

# Bicycle Racing Offers Instructive Metaphor for 21st Century Investing

## Inevitable Consequences of Riding With the Peloton



- Randomness and luck influence outcomes
- Similar time for all riders
- Strongest rider may not win

## Implications of Breaking Away

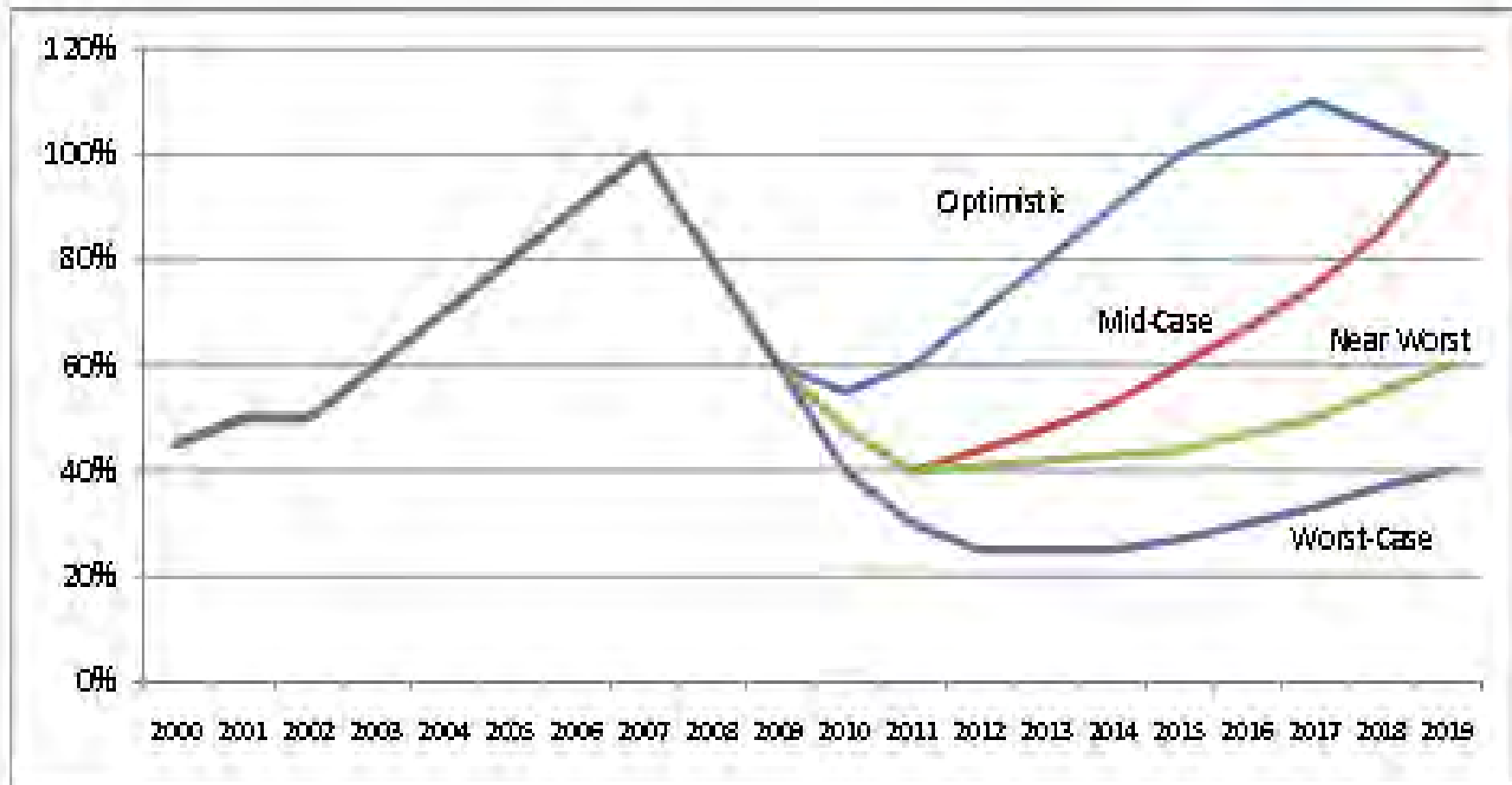


- Superior strategy and strength are more often rewarded
- Much more differentiated outcomes
- Differentiated strategy more likely to be successful than field sprint

# Seeing "The Entire Picture"

Analogous Distance	View
<p><b>Focus on Subject Property</b></p>	 <p>Close-up of the paint on canvas in the <i>Grand Jatte</i>.</p>
<p><b>Perspective on Subject Metro</b></p>	 <p>Detail of the <i>Grand Jatte</i> above the dog.</p>
<p><b>Larger Context: Portfolio and Policy</b></p> <p>Taking in the entire picture provides more insight and perspective</p>	 <p><i>Sunday Afternoon on the Island of La Grande Jatte</i>, by Georges Seurat</p>

