



Core Real Estate Overview



Real Estate: A Definition

	Privately Traded	Publicly Traded
Equity	<p>Equity ownership in Commercial Real Estate</p> <p>Includes: office, industrial, retail, multifamily, hotel, and other specialty property types</p>	<p>Real Estate Securities</p> <p>Includes: Real Estate Investment Trusts (REITs), Real Estate Operating Companies, and Real Estate Development Companies</p>
Debt	<p>Mortgage Loans</p> <p>Includes: Senior mortgages, mezzanine debt, among others</p>	<p>Mortgage-Backed Securities</p> <p>Includes: CMBS and CDOs (Typically held in bond portfolios)</p>

All strategies exist domestically and internationally



Real Estate

- **Real estate provides:**
 - Diversification
 - Competitive long-term total returns
 - Stable income component of return
 - Inflation hedge
 - Opportunity to take advantage of dislocations of capital

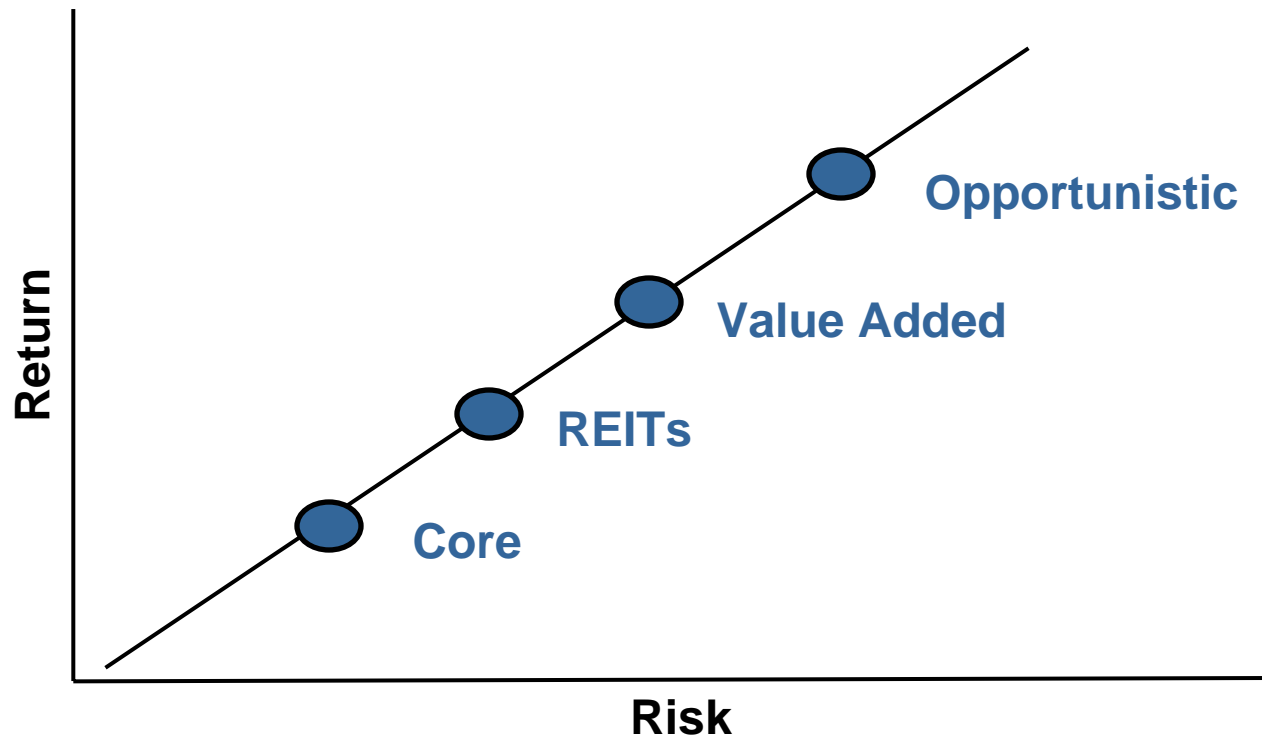
- **Real estate is a well developed asset class with a full complement of managers, strategies, and vehicles.**

- **Vintage year diversification is important and investors should continue investing throughout the market cycle.**



Real Estate Strategies

Risk and Return By Strategy





Core Real Estate Strategies

■ Core

- Most conservative equity real estate approach and most prevalent in institutional portfolios
- Typically includes apartments, office, retail and industrial property types
- Existing properties with quality construction and design features, quality tenants and staggered lease schedules
- At least 80% leased upon purchase
- Predictable income and cash flows
- Located in economically diversified metropolitan areas
- Investment structures using all cash or limited leverage (less than 40%)
- Two-thirds of the anticipated total return will be from income



Core Open-End Fund Market Activity

- **Real estate downturn created a wide bifurcation in open end fund universe.**
 - Style drift and risk increased dramatically as certain funds pursued higher risk property level strategies and increased leverage within their “core” mandate
 - Universe separated into those resolving “legacy” issues and those raising and investing new capital; flow of capital into the sector is masking the flaws

- **Contribution queues have replaced redemption queues for better positioned funds.**

