BEACON POINTE

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WHITE PAPER

GLOBAL REAL ESTATE SECURITIES – NO NEED TO PANIC
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Introduction

Beacon Pointe released a whitepaper in the Fall of 2006 regarding the case for including global real estate securities in a strategic asset allocation framework. Beacon Pointe believes that an allocation to global real estate securities enhances a portfolio's overall risk/return characteristics. In recent times, however, there has been a sell-off in global real estate securities. This paper addresses some of the short-term concerns investors may have and why Beacon Pointe believes going forward, global real estate securities will generate favorable risk-return characteristics returning more than bonds but exhibiting less volatility over the long run than equities.

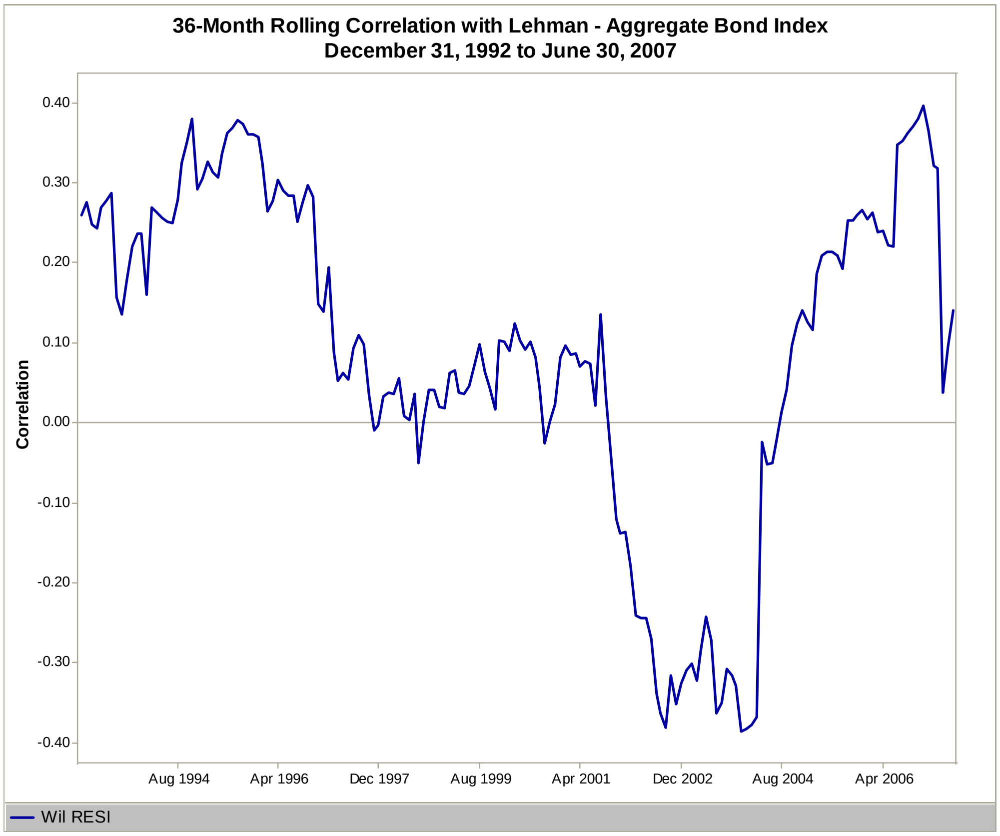
Global Real Estate Securities - Reasons for Sell-Offs

Historically, because investors' need for income led them to invest in real estate securities for dividends, real estate securities were thought to have a higher correlation with interest rates. However, as the following chart shows, there is no definite consistent correlation of global real estate securities with interest rates as reflected by the Lehman Global Bond Index.

Source: Wilshire Compass

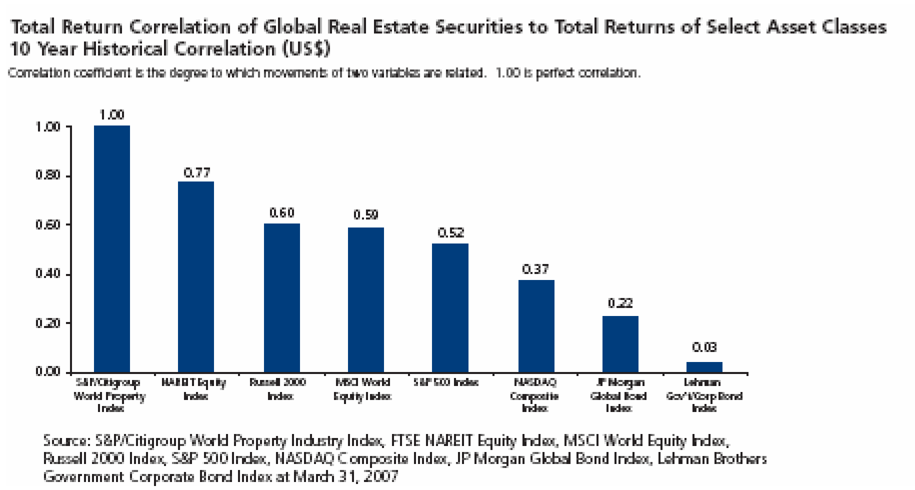
However, when global yields rose in June, due to an inflationary scare as well as fallout from the sub-prime debacle in the US, it led to a sell-off in the global real estate securities.

