

# Current Trends in Real Estate

Presentation to:



## 10<sup>th</sup> Annual Forum

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Delaware Investments

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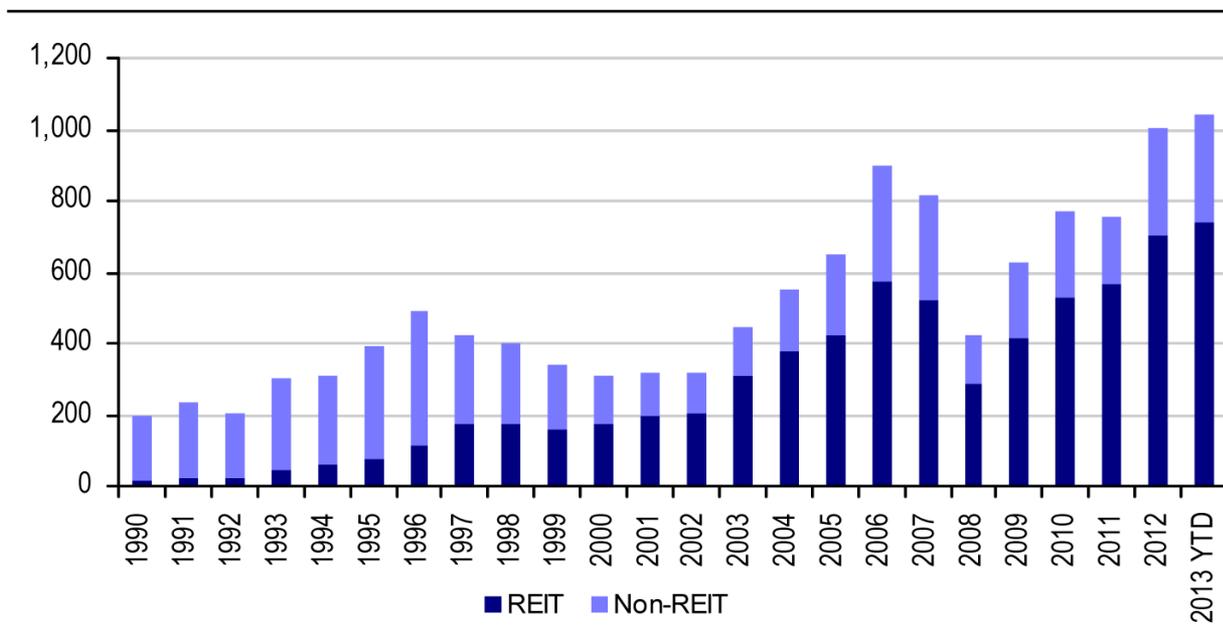
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## What must a company do to qualify as a REIT?

- Invest at least 75 percent of total assets in real estate (real property or loans secured by property).
- Derive at least 75 percent of gross income from real estate income (rents and interest from mortgages).
- Distribute at least 90 percent of its taxable income in the form of shareholder dividends each year; as a result, REITs may not generally retain their earnings.
- Be managed by a board of directors or trustees.
- Have a minimum of 100 shareholders. Have no more than 50 percent of its shares held by five or fewer individuals.

