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# The REIT Industry's First 55 Years: Keys to Longevity

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**ABSTRACT**

On September 14, 2010, the REIT industry, created by Congress for individuals to invest in commercial real estate, celebrated its 50th Anniversary. In September 2016, Equity REITs and listed real estate companies were elevated with a new Global Industry Classification Standards (GICS) Real Estate sector. Only three REITs survived the first 55 years: Washington Real Estate Investment Trust, Pennsylvania Real Estate Investment Trust, and Winthrop Realty Trust. The research question is, "Do the three companies with the most longevity in the industry reveal any differences from other REITs that left the market?" Historical analysis from 1961 - 2015 utilized Compustat, SNL Financial, and hand-collected data. Financial analysis included REIT industry specific metrics, along with traditional financial ratios. Significant differences exist in the three surviving REITs and all other REITs that offers insight into long-term survival in real estate markets. Qualitative analysis provides further insight into possible contributors to REIT longevity.

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## I. INTRODUCTION

Since the origin of the Real Estate Investment Trust (REIT) industry in 1960, the industry has undergone many changes in its 55 years in existence, arriving at its current standing as one of the major capital providers of real estate in the United States. On September 14, 2010, the REIT industry celebrated its $50^{th}$ Anniversary, and in 2016, it continues to gain prominence with the establishment of a new Global Industry Classification Standards (GICS) Real Estate sector. President Eisenhower signed REITs into law to enable Americans to invest in large-scale and diversified real estate portfolios. Nineteen public offerings of REITs occurred in the first two years of passage of the REIT law (Killen, 1973), and three of them still existed 55 years later: Washington Real Estate Investment Trust, Pennsylvania Real Estate Investment Trust, and Winthrop Realty Trust (formerly known as First Union Real Estate Equity and Mortgage Investments).

Financial data for the three companies, along with financial data on other companies that have been part of the industry during its first 55 years, are analyzed in a triple case study to illustrate the progression of the REIT industry and possible keys to industry longevity. Selected qualitative factors on the three companies are analyzed as a complement to this quantitative analysis. The following research question is addressed, "Do the three companies with the most longevity in the industry reveal any differences from other REITs that left the market?"

## II. LITERATURE REVIEW

REITs have become an important component of the market since their initial introduction in 1960. Just as mutual funds allow for investments in stocks, REITs allow for investments in real estate ("REITs – What are they? How do they work?", 2007). Parmelee (2005) states that many individuals are not as familiar with REITs; however, they are an attractive investment since entities must pay out 90% of its income in dividends.

Investors, creditors, and the public look to financial measures to evaluate the performance of companies. A company's strong performance motivates investment and growth, which increases its chances of long-term survival. Typically, analysts evaluate REITs using "Funds from Operations (FFO)" which is defined as net income calculated per Generally Accepted Accounting Principles (GAAP), plus depreciation and amortization, eliminating gains (losses) on the sales of property, and after adjusting for the effects of unconsolidated partnerships and joint ventures (NAREIT, 2002). Removing the effect of gains and losses allows one to get a better picture of the future income producing potential of the REIT. NAREIT (National Association of Real Estate Investment Trusts) formally implemented the definition of FFO in 1991 to endorse a supplementary industry-wide measure of REIT performance, without the problems related to GAAP net income (NAREIT, 2002). In 2003, the Securities and Exchange Commission (SEC) permitted companies to use FFO per share in SEC filings (Santucci and Newell, 2003). The industry adopted FFO due to the deemed irrelevance of GAAP-based depreciation for income-producing real properties. Proponents of FFO believe that the residual value of real estate, in particular income-producing properties, is much higher than its depreciated value indicates. In addition, the properties do not decline in value as suggested by GAAP depreciation, but in many cases, appreciate in value (Khang and Zao, 2009). Depreciation is typically the largest expense excluded from FFO in measuring operating performance (Tsang 2006), and with its exclusion, proponents of FFO argue that using FFO provides a better operating measure. REIT specific metrics, such as Funds from Operations (FFO), Modified Funds from Operations (MFFO), and Adjusted Funds from Operations (AFFO) assist investors and analysts in determining a firm’s dividend-paying ability and future profitability (Shields, 2010).

