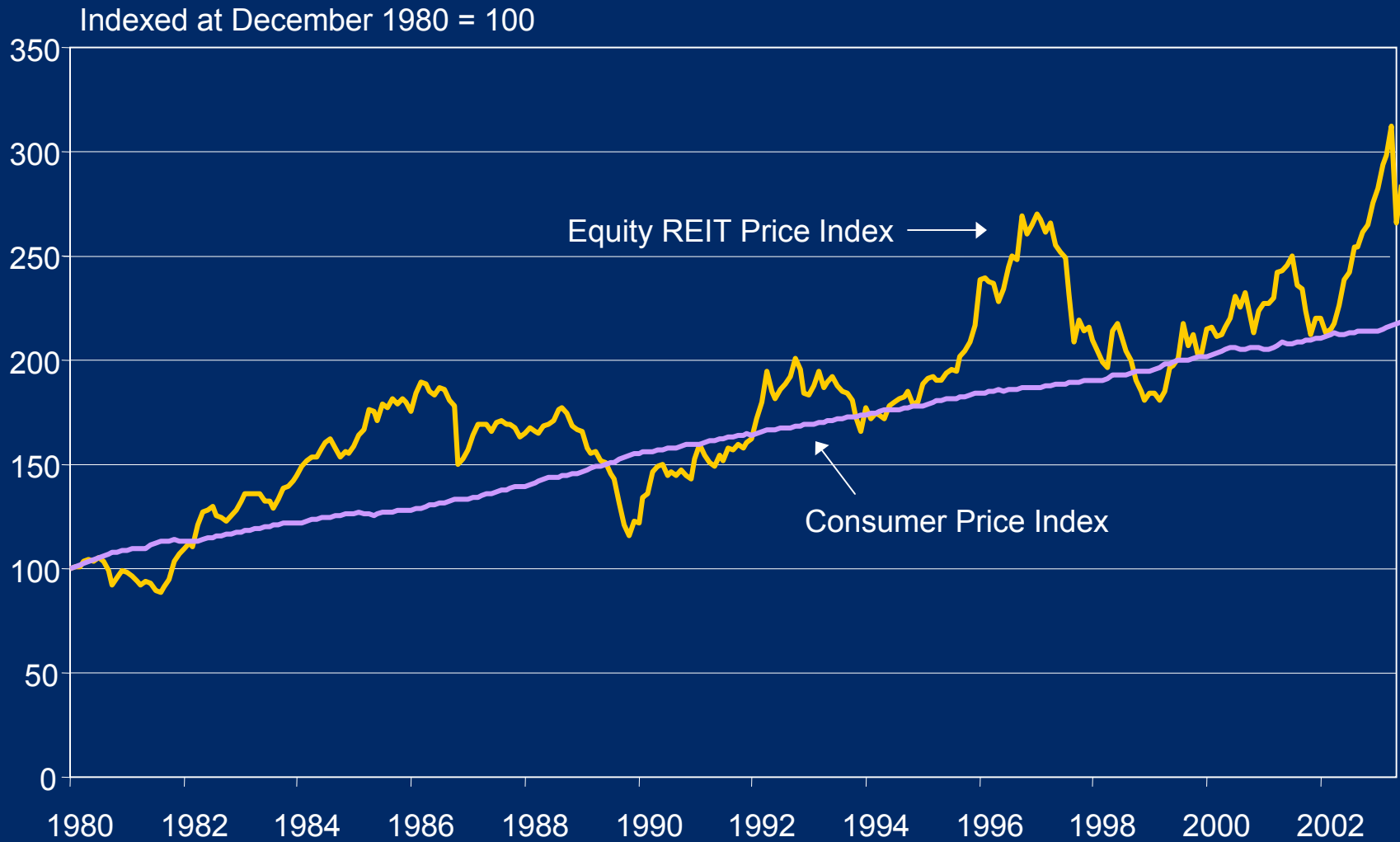


Source: NAREIT®



# Exhibit 8

## Inflation Protection of Invested Capital



Source: NAREIT®, Bureau of Labor Statistics

## Exhibit 9

# Volatility of Investment Returns

Annualized standard deviation of quarterly total returns in percent

|           | U.S. Listed<br>Equity REITs | Large Stocks | Small Stocks | Bonds |
|-----------|-----------------------------|--------------|--------------|-------|
| 1972–2003 | 14.6                        | 17.0         | 25.4         | 11.7  |
| 1984–2003 | 13.3                        | 16.6         | 23.0         | 10.6  |
| 1994–2003 | 12.5                        | 17.8         | 24.9         | 9.5   |
| 1999–2003 | 13.1                        | 19.8         | 29.7         | 9.3   |

Source: REITs—NAREIT Equity Index; Large Stocks—Standard & Poor's 500®; Small Stocks—Ibbotson U.S. Small Stock Series; Bonds—20-year U.S. Government Bond.

## Exhibit 10

# Correlation of Listed U.S. REIT Returns with other Assets

Five year rolling periods



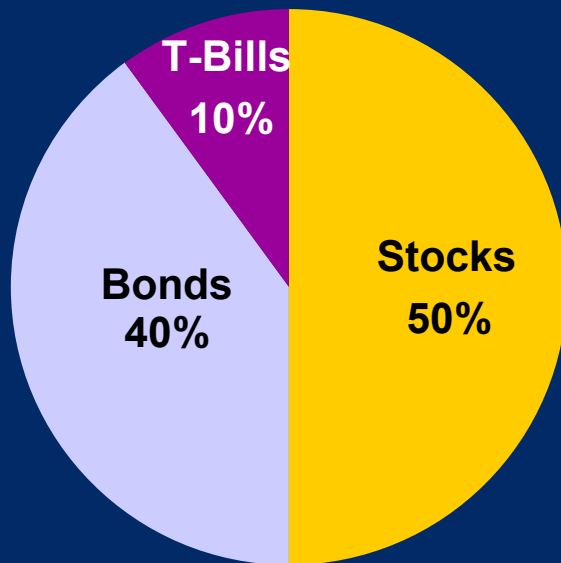
Source: REITs—NAREIT Equity Index; Small Stocks—Ibbotson U.S. Small Stock Series; Large Stocks—Standard & Poor's 500®; Bonds—20-year U.S. Government Bond.

