

NYSSA Student Research

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Industry: Real Estate
Investment

W.P Carey

March 14, 2008

Ticker: WPC (NYSE)
Price: \$30.73 (close 3/7/2008)

Recommendation: Sell
Price Target: \$25.79

Earnings/Share

	Mar.	Jun.	Sept.	Dec.	Year	P/E Ratio
2005A	\$0.15	\$0.43	\$0.37	\$0.30	\$1.25	23.0x
2006A	0.29	0.44	0.37	1.12	2.22	13.4x
2007A	0.27	1.10	0.53	0.15	2.05	11.6x
2008E	0.12	0.14	0.07	0.09	1.84	21.0x

W. P. CAREY

www.wpcarey.com

TEAM F

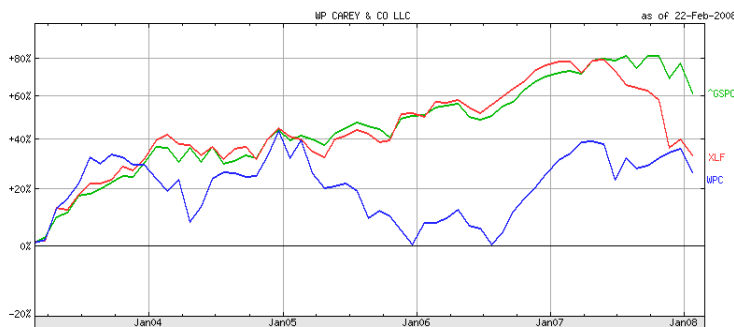
Highlights

SELL recommendation based on deteriorating operating environment and valuation. The operating environment of W.P. Carey (WPC) is deteriorating. The current credit crisis and looming recession are leading to tightening lending standards, rising borrowing costs, widening credit spreads, and rising default rates. In addition, the company faces stiff competition in a highly competitive global industry that has low barriers to entry. Accordingly, our two-stage model of discounted cash flow to equity, with a conservative cost of equity of 9.16%, produces a twelve-month price target of \$27.57, an 11.80% discount to the current price of \$31.26. Our two-stage dividend discount model yields an equivalent price target, \$27.85. Moreover, WPC's valuation ratios, such as price-earnings, price-book, and price-cash are sub-par relative to its competitors, as is its dividend yield. These observations support a SELL recommendation.

Rising borrowing costs curtail investment opportunities. The current slowdown in economic activity and rising borrowing costs resulting from the ongoing liquidity crisis have ended the commercial real estate boom, curtailing WPC's investment opportunities. As a result, we expect WPC to close fewer deals in 2008, leading to lower investment activity and, in turn, less structuring revenue and slower growth in assets. In addition, any difficulty WPC encounters in refinancing its existing portfolio at favorable long-term rates could negatively impact the valuation of its Corporate Property Associates (CPA) REIT funds. Taken together, these conditions may challenge WPC's business model.

Intense competition and low barriers to entry will continue to pressure profits. The company does not have a distinct and sustainable competitive advantage in this intensely competitive space. If transaction activity continues to slow during this time of declining real estate values, an economic slowdown, and capital market turmoil, then WPC and each of its competitors will be fighting for a share of a shrinking market, which will pressure WPC's profits.

Higher probability of tenant defaults, credit losses, and impairments. Rising borrowing costs and widening credit spreads have ended the inexpensive financing of recent years. A result is an increase in the probability that tenant defaults, credit losses, and impairment charges will rise, eroding EPS, FFO, and cash flows of WPC. It is vulnerable here; its top five tenants account for 30% of total lease revenue. Given that WPC has already been enduring two tenant defaults in 2007 and does not normally take loss reserves, further financial difficulties among its tenants, especially among these five, could negatively impact its performance.



WPC stock (blue) compared to the S&P 500 (green) and XLF financial sector ETF (red)

Market Profile (02/17/2008)

52 week price range	\$25.79 - \$36.86
Average volume	38,846
Beta	0.814
Dividend (Yield)	1.88 (6.01%)
Shares outstanding	38.45M
Market cap	\$1.24B
Institutional ownership	11.70%
Insider ownership	29.59%
Book value per share	\$16.65
Cash per share	\$0.444

Source: Yahoo Finance

Investment Summary

SELL recommendation based on deteriorating operating environment and valuation. W.P. Cary (WPC) is operating in a difficult environment. It is facing an ongoing credit crisis and an economic slowdown, both of which are leading to tightening lending standards and widening credit spreads. Moreover, it operates in a fragmented and intensely competitive global market without a distinct competitive advantage. Accordingly, our two-stage model of discounted free cash flow to equity, with a cost of equity of 9.16%, produces a twelve-month price target of \$27.57, a 11.80% discount to the current price of \$31.26. In addition, our two-stage dividend discount model yields an equivalent price, \$27.85. We also find that WPC's valuation ratios, such as price-earnings, price-book, price-cash, and price-FFO, are sub-par relative to its competitors, as is its dividend yield. These observations support a SELL recommendation.

W.P. Cary's business model is based on providing liquidity to the commercial sale-leaseback market, allowing companies to realize 100% of the value of their real estate assets. W.P. Cary earns revenue for structuring transactions and managing the portfolios of several real estate investment trusts (REITs) of Corporate Property Associates (CPA) CPA funds. In addition, WPC may occasionally use its own resources to acquire properties either for itself or for the CPA REITs. The company's core competency is brokering transactions and selecting investments. It relies on other companies to provide financing for its investments. In the current operating environment, it is reasonable to expect that WPC's current portfolio and new investment activity will experience operating difficulties.

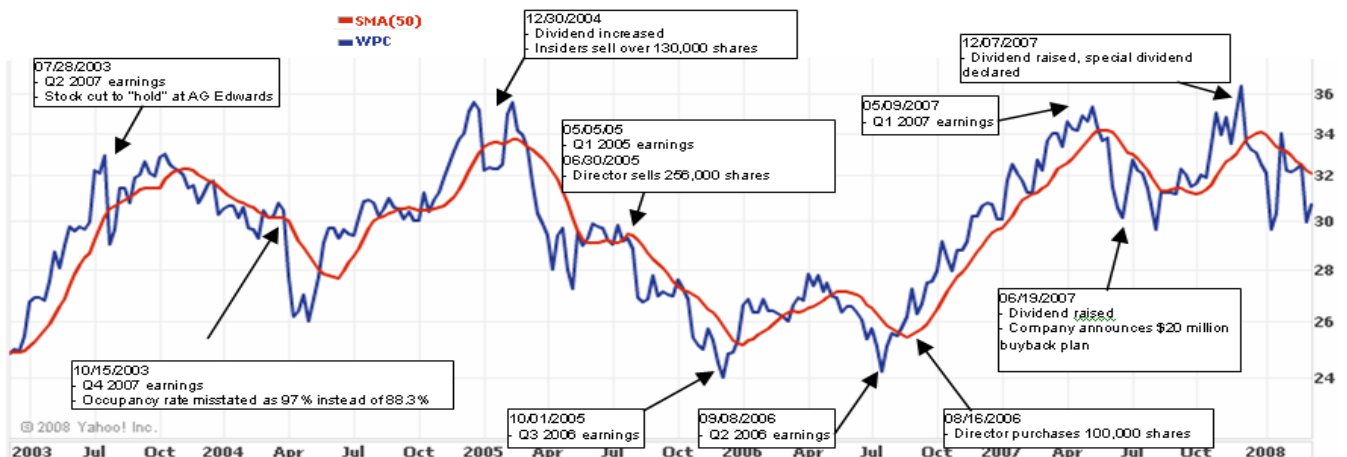
After adjusting revenues for reimbursable costs which are always matched by an identical charge under operating expenses, the company earns revenue from three main sources:

- Asset management revenue from the CPA REITs (33.3%)
- Investment structuring revenue from the CPA REITs (31.4%)
- Lease revenue from properties owned (30.2%)

The drivers of revenue and earnings growth are the first two components, both of which are related to the management of CPA REITs. The growth of Asset Management Revenue is driven by new investment and increases in the valuation of the current portfolio, while Investment Structuring Revenue is directly related to new investment activity.

The 2007 10-K states that "growth in revenue from our investment management operations is dependent in large part on future capital raising in existing or future managed entities, as well as on our ability to make investments." Additionally, management singles out two variables that will affect the ability to grow revenue, "capital market and real estate market conditions," each of which may prove unsettling for WPC in 2008.

Rising borrowing costs curtail investment opportunities. The current economic slowdown and increase in borrowing costs resulting from the ongoing liquidity crisis are curtailing WPC's investment opportunities. Compared to the commercial real estate boom of recent years, we expect WPC to close fewer deals in 2008, leading to lower investment activity and, in turn, less structuring revenue and slower growth in assets. In addition, if WPC encounters difficulties in finding favorable long-term rates to refinance its existing portfolio, the impact on the valuation of its CPA REIT funds will be negative. These conditions may prove challenging to WPC's business model.



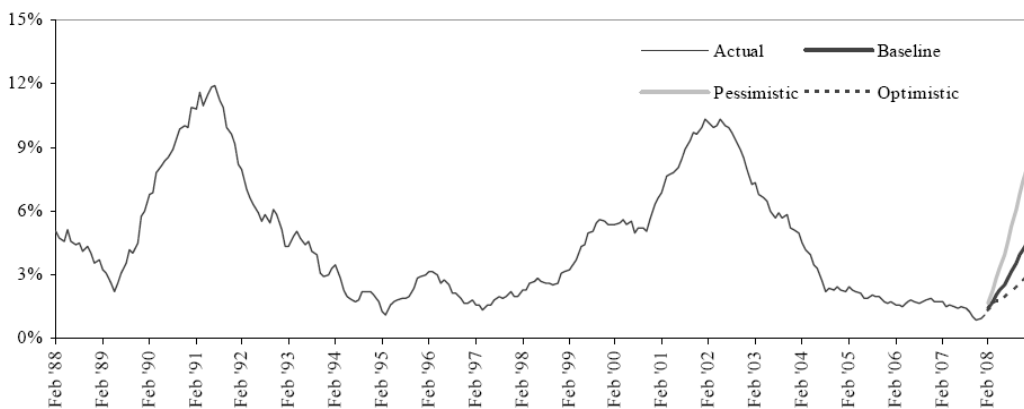
Credit spreads are widening and, in turn, impairing WPC’s ability to secure financing for new investments. In addition, the probable need for WPC to have to supply more collateral to support its access to credit lines cannot be discounted. The potential negative impact of these two constraints is significant. For example, WPC’s competition currently carries an average corporate debt rating of BBB, one step above non-investment grade – a liquidity-constrained category in which financing has practically dried up. As shown in Appendix Q, the spread between the ten-year Treasury note and BBB-rated bonds has jumped, year over year, to over 250 basis points, one of the highest since 1983. Although WPC has been conservative in its use of leverage, this jump in the spread implies a rise in financing costs that will reduce the number of investment opportunities that offer a sufficient premium. If WPC is to blunt this reduction, it must execute flawlessly. Otherwise, the outlook will remain negative in coming quarters, as slower growth of assets under management and significantly lower structuring revenue take hold.

A potential for a decline in structuring revenue is particularly worrying. It is a critical component of WPC’s profitability. Structuring revenue can be equated to a fee, or up-front sales charge, which carries a high profit margin and does not require additional capital to generate. In fiscal 2008, we expect growth in asset management revenue to slow and investment structuring revenue to decline, resulting in a net decrease in EPS.

