

Morgan Stanley

March 29, 2007

Mr Michael DiRe
Director of Real Estate

Mr Henry Thomas
Real Estate Investment Officer

California State Teachers' Retirement System
7667 Folsom Boulevard
Sacramento, CA

BY EMAIL

Dear Mike and Hank,

On behalf of Morgan Stanley Real Estate, the funds that it sponsors, the separate accounts and co-investment vehicles that it manages, which have enjoyed a long and successful history with CalSTRS as an investor, we are pleased to provide input with respect to CalSTRS' Disclosure of Contribution and Gifts Policy and Prohibitions on Certain Campaign Contributions (collectively, the "Policy") and the requests associated with incorporating the Policy into CalSTRS' investments into our real estate private equity vehicles. As a fund sponsor and manager, we have always cooperated closely with our public pension fund investors to ensure that Morgan Stanley and the investors operate within the legal, regulatory and other confines particular to those investors and the special fiduciary positions associated with their organizations.

Since our investment vehicles are managed by affiliates of both registered investment advisers and registered broker-dealers, which are regulated by the SEC, NASD, the NYSE and other regulatory bodies, Morgan Stanley Real Estate is already subject to a number of restrictions governing the giving of gifts and political contributions to our clients. Additionally, because these managers are also each subsidiaries of Morgan Stanley, a NYSE listed public company, they are subject Morgan Stanley's own internal policies on gifts and political contributions as well as the Federal Corrupt Practices Act. Accordingly, we feel that incorporating the Policy and the requested side letter provisions are unnecessary.

While we support the goals of the CalSTRS Policy, including the transparency the Policy demands, we are troubled by the way that the Policy is proposed to be incorporated into

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the investments to be made in our real estate vehicles. In particular, the remedies for violation, some of which are not set forth in the terms of the Policy itself but rather only appear in the proposed side letter language, that CalSTRS wishes to include are inconsistent with the operations of private equity collective investment vehicles and may have effects that are wildly out of proportion to any potential violation itself, which in any event would be subject to remedies at law even without the side letter. The dual remedies of cancellation of capital commitments and/or withdrawal from the fund may be workable in an open-ended fund such as Morgan Stanley Real Estate Special Situations III where redemption rights exist at all times (subject to applicable lockups and other restrictions built into the relevant partnership agreements), but are incompatible with the investment activities and operations of a closed-end fund such as the Morgan Stanley Real Estate Funds or related co-investment vehicles which may be made available to CalSTRS from time to time, none of which contemplate redemptions and therefore cannot accommodate withdrawal rights. Furthermore, it is our view that granting such a withdrawal right could have significant negative implications on our negotiations with counterparties who want comfort on a vehicle's ability to deliver on future funding obligations (for which we would call capital) and our ability to obtain appropriate fund-level financing with respect to any CalSTRS commitment. This is likely to negatively impact the returns of CalSTRS and our other investors, even in the absence of a violation or exercise of remedies.

Please do not hesitate to contact me to discuss this further. As always, our senior management including Jay Mantz, Owen Thomas and others are available to discuss this with you also.

Regards,



Robert N. Weaver
Managing Director