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Solid foundation: A thawing credit market and renewed real estate activity will drive growth

IBISWorld Industry Report 52593

Real Estate Investment Trusts in the US

April 2011

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About this Industry

Industry Definition

The industry is comprised of legal entities that are categorized as real estate investment trusts (REITs). To qualify as a REIT, a company or trust must distribute at least 90.0% of taxable income to shareholders annually in the form of dividends. REITs use the pooled capital of many investors to directly invest in income-producing property. Income is mainly generated from rent, interest and capital gains. There are three types of REIT funds: equity, mortgage and hybrid.

Main Activities

The primary activities of this industry are

Property ownership including commercial, industrial, retail and residential real estate

Property development including commercial, industrial, retail and residential real estate

Property management including commercial, industrial, retail and residential real estate

Mortgage financing

The major products and services in this industry are

Equity REITs – Other commercial properties

Equity REITs – Residential properties

Equity REITs – Retail properties

Hybrid REITs

Mortgage REITs

Similar Industries

53111 Apartment Rental in the US
This industry classifies establishments primarily engaged in acting as lessors of buildings used as residences or dwellings.

53112 Commercial Leasing in the US
This industry classifies establishments primarily engaged in acting as lessors of buildings (except mini warehouses and self-storage units) that are not used as residences or dwellings.

53113 Storage & Warehouse Leasing in the US
This industry classifies establishments primarily engaged in renting or leasing space for self-storage.

53119 Mobile Home Site & Other Leasing in the US
This industry comprises establishments primarily engaged in acting as lessors of real estate

Additional Resources

For additional information on this industry

www.federalreserve.gov
The Federal Reserve

www.reit.com
The National Association of Real Estate Investment Trusts

www.census.gov
US Census Bureau

Industry at a Glance

Real Estate Investment Trusts in 2011

Key Statistics Snapshot

Revenue	Annual Growth 06-11	Annual Growth 11-16
$54.3bn	4.4%	5.1%
Profit	**Wages**	**Businesses**
$7.8bn	$2.3bn	178

Market Share

Simon Property Group Inc. 8.1%

General Growth Properties Inc. 6.3%

Vornado Realty Trust 5.8%

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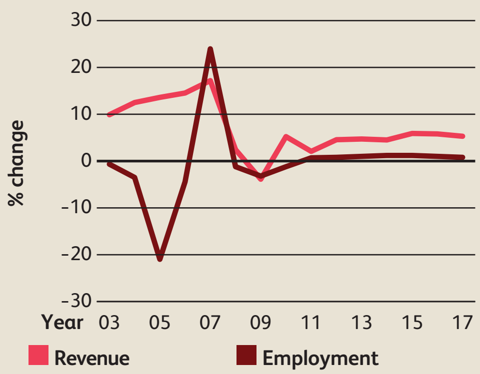
Key External Drivers

- House price index
- National unemployment rate
- Per capita disposable income
- Corporate profit
- Yield on 10-year Treasury bond
- Number of businesses

p. 4

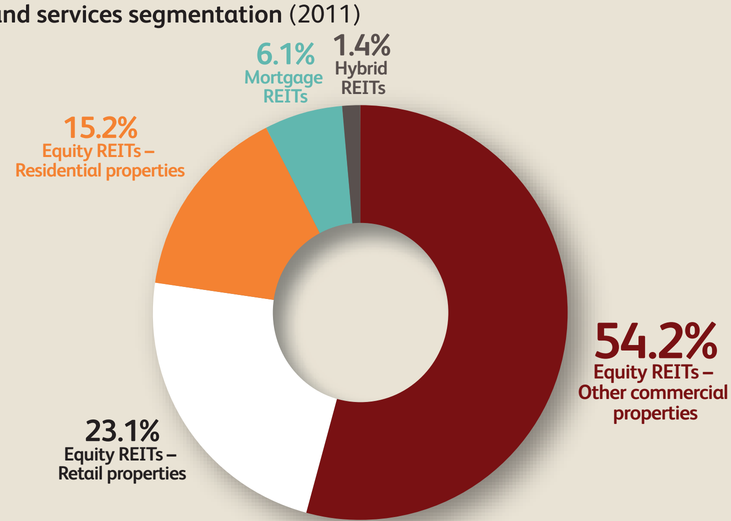
Revenue vs. employment growth



House price index

SOURCE: WWW.IBISWORLD.COM

Products and services segmentation (2011)



SOURCE: WWW.IBISWORLD.COM

Industry Structure

Life Cycle Stage	Growth	Regulation Level	Medium
Revenue Volatility	Medium	Technology Change	Medium
Capital Intensity	High	Barriers to Entry	Medium
Industry Assistance	Low	Industry Globalization	Low
Concentration Level	Low	Competition Level	Medium

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 35

Industry Performance

Executive Summary | Key External Drivers | Current Performance
Industry Outlook | Life Cycle Stage

Executive Summary

Real estate investment trusts (REITs) provide an opportunity for individual investors to own real estate that otherwise would be too expensive. As a result, the demand for and growth of the Real Estate Investment Trusts industry are often associated with the general health of the real estate sector. Prior to the subprime mortgage crisis, the industry benefited from the real estate bubble as lax lending standards and rapid property appreciation drove up revenue. As a result, in the three years to 2008, revenue increased at an average annual rate of 11.2%. However, this trend reversed in 2008 as the bubble burst and the credit markets tightened. Consequently, industry revenue is only expected to increase by 4.4% per year to $54.3 billion in the five years to 2011, including a 2.1% jump in 2011.

The industry will expand as firms buy real estate portfolios at lower prices

In addition to asset appreciation, REITs also benefited from the influx of capital brought on by lax lending standards. This trend was important because REITs are required to distribute 90% of their earnings to shareholders. As a result, the use of debt offerings and mortgages often fund the majority of REITs purchases and operations.

The ease of credit and demand for real estate helped shape the real estate bubble, and the house of cards collapsed in 2007 when the subprime mortgage crisis developed. Since then, the industry has been marred by the worst financial crisis and property downturn since the Great Depression. In fact, industry assets lost about 26.2% of their value, or $90.1 billion, in the two years to 2008. Similarly, market capitalization for publicly held REITs decreased 56.3% or $246.4 billion, which is important because the market capitalization of a publicly traded REIT is often used as a determinant of that firm's ability to raise new capital for operations. Unlike asset values and market caps, however, industry revenue has remained resilient since 2007 as leases and other long-term contracts have been able to maintain REIT revenue streams.

In the five years to 2016, industry revenue is expected to increase at an average annual rate of 5.1% to $69.7 billion driven by the economic recovery and rebound in the real estate market. At the same time, the industry is forecast to expand as larger, more capitalized firms purchase real estate portfolios at bargain basement prices, particularly in the first half of the next five years.

Key External Drivers

House price index

Fluctuations in residential real estate generally reflect the health of the economy and the overall real estate market, but the value of the underlying property largely determines rental prices and capital gains. This driver is expected to increase over the next year, making it a potential opportunity for industry growth.

National unemployment rate

The unemployment rate is a determining factor of the US economy's health. During times of strong economic growth, companies expand and demand for commercial space increases. Conversely, a high unemployment rate generally indicates a weak corporate market, decreasing the demand for commercial space. This driver is expected to fall during the next year.

Industry Performance

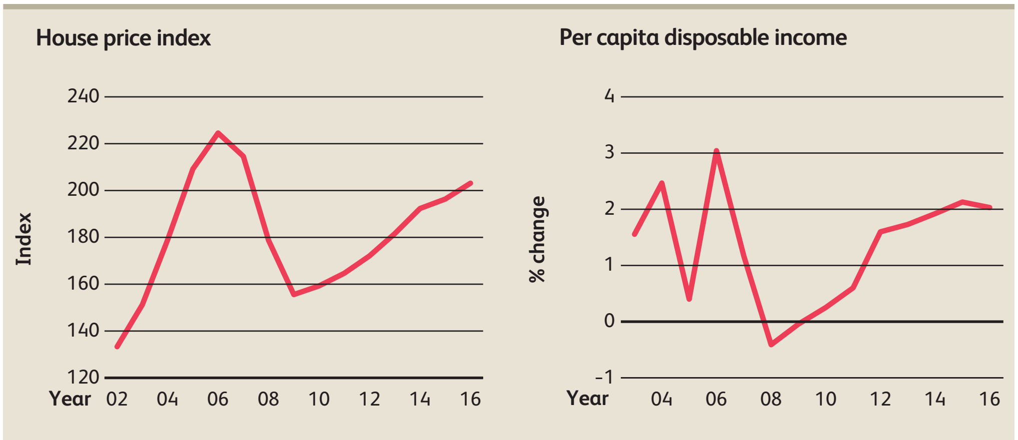
Key External Drivers continued

Per capita disposable income
Personal disposable income is defined as personal income less current personal taxes. Consumer confidence and the amount of disposable income largely determine retail spending. As disposable income declines, individuals cut back on retail spending. The decline in retail spending decreases the demand for retail space as companies cut costs or go out of business. This driver is expected to increase during the next year.

Corporate profit
Business confidence will influence businesses' demand for rental space. Contracts for rental space of office and other commercial purposes normally span many years. This driver is expected to rise during the next year.

Yield on 10-year Treasury bond
The industry relies on the capital markets for financing construction, property purchases and business acquisitions. Therefore, the level of activity in the property market is largely determined by the cost of capital, which is generally reflected by the level of interest rates. This driver is expected to rise over the next year, making it a potential threat to industry growth.

Number of businesses
The commercial industry includes office, industrial and retail space. The business sector's health largely determines demand for commercial real estate services. As the number of businesses increases, so will the demand for commercial, retail or industrial space. This driver is expected to rise during the next year.

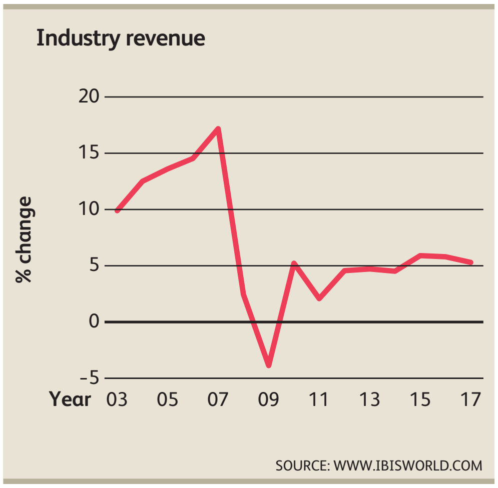


SOURCE: WWW.IBISWORLD.COM

Industry Performance

Current Performance

In the five years to 2011, the Real Estate Investment Trusts (REIT) industry revenue is expected to increase at an average annual rate of 4.4% to $54.3 billion, however, the majority of this growth is associated with the real estate boom that occurred prior to the subprime crisis. Since then, revenue growth has been subdued thanks to a drop in rental income brought on by a decline in property values, a rise in vacancy rates and the oversupply of new buildings. As a result of these trends, industry revenue has slowed substantially. In 2009, it dropped for the first time in over a decade, falling by 3.9%. Growth has since resumed, but revenue is only expected to increase by about 2.1% in 2011 as the industry continues to suffer from the fallout associated with the collapse of the real estate bubble.



