



NATIONAL COUNCIL ON TEACHER RETIREMENT

Annual Convention

October 12, 2010

Real Estate Trends

Moderator:

Jim Clayton, Cornerstone Real Estate Advisers

Panelists:

John Virtanen, New York STRS

Janet Becker-Wold, Callan Associates Inc.

Kevin Faxon, J.P.Morgan Asset Management



Real Estate as an Asset Class



2003

Why Real Estate?

2005

Why Real Estate? *And How? When? Where?*



2007

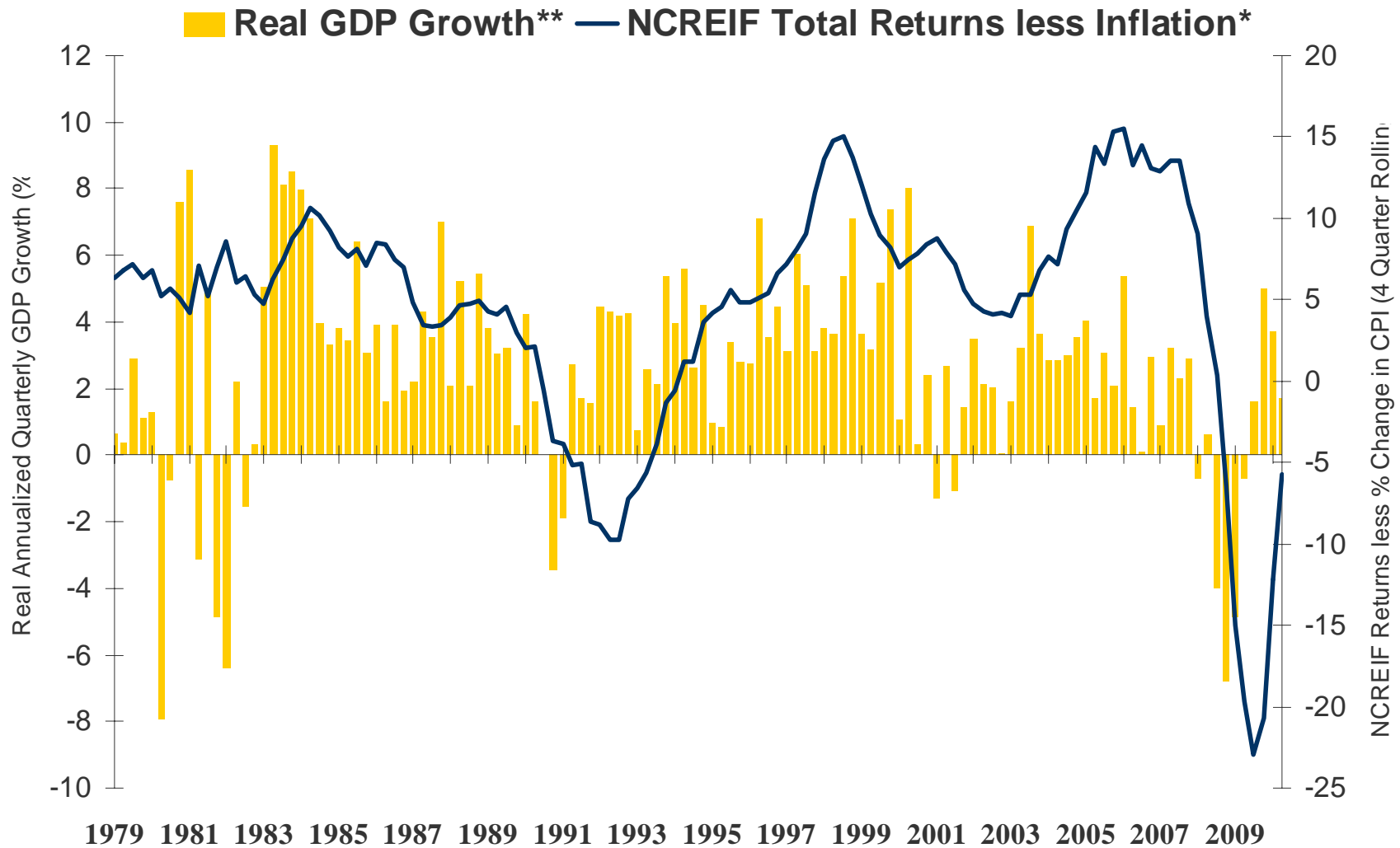
