

by NAREIT

The Investor's Guide to REITs

NAREIT's Guide to the Real Estate Investment Trust Industry

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National Association of Real Estate Investment Trusts[®]

REITs: Building Dividends and Diversification[®]

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REIT Basics

Real estate investment trusts (REITs) are companies that own and most often actively manage income-producing commercial real estate. Some REITs make or invest in loans and other obligations that are secured by real estate collateral. The shares of most large REITs are publicly traded.

The U.S. Congress created the legislative framework for REITs in 1960 to enable the investing public to benefit from investments in large-scale, commercial real estate enterprises.

Commercial real estate equity investment through REITs has much to offer institutional and retail investors. REIT stocks provide superior dividend income along with the potential for long-term capital gains through share price appreciation, and can also serve as a powerful tool for portfolio diversification.

Research by Ibbotson Associates, an investment research unit of Morningstar, Inc., demonstrates the multi-faceted benefits of investing in REITs:

- The ownership of REIT shares over time has historically increased investors' total return and/or lowered the overall risk in both equity and fixed-income portfolios over time.
- Dividend growth rates for REIT shares have outpaced inflation over the last decade.

Investors can choose to benefit from the opportunities in the REIT market by purchasing the stocks of individual REITs or investing in REIT mutual funds or ETFs. Actively managed mutual funds are run by portfolio managers with a high degree of expertise in the real estate industry.

REITs in the S&P Indexes

The inclusion of REITs in 2001 in the Standard & Poor's Indexes, the most widely followed investment performance benchmarks for the U.S. equity markets, underscored the importance of REITs in public capital markets and acknowledged the integral role they play in the economy and in diversified investment portfolios.

The ongoing success of the REIT model is a reflection of many things, from its income generating and growth potential, to the proven portfolio diversification benefits of owning REIT shares; and from the benefits of active and professional management of real estate properties, to the transparency and management accountability that are essential components of REIT corporate governance.

Please note: All data are derived from, and apply only to, publicly traded securities.

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Fundamentals of REITs

Publicly traded REITs are vital companies that offer investors the benefits of commercial real estate investment along with the advantages of investing in a publicly traded stock.

Liquidity

Investors can purchase or sell shares in REITs as easily as they purchase or sell shares in any other publicly traded company. REIT shares are traded on all of the major stock exchanges in the U.S., including the New York Stock Exchange (NYSE), Nasdaq, American Stock Exchange (AMEX), as well as various after-hours markets.

Shareholder Value

Just like investors in other public companies, REIT shareholders can receive value in the form of both dividend income and share value appreciation.

Active Management/Corporate Governance

Publicly traded REITs generally are actively and professionally managed corporations. They adhere to the same corporate governance principles that apply to all major public companies.

They have a senior management team that is headed by a chief executive officer (CEO) who actively manages the overall strategic vision and equity of the enterprise. The board of directors appoints the CEO, which in turn is elected by and accountable to the shareholders of the REIT.

Disclosure Obligation

Publicly traded REITs, like other public companies in the U.S., are required to make regular financial disclosures to the investment community, including quarterly and yearly audited financial results with concomitant filings with the Securities and Exchange Commission.

No Shareholder Liability

As is the case with equity investments in other publicly traded companies, shareholders have no personal liability for the debts of the REITs in which they invest.

Low Leverage

Like most other publicly traded companies, REITs tend to use moderate levels of debt in their capital structures. In fact, the average REIT debt ratio has been below 55 percent for much of the last decade.

Investors can purchase shares in REITs as easily as they purchase shares in any other publicly traded company. REIT shares are traded on all major stock exchanges.

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Returns Delivered by REITs

REITs Deliver Income & Long-term Growth

The special investment characteristics of income-producing real estate provide REIT investors with competitive long-term rates of return that complement the returns from other stocks and from bonds.

High Dividend Yield

REITs are required to distribute at least 90 percent of their taxable income to shareholders annually in the form of dividends. Significantly higher on average than other equities, the industry's dividend yields historically have produced a steady stream of income through a variety of market conditions.

Share Price Appreciation

Approximately one-third of the total return from REIT stocks since 1972 came from moderate, long-term growth in share prices.

Characteristics of REIT Investment

In addition to the investment performance and portfolio diversification benefits available from investing in REITs, REITs offer several advantages not found in companies across other industries. These benefits are part of the reason that REITs have become increasingly popular with investors over the past two decades:

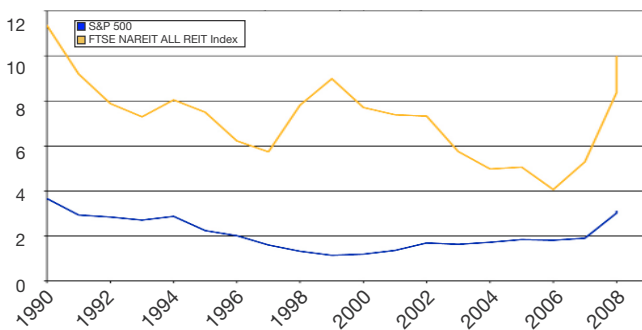
Predictable Revenue Stream

REITs' reliable income is derived from rents paid to the owners of commercial properties whose tenants often sign leases for long periods of time, or from interest payments from the financing of those properties.

