

REITs in the Current Real Estate Cycle



TEXPERS

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 **Duff & Phelps**
Investment Management Co.



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- Substantial contraction in risk premiums
- Management focus on de-leveraging balance sheets and preserving capital
 - More than \$21 billion in equity raised
 - Over \$10 billion of unsecured debt issued
- Second half 2009 earnings reports in line with expectations
 - Cost reductions and lower short-term interest rates drove upside results
- Real estate transaction volume weak relative to prior years
- The significant contraction in risk premiums during most of 2009 contributed to the outperformance of higher beta, lower quality stocks
- Significant opportunity remains

Opinions represented are subject to change and should be considered neither investment advice nor an offer of securities.

U.S. REITs: 2010 and Beyond

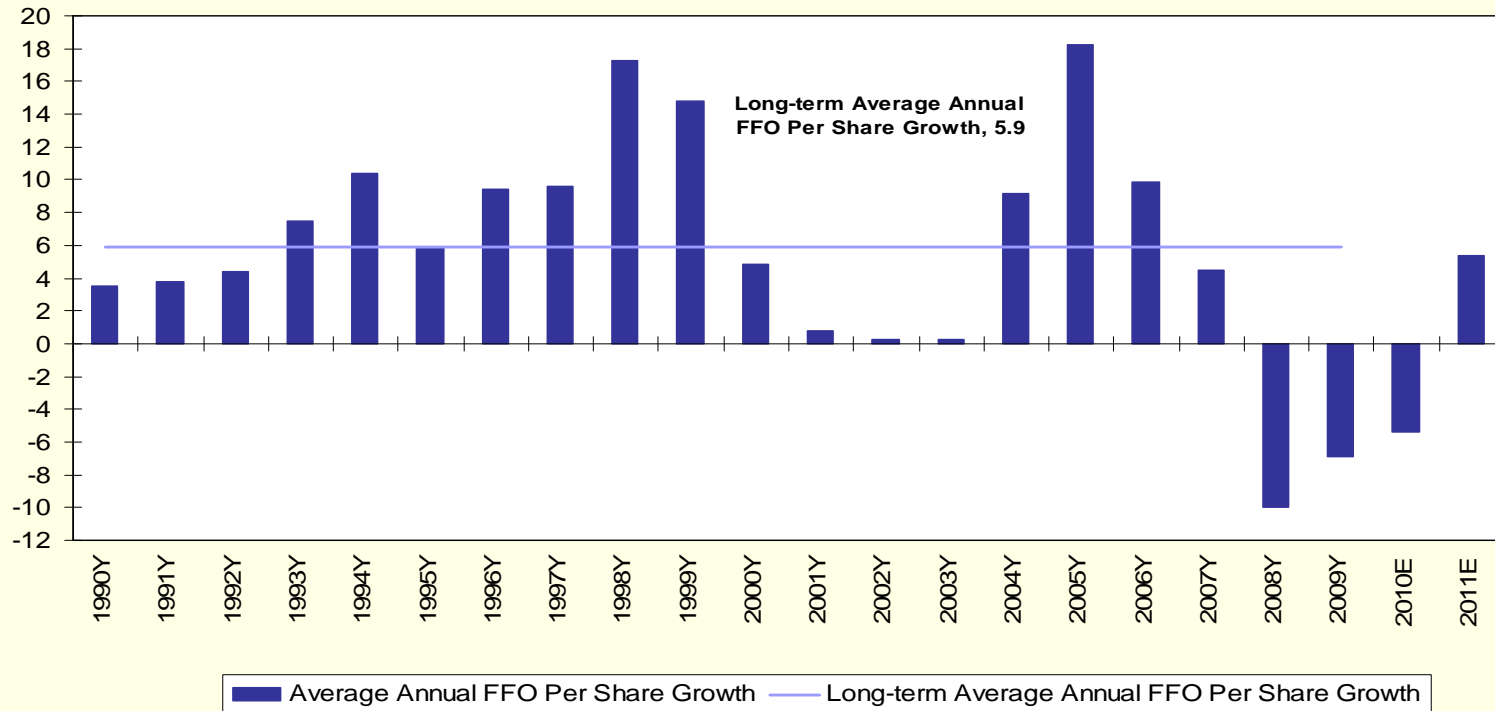
- External growth opportunities will emerge as de-leveraging occurs
 - Companies with better positioned balance sheets and the capacity for growth should outperform peers
- Transaction activity will likely increase as commercial real estate debt matures
- Low levels of existing supply will support a more robust recovery
- History suggests that the forward looking nature of equity markets will drive price appreciation to REITs as the broader economy rebounds
- Management attention will return once again to capital issuance, positive-spread investing and growth in cash flow and dividends

