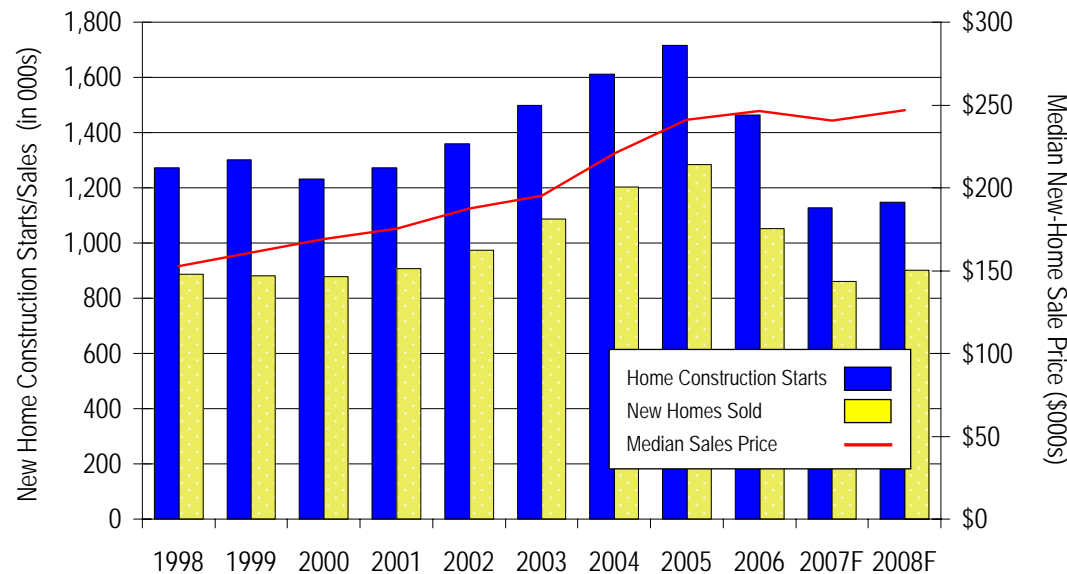


Residential Real Estate Investing: Why it Works

\$19 Trillion Single-Family Housing Market

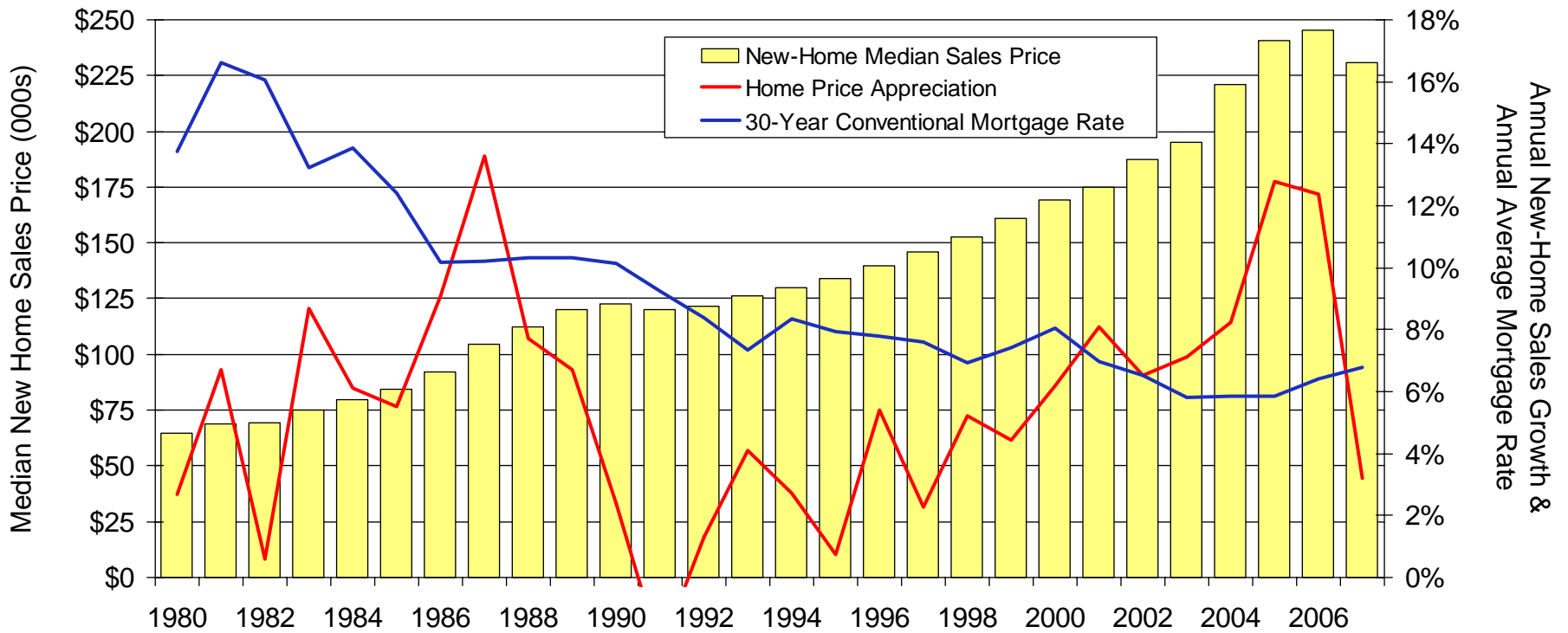
- Largest and most established property market in the United States
- \$200 billion to \$300 billion in annual sales of new single-family homes
- Though there currently is an oversupply of inventory, the market will correct itself and return to balanced supply and demand
 - *Estimated demand for 1.3 million new homes per year, 2005-2010*
 - *1.4 million new homes start construction each year (12-year average)*
 - *1.4 million new homes completed each year (12-year average)*
 - *1.0 million newly built homes sold each year (10-year average)*

