Finding True Non-Correlated Real Estate Diversifiers

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Finding True Non-Correlated Real Estate Diversifiers

Agenda

1. REITs & Private Real Estate: Better Together

Broader Asset Class Exposure (Nystrom)

2. Beyond "Super" Core-Plus

Avoiding the "Institutional Herd" (Campbell)

3. Investing in Middle-Market Private Funds

Guiding Principles Developed Over 20 Years (Campbell)

4. Unique Middle-Market Opportunities

True Non-Correlated Diversifiers (Rollins & Nystrom)

Finding True Non-Correlated Real Estate Diversifiers

REITs & Private Real Estate: Better Together

Since 1992 REITs have matured into a massive $407.43 billion highly transparent and liquid asset class (FTSE NAREIT market cap 12/11).

- **Short-term:** REITs display higher correlation (.74) with traditional equities because of heavy trading and pressure by analysts.
- **Longer-term:** REITs act like "Super Core-Plus" private real estate based on debt % and ownership of quality properties in largest gateway markets.

Most institutional investors utilize private real estate in conjunction with REITs to more broadly diversify exposure to the traditional benefits of the asset class:

- ✓ Income
- ✓ Low-correlation
- ✓ Hedge against inflation.

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Beyond "Super" Core-Plus

Real estate allocations should incorporate alternative property types and markets to avoid "overlap" with existing institutional / REIT core-plus assets.

- International Real Estate "REITs" (@30 Countries)
- Distressed, Opportunistic, and Value-Add Opportunities
- Select Secondary Markets & Geographic Regions
- Middle-Market Private Funds

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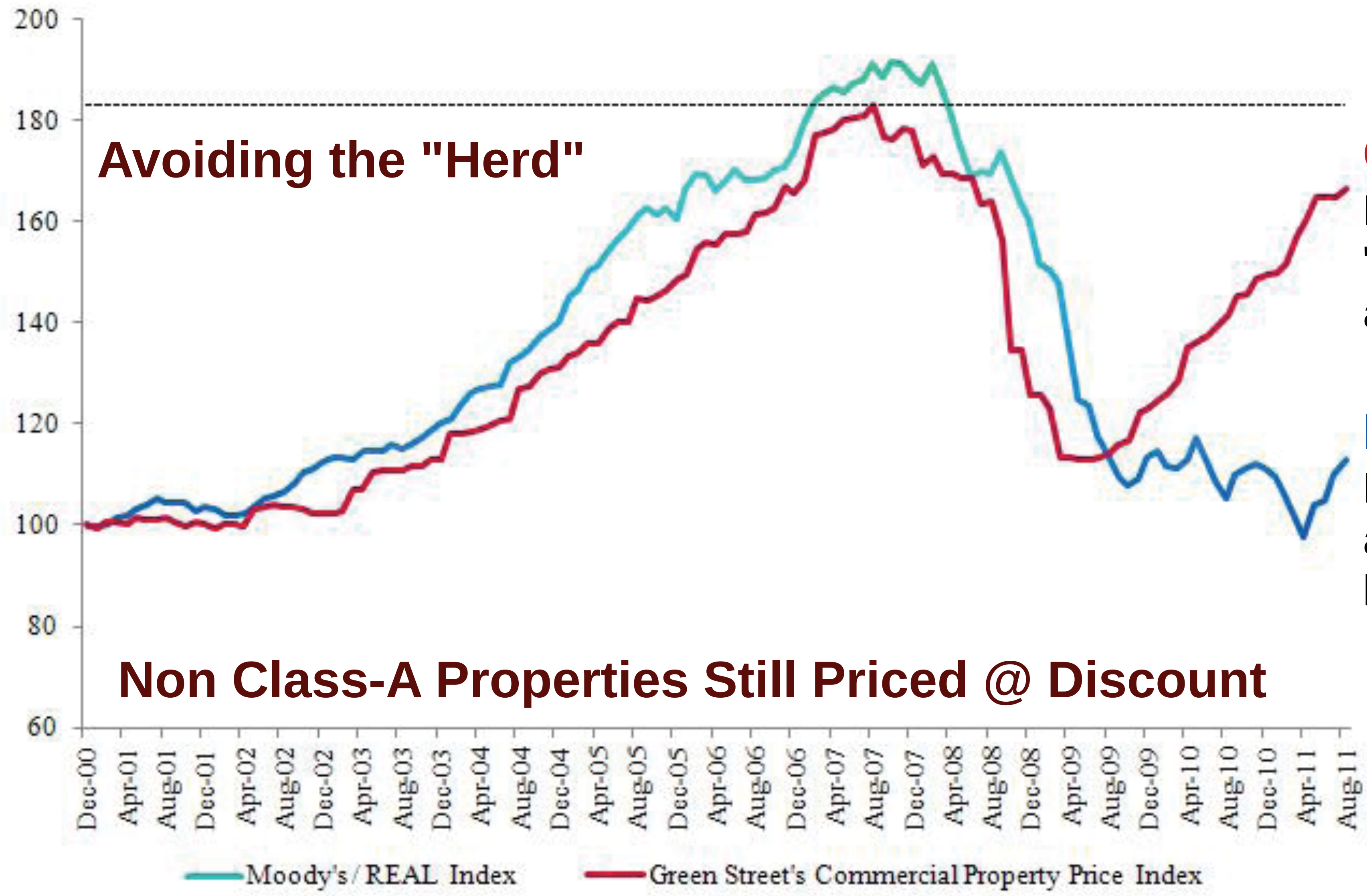
Beyond "Super" Core-Plus



