Real Estate Strategy Semi-Annual Report (Open Session)

Prepared for California State Teachers' Retirement System

As of Q3 2022

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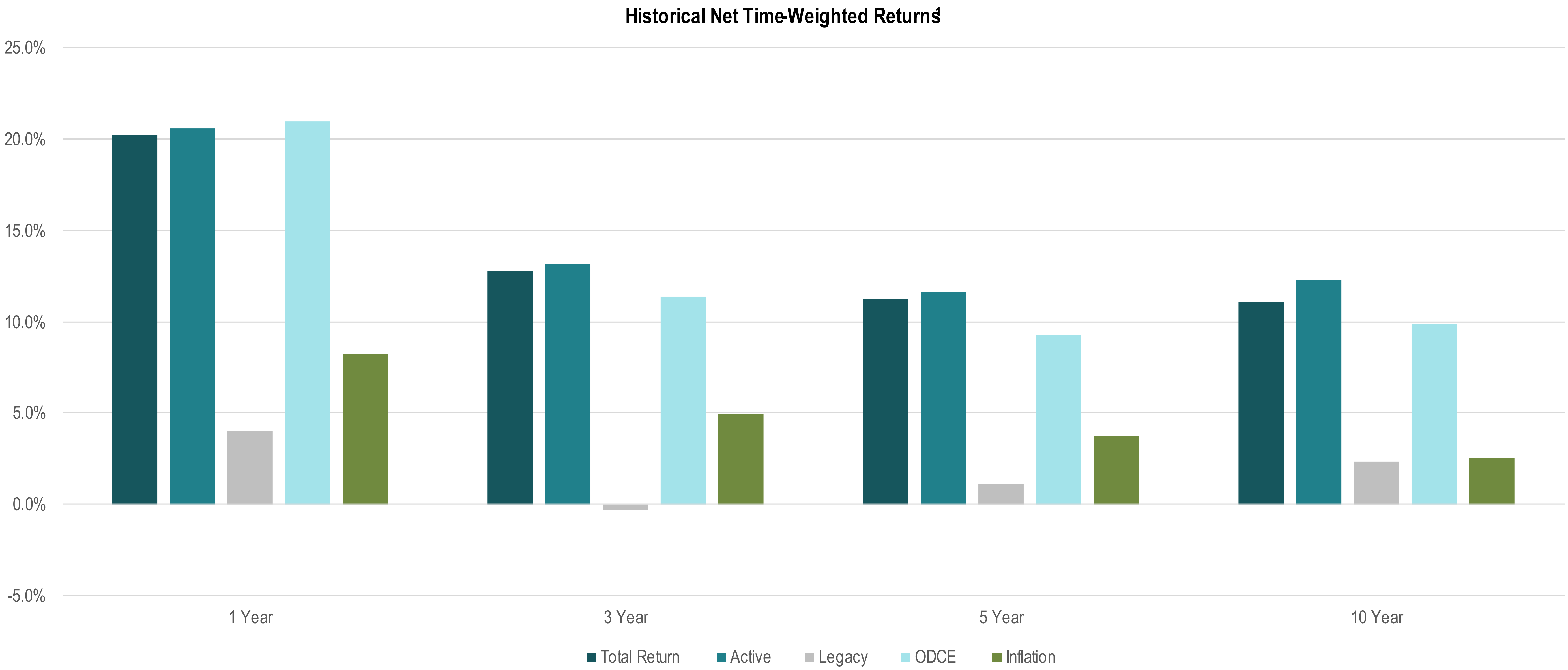
Returns

