Real Estate Investment Trusts (REITs)

Presented by “6_The Hard Way”
Presentation Goals

- What is a REIT
- REIT Industry
- HRPT Properties Trust
- Economic Environment
- Macro Economic Impact
What are Real Estate Investment Trusts?

Is a tax designation for a company that invests in real estate that reduces or eliminates corporate income tax.
The Four Requirements You Must Know!

- A REIT must distribute 90% of its annual income as dividends to its shareholders.
- A REIT must have at least 75% of its assets invested in real estate, mortgage loans, other REITs, cash, or government securities.
- A REIT must derive at least 75% of its gross income from rents, interest, and gains from sale.
- A REIT must have at least 100 shareholders and must have less than 50% of the outstanding shares concentrated in the hands of five or fewer shareholders.

Regulatory Framework
Critical Dates in REIT History

- **1880**: Origins – double taxation avoided if income was distributed to beneficiaries.
- **1930**: Tax advantage reversed, taxed at corporate Level, and as individual incomes.
- **1960**: Demand grew, 2x taxation reversed.
- **1993**: Barrier to pension funds removed.
**Types of REITs**

*Equity REITs: (96.1%) –* Invest & own properties. Revenues are generated from their properties rents.

*Mortgage REITs: (1.6%) –* Deal in investment & ownership of property mortgages. They loan REITs money for mortgages to owners of real estate, or invest in existing mortgages of mortgage backed securities. Revenues are generated primarily by the interest that they earn on the mortgage loans.

*Hybrid REITs: (2.3%) –* Combine the investment strategies of Equity REITs & Mortgage REITs by investing in both properties and mortgages.

Source: [www.reitnet.com](http://www.reitnet.com)
Number of REITs in the Industry

- 800 REITs not registered with SEC – do not publicly trade
- 190 REITs registered with SEC - trade on one of the major exchanges (majority on NYSE)
- 20 REITs registered with SEC – do not publicly traded

Source: NAREIT
Publicly Traded REITs Property Types

- Office/Industrial: 26%
- Retail: 24%
- Multifamily: 16%
- Diversified: 8%
- Mortgage: 6%
- Hotel: 6%
- Specialty: 5%
- Self Storage: 4%

Source: NAREIT www.nareit.com

@2006 How Stuff Works
The REIT Industry

### Market Cap
- **1971** – $1.5 B
- **2007** – $312 B

### Growth
- **1971** – 34 REITs
- **2007** – 190 REITs

Source: NAREIT
The REIT Industry - Cost Structure

NAREIT defines FFO as net income (computed in accordance with GAAP) excluding gains or losses from sales of most property and depreciation of real estate.
Slides 2 & 3 could be used to show GAAP used by REIT companies.

www.investopedia.com/articles/04/112204.asp (reference)
AZEIGLER, 1/29/2008
The REIT Industry versus The Street

- Includes all REITs that trade on the New York Stock Exchange, American Stock Exchange and NASDAQ Global Market List.

Source: NAREIT
HRPT Properties Trust

**HQ:** Newton, MA

**Assets:** $6B in office & industrial properties

**Type:** 351 office, 153 industrial properties

**Area:** Approximately 64 million square feet

**Where:** 38 states (including Hawaii), and DC

Source: Based on HRPT Company Data of 30 September 2007
Focus on medical and government tenants which are less affected by changes in the business cycle and more prone to sign long term leases.

Investments in Hawaii remain very secure with land leases in which tenants have constructed their own building.

Focus growth on well located, high quality buildings leased to strong credit tenants.

**Square Feet**

**Security**
- Properties leased to U.S. and other Government tenants and medical tenants, and Hawaii land leases
- 50%

**Growth**
- Well located office and industrial properties with strong tenants and appreciation potential
- 50%

Source: Based on HRPT Company Data of 30 September 2007
HRPT – Property Management Strategy

- Maintain properties to the highest of industry standards
- Continue to invest in “attractiveness of our property” to continually increase values
- Improve efficiency of property operations through economies of scale purchasing, energy management programs, and real estate tax leverage
Purchase well leased and maintained properties

Look for properties located near existing structures

Attempt to identify and create synergy's between the two structures

Grow with existing tenants by building to suit (high quality tenants only)

Invest in properties that are seen as “long term” investments, not for short term hold and sell

DO NOT seek to turn around properties

DO NOT see out joint ventures

DO NOT undertake speculative development
HRPT versus REIT Peers

Dividend Yield: Dividends paid / market cap

Source: NAREIT
• As with many industries, GDP is a major economic indicator.
• As GDP grows, so does the need for retail outlets, distribution centers, plants, etc.
Trend follows closely with GDP growth – in a lower GDP environment, companies tend to curtail their real estate needs.

