

# REITWay

## NAREIT's Annual Report

March 2010

REIT  
NAREIT  
NAREIT  
REIT

### To Our Members

The past year will be remembered as one in which our industry clearly demonstrated the superiority of the REIT approach to real estate investment. From lows on March 6, 2009, REIT returns surged more than 100 percent through the end of the year. At year end, the FTSE NAREIT Equity REIT Index finished up 28.0 percent and the FTSE NAREIT All REITs Index finished up 27.5 percent.



This dramatic recovery rode a wave of almost \$38 billion in fresh capital raised in public markets, including more than \$23 billion in secondary equity offerings – an amount that eclipsed the nearly \$20 billion raised in the prior record year of 1997.

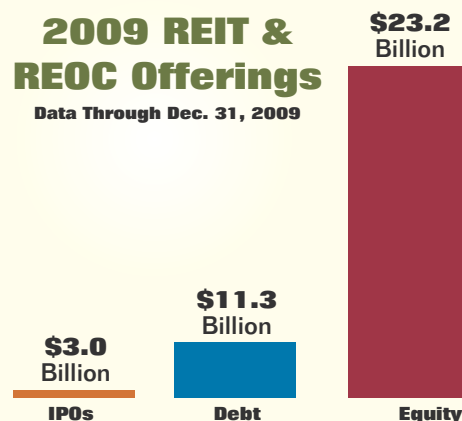
While the performance of equities in 2009 was admirable, of greater importance for long-term REIT investors is performance over the long haul. Investors who put their money into the FTSE NAREIT Equity REIT Index 10 years ago realized a 10.63 percent average annual total return through 2009, far outpacing the returns of all other major equity benchmarks. REIT returns also outpaced other major equity benchmarks over the last 20- and 30-year periods.

Take a closer look at REITWay to see what NAREIT has been and is doing in your behalf to ensure that the REIT approach to real estate investment is best preserved, increasingly perfected and fully promoted.

All the best,  
Steven A. Wechsler  
President and CEO

### 2009 REIT & REOC Offerings

Data Through Dec. 31, 2009

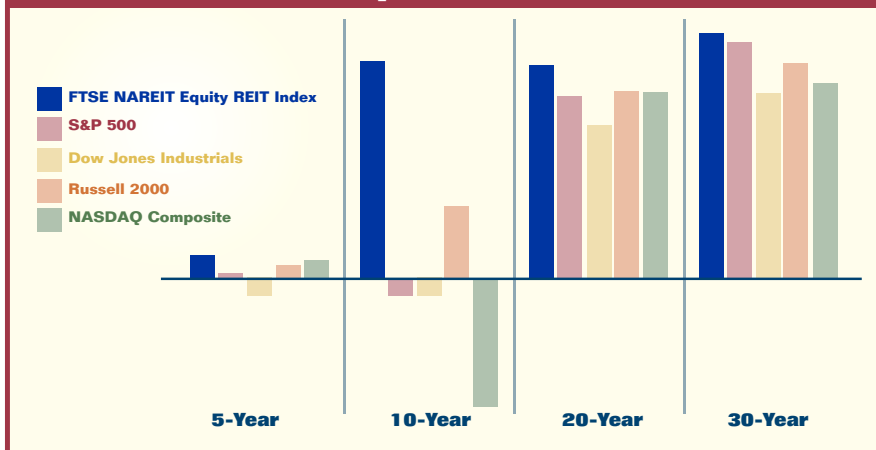


### FTSE NAREIT All REIT Index

Total Return Index Level  
Dec. 31, 2008 - Feb. 28, 2010



### Historical Compound Annual Returns



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# Investor Outreach:

## Building and Branding the REIT Investment Proposition

**N**AREIT's message to institutional and individual investors was tailored appropriately but aggressively to market circumstances throughout 2009, focusing first on REITs' demonstrated ability to recapitalize through public debt and equity markets, and then shifting its focus to the enduring, **long-term benefits** of investing in REITs. NAREIT's investor outreach program takes this message to **pension plans, endowments, defined contribution plan providers and sponsors, investment consultants, investment managers and index providers** that control or influence the bulk of U.S. and foreign investment, in addition to **registered investment advisors, financial planners and retail investors**.