# Exhibit 11

## Diversify to Reduce Risk and Increase Return

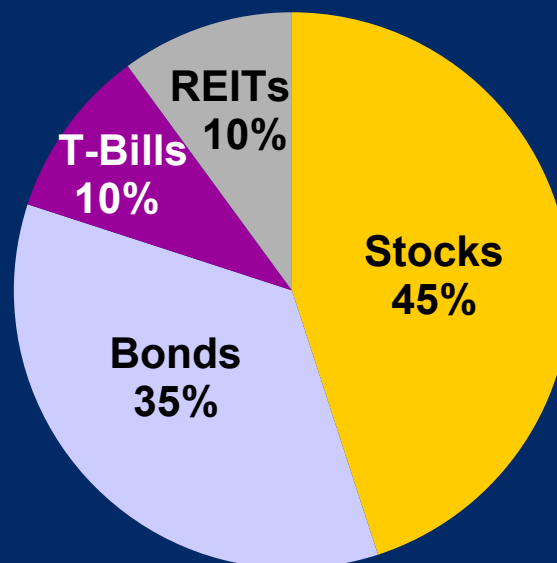
### Balanced Portfolios: 1972-2003

With No REITs



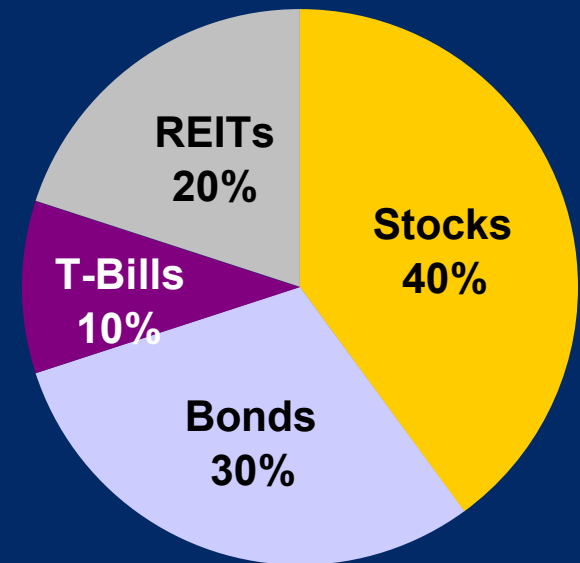
Return 10.9%  
Risk 10.8%

With 10% REITs



Return 11.2%  
Risk 10.4%

With 20% REITs



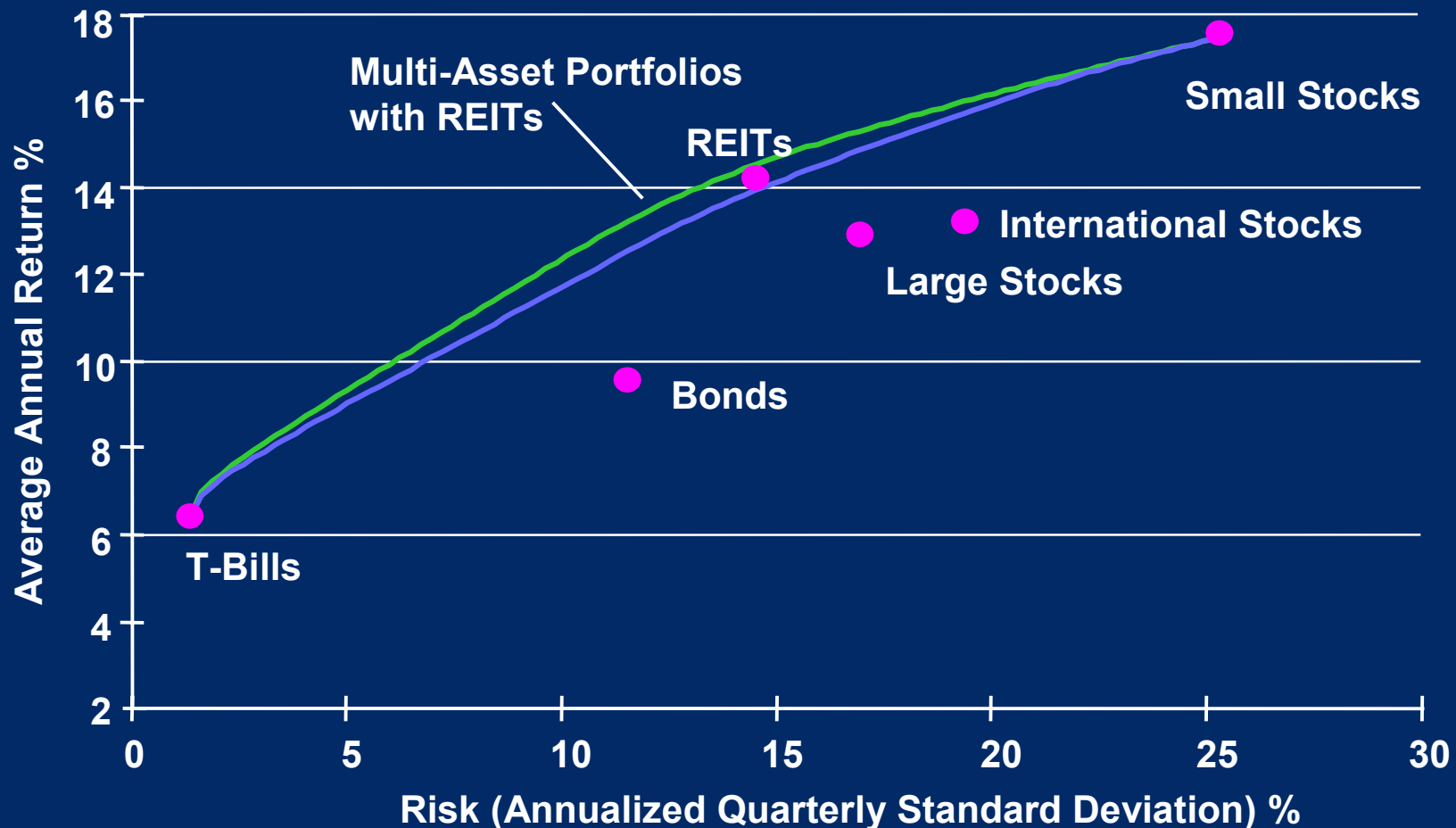
Return 11.5%  
Risk 10.1%

Source: Ibbotson Associates. 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; Bonds—20-year U.S. Government Bond; Treasury Bills—30-day U.S. Treasury Bill; REITs—National Association of Real Estate Investment Trusts<sup>®</sup> (NAREIT) Equity REIT Index.

# Exhibit 12

## Efficient frontier with and without Listed U.S. REITs

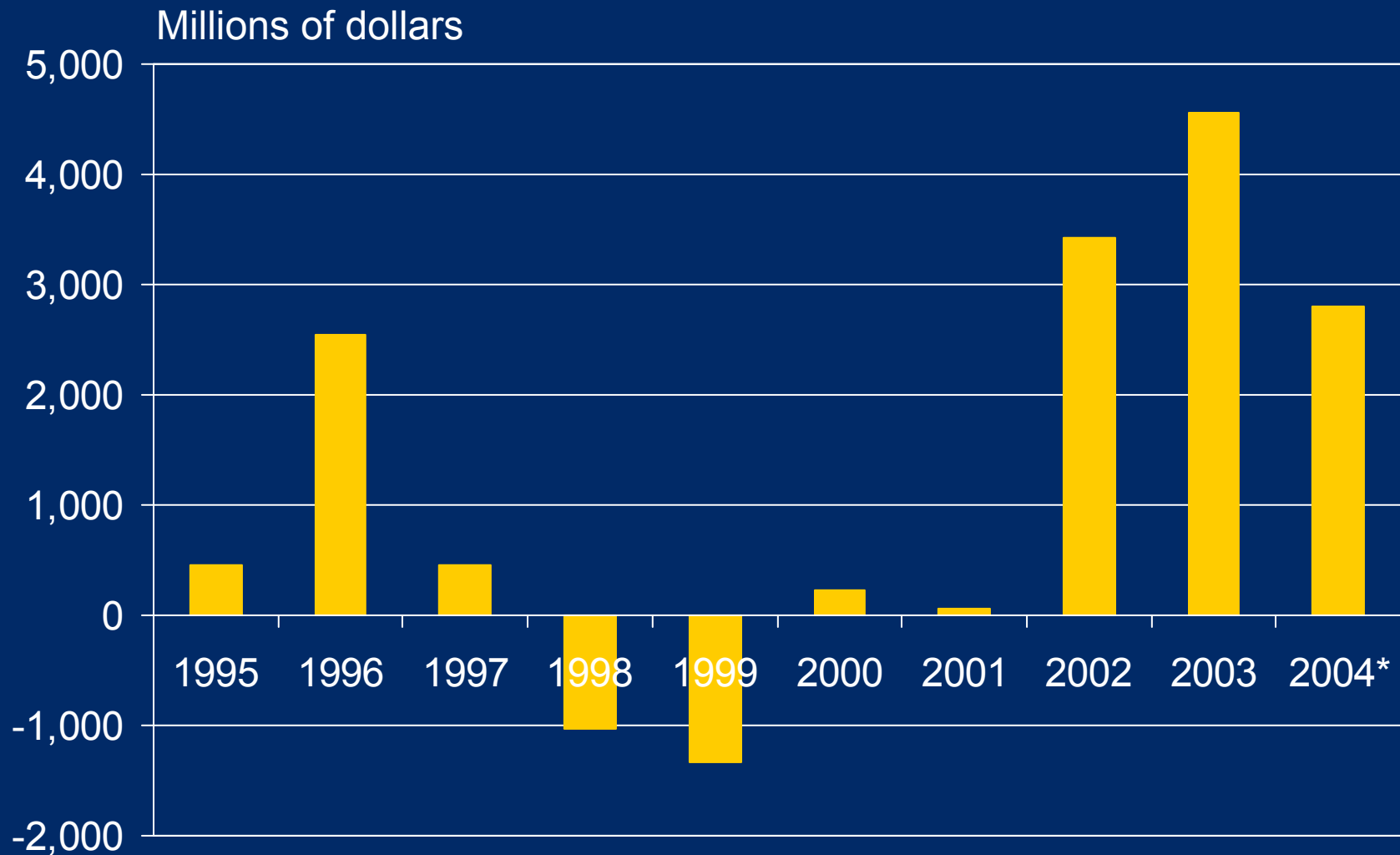
Stocks, bonds, bills, and REITs: 1972–2003



Source: Ibbotson Associates. 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®, 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®) Index; Treasury Bills—30-day U.S. Treasury Bill; REITs—National Association of Real Estate Investment Trusts® (NAREIT) Equity REIT Index.

