

W. P. Carey & Co. LLC

WM. POLK CAREY



A Newcomen Address

THE NEWCOMEN SOCIETY OF THE UNITED STATES



In April 1923, the late L. F. Loree (1858-1940) of New York City, then dean of American railroad presidents, established a group interested in business history, as distinguished from political history. Later known as “American Newcomen,” its objectives were expanded to focus on the growth, development, contributions and influence of Industry, Transportation, Communication, the Utilities, Mining, Agriculture, Banking, Finance, Economics, Insurance, Education, Invention and the Law. In short, The Newcomen Society recognizes people and institutions making positive contributions to the world around us and celebrates the role of the free enterprise system in our increasingly global marketplace.

The Newcomen Society of the United States is a nonprofit membership corporation chartered in 1961 in the State of Maine, with headquarters at 412 Newcomen Road, Exton, Pennsylvania 19341, located 30 miles west of Center City, Philadelphia.

Meetings are held throughout the United States, where Newcomen addresses are presented by organizational leaders in their respective fields. Most Newcomen presentations feature anecdotal life stories of corporate organizations, interpreted through the ambitions, successes, struggles and ultimate achievements of pioneers whose efforts helped build the foundations of their enterprises.

The Society’s name perpetuates the life and work of Thomas Newcomen (1663-1729), the British pioneer whose valuable improvements to the newly invented steam engine in Staffordshire, England brought him lasting fame in the field of the Mechanical Arts. The Newcomen Engines, in use from 1712 to 1775, helped pave the way for the Industrial Revolution. Newcomen’s inventive genius preceded by more than 50 years the brilliant work in steam by the world-famous James Watt of Scotland.

The Newcomen Society of the United States is affiliated with The Newcomen Society for the Study of the History of Engineering and Technology, with offices at The Science Museum, South Kensington, London, S.W.7, England. The Society is also associated in union with the Royal Society for the Encouragement of Arts, Manufactures and Commerce, whose offices are at 6 John Adam Street, London, W.C.2, England.

Members of American Newcomen who visit Europe are invited to visit the home of Thomas Newcomen at Dartmouth in South Devonshire, England and to see a working model of a Dartmouth Newcomen Engine.



“Doing good while doing well.”

— Wm. Polk Carey



This address, dealing with the history of W. P. Carey & Co. LLC, was delivered at a “2001 New York City Meeting” of The Newcomen Society of the United States when Wm. Polk Carey was guest of honor and speaker on October 9th, 2001.



W. P. Carey & Co. LLC

WM. POLK CAREY

CHAIRMAN

THE NEWCOMEN SOCIETY OF THE UNITED STATES

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EXTON

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SET UP, PRINTED AND BOUND IN THE UNITED
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INTRODUCTION OF MR. CAREY IN NEW YORK,
NEW YORK, ON OCTOBER 9TH, 2001, BY GORDON
F. DUGAN, PRESIDENT, W. P. CAREY & CO. LLC.

GOOD EVENING, LADIES AND GENTLEMEN. It is a pleasure to be here at the Newcomen Society dinner honoring W. P. Carey & Co. It is an even greater pleasure to introduce Bill Carey, Founder and Chairman of W. P. Carey & Co., as well as my mentor, boss, colleague and friend for over 15 years.

Bill, in my view, has created something at W. P. Carey that is unique. Bill has created a corporate culture intensely focused on serving our investors, while at the same time providing innovative solutions to finance corporate America's real estate needs.

As I thought about what to say to introduce Bill, I reflected on the values that underpin the culture of W. P. Carey. Our culture and its values are the product of Bill's values as well as those of the others who have led W. P. Carey over the last 30 years, including Bill's brother and our Vice Chairman, Frank Carey, and our Chief Investment Officer, George Stoddard. Through their actions and their words, these men have contributed to a cohesive culture that all of the employees at W. P. Carey feel a part of.

