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W.P. Carey (WPC)

IRC TEAM "G": March 14, 2008

Ticker: WPC
Price: \$30.86 (As of 03/14/2008)

Recommendation: HOLD
Price Target: \$32.42

Earnings/share

	Mar	Jun	Sep	Dec	P/E ratio
2006A	0.29	0.44	0.37	1.12	13.55x
2007A	0.27	1.10	0.53	0.15	15.71
2008E	0.50	0.56	0.51	0.41	16.20
2009E	0.50	0.57	0.52	0.41	16.10

Highlights:

- We are placing a HOLD recommendation on W. P. Carey LLC and believe that W. P. Carey at the current price of \$30.86 is trading at a discount of 5.06% to its intrinsic value of \$32.42. We computed our price target through combination of the DCF valuation, DDM, NAV and Relative Valuation. The Monte Carlo simulation assisted in risk sensitivity analysis and yielded a price range of \$27.9 to \$32.9.
- Forecasts of slowing growth and high unemployment rate in US during 2008-09 could lead to higher vacancy rates and prompt tenant default. The pressures in the capital markets have reduced availability of credit, combined with a deteriorating commercial real estate market which could hamper W. P. Carey's prospects.
- W. P. Carey has strong balance sheet with substantially lower debt relative to its competitors. The company's growth has been low due to the company's conservative management. Company stands to benefit from strong balance sheet by being able to raise capital for operations and investment activity. We expect negative effect on balance sheet due to increasing debt.
- Major risks involving the company surround its ability to identify, finance and close new deals as well as the company's ability to retain tenants and attract investors in CPA© funds. The past success of these operations was tied to the founder and chairman of the company, Wm. Polk Carey who founded the company in 1973. It will be hard for the company to find a worthy successor to Wm. Polk Carey.
- W. P. Carey has a stock yield of 6% which is above S&P 500 yield level but below average yield in REIT sector (8.5%). The company pays about 80% of its income in dividends



Market Profile	
52 week (High - Low)	\$36.86 - \$25.79
Beta	0.69
Avg. daily volume (k)	92.1
Shares o/s (mn)	39.3
Market Cap. (\$ mn)	\$1200
Institutional holdings	11.89%
Insider holdings	34.73%
Book value/share(\$)	\$16.17
Debt/equity	0.44
Dividend/share(\$)	\$1.88
Fiscal year end	Dec. 31
Revenue break up:-	
Investment management	65%
Real estate management	35%

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Investment Summary

We used DCF as our primary valuation model, but support its results by DDM, NAV and Relative valuation. Our DCF model assumed a growth of 2.5% - 5% for the REIT Fund Management (REITM) segment and 1.45% in Commercial Real Estate Operations (CREO). Our assumptions for the two stage DDM model include, 0% - 1% growth rate in 2008 – 2009, 1.5% between 2010 and 2012 and 2% thereafter. In addition, we performed a Monte Carlo simulation of our DCF model to better gauge downside risk in the stock price.

The company operates in two segments Commercial Real Estate Operations (CREO) and REIT Fund Management (REITM). As of FY2007 CREO accounted for 35% of revenues and REITM for 65%. For the next five years we are forecasting a 3.75% average annual decline in revenues from Commercial Real Estate Operations and 2.87% average annual increase in revenues from REIT Fund Management.

The CRE market has been adversely impacted by turbulence in the debt markets and declining property values. This is mainly due to the spillover from the ongoing residential real estate crisis in the US and the overall weakness in the global economy. We see a decrease in industry wide organic growth over the next two to five years. This difficult environment is reflected in our expectations of modest to low growth for its REIT Fund Management division over the next 2 years and a contraction of its revenue from Commercial Real Estate Operations.

W.P. Carey has had difficulty in attaining its target of \$2 billion for the new fund - Global CPA 17, raising only \$40 million over last few month. The company has announced, that it “successfully cut its marketing costs”, a measure that we see as counterproductive in the current difficult environment as it will make it even more challenging to attract subscribers to its CPA funds. At the end of FY2007 W. P. Carey managed \$8.4 billion in average invested assets invested in CPA funds.

The company has a strong balance sheet highlighted by conservative debt management. Over the last five years, the company’s average annual revenue growth rate was at 12% as compared to the competitors’ average annual growth rate of 39% for the same period. For FY2007 ROE, ROA, Leverage and Profit Margin were 12%, 7%, 1.82 and 32% respectively as compared to competitors 25%, 6%, 4.42 and 14% respectively. In FY2007 Capital Expenditures have increased by 250% to \$15.9 million largely due to capital improvements of properties.

W. P. Carey is paying around 80% on net income in dividends, and the current yield on WPC stock is over 6%. High yield might be attractive to various groups of investors who seek income and diversification into real estate investments without directly investing into REIT funds. Although W. P. Carey is not a REIT it targets the same investor groups as REIT.

W. P. Carey is a midsize player in the CRE industry where credit ratings and the availability of capital are essential for a company’s continuous operations. The company is a niche player in the CRE industry with strong expertise in triple net lease. Despite expertise in only one product the company has found a way to diversify its operating risks by adding asset management to its operations.

W. P. Carey enhanced shareholder value when it completed a corporate restructuring process late last year by setting up Carey REIT II and Carey Storage subsidiaries under the LLC. We believe this will help attract investors, who will benefit in terms of reduction of taxes (State and UBTI).

W. P. Carey has a seasoned senior management team at present, but we do not see an experienced succession team in emergence, which could be a concern for its long - term prospects. W. P. Carey’s present investment committee has an average age of above 60. The eponymous founder and chairman of the company, Wm. Polk Carey is 76 years old.

Valuation

Discounted Cash Flow Model

Cost of equity

For our calculation of cost of equity, we computed a beta of 0.69 by regressing W. P. Carey’s average 5 year monthly return against the S&P 500. Our beta computations were in range with Bloomberg and Reuters . Our assumptions include a risk free rate of 3.8% based on 10-yr Treasury note yield and a market risk premium of 5.25%. Substituting these parameters in CAPM, we arrived at a cost of equity of 7.42%.

Debt structure

Currently W. P. Carey’s debt structure consists of 48% variable rate and 52% fixed rate debt with an overall debt rate of 6.1%. As W. P. Carey does not issue unsecured bonds, we estimated W. P. Carey’s bond rating of BBB and cost of debt at 6.25% based on average peer group bonds rating from major rating agencies. Hence our estimate for cost of debt is 6.6%, considering deteriorating credit market conditions. We used a lower than present market cost of debt because there is no immediate need by the company to raise capital and we believe that current liquidity crunch will reverse in the future.

Revenue Forecasting Model

We developed two distinct models to forecast W. P. Carey revenue growth REITM and CREO forecasting models

1. Significant drivers for **REITM**: Average Invested Net Assets(AINA)
 - For the REITM segment we based our model on a linear relationship between AINA and the advisory fee W. P. Carey receives. Advisory fees are 1% of AINA. We retroactively calculate AINA for the previous periods.
 - To incorporate structuring revenue into our model we calculated a weighted average revenue ratio by taking management revenues divided by AINA for a given year and weighted this ratio based on the total value of AINA. Our assumption is that increase in AINA will have a strong positive correlation with structuring revenues.

- We forecasted AINA growth in two steps: 2.5% percent for 2008 and 2009 and 5% thereafter. We expect a period of slow growth over the next two year with better prospects after that in part due to the additional future revenues from Global CPA 17.
 - With \$8.4 billion as the starting value for AINA, we estimated AINA for next 5 years. This calculation gave us an AINA number for the end of respective periods therefore we took an average of the beginning- and the end-period AINA, since W. P. Carey calculates and gets a payment based on monthly AINA. To arrive at our final forecasted REIT management revenues, we multiplied our forecasted AINA by the revenue ratio.
2. Significant drivers for **CREO**: CPI and INSEE, default and tenant retention rates.
- W. P. Carey's lease revenues have shown little to no improvement over the past 10 years. In 2007 lease revenues were 2.5% less than they were in 1996. This revenue decrease is partially due to the fact that the company lost a number of big tenants over the last ten years i.e. Bouygues Telecom in 2005, GAP in 2003 and American West in 2007.
 - Lease revenues from most of current properties are pegged to CPI and the French construction index (INSEE). We took the weighted average of the two and arrived at a 2.7 % annual growth rate (20-year average).
 - Within the next 5 years, 56% of leases in this portfolio are up for renewal. According to lease renewals in past 5 years, we calculated the weighted average lease retention rate of 72.62%. Considering the current weaker environment our default rates are higher at 2.5% for 2008 and 2009 before treading back to 0.5%. We calculated organic growth to be 1.45%, based on IRR of real estate investment in Consolidated Systems in FY2006. To arrive at the adjusted lease revenue estimate, we utilized 2007 lease revenue figures integrated with future default rate estimates into the weighted average retention ratio, total leases maturing in any given year and growth rate. Since leases expire throughout the year, we added pro-rata lease revenue to our adjusted numbers to arrive at the total estimated lease revenue for future years.

Discounted Cash Flow Process

To obtain the free cash flow from equity (FCFE), we took Expected Net Income, subtracted out Capital expenditures and change in non-cash working capital and added back depreciation and amortization, adjusting for projected financial leverage. Cash flow obtained for future projections was discounted by a cost of equity of 7.42%, assuming a terminal growth rate of 3.25%. Revenue is main driver for capital expenditure, depreciation and working capital.

DCF calculation

	2008E	2009E	2010E	2011E	2012E	Terminal value
Expected Net income	78,611	80,209	82,194	85,329	88,301	
Depreciation and Amortization	25,679	26,201	26,850	27,874	28,845	
Capital expenditures	5,000	5,225	5,460	5,706	5,963	
Book value of debt ratio (%)	44	44	44	44	44	
Change in working capital	17,219	18,915	20,779	22,828	25,081	
Add: Depreciation*(1-Debt ratio)	14,381	14,673	15,036	15,610	16,153	
Less: Capital expenditures*(1-Debt ratio)	2,800	2,926	3,058	3,195	3,339	
Less: Change in WC*(1-Debt ratio)	9,643	10,592	11,636	12,784	14,045	
Cost of equity (%)	7.42	7.42	7.42	7.42	7.42	
PV of FCFE	74,975	70,511	66,587	63,808	60,875	950,139
Sum of PV of FCFE	1,286,905					
Shares outstanding	39,868					
DCF/share (\$/share)	32.28					

Dividend Discount Model

Based on the dividend discount model (DDM), our price target estimate is \$ 33.29. We use DDM model because of W. P. Carey's high payout ratio (80%). We performed a 2 step DDM considering the present market situation and growth opportunities in following years. We assumed a future dividend growth rate of 0% for 2008, 1% for 2009, 1.50% for 2010 – 2012 and 2% thereafter. Our calculations for cost of equity (COE) are as mentioned above. We did a sensitivity analysis for DDM model with growth rates ranging from -1% to 4% and discount rate from 6% to 8.5%, range of price range was from \$ 19.83 to \$93.84 with an average around mid \$30th. (Please see Appendix D for sensitivity analysis on our DDM)

DDM calculation

In \$	2007A	2008E	2009E	2010E	2011E	2012E	Terminal value
Dividend/share	1.88	1.88	1.899	1.927	1.956	1.986	37.35
Growth rate (%)	3.19	0.00	1.00	1.50	1.50	1.50	2.00
Discount rate (%)	7.425	7.425	7.425	7.425	7.425	7.425	7.425
PV of dividend/share		1.75	1.768	1.794	1.821	1.848	24.306
Price/share (\$)	33.29						

Relative Valuation

We arrived at a 12 month price target of \$ 32.30 using an average of Price/Earnings, Price/Book value, EV/EBITDA, EV/revenue and FFO/share multiples based on the latest SEC filings. To look at W. P. Carey's competitors, we constructed two different competitor portfolios since W. P. Carey has two distinct segments. We compared Carey REIT II with REIT industry and REITM with Commercial Real Estate Management (CREM) companies. For CREM the average market value is \$2.5 billion, P/E: 11.19, P/B: 3.63, EV/EBITDA: 6.91 and EV/Revenue: 1.02 while for REIT the ratios are P/E: 17.03, P/B: 1.79, EV/EBITDA: 12.77, EV/Revenue: 10.95 and FFO/share: 2.56

W. P. Carey is currently trading at a sector mean P/E and P/B levels, while EV/EBITDA and EV/Revenue are at discount levels with respect to its REIT Operation's competitors and at a premium with its CREM management competitors. Overall, W. P. Carey is trading at a P/E multiple of 14.42, as compared to the combined peer group average of 16.80. Going forward, we expect W. P. Carey to trade at P/E of 16.20, due to lower forecasted growth rate in FY 2008 as compared to FY 2007.