One notable area in which NAREIT has focused substantial effort is the \$4 trillion defined contribution market. Within the next 10 years some industry experts expect the vast majority of these assets will be invested in **asset-allocation products** such as target-date funds. NAREIT works collaboratively with organizations that design, develop and market target-date funds,

providing such organizations with data, research analyses and qualitative resources that advocate and support the inclusion of REITs in these critical investment products. In recent years, we have seen a **significant increase** in both the number of asset-allocation products that include a REIT allocation and the percent of total assets invested in such products allocated to REITs.



Michael Grupe, EVP,  
Research & Investor  
Outreach, NAREIT

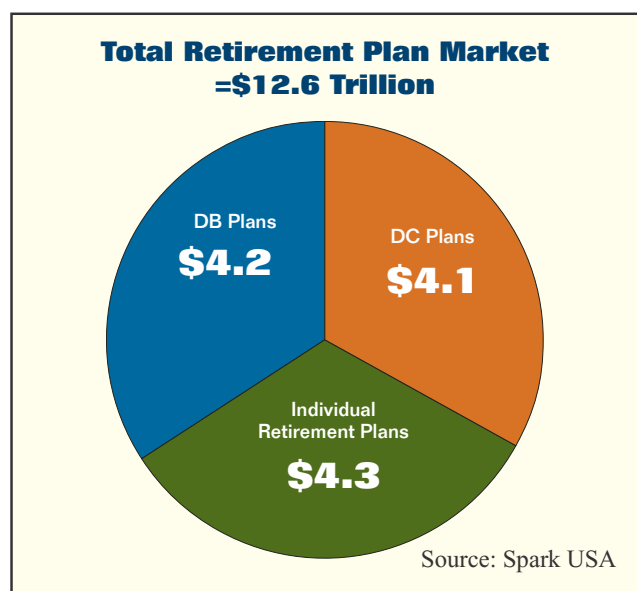
This is borne out by industry data such as the recent survey conducted by Callan Associates revealing that **73 percent of 33 distinct target-date fund series include a real estate allocation**. In a vast majority of cases, this real estate allocation is accomplished through an investment in REITs.

### Notable Investor Outreach Initiatives include:

NAREIT conducted nearly **160 meetings** in 2009 with a number of the largest and most influential organizations within the **institutional investor marketplace**, collectively representing more than **\$24 trillion in assets** under management.

NAREIT conducted briefings with **44** public and corporate **pension plans and endowments** representing close to **\$1 trillion of assets**, including many of the largest in the U.S.

NAREIT made the **investment consultant community** a priority and secured **43 meetings** with firms representing close to **\$10 trillion in assets** under advisement, including the five largest firms.



# Investor Outreach:

## Building and Branding the REIT Investment Proposition

Through **63 meetings**, NAREIT built relationships with **investment managers and plan providers** with more than **\$13 trillion in assets** under management, influential in both the defined benefit and defined contribution markets.

NAREIT conducted several new **analyses** in response to investor concerns about increased REIT return volatility and increased return correlations between REITs and stocks. Two different studies showed that **volatility** surged in the fall of 2008 but has already **largely subsided**--the same pattern as in previous market crises. In addition, NAREIT analyzed separately income-only returns and capital appreciation for equity REITs and private real estate funds and found that **REIT income returns are 40 percent higher** than core property income returns with essentially the same volatility. At the same time, **REIT capital appreciation is more than three times as high** as core property capital appreciation.

NAREIT shifted the focus of **REIT.com** to a more informative, timely and appealing news format resulting in increased site traffic. In January 2010, REIT.com received more than **127,000 total site visits**, nearly four times the 34,000 total site visits during the same period in 2009. Total site visits during January 2010 were delivered by more than **97,000 unique visitors**, more than 335 percent above the 22,000 unique visitors during the same period last year. Part of what has driven traffic to the site is the emphasis on compelling video interviews. In 2009, NAREIT produced **105 video interviews** with REIT CEOs and industry professionals.

NAREIT launched a new bi-monthly flagship magazine, **REIT: Real Estate Investment Today** in January 2010. *REIT* takes the place of NAREIT's award-winning *Real Estate Portfolio* magazine. The new publication's name reflects the integration of its editorial content with REIT.com.



# Policy & Politics:

## Working with Policymakers to Preserve, Perfect and Promote the REIT Approach to Real Estate Investment.

**N**AREIT's Policy & Politics team is always focused on **legislative and regulatory issues** related to the REIT approach to real estate investment. Given the economic turbulence around the globe, NAREIT has focused intensely for the past two years on addressing the glaring need for traction and certainty in the capital markets. To that end, a number of regulatory and legislative measures that have helped REITs **finance their core businesses** and **conserve capital** have been put into effect.

