Investment Committee Semi-Annual Activity Report

as of June 30, 2023 | 5. Real Estate

CALSTRS®
HOW WILL YOU SPEND YOUR FUTURE?

CALSTRS

Real Estate Semi-Annual Report - Public

Fast Facts (06/30/2023)

Net Asset Value ($ in millions): $50,763

RE Allocation as Percent of Total Portfolio:

- Current: 16.1%
- Long-term target: 15.0%

Benchmark:
NFI-ODCE Value-weighted Index
Net of fees (quarter lag)

Cerano

Cerano, a 363-unit multifamily property in Milpitas, CA, sold in Q1 2023. The property was acquired as land by the Fairfield California Housing Fund in 2007. Fairfield completed construction in 2013. The property met business plan expectations for cash flow generated during the hold period and profit upon sale.

Campus @ 3333 Scott Blvd

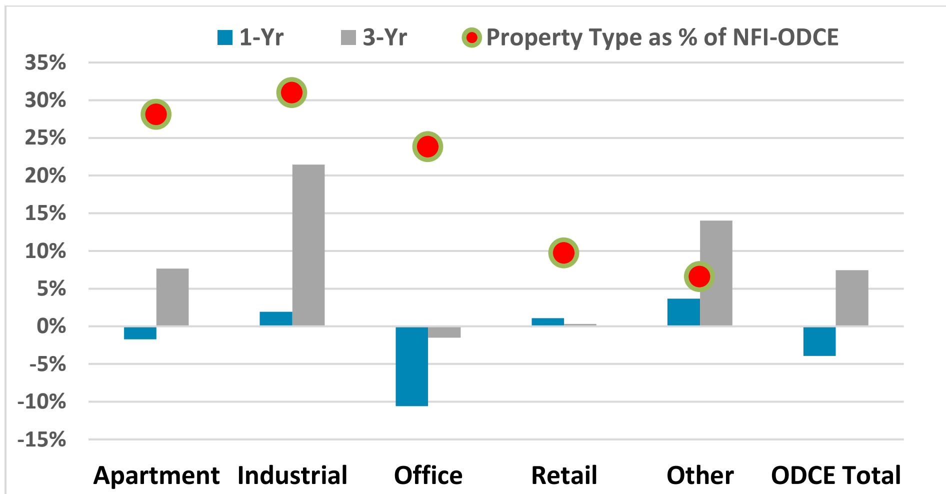
Campus @ 3333 Scott Blvd, a 100% leased 245,000 square foot trophy office building in Santa Clara, CA, sold in Q2 2023. The property was acquired with CBREIM in 2017 and met business plan expectations for cash flow generated during the hold period and profit upon sale.

Real Estate Net Time Weighted Returns

2023 Q2	NAV ($ in millions)	Current Quarter	1 Year	3 Year	5 Year
Total Portfolio	$50,763	-2.08%	-0.47%	10.69%	9.51%
NFI-ODCE Net	$240,735	-3.38%	-3.91%	7.46%	6.56%

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

Performance by Property Type



**Data as of Q1 2023*

In Q1 23, attention shifted from inflation to banking stress as regional bank contagion fears were ignited when the FDIC took over Silicon Valley and Signature bank. This created a cloud of uncertainty around financing and overall debt availability. U.S. real estate returns weakened as higher interest rates and other financing concerns weighed on market pricing and values. Following record-high real estate returns in the previous two years, appreciation returns were negative for the third consecutive quarter. Trailing one-year returns for the NFI-ODCE index dropped into negative territory for the first time since 2010, with a total return of -3.91 percent over the one-year time frame. Overall, CalSTRS' portfolio is modestly leveraged, and we have begun to take proactive steps to reposition the portfolio in light of the distress in the broader commercial real estate sector.

Real Estate Market Snapshot - REITs

U.S. Public Real Estate (REITs) were a bright spot in the first half of 2023, outperforming private real estate with a positive 5.4 percent return[1]. Although higher interest rates and negative sentiment surrounding real estate capital markets put pressure on returns more broadly, two notable exceptions helped drive returns. Data centers rallied on increased optimism that artificial intelligence will lead to an increase in demand, and single-family rental stocks were supported by favorable affordability compared to for-sale markets.

The CalSTRS REIT portfolio is made up of two active external managers. The first REIT portfolio was funded in 2019 as a way for CalSTRS to obtain the diversification benefits of public real estate and utilize the portfolio as a tactical lever in times of market dislocation. The team views the current environment as favorable for REIT strategies relative to their private real estate counterpart.

[1] FTSE NAREIT EQUITY REIT INDEX GTR