In trying to put this culture into words, I thought it could best be summarized by what we value:

We value doing what is right. In our various debates about everyday decisions facing our business, Bill constantly asks the question, "What is the right thing to do?" Often the right thing is not the path of least resistance, and creates more work for everyone, and lowers the chance of success for our enterprise. An example of this was the creation of the publicly traded LLC, Carey Diversified. Carey Diversified is the company that was created by merging our first nine investment funds together in early 1998 and simultaneously listing on the New York Stock Exchange. As most of you all know, we have since merged that entity

with W. P. Carey to form W. P. Carey & Co. LLC. Anyway, at the time, all of the investment bankers warned us that the LLC structure would be difficult to explain, would have less of a following in the investor community than a traditional REIT structure, and would, therefore, probably not trade well. But Bill knew that the structure was by far the best solution for our investors as it avoided realizing over \$300 million in capital gains. It was “the right thing to do.” So we had to work 10 times as hard with a dubious Wall Street looking on to explain to our investors and others the wisdom of this path. On the first day of trading, we were elated when the stock closed 10% above its exchange value of \$20. We had accomplished what almost of all the major Wall Street firms had advised us would not work. We pulled it off thanks to Bill’s leadership and conviction in doing the right thing.

Another value: don’t be taken in by the trendy. Bill refuses to get involved in the latest trend or fad in the investment world. If an idea does not make good economic sense for our investors, we will not pursue it, even if there is a lost profit opportunity near term. Bill knows instinctively that whatever the current craze, it will end and it usually ends badly. Moreover, Bill has shown us how to have the courage and discipline to stay away from these enticing fads, and be better off in the end. From the tax deals that became abusive in the late 1970’s, to overleveraged buyouts in late 1980’s, to investment funds with gimmicks that help them sell more easily, to, more recently, the dot.com craze, Bill knows to avoid the trend, even when one’s conviction is tested. We all remember the recent period of 1996 to early 2000 when we at W. P. Carey had our conviction tested. We looked at many dot.com investment opportunities in the finance and real estate finance field. However, we could not get comfortable with any of them — even though everyone on Wall Street and elsewhere would have cheered such an investment. At the time, while we believed in the power of the internet as a tool for our business in areas such as tax reporting and communication with our investors, we privately wondered whether we were missing out on tremendous profit opportunities in not investing in these ideas because we did not in our heart-of-hearts believe in them. Well, again, Bill’s leadership gave us the foresight and conviction to make it through that period.

The last of these three values: think long-term. My wife and I had the opportunity to take our children to Italy last summer to see the ancient sites of Rome. While touring the Pantheon, we were told of how the

floor within the Pantheon consists of a very specific marble that had to be cut and imported from a very faraway quarry. Marcus Agrippa, who designed the Pantheon, specified that this certain marble be used for the floors, knowing that the time it would take to accomplish finding, cutting, transporting, and laying the marble would be beyond his lifetime. He would never walk on the floors that he was so careful to choose, the floors that still exist in the Pantheon today. In a similar way, Bill Carey talks in terms of generations and what the impact of a decision today will be in many years. All of us who know Bill know he is intensely passionate about promoting issues that he knows will pay off much further down the road, whether it is investing in long-term innovations for our business, or taking a great interest in the hiring of younger people for our firm who will take some years to begin to pay off for us, or investigating the possibility of an economic research organization in India to help educate and train the next generation of Indian men and women so that they might help create a better future for what will soon be the world's most populous country. To me, Bill Carey epitomizes long-term thinking in a short-term world.

Well, we are all here tonight to honor Bill Carey and what he has built and continues to build. Ladies and Gentlemen, Bill Carey



CHAIRMAN AND FOUNDER, WM. POLK CAREY

Thank you, Gordon, for that generous introduction. There will be a little something extra in your envelope next week.

AND THANK YOU ALL FOR THAT WARM APPLAUSE. It reminds me of the time Bishop Fulton Sheen was in my home town of Baltimore to speak at an interfaith rally. When the crowd applauded, he raised his hand for silence. “When you applaud me at the start,” he said, “that’s faith. When you applaud midway through, that’s hope. But ah, my friends, if you applaud me at the end, that will be charity!”



PRESIDENT, GORDON F. DUGAN

Well, charity is not precisely what we are here to talk about tonight, although I must tell you, I believe our company, W. P. Carey & Co., has done good work and good works in helping to finance the growth of corporate America, as well as in other ways. We are pleased to have done good while doing well.