Subprime mortgage crisis

In addition to revenue, it is important to monitor REITs' ability to finance operations. In this regard, the credit crisis and real estate collapse has hurt the industry. The decline in asset values has constricted the capacity of some REITs to raise capital, while the financial sector has severely curbed lending activity due to the fallout from the subprime crisis. As a result, some companies are struggling to stay alive, particularly REITs that over leveraged their real estate portfolios. Consequently, in the five years to 2011, the number of enterprises is expected to fall at an average annual rate of 3.1% to 178.

The poster child for this phenomenon was General Growth Properties, which filed for bankruptcy protection in April 2009. The company acquired other companies and properties through debt purchases and expanded significantly during the past 10 years; however, once the credit markets soured and real estate prices declined, the company was unable to manage its debt levels. Consequently, the company filed for the largest real estate bankruptcy in US history in April 2009.

Dire credit market conditions have also forced some REITs to be creative in raising or conserving capital. Some firms have issued equity instead of dividends to save cash. Others have issued preferred stock to investors to raise capital instead of issuing debt or mortgaging properties. Firms that managed to maintain healthy loan-to-value ratios have been able to weather the storm. In fact, some firms have actually benefited from current market conditions.

Industry Performance

Not all bad news

REITs that have maintained strong capital positions have been able to access capital more readily than companies like General Growth Properties. At the same time, property values have declined, creating value for well capitalized bargain shoppers. Firms with liquidity and strong balance sheets have been able to take advantage of distressed sellers, acquiring properties below market values. As a result, industry employment is expected to increase at an average annual rate of 3.4% to 21,751, despite the overall decline in enterprises as well-capitalized REITS have acquired smaller weaker players.

The rise in consolidation and improvements in overall real estate values is expected to drive industry profit margin growth in 2011, when earnings before interest and taxes are estimated to jump to 14.4% of revenue, up from 10.0% in 2010. However, despite improvements, margins are still expected to remain well below the cyclical peak of 29.2%, which occurred in 2006.

Asset values

The value of the industry's underlying assets often determines its ability to finance operations. Asset values are important because REITs generally use the equity within their property holdings as collateral for loans. In the two years to 2007, the industry benefited from low interest rates (as highlighted by the 10-year treasury rate) and soaring property values. Companies leveraged properties at higher rates with the expectation that property values would continue to appreciate at record levels. The availability of cheap capital helped drive industry growth and spurred real estate developments. REITs also acquired competitors or purchased properties to expand operations.

Declining real estate values and curbed lending activity have hurt some REITs

At the same time, the rapid expansion of real estate values eventually led to the current crisis. The availability of cheap credit-inflated real estate prices because more individuals were able to purchase properties. However, as interest rates rose, borrowers began to default on loans. As defaults escalated, credit markets tightened and the real estate bubble collapsed. As a result, the REIT industry experienced an unprecedented decline in asset valuations.

Values plunge in 2007 and 2008

In 2007 and 2008, industry assets fell by about 10.5% to $334.0 billion and 21.5% to $262.1 billion, respectively; while market capitalization for publicly held REITs decreased by 30.8% to $329.0 and 39.9% to $197.8 billion over this same period. However, due to improvements in the real estate market and the Great Recession, this trend began to reverse in 2009. In 2011, assets are expected to rise by about 5.1% to $281.5 billion in 2011, while public REITs market capitalization is projected to jump by 6.5% to $284.2 billion.

Market capitalization is a valuable statistic in determining investor sentiment. It is also used as a barometer for an REIT's ability to raise capital within the financial markets. However, growth and profitability of the REIT

Industry Performance

Values plunge in 2007 and 2008 continued

industry depends on the value and performance of the underlying real estate assets that each company owns. In contrast, revenue generally trails market performance and asset valuations because revenue depends on rental income, which lease agreements traditionally have stabilized.

As a result, industry revenue did not reflect the dramatic decline in asset values that occurred over the two years to 2008. Instead, revenue actually increased at an average annual rate of 9.6% in the two years to 2008 as the industry benefited from steady rental income due to leases and other long-term contracts. Overall, revenue is expected to increase in every year except 2009 despite the collapse of the real estate bubble.

Vacancy rates

Vacancy rates are generally considered a good determinant for property valuations because they indicate the supply and demand of real estate. Vacancy rates rise during periods of weak demand and oversupply and vice versa. Demand depends on economic activity, the financial conditions of tenants and prospective tenants and population trends, while supply depends on construction activity and future plans in the development pipeline. Consequently, real estate development lags behind economic activity due to the forecasting and planning involved in construction property. Vacancy rates for all four main REIT sectors have increased due to the fallout from the recession. The four main REIT sectors include companies that specialize in residential, commercial, industrial and retail properties.

Vacancy rates for the residential sector have risen since the start of the recession, as declines in per capita disposable income and the rise in unemployment have driven some individuals to move in with roommates in an effort to cut living

Vacancy rates for all four main REIT sectors have increased due to the fallout from the recession

expenses. Higher unemployment and lower declines in per capita disposable income has also hurt the retail sector as many consumers have cut back spending.

Within the commercial sector, vacancy rates have increased as the number of businesses have declined. This trend has also been supported by weaker corporate profit, as many firms have been forced to undergo cost cutting measures, including downsizing operations. Imports and exports have bearing on industrial vacancy rates. The drop in consumer spending has lowered demand for imports. Also, companies have reduced inventory to cut overhead and operation costs. Declining consumer demand and the drop in inventory have decreased the need for warehouse and distribution space.

Industry Performance

Industry Outlook

The Real Estate Investment Trusts (REIT) industry's revenue is expected to increase at an average annual rate of 5.1% to total $69.7 billion in the five years to 2016, including a 4.6% jump in 2012. During this period, recovery in the real estate market will drive industry growth. Also, the industry is projected to expand as larger, well capitalized firms purchase real estate portfolios at bargain basement prices, particularly in the near term through 2016. At the same time, REITs will continue to face fallout effects associated with the subprime crisis, especially with regard to rental rates.

Since 2008, commercial and residential property rates have decreased. This trend is expected to continue over the two years to 2013, as an oversupply of new buildings and high vacancy rates hurt asset values. In addition, unemployment is forecast to recover slowly through 2016, so demand for real estate is also anticipated to remain similarly subdued. However, despite these trends, industry profit is expected to rebound sharply, rising to 27.5% of revenue by 2016.

New firms will enter the market

REITs that were able to maintain strong balance sheets, particularly with regard to leveraged ratios, will likely continue to benefit from the real estate decline. Firms that acquired properties at bargain basement prices, are expected to have these assets rise in value over the five years to 2016, turbo-charging growth. At the same time, interest rates are expected to remain near historic lows over the three years to 2013 as the Federal Reserve continues to fight deflation and promote spending. As the credit markets normalize, companies will begin to refinance debt and expand operations. The improvement in lending activity will likely slow the level of capital raised through initial public offerings and private placements as firms look to return to normal operations.

Improved lending is projected to slow the level of capital raised through IPOs and private placements

Favorable lending conditions and rapid improvements in real estate values are expected to drive new entrants into the market. As a result, in the five years to 2016, the number of enterprises is expected to increase at an average annual rate of 7.3% to 253. In comparison, industry employment is only expected to rise by about 1.0% annually to 22,906. This trend will be driven by the rise of smaller specialized operators, which are able to take advantage of market liquidity and rapid appreciation in real estate demand and valuations.

Other trends

The demand for lifestyle centers and Leadership in Energy and Environmental Design (LEED) certified buildings is expected to increase through 2016. The baby boomer generation is retiring, and many individuals are now demanding that retail centers transition from traditional shopping plazas into more destination and leisure places. At the same time, demand for mixed-use properties, where retail, residential and commercial space reside under one development, has increased.

Industry Performance

Other trends continued

The construction of LEED-certified buildings is also projected to rise as companies and individuals become more environmentally conscious. The green movement sparked the trend toward LEED buildings, but tenants and property owners benefit from decreased operational costs associated with these types of buildings. As a result, REITs are projected to increase the construction of these properties in an attempt to cut operational costs.

IBISWorld forecasts that the industry will be more conservative in terms of managing debt and leveraging assets. The fallout from the subprime crisis was a reminder of the importance of maintaining a strong balance sheet. The decline in leveraging is expected to reduce risk, but decreased leverage also will lower returns.

The industry will be more conservative in terms of managing debt and leveraging assets

Regulation changes

There is a possibility that REITs will be able to hold a wider variety of assets. In June 2007, the IRS ruled that an electric transmission and distribution through a company's wires and pipes meets the definition of real property. Any expansion of the allowable assets held by a REIT, such as infrastructure, would increase the avenues in which the industry could grow.

