



Real Estate Update

Investment Advisory Committee

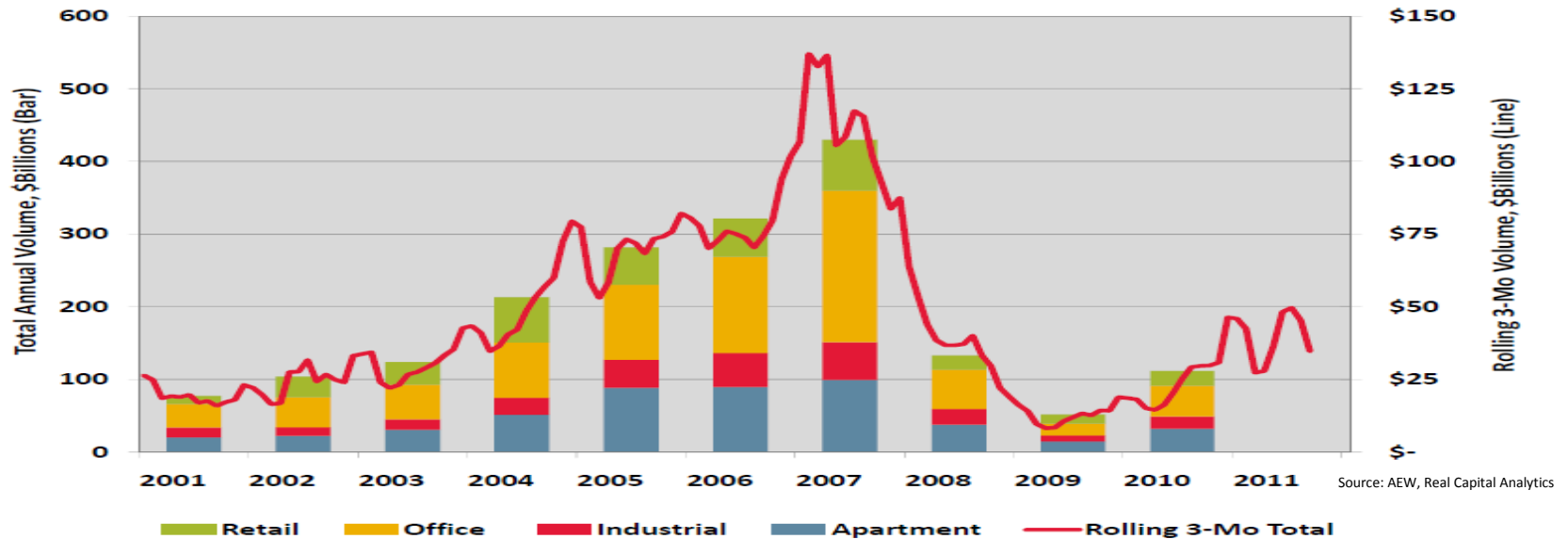
November 14, 2011

Agenda

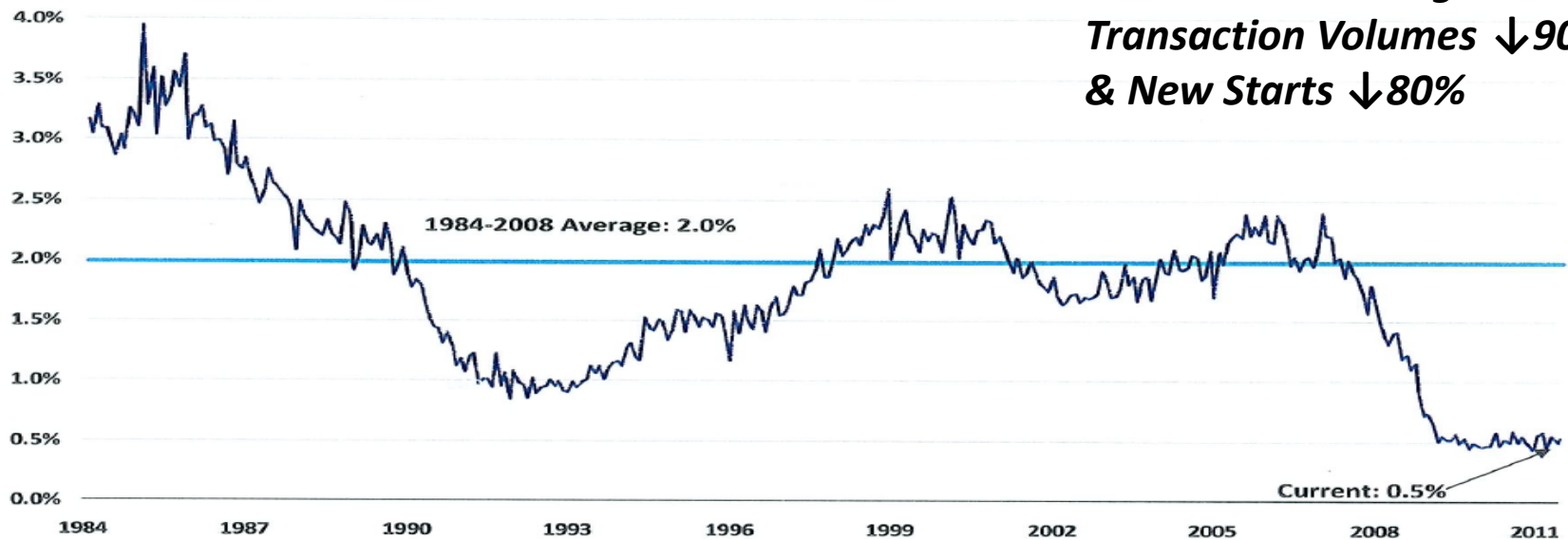
- I. Real Estate Market Review
- II. NCRS Real Estate Investment Portfolio (REIP) Review
- III. 2010/2011 Goal Accomplishments
- IV. Areas of Focus 2011/2012

