Why Real Estate

- Core and Core+ real estate offers bond-like properties
  - Like bonds, returns consist primarily of income plus some underlying appreciation

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Greater Appreciation Potential</td>
<td>• Economic Sensitivity</td>
</tr>
<tr>
<td>• Inflation Protection</td>
<td>• Illiquidity</td>
</tr>
<tr>
<td>• Higher Yields</td>
<td>• Fees</td>
</tr>
</tbody>
</table>

- Portfolio Role
  - Provides higher long-term returns than bonds
  - Reduces portfolio volatility like bonds
  - Offers protection in rising interest rate environments
Real Estate Variations

- Common elements of institutional-quality funds
  - Commingled vehicles
  - Benchmarked against the National Council of Real Estate Investment Fiduciaries (NCREIF) ODCE or NCREIF Property Index

- Investment vehicles consist of
  - Open-end Funds
  - Public REITS
  - Direct Ownership
  - Closed-end Funds

- Leverage (usually 20%-70%) varies by investment style (core, value-added, opportunistic)

- Real estate risk varies by property quality

- Can play multiple roles in a portfolio
  - Conservative (core/core+) acts as a bond substitute, 6-8% return expectation
  - Riskier real estate may be a return driver, >12% return expectation
Investment Vehicles

- **Publicly Traded REIT**
  - Registered with SEC, trades as a stock
  - Daily liquidity as with any stock
  - Investor requires no special qualification
  - High correlation to equity markets

- **Private REIT**
  - Brokerage sponsored
  - High fees
  - Lightly regulated
  - Small initial investments
Investment Vehicles

- Direct Ownership
  - Separate accounts, whole properties owned by a single investor
  - Joint ventures, partial direct ownership of properties with a few other entities
  - Investor needs to have sufficient size to buy diverse properties

- Commingled Trust, Open or Closed-end Fund
  - Structured as an LP
  - Closed-end - Liquidity not provided until end of fund’s life, usually 7-10 years
  - Open-end - Liquidity depends on willingness of manager to meet redemption requests
  - Investor needs to be accredited
  - Low correlation to equity markets
Real Estate Property Types

- The four main “food groups”
  - Multi-Family (Apartment)
  - Industrial
  - Office
  - Retail

- Additional common property types
  - Hotels
  - Self-Storage
  - Medical Office
  - Student Housing
Example: Multi-family

- Multi-Family (Apartment)
  - Moderate return volatility
  - Returns are more stable than most other property types because of the minimal impact from the loss of a single tenant

<table>
<thead>
<tr>
<th>Key Statistics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>Multi-family</td>
</tr>
<tr>
<td>Location</td>
<td>Weston, FL</td>
</tr>
<tr>
<td>Carry Value</td>
<td>$69.9 million</td>
</tr>
<tr>
<td>Loan Balance</td>
<td>$26.0 million</td>
</tr>
<tr>
<td>Equity</td>
<td>$43.9 million</td>
</tr>
<tr>
<td>LTV</td>
<td>37%</td>
</tr>
<tr>
<td>Loan Interest Rate</td>
<td>3.01%</td>
</tr>
<tr>
<td>% Lease</td>
<td>92%</td>
</tr>
<tr>
<td>Carry Value per Unit</td>
<td>$190,000</td>
</tr>
</tbody>
</table>

- 368-unit “garden-style” apartment community in Ft. Lauderdale, Florida
- Property amenities include a fitness center, swimming pool, and tennis courts
Example: Industrial

- Industrial
  - Moderate to high return volatility
  - Smaller initial investment and annual maintenance tends to dampen economic sensitivity relative to office

