



REITS/REOCs- Trends and Outlook

Liquidity and Flexibility is the Key to Survival

Agenda

- **Real Estate Industry and REIT Trends**
- **Outlook for Property Sectors**
- **Rating Methodology**
- **What's Next?**

Real Estate Industry and REIT Trends

Real Estate Industry and Capital Markets Trends

(via 4 quadrants)

Public Equity

REITS/REOCs

Public Debt

Unsecured debt/CMBS/CDOs

Private Equity

Mezz/JVs

Private Debt

Mortgages, Syndications

REITs

Equity REIT

- » A corporation (trust) that owns real estate and passes its income and losses through to its investors without the entity incurring income tax
- » A “Mutual Fund” for real estate – allows real estate companies to access the public markets
- » Ownership Rules:
 - Must have at least 100 shareholders
 - 75% of REIT’s assets must be invested in cash, government securities and real estate
- » Income Rules:
 - 75% of REIT’s income must be from real estate sources - rents, reimbursements, etc.
 - 90% of taxable income must be distributed to shareholders as dividends
 - Less than 30% of gross income can be sales of real property held less than 2 years (originally was 4 years)

REITS - HISTORY

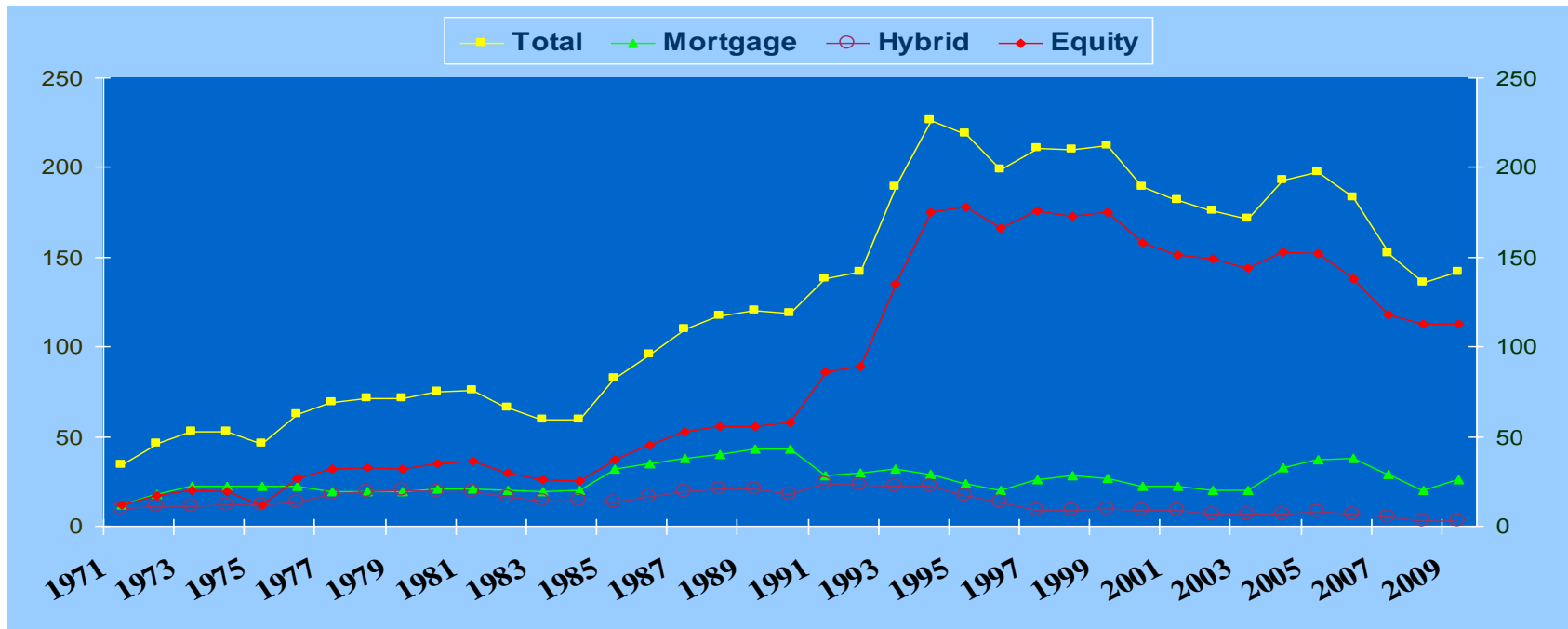
1960	Formed by an act of Congress
1960's	Passive Equity REITS
1969 - 1976	Mortgage REITS
1970's/80's	Ignored due to Limited Partnerships
1985	A few Real Estate Operating Companies
1986	Tax Equity & Fiscal Responsibility Act Allowed Active Management
1991	Kimco REIT started new ERA
1992	Taubman created and UPREIT coined
1992 - 1998	Real Estate Operating Companies Explode
1998	Real Estate Capital Markets Pull Back
1998 - 1999	REIT Stock Values Retrench; M&A Activity
1999 – Present	Mega REITs, Operating Companies, Financial Deals

