



# Real Estate Strategy Semi-Annual Report (Open Session)

Prepared for California State Teachers'  
Retirement System

As of Q1 2022

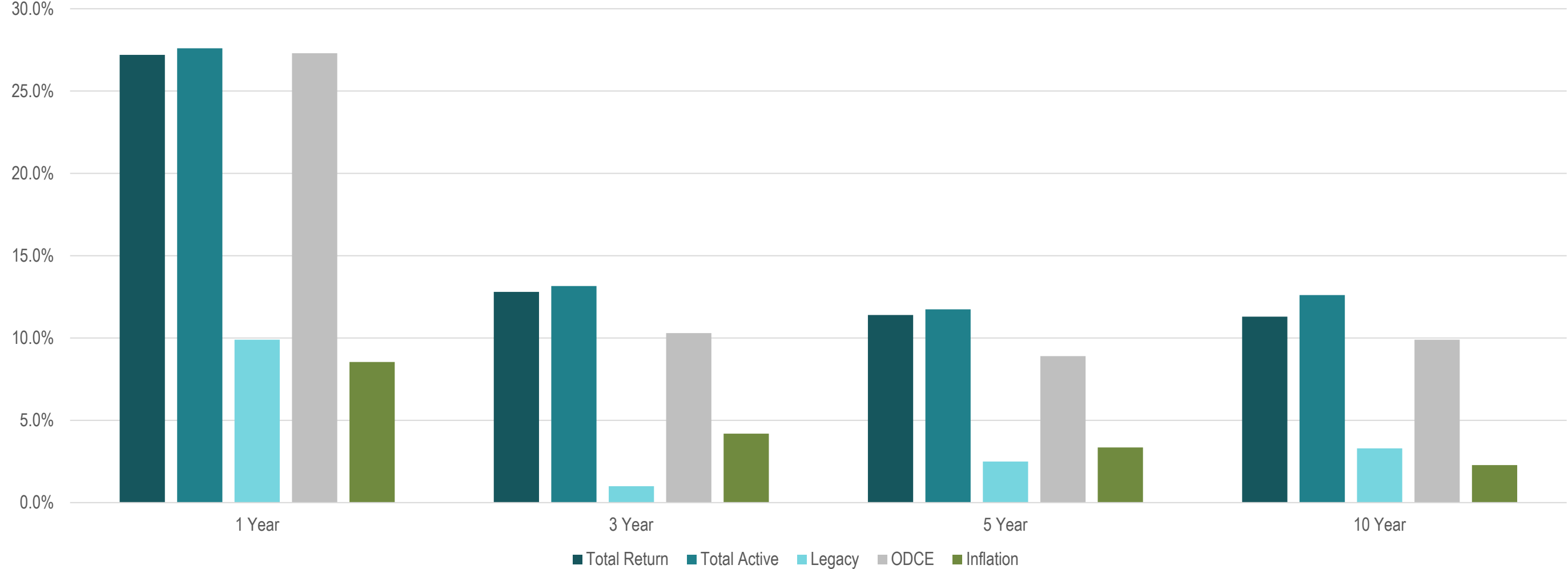
**RFA**  
RCLCO FUND ADVISORS

The information contained in this report is confidential, may be legally privileged, and is intended only for the use of California State Teachers' Retirement System.

