

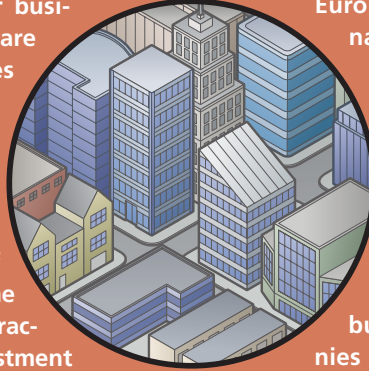


# REITs Rising

REAL ESTATE INVESTMENT TRUSTS EXPAND THEIR HOLDINGS

**R**EITs “are not a homogenous industry,” says John S. Gates, co-chairman and CEO of CenterPoint Properties Trust (CNT). “Although their businesses deal with real estate and they share a common tax election, which eliminates corporate income tax, their underlying clientele and business models have very little in common.”

Some 170 REITs, with assets totaling more than \$310 billion, are registered in the U.S. The 134 that trade on the NYSE represent 97 percent of the total REIT market cap, the National Association of Real Estate Investment Trusts (NAREIT) reports. “The overall interest-rate environment has been very attractive lately for REITs,” says Rick Hendrix, chief investment officer and head of real estate investment banking at Friedman, Billings, Ramsey Group Inc. (FBR), which is classified as a REIT.



Internationally NAREIT counts 18 nations with REITs (or real estate focused structures), including several in Asia and Europe, but says the structure varies from nation to nation. REITs were unveiled in France this year, and the U.K. could be next, says the organization, noting that French and Dutch REITs most resemble U.S. REITs in terms of tax treatment.

REITs also are expanding into non-real-estate-related businesses. “The most significant thing to happen to REITs was the REIT Modernization Act of 2001,” explains Hendrix. The Act specified that REITs no longer had to separate their taxable businesses from their real estate. “It allows companies to have one structure and management team, and that’s a big step forward,” he explains. “In the future I expect to see more creative uses with this structure.”

BY NOSHUA WATSON | ART BY TOPDOG ILLUSTRATION

## SIZABLE REITs BY CATEGORY

REIT SECTORS	THE THREE LARGEST REITs IN EACH CATEGORY	QUICK FACTS (OBTAINED FROM RESPECTIVE COMPANIES)	MARKET CAP* (BILL. \$)
OFFICE BUILDINGS	Equity Office Properties Trust (EOP)	Is the largest REIT in the U.S.	11.494
	Boston Properties Inc. (BXP)	Develops offices in Boston, D.C., Manhattan and San Francisco	4.428
	Mack-Cali Realty Corp. (CLI)	Concentrates on Northeast metro areas	2.239
RETAIL	Simon Property Group Inc. (SPG)	Owens interest in properties in Europe and Canada	8.637
	General Growth Properties Inc. (GGP)	Has acquired \$12.5 billion worth of property in 10 years	5.366
	Kimco Realty Corp. (KIM)	Owens 100 million square feet of leasable space in 40 states	4.459
RESIDENTIAL	Equity Residential (EQR)	Holds more than 990 properties in 34 states	8.155
	Archstone-Smith Trust (ASN)	Builds and operates garden, high-rise and corporate apartments	5.096
	Apartment Investment and Management Co. (AIV)	Includes low-income and student housing in its portfolio	3.931
DIVERSIFIED	Vornado Realty Trust (VNO)	Is one of the largest property owners in New York City	5.740
	Duke Realty Corp. (DRE)	Has more than 4,000 office, industrial and retail tenants	4.081
	Crescent Real Estate Equities Co. (CEI)	Owens office, resort/hotel and residential business segments	1.548
INDUSTRIAL	ProLogis (PLD)	Expanding into Europe, Japan and China	5.664
	AMB Property Corp. (AMB)	Buys warehouses close to major airports, highways, seaports	2.482
	CenterPoint Properties Trust (CNT)	Focuses on the metropolitan Chicago market	1.594
LODGING/RESORTS	Host Marriott Corp. (HMT)	Owens Marriott and Ritz-Carlton hotels	3.432
	Hospitality Properties Trust (HPT)	Owens 11 different hotel brands in 37 states	2.275
	FelCor Lodging Trust Inc. (FCH)	Largest owner of Embassy Suites, Holiday Inn and Crown Plaza	0.687
HEALTH CARE	Health Care Property Investors Inc. (HCP)	Acquires, then leases properties to health-care providers	3.040
	Ventas Inc. (VTR)	Owens hospitals and nursing facilities in 37 states	1.440
	Healthcare Realty Trust Inc. (HR)	Builds doctors’ offices and outpatient facilities	1.426
SELF-STORAGE	Public Storage Inc. (PSA)	Maintains 800,000 storage spaces in the U.S.	5.165
	Shurgard Storage Centers Inc. (SHU)	Has expanded to six European countries	1.654
	Sovran Self Storage Inc. (SSS)	Better known as Uncle Bob’s Self Storage	0.448
SPECIALTY	Plum Creek Timber Co. Inc. (PCL)	Is the second largest private timberland owner in the U.S.	4.096
	American Financial Realty Trust (AFR)	Leases space to banks and financial institutions	1.583
	Entertainment Properties Trust (EPR)	Owens 41 megaplex theater projects in 17 states	0.634

For more information on listed real estate companies and trusts, visit [www.nyse.com/REITs](http://www.nyse.com/REITs).