REIT Performance versus Public Equity Securities Markets

	<u>REITs</u>	<u>DJIA</u>	<u>NASDAQ</u>	<u>RUSSELL 2000</u>
2009 (YTD)	+19.1%	+17.7%	+36.8%	+18.9%
2008	-37.3%	-33.8%	-40.5%	-33.8%
2007	-17.8%	+6.4%	+9.8%	-1.6%
2006	+34.4%	+16.3%	+9.5%	+18.4%
2005	+8.3%	-0.6%	+1.4%	+4.6%
2004	+30.4%	+3.2%	+8.6%	+18.3%
2003	+38.5%	+25.3%	+50.0%	+47.3%
2002	+5.2%	-16.8%	-31.5%	-20.5%
2001	+15.5%	-7.1%	-21.1%	+2.5%
2000	+25.9%	-6.2%	-39.3%	-3.0%
1999	-6.5%	+25.2%	+85.6%	+21.3%
1998	-18.8%	+18.0%	+40.1%	-2.4%

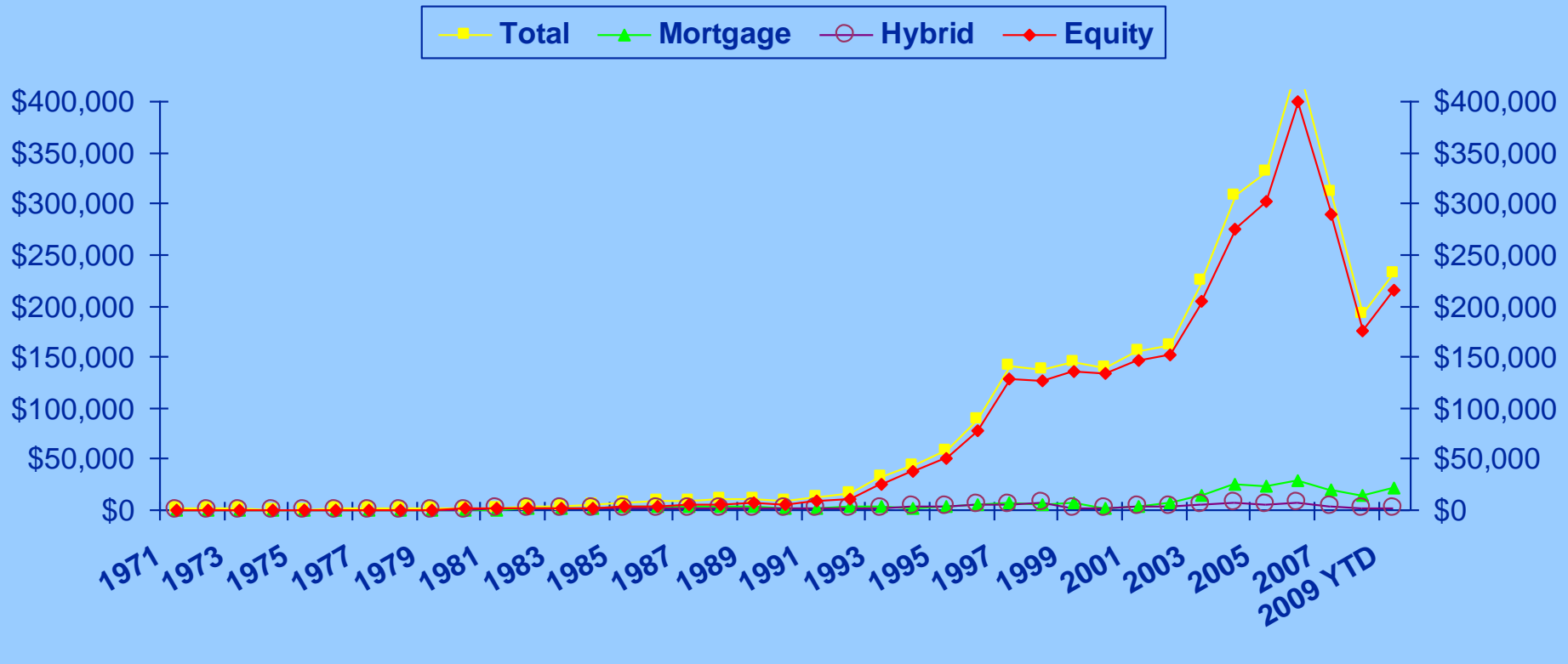
Source: Total return data; FTSE NAREIT US Real Estate Index as of 11/19/09

Growth in Number of REITs (1971 – 2009)



