

Index

A

Acadia Realty, 160
Acquisition opportunities, 164–168
Adjusted funds from operations (AFFO),
20–21, 225, 230–231, 375–378
case study, 375–378
dynamics of growth, 149–152
significance of, 144–149
After-tax returns, maximizing, 387–388
Aldrich, Peter, 366
Alexandria Real Estate, 160
“All-age” communities, 56
AMB Properties, 76–77, 130, 137, 170, 172,
186–187
Apartment REITs, 50–55, 155, 222, 317
cap rates, 51
demographics, 54–55
effect of interest rates on, 317
financing, 54
inflation and, 52
profits, 53–54
risks, 52–53
supply and demand for, 155
Arnott, Robert, 14
Asian Public Real Estate Association
(APREA), 279, 298
Asness, Cliff, 14
Asset allocation, 239–245
aggressive investors, 241
major price declines, modest risk of,
241–243
the perfect REIT allocation, 243
REITs and high current income, 243
AvalonBay Communities, 170, 202,
361–362

B

Baby Boomers, 126, 254, 344–347
Balance sheet strength, 192–201

debt ratios and interest coverage ratios,
193–198
maturity of debt, 200–201
variable-rate debt, 198–200
Bear market
1990, 116–117
1998–1999, 123–124
Benchmarks, beating, 385–386
Boards of directors, 208–210
Bond-proxy REITs, 179–180
Bonds, 20–22
Boston Properties, 185, 188, 204, 208, 223
Buffett, Warren, 143, 176

C

Callan Associates, 348–349
Campbell, William, 351
Cap rate, 51, 102–103
Capital, access to, 189–192
benefits, 189–190
Capital asset pricing model (CAPM)
theory, 229
Capital markets cycles, 45
Capital recycling, 135–136, 160–161
Carr America Realty, 178
Cash available for distribution (CAD), case
study, 375–378
Centro Properties Group, 273
Chelsea Property Group, 362–363
Closed-end real estate funds (CEFs), 296
Collateralized mortgage obligations
(CMOs), 39
Commercial mortgage-backed securities
(CMBS), 48, 105, 126
Commercial real estate vs. homes, 50
Common stocks, 11, 340
issuance of, 340
risk in, 11
Construction cost overruns, 170

Convertible bonds, 22–23
 Corporate governance, 208–210
 Cost control, 187–188
 Cost recovery, 157–158

D

Data center REITs, 73–74
 Debt financing risk, 171
 Debt leverage, 99, 195, 360–361
 Debt ratios, 194–197
 debt/asset value ratio, 194
 debt/market cap ratio, 194
 guidelines, 195
 Developers Diversified Realty, 67
 Digital Realty, 73–74
 Dillard's, 364–365
 Direct ownership, 27–28
 Discounted cash flow models, 228–231
 Diversification, 99. *See also* Asset allocation
 among REITs, 245–248
 basic, 245–246
 by investment characteristics, 248
 overweighting and underweighting, 246–248
 geographic, 355
 Dividend growth models, 228–231
 Dividend policy, 205–208
 Do-it-yourself approach, 251–253
 sources of information for, 253
 Dohrmann, Geoffrey, 348, 353
 DownREITs, 35–37, 341
 Duke Realty, 172, 203–204, 326–327, 372–373
 treatment of dividends, 372

E

EastGroup Properties, 77, 204
 Economic Recovery Act of 1981, 114
 Embedded rent growth, 378
 Equity capital, cost of, 166–168, 379–382
 Equity Office Properties, 92, 138
 Equity Residential, 92, 168, 204, 207, 232, 365
 Estate planning, 343
 European Public Real Estate Association (EPRA), 274, 279, 298
 Exchange-traded funds (ETFs), 257–259
 Existing properties, expansion and redevelopment of, 171
 Expense sharing, 157–158

External growth, 163–171
 acquisition opportunities, 164–168
 new developments, 168–171

F

Factory outlet centers, 66–67
 Fair value accounting, 144
 Federal Realty, 160, 171
 Federal Reserve, 102
 Financial Accounting Standards Board (FASB), 223
 Financial planners, 254–255
 Fixed-charge coverage ratio, 197–198
 Fixed-rate debt, 199
 401(k) plans, 345
 Franchise value, 190–191
 Funds available for distribution (FAD), case study, 375–378
 Funds from operations (FFO)
 case study, 375–378
 dynamics of growth, 149–152
 formula, 150
 significance of, 144–149