# Exhibit 13

## Real Estate Mutual Fund Flows

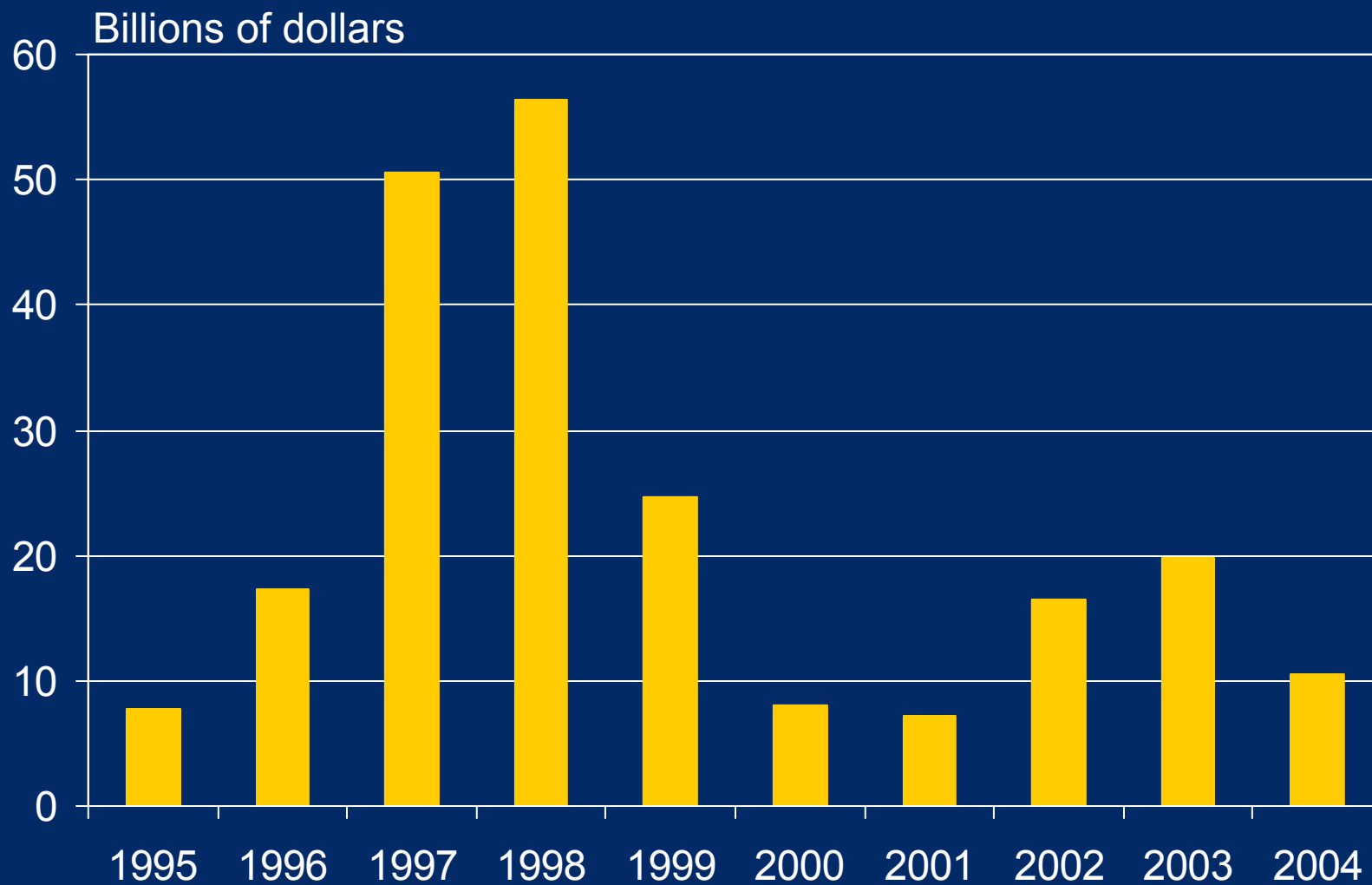


\*Data as of June 30, 2004

Source: AMG Data Services, Smith Barney

## Exhibit 14

# Property Acquisitions by Listed U.S. Equity REITs

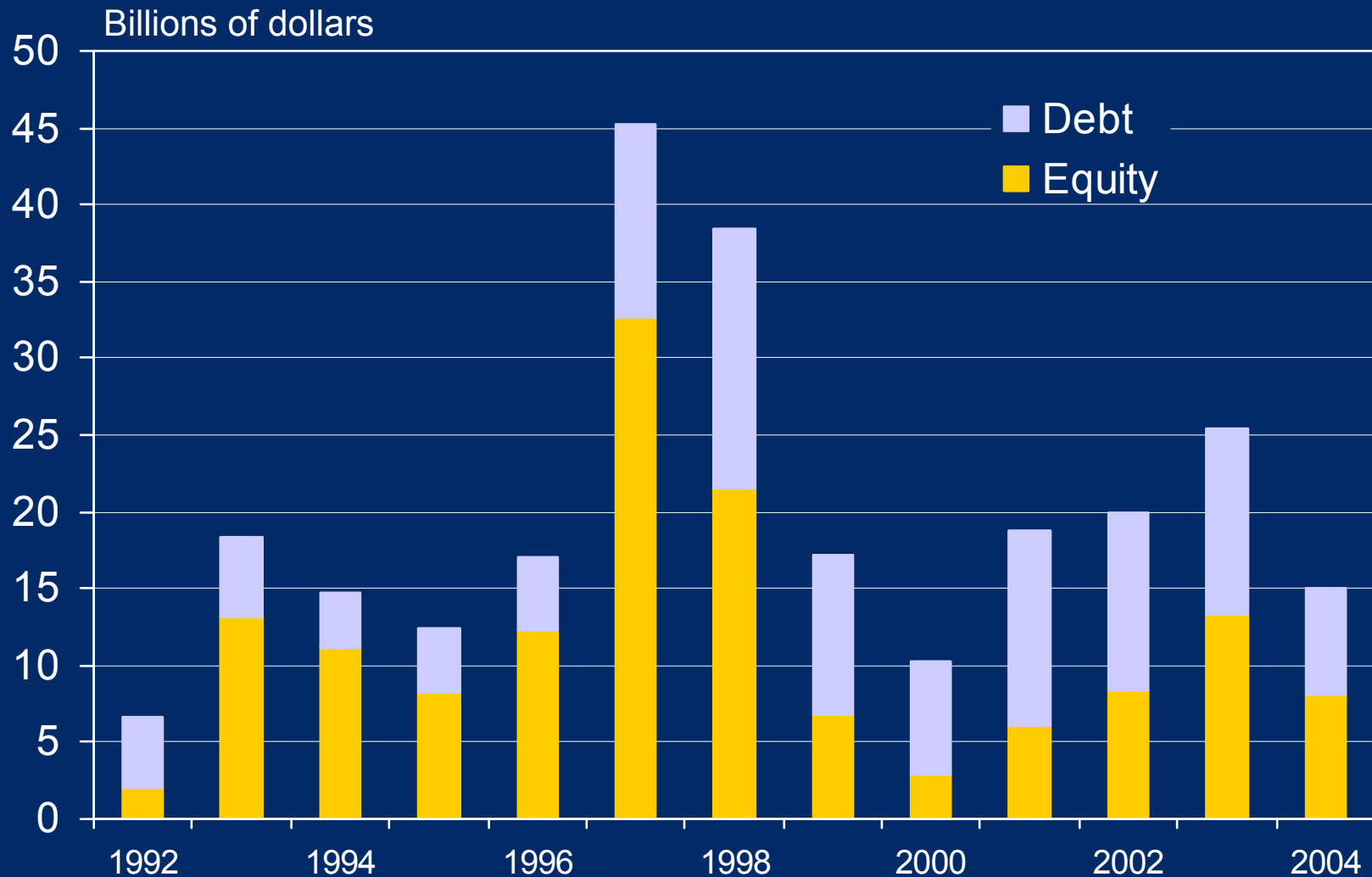


Data as of June 30, 2004

Source: NAREIT®, SNL Financial

# Exhibit 15

## Gross Issuance of Listed U.S. REIT Securities



Data as of June 30, 2004

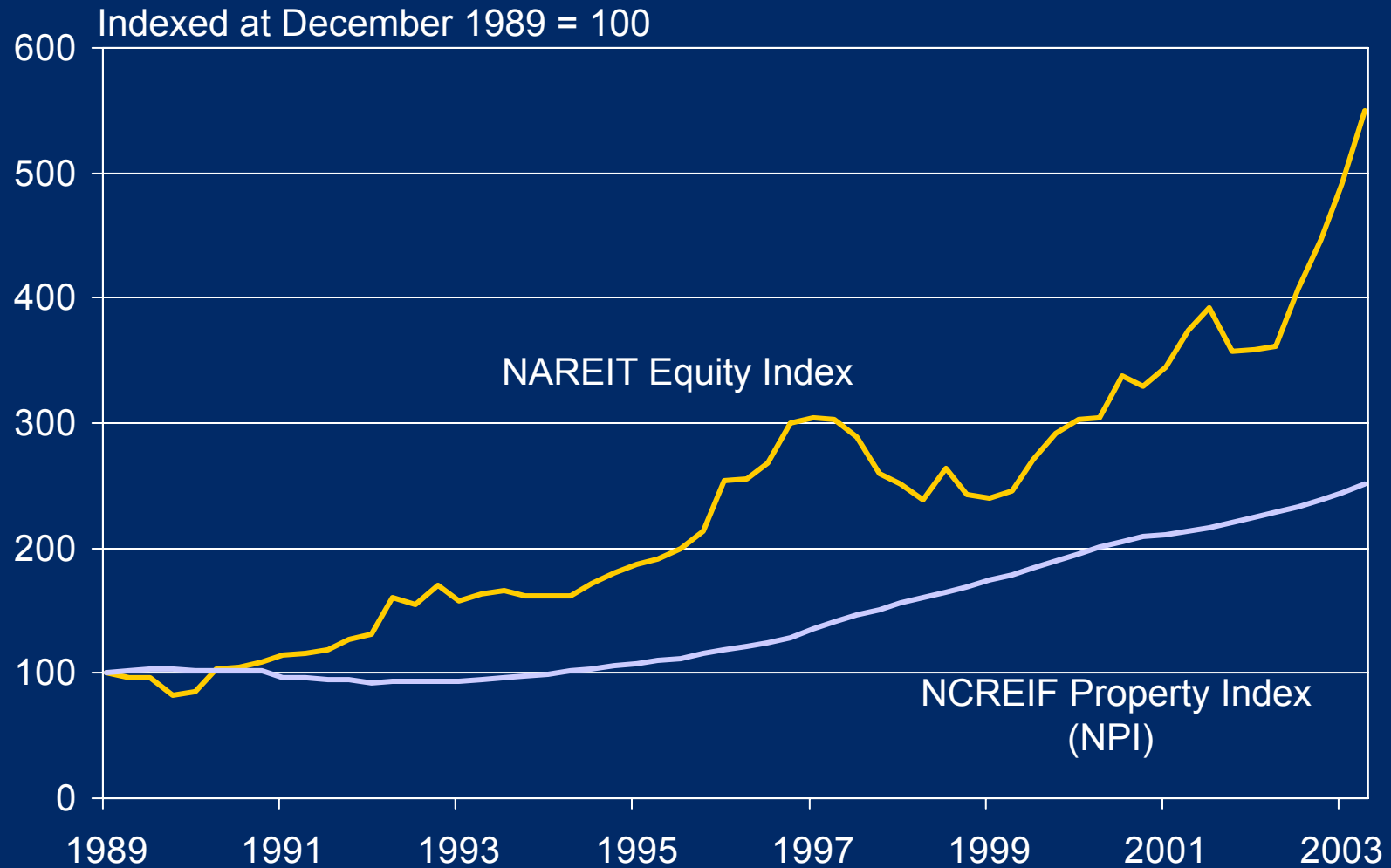
Source: NAREIT®, SNL Financial



## Exhibit 16

# Listed U.S. Equity REIT and Direct Real Estate Returns

### Index of Total Returns

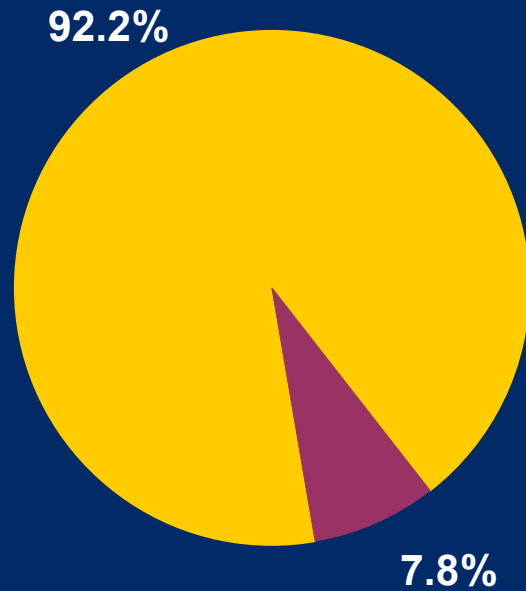


