



Real Estate Strategy Semi-Annual Report (Open Session)

Prepared for California State Teachers'
Retirement System

As of Q1 2023

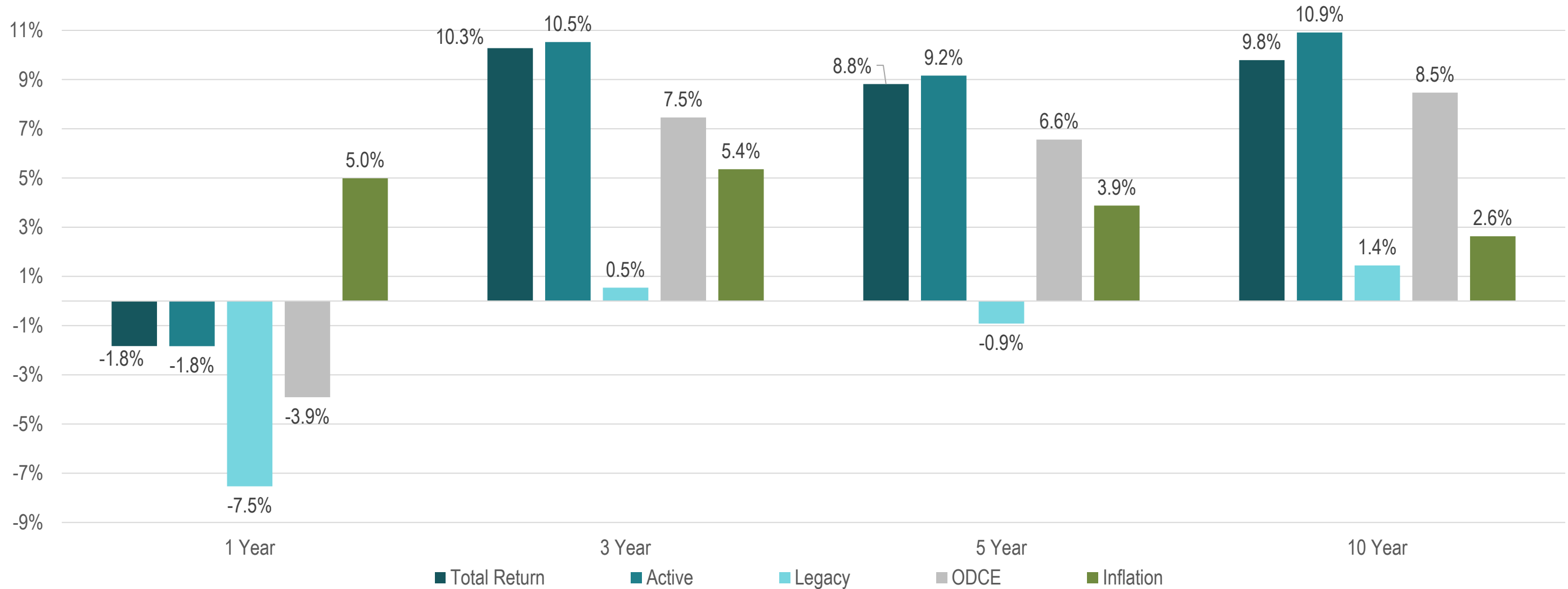
RFA
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The information contained in this report is confidential, may be legally privileged,
and is intended only for the use of California State Teachers' Retirement System.

CalSTRS Performance Returns¹

As of Q1 2023

Historical Net Time-Weighted Returns²



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¹ Returns are based on PrivateEdge, StateStreet's tool to look at returns at a more granular level.

