2015 BDO REITs RISKFACTOR REPORT

LOOMING INTEREST RATE INCREASES SPUR MANY INDUSTRY CONCERNS FOR REITs

The ***2015 BDO RiskFactor Report for REITs*** examines the risk factors in the most recent 10-K filings of the largest 100 publicly traded U.S. real estate investment trusts; the factors are analyzed and ranked by order of frequency cited.

As the real estate industry, fueled by a stabilized economy and low interest rates, continues to accelerate, the REIT market is also strengthening. While REIT industry professionals may currently be enjoying increased market activity, potential rising interest rates are contributing to a collective sense of cautious optimism. These sentiments are reflected in REITs' risk disclosures; REITs demonstrate an increasing concern around interest rates, competition, cybersecurity, taxes and business interruption.

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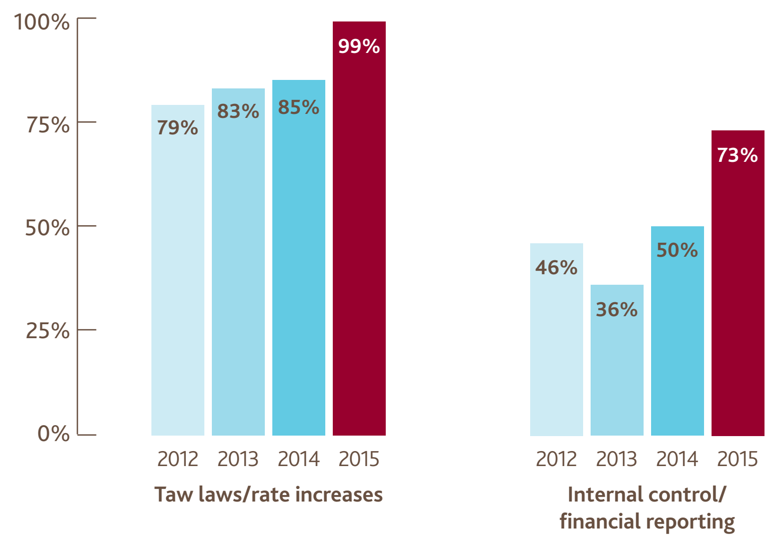
"Uncertainty around the future of interest rates, high demand and limited availability of attractive assets are prompting REITs to take new approaches to their M&A strategy before rates potentially rise. Many REITs are employing new deal structures to remain active in their core, primary markets while others are exploring opportunities in secondary and tertiary markets," said **Anthony La Malfa, partner with BDO's Real Estate & Hospitality Services group.**

LOW INTEREST RATES MAY LEAD TO M&A ACTIVITY

A growing number of REITs (97 percent) cite interest rates as a top concern this year, up from 90 percent in 2014, and 88 percent the year before. Low interest rates have been a key factor in the growth of the REIT industry over recent years; however, a jump in rates could limit the industry's ability to fund further expansion. Low interest rates may also be contributing to the recent rise in the industry's M&A (mergers & acquisitions) activity, which can also pose many risks to REITs, including the addition of tax, legal and tenant liabilities of new properties. This year, 97 percent of REITs note risks related to M&A, joint ventures and partnerships, up from 85 percent in 2014.

Taxes and Financial Reporting Among Top Risks



COMPETITION FUELS EXPANSION RISKS

Coupled with heightened M&A activity is REITs' worry around industry competition and consolidation. This year, 98 percent of REITs cite it as a risk, a jump from 94 percent in 2014. The concern is twofold: with a lack of quality assets on the market, there is more competition for attractive, affordable properties. Additionally, acquiring, merging or partnering with other companies in joint ventures is becoming a more competitive process. Aside from looking to other companies for growth opportunities, REITs are also expanding their asset portfolios through development projects. These projects can be complex and often pose a number of financing, timing and zoning obstacles. This may explain why 80 percent of REITs list risks related to development and construction, up from 69 percent last year.

TAX LAW AND INTERNAL CONTROL RISKS ON THE RISE

REITs are increasingly concerned about tax laws and rate increases. This year, 99 percent of REITs cite taxes as a risk, up from 85 percent in 2014. This worry around taxes is echoed in BDO's inaugural Tax Outlook Survey of 100 tax directors at $1 billion-plus public companies. Forty-five percent of respondents say uncertainty about foreign, federal and state tax laws is their primary tax issue, and 75 percent say the cost of compliance in the tax and financial regulatory landscape has risen over the last three years.

