

Industry Outlook

Moody's Commercial Real Estate Finance

June 2009

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US REIT and REOC Review & Outlook

Declining Fundamentals Cloud Outlook for Ratings

Executive Summary

Moody's approach to monitoring and rating REITs and REOCs incorporates the multitude of factors which delineate creditworthiness. Given the current dislocation in the financial markets, however, we have applied greater emphasis on our analyses of liquidity, near-term obligations and refinancing risk. Ratings activity has been decidedly negative as a result of the near collapse of the financial system and the ensuing economic fall-out. That said, a significant number of REITs have retained their ratings, particularly REITs in the investment grade category, many of which entered the credit dislocation with sound balance sheets and largely unencumbered portfolios. These strengths have also recently allowed some REITs to successfully raise capital in the debt (secured and unsecured) and equity markets, which they have used to lower refinancing risk or augment liquidity.

Commercial real estate values are in the midst of a downturn that has already notched a decline of more than 20%¹ from the peak. As a result, many financial institutions are marking their portfolios down and are reluctant to increase their exposure to real estate. While we expect little direct impact on REIT ratings from the inclusion of new and legacy CMBS in the TALF program, it is logical to expect that an improvement in general credit conditions will accelerate if the program is successful. That should ultimately benefit REITs, whose operating model is capital intensive and, with the inability to retain most earnings, significantly reliant on lending from banks and investors.

Should a stabilization begin to take hold in the finance and credit markets, we expect that operations will warrant greater relative scrutiny as part of our ratings process. Accordingly, we will continue to closely monitor underlying fundamentals and cash flow.

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¹ "Moody's/REAL Commercial Property Price Indices, May 2009"



US REIT and REOC Review & Outlook

Leverage and Capital Markets

Refinancing risk for REITs persists at elevated levels in view of the material debt coming due over the next 12 to 18 months. Access to capital has been difficult as bond and CMBS markets remain largely inactive and banks are cautious about their exposure to the property sector. Moreover, despite the operational resilience most investment grade REITs demonstrated in the recent reporting season, recessionary conditions will likely reduce rental income, and rising cap rates will accentuate leverage levels. These factors, coupled with limited options to meaningfully reduce debt, will continue to constrain the sector's financial flexibility. In addition, while most investment grade-rated REITs remain well-positioned within their covenants, the rise in total leverage and secured debt levels has weakened the compliance cushion for some. This situation, in turn, could accelerate the pace of credit quality decline.

So far, investment grade-rated REITs have managed to address near-term debt maturities by raising new equity, obtaining extensions and, to a lesser extent, selling assets. However, there will be growing pressure on them to refinance their 2010 and 2011 maturities since the commercial property downturn is likely to persist well into 2010. Curtailment of development expenditures has reduced pressure on liquidity and funding requirements, but it is not enough in itself to address all refinancing issues. Furthermore, Moody's anticipates the credit markets remaining constrained over the next 12 to 18 months and banks being selective with their exposures to REITs. There has been more of an appetite for refinancing existing bank debt – so the banks' overall exposures have not increased – but banks will likely be reluctant to lend to refinance capital market issues (including CMBS).

On a brighter note, investment grade REITs with mainly unsecured funding platforms and large unencumbered portfolios of better quality have more flexibility than those with mainly secured funding platforms, as the former are able to offer properties as security when negotiating refinancing. Moreover, a re-equitization of balance sheets has been under way this year, as 35 REITs have raised approximately \$10.7 billion in equity, while six REITs have issued unsecured debt totaling approximately \$2.9 billion, with two of the REITs accessing the debt market in two separate transactions².

Moody's will closely monitor the leverage and secured debt levels of REITs, particularly debt maturities within the next 12 to 18 months. We will take prompt action should a REIT experience liquidity or debt repayment challenges. One of the most important lessons from the past year is that too much leverage, combined with a risky capital structure and lack of liquidity, can cause the collapse of a profitable and otherwise viable REIT. General Growth Properties ("GGP"), rated C, which is now in bankruptcy, has had consistently high leverage, material levels of variable rate debt, and a secured debt funding strategy with minimal unencumbered assets. GGP generally used two sources of secured capital, the CMBS market and individual property mortgages. On the one hand, prior to declaring bankruptcy, GGP had formidable funding and liquidity challenges in an increasingly depressed capital environment. On the other hand, GGP maintains a well-known franchise in retail real estate and an extensive operating platform, including leasing, property management and development, which supports its national portfolio and allows for efficient integration of newly acquired portfolios. The REIT also has strong tenant relationships and has participated in the consolidation of the retail property industry, resulting in a quality portfolio that was both sizable and productive, and therefore maintained a strong competitive position.

While GGP's saga has provided ample headline fodder for commercial real estate observers, we are encouraged that the vast majority of investment grade REITs are utilizing their robust capital structures and flexible balance sheets to weather these uncertain times.

² SNL Data, as of May 13, 2009.

US REIT and REOC Review & Outlook

Liquidity Considerations

In today's tight credit markets, liquidity has become an increasingly important issue for companies, especially capital intensive businesses like REITs and REOCs. Our assessment of liquidity focuses on the relationship between sources of liquidity and uses in meeting short- and intermediate-term fixed obligations. Sufficient liquidity over the next four to six quarters can support a company's credit rating, while strained liquidity during this time can lead to downward rating pressure.

Sources of liquidity may include borrowing capacity, cash balances, operating cash flow and unencumbered assets. Since almost all bank lines for REITs have covenants, multi-year committed lines with ample covenant compliance room from core relationship banks that are highly rated enhance financial flexibility and serve as a stable source of funding. Material adverse change (MAC) clauses and ratings triggers are distinct negatives.

Uses of liquidity can encompass interest and principal payments of bond, mortgage and credit facility debt, capital expenditures, development projects and dividend payments. The timing of debt repayments can be particularly important because the bunching of maturities can present liquidity challenges. All else equal, the more the debt maturities are spread over time, the more financial flexibility a firm will have. In the current environment, we also prefer to see debt maturities pushed out in time, giving markets a chance to heal before the issuer needs to refinance. Please refer to the Appendix for Moody's ranking of liquidity sources and uses.

Rating Activity

Given the deterioration in the economy and the credit markets, most recent rating activity among the REITs has been negative. In the period from January 1, 2008 through April 30, 2009, Moody's has implemented 40 rating changes: 38 downgrades and two upgrades, for an upgrade-downgrade ratio of 5.3% (see Rating Transition tables below). Of the downgrades, only four involved "fallen angels," that is issuers that moved from investment grade to speculative, and all but one of the 15 multi-notch downgrades involved speculative grade issuers. In addition, there have been 26 total outlook and rating review changes, 18 of which were directionally negative – 12 to negative from stable and six to stable from positive. Only three outlook changes were directionally positive, and the remaining outlook changes were uncertain or directionally neutral in nature. Both upgrades and half of the positive outlook changes involved healthcare REITs. Importantly, since the beginning of 2008, 47 issuers out of the total Moody's-rated REIT and REOC universe of 73, or 64%, have maintained their same rating and outlook.

US REIT and REOC Review & Outlook

Rating Transitions — 2008 & 2009 through April 30

		Rating as of 12/31/08																	
		A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	Ca	C	WR
Rating as of 1/1/08	A1	1																	
	A2																		
	A3			3															
	Baa1				8	3													
	Baa2					13					1								
	Baa3					1	13												
	Ba1							8											
	Ba2								4									1	
	Ba3									2	2	1							
	B1										3	2			1	1			1
	B2											2						1	
	B3																		
	Caa1																		
	Caa2																		
	Caa3																		
	Ca																		
	C																		

		Rating as of 4/30/09																	
		A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	Ca	C	WR
Rating as of 1/1/09	A1																		1
	A2																		
	A3			2	1														
	Baa1				8														
	Baa2					15	1	1											
	Baa3					1	10	1					1						
	Ba1							7											
	Ba2								3										1
	Ba3									1			2						
	B1										5								
	B2											3			2				
	B3																		
	Caa1															1			
	Caa2																		1
	Caa3																		
	Ca																		2
	C																		