Another financial measure that indicates the market’s perception of future earnings potential for REITs is the FFO multiple. It utilizes the REIT’s closing price divided by FFO per share, and analysts use it to gauge REIT valuation and entity success. In determining what makes a successful REIT, Vakalopoulos (1993) found that the Dividend Payout ratio and the Dividend Yield accounted for the most variability in the FFO Multiple when performing quantitative analysis. The interplay of these factors highlights their importance and consideration in evaluating performance. Dividends can spark investor interest, thus are worth examination. In addition, dividends are a significant portion of the total return of REITs (NAREIT, 1998). Even though the financial measures above are important, Vakalopoulos (1993) found in the qualitative portion of her study that high inside ownership and experienced management were the key to REITs trading at higher multiples, and not just dividends.

The Debt ratio is particularly relevant for REITs, as REITs are heavy purchasers of real estate and large amounts of funding are required. REITs fund most of their acquisitions through raising capital or external borrowing. Sometimes a REIT will dispose of real estate assets to fund the purchase of new assets, but REITS achieve a significant portion of the funding externally through the issuance of stock or long-term borrowing. Analysts, investors, company personnel and NAREIT personnel track the debt ratio to determine the strength of a REIT’s balance sheet. Acknowledging their importance in 1973, NAREIT published a table of the debt ratios of the investment REITs.[1]

The Leverage ratio is a common ratio in most financial analysis and previous research on REITs cites this financial measure. Valachi (1976) performed financial ratio analysis on a matched sample of failed and active REITs to identify if differences in certain ratios could predict REIT failures. Valachi (1976) noted that the relationship of debt to equity was one of the indicators of REIT failures, as firms that are unable to pay their debts are not able to survive in the long-term. Because of the importance of debt, the Leverage ratio and Debt ratio are both important considerations for company stability.

Total revenue growth and total asset growth are two metrics commonly used to track a company or industry’s growth and maturation. Significant growth is indicated for both metrics during the 55 years, as REITs experienced their biggest growth after the early 1990s. With changes in tax laws and the shutting down of many tax shelters and partnership arrangements, REITs found increased investor interest. REITs previously could not compete for capital with the tax shelters, as the REIT produced taxable income and could not pass through losses to shareholders (NAREIT, 1998).

Performance and stability financial measures are important for long-term survival, but so are liquidity measures for REITs. The ratio of cash and cash equivalents to total assets is important to REITS and all companies as a liquidity measure. Valachi (1976) analyzed this ratio in his study on failed REITs as a metric for liquidity.

So, what factors led to the ability of these three REITs to survive while all others failed during the first 55 years? In order to answer this question, one must not only consider the financial measures, but also study the history of these REITs. Through an understanding of the history, investors, analysts, and managers may find possible indicators of longevity.

Washington Real Estate Investment Trust (WRIT) began in the greater Washington D. C. area in 1960, and the company has remained true to its emphasis on local real estate. Lerner (2010) states that contrary to traditional REITs, WRIT has a diversified property platform. Management admits that a large part of their success is due to the stable Washington D. C. market. With government offices and the nation's capital, it is known to be one of the most stable markets in the U. S., with the office sector being WRIT's largest. WRIT has also focused on the smaller tenant, thus making it less vulnerable to one tenant leaving a large vacancy. The continued focus for WRIT is to increase occupancy levels, even though its 90% occupancy rate is high in consideration to most other REITs (Lerner, 2010).

Pennsylvania Real Estate Investment Trust (PREIT) began initially as a vehicle to supply funding for developers and to provide joint venture equity. Lerner (2010) notes that because of early financial constraints, the company was much smaller in its younger years. Its shared focus of multi-family and legacy buildings from its early days remained intact until the late 1990s. In 1997, PREIT merged with The Rubin Organization, expanding into the retail market, while continuing with the multi-family focus to build on earlier successes. In 2003, PREIT merged again with Crown American Realty Trust, with further retail expansion. Presently, PREIT focuses on the retail sector, as not only developers, but also owners/managers. This REIT's philosophy is the opposite of WRIT's due to its belief that diversified REITs are less favorable than becoming single focused with greater vertical integration (Lerner, 2010).

Lerner (2010) notes that similar to WRIT, PREIT management prefers to stay physically near most of their properties in the Mid-Atlantic region. The resilience of its base geographical area with higher income and stable growth, along with its various types of tenants, has allowed it to survive. Management feels a close relationship with their customer base is necessary, and works with historical preservation in unification with its communities. Its experience in redevelopment provides the REIT with an advantage, since it has worked throughout its existence with distressed assets. (Lerner, 2010).

