



2007 Global Commercial Real Estate Capital Flows: Let the Good Times Roll On?

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February 6, 2007

Agenda

- Real Estate and the Economic Reality Gap
 - Economic Confusion Rules; Or Are There New Rules?
 - Rent Rules! Cap Rates Flatten? Operations Emphasized
 - Returns Remain Competitive, Increasing Global Liquidity
 - Capital Flows Shift As Investors Reconsider Allocations
 - Debt Levels Continue To Rise: So Do Equity Vehicles
 - USA REITs Go Private: Global REITs Go Public
 - Global Private Investment Accelerates With Focus on Asia
- Regulators Developing New Sarbanes-Oxley Guidelines
- Accounting Standards Also Evolving and Converging
- Tax Remains Critical, Especially International Tax, Structuring and Property Tax

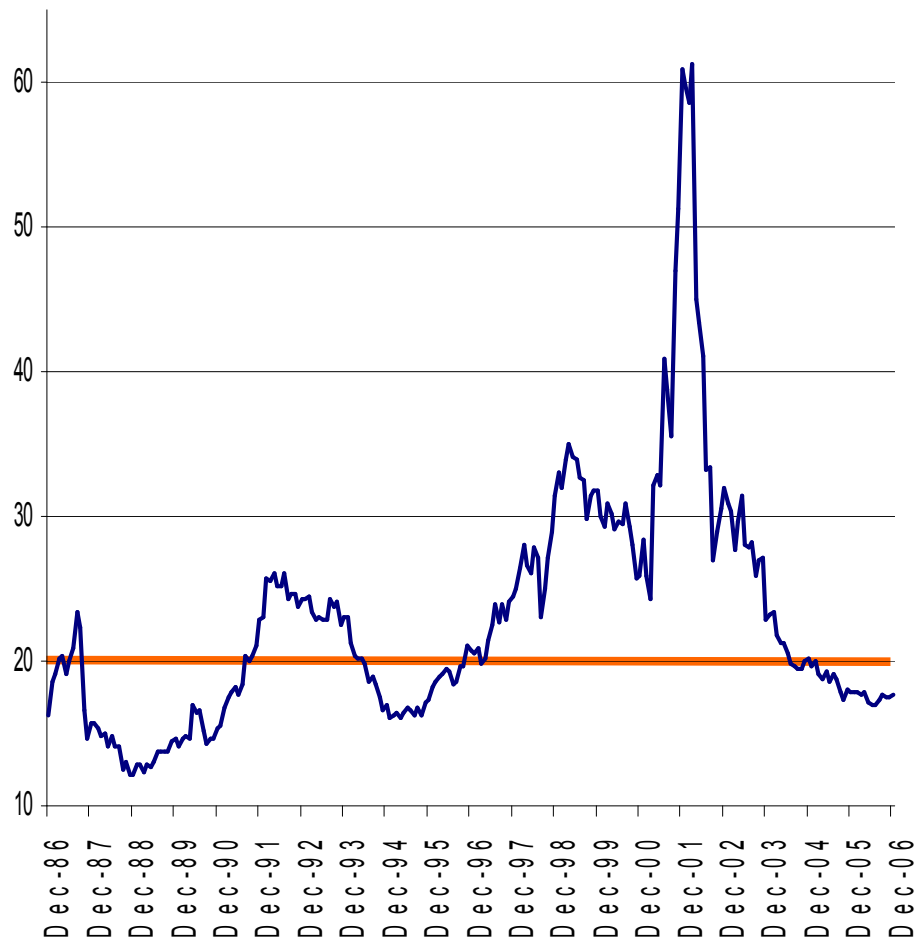
Key Question. . .The Reality Gap

Goldilocks!
Or
Hard Landing/Recession?

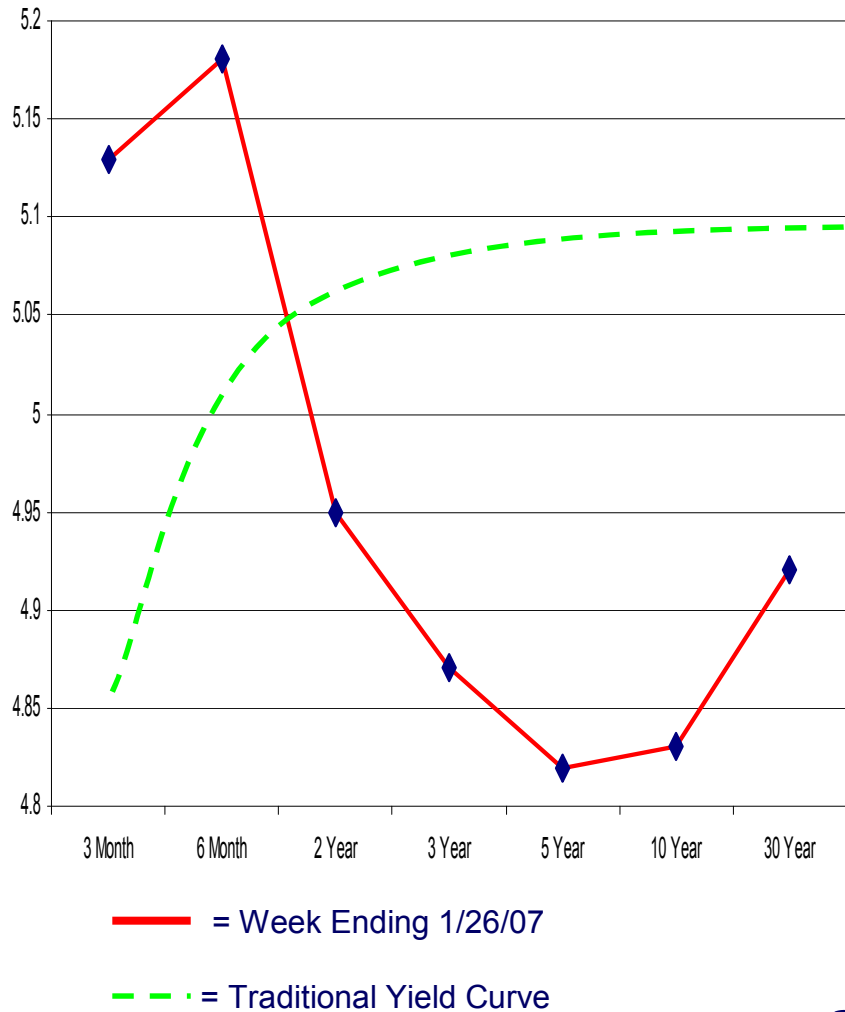
February 2007

“Goldilocks” or Recession?

S&P 500 P/E Ratio



US Treasury Yield Curve



Poll Question #1

The stock market is forecasting a “goldilocks” economy in 2007, do you agree?

- Yes, this time really is different, the outlook is bright.
- Yes, there are issues, but the economy is “OK”.
- No, there will be minimum growth and distress.
- No, there will be a recession in 2007.

2007 Winter Update: Real Estate Capital Markets

1. Economic Confusion Rules; Or Are There New Rules?
2. Rent Rules! Cap Rates Flatten? Operations Emphasized
3. Returns Remain Competitive, Increasing Global Liquidity
4. Capital Flows Shift, As Investors Reconsider Allocations
5. Debt Levels Continue To Rise: So Do Equity Vehicles

2007 Winter Update (continued)

6. USA REITs Go Private; Global REITs Go Public
7. Global Private Investment Accelerates With Focus On Asia
8. Regulators Developing New Standards In USA, As Regulators Expand Global Influence On Real Estate
9. Accounting Standards Also Tackle Other “Hot Topics” As They Respond To Global Changes
10. Tax Remains Critical, Especially International Tax, Structuring And Property Tax

2007 Winter Update (continued) – “Extra Five”

11. Housing – “Down Draft” Through Most Of 2007, Esp. Condos
12. Product/Market Niches Gather More Capital, As Availability Tightens
13. Development Increases, As Costs Cool And Values/ Fundamentals Improve (Still Below Replacement Cost)
14. Where Are We In The Product Life Cycle?
15. Global Real Estate – The Role of Industrialized Countries VS. Emerging Markets

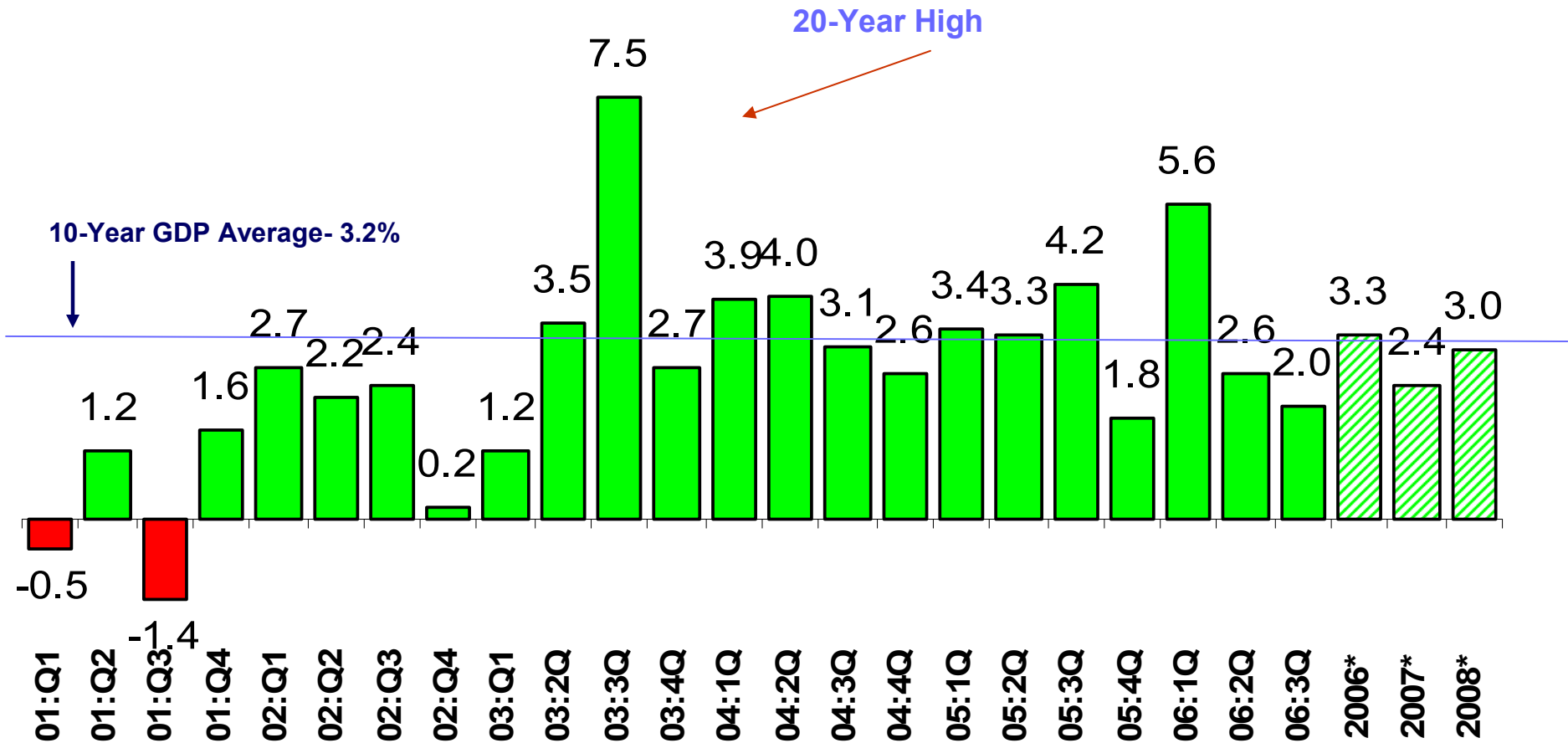
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Economic “Messages” – USA – “The Good”

- Resilient Economy, Job Creation And Stock Market
- Shift to Real Capital Assets/Investments -- Globally
- Record Commercial Real Estate Sales Prices/Activity
- Established and Efficient Capital Markets
- Strong History of Corporate Profits And Exports
- Ongoing “Safe Haven” for Foreign Direct Investment
- Relatively Low Interest Rates
- Continued Globalization and Institutionalization

GDP Actual and Blue Chip Forecast

Annualized Percent Change From Prior Quarter

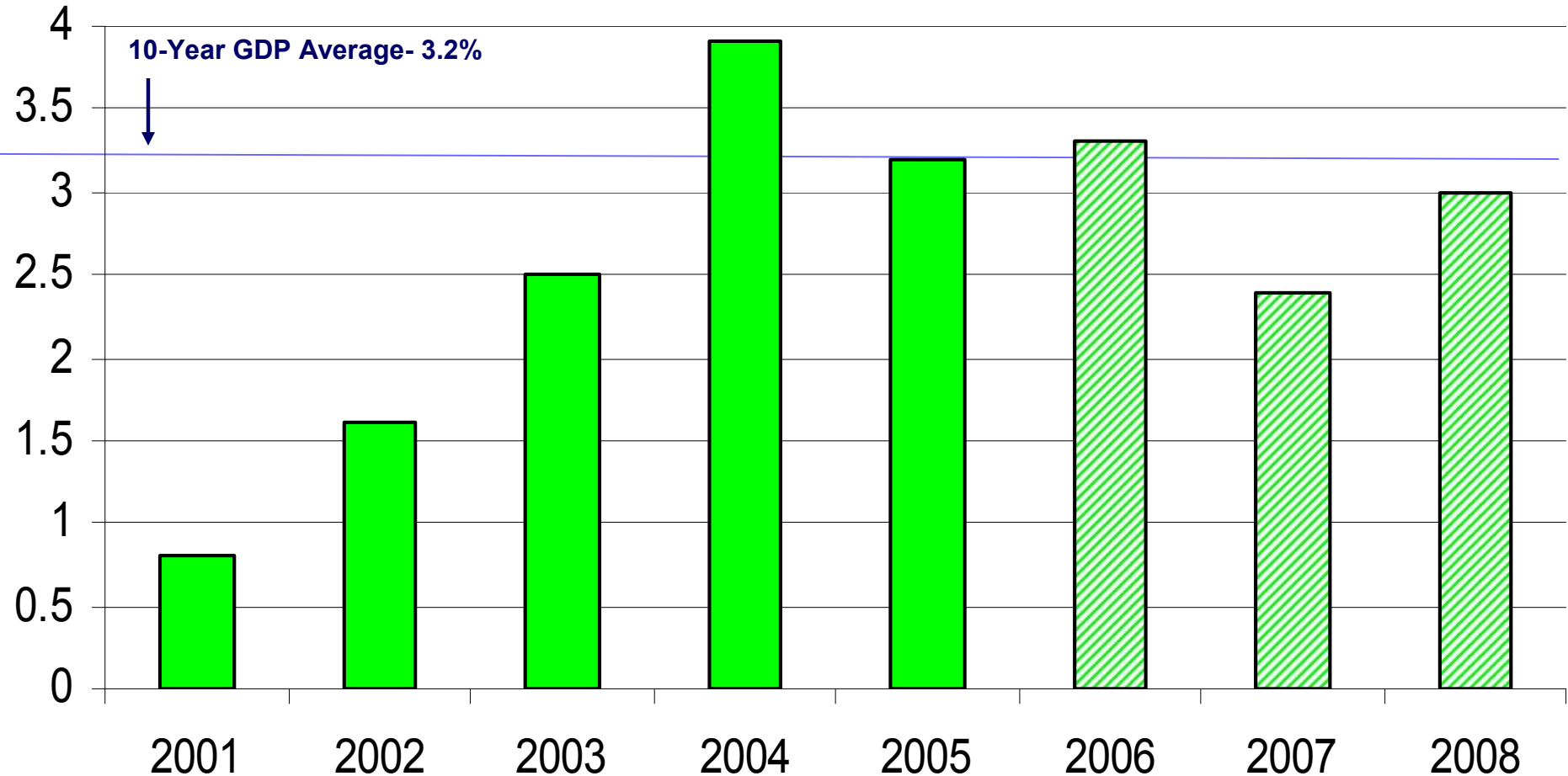


* = Blue Chip Forecast

Source: US BEA, Blue Chip Economic Indicators
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GDP Actual and Blue Chip Forecast

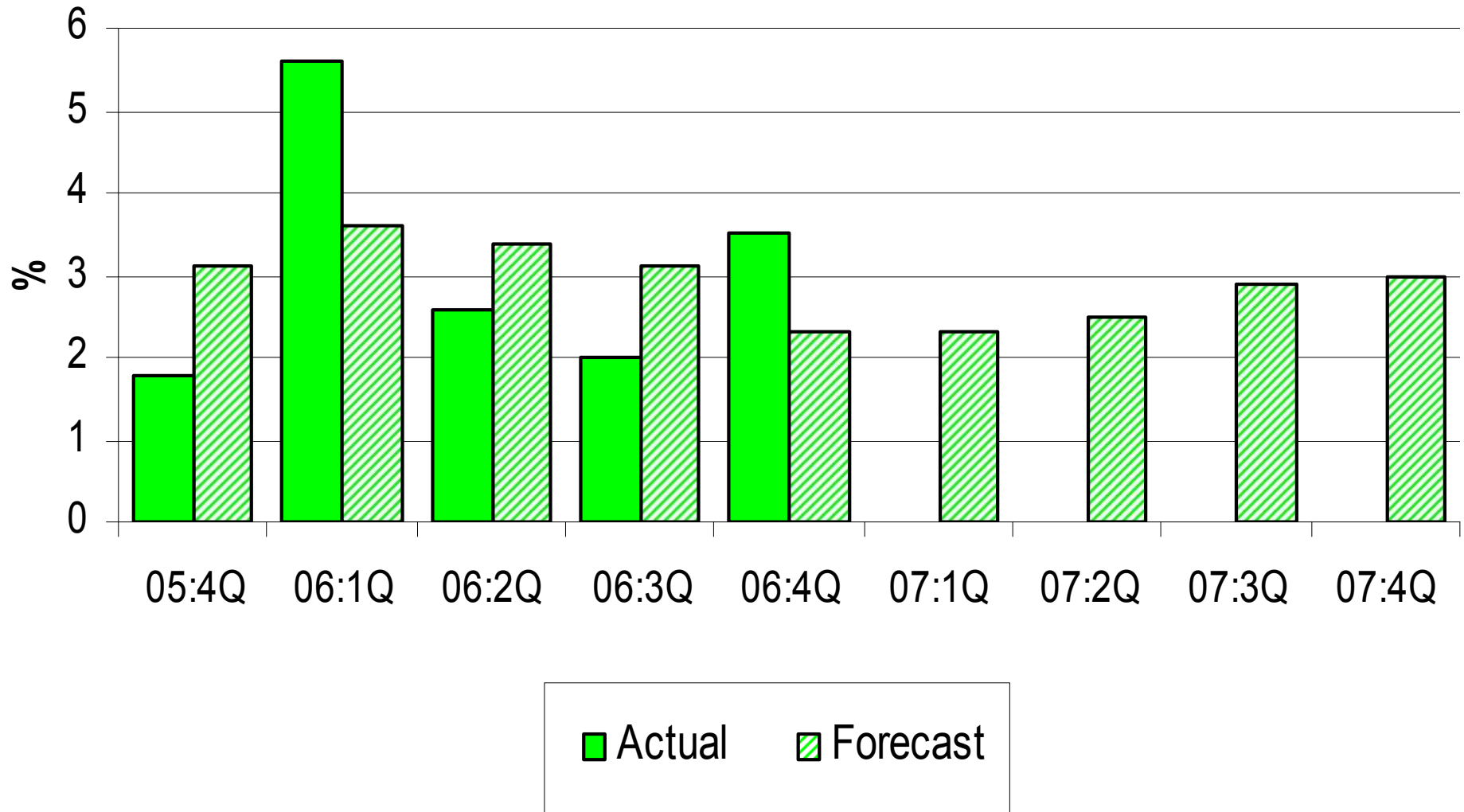
Annualized Percent Change From Prior Quarter



Source: US BEA, Blue Chip Economic Indicators
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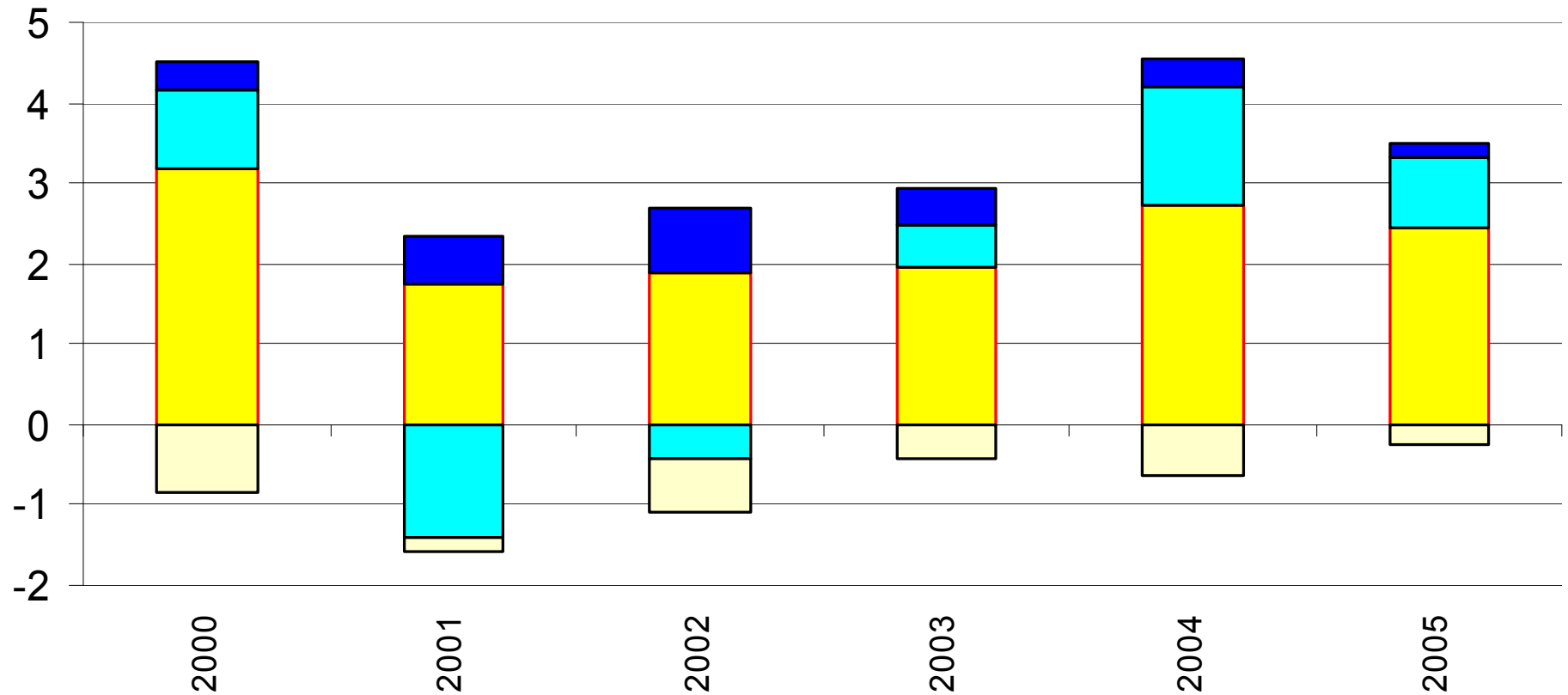
 = Blue Chip Forecast

Goldilocks?



Components of GDP - Four Major Segments

Contribution to % Change in GDP



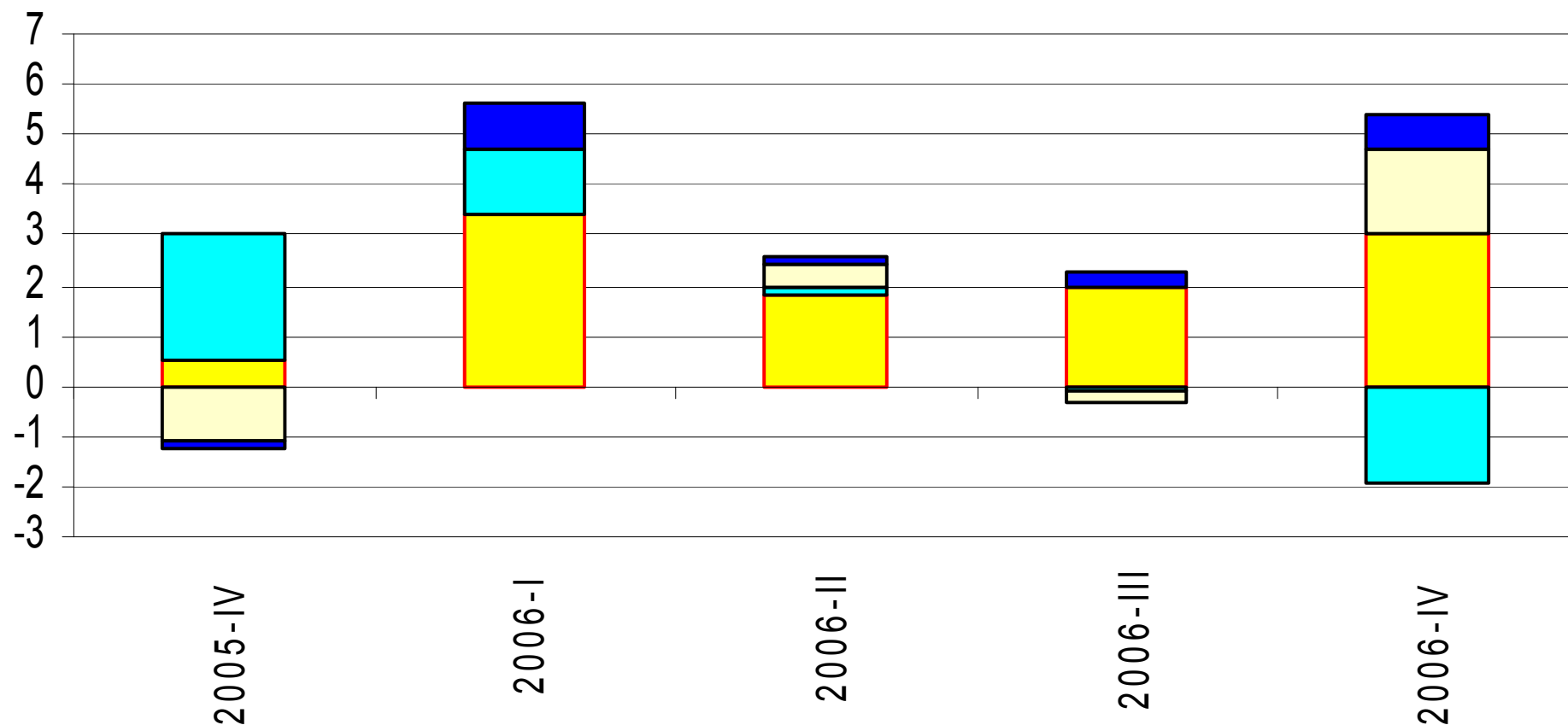
- Personal Consumption
- Business Consumption
- Government Consumption
- Net exports of goods and services

Source: BEA

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Components of GDP - Four Major Segments