Intense competition and low barriers to entry will continue to pressure profits. The company does not have a distinct and sustainable competitive advantage in this intensely competitive space. The lack of one comes at a time of declining real estate values, an economic slowdown, and capital market turmoil. If these conditions persist, and if transactions activity continues to slow, then WPC and each of its competitors will be fighting for a share of a shrinking market, which will undoubtedly pressure WPC’s profits.

Although WPC claims to be the “first-to-call” for companies seeking sale-leaseback arrangements, it is not clear to what degree, if any, this holds. In fact, WPC states in its 2007 10-K, that “(competition comes from) many sources, including insurance companies, credit companies, pension funds, private individuals, financial institutions, finance companies and investment companies. We also face competition from institutions that provide or arrange for other types of commercial financing through private or public offerings of equity or debt or traditional bank financings. These institutions may accept greater risk or lower returns, allowing them to offer more attractive terms to prospective tenants.”

Higher probability of tenant defaults, credit losses, and impairments. Slowing economic growth, both in Europe and the U.S., increase the probability of tenant default, credit losses, and impairments, eroding EPS, FFO, and cash flows of WPC. It is vulnerable here; its top five tenants account for 30% of total lease revenue. Given that WPC has already been enduring two tenant defaults in 2007 and does not normally take loss reserves, further financial difficulties among its tenants, especially among these five, could negatively impact its performance.

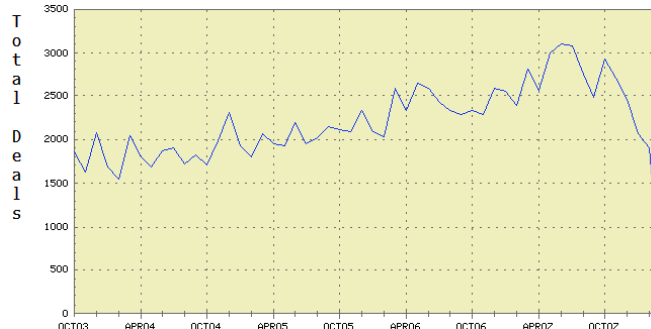


Default rates on non-investment grade corporate bonds, source: Moody’s

While defaults are likely to increase, they may not necessarily hurt the company’s earnings and cash flows. As stated in its 2007 10K, “even where defaults do not occur, a tenant’s credit profile may deteriorate, which in turn could affect the value of the lease and require us to incur impairment charges on properties we own.” Therefore, even if tenants remain solvent, reduced access to credit and less liquidity will impair the value of the existing real estate portfolio.

Low barriers to entry and intense competition pressure profits. WPC does not have a sustainable competitive advantage that would prevent others from competing with the company for investment opportunities. While WPC claims to be the “first-to-call” for companies seeking sale-leaseback arrangements, it accounts for less than 5% of the global sale-leaseback market, suggesting that competitors are abundant. By the company’s own admittance, (10-K 2007) “(competition comes from) many sources, including insurance companies, credit companies, pension funds, private individuals, financial institutions, finance companies and investment companies. We also face competition from institutions that provide or arrange for other types of commercial financing through private or public offerings of equity or debt or traditional bank financings. These institutions may accept greater risk or lower returns, allowing them to offer more attractive terms to prospective tenants.”

Slowing M&A activity reduces available deals. One of WPC’s primary sources of investment opportunities, companies wanting to recapitalize their balance sheets after mergers and acquisition, has fallen off a cliff in the second part of 2007. With banks tied up in financing commitments and often unable to sell some of the bridge financing provided for deals, a quick rebound in M&A activity is unlikely.



Source: Bloomberg

By the company’s own admittance mergers and acquisitions are a primary source of investment opportunities as companies try to sell off hard assets to recapitalized balance sheets after takeovers. With the tightening liquidity in capital markets, WPC will find less investment opportunities related to M&A and will have a difficult time exceeding or even matching last years investment volume.

The company is not a leader in its industry and its operating environment is deteriorating, given which we conclude that WPC is not an attractive investment at its current price. In the face of a contracting credit environment and an intensely competitive industry we believe WPC is a SELL at its current price of \$31.26. In addition, discounted FCFE estimates, dividend discount model, and conventional measures of relative valuation individually and together suggest a stock that is overvalued.

Valuation

We value W.P. Carey (WPC) using three different methods: discounted cash flow to equity (FCFE), dividend discount model (DDM), and relative valuation (RV). The FCFE and DDM models yield respective price targets of \$27.57 and \$27.85 and support the conclusion that the company’s current stock price of \$31.26 is overvalued. Moreover, WPC’s industry standard valuation ratios, such as price-earnings (P/E), price-book (P/B), and price to cash flow (P/CF), are not compelling relative to those of WPC’s competition; neither is its dividend yield. We begin with the estimate of WPC’s cost of equity (COE), which we use as the discount rate in the FCFE and DDM models.

Cost of Equity (COE) Determination

We estimate WPC’s cost of equity (COE) to be 9.16%. We arrive at it by blending estimates across industry-wide bond ratings, WPC’s borrowing rate, and the capital asset pricing model. For example, among WPC’s competitors, the current average bond rating is Baa/BBB. Currently, bonds of this grade are reportedly yielding 6.91%. By adding a conservative industry standard of three percentage points, we arrive at 9.91%. As another measure, we note that WPC reports, in its fourth-quarter earnings call, that its weighted average borrowing rate on a line of credit obtained during the fourth quarter of 2007 is 5.99%. By adding three points, we arrive at 8.99%. Bloomberg reports an estimate of 9.52% by using the standard capital asset pricing model. A variation on the Bloomberg approach, which uses a lower risk premium, produces an estimate of 8.23%. The average of these four numbers is 9.16%. Given the current credit crisis, tightening lending standards, and the looming global recession, we believe our COE estimate is reasonable and conservative. (See Appendix D)

Beta estimates.

In our estimation of the capital asset pricing model that produces the COE estimate of 8.23%, we not only used a lower and more conservative estimate of the risk premium, the difference between the expected return on the

S&P 500 and the ten-year Treasury note yield, but we also used a beta of 0.814, somewhat smaller than the beta of 0.91 that Bloomberg reports. Our beta is blended across estimation periods and leverage, and accounts for the tendency of betas to drift to 1 over time. (See Appendix E)

Discounted Free Cash Flow to Equity (FCFE)

Our two-stage FCFE model yields a price target of \$27.57, a discount of 13.4% to the current market price of \$31.26 (as of March 13, 2008). This indicates the current stock price is overvalued.

Our FCFE model consists of two stages. The first stage reflects the impact of deferring revenue in 2008 and then a gradual increase there after. The anticipated closure of CPA 14 around the year 2010 was not incorporated as it would be difficult to estimate this far out. Due to higher borrowing costs and increased investments, it is assumed that interest expense will increase over the next 5 years. In the second stage, we assume a long-term growth rate equal to the 10-year average of 1.3%. (See Appendices F, G and H)

The valuation is a direct result of WPC’s uncertain growth prospects in the lease-back finance segment in both the U.S. and Europe, where the company conducts more than 90% of its business.

Two-stage Dividend Discount Model

Since the company went public in 1998, it has paid dividends consistently and predictably. Moreover, its dividend payout ratio has been slowly declining since 2004, from over 100% to 85% today, which instills confidence in the company’s dividend payment policy for the foreseeable future. Thus, the DDM is an appropriate way to value WPC’s stock. To be optimistic, we begin by assuming that the current annual dividend of \$1.88 (ignoring the one-time dividend of \$0.27 paid in December of 2007 for tax purposes) grows by 2.0% per annum for five years – above the ten-year average rate of 1.3% – a rate that the company has never achieved. [We found that the ROE of WPC was not stable enough to estimate the dividend growth rate by using the formula of the ROE multiplied by (1 – retention ratio)]. Using 2.0%, we find a dividend at the end of 2013 of \$2.10. At the end of five years, we assume that the ten-year average growth rate of 1.3% resumes. To obtain our twelve month price target, we then estimate the terminal value of the stock price to be \$26.75. Discounting this five-year price and adding the discounted dividend for each year through 2013, we arrive at \$24.96. By projecting \$24.96 to March 14, 2009, we arrive at \$27.85. This indicates that the current price of \$31.26 is overvalued by 10.91%. As a check on the accuracy of our estimate, we perform a simulation analysis. (See Appendices I and J)

Relative Valuation

The shares of WPC trade at a discount to the broader market. The company’s P/E, based on our estimated 2008 EPS estimate of \$1.84, equates to 16.99x, below the 19.6 multiple of the S&P 500, and its P/B ratio is currently 2.05, less than the 2.91 of the S&P 500. Its current dividend yield of 6.0% is well above the 2.38% yield of the S&P 500. However, compared to the metrics of its competitors, WPC shares trade at a premium, which suggests the shares are expensive versus its peers. As shown in Appendix L, Brandywine Realty, Blackstone, Fortress, Jones Lang LaSalle, and iStar Financial, five of WPC’s ten biggest competitors in the leaseback commercial property market, each has a lower P/E, estimated for 2008, averaging 7.93. In addition, WPC’s P/B ratio ranks as only the sixth lowest among the 11 members and its P/S ratio, at 4.27, puts it at the seventh lowest and above the mean and median values of the P/S. Similarly, its P/CF ranks it as ninth, the highest among the firms with reported statistics. Moreover, its dividend yield is ranked seventh, with a value below the mean and median of this metric. This is significant because management has highlighted dividend support as a key attraction for the shares in both the recent fourth quarter conference call and in a meeting with CEO, Gordon DuGan. In light of the higher dividend yields of its competitors, we question this position. (Note: W.P. Cary states in its 2007 10-K, page 1, that its method of calculating funds from operations (FFO) may not be comparable to those of its competitors. As a result, we include FFO/share in Appendix L for information, but we do not use it in our valuation.)

The company’s cash position is cause for concern. Despite the WPC’s assertion about the strength of its balance sheet, the company is not cash-rich; in fact, its cash debt and cash to shares outstanding register two of the lowest among compared to those of its U.S. competitors. In addition, its ability to convert operating cash flow from net income, a key metric for the company, is becoming more challenging. In 2007, its ratio of operating cash flow to net income shrank from well over 1 to 0.59, declining below 1 for the first time since 2001. By comparison, its major competitors, including poorly performing companies such as Brandywine and Lexington Realty, increased their cash positions for 2007, registering ratios well in excess of 1. (See Appendix L)

WPC Rankings	
1 - best; 11 - worst	
Trailing P/E	5
Forward P/E	6
P/B	6
P/S	7
P/CF	8
ROE (ttm)	5
Div. Yield	7
Operating cash / net income	8
EV / EBITDA	2
Debt / Equity	3

Source: Bloomberg

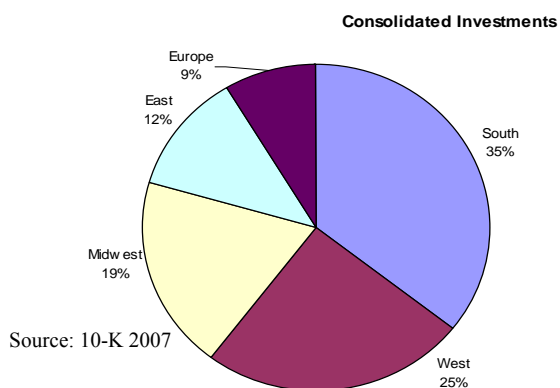
Portfolio Analysis. As additional support for our SELL recommendation, we find that WPC ranks unfavorably among the constituents of the S&P 500 and Russell 3000 in terms of standard risk-reward metrics for 2008. We estimate the 500 expected returns and betas of the S&P 500 and the 3000 expected returns and betas of the Russell 3000. As described in Appendix K, we use these estimates to build traditional “mean-variance” efficient portfolios from these two groups. To be as optimistic as possible for WPC, we use expected returns from Bloomberg and *Value Line*, both of which predict a positive return for 2008. Even with this optimistic scenario, however, we find that WPC does not meet the criteria for inclusion in either portfolio. From highest to lowest, its rank is 217 among the S&P 500 firms and 1334 among Russell 3000 firms. Moreover, its rank in each case places it below the standard security market lines that describe the capital asset and arbitrage pricing models and below the positions of four of its competitors, Blackstone, Boston Properties, Jones Lang LaSalle, and Realty Income. These findings support a SELL recommendation. (See Appendix K)

Business Description

Nature of the business

The company’s real estate portfolio can be segmented into two parts. The first part, with assets in excess of \$8 billion is in privately-held REIT funds. The second part is held on the company’s balance sheet, which is referred to as the LLC portfolio, has assets of over \$1.7 billion and includes properties purchased from the REIT funds during their liquidation or purchased directly in a case when they were not suitable for the REIT funds. The CPA REITS and LLC portfolio segments generate approximately 67% and 33% of the revenue, respectively.

