

Building a Real Estate Portfolio



Pennsylvania Association of Public Employee Retirement Systems
Pittsburgh, PA

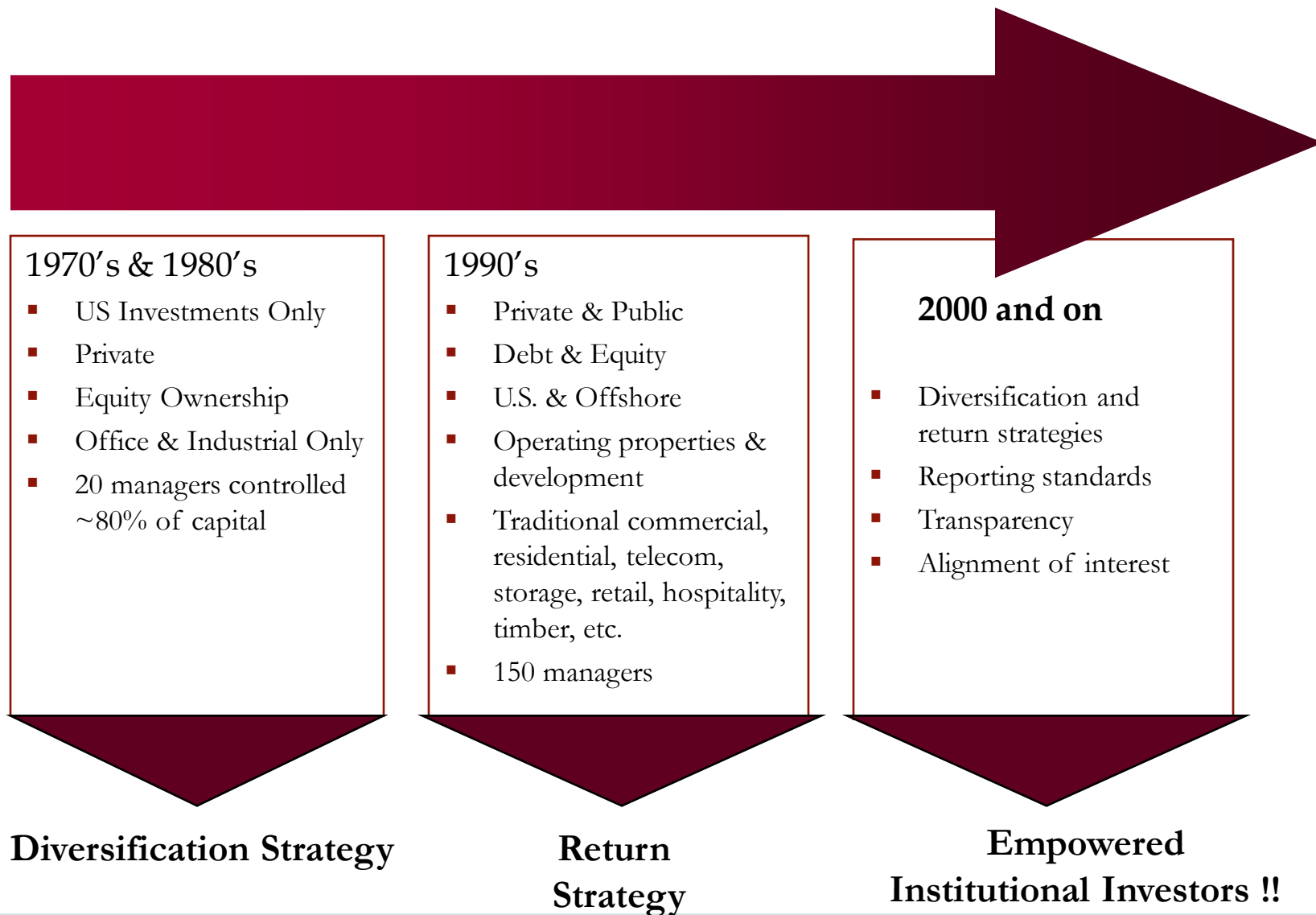
*Peter Palandjian, Chairman & CEO
Intercontinental Real Estate Corporation
September 2011*

INTERCONTINENTAL
REAL ESTATE CORPORATION

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Changes in Pension Real Estate Investing



