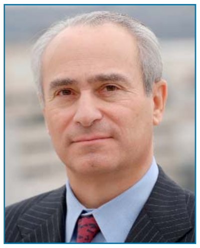
August 2008

NAREIT NewsBrief

National Association of Real Estate Investment Trusts®
REITs: Building Dividends and Diversification®

NAREIT NewsBrief

Message From The President



Read through this issue and you will find an alphabet soup of acronyms. Notably, each jumble of letters represents an initiative undertaken by NAREIT to improve the climate for real estate investment through REITs in the U.S. and around the world.

RIDEA: The REIT Investment Diversification and Empowerment Act is now the law of the land in the U.S., bringing with it six useful improvements to REIT tax law, permitting U.S. REITs to more effectively and efficiently manage their property investment portfolios.

OECD: Commentary adopted by the Organization for Economic Cooperation and Development to its Model Tax Treaty should make cross-border REIT investment friendlier around the world.

MTC: The new model Multistate Tax Commission state tax statute to end the abusive use of "captive REITs" does no harm to REITs organized for investment oriented purposes.

FASB and IASB: The Financial and International Accounting Standards Boards agree to separate their review of lessee accounting from lessor accounting, permitting lessors to maintain use of FAS 13 and IAS 17 for the present time.

CFTC: The Commodity Futures Trading Commission permits the offer and sale in the U.S. of real estate futures contracts based on the FTSE EPRA/NAREIT Global Real Estate Index.

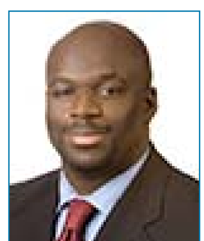
Acronyms are a useful way to express a series of words. They're also a useful way to signal a series of significant collective accomplishments.

In This Issue:

Market Snapshot: U.S. REITs saw a rebound in July, as the FTSE NAREIT All REIT Index climbed 4.06 percent for the month.

The positive gains, which bested the S&P 500, Dow Jones Industrials and NASDAQ Composite for the month, stood in stark contrast to the industry's 11.25 percent decline in June. Through July 31, the index was down 2.87 percent for the year, significantly outperforming the broader markets.

Dennis Mitchell, a portfolio manager with Sentry Select Capital Corp., characterized the performance of U.S. REITs in July as "treading water," attributing much of the industry's 2008 downturn to struggles in the financial sector and shorting activity by hedge funds.



Dennis Mitchell

Looking ahead, Mitchell said that the general market may be undervaluing REITs at present.

"We're in limbo right now, between fair values based on fundamentals and recent technical pricing troughs, and that makes it difficult to allocate capital," Mitchell said. "I would think that in the troughs of the industry's performance this year, we have clearly overshot in terms of where valuations belong based on fundamentals."

On the global front, the FTSE

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1875 I Street, NW, Suite 600, Washington, D.C. 20006-5413 • 202-739-9400, 800-3NAREIT • 202-739-9401 fax
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EPRA/NAREIT Global Real Estate Index inched up 0.82 percent in July, bolstered by a 2.39 percent return from its North American component. Overall for 2008, the global index is down 13.34 percent through July, while the North America Series was relatively flat. The Europe Series is down more than 13 percent for the year and the Asia Series has fared the worst of all, down more than 22 percent through July 31. (Contact: John Barwick at jbarwick@nareit.com)

Housing Bill Includes Important REIT Provisions: Major housing legislation signed into law by President George W. Bush on July 30 features long-awaited revisions to the rules governing REITs.

The bill—dubbed the "Housing and Economic Recovery Act of 2008"—incorporates provisions of the REIT Investment Diversification and Empowerment Act (RIDEA). NAREIT strongly supported the efforts of RIDEA's Congressional sponsors for the past three years. (CLICK HERE for NAREIT's National Policy Bulletin and CLICK HERE for the statutory language regarding REITs.)

The new law's REIT-related provisions:

- Reduce the holding period under the "dealer" sales safe harbor test from four years to two years
- Change the measurement of the 10 percent of sales permitted under the safe harbor test from current tax basis to either tax basis or fair market value (at the REIT's annual option)
- Increase the size ceiling for taxable REIT subsidiaries from 20 percent to 25 percent of assets
- Permit health care REITs to use taxable subsidiaries in the same manner as hotel REITs
- Exclude most real estate-related foreign currency gains from the computation of the REIT income tests
- Provide the Treasury Department with clear authority to rule on whether a variety of items are "good" REIT income

"NAREIT greatly appreciates the support of Congress and the Administration for modernizing the REIT rules. The new rules provide added flexibility for REITs to effectively and efficiently manage their property portfolios," said Tony Edwards, NAREIT's executive vice president and general counsel. (Contact: Tony Edwards at tedwards@nareit.com.)