Company	Ticker	Market value (In millions)	P/E (ttm)	P/B (mrq)	EV/EBITDA (ttm)	EV/Revenue (ttm)	FFO/share (ttm)
(REITs)							
Lexington Realty Trust	LXP	980.7	12.42	1.33	13.28	10.81	1.28
Realty Income	O	2500	23.31	2.09	14.32	15.50	1.74
Brandywine Realty Trust	BDN	1700	26.20	0.96	9.86	7.60	2.56
Prologis Trust	PLD	13600	12.86	2.20	14.04	6.53	4.06
iStar Financial	SFI	3600	10.02	1.15	14.95	10.07	3.74
Getty Realty Corp.	GTY	680	17.41	3.03	10.17	15.20	1.98
Mean			17.03	1.79	12.77	10.95	2.56
Median			15.13	1.71	13.66	10.44	2.27
(CREM)							
Jones Long La sale	JLL	3000	9.51	2.53	5.74	0.90	-
C B Richard Ellis	CBG	4500	11.73	4.52	8.08	1.15	-
Gyrodyne	GYRO	63.19	12.34	3.84	-ve	-	-
Mean			11.19	3.63	6.91	1.02	
Median			11.73	3.84	7.04	1.05	
W.P. Carey (ttm)	WPC	1,310	14.42	2.14	9.47	6.34	2.63
W.P.Carey (2008E)	WPC	1,310	15.60	2.30	10.4	8.1	2.13

Price target (\$) **\$ 32.30**

NAV Valuation Model

We arrived at a 12 month target price of \$31.82 using NAV model. Although W. P. Carey is not a REIT as legally defined, the company at its core operates like one, therefore we used the NAV model. We calculated Net Assets by subtracting total liabilities from gross market value of assets ((operating income / industry average cap rate) + other assets)). Then in order to adjust for historical discount inherent in the model we calculated a historical error for the past ten year resulting in a weighted average error of -5.25% per year between NAV model and Actual Stock Price. We used this rate to adjust our 2008 target price (Please see Appendix E)

Price target (\$) **\$ 31.82**

Monte Carlo Simulation

Due to the high uncertainty for the company, internally and externally, we supplement our Discounted Cash Flow with a Monte Carlo simulation. We have identified the following discrete random variables and highlighted some of their extreme possible outcomes:

- Revenue drivers (the most likely value is always the value mentioned in our DCF forecast model)
 - AINA increase:** The number of subscribers to Global CPA 17 is – as of December 2007- below the expected target of \$2 billion. Over the next two years we take into account tightening credit, recent increased volatility in the CRE market (as reflected by the TED spread and CMBX index), and the fact that W. P. Carey has announced plans to substantially decrease its marketing costs. We therefore assigned 0% growth as our pessimistic value over the next two years.
 - CPI and INSEE:** We take into consideration potentially high inflation - with 5% as our optimistic outcome over the next two years.

- **Default and retention rate:** Due to a possible upcoming recession, and the company's high exposure to the consumer and retail sector, we see a default rate of 10% as the pessimistic outcome.
2. Risk factors
- **Departure of Wm. Polk Carey:** The departure of the founder and chairman of the company is a major risk to the company's operations. We expect a temporary, but sharp decline in stock price. We based the probability of this scenario on attained age mortality tables, and discounted stock price by 10% in the case of occurrence.

Based on these stated assumption we arrive at the following conclusion:

- Our simulation computed an expected value for the stock price of $\mu = \$32.10$ and a standard deviation of $\sigma = \$1.06$
- According to the resulting distribution, 89% of all prices are $> \$32.24$ and only 3% of all prices are $< \$28.6$
- About 95% of all results were between $\$31.04$ and $\$33.17$
- No price is below $\$27.9$ and no price above $\$32.90$
- Monte Carlo Simulation was skewed increasing the probability of substantial decrease in the stock price.

(Please see Appendix G for details)

Business Description

Founded in 1973 by Wm. Polk Carey, W. P. Carey & Co. LLC operates in two business segments: Commercial Real Estate Operations (CREO) and REIT Fund Management (REITM). The first real estate fund was launched by the company in 1979 and as of December 2007 the company owns and manages over 850 commercial properties in North America and Europe. W. P. Carey, through its business segments, provides liquidity to corporate entities for leverage reduction, buyouts, mergers and acquisitions, and restructuring.

W. P. Carey's commercial real estate operations are predominantly conducted through their wholly owned subsidiaries: Carey REIT II and Carey Storage Funds. They exclusively engage in long – term Triple Net Lease contracts primarily with single tenant properties in non - prime locations, designating the maintenance, insurance and tax costs of the property to the lessee. The business driver for corporate real estate operations is management's ability to research, finance and close deals, and equally importantly the ability to retain current tenants; this factor is directly impacted by a number of external forces, such as: inflation (CPI), industry default and vacancy rates, liquidity in the market, and employment. Lease revenues from Real Estate Operations accounted for approximately 35% of total revenues as of FY 2007 down from 45% as of FY 2006. The company owned 176 properties in the US and France, totaling 17 million square feet with an occupancy level of 97%. In 2007 CREO earned 91% of its revenues in US and 9% in France. In the U.S. the majority of revenues came from the South, in particular Texas. The dominant tenant industries in the commercial real estate portfolio are consumer goods (25%) and retail (16%) (Appendix C).

W. P. Carey, under its REIT Fund Management business segment provides a full spectrum of management services to four private CPA REIT funds: CPA14, CPA 15, Global CPA 16, and Global CPA 17. The business drivers for management services are the ability of the management to attract and retain investors in CPA funds, prudent investment activity on behalf of CPA funds and subsequent growth in AINA under management. W. P. Carey and its officers are the majority investors in CPA funds. As of December 31, 2007 W. P. Carey had over \$8.4 billion in AINA under management up from \$7.4 billion in 2006. There are two income streams from managing CPA funds: 1) **Advisory Fees** which are based on AINA under management and 2) **Structuring Revenue** earned from investment activities handled on behalf of the CPA Funds. Management revenue accounted for 65% in FY 2007 as compared to 55% in FY 2006. In the past CPA 1 – CPA 12 & CIP have generated an annualized return of over 11% till their liquidation. (More on WP Carey's business structure can be found in Appendix B)

Corporate Restructuring

Corporate restructuring lead to the reduction in state and UBTI taxes for investors and can be a catalyst to attract new investors.

W. P. Carey manages a real estate portfolio, which maintains a high payout ratio. However, it is currently registered as a Limited liability company (LLC) based on the size of its CPA management business. Since it's a C- Corp, the income is taxed twice – once at the company level and then at the investor level, vs. other REITS which are set up as limited partnerships and taxation is only at the investor level. Due to this double-taxation W. P. Carey was not considered an attractive investment. To attract investors, management organized a restructuring plan in 2007. The restructuring process involved the creation of a REIT fund (Carey REIT II) which holds W. P. Carey's real estate assets. W. P. Carey has announced the successful completion of corporate restructuring resulting in an elimination of all state or UBTI filings and taxes for investors. We expect this to be one of the catalysts for new investors to invest in W. P. Carey.

Dividend Policy

High dividend policy has resulted in lower growth for WPC as compared to its competitors, but an attraction to yield sensitive investors.

W. P. Carey pays about 80% of net income in dividends. Since W. P. Carey is not a REIT there is no legal obligation to keep dividend payout ratio this high, and if the company was a REIT they would have been obligated to pay over 90% of income in dividends. This dividend policy is reflected in the company's lower than competitors' growth rate of 12% five year average versus 39% for the competitors. We believe that it is a marketing strategy on company's behalf to competitively position itself as a REIT. This will allow company to attract investors looking for high income like baby boomers, high yield mutual funds and various endowments. The other reasons for this dividend policy is management believes that there is no attractive investment in the market and the fact that insiders own 34% of the company.

Economic Outlook

Based on the blue-chip consensus forecast for the first half of 2008 US economy is expected to contract by 1% in Q1 and 2.0% in Q2; after this recessionary period GDP will grow by 1.5% in Q3, and 3.0% in Q4. With the slowdown in US economy weaker growth is expected in the Euro zone for 2008, in range of 1.3 – 1.5%. TED spread which an indicator on perceived risk in the real estate market more then tripled during FY2007 (Appendix I).

Core inflation in the US will remain at about 2% for the year, encouraging the Central Bank to lower the Fed funds rate from 3.0 down to 2.25% over the year. Present inflation figures in Europe remain well above the target at 3.1% as of January 2008, and further concerns might force ECB to lower interest rates from 4% to 3% by year end.

Industry Overview and Competitive Positioning

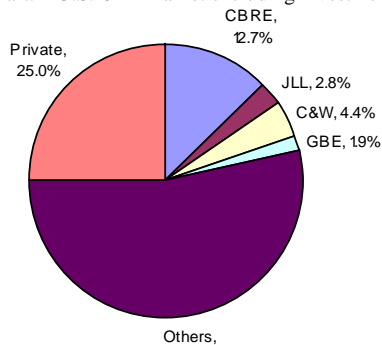
Commercial Real Estate (CRE)

The real estate sector is divided into commercial real estate (CRE) and residential real estate (RRE).The CRE industry in the US has a value of about \$4 trillion and is growing at 4.2% CAGR since 1997. Excluding global investment management and development services from US real estate market, 21.8% of the market is owned by four major competitors while 25% is privately owned (Chart 1). Growth in the real estate investment funds has been prominent in the past 5 years. Investments by institutional investors have increased at a rate of 14% CAGR since 2003 (Chart 2).

