For further information on this report, contact:

James DePelisi
President/Founder
LDV Capital Management

(954) 746-3117

www.LdvCapitalManagement.com

10640 North West 32nd Street
Sunrise, Florida 33351

Tel: (954) 746-3117
Fax: (954) 572-7988
Jim@LdvCapitalManagement

White Paper Study

A Primer for REIT'S in 2012

The Real Estate Investment Trust (REIT) Sector

by James DePelisi, President/Founder
LDV Capital Management
www.LdvCapitalManagement.com

August 6, 2012

DEFINING A REIT

A real estate investment trust, or REIT, is a company that owns, and in most cases, operates income-producing real estate in sectors including but not limited to:

1. Apartment complexes
2. Shopping centers
3. Office buildings
4. Hotels
5. Warehouses
6. Healthcare facilities
7. Shopping malls
8. Data centers
9. Self-storage facilities

Some REIT's also engage in financing real estate.

Shares of many REITs are traded on major stock exchanges, primarily the New York Stock Exchange (NYSE), the American Stock Exchange (ASE) and National Association of Securities Data Quotation (NASDAQ).

REITS AND THE ECONOMY:

In 2012, REITS constitute an approximate equity market of more than $300 billion, with an average daily trading volume of about $4 billion. Unlisted REITs in the U.S. now manage assets of more than $70 billion and are adding another $7 billion annually.

Outside the U.S., REITs and listed property companies constitute another $700 billion plus, comprising a listed REIT and real estate investment universe of more than $1 trillion. U.S. REITs have seen their equity market capitalization soar from $90 billion to roughly $200 billion in just the past 10 years (1).

PROFILE OF A REIT:

To qualify as a REIT, a company must have most of its assets and income tied to real estate investments and must distribute at least 90 percent of its taxable income to its shareholder's annually. A company that qualifies as a REIT is permitted to deduct dividends paid to its shareholders from its corporate taxable income.

As a result, most REITs remit at least 100 percent of their taxable income to their shareholders and therefore owe no corporate tax. Taxes are paid by shareholders on the dividends received and any capital gains.

Most states honor this federal treatment and also do not require REITs to pay state income tax. Like other businesses, but unlike partnerships, a REIT cannot pass any tax losses through to its investors.

HISTORY OF REITS

REIT's have been part of the American financial landscape for well over 100 years. Real estate investment trusts originated in the 1880's at a time when investors could avoid double taxation, or a tax at corporate and individual levels. However, in the 1930s, this tax benefit was removed, causing investors to pay "double tax."

In 1960, President Dwight D. Eisenhower signed into law the REIT tax provision contained in the Cigar Tax Excise Tax. This legislation changed the dynamics of the real estate industry and created a new approach to investing in real estate. The legislation served as a vehicle to allow both equity and real estate investors to invest in large-scale, income-producing real estate, through the purchase and sale of liquid securities within the stock market. Prior to the creation of listed real estate equities, access to the investment returns of commercial real estate equity, as a core asset, was available only to institutions and wealthy individuals having the financial wherewithal to undertake direct real estate investment.

In its early years, the industry was dominated by mortgage REITs, which provide debt financing for commercial or residential properties through their investments in mortgages and mortgage-backed securities.

The market's interest in equity REITs, which both own and manage commercial properties, initially was limited because the ownership and management of assets were required to remain separate.

That restriction changed with the passage of the Tax Reform Act of 1986, which permitted REITs to both own and manage their properties as vertically integrated companies and helped set the stage for a secular wave of equity REIT Initial Public Offerings (IPOs) in the mid-1990s.

Currently, 83 percent of the 134 publicly traded U.S. REITs are equity REITs that own and most often manage commercial real estate and derive most of their revenue and income from rental income. In aggregate, these companies own properties across all major property sectors and all major geographic regions.

QUALIFYING AS A REIT

In order for a company to qualify as a REIT, it must comply with certain provisions within the Internal Revenue Code. As required by the Tax Code, a REIT must:

1. Be an entity that is taxable as a corporation.
2. Be managed by a board of directors or trustees.
3. Have shares that are fully transferable
4. Have a minimum of 100 shareholders
5. Have no more than 50 percent of its shares held by five or fewer. Individuals during the last half of the taxable year.
6. Invest at least 75 percent of its total assets in real estate assets.
7. Derive at least 75 percent of its gross income from rents from real property or interest on mortgages financing real property.
8. Have no more than 25 percent of its assets consist of stock in taxable REIT subsidiaries.
9. Pay annually at least 90 percent of its taxable income in the form of shareholder dividends.

