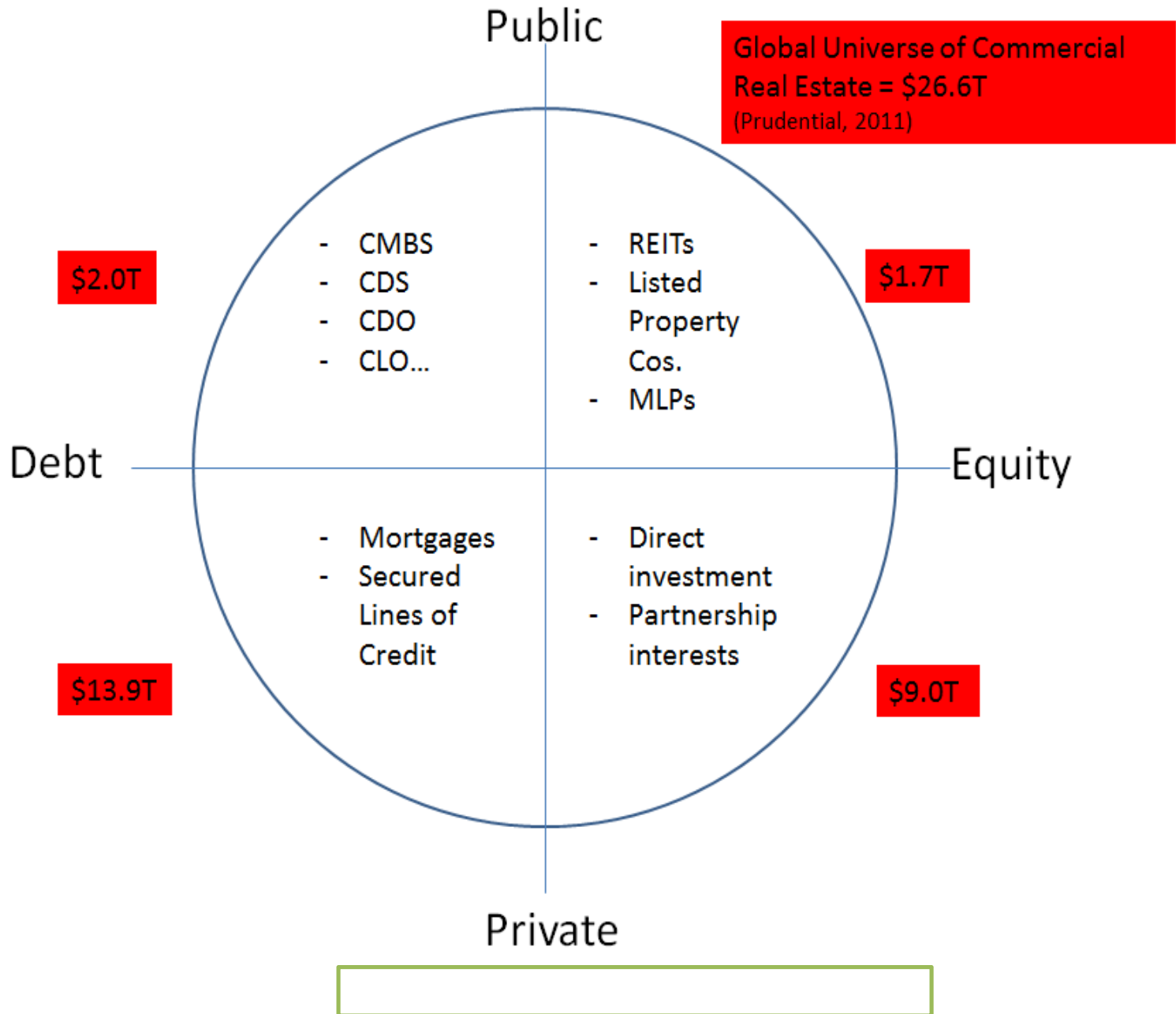


Valuing REITs

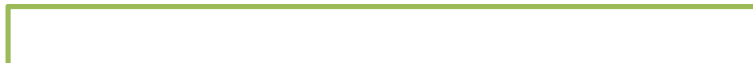
Kate Murtagh

Four Quadrants of Real Estate Investing



What is a REIT?

- ❖ **Company that owns and usually manages income-producing commercial real estate**
- ❖ **Usually publicly-traded**
- ❖ **Distribute 90% of taxable net income in the form of dividends annually**
- ❖ **75% of total assets must be real estate**
- ❖ **75% of gross income from rents**



Types of REITS

- Equity REITs- own real estate, ie own actual properties
- Mortgage REITs- lend on real estate: this can be mezzanine debt or standard mortgages
- Hybrid REITs- both own and lend

Most REITs specialize so for example have office REITs, residential REITS etc.