In addition, there was some profit taking as global real estate securities have had a great 6+ year run, primarily benefiting from low interest rates. Similarly, the lack of a definite pattern between US real estate securities and US interest rates (using Lehman Aggregate Bond Index as a proxy) is observed, as shown below.



Source: Wilshire Compass

The correlation with various asset classes is illustrated in the figure below:



Source: ING Clarion Real Estate Securities Newsletter, March 2007

From Beacon Pointe's conversations with the various global real estate securities portfolio managers, Beacon Pointe learned the following:

- European stocks and in particular UK stocks sold off from:
  - Profit taking
  - Paranoia from the sub-prime debacle in the US and the possibility of it spreading to Europe especially in light of increasing rates in the Eurozone
  - A technical standpoint, as two of the larger companies in the Index merged (Unibail, a French company, and Rodamco, a Dutch company) and resulted in a sell-off for rebalancing purposes. Most investors in Europe tend to be Index investors. Rodamco was delisted from the Frankfurt Stock Exchange and the Euronext Paris, Brussels, and Amsterdam exchanges.

- The sell-off has resulted in deeper discounts in the underlying net asset values of various companies around the world. Various portfolio managers have mentioned that they would be concerned only if the recent declines were to be accompanied by sliding economies. However, global growth is still fairly robust and they are not particularly concerned about the prospects for global real estate securities at this time. Overall, they still expect returns in the low double digits with international (75% of the portfolio) contributing more than US securities.

- Asian markets are strong in general. Hong Kong (+20%), Thailand (13%), and Malaysia (10%) did well for the quarter.

- Short-term perspective: Our managers were taken by surprise by the sell-off in Europe gaining momentum. However, they see the sell-off coming to an end thus putting less pressure on the stock prices. They believe, although stocks are not cheap as a few years ago, it is not a high risk environment. Over the long run, they still expect global real estate.

- Our managers opine that it would be misleading to look at only the cap rates as a measure of overvaluation in the global real estate securities space. What has been driving the stocks has been the replacement cost of the buildings should additional buildings be necessary to fulfill future demand. As such, private equity buyers have been assessing their targets primarily based on net asset value. On a net asset valuation basis, most stocks worldwide are not trading at egregious valuation and thus, it would be prudent to maintain exposure to the global real estate securities space.

- Forward looking returns estimates range from 7%-12% depending on exposure to different regions of the world. Higher returning strategies are those with higher international exposure, particularly in the Asian region.

- Our earlier white paper made a case for investing in global real estate securities citing many reasons. Instead of repeating the reasons in this section, we have reproduced the reasons for investing in global real estate securities in the Appendix for your review.

In summary, our managers in the focus list for global real estate securities are still optimistic about the prospects for their portfolios. In recent times, the shift has been towards more international exposure, particularly in Asia, as the prospects are the strongest in the Far East region.

Conclusions – No Need for Panic

- Beacon Pointe continues to believe that global real estate securities have favorable risk-return characteristics going forward. Beacon Pointe believes the recent sell-off in real estate securities has given our managers who are sensitive to valuations the opportunity to add to positions in which they have higher conviction.

- As long as global growth remains robust, Beacon Pointe believes that the prospects for global real estate securities are attractive. Investors can expect high single digits-to-low double digits returns over the long run.

- Beacon Pointe believes that investors with long-term horizon should have some exposure to global REITs. Depending on their risk tolerance, Beacon Pointe recommends that investors should allocate a percentage of their total assets to this growing asset class that has a great combination of higher income than common stocks and a better capital appreciation than bonds.

- Beacon Pointe believes that many of the factors that helped create the growth of US REITs in the early 1990s are now played out on the global front. As such, Beacon Pointe believes that clients will be served well by investing in this growing asset class with superior risk-adjusted returns. In addition, as property values are very location dependent, it would make prudent sense from a diversification point of view to add global REITs.