Real Estate Comes of Age

2009

Real Estate's Evolution as an Asset Class



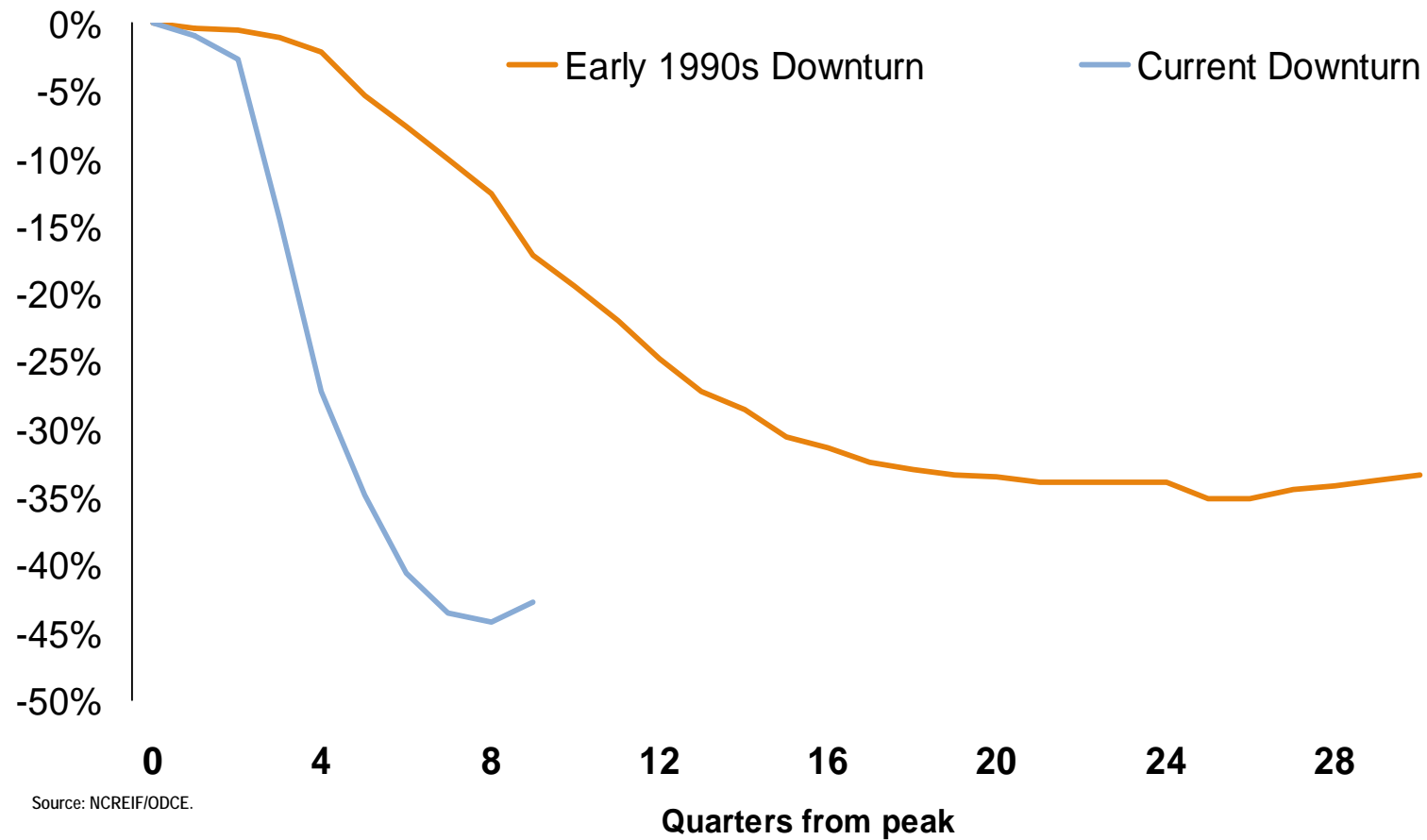
The Business and Real Estate Cycles



*4 quarter rolling sum of NCREIF total returns less the percent change in CPI, through 2Q10. ** Actual real GDP figures through 2Q10, forecasts thereafter.
 Source: Cornerstone, NCREIF, Bureau of Economic Analysis (BEA) and Economy.com as of 9-7-10.

