


The Key Success Factors in the Development of the South African REIT Market

September 2018

CONTENTS

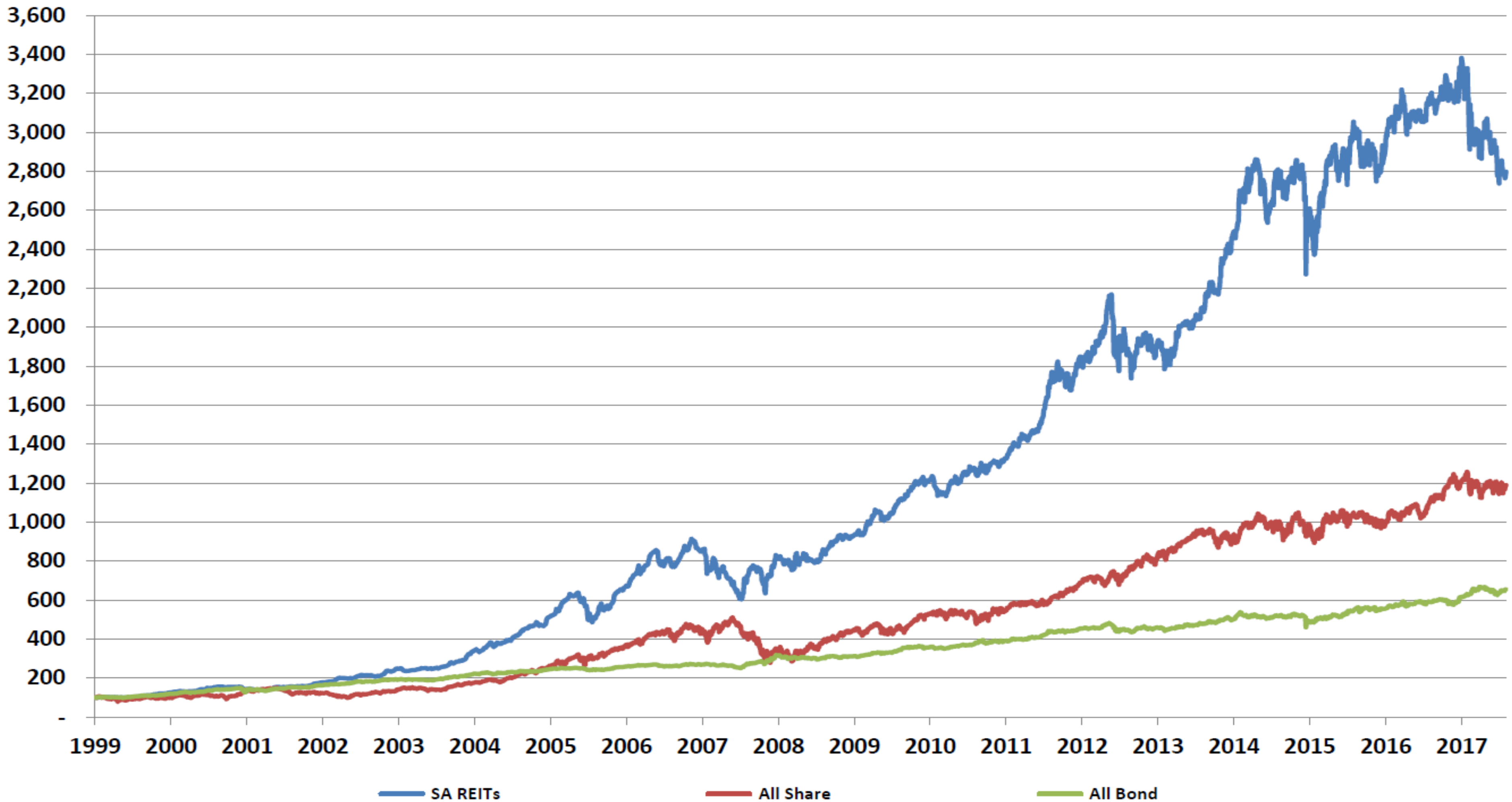
1 CONTEXT AND HISTORY OF REITS

Introduction

History	▪ Real Estate is capital intensive, illiquid and requires professional management to deal with rental optimisation and collections, local government and developments. ▪ Due to these requirements, real estate operations have historically been located within large institutional balance sheets and professional property management teams. ▪ Although REITs have been around for over 50 years, the modern REIT era only started in the early 1990s.
What is a REIT?	▪ A REIT is an entity that invests primarily in real estate and qualifies for special tax treatment, providing a conduit for earnings to be taxed at the investor level and not at the entity level. ▪ Subject to limitations specific to each jurisdiction, REITs may own, operate, acquire, develop and manage real estate assets and/or provide related services.
Nature and Evolution	▪ Initially, REITs tended to be similar to mutual funds, allowing investors to pool capital and invest in diversified pools of real estate that were regarded as passive investments. ▪ Legislative and tax changes have enabled REITs to become actively managed, fully integrated operating companies, reflecting the reality of modern property investment. ▪ REITs have come to be regarded as a key component of a balanced investment portfolio and are seen as an investment category separate from direct property ownership.
Globalisation of Property and the Move to REITs	▪ In recent years, property as an asset class has delivered exceptional returns to investors. Total returns to investors from listed property have been particularly strong, driven by factors such as low interest rates, a low-inflation environment and the search for yield. Global property registered a total return of 7,9% in 2017, the eighth consecutive year of positive returns since the global financial crisis and 0,5% higher than in 2016[1]. ▪ Globally, investment grade property has seen a re-rating in value and a surge in investor demand for access to this asset class. The performance of investment grade property has been one of the factors to encourage the move toward listed REIT structures around the world. ▪ As property returns in developed economies have declined, global capital seeks opportunities for attractive returns in economies in which it is under-invested, such as the numerous emerging markets of Africa. ▪ Challenges for emerging markets include a lack of uniformity and simplicity required to facilitate effective international investment.

[1]*Source: MSCI Research - Global Real Estate Performance in 2017*

Comparative Performance of South African REITs in terms of total returns as at 31 July 2018



Source: IRESS, Bridge Fund Managers & SA REIT Association

2 QUALIFICATION AS A REIT

Generic Requirements

REITS are generally subject to the following regulatory restrictions:

Minimum pay-out obligation	▪ Distribute at least 75 – 90% of taxable income.
Asset regulation	▪ Derive at least 75% of gross income from qualified investments (real property or real estate securities). ▪ In some jurisdictions like the USA, mortgage debt from property also qualifies as an investment for REIT status as mortgage REITs.
Income regulation	▪ Derive at least 90% of gross net income from real property, dividends, interest and gains from security sales. ▪ Invest at least a minimum percentage of assets in equity ownership of real property, mortgages, other REIT shares, government securities and cash.
Widely-held ownership	▪ Ensure that no more than 50% of shares outstanding are owned by fewer than a prescribed number of individuals (the 'spread' requirement). ▪ Ensure that shares are owned by at least 100 – 500 shareholders.

3 PROPERTY AS A GROWTH VEHICLE

Background to REITs

Characteristics of Investment Property	Investment property as an asset class presents distinct characteristics: ▪ The capital value of investment property assets is secure if there is: ○ enduring capital value; ○ the capital value does not fluctuate in a volatile manner; and ○ the trend is for capital values to increase in line with, or in excess of prevailing inflation rates. ▪ This capital stability reflects that immovable property (i.e. bricks and mortar) is fixed and tangible and likely to be enduring as an income producing asset. ▪ Investment property produces predictable, recurring cash flows in the form of rental payable in terms of leases that escalate in line with, or in excess of inflation.
Property's Characteristics: Empowering Investment and Nation Building	▪ Capital stability and reliable cash flows allow for cost-effective gearing against investment grade property. ▪ Gearing reduces the large entry hurdle for property ownership, thus improving accessibility. ▪ Through steady appreciation in the value of the geared asset, property can be a bedrock of individual wealth. ▪ As a result of property's characteristics, private investment capital can be secured not only on conventional rental streams from retail/office/industrial property, but also on unconventional sources such as infrastructure and low-cost housing. ▪ Ancillary benefits of a successful investment property industry include employment opportunities and job creation as construction is labour-intensive and requires both skilled and unskilled labour.

Key Considerations for REITs

Flow-through principle	▪ All forms of REITs have a similar key feature: distribute pre-tax income to investors. ▪ Rental income from investment property is not subject to income tax within the REIT either at all or as long as it is distributed to the investor. ▪ This distribution is then taxable in the hands of the investor, a feature of REITs often referred to as "flow-through." ▪ Investors should be able to hold indirect interests in property on a flow-through basis, placing them in the same position as if the property interest was held directly.
Flexibility	▪ A best of breed REIT vehicle optimises flexibility and maximises investor access to revenue streams and opportunities related to immovable property. ▪ Presenting listed property with uniformity and simplicity could serve to attract global capital and spur development.
Asset Realisation	▪ Globally, a large percentage of a nation's capital is generally tied up in state-owned property assets. ▪ Listed property vehicles such as REITs are ideal platforms to acquire such assets as they: ○ allow for a portion of debt financing; ○ spread ownership to a broad base of shareholders; ○ enable government to achieve higher prices through the mechanisms of market supply and demand; and ○ facilitate foreign direct investment while still maintaining majority local control (in certain jurisdictions).

Key Considerations for REITs (cont.)

Securitisation of Property	▪ Securitisation of interests in property affords investors access to their choice of property exposure, whether focussed or diversified. ▪ Securitised property may trade at a premium to directly held property due to the following factors: ○ Accessibility: Access to an asset class unaffordable to most retail investors; ○ Liquidity: In the secondary market, achieved through a listed exchange; ○ Diversification: Geographical, sectoral and by tenant; ○ Dividends: Regular, tax efficient distributions providing a reliable yield; ○ Performance: Professional management (both at asset and at property level); and ○ Transparency: Supervised by a regulator such as a stock exchange.
Professional Management	▪ The success of the REIT structure attracts top calibre management into the real estate industry.

Overview - A Comparison Between South Africa and Kenya

Country	South Africa	Kenya
REIT Status	Since 2013	Since 2013
REIT Type	Trust or Corporate	Trust
REIT Name	SA-REIT	I-REIT or D-REIT
Management	Internal or External	External
Financial Regulator	JSE[1]/SARS[1]	NSE[2]/CMA[2]
Number of REITs	36	1
Market Size	c. ZAR 365 billion (c.USD 24 billion)	c. KSH 1.8 billion (c.USD 18 million)
Closed Ended	Yes	Yes
Minimum Initial Capital	ZAR 300 million (USD 19,5 million)	I-REIT: KSH 300 million (USD 3 million) D-REIT: KSH 100 million (USD 1 million)

[1] JSE: private sector stock exchange, licensed by a financial regulator; SARS: tax collection agency of the state
[2] NSE: Nairobi Securities Exchange; CMA: The Capital Markets Authority

Source: Nairobi Securities Exchange & Java Capital research

• Asset Requirements

- Regulators have introduced asset regulations to avoid REIT structures straying too far from investment property.
- Asset regulations may allow REITs to include assets on the verge of what is considered property-related. As a result, in some markets, entire new REIT sub-sectors have opened up to investors.

Country	South Africa	Kenya
Asset Mix	▪ A minimum of 75% of income must arise from property rental income. ▪ Stock exchange prescribes minimum asset requirements for listing of ZAR 300 million (USD 19,5 million).	▪ I-REITs may invest in income generating real estate and other investments such as bonds, cash securities and shares. ▪ D-REITs may invest in development and construction projects. ▪ Minimum asset requirements as follows: ○ I-REIT: KSH 300 million (USD 3 million); and ○ D-REIT: KSH 100 million (USD 1 million).
Foreign Assets	▪ Permitted subject to currency control regulations.	▪ N/A

Source: Nairobi Securities Exchange & Java Capital research

4 KEY STRUCTURAL CONSIDERATIONS

Capital Structure: Gearing Constraints

- Cost effective gearing of investment property is a fundamental component of successful property investment.
- Gearing reduces the entry price to equity investors in property, thereby enhancing equity returns.
- Accessibility of cost-effective gearing is predicated on factors such as an efficient capital market, capital stability, predictable cash flows and attractive income yields relative to other asset classes.
- Just as cost effective gearing underlies successful property investment, so too can excessive gearing undermine and destroy value. For this reason, an optimal capital structure is vital in generating sustainable returns for investors.
- Gearing may be regulated on a loan to value basis or by implementation of interest cover ratios.

Country	South Africa	Kenya
Gearing Limitation	▪ Leverage is limited to a maximum total debt to total asset ratio of 60%. ▪ Debt may include instruments listed on capital markets.	▪ Leverage is limited to a maximum total debt to total asset ratio of 60% for D-REITs. ▪ Leverage is limited to a maximum total debt to total asset ratio of 35% for I-REITs.

Source: Nairobi Securities Exchange & Java Capital research

4 KEY STRUCTURAL CONSIDERATIONS

Nature of Tax Distribution

- REITs generally benefit from a tax flow-through of income and/or capital gains paid out to shareholders. In some markets, revenue not paid out is subject to normal corporate tax. This can drive higher pay-outs to reduce tax costs.
- Where tax is not levied on income retained, often a withholding tax applies for non-real estate income.

Tax Treatment at REIT Level

Country	South Africa	Kenya
Current Income	▪ Eligible property-related income is tax-exempt. ▪ Income that is not distributed subject to corporate tax.	▪ Eligible property-related income is tax-exempt. ▪ Withholding tax is payable on interest income and dividends.
Capital Gains	▪ Tax-exempt	▪ Tax-exempt
Withholding Tax	▪ No withholding tax on receipts.	▪ Withholding tax for dividends: ○ 5% for residents (if the resident holds less than 12.5% of the shares in issue, otherwise exempt) ○ 10% for non-residents. ▪ Withholding tax for interest income varies from 10% - 25% depending on the classification of the interest.

Tax Treatment at Local Investor Level

Country	South Africa	Kenya
Corporate	▪ Distributions are taxed at corporate tax rate. ▪ 80% of capital gains on sale of shares taxed at corporate tax rate.	▪ Withholding tax as described above
Individuals	▪ Distributions are taxed at individual's marginal tax rate. ▪ 40% of capital gains on sale of shares taxed at individual's progressive tax rate.	▪ Withholding tax as described above

Source: Nairobi Securities Exchange & Java Capital research

Distribution Obligations

- The amount of capital retained has a direct bearing on capital available for acquisitions and a company's capital raising strategy for future growth.
- Where the calculation of distributions is not IFRS-based or guided by tax regulations, there may be an incentive to pay out too much (often including non-cash items or capital items) to avoid tax on the capital retained.
- Within a best-of-breed structure, the calculation of what is distributable should be guided by tax regulation to avoid risks such as insufficient working capital for day-to-day operations due to excessive distributions.

Country	South Africa	Kenya
Distribution Requirement	▪ SA REITs must distribute a minimum of 75% of distributable profits. ▪ Capital distributions are possible for corporate REITS.	▪ I-REITs must distribute a minimum of 80% of net income after tax, as well as realised capital gains. ▪ D-REITs have no limits on distribution requirements, but realised capital gains must be distributed.
Treatment of Income Not Distributed	▪ Taxed at the corporate tax rate.	▪ Tax-exempt.

Source: Nairobi Securities Exchange & Java Capital research

4 KEY STRUCTURAL CONSIDERATIONS

Ownership Constraints

- Ideally, in a healthy market, there should be no limitation regarding the maximum shareholding of any one shareholder or the like.
- Listing guidelines automatically control some elements of ownership (where listing is mandatory).

Country	South Africa	Kenya
Listing Mandatory	▪ Yes	▪ Only unrestricted I-REITs are required to be listed. ▪ Restricted I-REITs and D-REITs do not have to be listed.
Ownership Limitation	▪ Must comply with listing rules (i.e. at least 20% of the units issued should be held by public shareholders) to be listed on the JSE Main Board.	▪ Minimum public float of 25% ○ Not applicable where securities are issued to the promoter, REIT manager or parties related to them to fund unscheduled cost overruns on a development. ○ Securities issued in such a case must not have voting rights attached to them, but have the right to participate in distributions.
Foreign Investor Treatment	▪ No discrimination, but dividend withholding tax applies to foreign shareholders.	▪ No discrimination, but dividend withholding tax applies to foreign shareholders.
Non-domestic assets	▪ Permitted	▪ N/A

Source: Nairobi Securities Exchange & Java Capital research

4 KEY STRUCTURAL CONSIDERATIONS

Limits on Activities and Regulatory Supervision

- REIT legislation commonly restricts the universe of activities that could result in tax-exempt revenue.
- Restrictions are either listed by nature or inherent in the asset/income mix requirement.
- Examples of specific restrictions include: property development, services allied to real estate such as commercial operation of hospitals/hotels and provision of mortgage services.
- Within a best-of-breed structure, the activities of REITs are flexible, but limited by the asset/income mix requirement.
- Onerous regulations stifle the motivation and ability of new funds to come to market.
- The regulatory and tax regime should be consistent and not discretionary or *ad hoc*, as this provides investors with certainty.
- The industry regulator can be either government or private (for example, through a stock exchange).

Country	South Africa	Kenya
Property Development Allowed	▪ Yes	▪ D-REIT for development assets.
Limitation	▪ No specific limitation; guided by minimum percentage for source of income.	▪ I-REITs may invest in income generating real estate and other investments such as bonds, cash securities and shares. ▪ D-REITs may invest in development and construction projects.

Source: Nairobi Securities Exchange & Java Capital research

South African Property Landscape

Investment Property Holding Vehicles in South Africa	▪ In South Africa, most investment property is owned by financial institutions, pension/provident funds including government and parastatal funds, and by property holding vehicles listed on the JSE Limited. ▪ In addition to the listed property sector, there are several substantial unlisted companies, and many small- to medium-sized unlisted and private companies. Many private property owning companies build up portfolios of investment-grade property as a result of property development activities.
Property Mix	▪ Most investment property is retail, office or industrial, with a small component of mixed-use and residential investment property. ▪ In terms of value, retail property comprises the majority of the listed sector at c.60%, with office or commercial properties a distant second at c.25%[1].
Performance of Listed Property	▪ South African listed property has out-performed most asset classes globally over the last 10 years. ▪ The sector continued its strong relative performance in 2017, where total returns ranked above the global average[2]. ▪ However, sector performance has come under pressure during the first half of 2018 owing to sector-specific and economic factors. ▪ Speculation concerning the Resilient group of companies (comprising Resilient, Fortress, NEPI Rockcastle and Greenbay) resulted in a large-scale sell off, bringing the South African Listed Property Index (of which the group comprised 42%) down to its worst quarterly return in Q1 2018 since the inception of the index. However, the performance of the group improved over Q2 2018[3]. ▪ Companies have faced tough operating conditions owing to local economic factors, especially across the retail sector, with the increase in Value Added Tax, a spike in petrol prices and increasing unemployment placing further pressure on consumers[3].

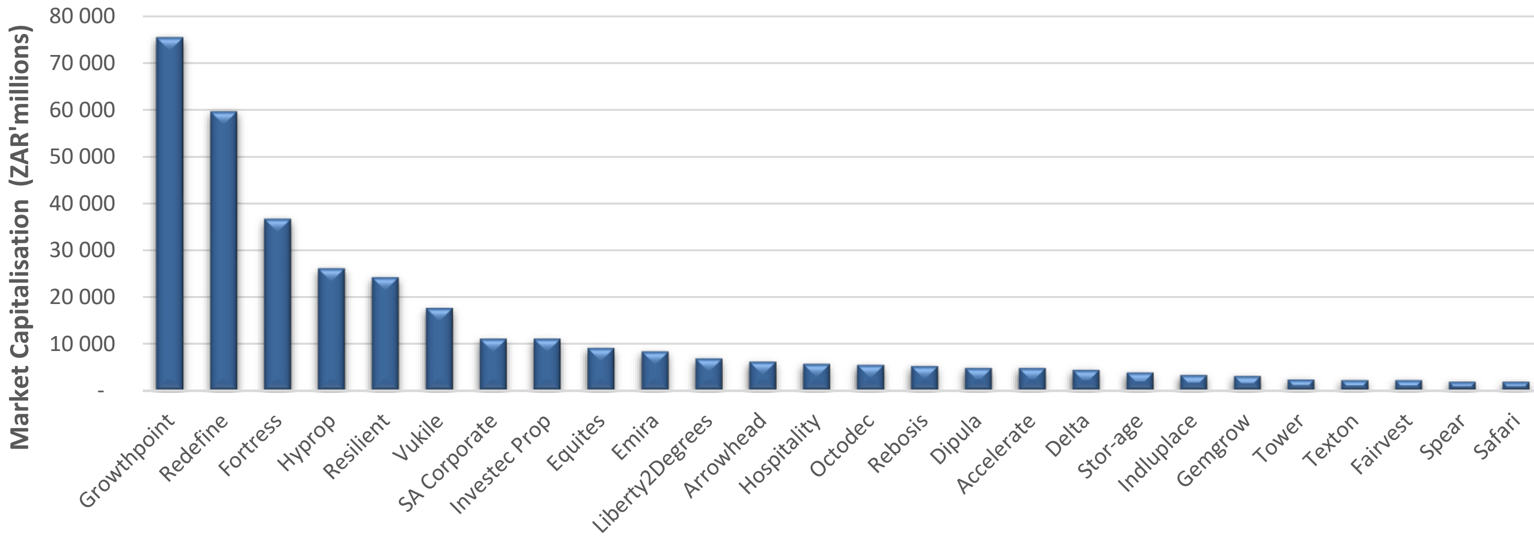
[1]*Source: IPD South Africa Annual Property Index - December 2017*

[2]*Source: MSCI Research - Global Real Estate Performance in 2017*

[3]*Sesfikile Capital - Listed Property Investments Quarterly Reports for Q1 and Q2 2018*

5 GROWTH OF THE SOUTH AFRICAN LISTED REAL ESTATE SECTOR

Market Capitalisation of SA REITs as at 31 August 2018



Contribution to the FTSE/JSE All Share Index

- The index comprises 166 companies, with a total net market capitalisation of the index is ZAR 7,509 trillion[1].
- There are 32 real estate companies (19,28% of total) in the index, including 20 SA REITS (12,05% of total).
- Real estate makes up ZAR 395,9 billion of the total net market capitalisation (5,27%).
- SA REITs make up ZAR 272,4 billion of the total net market capitalisation (3,63%).

Contribution to the FTSE/JSE Top 40 Index

- The total net market capitalisation of the index is ZAR 6,332 trillion[1].
- There are 3 real estate companies (7,50% of total) in the index, including 2 SA REITS (5,00% of total).
- Real estate makes up ZAR 175,3 billion of the total net market capitalisation (2,77%).
- SA REITs make up ZAR 63,3 billion of the total net market capitalisation (2,00%).
- The breakdown of the real estate contribution is as follows:
  - Growthpoint Properties Limited (SA REIT) – ZAR 74,8 billion (1,15%)
  - Redefine Properties Limited (SA REIT) – ZAR 58,7 billion (0,85%)
  - NEPI Rockcastle plc – ZAR 48,7 billion (0,77%)

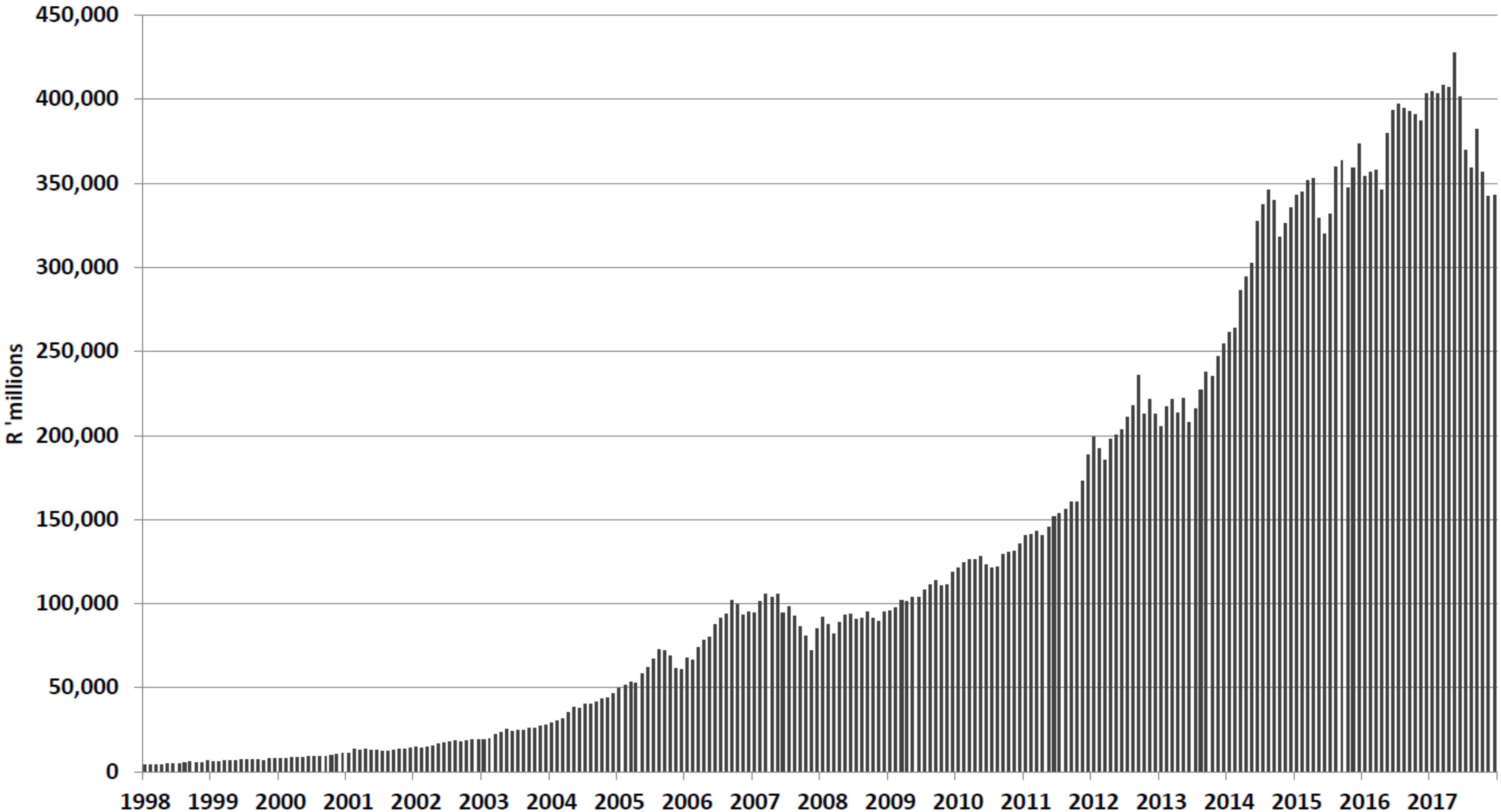
[1]*As at close of business on 3 September 2018.*

JAVACAPITAL

Source: JSE data, Java Capital research

5 GROWTH OF THE SOUTH AFRICAN LISTED REAL ESTATE SECTOR

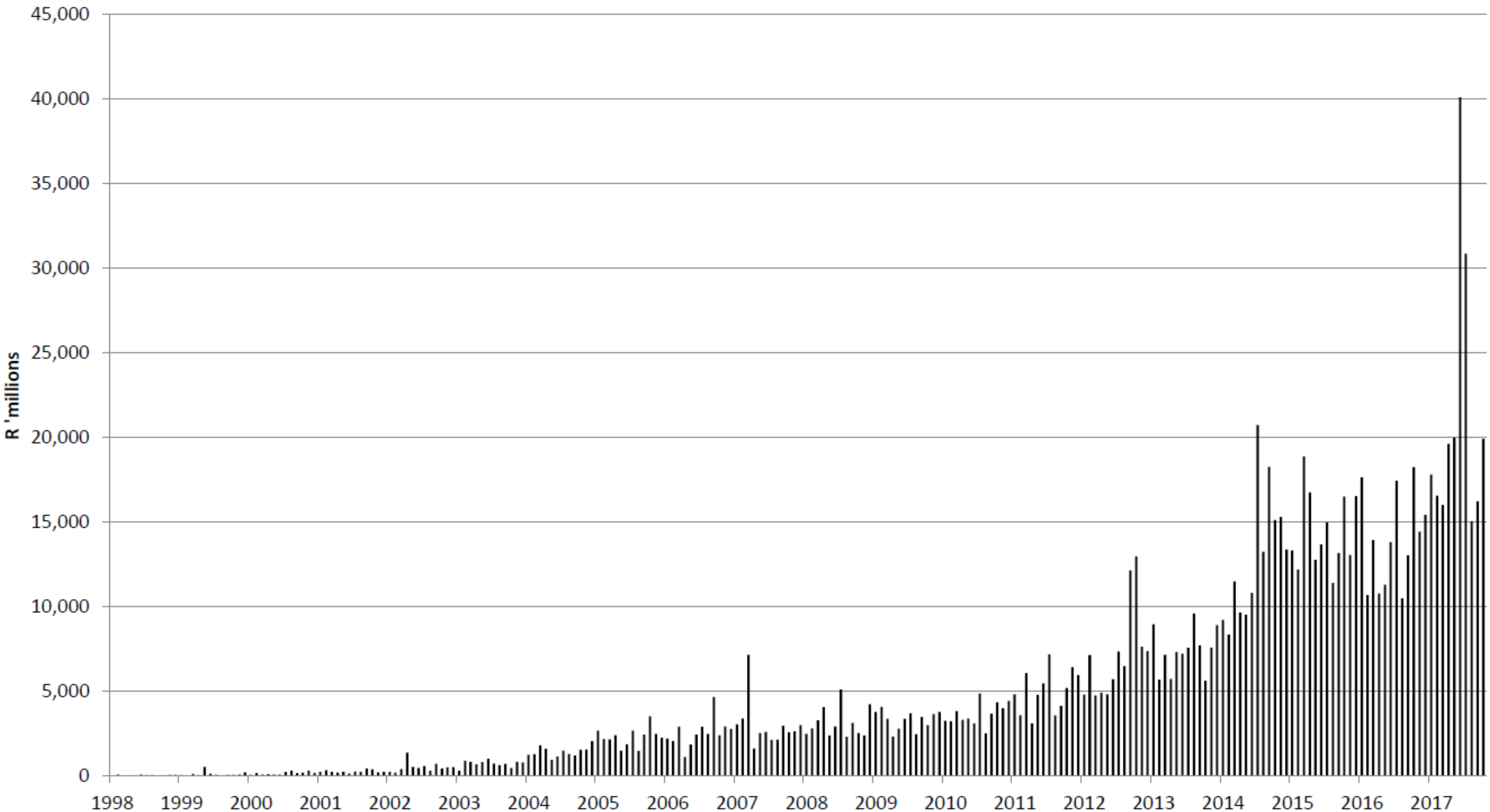
Growth in Market Capitalisation as at 31 July 2018



Source: Bridge Fund Managers & SA REIT Association

5 GROWTH OF THE SOUTH AFRICAN LISTED REAL ESTATE SECTOR

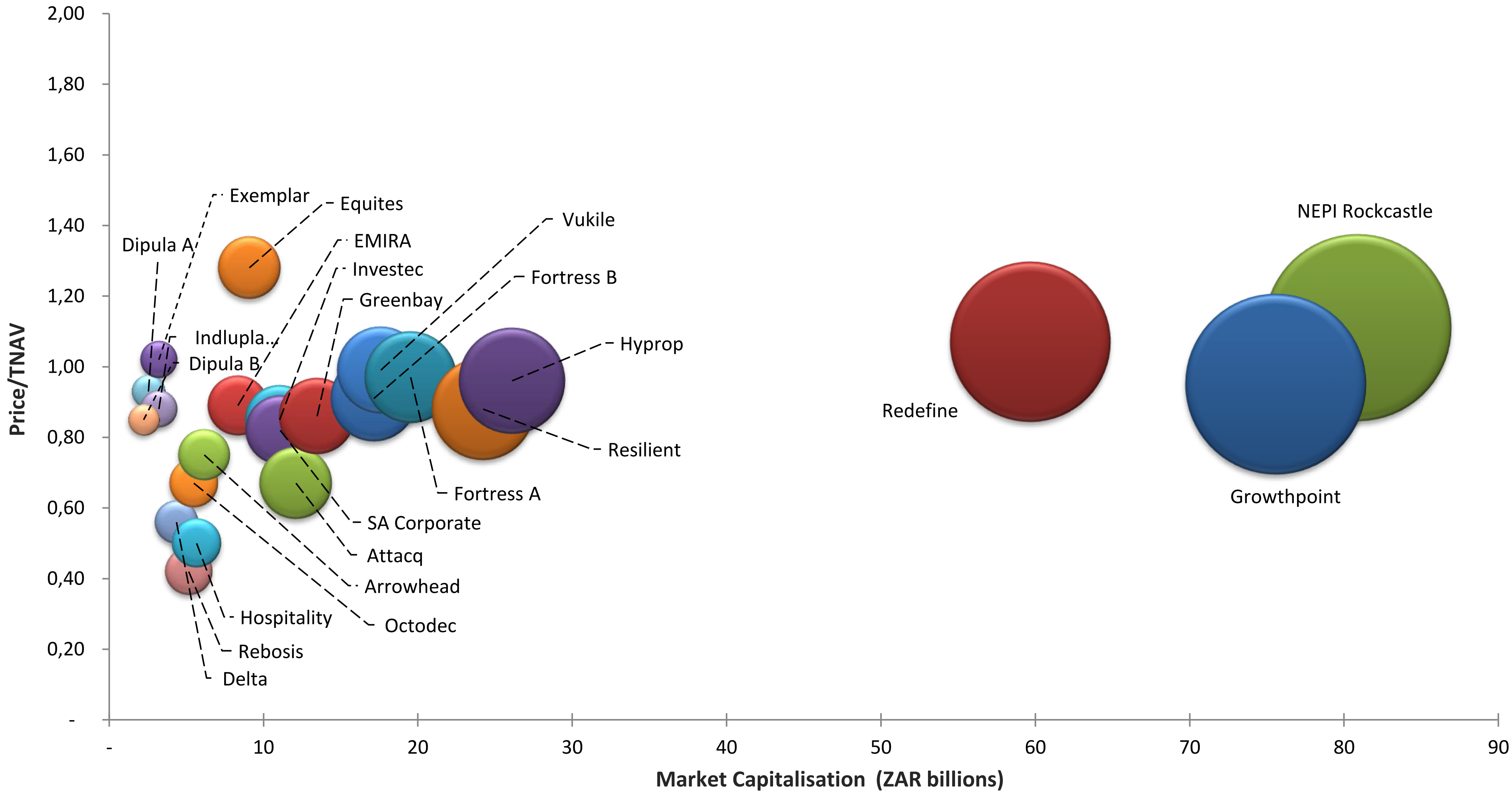
Growth in Monthly Liquidity as at 31 July 2018