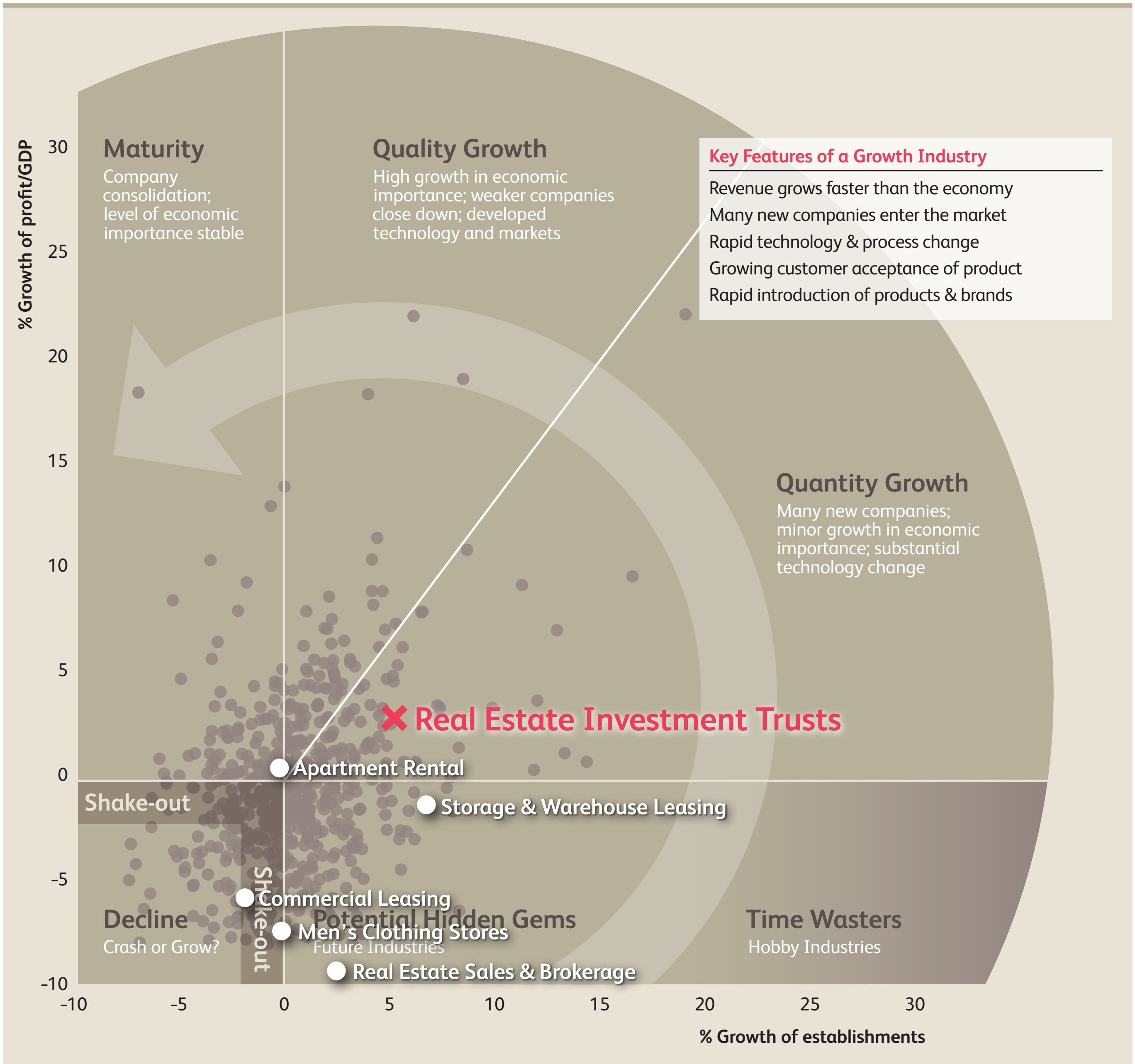
Industry Performance

Life Cycle Stage

Industry growth is expected to outpace GDP in the 10 years to 2016

The popularity of REITs continues to rise

Despite consolidation, the value of REIT property holdings is rising



SOURCE: WWW.IBISWORLD.COM

Industry Performance

Industry Life Cycle

This industry is **Growing**

The real estate investment trust structure was created in 1960 so real estate investors would be able to avoid the double taxation of earnings. Specifically, REITs are not required to pay corporate income taxes as long as 90% of their income is distributed to investors. However, the popularity of REITs did not take off until the late 1980s and early 1990s due to changes in regulation restrictions. Namely, pension funds were granted the ability to directly invest in REITs and REIT funds were finally allowed to manage their own properties. As a result of these changes, the popularity of REITs increased and by 2002, there were more than 300 listed REITs in the United States.

The industry is cyclical in nature, with downturns generally associated with economic slowdowns or recessions. The most recent decline occurred in 2009, when the country was in the midst of the Great Recession. Overall, industry value-added (IVA) is expected to increase at an average annual rate 3.4% to $25.4 billion in the 10 years to 2016, while US GDP is forecast to rise by 2.0% over this same period. As a result, the industry is considered to be in the midst of a growth cycle. Typically, an industry is considered to be in a growth phase of its life cycle when revenue increases faster than US Real GDP over a 10-year period, while a mature phase occurs when industry growth mirrors changes in total US economic output.

However, despite strong 10-year revenue growth, the industry is slowly entering into a mature cycle. The number of listed REITs traded on US stock exchanges (primarily the NYSE) has been steadily declining and currently stands at 126. The industry has been undergoing consolidation, as listed REITs have been acquired by private equity investors and large financial institutions. With the sharp decline in acquisition activity from late 2007 onwards, consolidation within the industry has slowed. Further consolidation may come from the large REIT acquiring smaller industry operators struggling with high debt levels or through the enforced sale of assets.

Products & Markets

Supply Chain | Products & Services | Demand Determinants
Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

44811 **Men's Clothing Stores in the US**
Men's clothing stores along with other retailers are significant users of REIT properties. This category is just an example of a typical retail REIT tenant.

52 **Finance and Insurance in the US**
Finance and insurance organizations, including pension funds and mutual funds, provide a significant amount of funds for REIT activities.

52511 **Retirement & Pension Plans in the US**
Pension funds are significant owners of REIT shares and therefore an important source of capital funding.

52512 **Health & Welfare Funds in the US**
A significant number of REIT shares are sold to Health and Welfare funds.

52591 **Open-End Investment Funds in the US**
REITs constitute a significant share of the asset composition of mutual funds.

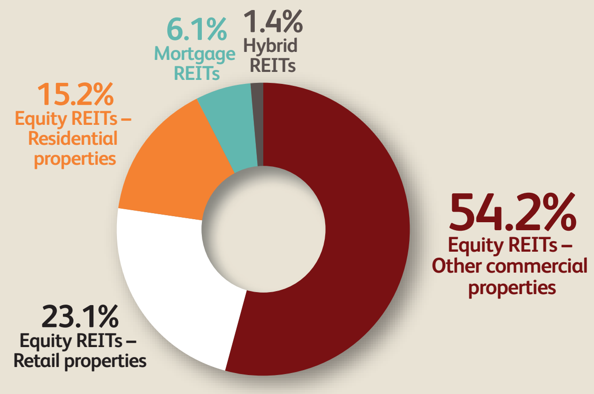
KEY SELLING INDUSTRIES

52 **Finance and Insurance in the US**
Finance and insurance organizations are significant owners of real estate assets. As a result, REITs often buy buildings and other real estate assets from these institutions.

53121 **Real Estate Sales & Brokerage in the US**
Real estate agents and brokers represent sellers of both commercial and residential property, so REITs often deal with this industry when acquiring property.

Products & Services

Products and services segmentation (2011)



Total $54.3bn

SOURCE: WWW.IBISWORLD.COM

There are three main types of products within the Real Estate Investment Trusts industry, including equity REITs, mortgage REITs and hybrid REITs. All three segments are either publicly traded or privately held, with the largest REITs traded on major public exchanges, similar to stocks and other investment securities.

Equity REITs are the largest industry product line, as this sector accounts for roughly 92.4% of industry revenue, an increase of about 8.4% since 2006. These types of REITs are corporations or trust

Products & Markets

Products & Services continued

that use pooled capital from many investors to purchase and manage income property. These REIT structures continue to gain popularity among investors and real estate firms. Real estate firms that are categorized as equity REITs often participate in a wide variety of property-related activities, including leasing, development and tenant services. However, despite participating in a wide variety of real estate functions, equity REITs must primarily be involved in the acquisitions and development of properties for their own portfolio, rather than to resell them once they are developed.

Mortgage REITs lend money directly to real estate owners and operators or extend credit indirectly through the acquisition of loans or mortgage-backed securities. Currently, mortgage REITs primarily extend mortgage credit on existing properties. Additionally, this sector manages its interest rate risk utilizing mortgage investment and other hedging techniques. Prior to the recession, this sector gained market share as investors looked to cash in on the credit craze. However, since the subprime mortgage crisis the demand for mortgage REITs has dramatically declined. As a result, this product line only accounts for about 6.1% of industry revenue, or about 7.8% less than in 2006.

Hybrid REITs provide services that are similar to both equity REITs and mortgage REITs. Like equity REITs, hybrid REITs own and operate real estate properties. At the same time, these groups of REITs also provide loan services to other real estate owners and operators like mortgage REITs. Similar to the mortgage REIT segment, this segment has declined in popularity since the start of the subprime crisis due to their exposure to credit risk. As a result, this sector's share of industry revenue is expected to fall from 1.9% in 2006 to about 1.4% in 2011.

Demand Determinants

The demand for REIT securities is often derived from the growth and profitability of the underlying real estate assets that each enterprise owns. In addition, REIT shares are often priced in relation to liabilities and leveraged ratios. High loan-to-value ratios are often associated with mismanaged or high risk companies. Consequently, REIT prices tend to be lower for these securities. This trend has been particularly important as of late due to the liquidity issues associated with the subprime mortgage crisis.

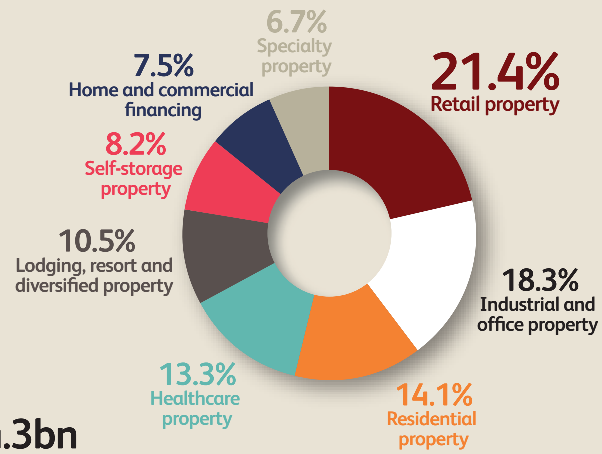
Interest rates also play a crucial role in determining the demand and value of REIT securities. Rising interest rates generally hurt REIT prices as other investments become more attractive. The stock price can also fall as investors demand higher dividend yields. In addition, interest rates can also have an adverse affect on the REITs sector profitability because the largest component of most REITs cost structure is interest expenses.

It is also important to note that REIT demand can fluctuate with general economic cycles. The health of the overall real estate sector is largely influenced by general economic trends, including unemployment rates, GDP growth, retail spending and investment trends.

Products & Markets

Major Markets

Major market segmentation (2011)



Total $54.3bn

SOURCE: WWW.IBISWORLD.COM

REITs invest in a variety of property types, including shopping centers, apartments, warehouses, office buildings, self-storage facilities and hotels. The industry also contains companies and trusts that specialize in the healthcare industry. Most notably, these REITs invest, develop and operate healthcare facilities across the United States, including acute care, rehabilitation centers, psychiatric hospitals, medical office buildings, nursing homes and assisted living communities.

The industry operates in a variety of markets, but the majority of participants generally provide services for specific industry segments. Additionally, some REITs limit operations to specific regions or cities to leverage expertise and limit costs. The breakdown of the industry's real estate assets can vary significantly and is largely impacted by the timing of the property cycle in the various markets, including real estate prices, rental prices and occupancy rates. With the decline in the US housing market and downturn of the US economy, there has been a shift in the asset mix of some REITs. This has been particularly evident with the decline in the residential sector and the rise in the healthcare property category.