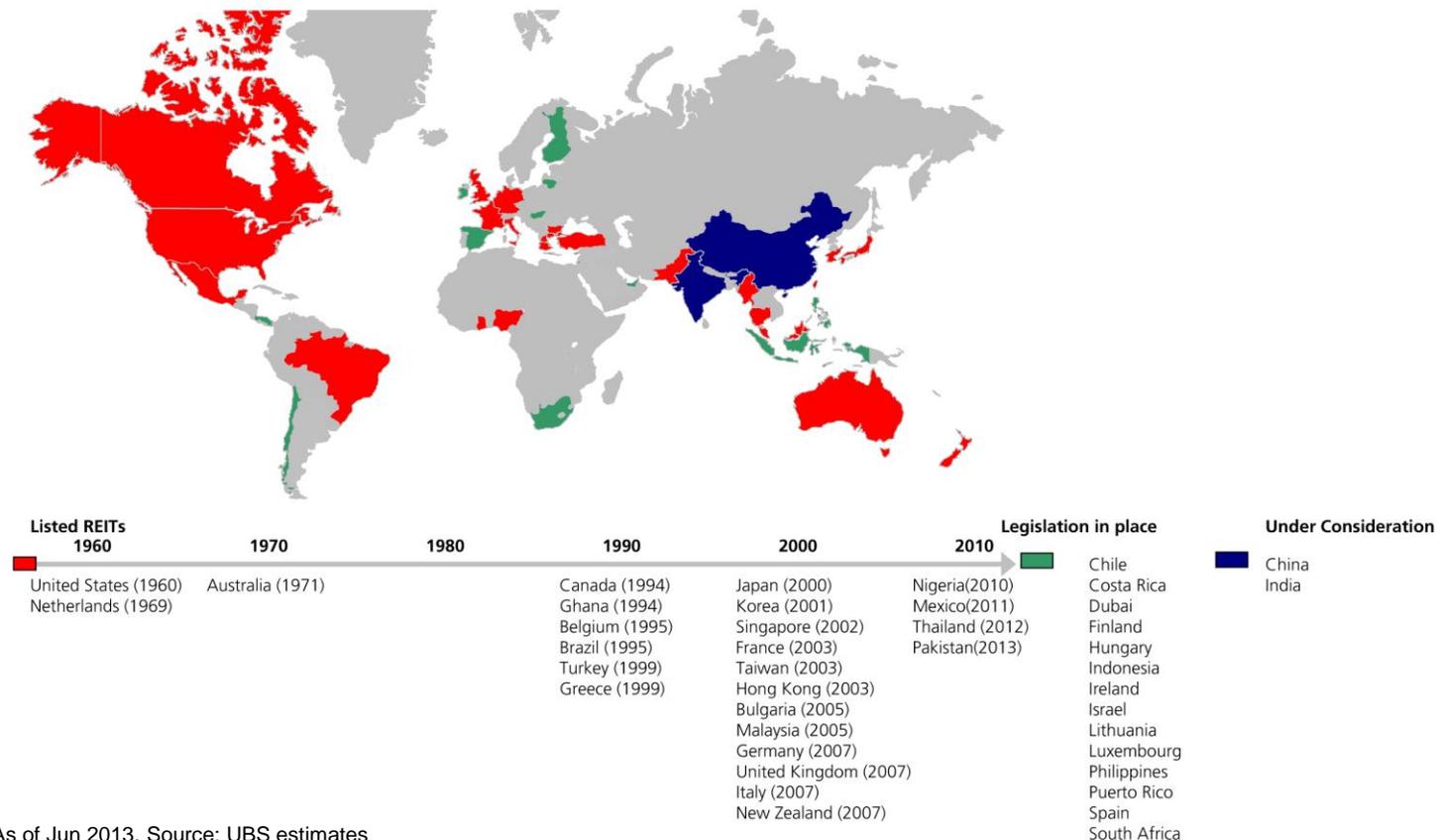
## Growth of global listed real estate driven by REIT markets



Note: US\$ billion. As of 7 Jun 2013 Source: S&P, UBS estimates

## Growth in the REIT Structure

While not all real estate companies are in the REIT structure (some are Corporations), we thought the chart below was interesting. The chart depicts the growth of the REIT structure over time. The success of the REIT structure has led many areas of the globe to either adopt or consider adopting similar legislation. We expect the REIT structure to continue to grow in size. Recently, an Irish real estate company has filed to become the first publicly listed Irish REIT.