JAVACAPITAL

Source: Bridge Fund Managers & SA REIT Association

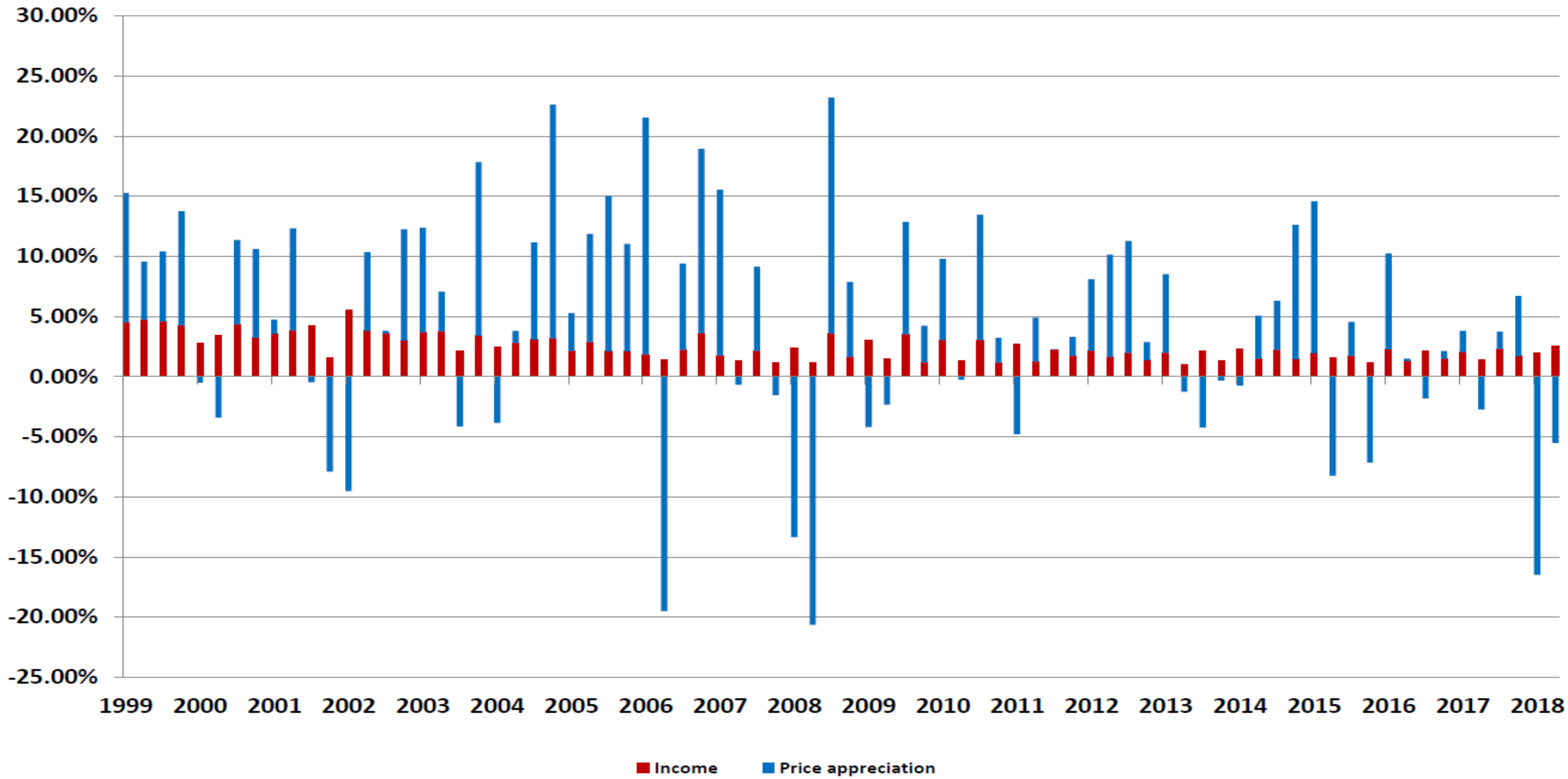
Price to Tangible Net Asset Value by Market Capitalisation as at 31 August 2018



Source: Java Capital research

5 GROWTH OF THE SOUTH AFRICAN LISTED REAL ESTATE SECTOR

Components of Quarterly Returns as at 31 July 2018



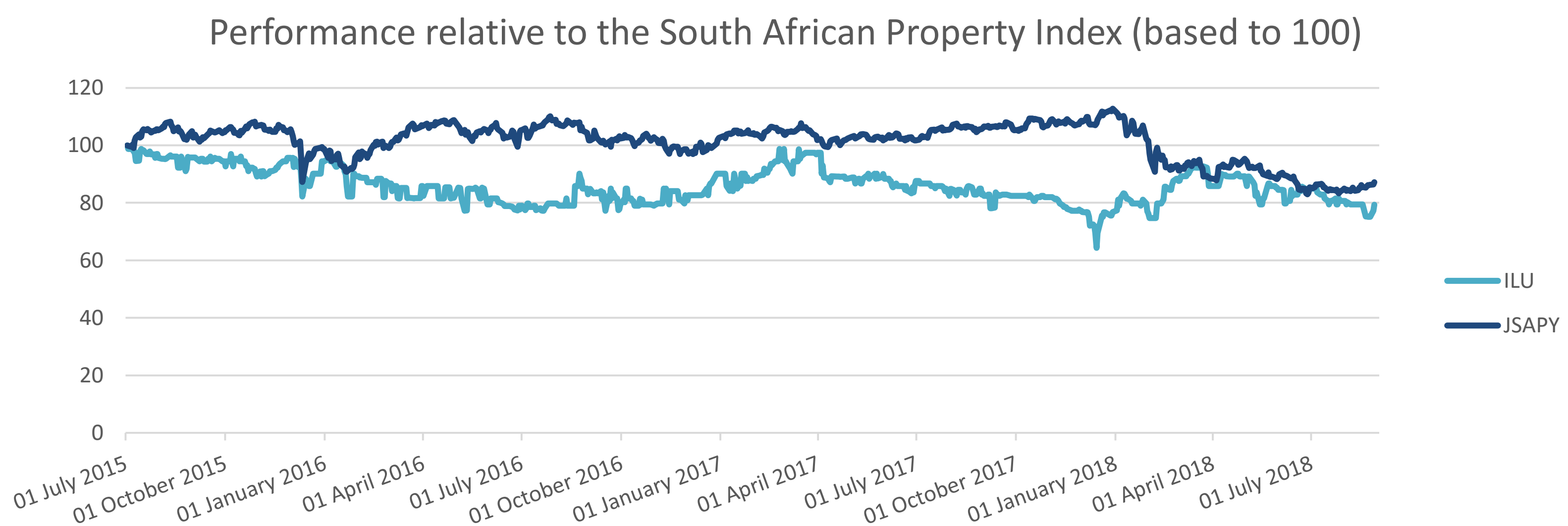
Source: Bridge Fund Managers & SA REIT Association

Comparative Total Return Investment Correlation

	Listed property	FTSE/JSE: All Share	All Bond	FTSE/JSE: Financials	FTSE/JSE: Industrials	FTSE/JSE: Top 40	FYSE: JSE: Small cap
Data period for upper right: July 2008 – July 2018							
Listed property	1.00	0.31	0.58	0.61	0.41	0.25	0.55
FTSE/JSE: All Share	0.46	1.00	0.13	0.74	0.64	0.99	0.66
All Bond	0.51	0.11	1.00	0.44	0.38	0.08	0.35
FTSE/JSE: Financials	0.74	0.67	0.50	1.00	0.72	0.69	0.71
FTSE/JSE: Industrials	0.59	0.57	0.53	0.75	1.00	0.58	0.67
FTSE/JSE: Top 40	0.37	0.99	0.02	0.59	0.48	1.00	0.60
FTSE/JSE: Small Cap	0.61	0.52	0.42	0.61	0.53	0.42	1.00
Data period for lower left: July 2013 – July 2018							

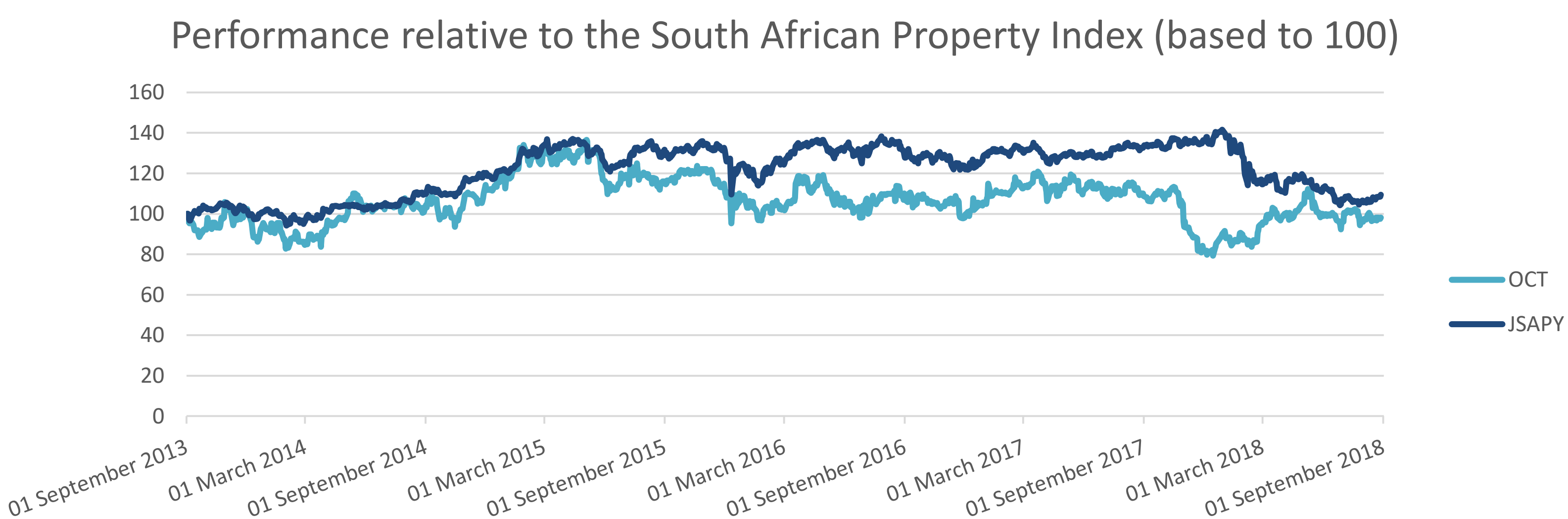
Source: Bridge Fund Managers & SA REIT Association

Indluplace Properties Limited ("Indluplace")

Background	▪ Indluplace listed on the Main Board of the JSE in June 2015 with a market capitalisation of ZAR 1,76 billion. ▪ On listing, Indluplace's property portfolio was valued at ZAR 1,58 billion, with a total of 94 properties (3 796 residential units). ▪ Since its listing, Indluplace has grown its portfolio value to ZAR 2,9 billion, representing growth of 85%. ▪ Indluplace currently owns 125 properties (9 662 residential units), as well as 17 773m^2 of retail property, making it the largest residential-focussed REIT listed on the JSE. ▪ Indluplace's strategy involves growing its rental residential portfolio by acquiring yield-enhancing properties that provide income from the first day of acquisition. ▪ The properties are mainly situated in the Gauteng province, focussing on rental residential properties in high-demand, larger urban areas close to work opportunities and transport infrastructure. ▪ Other residential forms, such as student housing or higher income housing, are considered on a case-by-case basis.
Market Capitalisation	▪ ZAR 3,07 billion (USD 202 million)
Performance Graph	

Source: S&P Capital IQ, Java Capital research

Octodec Investments Limited ("Octodec")

Background	▪ Octodec was founded in 1956, listed on the JSE in 1990 and converted to a REIT in 2013. ▪ Octodec is a diversified REIT with a portfolio consisting of residential, retail, office and industrial properties, all of which are located in the Tshwane and Johannesburg Central business districts and surrounding areas. ▪ The entire property portfolio consists of 309 properties and is valued at ZAR 12,9 billion. ▪ Octodec's first conversion of a CBD office block into residential units to meet demand for quality and affordable accommodation was in 1998. ▪ The residential portion of the portfolio consists of 70 properties (9 509 units) which are well-positioned to take advantage of urbanisation and densification trends. There are also various developments currently underway and in their pipeline. However, the slowing of the South African economy have put pressure on rental growth, so pipeline projects may only be pursued where the return on investment is acceptable.
Market Capitalisation	▪ ZAR 5,43 billion (USD 357,2 million)
Performance Graph	

Source: S&P Capital IQ, Java Capital research

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50 Years of Lessons Learned

September 18, 2018

STATEMENT OF FORWARD-LOOKING INFORMATION

Information presented herein for the third quarter ended July 31, 2018 is subject to finalization of the Company's regulatory filings, related financial and accounting reporting procedures and external auditor procedures.

This report contains or may contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. One can identify these statements by the fact that they do not relate to matters of a strictly historical or factual nature and generally discuss or relate to future events. These statements contain words such as “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “may,” “can,” “could,” “might,” “should” and other words or phrases of similar meaning. Such statements may include, but are not limited to, information related to the anticipated closing of the offering of the Notes; anticipated operating results; home deliveries; financial resources and condition; changes in revenues; changes in profitability; changes in margins; changes in accounting treatment; cost of revenues; selling, general and administrative expenses; interest expense; inventory write-downs; home warranty and construction defect claims; unrecognized tax benefits; anticipated tax refunds; sales paces and prices; effects of home buyer cancellations; growth and expansion; joint ventures in which we are involved; anticipated results from our investments in unconsolidated entities; the ability to acquire land and pursue real estate opportunities; the ability to gain approvals and open new communities; the ability to sell homes and properties; the ability to deliver homes from backlog; the ability to secure materials and subcontractors; the ability to produce the liquidity and capital necessary to expand and take advantage of opportunities; and legal proceedings, investigations and claims.

Any or all of the forward-looking statements included in this report are not guarantees of future performance and may turn out to be inaccurate. Consequently, actual results may differ materially from those that might be anticipated from our forward-looking statements. Therefore, we caution you not to place undue reliance on our forward-looking statements.

The factors that could cause actual results to differ from those expressed or implied by our forward-looking statements include, among others: demand fluctuations in the housing industry; adverse changes in economic conditions in markets where we conduct our operations and where prospective purchasers of our homes live; increases in cancellations of existing agreements of sale; the competitive environment in which we operate; changes in interest rates or our credit ratings; the availability of capital; uncertainties in the capital and securities markets; the ability of customers to obtain financing for the purchase of homes; the availability and cost of land for future growth; the ability of the participants in various joint ventures to honor their commitments; effects of governmental legislation and regulation; effects of increased taxes or governmental fees; weather

conditions; the availability and cost of labor and building and construction materials; the cost of raw materials; the outcome of various product liability claims, litigation and warranty claims; the effect of the loss of key management personnel; changes in tax laws and their interpretation; construction delays; and the seasonal nature of our business. For a more detailed discussion of these factors, see the risk factors in the information under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our most recent annual report on Form 10-K filed with the SEC.

From time to time, forward-looking statements also are included in our periodic reports on Forms 10-K, 10-Q and 8-K, in press releases, in presentations, on our website and in other materials released to the public.

Any or all of the forward-looking statements included in our reports or public statements made by us are not guarantees of future performance and may turn out to be inaccurate. This can occur as a result of incorrect assumptions or as a consequence of known or unknown risks and uncertainties. Many factors mentioned in our reports or public statements made by us, such as market conditions, government regulation, and the competitive environment, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from our forward-looking statements.

This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995, and all of our forward-looking statements are expressly qualified in their entirety by the cautionary statements contained or referenced in this section.

Forward-looking statements speak only as of the date they are made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

TOLL BROTHERS - FROM LOCAL HOME BUILDER TO FORTUNE 500:
50 YEARS OF LESSONS LEARNED

TOLL BROTHERS OVERVIEW

Adero Canyon, Fountain Hill, CA

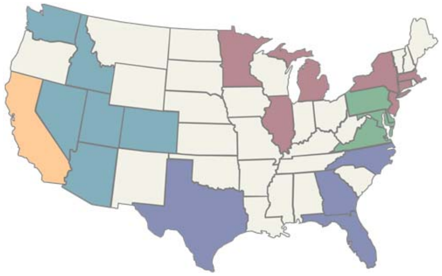
OVERVIEW

#1 LUXURY BRAND

- Nation's leading luxury home builder
- Nationally recognized, award-winning brand
- Founded in 1967 and listed on NYSE since 1986
- Average Q3 FY 2018 delivered home price of $852,000
- Average price is double that of most other public homebuilders
- *Fortune Magazine's* World's Most Admired Companies - #1 Homebuilder four years in a row: 2015, 2016, 2017 & 2018*

GEOGRAPHIC & PRODUCT DIVERSITY

- Builds in 22 states and approximately 50 markets
- Balanced footprint across the East, West and South
- Strong land position – Own or Control 54,000 lots
- Urban presence in NYC, Metro DC & Philadelphia
- Serves urban/suburban, luxury move-up, millennial, empty nester, & active-adult buyers and renters in select markets



SOLID MANAGEMENT & FINANCIAL BASE

- Strong balance sheet and credit ratings
- Approx. $1.6 BN of available liquidity at Q3 2018
- Member of the 2018 *FORTUNE 500*
- Executive & director beneficial ownership of approx. 9.0%†
- Average senior management tenure of 19 years

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† At January 19, 2018

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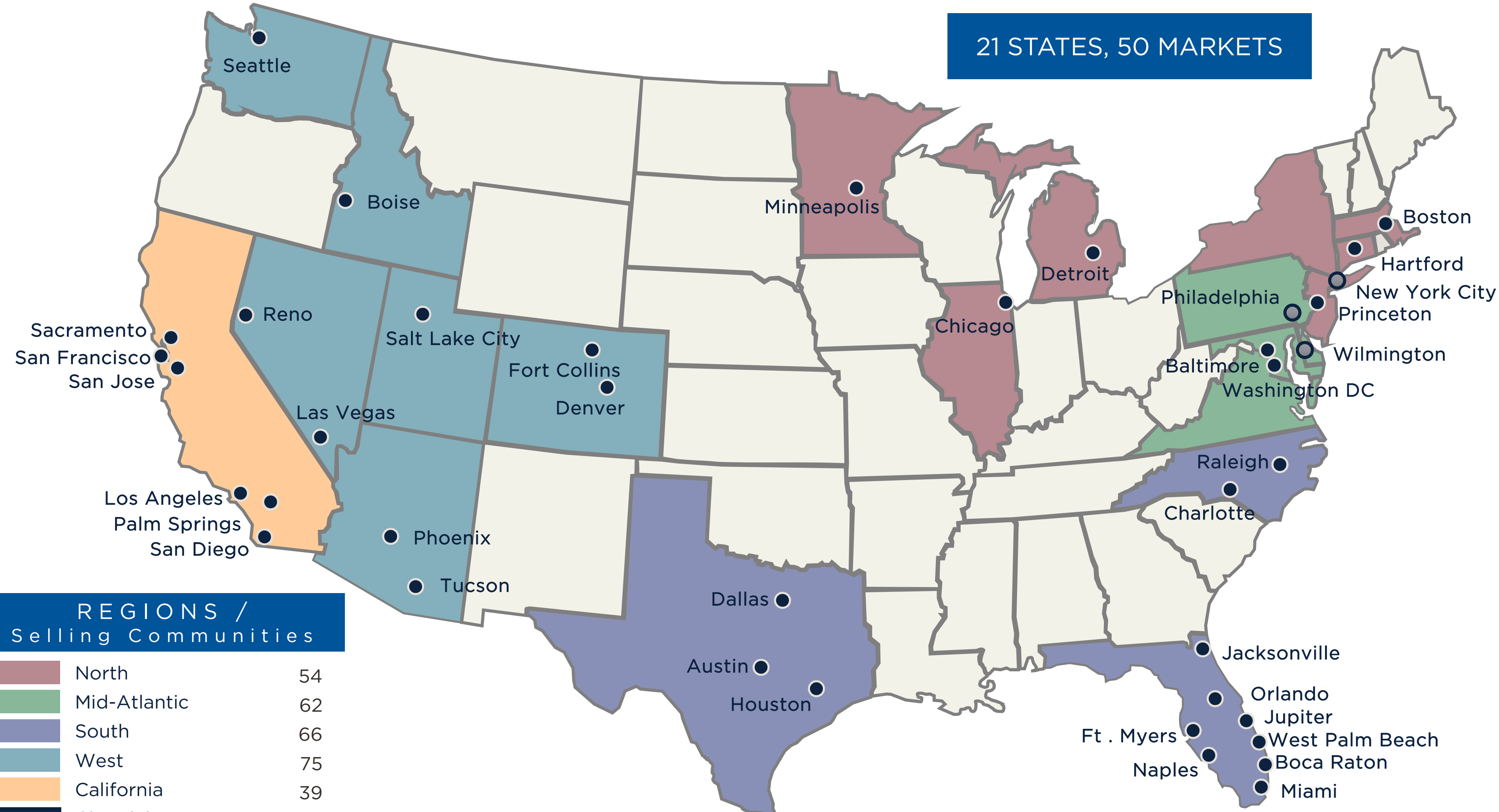

REGIONS / Selling Communities

North	54
Mid-Atlantic	62
South	66
West	75
California	39
City Living	5
	Total: 301

** As of July 31, 2018*

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AMERICA'S LUXURY HOME BUILDER®

THE #1 BRAND IN LUXURY HOME BUILDING

FORTUNE
WORLD'S MOST ADMIRED COMPANIES® 2018

4 Years in a Row

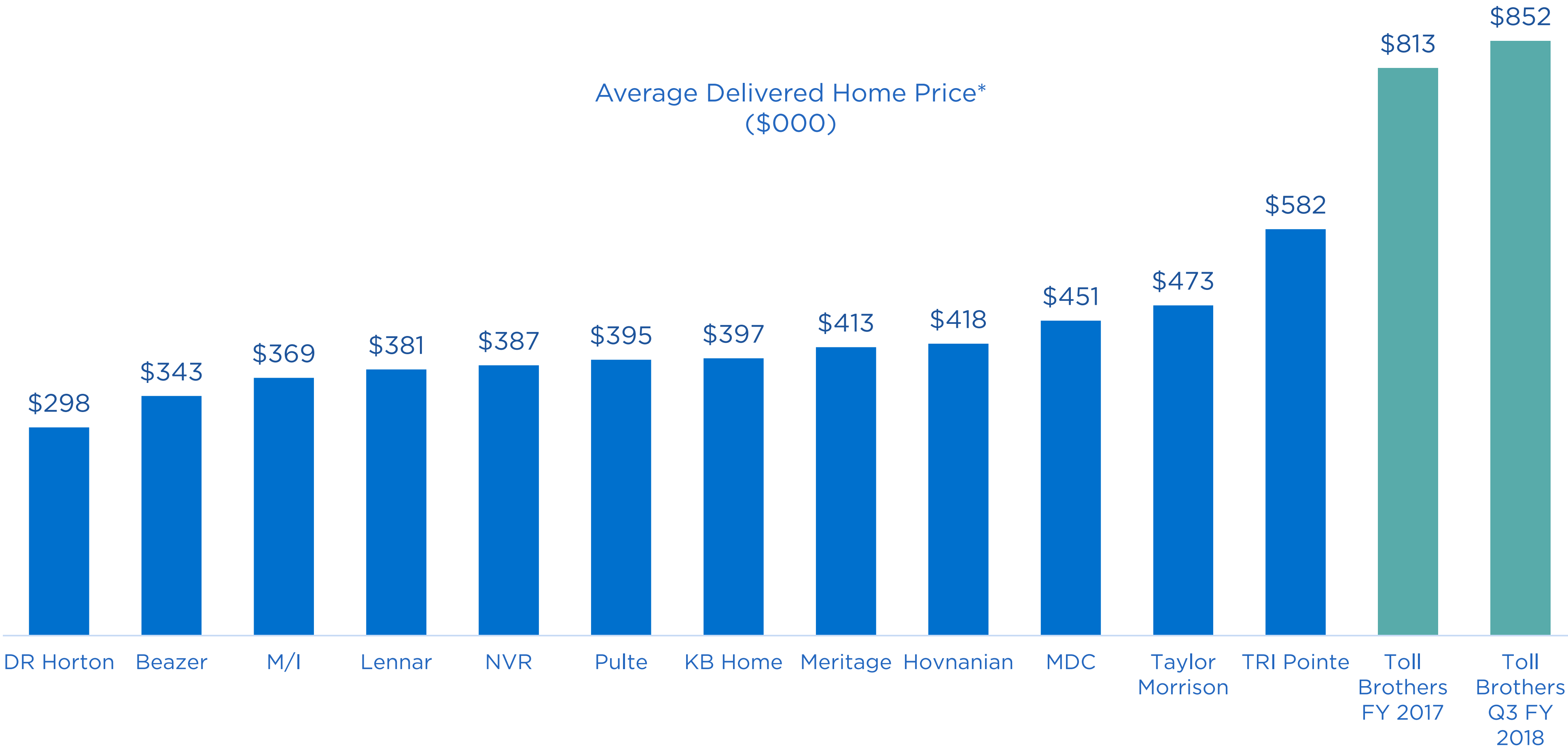
Builder 100
NATIONAL BUILDER OF THE YEAR 2014

★★★★★
Lifestory Research®
AMERICA'S MOST TRUSTED™
Home Builder
2015

2012 Professional Builder® of the year
Two-Time National Award Winner

ONLY NATIONAL HOMEBUILDER FOCUSED ON LUXURY MARKET

Toll's main competitors are small private builders, not the larger public builders.



* *Updated based on most recent reported fiscal-year-end deliveries.*

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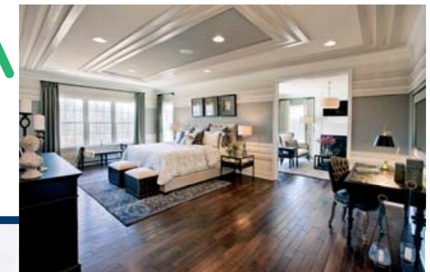
CUSTOMIZATION OPTIONS

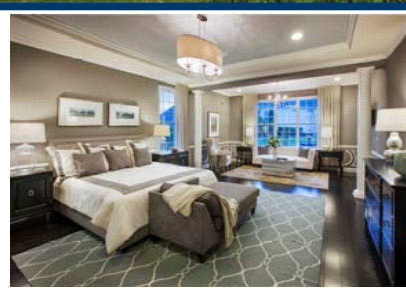
Additional Upstairs Bathroom

Expanded Living Room

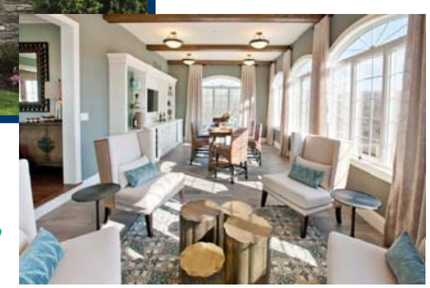
Alternative Master Suite



Additional 2-car Front-Entry Garage



1st Floor Bedroom Suite In Lieu of Study



Elite Conservatory

TOLL INTEGRATED SYSTEMS –
PANEL & TRUSS PLANT

- Manufactures and distributes lumber packages, wall panels, floor & roof trusses, interior & exterior trim, signature millwork, windows, and doors
- Operates four plants in suburban Pennsylvania, Virginia, and Indiana
- Supplied components for approximately 3,200 homes in FY 2017 from Massachusetts to South Carolina on the East Coast, and Michigan & Illinois in the Mid-West
- Builds more than 190 different home plans with multiple elevations and hundreds of options
- Supplies material to condo & City Living developments
- Improves timeline, quality, costs, and reduces waste
- Reduces dependence on skilled carpenters in times of labor shortage

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THE WIDEST VARIETY OF HOMES

- Move-up
- Empty Nester
- Active Adult
- Second Home
- Urban-Infill
- Urban Redevelopment
- Large-Scale Master Plans
- High-Rise
- Suburban High Density
- Urban & Suburban Rental







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TOLL BROTHERS HISTORY

1967
Toll Brothers is founded by Bob and Bruce Toll in suburban Philadelphia, Pennsylvania.

1982
Toll Brothers makes its first move out of Pennsylvania, entering neighboring state New Jersey.

1986
Toll Brothers becomes a public company - listed on the New York Stock Exchange (NYSE: TOL).

1987
Launches Toll Architecture and ESE groups. Land Engineering Toll Integrated Systems opens.

1992/3
Expands into multiple East Coast markets from Boston to Florida through acquisition of distressed loans and sites in financial crisis.

1993
Sells its 10,000th home.
Toll Landscape is launched and now serves Florida, Pennsylvania, New Jersey and Virginia.

1994/5
Expands cross-country into California, Texas, and Arizona.

1996
Introduces first 55+ Aged buyer community in New Jersey.

2001
Toll Brothers Apartment Living develops first residential rental property in metro Washington, DC.

2003
The acquisition of Hoboken, NJ-based The Manhattan Building Company spurs the launch of Toll Brothers City Living division.

2006
Toll Brothers City Living develops its first high-rise, One Ten Third, in New York City.

2012
Toll Brothers is awarded Builder of the Year by Professional Builder magazine for the second time in its history.

2014
Sells 100,000th home.
Toll Brothers is named Builder of the Year by Builder magazine.
Launches Toll Brothers Campus Living with student housing's Terrapin Row at the University of Maryland.

2017
50th Anniversary!

2018
Toll Brothers named "World's Most Admired Company/Home Builders" by FORTUNE magazine*, for 4th year in a row.

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MOVE-UP
Southlake Meadows, Southlake, TX
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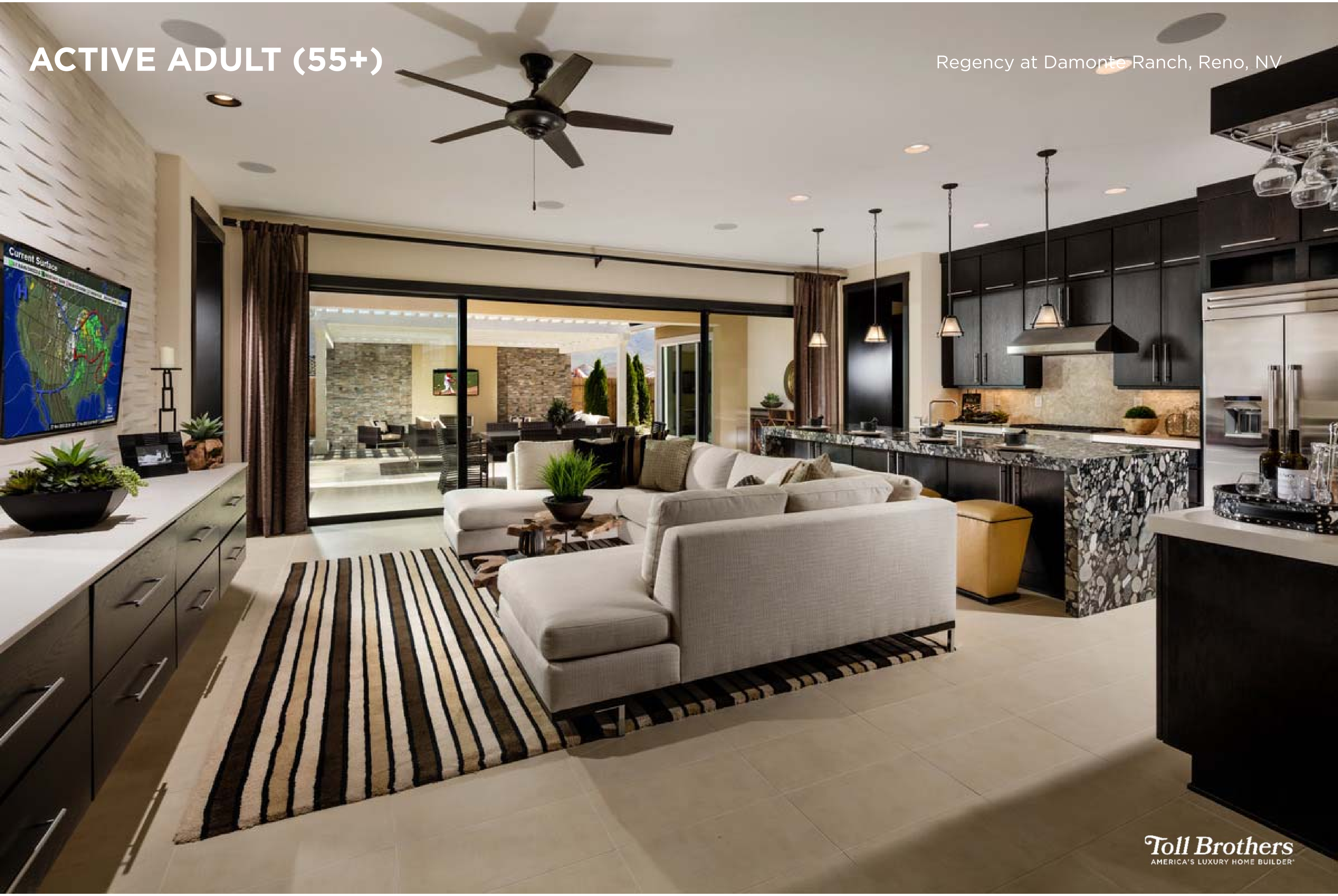
ACTIVE ADULT (55+)
Regency at Damonte Ranch, Reno, NV
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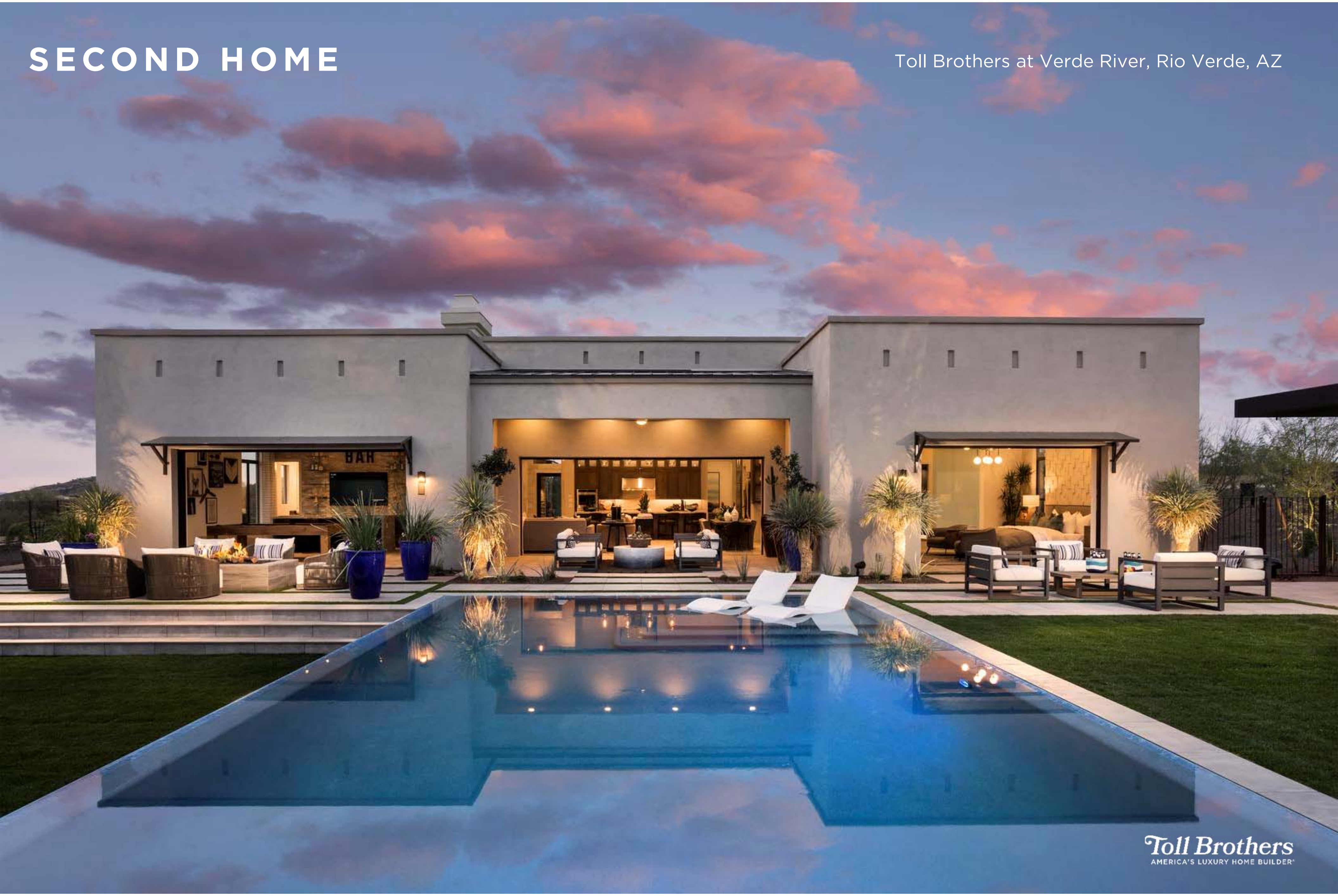
SECOND HOME
Toll Brothers at Verde River, Rio Verde, AZ
BAR
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MASTER PLANNED