# Four Scenarios – 2009 through 2019 – for Roulac Global Places Value Index



# Risk Metrics – Projected LTVs of CMBS Investments Considered for Model Portfolio Analysis

Investment	2009 Projected LTV	Projected LTVs - Optimistic					Projected LTVs - Mid-Case					Projected LTVs - Near-Worst-Case					Projected LTVs - Worst-Case				
		2010	2011	2012	2013	2014	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
G209-AJ	98.2%	107.1%	98.2%	84.2%	73.6%	65.5%	122.7%	147.3%	133.9%	122.7%	111.2%	122.7%	147.3%	143.7%	140.3%	137.0%	147.3%	196.4%	235.6%	235.6%	235.6%
G209-D	101.1%	110.3%	101.1%	86.7%	75.3%	67.4%	126.4%	151.6%	137.9%	126.4%	114.4%	126.4%	151.6%	147.9%	144.4%	141.1%	151.6%	202.2%	242.6%	242.6%	242.6%
G209-H	105.1%	114.7%	105.1%	90.1%	78.3%	70.1%	131.4%	157.7%	143.3%	131.4%	119.0%	131.4%	157.7%	153.8%	150.2%	146.7%	157.7%	210.2%	252.3%	252.3%	252.3%
BCE1-F	59.2%	64.6%	59.2%	50.7%	44.4%	39.5%	74.0%	88.8%	80.7%	74.0%	67.0%	74.0%	88.8%	86.6%	84.5%	82.6%	88.8%	118.4%	142.0%	142.0%	142.0%
BCE1-G	60.0%	65.5%	60.0%	51.5%	45.0%	40.0%	75.1%	90.1%	81.9%	75.1%	68.0%	75.1%	90.1%	87.9%	85.8%	83.8%	90.1%	120.1%	144.1%	144.1%	144.1%
BCE1-H	60.8%	66.3%	60.8%	52.1%	45.6%	40.5%	76.0%	91.2%	82.9%	76.0%	68.8%	76.0%	91.2%	89.0%	86.9%	84.8%	91.2%	121.6%	145.9%	145.9%	145.9%
C12A-D	61.1%	66.6%	61.1%	52.4%	45.3%	40.7%	76.4%	91.6%	83.3%	76.4%	69.2%	76.4%	91.6%	89.4%	87.3%	85.2%	91.6%	122.2%	146.6%	146.6%	146.6%
C12A-E	62.1%	67.8%	62.1%	53.2%	46.6%	41.4%	77.6%	93.2%	84.7%	77.6%	70.3%	77.6%	93.2%	90.9%	88.7%	86.7%	93.2%	124.2%	149.1%	149.1%	149.1%
C12A-F	63.1%	68.9%	63.1%	54.1%	47.4%	42.1%	78.9%	94.7%	86.1%	78.9%	71.5%	78.9%	94.7%	92.4%	90.2%	88.1%	94.7%	126.3%	151.5%	151.5%	151.5%
M591-C	56.5%	61.6%	56.5%	48.4%	42.4%	37.7%	70.6%	84.7%	77.1%	70.6%	64.0%	70.6%	84.8%	82.7%	80.7%	78.8%	84.8%	113.0%	135.6%	135.6%	135.6%
M591-E	58.3%	64.2%	58.3%	50.4%	44.1%	39.2%	73.5%	88.2%	80.2%	73.5%	66.6%	73.5%	88.2%	86.1%	84.0%	82.1%	88.2%	117.6%	141.2%	141.2%	141.2%
M591-F	59.6%	65.0%	59.6%	51.1%	44.7%	39.7%	74.5%	89.4%	81.3%	74.5%	67.5%	74.5%	89.4%	87.2%	85.1%	83.1%	89.4%	119.2%	143.0%	143.0%	143.0%
G362-D	71.4%	77.9%	71.4%	61.2%	53.5%	47.6%	89.2%	107.1%	97.3%	89.2%	80.8%	89.2%	107.1%	104.4%	102.0%	99.6%	107.1%	142.7%	171.3%	171.3%	171.3%
G362-E	72.4%	79.0%	72.4%	62.1%	54.3%	48.3%	90.6%	108.7%	98.8%	90.6%	82.0%	90.6%	108.7%	106.0%	103.5%	101.1%	108.7%	144.9%	173.9%	173.9%	173.9%
G362-F	73.8%	80.5%	73.8%	63.2%	55.3%	49.2%	92.2%	110.6%	100.6%	92.2%	83.5%	92.2%	110.6%	107.9%	105.4%	102.9%	110.6%	147.5%	177.0%	177.0%	177.0%
BCE1-AJ	87.9%	95.9%	87.9%	75.4%	66.0%	58.6%	109.9%	131.9%	119.9%	109.9%	99.6%	109.9%	131.9%	128.7%	125.6%	122.7%	131.9%	175.9%	211.1%	211.1%	211.1%
BCE3-AJ	92.6%	101.1%	92.6%	79.4%	69.5%	61.8%	115.8%	139.0%	126.3%	115.8%	104.9%	115.8%	139.0%	135.6%	132.4%	129.3%	139.0%	185.3%	222.3%	222.3%	222.3%
BCE0-AJ	79.8%	87.0%	79.8%	68.4%	59.8%	53.2%	99.7%	119.7%	108.8%	99.7%	90.3%	99.7%	119.7%	116.8%	114.0%	111.3%	119.7%	159.6%	191.5%	191.5%	191.5%
BCE2-AJ	90.2%	98.4%	90.2%	77.3%	67.7%	60.2%	112.8%	135.3%	123.0%	112.8%	102.1%	112.8%	135.3%	132.0%	128.9%	125.9%	135.3%	180.5%	216.6%	216.6%	216.6%
C177-J	84.5%	92.2%	84.5%	72.4%	63.4%	56.3%	105.6%	126.7%	115.2%	105.6%	95.6%	105.6%	126.7%	123.6%	120.7%	117.9%	126.7%	169.0%	202.8%	202.8%	202.8%
G366-AJ	95.3%	103.9%	95.3%	81.6%	71.4%	63.5%	119.1%	142.9%	129.9%	119.1%	107.8%	119.1%	142.9%	139.4%	136.1%	132.9%	142.9%	190.5%	228.6%	228.6%	228.6%
G368-AM	85.8%	93.6%	85.8%	73.5%	64.3%	57.2%	107.2%	128.7%	117.0%	107.2%	97.1%	107.2%	128.7%	125.5%	122.6%	119.7%	128.7%	171.6%	205.9%	205.9%	205.9%
J468-J	76.9%	83.9%	76.9%	65.9%	57.7%	51.3%	96.2%	115.4%	104.9%	96.2%	87.1%	96.2%	115.4%	112.6%	109.9%	107.4%	115.4%	153.9%	184.7%	184.7%	184.7%
J468-K	77.4%	84.4%	77.4%	66.3%	58.0%	51.6%	96.7%	116.1%	105.5%	96.7%	87.6%	96.7%	116.1%	113.3%	110.6%	108.0%	116.1%	154.8%	185.7%	185.7%	185.7%
J463-AJ	84.8%	92.5%	84.8%	72.7%	63.6%	56.5%	106.0%	127.2%	115.7%	106.0%	96.0%	106.0%	127.2%	124.1%	121.2%	118.4%	127.2%	169.6%	203.6%	203.6%	203.6%
J463-B	86.8%	94.7%	86.8%	74.4%	65.1%	57.9%	108.6%	130.3%	118.4%	108.6%	98.3%	108.6%	130.3%	127.1%	124.1%	121.2%	130.3%	173.7%	208.4%	208.4%	208.4%
J464-AJ	88.9%	97.0%	88.9%	76.2%	66.7%	59.3%	111.1%	133.4%	121.2%	111.1%	100.6%	111.1%	133.4%	130.1%	127.0%	124.0%	133.4%	177.8%	213.4%	213.4%	213.4%
J467-AJ	96.3%	105.0%	96.3%	82.5%	72.2%	64.2%	120.3%	144.4%	131.3%	120.3%	109.0%	120.3%	144.4%	140.9%	137.5%	134.3%	144.4%	192.5%	231.1%	231.1%	231.1%
J467-B	95.9%	104.6%	95.9%	82.2%	71.9%	63.9%	119.9%	143.9%	130.8%	119.9%	108.6%	119.9%	143.9%	140.3%	137.0%	133.8%	143.9%	191.8%	230.2%	230.2%	230.2%
J469-E	96.1%	104.9%	96.1%	82.4%	72.1%	64.1%	120.2%	144.2%	131.1%	120.2%	108.8%	120.2%	144.2%	140.7%	137.3%	134.1%	144.2%	192.3%	230.7%	230.7%	230.7%
J469-AMS	81.8%	89.3%	81.8%	70.2%	61.4%	54.6%	102.3%	122.8%	111.6%	102.3%	92.7%	102.3%	122.8%	119.8%	116.6%	114.2%	122.8%	163.7%	196.4%	196.4%	196.4%
LS07-E	88.9%	97.0%	88.9%	76.2%	66.7%	59.3%	111.1%	133.4%	121.2%	111.1%	100.7%	111.1%	133.4%	130.1%	127.0%	124.1%	133.4%	177.8%	213.4%	213.4%	213.4%
LS01-AM	67.9%	74.0%	67.9%	58.2%	50.9%	45.2%	84.8%	101.8%	92.5%	84.8%	76.8%	84.8%	101.8%	99.3%	96.9%	94.7%	101.8%	135.7%	162.9%	162.9%	162.9%
M554-AM	83.9%	91.5%	83.9%	71.9%	62.9%	55.9%	104.8%	125.8%	114.3%	104.8%	94.9%	104.8%	125.8%	122.7%	119.8%	117.0%	125.8%	167.7%	201.3%	201.3%	201.3%
W920-AJ	81.9%	89.3%	81.9%	70.2%	61.4%	54.6%	102.4%	122.8%	111.7%	102.4%	92.7%	102.4%	122.8%	119.8%	117.0%	114.3%	122.8%	163.8%	196.5%	196.5%	196.5%

