

# The Global Listed Real Estate Market

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# The National Association of Real Estate Investment Trusts

- The National Association of Real Estate Investment Trusts® (NAREIT) is a non-profit organization
- NAREIT is the representative voice for REITs and listed property companies worldwide with an interest in U.S. markets
- NAREIT's organizational focus
  - Government Affairs & Public Policy
  - Research & Investor Outreach
  - Member Services

# European Public Real Estate Association (EPRA)

## Membership & Strategy

Type	Number	Percentage (%)
Property Co/REITs	95	46
Investors	40	20
Banks	23	12
Universities	19	10
Consultants	19	10
Others	4	2
Total	201	100

Representing:  
EUR 1.1 Trillion

### EPRA Strategy:

- Reporting & Regulation
- Research, Indices & Investor Outreach
- Events/Networking

# Agenda

- An Industry and Global Real Estate Market Overview
- Capital Market Dynamics and REIT Market Cycles
- Equity Real Estate Investment Through Public and Private Real Estate Market Vehicles

# Global Real Estate Market

Region	Underlying Property Market (\$bn)	Listed Property Market (\$bn)	%	Stock Market	%
Europe	8,755	220	2.5	11,062	2.0
North America	6,749	400	5.9	13,768	2.9
Asia-Pacific	4,360	440	10.1	12,944	3.4
Latin America	1,105	2	0.2	2,246	0.8
Africa/Middle East	180	26	14.5	776	3.4
<b>Global</b>	<b>\$21,149</b>	<b>\$1,088</b>	<b>5.1%</b>	<b>\$40,795</b>	<b>2.7</b>

# Major Countries

Country	Underlying Property (\$bn)	Listed Property Market (\$bn)	%	Stock Market	%
US	6,152	359	5.8	12,360	2.9
Japan	2,074	152	7.3	3,647	4.2
Germany	1,493	14	0.9	1,283	1.1
UK	1,460	56	3.8	2,741	2.0
France	1,164	58	5.0	1,765	3.3
Italy	944	6	0.6	661	0.9
Hong Kong	795	159	20.0	4,718	3.4
Canada	597	39	6.5	1,408	2.8
Australia	389	63	16.0	1,058	6.0
Singapore	144	39	27.0	399	9.8
Global	21,149	1,088	5.1	40,795	2.7

# Key Messages

- Now is the time to consider adding or increasing portfolio exposure to commercial real estate investment through publicly traded REITs and non-U.S. listed property companies
- REITs provide meaningful advantages as a way of obtaining real estate exposure
  - Strong relative long-term performance
  - Moderate leverage
  - Market Liquidity
  - Simplicity
  - Transparency
  - Strong, investor-aligned governance
  - Capital markets agility and flexibility

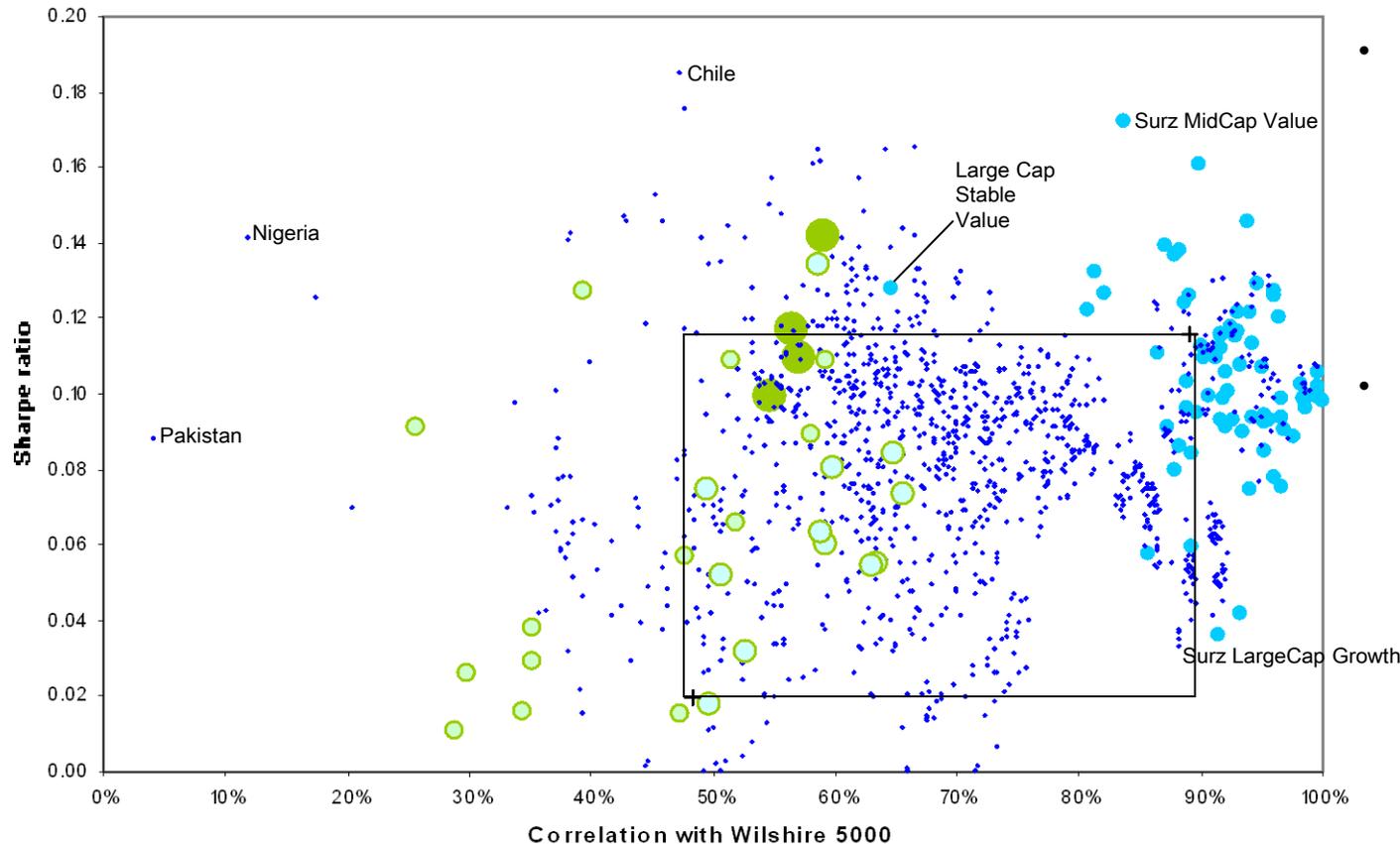
# REITs – A High Utility Portfolio Asset for Institutional Investors

- REITs have both strategic and tactical portfolio management applications:
  - A proxy for direct real estate investment
  - A complement to the private real estate allocation
  - A means for making tactical adjustments to strategic allocations
  - An efficient way to gain global real estate exposure
- REIT equities are a low-cost investment that provide an efficient means of monitoring performance and developing an accurate assessment of commercial real estate exposure

# Real Estate in a Global Equity Portfolio

## Risk-Adjusted Performance and Diversification

**Risk-Adjusted Performance and Diversification Potential**  
 U.S. and global investment benchmarks: January 1990 - June 2010



- Publicly traded commercial real estate contributes strong risk adjusted returns and diversification to a global equity portfolio
- Low correlation between domestic and global / regional REIT Indexes creates additional diversification benefit within the real estate asset class

● U.S. stocks     
 ● U.S. REITs     
 ● Global stocks  
○ Global listed real estate (global/regional)     
 ○ Global listed real estate (non-U.S. country) +80% of global stocks

Note: Based on monthly returns. Benchmarks with negative Sharpe ratios are not shown. The top and bottom of the box encompass the middle 80% of stock benchmarks by Sharpe ratio; the sides of the box encompass the middle 80% of stock benchmarks by correlation coefficient. Source: NAREIT® analysis of data from Interactive Data Pricing accessed through FactSet.



# Listed REITs and Property Companies Contribute Solid Portfolio Performance

Historical Compound Annual Total Returns of REITs and Leading U.S. & Global Benchmarks (%)

	FTSE NAREIT U.S. Equity REITs TR	FTSE EPRA/NAREIT Developed TR	S&P 500 TR	MSCI EAFE TR	Barclays Capital U.S. Aggregate Bond <sup>1</sup>	Barclays Capital Global Aggregate Bond <sup>1</sup>
1-Year	53.90	25.06	14.43	6.38	9.50	5.00
3-Year	-9.00	-13.64	-9.81	-12.94	7.55	6.80
5-Year	0.20	0.35	-0.79	1.35	5.54	5.03
10-Year	9.86	8.63	-1.59	0.59	6.47	6.40
15-Year	9.76	7.76	6.24	4.14	6.39	5.73
20-Year	10.40	7.30	7.67	4.36	7.14	7.06
25-Year	9.69	NA	9.53	8.88	7.83	NA
30-Year	11.71	NA	10.67	9.23	8.68	NA
35-Year	13.10	NA	10.41	10.15	NA	NA

