

# Opportunistic Real Estate Fund Commitment

## Blackstone Real Estate Partners VIII, L.P.

March 12, 2015

# **Blackstone Real Estate Partners VIII, L.P. - Opportunistic Real Estate Fund**

## **Overview**

- Fund size: \$13 billion target
- Opportunistic strategy targeting a broad range of real estate and real estate-related investments, focused primarily on the US and Canada
- Founded in 1985, Blackstone Group has total assets under management of approximately \$284 billion (\$80.2 billion in real estate, \$69.9 billion in private equity, \$64.2 billion in hedge fund solutions and \$70.2 billion in credit businesses)
- Blackstone employs approximately 910 employees globally, of which 140 are Senior Managing Directors

## **Fund Strategy**

- Focus on acquiring high quality assets in prime markets by targeting large, complicated situations where competition is limited:
  - Use information advantage to identify mispriced opportunities ahead of the competition
  - Acquire distressed and/or undermanaged properties at below market price
  - Execute a strategy to fix the issues and then sell to core buyers at higher values

## **Investment Team**

- Real Estate team headquartered in New York and London
- 315 professionals located in the US, Europe, Latin America and Asia

# **Blackstone Real Estate Partners VIII, L.P. – Opportunistic Real Estate Fund**

## **GP “Value Add”**

- Consistent Team – 20 most senior investment professionals have an average tenure at Blackstone of 12 years
- Consistent Strategy – “buy it, fix it, sell it”
- Consistent Investment Process – limits risks and allows team to take advantage of the intellectual capital across the firm
- Ability to transact with scale, speed and certainty

## **Performance (in-place, as of 12/31/14)**

- BREP V (2006): 1.8x MOIC / 11% IRR (net)
- BREP VI (2007): 2.0x MOIC / 14% IRR (net)
- BREP Europe III (2009): 1.6x MOIC / 20% IRR (net)
- BREP VII (2011): 1.4x MOIC / 27% IRR (net)
- BREP Europe IV (2013): 1.1x MOIC / 19% IRR (net)

## **Performance (projected, as of 12/31/14)**

- BREP V (2006): 1.9x MOIC / 11% IRR (net)
- BREP VI (2007): 2.1x MOIC / 14% IRR (net)
- BREP Europe III (2009): 1.9x MOIC / 19% IRR (net)
- BREP VII (2011): 2.0x MOIC / 22% IRR (net)
- BREP Europe IV (2013): 1.8x MOIC / 17% IRR (net)

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## **Market Opportunity**

- Improving US economy
  - Opportunity to “create” core real estate and sell into a deep buyers market
  - Very limited new supply
- Significant distress remains outside the US
  - Up to 40% of Fund capital will be deployed in markets outside the US, providing a geographically diverse portfolio
- Capital Market Dislocation in Asia
  - Significant capital constraints and concerns about decelerating growth in China should provide ample opportunities for the Fund

## **Potential Risks**

- Leverage
  - Although the Fund leverage cap is 85% LTV, Blackstone has historically utilized leverage at much lower levels
  - BREP V (39.1% LTV), BREP VI (34.1% LTV) and BREP VII (56.6% LTV)
  - Blackstone has managed funds with adequate reserves, providing high margins of safety
  - Endeavor to limit fund-level guarantees and cross-collateralization
- Large Fund Size
  - Consistent with size of BREP VII
  - 5+ year Investment Period allows GP to be patient
  - Blackstone global footprint continues to expand
  - Size of global real estate team has grown commensurate with growth of AUM

# **Blackstone Real Estate Partners VIII, L.P. – Opportunistic Real Estate Fund**

## **History with PSERS**

- PSERS has previously committed to BREP V (\$200M), BREP VI (\$400M), BREP VII (\$300M), BREP Europe III (€200M), BREP Euro IV (\$100M) and BREDS II (\$100M)

## **Board Issues**

- Pennsylvania Presence – 84 owned/leased/JV assets across various hotel, multifamily and retail platforms
- Placement Agents – No placement agent used in respect to PSERS' commitment; Blackstone utilizing international financial institutions to serve as placement agents with respect to high net worth feeder funds
- PA Political Contributions – None
- Relationship with Consultant – No

## **Recommendation**

- Staff, together with Courtland Partners Ltd., recommends that the Board invest an amount not to exceed \$300 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.

# COURTLAND PARTNERS, LTD.

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February 10, 2015

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

**Re: Blackstone Real Estate Partners Fund VIII, L.P.**

Dear Trustees:

Courtland Partners, Ltd. ("Courtland"), having been duly authorized by the Board of PSERS, has evaluated Blackstone Real Estate Partners VIII, L.P. (the "Fund"). Blackstone intends to continue to focus on acquiring high quality assets by targeting large, complicated situations where competition is limited and its ability to move quickly is an advantage. BREP VIII will seek opportunities around the world with a primary focus on the U.S. Blackstone's goal is to acquire distressed and/or undermanaged properties at below market prices, execute a strategy to fix the issues, and thereby create assets that can be sold to core real estate owners at higher values. This strategy has been successfully utilized by Blackstone in its prior funds.

Blackstone expects to continue to pursue the investment themes that it has successfully utilized in prior funds, including the following: (i) large, complex transactions; (ii) public to private transactions; (iii) mispriced sector investments; (iv) dispositions by motivated sellers; and (v) international investing in Europe or Asia.

BREP VIII will continue to focus the BREP strategy on acquiring the best assets in the best markets at discounts to estimated replacement cost. Blackstone strives to make investments with multiple exit strategies, including: initial public offerings, private one-off sales, portfolio sales within certain themes, and mergers with existing public entities.

As one of the largest real estate investors in the world, Blackstone developed a strong network of international relationships with leading owners of real estate, financial institutions, operating partners, senior business executives, and government officials. These relationships form the backbone of the Firm's investment-sourcing network. This network has allowed the Firm to access key information and investment-execution resources at critical points in the investment process. Blackstone has, and expects to continue to have, a significant volume of deal flow.

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

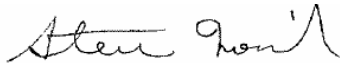
- Detailed due diligence, including on-site interviews with key Blackstone management team members, and review of all relevant materials provided by Blackstone.
- Evaluation of the Fund's proposed investment strategy within the context of the current investment environment.

- Evaluation of Blackstone'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 \$300 million to the Fund. Courtland makes this recommendation considering Blackstone'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.**