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LIVING *is* GIVING

Roy March and Don Wood may live on different coasts but they share a passion for real estate and a belief in corporate responsibility and philanthropy.

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LIVING IS GIVING

REAL ESTATE PORTFOLIO

living *is* giving

BY ALLEN KENNEY

PHOTOGRAPHS BY BRIAN DAVIS

At first glance, Roy March and Don Wood seem like a study in contrasts.

March serves as CEO of real estate investment banking company Eastdil Secured LLC, a wholly owned subsidiary of Wells Fargo & Company. A 35-year veteran of the commercial real estate industry, March is a laid-back Californian who talks about the business like a scholarly college professor breaking down Plato and Milton.

As president and CEO of **Federal Realty Investment Trust** (NYSE: FRT), Wood runs one of the largest retail REITs in the country. The New Jersey native Wood is a high-energy corporate executive with a background in casinos and resorts.

Recently, however, the two have built a special friendship centering on their philosophies of corporate responsibility and philanthropy. *Portfolio* met with both men to discuss the current state of the REIT market, where the commercial real estate industry went wrong, how it's being fixed and why charitable giving is so important to them.

(l to r)
Don Wood,
Federal Realty
Investment
Trust, and
Roy March,
Eastdil
Secured LLC

>donwood

President and CEO, Federal Realty Investment Trust

Portfolio: Federal Realty has outperformed the major REIT indexes for nine years straight. How?

Don Wood: Tell the world what you're going to do, actually do it, tell them that you actually did it, and do that over and over again. Focus is so important in our business and it's just so easy to get distracted. You've got to really fight the temptation to swing for the fences. Bat for average, base hits, doubles and the occasional triple let you get away with the occasional strikeout.

We acknowledge that we are subject to the same risks as everybody else out there. The question we always ask ourselves is, How do we make each one of those risks matter a little bit less to us?

Making risks matter less sounds easier said than done.

I don't think it is, but it does require a comprehensive view of all parts of the business year in and year out—capital structure, tenant base, reliance on development, quality of the real estate, etc. There's no one-year fix.

So how does that show up in Federal Realty's strategy and performance?

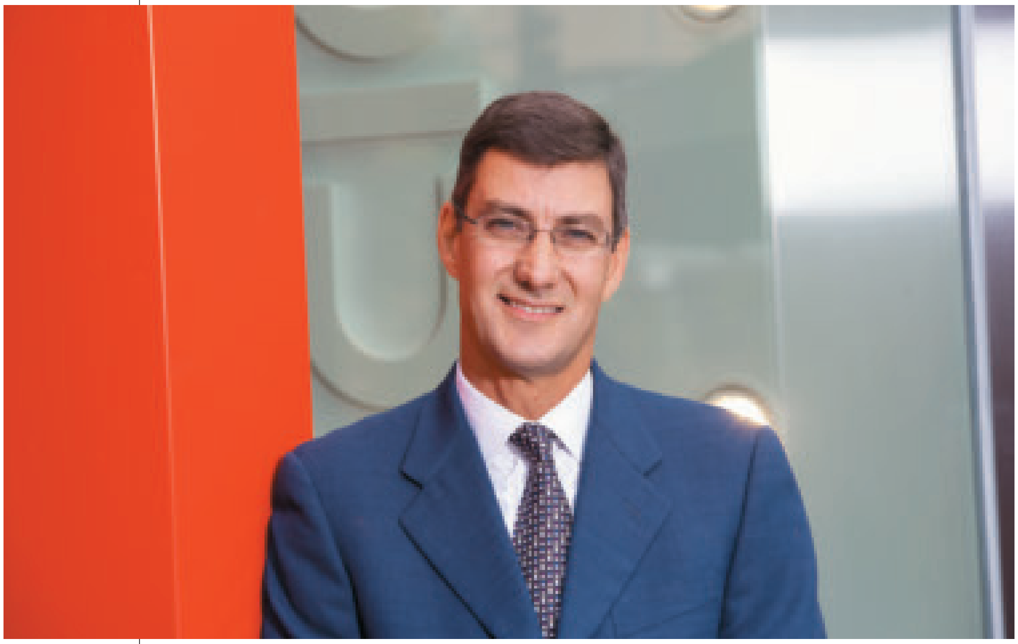
It's all about trying to be set up to have as many alternatives for any given situation. Take liquidity. Having low leverage is one thing, but having a largely unencumbered portfolio is probably more important. We try to take advantage of the unsecured bond market—and equity markets, for that matter—whenever they're open, even if they're slightly more expensive. We do that so that we can fall back on property-level secured financing when other markets are closed. Today, over $3 billion of our shopping centers are unencumbered. "What's the contingency plan?" is a way of thinking that we apply to every facet of the business.