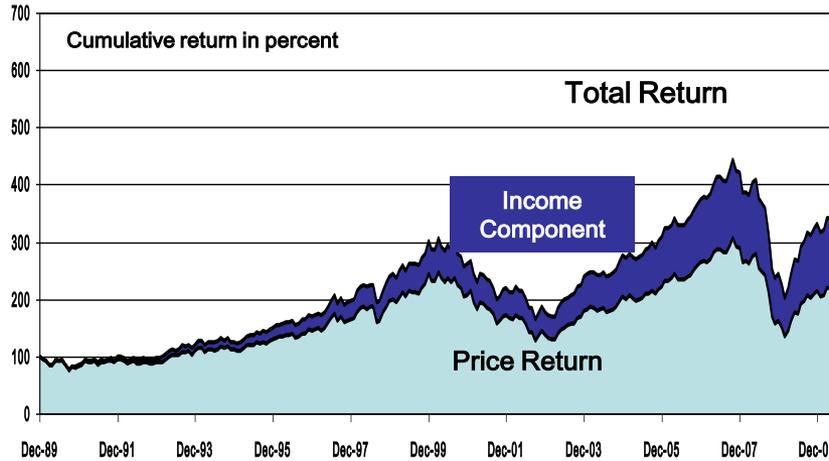
Note: Data as of June 30, 2010

1. Formerly Lehman Brothers U.S. Aggregate and Global Aggregate Bond Indexes

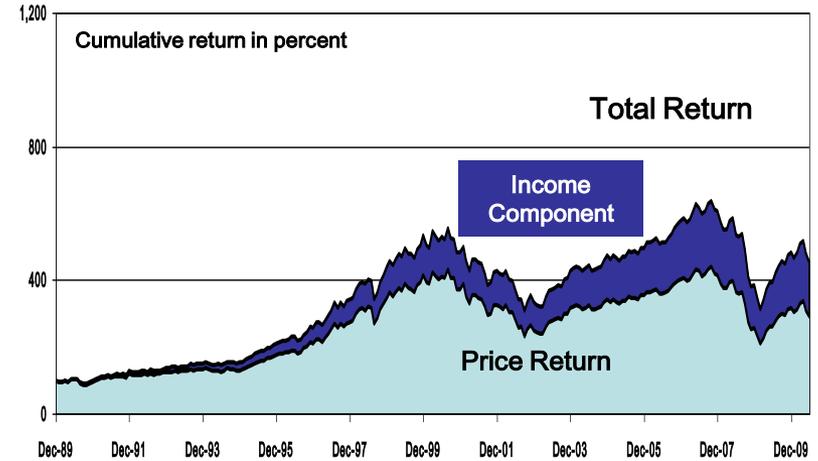
Sources: NAREIT® analysis of data from IDP accessed through FactSet.