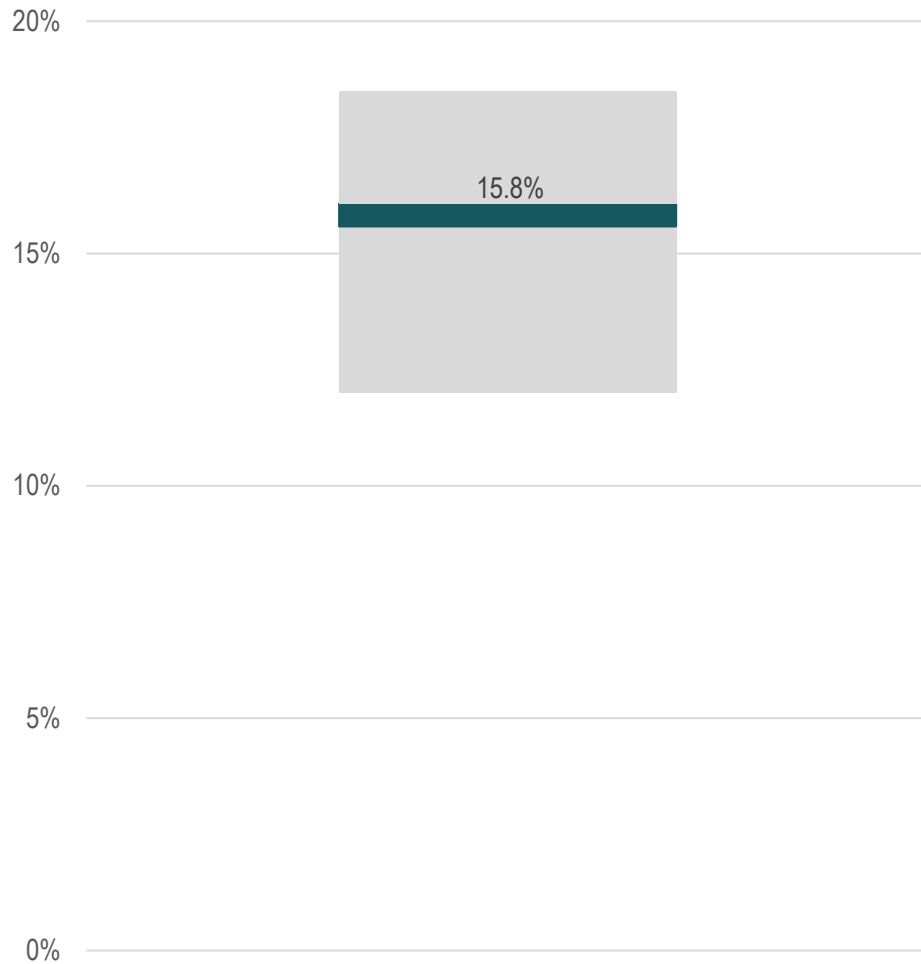
² Performance and inflation data through Q1 2023.

