



The Case for Investing in Public Real Estate Securities

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Part of
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Compare and Contrast Private vs. Public Real Estate

		Private Investment Pool	Listed Real Estate
Structural characteristics	Underlying investment	Investment in real estate assets through commingled funds or private partnership	Investment in a portfolio of quality assets which are listed on a stock exchange
	Management	Investment manager allocates funds and manages property portfolio	Investment manager allocates funds and manages property portfolio
	Management Fees	Higher	Lower
	Transparency	Limited portfolio transparency	Transparency consistent with requirements for listed securities
	Investor time and resource requirements	Variable	Low
Diversification	Geography and sector	Limited	Broad
	Product type	Limited	Highly customizable
	Product liquidity	Illiquid - subject to purchase and sale restrictions and transaction minimums	Highly liquid
Liquidity	Access to Capital	Variable - subject to investor demand	High
	Growth of asset class	Variable	High
Returns	Source of returns	Pooled rents and partnership share appreciation	Dividends (income) and Growth (capital gains)
	Return characteristics	Idiosyncratic - highly subject to manager skill	Generally systematic (i.e. index based) and in-line with direct real estate returns in the long-term
	Valuations	Periodic pricing. Pooled appraisals and capitalisation rates	Daily pricing by the market. NAV, DCF and FFO.

High Quality Assets

- Listed real estate securities own some of the best real estate assets globally

GM Building



Location: Manhattan
Owner: 60% Boston Properties

IFC Complex



Location: Hong Kong
Owner: Sun Hung Kai Prop. & Henderson Land

PETRONAS Towers



Location: Kuala Lumpur
Owner: 51% KLCC

King of Prussia



Location: Pennsylvania
Owner: Simon Properties

GLP



Location: Tokyo
Owner: GLP

V&A Waterfront



Location: Cape Town
Owner: 50% Growthpoint

High Quality Governance, Management and Transparency

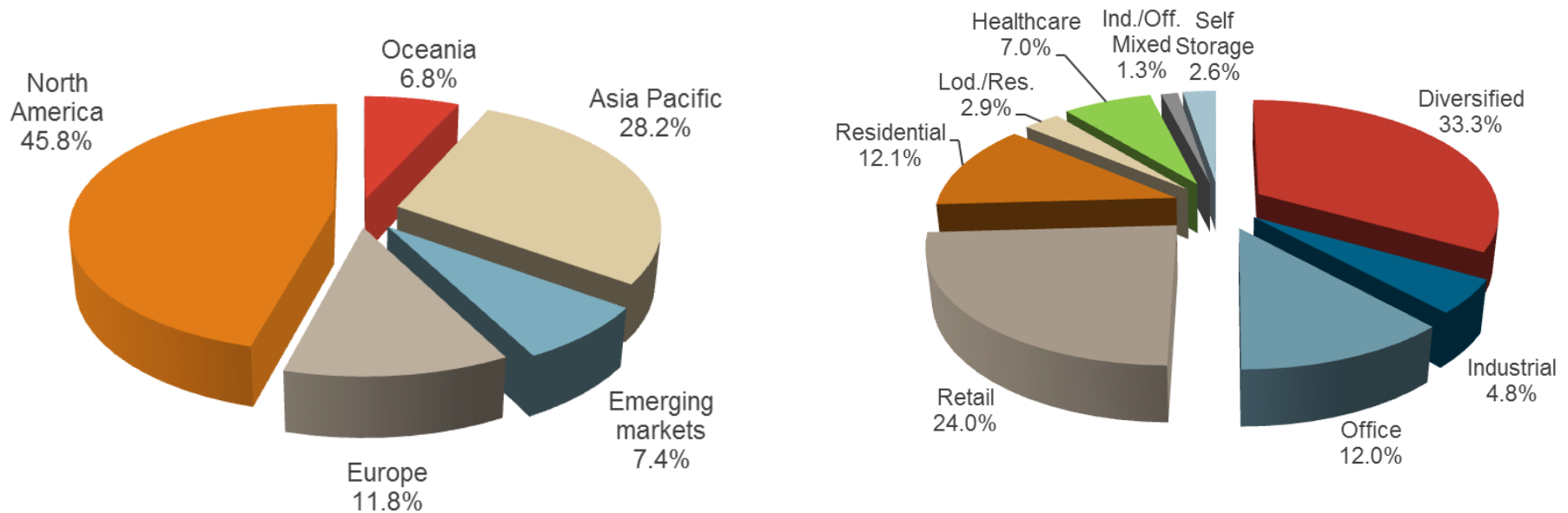
- Overall the US REIT industry stacks up favourably vs. corporate America on governance¹
- Governance matters as there is a positive correlation between good governance and higher valuations¹
- Management teams are comprised of real estate professionals who are judged and priced daily by the market
- Listed REIT reporting is governed by the Securities & Exchange Commission, Generally Accepted Accounting Principles, and the various stock exchanges
- One of the few sectors globally where valuations are supported by a deep pool of independent transactions