Contribution to % Change in GDP



Personal Consumption

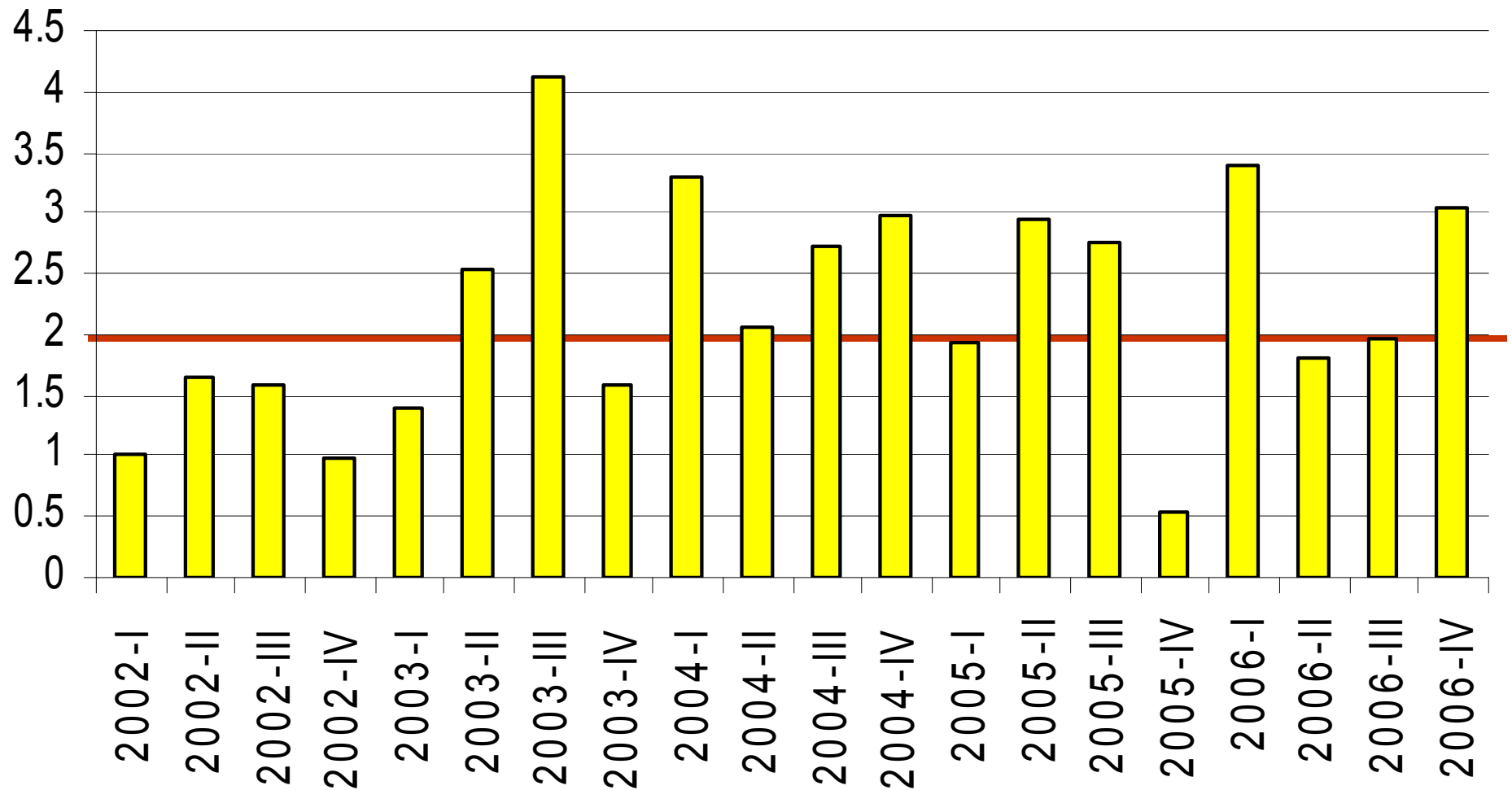
Net exports of goods and services

Business Consumption

Government Consumption

Personal Consumption Expenditures

Contribution to % Change in GDP



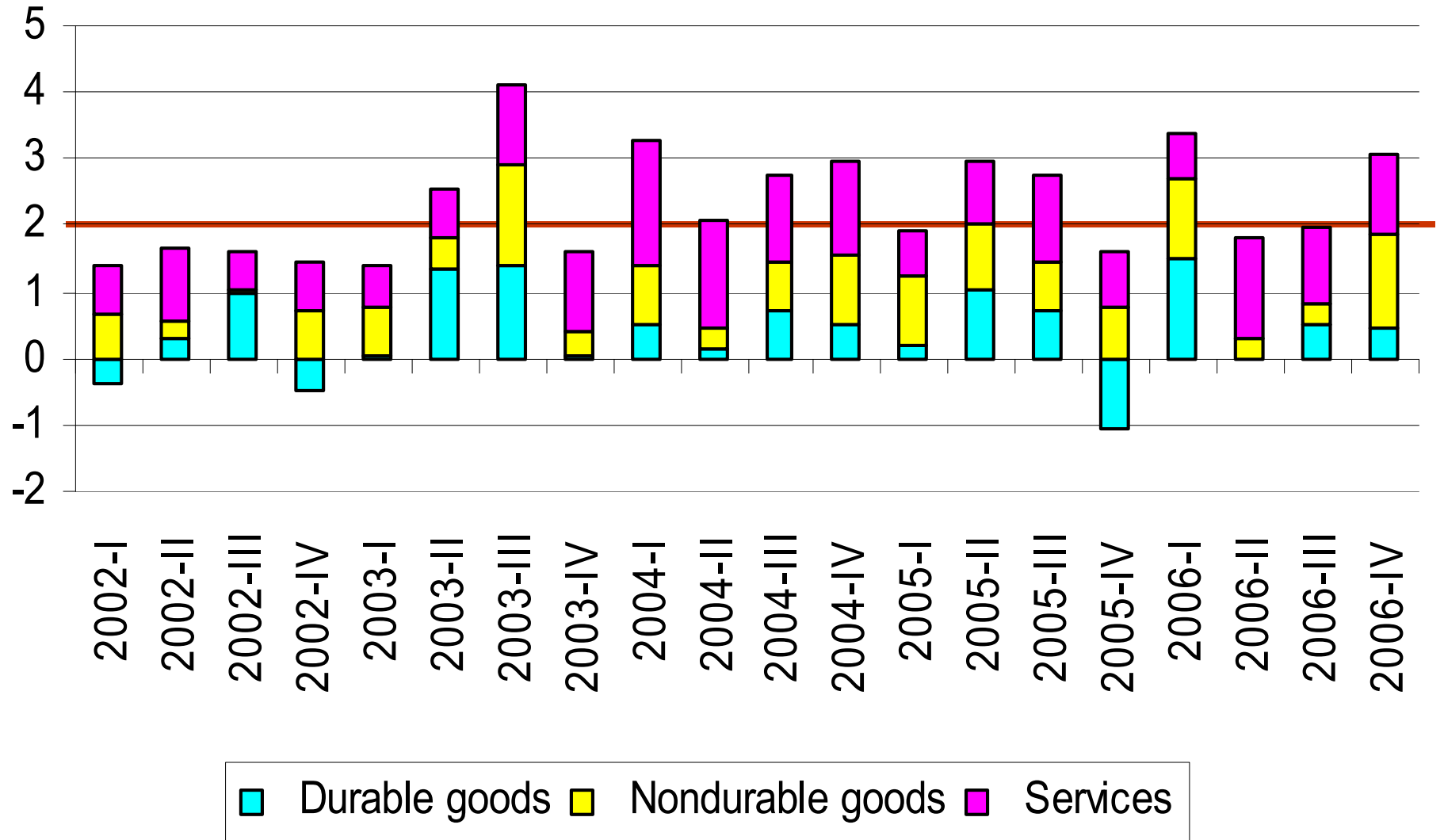
Source: BEA

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2006:4Q = GDP Advance Report

Components of Personal Consumption

Contribution to % Change in GDP

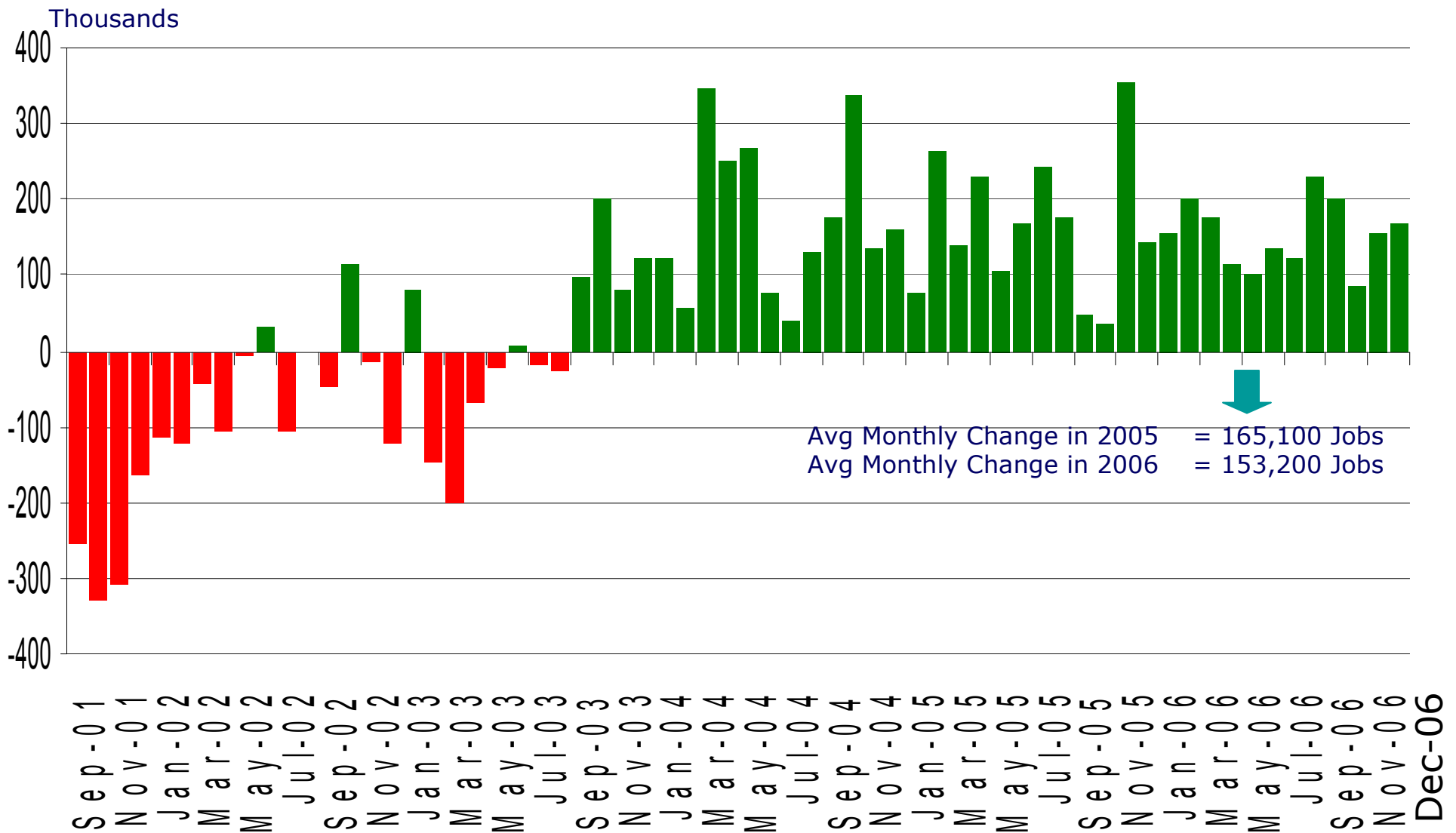


Source: BEA

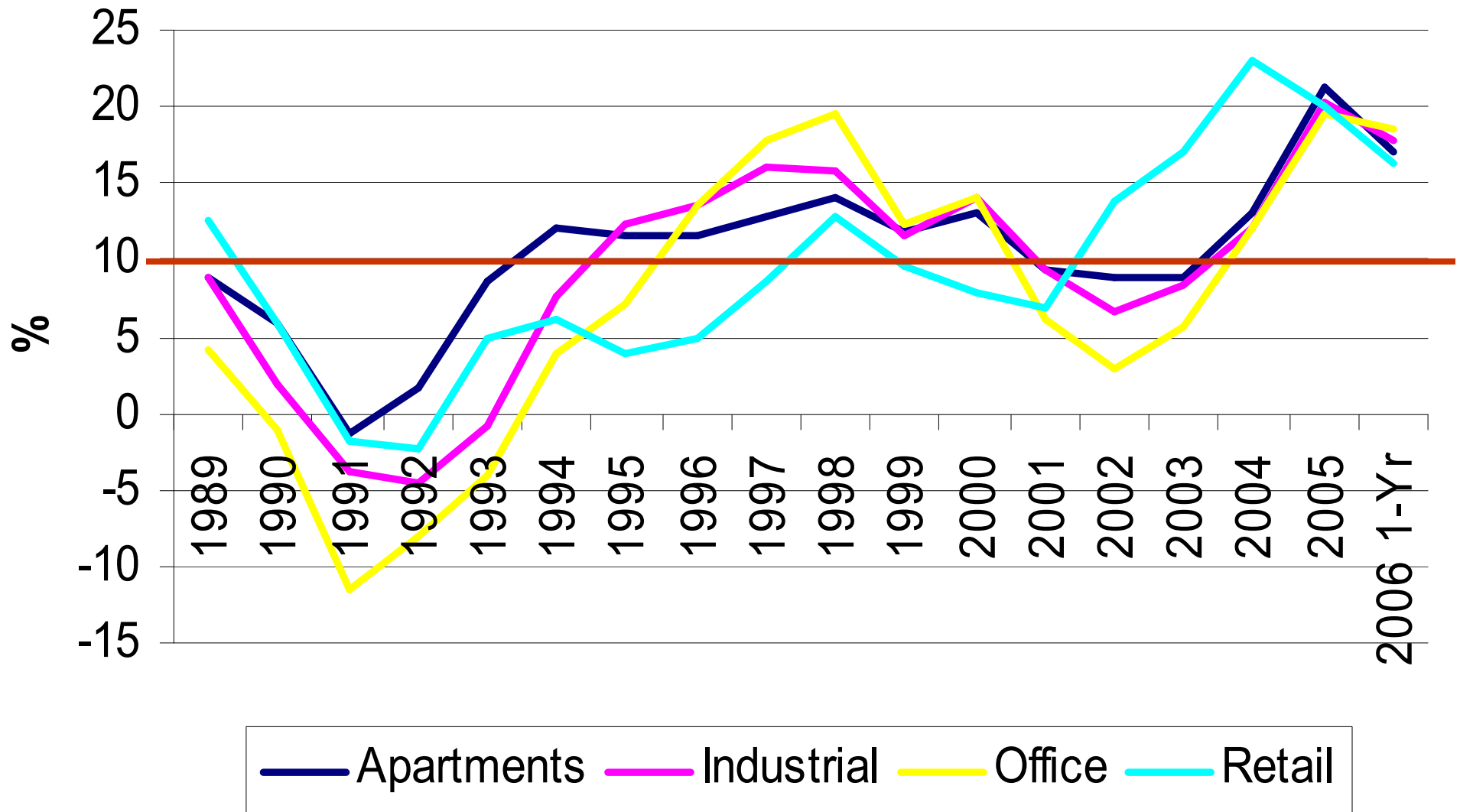
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Employment Growth USA



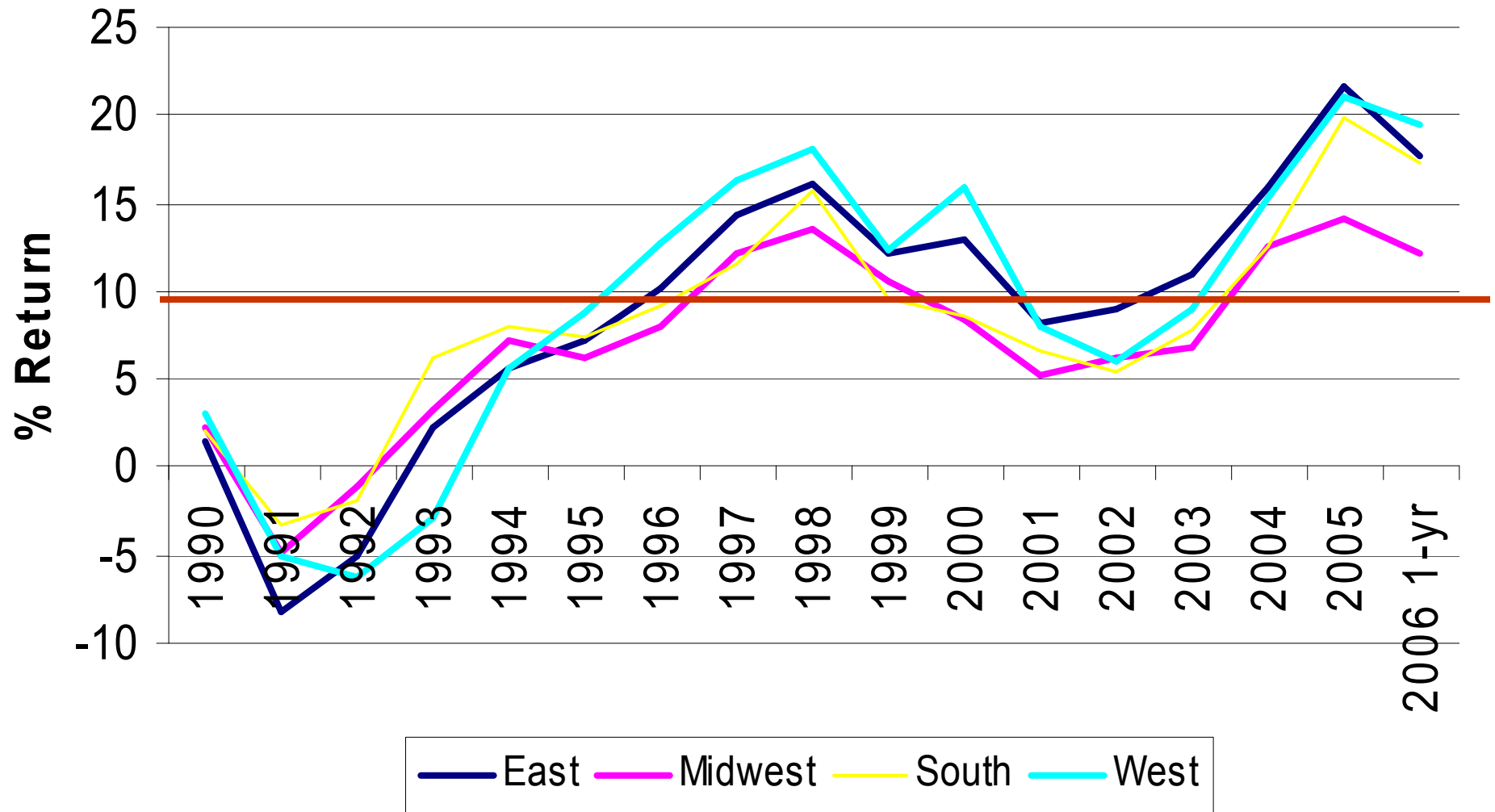
NCREIF Total Return by Type



Source: NCREIF
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2006 = 1-Year Return as of 3q2006₈

NCREIF Total Return by Region



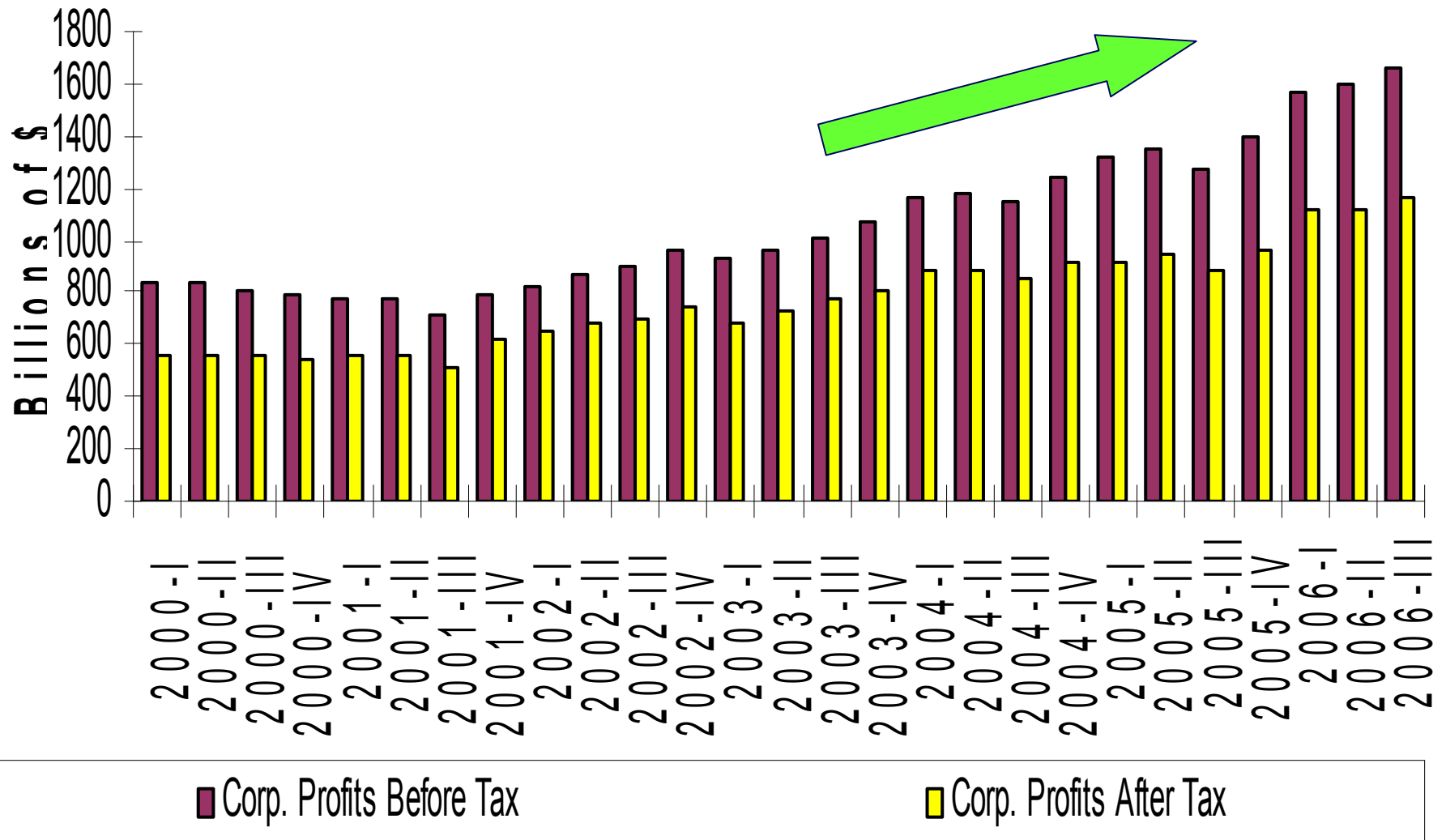
Source: NCREIF

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2006 = 1-Year Return as of 3q2006₉

US Corporate Profits

Before and After Tax

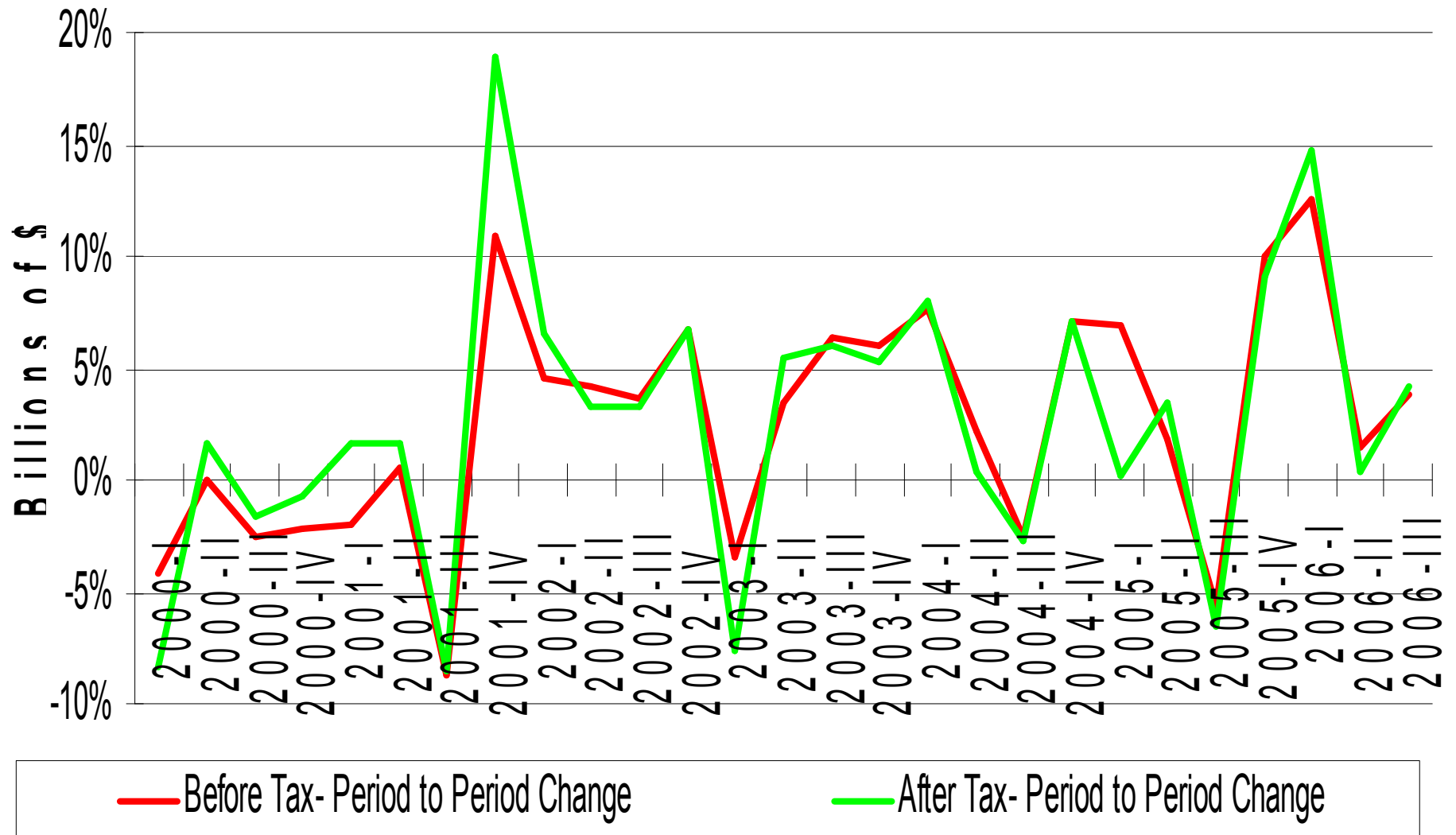


Source: BEA

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US Corporate Profits

Before and After Tax Change From Prior Quarter



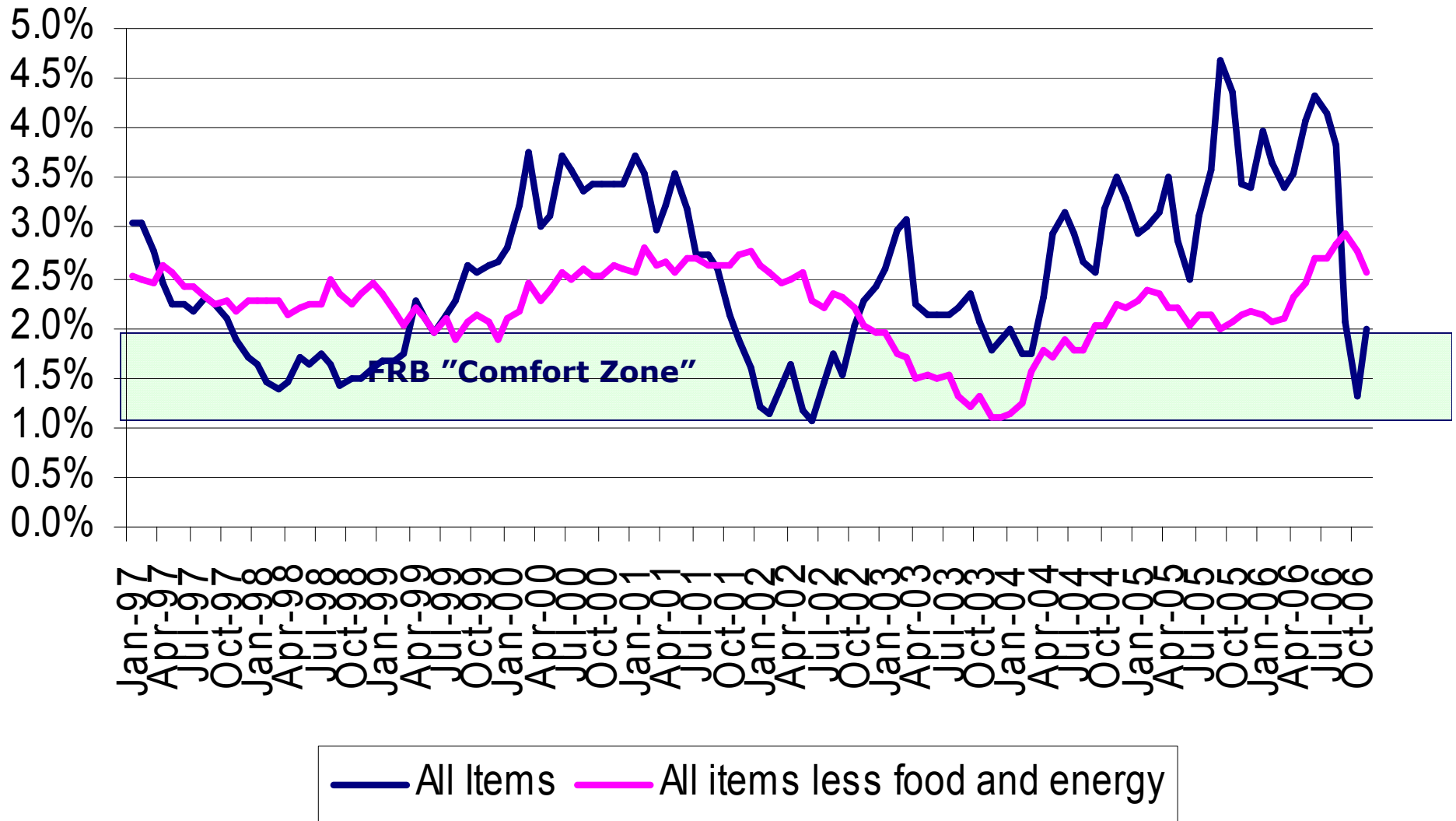
Source: BEA

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Economic “Messages” – USA – “The Mixed”

- Steady Fed Messages – Interest Rates VS. Inflation!
- Slower Retail Sales – Disappointing Holidays vs. Gift Cards
- Oil Prices Hurt, But Who Cared?
- Forecasted Positive But Fluctuating Business Investment
- Recent Strong Corporate Profits, But Future Unclear
- Mixed Industrial Signals, Durable Goods/Inventories
- Housing Bubble in Many Areas; Declining Prices
- Continued Consumer Spending?

