NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS®
♦♦♦
REITS: BUILDING DIVIDENDS AND DIVERSIFICATION®

April 15, 2013

The Honorable Dave Camp
Chairman
Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

The Honorable Sander Levin
Ranking Member
Committee on Ways and Means
1106 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Camp and Ranking Member Levin:

NAREIT®, the National Association of Real Estate Investment Trusts®, is the worldwide representative voice for real estate investment trusts (REITs) and publicly traded real estate companies with an interest in U.S. real estate and capital markets. NAREIT's members are REITs and other businesses throughout the world that own, operate, and finance income-producing real estate, as well as firms and individuals who advise, study, and service those businesses.

NAREIT recognizes the importance of your joint initiative to examine the Internal Revenue Code of 1986. We also look to work constructively with both of you as you chart the path forward for comprehensive tax reform.

Consistent with our mission as an organization, our focus with respect to the Internal Revenue Code of 1986 and its potential reform includes REITs as well as real estate investment more generally.

After careful review and due consideration of the 11 Ways and Means working groups, NAREIT has concluded that the most effective manner in which to share our perspective is to provide you with an overview of REITs, followed by identification of select issues important to REITs and real estate investment likely to be included in the portfolios of various working groups (Attachment A). For your background information, an abbreviated chronology of the REIT industry beginning in 1960 is also provided (Attachment B).

Separately, we will submit additional detailed comment letters with respect to recently issued and any future tax reform discussion drafts released by the Committee.

REITs

REITs were created in 1960 when the U.S. Congress passed, and President Dwight D. Eisenhower signed into law, the Cigar Excise Tax Extension Act, which contained within it the initial Federal tax legislation authorizing REITs in the United States.

This tax legislation was intentionally patterned after the tax rules governing mutual funds (regulated investment companies), a type of investment structure first adopted two decades earlier meant to provide the public with an efficient means for investing in diversified portfolios of corporate securities. As the legislative history of the original REIT rules states, the primary intention of Congress in authorizing the use of REITs was to provide a means "whereby small investors can secure advantages normally available only to those with larger resources," in connection with real estate investment. Congress specifically noted that these beneficial characteristics included "greater diversification of investment," "expert investment counsel" and the means of "collectively financing projects which the investors could not undertake singly."

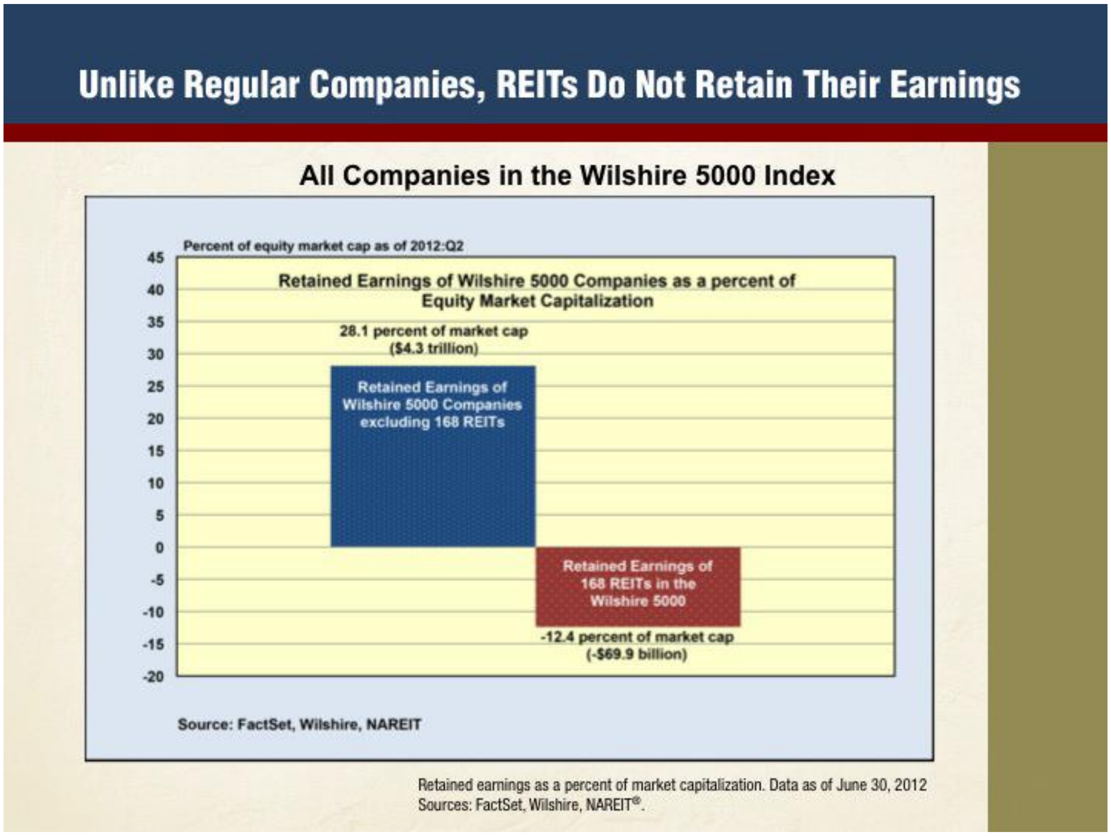
What Congress also understood then and has endorsed through support for, and amendment of, the REIT rules for over 50 years is that, without a model for real estate investment akin to mutual funds, only a select few would have the opportunity to gain from the three most fundamental benefits of real estate investment (aside from owner-occupied housing): 1) current income; 2) long-term capital preservation and appreciation; and, 3) investment diversification.