# Dividends - Total and Price Return Index Comparison January 1990 – June 2010

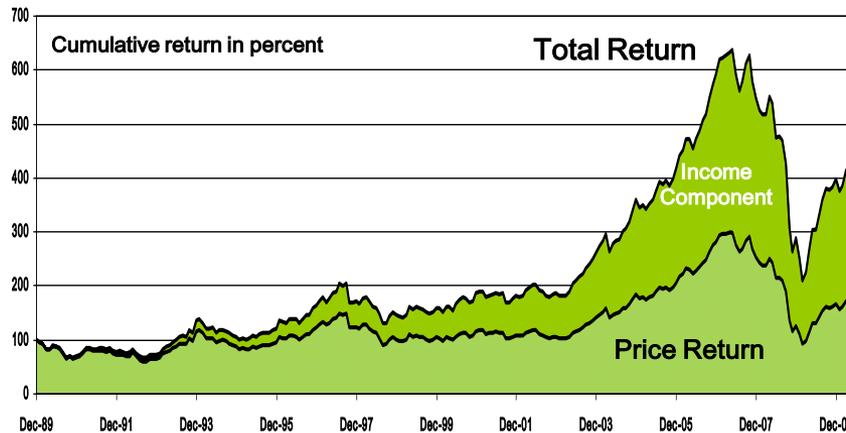
MSCI All-Country World Stock Index



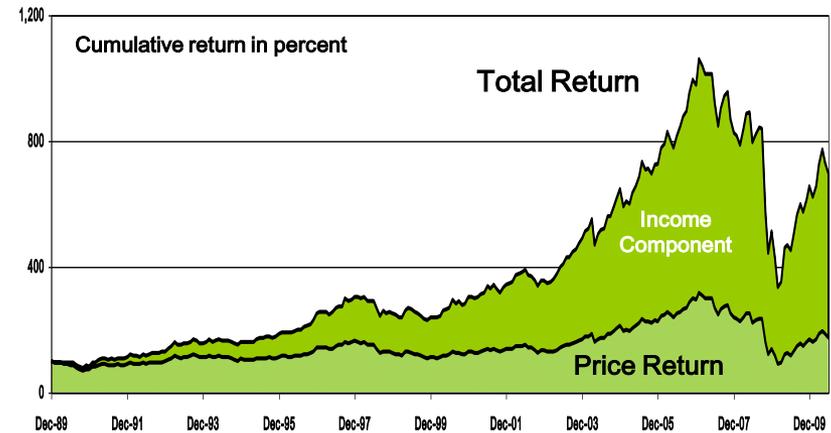
Standard and Poor's 500 Index



FTSE EPRA/NAREIT Developed Real Estate Index

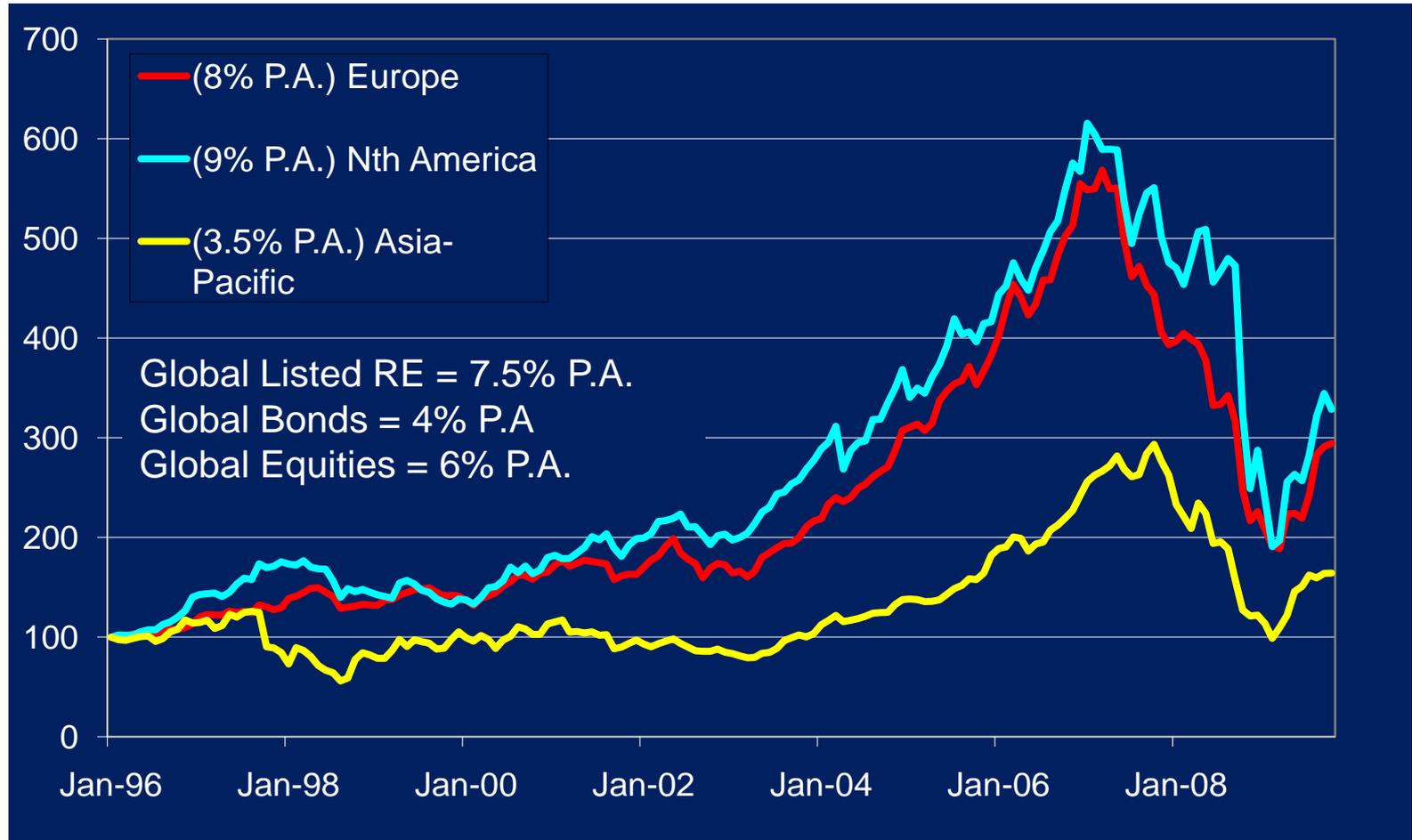


FTSE NAREIT Equity REIT Index

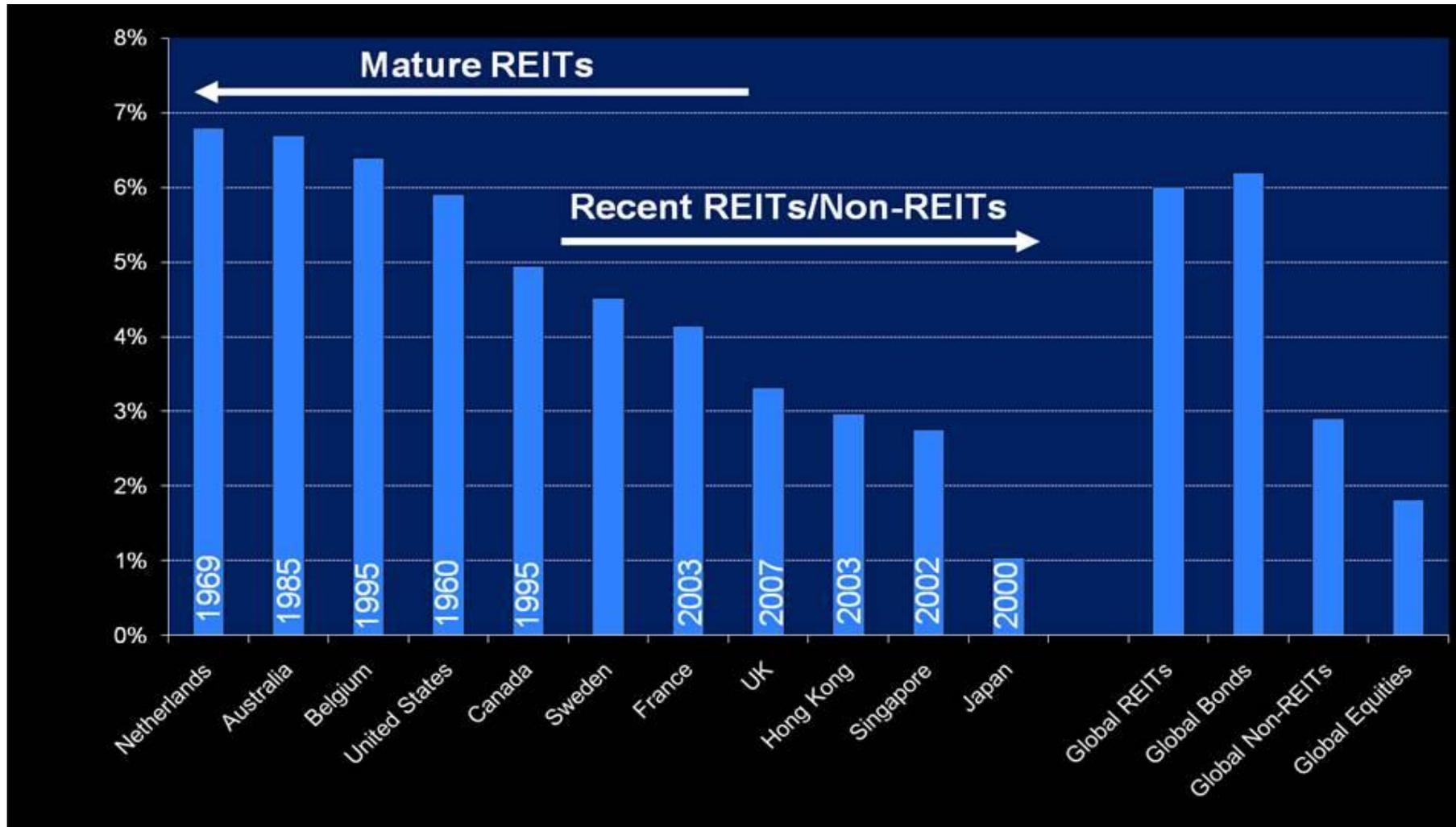


Sources: NAREIT® analysis of data from FTSE, and from IDP accessed through FactSet.

# Regional – Long-term (Yearly)



# 10 Years Average Yields



# Capital Market Dynamics and REIT Market Cycles

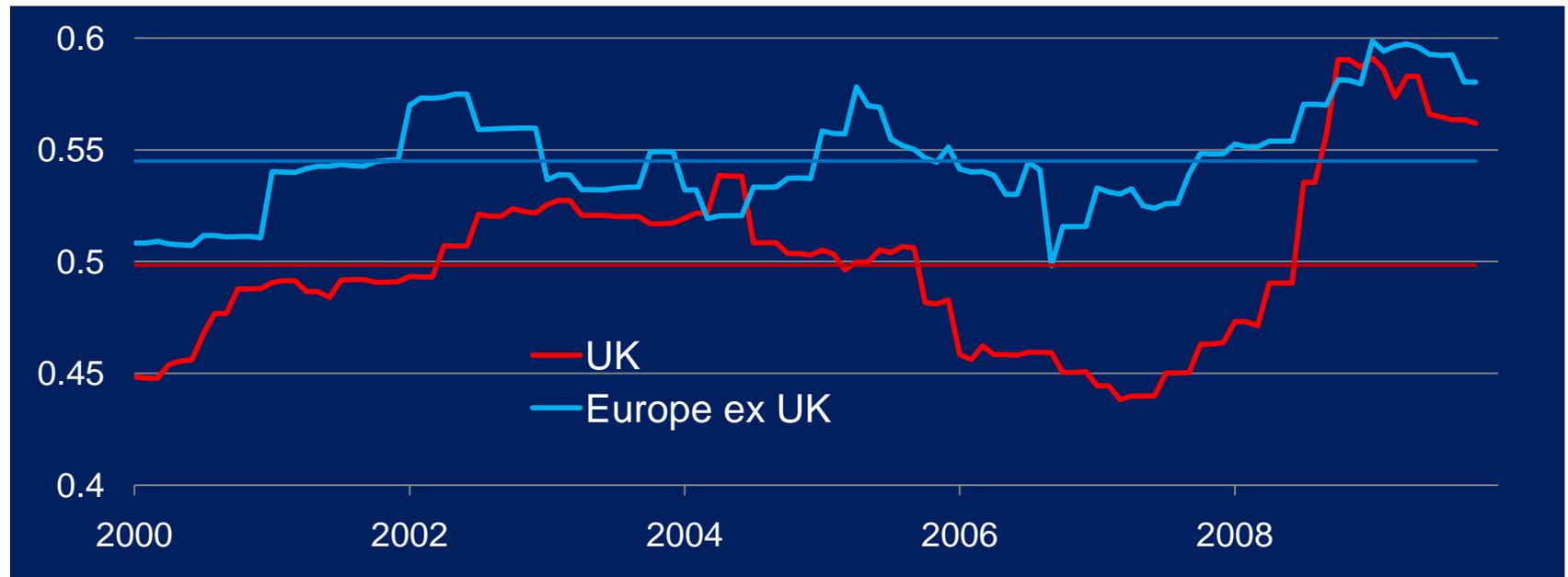
# The U.S. Commercial Real Estate Market Environment

## Weak Economy, High Unemployment And Liquidity Pressures Remain

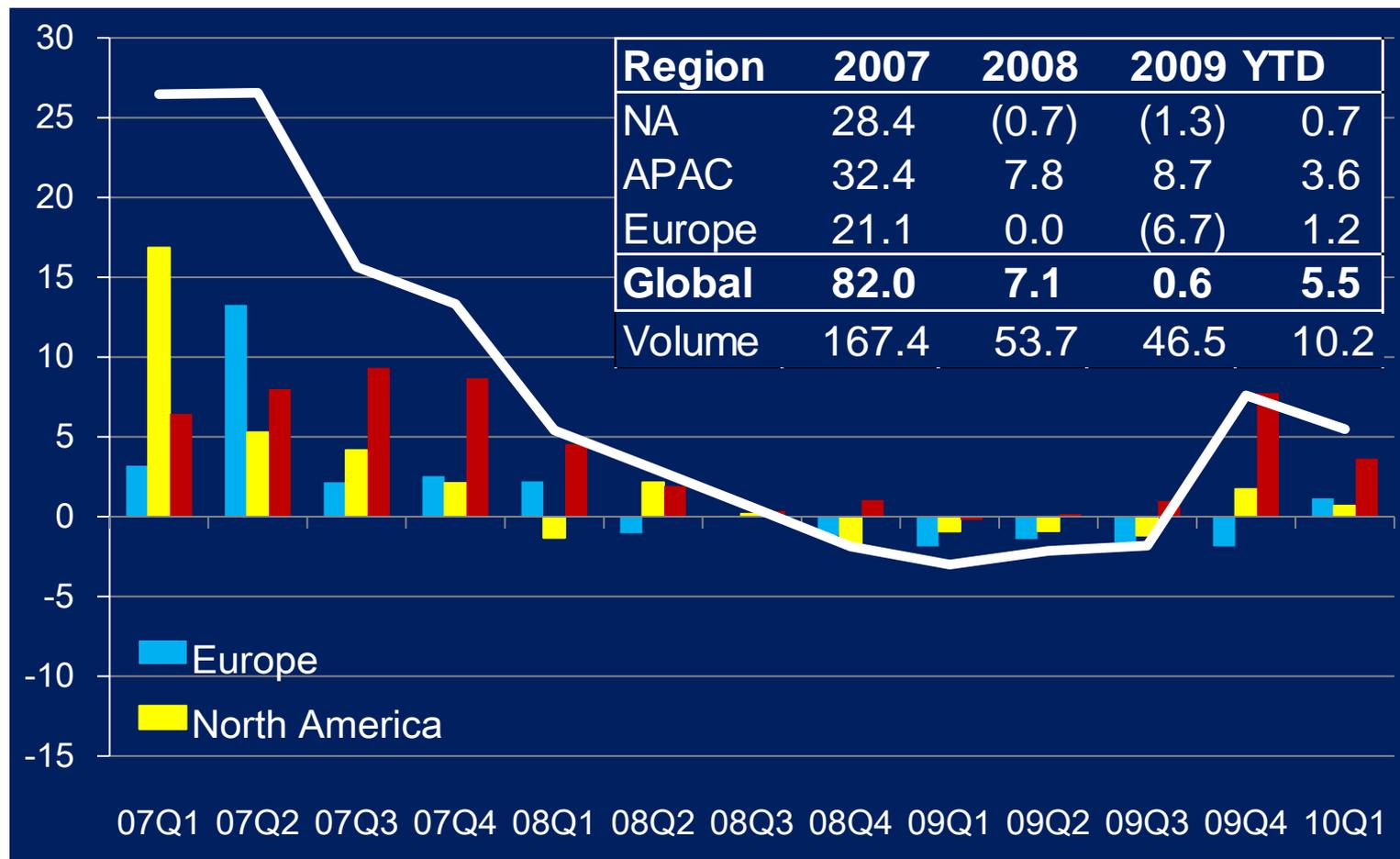
- Debt maturities will increase over the next few years, reaching a peak around 2012
- Property values in many markets may continue to decline over the year
- Most sources of financing will remain tight for some time
  - Public equity and debt financing is available to some
- Transaction volume remains low, impeding price discovery
  - Offer-side prices (supply side) remain higher than bid-side prices (demand side)