MTC Adopts REIT Statute: The Multistate Tax Commission (MTC), the organization of U.S. state governments that develops model state tax state statutes, on July 31 approved a NAREIT-supported model that prevents the abusive use of REITs in a state tax context. CLICK HERE to view the statute.

Under the MTC's captive REIT statute, a "captive REIT" is a non-listed REIT more than 50 percent held by a taxable corporation (other than another widely held REIT, a qualified REIT subsidiary, or a foreign REIT-like entity, as defined). Listed Australian property trusts (LAPTs, now also called "Australian REITs") are specifically permitted to own more than 50 percent of a non-listed U.S. REIT without causing that REIT to be treated as a captive REIT.

For state tax purposes only, captive REITs must add back the dividends paid deduction (DPD). NAREIT worked cooperatively with the MTC on developing the new statute for more than two years and applauds the MTC's decision not to deny the DPD with respect to investment-focused REITs meant to receive the DPD. (Contact: Dara Bernstein at dbernstein@nareit.com.)

FASB/IASB Defer Lessor Accounting: At board meetings held in July, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) agreed to exclude lessor accounting from their Lease Accounting Project. Accordingly, lessors will continue to apply the guidance under FASB Statement No. 13, *Accounting for Leases* and IAS 17, *Leases*. FASB and IASB indicated that lessee accounting is a more pressing issue to address than lessor accounting. FASB and IASB also noted that enhancements to current lessee accounting are likely to have a greater positive impact on financial reporting, in part because there are more areas today which require improvement under lessee accounting. They also noted that lessor accounting issues are closely tied to other projects in progress, such as revenue recognition (which is how FASB and IASB may ultimately address lessor accounting).

Under the current timetable, a new standard on lessee accounting is expected to be issued in 2011. Notably, both FASB and IASB strongly urged staff members to consider the effects of any new lessee accounting standard on lessor accounting during the development of the new lessee model. A preliminary views document is planned to be released during the fourth quarter of 2008. (Contact: Sally Glenn at sglenn@nareit.com)

CFTC Approves Futures Real Estate Contracts:


Mike Grupe

On July 14, the Commodity Futures Trading Commission's (CFTC) Office of General Counsel announced its approval of the offer and sale of Euronext Paris' futures contracts in the U.S., based on series within the FTSE EPRA/NAREIT Global Real Estate Index.

"The CFTC's decision permitting the offer and sale of these real estate futures contracts is another meaningful step in the full development of the

At Work With NAREIT

Name: Shalonda King
Title: Investor Outreach Coordinator
Contact: sking@nareit.com

Experience:
Shalonda joined NAREIT in 2002. A 1998 graduate of Colgate University, Shalonda previously worked as a real estate paralegal for The Conservation Fund in Arlington, VA and Morgan, Lewis & Bockius LLP in Washington, D.C.

Role at NAREIT:
Shalonda's primary role is to coordinate and administer various programs and initiatives related to NAREIT's investor outreach program and to provide support to NAREIT's Research and Investor Outreach department as needed.

Major project(s) in the past year:
"By far, the most exciting project this past year was assisting with the coordination of NAREIT's REITDay events in London and Frankfurt. It was a great introduction to the intricacies of event planning, and it afforded me the opportunity to take a more direct role in NAREIT's international outreach activities."

What is on the horizon for the remainder of 2008?
"After concluding this year's budget re-forecast process, I look forward to turning my attention to streamlining the process for ordering NAREIT publications and tweaking our current methods of tracking publication inventory levels internally and at our fulfillment house."

market for publicly traded real estate securities and risk management products," says Mike Grupe, NAREIT's executive vice president, research and investor outreach.

The FTSE EPRA/NAREIT Europe Index and the FTSE EPRA/NAREIT Euro Zone Index are composed of real estate securities that are listed and traded in Europe. They are broad-based, free-float-market-capitalization-weighted, total-return security indexes. According to Euronext Paris, the total adjusted market capitalization of the FTSE EPRA/NAREIT Euro Zone Index is approximately $82 billion, while the FTSE EPRA/NAREIT Europe Index is approximately $179 billion.

"These new contracts provide investors with more effective and transparent tools for efficiently managing the risks of their European real estate investments," Grupe says. (Contact: Michael Grupe at mgrupe@nareit.com)

OECD Approves Long-Awaited REIT Provisions: The Organization for Economic Cooperation and Development (OECD) on July 18 approved the latest round of updates to its Model Tax Convention (MTC), which includes measures governing taxation of cross-border REIT investment.