In a sale-leaseback agreement, WPC purchases an existing building from an established company and enters into a long-term lease agreement with the tenant. The tenant receives immediate cash for its real estate at market value allowing him to unlock value which would be otherwise carrier on its B/S at cost. The triple net leases make the lessee responsible for the structure, roof and parking of the building. The lessee also pays any real estate taxes.



When structuring transactions, WPC includes a number of clauses to protect itself from adverse market conditions. Most lease provisions contain mandated rent increases that are periodic and/or tied to the Consumer Price Index, or other indices; some may have covenants that restrict the activities of tenants to reduce the possibility of changes in the quality of their credit.

Given that the lessee pays WPC only for his use of the building, the valuation of triple net leases is driven primarily by the credit rating of the lessee and can be looked upon as the issuance collateralized debt by the lessee. In the words of the Gordon DuGan, the CEO, in the 2007 fourth-quarter Conference Call), “(regarding valuation of CPA REIT assets) it’s more like a bond

analysis than a real estate analysis.” This reinforces our belief that the triple net leases can be viewed as bonds with durations of at least 15 years. Such a lease portfolio would be highly sensitive to changes in interest rates, suggesting the valuation of the assets held by the CPA funds is highly leveraged in connection to the company’s long term rates of financing.

Strategic Growth Plan

In October, the company completed a restructuring plan designed to help new and existing shareholders simplify their tax reporting by helping to eliminate shareholder’s filing of state and local tax returns. Based on this “reorganization”, the firm hopes that it will increase the potential investor base, including mutual funds and tax-exempt investors who were restricted in the previous structure offerings.

Provided that the company began to look into procedures for a more efficient long term efficient tax structure, it resulted in a short term increase in taxable income to their shareholders. As a result, the company issued a special dividend in the forth quarter of 2007 of \$0.27 per share. As part of this more efficient tax structure, WPC has created their latest CPA® 17 REIT under a partnership that is partially owned by the REIT and WP

Carey LLC, resulting in the company receiving dividends instead of ordinary income, resulting in a much lower rate.

The majority of the company's growth potential lies in Europe where approximately 67% of commercial real estate is owner-occupied. This represents a potential of €3 trillion (Euros) in the European net lease market, with the U.S. market estimated to be around \$1 trillion. Over the long term, much of the company's potential could lie in Asia where approximately 90% of commercial real estate is owner occupied. However due to current market conditions in Asia, including restrictive laws and widespread corruption, market penetration is expected to remain low.

Raising concern is management's stand pat policy in dealing with increasing challenges. The company's financial fillings and statements made during calls with analyst do not indicate any plans of dealing with:

- Increasing difficulty obtaining mortgage financing in 2008
- Increased competition
- Increased in default rates
- Market reduction in deal flow

Management maintains faith in the robustness of its business model in the face of looming challenges. We question the ability of the company to produce above average returns during a severe downturn in the real estate cycle. Management has been unable to create above average returns for shareholders during the last 5 years when the commercial real estate market was booming; therefore we see no reason to believe the company will be able to perform significantly better in the coming 12 months.

Other matters

Insider and institutional ownership

In the past year insiders have converted restricted stock into common stock, but have otherwise not completed any cash based transactions. The company's insiders hold approximately 30% of the outstanding stock, with William P. Carey, the company's founder accounting for over 11% of shares outstanding. Mr. Carey's holdings are nearly equal to the total of all institutional holders combined who account for about 12% of the shares. Institutional holders have sold approximately 16.7% of their holdings in fourth quarter, 2007.

Pending SEC Investigation and Settlement

The company has been involved in a SEC investigation involving the offering of CPA® 15 share in 2002 / 2003 and has reached an agreement in principal related to the matter and taken a pre-tax charge of \$30 million. We expected the SEC matter to be resolved with 90 days without additional costs and expenses to WPC or any further SEC action.

Share repurchase programs

The company's board has agreed to repurchase up to \$40 million in stock, equating to 2.5% at current value, with \$25.5 million completed through December 31, 2007. Given the simultaneous issuance of new equity and rise in diluted shares in 2007 we do not view management's actions as a serious attempt to reduce the outstanding share count.

Industry Overview and Competitive Positioning

W.P. Carey's main business segment, investment management, competes in the global arena for commercial real estate, primarily for sale leaseback opportunities. While W.P. Carey has executed deals in various countries, their main focus is in the United States and European sectors, where their annual net lease market was estimated at \$11 billion and \$40.4 billion, respectively. W.P. Carey has increased their focus on the European market, which accounted for half of their 2007 CPA acquisitions. Although the European market is four times larger than the domestic one, WPC does not compete in this entire space. The company's average deal size in 2007 was \$50 million, suggesting it does not compete on larger real estate transactions such as, for Comit's sale of €700 million worth of real estate in 2006 or the Italian governments plan to sell €3 billion in real estate over 2006 and 2007. In addition to not being able to compete for large real estate transactions, the company often targets small companies which are not followed by credit rating agencies, forcing WPC to perform its own credit analysis.

The commercial real estate industry is US \$16 trillion. This is the "investible" market which also includes space that is currently owner occupied but might, in time, become institutional. The US dominates the global invested market, at 48% of the total, followed by Europe and Asia, representing 33% and 19% respectively. The forecast

for the United States and Continental Europe commercial REIT industry is expected to decline over the coming year. Analysts predict REITs to bounce on the bottom of the commercial real estate market through 2008 however REIT shares have a remarkable correlation record in predicting future movements in prices of commercial real estate. To date, commercial real estate prices across the country are down 5% from last year's highs. Tentatively, six months after REITs start trading at premiums or discounts to their net assets or underlying values, commercial real estate prices typically follow over the succeeding 12 months. To date, REITs are trading at 14% below their NAV and Office REITs are at an 18% discount. For current REIT pricing to make sense, real-estate values need to fall another 12-16% nationally. Globally, the greatest value appreciation in commercial real estate is expected to be in the Asian markets, according to RREEF research. Emerging markets such as China, India and Russia have a relatively high level of construction, although involvement in net additions by providing financing or construction management is not part of W.P. Carey's business mix.

While widening credit spreads may make sale leaseback transactions attractive for companies looking for alternative financing, larger credit spreads also hinder the ability for companies to raise funds, resulting in reduced M&A deals, which is a driving source of sale leaseback opportunities. In addition, rising mortgage rates, higher long term rates, and tighter underwriting standards make for difficult times to provide attractive lease terms for sale leasebacks.

Competitive Landscape

The overall landscape is very fragmented with competitors consisting of REITs, investment banks, insurance companies, and private equity companies, to name a few. While the common focus is to obtain commercial real estate, competitors have varying strategies. Variations in strategy include targeting certain geographic locations, different levels of risk aversion, and dissimilar types of services provided. W.P. Carey boasts about their portfolio having geographic diversification of properties. Competitors like Vornado and Boston Properties concentrate on metropolitan areas that offer greater potential for appreciation such as, San Francisco, Manhattan, Boston and Long Island. However, W.P. Carey in contrast, between 2005 and 2007, sold properties for a loss in areas such as Berea Kentucky, Walbridge, OH and Amberly Village, OH. While concentrating in metropolitan areas can be riskier, given a greater degree in volatility, a present demographic change from rural to urban living provide for greater upside potential in these locations.

Each competitor's business mix varies in terms of services provided. While W.P. Carey claims to be diversified among industries, they are not as diversified as their competitors in regards to real estate services that they provide. Jones Lang LaSalle, a recognized industry leader, and W.P. Carey both have an investment management segment in their business mix and in 2007 both reported a decrease in revenue for these services, 4% and 7% respectively. However, in 2007 JLL had an overall increase of 32% (\$638 mil) in total revenue and a 32% (\$98 mil) increase in operating income, compared to WPC's 1.6% drop in total revenue and 19.8% decrease in operating income. The increase in JLL's total revenue was due to an increase in its investor and occupier services segment, which provides valuation services, real estate investment and merchant banking, brokerage, strategic consulting, space acquisition and disposition, and a host of other services. While WPC has a real estate operations segment in addition to its investment management services, their real estate operations segment does not provide the extensive list of services as JLL and its WPC investment management segment is small in comparison. As a result, W.P. Carey's real estate operations segment does not produce revenue sufficient enough to smooth the volatility of their investment management business. As WPC continues to grow their investment management segment, we expect revenue volatility to increase.

Competitors have varying levels of risk aversion and acceptable rates of return. This leads competitors to accept clients with poor or even no credit rating with different financing options. The level of risk W.P. Carey is willing to assume lessons their involvement in emerging markets where appreciation is forecasted to occur in 2008. Examining the various strategies among competitors we do not believe W.P. Carey's business mix or growth strategy provides any strategic advantage. Their modest and conservative outlook to not tackle opportunities in emerging markets can be looked at as constrain to cash flows in the future. These measures, along with the other factors mentioned in the relative valuation section, point us to a SELL recommendation.

Financial Analysis

While WPC considers itself a "provider of long term net lease financing" company, the fact remains that the company's operating performance is closely tied to the commercial real estate market. Despite the lumpiness in many key metrics over recent periods, in general the company has enjoyed a very favorable upward trend in operating performance over the past seven years, except in 2005. We consider 2005 to be somewhat abnormal

when you look at most of the financial success over that period. For the most part, revenues, operating income, asset turnover, return on equity, growth in assets, growth in dividends and EPS have seen annual improvements over the same period. The compounded annual growth rates (CAGR) for revenue, net income and EPS over the last three years are 6.22%, 6.37% and 6.64% respectively. Despite being in an excellent growth industry, the stock has underperformed its peers and major stock indices over the past 3 to 5 years. Over the past 5 years, the stock has stayed within a ten dollar range, between 25 and 35, and underperformed the DJIA, S&P500 and NASDAQ index.

Income Statement

While the company earnings revenue is from three main sources; lease revenue is the most stable, allowing the company to make long term forecasts of earnings and cash flow. Asset management revenue is subject to uncertainty regarding the valuation of assets held by the CPA® series of funds and has benefited in recent years from strong investment activity and increasing real estate values. The most volatile source of revenue is fees for structuring transactions, accounting roughly for a third of the company's earnings. Structuring revenue has significant profit margins and can be equated to up-front mutual fund loads or commissions, and as such this revenue source contributes the most to the bottom line. Investors therefore ought to be concerned about slowing investment volume and falling structuring revenues. Beginning in 2008, we expect a significant drop in revenues in 2008, partially due to one time events in 2007 and the remainder due to the deteriorating operating environment.

