

The Role of Public and Private Real Estate in an Investment Portfolio

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Aren't REITS real estate?

Just what is a REIT?

- REIT - Real Estate Investment Trust
- Publicly traded securities – stocks – Indirect manner of investment
- Required under the tax code to:
 - Hold 75% of their assets in commercial property
 - Generate 75% of their revenue from property rents
 - Return 90% of their income to investors in dividends
- 220 REITs traded on U.S. stock exchanges with a market value of \$966 billion as of March 31, 2015 (NAREIT)
- Management fees average 75 bps

So, then what is Private Real Estate?

A direct investment in commercial property either through investing in individual properties, separate accounts or comingled funds

- Not publicly traded, no significant secondary market
- Not as efficiently valued or priced
- Requires additional capital in the form of tenant improvements, leasing commissions and capital improvements
- Complexity demands either a sophisticated investor with experienced staff or hiring a qualified investment manager
- Popularity of comingled funds due to these characteristics
- Investment Management fees average ~ 100 bps

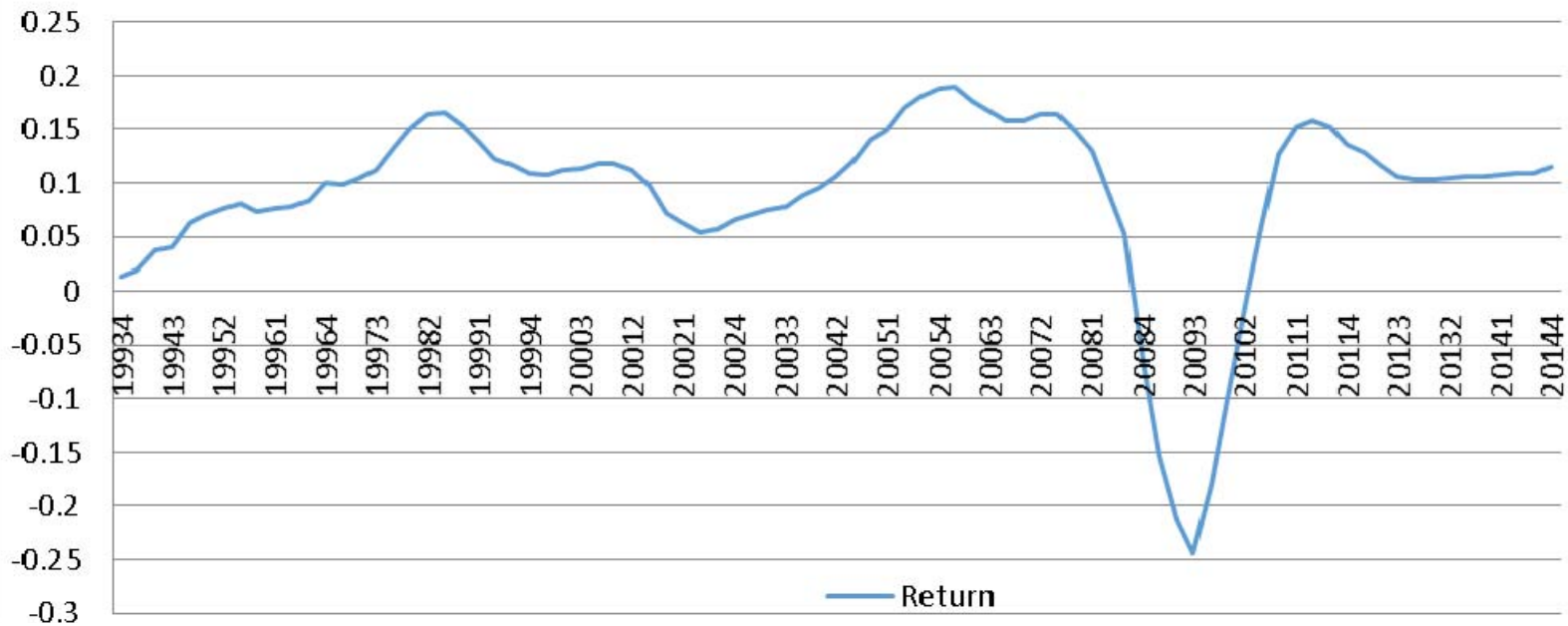
How does Private Real Estate differ from REITs?