Jeffrey Owens, director of the OECD Center for Tax Policy and Administration, said the growing popularity of securitized real estate investment had spurred the organization's interest in putting a finer point on its proposed REIT tax regulations.

"The use of real estate investment trusts has significantly expanded worldwide and more and more countries are introducing rules to facilitate the use of these vehicles," Owens wrote in a report on the new measures.

The MTC is intended to serve as a blueprint to create comity among international tax treaties. NAREIT and its foreign partners in the Real Estate Equity Securitization Alliance (REESA) worked collaboratively with the OECD to modify


Tony Edwards

the convention's REIT-related provisions over the past two years.

The approved revisions to the MTC's REIT provisions contain no major differences from the proposals circulated by the OECD beginning in October 2007. The model indicates that REIT dividends to portfolio investors based in other countries should be taxed at a lower rate, usually 15 percent. The OECD also examined on a preliminary basis investments by foreign REITs in a host nation, as well as a foreign REIT's investment in a domestic REIT; but the commentary on the new model tax treaty does not reach conclusions on those issues.

"NAREIT greatly appreciated the OECD's cooperative spirit in designing rules that remove barriers to cross-border REIT investments. The OECD's acknowledgment of REITs around the world confirms the status of income-producing real estate as one of the four major asset classes necessary for investors to achieve true diversification in their portfolios," said Tony Edwards, NAREIT's executive vice president and general counsel.

In addition to NAREIT, REESA's membership consists of the Asian Public Real Estate Association (APREA); Japan's Association of Real Estate Securitization (ARES); the British Property Federation (BPF); the European Public Real Estate Association (EPRA); the Property Council of Australia (PCA); and the Real Property Association of Canada (REALpac). (Contact: Tony Edwards at tedwards@nareit.com)

Marketing Plan: NAREIT strengthened its marketing capabilities with the recent addition of Jeff Henriksen as vice president, marketing. Henriksen comes to NAREIT with an extensive marketing and communications background. Over the past eight years, he has served as head of marketing and communications at Cogent Communications. Previously, he served in several senior marketing roles, including five years as vice president of marketing for The British Standards Institution.

Jeff Henriksen

"Jeff is a welcome addition to NAREIT, and rounds out what we believe is a terrific senior management team. As NAREIT has extended and expanded its reach in recent years, more and more marketing opportunities have come about; creating the need for a seasoned marketing professional," NAREIT Executive Vice President, Finance & Operations Sheldon Groner said. "Jeff's hands-on marketing experience will undoubtedly help take us to the next level; both in terms of executing our day-to-day project marketing activities, and also in terms of leading us through a variety of strategic marketing initiatives."

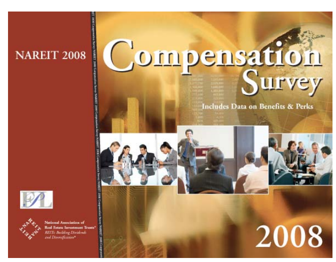
Henriksen earned his B.A. in rhetoric and communication studies from the University of Virginia. (Contact: Jeff Henriksen at jhenriksen@nareit.com)

SEC Proposes New Eligibility Requirements For OPs. In July, the SEC proposed to restrict the transaction eligibility criteria for registering primary offerings of non-convertible debt securities on Form S-3 to issuers who have issued more than $1 billion in non-convertible securities (other than common equity) for cash (i.e., not in exchange transactions) over the past three years. Under the proposed amendments, operating partnerships (OPs) of REITs that do not meet the new $1 billion criteria would no longer qualify to issue debt securities "off the shelf."

Many OPs that meet the current Form S-3 eligibility requirements are able to conduct primary offerings "off the shelf" under specific Securities Act rules. Form S-3 permits issuers that are eligible to use Form S-3 for these primary "shelf" offerings to register securities offerings in advance of any specific offering and, once the registration statement is effective, offer securities rapidly in one or more tranches without waiting for further SEC action.

Form S-3 criteria previously allowed issuers to register non-convertible debt securities that had been rated "investment grade" by a nationally recognized statistical rating organization (NRSRO). In July, the SEC released a series of proposed rules relating to the use of security ratings by NRSROs to steer away from regulatory reliance on security ratings. The SEC is accepting comments on the proposed rule until Sept. 5, 2008. To access the rule, CLICK HERE. (Contact: Sally Glenn at sglenn@nareit.com)

Comp Time: With participation from more than 100 REITs and real estate companies, the 2008 NAREIT Real Estate Compensation Survey provides the most comprehensive summary of annual compensation data to date. Within the 2008 survey, you will find data covering 84 employment positions including executive management, capital markets, development, marketing, property management, transactions and more.