To provide this opportunity to the public, Congress has required since 1960 that REITs follow rules closely modeled after the mutual fund rules, with the proviso that REITs primarily invest in real estate rather than corporate securities. In general, the REIT rules create an operating framework requiring that real estate investment is undertaken for the longer term; that taxable income results from real estate-related investment; and, that REITs' taxable income is distributed annually to REIT shareholders.

This operating framework is delineated within the Internal Revenue Code by numerous rules, restrictions and limitations under which REITs are required to operate. Specifically, any entity that elects with the IRS to operate and be taxed as a REIT under the U.S. corporate income tax must be considered a corporation for tax purposes; must be incorporated or otherwise organized in the United States; must maintain at least 75% of its assets in qualifying real estate assets; must receive 75% of its income from some combination of rent from real property, interest from mortgages secured by real property and gains from the sale of real property; must receive 95% of its income from the aforementioned qualified real estate sources and from other passive sources; and, must have more than 100 shareholders with no fewer than five individuals owning more than 50% of its stock.

Certainly among the most burdensome of restrictions is the fact that REITs are required to distribute at least 90% of their taxable income each year to their shareholders. Consequently, REITs, unlike other corporations as well as unlike pass-through entities (partnerships, limited liability companies and S corporations), are not permitted to retain an appreciable amount of earnings as illustrated in the chart below. This limitation on retained earnings imposes the concomitant requirement that REITs regularly return to the capital markets to fund new investment, thereby remaining disciplined in their use of capital and subject to the scrutiny of investors and the public. Unlike pass-through entities, which today account for a vast majority of commercial real estate investment in the United States, REITs also are not generally permitted to pass through tax losses or tax credits to their shareholders.

By complying with these burdensome restrictions as well as a number of other related constraints, a REIT may deduct from its taxable income the dividends it pays to its shareholders when completing its corporate income tax return. Moreover, the dividends paid by REITs generally are not treated as "qualified" dividends but are taxable at the shareholder's ordinary income tax rate.