As of Q3 2022



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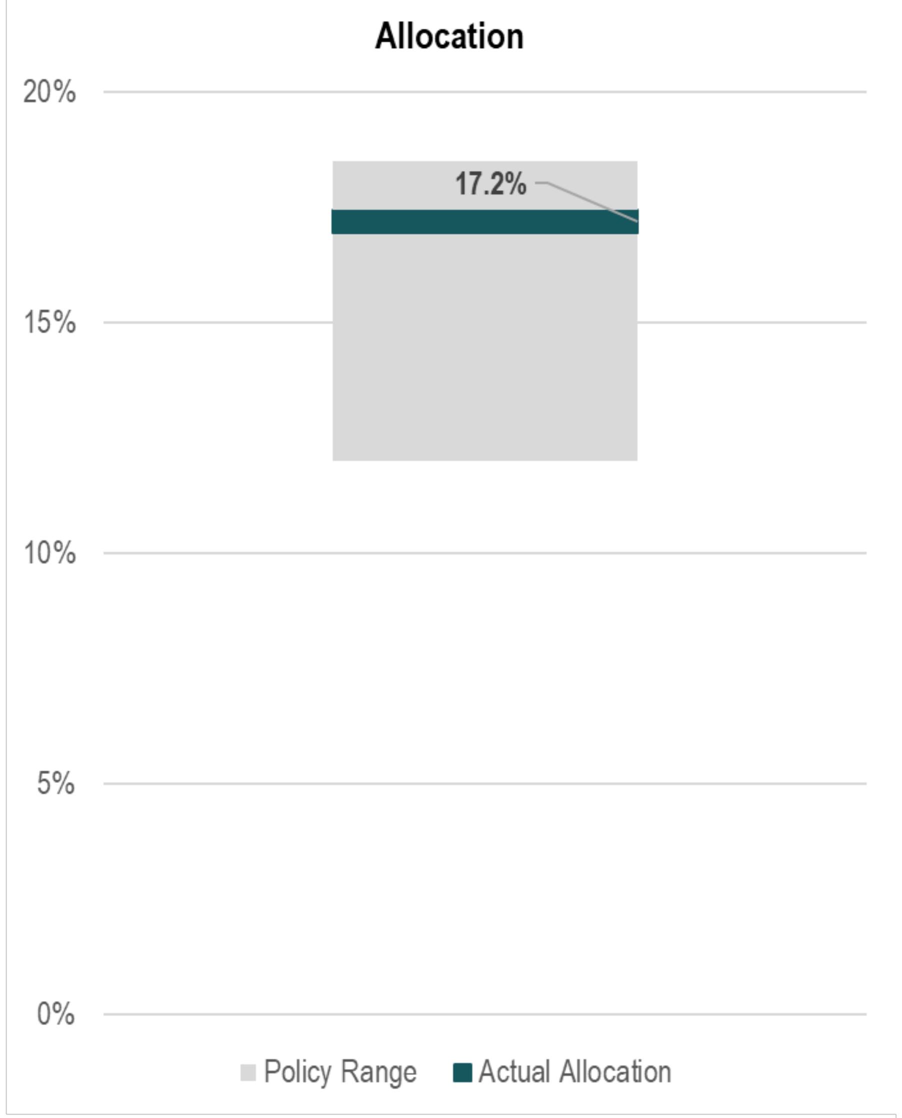
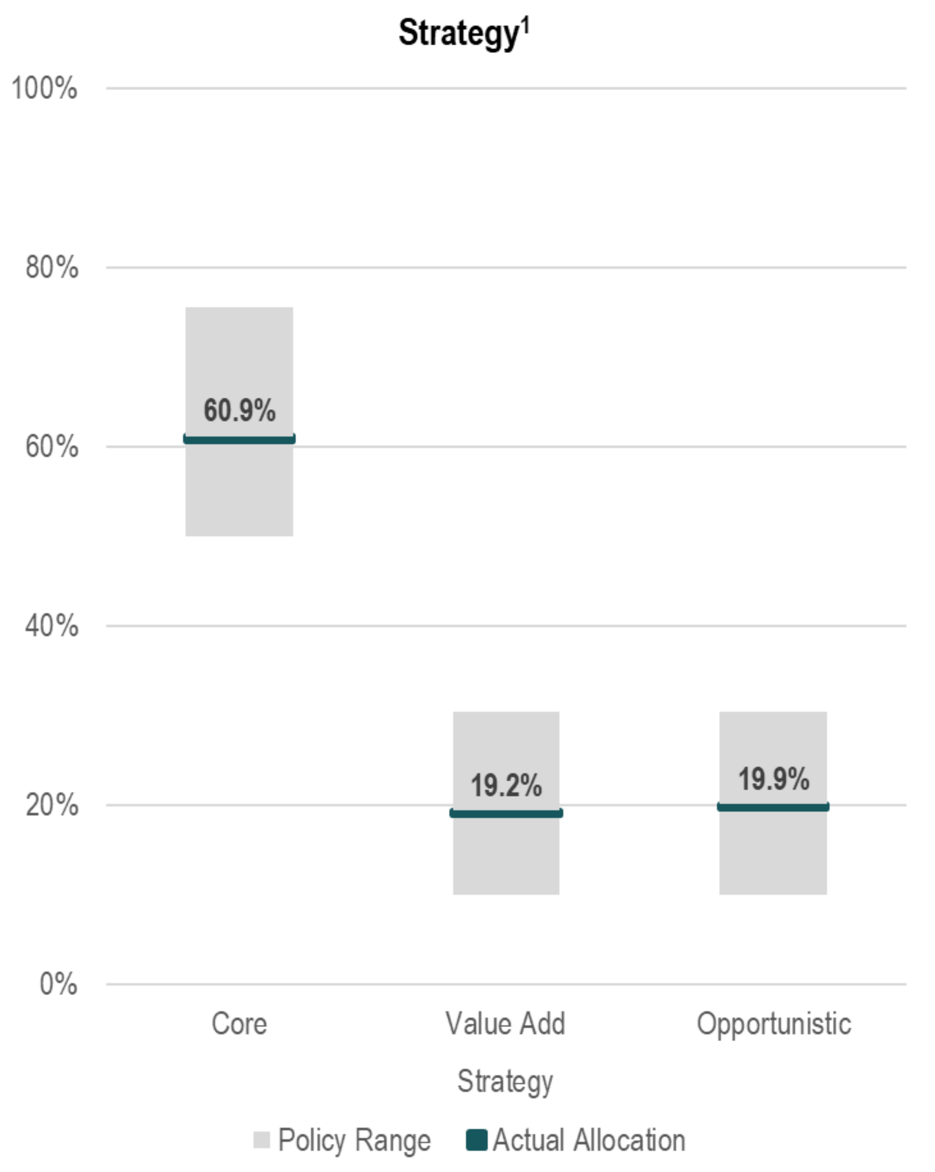
[1] Performance and inflation data through Q3 2022.