Winthrop Realty Trust (formerly known as First Union Real Estate and Equity Mortgage Investments), began with two properties and expanded its portfolio to include the retail, service, and office sectors. Winthrop focuses on joint ventures, where it can combine local area expertise with its infusion of capital to grow investments. Winthrop looks for entities to acquire that own real estate, to obtain preferred equity, or invest in first mortgage debt of real estate. Winthrop prides itself on patiently waiting for the right opportunities and avoiding the market mania that can drive investors (Investor Relations, Winthrop, 2010).

It is important to note that Winthrop announced on April 29, 2014 a plan of liquidation, which included an orderly liquidation of company assets. Owners of the company's common shares made the decision to liquidate based on the assumption that funding and projects could not be obtained to yield the desired returns, disparities existed between stock price and net asset value, and purchase offers were not in the best interest of the current shareholders. The Board felt the underlying value of the company was best achieved through liquidation (Winthrop 4/29/14). The company continued to operate in its name throughout 2015, even though it began the sale of some of its assets. In 2016, Winthrop transferred its remaining assets to the Winthrop Realty Limited Trust, which still exists in 2019 (Winthrop Realty Liquidating Trust - Form 10K, 2019).

Patterns of success within individual companies over the first 55 years, or in conjunction with the industry, can provide guidelines for management and investors in navigating their financial futures or becoming long-time operators in a market. In order to understand the direction of the companies, one must also understand the industry. NAREIT provides a timeline for the fifty years of the REIT industry (NAREIT, REIT 50 Years Timeline, 2010), which is important to understanding the factors that produced industry growth, success, and development.

During its development as an industry, significant events have occurred throughout which shaped its identity. Even though the REIT industry began in 1960, the first REIT listed on the New York Stock Exchange occurred five years later in 1965. Between 1969 and 1974, REITs expanded from $1 billion to approximately $21 billion in total assets, which was during the time mortgage REITs financed development. The real estate market downturn between 1989 and 1991 was one of the worst since the Great Depression, which likewise hurt the REIT industry. Within two years, the industry would experience growth again with the lifting of the five or fewer investors rule in 1993 making REITs an attractive investment for pensions[2] (NAREIT, REIT 50 Years Timeline, 2010).

Growth continued throughout the 1990s, as the IRS expanded REIT services to allow REITs to manage and operate real estate owned. With the decade of the 2000s, REITs obtained global interest. REIT exchange traded funds (ETFs) hit the market as the iShares Dow Jones U. S. Real Estate Index Fund. In 2001, Standard & Poor's' Indexes began including REITs, thereby adding to their notoriety in the stock markets. With 2009 and the global credit crisis, REITs reduced debt and strengthened balance sheets (NAREIT, REIT 50 Years Timeline, 2010).

Michael Ashner, current Chairman/CEO of Winthrop, and a member of the REIT industry since the 1980s, believes market conditions have promoted the success of the REIT industry. He believes the real estate crisis of the early 1990s forced many REITs to reduce debt and morph out of private equity funding situations, which in his opinion was the most dramatic event for the REIT industry. He sees Equity REITs as a dominant form of real estate investing (Flynn, 2010).

Historical accounting research can provide an industry with key information necessary for longevity and success. As Aristotle noted, "if you would understand anything observe its beginnings and its developments" (as cited in Grant, 1995: 19). Studying REIT history through the lens of financial accounting assists in understanding the components that have allowed the REIT industry to survive and thrive over the last 55 years, while providing insights into the components that will propel it successfully forward. As Winston Churchill stated, "The longer you look back, the farther you can look forward" (as cited in Langworth, 2011: 576). George Santayana stated, "Those who cannot remember the past are condemned to repeat it" (Santayana, 1905: 284).

This study addresses the 55$^{th}$ Anniversary of the REIT industry and provides information relevant to the financial markets of the United States and its participants. The purpose of this research is to analyze the three companies that survived, along with the REIT industry, to identify events and trends over 55 years and to establish benchmarks for evaluating the longevity of future companies.

## III. METHODOLOGY

This study's analysis of the REIT industry, and the three entities that survived, will occur in two parts. First, the researchers will analyze entity financials using trend analysis and ratio analysis as its quantitative component. Second, the researchers will interview some of the managers of the three surviving REITs and utilize other information (e.g., press releases, websites, and NAREIT information) to gain a better understanding of factors that enabled these companies to survive. This second part will utilize qualitative research techniques as an additional component and complement to the quantitative research.

This study will utilize specific REIT-related metrics, along with traditional financial metrics. REIT specific metrics include Funds from Operations (FFO) stated per share, as a multiple, and as a payout. Traditional financial metrics include debt ratios, profitability ratios, asset growth, revenue growth, and cash flows from operations.