I’m delighted to be here to talk about W. P. Carey & Co. I am both proud and humble about our enterprise. I am proud of the team that we have assembled, and of the valuable contribution that together we have been able to make as a financial catalyst for economic development. It’s fair to say that our special kind of financing has played a critical role in the success of dozens of companies. I’m proud of how well we have delivered on our promise of providing stable, rising income for our shareholders. But I am humble when I see how great the need is for our sort of financial expertise, not only here but abroad.

Tonight I’d like to tell you a little about how W. P. Carey & Co. came about, how it works, and why it will continue to have a bright, constructive future.

Learning by Experience

As I’m sure you all know, our business is the net leasing of corporate real estate. And yes, we have been successful at it. People sometimes ask me: “What is the secret of your success?” Unfortunately, I can’t describe it quite so succinctly as the billionaire oilman and art collector J. Paul

Getty once did. A British magazine asked Mr. Getty for a short article explaining his success, and enclosed a check for 200 pounds. He obligingly wrote back: “Some people find oil. Others don’t.”

I can assure you we haven’t struck oil. But we have profited from some lessons learned along the way about how to make net leasing pay off for both lessees and investors.

In one form or another, I have been in corporate finance all my adult life. W. P. Carey & Co. is not the first financial enterprise I started. The first one was a company I launched in 1959 when I was 28 years old, with a little experience and a lot of self-confidence. It was called, modestly enough, International Leasing Corporation — a name I chose mainly because it wasn’t already taken. I arranged private placements of corporate debt and leased equipment and vehicle fleets, and later, aircraft and even whole factories. But my first important deal really was international. It involved financing an Australian entrepreneur named L. J. Hooker — later Sir Leslie Hooker — who was the world’s largest private landowner, owning seven million acres. That’s roughly the size of Belgium. I loaned him other people’s money to fund the expansion of his business empire, which involved real estate, hotels, vast cattle and sheep stations and other businesses. It was the first foreign direct investment Australia ever allowed, and it took me several months to get the government to change its regulations to allow it. Hooker and I maintained a strong friendship over the years, and his son and grandchildren have worked for me at various times. In any case, I learned several valuable lessons.

One lesson was that equipment leasing was not necessarily a great way to make money, especially when the banks were all scrambling to get into the business and cutting prices. You can’t assume that the lessee will take care of the equipment, or that there will be a significant residual at the end of the lease. Net leasing, in which the lessee is responsible for maintenance and all other operating expenses, is a much better approach. And net leasing of real estate is better still, because the revenue stream is long-term and the residual value more predictable.

A second lesson was that you could borrow on the credit of the lessee. If the customer’s credit was sound, you could take it to the bank and borrow most of the money you needed to buy the equipment you were

going to lease, without recourse to you in case of default. That was quite a revelation. And where real estate was involved, you could get a mortgage the same way.

I began to focus primarily on net leasing of real estate after I merged the business of International Leasing into Hubbard, Westervelt & Mottelay—now Merrill Lynch Hubbard—where I served as Chairman of the Executive Committee. Later I was head of Real Estate and Equipment Financing at Loeb, Rhoades & Co., which is now part of Lehman Brothers. Still later, I was head of Investment Banking at duPont Glore Forgan Inc., which at the time was the country's third largest securities firm but now is gone altogether.

Launching A New Company

The early 1970s were years of turmoil and consolidation on Wall Street. Recession took its toll on the country and on the financial community. The Dow Jones Industrial Average peaked at 1051 in late 1973 and wouldn't surpass that mark again for nine years. And fast approaching was the date set for the end of fixed commissions, which had allowed smaller or less efficient securities firms to survive and more efficient ones to grow fat. Fixed commissions were abolished on May 1, 1975, known forever after on Wall Street as May Day. Meanwhile, there was blood in the streets as firms scrambled to acquire, merge or sell out while coping with depressed market conditions.

At this auspicious time, early 1973, I left duPont Glore Forgan and its then principal shareholder, Ross Perot, and was being wooed by Lazard Freres, among others. I was quite content to be part of a large organization, provided the opportunities were real and challenging, the compensation appropriate and the atmosphere congenial. But I despised the office politics that big, competitive operations often breed, and I hadn't forgotten the pleasures of being the boss. I made up my mind when I saw some really cheap office space at 67 Wall Street. The rent was less than we now pay for flowers. And the rest, as they say, is history.