Green Street:
Primarily higher end "Institutional-Grade" assets

Moody's REAL:
Multiple property types and asset sizes -Not heavily skewed to Class A

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Investing in Middle-Market Private Funds

Private fund benefits

- Attractive premium paid for illiquidity
- Exposure to a part of the market inaccessible through the public market

Take a more "contrarian" macro-approach

- Look where institutional capital is not being allocated
- Find managers where their:
  1. Capital can exploit this opportunity and..
  2. Experience commands a premium

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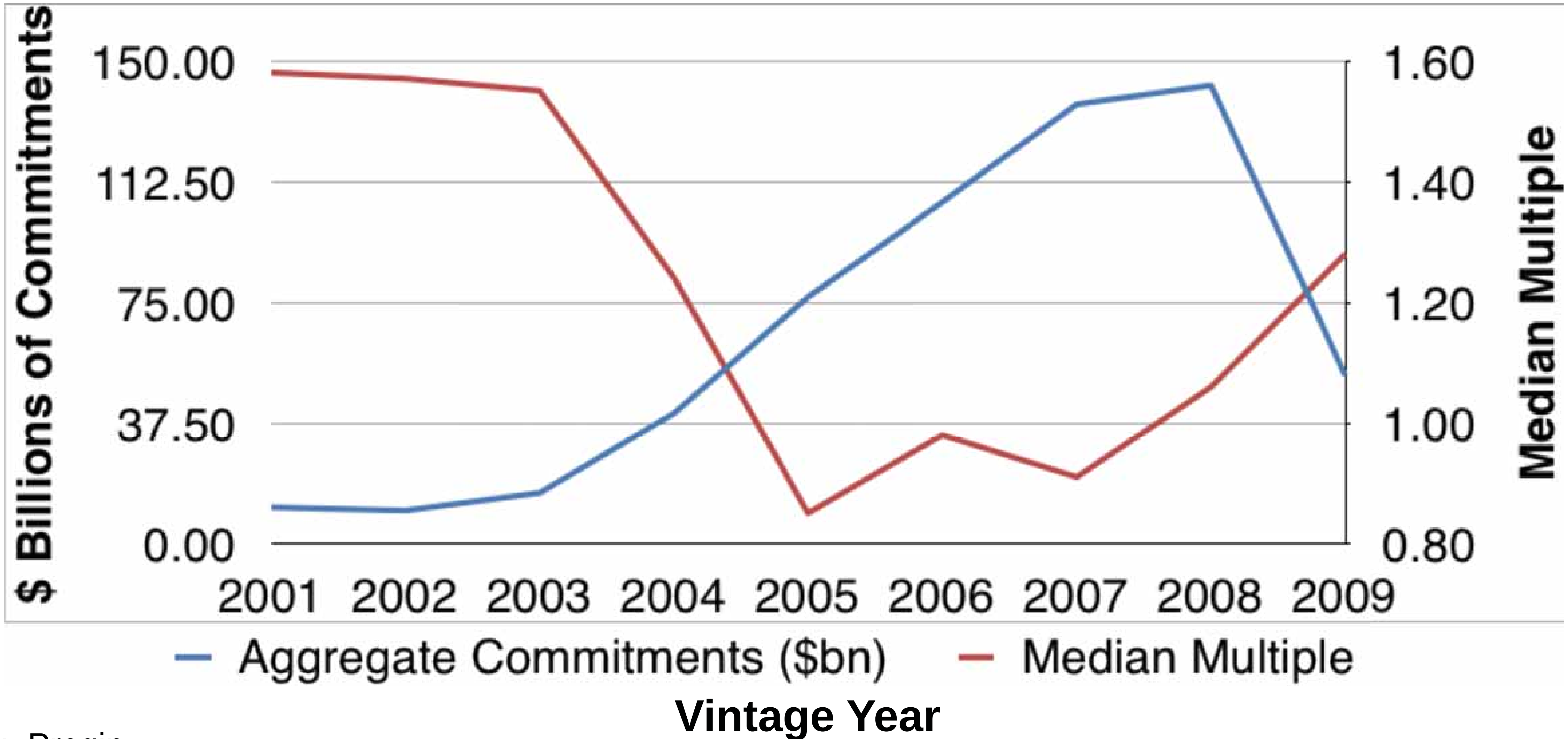
Investing in Middle-Market Private Funds

