PSERS VALUE-ADDED REAL ESTATE PROGRAM

Recommendation for Investment in
Broadway Partners Real Estate Fund III, L.P.

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Broadway Partners Real Estate Fund III, L.P.

EXECUTIVE SUMMARY

Broadway Partners Real Estate Fund III, L.P. (the "Fund") is being formed to invest in value-added, high quality office properties in select markets in North America. The Fund is sponsored by Broadway Real Estate Partners, LLC ("Broadway" or the "Company"), a New York-based office investment and management company with a strong track record of investment performance. The Fund will focus on making value-added office property investments in markets distinguished by positive long-term supply and demand trends and by significant investment activity among institutional investors. Initial target markets will include, but will not be limited to, the New York metropolitan area, Northern and Southern California, and Washington, DC, although the Fund may pursue assets in other markets throughout North America.

Founded in 1999 by CEO Scott Lawlor, Broadway has established itself as a leading office investment and management company. Headquartered in New York, with additional office in Los Angeles and Chicago, Broadway is a fully integrated real estate investment and management organization of approximately 55 corporate employees (as well as additional on-site personnel) with demonstrated expertise in all aspects of real estate investment and management. The Company's senior management team averages approximately 18 years of real estate experience.

Since 2000, Broadway has, through its investment vehicles, acquired 34 office properties comprising 16.8 million square feet with a total value in excess of $7.0 billion.

Broadway Partners Real Estate Fund, L.P. ("Fund I") was closed in July 2005, and has total committed equity of $211 million. Since closing, Fund I has successfully committed to seven transactions with a total capitalization of approximately $721 million, effectively fully investing Fund I. Fund I investments include properties in New York, Los Angeles, Palm Beach, Chicago, Boston and San Francisco. Broadway has successfully executed a number of value-added initiatives, has sold one property and is currently anticipating a sale of the entity holding the remaining assets in the Fund I portfolio in a single transaction in 2007.

Broadway Partners Real Estate Fund II, L.P. ("Fund II") was closed in October 2006, and has total committed equity of $588 million. Since closing, Fund II has successfully committed to six transactions comprising 14 assets with a total capitalization of approximately $4.8 billion, effectively fully investing Fund II. Fund II investments include properties in New York, Los Angeles, Chicago, Boston, Washington, DC and Houston. Broadway has already implemented a number of value-added initiatives within the portfolio, including the sale of three assets acquired in connection with a nine-property portfolio acquisition

INVESTMENT STRATEGY

The Fund will target Class A and high quality Class B assets that have an identifiable leasing advantage over competing assets in the market and/or that are inefficiently priced by the market with respect to the asset's perceived versus actual risk profile. After identifying a potential acquisition property, the Fund's management will develop a comprehensive plan for adding value to the property. The implementation of such value-added plan is expected to allow for a return of capital to investors, via a sale or recapitalization, in order to maximize returns. The Fund will seek assets in markets that feature (i) strong long-term supply and demand fundamentals for desirable leasing conditions, and (ii) significant current and projected real estate investment activity among institutional investors for increased liquidity and asset pricing profiles. The Fund will employ flexible capitalization strategies that match the status of the asset relative to the value-added asset management plan, and will seek to maximize investor returns via a sale or recapitalization when the value-added management plan has been executed. This is the strategy the Company has followed for the 34 properties it has purchased to date.

Broadway's investment strategy can be summarized in the following categories: (i) market selection, (ii) asset selection, (iii) operations and asset management, (iv) capitalization strategy, and (v) exit strategy. Below, is a more detailed description of Broadway's strategy:

Market Selection. Broadway targets investments in markets that have strong prospects for growth in office-using employment, favorable supply trends relative to demand, and active real estate capital markets. Markets with strong prospects for office-using employment growth typically exhibit a high office-using employment base, high household income levels, a highly educated workforce and population growth driven by both domestic and international migration. Based on Broadway's knowledge base, track record and relationships, target markets will include, but will not be limited to, the New York metropolitan area, Washington, DC, and Northern and Southern California. Broadway continuously tracks demand and supply fundamentals and current and projected institutional investor capital flows in order to confirm existing target markets and identify new target markets.

