REAL ESTATE INSIGHTS

THE BOTTOM LINE

Real Estate Performance

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Eye on IRR

In the last issue of "The Bottom Line" we looked at the high-level differences between time-weighted and dollar-weighted returns (IRR). As a refresher, this chart provides a summary of the differences. Now we will focus on the IRR, and the latest trends for when and how to report it.

TWR	IRR
Measures	
Manager	Investment
Timing (Return / Cash Flows)	
No Impact	Significant Impact
Market Valuations	
Frequent (Qtrly)	Initial & Ending
Components	
Income & Apprec.	Total Only

The challenge is that Institutional Investors, specifically Pension Funds, report performance of their stock and bond portfolios using a TWR, in accordance with AIMR / GIPS (Association for Investment Management and Research / Global Investment Performance Standards). Since stock and bond investments generally make up 80%+ of their investment allocations, other asset classes are forced to calculate and report a TWR in order to provide apple-to-apple comparisons. So alternative investments like real estate and private equity struggle with how to calculate a TWR where valuations are difficult, not frequent and impractical in certain circumstances. Easy for publicly traded securities with daily pricing, not so easy for private investments with little to no pricing other than infrequent transactions. Whereas the stock and bond markets are efficient, real estate is characterized by the lack of free information flow. Even worse, the information that is available may not be reliable or comparable as each deal is unique.

Certain types of real estate investments lend themselves to a TWR whereas others do not. The TWR is generally most meaningful for core operating properties that have predictable and relatively steady cash flows and valuations. The further right in the risk / reward spectrum, the IRR becomes more relevant. That's because the component of total return shifts more from income to capital appreciation for value-enhanced and opportunistic investments. In an extreme example, an opportunistic investment, like a development property, would have almost zero income cash flow and all appreciation when the development is substantially complete and leases are in place. The TWR would equally weight the zero return quarters with the appreciation recognized in the final quarter 1 ½ to 2 years out. This hardly seems equitable. The IRR however would weight the return in the periods when most of the dollars are invested, which in this case would be when the development is complete.

Now for the fun! Which IRR should be reported? Is it a Distributed Cash IRR, an IRR

(Continued on page 2)

BASIS POINTS (TID BIPS)

Comments on the REIS redraft are due by September 1. Visit www.ncreif.org/reis

Joe D'Alessandro will be teaching the Performance Measurement Seminar at the October 2002 NCREIF Conference in New Orleans.

For updates, visit www.realestateinsights.com.

Fund Stuff!

There is an insatiable appetite for more information, better metrics and enhanced disclosure as a result of today's volatile markets and high-profile accounting scandals. The trend towards increased financial and non-financial transparency hopefully will lead to improved investor confidence. In response to those hunger pangs, Moody's and Standard and Poor's have added exotic entrées to the real estate reporting menu. Recently, each firm has launched new rating products.

Moody's "Real Estate Fund Ratings" is designed for commingled open-end and closed-end funds and other similar ventures. It is comprised of two components – the Management Quality Rating and Portfolio Investment Quality Rating using familiar rating scales ranging from B to Aaa. The Management Quality Rating assesses the overall quality of the organization including management's abilities, infrastructure, operational procedures, risk management and controls, financial wherewithal, and quality of client servicing. The Portfolio Quality Rating assesses the impact of macro- and micro-economic trends on real estate fundamentals of invested markets, asset quality, portfolio quality, fund liquidity and performance.

(Continued on page 2)

Eye on IRR

(Continued from page 1)

that reflects the reported ending market value, or an IRR that combines historical actual cash flows with projected cash flows, including a future sale? If you structure a partnership with the advisor as the GP with the potential to receive disproportionate distributions (i.e. incentive fees or promote), should it be a Fund level or Limited Partner level IRR?

As you can see, there still are many unanswered questions. The industry is currently addressing these issues. NCREIF's Performance Measurement Committee published a white-paper and recently formed an alternative investment subcommittee. Others are expressing their opinions. For now, it seems like the best practice is to report both a TWR and a IRR, explain the differences, and disclosure your calculation methodologies. This will not only educate investors but will provide more insights into the managers' performance and the investors' asset performance.

Stay Tuned!

Fund Stuff!