US REIT and REOC Review & Outlook

Rating Assignments and Changes: January 2008 to April 2009

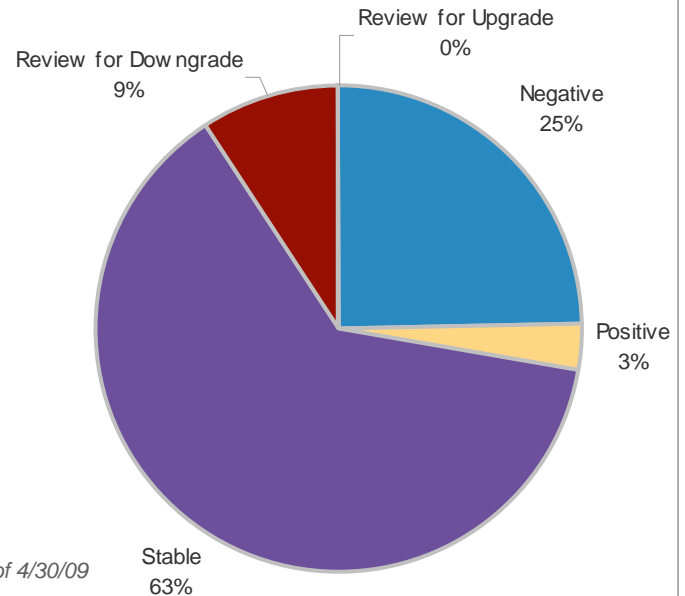
REIT/REOC	Event	Date of Change	Previous Rating	Previous Outlook	New Rating
Equity Inns Partnership	Withdrawal	Jan-08	Ba3	Review for Downgrade	WR
Centro NP	Downgrade	Jan-08	B1	Review for Downgrade	B3
Thornburg Mortgage	Downgrade	Mar-08	B2	Negative	Caa2
Thornburg Mortgage	Downgrade	Mar-08	Caa2	Review for Downgrade	Ca
Interstate Hotels & Resorts, Inc.	Downgrade	Jun-08	B1	Negative	B2
National Retail Properties	Upgrade	Jun-08	Baa3	Positive	Baa2
Crescent Resources LLC	Downgrade	Jul-08	Ba3	Negative	B1
iStar Financial Inc.	Downgrade	Jul-08	Baa2	Negative	Baa3
Centro NP	Downgrade	Sep-08	B3	Review Direction Uncertain	Caa1
iStar Financial Inc.	Downgrade	Sep-08	Baa3	Negative	Ba1
Maguire Properties Inc.	Withdrawal	Oct-08	B1	Review for Downgrade	WR
General Growth Properties Inc.	Downgrade	Oct-08	Ba2	Stable	Ba3
Centerline Holding Co.	Downgrade	Oct-08	Ba3	Stable	B1
General Growth Properties Inc.	Downgrade	Oct-08	Ba3	Review for Downgrade	B3
iStar Financial Inc.	Downgrade	Oct-08	Ba1	Review for Downgrade	Ba3
Centerline Holding Co.	Downgrade	Nov-08	B1	Review for Downgrade	B2
General Growth Properties Inc.	Downgrade	Nov-08	B3	Review for Downgrade	Caa2
Weingarten Realty Investors	Downgrade	Dec-08	Baa1	Stable	Baa2
ProLogis	Downgrade	Dec-08	Baa1	Negative	Baa2
General Growth Properties Inc.	Downgrade	Dec-08	Caa2	Review for Downgrade	Ca
Duke Realty Corp.	Downgrade	Dec-08	Baa1	Negative	Baa2
Spirit Finance Corporation	Downgrade	Dec-08	B1	Stable	B2
TPG-Austin Portfolio Holdings	Downgrade	Dec-08	B1	Stable	Caa2
Forest City Enterprises	Downgrade	Dec-08	Ba3	Negative	B1
Tishman Speyer - DC Area Portfolio	Withdrawal	Jan-09	Ba2	Stable	WR
Prime Property Fund	Downgrade	Jan-09	A3	Stable	Baa1
PRISA	Downgrade	Jan-09	A1	Stable	A3
CB Richard Ellis	Downgrade	Feb-09	Ba1	Stable	Ba2
FelCor	Downgrade	Feb-09	Ba3	Stable	B1
Capmark Financial Group Inc.	Downgrade	Feb-09	Baa3	Negative	Ba2
iStar Financial Inc.	Downgrade	Feb-09	Ba3	Review for Downgrade	B2
First Industrial Realty Trust	Downgrade	Mar-09	Baa2	Negative	Baa3
Developers Diversified Realty	Downgrade	Mar-09	Baa2	Negative	Baa3
Interstate Hotels & Resorts, Inc.	Downgrade	Mar-09	B2	Stable	Caa1
General Growth Properties Inc.	Downgrade	Mar-09	Ca	Review for Downgrade	C
Colonial Properties Trust	Downgrade	Mar-09	Baa3	Negative	Ba1
Nationwide Health Properties	Upgrade	Mar-09	Baa3	Positive	Baa2
TPG-Austin Portfolio Holdings	Withdrawal	Mar-09	Caa2	Review for Downgrade	WR
Spirit Finance Corporation	Downgrade	Apr-09	B2	Review for Downgrade	Caa1
PRISA	Withdrawal	Apr-09	A3	Review for Downgrade	WR
FelCor	Downgrade	Apr-09	B1	Negative	B2
Thornburg Mortgage	Downgrade	Apr-09	Ca	Review for Downgrade	C
Capmark Financial Group Inc.	Downgrade	Apr-09	Ba2	Review for Downgrade	B2
First Industrial Realty Trust	Downgrade	Apr-09	Baa3	Review for Downgrade	Ba1
Capmark Financial Group Inc.	Downgrade	Apr-09	B2	Review for Downgrade	Caa1

US REIT and REOC Review & Outlook

Moody's Rating Outlooks for Specific Property Sectors

US REITs & REOCs Outlooks

Property Sector	Fundamental Trend	REIT Rating Outlook
Healthcare	Stable	Stable
Industrial	Negative	Negative
Lodging	Negative	Negative
Multifamily	Negative	Stable
Office	Negative	Stable
Retail	Negative	Stable



Includes all US REITs & REOCs rated by Moody's as of 4/30/09
 Source: Moody's as of 4/30/09

Retail Sector

Strengths	Challenges
<ul style="list-style-type: none"> ■ Relatively stable leverage ■ Significant level of unencumbered assets ■ Liquidity issues confined to a few companies ■ Measured supply growth ■ Quality, well-located centers ■ Fresh retail concepts – lifestyle, mixed-use, no anchors, food and green concepts 	<ul style="list-style-type: none"> ■ Weakening of consumer spending, especially for non-necessities ■ Consolidation, store closings and bankruptcy of retailers ■ Cost of capital and an upward trend in operating expenses ■ "B" and "C" properties, in secondary locations and with weaker tenants, will feel the effects of the weakening economy more acutely ■ Growing reliance on equity infusions from joint ventures and funds for liquidity

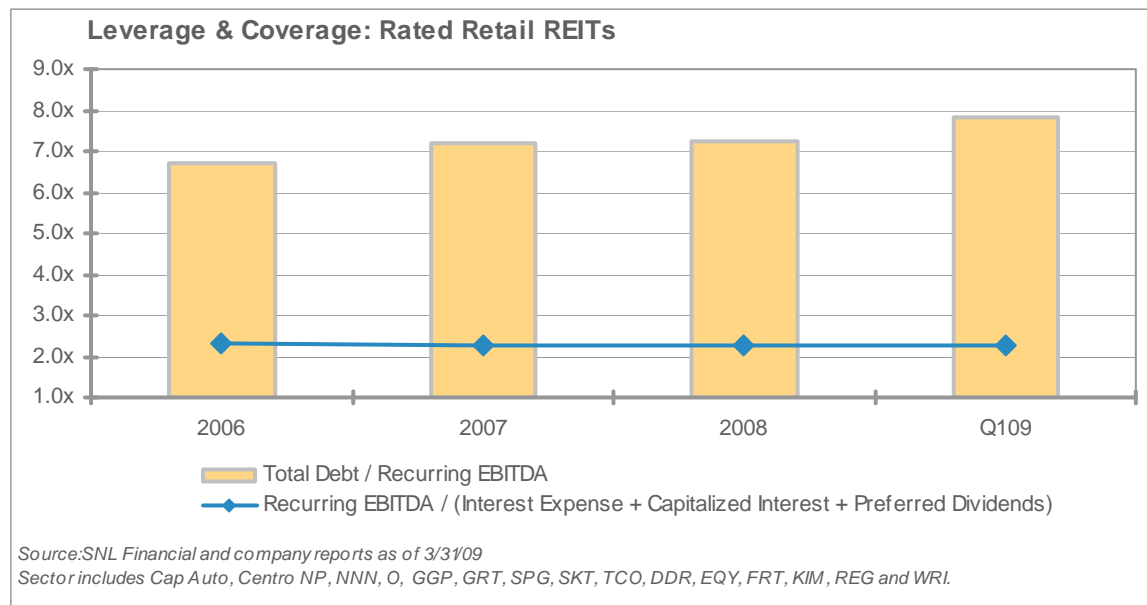
The fundamental outlook for the retail sector is negative, which is likely to pressure ratings down. Nonetheless, Moody's ratings outlook for this REIT sector is currently stable. Although retail REITs enjoy relatively long leases and strong coverages, the dynamics of housing, energy and job losses – and a recessionary environment – is crimping consumer spending in most retail formats, particularly malls. The key for the retail industry is the mindset of the American consumer, which remains fragile at best. If these pressures persist or grow stronger, retail REITs would be adversely affected, possibly leading to downgrades. Retail REITs' earnings announcements continue the themes of severely diminished development/redevelopment pipelines, limited international expansion, and new joint ventures to access capital. Retailers' demand for space continues to drive occupancy and rents, with some new formats and concepts fueling this demand.

