

NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



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INVESTMENT MANAGEMENT DIVISION

# Real Estate Update

May 31, 2023



## Agenda

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## Real Estate Team

Troy March, CCIM, MBA  
Director of Real Estate

10 Years with IMD  
21 Years Industry Experience

Casey High  
Portfolio Manager

10 Years with IMD

Chris Ward  
Analyst

9 Years with IMD



## Real Estate Sector Analysis

Risk: ● Higher ● Medium ● Lower

● Industrial	<ul style="list-style-type: none"> <li>• Demand remains resilient despite economic uncertainty</li> <li>• Industrial Outdoor Storage evolving into an institutional property type</li> </ul>
● Data/Cell Tower	<ul style="list-style-type: none"> <li>• 2022's record pace of absorption showing no signs of slowing for data centers</li> <li>• AI innovation race is expected to boost demand from large global tech companies</li> </ul>
● Self-Storage	<ul style="list-style-type: none"> <li>• Supply starting to moderate as new development faces delays and high costs</li> <li>• Occupancy has dipped below pandemic-era peak, but remains well above 10-yr average</li> </ul>
● Multifamily	<ul style="list-style-type: none"> <li>• Rent growth continues to be driven by prohibitively expensive for-sale market</li> <li>• Tech-centric job markets pressured as layoffs continue to weigh on apartment demand in the near-term</li> </ul>
● Retail	<ul style="list-style-type: none"> <li>• Neighborhood, necessity-based retail still proving resilient</li> <li>• A looming economic slowdown remains the largest threat to retailers</li> </ul>
● Student Housing	<ul style="list-style-type: none"> <li>• Reduced levels of new supply &amp; larger incoming student populations are tailwinds for the sector's rebound</li> <li>• Power 5 Universities seeking Public-Private Partnerships for on- and off-campus development projects; supporting valuations</li> </ul>
● Senior Housing	<ul style="list-style-type: none"> <li>• Operationally intensive, but NOI margins improving as labor costs moderate</li> <li>• Favorable long-term demographic tailwinds; location and quality are key</li> </ul>
● Hotel	<ul style="list-style-type: none"> <li>• Excess savings and pent-up business travel supportive of near-term demand</li> <li>• Leisure travel has picked up, but a worsening economic backdrop and rising operating expenses are the primary risks to near-term performance</li> </ul>
● Office	<ul style="list-style-type: none"> <li>• Flight to quality &amp; flexible work plans for employees persist, weakening demand</li> <li>• Lenders pulling away from Office resulting in muted transaction market</li> </ul>



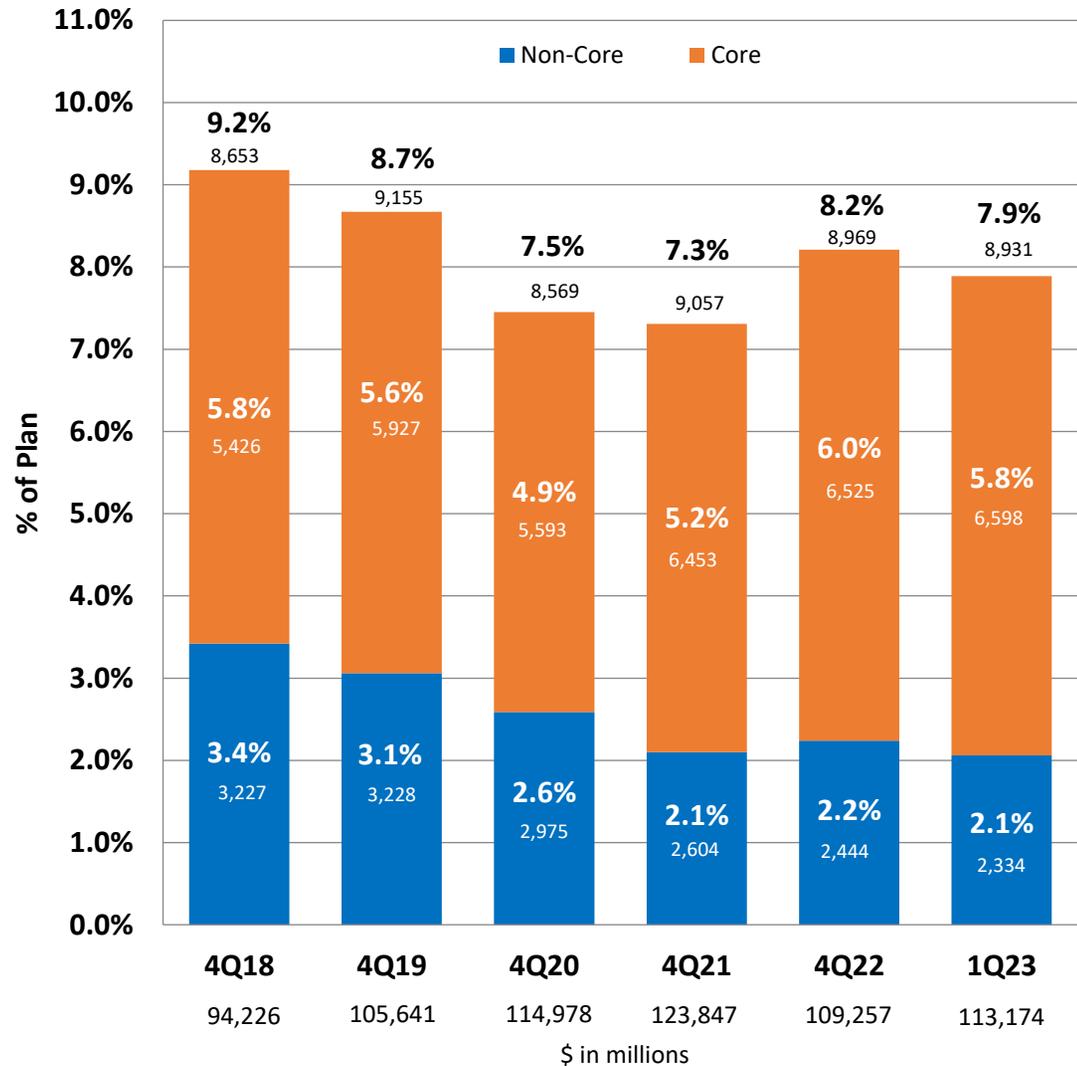
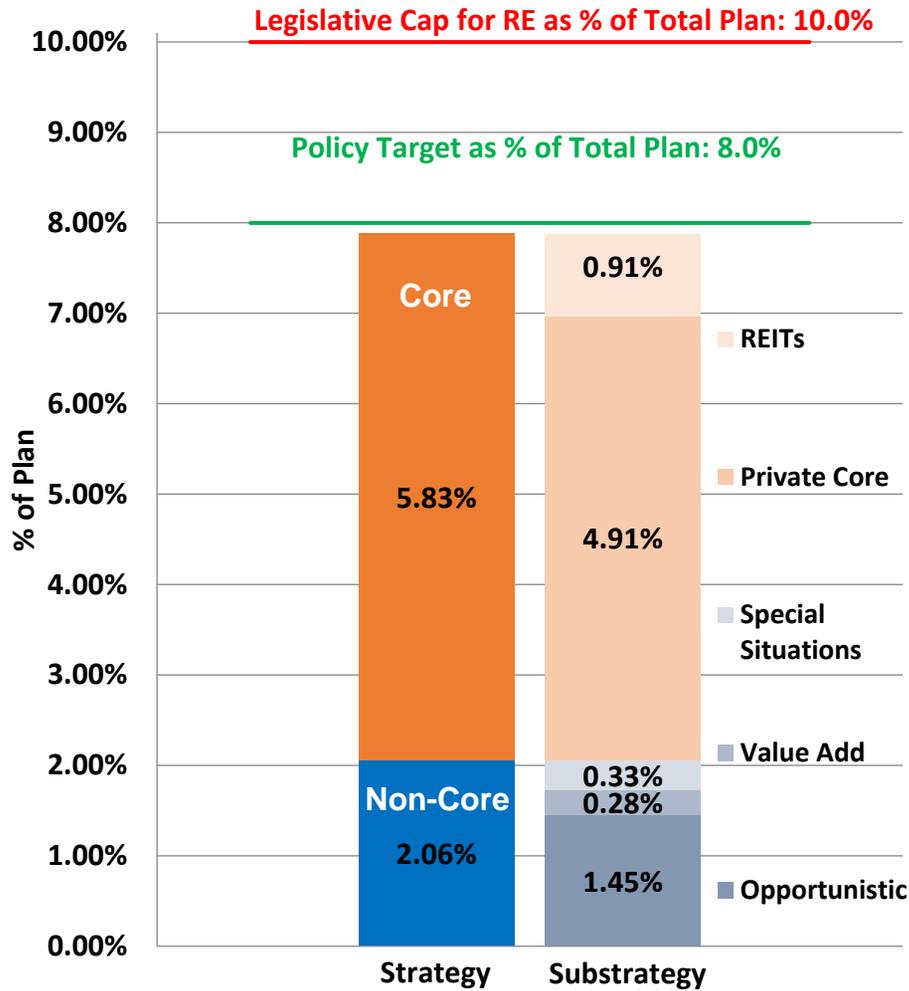
## Real Estate Investments since 3/31/2022

