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THE 50th ANNIVERSARY OF REITS: A TRIPLE CASE STUDY WITH FINANCIAL ANALYSIS

A Dissertation
presented in partial fulfillment of requirements
for the degree of Doctor of Philosophy
in the Patterson School of Accountancy
The University of Mississippi

by

BARBARA SUMRALL WHITE

July 12, 2012

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ABSTRACT

On September 14th, 2010, the REIT industry celebrated its 50th Anniversary. Only three REITs that were there in the beginning still exist today: Washington Real Estate Investment Trust, Pennsylvania Real Estate Investment Trust, and Winthrop Realty Trust (formerly known as First Union Real Estate Equity and Mortgage Investments). This study provides a historical recap of the first fifty years of the REIT industry with a review of its rules and underlying tax legislation. In addition, it provides a historical review of the three successful companies that have been in the industry throughout its entire existence. Quantitative analysis was performed through the computation of specific ratios relevant to the REIT industry from 1961 through 2010, utilizing data from Compustat, SNL Financial, and hand-collected data. In addition, ANOVA testing was performed to identify significant differences in the ratios for the three specific companies and all the other companies in the industry. Qualitative analysis was performed through review of historical documents and interviews with company management. Specific qualitative and quantitative factors were identified for each company, even though those factors may not have been the same for all three companies. The main finding from this research is that a company that can establish its identity, hire strong management, know its market, and concentrate its focus on particular financial measures and goals will be the company that will survive while other companies fail.

DEDICATION

This thesis is dedicated to my family and friends who helped me through the stressful and busy times, as I pursued the Doctor of Philosophy in Accountancy. In particular, I thank my sons, Locke, James and Mark, who pulled together in my absence to help each other out, and my husband Don, who took over additional family responsibilities so I could go back to school. I would also like to thank my parents, Jim and Helen Sumrall, for always encouraging me to pursue my dreams and to advance my education. I would also like to thank my brothers, David and Steven Sumrall, who have always supported their little sister.

LIST OF ABBREVIATIONS AND SYMBOLS

AFFO	Adjusted Funds from Operations
CAD	Cash Available for Distribution
CMBS	Commercial Mortgage Backed Securities
EBITDA	Earnings before Interest, Taxes, and Depreciation or Amortization
FAD	Funds Available for Distribution
FFO	Funds from Operations
FTSE	Provider of global indices across asset classes, such as REITs
FUR	Stock Exchange symbol for Winthrop
GAAP	Generally Accepted Accounting Principles
MFFO	Modified Funds from Operations
NAREIT	National Association of Real Estate Investment Trusts
NAV	Net Asset Value
NOI	Net Operating Income
NYSE	New York Stock Exchange
PRE	Stock Exchange symbol for Pennsylvania Real Estate Investment Trust
PREIT	Pennsylvania Real Estate Investment Trust
REIT	Real Estate Investment Trust

LIST OF ABBREVIATIONS AND SYMBOLS (CONTINUED)

SFO	SNL's standardized calculation of FFO
SNL	SNL Financial, a provider of an online database of financial information
WRE	Stock Exchange symbol for Washington Real Estate Investment Trust
WRIT	Washington Real Estate Investment Trust

ACKNOWLEDGMENTS

I would like to convey my sincere appreciation to my chairman, Dr. Dale Flesher and my committee members, Drs. Tonya Flesher, J. Shaw, and Matthew Hill. Without their guidance and support, this thesis would not have been possible. In addition, I would like to acknowledge the collegial support from my fellow doctoral students at the University of Mississippi, who greatly enhanced my educational experience and made it both enjoyable and enriching.

In addition, I would like to thank fellow Huntingdon College faculty member, Amy Hulsey, who supported me in my responsibilities to Huntingdon College, and unselfishly dedicated herself to the students and college over the last several years. I would also like to thank the Administration at Huntingdon College for allowing me to pursue the PhD in Accountancy at the University of Mississippi.

TABLE OF CONTENTS

ABSTRACT ……………………………….…………………………………………...ii

DEDICATION…………………………………..………………………………......iii

LIST OF ABBREVIATIONS AND SYMBOLS……….…………………………………..iv

ACKNOWLEDGMENTS……………………..….………………………………...vi

LIST OF TABLES……………………………….……………………………………..ix

LIST OF FIGURES………………………………………………………………........xi

CHAPTER I INTRODUCTION…...……………………………………………..……..1

CHAPTER II THE REIT INDUSTRY……………….……………………………………..24

CHAPTER III METHODOLOGY…………………………………………………..…69

CHAPTER IV NAREIT……………………………………………………………......83

CHAPTER V WASHINGTON REAL ESTATE INVESTMENT TRUST…………….……..90

CHAPTER VI PENNSYLVANIA REAL ESTATE INVESTMENT TRUST…………….…...120

CHAPTER VII WINTHROP REALTY TRUST………..…………………….…….…….…144

CHAPTER VIII DATA ANALYSIS………………………………………………….......171

CHAPTER IX SUMMARY AND CONCLUSIONS………………………………………..185

TABLE OF CONTENTS (CONTINUED)

REFERENCES……………………………………………………………………………….197

VITA………………….……………………………………………………………..……..299

APPENDIX A…………………………………………………………………………..…211

APPENDIX B……………………………………………………………………………..216

APPENDIX C…………………………………………………………………………..…223

APPENDIX D……………………………………………………………………………..236

APPENDIX E……………………………………………………………………………..240

APPENDIX F……………………………………………………………………………..263

APPENDIX G…………………………………………………………………………..…283

APPENDIX H…………………………………………………………………………..…287

APPENDIX I………..……………………………………………………………………….294

APPENDIX J….……..……………………………………...…………………………..296

LIST OF TABLES

Table B-1. Market Capitalization Outstanding 1971 to 2011……………….………………..217

Table B-2. Historical REIT Price & Return…...……………………………….…………..…...218

Table B-3. FTSE NAREIT Investment Performance 1-Yr to 40-Yrs…...….…..……………219

Table B-4. REITs in the S & P Indices…..…….…………………………………….…...220

Table C-4. Net Returns over Market Cycle……..……..……………………………………..227

Table C-5. Equity REIT Index Downturns…………………………………………..……228

Table C-6. Historical Returns of REITs & Leading Benchmarks………………………….....229

Table D-3. Major Tax Law Provisions Affecting Returns on Commercial Real Estate…..…239

Table E-1. Financial Ratio Definitions…….…..…………………………………………..241

Table E-2. Mean Values - Ratios……………………………………………………..……242

Table E-3. Descriptive Statistics………………..…………………………………..……...243

Table E-3A. Pearson Correlation Coefficients……………………………………….……244

Table E-4. ANOVA by Entity……………..………………………………………….……...245

Table E-5. ANOVA by Year…………………………………………………...…………….246

Table E-6. Post-Hoc Results by Entity………..……………………………………………...247

Table E-7. Descriptive Statistics for 1971 - 2010…………………………………..…..….258

LIST OF TABLES (CONTINUED)

Table E-8. ANOVA by Entity for 1971 - 2010……………………………………….……..259

Table E-9. PREIT Ratios 1961 - 2010…………………………………..…………..…..260

Table E-10. WRIT Ratios 1961 - 2010………..……………………………………..……261

Table E-11. Winthrop Ratios 1961 - 2010………………………………………..……262

Table F-1. Financial Ratio Definitions - SNL….……………………………….……...264

Table F-2. SNL Mean Values - Ratios…………………………………..…………..….265

Table F-3. Descriptive Statistics for SNL……………………………………….……..266

Table F-4. SNL ANOVA by Entity…….………………………..………………….267

Table F-5. SNL ANOVA by Year………..……………………………………………269

Table F-6. SNL Post Hoc Results by Entity……………………………………..….....…271

Table G-1. 3-Month Treasury Bill Rates……………………………………………....284

Table G-2. Real Estate Cycle in U. S………..…………………………………..….285

Table G-3. REIT Returns & 3-Month T-Bill Rates……………………………………...286

Table H-6. WRIT Descriptive Statistics 2003 - 2010…….……………………..……….…293

Table I-1. PREIT Select Returns from 1972 to 2003……………………….………………295

Table I-2. PREIT Net Income per share…………………………………….…………....295

LIST OF FIGURES

Figure B-5. REIT Property Type Breakdown 2010……..…………………………………....222

Figure C-1. Domestic REIT Stock Cycles & the Market - Downturns………………..……..224

Figure C-2. Domestic REIT Stock Cycles & the Market - Expansions………………..…….225

Figure C-3. REITs Net Sellers during Peak Valuations…………………………………...226

Figure C-7. Long-Term Distribution of 5-Yr Average Returns…………………....…..…230

Figure C-8. REIT Long-Term Growth & Return………………………………...…..…231

Figure C-9. REIT Returns Unrelated to Non-REIT Stocks………….……………..……..232

Figure C-10. REIT Dividend Growth v. Consumer Price Index……………………….....233

Figure C-11. FTSE NAREIT Equity REIT Index v. S & P 500 Index Return…………..…..234

Figure C-12. REIT Capital Appreciation Compared to Real Estate Funds………………….235

Figure D-1. FDIC Reported Industrial Market Conditions 1977-1994…………………....…237

Figure D-2. FDIC Reported Nonresidential Construction Put in Place 1970-1994..………..238

Figure H-1. WRIT Per Share Growth 1965-1984………………....…………………………288

Figure H-2. WRIT Properties 1989…………..……………………………………….......289

Figure H-3. WRIT Per Share Growth 1974-1998……..………….…………………………290

Figure H-4. WRIT Per Share Growth 1987-1996………..………………………….............291

Figure H-5. WRIT Properties…….………………………………………………..……....292

CHAPTER I

INTRODUCTION

Since the origin of the Real Estate Investment Trust (REIT) industry in 1960, the industry has undergone many changes in its first fifty years in existence, arriving at its current standing as one of the major capital providers of real estate in the United States. On September 14th, 2010, the REIT industry celebrated its 50th Anniversary. REITs were signed into law by President Eisenhower as a means to enable Americans to invest in large-scale and diversified real estate portfolios. A day after the industry's establishment, the National Association of Real Estate Investment Funds, the predecessor to the National Association of Real Estate Investment Trusts (NAREIT), was formed to represent the interest of the REIT industry (NAREIT, REIT 50 Years Timeline, 2010). Nineteen public offerings of REITs occurred in the first two years of passage of the REIT law (Killen, 1973), and three of them are still in existence today: Washington Real Estate Investment Trust, Pennsylvania Real Estate Investment Trust, and Winthrop Realty Trust (formerly known as First Union Real Estate Equity and Mortgage Investments).

Financial data for the three surviving companies, along with financial data on other companies that have been part of the industry during its first fifty years, were analyzed in a

triple case study to illustrate the progression of the REIT industry. Additional qualitative factors on the three surviving companies were analyzed to further illustrate the individual company's development and how it correlated with changes in the industry. As the REIT industry is known to be distinctly affected by market conditions, the particular companies' financial statements were examined to provide documentation of the relationship between market conditions and financial variables relevant to this particular industry. Through this research on the past, new insight into the future and direction of this exciting industry was obtained. In particular, the following research question was addressed through review of the quantitative data, "Based on specific metrics that form a foundation for valuing REITs, do the three surviving companies reveal any quantitative differences from other REITs that have entered and left the market?" Through review of the qualitative data obtained through interviews, articles, and press releases, the following research question was addressed, "Based on qualitative factors, do the three surviving companies reveal any common characteristics that can be indicators of their success and longevity throughout the fifty-year history of the REIT industry?"

Background

REITs have become an important component of the market since their initial introduction in 1960, largely due to their tax-preferential status. Tax preferential status has always been one of the driving forces behind the popularity of REITs. REITs that pay out at least 90% of their income do not have to pay federal income taxes. Most states follow federal tax laws and as a result, REITs do not have to pay state income taxes either. "REITs – What are they? How do they work?" (June 2007) states that just as mutual funds allow for

investments in stocks, REITs allow for investments in real estate. The author states that REITs combine the best aspects of stocks and real estate, which gives an investor the ability to include professionally-managed real estate in a diversified portfolio. Some REITs own and often manage income-producing properties, such as office buildings, apartments, hotels, warehouses, and retail centers. Other REITs are involved in financing, mainly through mortgages on real estate. However, the fact that REITs do not have to pay income taxes and are allowed to deduct dividends paid to shareholders has contributed significantly to their attractiveness as an investment vehicle. To maintain the income tax status as a REIT, the entity must make an election and meet certain qualifications. These qualifications include 1) being structured as a corporation, trust, or association; (2) being managed by a board of directors or trustees; (3) having transferable shares; (4) not being a financial institution or insurance company; (5) being jointly owned by 100 or more shareholders; (6) five or more people owning 50% or greater of the shares during the last half of the tax year; (7) earning 90% of its income from property income, dividends, and interest; (8) paying out at least 90% of its taxable income in dividends; (9) owning investments in real estate that make up at least 75% of its assets; (10) deriving 75% of its gross income from property income or mortgage interest; and (11) holding less than 20% of its assets in taxable REIT shares. (Internal Revenue Code Section 856)

“REITs – What are they? How do they work?” (June 2007) provides additional information about REITs. As with other entities, REITs can be privately or publicly held and classified as equity, mortgage, or a combination of both. Equity REITs consist of real estate operating companies that own and operate income-producing properties. The primary difference between companies formed as equity REITs and other real estate companies is that REITs purchase and develop multiple properties to operate within their portfolios, rather than

purchasing real estate properties with the sole intent to sell. REITs provide a benefit to investors in this manner, because they offer diversification in a portfolio of properties. Many other real estate companies invest in a single piece of real estate and may not have professional managers. The other main type of REIT is a mortgage REIT, which acts directly as a lender to real estate owners or indirectly by offering credit through acquiring loans or mortgage-backed securities. Some REITs function as a hybrid by making loans to real estate owners, while also owning and managing properties.

In evaluating performance, REITs have adopted an industry-wide measure called Funds from Operations (FFO). FFO is defined as net income calculated per Generally Accepted Accounting Principles (GAAP), plus depreciation and amortization, eliminating gains (losses) on the sales of property, and after adjusting for the effects of unconsolidated partnerships and joint ventures (NAREIT, 2002). Gains and losses are eliminated in computing FFO, since FFO is intended to correspond to income effects from a company's recurring operations. Removing the effect of gains and losses allows one to get a better picture of the future income producing potential of the REIT. The definition of FFO was formally implemented by NAREIT in 1991, in an effort to endorse a supplementary industry-wide measure of REIT operating performance without the problems related to net income under GAAP (NAREIT, 2002). In 2003, the Securities and Exchange Commission (SEC) permitted companies to use FFO per share in SEC filings (Santucci & Newell, 2003). One of the most important reasons the industry has adopted FFO is due to the deemed irrelevance of GAAP-based depreciation for income-producing real properties. Proponents of FFO believe that the residual value of real estate, in particular income-producing properties, is much higher than its depreciated value indicates. The rules used to depreciate equipment, computers, or other fixed assets are not perceived to work for

income-producing properties. Not only do they feel that the properties do not decline in value as suggested by GAAP depreciation, but in many cases, they actually appreciate in value (Khang & Zao, 2009). Depreciation is typically the largest expense excluded from FFO in measuring operating performance (Tsang 2006) and with its exclusion, an argument can be made that by using FFO a better operating measure is provided.

Parmelee (2005) states that REITs do not draw as much interest from individual investors as other investments, partly because individuals are not as familiar with REITs. However, he notes that REITs can be very attractive to the investor looking for income, since REITs must pay out 90% of their net income in dividends to shareholders. REITs typically experience single-digit growth in income and dividend yield. He states REITs commonly have highly-experienced management teams that are familiar with the industry and possess at least a modest stake in the firms they manage.

Tax Preference

Tax preferential status has always been one of the driving forces behind the popularity of REITs. Originally organized as business trusts, REITs enjoyed tax preferential status until 1924. In 1924 in *Hecht v. O'Malley*, the Supreme Court determined that trusts that actively conducted business should pay federal income tax, as if they were a corporation. Management of some trusts chose to eradicate the trusts, and management of many other new trusts elected not to become a trust. However, for some trusts, its management figured out how to manipulate the ruling to avoid taxation. Over the next eleven years, clever managers of trusts that were able to navigate the legal requirements were successful in maintaining the tax-free status through the real estate investment trust vehicle. However, management of the trusts

struggled to have the trusts recognized by the real estate and investment community. In 1935, the Supreme Court rendered a decision that sealed the fate of the real estate trust. In *Morrissey v. Commissioner*, the Supreme Court ruled that corporate characteristics, such as continuity of life, limited liability, and transferrable ownership, were sufficient to make trusts subject to being taxed like corporations. Thus, all business trusts, even the passive ones, had to pay corporate tax. This decision ended the last advantage of the trusts and thus they were nonexistent for the most part over the years that followed (Killen, 1973).

In 1936, stock and bond investment companies were able to lobby for legislation to exempt regulated investment companies from federal taxes. However, real estate investment trusts were not as organized and could not get similar treatment. In the late 1950s, interest spurred to obtain the same tax treatment for real estate investment trusts that was granted to mutual funds under the Revenue Act of 1936. A bill was passed by Congress in 1956 granting similar treatment, but President Eisenhower vetoed it over concerns that it would not operate as a passive investment vehicle. In 1960, a group of trusts led by the Real Estate Investment Trust of America, predecessor of NAREIT, were able to convince Congress to amend the law. An amendment was attached to the cigar tax bill, and President Eisenhower signed it into law effective for years after December 31, 1960. Internal Revenue Code (IRC) Sections 856-858 approved conduit or pass-through tax treatment for qualified real estate trusts (Kahn, 1967).

Since 1961, real estate investment trusts have enjoyed this preferential tax treatment. Investors in real estate have found these trusts beneficial, as they can avoid double taxation on distributions. Meanwhile, they are afforded the benefits of either the trust or corporate structure with its access to public markets. As long as they meet the requirements set by law, companies can maintain the REIT status indefinitely. Once the Tax Reform Act of 1986 was

enacted, which eliminated the deductibility of passive losses, the limited partnership and other real estate tax shelters were no longer attractive organizational structures, which in turn opened the door for REITs.

Overview of Three Surviving Companies

The focus of this research is on the individual companies that have survived the first fifty years of the industry's development. Washington Real Estate Investment Trust (WRIT) started as a company located in the greater Washington D. C. area in 1960 and has remained true to its emphasis on local real estate. Lerner (2010) states that contrary to traditional REITs, WRIT has a diversified property platform. Management feels their strategy has been successful, as the company has had forty-eight consecutive years of equal or increasing dividends to its investors. However, management admits that a large part of their success is also due to the stable Washington D. C. market, which makes up their diversified portfolio. With government offices and the nation's capital housed in the area, it is known to be one of the most stable markets in the U. S., with the ability to ride out the economic cycles. Management also feels diversification is important, since some sectors are more susceptible to economic cycles. In addition, as one sector may be down during a particular time, another sector may be thriving, which helps to offset any downturns experienced. WRIT has also focused on the smaller tenant, thus making it less vulnerable to one large tenant pulling out and leaving a large vacancy. The office sector is WRIT's largest, since the Washington D. C. area is more of an office-centered area. The continued focus for WRIT is to increase occupancy levels, even though its 90% occupancy rate would be considered high to most other REITs (Lerner, 2010).

Pennsylvania Real Estate Investment Trust (PREIT) was initially created to supply funding for developers and to provide joint venture equity. Lerner (2010) notes that because of early financial constraints, the company was much smaller in its younger years, with later expansion into the multi-family or apartment market. The shared focus of multi-family and older or legacy buildings from its early days remained intact until the late 1990s. In 1997, PREIT merged with The Rubin Organization, expanding into the retail market, while continuing with the multi-family focus to build on earlier successes. In 2003, PREIT merged again causing its biggest shift in focus. This time the merger was with Crown American Realty Trust, which caused the company to expand even further into the retail market. Presently, PREIT is focused on the retail sector as not only developers, but also owners/managers. This REIT's philosophy is the opposite of WRIT's due to the belief that diversified REITs are less favorable than becoming single focused with greater vertical integration (Lerner, 2010).

Lerner (2010) notes that similar to WRIT, management prefers to stay physically located near most of their properties, by remaining within a two-hour flight range from Philadelphia. Management feels that a close relationship with their customer base is necessary in order to understand their needs and desires. The resilience of its base geographical area and the various types of tenants housed in their properties has allowed it to survive through recessions and downturns. Its base area is the Mid-Atlantic region, which is known for its higher income and stable growth. PREIT has also worked with historical preservation and environmental projects, in an effort to unite with its communities. Expansion into other sectors seems probable for PREIT in the future, as mixed-use developments become more popular. In addition, its experience in redevelopment and converting industrial property into more environmental-friendly property provides the REIT with an advantage, since it has worked

throughout its existence with distressed assets. The current economic downturn has continued to provide more of these distressed assets, which PREIT hopes to capitalize on as it builds for the future (Lerner, 2010).

Winthrop Realty Trust (formerly known as First Union Real Estate and Equity Mortgage Investments), starting off with only two properties at its inception, has expanded its portfolio to include the retail, service, and office sectors. Winthrop executives feel the company has grown in coordination with the industry. Winthrop has thrived through the years by seeking out underperforming assets and bringing management and capital to the projects to earn an above-average market return (Investor Relations, Winthrop, 2010). Unlike WRIT or PREIT, which have focused on geographical areas or properties sectors, Winthrop has done neither, rather letting the assets' potential dictate its interest. It also focuses on joint ventures, where it can combine local area expertise with its infusion of capital to grow investments. In addition, Winthrop looks for entities to acquire that own real estate, invest in real estate projects solely or in a joint venture, obtain preferred equity, or invest in first mortgage debt of real estate. Winthrop prides itself on patiently waiting for the right opportunities and avoiding the market mania that often drives investor activity (Investor Relations, Winthrop, 2010).

Michael Ashner, current Chairman/CEO of Winthrop, and a member of the REIT industry since the 1980s, believes market conditions have promoted the success of the REIT industry. He believes the real estate crisis of the early 1990s forced many REITs to reduce debt and morph out of private equity funding situations, which could be deemed the most dramatic event for the REIT industry in his opinion. He sees Equity REITs as a dominant form of real estate investing, with dedicated REITS playing a huge role and non-dedicated REITs offering varied asset groups (Flynn, 2010).

Overview of REIT Industry

Reviewing the companies' individual histories and financial statements in consideration of industry happenings over the fifty years provided some interesting historical accounting research into the interplay between industry and firm dynamics. Patterns of success within individual companies or in conjunction with the industry can provide guidelines for company management in navigating their financial futures. At NAREIT's website, a timeline for the fifty years of the REIT industry is provided (NAREIT, REIT 50 Years Timeline, 2010). Not only does it note who the Presidents of the United States were during the fifty-year period of the REIT industry, but also other historical events that have shaped its development. The Presidents are important, since different political parties are seen by the investment community as bringing diverse views to the economic environment and can shape an industry influenced by economic cycles.

One of the most significant happenings once the industry itself was created, was the formation of NAREIT on September 15, 1960, the day after the REIT industry was established. Every industry that is successful seems to need a formal organization to help guide it through its transitional states, and NAREIT has provided that for the REIT industry. Other important events in the 1960s include the first REIT being listed on the New York Stock Exchange in 1965 and the recognition in a Wall Street research write-up about REITs in 1969. From the period of 1969 to 1974, REITs expanded from $1 billion to approximately $21 billion mostly due to mortgage REITs financing development and construction financing. Meanwhile, in 1970 the first Healthcare REIT was formed, and in 1972 a REIT index was established to allow investors to benchmark REITs. Tax legislation, such as the foreclosure property rules in 1974

and the Tax Reform Act of 1976, started changing the organizational dynamics of REITs by liberalizing previous restrictions included with the initial REIT rules. Such restrictions included the business structure that permitted REITs to be formed as corporations, instead of just as business trusts (NAREIT, REIT 50 Years Timeline, 2010).

In the 1970s and1980s, many real estate tax-sheltered partnerships were created that raised billions through private placements. The Tax Reform Act of 1986 dealt with this issue by enacting passive activity loss rules preventing taxpayers from using partnerships to shelter earnings from other sources, which impacted the REIT industry. The 1986 act liberalized REIT powers creating a new class of REITs (Kaplow, 1998). The real estate market downturn that started in 1989 and extended through 1991 was viewed by most as the worst real estate downturn market since the Great Depression. REIT prices dropped in anticipation of a decline in private real estate prices (NAREIT, REIT 50 Years Timeline, 2010).

The decade of the 1990s proved to be a significant time for REITs with many important events occurring that propelled the industry forward. In 1991, NAREIT formally adopted Funds from Operations (FFO) as an earnings measure to be used by the REIT industry. Since 2003 the SEC allows companies to use FFO per share in SEC filings. In 1991, the first publicly-traded REIT reached $1 billion equity market capitalization, only to be acquired by an Australian company. In 1992, the first public umbrella partnership REIT (UPREIT)[1] was formed. In 1993, the five or fewer investors rule was lifted, thus pensions become more

[1] An UPREIT is a type of REIT that holds properties through an umbrella-limited partnership controlled by the REIT. The umbrella-limited partnership supplies cash to existing partnerships, which own the real estate conveyed. The existing partners convey their interests in the partnership to the umbrella partnership in exchange for limited partnership interests in the umbrella partnership, in which the interests can later be converted into REIT stock. UPREITs offer commercial property owners the ability to defer tax on the sale or transfer of their real estate. Taubman Centers was the first UPREIT to go public in 1992.

involved in the REIT market. The five or fewer investor restriction was initially intended to ensure that a few people did not have majority ownership of the REIT. The problem arose when a pension plan was counted as a single investor, even though there were hundreds or thousands of members in the pension plan. Thus, a pension plan was limited in how many shares of a REIT it could own. With the lifting of this rule, pensions could become active participants in REITs and it opened up the institutional market for REITs. This event is significant because it opened up REITs to investments by institutional investors (NAREIT, REIT 50 Years Timeline, 2010).

In 1993, the biggest REIT initial public offering (IPO) to date was initiated, opening up the market to large REIT investments. In 1996, REIT services were expanded by the IRS, which allowed REITs to manage and operate the real estate they owned. In 1997 the REIT Simplification Act (REITSA) was signed as part of the budget package in the Taxpayer Relief Act of 1997 to reduce the complexity and uncertainty associated with compliance with REIT tax law provisions. In the same year, the Treasury Department modified the U. S. tax treaty model to allow non-U.S. stockholders to pay 15% in taxes on ordinary dividends for REITs. In addition, during 1997 the private fund model was introduced to the industry, as AMB[2] completed a roll-up of separately-managed private portfolios into one public REIT. In 1999, NAREIT added real-time pricing to the index and the REIT Modernization Act was signed into law (NAREIT, REIT 50 Years Timeline, 2010).

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[2] AMB Property Corporation became one of the largest public REITs in 1997. The name AMB comes from the first initials of the founders' last names. AMB was a client advisory real estate company prior to becoming a REIT, but was successful converting to a REIT because its clients were satisfied with its above-average performance.

In the decade of the 2000s, REITs have moved forward in the investment arena with increased global interest. REIT exchange traded funds (ETFs) hit the market as the iShares Dow Jones U. S. Real Estate Index Fund was created. In 2001, REITs were added to the Standard & Poors' Indexes, such as the S & P 500 Index. As part of the global economy, the U. S. and U. K. signed a reciprocal tax treaty in 2003 that allowed U. K. pension funds to invest in U. S. REITs without requiring taxes to be withheld on the dividend distributions. In 2004, IBM added a REIT investment index as an option to its pension portfolio mix, while the REIT Improvement Act was signed into law the same year. In 2006, The Real Estate Equity Security Alliance (REESA) held its first meeting with members from NAREIT and similar associations in Japan, Australia, Great Britain, Canada and Asia in a worldwide effort to unite this industry (NAREIT, REIT 50 Years Timeline, 2010).

In 2008, the REIT Investment and Diversification Act was signed into law giving REITs more privileges, such as the ability to buy and sell assets efficiently and increase the size of REIT subsidiaries. In addition, NAREIT led an effort to achieve uniform tax treatment for REIT investments all over the world. In 2009, with the global credit crisis, REITs demonstrated toughness by reducing their debt and strengthening their balance sheets. In addition, NAREIT launched the website, www.reit.com in June 2009, where this timeline may be found. In 2010, Congress recognized the REIT industry's 50th Anniversary with a congressional resolution. This resolution shows the significance of the REIT industry to the overall investment market in the U. S. (NAREIT, REIT 50 Years Timeline, 2010).

Need for Historical Accounting Research

Historical accounting research is as important today as it has ever been. As Aristotle noted, "if you would understand anything observe its beginnings and its developments" (as cited in Grant, 1995). In the case of the REIT industry, studying its history through the lens of financial accounting assists in understanding the components that have allowed the REIT industry to thrive over the last fifty years, while providing insights into the components that will propel it successfully forward. As Winston Churchill stated, "The longer you look back, the farther you can look forward."

Historical accounting research also provides an industry with information that may be key to its success. As George Santayana stated, "Those who cannot remember the past are condemned to repeat it" (Santayana, 1905). Through studying the history of the industry and individual companies, mistakes and pitfalls that have occurred hopefully can be minimized as the industry moves forward into its next fifty years. With this concern for successfully moving forward, Moseley and Usry describe historical research:

> History involves the selection of facts about the past. The selection process is tempered by the judgment of the researcher as to what he thinks is fact and significant. Facts are often seen as causes and the researcher again exercises his judgment in interpreting the causes and determining how the causes relate to the present (Moseley and Usry, 1981).

Historical accounting research also assists one in understanding experiences and tensions present in the current environment. As Carr noted, "to enable man to understand the society of the past and to increase his mastery over the society of the present is the dual function of history" (Carr, 1967). By analyzing various articles written about the REIT industry, one can see that the industry has been questioned at times about its prevalent use of non-GAAP accounting disclosures, such as funds from operations (FFO). Providing value-

relevant disclosures to investors that will sustain investment and interest in the REIT industry is important to society, as real estate is a significant component of economic well-being. Littleton's perspective on accounting research states;

> But history is useful as well as inspiring. In meeting conditions as they arise it is distinctly helpful to start with a consciousness of the fact that change is a permanent element. There is always need for constant, even if cautious, revision of ideas and patient adaptation or renovation of methods. Whence better than from history could that consciousness come? (Littleton, 1966)

Using historical accounting research, disclosures, and accounting methods that have predominated the reporting and recording of financial information for the REIT industry is viewed under a new lens to provide guidance moving forward. Researching the development of the industry over the last fifty years and the companies that have survived offers new insights and possible paths that increase the success and usefulness of this industry and its contribution to the overall economy. As Oscar Wilde stated, "The one duty we owe to history is to rewrite it" (Foreman, 1966).

Historical accounting research can be a tool for bringing awareness to society of the interplay between accounting, economic, and legal factors. History should not be viewed as a closed book, but as something always in the making (Schlesinger, Jr., 2007, 1). Thus, the interaction of accounting, economic, and legal factors results in ongoing impact on societal functions and decision making. Homburger notes that accounting history:

> …can help to improve judgment and competence by bringing present-day theories, conventions, and practices into perspective, by awakening the student's consciousness of their relationship to our economic and legal environment (Homburger, 1958).

The American Accounting Association (AAA) has long supported accounting history research as an area of research that is necessary to the development of the accounting

profession. The Committee on Accounting History of the American Accounting Association issued a report in 1970 which describes accounting history as:

> …the study of the evolution in accounting thought, practices, and institutions in response to changes in the environment and societal needs. It also considers the effect that this evolution has worked on the environment (Committee on Accounting History Report, 1970).

Case Study Research as an Accounting History Methodology

Case study research is an effective means of analyzing issues in a natural, real-life setting. In accounting history research, case studies can provide detailed insight into historical events and trends from the perspective of the companies and individuals involved by conducting meetings and gathering data in their respective familiar locations. The qualitative information that is obtained provides meaning to quantitative data gathered there and elsewhere. Qualitative data is usually collected through surveys, interviews, observation, collection of physical artifacts, and documentation review (Yin, 1984).

For many years, case study researchers have attempted to clarify the methodological basis upon which to conduct case studies (Benbasat, et al. 1987, Datta 1982, Herriot 1982). Among management researchers, the natural science model is a well-known and widely accepted model for conducting studies in social science.[3] Lee (1989) notes that it is the critics of case study research that require convincing of its legitimacy. He mentions that the case researcher must manage with qualitative data and verbally stated propositions, which can be more problematic than working with quantitative data. In addition, he cautions that case

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[3] In his article, "The case for the natural science model for research in organizational behavior and organizational theory," Behling (1980) promotes the natural science model and refers to it as a good research methodology that has gained wide acceptance in organizational theory.

researchers have to deal with the non-replicability of observations when attempting to verify the findings of a particular case study. Lastly, Lee (1989) notes that case studies are known by a unique set of circumstances that make them vulnerable to changes that make them not-extendable to other settings, thereby limiting their generalizability.

Case study research works in tangent with the scientific method by showing that acquiring knowledge through physical evidence is an ongoing process with the development of better models that can deal with the limits inherent with true verifiability. Copi (1986) states, "Few propositions of science are directly verifiable as true. In fact, none of the important ones are." Thus, indirect testing of theoretical perceptions serves to address the problems with direct verification. In addition, natural controls can be used to meet the need for controlled observations. By focusing on a single person, behavior can be identified with the specific treatment. In addition, natural controls and treatments can be incorporated into the formulation of a prediction, which is in keeping with the natural science model. Case study research works by applying the same theories as tested in the original case study to a different set of initial conditions. Thus, even though observations may not be replicated, case study findings can be. Additional case studies can confirm the empirical circumstances of particular settings. Lee (1989) states, "In other words, generalizability is a quality describing a theory that has been tested and confirmed in a variety of situations, whether such testing is conducted through case research, laboratory experiments, statistical experiments, or natural experiments."

The advantages of the case study method are its applicability to real life, contemporary nature, suitability for human situations, and relevance to everyday experiences that facilitate an understanding of complex real life situations. In addition, the public has accessibility to some of the information in case studies through written reports. Yin (1984) defines the case study

research method as an empirical inquiry that investigates a contemporary phenomenon within a real life context, when the boundaries between phenomenon and context are not clearly evident, and in which multiple sources of evidence are used. With case study research, an object is selected that is internally connected to the political, social, historical, and personal issues. Case study research generally answers one or more questions beginning with "how" or "why" targeted to a select number of conditions and their inter-relationships (Yin, 1984).

Analytical rigor in case study research is important and can be assessed in two ways. First, one can ask if the case study considers any predictions through which the theory of interest could be proven wrong or if the study rules out rival theories? In addition, one can check to see if the predictions are consistent with one another and if the case study confirms the theory through empirical testing. Secondly, the case study can reveal analytical rigor by considering the degree to which it addresses the above issues. As the number of explicitly derived predictions or the number of organizational settings is increased, the more rigorous the theory will be considered. In addition, the more rival theories that are considered enhances the theory's degree of relative prediction power. Lee (1989) concludes that neither quantitative nor qualitative research is inherently more rigorous, and it does not matter if theories are stated in the form of mathematical propositions or verbal propositions. Thus, case study research can be beneficial to address issues where true experimentation would not work (Lee, 1989). For history research working with specific firms and industries, case studies can provide relevant information on the impact of past decisions on a firm's or industry's viability. In this manner, case study research will be used to analyze fifty years of the REIT industry with particular emphasis on the three firms that have survived since the industry's initiation.

Purpose of Study

As this study addresses the 50th Anniversary of the REIT industry through the lens of financial analysis of individual companies and the overall REIT industry, it provides information relevant to the financial markets of the United States. Through the fifty years, the REIT industry has grown in its sophistication and prominence, with three companies surviving throughout the years. The purpose of this research was performing a triple case study of the three companies by analyzing their financial statements, reading press releases, and interviewing management, to identify events and trends that were attributable to the companies' successes over the fifty years. Analyzing these companies' histories in an accounting context enables important attributes, such as earnings and dividend potential, to be identified. With knowledge of these attributes, benchmarks were established for evaluating future companies' successes. In addition, a story was told about each of the companies and the role each played in the development of the industry. The primary purpose of this study was to increase the body of accounting history in the relevance of financial statements' items and trends, while considering the market's willingness to accept new industries when demanded by investors.

Methodology

The focus of the methodology was to answer the research question, "Based on specific metrics that form a foundation for valuing REITs, do the three surviving companies reveal any quantitative differences from other REITs that have entered and left the market?" First, to understand the three surviving companies, financial statements were obtained and analyzed for as many of the fifty years as possible. With these financial statements, typical financial

analysis, such as trend analysis and ratio analysis, was performed on both an individual basis and in comparison with the other two surviving companies and overall industry results. The financial analysis was the primary source for an examination of the activities of the companies that have led to their ability to survive throughout the fifty years of the industry. Additional primary source material came from interviews with present and former management and personnel that will provide insight into the strategies and policies related to the companies' successes.

Additionally, press releases and other write-ups concerning each of the companies were examined. These sources of secondary information were used to identify important aspects and other items of interest related to the companies. Lastly, interviews were conducted with industry personnel concerning noteworthy facts related to these companies and other companies that have been part of the REIT industry.

To obtain a better understanding of the industry, NAREIT's website and publications were thoroughly examined for documentation of important industry events and factors. Other publications from NAREIT, such as their White Papers and the REIT magazine, were analyzed for information relating to the fifty-year history of the industry. Tax legislation was also examined, as tax laws have had a distinct effect on the industry's growth and development. Lastly, interviews were conducted with officials at NAREIT concerning the history of the industry and the role of past events in setting the future of the industry. Chapter III provides more detailed information regarding the methodology.

Contributions of the Study

A major contribution of this study was to analyze and document the Real Estate Investment Trust industry's success over its fifty years of existence in a financial context. An additional contribution was to analyze and document three successful companies: Washington Real Estate Investment Trust, Pennsylvania Real Estate Investment Trust, and Winthrop Realty Trust. These entities have survived from the beginning of the industry to the present. These companies are used as a backdrop to telling the story of the industry, but in a way unique to accounting history research. Rather than just review and discuss the companies' histories, financial analysis was used as a tool to offer an accounting perspective on the happenings of an industry. The role the accounting numbers and financial statements play in telling the story of these successful companies offers insight into an industry's anniversary celebration that has mainly been discussed in a more narrative sense prior to this study (NAREIT, 2010). The role of tax changes on the industry's development was also highlighted. Historical accounting research offers a new lens to an event that is just being brought to the forefront, with the recognition of the 50th Anniversary of the REIT industry, whose celebration began on September 14, 2010.

Limitations of the Study

When evaluating the history of the REIT industry in recognition of its 50th Anniversary, certain aspects of the history may not be discussed as thoroughly in this study as they have been elsewhere. Since the financial aspects of the history are of utmost priority in this study, certain narrative aspects of the industry's history may be minimized that others would deem important.

In addition, interviews were conducted as part of this research, and with interviews, the author brings in her own biases and experiences. As a historian, one should relay events accurately as they occur, trying to leave out personal judgments that could influence how events are told. However, the author realizes this can be difficult when beliefs and interests lead an interview in a certain direction. The author was careful to have interview questions structured, such that a plan could be followed that allow insights into the company and industry, while also permitting systematic comparability.

Organization and Plan of the Study

Chapter I is the introduction to the dissertation and provides an overview of the Real Estate Investment Trust (REIT) industry and the three companies that were studied as part of the research. The need for accounting historical research is also presented, along with the use of case study research in this regard. After those discussions, the purpose of the study and the methodology employed are presented. Lastly, both the contributions and limitations of the study are presented, along with the overall plan for the research.

Next, Chapter II provides detailed information about the REIT industry. Emphasis includes analysis of changes in tax laws and criticisms of non-GAAP accounting over the past fifty years, along with a detailed discussion of the REIT rules. Chapter III addresses the specific methodology utilized and analysis performed. Chapter IV is devoted to NAREIT, where information about this association and its services is presented. Chapter V is devoted to Washington Real Estate Investment Trust (WRIT), where financial analysis, narratives, and interviews are presented for that company. A similar analysis of Pennsylvania Real Estate Investment Trust (PREIT) is presented in Chapter VI. Chapter VII is devoted to Winthrop

Realty Trust (known previously as First Union Real Estate and Equity Mortgage Investments). Chapter VIII offers a data analysis and comparison among the three companies and extends that comparison to include the relevance to the industry. Chapter IX, the final chapter in the dissertation, offers some conclusions and highlights the trends and significance of the companies and industry. In this chapter, additional insight is offered into what can be learned from this analysis and how the accounting profession and investment community can use this information to make financial information more valuable as an indicator of future prospects.

CHAPTER II

THE REIT INDUSTRY

The official REIT industry was launched in 1960 with President Eisenhower's signature on the REIT Act. As with a lot of legislation, this particular act was included in other unrelated legislation known as the Cigar Excise Tax Extension of 1960. One day after the law was passed on September 15th, the National Association of Real Estate Investment Funds was formed, which later became known as NAREIT (NAREIT, REIT 50 Years Timeline, 2010). However, both the creation of the industry and the establishment of the professional advocacy group, NAREIT, were already years in the making. Tax professionals had begun years earlier to look at the unfairness in tax laws that permitted pass-through treatment to regulated investment companies, while real estate investment trusts did not enjoy the same tax preference status. The choice of investing in stocks or investing in real estate was an investor decision driven by multiple factors and not just tax concerns. In 1956, a bill resembling the REIT Act of 1960 was approved by the Senate and House of Representatives. However, the Treasury Department was not convinced that real estate investment trusts would remain passive according to the 1956 bill and encouraged a Presidential veto. However, the REIT Act of 1960 did specify that the trust must be completely passive, which caused the Treasury Department

and President Eisenhower to support and ultimately sign the bill (Blake, 1988). With the signing of the REIT Act, the stage was set for the industry to grow. During the years 1960 and 1961, six REITs known as First Union Real Estate (name changed to Winthrop Realty Trust), Pennsylvania REIT, Washington REIT, Bradley Real Estate Investors, Continental Mortgage Investors, and First Mortgage Investors were all initiated. Of those initial six companies, only three are still in existence today; Winthrop Realty Trust, Pennsylvania REIT, and Washington REIT (NAREIT, REIT 50 Years Timeline, 2010).

Besides the 50th anniversary of the REIT industry and NAREIT that occurred in 2010, the year 2011 marks other milestones important to the industry. As Blair noted, "At NAREIT's 2010 Annual Convention we celebrated the 50th Anniversary of the REIT industry. This year, we will celebrate another milestone in our industry: the 20th Anniversary of the Modern REIT era. Most REIT professionals and investors date the beginning of the Modern REIT Era to November 22, 1991, when Kimco launched its IPO" (Blair, 2011). Kimco is a large, publicly-traded, equity REIT that went public in 1991 to obtain financing. This move started a wave of REIT IPOs, as other companies also went public. In 1991, eight firms followed Kimco's example by going public, and in 1993, 75 REITs went public (Johnson, 2010). Blair noted, "The wave of REIT IPOs that characterized the beginning of the Modern REIT era transformed the REIT marketplace from an industry made up of mainly mortgage REITs to one composed of primarily larger, publicly traded equity REITs" (Blair, 2011). What makes this Modern REIT era significant is the rapid growth of the industry, from an equity market capitalization of $13 billion at the end of 1991, to $155 billion at the end of 2001, to $389 billion as of December 2010 (NAREIT, 2011).

Besides the beginning of the Modern REIT, 2011 marked another important anniversary for REITs. In October 2001, Standard & Poors (S & P) added REITs to its indexes, most importantly the S & P 500 Index. This move was an important signal to analysts and investors that the industry was gaining in importance, since S & P included REITs in its flagship index, the S & P 500. As Equity International Chairman Zell noted on the move by S & P to reclassify REITs for inclusion in its indices, it was a "coming of age" for the REIT industry (Kenney, 2011). Prior to this, the REIT industry had acknowledged that being left outside the indexes was slowing down the growth of the industry. Some investors did not want to purchase stocks that were not part of the coveted S & P 500 Index. In addition, as long as they were excluded from the index, some investors did not perceive REITs as real stock investments (Kenney, 2011). Martin Cohen of Cohen & Steers, the largest REIT investment firm, states that "We wanted recognition that REITs had become mainstream investments" (Kenney, 2011). Jim Sullivan of Green Street Advisors stated "The inclusion of REITs in the S & P 500 provided a clear endorsement of the idea that real estate should no longer be this island way off on its own." He felt REITs should be viewed as an investment option, just as stocks in other public companies and industries were considered. It is speculated that the reason for their exclusion was due to the small capitalization, low trading volume, and lack of internal management (Kenney, 2011).

With the beginning of the Modern REIT era in 1991, REITs began to appear more like other stock investments. Equity Office Properties Trust was the first REIT to become part of the S & P 500, bumping Texaco Inc. from inclusion. By November 1, 2001, Equity Residential was in the S & P 500, while Hospitality Properties Trust became part of the S & P 400 and Colonial Properties Trust became part of the S & P 600. REITs could now be viewed

as best in class companies. However, Sullivan notes there are some downsides to inclusion by stating, "One consequence of the S & P inclusion is that REIT share price movements can get a bit 'noisy' when the S & P is moving up and down for reasons that are largely unrelated to the economic drivers that should cause REIT share prices to move up or down." (Kenney, 2011) Even though their correlation with other equity markets may have increased, so has the volatility of REIT stocks. In the ten-year period since October 2001, the market capitalization of REITs has nearly tripled partly due to inclusion in these market indices, from $155.6 billion to $433.3 billion, thus lowering their capital costs. Schalop sums it up by saying, "I think that when I began this effort in early 2001, I really believed that this would be a transformational event for the industry. It really has been." In 2001, when S & P first started including REITs, one in twenty defined contribution plans included a REIT fund. In 2011, one in three defined contribution plans include a REIT fund. Fifteen REITs now have a spot in the S & P 500, with the sixteenth in the process of conversion to a REIT. They make up 2% of the index's total market value (Kenney, 2011).

REIT Industry during its First 50 Years

Throughout the 1960s, the REIT industry worked to establish itself as a legitimate vehicle for investment. In 1965, the first REIT to become part of the New York Stock Exchange (NYSE), Continental Mortgage Investors, appeared in its listings. In the 1960s and into the next decade, mortgage REITs fueled the expansion of the industry. The period from 1969 – 1974 marked the first major expansion, as mortgage REITs engaged in land development and construction financing. With this expansion, total industry assets increased from $1 billion to $21 billion. Also in 1969, the global REIT model expanded to Europe with

the Netherlands enacting the first European REIT legislation. The first piece of REIT research conducted by a Wall Street analyst was published in 1969, showing that the REIT industry had become a plausible investment vehicle (NAREIT, REIT 50 Years Timeline, 2010).

The REIT industry was not recognized by the investment community until the surge during 1968 - 1969. The problem was due to the fact that most people did not understand the unique aspects of real estate. Real-estate investing was seen as something for the more speculative, risk-taking type of elitist individual. However, once a few analysts caught on to the income yields and strong price appreciation of some of the largest REITs, REITs began to be seen as a valid investment vehicle. Timing was good for the REITs, as the general stock market was becoming stagnant in early 1969 and by the latter part of 1969 was experiencing a decline. Seen as the wave of the future, the new REIT listings beginning in 1969 were received favorably at a time when other stocks did not appear so good (Killen, 1973).

With the growth in the industry that occurred during the 1960s, the first REIT-focused periodical, *Realty Trust Review*, was started by Kenneth Campbell in 1970. Also in 1970, the first healthcare REIT, Health Care Fund, was started, which is the predecessor to Health Care REIT, Inc. that is still in operation in 2011. Two years later in January 1972, NAREIT established the REIT index which enabled interested parties to evaluate REIT price and return performance. The index allowed the industry to provide much needed information to potential investors who might be interested in providing capital to further grow this developing industry. With the enactment of foreclosure property rules, REITs experienced their first major change in tax laws in 1974 (NAREIT, REIT 50 Years Timeline, 2010). In 1974, Congress passed a special rule for foreclosure property that allowed the REIT to possess property obtained through foreclosure for two years, with possible extension for another two, provided the REIT

remitted the normal corporate income tax on income earned from the foreclosure. This provision for foreclosure property permitted the REIT an equitable time to systematically liquidate the foreclosure property without losing conduit tax treatment due to its holding property for sale (95th Congress, 1979).

The Tax Reform Act of 1976 continued the changes to REIT provisions by allowing REITs to be created as corporations, along with business trusts. It was signed into law by President Ford as the first real effort to simplify REIT provisions (NAREIT, REIT 50 Years Timeline). In simplifying REIT provisions, the Tax Reform Act of 1976 raised the total income resulting from certain sources from 90% to 95%, offered a “reasonable cause” out from disqualification for failure to meet the 95% and 75% income tests, revoked the prohibition on gain resulting from property held primarily for sale to customers and instead taxed 100% of the gain on sale from the sale of such property, provided a deduction for dividend deficiencies instead of disqualification, and made certain other technical adjustments (Kelley, 1998).

Utilizing the changes in tax laws that impacted REITs, the 1970s and1980s produced many real estate tax-sheltered partnerships that raised billions through private placements. These partnerships were enticing to investors, as they could shelter more income through losses and large depreciation deductions (Kaplow, 1998). As the demand for REITs was squeezed by these private placements, the National Real Estate Stock Fund was initiated as the first mutual fund to be open-ended and dedicated to REITs and real estate investments. However, the Tax Reform Act of 1986 enacted passive activity loss rules that prevented taxpayers from using partnerships to shelter earnings from other sources. The passive activity loss rules spurred the growth of the REIT industry, as REITs now became the prime vehicle for investment in commercial real estate assets (NAREIT, REIT 50 Years Timeline, 2010). With

the passive activity rules making tax shelters obsolete, investors sought a means to continue investment in real estate. Passive activity losses could only be deducted to the extent of passive activity gains, thus a tax shelter no longer provided its past tax benefit. With the help of lobbying by NAREIT, REITs were able to add legislation that enabled them to be self-managed, which furthered the appeal of REITs. With the previous loophole closed in regards to tax shelters and the addition of new powers, REITs offered a viable solution for future commercial investment in real estate (NAREIT, REIT 50 Years Timeline, 2010).

The Tax Reform Act of 1986 liberalized REIT powers creating a new class of REITs that have become the modern REIT. REITs could now own and manage their real properties, permitting a vertical integration of the company that was not possible prior to the Act (Kaplow, 1998). With the real estate market downturn that started in 1989 and continued through 1991, investors experienced what some consider the worst real estate downturn since the Great Depression. Seeing private real estate prices declining on the horizon, REIT prices dropped first (NAREIT, REIT 50 Years Timeline, 2010).

The REIT industry was thrust forward during the 1990s and many consider this time to be the start of the modern REIT era. Up to this point the industry was much smaller and evenly split between mortgage and equity REITs (Wood, 2011). In 1991, NAREIT formally adopted the earnings measure of Funds from Operations (FFO) for the REIT industry. This earnings measure has become such a significant component of REIT evaluations that in 2003 the SEC started allowing companies to use FFO per share in SEC filings. In 1991, publicly-traded New Plan was the first of its kind to grow in equity market capitalization to the $1 billion mark. In addition during that same year, Kimco prospered by launching the first IPO in several years by an equity REIT. In 1992, the first public UPREIT was formed, with Taubman

completing the first UPREIT IPO (NAREIT, REIT 50 Years Timeline, 2010). Taubman Centers, Inc., a publicly traded REIT, has always been known as one of the pioneers of the American mall business. Taubman had been a managing partner of a limited partnership, but continued its reputation as a pioneer in the REIT business by forming an UPREIT in 1992. By using the UPREIT formation, it allowed the company to go public without exposing existing partners to large capital gain taxes (Robaton, 2011).

In 1993, Congress lifted the five or fewer investors rule, allowing pensions more access to the REIT market, which increased institutional investment in REITs. With the Revenue Reconciliation Act of 1993, REIT shares possessed by trusts of qualified pension plans became regarded as owned by the plan beneficiaries for purposes of the rule prohibiting 5 or fewer individuals from owning 50% or more of the REIT's shares (Kelley, 1998). In 1993, the biggest REIT initial public offering (IPO) initiated to date of approximately $840 million by Simon Property Group, reflected larger investment opportunities in the REIT marketplace (NAREIT, REIT 50 Years Timeline, 2010).

REIT services were expanded by the IRS in its first private letter ruling on qualifying services for REITs in 1996. The ruling was pursued by NAREIT over a three-year period related to a REIT providing cable services to residential tenants. The REIT Simplification Act (REITSA) was enacted as part of the budget package in the Taxpayer Relief Act of 1997. Also in 1997, the Treasury Department modified its model for tax treaty compliance by permitting non-U.S. stockholders to pay 15% in taxes on ordinary dividends for REITs and saw the private fund model[4] introduced to the REIT industry. Another milestone in 1997 was the

[4] The Private Fund model consists of a group of independently managed private portfolios combined into one, publicly traded REIT.

launching of the largest equity REIT IPO to date of approximately $903 million by Boston Properties, Inc., as the market sought larger investments in REITs. In 1999, NAREIT added concurrent valuation with its Real-Time REIT Index and the REIT Modernization Act became law. Also in 1999, timber REITs became part of the landscape as Plum Creek Timber Company was introduced as the first of its kind. A major development in the international REIT arena was the establishment of the European Public Real Estate Association (EPRA) in 1999 (NAREIT, REIT 50 Years Timeline, 2010).

In the 2000s, REITs moved even further towards being viewed as a valued investment with heightened global awareness. The year 2000 saw REIT exchange-traded funds (ETFs) promoted through a new U. S. Real Estate Index Fund, the iShares Dow Jones fund. In 2001, REITs were added to the Standard & Poor's Indices,[5] with Equity Office Properties Trust being the first REIT included as part of the S & P 500 Index. In addition, in October 2001, the EPRA/NAREIT Global Real Estate Index was launched, furthering REITs as international investment vehicles. Also during 2001, Ibbotson Associates published breakthrough research on the benefits of owning REITs as part of a diversified investment portfolio (NAREIT, REIT 50 Years Timeline, 2010).

REITs become part of the global economy in 2003, as the U. S. and U. K. signed a reciprocal tax treaty to permit pension plans in the U. K. to allocate investment dollars to REITs in the U. S. with no taxes withheld on subsequent dividend distributions. Similar zero-withholding treatment occurred that same year for other countries, such as Japan. Also in 2003, Ibbotson Associates published additional research to highlight the benefit of including

[5] As of 6/30/2010, 15 REITs were part of the S & P 500, 25 REITs were part of the S & P 400 Mid Cap Index, and 27 REITs were part of the S & P 600 Small Cap Index.

both private and public real estate in portfolios held long-term. Their research showed performance data of direct investment in real estate and investment in REITs in institutional portfolios The following year, 2004, IBM added a REIT investment index as an option to its pension portfolio mix in an effort to give its participants an alternative investment vehicle uncorrelated with traditional asset classes (NAREIT, REIT 50 Years Timeline, 2010).

In 2004, the largest public-to-public acquisition occurred as General Growth Properties purchased The Rouse Company. Additionally important, the REIT Improvement Act was signed into law. Significant legislation included in the REIT Improvement Act permitted a REIT to either correct a mistake or incur monetary penalties for most violations of REIT tax rules, rather than the previously legislated and imposed loss of REIT status. This act removed some of the discriminatory barriers to foreign investment in publicly-listed REIT stock. The REIT Improvement Act was actually passed as part of the American Jobs Creation Act of 2004. Also in 2004, the Working Families Tax Relief Act of 2004 was passed, which contained technical corrections related to the 15% maximum tax rate for certain REIT dividends (NAREIT, REIT 50 Years Timeline, 2010).

Entering into the second half of the decade of the 2000s, more recognition, exposure, and international emphasis surrounded the REIT industry. Real Estate Equity Security Alliance (REESA) held its first meeting with members from NAREIT during its annual convention, with attending members from Japan, Australia, Great Britain, Canada and Asia. REESA is an ongoing effort to unite the REIT industry and provide worldwide awareness of income-producing real estate. To further the global awareness of U. S. and foreign REITs, Ibbotson Associates published more research on REITs. This research highlighted the benefits of global REITs and the inclusion of publicly-listed real property investments in portfolios to

provide diversification. In 2008, the REIT Investment and Diversification Act (RIDEA) was enacted expanding REIT privileges. With its passage, the use of taxable REIT subsidiaries grew. As with other REITs, health care REITs could now implement taxable REIT subsidiaries (NAREIT, REIT 50 Years Timeline, 2010).

Continuing its ongoing research on REITs, Ibbotson Associates published results in 2008 concerning the utilization of liability-relative optimization.[6] Also that year, NAREIT led an effort to attain consistent international tax policies related to investments in REITs through coordination with the Organization for Economic Cooperation and Development (OECD). The FTSE EPRA/NAREIT Global REIT index was modified in 2009 to add REITs from rising markets. In that same year with the occurrence of the global credit crisis, REITs demonstrated toughness by reducing their debt and strengthening their balance sheets and the investment community responded favorably. In addition, NAREIT launched the website, www.reit.com in June 2009. To further identify the industry, NAREIT renamed its flagship magazine, *REIT: Real Estate Investment Today*[7]. In September 2010, Congress recognized the REIT industry's 50th Anniversary with a congressional resolution (NAREIT, REIT 50 Years Timeline, 2010). Upon reading U. S. Senator Johnny Isakson's floor statement regarding the Congressional Resolution provided in Appendix J, one can see how this congressional resolution shows the significance of the REIT industry to the overall investment market in the U. S.

[6] Liability-relative optimization focuses on the challenges of pension funds in trying to manage assets to sustain their long-term pension liabilities. The concern is over managing the future variability of a funding surplus, while accomplishing the best performance for the portfolio.

[7] NAREIT continues to produce its magazine, *REIT: Real Estate Investment Today,* six times a year in both an online and written format. This magazine is available to not only members, but other interested parties also.

As mentioned in the preceding paragraphs, the decade of the 2000s and beyond have shown international interest in U. S. REITs grow exponentially. Even though 2011 levels on non-U. S. investment have not reached the levels they were in 2007 of $40 billion, international investment is once again increasing in 2011, especially with the weak dollar. With its close physical proximity, Canada has been one of the biggest international investors in the U. S. Canada has experienced a strong economy with stable currency values in the recent period leading up to 2011. Real estate is also in high demand in Canada, with not enough supply available to meet demand, thus the U. S. is viewed as a natural fit. Canadian companies have also snapped up parts of U. S. companies, like General Growth Properties, which had been in bankruptcy in 2010, but is now 40% owned by Brookfield Canada Office Properties. Washington D. C. and New York are seen as two strong areas of demand, with potential Canadian investors flocking to those regions that offer sustainable high rents. International pension funds are also responsible for the interest, since REITs offer the ability to invest in real estate without being locked into a particular property. Thus, when amounts are needed to meet funding requirements, REITs in recent years have offered liquidity through high dividends and the ability to divest easily in the equity markets (Keenan, pp. 20-22).

