COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Public Investment Memorandum

Southern Florida Multi-Family Property (Separate Account)

Core Real Estate Commitment

Melissa A. Quackenbush
Senior Portfolio Manager

November 28, 2018

Recommendation:

PSERS Investment Professionals, together with StepStone Real Estate, recommends to the Board a commitment of up to $70 million to a to-be-formed LLC (100% owned by PSERS) that will acquire a 240 unit multi-family property (the "Property") located in southern Florida from a joint venture comprised of a public pension fund and a developer (the "JV").

The property is a 240 unit garden style multi-family community located not far from another multi-family property in southern Florida which PSERS acquired in June 2018. The purchase price is $61.92 million. The total capitalization is $70 million (inclusive of closing costs, initial working capital budget, start-up / improvement costs and an approximate 2% contingency).

Investment Overview:

The Property is located near a multi-family community which PSERS purchased from Bell Fund IV in June 2018 ("Property 1"). Due to its location near Property 1, Bell has been pursuing this opportunity as a strategic acquisition for many years.

Having reached the end of its hold period and with the debt on the Property coming due in 2019, the JV approached Bell Partners about an off market opportunity given Bell's expressed interest over the years.

This opportunity is not being offered or marketed to any other third party at this time providing PSERS with the opportunity to benefit from Bell's years of tenacity in pursuing this asset.

Bell has followed its procedures to make sure that this asset does not meet the necessary requirements for its fund vehicles and is in fact available to PSERS without creating any conflicts.

The Property and Property 1 share a common entrance and will be operated as if they are one property. Combined, we would have a critical mass of 371 units. When operated in conjunction with one another, the returns on the whole are greater than each property on a standalone basis. This is due to the operational efficiencies that can be achieved by eliminating redundancies (two leasing offices, two marketing platforms, etc.) as well as the greater liquidity and deeper buyer pool this larger community with a better unit mix and larger amenity footprint will attract at exit.

The broker opinion of value indicated a per unit price of $265,000. Bell successfully negotiated a unit price of $258,000. Approval is subject to a third party appraisal showing "as-is" market value of not less than $258,000 per unit.

As Bell is already the asset and property manager for Property 1 and has done an excellent job, they will also be the asset and property manager for the Property.

A mortgage broker will be engaged for mortgage debt placement.

Manager Overview:

Established in 1976, Bell Partners Inc. ("Bell" or the "Company") is a privately held, vertically integrated apartment investment and management company focused on high-quality multifamily communities throughout the United States.

Bell Partners is a top-15 apartment operator, with approximately 50,000 units across 15 states and the District of Columbia, and is one of the largest apartment renovators in the industry. The Company has approximately 1,250 associates and eight offices (including its headquarters in Greensboro, NC) and offers an extensive and full-service operating platform containing expertise in acquisitions and dispositions, financing, property operations, accounting, risk management and other related support functions.

Bell Partners is led by a senior management team with an average of over 23 years of experience that has invested throughout all phases of the real estate cycle and has helped the Company complete over $13 billion of apartment transactions since 2002.

PSERS began its relationship with Bell in 2012 when it made a $75 million commitment to the $200 million Bell Apartment Fund IV ("Fund IV"). Additional investments totaling $150 million were subsequently made in two fund vehicles (Bell Funds V and VI) whose combined equity was $1.025 billion, and a subsequent $10 million co-investment was made in 2014 in a single property joint venture.

In June 2018, PSERS entered into an arrangement with Bell to manage three multi-family properties which PSERS purchased from Bell Fund IV (PSERS is an investor in this fund). Bell acts as both asset and property manager for these three properties and will do so for the Property as well.

To date, performance for all Bell investments is either in line with, or in excess of, original expectations.

Market Opportunity:

The U.S. multifamily market remains dynamic, with peak development and demand levels. Performance is good, although it has moderated from levels experienced earlier in the cycle. However, the long term outlook is positive as the U.S. population continues to expand and homeownership rates in the U.S. remain near historical lows.