Sienna Plantation, Missouri City, TX

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SUBURBAN HIGH DENSITY

URBAN & SUBURBAN RENTAL


The Kendrick, Needham, MA


Parc Plymouth Meeting, Plymouth Meeting, PA

The Morgan at Provost Square, Jersey City, NJ

URBAN INFILL

LESSONS LEARNED FROM EXPANSION

- It is easier to start standardizing reporting and information systems when you are a small company than when you are big
- In entering new markets, pair local market knowledge with corporate headquarters knowledge
- In New Age of Social Media, maintaining your reputation is paramount
- Strive to maintain a high-quality customer experience as you grow to build your brand
- Test-market and introduce new products and product lines gradually to manage down-side risk
- Track your cash and cash flow meticulously

THE U.S. HOUSING MARKET:
SURVIVING THE GREAT FINANCIAL CRISIS

Liseter, Newtown Square, PA

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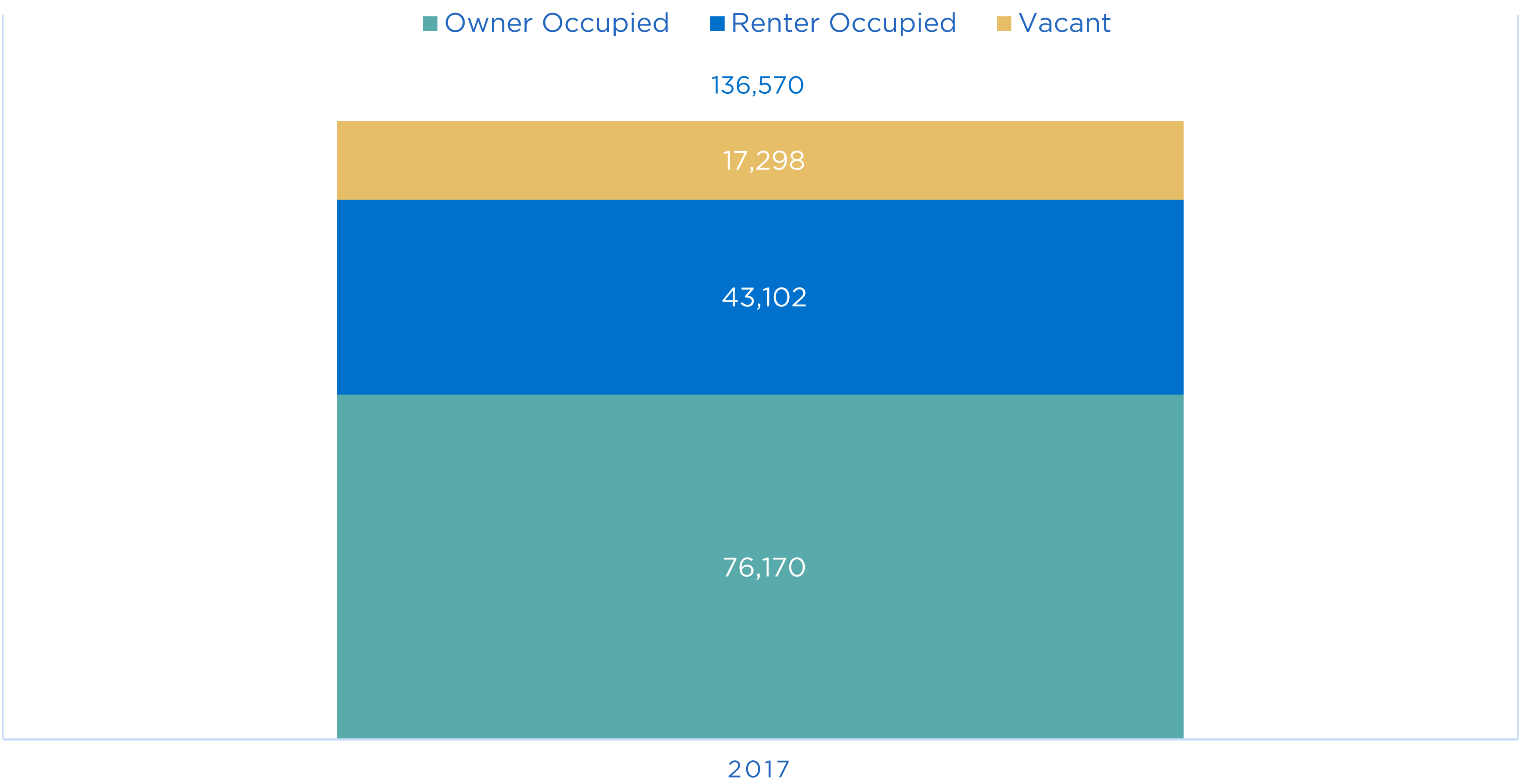
TOTAL U.S. HOUSING UNITS

(000s)



Source: U.S. Census Bureau

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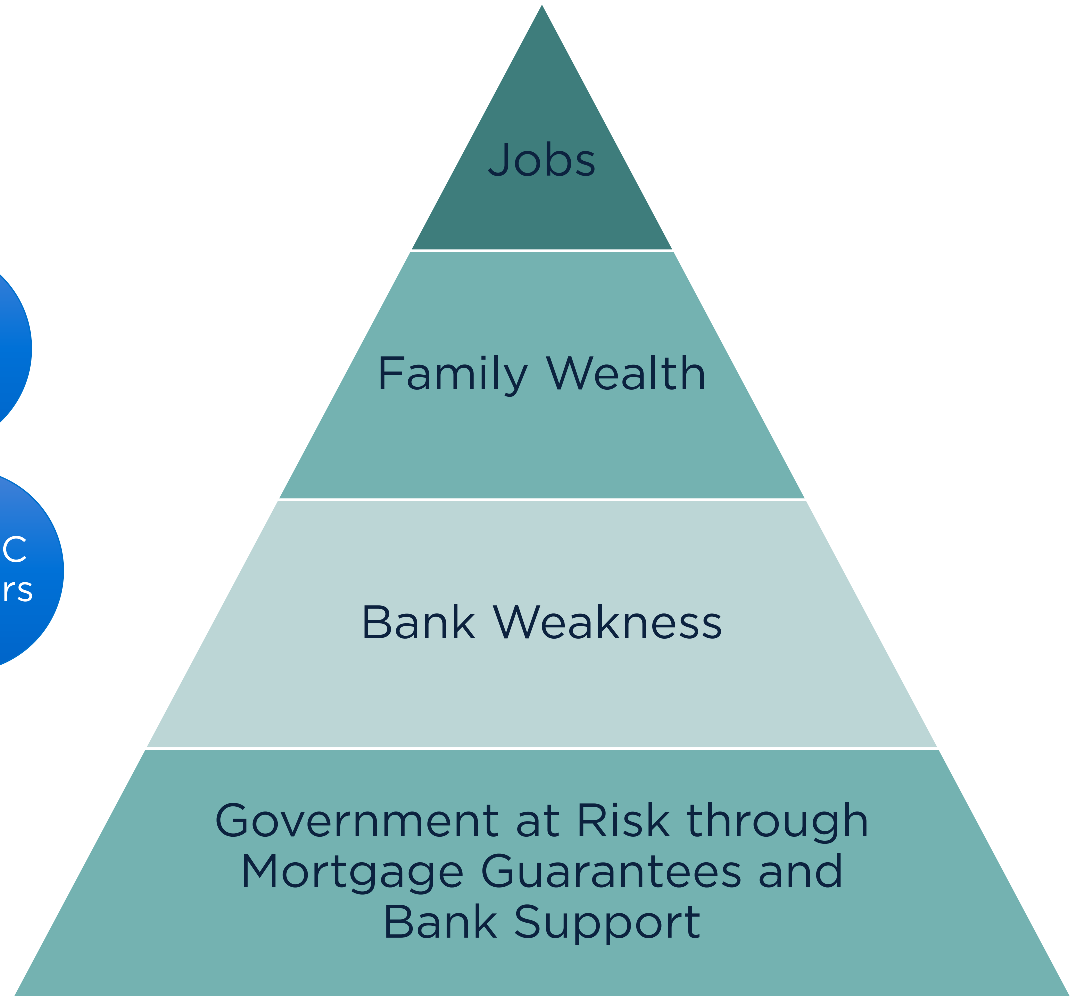
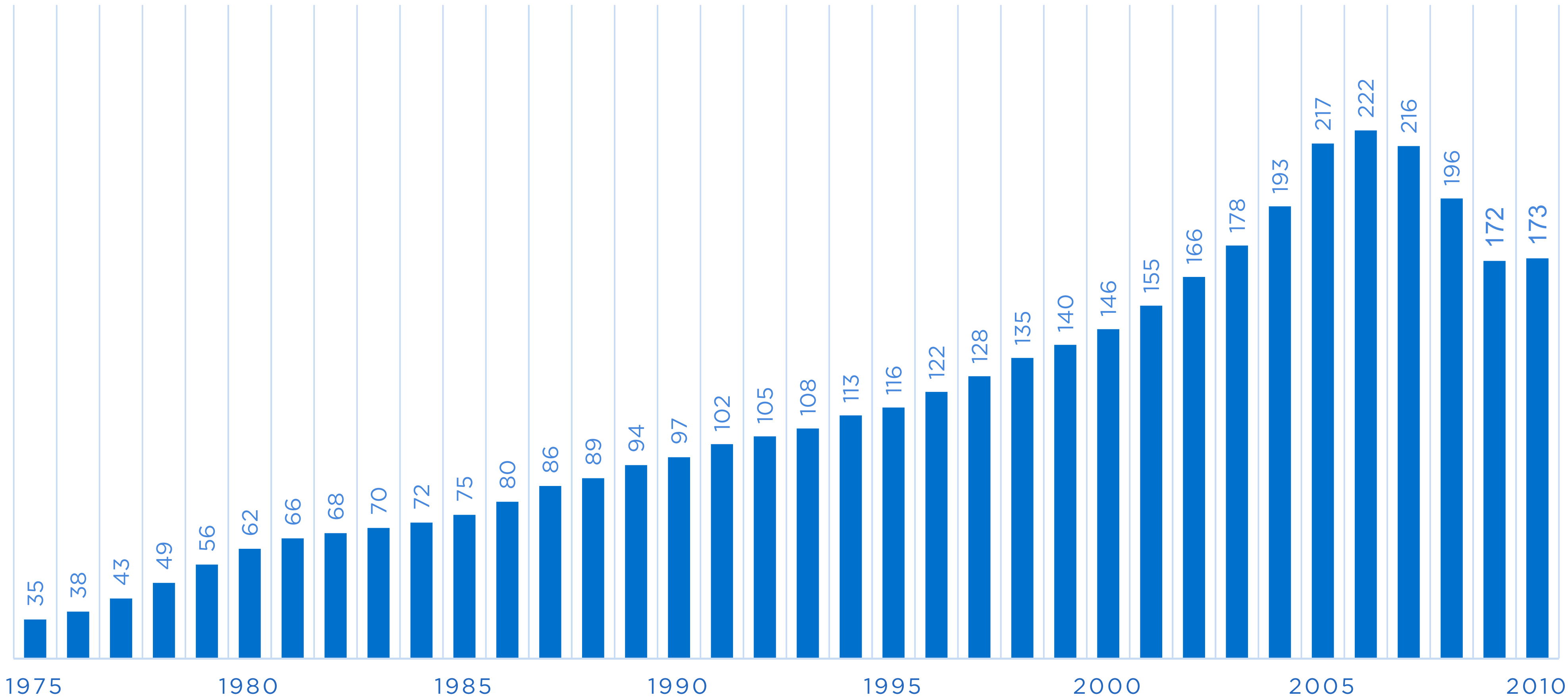
THE GREAT HOUSING RECESSION:
HOUSING AT THE CORE OF MUCH MORE



Source: Zelman & Associates

U.S. MEDIAN HOME SALE PRICES
(IN THOUSANDS)

Experts Believed "Home Prices in the U.S. Never Drop"



Source: National Association of Realtors

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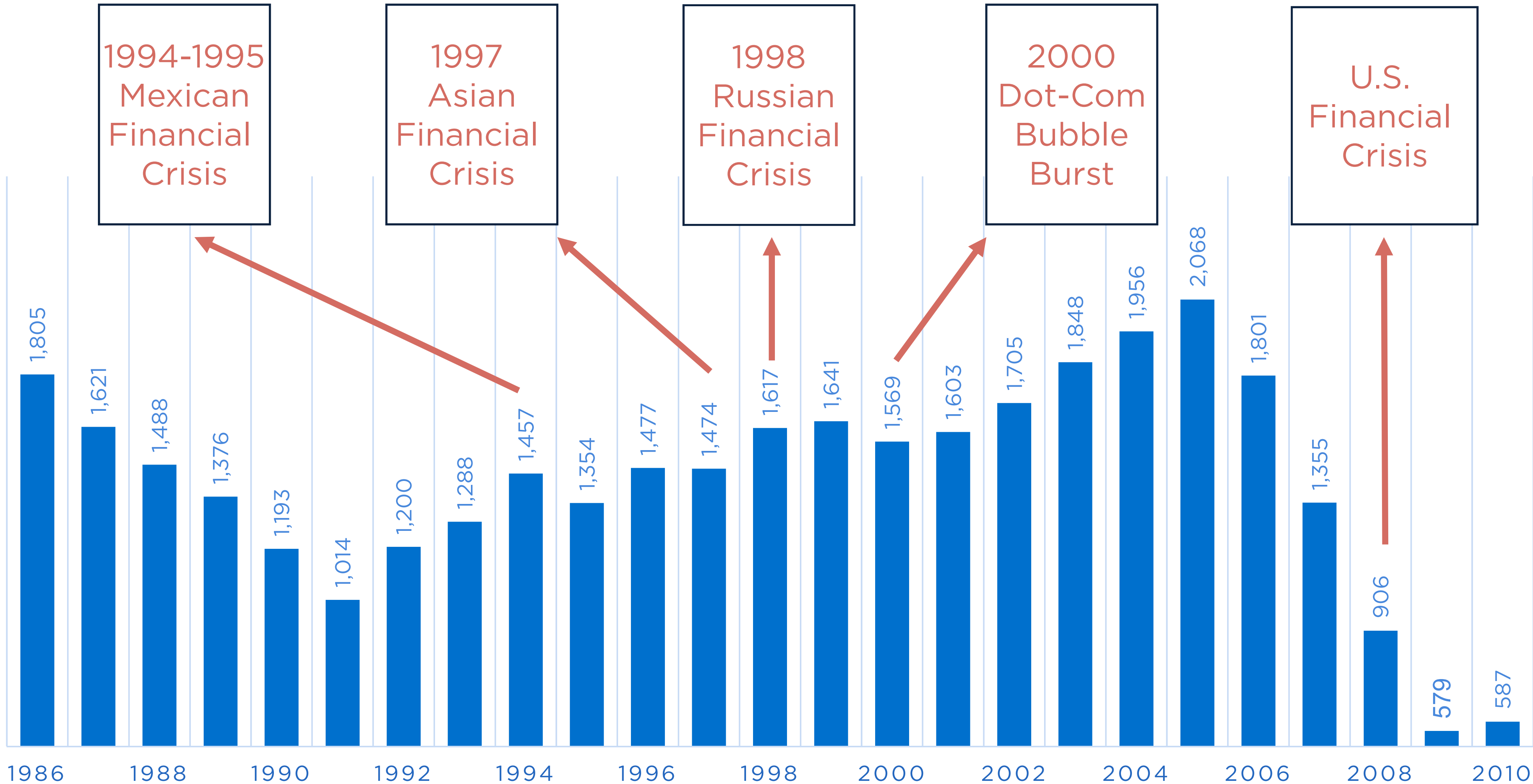
U.S. SINGLE AND MULTIFAMILY HOUSING STARTS
(IN MILLIONS)



Source: National Association of Home Builders

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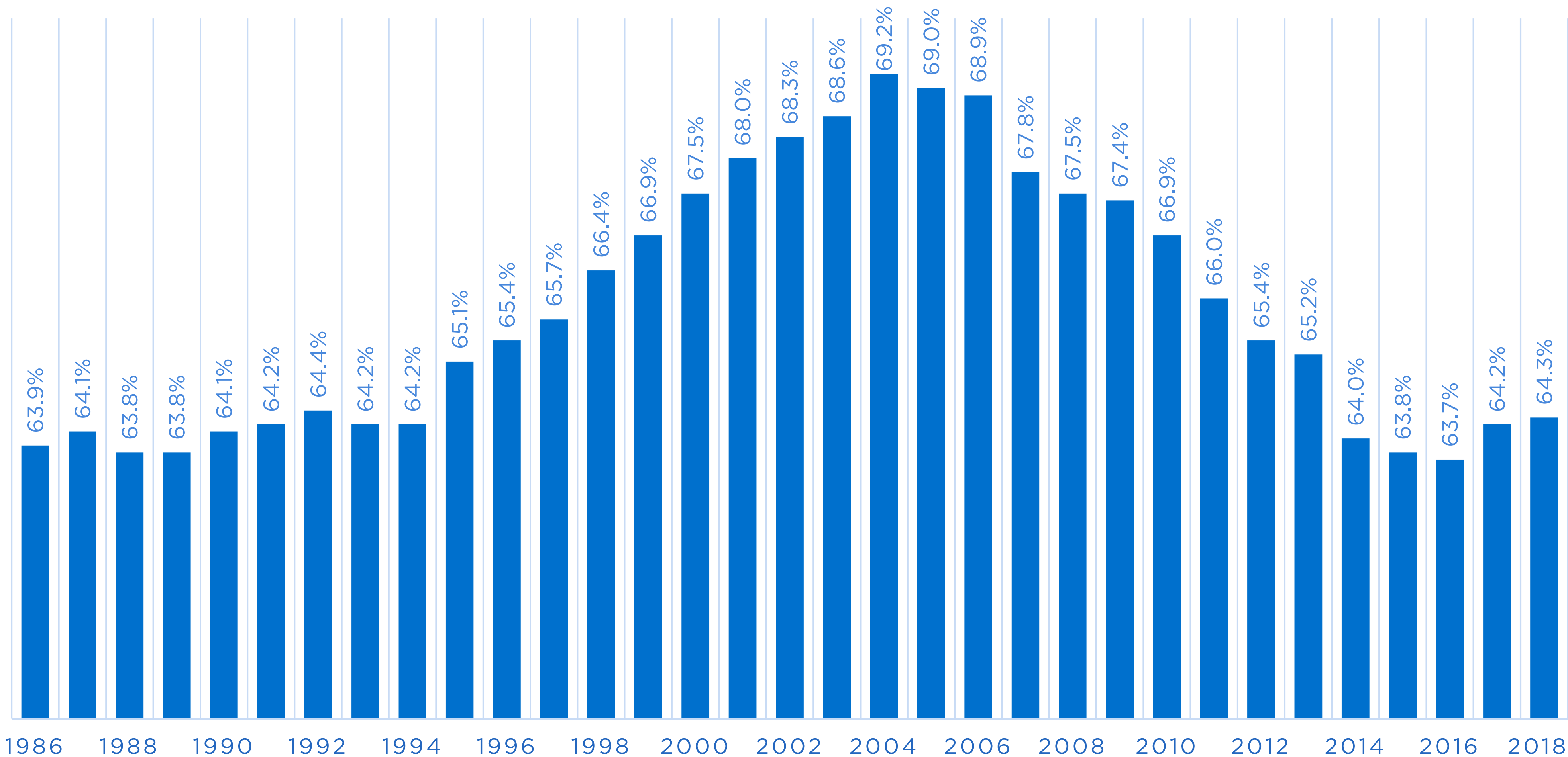
U.S. HOME OWNERSHIP RATE



Source: Federal Reserve
**April 1, 2018*

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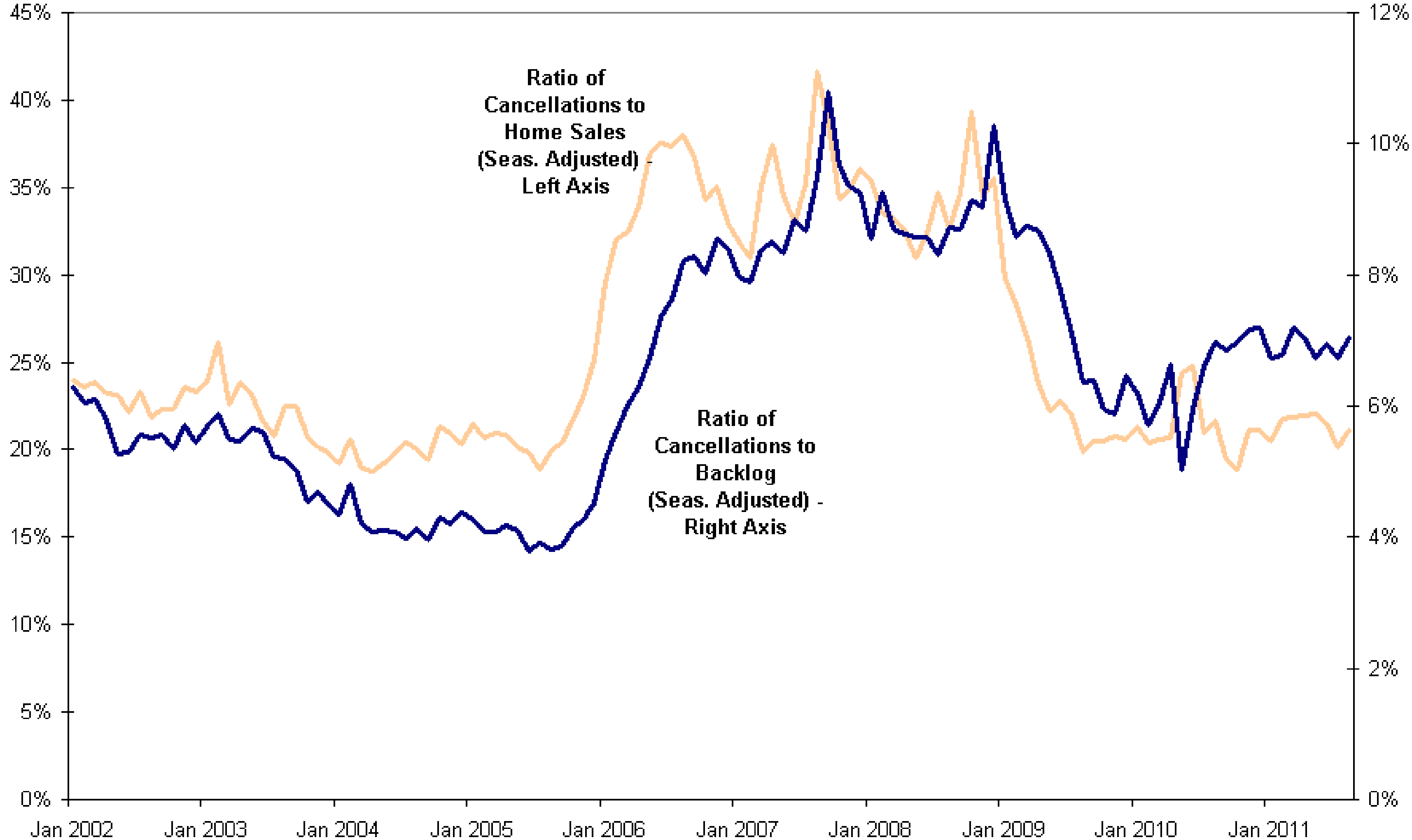
HOME BUYER CANCELLATION RATES



Source: National Association of Home Builders

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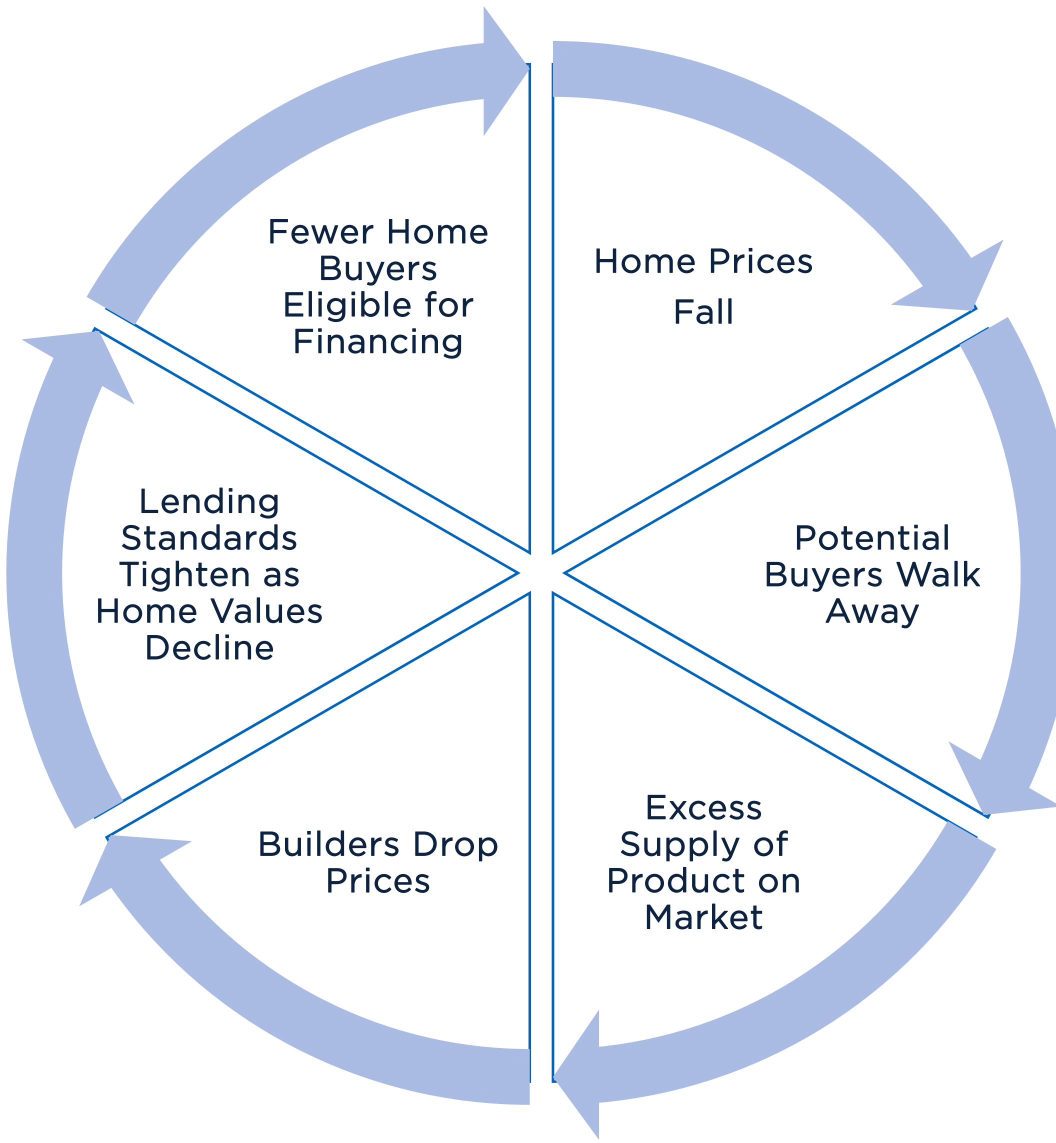
"VICIOUS" HOUSING



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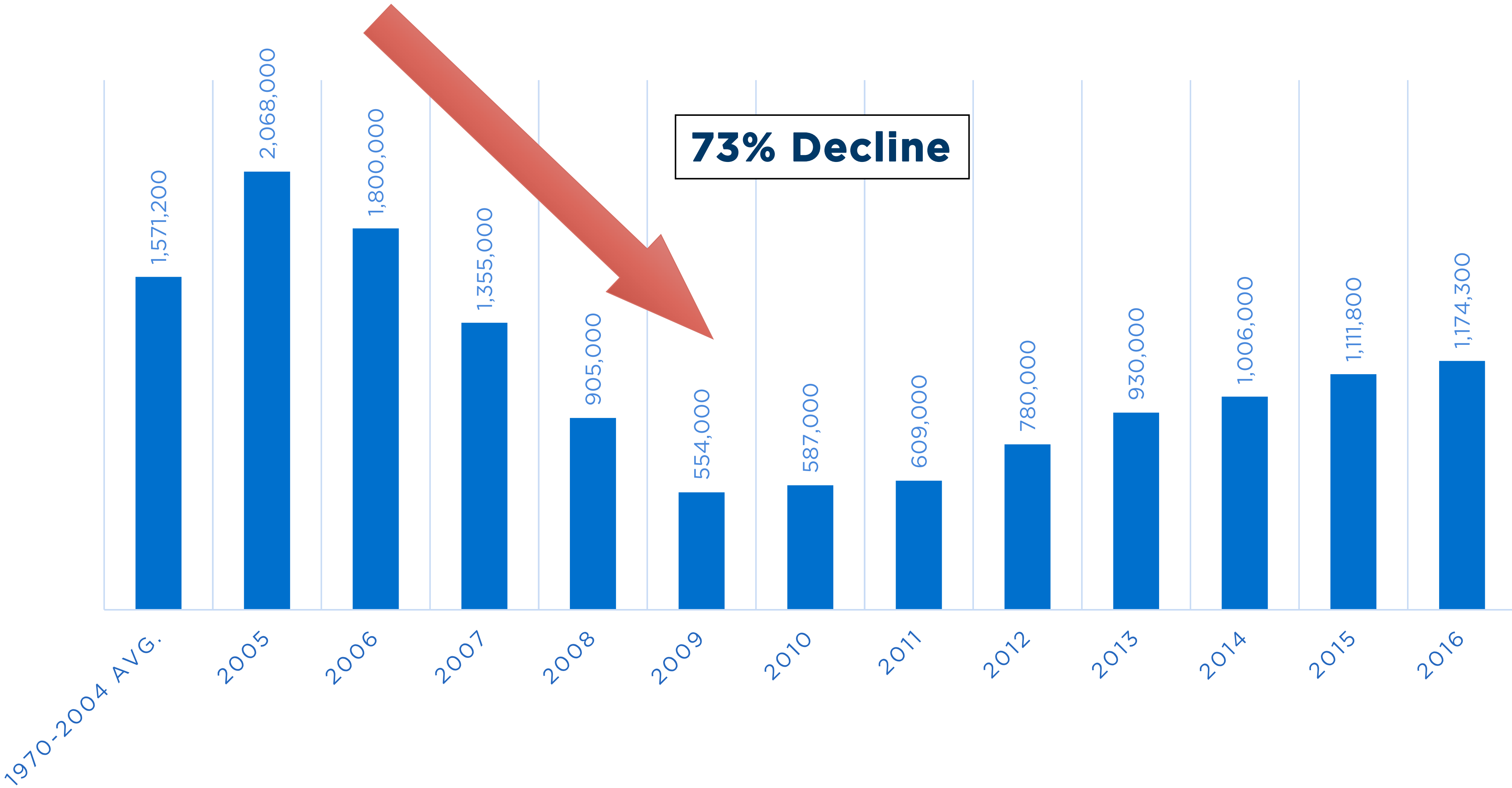
NATIONAL U.S. HOUSING STARTS