Earnings Transparency

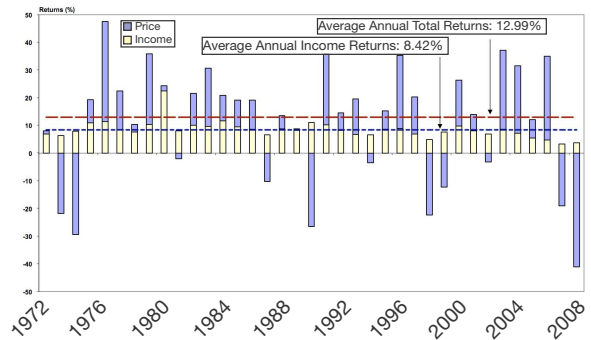
Most REITs operate along a straightforward and easily understandable business model: By increasing property occupancy rates and rents over time, higher levels of income may be produced. When reporting financial results, REITs, like other public companies, must report earnings per share based on net income as defined by generally accepted accounting principles (GAAP).

Dividend Yields:
FTSE NAREIT All REIT Index vs. S&P 500
(Year-end dividend yields, 1990-2008)



Source: NAREIT® and Standard and Poor's.

FTSE NAREIT Equity Return Components
(Percent change, as of December 31, 2008)



Source: NAREIT®

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Another way year-to-year financial progress can be gauged is by comparing levels of Funds From Operations (FFO). FFO, the industry's supplemental performance measure, differs mainly from net income by excluding depreciation and amortization of real estate assets and gains and losses from most property sales.

Given the broad range of real estate property sectors and business lines, there also are a number of additional earnings metrics, which are used by REITs in order to provide investors with a greater level of insight into their performance.

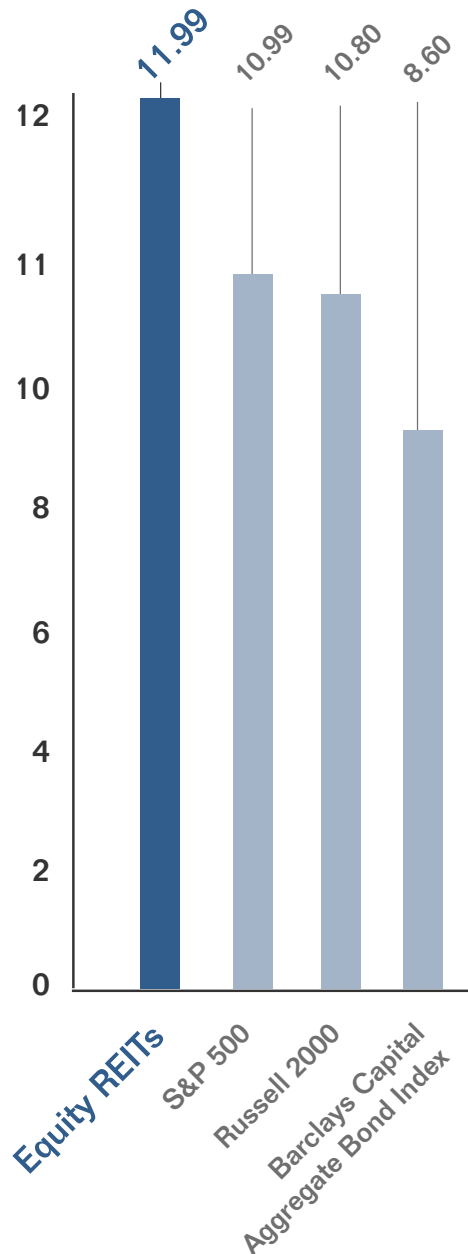
Total Return

The combination of income returns from dividends and capital gains from share price appreciation can result in healthy overall returns for REIT investors. Analysis by Ibbotson Associates demonstrates that the combination of dividends and share price appreciation has made REIT returns competitive with other major investments, including a broad range of large-cap stocks, small-cap stocks and fixed-income securities.

In short, REITs over time have demonstrated a historical track record providing a high level of current income combined with long-term share price appreciation, inflation protection, and prudent diversification for investors across the age and investment style spectrums.

REITs Outperform Leading U.S. Benchmarks

30-Year Compound Annual Total Returns
Data as of December 31, 2008



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REIT Valuation

Many factors affect the value of a REIT's share price beginning with the earnings tied to generally predictable and growing streams of rental revenue and a price-earnings multiple assigned by the marketplace.