For example, NAREIT worked with key policymakers—including the Obama Administration, the Federal Reserve, the House Financial Services Committee and the Senate Banking Committee—to ensure that the federal government's major financial revitalization programs, such as the **Term Asset-Backed Securities Loan Facility (TALF)** and **Public-Private Investment Program (PPIP)**, were extended to the commercial real estate industry. Likewise, NAREIT's ongoing dialogues with the **Treasury Department** and **IRS** helped inform the decision that **dividends paid partially in stock** by REITs qualified for the dividends paid deduction.

As the debate in Washington during the second half of 2009 shifted from the stability of financial markets to their **regulation**, the P&P agenda focus has evolved accordingly. The team is now working with the same policymakers and regulators to ensure that the creation of new systems of governance properly account for the vital role REITs play in the **global economy**.

### FIRPTA

In this regard, NAREIT's Policy & Politics team pressed and continue to press policymakers to revise the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA). In

January, Rep. Joseph Crowley (D-NY) introduced H.R. 4539, the **Real Estate Revitalization Act of 2010 (RERA)**. This legislation would remove several inappropriate tax barriers to **foreign investment in U.S. real estate**. In

addition to reducing the current tax bias in favor of debt financing, it would assist U.S. real property owners in accessing equity capital from around the world to recapitalize and re-equitize America's real estate.

NAREIT also worked with the Treasury Department to seek the reversal of a 2007 IRS notice that had the effect of freezing investment in U.S. real estate by many **sovereign wealth funds** through a private REIT. NAREIT also submitted comments to the government regarding how FIRPTA should be applied to **infrastructure investments**.

### Tax Legislation

NAREIT expressed its concern to the Treasury Department in December over a 2009 White House proposal to alter the tax treatment of many foreign businesses that are owned by U.S. companies by undoing the application of the Clinton Administration **"check-the-box"** regulations as they apply to wholly owned foreign corporate subsidiaries. The Obama Administration opted against including the proposal in its Fiscal Year 2011 budget.

### Financial Standards

In December, the Financial Accounting Standards Board



Tony Edwards, EVP & General Counsel, NAREIT



# Policy & Politics:

## Working with Policymakers to Preserve, Perfect and Promote the REIT Approach to Real Estate Investment.

and International Accounting Standards Board agreed upon a **discontinued operation definition** that mirrored what NAREIT and its global partners of the Real Estate Equity Securitization Alliance (REESA) had suggested. The definition will benefit companies that are now required to regularly restate their financial statements as a result of the sale of individual investment properties.

The FASB is currently working on a proposal for the potential adoption of a standard that would provide a choice to **report investment property at cost or fair value** under U.S. generally accepted accounting principles to be consistent with the current rule under international accounting standards. Under this proposal, only **lessors** of investment property reporting under the cost method (*i.e.*, not using the fair value method) would be required to report a receivable for the right to receive lease payments and a performance obligation for providing lessees with the right to use space. Additionally, the **new lease accounting** would require lessors using the cost method to recognize interest income in the income statement, which would preclude rental payments from being recognized in their entirety as rental income.

### Grassroots Political Program

NAREIT's grassroots political program had its most active year ever in 2009. NAREIT staff organized **11 grassroots events** for the year. Since the beginning of 2010, two more events have already been held, while another is scheduled for April. A number of other events are close to being finalized for this year.



Congressman Bob Etheridge (D-NC) (center) visited Highwoods Properties' RBC Plaza in Raleigh, NC, in January. Also pictured are Edward Fritsch, Highwoods president and CEO (left), and Thomas "Skip" Hill, vice president, Raleigh Division.

### Financial Regulatory Reform

As financial regulatory reform moves forward on Capitol Hill, NAREIT will continue to be an active participant regarding proposals related to the use of **over-the-counter financial derivatives** products. NAREIT and its partners in the **Coalition of**

**Derivatives End-Users**, which NAREIT helped to form, have urged members of Congress to oppose amendments that would undermine the ability of businesses to use derivatives to manage risk. In December 2009, the House of Representatives approved the Wall Street Reform and Consumer Protection Act of 2009 (H.R. 4173), which included an amendment by Rep. Scott Murphy (D-NY) that would focus the most onerous requirements only on those entities with derivatives positions that are so large as to significantly impact the financial system.