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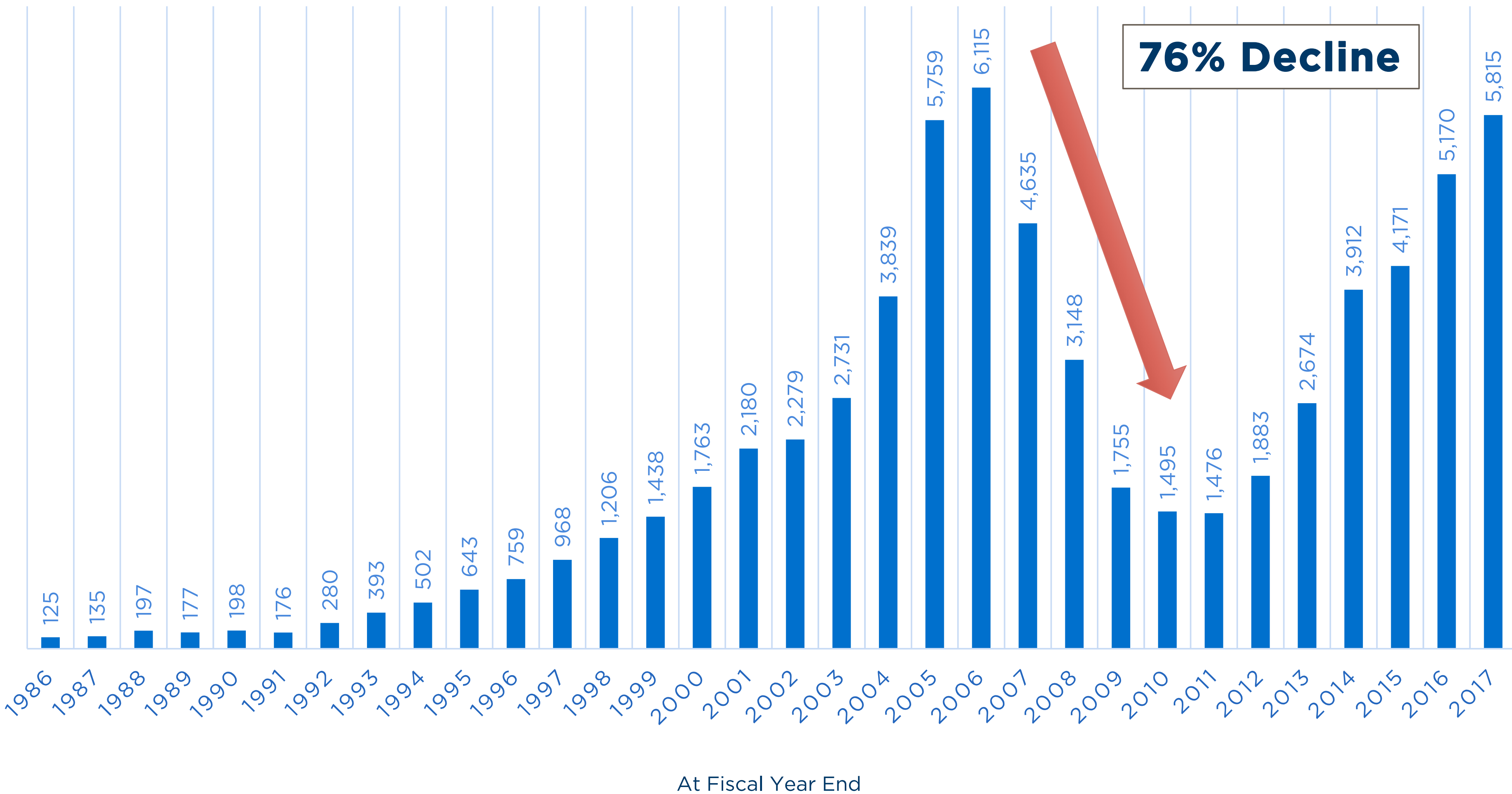
TOLL BROTHERS REVENUE
($ IN MILLIONS)



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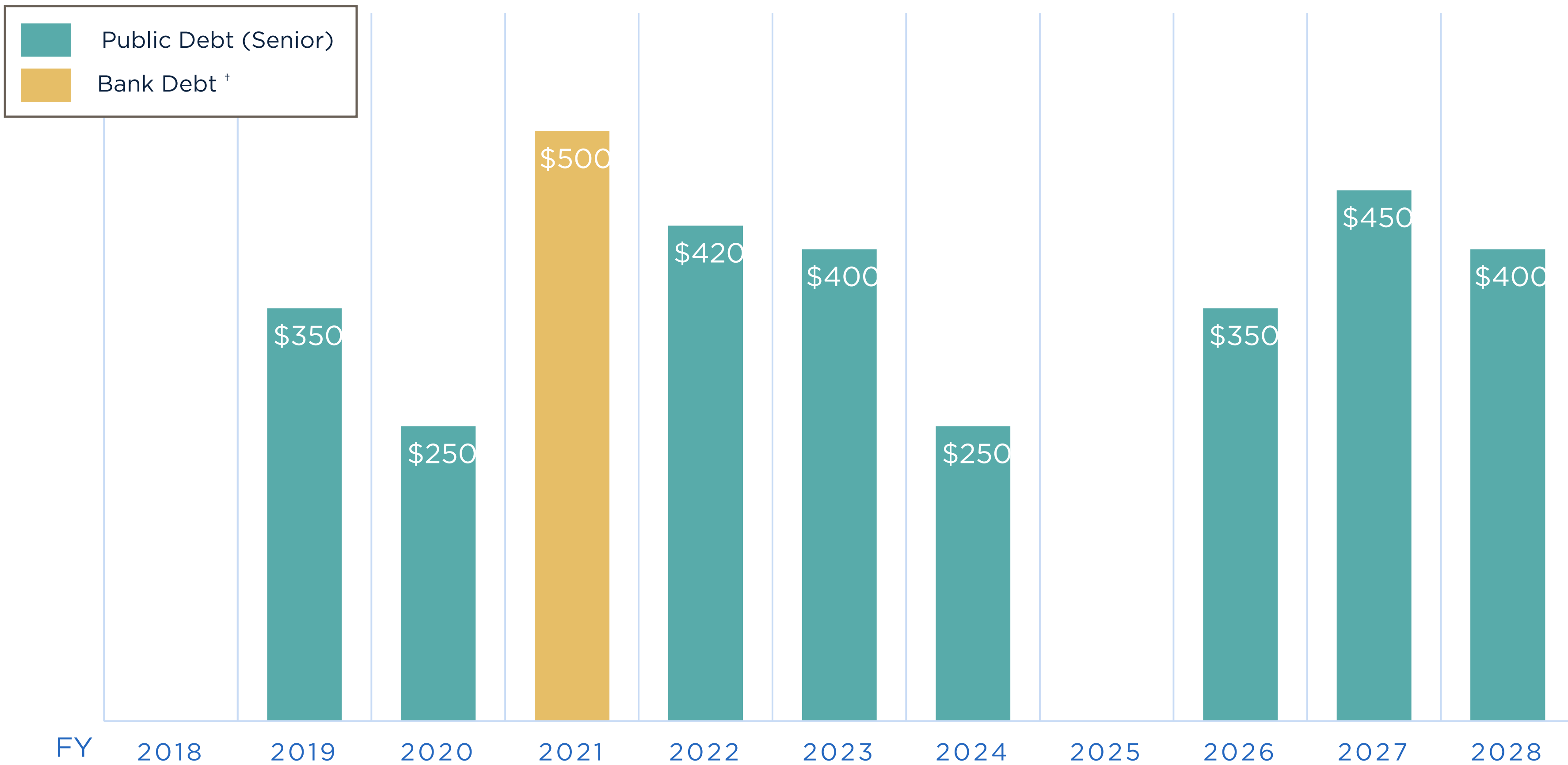
MAINTAIN CONSERVATIVE DEBT MATURITIES*
ACCESSING CAPITAL FOR GROWTH



$ millions

* *As of July 31, 2018*

† *Bank Debt includes our $500 MM term loan and no outstanding draws on our credit facility as of 7/31/2018, both due FY 2021*

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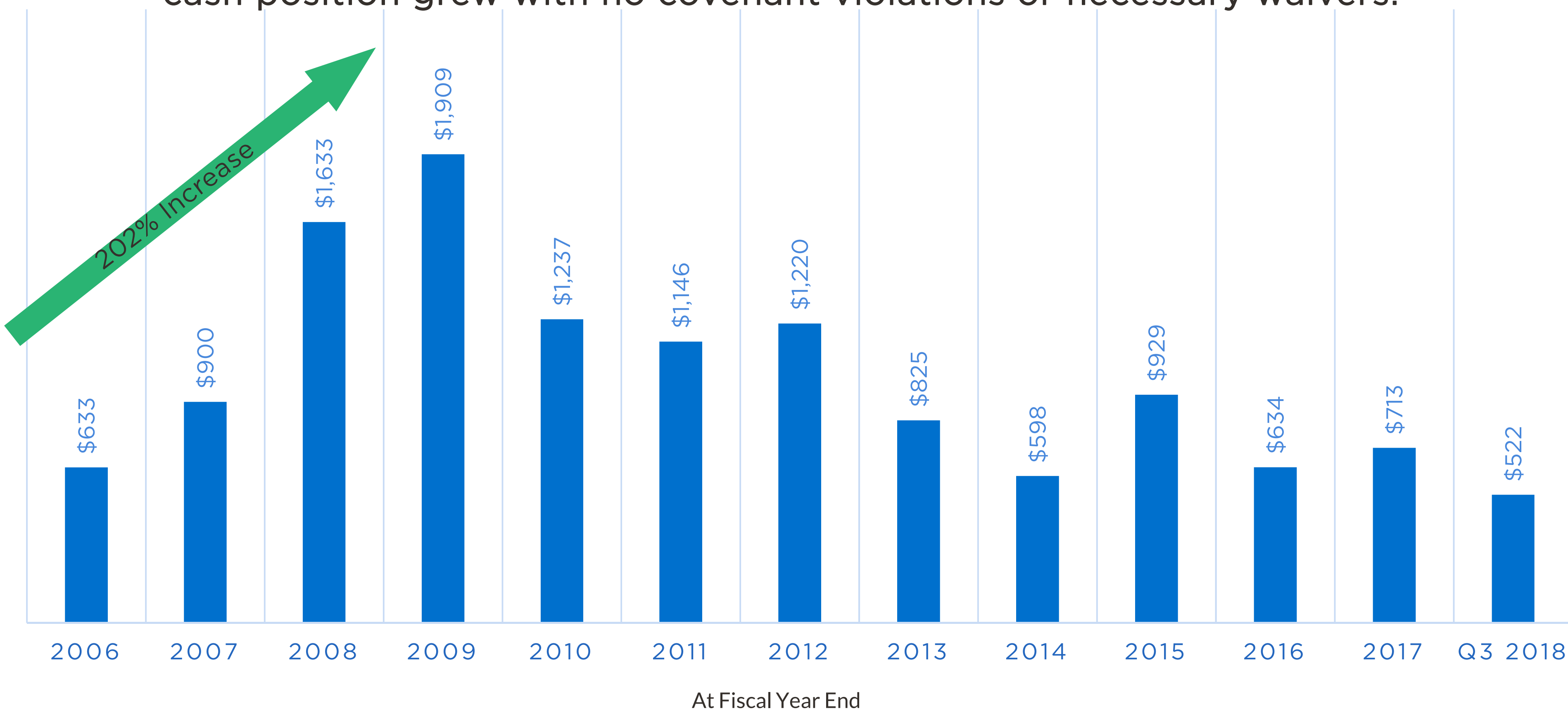
STRESS TESTED: TOLL BROTHERS CASH AND MARKETABLE U.S. TREASURY SECURITIES
($ MILLIONS)

While revenues declined 71% from FY 2006 to FY 2009, cash position grew with no covenant violations or necessary waivers.



Revenues (FY)	$6,115	$4,635	$3,148	$1,755	$1,495	$1,476	$1,883	$2,674	$3,912	$4,171	$5,170	$5,815	$1,913

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LESSONS LEARNED

- Capital markets can freeze up
- Cash is KING
- Ladder debt maturities so no “wall of debt” comes due all at once
- Don’t depend on short-term borrowings
- Know your cash position and how you can generate cash/liquidity in a crisis
- Option land if you can
- In a sharp downturn, land becomes illiquid and hard to value or monetize: can’t sell it; can’t build on it
- Well-located land holds its value better than land in marginal areas
- Avoid speculative building: carrying a land site is much cheaper than carrying finished inventory
- Have back-door strategies for your projects
- Take guaranties seriously
- Know what you don’t know

LAND ACQUISITIONS DEVELOPMENT AND FINANCE

EVERYTHING STARTS WITH THE LAND:

- Land Acquisition/ Evaluation/Support
- Product Yield Analyses
- Marketing Aesthetics
- Maximize land value or units
- External Factors Impact Value: transportation; employment centers; water; schools, environmental, etc.

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LAND APPROVAL & LAND ACQUISITION TEAMS

- Identify opportunities
- Detailed analysis
  - Market and competitor analysis
  - Financial pro forma (Project Prof)
  - Location
- Centralized approval
- Experienced entitlement team
- Good estimate of land improvement costs
- Formal project review several times per year
- Option or own?

VALUING LAND

Home Sales Price – Home & Development Cost – Corp Overheads – Profit = Land Offer Price

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PROJECT ANALYSIS

- Evidence of demand
- Demographics/ability to pay
- Costs
  - Construction costs
    - Materials
      - taxes/imports/locally sourced
    - Labor
      - skilled/unskilled
  - Land and Infrastructure
  - Soft costs
- Competitive Supply in Market
  - Quality
  - Quantity
- Acceptability of Product to Market (Customers)

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FINANCIAL ANALYSIS

- Difficulty finding comps (comparable sales/projects)
- Do we assume price appreciation?
- How do we get comfortable with budgets when design is incomplete?
- Capital Structure: Equity/Debt/Buyer Deposits
  - What returns does equity demand?
  - What pricing do bankers require?
- What is our downside protection?
- On-shore or off-shore return analysis
- Currency risk

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LESSONS IN BUYING LAND

- Don't focus on growth for growth's sake
- Make sure each land deal projects to be profitable
- Don't "Bet the Ranch"
- Value land based on sale price of homes at build-out, not based on price of last land deal

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TOLL BROTHERS:
RAISING MONEY

Jupiter Country Club, Jupiter, FL

ATTRACTING CAPITAL:
WHERE DOES IT COME FROM?

- Banks
- Pension Funds
- Insurance Companies
- Public Debt and Equity Markets
- Land Sellers
- Wealthy Families/Private Companies
- Private Equity Funds
- Public Sector (PPPs)

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Toll Brothers, Inc.

First Huntingdon Finance Corp.

$1.295 BN Revolving Credit Facility Due May 2021 †	Commitment
Citi	$100 MM
Deutsche Bank	$100 MM
Mizuho Bank	$100 MM
PNC	$100 MM
SunTrust	$100 MM
Wells Fargo	$100 MM
Capital One	$75 MM
Sumitomo Mitsui	$75 MM
US Bank	$75 MM
BB&T	$50 MM
Comerica	$50 MM
Fifth Third Bank	$50 MM
Regions Bank	$50 MM
TD Bank	$50 MM
The Bank of New York	$50 MM
Citizens Bank	$50 MM
Texas Capital Bank	$35 MM
Bank of the West	$30 MM
Flagstar Bank	$30 MM
Associated Bank	$25 MM
	$1,295 MM

$500 MM Term Loan Due August 2021	Commitment
SunTrust	$100 MM
Sumitomo Mitsui	$75 MM
US Bank	$75 MM
Wells Fargo	$60 MM
The Bank of New York	$55 MM
Capital One	$50 MM
Beneficial Bank	$30 MM
Fifth Third Bank	$30 MM
PNC	$25 MM
	$500 MM

Toll Brothers Finance Corp.

Senior Notes

Series	Coupon	Principal	Maturity (yrs)
December 2018	4.000%	$350 MM	0.42 years
November 2019	6.750%	$250 MM	1.25 years
February 2022	5.875%	$420 MM	3.55 years
April 2023	4.375%	$400 MM	4.71 years
January 2024	5.625%	$250 MM	5.46 years
November 2025	4.875%	$350 MM	7.30 years
March 2027	4.875%	$450 MM	8.63 years
February 2028	4.350%	$400 MM	9.55 years
	5.000%	$2,870 MM	5.39 years

Source	Coupon	Outstanding	Maturity (yrs)
Senior Debt (Public)	5.000%	$2,870 MM	5.39 years
Bank Debt	2.996%	$ 674 MM	2.96 years
Total	4.619%	$3,544 MM	4.92 years

† The Company finished the period ending 7/31/2018 with $1.12 billion available under its revolving credit facility.

* As of July 31, 2018

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CORPORATE BANK CREDIT FACILITIES

- Unsecured
  - Based on Corporate Guarantee and Assets
- Borrowing Base Facilities
  - Lend as a % of Cost
    - X% of Land (unentitled)
    - X% of Land (entitled)
    - X% of Horizontal Improvements (roads, utilities, sewers, etc.
    - X% of Home Construction (speculative)
    - X% of Home Construction (pre-sold)
  - Corporate Covenants
    - Cash Flow
    - Leverage
    - Other

SENIOR/CORPORATE CREDIT RATINGS

Fitch Inc.	BBB-	(Stable)
Standard & Poor’s	BB+	(Stable)
Moody’s	Ba1	(Stable)

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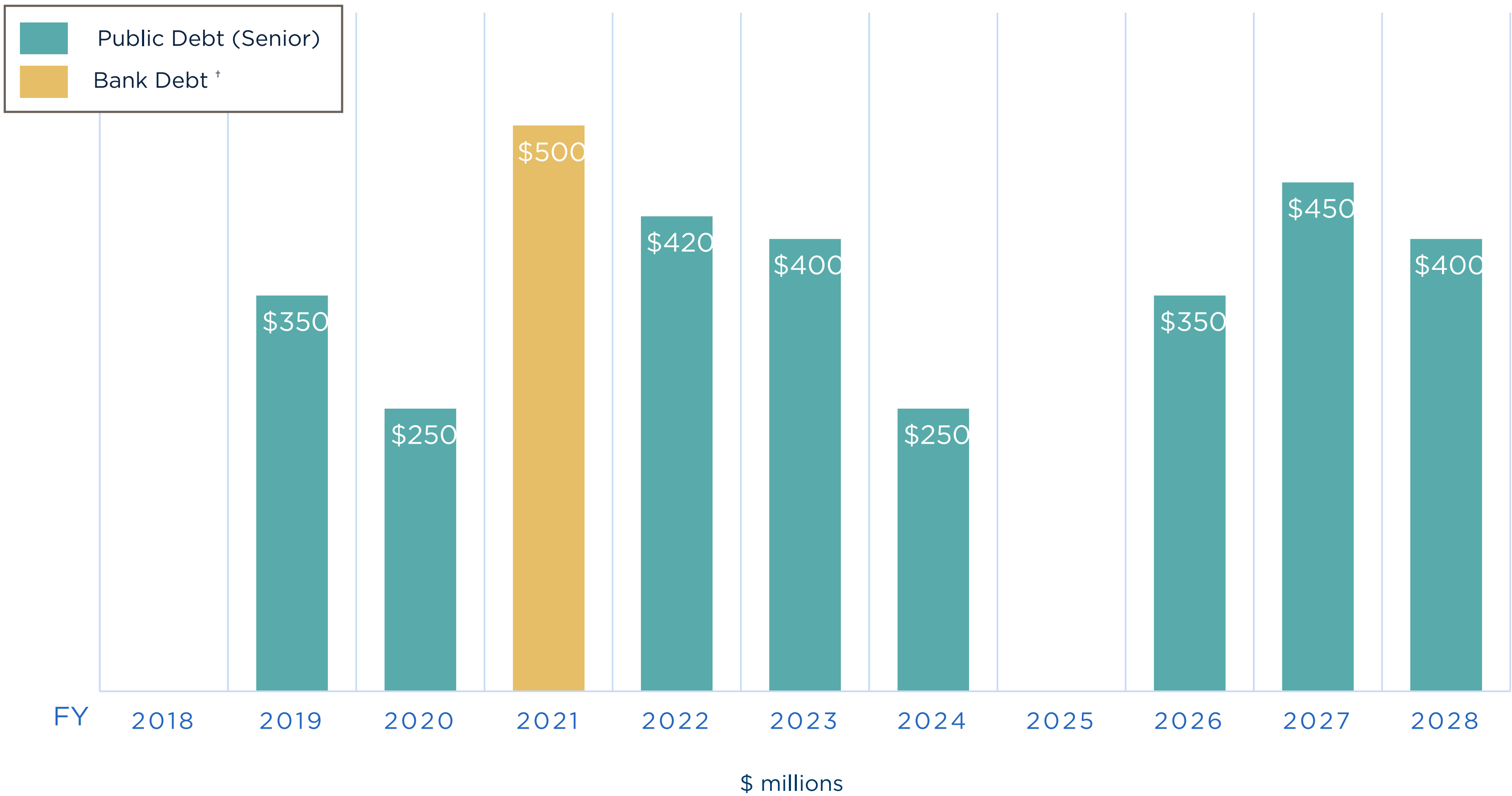
MAINTAIN CONSERVATIVE DEBT MATURITIES*
ACCESSING CAPITAL FOR GROWTH



** As of July 31, 2018*
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PUBLIC EQUITY MARKETS
(NYSE: TOL)

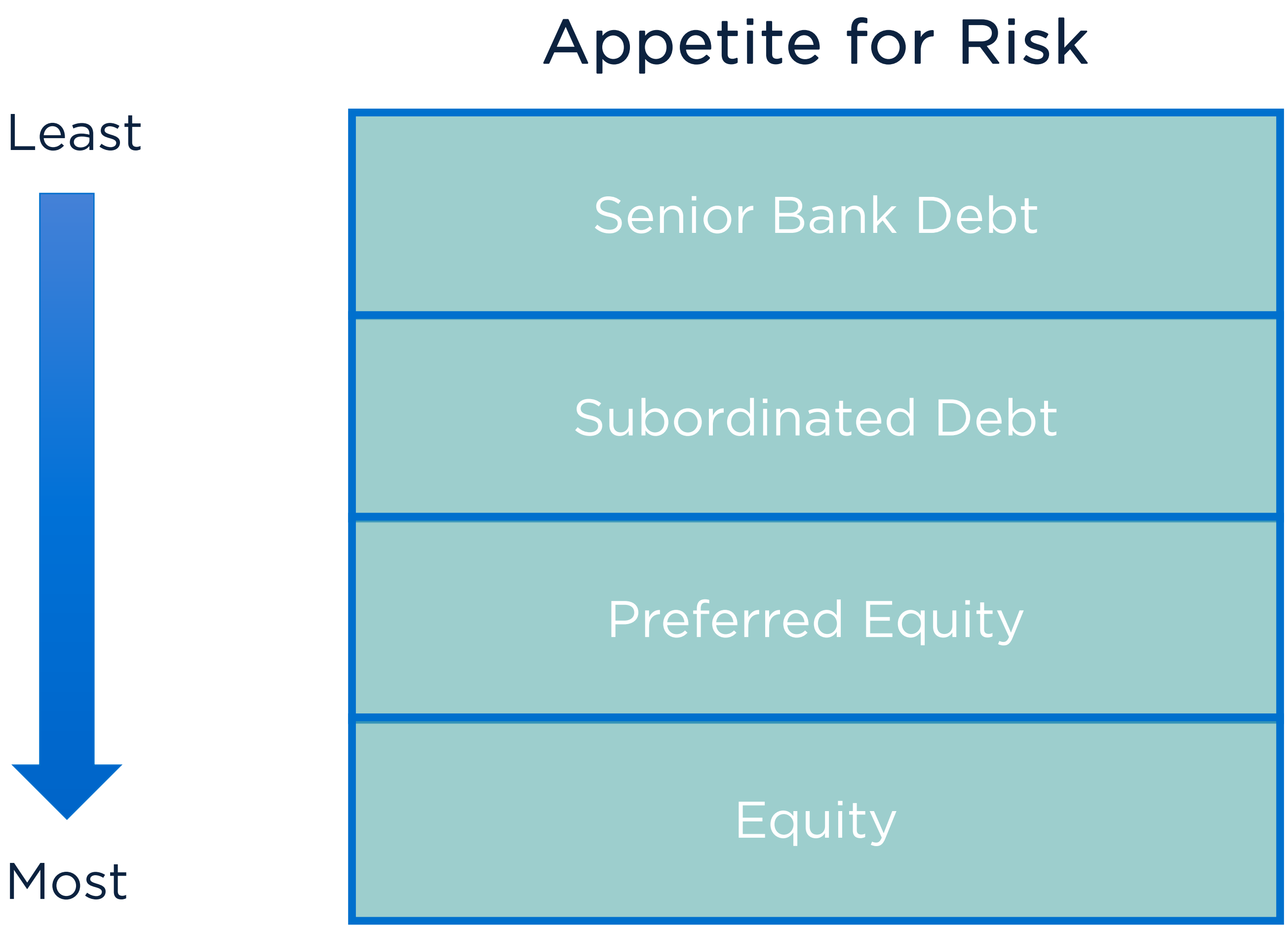
Equity Markets

A. A Growth Story
- Structural Economic Growth
- Liberalization/Modernization
- Demographics – Population/Wealth Creation
- Government Policies
- GDP/FDI Trends

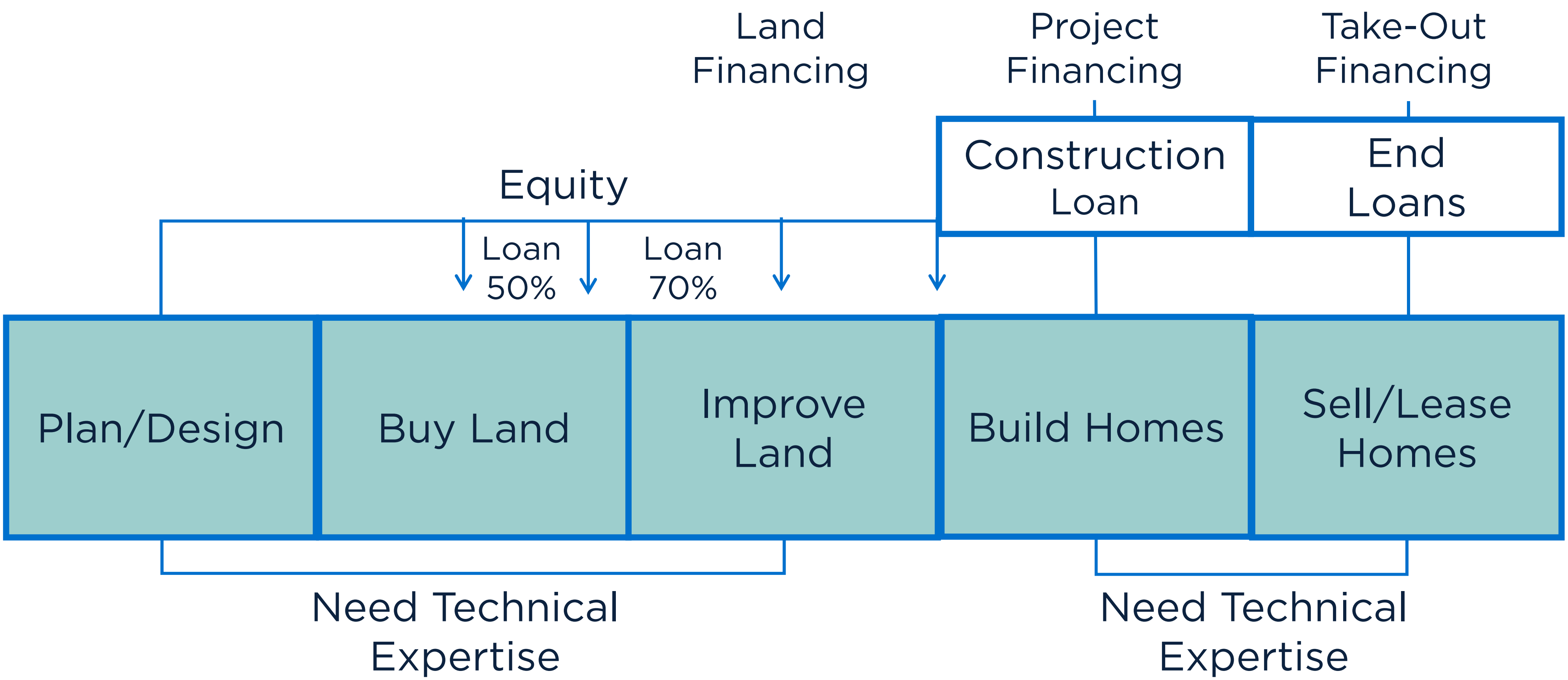
B. A Cycle Story
- Cyclical – Timing in Cycle
- Cost Trends
- Demand Trends
- Price Trends
- Profit Margin Directions
- Interest Rates

C. An Investment/Cash Flow Story
- Generating Tax-Advantaged Income
- Diversified Real Estate Portfolio
- Asset Appreciation
- Dividend Payments

THE CAPITAL STACK



PROJECT DEVELOPMENT CAPITAL CYCLE



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EQUITY INVESTOR

- Return on capital
- Return <u>OF</u> capital
- Legal system protections
- Regulatory Transparency/Consistency (Corruption)
- Land title
- Risk of expropriation
- Infrastructure
  - Water
  - Sewer
  - Electric
  - Security
  - Roads
  - Mass transit
  - Airports
  - Environment

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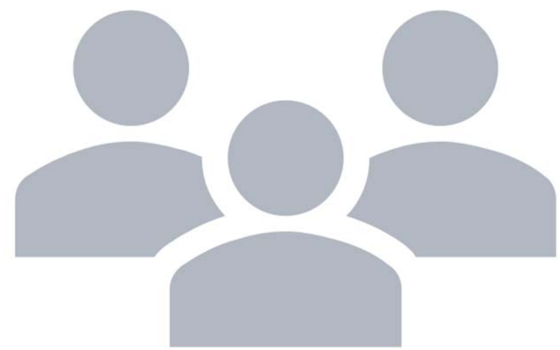
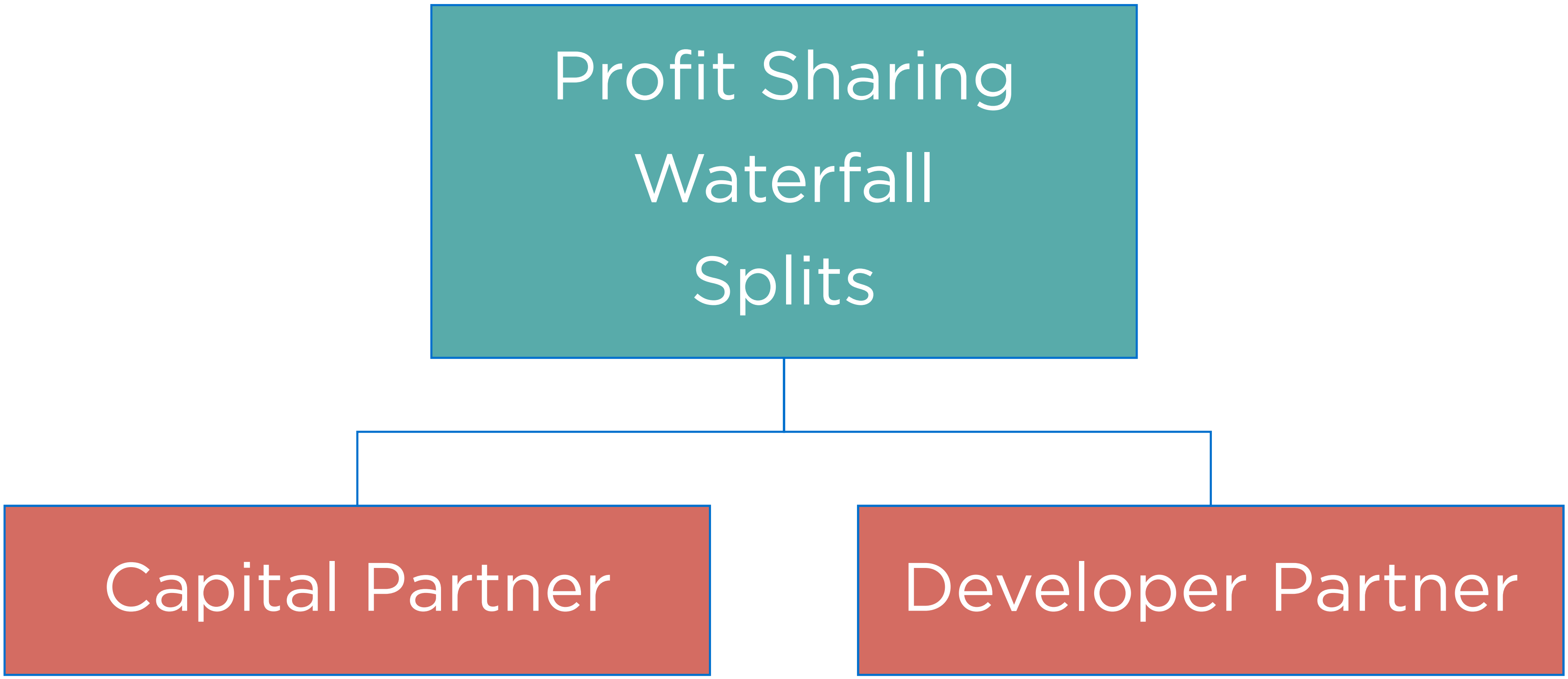
EVALUATING A FINANCIAL EQUITY PARTNER

- Expertise in the sector
- Experience in up AND down markets
- Local market knowledge
- Ability to fund their money
  - Up-front
  - In stages
  - If problems
- Ability to attract bank and other capital
- Investment horizon/Distribution of profits
  - Short-term
  - Long-term
- Profit metrics
  - Return on cost
  - Leveraged/Unleveraged returns
  - Multiple of capital



FINDING PARTNERS

- Alignment of interests (Money in the game/sharing risk)
- Due diligence
  - Read analyst reports
  - Talk to others who have invested with them
  - Visit their projects
- Transparency – public vs. private partner
- Agreement on Strategy/(Alignment of interests)
  - Pricing
  - Sales Pace
  - Budget/Financing
  - Product Lines
  - Quality
  - Branding
- Strong Controls and Reporting Capability



As returns get bigger, developer gets a larger percentage of profits

LENDER PROTECTIONS

- Guaranteed maximum price construction contracts (more expensive)
- Subordinate fees
- Developer guarantees
- Take-Out purchases (pay at completion)
- Pre-sales
- Product mix
- Location

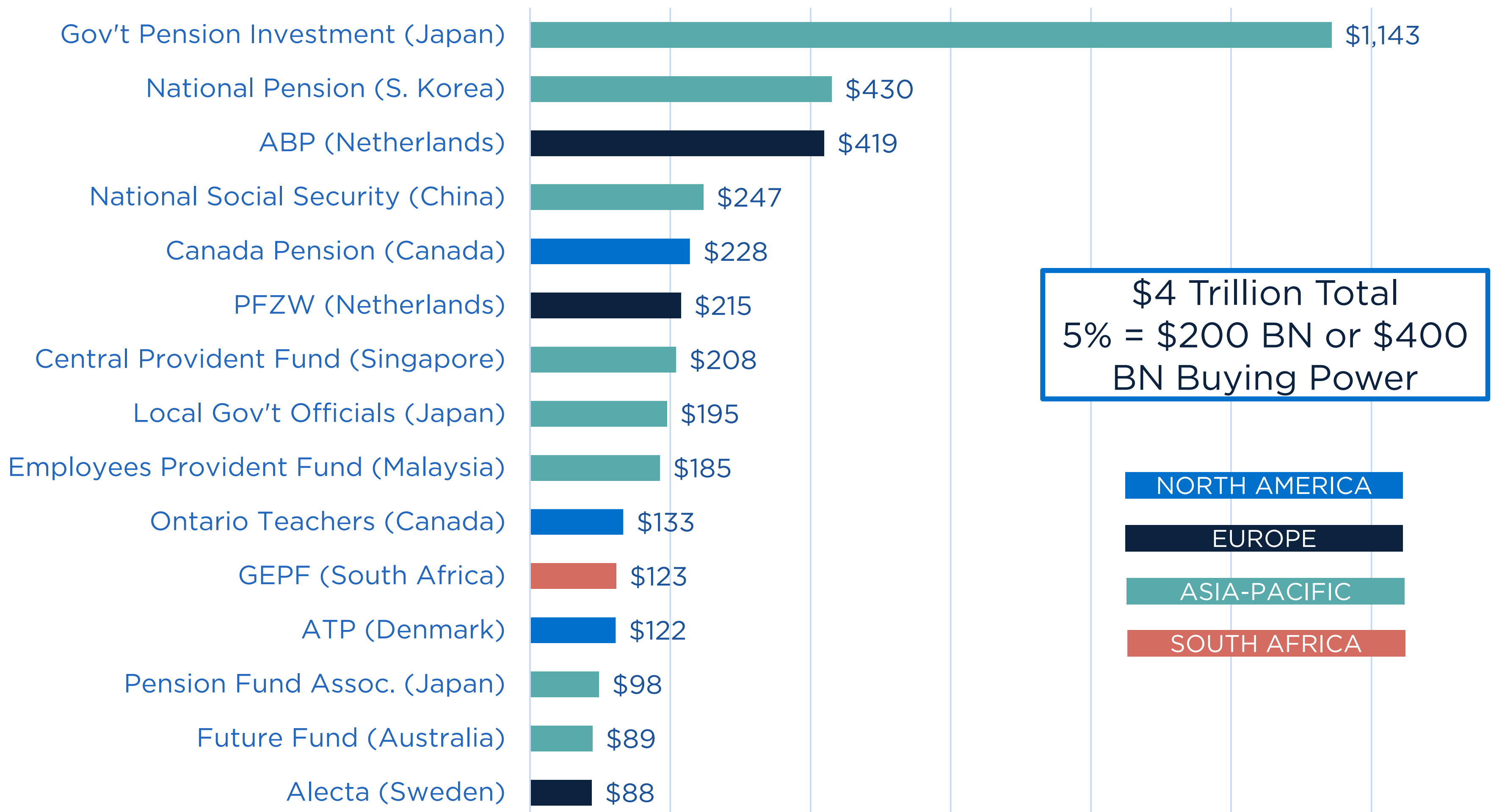
LENDER MEASURES

- Quality of Borrower
- Large amount of Equity
- Loan to Cost
- Loan to Appraised Value
- Loan to Gross Development Value (GDV)
- Debt Service Coverage
- Loan Per Square Foot
- Loan to Equity invested