Distinct differences:

- REITS historically provide higher returns with greater volatility
- Differences in:
 - Valuation (pricing) and trading
 - Use of leverage (debt)
 - Liquidity
 - Investment management fees
- Due to their differences, direct real estate and REITs are not highly correlated and are actually complementary in a portfolio

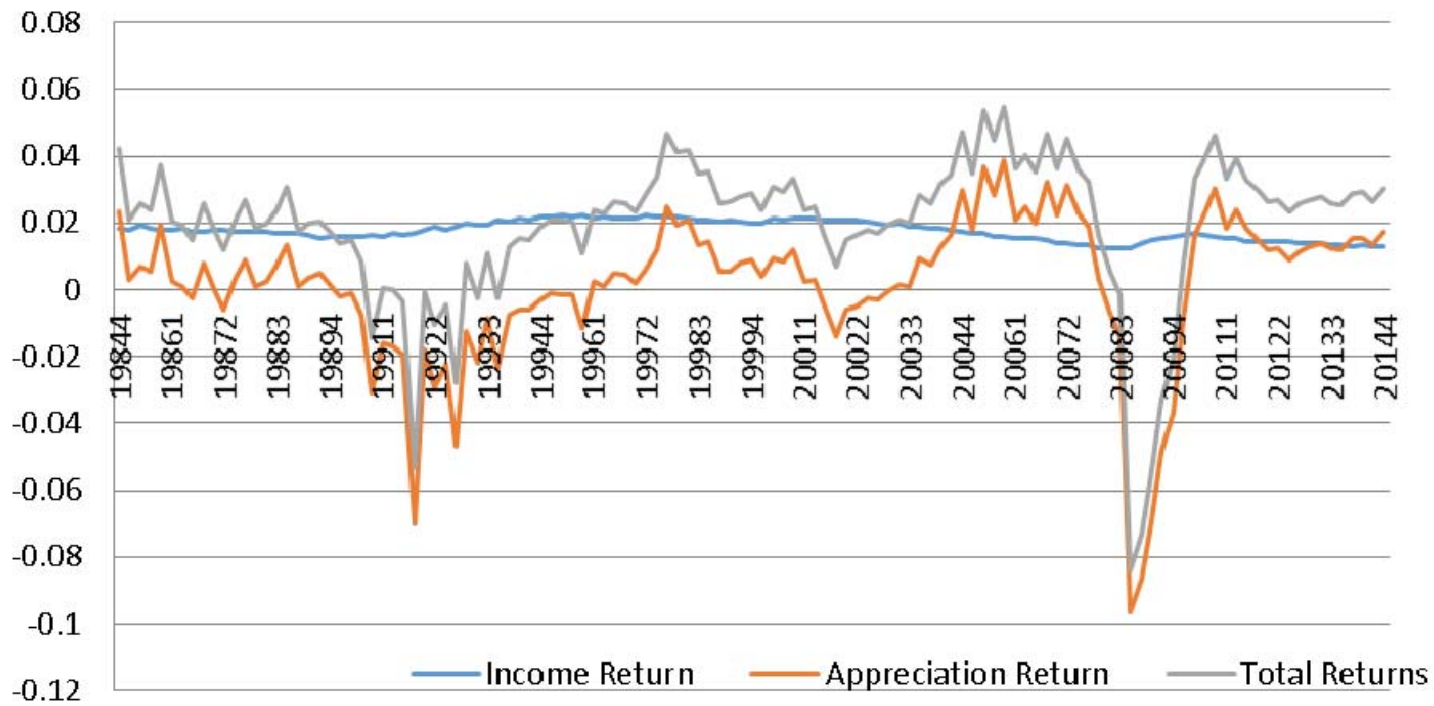
Historical Real Estate Performance

NCREIF Property Index - 4-Qtr Rolling Total



Historical Real Estate Performance

NCREIF Returns



Introducing Real Estate and REITs to the Investment Portfolio

	NPI ¹	REITS ²	Stocks ³	Bonds ⁴
Average Return	9.95%	13.51%	11.74%	5.79%
Standard Deviation	8.30%	20.14%	19.60%	3.46%
Risk Adjusted Ratio	1.20	.67	.60	1.67