One observation that is frequently made about Federal Realty is that the stock is too expensive. What's your opinion?

My opinion is truly irrelevant. We've tried to set up and operate the company to provide higher growth with less risk and more consistency and stability. We've tried to make it easy to understand and provide lots of supplemental data to aid transparency. The marketplace will determine the value from there. I will go back to the question you asked first: How has Federal Realty outperformed the major REIT indices for nine years in a row?

What's your outlook in terms of fundamentals in the retail market?

Not very good for a couple of years. I think that, generally, there's too much retail space available and not enough demand, particularly in the box categories, and it's hard to see how that changes any time soon. Consumers won't be spending until they're secure in their jobs and their debt levels have been paid down. There are just very few signs yet of that much progress. Never has it been more important to own retail real estate in densely populated areas with solid incomes and strong barriers to entry.



What about opportunistic buying? Do you think distressed assets will hit the market soon?

Distressed opportunities are already starting to become available, but we haven't seen anything yet. Maturing debt obligations and continued economic stress at the consumer level pair up to make it impossible for current owners to just hang on. The key for us will be finding those assets that will recover nicely over the long term and really add value to our firm five or 10 years from now. In other words, most bargains aren't bargains at all.

[continues on page 22]

roymarch<

CEO, Eastdil Secured LLC

Portfolio: What's your take on the current state of play in the financial markets?

Roy March: I don't know if I'm hearing bones crunching or ice melting, but it feels like the financial markets are beginning to thaw a bit. Whereas we thought that this was going to be a dead year, we're starting to see signs of people beginning to lend money. Still, because of the cost of capital and the restrictive underwriting standards, some lending institutions, such as insurance companies, still have a fair amount of money that hasn't been deployed.

What do you think it will take to create some stability in the commercial real estate market?

In order for us to begin to find the new level of stability in the real estate valuation markets, we have to get the lending markets back on track. We're at levels in terms of transaction volume that are so low they weren't even on charts that were established back in the earlier part of this decade.

What do you consider to be the greatest lessons the commercial real estate industry should learn from this latest market downturn?

Frankly, the availability of capital and loose underwriting standards meant that it was a little too easy for too long for too many people.

More importantly, people had lost touch with the human side of the business; everything was so commercial. The elements of a transaction lost their personality. The facelessness of securitization eventually wrought many of the troubles we're now experiencing with servicing agreements and the like. The world had gotten off track, and the commercial side was out of balance with the human side.

As the market has contracted, it has become clear that we're all living through this tragedy together. I've observed that there seems to be a bit of humanity kind of creeping back into peoples' commercial lives.

Has the recession and decline in the commercial real estate market strengthened or weakened the REIT investment proposition?

One of the great benefits to the REIT format of ownership and investment is transparency. I don't think there's another industry that can match the transparency of the REIT industry in terms of what builds up into the overall enterprise value. Then, there are the matters of liquidity and REITs' access to both the private and the public capital markets. Consider these equity offerings that have been done in 2009 and REITs' growing access to the public debt markets—that kind of capital could not have been raised through the private markets.

It's only as a result of the ability to tap nontraditional investors that this recapitalization has been possible. That has been a huge advantage for REITs, and I think that advantage will only increase.

Do you expect the trend of secondary equity offerings to continue?

The institutional memory is such that the only way we're going to find a path toward stabilization is going to be through the public markets. I think it's going to be very difficult to re-engage a lot of these institutions into what had been a very frothy market.

If we could get some share price lift here in the near term across the market you'll see a whole host of offerings. There are some companies that still have not hit the markets and will need some strategic capital. Those that have already done so will have tons of dry powder to make acquisitions on a strategic basis.

