

NAREIT FAXBRIEF

A REPORT ON NAREIT NEWS AND ACTIVITIES

October 1999

MESSAGE FROM THE PRESIDENT

Some say it's people — not properties — they examine most closely before deciding which REITs and publicly traded real estate companies are worthy of investment.

One reason management teams matter as much as portfolios is that they too are "Changing the Face of Real Estate Investment." Changes to our industry — the focus of this month's NAREIT Annual Convention in Los Angeles — have been brought about in part by executives who are focused on creating shareholder value over the long term to ensure that more and more investors discover the benefits of REITs and publicly traded real estate. As we know, these benefits include easy access, steady income and potential for long-term growth.

Echoing the tag line of the industry's advertising campaign, the convention's theme recognizes the people behind the properties. The thousands of men and women who manage, live, work, shop — and yes, invest — in our \$250 billion industry.

Join your fellow real estate executives, investors, financiers, and professionals at the Century Plaza Hotel & Tower October 27-29 to talk about where REITs and publicly traded real estate are headed next.

I hope to see your face among the many others in Los Angeles who are working together to change our evolving industry for the better.



Taxes, Anyone? As expected, President Clinton vetoed the \$792 billion tax relief bill, which contained the REIT Modernization Act (RMA), soon after he received it last month. Because it is highly unusual for any piece of tax legislation to be enacted on a stand-alone basis, the RMA's fate is tied to that of a larger tax package. And while there are many potential vehicles to which such legislation could be attached (such as minimum wage legislation and a bill that would extend tax provisions that expire in 1999), it is unclear

whether the Congress and the Administration will agree on any legislation containing tax components. NAREIT continues to work with its legislative supporters to seek adoption of the noncontroversial, bipartisan REIT package this year. For further information, contact Tony Edwards, NAREIT's Senior Vice President and General Counsel, at tedwards@nareit.com.

Further Action on Forced Access: On September 27, NAREIT and other members of the Real Access Alliance filed "reply" comments to the Federal Communications Commission (FCC) regarding forced building access. The FCC rulemaking could strip away the constitutional rights of property owners by allowing any and all telecommunications providers to access properties without adequate compensation and without regard to the ability of the landlord to supervise quality of service to its tenants. The reply comments urge the FCC to reject forced access, noting that "the legal theories advanced by the [telecom companies] are as unfounded as their factual claims." The process now enters the "ex parte" phase, in which interested parties can meet with FCC staff. There is no time limit on the "ex parte" period, which could last from a few weeks to several months. NAREIT and the Real Access Alliance's ten other members will continue to present our case to the FCC and to fight all forced access initiatives. To help educate policymakers and the public about this issue, the Alliance has launched a web site — realaccess.org. It features all Alliance filings before the FCC, an independent market survey, economic and constitutional analyses, issue backgrounders and links to related Internet sites. In addition, the full text of the Alliance's reply comments, as well as earlier comments to the FCC regarding the proposed rulemaking, can be found in the Government Relations section of NAREIT's own web site, www.nareit.com. Just click on "Telecom: Forced Access." (Contact: Anna Chason at achason@nareit.com)

REIT Snapshot: REIT stock prices declined on average in September and have weakened a tad further in early October. The NAREIT Composite Total Return Index of all publicly traded REITs declined 3-3/4 percent in September, including a share price decline of 4-1/2 percent. Other sectors of the equity market were unchanged to mostly lower in September.

The Russell 2000 was unchanged, the S&P 500 fell 2-3/4 percent and the Dow lost 4-1/2 percent. The S&P Utilities Index declined 5 percent and the NASDAQ Composite rose 1/4 percent.

Even though REIT share prices have been weak on net this year, some sectors nevertheless have posted positive returns. Total returns for the first nine months of the year averaged 8-1/4 percent for the Apartment sector, 1-1/2 percent for the Office sector and 3/4 percent for the Industrial sector. For all three sectors, positive returns in 1999 represent a significant turnaround from last year, fueled in part by strong economic growth, high levels of employment and rising household incomes.

The Mortgage REIT sector also has posted positive returns on average in 1999 compared with last year's more difficult environment. Mortgage REITs that focus on the financing of income producing commercial properties posted a median total return of 3-1/2 percent through September, while those that concentrate on home financing posted a median return of 9 percent. (Contact: Chuck DiRocco at cdirocco@nareit.com.)

