Alternatives by FRANKLIN TEMPLETON

CLARION PARTNERS

721 Exchange/UPREIT

Overview

An entity taxed as a real estate investment trust ("REIT") may own property directly or through an umbrella partnership structure, in which the REIT serves as the general partner of the operating partnership ("OP") which owns the property. This structure is often referred to as an Umbrella Partnership Real Estate Investment Trust or "UPREIT".

With certain exceptions, Section 721 of the Internal Revenue Code allows contributing property owners to contribute their property to the OP in exchange for OP Units in a tax-deferred transaction. This is often called an UPREIT transaction and the contributing property owner becomes an "OP Unitholder".

Potential benefits

The contributed properties retain their original tax basis, and the OP Unitholder's embedded taxable gains are not triggered until the OP Units are converted to REIT shares, sold or redeemed for cash. The OP Unitholders receive distributions (including from liability relief) in excess of their tax basis in the OP, or the contributed properties are sold by the REIT (other than pursuant to another tax-deferred transaction).

Compared to single property exposure, by becoming OP Unitholders, investors gain potential benefits of:

- **Diversification:** Access to a large, professionally managed, diversified portfolio of institutional-quality real estate
- **Tax Deferral:** Contribution of a property on a tax deferred basis and avoid capital gains taxes triggered through a cash sale
- **Estate Planning:** Divisibility of units (rather than real estate); upon death, stepped up basis in OP Units

Upon death of the OP Unitholder, the OP Units may receive a step-up in tax basis (to current valuations at date of death) and heirs then receive a higher basis in the OP Units. Heirs can continue to hold OP Units without incurring taxes or can opt to convert them to REIT shares to simplify reporting or seek liquidity through a redemption or sale of shares.

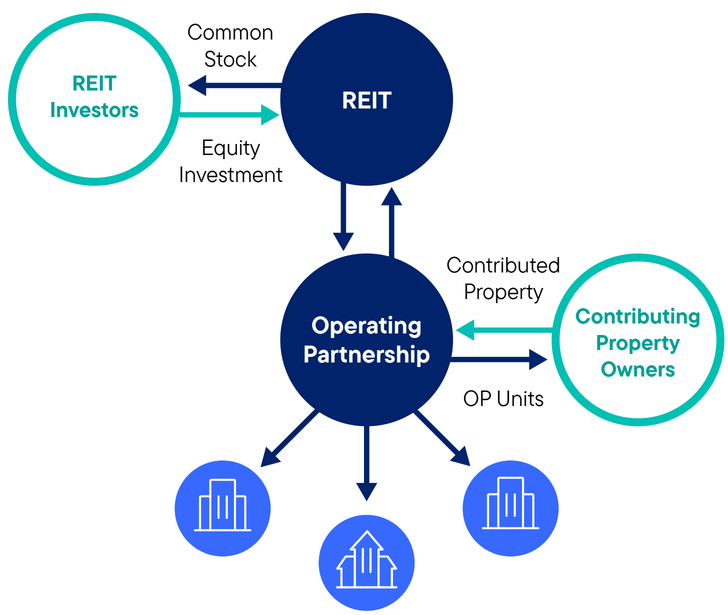
Note: The exchange from OP Units to cash or REIT common shares may be a taxable event.

Tax reporting

As the OP is a partnership entity for tax purposes, OP Unitholders are allocated a portion of the OPs total income, deductions, gains and losses, which are reported to investors on a Schedule K-1. OP Unitholders are also allocated state sourced income from each of the states in which the OP transacts business and owns property. Consequently, OP Unitholders will have more complex income tax filing requirements and be required to file state tax returns in multiple jurisdictions.

REIT common stock, on the other hand, generates dividend income (and long-term capital gains, if applicable) that are reported to investors on Form 1099. Investors are only taxed in their state of residence. Thus, compared to OP Unitholders, investors of REIT common stock have more simplified tax reporting and filing requirements.

Illustrative Structure



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WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal.

Risks of investing in **real estate investments** include but are not limited to fluctuations in lease occupancy rates and operating expenses, variations in rental schedules, which in turn may be adversely affected by local, state, national or international economic conditions. Such conditions may be impacted by the supply and demand for real estate properties, zoning laws, rent control laws, real property taxes, the availability and costs of financing, and environmental laws. Furthermore, investments in real estate are also impacted by market disruptions caused by regional concerns, political upheaval, sovereign debt crises, and uninsured losses (generally from catastrophic events such as earthquakes, floods and wars). Investments in real estate related securities, such as asset-backed or mortgage-backed securities are subject to prepayment and extension risks.

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