



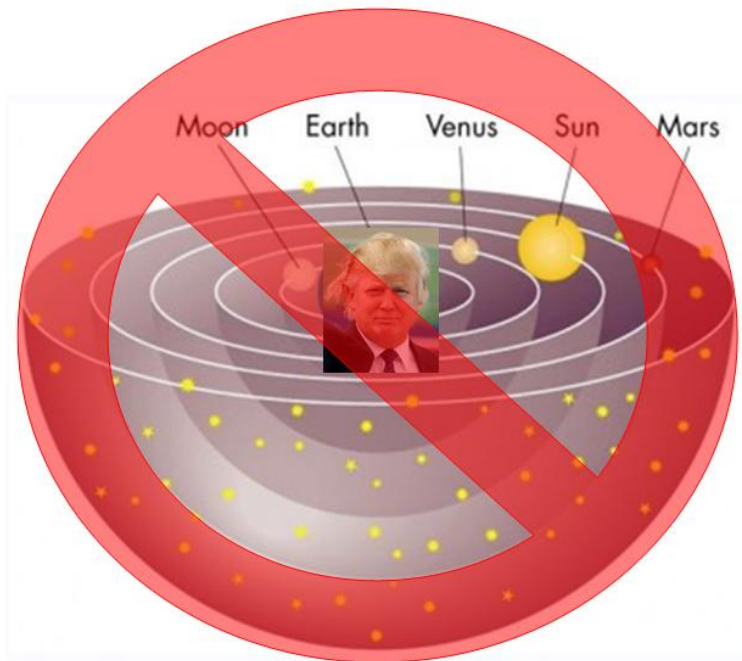
# Stuff That Interests Me

The University of Chicago Booth School of Business  
Fifth Annual Real Estate Conference  
November 10, 2011

**CONNOR**

01-03-01 v3

**Colony**Capital



Just as *De Revolutionibus Orbium Coelestium* disavowed geocentrism, my *Mundus Quoque Non Tuba Revolvuntur Circum Donaldus* attempts to dispel the archaic notion real estate is not impacted by exogenous factors

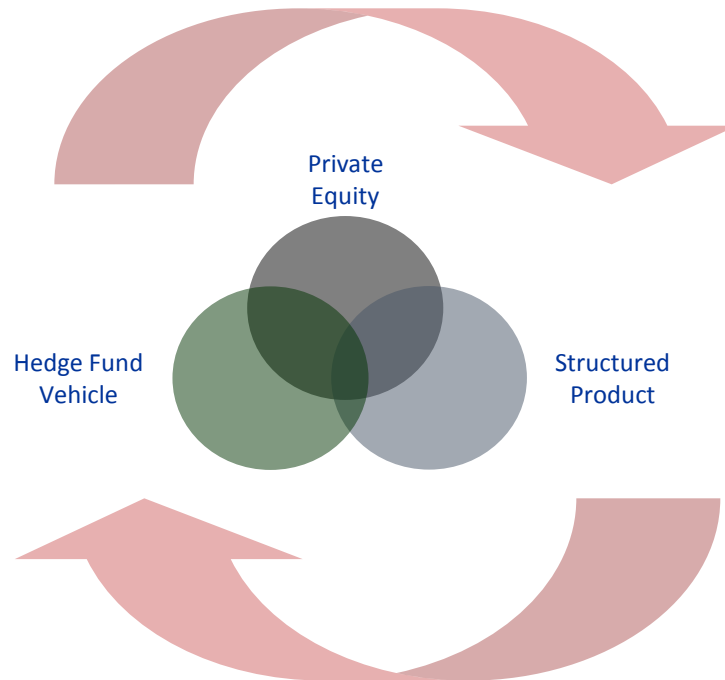
### Why assess CRE in a global macro context?

Simply because it is interdisciplinary in scope as it houses every conceivable consumer, retail, financial, industrial, healthcare, technology and service sector enterprise in every geography from a KFC in Xi'an to a data center in Marseille.

Dependent upon corporate and consumer behavior, CRE is subject to the dynamism of global macroeconomic issues. Proactively identifying sovereign, financial, demographic, geopolitical and sociocultural factors requires a comprehensive approach.