Impact of deferred revenue, one-time charges and discontinued operations

Given the complexity of the WPC's operations and structure, the earnings and cash flow of the company are affected by numerous one-time charges blurring the performance of the core operating business and making WPC difficult to evaluate. After adjusting 2007's financial statements for the impact of one-time deferred revenue in connection with CPA® 16 in the form of asset-based revenue of \$11,945, structuring revenue of \$31,674 and \$2,300 interest, the income statement becomes much clearer and gives a better picture of the company's true performance. Additionally, the company had a one-time charge of \$29,979 related to the settlement of a pending SEC investigation. The net result of these important one-time charges in 2007 was to increase revenues reported by \$15,940 and earnings by \$9,643 or \$0.24 per share.

As a result of one time adjustments leading to an increase in earnings of \$0.24 or 11.7% of total EPS, the company's reported return on equity and return on assets beyond the true performance of the underlying business. In addition, \$0.27 EPS or 13.1% of total EPS came from discontinued operations (driven by the sale of real estate assets in France), suggesting that a total of \$0.51 EPS or 24.8% of total EPS is unlikely to reoccur next year. Based on optimistic assumptions we believe that the core business of the company will continue to grow slowly. We project \$1.84 EPS for FY 2008 or 10% decline from 2007 levels and slow to stagnant growth in following years.

Cash Flow

Structuring revenues, while booked as revenue immediately, are actually paid in cash to WPC over a number of years, which combined with management's decision to receive asset management revenue in the form of CPA® REIT shares, greatly depress cash flow from operations. Cash flow from operations was 59.8% of net income in 2007 and was the first time operating cash flow fell below net income in the last five years.

On the investment side, WPC uses cash primarily for capital expenditures and new investments in real estate, while receiving cash from the sales of existing properties. Net investment expenditures in 2007 totaled \$(41,048) or 51.7% of net income.

In 2007, in order to pay its dividend and finance its operations the company has increased its use of long term borrowing by \$74,293 as well as issued \$20,682 worth of shares. In the company's own words (10-K 2007), "During 2007, we used our cash flows from operations along with existing cash resources and borrowings under our unsecured credit facility to fund distributions to shareholders and make purchases of common stock under our share repurchase program." While the company claims it is buying back stock, given the simultaneous issuance of new shares, the net buyback has been only \$4,843 with the amount of diluted shares actually rising 1.98% in 2007.

We view the company's dividend policy as a conservative but one that restricts WPC's ability to grow earnings organically. Given the company's high dividend payout ratio when compared to its stable and predictable revenue sources, we view that the company can grow assets and earnings in one of three ways:

- Increased valuation of CPA® REIT assets
- More investors in the CPA® REIT funds
- Higher leverage

Over the last four years the company's balance sheet has grown 26.8% while its equity has increased only 8%, signaling an increase in leverage. We anticipate all business models dependant on leverage to come under severe pressure in 2008 due to increased defaults and decreased availability of credit. Given the company's policy to payout the majority of its earnings in the form dividends, we doubt its ability to grow revenue and earnings in the challenging and potentially worsening operating environment we foresee in the coming 12 months.

Balance Sheet and ratio analysis

WPC maintains a conservative balance sheet compared to other real estate investment companies. The company has a debt-to-equity ratio of 77.8% which is conservative compared to its peer group which has an average market-cap weighted debt-to-equity ratio of xx.x%. However, out of the company's off-balance sheet arrangements and contractual obligations, of \$461 million as of December 31, 2007, 24% of that is coming due in 2008. Meanwhile, of the remainder, 57% is due in more than three years time. So the obligations due this year, are very significant, especially given the deteriorating environment. In addition, historically the stock trades at a multiple of 9-10 times Funds from Operations (FFO,) and we have forecasted that to continue.

In conclusion, while our financial analysis shows that the company has had recent success, we believe it lacks the resources needed to be considered a great investment, particularly over the next year.

Investment Risks

Expand operating environment to Asia: With the continued deterioration of United States commercial real estate and a slowdown in European growth, W.P. Carey may look to foster new deals in promising geographic regions across the world. Through W.P Carey's joint ventures, they can be well positioned to capture business in certain areas that they presently do not have strong hold on. While the CEO of WPC seemed uneasy about business in emerging markets, these joint ventures will help them reduce risk. Their continued effort to expand internationally could increase their present 50% international cash flows to be well over 60% by year end. Therefore, investors could be lured to W.P Carey's CPA funds due to its diversification, new international cash flows, and a new operating environment.

Favorable macro-finance environment: The Federal Reserve's continued drop in short term interest rates, its effort to put \$200 billion dollars of liquidity into the economy, having "No target for the dollar" according to Ben Bernanke, and a spike in merger and acquisition activity, could all help WPC stabilize its cash flows over the coming year. With discounts in commercial real estates net asset value as high as 20%, merger and acquisition activity could grow and consequently create leaseback opportunities for WPC to help meet its projected earnings per share. Also, with "No target for the dollar" in place; WPC levers itself to a weaker dollar by having more than 50% of its business coming from the Euro-zone.

Drastic turnaround in commercial real estate: With the continued effort of the Federal Reserve to create liquidity in the market, commercial real estate may bounce off the bottom over the coming year. If credit spreads narrow and cash becomes more readily available, the demand for retail space might revisit itself to the past seven year pattern of positive returns. In 2007, REITs took a turn for the worst though, returning -24% as of January 31, 2008 and had a large trading volume comparable to historical standards. An investment that was once said to have low volatility had half of its United States trading days oscillate in price more than +/-1% per day. Similar to the drop in REITS like 1971-1974 of -37%, 1989-1990 of -23.9%, and 1997-1999 of 23.7%, present negative REIT performance could last between 89-180 months. A regression of the NAREIT equity REIT index rate of return to the rate of return of WPC shows a positive correlation of equity REITs to WPC stock price. An increase in equity REITs by 10% could lead to a 4% increase in WPC stock price and visa versa.

In conclusion, the investment risks to our sell recommendation are not insignificant. We believe, however, that at least a significant improvement in operating environment and an expansion to find innovative cash flows will be necessary to drive the stock price significantly higher than our twelve-month estimate, an outcome to which we assign a low probability.

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W.P. Carey & Co. LLC Fiscal Year	2003	2004	2005	2006	2007	2008 Forecast	2009 Forecast	2010 Forecast*	2011 Forecast	2012 Forecast
Appendix A: Pro Forma Income Statement										
<i>\$ in Thousands except for per share data</i>										
Revenue										
Asset Management Revenue	\$56,402	\$45,806	\$52,332	\$57,633	\$83,051	\$76,026	\$79,828	\$85,416	\$93,103	\$104,275
Structuring Revenue	31,658	33,675	28,197	22,506	78,175	28,592	30,022	31,823	33,732	36,431
Incentive, Termination and Subordinated disposition rev from mergers		53,588		46,018						
Revenue from Affiliates	-	15,388	9,962	63,630	13,782	15,160	16,676	18,344	20,178	22,196
Lease revenues	40,558	59,747	62,476	69,197	75,403	79,927	86,321	94,953	104,449	114,894
Other Real Estate Revenue	25,427	11,348	10,273	8,503	12,718	10,513	11,249	17,811	14,719	17,049
Total Revenue	154,045	219,552	163,240	267,487	263,129	210,219	224,096	248,347	266,182	294,845
Operating Expenses										
General & Administrative	(43,695)	(35,597)	(44,981)	(41,376)	(61,821)	(57,956)	(62,013)	(66,354)	(70,998)	(75,968)
Provision for Settlement	-	-	-	-	(29,979)	-	-	-	-	-
Reimbursable Costs		(15,388)	(9,962)	(63,630)	(13,782)	(15,160)	(16,676)	(18,344)	(20,178)	(22,196)
Depreciation and Amortization	(16,198)	(21,173)	(20,051)	(25,137)	(25,543)	(26,820)	(28,161)	(30,132)	(32,242)	(34,821)
Property Expenses	(5,745)	(5,329)	(6,155)	(5,984)	(6,245)	(6,432)	(6,625)	(6,824)	(7,029)	(7,240)
Impairment Charges	(1,480)	(12,899)	(5,704)	(1,147)	(1,017)	(8,000)	(5,200)	(2,400)	(1,700)	(1,200)
Other Real Estate Expenses	(1,209)	(6,261)	(6,327)	(5,881)	(7,690)	(6,000)	(6,600)	(7,260)	(7,986)	(8,785)
Total Operating Expenses	(68,327)	(96,647)	(93,180)	(143,155)	(146,077)	(120,369)	(125,275)	(131,314)	(140,133)	(150,210)
Other Income and Expense										
Other Interest Income	2,581	3,092	3,507	3,305	6,842	4,500	4,500	4,500	4,500	4,500
Income from equity investments in real estate and CPA Reit's	4,008	5,308	5,182	7,608	18,357	33,259	10,163	6,552	5,500	5,500
Minority Interest in income	(370)	(1,499)	(264)	(275)	(4,143)	(4,075)	(2,075)	(1,075)	(1,000)	(500)
Gain on sale of securities, foreign currency transactions and other, net	48	1,222	1,359	12,969	3,114	4,000	4,400	4,400	4,400	4,400
Interest Expense	(14,660)	(14,453)	(15,768)	(17,016)	(20,880)	(27,500)	(28,875)	(30,319)	(31,835)	(33,426)
Other Income and Expense	(8,393)	(6,330)	(5,984)	6,591	3,290	10,184	(11,887)	(15,942)	(18,435)	(19,526)
Income from continuing operations before income taxes	77,325	116,575	64,076	130,923	120,342	100,034	86,933	101,091	107,614	125,109
Provision for Income Taxes	(19,116)	(50,983)	(19,208)	(45,356)	(51,739)	(35,012)	(30,427)	(35,382)	(32,284)	(37,533)
Income from Continuing Operations	58,209	65,592	44,868	85,567	68,603	65,022	56,507	65,709	75,330	87,576
Discontinued Operations										
Income from operations of discontinued properties	6,391	9,359	9,328	1,178	2,874	9,374	9,936	5,465	2,459	1,599
Gain on sale of real estate, net	1,238	89	10,474	3,452	15,486	12,000	12,000	8,000	6,000	6,000
Impairment Charges	(2,960)	(9,199)	(16,066)	(3,357)	(2,317)	(11,500)	(6,000)	(5,000)	(3,000)	(2,500)
Minority Interest in Income	-	-	-	(537)	(5,394)	(5,394)	(5,394)	(5,394)	(5,394)	(5,394)
Income from discontinued operations	4,669	249	3,736	736	10,649	4,480	10,542	3,071	65	(295)
Net Income	\$ 62,878	\$ 65,841	\$ 48,604	\$ 86,303	\$ 79,252	\$ 69,502	\$ 67,049	\$ 68,780	\$ 75,395	\$ 87,280
Basic Earnings Per Share										
Net Income	1.72	1.76	1.29	2.29	2.08	1.83	1.74	1.77	1.92	2.20
						-12%	-4%	2%	9%	15%
Diluted Earnings Per Share										
Net Income	1.64	1.69	1.25	2.22	2.05	1.76	1.68	1.70	1.85	2.12
Weighted Average Shares Outstanding										
Basic	36,566,338	37,417,918	37,668,835	37,668,920	38,113,857	38,044,266	38,424,708	38,808,955	39,197,045	39,589,015
Diluted	38,434,169	38,961,748	39,020,801	39,093,897	39,868,208	39,566,036	39,961,697	40,361,314	40,764,927	41,172,576
Distributions Declared Per Share	1.73	1.76	1.79	1.82	1.88	1.92	1.96	2.00	2.03	2.08
*While we do expect the closure of CPA fund 14 around the 2010 period, we have not incorporated it into our financials, as it would be extremely hard to anticipate the impact a few years in advance										
Source: I-Metry, Edgar Online, Student Estimates										
NYSSA INVESTMENT RESEARCH CHALLENGE										
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W.P. Carey & Co. LLC Fiscal Year	2003	2004	2005	2006	2007	2008 Forecast	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast
Appendix B: Pro Forma Balance Sheet										
<i>\$ in Thousands</i>										
Assets										
Real Estate, Net	\$400,717	\$476,365	\$454,478	\$540,504	\$524,333	\$549,333	\$554,826	\$565,923	\$582,901	\$600,388
Net investment in direct financing leases	182,452	190,644	131,975	108,581	107,371	97,371	102,240	107,352	112,719	118,355
Equity investments in real estate	82,800	110,379	134,567	166,147	202,458	222,704	256,109	294,526	338,705	389,510
Operating Real Estate, net	16,147	9,140	7,865	33,606	75,399	75,399	75,399	75,399	75,399	75,399
Assets Held for Sale	13,609	12,802	18,815	1,269	4,366	5,458	6,822	8,527	10,659	12,791
Cash and Cash Equivalents	24,359	16,715	13,014	22,108	17,068	11,864	10,432	13,489	16,678	22,990
Due From Affiliates	50,917	63,471	82,933	88,884	84,671	74,175	74,175	74,175	74,175	74,175
Goodwill & Intangible Assets	102,135	114,108	104,307	107,349	101,723	99,817	98,007	96,287	94,653	93,100
Other Assets, net	33,369	19,915	35,308	24,562	32,899	30,000	30,000	30,000	30,000	30,000
Total Assets	906,505	1,013,539	983,262	1,093,010	1,150,288	1,166,121	1,208,010	1,265,677	1,335,889	1,416,708
Liabilities and Members Equity										
Liabilities:										
Limited recourse mortgage notes payable	180,193	190,698	226,701	261,152	254,114	273,173	293,660	323,027	371,481	427,203
Unsecured credit facility	29,000	102,000	15,000	2,000	58,700	110,000	130,000	90,000	60,000	40,000
Secured credit facility	-	-	-	15,501	35,581	10,000	10,000	35,000	35,000	35,000
Distributions Payable	15,987	16,626	16,963	17,481	18,176	18,721	19,283	19,861	20,457	21,071
Deferred Revenue	-	-	23,085	40,490	-	-	-	-	-	-
Income Taxes Payable, Net	31,342	42,268	40,542	63,462	71,897	75,492	79,266	83,230	95,714	110,071
Other Liabilities	53,344	39,889	49,814	53,174	61,539	64,616	66,247	68,199	77,589	88,711
Total Liabilities	309,866	391,481	372,105	453,260	500,007	552,002	598,457	619,317	660,241	722,056
Minority Interest in Consolidated Entities	1,852	1,407	3,689	7,765	7,580	7,580	7,580	7,580	7,580	7,580
Member's equity:										
Listed Shares, no par value	709,724	734,658	740,593	745,969	734,518	741,863	749,282	756,775	764,342	771,986
Distributions in excess of accumulated earnings	(112,570)	(112,441)	(131,178)	(114,008)	(93,842)	(137,348)	(149,333)	(120,019)	(98,299)	(86,939)
Unearned compensation	(4,863)	(5,366)	(5,119)	-	-	-	-	-	-	-
Accumulated other comprehensive income	2,496	3,800	3,172	24	2,025	2,025	2,025	2,025	2,025	2,025
Total Members' Equity	594,787	620,651	607,468	631,985	642,701	606,540	601,974	638,780	668,068	687,072
Total Liabilities and Members' Equity	906,505	1,013,539	983,262	1,093,010	1,150,288	1,166,121	1,208,010	1,265,677	1,335,889	1,416,708
Source: I-Matrix, Edgar Online, Student Estimates										