CPI: 12-Month Percent Change

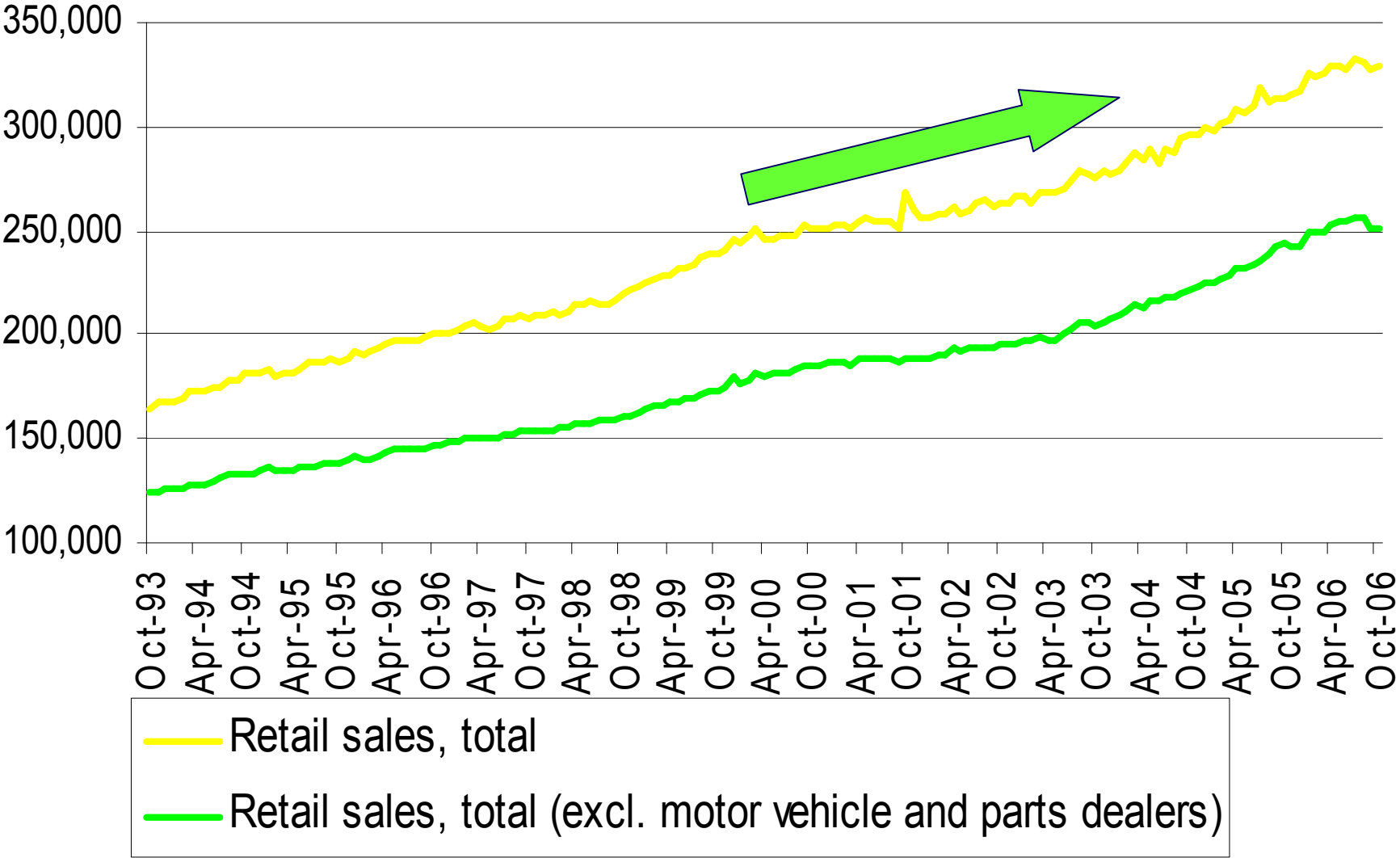


Source: BLS

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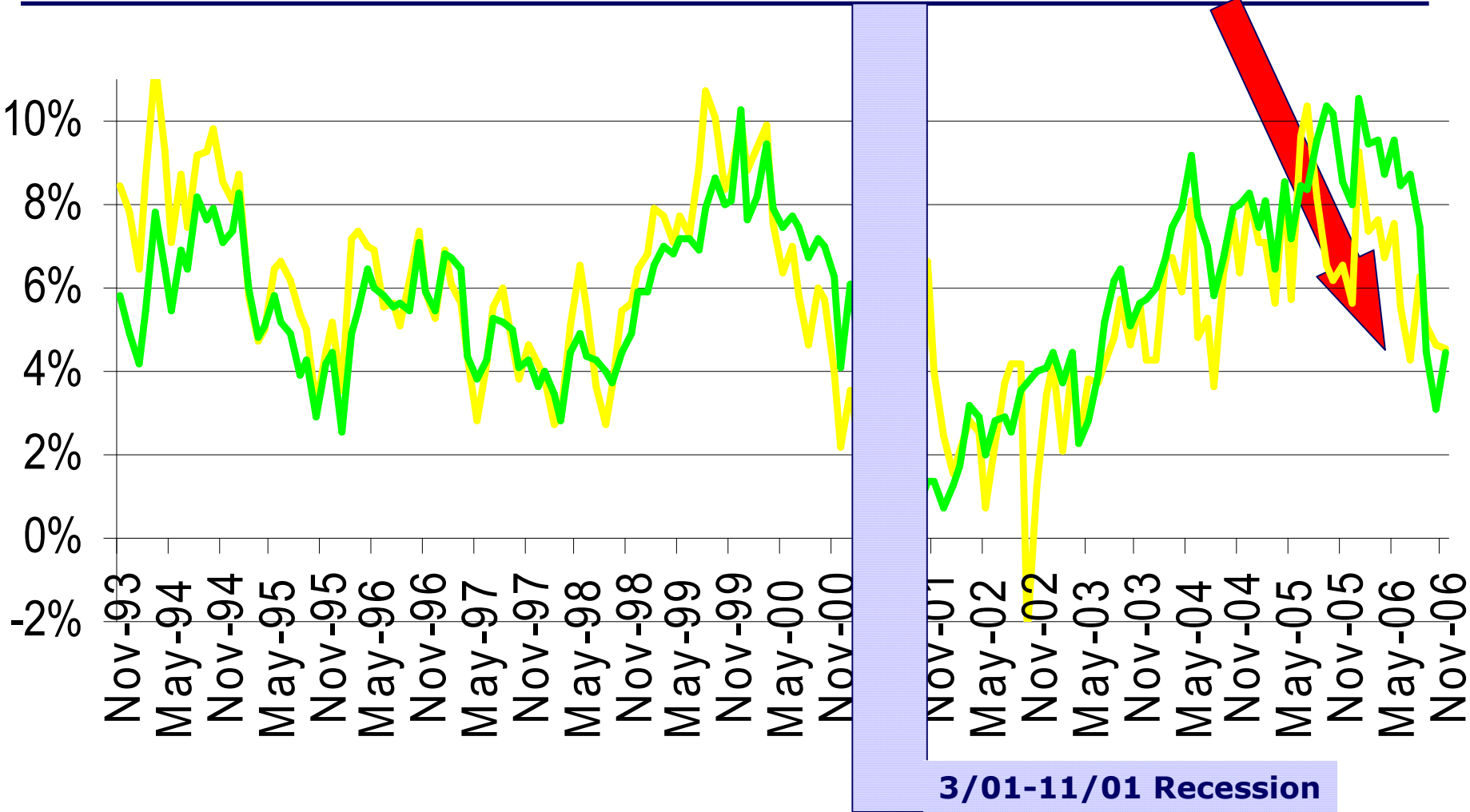
Retail Sales

Millions of Dollars, Seasonally Adjusted



Retail Sales

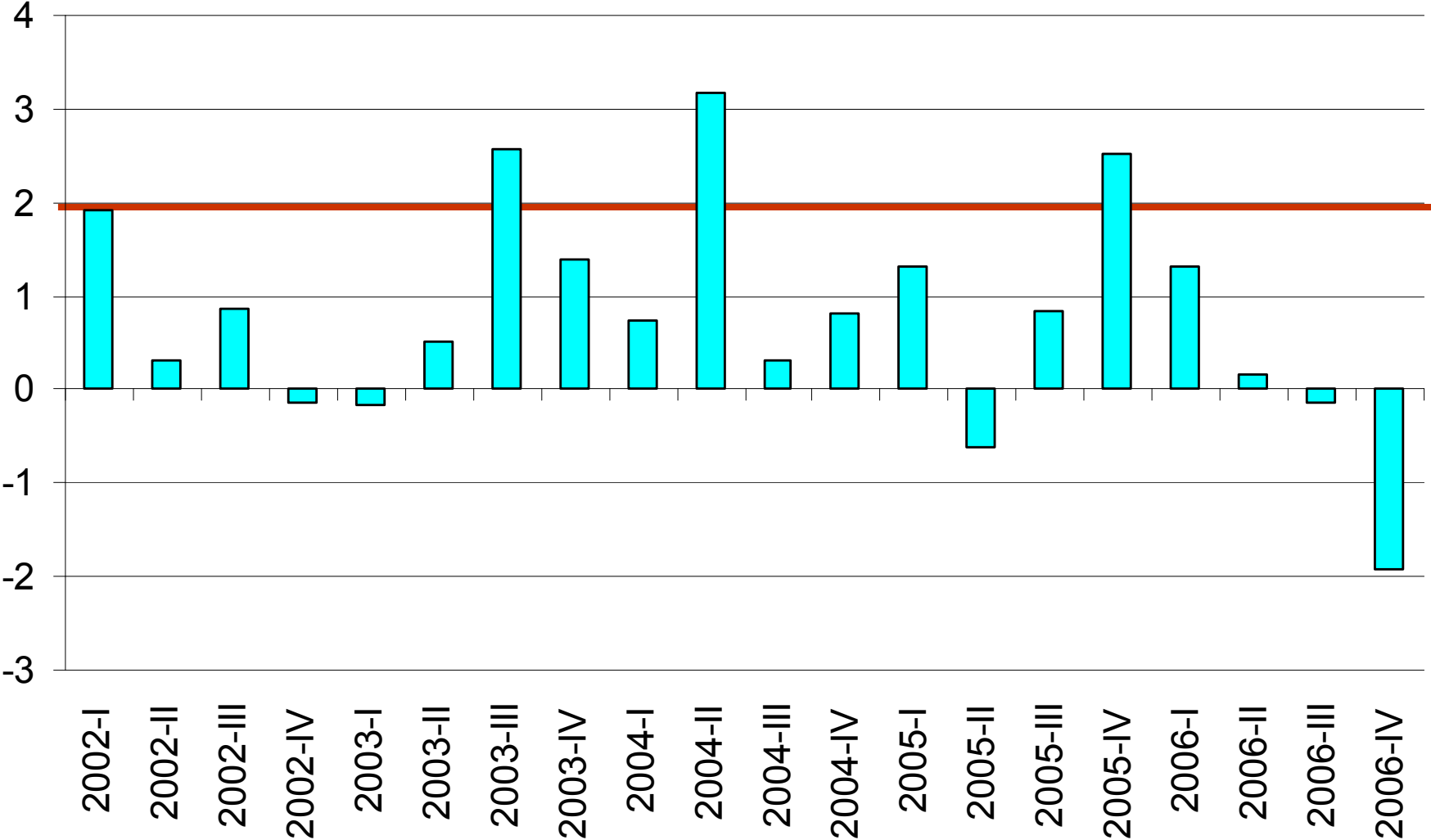
Year over Year % Change



— Retail sales, total — Retail sales, total (excl. motor vehicle and parts dealers)

Business Consumption Expenditures

Contribution to % Change in GDP

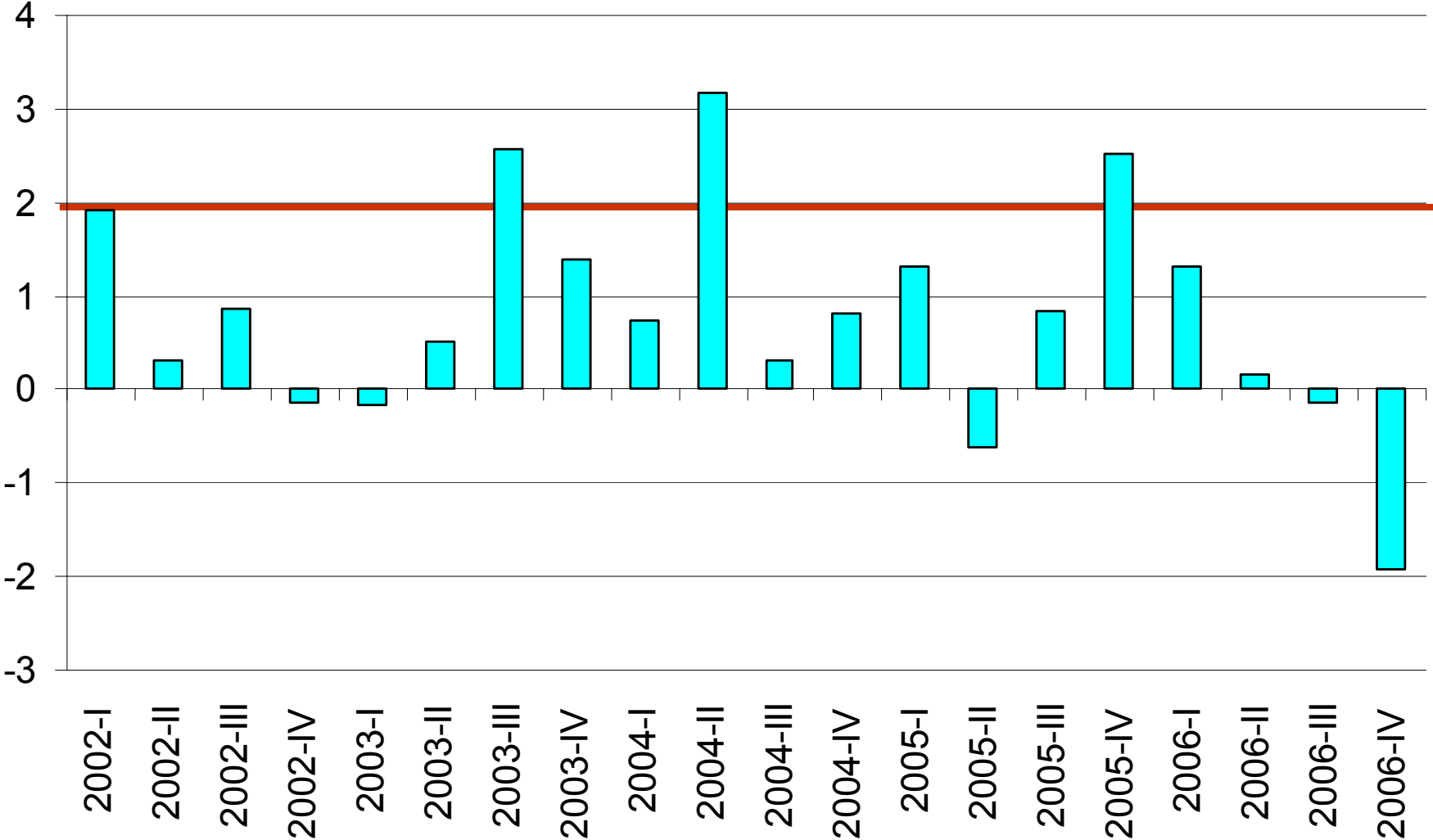


Source: BEA

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Business Consumption Expenditures

Contribution to % Change in GDP

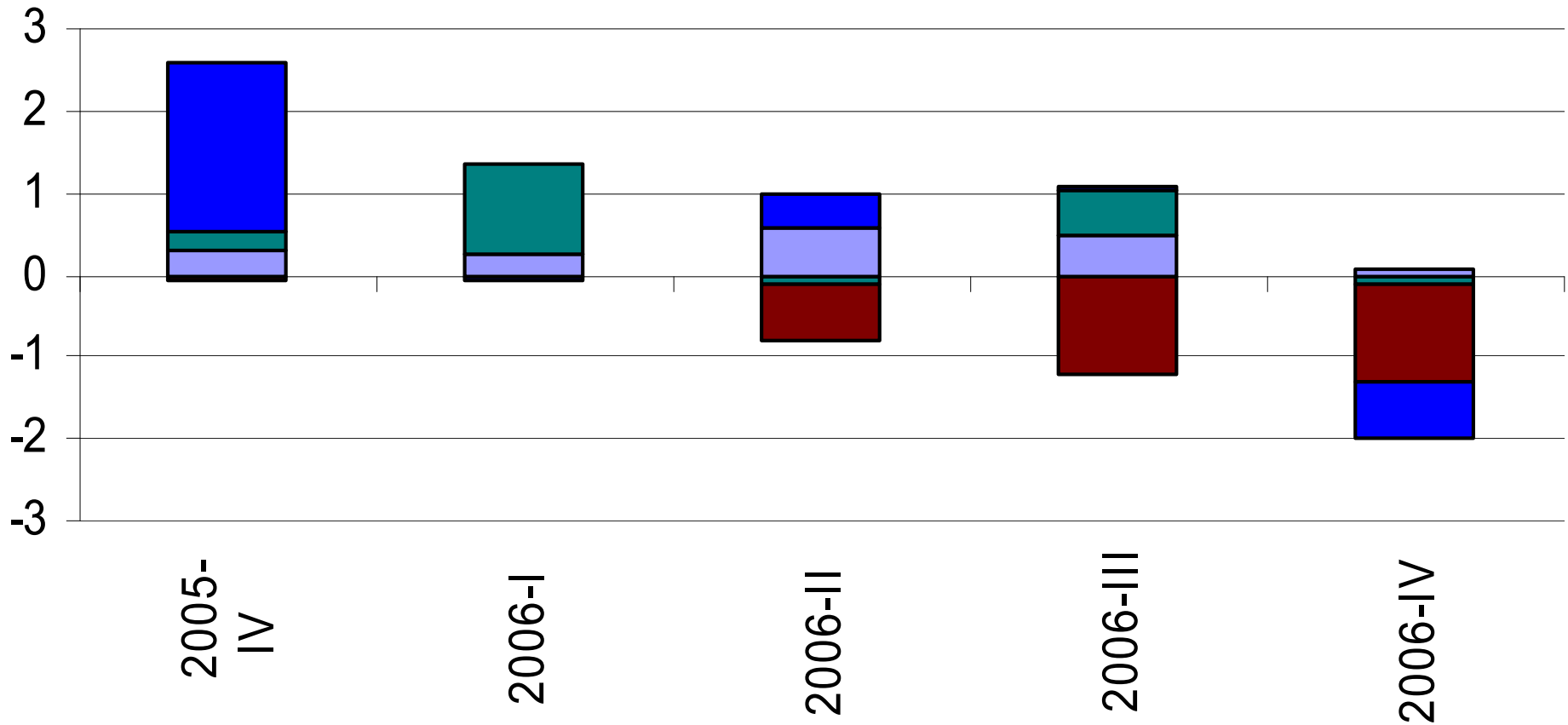


Source: BEA

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Components of Business Consumption

Contribution to % Change in GDP



■ Business Non Residential Structures

■ Business Equipment and software

■ Business Residential Construction

■ Business Change in private inventories

Source: BEA

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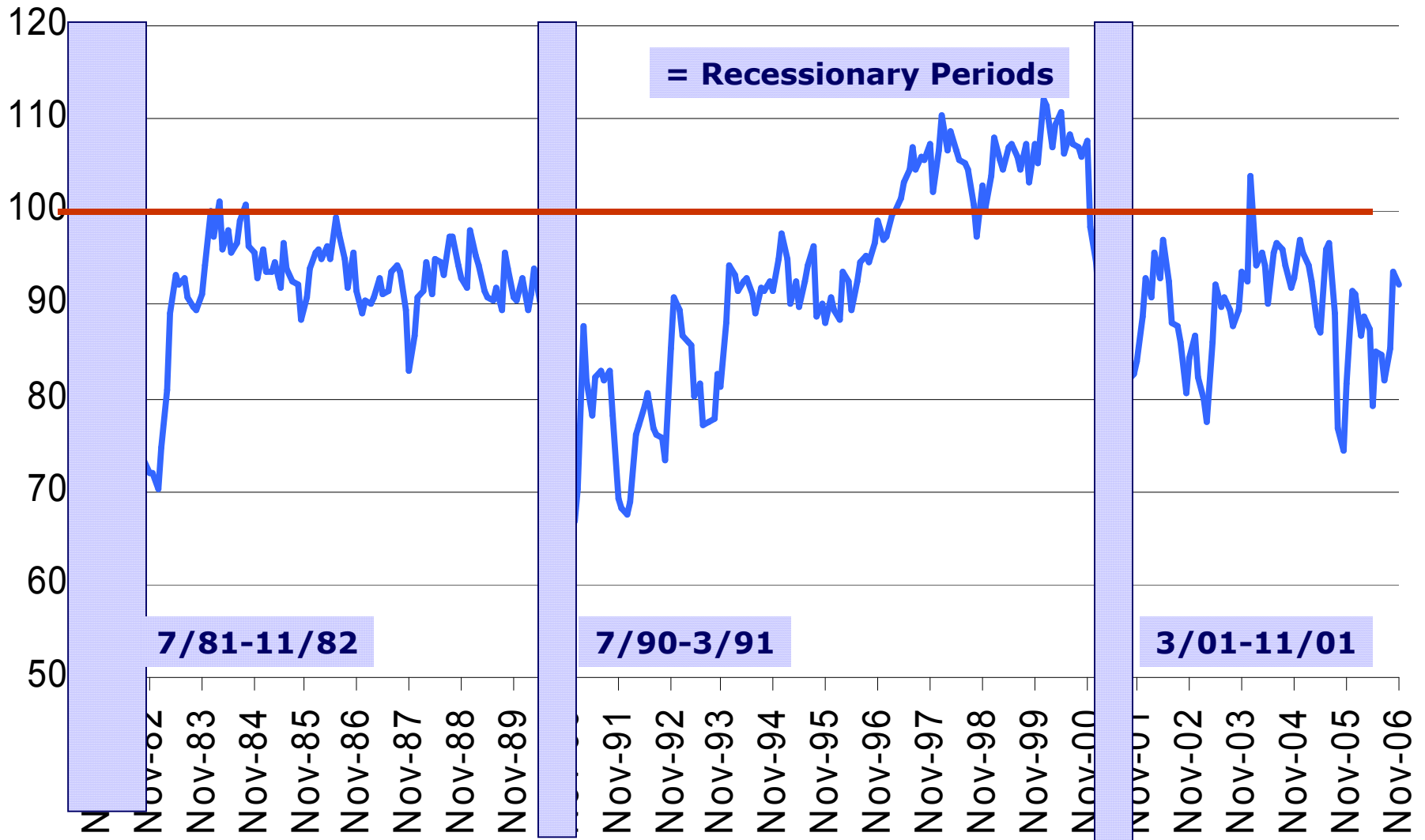
2006:4Q = GDP Advance Report

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Economic “Messages” – USA – “The Bad”

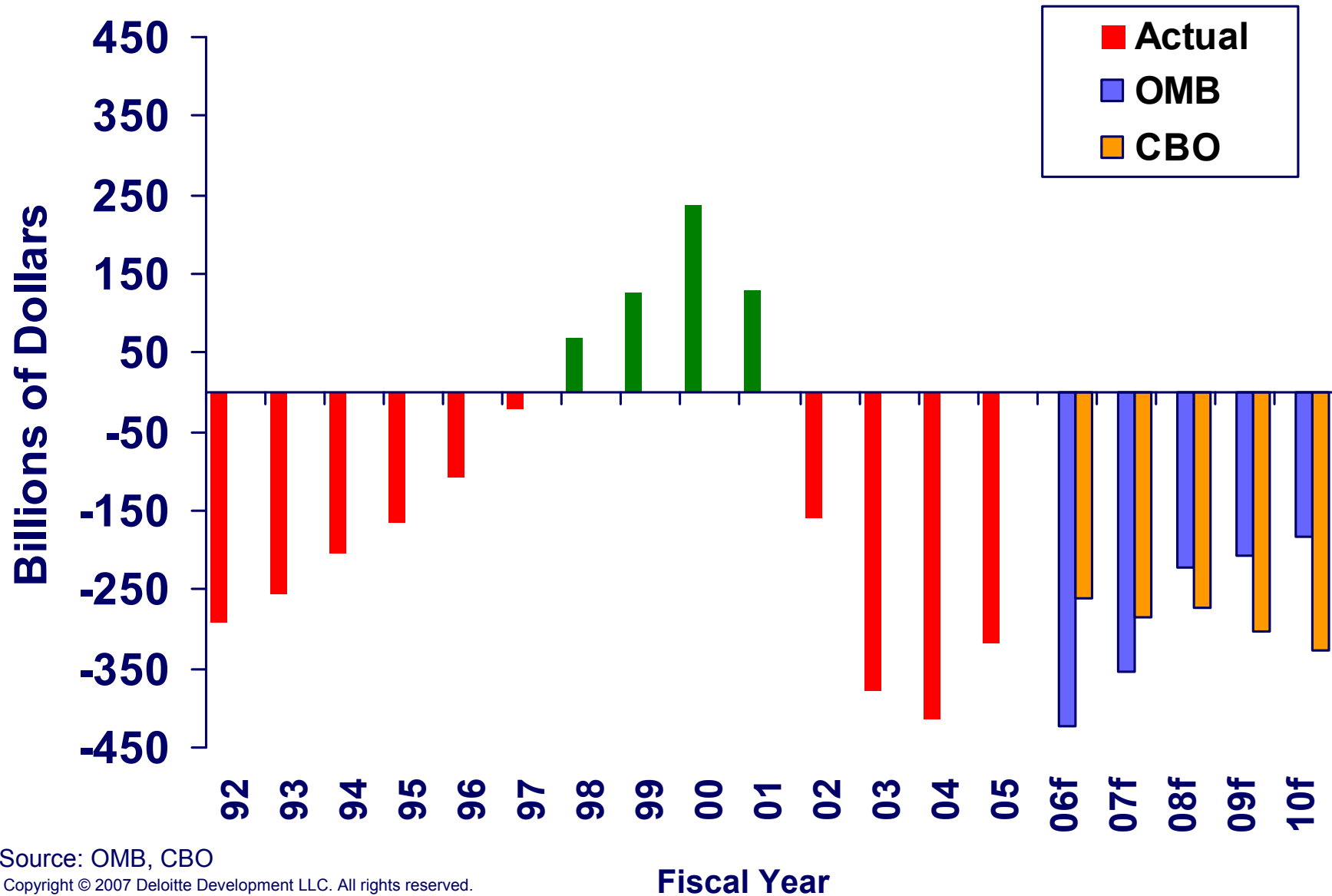
- Compression of Treasury Yields
- Record Private Debt/Low Personal Savings Rate
- Huge Trade/Budget Deficits
- On-Going Corporate Scandals
- Declining Home Building Activity; Increasing Inventory
- Continued Geo-Political Events