# Returns

## As of Q1 2022

Historical Net Time-Weighted Returns

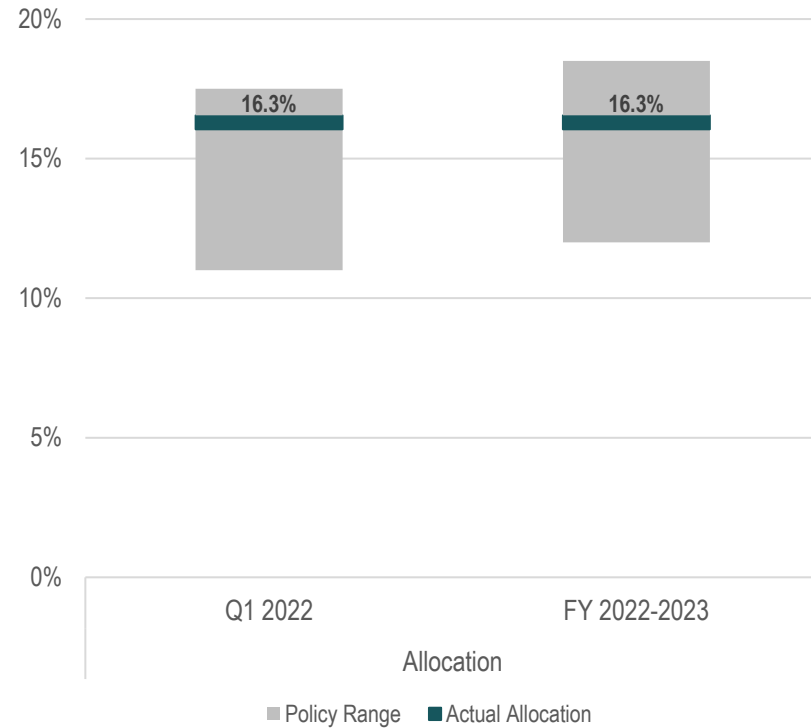


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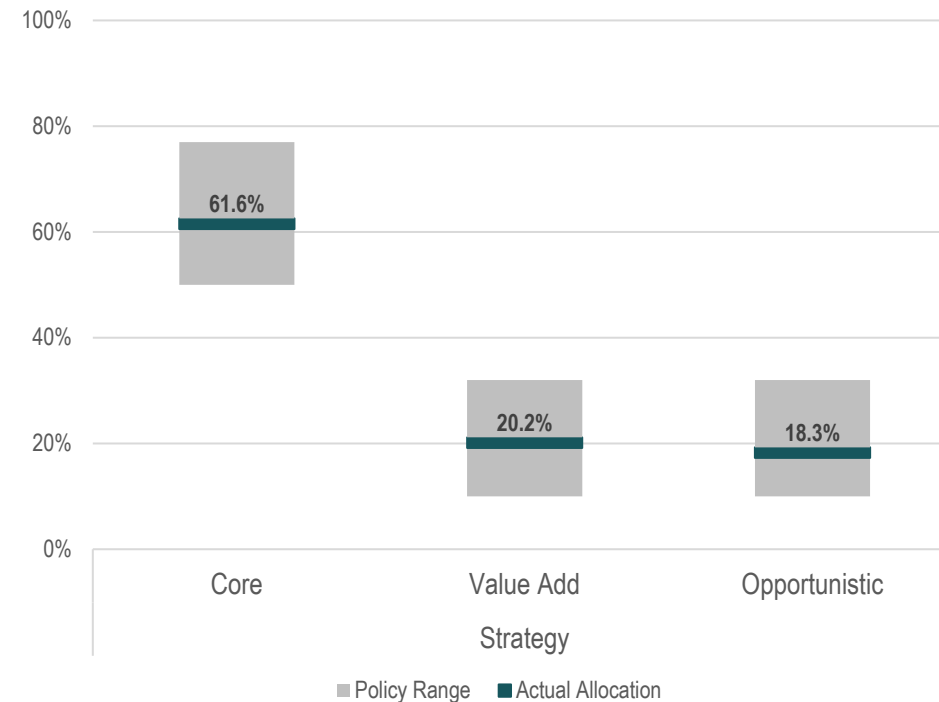
# Compliance