Loan-to-Value ColorCoding

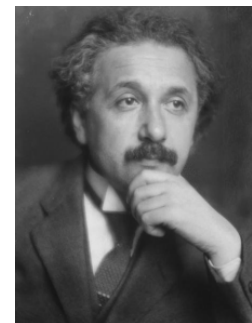
- LTVs < 80%
- LTVs 80%-90%
- LTVs 90%-100%
- LTVs 100%-115%
- LTVs 115%-130%
- LTVs > 130%

# The New Economy Requires New Thinking

**Old style decisions and data sources  
may be less than responsive to the  
challenges of the  
new real estate markets.**

***“The current problems we face cannot  
be solved at the same level of thinking  
by which they were created.”***

**Albert Einstein**



# Place Strategy Hedges Risks of Traditional Real Estate

## TRADITIONAL REAL ESTATE



Old economy — you travel to work and opportunity

Travel to places to interact and procure tangible things



Interaction requires physical presence in their places at their time



Move people and tangible things to place of interaction



Physical real estate and distribution are large component of product cost



Single purpose places

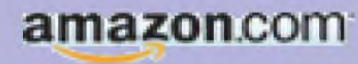
## PLACE STRATEGY

New economy—work and opportunity travel to you

Move voice via telephone and digitized images/data via Internet



You choose your time and your place for interaction



Move information and communication to any place—and tangible things via delivery service

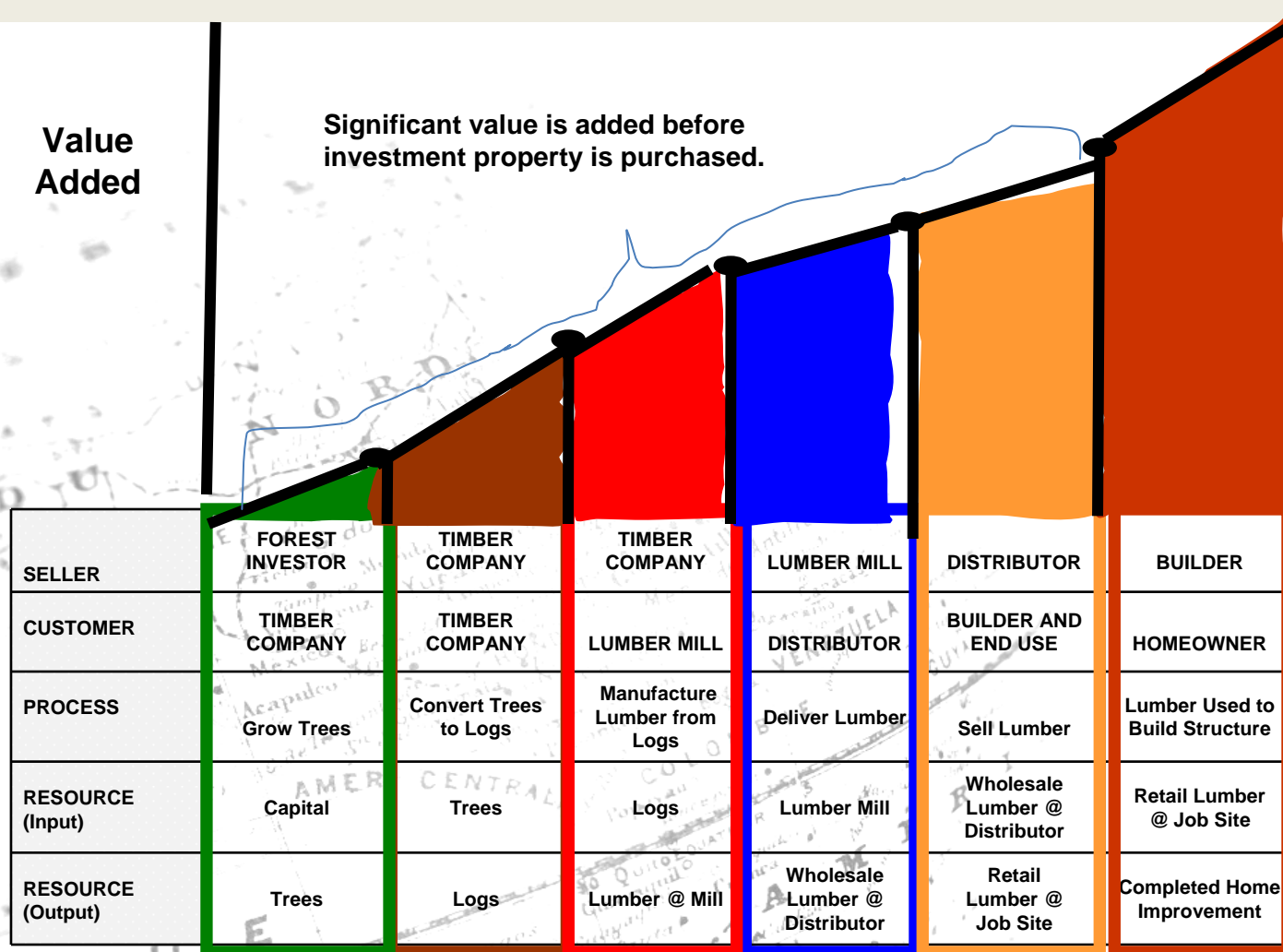
Physical real estate and distribution are smaller component of product cost