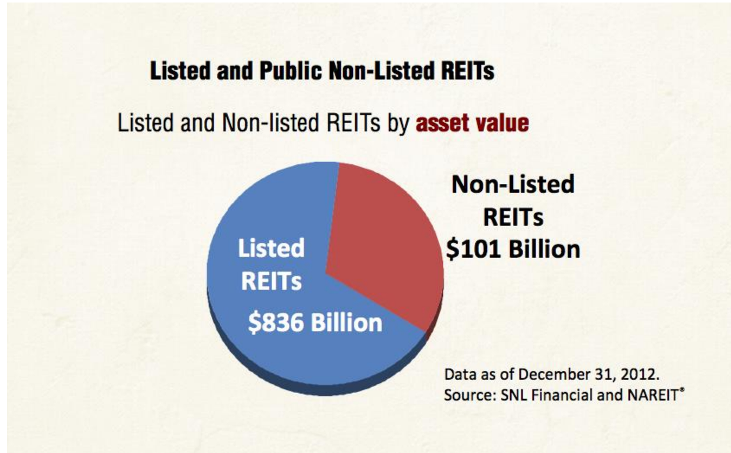


U.S. REIT INDUSTRY TODAY

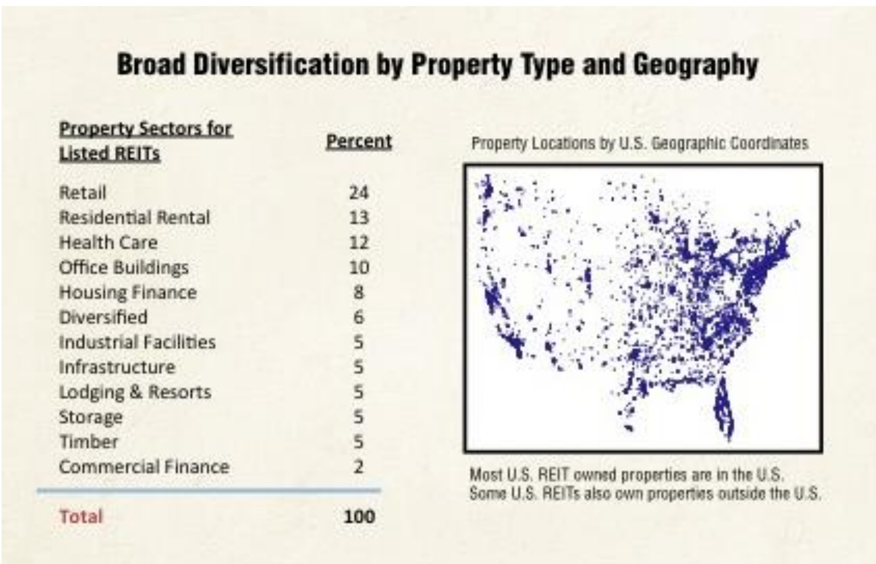
The U.S. REIT industry today includes a vibrant range of companies engaged in real estate ownership or financing that support nearly all sectors of the economy. While there is great diversity within the industry, the REIT rules as described above remain true to their original purpose: a REIT must primarily invest in and derive income from real estate; it must be widely held; and each year it must distribute virtually all of its income to its shareholders.

A REIT may be a public company with its shares registered with the Securities and Exchange Commission (SEC), or it may be a private company. A public REIT's shares may be either listed on an established stock exchange, or its shares may be unlisted and sold directly to investors through a broker-dealer.

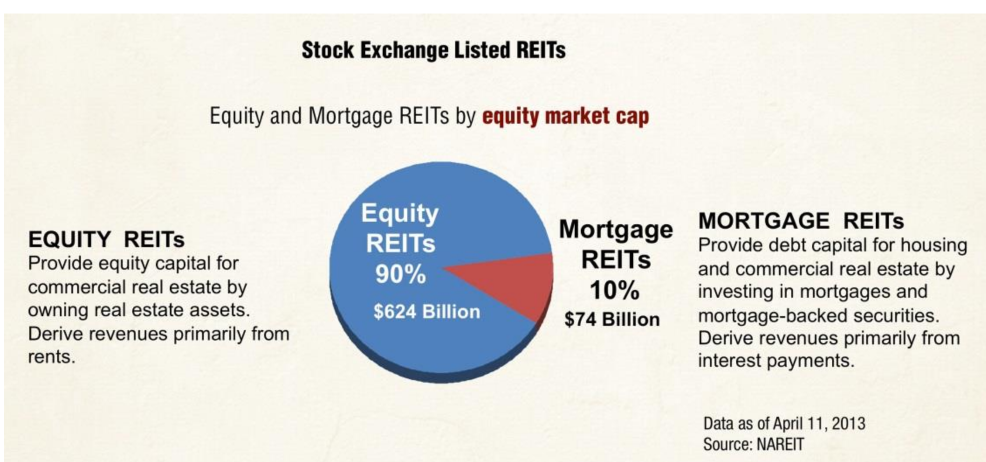
At the end of 2012, 288 REITs were registered in the U.S. with the SEC, and 195 of these REITs were listed on established U.S. stock exchanges (predominantly on the NYSE). Of the 288 SEC-registered REITs, 90% (by asset value) are stock exchange-listed REITs, and 10% are public non-listed REITs. Private REITs are not registered with the SEC; nevertheless, each of them still must comply with the REIT rules, and each must file with the IRS every year.