The University of Michigan Index of Consumer Sentiment



Source: University of Michigan
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Federal Budget Balance

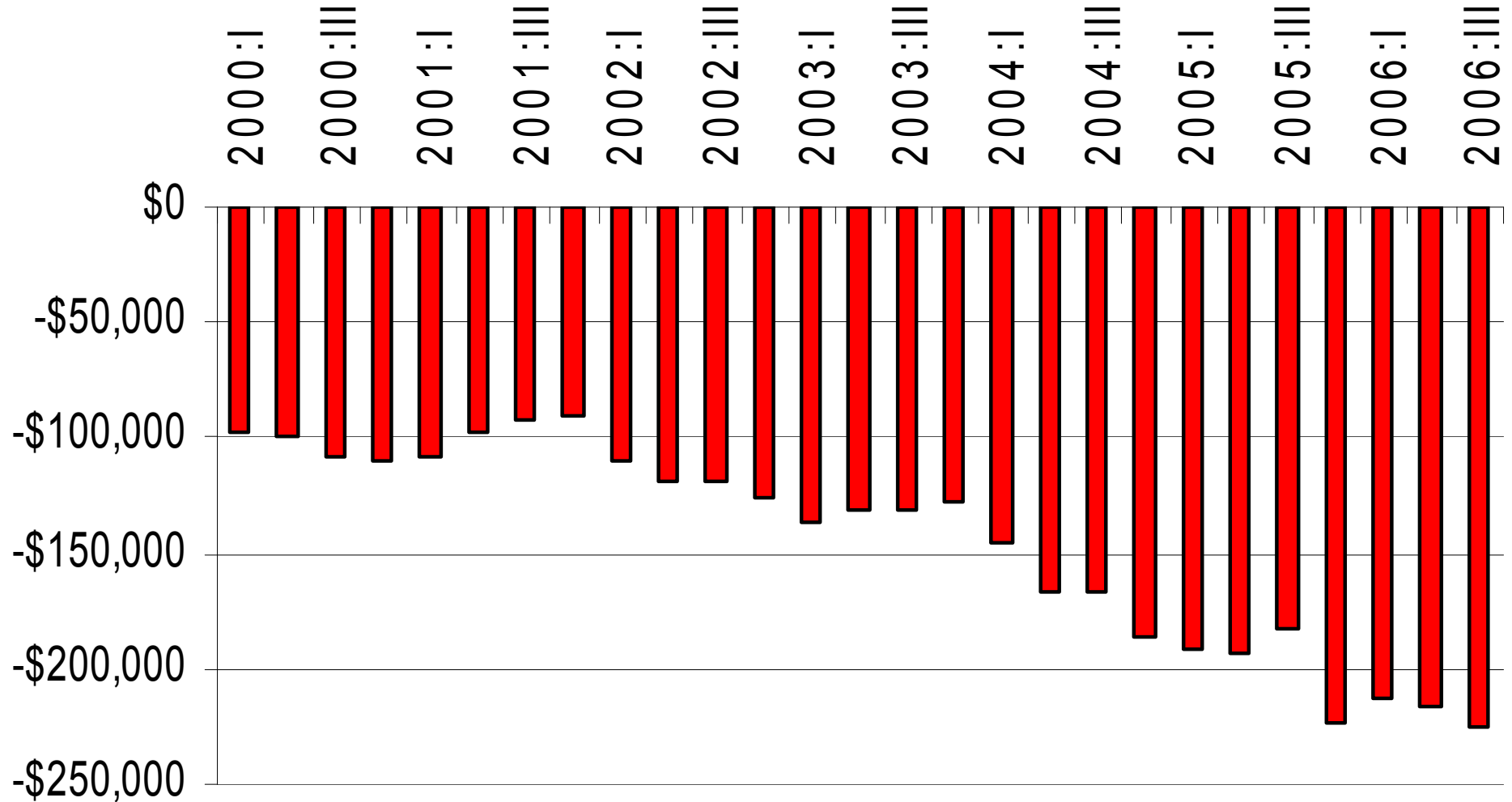


Source: OMB, CBO

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Current Account Balance of Payments Basis

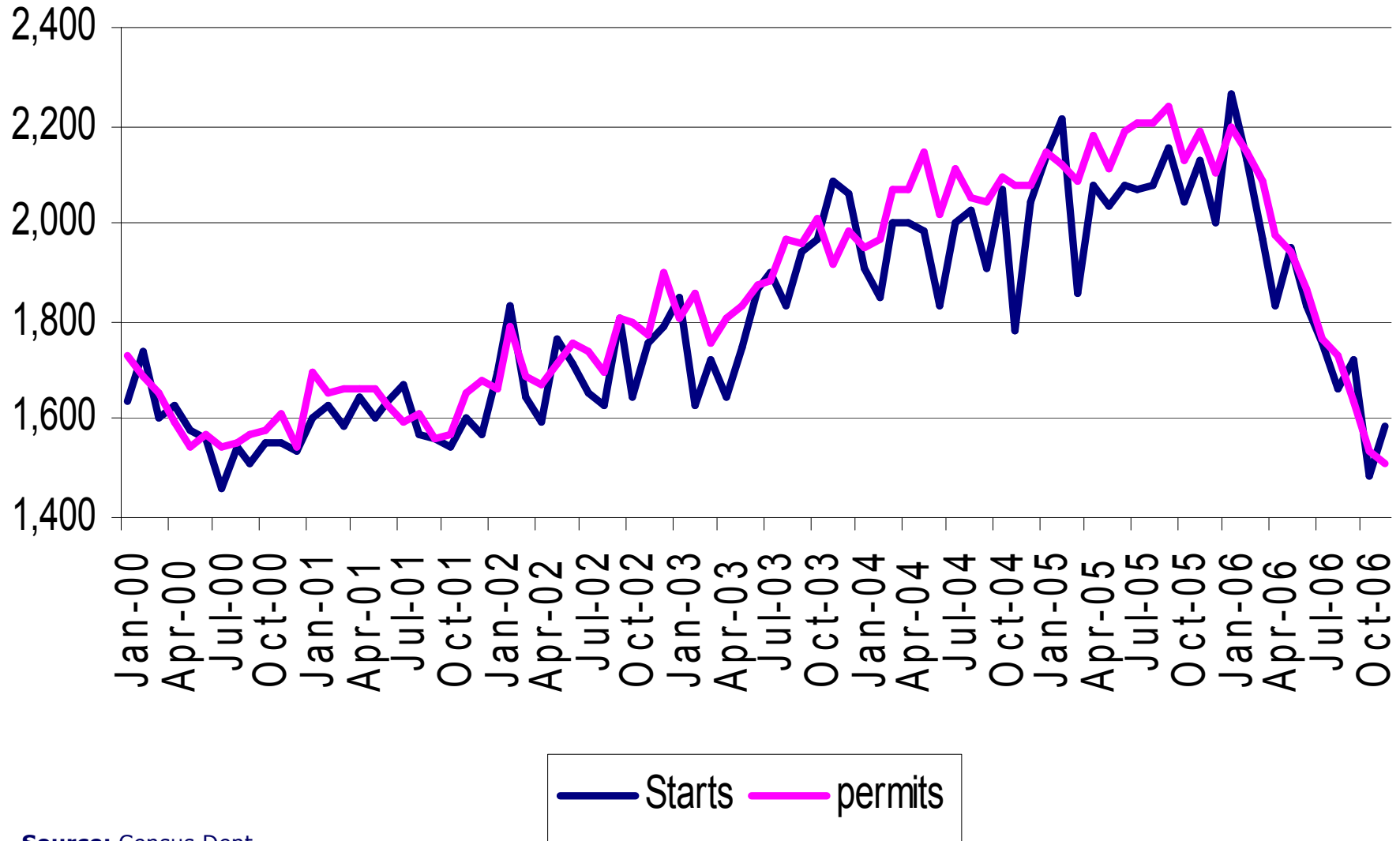
Millions of Dollars, Seasonally Adjusted



Source: Bureau of Economics Analysis

U.S. Housing Starts and Permits

Units (000), seasonally adjusted annual rate



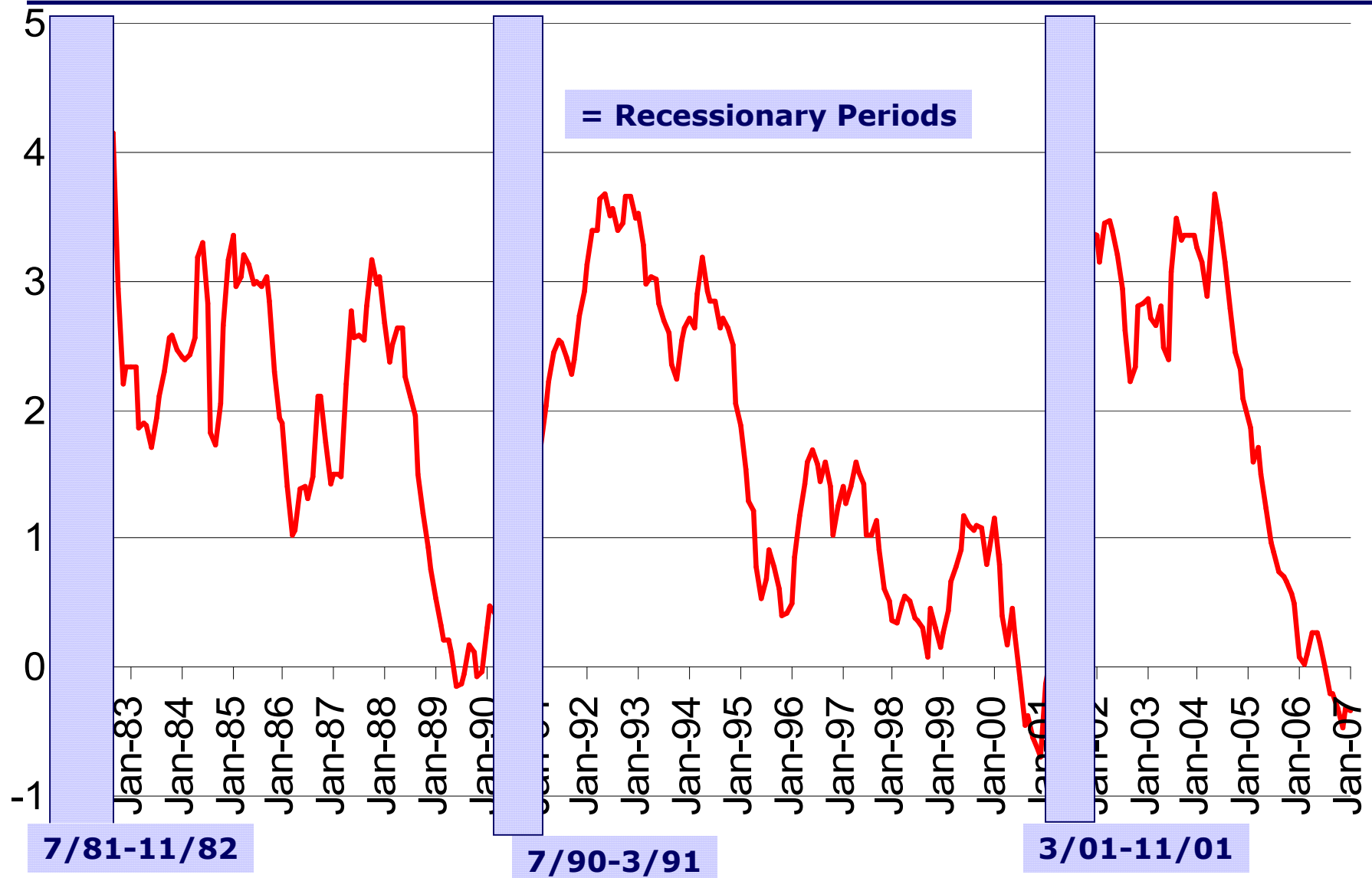
Source: Census Dept.

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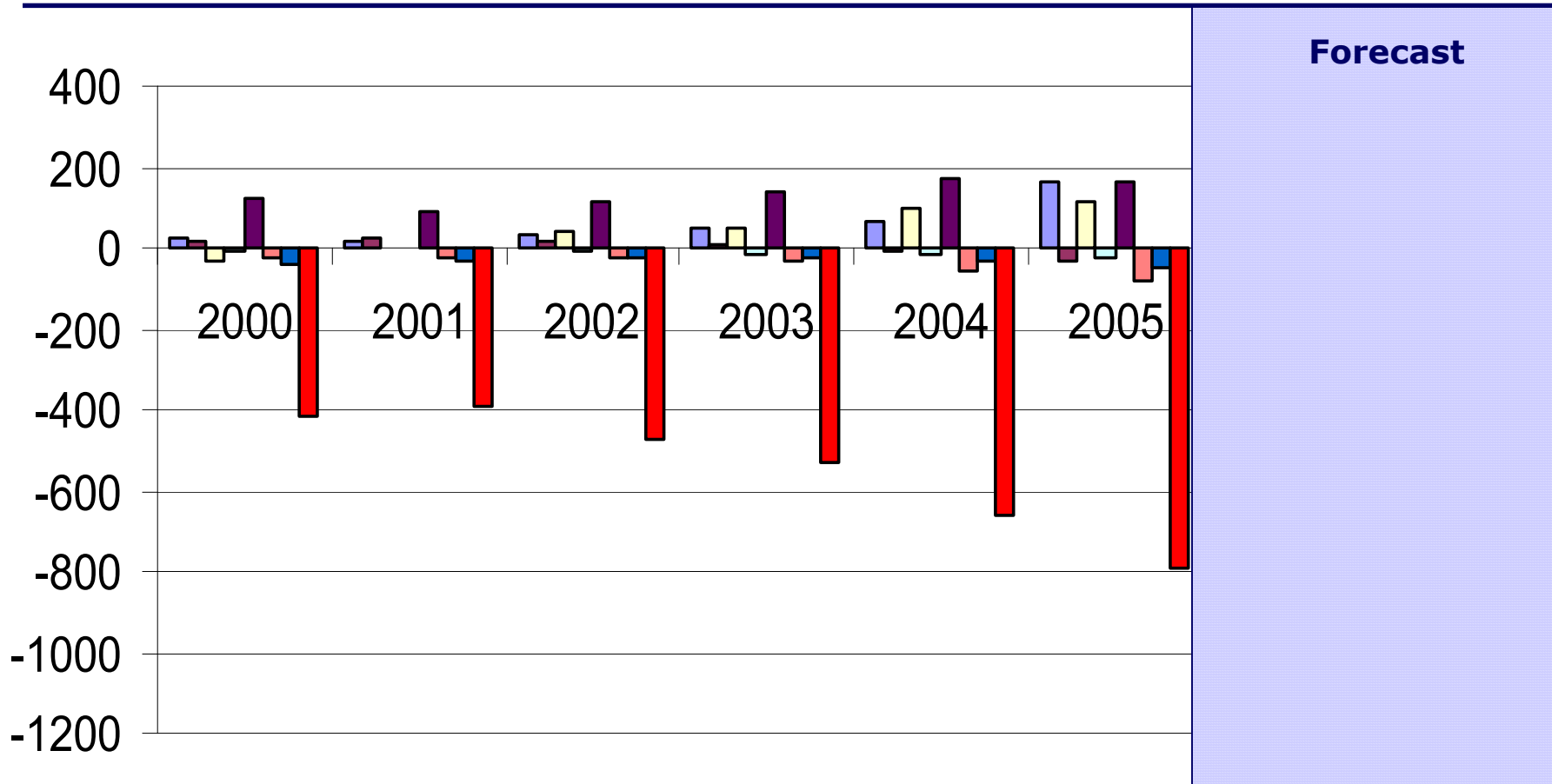
Economic “Messages” – USA – “The Ugly”

- The Bond Market!

Spread - 3-Month T-Bill vs. 10-Year T-Bond



Current Account Balance in US Dollars, Billions

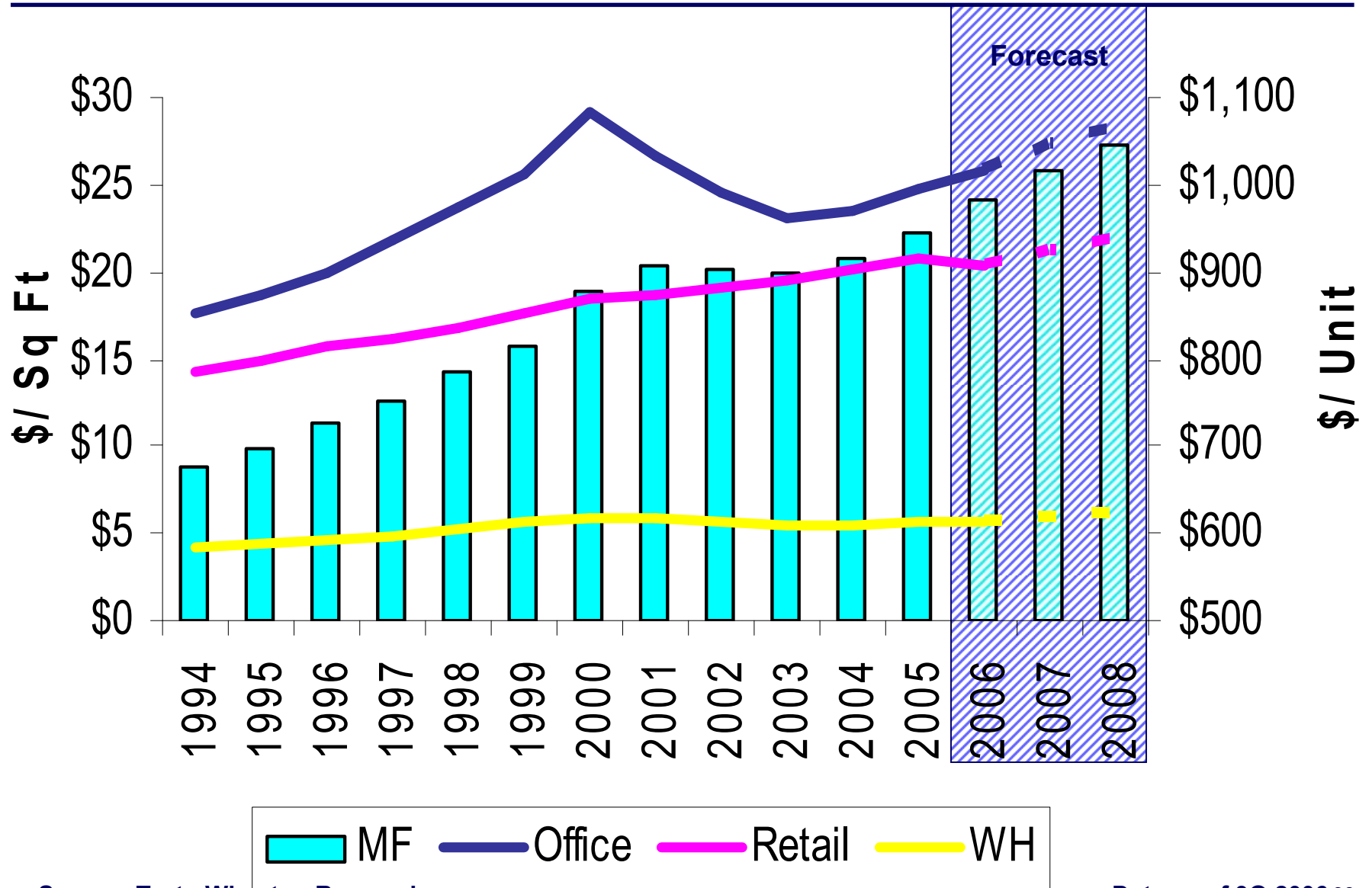


Source:IMF September 2006 WEO

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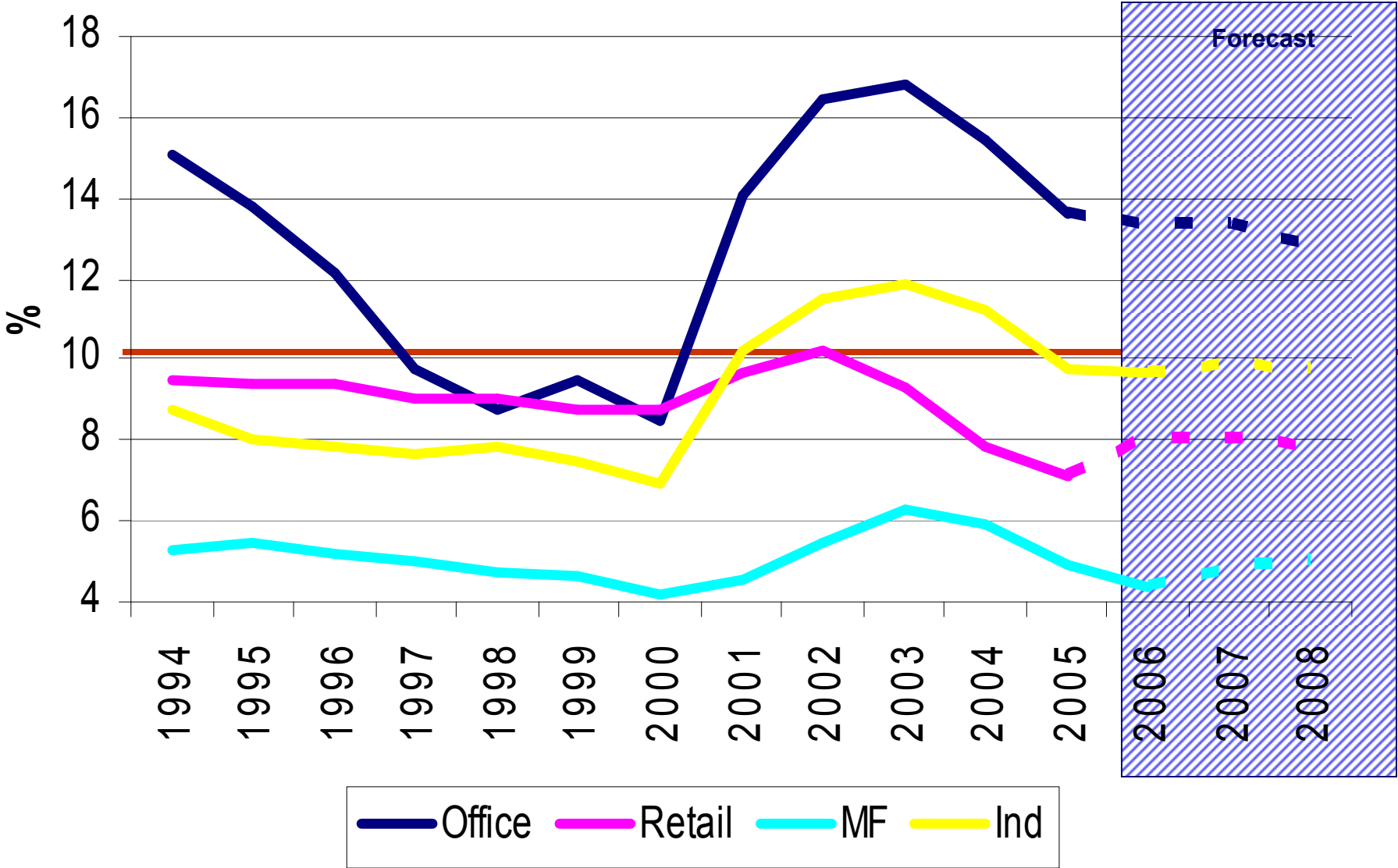
National Rents by Type



Source: Data from Wheaton Research. Copyright © 2007. All rights reserved.