The Early Years

As a brand new company, we could not obtain Directors and Officers liability insurance. That made it unacceptably risky for most senior businessmen to consider serving on our board. So we began with a board of three directors, of which I was one. The second was my brother Frank,



VICE CHAIRMAN AND CHAIRMAN OF THE EXECUTIVE COMMITTEE, FRANCIS J. CAREY

who was the senior partner in Pennsylvania's second oldest law firm — a Philadelphia lawyer in the best sense of that term. And the third was the late Raymond S. Clark, president and chief executive officer of the Canton Co. of Baltimore, which operated the world's largest privately owned marine terminal, and ran a short-line railroad as well. Ray also happened to be my brother-in-law. Both men played critical roles in the survival and growth of our enterprise, and Frank continues to do so as Vice Chairman of W. P. Carey & Co. In fact, Frank has been with the company full-time since 1987, when we persuaded him to leave his law practice temporarily in order to

run the business while I took a much needed sabbatical and vacation. It enabled me to spend several months traveling around the world, visiting old clients and meeting with businessmen and government officials. It gave me fresh insights into the challenges, opportunities and growing impact of globalization.

Today, with the benefit of hindsight, our success may seem to have been inevitable, but in those early days of the firm, it was truly touch and go. Funds were tight. Having a Wall Street address helped our credibility, and so did having Coopers & Lybrand as our accountants. We hired Coopers because of the expertise of their senior tax partner, Warren Wintrub, the foremost expert in net lease accounting and tax matters, and he continues to contribute to our success as a director of three of our real estate investment trusts, or REITs.

But getting that first piece of business we so desperately needed proved extremely difficult. Our only full-time acquisitions officer, Jim Umlauf, took on the task of calling all one thousand of the Fortune 1000 companies. Nine hundred ninety-seven turned us down, but three agreed to give us some business. Even so, we came close to selling the firm to First Boston Corporation, despite unfavorable terms, because it took so long for our first deal to close and cash to start flowing,

Developing An Economically Viable Product

In those early years, W. P. Carey & Co., like many another firm, focused on tax-advantaged transactions. The properties we bought and leased out were not necessarily expected to turn big profits, but rather to generate significant tax write-offs, enabling our investors to shelter income from other sources.

Those were the go-go years in the tax shelter business. Integrated Resources — remember Integrated Resources? — became a stock market superstar with its ability to package and market its tax shelter deals.

But several things soon became apparent to me. The first was that many tax shelters were seriously abusing the system. They were never intended to be economically viable, and could not have been anything but money losers. Tax losses were the only things such shelters were designed to produce.

The second revelation was that this state of affairs couldn't continue indefinitely. I felt that sooner or later, the government would crack down and change the rules. And, of course, that is exactly what happened in 1986.

The Corporate Property Associates Series

Meanwhile, we were long since out of the tax shelter business. Instead, starting in 1979, we focused on our pioneering Corporate Property Associates series of investment funds. CPA®:1 was launched that year with \$20 million in capital. The early funds were structured as partnerships and the later ones as REITs, and they have been a great success. They were designed to be economically sound and to generate positive returns for their investors, and they have done so. They do have a tax shelter component, because real estate investments involve depreciation. But it is relatively modest, serving mainly to sweeten an already attractive return to investors.

Perhaps more to the point, the funds were designed as a hedge against the periodic downturns of the stock market, since real estate — especially net-leased real estate — operates on a different cycle, and long-term leases provide a stable revenue source.