US REIT and REOC Review & Outlook

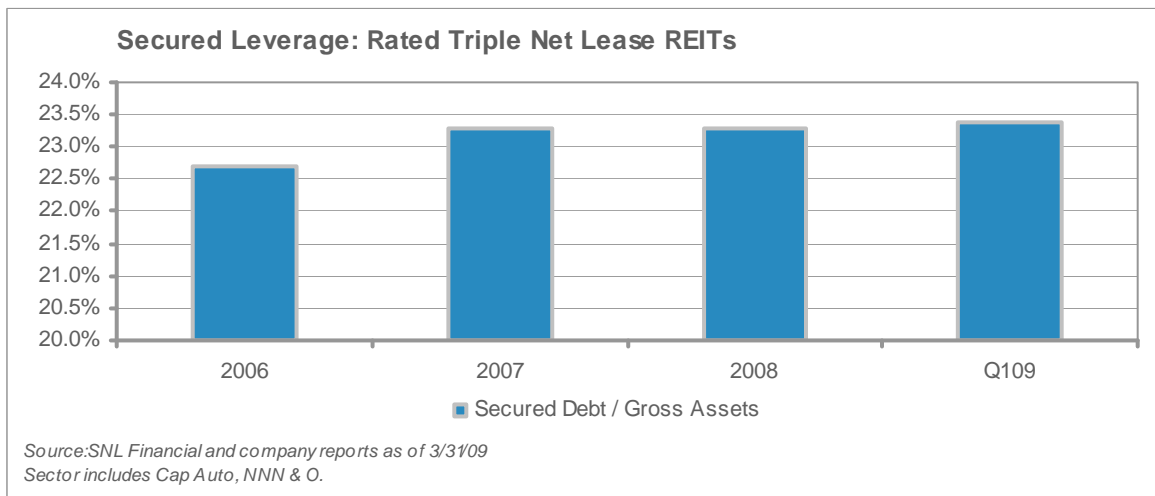
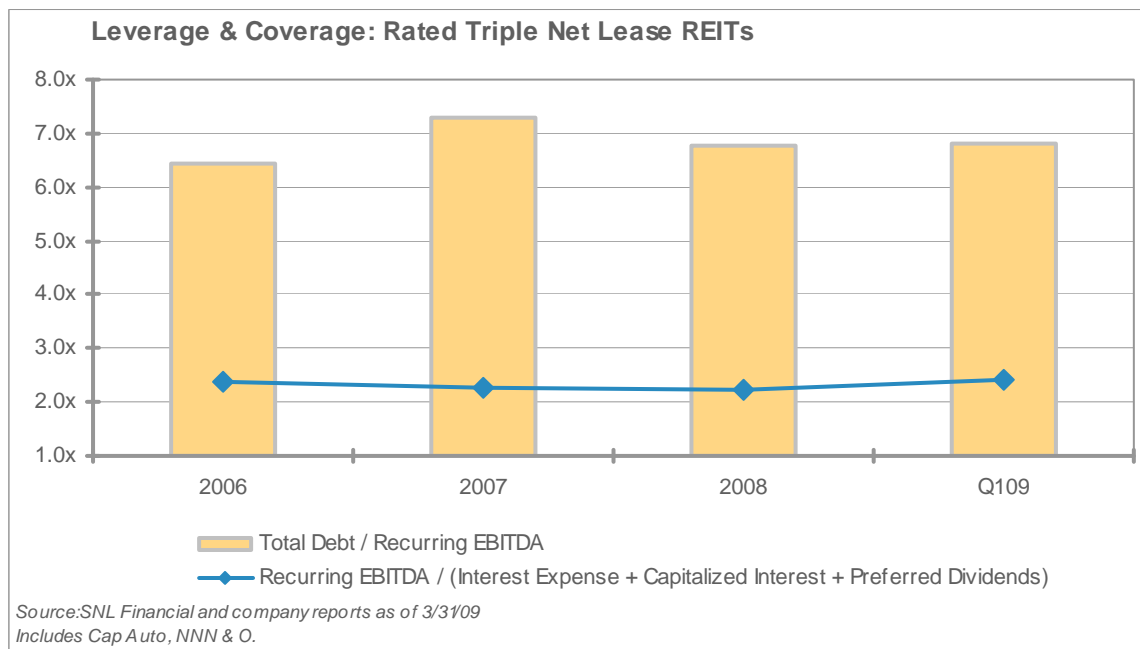
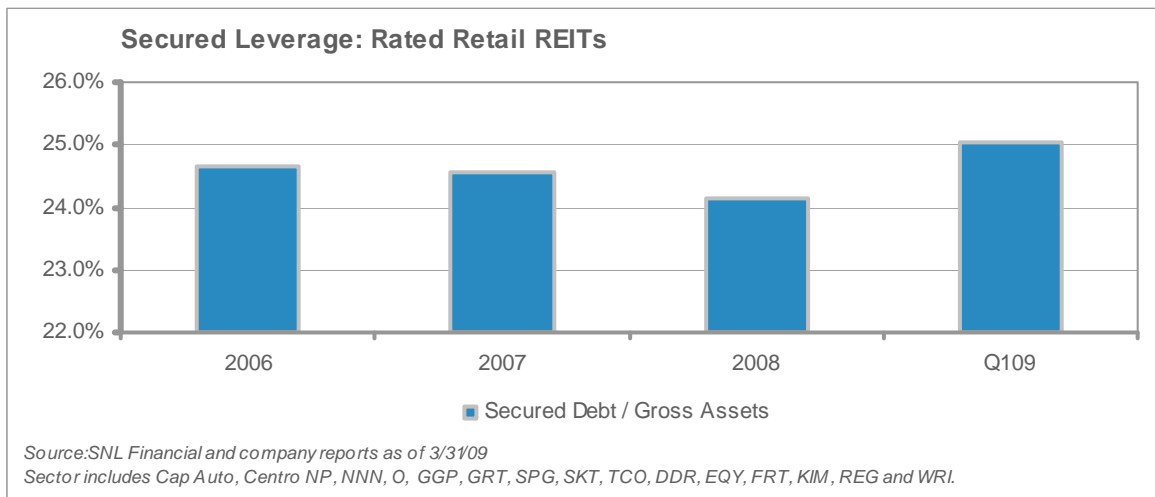
Most retail REITs are successfully managing their balance sheets with an eye to stability, but Moody's expects negative pressure on retail REITs' ratings. All retail REITs are hoarding cash and harboring as much liquidity as possible. Most retail REITs have maintained stable leverage metrics, while improving fixed charge coverage. Particularly worrisome for retail REITs are "B" quality properties in "B" locations, with "B" anchors. With a widening of quality spreads, these properties will prove harder to sell, re-tenant, drive rents and refinance. Retailers are increasingly focused on sponsorship by landlords, and demand quality assets and proven players. In the current protracted economic downturn and severe credit crisis, retail REITs are likely to face reduced demand for their properties. REITs that rely on asset sales to manage their liquidity will face substantial funding challenges. Requests for rent concessions are being entertained by landlords on a case-by-case basis for tenants that can demonstrate severe financial issues of their own.

Consumer sentiment is the key to the retail sector and the economy, with personal consumption now accounting for over 71% of GDP. In 2008, retail sales fell a staggering 5%—the lowest yearly sales reading was previously +2.6% in 2002. Sales since January 2009 have generally stayed flat or below their year-ago levels. Consumers have cut back on discretionary spending, traded down from higher priced luxury goods, and are focused on necessities. Retailers have increased promotions to drive sales. Discount retailers continue to benefit from the weak economic environment; wholesale clubs and drugstores are the two main segments that continue to have positive year-over-year sales. Positively, former percentage rents from tenant sales have often been rolled into minimum base rents, which should help partially offset these negative trends. Higher re-leasing spreads also help mitigate credit risk.

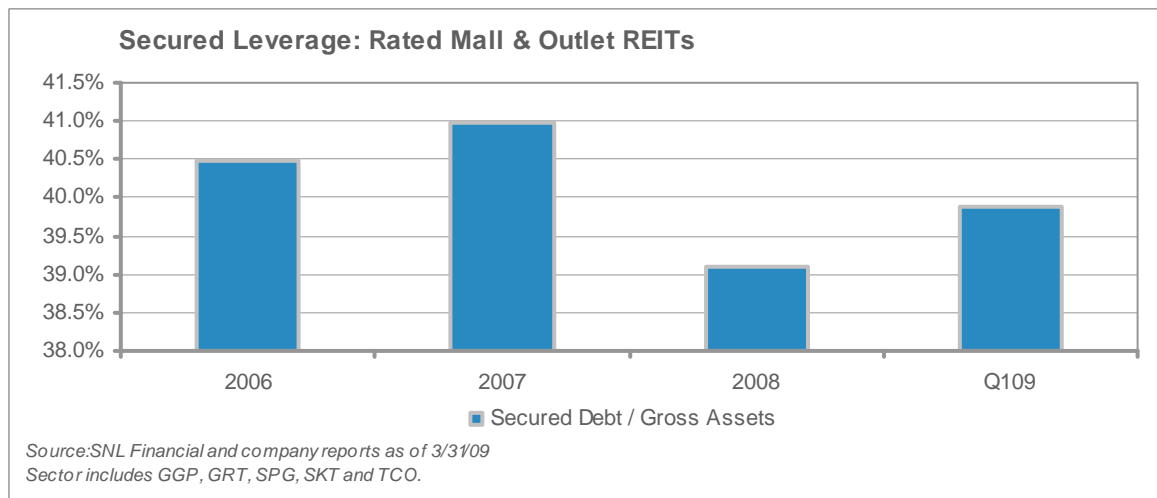
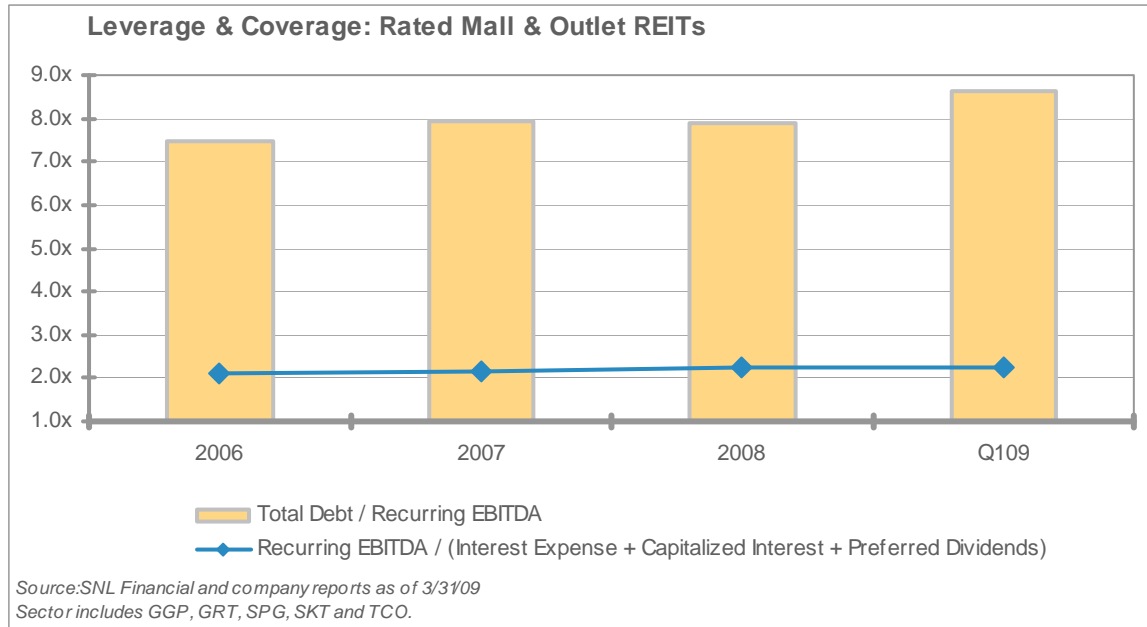
Consumer sentiment will affect earnings for all Moody's rated retail REITs. However, Moody's expects mall REIT earnings to be affected more by downward trends in consumer sentiment, while necessity-based shopping center REITs will be more resilient over the long term. Moody's anticipates the default rate in the retail industry will continue to rise in 2009 over the historically low levels of the past few years and that there will be more closings and bankruptcies. Although tenant bankruptcies and store closings have not yet affected the retail REITs Moody's rates, we expect greater earnings pressure through 2009 stemming from the continued pace of bankruptcies and store closures.