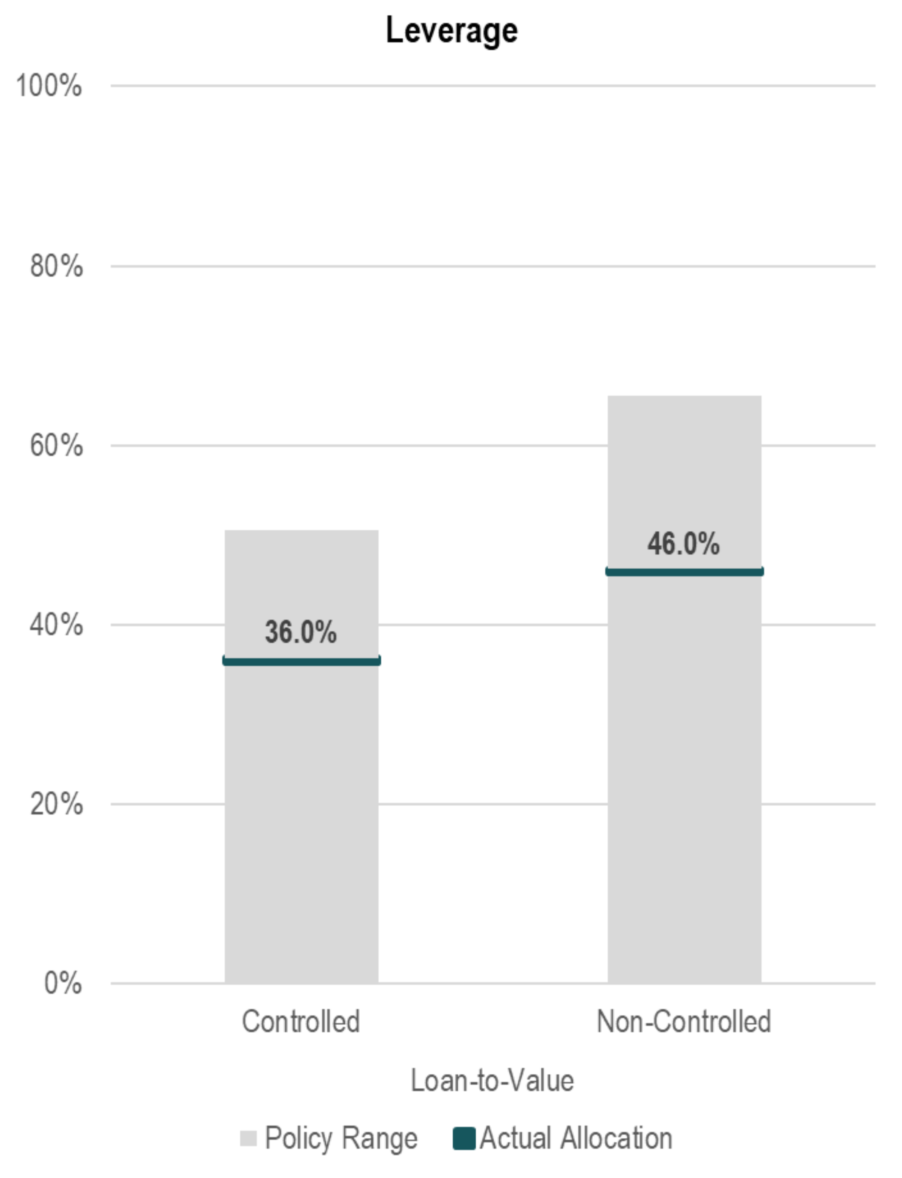
Sources: State Street, NCREIF, Bureau of Labor Statistics, data are as of September 2022

