



State of Rhode Island
Office of the General Treasurer

Greystar Essential Housing Fund I- Staff Recommendation
February-2025

RECOMMENDATION:

- [Rhode Island Employees Retirement Systems Pooled Trust \(“ERSRI”\)](#): Approve a commitment of up to \$25 million to Greystar Essential Housing Fund I (“Greystar EHF I”).
- [Rhode Island OPEB System Trust \(“RI OPEB”\)](#): Approve a commitment of up to \$750,000 to Greystar Essential Housing Fund I (“Greystar EHF I”).

ASSET CLASS: Non-Core Real Estate (ERSRI), Private Growth – Non-Core Real Estate (OPEB)

SUB-STRATEGY: Value-Add/Opportunistic Multifamily (multifamily **development** fund targeting residents with Area Median Income “AMI” between 70% and 90%)

ALLOCATION:

- [Rhode Island Employees Retirement Systems Pooled Trust:](#) The target allocation for Non-Core Real Estate is 2.5% and the allocation as of 1/31/2025 is 2.2%. Pacing plan for 2025 vintage is \$90 million committed to 4-5 funds at \$15-30 million per fund. Pending approval of this recommendation, ERSRI’s 2025 vintage commitments will be \$25 million.
- [Rhode Island OPEB System Trust:](#) The target allocation for Private Growth is 5.0% and the Non-Core Real Estate sub-strategy is targeted to represent ~20% of the asset class (i.e. 1.0% at the OPEB Trust level). The actual allocation to Private Growth – Non-Core Real Estate as of 1/31/2025 is 0.3%. Pacing plan for 2025 vintage is \$2.5 million committed to 4-5 funds at \$0.45-1.0 million per fund. Pending approval of this recommendation, OPEB’s 2025 commitments will be \$0.75 million.

PORTFOLIO FIT:

- [Rhode Island Employees Retirement Systems Pooled Trust:](#) 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 types (see Appendix 3). ERSRI allocates to sector focused funds that demonstrate specialized expertise and differentiated execution. ERSRI currently has two dedicated funds targeting essential and affordable housing. Those two funds, AEW Essential Housing Fund and Belveron VII, have different risk and return targets and neither has development element. Greystar Essential Housing Fund I approaches essential & affordable housing through a different approach – development. Traditional site-built new properties (Class A new products) typically target tenants with higher income due to high construction costs and investment return target required by investors. Greystar Essential Housing Fund I aims to deliver new, high-quality attainable housing and targets tenants with Area Median Income of 70-90%. The fund is a closed-end fund with a net return target of 14-16% including a targeted net return of 18%+ during development phase. Greystar aims to build more efficiently and less costly using modular and streamlined construction and operating practices. Those savings will ultimately be passed onto tenants, as reflected in rent comps.

Greystar Essential Housing Fund I is a good fit to ERSRI’s existing real estate exposure in 1) AEW Essential Housing Fund, which i) is an open-end fund with a core+ risk-return profile targeting net return of 7.5% to 8% and ii) primarily focuses on direct investment in stabilized properties and uses moderate leverage, 2) Belveron VII, which i) is a value-add, closed-end fund targeting net return from 14% to 16% with moderate-to-high leverage and ii) focuses on “Capital A” affordable housing governed by a regulatory agreement or deed restriction and 3)

Greystar XI, which i) is a value-add, closed-end fund targeting net return from 11% to 12% and ii) has a tenant AMI of 100%+.

Pending approval of the recommendation, Greystar Essential Housing Fund I would represent ~6% of the Non-Core Real Estate Portfolio and total residential exposure through sector focused funds would represent ~17% of the Non-Core Real Estate Portfolio (see Appendix 4).

- [Rhode Island OPEB System Trust](#): The Private Growth portfolio allocates to Private Equity and Non-Core Real Estate (as described above) strategies and is ramping up to its target allocation through commitments made in tandem with ERSRI. Pending approval of the recommendation, Greystar Essential Housing Fund I would represent ~10% of Private Growth's Non-Core Real Estate allocation within OPEB (see Appendix 5).

MERITS:

- [Sector Specialist & Strong GP Alignment](#): Greystar is a sector specialist within multifamily and has deep experience developing multifamily properties since 1995. Greystar will commit 10% of Greystar EHF I with up to \$100 million. Greystar Essential Housing Fund I expects to have about 40% modular and 60% streamlined site-built. Greystar wholly owns Modern Living Solutions ("MLS"), its modular construction factory in Knox, PA. Producing modules in a factory-controlled environment enables project delivery to be up to 50% faster than traditional construction methods. This approach significantly reduces external risks such as weather delays, labor shortages, and on-site safety issues. By incorporating sustainable designs, optimizing material usage, and accelerating construction timelines, MLS units achieve a smaller carbon footprint compared to conventional building projects. Additionally, this innovative process generates approximately 80% less waste than traditional construction methods. Streamlined site-built plans utilize a replicable building design, standardized floor plans, and efficient community amenity layouts. This approach is expected to achieve economies of scale in procurement, provide greater certainty in development budgets, and enable faster construction timelines compared to traditional stick-built projects.
- [Social Impacts & Performance](#): Greystar Essential Housing Fund I aims to invest in markets with a high presence of "essential workers"—individuals earning approximately 70-90% of the Area Median Income (AMI). These workers, primarily employed in healthcare, education, public safety, and industrial sectors, often rent out of necessity. The Fund targets areas where there is a significant shortage of quality, affordable housing across the United States. Greystar has invested more than \$3 billion across 100+ development deals and has achieved a high-teens net return. Although the development track record isn't specially related to modular and streamlined development, it's still a good reference point given modular and streamlined developments are expected to have a lower cost basis, quicker development & lease-up cycle, and potentially a stickier tenant base. Greystar Essential Housing Fund I will use Greystar's Ltd. branded communities which guarantee not to increase rents by more than the greater of CPI or 3%. This assurance to existing residents shields them from a surprise renewal rate increase (e.g. 20%+) and may drive a higher occupancy and lower turnover.

CONCERNS:

- [Development & Construction Risk, Modular Fabrication Risk and Tariffs](#): Greystar Essential Housing Fund I intends to develop new multifamily assets. The fund faces development and construction risks as do all other competitor development funds. Since all modular housing development (expect to be about 40% of the fund) will be produced by a single MLS factory that Greystar wholly owns, any disruptions (labor shortage, increased costs on raw materials such as steel, drywall/gypsum, etc.) in modular fabrication will cause delays in construction timelines.
 - Mitigant – Greystar has deep experience developing multifamily properties and the fund will only develop in markets where Greystar has experience in development, investment, and operation. Potential market for modular construction is within a 500-mile radius of MLS factories, located in Knox, PA. For a development project to be using modular construction, it needs to have clear advantages in terms of cost, timelines, etc. over streamlined site-built process during the 'dual' underwriting process. If modular fabrication has production issues, the fund may utilize more streamlined site-built. Compared to traditional site-built, a mix of modular construction and streamlined site-built 1) has less dependence on lumber but more risk exposure

to steel, and 2) uses less labor on site and more labor in an environment-controlled factory. Some risks such as market risk are reduced by moving production off-site to a factory and shortening the delivery windows while other risks (such as risk to price of lumber) are transferred and diversified to a different area (such as risk to price of steel).

- Market Perception on Modular Construction (influence on exit cap rate): While modular construction has a longer history and deep market penetration in Europe, U.S investors, debt providers and potential buyers are still less familiar with the concept of modular construction and how to underwrite it. The fund has an 8-year life and if the potential buyer pool sees modular buildings as higher risk than traditional site-built, it may result in a low valuation due to the higher cap rate demanded by the next buyer.
 - Mitigant – Quicker development, construction and lease-up cycle; higher occupancy and less turnover: Modular multifamily properties are more efficient and sustainable and should have a comparable, if not lower, exit cap rate to the traditional site built. Financing a modular project typically requires larger upfront capital deposits at a quicker pace, which some lenders perceive as carrying higher risk and demand high interest rates. Greystar has spent significant time with major U.S banks and Fannie Mae and Freddie Mac, all of which have toured the factory. Greystar is getting more term sheets with similar, if not more attractive, financing terms than traditional site-built construction. Additionally, insurers see streamlined site-built and modular products as less risky than traditional site-built construction Greystar Essential Housing Fund I is about delivering new quality multifamily by improving efficiency and by focusing on what matters most to tenants (trimming areas less important and thus achieving cost saving); cost savings will pass onto tenants and the fund will experience a higher occupancy and less turnover overtime. The buyer pool will see benefits of modular and streamlined site-built properties should lenders and insurers view those buildings better than traditional site built.

ESG: Greystar is categorized as an ESG **Integrator**.

- ESG: Greystar has implemented clear sustainability goals and operational policies. The company is an active member of the Global Real Estate Sustainability Board (GRESB) and has committed to the Task Force on Climate-Related Financial Disclosures (TCFD). With a dedicated team focusing on ESG (Environmental, Social, and Governance) initiatives, Greystar regularly trains its staff to integrate ESG considerations into their work. The firm also engages external experts to evaluate key factors such as energy efficiency, climate risk, and resident satisfaction during the due diligence process. Greystar has committed to a long-term goal of achieving operational net zero carbon by 2024 and has identified over 1,800 energy efficiency projected in its 250 U.S owned assets.
- DEI: Greystar is dedicated to fostering a culture of equity and inclusion within the company. To support this commitment, the firm has formed a Diversity, Equity, and Inclusion (DEI) Advisory Council to shape its DEI strategy and has developed a comprehensive 5-year DEI Strategic Roadmap.

FEES: Fees for Greystar Essential Housing Fund I are more competitive than industry standards.