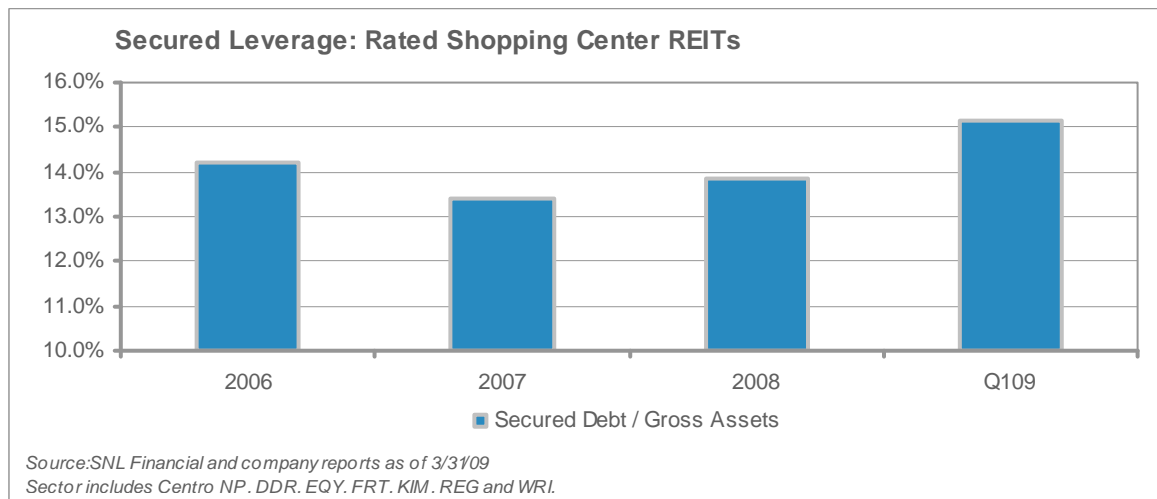
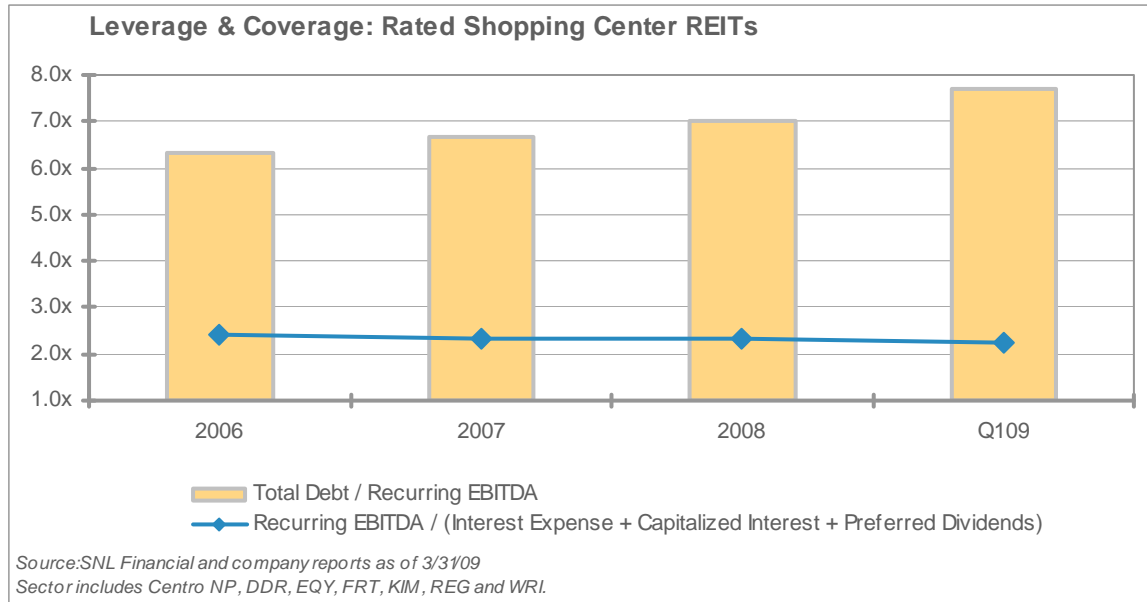
US REIT and REOC Review & Outlook



US REIT and REOC Review & Outlook



US REIT and REOC Review & Outlook



US REIT and REOC Review & Outlook

Retail	Senior Debt	Subordinate	Preferred Stock	Outlook/Review Status
Capital Automotive LLC	-	-	-	Negative
Capital Automotive L.P.	Ba1*	-	-	Negative
Centro NP LLC	Caa1	-	-	Under Review Down
New Plan Realty Trust	Caa1	-	-	Under Review Down
Developers Diversified Realty Corp.	Baa3	Ba1	Ba1	Negative
Equity One, Inc.	Baa3	-	-	Stable
IRT Property Company	Baa3	-	-	Stable
Federal Realty Investment Trust	Baa1	(P)Baa2	(P)Baa2	Stable
General Growth Properties, Inc.	C	-	(P)C	
GGP Limited Partnership	C	-	-	
Rouse Company (The)	C	-	-	
Glimcher Realty Trust	(P)Ba2	(P)Ba3	B1	Negative
Kimco Realty Corporation	Baa1	-	Baa2	Stable
Kimco North Trust III	Baa1	-	-	Stable
Pan Pacific Retail Properties, Inc.	Baa1	-	-	Stable
Western Properties Trust	Baa1	-	-	Stable
National Retail Properties, Inc.	Baa2	(P)Baa3	Baa3	Stable
Realty Income Corporation	Baa1	(P)Baa2	Baa2	Stable
Regency Centers Corporation	-	-	Baa3	Stable
Regency Centers, L.P.	Baa2	-	-	Stable
Simon Property Group, Inc.	-	-	Baa1	Stable
Chelsea Property Group, Inc.	A3	-	-	Stable
CPG Partners, L.P.	A3	-	-	Stable
Simon Property Group, L.P.	A3	-	-	Stable
Corporate Property Investors	A3	-	-	Stable
Spirit Finance Corporation	Caa1**	-	-	Under Review Down
Tanger Factory Outlet Centers	-	-	Ba1	Stable
Tanger Properties, L.P.	Baa3	(P)Ba1	-	Stable
Taubman Centers, Inc.	-	-	B1	Stable
Weingarten Realty Investors	Baa2	Baa3	Baa3	Stable