- **High levels of competition in core markets make new acquisitions.**

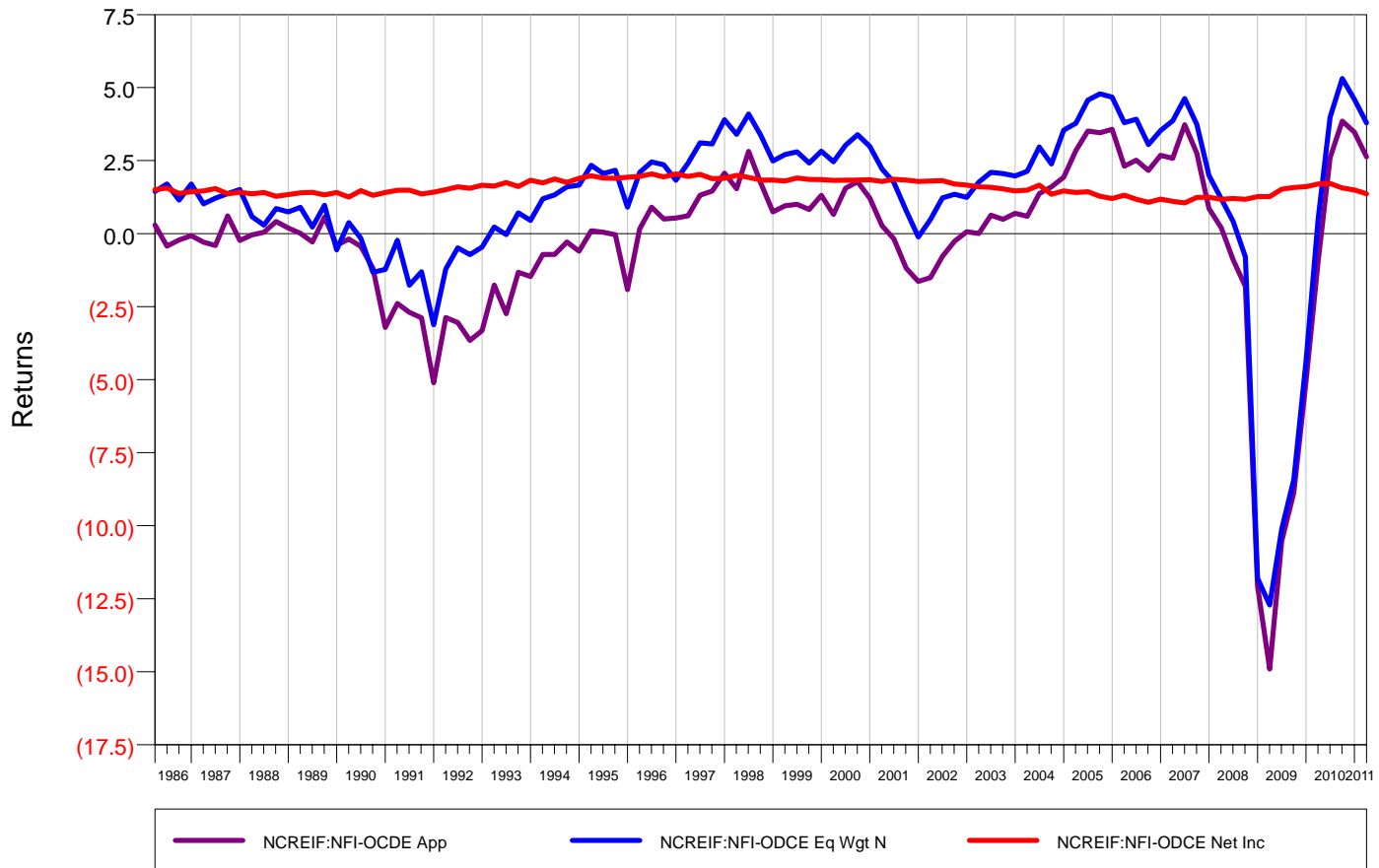
- **Operating fundamentals improving slightly, but uncertainty remains.**

- **Fund valuations declined substantially from peak and rebounded in 2010. Positive performance trend has continued into 2011.**



Core Fund Performance Trends

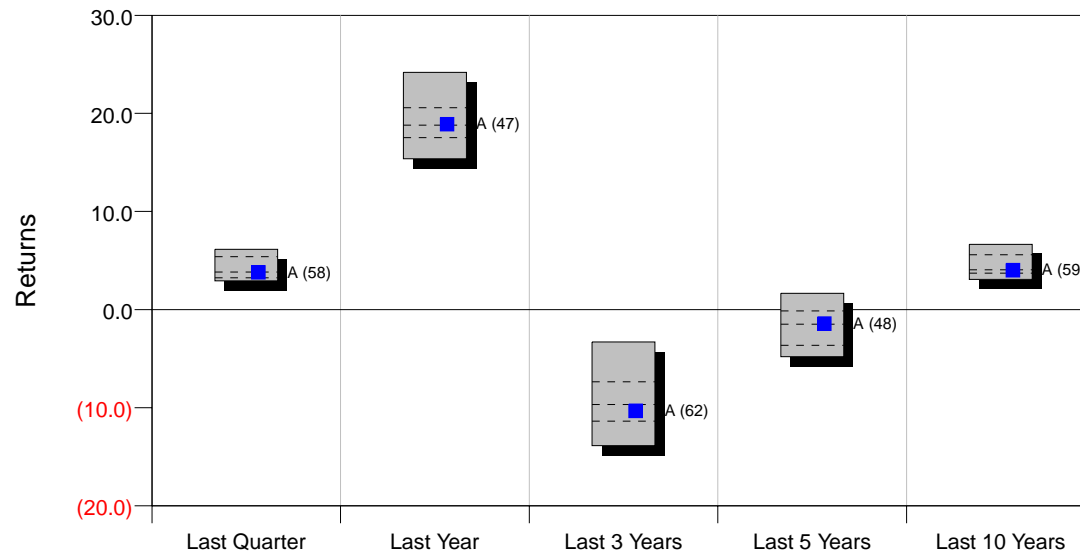
Returns
for 25 Years Ended March 31, 2011