Data as of first quarter 2004  
Source: NCREIF and NAREIT®

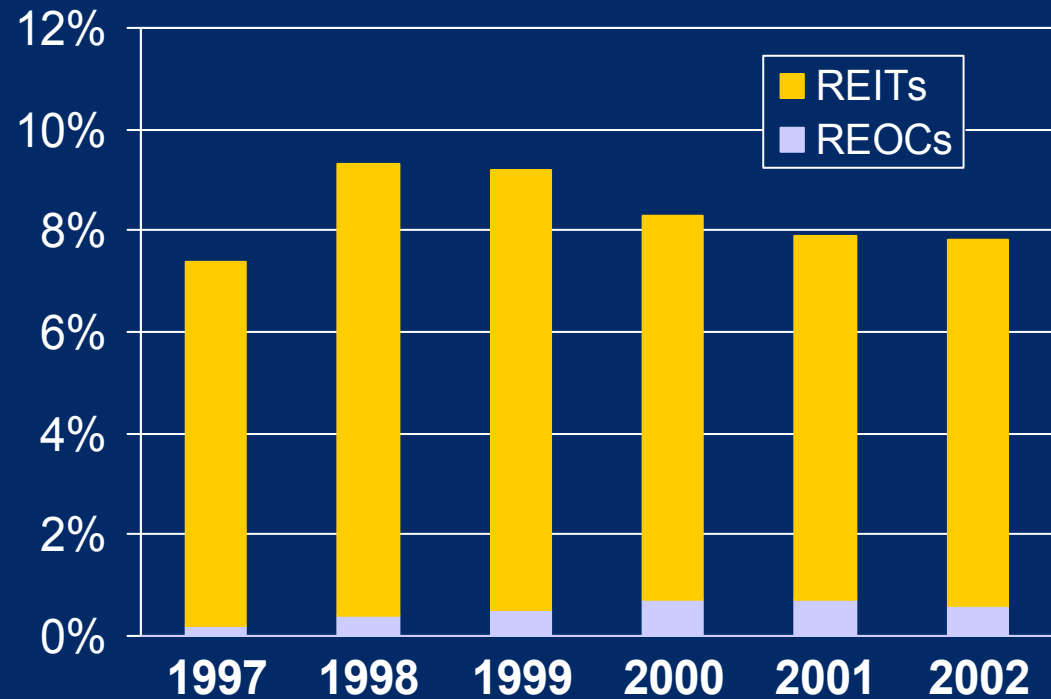
## Exhibit 17

# Growth in Listed U.S. REIT Ownership of Residential Units

Apartment Public-Market Penetration Year-End 2002



Total 12.52 million units



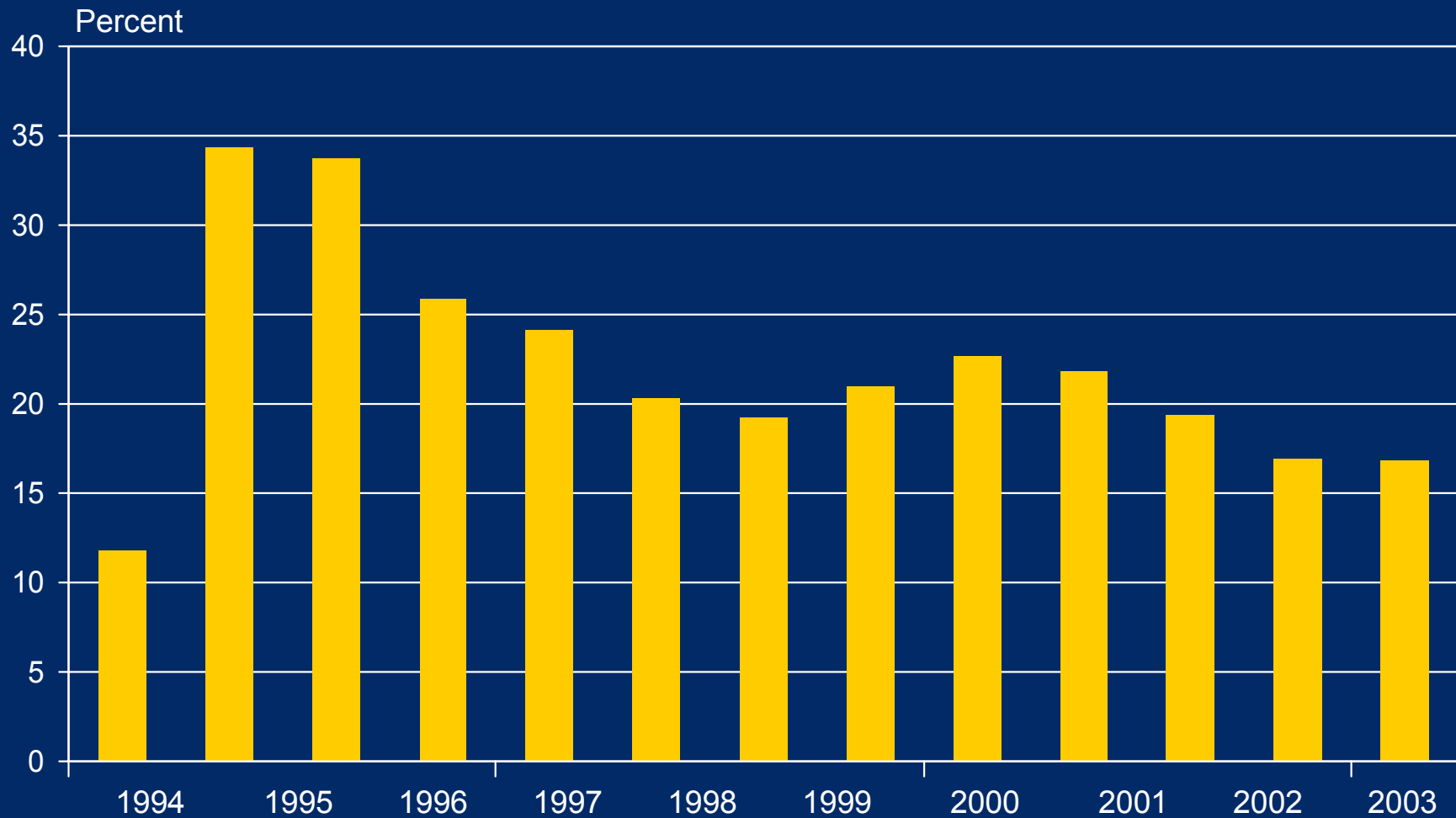
|       | 1997  | 1998  | 1999  | 2000  | 2001  | 2002  |
|-------|-------|-------|-------|-------|-------|-------|
| REITs | 7.20% | 8.90% | 8.70% | 7.60% | 7.20% | 7.20% |
| REOCs | 0.20% | 0.40% | 0.50% | 0.70% | 0.70% | 0.60% |

Source: Prudential Real Estate Investors (2002)