Multi-purpose places



# Invests in All Phases of Real Estate Value/Supply Chain, as Reflected in Timber to House Profit Framework



# Roulac Investment Universe - Highly Differentiated from Traditional Investing

- 1) Owning real estate and REITs is only part of total property universe;
- 2) Better to invest in all property revenue sources and real estate profit centers; and,
- 3) Roulac Core Property Categories: 8,500 Companies = \$5 Trillion Market Cap.

## a) Traditional Property Investment

- Business property
- Retail and warehouse
- Diversified and other property
- Hospitality
- Residential
- Mortgage investment



## b) Building Development

- Homebuilders
- Commercial property developers
- Construction and civil engineering
- Building materials
- Cement manufacturers
- Building steel manufacturers
- Furniture, fixtures and decorating



## c) Property Resources

- Agriculture
- Timber
- Utilities
- Retailers
- Transportation
- Other corporate property owners



## d) Business Services

- Leisure and tourism related firms
- Business related service firms
- Real estate related information and software providers
- Healthcare, senior living and residential services



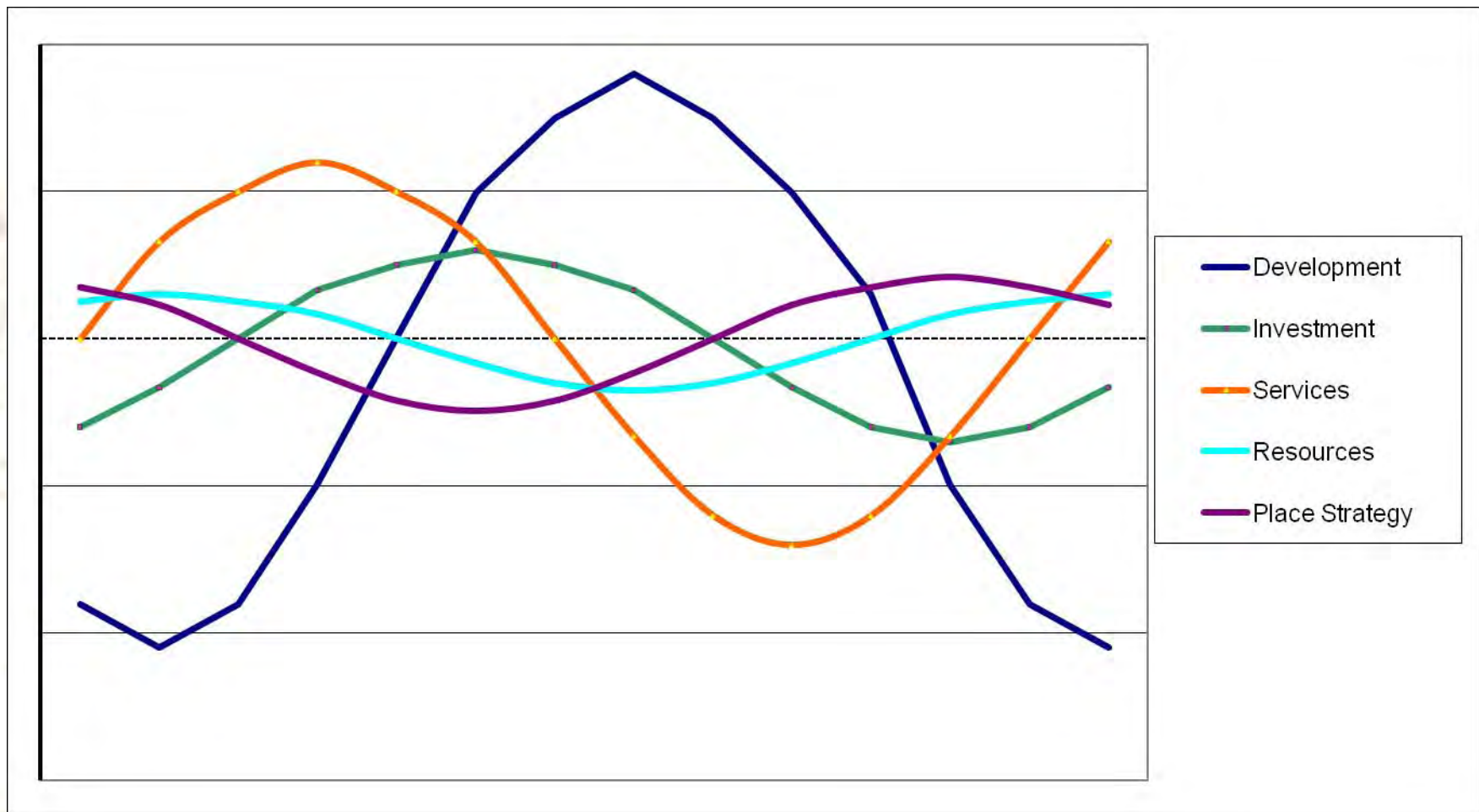
## e) Place Strategy

- Hedges physical market risks
- Traditional real estate serves conventional business models
- Technology advances shift location of property to other places