The U.S. multifamily sector continues to boast the lowest vacancy rate of the four major property types with a 4.1% vacancy rate as of September 30, 2018, which is down 10 bps from prior period vacancy rate of 4.2%.

Multifamily demand remained very strong through 2018, as evidenced by the 4.1% vacancy rate coupled with 3.0% market rent growth last quarter. Multifamily demand has been fueled by a confluence of factors concerning mortgage underwriting, a growing population and the impact of Generation Y.

The Generation Y ("Gen Y") cohort, currently 25-34 years old and 80 million plus strong, is the largest cohort in U.S. history, exceeding even that of the Baby Boomers (77 million). This generation has exhibited the strongest propensity to rent as capital costs to own homes and down payment requirements present barriers to home ownership, particularly when saddled with the burden of student loan debt.

As the Gen Y unemployment rate continues to decline, there has been a de-coupling within the Gen Y cohort (i.e. more household formations) which is also driving demand for multifamily product. Baby boomers, looking to downsize, are also contributing favorably to multifamily demand. Additionally, the U.S. population is expected to grow by a net 79.6 million people from 2014 to 2050. Approximately 38% (or 30 million people) will be foreign born and foreign-born people have a higher tendency to rent rather than own homes. All of this will positively impact the multifamily sector.

From a supply perspective, much has been talked about the high levels of deliveries into the market in the past five years. Since 2013 annual completions have averaged 3,300 units within the Property's MSA. Annual demand has approximately kept pace with new supply with demand averaging 3,100 since 2013. In the year-ending third quarter 2018, the Property's larger submarket absorbed 4,200 units compared to supply of 3,200 units. Looking forward, supply and demand levels are expected to remain in balance (Source: Axiometrics).

The 10-year historical average for annual rent growth for the Property's MSA is 2.5% and on par with the historical average for the Nation at 2.5%. Multifamily rent growth peaked in Q3 2015 (5.3% year-over-year) for the Nation and Q4 2015 for the MSA (6.4% year-over-year) and has been moderating to more normal levels since this time (Source: Axiometrics).

In terms of submarket fundamentals, the Property's direct submarket roughly tracks the Property's MSA performance. Over the past 10 years, the historical average for annual rent growth for the Property's submarket is 2.5% with an average occupancy of 95.1%. Looking forward, the submarket is projected to grow by 3.2% annually through 2022 and maintain a 95.4% occupancy during that time period.

In general, the outlook for multifamily in the near and long term is positive, particularly in the heavy to light value add end of the spectrum.

With positive underlying fundamentals, a successful multifamily property investment will also heavily rely upon a property's submarket, its location within that submarket relative to its competitive set, neighborhood amenities, proximity to employment, quality schools, surrounding infrastructure, on-site amenities, barriers to entry and effective management.

Portfolio Fit:

A commitment to the investment will be allocated to the Core Real Estate portion of PSERS' Real Assets portfolio. Using the net market value from March 31, 2018, and adjusting the unfunded to include commitments from the prior and current Board meetings, the Real Estate portfolio would be 19.7% Core, 43.2% Opportunistic, and 37.1% Value-Added.

The table below summarizes PSERS' projected exposure inclusive of the recommended $70 million commitment to the investment as of March 31, 2018 and excludes exposure to the open-end redemptions:

Investment Type ($M)	Market Value[1]	%	Unfunded	%	Total Exposure[1]	%	Long Term Target (%)
Core	1,455.9	25.7%	253.1	8.4%	**1,709.0**	**19.7%**	**20%**
Opportunistic	2,549.3	45.0%	1,196.7	39.7%	**3,746.0**	**43.2%**	**30%**
Value-Add	1,655.5	29.2%	1,568.2	52.0%	**3,223.7**	**37.1%**	**50%**
Total	**$ 5,660.7**	**100%**	**$ 3,018.1**	**100%**	**$ 8,678.8**	**100%**	**100%**

Investment Strategy:

Our investment strategy is to acquire high quality, institutional, income producing, core-plus multi-family assets in robust markets and partner with a best-in-class manager to maximize returns to PSERS. Capital improvements will be made to drive net operating income (NOI) and remain competitive in the submarket. Market conditions and PSERS' portfolio needs will be monitored on an ongoing basis to determine timing of a sale.

