

THE INVESTOR'S GUIDE TO REAL ESTATE INVESTMENT TRUSTS (REITs)

REIT BASICS

Real estate investment trusts (REITs) are companies that own and most often actively manage income-generating commercial real estate. Some REITs make or invest in loans and other obligations that are secured by real estate collateral. Most REITs are publicly traded.

The U.S. Congress created the legislative framework for REITs in 1960 to enable the investing public to benefit from investments in large-scale real estate enterprises.

REITs, now commonly referred to as real estate stocks, have much to offer the institutional and retail investing communities. They provide ongoing dividend income along with the potential for long-term capital gains through share price appreciation, and can also serve as a powerful tool for portfolio balancing and diversification.

Recent analysis by Ibbotson Associates, a leading investment research firm, demonstrates the multi-faceted benefits of investing in real estate stocks:

- The ownership of REIT shares has historically increased investors' total return and/or lowered the overall risk in both equity and fixed-income portfolios
- Dividend growth rates for REIT shares have outpaced inflation over the last decade
- The REIT business model is based in great part on the value of tangible and quantifiable assets, namely large-scale commercial real estate. This characteristic is untrue of many other industries.

Individual investors can choose to more broadly benefit from the opportunities in the REIT market by investing in a "pure-play" REIT mutual fund. These mutual funds are run by portfolio managers with a high degree of expertise in the real estate industry. These investment vehicles are similar to other sector-specific funds such as retailing, pharmaceuticals, transportation, financial services, energy, defense, etc.

REAL ESTATE'S ROLE IN THE ECONOMY

The inclusion of REITs in 2001 in the Standard & Poor's 500 Index, the most widely followed investment performance benchmark for the U.S. equity markets, speaks to the increasingly widespread recognition of the importance of the real estate sector in public capital markets. REITs, alongside other mainstream industries, are now widely acknowledged for the integral role they play, both in the economy and in diversified investment portfolios.

The ongoing success of REITs is a reflection of many things, from the income generating and growth potential of the REIT model, to the proven portfolio diversification benefits of owning REIT shares; and from the benefits of active and professional management of real estate properties, to the transparency and management accountability that are essential components of REIT corporate governance.

“IN EFFECT, STANDARD & POOR'S BELIEVES THAT REITS HAVE BECOME OPERATING COMPANIES SUBJECT TO THE SAME ECONOMIC AND FINANCIAL FACTORS AS OTHER PUBLICLY TRADED U.S. COMPANIES LISTED ON MAJOR AMERICAN STOCK EXCHANGES. THE GOAL OF STANDARD & POOR'S INDICES IS TO REFLECT THE U.S. EQUITY MARKETS AND, THROUGH THE EQUITY MARKETS, THE U.S. ECONOMY. THE INCLUSION OF REITS FURTHERS THIS GOAL.”

— Standard & Poor's
October 3, 2001

REITS NOW IN THE MAINSTREAM

More than ever, REITs are vital public companies that share a multitude of similarities with other mainstream businesses:

Liquidity

Investors can purchase shares in REITs as easily as they purchase shares in any other publicly traded company. REIT shares are traded on all of the major stock exchanges in the U.S., including the New York Stock Exchange (NYSE), Nasdaq, American Stock Exchange (AMEX), as well as various after-hours markets.

Shareholder Value

Just like investors in other public companies, REIT shareholders receive value in the form of both dividend income and share value appreciation.

Active Management/

Corporate Governance

Publicly-traded REITs generally are actively and professionally managed corporations. They adhere to the same corporate governance principles that apply to all major companies.

They have a senior management team that is headed by a chief executive officer (CEO) who actively manages the overall strategic vision and equity of the enterprise. The Board of Directors appoints the CEO, which in turn is elected by and accountable to the shareholders of the REIT.

Disclosure Obligation

REITs, like other public companies in the U.S., are required to make regular financial disclosures to the investment community, including quarterly and yearly audited financial results with concomitant filings to the Securities and Exchange Commission.

Limited Liability

As is the case with investments in other publicly traded companies, shareholders have no personal liability for the debts of the REITs in which they invest.

