PSERS OPPORTUNISTIC REAL ESTATE PROGRAM

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

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Broadway Partners Real Estate Fund II, L.P.

EXECUTIVE SUMMARY

Broadway Partners Real Estate Fund II, 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 an office in Los Angeles, Broadway is a fully integrated real estate investment and management organization of approximately 30 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 15 years of real estate experience.

Since 2000, Broadway has, through its investment vehicles, acquired 7.2 million square feet of office space with a total value in excess of $2.0 billion.

Broadway Partners Real Estate Fund, L.P. ("Fund I") was closed in June 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 $711 million, effectively fully investing Fund I. Fund I investments to date include properties in Los Angeles, Palm Beach, Chicago, Boston and San Francisco, with investments pending in New York and San Francisco. Broadway anticipates full investment of Fund I capital by the second quarter of 2006. Although Broadway has owned the Fund I assets for a short period of time, a number of value-added initiatives have already occurred within the portfolio.

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 its 20 concluded and pending transactions.

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.

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, from January through December 2005, Broadway reviewed 512 transactions with a combined asking price of $63.3 billion, submitted 120 bids for $15.9 billion, and purchased seven assets at an aggregate cost of approximately $711 million (including two pending transactions). 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 13 assets the Company acquired between 1999 and 2004, 12 have been sold or are pending sale. Five of the 12 assets were refinanced or recapitalized, returning capital to investors prior to being marketed for sale.

MARKET OVERVIEW AND OPPORTUNITIES

The Fund will target 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 demand typically exhibit a strong base of office-using employment, high household income, a highly educated workforce, and population growth that is driven by both domestic and international migration. Based on Broadway’s expertise, track record, and relationships, the 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. Additional target markets may be identified based on demand and supply fundamentals and current and projected institutional investor capital flows.

The office recovery that began in 2003 is continuing to show strength. Demand in major markets tracked by Property and Portfolio Research (“PPR”), a national independent research firm, has been positive for 10 consecutive quarters. Despite 25 million sf of negative demand in New Orleans due to Hurricane Katrina, absorption in these major markets year-to-date through the third quarter of 2005 is in line with 2004, at over 50 million square feet. In addition, vacancies have been decreasing for seven consecutive quarters.

The recovery in office fundamentals is being driven by the U.S. economic expansion. As of the fourth quarter of 2005, quarterly annualized GDP growth has averaged more than 3% for four years; real corporate profits are near record high levels; and, most importantly, employers are hiring. Businesses have added jobs in every month since May of 2003, and the national level of employment surpassed its pre-recession peak in January of 2005.   In addition, the current expansion is being led by office-intensive industries, as growth in the payrolls of office-using employers turned positive two quarters prior to those of non-office-using employers. Growth is being led by the professional and business services sector, which includes temporary jobs, but also encompasses key white-collar employment subsectors such as architectural and engineering services, computer systems design, and management and technical consulting services, reflecting the nation’s longer-term evolution from a manufacturing to a services-based economy.

According to PPR, around 23% of all U.S. workers were employed in offices at the end of 2004, a level on par with the 10-year average. However, nearly 30% of job growth in 2005 was in offices, implying that office-using employers experienced modestly stronger growth. During 2005, the U.S. economy added 2.0 million jobs and a total of 608,000 office-using positions.

Supply constraints should assist the recovery in office fundamentals, as construction remains at cyclical lows. Nationally, office starts began to ease even before demand levels plunged, and starts have dropped sharply in recent years. According to PPR, preliminary data suggest that the amount of office space delivered in 2005 was just a quarter of that delivered in 2000. Elevated vacancies, low rent levels and high construction costs have moderated new development.

After four consecutive years of decline, average rents bottomed out at $22.81 psf in the second quarter of 2005, their lowest level since 1998. With elevated vacancies receding, pricing power has begun to shift back toward landlords, particularly for higher quality space. Market rents, which are nearly 9% below in-place rents as of September 2005, are expected to grow to exceed in-place rents by 2007.

Due in part to the significant negative rent growth in the office sector over the last three years, along with the expanding U.S. economy, the low amount of new supply, and the high historical relative volatility in office rents, the office sector is expected to experience greater rent increases than other major property types at this point in the cycle.

With continued strength in demand and supply in check, office returns are poised for improvement. Office is the most volatile of the major property types, but this volatility has historically offered investors a healthy upside during recoveries.

Capital continues to show a strong appetite for real estate assets, with $255 billion flowing into the four major property types for the 11 months ending November 2005, versus $192 billion and $125 billion in full years 2004 and 2003, respectively. The additional capital has led to increased liquidity in the market, particularly for institutional-quality product. Sales transaction volume has increased substantially in each of the four core sectors, offering investors substantially increased liquidity.

The office market is well on its way to recovery; demand continues to increase, while construction remains in check. Office rents have stabilized and are increasing in healthier markets. As the U.S. expansion continues, it is expected that demand will remain healthy, thereby continuing to improve fundamentals. Improving fundamentals should continue to shift pricing power back to owners, thereby leading to significant rent growth going forward. It is expected that capital flows will continue to increase to the office market as the recovery ensues, ensuring liquidity and supporting valuations over the next several years. In short, there should continue to be opportunities in the office sector, particularly in select markets, that will produce strong risk-adjusted returns during the continued expansion of the U.S. economy.

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 20 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 20 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.

Brian Zilla, Director of Acquisitions, Eastern United States. Mr. Zilla previously worked as a Vice President with Prudential Real Estate Investors (PREI), a leading real estate advisory firm managing over $21 billion in assets for 400+ clients worldwide, where he held the following positions: Portfolio Manager for a $340 million private REIT fund, Chief Underwriter responsible for analyzing all transactions prior to review by the Investment Committee, and Asset Manager for single-client and co-mingled accounts where he was responsible for managing over $1 billion of assets nationwide. Mr. Zilla holds a B.A. from Cornell University and an M.B.A. from the University of Chicago Graduate School of Business.

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.

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, 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.

Laura Kozelouzek, President, Broadway Business Centers. Ms. Kozelouzek was previously Area President with HQ Global Workplaces, the nation's largest operator of business centers. Her region represented 80 locations producing over $200 million in revenue within three million square feet of office space. Ms. Kozelouzek played a leading role in consolidating the office center industry by integrating over 15 new company acquisitions and opening and developing 21 new business centers. Her experience includes building and operating businesses in the office outsourcing, real estate, and hospitality industries. Ms. Kozelouzek is a graduate of Cornell 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 $125 million plus reasonable normal investment expenses, in Broadway Partners Real Estate Fund II, 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.