The level and growth of rents are largely determined by economic fundamentals of supply and demand in real estate markets. These fundamentals include demographic factors such as population size, population growth, employment growth, construction and the level of overall economic activity. While differing from region to region, all of these factors typically have a direct impact on rents and occupancy rates, which affect projected earnings and property values.

Other factors include:

Net Asset Value Calculation

Many REIT analysts look at net asset value (NAV) as a reference point for the valuation of a company. NAV equals the estimated market value of a REIT's total assets (mostly real property) minus the value of all liabilities. When divided by the number of common shares outstanding, the net asset value per share is viewed by some as a useful guideline for determining the appropriate level of share price.

Property Portfolio Enhancements

The value of a REIT's property portfolio can be maintained or enhanced through consistent capital expenditures. This is significant because strategic property portfolio enhancements help to maintain or increase NAVs and can provide the basis for price appreciation of a REIT's shares.

Benefits of Real Estate in Portfolios

Given the investment strengths and historical performance of REITs, it is no surprise that REIT shares are commonly viewed as a good investment for all long-term, diversified investors.

Clearly, the inclusion of REIT shares in any investment portfolio is a prudent investment decision:

Market Variability Balance

First, the variability of market returns over time and across all economic sectors makes it clear that diversification is the key to long-term investment success. Integral to diversification is the inclusion of equities representing all sectors of the economy, including real estate.

Attractive Risk/Reward Balance

Second, REIT shares have proven to offer an attractive risk/reward balance in investment portfolios. Asset allocation analysis from Ibbotson Associates has found that adding REIT shares to a diversified portfolio historically has increased total portfolio returns or lowered overall portfolio risk.

In fact, Ibbotson's research shows that, when REIT shares are added to an already diversified portfolio, the efficient frontier of the portfolio is raised. When portfolio investments are efficient, risk-averse investors can expect to realize higher portfolio returns with the low level of portfolio risk they prefer, while risk-tolerant investors can expect to realize lower risk along with the high level of returns they seek.

Ultimately, a more efficient portfolio is something that all investors – from those looking for value or income, to those who are more growth-oriented – will find attractive.

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REIT Sectors

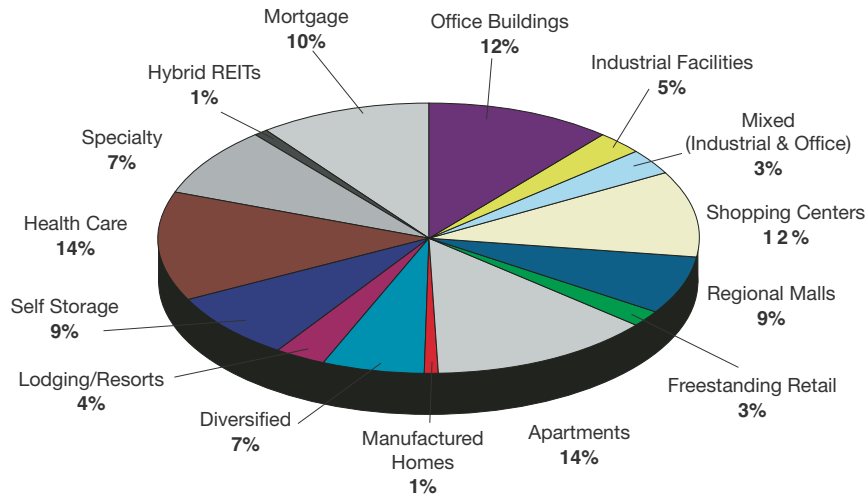
With a very diverse profile, the REIT industry offers investors many alternatives across a broad range of specific real estate property sectors, including:

- Apartment communities
- Office properties
- Shopping centers
- Regional malls
- Storage centers
- Industrial parks and warehouses
- Lodging facilities, including hotels and resorts
- Health care facilities
- Natural resources.

REITs regularly explore new opportunities for income growth, from new acquisitions or development to providing income-producing leasing or tenant services. Regardless of specific business lines, REITs acquire and develop their properties primarily to actively manage and operate them as income-producing, ongoing businesses.

REITs Invest In All Property Types

(as of Dec. 31, 2008)



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The REIT Story in Brief

REIT shares clearly can benefit most investors, whether value-driven or growth-oriented, individual or institutional.

They offer the benefits of ongoing current income, with the potential for long-term capital appreciation that historically has met or exceeded inflation.

They are equities that derive a large part of their value from tangible, hard assets and the effective management of those assets.

And they have been proven to bring the benefits of balance, diversification and greater risk/reward efficiency to a broad range of investment portfolios.

We invite you to further explore what the REIT sector can offer you.

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