Source: State Street, NCREIF, FRED

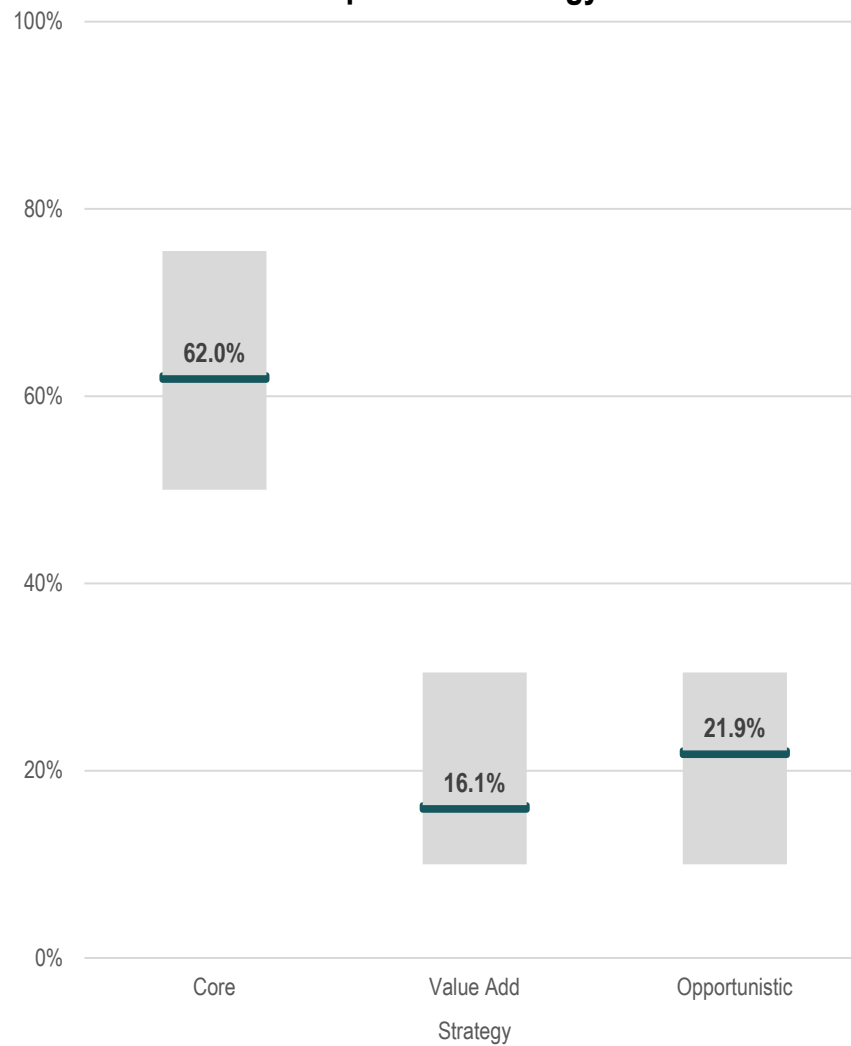
Funding Status and Compliance

As of Q1 2023

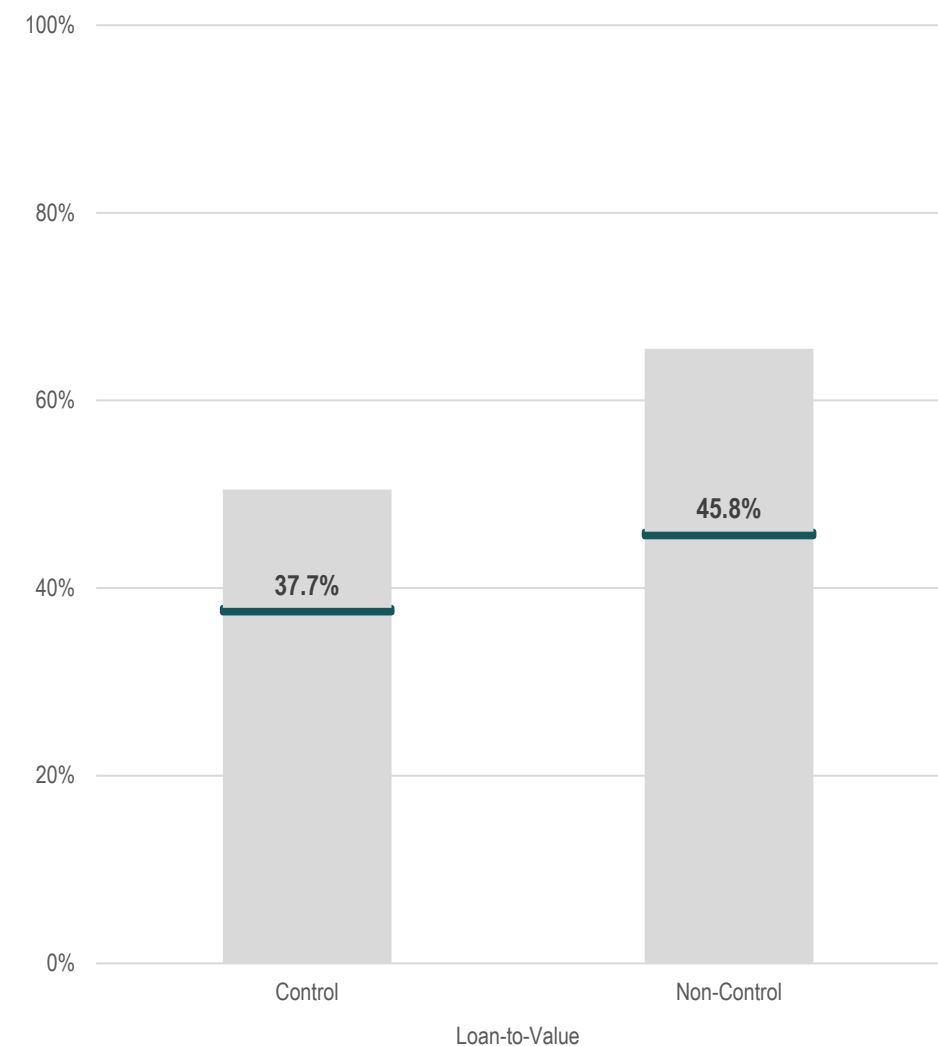
Compliance - Allocation



Compliance - Strategy¹



Compliance - Leverage



■ Policy Range ■ Actual Allocation

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■ Policy Range ■ Actual Allocation