The jump in REITs' concerns may be partially explained by growing worries around M&A activity. M&A transactions can reveal unforeseen tax liabilities of properties for which the new owner may be financially responsible. REITs also signal rising concern around internal control and financial reporting standards, which 73 percent of REITs list as a risk, up from 50 percent last year.

"REITs are focusing on tax planning to ensure that they can navigate today's increasingly complex tax environment and leverage business growth opportunities, including M&A transactions," said **Robert Klein, tax managing partner of BDO USA, LLP's New York City office and member of the Real Estate practice**. "This approach can have a long-lasting, positive impact on their tax position."

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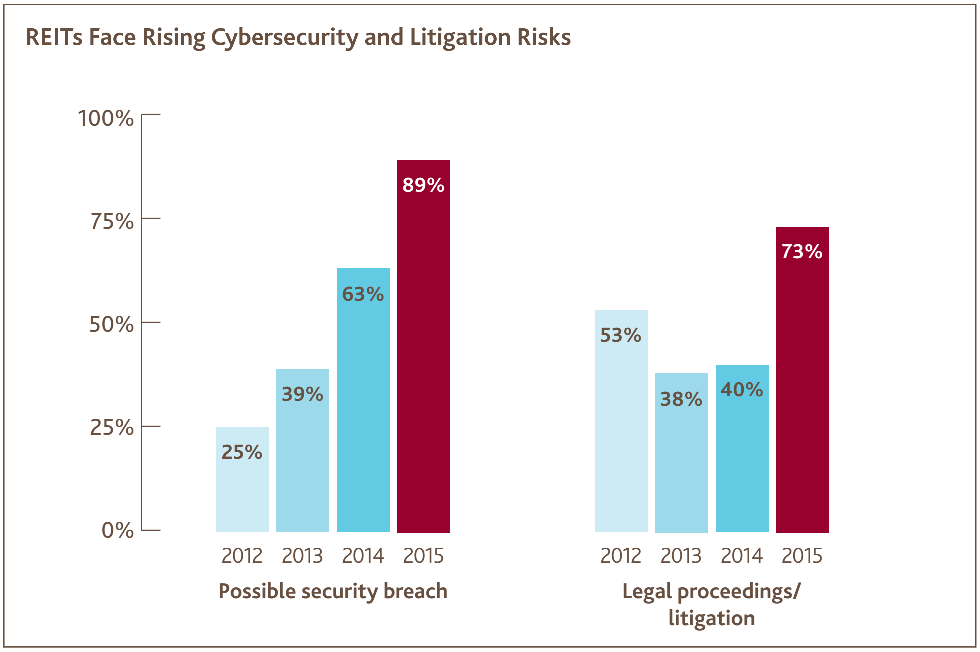
"While low interest rates have been a large contributor to the real estate industry's recovery, a sudden increase in rates could affect REITs' access to capital and, as a result, ability to pursue growth opportunities," said **Stuart Eisenberg, partner and Real Estate practice leader at BDO**. "Currently healthy economic fundamentals and a lack of competitive alternative investments could offset this concern and keep the industry well-positioned for success; however, the future of financing is definitely top of mind for REITs."

RISING CYBERSECURITY THREATS DRIVE CONCERN OVER LEGAL PROCEEDINGS

Recent cyber attacks on large companies such as Primera Blue Cross, Sony Pictures, Staples and JPMorgan Chase in the last year alone prove that no industry is safe from this growing threat. While the cost of remediation depends on the type and scale of breached data, the average price after an attack is more than $8 million, according to *Global Notary, Inc.* The REIT industry, which invests in assets across many sectors, is increasingly exposed to this risk as it more heavily relies on data storage and sharing technology. Eighty-nine percent of REITs cite security breaches as a risk, up notably from 63 percent last year, and 39 percent in 2013. Aside from financial losses, cyber attacks can result in reputational damage and the loss of confidential company, client and stakeholder information. This may result in extensive legal proceedings and is likely contributing to the increase in REITs listing litigation as a risk this year.



