Why Aren't Existing Real Estate Products Sufficient for Market Needs?

Discussion Document

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March 2016

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Overview

In the marketplace today, there are Public REITs, REIT ETFs, closed end funds with pools of multi / single family homes, and mutual funds and real estate related ETFs with the word “housing” or “real estate” in their product names. Why aren’t these products sufficient for market needs? Why do we need a new type of real estate investment product?

Background

According to the Federal Reserve Board’s Financial Accounts of the United States - Flow of Funds Third Quarter 2015, household’s own $24.98 trillion of real estate and non-financial non-corporate businesses own $10.96 trillion of real estate. In addition, the federal government owns $1.49 trillion of structures and the state and local governments own $9.65 trillion of structures.

The private sector owns almost $36 trillion of real estate. According to NAREIT as of December 31, 2015, the market value of listed and unlisted REITs is approaching $1 trillion. Public listed REITs own nearly $2 trillion in gross assets. REITs own less than 6% of the almost $36 trillion of U.S. real estate.

Residential Multi / Single Family Real Estate

Most residential real estate products in the market (mutual funds and ETFs) invest in the stock of companies that support the residential real estate market. Examples of funds of this nature include iShares Residential Real Estate Fund, SPDR S&P Homebuilders ETF, iShares Cohen & Steers REIT ETF, T. Rowe Price Real Estate Fund, and TIAA-CREF Real Estate Securities Fund. Examples of the companies in these funds include Home Depot, Lowe's, Whirlpool and Weyerhaeuser. They do not directly represent the value of actual homes in the US. As a result, investors do not have a complete set of investment tools in which to get a true representation of residential real estate in their portfolios or protect built-up equity value in physically owned real estate property.

Current closed end pools of multi or single family homes (e.g. Blackstone) are available only to Qualified Clients and have limited liquidity due to strict entry and exit requirements and have expensive management fees. Additionally, they are regionally concentrated and are less diversified than a broad market residential single family housing indexed product.

Commercial Real Estate

Current financial products invested in commercial real estate including listed and unlisted publicly traded REITS, representing only a small part of the total real estate market capitalization. Our proposed product captures the private commercial real estate segment of the market and makes it available to a wider group of investors.

Public non-listed REITs (PNLRs) do not offer the same liquidity that stock-exchange listed REITs provide. Redemption programs for shares vary by company and are limited. Generally, a minimum holding period for PNLR investment exists. Limited usability for most retail investors.

Private REITs, sometimes referred to as private-placement REITs, are neither traded on a national stock exchange nor registered with the SEC. As a result, private REITs are not subject to the same disclosure requirement as stock exchange-listed or public non-listed REITs. Limited attractiveness for most retail investors.

Summary

The proposed GIG Real Estate Down/Up Equity Trust Securities (duETS) will provide new trading liquidity to a large segment of the market. The proposed duETS are tied to assets via real estate indexes that are owned privately and only trade occasionally.

The proposed GIG real estate duETS explicitly exclude REITs and other real estate related securities from the underlying real estate asset index. REITs have been around since 1960 and now operate a little less than 6% by market value of the real estate assets in the US. REITs have done an admirable job of improving the investment liquidity of the properties in their portfolios by allowing individual investors to participate in their returns by buying shares rather than physically owning property themselves.

The goal of the proposed real estate duETS is to bring the benefits of REITs (liquidity and transparency) to the part of the real estate market not covered by REITs. Also to give retail investors tools to invest and protect the value physically owned property, that can be easily brought and sold in a conventional brokerage account with no holding period restrictions and is SEC regulated.