REIT-owned Properties in Charlottesville

Company Name	Property Name	Address	City	State	Property Type	% Owned
Griffin-American Healthcare REIT II, Inc.	Laurels of Charlottesville	1165 Pepsi Place	Charlottesville	VA	Health Care	100.0
Senior Housing Properties Trust	Colonnades	100 Colonnades Hill Drive	Charlottesville	VA	Health Care	100.0
Senior Housing Properties Trust	Morningside-Charlottesville	491 Crestwood Drive	Charlottesville	VA	Health Care	100.0
Ventas, Inc.	The Cedars Nursing Home	1242 Cedars Court	Charlottesville	VA	Health Care	100.0
Apple REIT Eight, Inc.	Courtyard-Charlottesville	1201 West Main Street	Charlottesville	VA	Hotel	100.0
Hospitality Properties Trust	Residence Inn-Charlottesville	1111 Millmont Street	Charlottesville	VA	Hotel	100.0
Monmouth Real Estate Investment Corporation	Charlottesville-FedEx		Charlottesville	VA	Industrial	100.0
Colonial Properties Trust	Autumn Hill	2407 Peyton Drive	Charlottesville	VA	Multi-family	100.0
Brandywine Realty Trust	PJP II	630 Peter Jefferson Parkway	Charlottesville	VA	Office	30.0
Brandywine Realty Trust	PJP V	590 Peter Jefferson Parkway	Charlottesville	VA	Office	25.0
Brandywine Realty Trust	PJP VI	650 Peter Jefferson Parkway	Charlottesville	VA	Office	25.0
Brandywine Realty Trust	PJP VII	652 Peter Jefferson Parkway	Charlottesville	VA	Office	25.0
Simon Property Group, Inc.	Fashion Square	1600 Rio Road East	Charlottesville	VA	Regional Mall	100.0
Regency Centers Corporation	Hollymead Town Center	312 Connor Drive	Charlottesville	VA	Retail: Other	20.0
Spirit Realty Capital, Inc.	Building Material Supplier-Charlottesville		Charlottesville	VA	Retail: Other	100.0
Public Storage	Charlottesville	1616 Seminole Trail	Charlottesville	VA	Self-Storage	100.0
Federal Realty Investment Trust	Barracks Road	1035 Emmet Street	Charlottesville	VA	Shopping Center	100.0
Federal Realty Investment Trust	Shoppers World	100 Shoppers World Court	Charlottesville	VA	Shopping Center	100.0
American Campus Communities, Inc.	University Place	100 Wahoo Way	Charlottesville	VA	Specialty	100.0
American Realty Capital Trust, Inc.	IHOP IV-Charlottesville	1740 Rio Hill Center	Charlottesville	VA	Specialty	100.0
Education Realty Trust, Inc.	GrandMarc at The Corner	301 15th Street NW	Charlottesville	VA	Specialty	100.0
Education Realty Trust, Inc.	Jefferson Commons	1620 Jefferson Park Avenue	Charlottesville	VA	Specialty	100.0
Education Realty Trust, Inc.	Wertland Square	216/218 14th Street NW	Charlottesville	VA	Specialty	100.0



2 Metrics for Valuing REITs

- Funds from Operations (FFO) or Adjusted Funds From Operations (AFFO)
- Net Asset Value: the value of the underlying assets (in this case property)

Valuing Real Estate is

“More of an ART than a SCIENCE”



v.



FFO

- FFO: A figure used by real estate investment trusts (REITs) to define the cash flow from their operations. It is calculated by adding depreciation and amortization expenses to earnings, and sometimes quoted on a per share basis.
- Alternative to Net Income

AFFO

- Adjusted Funds From Operation does not have a uniform definition because there are many ways to adjusted Funds From Operation to give a more accurate picture
- Example some people add Capital Expenditures as a expense

Calculations

Equity Residential (EQR)	<u>2003</u>	<u>2002</u>
Net Income	543,847	421,313
Plus Depreciation	444,339	419,039
Gain on (Depreciable) Property Sales	(300,426)	(102,614)
Other Misc. Depreciation Items & Gains	<u>69,838</u>	<u>100,651</u>
Funds From Operations (FFO)	<u>757,598</u>	<u>838,389</u>
<i>Adjusted Funds from Operations (AFFO)</i>		
Minus Capital Expenditures	(181,948)	(156,776)
Minus other Amortizations	<u>N/A</u>	<u>N/A</u>
Adjusted Funds from Operations (AFFO)	<u>575,650</u>	<u>681,613</u>

Net Asset Value

- Net Asset Value=
Market Value of Building- Mortgage Debt
- How do you find the value of a building
 - Net Operating Income (NOI)/ Capitalization Rate=
Value
 - Referred to as IRV

IRV

- NOI : Cash flow from rental income on a property after operating expenses are deducted from gross income

Potential Gross Income

- Vacancy and Concession Allowance

Effective Gross Income

- Operating Expenses

Net Operating Income

- Capitalization Rate: The rate at which a future cash flow of income is converted into a present value figure based upon risk

McIntire Apartments

300 units @ 500 sq ft	\$520/ month
Total Sq feet w/ 1.2 GU	180,000
Potential Gross Income	1,872,000
Vacancy 5%	93,600
Effective Gross Income	1,778,400
Operating Expense 10%	187,200
Net Operating Income	1,591,200
Cap Rate	6%
Value	26,520,000

Price Per Share

Value	26,520,000
minus Mortgage	10,000,000
Net Asset Value	16,520,000
10 Total Buildings	165,200,000
/ 1,000,000 shares	165.2
Price Per Share	\$165.20