[continues on page 22]

[*Don Wood*, continued from page 20]

In terms of management mindset, how do you go about staying focused on the long view?
It's all we know. Federal Realty has been around since 1962 and has raised its dividend every year since 1967. We haven't been able to find large portfolios to buy because we're never happy with the lower quality stuff that comes with the "A"-quality property, and we're not usually willing to take the increased risk of selling off what we don't want. It's why we've grown one and two properties at a time over the years, but it has resulted in a very long-term mindset throughout the firm and a kind of "handpicked" portfolio.

How has the world changed for you in the past year?
Our business has always been dependent on finding the right people. I think the suddenness of this correction really necessitated rightsizing. In some respects, it's healthy. It has forced executives and managers all the way through the organization to get closer to their real estate. For example, our acquisitions team members are doing more of their own due diligence now.

In general, it has created a need for more focus in our industry for the next few years. I think that how REITs operate in the next three years is going to make or break them for the following 10 to 15 years. So, you better have the right people in place who have their eye on the ball when it comes to taking care of the real estate. You better be buying with tighter underwriting standards. You better be financing more conservatively. And you better be making sure that you're getting paid for the incremental risk you're taking on, or you shouldn't do development. In short, no chasing growth for growth's sake.

How do you think this differs from the landscape for private real estate companies?
There's really not much difference, except around the edges. Great real estate works in either private or public structures; it really just depends on the risk tolerance of the investors. I do think that simpler business plans with more transparency are more important in public companies, as we're trying to cast a wider net for prospective shareholders. Easily understood companies are often rewarded by investors in the form of higher multiples.

Acknowledging that the overall playing field has changed, do you feel confident about Federal Realty's future?
I couldn't feel any better about the prospects for this company in the next few years. Track record is probably the best tool that you have to create strong working relationships going forward. That clearly gives you an advantage. It's going to be a lot harder for the unproven companies to make deals.

So, for us, it's going to be more of the same, except we'll be looking at high-quality acquisitions that have been unavailable for the last five years. We'll be getting a chance at more stuff that we wouldn't otherwise, and we've got the balance sheet conservatively set up to be able to do it.

I can't wait.

[*Roy March*, continued from page 21]

How has this impacted Eastdil Secured's strategy and the potential for initial public offerings going forward?
We played a role in the recent Government Properties Income Trust (NSYE: GOV) initial public offering. We are scouring portfolios to discover where we can bring some of these overleveraged assets into the public equity markets.

Commercial mortgage REITs will be the fuel in terms of getting the major portion of the capital structure in real estate values reignited and re-established. There is a tremendous amount of demand out there for these products. I believe you'll see several of these blind equity raises that go off north of a billion dollars.

Future opportunities based on market distress have become a major talking point among commercial real estate stakeholders. How do you see these opportunities presenting themselves?
Distress appears to be present in the debt markets, although most people have looked at it as "stress" and not "distress" yet. Not to take a holiday on someone else's misery, but there definitely will be opportunities in the near future, especially as current lenders become equity holders.

I also think things will happen in places where transactions were overleveraged. These are cases where the capital that is going into the assets isn't yielding a high enough return to merit those investments.

It's a different world in many respects. These aren't owners who have their blood and guts invested in the real estate business. These are financial traders who have fiduciary responsibilities to their funds. Many of these owners are endowments or pension funds that are not taxpayers. Therefore, foreclosure as an option is not as big of a deal as it was in the past.

So how long will it be before some of these opportunities hit the market?
Right now, I think we're seeing institutions trying to kick the can down the road a little bit more. People are looking for relief through extensions, or they're simply unwilling to put up the significant capital needed to maintain their equity positions. I think we'll see a lot more of this distressed selling start to happen in 2010.

What about the possibility of IPOs from companies trying to capitalize on these troubled assets and situations?
I just don't see equity REITs specifically dedicated to distressed assets cropping up. You might see specific funds being raised, but I don't think you'll be seeing REITs being created to do it.