Excess Capital Drives Down Private Funds Performance



Source: Preqin

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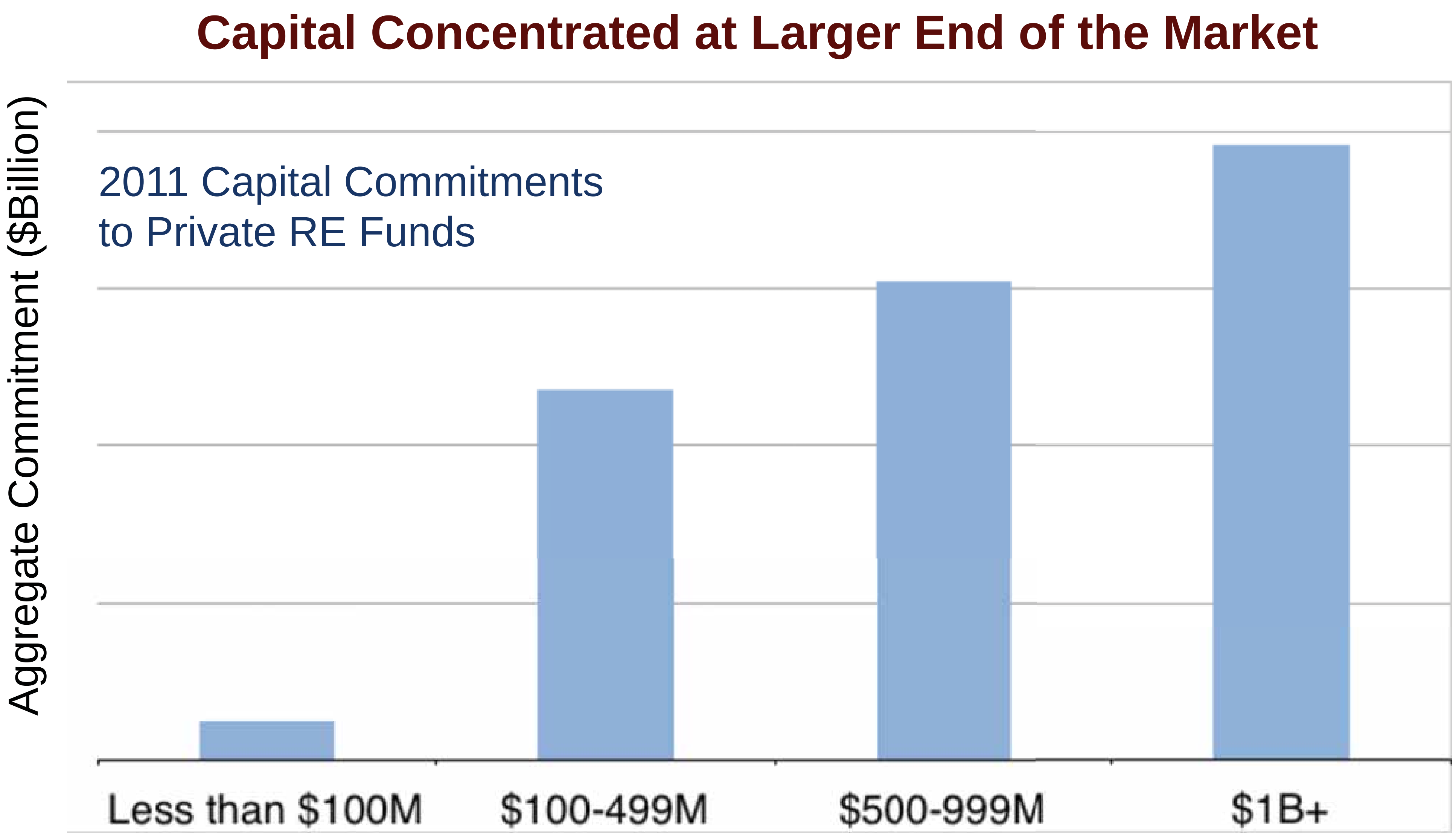
Investing in Middle-Market Private Funds