V.P. Carey & Co. LLC Fiscal Year	2003	2004	2005	2006	2007	2008 Forecast	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast
Appendix C: Pro Forma Cash Flows										
<i>\$/in Thousands</i>										
Cash Flows - Operating Activities										
Net Income	\$62,878	\$65,841	\$48,604	\$86,303	\$79,252	\$69,502	\$67,049	\$68,780	\$75,395	\$87,280
Adjustments to reconcile net income to net cash provided by operating activities										
Depreciation and amortization including intangible assets and deferred financing costs	19,340	22,298	21,942	27,207	27,321	28,687	30,121	31,627	33,209	34,869
Income from Equity investments in real estate and CPA REITs in excess of distributions received	(23)	(793)	479	(160)	(2,296)	(2,296)	(2,296)	(2,296)	(2,296)	(2,296)
Gains on sale of real estate and investments, net	(660)	(90)	(10,570)	(14,774)	(15,827)	(15,827)	(15,827)	(15,827)	(15,827)	(15,827)
Recognition of deferred gain on completion of development project	-	-	(2,000)	-	-	-	-	-	-	-
Minority interest in income	370	1,499	264	812	9,537	-	-	-	-	-
Straight-line rent adjustments	74	1,732	3,776	3,152	2,972	-	-	-	-	-
Asset management revenue received in shares of affiliates	(18,599)	(20,999)	(31,858)	(31,020)	(55,535)	(35,000)	(40,250)	(46,288)	(53,231)	(61,215)
Unrealized (gain) loss on foreign currency transactions, warrants and securities	(130)	(790)	779	(1,128)	(1,659)	-	-	-	-	-
Impairment Charges	4,440	22,098	21,770	4,504	3,334	5,000	5,000	5,000	5,000	5,000
Realized (gain) loss on foreign currency transactions	(556)	(430)	19	(488)	(1,332)	-	-	-	-	-
Costs paid by issuance of shares	215	168	201	-	-	-	-	-	-	-
Increase (decrease) in income taxes, net	6,294	10,926	(1,725)	24,311	1,796	-	-	-	-	-
Settlement provision	-	-	-	-	29,979	-	-	-	-	-
Tax charge - share incentive plan	2,700	3,423	604	-	-	-	-	-	-	-
Stock-based compensation expense	3,536	3,768	3,936	3,453	5,551	4,000	4,000	4,000	4,000	4,000
Decrease in deferred acquisition revenue received	1,495	5,978	9,961	12,543	16,164	17,780	18,314	18,863	19,429	20,012
Increase in structuring revenue receivable	(13,424)	(14,860)	(5,304)	(3,459)	(55,897)	(35,897)	(30,897)	(25,897)	(20,897)	(15,897)
Net changes in other operating assets and liabilities	(655)	(920)	(7,171)	8,684	4,111	4,317	4,532	4,759	4,997	5,247
Net Cash provided by operating activities	67,295	98,849	52,707	119,940	47,471	40,266	39,747	42,723	49,779	61,173
Cash Flows - Investing Activities										
Distributions received from equity investments in real estate and CPA REITs in excess of equity contributions	\$3,503	\$6,933	\$6,164	\$13,286	\$17,441	\$19,185	\$21,104	\$23,214	\$25,535	\$28,089
Capital Contributions made to equity investments in real estate	6,582	-	-	-	(3,596)	-	-	-	-	-
Purchases of real estate and equity investments in real estate	(8,184)	(115,522)	(465)	(102,199)	(80,491)	(45,000)	(45,000)	(45,000)	(45,000)	(45,000)
Capital expenditures	(2,843)	(1,596)	(2,975)	(4,937)	(15,987)	(11,000)	(7,000)	(4,500)	(3,000)	(2,500)
Loans to affiliates	-	-	-	(108,000)	(8,676)	-	-	-	-	-
Proceeds from repayment of loans to affiliates	-	-	-	108,000	8,676	-	-	-	-	-
Proceeds from sales of property and investments	24,395	6,548	45,542	50,053	42,214	45,000	45,000	45,000	45,000	45,000
Release of funds from escrow in connection with the sale of property	-	7,185	-	10,134	19,410	-	-	-	-	-
Funds placed in escrow in connection with the sale of property	-	-	-	(10,374)	(19,515)	-	-	-	-	-
Payment of deferred acquisition revenue to affiliate	(524)	(524)	(524)	(524)	(524)	(524)	(524)	(524)	(524)	(524)
Cash acquired on acquisition of subsidiary	1,300	-	-	-	-	-	-	-	-	-
Net Cash (used in) provided by investing activities	24,229	(96,976)	47,742	(44,561)	(41,048)	7,661	13,580	18,190	22,011	25,065
Cash Flows - Financing Activities										
Distributions paid	(62,978)	(65,073)	(67,004)	(68,615)	(71,608)	(72,954)	(75,157)	(77,427)	(79,765)	(82,174)
Contributions from minority interests	-	-	1,539	2,345	1,703	-	-	-	-	-
Distributions to minority interests	-	(1,101)	(355)	(6,226)	(8,168)	-	-	-	-	-
Scheduled payments of mortgage principal	(8,548)	(9,428)	(9,229)	(11,742)	(16,072)	(17,679)	(19,447)	(21,392)	(23,531)	(25,884)
Proceeds from mortgages and credit facilities	82,683	170,000	121,764	174,501	189,383	171,530	170,486	189,615	192,953	170,763
Proceeds from loans from affiliates	-	-	-	-	7,569	-	-	-	-	-
Prepayments of mortgage principal and credit facilities	(107,854)	(106,962)	(151,893)	(166,660)	(115,090)	(124,297)	(134,241)	(151,692)	(160,794)	(144,714)
Release of funds from escrow in connection with the financing of properties	-	-	-	4,031	-	-	-	-	-	-
Payment of financing costs	(391)	(1,238)	(797)	(1,601)	(1,350)	-	-	-	-	-
Proceeds from issuance of shares	7,789	6,649	4,400	8,660	20,682	8,000	5,600	5,040	4,536	4,082
Excess tax benefits associated with stock-based compensation awards	-	-	-	626	1,939	-	-	-	-	-
Repurchase and retirement of shares	-	(2,543)	(2,206)	(1,937)	(25,525)	(13,000)	(2,200)	(2,200)	(2,200)	(2,200)
Net Cash used in financing activities	(89,299)	(9,696)	(103,791)	(66,618)	(16,537)	(48,400)	(54,959)	(58,055)	(68,801)	(80,127)
Effect of exchange rate changes on cash	830	179	(369)	333	143	200	200	200	200	200
Net (decrease) increase in cash and cash equivalents	3,055	(7,644)	(3,701)	9,094	(9,971)	(273)	(1,433)	3,057	3,189	6,311
Cash & Cash equivalents, beginning of the year	21,304	24,359	16,715	13,014	22,108	12,137	11,864	10,432	13,489	16,678
Cash & Cash equivalents, end of the year	24,359	16,715	13,014	22,108	12,137	11,864	10,432	13,489	16,678	22,990

Source: I-Metrix, Edgar Online, Student Estimates

Appendix D: Estimated Cost of Equity

1. Cost of equity calculated by using CAPM parameters obtained from Bloomberg
2. Cost of equity calculated by using CAPM student estimated parameters
3. Cost of equity calculated by using WPC's weighted average cost of financing from the fourth quarter of 2007 plus a 3% premium
4. Cost of equity calculated by using the yield on BBB-rated corporate bonds plus a 3% premium