### Key Statistics

<table>
<thead>
<tr>
<th>Sector</th>
<th>Industrial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>Fullerton, CA</td>
</tr>
<tr>
<td>Cary Value</td>
<td>$36.1 million</td>
</tr>
<tr>
<td>Loan Balance</td>
<td>$14.4 million</td>
</tr>
<tr>
<td>Equity</td>
<td>$21.7 million</td>
</tr>
<tr>
<td>LTV</td>
<td>40%</td>
</tr>
<tr>
<td>Loan Interest Rate</td>
<td>2.93%</td>
</tr>
<tr>
<td>% Lease</td>
<td>100%</td>
</tr>
<tr>
<td>Forward 12-month Lease Expiration</td>
<td>None</td>
</tr>
</tbody>
</table>

- A 254,750 square-foot distribution facility in a location with access to major Southern Californian transportation arteries
Example: Office

- Office
  - High return volatility
  - Returns tend to be highly sensitive to economic performance

<table>
<thead>
<tr>
<th>Key Statistics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>Office</td>
</tr>
<tr>
<td>Location</td>
<td>Orange, CA</td>
</tr>
<tr>
<td>Carry Value</td>
<td>$21.5 million</td>
</tr>
<tr>
<td>Loan Balance</td>
<td>$4.2 million</td>
</tr>
<tr>
<td>Equity</td>
<td>$17.3 million</td>
</tr>
<tr>
<td>LTV</td>
<td>20%</td>
</tr>
<tr>
<td>Loan Interest Rate</td>
<td>2.54%</td>
</tr>
<tr>
<td>% Lease</td>
<td>87%</td>
</tr>
<tr>
<td>Forward 12-month</td>
<td></td>
</tr>
<tr>
<td>Lease Expiration</td>
<td>1 (1,987 SF)</td>
</tr>
</tbody>
</table>

- 90,191 square-foot office building in central Orange County
- Located near major roads
- Completed significant capital work to the property, including a new lobby, outdoor seating area, landscaping, and parking lot
Example: Retail

- Retail
  - Low return volatility
  - Returns tend to be more stable than that of Office due to longer leasing terms

<table>
<thead>
<tr>
<th>Key Statistics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>Retail</td>
</tr>
<tr>
<td>Location</td>
<td>Houston, TX</td>
</tr>
<tr>
<td>Cary Value</td>
<td>$154.0 million</td>
</tr>
<tr>
<td>Loan Balance</td>
<td>$75.0 million</td>
</tr>
<tr>
<td>Equity</td>
<td>$79.0 million</td>
</tr>
<tr>
<td>LTV</td>
<td>49%</td>
</tr>
<tr>
<td>Loan Interest Rate</td>
<td>LIBOR +165 bps</td>
</tr>
<tr>
<td>% Lease</td>
<td>99%</td>
</tr>
<tr>
<td>Forward 12-month Lease Expiration</td>
<td>None</td>
</tr>
</tbody>
</table>

- 216,906 square foot Retail complex located in the Galleria area of Houston Texas
- Whole Foods and Apple are the two anchor tenants
Risk and Return

NCREIF Index 20 years as of 12/31/18

Capital Market Line runs from the 90 Day U.S. Treasury Bill to the S&P 500
Real Estate Investment Styles

![Diagram showing Real Estate Investment Styles]