FFO per share allows investors to determine the value of FFO at the share level. FFO multiple will be analyzed, as it is similar to the Price-Earnings ratio. The FFO Multiple approach is the most common method used by NAREIT and industry analysts to evaluate the value of a REIT. FFO payout shows FFO at the share level in relation to net income at the share level. This comparison is helpful for investors that may be more familiar with net income and can use it to evaluate FFO.

Dividends are an important metric in evaluating REITs, since REITs pay out most of their taxable income in dividends. Because of the significance of dividends to total return for REITs, this study looks at the dividend yield and dividend payout. The dividend ratios are examined individually and in accordance with the FFO Multiple as indicators of longevity.

The Debt ratio, which compares total debt to total assets, will be computed and analyzed, as REITs are heavy utilizers of debt. In addition, the Leverage ratio, which compares total debt to total equity, will be subsequently computed and analyzed. The two debt ratios will be combined to evaluate how the use of leverage may have affected entity longevity.

Total revenue growth and total asset growth are two metrics commonly used to track a company or industry's growth and maturation. Thus, the growth in assets and revenues will be included in the financial measures to evaluate the development of this industry and individual company connections.

To analyze liquidity, and the cash component of a REIT specifically, the ratio of cash and cash equivalents to total assets will be computed. By analyzing the cash component, one can determine if the three surviving companies show a pattern of liquidity different from the other companies that have either entered the market later or left the market. Companies that do not have sufficient cash flow are unable to survive in the long-term.

After performing an analysis of the metrics discussed above, ANOVA testing and additional post-hoc testing will determine if significant differences exist between the three surviving companies and other companies that have participated in the REIT industry over the 55 years. For each of the three surviving companies (WRIT, PREIT and Winthrop) the analyzed metrics will be compared individually to the average of the REIT industry, excluding these three surviving companies. ANOVA testing will determine if significant differences exist, and additional post-hoc testing will determine where the specific significant differences lie.

In addition to the quantitative analysis performed above, the researchers utilize qualitative analysis via interviews, press releases, and other articles on the three companies and its officers. For this study, discussion of qualitative analysis will be limited to its relationship to the results of the quantitative analysis. Interviews will be conducted with officers at each of the three REITs: WRIT, PREIT, and Winthrop. These interviews will help assess the companies' strengths, their management's strategies, their organizations' unique characteristics, factors that contributed to the companies' successes, and any information helpful in explaining the company's ability to maintain longevity throughout the last 55 years.

Data from two nationally recognized databases, SEC filings, and company records provide the information analyzed. All of the information will become documentation to identify success factors and similarities among the three companies, WRIT, PREIT, and Winthrop. In addition, patterns and differences between these three companies and other companies in the industry that have either not survived or came into the industry later will be examined.

The two nationally recognized databases to pull the quantitative information are Compustat North America data (Compustat) and SNL Financial data (SNL)[3]. While many researchers are familiar with Compustat in financial research, SNL has not been around as long and not as well known in financial research. Some research in the finance and real estate areas have used SNL primarily for its industry-specific content. While Compustat provides information on companies in the REIT industry for most of its 55 years, REIT industry-specific measures are not widely available there. SNL provides industry-specific measures, in particular related to FFO, on the REIT industry going back to 1990. Thus, both databases are useful in this research to draw inferences and conclusions. As data on companies listed on stock exchanges is only available digitally since the early 1970s, financial information for the years prior was not readily available. Of the three surviving companies, WRIT and PREIT were able to provide financial information going back to their first prospectus. However, Winthrop had major ownership changes during its tenure, thus early information was unobtainable by company personnel.

## IV. RESULTS

Detailed descriptions of the ratios utilized in this study are in Table 1. The mean ratios of the three surviving companies, along with the combined other REITs, are in Table 2.

To obtain the mean of all the other REITs, the ratios relating to all the other companies (excluding WRIT, PREIT and Winthrop) were winsorized[4] to eliminate extreme outliers that could distort the values and lead to misleading inferences. Through review of the Pearson correlation coefficients, the FFO Payout and Dividend Payout ratios, and the Debt and Leverage ratios, were highly correlated. This correlation is an expected result.