## As of Q1 2022

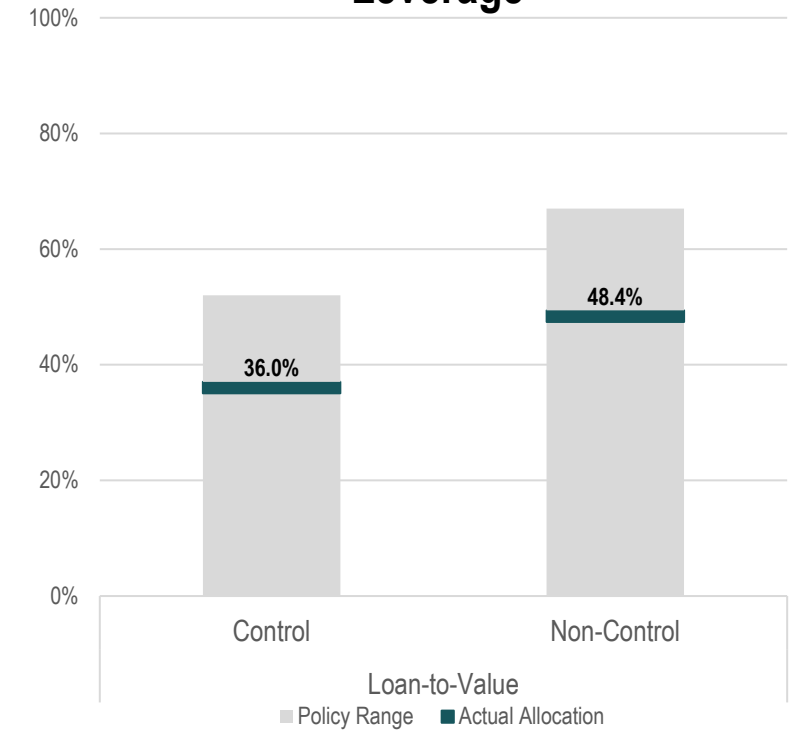
### Allocation



### Strategy<sup>1</sup>



### Leverage



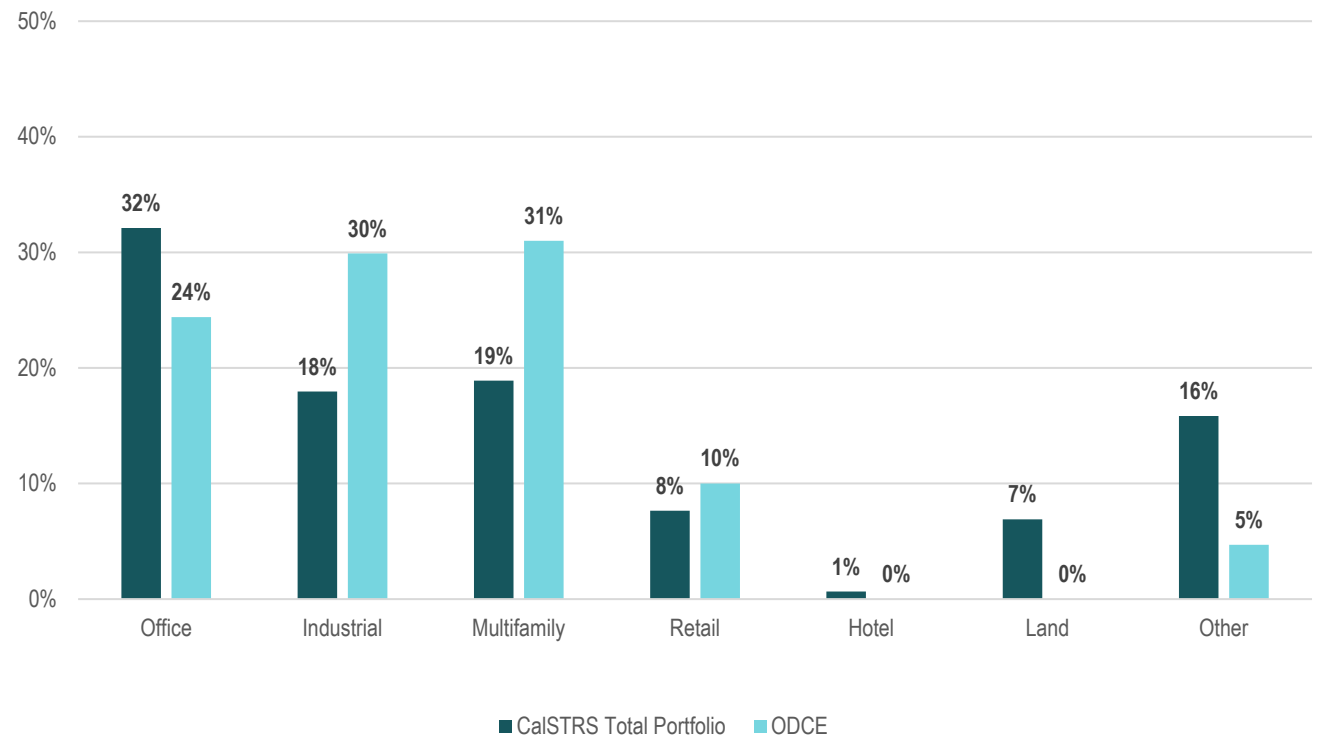
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<sup>1</sup>Percentages do not account for the portion of Legacy assets. Public REITs included with Core.  
Source: CalSTRS; State Street; NCREIF