# Global Debt

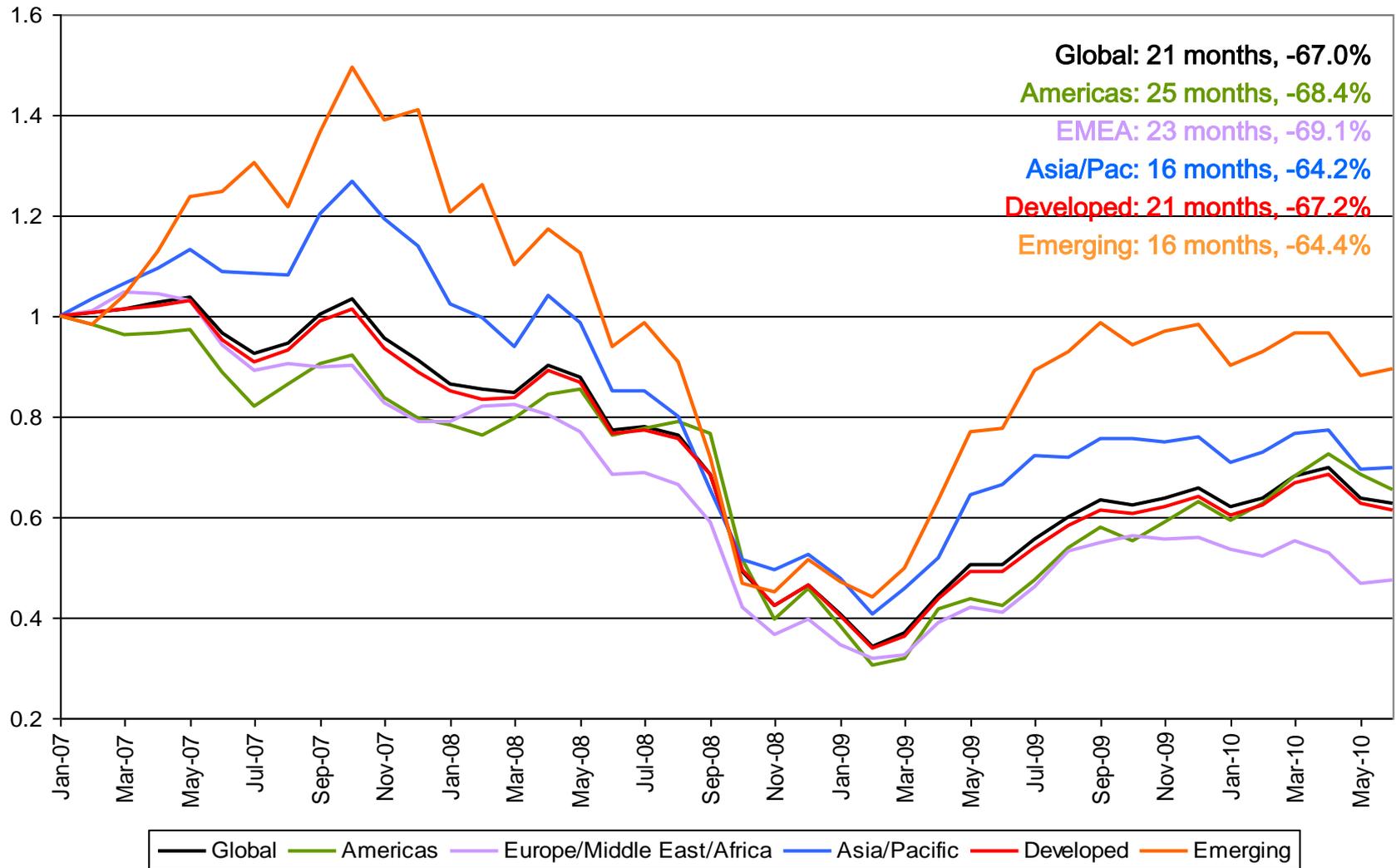
Region	< 12 Months \$Bn	Total \$Bn	Full Mkt Cap \$Bn
Asia-Pacific	13	103	343
Europe	14	168	146
North America	20	226	244
<b>Global</b>	<b>47</b>	<b>497</b>	<b>733</b>



# Global Transactions - Listed



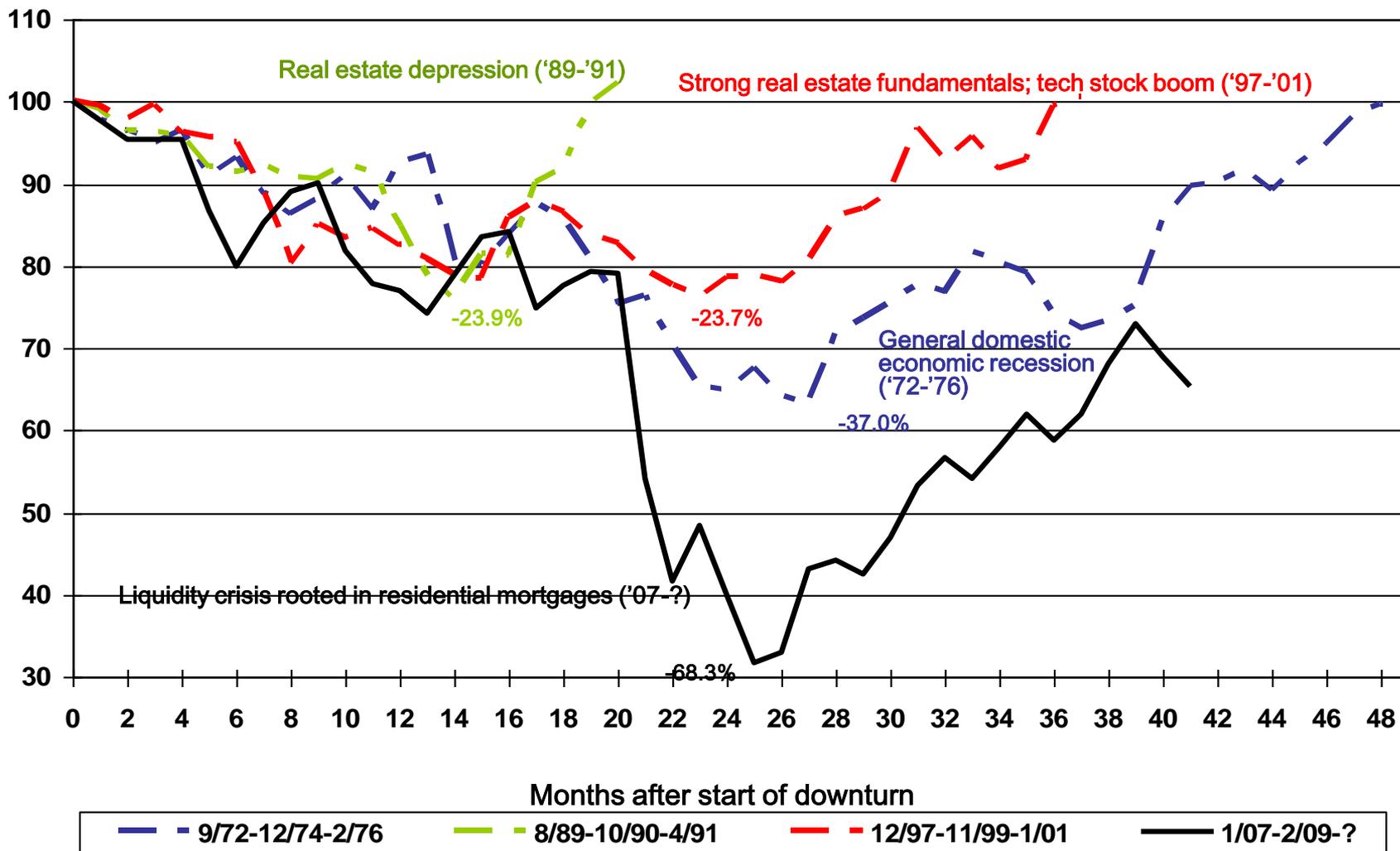
# The Global Listed Property Company Downturn