SCALE OF INSTITUTIONAL CAPITAL AVAILABLE

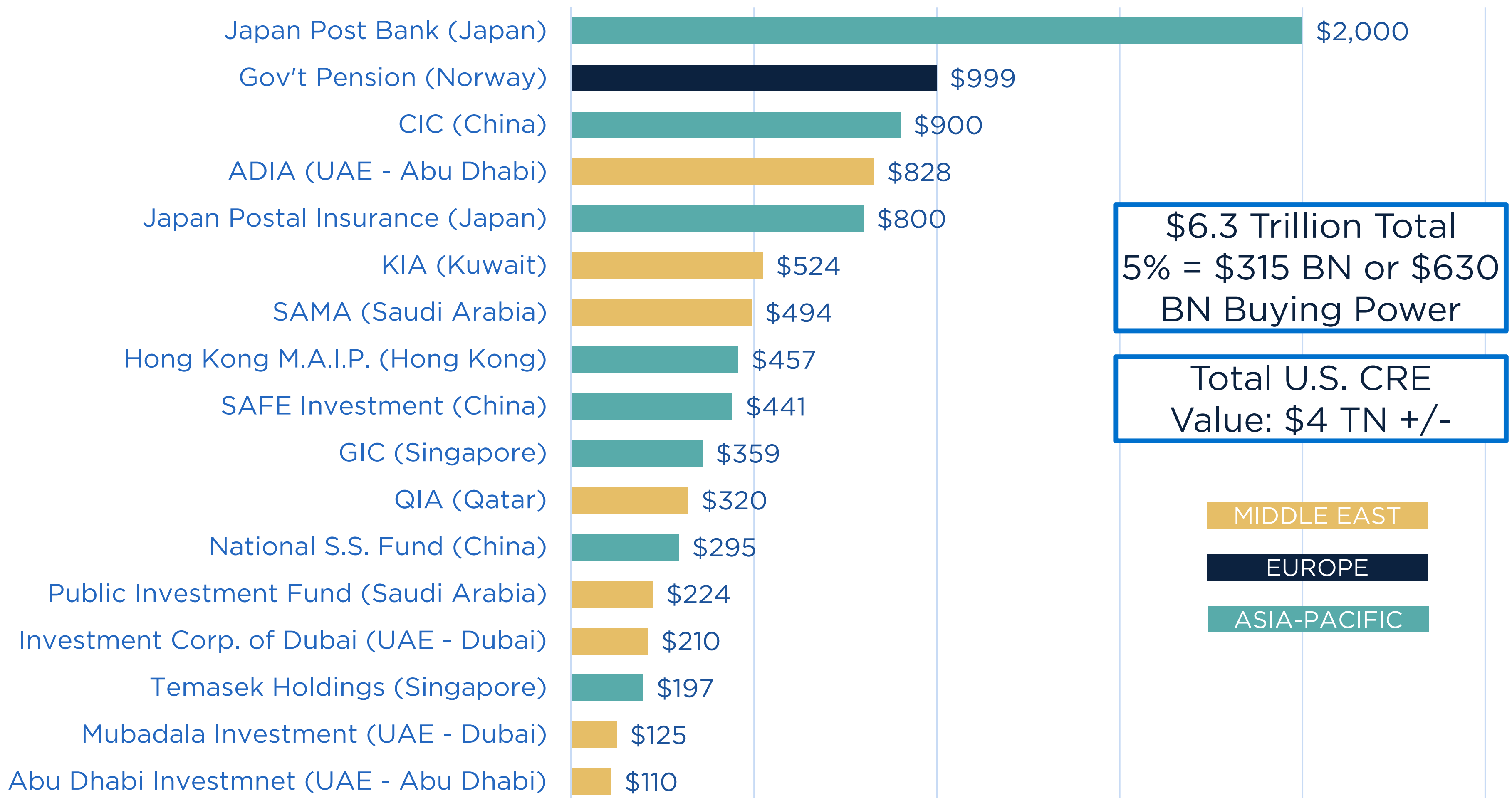
Iron Oak at Alamo Creek, Danville, CA

MAJOR GLOBAL PENSIONS
ASSETS UNDER MGMT. (IN BILLIONS)



Source: Towers Watson

SOVEREIGN WEALTH FUNDS
ASSETS UNDER MGMT. (IN BILLIONS)



Source: SWF Institute, excludes pensions such as CPP, NPS

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AFRICA SHARE OF GLOBAL INFRASTRUCTURE $$

Estimated Funds in Africa (Last 5 years)

Private equity funds	$11.9 BN
Infrastructure funds	$4.2 BN
Real Estate funds	$2.8 BN

Source: "Africa Real Estate Funds: An Overlooked Sector" IPE Real Assets Magazine March/April 2018

Global Capital Measures Risks and Rewards Across:

- Geographic markets/countries
- Product types
  - Residential vs Industrial vs Retail vs Office, etc.
- Financial return thresholds
- Legal protections
- Available alternative investments

PROJECT CASE STUDIES

- Land Development/Lot sales
- For Sale Condos
- Residential Rental
- Public Private Partnerships

CASE STUDY:
LAND DEVELOPMENT

Sienna Plantation, Missouri City, TX

SIENNA PLANTATION
HOUSTON, TX

- Comprehensive 10,000-acre master-planned community offering single-family homes
- Multiple home product lines built by Toll and other builders
- Total homes projected: approximately 14,000 when completed
- Resort-style amenities such as water parks, a fitness center, miles and miles of walking trails and more than 100 acres of parks (34 in total). Also included is the Sienna Plantation Golf Club with an 18-hole golf course and the 12-acre Club Sienna
- Easy access

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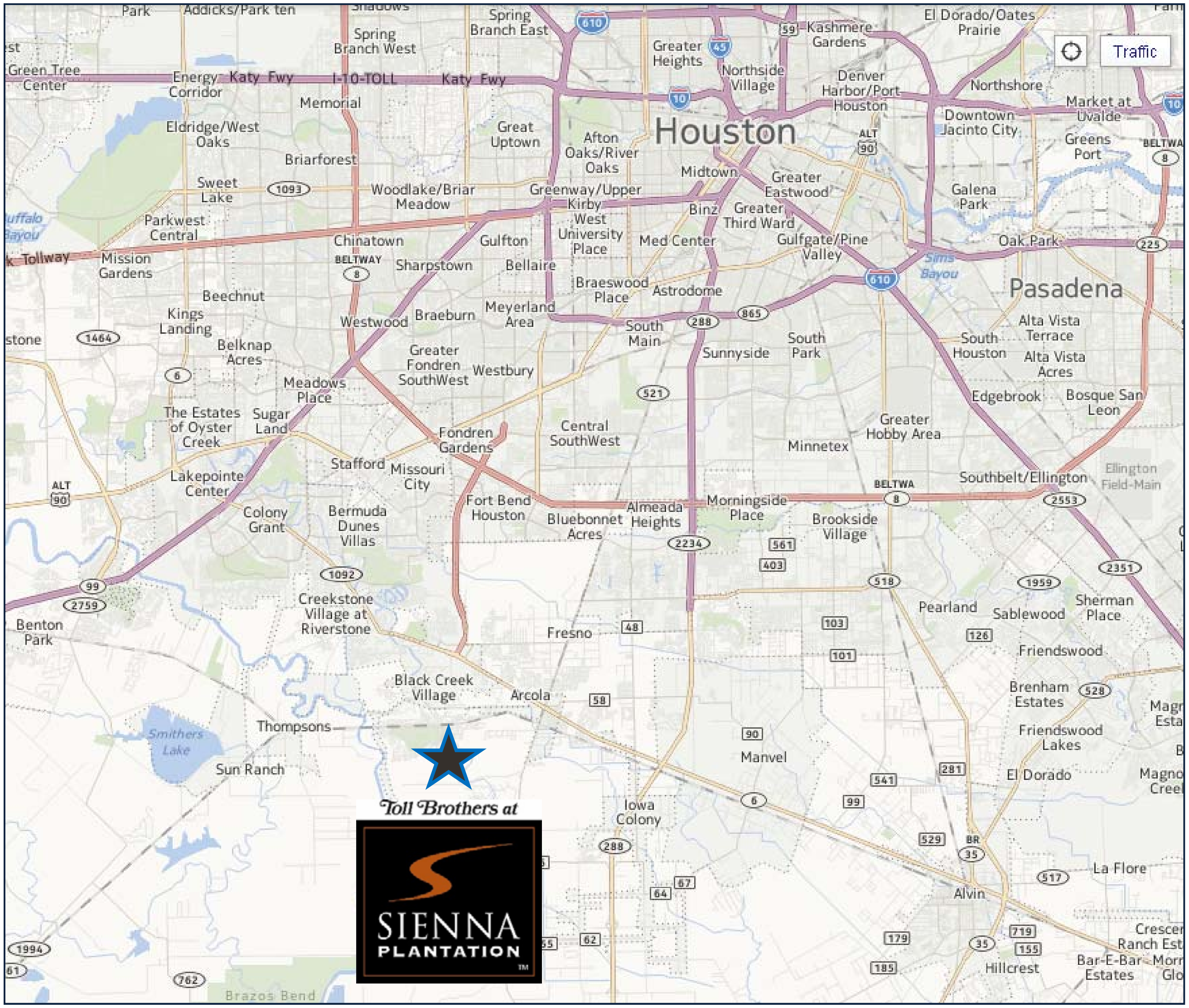
HOUSTON, TX



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SIENNA PLANTATION
THE DEAL

- Toll acquired last 3,800 acres on which to build 7,800 homes
- Purchase price of $80 MM
- Improvement costs of $450 MM done in phases
- No more than $40 MM of land improvement loans outstanding at any one time
- Texas MUD and LID bonds
- Financial partner and Toll go 50 – 50 on land purchase

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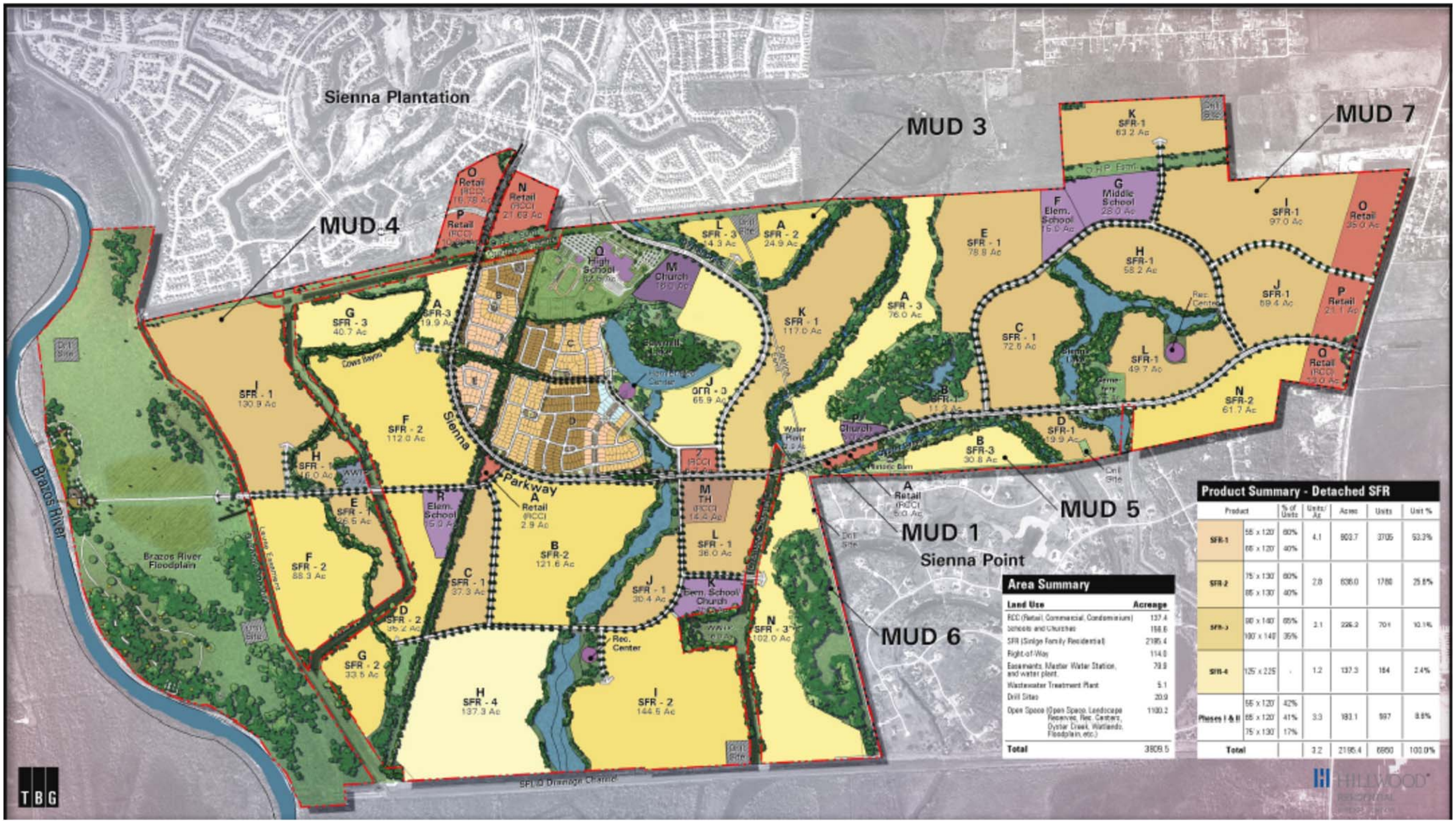
SIENNA PLANTATION
LAND PLAN



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Bank Wants

- Milestones for construction and sales
- Construction budgets
- Guarantees
- Low loan to cost

WHAT DO MUD BONDS DO?

MUD bonds provide municipal services:

- In area not in a city;
- Where a city cannot afford to extend these services itself; or
- Where a city wants the new development to bear the costs of the new infrastructure

MUNICIPAL UTILITY DISTRICTS

- Permissible Improvements
  - Water, sewer, drainage
  - Major roads
  - Parks and recreational facilities (including landscaping, sidewalks and street lighting)
  - Garbage services
  - Fire protection services
  - Police

MUNICIPAL IMPROVEMENT DISTRICTS
(MUD BONDS)

- Enables developer to issue bonds to raise capital for public-related improvements
- Bonds are repaid by residents of project (homeowners, shopping center office and other owners)
- Allows new development without placing repayment on whole city – just on benefited property owners in new projects
- Need to make sure tax burden is not too high on project

SIENNA PLANTATION
PARTNER STRUCTURE

- Cost overruns
- Promote
- Fees
- Toll land acquisition option
- Partner exit mechanism

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SIENNA PLANTATION
ISSUES

- Pace and price of lot sales
- Whether and when to start next phase
- Distributions or harboring of cash
- Promote structure (representation)
  - 50% Toll / 50% Partner up to x% IRR
  - 55% Toll / 45% Partner from x% to x% IRR
  - 60% Toll / 40% Partner from x% to x% IRR
  - 65% Toll / 35% Partner above 20% IRR
  - Toll also receives discount on lot purchases from JV

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PROJECT FINANCE

Riverworks, Phoenixville, PA

CASE STUDY:
FOR-SALE CONDO PROJECT

121 East 22nd, New York, NY

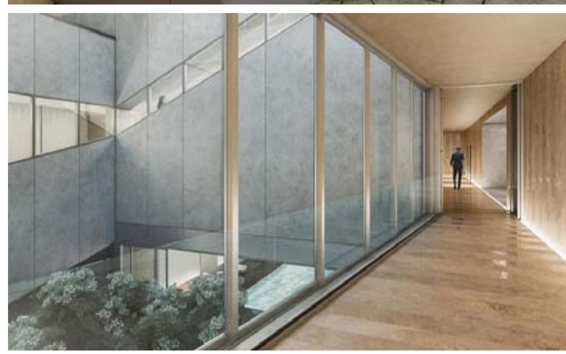
THE FIRST NEW YORK CITY RESIDENCES FROM THE WORLD-RENOWNED ARCHITECTURAL FIRM OMA, FOUNDED BY REM KOOLHAAS

Welcome to 121 E 22ND, at the crossing of Gramercy and Flatiron, where diverse layouts, contemporary aesthetics, and a full suite of luxury amenities await

Studio to 5-bedroom residences priced from $1.3 million

121 E 22ND


140 Units
Avg. Size 2,268 SF
Total Projected Revenue (Est.) $459 MM

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Total Costs
$368.5 MM

Debt
$236.5 MM

Equity
$132 MM

Project / IRR *
20%+

121 East 22nd
Project Summary

Gross Building SF
279,500

Retail SF
17,000

Gross Common Area SF (incl. parking)
66,294

Net Salable Residential SF
196,206

# of Floors with For Sale Units
13/18

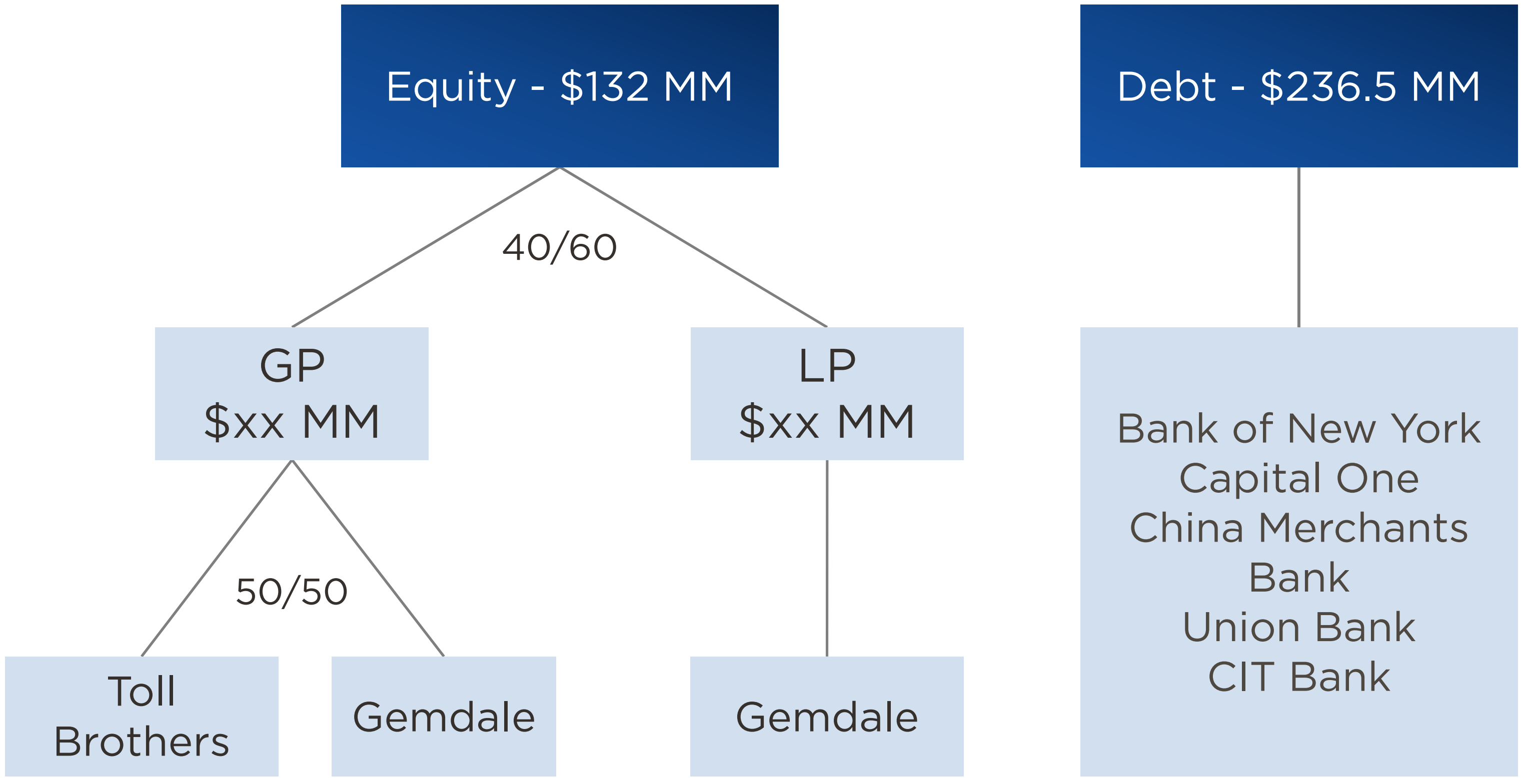
# of Floors with Common Area
1

# of Floors with Retail Space
1

# of Floors – Total
13/18

*Projected
** $$s are estimated

$368.5 MM PROJECT COST



HIGH-RISE LESSONS LEARNED FROM THE DOWNTURN

- Know the downside risk of being a pioneer
- Large projects can have 3 – 5 year timetable/cycle
- Currently looking for condo deals with fewer units (80 - 200 units) on for-sale side
- Maintain proactive dialogue with your lenders
- Expect difficulty in pre-selling
- Buyers will negotiate, negotiate, negotiate
- Must price your product for value
- Know you can’t stop construction in mid-stream once you go vertical
- Must select your unit mix carefully
- In multi-phase product, be flexible in your unit mix
- Be ready to shift from condo to rental or rental to condo
- Design your building to be built and lived-in efficiently
- Diversify product within a local market
- Understand the guaranties you provided

CASE STUDY:
RENTAL PROJECT

The Morgan at Provost Square, Jersey City, NJ

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PROJECT FINANCE:
RENTAL APARTMENTS

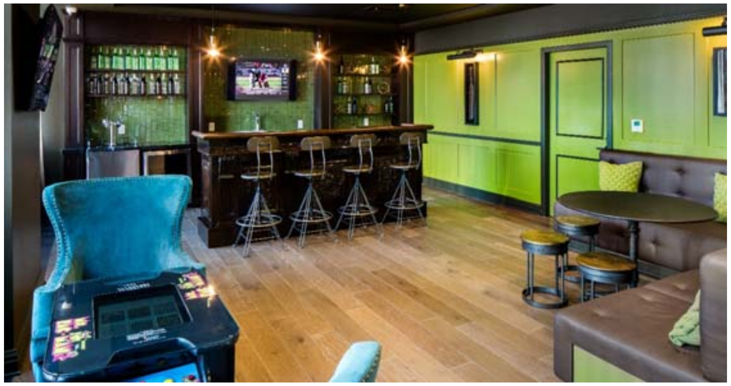
- Construction/Mini-Perm Loan funds project from land acquisition through construction through lease-up
- Loan based on:
  1) % of project cost
  2) and/or projected value at completion
  3) and/or debt service coverage at stabilization
- Permanent loan secured once project is rented up

PROJECT FINANCE:
RENTAL APARTMENT PROJECT LOAN ISSUES

- Recourse (Guarantees)
  – Interest and carry
  – Principal
- Loan-to-Cost
- Debt Service Coverage
- Equity Contribution
- Construction Completion Guarantee/ Cost Over-Run Guarantee
- Change of Ownership Control
- Value Maintenance
- Size of Exit Loan Attainable

THE MORGAN

AT PROVOST SQUARE



THE MORGAN AT PROVOST SQUARE
JERSEY CITY, NJ

- The Morgan at Provost Square offers 417 Luxury Apartment units with high-end amenities
- Total Project Cost: $171 million
- The Morgan offers studio, one-, two-, and three-bedroom residences
- Construction began Q4 2013
- Initially constructed in a 50/50 JV
- Recapitalized project through the sale of our partner's interest and 50% of our interest
- Toll owns the project in a 75/25 JV, with Toll as the manager
- The JV is financing the project with a $133 million perm loan
- The total development will ultimately consist of three buildings and a total of 925 units
- Leasing commenced Q3 2015
- Stabilized Q4 2016

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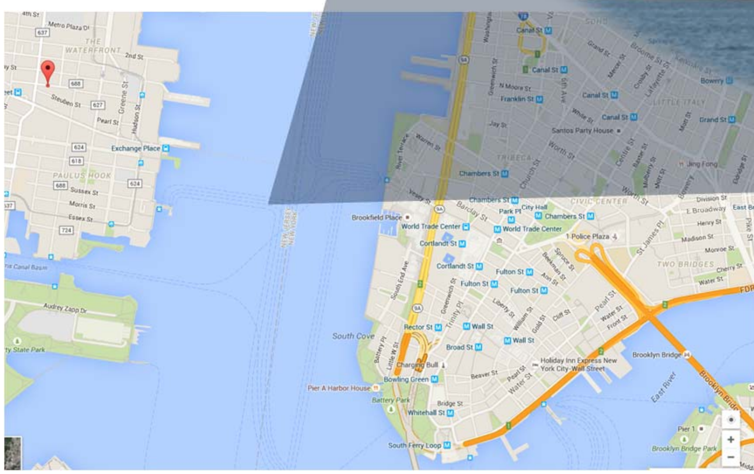
WHY JERSEY CITY:
A GREAT LOCATION



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THE MORGAN PROJECT COST: $172 MM

Equity - $60 MM

50 / 50
$60 MM LLC

Toll Brothers
$30 MM

AECOM
$30 MM

Debt - $112 MM

PNC
Wells Fargo
Comerica

PROJECT RECAP: Value $266 MM

Illinois State Pension Fund

PGIM
$133 MM

PUBLIC-PRIVATE PARTNERSHIPS (PPP)

Pierhouse at Brooklyn Bridge Park, Brooklyn, NY

PUBLIC AND PRIVATE SECTOR ROLES

Private

- Project management
- Design
- Securing private capital
- Procurement
- Construction
- Post-completion management
- Securing public input/managing public engagement?

Public

- Approvals
- Securing resources such as land and funding
- Advocating and promoting public goals
- Monitoring achievement of goals
- Providing risk capital and/or guarantees

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PUBLIC-PRIVATE LAND JOINT VENTURES

Government discounts land, contributes land into joint venture

Developer contributes expertise and capital for approvals and some land improvements into joint venture

Government may provide financial support: loans (senior and subordinate), equity real estate and sales tax incentives and subsidies for site clearance, environmental cleanup, utilities and infrastructure costs, first-loss protection

Government may also provide greater zoning density in exchange for public purposes such as more affordable housing units

At certain stages of approval, parcels of land can be sold directly or auctioned to generate additional capital for future land improvements


MAXWELL PLACE ON THE HUDSON

TOLL BROTHERS CITY LIVING
MAXWELL PLACE ON THE HUDSON

Maxwell Place on the Hudson
Hoboken, NJ

- Approximately 800 luxury, mid-, and high-rise condos and 50,000 square feet of commercial space on a 14-acre waterfront property in Hoboken
- Site of former Maxwell House coffee factory – $11 million demolition and environmental cleanup
- 1025 Maxwell Place consists of 169 units sold out at an average price of ~ $635 per square foot; 1st building was completed Q1 2007
- 1125 Maxwell Place consists of 376 units 100% sold out at an average sales price ~ $722 per square foot; Construction was substantially completed in the summer of 2008
- Repaid $250 million bank loan Q2 2010
- 1100 Maxwell Place consists of 210 units began settlements in the spring of 2014. The building sold out at an average price of $876 per square foot.

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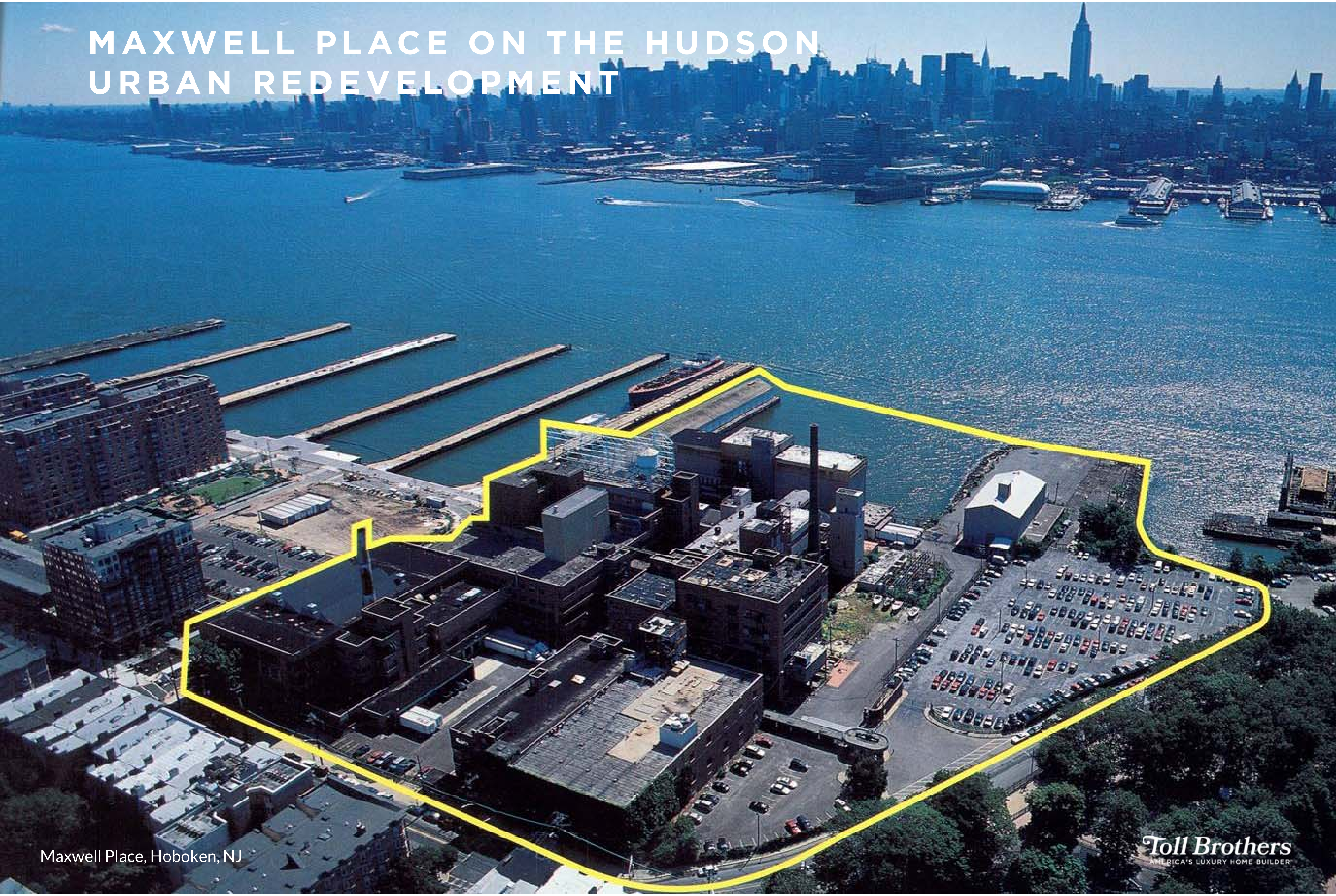
MAXWELL PLACE ON THE HUDSON
URBAN REDEVELOPMENT



Maxwell Place, Hoboken, NJ

MAXWELL PLACE ON THE HUDSON
URBAN REDEVELOPMENT

Maxwell Place, Hoboken, NJ

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MAXWELL PLACE ON THE HUDSON
Maxwell Place
on the HUDSON
1600 Park
Weehawken
Hoboken
Historical Museum
Kidville
1100
Maxwell Ln
1125
Maxwell Ln
1000
Maxwell Ln
1025
Maxwell Ln
Maxwell
Place Park
Maxwell
Place Lawn
Toll Brothers
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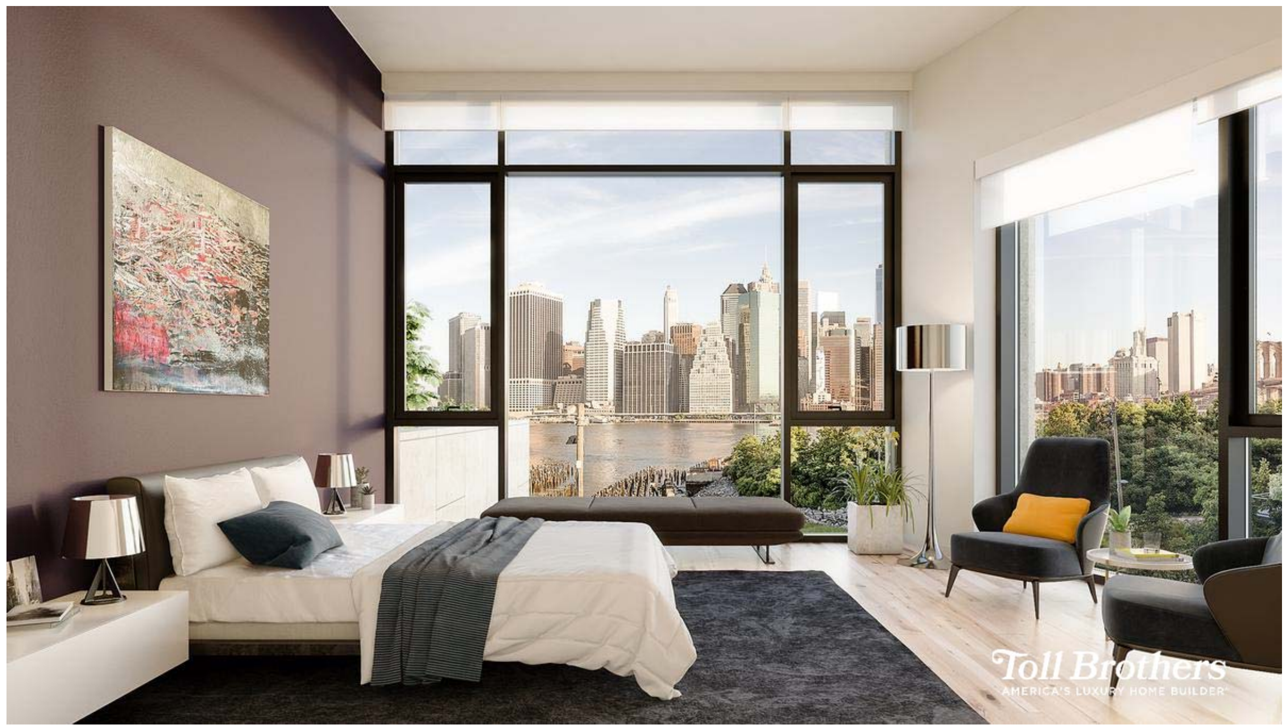
CASE STUDY: HOTEL/CONDO PPP PROJECT