Investing in Private Equity Real Estate

General Concerns

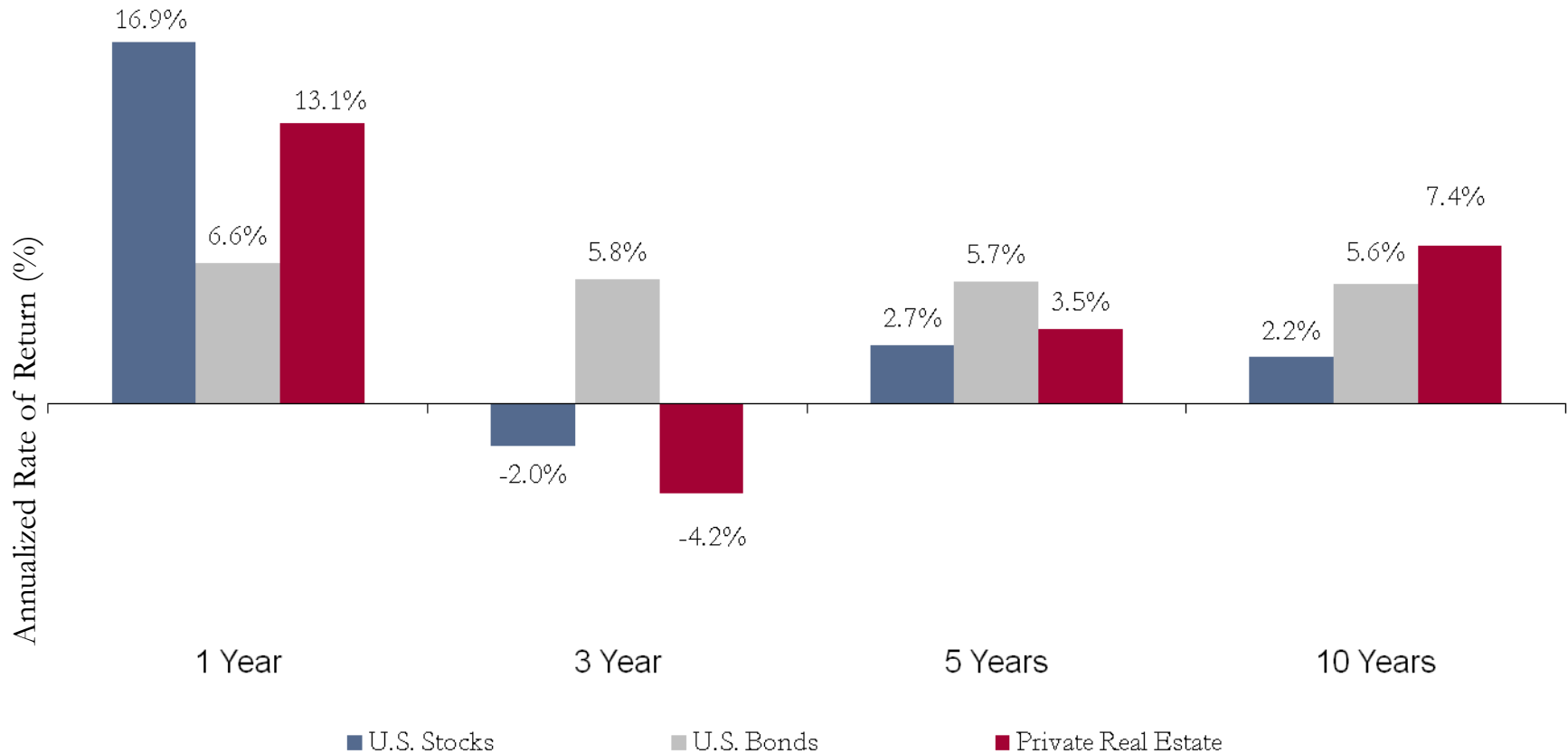
- Lacks efficiency typical of traditional marketable securities
- Long term commitments
- Demands active due diligence
- Demands active management
- Lacks investible benchmark
- Lacks standardization of reporting
- Higher financial leverage
- Limited institutional history
- Illiquidity