- **Core**
- **Core +**
- **Value Add**
- **Opportunistic**

- Return
- Risk
## Real Estate Equity Investment Styles

<table>
<thead>
<tr>
<th>Investment Factors</th>
<th>Core</th>
<th>Value-Added</th>
<th>Opportunistic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public / Private</strong></td>
<td>Private</td>
<td>Private</td>
<td>Private</td>
</tr>
<tr>
<td><strong>Vehicle Structure</strong></td>
<td>Open-end or LP</td>
<td>Open-end or LP</td>
<td>Limited Partnership</td>
</tr>
<tr>
<td><strong>Relative Liquidity</strong></td>
<td>Daily to Quarterly</td>
<td>Quarterly to Term of Fund</td>
<td>Term of the Fund</td>
</tr>
<tr>
<td><strong>Relative Risk Level</strong></td>
<td>Low</td>
<td>Moderate</td>
<td>High</td>
</tr>
<tr>
<td><strong>Strategy</strong></td>
<td>85% leased in major markets. Limited development or repositioning risk. Diversified across region and property type</td>
<td>70% leased with modest development and repositioning risk focused on improving occupancy rates.</td>
<td>Significant exposure to development and repositioning risk</td>
</tr>
<tr>
<td><strong>Markets</strong></td>
<td>Tier 1 (NY, Miami)</td>
<td>Tier 1 &amp; 2 (NY, Raleigh)</td>
<td>Tier 1, 2, &amp; 3 (NY, Raleigh, Cincinnati)</td>
</tr>
<tr>
<td><strong>Appraisal Frequency</strong></td>
<td>Quarterly to 1 year</td>
<td>Annual</td>
<td>1 - 3 years</td>
</tr>
<tr>
<td><strong>Property Holding Period</strong></td>
<td>5 - 10 years</td>
<td>3 - 5 years</td>
<td>3 - 5 years</td>
</tr>
<tr>
<td><strong>Leverage</strong></td>
<td>15% - 35%</td>
<td>35% - 70%</td>
<td>70% +</td>
</tr>
<tr>
<td><strong>Income Return : Appreciation</strong></td>
<td>80% : 20%</td>
<td>60% : 40%</td>
<td>20% : 80%</td>
</tr>
<tr>
<td><strong>Minimum Investments</strong></td>
<td>$1 million</td>
<td>$1 million to $5 million</td>
<td>$5 million</td>
</tr>
<tr>
<td><strong>Management Fees</strong></td>
<td>1.00%</td>
<td>1.25%</td>
<td>2.00%</td>
</tr>
<tr>
<td><strong>Incentive Fees</strong></td>
<td>None</td>
<td>0-20% usually after a 7-8% hurdle rate</td>
<td>0-20% usually after a 7-8% hurdle rate</td>
</tr>
<tr>
<td><strong>Total Return Target</strong></td>
<td>6% - 8%</td>
<td>8% - 12%</td>
<td>12% +</td>
</tr>
</tbody>
</table>
What is Value-Added Real Estate

- Seeks to acquire non-core assets to transform them into core real estate properties, through:
  - Reworking the debt
  - Capital improvements
  - Repositioning of the property
  - Leasing up the property
  - Stabilizing Net Operating Income (NOI)

- Will have exposure to undeveloped land and/or development projects

- Tends to utilize greater leverage than core real estate funds
Real Estate Investment Styles

- **Core**
  - Target Returns: 6-8%
  - Typical leverage: up to 30%
  - Buy and hold stabilized properties
  - Emphasis on primary markets: Boston, NY, Washington DC, Chicago, San Francisco, Los Angeles

- **Core-Plus**
  - Target Returns: 7-9%
  - Typical leverage: up to 55%
  - Holds primarily stabilized properties with a percentage of value-add properties

- **Value-Add**
  - Target Returns: 10-12%
  - Typical leverage: up to 70%
  - Repositioning and/or refurbishing properties to increase leasing rates and rent
Real Estate Investment Styles

- **Opportunistic**
  - Target Returns: >16%
  - Leverage Employed: over 70%
  - Focuses on properties in need of significant modification

- **Real Estate Debt**
  - Target Returns: 9-12%
  - Moderate risk/return Bridge loans
Value-added Property Example

• Acquired from lender after original developer declared bankruptcy and was foreclosed
• Developed in 2008. Well located in growing office submarket in Seattle
• Significant discount to replacement cost
• Gained exposure to office property type at attractive entry point
• Increased occupancy to 99% from 44% at acquisition
• Rents on new leases exceeded acquisition underwriting by 5.4% and lease-up was completed ten months ahead of schedule

Lake View at Fremont (Office)