Source: Preqin

Investing in Middle-Market Private Funds

Guiding Principles

A. Management Team

- Have the experience, and resources to execute their strategy
- Disciplined and patient
- Value oriented – underwrite with margin of safety
- Leverage appropriate to the declared risk of the strategy
- Ability to service institutional investors

B. Strategy

- Clear and understandable
- Fits macroeconomic conditions
- Replicable if being continued for prior funds

C. Risk is Permanent Loss of Capital

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Investing in Middle-Market Private Funds

Protecting Principal, Lowering Correlation

✓ Low basis

✓ Low or no leverage

✓ Diversification

✓ Robust deal flow (large universe to pick winners)

✓ Cash flow along the way

- Interest, dividends, and sweeping cash
- Less dependent on a single event to generate returns

Less of a market directional bet = Less correlation with broader market

Source: Preqin

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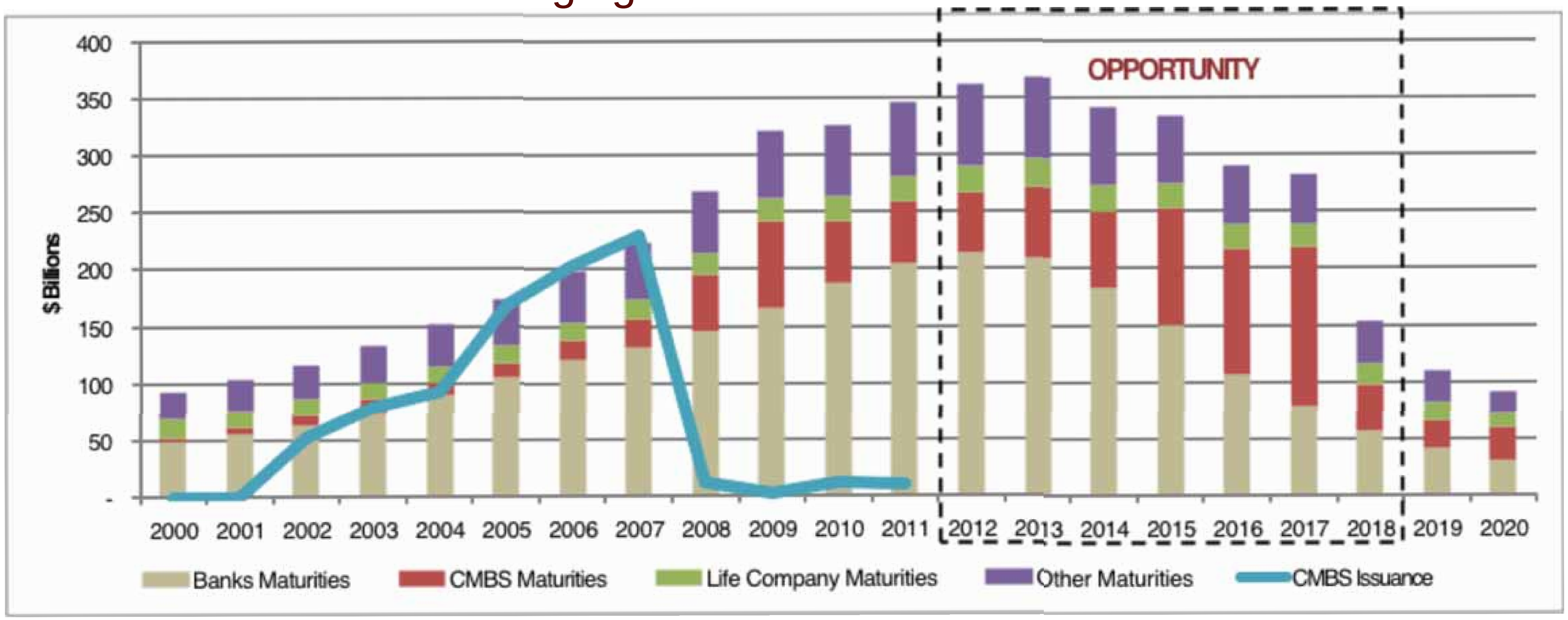
Unique Middle-Market Opportunities

