

# *Portfolio Construction: What's Hot and What's Not*

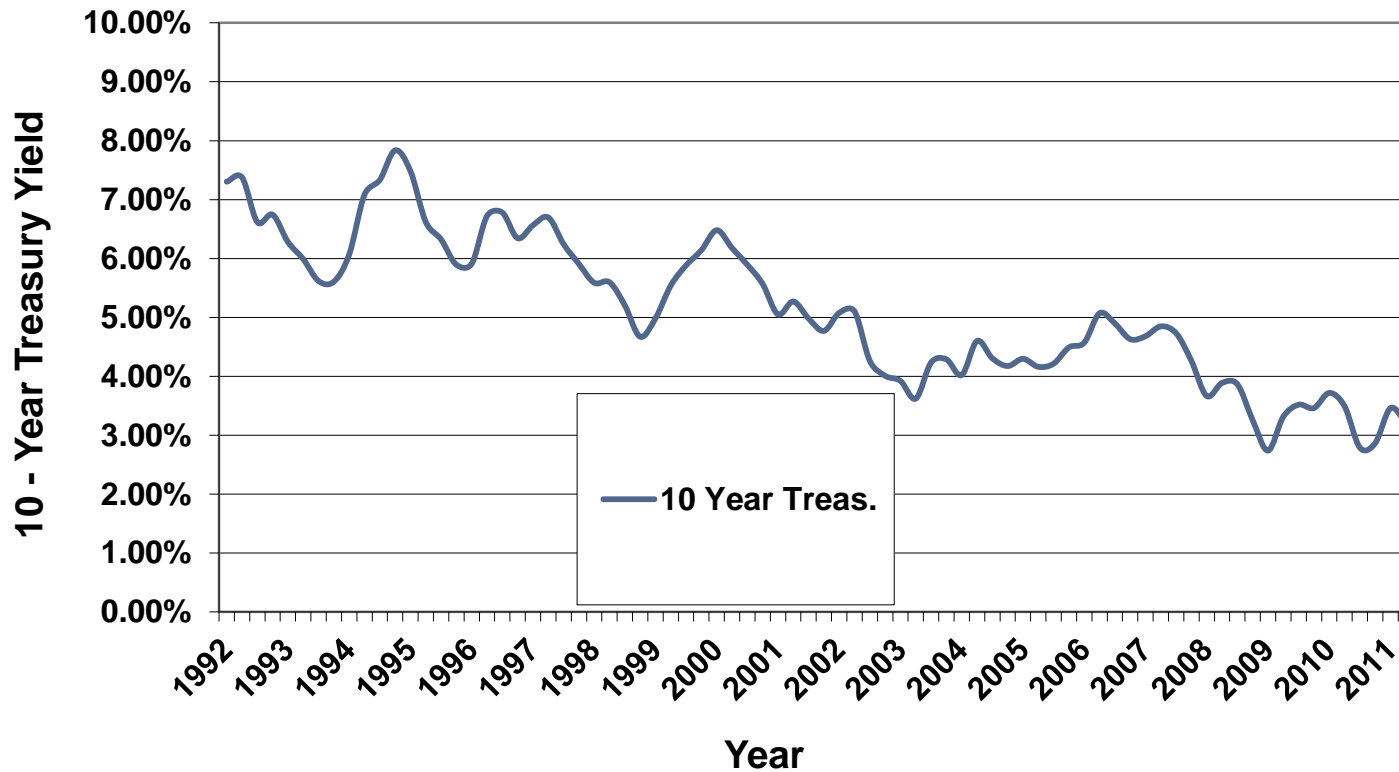


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# Current Investment Challenges