# Exhibit 18

## Residential REITs as Percentage of the Listed U.S. REIT Industry

1992 - 2003

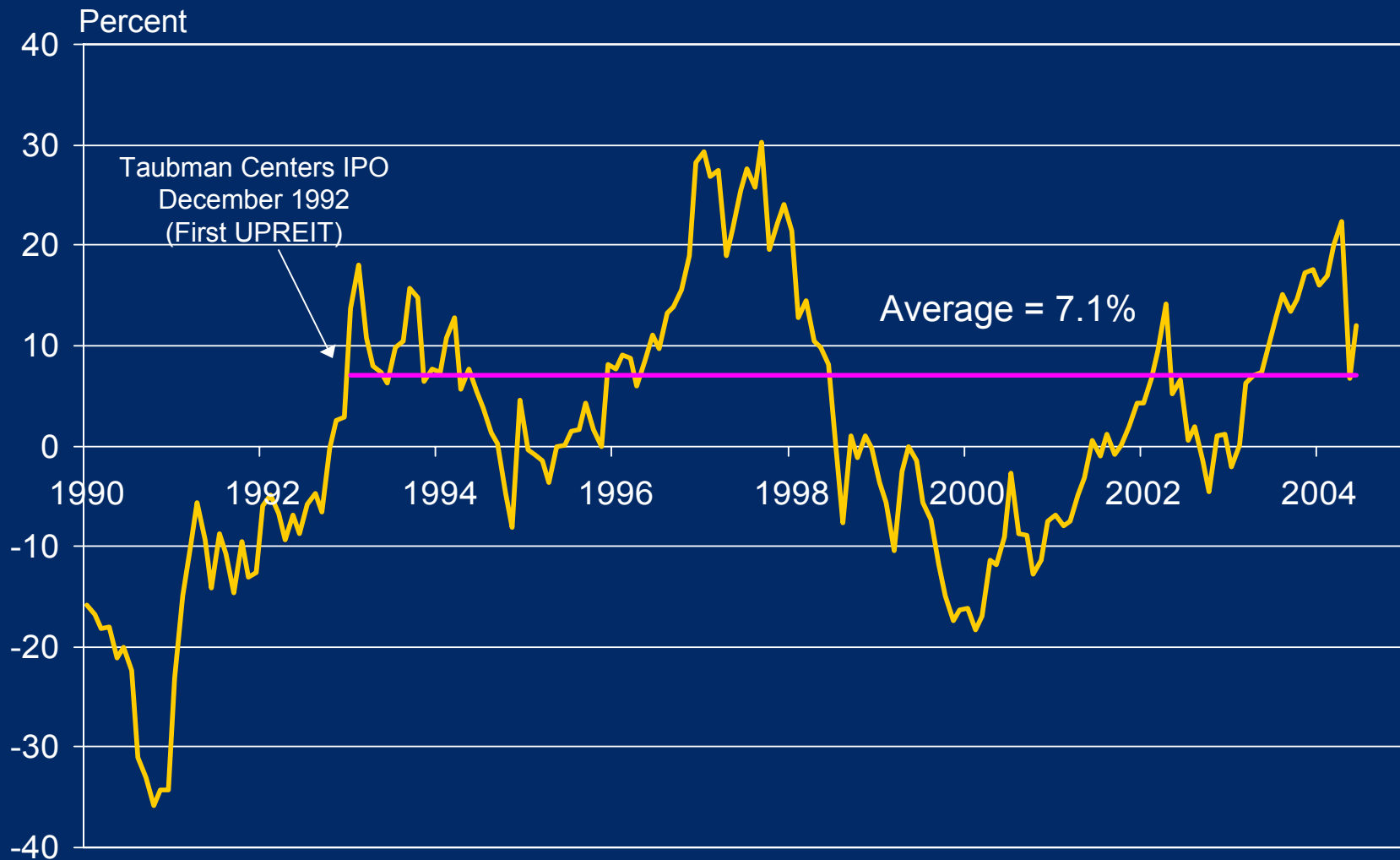


Source: NAREIT®

# Exhibit 19

## Share Price Relative to Net Asset Value

Monthly, January 1990 – June 2004



Source: Green Street Advisors

# Exhibit 20

## Listed U.S. REIT Common Equity Investor Profile

All investor types, as of December 31, 2003<sup>1</sup>

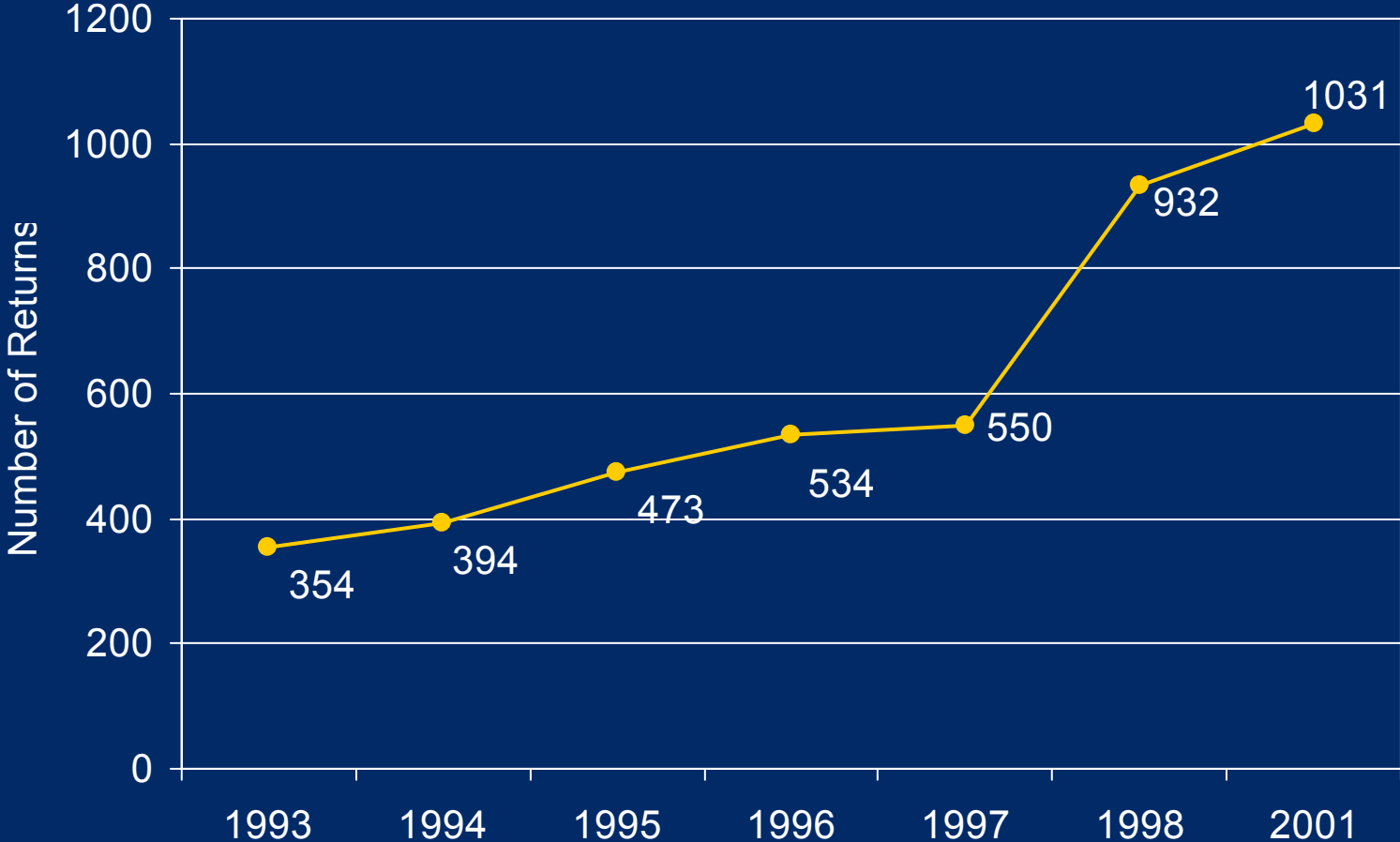
| Type of Investor                          | Number of Investors | Market Value of REIT Equity Investments<br>(In dollars) | Proportion of Total REIT Market Capitalization<br>(In percent) |
|---|---------------------|---|--|
| (1)                                       | (2)                 | (3)   | (4)  |
| <b>Institutional Investment</b>           |                     |   |  |
| <b>Investment Advisors</b>                | <b>676</b>          | <b>69,864,039,874</b>                                   | <b>34.6</b>  |
| <b>Mutual Fund</b>                        | <b>2,316</b>        | <b>60,686,477,460</b>                                   | <b>30.0</b>  |
| <b>Pension Fund</b>                       | <b>32</b>           | <b>9,715,046,892</b>                                    | <b>4.8</b>   |
| Corporate Funds                           | 13                  | 3,953,840,783   | 2.0  |
| Public Funds                              | 9                   | 5,761,206,109   | 2.9  |
| <b>Bank</b>                               | <b>94</b>           | <b>7,381,810,997</b>                                    | <b>3.7</b>   |
| <b>Hedge Fund</b>                         | <b>164</b>          | <b>2,402,264,124</b>                                    | <b>1.2</b>   |
| <b>Endowment</b>                          | <b>10</b>           | <b>1,090,039,392</b>                                    | <b>0.5</b>   |
| <b>Alternative</b>                        | <b>4</b>            | <b>8,377,560</b>  | <b>0.0</b>   |
| <b>Other</b>                              |                     | <b>5,308,505,993</b>                                    | <b>2.6</b>   |
| <b>Total Institutional Investment</b>     | <b>3,296</b>        | <b>156,456,562,292</b>                                  | <b>77.5</b>  |
| <b>Direct Individual Investment</b>       |                     |   |  |
| <b>Total Direct Individual Investment</b> |                     | <b>45,533,437,952</b>                                   | <b>22.5</b>  |
| <b>Total Market Capitalization</b>        |                     | <b>201,990,000,244</b>                                  | <b>100.0</b>   |

Source: BigDough.com

<sup>1</sup>As of date is approximate; not all data sources report with the same frequency

# Exhibit 21

## Number of U.S. REIT Returns Filed



Source: Internal Revenue Service (data N.A. for 1999 and 2000)

## Exhibit 22

### Listed U.S. REITs That Were Formerly Unlisted REITs

| Name                                     | Trading Symbol   | Equity Market Capitalization<br>As of June 30, 2004<br>(in millions of dollars) |
|--|------------------|---|
| Affordable Residential Communities, Inc. | ARC              | 666.7   |
| AMB Property Corporation                 | AMB              | 2,860.9   |
| American Financial Realty Trust          | APRO             | 1,566.9   |
| AmeriVest Properties, Inc.               | AMV              | 140.5   |
| AmREIT                                   | AMY              | 19.3  |
| Archstone-Smith                          | ASN              | 5,744.7   |
| Berkshire Income Realty, Inc.            | BIR_pa           | NA  |
| Equity Office Property Trust             | EOP              | 10,977.8  |
| Global Signal, Inc.                      | GSL <sup>1</sup> | 1,072.3   |