\*AS OF OCT. 9, 2003.

SOURCE: NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS (NAREIT).

# REITs Up Close »

In the current economy, not all REIT sectors (see pie chart, below) are responding the same. Decreased business travel has been tough for the lodging sector, says Thomas J. Corcoran Jr., CEO and president of FelCor Lodging Trust Inc. (FCH), while health-care and long-term care REITs are doing well, says Debra Cafaro, CEO and president of Ventas Inc. (VTR). Analysts say they favor the office and retail sectors through 2003 and into 2004 given their long-term leases and the anticipated growth in new retail stores. "With low interest rates, people are moving from apartments into homes, but the retail sector has stayed strong," says Richard Kincaid, president and CEO of Equity Office Properties Trust (EOP). Adds David Simon, CEO of Simon Property Group Inc. (SPG), "Retail real estate is the most stable because we have long-term leases."

## [ OVERVIEW ]

**S**teven Roth, chairman and CEO of Vornado Realty Trust (VNO) and 2002–2003 chairman of NAREIT, says that although many REITs have been challenged by the economic climate, business remains strong. "In this economy," he says, "REITs are the poster child for everything good."

### 1960s: LEGISLATED BEGINNINGS

Congress wrote legislation to allow for the creation of REITs in 1960, so smaller investors could invest in a large asset like real estate through the purchase of equity, explains Roth.



### 1990s: REITS GO PUBLIC

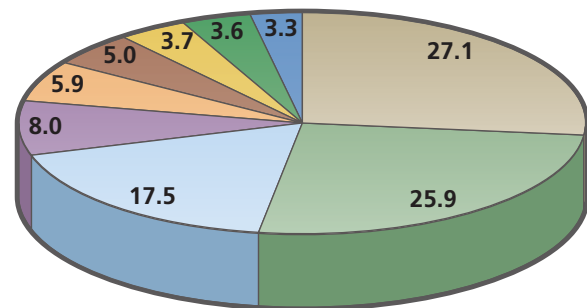
Roth says that the REIT industry grew slowly until the late 1980s as a result of a mandated separation between property owners and property managers. Once REITs were allowed to manage their own properties, the industry took off, analysts say, and many REITs went public in the 1990s. Today REITs total market cap continues to rise (see chart, right), with new listings that include Windrose Medical Properties Trust (WRS) and Newcastle Investment Corp. (NCT) in 2002, and in 2003 Maguire Properties Inc. (MPG), Ashford Hospitality Trust Inc. (AHT) and American Financial Realty Trust (AFR), which was the largest IPO for a REIT in six years, according to NAREIT.



### 2000s: INVESTOR BENEFITS

REITs allow investors to diversify by buying an interest in a portfolio of properties managed by experienced real estate professionals, rather than buying a single building, explains Roth. He adds that investors earn a pro rata share of the income derived through commercial real estate ownership. REITs have outperformed the S&P 500 based on one-, three-, five- and 10-year returns, reports NAREIT. Experts agree that REITs will continue to grow as the population ages because, "with the scarcity of yield in our economy," says Roth, "dividends are in vogue."

DIVERSITY OF REITS\* (%)



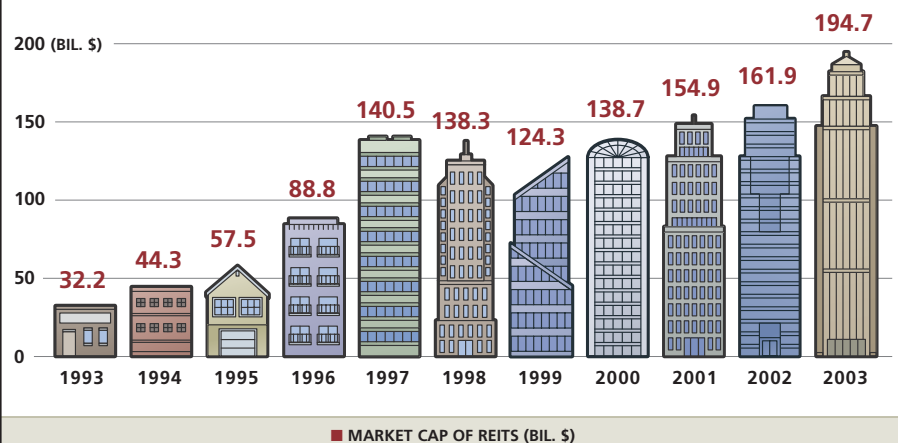
REIT investments range from apartment buildings to health-care facilities to self-storage units to hotels. The industrial/office and retail sectors take the lead by market capitalization.