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U.S Equity REIT FFO Growth

U.S. Equity REIT Average FFO Per Share Growth (%)



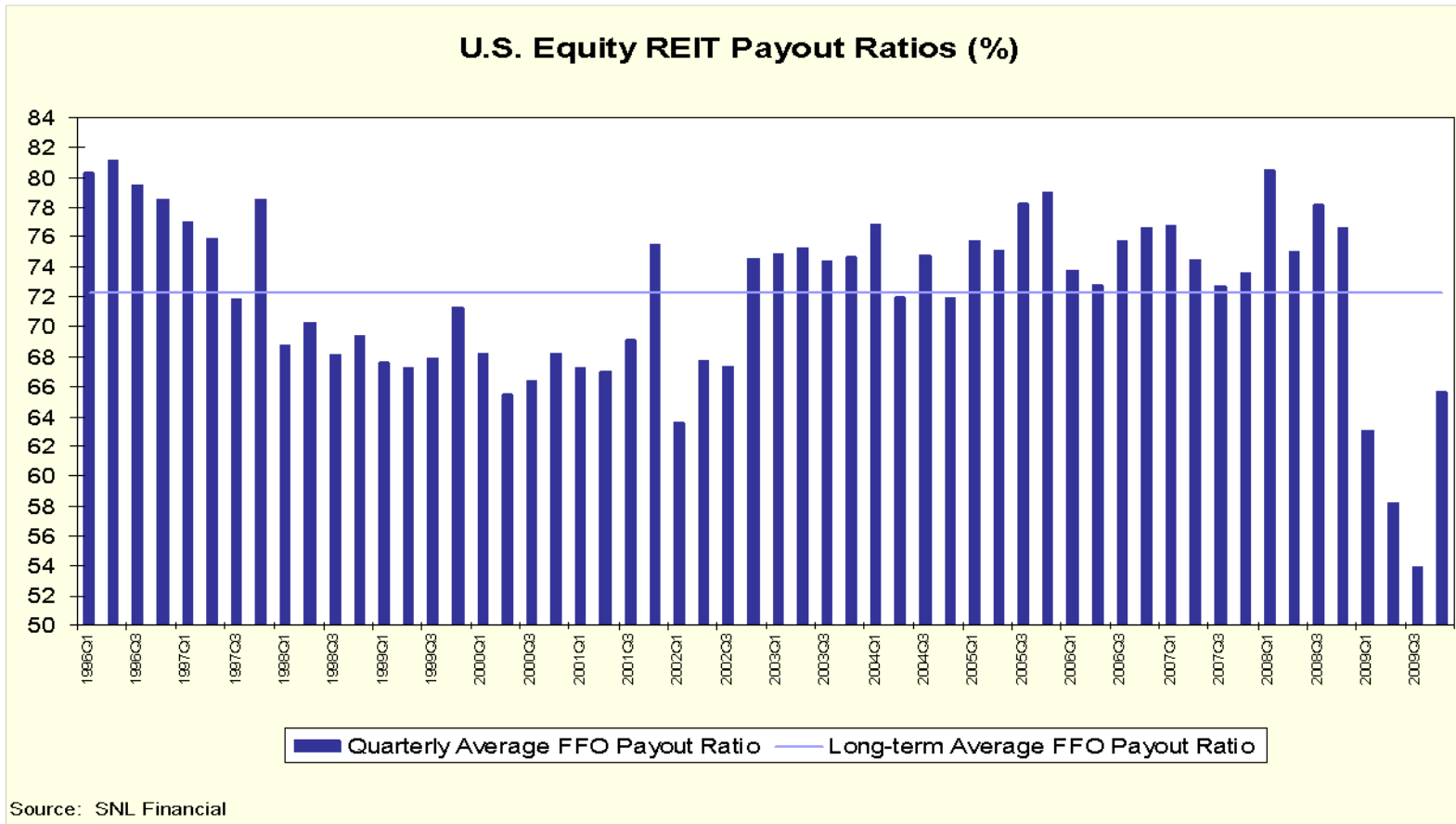
Source: SNL Financial

Period ending March 5, 2010.