(Continued from page 1)

S&P's product focuses on the rating of the manager exclusively, either qualified or unqualified, with the intent to develop a rating scale once enough empirical data is available to provide utility and validate it. The product provides a summary opinion, with commentary about management and the organization, including their capabilities, turnover, experience, track record etc., to assist investors in the fund raising process. Other information reported includes; the financial position at the asset management level, the investment process, risk management and performance.

Both products appear to offer annual reports with updates, as appropriate and public publishing of the rating at the discretion of the firm being rated. Unlike traditional debt ratings that assess ability to repay obligations, these ratings appear to address how good a job the fund managers are doing in creating and managing a real estate portfolio and in meeting investor needs. The target market includes Institutional Asset Managers who sponsor real estate funds and raise capital from investors, namely pension plan sponsors, endowments, foundations and a growing high-net-worth individual market.

"Who will foot the bill? Will Institutions require their managers to obtain a rating?

Some of the issues that will be fleshed out over time will be the cost / benefit of such products. Who will foot the bill? It is estimated that the costs will range anywhere from $25,000 to $50,000 for an initial rating, and 20% to 25% of the initial cost for an update.

Will the products benefit closed-end funds with limited secondary markets? Will Institutions require their managers to obtain a rating, similar to audits or AIMR compliance? How will the rating agencies incorporate or leverage other industry standards affecting real estate such as NCREIF, AIMR / GIPS, USPAP / IVSC (appraisal practices), and last but not least the FASB / IAS (accounting practices)? Will these products be palatable by traditional consultants, or will it cause them indigestion? Some may see this as a threat, while others may see it as complementary; the consultants provide advice on strategy and asset allocations, the rating agency evaluates the implementation effectiveness.

The timing appears ripe. As NCREIF begins its launch of a fund level index, as AIMR /GIPS publish private equity real estate performance standards, and as these new products are offered, while the public markets smother in turmoil, this is a great opportunity for private real estate investing to move up from "appetizer" status to "entrée -- chef recommendation"! If we better understand the risk / reward behavior characteristics of the real estate asset class, the more likelihood of including real estate as a basic food group resulting in an increased allocation! The traditional five percent target seems like light fare.

Bon Appétit!

For more information on the Rating Products, contact Arlene Issacs-Lowe of Moody's at (212) 553-7841, arlene.isaacs-lowe@moodys.com and Rob Davis of S&P at (617) 896-9256,Rob_Davis@standardandpoors.com.

Performance Scorecard

The NCREIF Property Index (NPI) , which is an aggregate operating property level unlevered before advisory fee total return, compared favorably to other asset class industry benchmarks as of March 31, 2002. Risk measures are presented, however, they may not be comparable due to appraisal based pricing for private equity real estate vs. transaction pricing for publicly traded securities.

1 YR	Index	3 YR	5 YR	10 YR	High	Low	Standard Deviation	Sharpe Ratio
22.9%	NAREIT - Equity	16.0%	7.9%	12.0%	33.2%	-21.1%	16.3%	0.6
6.5%	NPI	9.9%	12.0%	8.3%	15.9%	-3.5%	5.6%	1.1
5.3%	DOW	2.1%	9.6%	11.8%	34.4%	-9.6%	12.9%	0.8
4.1%	Bonds - Lehman Govmt. / Corp.	6.3%	7.6%	7.7%	16.1%	2.1%	4.8%	1.2
1.5%	Inflation	2.7%	2.2%	2.5%	3.8%	1.4%	0.7%	0.7
-1.1%	S&P	-3.7%	8.7%	10.7%	45.5%	-22.6%	17.4%	0.5

Data: NCREIF , NAREIT, US Bureau of Labor Statistics, Dow Jones, S&P, Lehman Brothers. Analysis: Real Estate Insights.