Low Leverage

One reason so many REITs (65 percent, based on equity market capitalization) are rated investment grade is their moderate financial leverage. In fact, the average REIT debt ratio has generally been below 50 percent for much of the last decade.

RETURNS DELIVERED BY REITS

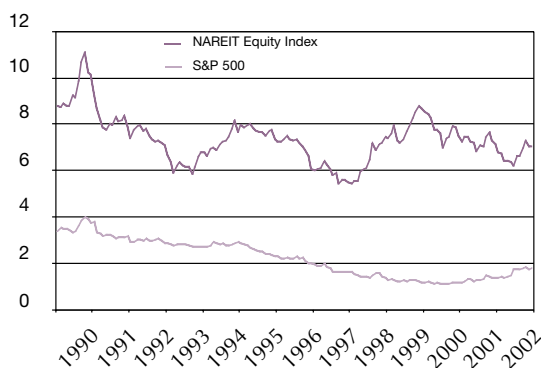
REITs Deliver Income & Long-term Growth

The special investment characteristics of income-producing real estate provide REIT investors with competitive long-term rates of return that complement the returns from other stocks and bonds.

High Dividend Yield

REITs are required to distribute at least 90 percent of their taxable income to shareholders annually in the form of dividends. Significantly higher than other equities on average, the industry's dividend yields generally produce a steady stream of income through all market conditions.

REIT Dividend Yield versus S&P 500 Dividend Yield



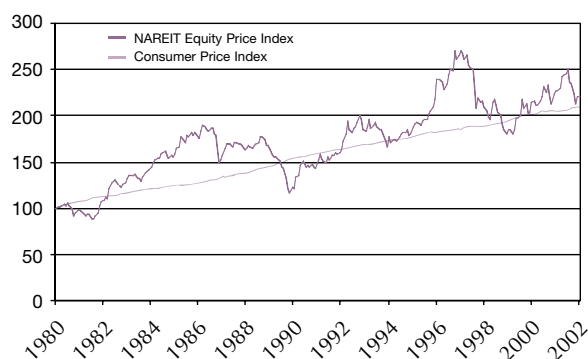
Source: National Association of Real Estate Investment Trusts® and Standard and Poor's.

Share Price Appreciation

Approximately one-third of the total return from REIT stocks over the last 20 years came from moderate, long-term growth in share prices. This growth generally has tracked the Consumer Price Index over the last two decades, protecting shareholders' capital from the ravages of inflation.

Equity REIT Price Index versus CPI

(Monthly, 1980 - 2002)
Indexed at December 1980 = 100.0



Source: National Association of Real Estate Investment Trusts® and U.S. Department of Labor Bureau of Labor Statistics.

ADVANTAGES OF REAL ESTATE INVESTMENT

In addition to the benefits of owning shares in a REIT, REITs offer several advantages not found in companies across other industries. These benefits are part of the reason that real estate stocks have become popular investment vehicles over the past several years:

Predictable Revenue Stream

REITs' reliable income is derived from rents paid to the owners of commercial properties whose tenants often sign leases for long periods of time or interest from the financing of those properties. In addition, the companies' ownership of tangible assets with established values tends to reduce risk.

Earnings Transparency

Most REITs operate along a straightforward and easily understandable business model: By increasing rents or occupancy rates, higher levels of income may be generated. When reporting financial results, REITs, like other public companies, must report earnings per share on the basis of GAAP net income.

Another way year-to-year financial progress can be gauged is by comparing levels of Funds From Operations (FFO). FFO, the industry's supplemental performance measure, differs mainly from net income by excluding depreciation and amortization of real estate assets and gains and losses from most property sales.

Given the broad range of real estate subsectors and business lines, there are also a number of additional earnings metrics, which are used by REITs in order to provide investors with a greater level of insight into their performance.