Source: Note: As of Jun 2013. Source: UBS estimates

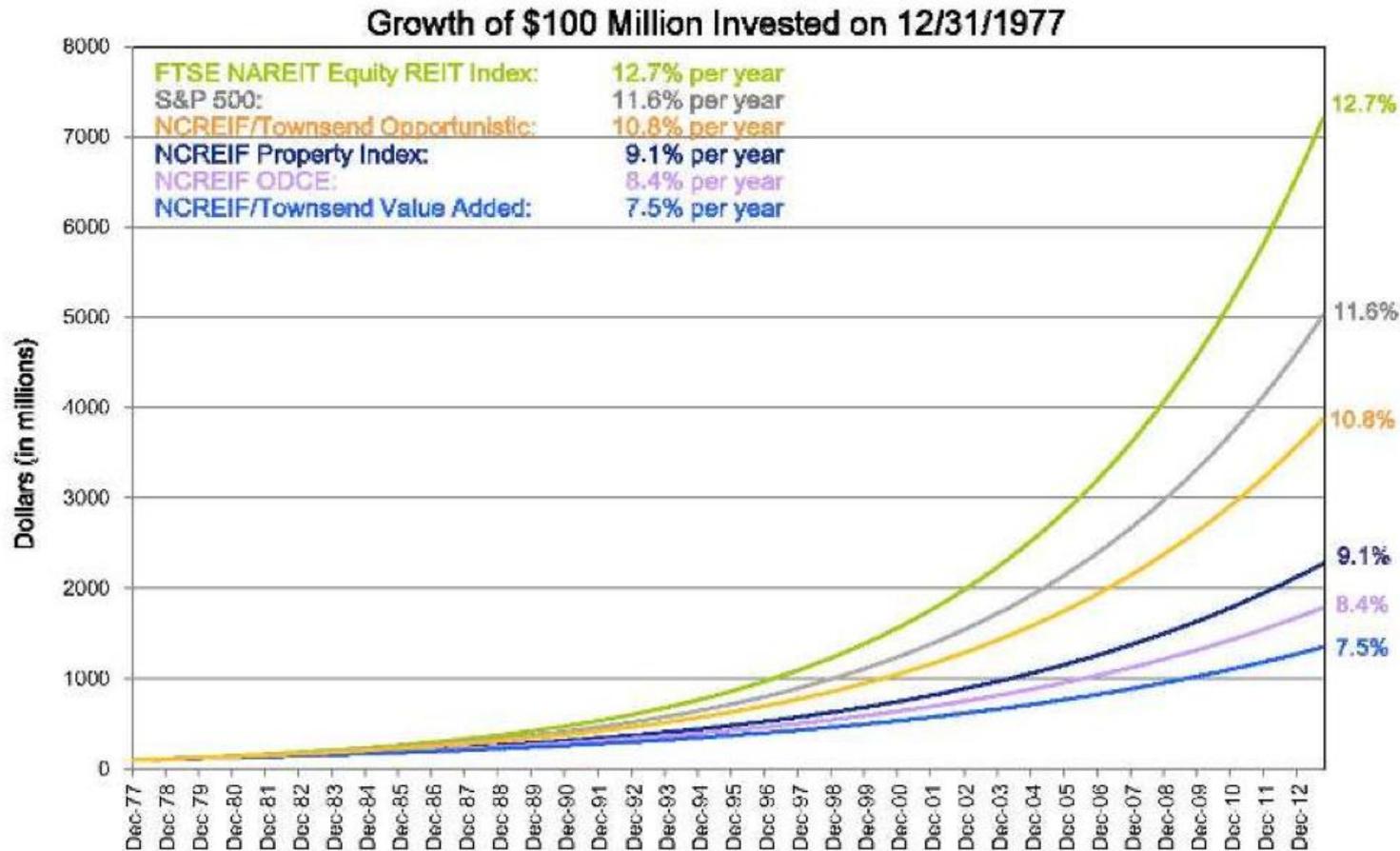
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## Why consider REITs?

### What are some of the features REITs can offer investors?

- Diversification: Equity REITs invest in many different property types in all 50 states, bringing investment diversification by property and geography to investor portfolios. (Source: SNL Financial.)
- Dividends: REITs must pay out at least 90 percent of their taxable income as dividends to shareholders who in turn pay income taxes on those dividends at ordinary rates.
- Liquidity: Publicly traded REIT shares can be easily bought and sold.
- Performance Measurement: Over the 30 years ended June 30, 2013, publicly traded equity REITs outperformed the leading stock market indexes, including the S&P 500, Dow Jones Industrials and NASDAQ Composite. (Source: FactSet, REITWatch.)
- Transparency: Publicly traded REITs operate under the same rules as other public companies for securities regulatory and financial reporting purposes.
- Growth Potential: Over long holding periods, equity REIT returns have tended to outpace the rate of inflation, helping investors hedge the purchasing power of their portfolios. (Source: Wilshire Associates, 2012, “The Role of REITs and Listed Real Estate Equities in Target Date Fund Asset Allocations.”).

