Atlantic Yards | Atlanta, GA

Real Estate Strategy Semi-Annual Report (Open Session)

Prepared for California State Teachers' Retirement System

As of Q3 2021

RCLCO FUND ADVISORS

Contents

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CalSTRS Q3 2021 Open Session Report

Goals and Objectives

The objective of this semi-annual report is to provide the Committee with an evaluation of the real estate portfolio's alignment with CalSTRS' established goals and policies and the investment opportunities presented by property and capital markets.

To accomplish the above objective, we reviewed the CalSTRS portfolio, policies and limitations, previous recommendations and activities, as well as current and forecasted economic, capital market, and property market conditions.

Current and long-term goals and objectives that the semi-annual report evaluates include:

- A current real estate allocation target of 14% and long-term allocation target of 15%;
- Target a net return benchmarked to the NCREIF NFI-ODCE Index for the core portfolio;
- Allocation based on property stage – stable and value creation (lease-up/reposition and construction) – to maintain an appropriate risk profile; and
- An appropriate level of leverage, with a limit of 50% for the control portfolio and 65% for the non-control portfolio.

Funding Status and Compliance
As of Q3 2021

- The CalSTRS Real Estate Portfolio had a NAV of $42.0B as of Q3 2021, representing 12.8% of the total CalSTRS Fund (~$327.7B), below the current target allocation to real estate of 14%, but within the policy range of 11% - 17%.
- The Real Estate portfolio has outperformed its target return benchmark. The Portfolio has generated a 10-year net TWR of 10.4%, outperforming the ODCE benchmark by 154 basis points.
- The Real Estate portfolio has generated net TWRs of 16.9%, 9.4%, and 9.3% over the 1-, 3-, and 5-year time horizons, respectively, outperforming the ODCE across all time horizons.
- The portfolio is compliant with the targeted allocation by investment strategy and is within the permitted leverage limits as outlined by the CalSTRS Investment Policy Statement ("IPS").

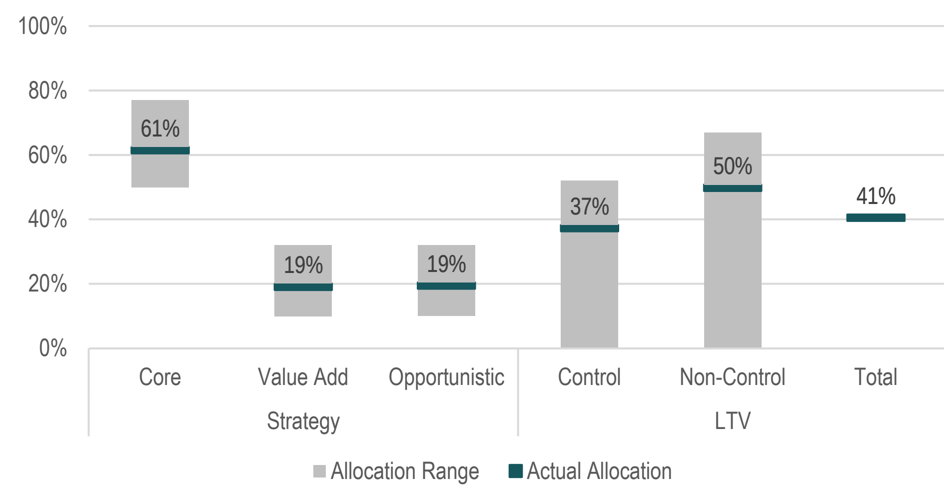
Portfolio Allocation

	$ Billions	% of Total Portfolio
Total Portfolio NAV	$327.7	N/A
Target Real Estate Allocation	$45.9	14.0%
Actual Real Estate NAV	$42.0	12.8%

Portfolio Performance[1]
Net Time Weighted Returns

	Including Legacy				Excluding Legacy			
	1 Yr	3 Yr	5 Yr	10 Yr	1 Yr	3 Yr	5 Yr	10 Yr
Core	15.0%	8.5%	8.6%	10.5%	15.0%	8.5%	8.6%	10.5%
Value Add	18.5%	9.9%	10.5%	13.8%	18.5%	9.9%	10.5%	14.3%
Opportunistic	21.7%	11.7%	10.3%	9.1%	21.8%	13.8%	12.7%	13.1%
Total	16.9%	9.4%	9.3%	10.4%	16.8%	9.6%	9.6%	11.8%
Target Return (ODCE)	13.6%	6.1%	6.6%	8.9%	13.6%	6.1%	6.6%	8.9%

Compliance - Strategy & Leverage[2]



[1]Green cells denote outperformance of the target return metric. The Core portfolio has a net target return benchmarked to the ODCE, while the Value Add and Opportunistic portfolios have net target returns of 50 basis points and 300 basis points over the ODCE, respectively.
[2]Percentages do not account for the portion of Legacy assets.
Source: CalSTRS; State Street; NCREIF

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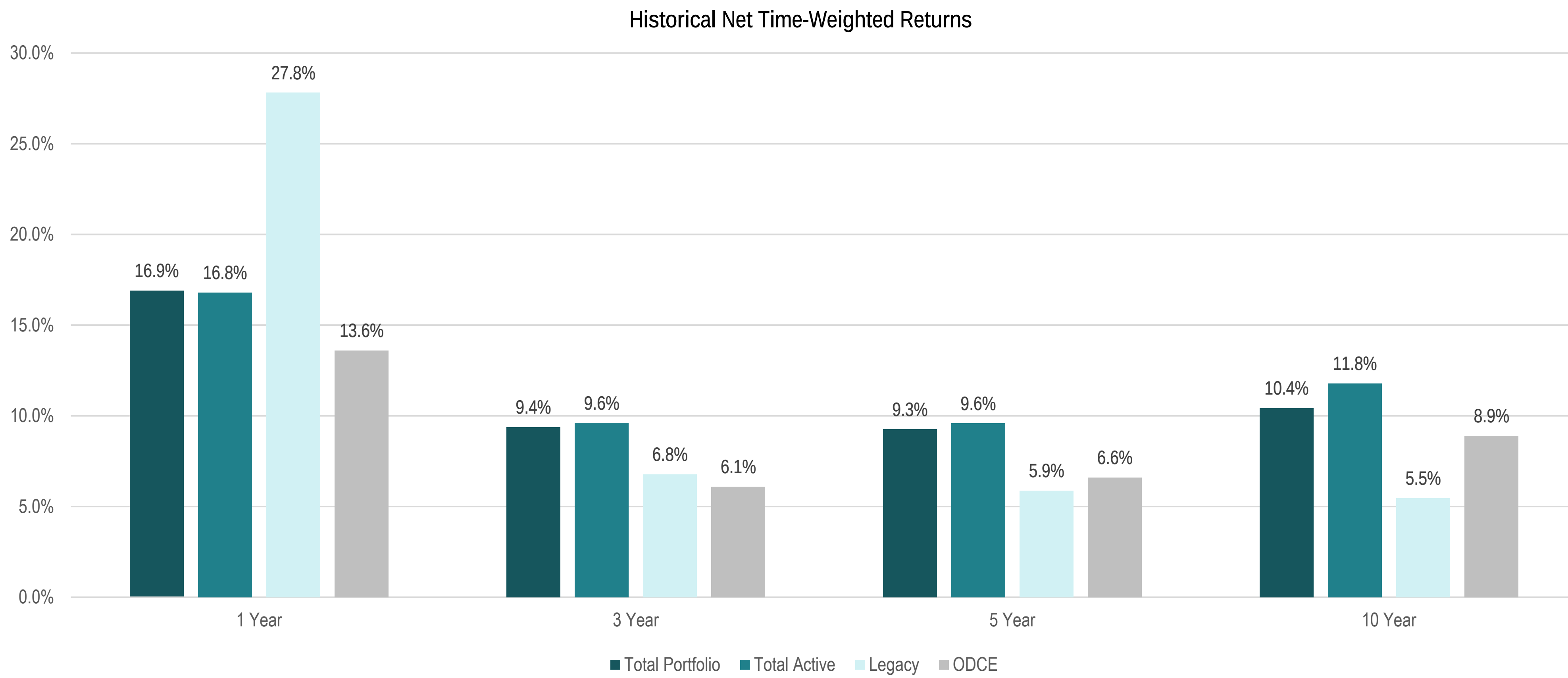
Returns

As of Q3 2021

- The portfolio has consistently outperformed the ODCE over all measured time periods, and particularly over the 1-, and 3-year and 5-year periods, where it has exceeded the benchmark by at least 270 basis points.
- Portfolio returns have been outsized over the past year, driven by appreciation. Income and appreciation returns have been more stable over the 3-, 5-, and 10-year time horizons.



Source: State Street, NCREIF

Current Portfolio Summary

- Real estate NAV totaled $42.0B as of Q3 2021, comprising 12.8% of the total CalSTRS Fund (~$327.7B), which is below the current target allocation to real estate of 14%, but within the policy range of 11% to 17%.
- Since the Q1 2021 Semi-Annual Report, the Real Estate portfolio grew by $4.4B, primarily driven by appreciation, increasing from 12.2% to 12.8% of the total CalSTRS fund.
- Real Estate portfolio returns have exceeded the ODCE benchmark, both with and without Legacy assets, over every measured time period.
- CalSTRS' real estate debt totals $28.2B as of Q3 2021, an increase of $3.7B since Q1 2021. When measured in percentage terms, the LTV of the portfolio increased to 41% from 40% in Q1 2021.
- The LTV of the control[1] portfolio increased by one point to 37% in Q1 2021, well within the newly established limit of 50%. The non-control LTV decreased by one point to 50% as of Q3 2021, in compliance with the newly established 65% LTV limit.
- The allocation of assets by risk profile is 61% to core, 19% to value-add, 19% to opportunistic assets, and 2% to Legacy assets.
- Control investments represent almost 80% of real estate NAV.

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[1] Control investments are those which CalSTRS maintains control over acquisitions, dispositions, and financing, or has high liquidity in normal market conditions.

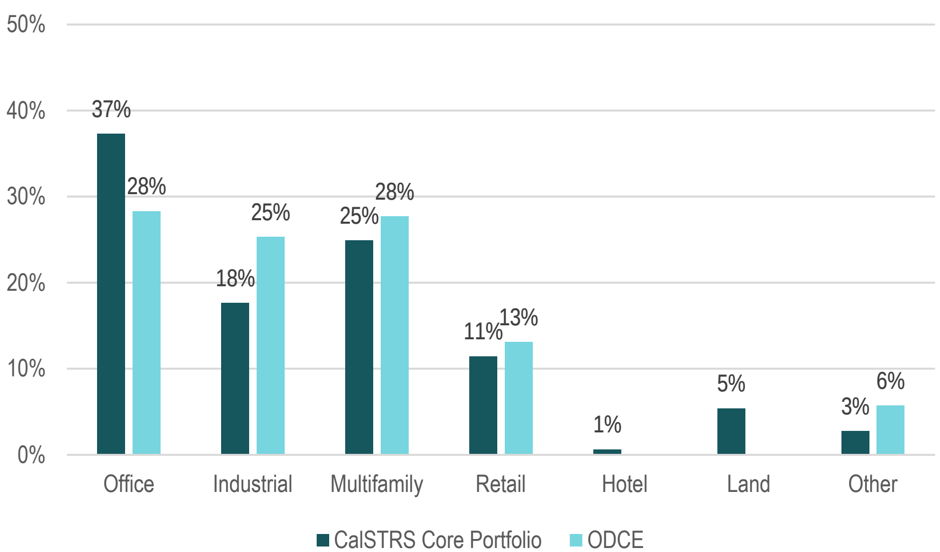
Source: State Street, CalSTRS

Core Portfolio Targets

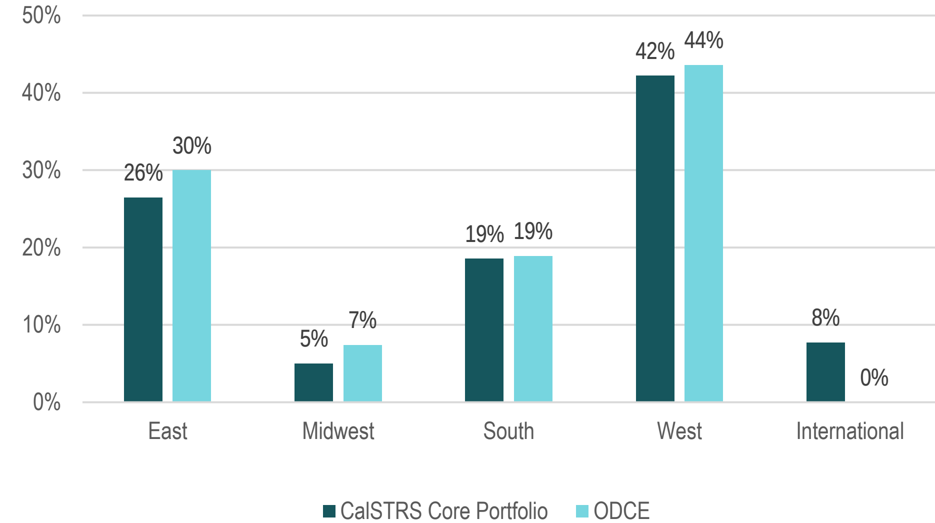
Property Type and Geographic Diversification vs. ODCE

- The CalSTRS core portfolio has property type and geographic diversification targets of +/- 5% of the benchmark ODCE Index, while the value add and opportunistic portfolios do not have location and property type targets.
- The portfolio continues to be underweight industrial by 8% and has decreased its underweight to multifamily from 4% to 3%. The underweights to multifamily and industrial could create drag as these are current and projected winners in the near- to medium-term.
- The allocation to office decreased from 39% to 37% since Q1 2021, driven by $1.6B in office sales in 2021. The outlook for traditional office demand, particularly for older stock remains challenged; however, valuations have remained stable. CalSTRS' office portfolio is overweight office relative to the benchmark 9%, however it contains a larger share of life science. When accounting for life science exposure, the office allocation is closer to the benchmark.
- Regionally, the portfolio is overweight international by 8% compared to the ODCE, which has no international exposure, but all other regional allocations are within the target variance.