Challenging Financing Environment Causing Low Transaction Volume & Few New Builds

TOTAL TRANSACTION VOLUME



U.S. Aggregate Construction Starts (Annualized)

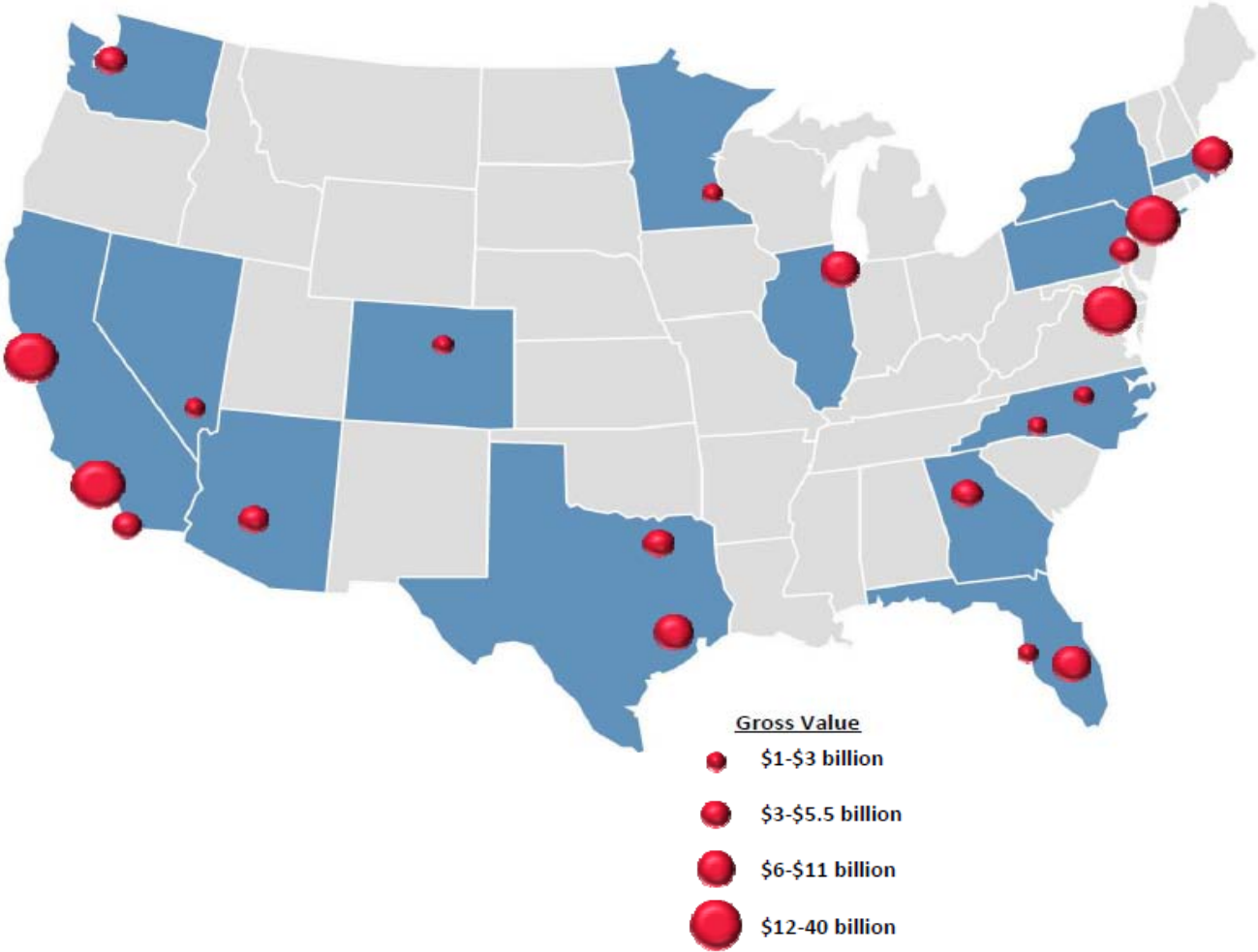


**2007 Peak-to-Trough:
Transaction Volumes ↓90%
& New Starts ↓80%**

Top 20 Most Active US Acquisition Markets

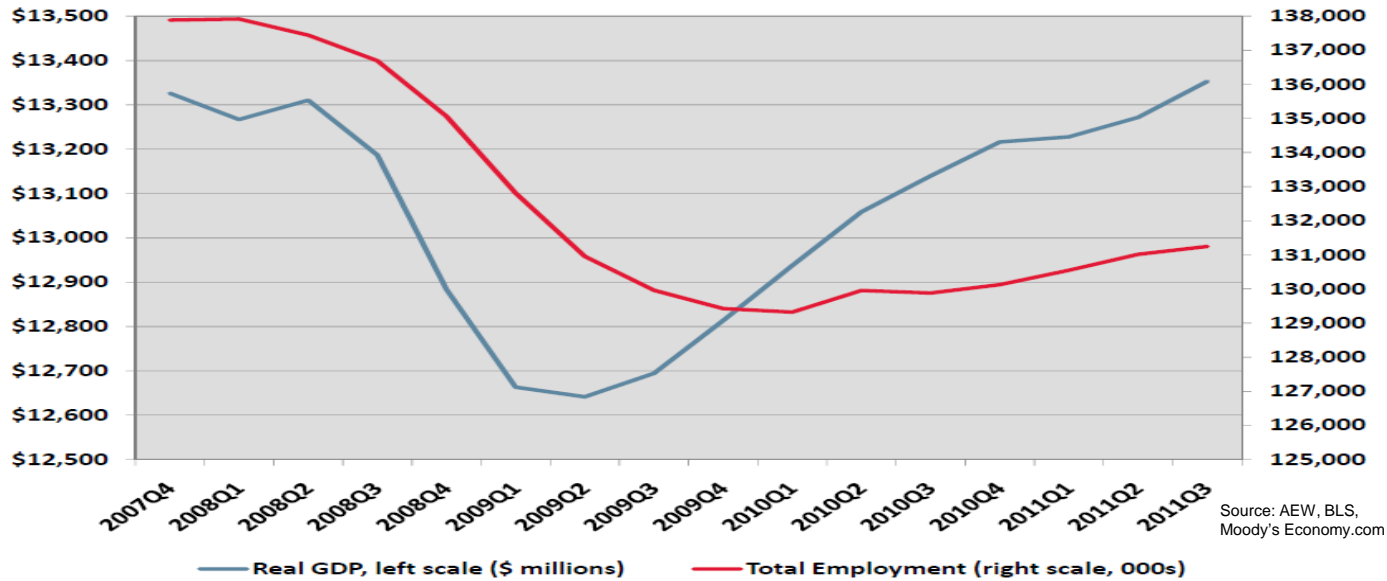
PAST 12 MONTHS

Market	Volume (\$mil)
NYC Metro	\$39,519
DC Metro	\$17,751
LA Metro	\$16,261
SF Metro	\$12,899
Chicago	\$10,944
Boston	\$7,325
Houston	\$6,744
South Florida	\$6,519
Dallas	\$5,609
Philly Metro	\$5,291
Atlanta	\$5,049
San Diego	\$4,641
Phoenix	\$4,512
Seattle	\$4,115
Denver	\$3,109
Tampa	\$2,260
Las Vegas	\$1,656
Raleigh/Durham	\$1,643
Charlotte	\$1,633
Minneapolis	\$1,565