As of 4/30/09

* Senior Secured Rating

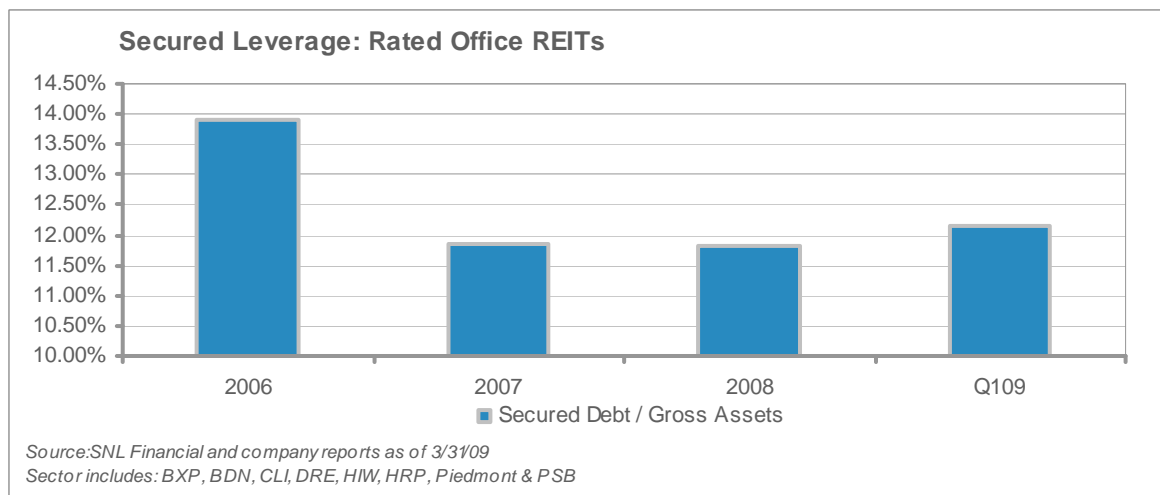
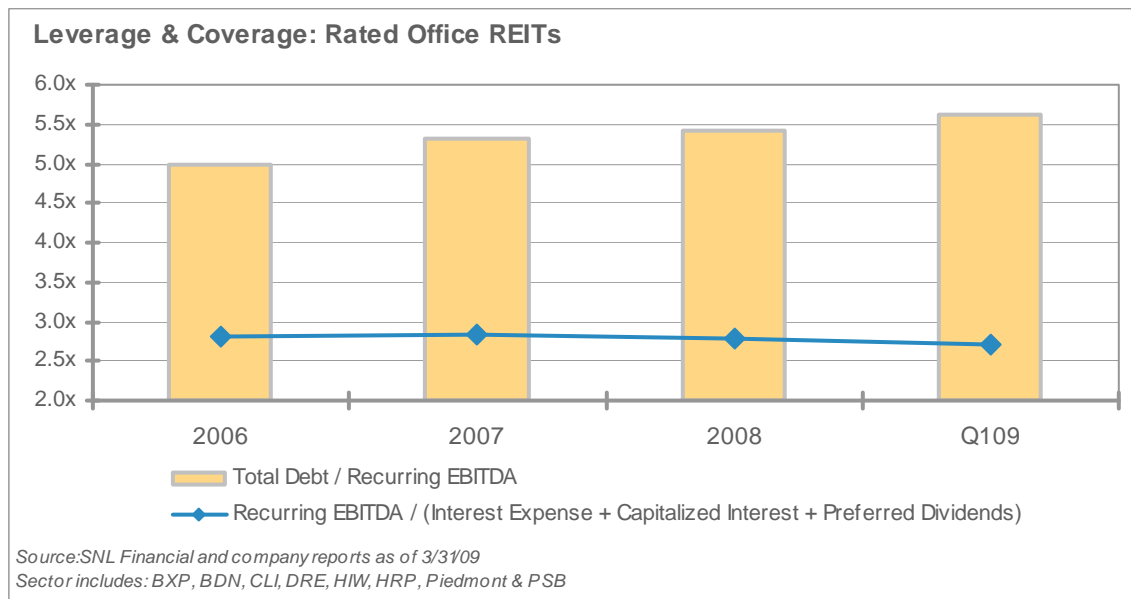
** Corporate Family Rating

Office Sector	
Strengths	Challenges
<ul style="list-style-type: none"> ■ Adequate liquidity ■ Moderate leverage ■ Improved asset quality since last recession ■ Long lease tenor ■ Development contained 	<ul style="list-style-type: none"> ■ Geographic concentrations ■ Capital-intensive asset class with vulnerability to economic cycles ■ Credit metrics could further weaken as a result of softening fundamentals ■ Access to capital expected to be difficult until the markets stabilize

US REIT and REOC Review & Outlook

Our outlook for office property sector fundamentals remains negative. Moody's expects most office REIT ratings to remain stable; however, select office REITs may encounter negative rating migration, limited to outlook changes or one-notch downgrades. We expect office REITs to experience declining earnings in 2009 and 2010. Occupancies will be under pressure for many office REITs, not only from rising unemployment and weakening office fundamentals, but also from development projects being placed into service with occupancies below stabilization. Liquidity is the highest priority and rated office REITs are taking significant steps to preserve and generate new capital through as many channels as possible. We expect office REITs to tap their unencumbered pools to raise secured debt capital for funding gaps. Operating philosophies are now "back to the basics", with tenant retention, expense management, and staff "right-sizing" as key focuses to manage through a difficult operating environment.

Our stable rating outlook for the office REIT sector accounts for weakened office market fundamentals during 2009. The outlook also assumes sufficient liquidity, leverage near current levels, continued access to the capital markets (including secured debt channels, recognizing current constraints), and portfolio out-performance of market peers. Additionally, our stable outlook incorporates expectations of moderately higher bank line use, modest increases in AFFO payout ratios, incremental additions of secured debt, and marginal declines in fixed charge coverages and returns on average assets.



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Office REITs	Senior Debt	Subordinate	Preferred Stock	Outlook/Review Status
Boston Properties, Inc.	-	-	(P)Baa3	Negative
Boston Properties Limited Partnership	Baa2	-	-	Negative
Brandywine Realty Trust	-	-	(P)Ba1	Stable
Brandywine Operating Partnership, L.P.	Baa3	(P)Ba1	-	Stable
Duke Realty Corporation	Baa2	-	Baa3	Negative
Duke Realty Limited Partnership	Baa2	(P)Baa3	-	Negative
Highwoods Properties, Inc.	-	-	Ba2	Positive
Highwoods Realty L.P.	Ba1	-	-	Positive
HRPT Properties Trust	Baa2	(P)Baa3	Baa3	Stable
Mack-Cali Realty Corporation	-	-	Baa3	Stable
Mack-Cali Realty, L.P.	Baa2	(P)Baa3	-	Stable
Piedmont Office Realty Trust, Inc.	-	-	-	Stable
Piedmont Operating Partnership, L.P.	Baa3*	-	-	Stable
PS Business Parks, Inc.	-	-	Baa3	Stable
SL Green Realty Corporation	-	-	-	-
Reckson Operating Partnership, L.P.	Ba2	-	-	Negative

As of 4/30/09

*Long Term Issuer Rating

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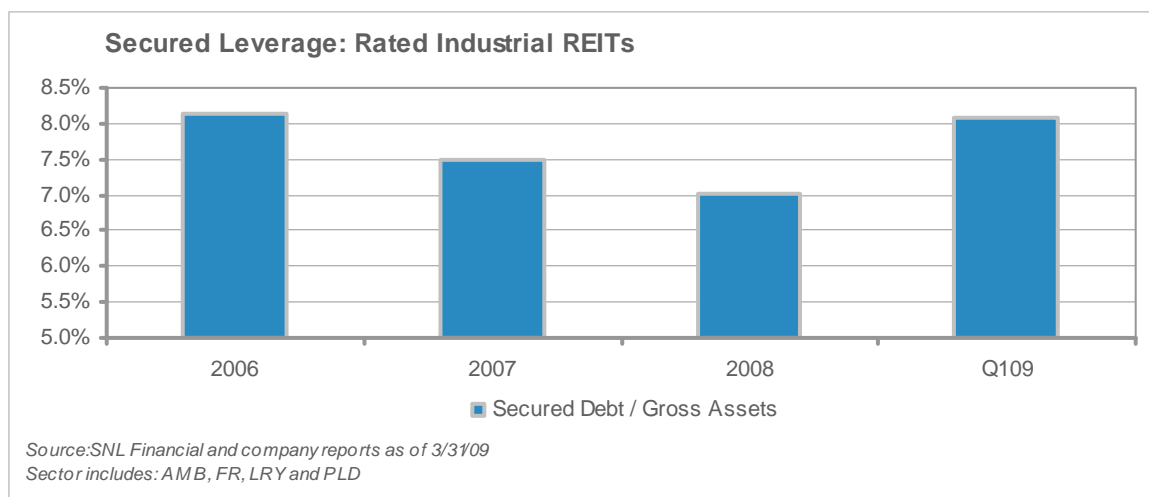
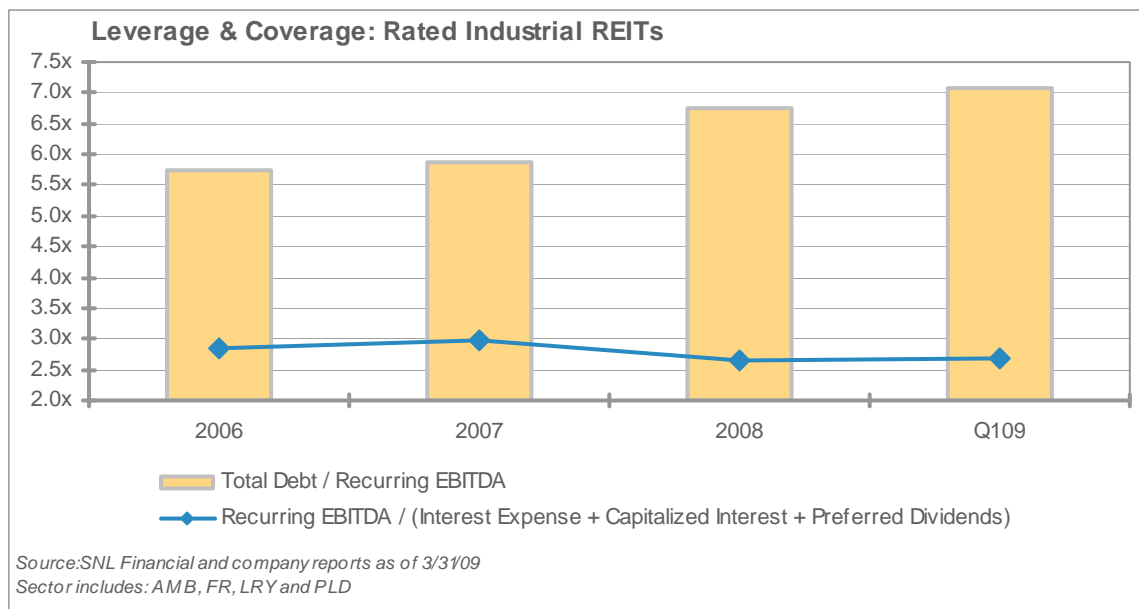
Industrial Sector	
Strengths	Challenges
<ul style="list-style-type: none"> ■ Limited development pipelines ■ Less overbuilding reflecting short construction lead times and focus on build-to-suit ■ Tenant improvement costs tend to be modest ■ High quality tenants with complex needs so that value-added services build customer loyalty ■ Fundamentals remain stable, though we expect them to weaken 	<ul style="list-style-type: none"> ■ Weaker fixed charge and debt to EBITDA metrics ■ Winding down of non-core businesses will pressure earnings and liquidity ■ Volatile operating environment expected for the intermediate term: housing meltdown, import/export dynamics, credit and economic crises (US, Europe and Japan affected more severely) ■ Leasing decisions slower in coming as the year progresses ■ Transaction activity is at cyclical lows ■ Rental rates stagnant or lower; cap rates rising ■ Turbulent capital markets severely limit capital access ■ Manufacturing is contracting; PMI trend is down

