Real Estate Secondary Sale Update

Overview and Process Update

- At the September 2012 IPC meeting, Division staff and RVK outlined a plan to sell a portfolio of 28 real estate LP interests that are not strategic to the future development of the NJDOI real estate program

- The Division contacted prospective purchasers for the Portfolio and received indications of interest from 24 potential buyers, all of whom were institutional investors.

- A Purchase and Sale Agreement was executed by a partnership comprised of affiliates of NorthStar Realty Finance (NYSE: NRF) (70% ownership), NorthStar's non-traded REIT (15% ownership) and secondary funds managed by Goldman Sachs Asset Management (15% ownership) on June 12, 2013, with the following terms:
  - The Purchaser agreed to acquire interests in up to 25 real estate LP interests, subject to approval of the transfer by the respective GPs
  - Purchase price equal to 100% of NAV as of 9/30/2012 (approx. $925 million)
  - A $50 million non-refundable deposit was transferred to Common Pension Fund E on June 12, 2013
  - 55% of the purchase price for each interest will be paid at the closing of each interest
  - The remaining balance will be paid over a 4-year deferral period, with NJDOI receiving the greater of 15% of portfolio distributions or 15% of the outstanding balance in years 1-3, 50% of distributions in year 4, and any remaining balance paid at the end of year 4

- ***Next Steps: Commence the transfer of the LP interests with a targeted initial closing of July 2013 and subsequent closings occurring periodically thereafter.***

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Portfolio NAV and Purchase Price Allocation

Inception Date	FUND	Sale Proceeds[1]	NAV as of Cut off Date (9/30/2012)	CPFE Fund Ownership Interest	Outstanding Deferred Payments	% of Total RE Portfolio
July-06	BlackRock Diamond Property Fund	$ 15,957,545	$ 19,696,478	4.94%	$ 7,164,938	0.58%
September-07	Capri Urban Investors	$ 31,164,216	$ 32,804,438	9.30%	$ 13,992,733	0.97%
March-09	CBRE Strategic Partners European Fund III	$ 23,220,421	$ 28,661,082	5.31%	$ 10,425,969	0.85%
December-05	CBRE Strategic Partners IV	$ 8,915,948	$ 11,005,000	4.28%	$ 4,003,261	0.33%
November-07	CBRE Strategic Partners US Opportunity V	$ 53,918,100	$ 59,909,000	11.05%	$ 24,209,227	1.77%
June-06	CIM Urban REIT	$ 69,507,209	$ 53,467,084	2.94%	$ 31,208,737	1.58%
June-07	CIM Real Estate Fund III	$ 61,529,804	$ 51,274,837	2.12%	$ 27,626,882	1.52%
May-06	CPI Capital Partners Europe	$ 20,465,324	$ 25,260,453	5.39%	$ 9,188,930	0.75%
December-07	Five Mile Capital Partners II	$ 59,071,782	$ 72,912,598	6.60%	$ 26,523,230	2.16%
April-06	Hunt Realty Partners II (f/k/a TRECAP Partners)	$ 19,496,335	$ 24,064,424	11.56%	$ 8,753,854	0.71%
September-07	Hunt Realty Partners III (f/k/a TRECAP Partners)	$ 17,762,896	$ 21,924,832	9.25%	$ 7,975,540	0.65%
April-07	Hunt UK Realty Partners (f/k/a TRECAP Partners)	$ 4,633,011	$ 5,718,549	28.08%	$ 2,080,222	0.17%
October-06	JP Morgan Alternative Property Fund II	$ 24,301,648	$ 27,001,831	7.58%	$ 10,911,440	0.80%
March-08	L&B Diversified Strategy Partners	$ 15,677,032	$ 19,350,240	24.69%	$ 7,038,987	0.57%
October-07	LaSalle Asia Opportunity Fund III	$ 39,560,272	$ 43,955,858	3.36%	$ 17,762,562	1.30%
March-08	MacFarlane Urban Real Estate Fund II	$ 9,227,133	$ 15,378,555	7.35%	$ 4,142,983	0.45%
March-08	Prudential Latin America Residential Fund III	$ 56,943,334	$ 54,753,206	10.31%	$ 25,567,557	1.62%
October-06	RREEF Global Opportunity Fund II	$ 59,529,401	$ 45,791,847	6.18%	$ 26,728,701	1.35%
May-08	Silverpeak Legacy Partners III (f/k/a Lehman)	$ 23,511,849	$ 18,368,632	3.16%	$ 10,556,820	0.54%
August-08	TA Realty Associates Fund IX	$ 83,879,163	$ 103,532,474	6.55%	$ 37,661,744	3.06%
May-06	TA Realty Associates Fund VIII	$ 54,442,169	$ 67,198,243	5.73%	$ 24,444,534	1.99%
June-08	Walton Street Mexico Fund	$ 21,064,620	$ 15,046,157	8.92%	$ 9,458,014	0.44%
June-06	Walton Street Real Estate Fund V	$ 55,553,842	$ 41,150,994	4.76%	$ 24,943,675	1.22%
December-06	Walton Street Real Estate Fund V - Side Car	$ 8,313,860	$ 6,651,088	21.74%	$ 3,732,923	0.20%
May-08	Walton Street Real Estate Fund VI	$ 87,744,289	$ 60,513,303	3.89%	$ 39,397,186	1.79%
	Total	**$ 925,391,203**	**$ 925,391,203**	**n/a**	**$ 415,500,649**	**27.36%**

1 Allocation of purchase price by NorthStar

PEI Alternative Insight
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New Jersey lands buyer for RE secondaries

The $75.64 billion pension plan has reached an agreement to sell a nearly $1 billion portfolio of real estate fund interests to a new entrant to the secondary market.

