



# Opportunistic Real Estate

## Stockbridge Real Estate Fund II, L.P.

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# Stockbridge Real Estate Fund II, L.P. – Opportunistic Real Estate

## Overview

- Stockbridge Real Estate Fund II, L.P. (“Fund II”) is facing significant loan maturity and fund-level liquidity issues in the near/mid-term due to continuing dislocations in the real estate and credit markets
- Fund II does not have available capital to remedy certain lender covenants, nor the capital needed to execute Fund II’s business plans
- Absent the infusion of new capital, it is likely that Fund II would be forced to abandon or liquidate many of its assets
- The General Partner is seeking to raise defensive capital to protect Fund equity and stabilize Fund investments
- One of the Fund’s Limited Partners has agreed to provide up to 100% of the new capital needed to implement the Fund II Recapitalization Plan
  - Other Limited Partners may provide up to 40% of the total capital raise on the same terms as the lead investor
- PSERS’ investment in Fund II will be diluted should PSERS not participate

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## History with Stockbridge Capital

- Stockbridge Real Estate Fund (2000)
  - Fund size: \$489.6 million
  - PSERS' commitment: \$408.5 million (83.43%)
  - Fund has returned to PSERS ~\$575 million
  - PSERS' remaining value in the Fund ~\$200 million
  - 1.84x MOC and 35.57% IRR
- Stockbridge Real Estate Fund II (2005)
  - Fund size: \$1.0 billion
  - PSERS' commitment: \$162.5 million (16.25%)
  - Fully invested, no distributions to date
  - 0.20x MOC, based on current valuations
- Stockbridge Real Estate Fund III (2007)
  - Fund size: \$1.01 billion
  - PSERS' commitment: \$200 million (19.80%)
  - Fund is currently in its investment period, <50% of capital invested

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## Recapitalization Plan

- Structured as a credit facility by and between Fund II and its lenders
- The interest rate will be the greater of (i) 25% annually and (ii) the amount required to generate a 2.0x return on amounts drawn under the Recap Loan Facility
- No fee, preferred return or promote paid to Stockbridge in respect to this additional commitment
- Capital will be drawn as needed over time in order to execute Fund II's business plan
- Proceeds will be used to repay and repurchase property-level debt, fund capital expenditures, fund general working capital needs and fund reserves
- Size of Credit facility: up to \$125 million
- PSERS allocable portion is \$20,312,500
- Transaction expected to close on or around August 31, 2010

## Recommendation

- Staff, together with Courtland Partners Ltd., recommends a commitment up to PSERS' allocable share, plus normal investment expenses, in the Stockbridge Real Estate Fund II Recapitalization Plan

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