PIERHOUSE AT BROOKLYN BRIDGE PARK
A UNIQUE PUBLIC-PRIVATE PARTNERSHIP

- NYC and NY State funded 85 acre park in exchange for commitment by NYC to provide funds for Park's maintenance
- Brooklyn Bridge Park Development Corp. identified ~five sites for private sector development
- A $320+ million JV between Toll Brothers and Starwood Capital Group was selected to develop mixed-use site at Pier 1 of Brooklyn Bridge Park
- The complex includes a 192-key hotel and 106-condominium units
- The Hotel is projected to opened in early 2017
- The site operates under a 97-year ground lease with New York City
- The new ten-story hotel is branded as a 1 Hotel and the residences are branded Toll City Living

DEVELOPMENT OVERVIEW
SITE LAYOUT – AERIAL VIEW

Area Summary	
# of Stories – Hotel	10
# of Stories – North Residences	10
# of Stories – South Residences	4

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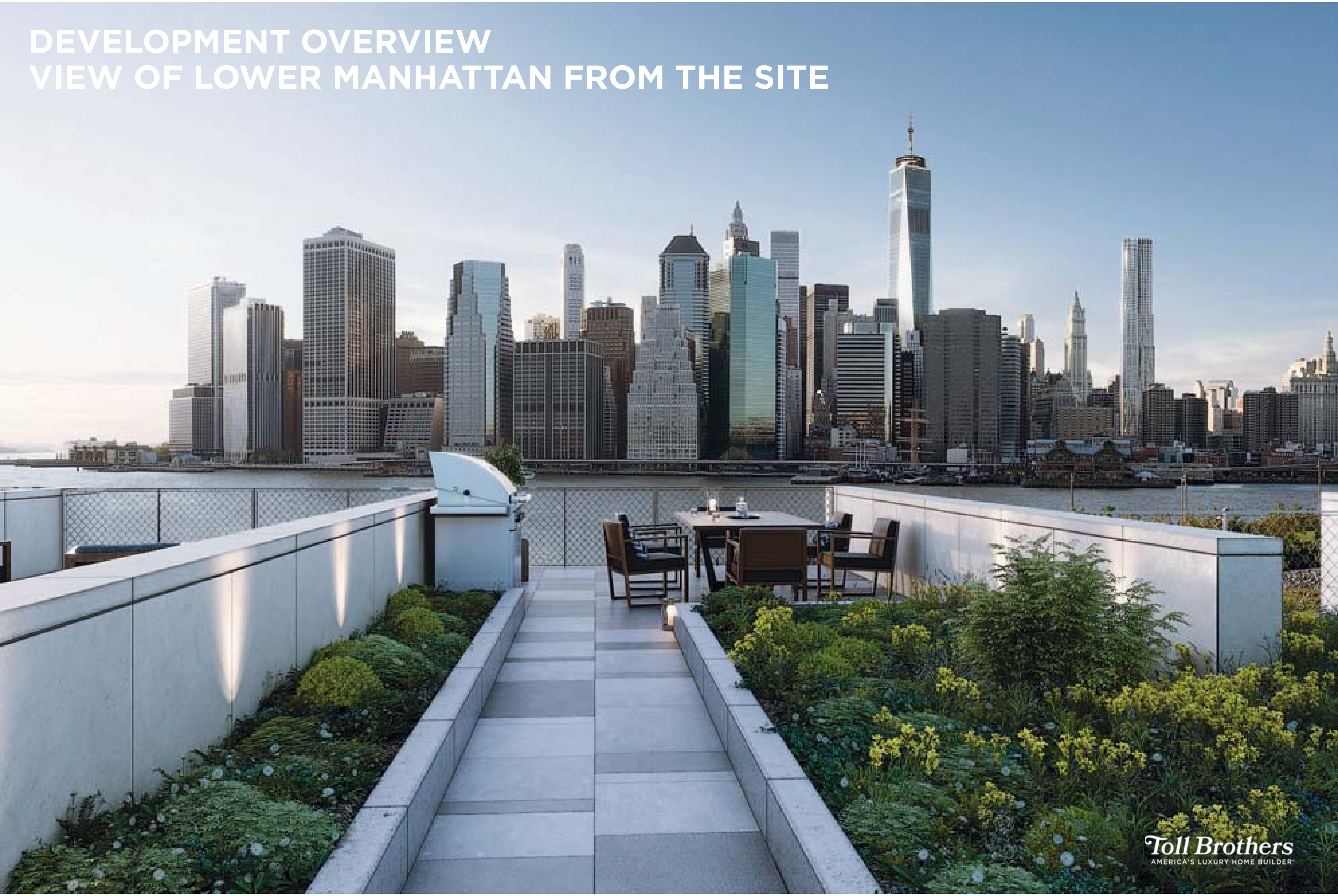
PIERHOUSE
BROOKLYN BRIDGE PARK
Toll Brothers
AMERICA'S LUXURY HOME BUILDER®

DEVELOPMENT OVERVIEW
VIEW OF LOWER MANHATTAN FROM THE SITE



Thank you!

Establishing a World Class REIT

Nairobi, Republic of Kenya
September 18, 2018

Agenda

1. REITs in the United States
2. U.S. REIT Taxation
3. UPREITs: A Major Innovation
4. Steps in Becoming a REIT
5. REIT Investment Performance
6. REITs Around the World
7. *State-of-the-Art* REITs: A Developing Global Framework
8. Appendix: Recent Tax Policy in the U.S.

The Three Most Common *Expressions* in Aviation:

- ***Where are we?***
- ***What the heck was that?***
- ***Oh crap!***

As in aviation, the questions “*Where are we*?” and “*What the heck was that*?” are also posed from time to time by real estate owners and investors. For the most part, we never really know where we are in the real estate cycle. By the time we do, it usually is an “*Oh crap!*” moment.

REITs in the United States: 58 Years of Experience and Lessons Learned

REITs First Authorized in the U.S. in 1960

- The *Cigar Excise Tax Extension Act*, signed into law by President Eisenhower, contained the initial Federal tax legislation authorizing REITs

- Provide all citizens with access to real estate investment to help build financial security, manage wealth and save for retirement

- Modeled after investment companies (mutual funds) as provided by the *Investment Company Act of 1940* some 20 years earlier

- Provide a means for investing in real estate in the same manner investors typically invest in other industries through listed corporate equities

- Provide disciplined, market-based financing of real estate through liquid, transparent public markets

- Increase equity and reduce debt in the financing of real estate to make the real estate industry, as well as the entire economy, less volatile

What is a REIT?

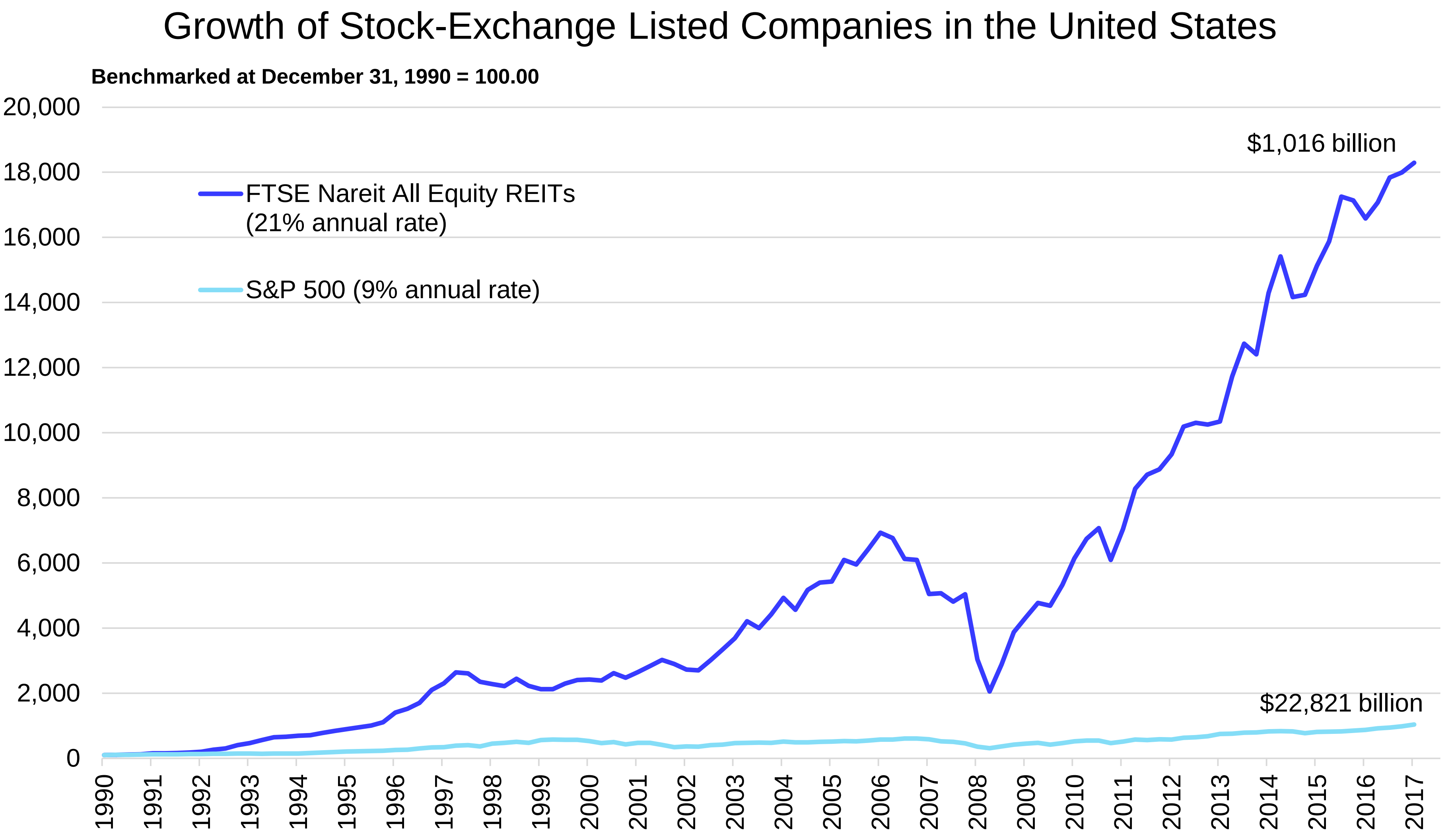
- A *Real Estate Investment Trust*, or REIT, is an entity that owns, and in most cases, operates income-producing real estate

- A REIT is defined by two required features:
  - Its primary business of owning income-producing real property; and
  - its distribution of most of its profits as dividends (or all of its profits if it wants to avoid paying any federal income tax)

- Provided certain additional required conditions are satisfied, as outlined and clarified in the *REIT Rules* of the United States Code (U.S.C.), a REIT pays no federal income tax.

Growth of Listed U.S. Equity Markets

Equity market capitalization: December 1990 – December 2017

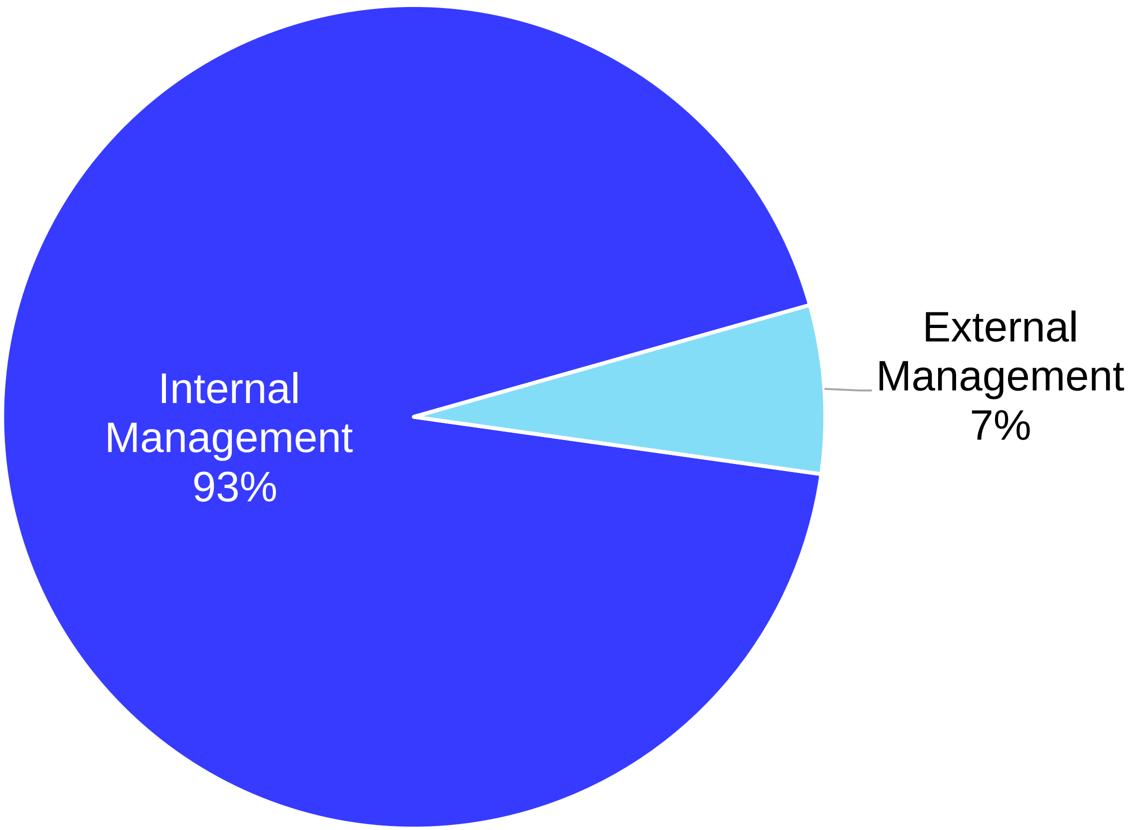


Source: FTSE Nareit U.S. Real Estate Index; S&P Dow Jones Indices. Data as of December 31, 2017.

Most U.S. REITs Internally Managed

By equity market capitalization

In the Tax Reform Act of 1986, the *REIT Rules* were changed to permit REITs to be either internally or externally managed.



Source: Nareit®; S&P Global Market Intelligence. Data as of January 2018.

The REIT Business Model in the U.S.

Built on transparency, monitoring, governance and distribution

- Transparency
  - Registration with the U.S. Securities and Exchange Commission (SEC)
  - Published audited financial statements
  - Required used of generally accepted accounting principles (GAAP)
  - Public market liquidity and pricing

- Monitoring
  - By investors, analysts and capital providers
  - Leads to a lower cost of capital
  - Liquidity, transparency and monitoring lead to higher risk-adjusted returns (*i.e.*, no risk premiums for illiquidity or opacity)

- Corporate Governance
  - Board of directors
  - Management ownership generally aligned with economic interests of shareholders
  - On average, REIT management today owns about 7 percent of outstanding shares
  - Incentive compensation usually in restricted stock rather than stock options

- Dividend Distribution
  - Annual distribution of at least 90 percent of taxable income; most often 100 percent

Dividend Distribution in the U.S.

Benefits of distribution requirement

- **A REIT can't keep the money!**

- Therefore, REITs must return to capital markets regularly to finance growth:
  - Incentivizes companies to use their capital in a disciplined manner
  - Encourages companies to acquire properties when prices are relatively low, and
  - Discourages companies from over-paying at market peaks

- REITs pay relatively high and reliable dividends to investors based on monthly rental income from tenants

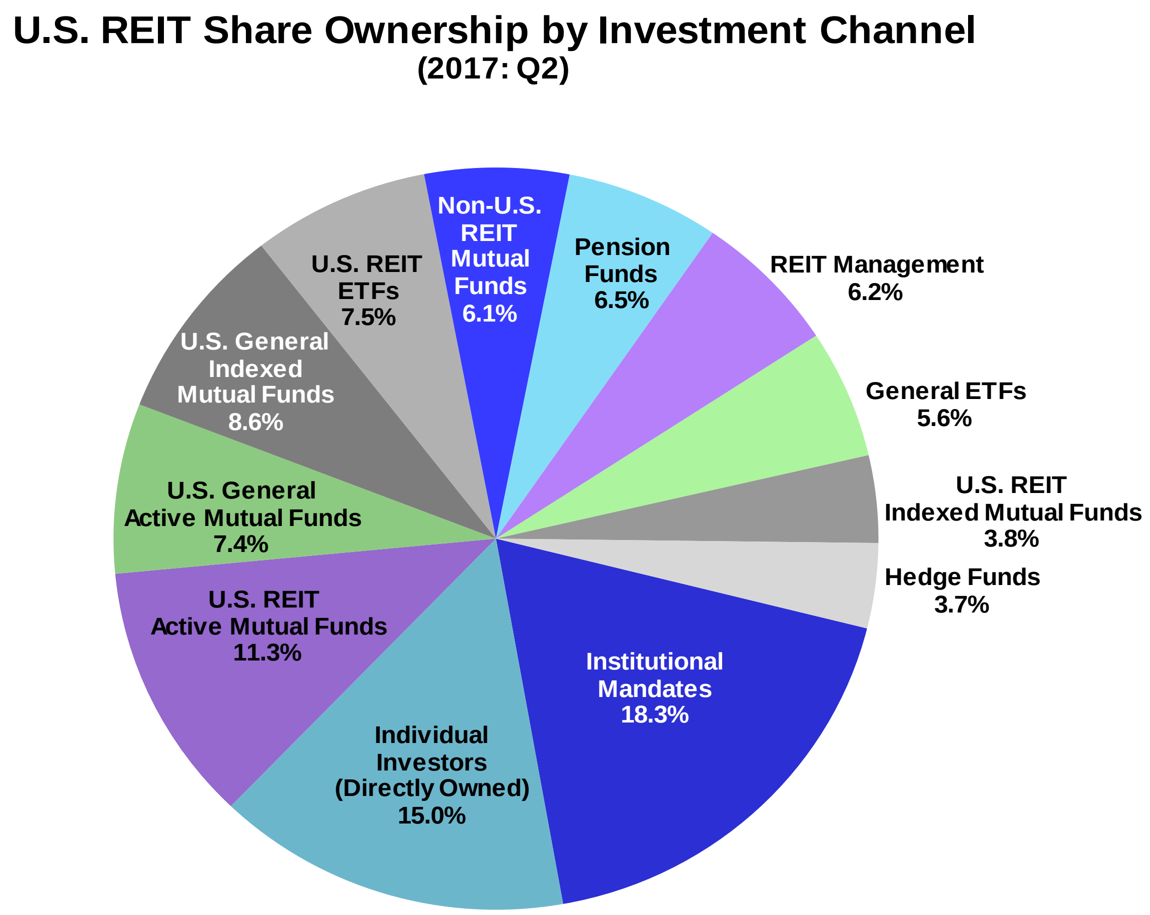
- High income returns change the character of total investment returns and make REIT equities a source of portfolio diversification

- Listed REITs paid $54 billion of dividends in 2017

- Listed REITs paid over $500 billion of dividends over the 20 years ended 2017

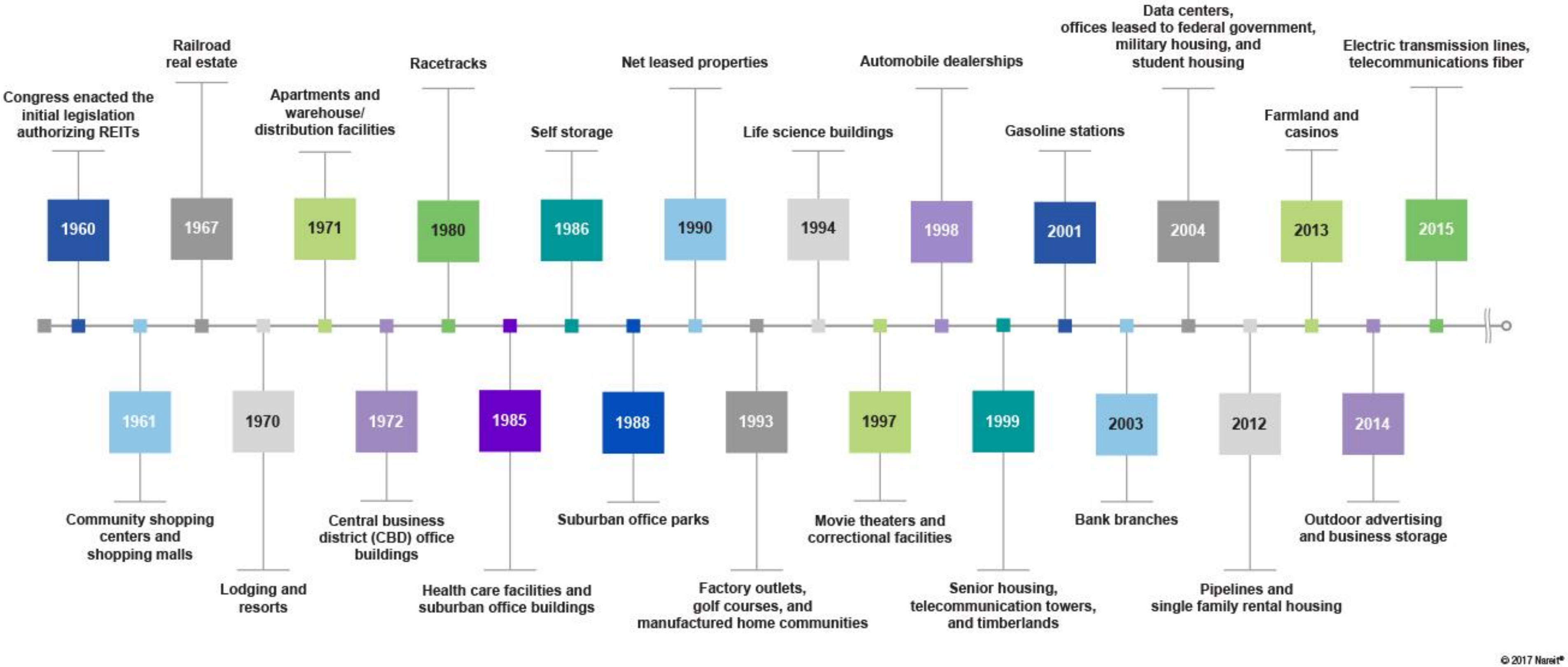
REITs are Widely Held

Nareit estimates that more than 80 million Americans or 40 percent of American households own REITs.



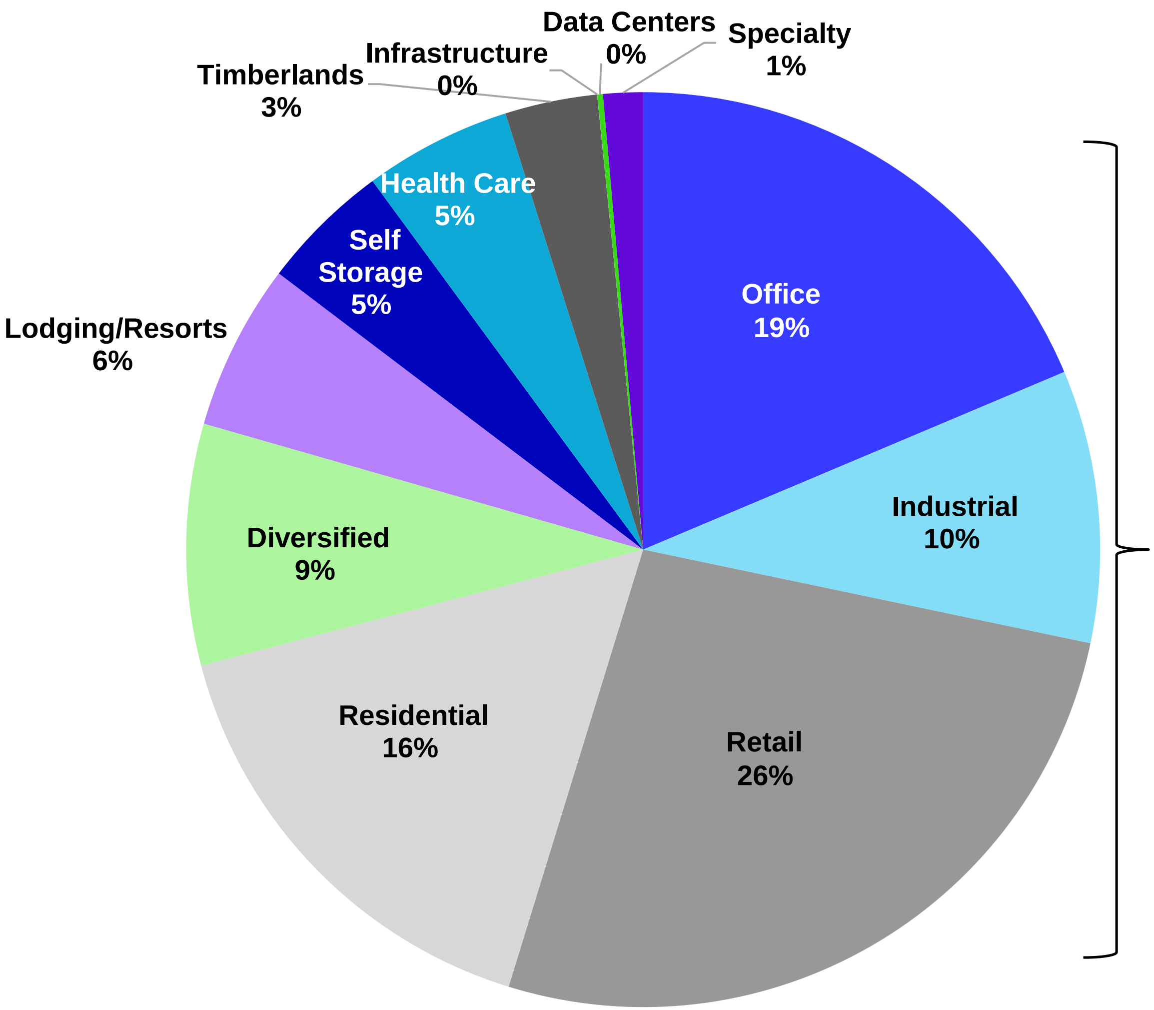
Source: Citi Research, SNL, Bloomberg, FactSet, Lipper

Timeline of REIT Listings by Property Type
"Land and the permanent structures on the land"



Source: Nareit®.

Market Cap by Property Sector – 2005

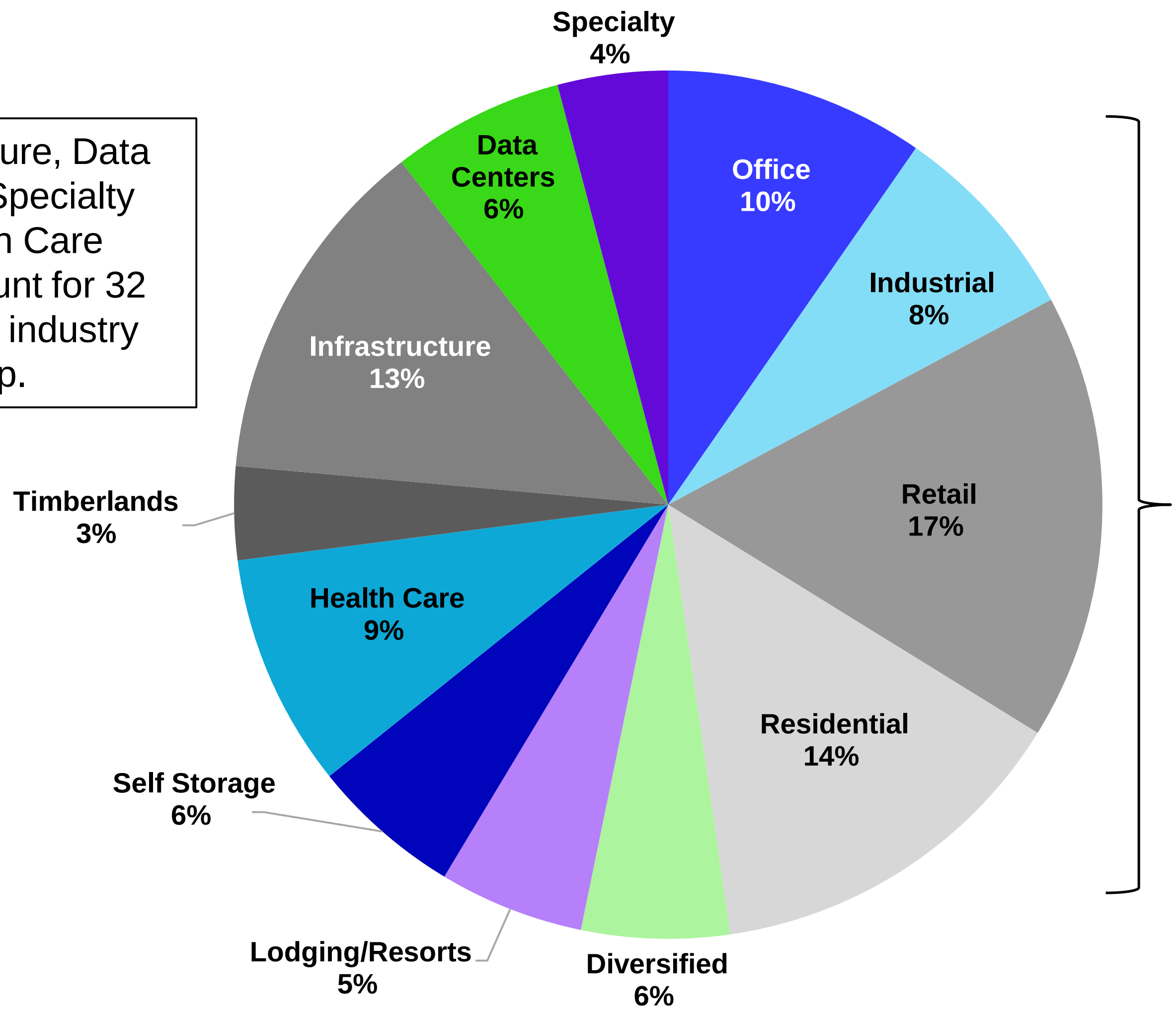


In 2005, the share of Retail, Office, Residential and Industrial (RORI) property sectors accounted for almost 75 percent of the industry.

Source: FTSE Russell, Nareit®.

Market Cap by Property Sector – 2018

Infrastructure, Data Centers, Specialty and Health Care now account for 32 percent of industry market cap.

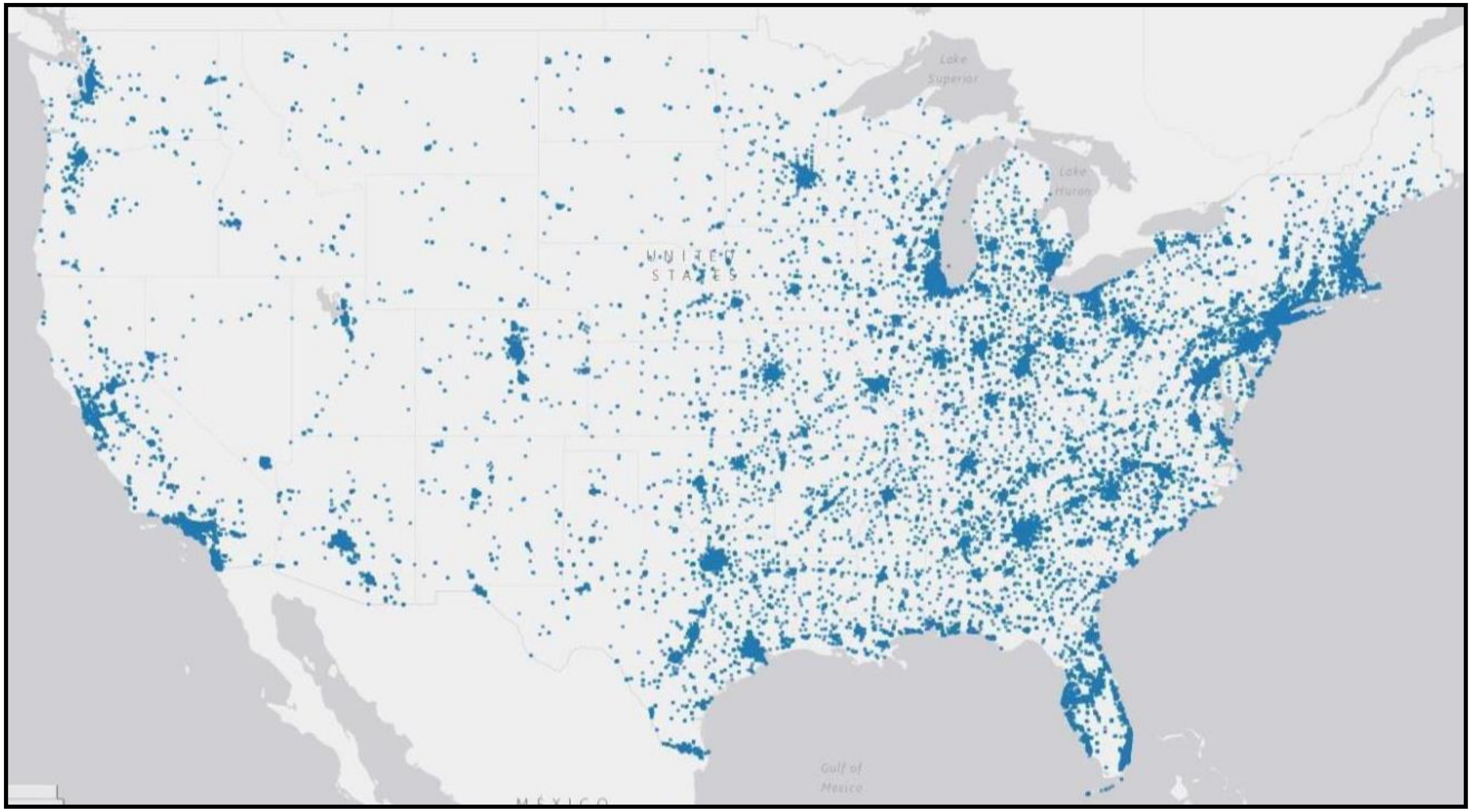


RORI sectors now account for 49 percent of industry market cap.