Compliance

As of Q3 2022





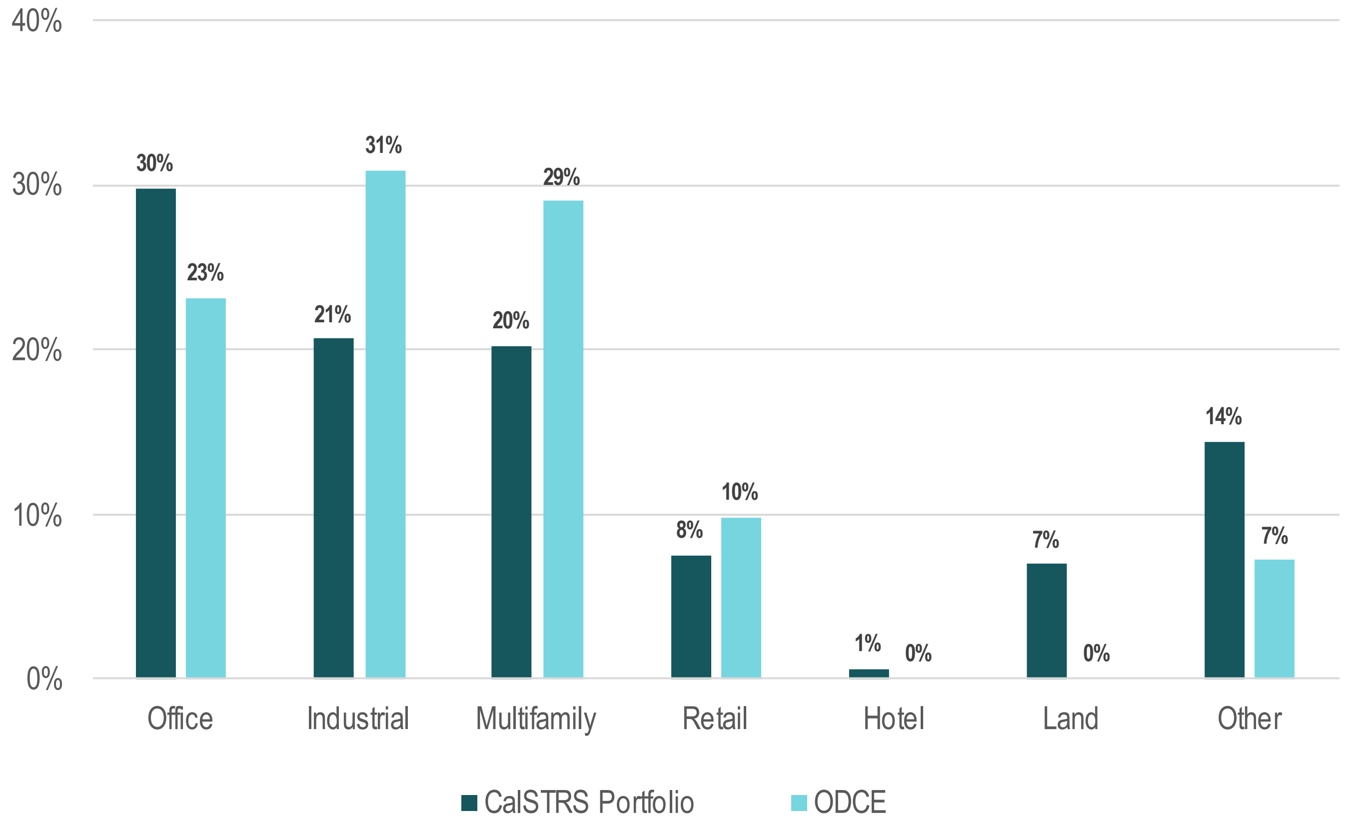


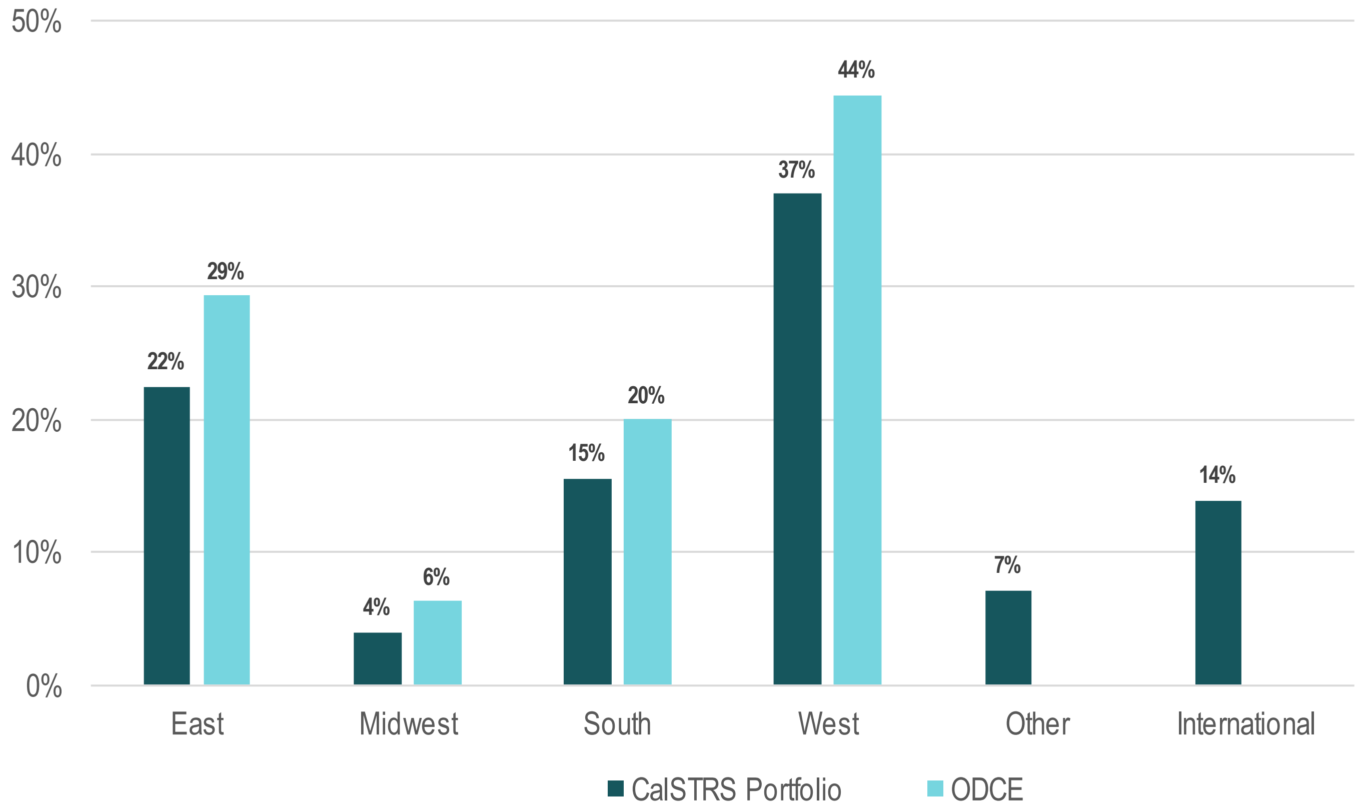
[1]Percentages do not account for the portion of Legacy assets. Public REITs included within Core.