G

General Growth Properties (GGP), 128, 129, 200, 328
 Gilman, Matt, 352
 Glickman, Louis J., 266
 Global real estate companies, largest, 393–413
 Global REITs and property companies,
 investing in, 261–306
 long-term evidence supporting, 300–306
 access to capital, 304–306
 diversification benefits, 302–304
 dividend yields, 301–302
 performance, 300–301
 portfolio, managing, 284–287
 currency hedging, 285–286
 currency risks and benefits, 284–285
 trading and execution, 286–287
 practicalities for individual investors, 287–298
 individual management, 296–298
 investment mutual funds, 288–296
 size of property stock markets, 274–283
 spread from U.S., 264–274
 1960 to 1990, 265–267
 1990s, 267–272
 Australia, 272–274

- Gramercy Capital, 172
- “Great Recession,” impact of, 13, 15, 39, 59, 65, 66, 69, 75, 104–105, 129, 138, 140, 169, 172, 177, 178, 188, 196, 200, 242, 310, 336, 363
- Growth REITs, 176–178
- H**
- Health care REITs, 78–81, 156, 203
- Hewlett-Packard, 329–330
- Hotel and lodging properties, 84–86, 156, 198–199
- internal growth in, 156
- Housing and Economic Recovery Act of 2008, 38
- I**
- Ibbotson Associates, study of correlations (2001, 2003), 8
- Industrial building REITs, 75–78
- Inflation, 100–103
- Institutional investors, 347–353
- Institutional joint ventures, 136–137, 172
- Interest coverage ratios, 197–198
- Internal growth, 152–163, 183–184
- building, 157–158
- generating, 158
- capital recycling, 160–161
- NOI and IRR, 161–163
- property refurbishments, 159–160
- tenant upgrades, 158–159
- rental revenue increases, 154–157
- Internal rate of return (IRR), 161–163
- Investment advisers, 254–255
- Investment value, 215–238
- buy-and-hold strategy, 217–218
- advantages, 217
- buy-and-hold vs. trading, 215–217
- REIT stock valuation, 218–231
- discounted cash flow and dividend growth models, 228–231
- real estate asset values, 218–223
- P/FFO models, 224–228
- valuing REITs as a group, 231–237
- IPO boom, 118–120, 169, 336, 337
- IREI/Kingsley Associates study (2010), 95
- “Irrational exuberance,” 48
- IRS Revenue Procedure 2008-68, 132
- IRS Revenue Ruling 2001-29, 364
- J**
- Joint ventures, institutional, 136–137, 172
- “Junk” bonds, 150
- K**
- Kimco Realty, 38, 117, 137, 159, 170, 172, 182, 183, 185, 223, 269, 332, 338, 361, 365
- Kirby, Mike, 71, 133, 193
- L**
- Lab space REITs, 72–73
- Leasing risk, 170–171
- Lending REITs vs. ownership REITs, 39–40
- Liquid investment, 4
- Liquidity, 342–343
- Local economies, 47
- Loss to lease, 378
- M**
- Macerich, 169, 171, 184, 358
- Malls, regional, 61–66, 203
- Management issues, 100
- Manufactured home communities, 55–56
- Market caps, 330–331
- Master limited partnerships (MLPs), 25
- McDonald’s Corp., 364
- Mergers and acquisitions (M&As), 137–138, 356–358
- Mortgage REITs, 6, 39–40
- Mutual funds, 255–257
- global, 288–296
- N**
- National Association of Real Estate Investment Trusts (NAREIT), 8, 38, 40–41, 44, 94, 117, 121, 124, 136, 151, 195, 206–207, 233, 242, 252, 255, 257, 265, 298, 316, 322, 336, 345, 346, 350, 362
- Composite Index, 350
- diversity data, 44
- REITWatch*, 233, 252
- National Council of Real Estate Investment Fiduciaries (NCREIF), 352
- Nationwide Health Properties, 200, 358
- Neighborhood shopping centers, 58–61
- Net asset value (NAV), determining, 219–223
- Net operating income, 161–163
- New developments, 168–171

O

- Office and industrial properties, 68–78
 - health care, 78–81
 - hotels and lodging, 84–86
 - industrial buildings, 75–78
 - lab space and data centers, 72–74
 - office buildings, 68–72, 155
 - rent growth in, 155
 - self-storage, 81–84
- “One-off” deal, 184–185
- Operating partnership units (OPUs), 35–37, 270, 341
- Overbuilding, 311–314, 318
- Overweighting and underweighting, 246–248
- Ownership REITs vs. lending REITs, 39–40