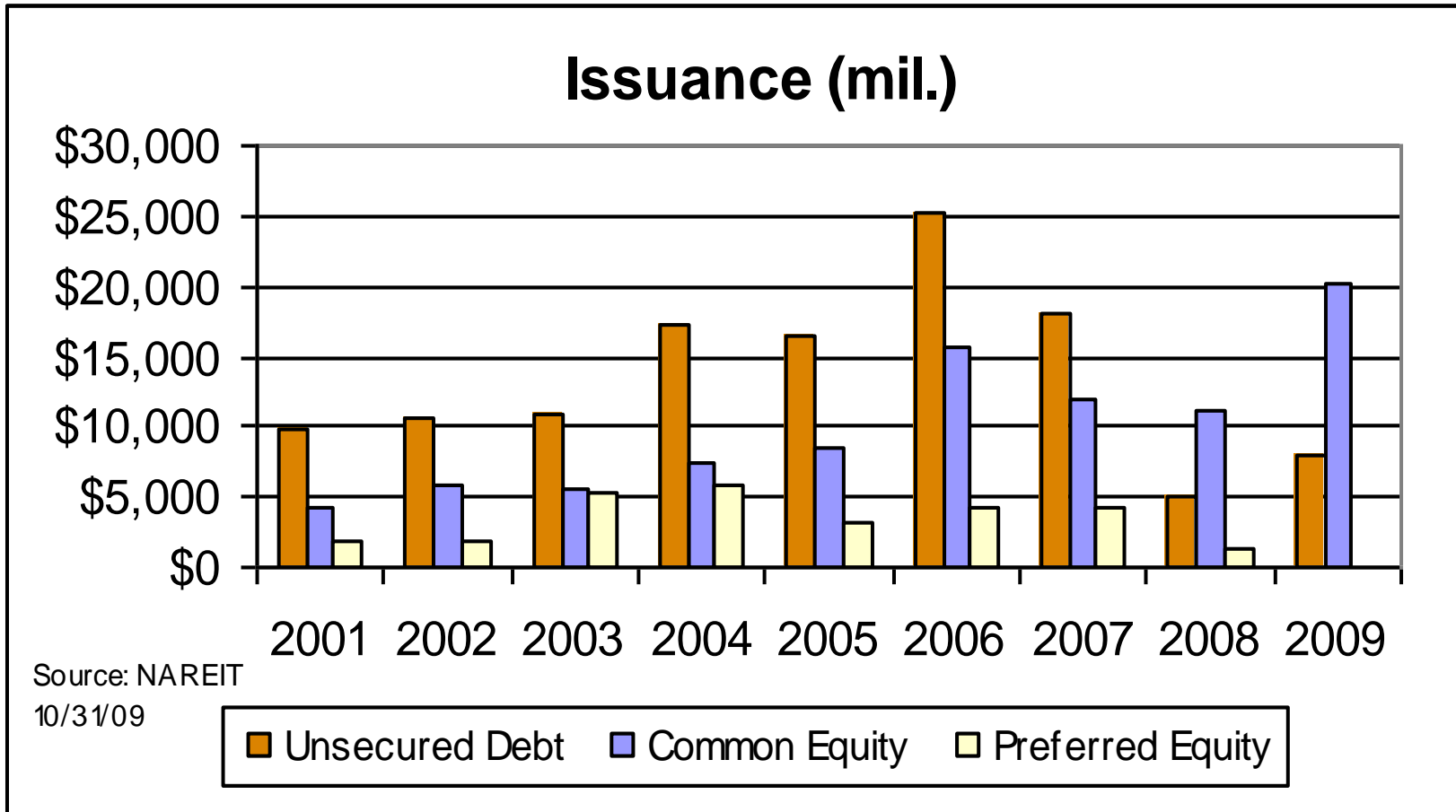
Source: NAREIT at 10/31/09

Growth of REIT Market Capitalization (1971 – 2009)



Source: NAREIT (in U.S. \$ Millions) 10/31/09

Sources of Financing: Unsecured Debt and Common/Preferred Stock Issuance



SINGLE SLICES By Peter Kohlsaat

Yeah, yeah, yeah... passion
is great, but you need more.
You need cash flow.