Commercial real estate (CRE) is a cyclical industry that closely follows GDP and employment numbers. Even though there is no firm de-coupling between US and emerging foreign markets, we expect CRE to grow in emerging markets within Europe and Asia. Based on world GDP estimates by IMF, the world economy is expected to grow at 4.1% with a major thrust from China, India and Brazil. Even in metropolitan cities in US and Europe (as New York, London and Paris), real estate prices have grown along with rents as opposed to contraction in other parts of these countries.

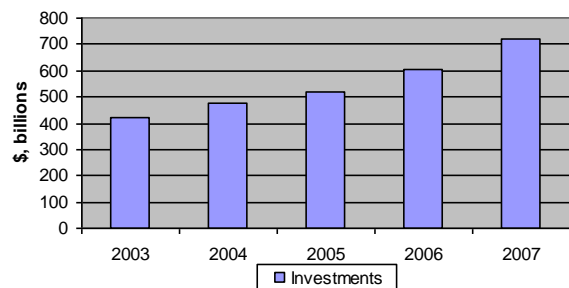
U.S. net lease market is currently estimated to be worth \$1 trillion of which 25% is privately owned. The European net lease market – with 40% company owned property- is 3 times larger than the US. New market opportunities may evolve as many countries are opening to net leasing, REITs, and relaxing regulations on foreign investments in real estate.

Chart: 1 U.S. CRE market excluding investment. Mgmt & development services



Source: C.B.Richard Ellis

Chart: 2 Institutional Investments in real estate sector

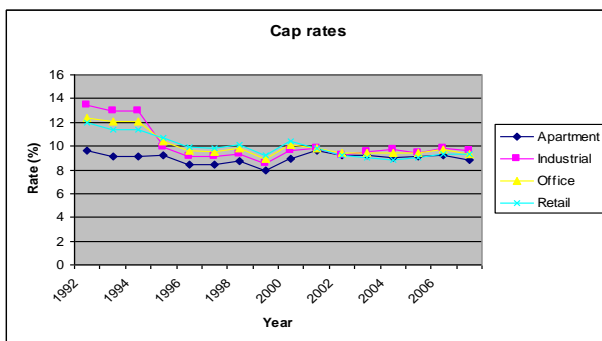


Source: IREI

Capitalization rate

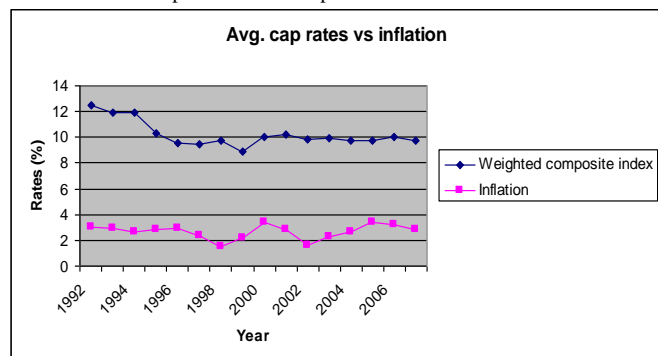
Increasing capitalization rates could have negative implications in terms of increase in default and vacancy rates and eventually might affect W. P. Carey’s projected earnings. Capitalization rate is an important industry measure in analyzing the real estate sector. Fundamental components of cap rates are: rents, 10-year Treasury, capital inflow, available supply/demand and the risk premium. Cap rates have remained consistent over the past four years in the range of 6% -7%. This is due in part to the falling treasury yields that have counteracted increases in risk premiums, keeping cap rates leveled. Over the last year, as we saw treasury and LIBOR spreads widening, average cap rates have increased to 7.5% negatively affecting real estate prices. We expect cap rates to rise further as new supply comes on line and slowing demand trends.

Chart: 3 Cap rates in past 10 years



Source: Realtyrates.com, US census bureau

Chart: 4: Spread between cap rates and inflation

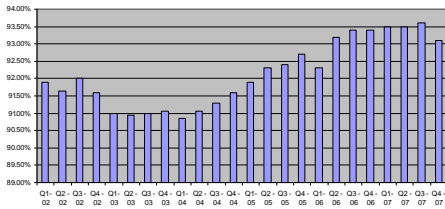


Source: Realtyrates.com, US census bureau

Vacancy rate

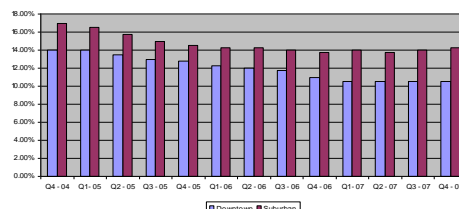
Average industry vacancy rates have increased to 11% from 8.5% over the last year. Retail and office real estate vacancy rates increased to 15% and 12.5% in 2007. Expected absorption trends for office REITs in US real estate market are at its lowest levels since 2001. Generally, rising rents support sale underwriting of CRE but the current environment does not benefit underwriting revenue for sale-leaseback companies. Due to the increase in vacancy and capitalization rates, we might observe a stronger competition in the CRE sale-leaseback sector by large banks, hedge funds and private equities in order to increase their revenues/earnings and to diversify their portfolio.

Chart: 5 REIT occupancy rate (2002 – 2007)



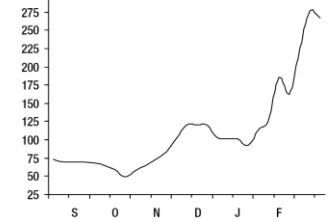
Source: Company reports and students estimates

Chart: 6 Office vacancy rates in US



Source: CBRE presentation

Chart: 7 CMBX Index



Source: Bloomberg

Commercial mortgage market in distress

The bonds backed by commercial mortgages on buildings, hotels, offices and malls are valued by CMBX index. Unlike DJIA or S&P500 index, this index tracks cost of insurance against default on different CRE bonds. A recent steep incline signals investor's expectations of higher defaults and delinquencies in this market that may lead to widening spread between 10 yr AAA mortgage bond and swaps. Since October' 07 there has been a consistent rise in the spread leading to a historical high level of 275 bps (Chart 7). The B rated bonds are trading in the range of a 30 – 37% yield, which is also at an all time high for these securities. These spreads are a notion of investor uncertainty in the commercial mortgage market and a signal of US recession led by residential real estate.

Real Estate Investment Trusts (REIT)

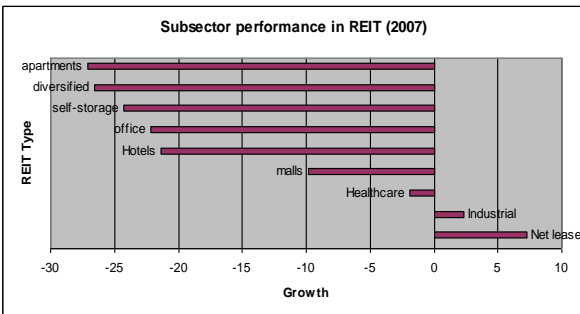
A REIT is a firm that owns, operates, finances and manages real estate. By law, a REIT has to distribute at least 90 percent of its earnings to its shareholders to receive tax exemption on its earnings. Due to this structure, most REIT firms do not pay corporate or state taxes but its shareholders are required to pay taxes on dividends and capital gains. Other provisions, to qualify as a REIT, are: a company must have at least 100 shareholders and no single shareholder can own more than 10% of the company. REITs typically invest in a single type of real estate, such as office buildings, industrial buildings, warehouses, shopping centers, malls, or apartments. Major source of income for REIT funds is real estate appreciation and increase in investment capital within the fund as they pay out most of their earnings as dividends and retain very little for future investments.

In the last 15 years, the REIT industry has performed exceptionally well with an average return of 12%, outperforming major indexes like S&P500, NASDAQ and Dow Jones Industrials by a significant margin. The REIT industry has grown to a market capitalization of \$420 billion from \$ 11 billion. Within US, there are 600 registered REIT firms with combined annual revenue of \$ 25 billion. In the past 7 years, REITs have averaged a total return of around 300%. Due to a major consolidation in the recent past, many REIT funds were acquired by private equity so in effect 500 major players have a market share of about 80%. Office and industrial properties account for 30 percent of total REIT holdings, retail properties for 25 percent; apartments for 20 percent; and hotels, hospitals, self-storage centers, and other real estate sum up to 25 %.

Positioning of REITs within economy

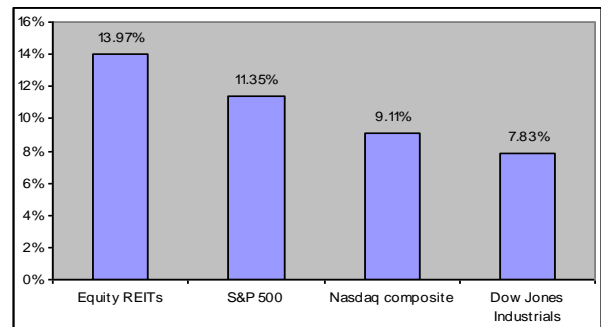
REITs are driven by the health of economic parameters such as, GDP and unemployment rate. There has been a visible correlation between these parameters and overall REIT returns. Although the cyclical decline in REITs is not as steep as in 1998 and 2001, vacancy rates in this sector have not declined as much as overall CRE market. Presently REITs are in their 12th month of declining returns and with a historical average decline of 18 months, there seems to be more time before REITs turn around in the currently restrained environment. However, the decline in this cycle is much steeper (35% from its peak) as compared to previous bear cycle averages. Based on its performance to date, many funds and financial institutions are incorporating REITs into their portfolios and have created many new funds and competition within the industry. For a large number of baby boomers these investments yield better returns as compared to treasuries.

Chart:8 REIT sub sector performance in 2007



Source: Factset, NAREIT

Chart:9 Equity REITs performance with major indices (1971 – 2006)



Source: Factset

W. P. Carey's position within the real estate industry as a whole

W.P. Carey has created an investment committee consisting of qualified and experienced professionals to monitor its investments for CPA funds. Historical performance has yielded a stable growth with comparatively low risk. W.P. Carey's delinquency and default rates (1% for CPA funds and 7% for Carey REIT II) are much lower than industry average (~10%), which solidifies a consistent long term cash stream for its shareholders. Due to their conservative investment strategy and strong management of debt, W. P. Carey has an edge over its competitors in present situation for capital raising and closing deals with better terms.

Competitive positioning

Our conclusions are based on Porter's model of competitiveness and SWOT analysis:

Qualified Investment committee

W. P. Carey has an independent investment committee consisting of qualified industry professionals and academicians. The company usually does not invest for CPA REIT funds unless approved by the committee. This risk management creates an advantage for the company because it is able to better scrutinize information, obtain an outside perspective and make profitable decisions on behalf of CPA funds.

Disadvantage of Market Consolidation

The REIT market has been driven by major M&A activities in the past 4 years. The top 500 players own more than 80% of the Global REIT market. High Insider holdings within W.P. Carey and its management philosophy makes it less attractive as a take-over target. Eventually, W. P. Carey might have a disadvantage by not being able to merge with a big player but rather compete with them.

