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Hey, Look Me Over

BY BENNETT VOYLES

January 1, 2006 — CEOs of public companies often complain about the pressure of meeting analysts' expectations. But it's a problem executives of many smaller REITs probably wouldn't mind having. As Oscar Wilde once observed, the only thing worse than being talked about is not being talked about.

With 197 publicly traded REITs now vying for investors' attention, many companies have trouble standing out. Research coverage by analysts employed by banks and brokerage houses is a major way for REITs to attract attention, but some say the total number of REITs covered is shrinking. "I suspect you can talk to any analyst out there — they probably would tell you that their universe of coverage has contracted," says Barry Vinocur, editor of Realty Stock Review.

Experts cite two reasons behind the shrinkage: Wall Street mergers and the investment bank industry settlement of 2003 that followed highly publicized cases of analysts' alleged conflicts of interest.

A lack of coverage can make it hard for small REITs to grow. Institutional investors seldom notice a small REIT "unless somebody comes out with some research reports on it and says 'this is really good, it's illiquid, but we think it really merits your attention,'" states Frank Block, a senior REIT portfolio manager for Phocus Financial Corp. in Alameda, Calif.

Tim Pire, who is a managing director at Chicago-based Heitman Realty Securities, which oversees \$2.8 billion in REIT assets, says little coverage translates into more inefficient pricing, which "just creates opportunities for us."

THE GROWTH OF EQUITY REITs

In the early 1970s, the number of equity REITs was literally a dozen. The growth was incremental until the IPO wave of the mid- 1990s. The number of equity REITs peaked in 1995.

Year	Total Equity REITs*	Market Capitalization
1971	12	\$332 million
1975	12	\$276 million
1981	35	\$942 million
1985	37	\$3.27 billion
1990	58	\$5.5 billion
1995	178	\$50 billion
2000	158	\$134 billion
2004	150	\$274 billion

* figures do not include hybrid REITs

Source: NAREIT

The difficulty may be encouraging some companies — and their bankers — to reconsider going public. Since the main advantage of an initial public offering is the ability to raise more money in the capital markets after the IPO, the dearth of coverage means bankers are now more likely to advise their smaller prospective clients to stay home, according to Thomas Conaghan, a securities lawyer at McDermott Will & Emery LLP in Washington. "[We] could raise you \$50 million at a cost of X, but at the end of the day, you wouldn't attract analyst coverage — so what's the purpose?"

Stuck on the far side of the velvet rope, overlooked companies are finding other ways to get noticed. One mode that is growing in popularity is sponsored analysis — coverage by a research firm paid for by the subject company.

Although some industry experts have frowned upon that practice, Gene Marbach, a group vice president with Makovsky & Co., a New Yorkbased investor relations and communications firm, says sponsored research has its place. However, Marbach's firm prefers to court big investors directly. "We're big believers in taking the story directly to the buy side," Marbach says.

Some companies still get coverage the old-fashioned way — by giving an investment bank some business. The CEO of one small-cap REIT tracked by more than a half-dozen analysts says all but one began covering his company only after he raised some capital through their firms.

But is coverage all it's cracked up to be? The CEO, who chose to remain anonymous, says that despite his firm's following, institutional investors never really showed up. Unable to build enough scale, his company is now "pursuing strategic alternatives" to life as an independent company.

Another CEO, Larry Feldman of Feldman Mall Properties in Great Neck, N.Y., insists that "the ultimate fix" really is improving earnings, not running around meeting analysts.