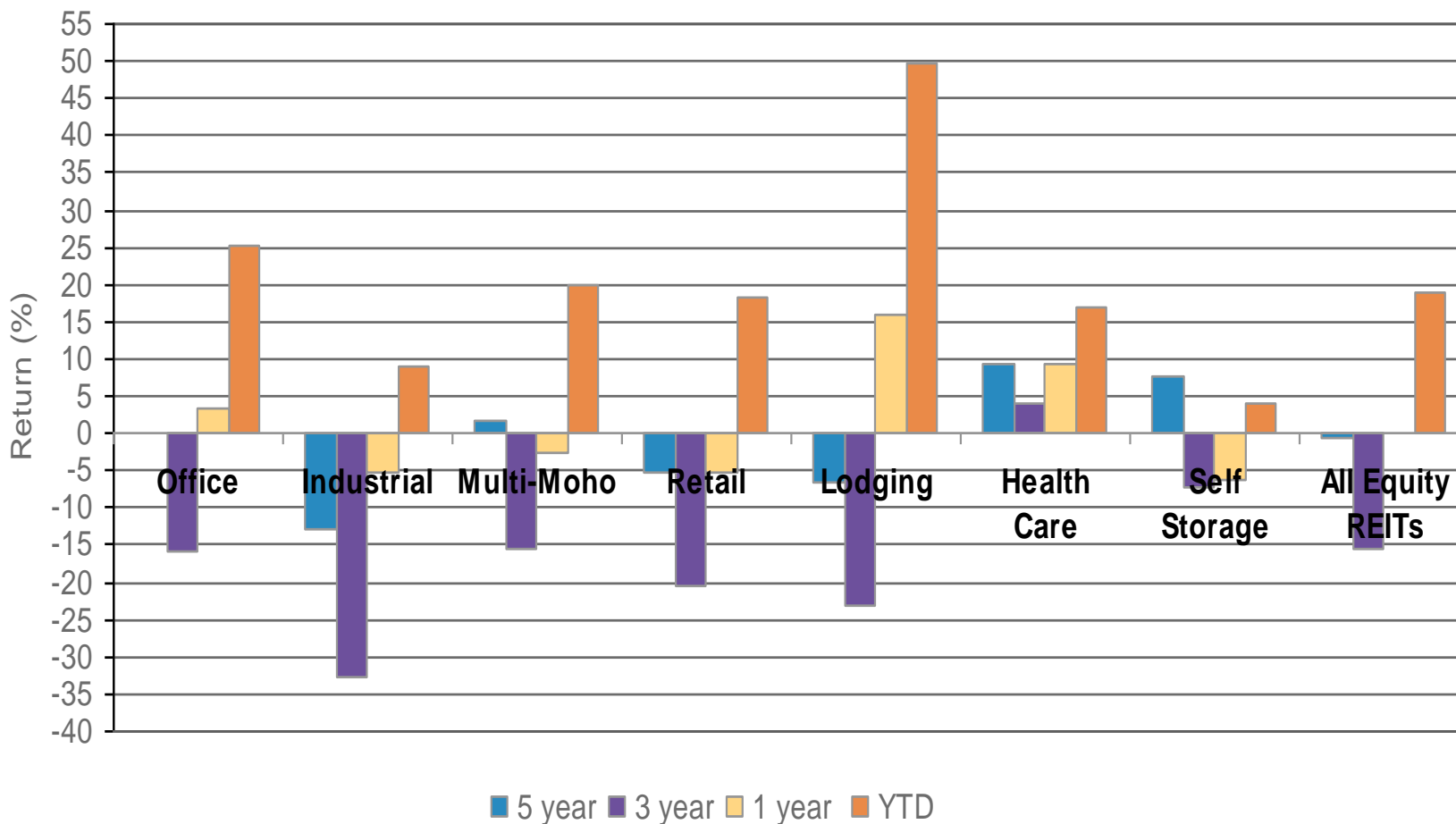


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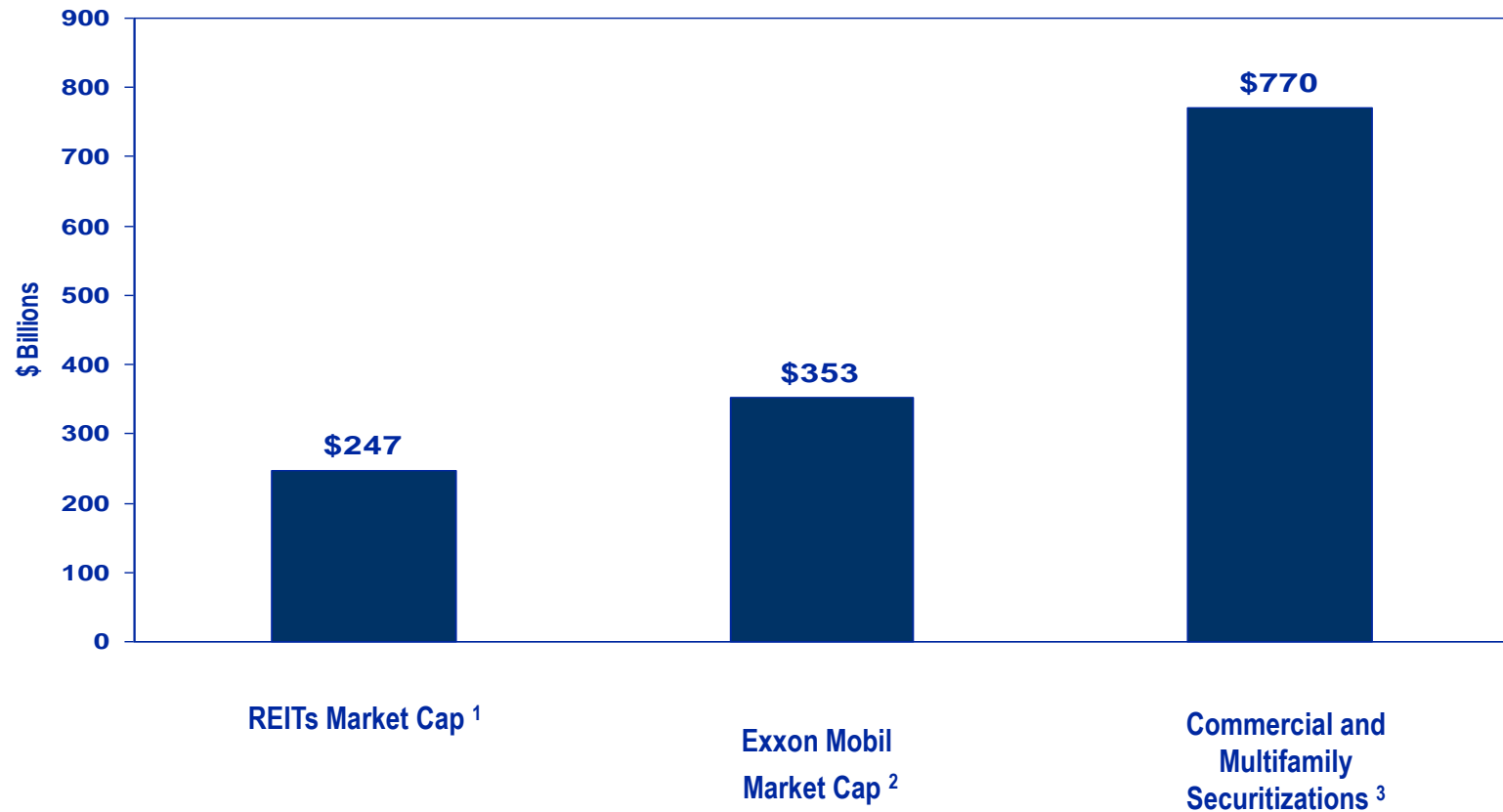
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REIT Equity Performance