APPROXIMATE NUMBER OF EXISTING REITS

As of Jan. 1, 2011, there were 153 REITs registered with the Securities and Exchange Commission in the United States that trade on one of the major stock exchanges — the majority on the New York Stock Exchange. These REITs have a combined equity market capitalization of $389 billion.

Additionally, there are REITs that are registered with the SEC but are not publicly traded, and REITs that are not registered with the SEC or traded on a stock exchange. Internal Revenue Service shows that there are about 1,100 U.S. REITs that have filed tax returns.

TYPES OF REITS

1. Equity REITs - Equity REITs mostly own and operate income-producing real estate. They increasingly have become real estate operating companies engaged in a wide range of real estate activities, including leasing, maintenance and development of real property and tenant services. One major distinction between REITs and other real estate companies is that a REIT must acquire and develop its properties primarily to operate them as part of its own portfolio rather than to resell them once they are developed.

2. Mortgage REITs - Mortgage REITs mostly lend money directly to real estate owners and operators or extend credit indirectly through the acquisition of loans or mortgage-backed securities. Today's mortgage REITs generally extend mortgage credit only on existing properties. Many mortgage REITs also manage their interest rate and credit risks using securitized mortgage investments, dynamic hedging techniques and other accepted derivative strategies.

MANAGEMENT STRUCTURE

Like other publicly traded companies, a REIT's executive management team operates the company, deciding what properties it will own and manage. Management's decisions are overseen by a board of directors that is responsible to the shareholders. As with other corporations, REIT directors are typically well-known and respected members of the real estate, business and professional communities. Many of today's REITs became public companies within the past 15 to 20 years, often transforming to public ownership what previously had been private enterprises. In many cases, the majority owners of these private enterprises became the senior officers of the REIT and contributed their ownership positions to the REIT.

REAL ESTATE COMPANIES THAT SHOULD BECOME REITS

The stock market usually rewards companies that demonstrate consistent earnings and dividend growth with higher price-earnings multiples. Thus, a REIT conglomerate should strive and maintain the following characteristics:

1. A demonstrated ability to increase earnings in a reliable manner. For example, look for companies with properties in which rents are below current market levels. Such properties provide upside potential in equilibrium markets and downside protection when economic growth slows.

2. Be able to quickly and effectively reinvest available cash flow. The ability to consistently complete new projects on time and within budget. Creative management teams with sound strategies for developing new revenue opportunities.

3. Strong operating characteristics, including effective corporate governance procedures, conservative leverage, accepted accounting practices, strong tenant relationships and a clearly defined operating strategy for succeeding in competitive markets.

MEASURING EARNINGS

Like the rest of corporate America, the REIT industry uses net income as defined under Generally Accepted Accounting Principles (GAAP) as the primary operating performance measure.

The REIT industry also uses funds from operations (FFO) as a supplemental measure of a REIT's operating performance. FFO is defined as net income (computed in accordance with GAAP) excluding gains or losses from sales of most property and depreciation of real estate. When real estate companies use FFO in public releases or SEC filings, the law requires them to reconcile FFO to GAAP net income.

Most real estate professionals as well as investors believe that commercial real estate maintains residual value to a much greater extent than machinery, computers or other personal property. Therefore, they view the depreciation measure used to arrive at GAAP net income as generally overstating the economic depreciation of REIT property assets and the actual cost to maintain and replace these assets over time, which may in fact be appreciating. Thus, FFO excludes real estate depreciation charges from periodic operating performance. Many securities analysts judge a REIT's performance according to its adjusted FFO (AFFO), thereby deducting certain recurring capital expenses from FFO.

MEASURING DIVIDENDS

Many investors often look at the payout ratio as the measure of a REIT's ability to pay its current dividends. Because real estate depreciation is a large non-cash expense that likely overstates any decline in property values, dividend per share divided by net income per share likewise understates a REIT's ability to sustain dividend payments. Therefore, the payout ratio, calculated as dividend per share divided by funds from operations (FFO) per share, or as dividend per share divided by adjusted funds from operations (AFFO) per share, is used by many as a more accurate measure of the REIT's ability to pay dividends.