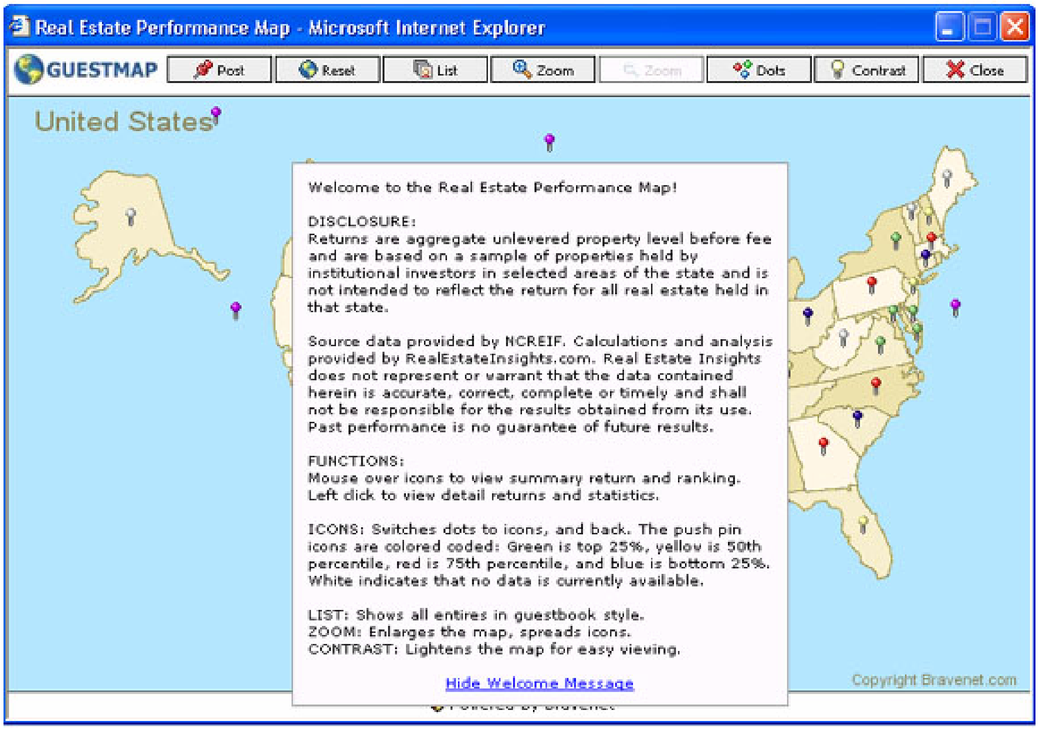
Performance Scorecard - As of March 31, 2002								
Annualized Returns					Risk Measures			
1 YR	NCREIF Sub-Index State and Property Type	3 YR	5 YR	10 YR	High	Low	Std. Dev.	Sharpe
27.4%	Hawaii Office	14.6%	#N/A	#N/A	27.4%	7.2%	#N/A	#N/A
17.8%	Kentucky Retail	16.7%	12.4%	#N/A	17.8%	-8.5%	#N/A	#N/A
16.2%	Virginia Apartments	17.3%	17.6%	12.5%	20.0%	-0.4%	5.9%	1.8
16.0%	Virginia Industrial	15.8%	19.5%	12.3%	31.4%	-6.3%	10.2%	1.0
14.8%	New Mexico Apartments	11.4%	7.5%	#N/A	14.8%	0.9%	#N/A	#N/A
13.9%	Oklahoma Apartments	9.9%	#N/A	#N/A	13.9%	4.2%	#N/A	#N/A
13.6%	Michigan Industrial	8.0%	9.5%	7.3%	14.2%	-4.8%	6.3%	0.8
13.6%	Maryland Industrial	12.9%	12.2%	9.4%	16.3%	-0.5%	4.6%	1.6
13.2%	Minnsetoa Apartments	15.4%	16.1%	#N/A	22.2%	12.1%	#N/A	#N/A
12.9%	Pennsylvania Industrial	13.7%	15.9%	10.5%	24.7%	-5.4%	7.7%	1.1
12.6%	Maryland Apartments	15.9%	15.2%	11.5%	18.8%	3.9%	4.3%	2.2
12.5%	Nevada Retail	#N/A	#N/A	#N/A	12.5%	12.5%	#N/A	#N/A
12.1%	Oregon Office	12.6%	14.6%	#N/A	20.3%	12.1%	#N/A	#N/A
11.7%	Colorado Industrial	14.1%	14.3%	14.4%	20.0%	3.0%	4.5%	2.7
11.5%	Washington DC Office	12.9%	11.9%	6.9%	14.2%	-6.0%	5.9%	0.8
11.1%	Arizona Retail	9.8%	10.6%	9.2%	14.5%	0.4%	4.7%	1.5
10.6%	California Apartments	16.1%	20.6%	13.6%	33.6%	-5.2%	10.9%	1.1
10.2%	Washington Retail	12.8%	13.3%	9.8%	16.9%	2.2%	4.3%	1.8
10.2%	New Jersey Industrial	9.9%	10.9%	7.1%	14.4%	-4.4%	5.8%	0.9
10.1%	Nevada Industrial	9.2%	#N/A	#N/A	10.1%	7.5%	#N/A	#N/A
10.1%	New Jersey Apartments	12.3%	13.9%	#N/A	18.3%	10.1%	#N/A	#N/A
10.1%	Massachusetts Apartments	12.4%	18.5%	14.9%	32.6%	5.4%	7.5%	1.7
10.1%	Florida Apartments	10.6%	10.9%	9.6%	11.8%	5.8%	1.9%	4.0
9.9%	Oklahoma Industrial	16.3%	#N/A	#N/A	27.6%	9.9%	#N/A	#N/A
9.8%	Colorado Retail	8.2%	7.9%	6.0%	11.8%	-3.0%	4.8%	0.8
8.8%	*Apartments*	*11.0%*	*12.1%*	*10.7%*	*14.0%*	*2.1%*	*3.3%*	*2.7*
8.7%	*Industrial*	*11.4%*	*13.1%*	*9.6%*	*16.6%*	*-3.5%*	*6.2%*	*1.2*
