

THE BOTTOM LINE

Real Estate Performance

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Cha-Cha-Changes!

"Change is hard because people overestimate the value of what they have—and underestimate the value of what they may gain by giving that up."
James Belasco and Ralph Stayer - *Flight of the Buffalo*

Over the past three years there have been significant changes in the areas of performance measurement standards, reporting and benchmarking. A new set of global performance presentation standards was created, existing standards were re-drafted, real estate specific standards are proposed. Not to mention the metamorphosis of the Real Estate Information Standards (REIS), originally published in 1995 by NCREIF (National Council of Real Estate Investment Fiduciaries), PREA (Pension Real Estate Advisors) and NAREIM (National Association of Real Estate Investment Managers), the facelift of the NCREIF Property Index and Databases, the anticipation of a NCREIF Fund Level Database, and the creation of Fund Level Rating Products by S&P and Moody's. The landscape is rapidly changing! If you get caught in the details you may not "see the forest for the trees."

AIMR, the Association for Investment Management and Research, which was founded in 1987 to promote comparability of investment management firms' per-

formance results, recognized the need for one globally accepted set of standards. In 1999 AIMR formally endorsed the Global Investment Performance Standards (GIPS) as the worldwide standard to calculate and present investment performance.

Shortly thereafter, AIMR established the Investment Performance Council (IPC) to assume the ongoing responsibility of implementation, promotion, and interpretation of GIPS. Compliance would provide investment management firms with a "passport" to compete globally on equal footing. Because of varying practices and policies around the world, the "standards bar" was lowered to give everyone an equitable chance.

As a result, some countries may have two standards currently in place, GIPS and their local country version of GIPS. It is envisioned that over time GIPS will incorporate as many regulatory and local practices as possible, resulting in a convergence

of GIPS with the local country versions and thereby eliminating the need for separate local standards.

GIPS and the AIMR-PPS re-draft (North American version) are already in place. With regard to real estate, the IPC Real Estate Sub-

Committee is currently reviewing public comments received on the Private Equity Real Estate

Provisions of GIPS. NCREIF is also in the process of re-drafting the REIS to create standards that can be complied with and are more compatible with non-core investment structures and strategies.

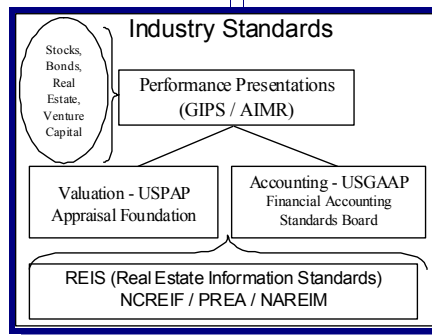
Now, let's step back and see where the trees stand in the forest. The diagram below shows the relationships of the standards. The matrix on

page two, compares the performance, accounting and valuation provisions for each.

GIPS and AIMR are

performance standards that investment managers of all asset classes must follow when presenting their historical track record to prospective clients. For publicly traded investments, performance is clearly determined

GIPS, AIMR, REIS, GAAP - Do you know the differences? Are you compliant?



BASIS POINTS (TID BIPS)

1% REIS re-draft public comments at www.ncreif.org/reis/comments.phtml

2% GIPS Real Estate Provisions public comments at www.aimr.org/standards/issues/re_comments.html

3% NCREIF is presenting the Nuts & Bolts Seminar in December, 2002 in Chicago.

based on readily available objective market prices. For private investments, like real estate and venture capital, prices are more subjective and very dependent on underlying accounting and valuation practices. In these areas, GIPS and AIMR defers to other authoritative bodies for guidance. For accounting, the FASB, Financial Accounting Standards Board, promulgates GAAP, Generally Accepted Accounting Principles. For valuation, the Appraisal Foundation publishes USPAP, Uniform Standards of Professional Appraisal Practice. REIS incorporates all the above standards when possible and adds to it to create comprehensive reporting standards for institutional private equity real estate.