Core Portfolio – Property Type Diversification[1]



Core Portfolio – Geographic Diversification



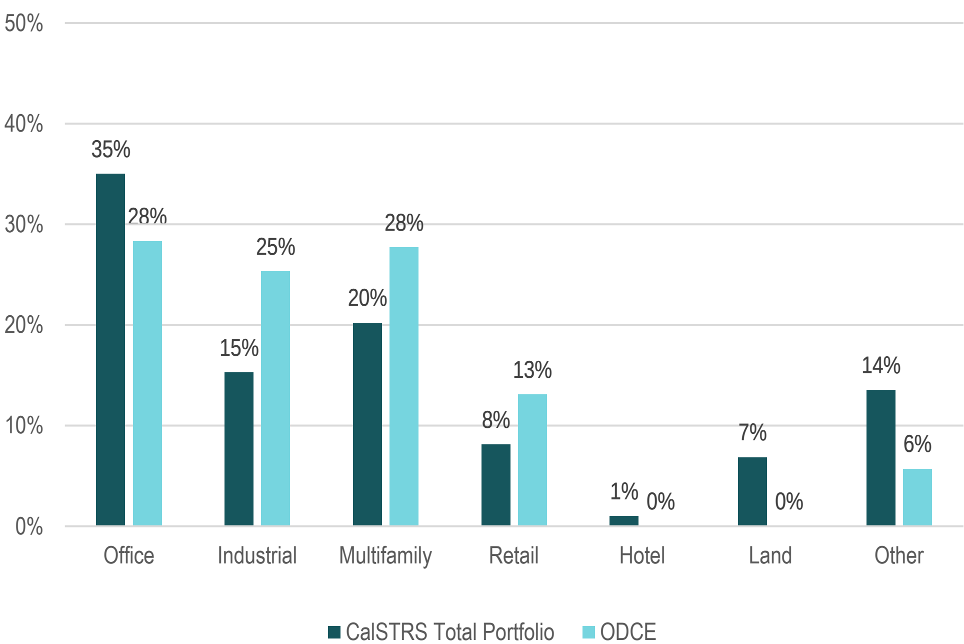
Note: ODCE and CalSTRS' property type and geography weights based on gross real estate value.
[1]"Other" property type category is made up of the following property types in descending order by percentage: Mixed Use, Other, Manufactured, Debt, Senior Living, Diversified, Various, Self Storage, Hospitality, Private Equity Real Estate, Healthcare, Entertainment, Securities, Energy, Public REIT, and Parking.
Source: State Street

Total Portfolio Diversification

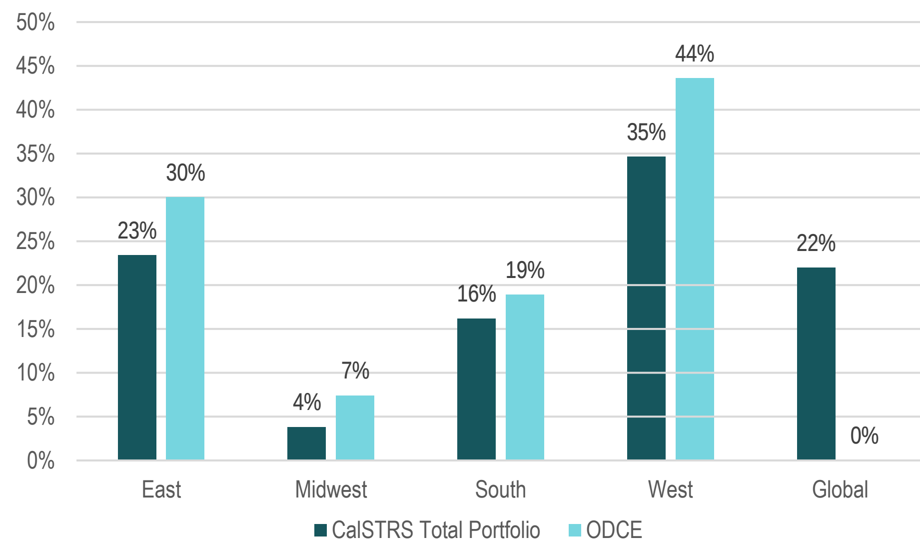
Property Type and Geographic Diversification vs. ODCE

- CalSTRS' total real estate portfolio remains overweight to office investments compared to the ODCE and underweight multifamily, industrial, and retail. The total portfolio has a meaningful allocation to real estate debt investments, increasing the amount in the Other category.
- The allocation to office decreased 2%, though remains 7% overweight relative to the benchmark. When accounting for life science office exposure, the allocation is closer to the benchmark.
- The portfolio continues to be 10% and 8% underweight industrial and multifamily, respectively. The underweights to multifamily and industrial could create drag as these are current and projected winners in the near- to medium-term.
- Regionally, the total portfolio has a greater allocation to global or international investments, compared to the ODCE which is solely comprised of U.S. real estate.

Total Portfolio – Property Type Diversification[1]



Total Portfolio – Geographic Diversification[2]

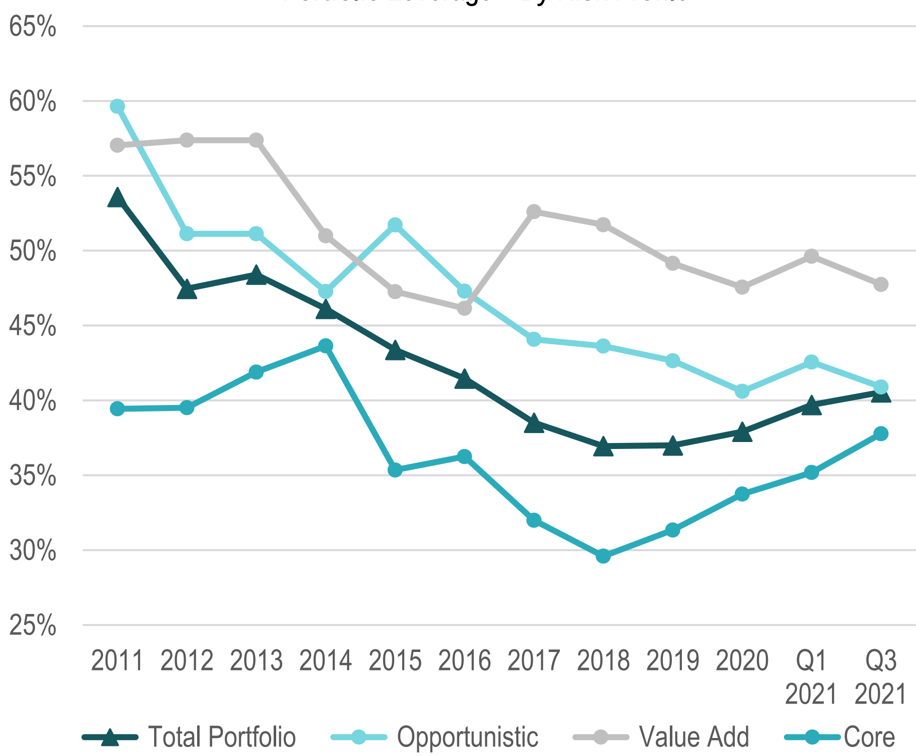


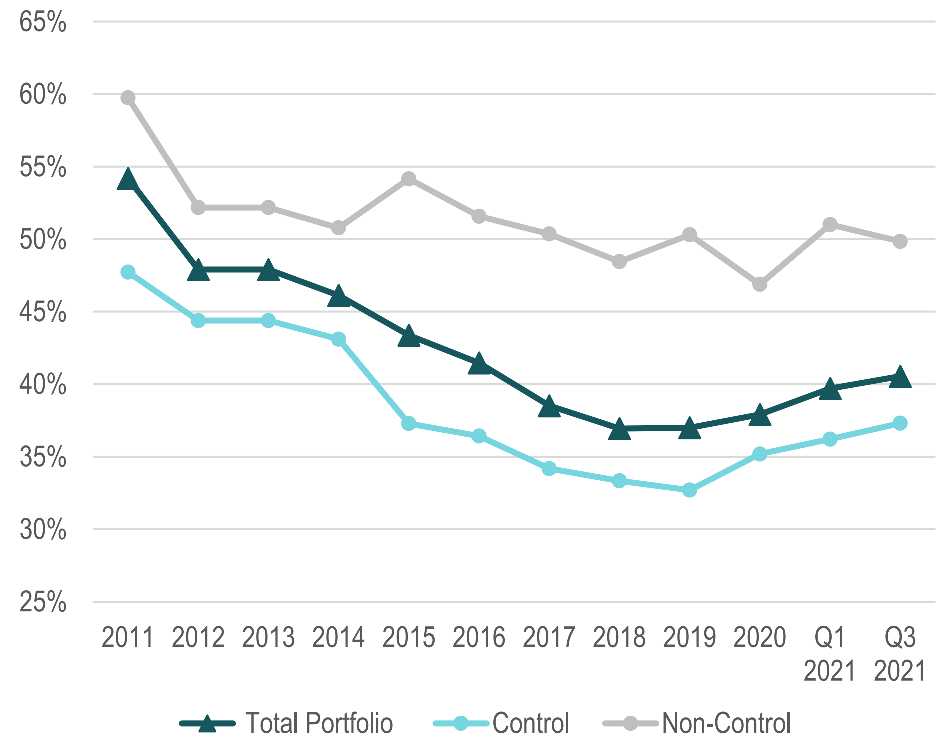
Note: ODCE and CalSTRS' property type and geography weights based on gross real estate value.
[1] "Other" property type category is made up of the following property types in descending order by percentage: Mixed Use, Other, Manufactured, Debt, Senior Living, Diversified, Various, Self Storage, Hospitality, Private Equity Real Estate, Healthcare, Entertainment, Securities, Public REIT, Parking, and Private REIT..
[2] Global includes International and U.S. diversified.
Source: State Street

Total Portfolio Leverage

By Risk Profile and Control

- CalSTRS' real estate debt totals $28.2B as of Q3 2021, an increase of $3.7B since Q1 2021. When measured in percentage terms, the LTV of the portfolio increased to 41% from 40% in Q1 2021. The increase in leverage ratios has been driven primarily by less risky core assets, with LTVs for the value add and opportunistic portfolios declining.
- The LTV of the controlled[1] portfolio increased to 37% from 36% in Q1 2021, well within the newly established limit of 50%. The non-control LTV decreased by 1% to 50% as of Q3 2021, in compliance with the newly established 65% LTV limit.





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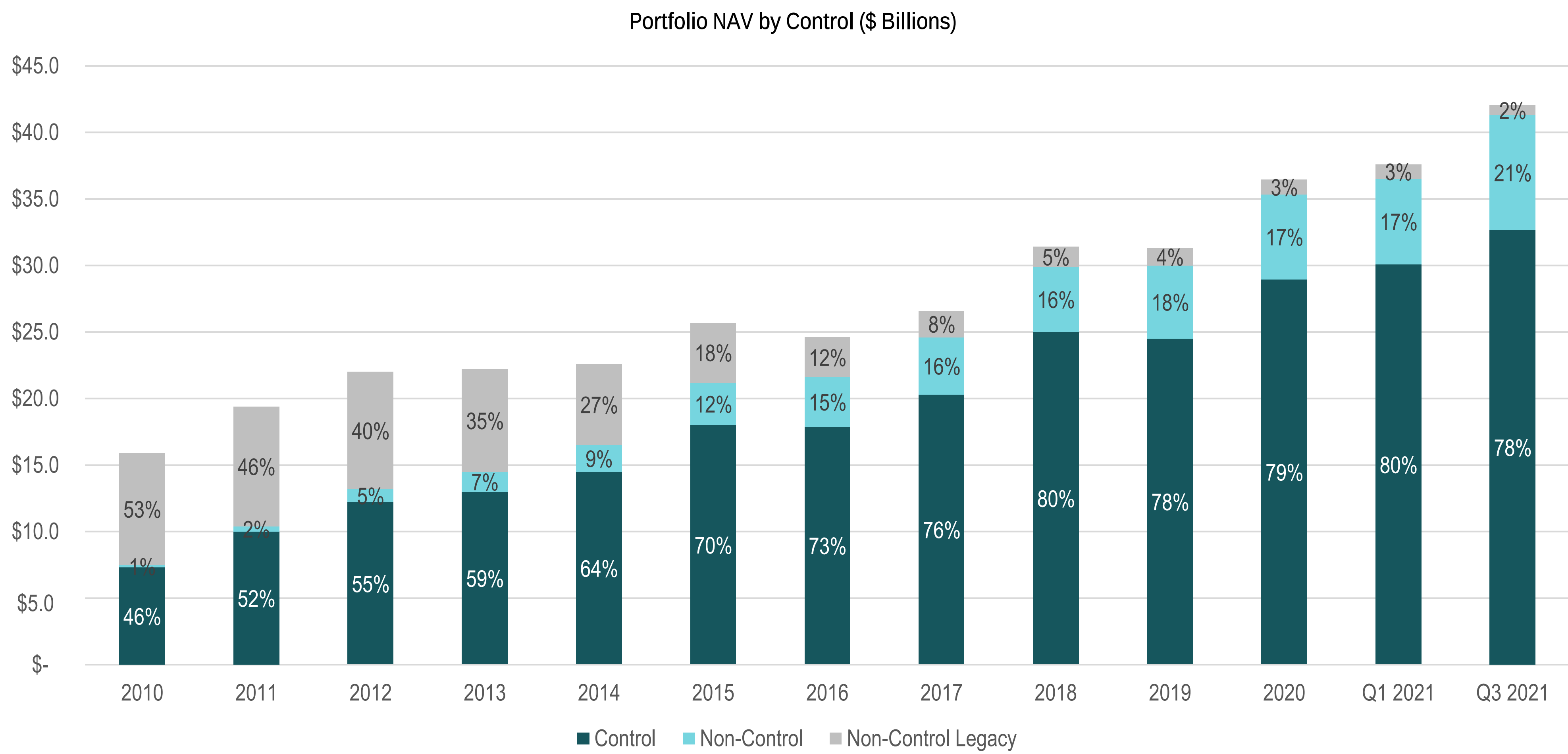
[1] Control investments are those which CalSTRS maintains control over acquisitions, dispositions, and financing, or has high liquidity in normal market conditions.