Source: FTSE NAREIT YTD through Nov 13, 2009; 1,3 & 5-yr Compound Annual Total Returns through Oct, 31, 2009

Market Size Comparison



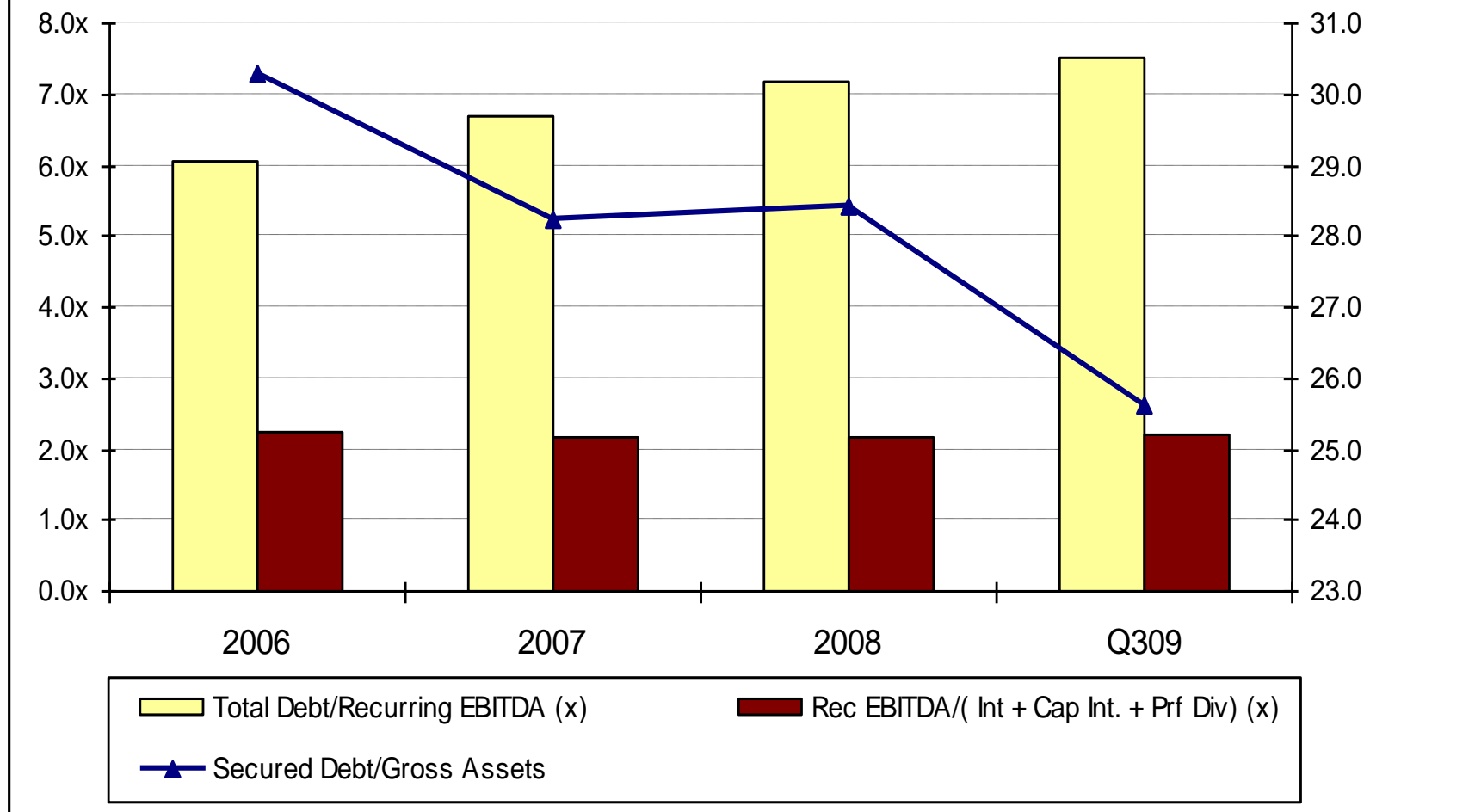
Sources: (1) NAREIT 10/31/09; (2) NYSE, Yahoo Finance EOB 11/20/09; (3) Federal Reserve, Flow of Funds