Estimated Cost of Equity		
Approach	COE	Equation
1. CAPM Bloomberg Approach	9.52%	Using: $R_f = 3.53\%$ $R_p = 6.58\%$ $\beta = 0.91$
2. CAPM Student Approach	8.23%	Using: $R_f = 3.53\%$ $R_p = 5.77\%$ $\beta = 0.814$
3. WPC Earnings Call Approach	8.99%	$= 5.99\% + 3.00\%$
4. BBB Plus Premium Approach	9.91%	$= 6.91\% + 3.00\%$
Average	9.16%	$= (9.52\% + 8.23\% + 8.99\% + 9.91\%) / 4$

R_f = Risk Free Rate R_p = Risk Premium β = Beta

Source: Bloomberg, Student Estimates, WPC Earnings call, and Federal Reserve Bank of Chicago

Appendix E: Blended Beta Calculation

First Stage. Find Historical Betas for WPC Using the S&P 500

Time	Beta	T-Value	R ²	Significant?
4 years monthly data	0.791	2.804	15.10%	Yes
5 years monthly data	0.684	3.153	14.60%	Yes
6 years monthly data	0.254	1.76	4.20%	No
10 years of monthly data	0.087	0.7	0.40%	No

Stock return = Alpha + Beta x S&P 500 + Error term

4 years: February 28, 2004-January 31, 2008

5 years: February 28, 2003-January 31, 2008

6 years: February 28, 2002-January 31, 2008

10 years: February 28, 1998-January 31, 2008

Source: Bloomberg, and student estimates

Second Stage. Find Levered Beta for WPC

The levered beta seeks to incorporate the financial leverage of the firm into the computation of beta. The levered beta is determined first by finding the unlevered beta of the industry by using the industry debt-to-equity (D/E) ratio, as follows: $\text{Unlevered Industry Beta} = \text{Industry Average Beta} / [1 + (1 - \text{Industry Avg tax rate}) * (\text{Industry D/E ratio})]$.

Using the industry averages of the firms in the lease-financing industry, we find the unlevered industry beta, as follows:

$$0.452 = 0.1.01 / [(1 + (1 - 0.35) \times (0.1.96))]. \text{ (Note: To be conservative, we omitted the D/E ratio of 29.55 for the Fortress Group (FIG),$$

The unlevered industry beta is then adjusted for WPC's debt-to-equity ratio:

$$\text{Levered Beta for WPC} = \text{Unlevered Beta for Industry} * [1 + (1 - \text{TSTY's tax rate}) * (\text{WPC's D/E ratio})].$$

The levered beta for WPC is, as follows:

$$0.621 = 0.452 * [1 + (1 - 0.35) \times 0.542].$$

Third Stage. Find Adjusted Beta for WPC

The adjusted beta accounts for the observation that most betas regress towards 1. The equation is as follows:

$$\text{Adjusted beta} = 0.343 + (\text{historical beta} \times 0.677)$$

To find the historical beta, we average the two significant betas, the four-year monthly beta and the five-year monthly beta, as shown in the table above, with the levered beta as follows:

$$0.696 = (0.7 + 0.677 + 0.621) / 3$$

We now substitute 0.696, the historical beta, into the adjusted beta formula to obtain WPC's beta:

$$0.814 = 0.343 + (0.696 \times 0.677)$$

Source: Damodaran Online, Bloomberg, and M. Blume (1975), "Betas and Their Regression Tendencies," Journal of Finance, pp. 785-799.

Source: Company 10-K and student estimates

Appendix F: Discounted Free Cash Flow to Equity (FCFE) for WPC

Discounted Cash Flow Valuation							
Fiscal Year	2007	2008	2009	2010	2011	2012	Terminal
Net Cash provided by operating activities	47,471	36,266	35,747	38,723	45,779	57,173	67,985
Net Cash used/provided by investing activities	(41,048)	7,661	13,580	18,190	22,011	25,065	28,374
Net Borrowing	56,871	29,554	16,798	16,531	8,628	164	(11,975)
=FCFE	63,294	73,481	66,124	73,444	76,418	82,403	84,384
Terminal Value after 2012							1,073,587
Shares Outstanding	38,113	38,044	38,424	38,808	39,197	39,589	39,984
FCFE/Share		1.93	1.72	1.89	1.95	2.08	26.85
Discount Factors		0.92	0.84	0.77	0.70	0.65	0.65
Present Value (PV) of FCFE/Share		1.77	1.44	1.45	1.37	1.34	17.32

Sum PV of FCFE per Share as of Year-end 2007	24.71
12-Month (March 2009) Price Target	27.57

Source: Student Estimates

Appendix G: FCFE Sensitivity Analysis

DCF Target Prices for March 2009						
		Terminal Growth Rate				
		0.50%	1.00%	1.30%	2.00%	2.50%
COE	7.50%	31.44	33.21	34.40	37.71	38.00
	8.00%	29.47	30.98	31.99	34.74	35.00
	8.50%	27.75	29.04	29.91	32.23	32.47
	9.16%	25.78	26.86	27.57	29.46	29.67
	9.50%	24.88	25.86	26.51	28.22	28.42
	10.00%	23.68	24.54	25.11	26.59	26.77
	10.50%	22.59	23.36	23.85	25.15	25.32

Source: Student Estimates

Appendix H: Two-Stage FCFE Assumptions

The following table shows the changes to the March 2009 target price as both the COE and terminal growth rate are varied in the FCFE valuation.

Discounted Cash Flow Model Key Assumptions						
	Stage 1: 2008 - 2012					Stage 2: After 2012
Fiscal Year	2008	2009	2010	2011	2012	2013
Revenue Growth	-20%	7%	8%	9%	10%	10%
Annual Capital Expenditure	2,843	1,596	2,975	4,937	15,987	11,000
Equity Dilution	-0.2%	1.0%	1.0%	1.0%	1.0%	1.0%
Dividend Payout Ratio	1.09	1.16	1.16	1.09	0.97	0.91
Annual Long-Term Debt Due for Repayment	50,209	36,730	14,552	90,546	33,374	91,340
Long-Term Debt to Total Capital	27%	26%	25%	24%	22%	21%
Discount Factors	0.92	0.84	0.77	0.70	0.65	0.65

- 1) Total Revenues are expected to decline in 2008 (mostly due to one time deferred revenue increases), and gradually increase each year after
- 2) While we do expect the closure of CPA fund 14 around the 2010 period, we have not incorporated it into our financials, as it would be extremely hard to anticipate the impact a few years in advance
- 3) Assumed a 2% increase in Dividends per year
- 4) Assumed an increase in interest expense for the next 5 years, due to higher borrowing costs and increased investments in 2010

Appendix I: Two-Stage Dividend Discount Model (DDM) Valuation

Dividend Discount Model Valuation				
Estimation of Cost of Equity (COE)	9.16%			
First Stage Growth Rate	2.00%	First 5 Year Growth Rate		
Terminal Stage Growth Rate	1.30%	WPC Historical 10 Year Average		
Div0 (2007 Annual Dividend)	\$1.88			

In the second stage of the dividend discount model, we use a sustainable growth rate of 1.3% and a COE of 9.16%. These factors significantly affect our target price. The following table shows how variations in the growth rate and COE alter the projected target price.

Source: Student estimates, Bloomberg, 10-k 2007

High Growth Period Dividends (2008-2012)		PV as of Year-end 2007		Year
Div1	1.92	PVD1	1.76	2008
Div2	1.96	PVD2	1.64	2009
Div3	2	PVD3	1.53	2010
Div4	2.03	PVD4	1.43	2011
Div5	2.08	PVD5	1.34	2012
Stable Growth after 2012				
Div6	2.1			2013

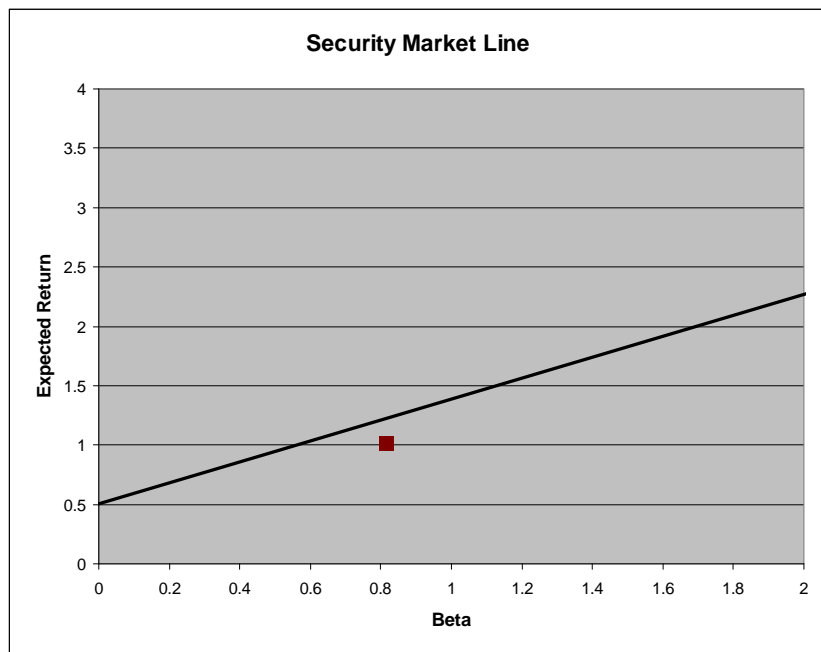
Terminal Price at Year-End 2012	\$26.75
PV of Terminal Prices at Year-end 2007	\$17.26
Intrinsic Value at Year-end 2007	\$24.96
Target Price as of March 2009	\$27.85

Appendix J: Two-Stage Dividend Discount Model (DDM) Sensitivity Analysis

Target Prices for March 2009						
		Terminal Growth Rate				
		0.50%	1.00%	1.30%	2.00%	2.50%
COE	7.50%	31.54	33.41	34.67	38.16	41.26
	8.00%	29.59	31.19	32.26	35.19	37.73
	8.50%	27.88	29.27	30.19	32.67	34.80
	9.16%	25.94	27.09	27.85	29.88	31.59
	9.50%	25.05	26.10	26.80	28.64	30.18
	10.00%	23.85	24.78	25.40	27.00	28.33
	10.50%	22.78	23.61	24.15	25.56	26.72

Source: Bloomberg and student estimates

Appendix K: Security Market Line



Using the expected betas and monthly return of the stocks in the S&P 500 for 2008, we conclude that WPC is overvalued, as indicated by its position below the security market line.

We construct the “mean-variance” efficient portfolios for the S&P 500 and Russell 3000 in five steps:

1. Estimate each stock’s expected return;
2. Estimate each stock’s beta and unique risk;
3. Rank the stocks in terms of a “return to beta” metric;
4. Use a cut-off formula that measures the degree to which each stock contributes to the return of the portfolio against the risk it contributes (see Elton and Gruber, *Modern Portfolio Theory and Investment Analysis*, John Wiley, 1995, chapter 9). The stocks that incrementally contribute more return than risk are included in the respective portfolio.
5. Use the “return to beta” and the unique risk of each stock that is included in the portfolio to estimate the percentage to be invested in it.

Only one of the eleven stocks, Blackstone, was included in each of the portfolios. A representative graph and the positions of selected stocks with respect to the standard security market line are shown below. Note that WPC’s position, which is below the line, suggests the stock should be sold short. It represents one more reason for the SELL recommendation.