Core Fund Performance Trends

Returns
for Periods Ended March 31, 2011
Group: CAI Open-End Real Estate Funds

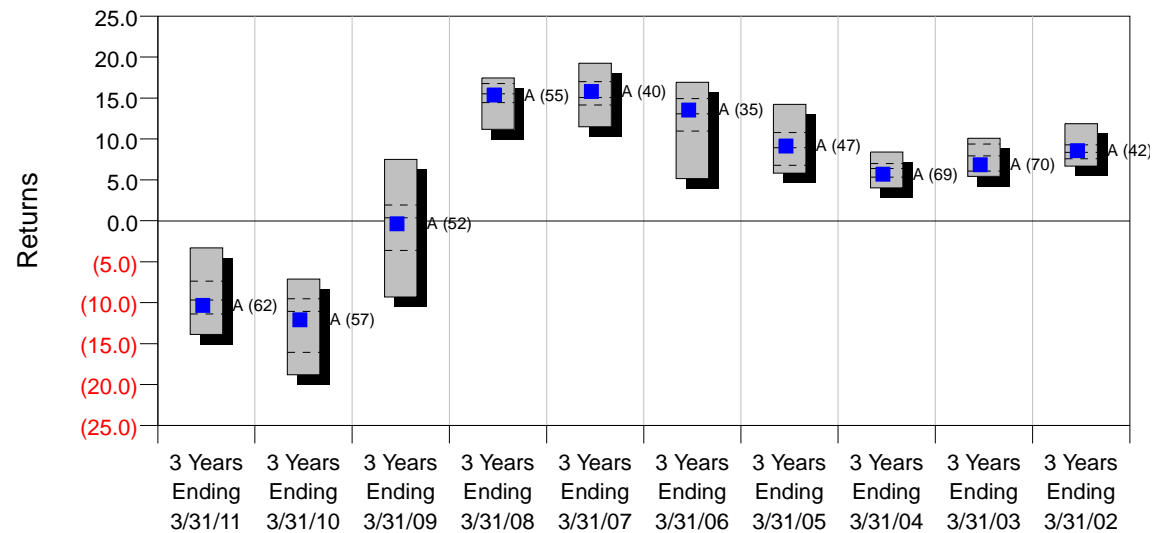


	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	6.15	24.19	(3.28)	1.68	6.66
25th Percentile	5.40	20.59	(7.35)	(0.11)	5.61
Median	3.84	18.82	(9.65)	(1.49)	4.07
75th Percentile	3.25	17.55	(11.36)	(3.62)	3.72
90th Percentile	2.94	15.38	(13.87)	(4.79)	3.11
NCREIF:NFI-ODCE Eq Wgt N ■ A	3.80	18.91	(10.31)	(1.42)	4.02



Core Fund Performance Trends

Returns
for 12 Quarter Rolling Periods
10 Years Ended March 31, 2011
Group: CAI Open-End Real Estate Funds

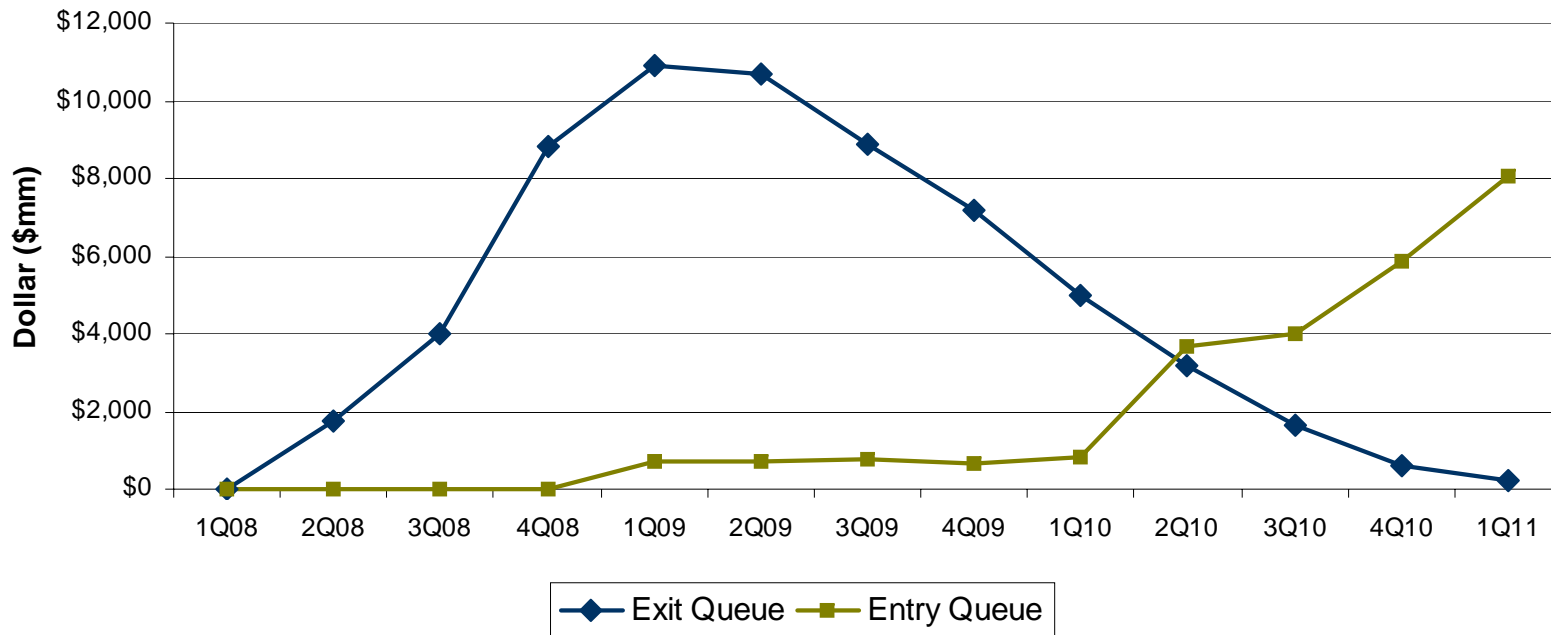


10th Percentile	(3.28)	(7.09)	7.52	17.47	19.26	16.95	14.24	8.43	10.11	11.87
25th Percentile	(7.35)	(9.51)	1.94	16.80	17.01	14.94	10.79	7.01	9.40	9.29
Median	(9.65)	(11.04)	0.38	15.53	15.09	13.09	8.95	6.40	7.95	8.37
75th Percentile	(11.36)	(16.05)	(3.60)	14.46	14.15	10.97	6.79	5.36	6.08	7.60
90th Percentile	(13.87)	(18.79)	(9.28)	11.19	11.51	5.18	5.84	4.04	5.44	6.70
NCREIF:NFI-ODCE Eq Wgt N	(10.31)	(12.08)	(0.35)	15.39	15.82	13.56	9.15	5.72	6.87	8.60