REIT Trends 2009

REITs continued to do the “right” things in 2009:

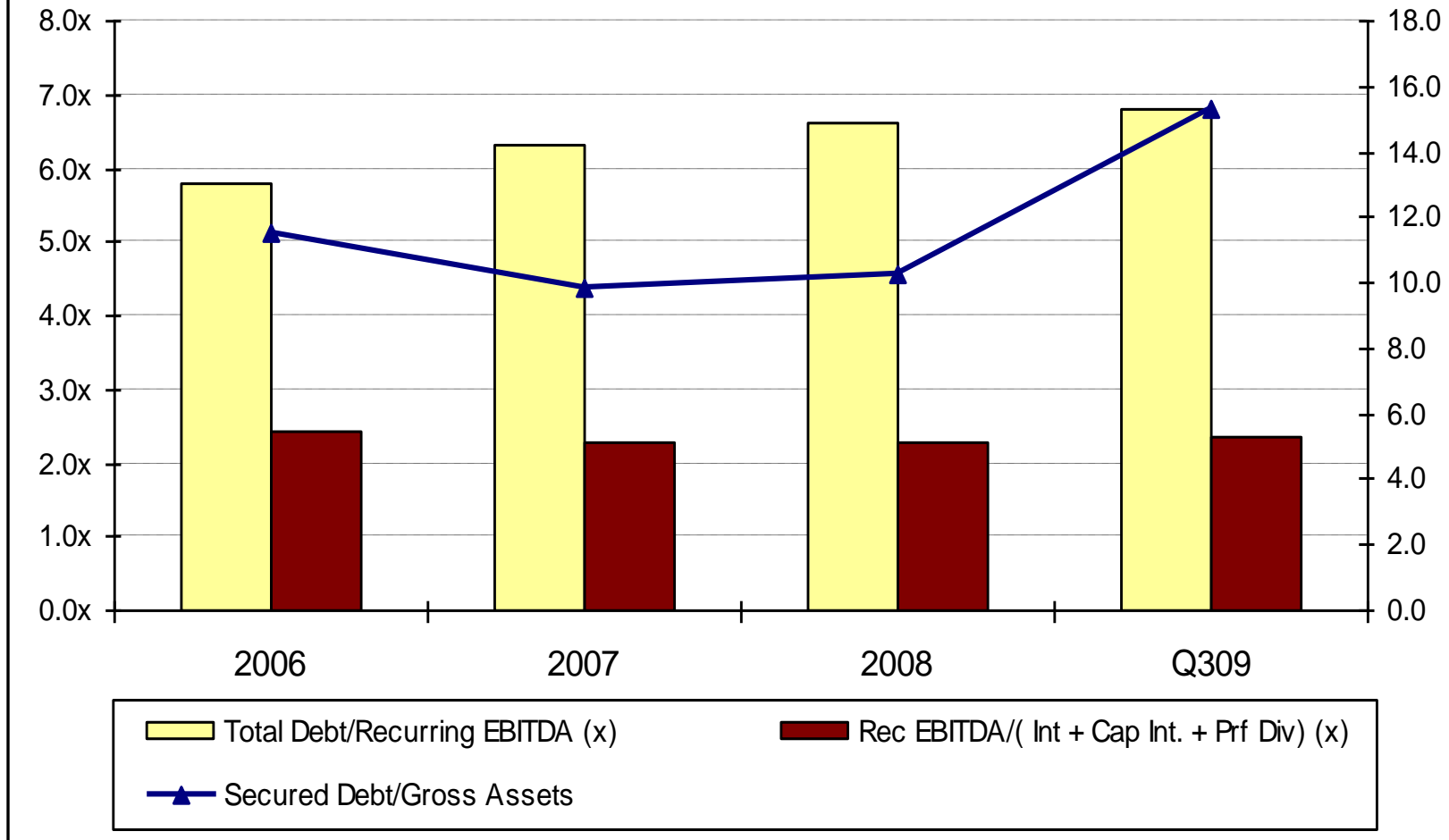
- » Focus on internal (“organic”) growth
- » Sell some mature and non-core assets
- » Selectively issue equity ~\$16B
- » Repay/refinance debt; issued ~\$10B unsec
- » Joint venture with institutional investors

Leverage & Coverage: US Equity REITs



Source: SNL- 121 US equity REITs

Leverage & Coverage: Moody's Coverage- US Equity REITs



Source: SNL- US equity REITs

REIT Financial Snapshot

- Leverage has increased
- Liquidity is sound in most companies
- Refinancing risk is manageable for most co's
- Fixed Charge is stable, but declining slightly
- Secured debt trending up
- Operating Margins are weakening
- Dividend Payouts decreasing
- Investment Yields are tightening
- Preferred Stock Redemptions were a rate play
- Common Stock Buybacks: more to come?
- Unsecured Note tender offers - increased
- Bank and Bond Covenants provide discipline