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquired</td>
<td>November 2014</td>
</tr>
<tr>
<td>Purchase price</td>
<td>$19.5 million ($175 psf)</td>
</tr>
<tr>
<td>Occupancy Rate (at acquisition)</td>
<td>44%</td>
</tr>
<tr>
<td>Projected 10 Year unleveraged IRR</td>
<td>9.6%</td>
</tr>
<tr>
<td>Carry Value as of March 31, 2012</td>
<td>$37 million</td>
</tr>
<tr>
<td>Occupancy Rate September 2016</td>
<td>99%</td>
</tr>
</tbody>
</table>

Sources: Bailard REIT I
Value-added Property Example

Multi-family, Atlanta Georgia

Before

After

Sources: Harbert Management Company
Value-added Property Example

Office Building, Phoenix Arizona

Before

After

Sources: Harbert Management Company
Real Estate Debt

- Real estate debt
  - Lend money to real estate owner/developer
  - First, second or mezzanine financing
  - Loans can be originated or acquired by the fund
  - Fixed or floating rate

- Loans are collateralized by the property

- Closed-end funds

- Risks
  - Default risk
  - Illiquidity

- Returns
  - Target Returns: 9-12%

Diagram showing risk and return distribution:
- Equity: 10% to 20%
- Preferred Equity: 15% to 30%
- Mezzanine debt: 10% to 15%
- Second Mortgage: 10% to 15%
- Senior Debt: 40% to 50%

Returns:
- Lower: 100%
- Higher
Real Estate Debt

- Real estate debt
  - Lend money to real estate owner/developer
  - First, second or mezzanine financing
  - Loans can be originated or acquired by the fund
  - Fixed or floating rate

- Loans are collateralized by the property

- Closed-end funds

- Risks
  - Default risk
  - Illiquidity

- Returns
  - Target Returns: 9-12%

![Risk and Return Diagram](image)
Real Estate Debt Example

- Acquisition financing representing 80% of the purchase price
- 198 units, 13 buildings
  - In-place rents were 25% below average rental rates in the area
- The firm had experience with the real estate developer
  - Developers business plan was to acquire the property, renovate the units and bring rents more in line with the market

### Key Statistics

<table>
<thead>
<tr>
<th>Key Statistics</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector</td>
<td>Multi-family</td>
</tr>
<tr>
<td>Location</td>
<td>Houston, Texas</td>
</tr>
<tr>
<td>Term</td>
<td>36 months</td>
</tr>
<tr>
<td>Investment Type</td>
<td>First Mortgage</td>
</tr>
<tr>
<td>Loan Amount</td>
<td>$10.2 million</td>
</tr>
<tr>
<td>LTV</td>
<td>80%</td>
</tr>
<tr>
<td>Loan Interest Rate</td>
<td>LIBOR +660 bps</td>
</tr>
<tr>
<td>Origination Date</td>
<td>9/26/2013</td>
</tr>
<tr>
<td>Status</td>
<td>Paid Off 9/30/2015</td>
</tr>
<tr>
<td>Net IRR</td>
<td>9.6%</td>
</tr>
</tbody>
</table>

Sources: Latitude Real Estate Investors
Historical Returns for Real Estate

- Expected return between investment-grade fixed income and equity
  - Historical returns have been between 5-10%
  - Long term, real estate returns have been stable relative to stocks and bonds

<table>
<thead>
<tr>
<th></th>
<th>Up Years</th>
<th>Down Years</th>
<th>Worst Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Real Estate</td>
<td>79</td>
<td>5</td>
<td>-16.8%</td>
</tr>
<tr>
<td>U.S. Stocks</td>
<td>63</td>
<td>21</td>
<td>-36.9%</td>
</tr>
<tr>
<td>Long-Term Treasuries</td>
<td>63</td>
<td>21</td>
<td>-14.9%</td>
</tr>
</tbody>
</table>

- High income potential, average annualized cash flow about 5%
- Historically, low correlation to equity markets
- Ability to increase return while reducing risk (volatility) is the major appeal
# Return Comparison
## 20 Years as of December 31, 2018