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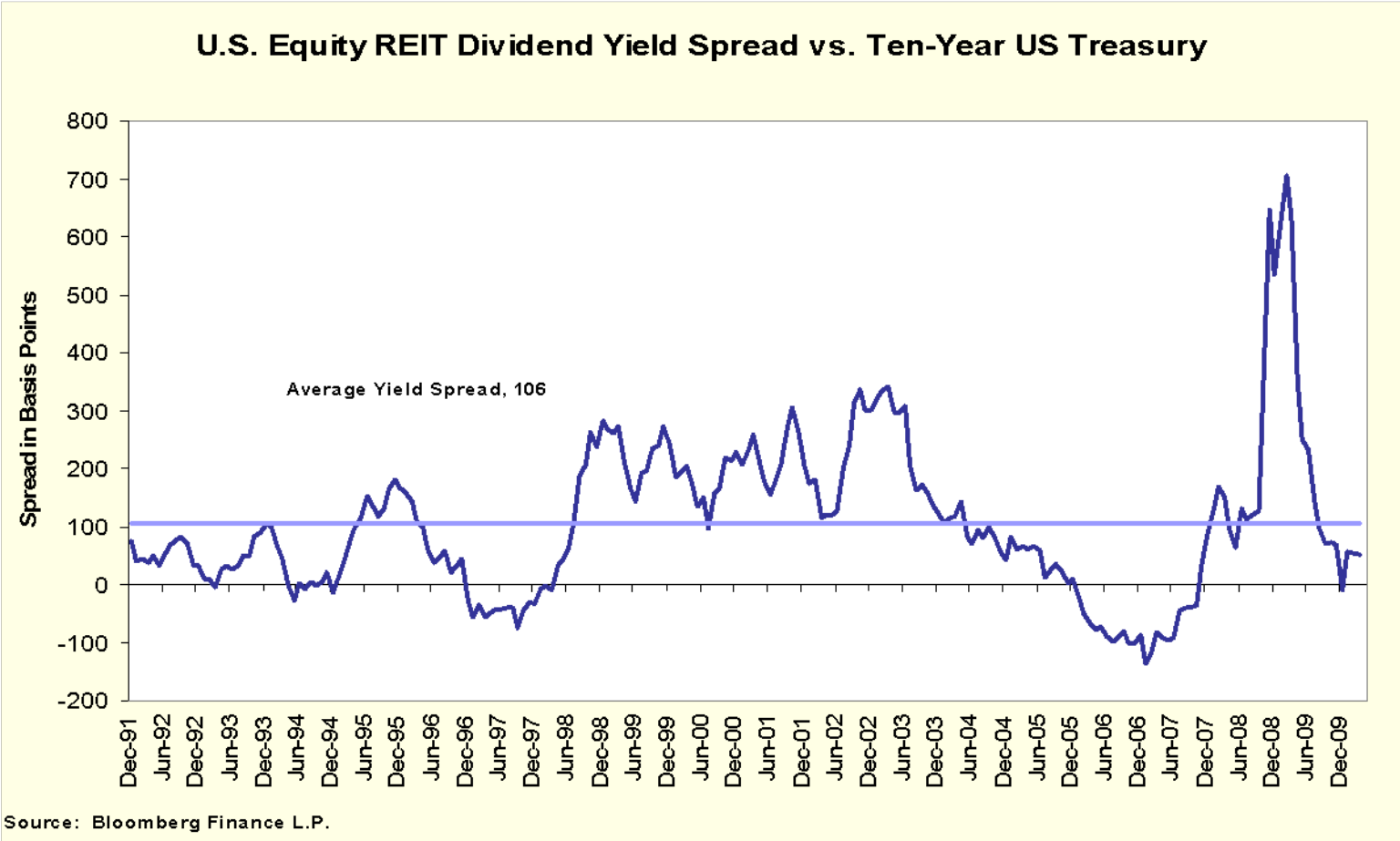
U.S. Equity REIT FFO Payout Ratios