Moody's rating outlook for the industrial REITs is negative. Two of the four rated industrial REITs have negative outlooks, one is under review for possible downgrade and one has a stable outlook. Those with negative outlooks have less cushion at their current rating levels and face more downward pressure. Key credit considerations for industrial REITs include near-term liquidity and availability on their lines of credit, as well as the level and quality of core same-store NOI. Future rating actions are likely to be limited to one-notch downgrades. Looking forward, Moody's expects market fundamentals to be weaker, with average occupancy declines of 150-200 basis points, rent declines and flat to negative NOI growth expected in 2009. Counterbalancing these weaknesses are limited new supply, likely high retention rates, and tenant profiles exhibiting diversity and solid credit quality.

As with other sectors, liquidity and balance sheet considerations will take center stage in 2009. Most rated industrial REITs, however, also generated earnings driven less by core rental revenues and more by fee income from JV and fund businesses, divestiture gains, and merchant building activities. Another concern was bloated development pipelines. Fees dropped substantially in 2008 and will continue to dissipate as 2009 evolves. Thus, REITs that strayed farthest from the "buy and hold" model are likely to experience the most negative pressure on their ratings as they attempt to right the ship.

Credit metrics for the rated industrial REITs weakened noticeably in 4Q08, despite being nominally better for 2008 relative to 2007. Nevertheless, much of the deterioration was in the fixed charge and debt to EBITDA measures—mostly related to EBITDA deterioration—which Moody's expects to continue throughout 2009. Rated industrial REITs still maintain large unencumbered portfolios with good quality assets and low on-balance-sheet secured debt levels.

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Industrial REITs	Senior Debt	Subordinate	Preferred Stock	Outlook/Review Status
AMB Property Corporation	-	-	Baa2	Negative
AMB Property, L.P.	Baa1	-	-	Negative
First Industrial Realty Trust	-	-	Ba2	Under Review Down
First Industrial, L.P.	Ba1	-	-	Under Review Down
Liberty Property Trust	-	-	(P)Baa3	Stable
Liberty Property L.P.	Baa2	(P)Baa3	-	Stable
ProLogis	Baa2	-	Baa3	Negative

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Multifamily Sector	
Strengths	Challenges
<ul style="list-style-type: none"> ■ Moderate leverage and good fixed charge coverage ■ Manageable near-term liquidity needs ■ Single-family tumult helping rental demand ■ Very little new construction ■ Demographics point to larger population of renters ■ Fannie Mae and Freddie Mac access continues for now 	<ul style="list-style-type: none"> ■ Rapidly rising unemployment ■ Shorter leases mean more immediate pressure on cash flow ■ Leverage is among the highest of the major REIT sectors ■ Margins lowest among the major REIT sectors ■ Supply overhang from weak single-family and condo markets ■ Financial markets limiting regular capital access

Moody's rates nine multifamily REITs; eight have stable outlooks and one outlook is negative, and we maintain a stable rating outlook for the sector. During the fourth quarter of 2008 and first quarter of 2009, the fundamentals of the apartment industry have steadily eroded and the forecast for rental demand is more uncertain. For now, landlords face little pressure from households choosing homeownership. Clearly, home affordability measures are rising, though they are offset by an aversion to buy an asset which is still falling in value, stricter lending standards and the disconcerting employment and economic picture.

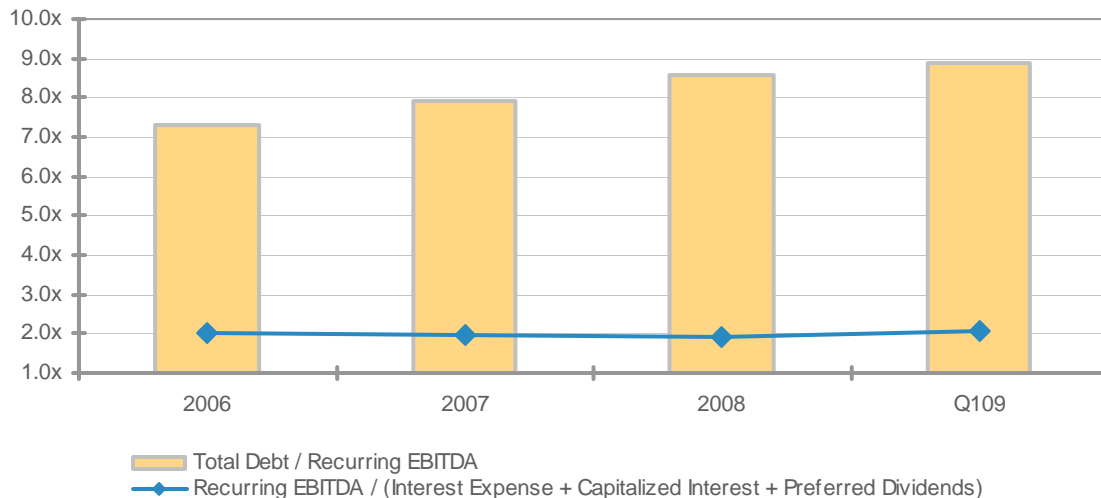
In response to the current state of the economy, multifamily REITs have increasingly adopted defensive postures with their balance sheets and operating activities, seeking to maximize liquidity via a number of initiatives, including the use of Fannie Mae and Freddie Mac debt, ratcheting down development activities, and asset sales. Average bank line capacity is high, and similar to other REIT sectors, multifamily companies have lowered cash dividends to augment liquidity and retire near-term maturities to alleviate refinancing risk.

We expect landlords to sacrifice cash flow in order to maintain occupancies, which could result in declines in fixed charge coverage and increases in debt to cash flow ratios. We see little ratings pressure through the end of 2009, however, and do not expect bond or bank line covenants to be threatened. With little new supply and favorable demographic trends, we could see a relatively large population of renters looking for apartments in a supply-constrained environment once a recovery has taken hold in two-to-three years.

Moody's will closely monitor liquidity of the multifamily REITs, especially with respect to management of near-term maturities. We will also keep an eye on fundamentals and their impact on cash flow. Rating actions will follow when it is evident that companies will have difficulty meeting their financial commitments or that economic pressures are impairing cash flows to the point where servicing debt and other obligations becomes thorny. That said, management teams are appropriately focused on these challenging conditions, and most balance sheets are well-prepared for the next 12 to 18 months.

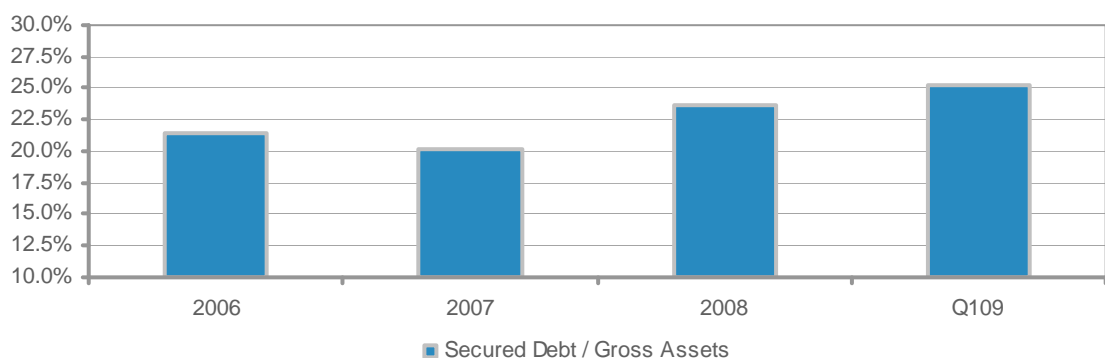
US REIT and REOC Review & Outlook

Leverage & Coverage: Rated Multifamily REITs



Source: SNL Financial and company reports as of 3/31/09
Sector includes: AEC, AIV, AVB, BRE, CLP, CPT, EQR, PPS, UDR

Secured Leverage: Rated Multifamily REITs



Source: SNL Financial and company reports as of 3/31/09
Sector includes: AEC, AIV, AVB, BRE, CLP, CPT, EQR, PPS, UDR

Multifamily REITs	Senior Debt	Subordinate	Preferred Stock	Outlook/Review Status
Apartment Investment & Mgmt Co.	Ba1*	-	Ba3	Stable
Associated Estates Realty Corp	(P)B1	-	B3	Stable
AvalonBay Communities, Inc.	Baa1	(P)Baa2	Baa2	Stable
BRE Properties, Incorporated	Baa2	(P)Baa3	(P)Baa3	Stable
Camden Property Trust	Baa1	-	(P)Baa2	Stable
Camden Summit Partnership, L.P.	Baa1	-	-	Stable
Colonial Properties Trust	(P)Ba1	(P)Ba2	Ba2	Negative
Colonial Realty L.P.	Ba1	(P)Ba2	-	Negative
Equity Residential	-	-	Baa2	Stable
ERP Operating L.P.	Baa1	-	-	Stable
Post Properties, Inc.	-	-	Ba1	Stable
Post Apartment Homes, L.P.	Baa3	-	-	Stable
UDR, Inc.	Baa2	(P)Baa3	Baa3	Stable

