JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

B. Assessors and Other Public Officials

10. "Comments for Milwaukee County Employees Pension Trust Officers; circa 1980s, Milwaukee, WI

Comments for Milwaukee County Employees

Pension Trust Officers

I. Misconceptions about real estate as an investment.
   A. The business risk/opportunity
   B. The leverage risk/opportunity
   C. The liquidity risk/opportunity
   D. The yield risk/opportunity
   E. The inflation risk/opportunity
   F. The political risk/opportunity
   G. The shock loss risk/opportunity

II. Problems for fund trustees
   A. Investment objectives
   B. Initial selection of asset managers
   C. Initial allocation of fund assets
   D. Basic rules for control of political issues
   E. Measuring performance
   F. Comparative measurement of performance
   G. Time frame for measuring performance

III. Essence of real estate investment strategy.
   A. Monopoly
   B. Spread
   C. Liquidity
   D. Covariance with interest rates

IV. Detailed elements of investment objectives.
   A. Monopoly
      1. Political exposure
      2. Subsidy of competition
      3. Subsidy of demand
   B. Channeled demand
      1. Control of tenancy
      2. Reciprocity
      3. Limits on supply
      4. Research of the gap
   C. Management intensiveness
      1. Individual talent
      2. Industrialized process
      3. Contrast management
      4. Tenant management
   D. Financial Management
      1. Revenue controls
      2. Expense controls
      3. Financing controls tied to break even
      4. Cushion for variance
   E. Tax management
      1. Real estate
      2. Income
      3. Other
   F. Financial ratios
      1. Cash-on-cash
      2. Payback ratio
      3. Debt cover
      4. Break even
      5. Percent of yield from resale
      6. IRR
      7. MIRR

V. Initial allocation of fund assets
   A. 5% is a basic module
   B. Basic module should contain three types of investment for liquidity and diversification
      1. REIT or limited partnership units for pension fund investment
      2. Comingled fund for an indexed asset fund
      3. Special situations fund
   C. Second module of 5% would involve a segregated account with one or two asset managers
   D. Third 5% module
      1. Joint venture
      2. Convertible mortgage
      3. Direct ownership
      4. Sale and leaseback

VI. Initial selection of asset managers
   A. Investment philosophy of pension fund sponsors
      1. Safety of principal versus aggressive pursuit of capital growth
      2. Simplicity of management versus intensive supervision of portfolio managers
      3. Freedom from criticism versus aggressive advancement of non-financial purposes (create jobs, housing, economic development etc.)
      4. High-tech portfolio theory versus naive diversification and selection
      5. Minimum-maximum dollar limits per investment
   B. Selection of asset managers
      1. Broad representation fidiciaries
      2. Primary representation of your account for high incentive
      3. Minimum number of accounts, asset size, and organization size for stability and continuity
      4. Manager's perception of conflict of interest in allocating properties acquired, leases negotiated, properties constructed, etc.
      5. Format of management reports to fund managers
   C. Philosophy of financial reporting
      1. Accounting detail and rules for asset segregation, timing of income and expenses, and booking of capital gains and losses
      2. Appraisal frequency, quality, source and integration into reports
      3. Detail provided on leases, collections on reimbursables, budget realization
      4. Investment strategies and targets for each building purchased
   D. The manager as a cushion against political and parochial pressure
      1. Is Milwaukee and Wisconsin acceptable investment territory?
      2. Are there constraints on union and non-union labor areas or projects
      3. Other philosophical constraints

VII. Measuring performance
   A. Internal performance
      1. Budgeted goals
      2. Overall portfolio statistics
      3. Appropriate time intervals
   B. Internal standards would include
      1. Cash-on-cash quarterly
      2. Change in net worth each year
      3. Recapture of leasehold values
      4. Profitability index of improvement investment
      5. Statistics on tenant mix by size, term of lease, rent per square foot, cost of releasing in terms of commissions, tenant improvements, concessions etc.

C. Comparative measures of performance
   1. Service companies such as The Frank Russell Company
   2. Consultants for selection of advisors
   3. Indexes such as NCREIF Index, the Willow Index, or Evaluation Associates (see attached sheet from Pensions and Investment Age)

D. Non-statistical measures of performance
   1. Positioning for unanticipated inflation or deflation
   2. Positioning for fiduciary standards of diversification
   3. Shortening span of control and information feedback on investments of risk capital
   4. Public relations for fund management and tangible entities to which beneficiaries can relate