



State of New Jersey

CHRIS CHRISTIE
Governor

DEPARTMENT OF THE TREASURY
DIVISION OF INVESTMENT
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KIM GUADAGNO
Lt. Governor

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State Treasurer

November 12, 2010

MEMORANDUM TO: New Jersey State Investment Council

FROM: Timothy Walsh
Director

SUBJECT: **Proposed Investment in Lubert-Adler Real Estate Fund VI-B, L.P.**

The New Jersey Division of Investment is proposing an investment of \$100 million in a comingled co-investment opportunistic (“non-core”) real estate fund, Lubert-Adler Real Estate Fund VI-B, LP. This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9

The Division of Investment (“Division”) Staff and its consultant, The Townsend Group, undertook extensive due diligence on the proposed investment. We completed the same due diligence process as with all the other alternative investment opportunities presented to the Council.

To note, the Division has not made a new investment in private real estate since June 2008.

Lubert-Adler Real Estate Fund VI-B, LP is a \$400 million co-investment vehicle that will benefit from **no management fees** during the commitment period ending June 2013. The Fund will co-invest alongside Lubert-Adler Funds VI and VI-A with all new investments housed pro-rata across Fund VI and the two co-investment vehicles, with VI-B’s participation being approximately 40% of the equity requirements of each transaction. Fund VI-B will not invest capital in legacy assets from Fund VI. The Division will have an advisory board seat for Fund VI-B.

Lubert-Adler’s strategy is to acquire assets at significant discount through the distressed debt opportunities provided by the current real estate market. Most often this will be in conjunction with the borrower, requiring a discounted loan payoff from the financial institution holding the note, and subsequent recapitalization of the borrower/asset by Fund VI-B. Particular assets are identified through (i) underwriting the true value of the hard asset collateral and (ii) in the case of transitional properties, underwriting the redevelopment and/or re-leasing plan.

Lubert-Adler is a real estate investment company co-founded by Ira M. Lubert and Dean S. Adler in March 1997. Messrs. Lubert and Adler collectively have over 60 years of experience in underwriting, acquiring, repositioning, refinancing, and exiting real estate assets. Lubert-Adler commenced a series of funds in 1997 and, as of December 2009, has raised an aggregate of \$6.3 billion of equity and invested \$5.2 billion in assets with a cost basis of \$17 billion. The Lubert-Adler investment and finance team now consists of 51 professionals with backgrounds in real estate acquisition, asset management, distressed restructurings, and capital markets. On average, senior team members have over 18 years of hands-on real estate experience.

We will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents to govern each investment. In addition, each proposed investment must comply with the Council's "pay to play" regulation (N.J.A.C. 17:16-4).

Please note that this investment is authorized pursuant to Articles 69 and 71 of the State Investment Council's regulations. This investment is considered "non-core real estate (opportunistic)" as defined under N.J.A.C. 17:16-71.1.

Attachments

***SIC Investment Committee Fund Review Memo**

To: State Investment Council
From: SIC Investment Committee
Date: November 12, 2010
Subject: Real Estate Investment Recommendation

Fund Facts

Fund Name:	Lubert Adler Real Estate Fund VI-B
Fund Type:	Co-Investment
Current Fund Offering:	\$400 million co-investment in Fund VI-B
Current Main Fund Size/Vintage:	Fund VI -- \$2.05 billion/ 2007
Previous Fund Size/Vintage:	Fund V -- \$1.7 billion/ 2006
Final Close:	June-11
Fund Address:	The Cira Centre, 2929 Arch Street Philadelphia, PA 19104

GP Contact Info

Name:	Ira Lubert, Chairman of the Board
Telephone:	(215) 972-2202

Summary of Terms and Investment Strategy

Investment Strategy:	Opportunistic/ Distressed
Geographic Focus:	US
GP Co-Investment Amount:	\$42.6 million through main fund, which will invest pro-rata with Fund VI-B
Terms:	
Term:	Ends December 2016 with one 2-year extension and one 1-year extension needing Executive Board approval
Investment Period:	Ends June 2013
Management Fee:	None during investment Period/ 1% thereafter on invested capital
Other Fees:	None
Hurdle Rate:	9%
Carry:	The GP will receive 20% of all profits after the 9% hurdle rate with a 50/50 catch-up is achieved.
Back Office:	Independence Capital Partners
Fund Attorney:	Klehr Harrison Harvey Branzburg LLC
Auditor:	KPMG

NJ AIP Program:

Recommended Allocation Current:	\$100 million
% of Co-invest in Fund VI-B:	25%

LP Advisory Board Membership:	Yes
Consultant Recommendation:	Yes
**	Yes

*This review memorandum was prepared in accordance with the State Investment Council rules governing the Alternatives Investment Program and the policies and procedures related thereto.

▶▶ Please sign accepting that this information is approved to be released to the New Jersey State Investment Council held in a public forum.

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