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*Corporate Family Rating

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Healthcare Sector	
Strengths	Challenges
<ul style="list-style-type: none"> ■ Adequate liquidity, manageable maturities and good line of credit availability ■ Moderate leverage, little secured debt ■ SNFs received a 3.4% increase in Medicare reimbursement for fiscal 2009 ■ Increased property type diversification ■ Defensive characteristics of various property types should cushion impact from slowing economy ■ Positive demographic trends with aging baby boomer generation ■ Access to GSE secured financing for senior housing assets 	<ul style="list-style-type: none"> ■ Longer term outlook for government reimbursement is uncertain, particularly given federal and state budget deficits ■ Tenant concentrations; often weaker tenant credit profiles ■ Senior housing, particularly independent living, will likely be challenged with retaining operating income in the face of slowing economy ■ Specialized assets

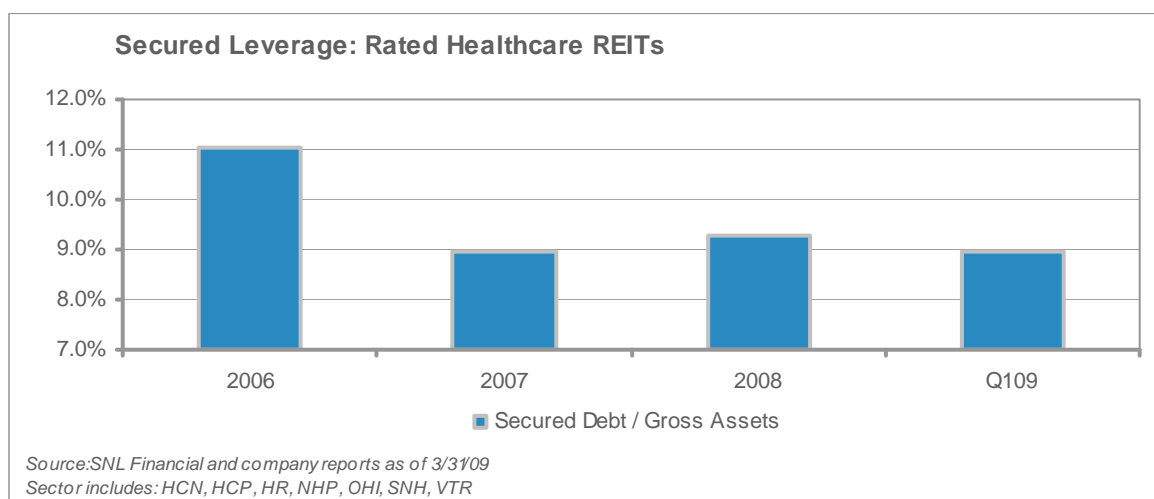
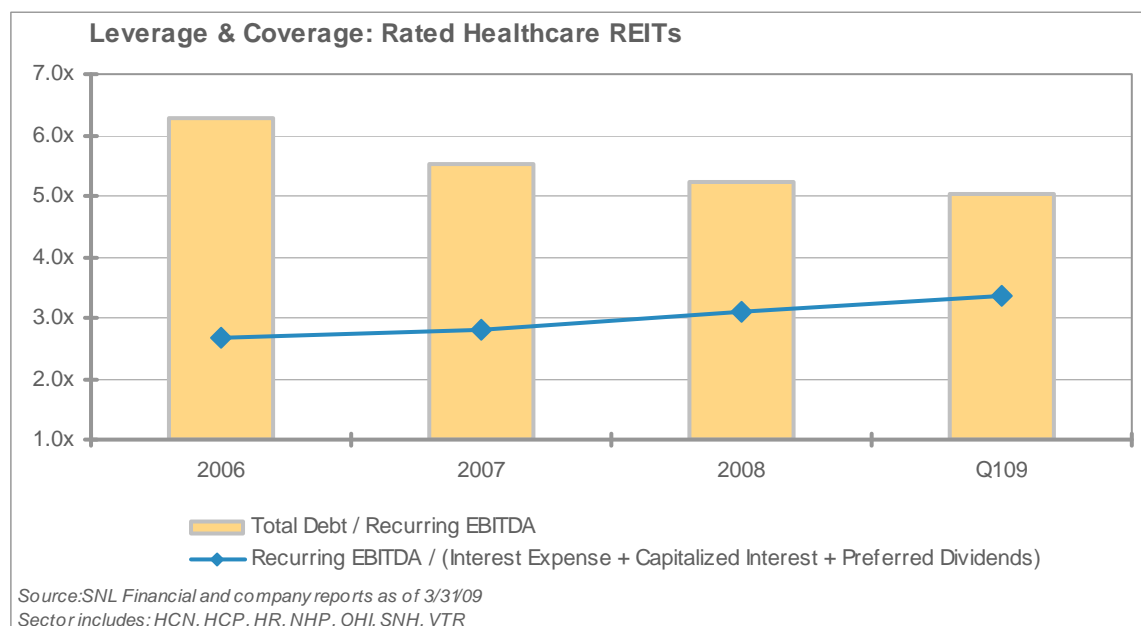
Moody's rating outlook for healthcare REITs remains stable. Among the seven rated healthcare REITs, six have a stable outlook and one – Senior Housing Properties Trust – has a positive outlook. We also recently upgraded the senior debt ratings of Nationwide Health Properties to Baa2 from Baa3.

The stable outlook for the healthcare REITs reflects their sound balance sheets, which have been enhanced in many cases by common equity issuance, and a generally stable operating environment for most of the major property sub-types. In addition, sector liquidity remains adequate, with manageable near-term maturities, ample lines of credit capacity and large pools of unencumbered assets. Furthermore, those healthcare REITs with senior housing assets have access to secured financing through Fannie Mae and Freddie Mac.

Healthcare REITs have generally increased property type diversification in recent years, and many are now invested in several different areas of the healthcare real estate market: skilled nursing facilities, senior housing, medical office buildings, hospitals and life sciences buildings. Each of these segments has different profit drivers, although all should continue to benefit from positive demographic trends, which will get even better as the aging baby boomer generation drives increased demand for various types of healthcare services. The defensive characteristics of healthcare should help insulate operators from the adverse effects of the slowing economy. Nevertheless, none of the property sub-types are wholly immune from the macro economic climate. Among the various sub-segments, we expect senior housing, which includes independent and assisted living, will face the strongest headwinds from the slowing economy and housing market turmoil. Positively, we note that the sector showed good resiliency through year-end 2008 with relatively flat occupancy and rental rate trends. Additionally, demand tends to be driven not as much by lifestyle as by need, particularly with the higher acuity assisted living residents.

Until there is more visibility as to the availability and cost of capital, Moody's does not expect healthcare REITs to actively grow their portfolios. Once the uncertainty dissipates, however, we believe the healthcare REITs will be well positioned to make new investments that will increase earnings and continue diversification strategies – a plus for ratings.

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Health Care REITs	Senior Debt	Subordinate	Preferred Stock	Outlook/Review Status
HCP, Inc.	Baa3	-	Ba1	Stable
Health Care REIT, Inc.	Baa2	(P)Baa2/Baa3	Baa3	Stable
Healthcare Realty Trust Incorporated	Baa3	(P)Ba1	(P)Ba1	Stable
Nationwide Health Properties, Inc.	Baa2	(P)Baa3	Baa3	Stable
Omega Healthcare Investors	Ba3	-	B2	Stable
Senior Housing Properties Trust	Ba1	(P)Ba2	(P)Ba3	Positive
Ventas, Inc.	Ba1	(P)Ba3	(P)Ba3	Stable
Ventas Realty, Limited Partnership	Ba1	(P)Ba2	-	Stable
Ventas Capital Corporation	(P)Ba1	(P)Ba2	-	Stable

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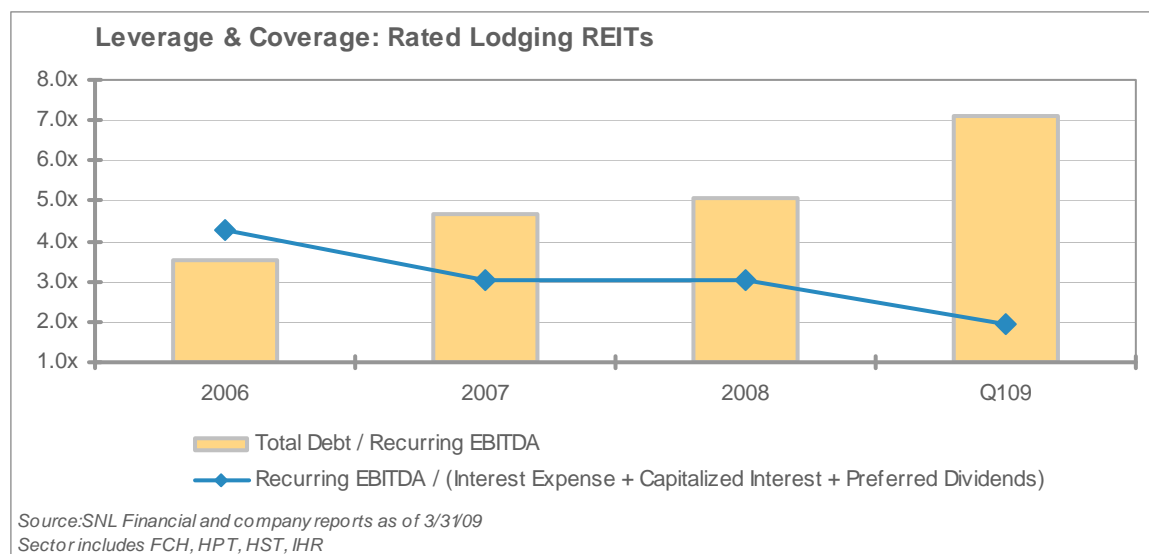
US REIT and REOC Review & Outlook