Core Fund Flow Trends

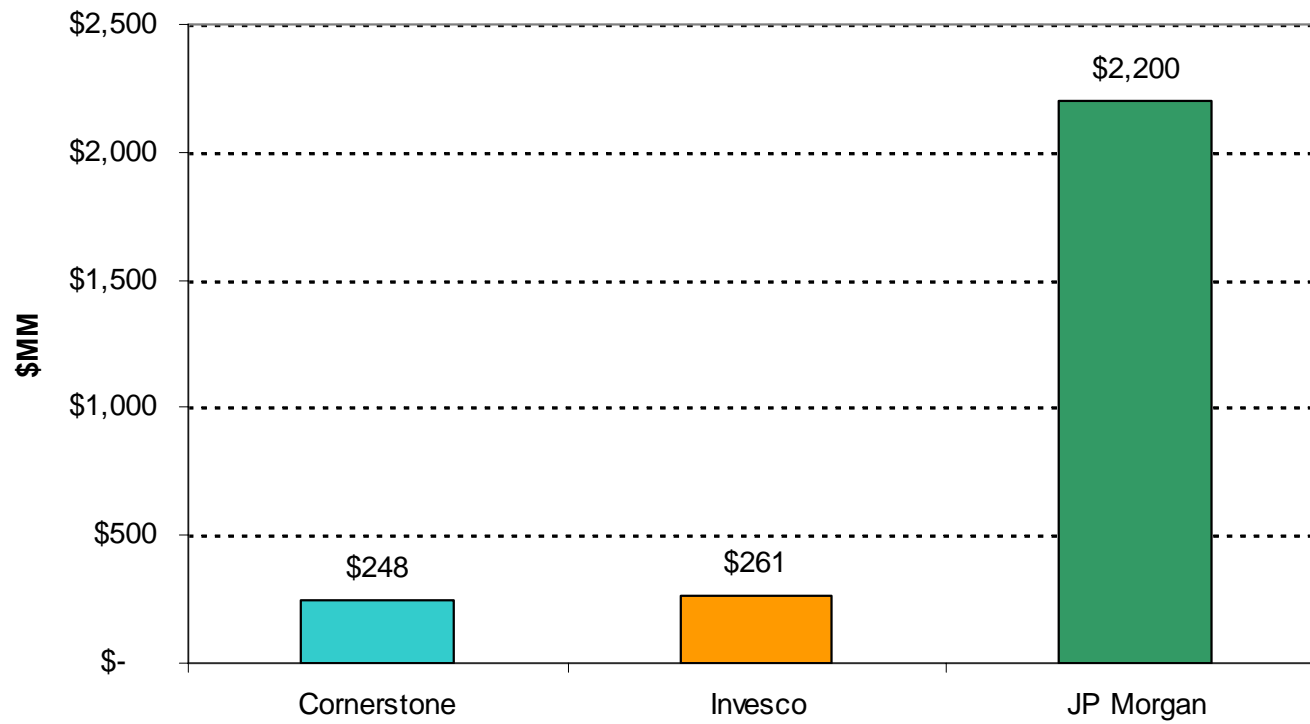
Core Open-End Fund Entry & Exit Queues





Core Fund Queue Status

1st Quarter 2011 Contribution Queues





Core Open-End Fund Considerations

- ***People*** are a key component and we seek strong portfolio managers and portfolio management teams and stable organizations.
- The ***Existing Portfolios*** will vary in size, quality and diversification.
- ***Positioning*** will vary due to strategic differences, age of the fund and its assets and the specific terms and structure of each fund.



Core Open-End Fund Strategy Considerations

- **Some funds have allocations to secondary property types, such as hotels, senior housing, self storage, and others. Some only pursue the four main property types.**
- **Most core funds have a “non-core” bucket, where they will take on additional risk.**
 - These buckets can be up to 30% of the Fund.
 - They can include value added and development strategies and/or forward commitments.
- **Some funds may make investments with joint venture partners and some may make entity level investments.**
- **Most funds have limits on their diversification and leverage levels.**
- **The approach to leverage may change from fund to fund.**



Valuation, Redemptions & Dividends

■ Valuations

- Most funds utilize quarterly valuations
- Some managers use external appraisals every quarter and others less frequently, but at least once a year
- Internal valuation updates may be utilized
- Third party every quarter with oversight by an appraisal manager is preferred
- Debt mark to market impact

■ Redemptions

- Queues typically allow redemptions on a pro-rata basis each quarter
- There is no guarantee of meeting redemption requests and the ability to redeem can be driven by market conditions

■ Dividends

- Most funds provide quarterly dividend distributions
- Dividends can be distributed or reinvested, at the investor's discretion
- During the recent market downturn, some managers suspended their dividend, due to cashflow constraints