| Heritage Property Investment Trust, Inc. | HTG              | 1,264.4   |
| Inland Real Estate Corporation           | IRC <sup>2</sup> | 860.4   |
| ProLogis                                 | PLD              | 5,970.4   |
| Strategic Hotel Capital, Inc.            | SLH <sup>3</sup> | 542.7   |

Source NAREIT®

<sup>1</sup>Listed on June 2, 2004

<sup>2</sup>Listed on June 10, 2004

<sup>3</sup>Listed on June 23, 2004

## Exhibit 23

# Unlisted U.S. REITs in Process of Seeking Listing

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| Name                             | Trading Symbol |
|----------------------------------|----------------|
| BioMed Property Trust, Inc.      | Proposed: BMP  |
| CNL Hospitality Properties, Inc. | Proposed: CHO  |
| Spirit Finance Corporation       | Proposed: SFV  |

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Data as of June 30, 2004  
Source: NAREIT®



## Exhibit 24

# Partial List of Permissible REIT Services

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### *PHYSICAL PROPERTY OPERATIONS*

Furnish electricity (including sub-metering of electricity), water, heat, light, and air conditioning, elevator services, telephone answering services, incidental storage space, laundry equipment, parking facilities and swimming pool facilities, all if such services are customarily provided to tenants in that geographic market

Perform general property maintenance and related services such as routine engineering and janitorial services, general cleaning services (including cleaning of windows, public entrances, exits and lobbies as well as the cleaning of a tenant's interior space), trash collection, snow removal, pest control, landscaping services, and fire protection, life/safety system and sprinkler system maintenance

Perform regular property inspections

Provide routine security guard services if necessary to maintain safety

## Exhibit 24 (cont)

### Partial List of Permissible REIT Services

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#### *ADMINISTRATIVE & OPERATIONAL ACTIVITIES*

Establish rental terms, select tenants, enter into, negotiate and renew leases, arrange for payment of taxes with respect to the property

Routinely communicate with the occupants of the property concerning the delivery of services and other management matters

Design, implement, or approve and administer a tenant retention program  
Enforce tenant compliance with lease terms

Pursue legal action against any tenants that are delinquent in payment, or in violation of the lease terms

Prepare, approve, or execute marketing plans for attracting potential tenants to the property

Provide personnel to staff a shopping mall's information center and furnish courtesy wheelchairs and strollers

## Exhibit 24 (cont)

### Partial List of Permissible REIT Services

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Recruit, train and supervise on-site personnel, off-site management staff, or sub-contracted management firms

Select vendors and decide which items or services for the property are to be purchased, determine the quantity and quality of purchases, and negotiate or approve contracts for services

Supervise employees or direct contractors who perform routine maintenance and repair work, and confirm the vendors' compliance with purchasing and insurance criteria

Design and implement and schedule preventive maintenance programs for the property

Obtain and maintain property licenses and permits

Design, implement, or approve a life-safety and emergency preparedness program for the property

## Exhibit 24 (cont)

### Partial List of Permissible REIT Services

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Establish or monitor and enforce the property's operating policies and procedures