7.3%	*East*	*10.6%*	*12.6%*	*8.5%*	*16.6%*	*-4.1%*	*5.7%*	*1.1*
7.0%	*West*	*11.6%*	*13.8%*	*8.8%*	*18.0%*	*-5.5%*	*7.5%*	*0.9*
6.5%	***Total NPI***	*9.9%*	*12.0%*	*8.3%*	*15.9%*	*-3.5%*	*5.6%*	*1.1*
6.3%	*South*	*8.0%*	*10.4%*	*8.1%*	*14.3%*	*-0.6%*	*3.9%*	*1.6*
6.3%	*Retail*	*7.9%*	*9.2%*	*6.4%*	*12.1%*	*-1.4%*	*3.6%*	*1.2*
5.1%	*Office*	*10.3%*	*13.5%*	*8.1%*	*20.7%*	*-7.5%*	*8.4%*	*0.7*
4.5%	*Midwest*	*7.9%*	*9.8%*	*7.3%*	*13.1%*	*-1.2%*	*4.1%*	*1.3*
3.6%	New York Retail	3.0%	4.9%	#N/A	12.3%	-5.8%	#N/A	#N/A
3.6%	Ohio Apartments	6.4%	8.9%	8.9%	13.2%	3.6%	3.1%	2.2
3.5%	Utah Industrial	7.8%	9.7%	#N/A	14.1%	3.5%	#N/A	#N/A
3.5%	Tennessee Industrial	4.8%	5.9%	7.2%	18.5%	2.9%	4.6%	1.1
3.5%	Georgia Office	6.3%	10.1%	8.9%	19.0%	0.3%	5.9%	1.2
3.5%	Florida Office	8.0%	10.6%	7.1%	15.9%	-19.3%	9.8%	0.5
3.3%	Ohio Retail	6.0%	6.6%	4.9%	9.4%	-1.9%	3.7%	0.8
3.1%	Wisconsin Office	6.5%	13.8%	9.6%	25.9%	-13.2%	10.7%	0.7
2.9%	Montana Office	7.2%	13.0%	10.3%	22.5%	-10.0%	9.6%	0.9
2.4%	Colorado Office	9.5%	13.8%	8.4%	21.3%	-11.6%	10.0%	0.6
2.2%	Michigan Apartments	#N/A	#N/A	#N/A	9.6%	2.2%	#N/A	#N/A
2.1%	Kansas Office	7.6%	9.7%	9.5%	17.2%	-0.7%	5.7%	1.3
2.0%	Illinois Retail	6.4%	8.0%	6.2%	11.8%	-0.8%	3.7%	1.1
1.9%	California Hotels	#N/A	#N/A	#N/A	1.9%	1.9%	#N/A	#N/A
1.8%	Tennessee Office	4.8%	9.1%	9.7%	32.4%	-7.3%	9.9%	0.8
1.3%	Pennsylvania Retail	3.9%	7.6%	5.6%	14.1%	1.3%	4.2%	0.9
0.8%	Ohio Office	5.0%	7.4%	5.4%	14.7%	-3.0%	4.6%	0.7
0.8%	Connecticut Apartments	#N/A	#N/A	#N/A	18.7%	0.8%	#N/A	#N/A
0.0%	Alabama Office	#N/A	#N/A	#N/A	14.9%	0.0%	#N/A	#N/A
0.0%	Utah Office	6.1%	8.5%	#N/A	14.1%	0.0%	#N/A	#N/A
-0.7%	Kansas Apartments	5.1%	7.9%	#N/A	19.1%	-0.7%	#N/A	#N/A
-1.1%	South Carolina Retail	#N/A	#N/A	#N/A	-1.1%	-1.1%	#N/A	#N/A
-1.5%	Washington Office	13.9%	18.9%	11.0%	33.0%	-10.3%	14.8%	0.6
-3.6%	*Hotels*	*5.3%*	*11.2%*	*11.7%*	*31.8%*	*-3.6%*	*11.3%*	*0.9*
-15.3%	Florida Hotels	#N/A	#N/A	#N/A	-0.5%	-15.3%	#N/A	#N/A