Data as of 3Q 2006 38

National Vacancy Rate by Type

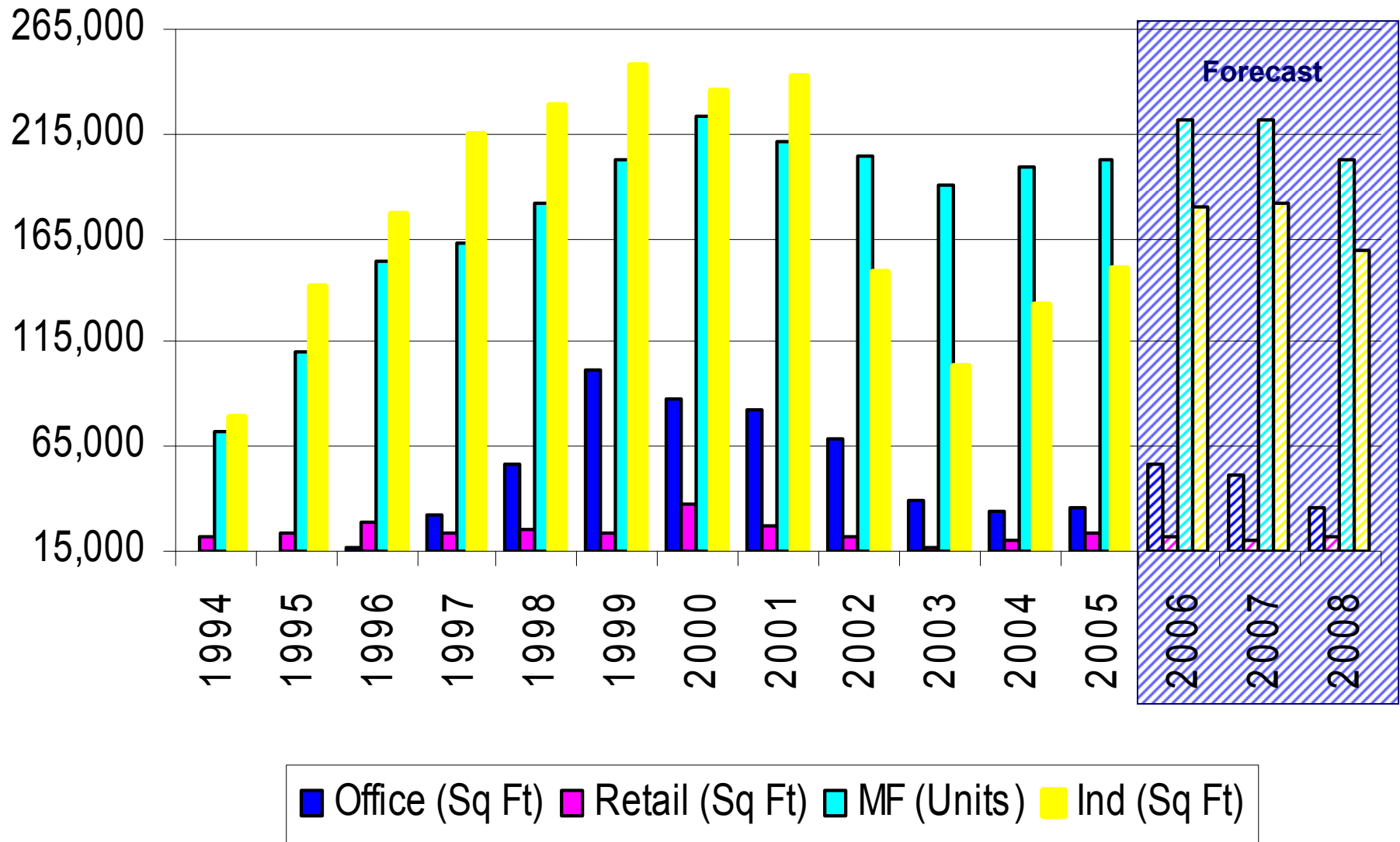


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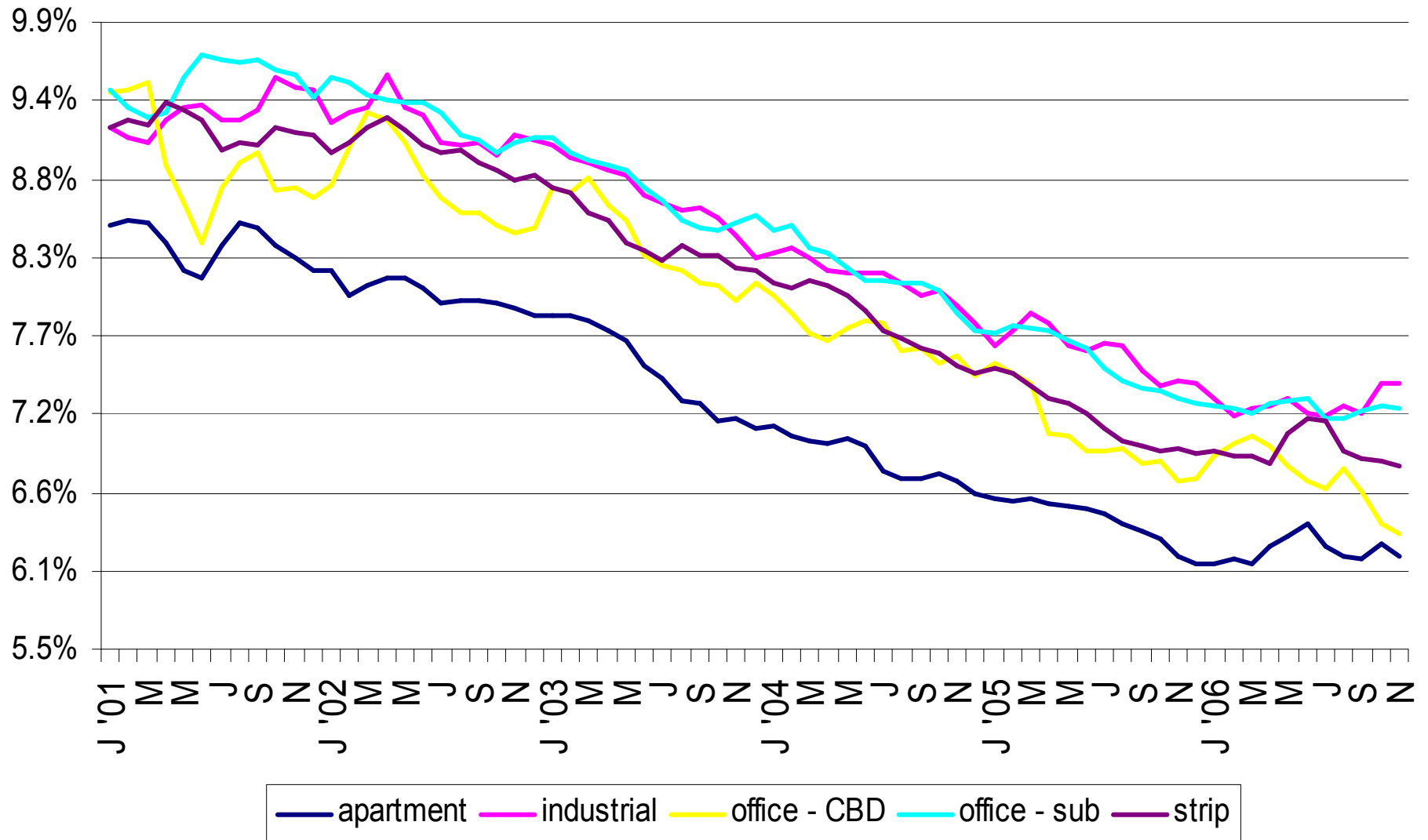
Source: Torto Wheaton Research

Data as of 3Q 2006 39

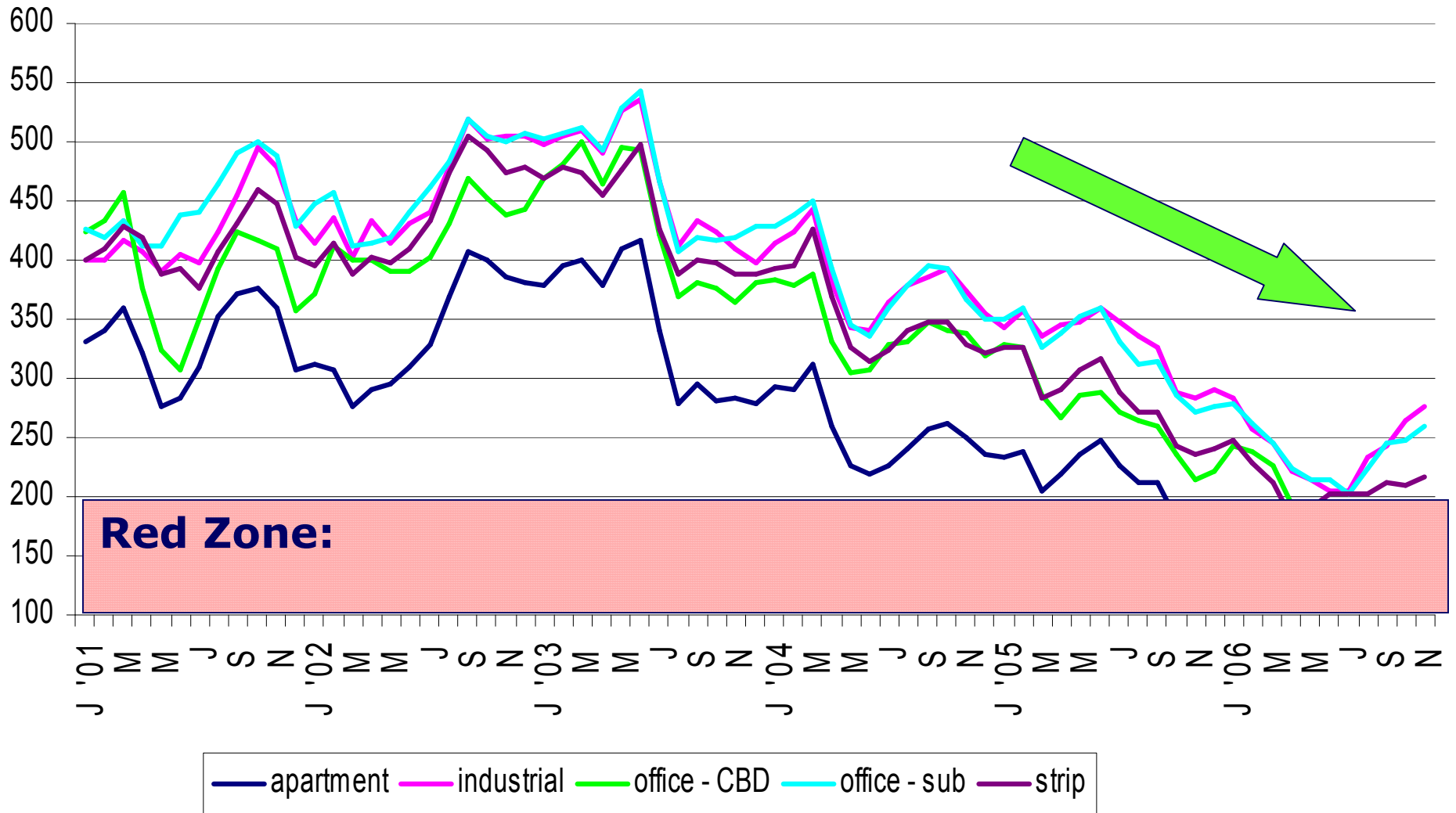
National Completions by Type



Average Cap Rates



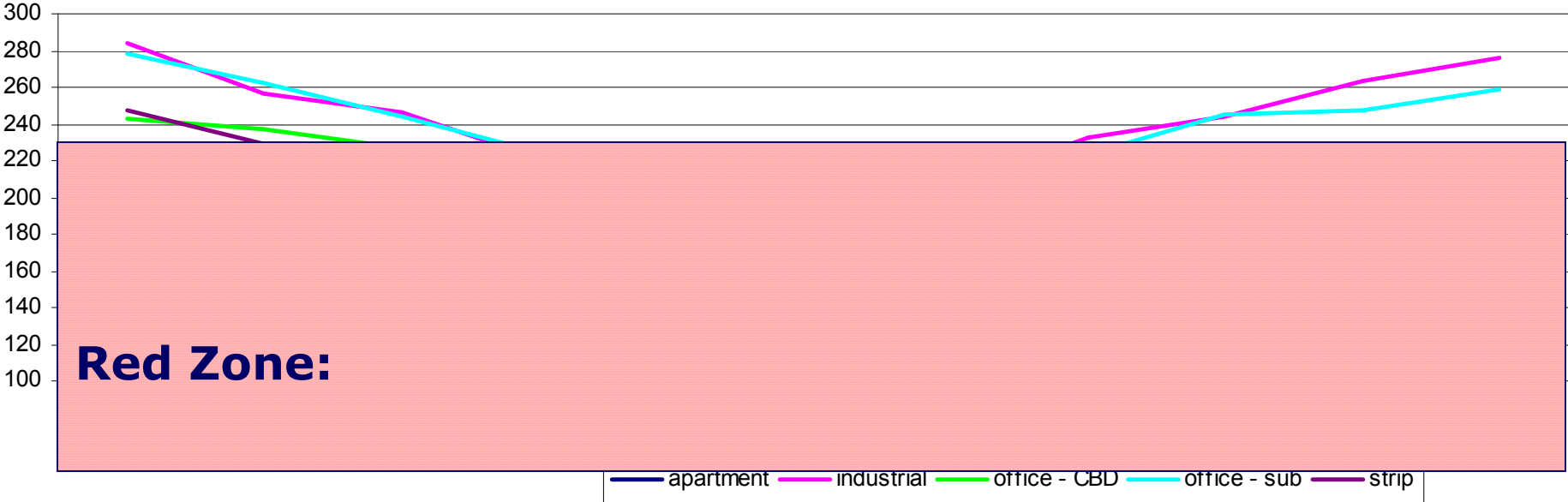
Avg. Cap Rate Spreads To 10-Year Treasury Yield



Source: RCA, Federal Reserve
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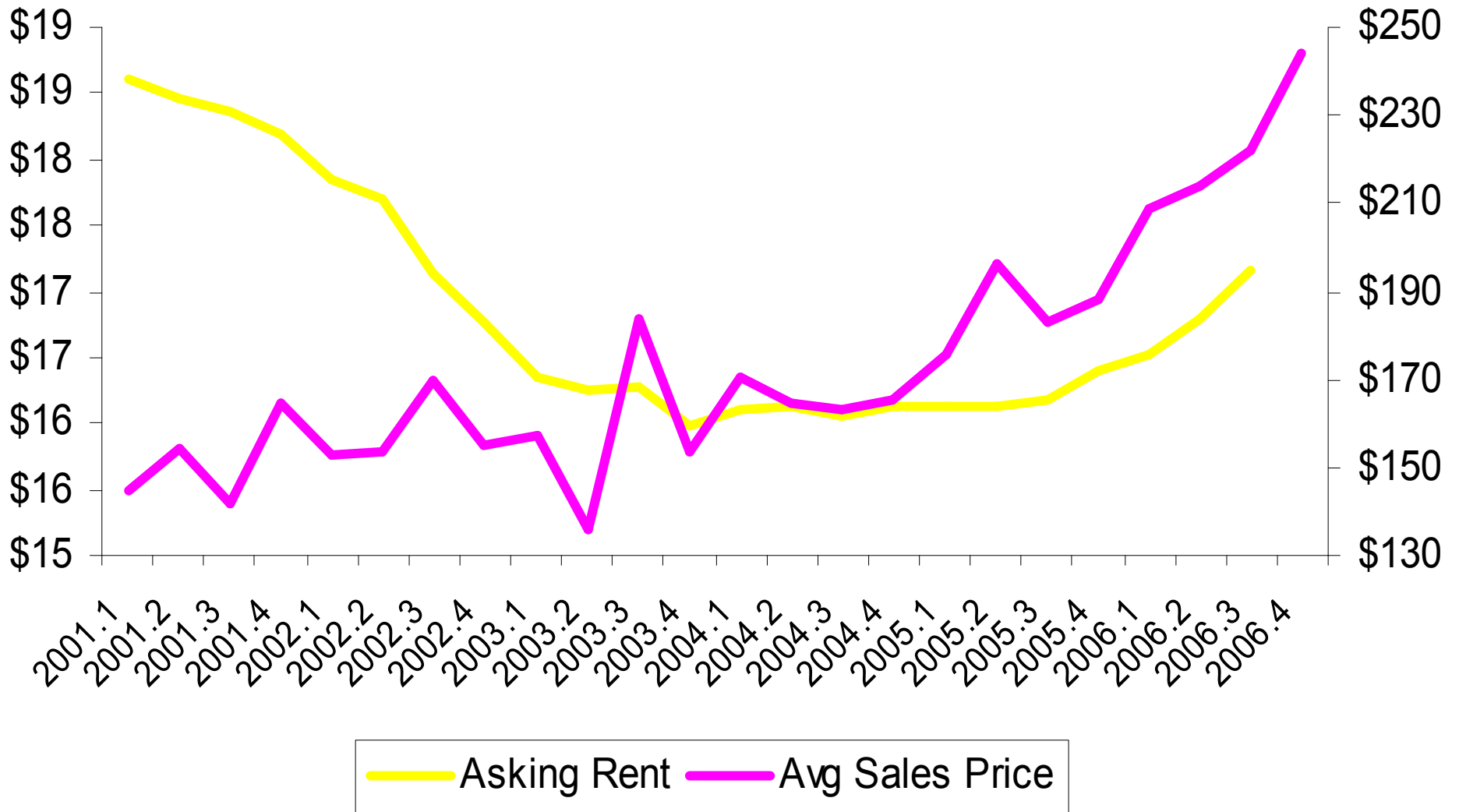
Avg. Cap Rate Spreads

To 10-Year Treasury Yield



Source: RCA, Federal Reserve
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Office Sales Price Vs. Rents



Source: TWR, RCA

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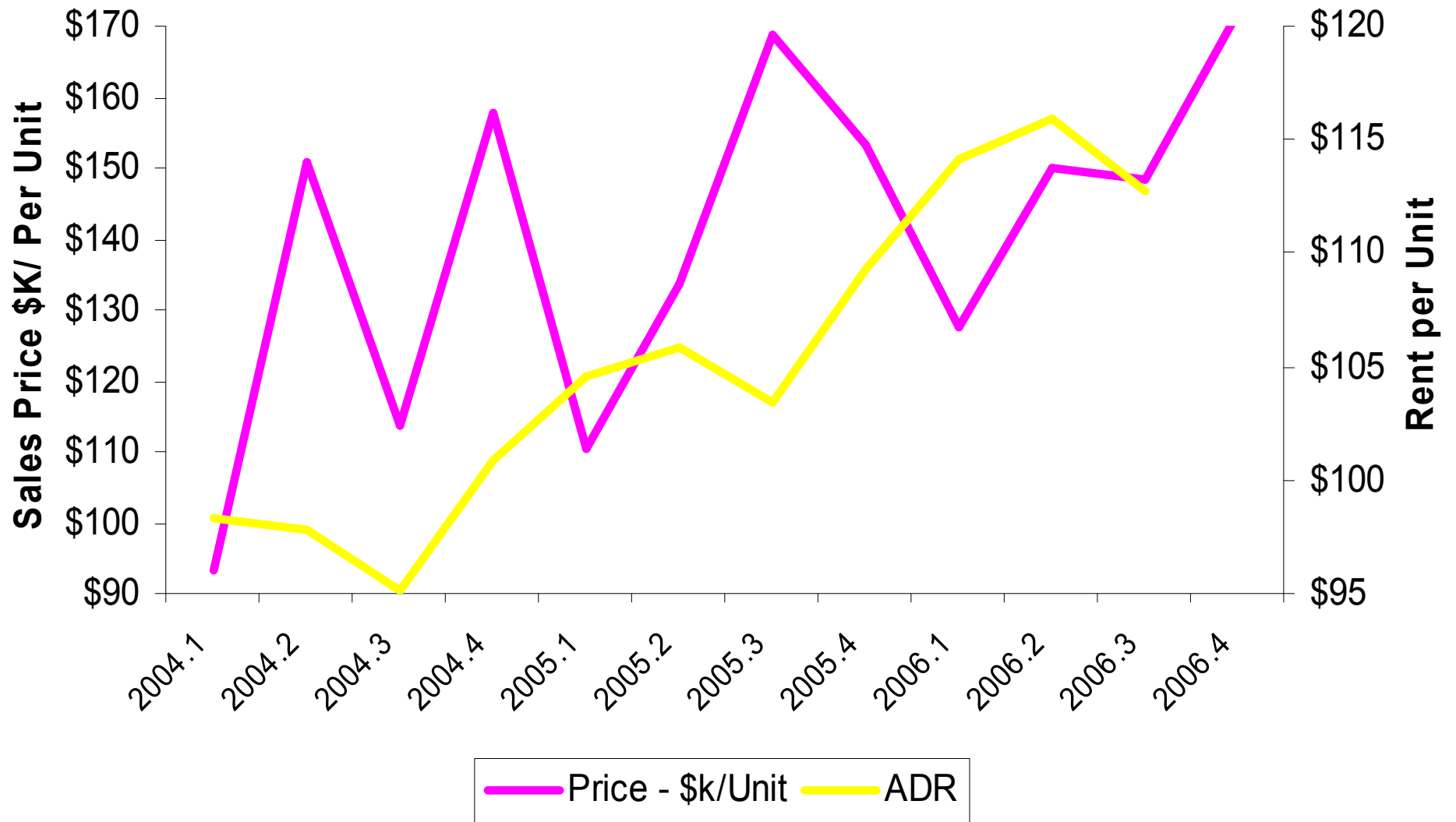
TWR Data as of 3q06; RCA Data as of 4q06⁴

Retail Sales Price Vs. Rents



Source: Reis, RCA
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Hotel Sales Price Vs. ADR

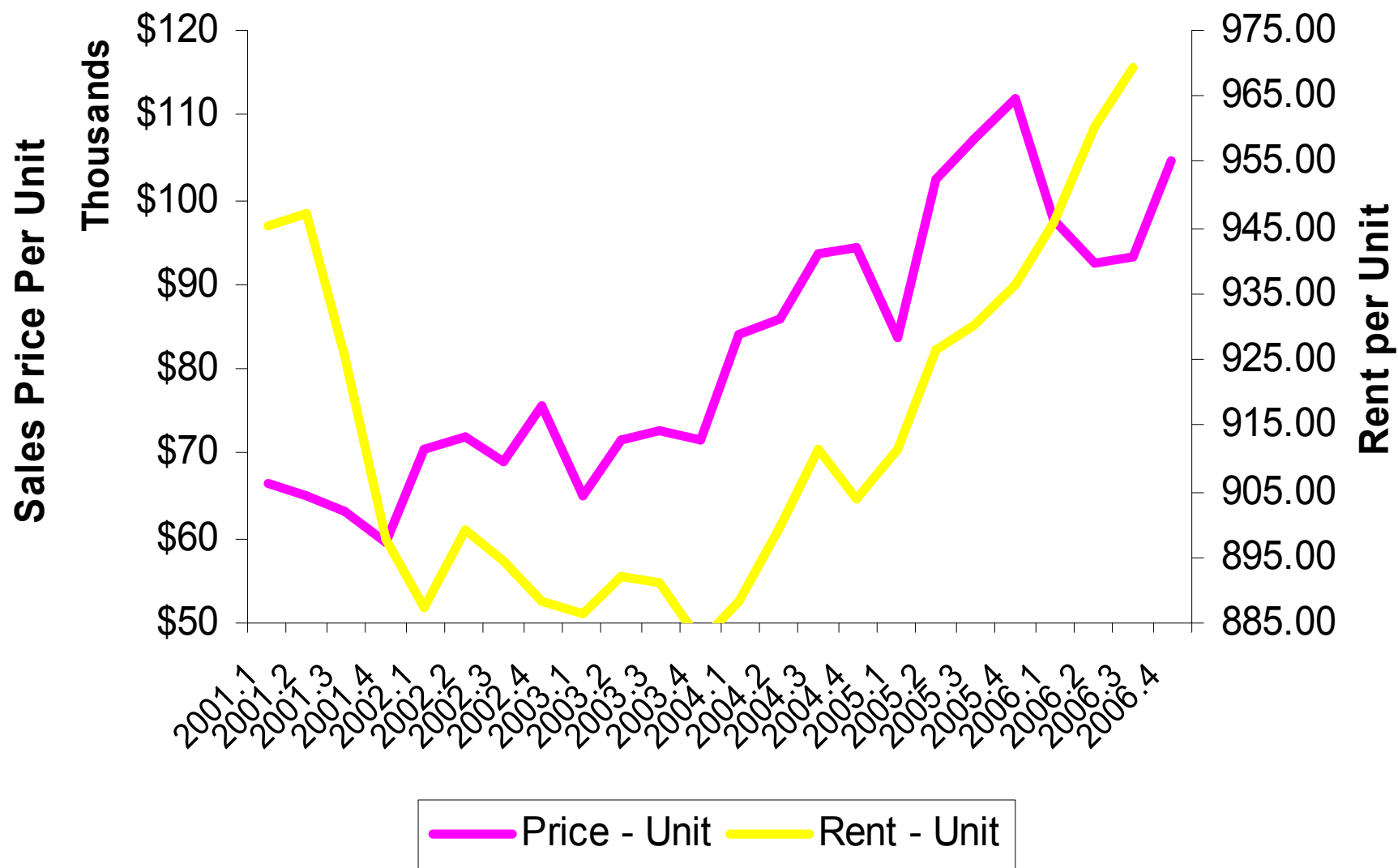


Source: TWR, RCA

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TWR data as of 3q06; RCA data as of 4q06 46

Multi-Family Sales Price Vs. Rents



Source: TWR, RCA

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TWR data as of 3q06; RCA data as of 4q06 47

Average Cap Rates – Last 6 Months

	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06
Apartment	6.38%	6.22%	6.15%	6.14%	6.24%	6.14%
Industrial	7.16%	7.14%	7.20%	7.16%	7.37%	7.36%
Office-CBD	6.69%	6.63%	6.77%	6.61%	6.38%	6.30%
Office-Sub	7.26%	7.11%	7.11%	7.18%	7.20%	7.19%
Strip	7.13%	7.11%	6.89%	6.85%	6.82%	6.78%

Source: RCA

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Comparative Returns

YTD from Prior Year End

	2004	2005	2006
S&P 500	8.99%	3.00%	13.62%
NASDAQ	8.59%	1.37%	9.52%
Lehman Agg. Bond	3.99%	2.16%	4.13%
Public Real Estate	30.41%	8.29%	34.35%
Private Real Estate	14.49%	20.06%	na
Russell 2000	17.00%	3.32%	17.00%
DJIA	3.15%	-0.61%	16.29%

•Sources: NAREIT, Standard & Poor's, Lehman Brothers, NCREIF, DJI

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Comparative Returns

As of 6/30/06	2Q 2006	1-Year	5-Year
Private Equity Index	3.86%	25.85%	12.43%
Venture Capital Index	5.78%	13.51%	-5.00%
NCREIF Property Index	7.78%	18.68%	12.01%
As of 9/30/06	3Q 2006	1-Year	5-Year
NAREIT Equity Index	23.38%	25.27%	22.17%
NCREIF Property Index	11.56%	17.62%	12.43%
Hedge Fund Index			
Russell 2000	8.69%	9.92%	13.78%

Comparative Returns

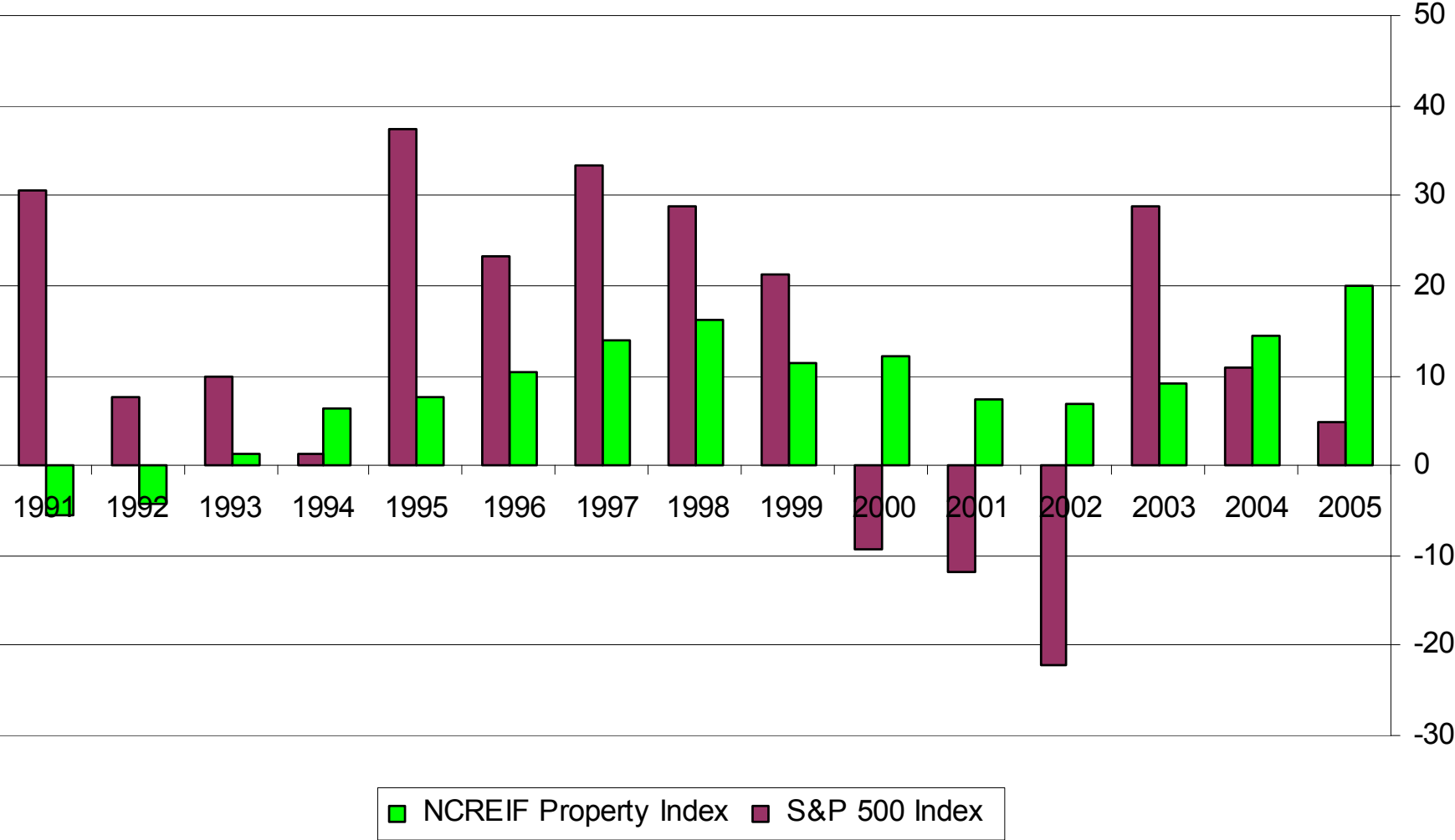
As of Sept 30,2006

	1-Year	3-Year	5-Year	10-Year
S&P 500	10.79%	12.29%	6.89%	8.62%
NASDAQ	4.96%	8.12%	8.55%	6.29%
Lehman Govt. Bond	3.30%	2.76%	4.34%	5.92%
Equity REITs	25.27%	26.04%	22.17%	15.42%
NCRIEF	17.62%	16.37%	12.43%	12.51%
Russell 2000	9.92%	15.46%	13.78%	9.06%
DJIA	10.51%	7.99%	5.71%	7.10%