Investing in Private Equity Real Estate

Benefits

- Diversification reduces risk
- Manager specialization
- Extreme information advantages
- Induces appropriate long term behavior
- Value orientation
- Margin of safety
- Manager's side-by-side commitment
- Low correlation
- Hard assets
- Own your own building
- Performance
- Low volatility
- Hedge against inflation
- High barriers to entry
- Severe supply constraint
- Collateral Benefits
 - *Job Creation*
 - *Responsible Contractor Mandate*
 - *Local Investments*
 - *Regional Economic Stimulation*
 - *Recycling Capital Back to Pension Funds*

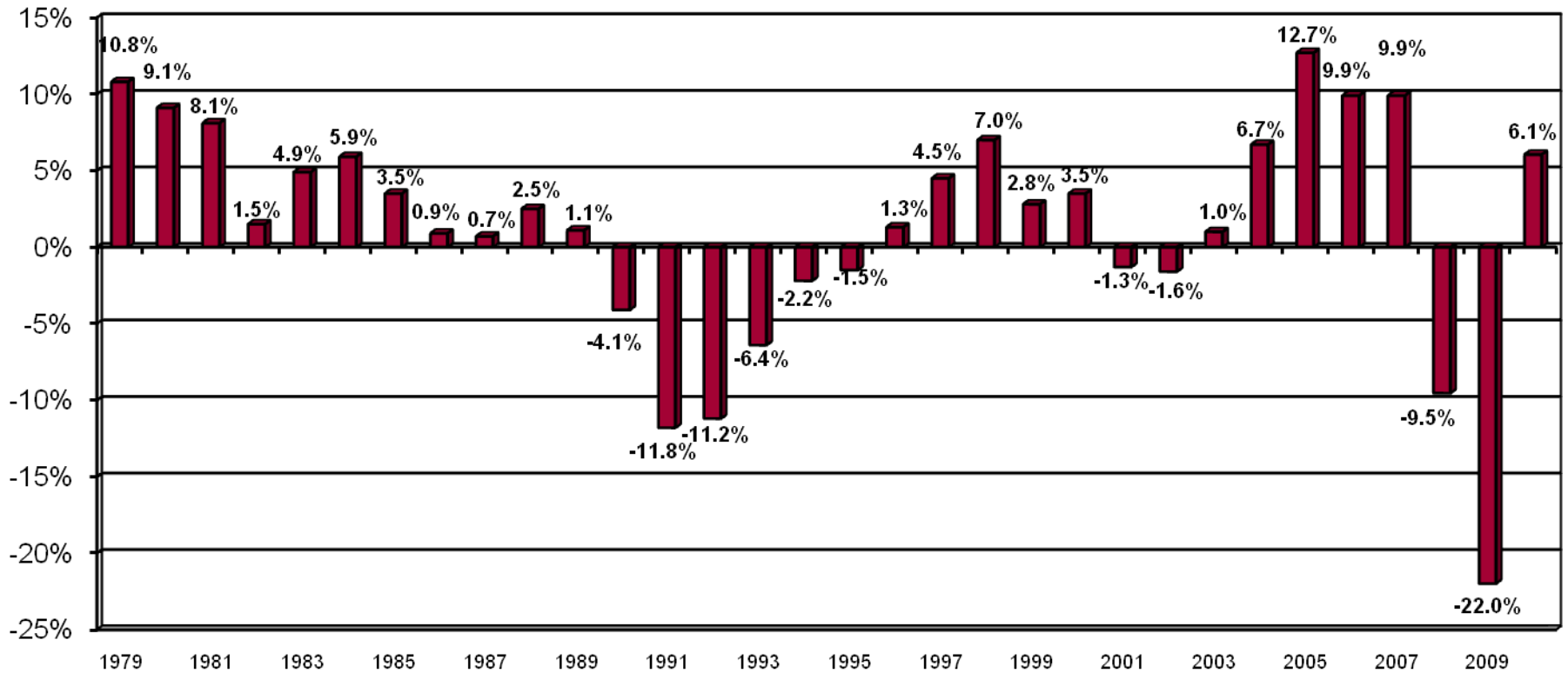
U.S. Stocks vs. U.S. Bonds vs. Private Real Estate