Today's REITs generally specialize in either owning or financing real estate. "Equity REITs" primarily own, and in most cases operate, income-producing properties, including apartments, data centers, hospitals, hotels, industrial facilities, life science buildings, nursing homes, offices, shopping malls, storage centers, senior housing, student housing, telecommunications towers and timberlands. Equity REITs currently own more than $1 trillion of real estate in the United States, including more than 40,000 properties in all 50 states and accounting for an estimated 15% of the total commercial real estate market.

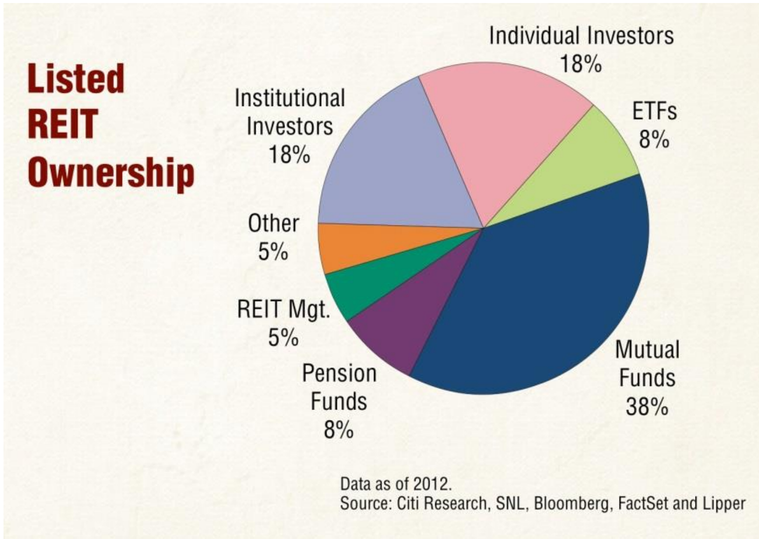


"Mortgage REITs" primarily invest in mortgages and mortgage-backed securities, providing financing for residential and commercial properties. More than 2.5 million single-family homes are currently financed by mortgages owned



by mortgage REITs. Most of these mortgages would otherwise be funded on the balance sheets of commercial banks or one of the government-sponsored enterprises.

On the basis of total stock exchange-listed REIT equity market capitalization, 90% of today's stock exchange-listed REITs are equity REITs, and 10% are mortgage REITs.



For more than 50 years, REITs have built a record of success in meeting the intent of Congress to provide individuals from all walks of life with the opportunity to earn the benefits of long-term real estate investment. For example, by investing in the shares of stock exchange-listed equity REITs, the public can efficiently and effectively own a stake in a diversified portfolio of large-scale, income-producing properties. The portfolio diversification benefits manifest themselves in two ways: first, by providing exposure to the real estate asset class alongside other stocks, bonds, cash and other assets; and second, by diversifying the real estate exposure across many different property sectors and geographic regions owing to REIT-owned properties being located around the country and supporting different sectors of the economy. A further source of diversification is available to investors through mutual funds and exchange-traded funds (ETFs) that diversify their investments across many different REITs.

REITs that are listed on stock exchanges currently have an equity market capitalization of about $700 billion and help support nearly one million jobs in the U.S. each year, both through their own operations and operations of the businesses that occupy their properties. In addition to the REIT rules, these listed REITs are subject to SEC as well as stock exchange listing requirements.

Because stock exchange-listed REITs must invest for the long-term, must generate reliable and predictable current income for shareholders, must use their capital in a disciplined manner and finance themselves with only moderate leverage, many have argued that listed REITs, being widely monitored and scrutinized by analysts and investors through their transparent financial statements and publicly available information, have served as a stabilizing force within the real estate market and broader economies during times of economic turbulence.