Below Industry Average Dividend Yield

Since W. P. Carey is not a REIT but a LLC, its dividend yield of about 6% is better than many other LLC's. However, due to the nature of its business, which is based on REIT funds, it is more appropriate to compare W. P. Carey with a REIT and its yield levels are below the REIT industry average.

Better Balance Sheet and Opportunities in the Market

Due to its low debt level (44 %), W. P. Carey has an edge over its competitors in terms of capital raising and obtaining loans from financial institutions. Many companies, due to credit freezing, want to remove real estate debt from their balance sheets and get into a net-lease contracts which may create a better opportunities for W. P. Carey to acquire properties.

Firms Emerging with REIT Funds

Many investment banks and financial institutions have recently entered into the REIT business. This diversifies their portfolios and attracts new investors. These new market entrants have better resources and contacts within the industry due to their association with its parent firm. Such an environment creates a challenge for a small company like W.P. Carey.

Financial Analysis

Earnings

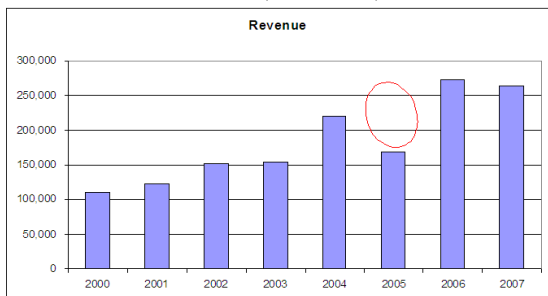
W. P. Carey's revenues have been volatile over the past few years due to mergers, liquidation and attaining hurdle rate in CPA funds injecting large amounts of structuring or termination revenue. In FY2004 and FY2006, approximately 25% of W. P. Carey's revenue was realized due to liquidation of a fund, while in FY2007 the company received about 23% of its total revenue in deferred performance payment from Global CPA 16 fund. Due to its uneven nature of revenues, FY2005 realized a revenue, earnings and ROE drop of 23%, 20% and 27% respectively, as compared to FY2004. This shows that the company has the ability to affect its revenues based on strategic management decisions. In FY2006, 23% of revenue increase was attributed to the "reimbursed costs from affiliates" which was offset by identical expense line item.

Normalizing Revenues

- We adjusted W. P. Carey financial statements for one time extra ordinary items, as described above.
- All competitor related averages and ratios are weighted by each competitor's revenues

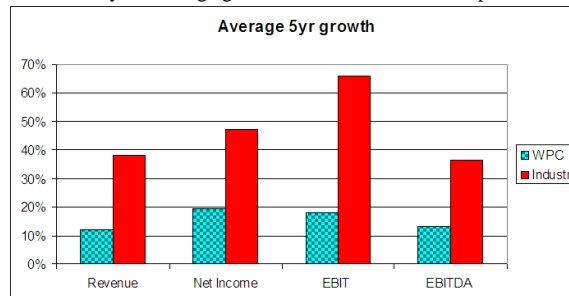
In FY2007, revenues after adjustments increased roughly by 50% while net income grew by 40%, primarily as a result of having cleared the hurdle rate on the CPA 16 fund. This resulted in deferred structuring revenue of \$42 million and performance revenue of \$19 million realized in Q2, 2007. Global CPA 16's enhanced investment performance was attributed to its increase in debt to 53% in 2007 from 42% in 2006 while ROE increased to 4.5% from 3% and ROA remained at past levels. W. P. Carey's 5 year average annual growth in revenue, net income, EBIT and EBITDA were 12%, 20%, 18%, and 13% respectively as compared to the competitor's 39%, 48%, 67% and 37% for the same benchmarks.

Chart: 10 WPC revenue trend (2000 – 2007)



Source: Company reports and student estimates

Chart: 11 5 year average growth between WPC and its peers



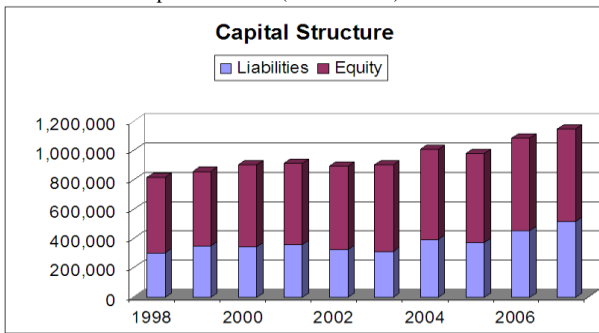
Source: Company reports and student estimates

Balance Sheet

In FY2007 company’s total assets were \$1.15 billion, an increase of 5.2% from prior year while liabilities increased by 13% to \$513 million. The company’s leverage ratio is 44.5% (up from 34% ten years ago) as compared to 70% for the competitors’. For the past ten years W. P. Carey leverage ratio has increased to 44.5% from 34%. W. P. Carey has no unsecured bonds outstanding while 60% of liabilities and 27% of assets are financed by mortgage notes payable with an average rate of 6% annually, before taxes. After considering the tax effect of 35%, interest on mortgage notes payable is almost equal to 10 year historical ROA, hence the leverage has not been very beneficial to the company. In FY 2007, W. P. Carey had an interest coverage ratio of 7, which is consistent with 5 year average interest coverage ratio but slight lower than competitor average interest coverage ratio of 8. However the company currently generates enough revenue to meet its interest payment liabilities, hence we do not foresee any possibility of imminent bankruptcy.

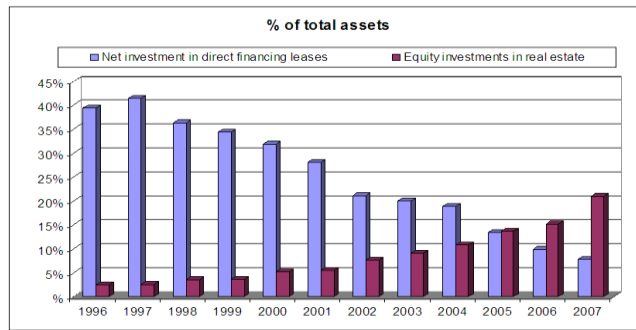
Real Estate for FY 2007 represented 45% of total net assets, which is consistent with 10 year average of 46% while Net Investments in direct financial leases decreased to 8% in FY 2007 from 41% in FY 1997 and Equity Investments in real estate increased to 21% in FY 2007 from 3% in FY 1997.

Chart: 12 WPC capital structure (1998 – 2007)



Source: Company reports and student estimates

Chart: 13 Comparison - growth of investments in financing lease and equity investments



Source: Company reports and student estimates

Cash Flow (please see Appendix F)

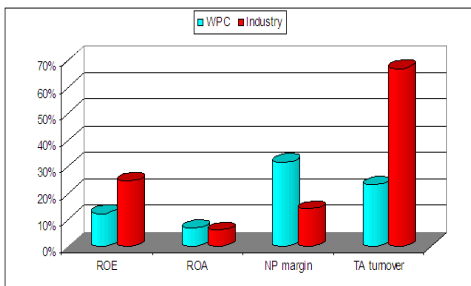
In FY2007, capital expenditure increased to \$15.9 million from \$5 million a year ago, primarily due to capital improvements to properties. In the past 10 years, average capital expenditures have been \$3 million per year, but with 56% of its lease expiring within Carey REIT II portfolio by 2012, we expect capital expenditures in range of \$ 12 – 13 million going forward with a growth rate similar to revenues. W. P Carey has been paying roughly 80% of net income in dividends and we expect future payout ratio in range of 80% although in FY2005 the company paid 136% of income in dividends and we see this as one time event.

Profitability & Valuation

Based on DuPont analysis, we calculated ROE, financial leverage, ROA, net profit margin and total asset turnover for FY 2007 of 12%, 1.82, 7%, 32% and 23% respectively versus its competitor’s values of 25%, 4.42, 6%, 14% and 68% respectively. W. P. Carey’s ROE is half of that of the competitors which is consistent with W. P. Carey’s financial leverage being less than that of its competitors. The company’s higher net profit margin and lower asset turnover ratio indicate that W. P. Carey has better pricing strategy then its competitors. ROA for the company is in line with the competitors. Overall we see that W. P. Carey operate more conservatively than but as efficiently as its competitors.

W. P. Carey’s P/E and EV/EBITDA ratio are 15 and 19 respectively which is in line with its competitor values of 13 and 11. However PEG and EV/EBITDA/G ratio of 79 and 72 are double to that of its peer group average of 38 and 33 and this deviation reflects company’s lower growth rate and more conservative capital structure.

Chart:14 DuPont analysis (WPC and peers)



Source: Company reports and student estimates

Chart:15 Ratios between WPC and peers

Valuation	WPC	Industry
P/E	15	13
EV/EBITDA	9	11
PEG	79	38
EV/EBITDA/G	72	33

due to lower growth

Source: Company reports and student estimates

Investment Risks

Commercial Real Estate market downturn, tenant defaults and increasing vacancy rates - Deteriorating economic conditions will lead to increase in defaults and delinquencies by tenants, whereby vacancy rates will be negatively affected. Since the beginning of 2008, the cost of protection against default on a basket of AAA (based on CMBX index) - rated commercial mortgage backed securities (originated 2005/06), has more than tripled indicating an increased probability of a future downturn in the commercial real estate market. W. P. Carey is heavily invested in consumer goods (25%) and retail (16%) related properties which are highly sensitive to economic and market condition in particular to GDP and employment.

Ability to renew leases – 56% of W. P. Carey contracts are maturing within the next 5 years (see table). Historically W. P. Carey had a retention rate of 70% however; lessee's ability to resign contracts is highly tied to the economic and industry conditions. Such concentrated number lease expirations might lead to fluctuations in income from real estate operations.

Lease expirations as of December 31, 2007

	2008	2009	2010	2011	2012
% of annualized consolidated investments	6%	13%	18%	12%	7%

Dependence on senior management - W. P. Carey's success largely depends on contributions from Wm. Polk Carey, founder, chairman and figurehead of the company, Francis J. Carey, chairman of executive committee and Gordon F. DuGan, CEO and President of the W.P. Carey Co. LLC, each of who would be difficult to replace in case of their departure. Such a development will pose an extreme challenge to W.P. Carey's continuous operations and CPA management.. The investment committee, a major source of expertise, has an average age of above 60 years.

Deteriorating Credit Conditions - Current tight credit conditions make it challenging and costlier to obtain financing for new projects. The TED spread which reflects credit risk in the market has widened substantially over the past year. Inability to obtain enough credit will have an adverse effect on the earnings.

Income taxes – W. P. Carey's real estate operations are run as a REIT. Should the company fail to meet certain qualifications, e.g. the distribution of 90% of its taxable real estate operations income as dividends, it will be subject to U.S. federal income tax of 35% which could severely decrease the company's future earnings, and will discourage prospective investors looking for diversification in its REITs.

Interest rate fluctuations - Interest rate fluctuations affect W. P. Carey in various aspects. A rise in interest rates is likely to adversely impact the value of the company's portfolio and will affect the creditworthiness of W. P. Carey's and its customers. However, low interest rates could lead to diminishing real estate returns, as interest rates and inflation are typically inversely correlated and rental revenue is predominantly pegged to inflation. Fixed and variable rate amortization payments increase or decrease with interest rate changes W. P. Carey's line of credit is variable and typically based on LIBOR plus a spread.