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

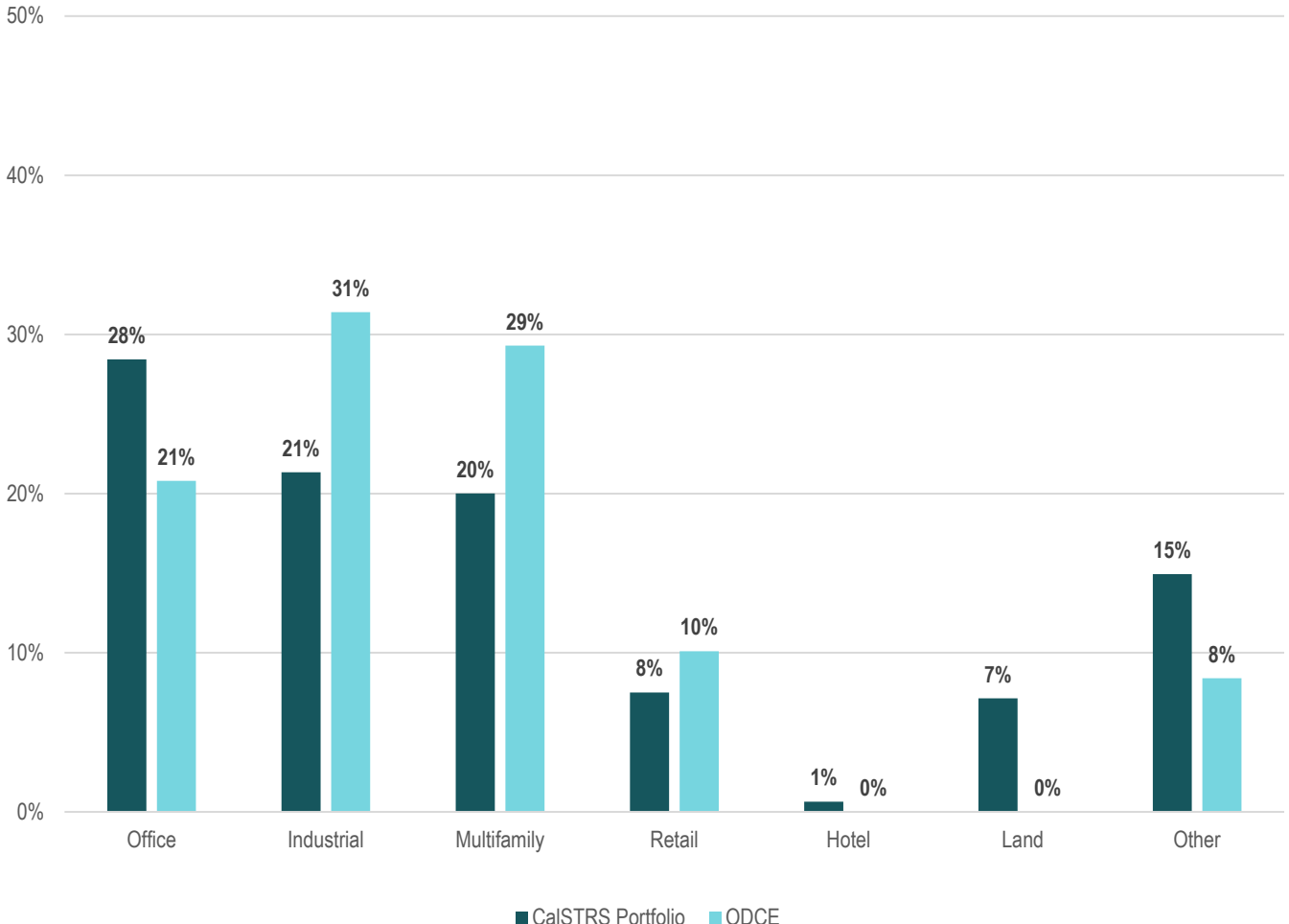
²Control portfolios are those which CalSTRS maintains control over acquisitions, dispositions, and/or financing or has high liquidity in normal market conditions.