FACTORS CONTRIBUTING TO REIR EARNING

Growth in earnings typically comes from several sources, including higher revenues, lower costs and new business opportunities. The most immediate sources of revenue growth are higher rates of building occupancy and increasing rents. As long as the demand for new properties remains well balanced with the available supply, market rents tend to rise as the economy expands and increases demand for space. Low occupancy rates in under utilized buildings can be increased when skilled owners upgrade facilities, enhance building services and more effectively market properties to new types of tenants. Property acquisition and development programs also create growth opportunities, provided the economic returns from these investments exceed the cost of financing. Like other public companies, REITs and publicly traded real estate companies also increase earnings by improving operating efficiency and taking advantage of new business opportunities.

The REIT Modernization Act (RMA), which took effect on Jan. 1, 2001, provides REITs with other opportunities to increase earnings. Prior to the enactment of the RMA, REITs were limited to providing only those services that were long accepted as being "usual and customary" landlord services, and were restricted from offering more advanced services provided by other landlords. The RMA allows REITs to own taxable subsidiaries that can provide the competitive services that many of today's tenants desire, as well as to provide services like real estate asset management for other investors.

VALUATION OF REIT STOCKS

Like all companies whose stocks are publicly traded, REIT shares are priced by the market throughout the trading day. To assess the investment value of REIT shares, typical analysis involves one or more of the following criteria:

1. Anticipated growth in earnings per share.

2. Anticipated total return from the stock, estimated from the expected price change and the prevailing dividend yield.

3. Current dividend yields relative to other yield-oriented investments (e.g., bonds, utility stocks and other high-income investments).

4. Dividend payout ratios as a percent of REIT FFO (see above for discussion of FFO and payout ratios).

5. Management quality and corporate structure.

6. Underlying asset values of the real estate and/or mortgages, and other assets.

NET ASSET VALUE (NAV)

REIT investors often compare current stock prices to the net asset value (NAV) of a company's assets. NAV is the per share measure of the market value of a company's net assets. At times, the stock price of a REIT may be more or less than its NAV. Investors should understand some of the fundamental factors that influence the value of a REIT's real estate holdings. One critical factor is how well balanced is the supply of new buildings with the demand for new space. When construction adds new space into a market more rapidly than it can be absorbed, building vacancy rates increase, rents can weaken and property values decline, thereby depressing net asset values.

REIT DIVIDENDS AND TAXES

For REITs, dividend distributions for tax purposes are allocated to ordinary income, capital gains and return of capital, each of which may be taxed at a different rate. All public companies, including REITs, are required early in the year to provide their shareholders with information clarifying how the prior year's dividends should be allocated for tax purposes. This information is distributed by each company to its list of shareholders on IRS Form 1099-DIV. An historical record of the allocation of REIT distributions between ordinary income, return of capital and capital gains can be found in the Industry Data section of REIT.com.

A return of capital distribution is defined as that part of the dividend that exceeds the REIT's taxable income. A return of capital distribution is not taxed as ordinary income. Rather, the investor's cost basis in the stock is reduced by the amount of the distribution. When shares are sold, the excess of the net sales price over the reduced tax basis is treated as a capital gain for tax purposes. So long as the appropriate capital gains rate is less than the investor's marginal ordinary income tax rate, a high return of capital distribution may be attractive.

REIT DIVIDENDS AND THE 15 PERCENT MAXIMUM TAX RATE

In May 2003, the U.S. Congress passed the Jobs and Growth Tax Relief Reconciliation Act, which cut income tax rates on most dividends and capital gains to a 15 percent maximum through 2010. Because REITs do not generally pay corporate taxes, the majority of REIT dividends continue to be taxed as ordinary income up to the maximum rate of 35 percent.

However, REIT dividends will qualify for a lower tax rate in the following instances:

1. When the individual taxpayer is subject to a lower scheduled income tax rate.

2. When a REIT makes a capital gains distribution (15 percent maximum tax rate), or a return of capital distribution, as described above.

3. When a REIT distributes dividends received from a taxable REIT subsidiary or other corporation (15 percent maximum tax rate).

4. When permitted, a REIT pays corporate taxes and retains earnings (15 percent maximum tax rate).

DIFFERENCE BETWEEN REITs AND PARTNERSHIP

REITs are not partnerships. Most publicly traded REITs are vertically integrated real estate companies that develop, own and actively manage commercial real estate. Shares in these companies are traded, the same as other stocks, on major exchanges, providing complete liquidity and market pricing. Publicly traded REITs are subject to the same financial disclosure requirements as other publicly traded companies. Independent corporate governance consultants have rated the REIT industry's governance among the best of all U.S. industry groups.