Foreign exchange rates – A weaker dollar will make W. P. Carey less competitive in international markets in terms of acquiring new property, primarily in Europe, while foreign investors will become more competitive in the US market. A weaker dollar will positively impact lease revenues from foreign investments, as a majority of the company's deals are done in local currency. W. P. Carey does not make use of derivative instruments to hedge against foreign currency exchange rate fluctuations. W. P. Carey has 9% of its portfolio invested in France.

Focus on non - prime locations – W. P. Carey emphasizes investments in secondary locations. However, secondary markets are more susceptible to deteriorating economic conditions and lag behind prime locations in times of economic improvement. Company's emphasis on non – prime locations and single tenant properties adds illiquidity to its portfolio of investments.

Legislative hindrances - New legislature or changes to existing laws might have an adverse impact on W. P. Carey. Tax legislatures like the “Job and Growth Tax Relief Reconciliation Act” of 2003 which reduced the marginal tax rate of 35% to 15% and expires on January 1, 2011; revisions to laws guarding REIT qualifications with respect to changing political agendas after the presidential elections of 2008.

Confinement to single business segment - W. P. Carey is essentially a one product company, lack of differentiation puts W. P. Carey at a disadvantage compared to more diversified competitors who might offer more in house services. An entry by a well capitalized competitor or industry consolidation might adversely impact W. P. Carey. Large money houses like Goldman Sachs and Bear Sterns can potentially enter the triple net Lease market as they look to substitute revenues lost due to sub-prime mortgages. W. P. Carey already competes with these companies since companies use triple net leases as a way to raise money, which is a substitute to issuing debt.

Income Statement

	2006	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2007	2008 Q1E	2008 Q2 E	2008 Q3 E	2008 Q4 E	2008 E	2009E	2010E
Revenues													
Asset management revenue	57,633	15,034	30,204	18,648	19,165	83,051	-----	-----	-----	-----	-----	-----	-----
Structuring revenue	22,506	4,583	53,448	9,778	10,366	78,175	-----	-----	-----	-----	-----	-----	-----
Management income from affiliates	80,139	19,617	83,652	28,426	29,531	161,226	35,719	40,975	37,272	28,712	142,678	146,245	151,752
Incentive, termination and subordinated disposition revenue from me	46,018	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Reimbursed costs from affiliates	63,630	3,475	3,244	3,422	3,641	13,782	3,250	3,250	3,250	3,250	13,000	13,000	13,000
Lease revenues	74,090	19,632	19,998	19,845	15,928	75,403	18,523	21,249	19,328	14,889	73,989	72,660	70,569
Other real estate income	9,381	3,174	3,241	4,159	2,144	12,718	2,750	2,750	2,750	2,750	11,000	11,000	11,000
Total revenues	273,258	45,898	110,135	55,852	51,244	263,129	60,242	68,224	62,600	49,601	240,667	242,905	246,321
Operating Expenses													
General and administrative	41,494	12,237	23,256	12,345	13,983	61,821	16,868	19,103	17,528	13,888	67,387	68,013	68,970
Reimbursable costs	63,630	3,475	3,244	3,422	3,641	13,782	0	0	0	0	0	0	0
Depreciation and amortization	26,048	6,944	6,950	6,246	5,403	25,543	5,904	6,686	6,135	4,861	23,585	23,805	24,139
Property expenses	7,046	1,420	1,893	2,725	207	6,245	0	0	0	0	0	0	0
Impairment charges and loan losses	1,147	-----	-----	-----	1,017	1,017	0	0	0	0	0	0	0
Other real estate expenses	5,881	2,524	1,301	2,255	1,610	7,690	0	0	0	0	0	0	0
Total operating expenses	145,246	26,600	36,644	26,993	55,840	146,077	31,326	35,476	32,552	25,793	125,147	126,311	128,087
Operating Income	128,012	19,298	73,491	28,859	117,052	117,052	28,916	32,747	30,048	23,809	115,520	116,594	118,234
Other Income and Expenses													
Other interest income	3,433	598	3,643	1,287	1,314	6,842	0	0	0	0	0	0	0
Income from equity investments in real estate	7,608	2,438	1,929	8,945	5,045	18,357	5,350	6,137	5,582	4,300	21,369	24,457	27,660
Minority interest in (income) loss	(812)	(331)	(3,141)	(555)	4,027	0	0	0	0	0	0	0	0
Gain on sale of securities, foreign currency transactions and other ga	12,943	186	169	1,029	1,730	3,114	0	0	0	0	0	0	0
Interest expense	18,139	4,863	5,669	5,618	4,730	20,880	(4,819)	(5,458)	(5,008)	(3,968)	(19,253)	(19,432)	(19,706)
	5,033	(1,972)	(3,069)	5,088	3,243	3,290	0	0	0	0	0	0	0
Income from continuing operations before income taxes	133,045	17,326	70,422	33,947	(1,353)	120,342	26,808	31,724	29,109	23,064	110,705	112,951	114,539
Provision for income taxes	(45,491)	(6,378)	(31,144)	(11,519)	(2,698)	(51,739)	(7,229)	(9,551)	(8,764)	(6,944)	(32,489)	(34,007)	(34,485)
Income from continuing operations	87,554	10,948	39,278	22,428	(4,051)	68,603	19,579	22,173	20,345	16,120	78,217	78,944	80,054
Discontinued Operations													
(Loss) income from operations of discontinued properties	(1,346)	(148)	1,790	298	934	-----	-----	-----	-----	-----	-----	-----	-----
Gain on sale of real estate, net	3,452	-----	962	-----	14,524	-----	-----	-----	-----	-----	-----	-----	-----
Impairment charges on assets held for sale	(3,357)	-----	-----	(2,317)	0	2,874	-----	-----	-----	-----	-----	-----	-----
(Loss) income from discontinued operations	(1,251)	(148)	2,752	2,019	6,026	15,486	-----	-----	-----	-----	-----	-----	-----
Net income	86,303	10,800	42,030	20,409	6,013	(2,317)	19,729	22,343	20,501	16,244	78,818	80,159	81,286
Basic Earnings (Loss) Per Share													
Income from continuing operations	2.32	0.28	1.03	0.58	(0.09)	1.80	-----	-----	-----	-----	-----	-----	-----
(Loss) income from discontinued operations	(0.03)	-----	0.07	(0.05)	0.26	0.28	-----	-----	-----	-----	-----	-----	-----
Net income	2.29	0.28	1.10	0.53	0.17	2.08	-----	-----	-----	-----	-----	-----	-----
Diluted Earnings (Loss) Per Share													
Income from continuing operations	2.25	0.27	1.03	0.58	(0.10)	1.78	-----	-----	-----	-----	-----	-----	-----
(Loss) income from discontinued operations	(0.03)	-----	0.07	(0.05)	0.25	0.27	-----	-----	-----	-----	-----	-----	-----
Net income	2.22	0.27	1.10	0.53	0.15	2.05	-----	-----	-----	-----	-----	-----	-----
Basic EPS	1.82					1.88	0.52	0.59	0.54	0.43	2.07	2.09	2.09
Diluted EPS							0.50	0.56	0.51	0.41	1.98	1.99	2.00
Distributions Declared Per Share													
Weighted Average Shares Outstanding													
Basic	37,669					38,114					38,043	38,423	38,808
Diluted	39,094					39,868					39,815	40,213	40,615
Revenue growth (%) yoy	62%	-10%	91%	6%	-54%	-4%	31%	-38%	12%	-3%	-9%	1%	1%
Operating margin (%)	47%	42%	67%	52%	228%	44%	48%	48%	48%	48%	48%	48%	48%
Net Income growth (%) yoy	78%	-2%	143%	43%	-86%	-8%	83%	-47%	0%	170%	n/a	2%	1%
EPS growth (%) yoy	78%	-2%	143%	43%	-86%	-8%	84%	-49%	-3%	172%	-3%	1%	0%