According to Merrie S. Frankel, Vice-President and Senior Credit Officer with Moody's Investor Service, economic uncertainty is a reminder that meticulous analysis of firms is essential and that the property markets and economy are connected. She states that long-term leases of REITs are an advantage, in that they allow them to withstand periodic rough times with tiered refinancing dates. Since they do not have to refinance too much in any one year, REITs can better steer through rough waters in a turbulent economy. She continues to state that in the past, REITs have been proactive in preparing for unknowns, like rising

interest rates, by negotiating credit lines early and refinancing mortgages. In her opinion, in order to move ahead in a difficult environment, such as 2012, REITs will have to carefully pursue acquisitions, while emphasizing liquidity. Since REITs are not able to retain earnings, most of their debt payoffs happen by using additional equity or debt financing. In addition, as times get tough, positive spreads from rents will become harder to achieve, according to Frankel (Kenney, 4 Quick Questions, 2011). Thus, as new leases are signed during a recessionary environment, lower rent and other rent concessions can cause the spreads from rents to decline.

History of REIT Tax Legislation

Since a REIT's tax-preferred status is important to its value as an investment, one must understand the history of its underlying tax legislation. Even though some of these tax provisions have been mentioned in previous paragraphs, tax legislation provided in its own timeline highlights the complexities companies face in navigating REIT requirements within the tax provisions. As mentioned above, the REIT industry began with the REIT provisions enacted in 1960 (Kelly, 1998). The bill served to amend the IRC of 1954, by defining a real estate investment trust as an entity having the same pass-through treatment for tax purposes as regulated investment companies, as long as specific requirements were met. This treatment indicated that income earned by REITs would not be taxed at the firm level, but would be passed to the owners to be taxed. Prior to the amendment in 1960, income was taxed at the REIT level, and was also taxed as personal income to the trust-holders (Sanger, 1990). The issue of conduit treatment for a REIT is important for its marketability and requires specific provisions to be met. These provisions are detailed in the next section under REIT rules.

Four years after the 1960 Act, the Revenue Act of 1964 was passed, primarily focusing on cuts in income tax rates imposed on individuals and corporations. However, this Act did affect REITs by clarifying the tax treatment for dividends received from a REIT. Later in 1969, the Tax Reform Act of 1969 was signed into law addressing unrelated business taxable income as it relates to REITs as tax-exempt organizations. IRC 512(a)(1) states that the term "unrelated business taxable income" ("UBTI") means gross income obtained by any organization from any unrelated trade or business regularly performed by the business, minus allowable deductions directly related to the performance of such business. Section 511(a) makes an organization exempt from federal income tax to be taxed on its "UBTI" (Popplewell, 1999). The 1969 Act asserted that services, such as marketing, promotion, and advertising to tenants in a shopping center were not allowed and could cause the related rents to be unrelated business taxable income. However, if the services were not substantial, the rents from the shopping center were not treated as unrelated business income subject to tax (Kelley, 1998). Unrelated business income resulted in taxable income, which most REIT managers tried to avoid.

In 1975, amendments were made to special foreclosure property rules to reduce the risk of disqualification for receipt of income from the sale of foreclosure property held for sale to customers in the normal course of business (Kelley, 1998). Congress stipulated the rule for foreclosure property that permitted a REIT to retain property acquired in a foreclosure for a period of two years, as long as the REIT paid the customary corporate income tax on income earned on the foreclosure property. In addition, the REIT could obtain an extension of time from the IRS to hold the property for another two years. This new rule for foreclosure property gave the REIT a reasonable period to orderly liquidate its foreclosed property (95th Congress,

1979). The issue of foreclosed property is important to REITs since real estate transactions can be driven by foreclosures. Other than these changes to the foreclosure property rules, no major tax reform proposals affecting REITs were enacted subsequent to the amendments to the tax code in 1960, until the Tax Reform Act of 1976 (TRA 76). One of the purposes in drafting TRA 76 was to limit tax shelters that were considered abusive (Sanger, 1990).

TRA76 was noteworthy to REITs for many reasons. Its complex provisions updated some of the REIT requirements created when the industry was established in 1960. Even though TRA 76 did not alter the basic tax rules related to a REIT, it did include some modifications that made the rules easier to implement (Sanger, 1990). The specific REIT requirements are covered in the next section on REIT rules. However, some discussion will be provided here, as the provisions of TRA 76 relate to specific REIT requirements. The percentage of income that must be obtained from specific sources was increased from 90% to 95%. These specific sources consist of rents, interest, dividends, gains from the sale of real estate and foreclosure property, and other income items considered passive in nature and normally earned by REITs. In addition, commitment fee income became part of qualified income for a REIT to pass the 75% of gross income from primarily-passive-sources test. TRA 76 also offered an alternative to disqualification for failure to meet the 95% and 75% income tests due to reasonable causes by allowing REITs to pay a 100% tax instead. Similarly, for REITs that did not meet the dividend distribution requirements, TRA 76 offered a deduction for insufficient dividends instead of disqualification for distribution deficiencies. Prior to TRA 76, such deficiencies could cause an entity to lose its tax-favored REIT status (Kelley, 1998).

Also importantly, TRA 76 revoked the exclusion on gain from property held primarily for sale to others, to align it more closely with the treatment for foreclosed property. For these

sales, it imposed a tax on 100% of the gain on sale from the disposal of held-for-sale property. TRA 76 allowed qualification of REITs that choose to use the corporate form, which allowed REITs an organizational structure other than trusts. TRA 76 also mandated that new trusts report on the calendar year and clarified other issues by making technical adjustments (Kelley, 1998). Sanger (1990) states that the major goal of lawmakers in drafting TRA 76 was reducing tax shelters deemed to be abusive in several major industries. Debate centered around which investment activities should be targeted, with real estate investments escaping the "at risk"[8] restrictions put on investments in drilling, farming, television and movie production, and equipment leasing. These latter activities Congress determined had the greatest opportunity for tax avoidance. The "at risk" rules tend to decrease asset values for those industries that must adhere to these requirements and the real estate industry benefitted from exclusion from these rules. Thus, real estate could continue to produce incremental losses that were deductible for tax purposes and REITs provided a vehicle for those deductions (Sanger, 1990).

In addition, TRA 76 imposed other major changes to the real estate industry. For all real estate companies, whether organized as a REIT or not, construction-period interest and taxes were to be capitalized rather than expensed. This accounting change was important because interest and taxes incurred during construction can be large expenses for real estate developers, with those costs now represented on the Balance Sheet. Subsequently, net income becomes higher, as those expenses are moved off the Income Statement. This change in accounting for interest and taxes could cause wide swings in the financial statements as compared to prior periods. Regarding residential income properties, depreciation had to be

[8] "At risk" restrictions preclude the taxpayer from utilizing tax losses greater than the investment actually at risk, which would allow the losses to reduce other taxable income.

recaptured, as had been the case with nonresidential real estate. Thus, excess depreciation over the straight-line basis had to be recaptured and taxed as ordinary income (94th Congress, 1976). This recapture closed a loophole where depreciation deductions were allowed against ordinary income, while gains from the sale of the assets were taxed as capital gains. For all capital assets, the holding period for capital gains treatment was extended from six months to nine months. Lastly, the investment interest limitation was again tightened, this time limiting the deductibility of investment interest to $10,000 per year (Sanger, 1990).

The Revenue Act of 1978 made further technical amendments with respect to prohibited transactions and foreclosure property. The 100% tax that was imposed on prohibited transactions, such as the sale of property in the normal course of business, provided an exception to REITs for sales of real estate under certain conditions. Gains from sale of real property that was held for four years were excluded, as long as no more than five sales were made in a year and the sales amounted to less than 10% of the assets' aggregate value (Humphreys, 2008). If the sale was from foreclosed property, then the four-year period included the time the REIT held the mortgage. Congress believed that imposing certain restrictions would keep REITs from using the safe harbor rule to participate in an active trade, such as the development of land. In addition, Congress wanted to allow REITs to change the portfolio of their assets without the concern that a tax would be imposed equal to the full amount of the appreciation in those assets (95th Congress, 1979).

The Technical Corrections Act of 1979 and the Tax Reform Act of 1984 each made further technical corrections to the REIT provisions of the Code, especially in regards to shortening the holding period for long-term capital gains (Kelley, 1998). The Tax Reform Act of 1984 specifically shortened the holding period for long-term capital gains treatment from

one year to six months (allBusiness, 2011). For REITs, shortening the holding period enabled preferential capital gains treatment to be realized on more transactions passed through to the shareholders. In general, real estate companies benefit when holding periods are reduced and assets can be turned over quicker to receive preferential capital gains treatment.

Referring to income taxes in general, the Tax Reform Act of 1986 (TRA 86) was the most widespread modification to the tax code since it was adopted in 1954 (Sanger, 1990). Numerous revisions were made to the tax code and many of them affected real estate. For the real estate industry, the modifications represented major changes to the existing rules impacting areas such as depreciation, loss offset limitations, and capital gains. Along with the changes affecting real estate in general, specific changes were made to the tax rules impacting REITs. The main purposes of the REIT provisions were to make it simpler for an entity to qualify for REIT status and to provide structural changes to allow for more flexibility in the operations of a REIT. In meeting qualification requirements, a REIT in its first year was no longer required to meet the minimum 100-shareholder test, if the personal stock holding requirement was met. The personal stock holding requirement provided that more than 50% of the value of an entity's outstanding stock had to be owned, directly or indirectly, by five or fewer individuals. In addition, the definition of rent income became more widespread and easier to apply in meeting the gross income tests required to maintain REIT status (Sanger, 1990).

As far as the changes enacted in TRA 86 related to the real estate industry in general, several of the provisions impacted the real estate industry in a significant manner. For one, the depreciation deduction was limited by extending the useful lives of assets and by disallowing the accelerated depreciation deduction. In addition, due to the loss offset limitations and “at

risk" restrictions on real estate, losses that could flow through were limited. Due to the limitation on losses that could flow through, real estate values were reduced related to other non-real estate assets. In addition, opportunities to use real estate tax shelters were minimized, which made real estate not as attractive as an investment. Also, capital gains became taxed at ordinary income rates and marginal tax rates were reduced. With capital gains no longer having preferential tax treatment, the value of the underlying real estate diminished relative to other assets. Between the tax loss offset and "at-risk" limitations, the value of real estate as a tax shelter was diminished. The slowdown of depreciation deductions for real estate likewise hurt the value of real estate relative to other investments. With accelerated depreciation no longer applicable and longer depreciable lives, real estate did not provide the same tax advantage that it had in the past relative to other investments (Sanger, 1990).

In Appendix D-3, information provided by the FDIC Division of Research & Statistics, entitled Major Tax Law Provisions Affecting Returns on Commercial Real Estate, shows the impact on property from provisions related to the Pre-Economic Recovery Act of 1981, Post-Economic Recovery Act of 1981, and Post 1986 Tax Reform Act. The maximum depreciable life was 40 years prior to the 1981 Act and 31.5 years after the 1986 Act. The 1981Act had reduced the maximum depreciable life to 15 years, while establishing the depreciation method as 175% declining balance. Prior to the 1981 Act and after the 1986 Act, the depreciation method was straight-line. Passive losses were fully deductible until the 1986 Act, which as mentioned earlier changed to deductibility only to the extent of passive income after the 1986 Act. The top income tax rate was 70% prior to the 1981 Act, falling to 38.5% after the 1986 Act. Capital gains rates were changed from 28% to 20% with the 1981 Act and then back to 28% after the 1986 Act (FDIC Division of Research & Statistics).

Arising out of TRA 86, the Technical and Miscellaneous Revenue Act of 1988 (TAMRA) was passed to clarify the earlier act and provide further modifications impacting REIT investments. The 1988 act modified the attribution rules in regards to share ownership to eliminate attribution amid the partners in a partnership. This reduction in attribution among partners helped REITs work within the rule concerning the ownership of shares not allowed to reside in five or fewer owners possessing more than fifty percent of the shares. Next, this act required that earnings and profits from corporate years when the entity was not a REIT be distributed. Thus, REITs would not be allowed to take advantage of electing REIT status, while also holding on to past accumulated earnings and profits. Third, it allowed new entities that had not conducted business activities to select the calendar year when electing REIT status, without IRS approval (Kelley, 1998).

To continue with modifications to ease the requirements in establishing REITs, TAMRA loosened up the ownership rules for the first year of a REIT election. In addition, TAMRA allowed specific wholly-owned subsidiaries to be owned by a trust, thus enabling more entities to become REITs. Furthermore, it adjusted the asset and income tests during the first year after the receipt of funds due to a new offering to give new REITs time to structure their organization in alignment to meet REIT requirements. The 1988 Act further relaxed the rules related to independent contractor activity related to REITs. Since REITs utilize many independent contractors in the conduct of their business, this act eased its tax compliance burden. Rents or interest based on the net income of the tenant or debtor in some situations was restricted. Restrictions affected the REIT's ability to meet its income requirements. Also, specific dollars of accrued rents and income from particular ineligible tax-free exchanges were excluded from net income distribution requirements, with taxes applied on the amount not

disbursed. Thus, a REIT was allowed to keep this income, rather than distributing it, provided it paid a hefty tax on the transaction. In addition, capital gain dividends unreduced by operating losses were allowed and capital gain dividend notices could be delayed until distribution of the annual report. TAMRA changed the prohibited transactions rules in regards to safe harbor and losses, while income from certain shared appreciation mortgages became limited. Due to the strict distribution requirements of REITs, the lifting of the penalty tax on deficiency dividends rescinded by the Act was important to REIT management. Equally important to REITs, the four percent excise tax was established on specific types of post year-end distributions. Lastly, TAMRA provided for some specific dividends paid in January to be taken into account as if paid in December. This provision enabled REITs to ensure that distribution requirements were met (Kelley, p. 5).

The Omnibus Budget Reconciliation Act of 1993 was important in the growth of the REIT industry as it changed the shareholder ownership rules in regards to REITs and pension funds. As high-dividend-yield investments, REIT stocks are a good fit for pension funds (Chan, et al, 2003). However, prior to 1993, REIT requirements specified that no fewer than five people could own jointly more than fifty percent (5/50 rule) of all outstanding shares. The 1993 Act modified the interpretation of the rule by allowing each investor in a pension fund to count as an individual investor for the 5/50 rule, as long as the REIT has a minimum of 100 shareholders. Prior to this change in interpretation, the pension fund as a whole counted as an individual investor, with large-scale investment by pension funds exposing the REITs to loss of status. Banking firms and investment bankers responded by bringing liquidity and increased investment to the market, which resulted in the growth and capitalization of REITs. This change in rule interpretation, along with the establishment of the UPREIT structure and the

specialization of the REITs entering the market, drove the growth of the REIT industry during the early 1990s (Chan, et al, 2003).

With the growth of the REIT industry during the 1990s, some revision to existing tax legislation was to be expected, and by the end of the decade it was forthcoming. The Taxpayer Relief Act of 1997 (TRA 97) made the most substantial changes to the rules governing REITs since the Tax Reform Act of 1986. First, TRA 97 allowed REITs to retain capital gains at the entity level and pay applicable taxes. These capital gains were deemed passed through to the shareholders, who received a credit for the capital gains taxes paid by the REITs. Second, if a REIT failed to keep proper shareholder records, monetary penalties rather than disqualification resulted, which allowed a REIT to retain its tax preferential status even if its recordkeeping was lacking. Third, as long as adequate shareholder records were kept by the REIT and the REIT had no information to the contrary, the rule requiring a REIT not be closely held was considered met (Kelley, 1998).

With TRA 97, REITS were permitted to provide a de minimus amount of tenant services, while still treating income from the property as rent, thus using it to meet the income tests. Being able to perform these additional tenant services allowed REITs to become a little more involved in managing their properties without the risk of failing the income tests because of disqualifying rental income. When considering the independent contractor or related party test as related to REIT rental income, the attribution rules were considered relevant only to partnerships in cases where one partner owns 25% or greater interest in the partnership. Thus, rental income from these sources could be used to meet the REIT income tests. TRA 97 modified the definition of the independent contractor related to foreclosure property to align with its definition related to rents from real property, so that similar methodology could be

used in managing REIT income. In addition, the 30% gross income test that had been required to qualify for REIT status was revoked. Previously, this rule required that no more than 30% of gross income could come from certain sources, such as the gain on sale of stock held for less than one year, specific real property owned less than four years, and property disposed of due to a prohibited transaction. This gross income test was just another hurdle that companies had been required to meet to become a REIT, which with its revocation allowed more companies to become REITs (Kelley, 1998).

TRA 97 also addressed other income sources, especially related to interest and debt. Noncash income was redefined in regards to items not subject to distribution requirements, to include income from debt cancellation and to extend the treatment of coupon interest and OID as excess noncash items to REITs that use an accrual method of taxation. In addition, income derived from interest rate swaps and caps and hedging agreements permissible under the 95% gross income test became expanded (Kelley, 1998). By excluding more income items from distribution requirements and allowing other items to be included in income for the 95% gross income tests, REITs were able to comply with the tax provisions in an easier manner.

To continue with the provisions set forth in TRA 97, REIT property that was involuntarily converted received a safe harbor by becoming excluded from the prohibited transaction rule subject to a 100% tax. Alleviating this 100% tax burden was important to REITs, as real estate properties were sometimes targeted by governmental entities. Another modification of TRA 97 affected shared appreciation mortgages disposed of under bankruptcy court jurisdiction. For these mortgages, REITs were provided a safe harbor from the prohibited transaction rule subject to a 100% tax (Kelley, 1998). The tax revisions were an

effort to help REITs deal with difficult situations concerning real estate properties that often happened in downturn economies.

A few final provisions of TRA 97 dealt with REIT structure issues. Qualified subsidiaries of REITs could now include an established corporation in which a REIT obtained a 100% ownership interest. Previously, corporations were not considered qualified subsidiaries, which reduced the vertical integration available to REITs. Finally, distributions by newly-electing REITs to remove pre-REIT year earnings and profits were deemed to reduce the earliest acquired earnings and profits before reducing current earnings and profits (Kelley, 1998). Thus a REIT could eliminate its pre-election earnings and profits first through its distributions.

The IRS Restructuring and Reform Act of 1998 (IRS Act) was particularly important for paired-share or stapled REITs[9]. This Act provided that real property interests obtained by any member of a stapled REIT company are deemed obtained by the full group, especially as it relates to the rules for REIT status and the prohibited transactions rule (NAREIT, IRS, 1998). Prior to 1998, REITs and non-REIT corporations were treated as a single or paired-share entity in regards to the REIT tax rules when at least half of the stock of both firms was conveyed as a package. This provision allowed six stapled REITs to operate as individual companies. When considering REIT income tests under the IRS Act, these grandfathered stapled REITs were viewed as one entity in regards to property acquisitions or to major improvements in presently-owned assets by the REIT, its stapled corporation, or a subsidiary or partnership where the REIT or stapled entity owns 10% of the value of the stock. Properties acquired prior to March

[9] Paired-share REITs consisted of a REIT and non-REIT corporation, viewed as a single entity for purposes of the REIT tax rules, as long as more than 50% of the stock of both entities had to be transferred as a package. Stapled REITs was another name for a paired-share REIT.

26, 1998 were grandfathered and permitted an exception to the IRS Act. Grandfathered properties lose this status if the property is extended outside its original borders or if any improvement after the 1999 IRS Act alters the use of the property while costing more than 200% of its cost. While the IRS Act contained many clarifications requested by paired-share firms, it did not include other far-reaching changes intended to permit the firm's operations to inflate without losing their grandfathered status (NAREIT, IRS, 1998). Thus, paired-share or stapled REITs lost the big advantage possessed over other REITs through passage of this Act.

In addition with the IRS Act, rules were revised that relate to REITs that are involved in tax-free mergers with non-REIT corporations and the handling of long-term capital gains. The IRS Act made a technical correction related to tax-free mergers in the ordering of Earnings & Profits (E & P) distributions. For a REIT that had a non-REIT corporate entity merged into it, only non-REIT E & P accumulated from the corporation would have to be distributed. Thus, the REIT would not be penalized for failure to meet its distribution requirements due to existing E & P brought over from a newly-merged corporation. In addition, the previous 18-month holding period put into place as part of the Tax Reform Act of 1997 was extinguished for asset sales occurring after December 31, 1997. Sales of capital property held for a year or more received the same preferential lower capital gains rates that individuals could utilize (NAREIT, IRS, 1998). Thus, REITs that chose not to distribute capital gain income and pay tax at the preferential income rate were required to retain the property for a year, rather than the eighteen months previously required.

The Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999 affected REITs mainly in regards to liquidating REIT dividends. Any owner of a REIT that was in process of liquidating was required to report as income the liquidating REIT dividends

received for dividends distributed after May 22, 1998. The liquidating REIT was allowed to deduct the dividends paid and if the recipient of the REIT dividends was another REIT, then those dividends could be distributed to shareholders to reduce any corporate tax impact (NAREIT, Limitations, 1998).

One of the most important tax law changes that has positively impacted the REIT industry occurred with the passage of the Ticket to Work Incentives Improvement Act signed on December 17, 1999, which contained provisions known as the REIT Modernization Act (RMA) (Edwards, 1999). These federal tax law provisions enabled REITs to operate companies that offer tenant services using an entity referred to as a taxable REIT subsidiary (TRS) that can be 100% owned by the REIT. A TRS can perform most types of business activities for REIT tenants that were previously prohibited. Ownership of TRS entities is limited to the 20% provision of gross real estate assets test and can include any corporation in which the REIT owns stock directly or indirectly, as long as both agree to treat the corporation as a TRS (Edwards, 1999).

Once the TRS election is made, only the REIT or the TRS can revoke it and the election will apply to any other entity in which the TRS owns more than 35% of the securities by vote or value. Exceptions include corporations that operate healthcare or lodging facilities, as they are heavily involved in offering tenant services. These entities are viewed as operating real property, rather than property held for investment, which is the original intent of REITs. Income tests were also adjusted to allow a TRS to perform usual and additional services to tenants of REIT property without causing non-qualifying income. Regarding the rule that restricts including in rental income for REIT qualification purposes any related-party rent, an exception to the exclusion for lodging facilities exists. REITs can lease a lodging facility to a

TRS, as long as an independent contractor manages the facility. Additionally, property can be leased to a TRS as long as 90% of the leased property is rented to entities other than the REITs' TRSs or related parties, and rent payments are significantly comparable to payments that other tenants made for similar space (Friedman & Hoppe, 2000).

RMA of 1999, however, did enact a 100% excise tax on any transactions between a REIT and its TRS that are not handled as arms-lengths transactions. RMA wanted to ensure that even with these extensions of privileges for TRSs that REITs stay true to their core purpose of real estate ownership and operations. After 2001, REITs were not able to own more than 10% of the stock value of a non-REIT corporation, other than a TRS or other grandfathered entities (Edwards, 1999).

Besides addressing taxable REIT subsidiaries, RMA of 1999 has allowed REITs to be more competitive and carry out their business activities in a more efficient manner. A key provision of RMA was returning the required distribution level to 90% of taxable income, which it had been from 1960 – 1980. Since mutual funds had a 90% requirement, REITs were allowed to drop down from 95% that was imposed in 1980 back to 90%. The requirement that only 15% of total rents can come from personal property rents was changed from basing the 15% off of the adjusted value of the lease payments to basing it off the fair market value of the lease payments (Edwards, 1999). Thus, those leases that may have been negotiated and in place for some time that had an element of personal property rent included with the real property rent were allowed to use the fair market value of the total rent payments in applying the 15% test. Fair market value typically resulted in a higher ceiling for this test, making it easier for the REIT to satisfy this restriction on personal property rents.

In regards to the tests for an independent contractor for publicly-traded corporations addressed in TRA 97, only shareholders with an interest greater than 5% were evaluated in relation to services performed. With the Tax Reform Act of 1986, REITs could directly hire and manage independent contractors to perform normal services related to rental properties, rather than hire an independent contractor to engage other independent contractors. Lastly, Health Care REITs were permitted to hire an independent contractor to manage nursing homes that do not have a lease for up to six years when the REIT is not able to lease it subsequent to a foreclosure. This modification extended the rules to foreclosure property to require a REIT to pay taxes at the corporate level on the operating income from the property until it obtains a new lease. Lastly, RMA further clarified the rules for pre-REIT Earnings & Profits related to how they should be calculated for distributions to shareholders for newly-elected REITs after a merger with a corporation (Edwards, 1999).

The REIT Improvement Act of 2003 (RIA 2003) further clarified the application of specific rules related to the administration of REITs. In addition, the Act provided for further foreign investment by ending some of the discrimination previously shown towards these investors. RIA 2003 also was important because it eliminated the severity of the penalties for failure to follow REIT rules by imposing monetary penalties in lieu of disqualifying the REIT. REITs that became disqualified would have to wait until after the fifth taxable year after the taxable year that revocation of REIT status occurred to be reinstated, which was particularly punitive for the firm. One of the REITs that almost lost its REIT status due to an insignificant accounting error prior to the implementation of this Act was Pennsylvania Real Estate Investment Trust (PREIT). Many of the provisions of RIA 2003 were built upon previous amendments made in the REIT Simplification Act of 1997. As with other previous tax

legislation, NAREIT supported the passage of this act to further the growth of the industry and make REITs more attractive to the investment community. When President Bush signed the American Jobs Creation Act of 2004 (AJCA 2004) into law, it contained the provisions of the REIT Improvement Act that had previously been addressed in 2003 with separate Senate and House versions of the bill (Edwards & Bernstein, 2005). As has been the case with most REIT legislation, the provisions related to REITs were incorporated into unrelated tax legislation and passed in that manner.

The provisions of RIA 2003 were important to REITs. First, enabling a REIT to cure asset ownership problems without automatic disqualification of REIT status was huge for the industry (Edwards & Bernstein, 2005). Then, as it relates to the definition of securities for the 10% limitation rule, RIA 2003 provided a safe harbor for REITs similar to that provided to Subchapter S corporations. If securities belonging to a REIT did not qualify as straight debt[10] and did not satisfy the 10% limitation rule, the REIT could lose its REIT status prior to this Act. This Act extended the definition of straight debt for ordinary qualifying loans when payments are contingent under certain allowable conditions to keep legitimate extensions of credit by REITs safe from causing problems. This provision was retroactively applied to the enactment of the RMA of 1999 so that REITs that made loans in good faith in ordinary business situations would not be at risk by the expansion in the definition of straight debt (Edwards & Bernstein, 2005).

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[10] Straight debt is defined as any written absolute promise to pay on demand or on a certain date a specific amount if the dates and rates of interest due are not dependent on profits or the borrower's judgment and no conversion into stock, direct or indirect, can occur, per § 856(c)(7), § 1361(c)(5). Additional clarification from Treasury Regulation § 1.1361-1(l)(5)(A) specifies straight debt does not include debt where interest is dependent on dividend payment on common stock.

RIA also offered updated rules for calculating a REIT partner's share of securities of a partnership by using a look-through to treat non-mortgage debt to the REIT as included in its partnership interest. In addition, it eliminated the requirement that a REIT or its TRS could not own securities of an issuer, except for straight debt, by permitting a REIT or its 50% or greater owned TRS to possess safe harbor securities valued at no greater than 1% of the issuer's outstanding stocks. Also, any loan to a partnership by a REIT in which the REIT is not a partner was not deemed a security to the degree of the REIT's interest as a partner in the partnership. In particular, the Act gives the IRS authority to omit additional types of loans from treatment as securities for purposes of the 10% of value rule (Edwards & Bernstein, 2005).

REITs were held to a 90% rental threshold rule, which stated that as long as 90% of the rental property was rented to unrelated individuals and the rent paid by the TRS was similar to the rent paid by other non-related parties, then the rent paid by the TRS was considered rental income under the REIT tax rules. RIA clarified this provision by looking at rents at the beginning of the lease, at the extension of the lease, and at the renegotiated lease when the rent between a REIT and its subsidiary was raised. As long as the rental tests were met at the three intervals, the tests were considered to be met when the actual space rented to a TRS was not increased. However, if the REIT possessed greater than 50% of the value or vote of the TRS and the rent was increased under a renegotiated lease, then the rental increase would not be treated as qualifying rent (Edwards & Bernstein, 2005). All of these changes were important in clarifying the rules to ensure the rental threshold test was met.

Previous REIT tax legislation was concerned with preventing REITs from shifting income between itself and its TRS. Any income or deductions shifted between a REIT and its

TRS were subject to a 100% excise tax. RIA allows these payments to be excused from the excise tax if the REIT paid 150% of the cost to the TRS in offering the service (Edwards & Bernstein, 2005).

Congress was concerned in the past about how REITs derived their source income, thus there were specific requirements that had to be met. The rules stated that 75% of a REIT's gross income had to be from real estate sources, but 95% of the gross income could be from a combination of real estate sources and passive activities. With legislation in 1999, REITs were forgiven if more than 90% of gross income was from the combination. RIA corrected this issue by applying a fraction based upon the 95% of gross income requirement rather than 90% for years after October 22, 2004 (Edwards & Bernstein, 2005).

The Food, Conservation and Energy Act of 2008 contained a rule relating to timber REITs that only applied to taxable years between May 22, 2008 and May 22, 2009. In accordance with this rule, timber REITs were permitted to possess securities in a TRS equal to 25% of the REIT's assets. In addition, the holding period, which had been at four years, became reduced to two years for sales to a qualified entity for conservation reasons. Any gain was also not considered gain from the sale of dealer property, and thus could be eligible for capital gains treatment. Prior to this act, the REIT Investment Diversification and Empowerment Act of 2007, discussed below, modified this provision by eradicating the requirement that property had to be sold to qualified entities to receive the two-year holding period (Edwards & Bernstein, pp. 4-5). These provisions were especially important during the time period it was enacted, as asset values declined and sales were often needed to meet distribution requirements.

In 2008, Bush signed the Housing and Economic Recovery Act of 2008 containing the provisions of the REIT Investment Diversification and Empowerment Act of 2007 (RIDEA). RIDEA permits REITs to buy and sell assets more efficiently, permits REITs to be involved in higher level entrepreneurial behavior with their TRSs, permits health care REITs to organize investments similar to hotel REITs, and supplies assurance in regards to the treatment for REIT qualification reasons of activities denominated in foreign currencies from international investments and the receipt of other gross income items (Edwards & Bernstein, 2008).

Even though the REIT ownership in a TRS limit was originally set at 25% in RMA, when the Ticket to Work Incentives Improvement Act of 1999 was passed, the limit was reduced to 20%. The mutual fund test used the 25% rule, so it seemed to make sense for REITs to use the same percentage. By adjusting the limit to 25%, REITs were better able to compete with the mutual funds. Related to the provisions specific to health care REITs, a TRS would still be required to use an approved independent contractor to oversee healthcare facilities, but fair market rents from a qualified health-care property would now be considered qualified rents for the rental income tests. Allowing these rents to be included made it easier to meet the gross income tests for REIT status (Edwards & Bernstein, 2008).

In regards to foreign transactions, RIDEA sets out that passive foreign exchange gains will not be regarded as gross income for the 95% and 75% tests. Excluding gains from both the numerator and denominator in calculating gross income was considered to be the best way to protect REITs from the loss of REIT status. Regarding foreign currency, changes to the asset tests were also made. Fluctuation in asset investment values, primarily from changes in foreign currency rates that are not related to changes due to acquisitions of new assets, would no longer cause an entity to fail the asset tests. Lastly, the IRS was granted authority to

provide assistance in matters relating to income items considered for the 75% and 95% income tests. The IRS could decide what items were or were not considered in calculating income qualified under these testing rules, giving some flexibility to requirements that might otherwise disqualify a REIT (Edwards & Bernstein, 2008).

On February 3, 2011, NAREIT wrote the IRS requesting guidance for REITs on distressed debt acquisitions and work-out arrangements often necessary to avoid foreclosures. With the economic climate of 2008 through 2011, many REITs have dealt with troubled loans and NAREIT was seeking guidance for its members. NAREIT wrote the IRS requesting clarification on a number of issues that it felt excluded REITs from obtaining mortgages at values lower than face value. The ability of REITs to buy up distressed mortgages, as NAREIT stated, is important to toiling through the dregs of the latest financial crisis. With the way the Revenue Procedure 2011-16 is written, NAREIT stated there is a problem when the value of the distressed asset increases. In addition, NAREIT stated there is a problem with the manner in which interest is computed and assessed for the gross income tests, with much of it considered non-qualifying income. NAREIT, in its letter, was requesting the IRS adopt a safe harbor through which a REIT would not have to bifurcate a mortgage to meet the gross income test and the asset test. NAREIT was concerned that without capital provided from REITs and their investors, less liquidity in the market for distressed mortgage loans and mortgage-backed securities would result. Through issuing additional clarification on several important issues concerning distressed loans, NAREIT stated the IRS could avoid problems due to lack of REIT participation (NAREIT, 02/03/2011).

As shown in this section, tax legislation is an important component to the functioning of REITs and NAREIT has lobbied on the industry's behalf. With conduit treatment affording

REITs the opportunity to avoid taxation at the entity level, REITs offer the public an investment that avoids double taxation. Combining its tax preference with substantial distribution requirements, REITs are in a unique position to attract both individual and institutional investors.

Areas other than Tax Legislation

NAREIT is active in its lobbying efforts to ensure that tax legislation and accounting pronouncements that are introduced or passed consider the needs of the REIT industry. Ongoing proposals exist to support continued international and intrastate investment in REITs and other investment vehicles. Since 2008, no major tax legislation affecting REITs has passed. However, NAREIT continues to send comment letters and other correspondence regarding tax and accounting matters to the Financial Accounting Standards Board (FASB), the International Accounting Standards Board (IASB), the Public Company Accounting Oversight Board (PCAOB), the Securities and Exchange Commission (SEC), the Internal Revenue Service, the Multistate Tax Commission (MTC), and U. S. congressmen (NAREIT, 2012).

On October 31, 2011, NAREIT issued an SFO Alert on the definition of FFO in accordance with NAREIT guidance. With recent word from the SEC that it would not express an opinion on whether impairment losses should be excluded or included in the calculation of FFO, NAREIT issued guidance to state that FFO should exclude impairment write-downs on depreciable real estate. NAREIT stated that this treatment of impairment write-downs was consistent with its white paper on FFO issued in 2002, even though the SEC chose not to issue an opinion. The only stipulation the SEC provided was that the calculation and disclosures

must meet the requirements of Regulation G.[11] The SEC additionally stated that companies should avoid any possible confusion with using measures that omit a GAAP income statement item, including impairment write-downs (NAREIT, 10/31/2011). NAREIT, on November 4, 2011, issued another alert providing further guidance on FFO. This guidance stated that for the years 2011 and afterwards, FFO should exclude impairment write-downs. However for years prior to 2011, NAREIT stated that a company may indicate it is calculating FFO in accordance with NAREIT guidelines whether or not it included impairment write-downs in FFO. However, for comparative statements, it was suggested that FFO be recalculated to exclude impairment write-downs if it had previously been included. NAREIT additionally stated that its members should be careful to clearly disclose its position on impairment write-downs for its investors. Companies should document their calculation of FFO, so there is no confusion by the investor in what is included or excluded (NAREIT, 11/04/2011).

In addition, NAREIT has been working for over ten years with the FASB to get clarification on SFAS 144[12] related to discontinued operations and its impact on the REIT industry. On November 1, 2011, NAREIT issued a letter to the FASB as a follow-up to letters written in 2001 and 2006 concerning ongoing issues with the interpretation and application of that standard as it applies to REITs. As a REIT regularly disposes of properties in its normal business activities, SFAS 144 causes a noteworthy amount of earnings to be classified as

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[11] Regulation G addresses the use of non-GAAP financial measures in Conditions for the Use of Non-GAAP Financial Measures (Regulation G), and, in filings made with the SEC, Item 10(e) of Regulation S-K, Use of Non-GAAP Financial Measures in Commission Filings (Regulation S-K) (NAREIT, 10/31/2011).

[12] SFAS No. 144 titled, Accounting for the Impairment or Disposal of Long-Lived Assets, requires that both current and historical revenues and expenses, along with any gain or loss on the sale of an identifiable component of an entity that has been disposed of or held for sale, be shown separately as discontinued operations.

discontinued operations, with annual restatements to prior years for comparability. The NAREIT letter quoted Moody's Rating Methodology for REITs:

> Moody's believes the "discontinued" classification of these activities makes it difficult to determine a REIT's real estate property business performance and therefore we combine discontinued operations related to these core activities with the operating income from real estate properties that continue to be owned but are not classified as held for sale (Moody's, 2006).

This quote shows how analysts, investors, and others have tried to work around the cumbersome requirements surrounding SFAS 144. NAREIT notes that even though they are appreciative that the FASB has added it to its agenda as it addresses SFAS 144 in convergence with International Financial Reporting Standards (IFRS), they are restating the urgency that action be taken on this issue. In addition, NAREIT states that the confusion surrounding the application of SFAS 144 and its inconsistency with the position taken by IFRS continues to provide problems for both the accounting and investment community (NAREIT, 11/01/2011).

Pending congressional bills have also drawn the attention of NAREIT. In 2011, NAREIT has either supported or provided comments on several bills. The Marketplace Fairness Act permits states to collect sales tax from the sellers, whether or not the sales occur at a physical store or online. As many REITs specialize in retail properties, this act is supported to level the playing field for retailers with physical locations that are already required to collect sales tax. Another bill, the Real Estate Jobs and Investment Act, is supported by NAREIT to encourage non-U. S. investment in commercial real property. This proposed bill would increase the number of shares held by minority shareholders in publicly-traded companies, such as REITs, from five to ten percent. NAREIT has also provided comments to the SEC and banking regulators on a proposed rule concerning credit risk retention. Under this rule, similar high quality loans used to finance commercial or multifamily property receive different

treatment, depending on whether the borrower is a REIT. NAREIT opposes the exclusion of a loan to a REIT as a qualifying commercial real estate loan, stating this rule discriminates against REIT borrowers and is counterproductive in dealing with the weakness in the commercial real estate markets stemming from the current recession (NAREIT, 2012).

REIT Rules

The central feature of the tax laws that govern REITs is that a violation of any of the laws can cause a firm to lose its REIT status, with some legislative changes in 2004 easing those stringent penalties. Thus, many aspects of a REIT's organization are exposed to extensive, complex, and sometimes trivial rules that must be followed to ensure the tax-free benefits. These rules are meant to enforce Congress' intent that only businesses primarily involved passively in real estate activities should be exempt from corporate income tax. Since the original enactment of the REIT law, however, Congress has extended the range of REIT activities. Even with the expansion of permissible activities, the basic set of detailed qualification tests and prohibitions has remained. In some cases, these intricate rules make practical application difficult and sometimes tenable at best (Temkin, 2005).

Most states have income tax laws that follow federal tax guidelines and keep REITs as nontaxable entities. States do have the option, and often times do, to impose other taxes on corporate entities, (NAREIT, 2012) such as the Gross Receipts Tax in Florida.[13]

REITs must be organized as a corporation, trust, or association that is taxable as a domestic corporation, not including a bank or life insurance company. Most REITs are

[13] Florida is just one state that imposes a gross receipts tax on total receipts from certain services, such as utilities, communications, electrical, dry cleaning, etc. These taxes are assessed on top of other taxes required to be paid.

corporations or business trusts. A REIT that is formed as a partnership must elect to be taxed as a corporation under Section 7701 of the IRS Code of 1986. Public REITs have chosen most often to be organized under the jurisdiction of Maryland, as this state's corporate rules are perceived to be affable to management (Temkin, 2005).

A second requirement for REITs is that they must have transferable shares, with at least 100 shareholders. A public REIT would have no problem with this rule, but privately-held REITs have become creative to satisfy this requirement. One mechanism used by closely-held REITs is to issue 100 or more shares of preferred stock that are owned by 100 or more different friends, family members, employees, or charities. Preferred shares are usually priced at either $1,000 or $100 per share (Temkin, 2005), which is usually much higher than the price charged for common shares and is meant to keep the stock amongst select individuals. The rule requiring more than 100 shareholders is meant to ensure that REITs are a vehicle for public investment of commercial real estate, and not a tax shelter for wealthy private investors. By issuing preferred shares to multiple shareholders, closely-held REITs can expand their shareholder base to include over 100 investors without deleting their voting power.

A third requirement for REITs is that five or fewer individuals cannot own more than 50% of the REIT's outstanding stock. The original purpose of this rule was to avoid ownership by a single family or individual. However, it does not prevent a majority ownership by an entity that is not closely held. For tax purposes, ownership considers economic benefits, but for SEC purposes, ownership considers control. Companies may prevent violations of the 50% requirement by stating in their charter that no person can own more than 9.5% of the equity of the entity (Temkin, 2005).

A fourth requirement for REITs is that they have to elect REIT status and that status cannot have been terminated or revoked. If it does become revoked, a new election cannot occur for five years unless the IRS consents to a shorter period. These strict penalties enhance the need for compliance with REIT requirements (Temkin, 2005).

A fifth requirement for REITs states that at least 75% of the REIT's gross income must consist of rents from real property, mortgage interest, gain from the sale of real property, dividends or gain from the sale of shares in other REITs, refunds of real property tax, income and gain from foreclosure property, payments to agree to make mortgage loans or purchase real property, or income from stock or debt instruments occurring from the proceeds of new capital. The rents from real property include additional restrictions: personal property rents cannot make up more than 15% of the total rents; rents based on profits are excluded; related party (persons who own more than 10% of the common stock unless a taxable REIT subsidiary) rents are excluded; and rents where income from providing prohibited services directly to tenants exceeds 1% of all amounts received by the REIT from the property are excluded. In addition, mortgage interest included as part of the 75% of gross income rule cannot be contingent on profits. Also gains on dealer property cannot be included as gross income for this requirement (Temkin, 2005).

A sixth requirement of REITs relates to specific items that must make up at least 95% of a REIT's gross income. The specific items included in the 95% rule include the income items mentioned above relating to the 75% of gross income test along with some additional items. These additional items include non-REIT dividends, non-mortgage interest, gain from the sale of non-REIT securities, and income from hedging transactions related to debt incurred for real estate purchases or holdings. The gross income tests are meant to encourage REITs to

primarily be involved in the rental real estate business, which is usually equity REITs, or to be involved in holding mortgages, which is usually mortgage REITs. REITS can be active in real estate by developing their own properties, but a REIT cannot earn fees from developing real estate for third parties and use this income to meet the requirement. Congress has since allowed a REIT to own all or part of a taxable REIT subsidiary (TRS), which can participate in all but a few certain activities. A TRS is subject to corporate income tax, thus Congress felt it should not be subject to the REIT restrictions. However, for a corporation to be viewed as a TRS, the REIT and corporation must elect jointly. The election is automatic where 35% or more ownership of subsidiaries of a TRS make the election. Congress did not want transactions that were not arms length to be utilized to divert income from the TRS to the REIT in order to avoid corporate taxation (Temkin, 2005).

A seventh requirement relates to the need for at least 75% of a REIT's gross assets to be made up of real estate, cash items, and government securities. This rule works in conjunction with the earlier specified gross income tests to ensure real estate activities drive the business of REITs. In addition, no more than 20% of a REIT's gross assets can be represented by securities in one or more taxable REIT subsidiaries. This rule is intended to limit the use of taxable REIT subsidiaries (TRS) to conduct non-REIT activities. Omitting the assets that meet the 75% of gross assets test and taxable REIT subsidiary shares, no more than 5% of a REIT's gross assets may come from the securities of any single issuer nor can the REIT hold securities that possess 10% or more of the issuer's voting shares or 10% or more of the issuer's value. REITs have to be particularly careful with this rule, as the debt of a smaller issuer may make up a large portion of the issuer's securities. In such cases, REITs have needed to correspond with the IRS to avoid being de-REITed (Temkin, 2005).

An eighth requirement of REITs is that they must distribute 90% of REIT taxable income each year, with dividends following the respective rights of all classes of stocks. The REIT may choose to retain any capital gains received, but must remit the tax due, with the shareholders receiving a credit for the tax paid with dividends deemed distributed. Most REITs distribute 100% or more of their taxable income, sometimes resulting in a return of capital to the shareholders. This high level of distribution has been a strong motivator of investor interest in REITs, but has also limited REITs' use of internal financing (Temkin, 2005).

When REITs fail to meet all the provisions mentioned above, various negative results can occur, with the worst for an organization to be de-REITed. By being de-REITed, an entity loses its REIT status, which means it must pay corporate income tax on its earnings. In addition, once the REIT status is revoked, it cannot be reestablished for five years, unless the IRS consents to special permission. Some of the provisions mentioned above do not automatically result in de-REITing, with lesser penalties being invoked. For instance, if a REIT fails to meet one or more of the gross income tests because of reasonable cause and not willful non-compliance, the REIT will be taxed on the deficiency and not de-REITed. To show reasonable cause, the REIT must be exercising due professional care in its business operations when it recognizes gross income or relying on the advice of a tax or other accounting professional. In addition, if a REIT fails to meet one or more of the gross assets tests and the offending asset is less than 1% of the REIT's assets or $10 million, the REIT has to dispose of that asset. If the offending asset is not de minimis, then not only does the REIT have to dispose of the asset, but also pay tax for the greater of $50,000 or the corporate tax on the income from the offending asset. Other noncompliance issues, that are not willful neglect, can

also be handled through a fine of $50,000 per offense, thus avoiding de-REITing (Temkin, 2005).

Since it has been shown that one of the primary advantages to the REIT form of organization resides in the tax exemption for income at the corporate level, one must look to the effect on the shareholder to understand its value as an investment vehicle. Shareholders are taxed on the distributions they receive from the REIT. Individual shareholders are not eligible for capital gains treatment, since no corporate tax has been paid and corporations may not claim the dividends-received deduction. If the distributions are related to capital gains realized by the REIT, and the REIT specifies them as capital gains, then shareholders can take preferential capital gains treatment on the distributions. Tax-exempt shareholders are not taxed on REIT dividends. REITs have an advantage over partnerships, since tax-exempt partners would be accessed tax on income from leveraged real estate assets, but would not be taxed on REIT dividends produced by leveraged real estate assets. In terms of non-U. S. shareholders, they will incur a withholding tax on regular REIT dividends with some exceptions. If a treaty is in place, the withholding can be reduced to less than the customary 30%. In addition, if the non-U. S. shareholder owns less than 5% of a class of publicly traded REIT stock, he will not be taxed on the gain on the sale of the stock or on capital gain distributions. A non-U. S. shareholder of a REIT (that is owned by a majority of U. S. shareholders) is not taxed on the gain on sale of REIT stock (Temkin, 2005). Understanding the tax rules is important to appreciating the attraction of REITs to certain investors. Thus, even though REITs are charged with complying with strict rules and regulations, the benefits seem to outweigh the costs.

Macroeconomic Factors & Real Estate Cycles

Interest rates have always been presumed to have a large impact on the profitability of real estate, along with certain other macroeconomic factors. McCue & Kling (1994) examined the influence of macroeconomic variables on real estate returns, focusing in particular on the extent to which macroeconomic shocks affect returns. The variables examined were nominal interest rates, prices, output, and investment. These variables combined explained 60% of the variability in real estate returns, with interest rates explaining the largest part or 36% of the effect. Nominal interest rates were tested using the 3-month Treasury Bill rate, prices using the Consumer Price Index, output using the Federal Reserve Industrial Production Index, and investment using the McGraw-Hill Construction Contract Index (McCue & Kling, 1994).

The early 1990s signaled the beginning of what is referred to as the Modern REIT era. This era was triggered by the passage of the Tax Reform Act of 1986, and its subsequent effects on the real estate community. In consideration of this new era, Jirasakuldech (2009) examined equity REITs looking at volatility for two distinct time periods, pre- and post-1993. The first time period analyzed monthly returns for the period 1972 – 1992 and the second time period covered the years 1993 – 2006. Results showed that volatility was persistent, predictable, and time-varying. Changes in classic macroeconomic variables were found to explain future changes in the volatility of equity REITs. In addition, they found a positive correlation between expected return and expected risk for equity REITs prior to 1993, but no correlation after that point (Jirasakuldech, 2009). This research indicated that macroeconomic variables impact REITs, but the effect may be different for the earlier REITs than the post-modern period REITs.

Blake (1988) examined the performance of REITs over business cycles. He was interested not only in cyclical effects, but also how REITs reacted in comparison to the S & P 500. He found the REITs overall outperformed the S & P 500 over the fifteen-year period from 1971 to 1986. However, he found greater volatility in REITs during the downswing of the economic cycles. Overall, his research suggests that REITs may have been less risky for the entire period, while delivering a greater average return, even with the higher volatility in the downswing periods. The time periods in which Blake (1988) found that REITs did not outperform the S & P 500 was the recession of January 1974 to January 1975, and the downswing period preceding that recession. The other exception was the upswing period beginning in April 1982. Because of these exceptions, he could not draw a definitive conclusion on REIT performance over the business cycle. Prior research from Smith & Shulman (1976) looked at 16 REITs from January 1964 to December 1974, finding the highest risk-adjusted return of the REITs during the upswing portion of the 1960s' cycle from January 1964 to April 1968. Blake (1988) confirmed Smith's finding that REITs were more volatile during the downswing period, with both studies finding higher betas during the downswing periods (Blake, 1988). These studies highlight the impact of cyclical effects that will impact analysis of REITs over the fifty-year period under examination in this research.

Conclusion

With an understanding of the details of the history of the REIT industry, the specific rules required to maintain REIT status, and the tax legislation related to REITs, one can understand how an industry that was created in 1960 to allow individuals to invest in

commercial real estate has become an important part of the American real estate landscape. Owning real estate has always been part of the American dream and with the current economic crisis, investors are looking to any kind of safe haven for their money that will allow them to earn a decent return. NAREIT is trying to promote REITs as such an investment, so that the recent scare with real estate values does not turn people away from what has always been an essential part of an individual's portfolio. To fully comprehend the financial factors, specific methodologies will be employed as laid out in the next chapter.

CHAPTER III

METHODOLOGY

The focus of the methodology section is to provide documentation to answer the two research questions posed by this study. The first question will be answered through review of the quantitative data and asks, "Based on specific metrics that form a foundation for valuing REITs, do the three surviving companies reveal any quantitative differences from other REITs that have entered and left the market?" The second question will be answered through review of the qualitative data and asks, "Based on qualitative factors, do the three surviving companies reveal any common characteristics that can be indicators of their success and longevity throughout the fifty-year history of the REIT industry?" To qualitatively assess the company's performance and longevity, information obtained through interviews, articles, and press releases will be used. To quantitatively assess the operating performance of REITs, several unique metrics have been created to assist analysts and others. These unique metrics are a supplement to some of the customary metrics for financial analysis used by non-REIT companies, such as debt ratios, profitability ratios, asset growth, and revenue growth.

Additional metrics have been created for REITs to assess the ability of the firm to conduct and sustain quality dividend distributions, since dividends are such an important

component of the market valuation of REITs. Such metrics include Funds from Operations (FFO), Modified Funds from Operations (MFFO), and Adjusted Funds from Operations (AFFO). Further utilizing FFO, the FFO Multiple, similar to the Price-Earnings Ratio used for non-REIT companies, will also be examined. In addition, cash flows from operations, which is also commonly used for non-REIT companies, assists interested parties of REITs to determine the part of a given REIT's' distributions covered by operating cash flows. While financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP), additional income statements are prepared to assist with calculation of the tax liability. Some adjustments made to the financials for these purposes often do not assist in determining the firms' ability to continue dividend distributions. The additional metrics for REITs are meant to assist investors and analysts in making better determinations of a firm's dividend-paying ability and future profitability (Shields, 2010).

Since initially defining FFO in 1991, the National Association of Real Estate Investment Trusts (NAREIT) has issued several White Papers to help define, refine, and clear up confusion with this key metric of operating performance. FFO was established to provide an extra industry-wide standard measure of operating performance for REITs that would supplement the analysis of GAAP financial statements. Originally, FFO was intended to be viewed as a supplemental capitalization multiple akin to a price-earnings ratio. However, NAREIT did not want FFO to be confused with a measure of cash generated by a REIT nor the REIT's ability to continue to pay dividends. Industry observers, however, have played with the concept of FFO as a more useable measure of cash flow, with the hope of evaluating a firm's future dividend prospects (Shields, 2010).

GAAP net income is commonly defined as total revenues less total expenses. For REITs, total revenues include lease rental income, expense recoveries from tenants, and interest income. Total expenses normally include property operating and maintenance expenses, property taxes, property and asset management fees, acquisition expenses, depreciation and amortization expenses, and general and administration expenses. As of January 1, 2009, NAREIT redefined net income to require subtracting acquisition-related costs as defined in SFAS 141(R).[14] Thus, costs of the acquirer of real estate, including accounting, legal, valuation, and consulting, are now charged to expense in the period incurred per GAAP. For tax purposes, these same costs are capitalized in the purchase price and depreciated (Shields, 2010).

When evaluating FFO, the FFO multiple will also be computed and analyzed. The FFO Multiple is similar to the Price-Earnings ratio, which is used to evaluate the intrinsic value of a corporation. The FFO Multiple approach is the most common method used by NAREIT and industry analysts to evaluate the value of a REIT. FFO Multiples are computed using a REIT's closing stock price divided by FFO per share outstanding, similar to price-earnings ratios computed as stock price divided by earnings per share. A high FFO Multiple indicates a high expected rate of growth for FFO. In determining what makes a successful REIT, Vakalopoulos (1993) found that the Dividend Payout ratio and the Dividend Yield accounted for the most variability in the FFO Multiple when performing her quantitative analysis. However, the qualitative portion of her study indicated high inside ownership and experienced management were the key to REITs trading at higher multiples (Vakalopoulos, 1993).

[14] SFAS 141(R) is a Statement of Financial Accounting Standard on Business Combinations that requires acquisition costs be expensed as occurred, rather than capitalized into the purchase price under the old standard.

An additional metric worth consideration in evaluating REIT performance is Modified Funds from Operations (MFFO). MFFO takes FFO one step further by adding back to FFO the SFAS 141(R) deductions to net income, while also considering the position on asset impairment write-downs suggested by NAREIT. One would take FFO and add back acquisition-related expenses from property deals and impairment charges during the period. As such, MFFO is a fairly new metric arising from the passage of SFAS 141(R), and is not widely used by all REITs. Neither NAREIT nor the SEC have officially adopted MFFO (Shields, 2010).

To further evaluate REITs, Adjusted Funds from Operations (AFFO) has been utilized. AFFO is also known as Cash Available for Distribution (CAD) or Funds Available for Distribution (FAD). AFFO further adjusts FFO in an effort to provide a measure of a real property's cash flows from operations by addressing the issue of whether dividends can be covered by cash flows. To calculate AFFO, additional subtractions are made from FFO, including normal recurring expenses that have been capitalized by the REIT and amortized and are necessary for the maintenance of the REIT properties and its corresponding revenue streams. In addition, straight-line rents are also deducted from FFO. Straight-line rents result from the GAAP requirement that real estate firms report in revenue the average rent, while booking the difference between the rent actually received and the straight-line rent recognized for GAAP accounting as an asset. Typically, these types of assets are shown as deferred rent receivables. To explain this concept further, one could assume a single tenant rents a property under a five-year lease, with no rent increases for the first two years, and then a 5% increase for years three to five. Assume initial rent was $2,000 and for years three to five the rent would increase to $2,100. Thus the average rent for all five years would be $2,060. The real

estate firm would only receive cash rent of $2,000 in year one. However, an additional $60 of straight-line rent would be included in the GAAP income statement. This additional $60 would have to be deducted from GAAP net income to arrive at AFFO. The situation will reverse itself in year 3, when the real estate firm receives cash of $2,100, but only $2,060 of rent income would be shown in the GAAP income statement. In this year, an individual calculating AFFO would add back $40 in excess of the straight-line rent shown in GAAP net income (Shields, 2010).

To further explain AFFO and the subtraction of the normal recurring expenses that are capitalized by the REIT and subsequently amortized, the type of expenses must be understood to see their effect on AFFO. Certain expenses from a tax accounting perspective must be capitalized and amortized over a stated useful life. However, these same normal expenditures are so ordinary and recurring in maintaining the economic performance of the properties that it makes sense that they be deducted from FFO. One example of this type of expense is the carpet in an apartment complex that must be regularly replaced. In this case, the more apartment complexes a REIT has in its portfolio, the more impact it will have on the REIT's ability to pay dividends from its cash flows. Longer-term capitalized expenditures, such as roofs and renovations, are not in this category of recurring expenditures, and thus not subtracted from FFO (Shields, 2010). If AFFO is not routinely computed by the particular REIT under examination, then it may be hard to calculate, as the level of detail needed may not be readily available from the published financial statements.

Lastly, as an additional metric exclusive to the SNL database, SNL Calculated FFO[15] will be analyzed, and subsequently compared to each company's Reported FFO. The definition of FFO utilized in the calculation of SNL FFO is net income calculated per GAAP, plus depreciation and amortization, eliminating gains (losses) on the sales of property, and after adjusting for the effects of unconsolidated partnerships and joint ventures.[16] The first part of this analysis will be similar to the analysis provided for FFO, MFFO, and AFFO in identifying variances among the averages of the three surviving companies and the average of the industry. The latter part of this analysis is to determine if FFO calculated by SNL is similar to company-reported FFO, and whether it is useful to investors.

For all of the metrics just explained in the preceding paragraphs, understanding their definitions is important in developing a methodology to evaluate REIT performance and its future dividend distributions. For a REIT that pays out dividends in excess of its AFFO, it is giving out more cash than it is generating, which will cause it to borrow cash or raise additional equity in the future. By borrowing cash, the REIT has weakened its Balance Sheet and by raising new capital to fund dividends, the REIT has diluted all its equity investors since the capital was not utilized in the operating business. However, it should be noted that there are times that REITs will pay dividends in excess of cash flow, especially when they are building up their portfolios. For the public, non-traded REIT, it is subject to specific fixed costs for operating the REIT, such as legal, accounting, filing fees, etc. In addition, a public,

[15] SNL Calculated FFO is a field in the database maintained by SNL Financial that purports to calculate FFO in a systematic manner across all companies. Its calculation is deemed to be in strict accordance with the NAREIT's National Policy Bulletin of April 26, 2001, guidelines for FFO.

[16] Definition as stated in the NAREIT's 2002 White Paper on Funds from Operations, with the definition first adopted in 1991, and then clarified in 1995, 1998, and 2002.

non-traded REIT raises funds and grows in stages, such that the early stages require equity funding to meet its expenses and dividend requirements. Over time, however, a REIT should be able to fund its dividends from its generated cash flow, which is why AFFO is so important. Investors and analysts may still look favorably on a REIT if its investment focus and management team appear sound, even if its cash flow is not sufficient to fund distributions. For older, public, non-traded REITs, it is important that management be able to execute its exit strategy when the time comes and return to its shareholders the initial equity with a return, which may be viewed as more important than its cash flow to make distributions. If an investor does not see cash flow consistently covering dividend distributions, he should look for another investment vehicle (Shields, 2010).