Source: State Street

Portfolio Diversification

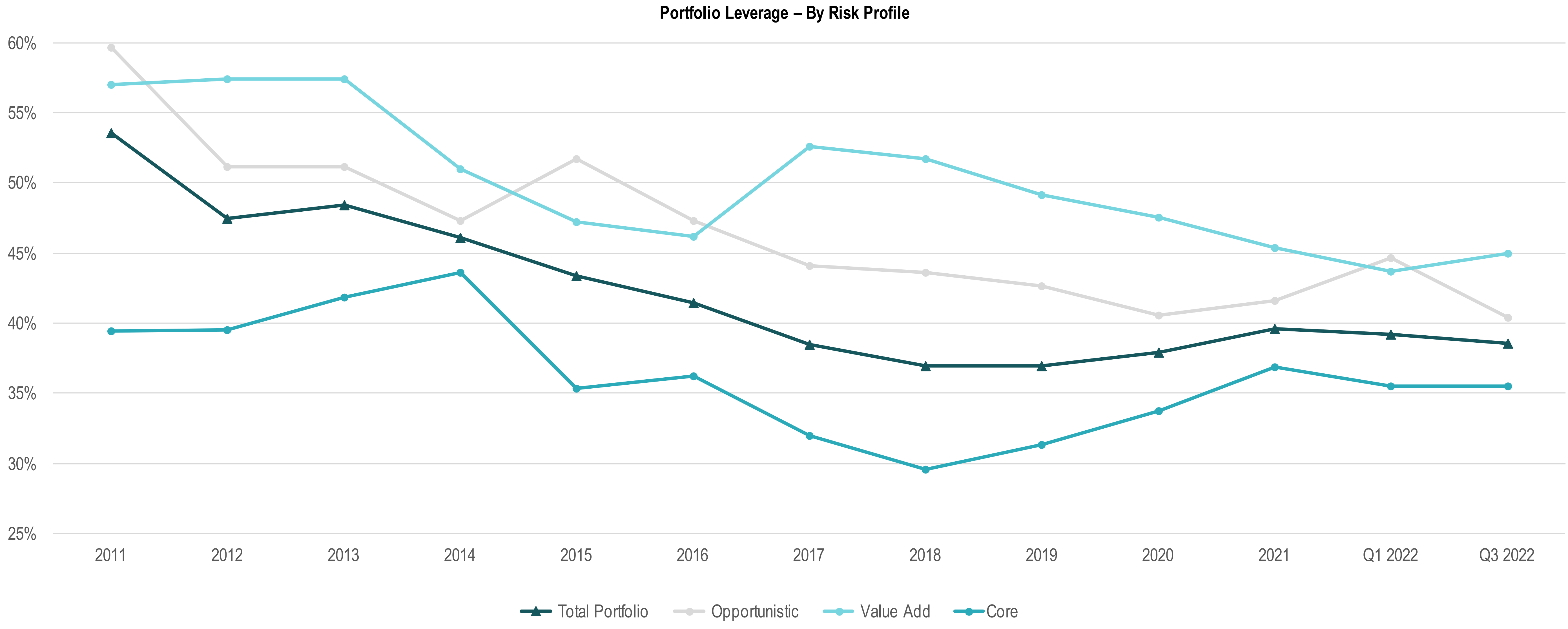
Property Type and Geographic Diversification vs. ODCE





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: Other, Mixed Use,.Debt, Diversified, Manufactured, Senior Living, Healthcare, Hospitality, Various, Self Storage, Infrastructure, Entertainment, Securities, REITs, and parking.
[2] "Other" geographic category represents mostly U.S. diversified or uncategorized U.S. investments.
Source: State Street

Leverage
By Risk Profile



Source: State Street

RFA House View – Investment Implications

As of January 2023

- **High borrowing costs and a likely recession will put stress on leveraged owners** over the next year or so. At some point, re-financing and interest cap costs will precipitate transactions (sales and re-capitalizations), most likely in 2H2023 or 2024. Unlike in past recessions, the Fed is unlikely to lower short term rates in the near term.
- **Once prices have adjusted, the focus should be on property types and regions that have strong demand** over next 3-5 years:
  - **Rental Housing –** Demographics and high borrowing costs will keep multifamily and single-family rental demand high, although supply is ramping up and rent/price increases are moderating. Record high starts in 2022 and potential job losses in a recession could cause softness in some markets.
  - **Industrial –** Demand should stay strong as e-commerce continues to expand and re- and near-shoring accelerate.
  - **Niche Sectors –** Health care (medical office, life sciences, senior housing), data centers, and self-storage out-perform in recessions and have strong long-term demand drivers.
  - Economists forecast that job growth in gateway markets will rebound, although **Sunbelt markets will continue to outperform.**
- **Caution is recommended for office and non-discretionary retail**, as ongoing structural shifts are creating greater risk. Deep discounts in some cases will create some opportunistic buying/redevelopment opportunities.
- A **cautious investment approach is warranted**, as values are in flux.
  - Values for **many sectors will likely fall below replacement cost**, creating buying opportunities, although many office and retail properties may have limited future usefulness.
  - **Once land prices adjust, strong fundamentals and long-term growth support selective development** of rental residential, industrial, and some niche property types (life science, medical office).
  - Widespread **distress selling is unlikely**, except for office and regional malls.

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Front and Back Cover: Aerial images of Metro Air Park 3, Sacramento, CA