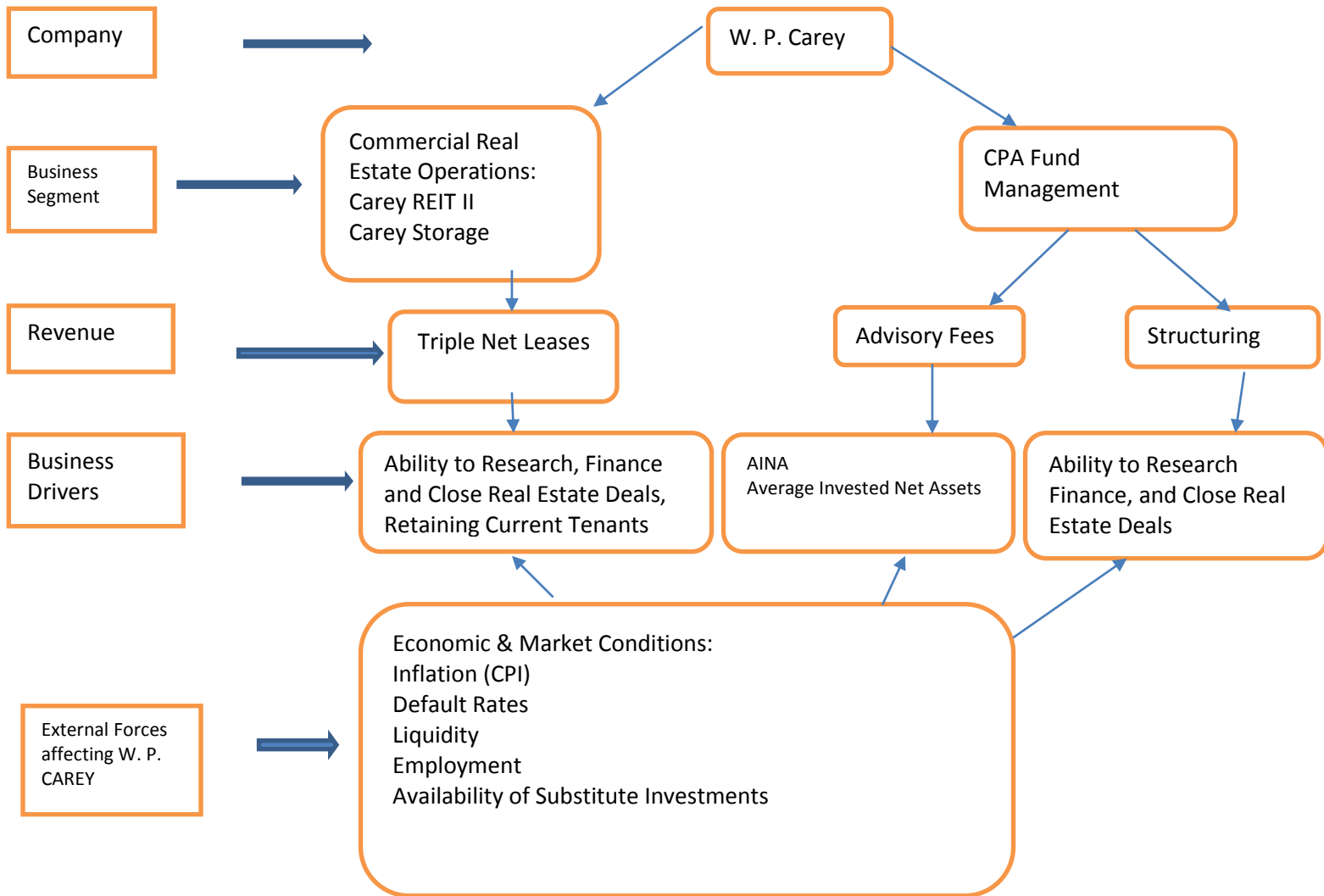
Balance Sheet

	2006	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2007	2008 Q1 E	2008 Q2 E	2008 Q3 E	2008 Q4 E	2008 E	2009 E	2010 E
Assets													
Real estate, net	540,504	534,159	531,485	524,333	513,405	513,405	533,972	527,119	523,455	517,248	517,248	543,110	570,266
Net investment in direct financing leases	108,581	108,387	107,886	107,371	89,463	89,463	162,513	160,428	159,312	157,423	157,423	165,294	173,559
Equity investments in real estate	166,147	175,390	183,226	202,458	242,677	242,677	266,986	263,560	261,727	258,624	258,624	283,362	309,927
Operating real estate, net	33,606	62,019	72,049	75,399	73,189	73,189	60,362	59,587	59,173	58,471	58,471	61,395	64,465
Assets held for sale	1,269	4,845	0	4,366	0	0	0	0	0	0	0	0	0
Cash and cash equivalents	22,108	13,300	19,050	17,068	12,137	12,137	17,412	17,189	17,069	16,867	16,867	17,710	18,596
Due from affiliates	88,884	78,648	76,877	84,671	88,329	88,329	0	0	0	0	0	0	0
Goodwill & Intangible assets, net	107,349	104,866	103,723	101,723	99,873	99,873	0	0	0	0	0	0	0
Other assets, net	24,562	25,843	29,421	32,899	34,211	34,211	32,503	32,086	31,862	31,485	31,485	33,059	34,712
Total assets	1,093,010	1,107,457	1,123,717	1,150,288	1,153,284	1,153,284	1,160,808	1,145,911	1,137,945	1,124,452	1,124,452	1,180,674	1,239,708
Liabilities													
Limited recourse mortgage notes payable	261,152	260,891	258,663	254,114	254,051	254,051	255,378	252,100	250,348	247,379	247,379	259,748	272,736
Credit facility	17,501	56,651	63,581	94,281	62,700	62,700	-----	-----	-----	-----	-----	-----	-----
Distributions(dividends) payable	17,481	-----	18,227	18,176	29,222	29,222	7,759	8,771	9,108	8,096	33,734	35,420	37,191
Deferred revenue	40,490	45,919	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Accounts payable and accrued expenses	37,621	25,701	32,549	61,539	-----	-----	-----	-----	-----	-----	-----	-----	-----
Deferred income taxes, net	63,462	45,624	64,744	71,897	65,152	65,152	-----	-----	-----	-----	43,854	46,046	48,349
Other liabilities	15,553	18,224	22,359	-----	71,819	71,819	-----	-----	-----	-----	-----	-----	-----
Total liabilities	453,260	470,726	460,123	500,007	512,923	512,923	502,113	495,669	501,211	506,003	506,003	531,304	557,869
Minority interest in consolidated entities	7,765	7,800	7,609	7,580	6,090	6,090	0	0	0	0	0	0	0
Members' Equity													
Common shares	745,969	748,379	751,508	734,518	748,584	748,584	766,133	756,301	751,044	742,138	742,138	779,245	818,207
Distributions in excess of accumulated earnings	(114,008)	(119,873)	(96,072)	(93,842)	(117,051)	(117,051)	(120,666)	(119,117)	(118,289)	(116,887)	(116,887)	(122,731)	(128,868)
Accumulated other comprehensive income (loss)	24	425	549	2,025	2,738	2,738	0	0	0	0	0	0	0
Total members' equity	631,985	628,931	655,985	642,701	634,271	634,271	658,695	650,242	636,734	618,449	618,449	649,371	681,840

Cash Flow Statement

	2006	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2007	2008 Q1 E	2008 Q2 E	2008 Q3 E	2008 Q4 E	2008 E	2009E	2010E
Cash Flows from Operating Activities													
Net income	86,303	10,800	52,830	73,239	79,252	79,252	19,729	22,343	20,501	16,244	78,818	80,159	81,286
Depreciation and amortization	27,207	7,308	14,509	21,140	27,321	27,321	5,904	6,686	6,135	4,861	23,585	23,805	24,139
Management income received in shares of affiliates	(31,020)	(8,467)	(31,728)	(43,415)	(55,535)	(55,535)					3,610	3,644	3,695
Increase in structuring revenue receivable	(3,459)	(158)	(44,956)	(50,253)	(55,897)	(55,897)	0	0	0	0	0	6,000	10,000
Net change in other operating assets and liabilities	8,684	(7,744)	(2,249)	(1,016)	4,111	4,111	-----	-----	-----	-----	-----	-----	-----
Net cash provided by operating activities	119,940	(279)	11,648	24,893	47,471	47,471					73,089	76,744	80,581
Cash Flows from Investing Activities													
Purchases of real estate and equity investments in real state	(102,049)	(27,710)	(40,381)	(40,845)	(80,491)	(80,491)					(60,167)	(68,014)	(73,896)
Capital expenditures	(4,937)	(3,881)	(7,361)	(11,768)	(15,987)	(15,987)	(3,375)	(7,650)	(10,350)	(15,000)	(12,000)	(12,360)	(12,731)
Net cash (used in) provided by investing activities	(44,561)	(30,569)	(23,876)	(26,080)	(41,048)	(41,048)					(33,734)	29,517	(37,191)
Cash Flows from Financing Activities													
Distributions (dividends) paid	(68,615)	(17,484)	(35,202)	(53,432)	(71,608)	(71,608)	7,759	8,771	9,108	8,096	33,734	35,420	37,191
Distributions of minority interests	(6,226)	(577)	(942)	(1,295)	(8,168)	(8,168)	-----	-----	-----	-----	(9,627)	(9,716)	(9,853)
Net cash used in financing activities	(66,618)	22,004	9,096	(4,144)	(16,537)	(16,537)					(89,956)	(94,454)	(99,177)
Effect of exchange rate changes on cash	333	36	74	291	143	143	-----	-----	-----	-----	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	9,094	(8,808)	(3,058)	(5,040)	(9,971)	(9,971)	5,275	(223)	(119)	(202)	4,730	843	886
Cash and cash equivalents, beginning of year	13,014	22,108	22,108	22,108	22,108	22,108	12,137	17,412	17,189	17,069	12,137	16,867	17,710
Cash and cash equivalents, end of year	22,108	13,300	19,050	17,068	12,137	12,137	17,412	17,189	17,069	16,867	16,867	17,710	18,596

Appendix B Business Model

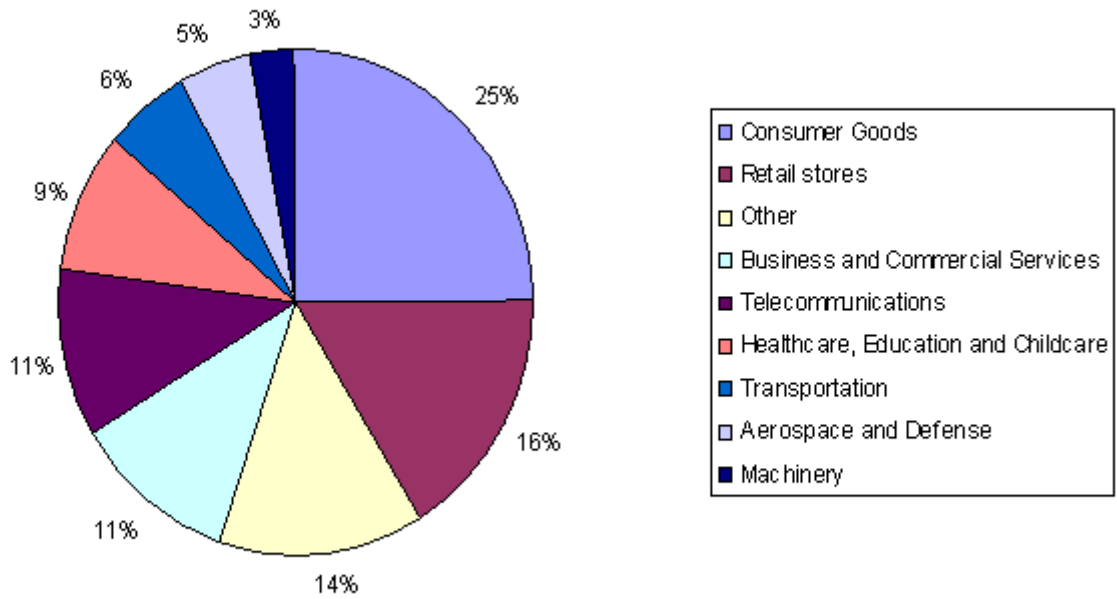


Note: We view vacancy rates as a function of Default Rates, Employment and Liquidity.

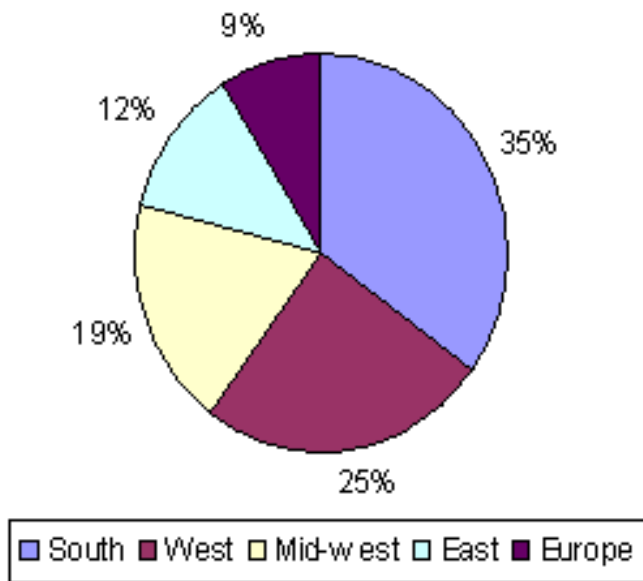
Apendix C

Portfolio Mix (A) and US Geographic Diversification (B)