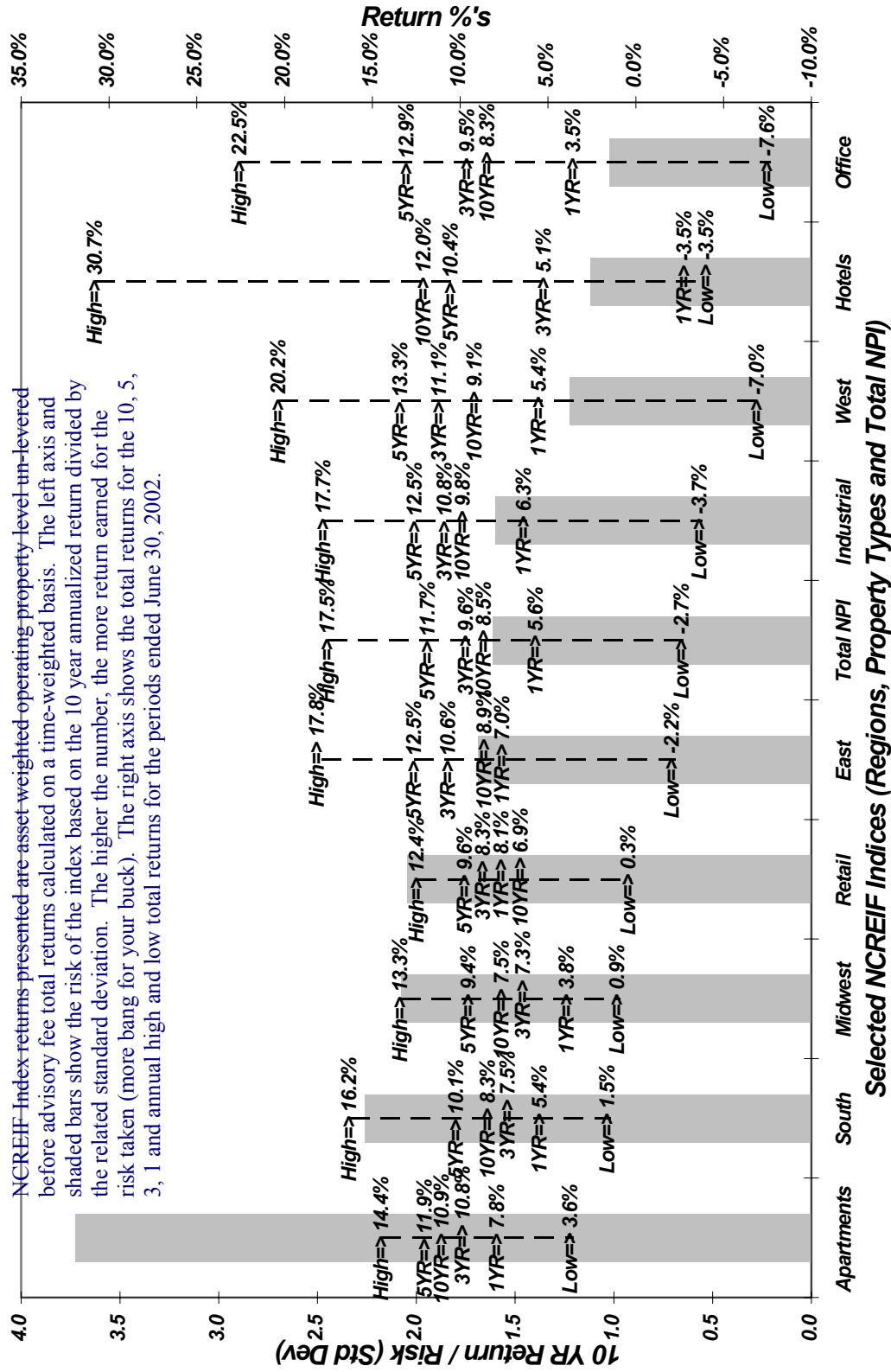
The Bottom Line is that industry organizations and standards are evolving – simplicity, disclosure, and narrowing practices are common themes. Change is hard, but change is good.