Source: Bloomberg, *Value Line*, and student estimates

Appendix L: Relative Valuation

Valuation ratios for WPC and ten primary competitors

Company	Symbol	P/E (ttm)	P/E (2008E)	Current P/B	Current P/S	Current P/CF	ROE (2007)	Current Dividend Yield	Operating cash flow/net income	Cash/Debt	Cash/shares outstanding	Total Debt/Equity	FFO / share	EV/EBITDA
W. P. Carey	WPC	16.71	12.5	2.05	4.27	24.65	12.52%	6%	0.59	0.038	0.309	0.54	3.34	8.42
Brandywine Realty	BDN	65.04	5.22	0.89	2.08	6.45	2.66%	10.82%	3.89	0.002	0.064	1.81	2.55	11.73
Blackstone Group	BX	1.24	10	3.65	*	*	99.66%	2.09%	2.09	4.23	2.4	0.044	n/a	n/a
Boston Properties	BXP	9.61	31.88	2.87	7.03	16.66	38.44%	3.08%	0.48	0.275	12.61	1.5	4.71	16.5
Mack-Cali Realty	CLI	32.77	40.89	1.4	2.9	8.97	6.95%	7.60%	2.34	0.011	0.376	1.37	3.56	12.34
Fortress Investment Group	FIG	27.6	8.7	27.6	*	*	361.49%	7.91%	*	*	*	29.55	n/a	n/a
Jones Lang LaSalle	JLL	9.92	10.66	2.34	0.9	5.84	29.28%	1.34%	1.59	1.8	2.47	0.04	n/a	5.1
Lexington Realty	LXP	*	*	1.64	2.07	3.35	6.93%	8.93%	3.74	0.14	6.75	5.38	1.63	12.8
Realty Income	O	22.37	19.33	1.94	7.79	7.26	9.52%	7.18%	2.27	0.13	1.91	1.22	1.89	14.88
iStar Financial	SFI	11.58	5.06	0.91	1.41	3.61	8.20%	21.77%	2.35	0.024	0.765	5.26	3.75	13.74
Vornado	VNO	27.01	27.27	2.34	3.51	17.66	9.64%	4.53%	1.23	0.09	7.53	2.45	5.89	16.54
	Mean	22.39	17.15	4.33	3.55	10.49	53.21%	7.39%	2.06	0.67	3.52	4.47	3.42	12.45
	Median	19.54	11.58	2.05	2.9	7.26	9.64%	7.18%	2.18	0.11	2.16	1.5	3.45	12.8
	Std Dev	17.92	12.30	7.76	2.42	7.41	105.98%	5.61%	1.15	1.36	4.13	8.52	1.42	3.74
	WPC rank	5	6	6	7	8	5	7	8	7	9	3	5	2
	*Indicates no meaningful figure													
	n/a indicates not applicable													

Source: Bloomberg, Value Line, and student estimates

Appendix M: SWOT

Strengths

- Experienced in structuring deals
- Ability to close deals Quickly
- Strong Reputation in domestic market; WPC claims “first-to-call” among competitors
- Over 30 years of experience; Conservative nature and use of investment committee for approval
- Diversification among Industries; Ability to take advantage of opportunities in multiple sectors, as needs arise

Opportunities

- Expansion into foreign markets (though riskier markets)
- Growing European sale-leaseback market
- Make take on some riskier deals, but these also usually have higher returns
- Additional business from existing clients

Weaknesses

- Relatively new entrant into the European market, which has a larger market for sale-leaseback opportunities
- W.P. Carey does not have the same reputation as “first-to-call” among competitors
- Dependant on commercial banks and capital markets to finance deals
- Unlikely to compete in entire market due to its focus of “2-5 property deals” in the average range of \$50 million
- WPC doesn’t offer the diversification of services in it’s real estate operations segment, compared to some other competitors

Threats

- Intense competition in both the U.S. and European markets
- Investor concerns about the real estate market and the ability to raise investor capital
- Significant slowdown in M&A activity will likely reduce Sales-leaseback agreements
- Effect of Tenant defaults; slower rise in real estate values
- Economic Environment

Source: Bloomberg, Student Estimates

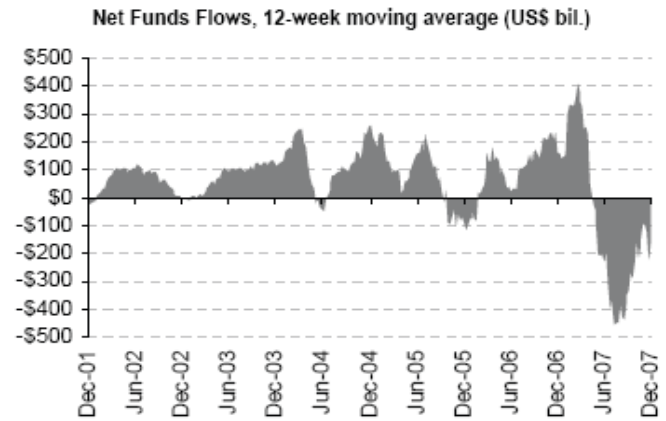
Appendix N: Portfolio Diversification by Sector

Table 3: Real Investment in Structures by Sector

Property Type	Growth in Real Investment	
	Percentage change	
	2007	2003-2007
Lodging	57.1%	-2.8%
Power	21.1%	-12.6%
Communication	15.6%	41.9%
Mining and Petroleum	14.1%	57.3%
All Non-Residential Property	13.1%	24.8%
Office	12.6%	31.8%
Multimerchandise Shopping	10.9%	66.9%
Healthcare	7.6%	20.1%
Manufacturing	4.6%	38.6%
Warehouse	4.0%	-0.3%

Source: Bureau of Economic Analysis

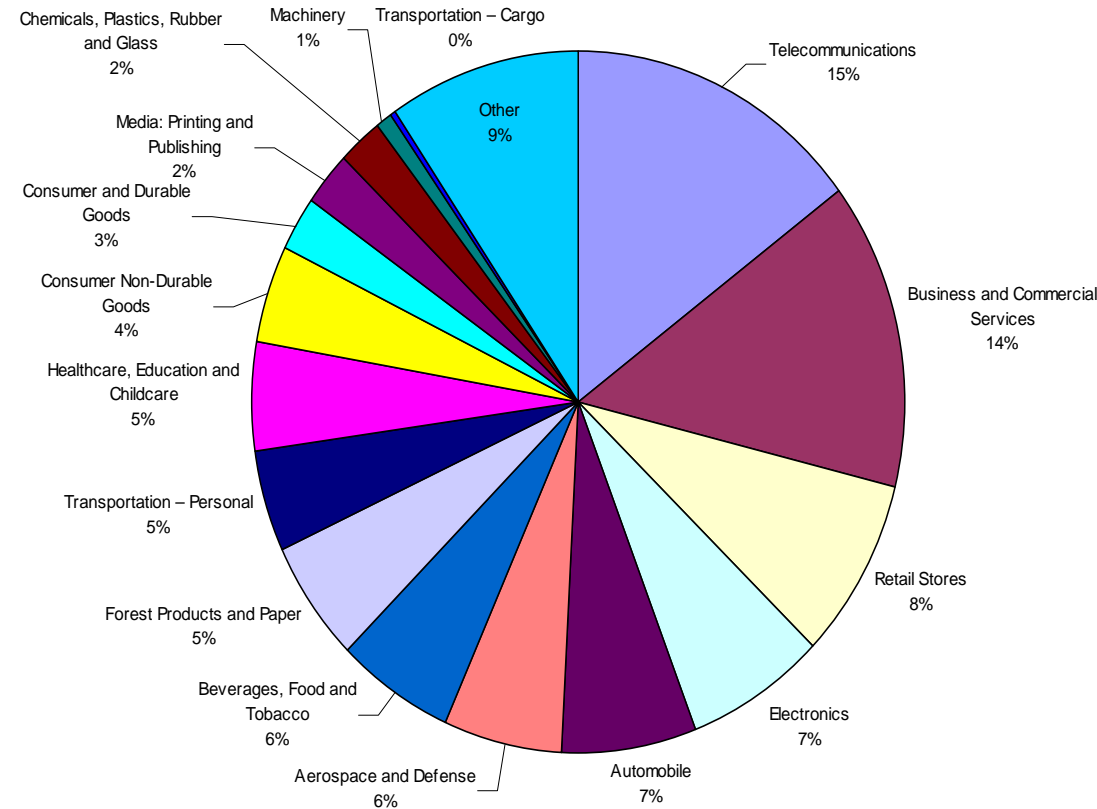
Capital Has Been Fleeing Dedicated REIT Funds



AMG Data Services

Appendix O: Portfolio Diversification by Property Type

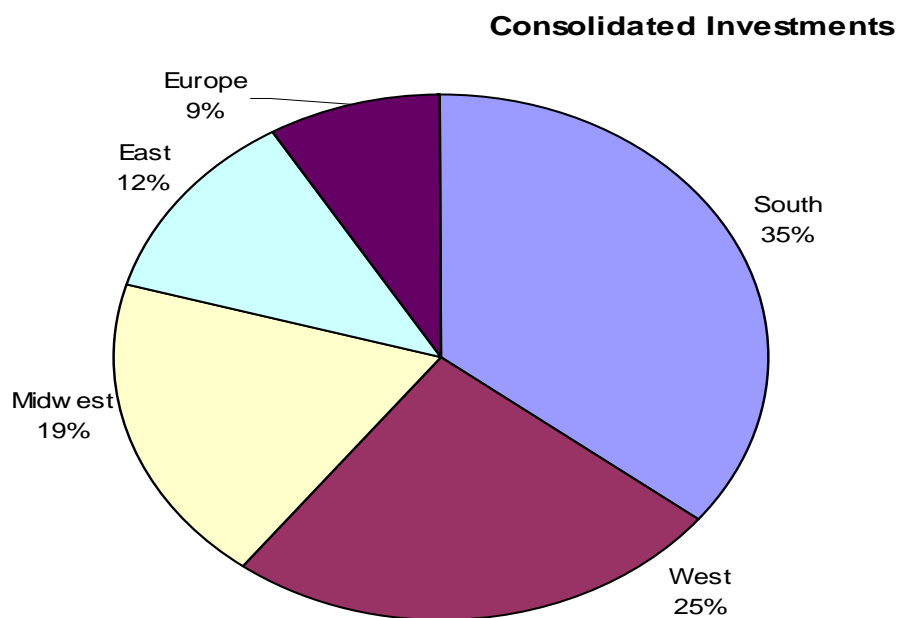
Tenant Industry ⁽³⁾	Annualized Contractual Lease Revenue ⁽¹⁾	% of Annualized Contractual Lease Revenue
Telecommunications	\$ 11,947	15%
Business and Commercial Services	11,466	14%
Retail Stores	6,855	8%
Electronics	5,677	7%
Automobile	5,284	7%
Aerospace and Defense	4,892	6%
Beverages, Food and Tobacco	4,747	6%
Forest Products and Paper	4,414	5%
Transportation – Personal	3,962	5%
Healthcare, Education and Childcare	3,854	5%
Consumer Non-Durable Goods	3,620	4%
Consumer and Durable Goods	2,176	3%
Media: Printing and Publishing	1,941	2%
Chemicals, Plastics, Rubber and Glass	1,750	2%
Machinery	771	1%
Transportation – Cargo	307	0%
Other	7599	9%



Source: 10-K 2007

Appendix P: Portfolio Diversification by Geography

Region	Annualized Contractual Lease Revenue ⁽¹⁾	% of Annualized Contractual Lease Revenue
United States		
South	\$ 28,919	36%
West	20,146	25%
Midwest	15,527	19%
East	9,669	12%
Total U.S.	74,261	91%
International		
Europe	7,001	9%
Total	\$ 81,262	100%