Evaluating CRE from a global macro perspective is crucial in an increasingly dynamic macroeconomic environment especially during periods of heightened volatility and resultant linear correlation.

Benefit from a cross sectional approach to real estate investing as there exists a symbiotic relationship between private equity, structured product and publicly-traded companies: The collateral is identical. The nexus of private equity, structured products and a hedge fund vehicle (liquid instruments) allows the participant to express an investment thesis from a temporal perspective, i.e., short- mid- and long- dated optionality.



# Mix One Part Malthus, Two Parts Burgess, a Dash of Jobs and Stir Gently

The following are four demographic paradigms we adamantly believe have material implications for CRE:

## **Baby Boomer Retirement**

The approaching retirement of the Baby Boomer (1946-1964) primarily within developed economies will significantly alter the spending, saving and leisure patterns of the largest generational cohort in US history. Addressing the health care real estate acuity continuum or recognizing the significance of US REITs as fixed income proxy to retirees are relevant examples.

## **Burgeoning Global Middle Class**

The growth of the middle class population in developing economies is formidable and will manifest itself in a variety of traditional CRE subsectors including retail, distribution and office. In addition, infrastructure, both social and physical, in such countries as Brazil, India, China, etc. offer second order opportunities including educational facilities, agrarian, technology (data centers) and telecommunications (cell towers).

## **Generational Transference and Sociocultural Implications**

As the Baby Boomers exit the US labor force, power, economic and cultural, will transfer for the first time in forty years. The rise of the Millennial and Generation Z will result in a substantive shift especially within the consumer, technology and entertainment sectors. Twitter is so 2008.

## **Increasing Importance of Cities**

The global economy is already dominated by cities, currently constituting 80% of GDP. North America, Latin America and Europe are overwhelmingly urban and emerging markets are rapidly urbanizing. Half of China's population now reside in cities and India is likely to be an urban majority within a generation. United Nations forecasts ~70% of global population will live in urban centers by 2050. Hence, discussion regarding the future of production, consumption and investment is ultimately about urban growth trajectory. Lastly, suburbanization has dominated since 1940s albeit financial and social implications may radically shift toward urban densification over next decade.

Urbanization Rates Since 1500

In percent	1500	1600	1700	1800	1890	2010
France	4.2	5.9	9.2	8.8	25.9	85.0
Germany	3.2	4.1	4.8	5.5	28.2	73.6
Italy	14.9	16.8	14.7	18.3	21.2	67.8
England & Wales	3.1	5.8	13.3	20.3	61.9	79.5
China	3.8	4.0	4.1	3.8	4.4	49.9
Japan	2.9	4.4	5.6	12.3	16.0	67.1
India	4.3	4.5	4.3	3.4	5.4	33.0

Source: The World Economy: A Millennial Perspective, Angus Maddison, OECD 2001; Deutsche Bank estimates



## Fixed Income Proxy or Growth Vehicle...Depends Where You Live

Global commercial property deemed to be of institutional quality totals \$22.3T. Situated in 55 countries, 55% of the valuation is domiciled within five. On a regional basis, Europe accounts for 38%, followed by the US and Canada (31%), Asia Pacific (26%), Latin America (6%), and the Gulf Cooperation Council (2%).

Comprised of over 500 companies in 37 countries, the listed property sector totals nearly \$1.1T of equity market capitalization with an additional \$600B of credit products. The US has the largest listed property sector accounting for 32% of the total valuation. According to NAREIT, total capitalization of US REITs has grown 120% from \$138B in 2000 to over \$300B today.