Market Insights: Chuck DiRocco, NAREIT's Director of Industry Analysis, examines the attractiveness of near record valuations:

The most recent period of share price behavior, beginning August 10, is the most difficult to explain. Inflation expectations and interest rates actually have moderated. Yet, the returns of utility and REIT stocks have weakened further. In fact, the weakness of REIT share prices has boosted dividend yields to levels that exceed those recorded earlier in the year. When REIT share prices last bottomed on March 23, the composite dividend yield stood at 7.96 percent. As of October 8, the dividend yield had soared to 8.43 percent, widening the spread between the REIT dividend yield and the yield of 10-year Treasuries close to 2-1/2 percentage points. In light of relatively low payout ratios and rising dividend rates, an efficient market at some point will be unable to ignore this compelling valuation. (Contact: Chuck DiRocco at cdirocco@nareit.com)

Convention Preview: The program of NAREIT's upcoming Annual Convention has been designed to ensure that the industry's most critical issues — for today and tomorrow — are thoughtfully explained and intelligently discussed. Over the course of three days in Los Angeles (October 27 - 29), educational programs will navigate the consumer gateway, the electronic highway and the capital pathway. Other sessions will feature a panel of buy-side and sell-side experts exploring the state of the publicly traded real estate industry. And former White House Press Secretary Mike McCurry will be guest speaker during our Thursday luncheon. It all takes place at the Century Plaza Hotel & Tower. For additional information — or to register online — visit nareit.com. (Contact: Catherine Kaempffer at ckaempff@nareit.com)

Real Estate Performance: Another way NAREIT is attempting to boost recognition of the attractive valuations to be found in publicly traded real estate is to provide more interpretive analysis and value in our communications with institutional and individual investors. To this end, we have developed a new quarterly publication — *Real Estate Performance* — to provide NAREIT with its own voice for analyzing and interpreting industry developments and for communicating that analysis directly to the public, the media and the investment community.

In September's inaugural issue of *Real Estate Performance* we analyzed the investment performance of REIT stocks so far in 1999 and reviewed the historical sensitivity of REIT stock prices to changes in the level of interest rates. We also summarized recent earnings and dividend growth rates and looked at recent survey results that portray an overall healthy state for the real estate economy. We welcome your comments and suggestions for future issues. (Contact: Michael Grupe at mgrupe@nareit.com)

Welcome New Members: NAREIT extends greetings to two new corporate members: Anderson-Tully Company and Legacy REIT. Anderson-Tully, a private timber REIT based in Memphis, Tennessee, is headed by Charles R. (Chip) Dickenson, Jr. Legacy REIT is headquartered in Toronto, Ontario, Canada. Its President & COO is Neil Labatte. (Contact: Suzanne Karpick at skarpick@nareit.com)

Tech Talk: NAREIT has re-formed its Technology Committee to provide a forum for members to collaborate on emerging technologies and best practices within the REIT and publicly traded real estate industry. Sharing innovative solutions to information management and "technological" communication issues provides members with ideas that can achieve corporate objectives and meet Wall Street's expectations. The new Technology Committee is being co-chaired by Jack Kemph, Director of IT, Colonial Properties Trust, Michael Kranzdorf, VP & Director of Information Systems, Kranzco Realty Trust, and Scott Zimmerman, CIO, CenterPoint Properties Trust. To date, technology leaders from over 75 NAREIT corporate members have agreed to participate. The Committee will meet from 2:30 - 4 p.m. on Wednesday, October 27th, during NAREIT's Annual Convention. The meeting agenda includes a discussion of the NAREIT/KPMG Real Estate Information Technology Survey. For more information, contact Sheldon Groner, NAREIT's Vice President of Finance & Administration, at sgroner@nareit.com.