POTENTIAL RISING INTEREST RATES CAUSE FINANCING CONCERNS

While there has been looming uncertainty around the fate of interest rates, it is generally expected that the Federal Reserve will begin raising rates this year. If rates rise quicker or higher than expected, the real estate industry may not have adequate time to adjust and consequently, the cost and availability of financing may be negatively impacted. This increasingly likely scenario may be why 99 percent of REITs cite access to financing as a risk this year, up from 93 percent in 2014. Additionally, if the cost of financing goes up, interest payments to lenders may follow suit. This could strain REITs' debt covenant restrictions and explain why 95 percent of REITs cite risks related to debt obligations, up from 83 percent last year.

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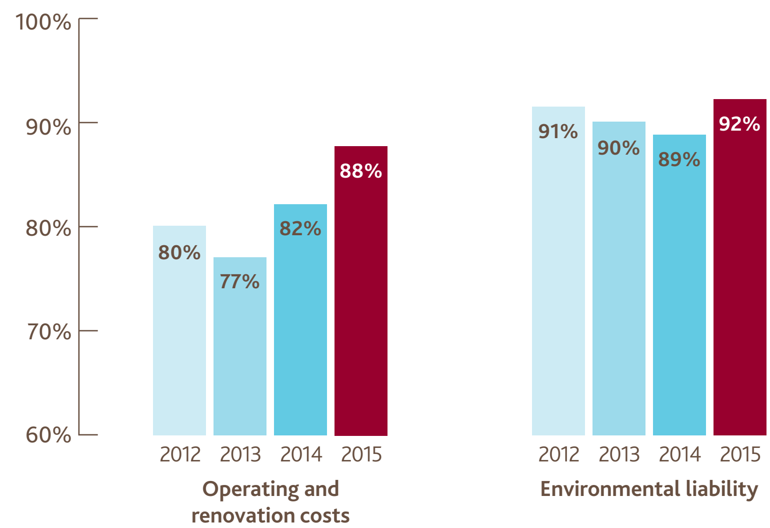
WORRIES OVER OPERATIONAL COSTS AND ENVIRONMENTAL LIABILITY GROW

Uncertainty around the future of tax and inflation rates, which impact REITs' operating budgets, may contribute to REITs' growing concern around their operational expenses and costs of capital improvements. If these expenses greatly outweigh rental income, then REITs may suffer serious financial ramifications. This may explain why 88 percent of REITs cite operating and renovating expenses as a risk this year, up from 82 percent in 2014, and 77 percent the year before. Not only can the cost and timing of renovation and remodeling projects prove burdensome, there is no guarantee that the improvements will help to retain or attract tenants. Related to worry over making capital improvements is environmental liability, which 92 percent of REITs list as a risk this year, up from 89 percent last year. REITs may have to make property upgrades to keep up with increasingly stringent environmental laws or bear the financial burden that accompanies the cleanup of an unknown environmental contamination uncovered during renovations.

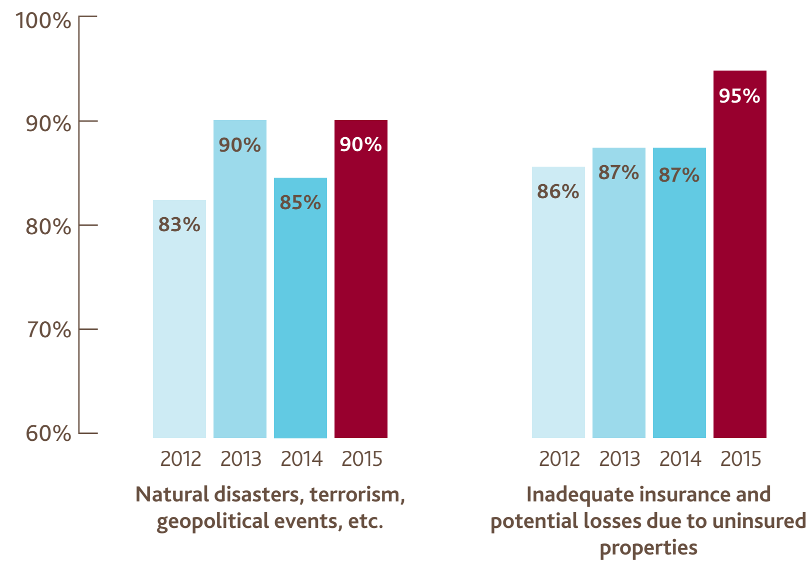
Operating Costs and Environmental Liability of Concern for REITs