¹ Executive Compensation and Corporate Governance, Green Street Advisors, May 31, 2013.

Broad Diversification by Geography and Sector

- Global listed real estate universe has an approximate “free float” value of US\$1.2 Trillion allowing access to some of the world’s best real estate

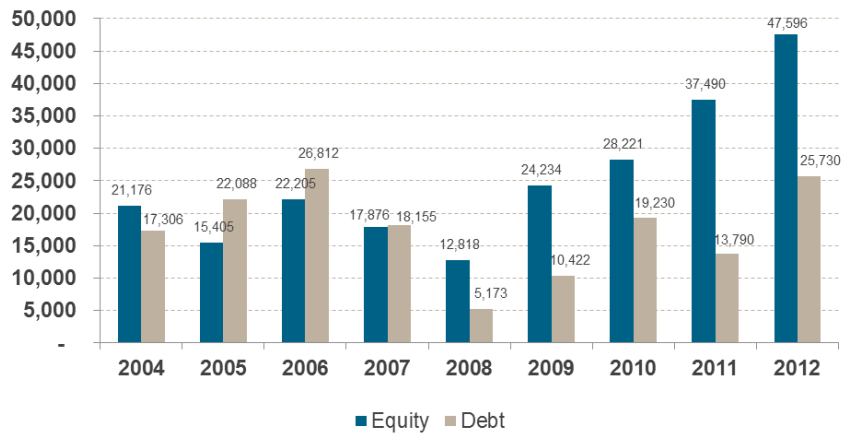
Region and sector allocation of the FTSE EPRA/NAREIT Global Index
(as at March 31, 2013)



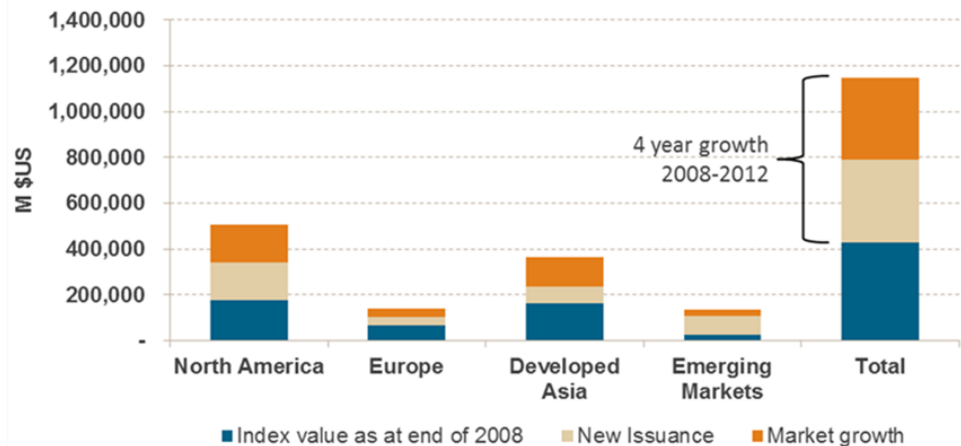
Sources: EPRA.