P

- Patriot American Hospitality, 177
- Payout ratio, 205–208
- Percentage-rent clauses, 157
- P/FFO models, 224–228
- Plum Creek Timber, 364
- Portfolio, building, 239–259
 - asset allocation, 239–245
 - diversification among REITs, 245–248
 - getting started, 251–259
 - well-balanced, 248–251
- Portfolio management, 383–391
- Post Properties, case study, 375–378
- Preferred stocks, 23–24, 340
 - dividend rate, 23
 - issuance of, 340–341
- Private partnerships, 28–29
- Private REITs, 29–31
 - drawbacks, 30
- ProLogis, 76–77, 137, 170, 172, 177, 186–187, 339, 358, 363
- Property refurbishments, 159–160
- Property sectors and their cycles, 43–88
 - apartments, 50–55
 - manufactured home communities and student housing, 55–58
 - office and industrial properties, 68–78
 - health care, 78–81
 - hotels and lodging, 84–86
 - industrial buildings, 75–78
 - lab space and data centers, 72–74
 - office buildings, 68–72
 - self-storage, 81–84
 - retail properties, 58–67
 - factory outlet centers, 66–67
 - neighborhood shopping centers, 58–61
 - regional malls, 61–66
 - specialty REITs, 86–87
 - triple-net lease properties, 86
 - ups and downs, 45–49
 - real estate cycles, 45–49
- Publicly traded limited partnerships, 29

R

- Real estate asset values, 218–223
- Real estate cycles, 45–49
 - boom (Phase 3), 45
 - depression (Phase 1), 45
 - gradual recovery (Phase 2), 46
 - overbuilding and downturn (Phase 4), 46
- Real Estate Investment Trust Act of 1960, 33
- Real estate operating companies (REOCs), 298–299
- Realty Income Corporation, 67, 87
- Recession, local, 323–324
- Regency Centers, 159, 169, 183, 204, 223
- Regional malls, 61–66
- REIT Investment Diversification and Empowerment Act of 2007 (RIDEA), 37–38, 78, 322
- The REIT Investment Summary* (Goldman Sachs report), 110, 112, 113, 115
- REIT Modernization Act (RMA), 37–38, 172, 321–322
- REITs
 - blue-chip, 175–213
 - allocating capital wisely, importance of, 190–212
 - bond-proxy REITs, 179–180
 - growth REITs, 176–178
 - investment styles, 175–176
 - value or “turnaround” REITs, 178–179
 - virtues of, 180–190
 - changing attitudes toward, 91–97
 - common stock investors, bias of, 95–97
 - traditional real estate investors, bias of, 93–95
 - versus competitive investments, 19–31
 - bonds, 20–22
 - convertible bonds, 22–23
 - master limited partnerships (MLPs), 25
 - other types of real estate investment vehicles, 26–31

- preferred stocks, 23–24
 - utility stocks, 24–25
- equity capital, cost of, 379–382
- future of, 335–368
 - access to capital, 339–341
 - arbitrage, 337–338
 - better disclosure, 361–362
 - building a stronger organization, 341–342
 - debt leverage, 360–361
 - increasing investor demand, 344–353
 - larger REITs, 353–360
 - liquidity and estate planning, 342–344
 - overseas investing, 362–363
 - real estate–related businesses, 365–366
 - spin-off REITs, 364–365
 - tax advantages, 338–339
- general investment characteristics, 6–11
 - less risk, 10–11
 - lower correlations, 7–9
 - lower volatility, 9–10
 - performance and returns, 6–7
- global REITs and property companies,
 - investing in, 261–306
 - long-term evidence supporting, 300–306
 - portfolio, managing, 284–287
 - practicalities for individual investors, 287–298
 - size of property stock markets, 274–283
 - spread from U.S., 264–274
- growth and value creation, 145–174
 - dynamics of FFO/AFFO growth, 149–152
 - external growth, 165–173
 - FFO and AFFO, significance of, 144–149
 - internal growth, 152–163
- higher current returns, 11–16
- growth prospects, 14–16
- history of, 109–111
 - 1960s, 109–111
 - 1970s, 111–113
 - 1980s, 113–115
 - 1990s, 115–124
 - 2000 to 2007, 124–127
 - 2007 to 2010, 127–134
 - recent trends, 134–139
- investment value, 215–238
 - buy-and-hold strategy, 217–218
 - buy-and-hold vs. trading, 215–217
 - stock valuation, 218–231
 - valuing REITs as a group, 231–237
- issues affecting, 309–333
 - balance sheet woes, 328
 - changing consumer and business preferences, 324–325
 - credibility issues, 325–328
 - declining real estate prices, 319
 - depth of management and management succession issues, 331–333
 - guilt by association, 329
 - hostile capital-raising environments, 319–320
 - local recessions, 323–324
 - loss of investment popularity, 322–323
 - modest market valuations, 329–331
 - rising interest rates, 314–318
 - weak space markets 310–314
- myths about, 97–108
 - myth 1: REITs are packages of real estate properties, 97–98
 - myth 2: real estate is a high-risk investment, 98–100
 - myth 3: real estate's value is essentially as an inflation hedge, 100–103
 - myth 4: REIT stock performance is anchored to performance of the REIT's properties, 104–106
 - myth 5: REIT stocks are trading vehicles, 106–108
- portfolio, building, 239–259
 - asset allocation, 239–245
 - diversification among REITs, 245–248
 - getting started, 251–259
 - well-balanced, 248–251
- portfolio management, 383–391
- in taxable accounts, 371–374
- today's, 33–42
 - first REITs, 33–34
 - legal characteristics of, 34
 - lending REITs vs. ownership REITs, 39–40
 - REIT Modernization Act and RIDEA, 37–38
 - REIT property sector offerings, expansion of, 40–41
 - Tax Reform Act of 1986, 34–35
 - UPREITs and DownREITs, 35–37
- types of, 5–6