Data Source: NCREIF. Analysis: Real Estate Insights. **Real Estate Insights does not represent or warrant that the data or analysis contained herein is accurate, correct, complete or timely and shall not be responsible for the results obtained from its use. As with all investments, you must make your own determination of whether an investment is consistent with your investment objectives, risk tolerance, financial situation, and your evaluation of the merits of the investment. Real Estate Insights is not recommending any investment. Past performance is no guarantee of future results.**

1) Returns are total return, property level, before advisory fee, presented on a time-weighted annualized (geometric average) basis.
2) Bold represents top 25; shading represents bottom 25 performers. Indices are presented (top 25 and bottom 25) based on the 1 year total return. Sub-indices (totaling 67) falling in between this range and those with insufficient data (fewer than 4 properties) are not presented.
3) The High and Low returns are based on annual returns.
4) Standard Deviation and Sharpe Ratios are based on 10 year annual returns only. The Sharpe Ratio assumes a 2% risk-free rate.
5) The overall NPI, the region, and the property type indices are presented in italics as a reference to gauge the performance of the state and property type sub-indices.

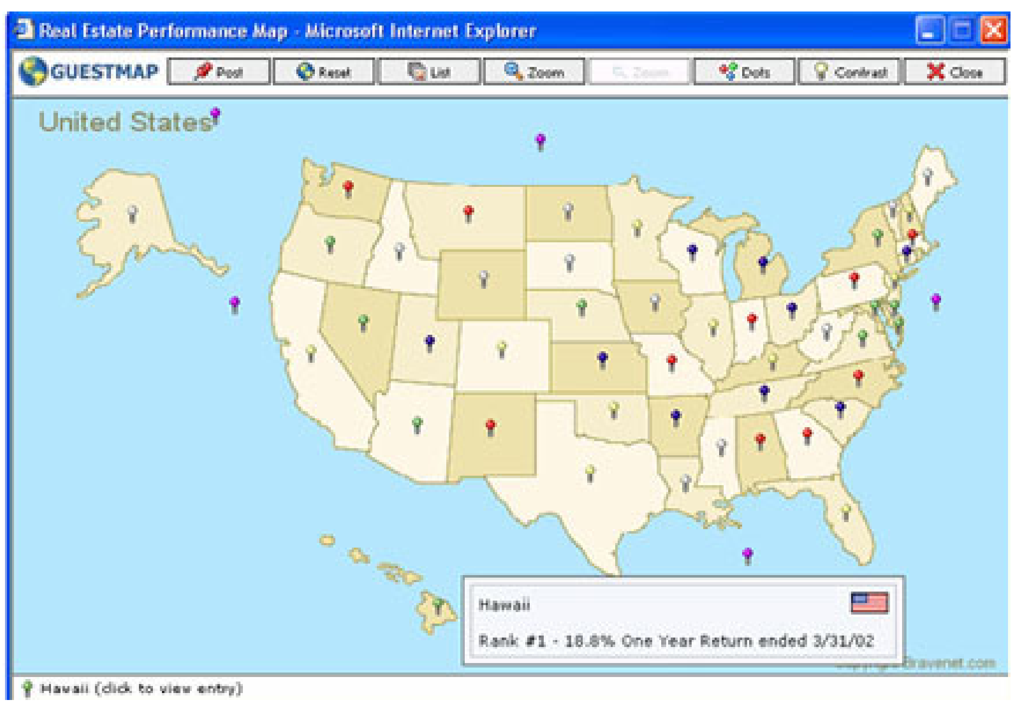
New Feature! Real Estate Performance Map

www.realestateinsights.com/private_equity.htm



Please read the disclosure statement and review the functions to navigate the tool. Then click the "hide welcome message" text to view performance.