Source: NAREIT
Economic Factors - Unemployment Rate

U.S. Initial Jobless Claims Rose to 375,000 Last Week of Jan 2008

- Business closings
- Evictions
- Good time for rentals?

Source: US Bureau of Economic Analysis
REITs will invest their capital where money made available

Recent moves by The Federal Reserve may spark industry investment
Our nation’s increasing need for health care will positively impact the REIT economy.

“By 2030, the number of people ages 65 & older will double to 71.5 million, or 20% of the population”

Source: www.imperialvalleynews.com
Through January 18, 2008, REIT stocks were down 11.1% (S&P 500 down 9.7%, Russell 2000 down 12.1%)

“....the prices of REIT shares are closely correlated with the present or prospective prices of commercial real estate.” ([www.reitcafe.com/main_essential.html](http://www.reitcafe.com/main_essential.html))

“....with regard to REIT organizations and their business prospects, a weak economy negatively affects rents, occupancy rates, FFO/AFFO growth, and even cap rates and NAVS.” ([www.reitcare.com/main_essential.htm](http://www.reitcare.com/main_essential.htm))

“....the deflated housing bubble affects the US economy in many ways......decline in new construction, rising delinquencies and foreclosures, and week consumer confidence.” ([www.reitcare.com/main_essential.htm](http://www.reitcare.com/main_essential.htm))
The REIT Industry – Tail Winds

“….credit markets ease up just a bit…REIT buyouts and privatizations…arise slowly from the grave…”
(www.reitcafe.com/main_essential.html)

“….the world’s economies are more self-reliant these days, as Europe, while slowing, is in pretty good shape, and the Asia economies are likely to remain strong.” (www.reitcafe.com/main_essential.html)

The Federal Reserve – Rate cuts will have a positive impact on available funds and investments in general

The Long Term – REITs are typically seen as long term investments. Challenges in today’s market may provide opportunity for one to begin building such a portfolio
The REIT Industry - Demand

Increase

- Decreased interest rates
- Increased population
  - Services demand
  - Housing demand
- GDP growth
- Household growth

Decrease

- Increased interest rates
- Mortgage crisis
  - Apprehensive lenders
- Weak economy
  - Delinquent tenants
  - Slow new business growth
Retail REITs remain an attractive sector for investors

Yields are in a range of 0.00%-14.16% for Retail REITs

Although Retail REITs provided a negative total return of (16%) during the fourth quarter of 2007, resulting in a decline of (15%) for 2007, valuations are still attractive

Retail REITs add more retail space to its portfolio through acquisition

If Retail REIT prices remain depressed in 2008, additional consolidation could occur

www.bloomberg.com
Atlanta’s REIT – Cousins Prop

- **Size:** 1.25B Market Cap
- **Employees:** 488
- **HQ:** 191 Peachtree Street, NE

**CUZ vs. DOW REIT & HRP**

**DOW REIT**  
**HRP**

**Volume (thousands)**  
Close Up (16.4M)  
Close Down (20.3M)  
EMA (13)

191 Peachtree street
Question & Answer

Thank You
HRPT 3 Month Performance
vs. Peers & Index
The REIT Industry versus CPI

Remember…”CPI measures changes in the prices paid by urban consumers for a representative basket of goods and services and 42% of the basket comes from housing!”

Source: NAREIT and www.bls.gov/cpi
The Role of Real Estate in the Economy

- Construction [6% of GDP]
- Service flow, “Shelter”, rent plus imputed rent [20%+ of GDP]
- Assets [55-60% of total national wealth]
- Land? Not part of GDP (we don’t make land), but it is part of wealth.
- Accounting, measurement difficulties [book versus market value]
Losses from securities linked to subprime mortgages may exceed $265 billion as regional U.S. banks, credit unions and overseas financial institutions write down the value of their holdings, according to Standard & Poor's.