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U.S. Equity REIT Dividend Yield Spread to Treasuries

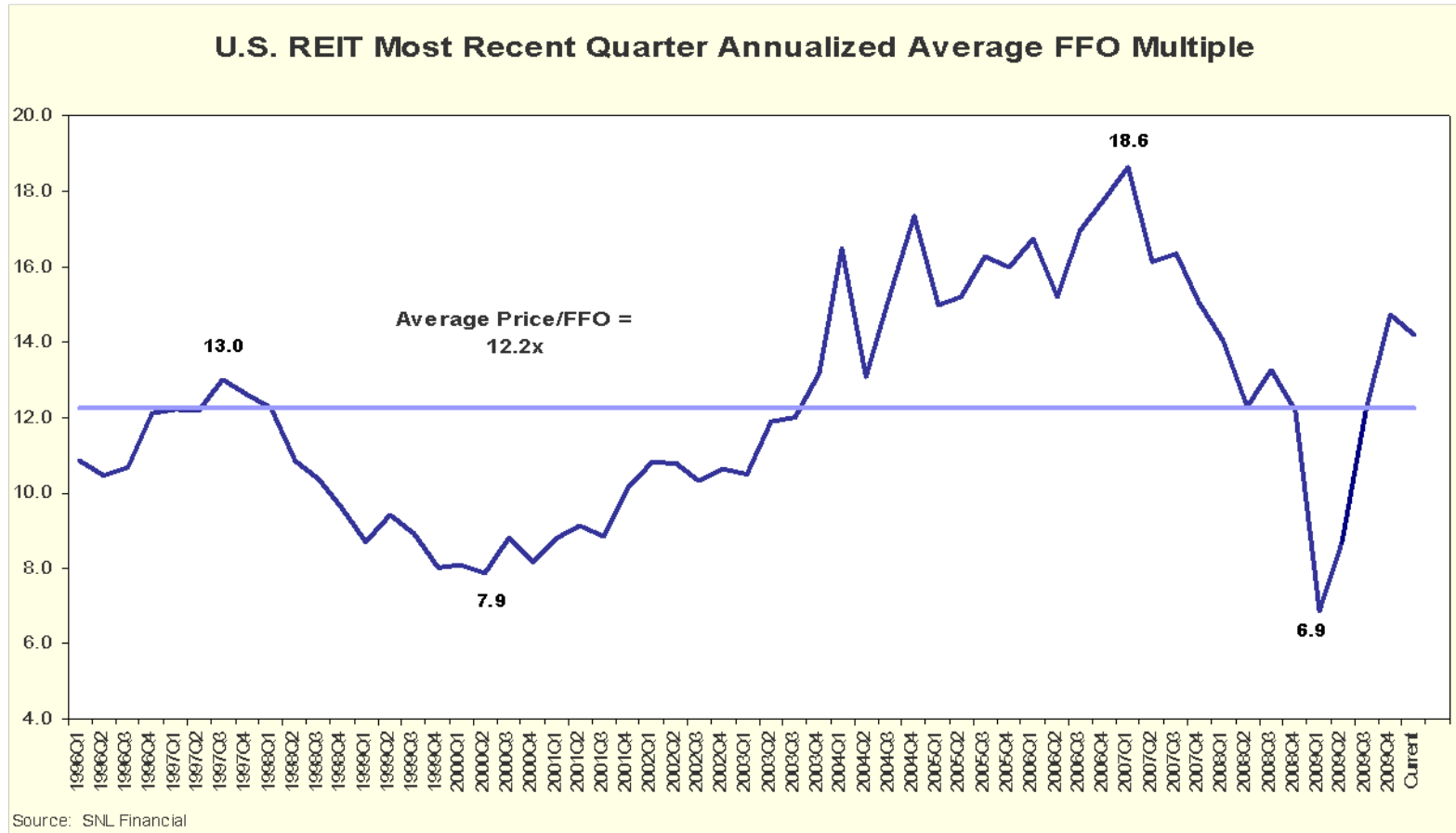


Period ending March 3, 2010.