Access to Capital and Growth of Asset Class

Historical Offerings of Securities



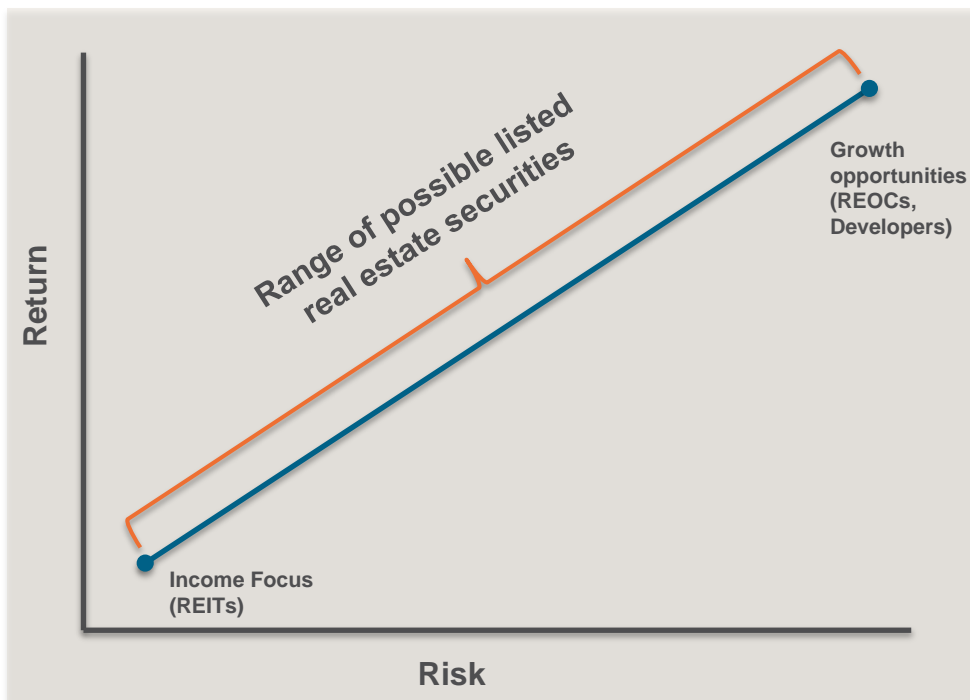
Listed Real Estate Value



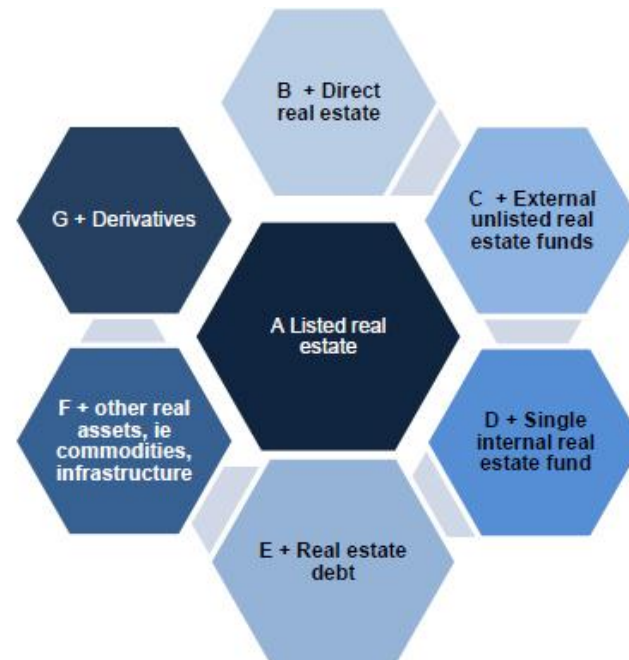
Sources: SNL Financial, NAREIT, FTSE, Bloomberg.