<b>Closing Date</b>	<b>Fund Name</b>	<b>Commitment (millions)</b>	<b>Fund Type</b>	<b>Sector</b>	<b>Portfolio</b>
Q2 2022	TPG Real Estate Fund IV	\$200	Closed-end Commingled	Global Diversified	Non-Core Opportunistic
Q2 2022	Blackstone Real Estate Partners X	\$500	Closed-end Commingled	Global Diversified	Non-Core Opportunistic
Q3 2022	BlackRock World REITs	\$300	Open-end Separate Account	Global Developed REITs	Core – Public RE
Q3 2022	Prime Storage NC	\$300	Open-end Separate Account	Self-Storage	Non-Core Value Add
Q4 2022	RXR NC	\$200	Open-end Separate Account	Mixed-Use Development	Non-Core Opportunistic

Since 3/31/2022, NCRS has made commitments totaling \$1.5B



## Real Estate Allocation

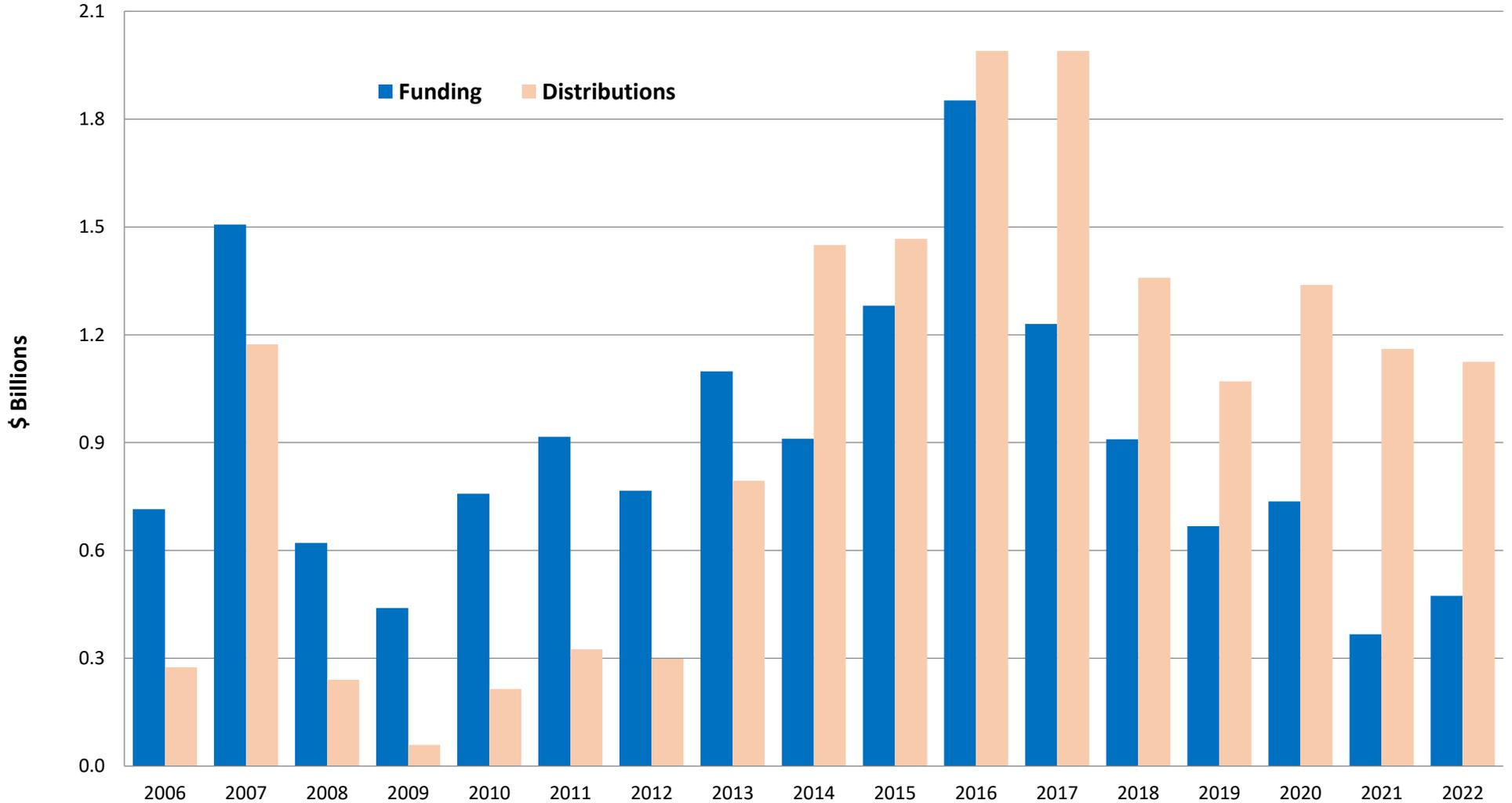


NCRS data as of 3/31/2023  
Special Situations – Build-to-Core Strategy

As of 5/16/2023, Real Estate was 7.79% of the Total Plan



## Real Estate Cash Flow

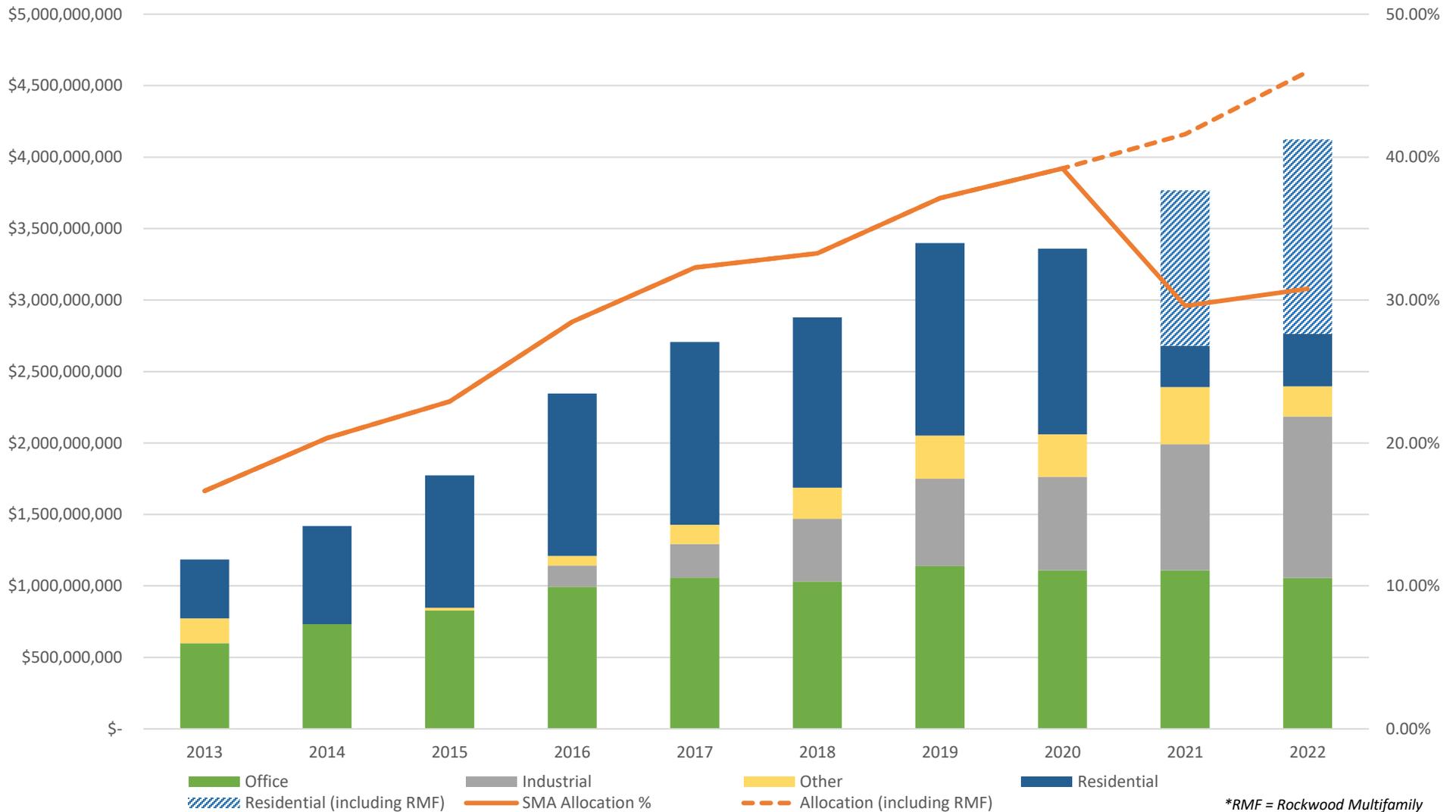


Net Cashflows (\$M):	(440)	(334)	(381)	(381)	(544)	(591)	(468)	(304)	539	186	138	759	449	403	602	794	651
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Year-To-Date net contributions were \$225 million as of 5/16/2023. There is pent up demand to transact but frozen capital markets are limiting both investment and divestment



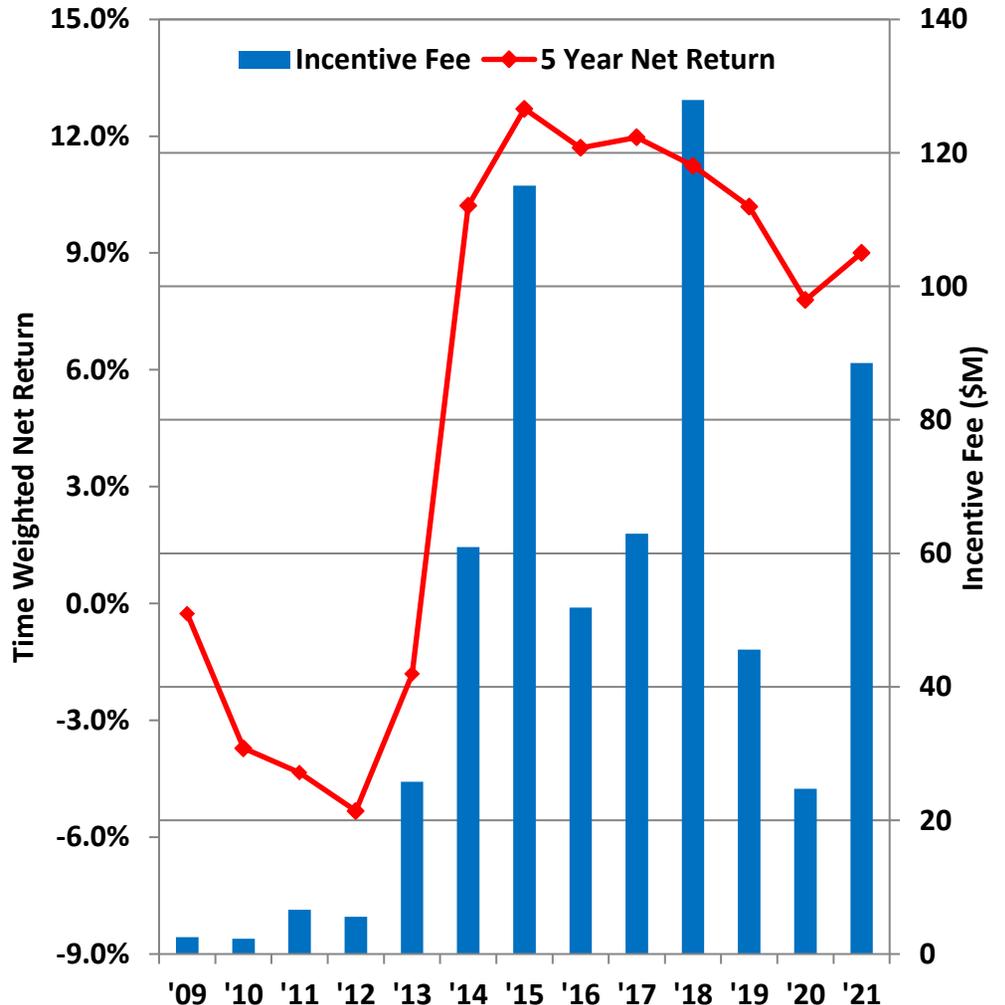
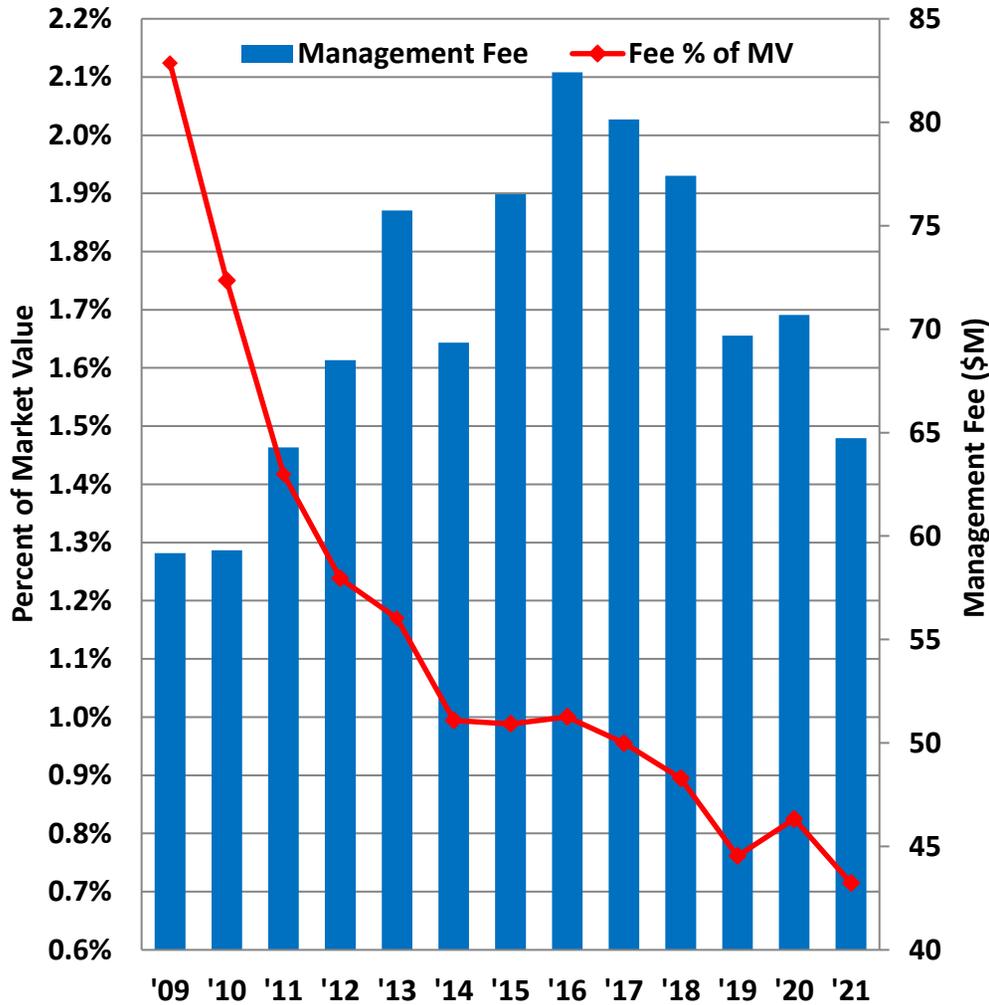
# Real Estate Separate Accounts (SMA)