- Increasing adoption of REITs like structures globally and a growing interest in investment managers in global REITs will help the growth of this asset class increase from $800 billion today to over $1 trillion in a year or two. The potential for this asset class to grow even larger is fairly high as most real estate in large markets outside of the US is still privately owned or sits as a passive investment on many of the larger companies' balance sheets.

- Please contact your Beacon Pointe consultant (949-718-1600) should you have any questions.

Appendix

Reasons For Investing in Global REITs

The key reasons for investing in REITs are outlined below:

Strong Returns – Historically, REITs have provided strong returns relative to other asset classes as shown in Table 1. The return components include yield from income and share price appreciation. Over the long run, real estate has provided real returns (net of inflation) of 4%-6%. The drivers for performance are:

- **Property Fundamentals** – Demand, as well as current and future supply of space to rent (office, apartment, and retail space).
- **Economic and Monetary Fundamentals** – Employment, GDP, interest rates, investment and capital flows, and demographics (migration, population, aging).

Table 1

Total Returns at June 30, 2006

	1 Year	3 Years	5 Years	10 Years
S&P / Citigroup World Property Broad Market Index	24.6%	30.4%	20.4%	10.9%
NAREIT Equity REIT Index	19.0%	26.1%	19.4%	15.1%
S&P / Citigroup World Property Broad Market Index (ex-U.S.)	30.7%	34.6%	21.1%	8.6%
MSCI World Index	17.5%	17.4%	6.2%	7.4%
S&P 500 Index	8.7%	11.2%	2.5%	8.3%
MSCI EAFE Index	27.2%	24.5%	10.5%	6.8%
J.P. Morgan Global Gov't Bond Index	-0.6%	4.1%	8.4%	5.6%

Adapted from Cohen & Steers Presentation – Global Real Estate Securities, July 2006. The figures represent annualized returns.

Moderate Volatility – REITs inherently have lower volatility than other asset classes as shown in Table 2 on the following page. This is primarily due to the steady income component of REITs. REITs' strong returns and lower volatility provide for attractive risk-adjusted returns over time. The stability provided by income is further enhanced by investing in global REITs, as fluctuations in different markets, sectors, and properties tend to counterbalance each other over the long run.

Table 2

Annualized Standard Deviations at June 30, 2006

	1 Year	3 Years	5 Years	10 Years
S&P / Citigroup World Property Broad Market Index	11.2%	12.4%	12.4%	14.1%
NAREIT Equity REIT Index	14.4%	16.0%	14.6%	14.0%
S&P / Citigroup World Property Broad Market Index (ex-U.S.)	11.6%	11.8%	13.3%	17.8%
MSCI World Index	8.4%	8.5%	13.6%	14.6%
S&P 500 Index	7.0%	7.7%	13.6%	15.7%
MSCI EAFE Index	10.9%	10.3%	14.5%	15.1%
J.P. Morgan Global Gov't Bond Index	5.3%	7.0%	7.2%	6.5%

Source: Cohen & Steers.

Diversification – Lower correlation to asset classes provides diversification benefits. As seen in Table 3 , real estate has a low correlation with other asset classes. This enhances the overall portfolio returns while reducing the risk. Due to increasing globalization in recent times, equities and bonds have shown higher correlation with each other. This reduces the diversification benefits to some extent from earlier levels. However, despite globalization having some impact on the capital markets for real estate, it is unlikely that local property around the world will exhibit the same cycles. For instance, one cannot substitute an office in Bangalore, India or Shanghai, China for an office in New York City, USA. As such, global real estates are likely to retain lower correlation with other asset classes and continue to provide diversification benefits from the different economic and real estate cycles, as well as from the various currencies.

Table 3

Correlation of S&P / Citigroup World Property Broad Market Index, Monthly Through June 2006

	3 Years	5 Years	10 Years
MSCI World Index	0.64	0.63	0.60
S&P 500 Index	0.58	0.54	0.53
MSCI EAFE Index	0.61	0.69	0.61
J.P. Morgan Global Gov't Bond Index	0.46	0.25	0.23

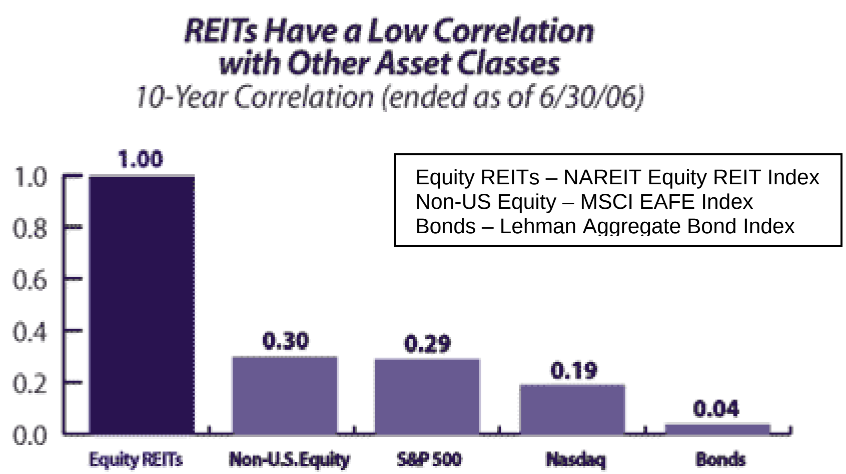
Adapted from Cohen & Steers Presentation – Global Real Estate Securities, July 2006.