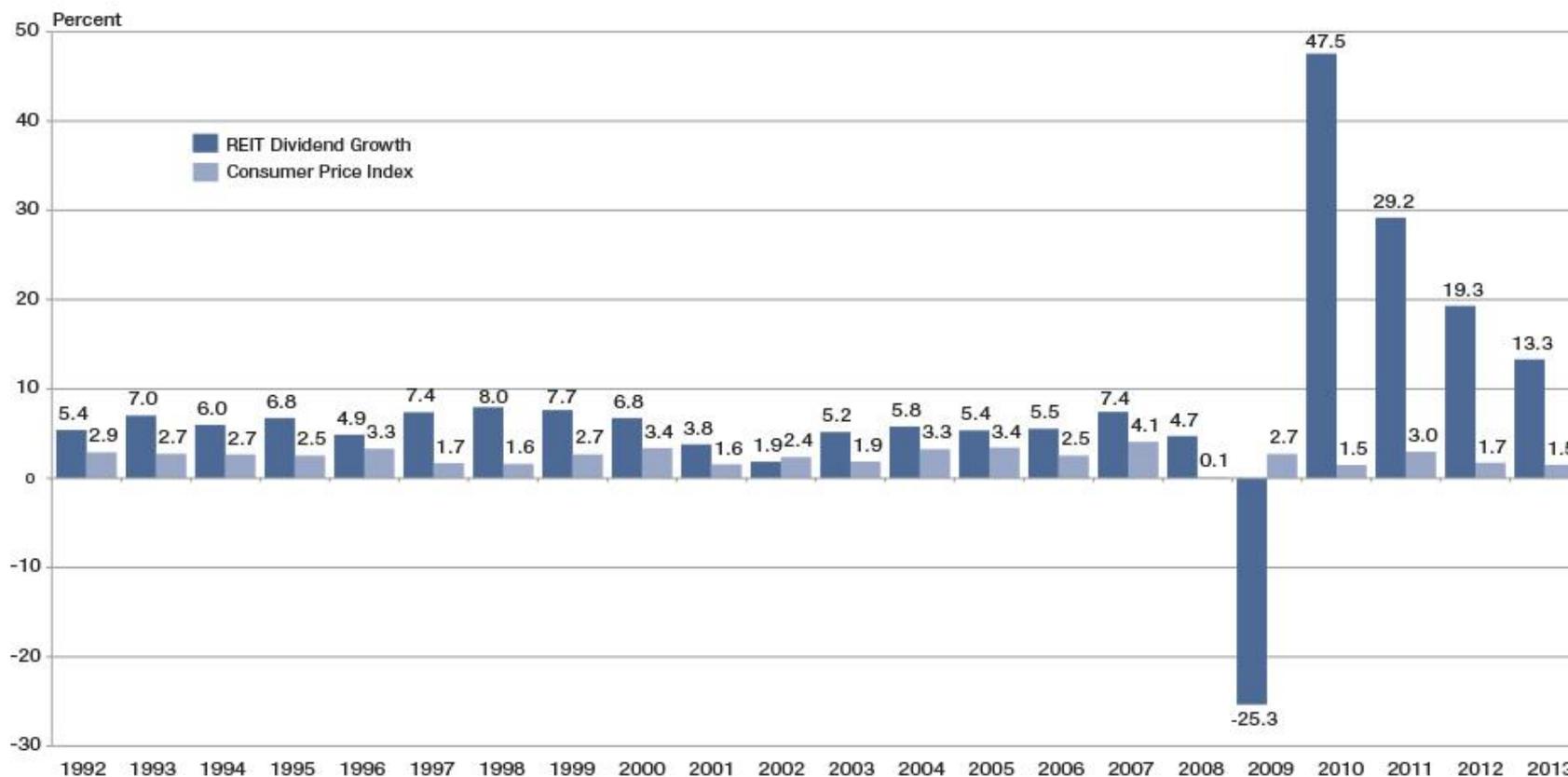
# REITs have Historically Offered Strong Long-Term Investment Returns Relative to Other Real Estate Equity Investment Vehicles



Note: Returns are average gross of fees, and are not adjusted for difference in leverage, liquidity, or other investment characteristics. Returns are averaged over the period 1/1/1978-3/31/2013 for equity REITs and S&P 500; 1978Q1-2013Q1 for NCREIF Property Index and NCREIF ODCE; 1983Q2-2012Q3 for NCREIF/Townsend Value Added; and 1988Q4-2012Q3 for NCREIF/Townsend Opportunistic. Sources: NAREIT®, NCREIF, and FactSet.