- Management Fees: Greystar Essential Housing Fund I charges a 1.0% management fee for capital commitment during the 3-year investment period and 1.0% of net invested capital thereafter.
- Carried Interest: Carried interest is 20% over an 8% hurdle with a 50% catchup to the GP. Carry is distributed on a total fund basis. The fund also follows a multi-tiered development phase incentive distribution which is in line with industry standards.

Appendix 1: ERSRI Prior Fund Exposure

Current Partnerships	Fund Exposure*							
	Vintage Year/ Initial Investment	Type	Amount Committed	Amount Drawn	Amount Distributed	Amount Unfunded	Valuation (NAV)	Exposure (Amount Unfunded + Valuation)
Greystar Equity Partners XI	2022	Non-Core RE	\$20,000,000	\$ 7,951,059	\$ -	\$12,048,941	\$ 7,553,187	\$ 19,602,128

*Data as of 9/30/2024

Appendix 2: ERSRI Prior Fund Performance

Current Partnerships	Vintage Year/ Initial Investment	Type	Net Performance*			Public Market Equivalent (PME)	
			Net IRR (%)	Net Multiple of Investment	Distributed to Paid-In Capital	Net Index PME IRR**	Fund Excess Return (Fund IRR - PME)
Greystar Equity Partners XI	2022	Non-Core RE	NA	NA	NA	NA	NA

*Data as of 9/30/2024

** Long Nickels PME Methodology

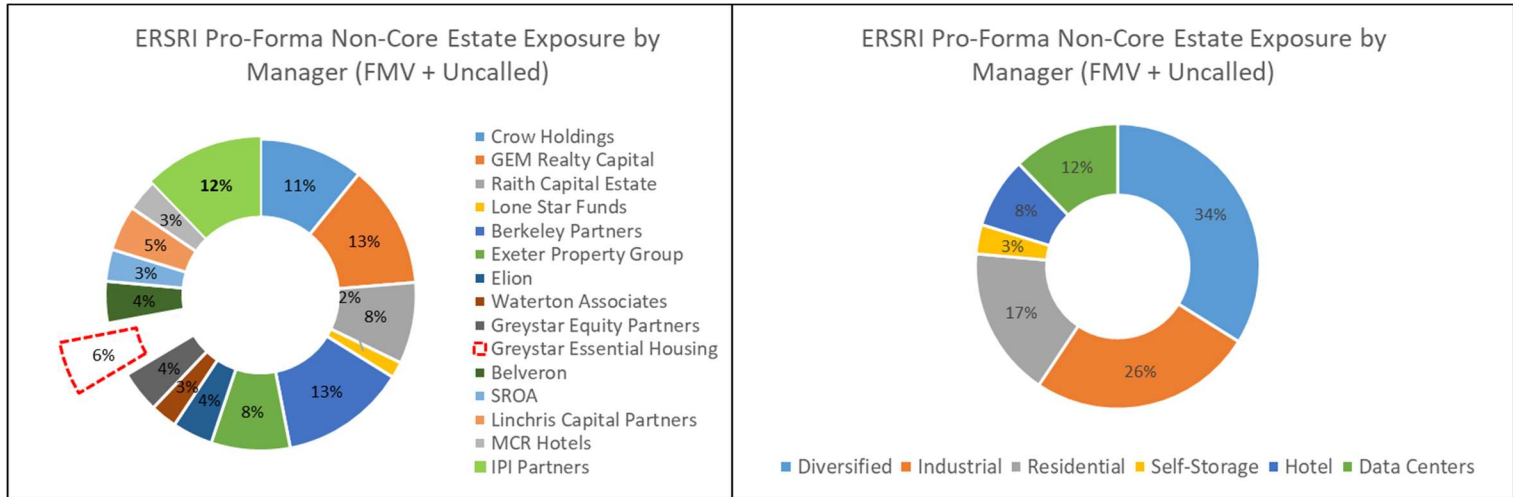
**MSCI ACWI Net Index PME IRR

* Note - Greystar XI is a closed end value-add fund and ~ 50% committed as of Q3'24. Performance is less meaningful at this early stage.

Appendix 3: ERSRI Non-Core Real Estate Managers

ERSRI Non-Core Real Estate Managers		
Manager	Sub-Strategy	Sector
Crow (Diversified)	Value-Add	Diversified
GEM	Value-Add/Opportunistic	Diversified
Raith	Opportunistic	Diversified
Lone Star	Distressed	Diversified
IC Berkeley	Value-Add	Industrial
Exeter	Value-Add	Industrial
Elion	Value-Add	Industrial
Crow (Retail)	Value-Add	Retail - Food & Service
Waterton	Value-Add	Residential
Greystar U.S. Flagship	Value-Add	Residential
Greystar Essential Housing	Opportunistic	Residential
Belveron	Value-Add	Residential
SROA	Core+/Value-Add	Self-Storage
Linchris	Value-Add	Hotel
MCR	Value-Add	Hotel
IPI	Value-Add/Opportunistic	Data Centers

Appendix 4: ERSRI Portfolio Fit



Appendix 5: OPEB Portfolio Fit