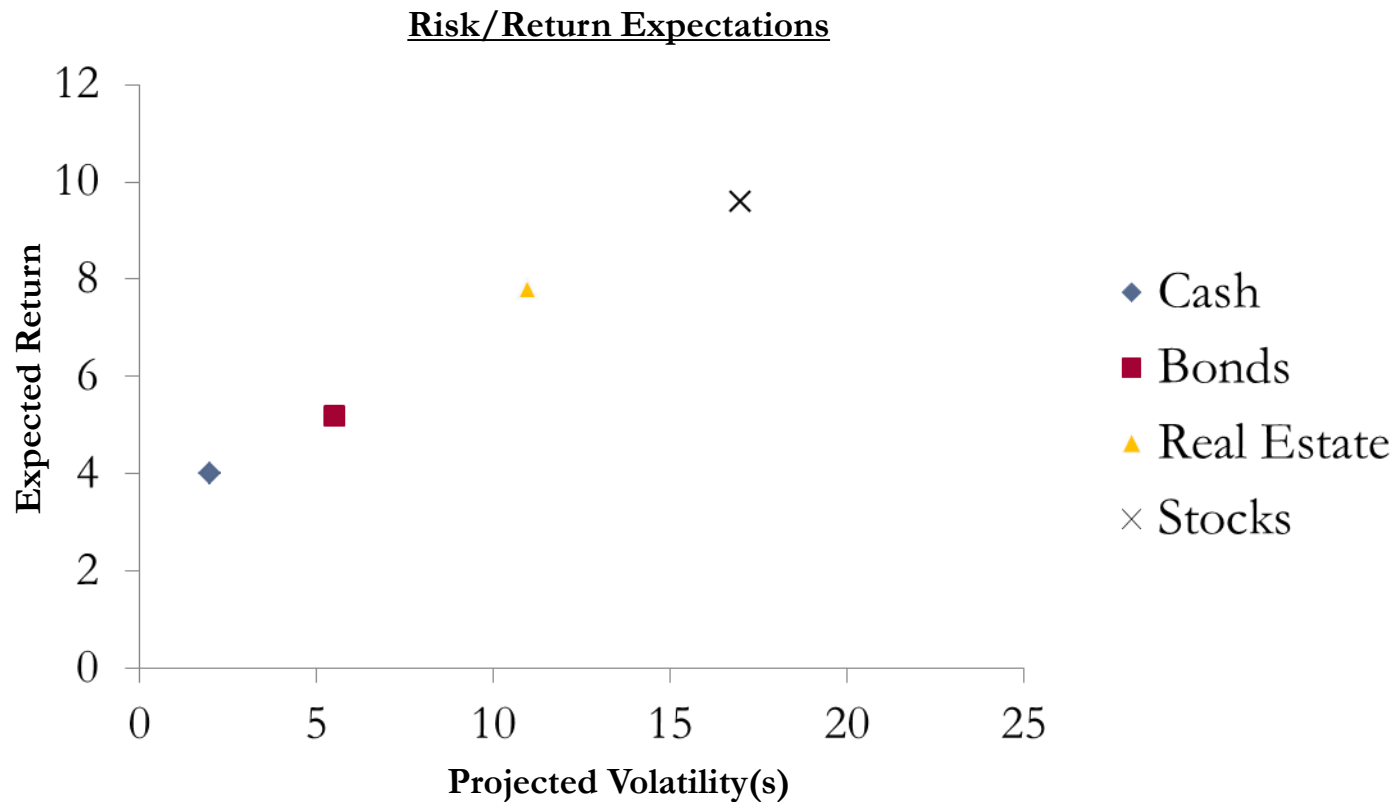
*Bond yields remain near historic lows...*



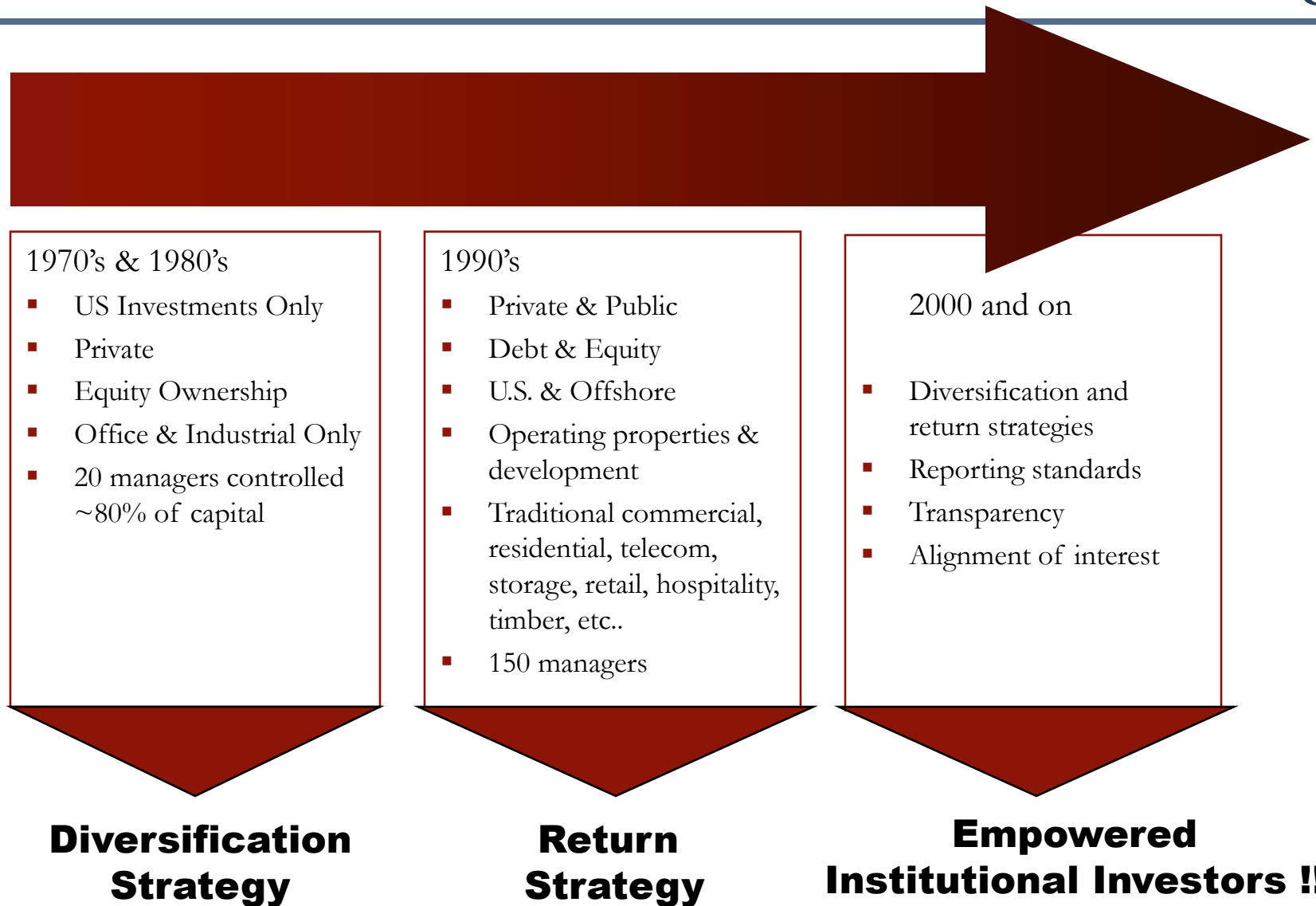
***A traditional portfolio of stocks and bonds will not get your 7.5%!***