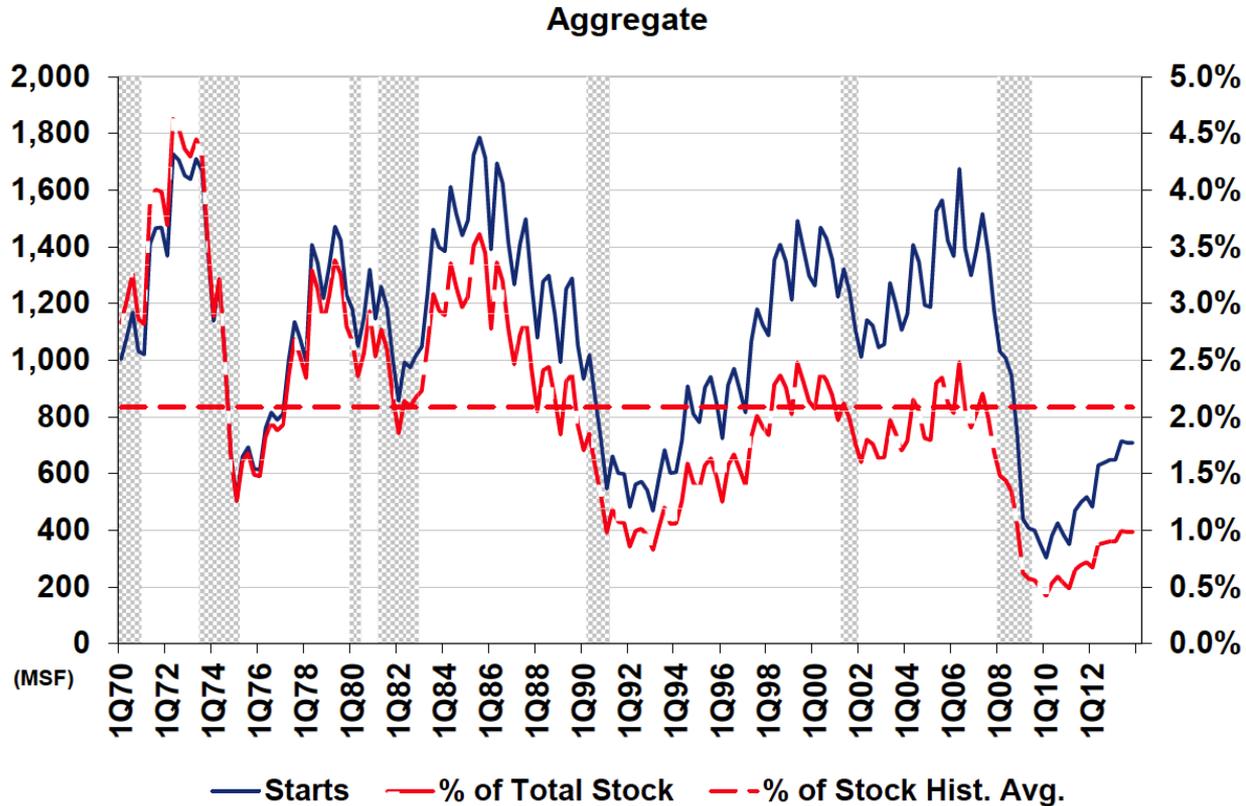
# Listed Equity REIT Dividend Growth vs. CPI