### Energy Legislation

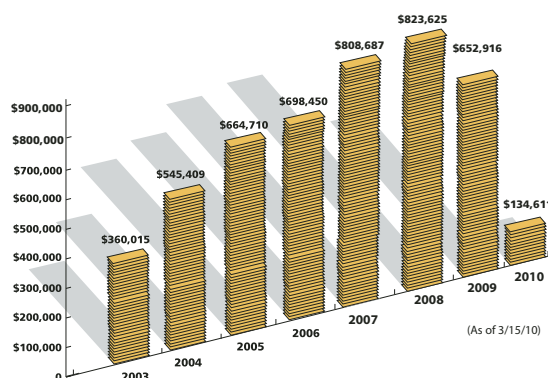
NAREIT and a coalition of real estate industry groups are endorsing the **"Sustainable Property Grants Act of 2009"** and the **"Renewable Energy Expansion Act of 2010."** The bills H.R. 4256 and H.R. 4599 would make REITs fully eligible for grants to **encourage energy efficiency** in commercial buildings.

NAREIT also is working with policymakers to change bills intended to provide incentives for investments **making buildings highly energy efficient** so that REITs can utilize such incentives.

### REITPAC

As of Dec. 31, 2009, REITPAC, NAREIT's political action committee, raised **\$653,000**, representing approximately 87 percent of the fundraising goal for the year. As part of our efforts to expand the donor base in 2009 executives from **33** board of governor companies, **22** non-board companies and **16** individual members contributed to REITPAC.

### REITPAC Historical Receipts



# Finance & Operations:

## Rapid Response Leads to Positive Outcome

**F**aced with the **difficult economic environment** and uncertain market conditions of 2009, NAREIT aggressively managed expenses and revisited its original 2009 budget throughout the year as conditions evolved. As the outlook improved near the end of the year, NAREIT's diligence was rewarded.

By **reducing expenses 22 percent** below 2008 to offset a less than expected 9 percent decline in revenue from 2008, NAREIT's expected breakeven scenario into a **net surplus** of more than \$2 million.

For 2010, NAREIT's budget is based on the organization operating a net surplus of just over \$100,000, based on revenues of \$15.4 million and expenses of \$15.3 million.

### NAREIT/NAREIT Foundation Consolidated Statements of Activities

	2009 Audited	2010 Budget
<b>Revenues</b>		
Membership Dues	\$9,856,000	\$8,800,000
Conferences	\$3,337,000	\$3,588,000
Index Royalties,	\$3,067,000	\$3,057,000
Advertising & Other Revenues		
<b>Total Revenues</b>	<b>\$16,260,000</b>	<b>\$15,445,000</b>
<b>Expenses</b>		
Policy & Politics	\$4,408,000	\$4,580,000
Investor Outreach	\$4,349,000	\$4,793,000
Finance & Operations	\$5,426,000	\$5,923,000
<b>Total Expenses</b>	<b>\$14,183,000</b>	<b>\$15,296,000</b>
<b>Subtotal</b>	<b>\$2,077,000</b>	<b>\$149,000</b>

### Optimism Returns at REITWorld 2009:

Cautious optimism was the pervasive tone during REITWorld™ 2009:

NAREIT's Annual Convention in November

in Phoenix. The event, **attended by 1,000**

REIT executives, investors and industry professionals, showcased how far the industry had come in the past year and explored how much opportunity remained for growth.

During REITWorld sessions, REIT CEOs, economists and analysts shared perspectives on the state of the economy and the health of the commercial real



(Left to right) Roy March of Eastdil Secured and Hamid Moghadam of AMB Property at REITWorld 2009



estate marketplace. In addition, panelists looked at the roots of the credit crisis; shared their views on what will be required to jump-start the stalled CMBS market; and explored opportunities that dysfunction in the asset-backed securities markets may hold for investors. Panelists also discussed **re-equitization** of the REIT industry and **opportunities** that may develop for companies with recapitalized and strengthened balance sheets.



Sheldon Groner,  
EVP, Finance & Operations

# Award Winners:

## Recognizing Member Excellence

Each year, NAREIT recognizes the achievements and contributions of its members and noted industry professionals. Recent award recipients were:



ProLogis CEO Walter Rakowich and NAREIT President and CEO Steven A. Wechsler

### REITPAC Awards

For the fourth consecutive year, **ProLogis** was presented with the REITPAC Leadership Award and the REITPAC Teamwork Award during NAREIT's 2010 Washington Leadership Forum. ProLogis was recognized both for contributing the most funds to REITPAC and for providing funds from the largest number of individuals to REITPAC during 2009.