Not only have stock exchange-listed REITs served an important role in moderating the extreme highs and lows that have characterized previous commercial real estate cycles, they also have performed well relative to other equity and fixed income investments, both in the U.S. and internationally over both short- and long-term investment horizons due in no small part to the discipline and demands associated with required dividend distribution.

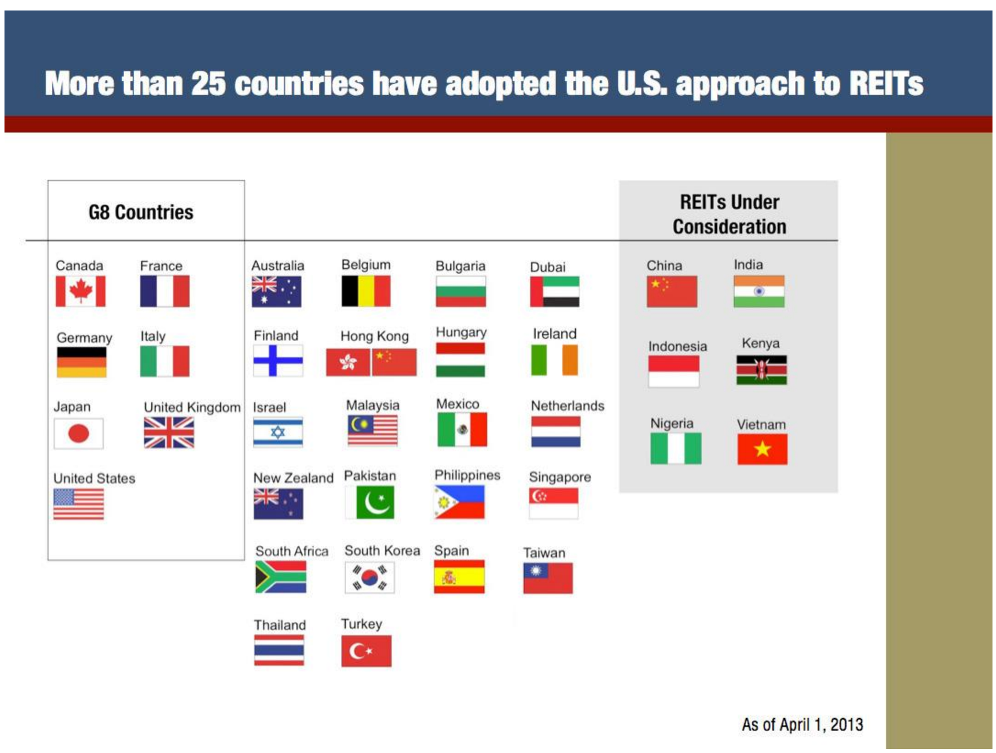
It is important to note that, as the public increasingly searches for investments to help secure their savings and their futures, the U.S. REIT industry – primarily through the elected burden of mandatory distribution of taxable income – has helped to foster growing interest in long-term, income-oriented real estate investment in the U.S. and, increasingly, around the world.

The transparency of these public REITs, together with the disciplined use of capital encouraged by the REIT rules and public markets, have benefited all participants in the real estate market, including institutional and individual investors; providers of credit; local, state and federal governments; and regulators. REITs also make significant contributions to the economic growth and stability of the country through their development and redevelopment projects.

As a result of this track record, REITs have become widely accepted in today's investment landscape. For example, REITs are in 225,000 401(k) plans, representing 50 million Americans. There are more than 300 mutual funds and ETFs dedicated to REITs and real estate sponsored by companies like Vanguard, Fidelity and T. Rowe Price. And REITs are in 75% of target date funds, the fastest-growing retail investment default option.

<u>REITs AROUND THE WORLD</u>

Over the course of the past five decades, the U.S. REIT industry has both grown substantially and performed well. Not surprisingly, other nations have taken notice. In an effort to provide their citizens and economies with the benefits of REIT-based real estate investment, more than 25 countries so far have adopted various adaptations of the U.S. REIT model.