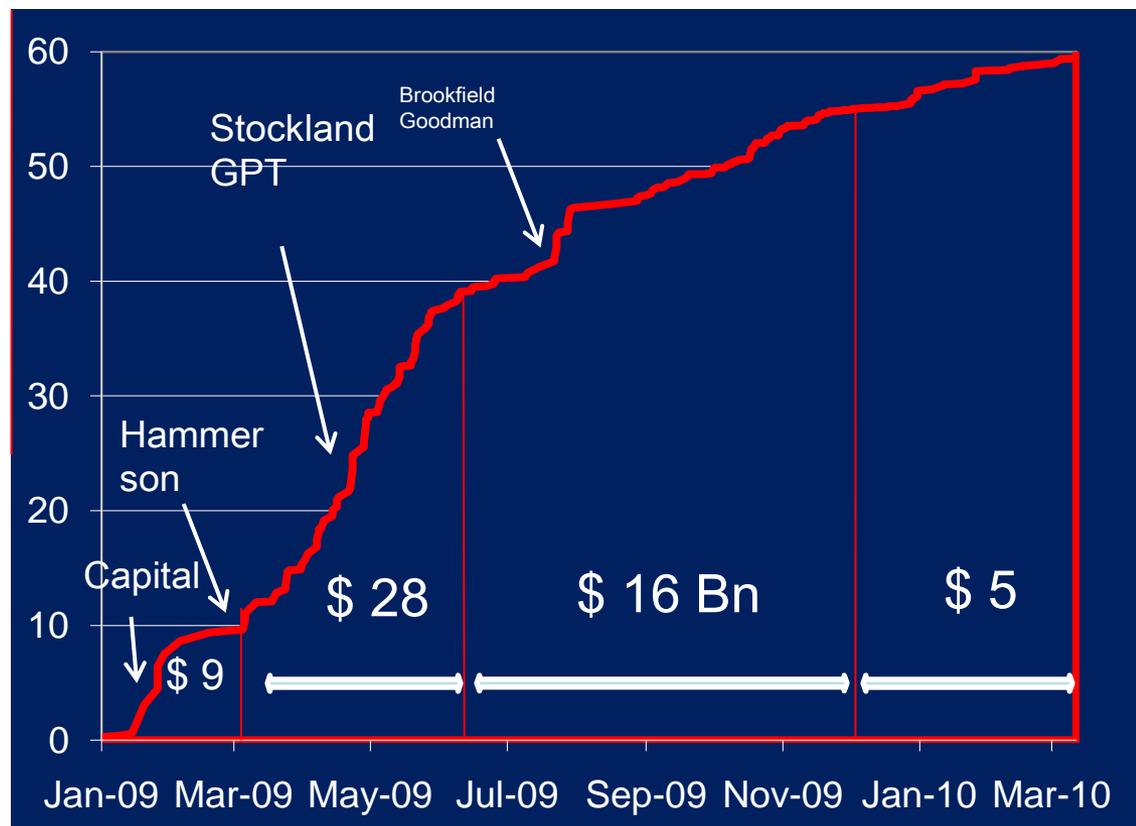


# Domestic REIT Stock Cycles & Market Dynamics

## Comparison of Equity REIT Market Downturns



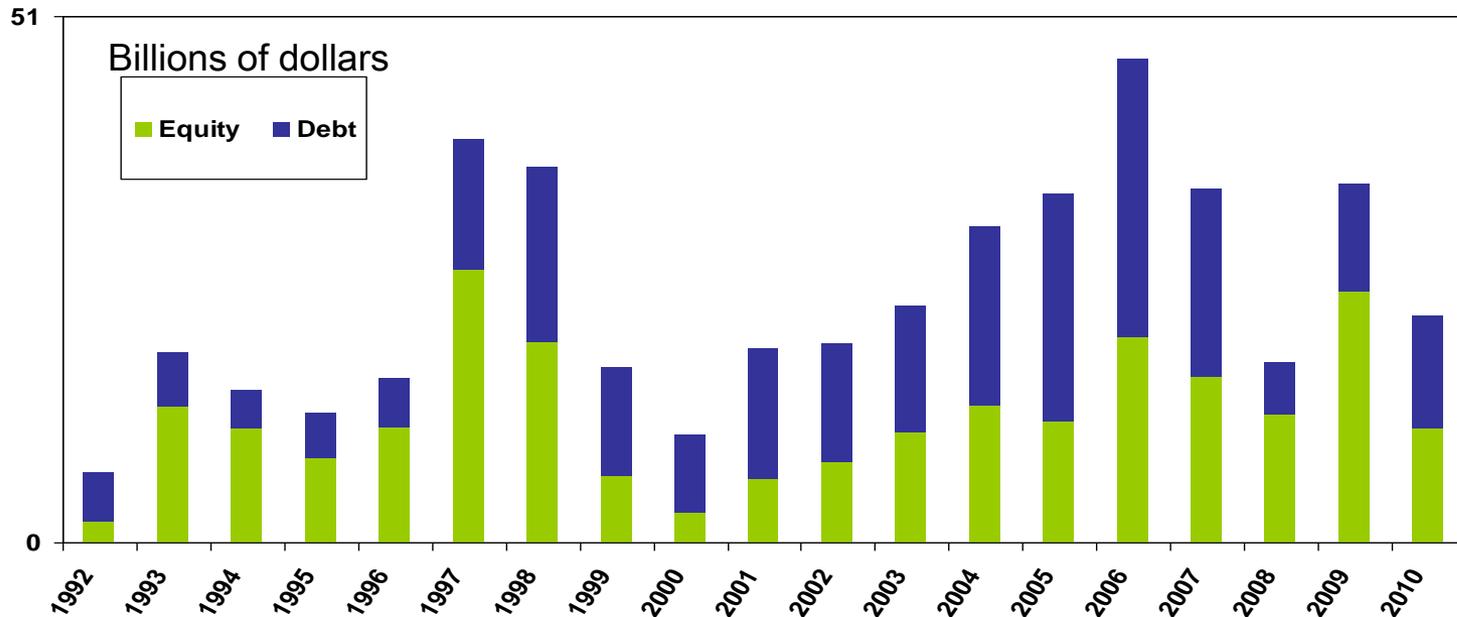
# Global Equity Raised 2009-10



Country	\$ Bn
United States	30.0
Australia	9.5
UK	8.5
Singapore	3.3
Europe Ex UK	3.0
Canada	1.8
Hong Kong	1.8
Japan	0.6
<b>Global Total</b>	<b>58.5</b>

# Securities Offerings by U.S. REITs

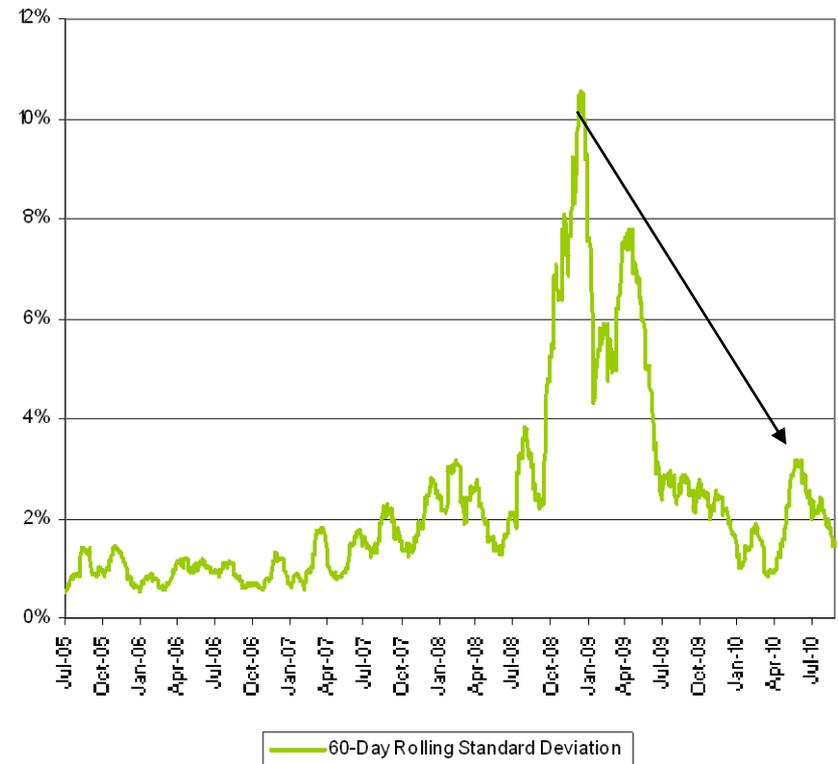
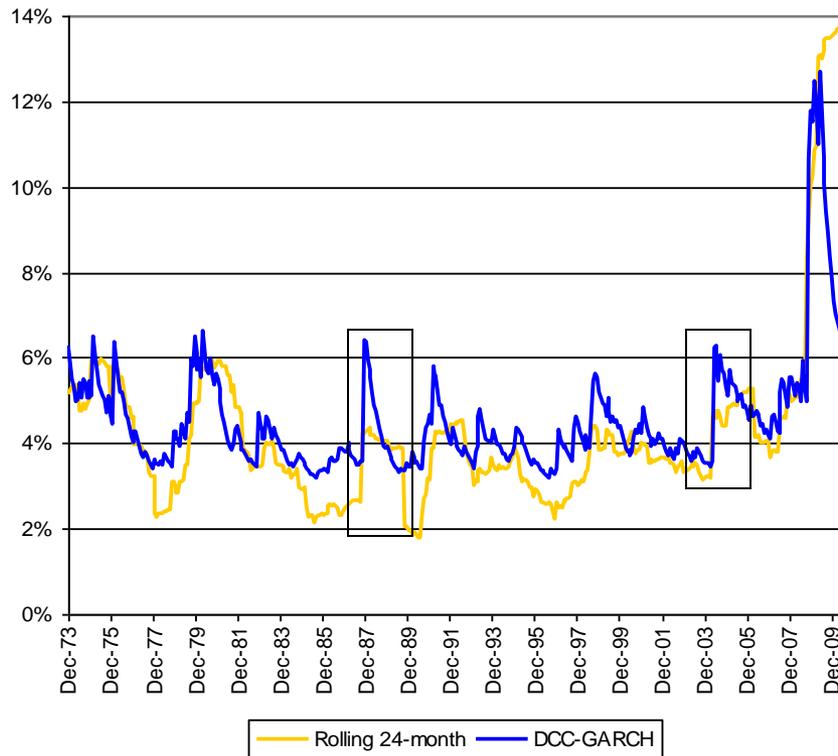
## An Industry Recapitalizing (and de-levering)



- REITs are recapitalizing through a variety of means: selective asset sales, extension and refinancing of debt, and security issuance
- REITs raised \$24 billion through equity offerings and \$10 billion through unsecured debt offerings in 2009
- REITs continue to successfully raise equity and issue debt in 2010 and have raised \$22 billion in additional capital thus far

# Volatility of REIT Returns

## October 2008 Volatility Spike Ended in 2009



- During 2008Q4 REIT volatility surged to unprecedented levels, but volatility has already declined to near-normal levels
- Similar episodes of increased volatility were followed by rapid declines
- Longer-term rolling measures typically miss declines in volatility

Note: Monthly data ending July 31, 2010; daily data ending August 26, 2010

DCC-GARCH: Dynamic Conditional Correlation with Generalized Autoregressive Conditional Heteroscedasticity (Engle 2002)