Source: State Street

Real Estate Portfolio Growth

Portfolio NAV by Control

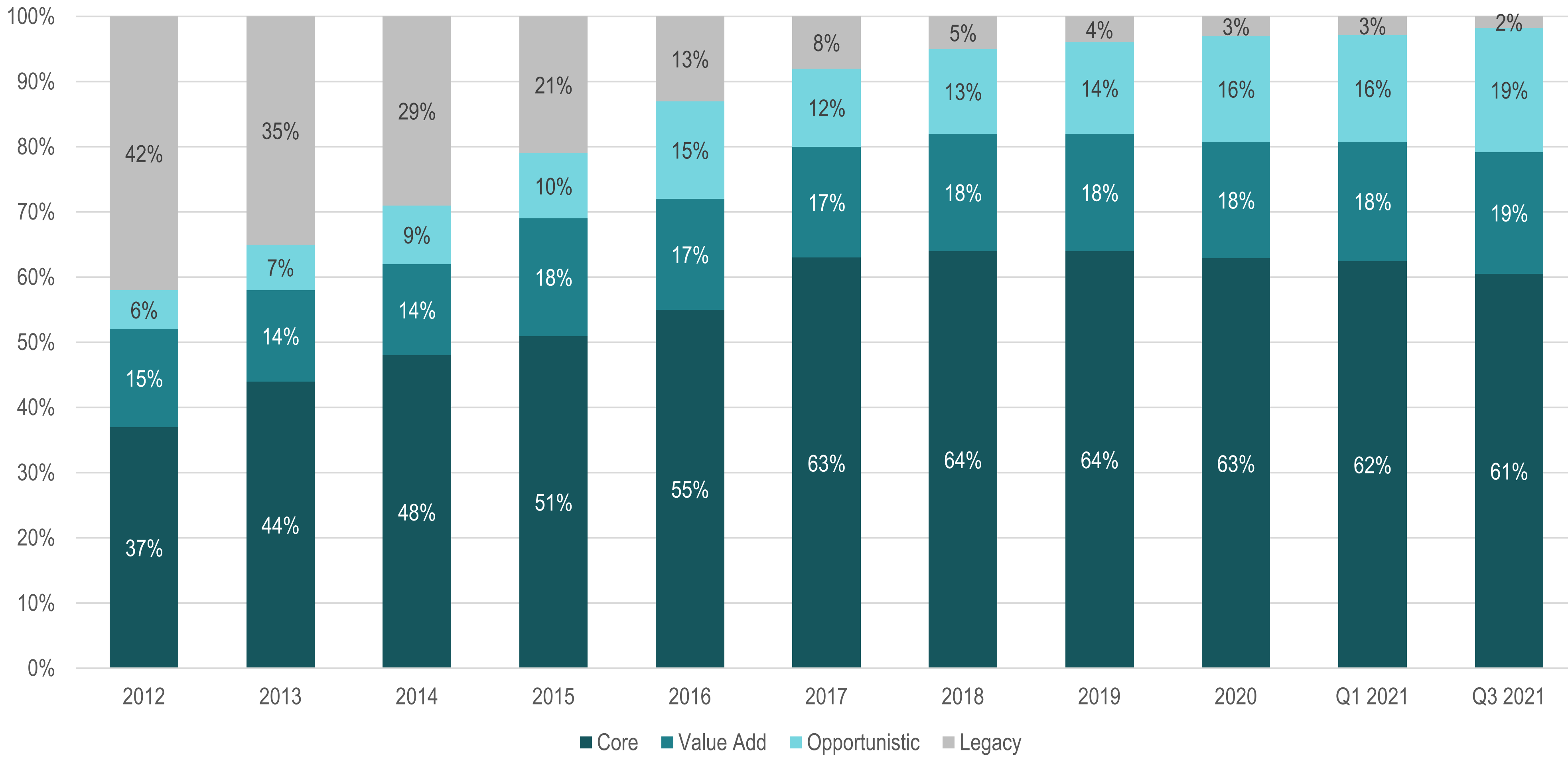
- The CalSTRS real estate portfolio NAV has grown by $4.4B in the past six months to $42.0B as of Q3 2021. The control portfolio has consistently been around 80% of NAV since 2018.
- Legacy investments have fallen below $1B and now represent less than 2% of the portfolio.



Weights based on percentage of CalSTRS' net asset value
Source: CalSTRS; State Street

Portfolio Allocation by Risk Profile

- The portfolio's allocation to value add and opportunistic investments has increased since 2020, while the core allocation has decreased to 61% of the portfolio.



Weights based on percentage of CalSTRS' net asset value. REITs included in Core
Source: CalSTRS, State Street

Appendix: Key Market Trends

U.S. Economic Summary

As of February 2022

- The US economy showed surprising strength in 4Q2021, despite the Delta variant and workforce and supply chain constraints. However, the Omicron variant accelerated towards the end of the quarter and may slow growth in 1H 2022.
- U.S. GDP growth rose to 6.7% in Q4 2021 and 5.7% for the year (advance estimate), led by private domestic investment. After another year of above-average growth in 2022, long term economic growth will revert to +/- 2.5%, as population and workforce growth slows.
- Job growth was 1.1 million in Q4, lower than the first 3 quarters of 2021, but propelled total 2021 job growth to 6.7 million, the largest annual gain in US history. Payrolls are forecast to total 4 million in 2022 but decline to sub-2 million in subsequent years. The unemployment rate has fallen to 3.9% in December, down from 13.8% in Q2 2020 and close to the pre-COVID rate of 3.8% rate in Q1 2020.
- Headline inflation was 0.5% in December (down from 0.8% in November) and 7.1% for the past year (fastest rise since 1982). Core inflation (CPI less food and energy) rose by 5.5% for the year. Energy prices rose by 29% over the past year, while used cars and trucks rose by 37%.
- The Federal Reserve has reversed course on inflation and has announced plans to speed up the pace of tapering (of quantitative easing) and commence increasing the Fed Funds rate as soon as March 2022.
- The interest rate on the 10 Year Treasury has risen to 1.8% in late January, an increase from the prior quarter, but still low relative to long-term rates. Low global rates and an expected moderation in inflation are keeping rates low. The TIPs-implied 10-year inflation rate was 2.44% on January 31.
- Private real estate returns were exceptionally high in 4Q, with NFI-ODCE and NPI posting record quarterly returns – 8.0% for ODCE and 6.1% for NPI – in 4Q. For past year, ODCE and NPI total returns were 22.1% and 17.7%, respectively. Industrial NPI returns were a record 43.3% for full year 2021.

Property Markets Outlook

As Q4 2021

Multifamily

Multifamily performance rocketed in Q4 as vacancies and new construction fell and rents grew by 9% YOY. Vacancy in the five largest markets – New York, Dallas, Houston, Washington and Atlanta, all fell sharply in 2H21.

RFA expects mid-term operating and investment performance to be strong. Higher employment, a partial return to offices and demographic trends, should increase renter demand in the coming years.

Office

Office fundamentals continued to deteriorate in Q4 with increasing vacancies, decreasing rents, and negative absorption. These trends are marginally more acute in class A properties, but also characterize class B.

There were some bright spots in the office sector, as office space showings increased and YTD absorption has been positive for new buildings (post 2010). However, the trend towards greater employee flexibility could be a headwind for the sector.

Retail

Grocer-anchored retail was solid in the 4rd quarter, as vacancy rates fell and absorption and rent growth increased.

For retail overall, NCREIF reports that NOI has risen by 18.7% over the past year but is still 8% lower than the pre-COVID level, with super-regional mall NOI down by 16.5%.

As distribution of goods continues to shift to e-commerce, retail centers will continue to incorporate experiential tenants.

Industrial

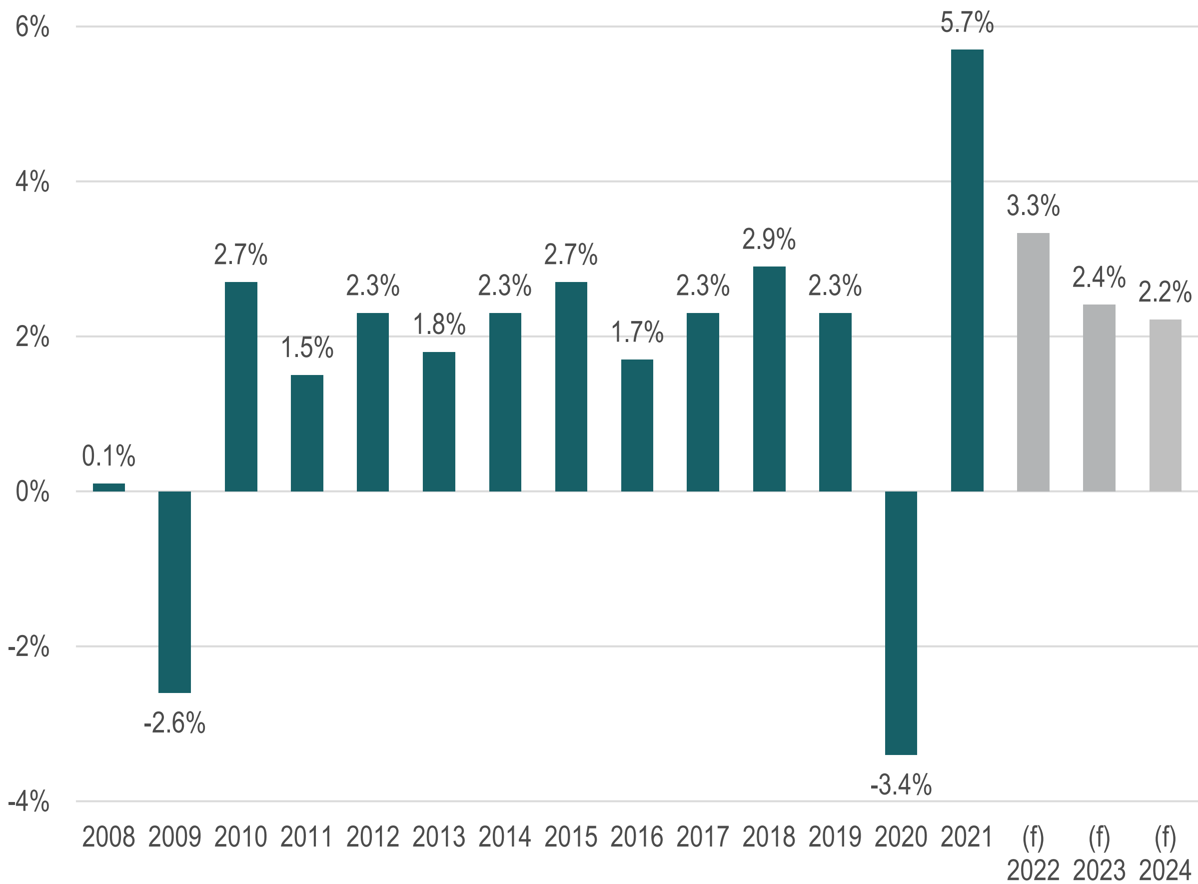
Industrial remains the strongest major property type in Q4 with decreasing vacancies and rents growing by 7.0% YOY. Absorption is outpacing new supply, setting the stage for near term above-average rent growth.

Industrial will continue to outperform other asset classes through 2022 in part due to the shift towards e-commerce, accelerated by COVID-19.