\*RMF = Rockwood Multifamily

Decline in 2021 due to restructure of Multifamily SMA into Open-end Fund

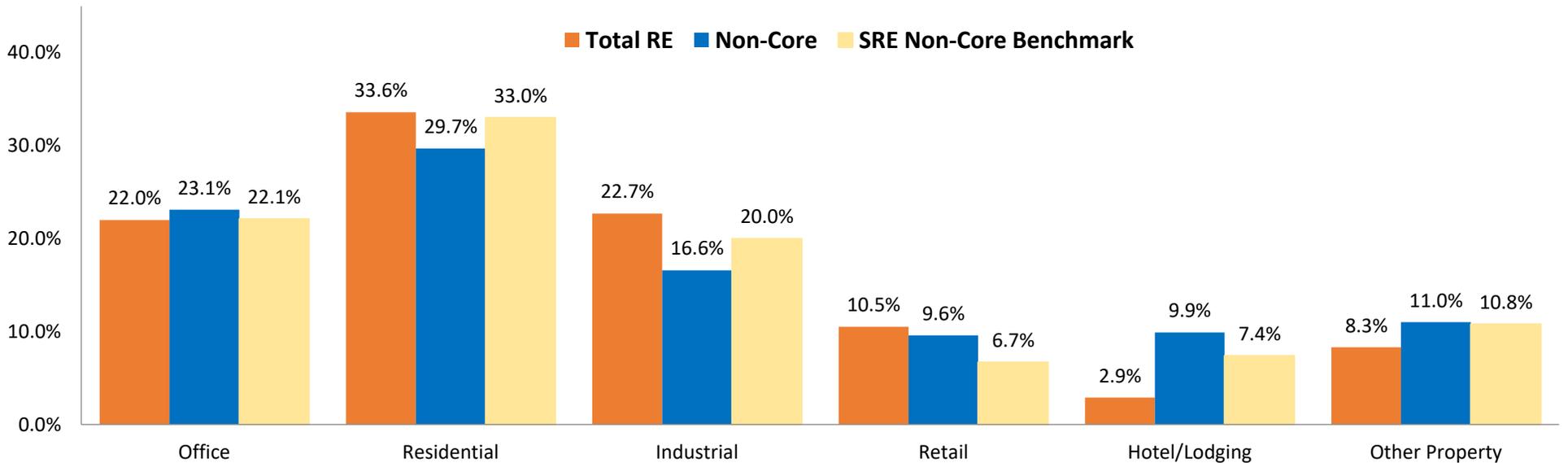
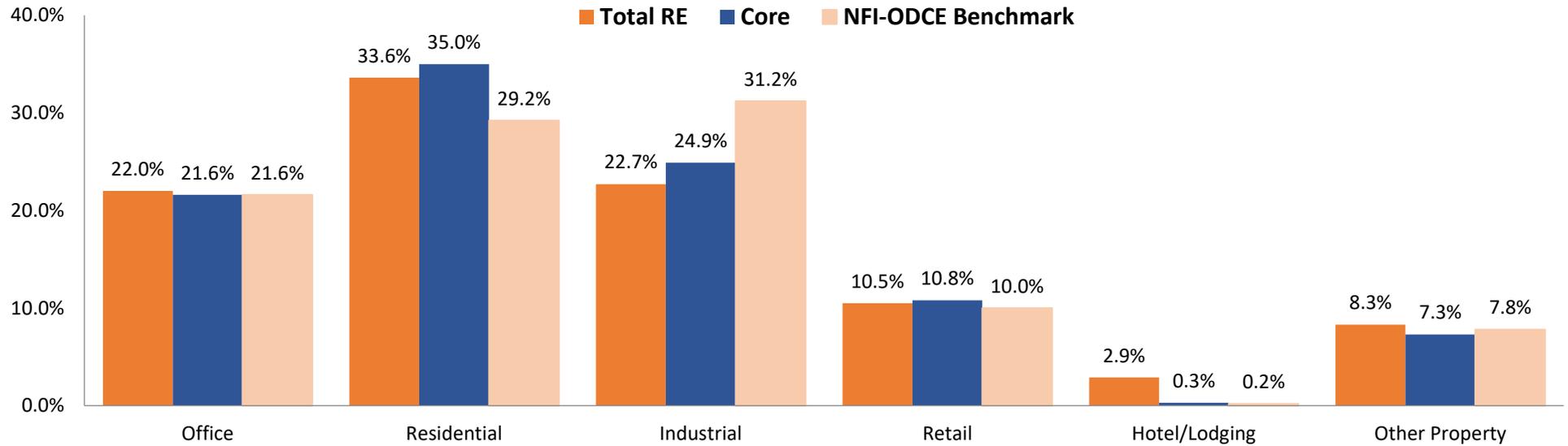
# Cost Efficiency