De-Leveraging of Middle Market Real Estate



$1.7 trillion+ maturing over the next five years.
Insufficient capital to refinance existing loans.

Source: Foresight Analytics & Commercial Mortgage Alert

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Unique Middle-Market Opportunities

CRE Loan Maturity Breakdown

	Total				
Year	Total	Banks	CMBS	Life Cos	Other
2012	$362.2	$213.1	$53.3	$23.4	$72.4
2013	$371.1	$209.8	$62.4	$24.5	$74.3
2014	$344.8	$182.3	$66.6	$23.6	$72.3
2015	$339.4	$150.0	$101.1	$22.9	$65.5
2016	$307.6	$112.3	$112.2	$24.1	$59.0
2017	$292.8	$85.1	$113.0	$22.9	$51.8
2018	$170.9	$66.3	$40.4	$20.0	$44.2
2019	$121.9	$44.0	$25.7	$17.3	$34.9
2020	$93.4	$32.2	$20.2	$15.8	$25.3
2012 to 2016	$1,725.1				

Source: Trepp

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Unique Middle-Market Opportunities

		With Current LTV > 100%	
Maturity Year	Total Amount Maturing	$ Amount	%
2009	$321	$64	20%
2010	$326	$111	34%
2011	$346	$168	49%
2012	$362	$228	63%
2013	$371	$223	60%
2014	$345	$187	54%
2015	$339	$251	74%
2016	$308	$226	73%
Total Amounts:			
2012 to 2016	$1,725	$1,115	65%

65% of Maturing Loans are Underwater

Current strategy has more good years ahead

Source: Trepp

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Unique Middle-Market Opportunities

Discovering Value in America's Heartland

- While others chase hard-to-hit deals in overcrowded markets, diversify with assets in strong secondary markets across US mid-section.
- Local investors in targeted markets have little or no access to capital.
- Many distressed owners / sellers unable to refi - high purchase cap rates.
- Larger institutional buyers restricted by charter & operational capacity to purchase only class A real estate in major gateway markets.
- Unique opportunity to capitalize on reputation as nimble all-cash buyer and proven operator in constrained Heartland markets.

Unique Middle-Market Opportunities

Hitting The Sweet Spot

Unique geographic focus allows investors to better diversify while avoiding highly cyclical and over-priced/over-sold coastal areas and metro markets.

1. **Debt-Free Income: Necessity-Based Shopping Centers**

- No debt approach eliminates financing costs, risks, and restrictions.
- Retain full control with no risk of foreclosure: buy and sell at opportune time.
- Internet resistant "every-day" retailers frequented in all economies

2. **Opportunistic Growth: Fin. Distressed Commercial Properties & Loans**

- Large bank & lender inventories available with significant upside potential.
- Acquisition prices discounted well below replacement costs.

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Summary

1. REITs & Private Real Estate: Better Together

- *Broader Asset Class Exposure*

2. Beyond "Super" Core-Plus

- *Avoiding the "Institutional Herd"*

3. Investing in Middle-Market Private Funds

- *Guiding Principles Developed Over 20 Years*

4. Unique Middle-Market Strategies

- *True Non-Correlated Diversifiers*

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Thank you for participating in our session...
We genuinely appreciate your interest!

For additional information or to receive copy of this presentation and the source research referenced, please stop by one of our booths:

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