Source: FTSE Russell, Nareit®.

REITs Provide Geographic Diversification

Over 290,000 U.S. structures with a gross asset value over $1.45 trillion



Retail and Restaurants (22,500)

Office (3,100)

Single-Family Rental (135,000)

Cell Towers (96,000)

Multifamily (3,700)

Health Care (7,000)

Hotels (2,000)

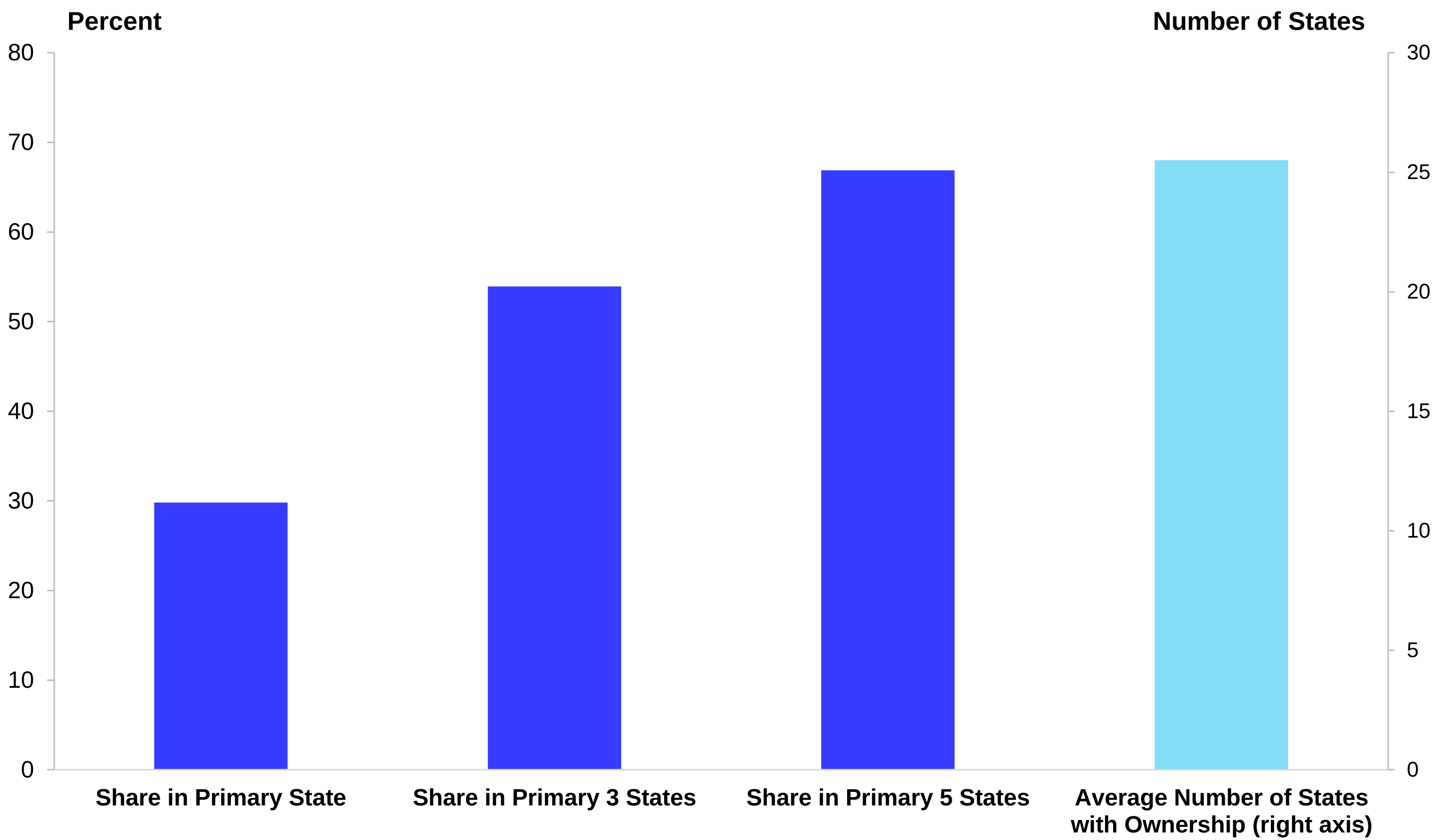
Timberland (17M acres)

Industrial (5,400)

Self-storage (5,200)

Data Centers (260)

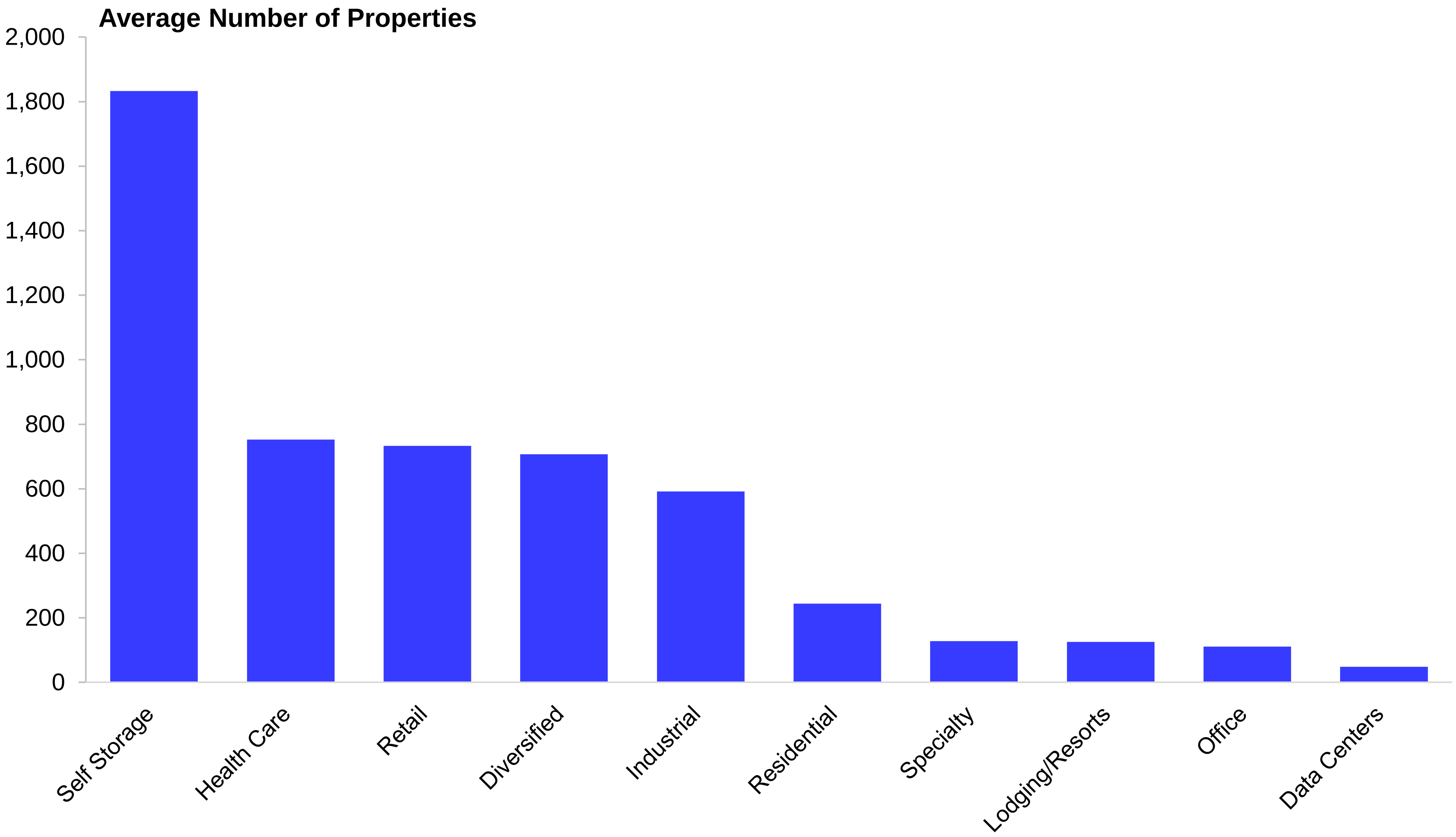
Geographic Concentration of REIT Portfolios



Source: S&P Global Market Intelligence, Nareit®.
Data as of year-end 2016

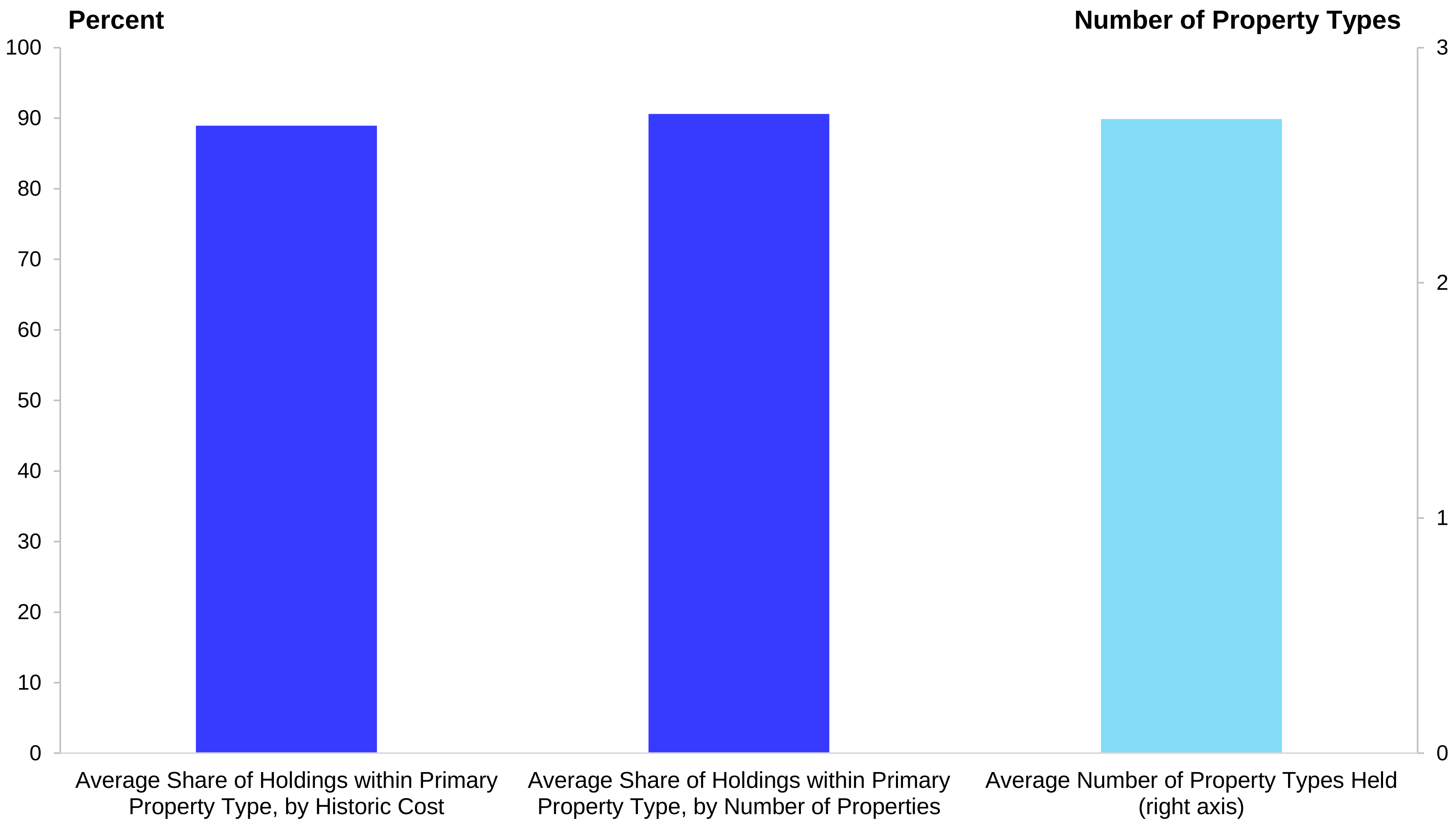
Average Number of Properties Owned by REITs

By property sector (2016)



Source: S&P Global Market Intelligence; Nareit®. Averages are market cap weighted.
Note: Residential property sector excludes single-family rental homes.

REIT Holdings in Primary Property Type



Source: S&P Global Market Intelligence, Nareit®.
Data as of year-end 2016.

Fundamentals of U.S. REIT Taxation

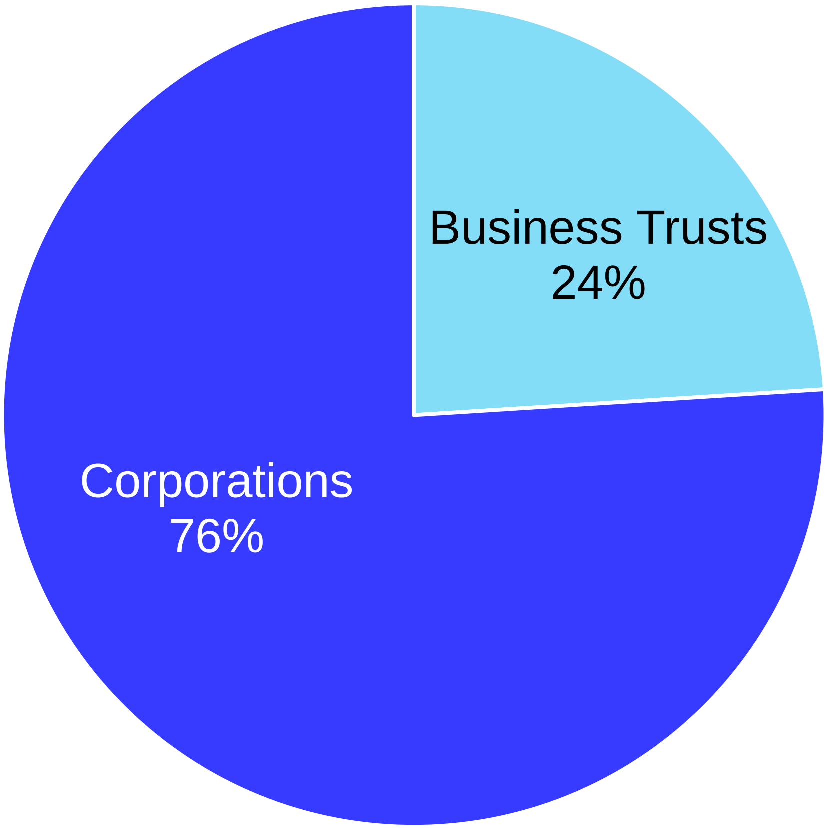
The REIT Rules

REIT Requirements: Organization

- **Business Organization Requirements**
  - **Business Form.** A REIT must be a domestic corporation or a business trust or association taxable as a domestic corporation, and must be managed by one or more directors or trustees.
  - **Transferable Shares**. Ownership of a REIT must be evidenced by transferable shares. However, a REIT may impose reasonable transfer restrictions designed to preserve REIT status.
  - **REIT Election**. A REIT must make an election under the tax code to be treated as a REIT by calculating its income as a REIT and reporting its income on Internal Revenue Service (IRS) Form 1120-REIT.
  - **Calendar Year Accounting Period**. A REIT's taxable year must be the calendar year.
- **Shareholder Requirements**
  - **100 Shareholders**. Except for its first REIT taxable year, a REIT's shares must be held by at least 100 beneficial owners for at least 335 days of each taxable year of 12 months, or the proportionate part of a taxable year of less than 12 months. For this purpose, each corporation, trust, partnership or other organization holding REIT stock is treated as a single shareholder (*i.e.*, there is no *look-through* to the individual owners of such entities).
  - **5/50 Test**. Except for its first taxable year, an entity will fail to qualify as a REIT if at any time during the last half of a taxable year more than 50% of the value of its stock is owned directly or indirectly by five or fewer *individuals* (*i.e.*, there is *look-through* to the individual owners or beneficiaries).

Most U.S. REITs Organized as Corporations

By equity market capitalization



Source: Nareit®. Data as of January 2018.

REIT Requirements: Asset Tests

- **75% Asset Test**. At the close of each calendar quarter, at least 75% of the gross fair market value of a REIT's assets must consist of real estate assets, cash and cash items (including receivables acquired in the ordinary course of business), government securities and temporary investments in stock or debt instruments attributable to new capital.

  - Real estate assets include real property, loans that are fully secured by mortgages on real property (including, in certain cases, loans secured by pledges of interests in partnerships or LLCs that own real property), and stock of other U.S. REITs.

  - Cash items (other than ordinary course receivables) generally should be limited to dollar denominated demand deposits in U.S. financial institutions that are member banks of the Federal Reserve System, or shares of money market mutual funds which are subject to regulation under the Investment Company Act of 1940, 15 U.S.C. 80a-1 et seq., and comply with the requirements of Rule 2a-7 thereof.

REIT Requirements: Asset Tests

- **20% Taxable REIT Subsidiary (TRS) Test**. At the close of each quarter, securities of all TRSs may not constitute more than 20% of a REIT's gross assets by value.
  - **TRS Defined**. A TRS is any taxable corporation in which the REIT owns stock (of any amount) that makes a timely election to be treated as a TRS, provided that it does not manage, operate or franchise a lodging or health care facility.
  - **Flexibility**. A TRS may hold assets and conduct activities that would disqualify a REIT if held or conducted directly by the REIT. Therefore, a TRS allows a REIT to remain competitive in the evolving business of property ownership and leasing by providing services to its tenants that are not considered to be *customary services* if provided by the REIT itself.

REIT Requirements: Income Tests

- **75% Income Test**. At least 75% of a REIT's annual gross income (excluding income from prohibited transactions, discussed below) must be derived from: (1) rents from real property (including charges for *customary services*, provided certain requirements are met); (2) interest on loans secured by mortgages on real property; (3) gains from the disposition of real property, mortgages or stock of other U.S. REITs; (4) dividends from other U.S. REITs; and (5) certain other real estate-related items.

- **95% Income Test**. At least 95% of a REIT's annual gross income (excluding income from prohibited transactions, discussed below) must be derived from: (1) items that satisfy the 75% income test; and (2) other dividends, interest, and gains from sales of stock and securities.

REIT Requirements: Dealer Property

- Prohibited transaction tax (100% of gain)
- Condominiums, time shares, build to suit to sell, land development
- 4 year hold
- Up to 7 sales per year
- Sale of properties within 4 years: facts and circumstances
- Safe harbor provisions

REIT Requirements: Distribution

- **Distribution of Profits.**
  - To maintain REIT status, a REIT generally is required each taxable year to distribute to shareholders at least 90 percent of its taxable income (other than net capital gains and excluding certain non-cash income).
  - Thus, a REIT is not permitted to retain and accumulate a significant amount of after-tax, uninvested profits.
  - If a REIT does not distribute all of its taxable income or all of its net capital gains, it will be subject to federal tax at regular corporate rates on the undistributed amounts.
  - REITs generally distribute 100 percent of their income and capital gains by paying an ordinary or capital gain dividend. (The recent lowering of the U.S. corporate tax rate from 35 percent to 21 percent may result in an increase in the amount retained by REITs.)

Taxation of the REIT

- **Dividends Paid Deduction**. A REIT calculates its taxable income in a manner similar to a regular corporation. However, in return for being required to distribute its earnings as dividends, a REIT is entitled to a deduction for dividends paid and for certain “consent dividends” deemed to be paid.

- Dividends are taxed, and the tax is paid by the REIT’s shareholders.

- A REIT is not a pure pass-through entity like a partnership, but rather avoids entity level tax only to the extent that it distributes its income as dividends or is deemed to have paid as “consent dividends.”

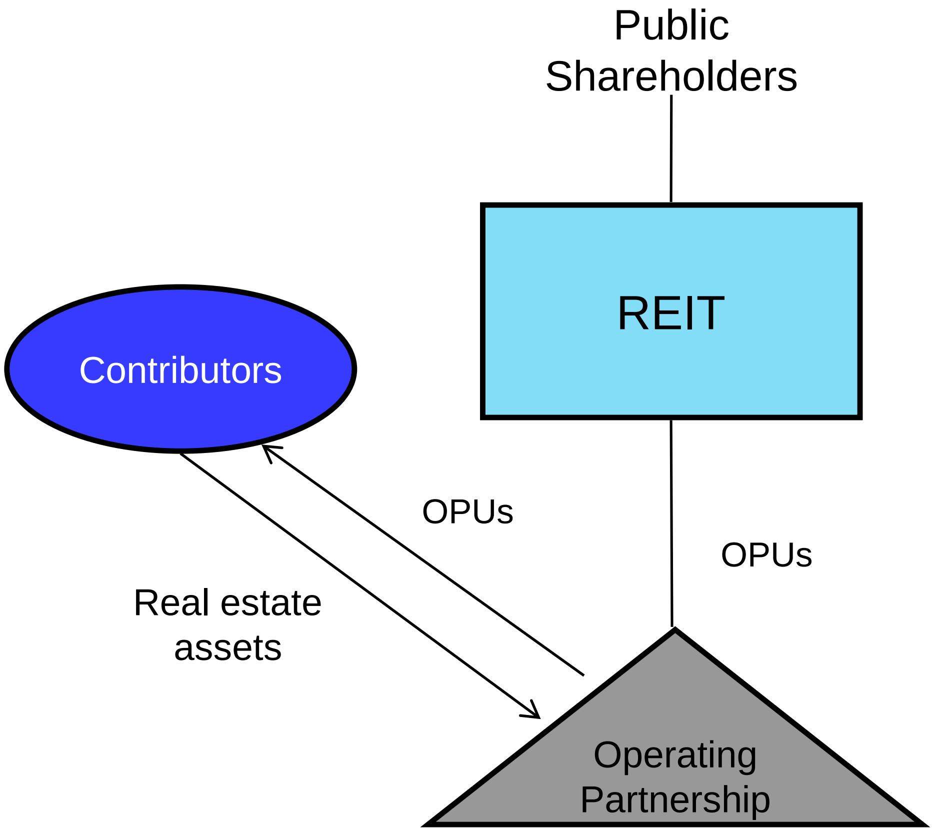
- **Net Loss**. If a REIT has a net loss from operations (before distributions to shareholders), the loss may not be passed through to shareholders but may be carried forward to reduce taxable income in future years. However, the effective use of *loss carry forwards* may be limited if the REIT pays dividends currently. Losses may not be carried back to prior taxable years.

UPREITs:

Umbrella Partnership REITs

Basic OP Unit Transaction Structure

An *UPREIT* is a REIT that holds all of its assets through a subsidiary called the *Operating Partnership*. Assets contributed to the partnership by the REIT and other parties are exchanged for *Operating Partnership Units* (OPUs):



Basic OP Unit Transaction Structure (cont'd.)

- Contributors of property can defer the tax on any *gain-on-sale* by contributing their property to the *Operating Partnership* in exchange for limited partner units of the *Operating Partnership* or OPUs, whereas a direct contribution to the REIT in exchange for stock of the REIT would be treated as a fully taxable sale. The *Operating Partnership* acquires the contributed property with a carryover basis.

- The contributor's initial tax basis in the OPUs received in the transaction generally is equal to its tax basis in the contributed property.

- The built-in gain in the contributed properties at the time of contribution generally will be allocated to the contributor at the time the *Operating Partnership* sells the contributed property in a taxable transaction.

Basic OP Unit Transaction Structure (cont'd.)

- The value of each OPU and, therefore, the number of OPUs issued to contributors in exchange for property is determined with reference to the market value of a REIT's common shares.

- OPUs typically receive distributions equivalent to the dividends paid on REIT common shares (*i.e.*, contemporaneously with payments of dividends on REIT common shares, the *Operating Partnership* makes a distribution with respect to each OPU equal to the dividend paid on a REIT common share). Accordingly, each OPU is the economic equivalent of one share of the REIT's common stock.

- Contributors receive a put option, beginning after a negotiated period following the contribution (one year is typical), to put their OPUs to the *Operating Partnership* for an equal number of REIT common shares or, at the REIT's option, cash of equivalent value.

- Upon exercising its put option, a contributor is taxed on the amount of gain in the redeemed OPUs, which includes any gain deferred from the initial contribution. The character of this gain typically is predominantly long-term capital gain.

Other Intended Tax Benefits to Contributors

- For OPUs that pass through a contributor's estate following the death of the contributor and preceding the exercise of the put option, the contributor's estate receives a tax basis *step-up* to fair market value, eliminating the built-in gain in the OPUs for federal income tax purposes

- Pursuant to a *tax protection agreement* intended to protect the contributors from the loss of the tax deferral within a negotiated period of time, the operating partnership agrees to indemnify each contributor for tax costs resulting from certain events occurring within a negotiated period following the contribution (*e.g.*, 5-10 years or the lifetime of the contributor) that have the effect of accelerating the contributor's deferred gain, including:

  (i) taxable dispositions of the contributed property

  (ii) certain actions that would result in a taxable reduction in the amount of debt that is allocated to the contributor for tax purposes, and

  (iii) the failure of the operating partnership to follow the negotiated tax allocation method with respect to the contributed property

Using the UPREIT Structure for Growth

An Example: Boston Properties, Inc. [NYSE:BXP]

- Initial public offering in 1997 raised $900 million and issued OPUs to many of the company's founding partners.

- "Willingness of sellers to accept OP Units, provided [Boston Properties, Inc.] with a comparative advantage in acquisitions. In 1998, OP Units accounted for over $700 million of the total consideration involved in its acquisitions."

Source: Boston Properties, Inc.
1998 Annual Report

- Since 1998, Boston Properties has continued to use OP Units as all or part of the acquisition of significant properties, including Citigroup Center and The General Motors Building in New York City.

Growth from Issuance of OP Units

Boston Properties, Inc.

Transaction	Equity and OP Units
June 1997 – IPO	Raised $903 million OP Units were issued at time of IPO to founders and others
January 1998 – Follow-On Equity	Raised additional $807.9 million
February 1998 – Mulligan/Griffin Portfolio Virginia & Maryland	$257.8 million, including $50 million of OP Units
June 1998 – Carnegie Center Portfolio & Tower Center One, New Jersey	$276 million, including $83 million of preferred OP Units convertible into common OP Units
July 1998 – Prudential Center, Boston	$519 million, including $96.2 million of OP Units
July 1998 – Metropolitan Square Washington, DC	$175 million, including $27.7 million of OP Units
August 1998 – 1301 New York Avenue Washington, DC	$28 million, including $1.5 million of OP Units
November 1998 – Reservoir Place Waltham, Massachusetts	$104.2 million, including $27.1 million of OP Units
November 1998 – Embarcadero Center San Francisco	$1.3 billion, including $286.4 of preferred OP Units convertible into common OP Units

Using the UPREIT Structure for Growth

Boston Properties Acquisition of the Embarcadero Center

- In 1998, Boston Properties, Inc. acquired San Francisco's Embarcadero Center for about $1.3 billion.

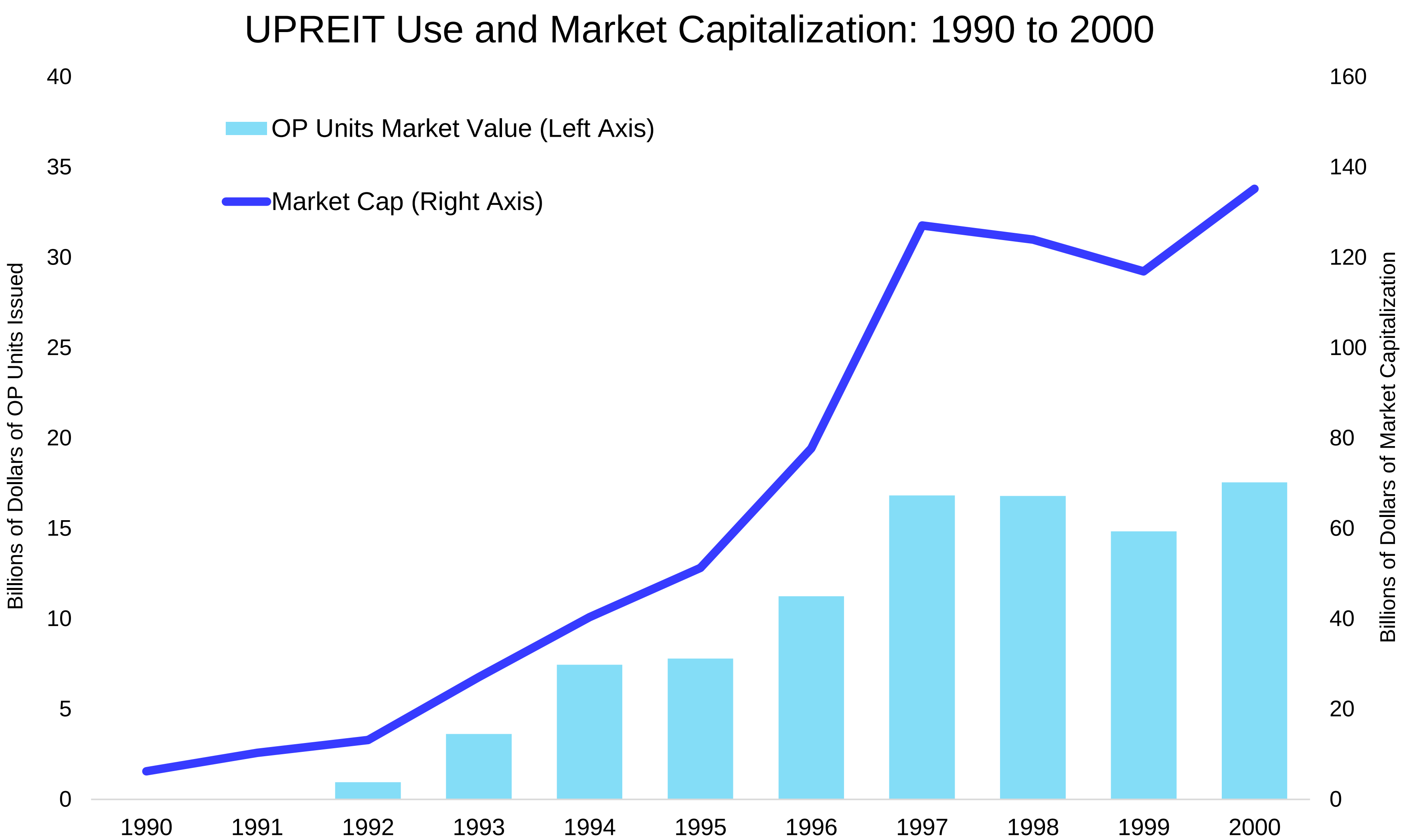
Using the UPREIT Structure for Growth

Boston Properties Acquisition of the Embarcadero Center

- As the *Wall Street Journal* noted at the time:
  - For the sellers, the transaction is not so much a sale as a change in the form of [the sellers'] ownership. [They] will become a major investor in Boston Properties, and the Embarcadero will become one of the company's core assets.
  - The deal offers [them] the liquidity of shares in a publicly traded company, and diversifies [their] investment into a broader portfolio…
  - [The sellers] will receive payment in the form of special units convertible to stock that allow [them] to defer the enormous capital-gains taxes on the property.

Using the UPREIT Structure for Growth

Rapid growth of REITs in 1990s facilitated by use of UPREITs



Source: S&P Global Market Intelligence and FTSE Nareit All REITs index.

Steps in Becoming a REIT

Steps in Becoming a REIT: Origins

- Initial Public Offerings (IPOs)
  - Vornado Realty Trust (1993 into the *Diversified* sector)
  - Equity Residential (1993 into the *Apartment* sector)
  - American Homes 4 Rent (2013 into the *Single-Family Rental* sector)

- REIT Conversions
  - Some REITs are the result of publicly traded corporations or partnerships electing to operate as REITs
    - Public Storage, Inc. (1983 – From a partnership into the *Self Storage* sector)
    - Weyerhaeuser (2010 – From a C-corporation into the *Timberlands* sector)
    - American Tower (2012 – From a C-corporation into the *Infrastructure: Call Towers* sector)
    - Equinix (2015 – From a C-corporation into the *Data Centers* sector)

- REIT Spinoffs
  - Some REITs are the results of spinoffs, including Incubator REITs, from existing REITs, non-REIT C-corporations or private partnerships
    - Host Hotels & Resorts, Inc. (1998 – From Host Marriott Corporation into the *Lodging/Resorts* sector)
    - CyrusOne, Inc. (2013 – From Cincinnati Bell into the *Data Centers* sector)

- "Black Pool" REITs
  - Pebblebrook Hotel Trust (2009 – As an all cash IPO into the *Lodging/Resorts* sector)

Steps in Becoming a REIT: Organization

- Establishing a State Charter
  - A U.S. REIT must be formed in one of the 50 states or the District of Columbia as an entity taxable for federal purposes as a corporation
- The REIT must be governed by a board of directors or trustees
- The REIT's equity shares must be transferable and may be listed on a public exchange such as the New York Stock Exchange (NYSE) or the NASDAQ.
- Beginning with its <u>second</u> taxable year, a REIT must meet two ownership tests:
  - It must have at least 100 shareholders (the 100 minimum shareholder test), and
  - Five or fewer individuals cannot own more than 50 percent of the value of the REIT's stock during the last half of its taxable year (the 5/50 test)
  - To ensure compliance with these tests, most REITs include percentage ownership limitations in their organizational documents, limitations that can be waived in certain circumstances
- Because of the need to have at least 100 shareholders as well as the complexity of these and other tests, consulting with knowledgeable tax and securities law counsel during the formation process is strongly recommended

Steps in Becoming a REIT: Operations

Operations are subject to requirements of the tax code

- Annual Income Tests
  - At least 75% of annual gross income must come from real estate-related sources, including rents from real property and interest on debt obligations secured by mortgages on real property
  - An additional 20% of gross income must come from real estate-related sources or dividends and interest from non-real estate sources
  - No more than 5% of a REIT’s income may come from non-qualifying sources, such as non-customary service fees or non-real estate businesses

- Quarterly Asset Tests
  - At least 75% of assets must consist of real estate assets such as real property or loans secured by real property
  - A REIT cannot own, directly or indirectly, more than 10 percent of the voting securities of any corporation other than another REIT, a taxable REIT subsidiary (TRS) or a qualified REIT subsidiary (QRS)
  - A REIT cannot own stock in a corporation (other than another REIT, TRS or QRS) in which the value of the stock comprises more than 5% of the REIT’s assets
  - The value of the stock of all of a REIT’s TRSs cannot comprises more than 20 percent of the value of the REIT’s total assets.