Dow Jones US Industry Sectors

Best Performers		<u>1-Yr Return</u> as of 01/12/07	Worst Performers		<u>1-Yr Return as</u> of 01/12/07
1	Steel	51.98%	1	Home Construction	-32.31%
2	Gambling	45.79%	2	Mining	-20.98%
	Fixed Line		3	Water utilities	-15.15%
3	Telecommunications	35.65%	4	Semiconductors	-10.64%
4	Investment Services	33.36%		Oil & Gas Exploration & Production	
	Real Estate Holding & Development		5		-8.42%
5		31.55%	6	Recreational Products	-8.14%
	Broadcasting & Entertainment			Platinum & Precious Metals	
6		30.61%	7		-7.26%
7	Airlines	30.12%	8	Industrial Suppliers	-7.08%
8	Consumer Electronics	27.20%	9	Distillers & Vintners	-6.57%
9	Aerospace	25.85%	10	Furnishings	-5.35%
10	Media	25.26%			

RE and Market Index Return History



Source: NCREIF

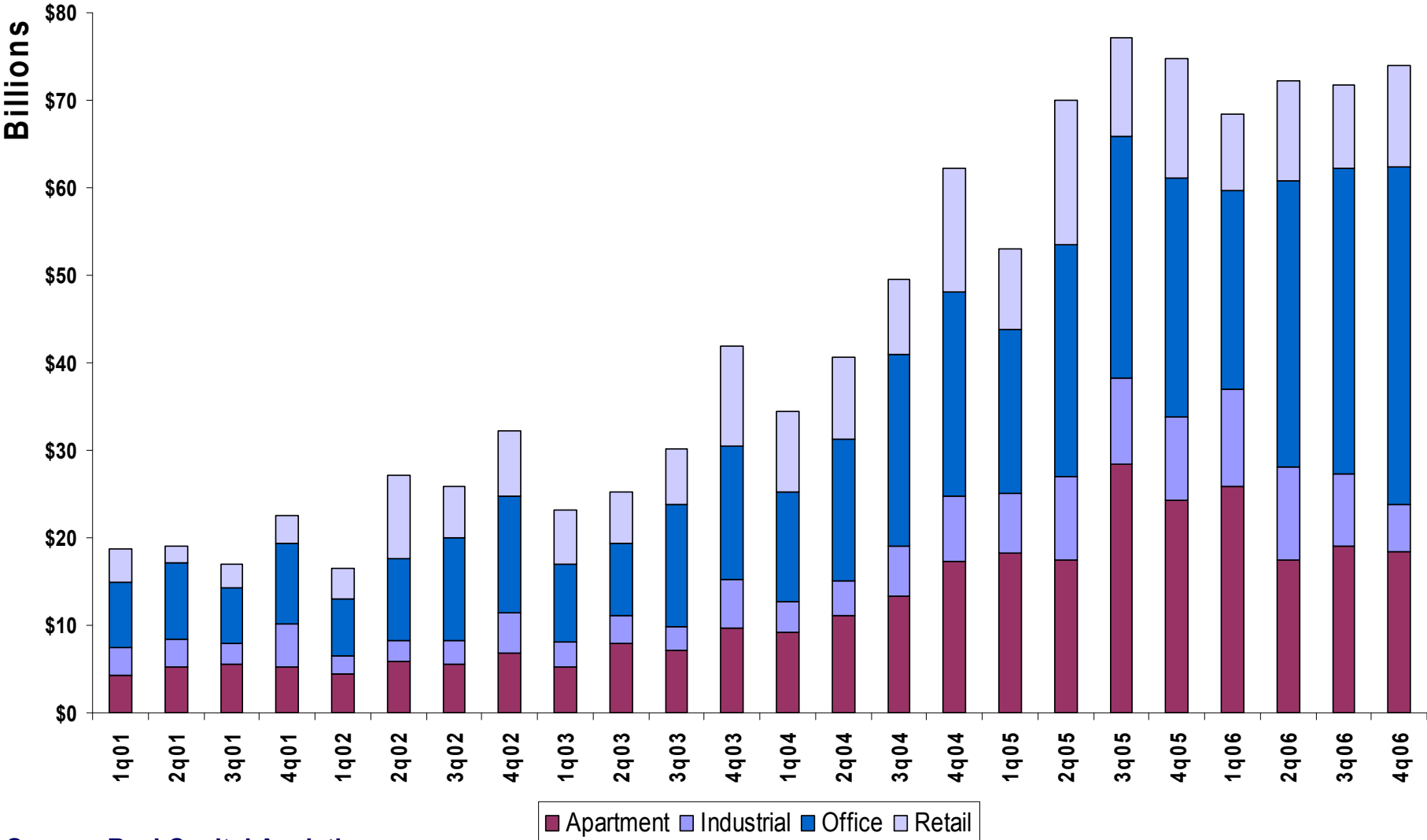
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Product Market Niches

- Student Housing
- Senior Living
- Medical Office
- Low Income Housing
- Hospitality
- Gaming
- Self Storage
- Golf Course
- Infrastructure
- Vineyards
- Timber
- Farmland
- Time Shares

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Sales Volumes by Property Type

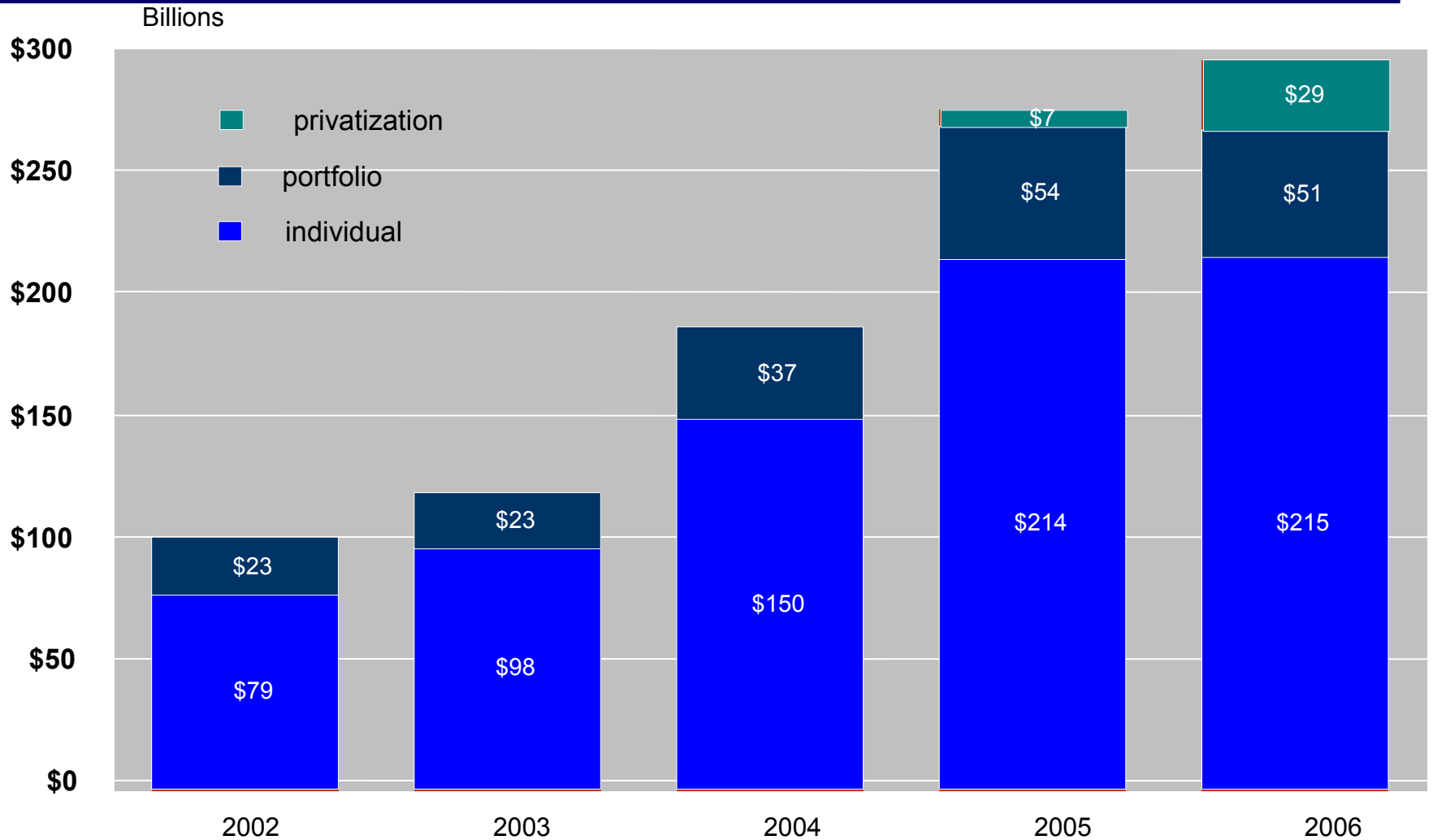


Source: Real Capital Analytics

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US Property Acquisitions

Office, Industrial, Multifamily, Retail Properties \$5 mil.+

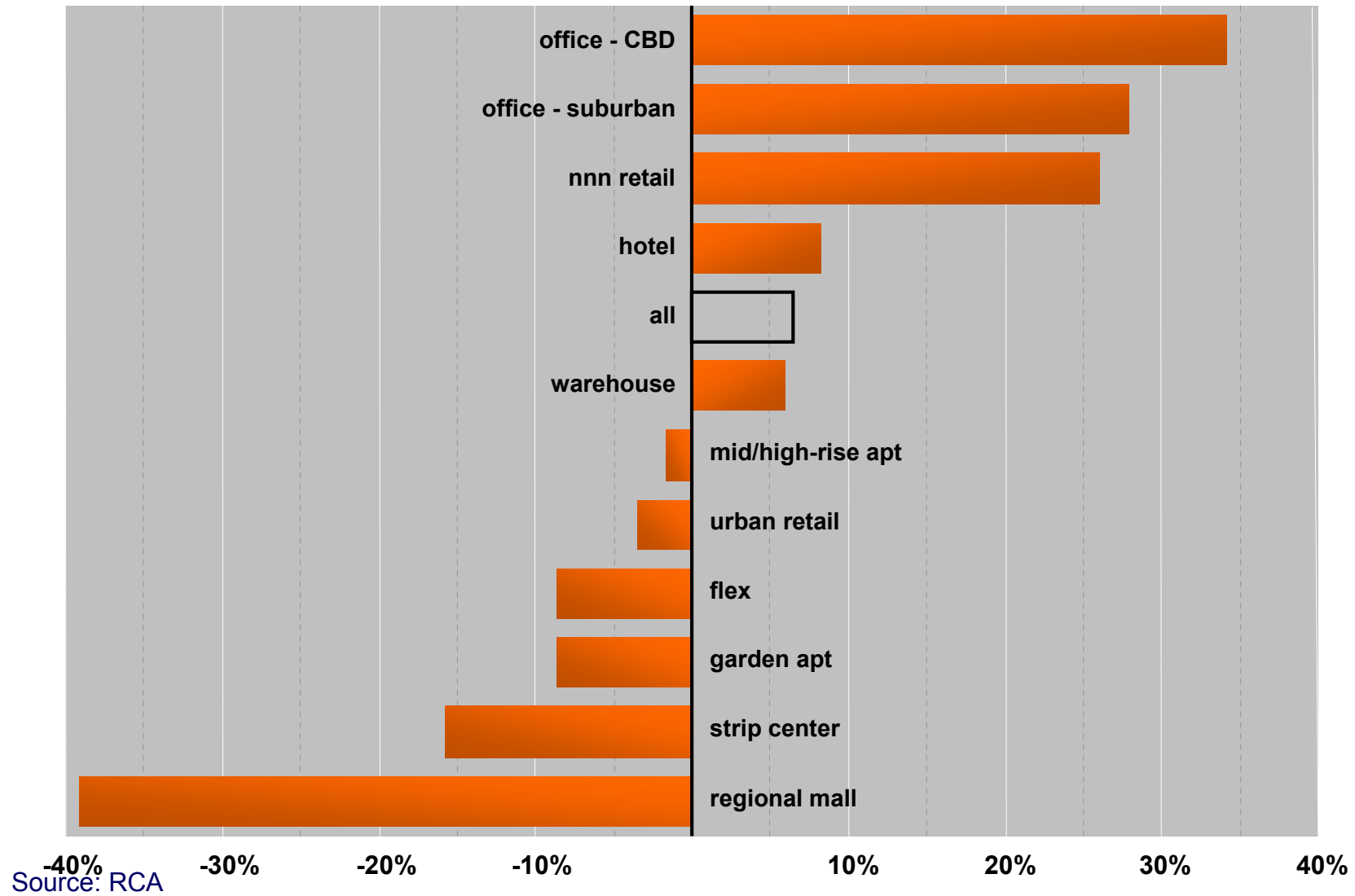


Source: RCA

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Change In Sales Volume

2006 vs. 2005



Source: RCA

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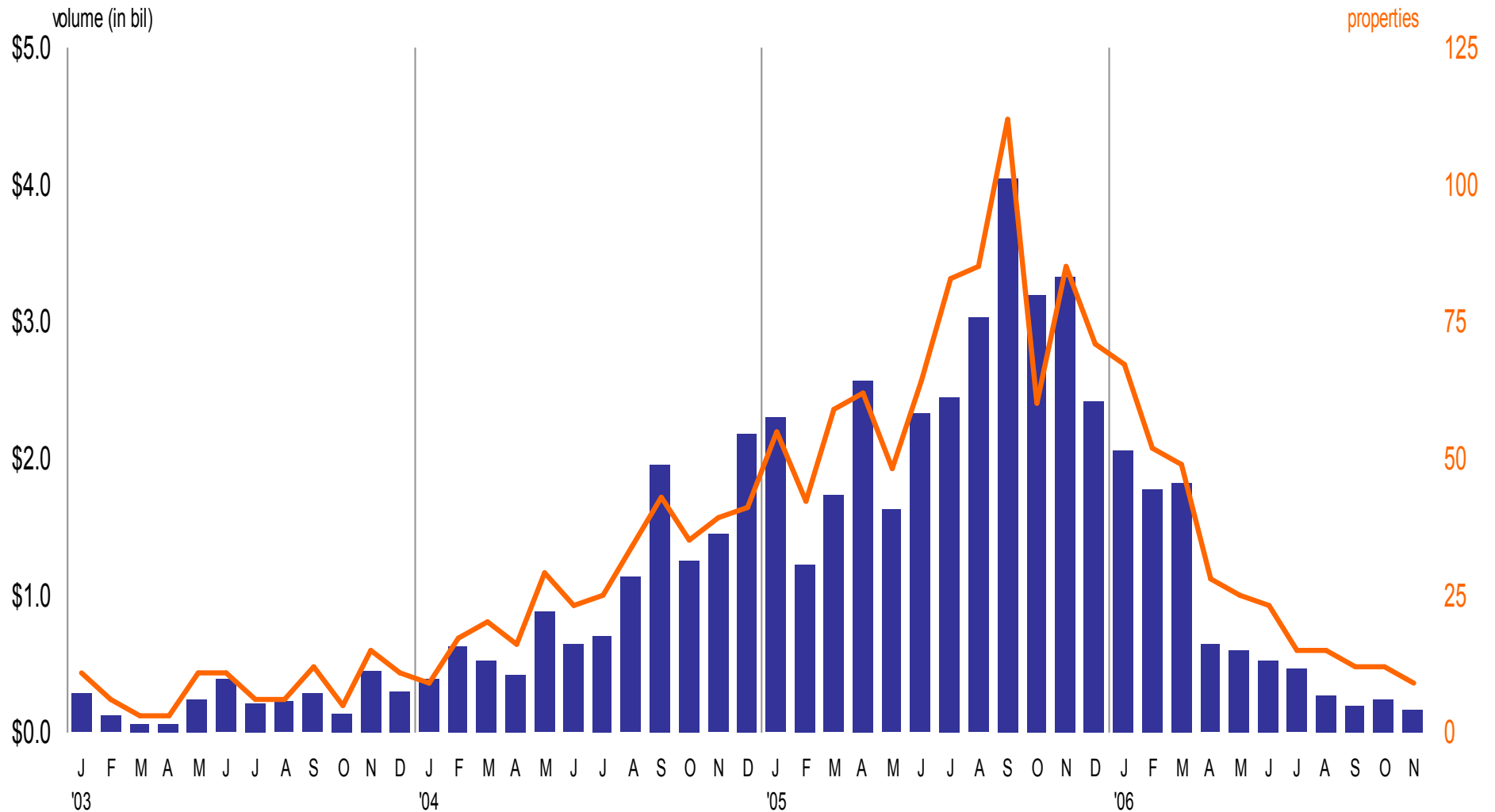
Single Asset Transactions \$500 Million & Above in 2006

Date	Property	City	Type	Price	Buyer
Nov-06	PeterCooperVill & StuyTown	New York	apt	\$ 5,400,000,000	Tishman Speyer/BlackRock Realty
Nov-06	<i>Mall of America*</i>	Minneapolis	mall	\$ 1,800,000,000	Triple Five Group
contract	<i>666 Fifth Ave*</i>	New York	Office - CBD	\$ 1,800,000,000	Kushner Companies
Aug-06	1211 Sixth Ave	New York	Office - CBD	\$ 1,520,000,000	Beacon Capital Partners/Lehman Bros
Nov-06	Five Times Square	New York	Office - CBD	\$ 1,284,000,000	AVR Realty
Mar-06	AXA Financial Ctr	New York	Office - CBD	\$ 1,246,450,000	Hudson Waterfront Associates
Jun-06	280 Park Ave	New York	Office - CBD	\$ 1,200,000,000	Istithmar
Mar-06	Bank of America Ctr	San Francisco	Office - CBD	\$ 1,050,000,000	Hudson Waterfront Associates
Sep-06	425 Park Ave	New York	Office - CBD	\$ 1,000,000,000	L&L Acquisition Corp
Dec-06	State Street Financial Ctr	Boston	Office - CBD	\$ 889,000,000	Fortis Property Group LLC/David Werner
contract	Pacific Shores Ctr	Redwood City	Office - Sub	\$ 829,000,000	Starwood Capital Group
Mar-06	One Madison Ave	New York	Office - CBD	\$ 801,677,769	SL Green Realty Corp/Credit Suisse
May-06	Hard Rock Hotel & Casino	Las Vegas	Hotel	\$ 770,000,000	Morgans Hotel Group/Credit Suisse
Aug-06	<i>High St/Oliver St Towers*</i>	Boston	Office - CBD	\$ 730,000,000	Tishman Speyer
contract	Manhattan Mall	New York	Office - CBD	\$ 689,000,000	Vornado Realty Trust
Aug-06	450 Lexington Ave	New York	Office - CBD	\$ 600,000,000	Istithmar
Sep-06	<i>Technology Square*</i>	Cambridge	Office - CBD	\$ 600,000,000	Alexandria RE Equities
contract	South Coast	Las Vegas	Hotel	\$ 576,000,000	Michael Gaughan
contract	Two Park Ave	New York	Office - CBD	\$ 565,000,000	Morgan Stanley
Oct-06	Citadel Center	Chicago	Office - CBD	\$ 562,000,000	Robert Gans
contract	One Park Ave	New York	Office - CBD	\$ 550,000,000	Murray Hill Properties
Nov-06	340 Madison Ave	New York	Office - CBD	\$ 550,000,000	Broadway Real Estate Partners
Nov-06	350 Park Ave	New York	Office - CBD	\$ 542,000,000	Vornado Realty Trust
Jul-06	Bertelsmann Building	New York	Office - CBD	\$ 525,057,000	Equity Office Properties/Lehman Brothers
May-06	One Federal Street	Boston	Office - CBD	\$ 514,000,000	Abu Dhabi Investm.Auth./Tishman Speyer
Dec-06	Random House HQ	New York	Office - CBD	\$ 509,000,000	Witkoff Group
Jun-06	<i>Comcast Center*</i>	Philadelphia	Office - CBD	\$ 505,000,000	Commerzleasing

Source: RCA

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Monthly Sales for Condo Conversion



Source: Real Capital Analytics
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Major Sources of New Funds

- Private Equity
- Pension Funds
- ETFs
- Funds of Funds
- REITs
- Private REITs
- AIM Market
- Derivatives
- TICs
- NCREI-CBOT Index

- **Real Estate and the Economic Reality Gap**

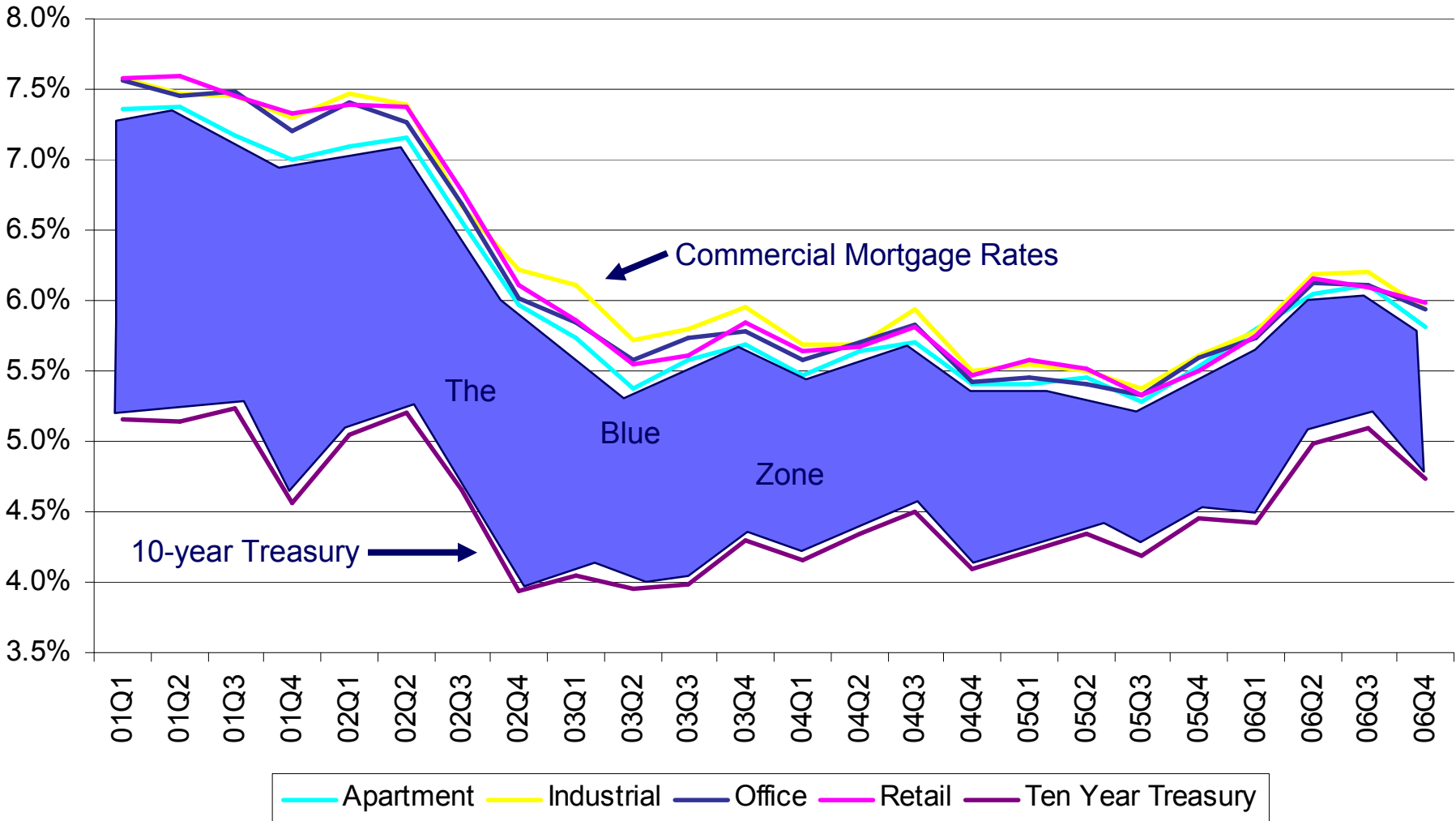
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- **Accounting Standards Also Evolving and Converging**

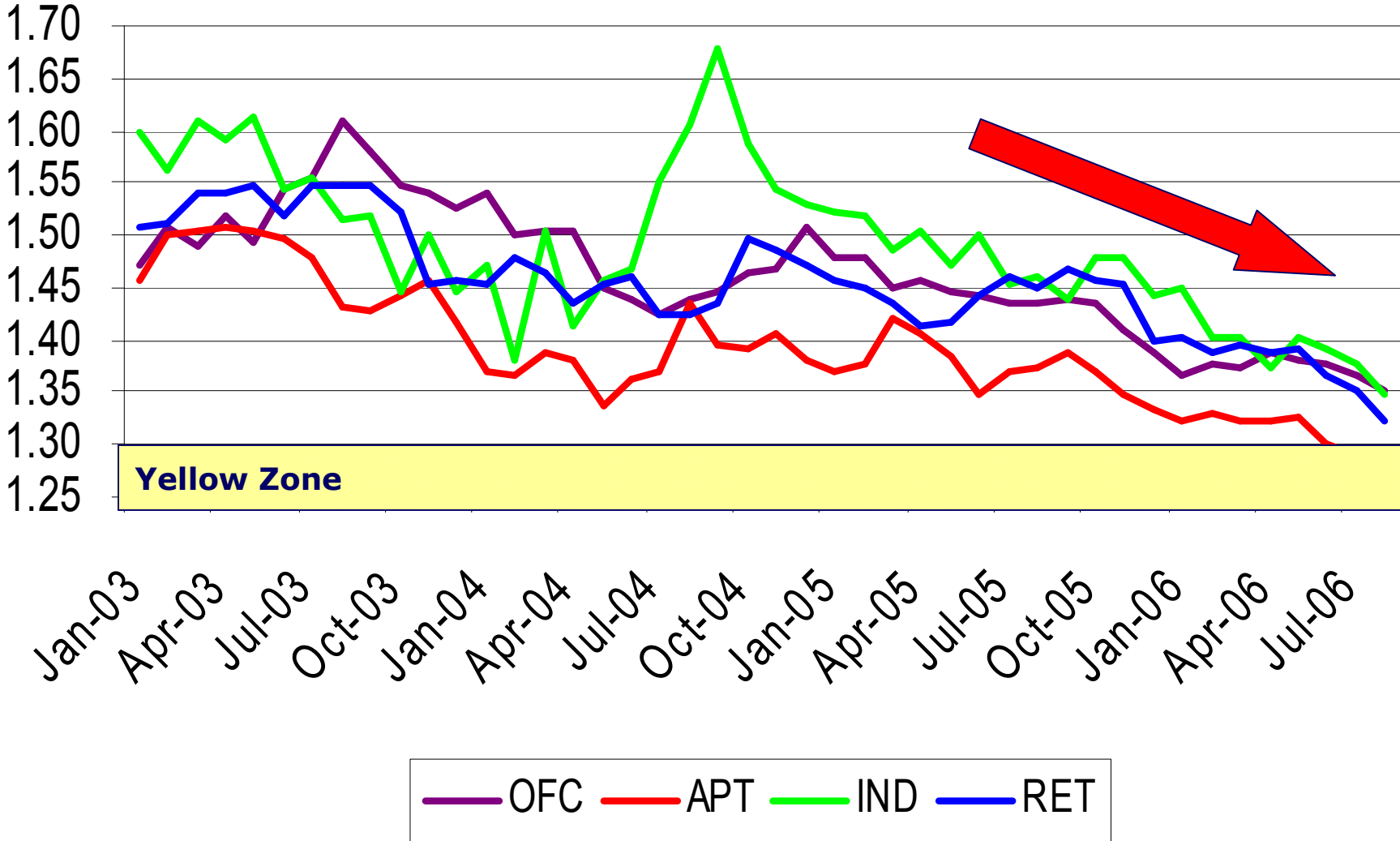
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Mortgage Rates by Property Type