NCRS data through 12/31/2021

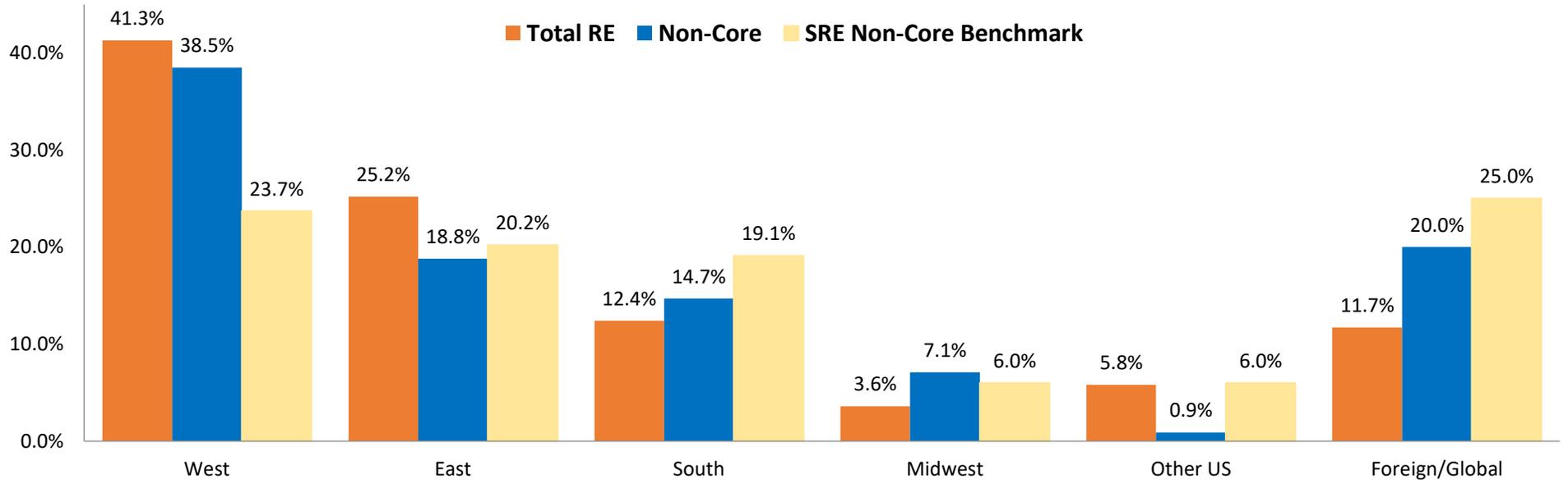
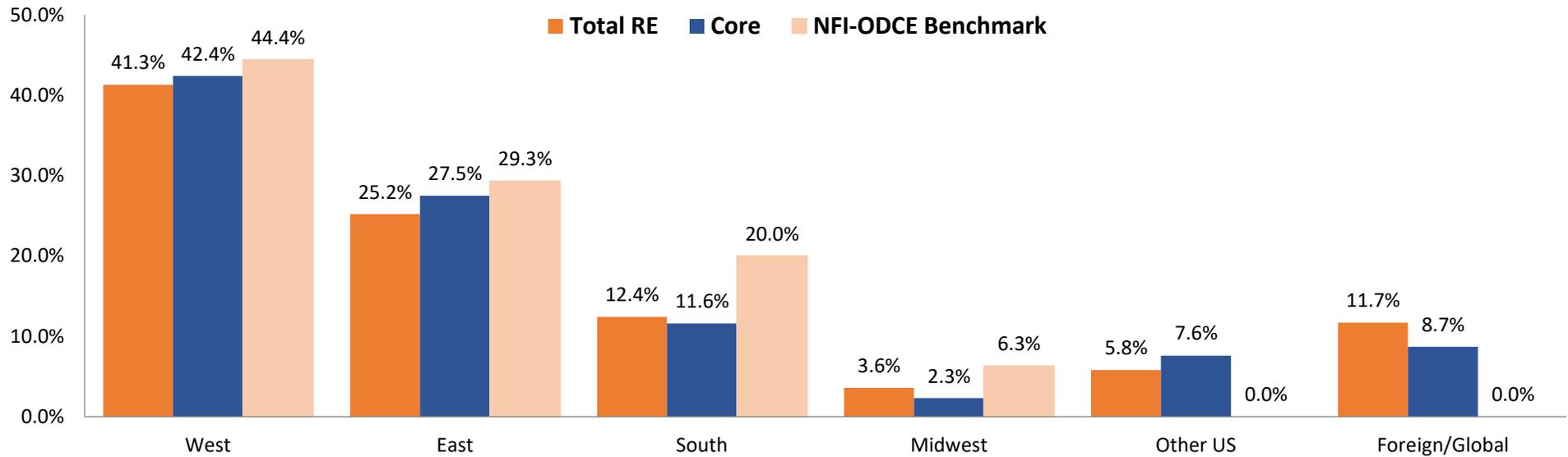
Fees continue to move lower as we leverage relationships and scale to minimize costs and enhance alignment

# Property Type Diversification



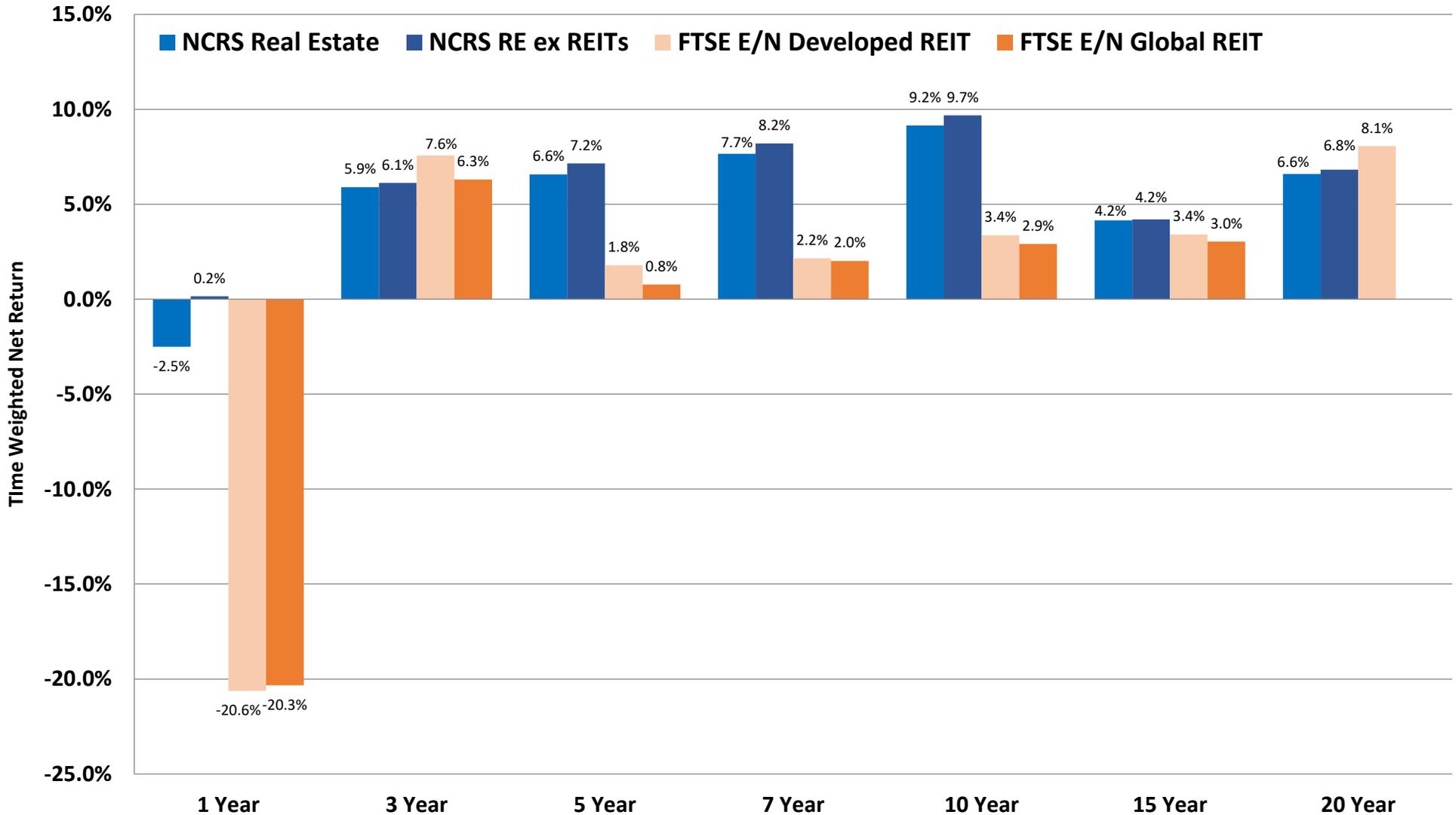
Source: SRE StepStone NCRS 4Q22 Portfolio Monitoring Report