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Index</th>
<th>20-Year Return*</th>
<th>Correlation</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large Cap Core</td>
<td>S&amp;P 500</td>
<td>5.6</td>
<td>1</td>
<td>15.8</td>
</tr>
<tr>
<td>Small Cap Core</td>
<td>Russell 2000</td>
<td>7.41</td>
<td>0.92</td>
<td>20.4</td>
</tr>
<tr>
<td>International Equity</td>
<td>MSCI EAFE</td>
<td>3.96</td>
<td>0.87</td>
<td>18.24</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>MSCI EM</td>
<td>8.8</td>
<td>0.78</td>
<td>24.25</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>Barclays Aggregate</td>
<td>4.55</td>
<td>-0.4</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>Real Estate</strong></td>
<td><strong>NCREIF ODCE</strong></td>
<td><strong>8.55</strong></td>
<td><strong>0.17</strong></td>
<td><strong>6.41</strong></td>
</tr>
<tr>
<td>Timber</td>
<td>NCREIF Timber</td>
<td>6.36</td>
<td>-0.01</td>
<td>4.97</td>
</tr>
<tr>
<td>Private Equity</td>
<td>Cambridge</td>
<td>12.49</td>
<td>0.75</td>
<td>10.19</td>
</tr>
</tbody>
</table>

*Geometric mean
Potential Inflation Hedge

- With the exception to the early Nineties when there was an oversupply of assets, real estate has proven to be an effective hedge against inflation.

  - **Short Run** - Real estate has lease provisions that acknowledge inflation and market rental rate movements

  - **Long Run** - Inflation increases nominal prices of labor and materials and as a result of this, increases the value of existing (through replacement cost valuations) and new properties
Types of Risk

- **Economic/Valuation**: change in the underlying value of the property
- **Demographic/Location**: less people means lower occupancy rates
- **Improvement**: modifying property to improve its attractiveness with the intention of increasing leasing percentages or raising rents
- **Completion**: finishing a partially completed property and getting necessary permits
- **Development**: creating a project from the ground up
- **Illiquidity Risk**: if the investment is in a closed end vehicle, funds can be locked up for 7-10 years. If an open end vehicle, during times of stress, it will difficult to withdraw funds.
Summary

- Real estate can play the role of a fixed income substitute, offering stable principal, an income stream, and low correlation to equity

- Real estate continues to be a strategic part of the capital structure for institutional investors
  - On average, institutional portfolios have a target allocation of 9.86% for real estate*

- Real estate has advantages over bonds
  - Return and risk are between debt and equity
  - Values can rise in an inflationary environment

- Real estate is not a perfect substitute for fixed income
  - Real estate has suffered steep, but temporary declines twice since 1978
    - September 1990 to June 1993: -13.34% return (peak-to-trough), and took 2.75 years to recover all losses
    - June 2008 to December 2009: -37.84% return (peak-to-trough), and took 3.5 years to recover all losses

- Fees
  - Open-end funds - Management fee on invested capital of 1%-1.3%; usually no carried interest
  - Closed-end funds - Management fee on committed capital, 1%-2%; carried interest, 15%-30%

*Cornell University - Institutional Real Estate Allocations Monitor, 2015
Glossary
Glossary

- **Absorption rate** - The rate at which rentable space is filled. Gross absorption is a measure of the total square feet leased over a specified period with no consideration given to space vacated in the same geographic area during the same time period. Net absorption is equal to the amount occupied at the end of a period minus the amount occupied at the beginning of a period and takes into consideration space vacated during the period.

- **Aggregation risk** - Risk associated with warehousing mortgages during the pooling process for future securitization.

- **Amortization** - The liquidation of a financial debt through regular periodic installment payments.

- **Anchor Tenant** - The tenant that serves as the predominant draw to a commercial property, usually the largest tenant in a shopping center.

- **Appraisal** - An estimate of a property's fair market value that is typically based on replacement cost, discounted cash flow analysis and/or comparable sales price.