### Industry Leadership and Achievement Awards

At REITWorld™ 2009, NAREIT honored **Macerich** Chairman and CEO Arthur Coppola and Tom Robinson, senior advisor at Stifel, Nicolaus, for their service to the REIT industry.



Arthur Coppola



Tom Robinson

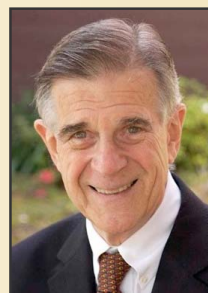
Coppola received the NAREIT Industry Leadership Award, which is presented annually to a REIT executive who has made significant and lasting contributions to the growth and betterment of the REIT industry.

Robinson received the NAREIT Achievement Award, which is presented annually to an industry professional whose acumen and integrity have helped build awareness and understanding for the value of REITs and publicly traded real estate.

Both awards are presented in memory of past NAREIT Chair E. Lawrence Miller. [CLICK HERE](#) for more on the award recipients.

### Small Investor Empowerment Award

NAREIT presented its 2009 Small Investor Empowerment Award to Rep. Joseph Crowley (D-N.Y.), while the 2010 award recipient was Rep. Pete Stark (D-CA). The Small Investor Empowerment



Rep. Pete Stark



Rep. Joseph Crowley

Award was established on behalf of those people who invest in, are employed by, or derive other benefits from REITs and publicly traded real estate companies. The award recognizes public servants who have demonstrated exceptional commitment to the ideals of free enterprise, economic growth, personal freedom and unlimited opportunity for all Americans. [CLICK](#) the images above for more on each award recipient.

### Investor CARE Awards

NAREIT announced the winners of its Investor CARE Awards for Investor Communications and Reporting Excellence during REITWeek® 2009.

Management Discussion & Analysis winners were: **Federal Realty Investment Trust** (Gold); **Land Securities Group PLC** (Silver-tied); **Parkway Properties, Inc.** (Silver-tied); and **AvalonBay Communities, Inc.** (Bronze).

Presentation & Design winners were: **Land Securities Group PLC** (Gold); **Brookfield Properties Corporation** (Silver); and **Boardwalk REIT** (Bronze).

Web Site winners were: **AvalonBay Communities, Inc.** (Gold); **Entertainment Properties Trust** (Silver); and **Post Properties, Inc.** (Bronze).

### Leader in the Light Awards

NAREIT, in collaboration with ENERGY STAR, honored several of its member companies for demonstrating superior and sustainable energy-use practices with its annual Leader in the Light Awards. Earning this year's Gold Award was **Thomas Properties Group**. The Silver Award was shared by **HCP, Inc.**, **Vornado Realty Trust**, and **Wells Real Estate Funds**. The Bronze Award was a tie between **Hines REIT, Inc.** and **Simon Property Group**. Honorable Mention was given to **AMB Property Corp.**, Macerich, and **ProLogis**.



(left to right) Thomas Properties Group Chairman, President and CEO James Thomas and Chief Financial Officer Diana Laing.



## **NAREIT Officers**

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*Ventas, Inc.*

**Bryce Blair**, First Vice Chair  
*AvalonBay Communities, Inc.*

**Donald C. Wood**, Second Vice Chair  
*Federal Realty Investment Trust*

**W. Edward Walter**, Treasurer  
*Host Hotels & Resorts, Inc.*

## **NAREIT Executive Committee**

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*Brookfield Properties Corporation*

**Michael D. Fascitelli**  
*Vornado Realty Trust*

**William P. Hankowsky**  
*Liberty Property Trust*

**Ronald L. Havner, Jr.**  
*Public Storage, Inc.*

**Peter S. Lowy**  
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*Equity Residential*

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*BRE Properties, Inc.*

**Martin E. Stein, Jr.**  
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**Jay Sugarman**  
*iStar Financial Inc.*

**Walter C. Rakowich**  
*ProLogis*

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**NAREIT's Investor Forum**  
**Hilton Chicago, Chicago, IL**

**June 9-11, 2010**

**CLICK HERE to**  
**Request an Invitation**  
**at REIT.com**

**CHICAGO**