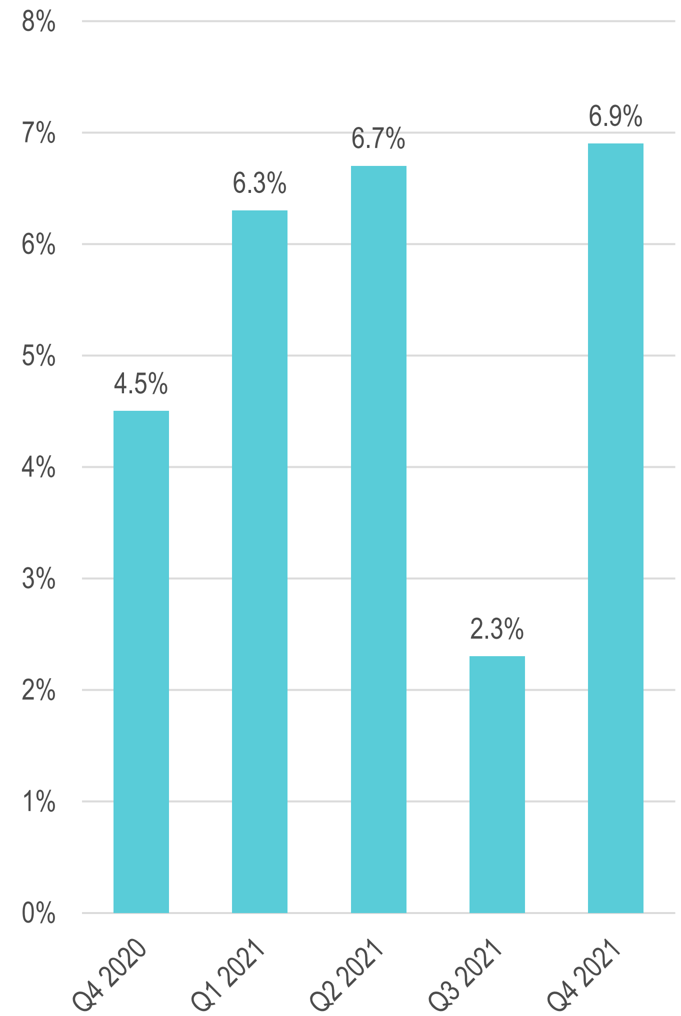
2021 GDP Growth Nears 40-Year High as Economic Recovery Booms

Q4 Acceleration Driven by Exports, Inventory Investment, and Consumer Spending

U.S. Real GDP Annual Change



Annualized Quarterly Change in U.S. Real GDP

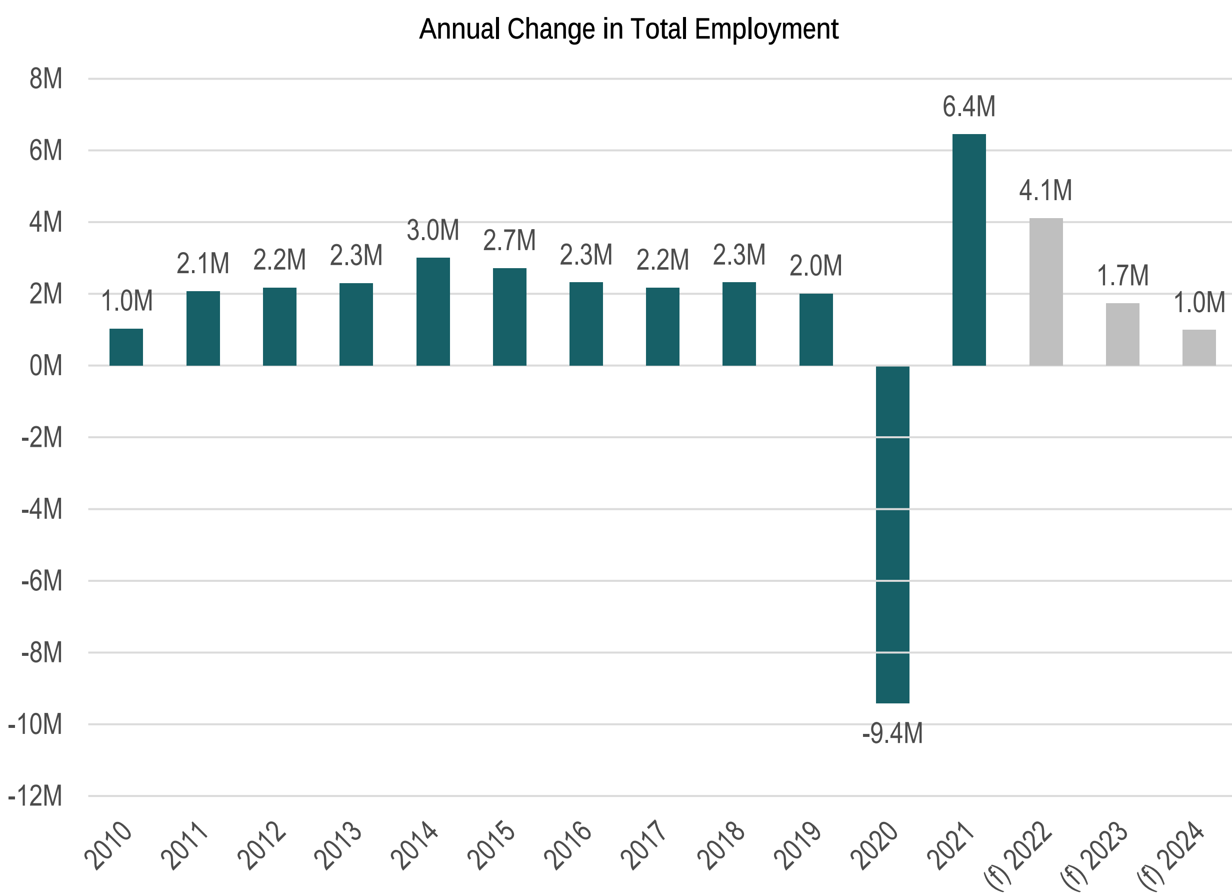


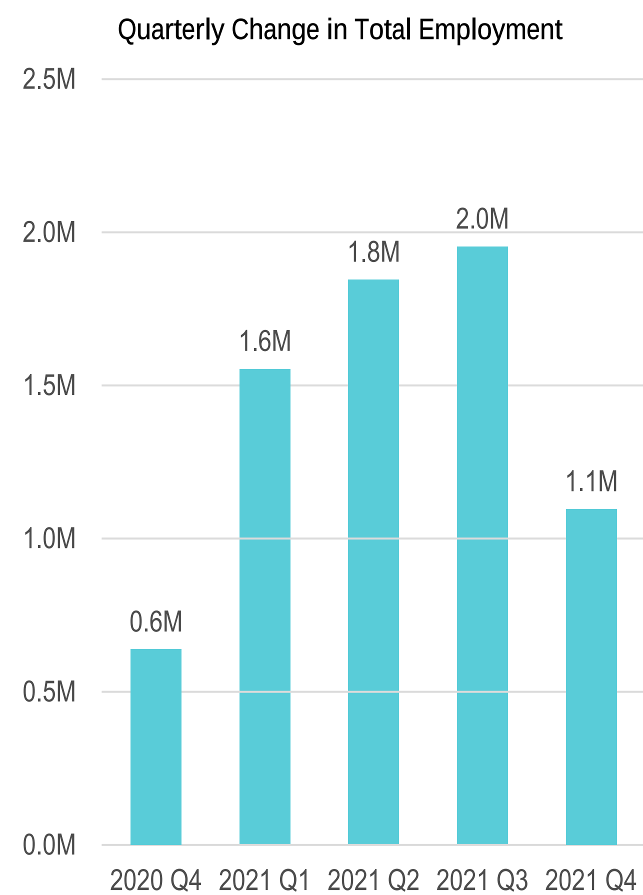
Source: Oxford Economics; Bureau of Economic Analysis; Wall Street Journal Consensus Forecasts

Labor Market Has Recovered 84% of Jobs Lost in the Pandemic

Job Growth is Expected to Remain Elevated Through 2022 Before Moderating

- In 2021, the U.S. job market recovered approximately two-thirds of the net jobs lost in 2020. Q4 saw the year's slowest employment growth. October added 650K new jobs, over half of the quarter's total 1.1M. Upward revisions to Q3 brought its total to just under 2M additional jobs.
- The year ended 3.6M jobs behind the pre-pandemic peak, and the market is expected to recover the rest of these jobs in 2022.





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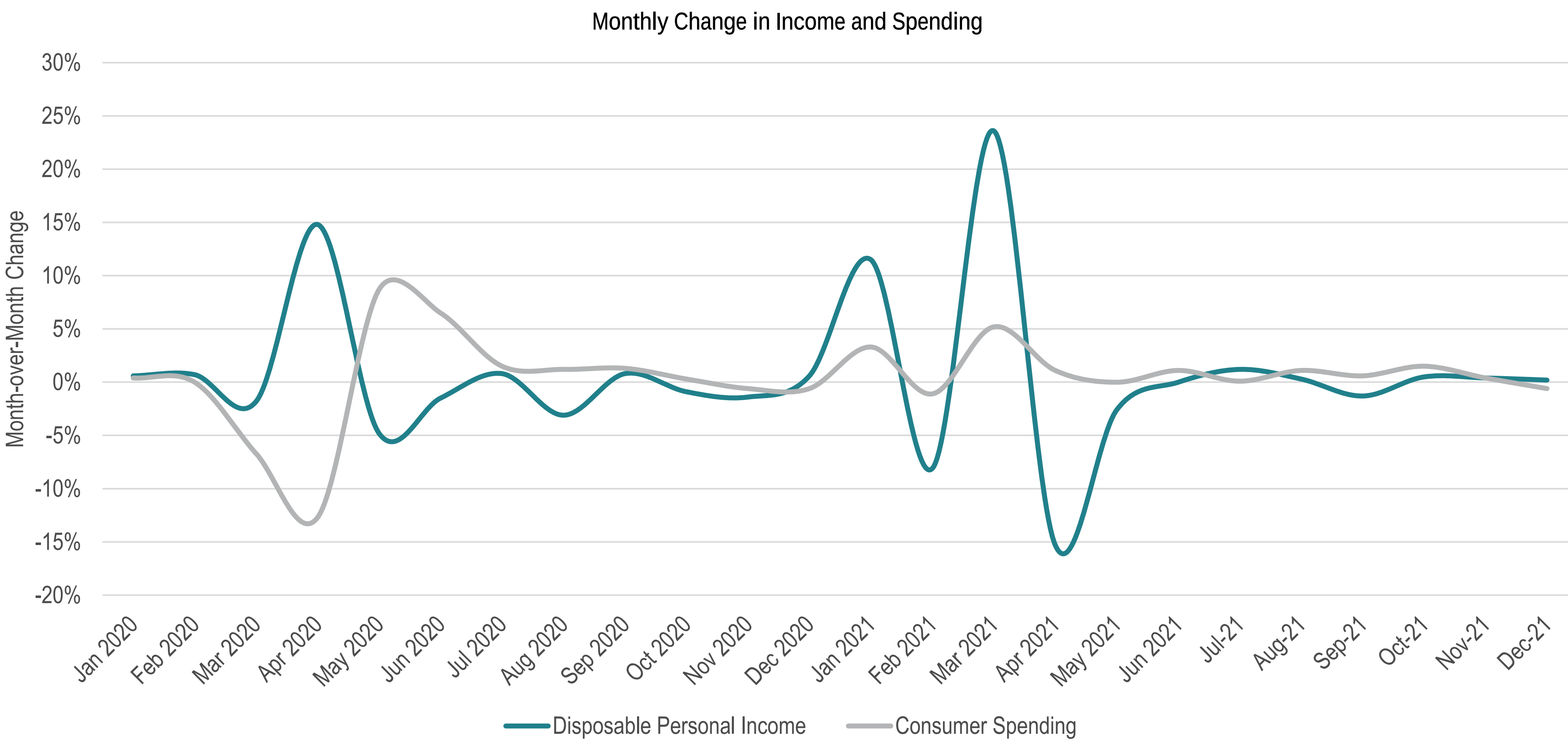
Source: FRED; Moody's

Inflation Drowns Out Nominal Disposable Income Increases

Consumer Spending Decreases in December

- Nominal disposable incomes grew 1.1% in Q4, largely driven by compensation increases. These gains were entirely overwhelmed by inflation, with the PCE price index increasing 1.6% over the quarter. Real disposable incomes thus decreased 0.5%.
- Consumer spending tapered off over the quarter, falling from 1.5% month-over-month growth in October to 0.6% contraction in December. Total growth for the quarter stood at 1.3%.

