JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

I. Other Presentations In Which Either The Date And / Or Sponsoring Organization Is Missing

6. Real Estate Finance/Mortgage Banking/Mortgage Guaranty Insurance

dd. "Evaluation of a Comingled Fund - i.e. PRISA", no date

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Re: Evaluation of a Comingled Fund - i.e. PRISA

A comingled fund specializing in real estate investments must depend on cash income and asset value appreciation for its investment returns since it should remain tax exempt, if properly managed, and since the tax laws discourage any significant amounts of debt leverage. The essence of a comingled fund is a stabilization of cash throw-off available for distribution or reinvestment through diversification and appreciation through careful selection of locations which can be expected to enjoy increasing tenant demand preference and market rent practices which are sensitive to inflationary devaluation of the dollar.

The significance between a comingled fund and a well managed real estate equity trust is the fact that the fund is not obliged to distribute 95% of its cash earnings and thus can reinvest to internally finance continued acquisitions. In addition in the fund often presumes a series of capital payments from the subscriber, an inflow often limited by the rate at which the fund can acquire additional property. On the other hand, the comingled real estate fund is a new idea, scarcely 7 years old, and the majority of funds have had little opportunity to generate a significant cushion of retained earnings and appreciation to protect the capital corpus of each contributor from loss under any reasonable scenario of economic upset.

When comparing one comingled fund to another it would be appropriate to consider the following:

1. Date of origin and constancy of dollar inflows for dollar averaging of real estate purchases.
2. A distribution by month of dollar outlays for purchases since the inception of the fund to discover any significant imbalance, particularly toward periods of high price cycles which would sensitize total asset values to the more than average price decline.
3. Total number of properties owned by type to provide a reasonable degree of statistical sampling of the market - does n = 30, 10, or 2?
4. Ideally a portfolio should consist of quantities of fungible leasable space, retail regional, retail neighborhood, industrial, suberban office, high rise office, etc. and it would be interesting to see the average amount of space per location. Such a test would encourage smaller funds to partial interest in several centers.
5. Income accounting can understate cash flows by immediately expensing tenant improvements or deferred maintenance while at the same time earnings could be inflated by capitalizing deferred expenditures and then amortizing them very slowly in the name of conservative accounting.