HOW REITS USE PARTNERSHIPS

Like other industries, the real estate industry, including REITs, often uses partnerships to co-venture with others. In addition, REITs are typically structured in one of three ways:

1. Traditional REIT - one that owns its assets directly rather than through an operating partnership.

2. Umbrella UPREIT - a REIT partners with others, and the partnership is termed the "operating partnership." In return for their respective contributions, the REIT as well as the other partners receive interests in the operating partnership called operating partnership units (OP units). The REIT typically is the general partner and the majority owner of the OP units. For the partners contributing property to the operating partnership, any capital gain tax liability is deferred until such time as the OP units are converted into common shares of the REIT.

After a period of time (often one year), the non-REIT partners may enjoy the same liquidity of the REIT shareholders by tendering their units for either cash or REIT shares (at the option of the REIT or operating partnership). This conversion may result in the partners incurring the tax liability that had been deferred at the UPREIT's formation. However, the unit holders may tender their units over a period of time, thereby spreading out such tax. In addition, when a partner holds the units until death, the estate tax rules operate in such a way as to provide that the beneficiaries may tender the units for cash or REIT shares without paying income taxes.

3. DownREIT - a Reit that is structured much like an UPREIT, but the REIT owns and operates properties other than its interest in a controlled partnership that owns and operates separate properties.

REITS AND SECTION 1031 EXCHANGES

Section 1031 of the Internal Revenue Code generally permits tax deferral when investment property or property used in a trade or business is exchanged for "like-kind" property as long as the exchange is completed within 180 days of the transfer of the taxpayer's exchanged property. Non-simultaneous exchanges also are permissible under section 1031 if certain criteria are met. These exchanges are known as "like-kind exchanges." An example of a like-kind exchange would be an exchange of an apartment building in Rochester for an apartment building in Boca Raton. Consequently, REITs routinely use section 1031 in conducting their own investment operations.

However, REIT stock does not qualify as investment property, and accordingly, it is not possible to effect a like-kind exchange of real estate for REIT stock.

Although REIT stock cannot qualify for like-kind exchange treatment, another provision of U.S. tax law (Section 721 of the Internal Revenue Code) does permit owners of real property to exchange their property for partnership interests on a tax-deferred basis if certain conditions are met. Relying on this provision, many REITs own the majority, if not all, of their properties through an operating partnership (OP) in which they hold the majority interests. The operating partnership most often pertains to an umbrella partnership REIT or (UPREIT), but also may pertain to a DownREIT.

From time to time, real estate owners may transfer properties on a tax-deferred basis to an OP in exchange for OP units. The OP units ultimately are exchangeable into REIT stock or cash in a taxable transaction, and they allow their owners to receive partnership distributions typically similar to the REIT distributions they would receive had they converted the OP units into REIT stock. The Web sites of many REITs contain information about transfers of properties in exchange for OP units.

UNRELATED BUSINESS TAXABLE INCOME (UBTI) and REIT DIVIDENDS

In very general terms, "unrelated business taxable income" (UBTI) is income earned by an otherwise tax-exempt entity that is considered taxable income to the entity, typically because it is derived from a business activity unrelated to the tax-exempt purpose of the entity. For example, an individual retirement account (IRA) is typically considered tax exempt, but if it earns UBTI, it must pay tax on that income.

In general, REIT dividends do not generate UBTI (at least no more than dividends from non-REIT stocks). See Revenue Ruling 66-106, in which the IRS specifically held that dividends from a REIT generally do not generate UBTI; and Revenue Ruling 2006-58, which held that a charitable remainder trust is not subject to unrelated business taxable income as a result of being allocated excess inclusion income from a REIT.

Nevertheless, there are exceptions to the general rule, such as when a pension plan owns more than 25 percent of a REIT's stock and in the case of certain mortgage REITs that use financings considered to be "taxable mortgage pools."

Because the answers to these questions are complex, it is important to consult with a competent tax advisor for answers applicable to your specific situation.

For detailed information regarding REIT tax law and other policy-related issues, visit our Policy Issues section.