# Geographic Diversification



Source: SRE StepStone NCRS 4Q22 Portfolio Monitoring Report

## Performance: Total Real Estate vs. REITs as of 3/31/2023



NCRS data through 3/31/2023

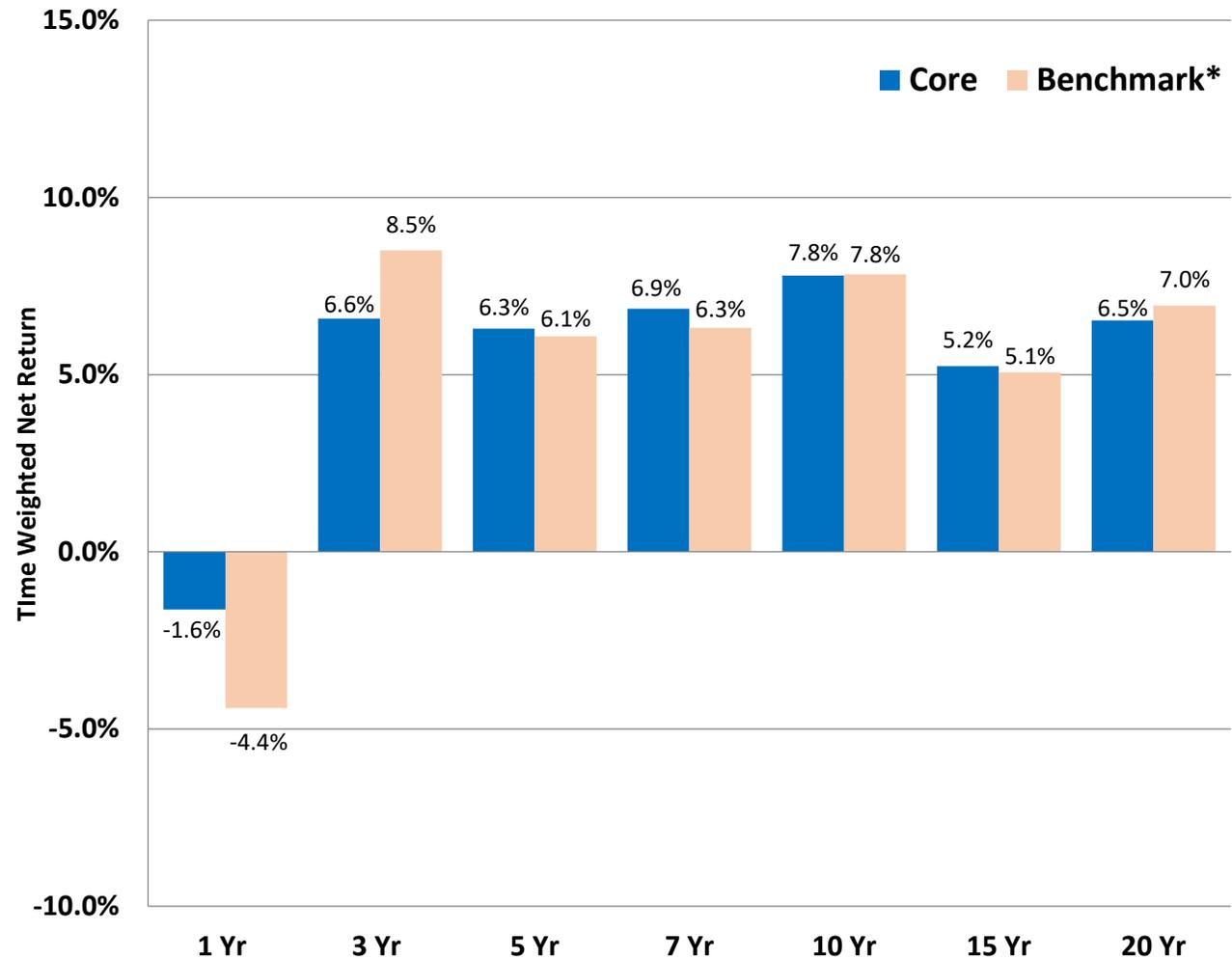
FTSE EPRA/NAREIT Developed Index: The index serves to represent real estate equities across developed markets of North America, Europe and Asia.

FTSE EPRA/NAREIT Global Index: The index is designed to track the performance of real estate equities in both developed and emerging markets.



## Performance: Core Real Estate

Core Contribution to Return				
3 Year			Contribution	
Private Core RE			5.5	
REITs			1.1	
<b>Total Core</b>			<b>6.6</b>	
Major Drivers		Vintage		
REIT	BR World REIT	2016	1.2	
	LBA NC Core			
PC	Industrial	2016	1.0	
	Rockwood			
PC	Multifamily	2021	0.9	
5 Year			Contribution	
Private Core RE			5.8	
REITs			0.5	
<b>Total Core</b>			<b>6.3</b>	
Major Drivers		Vintage		
	LBA NC Core			
PC	Industrial	2016	1.0	
	Blackstone			
PC	Property Partners	2008	0.7	
PC	NorthRock Core	2008	0.6	