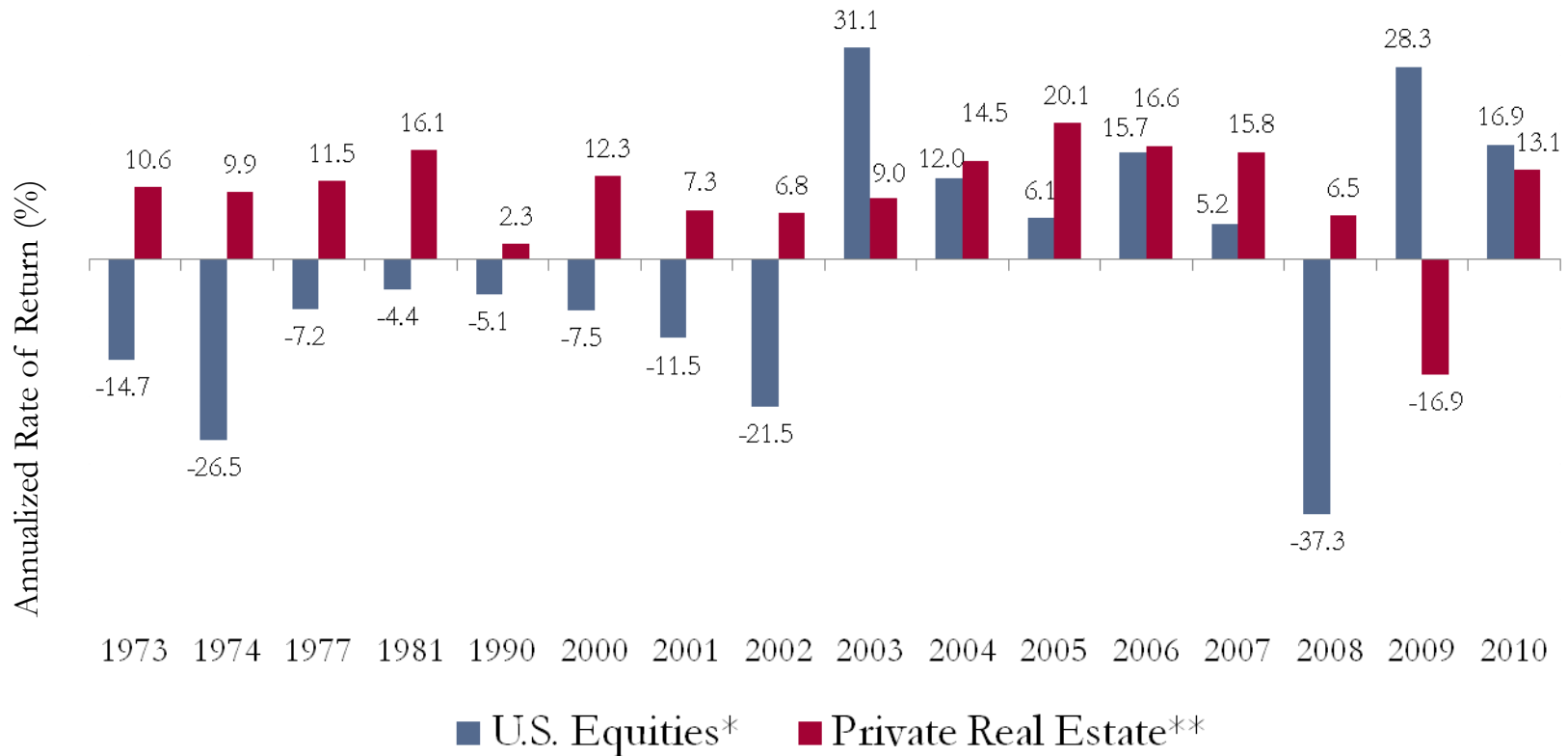
Sources: US Stocks, Russell 3000 Index; US Bonds, Barclays Capital U.S. Aggregate Index; and Private Real Estate, National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index (all for periods ending December 31, 2010)