In the recession and real estate bust of a decade ago, many real estate investment firms foundered as revenues plunged and investors fled. Not W. P. Carey & Co. We had an excellent track record, we had satisfied



ADVANCED MICRO DEVICES, INC. (AMD) IS A WORLDWIDE SEMICONDUCTOR MANUFACTURER HEADQUARTERED IN SUNNYVALE, CALIFORNIA. W. P. CAREY & CO. PURCHASED AMD'S 362,000-SQUARE-FOOT HEADQUARTERS, LOCATED IN THE HEART OF SILICON VALLEY, FOR APPROXIMATELY \$100 MILLION.

investors, and we had ample funds to invest. We emerged from the downturn stronger than before. In fact, I'm happy to report, our funds have set something of a gold standard in the industry. Over the years, numerous industry reports—including an analysis by Robert Stanger—have shown that our funds significantly outpaced our net leasing peer group, as well as the NCREIF Index, which is the industry yardstick. Our current performance hasn't been too shabby, either. Over the past 12 months our public company has beaten the Dow Jones Industrial Average by about 30%, the S&P 500 by about 50%, and the NASDAQ by over 80%, not counting our dividends, which are near 8% per annum.

Protecting Our Investors' Interests

Real estate partnerships typically have a finite lifetime, and once they mature, they typically are terminated, the properties sold off, and the investors paid out. By the late 1990s, when it was appropriate to think about closing down our earlier funds in the CPA[®] series, we faced a dilemma. If we simply dissolved the funds and sold the assets, our investors — whose support and good will we had labored so tirelessly to



FEDEX CORPORATE HEADQUARTERS IS LOCATED IN COLLIERVILLE, TENNESSEE. CPA[®]:14 AND W.P. CAREY & CO. LLC BOTH OWN INTERESTS IN THE 400,000-SQUARE-FOOT FACILITY THAT WAS PURCHASED AT A COST OF \$73.8 MILLION.

earn and keep — would be saddled with huge, immediate taxes on \$350 million in capital gains, just because we had been so successful. Many real estate operators were doing just that. And some were rolling up unprofitable partnerships at cents on the dollar, to their own gain and to the detriment of their investors.

It wasn't easy, but we found a way for our investors to have their cake and eat it, too. In January, 1998, with the overwhelming consent of the investors, we consolidated the first nine funds in the series, CPAs 1 through 9, into Carey Diversified, a Limited Liability Company headed by Frank Carey, which we immediately listed on the New York Stock Exchange. With \$750 million in assets, it was the exchange's largest LLC. Our investors swapped their partnership interests for an equivalent value in Carey Diversified shares. The swap did not trigger capital gains taxes, and the investors gained instant liquidity, enabling them to control the timing of their capital gains. Only a few investors chose to get cashed out.

In 2000, we took another step, merging our management company, W. P. Carey & Co., Inc., into Carey Diversified to create W. P. Carey & Co. LLC, still the world's largest public LLC.

Meanwhile, the next four CPA® funds — CPA®:10, 12 and 14 and Carey Institutional Properties (CIP) — were thriving as private REITs. Their shares were marketed to investors initially by Paine Webber and later by American Express. All have performed well. CPA®:14, founded in 1997, is the largest. With well over half a billion dollars in equity, it will have over a billion dollars in total assets. We plan to launch the latest of this series, CPA®:15, later this fall.

W. P. Carey & Co. LLC manages both its own portfolio and those of the REITs, generating management fees that enhance the returns from its real estate holdings. These holdings, incidentally, now include properties in France, Holland and the United Kingdom, and we are active in other countries as well.

Sale-Leasebacks and Build-to-Suits

All of our funds have focused on a special niche within the net leasing field, and that is sale-leasebacks, and more recently, build-to-suit projects as well. On the premise that most in this audience understand our business but some others may not, allow me to explain briefly how we operate.

In concept, net leasing of real estate is a simple business. We deal only in single-tenant properties. In the typical, triple net lease, the tenant, or lessee, is obligated to pay not only rent but also operating expenses — maintenance, taxes and insurance, the three principal categories of expense.

In a sale-leaseback, we purchase a corporate property — for example, a factory, a distribution center, or a headquarters building — and net lease it back to the seller.

Why, you might ask, would a company sell us the property and then lease it back, if it wanted to continue using it? Why not just keep it in the first place?

One good reason would be to redeploy capital from a non-core business — that is, real estate ownership — into a core business. Usually that is a more productive use of capital. A sale-leaseback, as we like to say, unlocks the hidden value in corporate property.



THE AMTECH SYSTEM CORPORATION (“AMTECH”) 74,000-SQUARE-FOOT OFFICE/LIGHT INDUSTRIAL MANUFACTURING FACILITY IN ALBUQUERQUE, NEW MEXICO WAS PURCHASED BY CPA[®]:14 FOR \$6.1 MILLION.