NCRS data through 3/31/2023

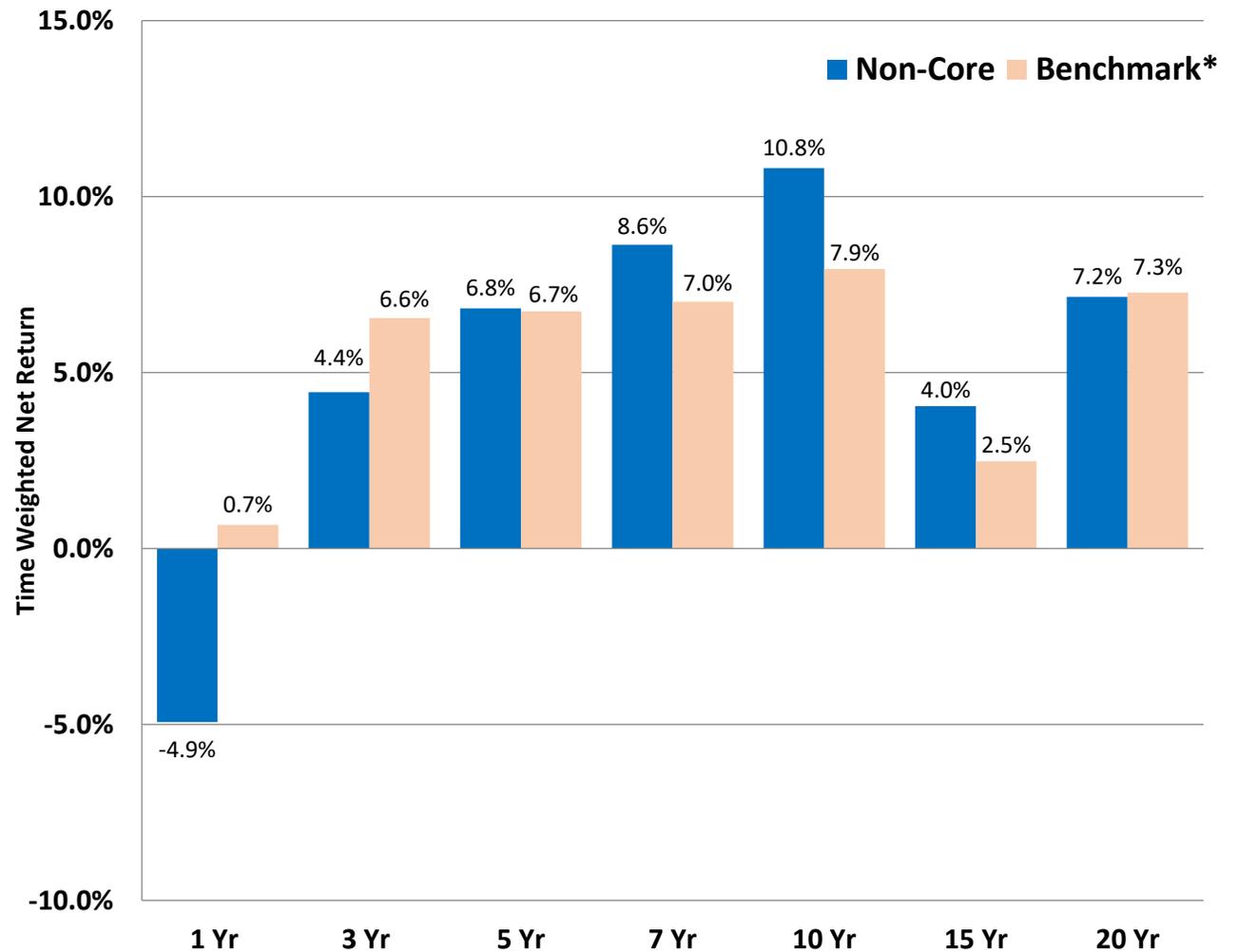
\* The Core Real Estate Benchmark is comprised of 80% NCREIF ODCE Net and 20% FTSE EPRA NAREIT Global Index.

Strong performance from Industrial, Multifamily, & Retail in the 1-Year period helped to offset poor performance of Office & Global REITs



## Performance: Non-Core Real Estate

Non-Core Contribution to Return		
3 Year		Contribution
Opportunistic		2.7
Value Add		1.7
<b>Total Non-Core</b>		<b>4.4</b>
<u>Major Drivers</u>	<u>Vintage</u>	
O BREP IX	2019	1.7
O BREP VIII	2015	1.0
Rockwood Dev		
V Partners	2016	1.0
5 Year		Contribution
Opportunistic		4.2
Value Add		2.6
<b>Total Non-Core</b>		<b>6.8</b>
<u>Major Drivers</u>	<u>Vintage</u>	
V Partners	2016	1.0
O BREP IX	2019	0.9
O BREP VIII	2015	0.9



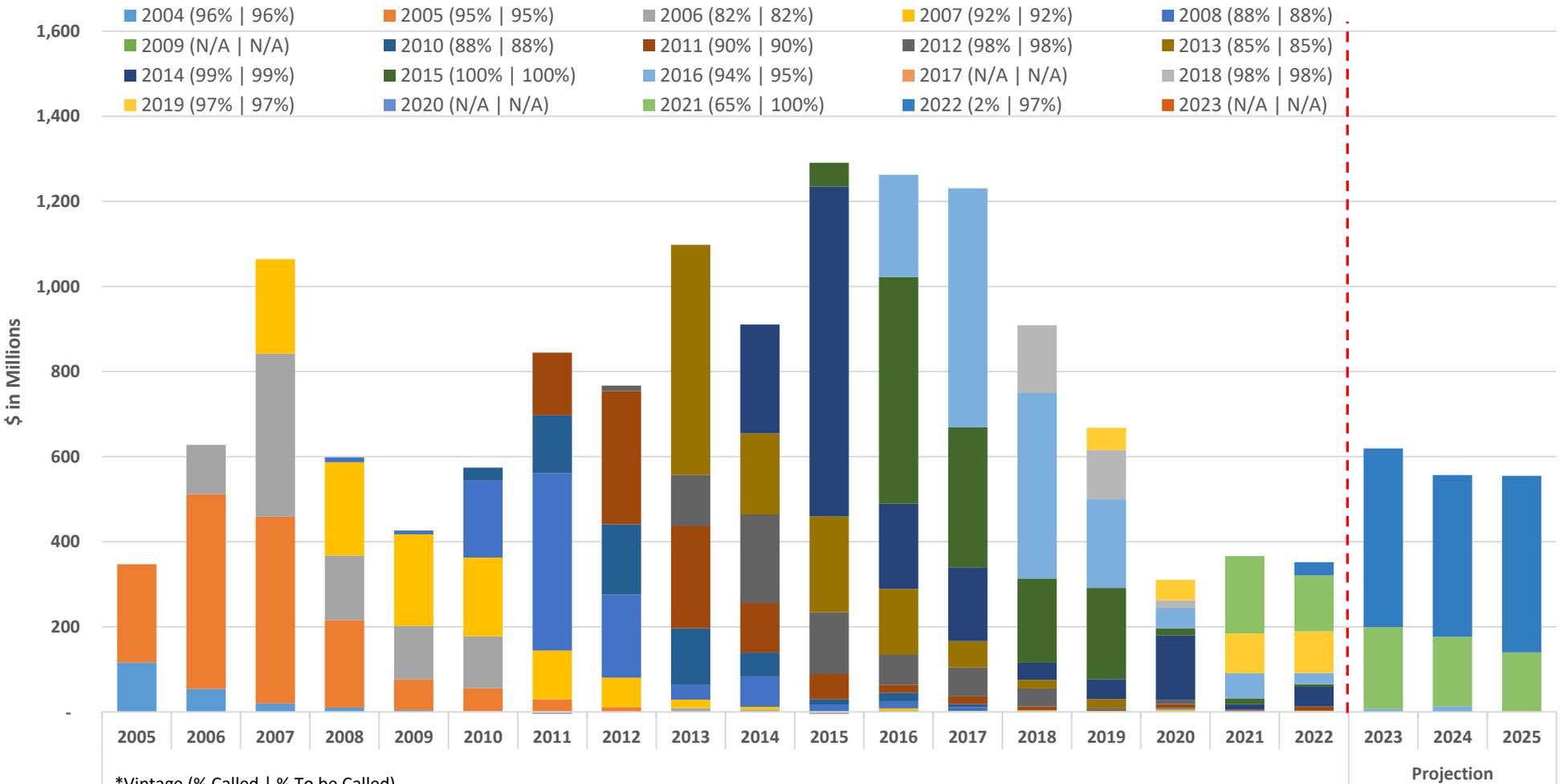
NCRS data through 3/31/2023

\* Non-Core Real Estate Benchmark is comprised of the following Burgiss Group Private iQ indices: 80% U.S. Non-Core Real Estate (Opportunistic and Value-Added) and 20% Non-U.S. Non-Core Real Estate (Opportunistic and Value-Added).