To find ways to further evaluate REITs, previous studies have sought to compare equity investments in real estate with common stocks. Wendt and Wong (1965) implied that returns from investments in apartments were higher than returns from investments in common stocks. Robichek, Cohn and Pringle (1972) showed the average yearly return from investments in farm real estate from the period 1949 to 1969 was 9.5% compared to an average return of 11.6% for common stocks, per Standard & Poor's Industrial Stock Price Index. This study also revealed that returns from farm real estate were inversely correlated with returns from common stock. Further trying to evaluate REIT performance, studies have considered comparing REITs to mutual funds, but these funds are open-ended investment companies that constantly sell or redeem shares at the per share net asset value. So, the constantly changing capitalization is different than the fixed capitalization of a REIT investment. Closed-end funds, similar to REITs, sell typically at discounts or premiums of their net asset value. Real estate projects

lack the continual market valuations that yield relevant net asset values, thus discounts or premiums are likely (Smith and Shulman, 1976).

Smith and Shulman (1976) used four different metrics to evaluate REITs beginning first with the mean of the quarterly rates of return, including both appreciation and dividend yield for each portfolio of a sample period. A second measure that was utilized involved the development of a best-fitting line with excess market returns for each quarter plotted on the horizontal axis and excess portfolio returns plotted on the vertical axis. This secondary measure consists of the intercept of this straight line that shows the excess return earned by the portfolio when the excess market is zero. A positive intercept indicates the portfolio's performance is greater than the market, while a negative intercept indicates the portfolio's performance is less than the market according to a risk-adjusted basis. A third measure focuses on the slope of the straight line representing how the portfolio signifies the market indicating portfolio risk that cannot be reduced by increased diversification. A fourth measure is the goodness of fit of the straight line revealing the percentage of variation in the portfolio return accounted for by the market return. This measure helps to show how diversified the portfolio is during the period observed. Less diversification is represented by a poor fit. All of the above mentioned metrics were based on quarterly returns as calculated from monthly prices and dividends of the respective portfolios (Smith & Shulman, 1976).

Looking at the results of these measures in Smith & Shulman (1976), equity REITs were found to perform better than closed-end funds consisting of non-REIT companies, and were not as risky or as diversified. The study went further to analyze performance over a rising market, a declining market, a peak-to-peak market, and a trough-to-trough market. The closed-end funds performed better during the rising market and trough-to-trough markets. The

equity REITs performed better in the declining and peak-to-peak markets. Overall, the REITs did show lower market risk for the sample and also less diversification, which works against one of the noted advantages of REITs of being able to diversify without risking illiquidity and uncertainty associated with other real estate investment vehicles. The concern expressed from this study was that the results suggested that portfolio managers would not have achieved better performance by investing in equity REITs. In some periods, REITs would have increased the losses realized by investors in common stocks. It is important to note that these findings occurred for periods earlier than 1976 and may not relate to periods subsequent to that time. Interestingly, Smith & Shulman (1976) state, “Real estate investments have not been, and are unlikely to become, a panacea for large institutional portfolios” (Smith & Shulman, 1976).

Other studies that have attempted to evaluate REIT performance have tried to compare net income to FFO. Gore and Stott (1998) looked at both net income and FFO to determine which measure was better at evaluating the operating performance of REITs. They found FFO was better correlated with stock returns, but only marginally so. They also studied GAAP depreciation, finding that it was not value relevant to investors. In addition, realized gains and losses were studied, and they were found to be value relevant to investors in evaluating REIT performance. From the content and results of the study, net income, depreciation, and realized gains and losses were deemed as useful measures in evaluating REIT performance.. These measures were used alongside the FFO measures previously discussed. Gore and Stott studied the time period from 1991 – 1996, whereas this historical research will evaluate financial variables for the first fifty years of the REIT industry.

Fields, et al (1998) studied the variation in stock price due to FFO and net income in trying to determine which measure provided more information to investors to value their stock investments. In addition, book value and dividends were evaluated to determine their effect on stock price, finding both impacting the stock price. Thus Fields, et al (1998) showed that stock price and dividends are additional measures that should be considered in analyzing REITs and will be used over this fifty-year history research. Fields, et al (1998) studied the time period from 1991 – 1995, while this study will consider information that is available for the years of 1960 – 2010.

Dividends are an important metric to look at when evaluating REITs, since REITs pay out most of their taxable income. In addition, dividends are a significant portion of the total return of REITs (NAREIT, 1998, p.3). Because of the significance of dividends to total return for REITs, this metric was evaluated over the fifty-year period by looking at the dividend yield and the dividend payout ratio. Vakalopoulos (1993) found that the dividend payout ratio and dividend yield accounted for much of the variability in the FFO Multiple, another important metric in evaluating REIT performance. Because of the interplay between these metrics, the dividend ratios were examined individually and in accordance with the FFO Multiple.

NAREIT analyzes the growth and development of the REIT industry by tracking market equity capitalization and the number of REITs. At the end of 1997, there were 210 REITs with a total market equity capitalization of $141 billion (Grupe, 1998). At the end of 2010, 153 REITs with a total market equity capitalization of $389 billion existed (NAREIT, 2011). To show how the industry has changed and grown over the last fifty years, equity capitalization and the number of REITs have been displayed in Table B-1.

The Debt ratio, which compares total debt to total assets, is a common ratio in most financial analysis and is particularly relevant for REITs. Since REITs are heavy purchasers of real estate, large amounts of funding are required. REITs fund most of their acquisitions through raising capital or external borrowing. Sometimes a REIT will dispose of real estate assets to fund the purchase of new assets, but a significant portion of the funding is achieved externally through the issuance of stock or long-term borrowing. Analysts, investors, company personnel and NAREIT personnel track the debt ratio to determine the strength of a REIT's balance sheet. In 1973, NAREIT published a table of the debt ratios of the 40 largest REITs.[17]

The Leverage ratio, which compares total debt to total equity, is also a common ratio in most financial analysis and has been cited in previous research on REITs. Valachi (1976) performed financial ratio analysis on a matched sample of failed and active REITs to identify if differences in certain ratios could predict REIT failures. Valachi (1976) noted that the relationship of debt to equity was one of the indicators of REIT failures, as firms that are unable to pay their debts are not able to survive in the long-term. Because of the importance of debt, the Leverage ratio was analyzed along with the Debt ratio for both the three surviving companies and other firms in the REIT industry.

Total revenue growth and total asset growth are two metrics that are commonly used to track a company or industry's growth and maturation. Significant growth is expected for both metrics during the fifty-year history, as REITs experienced their biggest growth after the early 1990s. With changes in tax laws and the shutting down of many tax shelters and partnership arrangements, REITs found increased investor interest after that time. REITs previously could not compete for capital with the tax shelters, as the REIT was set up to produce taxable income

[17] Table IV, Debt Ratios of the 40 Largest REITs, based on data as of July 29, 1973, published by NAREIT.

and could not pass through paper or other losses to shareholders (NAREIT, 1998). Thus the growth in assets and revenues was included in the financial measures to evaluate the development of this now flourishing industry.

To analyze liquidity and the cash component of a REIT specifically, the ratio of cash and cash equivalents to total assets was analyzed. Valachi (1976) analyzed this ratio in his study on failed REITs as a metric for liquidity. By analyzing the cash component, one can determine if the three surviving companies show a pattern of liquidity different from the other companies that have either entered the market later or left the market during the fifty-year history of the REIT industry.

Once the metrics discussed above were computed, ANOVA testing and additional Post-hoc testing was performed to determine if significant differences exist between the three companies and other companies that have participated in the REIT industry over the fifty years. For each of the three surviving companies (Washington REIT, Pennsylvania REIT, and Winthrop Realty) the metrics were computed and compared individually and as an average of the three companies to the average of the REIT industry, excluding these three surviving companies. ANOVA testing was performed to determine if significant differences exist among the metrics under review and the company compositions noted above. Additional Post-hoc testing was performed to determine where the specific significant differences exist among each of the companies, the three companies' average, and the averages for the industry excluding the three companies.

To finally examine the interplay of macroeconomic factors over the fifty-year period of REITs, certain factors were analyzed. As mentioned earlier, McCue & Kling (1994) examined the influence of macroeconomic variables on real estate returns. The variables examined

explained 60% of the variability in real estate returns, with interest rates explaining 36%. Nominal interest rates were tested using the 3-month Treasury Bill rate (McCue & Kling, 1994). Since the 3-month Treasury Bill rate was utilized in prior studies to evaluate macroeconomic variables on REITs, that rate was analyzed over the fifty-year period in comparison with the other metrics described earlier. Lastly, Blake (1988) and Smith & Shulman (1976) examined REIT performance over the business cycles. Business cycles over the fifty-year period of this research are noted and comments made, as applicable, related to the relevance of these metrics to the business cycles.

In addition to the quantitative analysis performed through the use of the above mentioned metrics, qualitative analysis was performed through the use of interviews, press releases, and other articles on the companies and its officers. A copy of the question document that was used to conduct the interviews is provided in the Appendix. Interviews were conducted with officers at each of the three REITs; Washington REIT, Pennsylvania REIT, and Winthrop. These interviews were used to assess each of the companies' strengths, their management's goals and strategies and activities conducted to reach them, their organizations' unique characteristics, factors that contributed to the companies' successes, and any other additional information helpful in explaining each individual company's ability to survive throughout the last fifty years. In addition, interviews were conducted with individuals at NAREIT. Similar questions to those asked of the REIT officers were asked to the individuals at NAREIT, but the intent was to determine unique characteristics of the industry's national association, and how it has promoted and protected the industry over the last fifty years.

Besides interviews, written documents (press releases, annual reports, and other types of articles) were reviewed on each of the three companies, along with NAREIT. These various

documents were used to supplement the interviews and help tell the story of the companies' and NAREIT's activities and any actions taken to enable their companies and the industry to thrive and survive. It is through these documents that insight into the companies' goals and strategies was obtained or strengthened. In addition, these documents provided written evidence of the companies' strengths, actions, and successes, as recorded from the interviews. Through the use of qualitative analysis, factors other than financial matters can be considered as contributors to a company's success in this particular industry.

In summary, qualitative and quantitative analysis was used to provide information on the three surviving companies, NAREIT, and the overall REIT industry. Key metrics were computed and are displayed for the REIT industry and these three particular companies, to document the REIT industry's fifty-year historical development. All of the quantitative metrics utilized have been documented in prior research as being particularly relevant to the REIT industry. By looking at these metrics and the additional qualitative information obtained, one will see and understand how an industry created by Congress in 1960 has morphed into a major player in the investment arena. Since three specific entities are known as survivors throughout the entire period that REITs have existed, these entities are examined in greater detail utilizing the methodologies just discussed. Washington Real Estate Investment Trust (WRE) will be discussed in Chapter V. Pennsylvania Real Estate Investment Trust (PEI) will be discussed in Chapter VI. Winthrop Realty Trust (FUR) will be discussed in Chapter VII. Chapter VIII will compare the three companies and offer some detailed analysis. Summary comments will be provided in Chapter IX, on what conclusions can be drawn from reviewing both the qualitative and quantitative data on these three companies as they relate to company survival and the growth of the industry.

CHAPTER IV

NAREIT

NAREIT, which was established the day after the industry was signed into law in 1960, has been in existence for fifty years protecting the interests of its members. NAREIT considers itself "the worldwide representative voice for REITs and publicly traded real estate companies with an interest in U.S. real estate and capital markets" (REIT.com/AboutNAREIT). The membership of NAREIT consists of REITs and other companies throughout the world that hold, manage or finance income-producing real properties, plus parties who inform and examine those companies.

Steven A. Wechsler, the current President and CEO of NAREIT, has been with NAREIT since May 1, 1997. Prior to joining NAREIT, Wechsler was the President of the National Realty Committee. When asked about his mandate as President, he responded:

> NAREIT has two fundamental missions. The first is to communicate effectively inside Washington and in the states with policymakers to ensure that the REIT industry and the REIT vehicle is understood, appreciated and continue its mandate. The second mission for NAREIT is to communicate beyond the policymakers to the investment marketplace to the investing public, to the investing analysts, to the financial media and press, about the REIT industry, about REITs and real estate investment, and to ensure that people understand what's involved and how it works (Johnson, 1997).

Wechsler felt this core mission of NAREIT was tied to the national policies and structures of the REIT vehicle itself. He said it was important that the public gets educated about REITs and what the companies have to offer (Johnson, 1997).

NAREIT's website, REIT.com, provides information and data on the real estate investment industry and REITs. In Appendix B, several tables and a chart are presented with information obtained from REIT.com. Table B-1 provides information on the Historical REIT Industry Market Capitalization from 1971 – present, emphasizing the growth in capitalization from $1,494.3 million in 1971 to $389,295.4 million in 2010. Table B-2 provides the FTSE U. S. Real Estate Index Historical Price and Return rates from 1971 - present. In 1971, the Index was set at 100 and by 2010 it had risen to 3,458.89, with annualized returns varying from a low of -42.23% in 1974 to a high of 48.97% in 1976. Table B-3 provides the FTSE U. S. Real Estate Index Series Historical Price and Return from 1971 - present with compound returns from time periods of 1 year to 40 years. Other than the 5-year compound rate, all other compounded time periods showed positive annual rates of return between a low of 7.28% for the 1-year to a high of 20.38% for the 3-year rate. The 40-year compound rate was 9.46%. Table B-4 provides a listing as of 2011 of REITs in the S & P 400, S & P 500, and S & P 600, along with their entrance dates into the S & P indexes. This table shows how REITs have achieved prominence in the marketplace over the industry's life. Lastly, Exhibit B-1 shows a pie chart detailing the Breakout of REITs by Property Type as of 2010. Retail properties make up the biggest group at 26%, with Industrial at 5%.

In summary, when comparing the NAREIT indexes to other pertinent indexes, interesting results are provided on how REITs perform relevant to other investments. In comparison with other indexes, the FTSE NAREIT U. S. Real Estate Index showed a total

return for all REITs of 7.28% for the year-ended 2011, with 20.38% for the 3-year compound total, and -2.13% for the 5-year compound total return. The S&P 500 Index showed a return of 2.11% for the year-ended 2011, with 19.11% for the 3-year compound total, and -0.25% for the 5-year compound total return. The Russell 2000 Index showed a return of -4.18% for the year-ended 2011, with 15.63% for the 3-year compound total, and 0.15% for the 5-year compound total return (REIT.com).

Interview with Brad Case

As part of the process in understanding the mission and activities of NAREIT, Brad Case, Senior Vice President of Research and Industry Information was interviewed. Case stated he had been with the organization five years, with his primary duty being the development of content for outreach meetings to pension funds, investors, etc. The content he produces should answer questions on why one should invest in real estate and how REIT funds perform better than real estate (Case, 2011).

Case was asked to identify the strengths of NAREIT. He responded by stating that member companies would probably view the lobbying efforts as the strength of the organization, but he personally felt the outreach they provided to be of primary importance. Case expressed his view as:

> Getting the word out on REIT investments to pension funds, institution investors, and other potential investors is important for the continued growth of the industry. NAREIT, not only provides lobbying efforts for member companies, but also promotes REITs as investment vehicles. In addition, we monitor and report on items of interest to REITs (Case, 2011).

When Case was asked about his organization's goals and strategies, he stated that the main goal was to get more money invested in REITs through outreach programs and meetings. The

other goal is to continue the lobbying efforts for the industry. To meet those goals, Case stated NAREIT has a full-time lobbyist on staff, along with knowledgeable people who promote and provide research related to items of interest to REITs (Case, 2011).

As a narrative on the history of investing in REITs, Case mentioned that for the first thirty years, no one really cared much about REITs as a vehicle for investment. For the next fifteen years, institutional investors become more involved, but not much information was available to them to spur real interest. In the last five years, more empirical information is available, with most of the responsibility for producing it falling on Case. He further stated that private equity funds of today are similar to the limited partnerships of the 1990. These funds do not have the transparency and accessibility associated with REITs. Per Brad Case, these funds are not a good idea. The National Council of Real Estate Investment Funds (NCREIF) is the association that works to protect these funds, similar to how NAREIT works to protect REITs (Case, 2011).

As he continued to describe the history of investing in REITs, Case mentioned that in the late 2000s when the economy started faltering with reduced access to credit markets, the government did not force fire sales like they did in the prior recession.[18] He said the position the government took in the late 2000s may have been better for the economy, but not necessarily better for REITs. Per Case, the Savings & Loans problems in the 1980s and early 1990s led to the recession, which helped spur on the real estate crisis in 1990 – 1991 (Case, 2011).

[18] Fire sales refer to the sales of distressed assets, in this case real estate, at depressed prices. With the Resolution Trust Corporation closing many Savings & Loans Institutions starting in 1989, access to new credit dried up as real estate hit a downturn, causing many properties to be foreclosed and subsequently sold at depressed prices (FDIC, 2000).

The RTC was formed in 1989 as a federal government agency to deal with insolvent Savings & Loans institutions during the period from 1989 to 1992. In the early 1990s, it was viewed as a contributor to the real estate crisis during that time. The RTC was subsequently dissolved in 1996 (FDIC, 2000). REI Ts took off as a result of the activities of the RTC, and in some ways attribute increased investor interest in REITs during that time to the RTC.

As part of his responsibilities, Case noted he provides information to analysts and investors about REITs. Many of the reports provided by Case show REITs' performance relative to other indexes in order to promote the benefits of REIT investment. In Appendix C, charts are provided that provide some interesting information on REITs in comparison with other investment vehicles. Appendix C-1 and C-2 provide a chart concerning Domestic REIT Stock Cycles and Market Dynamics related to REIT Market Downturns and REIT Market Expansions, respectively. The chart on downturns (C-1) reveals that the downturn experienced beginning in 2008 has been worse than others in the past. On a positive note, the expansion from the 2008 downturn is occurring more rapidly, but is not as long-lived as expansions in the past. Appendix C-3 displays that REITs were net sellers during peak valuations, which shows wise investment activity. Appendix C-4 displays the net returns to listed Equity REITs and Private Real Estate Investments over the market cycle. This chart shows that Equity REITs had higher returns than Private Equity Funds, whether the full real estate cycle was evaluated or just the upside of the cycle. Appendix C-5 displays the comparison of the Equity REIT index during downturns. This chart provides a historical perspective on the activity of Equity REITs from 1972 through 2011, displaying the months and returns that REITs were either in the peak-to-trough periods or the expansion-from-trough periods. This chart provides

numerical support to the graphs in C-1 and C-2, with the current downturn showing a larger negative return of -68.3%, with a shorter expansion period from the trough of only 31 months.

To continue with the charts, Appendix C-6 displays the historical compound Annual Total Returns of REITs and Benchmarks. This chart is important because it shows the FTSE NAREIT Equity REITs index compared to indexes for the S & P 500, Russell 2000, and Barclays Capital Aggregate Bond Index. The most important result is that the REIT index displays higher returns for the long-term of 10 years to 35 years than the other indexes. Appendix C-7 shows the long-term performance distribution of the S & P 500 and the FTSE NAREIT Equity REIT Index.[19] For returns in the range of 20 – 25%, more companies that make up the REIT index (87) fall in that range, than companies in the S & P 500 (33). Even though the S & P 500 has more companies with returns greater than 25%, the difference in number of firms is not much, only consisting of 9 companies. Appendix C-8 displays that REITs offer strong long-term net returns, with returns much greater over time than the other indexes. Appendix C-9 shows that REIT returns have little in common with any non-REIT stocks by providing correlation coefficients with other stock groups. This information is important to show that REITs offer diversification to an investor's portfolio, in particular the larger, institutional investor. NAREIT realizes that for the REIT industry to continue to grow and flourish, larger investment pools will need to include REITs in their portfolio.

To continue with the analysis of REITs, Appendix C -10 shows REIT Dividend Growth versus the Consumer Price Index (CPI). Except for 2 years during the period 1992 – 2010, the growth in REIT dividends far outpaced the CPI. Appendix C-11 charts that strong continuing dividends over time have accounted for more than 60% of REIT total returns. This chart

[19] FTSE provides the equity REIT index and other indexes that are then used by NAREIT to evaluate REITs.

compares the FTSE NAREIT index to the S & P 500 to reveal that not only is the total return higher for REITs, but the dividend component is a larger component of the total return for REITs than for other stock investments. Appendix C-12 reveals that REITs provide greater capital appreciation than most other real estate investments. This chart displays capital appreciation throughout the real estate market cycle 1998/1999 to 2007/2008 for REITs versus other real estate funds to support the REIT industry's role in the investment arena.

Two additional charts provide more information relevant to REITs. These two charts are not prepared by Case or NAREIT, but were located within some research conducted by the Federal Deposit Insurance Corporation (FDIC). In Appendix D-1, information provided by the FDIC Division of Research & Statistics, entitled Industrial Market Conditions 1977 – 1994, shows the net new supply of leased space, along with the increase in occupied space. The net new supply of leased space peaked in 1979 and dipped from 1988 – 1994. The increase in occupied space exceeded the net new supply for the years of 1992 – 1994. In Appendix D-2, additional information provided by the FDIC, entitled Total Nonresidential Construction Put in Place 1970 – 1994, shows nonresidential construction at its highest in 1985, with a big dip in the late 1970s and dipped again in 1992 – 1994. These charts point to the cyclical nature of real estate, which impacts not only the industry as a whole, but the histories of the three specific companies that are featured in this case study research.

CHAPTER V

WASHINGTON REAL ESTATE INVESTMENT TRUST

Washington Real Estate Investment Trust (WRIT) began and has remained a company invested in and operating in the greater Washington D. C. area. Started in 1960, the company is focused on local real estate with diversification in its property type. The company celebrated its 200th consecutive quarterly dividend with its declaration on October 27, 2011 (Camp, October 27, 2011). The stable Washington market, with government offices and the nation's capital, has enabled it to better ride out business cycles. With being a mid-sized REIT, WRIT focuses on smaller tenants, thus making it less vulnerable to one large tenant leaving. The largest property sector in WRIT's portfolio is office, due to government and company headquarters located in Washington, which yields an occupancy level of 90% (Lerner, 2010).

Qualitative evaluation was performed through review of historical documents and discussions with management. A joint interview was conducted with William (Bill) Camp, Chief Financial Officer (CFO), and Kelly Shiflett, Director of Finance. The interview provided information on WRIT's history, strategies, management, and future direction. After discussion of some historical information, the details related to the interview will follow.

Review of Historical Information

WRIT issued a Prospectus on June 6, 1961, offering 600,000 shares of $1.00 par value beneficial interest. In the Prospectus, it states WRIT is a common law trust organized on November 18, 1960, under the laws of the District of Columbia. It states that WRIT intends to utilize the opportunity presented with Public Law 86-779 (REIT law) enacted on September 14, 1960, and effective January 1, 1961. Two of the sponsors of the trust were Franklin Kahn and Art Birney (WRIT Prospectus, June 6, 1961), who would go on to serve at WRIT for a long time. WRIT notes on its website that it was the first of the new Congress-approved investment trusts.

The 1961 Prospectus states that WRIT will purchase commercial income-producing property, mostly in the Washington D. C. area and that it had entered into a contract to buy an apartment complex known as 4901 – 4915 Battery Lane in Bethesda, Maryland (WRIT Prospectus, June 6, 1961). On August 6, 1964, WRIT issued a Prospectus for a $2,000,000 6 ¾ convertible subordinated debentures due September 1, 1984. As of that date, the Prospectus stated WRIT had 2,800 shareholders. The Prospectus states that the decision to concentrate WRIT's investments in the Washington area is due to the belief that:

(1) The residence in the area of a large percentage of government-employed personnel, Federal, state, District, and foreign, affords the area a high degree of income stability,
(2) The nation's capital is growing in employment and population,
(3) The fact that the Trustees and the members of the Advisory Board are engaged in business in the area and also reside there enables them to exercise close supervision over the Trust's real estate investments.

These beliefs are important since they indicate that the same strategy WRIT was implementing in 1964 is the same strategy they state in 2011. The Prospectus states that as of 1964 WRIT had not sold any properties it had acquired (WRIT Prospectus, August 6, 1964).

On January 22, 1969, WRIT issued another Prospectus, with this particular one for 400,000 shares of beneficial interest at $2 par value. The Prospectus reveals that rental income from properties climbed from $1,386,002 in 1963 to $2,772,999 in 1967, showing the growth of WRIT's business through the mid 1960s. Net income per share rose from $.29 in 1963 to $.33 in 1967, showing growth, but not the triple digit percentage growth reflected in rental income. The Prospectus provides a summary of real estate investments, showing six dedicated apartment buildings, one distribution center, two office building combinations, and two shopping centers (WRIT Prospectus, January 22, 1969). In 1961, WRIT started with the purchase of one apartment building, so its growth to eleven buildings in eight years was significant for this smaller REIT.

On June 3, 1971, WRIT issued a Prospectus for 500,000 shares of beneficial interest at $2 par value. Since the January 1969 Prospectus, three new apartment buildings were added to the portfolio, while one apartment building was sold. Plans were to use these proceeds for future equity purchases (WRIT Prospectus, June 3, 1971).

The 1971 Washington Real Estate Investment Trust Annual Report reflects the growth in WRIT during its first ten years. By 1971, rental income was up to $5,766,393, which as noted previously, was $2,772,999 in 1967. As rental income had doubled from the years 1963 to 1967, it doubled again from 1967 to 1971. The increase in net income per share from 1967's $.33 to 1971's $.87 was much greater than the earlier increase noted from the years 1963 to 1967. WRIT seemed to be getting more efficient in turning rental income increases

into net profit in 1971. The 1971 Annual Report stated that 1971 was WRIT's best performance year for its real estate activities. The report stated that net income increased 80% from 1970 to 1971. In addition, WRIT owned 13 properties at the end of 1971, which it consistently held those same properties throughout the years in 1970 and 1971. Cash flow increased 32% from 1970 to 1971 from these same properties, showing better utilization of the assets to generate income and cash flow. The annual report stated that the quarterly dividend was increased to $.24, which resulted in dividends per share for 1971 of $.96 compared to $.82 in 1970. In addition, on May 7, WRIT was listed on the American Stock Exchange under symbol WRE (WRIT, 1971 Annual Report).

Per the Annual Report of 1971, WRIT mentioned its concern for the environment, even as early as 1971, by providing trash compactors in its buildings to cut down on pollution. WRIT also stated in its annual report that it considered a building's potential when it evaluates a purchase, rather than just looking at its current operations, which seems to be the standard it has followed throughout its history (WRIT, 1971 Annual Report).

On May 7, 1981, WRIT's Prospectus included the offering of 275,000 shares of beneficial interest. The Prospectus mentions that WRIT has six apartment buildings, four office buildings, seven shopping centers, and four distribution centers. WRIT has utilized tax-free exchanges for its sales and purchases to avoid taxes on the significant gains realized on its sales. In addition, the Prospectus states that the dividend per share increased according to a compound annual growth rate of 11.9% from 1971 to 1980. In addition, WRIT boasted that since 1962, it had paid 77 consecutive quarterly dividends, with each dividend at least equal or larger than the previous one. On March 16, 1981, WRIT had a three-for-one stock split and paid $.25 as its March 31st quarterly dividend (WRIT Prospectus, May 7, 1981).

Per the 1981 Prospectus, rental income showed gains with $5,766,000 in 1971 and $12,297,000 for 1980. Likewise, net income per share increased from $.29 per share in 1971 to $.76 per share in 1980. Dividends also increased from $.32 per share in 1971 to $.84 per share in 1980. The Prospectus noted that no distributions of long-term gains had occurred since 1972 (WRIT Prospectus, May 7, 1981).

On October 24, 1985, WRIT's Prospectus included an offering of 1,000,000 shares of beneficial interest. In the Prospectus, it updates WRIT's portfolio as five apartment buildings, nine shopping centers, four office buildings, and five business centers. In addition, it states that WRIT's earnings and cash flows had increased for 20 consecutive years. Along with these increases, dividends had increased since 1969 with an annual growth rate of 12%, with consecutive quarterly dividends paid since 1962. Stock splits equal to 4 ½ to 1 had occurred since 1980. Rental income, as reported in the 1981 Prospectus, showed $12,297,000 for 1980, which by 1984 had increased to $17,247,000. Net income per share of $.51 in 1980 had increased to $1.04 in 1984, with dividends per share increasing from $.56 in 1980 to $1.00 in 1984. Overall, dividends per share increased from $.18 per share in 1965 to $1.00 per share in 1984. Cash flow had also increased from $.59 per share in 1980 to $1.11 per share in 1984. In 1965, cash flow per share was only approximately $.05 per share and showed continual increases to 1984. In Exhibit H-1, one can see a graphical display of the growth of net income, dividends and cash flow. Debt-to-equity had decreased from .8 to 1 in 1980 to .3 to 1 in 1984 (WRIT Prospectus, October 24, 1985).

On April 21, 1989, WRIT's Prospectus offered 1,500,000 shares of beneficial interest. At that date, WRIT owned five apartment buildings, four office buildings, nine shopping centers, and nine business centers as displayed in Exhibit H-2. Once again, WRIT stated that

net income increased for 24 consecutive years, with consecutive quarterly dividends for 27 years and increasing annual dividends since 1970 with a 12% annual growth rate. In addition, it stated that since 1980, combined stock splits were 6 ¾ to 1. The proceeds from this offering were noted to be used for future acquisitions and to improve already owned properties. Real estate revenue had increased from $17,247,000 in 1984 to $25,713,000 in 1988. Dividends per share had increased from $.67 in 1984 to $.95 in 1988. The debt-to-equity ratio was .3 to 1 in 1984 and .2 to 1 in 1988 (WRIT Prospectus, April 21, 1989).

On March 19, 1997, WRIT's Prospectus offered 3,750,000 shares of beneficial interest. The Prospectus showed WRIT owned seven apartment buildings, twelve shopping centers, sixteen office buildings, and fourteen industrial distribution centers. Rental revenue increased from $34,132,000 in 1992 to $65,541,000 in 1996, while net income increased from $20,429,000 in 1992 to $27,964,000 in 1996. Dividends per share increased from $.84 in 1992 to $1.03 in 1996. In addition, FFO increased from $23,817,000 in 1992 to $35,748,000 in 1996. WRIT also noted that it maintained a diversified tenant base, with approximately 1,000 tenants. The proceeds from this offering were to be used to pay off $23,000,000 in credit lines, with the remaining proceeds used to fund acquisitions and major capital improvements. In addition, WRIT stated it would keep its debt coverage ratio at 5 to 1, which was above the 3 to 1 debt coverage ratio generally considered conservative (WRIT Prospectus, March 19, 1997).

In the *Washington Post* on November 5, 2003, WRIT's profit was reported down for the third quarter 2003 due to expenses rising quicker than revenues. WRIT reported earnings of $.28 per share for the quarter ending September 2003, compared to reported earnings of $.30 per share for the same quarter in 2002. Revenues increased 7%, whereas expenses increased 12%, which was led by a 24% increase in depreciation and amortization expense. FFO, which

adds back depreciation, increased from $18.90 for third quarter 2002 to $20.10 for third quarter 2003 (Washington REIT, 2003).

As of March 12, 2004, WRIT owned 67 properties, which included 11 retail centers, 29 offices buildings, 18 industrial properties, and 9 multifamily properties. Net operating income increased 10.4%, mostly due to WRIT's acquisition of six office buildings. Net income increased from $44,887,000 in 2003 to $45,564,000 in 2004 or 1.5%. Dividends per share increased from $1.47 in 2003 to $1.55 in 2004. During 2004, WRIT was noted as reducing its exposure to the office sector by disposing of some office assets and acquiring medical office buildings, along with some purchases of retail, multifamily, and industrial/flex buildings. A portfolio of five buildings in Dulles Business Park was acquired in late 2004, which were 98.9% leased. In February 2005, three office buildings were sold for a gain of $33.0 million (Mergent's, 2005).

The Wall Street Journal conducted an interview with Edmund B. Cronin during March 2006. At the time, Cronin had been Chairman, President and CEO, of WRIT since 2000. Prior to 2000, he was President and CEO of WRIT since 1994. He was also a Director of NAREIT. Cronin was asked to provide a brief history of WRIT and its present activities. At that time, he noted that WRIT was one of the few REITs with an S & P rating of A- or better (TWST, Cronin, 2006).

Asked if WRIT would consider properties that were run down but with potential, Cronin commented yes. He said they look at the NOI growth potential, in particular, over the next three years. He said they project a 10-year cash flow run, focusing on return on invested capital after the first year with a minimum expectation of 4 to 6%. After that, they consider if the property should be sold. He stated concerns over the economy, but noted that their market

does not feel the downturns as hard as in other areas. However, in the late 1990s and early 2000s and the crash of the technology sector, he said they felt a significant downturn. He also said they had to consider the base realignments that may be planned (TWST, Cronin, 2006).

Asked why invest with WRIT, Cronin said it would depend on the goals of the investor. For an investor who wanted a good dividend, he said investors would like their long-term growth in dividends and FFO. If an investor is looking for growth, he would see a long track record of growth, exceeding the average annual rate. The total return of WRIT is also higher than other growth companies. Overall, he said it is a good investment in a diversified portfolio. He stated he thought they would continue with their current investment strategy, but possibly add a little more speculative development. He said the medical office portfolio is an area they would like to increase. He also stated that even though some express concern with telecommuting and the future of office space, he felt that personal interaction in the work place will always be needed. He said he sees more satellite offices and office building relocations closer to residential areas to reduce employees travel times (TWST, Cronin, 2006).

WRIT announced Friday, June 1, 2007, that it initiated a public offering of 1.6 million common shares at a price of $37 per share. The offering was planned to close no later than June 6, with the proceeds used to pay down debt. In January 2008, WRIT announced it planned to sell $125 million in bonds for additional funding to refinance debt (Washington REIT Prices Offering, 06/04/2007).

BellwetherReport.com announced on June 4, 2007 that it had added Washington REIT to its watch list. Besides being diverse in its portfolio, the article noted that WRIT was also diversified in its tenant base with no more than 5% of its rental revenue coming from one

tenant. It also noted that WRIT had such good tenants as NASA, George Washington University, and the World Bank (Washington REIT is Added to Watch List, 06/04/2007).

Baschuk (2007) wrote in *The Washington Times* that WRIT was claiming a small victory even though the national REIT sector was struggling. The REIT sector had fallen .5% during 2007 and many of the top REITs were being hurt by increasing interest rates, negative flows out of mutual funds, small dividend yields, and competition with the international markets. WRIT's stock had fallen to a six-month low on July 23, 2007, falling to $32.64. WRIT, feeling hopeful, had increased its quarterly dividend for 37 consecutive years. Baschuk noted, "With 88 properties in the Washington region, WRIT distinguished itself from the pack by encouraging diversity in its portfolio" (Baschuk, 2007). Charlie Place, with Ferris, Baker Watts Inc., an investment banking firm, emphasized that many of the other REITs settle on one specific asset type, but WRIT invests in all property types. As stated by Place, "Since they are not focused solely on one property type, they are constantly in the market. So I see WRIT finding opportunities to add to their portfolio." (Baschuk, 2007) WRIT was also in the construction phase of three developments in the Washington region that were slated to be completed by the end of year 2007. Of course, Baschuk noted that not all analysts were as upbeat about WRIT's activities. John Guinee, analyst at Stifel Nicolaus & Co., Inc., was not as enthusiastic about WRIT, stating management bought a few assets, but did not do that much. Guinee wanted to see WRIT selling off some of its old assets and paying a higher dividend (Baschuk, 2007).

On May 8, 2009, *Titanstocks.com* issued a hot alert on WRIT. It noted that WRIT announced that it entered into an agreement the previous day to change its $100 million unsecured loan with Wells Fargo Bank. The revised agreement extended that maturity date

from February 19, 2010 to November 1, 2011 to allow WRIT an additional year and a half to pay off or refinance the existing indebtedness (Today's, 05/08/2009).

On May 12, 2011, Jim Cramer of Jim Cramer Mad Money show, featured Washington REIT. The show felt that REITs were a good read on commercial real estate and that REITs gauge all property types including retail, office, and industrial. The show stated that WRIT owned a diversified portfolio of 85 properties throughout Washington D. C. and the surrounding areas. Cramer interviewed McKenzie on "Mad Money" to learn about the varying segments and what he felt each one said about the overall economic recovery (Sandholm, 2011).

An article in *The Washington Post* on September 12, 2011, discussed how apartment developers were pouring funds into Washington real estate. The area has been noted as being one of the top performing apartment sectors in the U. S. O'Connell (2011) stated that the available jobs, 3.1% vacancy rate, and lull in building due to the financial crisis was slowing down access to available funds. Both Urban Investment Partners, based in Washington D. C., and Equity Residential, based in Chicago, are apartment developers and managers who were actively purchasing building and development sites in the area. Company personnel noted that the feeling is people come and stay in D. C. now, whereas in the past people left the city at the end of the day to go live in the suburbs. Potential cuts to the federal budget have not dampened the enthusiasm in the area, according to a vice president at Equity Residential, who saw the area as continuing to produce jobs. In addition, today's renters who are in their 20s and 30s emphasize location, whether they rent or own. Thus, the multifamily business looks bright for those companies that choose to invest in that area (O'Connell, 2011). The

attractiveness of multifamily, along with industrial's smaller returns, are some of the contributing factors for WRIT's decision to sell off its industrial portfolio in 2011.

During the second quarter 2011 earnings call, management at WRIT noted that the multifamily portfolio outperformed the other sectors. They also noted that the selling of the Industrial portfolio was under a Letter of Intent. In addition, management stated there was a full deal pipeline with several projects possible, but no firm deals yet. In addition, they stated no more sales were projected before the end of 2011, other than the industrial portfolio. Most developments in the near future would be multifamily, with a focus on properties in sub-optimal markets. Furthermore, management stated cash flow was improving and WRIT would be paying its 199th consecutive dividend. Leasing volume was the highest it had been in five years, with not as much lease exposure as there was in prior years. Lastly, they noted a line of credit of $475 million was extended for three years (WRIT second quarter conference call 2011, 7/29/11).

During the third quarter 2011 earnings call, management noted WRIT would be paying its 200th consecutive quarterly dividend. McKenzie noted that in the last conference call, WRIT mentioned three projects ready to close. He stated there was a little less opportunity than a quarter earlier, but it was still an acquisition market. The multifamily sector was operating at a 96% occupancy level, which they were comfortable with and perceived it to be a normal good market. Occupancy could experience a slight uptick, but the overall market for leases should remain about the same, until better news is heard on macro events. Utilities were higher in the last quarter and real estate taxes increased, which made NOI growth look flat. Metro Washington D. C. area was flat due to elections, but management was optimistic leasing would improve over the long term (WRIT third quarter conference call, October 28, 2011).

On November 1, 2011, WRIT announced that it had sold the remaining properties from its industrial portfolio for $70.6 million. The first three industrial portfolio sales occurred in September 2011 and the fourth was in October 2011. With the sale in November, the entire portfolio was sold for an aggregate amount of $350 million. According to McKenzie:

> We are pleased to announce the completion of the final piece of our industrial portfolio disposition. Following our strategic decision earlier this year to trade out of this portfolio, we worked tirelessly to execute these five sale transactions. We recognized a GAAP gain of approximately $97 million, which we have already reinvested into better located and faster growing office and retail assets, leaving us with a well-positioned portfolio as we look ahead to 2012. (Camp, 11/1/2011)

With the sale of the industrial portfolio, WRIT had 71 properties made up of 26 office buildings, 18 medical office buildings, 16 retail centers, and 11 multifamily properties (Camp, 11/1/2011).

After reviewing the historical documents related to WRIT, a joint interview was conducted with two officers at WRIT to extend the qualitative review of the company and to obtain a feel for the culture and strategy of the company. Through discussions with company personnel, insights into company activities and strategies were obtained and evaluated. Both Bill Camp, Executive Vice President and CEO, and Kelly Shifflett, Director of Finance, were very familiar with the company and were willing to share their insights.

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Interview with Bill Camp and Kelly Shiflett

To obtain a feel for the longevity and knowledge base of the officers interviewed in relation to WRIT, the question was asked, “How long have you been with the organization?” Kelly Shiflett stated she had been there five years, while Bill Camp indicated he had been there three years. Camp stated he had covered the REIT industry since 1999 and been in the stock

industry since 1992. However, Camp noted that his perspective is different now, since he is on the other side of the table. Shiflett stated this was her first experience at a REIT, but that prior to her service at WRIT, she was a stock analyst and in banking (Camp and Shiflett, 2011).

In conjunction with the interviews, the officers were asked about their primary duties and responsibilities. Shiflett mentioned she was in charge of investor relations, coordinating the financial and nonfinancial information, preparing information for presentations, and acting as the corporate historian. Camp stated he was in charge of the financial statements and presentation of financial information to investors, bankers and others (Camp and Shiflett, 2011).

With an understanding of their relative positions in WRIT and their knowledge base, the question was asked concerning the strengths of their organization. Shiflett mentioned diversification was important and it allowed WRIT to stay in balance, since when one sector is not doing well, another is performing, which has served the company well in delivering returns to stock investors. In addition, she stated location is important, with Washington D.C. serving as its target market. With the federal government located in Washington D. C., even in bad times, money is being spent, so there is always need for space. Camp stated one of the strengths of WRIT was the population growth in D.C., with its focus solely on the D. C. market (Camp and Shiflett, 2011).

Camp discussed how all the employees eat, drink, and sleep the Washington D. C. market. He said the officers at WRIT know all the brokers and everybody in the area, which allows them to get leases and deals done. He stated that those connected with WRIT know more about the markets than the average real estate investor. He said they know traffic patterns, where people get off the Metro, where they walk and what they do throughout the

day. So, management at WRIT knows whether they want a building on the corner, and which one is the better building, even though they may look the same. Camp feels that so many REITs are spread out all over the country or in different countries, which makes it impossible to know what is going on in each of those markets. WRIT's senior management team is only focused in this one market. As Camp stated, "If we know the returns are better in the neighborhoods where the rich people live, we can go in there. Being flexible in one market and a general real estate operator has advantages." (Camp and Shiflett, 2011) Camp stated management has sold buildings that it did not think were that great or the demographics were changing in that area, whereas someone from a foreign land may not be able to see what WRIT can identify. He feels others may see Washington D. C. and think of it only as a good market. However, they do not realize there are some tough parts in Washington D.C. Camp refers to the fact that not every building is perfect, but others may not be aware of which ones are or are not, which allows WRIT to capitalize on other people's lack of knowledge. Being in Washington all the time, management is aware when certain buildings may have peaked in value (Camp and Shiflett, 2011).

In terms of WRIT's goals and strategy, Camp was asked about the comments made on the recent quarterly conference call concerning WRIT's getting out of the industrial market. On the conference call, Camp had commented that the returns for the industrial sector were just not there. To follow-up on his conference call comments, Camp noted that WRIT was in fact getting out of industrial. As Camp stated:

> It is an interesting sector. Historically through most real estate cycles that we have owned it, from trough to trough, it has never had returns above the other sectors we own. In terms of industrial throughout the country, this would be good industrial. It would have been way above average compared to all other industrial. However, for us, with four other property types, it has never

> outperformed the other sectors. It may have gotten up to our average, but never brought the average up. So, we decided if it never brings the average up through multiple real estate cycles, then why own it (Camp and Shiflett, 2011).

He stated that management at WRIT concluded they would rather let someone else play with the industrial, so the decision was made to sell it off. Camp noted that some investors have criticized the decision to sell off industrial, since they ask why sell it right now with 80% occupancy. The real answer is, in Camp's opinion, that they have discovered since this last downturn that most of their tenants were related to home building. He said they are down and dirty industrial guys, and not Proctor & Gamble storing toilet paper and diapers. He described these tenants as either what you would see in the alley or one-story office space. However, he did not want potential buyers to think they were not getting a good deal with WRIT's industrial, but he just felt like the time had come for them to make a change. As Camp said:

> We thought since it was our lowest performing sector and everyone wants to be in Washington D. C., why not. Maybe someone else can lease it better than we can or maybe they can get some magical revenues we could not through better rents. I hope so, because we do not want an unhappy buyer. It is a win/win for buyer and seller, as we are getting out of a sector we were not performing as well in, while someone else gets into a better market than some of their other properties (Camp and Shiflett, 2011).

In response to the sell-off of Industrial, Camp and Shiflett were asked if since Industrial makes up approximately 12% of their revenue, they thought WRIT would be cash heavy for awhile or did they think they would be able to redeploy those funds into other properties. Camp stated, as he did in his conference call to investors that the company's acquisition plate was relatively full. However, he noted that due to recent developments in the stock market, they would have to decide if they wanted to go through with any acquisitions or hold off for awhile. He felt WRIT was not in a position where they had to go through with any plans yet. He felt management would need to make a decision by the end of 2011, but right then they

could watch the stock market bounce around a little bit and decide if they wanted to be more cautious and lower their leverage or prefer to go out and buy buildings. He noted that WRIT had just paid off $95 million in debt in June at basically the same interest rate they would get on a return from buying a building, so it really was not that much of a difference. As Camp so adequately put it, "From an earnings perspective, it shouldn't really matter which way I go, but yeah, you have to be cautious where you put your money because the acquisition market is still quite frothy" (Camp and Shiflett, 2011).

In terms of the overall economy, Camp noted people were still spending money in Washington D. C., but that investors were cautious about putting money into stocks due to the United States government not being able to come up with a budget. He said stocks are down because everyone is caught up in what is in the newspapers. However, as far as investing in real estate, he felt everyone still wanted to own a building in Washington D.C. Clearly, he feels the D. C. market is an advantage since he thinks anyone who knows anything about real estate knows Washington is not going away and the government is going to get bigger. Even if there is discussion about cutbacks, Camp states the government will continue to get bigger, which is good for real estate in that area (Camp and Shiflett, 2011).

The interview continued as Shiflett referred to a slide she had produced for another presentation that showed levels of government spending, regardless of whether it was Democrats or Republicans in power. Camp agreed that it did not seem to matter who it was in charge, because basically no one was cutting spending. He said with the latest budget deal, the government initially projected growth of 8% a year. He noted that after all of the budget compromises were done, they were only cutting approximately $1.2 trillion, which was nothing. He summed it by saying, "So people think the government is really doing something,

when in reality they are really doing nothing. If you look back over history, every time the government threatens cutbacks, more and more companies relocate here" (Camp and Shiflett, 2011). He referred to it as the old theory of getting close to one's customer. The only way a business can guarantee its piece of the pie is to get closer to its customer, in Camp's opinion. He cited examples of General Dynamics' move back in the 1980s, the move of Northrop Grumman, and the move of Booz Allen Hamilton. For the most part, these are defense contractors that have moved to Washington D. C. to be closer to the government that is supporting them. He also noted that Volkswagen USA moved to Washington and many of the guys in the Biotech industry have also moved there. The bottom line, he felt, is that these companies know where their money comes from, so regardless of what the government does, these companies are not going away. He drew an analogy to the banking business, where banks get big and then they turn around and get small. Government contractors deal with the long-term production of building things, whether for war, medicine, or whatever the case may be. That is why Washington D. C. is unique, according to Camp and Shiflett (Camp and Shiflett, 2011).

Shiflett expanded the discussion of the effects of government on real estate in the Washington D. C. area, as she stated when there were cuts, they were more peripheral and usually not there. Camp agreed and stated that in the next couple of years, one has to look at the defense budget. He said that budget is usually considered the biggest, besides Social Security and Medicare. In addition, he said one must look at the spending for the stuff that is not going away, like the spy stuff and surveillance. The Central Intelligence Agency (CIA) and the National Reconnaissance Office (NRO) are agencies that will always stay fully functioning, in Camp's opinion, along with the contractors that work with them. In addition,

he mentioned the mercenary guys, who are to go out and assassinate people in foreign lands, will always be headquartered out of Washington D. C. All the security people are there too, and Camp does not see that being cut. Camp cited an example of how the government process works and its impact on Washington D. C.:

> One of our Board Members was talking about how the defense bill gets put together. They said the government starts by cutting out all those things they think are non-essential. Then, the Congressmen and Senators get involved and where those things that happen to be in their jurisdiction are involved, they put them back in. The Defense budget is really not that big before all the Congressmen and Senators put things back in. The system is flawed because of that. It just does not work to keep spending money on things you do not need (Camp and Shiflett, 2011).

The analogy was drawn that one could not make it in business working in a manner similar to the government. As Camp stated, "Just because someone gets mad because you have to let them go, you cannot keep just growing people. You have to retool, make new products, but the government doesn't do that" (Camp and Shiflett, 2011). In his opinion, WRIT takes advantage by being located in the heart of all national government activities (Camp and Shiflett, 2011).

In discussing WRIT's goals and strategies, consistency seems to show through. Management at WRIT see themselves as running the same business they did decades ago. In Camp's opinion, the decision to get out of Industrial was a huge move. He thought that when one looks at all the company's sectors, taking Medical Office out of the equation, WRIT was only a small fraction of the total real estate market. He cited that in Office, the company is probably less than 1% of the total market, with the potential to grow to 2%. With that growth, they would be doubling, which would be huge for WRIT. Thus, management felt there was plenty of room to grow. The big question for WRIT management is do they have to move out

of Washington D.C. to grow more. In Camp's opinion, they do not need to go outside the area, as there is still room to grow where they are. In Medical Office, he mentioned they have maybe 15 - 20% of the market, so they may be a little more pressed to grow in that sector. However, he felt any company could easily get bigger in Washington if they chose to go that route. Shiflett noted that the cap rates[20] on properties sometimes make a purchase prohibitive. However, Camp felt one could still grow if desired, as long as management kept from getting an overconcentration in any one sector (Camp and Shiflett, 2011).

Along with growing the company, another main goal expressed by Camp and Shiflett was to keep the balance sheet pristine. They both stated that management wants the company to remain highly rated, thus staying in the top of the ratings for publicly-traded REITs. Shiflett stated they were number 11. Camp noted that a high rating and flexible balance sheet is a high priority for their management team. He stated they did not want to see another 2008, for as conservative as they were, it was still no fun going through 2008. As Camp noted, "We were fine, but if we would have had half the leverage, I would have slept a little easier each night. We made it, we are through it, and we are less levered now" (Camp and Shiflett, 2011). Thus, Camp stated the goal is to keep the balance sheet strong and more liquid, so there are more options in the market to raise capital. He felt not every REIT is in that position, but it is something WRIT continually strives for.

Per Camp, another big strategy for WRIT is growing the other sectors, especially since they are getting out of Industrial. They want to see growth in four areas, according to Camp.

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[20] Cap rates are derived by using recent sales prices of similar income-producing properties combined with the net operating income (NOI) or net rents realized from those properties in a formula of NOI/Purchase Price to yield the cap rate. Cap rates are used to establish values for real estate (Kimmons, 2012). See Glossary Terms for more information.

Number one is growing inside the Beltway, no matter the type of property (other than Industrial). Second, growth by an interstate interchange or a Metro[21] stop is desired. WRIT looks for some other reason for the building to be there, other than just a spot to be physically located. Third, Camp said there needs to be a major driver for properties outside the Beltway, such as a key employment driver. He said, one has to ask if the population and activity that are present have been driven by a military base, a medical hospital, or something else. Fourth, management looks at areas with high demographic income. If there is high household income to support retail, then retailers know people will continue to shop, thus it pushes up rents. When it comes to multifamily properties, WRIT has found inside the Beltway is best for the company. He stated that all their multifamily properties now, except one, are inside the Beltway. Anytime in his opinion that WRIT goes looking for any type of property outside the Beltway, they want to identify the driver behind the area's growth. He said it could be as simple as a major Metro stop or an area that is in walking distance to a college or hospital. To him, a highly dense workforce is always a good indicator. These purchases are the kind they have done in the past and want to continue to do (Camp and Shiflett, 2011).

An additional strategy WRIT would like to employ is to start selling properties four to five years into the ownership of the property, which would allow more overall turnover in the portfolio. Camp stated WRIT would like to start an active recycling program. He further mentioned that for the first forty to forty-five years of the company's history, it did not sell much. The company had a buy-and-hold-forever mentality. In Camp's opinion, the problem with that mentality is that when a company buys and holds buildings for a long-time, those buildings tend to cost a lot of money. As Camp stated:

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[21] In Washington D. C., the Metro refers to the Metrorail and Metro bus transit services.

> As buildings get older, they generally start costing more in maintenance, roofs, the same types of things over and over, where you can sell that building and reinvest the money in a newer building that won't cost you as much money. Obviously, you have a huge gain in those buildings because you have owned them forever, but you can put them into a new building that won't suck everything out of you. So that recycling program has gone on for the last five years or so in earnest, ramping up and the pinnacle being selling Industrial (Camp and Shiflett, 2011).

Camp referred to the older age of the industrial buildings as an additional driver for getting out of Industrial. The fact that industrial property could potentially cost more money in the future, combined with its lower return, helped clarify for management its position on Industrial. Thus, Camp saw recycling, buying the right buildings, keeping the balance sheet clean, and growing the company as management's goals for WRIT (Camp and Shiflett, 2011).

In terms of growing the company, the question of the optimal size for WRIT came up. Through observation of the three surviving REITs, one can see they are not the biggest REITs in the marketplace. Camp responded with the comment, "Funny, how that works" (Camp and Shiflett, 2011). With growth in any company, there is also the question of whether there is a point where one says, they do not want to get any bigger than that. Camp stated that WRIT management does have a size in mind, even though they have not advertised it. He mentioned WRIT is about a $3 billion size company right now. However, he said the companies that appear to be the right size are more in the $5 to $7 billion range, at least in terms of how investors react to them. He stated that those companies seem to be a little more nimble, and the investment community seems to care about them more. He stated that the investment community cares about Avalon Bay and Boston Properties. He further stated that the investment community cares about the big monsters too, such as Simon Properties. However, he said when a company gets to a certain size, it has to eat companies. In his opinion, these big

companies have to buy other companies, go global, or do something that may take it off its mark. He said WRIT management does not want to do that, and they will approach what they feel as the optimal size by recycling capital, rather than going to the market. Thus, when they buy a building, they will look at selling a building. He further explained this recycle program by stating:

> We have said right now we will recycle about a third of what we buy. So, if we buy $100 worth of buildings, we sell $33 in buildings. We have decided we would pay for a third of what we buy through selling and when you do the math and get closer to that number of optimal size; maybe that third becomes two-thirds. Thus, you are giving your shareholders something in terms of a return on the properties. Hopefully, as you are turning properties, you are going from something that may be costing you more or has slower growth, to something that has better growth, even though it may cost the same. It could be better located or a newer building, but you start ramping up where you are using your own capital instead of someone else's (Camp and Shiflett, 2011).

Thus, Camp and Shiflett were asked, "If WRIT gets to the $5 – $7 billion range and the analysts are looking at the company more, would that really help with perception in the market?" Camp responded that it did help with perception in the market. Even though he said one may not want to be concerned about the market's perception, he has to worry about it, because REITs are always using capital. He said as a REIT, the company is always getting another bank loan, getting a new line of equity, or requesting some type of funding. However, he said once WRIT reaches its optimal size, where it is buying a building and selling a building to fund it, and then it would not have to care as much about all that. At that point, the company would be more self-sufficient, thus would not need the lenders as much. Of course, he stated that management would always care about the share price. However, he mentioned WRIT has to get to this level first (Camp and Shiflett, 2011).

In line with market perception, Camp noted that any REIT wants to make a difference, such that even the largest dedicated REIT investor is interested in its stock and wants to understand its activities. He stated a REIT also wants enough trading volume, so that the non-dedicated REIT investor will always want to look at the company. He said that currently WRIT is only trading about 500,000 shares a day at $30/share, so the company really does not trade that much. So on a daily volume level, he noted that some of the biggest investors that have billion dollar funds cannot buy WRIT shares. Shiflett added that WRIT does not have quite enough liquidity. Camp agreed and commented that for some of the biggest investors that is just not enough, because it can take them three weeks to get in and out of the market. He elaborated by stating that is the situation a company wants to avoid. However, he noted that the odd thing is that WRIT is still in the upper half of all REITs in terms of size. Shiflett added that there have been so many REITs that have gone away. Camp added that in 2009, WRIT was in the top 25 of all REITs, because many of the bigger REITs had collapsed and proceeded to fall off the face of the earth. He noted that since then, some have come back, but others have gone away forever. He concluded that a company always wants to be a big enough player to get the analysts' attention, since there are always buyers and sellers in the marketplace (Camp and Shiflett, 2011).

To address the question on how Camp and Shiflett see their organization striving to meet its goals, some of the history of WRIT was discussed, along with some of its recent activities. Once again, it was discussed that Washington REIT was the oldest of the surviving REITs, even though Camp commented that he thought it was only the oldest by possibly three weeks. He stated that Bradley (a shopping center REIT) was older than WRIT, but it had failed and was no longer around. This comment sparked a discussion on shopping centers and

some recent problems with Borders.[22] Camp stated that the closing of Borders impacted the second quarter 2011 financial results, because WRIT had a Notes Receivable that had to be written off. He commented Borders had paid rental income of $250,000 per year, which may seem large, other than the fact that WRIT makes rental income of $300 million a year. Thus, even though it impacted WRIT, it did not materially affect the company that much in the grand scheme of things. Camp noted that those companies most impacted are the shopping center REITs who have more than one Borders store. He stated it is hard because it is leaving an empty box that has to be filled, and not many retailers are expanding in the current economy. He said the most successful businesses right now seem to be those that can come up with a new restaurant concept, but those businesses do not really fit in a Borders' location that is typically 20,000 square feet (Camp and Shiflett, 2011).

In terms of how a REIT leases its space, Camp noted that management always hopes that they do not have a major concentration of any one retailer. He commented that he felt confident Simon Property Group[23] had Borders locations all over the place, but he felt it was not going to matter that much to them. He said REITs like Simon Properties are big enough that it hurts, but the company can usually fill the space. As long as the building is in a good location, retailers come and go. Camp described the retail business as such:

> There is always someone that thinks they can do it better than the next guy. Retail is just a funny place. If you talk to the restaurant guys, it is rare that a restaurant concept works for more than 5 years. But, the same Chef will go open up under a different name and it will be hot again for another 5 years with

[22] Borders is a national book store that filed Chapter 7 bankruptcy in 2011 and decided to permanently close its store locations throughout the United States. (Retrieved from http://atlantabankruptcynews.com/2011/07/borders-chapter-7-liquidation-leads-to-five-atlanta-area-stores-closing.html)

[23] Simon Property Group is an S & P 500 company and the largest real estate company in the United States. It primarily focuses on the retail sector. (Retrieved from http://www.simon.com/about_simon/index.aspx)

> the same guy doing the same thing, maybe with the same menu. But, now he is successful again. Retail is just a funny business like that (Camp and Shiflett, 2011).