Often, a sale-leaseback makes sense as a means of funding a larger corporate transaction, such as a leveraged buyout, acquisition of another company, or a new research and development initiative. Sometimes a sale-leaseback can provide the crucial, final ingredient of a complex financing package. Perhaps the most notable example of this was our role in the 1982 leveraged buyout of Gibson Greeting Cards by Wesray Company. Bill Simon and his associates saw the underlying value in that business and bought it, with a major part of the investment coming from our sale-leaseback of most of the company’s facilities. The acquisition was a brilliant success. We provided the largest part of the purchase price.

A sale-leaseback may also enable a company to raise the capital it requires while preserving its flexibility to tap such debt sources as banks and the bond markets for future needs. It also avoids the dilution that a stock or convertible bond offering might entail.

Smaller or less well established companies, meanwhile, may have limited ability to borrow or may face excessively high interest costs. A sale-leaseback can often provide them the capital they need on favorable terms.

In addition, W. P. Carey & Co. has built a reputation for delivering capital in an efficient, flexible and timely manner. That capability can be critically important to a client undertaking a time-sensitive project.

In recent years, we have taken on a number of build-to-suit projects. These are a variety of sale-leaseback in which a client company wants to add a new facility, often designed specifically for its needs, but doesn't want to own it. This could be a headquarters complex or a distribution center, for example. Under a typical build-to-suit agreement, we purchase the land and the client company builds the facility. Upon completion, we fund 100% of the cost of the building and the client occupies it under a long-term net lease. Thus W. P. Carey & Co. provides the same flexible, efficient capital solution for a new facility as for an existing one. We financed America West Airlines' new headquarters in Tempe, Arizona in this way, and four office buildings on Federal Express Corporation's worldwide information technology campus in Collierville, Tennessee.

Once we purchase a building, whether new or old, we typically obtain a mortgage for about 60 percent of its value. That amount of leverage lets us earn a decent return on our invested capital without unduly burdening the property with debt.

Paying Attention to Details

So that is essentially how our business works. But although the concept is simple, execution is not. We are successful because over nearly 30 years, we have learned a good deal about what works and what doesn't, and how to protect our flanks and our shareholders' interests in a constantly changing real estate investment climate while providing lease terms that meet our clients' needs. We have learned to pay attention to detail.

Careful selection of acquisitions is a principal ingredient. Because we've built a reputation as a good company to do business with — and one with readily available capital to invest — literally hundreds of potential deals are brought to us during the year for our consideration. The talented, energetic members of our acquisition staff scrutinize all of these. They also scour the country for companies that might meet our standards and benefit from our financing.

We're fairly flexible in our acquisition criteria. First of all, we look for companies that are financially sound and have good prospects, even if their credit strength is not yet recognized in the marketplace. In fact, it's better for us if that is the case, because these emerging credits, as we call them, become more valuable over time. We want to buy and lease back

facilities that are central to the tenant company's operations, giving us further assurance that the lease will be honored and continued. And that has usually been the case, even in bankruptcy situations.

Of course, we consider location. We want to own properties that are intrinsically attractive, and that could be re-let or sold easily if need be. However, we consider the tenant's prospects to be the decisive factor.

We are open-minded in structuring leases so they work for the tenant and protect our interests as well. Our typical triple net lease is 20 years, with renewal options, and is structured as a general obligation of the corporate parent, just like a bond. It often contains financial covenants, and always includes a rent escalation formula to offset the effects of inflation.

Betting on Brains

Back in the days when I was running the investment banking operations of duPont Glore Forgan, I absorbed an extremely valuable lesson — one that in my case, at least, held the secret of success. I learned the importance of knowing my limitations. Knowing my limitations enabled me to learn from my mistakes, to surround myself with people brighter than I, and to listen to what they had to say. It enabled me to reach out without hesitation to find associates with the skills and talents I lack, and that has made all the difference at W. P. Carey & Co.

From the start, we have always tried to recruit and retain the best and brightest people — as somebody put it, betting on brains. Many of these are young people who have been at W. P. Carey & Co. from the start of their careers.