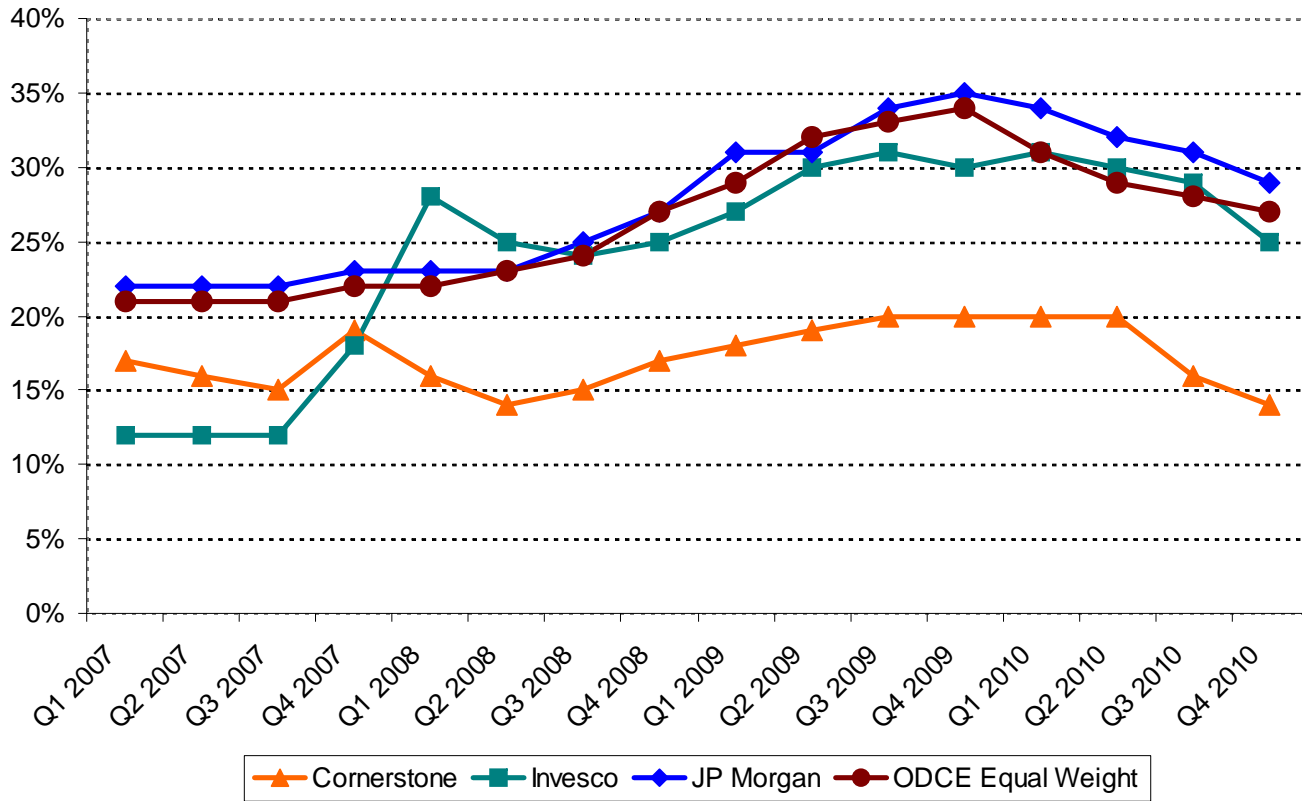
Leverage

- **Core managers typically target no more than 40% leverage.**
- **Many managers have lower targets, between 20% and 35%.**
- **Leverage can be limited at the portfolio level and the property level.**
- **If leverage increases due to market value declines, the manager has no requirement to bring it back in line with the target.**
- **The history of leverage management is a key consideration in evaluating core fund managers.**



Leverage

Comparative Leverage Over Time





Benchmark

- **The benchmark for the core open-end funds is the NCREIF Open-End Core Diversified Equity Index (“ODCE”).**
- **It was created in 2005 and is comprised of 16 open-end commingled funds pursuing a core investment strategy.**
- **The Index includes leverage.**
- **There are two versions of the index, including:**
 - Equal Weighted
 - Value Weighted
- **The benchmark includes various limitation criteria, which are included in the Appendix.**



Summary

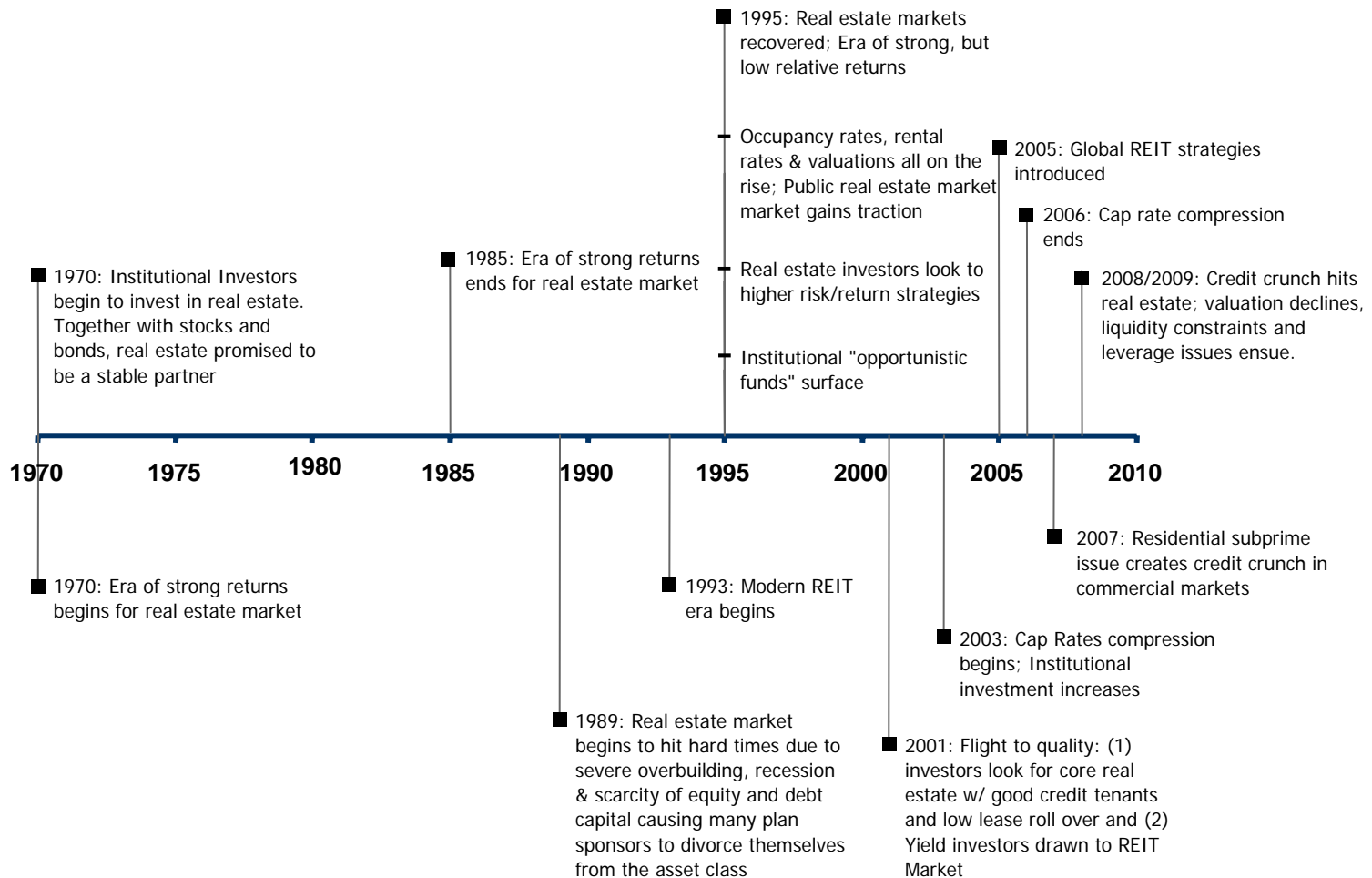
- **Core is the most conservative strategy in real estate.**
- **Real estate has undergone a market downturn and there has been a bifurcation among well positioned and poorly positioned funds.**
- **Each core fund has a unique profile and strategic differences.**
- **The core funds and core fund universe has unique strategic and structural elements.**