Returns: Appreciation Only

NCREIF PROPERTY INDEX
Component Return - Appreciation
As of 12/31/10



Private Real Estate vs. U.S. Equity

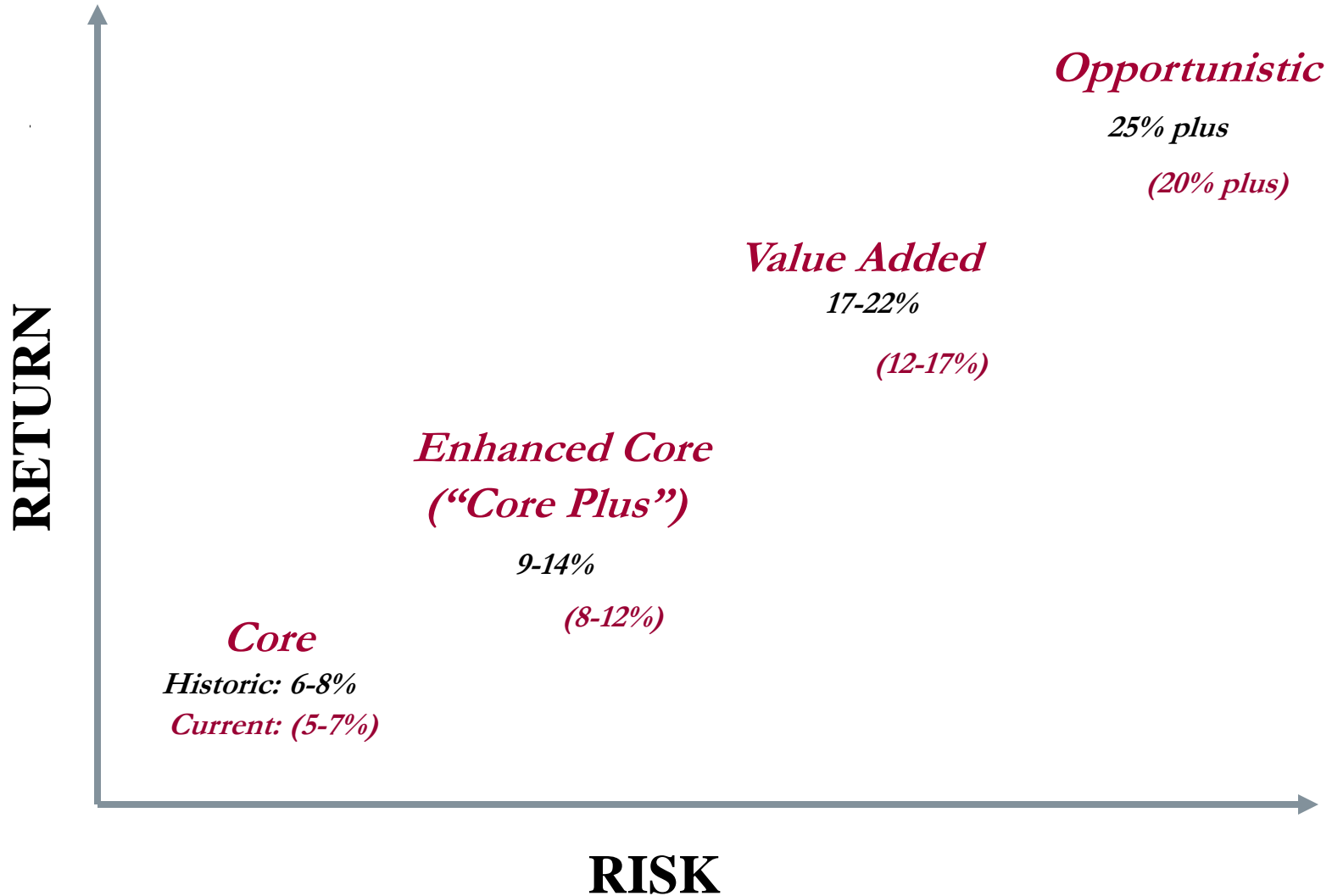


Note: In all years where U.S. Equity delivered negative returns after 1973, Private Real Estate delivered positive returns.

* The S&P 500 Index is used prior to 1979, at which time the Russell 3000 Index was created.