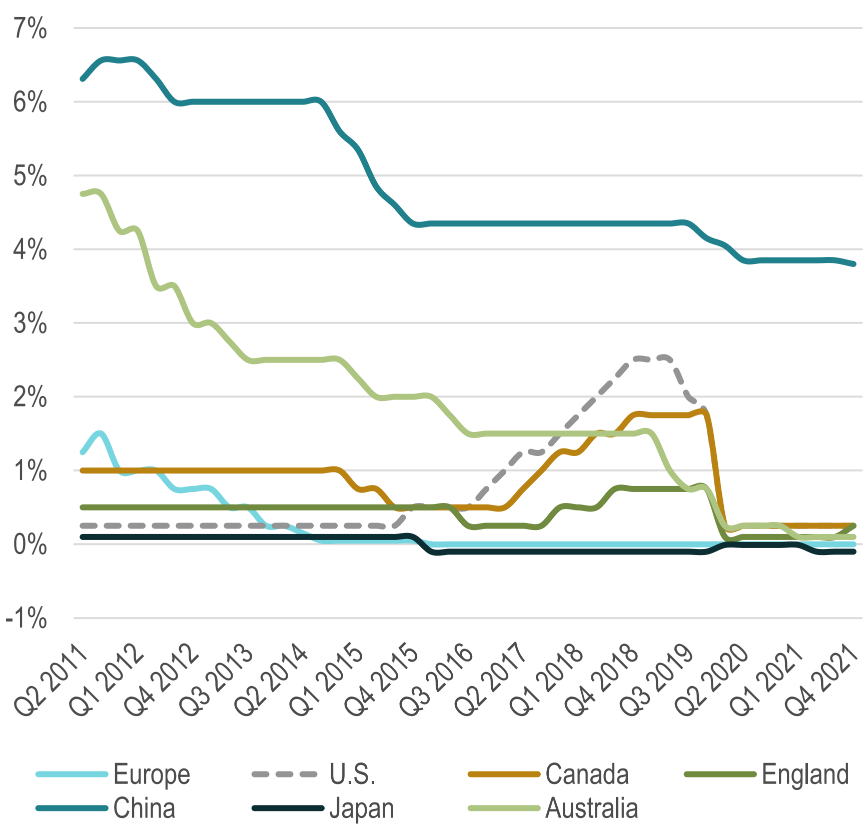


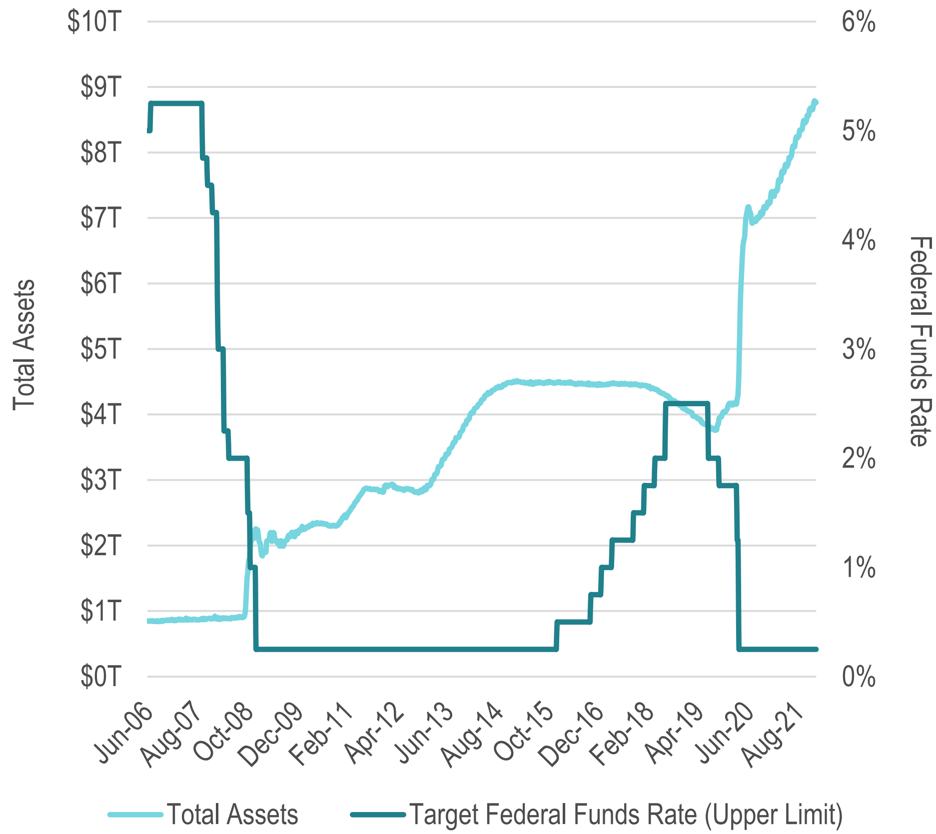
Source: Bureau of Economic Analysis

Low Interest Rates Continued Across Developed Economies

Fed Holds Rates at 0-0.25% with a View Toward First Increase in H1 2022

- In September, the Fed pivoted from its dovish stance to a more hawkish position which intensified in November and December, including a doubling of the rate of QE tapering to $30B per month. This puts the Fed on track to end tapering in March with a reduction in the size of the balance sheet to follow. The first rate increase is expected in March 2022 with three more increases likely later in the year.
- Most international interest rates also remain close to 0.0% with the exception of China just below 4%. The Bank of England raised rates from 0.1% to 0.25% in December 2021.





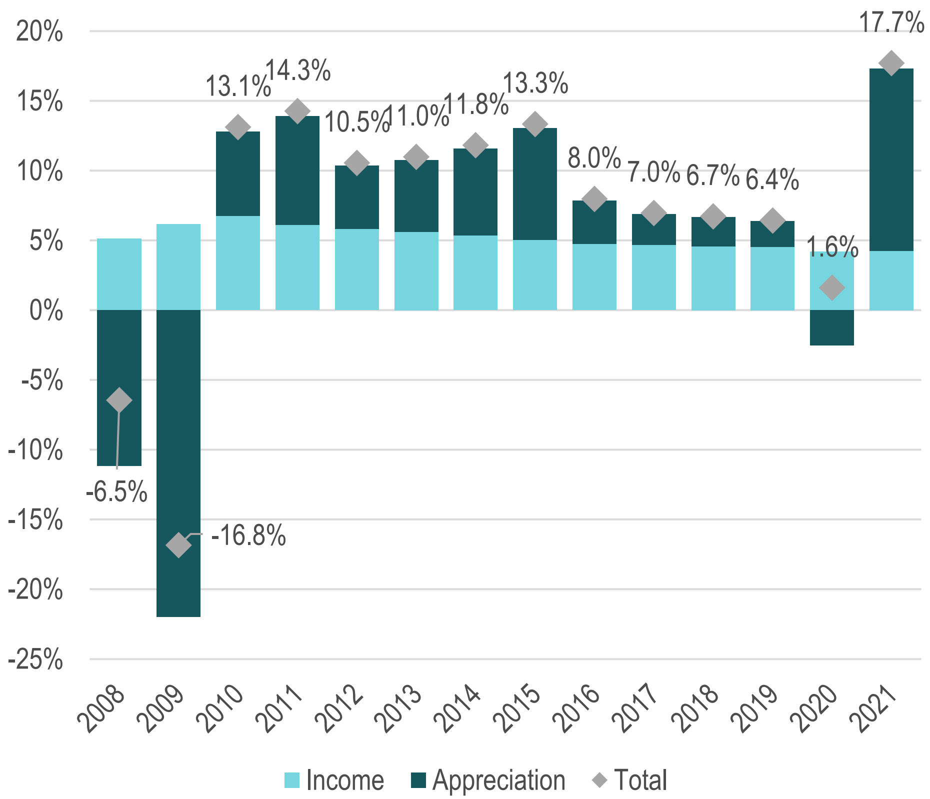
Source: Federal Reserve; FX Street; Financial Times

NPI Real Estate Returns End 2021 Near Record High

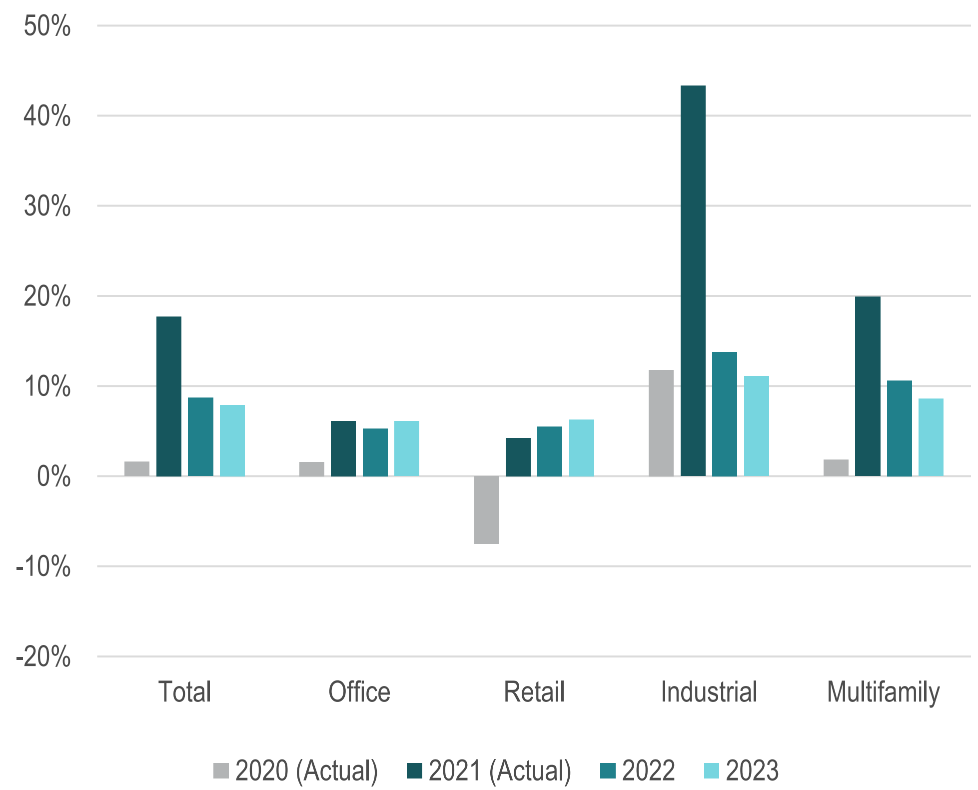
Continued Growth Predicted Across All Property Types

- After modest, income-driven growth of 1.6% in 2020, the NCREIF Property Index (NPI) ended 2021 with a 17.7% annual return, the highest since 2005. Strong appreciation of property values in the pandemic recovery drove 13.0 ppts of the total return.
- The actual NPI total return for 2021 outperformed market participants' expectation of a 14.0% annual return. Industrial and multifamily drove 2021's strong NPI performance and are expected to continue to outpace retail and office.

NPI Annual Returns



Forecast NPI Total Returns (PREA Consensus)



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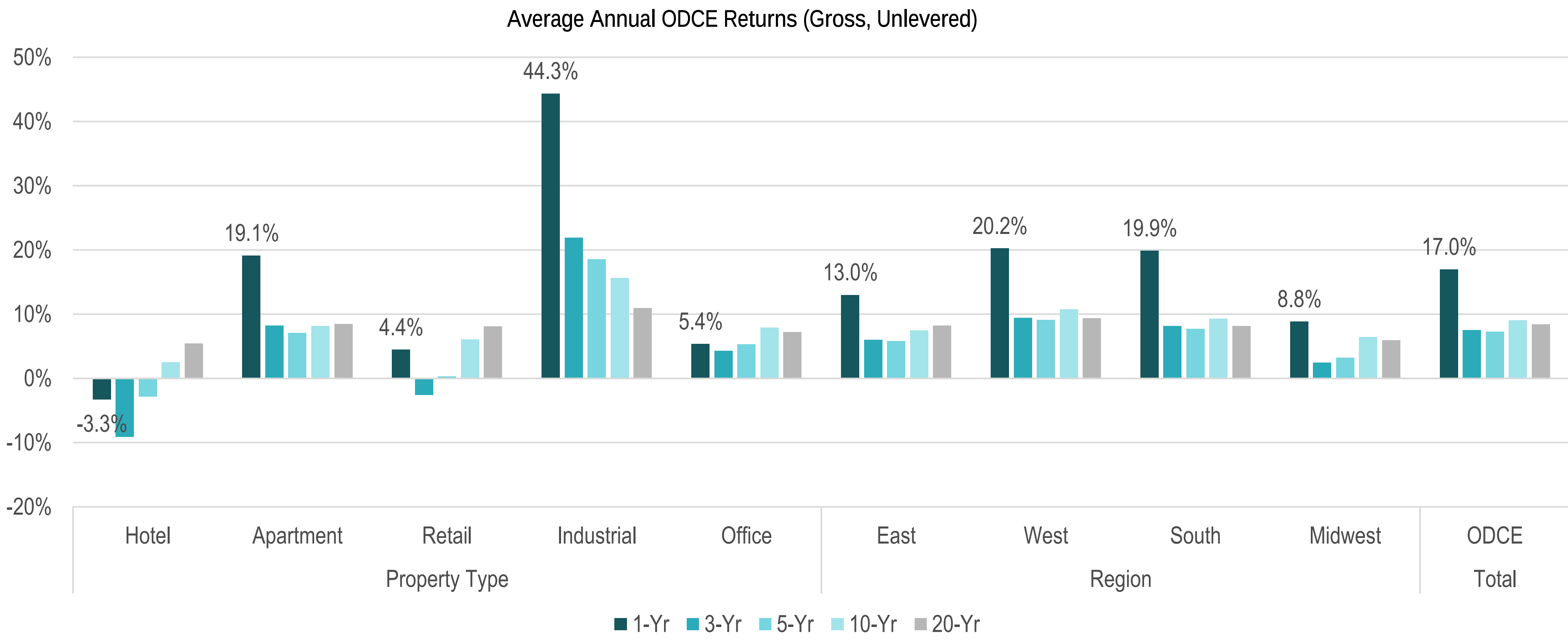
Note: Annual return figures reflect compounded annual returns.
Source: NCREIF; PREA

ODCE Returns End 2021 at Ten-Year High

Retail Returns Edged Positive While Industrial Returns Topped 40%

- Total annual NPI returns for properties held in ODCE funds ended the year at a ten-year high of 17.0%. Hotel returns remained negative while retail recovered over 2021 and ended positive. Industrial definitively remained the leading property type throughout the year. The West and South led regionally with approximately 20% annual returns for each.
- The last year has seen elevated real estate returns driven by strong appreciation of property values amidst the broader economic recovery. Over longer time horizons, returns are more modest but nevertheless reflect the same broad themes. Industrial has seen outsized returns while hotel and retail lag, and the West has been the most favorable region in contrast to the Midwest's lower return profile.



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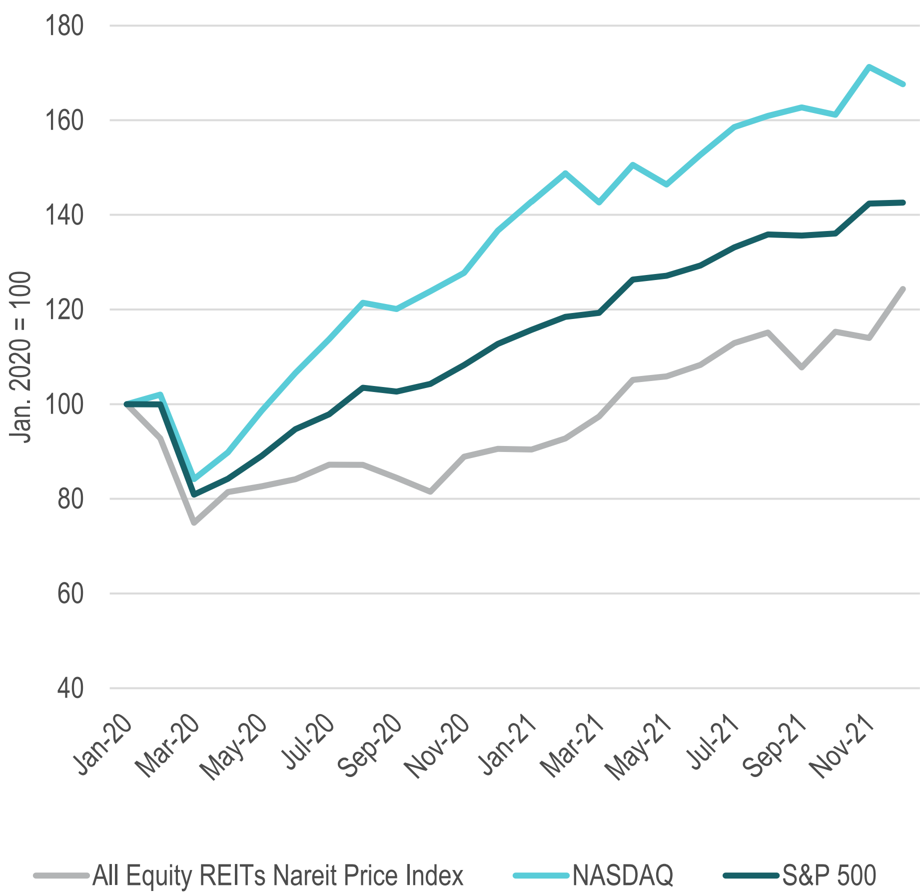
Note: Return figures are compounded rolling four-quarter unleveraged returns gross of fees at 100% ownership share.
Source: NCREIF

