

# COURTLAND PARTNERS, LTD.

## INSTITUTIONAL REAL ESTATE SERVICES

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200 PUBLIC SQUARE  
SUITE 2530  
CLEVELAND, OH 44114

TELEPHONE: (216) 522-0330  
FAX: (216) 522-0331  
www.courtland.com

February 15, 2012

Board of Trustees  
Pennsylvania Public School Employees' Retirement System  
5 North 5<sup>th</sup> Street  
Harrisburg, PA 17101

**Re: Bell Institutional Fund IV, L.L.C.**

Dear Trustees:

Courtland Partners, Ltd. ("Courtland"), having been duly authorized by the Board of PSERS, has evaluated Bell Institutional Fund IV, L.L.C. (the "Fund"). The Fund will acquire well-located, quality multifamily assets in markets with strong demand/supply fundamentals, relatively high going-in yields, and stable cash flow. The Fund will implement a disciplined and focused approach to acquire these multifamily assets. Bell Partners ("Bell") will add value to the investments by leveraging its extensive operating platform. The assets will generally contain 150-500 homes and have a total value of \$20 million to \$80 million.

The Fund will generally seek to acquire assets that (i) are located in an area or market with a population of over 1.5 million; (ii) offer lower volatility in rent growth; (iii) provide a sizable transaction market to maximize investor interest upon the eventual sale; (iv) project attractive total returns based on historical capitalization rates and expected rent growth; and (v) have the ability to be supported by the Bell management team. The following 11 markets have been initially identified as target markets: Washington, D.C.; Raleigh/Durham, NC; Charlotte, NC; Atlanta, GA; Tampa, FL; Orlando, FL; Miami/Ft. Lauderdale, FL; Nashville, TN; Austin, TX; Dallas, TX; and Houston, TX.

Due to Bell's reputation in the industry, history of performance, and regionally focused teams, it often has unusual access to attractive opportunities, at times securing assets before they are offered to other purchasers and/or selected over competing bidders. By utilizing market information generated from managing approximately 65,000 units and input from regionally based teams, Bell seeks to avoid overheated markets and is able to carefully select and underwrite opportunities.

There are significant demand drivers for multifamily assets including, the growing echo-boomer population, the growth of the U.S. population in general, the decline in homeownership rates, and the anticipated job growth in the economy. On the supply side, apartment starts and construction permits are at their lowest level in over 50 years.

Bell has already acquired two investments for the Fund at an estimated purchase price of \$79 million. These apartment communities have already seen improvement since Bell has taken over management. In addition, Bell has put deposits on two communities with an estimated purchase price of \$63 million. Almost all of Bell's deals are off-market, relationship driven opportunities due to Bell's reputation based upon its over 35 years of experience.

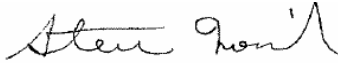
Courtland's recommendation is based upon the following factors and is made within the context of PSERS' investment guidelines.

- Detailed due diligence, including interviews with key Bell management team members, and review of all relevant materials provided by Bell.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.
- Evaluation of Bell's track record and organizational resources.
- Discussion and review of the market conditions in markets relative to the proposed investment strategy.
- The strategy proposed for the Fund is appropriate for the real estate component of the portfolio.

Based on the above, Courtland recommends that PSERS commit up to \$75 million to the Fund. Courtland makes this recommendation considering the General Partner's qualifications and PSERS' overall investment guidelines.

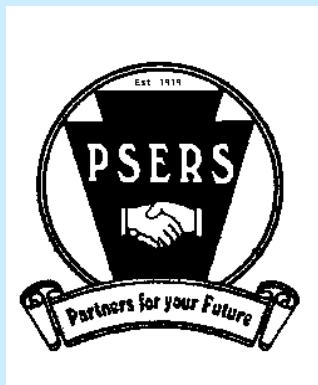
This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in the Fund, since their needs, objectives and circumstances may not be identical to those of PSERS. The scope of this recommendation is limited to the investment merits of the Fund. Courtland does not provide legal or other non-investment-related advice.