# Different Property Categories Have Different Cycles Patterns of Varying Amplitude and Duration



# How To Make The Most Rewarding Investing Decisions

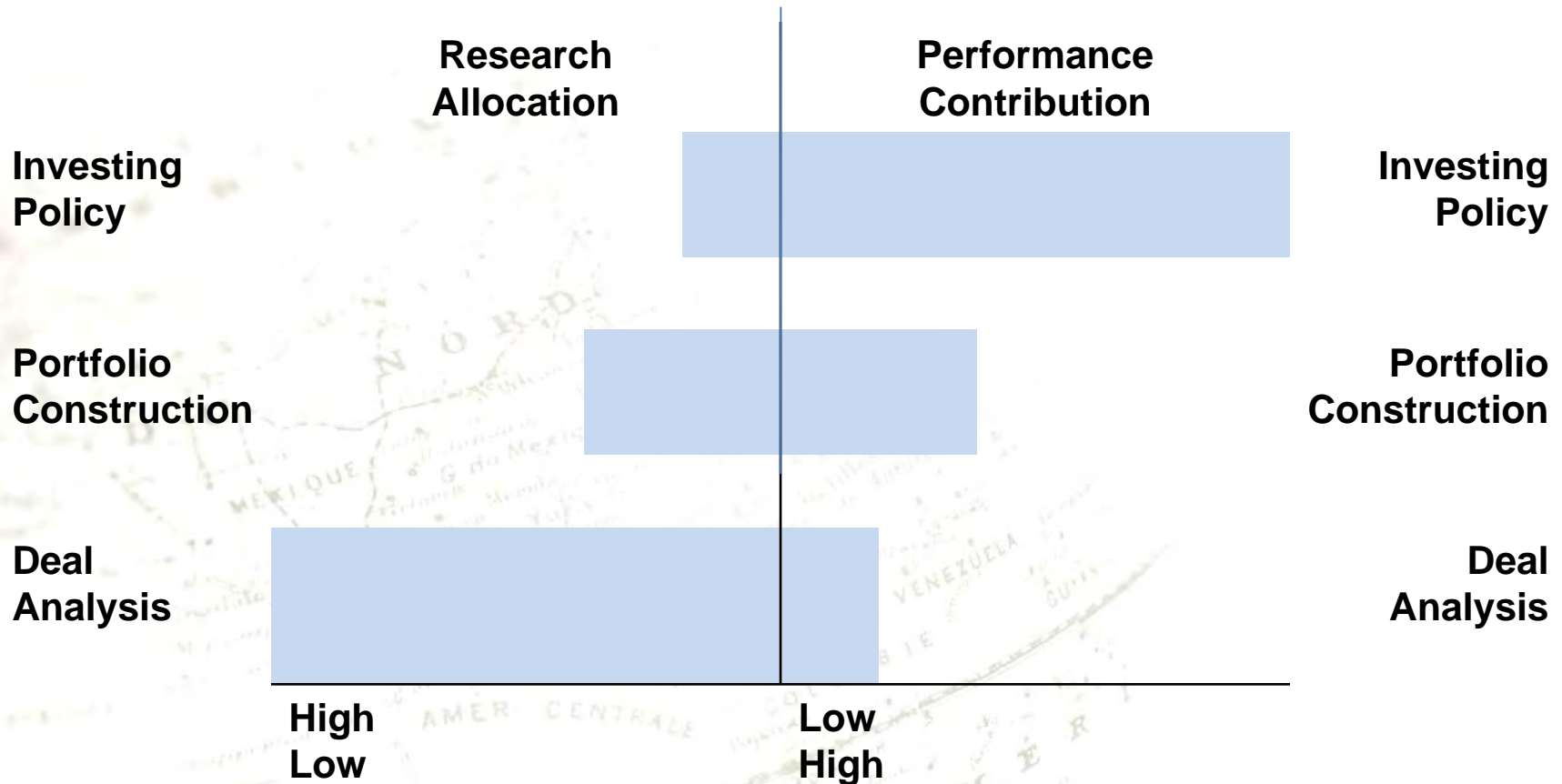
- Investment research is conclusive that performance is derived:
  - Primarily: investment policy
  - Secondly: portfolio construction
  - Lastly: deal analysis
- Most investors allocate research resources to investment research functions in the *inverse priority* to their contribution to investment performance.