Source: NAREIT® analysis of data from Interactive Pricing Data accessed through FactSet

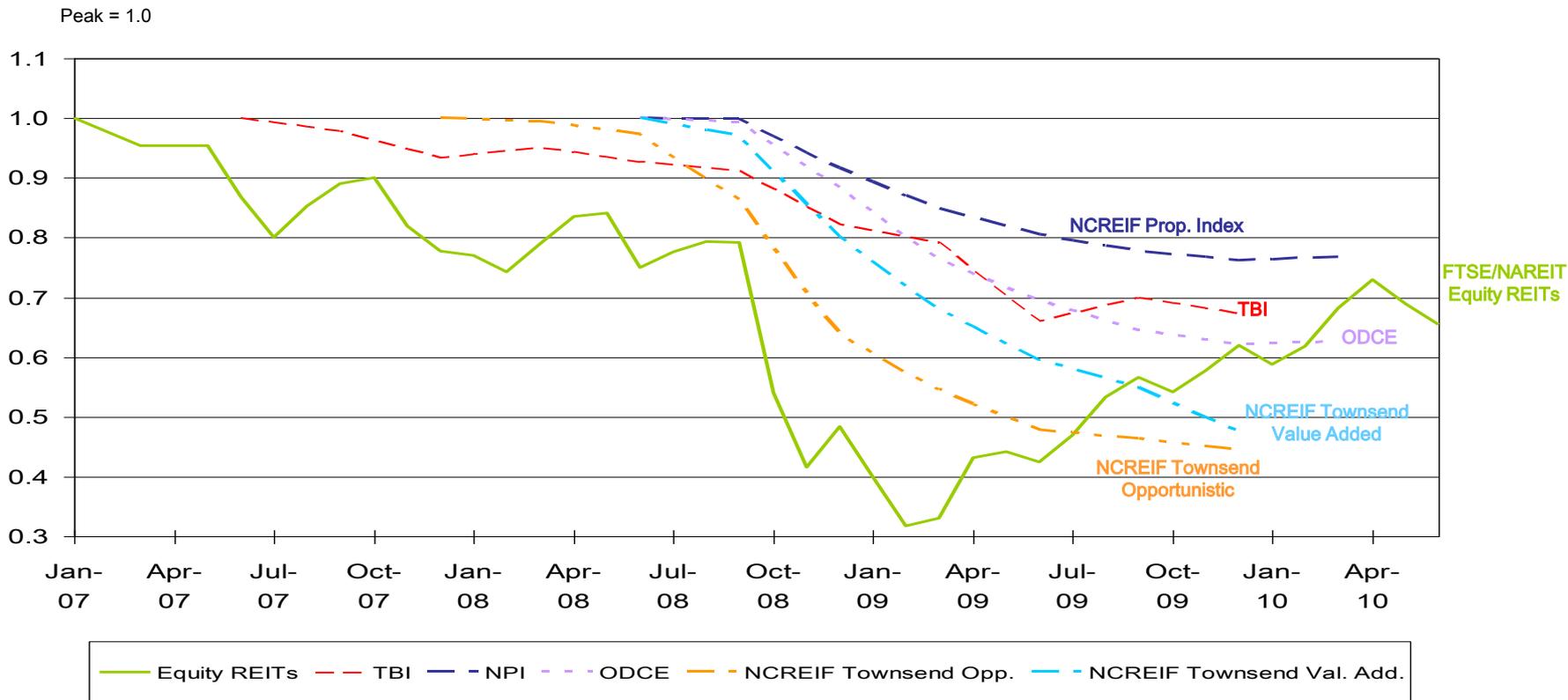
# Equity Real Estate Investment Through Public and Private Real Estate Market Vehicles

# The Listed Real Estate Market Leads the Private Real Estate Market

- Commercial real estate cycles are typically about 17½ to 18 years
- Cycle leads on public side because of liquidity and transparency
  - Public markets are efficient and anticipatory
- Cycle lags on private side because of illiquidity and opacity
  - Marketing lag, transaction lag, reporting lag, appraisal lag
- Downturns happen more quickly on public side
  - Early 1990s: 14 months (August 1989 – October 1990)
  - Current: 25 months (January 2007 – February 2009)
- Downturns more prolonged on private side
  - Early 1990s: 2¾ years (1990q3 – 1993q2, NPI)
  - Current: around 3½ years (2008q2 – 2012, NPI with Markit implied)
- Bull markets more extended on public side
  - Public: 16½ years (1990q3 – 2007q1)
  - Private: 15 years (1993q2 – 2008q2 NPI)

# Equity REIT Returns Lead Private Market Real Estate Indexes

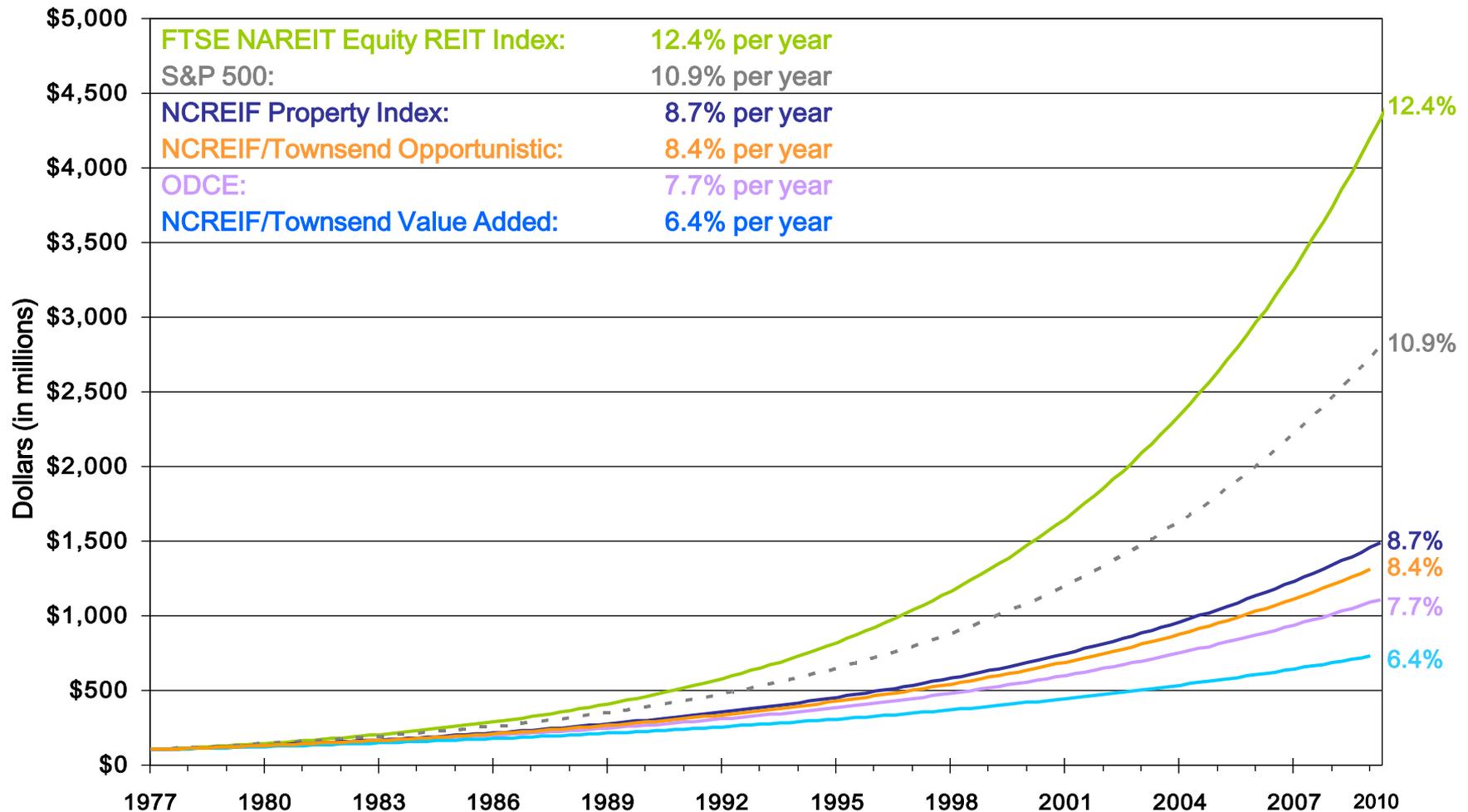
## 6 Measures of Commercial Real Estate Investment Returns



- Public market pricing anticipated declines in asset values beginning early in 2007
- The downturns in underlying commercial property values and private equity real estate funds began in late 2007 or late 2008
- Analysis suggests the FTSE/NAREIT Equity REIT index leads the NCREIF Property Index by 4-6 quarters