Institutional Fund Equity Valuations Written Down at a Rapid Rate in the Current Downturn ... up in 2Q10

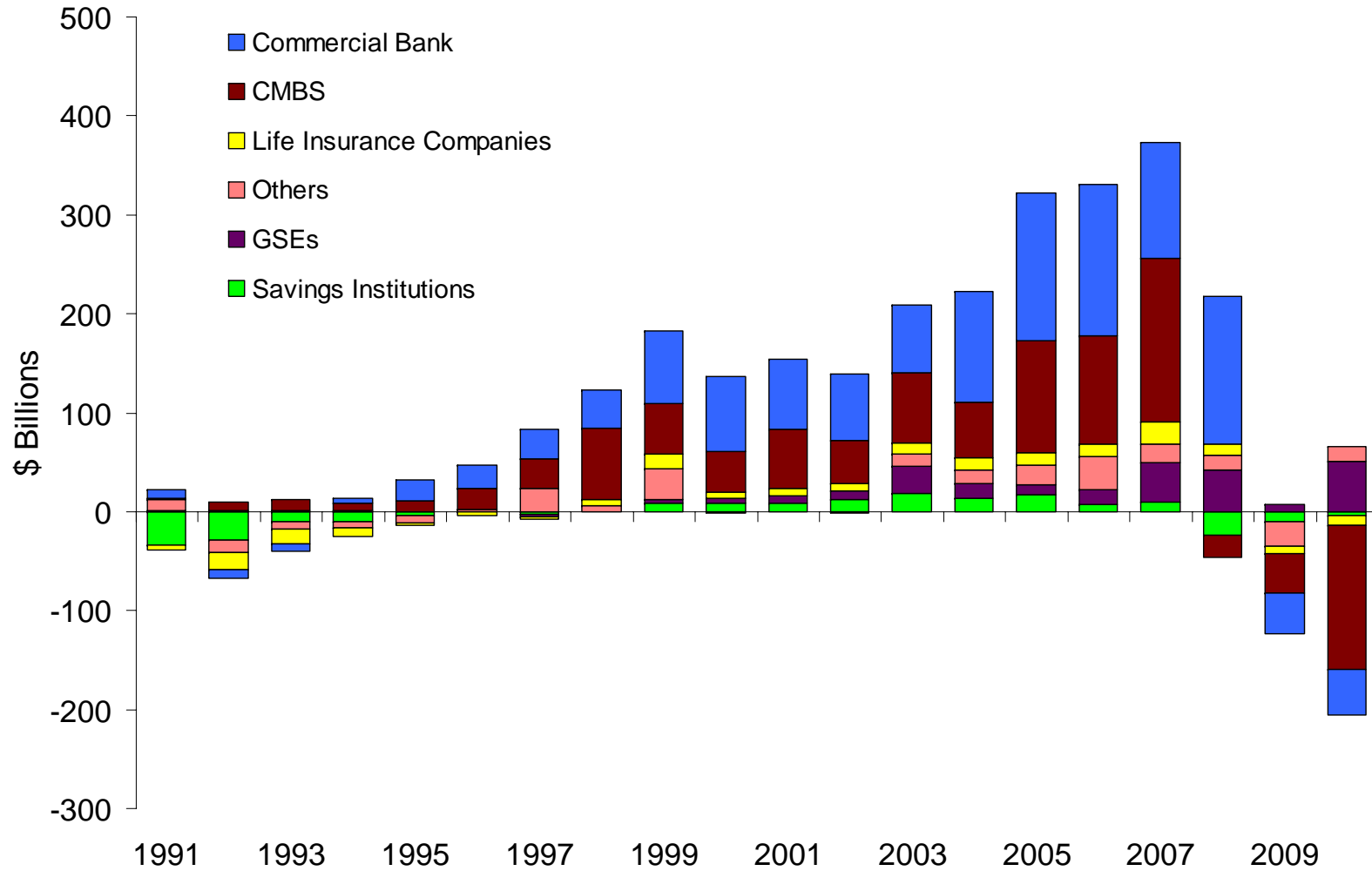
Cumulative Change in Capital Component of NCREIF ODCE Index



