



State of Rhode Island
Office of the General Treasurer

Crow Holdings Realty Partners IX, L.P. - Staff Recommendation

August-2021

RECOMMENDATION: Approve a commitment of up to \$30 million to Crow Holdings Realty Partners IX (“Fund IX”).

ASSET CLASS: Non-Core Real Estate

SUB-STRATEGY: Diversified Value-Add

ALLOCATION: The target allocation to Non-Core Real Estate is 2.5% effective 7/1/2021, and the actual allocation as of June 7/31/2021 is 1.7%. The pacing plan for Non-Core Real Estate is \$80 million per year. ERSRI has made a \$30 million commitment to one fund in the 2021 vintage year. ERSRI made a \$25 million commitment to Crow Holdings Retail Fund I, Crow’s dedicated Food & Service Retail fund, in 2015.

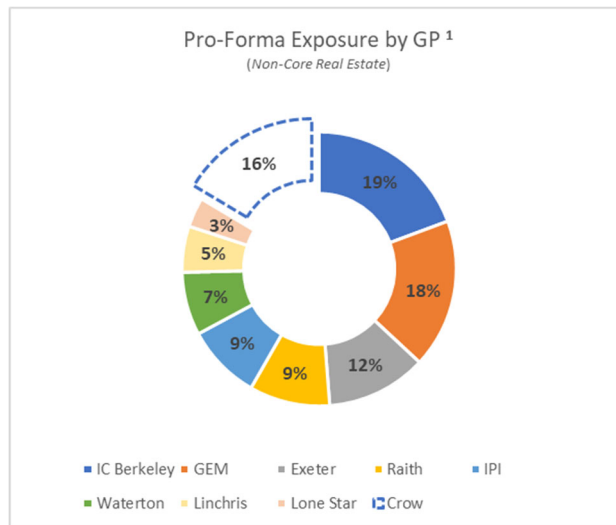
PORTFOLIO FIT: The ERSRI Non-Core Real Estate portfolio contains a mix of sector focused and diversified funds that bring operational expertise to value-add and opportunistic asset acquisitions; ERSRI allocates to diversified funds that mitigate portfolio sector concentration, provide differentiated exposures, and ultimately enhance Non-Core Real Estate portfolio diversification. Diversified funds also offer the flexibility to move into and out of sectors based on relative attractiveness more quickly than the rate at which ERSRI can allocate. Fund IX can be categorized as a diversified value-add strategy – the fund will allocate across a variety of sectors in which the Crow team possesses property type expertise.

We anticipate that Fund IX will be anchored by exposure to Industrial and Apartment property types (~70% Fund IX target allocation). ERSRI has low relative exposure to Apartments. ERSRI’s largest GP ¹ in the Non-Core Real Estate portfolio is Berkeley Partners, who manages sector focused Industrial funds. Berkeley targets small, undermanaged, light industrial properties that are generally below 200,000 sq. ft., with a preference for assets near urban core and in-fill locations that appeal to broad base of U.S. small and mid-size businesses. Berkeley does not typically invest in new development. Crow, on the other hand, targets larger warehouse and distribution facilities that cater to the deepest part of the tenant market, with an emphasis on new development.

Crow also allocates to less-trafficked niche property types (30% Fund IX target allocation) to which ERSRI has de minimis exposure. These niche property types include Manufactured Housing and Convenience & Gas, amongst others, which can be highly fragmented sectors with strong value-add potential as well as resilient/defensive characteristics (i.e., sticky tenancy, necessity-driven demand, low capex).

Upon approval, Crow Holdings Realty Partners IX would represent 9% of the Non-Core Real Estate portfolio’s exposure. Crow Holdings Capital, inclusive of ERSRI’s investment in Crow Holdings Retail Fund, would represent 16% of the Non-Core Real Estate portfolio. ¹

Manager	Strategy	Sector
IC Berkeley	Value-Add	Light Industrial
GEM	Value-Add/Opportunistic	Diversified
Exeter	Value-Add	Industrial
Raith	Opportunistic	Diversified
Crow (Diversified)	Value-Add	Diversified
IPI	Core/Value-Add/Opportunistic	Data Centers
Crow (Retail)	Value-Add	Retail - Food & Service
Waterton	Value-Add	Residential
Linchris	Value-Add	Hotel
Lone Star	Distressed	Diversified



MERITS: Over its extensive history, Crow has developed a strong reputation amongst a large network of developers, brokers, and other external partners. These relationships have helped drive Crow’s demonstrable ability to source off-market transactions and participate in target-marketed deals (~60% of Fund VIII deals were sourced off-market, ~20% target-marketed). Crow Funds typically include a large number of diversified investments with smaller deal sizes (average equity of ~\$15mm per transaction) relative to other institutional investors, reducing the level of competition for deals. The firm also possesses expertise in the acquisition and development of niche property types with significant value-add opportunities that will ultimately enhance ERSRI’s portfolio diversification.

Crow has successfully executed its clear and repeatable strategy across their diversified value-add family of funds dating back to 1998, achieving consistently strong returns through multiple market cycles. All but one of Crow’s diversified value-add real estate funds have generated a net IRR in excess of 10%. Crow has been able to achieve these results with a well-resourced investment team of over 80 investment professionals directed by highly experienced property-type vertical leads.

CONCERNS: Fund IX’s ~\$2.0 billion fund size represents a 50% increase from Fund VIII’s raise. However, this increase in size will not be accompanied by strategy drift. Crow has already closed 25+ Fund IX transactions; the average deal size is consistent with Crow’s Diversified Value-Add Fund family’s strategy and history – smaller deal size to reduce the level of competition in the buyer pool and improve exit optionality. Crow boasts a deep and skilled investment team that has proven its ability to source and execute deals for a fund of this size.

¹ Exposure measured on a pro-forma basis; fair market value + unfunded commitments to-date, calculated as of March 31, 2021

ESG: Crow is categorized as an ESG **Integrator**. Crow has a formal ESG policy, tracks KPIs, and incorporates an ESG checklist into every investment committee recommendation memo. Crow works with a third-party ESG consultant to evaluate, assess, and monitor investments. The firm also has a dedicated ESG Taskforce that is staffed with representatives from multiple areas of the organization, including senior portfolio and asset management investment professionals. Crow is in the process of hiring a full-time head of sustainability to help progress the firm's ESG integration and further build-out its ESG KPIs for monitoring and reporting. The firm plans to become a Signatory to the United Nations Principles for Responsible Investment. Crow continues to expand its diversity and inclusion efforts through specific initiatives tied to ensuring a diverse talent pipeline, expanding mentorship programs, and establishing affinity groups.

FEES: The fees are in accordance with industry standards. ERSRI will pay a management fee of 1.5% on committed capital during the Investment Period, and 1.5% on funded capital thereafter. The fund charges carried interest of 20% subject to a 9% preferred return, with a 50/50 catch-up.