FORMING A REAL ESTATE INVESTMENT TRUST

1. Organizational - A REIT must be formed in one of the 50 states or District of Columbia as an entity taxable for federal purposes as a corporation. It must be governed by directors or trustees, and its shares must be transferable. Beginning with its second taxable year, a REIT must meet two ownership tests: it must have at least 100 different shareholders (the "100 Shareholder Test"), and 5 or fewer individuals cannot own more than 50% of the value of the REIT's stock during the last half of its taxable year (the "5/50 Test"). These ownership requirements generally mean that the REIT structure is not a good choice for a closely held family business. A number of "look through" rules currently apply when determining whether the REIT meets the 5/50 Test.

In an attempt to ensure compliance with these tests, most REITs include percentage ownership limitations in their organizational documents. For example, many REITs do not permit any one shareholder to own more than at most 9.9% of a REIT's stock without a waiver by the REIT's board of directors. Because of the need to have 100 shareholders and the complexity of both of these tests, general legal, and tax and securities law advice are strongly recommended prior to beginning the process of forming a REIT.

2. Operational - The REIT must satisfy two annual income tests and a number of quarterly asset tests that are designed to ensure that the majority of the REIT's income and assets are derived from real estate sources.

Annually, at least 75% of the REIT's gross income must be from real estate-related income such as rents from real property and interest on obligations secured by mortgages on real property. Additionally, 95% of the REIT's gross income must be from the above-listed sources, but can also include other passive forms of income such as dividends and interest from non-real estate sources (like bank deposit interest). As a result of these rules, no more than 5% of a REIT's income can be from nonqualifying sources, such as from service fees or a non-real estate business. A REIT can own up to 100% of the stock of a "taxable REIT subsidiary" ("TRS"), a corporation with which a REIT makes a joint election that can earn such income.

Quarterly, at least 75% of a REIT's assets must consist of real estate assets such as real property or loans secured by real property. Although a REIT can own up to 100% of a TRS, a REIT cannot own, directly or indirectly, more than 10% of the voting securities of any corporation other than another REIT, TRS or qualified REIT subsidiary ("QRS"), a wholly owned subsidiary of the REIT whose assets and income are considered owned by the REIT for tax purposes. Nor can a REIT own stock in a corporation (other than a REIT, TRS or QRS) the value of whose stock comprises more than 5% of a REIT's assets. Finally, the value of the stock of all of a REIT's TRSs cannot comprise more than 25% of the value of the REIT's assets.

3. Distribution - In order to qualify as a REIT, generally, the REIT must distribute at least 90% of the sum of its taxable income. To the extent that the REIT retains income, it must pay tax on such income just like any other corporation.

4. Compliance - In order to qualify as a REIT, a company must make a REIT election. The REIT election is made by filing an income tax return on Form 1120-REIT. Because this form is not due until, at the earliest, March 15th following the end of the REIT's last tax year, the REIT does not make its election until after the end of its first year (or part-year) as a REIT. Nevertheless, if it

desires to qualify as a REIT for that year, it must meet the various REIT tests during that year (with the exception of the 100 Shareholder Test and the 5/50 Test, both of which must be met beginning with the REIT's second taxable year.) Additionally, the REIT annually must mail letters to its shareholders of record requesting details of beneficial ownership of shares. Significant monetary penalties will apply to a REIT that fails to mail these letters on a timely basis.

Sources in Writing this Paper:

1. www.bloomberg.com
2. www.inrealty.com
3. www.investopedia.com
4. www.Reit.com
5. www.seekingalpha.com
6. www.thestreet.com
7. www.wikipedia.com
8. www.wsj.com

DISCLAIMER: LDV Capital Management is a Registered Investment Advisory firm licensed with the State of Florida. The information stated herein is for educational purposes only and is not to be used or reproduced without the expressed written consent of the author. Moreover, any content herein is not to be deemed as specific strategies that could be taken out of context and used for any manipulative practices in taking a company public or manipulating any publicly traded issue. This report was written as a feasibility opinion of how a company could persevere in the stock market, with only compliant and forthcoming intentions to investors and shareholders. It is simply information compiled from objective analyses in the market. Information is believed to be reliable, but makes no representation to its accuracy or completeness. LDV does not recommend, warrant, or guarantee the success of any action taken in reliance on statements made in this report. LDV does not endorse, advocate or suggest using information in this report that could be used for any non compliant, scandalous, or artificial inflation of a company's stock. LDV Capital Management is not a Certified Public Accountant and does not render tax advice. Information within the paper discussing the tax nuances of REITS is not intended to be purported as tax advisory. Hence, no tax strategies should be implemented without first getting the appropriate tax advice from a Certified Public Accountant