Debt Maturity/Equity Gap Issue Remains a Major Concern

Deleveraging & Recapitalization in the Early Stages

Change in Balance of CRE & Multifamily Mortgage Loans by Lender Type



Source: Federal Reserve Flow of Funds



Why Invest in Real Estate?

Rationale

- ✓ **Diversification**
- ✓ **Competitive Returns**
- ✓ **Generate Income**
- ✓ **Inflation protection component**

Did it Deliver on the promise?

Second best diversifier to equities outside US fixed income

NCREIF has exceeded returns of other major asset classes (US/non-US equity and fixed income)

Income component has remained steady despite ups and downs in appreciation

Positively correlated to CPI



Current Market Environment

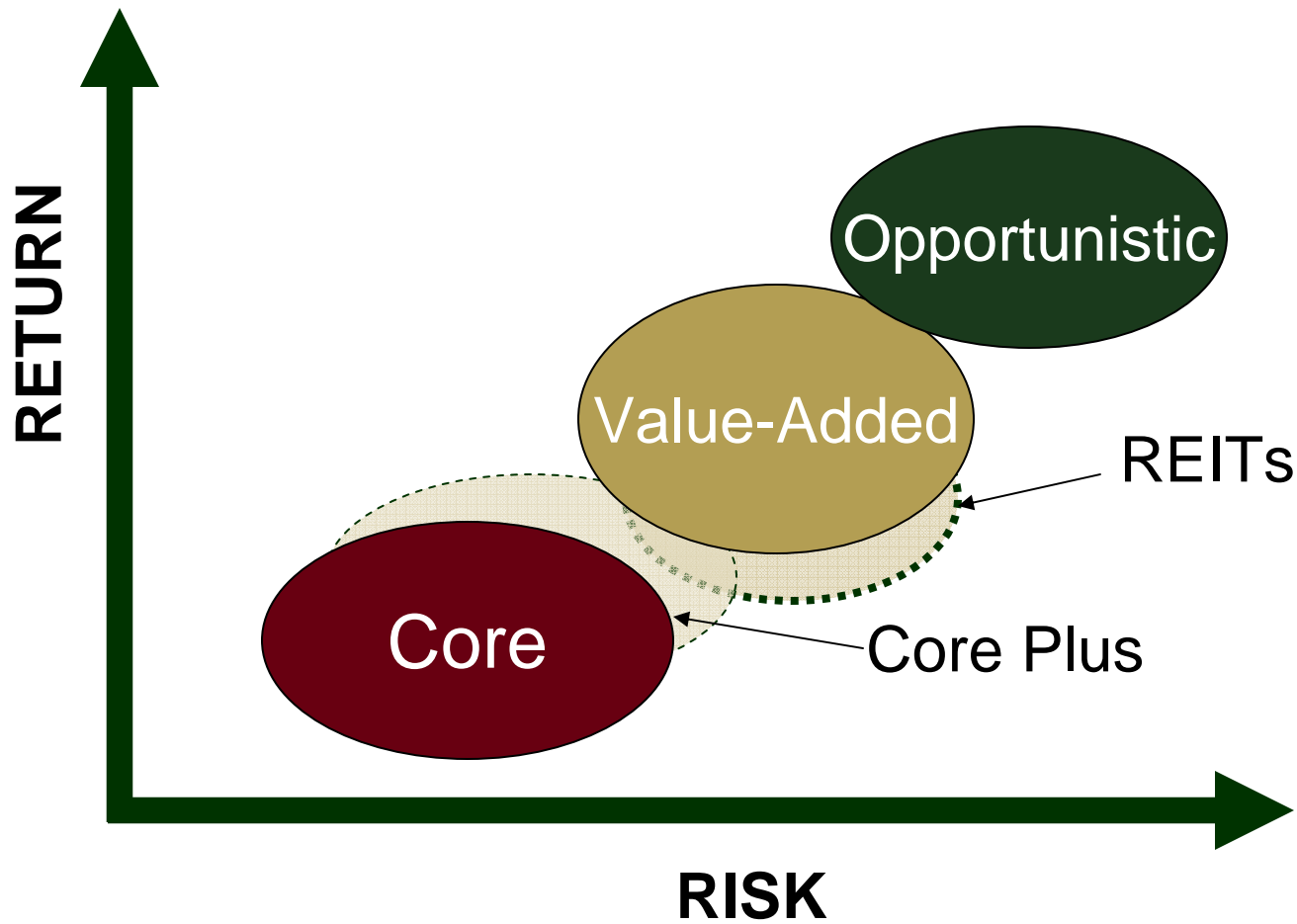
Opportunities

- Reposition portfolio and gain valuable insights on the market and manager universe
- Develop long term strategic perspective
- Take advantage of unique market opportunities
- Gain vintage year diversification
- Employ leverage with low rates on core strategies

Challenges

- Manager instability and change, consolidation
- Repositioning portfolios that had hidden risks or strategies that had style creep:
 - ◆ too much leverage
 - ◆ non-core assets in core strategy
 - ◆ difficult structures (e.g. JVs)
- Significant value declines in non-core portfolios
- Significant competition for core deals in the current market
- Exit queues now entry queues
- Forward commitments

Institutional Real Estate Risk Levels (“Styles”)