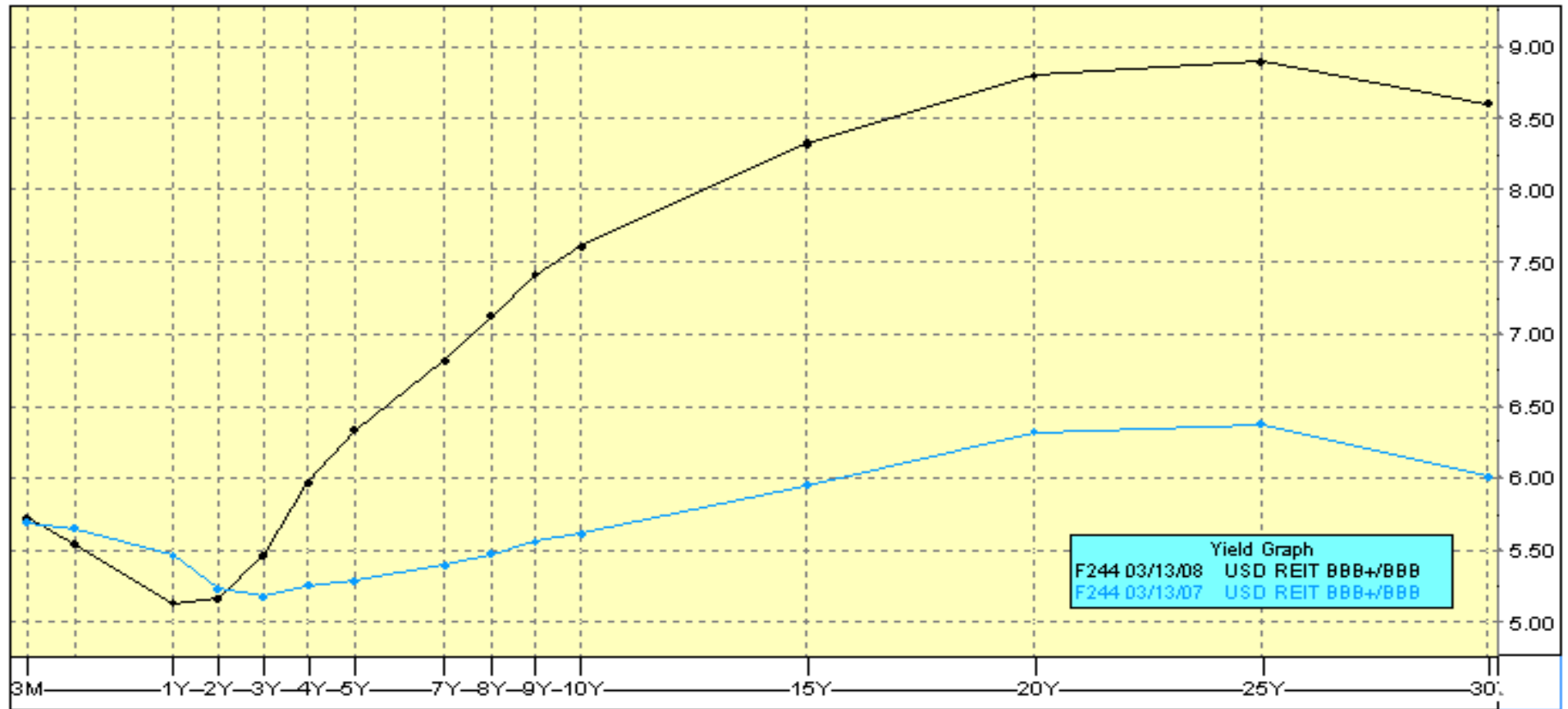


Source: 10-K 2007

Appendix Q: BBB+/BBB Yield Curve

Dark line, BBB+/BBB borrowing costs 03/13/2008

Light line, BBB+/BBB borrowing costs 03/13/2007



Source: Bloomberg

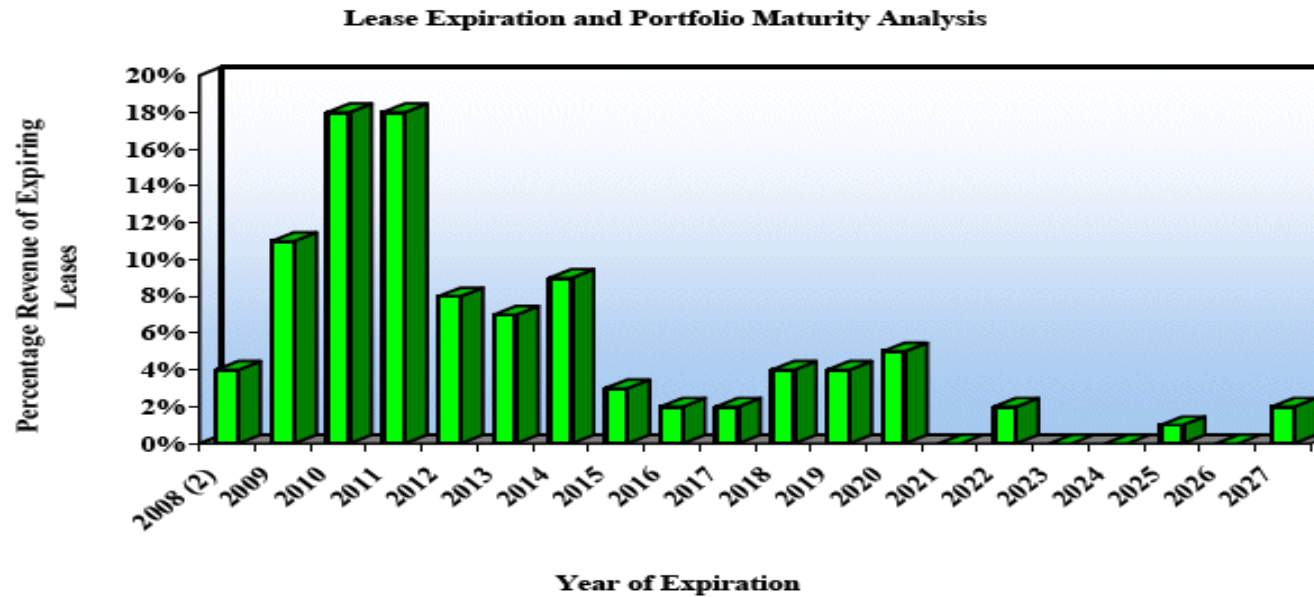
Appendix R: Portfolio Lease Maturity

Year of Lease Expiration (1)	Annualized Rents	Percentage of Total Annualized Rent
2008 (2)	3,749,428	4 %
2009	11,184,073	11 %
2010	17,979,034	18 %
2011	17,852,674	18 %
2012	8,036,123	8 %
2013	7,098,723	7 %
2014	9,282,105	9 %
2015	3,441,756	3 %
2016	1,665,363	2 %
2017	2,403,225	2 %
2018	3,853,779	4 %
2019	4,448,150	4 %
2020	4,634,253	5 %
2021		0 %
2022	1,581,496	2 %
2023		0 %
2024		0 %
2025	1,049,170	1 %
2026	947,700	0 %
2027	2,401,122	2 %
Total (3)	\$101,608,174	100 %

Source: 10-K 2007

Appendix S: Graph of Lease Revenue Expiration

Graph of the percentage of revenue accruing from expiring leases.



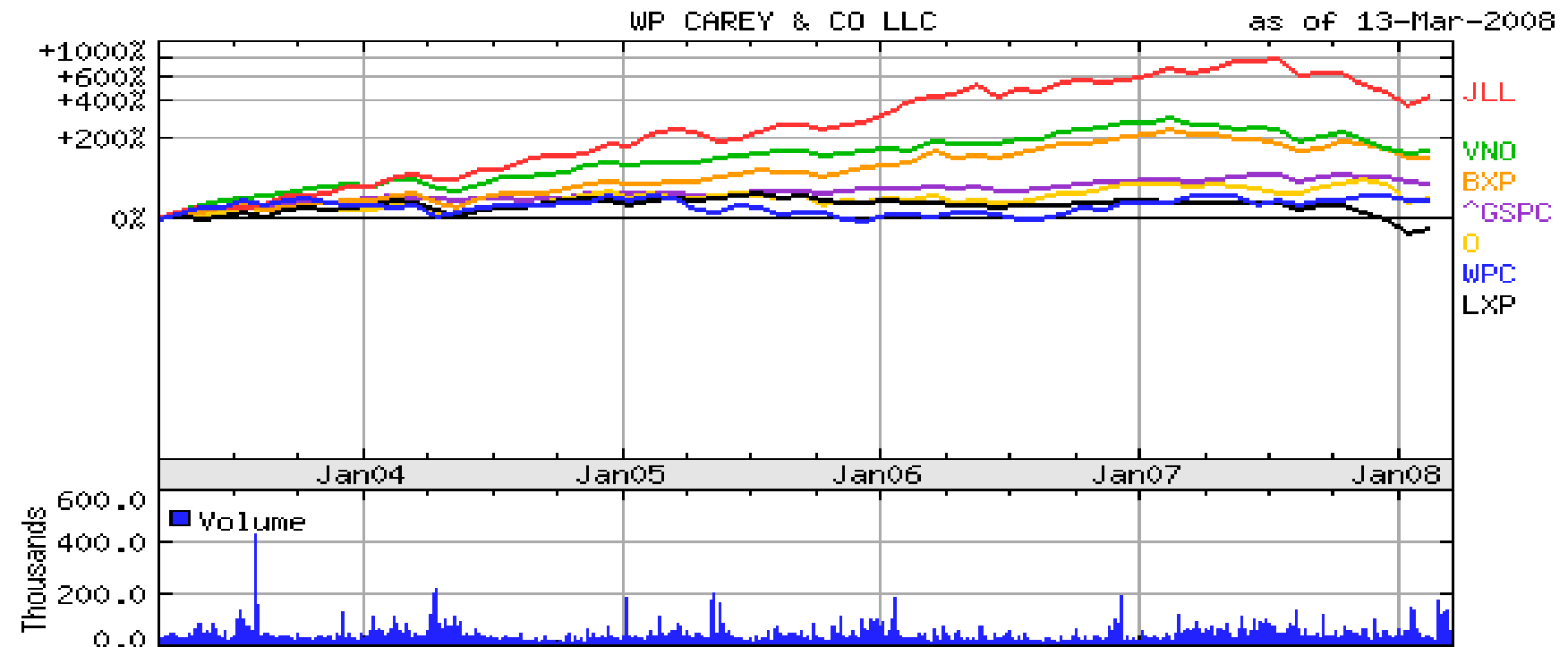
Weighted Average Years to Maturity: 6.04

- (1) Assumes tenant does not exercise renewal option
- (2) Properties with month-to-month leases are included in 2008
- (3) Excludes our investment in 13 domestic self storage properties totaling approximately 0.9 million square feet as of December 31, 2007

Source: 10-K 2007

Appendix T – Chart of W.P Carey over the Past Five Years

The chart explains WPC rate of return against its competitors and S&P 500.



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JLL = Jones Lang Lasalle, VNO = Vornado Realty Trust, BXP = Boston Properties Inc., GSPC = S&P, O = Realty Income CP, WPC = W.P Carey, LXP = Lexington Realty Trust

Source: Yahoo Finance

Appendix U: Debt Schedules

Schedule of fixed and variable rate debt for 2008-2010

Debt Mix		Weighted average interest		Company balloon debt schedule	
Fixed rate	\$183,180	6.30%		2008	\$40,581
Variable rate	\$133,571	5.90%		2009	\$26,755
Total	\$316,751	6.13%		2010	\$6,612

source: company 2007 10-K

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