ADVANTAGES OF REAL ESTATE INVESTMENT

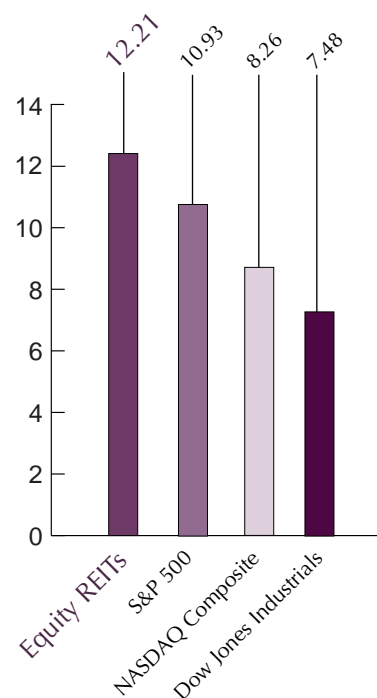
Total Return

The combination of income returns from dividends and capital gains from share value appreciation can result in healthy overall returns for REIT investors. Analysis by Ibbotson Associates demonstrates that the combination of dividend yield and share value appreciation has made REIT returns competitive with other major investment vehicles, including a broad range of large-cap stocks, small-cap stocks and fixed-income securities.

In short, REITs over time have demonstrated a historical track record of providing a high level of current income combined with long-term share value appreciation, inflation protection, and prudent diversification for investors across the age and investment style spectrums.

REITs Outperform Leading U.S. Benchmarks

Compound annual returns, in percent, December 1971-December 2002



Source: National Association of Real Estate Investment Trusts®

REIT TRANSPARENCY

REIT share valuation is based on a number of relatively transparent factors:

Net Asset Value Calculation

Unlike other public companies, many REITs – as well as REIT analysts – perform regular (annual, and often quarterly) valuations of their company property holdings. The value of a REIT's total assets, minus liabilities, divided by the number of its shares outstanding results in what is called the Net Asset Value (NAV) per share of the company. Thus, the value of a REIT's shares is – to a significant degree – based on the value of its tangible real estate holdings.

Property Portfolio Enhancements

The value of a REIT's property portfolio can frequently be either maintained or enhanced through consistent capital expenditures. This is significant because strategic property portfolio enhancements help to maintain or increase NAVs and provide the basis for price appreciation of a REIT's shares.

Many factors that can influence the value of a REIT's property portfolio are easily understood, beginning with the obvious economic fundamentals of supply and demand that effect valuation. Other considerations may include demographic information such as population size, population growth, employment growth and the level of overall economic activity. All of these factors, while differing from region to region, typically have a direct impact on rents and occupancy rates, which in turn drive both projected cash flow and affect property values.

PUTTING PORTFOLIOS IN BALANCE WITH REAL ESTATE

Given the investment strengths of REITs, it is no surprise that REIT shares are commonly viewed as a good match for value-, income- or growth-at-a-reasonable-price (GARP)-oriented investors.

Clearly, the inclusion of REIT shares in any investment portfolio is a prudent investing decision:

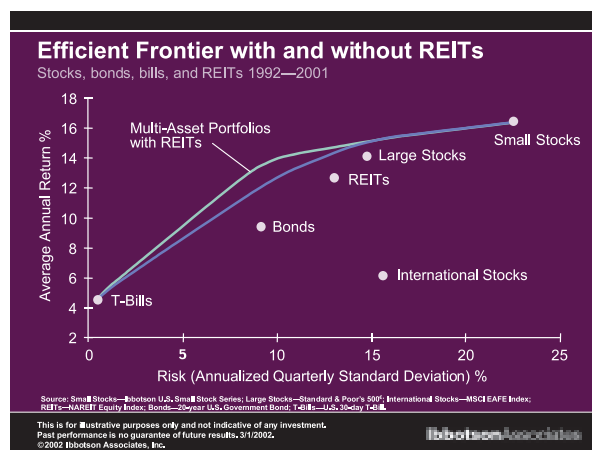
Market Variability Balance

First, the variability of market returns over time makes it clear that balance and diversification are the keys to long-term investment successes. Integral toward balance and diversification is the inclusion of equities that fall firmly within the value, income and GARP-oriented categories, as well as diverse industrial sectors, including real estate.