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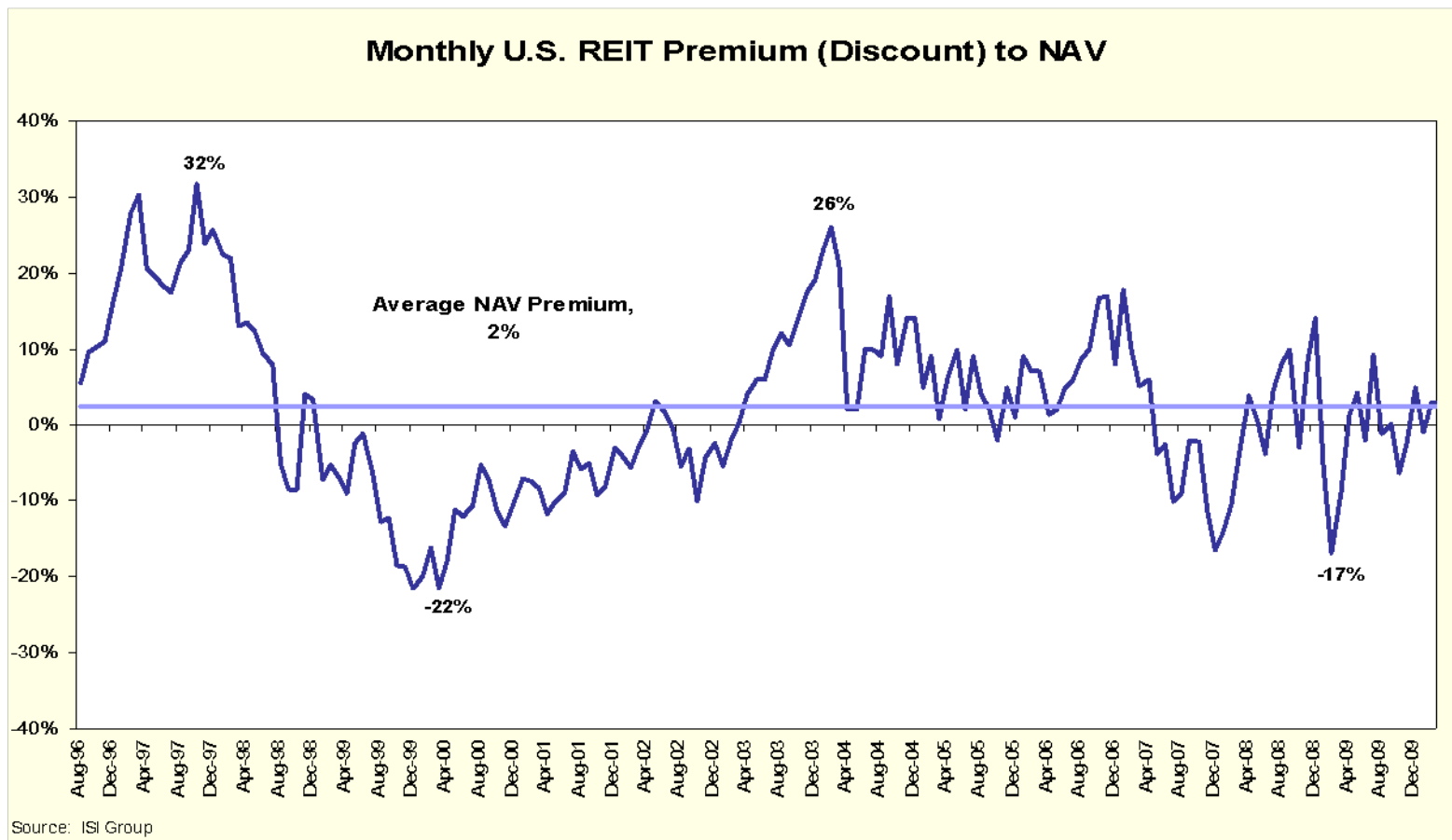
U.S. Equity REIT Quarterly Price/FFO Ratio



Period ending March 3, 2010.

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U.S. Equity REIT Monthly Price/NAV Ratio



Period ending March 3, 2010.