Interestingly, the correlation of US REITs, as measured by NAREIT, with S&P 500 is considerably lower(Table 4) than the correlation of the S&P/Citigroup World Property Broad Market Index with S&P 500. Naysayers have used this observation to state that global REITs provide little diversification as illustrated in a paper by Wilshire Associates and highlighted in a recent Pension & Investment issue.

Beacon Pointe believes that lack of maturity of the relative new asset class has resulted in investors not distinguishing from other common stocks, thus artificially inflating the correlation to that of international stocks. However, as investors realize the unique characteristics of REITs (high income focus) versus that of other common stocks, Beacon Pointe is in the camp that believes that global REITs' correlation with S&P 500 will decrease over time. A similar phenomenon was observed in the US when the sensitivity of REITs to the stock market declined in the 1990s, implying lower correlation, due to the growth and maturity of the REIT market

Some investors believe that REITs are correlated with interest rate movement and will underperform in a rising rate environment. The strong performance in the past three years and the minimal correlation with the 10-year Treasuries, as well as the Lehman Aggregate Bond Index, (Figure 1), indicate low correlation with interest rates. Rising interest rates usually imply an improving economy, which has proven to be positive for cash flow growth in REITs.

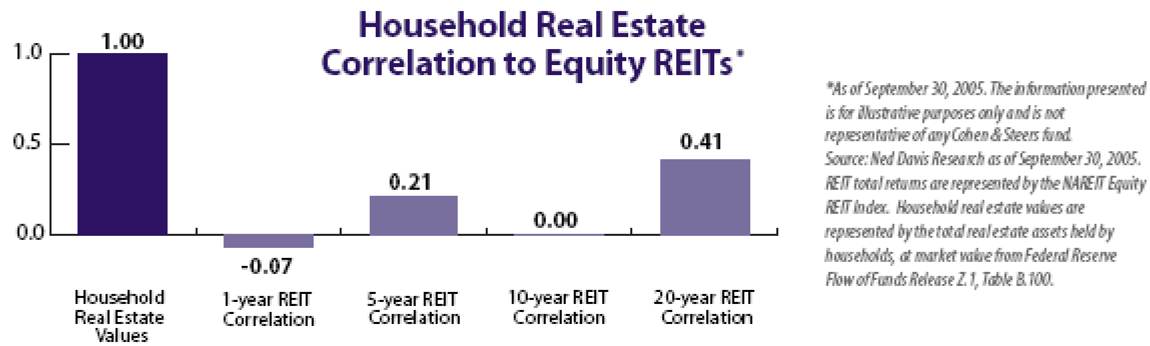
Figure 1



Source: Cohen & Steers

Another perception exists which implies that REITs are tied to the residential housing market (single family homes). REITs are a much more diversified asset class that includes residential (multi-family housing), commercial (hotels, office buildings), industrials, and many other property types. In addition, according to Ned Davis Research, there is a very low correlation between the residential housing market and REITs as shown below in Figure 2.

Figure 2



Source: Cohen & Steers – Dispelling the Myths & Misconceptions of REITs, Ned Davis Research

Diversification benefits are further enhanced by the low correlations of different property markets around the world as evident in the correlation matrix (Table 4).