A



B



Appendix D

DDM Sensitivity Analysis

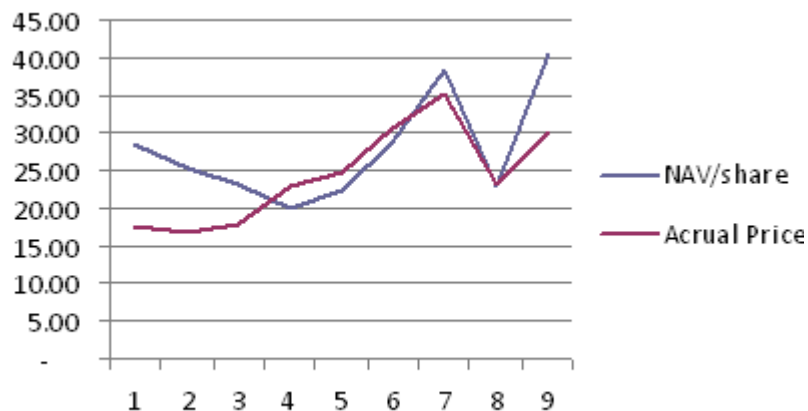
Sensitivity Analysis

	Discount rate					
	6	6.5	7	7.5	8	8.5
Growth rate						
-1	26.43	24.74	23.27	21.98	20.84	19.83
0	30.96	28.65	26.68	24.99	23.51	22.22
0.5	33.83	31.09	28.78	26.81	25.11	23.64
1	37.27	33.96	31.22	28.9	26.93	25.24
1.25	39.27	35.6	32.59	30.08	27.95	26.12
1.75	43.95	39.4	35.74	32.72	30.21	28.07
2	46.73	41.61	37.54	34.23	31.48	29.16
2.25	49.87	44.09	39.54	35.87	32.86	30.34
2.75	57.61	50.01	44.22	39.67	36	32.99
3	62.45	53.61	47	41.89	37.81	34.49
3.5	75.01	62.59	53.75	47.14	42.02	37.95
4	93.84	75.15	62.73	53.89	47.28	42.16

Appendix E

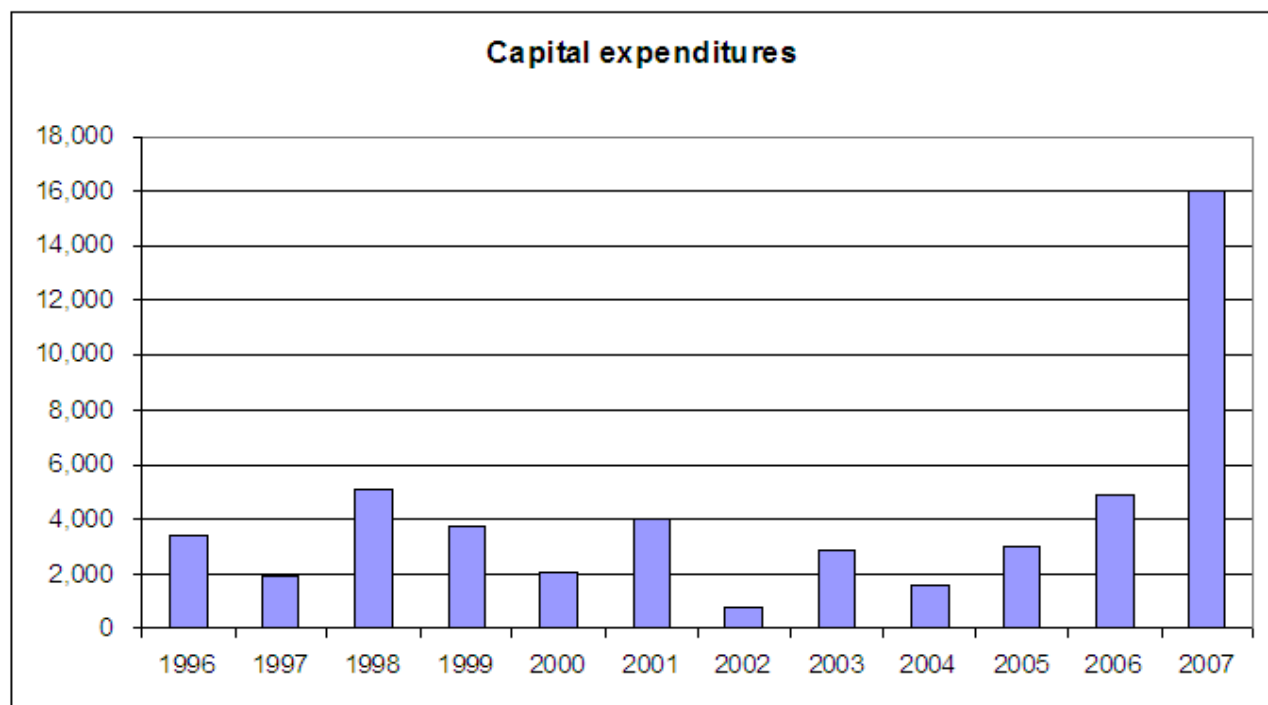
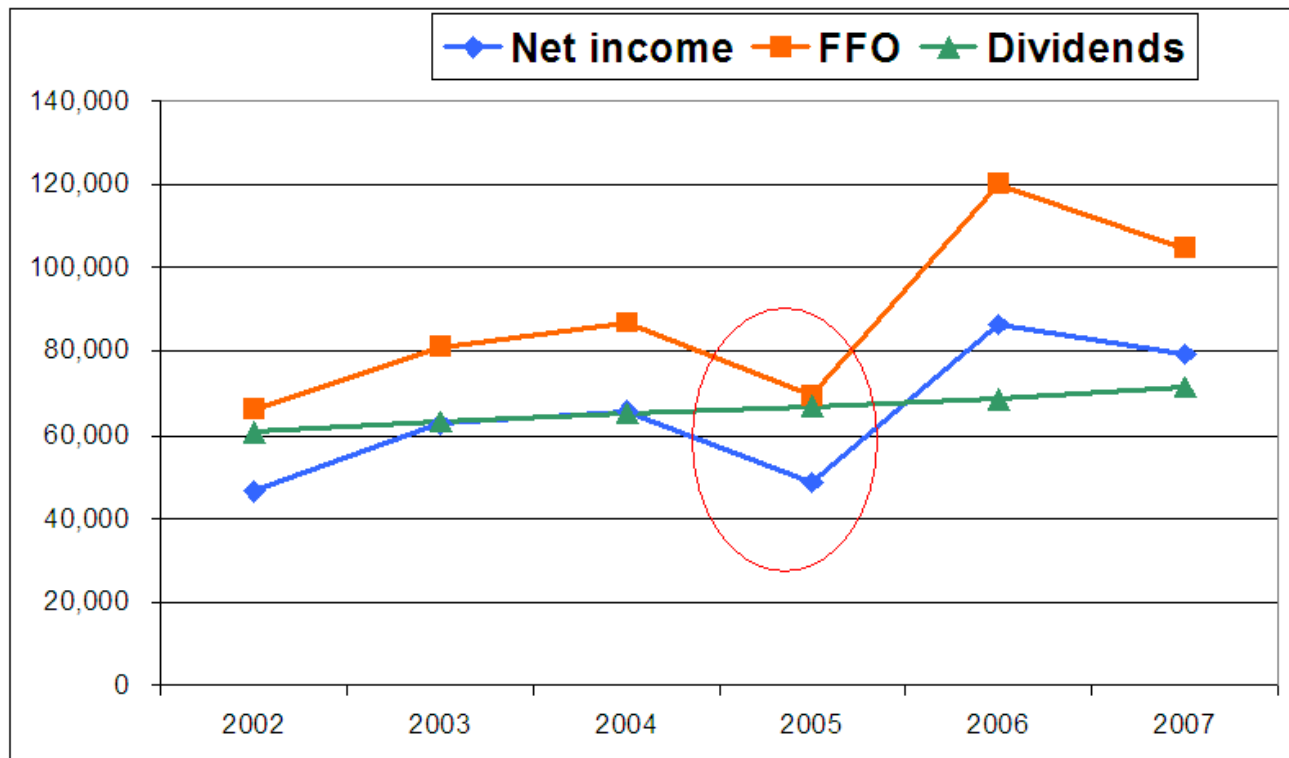
NAV Model Valuation

NAV calculations	1998A	1999A	2000A	2001A	2002A	2003A	2004A	2005A	2006A	2007A	2008E
Cash net operating income	72,445.00	69,792.00	76,886.00	77,931.00	83,482.00	101,751.00	144,078.00	94,640.00	154,060.00	142,595.00	139,105.41
Cap rate (Industry avg. of 7.75%)	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08
Market value of property	934,774.19	900,541.94	992,077.42	1,005,561.29	1,077,187.10	1,312,916.13	1,859,070.97	1,221,161.29	1,987,870.97	1,839,935.48	1,794,908.55
Add: different assets	77,739.00	93,271.00	43,933.00	39,089.00	42,991.00	57,728.00	36,630.00	48,322.00	46,670.00	46,348.00	48,351.43
Gross market value of assets	1,012,513.19	993,812.94	1,036,010.42	1,044,650.29	1,120,178.10	1,370,644.13	1,895,700.97	1,269,483.29	2,034,540.97	1,886,283.48	1,843,259.98
Total liabilities	302,657.00	346,795.00	341,367.00	355,424.00	321,152.00	309,866.00	391,481.00	372,105.00	453,260.00	512,923.00	506,003.36
Preferred stock	-	-	-	-	-	-	-	-	-	-	-
Net market value of assets ('000)	709,856.19	647,017.94	694,643.42	689,226.29	799,026.10	1,060,778.13	1,504,219.97	897,378.29	1,581,280.97	1,373,360.48	1,337,256.62
Total shares outstanding (diluted)	24,866,225.00	25,596,793.00	29,652,698.00	34,465,217.00	35,530,334.00	36,566,338.00	38,961,748.00	39,020,801.00	39,093,897.00	39,868,208.00	39,814,755.08
NAV/share	28.55	25.28	23.43	20.00	22.49	29.01	38.61	23.00	40.45	34.45	33.59
Acruial Price	17.84	16.88	18.10	23.20	24.75	30.52	35.16	23.36	29.99	33.20	
Error	(10.71)	(8.40)	(5.33)	3.20	2.26	1.51	(3.45)	0.36	(10.46)	(1.25)	
% of Target	(0.6002)	(0.4975)	(0.2943)	0.1380	0.0914	0.0495	(0.0981)	0.0155	(0.3487)	(0.0376)	
Weighted Average % of Target	(0.1993)	(0.1295)	(0.0486)	(0.0137)	(0.0064)	(0.0023)	(0.0105)	(0.0002)	(0.1131)	(0.0015)	
Correl NAV/Share to Actual Price	0.707857448										
Average Error %	(0.0525)	= on average acruial price over the past 9 years carries 5.25% discount to NAV model									
NAV MODEL 2008E PRICE TARGET	\$ 31.82										