Choose Markets

Select Investments

Project Returns

# Mismatch Between Allocation of Resources to Research and Contribution to Performance



# Astute Research Resource Allocation Can Support Most Rewarding Decisions and Thereby Improve Performance

Policy and  
Portfolio

Resources

Resources *not allocated* to most  
rewarding research

Resource Misallocation

Deal  
Analysis

Rewards

Resources *allocated* to *less* rewarding  
research

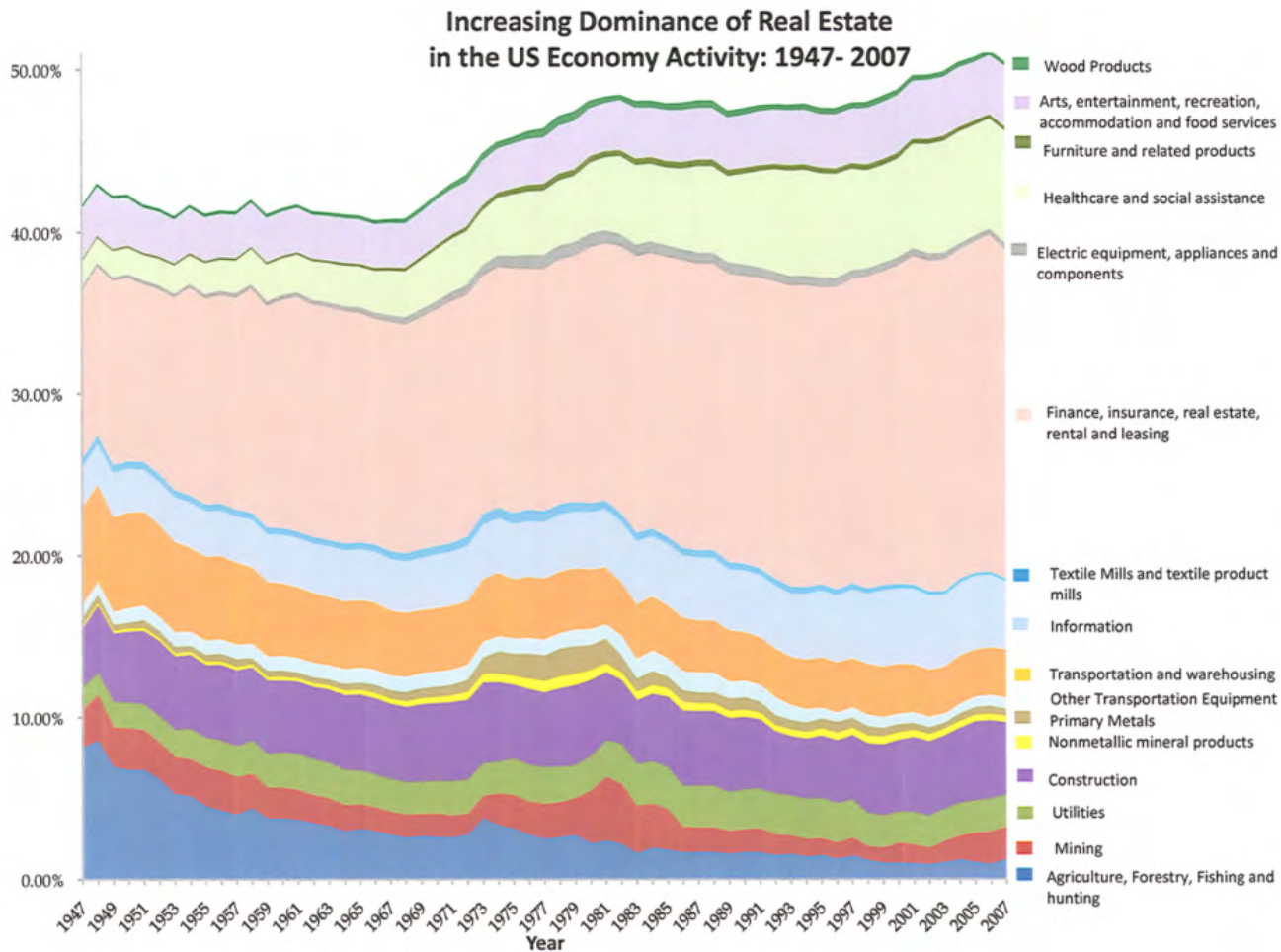
Low

High

***TOO LITTLE*** spent  
on most rewarding  
research and  
analyses

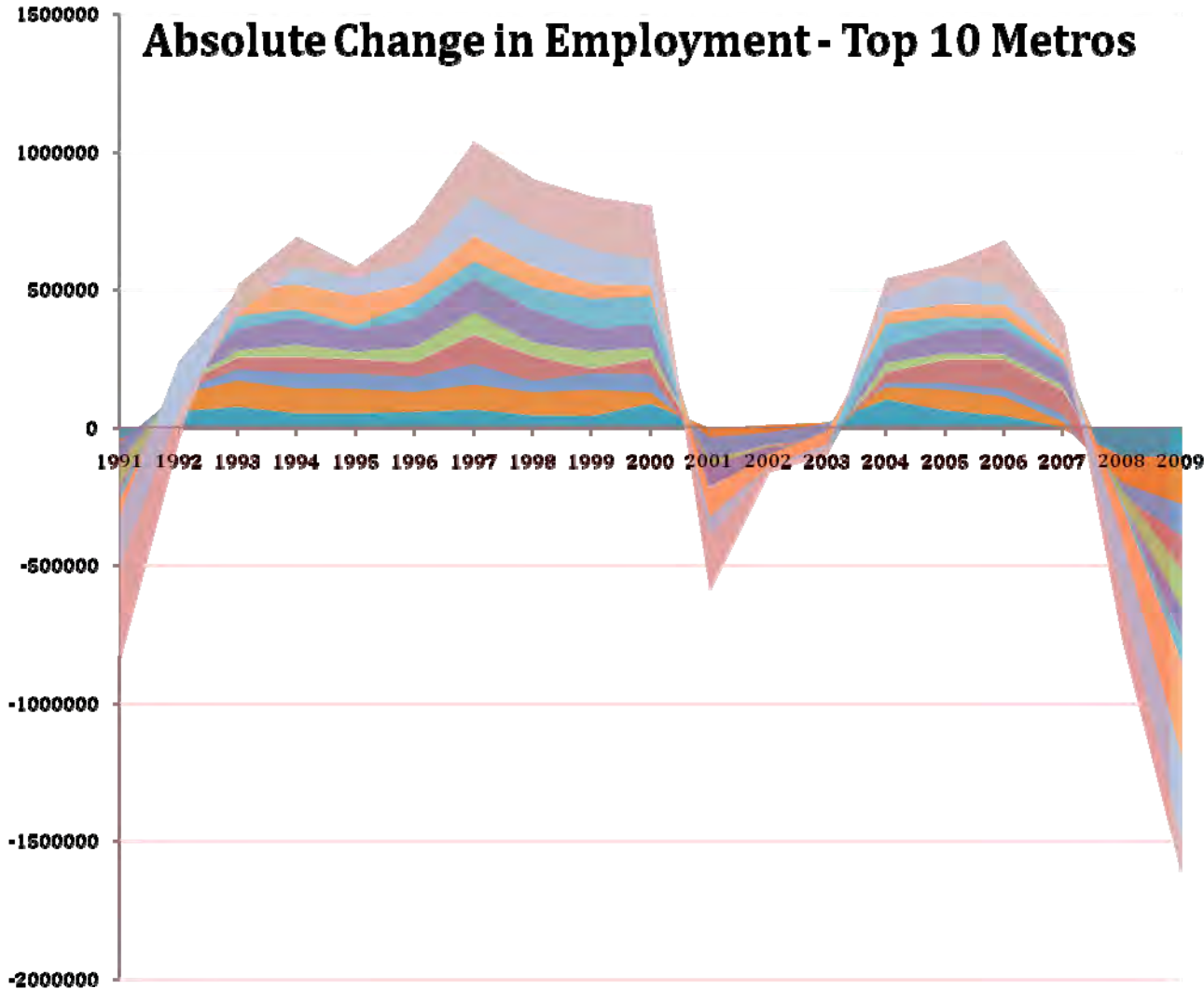
***TOO MUCH*** spent  
on less rewarding  
research and  
analyses

