



TO: Employees' Retirement System of Rhode Island
FROM: Meketa Investment Group
DATE: May 16, 2022
RE: Crow Holdings Realty Partners X

On behalf of the Employees' Retirement System of Rhode Island ("ERSRI"), Meketa Investment Group has conducted due diligence on Crow Holdings Realty Partners X (the Fund or Fund X) and its sponsor Crow Holdings Capital Partners ("Crow"). The opportunity is being considered as part of the non-core real estate portfolio. Based on ERSRI's investment strategy, the merits of the Fund and the information provided in this summary, Meketa is of the opinion that an investment in the Fund is a prudent investment for the Employees' Retirement System of Rhode Island. Meketa's opinion is limited to the merits of the Fund and does not constitute, nor shall it be considered as tax, legal or transaction-structuring advice. In making any investment decision with respect to this Fund, ERSRI may rely on this report but must also make its own examination and assessment of the Fund and the terms of the offering, including the merits and risks involved.

Investment Overview

Crow Holdings Realty Partners, LP is a value-added closed-end Fund targeting investments diversified across multiple property types throughout primary and secondary markets in the United States.

Organization

Headquartered in Dallas, Texas, Crow Holdings is a privately-owned real estate investment and development firm with a 70-year operating history. Crow Holdings was founded to manage the capital of the Trammell Crow family. Crow Holdings has two business arms: Crow Holdings Capital (investment management) and Crow Holdings Partners (development). Crow Holdings Capital formed its first discretionary commingled value-add vehicle in 1998.

Within Crow Holdings Capital, the value-add fund series is the flagship series. Fund X is Crow's exclusive active value-added fund for all property types, except for retail properties with a total capitalization of less than \$20 million. Crow currently manages three other strategies, consisting of: Food & Service Retail (CHRF I and CHRF II), Self-Storage (Storage Fund – Closed to new investments), and Multifamily Build-to-Hold (MF BTH Fund).

Crow has raised approximately \$9.0 billion in capital through nine prior diversified value-add real estate fund vehicles. The firm has a total of 130 employees, of which 102 are investment professionals.



Fund X Strategy

Fund X will continue a similar value-add strategy as executed in Funds VIII and IX funds, with a focus on industrial/logistics, market rate apartments and niche property types including manufactured housing, student housing, self-storage, and convenience & gas retail. These niche property types enhance overall portfolio diversification and have certain defensive characteristics such as lower capital expenditures needs, high tenant retention and needs-based demand drivers. The Fund is not expected to invest in office or hotel properties. The Fund will build a portfolio of assets that is diversified across primary and secondary markets throughout the U.S, with an emphasis on sunbelt markets experiencing strong job and population growth. The Fund will target a 14% to 16% gross levered IRR (10% to 12% net IRR).

Fund X Status

Crow Holdings Realty Partners X is targeting \$3.0 billion of equity commitments. The Fund has received \$586 million of equity commitments to date and an additional \$1.0 billion is expected to close on May 25, 2022. The Fund has acquired one property, an apartment community in Westminster, CO. The acquisition is consistent with the stated strategy and is summarized below:

Westminster, CO

- \$38 million commitment
- 256-unit apartment community constructed in 1984
- Invest \$5 million to upgrade units and common areas
- Underwritten fund-level 15% IRR and 1.7x equity multiple on a 48-month hold with 64% loan-to-cost financing

Terms

The management fee is 1.5% per annum of the capital committed during the investment period and 1.5% of funded capital thereafter. Crow is offering fee discounts to investors during the first 270 days following the initial close (5-15 bps), and a 10 bp loyalty discount to Fund IX investors. The Fund has a 9% preferred return followed by a 50% GP catch-up until it has received 20% of profits. Thereafter, distributions will be split 80% to limited partners and 20% to Crow. The total partnership term is ten years, inclusive of a four-year commitment period, with two one-year extensions.



Performance

As of September 30, 2021, Crow has invested \$7.7 billion across the eight prior value-add funds. With the exception of its 2006 vintage Fund IV, which generated a 2% net IRR, net IRRs have ranged from 10% to 29%.

ERSRI committed \$40 million to Fund IX in October 2021, of which \$25.2 million has been contributed as of December 31, 2021. Fund IX has benefited from early mark-ups of several industrial investments, resulting in a December 31, 2021 carrying value of \$27.8 million or 1.1x invested capital.

Recommendation

Meketa believes that Crow has performed well for ERSRI and recommends that an investment of \$20 million be considered in Fund X as part of the non-core real estate portfolio. This recommendation adds diversification and is consistent and in context with the existing investments and the role of non-core real estate within the Private Growth section of the total fund.