Appendices



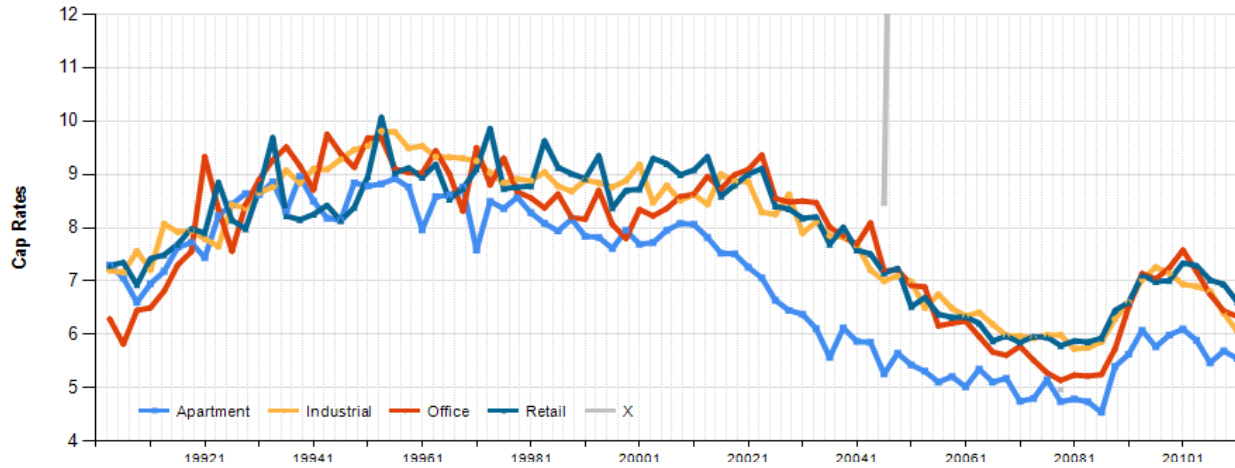
Evolution of Institutional Investment



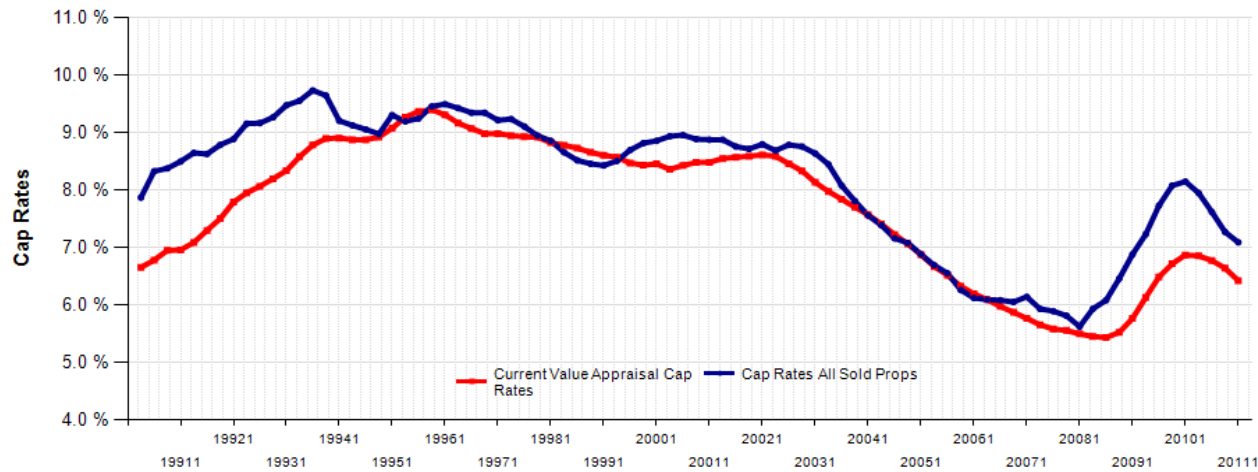


Real Estate Market Overview

Current Value Cap Rates by Property Type



Transaction vs Current Value Cap Rates