Table 4

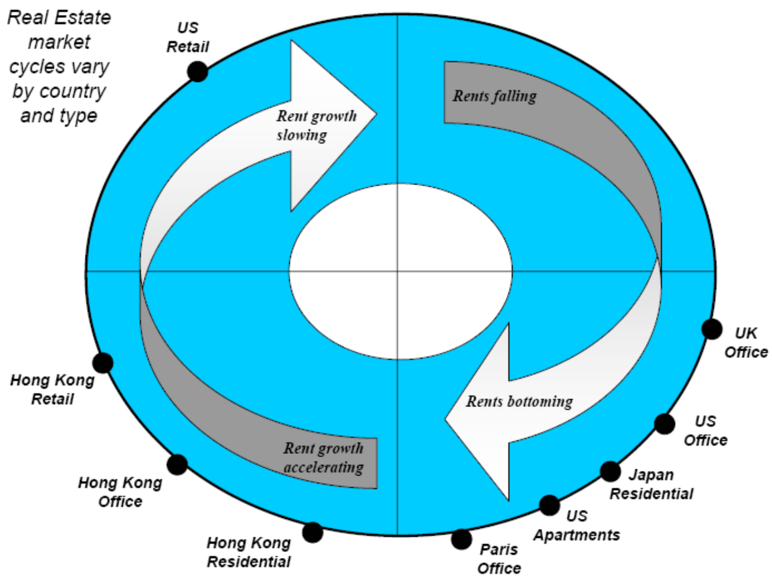
		North America		Europe			Asia		
		US	Canada	UK	Netherlands	France	Australia	Japan	Hong Kong
North America	United States	1.00							
	Canada	0.70	1.00						
Europe	United Kingdom	0.43	0.55	1.00					
	Netherlands	0.45	0.52	0.70	1.00				
	France	0.56	0.54	0.72	0.79	1.00			
Asia	Australia	0.41	0.62	0.51	0.63	0.50	1.00		
	Japan	0.22	0.34	0.32	0.18	0.24	0.23	1.00	
	Hong Kong	0.43	0.31	0.44	0.34	0.32	0.31	0.15	1.00

Source: S&P/Citigroup BMI World Property Indexes

Adapted from Cohen & Steers Presentation – Global Real Estate Securities, July 2006.

Intuitively, real estate price movements are location specific as different regions exhibit different property, economic, and monetary fundamentals. Figure 3 shows a possible real estate market cycle on a global scale. This explains why correlations among the different property markets around the world are low.

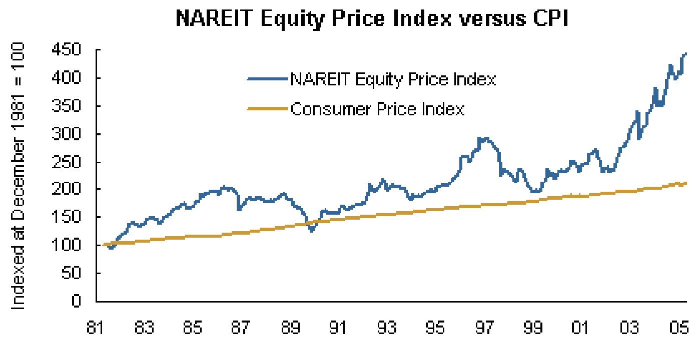
Figure 3



Source: UBS
Adapted from "The Case for Investing in International Real Estate" by Macquarie Real Estate, Sydney, April 2006.

Inflation Hedge – REITs offer an effective hedge against inflation, as real estate prices tend to rise along with prices in a growing economy. Figure 4 illustrates how REITs have behaved as an inflation hedge over time in the United States. According to Ibbotson Associates, dividend growth rates for REITs shares have outpaced inflation over the last decade.

Figure 4



Source: National Association of Real Estate Investment Trusts (NAREIT), PIMCO

Becoming More Mainstream[1] – The inclusion of some REITs in S&P 500 Index and other broad market indices around the world indicates that it is becoming more mainstream as an asset class. Many of the reasons that facilitate increased acceptance of REITs as an asset classes include:

[1] Adapted from "The Investor's Guide to Real Estate Investment Trusts (REITS)"– National Association of Real Estate Investment Trusts, Inc.

- **<u>Liquidity</u>** – Investors can easily purchase REITs shares just as any other publicly traded companies. REITs shares are traded around the world in major stock exchanges.

- **<u>Shareholder Value</u>** – Shareholders receive dividend income and share price appreciation, just as in other dividend paying public companies.

- **<u>Active Management/Corporate Governance</u>** – Publicly traded REITs are professionally managed and adhere to the same corporate governance principles as other publicly traded companies.