- **Appreciation** - An increase in the value or price of an asset.
Glossary

• **Asset management** - The various disciplines involved with managing real estate property assets from the time of investment through the time of disposition, including acquisition, management, leasing, operational/financial reporting, appraisals, audits, market review and asset disposition plans.

• **Blind pool** - A commingled fund accepting investor capital without prior specification of property assets.

• **Book value** - Also referred to as common shareholder's equity, this is the total shareholder's equity as of the most recent quarterly balance sheet minus preferred stock and redeemable preferred stock.

• **Build-out Space** - improvements put in place per the tenant's specifications.

• **Build-to-Suit** - A method of leasing property whereby the developer/landlord builds to a tenant's specifications.

• **Call date** - Periodic or continuous rights given to the fund manager to “call” capital dollars committed by the investor.
• **Capitalization**  - The total dollar value of various securities issued by a company.

• **Capitalization rate**  - The rate at which net operating income is discounted to determine the value of a property. It is the net operating income divided by the sales price or value of a property expressed as a percentage.

• **Cash-on-cash yield**  - The relationship, expressed as a percentage, between the net cash flow of a property and the average amount of invested capital during an operating year.

• **Chapter 11**  - That portion of the federal bankruptcy code that deals with business reorganizations.

• **Chapter 7**  - That portion of the federal bankruptcy code that deals with business liquidations.

• **Class "A"**  – Represent the highest quality buildings in their market and area. They are generally newer properties built within the last 15 years with top amenities, high-income tenants and low vacancy rates. Class A buildings are well located in the market and typically demand the highest rents with little maintenance issues.
Glossary

- **Class "B"** – One step down from Class A, these properties are generally older than Class A and tend to have lower income tenants. Rental income is typically lower than Class A along with some deferred maintenance issues.

- **Class "C"** – Properties that are typically more than 20 years old and located in less than desirable locations. The property is generally in need of renovations, including updating the building infrastructure to bring it up to date. Class C properties tend to have the lowest rental rates in the market.

- **Closed-end fund** - A commingled fund that has a targeted range of investor capital and a finite life.

- **Closing** - A period of time, usually less than seven days, after a registration statement is effective and the offering commences, giving the underwriters time to receive payment for the securities.

- **CMBS (commercial mortgage-backed securities)** - Securities backed by loans on commercial real estate.

- **CMO (collateralized mortgage obligation)** - Debt obligations that are collateralized by and have payments linked to a pool of mortgages.
• **Co-investment** - Co-investment occurs when two or more pension funds or groups of funds share ownership of a real estate investment. In co-investment vehicles, relative ownership is always based on the amount of capital contributed. It also refers to an arrangement in which an investment manager or adviser co-invests its own capital alongside the investor.

• **Commercial real estate** - Buildings or land intended to generate a profit for investors, either from rental income or capital gain. Types of commercial real estate include office buildings, retail properties, industrial properties, apartments and hotels, as well as specialty niche property categories such as healthcare, student housing, senior housing, self-storage, data centers and farmland.

• **Commingled fund** - A pooled fund vehicle that enables qualified employee benefit plans to commingle their capital for the purpose of achieving professional management, greater diversification or investment positions in larger properties.

• **Comparables** - Used to determine the fair market value or lease rate, based on other properties with similar characteristics.

• **Convertible debt** - A mortgage position that gives the lender the option to convert to a partial or full ownership position in a property within a specified time period.
Glossary

- **Convertible preferred stock** - Preferred stock that is convertible to common stock under certain formulas and conditions specified by the issuer of the stock.

- **Cost-approach value** - The current cost to construct a reproduction of, or replacement for, the existing structure less an estimate for accrued depreciation.

- **Coupon** - The nominal interest rate charged to the borrower on a promissory note or mortgage.

- **Covenant** - A written agreement inserted into deeds or bonds stipulating performance or non-performance of certain acts, or use or non-use of a property and/or land.

- **Cross-collateralization** - A grouping of mortgages or properties that serves to jointly secure one debt obligation.