Global Commercial Property Valuation and Growth Forecast

	2010 Commercial Property (\$USB)	2010-2020 Growth Contribution (%)
United States	6,569	29.4
Japan	2,484	3.3
Germany	1,493	3.2
China	1,424	29.4
United Kingdom	1,279	2.7
France	1,173	1.8
Italy	929	N/A
Brazil	674	3.8
Spain	639	N/A
Australia	559	1.5

Source: Prudential Real Estate Investors, *A Bird's Eye View of Global Real Estate Markets: 2011 Update*, March 2011

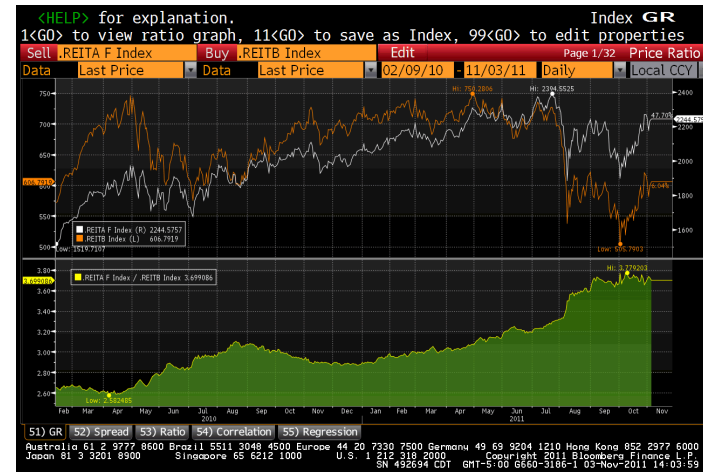
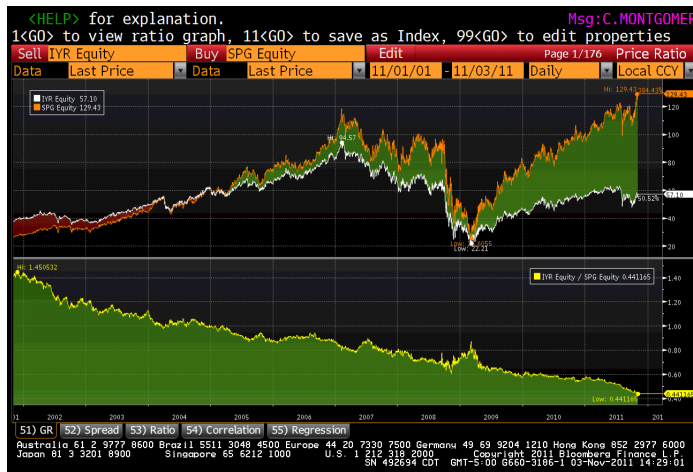
Global Listed Property Company Investable Universe

	Number of Companies	Equity Market Capitalization (\$B)
US Equity REITs	126	\$360
US Mortgage REITs	27	30
Canadian REITs	30	30
Pan-European CRE Companies and UK REITs	52	75
US Homebuilders	15	20
Lodging C-Corporations	14	40
Brazilian Real Estate Operators	16	30
Gaming Companies	10	40
Specialty	15	90
Real Estate Operators and Services Companies	14	25
Pan-Asian CRE Companies and REITs	177	350
<b>TOTAL</b>	<b>496</b>	<b>\$1,090</b>

Source: NAREIT, Kempen & Co. NV, UBS O'Connor and Bloomberg as of December 31, 2010

# Bifurcation is an Eleven Letter Word or You Get For What You Pay

They may be pains in the behind but the best names are worth their weight in gold.



	REITA	IYR	REITB	REITA Change	IYR Change	REITB Change	REITA – IYR	REITA – REIT B
YE 04	1249.4	61.6	340.05					
YE 05	1394.7	64.15	321.44	11.6%	4.1%	-5.5%	7.5%	17.1%
YE 06	1872.3	83.35	383.1	34.2%	29.9%	19.2%	4.3%	15.1%
YE 07	1626.3	65.7	256.21	-13.1%	-21.2%	-33.1%	8.0%	20.0%
YE 08	1146.8	37.23	116.92	-29.5%	-43.3%	-54.4%	13.8%	24.9%
YE 09	1353.6	45.92	134.17	18.0%	23.3%	14.8%	-5.3%	3.3%
YE 10	1700.4	55.96	171.97	25.6%	21.9%	28.2%	3.8%	-2.6%
YE 11	1840.9	56.12	160.44	8.3%	0.3%	-6.7%	8.0%	15.0%

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