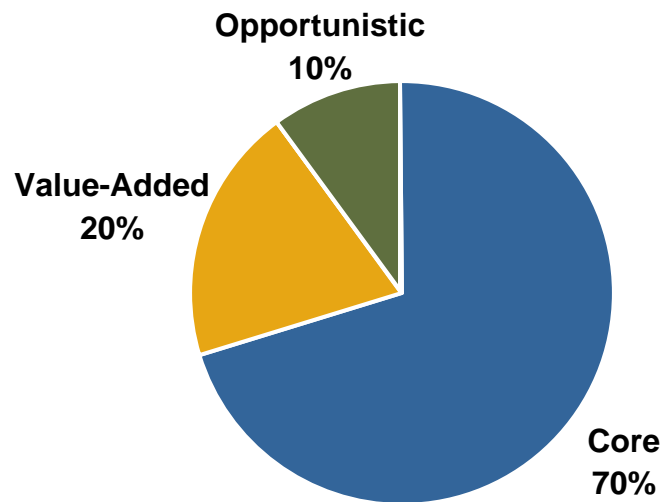




Real Estate Search Activity

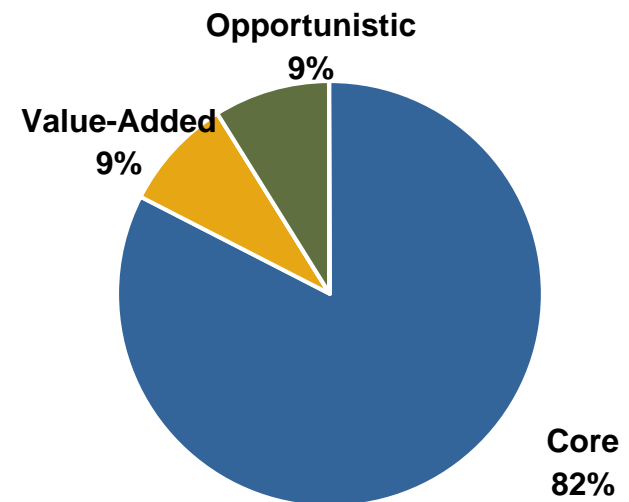
by Type of Mandate: Year-to-Date 2010

Percent of Searches



Year-to-Date = 20

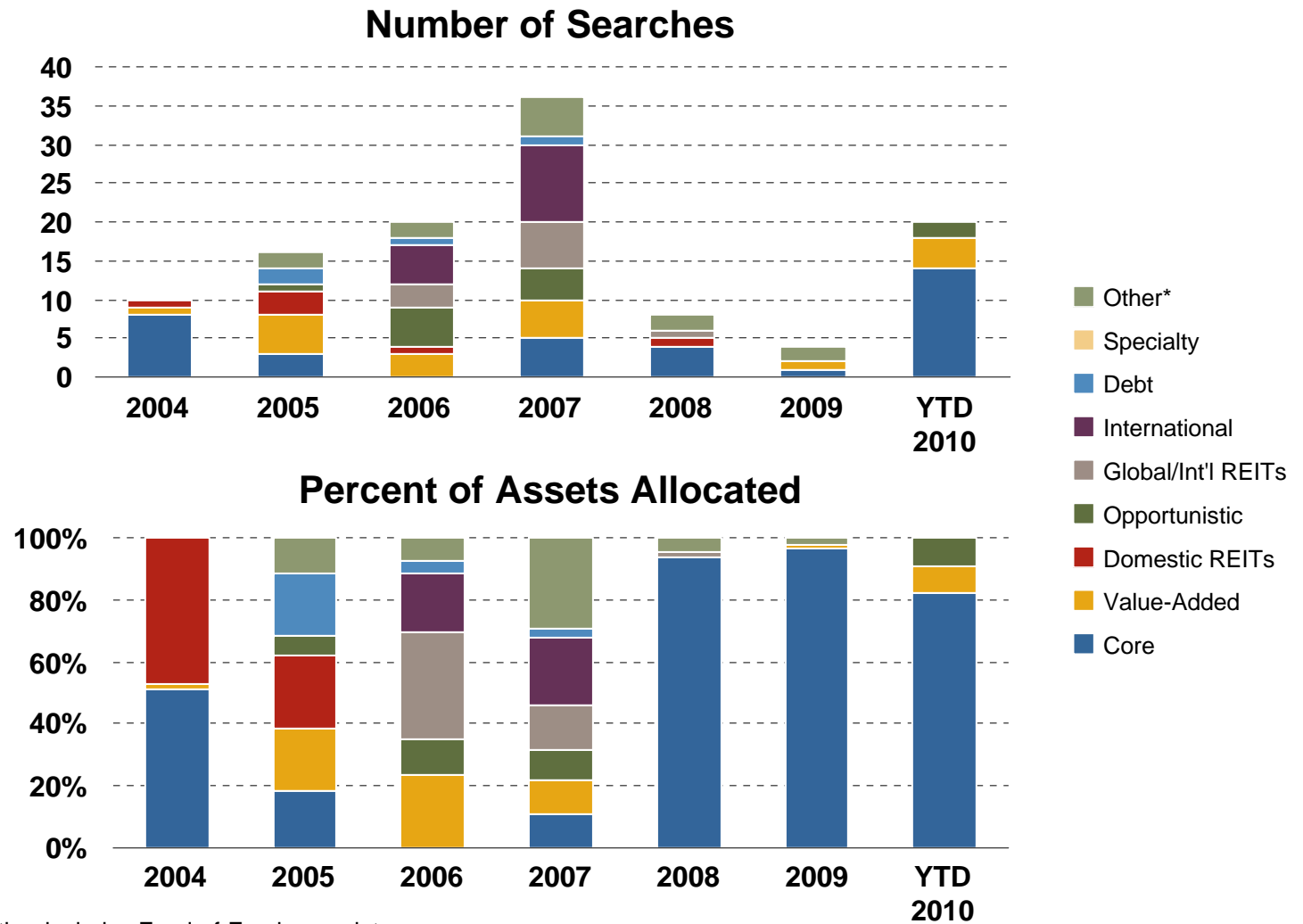
Percent of Assets Allocated



Year-to-Date = \$1,666mm



Real Estate Historical Searches by Type of Mandate





NATIONAL COUNCIL ON TEACHER RETIREMENT

Annual Convention

October 12, 2010

Q&A

Real Estate Trends

Jim Clayton, Cornerstone Real Estate Advisers

John Virtanen, New York STRS

Janet Becker-Wold, Callan Associates Inc.

Kevin Faxon, J.P.Morgan Asset Management