For example, every G-8 nation, with the exception of Russia, has adopted a regime for REIT-based real estate investment. Additionally, a majority of countries that are members of the Organisation for Economic Co-operation and

Development (OECD) have adopted their own regimes for REIT-based real estate investment. Finally, both of our nation's neighbors, Canada and Mexico, have REIT regimes in place. All of these countries have chosen to follow, more or less, the pioneering experience set forth by the U.S.

The FTSE EPRA/NAREIT Global Real Estate Index is the leading investment benchmark worldwide for stock exchange-listed equity real estate investments. The equity market capitalization of the Index today is approximately $1.6 trillion worldwide, two-thirds of which represent publicly traded equity REITs. Notably, the largest listed real estate company in the world is a U.S. REIT, and U.S. REITs represent 12 of the top 20 listed real estate companies worldwide. However, with REIT models now adopted by many nations around the world, an additional 4 of the top 20 constituents of the Index are REITs organized and headquartered outside the U.S (representing, in these cases, REITs from Australia, France, Hong Kong and the United Kingdom).

Because the United States currently has the highest corporate tax rate in the world, advocates of comprehensive tax reform have argued for reducing the statutory corporate rate. It is noteworthy in the table below that most nations that have adopted the REIT approach to real estate investment also have significantly lower corporate tax rates when compared to the United States. These tax disparities underscore the fact that REITs, as a matter of national economic policy, have become an attractive and important way to provide public access to real estate investment worldwide, regardless of the rate and related structure of a national corporate income tax.

Corporate Tax Rates of REIT Nations

G8		OECD		OTHERS		POTENTIAL ADOPTEES	
Canada	15%	Australia	30%	Bulgaria	10%	China	25%
France	33.33%	Belgium	33%	Dubai	0%	India	32.4%
Germany	15.8%	Finland	24.5%	Hong Kong	16.5%	Indonesia	20%
Italy	27.5%	Hungary	19%	Malaysia	25%	Kenya	30%
Japan	25.5%	Ireland	12.5%	Pakistan	35%	Nigeria	30%
UK	24%	Israel	25%	Philippines	30%	Vietnam	25%
U.S.A.	35%	Mexico	30%	Singapore	17%		
		Netherlands	25%	South Africa	28%		
		New Zealand	28%	South Korea	22%		
		Spain	30%	Taiwan	17%		
		Turkey	20%	Thailand	23%		

Source: Ernst & Young 2013 Worldwide Corporate Tax Guide

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NAREIT very much appreciates the opportunity to provide this letter to you and your colleagues on the House Committee on Ways and Means. We welcome the opportunity to discuss this submission, or any of the issues affecting REITs and real estate investment, as you continue to work towards the enactment of comprehensive tax reform. If you have any questions, please contact me or Tony Edwards, NAREIT's Executive Vice President and General Counsel, at (202) 739-9408 or tedwards@nareit.com.

Respectfully submitted,

Steven A. Wechsler
President & Chief Executive Officer

ATTACHMENT A

SELECT TAX REFORM ISSUES OF IMPORTANCE to REITs and REAL ESTATE INVESTMENT

For Use by House Committee on Ways and Means Tax Reform Working Groups

Charitable/Exempt Organizations Working Group

- Rules governing investors in real estate

Debt, Equity, and Capital Working Group

- Corporate mergers and acquisitions
- Debt modification
- Depreciation
- Interaction of mandatory distribution requirement with other corporate tax rules
- Sales and exchanges of capital assets
- Treatment of debt, including deductibility of interest
- Treatment of equity, including common and preferred stock

Education and Family Benefits Working Group

- Rules governing investors in real estate

Energy Working Group

- Treatment of energy efficient investments

Financial Services Working Group

- Equity and debt capital formation
- Interaction of mandatory distribution rules with other corporate tax requirements
- Sales and exchanges of capital assets
- Treatment of derivatives used to manage risk
- Treatment of mutual funds and exchange-traded funds

International Working Group

- Cross-border investment rules for real estate investment
- FIRPTA
- Rules governing investors in real estate