Attractive Risk/Reward Balance

Second, REIT shares have proven to offer an attractive risk/reward balance in investment portfolios. Asset allocation analysis from Ibbotson Associates finds that investing in REIT shares has historically increased total return or lowered overall risk for both equity and fixed income investors.

In fact, Ibbotson's research shows that, when REIT shares are added to an already diversified portfolio, the efficient frontier of the portfolio is raised. What this means is that by including REIT shares in an already diversified portfolio, the maximum expected return for each given level of risk is increased, and the level of risk for each level of expected return is reduced.



Source: Small Stocks—Ibbotson U.S. Small Stock Series; Large Stocks—Standard & Poor's 500; International Stocks—MSCI EAFE Index; REITs—NAREIT Equity Index; Bonds—20-year U.S. Government Bond; T-Bills—U.S. 30-day T-Bill

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Ultimately, a more efficient portfolio is something that all investors – from those looking for value or income, to those who are more growth-oriented – should find attractive.

REIT SECTORS

With a very diverse profile, the REIT industry offers investors many alternatives across a broad range of specific real estate subsectors, including:

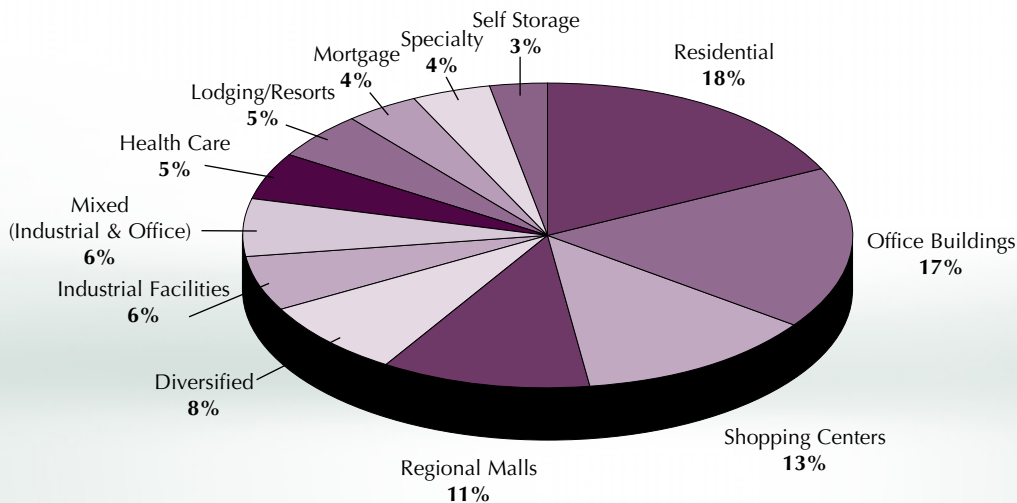
- Apartment communities
- Office properties
- Shopping centers and malls
- Storage centers
- Industrial parks and warehouses
- Lodging facilities, including hotels, motels and resorts
- Health care facilities
- Natural resources.

Regardless of specific business line, REITs most often acquire and develop their properties primarily to actively manage and operate them as income-producing, ongoing businesses, while regularly exploring new opportunities for income growth, from new acquisitions or development, to providing income-producing leasing or tenant services.

In addition, REITs that have a mortgage-focused investment strategy invest in commercial mortgages (CMBS) and residential mortgages (MBS).

REITs Invest In All Property Types

(as of December 31, 2002)



Source: National Association of Real Estate Investment Trusts®

REAL ESTATE INVESTMENT BENEFITS

REIT shares clearly can benefit most investors, whether value-driven or growth-oriented, individual or institutional. They offer the benefits of ongoing current income, with the potential for long-term appreciation that historically has met or exceeded inflation.

They are equities that derive a great part of their value from tangible, hard assets.

And they have been proven to bring the benefits of balance, diversification and greater risk/reward efficiency to a broad range of investment portfolios.

We invite you to further explore what the REIT sector can offer you.

NAREIT is the national association for real estate investment trusts (REITs) and publicly traded real estate companies. Members are REITs and other businesses that own, operate and manage income-producing real estate, as well as those firms and individuals who advise, study and service those businesses.

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