Investment Highlights:

- Stable, income producing assets
- Submarket fundamentals projected to trend positively
- Well located property
- Curb appeal with modern amenities
- Highly regarded Bell management team will manage this asset
- Interest rate sensitivity

Investment / Risk Considerations:

- Rent growth
- Vacancy
- Cap rate expansion
- Manager performance

Finance Committee Disclosure:

Relationship with StepStone Real Estate:	Bell's relationship with StepStone Real Estate consists of meeting their requirements (i.e. reporting needs) to facilitate PSERS' investments with Bell Partners.
Placement Agent:	Not applicable.
PA Political Contributions:	Not applicable; $0
PA Presence:	Not applicable; Bell Fund II, LLC had an interest in one PA property (Bell Elkins Park) alongside additional Bell high net worth investors, which was sold in 2014.
Conflicts:	Given Bell's experience in managing multiple investment entities, it believes it has appropriate procedures in place to mitigate any conflicts that may arise between investment entities. Each prior fund has advisory committees to resolve any conflicts that may arise.
History with PSERS:	PSERS has 4 total investments with Bell Partners, which include the following commitments: Bell Fund IV ($75 million), Bell Fund V ($75 million), Bell Fund VI ($75 million) and Bell Woodstock ($10 million). Additionally, Bell is the asset and property manager for three direct multi-family investments PSERS has in Florida.
PSERS Allocation Implementation Committee Approval:	November 28, 2018

Oversight Responsibility:

Investment Office:	Charles J. Spiller Melissa A. Quackenbush	Deputy CIO, Non-Traditional Investments Senior Portfolio Manager
External Consultant:	StepStone Real Estate	

StepStone Group LP
127 Public Square, 50th Floor
Cleveland OH 44114
Phone +1.216.522.0330

TO: Pennsylvania Public Schools Employees' Retirement System ("PSERS")

FROM: StepStone Real Estate ("StepStone")

DATE: November 26, 2018

RE: Southern Florida Multifamily Asset ("Acquisition")

In the spring of 2018, Bell Partners Fund IV sold PSERS its three multifamily assets located in Florida. One of the assets, Property 1, is a 131-unit townhome-style property in the Ft. Lauderdale MSA. PSERS now has the opportunity to purchase the adjacent property to Property 1, "Property", a 240-unit garden-style property, which shares a common entrance with Property 1. Bell does not own the Property, but is assisting PSERS on the Acquisition and will third-party manage the asset.

PSERS has requested StepStone review and comment on the investment process and merits of the Acquisition. StepStone's review has included i) a review of materials provided by PSERS and Bell related to the Acquisition and ii) several phone discussions with PSERS personnel. StepStone has not opined on the valuation of the property. StepStone's review was limited to the process undertaken by PSERS to make their determination. StepStone believes that staff conducted an arms-length review of the Property and economics and concurs with PSERS' decision to move forward with the Acquisition.

The purchase price of the Property is $62 million, plus $6.6 million in working capital and light interior renovation expenses. Due diligence expires on December 20th and closing is expected to occur on January 18th.

The combination of Property 1 and the Property will consist of 371 total units. The combined properties will have operational efficiencies that include: decreased staff, a combined leasing office and marketing savings. The two properties have complimentary amenities and product offerings (traditional garden style units compared with townhomes). The combined properties will provide a more compelling offering upon the sale. There will be more liquidity, and a deeper and more qualified buyer pool.