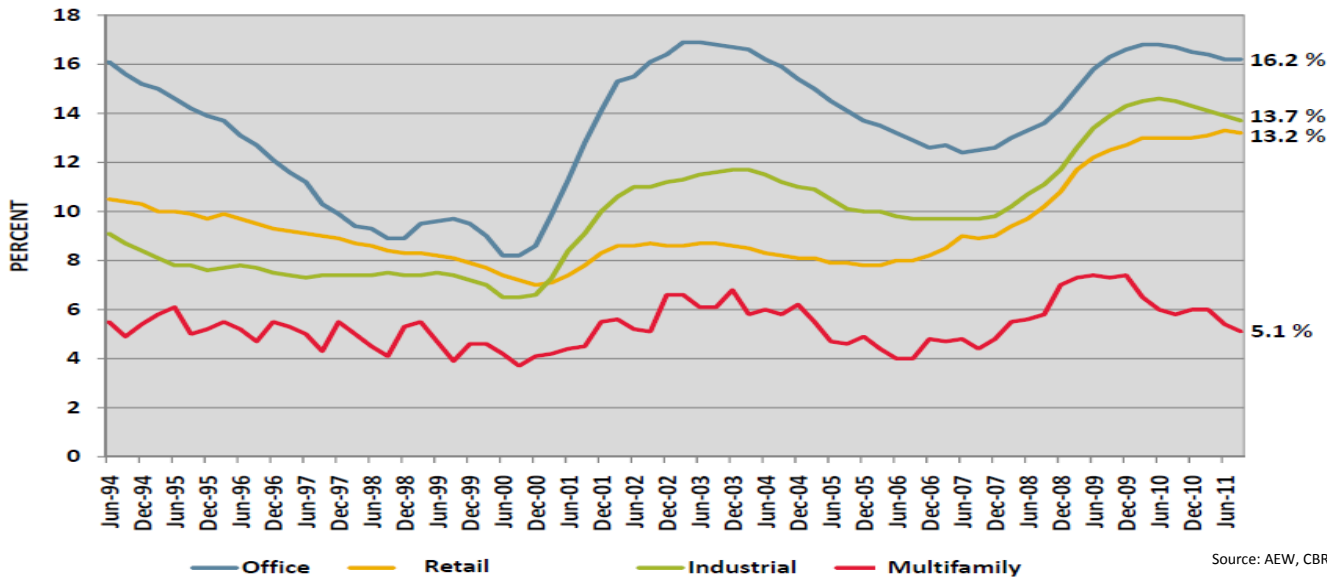
US Employment and CRE Vacancy

TOTAL EMPLOYMENT AND REAL GDP



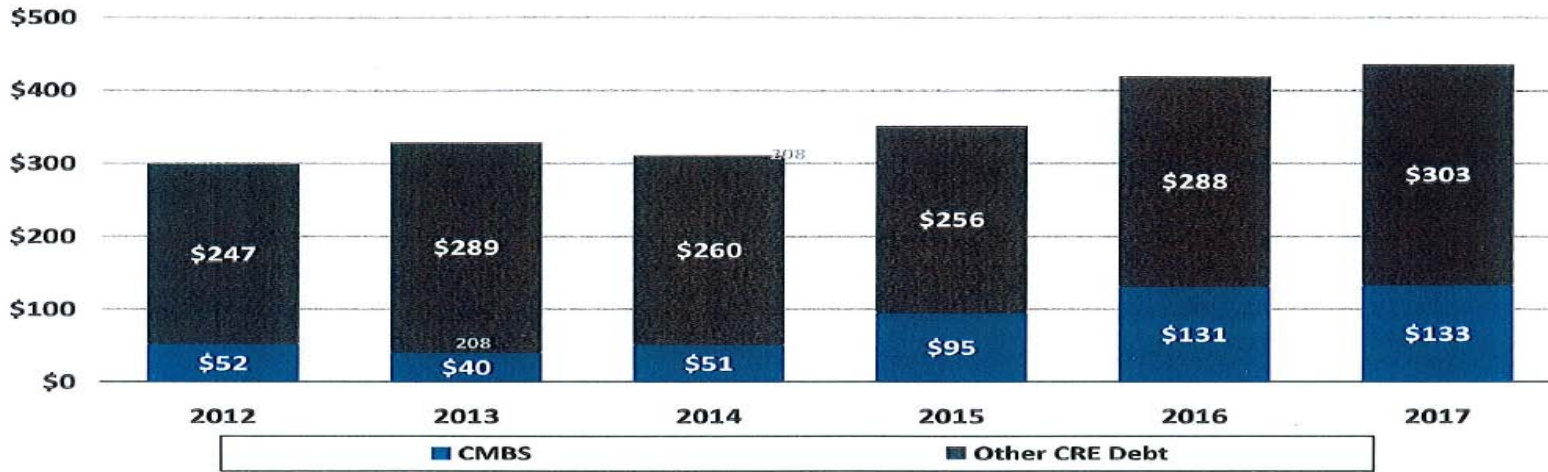
GDP recovery, but more job gains are needed to materially improve CRE Vacancy.

NATIONAL AVERAGE VACANCY RATE BY PROPERTY TYPE (%)



CRE Debt Maturity Schedule, Troubled CMBS by Vintage, & Low New CMBS Issuance

Estimate of Total Upcoming U.S. Real Estate Debt and CMBS Maturities (\$ in billions)



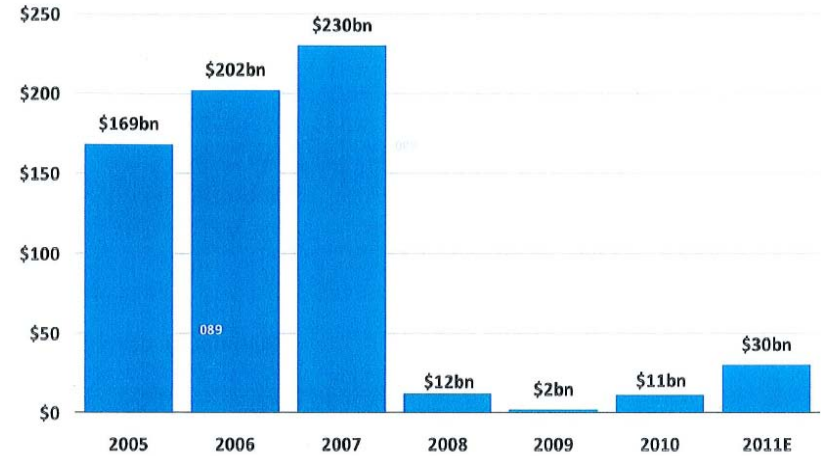
Over \$1.25 Trillion in CRE Debt maturing by 2016 in the US alone.

Source: Barclays Capital.

Troubled CMBS Loans by Vintage

Redacted: Contains confidential information provided by a vendor.