One of the strategies employed by WRIT, according to Camp, is to emphasize stock multiples over growth rates. He stated management wants to grow, but stay small enough, since once companies get bigger, stock multiples drop. Camp stated that multiples are cyclical, and that a company cannot carry multiples forever. Historically, Corporate Offices Properties Trust[24] has had the highest multiples, he stated, but now they have reversed. Camp said one of WRIT's goals is to ensure its stock multiples remain strong (Camp and Shiflett, 2011).

In discussing the items that can attribute to WRIT's success over the last fifty years, several factors come to mind. Factors, such as location, good size, knowledge of the market, and staying the course have been highlighted as some of the strong points of WRIT. As Camp discussed WRIT's fifty-year success, he stated "I would like to say it is the brilliant management team, but we are in the best market in the nation and one of the best in the world. It is a huge engine driven market." (Camp and Shiflett, 2011) He said he does not really look at the government as being a growth engine for the market, but more as a stabilizer. Camp stated with the government, one may know where the ship is going, but it takes a long time for it to ultimately get there, allowing time to react. He said they will know five years in advance whether a defense budget is going to be cut, and management at WRIT can make adjustments

[24] Corporate Office Properties Trust is a specialty office REIT with properties mostly in the Baltimore and Washington D. C. area, with some expansion into other areas as mandated by its predominantly governmental client base. The company has received numerous accolades for being one of the best companies in its industry year after year. (Retrieved from http://copt.com/web/page/554/sectionid/554/pagelevel/1/interior.asp)

accordingly. Either way, Camp noted they will still have some people in D.C., even with the cuts (Camp and Shiflett, 2011).

In terms of the unique characteristics of WRIT, Camp noted that their small management team is one of the unique characteristics. He stated that the management team consists of only seven people. Even with their arguments, he said the small group does a good job in coming together to make key decisions. He said compared to other REITs that have six or seven members of management in each city that report up through a bigger pyramid structure, they are quite small in number. In Camp's opinion, "I think it is an advantage that we are pretty small and nimble and can make quick decisions in the marketplace" (Camp and Shiflett, 2011). However, he noted for other employees away from the management team, the small size of management may not be as good of a thing. He commented that if one of the other employees wants to aspire to be one of the seven management team members, he has to wait for someone to quit or die, which is a tough thing. In addition, the smaller size team does cause everyone to have a pretty large area of responsibility, according to Camp. Shiflett agreed with Camp's comments and mentioned that since they were a smaller size they could spend time producing unique materials or getting to know their investors and each other on a more personal basis (Camp and Shiflett, 2011).

Another unique characteristic of WRIT is the longevity of the senior members of the team, as evidenced by documentation in their 2010 Annual Report. In addition, retired members of management, such as Ed Cronin, are still involved with the firm, according to Shiflett. Camp stated Cronin had just attended the last shareholders' meeting. Camp noted that Cronin has many stories related to the history of the company and his role in taking it over. Prior to Cronin, Camp stated the original founder was Frank Kuhn. Camp noted that Cronin

came in around 1994, while Kuhn was still at the company. Camp said that Frank Kuhn and the Board hired Cronin to eventually take over Frank's job. He stated he was not sure how the dynamics worked, but eventually Frank was gone and Ed was in charge. As Camp put it, "It was basically a changing of the guard when you have had a guy who has been there for 35 years that is now leaving" (Camp and Shiflett, 2011). Shiflett added, "Yes, so you had Frank and Arthur starting the company and I think we have had only three CEOs. I think Skip is actually the 3rd CFO in a 50-year company" (Camp and Shiflett, 2011). Additionally, Camp mentioned that WRIT was only on its 4th Chairman, as Frank was always the Chairman and CEO as long as Camp had been there. Camp noted that when Frank Kuhn left as Chairman, then Arthur Birney was Chairman for a short time, and then Ed Cronin became Chairman and CEO, and currently John McDaniel was the Chairman (Camp and Shiflett, 2011).

To add to the discussion of longevity at WRIT, Camp elaborated on his statement that WRIT had maintained a REIT structure that did not fall apart throughout the real estate cycles. He stated that the 1980s wiped out many of the REITs that were in existence at that time and the market tried to do it again last year, and really even three years ago. He commented that there has been a lot of cyclicality to REITs and real estate investing, and it has lost investor population over the years. Camp related the history of REITs to the history of other forms of entity structures. He discussed the failure of partnerships in the 1970s, which wiped out almost everyone. Then he commented on the partnerships that failed in the 1980s, and wiped out most of the investors with them, making investors lose all their money all over again. Then, he mentioned the 1990s with the resurgence of the REIT world, and what had generally been regarded as the new formation of the REIT industry. He contended that this history discussion

is important because it showed why there have not been many REITs that have held on for fifty years. In Camp's opinion:

> This structure has to be set up for the right reason and most of these guys have not set it up for the right reason. Most of the guys were setting it up for their tax planning or their ownership structure, or all their personal things. Whereas, if you set these things up for the way Congress intended to be set up, which is for individual investors to be able to invest in real estate in small chunks, and the management team comes in and caters to that shareholder, then the system works. Once you get away from that very basic philosophy, they don't work very well. Too much ego and greed in the world and that is what cost them. Partnerships got over-levered because everyone was trying to get that last little return on everything and then everyone got wiped out (Camp and Shiflett, 2011).

Looking back at the partnerships of the 1980s, Camp stated they got over-levered and they were all developers. He said they all built buildings, thus everything got overbuilt. He said from his experience following the companies as a broker, one could see that they were not just owning buildings to generate revenue, which is what a REIT should do, but they were building a lot. The difference today, he stated, is that REITs do still build some, but that is not primarily what they do (Camp and Shiflett, 2011).

To further document the change in REIT focus, Camp continued his discussion of the events in the 1980s and 1990s. He stated that in the 80s, developers overbuilt as everyone wanted a new building. Then, he noted, when the recession hit in the 1990s, the country was not only in a recession, but many markets were overbuilt with no demand for anything. Thus, Camp stated all these developers were leveraged and had no way to refinance, so banks and creditors foreclosed on these buildings. For those companies that were still on the edge and sitting on the brink of bankruptcy, Duke,[25] Liberty,[26] and at least thirty others, they sought out

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[25] Duke Realty was established in 1972, but went public in 1993, and started major expansions from there. It specializes in industrial, office, and medical office properties. (Retrieved from http://www.dukerealty.com/company/history.aspx)

the public markets to bail them out by forming a REIT. Thus, Camp concluded that REITs formed in 1991 to 1993 were almost all bailouts, because the companies were overleveraged and initially established as general real estate partnerships, which had to recapitalize. Camp noted these events were a similar story to what happened to REITs in 2008, where most all companies had to go get money to de-lever. The main difference between the 1980s/1990s and 2008 he pointed out was that the companies were able to do it in 2008. In earlier periods, they had no ability to do it, as they were more private companies (Camp and Shiflett, 2011).

Camp continued his discussion by noting that the sentiment during the 1990s seemed to be that everyone who owned a portfolio of properties decided they might as well be a REIT to get capital whenever they needed it. Because this sentiment carried forward, many more companies were REITs in 2008, when the latest downturn occurred. This access to the public markets, in Camp's opinion, is what helped more companies survive in this later period than those that did in the early 1990s. Even with the tightening of the credit markets in 2008, which was something most current real estate managers had not personally experienced, only one major REIT did not survive. Camp commented that General Growth Properties (GGP)[27] could not pull through, and he was sure there were small REITs that also failed. In Camp's opinion, that proved the REIT structure worked and it saved almost everyone. Thus, he felt no one lost

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[26] Liberty Property Trust, formerly known as Rouse & Associates, was established in 1972 and formed as a REIT and went public in 1994. It is currently one of the largest commercial real estate companies. (Retrieved from http://www.libertyproperty.com/timeline.asp)

[27] General Growth Properties is a shopping center REIT that filed Chapter 11 bankruptcy in 2009 due to its inability to refinance maturing debt. It was the largest U. S. real estate company to file bankruptcy. However, General Growth emerged from Chapter 11 bankruptcy protection one and a half years later in 2010 by splitting up the company and selling off Howard Hughes Corp. (Retrieved from http://articles.baltimoresun.com/2010-11-09/business/bs-bz-general-growth-emerges-20101109_1_general-growth-mall-operator-chief-executive-adam-metz)

all their money, which was better than the ways of the past. Camp commented that the way the real estate world operated before consisted of everyone basically getting wiped out, so that they could start over. Shiflett commented that Mr. Trump[28] was an example of the past, where banks lost money through real estate ventures, but the individual was able to come back. Shiflett was familiar with the Trump organization, because in her former position, she actually worked with Trump and listed Trump Entertainment on NASDAQ (Camp and Shiflett, 2011).

In conclusion, through review of written documentation and the interview with Camp and Shiflett, WRIT has provided consistency in its investing policies, dividend policies, and management philosophy throughout its fifty years. Once a model for the company was developed in the 1960s, WRIT has stayed with that model and provided consistent performance and results for its stockholders. With a prime geographic location in and around Washington D. C., WRIT has been positioned to take advantage of a stable economy driven by governmental structures. WRIT has capitalized on its location, strong management, and knowledge base, to provide a strong balance sheet and cash flow.

[28] Mr. Trump refers to Donald Trump of Trump Entertainment and other real estate ventures. The Trump organization, or companies bearing his name, have filed bankruptcy four times. Donald Trump admits that he has used the laws to help reduce debt and in his opinion, negotiate with the banks for better deals. (Retrieved from http://abcnews.go.com/Politics/donald-trump-filed-bankruptcy-times/story?id=13419250)

CHAPTER VI

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST

To appreciate the history and success of PREIT over the last fifty years, it was evaluated both qualitatively and quantitatively. Qualitative evaluation was performed through review of historical documents and interviews with management. Interviews were conducted with Edward (Ed) Glickman, President and Chief Operating Officer (COO), and Jeffrey (Jeff) Linn, Executive Vice President of Acquisitions. These interviews provided information on PREIT's history, strategies, management, and future direction.

Throughout PREIT's fifty-year history, significant changes have occurred that have impacted its direction and focus. A few of the most significant events are highlighted here. In 1960, PREIT was founded and became one of the first publicly traded equity REITs in the United States. Its first dividend was paid in 1962, which was the same year it did its first public offering raising $5 million. In 1970, PREIT started trading on the American Stock Exchange under ticker PEI, which it still utilizes today. In 1997, PREIT merged with The Rubin Organization and PREIT was converted to an UPREIT with Ronald Rubin named Chief Executive Officer. In that same year, the stock moved to the New York Stock Exchange and PREIT's fiscal year end was changed from August 31 to December 31. In 2002, PREIT paid

its 100th consecutive dividend after forty years of continuous dividends. In that same year, it changed its strategic focus from diversified to retail, with Crown American Realty Trust merging with PREIT in 2003 (PREIT Company History, 2011).

Review of Historical Documents

In PREIT's Prospectus dated June 18, 1962, information about the firm's beginnings was documented. PREIT was created in Pennsylvania on December 27, 1960, as an unincorporated business trust with a perpetual term. The stated purpose of the trust was to provide investors with an opportunity to own an interest in the trust, through transferrable, limited-voting shares. The Trust would own diversified properties, mainly consisting of real estate interests (PREIT Prospectus, June 18, 1962).

On June 9, 1961, PREIT made a $2 million public offering to Pennsylvania residents of 20,000 shares at a par value of $100 per share. The Trust received $1,981,720 after organizational costs. With these funds, the Trust spent $1,146,481 in 1961 to acquire two properties, both in Philadelphia, Pennsylvania. On February 28, 1962, the Trust borrowed from banks $1,750,000, which with its own funds of $629,595 acquired the 25th Street Shopping Center near Easton, PA and the School Lane Apartments in Philadelphia, PA. In the 1962 Prospectus, it states that the funds raised from the offering of 500,000 shares at $8 par value will be used to pay back the $1,750,000 bank loans and to purchase $1,200,000 stock of a corporation owning the Maryland Apartments in Baltimore, MD. The additional amount estimated to be made from the offering will be used to provide working capital for future acquisitions equal to an approximate amount of $1,500,000 (PREIT Prospectus, June 18, 1962).

In August 1964, PREIT issued a prospectus for $4,500,000 in 6 ¼ debentures due 1979. According to that prospectus, PREIT had increased its portfolio to five apartment properties, one office property, six industrial properties, five shopping centers, and four mortgages. In addition the Prospectus states that as of March 31, 1964, PREIT had assets with a net book value of $6,251,351. In addition, it states that the company uses a cash-flow basis for its accounting and does not manage or operate the properties it owns, pursuant to REIT provisions. It also states that PREIT has a high debt-to-capital ratio of 4 to 1, which it says is typical of companies utilizing a cash flow basis. The Prospectus also states that the officers and directors own 228,847 shares or 30.5% of the outstanding shares, of which Sylvan Cohen, one of the key promoters of the Trust and President owns 37,209 shares. Of the proceeds from this debenture issue, $4,000,000 was to be used to repay bank loans (PREIT Prospectus, August 18, 1964).

On January 14, 1969, PREIT issued a prospectus for $7,500,000 in 6 ¾ debentures due 1984. By 1969, the portfolio had increased to seven apartment properties, one motel, one office property, six industrial properties, thirteen retail and shopping centers, two tracts of unimproved land, and four mortgages. As of August 31, 1968, the net book value of assets was $8,785,084. Of the proceeds, $4,300,000 was to be utilized to repay bank loans, with the remainder used for working capital and future acquisitions. The Prospectus noted the company would pay a dividend of $.40 per share semiannually, which it had since its inception except for the initial dividend of $.20 per share paid on August 1962 (PREIT Prospectus, January. 14, 1969).

Since 1971, automated databases have been implemented, such as Compustat and CRSP. In addition, PREIT became listed on the American Stock Exchange, which allows

changes in total equity, debt, and assets to be tracked. As with most REITs, real growth occurred in the early 1990s with expanded REIT powers that permitted both management and ownership of properties. Prior to 1997, PREIT was diversified with a heavy multifamily emphasis, per interviews with management. With the merger with The Rubin Organization in 1997, net assets grew in 1998 with further increases realized with the merger with Crown American (Compustat, 2011).

Holcomb (2002) discussed the success of Pennsylvania REIT and how it highlighted changes in real estate investing. Holcomb noted the combination of two Philadelphia firms, PREIT and The Rubin Organization in 1997, and how it changed PREIT into a successful investment vehicle. He further commented that its success revealed the manner in which real estate investing was changing, and that REIT stocks were becoming a staple in many portfolios (Holcomb, 2002).

Jack McAllister, a Vice President at NAREIT, noted in this same article, that since the utility industry had become deregulated, it had become a different investment with growth potential. People related to REIT stocks like they used to relate to utility stocks as primarily income producers, per McAllister. In addition, McAllister noted that people like REIT stocks because they can see what REIT's own and they associate office buildings with rent (Holcomb, 2002).

In the article, Holcomb noted that before the merger with The Rubin Organization, PREIT passively owned apartments going back to its beginnings in 1960. Likewise, The Rubin Organization at one time was much different, being perceived as the largest office landlord in the Philadelphia area. Rubin noted that office buildings were not part of their investment strategy anymore and that PREIT invested in retail and apartments. As of 2002, the

two largest retail centers owned by PREIT were Willow Grove Park and Lehigh Valley Mall, both having in excess of 1 million square feet. PREIT was a developer, unlike early REITs that were primarily passive owners of real estate (Holcomb, 2002).

On March 24, 2003, *National Mortgage News* reported that PREIT sold its multifamily portfolio to Morgan Properties for $420 million in a deal that signaled PREIT's exit from the multifamily sector. PREIT would now become a REIT focused on the retail sector solely. PREIT would in turn be purchasing six retail properties in Philadelphia from The Rouse Co. for $548 million. PREIT's management stated it would be the largest retail owner and operator in the Philadelphia market. The gain from the sale of the multifamily portfolio would become part of a like-kind exchange with the retail purchase from Rouse, thus allowing PREIT to avoid taxation on the majority of the gain. With the purchase, PREIT would assume $285 million of mortgage debt. PREIT management stated they were pursuing other shopping mall purchases and discussing the purchase of another significant portfolio (Roundup: PREIT, 2003).

In May 2003, PREIT acquired Crown American Realty Trust, which owned multiple retail properties and a mall. The deal involved $300 million in stock and $600 million in mortgage debt. This deal continued the transition from diversified to retail for PREIT. Properties were concentrated in Pennsylvania, Maryland, New Jersey, and Delaware. Rubin stated that the merger with Crown American strengthened the company's retail focus and allowed the company to grow more aggressively in retail. Crown American owned 26 malls, mostly in Pennsylvania. Six of the Crown American properties would be refurbished and subsequently sold over the next few years. The properties to be sold were located in Tennessee, Georgia, and Pennsylvania, and had an occupancy rate of 72.6 percent. The Crown American properties that would be kept had an occupancy rate of 90.5 percent. Mark

Pasquerilla, Chairman and CEO of Crown American, saw the merger with PREIT as a positive move for his company and considered it to be timely and logical. He felt that the larger property portfolio would have a great impact on leasing opportunities and relationships with tenants. With a 9.3 percent ownership of Crown American, Pasquerilla supported the merger. He was to be added to PREIT's Board of Trustees, along with another member of the Board at Crown American. Not surprisingly, PREIT stock increased in price with the announcement of the merger with Crown American. It is worth noting that PREIT gained its first retailing location in Harrisburg in the late 1990s (Dochat, 2003).

On November 12, 2003, the shareholders agreed to PREIT's acquisition of Crown American Realty Trust. The newspaper reported it would result in two major mid-state shopping complexes being owned by one owner. Crown American owned Capital City Mall, while PREIT owned Paxton Towne Center. PREIT, with the merger, owned 40 malls, 14 shopping centers, and 19 apartments, mostly in the mid-Atlantic area. The article mentioned both companies were reporting profits (Sulon, 2003).

On November 20, 2003, PREIT completed its $1.4 billion purchase of Crown American that owned 27 malls. The final purchase price for Crown American was $642 million in stock and $758.5 million in debt. With this purchase, PREIT was the largest mall owner and a large property taxpayer in the state of Pennsylvania. The newspaper reported that Wall Street seemed to agree with PREIT's strategy as the stock price had climbed approximately $9 a share since January 2003 (Fernandez, 2003).

March 1, 2004, the Internal Revenue Service (IRS) approved relief to PREIT to allow it to remain a REIT. The decision by the IRS came several days after PREIT declared its REIT status was at risk due to a mistake in electing to regard a corporation in which it owned more

than 10% of the stock as a taxable REIT subsidiary. The particular corporation was created October 12, 2001, and PREIT received permission to make the subsidiary election be effective on that date. This action affected the taxable years 2001, 2002, and 2003. If PREIT was not granted relief from the IRS, PREIT would incur corporate income taxes, interest, and penalties for three years. Speculation existed that PREIT might not have access to enough capital to pay the taxes, if required. In addition, PREIT may not have been able to qualify as a REIT until 2006. Due to the mistake, PREIT had already withdrawn a stock offering of 4.4 million common shares at a price of $37.08 a share, and this offering had not been rescheduled (IRS Says, 2004).

In March 2004, it was announced that PREIT reported higher earnings for year-end 2003 and its fourth quarter of that year. Part of the increase in earnings was attributed to the acquisition of Crown American by PREIT, even though the deal decreased earnings per share in the fourth quarter, as it was concluded in November 2003 with the issuance of additional shares. Fourth quarter earnings of $11.5 million or $.40 per share were reported compared to $7.3 million or $.45 per share for the same quarter in 2002. Fortunately for PREIT, the IRS granted relief and PRETI could remain a REIT (McCready, 2004).

In February 2005, Mark Hequet wrote an article about PREIT's mall shopping. He referred to the old notion that "timing is everything" when he discussed PREIT's sale of its multifamily units around the same time it purchased retail properties, with a $500 million price tag to utilize section 1031 exchange treatment and defer capital gains. Hequet wrote how it all came together in March 2003 as Morgan Properties of King of Prussia, PA. purchased the apartments for $420 million from PREIT, while PREIT purchased $548 million worth of retail property from The Rouse Co. This purchase marked the beginnings of PREIT becoming a

major mall owner. PREIT increased equity two times in 2003, with a credit line and income from the retail acquisitions. PREIT's biggest challenge was to find potential retail acquisitions that were prime for renovations, according to David Shulman, a senior REIT analyst at Lehman Brothers. He saw malls as pricey, but stated PREIT was selective. Shulman noted that the market seemed to be granting PREIT credit that it should be able to utilize fairly well. Having access to a $500 million line, Shulman noted, allowed PREIT to search out other malls (Hequet, 2005).

Hequet noted that with the Crown American Realty Trust merger, PREIT picked up twenty-seven more malls in late 2003. Over the two-year period, PREIT had become a player in the big leagues of retail, and now had a line of credit to enable it to move even further into retail. In late 2005, PREIT had 16 retail properties in its pipeline that could be refurbished and management felt more properties could be added. However, renovations take a couple of years to show significant gains. Having past experience with power centers, PREIT does not hesitate in putting a Wal-Mart or Target as an anchor in a regional mall (Hequet, 2005).

Hequet (2005) stated PREIT's situation as smart growth. PREIT's problem and its solution are summed up by him as:

> Problem: PREIT wants to move into regional malls from a mix of power centers, strip malls, and apartments. Growing by buying more multifamily properties is out, and selling its apartment asset value would mean significant tax liability.
> Solution: PREIT waits patiently for the right deals and sell apartments and buys malls at about the same time to execute a 1031 exchange. It also buys and renovates big mall properties to leverage its existing staff to the max (Hequet, 2005).

As of 2005, PREIT had made its commitment to retail known and had moved away from the residential sector. With this renewed focus and its management team, it appeared ready to move forward.

In May 2007, PREIT was reported as refurbishing some of its aging malls by adding lifestyle and retail components at three of its older malls in the greater Philadelphia area. PREIT was looking to grow FFO and increase sales (Kirk, 2007).

On September 5, 2008, as the market was not doing well, several executives and directors of PREIT were reported purchasing stock while it was trading at less than 50% of its 52-week high. The total purchases exceeded $1.32 million and included such insiders as Ronald Rubin (Chairman/CEO) and George Rubin (Vice Chairman). Over the previous four weeks, several other purchases totaling in excess of $1.81 million were reported. Those purchases were again made by Ronald Rubin and George Rubin, but also included Korman Leonard, a Director at PREIT (Boston, MA, 09/05/2008). These purchases indicated that officers were committed and confident in the future of PREIT during that time.

Even though the credit market was tight during the latter part of 2008, PREIT was able to obtain financing for several of its major projects. On December 16, 2008, it was reported that PREIT had completed three non-recourse mortgage loans secured individually by Exton Square, Francis Scott Key, and Viewmont Malls that amounted to $173 million. Throughout 2008, PREIT had been successful in obtaining 14 separate financing arrangements for a total in excess of $820 million (Pennsylvania…Hot Stock, 12/17/2008). Lenders appeared to be confident in PREIT management and the company's ability to repay loans, as large amounts of credit continued to be extended in PREIT's direction during 2008.

On January 19, 2009, *The Wall Street Journal* conducted an interview with Edward A. Glickman, President and Chief Operating, Officer of PREIT since 2004. Glickman joined PREIT in 1997 when the company enlisted forces with The Rubin Organization. He had been with Rubin since 1993 and had served as their Executive Vice President and Chief Financial Officer. Prior to working with Rubin, he had been Executive Vice President and Chief Financial Officer at another real estate entity, Presidential Realty Corporation. For nine years prior to that, he worked in the investment banking industry, for companies such as Lehman Brothers and Smith Barney (TWST, 2009).

Glickman commented that as of September 30, 2008, occupancy at the malls was 88.8% and at the strip and power centers it was 97.1%. Glickman further noted that the transitioning of anchor stores in some of the malls was holding down occupancy rates, which was a cyclical component of retail and one the present economic environment had worsened. He also discussed how renovations hurt properties in the short-term, due to parking lot interruptions and relocations of tenants, but in the long-term, better trade should result. With better trade, occupancy improves (TWST, 2009).

When asked about retailers filing bankruptcy, Glickman noted that improving the physical shape of the properties makes them able to compete better to get the consumers' spending. The more the company can improve PREIT's market share, the better insulation against declines in spending. Customers like to see state-of-the-art amenities, restaurants, and shops. Providing the best venues allows a company to work with the best retailers. Sixteen properties had been repositioned over the last several years according to Glickman, with seven more projects in the works (TWST, 2009).

Fundamentally, Glickman stated the company still focused on liquidity, capital allocation, and project completion. In addition, the relationships with retailers are a priority to keep occupancy high and draw shoppers. The year 2008, Glickman noted, was hard for PREIT and the market in general. However, PREIT was able to complete $800 million of new financings, with little need for refinancing in 2009. Glickman noted the line of credit that came due in 2010 presented the next major challenge for the balance sheet. New capital projects, he stated, were on hold until the capital markets and retail environment improved. Over three-fourths of the redevelopment projects in the pipeline by the end of 2008 were completed, with sufficient liquidity in Glickman's opinion to complete those projects in process. Some remaining projects, he noted, will be put back for now until the market is better. Glickman stated that the few mortgages coming due are nothing compared to the financings PREIT needed in 2008, so he felt liquidity would not be a big issue in 2009 (TWST, 2009).

In terms of its Shareholder base, Glickman responded that PREIT was 70% institutions, 20% retail owners, and 10% management. He stated that PREIT is a little more complicated than some of the other REITs, because management focuses on an opportunistic investment strategy. While some REITs may focus on asset management, PREIT looks to develop value through redevelopment. He considered the strategy at PREIT to put the company in a niche that is not as well understood by the investment community. As Glickman states, "It is a more complex process to reposition existing assets, in many cases, than it is to build new properties or to acquire existing properties" (TWST 2009). The main priority of the shareholders, he thought, was for PREIT to complete and implement those properties that were being redeveloped. Glickman added that more projects may come up that need repositioning, whether the recession draws to a close or continues. The longer the recession continues, he felt

the more financial institutions would have assets that need repositioning or redevelopment and that he hoped PREIT could partner with them (TWST, 2009).

Concluding the interview with *The Wall Street Journal*, Glickman reiterated the strength of PREIT's management team and their experience in surviving economic downturns. The last major downturn, he noted, was the recession of the late 1980s and early 1990s. Thus, as difficult an economic environment that was faced in 2009, Glickman felt PREIT could navigate through it. He also noted that the price PREIT's equity was trading at in January 2009 did not reflect the value of the underlying portfolio or the management team (TWST, 2009).

As more evidence of PREIT's executive officers and directors' confidence in PREIT, several insiders purchased an aggregate of $1.94 million in stock over a four-week period ending March 23, 2009. The stock was still trading at less than 50% of its 52-week high when the shares were purchased. Some of the purchasers were Ronald Rubin (Chairman/CEO) increasing holdings by 23%, Douglas Grayson (EVP Development) increasing holdings by 38%, Ira Lubert (Director) increasing holdings by 203%, and Leonard Korman (Director) increasing holdings by 28% (Boston, MA, 03/23/2009).

PREIT reported on July 29, 2009, that the company had a loss of $4 million in the second quarter of 2009 or $.11 per share. In the prior year, for the three months ended June 30, $.10 per share loss was reported with a total loss of $3.8 million. The poor 2009 results were attributed to store closings due to bankrupt retailers. However, PREIT predicted that financial results would improve with the new store openings in some of the redeveloped malls (Panaritis, 07/29/2009).

In 2010, PREIT faced the maturity of one of its large credit lines, which Glickman had stated in an interview was one of the major challenges for the balance sheet. On March 8, 2010, it was reported that PREIT had completed a deal of $670 million in secured credit. Of the total credit, $520 million was in term loans with a $150 million line of revolving credit. Most importantly, this new debt allowed PREIT to pay off its $500 million unsecured revolving line of credit and $170 million unsecured term loan that were due on March 20, 2010. The new credit has a maturity of three years and allowed for a one-year extension if certain conditions were met (Pennsylvania REIT Inks, 3/8/2010).

On March 11, 2010, Panaritis reported on PREIT's $670 million financing deal. She stated that this financing deal calmed investor's concerns over PREIT's ability to renegotiate its loans during a time when banks were more cautious in extending credit. The company had taken on additional debt to renovate its malls, and investors were waiting to see how the company would address it. Chairman Rubin stated PREIT had been working on this deal for about six months and had been talking with fifteen different domestic and international banks. Rubin stated that the banks for the most part were behind the deal because they understood the financing would be secured by valuable real estate. Panaritis reported that analysts had been focused on this debt and its pending deadline for months, as PREIT had drawn just about all its $500 million available credit. The debt could have been called due, if Wells Fargo and other banks had not been in agreement that credit should be extended. Even more important, without a renewal of the credit, PREIT could have been forced into bankruptcy, since it had a high ratio of debt to assets. Just a year earlier, debt had forced General Growth Properties Inc. into Chapter 11 bankruptcy. General Growth was one of the nation's largest mall owners, which made its similarity to PREIT, even more worrisome (Panaritis, 2010).

Panaritis noted that PREIT was in its loan situation due to its $1 billion mall redevelopment project started in 2005. Almost half of the $1 billion was spent by PREIT in its malls in South Jersey and South Pennsylvania, which is at the heart of the company's market. Borrowed money renovated the malls in a strategy to visually improve the locations, attract shoppers, and receive higher rents in return. Unfortunately, the economic conditions forced some retailers into bankruptcy, others to terminate leases, and some to negotiate for lower rents. Cash was impaired for PREIT due to these conditions, which subsequently hurt the company's ability to repay debt (Panaritis, 2010).

On October 28, 2010, in connection with its 50th Anniversary, City of Philadelphia Mayor Michael A. Nutter wrote a Tribute to PREIT (Tribute, 2010). On November 15, 2010, Governor Edward G. Rendell recognized PREIT on its 50th Anniversary as a valued presence in the Pennsylvania. He also commended the company for its contribution to the economic growth of the state and nation (Commonwealth, 2010).

In late 2010, PREIT was honored with the Leadership in Energy and Environmental Design Core and Shell (LEED-CS) Gold certification from the U. S. Green Building Council for its rehabilitation work in Philadelphia at 801 Market Street. The building was initially built as two adjoining buildings, with one built in 1902 and the other in 1929. PREIT incorporated water and energy efficient features, used recycled materials and resources from the local area, and reduced carbon dioxide emissions. Overall, PREIT improved the environment inside the building, while conserving resources (PREIT Gets Gold, 2010).

In PREIT's second quarter 2011 conference call held on July 28, 2011, Ronald Rubin and Edward Glickman discussed the company's growth and profitability. Rubin stated that PREIT had six consecutive quarters of sales growth, with 29 of 38 malls showing increases.

Glickman stated PREIT had strong growth and a 90.8% occupancy level (Second Quarter Conference Call, 07/28/2011).

In PREIT's third quarter 2011 conference call on October 27, 2011, Ronald Rubin, Edward Glickman, George Rubin, and Bruce Goldman were all present. Company executives announced the seventh consecutive quarter of same store sales growth, which is quite commendable for a recessionary economy. They noted that it was reflective of the demographics of the assets and managements' efforts, but the recovery was fragile. They were working to improve the balance sheet and increase NOI. In terms of debt, Glickman noted they would be able to cover exchangeable notes due next May and that there was availability in their lines of credit and spreads to cover any development activities in 2012. Their focus, though, was on existing properties and continuing to improve NOI (Third Quarter Conference Call, October, 27, 2011).

Interviews with PREIT Management

Interviews were conducted with both the President/Chief Operating Officer and the Executive Vice President of Acquisitions. Both individuals were highly regarded for their knowledge of not only PREIT, but also the historical development of the REIT industry. These interviews revealed information about PREIT from people involved in the management and decision making of the entity. They provide valuable insight into the management team's philosophies, organizational structure, and significant events related to the development and growth of the company. In the paragraphs that follow are the details related to the specific interviews.

Interview with Edward Glickman

Ed Glickman, President and Chief Operation Officer, has been at PREIT since 1997, when he came over with the merger with the Rubin Organization. He previously served as Executive Vice President and Chief Financial Officer of the Rubin Organization. He became President of PREIT in 2004. In NAREIT's weekly newsletter, *NewsBrief*, Ed Glickman in 2010 discussed PREIT's market condition. He stated that the key to long-term success for PREIT was employment numbers rising. Glickman stated, "Workers shop so their prosperity is critical to our business" (NAREIT, REIT.com Video, 2010). He discussed PREIT's strategy in these down market conditions as scaling back on development and focusing on building up properties already owned.

In discussing PREIT's beginning, Ed Glickman referred to the focus of early PREIT as being a small asset management company. He mentioned that REITs' activities were more constrained in the early days. PREIT became largely invested in multifamily mostly in the East, both as managers and developers. Before the 1990s, multifamily and some legacy buildings were the main source of the company's portfolio. In 1997, PREIT merged with the Rubin Organization, and the portfolio expanded to include retail. In 2003, PREIT merged with Crown American Realty Trust and incurred the biggest shift in its portfolio, as it took on twenty-six more retail properties. As diversified REITs were falling more out of favor, PREIT was able to become singularly focused on retail with this latest merger. As developers and managers, PREIT could focus on becoming vertically integrated. Glickman stated PREIT's resilience during the downturns is due to its core geographical base and varied tenants. A good shopping climate adds to the area's strength as a strong retail hub. Industrial sites and older

malls have been renovated successfully by PREIT, who have shown the expertise to dive into such projects (Lerner, 2010).

When asked about his primary duties, Glickman stated he represents the company to the public and investors. He said he deals with the bankers, investors, and capital source providers, with a great deal of his time spent talking with them. He also works on public policies and interacting with the Board of Directors. His responsibilities include working on PREIT's Business Plan and strategy issues. In addition, he does anything else the CEO wants him to do, which depends on what is going on with the business at any point in time. He stated, "This job is like being the Vice President of the United States." (Glickman, 2012)

When asked in his opinion, "What are the strengths of your organization?" Ed Glickman stated the strengths of the organization are its resilience and its ability to take a long-term view. He said, "We are not about really the next quarter, but trying to create long-term value through multiple business cycles. More and more companies are being pushed to being more reactive, which we are not." (Glickman, 2012) He stated that with PREIT being a 50-year old company, management tries to take the view of a longer investment horizon, which is rewarding, but sometimes can be frustrating. He discussed that PREIT was in the multifamily market, but had a good opportunity to sell out of it, which they did. At some point, he mentioned PREIT might go back to multifamily. Over the fifty years, the company has been in many property types, thus management does not see themselves fundamentally limited to any one property type.

With over fifty years operating in many different businesses, Glickman feels management at PREIT keep an open mind about what types of real estate they might want to invest in. PREIT is clearly invested in retail as of 2012, but looking at what they have done

over the last few years, one can see they have added other uses to their properties. Glickman states that their ability and willingness to do that has come from their background of being in multiple businesses. Management tries to keep abreast of all the opportunities for the real estate PREIT owns. Glickman states that if they have a retail property and it has the ability to have something added to it or to be changed from retail to something else, management does not rule that option out just because it is not retail. He refers to the time when PREIT was diversified. PREIT owns some offices and has been utilizing office space with some retail space. In addition, Glickman says if they have issues leasing it out to retail tenants, then they could consider leasing it out for offices. Or, if they feel the demand is greater for retail space where they are leasing out office space, then management might lease it out as retail. As Glickman states, "We are primarily retail, but not exclusively retail, in either our thinking or our skill set." (Glickman, 2012)

When asked about the strengths of PREIT, Glickman thinks there are two that are most descriptive of the company. The first strength is an entrepreneurial bent to the company. Glickman see this strength as management being interested in investing in different opportunities, growing the company, and taking risks where appropriate. Management consider themselves real estate entrepreneurs, as they are not afraid of complexity and not afraid of risk. The other strength, Glickman notes, is that PREIT has had a focus for a number of years on ground development, so they are not afraid to blow up buildings to build back. He notes that management keeps in mind the possibility for physically reconstructing property to a greater extent than those companies that are classified as asset managers. Glickman states, "We can reconfigure a property and have the skill set to do so, thus we are not afraid to go in that direction when it makes sense. We endeavor to have it make sense." (Glickman, 2012) He

feels PREIT has the skill set and can put it into play, when and if, it is the most appropriate strategy for the company. In his opinion, companies that are more focused in asset management would not want to take that same tactic with the property (Glickman, 2012).

When asked about his organization's goals and strategy, Glickman states PREIT's goal is to provide long-term returns to its shareholders. He notes that for most of management, their holdings in PREIT are a significant component of their personal net worth. Thus, he feels like it is not contrite to say they are truly focused on creating value for the company for the long term. To do that, Glickman says they want to take appropriate risks and reach levels of diversification in the portfolio. Glickman says, "Our goal is to take assets that may be under-positioned and attempt to work the redevelopments aspects of it and position it more appropriately for the particular market. It may be blowing that asset up, may be expanding it, changing tenants, or maybe recreating space. Because we have the physical construction knowledge, we tend to take a broader position on what property may become." (Glickman, 2012) In Glickman's opinion, PREIT is using that vision to create money over the long term, which is what he feels management at PREIT really strive to do.

In addressing efforts the organization is making in striving to meet its goals, he refers to management's conscious effort to become more efficient and more effective at the task that they have weighed out as being the best course for the company. He states they accomplish this task by utilizing technology, improving their business practices, and tightly managing their assets. Their continuous efforts to remain abreast of happenings in the industry and their flexibility in responding to changing conditions are what he feels has helped PREIT survive throughout the last fifty years. Glickman states, "We are always thinking of ways we can address opportunities we hear about in the world and bring them into our properties. The lack

of rigidity is one of the things that have protected the company over the long term. Our ability and willingness to re-vision a property has protected our portfolio over the long haul." (Glickman, 2012)

Lastly in addressing the unique characteristics of PREIT, Glickman sees a high level of entrepreneurial activity, an understanding of the development process, and an ability to interpret and manage risk as the company's characteristics. While some companies only have the ability to focus on asset management, PREIT 's expertise extends beyond that. Being able to survive through multiple economic cycles shows the resilience of the company (Glickman, 2012).

Interview with Jeffrey Linn

Along with Ed Glickman, another interview was conducted with Jeffrey Linn, Executive Vice President of Acquisitions. He has worked for PREIT for thirty-seven years, previously working for a mortgage company for one year prior to that. He states that he used to do financings for acquisitions at PREIT, but now they have someone else to do that since he has moved into his present position. He sees his primary duties as focusing on property acquisitions and sales, with some involvement in strategic planning (Linn, 2012).

Linn was asked in his opinion about the strengths of PREIT. He states that management is good at sourcing opportunities and creating deals. He feels PREIT can effectively acquire and develop real estate. He states there is not as much development lately, since PREIT is focused on retail properties and the rents have not been as good as they used to be. He referred to mid-size box tenants who do not pay the rents they used to pay. This

reduced rent, combined with an overall economic downturn, decreases the opportunity for new development as of late (Linn, 2012).

One of the additional strengths Linn sees with PREIT is leasing. He feels the company is very good at making the best out of leasing opportunities. It helps that the company has good relationships with retailers, investors, and lenders. Linn also notes that the organization has always been entrepreneurial and has good management. In addition, he feels the finance department is effective at financial engineering when an opportunity presents itself (Linn, 2012).

As Linn discussed PREIT's strength's, he affirmed the focus and history of the company. He noted they specialize in retail. However, PREIT was once diversified in focus, until the merger with the Rubin Organization. At that time, the company sold off the apartments and industrial. Linn states the company had already sold the one office building it owned. When he joined the company, Linn asserts it was diversified and he used to run the apartments. Whether it was the right decision or not, he states the yields were higher on retail than they were on multifamily, so the decision was made to switch to a retail focus. In addition, the Rubin Company was more of a retail or office company than it was multifamily, so it was much more comfortable in letting Linn acquire shopping centers, so that was what he did. PREIT sold off the apartments to provide money to put into retail (Linn, 2012).

During the interview, Linn was asked about his organization's goals and strategy. He stated that as a public company, the shareholders are served if PREIT maximizes its returns. In his opinion, the best way to do that is to grow the net operating income (NOI). Being in acquisitions, Linn stated he is open to opportunities if the situation is right. Linn discussed a mall in Colorado Springs that he would have considered, but the company had other uses for

the capital. He noted the relationships are with the national retailers, so it does not matter so much where the retail locations lie. Linn stated that PREIT does have two customers. However, even though the shopper is one, the company is one layer removed from the shopper. Thus, Linn feels PREIT's true customer is the retailer, which is a national relationship. In his opinion, it really does not matter if the property is in Philadelphia or Memphis, even though he notes it is a little less efficient to have properties scattered. Linn referred to the one property in Wisconsin the company owns and one he was looking at purchasing in North Dakota, as examples of scattered properties that are a little more difficult to manage. Increasing the geographic scope is somewhat of a modest change, but one worth considering, if it is cost efficient according to Linn. The essence of the national relationship is what offers the company its increased geographic scope (Interview with Jeff Linn, 2012).

After the discussion with Linn concerning the organization's goals and strategy, the topic of how the organization was striving to meet its goals was the next issue on the agenda. Linn discussed the company's endeavors to grow NOI. One of the ways Linn sees PREIT growing NOI is through a joint venture with institutional money, where the two combined have the expertise to lease the assets, manage them, or redevelop them. He stated that PREIT is looking into doing that for some fortress malls and also B malls that dominate small trade areas, like secondary markets. In addition, he notes that PREIT is going to sell some of its assets that are not growing and refocus the capital elsewhere. As Linn states, "We are an entrepreneurial organization, so we have looked at things that were not straight retail if the returns were appropriate and we could use our expertise. Our primary focus is retail and when we have stepped out of it, it usually has been related somehow" (Linn, 2012). To provide an example where PREIT has ventured out from its retail focus, Linn discussed the experience

with a cell tower company. He noted that before the merger of Rubin Company and PREIT, PREIT had a piece of a cell tower company and wisely used the roofs of the buildings they owned to house the cell towers. It was not retail, but it was related, in his opinion. Thus, he sees opportunities in related areas that become available because PREIT is a landlord (Linn, 2012).

In addition, Linn discussed the implementation of mixed-use properties as part of PREIT's plan to implement its strategy. He stated, "We have done one mixed use property, where it was a shopping center that we owned and we blew up a couple of the department stores and some of the mall and turned it into open air shopping for that part of the center. Above the retail, there is multifamily and there is more multifamily and condos on some of the remaining ground" (Linn, 2012). For PREIT, the multifamily has done extremely well. The demographics and lower percentage home ownership will support multifamily for awhile. Due to these factors and others, PREIT will consider other mixed use properties, as it seems right.

Upon being asked to what he attributes his organization's success over the last fifty years, Linn responded that good relationships and strong personnel who understand the industry and economic environment were essential to the company's success. He sees personnel and management that understand alternatives and can identify different avenues for the company as key to the company's long-term success. In addition, having older management has its advantages, in Linn's opinion, but is not always crucial. As Linn states, "Hopefully they will not make some of the mistakes a new MBA out of graduate school would make, but some new blood is important for innovation and some of the new things that are happening" (Linn, 2012). Linn further commented that retail is changing and all the shopping that is done now is not done in malls. So experience is definitely valuable, but it is just a piece

of the puzzle. He noted that all of PREIT's senior management has been through multiple recessions, even though this last one is the worst one Linn has seen. So, in his opinion, it was not the first instance when times got difficult for the company. Of course, just being in business for over fifty years lends credibility to the company, which has also added to its success. In addition, the company's dividend record has contributed to its success, as PREIT has never interrupted its dividend payments. The first time PREIT lowered dividends was in this current recession. Even though the dividend per share went down, PREIT still was able to pay out cash dividends, even though the IRS permitted some dividends to be paid in stock (Linn, 2012).

In discussing the unique characteristics of PREIT, Linn commented, "There are a lot of other people in the retail business besides us, so I am not sure how unique we are. Other people have relationships and some others have long histories, so if you have fifty years or forty years, I do not know that it makes that much of a difference" (Linn, 2012). As a seasoned member of management who has been with the company for thirty-seven of its fifty years, Linn was able to provide valuable insight into the workings of PREIT (Linn, 2012).

CHAPTER VII

WINTHROP REALTY TRUST

To appreciate the history and success of Winthrop over the last fifty years, it was evaluated both qualitatively and quantitatively. Qualitative evaluation was performed through a review of historical documents and an in-depth interview with Michael Ashner, Chairman and Chief Executive Officer. The interview provided information on Winthrop's strategies, management, and future direction. After review and discussion of the historical documents, the details related to the interview will be presented, followed by closing comments.

Winthrop Realty Trust has not only changed its name since it began in the early 1960s, but it has also changed its focus. With the name change from First Union Real Estate Equity and Mortgage Investments to Winthrop Realty Trust on December 1, 2005, the company has aligned its identity to its management and investment philosophy. As Michael Ashner stated at the time of the 8-K SEC filing related to the name change:

> the change in our name both enables us to more closely identify with our management team and the investment philosophy we have developed at Winthrop over the past nine years and eliminate the continuing confusion engendered by the similarity between the Trust's former name and that of the former First Union bank (Winthrop Realty Trust 8-K, December 2005).

As it was called in its beginning, First Union Realty was organized in Ohio as an unincorporated business trust under a Declaration of Trust dated August 1, 1961. The organization was formed to participate in the new rules governing Real Estate Investment Trusts (REITs). In 1969, the name was changed to First Union Real Estate Equity and Mortgage Investments. As mentioned above, the name was changed again to Winthrop Realty Trust in 2005 (Second Amended and Restated Declaration of Trust, 2009).

Since management has changed hands multiple times throughout Winthrop's history, early information on Winthrop was difficult to locate. Through discussions with Michael Ashner, he was unaware of where any old information on the company existed. His assistant checked with officers in the company's Boston location where the accounting and operations resided, and no one was aware of any old information or how it could be located. Thus, the facts presented below were derived from public information available through automated databases. In particular, *The Wall Street Journal* archives was used to build a historical perspective of the company during its early years.

On November 30, 1962, First Union Realty announced it would issue 880,000 shares of beneficial interest with funds utilized to acquire an office building. The price of the shares would be based on bid prices at that time, which ranged from $13.12 to $13.75, in the Over-the-Counter (OTC) market. The article mentioned that Hayden, Miller & Co. in Cleveland and Harriman Ripley & Co. in New York were the underwriters and original trust sponsors (Staff Reporter, WSJ, 1962). The 880,000 shares were actually offered at $13 per share on January 9, 1963 (Staff Reporter, WSJ, 1963). On August 2, 1968, First Union filed another offering with the SEC for 600,000 shares of beneficial interest (Staff Reporter, WSJ, 1968). A third offering was registered with the SEC on March 10, 1970 consisting of 1,000,000 shares of beneficial

interest (Staff Reporter, WSJ, 1970). Additionally, on November 16, 1971, First Union Realty announced a scheduled offering of $20 million in 20-year convertible bonds that were to be used to purchase shares (Staff Reporter, WSJ, 1971).

On November 22, 1974, First Union announced it would not follow other REITs that were choosing to lower or not pay a dividend for the current period, opting instead to continue to pay its dividend (Staff Reporter, WSJ, 1974). In 1978, First Union's President, Thomas Hartigan, resigned (Staff Reporter, WSJ, 1978), and in 1979 First Union changed its fiscal year from October 31st to December 31st. In addition, in 1979, First Union announced an offering of $40 million convertible bonds (Staff Reporter, WSJ, 1979). At the beginning of the 1980s, First Union conducted another offering of $50 million in 25-year convertible bonds (Staff Reporter, WSJ, 1980).

What marked the early part of the decade of the 1980s for First Union was its relationship and battles with Unicorp Financial Corp, a company based in Canada. On March 31, 1981, First Union was reported as suing Unicorp for behavior it deemed could cause the company to lose its REIT status. First Union stated in its lawsuit that Unicorp was conducting business in a manner to take over control of the REIT (Staff Reporter, WSJ, 1981). On February 16, 1982 Unicorp was reported as being positioned to fight for control of First Union. Unicorp owned 26% of the shares of the REIT and was fighting for a spot on the Board of Directors (Staff Reporter, WSJ, 1982). However, by February 26, 1982, Unicorp was ready to end the one-year-long battle with First Union. Unicorp agreed to sell all its shares for $46 million payable over a two-year period to First Union (Staff Reporter, WSJ, 1982). The events with Unicorp led to future actions by First Union over the remaining decade to avoid hostile takeovers.

On April 1, 1984, the shareholders of First Union instituted procedures to prevent hostile takeovers. However, those procedures were designed to allow the company to undergo a friendly merger with an entity, even if it risked the REIT status. In order for a merger to occur, 70% of the shareholders and the majority of trustees would have to agree. At the time of this announcement, First Union was noted as unaware of any specific attempts. The WSJ article noted that First Union was known for its ownership of downtown offices and retail malls (Staff Reporter, WSJ, 1984).

On August 20, 1984, First Union announced the registration of $50 million of 25-year convertible bonds (Staff Reporter, WSJ, 1984). On October 18, 1984, First Union reported it was redeeming the remaining $12.2 million of its convertible bonds outstanding that were issued in 1980. First Union did this redemption to strengthen its balance sheet after its prior month issuance of $35 million of convertible bonds (Staff Reporter, WSJ, 1984). On May 29, 1985, First Union sold $50 million of 5-year notes (Staff Reporter, WSJ, 1985).

In 1986, the board at First Union approved a 3-for-2 stock split and increased its dividend 3% to a quarterly amount of $.35. With the stock split, approximately 18.1 million common shares were outstanding (Staff Reporter, WSJ, 1986). In 1988, Moody's dropped the rating on $135 million of First Union's long-term debt. The downgrade was initiated by weakening in the debt coverage ratios, significant renovations to its properties, and reduced occupancy. While First Union contended that its coverage ratios had not changed much in the last three years, Moody's was concerned about the company's $370 million in assets as of June 30, 1988 (Staff Reporter, WSJ, 1988).

In conjunction with the overall decline in the real estate industry, First Union cut its dividend 28% to $.18 (from .$.25) on Dec 5, 1991. Liquidity and problems in the real estate

industry were the reasons given. Additionally, First Union noted the reluctance of lenders to refinance short-term debt of $70 million. Management noted that the reduced dividend was in line with IRS guidelines for REITs (Staff Reporter, WSJ, 1991).

On January 1, 1994, James C. Mastandrea became Chairman and Chief Executive Officer of what was then First Union Real Estate Equity and Mortgage Investments. First Union was noted as being a Cleveland-based REIT. Mastandrea came on board and set out a strategic plan, as he noted that the company had been sleeping and was not well-liked by Wall Street. He stated, "At one time we were the premier company in the industry and then, all of a sudden, along comes all these darling REITs, and we found ourselves just way way way behind." (King, 1997) Mastandrea worked to restructure the company in every way. The property net operating income was down to $40 million in 1993, whereas it had been at $48 million in 1990. He created divisions for retail, apartment, parking, and office to operate as separate companies. Capital expenditures increased from $5 million in 1990 to $14 million in 1994, while net operating income rose to $42 million under his tenure. Mastandrea repositioned First Union's portfolio by buying and selling properties through tax-free exchanges and increasing capital expenditures. After getting his tools in place, his next step was major, as he stated, "The two things I wanted to do next was to make a 'quantum leap'...which meant we wanted to buy a company at least our size, and then we wanted to clarify who we were to investors." (King, 1997)

In 1996, First Union entered into partnership with GMAC Commercial Mortgage and Cargill to purchase the Marathon portfolio. This portfolio consisted of nine southwestern malls at a cost of $312 million. This purchase prompted First Union to enact a public offering, which was the first one in 20 years. The offering consisted of convertible preferred stock at an

amount that got the notice of Wall Street. Before this issuance of stock, the stock traded at a price of approximately $7 per share. After the issuance, the stock increased to $13 a share. Mastandrea's plan was to continue buying out his partners in Marathon to increase net operating income to $80 million and above (King, 1997).

Mastandrea also commented about the low dividend rate, as compared to other REITs. He mentioned that he cut it another 44% upon his arrival, so the funds could be employed into the properties. The decision was not well-liked and he continued to keep the dividend rate down to improve existing properties.[29] In response to the low dividend, he commented

> What that says is that we have a lot of opportunity to raise that…We have about another 12 to 18 months of improvements we want to do to our properties so, when we do, we'll have all that extra cash to start paying out (King, 1997).

King (1997) discussed the company's stock structure as a stapled REIT, which was only found in four of the existing REITs. This structure had allowed First Union to purchase and manage properties with additional profit opportunities occurring from other corresponding operating businesses. This structure had set it apart from other REITs and gave it a competitive advantage. As an affiliate of First Union (REIT), First Union Management, Inc. handled the leasing and operation of the REIT's properties. The stock from First Union Management resided in a fiduciary trust with the profit of that trust transferring to the shareholders of First Union (REIT). To describe the mechanics, Daniel E. Nixon, Executive Vice President and Director of Retail for First Union Management, Inc. stated, "So if you would own one share of First Union, the public company, you would also own one share,

[29]First Union was still required to pay out at least 95% of its earnings in dividends. The dividends he did not choose to pay out were known as discretionary dividends, since they were in excess of the amount required by law. Since the dividend requirement is calculated off of net income, most REITs have the cash flow to pay out in dividends over the 90% or 95% required by law, due to large depreciation charges associated with real estate.

which is almost like a phantom share or a stapled share, of the management company" (King, 1997). In Nixon's opinion, this structure removed any conflicts of interest, whether real or perceived, since owning the real estate allowed one to also own the management company. Nixon stated that investors liked the concept, whether they own one share or a million shares (King, 1997).

During this period, King (1997) stated that First Union was fine tuning its operations. The company was expanding its parking business by purchasing locations in Canada and expanding operations in the United States. Mastandrea commented on the increasing use of software and how computers were helping him function more effectively. In addition, he noted the flow of knowledge with weekly meetings to kick around ideas. Nixon referred to the culture established by Mastandrea as entrepreneurial, while operating in the midst of a public company. For a company that seemed dead, Mastandrea commented that people were inquiring about it and management was being asked for interviews (King, 1997).

Kirkpatrick (1998) wrote that Mastandrea discovered gold in First Union's unique stapled REIT status when reviewing its bylaws. However, he wrote that its value was at risk, as legislation was proposed preventing stapled REITs from using their tax preferences for any new acquisitions. With news of the proposed legislation, First Union's stock was downgraded by analysts, as part of the value of the stock was due to its stapled REIT status. Kirkpatrick (1998) discussed the struggles of the company, especially with the purchase of company stock by some hedge funds in an effort to gain control and sell off the company. Gotham Partners Management Co., one of the largest hedge funds based in New York, attempted through proxy to oust Mastandrea. Mastandrea, meanwhile, was trying to look at alternatives, such as splitting the company into its asset base and stapled REIT structure. Analysts noted First

Union's financial difficulties, as its FFO declined 11%, while other stapled REITs showed large gains. Gotham claimed Mastandrea did not realize soon enough the benefit it had in its structure, while the other stapled REITs were taking advantage of it for over a year. The $325 million purchase of malls, which do not utilize the benefits of the stapled REIT, was seen as a bad investment decision. Not much of the revenue of the malls comes from their operation, which was the main advantage stapled REITs enjoyed. In addition, Gotham and others disagreed with Mastandrea's decision to institute a $125 million equity offering in 1997 that doubled shares, diluted earnings, and diluted interests of the opposing shareholders. Mastandrea contended that the proceeds from the stock issuance allowed First Union to purchase a parking lot, which utilized the stapled REIT structure. At that time, Mastandrea mentioned future purchases of operating parking lots were planned (Kirkpatrick, 1998).

The years of 1997 and 1998 for First Union were centered on its power struggle with the hedge funds, in particular Gotham Partners. In an Ohio courtroom, First Union fought against Gotham's proxy battle and attempted to strip Gotham of its voting rights for failure to disclose its investors. Gotham stated if they gained control of First Union's board they would merge with an entity to grow in a much quicker manner. Two other hedge funds, with 17% combined ownership, supported Gotham's efforts. The other three stapled REITs were purchased by aggressive property dealers and grew rapidly with an average return of 228% from July 1995 to December 1997. First Union reflected a return of 145%, which led to the concern that management was not utilizing the advantages of its structure. Gotham became interested in 1996, once First Union disclosed its special status. Mastandrea was not seen as having the expertise to deal with a stapled REIT. Gotham wanted to replace him and two other members of the board, while also increasing the board from nine to fifteen members. First

Union sued Gotham, claiming since it did not provide the information on its investors, it should have no voting rights, not be allowed to put proposals before the shareholders, or receive dividends (Pacelle, 1998). On May 27, 1998, WSJ reported that First Union's shareholders gave control to Gotham Partners. Mastandrea was terminated by the board, receiving a $3.4 million buyout on his contract (Staff Reporter, WSJ, 1998). However, with passage of the IRS Restructuring Bill in August, First Union lost its advantage over other REITs for acquisitions made after March 26, 1998, slowing acquisition activity over the next few years.

In his 2003 Letter to the Shareholders, Ashner stated he would address the company's plans, strategies, and ambitions, as this was the first letter under the new management structure at Winthrop. Ashner stated Winthrop had been acquired by FUR Investors LLC, an entity solely managed by him, on December 31, 2003, through the purchase of 10 million shares of the company's stock. At that time, he was appointed President and CEO, while other associates of his were appointed to executive management positions. He stated that FUR would be restricted in the number of common shares it could purchase in the future, to ensure that REIT status was maintained. In addition, he noted that all his real estate activities in the future would flow through the company (Ashner, Letter, 2003).

In the letter, Ashner introduced his management team and their investment philosophy, emphasizing opportunistic investing without restriction on asset type or geographical location. His main restriction for a purchase was that they obtain 100% control over the asset or they have the ability to exit the asset when the price has reached its fair value. He stated that this investment philosophy might confuse some investors, as this approach was different. In addition, he stated that only low interest rates had kept real estate foreclosures from occurring in a market that he felt was overbuilt and overpriced. He felt that due to the cyclical nature of

real estate, the opportunities presented in the 1990s for opportunistic investing would happen again. Additionally, he stated that when the environment consists of higher rates again with lower liquidity, then management may decide to focus in on one sector. He provided two examples of the company's investment strategy by referring to a purchase of shares in an entity whose net asset value was greater than its purchase price and a loan at 12% to deploy capital in the current interest rate market. He stated that he hoped investors could comprehend what management was trying to create:

> a publicly traded real estate opportunity vehicle in which management's interests are closely aligned with those of shareholders. In so doing, we recognize that we will face significant challenges and competition in sourcing appropriate investments from larger and better capitalized real estate investment trusts and real estate opportunity funds. Further, we also acknowledge that the near term investment environment is less conducive to our type of investing than we would like. Hopefully, we will prove to be nimble and fleet of foot (Ashner, Letter, 2003).

