REAL ESTATE INVESTMENT PERFORMANCE AND PORTFOLIO CONSIDERATIONS

Risk vs. Return: **Investments** with more **Risk** (i.e., more **Volatility** of **Returns**) should provide a higher **Expected** (i.e., mean) **Return**. **β** (beta) is a measure of the **Volatility** of **Returns** for an **Investment** relative to a benchmark, and **α** (alpha) is a measure of the **Actual Return** of an **Investment** relative to the benchmark given the level of **Investment Risk**.

Property Performance Information: Unlike stocks and bonds, **Real Estate Performance** information is much less available. The **National Council of Real Estate Investment Fiduciaries** (**NCREIF**) produces quarterly returns for five **Property Types** (**Office**, **Retail**, **Apartments**, **Industrial** and **Hotels**), but values are based on **Appraisals** giving imperfect **Market Value** information, and the **NCREIF Index** is an **Unleveraged Index**. **REIT Stock Price** performance information is a proxy for certain types of **Real Estate Performance**, but **REIT Stock Prices** are also affected by non-real estate related stock market movements.

Business Risk: Specific to the **Property Type**, **Location** and **Market Conditions**.

Default Risk: **Properties** are usually **Leveraged**. Higher **LTVs** cause higher **Default Risk**.

Liquidity Risk: **Selling** a **Property** takes time. **Real Estate** is an **Illiquid Investment**.

Diversification: A way to lower the **Volatility** of a **Portfolio's Expected Returns**.

Correlation Coefficient: Measures the relative movement of one set of numbers as compared with another, ranging from **+1** (**Perfectly Positively Correlated**), to **0** (**No Correlation** at all), to **-1** (**Perfectly Negatively Correlated**).

Inflation Hedge: **Real Estate** is considered a good **Inflation Hedge** as it is **Positively Correlated** with **Inflation** (when **Inflation** increases, **Property Values** also tend to increase).

Portfolio Diversification: Buying **Properties** in different **Geographic Regions** and of different **Property Types** will generally provide greater **Portfolio Diversification**.

Global Diversification: The increasing number and variety of **Investment Opportunities** around the world provide **Diversification** benefits from low or negative **Correlations** with investments in the United States (or your home country) that might reduce **Portfolio Risk**, but **Foreign Investments** may have additional **Risks** that must be managed.

Foreign Investment Risks: 1) **Information Risk**; 2) **Legal**, **Tax** and **Property Rights Risk**; 3) **Currency and Interest Rate Risk**; 4) **Political Risk**; 5) **Culture/Communication Risk**.