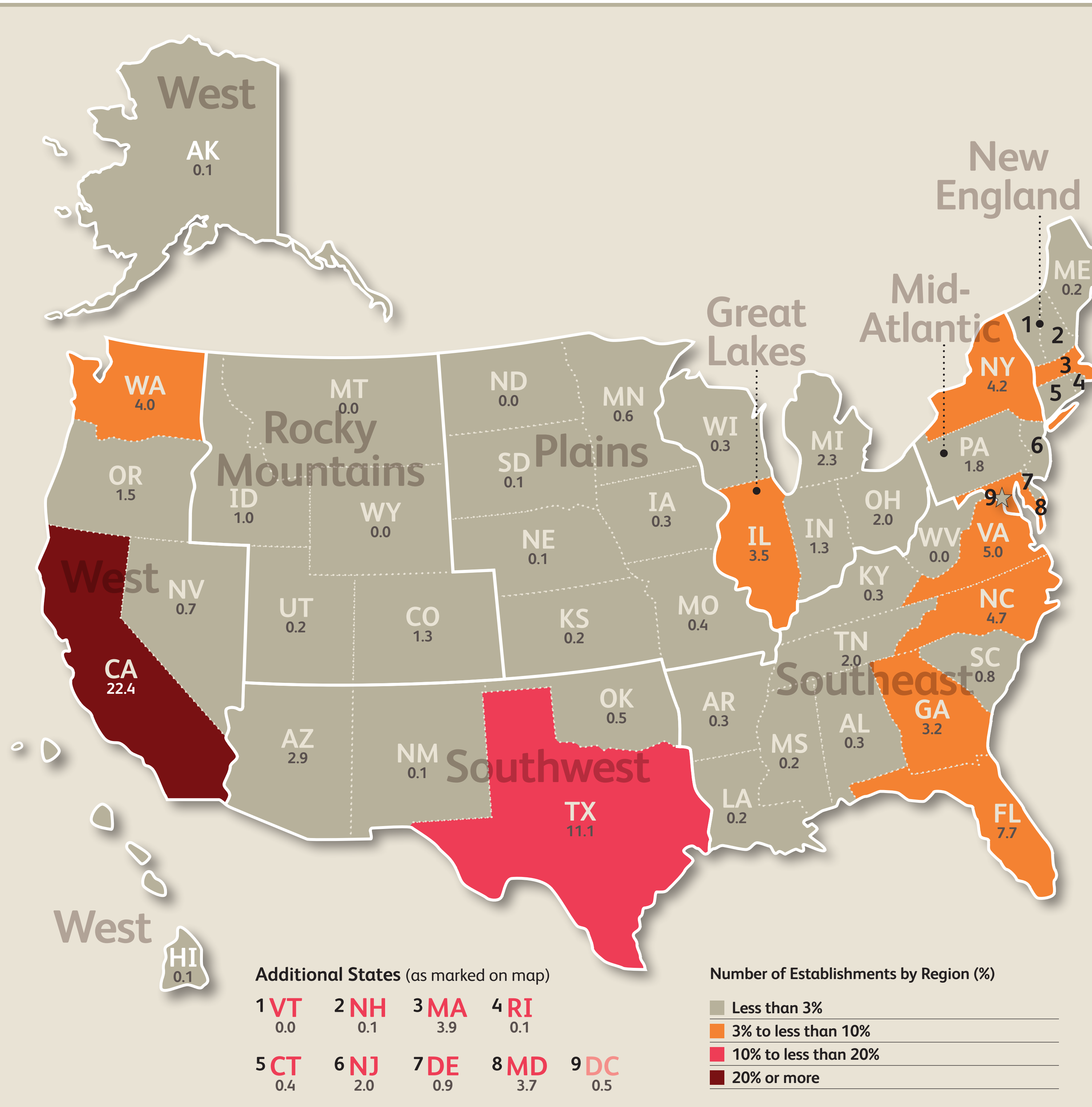
The largest industry market segment is related to retail property, which mainly includes shopping centers, regional malls and free standing retail developments. The next largest segment contains industrial property REITs, which generally focus on industrial facilities, office buildings and mixed-use properties (e.g. industrial and office). The third major segment is includes residential property REITs. These firms and trusts specialize in apartment complex ownership and development, but it also includes manufactured home operations.

International Trade

The REIT industry is comprised of companies that own fixed real estate assets. Consequently, there is not applicable international trade within the industry. However, it is important to note that the REIT industry continues to follow the globalization trend of the financial markets. For more detail on this activity, please refer to the "Industry Globalization" section of this report.

Products & Markets

Business Locations 2011



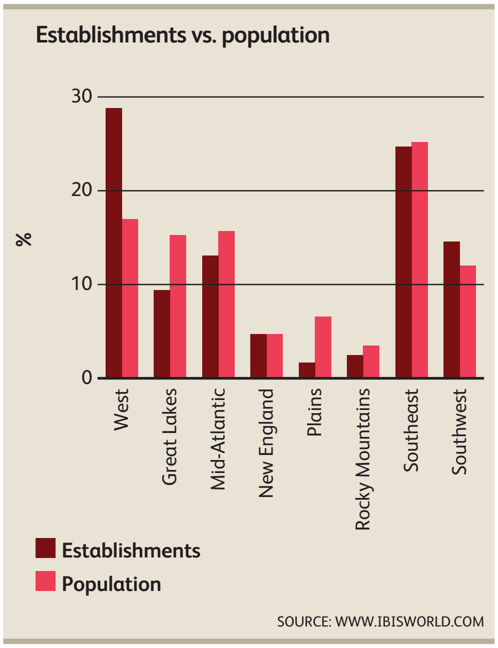
SOURCE: WWW.IBISWORLD.COM

Products & Markets

Business Locations

The geographical distribution of REITs is largely reflective of the changes in population distribution over the past 10 years. The US population is slowly migrating towards the Sunbelt region. According to the US Census, the 10 counties with the largest population increases were all in California, Nevada, Arizona and North Carolina. As the population migrates, the need for new office buildings, apartments and retail centers increases. REITs benefit from this shift because of their expertise in land development, property management and access to capital. REITs also like to invest in areas with population growth because it generally leads to property appreciation, which is important for investment returns and debt management. The rise in property values also increases revenue because rental rates are generally derived from property prices.

As a result of the long-term population trends, the majority of REITs are located in the West, Southeast and Southwest. In the West, the state of California accounts for the majority of REIT establishments with 22.4% of the nation's total REIT establishments. The states of Florida, Virginia and North Carolina are the most important REIT markets in the Southeast. The three states account for 17.3% of the nation's REIT offices and about 70.0% of the regions REIT establishments. In the Southwest, the States of Texas and Arizona emerge as important REIT markets.



New York has a large concentration of high-rise office buildings, but a disproportionally small REIT market. This trend is largely attributed to the high concentration of financial companies, including insurers, investment banks and commercial lending institutions. All of these companies tend to invest in real estate to diversify risks and increase investment returns.

Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalization

Market Share Concentration

Level
Concentration in this industry is **Low**

The concentration of ownership is low, with the top five businesses accounting for an estimated 30.1% of the total market in 2011. As mentioned in the "Products and Services" section, the industry can be categorized into three types of REITs, publicly traded, privately traded and non-exchange traded funds. Overall, there are an estimated 166 publicly registered REITs, with 126 publicly listed and 40 privately held.

As detailed in the "Life Cycle" section, the number of listed REITs on US stock exchanges (primarily the NYSE) has been steadily declining as industry participants continue to be acquired by private equity investors and large financial institutions. In addition to outside investors, larger more capitalized firms have been increasingly purchasing smaller REITs, as many of these companies were decimated by the subprime mortgage crisis and the real estate bubble burst.

The subprime mortgage crisis lowered REIT equity, as property prices dropped, diminishing the ability for these firms to use property holdings as collateral for new loans or refinancing. Additionally, many firms that were already over leveraged were significantly affected by the credit market freeze, as these companies became unable to finance new growth or refinance outstanding debt. As a result of this trend, companies have looked to unload properties or merge with strong well capitalized firms to maintain operations. This trend is expected to continue in the future and industry concentration is expected to rise as a result.

Consolidation activity is expected to continue in the first-half of the outlook period, as weaker firms look to shore up their capital bases by merging with larger firms or selling assets. At the same time, the privatization of the industry is also expected to continue as large private equity firms, investment banks and wealthy investors look for bargains within the REIT industry.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Superior financial management and debt management

A significant amount of capital and debt is used to finance property acquisitions, therefore companies must be able to properly manage cash flows, cash reserves and debt levels to grow and manage property portfolios.

Access to investment funding

Most REITs rely on external financing to fund the growth of their business, therefore access to funding from debt and equity markets is an important success factor.

Proximity to key locations

Location is everything in this industry, as tenants generally pay a premium for buildings located near business centers, transportation hubs and entertainment venues. Buildings in densely populated metropolitan areas have higher rental income.

Access to highly skilled workforce

The ability to attract and retain key personnel is a major success factor for REITs.

Densely populated areas

REITs generally benefit from owning property in densely populated areas due to the scarcity of land. The supply and demand for real estate drives rental income, and metropolitan areas tend to have a lot of demand for real estate and not enough supply.

Competitive Landscape

Cost Structure Benchmarks

The US Real Estate Investment Trusts industry is comprised of equity, mortgage and hybrid structured companies. Equity REITs tend to have higher costs in comparison to mortgage REITs because these entities directly own and manage real estate assets. In comparison, mortgage REITs do not have a direct interest in real estate holdings. Instead, these entities provide capital to developers and property owners with property interests. The majority of industry revenue and asset holdings are associated with publicly traded equity REITs so the cost analysis will focus on this group.

Earnings before interest and taxes (EBIT)

The industry's profitability is expected to continue to improve in 2011 as the economy recovers and asset values stabilize, with EBIT increasing to 14.4% from 10.0% in 2010. This is a reversal from the two previous years, net income declined as the industry struggled with the fallout associated with the subprime mortgage crisis, which began in 2007.

Interest expense

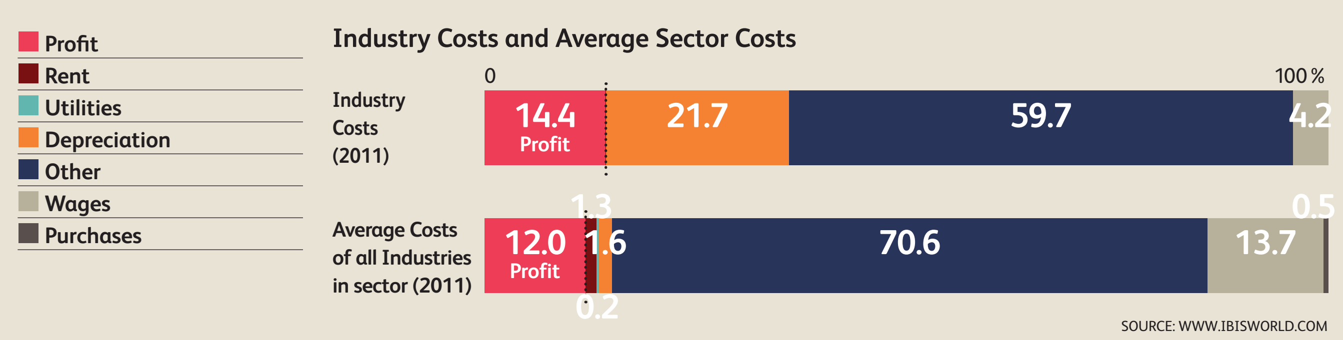
Interest expenses include costs associated with debt including mortgages and bonds. REITs generally leverage a large portion of their real estate holdings in an attempt to raise capital for daily operations, acquisitions and property development. To be categorized as a REIT for tax purposes, companies are required to distribute 90% of net income. As a result, interest expenses tend to be the highest portion of company's cost structure because firms need to issue debt or take out mortgages to expand operations, acquire property or develop land.

Depreciation

The second largest expense for REIT companies is depreciation. Under GAAP standards a REIT is required to charge depreciation against real estate assets. However, the depreciation of real estate unfairly reduces net income because real estate assets generally do not lose value over an outlook period, instead prices generally appreciate. Consequently, investors evaluating a REIT's performance often look at a company's funds from operations (FFO). FFO is calculating by adding depreciation and amortization back to net income.

The depreciation expense category also includes amortization. Amortization is the gradual elimination of a liability, such as a mortgage from a company's balance sheet. Amortization expenses generally are periodic or regular payments that take place over a specific period of time.

It is important to note that depreciation expenses have increased since the start of the subprime mortgage crisis. The majority of this increase is associated the dramatic decline in real estate values in the two



Competitive Landscape

Cost Structure Benchmarks continued

years to 2009. However, this trend is expected to reverse in 2010 as the real estate sector stabilizes and property values begin to improve.