He further stated that this company may not be for the short-term investor, the investor with a small risk tolerance, or an investor looking for recurring themes. However, he was opening up the lines of communication between management and its investors during a time of great change in the organization (Ashner, Letter, 2003).

In 2004, First Union reported net income of $19.9 million for its second quarter results, compared to the prior year's second quarter results of $3.6 million. For the first half of 2004, First Union earned $19.2 million, as opposed to a $3 million loss the prior year. Even though the results were promising for First Union, the improvement in earnings was primarily attributable to a $19.7 million accounting gain on a sale occurring in the second quarter 2004. The improvement in earnings was a positive sign that First Union appeared to be moving in the right direction (Bergquist, 2004).

In his 2004 CEO Letter to the Shareholders, Ashner recapped some of the activities of the company's first year under new management and outlined its direction moving forward. Ashner reiterated the company's investment philosophy and stated the goal to implement the business plan for opportunistic investing was in process. He mentioned they had solved some problems existing from prior management's tenure and repositioned company assets to maximize return. He stated that the company had only two assets when they took it over, a retail mall in Little Rock and an office complex in Indianapolis. During 2004, the company was able to sell the retail mall for a gain and redeploy that capital into existing property around the office complex in Indianapolis. Due to the current economic environment in 2004, Ashner stated the company focused on real estate debt, undervalued public equity securities, and portfolio real estate acquisitions. The company originated three first mortgage loans and one mezzanine loan, of which two were paid off by the end of the year at a return of over 12%. In addition, the company purchased a portfolio of 16 properties for $91 million, rolling over the gain from the Little Rock mall in a like-kind exchange. During 2004, Winthrop also entered a joint venture and provided convertible debt financing. Net book value increased by 31.6% from $2.37 to $3.12 per share and positive net income from continuing operations resulted after a loss in 2003. Also important was an increase in the square footage managed from 380,000 to 3,200,000 square feet as of March 1, 2005 (Ashner, Letter, 2004).

In 2005, First Union announced its name change to Winthrop Realty Trust. Its operating partnership, First Union REIT, L.P., changed its name to WRT Realty L.P. The name change had been previously approved by the shareholders of the Trust during its 2005 Annual Meeting. The Trustees felt that the previous First Union name for the REIT was too closely identified with the former First Union Bank. In addition, the Trustees felt that the

Winthrop name more closely identified the company with the new management team and its investment philosophy (First Union, December 1, 1005).

Peter Braverman, Executive Vice President of Winthrop Realty Trust and Winthrop Realty Partners was interviewed in October 2006 as part of a company interview with *The Wall Street Transcripts* (TWST). At the time of the interview, Braverman was President and a Director of both Winthrop Realty Trust and Newkirk Realty Trust, Inc., and had been associated with Winthrop since January 1996. In addition, he served as a Director and Executive Vice President of Shelbourne Properties I, Inc., Shelbourne Properties II, Inc., and Shelbourne Properties III, Inc. from August 2002 until they were liquidated in April 2004 (TWST, 2006).

When asked what Winthrop Realty was, Braverman responded that it was a diversified public REIT actively traded on the NYSE. He stated it was in a select group of REITs that were open to investing in all property types throughout the U. S. He asserted their investment strategy was built upon opportunistic investing. The senior management team had been together for fifteen years and purchased assets in all fifty states and across all sectors. That experience and knowledge was now being applied at Winthrop. He stated they utilized four distinct arrangements in their investment strategy. They directly purchase real property that is undervalued, which he cited the Finova portfolio as an example. He noted that acquisition had sixteen properties leased to tenants such as CBS Viacom and BellSouth, and yielded a cash return on a leveraged basis of greater than 20%. A second arrangement they utilize is platform investments. Joint ventures are formed with operating partners in different locations to provide a local presence in one or more unique locations. He cited Marc Realty as an example, where they jointly own office properties through mezzanine loans and ownership interests. He noted

that Marc works with smaller tenants and shorter leases allowing them to realize a higher occupancy rate and regular rents. Not only was management at Winthrop pleased with the financial results, but they liked having a presence in Chicago through the platform with Marc. A third arrangement utilizes the purchase of securities in other REITs. He cited the shares they acquired in Sizeler Property Investors, which was based outside of New Orleans. He noted they purchased 8% of the securities over time and ended up selling the stock for a gain of approximately $6.65 per share.[30] He stated actions were taken such that Michael Ashner was appointed to Sizeler's Board of Directors, and through events initiated by others, the share price was increased to its real value and Winthrop exited. The fourth arrangement utilizes debt, whereas Winthrop is making or buying loans with a high yield (TWST, 2006).

In 2006, when the interview was conducted, Braverman stated the market was choppy, implying opportunities are there, but harder to find. Winthrop identified opportunities in the debt market. He stated there are some properties that the price is too high for the company to bid on, but they are comfortable extending credit. Thus, they can earn a return and become involved in a market that they feel is too highly priced. Acquisitions in secondary markets are available at a reasonable price, according to Braverman (TWST, 2006).

Braverman was asked about any specific strategies on investment yields, to which he responded that the highest total return and the payment of dividends was one of Winthrop's goals. He stated that when their management team took over in January 2004, the company was not paying a dividend and had a lack of cash flow. He said they were now paying a quarterly dividend of $0.06 per share and the net cash flow from operations for six months

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[30] The price of the Sizeler stock when acquired by Winthrop was approximately $7.70. It was subsequently sold by Winthrop for $14.35. During the time it was held by Winthrop, Michael Ashner was nominated to the Sizeler Board of Directors with a liquidation plan in tow, which assisted in the price appreciation.

ended June 30, 2006, was $17.9 million. Over the long term, Winthrop looked to improve performance (TWST, 2006).

Asked about key individuals in the company, Braverman referred to Michael Ashner, Chairman and CEO, as management's leader. Other important members of management were Carolyn Tiffany, Chief Operating Officer, who was located in Boston, John Alba, Chief Investment Officer, who was located in New York, and Tom Staples, CFO. All of management had been together for at least ten years and the entire team had spent their careers in real estate (TWST, 2006).

When asked about fund raising at Winthrop, Braverman responded by stating:

> The nature of all REITs is that they are capital hogs. At some point, every successful REIT by definition raises both equity and debt funds in any number of fashions. So we will continue to take advantage of both markets over the course of time (TWST, 2006).

Braverman stated that the shareholder base has been fairly stable since December 2003 when the existing management achieved control. He stated that Vornado and Kimco both have holdings in their firm, along with some institutional investors that have remained throughout their tenure. Braverman stated he was not sure investors comprehend what Winthrop is doing, but they like the financial results they see. The growth and return is what keeps them interested. The fact that Winthrop is diversified adds to its complexity, because investors cannot easily label it as focused on a sector. However, he feels they know Ashner and the type of investor he is and they buy into that. He further stated:

> In essence, they are getting the benefits of private equity fund-type investing or opportunity investing, but in the form of a public REIT, which gives you liquidity, something you will not receive in most private enterprises (TWST, 2006).

Asked about key metrics that investors should look at when evaluating Winthrop, Braverman responded that total return was probably the most important for Winthrop. He stated that Winthrop was leading in the 12-month and 36-month total return for all REITs. In addition, Braverman stated that he felt the management team's philosophy of investing would be successful in any real estate cycle. He thought that an investor that was looking for diversification in sectors as part of their allocation among REITs could find balance by investing in Winthrop (TWST, 2006).

Braverman's comments concerning Winthrop as a cycle-proof REIT investment were important, especially in 2006 as a real estate bubble was beginning to be discussed. Phoenix Management Services revealed that two-thirds of lenders in the country were under the opinion that a real estate bubble existed in the industry. In an article discussing the housing bubble and mortgage news, the joint venture of Winthrop Realty Trust and Newkirk Realty Trust, Inc. was mentioned as a business combination structured to acquire and originate real estate secured loans (Roundup, 2006).

In March 2008, StreetInvesting.com was noted as resuming its progressive review of Winthrop by following the impact of the markets and its effects on the company's developments. The review was resumed due to Winthrop's stock trading up 2% and recent company news releases showing year-ended 2007 results. What is important about this analyst following is that Streetinvesting.com is considered an aggressive-growth research company with its goal to bring unique trading opportunities to investors interested in different and special investment proposals. The analyst following was confirmation that the investment community was taking notice of Winthrop and its unique investment philosophy (Progressive Following, 3/12/2008). In addition, InvestorIM also began following Winthrop in March 2008

due to what they described as a 3% increase in its trading price (Progressive Following, 3/13/2008).

On April 1, 2008, Streetinvesting.com reported that Winthrop announced that due to a recent sale of stock in Lexington Realty Trust and the repayment of a mortgage loan receivable, liquidity had increased and cash would be available for investment. In addition, Ashner stated that with the cash available of $130 million and an untapped $70 million line of credit, Winthrop would be in a good position to take advantage of opportunities he believed would be coming up due to the dislocation of the current credit market. These results were reported with the ending of Winthrop's first quarter of March 31, 2008 (Progressive Following, 4/01/2008). This information on Winthrop's liquidity is important since it shows that Winthrop was positioning itself for liquidity shortfalls to come. As anyone following history knows, credit problems ultimately occurred in the fall of 2008 with the filing of bankruptcy by Lehman Brothers and the credit crisis that ensued afterwards.

On March 23, 2009, Winthrop nearly tripled its investment in the preferred stock of Maguire Properties, an office REIT based out of Los Angeles. Maguire had been experiencing financial troubles, and with Winthrop's latest purchase, its investment increased to 9.5% of the outstanding preferred stock of Maguire. Even with Maguire's threat of bankruptcy, Winthrop saw value over the long term. However, the preferred stock did not carry voting rights and Winthrop could not initially exercise influence over Maguire's management (Winthrop Boosts, 3/23/2009).

In his 2009 Letter to Shareholders written April 2010, Ashner discussed not only the market conditions, but also Winthrop's activities. He stated that the market showed some indications of recovery, while at the same time REIT earnings declined in 2009 and were

expected to continue to decline in 2010. In the shareholder's letter, the following quote from the executive summary of the February 10, 2010 Congressional Oversight's Panel Special Report named "Commercial Real Estate Losses and the Risk to Financial Stability" stated:

> Between 2010 and 2014 about $1.4 trillion in commercial real estate loans will reach the end of their terms. Nearly half are at present "under water"- that is the borrower owes more than the underlying property is currently worth. Commercial property values have fallen more than 40 percent since the beginning of 2007. Increased vacancy rates which now range from 8 percent for multifamily housing to 18 percent for office buildings, and falling rents, which have declined by 40 percent for office space and 33 percent for retail space, have exerted a powerful downward pressure on the value of commercial properties (Ashner, April 2010).

Ashner further stated that according to Fitch ratings, 20% of all CMBS loans are predicted to need special servicing by 2012. In addition, Ashner stated job growth was still an unknown, which predominately drives occupancy rates. All this information, in Ashner's opinion, disproves the concept of improving real estate markets (Ashner, April 2010).

In 2010, Winthrop, with some other senior mezzanine debt holders, proceeded to foreclose on Peter Cooper/Stuyvesant Town (an apartment complex in Manhattan). The effort to foreclose was being initiated through Concord Real Estate, and included Wachovia, Hartford Investment Management Company, Allied Irish, and Deutsche Genossenschafts-Hypothekenbank. This move was prompted when the borrowers stated they could no longer comply with the terms of their debt service on $3 billion of senior mortgage debt. Junior debt holders were notified of Winthrop's foreclosure move and some were interested in a negotiated settlement. Winthrop declined these negotiations due to the difficulties of working with the borrowers to settle earlier. If the foreclosure was not contested, it could occur in 90 days. One of the key issues in the foreclosure was a $100 million transfer tax to be paid by the controlling party, which was approximately 3% of the balance of the unpaid debt. New York City is

unique in that mezzanine loans have this tax, which was established by Governor Cuomo, to close what he deemed a real estate loophole. Many investors in subordinate debt are not aware they owe the tax when they decide to foreclose, as they battle with other mezzanine investors to keep their equity. The current valuation was also a concern, as most properties placed in this situation experience declines in value (Winthrop-Led, 1/18/2010).

On October 4, 2010, CWCapital worked out a deal to purchase the mezzanine debt on StuyTown from Winthrop and Pershing, which would end the issue on who has the right to foreclose. Thus, CWCapital would purchase the property at a future foreclosure auction. CWCapital took this action to reduce the mortgage recording tax that could amount to $60 to $90 million, upon acquisition. The proposed auction date was set for October 13, 2010 and would conclude with CWCapital buying the mezzanine debt from Winthrop and Pershing (CWCapital, 2010). This event was important for Winthrop, for not only monetary reasons, but to establish its reputation as an opportunistic investor.

As an indicator of the market's perception of Winthrop, on June 7, 2011, Zachs Investment Research upgraded the company from a neutral rating to an outperform rating. The rating change came after Winthrop announced its first quarter results for 2011. Winthrop reported $.44 EPS compared to $.37 for the prior year, with company revenues up 65.6% on a year-to-year basis. Zachs stated that as of December 31, 2009, Winthrop held an interest in properties with 8.5 million square feet of rentable space, owned directly or in a joint venture. Zachs also mentioned that Winthrop owned investment/operating properties, originated and purchased senior and mezzanine loans and debt secured by commercial property, and owned equity and debt securities in other REITs (First Union Real Est, 2011).

Interview with Michael Ashner

Michael Ashner has been Chief Executive Officer (CE0) and Chairman of Winthrop since 2004. Ashner also served as the Chairman and Chief Executive Officer at Winthrop Realty Partners, L.P., a property management firm, since 1996. Through his experience at the partnership, Ashner was active in acquisitions of over $12 billion of real estate, including 85,000 apartments, 50 million square feet of office, retail, and industrial property, and 1,000 hotel rooms. In addition, Ashner was involved in over 500 limited partnerships, including over 50 that were publicly reported with over 100,000 investors and 5 publicly-traded REITs. Prior to 1996, he served as President and Chief Executive Officer of National Property Investors. Ashner also served as Director and Chief Executive Officer of Shelbourne Properties from 2002 through 2004, until it was liquidated in 2004. Shelbourne consisted of three publicly-traded REITs. In addition, Ashner was the Chairman and CEO of Newkirk Realty Trust, a publicly-traded REIT on the NYSE, until it merged with Lexington Realty Trust in 2007. He served for one-year at Lexington Realty Trust as Executive Chairman, to ensure a smooth transition with the merger (Board of Trustees, Winthrop, 2011). Ashner has been part of the REIT industry since the 1980s and has been involved in some of its biggest changes. Prior to his involvement in the REIT industry, Ashner served as a lawyer who represented real estate syndicates (Flynn, 2010).

Prior to the interview specifically conducted for this research, Ashner was interviewed by REIT.com on October 6, 2010 in connection with the 50th Anniversary Celebration of the REIT industry. In the write-up of the interview, it was noted that Winthrop had morphed from its original creation with just two major properties into a portfolio including retail, office, and service properties. Asher stated in his interview that he has seen REITs change from a group

of small real estate companies just moving along without direction into major capital providers for real estate in the United States. Their value comes from the ability they possess to raise capital through institutional and private investors. He noted that more real estate is owned privately than through public REITs, but public REITs have established their place in the real estate world. Market conditions, Ashner notes, have been important determinants in the growth of REITs. The real estate crisis of the early 1990s, he purports, was a defining moment for REITs. During this time, many REITs were formed from levered private real estate entities, with equity REITs becoming a dominant form of real estate investing. Ashner stated that how much diversification a REIT has within its portfolio will impact its position in the market. Even though the traditional specialized equity REIT will be a large determinant in the market, he also feels diversified opportunistic REITs, like Winthrop, will have influence. Asher stated the diversified REIT that focuses on high return is a good offset to the specialized REIT (Flynn, 2010).

In an interview conducted with Ashner in August 2011, he was asked about his primary duties at Winthrop. Ashner stated his duties involve, "Strategic direction of the company, overseeing its investment activities, and being the face of the company for the market" (Ashner, 2011).

In terms of the strengths of Winthrop, Ashner mainly attributed the company's strengths to its personnel. As he stated:

> People who work for us are very smart. They are very dedicated and because of our relatively small size, we are very nimble. Because of what we do, we can think outside the box and move very quickly from investment category to investment category. I think that is really the strength of the organization (Ashner, 2011).

With Ashner's comment about Winthrop being smaller and more nimble, the question arose concerning any limits on the size he wanted the company to become in order to maintain its quickness in response. Ashner stated he would grow the company and did not want to imply he wanted it to remain stagnant. He expressed his desire to grow the company to the $1 billion mark, because at some point he felt the company starts recycling capital. In Ashner's opinion:

> The optimal point is where as you recycle, you are not over-weighted with cash, and as you recycle capital there are new opportunities. If you get too large you start getting burdened with cash or make too many bad decisions on the investment side. If you are too small, you miss out on opportunities. You want to find the optimal size and I expect it is around the $1 billion mark and our current status is at $400 million (Ashner, 2011).

The interview with Ashner continued as the organization's goals and strategy were discussed. He commented that he did not see Winthrop changing its strategy much from its present position. Ashner stated:

> When I look at the landscape, I see very quality people in every sector of the REIT market. There are a lot of quality companies and I don't know that it adds that much to throw another company in the mix to deal with southern apartments or trophy office buildings. I am not sure the returns are justified for the risk the shareholders would have to accept so I really don't see us doing that at any point" (Ashner, 2011).

Ashner seemed very conscientious of the impact on the shareholders from any of his actions, thus wanted to be sure the company's strategy made sense and would increase value for its shareholders.

In discussing the manner in which Winthrop is striving to meet its goals, Ashner emphasized the daily grind he faces in trying to identify new investment niches. He noted that every day as the market changes, Winthrop has to rethink where the opportunities reside. As Ashner put it, "One of the difficulties we face in being an opportunistic REIT is the ability to

sell common stock when we believe our NAV is greater than the market value, and we have to find other ways to grow the company" (Ashner, 2011). To deal with the challenge, he considers joint venture opportunities and selling senior securities, such as preferred stocks. During 2011, Winthrop sold 5.2 million shares of stock and Ashner commented that he was not particularly happy with the sale, as it was somewhat dilutive. Because of the stock sale in 2011, he stated that if the company did anything else like that to raise capital it would have to be some sort of senior preferred or some sort of debt instrument. In addition, he noted that Winthrop was not very levered as a company, so there were options there. He also discussed there were worse times in 2011 to have issued stock, so he was glad his stock sale did not occur during those times or the funds from the sale could have been lower (Ashner, 2011).

In discussing Winthrop over the years, Ashner notes that the company was not particularly successful before his management team took it over. Since 2004, he correlates any success the company has experienced to the success of its investments. Ashner sums up the situation by stating:

> Before 2004, and this is a matter of historical record, the company was a Paired Share REIT. Any interest in the company was due to the unique tax characteristics of the Paired Share REIT, which would allow the company to invest in operating companies that had real estate assets or real estate companies that had operating assets. More money was lost by investors fighting over this company, than were made by investors from investments in this company during the period 1978 to 2002. All I can speak about is the investments made since 2004, and that is where our losses are taken. We took our lumps like everyone else (Ashner, 2011).

Ashner, in discussing the big swings evident in historical earnings, states that most people that looked at investing in this company from 1998 to 2004 were interested in the unique characteristics of the company as a Paired Share REIT. In his opinion, investors saw Winthrop more as a platform, than for its investments. Upon being questioned about his interest in this

company, Ashner stated that at the time he just wanted a platform. He discussed that the value as a Paired Share REIT was gone, as Congress had re-legislated the benefit of a Paired Share REIT. After the benefit was gone, Winthrop became more of a company with some cash and assets, but in Ashner's opinion, no real direction on where it was going. Ashner's interest was just to have a public company in which he could buy assets through the issuance of perpetual securities. Ashner states:

> The problem for me with opportunistic investing is that there are three flaws: You have to invest when they give you the money, you have to sell when the time period is over, and in the middle if you run into problems and don't have cash, then you don't have easy access to fresh capital. What I like about the public company is that you invest when you think it is wise to, you sell when you think it is wise to, and you always have access to capital to deal with your issues. I like that and think it is a better business model for opportunistic investing (Ashner, 2011).

Thus, the former First Union Real Estate Equity and Mortgage Investments gave Ashner the ability to have that platform, and with the purchase he got one of the oldest REITs that had existed since the early 1960s. Thus, Winthrop provided a legacy too. Ashner was quick to note that as one looks around his office, no mementos of its prior age can be seen. He stated there were probably some old First Union items lingering somewhere in a warehouse, but he was not aware of them (Ashner, 2011).

In discussing Winthrop as a survivor over the fifty-year history of REITs, the other survivors, Washington REIT and Pennsylvania REIT (PREIT), were mentioned. Ashner stated that the Rubins did the same thing with Pennsylvania REIT that he had done at Winthrop, by taking control of the existing company through a reverse merger. Just as he could talk more about the existing company of Winthrop and not so much about the history of First Union, he felt the Rubins would be in that same position with PREIT. They would be able to discuss the

last four or five years of the company, but would not be as aware of the history of PREIT. When asked to what he attributed his organization's success over the last 50 years, Ashner mentions once again First Union's platform as a Paired Share REIT. Other than that, he could not really discuss much about the history of the company since he had only been involved with it since 2004 (Ashner, 2011).

As the interview was winding down, Ashner was asked about the unique characteristics of Winthrop. Ashner responded, "Investment strategies are really what is unique in my opinion. We are a dedicated opportunistic investor and not interested in any single investment strategy." (Ashner, 2011) In terms of how that differs from other REITs that may hold long-term successful operating properties, Ashner states it comes down to the returns your investors expect. He states:

> Look at it this way, when the compound growth falls to the market rate of growth, then that is probably the time to exit. That is what people invest with us for. They are looking for a higher return. Every day you are looking at either buying or selling something. If you make a buy decision in any given day, you are thinking the properties are going up in value. You buy something for $10 million and by the third year, if it has gone up to $20 million, then you are achieving a good return. However, if you continue to hold on to that property and it isn't going up in value much anymore, you are diluting your return. At some point you let them go, just like your children (Ashner, 2011).

To further highlight Ashner's emphasis on returns, the situation with the Churchill property during 2011 and its drag on earnings was discussed. Ashner mentioned that property involved some litigation issues and that by pursuing litigation, the company was making an investment decision. He stated that as long as the cost of the litigation was less than the expected benefit from the conclusion of the litigation, the company will continue to pursue the litigation. In Ashner's opinion, "You are investing your time and your money and you have to determine at what point is it no longer worth it to continue. All litigation, on both sides, is

ultimately an investment decision" (Ashner, 2011). Ashner basically felt one either pursues litigation or does not, but one should never make the mistake of not thinking he is investing his company's cash and resources in litigation.

In concluding the interview, Asher offered some final comments about Winthrop:

> I will tell you what I think is interesting as a final comment on the company. The investment basis of Winthrop as a publicly traded vehicle is unproven, it just is. The question is will the market come to accept an investment vehicle that is dedicated to opportunities or not. If it does, than the company's share price will reflect its underlying value better. If it does not, then in respect to shareholder value, we will have to find a new direction. I like to think of myself as a disciplined detached investor who is interested in finding the best opportunities and value for the shareholder. We are the largest shareholders in the company, so we are aligned with our shareholders. No matter how good your investment strategy is, if the world does not like what you are doing, then you shouldn't be doing it and you have to find another investment vehicle to pursue your strategy (Ashner, 2011).

In terms of its investment focus, one could say Winthrop's management was forging a new direction for how others administer their REITs. Winthrop's success will determine if other companies will be interested in following that path. What is interesting about this situation is that Ashner is taking a company that has been around a long time and making it a totally different company since 2004. Even though the symbol FUR has represented the company on the stock exchange for decades, what that symbol represents in terms of the underlying company is different today from what it was in 1960. Winthrop's emphasis on value may be setting the stage for a new era in the development of REITs (Ashner, 2011).

In addressing how Ashner thinks the investment community has viewed what he has done so far, he felt the perception was slowly changing. From 2004 to 2010, he stated Winthrop was not as successful in getting its story out, which he felt was management's fault. Since 2010 and 2011, he felt they have been doing a lot better in communicating with the

investment community. He mentioned that Winthrop now has three analysts that follow the company and they are much more involved in what the company is doing. Thus, he thinks management is doing a better job of defining who the company is. However, Ashner noted it takes time and it is a process. In his words, “It takes a long time to change the perception of a company” (Ashner, 2011).

In 2011, NAREIT posted an article on its website about Michael Ashner and Winthrop. In the brief article, Ashner stated that one of the most important events in the REIT industry, other than its establishment, was the real estate downturn in the early 1990s (NAREIT, Ashner, 2011). With the decline in 2007 and 2008, and the rebound that has occurred since then, Ashner was asked if he thought when people look back at this time period, it would likewise be viewed as a significant time in the industry. In addition, the question was asked of Ashner about whether commercial properties were priced correctly or if they could be overpriced. Ashner responded:

> I think real estate markets are not priced efficiently right now and to the extent we can take advantage of that, it could change the direction of the industry. If we are right, then others will want to follow. I think you have 4 key real estate markets: New York and Washington (cap rate compression and supply and demand increasing), LA, San Francisco, and Boston (cap rate compression also, but no real growth in the markets or no increase in tenant demand), apartments (cap rate compression also, but it is a question if the real demand has increased as much as people think in a meaningful, long-term sense), and the rest of America which hasn’t really done anything and prices are low and cap rates are high (Ashner, 2011).

Ashner was asked about the increase in apartment demand since the loan crisis in 2008. In his opinion, he stated this increased demand was a temporary thing and he went further to state the apartment business can be treacherous. He has been around the apartment business for a long time and he feels timing is everything. In his opinion, if a company can

time it well, it can do well. Asked if this sector is one he could see Winthrop becoming more focused on, Ashner responded by saying:

> I like the markets, since it is one asset class that you can always keep full at some price. It is not the same thing with office buildings. You can lower your rents, but if people do not need the space, then they won't rent. People always need a place to live. They may not need a warehouse or place to shop, but they always need somewhere to live (Ashner, 2011).

Ashner said he could understand why some REITs chose to specialize in that sector. He further stated that in the current environment, those REITs were performing the best (Ashner, 2011).

In conclusion, Winthrop is a unique company, in that it is has organizationally been in existence for fifty years, but is a different company today than it was in the 1960s. Winthrop began as First Union, but with the name change not only changed its management team, but also its focus. Present management took over First Union due to its platform, rather than its strong tradition of earnings or dividends. In addition, the properties owned by First Union were not of particular interest to Winthrop management. Winthrop has become an opportunistic REIT, searching out properties that offer the greatest return. Because it does not carry the same historic tradition of WRIT or PREIT, patterns of financial behavior will be harder to identify.

CHAPTER VIII

DATA ANALYSIS

In evaluating the 50-year history of the REIT industry, along with the three surviving companies, both qualitative and quantitative information was considered. To quantitatively evaluate the REIT industry and the three specific companies, data was obtained from two nationally recognized databases, SEC filings, and company records. All of the information obtained was used to try to identify success factors and similarities among the three companies, Washington Real Estate Investment Trust (WRIT), Pennsylvania Real Estate Investment Trust (PREIT), and Winthrop Realty Trust (Winthrop). In addition, patterns and differences between these three companies and other companies in the industry that have either not survived or came into the industry at a later date are also examined.

Two nationally recognized databases were used to get the quantitative information, Compustat North America data (Compustat) and SNL Financial data (SNL). While Compustat has been used in financial research for many years, SNL has not been around as long and is not as well known in financial research. Some research in the finance and real estate areas has begun to use SNL more often, primarily for its industry-specific content. Both databases were utilized because of the different contributions they could provide to this research.

Compustat provided information on the REIT industry for most of its fifty years. However, Compustat provides more generic information across all industry types, thus REIT industry-specific measures were not widely available. SNL serves users by providing more industry specific information, but only provides information on the REIT industry going back to 1990. However, specific measures, in particular FFO, AFFO and SNL FFO, are provided from SNL that are not available in Compustat. Thus, both databases are useful in this research and can be utilized to evaluate financial information and draw conclusions. Since the companies were not listed on stock exchanges until the early 1970s, financial information for the years prior to that could not be obtained from either of the two databases. Thus, the individual companies were contacted to see what old information could be provided. Both WRIT and PREIT were able to provide financial information going back to their first prospectus. However, since Winthrop has had major ownership changes, along with a name change, the location of old information on the company was unknown. The earliest information for Winthrop coincided with data that could be obtained with Compustat, whereas information from the 1960s and early 1970s was obtained from historical documentation obtained from WRIT and PREIT.

In Appendix E, analysis is provided based on the Compustat data. As the mean ratios were calculated, the ratios relating to all the other companies (excluding WRIT, PREIT and Winthrop) were winsorized[31] to eliminate extreme outliers that could distort the values and lead to misleading inferences. Table E-1 provides a description of the ratios calculated based

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[31] Winsorization involves the process by which extreme values are replaced to eliminate the impact on statistical inferences drawn from the data. Utilizing a 90% Winsorization, ratios above the top 95% and below the bottom 5% of the extreme values are replaced by the ratios at the 95% and 5% levels, respectively. (http://en.wikipedia.org/wiki/Winsorising)

on this data. FFO per share was calculated, as FFO is one of the industry measures widely used to evaluate operations. Per research specialists and analysts, FFO Multiple is one of the most regarded measures of operating performance, thus it was also evaluated. The last ratio evaluated here that uses FFO is the FFO Payout, which compares FFO to net income. The FFO Payout is inspired from the Dividend Payout ratio that compares dividends to net income to determine what percentage of earnings is paid out in dividends. Through review of the Pearson correlation coefficients, the FFO Payout and Dividend Payout ratios were highly correlated. Therefore, using both ratios in the analysis did not provide much added information. The Dividend Payout ratio is probably more meaningful, as it is more well-known across industries. Lastly, utilizing dividend information, the Dividends per share and Dividend yield were calculated. Both of those ratios are commonly used by publicly traded companies and are especially important for REITs, since they must pay out at least 90% of their earnings in dividends.

Utilizing balance sheet information, the Debt and Leverage ratios were calculated. Real estate companies are historically associated with higher debt, but with access to public markets, REITs tend to balance their use of equity with debt. Through review of the Pearson correlation coefficients, the Debt and Leverage ratios were highly correlated. Therefore, using both ratios in the analysis did not provide much added information, and either ratio was sufficient to tell the debt story. In addition, the growth in total assets and growth in revenue were analyzed. Lastly, as liquidity and cash flow are necessary for REITs due to their distribution requirements, Cash to Total Assets was analyzed. These ratios were computed with the means derived for each of the three individual companies, for the average of the three

companies combined, and for all the other companies in the industry, excluding the three surviving companies.

In Table E-2, the means are presented for all eleven ratios computed from the Compustat data. The ratios are presented horizontally with the five entity types discussed above presented vertically. In looking at FFO per share, the mean for all other companies is 1.472, whereas for the three companies combined it is 1.661. Both WRIT and PREIT have values above 1.472, with the values of 1.632 and 1.994, respectively. Winthrop has a value of 1.201, which is below that of the all other companies. For FFO Multiple, once again WRIT and PREIT have values greater than all other companies, with values of 13.122 and 16.795, respectively. The value of 8.496 for the FFO Multiple for all other companies is higher than the value for Winthrop of 2.799. Interestingly, the FFO Payout is higher for all the other companies, except for WRIT's value which is quite a bit higher at 1.670. In terms of the Dividend Payout, the three companies' average is higher than the all other companies at .407 and .173, respectively. However, WRIT's value is much larger at .876, with PREIT's value closer to the other companies' average and Winthrop's value lower at .103. For Dividends per share, Winthrop is again lower than all the other companies. Dividend Yield shows similar values for all five categories of entities, with Winthrop closest to the value of all other companies and higher than WRIT or PREIT.

For the balance sheet, in terms of the Debt-to-Assets ratio, the all-other companies' line shows a value of .478. WRIT has a similar value of .462, but both PREIT and Winthrop shows higher Debt ratios of .594 and .629. For the Leverage ratio, the all-other companies show a ratio of 2.044, with PREIT showing a value of 2.445 and Winthrop showing a value of 2.309. WRIT shows a much lower leverage ratio of 1.499. In terms of Asset growth, the all-other

companies and WRIT show similar values, while Winthrop is lower and PREIT is almost double the value of the other companies. For Cash-to-Assets, PREIT is .100, whereas WRIT is .066 and Winthrop is .057. All other companies show a lower liquidity value than all the three surviving companies of .050. Lastly, Revenue growth is highest for WRIT at .829, with PREIT showing .533 and Winthrop much lower at .144. All other companies show a revenue growth of .188. Additional detail of these eleven ratios are shown in Table E-3, providing the N, Mean, Standard Deviation, Minimum and Maximum for the three surviving companies of WRIT, PREIT and Winthrop.

A One-Way Analysis of Variance (ANOVA) test was run for the eleven ratios with entity type as the factor to identify any significant statistical differences in the ratios among each of the individual three companies' averages, the average of the three companies combined, and the average of all other companies. At a significance level of $\alpha = .01$, seven of the eleven ratios showed statistically different means as shown in Table E-4. Since statistical significance was shown for some of the ratios, additional Post-hoc testing was performed utilizing the Tukey HSD[32] test. The results of the Tukey HSD test are shown in Table E-6.

FFO per share identified significant differences between PREIT and Winthrop ($\rho = .003$) and PREIT and all other companies ($\rho = .040$). FFO Multiple identified significant differences between PREIT and all other companies ($\rho = .026$), PREIT and Winthrop ($\rho = .000$), and WRIT and Winthrop ($\rho = .017$). FFO Payout identified significant differences between WRIT and PREIT ($\rho = .008$) and WRIT and Winthrop ($\rho = .008$). These differences

[32] Tukey HSD is used after ANOVA testing is performed to identify the groups that account for the differences. http://www.ehow.com/info_8766337_tukey-hsd-test.html

reveal that PREIT has higher FFO ratios overall, except for FFO Payout, than all other companies or even the other two surviving companies.

Dividend Payout identified significant differences between WRIT and all other companies (ρ = .001), WRIT and Winthrop (ρ = .000), and WRIT and PREIT (ρ = .001). Dividends per share identified significant differences between PREIT and all other companies (ρ = .000) and PREIT and Winthrop (ρ = .000). Dividend Yield did not show significant differences in any of the individual groups, as identified by the Tukey HSD test, which was expected since the ANOVA did not show significance for this ratio.

For the Debt ratio, significant differences were noted amongst WRIT and Winthrop (ρ = .000), WRIT and PREIT (ρ = .003), Winthrop and all other companies (ρ = .001), and PREIT and all other companies (ρ = .006). Interestingly, WRIT and all other companies did not show statistically significant differences in their Debt ratio. For the Leverage ratio, WRIT showed significant differences between itself and PREIT (ρ = .007), with only marginally significant differences between itself and Winthrop (ρ = .060) and itself and all other companies (ρ = .065). By looking at either the Debt or Leverage ratio, WRIT displayed significant differences in its levels of debt when compared to the other entities under study, which emphasizes the importance of this balance sheet item for WRIT.

For Asset growth and Revenue growth, significant differences were not noted amongst any groups according to the Tukey HSD test, which was expected due to the lack of significance found in the ANOVA. The Cash-to-Assets ratio, likewise, did not show any significant differences amongst the groups. Thus, these ratios did not disclose any significant differences or offer any new insight into WRIT, PREIT, and Winthrop.

An ANOVA test was run for the eleven ratios with year as the factor to identify any significant statistical difference in the ratios by the years under analysis. At a significance level of $\alpha = .01$, all eleven ratios showed statistically different means as shown in Table E-5. Since fifty years of data were utilized, additional Post-Hoc testing was not performed to identify the groups that showed differences. Significant differences in the means amongst the years were an expected result due to the cyclicality of real estate, so no further examination was warranted.

After the initial ANOVA testing by entity, additional ANOVA testing was performed by trimming the dataset of items dated earlier than 1971. This trimming was done since information prior to 1971 was not available for Winthrop. Detail information on the mean is found in Table E-7, with the ANOVA results in Table E-8. The only differences noted between the testing for all years and the trimmed dataset including only years after 1970 related to the Dividends Payout and Dividend Yield ratio. The statistical significance of the differences in the Dividends Payout ratio declined slightly, while the differences in the Dividend Yield ratios indicated significance with the trimmed dataset. Post-Hoc testing was performed to identify which companies caused these differences. For the Dividends Payout ratio, Winthrop's ratio was lower and significantly different than all the other companies. However, WRIT's ratio was not significantly different than all the other companies when the dataset was trimmed. In addition, Winthrop's Dividends Payout ratio indicated statistically significant differences between itself and PREIT, which was a different result from using the full dataset. Regarding the Dividend Yield, PREIT and WRIT's ratios indicated statistically significant differences, with PREIT's Dividend Yield showing a higher yield. For the other ratios analyzed, the post hoc testing indicated differences between entities that changed when

the dataset was trimmed, but the overall conclusion on the statistical differences noted with the ratios did not change for any of them, but the Dividend Yield and Dividends Payout.

Table E-9 displays the eleven financial ratios for Pennsylvania Real Estate Investment Trust from 1961 – 2010. Table E-10 displays the eleven ratios for Washington Real Estate Investment Trust from 1961 – 2010. Table E-11 displays the eleven ratios for Winthrop Realty Trust for 1970 – 2010, since historical information prior to 1970 could not be obtained. These tables represent the numerical values used in the testing for this research.

In Table F-1, the thirteen ratios used in the analysis with the SNL data are listed and described. This analysis provides two additional ratios due to metrics available in SNL that are not available in Compustat. The two additional metrics are AFFO per share and SNL FFO per share. AFFO per share is adjusted FFO which further subtracts from FFO straight-line rents and normal expenses capitalized by REITs. SNL FFO per share is a data item specific to SNL that provides a systematic calculation of FFO per NAREIT guidelines. The other eleven ratios are similar to the ratios computed using the Compustat data, but are calculated from the twenty years from 1990 to 2009, during which time the SNL data has been in existence.

In Table F-2, the means are presented for all thirteen ratios computed from the SNL data. The ratios are presented horizontally with the five entity types discussed above presented vertically. Once again, the ratios for all other companies were winsorized to eliminate extreme outliers that could distort the data. For FFO per share, all other companies showed 2.082, whereas PREIT showed 3.252 and WRIT showed 1.925. Winthrop showed a value significantly lower at .869, which caused the average of the three companies to be 1.664. The FFO Multiplier showed once again that all other companies had a higher value than the three companies' average, but lower than WRIT at 14.040. PREIT showed 8.204 and Winthrop

actually showed -.323, due to some large net losses in some years. The FFO Payout showed WRIT at the highest value of 81.693, with PREIT at 75.041 and Winthrop 63.234. The all other companies' average is 76.099.

Two FFO-related ratios that are unique to the SNL database were computed. AFFO per share was not available for Winthrop, due to the lack of information available to SNL to compute AFFO. This situation also occurred for some of the other companies, even though there were still plenty of companies that did provide AFFO information. PREIT had a value of 2.398, whereas WRIT had a value of 1.124. All other companies had a value of 1.642, which was higher than WRIT, but lower than PREIT. AFFO backs out straight-line rents and expenses that are normally capitalized by REITs. FFO per share was also higher for PREIT than WRIT, so this pattern with AFFO is consistent with the relationships revealed with FFO per share. SNL FFO per share, which provides a systematic calculation of FFO, likewise shows PREIT the highest at 2.926, with WRIT at 1.751. The all other companies' average was 2.056, with Winthrop at the lowest value of 1.106. The means for FFO per share and SNL FFO per share revealed some differences in the systematic calculation versus company-provided information, but the pattern of relationships amongst companies was consistent between the two ratios.

In evaluating the impact of dividends, the three dividend ratios were likewise computed with the SNL data. PREIT showed the highest values for both Dividends per share and Dividend Payout of 1.878 and 1.455, respectively. WRIT revealed 1.189 and 1.160 for Dividends per share and Dividend Payout, respectively. Winthrop showed .562 and .944 for the two ratios. All other companies came in lower than PREIT, but higher than the other two companies. The Dividend Yield was highest for Winthrop at .081, with PREIT second at .077,

and WRIT third at .054. All other companies showed a value of .076, which was lower than Winthrop and PREIT. Since PREIT was highest in both Dividends per share and Dividend Payout, its lower value related to Dividend yield is related to its relative higher price.

When evaluating the issue of debt service, both the Debt ratio and Leverage ratio were computed. Of the three companies, PREIT had the highest ratios, while WRIT revealed the lowest ratios. PREIT's Debt ratio was .545, Winthrop was .495, and WRIT was .436. The all other companies showed a lower Debt ratio than all three of the companies at .426. In terms of the Leverage ratio, all other companies showed a higher value than any of the individual three companies at 2.574, whereas PREIT showed 1.852, Winthrop showed 1.493, and WRIT showed 1.117. As Leverage divides by Total Equity, the difference in these two debt service ratios reveals that the three surviving companies had larger equity bases than all other companies that either came into the industry later or did not survive.

In terms of growth, the Asset growth and Revenue growth were computed, as both ratios revealed PREIT to have the largest growth. In terms of Asset growth, PREIT showed .343, WRIT showed .176, and Winthrop showed .092, while all other companies showed .154. Both PREIT and WRIT grew faster than all other companies during the period from 1990 to 2009. For Revenue growth, PREIT showed .322, Winthrop showed .265, and WRIT showed .132, while all other companies showed .111. In this case, all of the individual three companies experienced larger growth in total revenue than all other companies. Winthrop showed larger growth in total revenue than WRIT, even though the company experienced lower asset growth during this period.

Lastly, the Cash-to-Assets ratio was highest for Winthrop at .032, compared to .018 for WRIT and .015 for PREIT. All other companies showed a ratio of .029, which was higher than

WRIT and PREIT, but lower than Winthrop. In terms of liquidity, Winthrop revealed a larger amount of cash available during the period 1990 – 2009.

Table F-3 provides detail information on the N, Mean, Standard Deviation, Minimum and Maximum for the PREIT, WRIT, and Winthrop. This information is interesting since it shows the variability in the data. For the majority of the ratios, this table shows that Winthrop tends to have the largest standard deviations. This fact is not surprising since PREIT and WRIT have experienced more consistency with management and strategic direction than Winthrop. With significant changes in Winthrop's structure, the financials have experienced wider swings.

An ANOVA test was run for the thirteen ratios with entity as the factor to identify any significant statistical difference in the ratios by the years under analysis. At a significance level of $\alpha = .01$, some of the thirteen ratios showed statistically different means as shown in Table F-4. The results are somewhat dissimilar from the statistical differences found in some of the eleven ratios computed with the Compustat data. Some of this result could be attributed to the shorter and more stable time frame utilized with the SNL data, since the period from 1990 – 2009 is considered part of the Modern REIT era. The dynamics of the industry changed with the new REIT rules that were in effect during this time, causing the financial makeup of the companies to change.

In terms of the ratios related to aspects of FFO, which is emphasized more in the SNL database due to its industry-specific nature, FFO per share, AFFO per share, and FFO Payout all showed significant differences by entity type at a significance level of $\alpha = .01$. In addition, SNL FFO per share showed marginally significant statistical differences at a significance level of $\alpha = .05$. However, FFO Multiple did not show a significant result.

For the Dividend ratios, only Dividends per share showed a significant difference by entity type at a significance level of $\alpha = .01$. Dividend Payout and Dividend Yield did not show significant differences during the period utilized with the SNL data. However, these ratios had shown statistical differences by entity type utilizing the Compustat data for the forty-to-fifty-year-time period.

For the debt ratios, the Leverage ratio showed significant differences by entity at a significance level of $\alpha = .01$. However, the Debt ratio did not show significant differences by entity type. In terms of both Asset growth and Revenue growth, neither ratio showed significant differences by entity type. But, the Cash-to-Assets ratio did show statistically significant differences at a significance level of $\alpha = .01$.

To evaluate further the results obtained from the ANOVA testing, additional Post-hoc testing was performed utilizing the Tukey HSD test, for the ratios demonstrating statistically significantly differences. The results of the Tukey HSD test are shown in Table F-6 and provide details of the differences by group. For FFO per share, PREIT and Winthrop were the only two groups that showed significant differences ($\rho = .001$). Likewise, for SNL per share, PREIT and Winthrop were the only two groups that showed significant differences ($\rho = .011$). For FFO Payout, WRIT and Winthrop were the only two groups that showed significant differences ($\rho = .004$). For Dividends per share, PREIT, WRIT, and Winthrop were shown to exhibit significant differences ($\rho = .000$) amongst each other. In addition, all the other companies were shown to exhibit significant differences with PREIT ($\rho = .000$) and Winthrop ($\rho = .000$). Interestingly, WRIT did not exhibit significant differences from all other companies for Dividends per share. For the Leverage ratio, both WRIT ($\rho = .000$) and Winthrop ($\rho = .010$) exhibited significant differences from all other companies, but not from

each other or PREIT. PREIT was not shown to exhibit significant differences, however, from all other companies in terms of the Leverage ratio. Lastly, for the Cash-to-Assets ratio that was shown to have statistically significant differences across entity type, both PREIT (ρ = .002) and WRIT (ρ = .003) were shown to have significant differences from Winthrop. However, Winthrop showed only marginally significant differences from all the other companies (ρ = .058). PREIT and WRIT did not show significant differences among each other in the Cash ratio. The benefit of the Post-hoc testing is to identify the groups in which the statistically significant differences result, and in this case provided interesting results for the three surviving companies in relation to other companies in the industry.

Next, an ANOVA test was run for the thirteen ratios with year as the factor to identify any significant statistical difference in the ratios by the years under analysis. At a significance level of α = .01, some of the thirteen ratios showed statistically different means as shown in Table F-5. FFO per share and SNL FFO per share were both shown to be significantly different across the years at a significance level of α = .01. AFFO per share and FFO Payout were shown to have only marginally significant differences across the years at a significance level of α = .05. FFO Multiple was not shown to be statistically different across the years at ρ = .086. Both Dividend Payout and Dividend Yield were shown to be significantly different across the years at a significance level of α = .01, whereas Dividends per share did not show significant differences. Both Debt and Leverage were shown to be significantly different across the years at a significance level of α = .01. Both Asset growth and Revenue growth were shown to exhibit differences that were only marginally significant across the years at a significance level of α = .05. Cash-to-Assets was not shown to be significantly different across the years at a significance level of α = .01.

For the quantitative analysis, ANOVA testing revealed differences across entity type and year. Since real estate is known to be cyclical, differences across years was expected. The focus in this research was more on the differences amongst the three companies and/or other companies in the industry. The results indicated significant differences do exist for some, if not most, of the metrics according to the particular entity. These quantitative differences will be evaluated with the qualitative differences in the next chapter to offer some summary and conclusions on the REIT industry and the surviving companies.

CHAPTER IX

SUMMARY & CONCLUSIONS

On September 14th, 2010, the REIT industry celebrated its 50th Anniversary, which was a milestone event for an industry established by law. Only three companies have survived throughout the fifty years; Washington Real Estate Investment Trust (WRIT), Pennsylvania Real Estate Investment Trust (PREIT), and Winthrop Realty Trust (Winthrop). These three companies have been evaluated in a triple case study to discover success factors and trends that mark the development and growth of the industry. Throughout the study, the answers to two research questions were sought based on an analysis of quantitative and qualitative information. Through review of the quantitative data the question was asked, "Based on specific metrics that form a foundation for valuing REITs, do the three surviving companies reveal any quantitative differences from other REITs that have entered and left the market?" Through review of the qualitative data the question was asked, "Based on qualitative factors, do the three surviving companies reveal any common characteristics that can be indicators of their success and longevity throughout the fifty-year history of the REIT industry?" The paragraphs below provide answers to these questions and other pertinent information related to the REIT industry.

Due to the tax preferential status of REITs, which is one of the primary attractions to investors, emphasis was placed on outlining the history of tax legislation as it relates to the REIT industry. In addition, a detailed discussion of the REIT rules was provided, since non-compliance in the past has led to some companies losing their REIT status and tax preferential structure. In addition, historical developments in the industry were highlighted, as these developments drove some companies to great success or monumental failure.

Throughout the industry's growth and development, NAREIT has led the way in addressing issues that affect the real estate investment community. The REIT industry has been fortunate to have the backing of such a strong organization, with the background and experience to put forth such a strong research and lobbying effort to promote its well-being.

Being a triple case study, each of the individual companies (WRIT, PREIT, and Winthrop) had their own chapter with detailed information obtained from many recorded sources, both written and oral. These chapters provided information on the companies' strategies and structure as it navigated throughout the last fifty years. This information, along with the quantitative information provided from either databases or other historical sources, was used to draw conclusions on the companies' abilities to persevere throughout several real estate cycles.

In Appendix G, Table G-1 is presented that shows the 3-month Treasury Bill (T-Bill) rates from 1960 through 2010. Since real estate historically has been tied to interest rates, in particular the 3-month T-Bill, these rates reveal economic conditions that have occurred throughout the last fifty years. Interest rates were very low in the early 1960s and gradually climbed until the late 1960s and early 1970s when they showed the first peak. With the Federal Reserve tightening the money supply, a mild recession occurred during the 1969 –

1970 period, with a slight drop in rates directly thereafter. In 1969, both WRIT and PREIT commenced a public offering of stock, probably to offset the reduction in availability of debt financing. The 3-month T-Bill rate peaked at 6.67 in 1969 and had dropped to 4.33 by 1971. Inflation rose and interest rates climbed throughout the 1970s for the most part, with high rates experienced from the late 1970s through early 1980s. The 3-month T-Bill rate climbed to its highest point since the official start of the REIT industry with a rate of 7.85 in 1974. In 1974, First Union (Winthrop) paid a dividend, while most other REITs in the industry chose to either not pay a dividend or decrease their dividend in accordance with IRS guidelines. In 1976, the 3-month T-Bill rate was down to 4.98, and First Union had its first public offering in 20 years.

A more severe recession occurred in the early 1980s, as the Federal Reserve tightened the money supply to control inflation due to previous concerns with oil and energy costs. Interest rates skyrocketed from 1979 -1981 and remained relatively high throughout the 1980s. With a 3-month T-Bill rate of 14.04 in 1981, WRIT initiated a public offering rather than accessing the debt market. In 1986, the Tax Reform Act was passed, as T-Bill rates fell to 5.97. Winthrop had a 3-for-2 stock split in 1986, and PREIT had a 3-for-2 stock split in 1987. In 1989, with the 3-month T-Bill rate at 8.11, WRIT initiated another public offering. A mild recession occurred in the early 1990s. As discussed earlier this period was the beginning of the Modern REIT era, as REITs began to capitalize on the real estate downturn due to the S & L crisis, the passive loss rules, and declining real estate values. The 3-month T-Bill rate fell to 3.00 in 1993, which was its lowest rate since 1963. By 1995, T-Bill rates were back over 5.00, and stayed that way through 1997. Winthrop initiated its first public offering in 20 years in 1996. WRIT initiated a public offering in 1997, and PREIT chose to grow through a merger with the Robin Organization that same year. Overall, the 1990s was a steady growth period,

until another recession occurred in the early 2000s and interest rates dropped again. In 2003, the 3-month T-Bill rates had fallen to 1.01, the lowest rate since 1960. WRIT started its medical office sector and PREIT grew through its merger with Crown American. In 2004, PREIT initiated another public offering, with Winthrop initiating a public offering in 2006 and WRIT in 2007. The 3-month T-Bill rates were over 4.00 in 2006 and 2007, which was a big increase from 1.01 experienced in 2003. Rates would drop again with the financial market crisis of 2008, falling to a low of .14 in 2010 (Federal Reserve 3-month, 2011).

In Appendix G, Table G-2 displays the real estate cycles throughout U. S. history. Real estate peaked in value in 1973, after a 48-year climb. The 3-month T-Bill rate increased from 4.06 in 1972 to 7.04 in 1973, which contributed to the end of the peak period. Real estate would peak again in 1979 with inflation and high interest rates. In 1978, the 3-month T-Bill was at 7.18, but increased to 10.05 in 1979. Subsequently, a downturn in the market would occur in 1980 and the market would not peak again until 1989, with a subsequent downturn in 1990. In 1988, the 3-month T-Bill rate was at 6.67 and it climbed to 8.11 in 1989. This downturn enabled REITs to access public markets to obtain capital to purchase real estate at depressed prices with corresponding lower interest rates (3-month T-Bill rate of 5.38 in 1991), and helped spur on what is known as the Modern REIT era. Real estate would peak again in 2006, with increases in value combined with lower interest rates during 2002 – 2004. Another downturn in 2008 followed, which was connected to the financial and liquidity crisis. This downturn occurred 18 years after the last downturn in 1990 and resulted in many REITs deferring cash dividends and utilizing stock dividends to meet their distribution requirements (Foldvary, 2008).

In Table G-3, the rate of return on assets was computed for WRIT, PREIT, and Winthrop for the years 1972 through 2010. The rate of return on the three companies is shown, along with the historical 3-month T-Bill rates. In addition, the years the real estate cycles reflected either a peak in construction (C) or the beginning of a depression (D,) are also noted with a C or D, respectively. On average, WRIT has the highest rate of return (9.41%) and Winthrop the lowest return (2.45%) revealing a rate of return below the average T-Bill rate of 5.54%. PREIT's average rate of return over the period was 6.76%. In reviewing the returns in conjunction with the real estate cycles, the T-Bill rates were higher than the rates of return at the start of each real estate depression period, other than the real estate depression in 1990. WRIT showed the most consistent pattern in returns by showing rates higher than the T-Bill rates for the years leading up to and including the peaks in construction. Once the depressionary periods began, the trend reversed for a year or two and WRIT's returns were lower than the T-Bill rates, until the cycle stabilized again. During the 1990s and 2000s, both WRIT and PREIT showed consistently higher rates than T-Bill rates, while Winthrop's return was consistently more erratic and lower, sometimes higher, but mostly lower.

The economic factors related to interest rates and real estate cycles are important determinants in decisions made by REIT management. Looking at the quantitative data and talking with REIT management, the ability to manage the downturns and time market financing needs are important contributors to a REIT's financial success over the long-term. All three of the companies have management that have been in the industry a long time and understand the dynamics of real estate and financing. Thus, a common characteristic leading to the companies' success and longevity would have to be strong, experienced, senior management. The consistency in management at WRIT and PREIT is reflected in the

consistency of their rates of return throughout the real estate cycles. The fluctuation in Winthrop's returns can be related to the fluctuation in management styles and strategies that has marked Winthrop's history.

In further evaluating qualitative considerations, WRIT and PREIT are more similarly situated than Winthrop. Both companies have experienced great stability over the fifty years. Even though the executives that started the companies may have passed on, many of the former senior management teams are still involved with the company in some respect. The strategies they initially implemented for the most part are still in effect. While PREIT may have shifted its focus from a more diversified platform to primarily retail, it has still stayed in the same general market area to build upon the relationships it has established throughout the years. The purchases it makes outside its area are generally tied to relationships built in the mid-Atlantic area. Even with a couple of mergers, PREIT continues to operate with many of their original tenants. WRIT has not wavered much in terms of its platform or location throughout the fifty years. The decision in 2011 to sell off the industrial platform has been the only major change to its strategy in fifty years. This decision could be viewed as not really a change in platform anyway, as the emphasis has always been on maximizing returns and the decision was based on the historically lower returns of the industrial portfolio. Thus, another common characteristic would be sticking with a strategy for the long term.

Winthrop is unique in regards to strategy because it has morphed from a relatively inactive smaller REIT to an aggressive return-driven REIT. Winthrop has survived in large part due to its stapled-REIT structure, which allowed it to have an operating component when other REITs could only own real estate. When these REIT structures were no longer permissible, Winthrop was one of four REITs to be grandfathered in and allowed to keep its

structure. Even Ashner noted in the interview that a lot of interest in Winthrop or First Union, as it was previously named, came from its stapled-REIT status. He mentioned that when his group took over and changed the name to Winthrop in 2005, they were mainly looking for the platform to generate real estate deals through access to public markets. However, Winthrop has continued to be headquartered out of its basic market area, with offices also in New York, but acquisitions across the U. S. So, another common characteristic would be having a niche aspect of the company that allows it to operate successfully in a manner that provides an advantage.

One final qualitative characteristic that stands out on all three companies is keeping the size of the company to a manageable level. All three of these companies are not the biggest players in the REIT industry. In some ways, they could be considered some of the smaller players. However, management at each of the companies knows where its size needs to be and how much growth will allow the company to maximize on its assets, without lowering the benefit to the shareholders. None of the companies desired to grow to some unbelievable level, only to the extent that it could continue to operate at a more profitable level. The ability to clearly identify who you are as a company is another common characteristic shared by these three successful companies.

On a quantitative basis, specific details were provided in the preceding chapters. However, as an overview on the Compustat data, FFO per share was significantly higher for PREIT than it was for WRIT, Winthrop or all the other companies operating in the market. The FFO Multiple was greatest for PREIT and significantly higher than all other companies and Winthrop, as the price of PREIT stock reached higher levels and responded more favorably to increases in FFO. FFO Payout was higher for WRIT than PREIT or Winthrop, but not

significantly higher than all other companies. WRIT's net income per share, which is the denominator for FFO Payout, did not show as much variability and higher values, to drive down the ratio. As primarily an asset management company, WRIT has higher relative depreciation expense than either PREIT or Winthrop, which have more an opportunistic investing style. Similarly, the Dividend Payout was highest for WRIT, and significantly different than the two companies and all the other companies. On a per share basis, dividends were highest for PREIT, but it was only significantly different from Winthrop and all the other companies. Winthrop had the highest Debt ratio and was significantly different from WRIT and all other companies. Likewise, PREIT also had a higher Debt ratio and showed significant differences among itself and WRIT and all other companies. Leverage yielded similar results with PREIT and Winthrop having the highest ratios, but not demonstrating significant differences except for PREIT and WRIT. WRIT had both the lowest Debt and Leverage ratios, which is consistent with their conservative debt policy. WRIT approaches the use of debt in a more cautious manner, maintaining lower comparative levels of debt than many other REITs.