Listed Real Estate Securities Allow for Flexible Strategies

Risk/Return spectrum of possible listed real estate



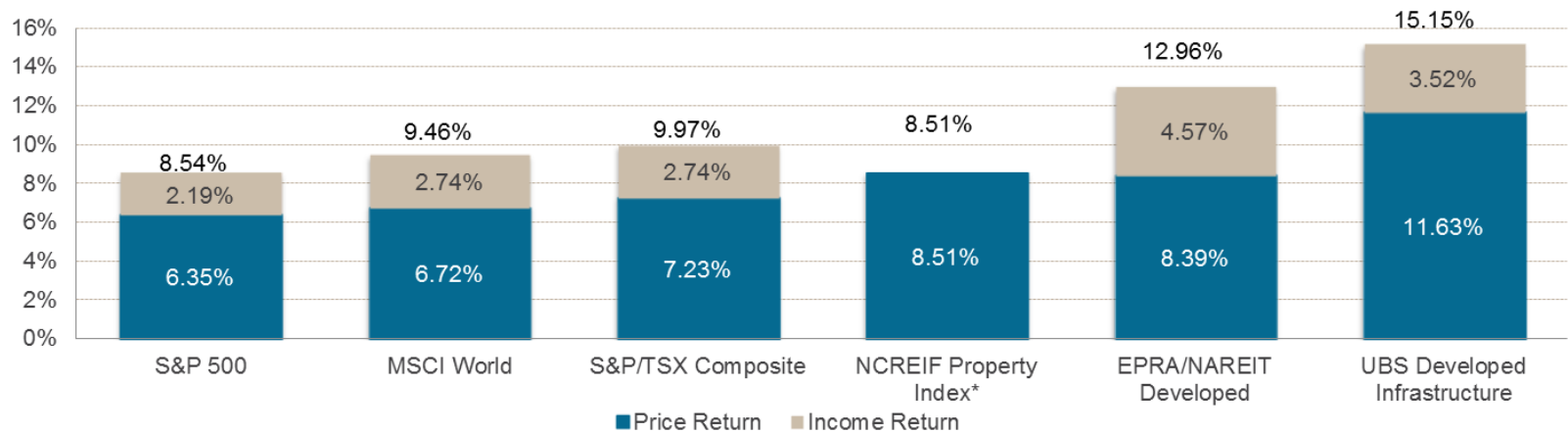
Potential combinations of listed real estate with other quadrants¹



¹Source: Consilia Capital

Strong Historical Returns

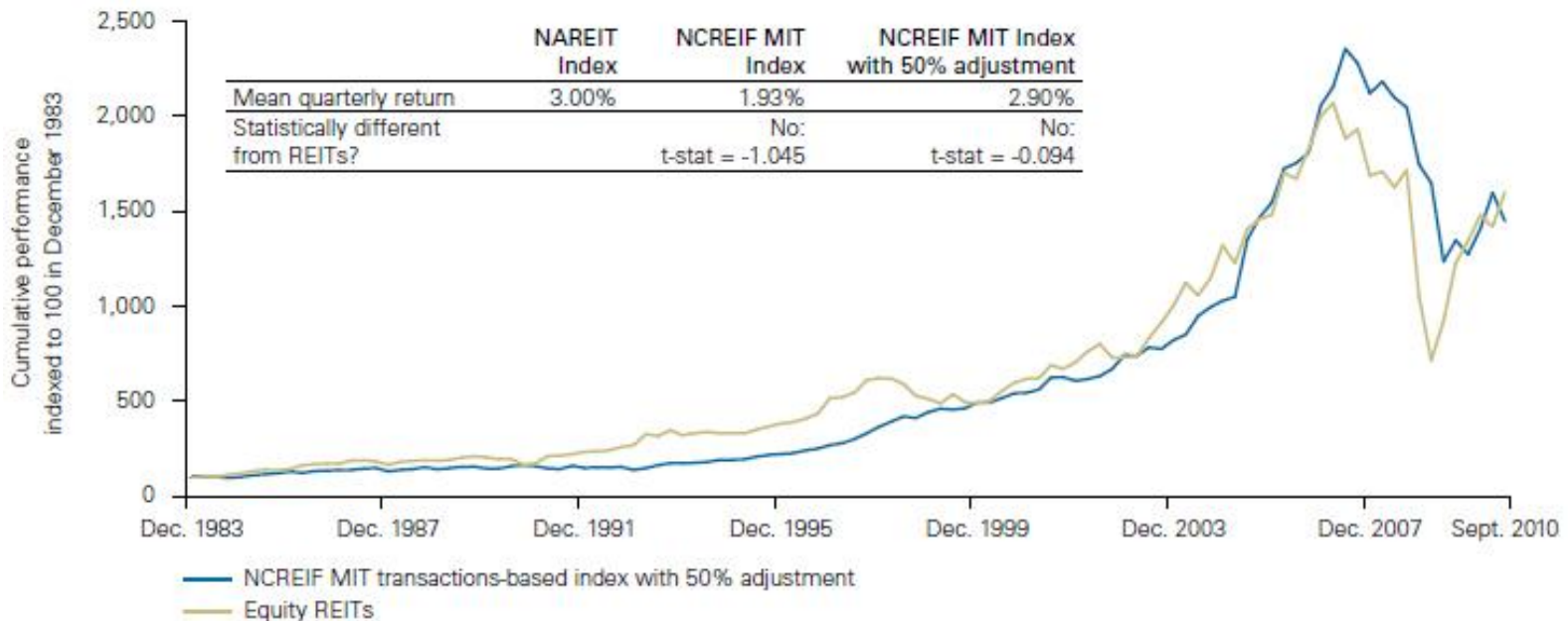
10-year return of various income-generating asset classes as at March 31 2013