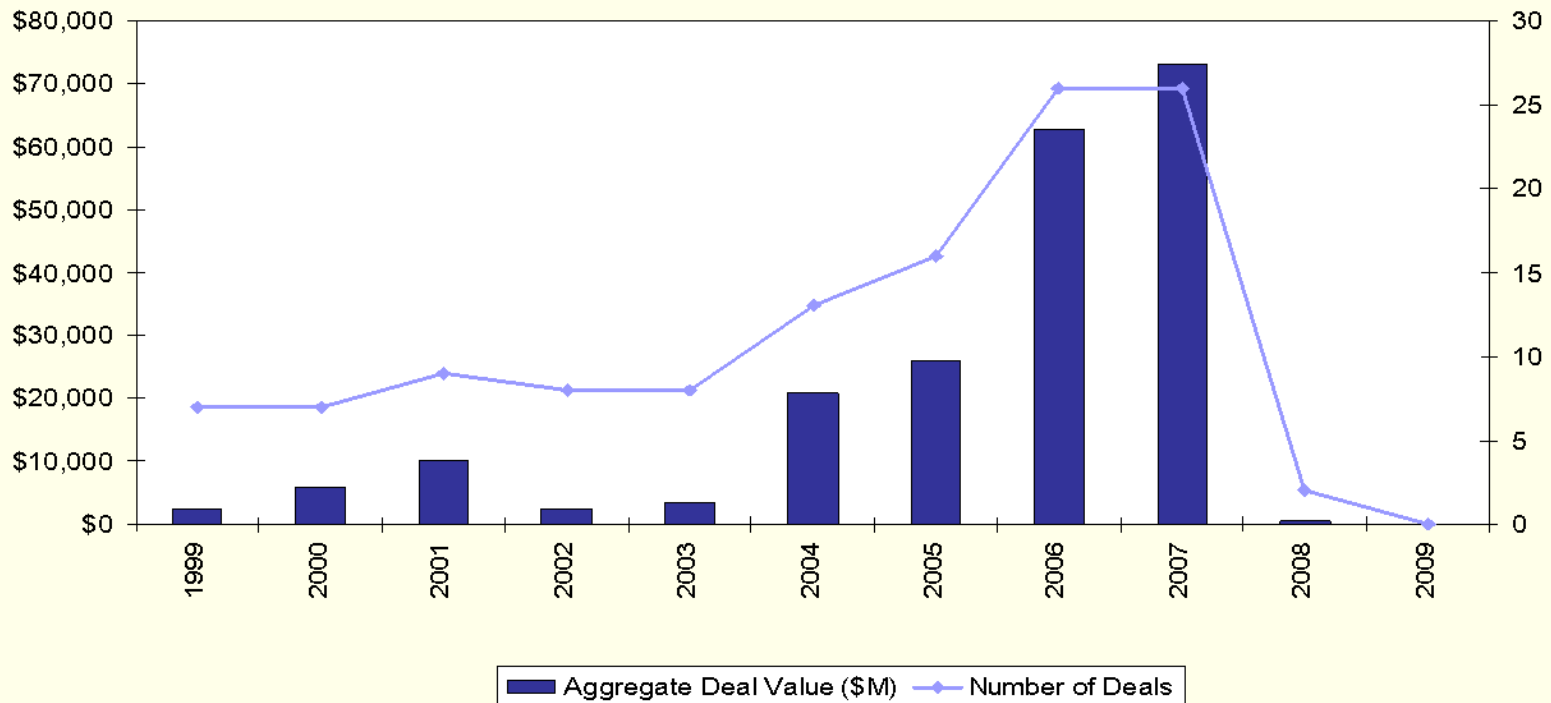
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Annual U.S. Real Estate M&A Activity