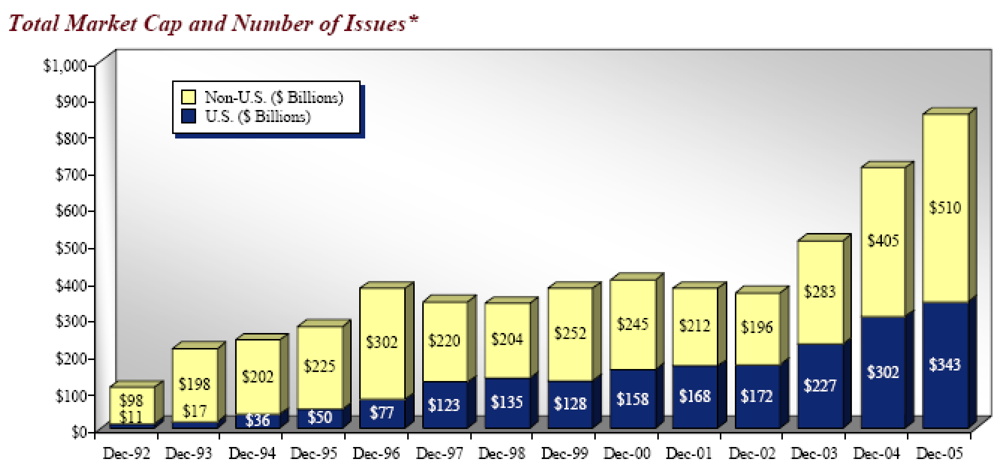
- **<u>Disclosure</u>** – REITs are subject to the same financial statement disclosures by the SEC as other publicly traded companies. Similar disclosure requirements are in place for non-US REITs.

- **<u>Limited Liability</u>** – Shareholders have no liability for the debts of the REITs in which they invest.

- **<u>Low Leverage</u>** – Average REITs carry less than a 50% debt ratio and over 65% of the REITs (by market capitalization) are investment grade.

<u>Growth and Size</u> – The size of the global REITs market is growing rapidly due to increasing adoption of REITs by many countries around the world. From January 2001 to December 2005, global REITs market capitalization, as defined by S&P / Citigroup World Property Broad Market Index, more than doubled in size – growing from $403 billion at the end of 2000 to $853 billion by the end of 2005. This translates to an annualized growth rate of approximately 16.2% over the past five years. Figure 5 illustrates the global growth in REITs.

<u>Figure 5</u>



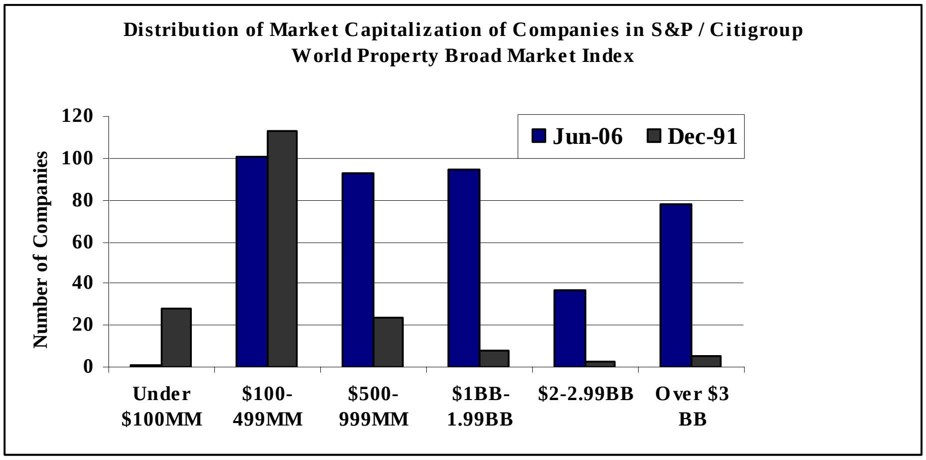
Companies (#)	173	188	295	316	341	381	363	362	335	324	320	319	351	412
International Assets (%)	90%	92%	85%	82%	80%	64%	60%	66%	61%	56%	53%	56%	57%	60%

* S&P / Citigroup World Property Broad Market Index

Source: Adapted from Cohen & Steers Presentation – Global Real Estate Securities, July 2006.

The growth in global REITs is evident in Figure 6 – both in number of companies and in the market capitalization of companies. Beacon Pointe believes that, as in any other industries that are in a growth mode, one will likely see an increasing number of companies worldwide. Over the long-term, Beacon Pointe expects the number of companies to decline while the market capitalization might increase as the industry consolidates.

