



Presentation of
graduate's project (concept)

Real Estate Investments Trusts (REITs)
and their role in the US American and
international housing market



Contents

- I. Background and relevance of the topic
- II. Theoretical framework
- III. Study objectives
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***The explosive growth of real estate investment trusts
that erupted in the United States in the 1990s is going global
(Investment News, 11/06/2006)***

***The German REIT law (established in 2007) prohibits
REIT investment in the housing market***



What are REITs?

Characteristics

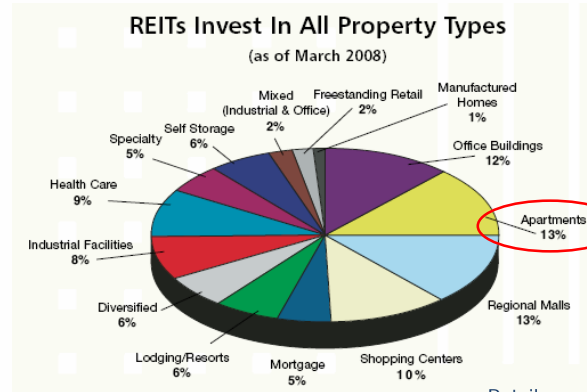
REITs are a certain type of corporation associated with some benefits and obligations

- **Obligations:**
 - company must be investing in real estate (75% from their equity)
 - 75% of the company's income must be derived from real estate related business (rents, dividends, etc)
 - REITs mostly are listed at the stock exchange and are required to distribute 90% of their income to investors (stock holders)
- **Benefits:** tax designation eliminating corporate income taxes

- US: Financial institutions have substantial investment in REITs: their investor base is currently 55% domestic institutions, 25% individuals, 13% sponsors and 7% by foreign investors
- REITs can be classified as equity, mortgage or hybrid—originally mostly mortgages, now mostly equity
- Equity REITs normally specialize in one field of real estate (office, retail, health care, housing)



I. Background & Relevance



Retail overall: 25%
 Housing overall: 14%
 Office/Industrial overall: 22%

Source: NAREIT (2008b)



I. Background & Relevance

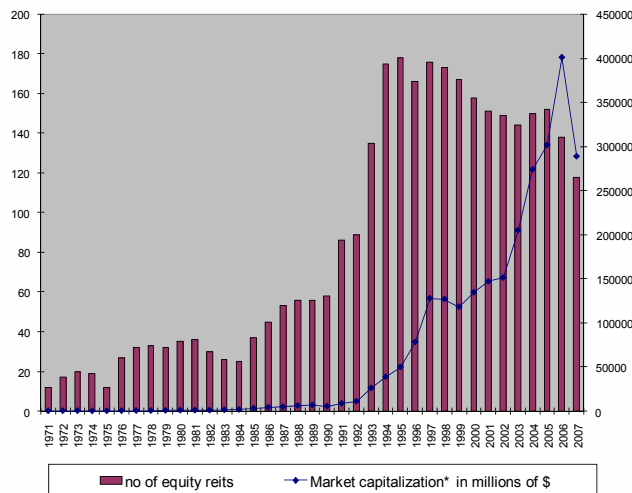
What are REITs?

History

- REITs were designed to provide a similar structure for investment in real estate as mutual funds provide for investment in stocks.
- They were established in 1960 in the US in order to meet the need for large sums of real estate equity and mortgage funds after World War II (secondary mortgage market)
- Prior to 1986 (1986 Tax Act) REITs were restricted to ensure a passive nature of REITs (therefore mostly mortgage REITs)
- Today REITs mostly represent active developers in real estate (equity REITs)



I. Background & Relevance



* Market capitalization represents the aggregate value of a company or stock. It is obtained by multiplying the number of shares outstanding by their current price per share
 Source: NAREIT (2008)