U.S. CMBS Issuance (\$ in billions)



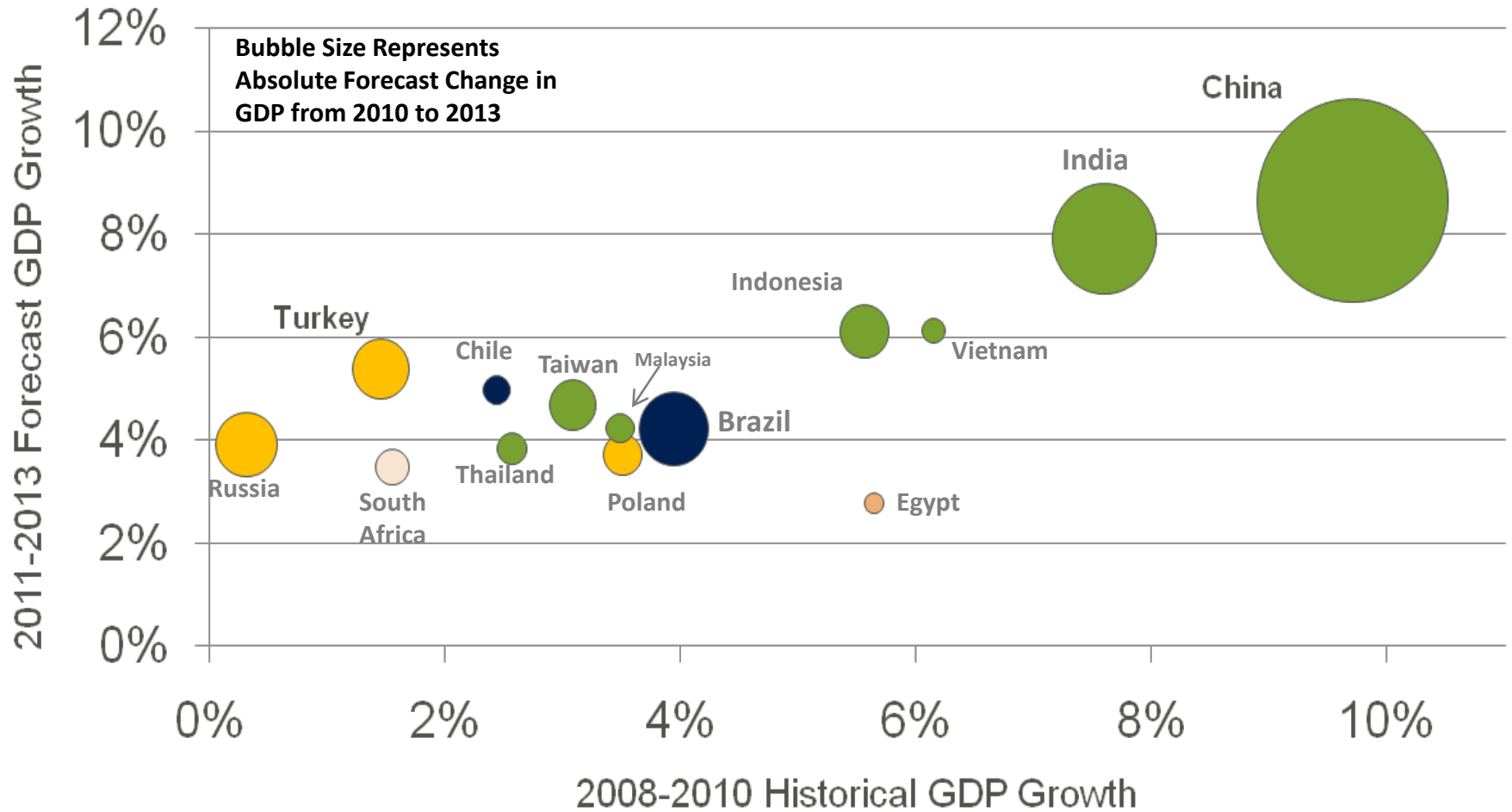
Source: JPMorgan "CMBS Weekly Report" Oct. 2011

Debt markets remain constrained and a large volume of looming maturities will add to existing troubled loans. This provides an opportunity for those with capital.

All Emerging Markets are Not Equal

BRICs + Turkey + Indonesia to Drive 40% of Global Growth

Historical vs. Forecast GDP in Key Emerging Markets

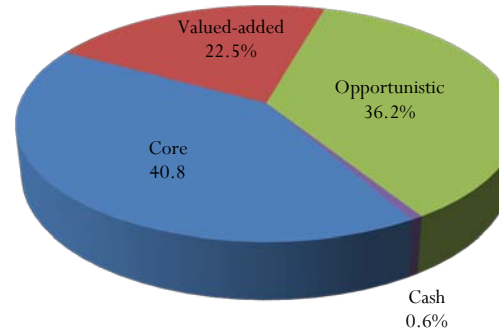


Real Estate Investment Portfolio Overview

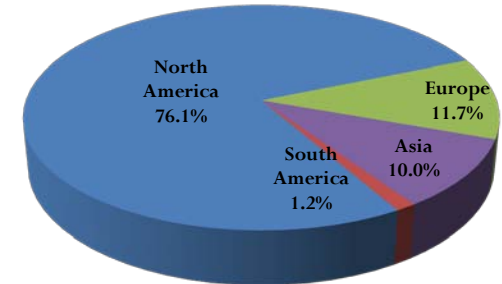
REIP Key Facts: \$4.7 Billion Market Value. 81 Investments via 41 Managers.
\$2.4 Billion of Remaining Commitments.