Asset Selection. The Company focuses on Class A and high quality Class B assets which have an identifiable leasing advantage versus competitive assets in the market, and which can benefit from Broadway's value-added strategies over the short term or the long term. In addition, Broadway seeks assets which present a market pricing inefficiency with respect to the asset's perceived versus actual risk profile. A key to uncovering such inefficiencies is a disciplined approach to screening transactions from an extensive pipeline. For example, in 2006, Broadway reviewed 436 transactions with a combined asking price of $75.2 billion, submitted 91 bids totaling $20.5 billion, and executed six transactions (comprising 14 assets) at an aggregate cost of approximately $4.8 billion. Another key to identifying opportunities is to conduct extensive market, asset, and tenant due diligence in advance of submitting final bids. Broadway utilizes its significant network of relationships in its markets to conduct such due diligence.

Operations and Asset Management. The Company implements proactive operating and leasing plans to reposition and/or stabilize assets. In underwriting an asset, Broadway's acquisition team and property and asset management team work together to structure an operating plan for adding value to the asset. The operations plan typically addresses the implementation of Broadway's property management systems, development of a new leasing strategy for the asset, a review of the property's physical condition and any potential revenue-generating capital expenditures, and where appropriate, the introduction of additional revenue generating services. Through the use of efficient tracking systems and frequent tenant surveys, and via the general adoption of a pro-tenant attitude, Broadway strives to significantly increase tenant retention at all of its assets. By decreasing downtime and capital expenditures in this manner, occupancy levels are maximized at a lower cost to ownership.

Capitalization Strategy. Broadway employs flexible capitalization strategies that utilize an appropriate amount of fixed and/or floating rate debt. The Company carefully formulates the capitalization strategy to match the Company's operating strategy for the asset. When appropriate, the Company enters into hedging agreements to manage interest rate risk. The Company continuously monitors the capital markets in order to take advantage of refinancing opportunities and to position the property for the optimal exit strategy.

Exit Strategy. The Company is flexible and creative in its exit strategies, and it has executed dispositions, equity recapitalizations and debt refinancings to return capital to investors. Broadway continuously re-evaluates the status of the on-going business plan and projected supply as well as national and local capital market dynamics in order to maximize investor returns through either an "early" exit or by following the underwritten exit strategy. Broadway also maintains the flexibility to move in a different direction, including holding the asset over a longer term if the capital markets are not conducive to a sale or recapitalization event. Of the 18 assets the Company acquired between 2000 and 2005, 13 have been sold. Five of the 13 assets were refinanced or recapitalized, returning capital to investors prior to being marketed for sale.

MARKET OVERVIEW AND OPPORTUNITIES

The U.S. office market is very strong and it is expected it to remain robust over the next several years due to positive trends in the U.S. economy and property and capital markets. The economy weathered the slowdown in the housing market well and GDP growth, which moderated during the second half of 2006, is expected to accelerate back above its trend level in the second half of 2007. In addition, job growth is expected to average between 100,000 and 150,000 jobs per month through 2007. Vacancy in major office markets across the United States is recovered, and some markets have historically low vacancy rates. At the same time, new construction has yet to respond, therefore real effective rents are still cheap relative to levels reached during the late 1990's. As a result, rents − and more importantly property net operating income − will grow at a robust pace through 2009, as tenants realize their space options are limited. It is expected that such strong net operating income growth will continue to attract investors to the sector and support current pricing levels.

The U.S. economy has entered 2007 in good condition, with steady GDP and employment growth, and moderating inflation. While GDP is expected to experience below-trend growth through the first half of 2007, it is forecast to accelerate in the second half of the year to 3.0% - 3.5% on an annualized basis. The U.S. economy is expected to experience strong job creation over the same time period. It is also expected that these conditions provide an optimal environment for investing in real estate, especially the office sector. The factors that influence this view include a housing market that is in better condition than was thought, a resilient consumer, reduced inflationary pressures, stabilizing interest rates and strong corporate earnings growth which should continue to drive job growth.