Pensions/Retirement Working Group

- Tax treatment of investment in real estate

Real Estate Working Group

- Corporate mergers and acquisitions
- Debt modification
- Deductibility of state and local taxes
- Depreciation
- Energy efficient investments
- Environmental cleanup costs
- Interest deductibility
- Modernization of the REIT rules, such as H.R. 5746, the Update and Streamline REIT Act of 2012
- Partnership taxation
- REMICs
- Sales and exchanges of capital assets

Small Business/Pass-Throughs Working Group

- Limited liability corporation taxation
- Partnership taxation issues
- S corporation taxation
- Treatment of UPREITs

Attachment B: REIT Chronology

1960 REITs are Created

Sept. 14, 1960 REITs are created when President Eisenhower signs into law the REIT Act title contained in the Cigar Excise Tax Extension of 1960. REITs, patterned after mutual funds, were created by Congress in order to give the public the opportunity to invest in large-scale, diversified portfolios of income-producing real estate.

NAREIT is Formed

Sept. 15, 1960 NAREIT is incorporated and today is the worldwide representative voice for REITs and publicly traded real estate companies with an interest in U.S. real estate and capital markets.

Initial REITs Debut

1960-1961 The first REITs--Bradley Real Estate Investors, Continental Mortgage Investors, First Mortgage Investors, First Union Real Estate (now Winthrop Realty Trust, NYSE: FUR), Pennsylvania REIT (NYSE: PEI) and Washington REIT (NYSE: WRE)--are created. The latter three are still in existence today.

1965 First NYSE REIT

June 1965 Continental Mortgage Investors becomes the first REIT to be listed on the New York Stock Exchange.

1969 REITs Around the World

1969 The first European REIT legislation is passed in The Netherlands. This marks the beginning of the global spread of the REIT model, with REITs launching in Australia shortly after in 1971. REITs began to spread across Asia with the launch of Japanese REITs in 2001. REITs in Europe were buoyed by legislation in France (2003), Germany (2007) and the U.K. (2007). In total, more than 25 countries now have REIT legislation.

1970 First Health Care REIT

June 1970: Health Care Fund, founded by Bruce Thompson and Frederic Wolfe, becomes the first health care REIT. The company changed its name to Health Care REIT, Inc. (NYSE: HCN) in 1985.

1972 First REIT Index Unveiled

January 1972 NAREIT REIT Index debuts as the first REIT index available for benchmarking the price and total return investment performance of REITs. The index originates the classification of Equity and Mortgage REITs.

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1976 Tax Reform Act of 1976

November 1976 As part of the Tax Reform Act of 1976, President Ford signs into law the first package of REIT simplification amendments, most notably allowing REITs to be established as corporations in addition to business trusts.

1985 Dedicated Real Estate Funds Developed

January 1985 The National Real Estate Stock Fund is formed as the first open-end mutual fund dedicated to REITs. Today, there are more than 300 dedicated real estate mutual funds and ETFs. In 1986, Martin Cohen and Robert Steers found Cohen & Steers, which becomes the nation's largest REIT manager with more than $26 billion in assets under management.

1986 Tax Reform Act of 1986

October 1986 President Reagan signs the Tax Reform Act of 1986. Among its real estate provisions, there are several new rules that prevent taxpayers from using partnerships to shelter earnings from other sources. Additionally, a number of REIT simplification changes take effect, including one that for the first time allows REITs to be internally advised and managed.

1989 Dramatic Real Estate Downturn

1989-1991 The nation is beset by the worst real estate downturn since the Great Depression of the 1930s. REIT stock prices decrease well before prices of private real estate begin substantial decline. However, REIT share prices also begin to increase well before recovery in the private real estate market.

1991 Kimco's IPO Launches the Modern REIT Era

November 1991 Kimco Realty Corporation (NYSE: KIM) concludes the first successful equity REIT IPO in many years. This step marks the beginning of the modern REIT era, sets the stage for the resurgence of the REIT industry and helps to stabilize the financial and real estate markets.

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1993 Pension Plans

August 1993 As part of the Omnibus Budget Reconciliation Act of 1993, President Clinton signs into law a change that makes it easier for pension plans to invest in REITs.

Simon Property Goes Public

December 1993 Setting the stage for offerings to come, Simon Property Group (NYSE: SPG) concludes what was then the biggest REIT IPO to date, raising $839.9 million. Simon has gone on to become the largest publicly traded real estate company in the world as well as the largest U.S. REIT.