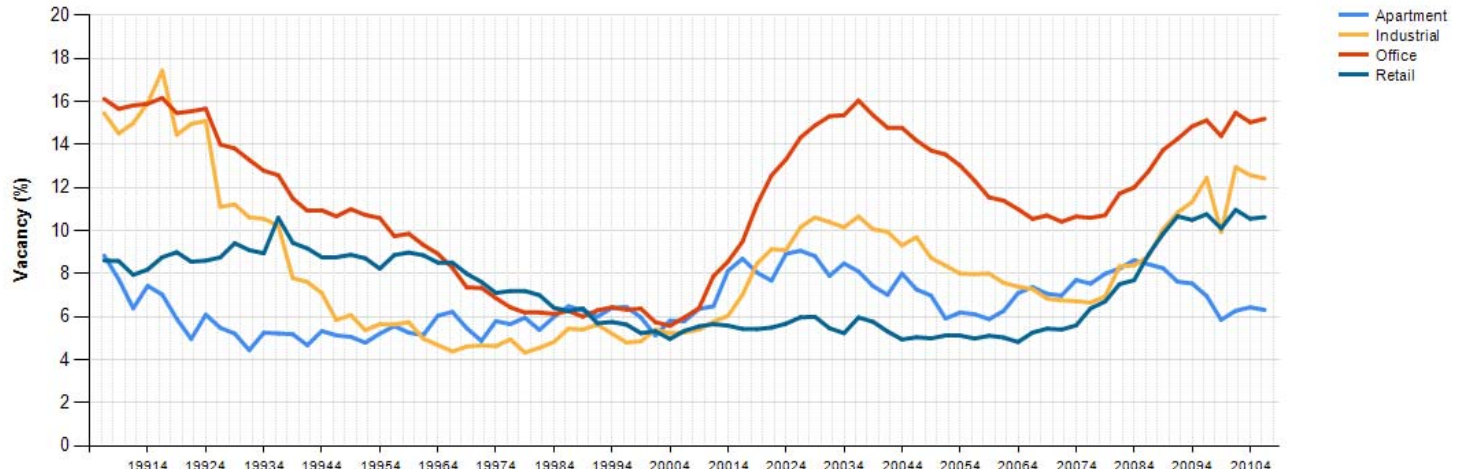


Source: NCREIF

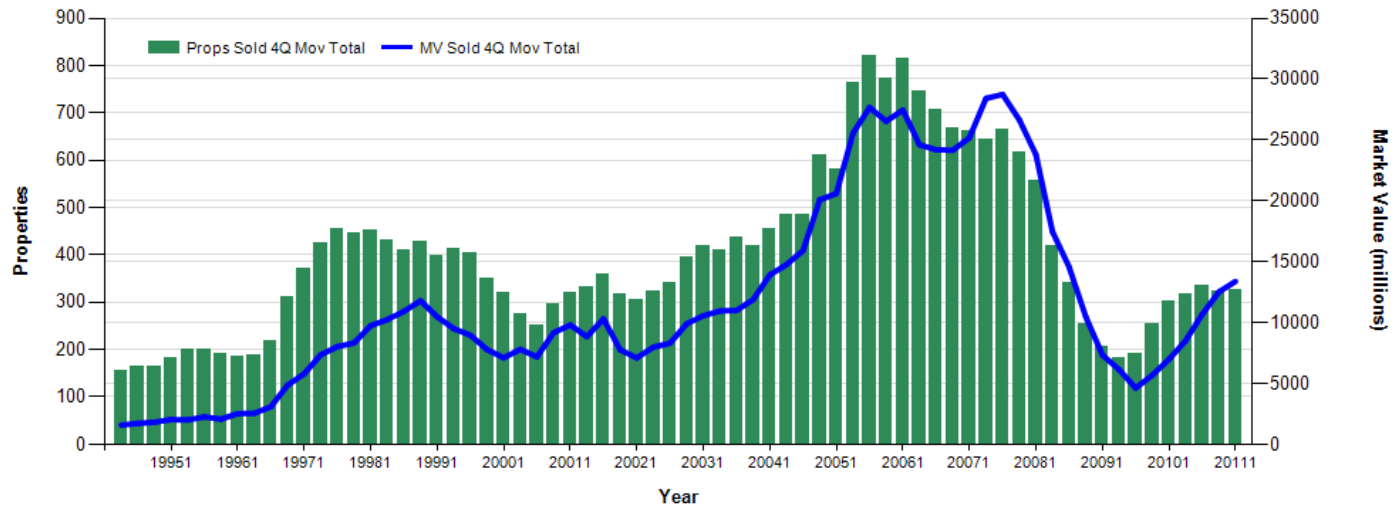


Real Estate Market Overview

Vacancy By Property Type



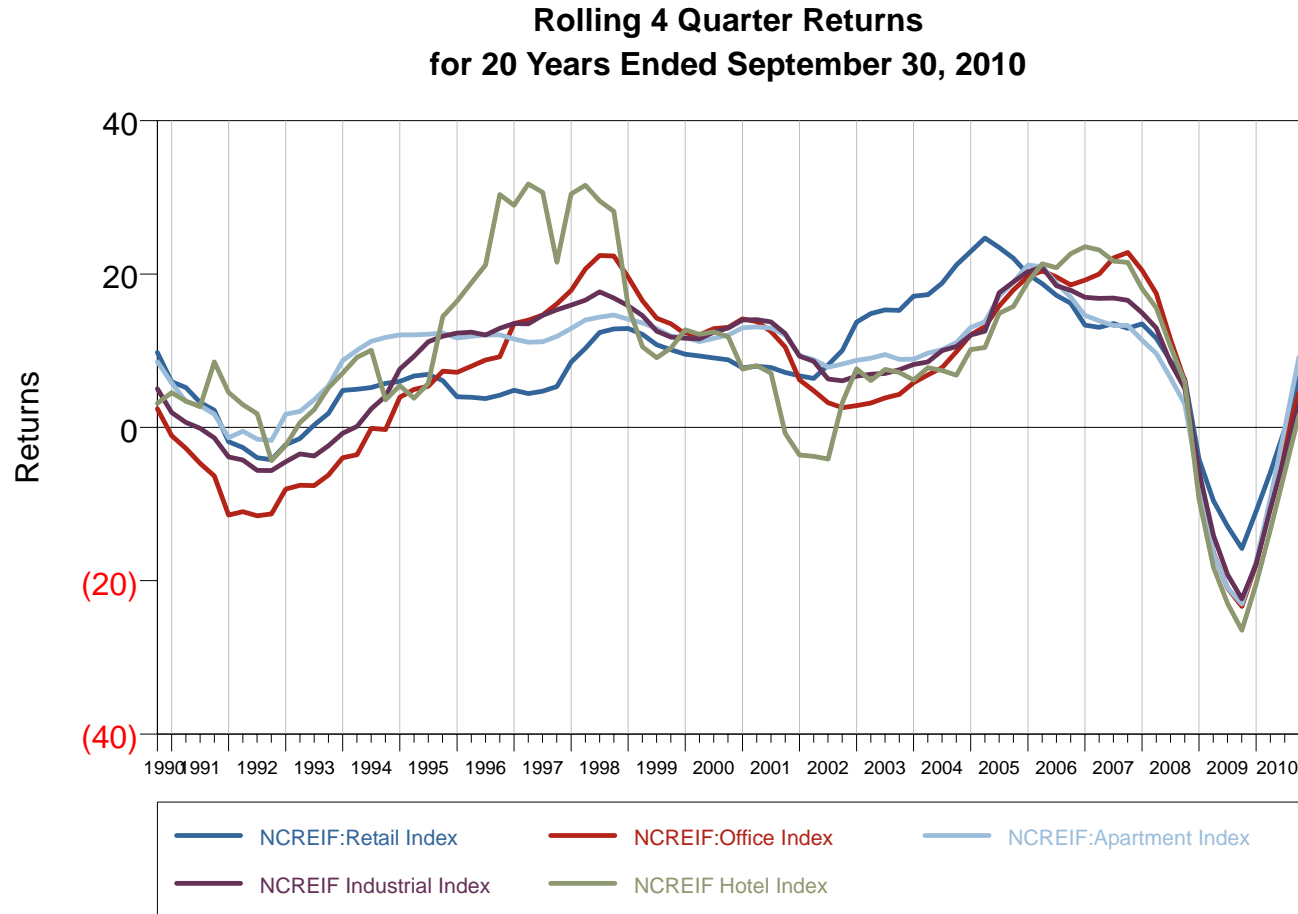
Property Sales (annualized)