# Features of Real Estate

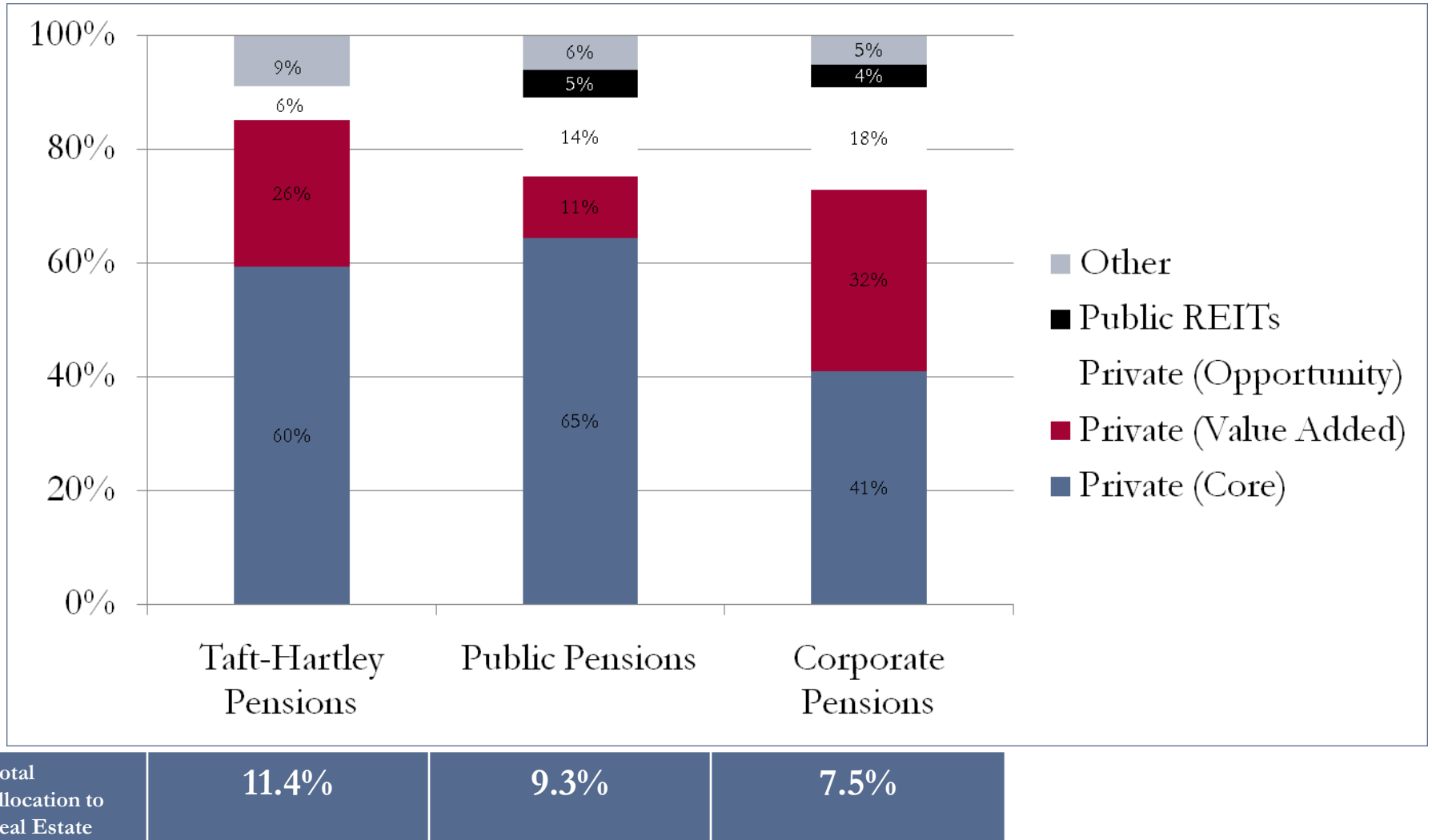
- Hybrid asset class
- Steady income of bonds with appreciation potential of stocks
- Risk and return between stocks and bonds
- Unlike stocks and bonds, real estate represents a tangible asset