	Actual <i>(as of 9/30/11)</i>	Target
% of Total Plan:	6.8% <i>5.6%</i> <i>(as of 6/30/11)</i>	8.0%
Leverage:	40.9%	<55%
Liquidity:	29.2%	≥20%
REITs as % of REIP:	7.2% <i>9.7%</i> <i>(as of 6/30/11)</i>	10.0%

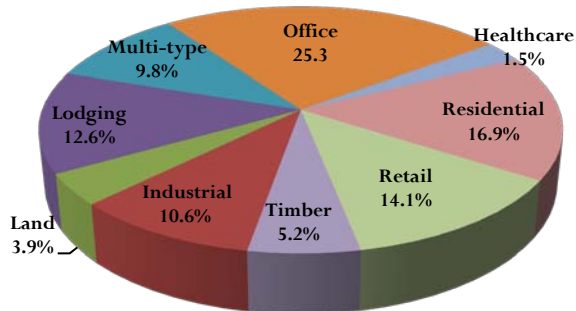
Risk Profile:



Geographic:



Property Type:



Manager Concentration By Market Value:

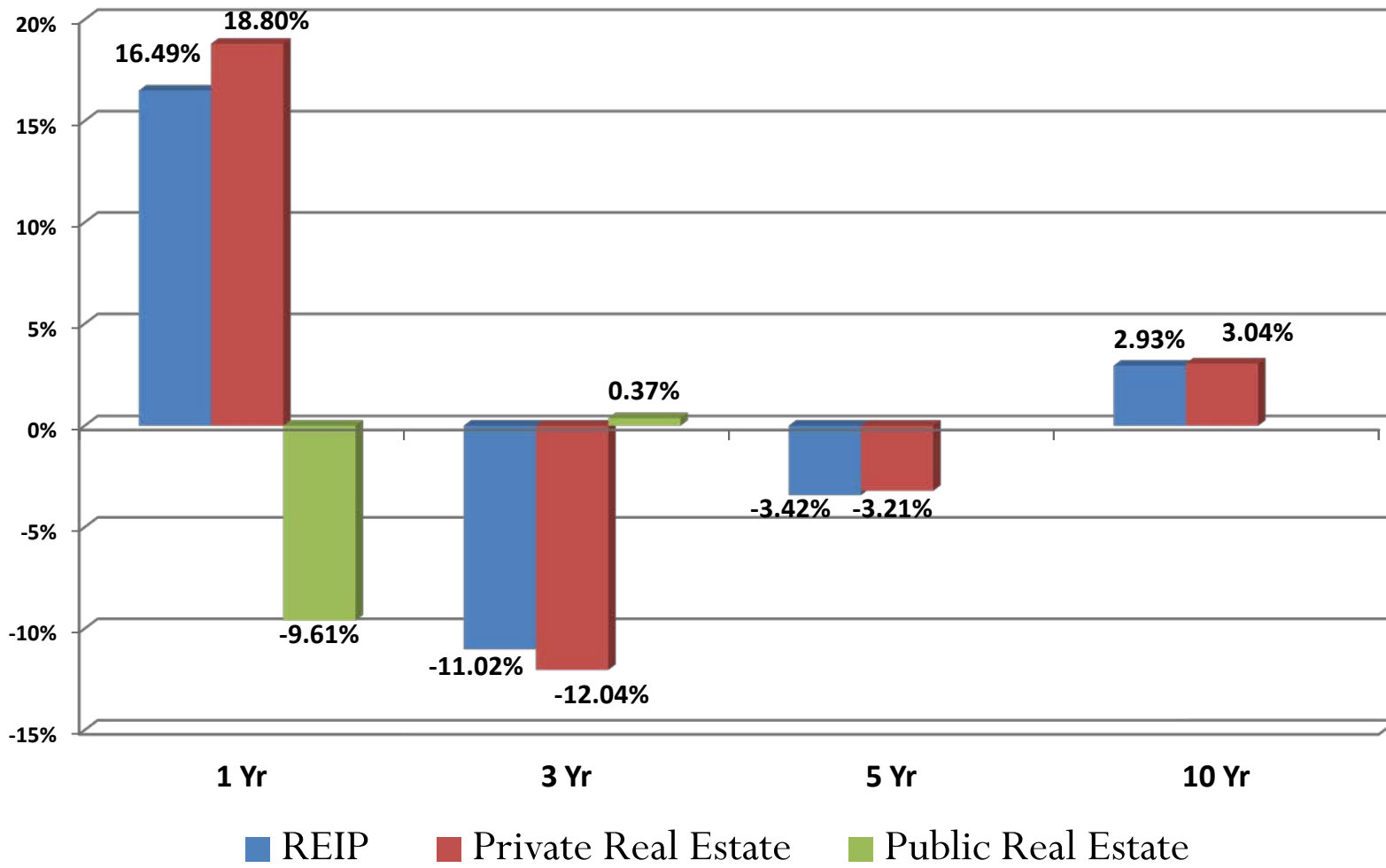
1. Morgan Stanley
2. Rockwood Capital
3. JP Morgan
4. Blackstone
5. UBS