As an overview of the SNL data, FFO share for PREIT was higher and significantly different from only Winthrop. SNL FFO per share showed the same relationship with PREIT demonstrating significantly higher values than Winthrop. AFFO per share was also highest for PREIT. FFO Payout was highest for WRIT, which showed significant differences from Winthrop. All other companies also showed some significant differences with Winthrop also for FFO Payout. Dividends per share were highest for PREIT, which showed significant differences between all other entities. WRIT showed significant differences between PREIT and Winthrop, with a figure higher than Winthrop, but lower than PREIT. All-other companies was similar to the WRIT's value of dividends per share, but significantly different than PREIT

or Winthrop. As noted in the previous paragraph, WRIT had the lowest Leverage ratio and showed significant differences from all other companies, but did not demonstrate significance when compared to PREIT or Winthrop. Winthrop demonstrated significant differences, however, with all other companies on the Leverage ratio with a value lower than PREIT, but higher than WRIT. Lastly, Winthrop appeared to have the most cash, as it had the highest ratio and was significantly different than PREIT and WRIT and showed marginally significant differences with all other companies.

As noted in the Analysis section, significant differences were noted in the ratios throughout the years, but that finding was not a surprise and is not as relevant in this research. The quantitative analysis was meant to provide financial ratio analysis of the companies with statistical testing to determine if significant differences in the ratios existed across entities. In that regard, the quantitative analysis was successful and provided some insights into the companies. Additionally, it helped answer the research question on whether there were quantitative differences that existed between these three companies and other companies that had entered and left the market. PREIT seemed to generate higher FFO per share, and subsequently paid out higher dividends per share. WRIT tended to be the most conservative with its debt management and paid out a reasonable amount in dividends, but not as high as PREIT on a per share basis. Winthrop seemed to be more variable and lower in its earnings measures in some years, such as FFO, which could be related to its emphasis on opportunistic investing. All three of the companies showed some variability with all the other companies in the industry, but the variability depended on which specific measures were being analyzed. Thus, not one specific metric showed consistent significant differences across all three of these surviving companies. For FFO per share and FFO Multiple, both WRIT and PREIT showed

higher values than the average of the other REITs in the industry. Likewise, the Dividend Payout and Dividends per share were higher for WRIT and PREIT than the average of the other REITs. The Dividend Yield for WRIT and PREIT was close to the value for the other REITs, but not higher, since WRIT and PREIT seemed to have higher comparative stock prices. Only with WRIT were the Leverage and Debt ratios lower than the other REITs. Thus, not one metric seemed to hold the key to successful navigation throughout the years. Instead, it seemed to suggest that a REIT must be careful to align its resources and abilities to its particular business strategy. In addition, external growth, if and when undertaken, should be done only after reviewing the composition and strength of the internal assets and financing structures already in place.

Research Contributions

In conclusion, this study provides a historical recap of the first fifty years of the REIT industry with a review of its rules and underlying tax legislation. In addition, it provides a historical review of the three successful companies that have been in the industry throughout its entire existence. Some background and information on NAREIT is also provided. How this study contributes the most is through its qualitative and quantitative analysis of the three companies and the industry. Specific qualitative factors were identified that have contributed to these three companies' ability to successfully navigate the real estate and economic environment. In addition, specific quantitative factors were identified as contributing to each company's success, even though those quantitative factors may not have been all the same for all companies.

The main finding from this research is that a company that can establish its identity, hire strong management, know its market, and concentrate its focus on particular financial measures and goals will be the company that will survive while other companies fail. Identifying its business strategy and working within its constraints seems to provide the best road map. Washington Real Estate Investment Trust, Pennsylvania Real Estate Investment Trust, and Winthrop Realty Trust have all found ways to capitalize on their unique strengths and remain in the real estate business throughout turbulent times. While each company may not stand out in all financial areas, each company has discovered how it can utilize its own niche to capitalize in those areas it deems most important to its long-term success. External growth has occurred, but management seems to have approached it with an understanding of its internal structure and market conditions. In addition, these companies have been run by management that are invested in the real estate industry and their particular business for the long haul, thus they have viewed their companies as a long-term commitment.

This research is relevant due to its combination of qualitative and quantitative factors, with statistical analysis utilized to support significant differences between financial ratios for the three specific companies analyzed and all other REITs. In addition, it provides a unique historical perspective on an industry heavily influenced by legal and tax mandates throughout its entire fifty-year history.

Limitations

One limitation of this research is that financial data for Winthrop could not be located for the years prior to 1971. Since management and ownership had changed so many times, present management at Winthrop could not locate the old company information. For WRIT

and PREIT, the original prospectus, along with financial statements, was available for the early years of 1960 – 1970. Since all three companies did not have similar information available, the statistical analysis portion had to be tested both with and without the years prior to 1971. Fortunately, the overall conclusions of the research were basically the same whether or not the early years were left in or out of the analysis.

Another limitation of this research is that qualitative factors were utilized, which cannot be tested through statistical procedures. Interviews can contain some biases, due to the background and experiences of the interviewer that are brought into the interview process. Internal validity is harder to prove with qualitative factors.

Future Research Opportunities

Further research could be conducted by examining some of the larger REITs that have come into the industry since its beginning, both in terms of those that have come and gone and those that may have come into the industry since it had matured. Since this research highlighted three small to mid-size REITs that survived for fifty years, larger REITs could be examined to identify areas leading to possible company failures, such as companies that incurred too much debt, or paid out too much in dividends, or grew too fast.

In addition, further research could be performed comparing the financial results of REITs to other economic factors, such as new housing starts or unemployment rates. The analysis could be extended even further to analyze REITs by sector, such as multifamily, retail, office, hotel, industrial, and healthcare. Interesting relationships could be identified through this research leading to predictions concerning future performance.

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List of Appendices

Appendix: A

Appendix A-1 Interview Document

THE 50th ANNIVERSARY OF REITS: A TRIPLE CASE STUDY
INTERVIEW QUESTIONS

1. What is your name?
2. What is your position?
3. How long have you been with the organization?
4. What are your primary duties?
5. In your opinion, what are the strengths of your organization?
6. What are your organization's goals and strategy?
7. How do you see your organization striving to meet its goals?
8. To what do you attribute your organization's success over the last 50 years?
9. What, if any, are the unique characteristics of your organization?
10. Would you like to make any final comments about your organization?

*I consent to the use of this information in the research conducted by Barbara White.

Name____ Date________________________

Appendix A-2 Glossary Terms

Adjusted Funds From Operations (AFFO)

A term referring to a calculation made by analysts and investors to assess a real estate company's cash flow produced from operations. AFFO is computed by deducting from Funds from Operations (FFO) both (1) normalized recurring expenditures capitalized by the REIT and then amortized, but essential to sustain a REIT's properties and its revenue (carpeting in apartments, leasing expenses, etc.) and (2) straight-line rents. The calculation also is known as Cash Available for Distribution (CAD) or Funds Available for Distribution (FAD).

Capitalization Rate

The cap rate for a property is calculated by dividing the property's net operating income by its purchase price. High cap rates usually indicate higher returns and greater risk.

Cash (or Funds) Available for Distribution

Cash (or Funds) available for distribution (CAD or FAD) measures a REIT's' capability to produce cash and distribute dividends. In addition to deducting from FFO normal operating real estate expenses and other non-cash items to acquire AFFO, CAD (or FAD) is computed by also deducting nonrecurring expenses.

Commercial Mortgage Backed Securities (CMBS)

A mortgage backed security secured by debt on commercial property. Multiple secured loans backed by commercial real estate are aggregated in a trust that issues bonds assigned ratings by various agencies. Investors select these bonds based on risk, yield, and term.

DownREIT

A DownREIT is established similar to an UPREIT, but the REIT owns and operates properties other than its interest in a controlled partnership that owns and operates individual properties.

EBITDA

Earnings before interest, taxes, depreciation and amortization. This calculation is also referred to as Net Operating Income (NOI).

Equity REIT

A REIT which owns rental real estate, rather than making secured loans by real estate.

Funds From Operations (FFO)

A commonly reported measure of a REIT’s operating performance. It is calculated by taking a REIT's net income, excluding gains or losses from sales of real estate, and adding back real estate depreciation.

GAAP

Generally accepted accounting principles.

Hybrid REIT

A REIT that has investments in both equity REITs and mortgage REITs.

Mezzanine debt

Subordinated debt that has embedded equity instruments, such as warrants attached, giving it more flexibility and value than straight debt or bonds. Mezzanine debt is often associated with stock more than debt, due to the embedded instruments that make the conversion to stock likely. Mezzanine debt is frequently used in buyout situations.

Mortgage REIT

A REIT that owns or makes loans secured by real estate.

Net Asset Value (NAV)

The net market value of a company's assets after deducting all its liabilities.

Net Operating Income (NOI)

A REIT’s NOI is also known as EBITDA, which is earnings before interest, taxes, depreciation and amortization.

New York Stock Exchange (NYSE)

The New York Stock Exchange is the largest U. S. stock exchange located in New York City.

Straight-line rents

REITs straight line rents to comply with GAAP. Straight line rents average the tenant's rent over the life of the lease.

Total Market Cap

The total market value of a REIT's outstanding common stock and debt.

UPREIT

An UPREIT is formed when the partners of existing partnerships and a newly-established REIT become partners in a new operating partnership. For each person’s interests in the operating partnership ("Units"), the partners contribute properties from existing partnerships, while the REIT contributes cash received during its public offering. The REIT is the general partner and owns the majority interest of the operating partnership. After one year, the partners have the same liquidity of the REIT shareholders by giving up their units for either cash or REIT shares. Converting to cash or units could result in the partners incurring the tax deferred when the UPREIT was formed. The holders of units may give them up over time to spread out any tax.

Appendix: B

MARKET CAPITALIZATION OUTSTANDING – Table B-1

(millions)		Composite		Equity		Mortgage		Hybrid
End of Yr	#REITs	Mk Cap	#REITs	Cap	#REITs	Cap	#REITs	Cap
1971	34	1494.3	12	332	12	570.8	10	591.6
1972	46	1880.9	17	377.3	18	774.7	11	728.9
1973	53	1393.5	20	336	22	517.3	11	540.2
1974	53	712.4	19	241.9	22	238.8	12	231.7
1975	46	899.7	12	275.7	22	312	12	312
1976	62	1308	27	409.6	22	415.6	13	482.8
1977	69	1528.1	32	538.1	19	398.3	18	591.6
1978	71	1412.4	33	575.7	19	340.3	19	496.4
1979	71	1754	32	743.6	19	377.1	20	633.3
1980	75	2298.6	35	942.2	21	509.5	19	846.8
1981	76	2438.9	36	977.5	21	541.3	19	920.1
1982	66	3298.6	30	1071.4	20	1133.4	16	1093.8
1983	59	4257.2	26	1468.6	19	1460	14	1328.7
1984	59	5085.3	25	1794.5	20	1801.3	14	1489.4
1985	82	7674	37	3270.3	32	3162.4	13	1241.2
1986	96	9923.6	45	4336.1	35	3625.8	16	1961.7
1987	110	9702.4	53	4758.5	38	3161.4	19	1782.4
1988	117	11435.2	56	6141.7	40	3620.8	21	1672.6
1989	120	11662.2	56	6769.6	43	3536.3	21	1356.3
1990	119	8737.1	58	5551.6	43	2549.2	18	636.3
1991	138	12968.2	86	8785.5	28	2586.3	24	1596.4
1992	142	15912	89	11171.1	30	2772.8	23	1968.1
1993	189	32158.7	135	26081.9	32	3398.5	22	2678.2
1994	226	44306	175	38812	29	2502.7	22	2991.3
1995	219	57541.3	178	49913	24	3395.4	17	4232.9
1996	199	88776.3	166	78302	20	4778.6	13	5695.8
1997	211	140533.8	176	127825.3	26	7370.3	9	5338.2
1998	210	138301.4	173	126904.5	28	6480.7	9	4916.2
1999	203	124261.9	167	118232.7	26	4441.7	10	1587.5
2000	189	138715.4	158	134431	22	1632	9	2652.4
2001	182	154898.6	151	147092.1	22	3990.5	9	3816
2002	176	161937.3	149	151271.5	20	7146.4	7	3519.4
2003	171	224211.9	144	204800.4	20	14186.5	7	5225
2004	193	307894.7	153	275291	33	25964.3	7	6639.4
2005	197	330691.3	152	301491	37	23393.7	8	5806.6
2006	183	438071.1	138	400741.4	38	29195.3	7	8134.3
2007	152	312009	118	288694.6	29	19054.1	5	4260.3
2008	136	191651	113	176237.7	20	14280.5	3	1132.9
2009	142	271199.2	115	248355.2	23	22103.2	4	740.8
2010	153	389295.4	126	358908.2	27	30387.2	--	--
2011	160	450500.6	130	407528.9	30	42971.7	--	--

Table B-2 Historical REIT Price and Return

FTSE NAREIT US Real Estate Index Series

Annual Price and Total Returns by Investment Sector

1972 - 2011

	FTSE NAREIT All REITs				FTSE NAREIT Equity REITs				FTSE NAREIT Mortgage REITs			
	Total		Price		Total		Price		Total		Price	
	Return (%)	Index	Return (%)	Index	Return (%)	Index	Return (%)	Index	Return (%)	Index	Return (%)	Index
1971		100.00		100.00		100.00		100.00		100.00		100.00
1972	11.19	111.19	3.84	103.84	8.01	108.01	1.08	101.08	12.17	112.17	4.34	104.34
1973	-27.22	80.93	-33.11	69.46	-15.52	91.25	-21.78	79.07	-36.26	71.50	-42.05	60.47
1974	-42.23	46.75	-49.55	35.04	-21.40	71.72	-29.33	55.88	-45.32	39.09	-53.96	27.84
1975	36.34	63.74	22.20	42.82	19.30	85.56	8.34	60.54	40.79	55.04	24.51	34.66
1976	48.97	94.96	36.53	58.47	47.59	126.28	36.21	82.46	51.71	83.50	38.41	47.97
1977	19.08	113.07	10.10	64.37	22.42	154.59	13.97	93.98	17.82	98.38	8.16	51.89
1978	-1.64	111.21	-9.42	58.31	10.34	170.57	2.66	96.48	-9.97	88.57	-17.86	42.62
1979	30.53	145.16	19.35	69.59	35.86	231.73	25.49	121.07	16.56	103.24	4.26	44.44
1980	28.02	185.84	11.07	77.30	24.37	288.20	1.95	123.42	16.80	120.58	3.29	45.90
1981	8.58	201.78	-1.02	76.51	6.00	305.50	-2.03	120.92	7.07	129.11	-5.54	43.36
1982	31.64	265.62	19.19	91.19	21.60	371.49	11.49	134.81	48.64	191.91	31.27	56.91
1983	25.47	333.28	15.11	104.97	30.64	485.30	21.01	163.13	16.90	224.34	5.56	60.08
1984	14.82	382.65	3.53	108.67	20.93	586.86	9.30	178.30	7.26	240.64	-4.54	57.35
1985	5.92	405.30	-3.52	104.84	19.10	698.93	9.62	195.45	-5.20	228.11	-15.33	48.55
1986	19.18	483.03	9.24	114.53	19.16	832.83	10.56	216.10	19.21	271.95	7.64	52.26
1987	-10.67	431.49	-19.01	92.76	-3.64	802.51	-10.31	193.82	-15.67	229.34	-25.70	38.83
1988	11.36	480.49	1.24	93.92	13.49	910.74	4.77	203.07	7.30	246.09	-5.12	36.84
1989	-1.81	471.78	-12.06	82.59	8.84	991.26	0.58	204.24	-15.90	206.95	-26.19	27.20
1990	-17.35	389.95	-28.49	59.05	-15.35	839.09	-26.45	150.21	-18.37	168.94	-29.18	19.26
1991	35.68	529.08	23.10	72.69	35.70	1,138.61	25.47	188.47	31.83	222.72	13.93	21.94
1992	12.18	593.49	2.87	74.78	14.59	1,304.73	6.40	200.54	1.92	226.99	-10.80	19.57
1993	18.55	703.57	10.58	82.69	19.65	1,561.17	12.95	226.51	14.55	260.01	-0.40	19.49
1994	0.81	709.24	-6.41	77.39	3.17	1,610.67	-3.52	218.55	-24.30	196.82	-33.83	12.90
1995	18.31	839.09	9.12	84.45	15.27	1,856.57	6.56	232.88	63.42	321.65	46.80	18.94
1996	35.75	1,139.10	26.52	106.84	35.27	2,511.32	26.35	294.24	50.86	485.25	37.21	25.98
1997	18.86	1,353.94	11.85	119.50	20.26	3,020.11	13.33	333.47	3.82	503.80	-3.57	25.05
1998	-18.82	1,099.09	-23.82	91.03	-17.50	2,491.53	-22.33	259.00	-29.22	356.60	-34.29	16.46
1999	-6.48	1,027.92	-14.06	78.23	-4.62	2,376.42	-12.21	227.37	-33.22	238.15	-40.12	9.86
2000	25.89	1,294.05	15.91	90.68	26.37	3,002.97	16.51	264.90	15.96	276.15	3.33	10.19
2001	15.50	1,494.65	7.05	97.07	13.93	3,421.37	5.85	280.40	77.34	489.74	46.37	14.91
2002	5.22	1,572.61	-2.15	94.98	3.82	3,552.10	-3.12	271.66	31.08	641.93	14.23	17.03
2003	38.47	2,177.53	29.34	122.85	37.13	4,871.12	28.48	349.02	57.39	1,010.33	38.19	23.54
2004	30.41	2,839.70	22.87	150.94	31.58	6,409.30	24.35	434.01	18.43	1,196.57	7.92	25.40
2005	8.29	3,075.06	2.51	154.73	12.16	7,188.85	6.67	462.98	-23.19	919.11	-30.88	17.56
2006	34.35	4,131.39	28.31	198.53	35.06	9,709.31	29.51	599.59	19.32	1,096.72	8.44	19.04
2007	-17.83	3,394.71	-21.39	156.07	-15.69	8,185.75	-19.05	485.36	-42.35	632.27	-47.69	9.96
2008	-37.34	2,127.27	-41.04	92.02	-37.73	5,097.46	-41.12	285.79	-31.31	434.31	-40.46	5.93
2009	27.45	2,711.15	19.90	110.33	27.99	6,524.25	21.28	346.60	24.63	541.28	8.26	6.42
2010	27.58	3,458.89	21.81	134.39	27.96	8,348.46	23.06	426.53	22.60	663.59	7.01	6.87
2011	7.28	3,710.61	2.37	137.57	8.29	9,040.81	4.32	444.95	-2.42	647.56	-15.14	5.83

Table B-3

Investment Performance:
FTSE NAREIT US Real Estate Index Series

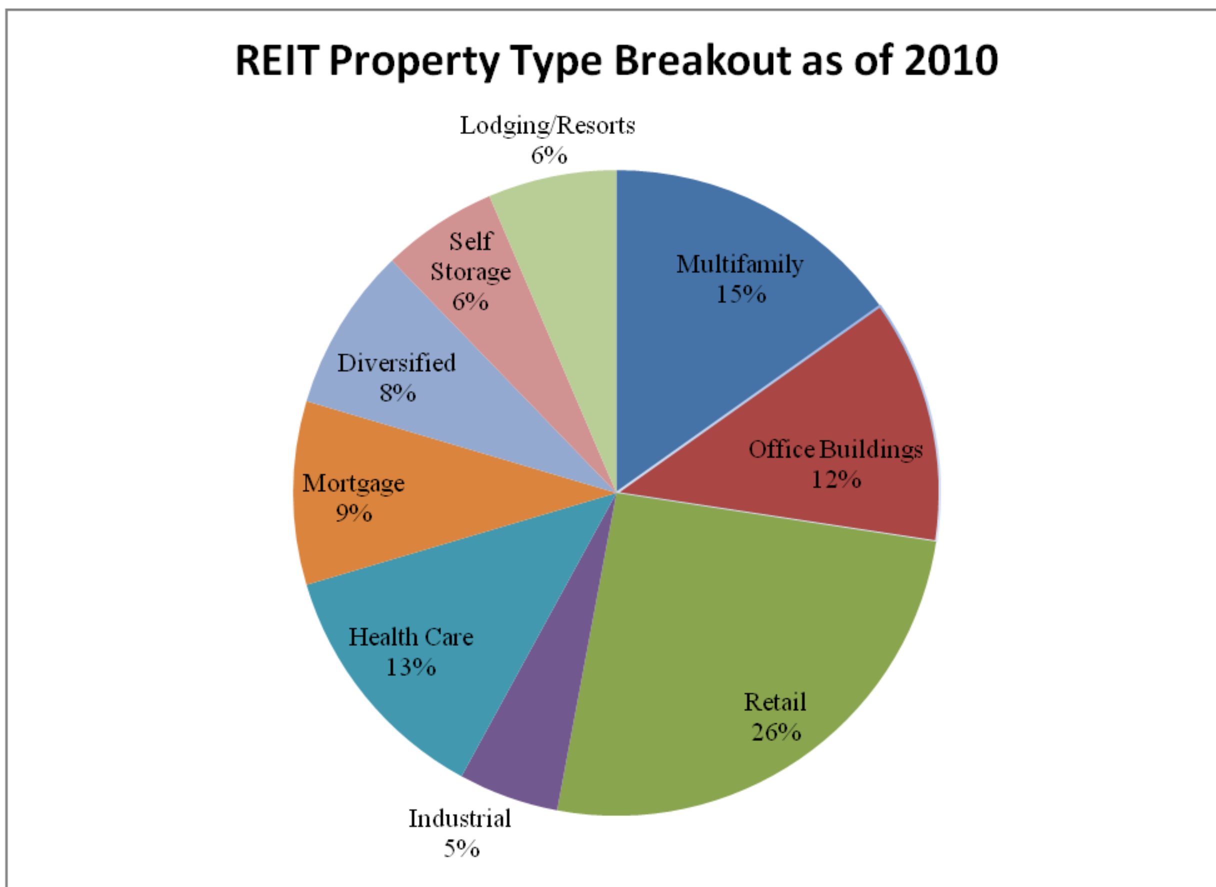
December 31, 2011

	All REITs		**Equity REITs**		**Mortgage REITs**	
	Returns (%)		Returns (%)		Returns (%)	
Period	Total	Price	Total	Price	Total	Price
Historical (compound annual rates at month-end)						
1-Year	7.28	2.37	8.29	4.32	-2.42	-15.14
3-Year	20.38	14.34	21.05	15.90	14.24	-0.57
5-Year	-2.13	-7.07	-1.42	-5.79	-10.00	-21.08
10-Year	9.52	3.55	10.20	4.73	2.83	-8.96
15-Year	8.19	1.70	8.91	2.80	1.94	-9.48
20-Year	10.23	3.24	10.92	4.39	5.48	-6.41
25-Year	8.50	0.74	10.01	2.93	3.53	-8.40
30-Year	10.19	1.97	11.95	4.44	5.52	-6.47
35-Year	11.04	2.47	12.98	4.93	6.03	-5.84
40-Year	9.46	0.80	11.92	3.80	4.78	-6.86

REITS IN THE S & P INDICES – Table B-4 AS OF 1/12 REIT NAME	TICKER	ENTRANCE DATE
S&P 500		
AIMCO	AIV	03/13/03
Avalon Bay Communities	AVB	01/09/07
Boston Properties	BXP	03/31/06
Equity Residential	EQR	11/01/01
HCP, Inc.	HCP	03/31/08
Health Care REIT Inc.	HCN	01/30/09
Host Hotels & Resorts	HST	03/19/07
Kimco Realty Corporation	KIM	04/03/06
Plum Creek Timber Company, Inc.	PCL	01/16/02
Prologis	PLD	07/16/03
Public _GPLITA_0_GPLITA_0Storage, Inc.	PSA	08/18/05
Simon Property Group	SPG	06/25/02
Ventas, Inc.	VTR	03/04/09
Vornado	VNO	08/11/05
Weyerhaeuser	WY	Prior to REIT Status
S&P 400		
Alexandria Real Estate Equities	ARE	12/03/07
BRE Properties, Inc.	BRE	11/19/07
Camden Property Trust	CPT	11/19/07
Corporate Office Properties Trust	OFC	04/01/09
Cousins Properties Incorporated	CUZ	04/15/07
Duke Realty Corporation	DRE	09/28/07
Equity One, Inc.	EQY	05/31/07
Essex Property Trust	ESS	09/15/08
Federal Realty Investment Trust	FRT	12/20/07
Highwoods Properties, Inc.	HIW	10/07/03
Hospitality Properties Trust	HPT	10/01/01
Liberty Property Trust	LRY	12/11/02
Macerich	MAC	07/01/05
Mack-Cali Realty Corporation	CLI	03/19/03
Nationwide Health Properties	NHP	05/30/07
Omega Healthcare Investors	OHI	01/02/09
Potlach Corporation	PCH	Prior to REIT Status
Rayonier	RYN	Prior to REIT Status
Realty Income Corporation	O	11/13/07
Regency Centers	REG	04/25/05
Senior Housing Properties Trust	SNH	12/18/09
SL Green Realty Corp.	SLG	12/23/08
Taubman Centers, Inc.	TCO	01/13/11
UDR	UDR	01/27/03
Weingarten Realty Investors	WRI	11/10/04

REITS IN THE S & P INDICES – Table B-4 (cont.) AS OF 1/12 REIT NAME	TICKER	ENTRANCE DATE
S&P 600		
Acadia Realty Trust	AKR	05/25/05
BioMed Realty Trust	BMR	11/06/07
Cedar Shopping Centers	CDR	08/05/08
Colonial Properties Trust	CLP	10/01/01
Diamondrock Hospitality	DRH	11/07/07
EastGroup Properties, Inc.	EGP	05/27/05
Entertainment Properties Trust	EPR	06/03/04
Extra Space Storage	EXR	12/31/07
Franklin Street Properties Corp.	FSP	01/02/09
Getty Realty Corp.	GTY	02/02/11
Healthcare Realty Trust Inc.	HR	07/16/09
Home Properties	HME	02/12/08
Inland Real Estate Corporation	IRC	10/02/06
Kilroy Realty Corporation	KRC	10/01/01
Kite Realty Group Trust	KRG	04/13/07
LaSalle Hotel Properties	LHO	07/15/08
Lexington Realty Trust	LXP	09/04/03
LTC Properties, Inc.	LTC	02/14/06
Medical Properties Trust	MPW	01/18/07
MAA	MAA	08/22/06
National Retail Properties, Inc.	NNN	02/01/04
Parkway Properties	PKY	10/29/04
Pennsylvania Real Estate Investment Trust	PEI	03/05/08
Post Properties	PPS	10/16/08
PS Business Parks, Inc.	PSB	07/27/06
Saul Centers	BFS	12/17/10
Sovran _GPLITA_1_GPLITA_1Self Storage	SSS	07/08/04
Tanger Factory Outlet Centers, Inc.	SKT	04/16/07
Universal Health Realty Income Trust	UHT	09/27/10
Urstadt Biddle Properties	UBA	09/30/08

Exhibit B- 5

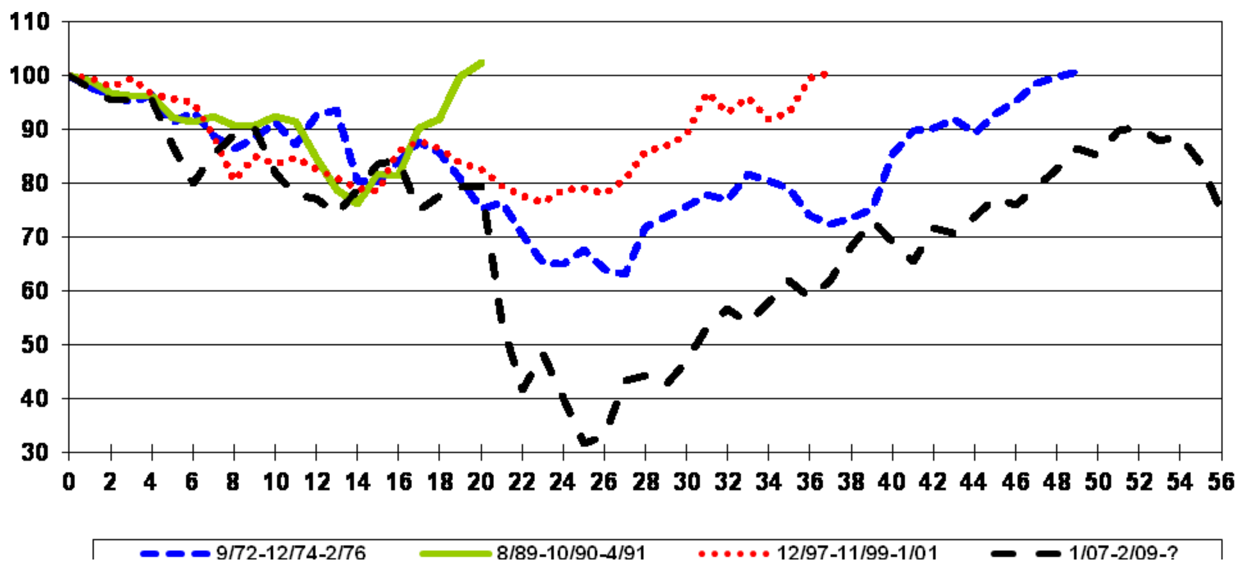


Information provided by NAREIT.

Appendix: C

Appendix C-1

Domestic REIT Stock Cycles & Market Dynamics
Comparison of Equity REIT Market Downturns



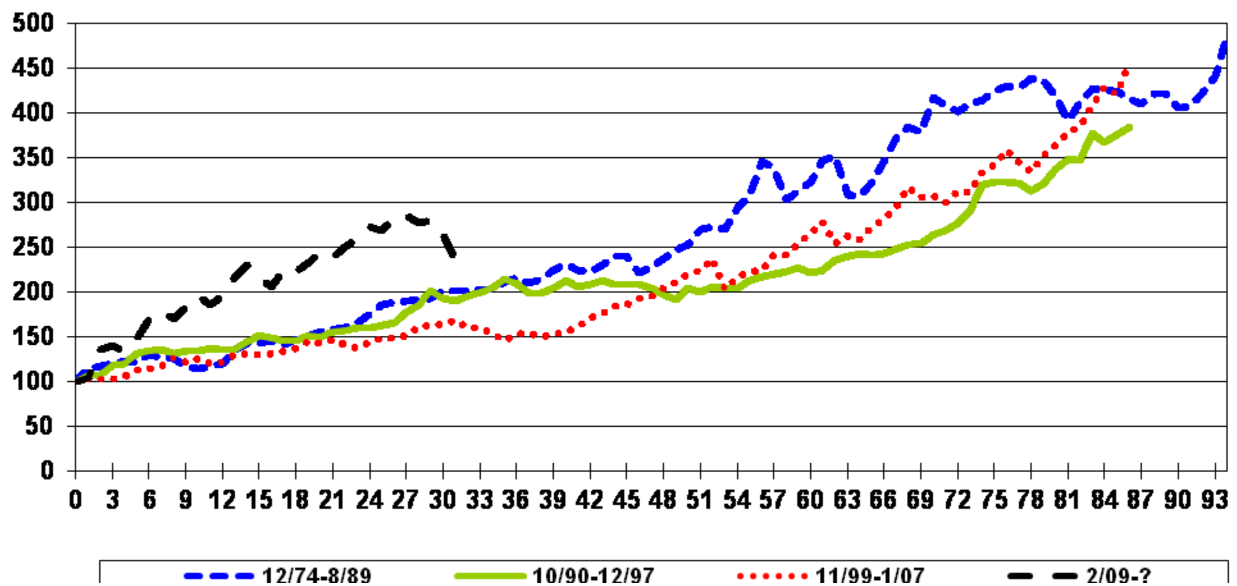
The most recent downturn in the equity REIT market has been far more severe than any experienced previously.

The downturn resulted from both softness in real estate operating fundamentals and the liquidity crisis.

Information provided by Brad Case, NAREIT, 2011.

Appendix C-2

Domestic REIT Stock Cycles & Market Dynamics
Comparison of Equity REIT Market Expansions

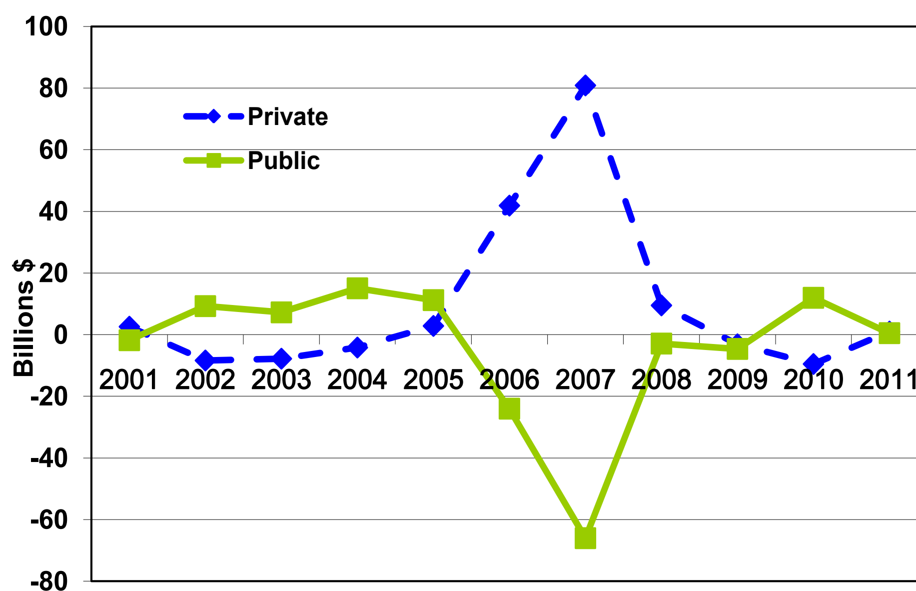


Expansion from the most recent downturn has been more rapid than historical expansions as it started from the liquidity crisis.

Current expansion phase is far short of previous expansion cycles in terms of duration and ultimate return.

Information provided by Brad Case, NAREIT, 2011.

Appendix C-3



Information provided by Brad Case, NAREIT, 2011.

Appendix C-4

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

Form of CRE Investment	Leverage	Fees and Expenses	Full Cycle (Peak to Peak)		Bull Market Only (Trough to Peak)	
			Duration	Returns	Duration	Returns
Property Values	0%	≈115 bps	17¾ years 1990q3 – 2008q2	266% 7.6% / yr	15 years 1993q2 – 2008q2	322% 10.1% / yr
Open-Ended Diversified Core Equity Funds (ODCE)	≈20%	107 bps	17¾ years 1990q3 – 2008q2	272% 7.7% / yr	15 years 1993q2 – 2008q2	341% 10.4% / yr
Value Added Private Equity Real Estate Funds	54%	131 bps	17¼ years 1990q3 – 2007q4	318% 8.6% / yr	14½ years 1993q2 – 2007q4	430% 12.2% / yr
Opportunistic Private Equity Real Estate Funds	67%	221 bps	17¼ years 1990q3 – 2007q4	621% 12.1% / yr	14 years 1993q4 – 2007q4	964% 18.4% / yr
Publicly Traded Equity REITs	≈40%	≈50 bps	17½ years 1989q3 – 2007q1	**802%** 13.4% / yr	16½ years 1990q3 – 2007q1	**1,041%** 15.9% / yr

Equity REIT returns exceed private equity real estate fund returns even over bull markets and relative to funds that use much greater leverage.

Information provided by Brad Case, NAREIT, 2011.

Appendix C-5

Comparison of Equity REIT Index Downturns

	Peak-to-Trough Duration	Peak-to-Trough Return	Environment	Expansion from Trough
Peak (September 1972) Trough (December 1974)	27 Months	-37.0%	General domestic economic recession	176 Months
Peak (August 1989) Trough (October 1990)	14 Months	-23.9%	Real estate depression	86 Months
Peak (December 1997) Trough (November 1999)	23 Months	-23.7%	Strong real estate fundamentals; tech stock boom	86 Months
Peak (January 2007) Trough to Date **(February 2009)**	25 Months (as of 9/30/2011)	-68.3% (as of 9/30/2011)	Credit crisis beginning in residential mortgages	31 Months (as of 9/30/2011)

Information provided by Brad Case, NAREIT, 2011.

Appendix C-6

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

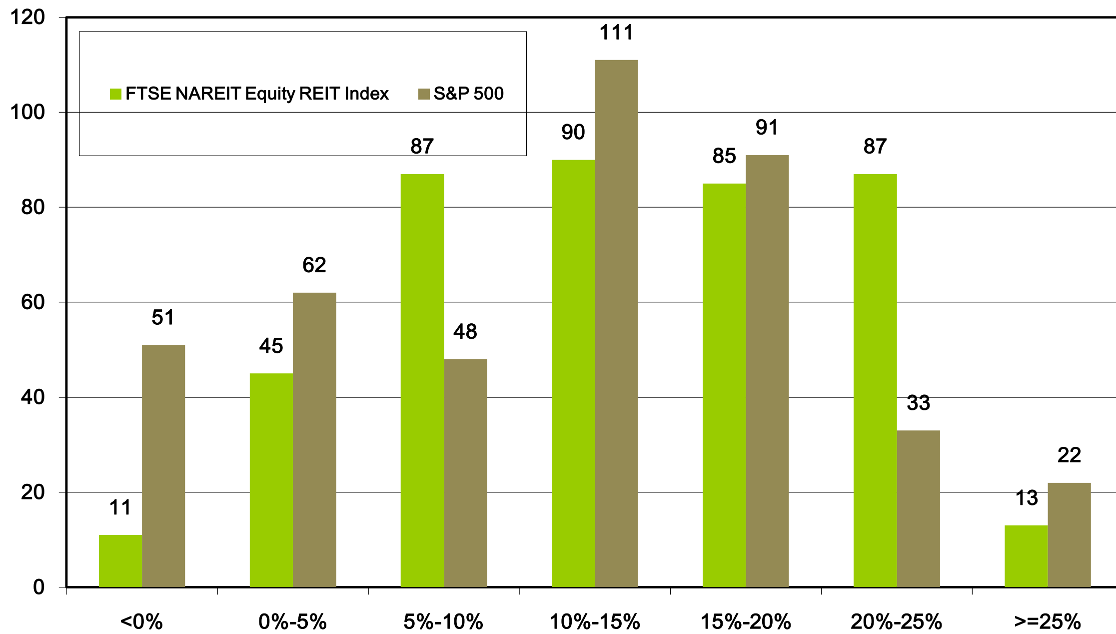
	FTSE NAREIT Equity REITs	FTSE EPRA/NAREIT Developed	S&P 500	Russell 2000	Barclays Capital Aggregate Bond Index*
1-Year	0.93	-6.88	1.14	-3.53	5.26
3-Year	-1.99	-0.42	1.23	-0.37	7.97
5-Year	-2.43	-4.13	-1.18	-1.02	6.53
10-Year	9.18	9.45	2.82	6.12	5.66
15-Year	9.14	6.67	5.23	5.59	6.46
20-Year	10.42	8.04	7.64	8.05	6.71
25-Year	9.37	NA	9.03	8.08	7.27
30-Year	11.73	NA	10.82	9.64	9.30
35-Year	12.87	NA	10.31	NA	8.24

Information provided by Brad Case, NAREIT, 2011.

Appendix C-7

Long-Term Performance Distribution
Distribution of Five-Year Average Annual Total Returns

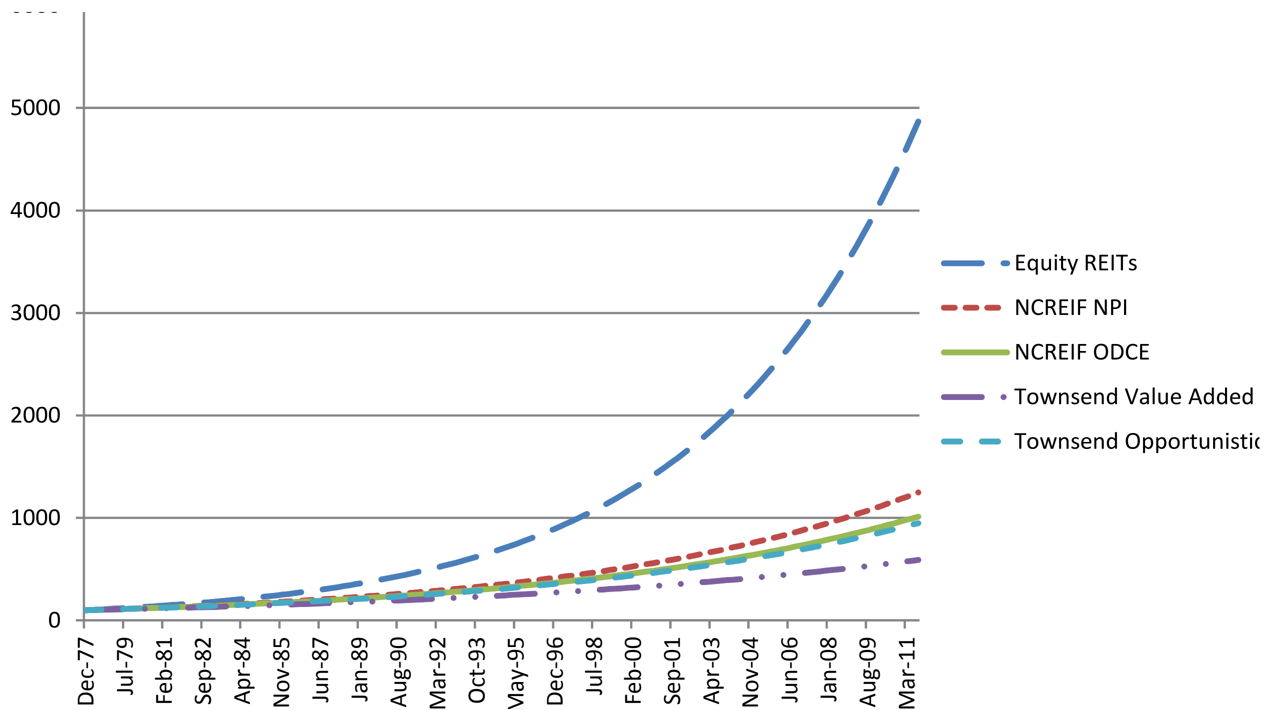
Data for 60-month periods ending from 12/31/1976 through 9/30/2011



Appendix C-8

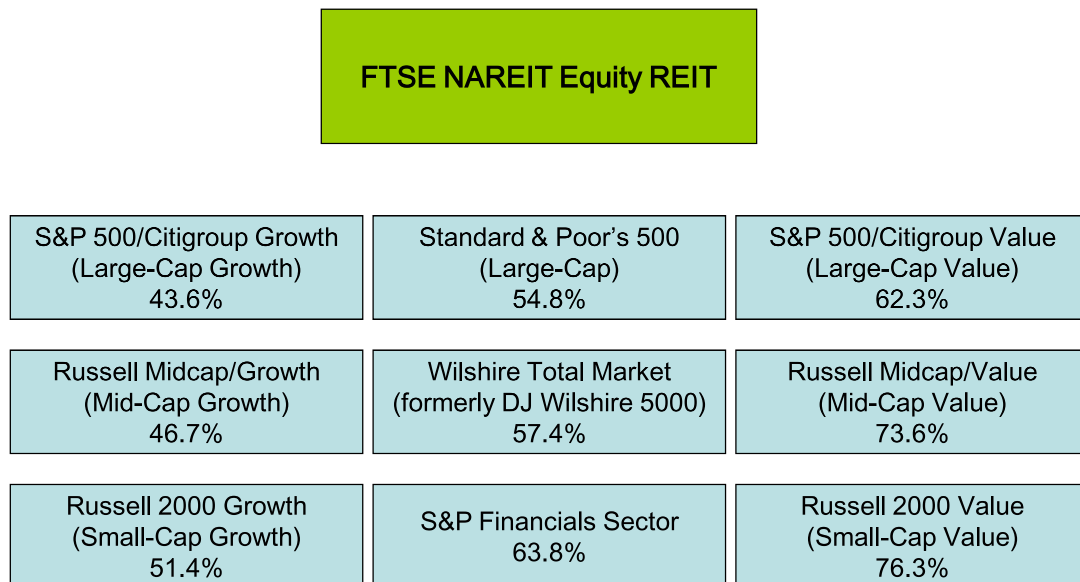
REITs Offer Strong Long-Term Net Returns

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



Information provided by Brad Case, NAREIT, 2011.

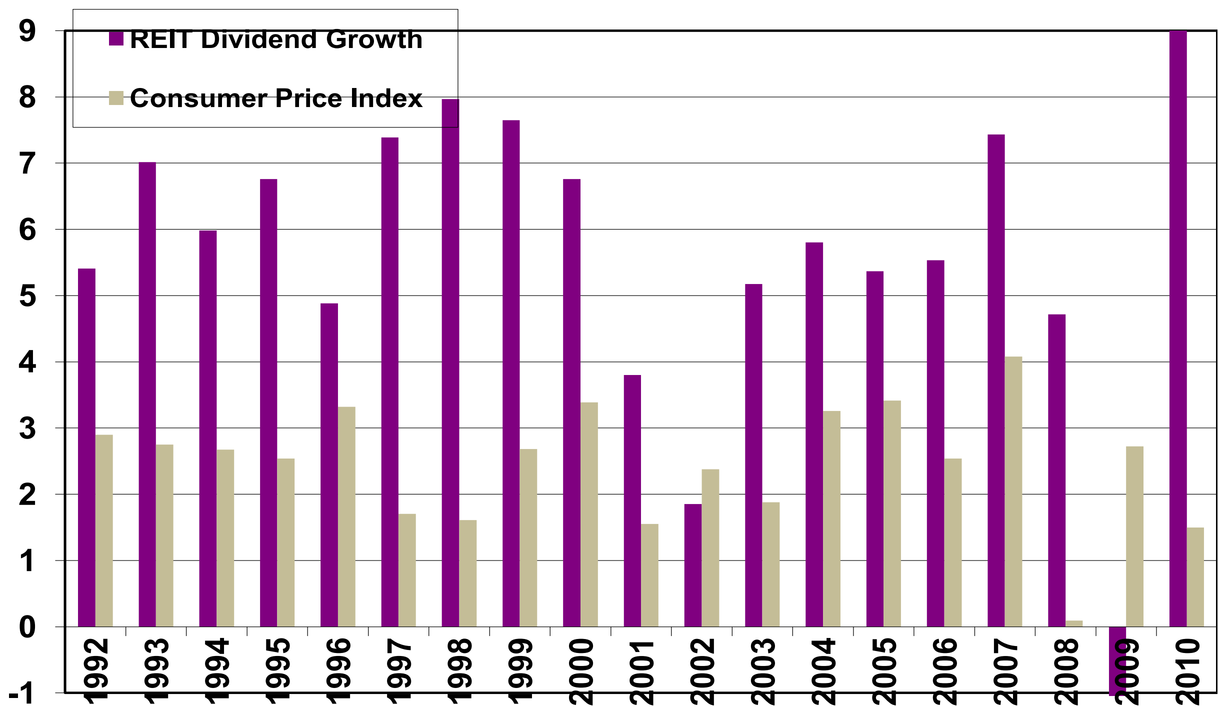
Appendix C-9



Information provided by Brad Case, NAREIT, 2011.

Appendix C-10

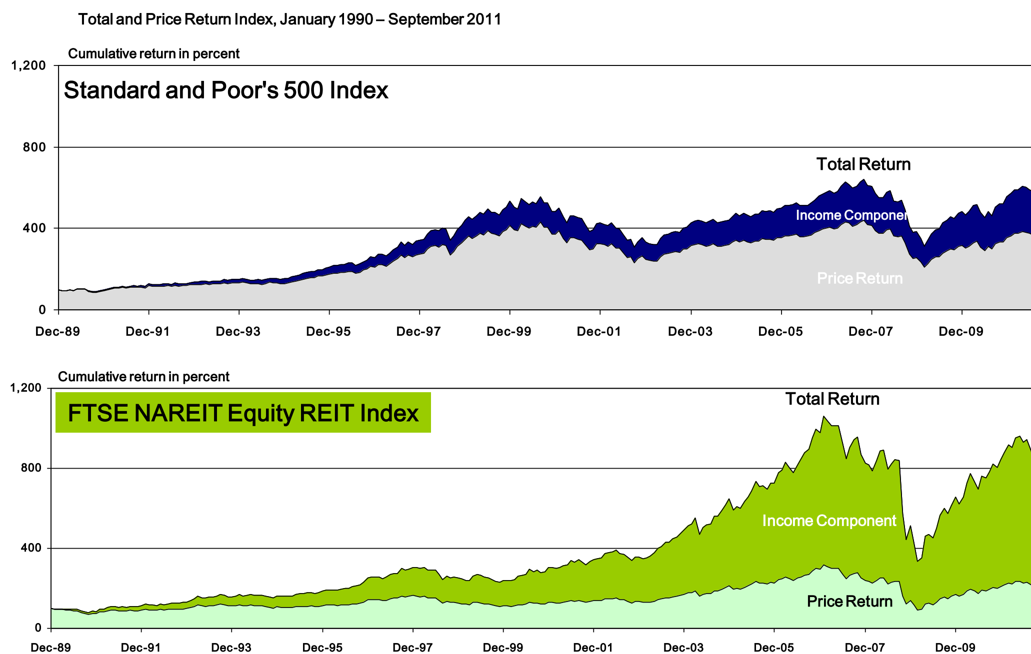
REIT Dividend Growth v. Consumer Price Index 1992-2010



Note: cash dividends declined by 25.3% during 2009, and increased by 47.5% during 2010

Information provided by Brad Case, NAREIT, 2011.

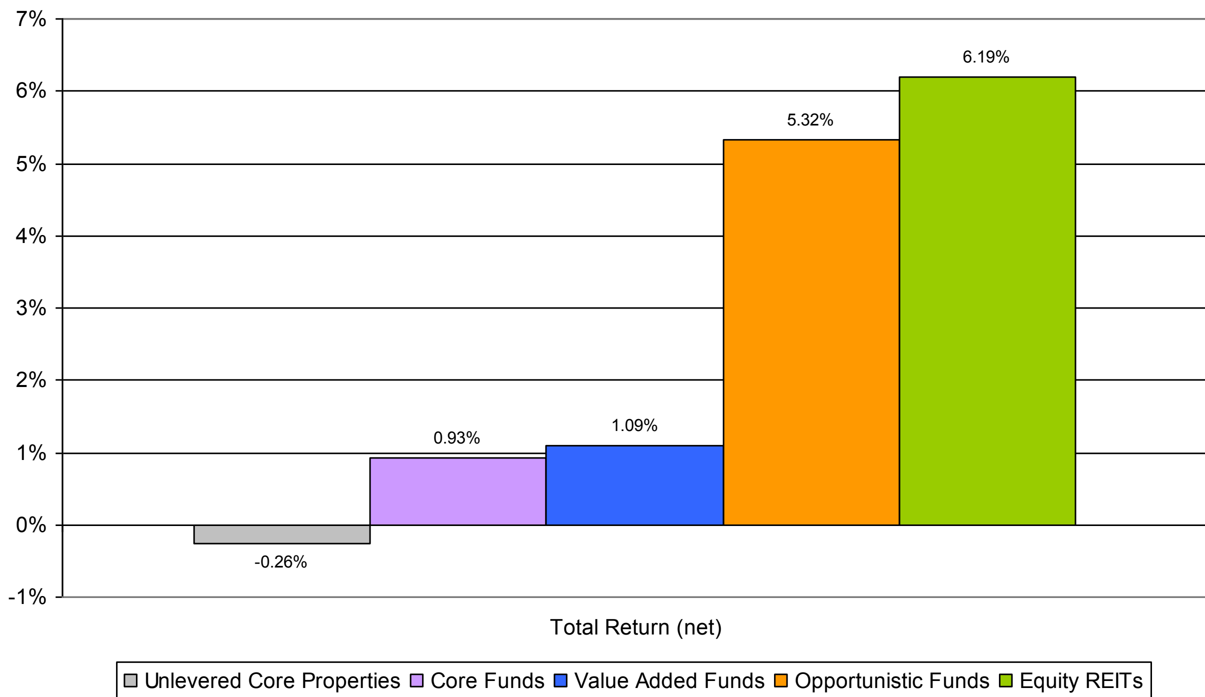
Appendix C-11



Information provided by Brad Case, NAREIT, 2011.

Appendix C-12

REITs Provide Much Greater Capital Appreciation than Most Other Real Estate Investments

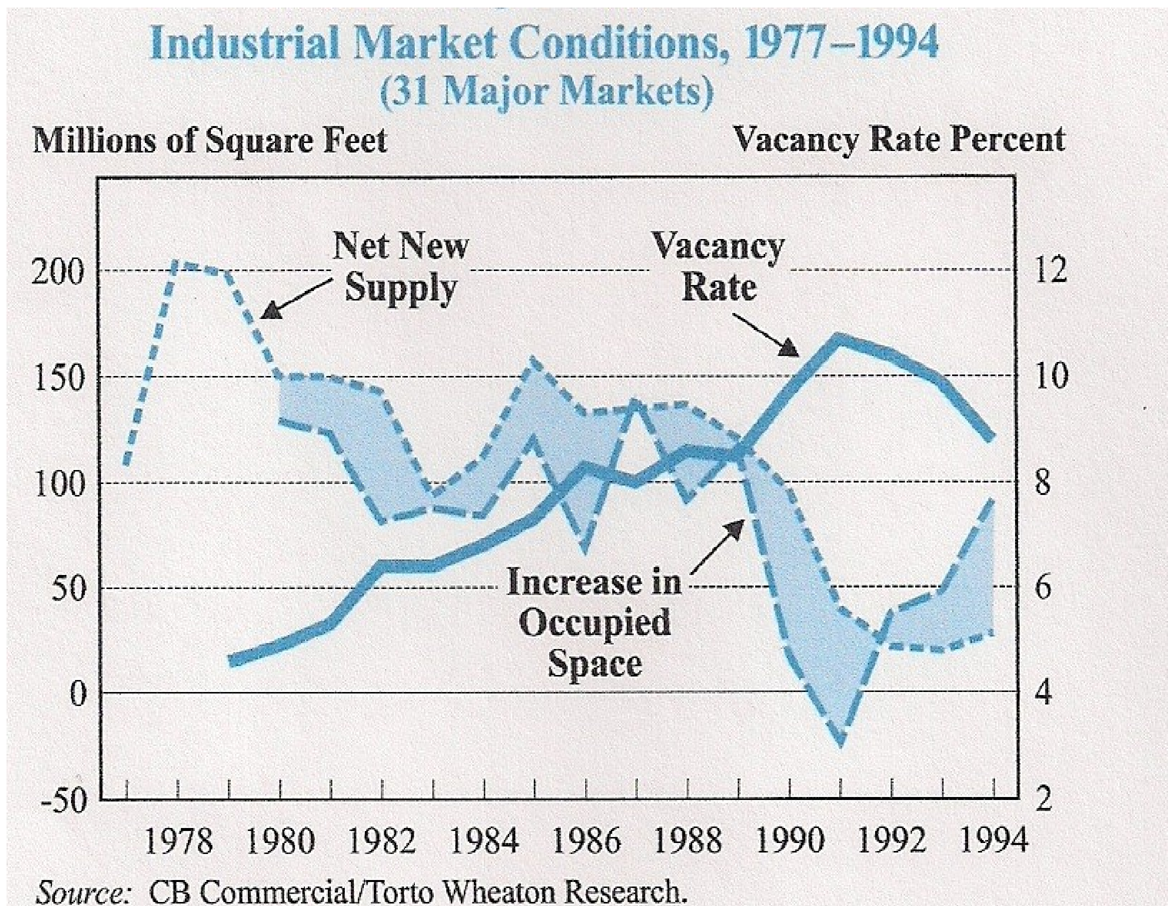


Information provided by Brad Case, NAREIT, 2011.

Appendix: D

Appendix D-1

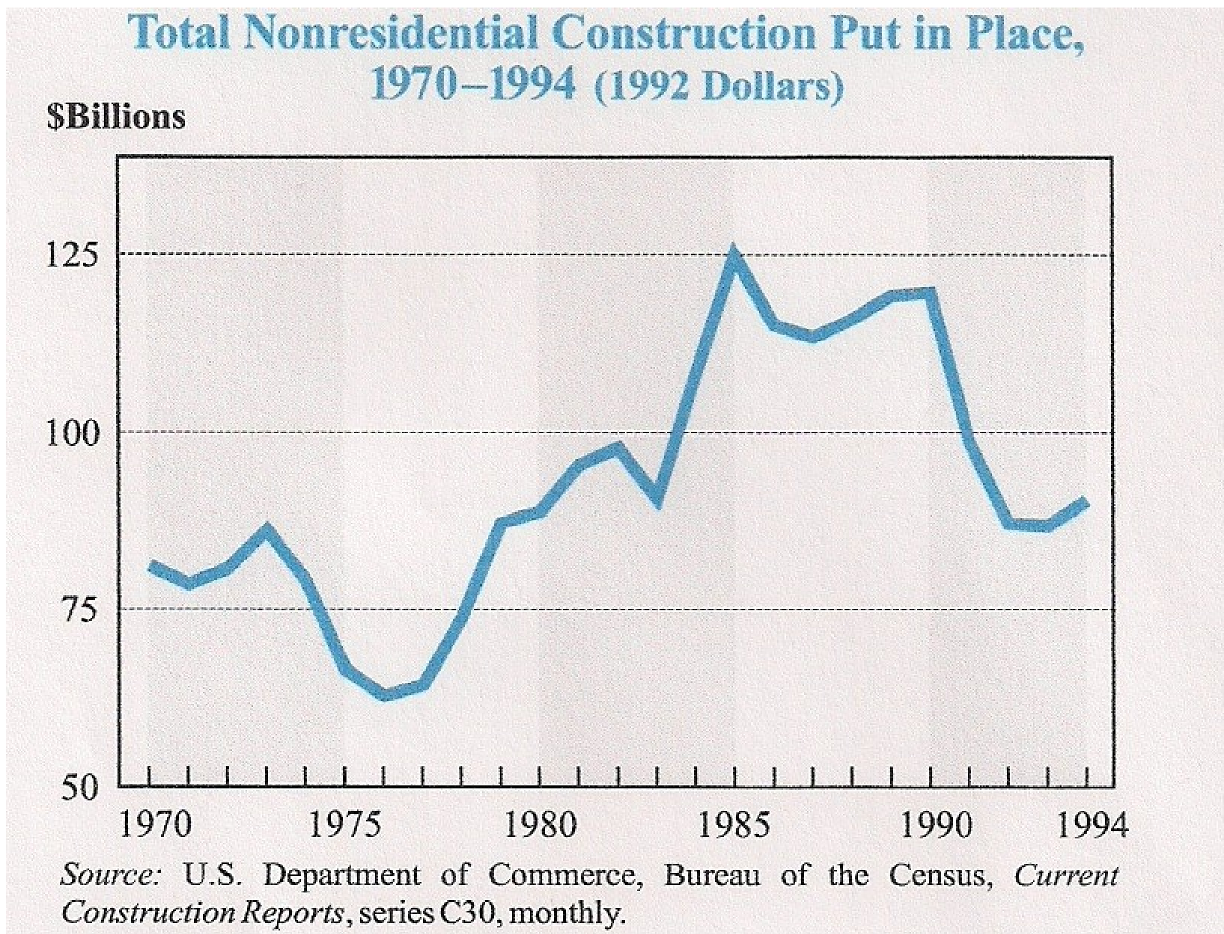
FDIC DIVISION OF RESEARCH & STATISTICS



Source: CB Commercial/Torto Wheaton Research.