Sincerely,



Steven Novick  
Principal-Chief Operating Officer

**COURTLAND PARTNERS, LTD.**



## Value-Added Real Estate Commitment

# Bell Institutional Fund IV, LLC

March 8, 2012

See Last Page for Disclaimer

Charles J. Spiller, Managing Director  
Private Markets and Real Estate

# Bell Institutional Fund IV, LLC – Value-Added Real Estate

## Overview

- Fund size is anticipated to be \$240 million, including \$150M from the Institutional Fund
- Fourth in a series of closed-end commingled real estate funds targeting value-added returns which include a large component (50-60% of total return) of income yield. Prior investment funds included high net worth, friends and family investors, and Bell acted as operating partner to larger Institutional Funds
- Bell Partners was founded in 1976 by Steven Bell to invest in and manage real estate; primarily, multifamily assets. Steve remains active as the Chairman and CEO of the firm. Steve's son, Jonathan, joined Bell in 2001 after working with Lend Lease and Faison for six years and has taken the position of President. Since 2008, the firm has exclusively focused on multifamily and have sold substantially all other assets. Bell Partners has grown to be the 10<sup>th</sup> largest U.S. multifamily management company with nearly 60,000 homes under management

## Fund Strategy

- Bell Partners will continue to acquire well-located, quality apartment communities in the Mid-Atlantic, Southeast and Southwest, United States for Fund IV. These properties will offer relatively high yields at purchase and projected stable cash flows. The target markets in which Bell will invest capital have historically reflected rents with lower volatility than the major “Gateway City” markets, which include New York metro, Los Angeles, San Francisco, Boston and Seattle. The Bell markets are still below peak pricing, creating the opportunity to capture near-term upside with reduced long-term risk. Based on ten year average cap rates, Bell estimates that the Gateway Cities must achieve a 16% higher NOI growth than the Bell target markets to achieve the same IRR. Bell Partners strategically decided to raise this Institutional Fund for more efficient access to capital and to be able to completely drive operational efficiencies at the property level

## Investment Team

- The fund will be managed by Lili Dunn, CIO with the support of Jon Bell, President. In addition, 8 other investment professionals will be focused on the Fund. This firm is a fully integrated manager that manages and operates assets internally. Bell Partners real estate offices are headquartered in Greensboro, North Carolina and, including their twelve additional regional offices located in their target markets, are staffed with 1,800 employees

# Bell Institutional Fund IV, LLC – Value-Added Real Estate

## GP “Value Add”

- Integrated operating platform to execute business plans. They use the platform to drive value-added initiatives, including pricing techniques, expense savings and substantial renovations. Ten year unlevered net IRR of 11%, as of 12/31/2011 outperformed NCREIF index by 20%
- Established relationships with banking, funds, life companies, and government agencies provide easy access to financing, as well as leads for investments. The 600 high net worth investors have also proven to be a strong source for deals
- Management team has extensive work experiences from various institutional firms; including, AvalonBay, Trammell Crow, Lend Lease, Colonial Apartments and UDR
- There are currently four assets pre-identified for Fund IV, two of which have closed. Total equity invested in these assets will be \$51.8 million and the expected average cash income yield is 6.9%, total net IRR of 13.3% and a net 2.15x MOC

## Performance (as of September 30, 2011)

- Bell Fund I (2006) currently valued at a net 0.96x MOC and a -1.0% net IRR, projected to achieve a net 1.42x MOC
- Bell Fund II (2008) currently valued at a net 1.13x MOC and a 4% net IRR, projected to achieve a 2.01x MOC
- Bell Fund III (2009) currently valued at a net 1.4x MOC and a 31.0% net IRR, projected to achieve a 2.27x MOC
- Separate Accounts (1996-2011) currently valued at a net 1.9x MOC and a 15% net IRR, projected to achieve a 3.18x MOC
- Bell Fund IV (2011) will target net 2.0x MOC and a 12-14% net IRR, with an average 6-8% current return from income

# **Bell Institutional Fund IV, LLC – Value-Added Real Estate**

## **Market Opportunity**

- Demand for rental apartments continues to be supported by favorable demographic trends (Echo Boomers), declining home ownership, and a limited supply pipeline. Currently estimated that 3 million young adults are currently living with their parents
- New development is needed to house the growing renter population: Between 2009 and 2011 supply dropped to historical lows. Although new development has increased, starts through 2015 are projected to be 20% below the 200-2008 average. New supply in the Bell markets is currently 66% below peak levels, per Axiometrics

## **History with PSERS**

- This will be PSERS first fund investment with Bell Partners

## **Board Issues**

- Pennsylvania Presence – 217 unit multifamily property, Bell Elkins Park, located In Elkins Park, PA and purchased 12/19/07 as a part of a portfolio purchase.
- Placement agents – None
- PA political contributions – None
- Relationship with consultant – None

## **Recommendation**

- Staff, together with Courtland Partners, Ltd, recommend that the Board invest an amount not to exceed \$75 million plus reasonable normal investment expenses

Notice: This document was presented to the Public School Employees' Retirement Board at the public meeting at which the Board acted on the resolution to which the information relates. The sole purpose for posting the presentation information on this website is to enable the public to have access to documents that were utilized at a public meeting of the Public School Employees' Retirement Board, and no other purpose or use is intended.