# Increasing Dominance of Real Estate in the US Economy Activity: 1947-2007



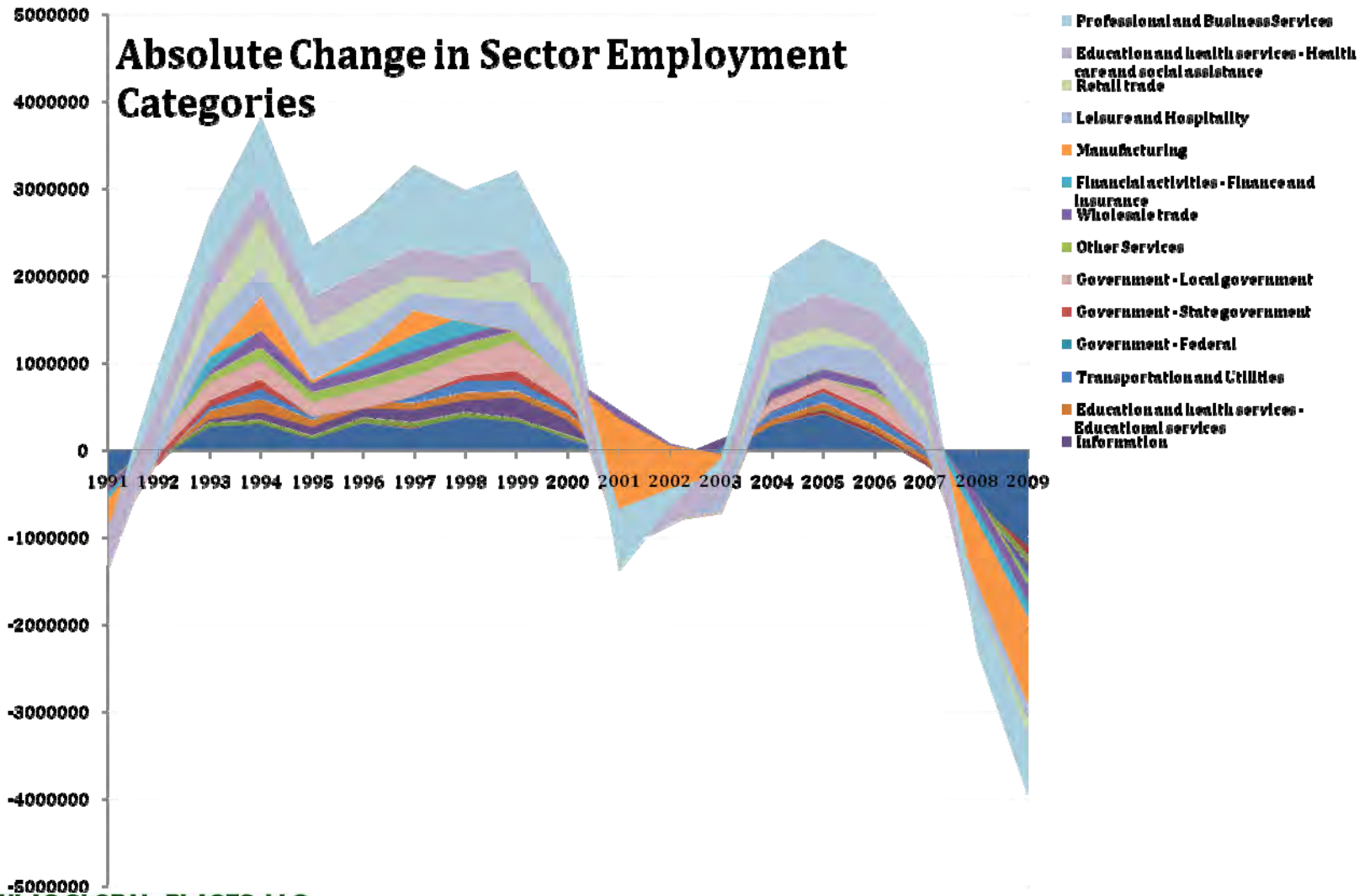
# Changes in Employment Create/Destroy Real Estate Demand and Property Value