Property maintenance and repairs

Property maintenance and repair is a significant item for industrial, retail and residential REIT. Some rental agreements allow REITs to recover a significant portion of maintenance and repair costs from tenants. Maintenance and repair costs can also be impacted by weather conditions, regulation requirements and property conditions. Older properties tend to have higher maintenance costs then newer buildings so it is important to look at the age of the real estate portfolio.

Wages

Wages consist of employee costs associated with property management, acquisition and development. Companies generally employ highly educated individuals who are experts in the real estate industry. As a result, employees tend to be highly paid.

Other costs

Other expenses include property taxes, insurance costs and legal fees. These costs have remained relatively steady despite the credit crisis.

Basis of Competition

Level & Trend
Competition in this industry is **Medium** and the trend is **Increasing**

Forming an important basis of both internal and external competition is the investment performance of REITs relative to other REITs as well as alternative investment forms with similar risk profiles.

An important inter-industry competitive factor comprises taxation benefits. REITs are so-called pass-through entities, which implies that they are free of taxation at the corporate level. This implies that REITs are tax-effective relative to a number of other investment alternatives.

Equity REITs, which own and operate income-producing real estate, face competition from other real estate property owners and developers. Principal factors of competition are rent charged, attractiveness of location and quality and breadth of services provided.

REITs face competition for investor funds from the growing range of investment funds with property portfolios. This includes real estate mutual funds and alternate asset managers such as hedge funds and private equity. REITs also compete with these funds, such as highly leveraged private equity groups, for property purchases.

REITs also compete in the area of financing of activities. Access to debt and equity capital resources to finance investment strategies and acquisitions is largely based on the size, diversification and track record of the REIT.

Competitive Landscape

Barriers to Entry

Level & Trend
Barriers to Entry in this industry are **Medium** and **Steady**

The US Real Estate Investment Trusts industry is capital intensive. REITs need to raise money to purchase property, develop lend, and run operations. At the same time, mortgage REITs need to raise capital for lending purposes. Access to capital markets is often restricted based on the size, diversification and track record of the REIT. So new REITs may experience difficulty in obtaining financing from capital markets in their acquisition of real estate.

Forming a set of more moderate to low barriers to entry are the regulatory requirements REITs are subjected to. These regulations include the taxation, organizational and operational requirements set out in the Internal Revenue Code. These requirements expose REITs to continuous asset and income tests. REITs are also subject to a variety of federal, state and local environmental, health and safety laws.

Barriers to Entry checklist	Level
Competition	Medium
Concentration	Low
Life Cycle Stage	Growth
Capital Intensity	High
Technology Change	Medium
Regulation & Policy	Medium
Industry Assistance	Low

SOURCE: WWW.IBISWORLD.COM

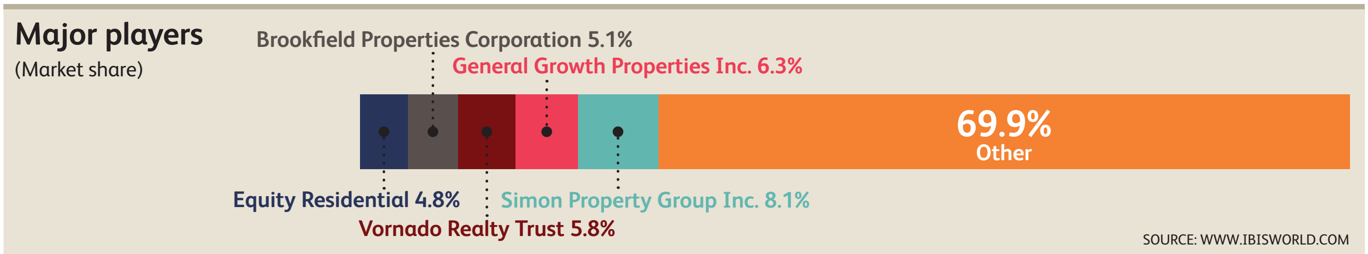
Industry Globalization

Level & Trend
Globalization in this industry is **Low** and the trend is **Increasing**

The US finance sector in general is becoming increasingly globalized, and the REIT industry is beginning to follow this trend. One of the major players in this industry, Prologis, operates in the United States, Europe and Asia and is estimated to generate about two-thirds of its net income from outside of the country. It is expected that US REIT will increasingly look overseas for property investment opportunities as they seek to improve investment returns. Any extended period of downturn in the US property market is expected to encourage investment by REIT overseas.

Major Companies

Simon Property Group Inc. | General Growth Properties Inc. | Vornado Realty Trust
Brookfield Properties Corporation | Equity Residential | Other Companies



Player Performance

Simon Property Group Inc.
Market share: 8.1 %

Simon Property Group is the largest public real estate company in the United States, with 256 million square feet of leasable space in 379 properties throughout the United States (201 million square feet), Asia and Europe. In 2009, revenue is estimated at $3.8 billion with assets totaling $25 billion and a market capitalization of $53 billion. The firm is listed on the New York Stock Exchange under the symbol SPG and is also part of the S&P 500.

Simon specializes in retail centers, including regional malls, shopping centers and strip malls. The company's investments tend to be in metropolitan areas with high consumer traffic. The company's portfolio is largely comprised of retail centers that consist of both anchor department stores and smaller retailers. Since Simon's holdings are substantially retail properties, it is particularly affected by consumer shopping habits. This is especially true of smaller retail store tenants at Simon's malls, as many of these establishments have short-term leases in comparison to anchor stores. Short-term leases generally range from several months to years while long-term leases are generally five to 10 years long.

The company's five major platforms are regional malls, Premium Outlet Centers, The Mills, community/lifestyle centers and international operations. The company's regional malls division consists of 171 centers ranging in size from 400,000 to 2,000,000 square feet. The Premium Outlet Centers group contains 36 centers ranging in size from 200,000 to 600,000 square feet. These centers are located in tourist destinations and near large metropolitan areas such as New York City, Los Angeles and Boston. The Community or Lifestyle Centers are designed to service neighborhoods and communities by taking advantage of existing mall operations. These centers feature entertainment options, retail stores, condominium complexes and office space all in one development. Simon has also expanded its operations outside the United States, with joint ventures in Italy, Poland and France. Other foreign joint venture investments include Premium Outlet Centers in Mexico, Japan, South Korea and China.

Financial performance

In the five years to 2011, Simon's revenue has increased by 5.7%, despite fallout from the subprime mortgage crisis. In 2011, Simon's revenue is expected to increase by 6.4% to $4.4 billion as the firm continues to benefit from improvements in the general economy and real estate sector. In addition, Simon is forecast to increase the size of its operations through various property purchases and/or business acquisitions. Most notably is its recent announcement of its offer to purchase General Growth Properties for $10 billion. This deal has not been completed, but it highlights Simon's strong capital position and aggressive policies for future expansion, particularly as real estate values remain at bargain basement levels.

Major Companies

Player Performance continued

In 2009, revenue is expected to remain relatively flat in comparison to 2008 while net income is projected to decline by 30.9% to $320.2 million according to IBISWorld estimates. The decline in net income continues the trend that started in 2008, when profit declined by 5.6% to $463.6 million. The recent decline in net income is largely attributed to the recession and its impact on consumer spending. The majority of Simon's holdings are retail properties that are particularly vulnerable to the cycles and risks inherent to the retail environment. Consumer spending, confidence and the seasonality of the retail sector all affect retailers' ability to lease space in shopping centers. However, Simon is in a strong position despite the recent decline in net income brought on by the recession and decline in consumer spending. The company has been able to manage its debt, making it less susceptible to the credit market crisis.

The ability to manage debt levels has allowed it to refinance existing loans and purchase properties from other real estate companies that are over leveraged. The manageable debt levels at Simon are particularly important in today's credit climate, which has been tight since the subprime crisis in 2008. In 2009, Simon's loan-to-value ratio (LTV) is estimated at 71.1% with company debt totaling $17.9 billion and assets estimated at $25 billion. The LTV ratio is relatively low in comparison to other firms such as General Growth Properties, which had to file for bankruptcy because it was over leveraged and could not keep up with its mortgage payments.

Simon Property Group Inc. – financial performance

Year	Revenue ($ million)	(% change)	Net Income ($ million)	(% change)	Assets ($ million)	(% change)
2006	3,332.2	5.2	563.4	59.4	22,084.5	4.5
2007	3,651.0	9.6	491.2	-12.8	23,605.7	6.9
2008	3,783.0	3.6	463.6	-5.6	23,422.7	-0.8
2009	3,773.7	-0.2	320.2	-30.9	25,976.6	10.9
2010*	4,124.0	9.3	513.5	60.4	27,743.0	6.8
2011*	4,386.5	6.4	557.6	8.6	28,852.7	4.0

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Player Performance

General Growth Properties Inc.
Market share: 6.3 %

General Growth Properties (GGP) is the second largest REIT in the United States with 2009 revenue estimated at $3.2 billion. The company owns or manages over 200 regional shopping malls in 44 states and international operations in Brazil Costa Rica and Turkey. In addition, the firm has stakes in lifestyle centers, office buildings and residential communities. The company is known for its symbolic properties and tourist destinations, including Faneuil Hall Marketplace in Boston, South Street Seaport in New York City and Water Tower Place in Chicago. Similar to Simon, GGP is vulnerable to economic fluctuations because of its large exposure to the retail sector. The firm also has

Major Companies

Player Performance continued

approximately 18,000 acres of pre-planned residential properties, making it particularly susceptible to the subprime mortgage crisis and the current residential real estate collapse.

On April 16, 2009 GGP filed the biggest real estate bankruptcy in US history after it became unable to manage its debt. The company amassed $27.3 billion of debt during a growth spree that turned it into the second largest shopping mall owner behind Simon Property Group. Under its Chapter 11 filing, the company listed $29.5 billion in assets and $27.3 billion in debt. The company will continue to operate its properties as it tries to refinance and decrease its debt levels.

The company's collapse was brought on by a combination of over leveraging, the subprime crisis, the credit crunch and the drop in property values. The CEO of the firm blamed the credit market crisis and recession for the company's demise, but prior to the economic downtown it was the highest leveraged REIT. According to Green Street Advisors Inc. GGP had a leverage ratio or liabilities as a percentage of current value of assets of more than 83.0%. Prior to the bankruptcy, the firm was listed on the NYSE under the symbol GGP and was also part of the S&P 500. Since then, the company has been taking off the market and has also fallen out of the S&P 500 index.

The firm collapsed under too much debt, but is expected to recover under a reorganization plan presented under its bankruptcy filing. According to GGP's President Thomas Nolan, the company intends to emerge from bankruptcy as a leaner company with less leverage. The firm's biggest shareholder Hedge Fund Pershing Square Capital Management has helped the reorganization process by pledging $375 million to help finance and run the company during the Chapter 11 process.

Financial performance

In the five years to 2011, GGP's revenue is expected to increase by an average annual rate of 1.0% to $3.4 billion. It is important to note that the majority of its growth has been diminished by the company's 2009 bankruptcy filing. Since then, the company has looked to downsize or sell its operations in an attempt to pay its creditors. In contrast, net income during this period decreased rather significantly, disregarding 2007. The decline in net income is largely attributed to the rise in financing costs associated with the company's acquisition spree. The gain

General Growth Properties Inc. – financial performance

Year	Revenue ($ million)	(% change)	Net Income ($ million)	(% change)	Assets ($ million)	(% change)
2006	3,256.3	6.0	59.3	-21.6	25,241.4	-0.3
2007	3,261.8	0.2	288.0	385.7	28,814.3	14.2
2008	3,361.3	3.1	26.3	-90.9	29,557.3	2.6
2009	3,198.8	-4.8	-896.4	N/C	29,042.1	-1.7
2010*	3,271.8	2.3	-92.5	-89.7	30,145.7	3.8
2011*	3,414.7	4.4	-132.6	43.4	30,808.9	2.2

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Player Performance continued

in 2007 was the result of a one-time income tax benefit, resulting from the adoption of FIN 48.