REITs Experienced Strong Q4 Performance Growing by 16%

Improvement Continues to Lag Broader Equity Recovery

US Stock Indices (Jan. 2020 = 100)



US Equity REIT Performance, Jan. 2020 – Dec. 2021

Sector	Jan 20 - Mar 20	Mar 20 Jan 21	Jan 21 - Dec 21	Total
FTSE Nareit All Equity REITs	-24.4%	23.8%	41.4%	32.4%
Industrial	-13.5%	26.2%	60.6%	75.2%
Office	-28.5%	9.6%	26.2%	-1.2%
Retail	-47.0%	50.0%	47.8%	17.6%
Apartments	-28.5%	17.1%	60.4%	34.3%
Single Family	-26.0%	37.0%	53.1%	55.3%
Lodging/Resorts	-45.3%	48.8%	24.6%	1.4%
Health Care	-38.7%	37.8%	20.3%	1.6%
Self Storage	-11.9%	22.1%	80.3%	93.9%
Data Centers	7.6%	15.0%	21.4%	50.1%

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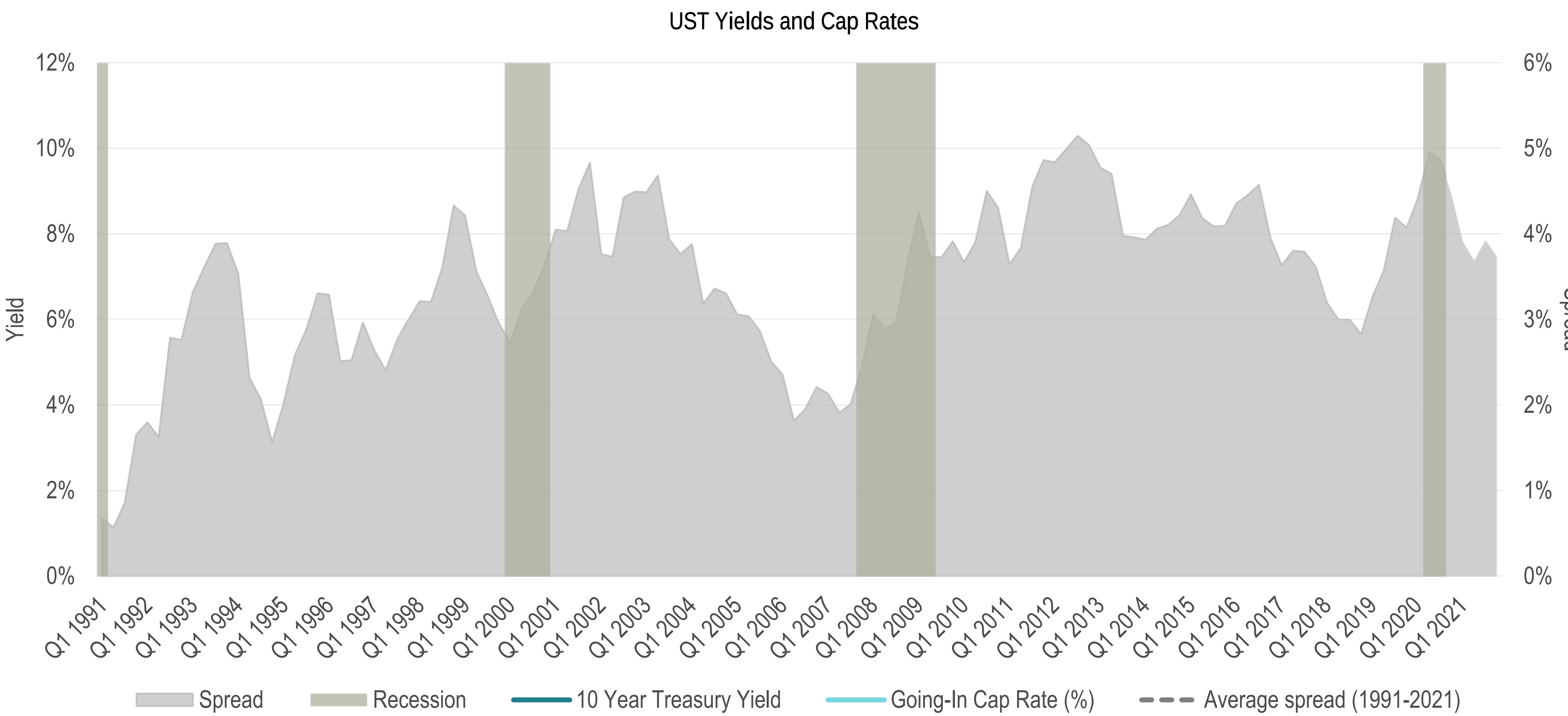
Source: Nareit, FRED

Low Rates Persist with Spread Slightly Above Long-term Average

National Cap Rates Steady Around 5.3% Throughout 2021

- U.S. real estate cap rates have largely remained stable over the past year, ending the year at 5.3%. Interest rates began to rise modestly in H1 2021 as economic activity increased; they saw slightly greater volatility in H2 but remain at historic lows.
- The average daily ten-year treasury yield increased 21 bps quarter-over-quarter to 1.53% in Q4 2021, over double its mid-pandemic low of 0.65% but well below its long-term average of 4.5% since 1990.

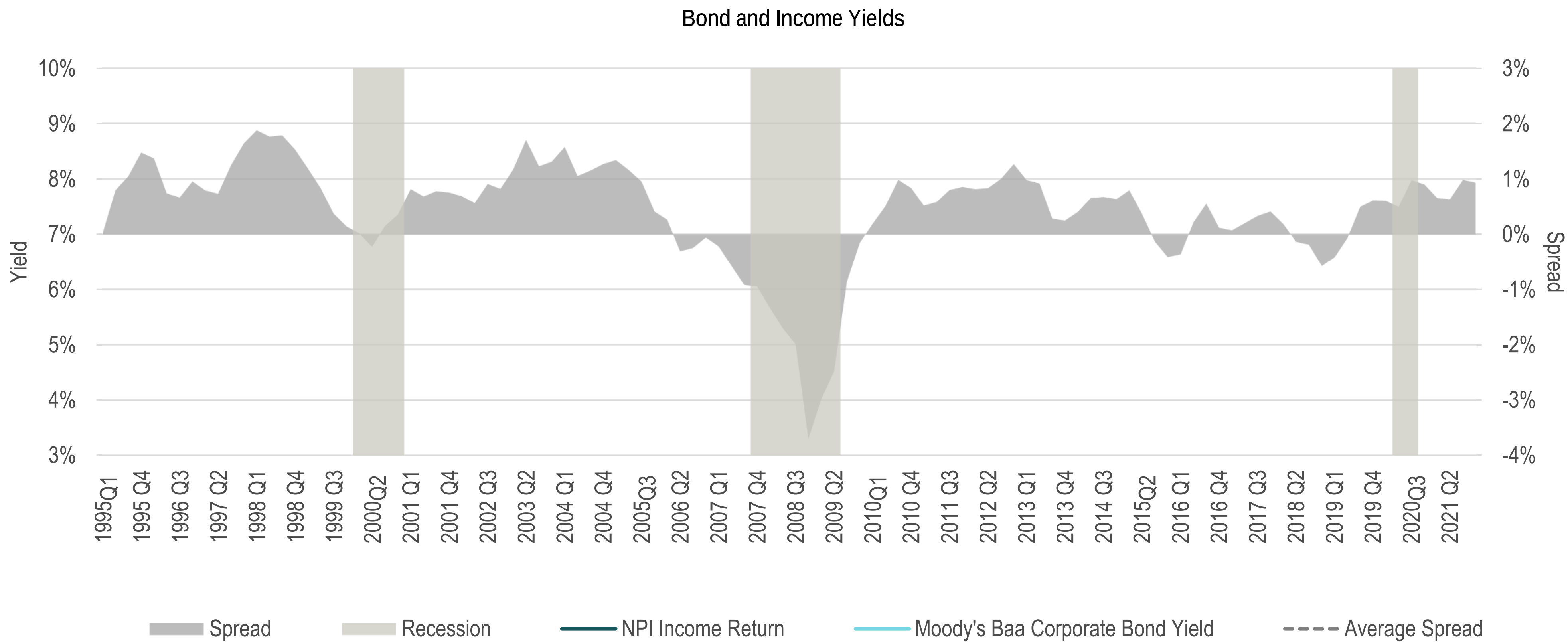


Note: Quarterly yields reflect averaged daily yields over the quarter.
Source: RCA; FRED

NCREIF Property Index Income Returns Outpace Baa Bond Yield

Spread Widens to Over Double its Historical Average in H2 2021

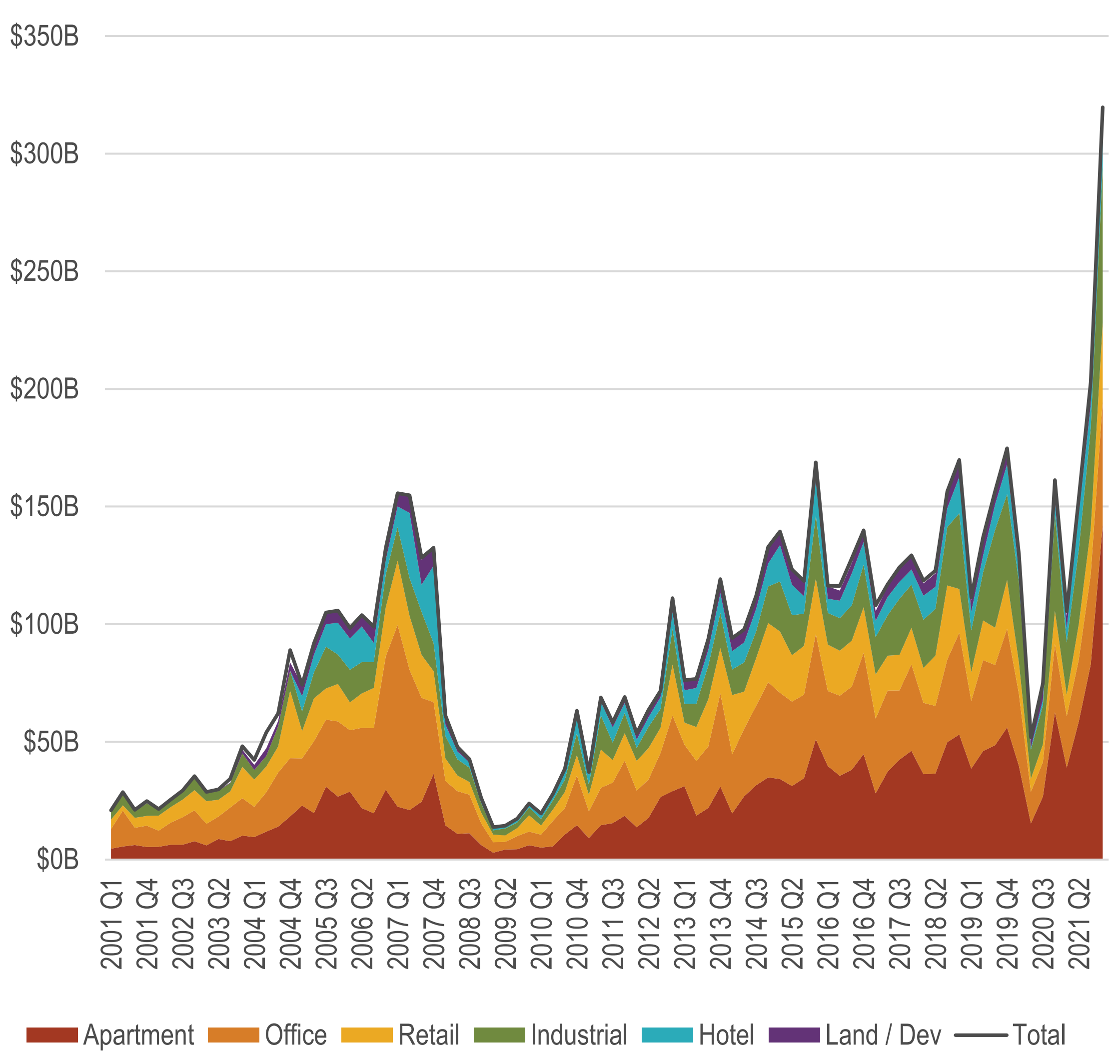
- Baa bonds and real estate income returns are considered to have comparable risk levels and have moved in tandem historically, with spikes in Baa rates preceding increases in real estate yields. For example, Baa yields moved out during the GFC, followed by real estate yields.
- Baa bond and annual real estate income yields have both trended downward over the last ten years with NPI income yields exceeding Baa bonds by an average of 42 bps since 1995. These trends have largely persisted during the pandemic and into the recovery. Annual income returns and Baa bond yields stood at 4.2% and 3.3% respectively in Q4, a wider than normal 93 bps spread.