The slowing housing market remains a risk to continued economic growth, but this risk has diminished. The inventory of new and existing unsold homes, as measured by months supply, peaked in September 2006, and as of late 2006 stock was being absorbed. Contributing to this improvement is the fact that major homebuilders terminated many of their options on land for future development; therefore, new supply, which began pulling back in late 2006, should continue to pull back through 2007. Additionally, mortgage rates have been stable and jobs continue to be created, which should help support rebounding demand, especially as the economy heads into the peak home buying season in the second quarter of 2007.

The U.S. consumer is becoming more optimistic about current and future economic conditions, as expressed by the sharp turnaround in consumer sentiment at the end of 2006 in the University of Michigan Consumer Sentiment Index, and it is expected to remain positive through 2007 in light of the tight employment market and stable interest rate environment. Consumers are expressing their optimism by spending; real year-over-year growth in household spending is expected to stay positive through 2009. With respect to inflation, the pressures that pushed up inflation through mid-2006 − energy and commodities − have pulled back substantially and are not expected to escalate again in the near future. The general consensus is that the current rate of low unemployment will not push up wages enough to cause upward pressure on inflation in the near to intermediate term. As a result, inflation should moderate significantly as in 2007. Deflating inflation pressures and a moderating economy are also taking upward pressure off interest rates, which pulled back from a cyclical high reached in the second half of 2006. Going forward many economists expect that the Federal Reserve will most likely hold interest rates steady through 2007, but there is a low probability of a decrease in short-term rates of up to 50 bps in the second or third quarter of 2007.

The jobs market ended 2006 on solid footing after creating an average of 153,000 jobs per month, which pushed unemployment down to 4.5% at year-end. In the near-to-mid term, the economy is poised to continue creating jobs at a pace of 100,000 to 150,000 per month. The primary sectors contributing to growth include consumer and health services and government, with information and back office services also contributing to growth. More importantly, the office sector is expected to account for approximately 70% of all jobs created in 2007.

MANAGEMENT OF THE FUND

Scott Lawlor, Founder & CEO. Mr. Lawlor previously oversaw all real estate operations at Fortress Investment Group. His experience includes the assembly and management of teams responsible for the origination, underwriting, execution and asset management of investments totaling approximately $6 billion. Mr. Lawlor's earlier positions included asset management of a large portfolio of distressed debt and equity assets for MONY, as well as extensive leasing and mortgage brokerage experience. He is a graduate of Bucknell University and holds an M.B.A. and M.S. in Real Estate Development from Columbia University.

John Rivard, Chief Investment Officer. Mr. Rivard has 21 years of commercial real estate experience. Mr. Rivard was with O'Connor Capital Partners in New York from 1991- 2006, most recently as a Partner and the Chief Underwriting Officer for the firm's latest opportunity fund. He had also served as co-head of North American activities for the firm's global investment business, after heading up acquisitions for the company's early opportunity funds. Prior to his experience with O'Connor Capital Partners, Mr. Rivard served as an Investment Officer for the California State Teachers' Retirement System from 1987-1991. Mr. Rivard holds a BS in Business Administration from the University of Southern California and an MBA with a Real Estate concentration from the University of California, Berkeley. He also holds a JD, with a Tax concentration from the University of California, Hastings College of the Law.

Alan Rubenstein, Director of Asset Management. Mr. Rubenstein has 21 years of commercial real estate experience. Prior to joining Broadway, Mr. Rubenstein was a Senior Investment Manager at Hines Interests Limited Partnership, where he held real estate investment fund management and asset management positions. His responsibilities included acquisitions, secured and unsecured financings, asset management and dispositions. During his tenure at Hines, Mr. Rubenstein concluded $1.4 billion of transactions and financings of core and value added investments and ground-up development. Mr. Rubenstein received a B.A. from Wesleyan University and an M.B.A. from Columbia Business School.

Jonathon Yormak, Chief Operating Officer. Mr. Yormak joined Broadway in 2003 as Executive Vice President and General Counsel. He was previously a senior associate at Fried, Frank, Harris, Shriver & Jacobson LLP, one of New York's most highly regarded real estate practices, where he worked on single asset and portfolio acquisitions, dispositions, and secured and unsecured financings. Mr. Yormak previously worked as a real estate associate at Pryor, Cashman, Sherman & Flynn LLP. Mr. Yormak received a B.A. from Colby College, and a J.D. from Fordham University.