1992-2013



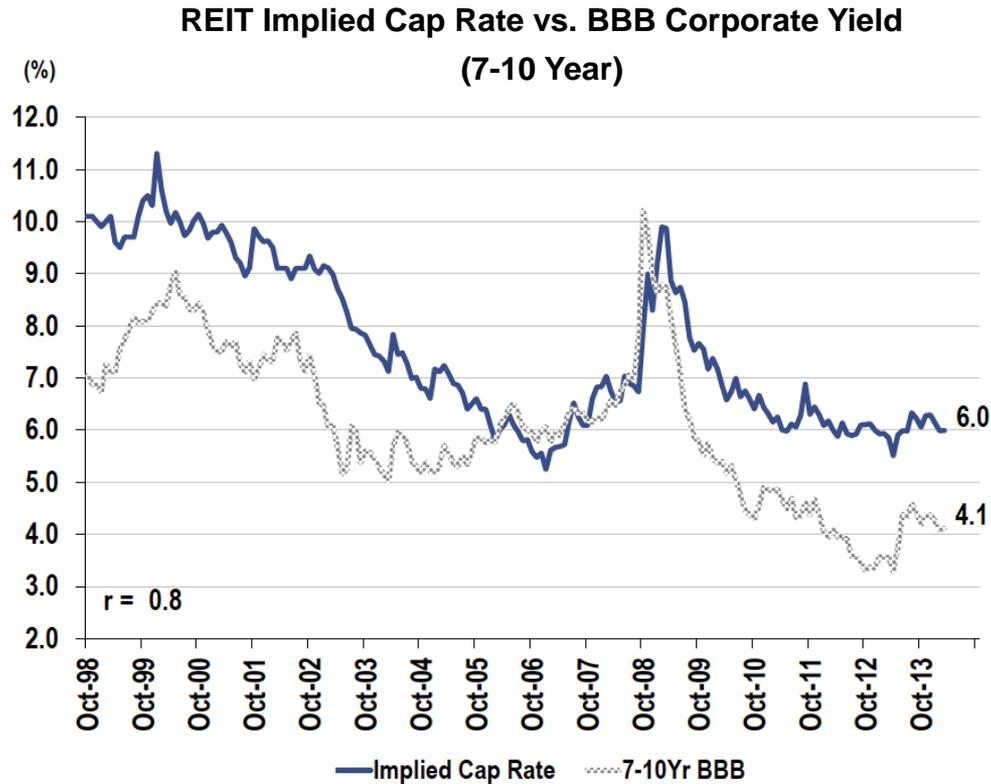
Source: NAREIT, SNL Financial

# Construction Starts



Source: CBRE and Citi Research

# Real estate is a spread business, not a growth business



Source: Citi Research, FactSet and YieldBook

Implied Cap Rate = Property NOI / Enterprise Value

## Disclosures and definitions

The views expressed represent the Manager's assessment of the Fund and market environment as of the date indicated and should not be considered a recommendation to buy, hold, or sell any security, and should not be relied on as research or investment advice.

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Narrowly focused investments may exhibit higher volatility than investments in multiple industry sectors.

REIT investments are subject to many of the risks associated with direct real estate ownership, including changes in economic conditions, credit risk, and interest rate fluctuations. A REIT fund's tax status as a regulated investment company could be jeopardized if it holds real estate directly, as a result of defaults, or receives rental income from real estate holdings.

Fixed income securities and bond portfolios can lose value, and investors can lose principal, as interest rates rise. They also may be affected by economic conditions that hinder an issuer's ability to make interest and principal payments on its debt.

High yielding, noninvestment grade bonds (junk bonds) involve higher risk than investment grade bonds.

International investments entail risks not ordinarily associated with U.S. investments including fluctuation in currency values, differences in accounting principles, or economic or political instability in other nations.

Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

The FTSE EPRA/NAREIT Developed Index tracks the performance of listed real estate companies and real estate investment trusts (REITs) world-wide, based in U.S. dollars. Investors cannot invest directly in an index.

The FTSE NAREIT Equity REITs Index measures the performance of all publicly traded equity real estate investment trusts (REITs) traded on U.S. exchanges, excluding timber REIT.

The FTSE NAREIT All Equity REITs Index measures the performance of all publicly traded equity real estate investment trusts (REITs) traded on U.S. exchanges.

The NCREIF Property Index is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors - the great majority being pension funds. As such, all properties are held in a fiduciary environment.

The **Merrill Lynch High Yield Master II Index** tracks the performance of below investment grade, but not in default, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.

The **S&P 500 Index** measures the performance of 500 mostly large-cap stocks weighted by market value, and is often used to represent performance of the U.S. stock market.

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