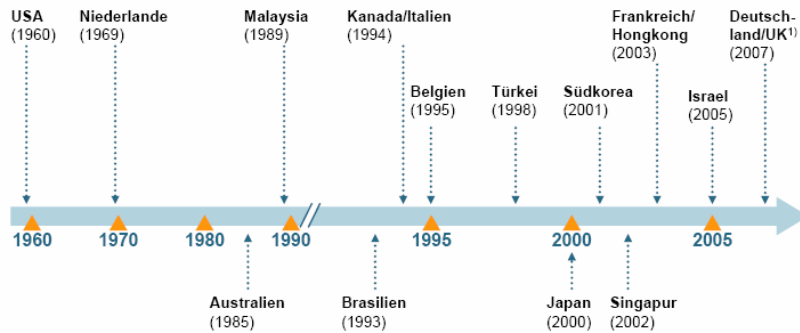
I. Background & Relevance

2008 RANK	2007 RANK	COMPANY	HEADQUARTERS	CORPORATE OFFICER	APARTMENTS WITH OWNERSHIP INTEREST 2008	APARTMENTS WITH OWNERSHIP INTEREST 2007
▶ 1	1	AIMCO	Denver, CO	Terry Considine	197,158	211,800
2	2	MMA Financial, LLC	St. Paul, MN	Michael L. Falcone	188,159	177,062
3	4	Boston Capital	Boston, MA	Jack Manning	167,679	156,758
▶ 4	3	Equity Residential	Chicago, IL	David J. Neithercut	154,152	165,716
5	5	SunAmerica Affordable Housing Partners, Inc.	Los Angeles, CA	Michael L. Fowler	143,674	145,224
6	7	Enterprise Community Investment, Inc.	Columbia, MD	Jeffrey H. Donahue	87,822	82,270
▶ 7	6	Archstone-Smith	Englewood, CO	R. Scot Sellers	87,667	84,176
8	8	The Richman Group Affordable Housing Corporation	Greenwich, CT	Richard Paul Richman	80,054	74,517
9	10	GE Real Estate	Addison, TX	Ronald Pressman	76,448	67,561
▶ 10	9	UDR, Inc.	Highlands Ranch, CO	Thomas W. Toomey	70,591	70,339
11	11	PNC MultiFamily Capital	Louisville, KY	Donald W. Giffen	65,641	64,013
12	14	American Management Services (dba Pinnacle)	Seattle, WA	Stan Harrelson	62,800	50,514
▶ 13	12	Camden Property Trust	Houston, TX	Ric Campo	62,338	63,843
14	17	BlackRock Realty	San Francisco, CA	Fred Lieblich	59,665	48,135
▶ 15	16	AvalonBay Communities, Inc.	Alexandria, VA	Bryce Blair	54,687	48,294



I. Background & Relevance

International introduction of REITs



Source: Roland Berger Strategy Consultants

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Research topic

Real Estate Investments Trusts (REITs) and their role in the US American and international housing market



II. Theoretical Framework...

... regarding the role of housing REITs

Unique characteristics of housing

- human necessity (social good)
- immobile, subdivided in submarkets
- long production time
- longevity of housing
- investment component (key component of economy)

Internationalization of investment

- deregulation of financial markets, delocated investment, (real estate bubbles)

Economic strategies of REITs

- specialization, economies of scale

Policy approaches (REIT and housing legislation)

- interventionist approach (continental Europe/Germany)
- empiricist/enabling approach (Anglo-American)

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III. Study objectives

- Identifying the role of REITs in the US housing market
- study the implication of specialization (social, geographical, submarkets)

→ Empirical research
- Identifying the role of housing REITs as an investment tool in the ongoing internationalization of real estate investment (governance and policies)

→ Literature study

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IV. Methodology – topic A

Sample for research: the existing US housing REITs (about 15) and their apartment stock