Completed & Pending Real Estate M&A Transaction Activity

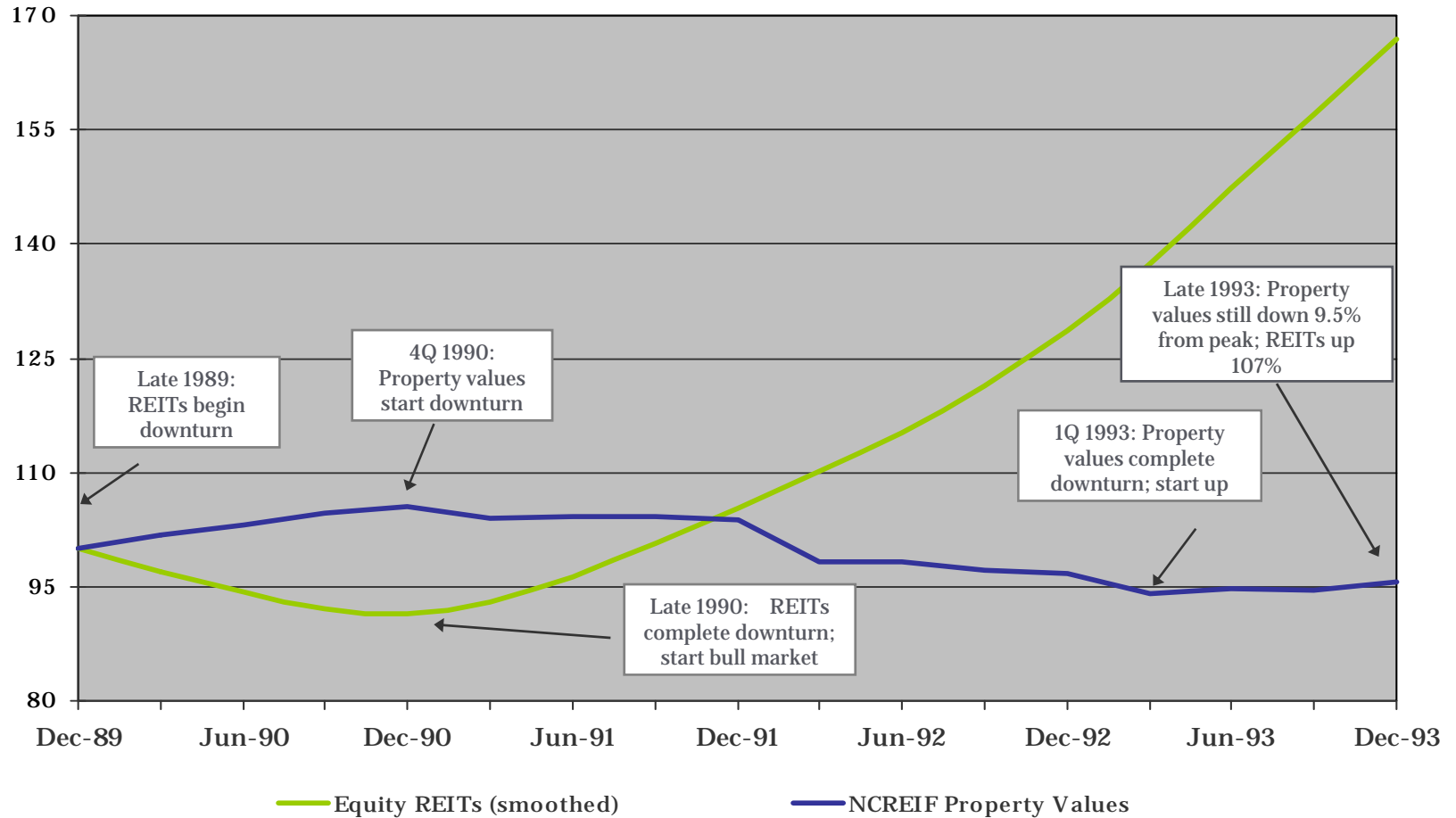
As of December 31, 2009; \$ in millions



Source: SNL Financial

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Equity REITs v. Private Property Values



Sources: NAREIT® and NCREIF. Past performance is no guarantee of future results. For the period December 1989 – December 1993.



Key Outlook – U.S. REITs: Summary Points

- The recapitalization of U.S. REIT balance sheets has largely occurred and many companies are now positioned for external growth opportunities.
- Real estate fundamentals will recover with a lag to the economy.
- Real estate transaction activity will increase as existing debt matures and equity needs aren't met.
- Dividend yields remain attractive in today's environment and are supported by historically low payout ratios.
- The recovery trade has likely run its course and low leverage companies, positioned for growth, will likely outperform.

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