# Evolution of Pension Real Estate Investing



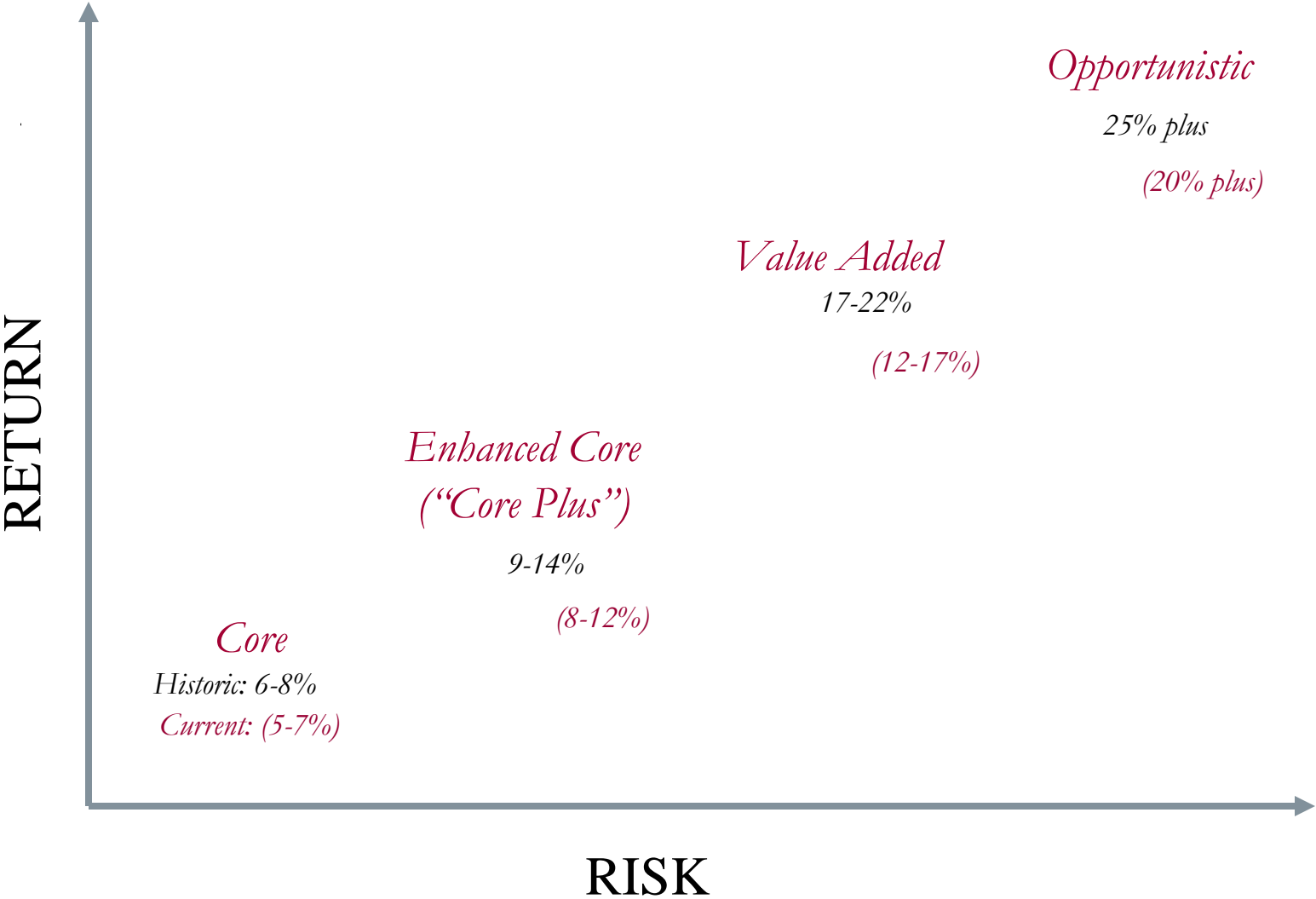
# U.S. Institutions' Real Estate Allocations