Standards Comparison Matrix

	GIPS FINAL	AIMR - PPS FINAL Re-Draft	GIPS - Real Estate Provisions PROPOSED	Real Estate Information Standards PROPOSED - Re-Draft
Purpose	One "Gold" Performance Presentation Standard for all asset classes and all companies worldwide.	Reorganize format and content to conform to new GIPS standards and create a North American Version of GIPS (local country version).	Provide additional private equity real estate asset class provisions to GIPS.	Reporting standards for institutional investment in private equity real estate. Reorganize existing REIS in requirement / recommendation format and to be more clear, concise and recognize other authoritative literature.
Scope	All Asset Classes. Discretionary fee-paying accounts only. Additional provisions to be provided for real estate and venture capital.	All Asset Classes. Separate requirements and recommendations provided for real estate and venture capital.	Private Equity Real Estate excluding REITs, CMBS and non-participating mortgages. Distinction made between direct and indirect investment structures.	Recognizes GIPS. NCREIF Index consists of institutionally held real estate in commingled funds, insurance company separate accounts, and private placements and ventures. Debt investments not included. All accounts, including non-discretionary.
Comment / Adoption Dates	1998; Adopted April 14, 1999	2000/2001; Adopted May 20, 2001	2001/2002; Public comments being reviewed. IPC to determine impact and effective date.	2001/2002; Public comments being reviewed.
Implementation Date	2005 for all. Disclose composite creation date.	1/1/2002, Disclose Composite creation date.	Same as GIPS.	Unknown.
Effective Date	None. Intent is to not introduce any significant changes before 2005. Additional provisions for real estate and venture capital to be provided at later dates.	January 1, 1993 for US / Canadian investments; January 1, 1994 for Non-US / Canadian investments.	None. Same as GIPS.	Unknown.
Historical Track Record	Minimum 5 years or Since Inception if less. No retroactive restatement provisions. OK to link non-compliant history for periods subsequent to 1/1/2000.	Minimum 10 years or Since Inception if less. Retroactive provisions to restate history (full or relaxed), or disclose non-compliance.	Same as GIPS.	Recognizes GIPS. Partial periods not included in return calculations and presentations.
Verification	No Level I or II Verification. Verifications are firm wide only. Individual composites may be "audited".	Currently provides for Level I and Level II Verifications. Level II to be phased out in 2003 to be consistent with GIPS.	Same as GIPS.	Recognizes GIPS.
Accounting	Market Value. For fixed income, accrual accounting for interest income. In 2005, accrual accounting is required for dividends. Trade date accounting required in 2005 also.	Same as GIPS. Also required to disclose if returns are based on audited results.	Same as GIPS.	Market (Fair) Value, based on concepts from FASB 35, GASB 25, and AICPA Investment Company Audit Guide and institutional I practices. Recommends annual audits and quarterly reviews.
Valuations	Re-value quarterly at a minimum. In 2001, re-value monthly. In 2010, re-valuation on any cash flow in 2010. If cash flows are 10% or more and distort performance by .2% or more, re-valuation may be required.	Same as GIPS.	Once every twelve months (quarterly by 2005). For direct investments Independent valuations once every 36 months (24 months by 2005). Actual valuations at each cash flow are not practical. Required to disclose valuation methods and procedures. More detail required for direct investments.	Required to re-value every quarter. Independent valuation requirements are once every 36 months. Valuation methods and procedures required to be disclosed. Internal valuation work to be performed in accordance with the Standards for Internal Valuations as prepared by the NCREIF Valuation Committee.
Return Methodology	Time-Weighted Returns geometrically linked. Adjusted for daily cash flows in 2005.	Same as GIPS.	Time-Weighted Returns. Methodology to weight cash flows not specified although typically based on actual days.	Time-Weighted Returns required. IRR's recommended for discretionary commingled funds and separate accounts.
Levels	Investment (Fund) level only.	Same as GIPS.	Same as GIPS.	Distinction noted between Investment and Property (operating) levels.
All Cash Basis (De-leveraged)	De-leveraged returns not required (previously required in old AIMR-PPS) - too complicated and confusing to calculate. Disclose leverage usage, terms, risks, etc.	Same as GIPS.	Same as GIPS.	If leverage effects performance more than 50 basis points, it is recommended that an unlevered investment level return or leverage information be disclosed.
Component Returns	Total Return presentation only. Total Return includes both realized and unrealized gains/losses and accrued income.	Same as GIPS.	Required to present income, appreciation and total return components. Disclose if Income + Appreciation = Total Return or not.	Same as GIPS - RE Provisions. In addition, it is recommended to not force income and appreciation to add to total.
Carve-out Provisions (Sub-composites)	Allowed until 2005 if cash is allocated and method is disclosed. After 2005, carve-outs are not allowed unless it is managed separately with it's own cash allocation.	Same as GIPS.	Same as GIPS.	Not addressed, although property level returns may be a candidate for carve-outs and treated as "supplemental" information.

Note: 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.

PT- Plotter Performance Tracking As of June 30, 2002



NCREIF Index returns presented are asset-weighted operating property level unlevered before advisory fee total returns calculated on a time-weighted basis. The left axis and shaded bars show the risk of the index based on the 10 year annualized return divided by the related standard deviation. The higher the number, the more return earned for the risk taken (more bang for your buck). The right axis shows the total returns for the 10, 5, 3, 1 and annual high and low total returns for the periods ended June 30, 2002.

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.

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***Accounting, Reporting,
Systems, Performance
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Dear Real Estate Professional:

I hope you find *The Bottom Line: Real Estate Performance* newsletter informative, useful and entertaining. If there are other subject matters you would like me to address or if you would like to contribute to future newsletters, or advertise, please contact me.

Are your resources stretched? Do you understand institutional investors' stringent reporting requirements? Is your investment accounting and 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 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 experience are highlighted below. I look forward to helping you achieve your goals.

Best regards,

Joe D' Alessandro, CPA



Representative Assignments

Policies and Procedures

Established internal policies framework for an advisory firm's Investment Committee to comply with operating agreements and fiduciary standards, including flowcharting key processes and decision making.

Accounting and Reporting

Created first time executive summary and detail annual budget / business plan and quarterly internal and external reporting templates.

Training and Marketing

Educated finance, operations, and marketing groups about institutional investor reporting, industry organizations and standards, and performance measurement and benchmarking.

System Design

Assisted business and technology personnel with a system design project to calculate and analyze performance returns.

Compliance

Performed reviews of back office operations to ensure compliance with industry standards and recommend process efficiencies.

Research

Analyzed public pension plan investment profiles, including investment allocations, guidelines, historical performance, portfolio composition and advisor selections.



Resume

***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.)*

Diversity

Internal / external reporting, technology, budgeting, audit, marketing, treasury, project management

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

Results

Founded a strategic performance reporting department, implemented a critical ERP business intelligence performance return system project, chaired the leading industry performance measurement committee