Appendix D-2

FDIC DIVISION OF RESEARCH & STATISTICS



Appendix D-3

FDIC DIVISION OF RESEARCH & STATISTICS

Major Tax Law Provisions Affecting Returns on Commercial Real Estate Investment

	Pre–Economic Recovery Tax Act of 1981	Post–Economic Recovery Tax Act of 1981	Post–Tax Reform Act of 1986
Allowable depreciation life, commercial real estate	40 years	15 years	31.5 years
Allowable depreciation method	Straight-line	175% Declining balance	Straight-line
Passive losses deductible?	Yes	Yes	No
Max. ordinary income tax rate	70%	50%	38.5%
Capital gains tax rate	28%	20%	28%

Appendix: E

Appendix E

TABLE E -1 DESCRIPTION OF RATIOS FOR COMPUSTAT DATA

RATIO	DESCRIPTIONS	CALCULATION
FFOSH	Funds from Operations (FFO) per share	=FFO/Shares Outstanding
FFOMUL	Funds from Operations (FFO) Multiple	=Price/FFO per share
FFOPAY	Funds from Operations (FFO) Payout	=FFO per share/Net Income per share
DIVSH	Dividends per share	=Annual Dividends/Shares Outstanding
DIVYLD	Dividend Yield	=Annual Dividends per share/Price per share
DIVPAY	Dividend Payout	=Annual Dividends per share/Net Income per share
DEBT	Debt Ratio	=Total Debt/Total Assets
LEV	Leverage Ratio	=Total Debt/Total Equity
ASSETGR	Growth in Total Assets	=End of Year Total Assets - Beginning of Year Total Assets /Beginning of Year Total Assets
REVGR	Growth in Total Revenue	=End of Year Total Revenue - Beginning of Year Total Revenue /Beginning of Year Total Revenue
CASH	Cash to Assets Ratio	=Total Cash & ST Investments/Total Assets

**Table E-2 Mean Values for All Other Companies,
3 Companies Combined, Winthrop, Penn. REIT & Wash. REIT**

ENTITY	FFOSH	FFOPAY	FFOMUL	DIVPAY	DIVSH	DIVYLD	DEBT	LEV	ASSETGR	REVGR	CASH
ALLCOS	1.472	1.189	8.496	0.173	1.108	0.076	0.478	2.044	0.162	0.188	0.050
3COS	1.661	0.800	11.838	0.407	1.125	0.066	0.557	2.063	0.186	0.525	0.075
FUR	1.201	0.196	2.799	0.103	0.849	0.072	0.629	2.309	0.099	0.144	0.057
PEI	1.994	0.328	16.795	0.197	1.331	0.067	0.594	2.445	0.309	0.533	0.100
WRE	1.632	1.670	13.122	0.876	1.145	0.060	0.462	1.499	0.131	0.829	0.066

Table provides mean values for 11 select ratios for the 50-year period from 1960 – 2010.

ALLCOS – All other REITs, not including Winthrop, Pennsylvania REIT, and Washington REIT
3COS – The three companies of Winthrop, Pennsylvania REIT, and Washington REIT combined
FUR – Ticker symbol for Winthrop Realty Trust
PEI – Ticker symbol for Pennsylvania REIT
WRE – Ticker symbol for Washington REIT

Note: Data is taken from Compustat, with manual input for Pennsylvania REIT and Washington REIT for years prior to 1971 when companies were not listed on an active stock exchange. Data for this early period could not be obtained for Winthrop.

Table E-3 Detail Information for Mean
Winthrop, Penn. REIT & Wash. REIT

		N	Mean	Std. Deviation	Minimum	Maximum
FFOSH	FUR	33	1.201	1.680	-3.660	6.084
	PEI	50	1.994	1.227	0.000	4.173
	WRE	50	1.632	0.867	0.086	5.756
FFOMUL	FUR	33	2.799	22.472	-101.724	25.556
	PEI	48	16.795	17.232	2.004	77.725
	WRE	47	13.122	4.580	2.410	23.804
FFOPAY	FUR	33	0.196	0.189	-0.029	0.544
	PEI	50	0.328	0.312	-0.358	0.998
	WRE	50	1.670	3.522	0.027	16.829
DIVSH	FUR	41	0.849	0.511	0.059	1.991
	PEI	50	1.331	0.810	0.000	2.637
	WRE	50	1.145	0.478	0.000	2.520
DIVYLD	FUR	41	0.072	0.031	0.018	0.147
	PEI	50	0.067	0.050	0.000	0.305
	WRE	47	0.060	0.015	0.032	0.103
DIVPAY	FUR	41	0.103	0.120	-0.060	0.396
	PEI	50	0.197	0.186	-0.219	0.594
	WRE	49	0.876	1.652	0.021	7.301
DEBT	FUR	37	0.629	0.091	0.454	0.777
	PEI	50	0.594	0.210	0.146	0.855
	WRE	48	0.462	0.239	0.000	0.862
LEV	FUR	37	2.309	0.783	0.937	3.909
	PEI	50	2.445	1.658	0.178	6.945
	WRE	50	1.499	1.732	0.000	6.688
ASSETGR	FUR	40	0.099	0.331	-0.599	1.254
	PEI	49	0.309	0.856	-0.415	4.408
	WRE	46	0.131	0.171	-0.127	0.513
REVGR	FUR	40	0.144	0.937	-1.938	4.554
	PEI	49	0.533	2.284	-0.415	15.650
	WRE	49	0.829	2.682	-0.033	15.650
CASH	FUR	41	0.057	0.064	0.001	0.285
	PEI	50	0.100	0.149	0.003	0.485
	WRE	48	0.066	0.083	0.002	0.301

FUR – Ticker symbol for Winthrop Realty Trust
PEI – Ticker symbol for Pennsylvania REIT
WRE – Ticker symbol for Washington REIT

Note: Data is taken from Compustat, with manual input for PREIT and WRIT for years prior to 1971 when companies were not listed. Data for this early period could not be obtained for Winthrop.

Table E-3A Pearson Correlation Statistics for Selected Ratios

		FFOSH	FFOPY	FFOM	DIVPA	DIVSH	DIVYD	DEBT	DTEQ	ASGR	RVGR	CASH
Stat,	FFOSH	1.000										
	FFOPY	-.077	1.000									
	FFOM	-.130	.040	1.000								
	DIVPA	-.096	.980**	.040	1.000							
	DIVSH	.694**	-0.279**	-.212**	-.218**	1.000						
	DIVYD	268**	-.135	-.356**	-.087	.522**	1.000					
	DEBT	-.014	.363**	.095	.356**	-.218**	.008	1.000				
	LEV	-.133	.566**	.202**	.496**	-.429**	-.198**	.840**	1.000			
	ASGR	-.077	-.036	.448**	-.032	-.161*	-.232**	.076	0.007	1.000		
	RVGR	-.097	.066	.332**	.102	-.156'	-.103	.089	.001	.645**	1.000	
	CASH	.012	-.127	.011	-.122	.089	-.086	-.551**	-.414**	-.027	-.049	1.000
Sig. (1-tail)	FFOSH											
	FFOPY	.268										
	FFOM	.064	.565									
	DIVPA	.162	.000	.567								
	DIVSH	.000	.000	.002	.001							
	DIVYD	.000	.053	.000	.185	.000						
	DEBT	.834	.000	.180	.000	.001	.902					
	LEV	.051	.000	.004	.000	.000	.003	.000				
	ASGR	.266	.615	.000	.627	.014	.000	.252	0.922			
	RVGR	.153	.346	.000	.117	.017	.116	.177	.991	.000		
	CASH	.863	.070	.876	.061	.171	.189	.000	.000	.684	.459	

Ratio Key:

FFOSH –FFO per share
FFOPY – FFO Payable
FFOM – FFO Multiple
DIVPA – Dividend Payout
DIVSH – Dividend per share
DIVYLD – Dividend Yield
DEBT – Debt to Assets
LEV – Debt to Equity
ASGR – Asset Growth
RVGR – Revenue Growth
CASH – Cash to Assets

Note: FFOPY and DIVPA – showed high correlation of .98.
DEBT and LEV - showed high correlation of .84

TABLE E-4 ANOVA BY ENTITY

		Sum of Squares	df	Mean Square	F	Sig.
FFOSH	Between Groups	17.451	4	4.363	3.816	0.005
	Within Groups	242.368	212	1.143		
	Total	259.819	216			
FFOPAY	Between Groups	60.177	4	15.044	3.968	0.004
	Within Groups	765.833	202	3.791		
	Total	826.010	206			
FFOMUL	Between Groups	5093.190	4	1273.297	6.055	0.000
	Within Groups	41845.293	199	210.278		
	Total	46938.483	203			
DIVPAY	Between Groups	18.221	4	4.555	6.522	0.000
	Within Groups	162.047	232	0.698		
	Total	180.268	236			
DIVSH	Between Groups	8.670	4	2.168	7.275	0.000
	Within Groups	69.421	233	0.298		
	Total	78.091	237			
DIVYLD	Between Groups	0.006	4	0.002	1.360	0.249
	Within Groups	0.262	230	0.001		
	Total	0.268	234			
DEBT	Between Groups	0.995	4	0.249	7.840	0.000
	Within Groups	7.267	229	0.032		
	Total	8.263	233			
LEV	Between Groups	27.271	4	6.818	3.497	0.009
	Within Groups	444.530	228	1.950		
	Total	471.801	232			
ASSETGR	Between Groups	1.294	4	0.323	1.177	0.322
	Within Groups	62.652	228	0.275		
	Total	63.946	232			
REVGR	Between Groups	14.965	4	3.741	0.968	0.426
	Within Groups	892.384	231	3.863		
	Total	907.349	235			
CASH	Between Groups	0.055	4	0.014	1.636	0.166
	Within Groups	1.958	233	0.008		
	Total	2.013	237			

TABLE E-5 ANOVA BY YEAR

		Sum of Squares	df	Mean Square	F	Sig.
FFOSH	Between Groups	95.937	49	1.958	1.995	0.001
	Within Groups	163.882	167	0.981		
	Total	259.819	216			
FFOPAY	Between Groups	467.046	49	9.532	4.169	0.000
	Within Groups	358.964	157	2.286		
	Total	826.010	206			
FFOMUL	Between Groups	26592.732	47	565.803	4.338	0.000
	Within Groups	20345.751	156	130.421		
	Total	46938.483	203			
DIVPAY	Between Groups	72.292	50	1.446	2.491	0.000
	Within Groups	107.976	186	0.581		
	Total	180.268	236			
DIVSH	Between Groups	37.096	50	0.742	3.384	0.000
	Within Groups	40.995	187	0.219		
	Total	78.091	237			
DIVYLD	Between Groups	0.171	50	0.003	6.481	0.000
	Within Groups	0.097	184	0.001		
	Total	0.268	234			
DEBT	Between Groups	4.703	50	0.094	4.835	0.000
	Within Groups	3.560	183	0.019		
	Total	8.263	233			
LEV	Between Groups	324.321	49	6.619	8.213	0.000
	Within Groups	147.480	183	0.806		
	Total	471.801	232			
ASSETGR	Between Groups	35.102	49	0.716	4.545	0.000
	Within Groups	28.844	183	0.158		
	Total	63.946	232			
REVGR	Between Groups	406.138	49	8.289	3.076	0.000
	Within Groups	501.211	186	2.695		
	Total	907.349	235			
CASH	Between Groups	0.920	50	0.018	3.144	0.000
	Within Groups	1.094	187	0.006		
	Total	2.013	237			

TABLE E-6 ANOVA POST HOC TESTING FOR ENTITY

Tukey HSD

Dependent Variable	(I) ENTITY	(J) ENTITY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
FFOSH	ALLCOS	3COS	-.254451	.232170	.808	-.89324	.38434
		FUR	.217737	.254419	.913	-.48227	.91775
		PEI	-.658513*	.232170	.040	-1.29731	-.01972
		WRE	-.214063	.230109	.885	-.84719	.41906
	3COS	ALLCOS	.254451	.232170	.808	-.38434	.89324
		FUR	.472188	.241788	.293	-.19307	1.13744
		PEI	-.404063	.218255	.347	-1.00457	.19644
		WRE	.040388	.216062	1.000	-.55408	.63486
	FUR	ALLCOS	-.217737	.254419	.913	-.91775	.48227
		3COS	-.472188	.241788	.293	-1.13744	.19307
		PEI	-.876250*	.241788	.003	-1.54151	-.21099
		WRE	-.431800	.239810	.376	-1.09161	.22801
	PEI	ALLCOS	.658513*	.232170	.040	.01972	1.29731
		3COS	.404063	.218255	.347	-.19644	1.00457
		FUR	.876250*	.241788	.003	.21099	1.54151
		WRE	.444450	.216062	.243	-.15002	1.03892
	WRE	ALLCOS	.214063	.230109	.885	-.41906	.84719
		3COS	-.040388	.216062	1.000	-.63486	.55408
		FUR	.431800	.239810	.376	-.22801	1.09161
		PEI	-.444450	.216062	.243	-1.03892	.15002

TABLE E-6 ANOVA POST HOC TESTING FOR ENTITY

Tukey HSD

Dependent Variable	(I) ENTITY	(J) ENTITY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
FFOPAY	ALLCOS	3COS	-.072179	.463019	1.000	-1.34667	1.20232
		FUR	.572617	.500288	.783	-.80446	1.94970
		PEI	.427030	.463019	.888	-.84746	1.70152
		WRE	-.902929	.459594	.287	-2.16800	.36214
	3COS	ALLCOS	.072179	.463019	1.000	-1.20232	1.34667
		FUR	.644795	.440308	.587	-.56718	1.85678
		PEI	.499208	.397453	.718	-.59481	1.59323
		WRE	-.830750	.393458	.219	-1.91377	.25227
	FUR	ALLCOS	-.572617	.500288	.783	-1.94970	.80446
		3COS	-.644795	.440308	.587	-1.85678	.56718
		PEI	-.145587	.440308	.997	-1.35757	1.06639
		WRE	-1.475545*	.436705	.008	-2.67761	-.27348
	PEI	ALLCOS	-.427030	.463019	.888	-1.70152	.84746
		3COS	-.499208	.397453	.718	-1.59323	.59481
		FUR	.145587	.440308	.997	-1.06639	1.35757
		WRE	-1.329958*	.393458	.008	-2.41298	-.24693
	WRE	ALLCOS	.902929	.459594	.287	-.36214	2.16800
		3COS	.830750	.393458	.219	-.25227	1.91377
		FUR	1.475545*	.436705	.008	.27348	2.67761
		PEI	1.329958*	.393458	.008	.24693	2.41298

TABLE E-6 ANOVA POST HOC TESTING FOR ENTITY

Tukey HSD

Dependent Variable	(I) ENTITY	(J) ENTITY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
FFOMUL	ALLCOS	3COS	-8.014446	3.448291	.142	-17.50743	1.47853
		FUR	3.670535	3.725853	.862	-6.58656	13.92763
		PEI	-10.324863*	3.448291	.026	-19.81784	-.83188
		WRE	-6.652199	3.461780	.309	-16.18231	2.87791
	3COS	ALLCOS	8.014446	3.448291	.142	-1.47853	17.50743
		FUR	11.684981*	3.279153	.004	2.65763	20.71233
		PEI	-2.310417	2.959996	.936	-10.45914	5.83831
		WRE	1.362247	2.975699	.991	-6.82971	9.55420
	FUR	ALLCOS	-3.670535	3.725853	.862	-13.92763	6.58656
		3COS	-11.684981*	3.279153	.004	-20.71233	-2.65763
		PEI	-13.995398*	3.279153	.000	-23.02275	-4.96805
		WRE	-10.322734*	3.293335	.017	-19.38912	-1.25634
	PEI	ALLCOS	10.324863*	3.448291	.026	.83188	19.81784
		3COS	2.310417	2.959996	.936	-5.83831	10.45914
		FUR	13.995398*	3.279153	.000	4.96805	23.02275
		WRE	3.672664	2.975699	.731	-4.51929	11.86462
	WRE	ALLCOS	6.652199	3.461780	.309	-2.87791	16.18231
		3COS	-1.362247	2.975699	.991	-9.55420	6.82971
		FUR	10.322734*	3.293335	.017	1.25634	19.38912
		PEI	-3.672664	2.975699	.731	-11.86462	4.51929

TABLE E-6 ANOVA POST HOC TESTING FOR ENTITY

Tukey HSD

Dependent Variable	(I) ENTITY	(J) ENTITY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
DIVPAY	ALLCOS	3COS	-.211271	.168069	.718	-.67335	.25081
		FUR	.104252	.175305	.976	-.37772	.58623
		PEI	.003292	.168069	1.000	-.45879	.46537
		WRE	-.668048*	.167184	.001	-1.12769	-.20840
	3COS	ALLCOS	.211271	.168069	.718	-.25081	.67335
		FUR	.315523	.177729	.391	-.17312	.80416
		PEI	.214563	.170597	.717	-.25447	.68359
		WRE	-.456777	.169724	.058	-.92341	.00986
	FUR	ALLCOS	-.104252	.175305	.976	-.58623	.37772
		3COS	-.315523	.177729	.391	-.80416	.17312
		PEI	-.100960	.177729	.980	-.58960	.38768
		WRE	-.772300*	.176892	.000	-1.25864	-.28596
	PEI	ALLCOS	-.003292	.168069	1.000	-.46537	.45879
		3COS	-.214563	.170597	.717	-.68359	.25447
		FUR	.100960	.177729	.980	-.38768	.58960
		WRE	-.671339*	.169724	.001	-1.13797	-.20471
	WRE	ALLCOS	.668048*	.167184	.001	.20840	1.12769
		3COS	.456777	.169724	.058	-.00986	.92341
		FUR	.772300*	.176892	.000	.28596	1.25864
		PEI	.671339*	.169724	.001	.20471	1.13797

TABLE E-6 ANOVA POST HOC TESTING FOR ENTITY

Tukey HSD

Dependent Variable	(I) ENTITY	(J) ENTITY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
DIVSH	ALLCOS	3COS	-.249825	.109769	.156	-.55161	.05196
		FUR	.056107	.114495	.988	-.25867	.37088
		PEI	-.480596*	.109769	.000	-.78238	-.17881
		WRE	-.239337	.108632	.182	-.53800	.05932
	3COS	ALLCOS	.249825	.109769	.156	-.05196	.55161
		FUR	.305931	.116078	.067	-.01320	.62506
		PEI	-.230771	.111420	.236	-.53709	.07555
		WRE	.010488	.110300	1.000	-.29276	.31373
	FUR	ALLCOS	-.056107	.114495	.988	-.37088	.25867
		3COS	-.305931	.116078	.067	-.62506	.01320
		PEI	-.536702*	.116078	.000	-.85583	-.21757
		WRE	-.295444	.115004	.080	-.61162	.02073
	PEI	ALLCOS	.480596*	.109769	.000	.17881	.78238
		3COS	.230771	.111420	.236	-.07555	.53709
		FUR	.536702*	.116078	.000	.21757	.85583
		WRE	.241258	.110300	.188	-.06198	.54450
	WRE	ALLCOS	.239337	.108632	.182	-.05932	.53800
		3COS	-.010488	.110300	1.000	-.31373	.29276
		FUR	.295444	.115004	.080	-.02073	.61162
		PEI	-.241258	.110300	.188	-.54450	.06198

TABLE E-6 ANOVA POST HOC TESTING FOR ENTITY

Tukey HSD

Dependent Variable	(I) ENTITY	(J) ENTITY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
DIVYLD	ALLCOS	3COS	-.004522	.006787	.963	-.02318	.01414
		FUR	-.011932	.007079	.445	-.03140	.00753
		PEI	-.011439	.006787	.445	-.03010	.00722
		WRE	-.000406	.006824	1.000	-.01917	.01836
	3COS	ALLCOS	.004522	.006787	.963	-.01414	.02318
		FUR	-.007410	.007177	.840	-.02714	.01232
		PEI	-.006917	.006889	.853	-.02586	.01203
		WRE	.004116	.006926	.976	-.01493	.02316
	FUR	ALLCOS	.011932	.007079	.445	-.00753	.03140
		3COS	.007410	.007177	.840	-.01232	.02714
		PEI	.000493	.007177	1.000	-.01924	.02023
		WRE	.011526	.007212	.500	-.00830	.03136
	PEI	ALLCOS	.011439	.006787	.445	-.00722	.03010
		3COS	.006917	.006889	.853	-.01203	.02586
		FUR	-.000493	.007177	1.000	-.02023	.01924
		WRE	.011033	.006926	.503	-.00801	.03008
	WRE	ALLCOS	.000406	.006824	1.000	-.01836	.01917
		3COS	-.004116	.006926	.976	-.02316	.01493
		FUR	-.011526	.007212	.500	-.03136	.00830
		PEI	-.011033	.006926	.503	-.03008	.00801

TABLE E-6 ANOVA POST HOC TESTING FOR ENTITY

Tukey HSD

Dependent Variable	(I) ENTITY	(J) ENTITY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
DEBT	ALLCOS	3COS	-.094699	.035825	.066	-.19320	.00381
		FUR	-.156472*	.038470	.001	-.26225	-.05069
		PEI	-.122024*	.035454	.006	-.21951	-.02454
		WRE	.009676	.035825	.999	-.08883	.10818
	3COS	ALLCOS	.094699	.035825	.066	-.00381	.19320
		FUR	-.061774	.038973	.508	-.16893	.04539
		PEI	-.027325	.035998	.942	-.12631	.07166
		WRE	.104375*	.036363	.036	.00439	.20436
	FUR	ALLCOS	.156472*	.038470	.001	.05069	.26225
		3COS	.061774	.038973	.508	-.04539	.16893
		PEI	.034449	.038632	.900	-.07177	.14067
		WRE	.166149*	.038973	.000	.05899	.27331
	PEI	ALLCOS	.122024*	.035454	.006	.02454	.21951
		3COS	.027325	.035998	.942	-.07166	.12631
		FUR	-.034449	.038632	.900	-.14067	.07177
		WRE	.131700*	.035998	.003	.03272	.23068
	WRE	ALLCOS	-.009676	.035825	.999	-.10818	.08883
		3COS	-.104375*	.036363	.036	-.20436	-.00439
		FUR	-.166149*	.038973	.000	-.27331	-.05899
		PEI	-.131700*	.035998	.003	-.23068	-.03272

TABLE E-6 ANOVA POST HOC TESTING FOR ENTITY

Tukey HSD

Dependent Variable	(I) ENTITY	(J) ENTITY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
LEV	ALLCOS	3COS	.011646	.285022	1.000	-.77209	.79538
		FUR	-.063938	.305472	1.000	-.90390	.77603
		PEI	-.199608	.282157	.955	-.97546	.57625
		WRE	.747392	.282157	.065	-.02846	1.52325
	3COS	ALLCOS	-.011646	.285022	1.000	-.79538	.77209
		FUR	-.075584	.305472	.999	-.91555	.76438
		PEI	-.211254	.282157	.945	-.98711	.56460
		WRE	.735746	.282157	.072	-.04011	1.51160
	FUR	ALLCOS	.063938	.305472	1.000	-.77603	.90390
		3COS	.075584	.305472	.999	-.76438	.91555
		PEI	-.135670	.302801	.992	-.96829	.69695
		WRE	.811330	.302801	.060	-.02129	1.64395
	PEI	ALLCOS	.199608	.282157	.955	-.57625	.97546
		3COS	.211254	.282157	.945	-.56460	.98711
		FUR	.135670	.302801	.992	-.69695	.96829
		WRE	.947000*	.279263	.007	.17910	1.71490
	WRE	ALLCOS	-.747392	.282157	.065	-1.52325	.02846
		3COS	-.735746	.282157	.072	-1.51160	.04011
		FUR	-.811330	.302801	.060	-1.64395	.02129
		PEI	-.947000*	.279263	.007	-1.71490	-.17910

TABLE E-6 ANOVA POST HOC TESTING FOR ENTITY

Tukey HSD

Dependent Variable	(I) ENTITY	(J) ENTITY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
ASSETGR	ALLCOS	3COS	-.062229	.105927	.977	-.35350	.22904
		FUR	.073100	.111201	.965	-.23267	.37887
		PEI	-.136816	.105375	.692	-.42657	.15294
		WRE	.041348	.107096	.995	-.25314	.33583
	3COS	ALLCOS	.062229	.105927	.977	-.22904	.35350
		FUR	.135329	.112226	.748	-.17326	.44392
		PEI	-.074587	.106456	.956	-.36731	.21814
		WRE	.103577	.108160	.874	-.19383	.40099
	FUR	ALLCOS	-.073100	.111201	.965	-.37887	.23267
		3COS	-.135329	.112226	.748	-.44392	.17326
		PEI	-.209916	.111704	.331	-.51707	.09724
		WRE	-.031752	.113329	.999	-.34338	.27987
	PEI	ALLCOS	.136816	.105375	.692	-.15294	.42657
		3COS	.074587	.106456	.956	-.21814	.36731
		FUR	.209916	.111704	.331	-.09724	.51707
		WRE	.178164	.107618	.464	-.11776	.47409
	WRE	ALLCOS	-.041348	.107096	.995	-.33583	.25314
		3COS	-.103577	.108160	.874	-.40099	.19383
		FUR	.031752	.113329	.999	-.27987	.34338
		PEI	-.178164	.107618	.464	-.47409	.11776

TABLE E-6 ANOVA POST HOC TESTING FOR ENTITY

Tukey HSD

Dependent Variable	(I) ENTITY	(J) ENTITY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
REVGR	ALLCOS	3COS	-.380598	.397171	.873	-1.47260	.71140
		FUR	.058590	.416942	1.000	-1.08777	1.20495
		PEI	-.330368	.395098	.919	-1.41667	.75593
		WRE	-.626821	.395098	.508	-1.71312	.45948
	3COS	ALLCOS	.380598	.397171	.873	-.71140	1.47260
		FUR	.439188	.420785	.835	-.71774	1.59611
		PEI	.050229	.399151	1.000	-1.04721	1.14767
		WRE	-.246224	.399151	.972	-1.34367	.85122
	FUR	ALLCOS	-.058590	.416942	1.000	-1.20495	1.08777
		3COS	-.439188	.420785	.835	-1.59611	.71774
		PEI	-.388958	.418829	.886	-1.54051	.76259
		WRE	-.685411	.418829	.476	-1.83696	.46614
	PEI	ALLCOS	.330368	.395098	.919	-.75593	1.41667
		3COS	-.050229	.399151	1.000	-1.14767	1.04721
		FUR	.388958	.418829	.886	-.76259	1.54051
		WRE	-.296453	.397088	.945	-1.38823	.79532
	WRE	ALLCOS	.626821	.395098	.508	-.45948	1.71312
		3COS	.246224	.399151	.972	-.85122	1.34367
		FUR	.685411	.418829	.476	-.46614	1.83696
		PEI	.296453	.397088	.945	-.79532	1.38823

TABLE E-6 ANOVA POST HOC TESTING FOR ENTITY

Tukey HSD

Dependent Variable	(I) ENTITY	(J) ENTITY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
CASH	ALLCOS	3COS	-.011457	.018437	.972	-.06214	.03923
		FUR	.005728	.019230	.998	-.04714	.05860
		PEI	-.037486	.018246	.244	-.08765	.01268
		WRE	-.003728	.018437	1.000	-.05442	.04696
	3COS	ALLCOS	.011457	.018437	.972	-.03923	.06214
		FUR	.017185	.019496	.904	-.03642	.07079
		PEI	-.026029	.018526	.625	-.07696	.02490
		WRE	.007729	.018714	.994	-.04372	.05918
	FUR	ALLCOS	-.005728	.019230	.998	-.05860	.04714
		3COS	-.017185	.019496	.904	-.07079	.03642
		PEI	-.043215	.019316	.170	-.09632	.00989
		WRE	-.009456	.019496	.989	-.06306	.04414
	PEI	ALLCOS	.037486	.018246	.244	-.01268	.08765
		3COS	.026029	.018526	.625	-.02490	.07696
		FUR	.043215	.019316	.170	-.00989	.09632
		WRE	.033758	.018526	.363	-.01717	.08469
	WRE	ALLCOS	.003728	.018437	1.000	-.04696	.05442
		3COS	-.007729	.018714	.994	-.05918	.04372
		FUR	.009456	.019496	.989	-.04414	.06306
		PEI	-.033758	.018526	.363	-.08469	.01717

TABLE E-7 Detail Information for Mean

Winthrop, Penn. REIT & Wash. REIT 1971 - 2010

		N	Mean	Std. Deviation	Minimum	Maximum
FFOSHARE	FUR	33	1.20000	1.680400	-3.660	6.080
	PEI	40	2.44775	.910124	.270	4.170
	WRE	40	1.78675	.848360	.850	5.760
FFOPAY	FUR	33	.19545	.188565	-.030	.540
	PEI	40	.33275	.337175	-.360	1.000
	WRE	40	.32825	.516779	.030	2.410
FFOMULT	FUR	33	2.79939	22.471147	-101.720	25.560
	PEI	40	9.97525	5.705032	2.000	38.680
	WRE	40	13.65425	4.464771	2.410	23.800
DIVPAY	FUR	40	.09600	.111581	-.060	.350
	PEI	40	.21675	.199851	-.220	.590
	WRE	40	.19925	.257765	.020	.900
DIVPERSH	FUR	40	.85275	.516100	.060	1.990
	PEI	40	1.64800	.556146	.080	2.640
	WRE	40	1.30725	.366347	.800	2.520
DIVYLD	FUR	40	.07200	.030651	.020	.150
	PEI	40	.08375	.044589	.010	.310
	WRE	40	.06150	.014242	.040	.100
DEBTASSET	FUR	36	.63167	.090790	.450	.780
	PEI	40	.55725	.209700	.150	.790
	WRE	40	.39450	.199666	.000	.700
DEBTEQ	FUR	36	2.34278	.767689	.940	3.910
	PEI	40	2.03400	1.268655	.180	4.430
	WRE	40	.90650	.683320	.000	2.720
ASSETGR	FUR	40	.09890	.330809	-.599	1.254
	PEI	40	.17278	.554885	-.415	2.816
	WRE	40	.12420	.156190	-.127	.471
REVGR	FUR	40	.14375	.936887	-1.938	4.554
	PEI	40	.12468	.227603	-.415	1.161
	WRE	40	.61114	2.517567	-.033	15.650
CASHASSET	FUR	40	.05750	.064081	.000	.280
	PEI	40	.11000	.162670	.000	.490
	WRE	40	.07425	.087703	.000	.300

TABLE E-8 ANOVA by Entity 1971 – 2010

		Sum of Sq	df	Mean Sq	F	Sig.
FFOSH	Between Groups	34.409	4	8.602	8.502	.000
	Within Groups	188.185	186	1.012		
	Total	222.594	190			
FFOPAY	Between Groups	5.846	4	1.461	8.455	.000
	Within Groups	30.424	176	.173		
	Total	36.269	180			
FFOMUL	Between Groups	2392.637	4	598.159	5.059	.001
	Within Groups	20811.539	176	118.247		
	Total	23204.175	180			
DIVPAY	Between Groups	.465	4	.116	3.290	.012
	Within Groups	6.886	195	.035		
	Total	7.351	199			
DIVSH	Between Groups	14.822	4	3.705	21.066	.000
	Within Groups	34.300	195	.176		
	Total	49.122	199			
DIVYLD	Between Groups	.010	4	.003	2.932	.022
	Within Groups	.167	195	.001		
	Total	.178	199			
DEBT	Between Groups	1.193	4	.298	12.115	.000
	Within Groups	4.701	191	.025		
	Total	5.894	195			
LEV	Between Groups	46.471	4	11.618	17.384	.000
	Within Groups	127.649	191	.668		
	Total	174.120	195			
ASSETGR	Between Groups	.119	4	.030	.279	.891
	Within Groups	20.724	195	.106		
	Total	20.843	199			
REVGR	Between Groups	6.470	4	1.618	1.007	.405
	Within Groups	313.203	195	1.606		
	Total	319.673	199			
CASH	Between Groups	.083	4	.021	2.231	.067
	Within Groups	1.812	195	.009		
	Total	1.895	199			

TABLE E-9 PENNSYLVANIA REAL ESTATE INVESTMENT TRUST RATIOS 1961 -2010

YEAR	FFOSH	FFOMUL	FFOPAY	DIVPAY	DIVPERSH	DIVYLD	DEBT	LEV	ASSETGR	REVGR	CASH
1961							0.454	0.874			0.171
1962							0.526	1.126	2.599	4.040	0.161
1963	0.130	77.725	0.297	0.183	0.080	0.008	0.681	2.299	4.408	15.650	0.035
1964	0.169	64.222	0.452	0.213	0.080	0.007	0.783	4.063	0.480	0.422	0.031
1965	0.202	53.199	0.546	0.216	0.080	0.007	0.848	6.473	0.423	0.229	0.024
1966	0.252	40.243	0.547	0.172	0.079	0.008	0.855	6.945	0.097	0.322	0.022
1967	0.260	39.438	0.411	0.115	0.073	0.007	0.815	4.831	0.037	0.133	0.033
1968	0.236	56.612	0.305	0.102	0.079	0.006	0.840	4.987	0.029	0.102	0.022
1969	0.245	39.295	0.260	0.082	0.077	0.008	0.809	4.635	0.081	0.095	0.063
1970	0.261	36.414	0.239	0.073	0.079	0.008	0.808	4.666	0.066	0.122	0.047
1971	0.271	38.683	0.213	0.066	0.085	0.008	0.790	4.178	-0.036	0.060	0.029
1972	1.412	9.298	0.941	0.594	0.892	0.068	0.784	4.035	0.080	0.064	0.012
1973	1.479	8.116	0.803	0.557	1.026	0.086	0.752	3.337	0.143	0.133	0.010
1974	2.265	3.257	0.998	0.507	1.150	0.156	0.740	3.217	0.013	0.101	0.009
1975	1.760	5.541	0.842	0.550	1.150	0.118	0.738	3.162	0.006	-0.039	0.010
1976	1.583	8.843	0.626	0.455	1.149	0.082	0.737	3.099	0.027	0.105	0.010
1977	2.021	7.360	0.858	0.488	1.150	0.077	0.732	3.052	0.027	0.097	0.010
1978	2.813	5.776	0.808	0.359	1.250	0.077	0.701	2.600	-0.034	0.113	0.102
1979	2.665	8.865	0.789	0.458	1.547	0.066	0.693	2.486	0.051	0.095	0.094
1980	2.874	8.567	0.792	0.523	1.900	0.077	0.485	0.988	-0.415	-0.415	0.116
1981	2.776	8.779	0.802	0.578	2.000	0.082	0.416	0.747	-0.105	0.101	0.051
1982	3.973	7.206	0.831	0.460	2.200	0.077	0.386	0.672	0.026	0.197	0.081
1983	2.648	9.913	0.526	0.345	1.735	0.066	0.651	2.006	0.841	0.090	0.486
1984	3.894	7.961	0.495	0.248	1.948	0.063	0.607	1.711	0.039	0.292	0.424
1985	1.958	13.410	0.237	0.179	1.480	0.056	0.371	0.629	0.003	0.033	0.431
1986	2.314	13.561	0.211	0.187	2.054	0.066	0.179	0.228	-0.052	0.006	0.423
1987	1.538	14.057	0.133	0.129	1.494	0.069	0.165	0.204	-0.035	0.031	0.441
1988	1.767	12.875	0.160	0.143	1.580	0.069	0.151	0.185	-0.039	0.059	0.441
1989	1.872	14.490	0.174	0.154	1.659	0.061	0.146	0.178	-0.045	0.010	0.435
1990	1.863	8.121	0.185	0.170	1.719	0.114	0.216	0.289	0.019	0.003	0.243
1991	1.820	11.262	0.176	0.166	1.720	0.084	0.152	0.189	-0.160	-0.056	0.093
1992	1.743	13.484	0.201	0.149	1.290	0.055	0.163	0.203	0.149	0.038	0.208
1993	1.994	12.097	0.143	0.127	1.779	0.074	0.482	1.002	0.628	0.286	0.038
1994	1.894	9.836	0.092	0.090	1.859	0.100	0.563	1.413	0.321	0.226	0.015
1995	2.186	9.494	0.195	0.167	1.879	0.091	0.676	2.367	0.273	0.340	0.006
1996	2.147	11.353	0.194	0.170	1.880	0.077	0.699	2.670	-0.020	0.048	0.006
1997	2.264	10.851	0.221	0.184	1.879	0.077	0.709	2.871	-0.068	-0.013	0.008
1998	2.600	7.477	0.112	0.081	1.880	0.097	0.628	2.205	1.907	0.510	0.013
1999	2.917	4.992	0.141	0.091	1.877	0.129	0.666	2.733	0.137	0.366	0.006
2000	3.364	5.685	0.104	0.058	1.883	0.098	0.663	2.657	0.053	0.113	0.011
2001	2.816	8.240	0.142	0.095	1.880	0.081	0.598	1.999	0.045	0.167	0.017
2002	3.064	8.484	0.129	0.084	1.987	0.076	0.640	2.396	0.168	0.114	0.019
2003	1.887	19.237	0.010	0.006	1.215	0.034	0.518	1.359	2.816	0.425	0.018
2004	4.058	10.546	0.075	0.047	2.540	0.059	0.539	1.466	0.017	1.161	0.015
2005	4.173	8.954	0.072	0.046	2.627	0.070	0.599	1.852	0.105	0.061	0.007
2006	4.013	9.814	0.143	0.094	2.637	0.067	0.614	2.080	0.042	0.076	0.005
2007	4.106	7.229	0.177	0.104	2.413	0.081	0.697	3.002	0.038	0.002	0.009
2008	3.717	2.004	-0.358	-0.219	2.274	0.305	0.747	4.053	0.055	0.021	0.003
2009	1.638	5.164	-0.019	-0.008	0.692	0.082	0.767	4.433	-0.028	-0.017	0.022
2010	1.790	8.119	-0.035	-0.011	0.570	0.039	0.723	3.402	-0.080	-0.018	0.014

TABLE E-10 WASHINGTON REAL ESTATE INVESTMENT TRUST RATIOS 1961 -

YEAR	FFOSH	FFOMUL	FFOPAY	DIVPAY	DIVPER SH	DIVYLD	DEBT	LEV	ASSETGR	REVGR	CASH
1961	0.086		0.917								
1962	0.218		2.318	2.651	0.250					1.102	
1963	0.530		5.641	3.728	0.350		0.723	3.05		3.505	0.022
1964	0.721	15.952	5.503	3.053	0.400	0.035	0.782	3.71		10.132	0.088
1965	0.829	15.070	11.849	5.714	0.400	0.032	0.856	6.60	0.509	0.515	0.025
1966	0.850	12.349	9.448	4.424	0.398	0.038	0.858	6.51	-0.033	0.126	0.011
1967	1.834	6.815	16.829	7.301	0.795	0.064	0.862	6.68	-0.025	0.018	0.011
1968	1.791	7.538	11.408	4.836	0.759	0.056	0.849	5.94	0.036	0.043	0.010
1969	1.449	7.678	3.090	1.700	0.797	0.072	0.749	3.07	0.513	0.396	0.015
1970	1.812	5.173	3.406	1.541	0.820	0.087	0.744	3.06	0.042	0.347	0.018
1971	1.367	8.045	1.427	0.903	0.865	0.079	0.606	1.60	0.166	0.080	0.137
1972	5.756	2.410	2.412	0.410	0.979	0.071	0.506	1.22	-0.010	0.087	0.193
1973	1.704	8.655	1.111	0.700	1.073	0.073	0.518	1.10	-0.047	-0.008	0.102
1974	1.918	6.126	1.049	0.664	1.214	0.103	0.500	1.02	-0.011	4.040	0.068
1975	2.105	7.008	1.018	0.621	1.285	0.087	0.483	0.96	-0.017	15.650	0.080
1976	2.342	10.141	0.970	0.660	1.594	0.067	0.474	0.92	-0.013	0.422	0.029
1977	2.368	10.190	0.580	0.431	1.756	0.073	0.449	0.84	0.086	0.229	0.002
1978	2.475	8.485	0.958	0.704	1.819	0.087	0.470	0.91	0.025	0.322	0.040
1979	2.877	9.690	0.307	0.221	2.074	0.074	0.431	0.78	0.270	0.133	0.020
1980	3.270	11.888	0.939	0.723	2.520	0.065	0.419	0.75	-0.024	0.102	0.008
1981	1.251	10.489	0.276	0.218	0.986	0.075	0.372	0.61	0.066	0.095	0.065
1982	1.358	11.691	0.275	0.215	1.060	0.067	0.360	0.58	-0.028	0.122	0.037
1983	1.491	11.824	0.105	0.083	1.173	0.067	0.215	0.30	0.433	0.060	0.199
1984	1.842	12.825	0.219	0.179	1.500	0.063	0.218	0.30	0.004	0.133	0.042
1985	1.189	15.662	0.092	0.083	1.069	0.057	0.170	0.21	0.307	0.083	0.256
1986	1.341	16.681	0.131	0.125	1.280	0.057	0.168	0.20	-0.031	0.122	0.176
1987	1.413	16.185	0.134	0.124	1.310	0.057	0.165	0.20	-0.016	0.071	0.092
1988	1.040	20.197	0.090	0.082	0.950	0.045	0.163	0.20	-0.020	0.086	0.055
1989	1.116	17.018	0.078	0.069	0.991	0.052	0.113	0.13	0.392	0.136	0.259
1990	1.242	13.488	0.077	0.068	1.100	0.066	0.116	0.13	0.004	0.085	0.133
1991	1.272	20.830	0.069	0.063	1.153	0.044	0.083	0.09	0.269	0.098	0.301
1992	0.845	23.804	0.041	0.039	0.798	0.040	0.119	0.13	0.368	0.051	0.299
1993	0.925	22.153	0.040	0.038	0.890	0.043	0.000	0.00	-0.127	0.092	0.111
1994	0.958	16.833	0.041	0.040	0.920	0.057	0.101	0.11	0.104	0.114	0.015
1995	0.982	16.163	0.038	0.036	0.936	0.059	0.148	0.17	0.352	0.171	0.015
1996	1.124	15.569	0.040	0.037	1.029	0.059	0.354	0.57	0.317	0.243	0.005
1997	1.150	14.559	0.038	0.034	1.012	0.060	0.433	0.80	0.471	0.214	0.017
1998	1.392	13.376	0.034	0.027	1.110	0.060	0.506	1.11	0.192	0.299	0.008
1999	1.567	9.571	0.035	0.026	1.157	0.077	0.542	1.28	0.089	0.146	0.008
2000	1.799	13.133	0.040	0.027	1.230	0.052	0.556	1.35	0.039	0.133	0.010
2001	1.912	13.015	0.037	0.024	1.280	0.051	0.508	1.11	0.120	0.106	0.037
2002	1.971	12.936	0.038	0.027	1.388	0.054	0.533	1.23	0.068	0.023	0.017
2003	1.938	15.066	0.043	0.031	1.409	0.048	0.558	1.36	0.226	0.066	0.006
2004	2.039	16.613	0.045	0.034	1.544	0.046	0.603	1.66	0.092	0.052	0.006
2005	2.073	14.640	0.027	0.021	1.598	0.053	0.625	1.87	0.127	0.108	0.006
2006	2.061	19.408	0.053	0.042	1.614	0.040	0.670	2.32	0.342	0.155	0.008
2007	2.283	13.757	0.037	0.027	1.672	0.053	0.698	2.72	0.240	0.168	0.014
2008	1.992	14.207	0.061	0.050	1.632	0.058	0.659	2.22	0.112	0.100	0.015
2009	2.036	13.532	0.050	0.041	1.676	0.061	0.598	1.64	-0.031	0.087	0.015
2010	1.694	18.297	0.045	0.044	1.654	0.053	0.569	1.43	0.060	-0.033	0.046

TABLE E-11 WINTHROP REALTY TRUST RATIOS 1970 -2010

YEAR	FFOSH	FFOMUL	FFOPAY	DIVPAY	DIVPERSH	DIVYLD	DEBT	LEV	ASSETGR	REVGR	CASH
1970				0.3961	0.7347	0.066	0.5227	1.1168			0.0178
1971	1.2889	9.1161	0.5133	0.3505	0.88	0.0749	0.6262	1.7124	0.257908	0.338102	0.0286
1972	1.4376	8.6949	0.5268	0.327	0.8923	0.0714	0.74	2.9764	0.534412	0.4442	0.0213
1973	1.5863	6.5404	0.544	0.3206	0.935	0.0901	0.7543	3.2505	0.081917	0.270633	0.0308
1974	1.5499	4.1939	0.512	0.3045	0.9218	0.1418	0.7589	3.3698	0.09566	0.10655	0.0426
1975	1.7622	5.6037	0.4952	0.2687	0.9563	0.0968	0.7583	3.4661	0.01205	0.11051	0.0214
1976	1.7247	7.0304	0.5019	0.2817	0.968	0.0798	0.7773	3.7687	0.058973	0.129287	0.0132
1977	1.8427	6.9869	0.448	0.2687	1.1052	0.0858	0.7368	2.9496	0.102763	0.089572	0.0077
1978	2.1822	4.9262	0.3902	0.2242	1.2542	0.1167	0.7522	3.2205	0.087071	0.200749	0.0039
1979	2.2997	6.6856	0.3101	0.1794	1.33	0.0865	0.7169	2.7927	0.184019	0.281683	0.0529
1980	3.0139	7.0093	0.2538	0.1279	1.5185	0.0719	0.7351	3.1668	0.187558	0.131823	0.1404
1981	2.4462	6.1832	0.144	0.066	1.1202	0.0741	0.6879	2.5359	0.003154	0.230397	0.0023
1982	2.7557	7.0762	0.1537	0.067	1.2011	0.0616	0.6856	2.8499	0.036381	0.083202	0.0133
1983	6.0837	3.8217	0.3008	0.0706	1.427	0.0614	0.5631	2.3399	0.110555	0.03127	0.0029
1984	2.1529	12.1928	0.0909	0.0673	1.5952	0.0608	0.5463	1.8801	0.155775	0.056929	0.1637
1985	2.3099	11.4183	0.0954	0.0823	1.9911	0.0755	0.529	1.7571	-0.05257	-0.00232	0.0732
1986	1.5927	15.6963	0.0625	0.057	1.4539	0.0582	0.6036	2.4333	0.206811	0.035117	0.2043
1987	1.5964	11.3537	0.0614	0.0578	1.5035	0.083	0.5428	1.8753	-0.15879	0.018217	0.0338
1988				0.0652	1.5255	0.0836	0.5868	2.3121	0.016688	-0.00679	0.001
1989				0.0504	1.512	0.0923	0.5914	2.3025	-0.00882	0.048685	0.0005
1990				0.0525	1.0827	0.1468	0.6248	2.4598	0.012903	-0.00133	0.0172
1991	1.1831	5.9165	0.0649	0.051	0.9304	0.1329	0.6274	2.4354	-0.00416	-0.02498	0.0354
1992	1.2073	7.5579	0.0655	0.0391	0.72	0.0789	0.6065	2.0879	-0.06314	-0.00499	0.0028
1993	1.1066	8.698	0.0791	0.0515	0.7196	0.0748	0.6538	2.4801	0.113638	-0.00306	0.0979
1994	0.933	7.1005	0.1439	0.0614	0.3982	0.0601	0.6334	2.3149	-0.04429	0.026904	0.0079
1995	0.957	7.3146	0.0689	0.0311	0.4313	0.0616	0.6445	2.5251	0.065951	0.037543	0.0085
1996	0.9698	12.8891	0.2345	0.117	0.484	0.0387	0.5785	1.6707	0.098581	0.033609	0.0067
1997	0.7506	21.6505	0.0953	0.0733	0.5769	0.0355	0.5896	1.8237	0.861442	1.877154	0.0206
1998	-0.4388	-13.1052	0.0053	-0.0025	0.2062	0.0359	0.7487	3.9085	-0.04065	0.377772	0.0574
1999	0.1859	25.5564	-0.0295	-0.0598	0.3767	0.0793	0.5563	1.5127	-0.41342	-0.62785	0.1253
2000	-0.0252	-101.724	-0.0006	0.0015	0.0617	0.0241	0.6948	2.67	0.002483	-0.44305	0.0516
2001	-0.0453	-51.9328	-0.0029	0.0038	0.0594	0.0253			-0.59864	-0.53332	0.0254
2002				-0.0118	0.0594	0.0334			-0.07456	-0.40426	0.0341
2003				-0.0113	0.0665	0.0308			-0.14542	-0.10989	0.1208
2004				0.003	0.0665	0.0176			0.974748	-0.64448	0.2847
2005				0.0107	0.3157	0.0556	0.5245	1.3476	1.254269	4.553565	0.0301
2006	0.744	9.2065	0.0173	0.0088	0.3782	0.0552	0.5571	1.4662	0.302837	1.12697	0.1103
2007	0.3741	14.1399	0.1508	0.1727	0.4286	0.081	0.5505	1.4064	-0.12467	-0.04468	0.0572
2008	-3.6605	-2.9614	0.0537	-0.0191	1.3047	0.1204	0.5187	1.2079	-0.2245	-1.37682	0.1273
2009	-3.4476	-3.15	0.0408	-0.0088	0.7453	0.0686	0.4827	1.0966	-0.14687	1.275343	0.1541
2010	1.1977	10.6784	0.074	0.0358	0.5791	0.0453	0.4543	0.9372	0.2371	-1.93781	0.0883

Appendix: F

TABLE F -1 DESCRIPTION OF RATIOS FOR SNL DATA

RATIO	DESCRIPTIONS	CALCULATION
FFOSH	Funds from Operations (FFO) per share	=FFO/Shares Outstanding
AFFOSH	Adjusted Funds from Operations per share; which takes FFO and subtracts straight-line rents and normal expenses capitalized by REITs to derive AFFO	=AFFO/Shares Outstanding
SNLFFOSH	Funds from Operations (FFO) as defined by NAREIT guidelines and Calculated systematically by SNL	=SNLFFO/Shares Outstanding
FFOMUL	Funds from Operations (FFO) Multiple	=Price/FFO per share
FFOPAY	Funds from Operations (FFO) Payout	=FFO per share/Net Income per share
DIVSH	Dividends per share	=Annual Dividends/Shares Outstanding
DIVYLD	Dividend Yield	=Annual Dividends per share/Price per share
DIVPAY	Dividend Payout	=Annual Dividends per share/Net Income per share
DEBT	Debt Ratio	=Total Debt/Total Assets
LEV	Leverage Ratio	=Total Debt/Total Equity
ASSETGR	Growth in Total Assets	=End of Year Total Assets - Beginning of Year Total Assets /Beginning of Year Total Assets
REVGR	Growth in Total Revenue	=End of Year Total Revenue - Beginning of Year Total Revenue /Beginning of Year Total Revenue
CASH	Cash to Assets Ratio	=Total Cash & ST Investments/Total Assets

TABLE F-2 SNL Mean Values for All Other Companies
3 Companies Combined, Winthrop, Penn. REIT & Wash REIT

ENTITY	FFO SH	AFFO SH	SNL FFO	FFO MUL	FFO PAY	DIV PAY	DIV SH	DIV YLD	DEBT	LEV	ASSET GR	REV GR	CASH
ALL COS	2.082	1.642	2.056	10.066	76.099	1.186	1.293	0.076	0.426	2.574	0.154	0.111	0.029
3COS	1.664	1.823	1.677	7.734	73.400	1.186	1.214	0.071	0.486	1.499	0.196	0.242	0.032
FUR	0.869	.	1.016	-0.323	63.234	0.944	0.562	0.081	0.495	1.493	0.092	0.265	0.060
PEI	3.252	2.398	2.926	8.204	75.041	1.455	1.878	0.077	0.545	1.852	0.343	0.322	0.015
WRE	1.925	1.124	1.751	14.040	81.693	1.160	1.189	0.054	0.436	1.117	0.176	0.132	0.018

Table provides mean values for 13 select ratios for the 20-year period from 1990 – 2009.

ALLCOS – All other REITs, not including Winthrop, Pennsylvania REIT, and Washington REIT
3COS – The three companies of Winthrop, Pennsylvania REIT, and Washington REIT combined
FUR – Ticker symbol for Winthrop Realty Trust
PEI – Ticker symbol for Pennsylvania REIT
WRE – Ticker symbol for Washington REIT

Note: Data is taken from SNL, provider of financial data.

Table F-3 SNL Detail Values for Penn. REIT, Wash. REIT & Winthrop

		N	Mean	Std. Deviation	Minimum	Maximum
FFOSH	PEI	10	3.25200	.459101	2.650	3.900
	WRE	10	1.92500	.277218	1.370	2.310
	FUR	15	.86867	2.251669	-4.320	2.740
AFFOSH	PEI	10	2.39800	.179864	2.060	2.680
	WRE	8	1.12375	.534735	.270	1.710
	FUR	0	.	.	.	.
SNLFFOSH	PEI	11	2.92555	.705291	1.720	3.828
	WRE	9	1.75111	.497831	.720	2.200
	FUR	13	1.01623	2.324403	-4.104	2.740
DIVPAY	PEI	18	1.45474	.795657	.375	3.852
	WRE	18	1.16035	.240209	.868	1.911
	FUR	18	.94354	2.018822	-1.384	8.150
FFOPAY	PEI	18	75.04056	14.073714	54.650	98.410
	WRE	18	81.69278	10.161675	66.840	95.830
	FUR	17	63.23412	25.779034	.000	112.690
ASSETGR	PEI	18	.34253	.703548	-.160	2.839
	WRE	19	.17572	.152545	-.127	.471
	FUR	19	.09204	.458001	-.599	1.272
REVGR	PEI	18	.32175	.689727	-.568	2.452
	WRE	17	.13203	.071942	.023	.299
	FUR	19	.26458	1.454852	-.636	6.094
FFOMUL	PEI	10	8.20369	3.642785	.000	12.264
	WRE	9	14.04014	2.596928	9.554	18.868
	FUR	7	-.32285	29.435627	-64.000	23.750
DIVYLD	PEI	18	.07747	.024175	.019	.129
	WRE	18	.05425	.009447	.041	.077
	FUR	18	.08125	.122626	.000	.531
DEBT	PEI	17	.54492	.188177	.152	.747
	WRE	19	.43609	.228187	.000	.698
	FUR	17	.49489	.188038	.000	.672
CASHAT	PEI	19	.0153	.01401	.00	.07
	WRE	19	.0178	.02888	.00	.13
	FUR	20	.0601	.06767	.00	.28
LEV	PEI	19	1.8515	1.01018	.19	4.05
	WRE	18	1.1174	.82815	.00	2.72
	FUR	19	1.4932	.83804	.43	2.77
DIVSH	PEI	19	1.8779	.42044	.47	2.28
	WRE	18	1.1886	.30878	.73	1.68
	FUR	20	.5624	.57930	.00	2.20

Table provides mean values for 13 select ratios for the 20-year period from 1990 – 2009.

FUR – Ticker symbol for Winthrop Realty Trust
PEI – Ticker symbol for Pennsylvania REIT
WRE – Ticker symbol for Washington REIT

Note: Data is taken from SNL, provider of financial data.