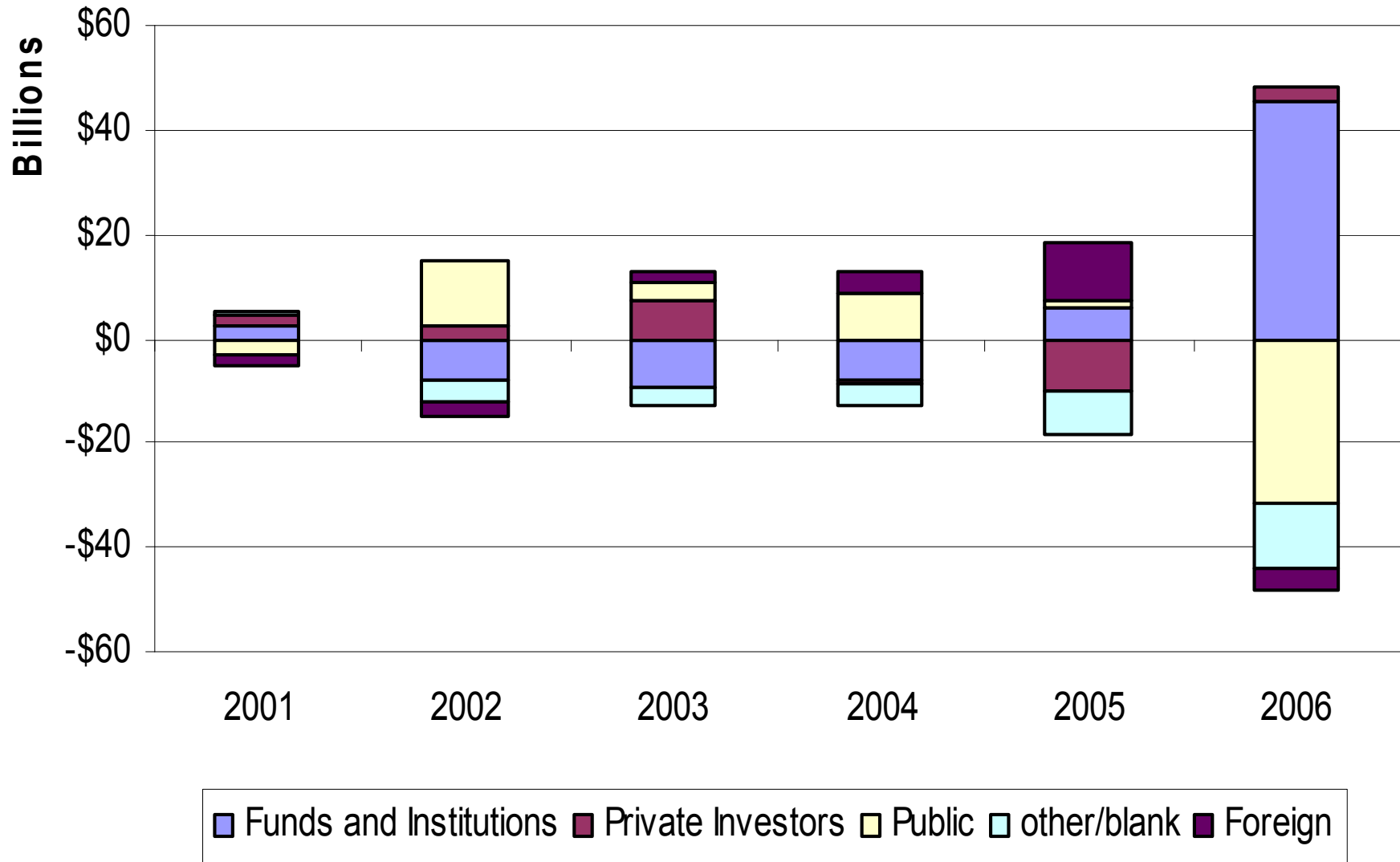


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Debt Service Coverage Ratio by Property Type

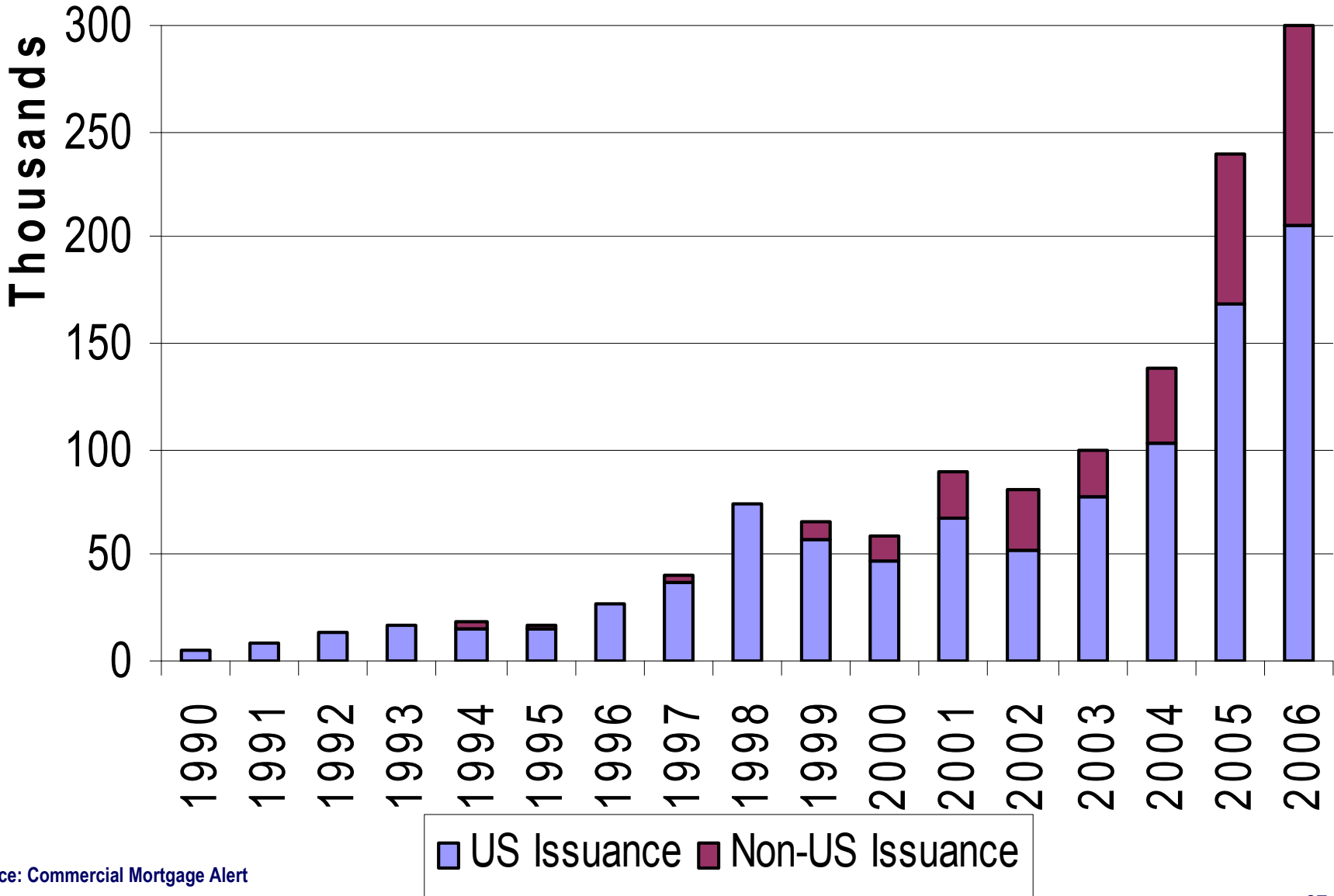


Net Buyers or Seller by Type



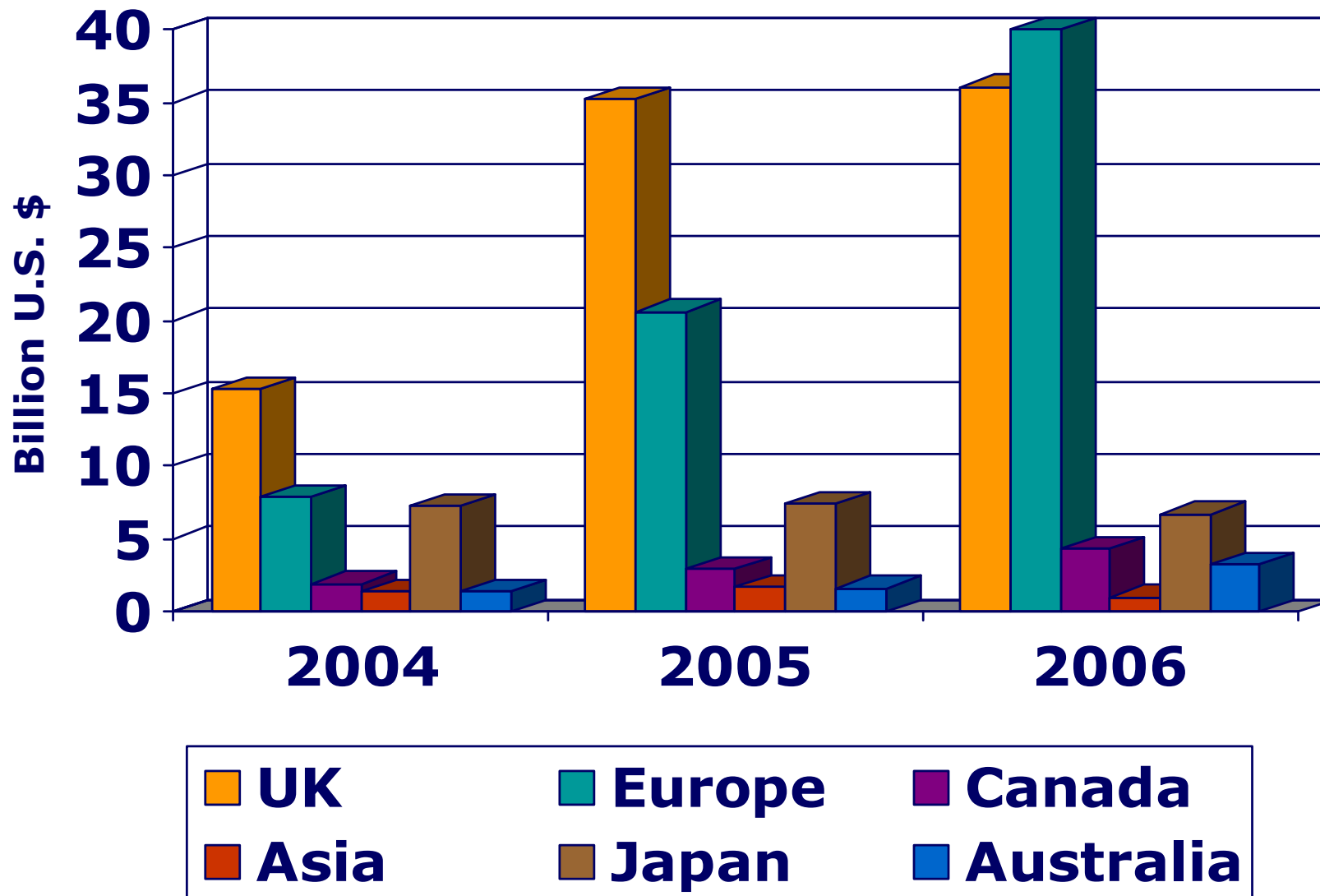
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US/Non-US CMBS Issuance



Source: Commercial Mortgage Alert
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Non-US CMBS by Country

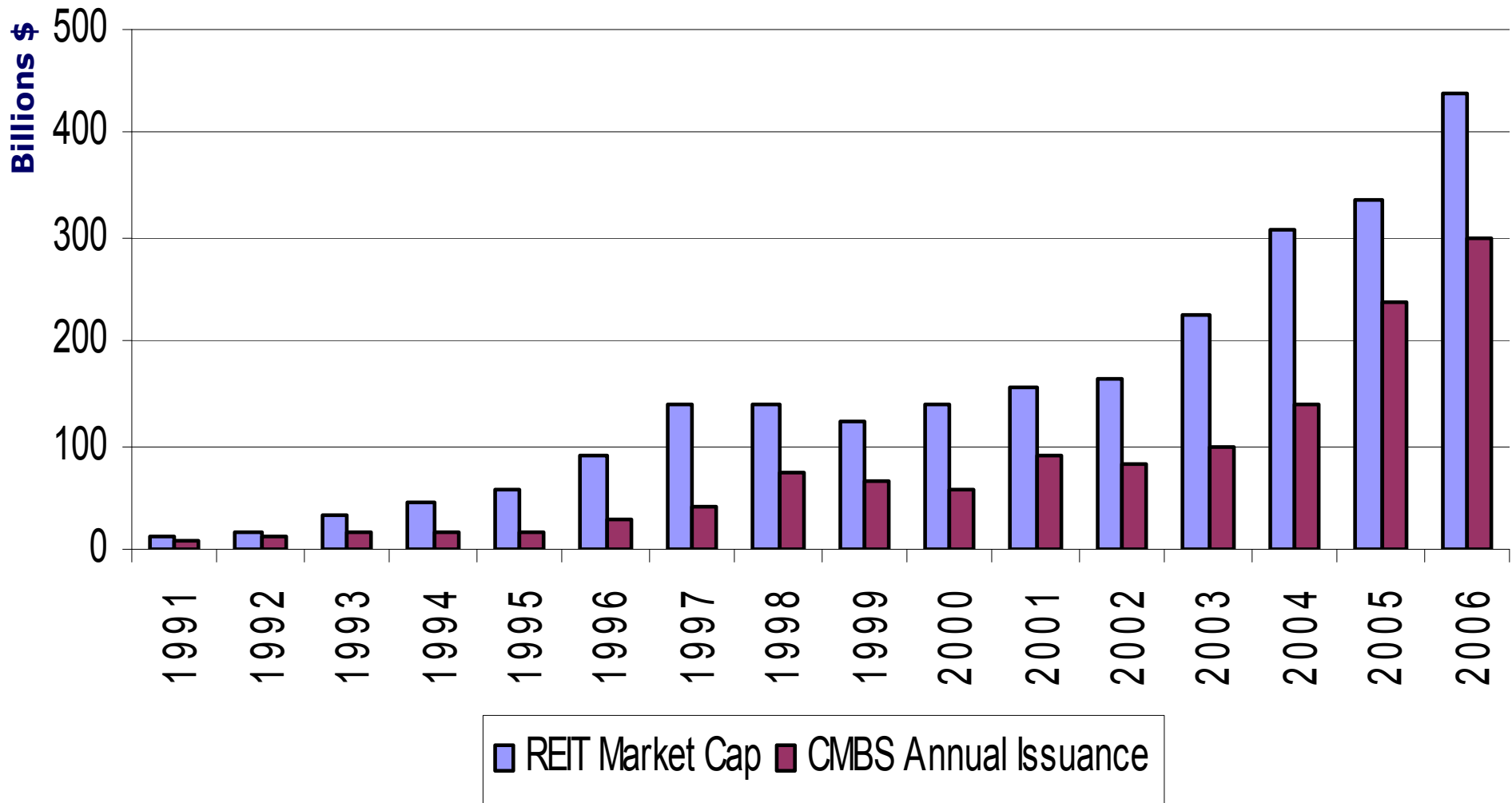


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Major REIT Transactions – Privatization -- 2006

Company	Type	Date	Value \$ (B)
Equity Office	Office	???	\$40 ??
Trizec Properties	Office	Oct – 06	\$9.0
CarrAmerica Realty	Office	Jun – 06	\$5.6
Shurgard Storage	Self Storage	Aug – 06	\$5.5
Catellus Development Corp.	Industrial	Sep – 05	\$5.5
Arden Realty	Office	May – 06	\$4.8
Pan Pacific Retail Properties	Shopping Centers	Oct – 06	\$4.1
CenterPoint Properties Trust	Industrial	Mar – 06	\$3.4
Prentiss Properties Trust	Office	Jan – 06	\$3.3
Heritage Property Investment	Retail	Jul – 06	\$3.2
Gables Residential Trust	Apartments	Jun – 05	\$2.8
Meristar Hospitality	Lodging/Resorts	Feb – 06	\$2.6
Amlı Residential Properties Trust	Apartments	Feb – 06	\$2.1
Glenborough Realty	Office	Nov – 06	\$1.9

REIT Market Capitalization (all REITs) CMBS Annual Issuance

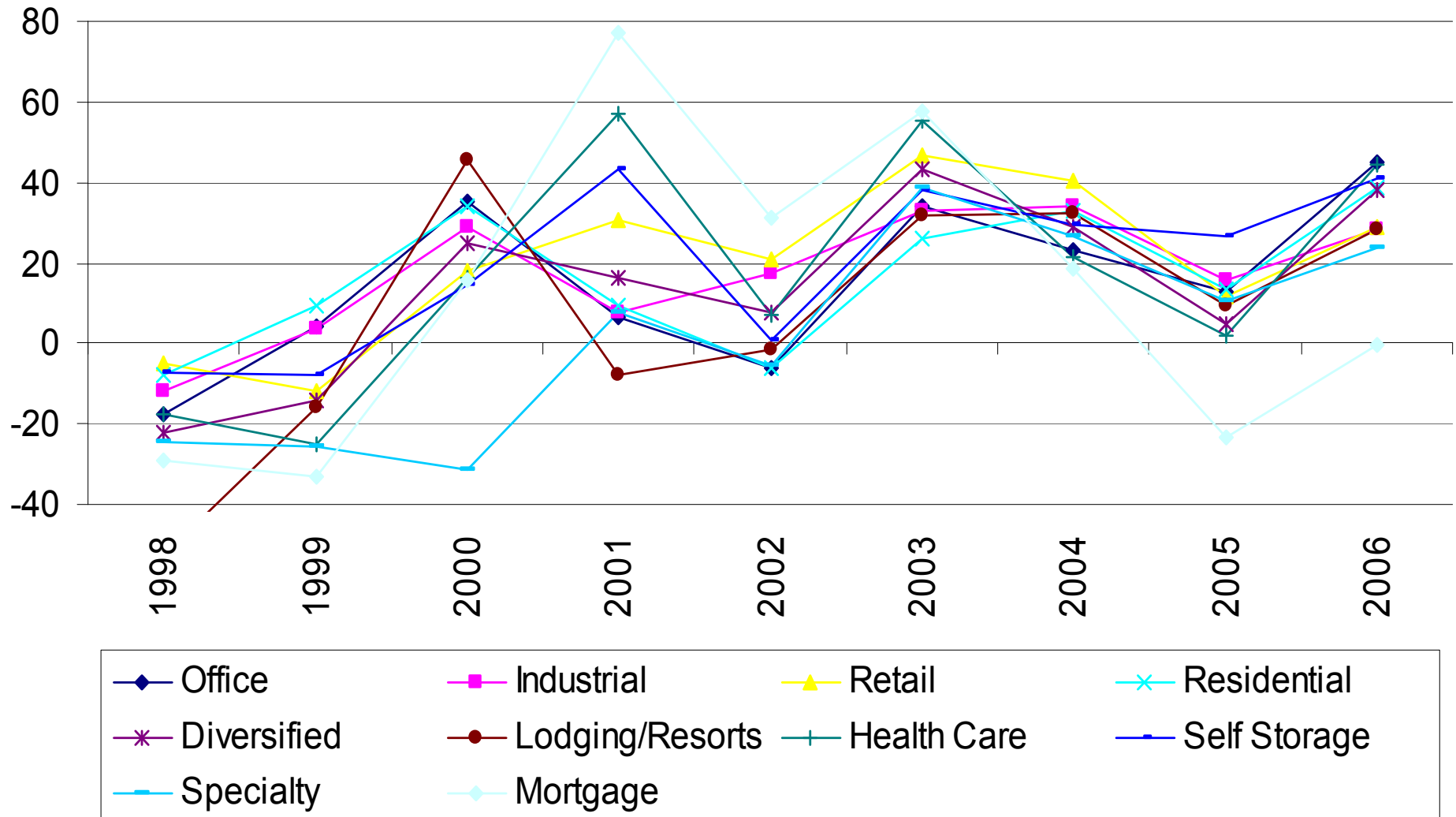


Source: NAREIT, CM Alert




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REIT Returns by Property Type





YTD % Returns



REITs in Europe

 NETHERLANDS - BI	
Vehicle name	BI - fiscale beleggingsinstelling (<i>referred to as a fiscal investment institution</i>)
Inception	1969
Legal form	Public company, limited liability company, or investment fund
Number of REITs	8
Market capitalization	US\$17-\$20 billion
Dividend yield (average)	5.45%
Exchange listing	No mandatory listing
Shareholder requirements	Maximum 45% held by any one unlisted, taxable entity and 25% held by any individual shareholder; maximum 25% by a non-resident shareholder
 BELGIUM - SICAFI	
Vehicle name	SICAFI - sociétés d'investissements à capital fixe en immobilière
Inception	1995
Legal form	Limited liability company, corporation or limited partnership with <u>fixed capital</u>
Number of REITs	11
Market capitalization	US\$5 billion
Dividend yield (average)	6.10%
Exchange listing	Mandatory listing on Belgian stock exchange (or EU Member regulated exchange)
Shareholder requirements	No requirements
 FRANCE - SIIC	
Vehicle name	SIIC - Sociétés d'investissement à capital fixe en immobilière - tax regime
Inception	2003
Legal form	Corporation
Number of REITs	20
Market capitalization	US\$30 billion
Dividend yield (average)	3.50%
Exchange listing	Mandatory listing on a French stock exchange
Shareholder requirements	None

REITs in Asia

	AUSTRALIA - LPT
Vehicle name	LPT - Listed Property Trusts (there are also unlisted property trusts)
Inception	1985
Legal form	Fixed trusts (listed or unlisted unit trusts) - <i>flow through entities</i>
Number of REITs / LPTs	37
Market capitalization	US\$60 billion
Dividend yield (average)	6.50%
Exchange listing	No mandatory listing (<i>most large property trusts are typically listed</i>)
Shareholder requirements	No requirements
	JAPAN - J-REIT
Vehicle name	J-REIT - Japan Real Estate Investment Trust
Inception	2000
Legal form	Investment corporation or trust (<i>currently all are corporations</i>)
Number of REITs	21
Market capitalization	US\$20 billion
Dividend yield (average)	3.70%
Exchange listing	Not mandatory
Shareholder requirements	Need 1,000 shareholders to list
	SINGAPORE - S-REIT
Vehicle name	S-REIT - Singapore Real Estate Investment Trust
Inception	2002
Legal form	Trust or corporation (<i>most S-REITs are trusts for tax purposes</i>)
Number of REITs	7
Market capitalization	US\$5 to \$6 billion
Dividend yield (average)	4.70%
Exchange listing	Mandatory
Shareholder requirements	Need 500 shareholders to list
	HONG KONG - REIT
Vehicle name	REIT - Real Estate Investment Trust
Inception	2003
Legal form	Unit trust
Number of REITs	1
Market capitalization	US\$2.8 billion
Dividend yield (average)	5.80%
Exchange listing	Mandatory
Shareholder requirements	No requirements

Other REITs - Canada, Up and Comers and the German Question?