By Market Value + Remaining Commitment:

1. Rockwood Capital
2. Morgan Stanley
3. Blackstone
4. JP Morgan
5. Shorenstein

Real Estate Investment Portfolio Performance

as of 9/30/2011



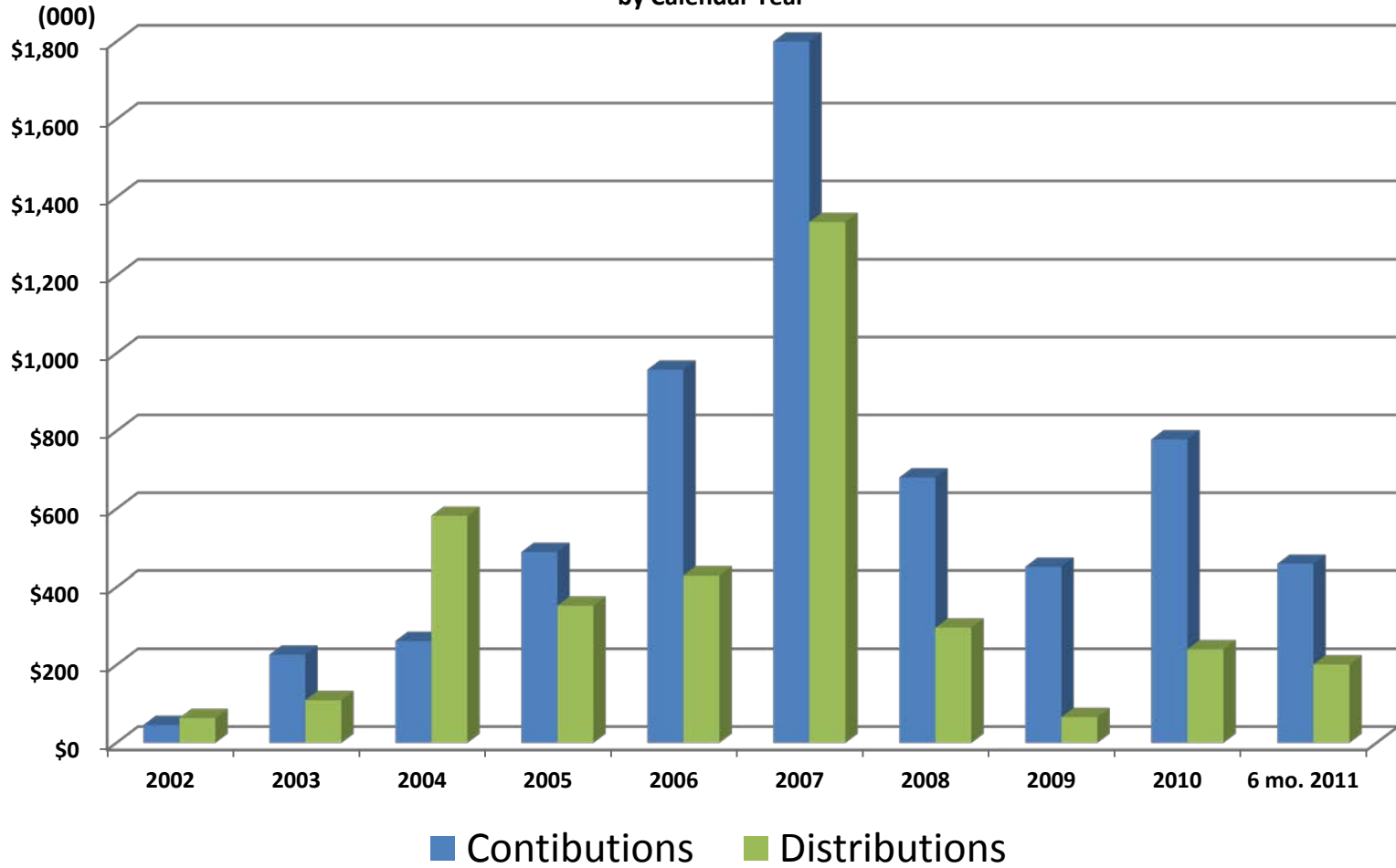
2010/2011 Goals & Results

Risk Profile	Projected	Actual	Notes
Core	\$450	\$437.4	Select Open-end RE Funds currently with long, multi-year entry queues. Re-investment with existing managers.
REITs (Core)	Evaluation	Pending	US overvalued relative to Asia, which is more volatile.
Value	\$470	\$350	Re-investment with existing managers.
Core–Opp. Debt	\$1000	\$750	Reviewed >75, met with 27, full due diligence on 6, 2 closed with 3 pending. 2012 additions expected.
Value/Opportunistic	\$0	\$205	Multifamily program.
Opportunistic	\$120	\$435	Re-investment with existing managers. Added 2 new investment managers.