Lodging Sector	
Strengths	Challenges
<ul style="list-style-type: none"> ▪ Limited new supply ▪ Recently upgraded and/or renovated portfolios for most rated lodging REITs and REOCs ▪ Experienced management teams ▪ Good capital market access (for some firms) 	<ul style="list-style-type: none"> ▪ Dramatic decline in lodging demand across segments and geographies ▪ Earnings deterioration ▪ Liquidity pressures (for some firms) ▪ Weakening of debt protection measures

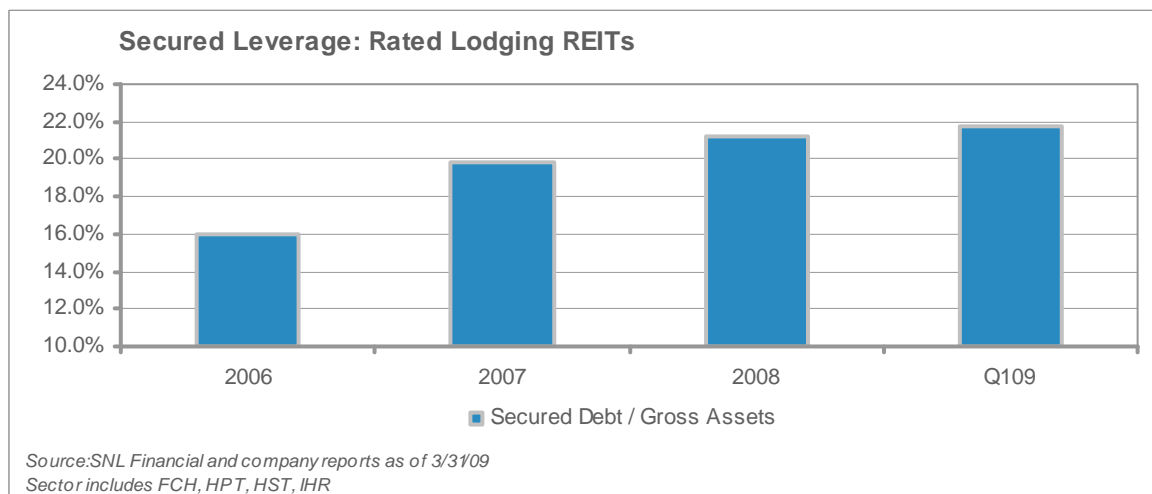
Moody's rating outlook for lodging REITs is negative. Weak demand has been pressuring hotel operations through the second half of 2008 and in the first quarter of 2009; furthermore, Moody's expects it to remain a constraint on lodging earnings through 2009 and likely into 2010. Accordingly, the industry RevPAR expectations for 2009 have become increasingly negative and first quarter results from both the lodging REITs and the hotel operators support that view. Although it is too early, in our opinion, to call the bottom of the lodging market, the one glimmer of positive news is the anticipation that the rate of RevPAR decline will moderate in the coming quarters as year-over-year comparisons reference a lower starting point.

Faced with a dire revenue picture, many lodging REITs have been working closely with their hotel managers to reduce costs, efforts that have generally been successful. Aggressive cost reductions have allowed some REITs to maintain or at least minimize margin erosion despite decreases in revenues and increasingly gloomy RevPAR forecasts. Constrained capital markets had been adding to the woes of lodging REITs; however, recently we have seen both debt and equity issuance, including successful bond offerings by a lodging REIT and a hotel operator. In addition, to date lodging REITs have been able to access the secured debt market, albeit at less favorable terms than a year ago.

Moody's has taken a number of negative rating actions with respect to lodging REITs and REOCs. These rating actions were primarily precipitated by specific events, such as preferred dividend suspension and technical defaults (subsequently waived). We anticipate further negative rating pressure should the reduction in demand and RevPAR decline continue. Lack of capital market access and liquidity challenges would also likely precipitate downward rating revisions.



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Lodging REITs	Senior Debt	Subordinate	Preferred Stock	Outlook/Review Status
FelCor Lodging Trust Inc.	-	-	Caa2	Negative
FelCor Lodging L.P.	B2	Caa2	-	Negative
Hospitality Properties Trust	Baa2	(P)Baa3	Baa3	Negative
Host Hotels & Resorts, Inc	Ba1	-	Ba2	Stable
Host Marriott L.P.	Ba1	-	-	Stable
Interstate Hotels & Resorts, Inc.	-	-	-	Under Review Down
Interstate Operating Company L.P.	Caa1	-	-	Under Review Down

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Appendix

Ranking of Liquidity Sources

1. Balance Sheet Cash	Cash is the most reliable source of liquidity. However, for REITs, the amount of cash that can be retained is limited by the tax code requirement to distribute 90% of taxable income as dividends in order to preserve REIT status. Therefore, as a rule, REITs usually have little cash on hand.
2. Committed and Undrawn Borrowing Facilities	Facilities, including revolvers and lines of credit (collectively referred to as LOCs) generally have compliance covenants, such as a maximum leverage percentage or a minimum fixed charge coverage ratio. Covenants can limit access to LOC funding and REITs with more of a cushion in the facility have a more reliable source of liquidity.
3. Operating Cash Flow	The contractual nature of rents for certain property sectors, particularly those with longer lease terms, provides some degree of cash flow reliability. In addition, we look at a firm's geographic, tenant, industry and economic diversification, and lease structures, to help assess the overall quality of operating cash flows.
4. Asset Sales	Though asset values can change materially and quickly, and transactions take time to complete, properties — particularly unencumbered properties — have in the past proved to be relatively reliable cash sources. However, asset sales are not a sustainable long term source of funding, particularly in the current economic climate.
5. Access to Capital Markets	Given the capital-intensive nature of real estate and the requirement for REIT earnings payouts, access to capital markets is important. Then again, the current freeze in the capital markets has shown the risk of placing too much reliance on capital markets to meet liquidity needs.

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Ranking of Liquidity Uses

1. Bonds & Mortgages Repayment	The principal and interest payments required to service and repay debt are often the primary use of a REIT's available cash and can cause liquidity problems, especially when the debt matures.
2. Credit Facility Repayment	Credit facility repayments also can account for a large amount of REIT cash usage, particularly in the current capital constrained environment where the ability to refinance a line of similar size is uncertain. We note that these facilities typically have extension features and no amortization allowing for some repayment flexibility.
3. Development	Developing properties requires large sums of cash and long time horizons to complete, making it difficult for REITs and REOCs to curtail cash outlays for ongoing projects. We do note that firms can scale back or cancel new and early stage projects in order to enhance liquidity.
4. Preferred Stock Dividends	These distributions can amount to a large use of funds for REITs that issue preferred stock.
5. Common Stock Dividends	REITs must pay out 90% of taxable income as dividends to receive favorable tax treatment, but usually have some room to reduce dividend payments without jeopardizing the firm's tax status. Following an IRS ruling in December 2008 [*] , REITs may now elect to pay up to 90% of their dividends in equity instead of cash, providing companies with the option of decreasing dividend cash expenditures.
6. Capital Expenditures	Ordinary maintenance capital expenditures are difficult to reduce without negatively impacting the quality of REIT and REOC assets, but the costs are usually not large enough to create significant liquidity problems. However, some sectors, such as office REITs, and projects, like building upgrades, may have considerable capital expenditure outlays that could diminish liquidity.
7. Share and Debt Repurchases	Repurchasing common and preferred shares and debt trading at a discount requires considerable cash to be effective, but share and debt repurchases can be halted relatively easily if a company so chooses.

^{*} Revenue Procedure 2008-68, issued December 2008.

^{**} "US REITs: Utilization of Taxable Stock Dividends – Today, Net Credit Positive", Moody's, January 2009.

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Moody's Related Research

Industry Outlook:

- US REIT and REOC Industry Study, October 2007 (105443)

Rating Methodology:

- Rating Methodology for REITs and Other Commercial Property Firms, January 2006 (96211)
- Key Ratios for Rating REITs and Other Commercial Property Firms, April 2007 (102760)

Special Comments:

- Healthcare REITs: Well-Positioned in Slowing Economy, Stable Ratings Outlook, October 2008 (112146)
- Lodging REITs: Entering the Cyclical Downturn, November 2008 (112125)
- Industrial REITs: Earnings Volatility and Negative Fundamentals Erode Rating Cushions, November 2008 (112246)
- Retail REITs: Negative Retail Fundamentals Likely to Pressure Ratings, December 2008 (112403)
- US REITs: Utilization of Taxable Stock Dividends – Net Credit Positive, January 2009 (114377)
- US Office REITs: 4th Quarter 2008 Earnings Commentary and Outlook, March 2009 (115230)
- Multifamily REITs - Fundamentals Continue to Weaken, April 2009 (115407)
- New Accounting Rules for Convertible Debt with Cash Settlement Features: No Impact on REIT Ratings, May 2009 (115996)

Sector Comment:

- U.S. TALF Expanded to Legacy CMBS; Markets React Positively, May 2009 (SF167193)

Special Reports:

- CMBS: Red-Yellow-Green Updated, Fourth Quarter 2008 Quarterly Assessment of U.S. Property Markets, April 2009 (SF162885)
- Moody's/REAL Commercial Property Price Indices, May 2009 (SF165886)

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