* Total return presented as income return is not currently available for the NCREIF Property Index

Strong Historical Returns

Long-term returns are similar across direct and public investment options



Note: There are two adjustments to the traditional NCREIF Property Index. First, Vanguard used the transactions-based index developed by the MIT Centre for Real Estate and provided by NCREIF. This eliminates the smoothing resulting from appraisal pricing. Second, Vanguard adjusted the NCREIF returns to account for the discrepancy with which returns are reported. Because REIT returns are a function of capital structure, the return series accounts for any debt/equity ratio the firms employ. In contrast, private real estate returns assume that property investment is made without the use of debt financing. In fact, returns represent changes in property value only, not the returns realised by investors who may be partially financed with debt. Academic and industry analyses typically include adjustments to private real estate returns of anywhere from 30% to 70%. Vanguard's adjustment is an attempt to make the return series more comparable, with the acknowledgment that there are perhaps more complex and more accurate approaches.

Source: Author's calculations using data from FTSE/NAREIT and from NCREIF with MIT. Analysis is derived from the methodology employed by researchers such as Joseph Pagliari Jr. (2003). The transactions index data is released on a quarterly lag.

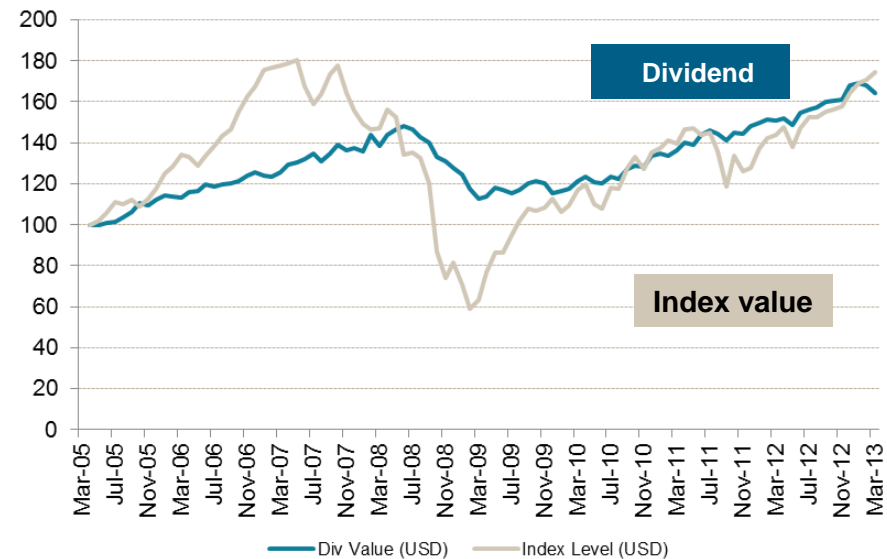
Importance Source of Growing Income

- **High yields:** Dividends have accounted for close to half of long term total returns (TR) from listed real estate
- **Dividend growth:** Since 2001, Global REITs have been growing dividends more than 5% per year on average¹
- **Steady payouts:** Price levels for listed real estate have fluctuated greatly in recent years, but dividend payout amounts have been more steady

Breakdown of total returns to March 31, 2013:
FTSE EPRA/NAREIT Developed Index (US\$)

	Total Return	Price return	Dividend Yield	Yield as % of TR
1 yr	21.09%	16.61%	4.47%	21.21%
3 yrs	14.24%	9.98%	4.26%	29.92%
5 yrs	3.49%	-0.78%	4.27%	122.33%
10 yrs	12.96%	8.39%	4.57%	35.26%
20 yrs	10.05%	5.35%	4.70%	46.77%

Steady evolution of dividend payout vs.
FTSE EPRA/NAREIT Developed Index (US\$)



¹Sources: EPRA, Bloomberg.

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