Mouse-over the push pin icons to see a summary of performance returns. The icons are color coded; green is top 25%, yellow is 50th percentile, red is 75th percentile, and blue is bottom 25%, based on current one year returns.

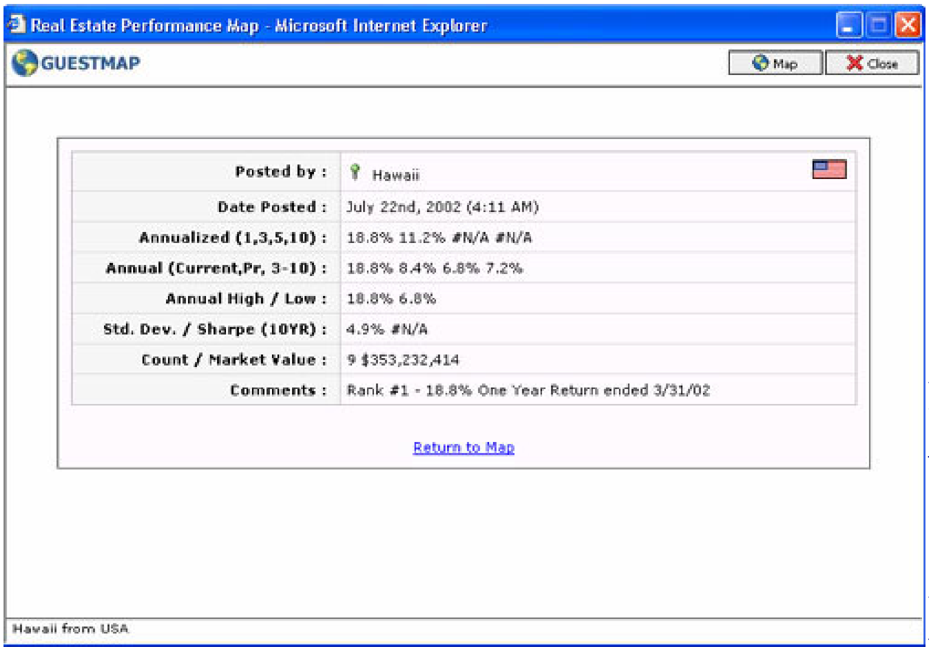


(Continued on page 5)

New Feature! Real Estate Performance Map

www.realestateinsights.com/private_equity.htm

(Continued from page 4)


Real Estate Performance Map - Microsoft Internet Explorer
GUESTMAP

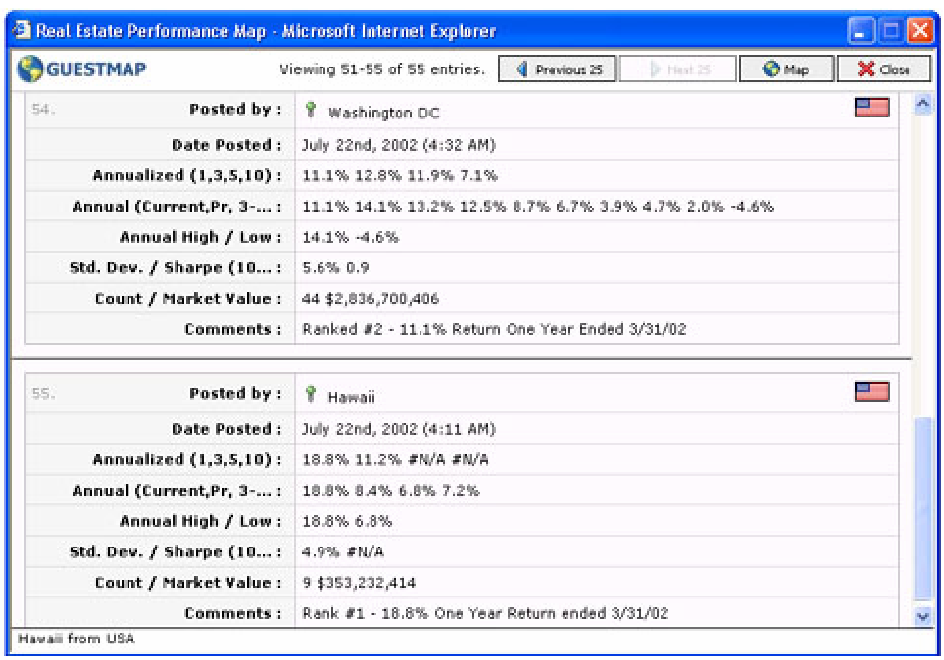
Posted by :	Hawaii
Date Posted :	July 22nd, 2002 (4:11 AM)
Annualized (1,3,5,10) :	18.8% 11.2% #N/A #N/A
Annual (Current,Pr, 3-10) :	18.8% 8.4% 6.8% 7.2%
Annual High / Low :	18.8% 6.8%
Std. Dev. / Sharpe (10YR) :	4.9% #N/A
Count / Market Value :	9 $353,232,414
Comments :	Rank #1 - 18.8% One Year Return ended 3/31/02