**Absolute Change in Employment - Top 10 Metros**

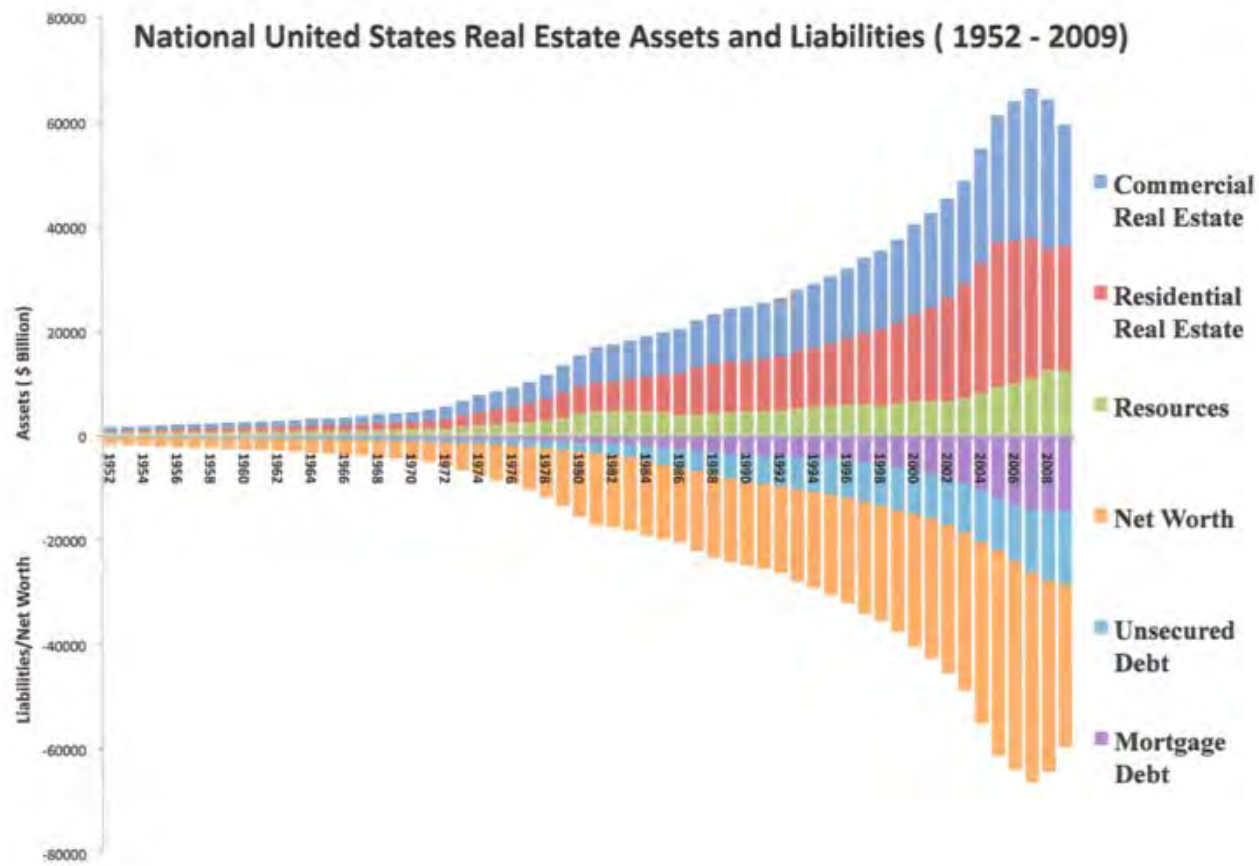


- New York-Northern New Jersey-Long Island, NY-NJ-PA
- Los Angeles-Long Beach-Santa Ana, CA
- Chicago-Naperville-Joliet, IL-IN-WI
- Washington-Arlington-Alexandria, DC-VA-MD-WV
- Dallas-Fort Worth-Arlington, TX
- Philadelphia-Camden-Wilmington, PA-NJ-DE-MD
- Houston-Sugar Land-Baytown, TX
- Boston-Cambridge-Quincy, MA-NH
- Atlanta-Sandy Springs-Marietta, GA
- Miami-Fort Lauderdale-Pompano Beach-Homestead, FL

# How Employment Determines Real Estate Demand for Property Types

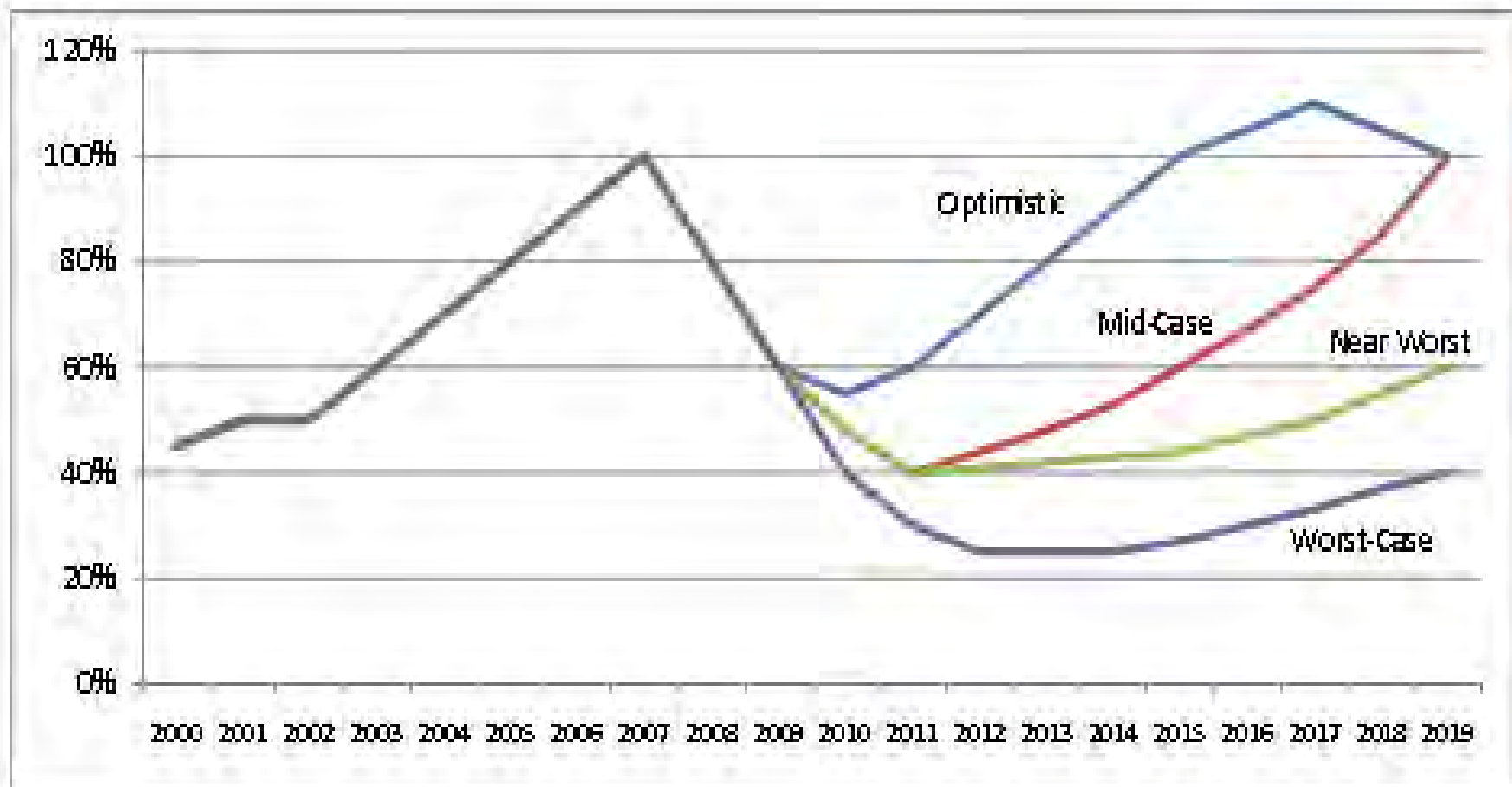


# National US Real Estate Assets and Liabilities (1952-2009)





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