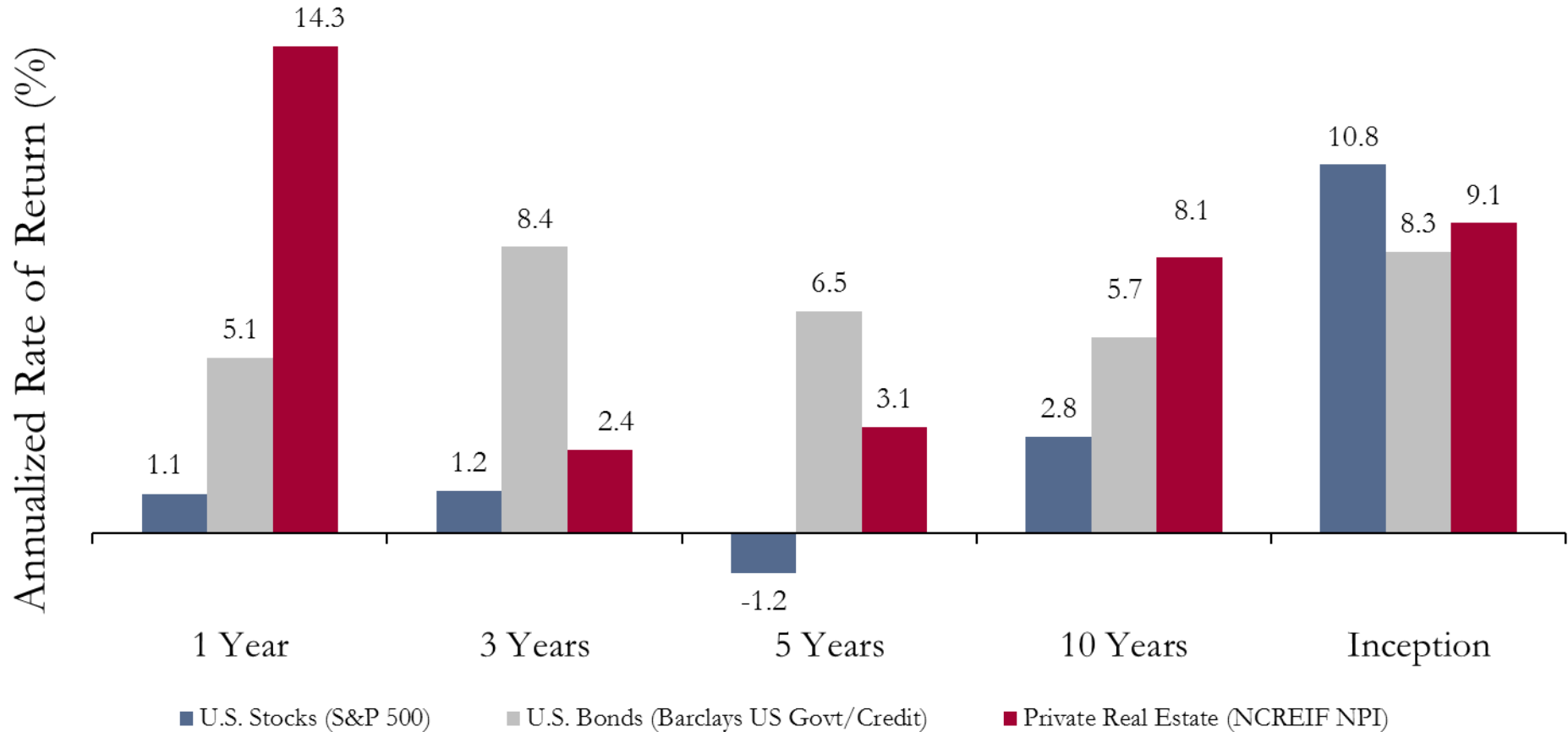
Source: IREI Tax-Exempt Real Estate 2009 Survey, Casey Quirk Analysis; Cohen & Steers, *The Trust About Real Estate Allocations*

- (1) "Other" includes private mortgages, CMBS, securitized foreign investments and non-securitized foreign investments
- (2) Numbers may not total 100% because of rounding.