REAL ESTATE TYPE: ■ INDUSTRIAL/OFFICE ■ RETAIL ■ RESIDENTIAL ■ DIVERSIFIED ■ MORTGAGE ■ HEALTH CARE ■ SPECIALITY ■ LODGING/RESORTS ■ SELF-STORAGE

PERCENTAGES DETERMINED BY MARKET CAP

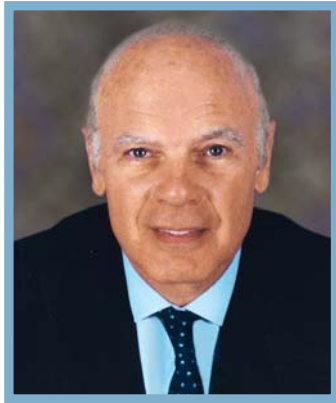
\*THROUGH SEPT. 30, 2003. SOURCE: NAREIT.

GROWTH THROUGH THE DECADE\*



■ MARKET CAP OF REITS (BIL. \$)

\*THROUGH AUG. 29, 2003. SOURCE: NAREIT.



“Look out the window, you see nothing but real estate. Other than the air you breathe and the food you eat, it’s **the most prevalent asset** there is. It’s a huge business.”

—STEVEN ROTH, CHAIRMAN AND CEO, VORNADO REALTY TRUST (VNO)



“As baby boomers age and retire, the REIT industry will grow because investors will continue to look for yield, and **REITs are the best income-producing stocks.**”

—DEBRA CAFARO, CHAIRMAN, CEO AND PRESIDENT, VENTAS INC. (VTR)



“In the past, when the economy caught a cold, REITs caught pneumonia. But they’ve **performed very well in this downturn.**”

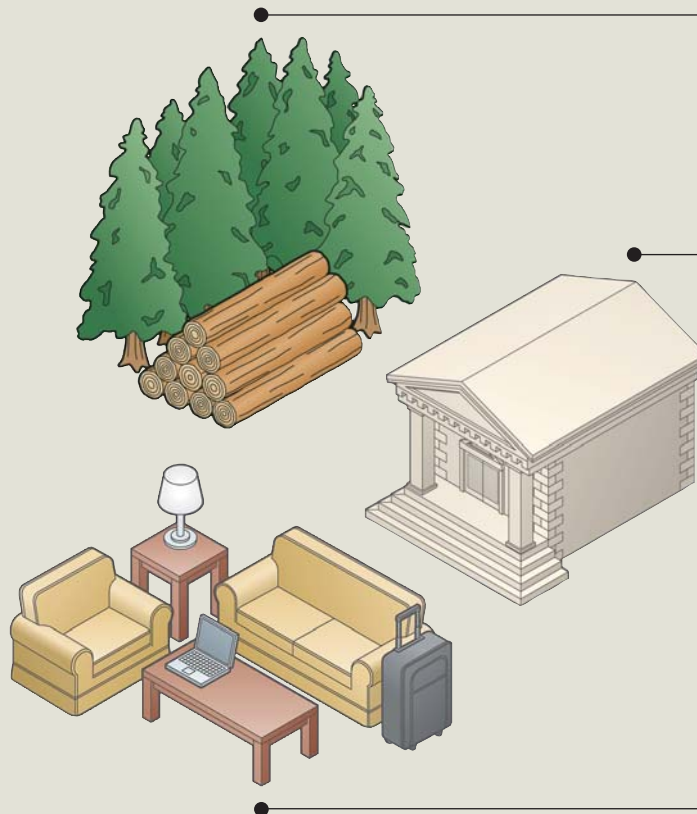
—JOHN S. GATES JR., CO-CHAIRMAN AND CEO, CENTERPOINT PROPERTIES TRUST (CNT)

## [INNOVATIONS IN REITS]

**R**ather than concentrate within specific broad sectors such as residences or hotels, some REITs take a specialized approach to investing, says Rick Hendrix, chief investment officer at Friedman, Billings, Ramsey Group Inc. (FBR).

Correctional Properties Trust (CPV), for example, says it buys correctional facilities from state and local governments, while Entertainment Properties Trust (EPR) reports managing movie theater complexes.

“In any real-estate-intensive industry that is undergoing change,” says Hendrix, “there are definitely additional opportunities to create new subsectors in the REIT industry with unique business plans like these.”



### SPECIALTY REITS

The largest specialty REIT, Plum Creek Timber Co. Inc. (PCL) deals in forest property and wood products, says NAREIT; other specialty REITs lease property for movie theaters.

### TARGETED LEASING

American Financial Realty Trust (AFR) leases all of its properties to banks. Hendrix says he expects opportunities to be strong in REITs with high-credit-quality tenants, such as banks or the government.

### EXPANDED HOLDINGS

The REIT Modernization Act of 2001 allows REITs to own taxable non-REIT subsidiaries. For example, Equity Residential (EQR) says it provides corporate-housing services out of a taxable subsidiary and used to provide furniture rental as well.