I do a lot of our recruiting, traveling to a number of business schools, partly because of my own continuing interest in the academic world. Among other sources, we get quite a few of our new recruits from Wharton, a school to which I am grateful because it was brave enough to give me a degree. But many of our talented people have come to us from other sources and very different backgrounds. Our Chief Financial Officer, John Park, for example, was originally trained in chemistry at M.I.T. and worked for us initially as a temp. What all of our people have in common, though, are intelligence, ambition and character.

Recruiting for our acquisition team is particularly critical. Our acquisition people have to be brilliant negotiators, highly knowledgeable and have great closing ability. At the same time, they have to have a lot of personality and good people skills, because in our business, relationships count and count for a long time. They have to be energetic and enthusiastic, and they are.

They also tend to be young, and at the beginning, inexperienced. But we give them a lot of responsibility and a little help and they perform beautifully. As Aristotle said, “What we have to learn, we learn by doing.”

On the other hand, youthful enthusiasm is no substitute for experience. I am reminded of a case involving the Baltimore & Ohio Railroad in the early years of the 20th Century. A farmer claimed his prize cow was missing, and sued the railroad, whose tracks ran through his field. When the case came to trial, the railroad sent a bright young attorney, fresh from law school and handling his first case. The farmer had no attorney. Before the trial began, the young lawyer cornered the farmer, pressing him to settle. The farmer finally agreed to settle for half the amount he was suing for, and the lawyer immediately wrote him a check. On the street awhile later, the lawyer spotted the farmer and couldn't resist gloating a little. “I hate to tell you,” he told the farmer, “but I really put one over on you. When our the train went through your field, the engineer was asleep, the brakeman was in the caboose, and I didn't have a single eyewitness to back up our story. I don't think I could have won the case.” The farmer scratched his chin and said, “Well, I was a little doubtful myself. You know, that darn cow came home this morning.”

Voices of Experience: The Investment Committee

At W. P. Carey, we value the judgment that comes of long experience, and we use it effectively to temper the zeal of our acquisition team for the benefit of the company and all our investors.

I am speaking here about our real secret weapon — our independent Investment Committee. Every deal our acquisition staff puts together must be approved by our Investment Committee before it goes to the Board of Directors. And before that happens, we know a great deal about the company, its business and the real estate involved.



THE INVESTMENT COMMITTEE FROM LEFT TO RIGHT, FRANK J. HOENEMEYER, VICE CHAIRMAN; NATHANIEL S. COOLIDGE, MEMBER; GEORGE E. STODDARD, CHAIRMAN; LAWRENCE R. KLEIN, CHAIRMAN ECONOMIC POLICY COMMITTEE.

Back in 1979, when we were about to launch the first of the CPA® series of funds, I persuaded a fellow named George Stoddard to take early retirement from the Equitable Life Assurance Society of the United States and come to work for us. At the Equitable, where he had worked for 30 years, George was head of the direct placement department, responsible for a multi-billion-dollar portfolio of investments acquired through direct negotiations. George has headed our Investment Committee ever since, through every phase of the real estate cycle, and has been instrumental in our success. He is a man of many talents, with a bachelor's degree from Brigham Young, an MBA from Harvard and a law degree from Fordham. He is also a former Mormon bishop, and is a nationally ranked tennis player in his age bracket.

George works closely with our acquisition staff, but his compensation, unlike theirs, does not depend on the number or size of our acquisitions. His goal is not to poke holes in their deals, but to make certain there ARE no holes, and to be sure the terms give us a return that is commensurate with the real risks. He frequently tweaks those terms to make the proposition acceptable. Sometimes he suggests that our negotiators ask

for warrants for the company's stock in order to sweeten the deal. Sometimes he raises questions that send our staffers scurrying to find answers. Always he encourages them to look beyond the surface and to think outside the box. Our acquisition people quickly learn what it takes to make a deal fly, and very few are ultimately rejected.

The thoroughness of our underwriting has been a continuing source of strength for W. P. Carey & Co. and George has had great help from three independent directors, all highly experienced, who comprise the rest of the Investment Committee. Frank Hoenemeyer is a former Vice Chairman and Chief Investment Officer of Prudential Insurance Company of America. He oversaw the company's investments during a period when it assembled the world's largest real estate and securities investment portfolio. Nat Coolidge was Senior Vice President and head of the Bond and Corporate Finance Department of the John Hancock Mutual Life Insurance Company, where he oversaw the company's entire fixed income portfolio.