Outlook for Property Sectors

The First Developer

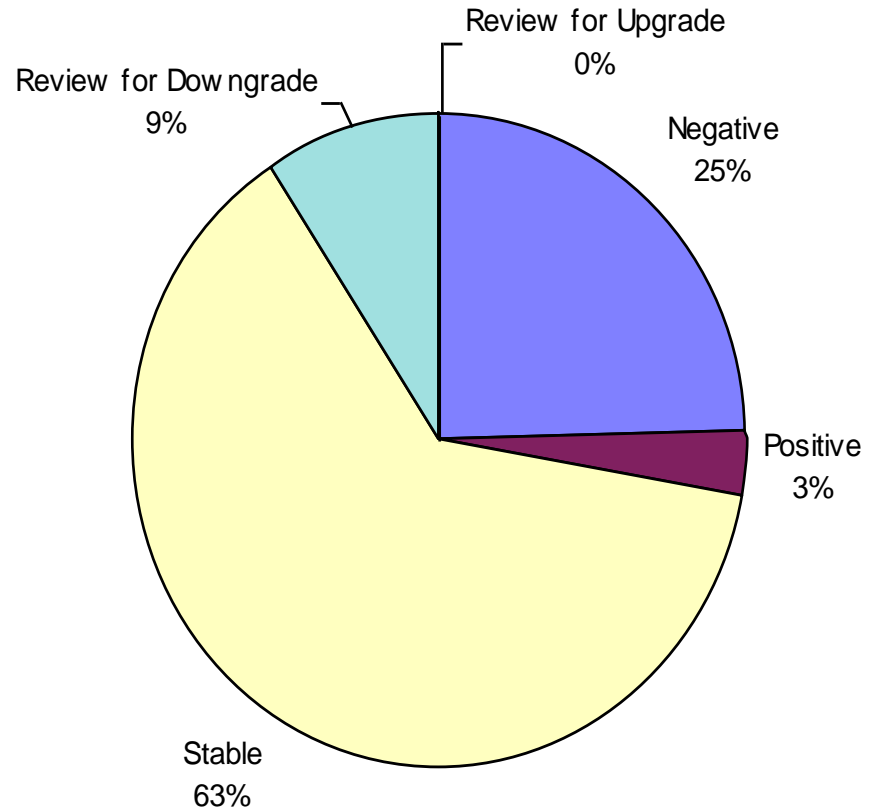


"Someday I hope to have a whole complex of caves."

US REITs and REOCs Outlooks

US REITs & REOCs Outlooks

Property Sector	Fundamental Trend	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

REIT Healthcare Sector Summary

- Stable rating outlook/Stable trend – well-positioned in slowing economy
- Skilled nursing facilities (SNFs); senior housing; medical office buildings (MOBs); hospitals; life sciences
- Industry (particularly SNFs) is heavily reliant on government funding through Medicare & Medicaid Government reimbursements steady -
- for now
- Stronger property-level coverages
- Diversification of property types getting better – big plus
- Consolidation leading to tenant concentrations, with many tenants having weak credit metrics

REIT Industrial Sector Summary

- Negative rating outlook/Negative fundamental trend
- Moderate leverage, high unencumbered pool of assets
- Pressured fundamentals and operating performance
- Success abetted by global trade
- Solid manufacturing driving absorption
- Lots of JVs, funds, merchant building—increases volatility of earnings
- Difference among property sub-types important – R&D, flex, manufacturing, bulk warehouse/distribution

REIT Lodging Sector Summary

- Negative rating outlook/Negative trend
- Operating income now driven more by ADR than occupancy
- Better coverage and lower variable-rate debt
- Prospects for business travel uncertain – affects luxury segment
- Capex burden, flag concentration, obsolescence
- Return of privatized assets to the public arena?

REIT Multifamily Sector Summary

- Stable rating outlook/Negative fundamentals
- Pressured rents and occupancies, with some concessions
- Moderate leverage and good fixed charge coverage
- Landlord pricing was returning, until recently
- Development was on the rise; subsiding
- Technology initiatives
- Fannie & Freddie access
- JOBS !!

REIT Office Sector Summary

- Stable rating outlook/Negative fundamental trend
- M&A activity has been significant until now -- timing business
- Fundamentals weakening
- Limited new supply
- Expectations for slower job growth
- Franchise building is tough

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"It's a pity they had to stop work on the new mall."

REIT Retail Sector Summary

- **Stable rating outlook/Negative trend**
- **Consumers spending slowdown – for how long?**
- **REITs often own the best assets**
- **New supply – not a current issue**
- **Focus on quality and location**
- **Consolidation among REITs**
 - » **More diversity/leadership good; more leverage bad**
- **Consolidation among retailers**
 - » **Fewer of them?**
 - » **Shift in negotiating power?**
 - » **Shift in credit quality? Bankruptcies/store closures**
- **Ability to push rents?**
- **New Formats**
 - » **Entertainment centers squeezing malls?**
 - » **Big box & supercenters squeezed B&C malls and community centers**

Prison Sector Summary

- Sector Outlook - Stable
- High occupancy rates
- High barrier to entry market
- Demand for space expected to continue
- Lack of alternative use for space
- Reliance on government appropriations for payment of contracts
- Industry is sensitive to public opinion and complex regulation