Scott Sorensen, Director of Acquisitions, Western United States. Mr. Sorensen previously oversaw acquisitions, dispositions and financings at Douglas, Emmett and Company. As Vice President, Mr. Sorensen acquired over six million square feet of commercial office properties in Southern California and was responsible for $1.8 billion of financings. Prior to Douglas, Emmett and Company, Mr. Sorensen worked for Cornerstone Real Estate Advisers where he was responsible for underwriting two million square feet of office acquisitions in the Western United States. Mr. Sorensen received both his B.S. in Finance and M.B.A. from the University of Southern California.

James Hennessy, Director of Acquisitions, Midwestern United States. With 13 years of commercial real estate experience, Mr. Hennessy heads the Chicago office and handles all acquisitions in the Midwest. Mr. Hennessy was previously Vice President at Lincoln Property Company in Chicago. He worked in Lincoln's Advisory business where he was responsible for acquisitions, dispositions, and asset management of a national portfolio of office and retail assets. Prior to Lincoln, Mr. Hennessy served as asset manager for Morgan Stanley (through Equitable Real Estate / Lend Lease acquisitions) in Chicago for 9 years where he was involved in both asset management and acquisitions in the office, retail and industrial sectors throughout the Midwest. Mr. Hennessy holds a B.S. in Business with a double concentration in Finance and Real Estate from Indiana University.

David Pretz, Director of Acquisitions, Eastern United States. With 6 years of commercial real estate experience, Mr. Peretz is responsible for the sourcing, underwriting and negotiation of all East Coast acquisitions for Broadway. In that capacity, Mr. Peretz has been responsible for the acquisition of nearly 6 million square feet of commercial office properties. Previously, he was responsible for the financial modeling of 4.5 million square feet of office acquisitions, dispositions and financings for the company. Prior to joining Broadway, Mr. Peretz worked in the Real Estate Investment Banking group at Lazard Frères & Co. where he was involved in transactions totaling over $1.4 billion in value. Mr. Peretz holds a B.S. from the Wharton School of Business at the University of Pennsylvania.

Linda Lewis, Chief Financial Officer. Ms. Lewis previously worked as a Portfolio Manager in Lazard Freres & Co.'s $2 billion real estate private equity fund, where she oversaw finance and operations for invested companies and sat on the Board of a public homebuilder. Previously she worked in corporate finance at Security Capital Group, in Latin American real estate banking at Bankers Trust, and in asset management at Prudential Realty Group. She was also a head banker at Spencer Trask Ventures where she led private placements. Ms. Lewis holds a B.A. from the University of

Pennsylvania and an M.B.A. from the Kellogg School of Management at Northwestern University. She is Series 24, 7 and 63 certified.

Greg Green, National Director of Leasing. Mr. Green previously served as a Principal and Senior Vice President of Trammell Crow Company. His experience in New York City and nationally includes tenant representation (acquisitions and dispositions) of over 1.5 million sf since 2000, development of a post 9/11 strategy and brokerage execution for a major downtown corporation, and the sourcing and servicing of over 26 million sf of exclusive transaction management accounts for several Fortune 500 corporations. Mr. Green holds a B.A. from George Washington University.

Rick Serrapica, President, Broadway Real Estate Services. Mr. Serrapica was Vice President, Regional Director of Operations and Construction at Shorenstein Realty Services, one of the country's largest real estate owner/operators. Prior thereto, he was Senior Vice President / Director of Property Management at SL Green Realty Corp., a REIT traded on the NYSE and one of the largest commercial property owners in New York. He has also held positions at Swig, Weiler, and Arnow Management Co., Cross & Brown Company, and Chase Manhattan Bank. Mr. Serrapica received a B.S. from Stevens Institute of Technology and an M.B.A. from New York University.

CONCLUSION/RECOMMENDATION

Based upon the successful track record and experience of the principals and the recommendation of PSERS' consultant, Courtland Partners, Ltd., staff recommends that the Board invest an amount equal to 25 percent of the committed capital, but not to exceed $300 million plus reasonable normal investment expenses, in Broadway Partners Real Estate Fund III, L.P. The final terms and conditions of the investment must be satisfactory to the Investment Office, the Office of Chief Counsel, and the Executive Director.