- REIT mutual funds, 255–257
REITWatch, 233, 252
 Rent bumps, 157
 Rental revenue increases, 154–157
 Rental roll-down, 378
 Resolution Trust Corporation, 117–118, 165, 267
 Retail properties, 58–67, 317
 effect of interest rates on, 317
 factory outlet centers, 66–67
 neighborhood shopping centers, 58–61
 regional malls, 61–66
 RevPar, 85, 86
 Risk, 10–11, 170–171, 299–300
 Risk management, 385–386
 Risk premium, 229
- S**
- Same-store (or same-community) sales or revenues, 153
 Sarbanes-Oxley legislation, 343
 Sector and geographic focus, importance of, 201–205
 Securities and Exchange Commission (SEC), 144, 343, 362
 Security Capital Group, 178
 Self-storage properties, 81–84, 155, 203
 rental growth in, 155–156
 Shopping centers, neighborhood, 58–61
 Simon, Melvin, 262
 Simon Property Group, 119, 126, 130, 131, 135, 170, 185, 188, 262–263, 330, 332, 348, 358, 362–363
 acquisition of Prime Outlets, 185
Sizing Up the Equity REIT Industry (Merrill Lynch report), 118
 SL Green, 172, 242
 Space market cycles, 45
 Specialty REITs, 86–87, 202
 Standard & Poor's Corporation, 278–279
 Standard & Poor's (S&P) 500 index, 7, 12, 94, 111, 112, 224, 241, 359–360
 REITs in, 359–360
 Starwood Hotels, 177
 Stock buybacks, 138–139
 Stock ownership, insider, 210
 Stockbroker, 254
 Student housing, 56–58
 Sun Hung Kai Properties, Ltd., 263
 Supply-and-demand imbalances, 311–314
- T**
- Tanger Factory Outlets, 66, 329
 Taubman Centers, Inc., 270, 332
 Tax Reform Act of 1986, 34–35, 115
 Taxable REIT subsidiary (TRS), 37–38, 191, 365
 Tenant upgrades, 158–159
 Tenants, attracting high-quality, 185–177
 Triple-net lease properties, 86
 Turnaround (value) REITs, 178–179
- U**
- United Dominion (UDR), 165, 204
 UPREITs (umbrella partnership REITs), 35–37, 270, 326, 341
 Utility stocks, 24–25
- V**
- Value, creating, 182–183
 historical performance of, 188–189
 Value (turnaround) REITs, 178–179
 Variable-rate debt, 198–200
 Volatility, 9–10, 387
 reducing, 387
 Vornado Realty, 172, 184, 188, 203, 223, 246, 330, 332
 acquisition of Alexander's, 184
- W**
- Washington REIT, 203, 246
 Weingarten Realty, 169, 183, 204
 Westfield Group, 263, 272–273
 Winograd, Bernard, 346
- Y**
- Yield, investing for, 388–390
- Z**
- Zeckendorf, William Sr., 262