It is important to note that the firm has recently made headlines in relation to the sale of its entire business. Several companies are said to be interested, including Simon Properties, Vornado Realty Trust and Brookfield Asset Management.

Player Performance

Vornado Realty Trust
Market share: 5.8 %

Vornado Realty Trust is the third largest REITs in the United States, with a portfolio of approximately 64 million square feet of leasable property in the Washington DC and New York areas. According to IBISWorld estimates, 2009 revenue is projected to total $2.7 billion on assets of $21.8 billion. The New York-based firm primarily makes money by developing, renting and selling real estate. However, unlike Simon and GGP the firm does not concentrate on a particular real estate market or sector. Instead, Vornado holds a diverse portfolio of commercial properties, including office, retail, warehouses and industrial buildings. The company is listed on the NYSE under the ticker symbol VNO and has a market capitalization of approximately $10.8 billion.

The company is organized into four major platforms, including New York City Office, Washington DC Office, Retail Properties and Merchandise Marts. The largest sector is the NY group, which contains 28 office properties totaling 16 million square feet in midtown Manhattan. Vornado's other investments include a 32.8% interest in the REIT Alexander's and a 32.8% interest in Toy's 'R' Us. In addition, the firm owns various interests in mezzanine loans and other public companies that manage office, industrial and retail properties.

Financial performance

In the five years to 2011, Vornado's revenue is expected to increase by an average annual rate of 10.5% to $3.1 billion. However, it is important to note that the growth in revenue does not include revenue generated by Americold Realty Trust, which Vornado owned from 2004 through March 30, 2008. The company's 47.6% interest in Americold generated revenues from $779.1 million to $847.0 million from 2005 through 2007. Americold

Vornado Realty Trust – financial performance

Year	Revenue ($ million)	(% change)	Net Income ($ million)	(% change)	Assets ($ million)	(% change)
2006	1,909.1	14.1	502.6	1.9	17,954.3	31.7
2007	2,410.5	26.3	511.7	1.8	22,478.9	25.2
2008	2,697.1	11.9	338.0	-33.9	21,418.2	-4.7
2009	2,732.3	1.3	127.9	-62.2	22,350.5	4.4
2010*	2,972.2	8.8	560.2	338.0	23,691.6	6.0
2011*	3,146.6	5.9	526.2	-6.1	24,828.8	4.8

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Major Companies

Player Performance continued

specializes in temperature-controlled logistics and contains over 90 cold storage warehouses nationwide. Vornado sold its Americold interest for $220 million to Yucaipa Companies.

Net income increased steadily until the subprime mortgage crisis erupted in 2008. Consequently, net income declined by 33.9% to $338 million in 2008. The two biggest reasons for the decline were losses from partially owned entities and an increase in depreciation and amortization expenses. In 2009, revenue is expected to further decline due to a dramatic rise in investment and interest losses. However, the decline is not necessary reflective of continued operations because the company's 2008 profit margin was artificially inflated by a one-time tax benefit of $212.4 million.

Player Performance

Brookfield Properties Corporation
Market share: 5.1 %

Brookfield Properties Corporation is the fourth largest REIT in the United States, with 2009 revenue estimated at $2.5 billion. The company has a portfolio comprising 109 commercial properties and 75 million square feet in the downtown areas of New York, Boston, Washington DC, Los Angeles, Houston, Toronto, Calgary and Ottawa. The company is publicly traded on the NYSE under the symbol BPO and has a market capitalization of $4.2 billion as of October 2009.

The company's roots are firmly planted in Canadian hockey. Brookfield's predecessor company incorporated in the early 1920s and built the Montreal Forum in 1924. Until 1978, the company's earnings were derived mainly from the ownership of the Montreal Forum and the Montreal Canadians of the National Hockey League. After selling its interest in the hockey franchise and arena, Brookfield expanded its real estate interests by acquiring a controlling interest in one of Canada's largest public real estate companies at the time. Over the next ten years the company benefited from a steady increase in commercial property values which provided the capital base to expand into the residential marketplace.

In the early 1990s, the company took advantage of falling real estate values brought on by the recession and upgraded and expanded its commercial property portfolio. Today, the core business remains focused on this strategy with investment capital largely directed to premier office properties in select, high-growth, supply constrained markets across North America. The majority of the company's expansion since then has largely been attributed to property acquisitions, including BCE Inc., Olympia & York USA and Trizec Properties/Trizec Canada.

Financial performance

In the five years to 2011, Brookfield's revenue is expected to increase at an average annual rate of 8.5% to $2.9 billion despite the subprime mortgage crisis and Great Recession. From 2005 through 2007, revenue increased from $1.5 billion to $2.9 billion as the company benefited from the acquisition of Trizec Properties, strong occupancy rates and an increase in development. In 2007, revenue grew by 52.4% to $2.9 billion due to both residential and commercial developments, including the Bay Adelaide Centre in Toronto, Four Allen Center in Houston and Bankers Court in Calgary. It is important to note that the majority of these developments are associated with the Trizec Properties acquisition. Most of the developments are also located in Canada, but the income is still distributed to the REIT shareholders despite being generated outside of the United States.

Major Companies

Player Performance continued

In 2008 and 2009, revenue declined due to the negative effects associated with the credit market crisis and the recession. Current IBISWorld estimates, project revenue to decline by 11.4% to $2.5 billion in 2009. However, despite the recent decline in revenue the company's net income rose by 191.7% in 2008 to $700.0 million. The dramatic rise in profit was largely attributed to a $498 billion decrease in future income tax expenses related to the conversion of legacy US operations to a REIT. The company also benefited from a drop in interest expenses, gains associated foreign exchange and a decrease in transaction costs from debt and the Trizec merger. In 2009, income is projected to decline by 27.0% to $510.8 billion but this is misleading. Disregarding the one-time tax benefit in 2008, net income actually increased, which is in sharp contrast to the rest of the industry. The rise in net income is largely attributed to an increase in both occupancy rates and rent prices.

In 2010, Brookfield is expected to return to growth as the real estate market recovers. Similar to other REITs, the firm is also benefit from general improvements in the overall economy, particularly in relation to unemployment.

Brookfield Properties Corporation – financial performance

Year	Revenue ($ million)	(% change)	Net Income ($ million)	(% change)	Assets ($ million)	(% change)
2006	1,911.0	25.0	135.0	-17.7	19,314.0	103.0
2007	2,912.0	52.4	240.0	77.8	20,473.0	6.0
2008	2,805.0	-3.7	700.0	191.7	19,457.0	-5.0
2009	2,535.1	-9.6	393.4	-43.8	20,710.1	6.4
2010*	2,745.1	8.3	365.1	-7.2	22,366.9	8.0
2011*	2,892.4	5.4	399.6	9.4	23,105.0	3.3

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Player Performance

Equity Residential
Market share: 4.8 %

Equity Residential is the second largest (behind Apartment Investment and Management Company) owner and operator of multi-family, apartment complexes in the United States, with more than 165 units in 25 states. The company is publicly traded on the NYSE under the symbol EQR. In 2009, revenue is estimated at $2 billion with a market capitalization of $7.9 billion.

The majority of the Equity's properties are located in California, Florida and Texas. The company's average monthly rent per unit is around $1,000 placing it well above the US average of $650. The company's operations are largely affected by interest rates. High rates increase financing costs, but they also drive individuals away from property ownership towards rental units, as the cost of mortgages increase. At the same time high interests rates dampen the demand for REIT securities because the demand for investment returns increases, which depresses REIT stock prices.

Financial performance

In the five years to 2011, Equity Residential's revenue is expected to increase at an average annual rate of

Major Companies

Player Performance continued

8.7% to $2.6 billion. In 2010, Equity is expected to benefit from the drop in home ownership rates and the increase in employment. The drop in home ownership is an important indicator for the demand for residential leases as the pool of potential lessors increases as home ownership declines. In addition, the Equity is expected to benefit from improvements in the general economy.

In 2009, IBISWorld projects both revenue and income to decline as the company faces the ill effects of the recession and credit crisis. The recession in particular is hurting leasing rates as individuals look to decrease expenses by moving in with relatives or friends. This trend is important because it decreases the demand for housing, which increases the supply of rental units, lowering lease cost. At the same time, expenses have remained relatively steady despite the decline in revenue, which has hurt company profitability.

In 2008, the firm managed to increase revenue despite the subprime meltdown. The main driver of this increase was the rise in rental rates that occurred in 2008. At the same time, net income decreased by 57.6% as expenses increased more than revenue. The rise in expenses is largely attributed to the increase in impairment expenses associated with asset write-downs brought on by the subprime credit crisis. Income from discontinued operations also decreased as the company cut back on its consolidation trend, when the company was lowering its total apartment base over the previous three years.

Equity Residential – financial performance

Year	Revenue ($ million)	(% change)	Net Income ($ million)	(% change)	Assets ($ million)	(% change)
2006	1,702.5	13.8	1,072.8	24.5	15,062.2	6.8
2007	1,947.1	14.4	989.6	-7.8	15,689.8	4.2
2008	2,103.2	8.0	420.1	-57.5	16,535.1	5.4
2009	2,028.1	-3.6	322.1	-23.3	15,791.4	-4.5
2010*	2,317.8	14.3	961.0	198.4	14,970.2	-5.2
2011*	2,581.2	11.4	986.8	2.7	14,820.5	-1.0

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

Other Companies

The Real Estate Investment Trust industry consists of publicly traded, privately traded and non-exchange traded REIT funds. According to the National Association of Real Estate Investment Trusts there are about 127 REITS that are publicly traded on the NYSE. REITS own approximately $500 billion, or 10.0% to 15.0% of all institutionally owned commercial real estate assets in the United States. There are three types of REIT structures including equity, mortgage and hybrid. However, the majority of REITs are publicly traded equity REITs that account for approximately 89.5%, or $254.3 billion in market capitalization ($284.2 total REIT market capitalization).

The industry is consolidating, particularly in regards to the public REIT market. As the industry consolidates, larger REITs with strong balance sheets

Major Companies

Other Companies continued

and assets will benefit. This is particularly important with regards to accessing capital especially in today's economic climate (refer to Current Performance and Outlook Section of this report).

It is important to note these trends in the Other Companies section because private REITs are expected to increase over the next five years. At the same time, some of the companies listed below are projected to gain market share as the industry consolidates.

Public Storage

Estimated market share: 3.6 %

Public Storage is the largest self-storage company in the world with nearly 2,100 company owned locations in the United States and Europe, totaling more than 135 million net rentable square feet of real estate. The company is one of the largest landlords in the world based on the number of tenants. In 2011, revenue is projected to total $2.1 billion, accounting for about 3.9% of industry revenue.