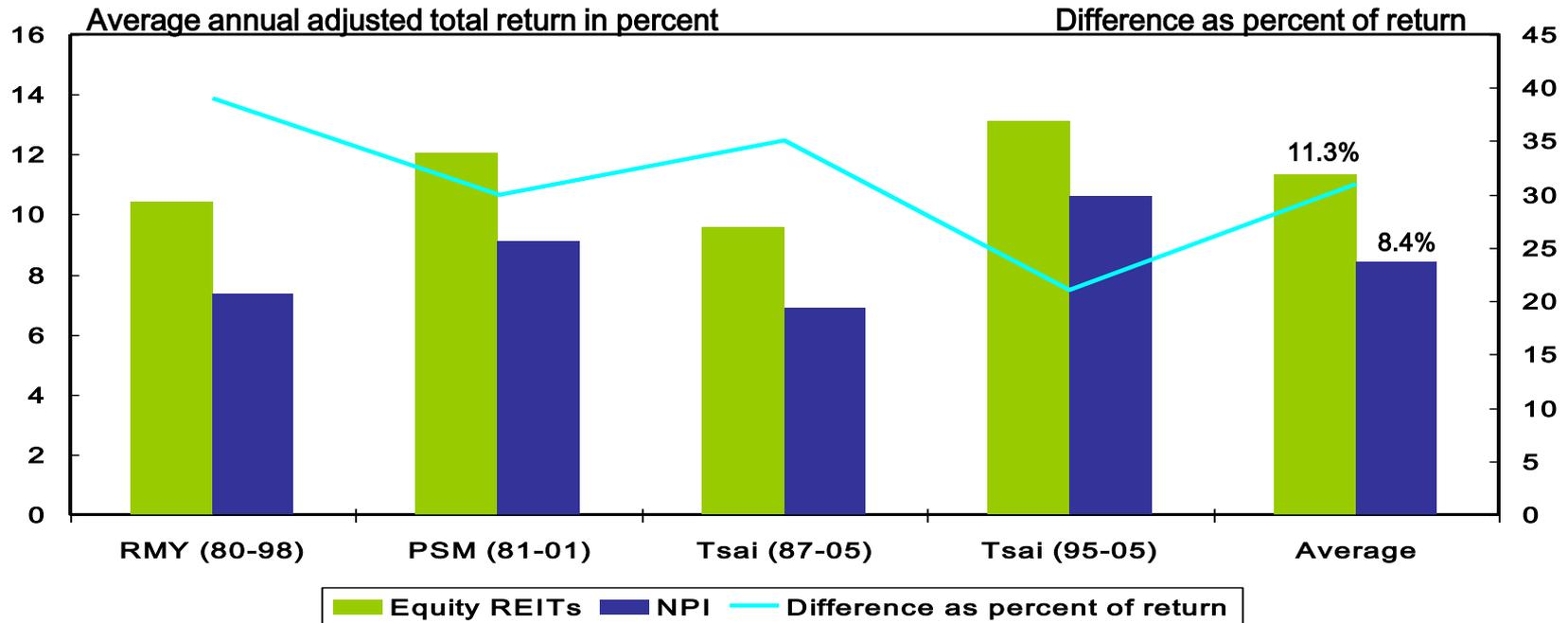
# REITs Offer Strong Long-Term Investment Returns Relative to Other Real Estate Equity Investment Vehicles

Growth of \$100 Million Invested on 12/31/1977



Note: Returns are average gross of fees, and are not adjusted for difference in leverage, liquidity, or other investment characteristics. Returns are averaged over the period 1/1/1978-6/30/2010 for equity REITs and S&P 500; 1978Q1-2010Q1 for NCREIF Property Index and ODCE; 1983Q2-2009Q4 for NCREIF/Townsend Value Added; and 1988Q4-2009Q4 for NCREIF/Townsend Opportunistic. Sources: NAREIT®, NCREIF, and FactSet.

# Studies Find Persistence in Equity REIT Outperformance Relative to Direct Property Investment



- 3 academic studies across four time periods
- Control for differences relating to property type mix, leverage and fees<sup>1</sup>
- Consensus among all studies; equity REIT returns exceed NCREIF Property Index returns by approximately 30 percent, on average

<sup>1</sup>Riddiough, Moriarty & Yeatman (RMY) control for differences in property type mix, leverage, and fees. Pagliari, Scherer & Monopoli (PSM) control for differences in property type mix and leverage, but not fees. Tsai controls for property type mix, leverage, and fees.



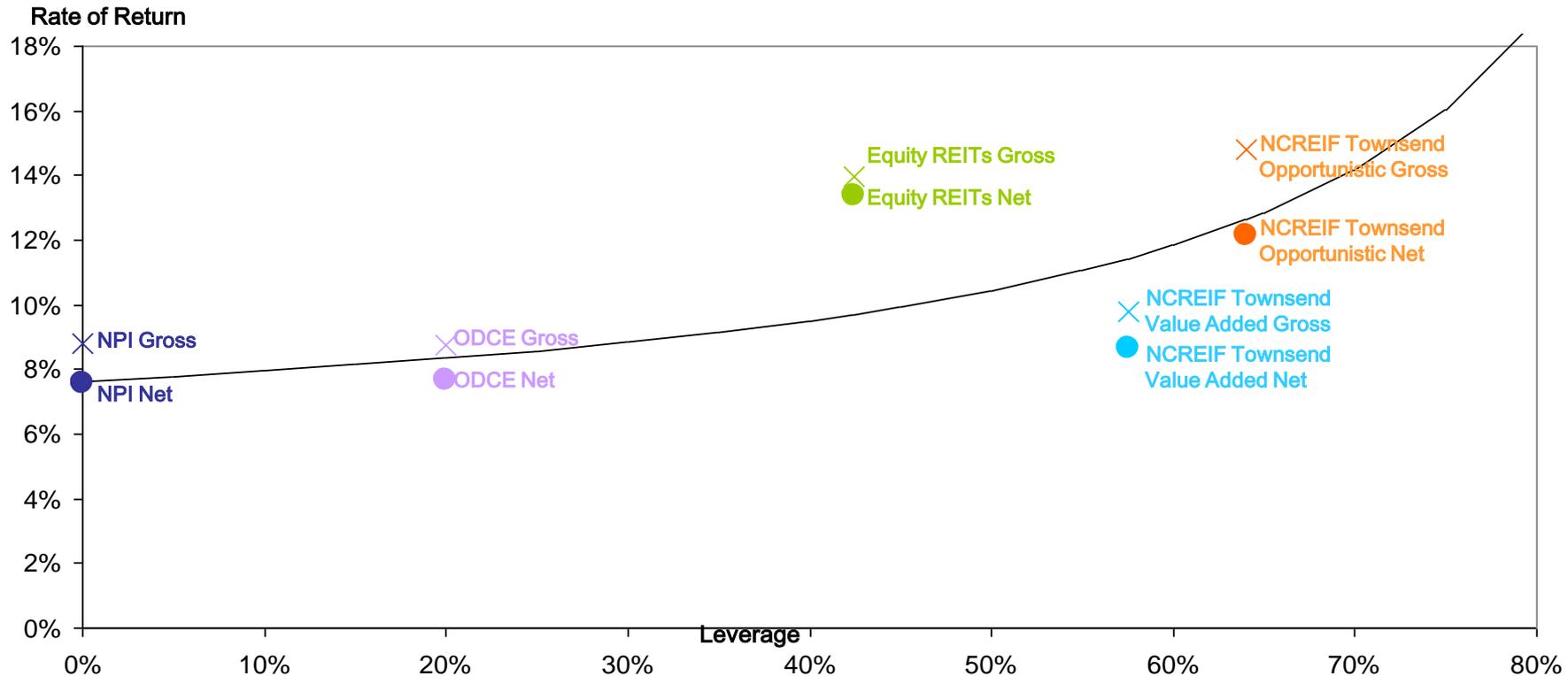
# Net Returns to Listed Equity REITs and Private Real Estate Investments over the Market Cycle

Form of CRE Investment	Leverage	Fees and Expenses	Full Cycle (Peak to Peak)		Bull Market Only (Trough to Peak)	
			Duration	Returns	Duration	Returns
Property Values (NCREIF Property Index)	0%	≈115 bps	17¾ years 1990q3 – 2008q2	266% 7.6% / yr	15½ years 1992q4 – 2008q2	321% 9.7% / yr
Core Private Equity Real Estate Funds (NCREIF ODCE)	≈20%	106 bps	17¾ years 1990q3 – 2008q2	272% 7.7% / yr	15½ years 1992q4 – 2008q2	341% 10.4% / yr
Value Added PERE Funds (NCREIF/Townsend)	57%	142 bps	17¼ years 1990q3 – 2007q4	318% 8.6% / yr	14½ years 1993q2 – 2007q4	430% 12.2% / yr
Opportunistic PERE Funds (NCREIF/Townsend)	64%	269 bps	17¼ years 1990q3 – 2007q4	619% 12.1% / yr	14 years 1993q4 – 2007q4	961% 18.4% / yr
Publicly Traded Equity REITs (FTSE NAREIT Index)	≈40%	≈50 bps	17½ years 1989q3 – 2007q1	801% 13.4% / yr	16½ years 1990q3 – 2007q1	1,038% 15.9% / yr