New Single-Family Home Construction & Sales
National Totals, 1998-2008 (Forecast)



Sources: U.S. Department of Commerce, Bureau of the Census; National Association of Realtors

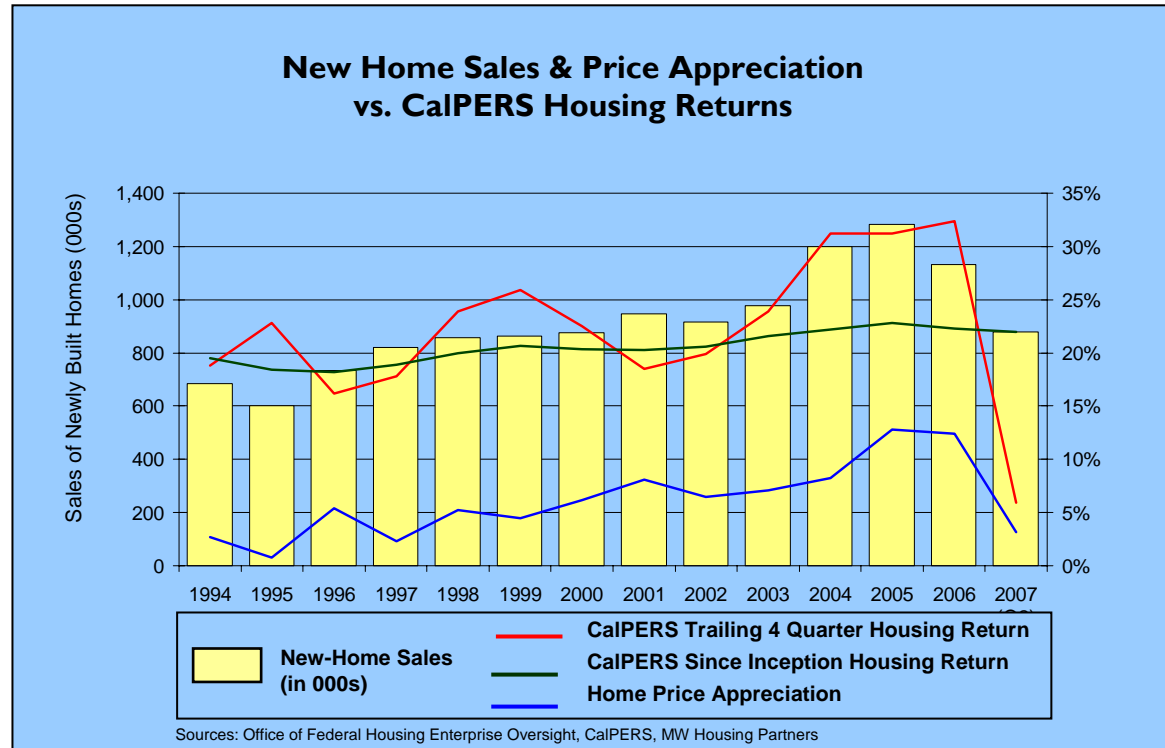
Median New Home Sales Prices vs. 30-Yr Conventional Mortgage Rates



