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Equity Markets Rebound in Second Quarter

REIT INDEX ROARS BACK

Despite a slow start to 2005, the equity markets rebounded nicely in 2Q 2005, posting positive returns across the board. The Morgan Stanley REIT Index compensated for its dismal performance in 1Q 2005, outperforming the broader market by posting gains of 14.9% for 2Q 2005, bringing its return for the first half of the year back into the green with a 6.4% increase. Conversely, while the NASDAQ and the S&P 500 posted positive gains for the second quarter, both are down from their 2004 close.

	2001	2002	2003	2004	1Q 2005	2Q 2005
MSDW REIT	12.8%	3.6%	36.7%	31.5%	-7.4%	14.9%
S&P 500	-13.0%	-23.4%	26.4%	9.0%	-2.6%	0.9%
NASDAQ	-21.1%	-31.5%	50.0%	8.6%	-8.1%	2.9%

Source: Bloomberg.

EQUITY ISSUANCES PICK UP SOME STEAM

REITs raised approximately $2.1 billion of public common equity during 2Q 2005, a $0.9 billion increase (82%) from 1Q 2005, which marked the lowest rate of issuance in two years. Even though REITs are not accessing the public equity markets at the same pace as they did in 2004, this quarterly increase is representative of the relative outperformance of REITs in the equity markets. Furthermore, the current climate is very conducive to the issuance of new equity, as evidenced by DiamondRock Hospitality Company and Columbia Equity Trust completing their IPOs in 2Q 2005.

Common Equity Raised ($MM)

	2001	2002	2003	2004	2005
1Q	$ 190	$1,635	$ 123	$ 3,913	$1,166
2Q	706	2,152	2,502	1,706	$2,123
3Q	965	236	2,767	2,810	
4Q	1,514	873	1,731	3,244	
Year	$3,375	$4,896	$7,123	$11,673	$3,289

Source: MCP.

PREMIUMS TO NAV DIMINISH IN CERTAIN SECTORS

Although REITs greatly outperformed the broader market in the second quarter, the REIT universe is only trading at a 2% premium to NAV. Industrial and Office REITs both lost major ground, currently trading at a 1% and 8% discount to NAV, respectively. However, the recent trend of alternative sectors trading at larger premiums (relative to the core sectors) is lifting the index overall, with Self-Storage REITs and Manufactured Housing REITS leading the pack by trading at the highest spreads to NAV (28% and 29%, respectively) among all REIT property-type sub-sectors.

Premium/Discount to NAV

	2001	2002	2003	2004	1Q 2005	2Q 2005
REIT Universe	-4%	-2%	19%	14%	1%	2%
Multifamily	1%	-9%	11%	12%	0%	1%
Shopping Center	11%	9%	20%	18%	3%	4%
Regional Mall	-6%	10%	31%	14%	-6%	1%
Office[1]	-3%	-13%	12%	11%	4%	-1%
Industrial	-8%	-2%	20%	22%	2%	-8%
Self-Storage	6%	-1%	12%	13%	17%	28%
Manufactured Housing	0%	-7%	1%	-2%	17%	29%

[1] Price/NAV for 1997 through 2Q 2002 are for the office/industrial sector.
Source: Merrill Lynch Equity Research.

RETAIL CO-INVESTMENT VENTURES LEAD THE WAY

The value of co-investment ventures more than doubled during 2Q 2005, when five transactions with a total capitalization of $4.3 billion were completed, compared to five ventures totaling $2.1 billion in 1Q 2005. The difference is largely attributable to the closing of Regency and Macquarie CountryWide's joint acquisition of the CalPERS/First Washington 100-property retail portfolio. Excluding this transaction, retail companies still led the way, as Kimco and Developers Diversified completed over $1.1 billion of co-investment ventures.

Operator	Sector	Size ($MM)	Venture	Investor
Regency	Retail	$2,686	Existing Asset	Macquarie CountryWide
Kimco	Retail	$650	Seeded Acquisition	UBS Wealth Mgmt.
Greystar	Multifamily	$500	Acquisition	GE Commercial Finance
DDR	Retail	$445	Existing Asset	Australian LPT

Source: MCP.

DEBT MARKETS REMAIN ATTRACTIVE

REITs raised approximately $3.8 billion of unsecured debt during 2Q 2005, a slight decrease from 1Q 2005, but considerably more than 2Q 2004. As a result, it remains clear that the debt markets are a viable source of capital for the entire REIT universe.

Debt Financings ($MM)

	2001 Debt	Treasury 10-Yr	2002 Debt	Treasury 10-Yr	2003 Debt	Treasury 10-Yr	2004 Debt	Treasury 10-Yr	2005 Debt	Treasury 10-Yr
1Q	$3,685	5.06%	$2,310	5.04%	$4,107	3.93%	$5,575	3.84%	$4,139	4.43%
2Q	1,110	5.28%	3,220	4.98%	2,155	3.60%	2,264	4.59%	3,832	4.10%
3Q	2,200	5.12%	2,489	4.18%	990	4.08%	4,746	4.35%		
4Q	2,125	4.80%	2,469	4.04%	2,432	4.26%	4,371	4.07%		
Year	$9,120		$10,488		$9,684		$16,956		$7,971	

Source: MCP. Average interest rate for 10 year U.S. Treasuries at time of debt offering for the applicable period.

ENTITY-LEVEL DEALS PROPEL M&A ACTIVITY

Building on the trend that was started last quarter, 2Q 2005 saw several large M&A deals led by ProLogis' announced acquisition of Catellus Development Corporation for $4.9 billion on June 6. The transaction will create a company with over 350 million square feet in 2,250 distribution facilities owned, managed, and under development in 75 markets. In addition, four other large deals were announced in the quarter.

- On June 17, CRT Properties announced a definitive merger agreement to be acquired by clients advised by DRA Advisors LLC. The total transaction value is approximately $1.7 billion, including indebtedness to be assumed or repaid.
- On June 14, Wyndham International announced that it had entered into a definitive agreement to be acquired by an affiliate of The Blackstone Group in a transaction valued at $3.24 billion.
- On June 7, a partnership managed by ING Clarion announced a definitive agreement to acquire Gables Residential Trust for approximately $2.8 billion in cash, including the assumption of $1.2 billion of outstanding debt.
- On May 5, Extra Space Storage and joint venture partner Prudential Real Estate Investors announced the acquisition of Storage USA from GE Commercial Finance for approximately $2.3 billion in cash.

Source: Company filings.

Macquarie Capital Partners is a global investment banking and advisory firm specializing in raising private equity for real estate operating companies and funds, and delivering strategic financial advisory services to its clients.

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