# Private Real Estate - Spectrum of Risk and Return



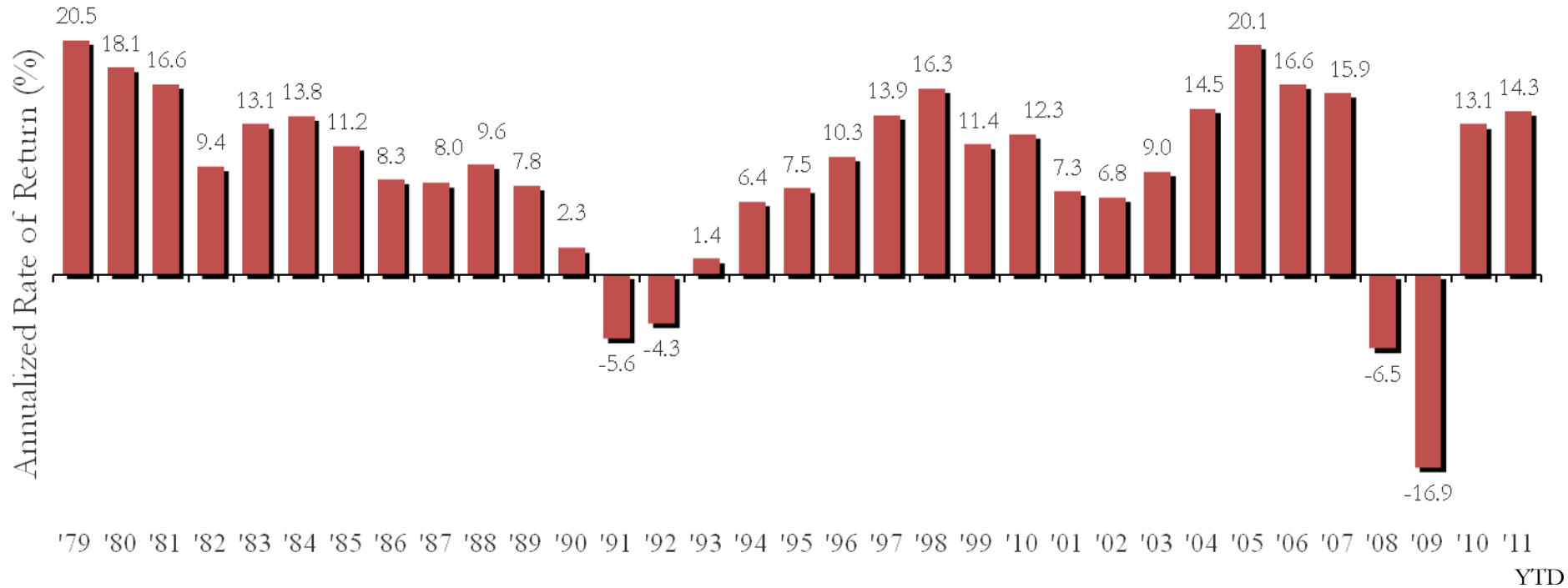
# U.S. Stocks vs. U.S. Bonds vs. Private Real Estate