Tennessee Testimony: NAREIT continues to work with a coalition of REIT members and the Tennessee lobbyists we have retained to seek legislation that would repeal or reduce the impact of Tennessee's new taxes on REIT-owned limited liability entities. In late September, the NAREIT Coalition testified before a joint committee of the Tennessee legislature

that the enactment of the new taxes on limited liability entities was an example of the counter-productive patchwork of taxes that have had to be imposed to partly fund Tennessee's deficit. Dean Jernigan, CEO of Storage USA, Inc., described to the joint panel the negative impact these new taxes will have on a REIT's decision to invest in Tennessee properties. In addition, an economist commissioned by our coalition presented a study demonstrating the negative effect on property values (and the concomitant reduction in property tax receipts) as a result of the new taxes. If you have any questions or would like to offer any assistance with this effort, please contact REIT Counsel Dara Freedman at dfreedman@nareit.com.

Is Partially Completed Property Subject to Florida

Property Taxes? Pending before the Florida Supreme Court is Fuchs v. Robbins, in which a lower court declared unconstitutional a 37-year old law prohibiting the assessment for property tax purposes of property that was not "substantially completed." Because Florida's local property taxes typically are not less than 2% of the assessed value of the real property, the Florida Supreme Court's agreement with the lower court could mean a significantly increased property tax bill for those REITs with Florida properties still under construction. (Contact: Dara Freedman at dfreedman@nareit.com)

Real Estate Portfolio Media Kit Available: The 2000 Media Kit for *Real Estate Portfolio* is now available to firms interested in advertising in this dynamic publication. The bi-monthly magazine is read by an audience of over 10,000 key industry decisionmakers, including company executives, investors, analysts, bankers, attorneys, accountants, and building service providers. Advertising in *Real Estate Portfolio* offers an opportunity to expand your market presence in the publicly traded real estate investment community. To obtain your Media Kit, contact David Howard, NAREIT's Director of Marketing, at (202) 739-9444 (dhHoward@nareit.com).

Embracing Electronic Communications: Businesses and individuals increasingly are communicating electronically via the Internet. This revolution in communication offers a number of compelling advantages, including increased timeliness and reduced publishing costs. For benefit of our members, NAREIT is taking steps to supplement or replace with electronic documents, as appropriate, the printed documents it regularly distributes to members, the media, policymakers, investors and the public. Electronic documents usually take the form of WordTM, ExcelTM or Portable Document FormatTM (PDF) computer files and are transmitted electronically by attaching these files to e-mail messages. In the past few months, we have assembled lists of e-mail addresses from recipients of the monthly publication *REITWatch* and the

investment professionals to which we regularly send monthly performance reports for the NAREIT indexes. As noted above, Real Estate Performance also is distributed to members for whom we have e-mail addresses. With the exception of a few investment professionals who have requested NAREIT index performance via fax, all of these documents are distributed in electronic form only. If you would like to add your name to our growing list of e-mail recipients, please contact us at 1-800-3NAREIT, Extension 9457 or email_me@nareit.com.

Governance Guidelines: The Securities and Exchange Commission (SEC) has proposed new rules for corporate audit committees designed to improve the reliability and credibility of public companies' financial statements. The proposed rules would require review of quarterly statements (10-Q and 10-QSB) by independent auditors before filing with the SEC, as well as a report from the audit committee in proxy statements that discloses whether the committee has reviewed and discussed certain matters with management and the auditors. The proposals also would require the audit committee to disclose whether it has a written charter and to file an audit committee's charter every three years. Companies listed on the New York Stock Exchange, the American Stock Exchange, and the NASDAQ Stock Market would have to disclose information about any non-“independent” audit committee member, according to a definition of “independent” to be set by those exchanges. Companies not listed on those exchanges would have to disclose, if they have an audit committee, whether the members of the audit committee are “independent,” based upon the exchanges’ definition. For more information, or to volunteer for a task force that is considering commenting on this proposal, contact Anna Chason at achason@nareit.com.

Convention Roundtable Meetings: NAREIT has scheduled four sector roundtable meetings during the annual convention.

- Private REITs, Wednesday, October 27, 4 - 5pm, Maple Room
- Healthcare Companies, Thursday, October 28, 7 - 8 am, Redwood Room
- Lodging Companies, Thursday, October 28, 7 - 8 am, Encino Room
- C-Corporations, Friday, October 29, 7:30 - 8:30 am, Bel Air Room

Qualified corporate members are invited and should contact Suzanne Karpick, NAREIT's Director of Industry Relations, at skarpick@nareit.com for more details.