Steps in Becoming a REIT: Compliance & Distribution

- In order to qualify as a REIT, a company must make a REIT *election* by filing an income tax return with the Internal Revenue Service using Form 1120-REIT, which is first due in March of the year following the end of the first year (or part-year) of the company operating as a REIT
- The REIT must mail annual letters to its shareholders requesting details of beneficial ownership of shares
- In order to qualify as a REIT, the company must distribute each year at least 90 percent of its taxable income to shareholders
- To the extent that the REIT retains any taxable income, the company is required to pay tax on such income like any other corporation
- When an existing corporation elects to become a REIT, it is required to disgorge all of its accumulated earnings and profits in the form of one or more *purging* distributions. Up to 80 percent of the purging distribution may be in stock

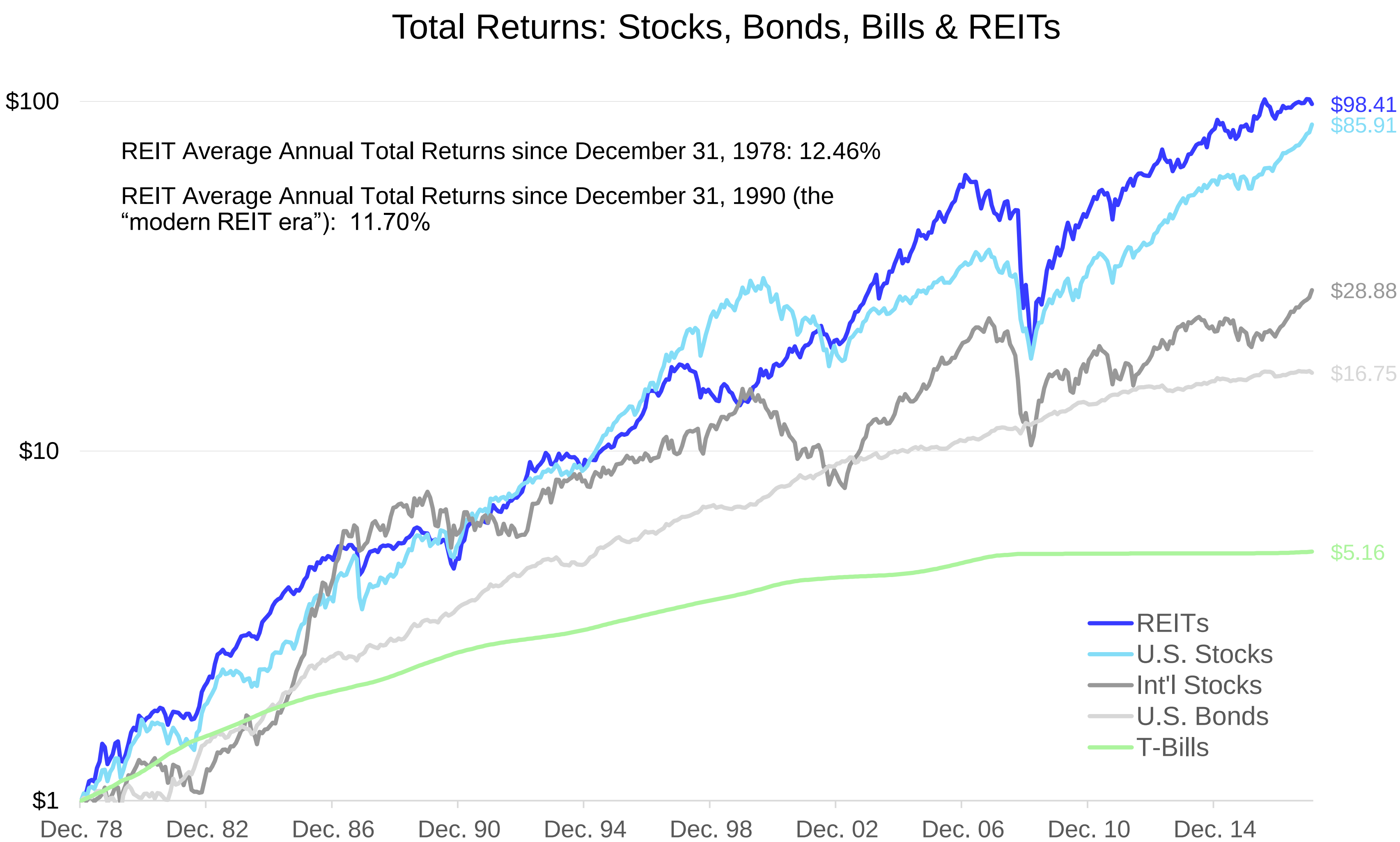
U.S. REIT Investment Performance Attributes

REIT Investment Attributes

Asset Class Access	Investing in REITs is investing in real estate
Portfolio Diversification	Low correlation with other stocks and bonds
Performance	Strong relative long-term performance in multi-asset portfolios[1]
Dividends	Reliable current income returns from rents
Inflation Hedging	Real assets and rent adjustments
Liquidity	Bought and sold like other stocks, mutual funds and ETFs
Market Access	Active/passive and domestic/global funds, direct investment/separate accounts and ETFs are available
Cost	Average institutional investment cost is around 50 basis points

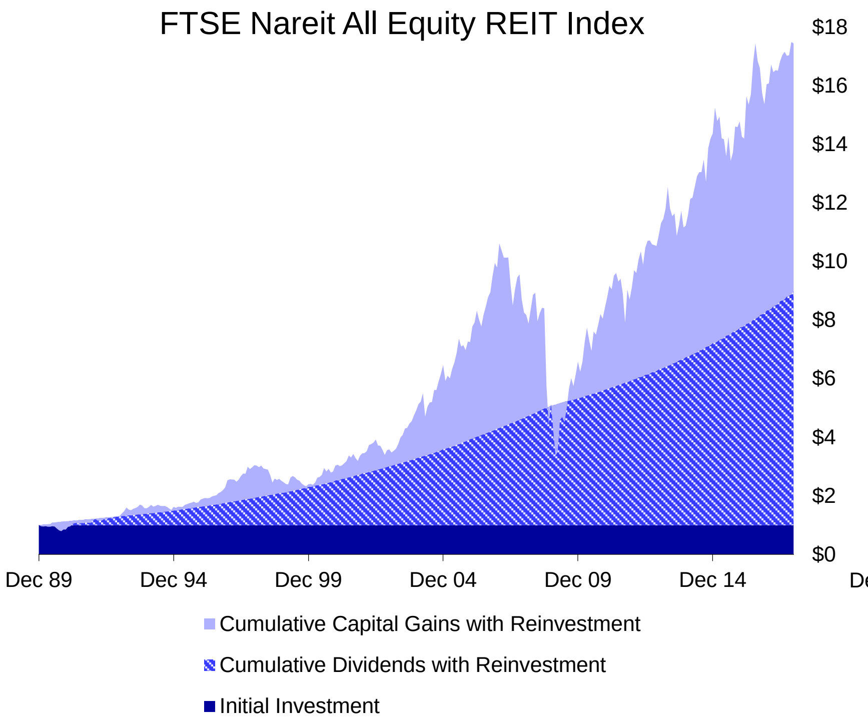
[1]CEM Benchmarking, 2017.

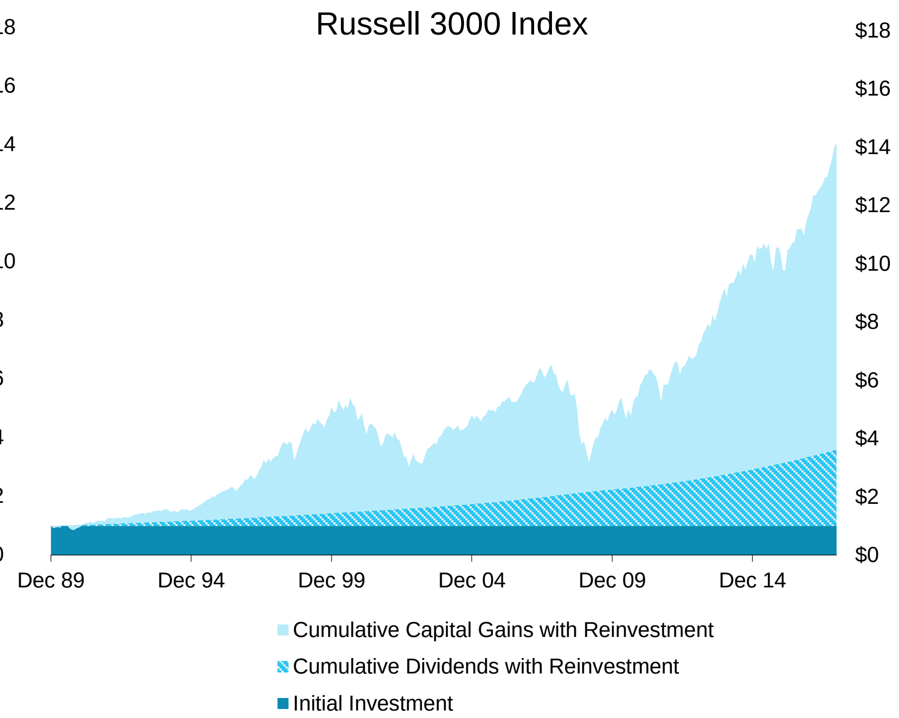
REITs have Outperformed Other Major Asset Groups



Source: Nareit® analysis of monthly total returns of the FTSE Nareit All Equity REIT Index, Russell 3000 Index, MSCI EAFE Index, Bloomberg Barclays U.S. Aggregate Bond Index, and Citigroup 1-month Treasury Bill Index, January 1978 - January 2018.

Steady Dividends are an Important Component of Total Returns





- REIT equity income returns have averaged 5% per year, or 48% of the total return
- Broad U.S. equity income returns have averaged 2% per year, or 21% of the total return
- U.S REITs paid out $54 billion of dividends in 2017

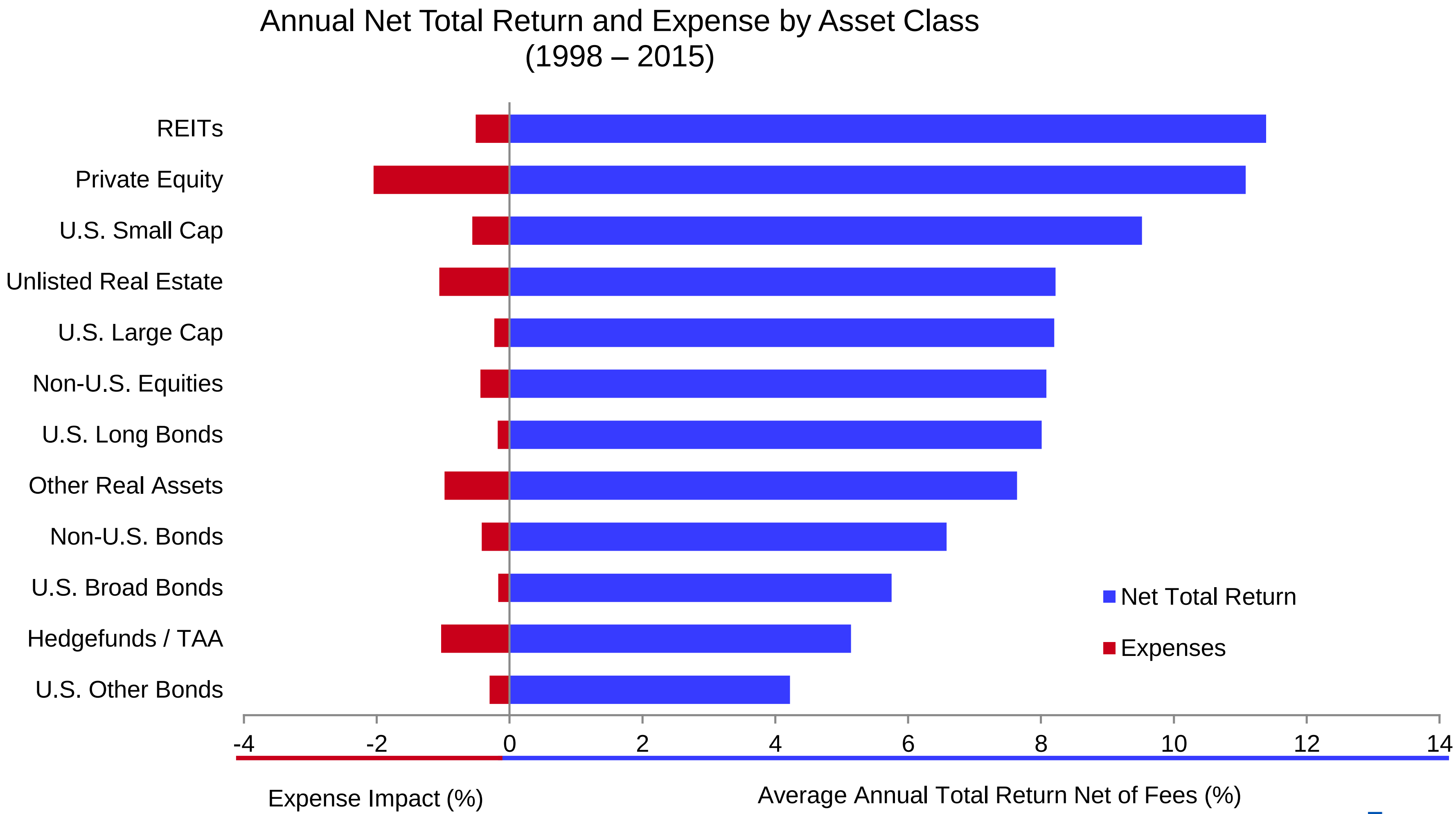
Source: Nareit® analysis of monthly total returns in USD for the FTSE Nareit All Equity REIT Index and Russell 3000 Total U.S. Stock Market Index. Monthly data as of December 2017.

REIT Total Returns by Property Sector

		1-year	3-year	5-year	10-year	15-year	20-year
Retail	Total Retail	5.9	0.4	4.2	5.7	8.1	9.8
	Regional Malls	11.0	-1.0	4.3	6.6	8.9	10.8
	Shopping Centers	-4.1	-2.3	2.5	2.5	5.7	7.7
	Free Standing	11.2	10.9	7.2	11.6	11.9	12.3
Residential	Total Residential	-0.2	7.6	11.4	10.5	11.7	11.7
	Apartments	-1.6	6.0	10.2	9.7	11.5	11.5
	Manufactured Homes	9.1	17.8	20.8	18.8	12.1	11.8
	Office	2.8	6.1	7.7	5.2	7.8	8.5
	Industrial	10.2	20.9	15.1	3.8	7.2	8.5
	Health Care	-6.5	2.7	3.4	7.5	11.3	11.3
	Self Storage	16.5	7.6	13.0	16.0	16.8	15.7
	Lodging/Resorts	16.0	7.2	9.6	9.0	7.8	4.2
	Infrastructure	11.6	16.7	16.8	N/A	N/A	N/A
	Timberlands	8.8	10.9	5.8	N/A	N/A	N/A

Source: Nareit® analysis of monthly total returns from FTSE Nareit Index Series and Russell 3000 Index as of July 2018.
Shading indicates that REIT total returns over that period exceeded those of the Russell 3000 Index.

CEM Benchmarking: REITs Outperformed Other Major Asset Classes: 1998 to 2015



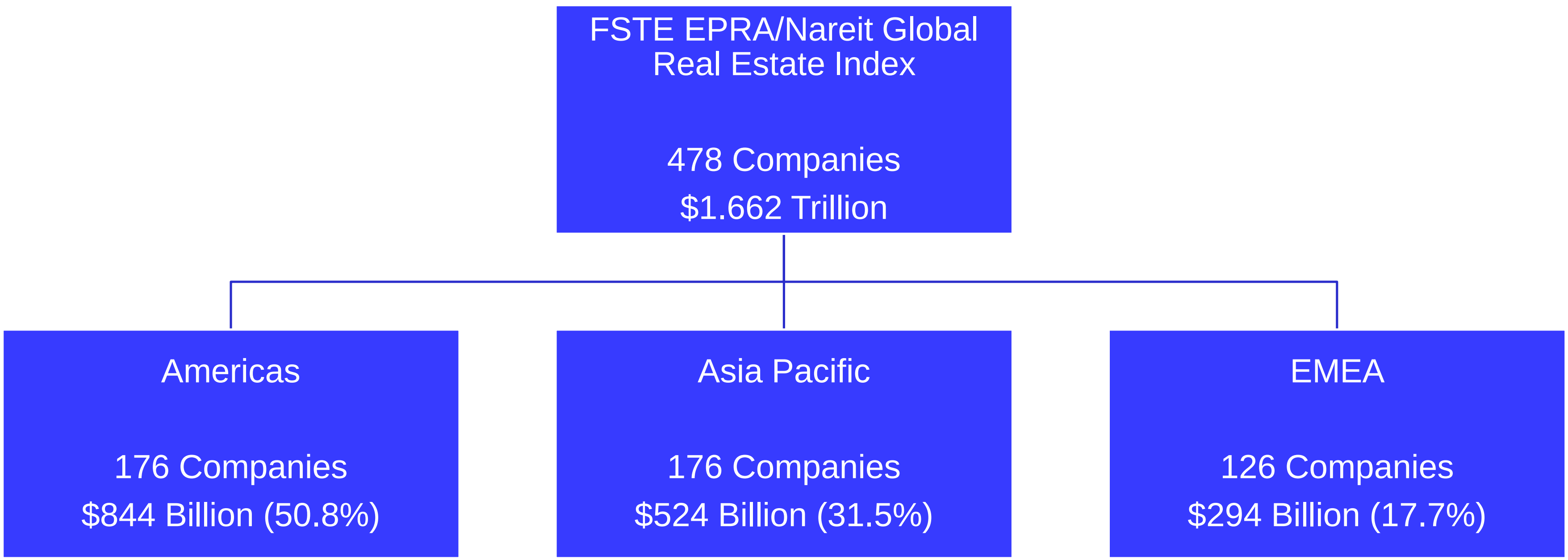
Source: CEM Benchmarking, 2017

REITs Around the World in 2018

Countries and Regions that have Adopted the REIT Approach to Real Estate Investment

FTSE EPRA/Nareit Global Real Estate Index

By float-adjusted equity market capitalization as of July 2018

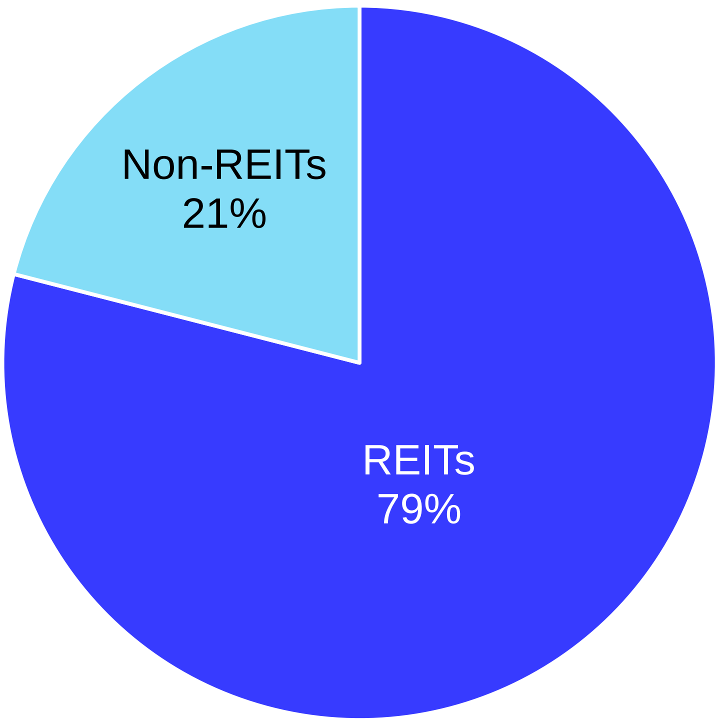


Source: FTSE EPRA/Nareit Global Real Estate Index. Data as of July 31, 2018.

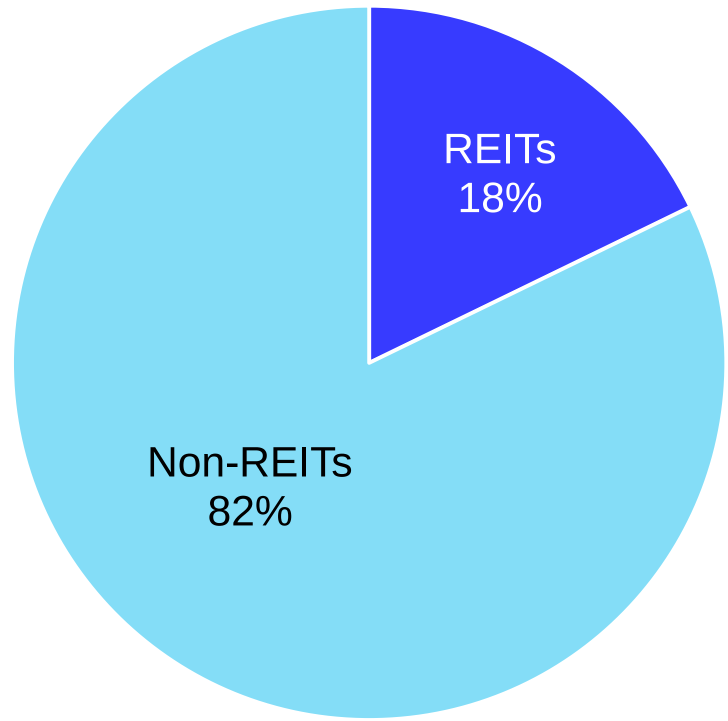
REIT Shares of Global Listed Real Estate

By float-adjusted equity market capitalization as of July 2018

Developed Markets



Developing Markets



Source: FTSE EPRA/Nareit Global Real Estate Index. Data as of July 31, 2018.

Listed REITs and Property Companies Worldwide

By full equity market capitalization

Listed REITs and Property Companies Worldwide
Top 30 Companies by Full Equity Market Capitalization
(As of July 31, 2018)

1	**American Tower Corporation**	**US**	16	Vonovia SE	DE
2	**Simon Property Group, Inc.**	**US**	17	Henderson Land Development	HK
3	**Crown Castle International**	**US**	**18**	**AvalonBay Communities, Inc.**	**US**
4	Sun Hung Kai Properties Ltd.	HK	**19**	**Equity Residential**	**US**
5	**Public Storage**	**US**	20	Mitsubishi Estate Company, Ltd.	JP
6	China Evergrande Group	CN	21	Mitsui Fudosan Co., Ltd.	JP
7	**Prologis, Inc.**	**US**	**22**	**Welltower, Inc.**	**US**
8	**Equinix, Inc.**	**US**	23	Swire Properties Limited	HK
9	China Overseas Land & Inv.	CN	24	Wharf Real Estate Investment	HK
10	Country Garden Holdings Co.	CN	**25**	**Link REIT**	**HK**
11	**Unibail-Rodamco-Westfield**	**NL**	26	SM Prime Holdings, Inc.	PH
12	CK Asset Holdings Limited	HK	**27**	**GGP, Inc.**	**US**
13	**Weyerhaeuser Company**	**US**	**28**	**Ventas, Inc.**	**US**
14	China Resources Land Ltd.	CN	**29**	**Boston Properties, Inc.**	**US**
15	**Digital Realty Trust, Inc.**	**US**	**30**	**SBA Communications Corp.**	**US**

Blue designates companies operating as REITs

Source: Nareit.

Source: Nareit®.

State-of-the-Art **REITs:** ***A Developing Global Framework***

OECD Model Tax Convention

A REIT can be described as a company having the following four fundamental attributes:

- Ownership of stock is widely held
- Assets and income are derived primarily from long-term investment in real estate
- A majority of income or profits is distributed annually to shareholders as dividends
- Shareholders, not the REIT, typically pay tax on the income distributed by the REIT, a single-level of taxation sometimes referred to as *Tax Transparency*

Source: Organisation for Economic Co-operation and Development

Real Estate Equity Securitization Alliance (REESA)

Seven real estate organizations worldwide have come together to preserve, promote and perfect the REIT model across the globe and to identify and advance common interests:

- Asia/Pacific – *Asia Pacific Real Estate Association* (APREA)
- Australia – *Property Council of Australia* (PCA)
- Canada – *REALPAC*
- Europe – *European Public Real Estate Association* (EPRA)
- Japan – *Association for Real Estate Securitization* (ARES)
- United States – *Nareit* (formerly the National Association of Real Estate Investment Trusts)
- United Kingdom – *British Property Federation* (BPF)

"State-of-the-Art" REITs

- **Legal Organization**
  - REITs are organized in alignment with laws governing corporations, trusts and mutual funds, including management by a board of directors or trustees.
  - REITs are treated as going concerns in the business of acquiring, owning, financing, developing and managing real property in the long-term interests of its shareholders.
  - *In the U.S., most REITs are organized as corporations, managed by a board of directors or trustees.*

- **Management Structure**
  - As long as the REIT is established to serve the long-term interests of its shareholders, it has the option to choose internal management or external management.
  - *In the U.S., both are permitted, although the market has expressed a clear preference for internal management to minimize conflicts of interest between owners and operators.*

- **Ownership**
  - Consistent with making real estate investment accessible to all citizens, ownership is required to be widely held, with a minimum number of shareholders and limited concentration.
  - *In the U.S., REITs must have at least 100 shareholders, and "five or fewer" shareholders may not own more than 50% of the shares. The shares of most REITs are listed and trade daily on the New York Stock Exchange.*

“State-of-the-Art” REITs

- **Debt Financing (leverage or gearing)**
  - Most countries impose no regulatory restrictions on the use of debt financing, leaving this decision for investors to decide.
  - *In the U.S., there are no restrictions on leverage or gearing; investors impose discipline by withholding access to capital when leverage is considered too high. The current average debt ratio of U.S. Equity REITs is 34 percent.*

- **Governance and Financial Reporting**
  - To promote transparency and management accountability, governance and financial reporting requirements for REITs should be aligned with the corporate law mandated for other public companies as well as the listing requirements of local stock exchanges.
  - *In the U.S., public REITs are required to register with the Securities and Exchange Commission and to operate in accordance with the governance and financial reporting rules pertaining to all other public companies using Generally Accepted Accounting Principles (GAAP).*

“State-of-the-Art” REITs

- **Eligible Investments**
  - The scope of eligible, income-producing investments should be broadly defined and flexible to accommodate a growing and evolving economy.
  - *In the U.S., at least 75% of a REIT’s total assets must consist of qualifying real estate assets, and at least 75% of a REIT’s gross income must be derived from rents from real property, interest from mortgages or gain on sales of property.*
  - *Qualifying real estate is broadly defined as “land and the permanent structures on the land.”*
  - *REITs must generally hold property for the long term.*
  - *Development activity is permitted as long as the objective is long-term ownership.*

- **Global Investments**
  - No regulatory restrictions on REIT investment in offshore properties.
  - *In the U.S., there are no restrictions on a REIT’s investment in offshore properties.*
  - *However, investors may discourage or withhold access to capital when investments are considered unduly risky.*

“State-of-the-Art” REITs

- **Distribution of Profits**
  - A REIT is required to distribute at least 90% of its taxable net income annually to its shareholders, although some countries permit distribution rates as low as 70% or 80%.
  - *In the U.S., at least 90% of a REIT’s taxable income other than capital gains must be distributed each year to shareholders.*
  - *A <u>burden</u> and a <u>benefit</u>.*

- **Taxation of Profits**
  - There should be <u>tax transparency</u>, *i.e.*, a single level of tax and preferably on the ultimate beneficiary or recipient of the profits, usually the shareholders of the REIT.
  - *In the U.S., a REIT is permitted to deduct dividends paid to shareholders from its taxable income, and the tax is paid by the shareholders.*
  - *Under certain circumstances, the ownership of real property may be transferred to a REIT without triggering a capital gains tax. One purpose of the UPREIT structure is to permit the tax free transfer of property to an operating partnership which could not be made tax free to the REIT.*

Appendix: Recent Tax Policy in the U.S.

Highlights of Tax Reform Legislation: Rates & Deductions

- The 2017 Tax Cuts and Jobs Act (TCJA) permanently reduced the corporate tax rate from 35% to 21%.

- The TCJA retains seven personal tax rate brackets in combination with tax cuts that expire on Dec. 31, 2025. The highest tax bracket is 37% (40.8% with the 3.8% Affordable Care Act surtax).

- The pass-through business income tax rate is lowered through the creation of a new deduction for individuals, estates, and trusts of 20% of their combined qualified business income amount. REIT dividends fully qualify for this deduction, meaning the maximum tax rate on REIT dividends is now 29.6%, or 33.4% including the ACA surtax.

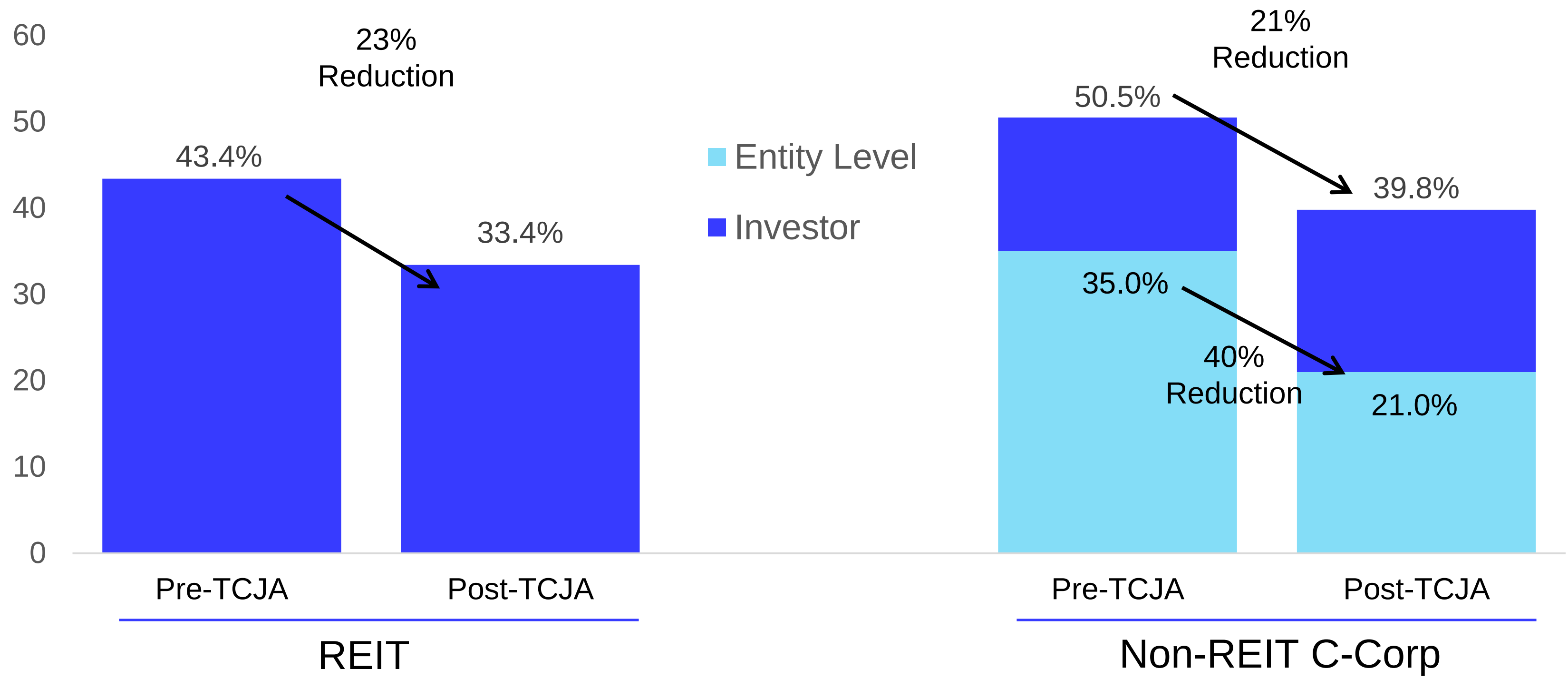
Tax Cuts and Jobs Act Improves Treatment of REIT Dividends

Pre-TCJA	Post-TCJA			
Individual Tax Rate (%)		**Deduction on Ordinary Dividends**	**Effective Tax Rate**	**Percent Reduction**
43.4	40.8	20.0	33.4	23.0
38.8	38.8	20.0	31.8	18.0
36.8	35.8	20.0	29.4	20.1
28.0	24.0	20.0	19.2	31.4
25.0	22.0	20.0	17.6	29.6
15.0	12.0	20.0	9.6	36.0
10.0	10.0	20.0	8.0	20.0

- REIT shareholders are afforded a 20% deduction on ordinary dividends from REITs.
- Ordinary REIT dividends on common and preferred shares will benefit from this tax change.
- The 3.8% ACA surtax left in place for investors with adjusted gross income over $250,000.

Source: Nareit® analysis. For simplification this analysis applies the 3.8 percent Medicare tax on net investment income to the three highest tax brackets (33%, 35% and 37%). This analysis assumes the hypothetical taxpayer remains in the same relative marginal tax bracket.

TCJA Provides Similar Percentage Reduction in Effective Tax Rate for REITs and Non-REIT C-Corps



Source: Nareit® analysis using highest individual tax rate and including the 3.8 percent Medicare tax on net investment income.

Highlights of Tax Reform Legislation
Interest Deduction

- The deductibility of business interest for every business, regardless of its form, is reduced to 30% of its adjusted taxable income, effective in 2018. Adjusted taxable income for the first four years is analogous to EBITDA, and thereafter it is keyed to the far more restrictive analogue to EBIT. However, real property trades or businesses, including real property trades or businesses conducted by widely held corporations and REITs, may elect out of this limitation so long as they use certain prescribed longer periods of cost recovery.

Highlights of Tax Reform Legislation

- ***Like-Kind Exchanges:*** The ability to defer gains under §1031 as like-kind exchanges after 2017 for all assets other than real estate is eliminated.

- ***Foreign Investment in Real Property Tax Act (FIRPTA):*** The withholding tax rate applicable to REIT capital gain distributions to non-U.S. shareholders that are attributable to the sale or exchange of U.S. real property interests is reduced from 35% to the highest corporate tax rate in effect for the taxable year (21% in 2018).

- ***Territorial System:*** The TCJA adopts a territorial system that generally does not tax income U.S. companies earned outside the U.S. However, the new law requires a U.S. company operating abroad to take into income its share of earnings that have not been subject to U.S. tax, but it allows such company to spread the tax it pays on this “deemed repatriated income” over eight years. For REITs, the TCJA excludes the deemed repatriated income from the REIT gross income tests and REITs can elect to spread the deemed income over eight years.

Nareit:
A Resource for REITs Worldwide

Nareit

Real estate working for you

- A non-profit organization funded primarily by dues-paying members
- The representative voice for REITs and listed property companies worldwide with an interest in US markets
- An objective source of information about real estate markets and investing

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- **REIT Magazine**
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- **Nareit Market Commentary Blog**
  Analysis of the macro- and micro-economic fundamentals impacting the REIT and commercial real estate industry.
- **Nareit REIT Report Podcasts**
  Interviews with REIT leaders on the trends shaping the industry.

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