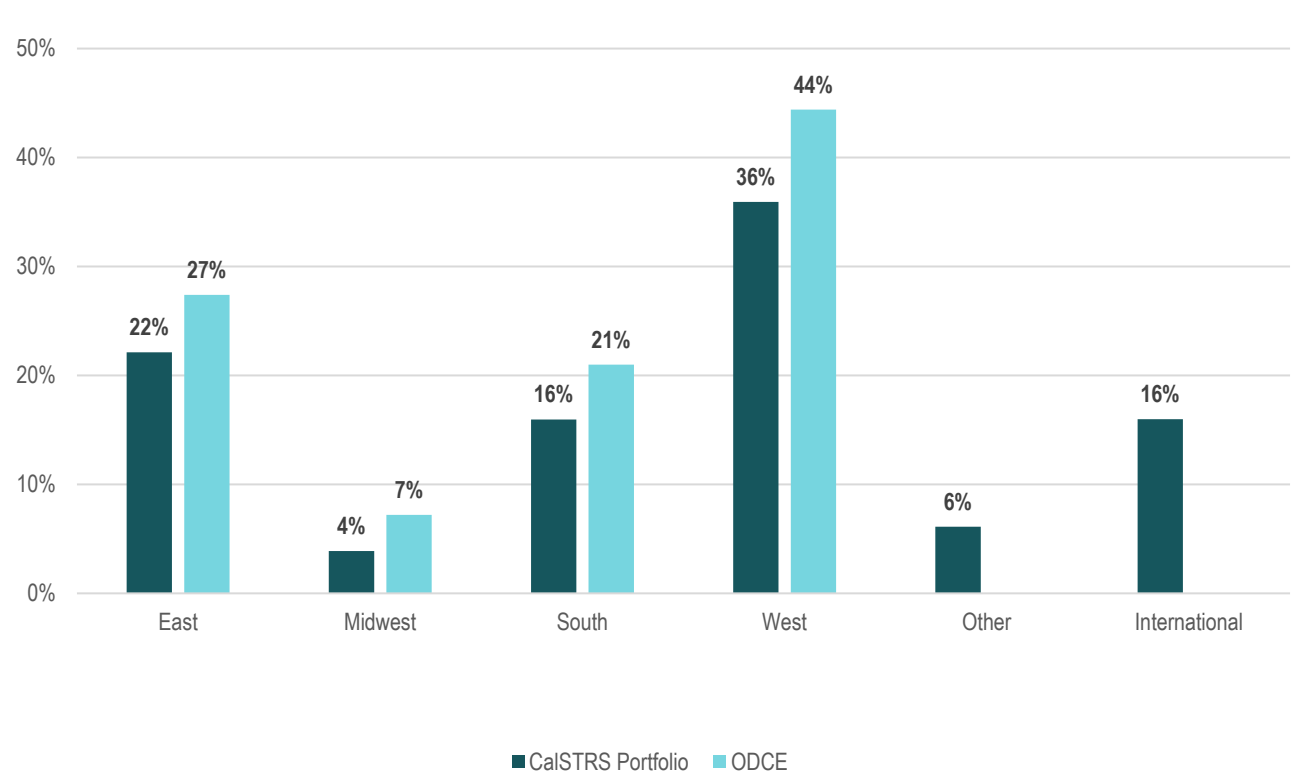
# Portfolio Diversification

## Property Type and Geographic Diversification vs. ODCE

**Total Portfolio - Property Type Diversification<sup>1</sup>**



**Total Portfolio - Geographic Diversification<sup>2</sup>**



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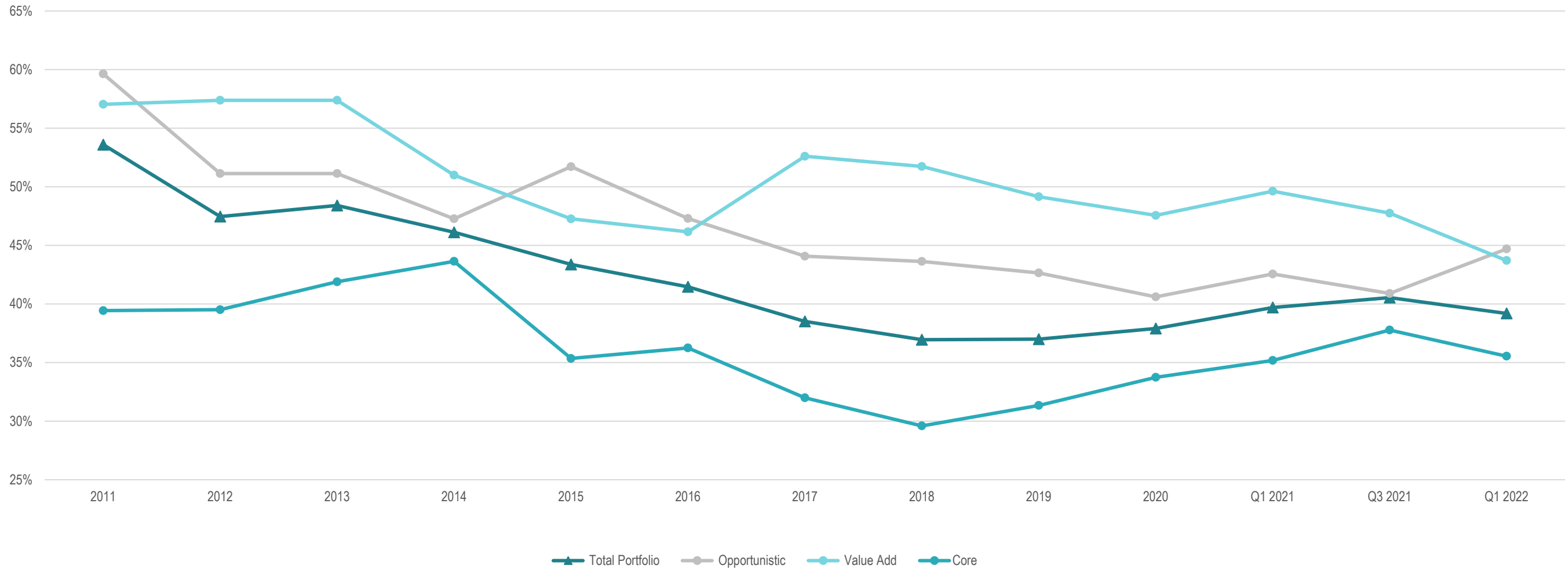
<sup>1</sup>"Other" property type category is made up of the following property types in descending order by percentage: Other, Mixed Use, Debt, Diversified, Manufactured, Senior Living, Healthcare, Hospitality, Various, Self Storage, Infrastructure, Entertainment, Securities, REITs, and parking.  
<sup>2</sup> "Other" geographic category represents mostly U.S. diversified or uncategorized U.S. investments.

Source: State Street

# Leverage

## By Risk Profile

Portfolio Leverage – By Risk Profile



# RFA House View – Investment Implications

As of June 2022

- ▶ Over the last six months, **cap rates have likely expanded roughly 25-50 bps** with fewer bidders and more re-trades. Bid/ask spreads range from 5-10%, with meaningful variation by property type and strategy (more for properties with long leases that do not grow with inflation).
- ▶ **Institutional investors are confronting the denominator effect but are not wholesale sellers and continue to allocate capital to strategies** with solid fundamentals and strong long term demand drivers, and relatively attractive returns.
- ▶ Despite a potential recession over the next 24 months, **some real estate sectors should outperform** over next 5-10 years:
  - **Rental Housing** – Job growth and high housing prices will keep multifamily and single-family rental demand high, although supply is ramping up.
  - **Industrial** – Demand should stay very strong as e-commerce continues to expand and build out its supply chain.
  - **Niche Sectors** – Health care (medical office, life sciences, senior housing), data centers, and self storage have strong long-term demand drivers, but often require specialized investment and management expertise.
- ▶ **Caution is recommended for office and retail**, as structural shifts are ongoing, creating greater uncertainty. In addition, pricing is currently more attractive in the public markets for these and other property types.
- ▶ **Strong fundamentals and long-term growth factors support selective development and refurbishment** of rental residential, industrial, and some niche property types (medical real estate, self storage, data centers) and suggest caution for office and discretionary retail.
- ▶ The potential upcoming **slowdown will likely create investment opportunities**, although widespread distress is unlikely.



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