- Canadian REITs – established in 1993, there are now 20 publicly traded REITs in Canada with a combined market cap of over \$25B
- Bulgarian REITs part of 2003 Special Purpose Investment Company Act – 10 companies listed, 6 more preparing to list.
- Malaysian REITs, 8 REITs listed
- Germany G-REITs legislation *still pending .. Your guess is as good as mine*











UK – Jan 2007 Start

- 9 firms convert on Inception
- 5 more firms plan conversion in first 6 months of 2007
- 5 additional firms have made public their consideration of conversion

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Global Opportunities – USA Outbound Investments

 Solid Growth, + 5%
  Growth, Approx. 4%
  Some growth, Approx. 3%

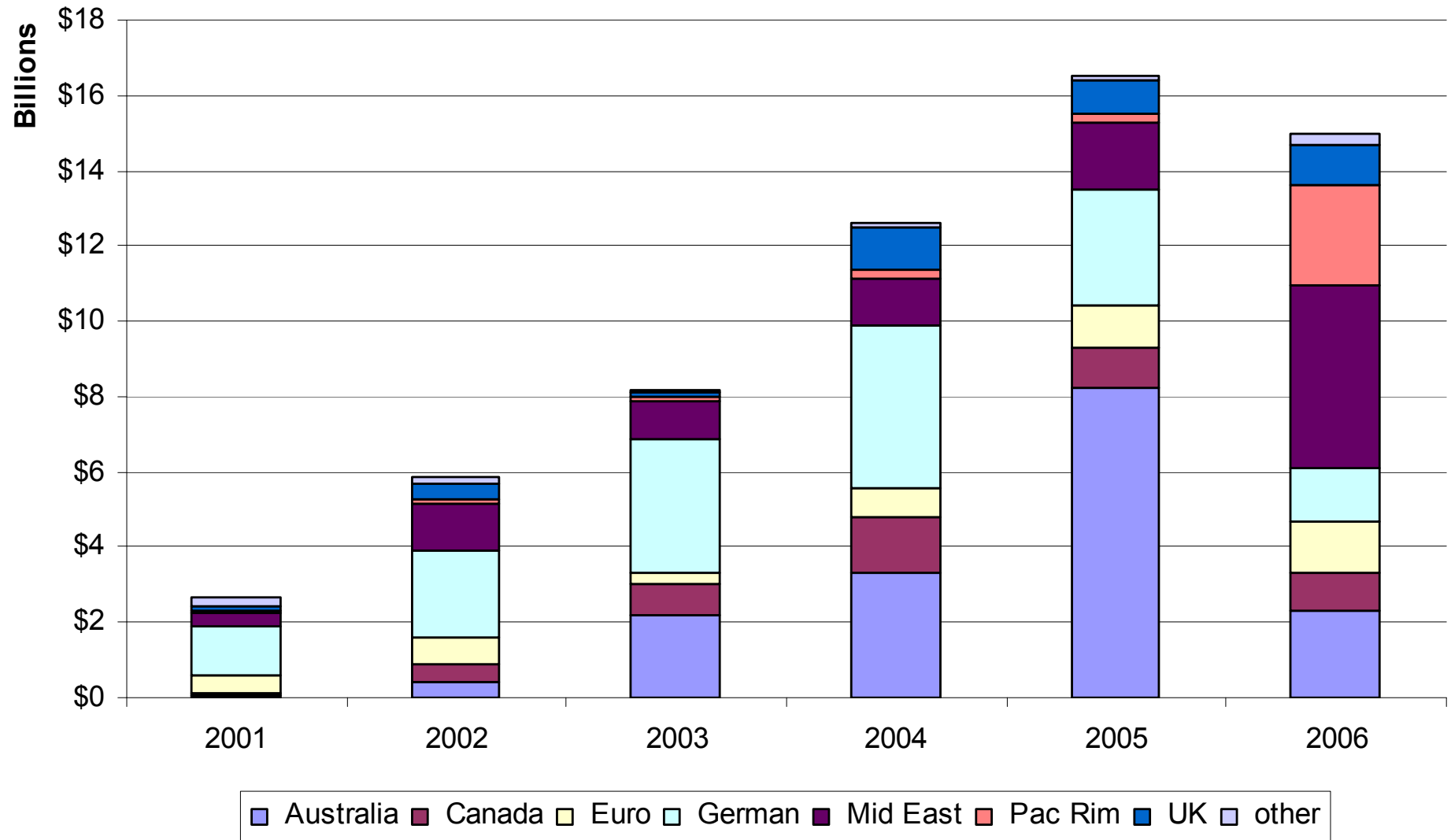
	The Economy		Product Opportunities	Comments
	2006	2007		
USA		---	<ul style="list-style-type: none"> • Many . . .More Development • More Niches (Senior/ Infrastructure/Healthcare, etc.) 	<ul style="list-style-type: none"> • Pricey; Few Bargains, But... • Improving Fundamentals • More Money Coming in '07?
Asia		---	<ul style="list-style-type: none"> • NPLs/Corporate/ Industrial/ Retail 	<ul style="list-style-type: none"> • “3rd Wave of Investors” in 2006; Successful J REITs; Recovery After 15 yrs.
• China/ Hong Kong			<ul style="list-style-type: none"> • Residential/Retail/NPLs 	<ul style="list-style-type: none"> • “Hot” Interest; HK REIT
• India			<ul style="list-style-type: none"> • Corporate/Office 	<ul style="list-style-type: none"> • Next “Big” Interest; “1st Wave”; Bureaucratic
• So. Korea			<ul style="list-style-type: none"> • Selected Opportunities 	<ul style="list-style-type: none"> • Specialist Opportunities
• Australia	---	---	<ul style="list-style-type: none"> • Limited Opportunities 	<ul style="list-style-type: none"> • Exporter of Capital

Global Opportunities – USA Outbound Investments

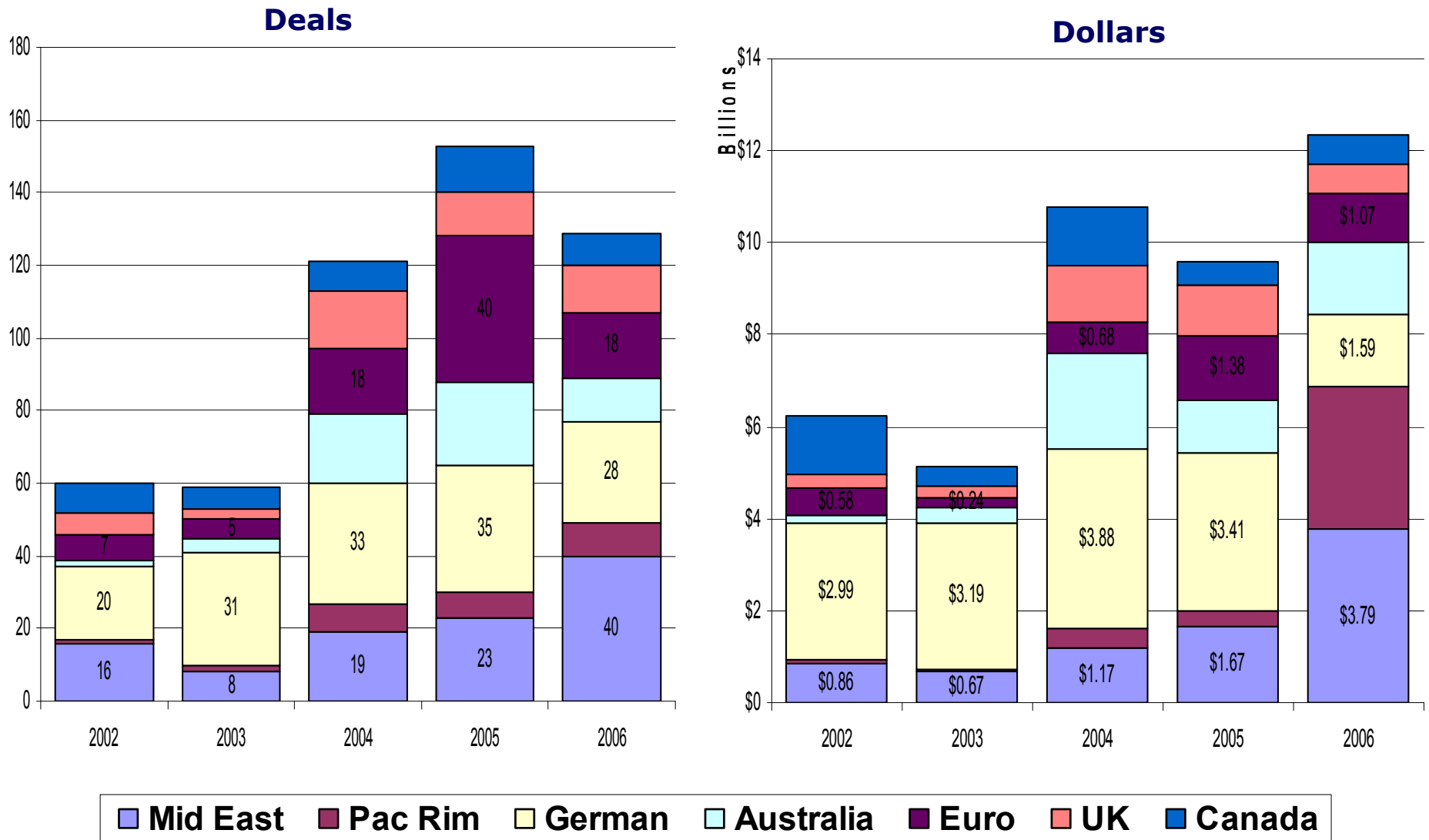
 Solid Growth, + 5%
  Growth, Approx. 4%
  Some growth, Approx. 3%

	The Economy		Product Opportunities	Comments
	2006	2007		
Europe				
• UK		---	• Office/Retail/Residential	• Focus on London/REITs
• Germany	---	---	• NPL's/Corporate/Retail	• Exit Strategies?
• France	---	---	• Few, Mostly Paris	• Recovery?
• Spain			• Hospitality	• Growth (above average)
• Italy	---	---	• NPL's/Corporate	• Bureaucratic
• Central Europe			• Selected – Retail/Residential	• Europe Moves East
• Russia			• Limited Opportunities	• A Few Investments – in spite of risks
N./S. America				
• Canada	---	---	• Limited Opportunities	• Exporter of Capital
• Mexico			• Residential/Industrial/Retail	• Recent Recovery
• Brazil			• Residential	• Growth (?); High Interest Rates

Foreign Investment in US Real Estate – In Bound



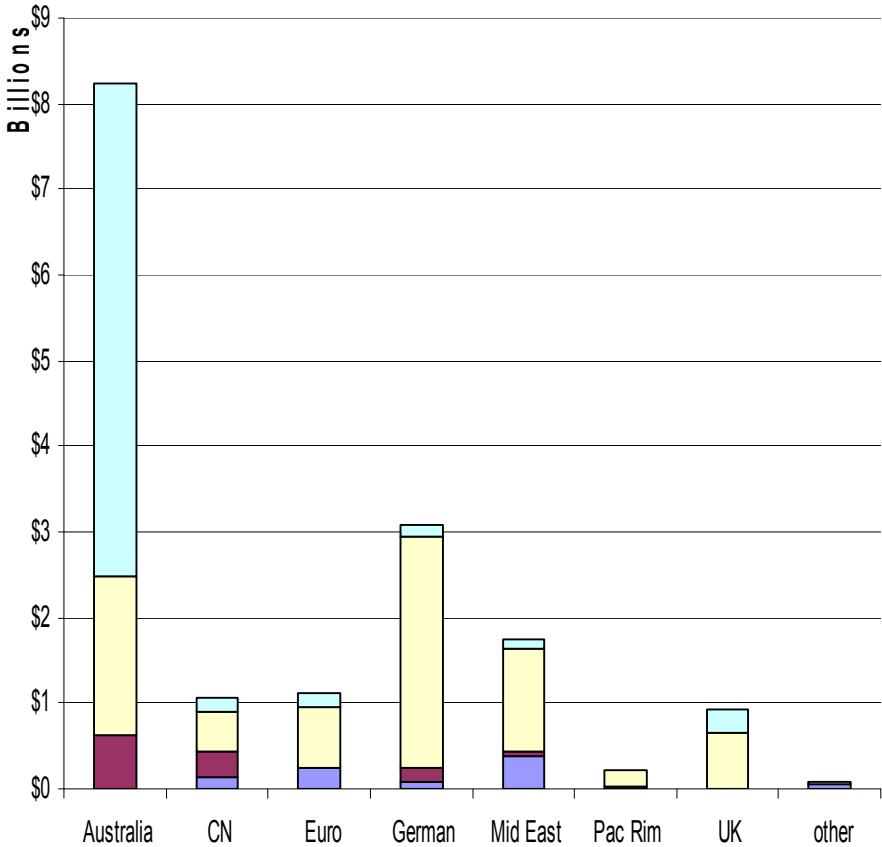
Foreign Investment in US Office Property – In Bound



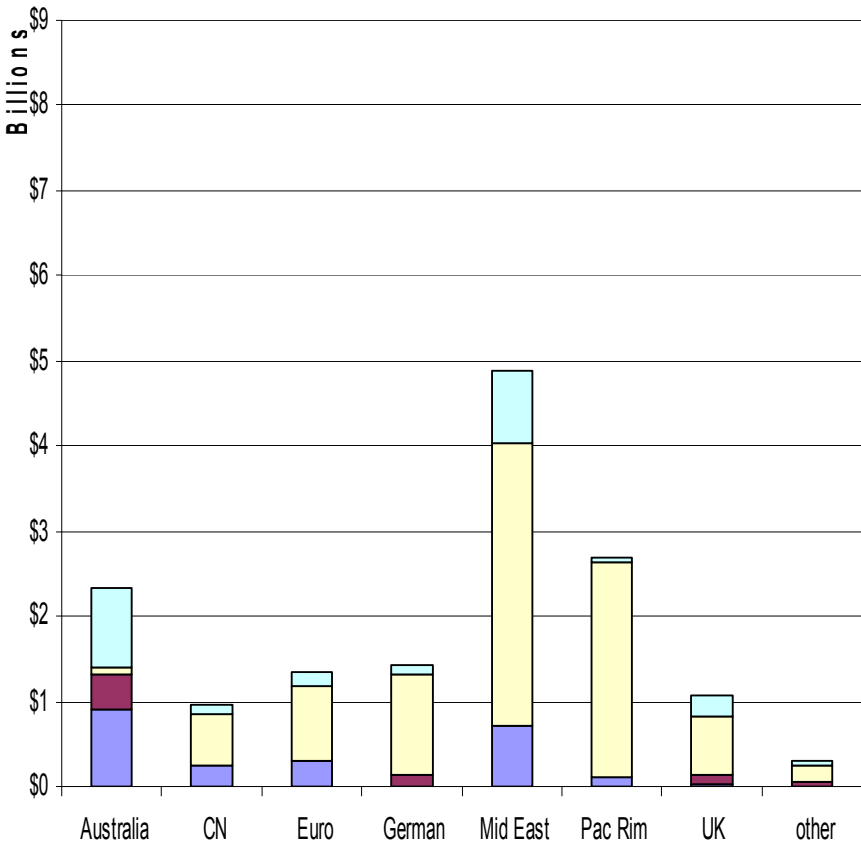
Source: Real Capital Analytics
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Foreign Investment in US Real Estate By Type – In Bound

2005



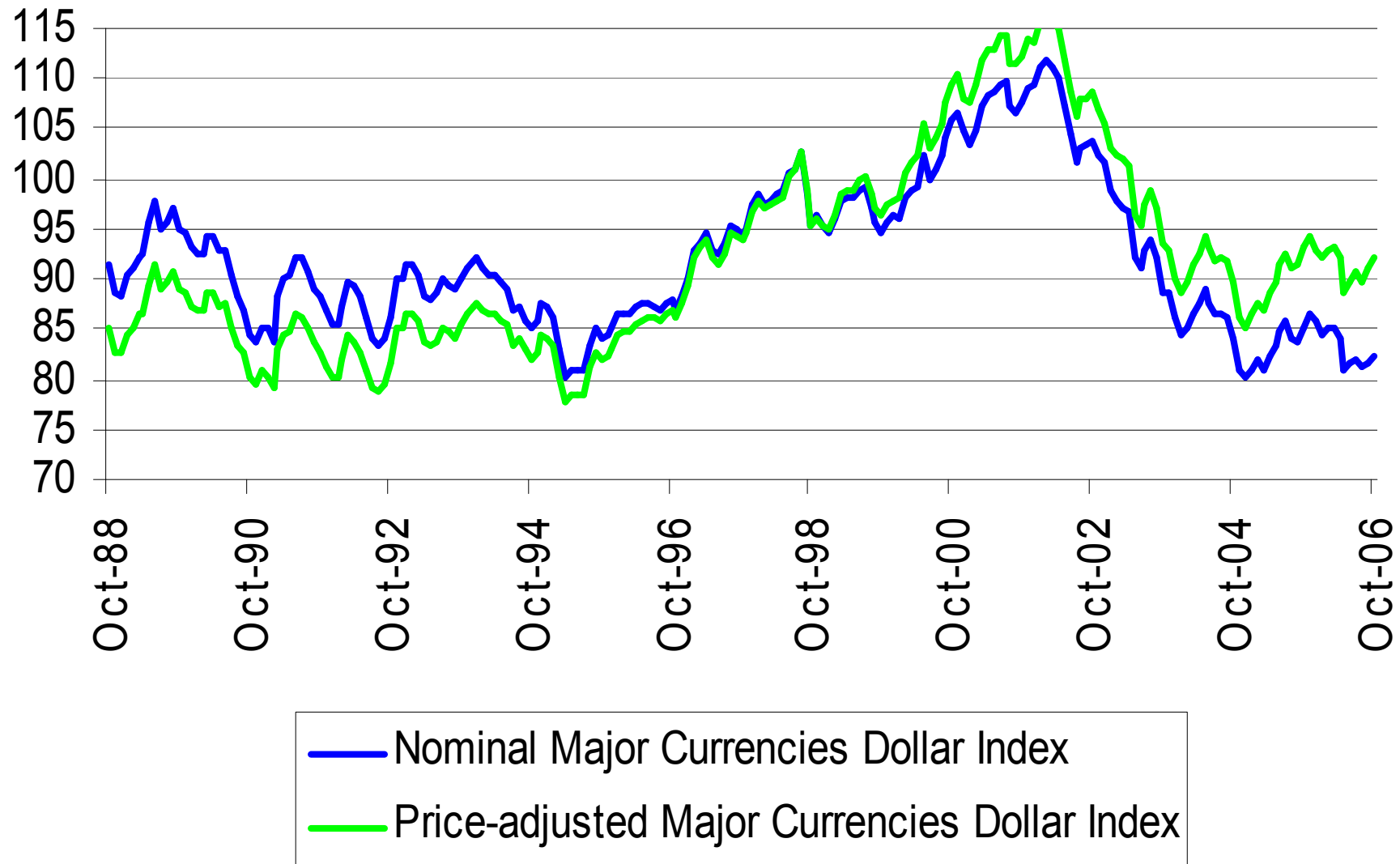
2006



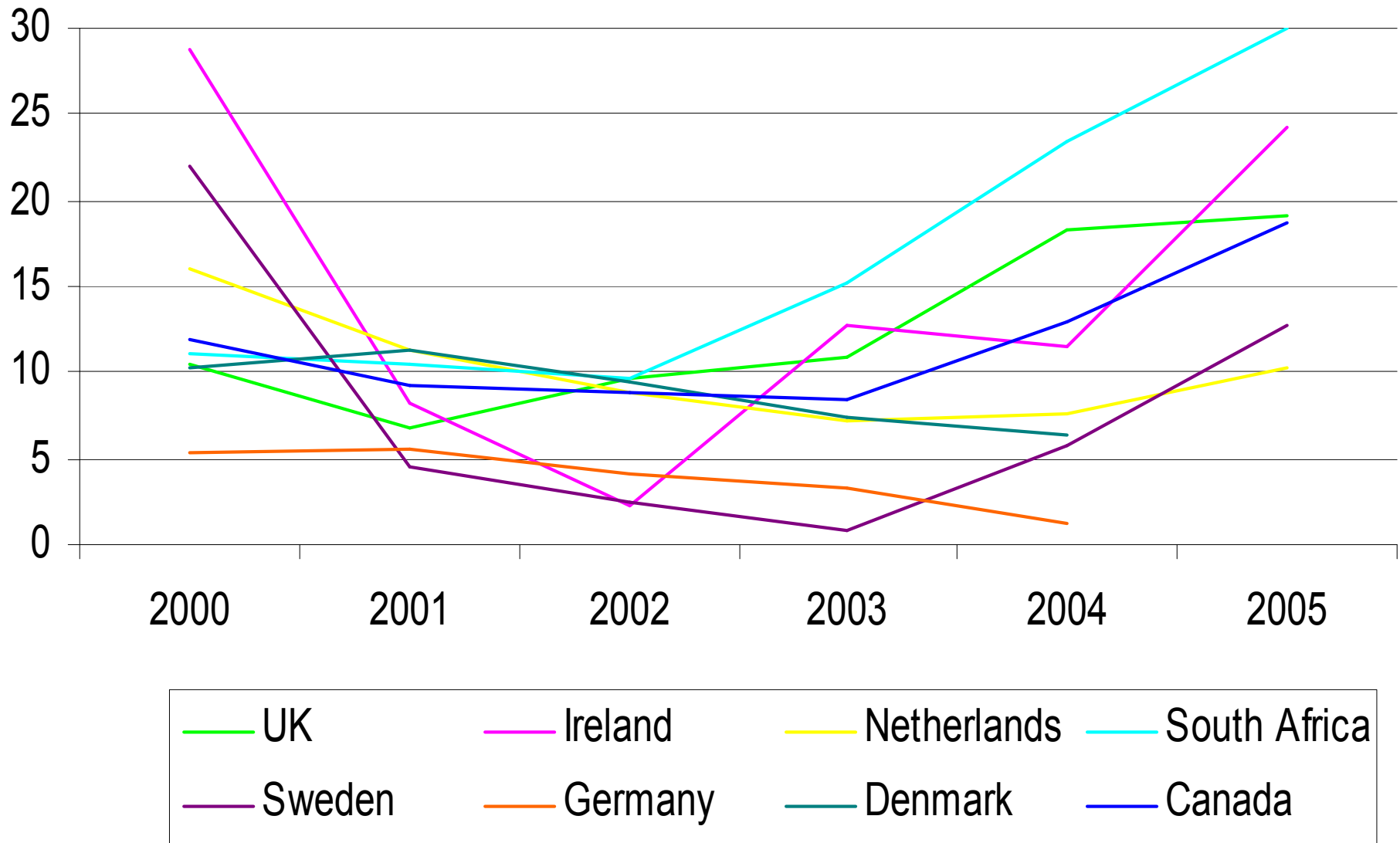
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Exchange Value of U. S. Dollar

Major Currency Index, 1988-2006

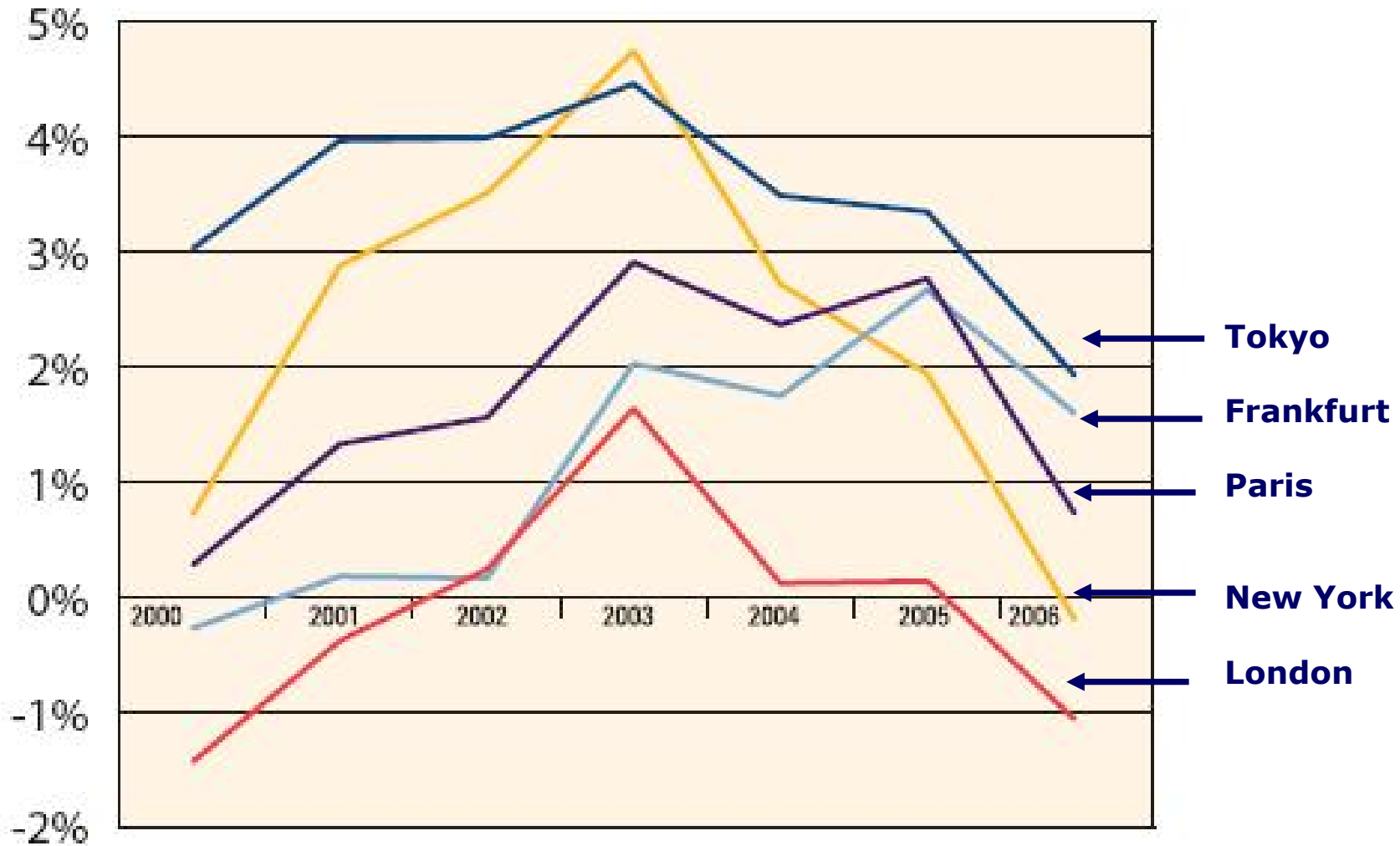


European Property Returns by Country



Office Yield Spreads

(Q2 Office Yield less 5 Year SWAP)



Source: Jones Lang LaSalle, Bloomberg

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Polling Question

Which two countries or regions were the largest global investors devoting funds to US Real Estate?

- Australia & Canada
- Australia & Germany
- Pac Rim & Mid East
- Canada & UK

Sarbanes-Oxley Developments (Proposed)

- SEC and PCAOB are working to develop new standards for management and auditors
- Five goals
 - 1) Focus most important controls (top-down, risk-based approach)
 - 2) Eliminate procedures that are unnecessary to achieve the intended benefits
 - 3) Incorporate guidance on efficiency
 - 4) Provide explicit and practical guidance on scaling the audit to fit the size and complexity of the company
 - 5) Simplified standards, will apply to all companies, regardless of size

SOX 404 Compliance Deadlines (Final)

- Non-accelerated files (domestic and foreign)
 - Management's assessment - required for fiscal years ending on or after December 15, 2007 (e.g. calendar 2007)
 - Auditor attestation - required for fiscal years ending on or after December 15, 2008 (calendar 2008)
- Foreign private issuer – accelerated filers (not large)
 - Management's assessment - required for fiscal years ending on or after July 15, 2006 (e.g. calendar 2006)
 - Auditor attestation - required for fiscal years ending on or after July 15, 2007 (calendar 2007)
- Foreign private issuer – accelerated filers (large)
 - Management's assessment and auditor's attestation - required for fiscal years ending on or after July 15, 2006 (e.g. calendar 2006)

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The FASB/IASB Joint Leasing Project

- Part of convergence Memorandum of Agreement and strongly “recommended” by the SEC
- Leasing is a global business, need consistent rules
- Capital markets are global, too, and need consistent information about lessors and lessees
- Both boards (and the SEC) believe existing rules do not provide transparency, complete, useful information and are too form driven
- Project intended to be comprehensive, cover both lessee and lessor accounting

The FASB/IASB Joint Leasing Project

- Operating leases are dead!
- Although the project will address both lessee and lessor, focus is clearly on lessees. Therefore, there is a possibility that “operating lease” accounting could be retained for owners of investment properties that are carried at fair value under the fair value option.
- Industry will have a seat(s) at the table in the Working Groups— make your views known to NAREIT, accounting firms, others

Poll Question

How many years of experience do you have in the real estate industry?

- Less than 15 years
- More than 15 years
- Don't have any experience, just need CPE

Other Accounting Hot Topics

- Impairment
 - Homebuilders taking charges, others coming?
- Discontinued operations
 - Some relief in sight!
- FIN 48
 - No delay in effective date-still first quarter 2007
- Trend toward fair value accounting
 - Changes coming to purchase accounting
 - Fair value option – phase II

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Poll Question

Do you think that the income taxes you pay, as a percentage of your income, will be higher in 2010 than it is today?

- Yes
- No
- Don't know

US Tax Rates

- Rates are relatively low by historic standards
 - Taxes collected as a % of GDP is around 18%
 - Investment income is taxed at lower rates than services income
 - Any tax increase before 2009 will face veto unless it is sold as something other than a tax increase
 - Focus until then is on closing the revenue gap
 - Lurking problem is the AMT
 - Estate tax repeal is unlikely

Closing the Revenue Gap

- Revenue gap is the difference between actual tax collections and what would be collected if everyone paid every penny of tax they owe under the statute.
 - Currently compliance is estimated to be around 83%
 - At 83% compliance shortfall is \$345 billion
 - At 86% compliance shortfall drops to \$90 billion

Closing the Revenue Gap

- Revenue gap is the difference between actual tax collections and what would be collected if everyone paid every penny of tax they owe under the statute.
 - Closing the revenue gap will increase taxes for individuals and small business

What to Do About AMT

- AMT was originally designed to target wealthy taxpayers who paid little or no tax
- By 2010 a large portion of population will be subject to AMT
 - 94% of households earning over \$200K
 - 49% of households earning between \$75K-\$100K
- States with highest local tax rates are hit hardest
- Reforming the AMT will be costly and will require some sort of offsetting tax increase

How Does This Affect Real Estate?

- Broad base/low rate consensus is eroding
 - Higher capital gains taxes
 - Ability to convert income to capital gains through use of carried interest may come under attack
- 2004 elimination of debt for equity exception may make future workouts more costly

Global Tax Issues

- Germany has imposed GITA, which makes it difficult to invest outside of Germany
 - This requires special structure to accommodate US real estate investment by German investors
- Many countries are making it more difficult to use tax haven jurisdictions to shelter tax

Global Tax Issues

- EU is making it more difficult to use Luxembourg to avoid tax in local jurisdiction
 - Typically a Luxembourg entity was interposed between a US investor and the entity that owns property in the local jurisdiction
 - Sale of property followed by liquidation of local entity not subject to local tax
 - Under EU tax regime tax migrated to Luxembourg entity that had a very low tax rate

Property Tax Issues

- Increasing real estate values are causing property taxes to rise at a higher rate than rents are rising

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