As of 12/31/11

# Historical NCREIF Total Returns

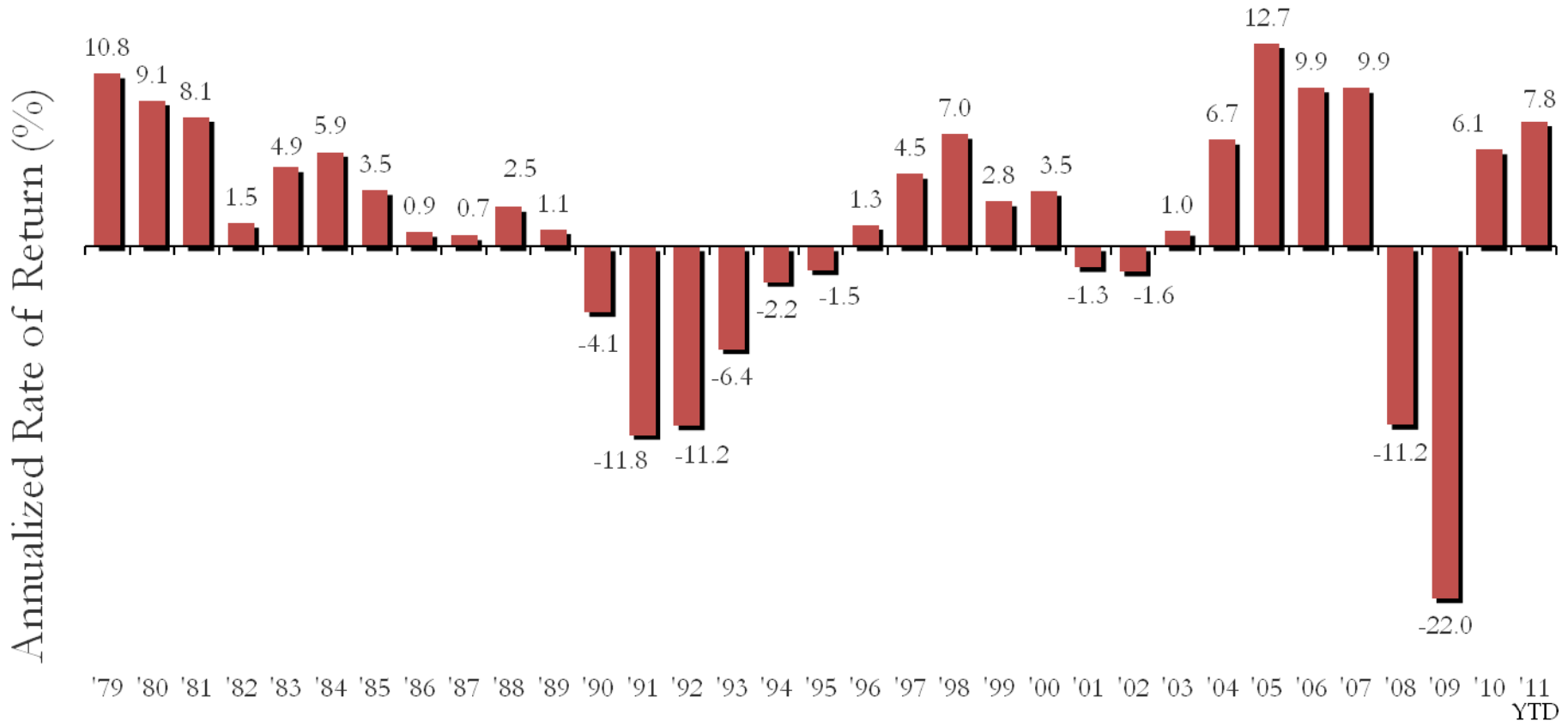
NCREIF PROPERTY INDEX – TOTAL RETURN  
As of 12/31/11





# Returns – Appreciation Only

NCREIF PROPERTY INDEX  
 COMPONENT RETURN – APPRECIATION ONLY  
 As of 12/31/11



# Summary Economic Conditions

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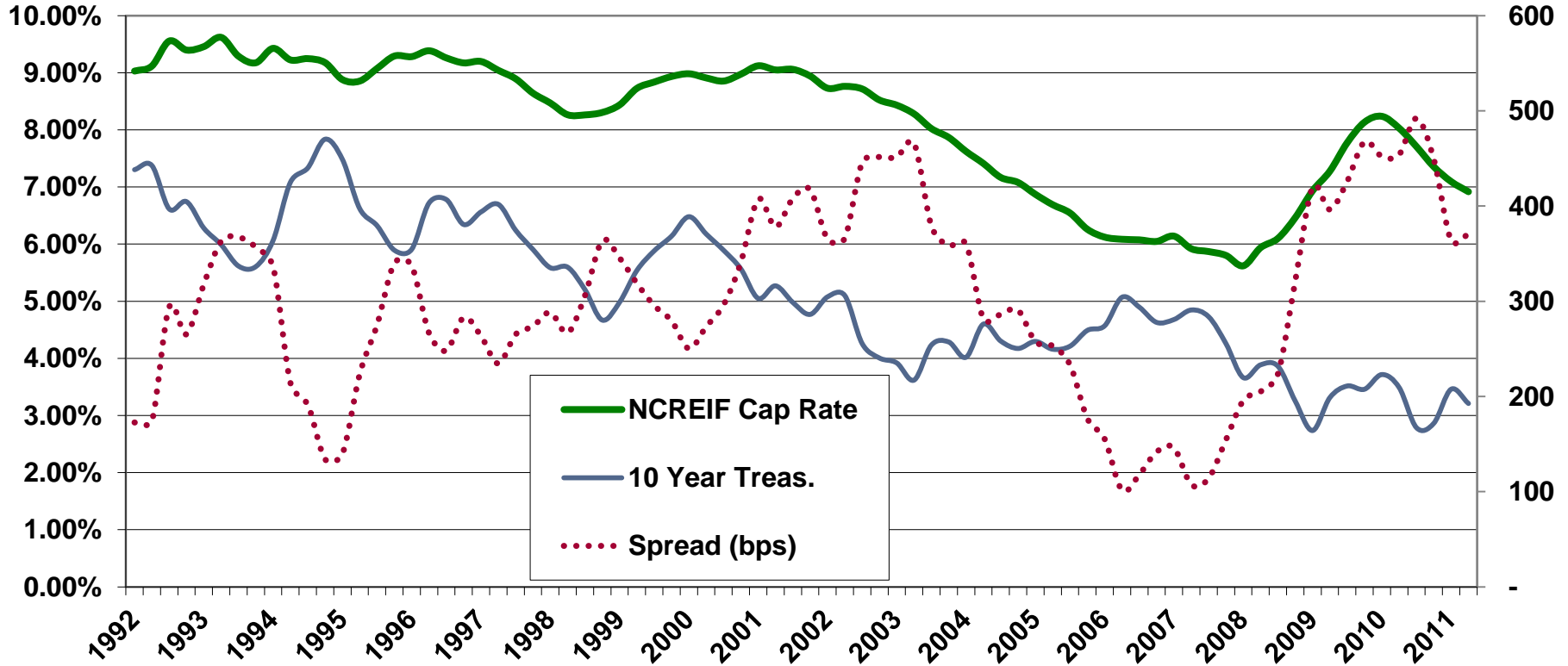
- Recovery remains uneven
- Businesses in very measured expansion mode
- Job growth has returned but will remain subdued throughout 2012
- Unemployment rate has reduced to 8.5% but will be above normal range for foreseeable future
- Consumer spending improving but remains tentative
- Estimated 1.7% GDP growth in 2011 (includes 4Q11 estimates); expect about 2.0% growth in 2012
- Housing market not yet stabilized and remains a key drag on the economy