New to the 2008 NAREIT Real Estate Compensation Survey is specific information on benefits programs including insurance, 401(k), stock purchases and other benefit programs. The 2008 NAREIT Compensation Survey includes information with respect to compensation and structure for boards of directors as well as employment agreement practices.

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NAREIT's Compensation Survey has been produced for more than 15 years and remains the most comprehensive and in-depth compensation survey in the real estate investment industry. For more information, Click Here. The survey is priced at $2,000 for NAREIT corporate members, $3,000 for NAREIT associate members and $6,000 for non-NAREIT members. Participating companies receive a free copy. (Contact: Shalonda King at sking@nareit.com)

NAREIT Welcomes The Following New Corporate Members

MCR Development LLC
Private
New York
CEO Tyler Morse

Focus: MCR is a private, internally managed equity REIT that develops and operates hotels.

Societe de la Tour Eiffel
Euronext Paris: EIFF
Paris, France
Chairman Mark Inch and Managing Director Robert Waterland

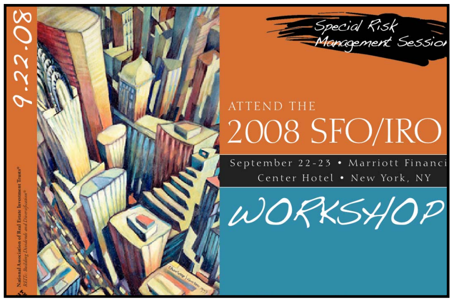
Focus: Societe de la Tour Eiffel is the first French SIIC (REIT) to join NAREIT. From 1889 until 1979, the Societe managed the Eiffel Tower until losing the management concession to the Paris Town Authorities. Since then, the Paris-based, internally managed, public equity SIIC has grown to include offices and business parks in Paris and several regions throughout France, warehouses and light industrial throughout France, and nursing homes leased to a long-term operator in Southern France.

NAREIT Comments On SEC XBRL Proposal: NAREIT recently submitted a comment letter to the SEC on its proposed rule, *Interactive Data to Improve Financial Reporting*. The proposal would mandate the adoption of XBRL beginning with fiscal periods ending on or after Dec. 15, 2008, based on a three-year, phase-in schedule. The XBRL financial information would include the financial statements, notes and financial statement schedules and would be filed as a new exhibit to annual and quarterly reports, as well as registration statements. For more information on the proposal, CLICK HERE.

In the letter, NAREIT primarily recommended that the SEC implement XBRL financial information beginning with an interim period using a quarterly filing, provide a permanent grace period to issue XBRL financial information after the original financial statements are filed and postpone the most detailed level of footnote tagging requirements until further analysis is performed. To read the letter, CLICK HERE. (Contact: Sally Glenn at sglenn@nareit.com)

Shining Bright: NAREIT, in collaboration with the EPA's ENERGY STAR Program, will once again honor its member companies that exhibit superior sustainability practices in their use of energy. The NAREIT Leader in the Light award recognizes companywide operations which generate substantially improved energy efficiency and expense management. All NAREIT members are encouraged to apply for a 2008 Leader in the Light award. To be considered, an organization must complete an online application by Tuesday, Sept. 30, 2008. Winners will be recognized at the NAREIT Annual Convention, Nov. 19-21, in San Diego. CLICK HERE to view the online application. (Contact: Kristin Bahny at kbahny@nareit.com)

Don't Risk Missing SFO/IRO Workshop: Be sure to clear your calendar for the 2008 NAREIT Senior Financial Officer/Investor Relations Officer Workshop September 22-23 at the New York Marriott Financial Center. Session topics include: potential impact of the federal election on economic policy; challenges faced in the debt/credit markets; financial reporting hot topics; building a winning IR Web site; bringing XBRL alive; leveraging competitive intelligence; attracting international shareholders; and more.



All NAREIT corporate members involved in Risk Management are also invited to attend a special Risk Management Session on Sept. 22 that will include five unique presentations. These presentations will focus on topics ranging from Self Insurance and Captive Structures to Enterprise Risk Management. You must register for this session separately, but there is no fee to attend.

Plan to attend this "invitation-only" conference open to senior officers in the fields of capital markets, financial reporting, investor relations and risk management at NAREIT corporate member companies. (Contact: KC Ellis at kellis@nareit.com)

Oh Snap: NAREIT's *Real Estate Portfolio* magazine won a silver award at the Society of National Association Publishers' 2008 EXCEL Awards, which salute the best in association publishing. *Portfolio* was recognized in the category of Magazine Feature Design for its "Buy Back or Payout?" feature in the November/December 2007 issue. This is the third-consecutive year *Portfolio* has been recognized by SNAP. (Contact: Erin Corcoran at ecorcoran@nareit.com)

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