- Possible indicators/measures:
- local REIT rents / average local rent
 - REIT rental increase / local rental increase
 - Testing if REITs differ in rental prices from other apartment owners (specialization)
 - Economic success in relation to rent prices
 - Economic success in relation to no. of apartments
 - Assuming that more successful models are more likely to be adopted by new (international) REITs
 - „mobility“ of REIT (no. of sales / no. of owned apt.)
 - Testing if REITs tend to realize their market adjustments through portfolio changes (sustainability)

Sources:

- annual reports of REITs (transparency)
- municipal housing data



IV. Methodology – topic A

Examples of data availability

Map: Annual report of Post Properties



Table: Quarterly report Home Properties

HOME PROPERTIES 2Q 2008 SUPPLEMENTAL FINANCIAL INFORMATION

OWNED COMMUNITY RESULTS

SECOND QUARTER 2008

	# of Units	Date Acquired	2Q '08 Rent/Mo.	2Q '08 Occup.	Year Ago Occup.	2Q '08 versus 2Q '07 % Growth			
						Rental Rates	Total Revenue	Total Expense	Total NOI
Baltimore Region	960	7/1/1999	\$ 1,054	93.4%	93.6%	2.3%	2.4%	-5.4%	7.0%
Bonnie Ridge	418	7/1/1999	\$ 932	93.1%	96.1%	4.0%	-0.5%	-2.5%	0.7%
Canterbury Apartments	344	4/30/1998	\$ 894	96.3%	95.3%	5.5%	5.2%	-5.8%	13.9%
County Village	312	11/12/2007	\$ 1,053	93.2%	n/a	n/a	n/a	n/a	n/a
Dunfield Townhomes	396	7/16/1999	\$ 970	94.3%	90.5%	0.5%	8.0%	-8.2%	18.0%
Falcon Crest	720	3/29/2007	\$ 844	92.6%	94.5%	0.7%	-0.7%	21.2%	-16.0%
Fox Hall Apartments	132	7/16/1999	\$ 1,267	95.5%	95.5%	2.7%	0.1%	3.6%	-1.6%
Gateway Village	164	10/4/2006	\$ 1,025	95.1%	97.2%	11.1%	13.4%	-11.6%	35.5%
Heritage Woods	384	5/3/2001	\$ 865	94.9%	95.7%	3.7%	5.0%	-0.8%	8.9%
Mid Tower Village Apts	1,050	4/30/1998	\$ 876	92.1%	94.3%	3.2%	-3.6%	-4.2%	-3.3%
Morningside Heights	504	7/16/1999	\$ 1,173	94.6%	95.5%	3.2%	3.0%	1.9%	3.6%
Owings Run	204	1/13/2005	\$ 1,141	93.5%	95.8%	7.2%	5.2%	4.3%	5.6%
Ridgeview at Wakefield Valley	102	7/16/1999	\$ 1,291	91.6%	95.6%	1.0%	-2.1%	-3.9%	-1.2%
Midland Townhomes	469	11/20/2006	\$ 1,207	89.0%	92.7%	5.4%	1.1%	3.9%	-0.6%
The Cove at Chesapeake	284	7/16/1999	\$ 842	95.5%	99.1%	2.4%	2.5%	0.3%	3.8%
Timbercreek Townhomes	156	10/4/2006	\$ 1,148	95.2%	97.7%	7.4%	6.7%	-0.5%	14.0%
Top Field	370	7/16/1999	\$ 1,166	92.9%	95.4%	6.1%	-0.8%	-4.4%	1.0%
Village Square Townhomes	177	3/13/2001	\$ 836	93.4%	95.1%	2.6%	1.9%	7.9%	-2.8%
Woodholme Manor	177	3/13/2001	\$ 836	93.4%	95.1%	2.6%	1.9%	7.9%	-2.8%
Total Baltimore Region	7,346		\$ 997	93.4%	94.8%	3.5%	1.7%	0.0%	2.6%



Outlook / Goals

- Specifying the role of housing REITs in the (contradictory) contexts of housing as a social fundament as well as an economic key component
- Making a scientific contribution to the German discussion about the admission of REITs in the German housing market



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THANK YOU!





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