**Table 1**
Description of ratios

| Ratio | Description | Formula |
|---|---|---|
| FFOSH | Funds from Operations (FFO) per share | =FFO/Shares Outstanding |
| FFOMUL | Funds from Operations (FFO) Multiple | =Price/FFO per share |
| FFOPAY | Funds from Operations (FFO) Payout | =FFO per share/Net Income per share |
| DIVSH | Dividends per share | =Annual Dividends/Shares Outstanding |
| DIVYLD | Dividend Yield | =Annual Dividends per share/Price per share |
| DIVPAY | Dividend Payout | =Annual Dividends per share/Net Income per share |
| DEBT | Debt Ratio | =Total Debt/Total Assets |
| LEV | Leverage Ratio | =Total Debt/Total Equity |
| ASSETGR | Growth in Total Assets | =(End of Year Total Assets - Beginning of Year Total Assets)/Beginning of Year Total Assets |
| REVGR | Growth in Total Revenue | =(End of Year Total Revenue - Beginning of Year Total Revenue)/ Beginning of Year Total Revenue |
| CASH | Cash to Assets Ratio | =Total Cash & ST Investments/Total Assets |

**Table 2**
Means for all other companies, Winthrop, Pennsylvania REIT & Washington REIT

| Entity | FFOSH | FFOPAY | FFOMUL | DIVPAY | DIVSH | DIVYLD |
|---|---|---|---|---|---|---|
| ALLCOS | 1.534 | 0.484 | 8.378 | 0.209 | 1.056 | 0.070 |
| FUR | 1.237 | 0.180 | 3.099 | 0.089 | 0.910 | 0.072 |
| PEI | 2.375 | 0.294 | 10.017 | 0.192 | 1.546 | 0.078 |
| WRE | 1.774 | 0.293 | 13.892 | 0.179 | 1.315 | 0.060 |

| Entity | DEBT | LEV | ASSETGR | REVGR | CASH |
|---|---|---|---|---|---|
| ALLCOS | 0.480 | 1.883 | 0.148 | 0.181 | 0.051 |
| FUR | 0.601 | 2.145 | 0.096 | 0.192 | 0.062 |
| PEI | 0.567 | 2.074 | 0.152 | 0.109 | 0.099 |
| WRE | 0.415 | 0.972 | 0.111 | 0.544 | 0.069 |

Means for all other companies, Winthrop, Pennsylvania REIT & Washington REIT table covers overall mean from 1971-2015. ALLCOS – All other REITS, not including Winthrop, Pennsylvania REIT, and Washington REIT. FUR – Winthrop Realty Trust; PEI-Pennsylvania REIT; WRE-Washington REIT.

Reviewing Table 2, FFO per share for all other companies is 1.531. Both WRIT and PREIT have values above 1.534, with the values of 1.774 and 2.375, respectively. Winthrop has a value of 1.237, which is below that of the all other companies. For FFO Multiple, once again WRIT and PREIT have values greater than all other companies do, with values of 13.892 and 10.017, respectively. The value of 8.378 for the FFO Multiple for all other companies is higher than the value for Winthrop of 3.099. Interestingly, the FFO Payout is higher for all the other companies with a value of .484. In terms of the Dividend Payout, the value is higher for the all other companies at .209, also. For Dividends per share, both WRIT and PREIT have higher values than all the other companies do. WRIT has a value of 1.315 and PREIT has a value of 1.546. FUR's

Dividends per share is lower at a value of .910. Winthrop is again lower than all the other companies, which it has been for all the ratios discussed. For Dividend Yield, PREIT has the highest value of .078 and WRIT has the lowest value with .060, with Winthrop and all other companies having a similar value of .072 and .070.

For the balance sheet, in terms of the Debt-to-Assets ratio, the all-other companies' line shows a value of .480. WRIT has a lower value of .415, but both PREIT and Winthrop shows higher Debt ratios of .567 and .601. For the Leverage ratio, the all-other companies show a ratio of 1.883, with PREIT showing a value of 2.074 and Winthrop showing a value of 2.145. WRIT shows a much lower Leverage ratio of .972. In terms of Asset growth, the all-other companies and PREIT show similar values, while Winthrop and WRIT are lower. For Cash-to-Assets, PREIT is .152, whereas WRIT is .111 and Winthrop is .096. All other companies show a lower liquidity value than all the three surviving companies of .051. Lastly, Revenue growth is highest for WRIT at .544, with PREIT showing .109 and Winthrop at .192. All other companies show a revenue growth of .181.

A One-Way Analysis of Variance (ANOVA) for the eleven ratios with entity type as the factor identified significant statistical differences in the ratios among each of the individual three companies' averages and the average of all other companies. At a significance level of α = .01, five of the eleven ratios showed statistically different means as shown in Table 3.