**The Russell Open-End Fund Universe is used prior to 1978, at which time the NCREIF Property Index was created.

Private Real Estate – Spectrum of Risk and Return



Core Properties



100 Franklin Street



One Bulfinch Place

Core Plus Properties



The Forum, West Palm Beach, FL



Commons at Concord Park, San Antonio, TX



Canyon at Wild Basin, Austin, TX



BBN Technologies, Cambridge, MA

Core Plus Properties



Glen Bernie, MD



Loral, MD



Baltimore, MD



Hampton, VA

Value Added Property

90 Tremont Street (Hotel Nine Zero)



Before



After

Value Added Property

Waterplace



Before



Current

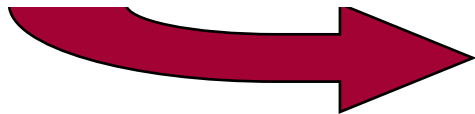
How to Invest in Real Estate

Matrix of Decisions

- Private Equity vs. Public REITs
 - *if private: direct vs. commingled (“pooled”) vs. “REITs”*
 - *if public “REITs”: focused strategy vs. diversified fund strategy*
- Open vs. Closed
 - *liquidity and term*
- Geographic focus
 - *regional vs. national vs. international*
- Property type
 - *focus vs. diversified*
- Leverage



No answers, many choices



Discuss with consultants and fellow trustees

How to Invest in Real Estate

Issues to Consider

■ Public REITs

+’s

- Liquid
- 90% dividend

-’s

- Higher volatility
- EPS pressure
- Correlations

■ Private REITs

+’s

- Diversification
- Income

-’s

- Fee Structure
- Term
- Exit

■ Vehicles

Direct (“separate account”)

- controls
- buy/sell discretion
- staff burden
- property type
- geographic focus
- Partner / J.V. approach

Commingled (“pooled”)

- manager discretion
- Partner / J.V. approach
- term
- alignment of interest
- multiple properties
- small dollars buys a lot of real estate (low minimums)

How to Invest in Real Estate

Current Issues to Consider

- Strong real estate performance in 2010 and 1st half of 2011 has been concentrated in the “safest” markets and assets
 - Cap rate spreads in some categories and markets have returned to pre-GFC levels
 - Sub-markets, secondary markets and core plus assets appear more attractive
- Market fundamentals continue to be challenged
- Cash yield continues to be strong - but you have to work hard to retain tenants
- Expect modest appreciation in the near to mid-term as the economy recovers
- Debt is available but more challenging than pre-GFC
- Historically attractive entry point for US real estate market

Conclusion

Closing Advice

- Manager selection is everything
- Determine strategy
- Scrub track record
- Measure alignment of interest

Why “Now”

- Private equity real estate is anticipated to have better risk-adjusted returns relative to other asset classes
- Low correlation with other asset classes has a positive impact on overall portfolio risk/reward characteristics
- Relatively high cash income component (7-9%) supports actuarial requirements

Biography



Peter Palandjian, *Chairman & Chief Executive Officer*, oversees Intercontinental's affiliated operating companies, with primary responsibility for Investment Strategy and Institutional Relationships. Prior to joining Intercontinental in 1993, Mr. Palandjian worked as the assistant to the CEO of Staples, Inc. Before joining Staples, Mr. Palandjian was an associate with Bain & Company, an international management consulting firm. Intercontinental is an SEC registered private equity investment and development firm that over forty years has built, developed, managed and owned in excess of \$6 Billion of real estate. Intercontinental invests co-mingled funds for numerous institutional investors including public and corporate pension plans, foreign governments, foundations, university endowments and Taft-Hartley union pension plans.

Mr. Palandjian has also been active on a number of corporate and not-for-profit boards. He presently serves as a board member of several institutions including: Belmont Retirement Board; the Children's Museum; the New England Chapter of the National Association of Industrial and Office Properties (NAIOP); O'Neill and Associates; Sovereign Bank New England Advisory; and the Taubman Center at Harvard's Kennedy School of Government. In addition, Mr. Palandjian serves as a Trustee of the Dana Farber Cancer Institute and the Fessenden School and holds memberships with the Pension Real Estate Association (PREA) and the National Association of Real Estate Investment Managers (NAREIM). Mr. Palandjian works on behalf of Harvard University as an undergraduate admissions interviewer. Mr. Palandjian was a former Harvard Captain and world ranked tennis player on the ATP Tour. He is also currently on the board of the International Tennis Hall of Fame. Mr. Palandjian earned his BA from Harvard University and his MBA from the Harvard Business School.