Source: State Street

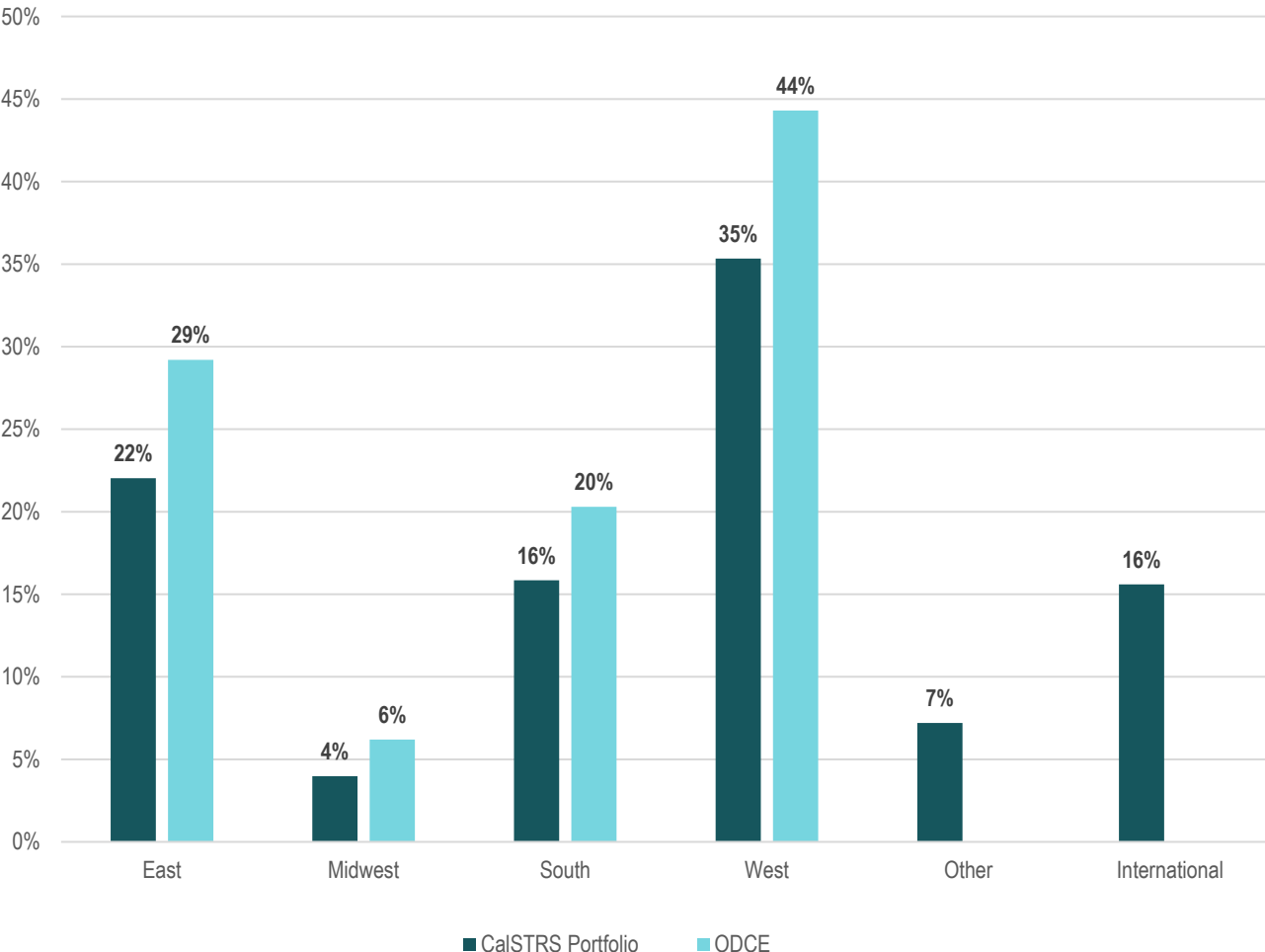
Portfolio Diversification

Property Type and Geographic Diversification vs. ODCE

Total Portfolio - Property Type Diversification¹



Total Portfolio - Geographic Diversification¹

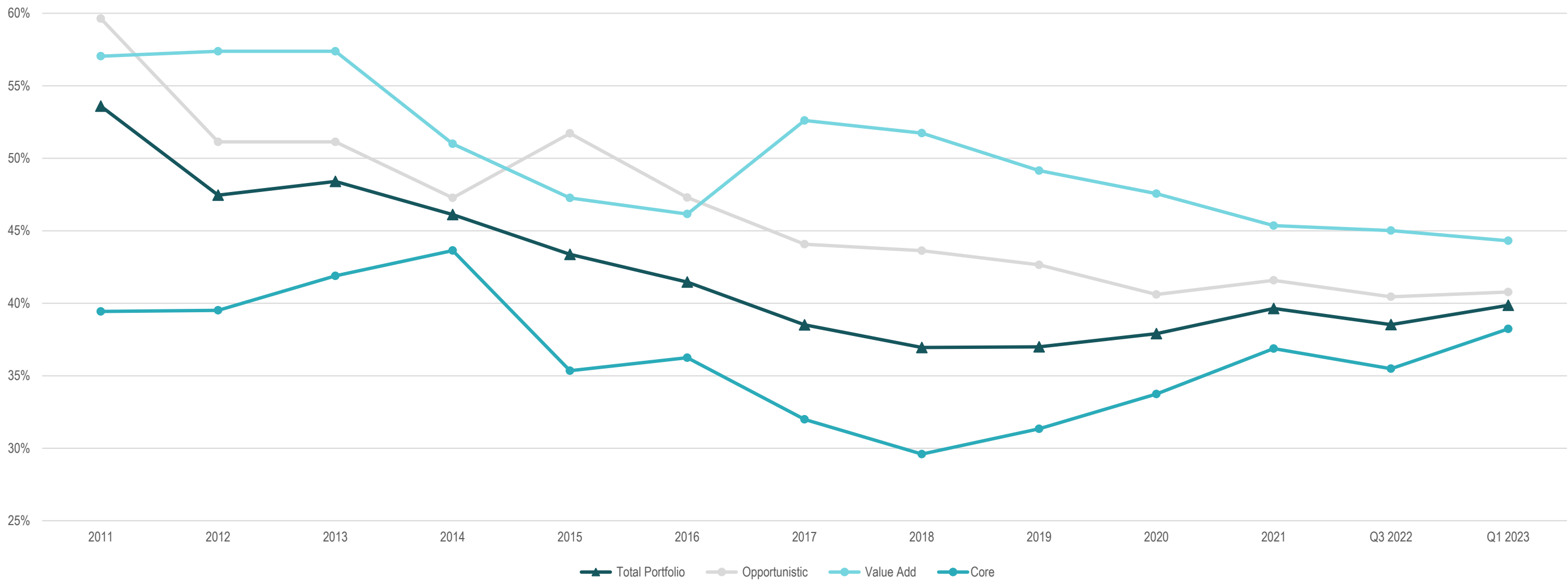


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¹"Other" property type category is made up of the following property types in descending order by percentage: Other, Mixed Use, Debt, Diversified, Manufactured, Senior Living, Healthcare, Hospitality, Various, Self-Storage, Infrastructure, Entertainment, Securities, REITs, and parking.
 Note: ODCE and CalSTRS' weights based on gross real estate value.
 Source: State Street, CalSTRS

Leverage By Risk Profile

Portfolio Leverage – By Risk Profile



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¹ Control investments are those which CalSTRS maintains discretion over acquisitions, dispositions, and financing, or has high liquidity in normal market conditions.
Source: State Street

RFA House View – Investment Implications

As of August 2023

- ▶ **US real estate fundamentals have started to soften**, with moderately higher vacancy rates and slower rent growth. Further declines are likely through 2024, although the downturn will be modest by historical standards.
 - » Industrial rent growth should stay strong at 5-6% annually through 2026.
 - » Apartment rent growth will trend toward 2-3% but may suffer in a downside scenario.
 - » Neighborhood retail rent growth will cool, but limited new supply will keep a floor under rents.