**Table 3**
ANOVA results-differences between rations.

| Ratio | Sig | | F value |
|---|---|---|---|
| FFOSHARE | .000 | *** | 9.399 |
| FFOPAY | .020 | ** | 3.373 |
| FFOMULT | .000 | *** | 6.562 |
| DIVPAY | .016 | ** | 3.521 |
| DIVPERSH | .000 | *** | 15.839 |
| DIVYLD | .056 | * | 2.561 |
| DEBTASSET | .000 | *** | 12.462 |
| DEBTEQ | .000 | *** | 17.411 |
| ASSETGR | .805 | * | 0.328 |
| REVGR | .366 | | 1.063 |
| CASHASSET | .097 | * | 2.139 |

***, **, and * indicate significance at 1%, 5%, and 10% levels, respectively.

However, at a significance level of α = .05, two additional ratios showed statistically significant difference among the categories tested. Since statistical significance was shown for some of the ratios, additional Post-hoc testing was performed utilizing the Tukey HSD[5] test.

Using a significance level of α = .01, FFO per share identified significant differences between PREIT and Winthrop (ρ = .000), and PREIT and all other companies (ρ = .001). At a significance level of α = .05, PREIT and WRIT showed significant difference (ρ = .029). WRIT and Winthrop only showed a marginally significant difference (ρ = .089). Thus, the core of the difference in FFO per share can be attributed to PREIT, whose average FFO per share over the period examined exceeded $2, while the averages for every other category was only in excess of $1.

FFO Multiple identified significant differences between WRIT and Winthrop (ρ = .000), and PREIT and Winthrop (ρ = .028). Between WRIT and all other companies, only marginal significance was found (ρ = .109). WRIT's FFO multiple of 13.891 far exceeded Winthrop's multiple of 3.099, and was larger than PREIT's multiple of 10.017 and all other companies' of 8.378. As FFO multiple uses the price of the stock over FFO, WRIT's stock trades at an average multiple 13 times greater than FFO. The significance of the difference in FFO multiple indicated by ANOVA seems to be driven primarily from how WRIT's stock is valued by the market in consideration of its FFO. The market also seems to place value on PREIT and it earnings potential, above that of the combined other companies and Winthrop.

Utilizing ANOVA and considering a significance level of α = .05, FFO Payout revealed significant differences among the categories. The only significant difference was noted between Winthrop and all other companies (ρ = .013). No other significant differences were noted among the entity types. Winthrop's FFO Payout of .181 was the lowest of the categories tested.

Dividends per share identified significant differences between PREIT and all other companies (ρ = .000), PREIT and Winthrop (ρ = .000), and WRIT and Winthrop (ρ = .000). Only marginal significance was found in the differences between WRIT and all other companies (ρ = .050) and WRIT and PREIT (ρ = .100). Winthrop's average dividend per share is $.91, while the other categories exceed $1.

Utilizing ANOVA and considering a significance level of α = .05, Dividend Payout and Dividend Yield indicated significant differences among the categories. Dividend Payout identified marginally significant differences between Winthrop and all other companies (ρ = .017), and Winthrop and PREIT (ρ = .055). Dividend Yield identified marginally significant differences between WRIT and PREIT (ρ = .0746).

For the Debt ratio, significant differences were noted amongst WRIT and Winthrop (ρ = .000), WRIT and PREIT (ρ = .000), and Winthrop and all other companies (ρ = .003). Interestingly, WRIT and all other companies did not show statistically significant differences in their Debt ratio. For the Leverage ratio, WRIT showed significant differences between itself and PREIT (ρ = .000), Winthrop (ρ = .000), and all other companies (ρ = .000). For the Debt ratio, WRIT has a value of 41%, which is significantly lower than the other categories, which are all closer to or above 50%. For the Leverage ratio, WRIT has a value of .97, whereas all the other categories are close to or above 2.00. By looking at either the Debt or Leverage ratio, WRIT displayed significant differences overall in its levels of debt when compared to the other entities under study, which emphasizes the importance of this balance sheet item for WRIT.

ANOVA testing revealed differences across entity type, as the focus was on the differences amongst the three companies and/or other companies in the industry. The results indicated significant differences do exist for some, if not most, of the metrics according to the particular entity. These quantitative differences offer some insight, but consideration of qualitative information is necessary to provide background and summary information helpful in identifying possible keys to longevity.