Timber Sector Summary

- Stable outlook
- Lower EBITDA margins than typical REITs, yet superior fixed charge coverage
- Virtually unencumbered asset bases
- High-and-better-use lands command higher premiums, though possibly at cost of decapitalization
- Ancillary businesses add volatility
- Companies generate ample cash flow for financing needs including dividends

Other Sectors: Stable Outlook

MANUFACTURED HOUSING - Sluggish 2004 reflecting pressure on occupancy and slower growth due to lender retrenchment, unit oversupply, and over-aggressive lending practices resulting in heightened defaults on loans. Got better in 2005, 2006, 2007 slowly

SELF-STORAGE - Good defensive characteristics and low break-even costs

MORTGAGE REITs - Benefit from steep yield curve and widening spread of mortgage rates over Treasuries. Mortgage losses have increased and defaults are picking up

RATING METHODOLOGY

REITs/REOCs – Stable to Cautious Outlook-- Declining Fundamentals

- Sectors made it through past recession; are poised to survive current market volatility with some negative ratings
- Moderate leverage, solid unencumbered pools of assets, some liquidity issues
- Continued asset sales market, cap rates rising, lower equity prices and pressured debt access
- Growing reliance on fees for earnings growth subsiding
 - » Joint ventures
 - » Real estate fund structures
 - » International investments
 - » Merchant building

REIT/REOC Rating Drivers

- Liquidity and Funding – LOC available, Debt maturity, FFO payout, Unencumbered assets
- Leverage and Capital Structure – Net debt/EBITDA, Secured debt/Gross Assets, Access to capital
- Market Position and Asset Quality – Franchise/brand name, Gross assets, Diversity (by tenant, industry, geography), Development
- Cash flow and Earnings – EBITDA/revenues, Fixed charge coverage, ROAA, Steady earnings growth
- Internal and External Factors – Strong sector leadership, Management, JV/fund business (fee-generating structures often create weaker transparency, complexity, management difficulties and earnings volatility)

Quantitative Approach

Important Ratios:

- » Fixed Charge Coverage
- » Total Debt/Gross Assets
- » Total Debt + Preferred Equity/Gross Assets
- » Secured Debt/Gross Assets
- » Secured Debt/Total Debt
- » Unencumbered Gross Assets/Gross Assets
- » Encumbered Gross Assets/Gross Assets
- » Unencumbered NOI/Total NOI
- » Total Unsecured Debt/Unencumbered NOI
- » Unencumbered Gross Assets/Total Unsecured Debt

What's Next?

- Succession planning
- Increased focus on corporate governance, JVs, and accounting; Sarbanes-Oxley
- Greater bifurcation between strong and weak
- European markets as yet untapped
- M&A cooled, but may increase

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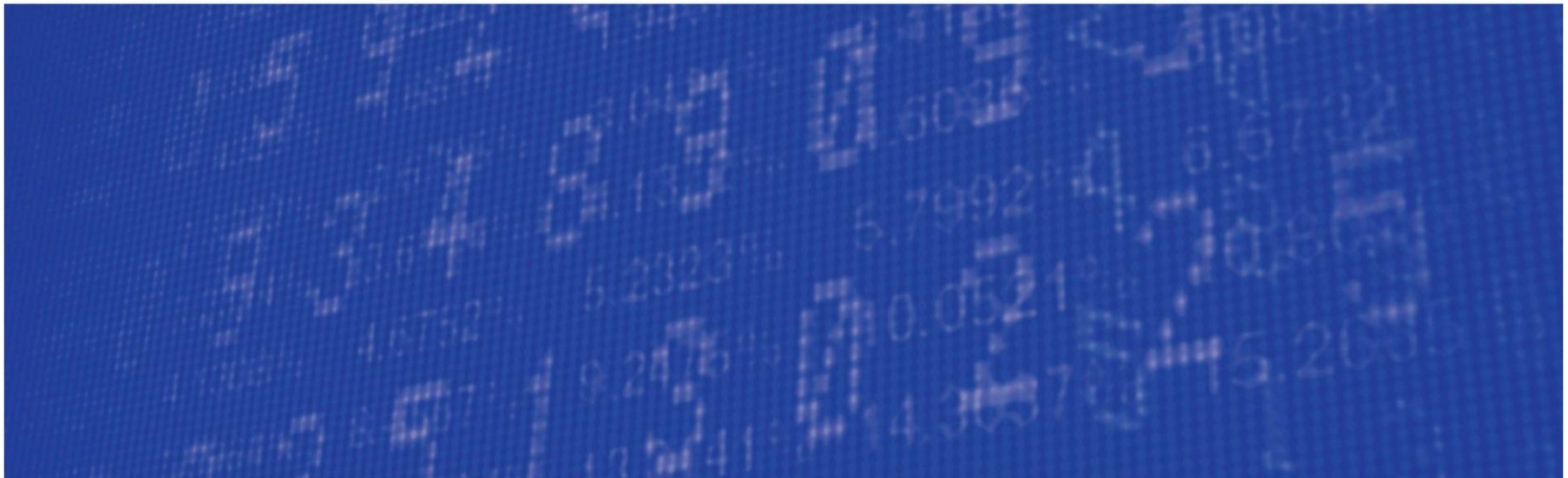
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