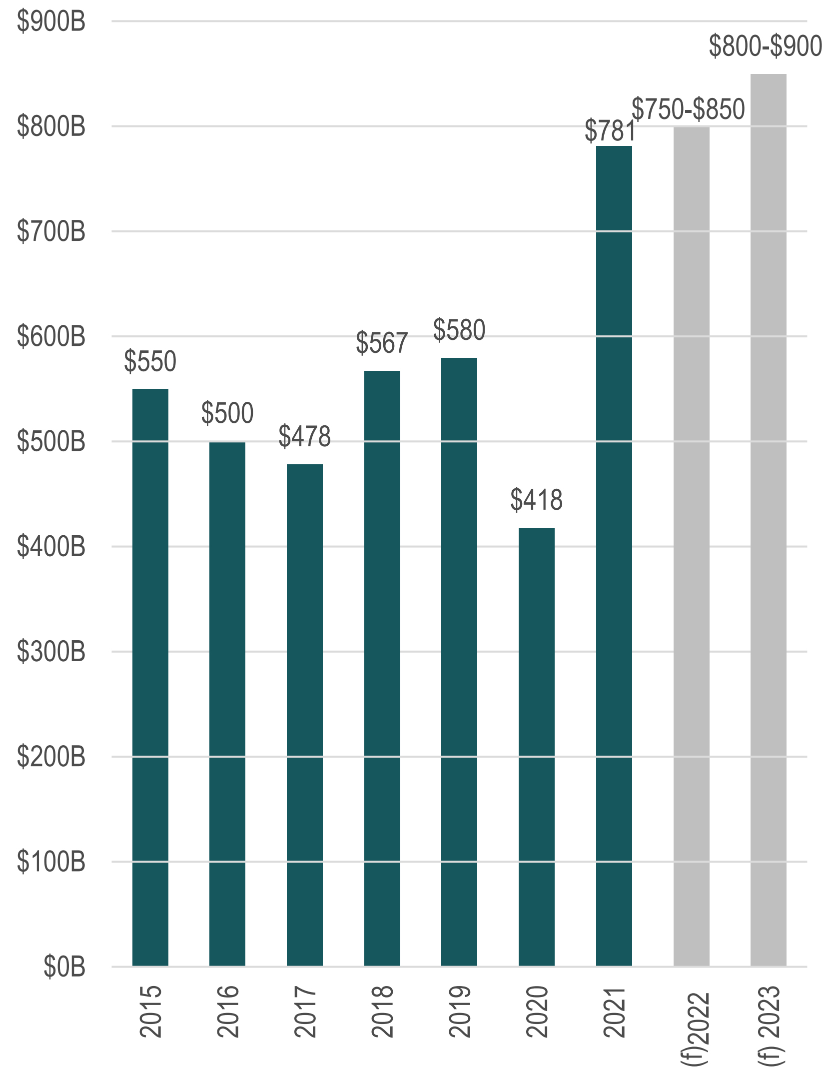


Source: NCREIF; Moody's

Annual Transaction Volume Up 87% YoY with Strong Q4 Activity

Hotels and Apartments Continue to See Strongest Growth

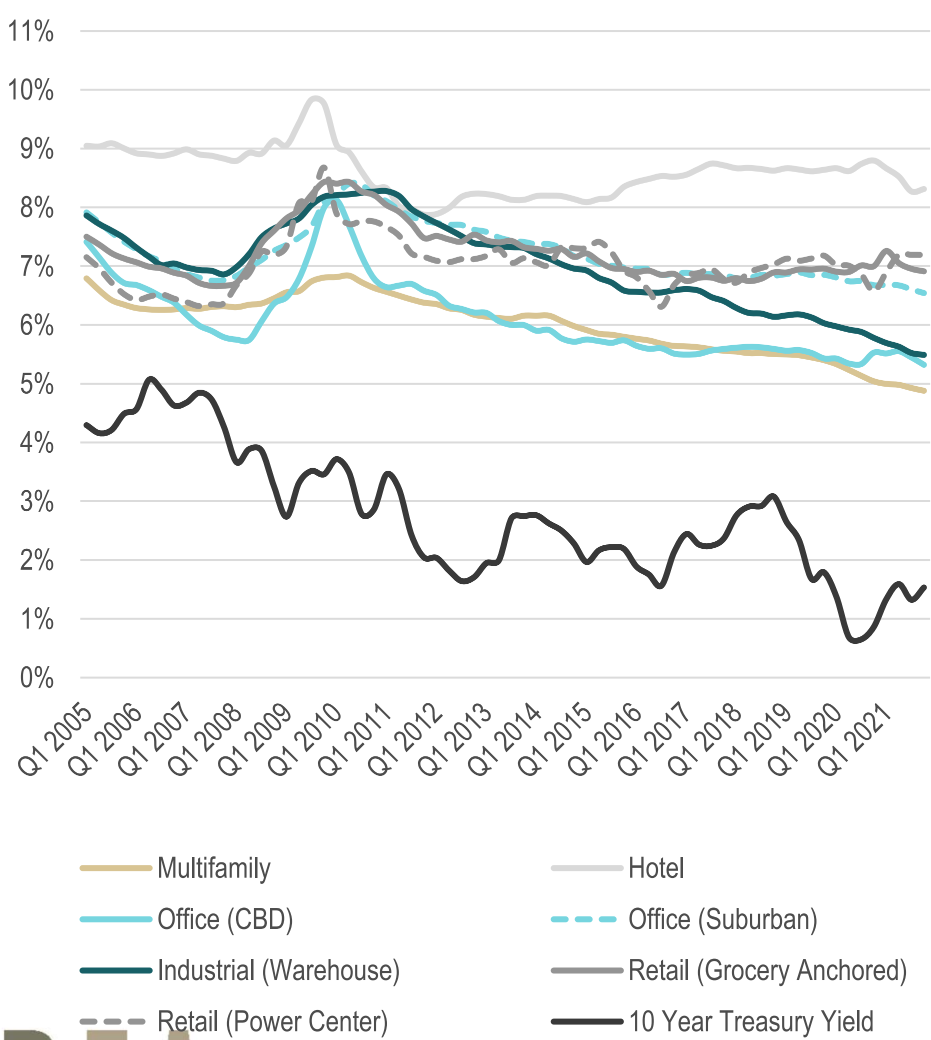


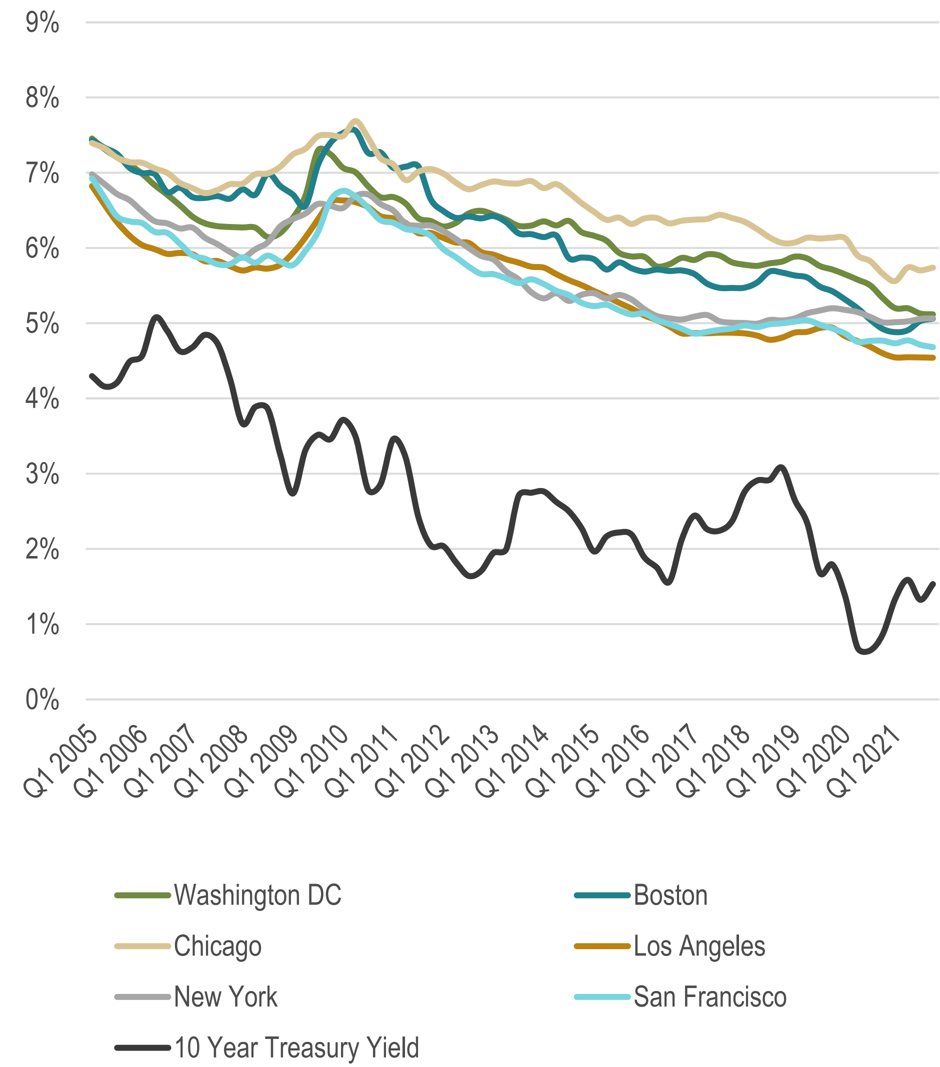


Source: RCA

Cap Rates Largely Stable Over the Year

Expansion of 62 bps YoY in Power Centers; Compression of 22 bps in DC



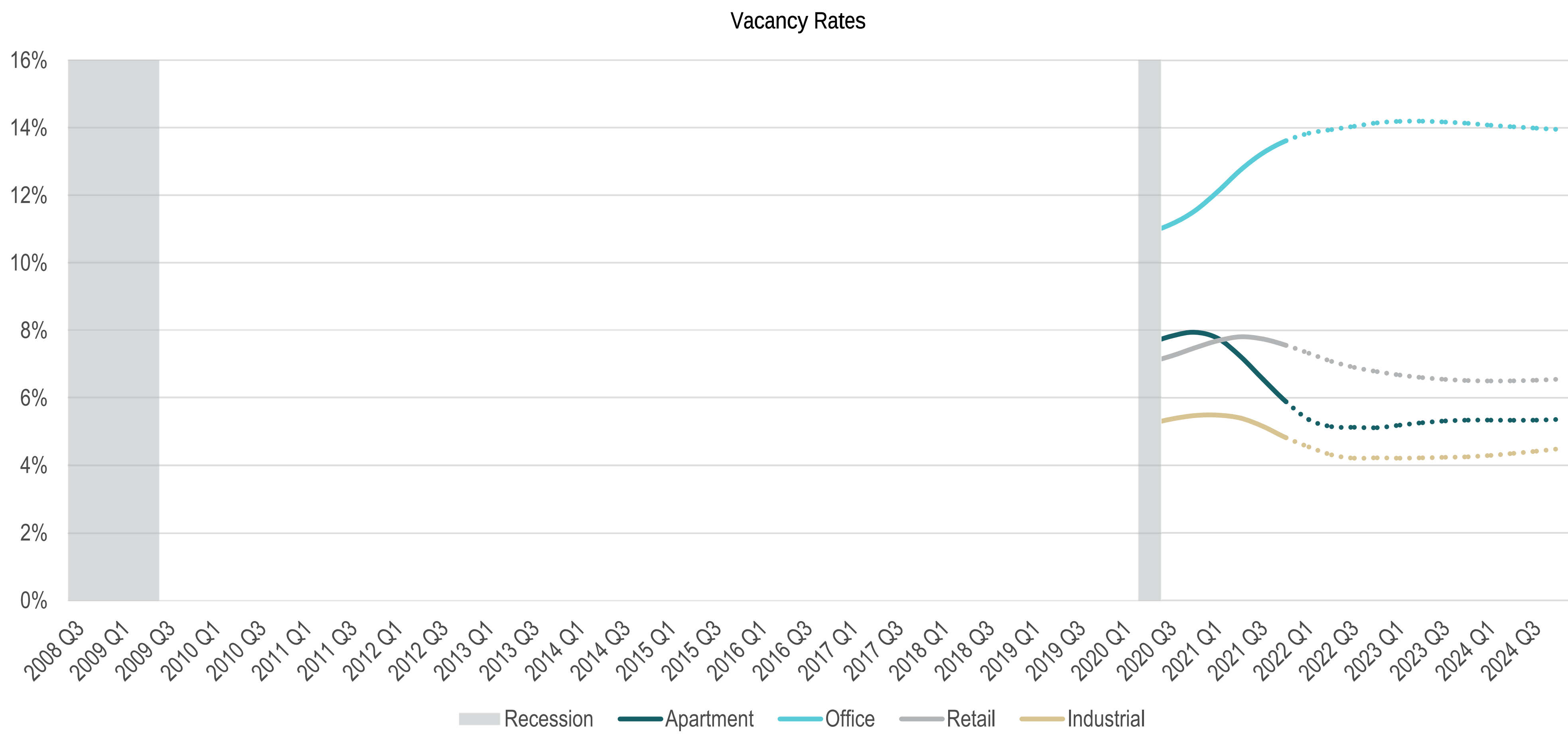


** Cap Rates for all property types*
Source: RCA

Office Sector Hardest Hit by COVID-19 With Sluggish Recovery

Apartment Vacancy Continues to Decrease with QoQ Decline of 70 bps

- Vacancy rates increased for all property types at the onset of the pandemic. Industrial and apartment rates are now declining while office rates will likely continue to rise through 2022. Retail vacancy has been more stable with modest but steady decreases forecast over the next two years.