Establish, approve, or monitor adherence to the record-keeping system

Establish management and internal controls and monitor property performance

Identify the property's insurable risks and choose and monitor coverages

Undertake or oversee a physical and financial risk management program

Analyze market conditions and approve rental rates, and other lease terms for the property

Identify and analyze alternate uses of the property, and implement a plan to change the property's use or approve such a plan

## Exhibit 24 (cont)

### Partial List of Permissible REIT Services

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Monitor property value and assess the implications that estimates of value have; determine the reasonableness of assessed value and insurable value

Prepare annual budgets, including capital expenditure and reserve/impound budgets, or review and authorize such budgets prepared by others

Identify, analyze, and implement, or approve, major capital expenditure programs, including, but not limited to, maintenance or remodeling projects, and major tenant improvements

Participate in legal proceedings regarding the property, including undertaking or overseeing valuation appeals with respect to assessed property valuation

Monitor and administer the property's compliance with government and environmental regulations and consult legal or other counsel when appropriate

Develop, review and or approve business plans for each property

## Exhibit 24 (cont)

### Partial List of Permissible REIT Services

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Identify properties for acquisition or disposition

Provide other types of ancillary services such as: nine-hole walk on golf courses, boat docks, exercise rooms, whirlpool spas, libraries, car wash areas, automatic cash machines, playgrounds, picnic areas, boat docks; organize tenant social events; lease conference rooms, maintain exercise rooms, lease space for vending machines (provided by independent third parties); and provide telecommunications services (by negotiating cable lease and easement agreements with internet service providers, broadcasters, long distance operators, and other service providers that provide telephone and other communications, cable, e-mail, video communications, electronic research, internet access, networking, safety and security systems, and environmental control systems and similar types of systems and services or in some cases setting up cable service at a property)

Provide “courtesy” services like facsimile and copy machine services, vacuum cleaners, the holding of mail, etc.

## Exhibit 24 (cont)

### Partial List of Permissible REIT Services

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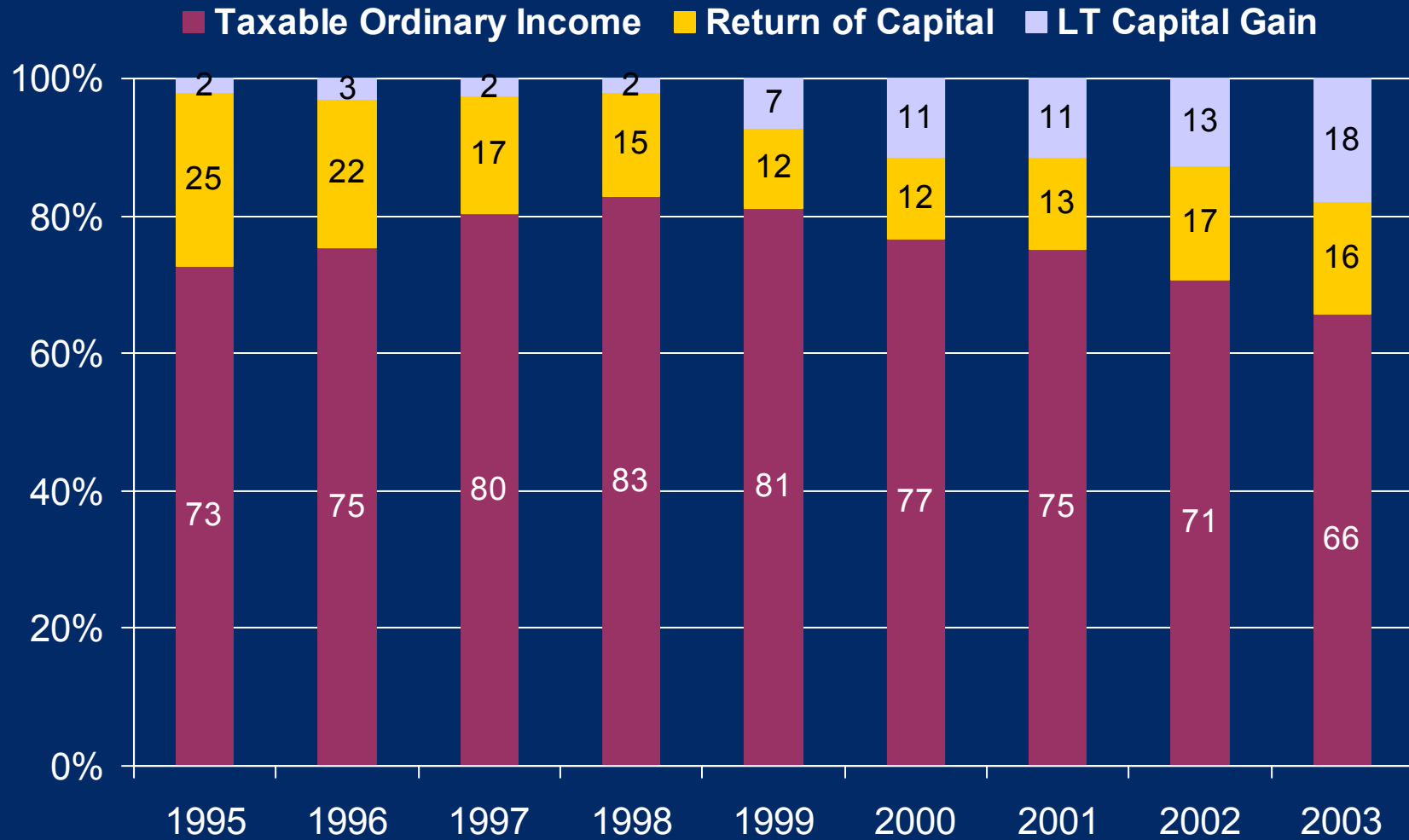
#### *CONSTRUCTION AND DEVELOPMENT ACTIVITIES*

Plan, design, supervise, and administer the development of properties and the construction and rehabilitation work and remodeling of interior tenant space, perform pricing estimates and cost analysis, negotiate and contract for engineering and feasibility studies, arrange for zoning and building permits, employ and supervise architects and contractors, assist in the layout and design of tenant space, approve and process invoices and disburse funds, order building materials and supplies and inspect and approve plans and work performed for aesthetic factors, effect on property value and compliance with laws and regulation

Work with engineers, consultants, contractors and governmental agencies to prevent, detect, and remedy environmental contamination