TABLE F-4 ANOVA BY ENTITY (SNL)

		Sum of Squares	df	Mean Square	F	Sig.
FFOSH	Between Groups	35.518	4	8.879	4.433	0.003
	Within Groups	122.198	61	2.003		
	Total	157.716	65			
AFFOSH	Between Groups	7.605	3	2.535	13.912	0.000
	Within Groups	8.018	44	0.182		
	Total	15.623	47			
SNLFFOSH	Between Groups	23.043	4	5.761	3.017	0.025
	Within Groups	116.463	61	1.909		
	Total	139.505	65			
FFOPAY	Between Groups	3140.883	4	785.221	3.599	0.009
	Within Groups	18327.513	84	218.185		
	Total	21468.396	88			
FFOMUL	Between Groups	865.271	4	216.318	1.554	0.202
	Within Groups	6543.099	47	139.215		
	Total	7408.370	51			
DIVPAY	Between Groups	2.370	4	0.592	0.532	0.713
	Within Groups	94.688	85	1.114		
	Total	97.058	89			
DIVSH	Between Groups	16.998	4	4.249	28.147	0.000
	Within Groups	13.889	92	0.151		
	Total	30.887	96			

TABLE F-4 ANOVA BY ENTITY (SNL) - CONT

		Sum of Squares	df	Mean Square	F	Sig.
DIVYLD	Between Groups	0.008	4	0.002	0.560	0.692
	Within Groups	0.307	85	0.004		
	Total	0.315	89			
DEBT	Between Groups	0.168	4	0.042	1.467	0.219
	Within Groups	2.522	88	0.029		
	Total	2.691	92			
LEV	Between Groups	23.411	4	5.853	5.738	0.000
	Within Groups	92.818	91	1.020		
	Total	116.229	95			
ASSETGR	Between Groups	0.631	4	0.158	0.981	0.422
	Within Groups	14.302	89	0.161		
	Total	14.933	93			
REVGR	Between Groups	0.599	4	0.150	0.243	0.913
	Within Groups	54.145	88	0.615		
	Total	54.744	92			
CASH	Between Groups	0.025	4	0.006	4.863	0.001
	Within Groups	0.119	93	0.001		
	Total	0.144	97			

TABLE F-5 ANOVA BY YEAR (SNL)

		Sum of Squares	df	Mean Square	F	Sig.
FFOSH	Between Groups	73.822	16	4.614	2.695	0.004
	Within Groups	83.893	49	1.712		
	Total	157.716	65			
AFFOSH	Between Groups	8.323	17	0.490	2.012	0.046
	Within Groups	7.301	30	0.243		
	Total	15.623	47			
SNLFFOSH	Between Groups	64.705	17	3.806	2.442	0.008
	Within Groups	74.801	48	1.558		
	Total	139.505	65			
FFOPAY	Between Groups	7368.963	17	433.468	2.183	0.012
	Within Groups	14099.433	71	198.584		
	Total	21468.396	88			
FFOMUL	Between Groups	2956.330	14	211.166	1.755	0.086
	Within Groups	4452.040	37	120.325		
	Total	7408.370	51			
DIVPAY	Between Groups	43.262	17	2.545	3.406	0.000
	Within Groups	53.796	72	0.747		
	Total	97.058	89			
DIVSH	Between Groups	5.630	19	0.296	0.903	0.580
	Within Groups	25.257	77	0.328		
	Total	30.887	96			
DIVYLD	Between Groups	0.123	17	0.007	2.724	0.002
	Within Groups	0.192	72	0.003		
	Total	0.315	89			

TABLE F-5 ANOVA BY YEAR (SNL) - CONT

DEBT	Between Groups	1.060	19	0.056	2.498	0.003
	Within Groups	1.631	73	0.022		
	Total	2.691	92			
LEV	Between Groups	43.992	19	2.315	2.436	0.003
	Within Groups	72.237	76	0.950		
	Total	116.229	95			
ASSETGR	Between Groups	5.007	18	0.278	2.102	0.014
	Within Groups	9.926	75	0.132		
	Total	14.933	93			
REVGR	Between Groups	18.221	19	0.959	1.917	0.025
	Within Groups	36.523	73	0.500		
	Total	54.744	92			
CASH	Between Groups	0.038	19	0.002	1.494	0.111
	Within Groups	0.106	78	0.001		
	Total	0.144	97			

TABLE F-6 ANOVA POST HOC TESTING FOR ENTITY (SNL)

Tukey HSD

Dependent Variable	(I) COMPANY	(J) COMPANY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval Lower Bound	95% Confidence Interval Upper Bound
FFOSH	PEI	WRE	1.327000	.632968	.235	-.45230	3.10630
		FUR	2.383333*	.577818	.001	.75906	4.00761
		3COS	1.588250	.570550	.054	-.01559	3.19209
		ALLCOS	1.169629	.577818	.267	-.45464	2.79390
	WRE	PEI	-1.327000	.632968	.235	-3.10630	.45230
		FUR	1.056333	.577818	.367	-.56794	2.68061
		3COS	.261250	.570550	.991	-1.34259	1.86509
		ALLCOS	-.157371	.577818	.999	-1.78164	1.46690
	FUR	PEI	-2.383333*	.577818	.001	-4.00761	-.75906
		WRE	-1.056333	.577818	.367	-2.68061	.56794
		3COS	-.795083	.508677	.526	-2.22500	.63483
		ALLCOS	-1.213704	.516817	.144	-2.66650	.23909
	3COS	PEI	-1.588250	.570550	.054	-3.19209	.01559
		WRE	-.261250	.570550	.991	-1.86509	1.34259
		FUR	.795083	.508677	.526	-.63483	2.22500
		ALLCOS	-.418621	.508677	.923	-1.84853	1.01129
	ALLCOS	PEI	-1.169629	.577818	.267	-2.79390	.45464
		WRE	.157371	.577818	.999	-1.46690	1.78164
		FUR	1.213704	.516817	.144	-.23909	2.66650
		3COS	.418621	.508677	.923	-1.01129	1.84853

TABLE F-6 ANOVA POST HOC TESTING FOR ENTITY (SNL)

Tukey HSD

Dependent Variable	(I) COMPANY	(J) COMPANY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
SNLFFOSH	PEI	WRE	1.174434	.621049	.333	-.57136	2.92023
		FUR	1.909315*	.566065	.011	.31808	3.50055
		3COS	1.248670	.541195	.157	-.27265	2.76999
		ALLCOS	.869198	.534671	.487	-.63379	2.37218
	WRE	PEI	-1.174434	.621049	.333	-2.92023	.57136
		FUR	.734880	.599166	.736	-.94940	2.41916
		3COS	.074236	.575728	1.000	-1.54416	1.69263
		ALLCOS	-.305237	.569599	.983	-1.90641	1.29593
	FUR	PEI	-1.909315*	.566065	.011	-3.50055	-.31808
		WRE	-.734880	.599166	.736	-2.41916	.94940
		3COS	-.660644	.515936	.704	-2.11096	.78967
		ALLCOS	-1.040117	.509088	.258	-2.47119	.39095
	3COS	PEI	-1.248670	.541195	.157	-2.76999	.27265
		WRE	-.074236	.575728	1.000	-1.69263	1.54416
		FUR	.660644	.515936	.704	-.78967	2.11096
		ALLCOS	-.379473	.481284	.933	-1.73238	.97344
	ALLCOS	PEI	-.869198	.534671	.487	-2.37218	.63379
		WRE	.305237	.569599	.983	-1.29593	1.90641
		FUR	1.040117	.509088	.258	-.39095	2.47119
		3COS	.379473	.481284	.933	-.97344	1.73238

TABLE F-6 ANOVA POST HOC TESTING FOR ENTITY (SNL)

Tukey HSD

Dependent Variable	(I) COMPANY	(J) COMPANY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
FFOPAY	PEI	WRE	-6.652222	4.923692	.660	-20.37907	7.07462
		FUR	11.806438	4.995574	.136	-2.12081	25.73368
		3COS	1.641019	4.923692	.997	-12.08582	15.36786
		ALLCOS	-1.058756	4.923692	1.000	-14.78560	12.66809
	WRE	PEI	6.652222	4.923692	.660	-7.07462	20.37907
		FUR	18.458660*	4.995574	.004	4.53141	32.38591
		3COS	8.293241	4.923692	.449	-5.43360	22.02008
		ALLCOS	5.593466	4.923692	.787	-8.13338	19.32031
	FUR	PEI	-11.806438	4.995574	.136	-25.73368	2.12081
		WRE	-18.458660*	4.995574	.004	-32.38591	-4.53141
		3COS	-10.165419	4.995574	.259	-24.09266	3.76183
		ALLCOS	-12.865194	4.995574	.084	-26.79244	1.06205
	3COS	PEI	-1.641019	4.923692	.997	-15.36786	12.08582
		WRE	-8.293241	4.923692	.449	-22.02008	5.43360
		FUR	10.165419	4.995574	.259	-3.76183	24.09266
		ALLCOS	-2.699775	4.923692	.982	-16.42662	11.02707
	ALLCOS	PEI	1.058756	4.923692	1.000	-12.66809	14.78560
		WRE	-5.593466	4.923692	.787	-19.32031	8.13338
		FUR	12.865194	4.995574	.084	-1.06205	26.79244
		3COS	2.699775	4.923692	.982	-11.02707	16.42662

TABLE F-6 ANOVA POST HOC TESTING FOR ENTITY (SNL)

Tukey HSD

Dependent Variable	(I) COMPANY	(J) COMPANY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
FFOMUL	PEI	WRE	-5.836446	5.421237	.818	-21.21372	9.54083
		FUR	8.526543	5.814579	.589	-7.96644	25.01953
		3COS	.469447	5.155326	1.000	-14.15357	15.09247
		ALLCOS	-1.862761	4.816895	.995	-15.52583	11.80030
	WRE	PEI	5.836446	5.421237	.818	-9.54083	21.21372
		FUR	14.362988	5.946105	.129	-2.50307	31.22904
		3COS	6.305892	5.303227	.758	-8.73665	21.34843
		ALLCOS	3.973684	4.974868	.930	-10.13747	18.08484
	FUR	PEI	-8.526543	5.814579	.589	-25.01953	7.96644
		WRE	-14.362988	5.946105	.129	-31.22904	2.50307
		3COS	-8.057096	5.704712	.623	-24.23844	8.12425
		ALLCOS	-10.389304	5.400818	.319	-25.70866	4.93005
	3COS	PEI	-.469447	5.155326	1.000	-15.09247	14.15357
		WRE	-6.305892	5.303227	.758	-21.34843	8.73665
		FUR	8.057096	5.704712	.623	-8.12425	24.23844
		ALLCOS	-2.332208	4.683683	.987	-15.61742	10.95300
	ALLCOS	PEI	1.862761	4.816895	.995	-11.80030	15.52583
		WRE	-3.973684	4.974868	.930	-18.08484	10.13747
		FUR	10.389304	5.400818	.319	-4.93005	25.70866
		3COS	2.332208	4.683683	.987	-10.95300	15.61742

TABLE F-6 ANOVA POST HOC TESTING FOR ENTITY (SNL)

Tukey HSD

Dependent Variable	(I) COMPANY	(J) COMPANY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
DIVPAY	PEI	WRE	.294389	.351816	.918	-.68619	1.27497
		FUR	.511198	.351816	.595	-.46938	1.49178
		3COS	.268529	.351816	.940	-.71205	1.24911
		ALLCOS	.268952	.351816	.940	-.71163	1.24953
	WRE	PEI	-.294389	.351816	.918	-1.27497	.68619
		FUR	.216809	.351816	.972	-.76377	1.19739
		3COS	-.025861	.351816	1.000	-1.00644	.95472
		ALLCOS	-.025437	.351816	1.000	-1.00602	.95514
	FUR	PEI	-.511198	.351816	.595	-1.49178	.46938
		WRE	-.216809	.351816	.972	-1.19739	.76377
		3COS	-.242669	.351816	.958	-1.22325	.73791
		ALLCOS	-.242246	.351816	.958	-1.22283	.73834
	3COS	PEI	-.268529	.351816	.940	-1.24911	.71205
		WRE	.025861	.351816	1.000	-.95472	1.00644
		FUR	.242669	.351816	.958	-.73791	1.22325
		ALLCOS	.000423	.351816	1.000	-.98016	.98101
	ALLCOS	PEI	-.268952	.351816	.940	-1.24953	.71163
		WRE	.025437	.351816	1.000	-.95514	1.00602
		FUR	.242246	.351816	.958	-.73834	1.22283
		3COS	-.000423	.351816	1.000	-.98101	.98016

TABLE F-6 ANOVA POST HOC TESTING FOR ENTITY (SNL)

Tukey HSD

Dependent Variable	(I) COMPANY	(J) COMPANY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval Lower Bound	95% Confidence Interval Upper Bound
DIVSH	PEI	WRE	.68928*	.12780	.000	.3337	1.0449
		FUR	1.31554*	.12448	.000	.9692	1.6619
		3COS	.66436*	.12448	.000	.3180	1.0107
		ALLCOS	.58533*	.12448	.000	.2390	.9317
	WRE	PEI	-.68928*	.12780	.000	-1.0449	-.3337
		FUR	.62626*	.12624	.000	.2750	.9775
		3COS	-.02492	.12624	1.000	-.3762	.3263
		ALLCOS	-.10395	.12624	.923	-.4552	.2473
	FUR	PEI	-1.31554*	.12448	.000	-1.6619	-.9692
		WRE	-.62626*	.12624	.000	-.9775	-.2750
		3COS	-.65118*	.12287	.000	-.9931	-.3093
		ALLCOS	-.73021*	.12287	.000	-1.0721	-.3883
	3COS	PEI	-.66436*	.12448	.000	-1.0107	-.3180
		WRE	.02492	.12624	1.000	-.3263	.3762
		FUR	.65118*	.12287	.000	.3093	.9931
		ALLCOS	-.07903	.12287	.967	-.4209	.2629
	ALLCOS	PEI	-.58533*	.12448	.000	-.9317	-.2390
		WRE	.10395	.12624	.923	-.2473	.4552
		FUR	.73021*	.12287	.000	.3883	1.0721
		3COS	.07903	.12287	.967	-.2629	.4209

TABLE F-6 ANOVA POST HOC TESTING FOR ENTITY (SNL)

Tukey HSD

Dependent Variable	(I) COMPANY	(J) COMPANY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
DIVYLD	PEI	WRE	.023218	.020023	.774	-.03259	.07903
		FUR	-.003783	.020023	1.000	-.05959	.05202
		3COS	.006474	.020023	.998	-.04933	.06228
		ALLCOS	.001313	.020023	1.000	-.05450	.05712
	WRE	PEI	-.023218	.020023	.774	-.07903	.03259
		FUR	-.027001	.020023	.662	-.08281	.02881
		3COS	-.016744	.020023	.919	-.07255	.03906
		ALLCOS	-.021905	.020023	.809	-.07771	.03390
	FUR	PEI	.003783	.020023	1.000	-.05202	.05959
		WRE	.027001	.020023	.662	-.02881	.08281
		3COS	.010257	.020023	.986	-.04555	.06607
		ALLCOS	.005096	.020023	.999	-.05071	.06090
	3COS	PEI	-.006474	.020023	.998	-.06228	.04933
		WRE	.016744	.020023	.919	-.03906	.07255
		FUR	-.010257	.020023	.986	-.06607	.04555
		ALLCOS	-.005161	.020023	.999	-.06097	.05065
	ALLCOS	PEI	-.001313	.020023	1.000	-.05712	.05450
		WRE	.021905	.020023	.809	-.03390	.07771
		FUR	-.005096	.020023	.999	-.06090	.05071
		3COS	.005161	.020023	.999	-.05065	.06097

TABLE F-6 ANOVA POST HOC TESTING FOR ENTITY (SNL)

Tukey HSD

Dependent Variable	(I) COMPANY	(J) COMPANY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
DEBT	PEI	WRE	.108831	.056523	.312	-.04859	.26625
		FUR	.050031	.058071	.910	-.11171	.21177
		3COS	.058793	.055851	.830	-.09676	.21435
		ALLCOS	.118473	.055851	.220	-.03708	.27403
	WRE	PEI	-.108831	.056523	.312	-.26625	.04859
		FUR	-.058800	.056523	.836	-.21622	.09862
		3COS	-.050038	.054239	.887	-.20110	.10103
		ALLCOS	.009642	.054239	1.000	-.14142	.16071
	FUR	PEI	-.050031	.058071	.910	-.21177	.11171
		WRE	.058800	.056523	.836	-.09862	.21622
		3COS	.008762	.055851	1.000	-.14679	.16432
		ALLCOS	.068442	.055851	.737	-.08711	.22400
	3COS	PEI	-.058793	.055851	.830	-.21435	.09676
		WRE	.050038	.054239	.887	-.10103	.20110
		FUR	-.008762	.055851	1.000	-.16432	.14679
		ALLCOS	.059680	.053539	.798	-.08943	.20879
	ALLCOS	PEI	-.118473	.055851	.220	-.27403	.03708
		WRE	-.009642	.054239	1.000	-.16071	.14142
		FUR	-.068442	.055851	.737	-.22400	.08711
		3COS	-.059680	.053539	.798	-.20879	.08943

TABLE F-6 ANOVA POST HOC TESTING FOR ENTITY (SNL)

Tukey HSD

Dependent Variable	(I) COMPANY	(J) COMPANY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
LEV	PEI	WRE	.73411	.33219	.185	-.1904	1.6587
		FUR	.35837	.32767	.809	-.5536	1.2703
		3COS	.35265	.32355	.811	-.5479	1.2532
		ALLCOS	-.72260	.32355	.177	-1.6231	.1779
	WRE	PEI	-.73411	.33219	.185	-1.6587	.1904
		FUR	-.37574	.33219	.790	-1.3003	.5488
		3COS	-.38146	.32812	.773	-1.2947	.5318
		ALLCOS	-1.45671*	.32812	.000	-2.3700	-.5435
	FUR	PEI	-.35837	.32767	.809	-1.2703	.5536
		WRE	.37574	.33219	.790	-.5488	1.3003
		3COS	-.00571	.32355	1.000	-.9062	.8948
		ALLCOS	-1.08097*	.32355	.010	-1.9815	-.1805
	3COS	PEI	-.35265	.32355	.811	-1.2532	.5479
		WRE	.38146	.32812	.773	-.5318	1.2947
		FUR	.00571	.32355	1.000	-.8948	.9062
		ALLCOS	-1.07526*	.31937	.010	-1.9641	-.1864
	ALLCOS	PEI	.72260	.32355	.177	-.1779	1.6231
		WRE	1.45671*	.32812	.000	.5435	2.3700
		FUR	1.08097*	.32355	.010	.1805	1.9815
		3COS	1.07526*	.31937	.010	.1864	1.9641

TABLE F-6 ANOVA POST HOC TESTING FOR ENTITY (SNL)

Tukey HSD

Dependent Variable	(I) COMPANY	(J) COMPANY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
ASSETGR	PEI	WRE	.166808	.131856	.713	-.20034	.53396
		FUR	.250481	.131856	.325	-.11667	.61763
		3COS	.146525	.131856	.800	-.22063	.51368
		ALLCOS	.188841	.131856	.609	-.17831	.55599
	WRE	PEI	-.166808	.131856	.713	-.53396	.20034
		FUR	.083673	.130062	.967	-.27848	.44583
		3COS	-.020283	.130062	1.000	-.38244	.34187
		ALLCOS	.022033	.130062	1.000	-.34012	.38419
	FUR	PEI	-.250481	.131856	.325	-.61763	.11667
		WRE	-.083673	.130062	.967	-.44583	.27848
		3COS	-.103956	.130062	.930	-.46611	.25820
		ALLCOS	-.061640	.130062	.990	-.42380	.30052
	3COS	PEI	-.146525	.131856	.800	-.51368	.22063
		WRE	.020283	.130062	1.000	-.34187	.38244
		FUR	.103956	.130062	.930	-.25820	.46611
		ALLCOS	.042316	.130062	.998	-.31984	.40447
	ALLCOS	PEI	-.188841	.131856	.609	-.55599	.17831
		WRE	-.022033	.130062	1.000	-.38419	.34012
		FUR	.061640	.130062	.990	-.30052	.42380
		3COS	-.042316	.130062	.998	-.40447	.31984

TABLE F-6 ANOVA POST HOC TESTING FOR ENTITY (SNL)

Tukey HSD

Dependent Variable	(I) COMPANY	(J) COMPANY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
REVGR	PEI	WRE	.189725	.265284	.953	-.54913	.92858
		FUR	.057171	.258003	.999	-.66141	.77575
		3COS	.079457	.258003	.998	-.63912	.79803
		ALLCOS	.210754	.254846	.922	-.49903	.92054
	WRE	PEI	-.189725	.265284	.953	-.92858	.54913
		FUR	-.132554	.261871	.987	-.86190	.59679
		3COS	-.110268	.261871	.993	-.83962	.61908
		ALLCOS	.021029	.258761	1.000	-.69966	.74172
	FUR	PEI	-.057171	.258003	.999	-.77575	.66141
		WRE	.132554	.261871	.987	-.59679	.86190
		3COS	.022286	.254493	1.000	-.68651	.73109
		ALLCOS	.153583	.251291	.973	-.54630	.85347
	3COS	PEI	-.079457	.258003	.998	-.79803	.63912
		WRE	.110268	.261871	.993	-.61908	.83962
		FUR	-.022286	.254493	1.000	-.73109	.68651
		ALLCOS	.131297	.251291	.985	-.56859	.83118
	ALLCOS	PEI	-.210754	.254846	.922	-.92054	.49903
		WRE	-.021029	.258761	1.000	-.74172	.69966
		FUR	-.153583	.251291	.973	-.85347	.54630
		3COS	-.131297	.251291	.985	-.83118	.56859

TABLE F-6 ANOVA POST HOC TESTING FOR ENTITY (SNL)

Tukey HSD

Dependent Variable	(I) COMPANY	(J) COMPANY	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval Lower Bound	Upper Bound
CASHAT	PEI	WRE	-.00253	.01162	.999	-.0349	.0298
		FUR	-.04477*	.01147	.002	-.0767	-.0128
		3COS	-.01647	.01147	.606	-.0484	.0154
		ALLCOS	-.01389	.01147	.746	-.0458	.0180
	WRE	PEI	.00253	.01162	.999	-.0298	.0349
		FUR	-.04224*	.01147	.003	-.0742	-.0103
		3COS	-.01395	.01147	.742	-.0459	.0180
		ALLCOS	-.01136	.01147	.859	-.0433	.0206
	FUR	PEI	.04477*	.01147	.002	.0128	.0767
		WRE	.04224*	.01147	.003	.0103	.0742
		3COS	.02829	.01133	.100	-.0032	.0598
		ALLCOS	.03088	.01133	.058	-.0006	.0624
	3COS	PEI	.01647	.01147	.606	-.0154	.0484
		WRE	.01395	.01147	.742	-.0180	.0459
		FUR	-.02829	.01133	.100	-.0598	.0032
		ALLCOS	.00259	.01133	.999	-.0289	.0341
	ALLCOS	PEI	.01389	.01147	.746	-.0180	.0458
		WRE	.01136	.01147	.859	-.0206	.0433
		FUR	-.03088	.01133	.058	-.0624	.0006
		3COS	-.00259	.01133	.999	-.0341	.0289

Appendix: G

Table G -1
3-month Treasury Bill Secondary Market Rate

Time Period	Yr Rate		Time Period	Yr Rate
1960	2.87		1985	7.47
1961	2.35		1986	5.97
1962	2.77		1987	5.78
1963	3.16		1988	6.67
1964	3.55		1989	8.11
1965	3.95		1990	7.5
1966	4.86		1991	5.38
1967	4.29		1992	3.43
1968	5.34		1993	3
1969	6.67		1994	4.25
1970	6.39		1995	5.49
1971	4.33		1996	5.01
1972	4.06		1997	5.06
1973	7.04		1998	4.78
1974	7.85		1999	4.64
1975	5.79		2000	5.82
1976	4.98		2001	3.4
1977	5.26		2002	1.61
1978	7.18		2003	1.01
1979	10.05		2004	1.37
1980	11.39		2005	3.15
1981	14.04		2006	4.73
1982	10.6		2007	4.36
1983	8.62		2008	1.37
1984	9.54		2009	0.15
			2010	0.14

Information provided by the Federal Reserve. Retrieved from http://www.federalreserve.gov/releases/H15/data.htm

Table G-2
The Real Estate cycle in the U.S.

Peaks in Value	Interval (years)	Peaks in Const.	(years)	Depressions	(years)
1818	--	--	--	1819	--
1836	18	1836	_	1837	18
1854	18	1856	20	1857	20
1872	18	1871	15	1873	16
1890	18	1892	21	1893	20
1907	17	1909	17	1918	25
1925	18	1925	16	1929	11
1973	48	1972	47	1973	44
1979	6	1978	6	1980	7
1989	10	1986	8	1990	10
2006	17	2006	20	2008!	18

Real-estate values and construction have peaked one to two years before a depression, and have stayed at peak levels until the onset of the downturn.
The historical evidence is consistent with the theory that speculative booms in real-estate prices and construction act as an impetus for the downturn itself.

Prepared by Fred Foldvary, Economist, Santa Clara University

Table G3 Comparison of Return on Assets & T- Bill Rates

YEAR	PREIT	WRIT	FUR	3M TBILL	
1972	2.40%	7.18%	2.02%	4.06%	C
1973	2.58%	4.84%	2.00%	7.04%	D
1974	3.13%	5.83%	1.89%	7.85%	
1975	2.87%	6.71%	2.20%	5.79%	
1976	3.38%	7.95%	2.00%	4.98%	
1977	3.07%	12.36%	2.17%	5.26%	
1978	4.69%	7.64%	2.72%	7.18%	C
1979	4.33%	21.81%	3.05%	10.05%	
1980	7.96%	8.30%	4.11%	11.39%	D
1981	8.48%	10.12%	5.85%	14.04%	
1982	11.41%	11.34%	5.96%	10.60%	
1983	6.53%	22.68%	6.06%	8.62%	
1984	9.82%	13.43%	6.14%	9.54%	
1985	10.27%	15.79%	6.62%	7.47%	
1986	14.43%	12.93%	5.78%	5.97%	C
1987	15.72%	13.48%	7.01%	5.78%	
1988	15.61%	15.13%	6.20%	6.67%	
1989	15.97%	13.39%	8.02%	8.11%	
1990	14.71%	15.07%	5.45%	7.50%	D
1991	17.94%	13.54%	4.83%	5.38%	
1992	13.10%	11.00%	5.21%	3.43%	
1993	12.98%	14.35%	3.55%	3.00%	
1994	14.52%	12.93%	1.72%	4.25%	
1995	6.19%	10.80%	3.46%	5.49%	
1996	6.21%	8.78%	0.94%	5.01%	
1997	6.18%	6.43%	0.96%	5.06%	
1998	4.81%	7.35%	-10.62%	4.78%	
1999	3.79%	7.28%	-1.37%	4.64%	
2000	5.59%	7.14%	8.70%	5.82%	
2001	3.28%	7.40%	8.34%	3.40%	
2002	3.36%	6.86%	-2.93%	1.61%	
2003	7.30%	4.84%	-4.02%	1.01%	
2004	1.97%	4.50%	7.74%	1.37%	
2005	1.91%	6.80%	4.52%	3.15%	
2006	0.89%	2.52%	5.04%	4.73%	C
2007	0.71%	3.26%	0.33%	4.36%	
2008	-0.30%	1.56%	-11.79%	1.37%	D
2009	-2.56%	1.99%	-17.13%	0.15%	
2010	-1.69%	1.73%	2.65%	0.14%	

C - CONSTRUCTION PEAK
D - DEPRESSION

Appendix: H

Exhibit H–1 from 1985 Prospectus

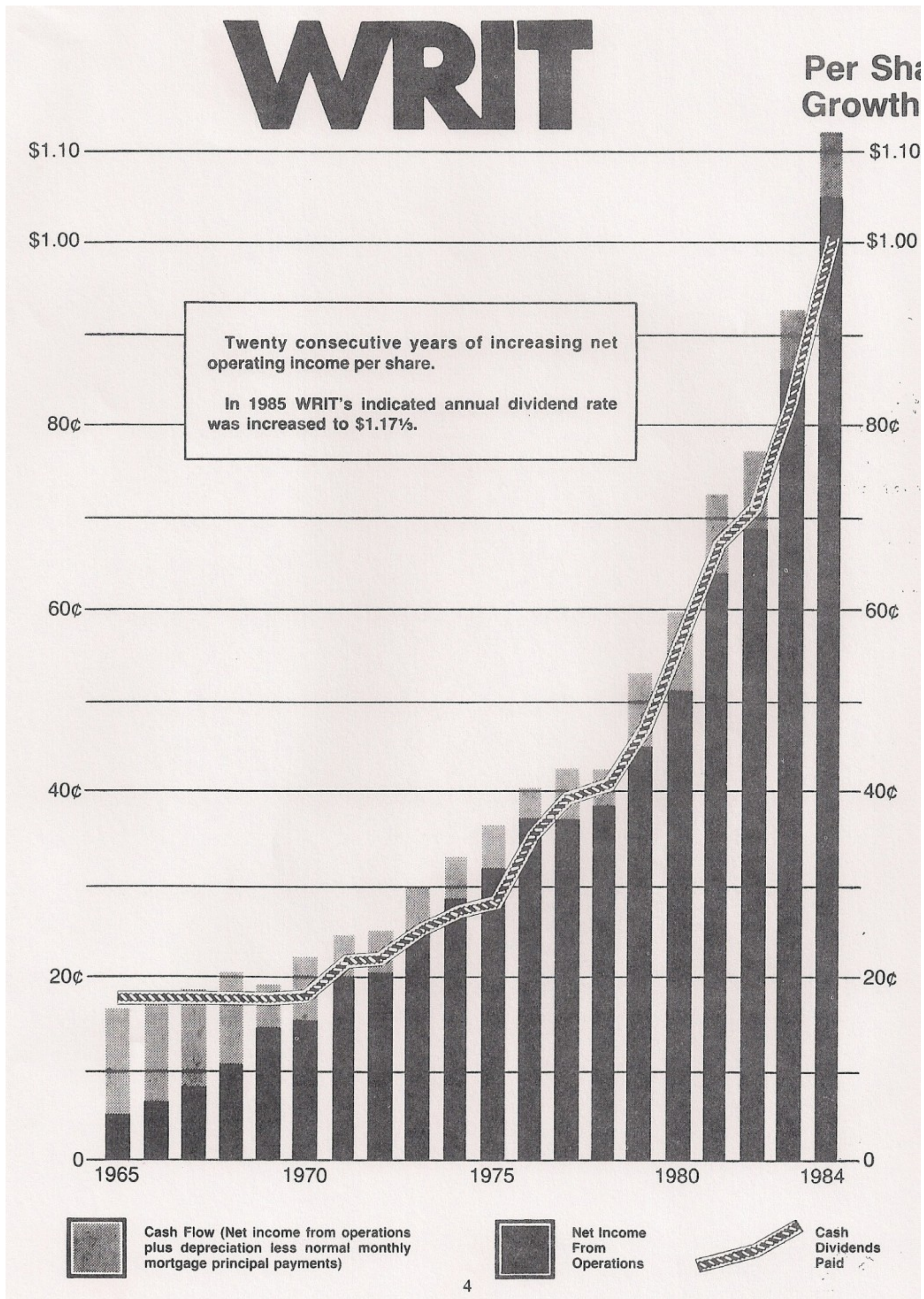


Exhibit H-2 from 1989 Prospectus

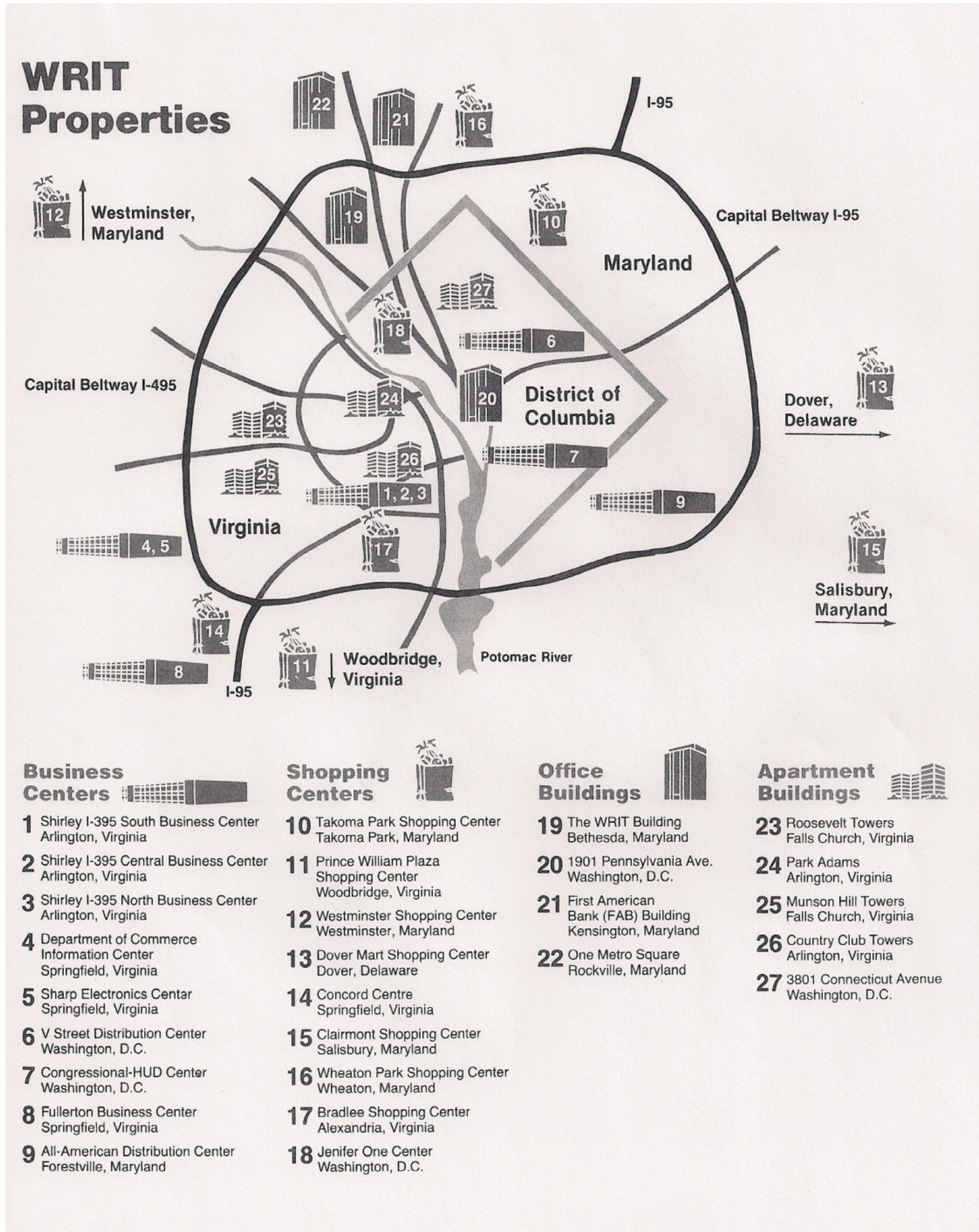


Exhibit H-3 from 1989 Prospectus

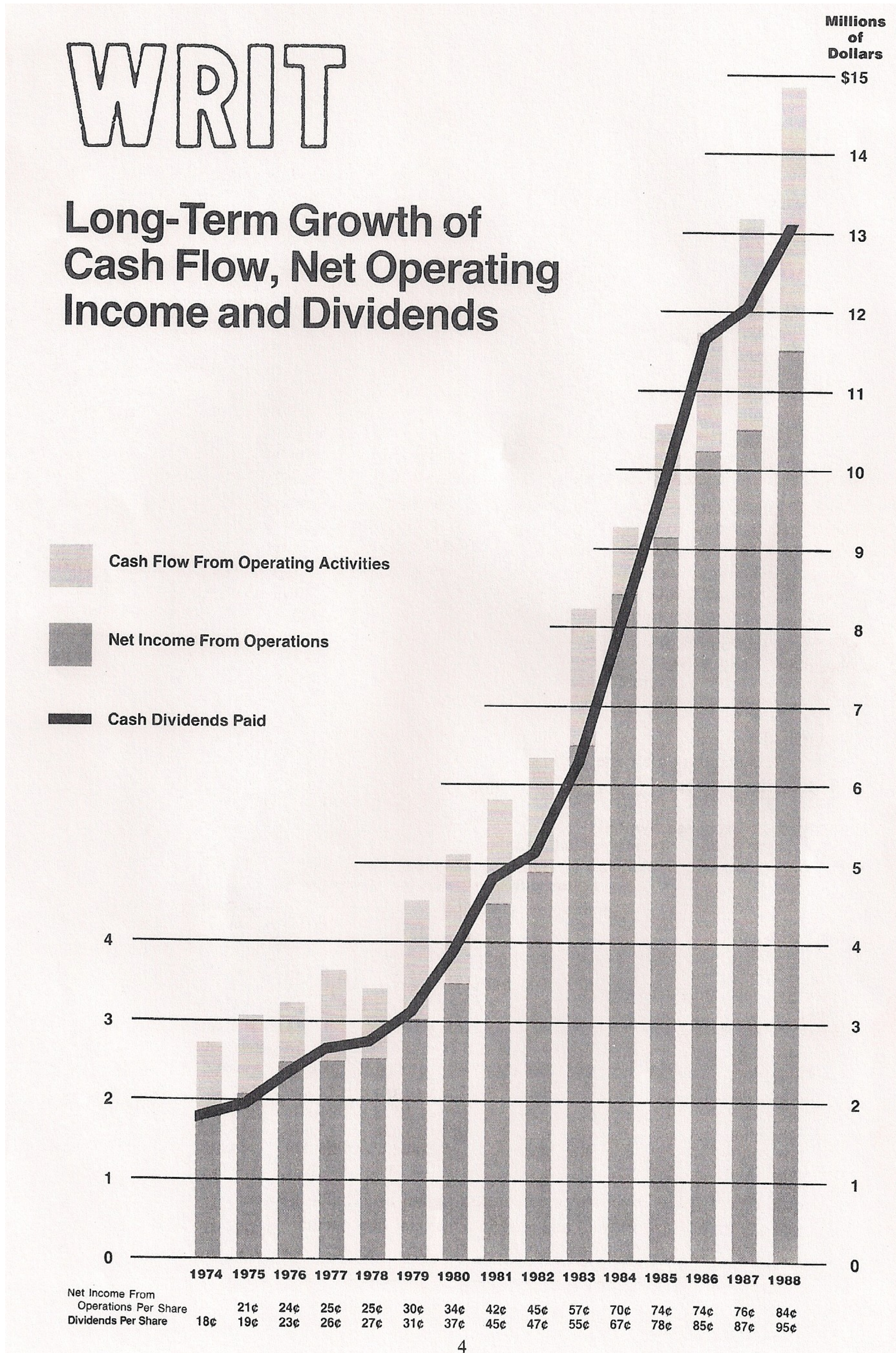
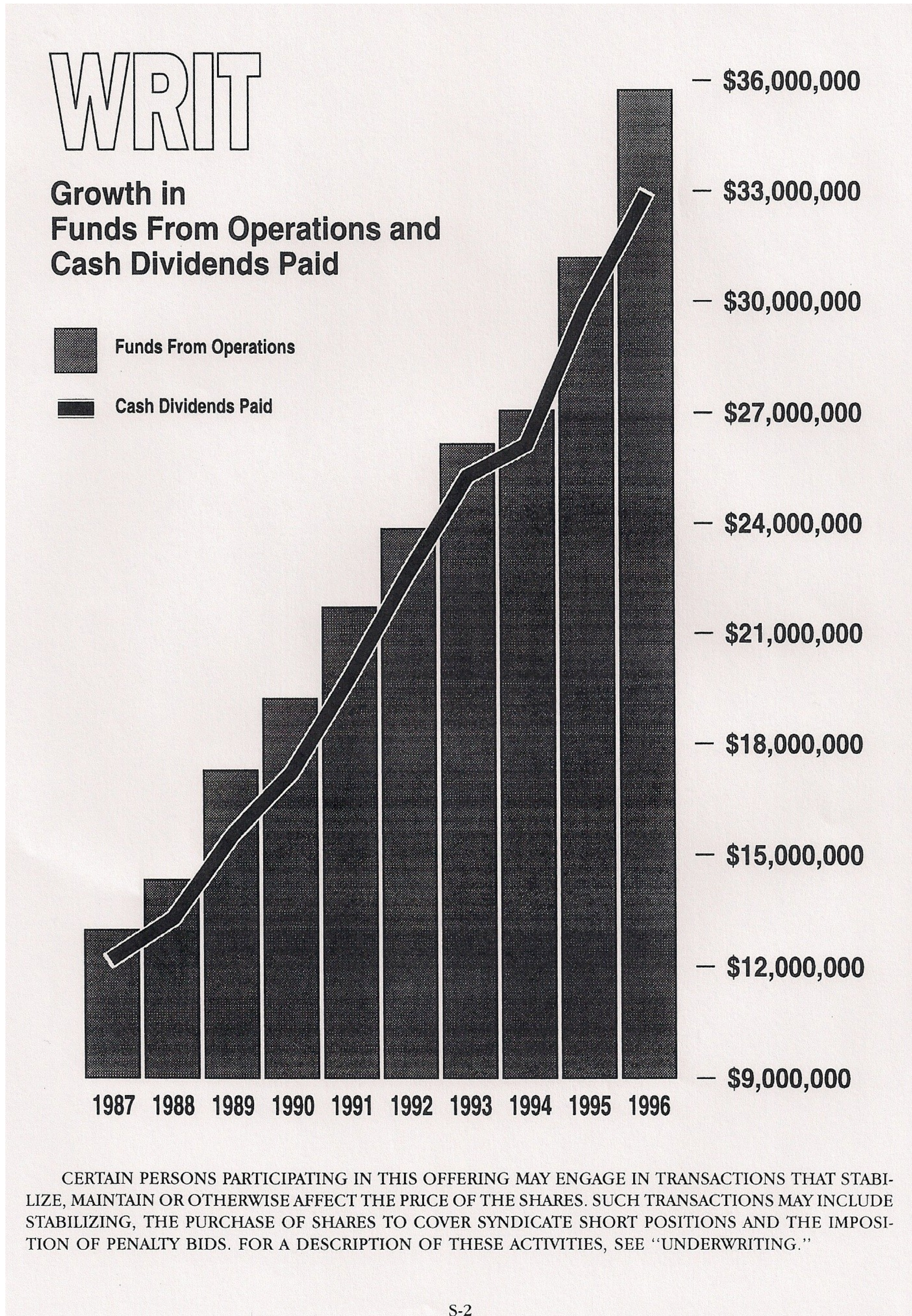


Exhibit H-4 from1997 Prospectus



CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE SHARES. SUCH TRANSACTIONS MAY INCLUDE STABILIZING, THE PURCHASE OF SHARES TO COVER SYNDICATE SHORT POSITIONS AND THE IMPOSITION OF PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

S-2

Exhibit H-5 from 1997 Prospectus 1

Shopping Centers

1. Takoma Park Shopping Center
Takoma Park, Maryland
2. Prince William Plaza
Shopping Center
Woodbridge, Virginia
3. Westminster Shopping Center
Westminster, Maryland
4. Dover Mart Shopping Center
Dover, Delaware
5. Concord Centre
Springfield, Virginia
6. Clairmont Shopping Center
Salisbury, Maryland
7. Wheaton Park Shopping Center
Wheaton, Maryland
8. Bradlee Shopping Center
Alexandria, Virginia
9. Chevy Chase Metro Plaza
Washington, D.C.
10. Montgomery Village Center
Gaithersburg, Maryland
11. The Shoppes of Foxchase
Alexandria, Virginia
12. Frederick County Square
Frederick, Maryland

Apartment Buildings

1. Roosevelt Towers
Falls Church, Virginia
2. Park Adams
Arlington, Virginia
3. Munson Hill Towers
Falls Church, Virginia
4. Country Club Towers
Arlington, Virginia
5. 3801 Connecticut Avenue
Washington, D.C.
6. Walker House Apartments
Gaithersburg, Maryland
7. The Ashby at McLean
McLean, Virginia

Industrial Distribution Centers

1. Shirley I-395 Business Center
Arlington, Virginia
2. Department of Commerce
Information Center
Springfield, Virginia
3. Ravensworth Center
Springfield, Virginia
4. V Street Distribution Center
Washington, D.C.
5. Capital Freeway Center
Washington, D.C.
6. Fullerton Business Center
Springfield, Virginia
7. Pepsi-Cola Distribution Center
Forestville, Maryland
8. Charleston Business Center
Rockville, Maryland
9. Tech 100 Industrial Park
Elkridge, Maryland
10. Crossroads Distribution Center
Elkridge, Maryland
11. Alban Business Center
Springfield, Virginia
12. The Earhart Building
Chantilly, Virginia
13. Ammendale Technology Park I
Beltsville, Maryland
14. Ammendale Technology Park II
Beltsville, Maryland

Office Buildings

1. 1901 Pennsylvania Avenue
Washington, D.C.
2. The WRIT Building
Kensington, Maryland
3. 51 Monroe Street
Rockville, Maryland
4. 444 North Frederick Avenue
Gaithersburg, Maryland
5. 7700 Leesburg Pike
Falls Church, Virginia
6. Arlington Financial Center
Arlington, Virginia
7. 515 King Street
Alexandria, Virginia
8. The Saratoga Building
Rockville, Maryland
9. The Lexington Building
Rockville, Maryland
10. Brandywine Center
Rockville, Maryland
11. Tycon II
Tysons Corner, Virginia
12. Tycon III
Tysons Corner, Virginia
13. 6110 Executive Boulevard
Rockville, Maryland
14. 1220 19th Street
Washington, D.C.
15. Maryland Trade Center I
Greenbelt, Maryland
16. Maryland Trade Center II
Greenbelt, Maryland

SHOPPING CENTERS
APARTMENT BUILDINGS
INDUSTRIAL DISTRIBUTION CENTERS
OFFICE BUILDINGS

Exhibit H-6

WASHINGTON REAL ESTATE INVESTMENT TRUST

YEAR	NI/ SH	DIVIDEND	PROPERTIES	ASSETS	REVENUE
2003	44.9	1.47	61	928.09	143.1
2004	45.6	1.55	67	1012.39	162.6
2006	38.7	1.64	82	1531.26	208.7
2007	61.9	1.68	88	1898.33	255.7
2010	37.4	1.73	85	2111.39	298.0

Selected years from 2003 to 2010 reveal fluctuations in Net Income per share, while dividends per share steadily increased from $1.47 per share in 2003 to $1.73 per share in 2010. Assets and revenues showed steady growth from 2003 to 2010.

Appendix: I

Exhibit I – 1

PENNSYLVANIA REAL ESTATE INVESTMENT TRUST
SELECTED YEARS FROM 1972 TO 2003
NET INCOME PER SHARE, DIVIDEND, ASSETS & REVENUE

YEAR	NI/SH	DIVIDEND	ASSETS	REVENUE	NOTES
1972	1.5	1.1	12.141	9.5	
1992	8.7	11.2	53.095	20.5	
1998	23.2	25.0	137.082	67.7	MERGED WITH RUBIN
2002	1.5	33.2	703.660	133.8	
2003	9.6	41.6	1,023.630	190.6	MERGEDWITH CROWN

From 1972 to 2003, Net Income per share fluctuated, while dividends showed marked increases over the period. Both Assets and Revenues increased, with dramatic increases in Assets and Revenues after the merger with Rubin Organization in 1998 and the merger with Crown in 2003.

Exhibit I - 2

PENNSYLVANIA REAL ESTATE
INVESTMENT TRUST
2007 TO 2009
NET INCOME PER SHARE/
BY QUARTER

YEAR	QUARTER	NI PER SH
2007	1ST	5.7
2008	1ST	-2.1
2009	1ST	-11.0
2008	2ND	-3.8
2009	2ND	-4.0

From the years 2007 to 2009, PREIT’s net income per share on a quarterly basis reflected losses after 2007 with the onset of the financial crisis in 2008. The above table shows the year and quarter with its respective Net Income or Net Loss per share.

Appendix: J

Appendix J - U. S. Senator Johnny Isakson's Statement concerning Congressional Resolution on REIT Industry:

Mr. ISAKSON: Mr. President, in just a moment, I will ask the body for unanimous consent to adopt S. Res. 60. Before I do, I wish to talk about the significance of this agreement we have come to on this important resolution.

Fifty years ago last September, President Eisenhower signed into law legislation that established real estate investment trusts, or REITs, as an investment opportunity for all investors. Prior to 1960, access to the highly desirable investment returns of commercial real estate assets was limited to institutions and wealthy individuals that had the financial wealth to make direct real estate investments. By creating REITs, Congress recognized that small investors should be afforded the same opportunity to invest in portfolios of large-scale commercial properties and achieve the same investment benefits--diversification, liquidity, performance, transparency--as those able to make direct investments in real estate.

Some of my colleagues may not be familiar with each REIT property in their States, but they should be aware that these properties are making a significant contribution to the economic vitality of their State and our Nation. REITs are companies dedicated to the ownership and development of income producing real estate, such as apartments, regional malls, shopping centers, office buildings, self storage facilities and industrial warehouses. They operate under an intricate set of tax rules that require them to, among other things, meet specific tests regarding the composition of their gross income and assets, in order to stay in business. For example, Federal tax law requires that 95 percent of a REIT's annual gross income must be from specified sources such as dividends, interests and rents, and 75 percent of the gross income must be from real estate related sources. Similarly, at the end of each calendar quarter, 75 percent of a REIT's assets must consist of specified "real estate" assets. Consequently, REITs must derive a majority of their gross income from commercial real estate. And, the REIT rules require that at least 90 percent of a REIT's total income must be returned to the company's shareholders in the form of dividends.

While REITs have played a major role in the U.S. economy since 1960, their mark in the investing world has primarily been achieved since passage of the Tax Reform Act of 1986, a time period many refer to as the "Modern REIT Era." This law removed most of the tax-sheltering capability of real estate and emphasized income producing transactions, allowing REITs to operate and manage real estate as well as own it. I am pleased that over the years, Congress

has adopted legislation to perfect the REIT method of investing in real estate. Among many proposals, these include the REIT Simplification Act of 1997, the REIT Modernization Act of 1999, the REIT Improvement Act of 2004, and the REIT Investment Diversification and Empowerment Act passed in 2008.

REIT executives are hard-working business men and women who are singularly focused on bringing increased value to their shareholders. According to the National Association of Real Estate Investment Trusts, NAREIT, which is also celebrating its golden anniversary, these executives have proven to be successful in this objective, especially in the past two years in the wake of the financial downturn. Indeed, the vision of Congress has come to fruition: the equity market capitalization of REITs at the end of 2010 was $389 billion, up from only $1.5 billion at the end of 1971, and listed REITs distributed $13.5 billion to shareholders in 2009.

I am pleased to be joined by my colleague, Senator MIKULSKI**,** who is a cosponsor of this legislation, and I am pleased that my home state of Georgia is headquarters to several REIT companies that are engaged in the daily business of creating wealth and employment for many investors across the country and my constituents. These companies include Cousins Properties Incorporated, Gables Residential Trust, Piedmont Office Realty Trust, Incorporated, Post Properties, Incorporated, and Wells Real Estate Investment Trust. In total, there are more than 1400 REIT properties located in Georgia, with an estimated historical cost in the billions of dollars.

Commercial real estate represents more than 6 percent of this country's gross domestic product and is a key generator of jobs and other economic activities. Today, because of the foresight that Congress had 5 decades ago, anyone can purchase shares of real estate operating companies, and do so in a manner that meets their investment needs by focusing on a particular sector in the commercial real estate world and a specific region of the country. That is the beauty of the REIT method of investing, whose influence has now spread abroad to more than 2 dozen countries that have adopted a similar model encouraging real estate investment.

I again congratulate the REIT industry on this momentous occasion of their 50 years of leadership in the real estate investing market. REITs have fulfilled Congress' vision by making investments in large scale, capital intensive commercial real estate available to all investors. I thank my colleagues for supporting this resolution, and I look forward to continuing to work with them on issues of importance to REIT investors (Isakson, 2010).

VITA

Barbara Sumrall White, CPA, CBA, CGMA, PhD(c)
179 Laurelwood Drive, Pike Road, AL 36064 • Ph: 334-320-9235 • Email: bwhite@huntingdon.edu, bswhite@go.olemiss.edu

PROFESSIONAL EXPERIENCE

August 2005 To Present — **Huntingdon College, Montgomery, Alabama.**

Assistant Professor - Accounting. Responsible for teaching various accounting courses, while also advising students interested in pursuing a career in accounting and business administration majors, as needed. In addition, assist in the development and growth of the accounting program at Huntingdon College. Serve as a liaison with the business community in an effort to establish relationships with the college for both the program and the students. Work with students and businesses to secure internships for those interested. Assist students in developing an understanding of accounting practices and issues and how they apply in the overall business environment, while gaining an appreciation for the liberal arts. Strive to incorporate real life examples (based on personal working experiences) in the classroom, so as to show the relevance and applicability of the material to their future working experiences. Install in students their social responsibility.

January 2009 To December 2010 — **University of Mississippi, Oxford, Mississippi.**

Graduate Assistant/Instructor of Accounting. Responsible for teaching introductory accounting courses and assisting students in learning the concepts, as part of a graduate assistantship while conducting PhD studies in Accounting.

August 1997 To August 2005 — **Huntingdon College, Montgomery, Alabama.**

Adjunct Accounting Instructor. Responsible for teaching various accounting, audit and finance courses as requested by management. In addition, work to assist students in developing an understanding of accounting issues and how they relate to the overall business environment.

July 1986 To December 2008 — **Colonial Companies (The Colonial Company and Colonial BancGroup), Montgomery, Alabama**

Contract Tax Advisor, The Colonial Company, September 2005 to December 2008.
Perform contract tax and advising services on an as-needed basis.

Corporate Tax Manager, The Colonial Company, January 1997 to August 2005.
Responsible for the timely payment and administration of all taxes related to the various entities and owner himself, including income taxes, property taxes, sales and use taxes, franchise taxes, etc. Prepared tax returns and tax filings to ensure compliance with federal and state agencies and reviewed tax assessments with appropriate company personnel for reasonable valuations. Where necessary, participated in the protest of valuations in an effort to keep taxes at a justifiable and reasonable level. In addition, prepared periodic financial statements for the owner and his family and helped coordinate financial issues related to personal net worth and legal obligations. Updated on a monthly basis, the owner's stock accounts and net worth position and periodically provided him with an evaluation of his Brokers' performance.

Merger/Acquisition Coordinator and Budget Director, Colonial BancGroup, January 1995 to January 1997.
Responsible for the implementation and coordination of the merger and acquisition process for the corporation, including establishment of a Merger/Acquisition manual. Involved in the due diligence process by both being an initial contact for the institution to be acquired and also by providing assistance to other bank personnel in obtaining/distributing/reviewing information. After agreement to purchase was signed, was responsible for coordination of the statewide conversion process. Position also evolved into coordinating the yearly budget process for the corporation and implementing new budget software.

Corporate Financial Analyst, The Colonial Company, March 1990 to December 1994.
Responsible for the preparation and presentation of the monthly financial reports to The Colonial Company Board. Prepared annually the Current Value Financial Statement of The Consolidated Colonial Company and Subsidiaries, which assigned market values to the various companies' assets. Prepared annual personal financial statements for the companies' owners. Coordinated the budgeting process for all the companies. Conducted financial analysis and work flow reviews of companies and/or projects as requested by management. Established the strategic planning process and package for all the companies and coordinated the meetings.

Accounting Manager, Colonial BancGroup, February 1998 to February 1990.
Responsible for the preparation and review of monthly financial statements for the holding company and subsidiaries. Assisted in the preparation of the Annual Report, Comptroller's (Call) Report and other quarterly filings. Where either no or inadequate procedures existed, was responsible for designing and
implementing methodology to control transactions within the accounting department and affected areas. Established a system for collecting FASB 91 data, and performed follow-up to ensure compliance. Participated in projects as requested by management, including statewide accounting consolidation.

Special Projects Audit Manager, Colonial BancGroup, July 1986 to July 1988.
Performed pre-acquisition reviews of proposed mergers while designing audit programs to identify and report any contingencies. Supervised and/or provided consultant work to branch locations on request of management. Participated with outside auditors on audits of holding company books. Responsible for updating the Audit Manual as new policies and procedures were issued by management. On a limited basis, performed application reviews and assisted audit staff in the timely completion of their audits.

August 1991 To May 1992 **Auburn University at Montgomery, Montgomery, Alabama**

Adjunct Accounting Instructor. Responsible for teaching either section of the Principles of Accounting course on a quarterly basis as requested.

June 1983 To June 1986 — **Deposit Guaranty National Bank, Jackson, Mississippi**

Information Systems Auditor/Financial Auditor. Provided audit support to both internal and external auditors and federal examiners, conducted audits and system reviews of computerized information systems, and participated in the evaluation of security and controls at the Information Center. Wrote or revised audit programs and audit reports for the areas audited and participated in special projects as requested by management. Supervised and performed financial audits of bank branches and departmental operations, and assisted external auditors in the conduct of their audits.

EDUCATION

University of Mississippi
Completed coursework and passed comprehensive exams in the PhD in Accounting program. Have successfully proposed Dissertation with expected completion by Summer 2012.

San Francisco State University
Coursework in Calculus completed August 2008 as prerequisite to PhD program.

Huizenga School of Business & Entrepreneurship, Nova Southeastern University
Additional Accounting coursework completed September 2005.

Keller Graduate School of Management, Devry University
Additional Accounting coursework completed June 2005.

Auburn University at Montgomery
M.B.A. conferred August 1990. GPA 3.9.

University of Alabama at Birmingham
Additional Accounting coursework completed May 1988.

Millsaps College, Jackson, Mississippi.
B.B.A. in Accounting conferred May 1983.
Cum Laude Graduate. Dean's List. GPA 3.6.
Concentration in Computer Studies.

Ongoing Continuing Professional Education (CPE) courses taken with such institutions as the Alabama Society of CPAs and Mississippi Society of CPAs. CPE courses, at a rate of 40 hours per year, have been taken since 1984.

CERTIFICATIONS/PUBLICATIONS

Certified Public Accountant (CPA).
Certified Bank Auditor (CBA).
Chartered Global Management Accountant (CGMA).
Authored the book, Family-Career Choices: A Women's Perspective, published 1997. Performed signings, discussions, and seminars in connection with this book's promotion and distribution.
Co-Authored paper, "Ethical Prompts and Their Effects on the Individual's Evaluation of Acceptable Business Practices: Consideration for CPAs," presented at the American Accounting Association's 2010 Southeast Region Meeting held in April 2010 and the Annual Meeting's Ethics Symposium in August 2010. Paper published in Research on Professional Responsibility and Ethics in Accounting's April 2012 issue.
Co-Authored paper, "An Empirical Examination of Non-GAAP Disclosures by Real Estate Investment Trusts Before and During a Period of Crisis," accepted for presentation at the American Accounting Association's Annual Meeting in Washington D. C. in August 2012.
Co-Authored paper, "The Implementation of SFAS 91: A Financial Accounting Pronouncement with Cost Accounting Implications," published in Journal of Bank Auditing and Accounting's Spring 1991 issue.
Authored paper, "Dr. John Massey: Farm Boy, Confederate Soldier, and Renowned Educator - Financial Documentation as an Indicator of his Life's Work," presented at the American Accounting Association's Southeast Regional Meeting held in April 2011.

ACTVITIES/AWARDS

Awards specific to professional growth/development:
Recipient of the Alabama Society of Certified Public Accountants' 2009 Public Service Award.
Selected by the University of Mississippi's Patterson School of Accountancy as their Doctoral Student Representative for the American Accounting Association 2010 Deloitte Doctoral Consortium.

Awards/Activities specific to position at Huntingdon College:
Recipient of the Mary Mildred Sullivan Award ("Presented to those persons who by their general conduct and their relations with others indicate that they possess to a marked degree a spirit of helpfulness and an awareness of the beauty and value of the intangible elements of life.")
Recipient of The Julia Lightfoot Sellers Award, which is given to one Faculty member each year as voted on by the junior/senior class of Huntingdon College "who in their judgment has done much this year toward inspiring them to mobility of purpose and integrity of character, and rekindling within them a deeper desire for learning."
Faculty Advisor, Huntingdon College Accounting Club (Club was awarded the Jimmy Baker Spirit Award and Margaret Hicks Shadoin Community Service Award for being the most involved campus organization and performing the most hours of community service.)
Faculty Advisor/Director, Huntingdon College Founder's Day Run, which is a fundraiser for The Leukemia & Lymphoma Society
Faculty Adviser/Participant in Savefirst Initiative of Impact Alabama, which provides free tax services to low income individuals.
Faculty Advisor, Huntingdon College Running Club

Other Awards/Activities:
Member, American Accounting Association
Member, Academy of Accounting Historians
Member, Alabama Society of Certified Public Accountants
Member, American Institute of Certified Public Accountants
Member, Montgomery Chapter of CPAs
Member, Alpha Eta Sigma, Accounting Honorary Society
Board Treasurer/Director, Consumer Credit Counseling Center of Alabama
Race Director, Woodland Wallahatchie 10k, 5k and 1 Mile Run/Walk, which is a fundraiser for the Leukemia & Lymphoma Society
Mentor/Team Captain, Team-N-Training Program with the Leukemia & Lymphoma Society
Member, 50 States Marathon Club & Marathon Maniacs Club
Member, Auburn Opelika Running and Track Association
Member, Woodland United Methodist Church
Member, Humane Society of United States

INTERESTS

Marathon runner, having completed 53 marathons to date. Completed the goal to run a marathon in all 50 states and the District of Columbia in June 2011. Pursuing goal to run a marathon on all 7 continents.