Historical REIP Cash Flows

Real Estate Cash Flows

by Calendar Year



Areas of Focus 2011/2012 – *limited investing more fine-tuning*

- **Portfolio and Systems Optimization**

Evaluate data and create proprietary systems using cutting edge data and SAS optimization modeling. Build upon existing portfolio management and monitoring systems, cash flow models, and risk and return comparisons.

rationale: the better our systems for analyzing our portfolios the better we can exploit market opportunities.

- **Platform Opportunities**

Evaluate top quartile managers and direct operators in need of capital.

rationale: offers opportunity to build a large portfolio of core assets and have a higher level of control than through co-mingled funds.

- **Re-ups**

Continue to back strongest funds

Focus on value mgrs and select opportunistic mgrs

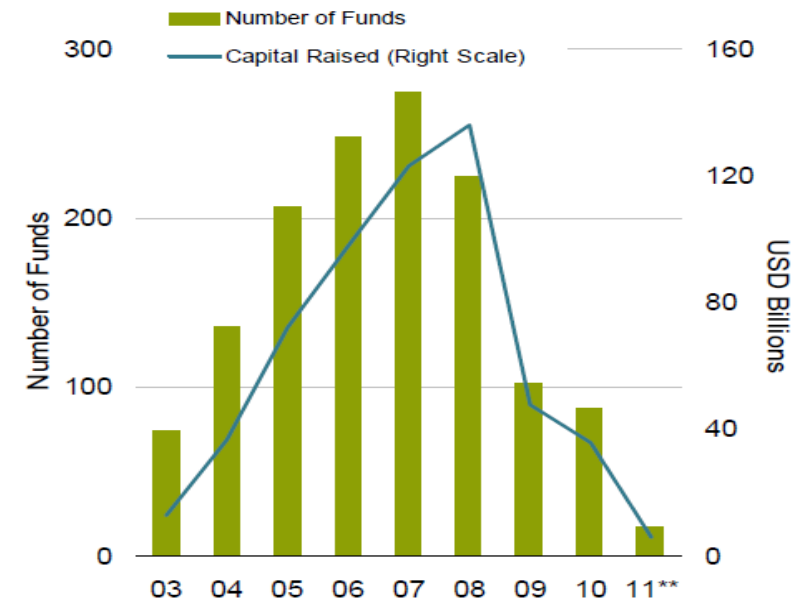
rationale: first-hand knowledge of manager, strategy and track record built over multi-year period.

- **International Opportunities**

Explore geographic diversification

rationale: emerging markets potential cushion from US and global economic weakness; distress in Europe providing high return opportunities.

Real Estate Private Equity Capital Raised (Global)



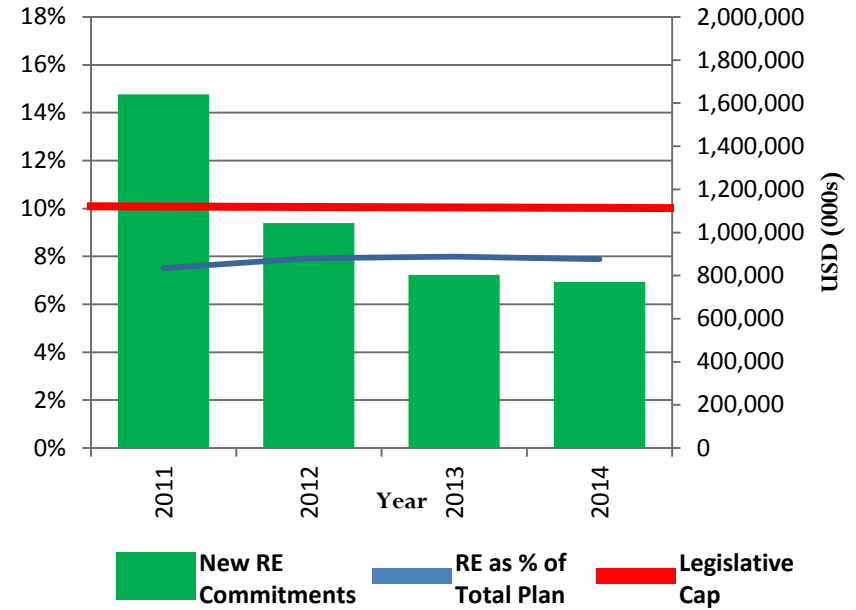
** As of 3/31/11

Capital Budgeting

Base Case Scenario

- Return = 4.25% for Total Plan
(7.25% actuarial hurdle minus 3% CPI constant)
- Attains target allocation of 8% for 2012 - 2014

Real Estate Allocation Forecast



Stress Test Scenarios

- Shows impact of the Denominator Effect
- Maintains compliance with Legislative Cap

Real Estate as % of Total Plan

	2011	2012	2013	2014
0%	7.5%	7.9%	8.0%	7.9%
-5%	7.9%	8.3%	8.4%	8.3%
-10%	8.3%	8.8%	8.9%	8.8%
-15%	8.8%	9.3%	9.4%	9.3%
-20%	9.4%	9.9%	10.0%	9.9%