# REITs Used Leverage Effectively Relative to Private Equity Real Estate Over the Most Recent Full Market Cycle

Compound Annual Return, Gross and Net of Fees

Implied Internal Rate of Return by Leverage

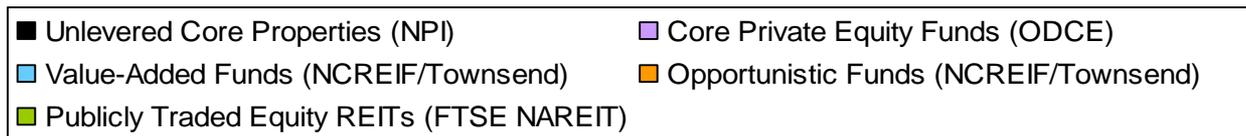
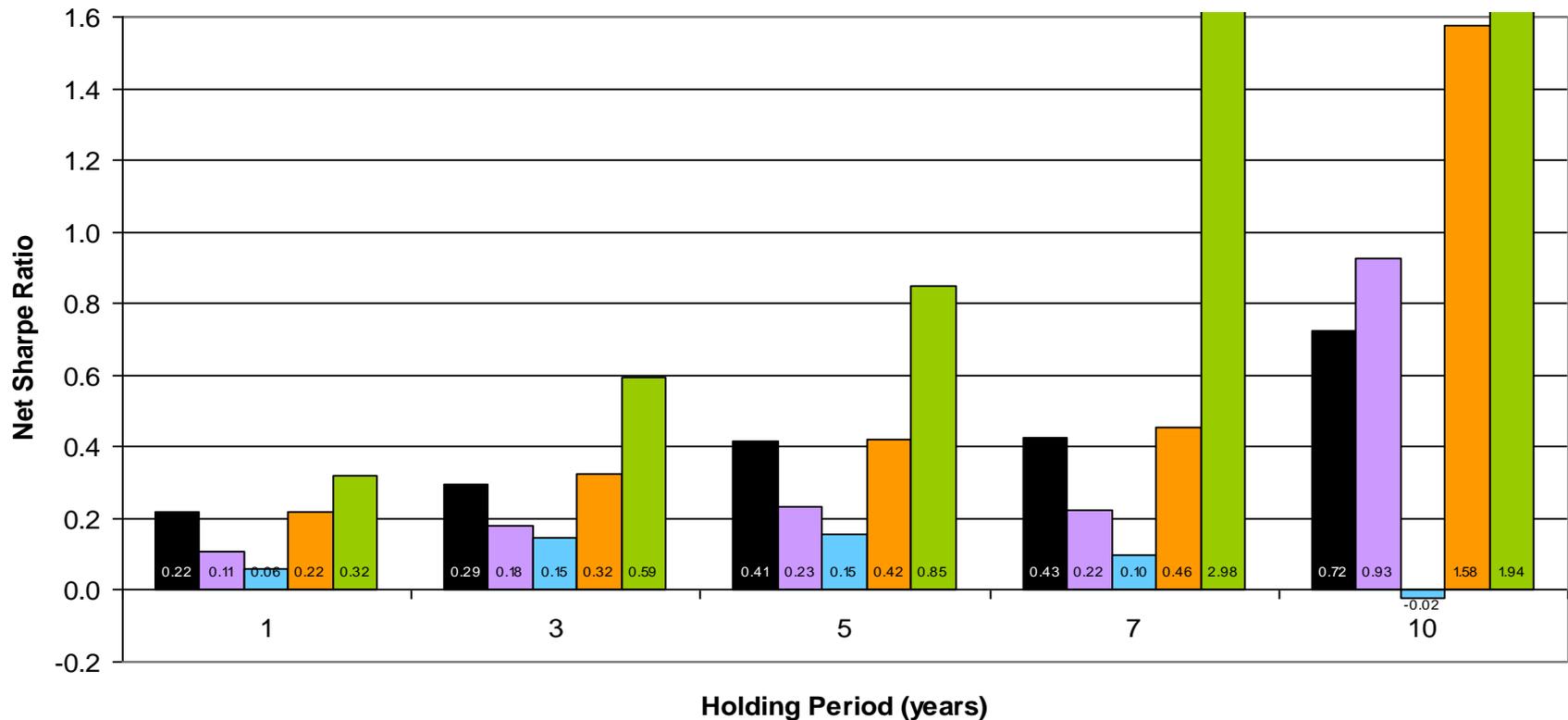


- Investment returns above the curve exceed “normal” levered returns
- Investment returns below the curve fall short of “normal” levered returns
- REIT average annual investment returns have exceeded the “normal” expected levered return on both a gross and net basis

Note: Average returns are through-the-cycle from the peak in 1989/1990 to the peak in 2007/2008. Dates are 1990Q3-2008Q2 for NPI and ODCE, 1989Q3-2007Q1 for Equity REITs, and 1990Q3-2007Q4 for NCREIF/Townsend Fund Indices. Assumes 6.5 percent long-run average cost of capital. Fee Assumptions: Inst. Core R.E. = 115 bps; REITs = 50 bps. Fees for ODCE and NCREIF/Townsend are as reported. Source: NAREIT analysis of data from NCREIF (NPI, ODCE, NCREIF/Townsend Fund Indices) and from FTSE NAREIT Equity REIT Index.

# Publicly Traded REITs Provide Better Risk-Adjusted Net Returns than Private Equity Real Estate Funds

## Net Sharpe Ratio by Holding Period



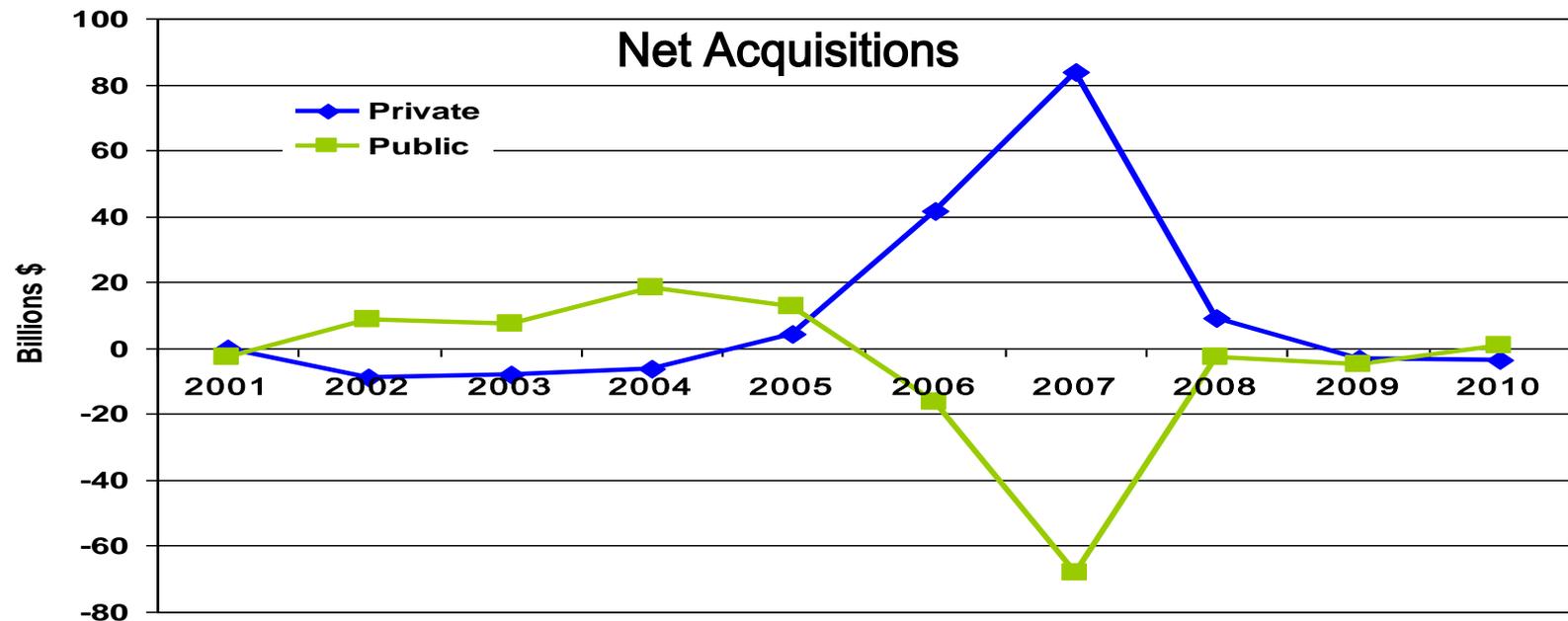
Data are for the period 1988Q4 through 2010Q1, the maximum period over which data for all five types of real estate investment are available. Fees and expenses for actively managed domestic investments in unlevered core properties and publicly traded REITs are estimated at 115 bps and 50 bps respectively; net returns for private equity real estate funds are as shown in NCREIF/Townsend Fund Indices. Source: NAREIT analysis of data from NCREIF and FTSE NAREIT Equity REITs Index.

# The REIT Business Model

## Disciplined Capital

- Traded REITS are subject to the scrutiny of the investor public; acting as a governor on REIT management and impacting decisions on capital structure and capital allocation
- Compliance with IRS REIT qualification standards imposes a discipline on how REITs invest and use their capital
  - REITs are required each year to distribute at least 90 percent of their taxable income as dividends to their shareholders
- Publicly traded REITs are companies in business for the long term
  - Long-term approach supports a more strategic approach to property acquisitions and dispositions

# Public REITs Were Net Sellers Of Real Estate As Commercial Property Values Rose From 2006-2007



- Publicly traded REITs buy and sell assets to:
  - Produce stable rental income for shareholders
  - Manage portfolio efficiently in a dynamic economy
  - Recycle capital to limit leverage, upgrade portfolio and increase long-term asset performance
  - Sales will better allocate capital to improve ongoing long-term returns

# Summary

- Securitized commercial equity real estate is a meaningful part of the worldwide market portfolio and contributes potential diversification benefits to risk averse and risk tolerant investors
- When developing a strategic asset allocation, REITs and listed real estate equities provide investors an effective and efficient method of investing in commercial real estate equity worldwide
- The public markets are positioned to capitalize on opportunities in commercial real estate investment as the global economy and financial markets stabilize and recover
- The opportunity set for investment in the real estate asset class through securitized vehicles is rapidly expanding

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## Discussion Points

- Time Horizons – this is a long term investment
- Regional exposure – how much? (neutral)
- Sector exposure – allocation issues?
- Country exposure – how much within region?
- Development type exposure (residential?)
- Investment focus exposure (offices, retail?)
- Derivatives – IPD, EPRA Futures, ETFs
- Vehicles Examples (companies, funds)
- Emerging Markets exposure – how much?

## Discussion Points

- Credit Markets/Debt Crisis
- Currency Risk – how much exposure?
- Market Commentary/Summary (up to date?)
- Property valuations (falling – for how long?)
- Property pricing methodologies – Differences
- Market timing (when do you get in?)
- Leverage of vehicles (look for low leverage?)
- Correlations (v other assets, countries, etc)
- Sustainability focused investments

## Discussion Points

- Risk>Returns Profiles – countries/regions/sectors
- Political Risk – countries (emerging markets)
- Demographics – Europe decline/Asia increase
- Corporate Governance – Huge differences
- Transparency – Reporting/information
- Real Estate Cycle – where on the clock?
- Inflation issues – country level
- Rental value predictions