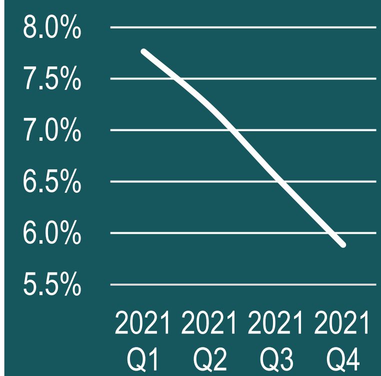
Notes: Vacancy rates are rolling four-quarter averages; data are as of January 10, 2022.
Source: CoStar

Multifamily Property Market Overview

Record Rent Growth and Positive Long-term Outlook Despite Signs of Moderation

Vacancy

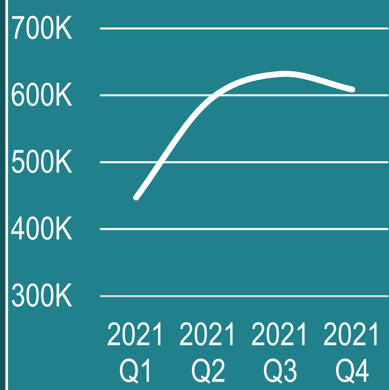
5.9% Vacant



Multifamily vacancy rates fell another 70 bps QoQ to 5.9%, below the U.S. long-term average of 7.2%. All major markets experienced vacancy declines with the largest decrease of 102 bps in Houston.

Absorption

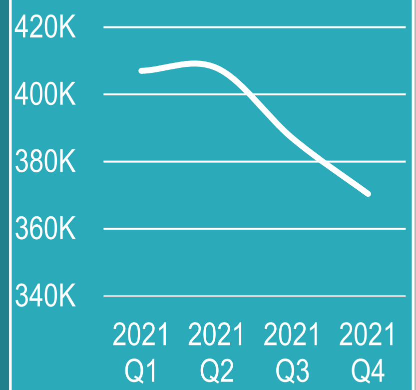
6.0% of Inventory



Absorption began to moderate from its historic highs, falling 4% QoQ to 609K units. This moderation is expected to continue over the next year.

New Supply

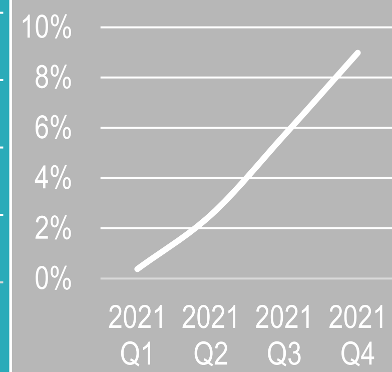
3.6% of Inventory



New supply also decreased by approximately 4% in Q4 to 370K units, its lowest level seen since 2019. Multifamily deliveries are expected to increase modestly over the next several quarters.

Rent Growth

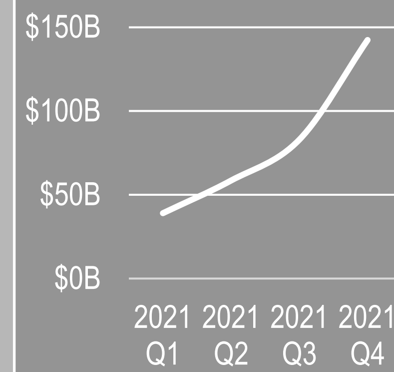
8.9% YoY



Rents continued their record-setting upward run, growing 8.9% YoY, nearly five times the US average yearly rent growth of 1.9% since 2000. Rent growth is expected to remain elevated for the next year.

Transaction Volume

$142.4B



Transaction volume continued to increase in Q4, setting a new record of $142.4B and brining 2021's annual total to 124% above 2020's total.

Note: Throughout this section, multifamily data are filtered for Class A&B; rent growth and vacancy are rolling four-quarter averages; absorption and completions are four-quarter totals; rent is based on asking market rent data.

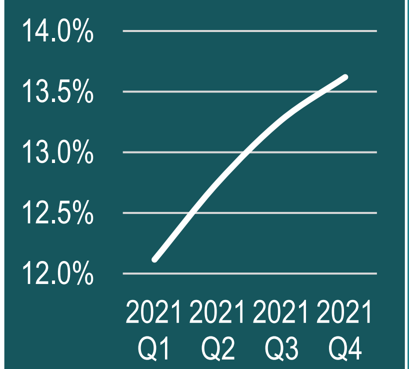
Source: CoStar; RCA

Office Property Market Overview

Negative but Improving Absorption and Rent Growth with Uncertain Outlook

Vacancy

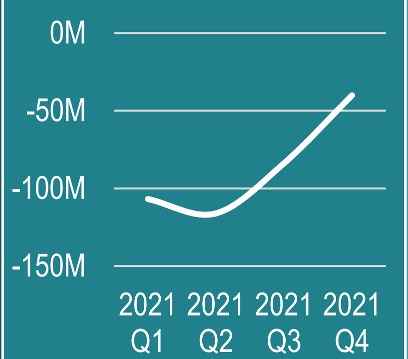
13.6% Vacant



Office vacancy, already high, increased another 35 bps in Q4, remaining well above its long-term average of 11.9%. Vacancy is expected to remain elevated, and the general future of office is uncertain.

Absorption

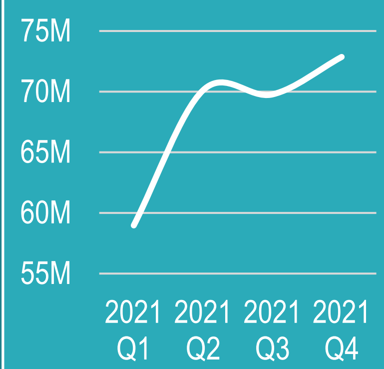
-0.6% of Inventory



Absorption increased, but the 12-month total remained below zero at 40M SF. Much of this was due to negative absorption in H1 2021, and the 12-month total is expected to turn positive in Q1 2022.

New Supply

1.1% of Inventory



New office deliveries increased a marginal 4% over Q3 to 73M SF. Combined with negative absorption, net additional supply totaled 113M SF, showing another quarter of improvement from Q2 2021's high of 186M SF.

Rent Growth

-1.1% YoY

Office rents showed modest easing in their rate of contraction in response to favorable absorption developments. Rent growth remained negative but is expected to continue improving and turn positive in Q2 2022.

Transaction Volume

$52.8B

Transaction volumes increased to a nearly fifteen-year high of $52.8B in Q4. Total office transaction volume ended 2021 82% above 2020 volume.

Note: Throughout this section, office data are filtered for Class A&B; rent growth and vacancy are rolling four-quarter averages; absorption and completions are four-quarter totals; rent is based on asking market rent data.

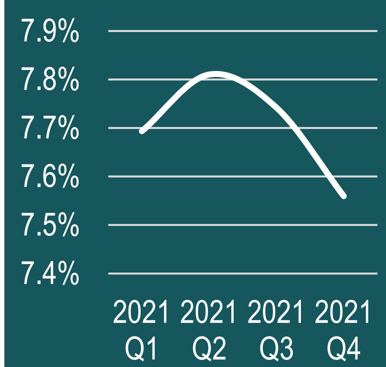
Source: CoStar; RCA

Retail Property Market Overview

Outlook Remains Poor Despite Improvements from Increased Commerce

Vacancy

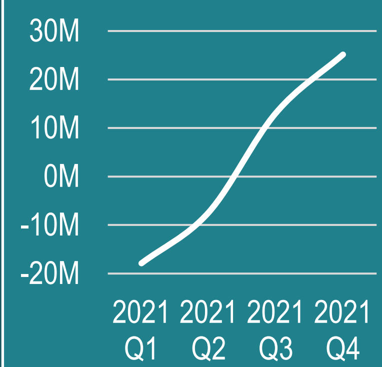
7.6% Vacant



Retail vacancy declined for a second consecutive quarter, falling 20 bps to 7.6% and remains below its long-term average of 8.8%. Vacancy is expected to continue to fall moderately into 2022.

Absorption

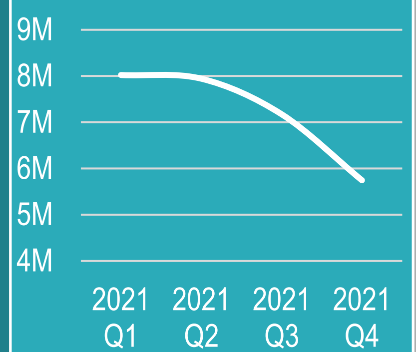
0.9% of Inventory



Absorption continued to improve after a year-long negative streak throughout the pandemic. In Q4, absorption stood at 25M SF, the highest value since mid-2018, and strong values are predicted for the next year.

New Supply

0.2% of Inventory



New supply has decreased every quarter since Q2 2019, falling to 5.7M SF in Q4. This is expected to be the bottom of the retail deliveries decline with increasing new supply predicted in 2022.

Rent Growth

3.2% YoY

Rent growth steadily increased throughout 2021 with Q4 posting 3.2% YoY growth, significantly above the U.S. average since 2011 of 0.3%. This is largely due to commerce resuming post-pandemic.

Transaction Volume

$32.9B

Retail transaction volumes increased to a new high, barely edging out the previous record of $31.5B in Q3 2018. Total volume ended the year at $76B, 134% above 2020's total.

Note: Throughout this section, retail data only include neighborhood centers and small community centers; rent growth and vacancy are rolling four-quarter averages; absorption and completions are four-quarter totals; rent is based on NNN direct rent data.

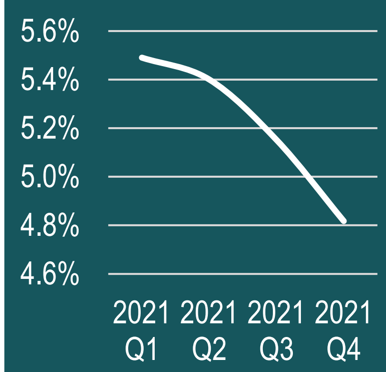
Source: CoStar; RCA

Industrial Property Market Overview

Sector Remains Strong and Favorably Positioned for Continued Growth

Vacancy

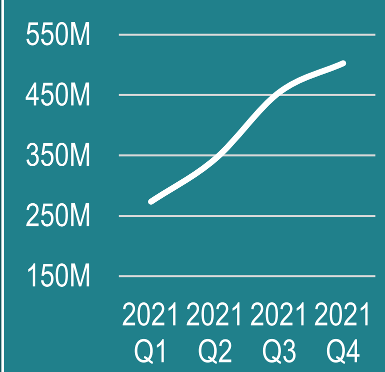
4.8% Vacant



Vacancy fell another 30 bps QoQ to a record low of 4.8%, significantly below its long-term average of 7.6%. Historically low industrial vacancies are expected to persist over the coming years.

Absorption

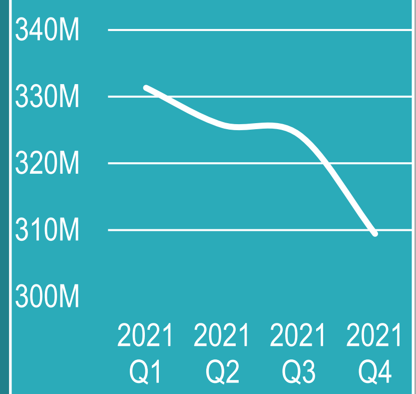
2.9% of Inventory



Historically low vacancies have been driven in part by record high industrial absorption which set a record for the third consecutive quarter at 503M SF. Absorption is forecasted to continue increasing through H1 2022.

New Supply

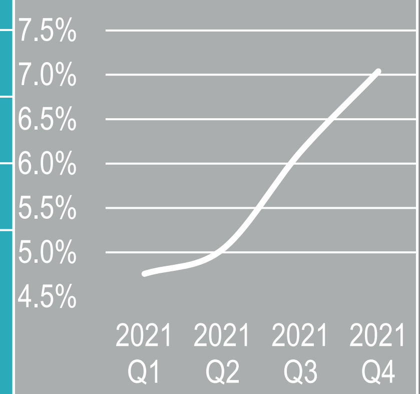
1.8% of Inventory



Completions continued to moderate from their 2020 Q4 peak and ended 2021 at 309M SF. New supply for the year was nearly 40% below absorption and is projected to increase in 2022 but continue to lag absorption.

Rent Growth

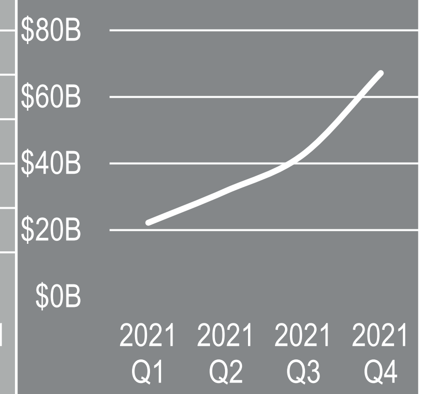
7.0% YoY



Rent growth stood at an impressive 7.0% in Q4, over 2.5 times the average growth rate of 2.6% since 2010.

Transaction Volume

$67.2B



Industrial transaction volume also set a new record in Q4 at $67.2B, over four times the average quarterly volume of $16B from 2010 to 2019. Annual transaction volume was up 63% over 2020.

Note: Throughout this section, rent growth and vacancy are rolling four-quarter averages; absorption and completions are four-quarter totals; rent is based on NNN direct rent data.

Source: CoStar; RCA

Disclaimers

Critical Assumptions

Our analysis depends on the correctness and completeness of data available as of the date of this memo. The future performance of the global, national, and local economy and real estate market, and other factors similarly outside our control may vary. Given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and markets continuously. Stable and moderate growth patterns are historically not sustainable over extended periods of time; the economy is cyclical; and real estate markets are typically highly sensitive to business cycles. Further, it is very difficult to predict when an economic and real estate upturn will end.

Our analysis cannot predict unusual economic shocks on the national and/or local economy, potential benefits from major "booms" that may occur, or the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology.

As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

General Limiting Conditions

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable and comprehensive. This study is based on estimates, assumptions, and other information developed by RCLCO Fund Advisors from its independent research effort and general knowledge of the industry. No responsibility is assumed for inaccuracies in reporting by any data source used in preparing or presenting this study. This memo is based on information that to our knowledge was current as of the date of this memo, and RCLCO Fund Advisors has not undertaken any update of its research effort since such date.

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