Source: NCREIF



Historical Property Type Performance Trends





Value Added Real Estate Strategies

■ Value Added

- Seeks a competitive income return with potential for capital appreciation
- Acquires properties and incorporates re-leasing, repositioning, and re-development strategies
- Once value has been created, the property is targeted for sale
- Leverage ranges from 40% to 75%
- Anticipated one half of the total return will be from income and one half from appreciation

■ Investment Vehicles

- Closed End funds
- Separate Accounts (for larger investors)
- Open End Funds



Opportunistic Real Estate Strategies

■ **Opportunistic**

- Return targets are higher than core and value added
- Leverage used to enhance returns (65%+)
- Incorporate various investment strategies; broad mandates
 - Global, International, Distressed Real Estate Portfolios, Mezzanine Debt, Convertible & Preferred Equity Investments, Commercial Development
- Anticipated more than two-thirds of the total return will be derived from capital appreciation

■ **Investment Vehicles**

- Closed-End Funds
 - Structure, terms, and fees similar to private equity
- Fund of Funds
- Secondaries



Publicly Traded Real Estate Securities

- **Publicly Traded Real Estate Securities (aka REITS)**
 - Complement to a private real estate portfolio; not a substitute
 - Low correlation between REITS and private open end funds
 - Daily liquidity
 - Access to property types not attainable in most separate accounts or commingled funds (e.g., Regional Malls, CBD Office, and Hotels)
 - Enhanced diversification
 - Lower fees than private
 - Competitive performance
- **Vehicles**
 - Separate account
 - Commingled fund



Implementation - Vehicle Comparison

	Open-end Funds	Closed-end Funds	REITs
Strategy	Core Value Added	Value Added Opportunistic	Regional Global Specialty Hedge
Control	Limited	Limited	Limited
Liquidity	Moderate	Limited	High
Diversification Property Type & Geography	High	Moderate	High
Monitoring	Moderate	Moderate	Limited
Fees	Moderate	Moderate - High	Moderate - Low
Diversification Benefit	High	High	Moderate - Low



Practical Implementation and Fees

Plan Sponsor RE Commitment	Core		Value Added		Opportunistic		Real Estate Securities	
	Commingled Fund	Separate Account	Commingled Fund	Separate Account	Commingled Fund	Separate Account*	Commingled Fund	Separate Account
\$5 to \$100 mil	√		√		√		√	√
Minimum	\$1-10 million		\$5-10 million		\$10-20 mm		\$1-5 million	\$10-50 mm
Fees	.9% to 1.25%		1% to 1.5% + incentive fee		1.5% to 2% + incentive fee		< 1%	.5% to 1%
\$100 to \$300 mil	√		√	√	√			√
Minimum	\$1-10 million		\$5-10 million	\$100 million	\$10-20 mm			\$10-50 mm
Fees	.8% to 1.25%		1% to 1.5% + incentive fee	1% + incentive fee	1.5% to 2% + incentive fee			.5% to .7%
\$300 to \$500 mil	√	√	√	√	√			√
Minimum	\$1-10 million	\$300 million	\$5-10 million	\$100 million	\$10-20 mm			\$10-50 mm
Fees	.8% to 1.25%	1% or % of operating income	1% to 1.5% + incentive fee	1% + incentive fee	1.5% to 2% + incentive fee			.4% to .6%
>\$500 mil	√	√	√	√	√			√
Minimum	\$1-10 million	\$300 million	\$5-10 million	\$100 million	\$10-20 mm			\$10-50 mm
Fees	.8% to 1.25%	1% or % of operating income	1% to 1.5% + incentive fee	1% + incentive fee	1.5% to 2% + incentive fee			.4% to .6%

*Opportunistic investments are typically not offered in a separate account vehicle.



ODCE Benchmark Criteria

- **Properties must be externally appraised at least once annually.**
- **At least 80% of net assets must be invested in real estate with no more than 20% invested in cash or equivalents .**
- **No more than 40% leverage to total assets.**
- **At least 80% of the market value of real estate net assets must be invested in private equity real estate properties.**
- **At least 95% must be invested in US markets.**
- **At least 80% must be invested in office, industrial, apartment and retail property types.**
- **At least 80% must be invested in operating properties.**
- **No more than 70% may be invested in one property type or one region as defined by the NPI.**