## Exhibit 25

# Tax Treatment of U.S. Listed REIT Common Share Dividends



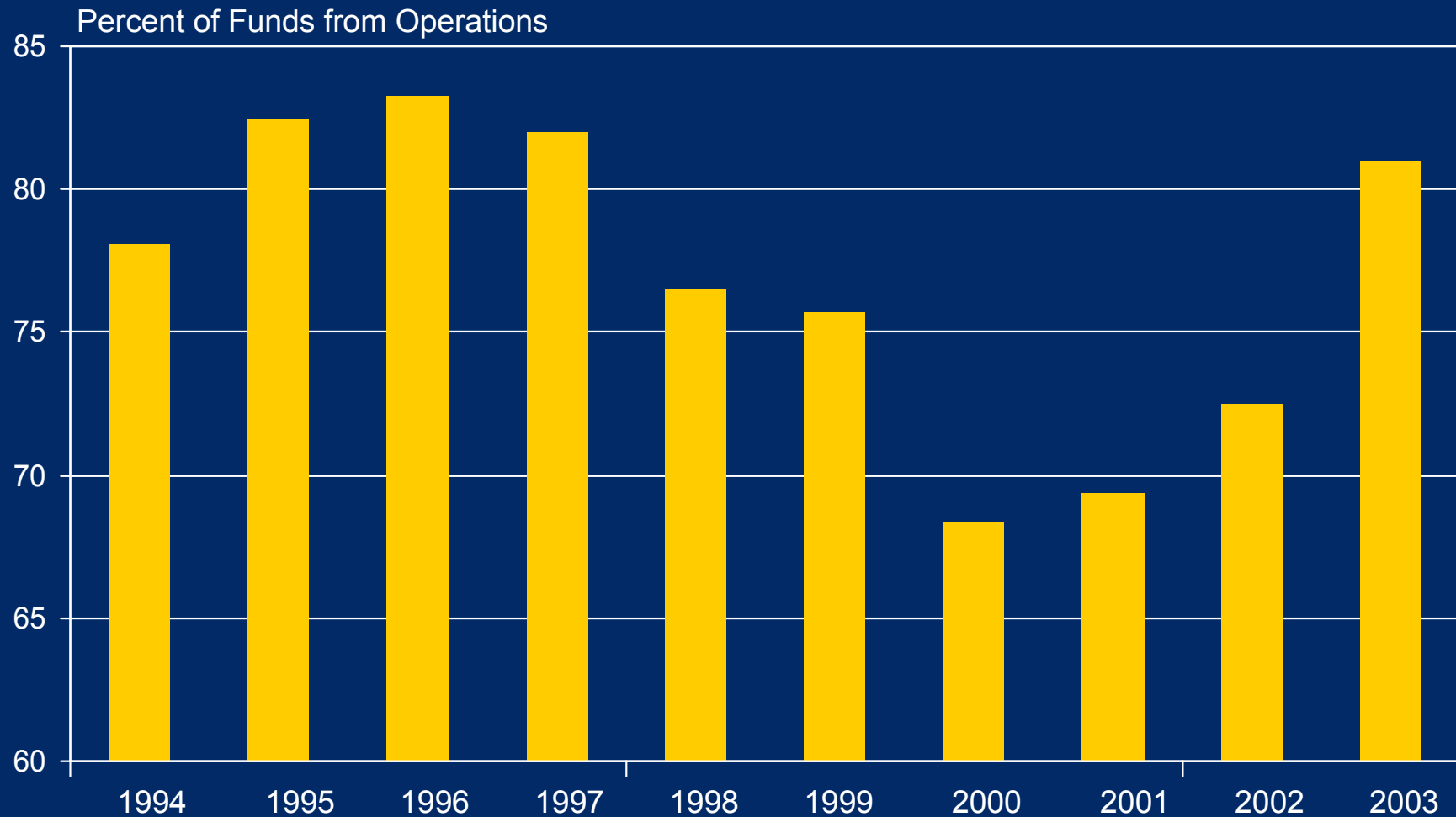
Source: NAREIT®



# Exhibit 26

## Average Listed U.S. REIT Dividend Payout Ratios

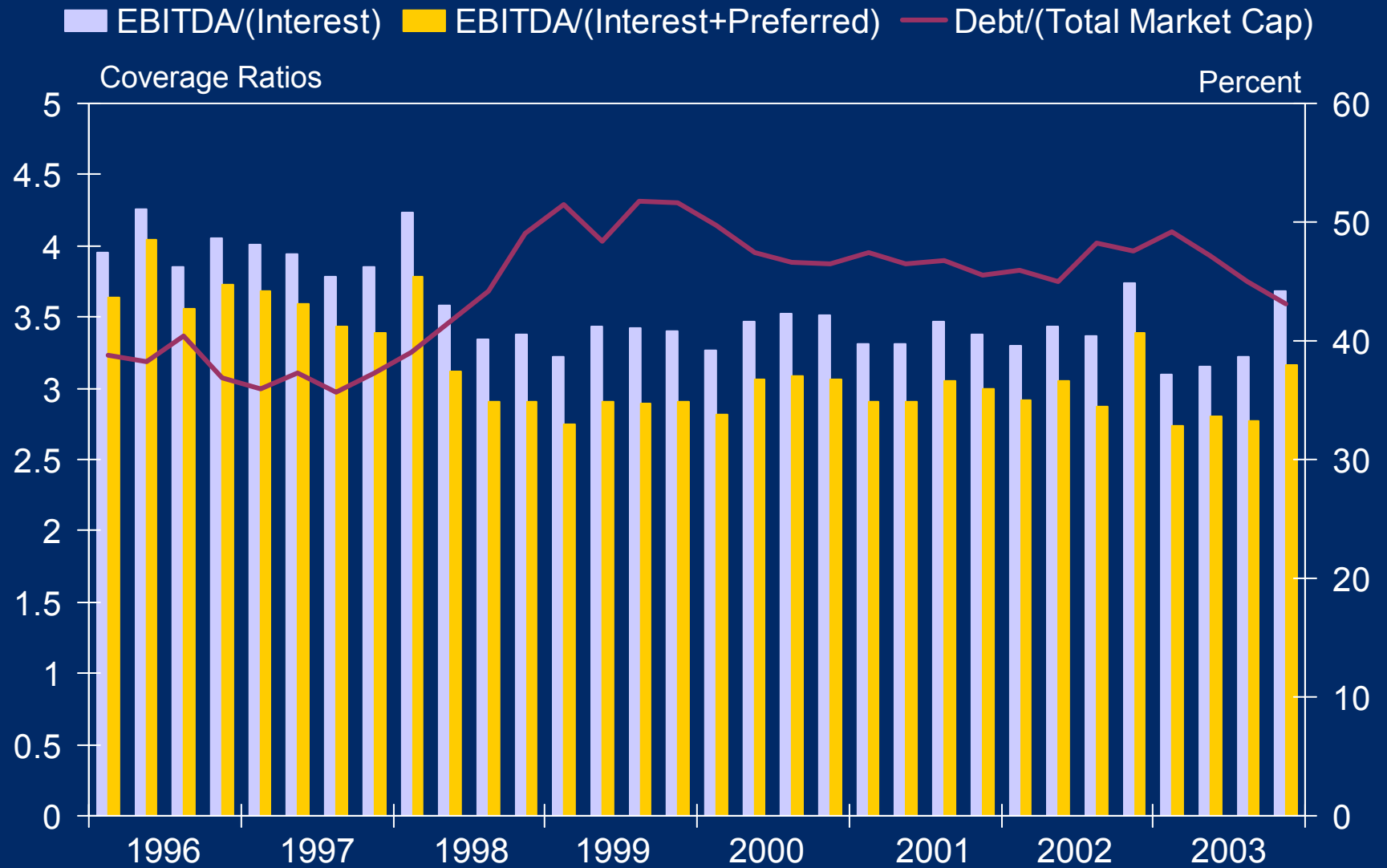
1994 - 2003



1994 - 1999 is based on partial data for the top 100 equity REITs  
2000-2003 is based on data for entire listed U.S. Equity REIT industry  
Source: NAREIT®

# Exhibit 27

## Listed U.S. Equity REIT Leverage and Coverage Ratios



Source: SNL Financial

## Exhibit 28

# Summary of Financial Leverage by Listed Property Sector

| Sector                  | Number of Companies | Implied Market Capitalization (Dec 2003) <sup>1</sup> | Debt Ratio <sup>2</sup> | Interest Coverage <sup>2</sup> | Fixed Charge Coverage <sup>2</sup> |
|-------------------------|---------------------|---|-------------------------|--------------------------------|------------------------------------|
| Industrial/Office       | 34                  | 66,232,639  | 42.5                    | 4.13                           | 3.27                               |
| Office                  | 19                  | 39,384,762  | 46.5                    | 3.08                           | 2.82                               |
| Industrial              | 8                   | 13,547,029  | 38.7                    | 4.39                           | 3.81                               |
| Mixed Industrial/Office | 7                   | 13,300,848  | 34.5                    | 6.96                           | 4.06                               |
| Retail                  | 5                   | 63,708,181  | 42.9                    | 3.68                           | 3.28                               |
| Shopping Centers        | 16                  | 27,138,564  | 37.6                    | 3.87                           | 3.43                               |
| Regional Malls          | 8                   | 33,626,988  | 48.3                    | 3.43                           | 3.12                               |
| Free Standing           | 5                   | 2,942,629   | 31.5                    | 4.81                           | 3.79                               |
| Residential             | 23                  | 39,264,306  | 44.4                    | 2.83                           | 2.48                               |
| Apartments              | 19                  | 37,092,107  | 44.2                    | 2.85                           | 2.49                               |
| Manufactured Homes      | 4                   | 2,172,199   | 47.9                    | 2.38                           | 2.38                               |
| Diversified             | 11                  | 16,095,466  | 39.9                    | 3.86                           | 3.43                               |
| Lodging/Resorts         | 12                  | 9,003,518   | 42.7                    | 5.35                           | 4.17                               |
| Health Care             | 10                  | 11,581,351  | 31.0                    | 3.83                           | 3.56                               |
| Self Storage            | 1                   | 534,361   | 32.4                    | 3.82                           | 2.54                               |
| Specialty               | 5                   | 8,902,419   | 33.2                    | 3.36                           | 3.32                               |
| <b>Equity Totals</b>    | <b>125</b>          | <b>215,322,241</b>                                    | <b>41.8</b>             | <b>3.74</b>                    | <b>3.20</b>                        |

# Exhibit 28, Continued

## Summary of Financial Leverage by Listed Property Sector

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Source: NAREIT<sup>®</sup>, SNL Financial

Notes:

<sup>1</sup>Equity Market Capitalization in thousands of dollars, including operating partnership units

<sup>2</sup>Weighted averages using end-of-period equity market capitalizations, including operating partnership units