BUSINESS INTERRUPTIONS MAY CAUSE INSURANCE ISSUES

Natural disasters and severe weather events can have many harmful effects on the real estate industry. Impeding demand and market activity, decreasing land value, heightening development standards while slowing construction projects are among the many potential negative implications. With a record-breaking snowfall in the Northeast this past winter and drought in California, it is clear why more REITs are paying attention to this growing risk. This year, 90 percent of REITs note natural disasters and climate change, along with terrorism, war and civil unrest as a risk, up from 85 percent last year. Likely related is REITs' growing fear of potential financial losses due to uninsured liabilities during an unforeseen event. Ninety-five percent of REITs cite concern around insurance, up from 87 percent in 2014.

REITs' Concern Over Business Interruptions and Insurance Grows



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The Top 25 Risk Factors Cited by the 100 Largest U.S. REITs:

2015 Rank	Risk Factor Cited in 10-K Filing	2015	2014	2013	2012
#1	Risks associated with general and local economic conditions including disruptions in the financial markets, lack of demand	100%	100%	100%	100%
#1t	Failure to qualify as REIT and loss of tax incentives; ability to make distributions	100%	100%	100%	100%
#3	Access to capital, financing and liquidity	99%	93%	94%	97%
#3t	Tax laws and increases in rates	99%	85%	83%	79%
#5	Strong competition for leasees, prime real estate; consolidation in industry	98%	94%	96%	93%
#6	Increases in interest rates; hedging	97%	90%	88%	92%
#6t	Risks associated with mergers and acquisitions, joint ventures and partnerships	97%	85%	82%	90%
#8	Insurance: self, credit, cost, potential losses due to uninsured liabilities	95%	87%	87%	86%
#8t	Debt/financial covenant restrictions	95%	83%	76%	79%
#10	Inability to sell properties quickly due to illiquidity of RE investments	93%	89%	82%	89%
#10t	Federal, state or local regulations	93%	86%	85%	94%
#12	Environmental liability	92%	89%	90%	91%
#12t	Risks related to indebtedness	92%	75%	85%	90%
#14	Natural disasters, health epidemics, terrorism and geopolitical events; climate change	90%	85%	90%	83%
#14t	Risks associated with payments of common and preferred stock; suspension	90%	85%	68%	68%
#16	Risks associated with a possible security breach resulting in the release of confidential customer, employee and corporate information	89%	63%	39%	25%
#17	Operating expenses and costs of capital improvements and renovations	88%	82%	77%	80%
#18	Risks associated with anti-takeover provisions; change of control	82%	86%	80%	84%
#19	Property foreclosure; bankruptcy	80%	73%	65%	37%
#19t	Development and construction risks (permits, costs, abandonment)	80%	69%	70%	72%
#19t	Credit risk (rating, extension of, fraud, red flag)	80%	55%	38%	53%
#22	Tenants may be unable to pay rent; financial condition of tenant; unemployment	78%	79%	75%	71%
#22t	Declines or stagnation in the values of business and real estate values; asset impairment	78%	74%	70%	65%
#24	Loss of key management personnel (CEO, Chairman, etc.); new key personnel, new leadership	75%	76%	67%	68%
#25	Internal controls and financial reporting risks, accounting rule changes	73%	50%	36%	46%
#25t	Legal proceedings, litigation	73%	40%	38%	53%

*t – indicates a tie in the risk factor ranking

The RiskFactor Report for REITs reveals that while the real estate industry is enjoying healthy fundamentals and a bevy of activity, it is operating in an ever-evolving landscape comprising both familiar and new risks. With concern around interest rates, taxes and other risks in the background, REITs will need to maintain high standards of due diligence to ensure that nothing is overlooked while developing and implementing their business strategies. At the same time, they will need to be open to considering newer, alternative tactics to continuously adjust to the industry's dynamic environment.

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