Looking at the quantitative data and talking with REIT management, the ability to manage the downturns and time market financing needs are important contributors to a REIT's financial success over the long-term. Qualitatively, all three of the surviving companies have management that have been in the industry a long time and understand the dynamics of real estate and financing. Thus, a common characteristic leading to the companies' success and longevity would have to be strong, experienced, senior management.

The consistency in management at WRIT and PREIT relates to the consistency of the entities' rates of return throughout the real estate cycles. The fluctuation in Winthrop's returns ties to the fluctuation in management styles and strategies that has marked Winthrop's history. While PREIT may have shifted its focus from a more diversified platform to primarily retail, it has still stayed in the same general market to build upon the relationships it has established. The purchases it makes outside its area comes from relationships built in the mid-Atlantic area. Even with a couple of mergers, PREIT continues to operate with many of its original tenants. For WRIT, many of the former senior management teams have stayed involved, and the strategies they initially implemented are still in effect. WRIT has not wavered much in terms of its platform or location throughout the 55 years. The decision in 2011 to sell off the industrial platform has been the only major change to its strategy in 55 years. One could view this decision as not a change in platform anyway, as the emphasis has always been on maximizing returns and WRIT based its decision on the historically lower returns of the industrial portfolio. Thus, another common qualitative characteristic would be sticking with a strategy for the long term.

Winthrop is unique in regards to strategy because it has morphed from a relatively inactive smaller REIT to an aggressive return-driven REIT. Winthrop has survived in large part due to its stapled-REIT structure, which allowed it to have an operating component when other REITs could only own real estate. When these REIT structures were no longer permissible, Winthrop was one of four REITs to be grandfathered in and allowed to keep its structure. Even Ashner noted in his interview that a lot of interest in Winthrop or First Union (previous name), came from its stapled-REIT status. He mentioned that when his group took over and changed the name to Winthrop in 2005, they were mainly looking for the platform to generate real estate deals through access to public markets. Thus, another qualitative common characteristic would be having a niche aspect of the company that allows it to operate successfully in a manner that provides an advantage.

Qualitatively, one final characteristic that stands out on all three companies is keeping the size of the company to a manageable level. By far, no three of these companies are the biggest players in the REIT industry. In some ways, one could consider them some of the smaller players. Management at each of the companies knows where its size needs to be and how much growth allows the company to maximize on its assets, without lowering the benefit to the shareholders. None of the companies desired to grow to some unbelievable level, only to the extent that it could continue to operate at a more profitable level. The ability to identify who you are as a company is another qualitative common characteristic shared by these three successful companies.

## V. CONCLUSIONS AND AREAS FOR FUTURE RESEARCH

This study evaluated success factors and trends for the three surviving REITs, in comparison to other REITs that left the market throughout the tenure of the REIT industry. The question proposes, "Do the three companies with the most longevity in the industry reveal any differences from other REITs that left the market?"

Quantitatively, specific details show significant differences exist among the three surviving entities and other companies in the industry. As an overview, FFO per share was significantly higher for PREIT than it was for WRIT, Winthrop or all the other companies operating in the market. The FFO Multiple was greatest for WRIT and significantly higher than all other companies and Winthrop, as the price of WRIT stock reached higher levels and responded more favorably to increases in FFO. FFO Payout was similar for WRIT and PREIT, while both were greater than Winthrop's ratio. Winthrop's net income per share, which is the denominator for FFO Payout, showed more variability, which affected the ratio. On a per share basis, dividends were highest for PREIT, but it was only significantly different from Winthrop and all the other companies. Winthrop had the highest Debt ratio and was significantly different from WRIT and all other companies. Likewise, PREIT also had a higher Debt ratio and showed significant differences among itself and WRIT and all other companies. The Leverage ratio yielded similar results with PREIT and Winthrop having the highest ratios, and demonstrating significant differences with WRIT. WRIT had both the lowest Debt and Leverage ratios, which is consistent with their conservative debt policy. WRIT approaches the use of debt in a more cautious manner, maintaining lower comparative levels of debt than many other REITs.