 - » Net effective office rents will contract, and vacancy rates will hit new highs, approaching 20% by 2026.
 - » Single-family for-sale prices are expected to fall; build-to-rent will gain additional share of new construction.
- ▶ **Real estate capital markets to remain constrained in 2023**. Borrowing costs have risen materially as base rates and spreads are up. The Fed is unlikely to lower base rates until mid-2024 although spreads could tighten. Institutions are constrained by valuation uncertainty and potential recession impacts, although wholesale selling is not likely. Transactions may pick up in 2024 once buyers adjust to reset prices (15-25% below peak) and the ‘denominator effect’ eases.
- ▶ RFA continues to recommend a **cautious investment approach in 2023**, as a wide bid/ask spread will persist.
 - » Values for **many sectors will likely fall below replacement cost**, creating buying opportunities, although many office and retail properties may have limited future usefulness.
 - » **Assuming that land prices adjust, solid fundamentals and long-term growth will support selective development** of rental residential, industrial, and some niche property types (life science, medical office).
 - » **Widespread foreclosures/distress selling is unlikely**, except for office and regional malls.
 - » Investors should focus on opportunities and markets with **strong long term demand drivers and fundamentals**.



Cover Image: *Fairfield Aspect at Totem Lake, Kirkland, WA*

Table of Contents Images: *12521 Los Nietos Road, Santa Fe Springs, CA*

Back Cover Image: *Fairfield North at Totem Lake, Kirkland, WA*

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