Return to Map

Hawaii from USA

Left click on the icon and see performance history and details, including risk measures,property counts and market values.

Using the "list" function on the tool bar menu, view multiple entries. See performance statistics for each state at a glance.


Real Estate Performance Map - Microsoft Internet Explorer
GUESTMAP Viewing 51-55 of 55 entries.

54.	Posted by :	Washington DC
	Date Posted :	July 22nd, 2002 (4:32 AM)
	Annualized (1,3,5,10) :	11.1% 12.8% 11.9% 7.1%
	Annual (Current,Pr, 3-... :	11.1% 14.1% 13.2% 12.5% 8.7% 6.7% 3.9% 4.7% 2.0% -4.6%
	Annual High / Low :	14.1% -4.6%
	Std. Dev. / Sharpe (10... :	5.6% 0.9
	Count / Market Value :	44 $2,836,700,406
	Comments :	Ranked #2 - 11.1% Return One Year Ended 3/31/02
55.	Posted by :	Hawaii
	Date Posted :	July 22nd, 2002 (4:11 AM)
	Annualized (1,3,5,10) :	18.8% 11.2% #N/A #N/A
	Annual (Current,Pr, 3-... :	18.8% 8.4% 6.8% 7.2%
	Annual High / Low :	18.8% 6.8%
	Std. Dev. / Sharpe (10... :	4.9% #N/A
	Count / Market Value :	9 $353,232,414
	Comments :	Rank #1 - 18.8% One Year Return ended 3/31/02

Hawaii from USA

Also available is a Frequently Asked Questions database on topics including accounting, performance, valuations, etc. Your questions are welcome! Give it a try!

www.realestateinsights.com/faq's.htm

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Dear Real Estate Professional:

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Are your resources stretched? Do you understand institutional investors' stringent reporting requirements? Is your investment reporting process so burdensome that it seems to require additional staff for new assets? Are you struggling with the complicated and cumbersome calculations for performance measurement? Do you need help with spreadsheets, systems, RFP's, benchmarking, or industry compliance?

I can provide your team with fresh new perspectives, creative ideas, and best reporting and workflow practices. I strive for efficiency, accuracy, timeliness and insightful reporting and analysis. My background, skills and experiences are highlighted below.

Please don't hesitate to contact me.

Best regards,

Joe D'Alessandro, CPA

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SERVICES?
Training, Consulting, Outsourcing, & Special Projects

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Advisors, Plan Sponsors (Investors), Consultants, Software Vendors, and other Real Estate Industry Professionals

WHAT?
Institutional Investor Reporting, AIMR / GIPS / NCREIF Compliance, RFP's, Research, Benchmarking, Analysis, Incentive Fees, Systems Integration, Process Improvements, and Special Projects

15+ years experience in Investor Reporting and Performance Measurement

(Previously a Principal with Lend Lease Real Estate Investments and Audit Manager with Touche Ross & Co.)

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Expertise
Performance measurement, benchmarking, process efficiencies, system design, strategic planning

Leadership
Visionary, people oriented, motivator, team player, mentor

Skills
Creative, resourceful, problem solver, proactive, enthusiastic

Training
Institutional Investor Reporting, Rate of Return Theory
Performance Returns Workbook Seminar
Performance Measurement Nuts & Bolts
AIMR / GIPS Compliance, Data Collection & Reporting
Excel Tips and Tricks

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