Sources: Census Bureau, Federal Home Loan Mortgage Corporation, Office of Federal Housing Enterprise Oversight

Pension Funds and Single-Family Housing

- Often overlooked property type not represented in most pension real estate portfolios largely due to misconceptions about the sector
 - *CalPERS helped "pioneer" the strategy in the early 1990s*
 - *Pension funds pump \$40 billion to \$50 billion per year into real estate, but overlook this property type in spite of historical returns (CalPERS' housing total returns 22% nominal, before fees since inception in June 1992)*
- Specialized investment strategy offered by very few real estate managers
- Hedge against apartment investments
- Niche real estate strategy for pension funds with sizeable real estate portfolios
 - *Benefits:*
 - ❖ *High risk-adjusted returns*
 - ❖ *Enhanced liquidity from shorter investment cycles*
 - ❖ *Wide range of potential exit strategies due to large pool of home buyers*



- *Risks:*
 - ❖ *Supply/demand balance*
 - ❖ *Development risk*
 - ❖ *Interest-rates and mortgage availability*
 - ❖ *Financial stability of homebuilder*

Investment Strategy

- Strategy:** To achieve high risk-adjusted returns by investing in single-family housing development projects in markets throughout the U.S. that have favorable long-term supply/demand fundamentals
- Investments:** Invest equity and mezzanine debt (both participating and fixed-rate) in single-family residential projects from land to finished homes that are developed by land developers and home builders with strong track records
- Target Returns:**
- 19% to 26% IRR for mezzanine debt investments (*leveraged, after base fees*)
 - 24% to 30% IRR for equity investments (*leveraged, after base fees*)
- Investment Term:** 15 to 50 months
- Markets:** Diversified approach in investing in both stable metropolitan markets with housing needs and suburban submarkets with attractive amenities, pricing and commute distances
- Exit:** Production aspect of sector typically results in exit as homes or lots are sold; alternative exit may be a bulk or package sale

Investment Structures

Structure/Capital Requirements/Target IRR	Average Life Cycle	Average Project Size
<i>Fixed-Rate Subordinated Debt (Mezzanine debt with no additional interest)</i>		
<ul style="list-style-type: none"> • Capital Investment: \$1.5 million to \$15 million • Target IRR: 18%+ 	24-32 months	\$4.5 million
<i>Participating Subordinated Debt (Mezzanine debt with 2%-3% participating interest)</i>		
<ul style="list-style-type: none"> • Capital Investment: \$1.5 million to \$15 million • Target IRR: 18%+ 	24-32 months	\$4.1 million
<i>Equity (Equity joint venture with preferred interest and profit sharing)</i>		
<ul style="list-style-type: none"> • Capital Investment: \$1.4 million to \$50 million • Target IRR: 20%+ 	36-40 months	\$7.6 million
<i>"Fixed-Yield Equity" (Equity investment with exit feature when certain IRR level is reached)</i>		
<ul style="list-style-type: none"> • Capital Investment: \$1.5 million to \$50 million • Target IRR: 20%+ 	36-40 months	\$8.5 million
<i>Entity Investments (Debt or equity investments with multiple projects as repayment base)</i>		
<ul style="list-style-type: none"> • Capital Investment: \$5.0 million to \$15 million • Target IRR: 20%+ 	18-36 months	\$10.0 million
<i>Off-Balance-Sheet Financing (Equity investment in land and homesites with monthly option payments and homesite purchases, plus participating interest on certain assets)</i>		
<ul style="list-style-type: none"> • Capital Investment: \$2 million to \$20 million • Target IRR: 16%+ 	12-48 months	\$4.5 million