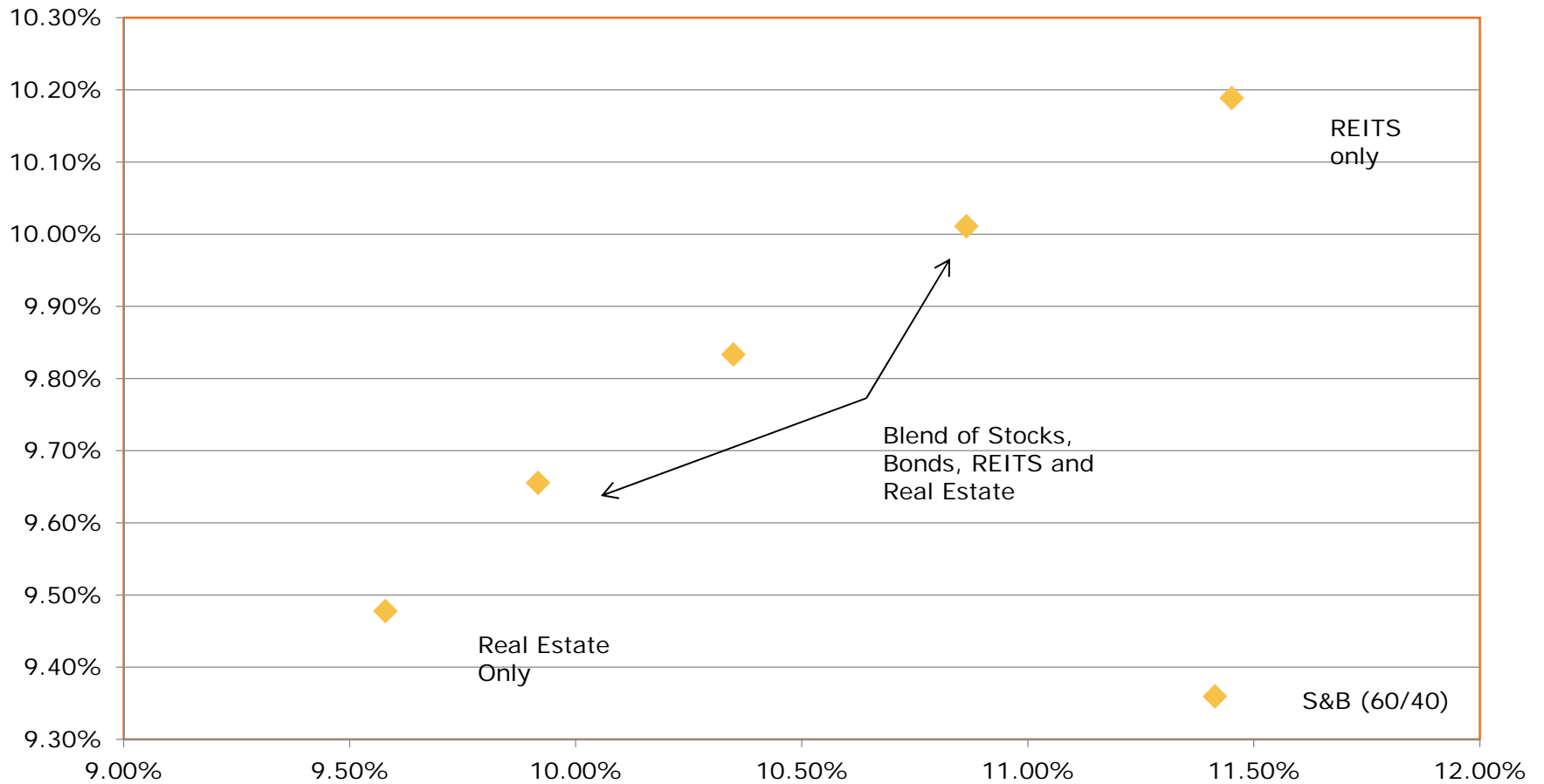
Annual Returns 1995-2014

Introducing Real Estate and REITs to the Investment Portfolio

	Stocks & Bonds	Add Private Real Estate	Blends of	Private and	REITS	Add REITS only
Real Estate	0	20	15	10	5	0
REITS	0	0	5	10	15	20
Stocks	60	48	48	48	48	48
Bonds	40	32	32	32	32	32
Expected Return	9.36%	9.48%	9.66%	9.83%	10.01%	10.19%
Standard Deviation	11.41	9.58	9.92	10.35	10.86	11.45
Risk Adjusted Return Ratio	0.8200	0.9895	0.9737	0.9502	0.9215	0.8898

Introducing Real Estate and REITs to the Investment Portfolio

Efficient Frontier



Introducing Real Estate and REITs to the Investment Portfolio

REITs lead Real Estate

	2006	2007	2008	2009	2010	2011	2012	2013	2014
NAREIT									
All Equity REITS	35.1%	-15.7%	-37.7%	28.0%	27.9%	8.3%	19.7%	2.9%	28.0%
NCREIF									
NPI	16.6%	15.8%	-6.5%	-16.9%	13.1%	14.3%	10.5%	11.0%	11.8%

Annual Returns 2006-2014

Conclusions:

- **Both REITs and Direct Real Estate are Real Estate**
- **What can Real Estate and REITS add to an Investment Portfolio?**
 - Both have a role with significant benefits
 - Complementary performance throughout markets and each phase of the cycle
 - Increase expected total returns while also lowering expected volatility

Notes & Disclosure

1 National Property Index produced by the National Council of Real Estate Investment Fiduciaries

2. NAREIT All Equity Index is published by the National Association of Real Estate Investment Trusts

3. S&P 500 Index

4. Barclays Aggregate Bond Index

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