The company is not highly leveraged like some REIT competitors. Instead, the firm looks to leverage through low risk leverage sources such as preferred stock. As a result, the company's debt levels only total $643.8 million with minority interests of $364.4 million. This low loan to value ratio has helped the company remain competitive during the recession while also maintaining keeping risk under control.

Boston Properties

Estimated market share: 3.0 %

Boston Properties is publicly traded on the NYSE under the ticker symbol BXP. The company develops, owns and manages office buildings. The vast majority of its portfolio is comprised of high valued grade-A office space, but the company also owns two hotels, an industrial center and a land bank in the Northeast that contains 10 million square feet of development space. According to IBISWorld estimates, the company is expected to have revenue of about $1.7 billion, accounting for about 3.0% of industry revenue.

Boston Properties owns 138 properties in five metropolitan areas in the United States, including Midtown Manhattan, Boston, Washington DC, San Francisco and Princeton, New Jersey. These areas traditionally provide higher returns and greater resistance to recession than other real estate markets due to the scarcity of land and dense population. These dense business centers also shield the company from its competitors due to the high barriers of entry associated with these locations. At the same time, the company specializes in grade-A office buildings, which generally rent at a premium and are comprised of tenants with strong credit records. Tenants also tend to sign long-term contracts, which also insulate the firm from revenue fluctuations. Consequently, the firm has not been decimated by the current credit market crisis and recession.

ProLogis

Estimated market share: 2.4 %

ProLogis is the world's largest industrial REIT with $17.4 billion in assets containing 512.2 million square feet of rentable property. ProLogis rentable space is nearly double the square footage of any other industrial REIT, including its closest competitor, ING. The company trades on the NYSE under the symbol PLD and has an estimated market capitalization of $5.5 billion. The company's main operations are located in North America, but it also has properties in Europe and Asia. Recently, the company has looked to downsize its international presence in an attempt to focus on its core business. As a result, the firm has sold a number of international properties and has exited China altogether. ProLogis also sold a 20

Major Companies

Other Companies continued

percent interest in its Japanese property funds for $1.3 billion and slowed development in South Korea.

ProLogis is structured different than most REITs. Unlike typical REITs, ProLogis joint-owns and manages property funds in addition to its traditional REIT operations. These funds are generally organized in collaboration with institutional investors, allowing the company to acquire properties more aggressively than a traditional REIT structure. Traditional REITs are required to distribute 90% of their table income as dividends; forcing company's who need to raise additional capital to look towards creditors or the equity marketplace. On the other hand, ProLogis' property funds are able to generate capital from institutional investors and partners.

The company's three business segments are property operations, investment management and development/CDFS. The company's largest business unit is property operations, which includes revenues associated with property leases. The investment management division includes revenue from property funds, management of actual properties owned by the property funds and from interest generated on advances to the property funds. Finally, the Development or CDFS division includes income from the sale of developed or rehabilitated real estate owned by property funds or distributed to third parties. It is important to note that the company's revenue structure is relatively unique due to the inclusion of income associated with the firm's property funds. Disregarding mutual fund income the firm is estimated to account for about 2.0% of total industry revenue, or $1.1 billion.

Operating Conditions

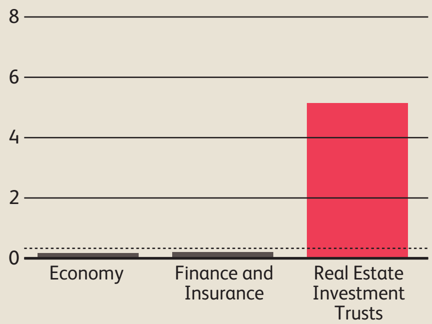
Capital Intensity | Technology & Systems | Revenue Volatility
Regulation & Policy | Industry Assistance

Capital Intensity

Level
The level of capital intensity required is **High**

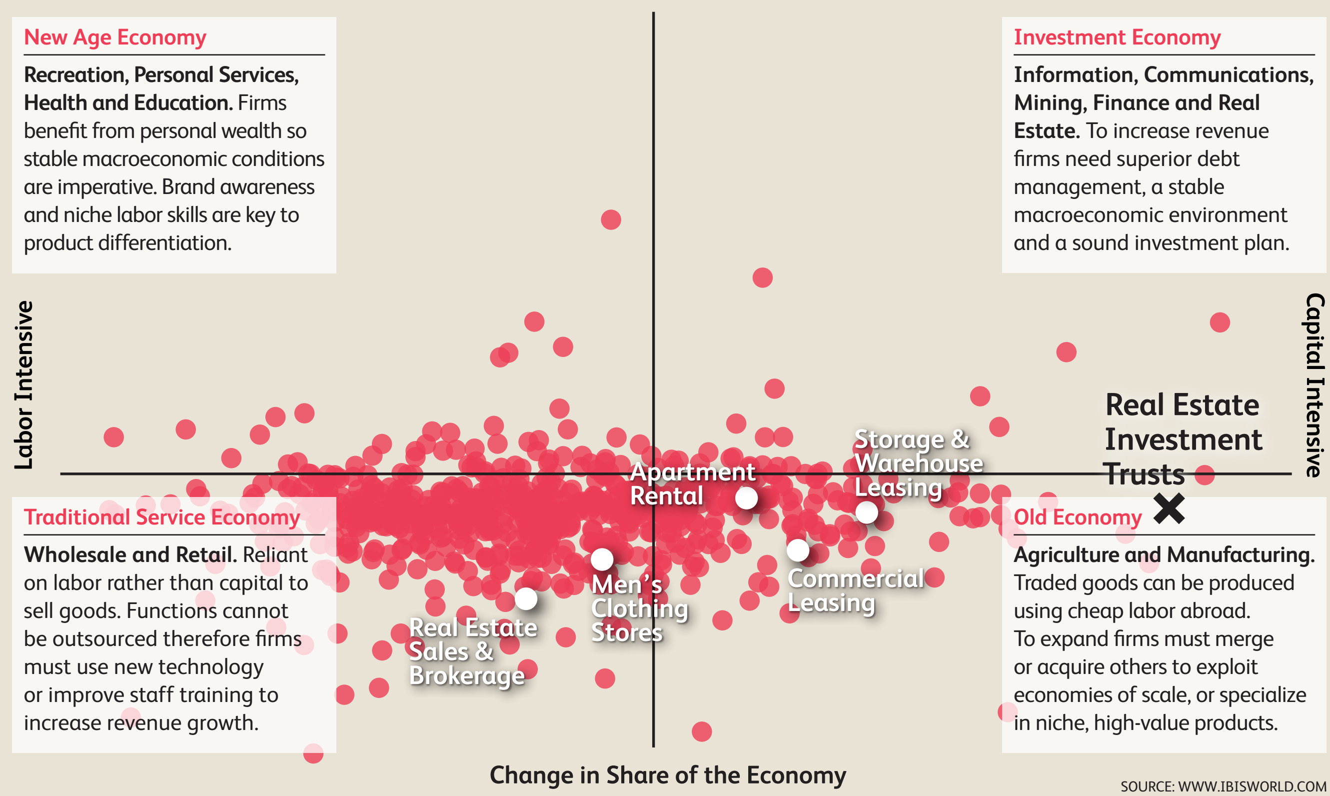
The US Real Estate and Investment Trusts industry is capital intensive, with a capital to wage ratio of 6.60:1, meaning for every dollar spent on wages, $6.60 was spent on capital. The industry's investment requirements are largely dependent on the type of REIT that is being analyzed. Equity REITs directly own and operate various real estate assets, so capital is needed to buy property, develop land and refurbish buildings. On the other hand, mortgage REITs do not have any direct interest in real estate holdings. Instead, these entities lend money to real estate owners and operators or extend credit indirectly through the acquisition of loans or mortgage-backed securities (MBS). As a result, capital is needed for lending purposes and for investments in various MBSs.

Capital intensity
Capital units per labor unit



Dotted line shows a high level of capital intensity
SOURCE: WWW.IBISWORLD.COM

Tools of the Trade: Growth Strategies for Success



SOURCE: WWW.IBISWORLD.COM

Operating Conditions

Technology & Systems

Level
The level of Technology Change is **Medium**

Technology is used to manage back-office functions including accounting, bookkeeping and operations. The industry has benefited from the improvements in technology associated with storing, processing and accessing information. Automated services associated with accounts receivable have improved collectivity rates. The improvements in technology have also lowered costs associated with processing payments and analyzing data. This trend is expected to continue, especially as technology systems decrease in value. However, it should be noted that technology costs are a relatively low in proportion of industry expenditures.

Revenue Volatility

Level
The level of Volatility is **Medium**

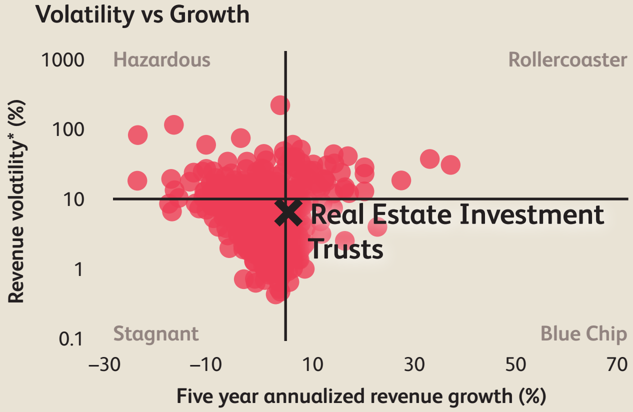
Revenue volatility is largely affected by general economic conditions. Revenue is mainly generated by rental income, interest income and capital gains. During times of economic growth real estate assets appreciate and rental income rises. Rental prices are largely dependent on the value of underlying real estate assets and occupancy rates. Strong asset values and occupancy rates lead to higher rental income due to the basic economic principles of supply and demand. At the same time, capital gains improve because REITs are able to sell property at a premium to the original purchase price.

Industry revenue is largely stable on a year-to-year basis due to its reliance on rental income, which is locked up by lease agreements. Leases help maintain a steady stream of income due to the length of the contracts. Depending on whether the agreement is for a residential or commercial property leases generally range from one year to 25 years. However, a decline in economic activity lowers rental income over time due to the decrease in demand for both residential and commercial space. Residential demand decreases during economic downturns because more individuals move in with roommates to cut down on living expenses. The demand for commercial space declines as companies downsize or go out of business.

It is important to note that this category does not focus on REIT share prices. REIT market capitalization and security pricing is more volatile than industry revenue. This is mainly due to the liquidity of the securities market and its reliance on

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the time frame for capital investment.

When a firm makes poor investment decisions it may face underutilized capacity if demand suddenly falls, or capacity constraints if it rises quickly.



* Axis is in logarithmic scale

SOURCE: WWW.IBISWORLD.COM

Operating Conditions

Revenue Volatility continued

investor sentiment towards the industry and the economy. The dramatic difference between market performance (REIT share prices) and revenue has been magnified by over the two years to 2009. During this period, the industry's market capitalization decreased by 11.9% annually while industry revenue declined by 5.8%. The decline in both market value and revenue is attributed to the subprime mortgage crisis.

The market performance of REIT securities is also dependent on long-term interest rates. Lower long-term rates improve REIT returns in relation to other forms of investment, increasing demand for REIT shares and importantly lowering the cost of funds. Conversely, high interest rates generally decrease the relative return associated with REIT securities, which in turn decreases share prices and investor demand.