# Commercial Real Estate Fundamentals






















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- Recession sent vacancy rates up in nearly all markets, leading to declines in rents in the majority of markets across property types
- Occupancies have now improved in most markets and rents are stabilizing and even increasing in some markets
- Limited construction of new buildings over the last several years will allow for rent growth to arrive in the next few quarters in many markets as recovery firms

# Cap Rate Spread to Treasuries



# Market Opportunities by Property Type

	1-2 Yrs	3-5 Yrs	5+ Yrs
■ Office			
■ Residential			
- rental			
- condo			
■ Retail			
■ Industrial			
■ Hospitality			
■ Debt			
■ Other			

# Commercial Real Estate Vacancy Rates

	2011 Q4	Peak of Great Recession	Equilibrium Rate
<b>Office</b>	16.0%	16.8%	13 to 15%
<b>Industrial</b>	13.6%	14.6%	9 to 10%
<b>Retail</b>	13.2%	13.0%	9 to 10%
<b>Multifamily</b>	5.2%	7.4%	5 to 6%

*\*Equilibrium Rate is the rate which approximates a balanced leasing market in which neither landlords nor tenants hold more negotiating power. Vacancy below this rate generally implies a “landlord’s market” and vacancy above this rate implies a “tenant’s market”.*

Source: CBRE-EA

# The Outlook for Rent Growth

## Average Annual Rate of Growth

	Last 5 years	Next 5 years	Previous peak	Peak year
Office	0.0%	4.4%	9.8%	2006
Industrial	-2.8%	5.5%	6.0%	2006
Retail	-2.0%	2.5%	5.1%	1999
Multi-family	1.3%	3.5%	6.9%	2000

Source: CBRE-EA, PKF Hospitality Research

# Recent Cap Rate Movement

Property Type	Low Cap Rate Avg. Pre- Recession	Cap Rate Avg. at Peak of Recession (Q4 2009)	Q3 2011 Cap Rate Average	BPS Increase from Low to Peak (Q4 2009)	BPS Reduction from Peak to Q3 2011
Office	6.5% (Q2 '07)	8.9%	7.3%	+240 bps	(160 bps)
Industrial	6.8% (Q1 '07)	8.7%	7.9%	+190 bps	(80 bps)
Apartments	6.1% (Q4 '06)	7.0%	6.4%	+90 bps	(60 bps)
Retail	6.5% (Q2 '07)	8.2%	7.6%	+170 bps	(60 bps)
Total (All Property Types)	6.6% (Q4 '07)	7.9%	7.1%	+130 bps	(80 bps)

Source: Real Capital Analytics



# Conclusion

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## Closing Advice

- Manager selection is everything
- Determine strategy
- Scrub track record
- Measure alignment of interest

## Why “Now”

- Distress mounting
- Values still down considerably
- Attractive basis
- Cap rates recently contracting
- Market recovery opportunity
- **OPTIMAL BUYING!!**