However, we are seeing mortgage REITs being created, and my guess is that this will be a very active market. Because of the size of the problem in this area, the amount of activity, in terms of IPOs and follow-on offerings to replenish these new companies' capital reserves, will be very significant. ✦

friendships *fostering* foundations

BY ALLEN KENNEY

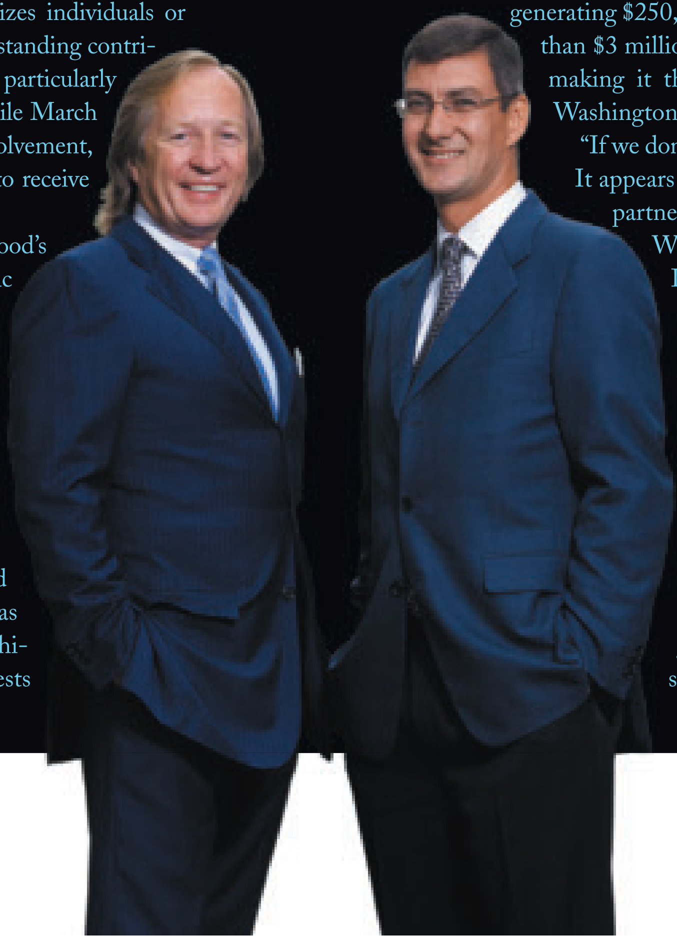
Until a couple years ago, Roy March knew pretty much nothing about cystic fibrosis. Now, he's about to be honored as a patron in the battle against the genetic disorder. Why? It all goes back to his friendship with Don Wood.

Wood has become an expert on the subject in the last 13 years as he has watched his daughter Rachel grow up fighting the disease. He now chairs the Corporate Leadership Council and Metro D.C. Chapter of the Cystic Fibrosis Foundation (CFF). It was Wood who first approached March about getting involved with the cause.

CFF plans to bestow its Hitchcock Humanitarian Award for 2009 on March at its annual Breath of Life Gala on Nov. 14 in Washington. The award recognizes individuals or corporations who have made outstanding contributions to the welfare of others, particularly those with chronic illnesses. While March has a history of philanthropic involvement, it's the first time he has agreed to receive such an honor.

March says knowing that Wood's daughter was afflicted with cystic fibrosis was what initially drew him to CFF. However, when selling March on the value of CFF's work, Wood says he tried to stress the idea that despite being a nonprofit organization, the Foundation operated very much like a traditional business.

CFF has become renowned for its business model, which has come to be known as "venture philanthropy." The Foundation invests in joint ventures with biotechnology companies to develop drugs designed to fight cystic fibrosis. The model has demonstrated notable efficiency, passing on 90 cents of every dollar it raises to research, development and education programs, while producing a drug pipeline with more than 30 promising therapies.



The intermingling of his personal involvement with CFF and his professional life as the head of a publicly traded company has had a positive impact on both sides, according to Wood. He says he has no qualms with approaching business associates to become involved with the Foundation, because he believes doing so has helped them build more meaningful relationships. At the same time, he notes that the Breath of Life Gala has grown from generating $250,000 in donations in 2002 to more than $3 million in each of the past three years, making it the largest net fundraiser in the Washington area.

"If we don't do this, who else will?," he asks.

It appears as though Wood has found ideal partners for CFF in March and the Wells Fargo family of businesses. In 2008, Wells Fargo's charitable giving topped $226 million, a 5 percent increase from the previous year. March says he encourages his employees to take an active role in the parent company's community service and charitable programs.

"Living is giving," March says. "Everyone has the ability to be great, but in the end, their greatness is determined by their service." ✦