The quantitative analysis provided financial ratio analysis of the companies, with statistical testing to determine if significant differences in the ratios existed across entities. It provided an answer to the research question by showing quantitative differences existed between these three companies and other companies that had entered and left the market. PREIT seemed to generate higher FFO per share, and subsequently paid out higher dividends per share. WRIT tended to be the most conservative with its debt management and paid out a reasonable amount in dividends, but not as high as PREIT on a per share basis. Winthrop seemed to be more variable and lower in its earnings measures in some years, such as FFO, which relates to its emphasis on opportunistic investing. All three of the companies showed some variability with all the other companies in the industry, but the variability depended on specific measures. Not one specific metric showed consistent significant differences across all three of these surviving companies. For FFO per share and FFO Multiple, both WRIT and PREIT showed higher values than the average of the other REITs in the industry. Likewise, the Dividend per share were higher for WRIT and PREIT than the average of the other REITs. Only with WRIT were the Leverage and Debt ratios lower than the other REITs. Thus, not one metric seemed to hold the key to successful navigation throughout the years. Instead, it seemed to suggest that a REIT must be careful to align its resources and abilities to its particular business strategy. In addition, external growth, if, and when undertaken, should occur only after reviewing the composition and strength of the internal assets and financing structures already in place.

In conclusion, this research contributes by providing quantitative analysis of the three REITs with the most longevity and the REIT industry, along with consideration of qualitative factors that contributed to the three entities' ability to navigate successfully the economic environment. The study identified specific quantitative factors contributing to each company's success, even though those quantitative factors may not have been all the same for all three of the REITs.

The main finding from this research is that a REIT that can establish its identity, hire strong management, know its market, and concentrate its focus on particular financial measures and goals will be the one that will survive while others fail. Identifying its business strategy and working within its constraints seems to provide the best road map for longevity in the REIT industry. WRIT, PREIT, and Winthrop have all found ways to capitalize on their unique strengths and remain in the real estate market throughout turbulent times. While each company may not stand out in all financial areas, each REIT has discovered how it can utilize its own niche to capitalize in those areas it deems most important to its long-term success. External growth has occurred, but management seems to have approached it with an understanding of its internal structure and market conditions. In addition, the management of these companies are invested in the real estate industry and their particular business for the long haul, thus they have viewed their companies as a long-term commitment. As mentioned earlier, Winthrop entered into a plan of liquidation, which upon its completion will bring to an end the era of one of the originating REITs.

One limitation of this research is that financial data for Winthrop could not be located for the years prior to 1971. Since management and ownership had changed so many times, present management at Winthrop could not locate the old company information. For WRIT and PREIT, the original prospectus, along with financial statements, was available for the early years of 1960 – 1970. Since one of the three companies had dissimilar information available, the statistical analysis portion had to be tested without the years prior to 1971. However, as a data integrity test, this study reran the statistical analysis including the years prior to 1971 and it generated the same conclusions.

Another limitation is that qualitative factors were considered, which are unable to be tested through statistical procedures. Interviews can contain biases, due to the background and experiences of the interviewer brought into the interview process. Interpretation of printed material is also subjective, and internal validity is harder to prove with qualitative factors.

Further research could examine larger REITs specifically that have come into the industry since its beginning, including those that have come and gone and those entering the industry since it matured. Since this research highlighted the three survivors, which were all small to mid-size REITs, larger REITs could be examined to identify areas leading to possible company failures, such as companies that incurred too much debt, paid out too much in dividends, or grew too fast.

In addition, further research could compare the financial results of REITs to other economic factors, such as new housing starts or unemployment rates. An extension of this study could analyze REITs by sector, such as multifamily, retail, office, hotel, industrial, and healthcare. By looking at sectors, one could identify relationships that lead to predictions concerning future performance.

## ENDNOTES

1. Debt ratios of the 40 Largest REITs, based on data as of July 29, 1973, published by NAREIT.
2. The Omnibus Budget Reconciliation Act of 1993 changed the interpretation of the 5/50 rule, which requires that no fewer than five individuals could own more than a combined 50% of outstanding shares. This rule had dissuaded pension funds, since

each fund was viewed as a single owner. The Act allowed pension funds to view all participants in the pension fund as individual investors of a REIT (Chan, Erickson, and Wang, 2002).

3. SNL combined with S&P Capital IQ to form S&P Global Market Intelligence in September 2015.
4. Winsorization involves the process by which extreme values are replaced to eliminate the impact on statistical inferences drawn from the data. Utilizing a 90% Winsorization, ratios above the top 95% and below the bottom 5% of the extreme values are replaced by the ratios at the 95% and 5% levels, respectively. (http://en.wikipedia.org/wiki/Winsorising)
5. Tukey HSD is used after ANOVA testing is performed to identify the groups that account for the differences. http://www.ehow.com/info_8766337_tukey-hsd-test.html

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