
Investment Committee Semi-Annual Activity Report

| 5. Real Estate



Fast Facts (06/30/2024)

Net Asset Value (\$ in millions): \$47,404

RE Allocation as Percent of Total Portfolio:

- Current: 13.9%
- Long-term target: 15.0%

Benchmark:

NFI-ODCE Value-Weighted Index

Net of fees (quarter lag)

SOLD!



Canyon Rim

Canyon Rim is a 504-unit garden-style apartment community in San Diego, CA which was acquired in 2020. The asset was sold in Q2 2024 for \$225 million, resulting in a 52.6% net IRR and a 3.5x net equity multiple to CalSTRS.



Harvest Industrial

Acquired in Q4 2019, this 94,225 square foot industrial building in Kent, WA was sold in Q1 2024. The property sold for \$24 million, generating an 8.9% net IRR and 1.14x net equity multiple to CalSTRS.

Real Estate Net Time Weighted Returns

2024 Q2	NAV (\$ in millions)	Current Quarter	1 Year	3 Year	5 Year
Total Portfolio	\$47,404	-1.73%	-10.13%	3.94%	5.20%
NFI-ODCE Net	\$209,222	-2.58%	-12.00%	2.47%	2.56%

*Green cells denote outperformance relative to NFI-ODCE. NFI-ODCE is reported on a one quarter lag.

Real Estate Valuations: Are We There Yet?

Recent volatility in commercial real estate values has gained attention from the financial press highlighting deep discounts and foreclosures, mainly related to office assets. This volatility began shortly after the pandemic in tandem with uncertainty regarding the overall US economy and the Federal Reserve's interest rate policies.

Following a period of near zero interest rates, which benefitted commercial real estate valuations, the rapid rise in interest rates over a short period of time had the opposite effect. Commercial real estate valuations declined and increased general uncertainty regarding commercial real estate markets. Over the past few quarters, the volatility has begun to subside with valuations returning to normalized levels. Notably, the appraisal industry is often criticized for being slow to react to changing market conditions, the benchmark (NCREIF indices), has decreased approximately 20% from the 2022 peak. These changes have generally been the result of higher interest rates and tighter lending standards and not directly related to poor operational performance at the asset, with some exceptions for properties such as office.

The question on the minds of most investors is "where are commercial real estate values today?" Many large institutional investors and asset management firms believe that current appraisals likely reflect today's reset pricing and that they are now "on the mark." The current view that the Federal Reserve may start cutting interest rates this fall and potentially into 2025, has fostered a renewed sense of optimism resulting in an uptick in transaction volumes. CalSTRS staff and consultants believe it is prudent to take a slightly more conservative view and note that benchmark values may continue to reflect an additional quarter or two of modest declines, with the bulk of write downs having occurred.

Lending support to the more optimistic view is a recent research paper published by a respected industry leader, Greenstreet. The firm's proprietary analysis of transaction-based private real estate values and the appraisal-based NCREIF indices (CalSTRS' benchmark) supports staff's view that another ~5% of write-downs may be possible, but also notes that values have been increasing in the private market transactions. The overall conclusion of the report noting that if this trend continues, further appraisal write-downs may not be needed.

Real Estate Market Snapshot: Self-storage

The Self-storage sector has proven resilient in this market cycle, consistently outperforming traditional property types and the ODCE index over the last ten years. Self-storage investments are known for their relatively low risk compared to other Real Estate property types with high cash-on-cash returns and low capital expenditure. The property type has shown greater stability than other property types during economic downturns and an increasing level of transaction volume since 2017.

Real Estate Commitment Activity (January 2024 - June 2024)

Investment Name	Control / Non-Control*	Strategy	Vehicle	Property Type	Amount (\$ in millions)
Lineage JV	Control	Value-Add	JV	Residential	\$125
Hamilton Development Cal JV	Control	Opportunistic	JV	Industrial	\$300
CP Logistics Canada JV	Control	Multiple	JV	Industrial	\$100
Hampshire Cal Industrial JV	Control	Multiple	JV	Industrial	\$300
PCCP Equity Fund X	Non-Control	Opportunistic	Fund	Diversified	\$50
3650 REIT 5	Non-Control	Core	Fund	Debt	\$62
PCCP Credit XI	Non-Control	Core	Fund	Debt	\$150
					\$1,087

* Control Investments are subject to CalSTRS approval for every investment.

Real Estate Disposition Activity (January 2024- June 2024)

Investment Name	Location	Strategy	Vehicle	Property Type	Net Sale Amount to CalSTRS (\$ in millions)
Canyon Rim	California	Core	JV	Residential	\$70
Stratton	California	Core	JV	Residential	\$43
Pacific Corporate Park	Virginia	Core	JV	Office	\$47
La Canada Flintridge Town Center	California	Core	JV	Retail	\$37
Harvest Industrial	Washington	Value-Add	JV	Industrial	\$20
Partial sales and sales returning \$20M or less	Multiple	All	Multiple	Multiple	\$650
					\$867