- **Current occupancy** - The current leased portion of a building or property expressed as a percentage of its total area or units.

- **Debt service** - The outlay necessary to meet all interest and principal payments during a given period.
Glossary

- **Discount rate** - A yield rate used to convert future payments or receipts into present value.

- **Exit strategy** - Strategy to liquidate all or part of the investment fund.

- **First mortgage** - The senior mortgage that, by reason of its position, has priority over all junior encumbrances. The holder has a priority right to payment in the event of default.

- **First-loss position** - The position in a security that will suffer the first economic loss if the underlying assets lose value or are foreclosed on. The first-loss position carries a higher risk and a higher yield.

- **Flex space** - A building that provides a configuration allowing occupants a flexible amount of office or showroom space in combination with manufacturing, laboratory, warehouse, distribution, etc.

- **General partner** - A member of a partnership who has authority to bind the partnership and shares in the profits and losses of the partnership.

- **Implied cap rate** - Net operating income divided by the sum of a REIT's equity market capitalization and its total outstanding debt.
• **Internal rate of return (IRR)** - A discounted cash-flow analysis calculation used to determine the potential total return of a real estate asset during an anticipated holding period.

• **Limited partnership** - A type of partnership comprised of a general partner who manages the business and is personally liable for partnership debts, and one or more limited partners who contribute capital and share in profits but who take no part in running the business and incur no liability above the amount contributed.

• **Mark to market** - The process of increasing or decreasing the original investment cost or value of a property asset or portfolio to a level estimated to be the current market value.

• **Mezzanine financing** - Mezzanine financing is somewhere between equity and debt. It is that piece of the capital structure that has senior debt above it and equity below it. There is both equity and debt mezzanine financing, and it can be done at the asset or company level, or it could be unrated tranches of CMBS. Returns are generally in the mid- to high-teens.

• **Mixed-use** - A building or project that provides more than one use, such as office/retail or retail/residential.
• **NAREIT (National Association of Real Estate Investment Trusts)** - The national, not-for-profit trade organization that represents the real estate investment trust industry.

• **NCREIF (National Council of Real Estate Investment Fiduciaries)** - An association of real estate professionals who serve on working committees, sponsor research articles, seminars and symposiums, and produce the NCREIF Property Index.

• **NCREIF Property Index (NPI)** - The index reports quarterly and annual returns consisting of income and appreciation components. The index is based on data collected from the voting members of NCREIF. Specific property-type sub-indices include apartment, office, retail, industrial and hotel; regional sub-indices include West, East, South and Midwest.

• **Net asset value (NAV)** - The value of an individual asset or portfolio of real estate properties net of leveraging or joint venture interests.

• **Net operating income (NOI)** - A before-tax computation of gross revenue less operating expenses and an allowance for anticipated vacancy. It is a key indicator of financial strength.
Glossary

• **Nominal yield** - The yield to investors before adjustments for inflation.

• **Open-end fund** - A commingled fund that does not have a finite life, continually accepts new investor capital and makes new property investments.

• **REIT (Real estate investment trust)** - A business trust or corporation that combines the capital of many investors to acquire or provide financing for real estate. A corporation or trust that qualifies for REIT status generally does not pay corporate income tax to the IRS. Instead, it pays out at least 90 percent of its taxable income in the form of dividends.

• **Replacement cost** - The estimated current cost to construct a building with utility equivalent to the building being appraised, using modern materials and current standards, design and layout.

• **Sales comparison value** - A value indication derived by comparing the property being appraised to similar properties that have been sold recently
• **Triple net lease** - A lease that requires the tenant to pay all expenses of the property being leased in addition to rent. Typical expenses covered in such a lease include taxes, insurance, maintenance and utilities.

• **Write-down** - The accounting procedure used when the book value of an asset is adjusted downward to better reflect current market value.

• **Write-off** - The accounting procedure used when an asset has been determined to be uncollectible and is therefore charged as a loss.