1999 Plum Creek Becomes First Timber REIT

1999 Plum Creek Timber Company (NYSE: PCL) becomes the first timber REIT.

REIT Modernization Act

December 1999 As part of the Ticket to Work and Work Incentives Improvement Act of 1999, President Clinton signs into law provisions of the REIT Modernization Act of 1999. Among other items is the ability of a REIT to form one or more taxable REIT subsidiaries (TRS).

2000 REIT ETFs Hit the Market

June 2000 The iShares Dow Jones U.S. Real Estate Index Fund launches, becoming the first real estate exchange traded fund. Within less than a year, it is joined by the streetTRACKS Wilshire REIT Index Fund and iShares Cohen & Steers Realty Majors Index Fund. Today, there are more than 20 REIT ETFs.

2001 Ibbotson Research Highlights REIT Benefits

August 2001 Ibbotson Associates, a leading authority on asset allocation, releases results of its landmark research clarifying the benefits of REITs in a diversified investment portfolio. The results, which were a driving force in the industry's investor outreach efforts, show that exposure to REITs not only improves portfolio returns but also lowers portfolio risk.

Global Real Estate Index Launches

October 2001 In a joint venture, NAREIT, EPRA and FTSE launch the EPRA/NAREIT Global Real Estate Index.

Attachment B: REIT Chronology

2001 Equity REITs Added to S&P Indexes

October 2001 Standard & Poor's opens its indexes to equity REITs.

2003 SEC Recognizes Funds From Operations (FFO)

January 2003 The Securities and Exchange Commission explicitly allows companies to use FFO per share as defined by NAREIT in SEC filings.

Research Identifies Complementary Nature of Public and Private Real Estate Investment

June 2003 Ibbotson Associates releases results of its pioneering research with respect to the comparative performance of REIT and direct real estate investment in diversified investment portfolios. Ibbotson's analysis clearly demonstrates the complementary nature of both public and private forms of commercial real estate investment in long-term portfolios.

2004 IBM Adds a REIT Option

May 2004 IBM, the country's largest 401(k) plan sponsor, introduces a REIT index fund as a distinct investment choice to its plan.

REIT Improvement Act

October 2004 President Bush signs into law the American Jobs Creation Act, including all three titles of the REIT Improvement Act.

2008 REIT Investment and Diversification Act

July 2008 REIT Investment and Diversification Act (RIDEA) becomes law, allowing REITs to buy and sell real estate assets more efficiently, among other things.

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2008 Research Shows REITs Assist with Liability Relative Optimization

September 2008 Ibbotson Associates releases results of its pioneering research with respect to the benefits of including publicly traded REITs and property companies in long-term, diversified investment portfolios using liability relative optimization.

OECD Model Tax Treaty Modified

The Organization for Economic Cooperation and Development adopts a model tax treaty to achieve uniform tax treatment for cross-border REIT investments around the world.

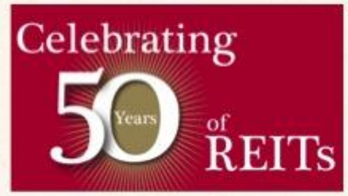
2009 Emerging Markets Added to Global Index

January 2009 FTSE, NAREIT and EPRA announce the addition of REITs and listed property companies in emerging markets to the FTSE EPRA/NAREIT Global Real Estate Index.

2009 REITs Prove Resilient in Great Recession

2009 In response to the global credit crisis, listed REITs respond by deleveraging and re-equitizing their balance sheets. Listed REITs and REOCs raised $37.5 billion in 91 secondary equity offerings, nine IPOs, and 37 unsecured debt offerings as the public continued to act favorably to companies strengthening their balance sheets amidst the Great Financial Crisis.

2010 REITs at 50



Sept. 14, 2010 REITs and NAREIT celebrate their 50th anniversaries, as recognized by a U.S. Congressional Resolution.

2012 Performing for the Long-Term

Since the first REIT Index was introduced in 1972, REITs delivered a compound annual return of 12.1%.

2013 S&P Opens Door for Mortgage REITs

Standard & Poor's announces mortgage REITs are eligible for inclusion in its indexes.