Underweight to Industrial and legacy vintage year exposure contributed to near term underperformance



# Unfunded Commitment Pacing by Vintage Year (excludes REITs)



Commits (\$M):	1,584	1,077	1,641	1,057	0	653	1,052	695	1,417	1,769	1,367	2,265	0	300	300	0	482	1,200			
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NCRS data through 12/31/2022

\*Commitments are considered "Vintage" the year in which the first \$ of capital is drawn

Of the \$2.1 billion of unfunded commitments, we expect ~\$1.5 billion to be called and the remainder held as reserves



## Investment Strategy Objectives

- Continued focus on Separate Accounts and reducing manager count
- Minimize costs and maximize returns by favoring partnership structures that optimize alignment of interests
- Increase exposure to public real estate while security prices are still trading below net asset values
- Increase exposure to both high growth and low capex sectors: Industrial, Multifamily, Self-Storage, Small Strip Center Retail
- Decrease exposure to high capex and macro-challenged sectors: Office, Retail, and Hotel



## Appendix

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## Role and Objectives

### Core Thesis

*“To generate durable income and stable returns through strategic investments, with prudent use of leverage, in assets with long-term fundamental drivers that will endure for generations”*

### Investment Strategy

High Quality  
Well-Located  
Strong Risk-Adjusted Returns

### Non-Core Thesis

*“To achieve attractive risk-adjusted net returns through appreciation and income from a diversified portfolio, planning for strategic exit optionality”*

## Core

Inflation hedge

High current income

Stabilized occupancy

Credit tenancy

Long-term return > fixed income

Minimal risk/downside protection

## Non-Core

Growth diversifier

Opportunity to add value

Renovation, development, leasing

Stabilized upon completion

Long-term appreciation and returns

Low correlation to fixed income



## Investment Approach

Stay the course with our investment strategy...do not reach for yield

- Downside protection
- Eye toward current income for Core or “speed to income” for Opportunistic strategies
- Moderate leverage levels

Use thoughtful & deliberate portfolio construction

- Stabilized Core portfolio
- Diversify by strategy, property sector, size, vintage year and location
- Balance asset risk and market risk by insisting on the highest asset quality and location
- Target specific submarkets and streets

Leverage the size of our plan

- Better terms and fees
- More transparency and control
- Ability to move quickly to capitalize on opportunities and dislocations
- Be the founding investor for new strategies with high conviction managers

Invest meaningful amounts with fewer best-in-class managers

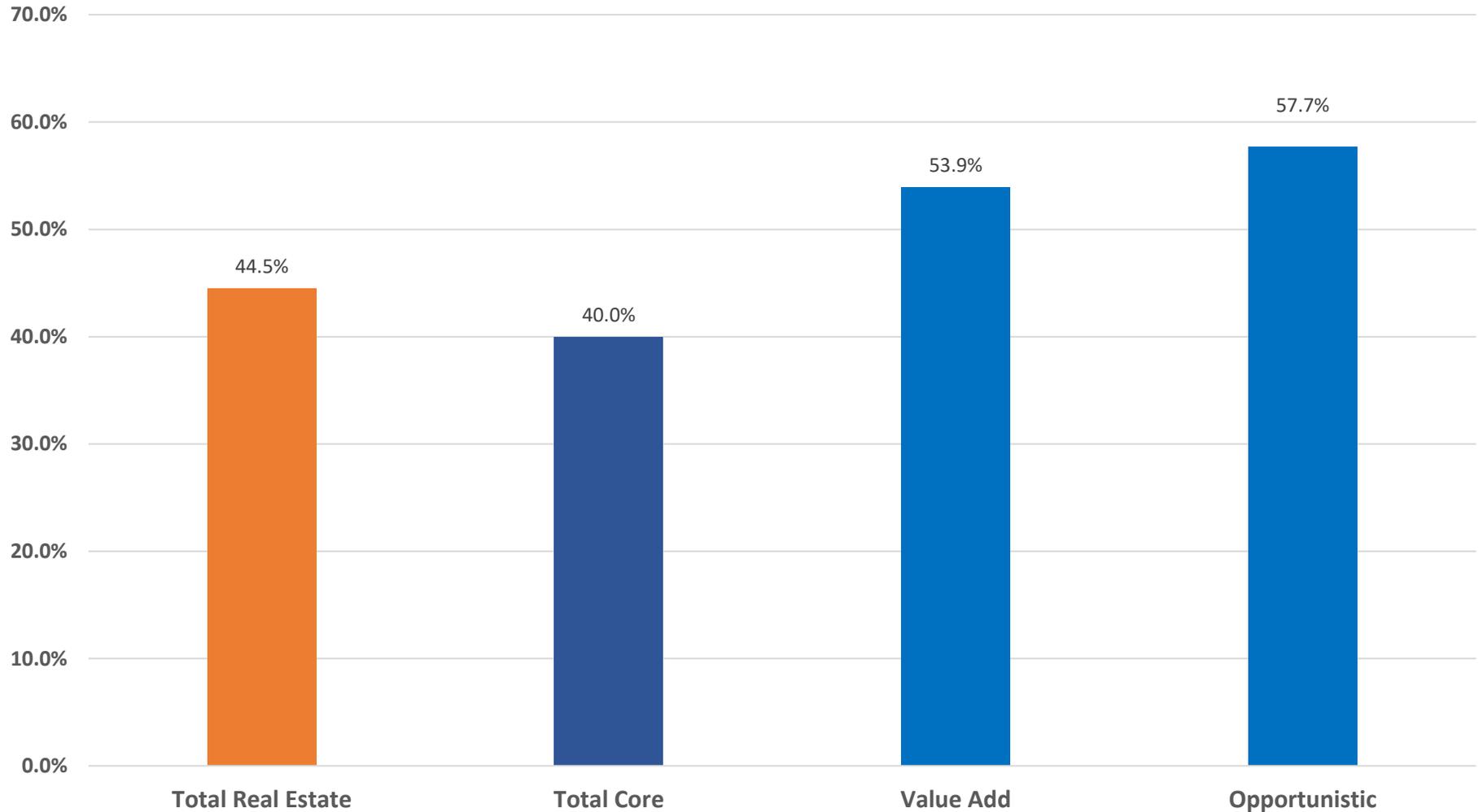
- Separate accounts
- Multiple strategies with single manager
- Fee benefits

Take a long-term view toward investments and manager relationships

- Be involved, nimble and follow through
- Deliver results
- Be a leader among Limited Partners



## Leverage



Source: SRE StepStone NCRS 4Q22 Portfolio Monitoring Report

Maintain prudent levels of leverage and retain ability to adjust through our separate accounts