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The **New Jersey Division of Investment** has agreed to sell $925 million worth of stakes in real estate funds as part of an effort to pare down the number of managers in its property portfolio. A partnership between NorthStar Realty Finance, NorthStar Real Estate Income Trust and funds managed by Goldman Sachs Asset Management (GSAM) is the buyer in the transaction, aaccording to a filing with the US Securities and Exchange Commission .

The partnership initially has agreed to pay $510 million to New Jersey for up to 25 real estate fund interests in a transaction that is expected to hold its initial closing by next month, with subsequent closings thereafter. NorthStar Realty Finance, a publicly -traded commercial real estate investment and asset management company, holds a 70 percent stake in the partnership, with its non-traded REIT affiliate and GSAM each holding 15 percent stakes.

Under the agreement, the partnership will receive 85 percent of distributions from the fund interests, while New Jersey will receive 15 percent for a three -year period following the closing date of each fund interest. In the fourth year subsequent to the closing of each fund interest, distributions will be divided equally between the partnership and the pension plan. After a four-year period, the buyers will receive 100 percent of all distributions upon payment of the remaining $415 million to New Jersey.

The transaction, which involved an offering of approximately $1 billion of real estate fund interests, was said to be executed near par. That is considerably higher than other real estate secondaries transactions that typically involve a 15 percent to 20 percent discount to the fund interests' net asset value (NAV).

The New Jersey sale is believed to be the largest real estate secondary transaction to have closed. The offering is said to have included fund interests from managers such as **Walton Street Capital** and **BlackRock**, according to a source familiar with the deal.

Meanwhile, the deal marks the second large real estate secondaries transaction for NorthStar, which agreed to buy partial interests in 51 real estate funds from a financial services firm in December, according to an SEC filing. In that transaction, North Star and the seller – said to be **TIAA -CREF** – formed a joint venture in which Northstar paid approximately $390 million in cash for its partial fund interests, which had an NAV of approximately $765 million, while TIAA -CREF retained $375 million of capital in the funds.

NorthStar also had a priority return in that partnership, where it would receive 85 percent of distributions and TIAA -CREF would get 15 percent until the former received $585 million of distributions, after which the situation would be reversed until TIAA -CREF received a return of its remaining capital. For distributions thereafter, 51 percent would go to NorthStar and 49 percent to TIAA -CREF.

PERE first reported in January that New Jersey was **exploring** a possible real estate secondaries offering. By March, the pension plan had received offers of interest from approximately 25 firms, which subsequently were narrowed to a pool of 14 and then five. Real estate secondaries firms **Landmark Partners** and **Partners Group** were said to be among those firms in the final round.

The real estate secondaries sale follows New Jersey's offering of more than $1 billion of private equity stakes through the secondary market in 2011. It continues the pension plan's effort to offload poorly performing or redundant investments from its portfolio.

Breaking the mold

New Jersey's successful sale of nearly $1 billion in property fund interests has defied many expectations, and the real estate secondaries market may never be the same again.

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Earlier this week, the New Jersey Division of Investment finalized an **agreement** to sell a massive portfolio of real estate fund interests near par to an unconventional buyer. The transaction wasn't expected to turn out that way.

When the $75.64 billion pension plan first announced the **possible sale** of one quarter of its $4 billion real estate portfolio in January, the news unsurprisingly generated a huge amount of interest among real estate secondaries players. While some sizable deals had closed in the market, no real estate secondaries sale in the $1 billion range had ever occurred.

The unprecedented size of the transaction led some to doubt that such a sale would even go through. After all, some prospective sellers of large portfolios in recent years were able to offload just a portion of the fund interests they intended to sell or withdrew the offering entirely after not receiving satisfactory bids.

Others anticipated that such a transaction would involve the portfolio being broken up and sold separately to different buyers, since no single real estate secondaries firm had raised enough capital to buy all of the fund stakes on its own. And since secondary market sales invariably have required sellers to accept a 15 percent to 20 percent discount on the net asset value of the fund interests in question, many expected that New Jersey would need to do the same.

Many of those assumptions, however, were predicated on the belief that a real estate secondaries firm would be the purchaser of New Jersey's fund interests. The actual buyer, however, is a partnership between publicly-traded commercial real estate investment and asset management company NorthStar Realty Finance, its non-traded REIT affiliate and Goldman Sachs Asset Management.

For its part, NorthStar closed on its first major real estate secondaries deal in December, when it bought stakes in 51 real estate funds from TIAA-CREF. It should be noted that NorthStar only acquired partial interests in the TIAA-CREF portfolio in contrast to the New Jersey sale, where the company, along with its partners, intends to wholly own the fund interests after four years. It should also be noted that many had considered the TIAA-CREF deal to be a one-off transaction.

So, the New Jersey sale is indeed a milestone event for the real estate secondaries industry, and has shaken up the market to a certain degree. After all, if buyers like NorthStar are willing to pay at or near par for real estate fund stakes, then traditional real estate secondaries firms – which rely on discounts to help them achieve their return targets – could find it much harder, if not impossible, to compete.

It still may be too early to determine how the real estate secondaries market may change going forward. What's clear, though, is that the market is changing and transactions are more likely to involve different types of players and different structures than in the past. *PERE* has learned of at least one other atypical real estate secondaries offering currently in the market. And that leads us to think unconventional transactions like New Jersey's may be a sign of things to come.