The fourth member of the Investment Committee is Dr. Lawrence R. Klein, winner of a Nobel Prize in economics, and the Benjamin Franklin Professor of Economics, Emeritus, at the University of Pennsylvania and its Wharton School. I believe it was George Bernard Shaw who said that if all the world's economists were laid end to end, they wouldn't reach a conclusion. But I can assure you that Larry Klein, who is also head of our economic policy committee, has been a shrewd analyst, skillful forecaster and valued counselor for W. P. Carey & Co.

An advisory member of the committee, who is also a director of three of our REITs, is Ralph Verni, who served as head of the bond department at the Equitable, chief investment officer of New England Mutual, and as CEO of State Street Research, the investment management arm of Metropolitan Life.

Attracting Investors

As you can no doubt tell, we put a great deal of emphasis on the quality and safety of the deals we do, and not so much on marketing our stock or shares of our REITs. That's not accidental. Deals and real estate investment are what we're good at. And I concluded early on that if our investments were sound and profitable, and if we delivered on our promise of stable, gradually rising income for shareholders, we would be able to attract investors and raise the capital we needed for acquisitions.

On the other hand, if our results were mediocre or we treated shareholders shabbily, it wouldn't matter what we did to try to attract investors. It has worked out well. Our funds, starting with our CPA® partnerships, have performed consistently and well, and continue to do so. And the quality of our funds has enabled us to attract first-rate marketing talent. We are pleased to market shares in our REITs through American Express Financial Advisors, with its large network of financial consultants, and we have repeatedly raised capital to launch new REITs. And we expect to continue doing so.

A Look Beyond

As I mentioned, W. P. Carey & Co. has ventured into Europe with acquisitions in France, Holland and the United Kingdom. However, most of our emphasis will continue to be on the U.S., because the market is so vast and so rich, and because the uniform commercial code makes it easy to do business here. But there are important opportunities — and needs for our financial expertise — in other parts of the world, notably India and China. India is huge and underdeveloped, but English is the language of business, and its legal system, like ours, is underpinned by



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English law, so it is easy to understand. China is another enormous market. But although it is not a democracy, it is less bureaucratic than India and its approval processes seem to be more streamlined. We plan to dip our toe into these waters, but given our fiduciary responsibilities, the bulk of our start-up costs will not be borne by our public shareholders.

I've talked about our history and our business and our prosperous present. But what does the future hold?

I am convinced that there is a bright future for this company and that our financing will continue to play a valuable role in the U.S. economy, and an increasing role elsewhere as well. The business cycle has not been abolished, and the stock and bond markets will fall from time to time, often together. But investments in the stock of W. P. Carey & Co. and its REITs will continue to be a valuable hedge and source of income for investors because of the earnings stability provided by long-term leases on corporate real estate.

As for the company itself, we are well along in the process of putting in place the next generation of leaders, and I know they will do a great job. And let me say in conclusion that I am confident that as they manage our business for the benefit of our shareholders, they will not forget that most relevant advice from the Sage of Omaha, Warren Buffett:

The first rule of becoming wealthy is not to lose money. The second rule is not to forget the first rule.

I hope you'll remember those rules, too. Thank you.





“Were American Newcomen to do naught else, our work is well done if we succeed in sharing with America a strengthened inspiration to continue the struggle towards a nobler Civilization— through wider knowledge and understanding of the hopes, ambitions, and deeds of leaders in the past who have upheld Civilization’s material progress. As we look backward, let us look forward.”

—CHARLES PENROSE

(1886-1958)

Senior Vice-President for North America

The Newcomen Society

for the study of the history of

Engineering and Technology

(1923-1957)

Chairman for North America

(1958)



This statement, crystallizing a broad purpose of the Society, was first read at the Newcomen Meeting at New York World’s Fair on August 5, 1939, when American Newcomen were guests of The British Government.

“Actorum Memores simul affectamus Agenda”

“Investments for the Long Run.”

— Wm. Polk Carey