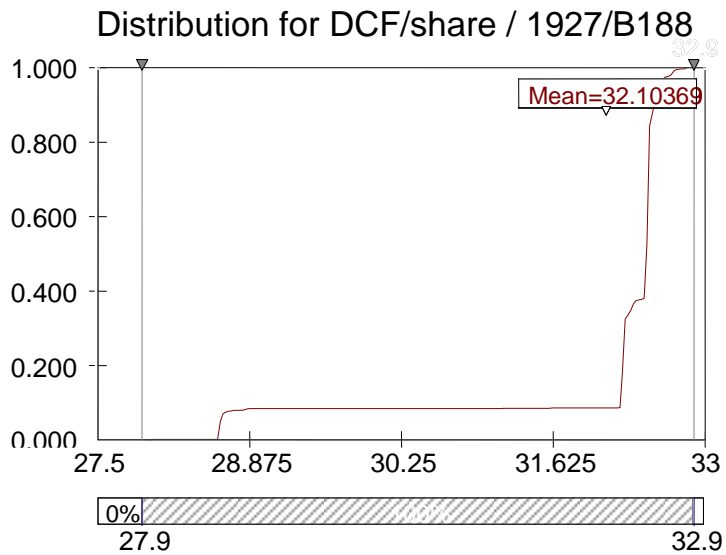
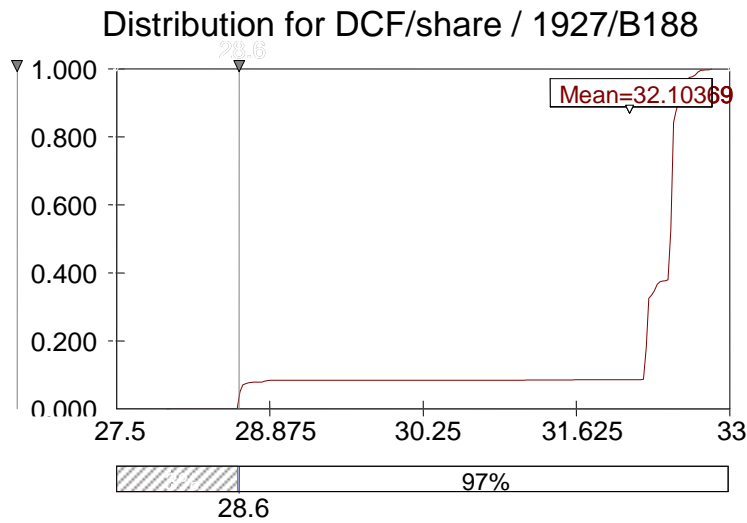
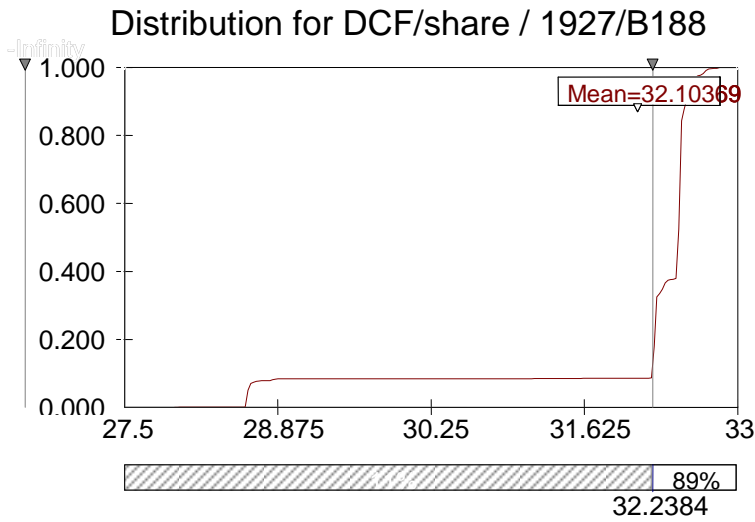
Appendix F

Dividends vs Cash Flow vs Net Income

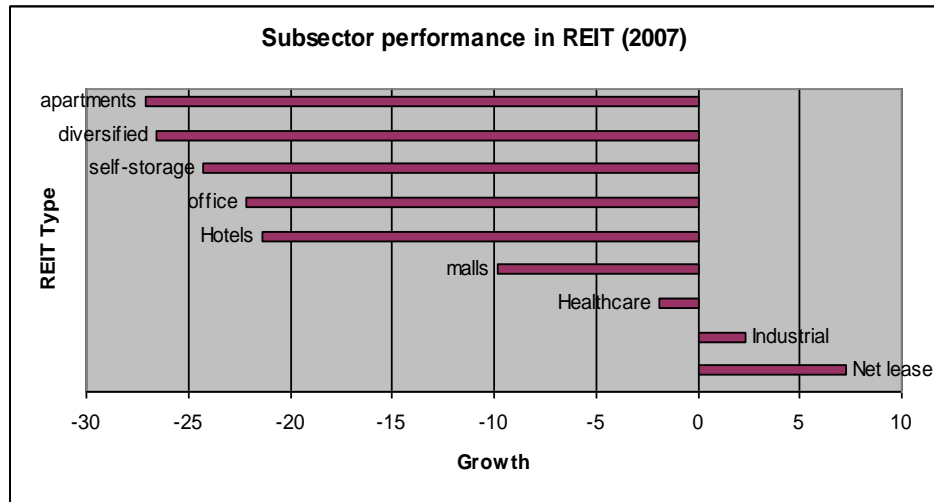


Appendix G

Monte Carlo Simulation



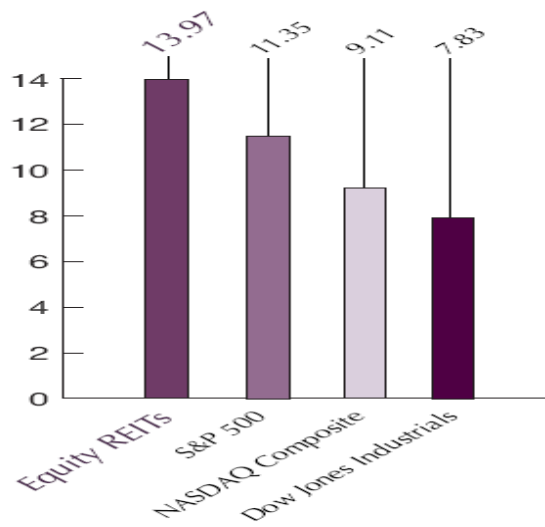
Appendix H REIT Performance



Source: Factset, NAREIT

REITs Outperform Leading U.S. Benchmarks

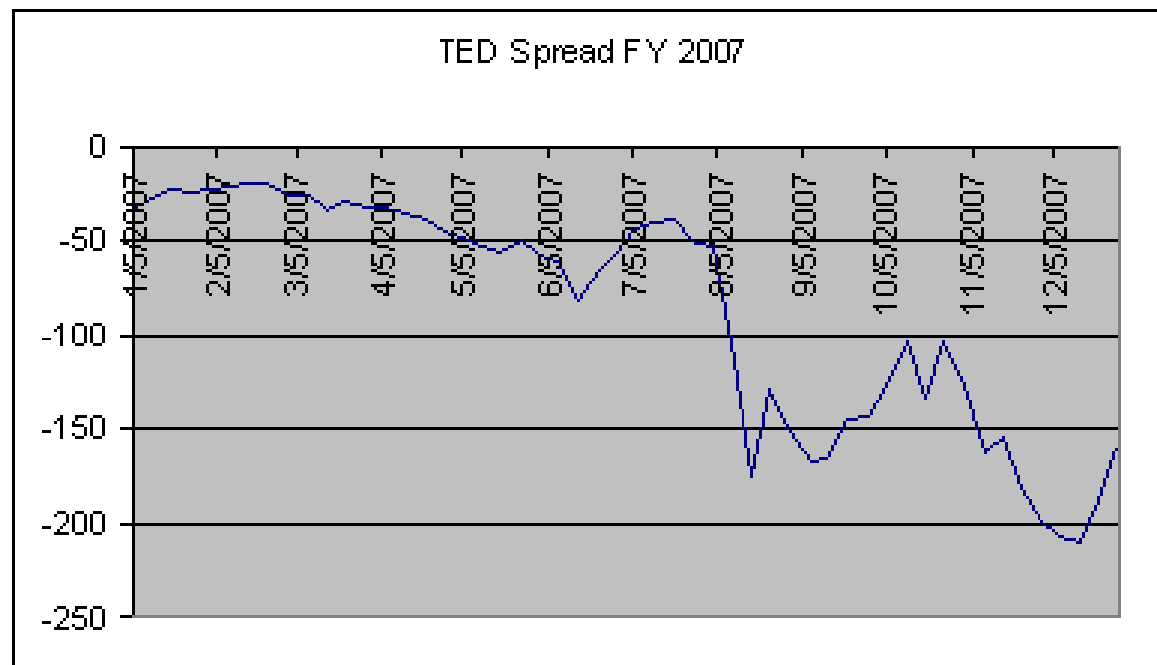
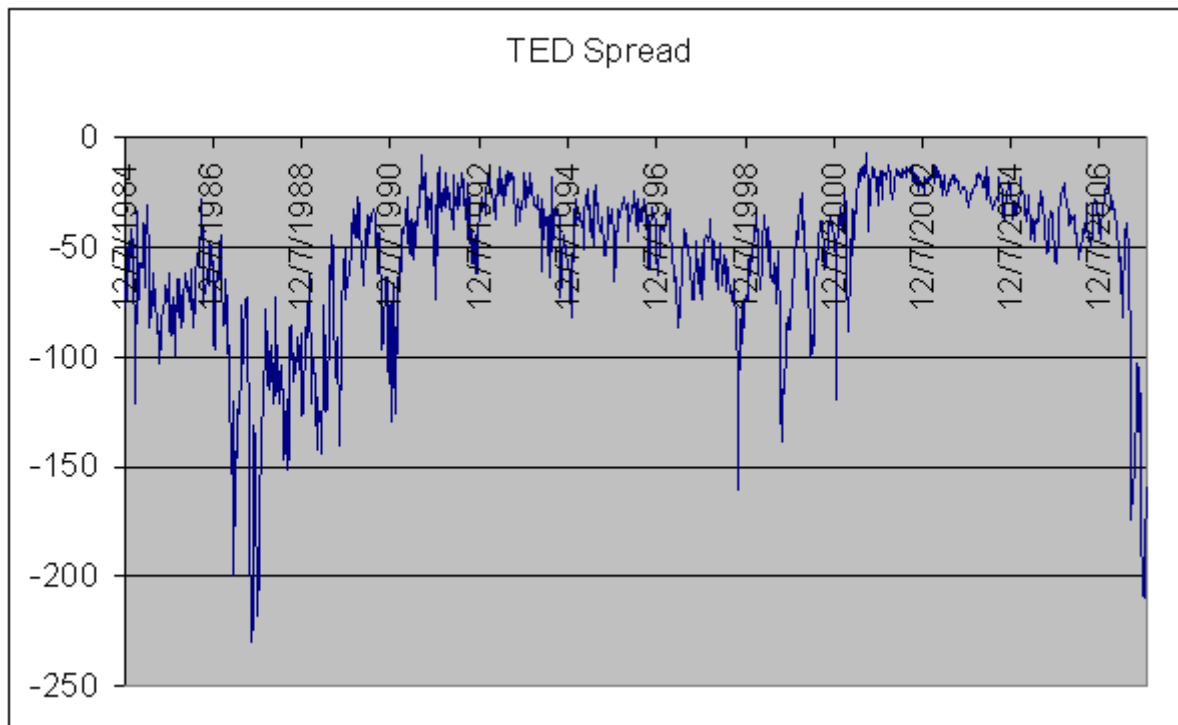
Compound annual returns, in percent, December 1971-December 2006



Source: Factset

Appendix I

TED Spread



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