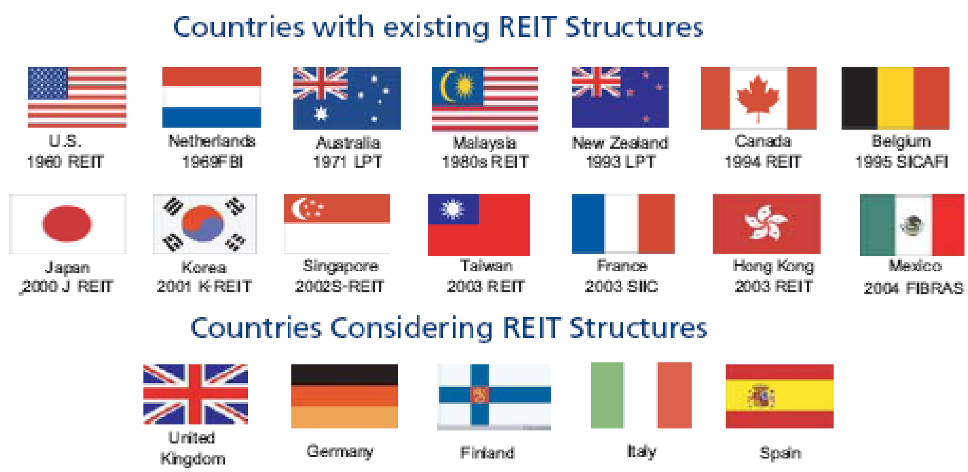
Figure 6



Source: S&P/Citigroup World Property Broad Market Index, Cohen & Steers, Beacon Pointe Research

As seen in Figure 7 , some of the largest real estate markets such as U.K. and Germany are considering REITs like structures.

Figure 7



Source: ING Clarion Research

Adapted from "International Real Estate Securities" – ING Clarion Real Estate Securities, Spring 2006.

Globally, real assets are still owned significantly by private market investors. According to ING Clarion, public companies own only 8% of the world's high grade real estate. This implies there is tremendous opportunity for growth in public real estate and most of it is likely to be in the form of REITs because of tax advantages. Table 5 shows the possible room for expansion of securitization of real estate. In Continental Europe, public real estate comprises only 3% of the global investable universe of institutional quality real estate. Rising dividend yields and demographics (see following sections) are likely to support continued global growth of REITs like structures.

Table 5

	High-Grade Real Estate Assets		Listed Real Estate Equity Market Cap			
Country/Region	**($US B)**	**Global Share**	**($US B)**	**Global Share**	**Implied Total Assets Owned by Listed RE Companies ($US B)**	**% of High Grade RE**
North America	6,154	31%	406	40%	648	11%
Continental Europe	6,379	33%	123	12%	203	3%
United Kingdom	1,384	7%	69	7%	110	8%
Japan	3,048	16%	129	13%	192	6%
Hong Kong/China	877	4%	143	14%	174	20%
Australia	384	2%	79	8%	111	29%
Other	1,314	7%	60	6%	92	7%
Total World	**$19,540**	**100%**	**$1,009**	**100%**	**$1,530**	**8%**

Source: ING Clarion research, as of December 31, 2005.

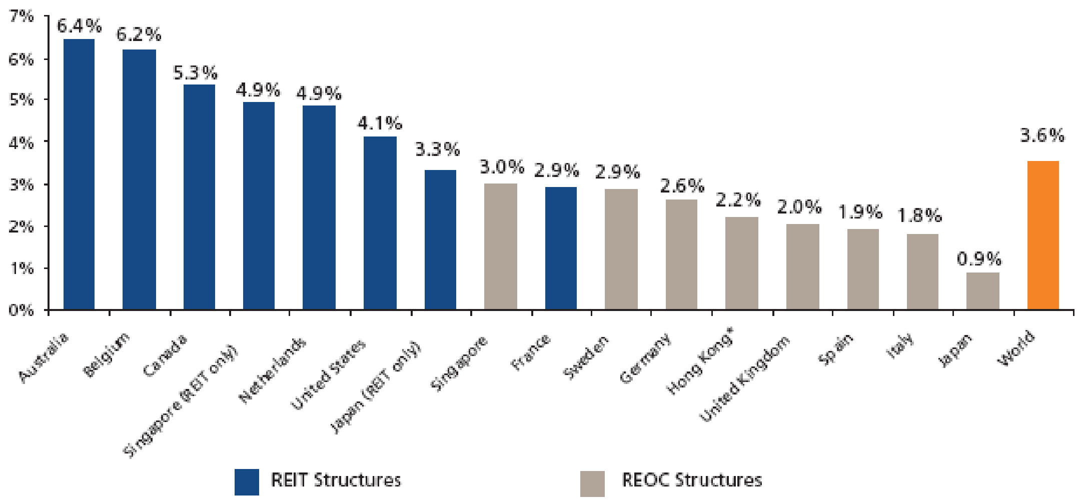
Adapted from "International Real Estate Securities" – ING Clarion Real Estate Securities, Spring 2006.

To illustrate the potential for growth of REITs around the globe, consider the following: In Germany, over $1.6 trillion in real estate is held privately. As such, the market has significant potential for securitization that can be facilitated by the expected launch of Germany REITs in 2007. Nearly 75% of commercial real estate is owned by corporations in comparison to just 25% in the US The creation of a REIT structure in Germany is likely to attract capital from foreign investors who have thus far exhibited minimal interest.