Regulation & Policy

Level & Trend
The level of Regulation is **Medium** and the trend is **Steady**

Real estate companies and developers can elect to be taxed as a REIT under Section 856 through 860 of the Internal Revenue Code. As a REIT, these organizations must distribute, at a minimum, an amount equal to 90% of taxable income and must distribute 100% of taxable income to avoid paying corporate federal income taxes.

REITs are also subject to a number of organizational and operational requirements to retain their REIT status. They must be structured as a Corporation, business trust, or similar association, and be managed by a board of directors or trustees. They must derive at least 75% of their gross income from rents or mortgage interests and at least 75% of their total investment assets must be in real estate.

If an organization fails to qualify as a REIT in any taxable year, the organization will be subject to federal income tax on taxable income at regular corporate tax rates. Even if the organization qualifies for taxation as a REIT, it may be subject to state and local income taxes and to federal income tax and excise tax on its undistributed income.

In 1999, Congress passed the REIT Modernization Act (RMA). The RMA went into effect in 2001 and its primary goal was to strengthen the REIT market. REITs are now able to own up to 100% of the stock of a Taxable REIT Subsidiary. The Act also lowered the distribution requirement of REITs from 95% to 90% of net income.

The RMA benefits REITs because companies are now allowed to retain a greater portion of its earnings for investment by allocating a portion of income to the subsidiary. However, transactions between a REIT and the subsidiary must be conducted on an arms' length basis or there will be a 100% excise tax imposed on the exchange. An arms' length basis refers to a transaction between two related or affiliated parties that is conducted as if they were unrelated, so that there is no question of a conflict of interest. There are also additional requirements that must be met for a REIT to properly manage a taxable subsidiary, including debt levels, ownership values and voting rights. For example a REIT will not be able to own more than 10%, voting or value, of securities of a non-REIT C Corporation.

Operating Conditions

Industry Assistance

Level & Trend
The level of Industry Assistance is **Low** and the trend is **Steady**

The industry receives no subsides or other special treatment from the government. However, REITs due receive tax breaks because these entities distribute 90% of the trusts income to its investors.

Key Statistics

Industry Data

	Revenue ($m)	Industry Value Added ($m)	Establish-ments	Enterprises	Employment	Exports	Imports	Wages ($m)	Total Assets ($m)	Market Capitalization ($m)
2002	27,247.4	7,365.5	1,913	236	25,464	--	--	1,916.0	132,183.1	197,102.8
2003	29,943.3	9,173.7	1,966	216	25,296	--	--	2,137.0	160,704.5	267,100.5
2004	33,686.9	10,533.3	1,993	228	24,412	--	--	2,145.3	291,019.9	356,559.9
2005	38,270.6	14,475.5	2,056	217	19,291	--	--	1,961.0	342,241.3	370,704.9
2006	43,833.7	18,193.5	1,673	208	18,439	--	--	2,325.8	373,304.9	475,389.8
2007	51,365.3	22,773.2	2,290	182	22,859	--	--	2,227.0	333,980.0	329,033.0
2008	52,621.4	23,855.3	2,229	171	22,585	--	--	2,228.0	262,082.8	197,827.6
2009	50,583.5	21,285.3	2,143	166	21,862	--	--	2,191.2	266,237.5	257,808.7
2010	53,227.3	16,854.3	2,096	165	21,600	--	--	2,216.8	271,123.8	270,197.7
2011	**54,332.3**	**16,391.8**	**2,052**	**178**	**21,751**	**--**	**--**	**2,292.6**	**281,508.3**	**284,171.2**
2012	56,811.4	19,806.0	2,088	189	21,925	--	--	2,382.6	307,570.0	305,972.8
2013	59,490.1	23,564.0	2,050	201	22,144	--	--	2,471.4	338,322.5	333,672.4
2014	62,176.1	25,018.5	2,054	223	22,410	--	--	2,566.0	374,856.0	369,316.9
2015	65,844.5	26,377.9	2,038	241	22,679	--	--	2,664.3	418,572.8	415,870.5
2016	69,663.5	25,395.3	1,999	253	22,906	--	--	2,755.6	471,293.2	477,728.3
	N/A	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
	N/A	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

Annual Change

	Revenue (%)	Industry Value Added (%)	Establish-ments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Total Assets (%)	Market Capitalization (%)
2003	9.9	24.5	2.8	-8.5	-0.7	N/A	N/A	11.5	21.6	35.5
2004	12.5	14.8	1.4	5.6	-3.5	N/A	N/A	0.4	81.1	33.5
2005	13.6	37.4	3.2	-4.8	-21.0	N/A	N/A	-8.6	17.6	4.0
2006	14.5	25.7	-18.6	-4.1	-4.4	N/A	N/A	18.6	9.1	28.2
2007	17.2	25.2	36.9	-12.5	24.0	N/A	N/A	-4.2	-10.5	-30.8
2008	2.4	4.8	-2.7	-6.0	-1.2	N/A	N/A	0.0	-21.5	-39.9
2009	-3.9	-10.8	-3.9	-2.9	-3.2	N/A	N/A	-1.7	1.6	30.3
2010	5.2	-20.8	-2.2	-0.6	-1.2	N/A	N/A	1.2	1.8	4.8
2011	**2.1**	**-2.7**	**-2.1**	**7.9**	**0.7**	**N/A**	**N/A**	**3.4**	**3.8**	**5.2**
2012	4.6	20.8	1.8	6.2	0.8	N/A	N/A	3.9	9.3	7.7
2013	4.7	19.0	-1.8	6.3	1.0	N/A	N/A	3.7	10.0	9.1
2014	4.5	6.2	0.2	10.9	1.2	N/A	N/A	3.8	10.8	10.7
2015	5.9	5.4	-0.8	8.1	1.2	N/A	N/A	3.8	11.7	12.6
2016	5.8	-3.7	-1.9	5.0	1.0	N/A	N/A	3.4	12.6	14.9
	N/A	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
	N/A	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

Key Ratios

	IVA/Revenue (%)	Imports/ Demand (%)	Exports/Revenue (%)	Revenue per Employee ($'000)	Wages/Revenue (%)	Employees per Est.	Average Wage ($)	Share of the Economy (%)
2002	27.03	N/A	N/A	1,070.04	7.03	13.31	75,243.48	0.06
2003	30.64	N/A	N/A	1,183.72	7.14	12.87	84,479.76	0.08
2004	31.27	N/A	N/A	1,379.93	6.37	12.25	87,878.91	0.09
2005	37.82	N/A	N/A	1,983.86	5.12	9.38	101,653.62	0.11
2006	41.51	N/A	N/A	2,377.23	5.31	11.02	126,134.82	0.14
2007	44.34	N/A	N/A	2,247.05	4.34	9.98	97,423.33	0.17
2008	45.33	N/A	N/A	2,329.93	4.23	10.13	98,649.55	0.18
2009	42.08	N/A	N/A	2,313.76	4.33	10.20	100,228.71	0.17
2010	31.66	N/A	N/A	2,464.23	4.16	10.31	102,629.63	0.13
2011	**30.17**	**N/A**	**N/A**	**2,497.92**	**4.22**	**10.60**	**105,402.05**	**0.12**
2012	34.86	N/A	N/A	2,591.17	4.19	10.50	108,670.47	0.14
2013	39.61	N/A	N/A	2,686.51	4.15	10.80	111,605.85	0.16
2014	40.24	N/A	N/A	2,774.48	4.13	10.91	114,502.45	0.17
2015	40.06	N/A	N/A	2,903.32	4.05	11.13	117,478.72	0.17
2016	36.45	N/A	N/A	3,041.28	3.96	11.46	120,300.36	0.16
	N/A	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
	N/A	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**

Figures are inflation-adjusted 2011 dollars. Rank refers to 2011 data.

SOURCE: WWW.IBISWORLD.COM

Jargon & Glossary

Industry Jargon

EQUITY REIT A company that actually owns or operates its real estate investments.

FUNDS FROM OPERATIONS (FFO) A measurement used to define cash flow from operations for REITs calculated by adding depreciation and amortization expenses to earnings.

HYBRID REIT A company that generates income from equity and mortgage operations, specifically rent, capital gains and interest.

LEADERSHIP IN ENERGY AND ENVIRONMENT DESIGN (LEED) An ecology-oriented building certificate program established under the US Green Building Council.

LOAN-TO-VALUE RATIO (LTV) A measurement used to determine how much of a property is being financed or leveraged.

MEZZANINE LOANS Financing that has debt and equity characteristics and consists of equity-based options such as warrants combined with lower-priority subordinate debt.

MORTGAGE REIT A company that provides real estate mortgages to real estate developers and owners.

IBISWorld Glossary

BARRIERS TO ENTRY Barriers to entry can be High, Medium or Low. High means new companies struggle to enter an industry, while Low means it is easy for a firm to enter an industry.

CAPITAL/LABOR INTENSITY An indicator of how much capital is used in production as opposed to labor. Level is stated as High, Medium or Low. High is a ratio of less than $3 of wage costs for every $1 of depreciation; Medium is $3 – $8 of wage costs to $1 of depreciation; Low is greater than $8 of wage costs for every $1 of depreciation.

DOMESTIC DEMAND The use of goods and services within the US; the sum of imports and domestic production minus exports.

EARNINGS BEFORE INTEREST AND TAX (EBIT) IBISWorld uses EBIT as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding tax and interest.

EMPLOYMENT The number of working proprietors, partners, permanent, part-time, temporary and casual employees, and managerial and executive employees.

ENTERPRISE A division that is separately managed and keeps management accounts. The most relevant measure of the number of firms in an industry.

ESTABLISHMENT The smallest type of accounting unit within an Enterprise; usually consists of one or more locations in a state or territory of the country in which it operates.

EXPORTS The total sales and transfers of goods produced by an industry that are exported.

IMPORTS The value of goods and services imported with the amount payable to non-residents.

INDUSTRY CONCENTRATION IBISWorld bases concentration on the top four firms. Concentration is identified as High, Medium or Low. High means the top four players account for over 70% of revenue; Medium is 40–70% of revenue; Low is less than 40%.

INDUSTRY REVENUE The total sales revenue of the industry, including sales (exclusive of excise and sales tax) of goods and services; plus transfers to other firms of the same business; plus subsidies on production; plus all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); plus capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED The market value of goods and services produced by an industry minus the cost of goods and services used in the production process, which leaves the gross product of the industry (also called its Value Added).

INTERNATIONAL TRADE The level is determined by: Exports/Revenue: Low is 0–5%; Medium is 5–20%; High is over 20%. Imports/Domestic Demand: Low is 0–5%; Medium is 5–35%; and High is over 35%.

LIFE CYCLE All industries go through periods of Growth, Maturity and Decline. An average life cycle lasts 70 years. Maturity is the longest stage at 40 years with Growth and Decline at 15 years each.

NON-EMPLOYING ESTABLISHMENT Businesses with no paid employment and payroll are known as non-employing establishments. These are mostly set-up by self employed individuals.

VOLATILITY The level of volatility is determined by the percentage change in revenue over the past five years. Volatility levels: Very High is greater than ±20%; High Volatility is between ±10% and ±20%; Moderate Volatility is between ±3% and ±10%; and Low Volatility is less than ±3%.

WAGES The gross total wages and salaries of all employees of the establishment.

Jargon & Glossary

IBISWorld Glossary continued