Cohen & Steers expects the creation of REIT structures in Asian countries such as Hong Kong, Thailand, and Malaysia, will mitigate the historically high volatility of real estate markets and dampen the correlation to local economies. As a result, Asian REITs could provide growing income streams to those seeking income in other parts of the world.

Rising Dividend Yields – The yield on a global portfolio is less than a portfolio of US only REITs. However, increased adoption of a REIT like structure around the world will likely push the dividend yields higher and diminish the yield differential. This is because the REITs structure requires companies to pay out a large percentage of their earnings as dividends to shareholders to avail tax benefits. As seen from Figure 8 , the two large real estate markets, Germany and U.K., with no REITs structure in place, have lower dividend yields which are likely to grow with the adoption of REITs like structures.

Figure 8



Source: EPRA/NAREIT as of February 28, 2006, ING Clarion Research
*Hong Kong includes Link REIT

Adapted from "International Real Estate Securities" – ING Clarion Real Estate Securities, Spring 2006.

Although REITs structures around the world are not the same, the emphasis globally is on high payouts (Figure 9). As some of the countries that do not have an existing REIT like structure evolve to a REIT like structure, we can anticipate the dividend yield to increase globally.

Figure 9

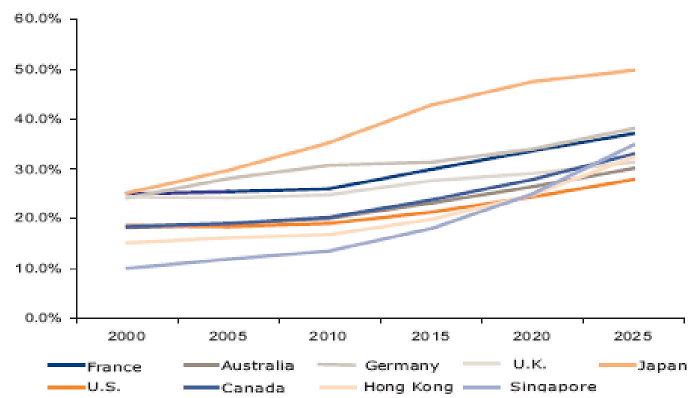
	US	Australia	Netherlands	Canada	Belgium	Singapore	Japan	France	Hong Kong	UK
Management	Internal or External	Internal or External	Internal	Internal	Internal or External	External	External	Internal or External	Internal or External	Internal or External
Investment Restrictions										
Real Estate Investments	75%+	>50% of revenue from rent*	100%	80%+	100%	70%+	75%+	Flexible	100%	75%+
Overseas Investment	OK	OK	OK	OK	Prohibited	OK	OK	OK	Prohibited	OK
Development	OK	OK	Minimal	OK	Minimal	20% of total assets	OK (but >50% of assets must be income producing)	OK	Prohibited	OK
Leverage limit	No restrictions	No restrictions	60% property assets	No restrictions	50% of total assets	35% total asset***	No restrictions	No restrictions	35% of total assets	Possible limit
Payout	>90% of taxable income (post depreciation)	100% of taxable income (post depreciation)	100% of fiscal earnings	85% of distributable cash (pre-depreciation)	80% of taxable income and net debt pay down	100% of taxable income (no deprectn)	>90% of taxable income (post deprectn)	85% of taxable income from rentals, 50% of capital gains	>90% of net income after tax (no deprectn)	95% of rental asset income (post allowable deductions)
Closed ended	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	both	Closed likely, unlisted possible
Listed/Unlisted^	Both	Both	Both	Listed	Listed	Listed	Listed	Listed	Listed	Listed likely, unlisted possible
Tax transparency	Yes	Yes	Yes^	Yes	Yes^	Yes	Yes	Yes^	No**	Yes

Source: UBS, Courtesy of Goldman Sachs Presentation – Case for Global Property Securities

Demographics – In the developed world, demographic forces imply a need for income producing investment vehicles. REITs, with their emphasis on dividends, are ideal for those seeking income in addition to capital appreciation. According to United Nations and ING Research, Japan is aging the fastest among the major developed countries. Germany and France follow with their age dependency going from 28% to 38% and 25% to 37% respectively (Figure 10).

Age dependency ratio – an indicator of graying population – is calculated by dividing the total elderly population (over 65) by the working age population (16-65). A higher dependency ratio suggests a graying population with accompanying pressures on the pension system. As the number of retirees grows faster than paying into the system, pension plans are likely to favorably view public real estate with an emphasis on income. Thus, aging population in developed economies is likely to result in global proliferation of REITs like structures.

Figure 10



Source: United Nations, ING Clarion Research

Adapted from "International Real Estate Securities" – ING Clarion Real Estate Securities, Spring 2006.