



State of Rhode Island
Office of the General Treasurer

CBRE U.S. Logistics Partners, L.P. Staff Recommendation
December-2024

RECOMMENDATIONS:

- [Rhode Island Employees Retirement Systems Pooled Trust](#): Approve a commitment of up to \$25 million to CBRE U.S. Logistics Partners, L.P. (“CBRE USLP”).
- [Rhode Island OPEB System Trust](#): Approve a commitment of up to \$2 million to CBRE U.S. Logistics Partners, L.P. (“CBRE USLP”).

ASSET CLASS: Core/Core+ Real Estate

SUB-STRATEGY: Industrial – Modern Logistics

ALLOCATIONS:

- [Rhode Island Employees Retirement Systems Pooled Trust](#): The target allocation for Core Real Estate is 4% and the actual allocation as of 10/31/2024 is 3.1%. The pacing plan for 2024 is \$25 million which will be entirely committed to CBRE USLP. Pending approval, ERSRI’s 2024 commitments will be \$25 million.
- [Rhode Island OPEB System Trust](#): The target allocation for Core Real Estate is 4% and the actual allocation as of 10/31/2024 is 2.5%. Pending approval, OPEB’s 2024 commitments will be \$2 million.

PORTFOLIO FIT:

- [Rhode Island Employees Retirement Systems Pooled Trust](#): As a component of the overall Stability Bucket with the goal of Inflation Protection, the Core Real Estate allocation aims to generate stable returns through diversified investments in properties that demonstrate predictable income flows with a high proportion of anticipated total return from tenant rents. Similar to the broader U.S. industrial real estate market, ERSRI’s existing exposure in industrial real estate is concentrated in buildings built prior to 2000. Older buildings are less amenitized in terms of automation capabilities, power required for EV truck charging, older fire suppression systems, etc. Those amenities are hard to retrofit due to the technology used to build foundation or roof. CBRE U.S. Logistics Partners focus on newly built modern logistics facilities that are highly amenitized to meet tenants’ demand on improving efficiency through automation and sustainability. CBRE USLP targets modern logistics and invests in new development, value-add repositioning, and stabilized asset acquisitions. This will produce both income-like returns through their stabilized assets as well as value creation through development. Investment grade tenants or larger companies tend to be the major tenant pool demanding modern facilities and adding CBRE USLP to ERSRI’s portfolio will provide tenant diversification and property diversification within the existing portfolio that currently lacks exposure to modern assets.

CBRE U.S. Logistics Partners is an open-end fund with a build-to-core/ core + strategy that will target distribution, fulfillment, and intermodal properties strategically located on the coasts and across major population centers throughout the U.S. The fund focuses on constructing facilities that can accommodate new, modern technologies such as robotics, Artificial Intelligence, and electric vehicles. More than half of CBRE USLP’s operating portfolio NOI comes from investment grade tenancy. As an additional source of income and downside protection, the fund also participates in rooftop solar power leasing. Pending approval of a \$25 million commitment to CBRE U.S. Logistics Partners, CBRE would represent 7% of exposure (NAV + unfunded commitments), as of 10/31/2024, in Core Real Estate.

- [Rhode Island OPEB System Trust](#): The Core Real Estate portfolio is in the process of ramping up to its target allocation through commitments made in tandem with those from ERSRI. Pending approval of a \$2 million commitment to CBRE US Logistics Partners, the fund would represent 6% of exposure (NAV + unfunded commitments) as of 10/31/2024.

MERITS:

- **Strong Market Demand**: More than half of the existing logistics assets are built prior to 2000. As technology is evolving, there is a strong demand for assets that have been designed with modernity in mind. Additionally, projected growth of E-Commerce is a strong tailwind and an increasing number of companies are looking to invest in their supply chain to boost efficiency.
- **Experienced Team & Deep Network**: CBRE IM is a mature firm with a large platform. The CBRE platform is a highly resourced Fortune 500 Real Estate Company with an expansive network and access to up-to-date market knowledge. CBRE USLP also has access to Trammell Crow's development pipeline through a program agreement, which gives the fund the preferred rights to acquire specific logistics assets within Trammell's pipeline.
- **Downside Protection, Inflation Protection & Development Yield**: CBRE USLP has recurring revenue with annual escalations. Additionally, the fund offers upside potential through their value creating development pipeline. CBRE also takes advantage of additional income streams such as through solar implementation. Modern facilities may benefit from the potential higher rent growth and lower exit cap rates in the future when compared to older and less amenitized buildings, giving downside protection in the event that older buildings are out of tenant's demand.

Risks:

- **Interest Rate Risk**: CBRE USLP allows for an overall leverage of up to 40-50% and up to 70% loan-to-value at property level. Potential short-term concentration of debt in a number of buildings may cause large movements in covenant ratios.
 - **Mitigant**: CBRE USLP typically stays under their leverage target; the current leverage level is 36%. USLP was launched in 2021, before the interest hikes that took place between 2022 and 2023. USLP team has experienced the full recent rapid interest rate hike cycle. The fund also negotiated a sizable unsecured portfolio level line of credit at favorable terms in 2022, expiring in 2027 and the use of unsecured line can provide flexibility and reduce potential increased risk in breaching covenants.
- **Development & Construction Risk**: Modern logistics buildings are scarce and CBRE USLP will either have to buy newly developed buildings from other developers or will have to build those themselves. Development and construction is an important component of the strategy and it comes with its risks
 - **Mitigant**: CBRE USLP, an open-ended fund, was launched in 2021 and it had more exposure in development and raw land in its early days due to its fund size and early focus. The exposure in development, as well as risk & return on development, has gone down as the fund grows in size and more earlier assets become stabilized. We are entering CBRE USLP at a stage in their lifecycle where about 70% of their properties are either stabilized or are in the lease-up process (no more development risk). The remaining 30% are either development-in-process or raw land.
- **Technological Evolution**: Since CBRE USLP specializes in modern facilities to meet the ever-changing needs of their tenant, the fund faces the risk of technological evolution which could render some of their assets obsolete.
 - **Mitigant**: Existing tenants have invested millions of dollars in making improvements to the facilities that they are leasing. Not only does this save CBRE the time and money to make these adjustments, but it also gives the firm insight into what new technology is entering the space so that it can be incorporated into new construction. Functional and technological obsolescence can also be reduced through active portfolio rotation.

ESG:

- **ESG**: CBRE is categorized as an ESG **Leader**. CBRE launched a Leadership in Energy and Environmental Design (LEED) Gold volume program on development assets. The firm aims to achieve net-zero carbon performance by 2040 or sooner. The firm supports the Principles of the United Nations Global Compact (UNGC), the United

Nations Development Goals (SDGs), and is also a signatory to the Principles for Responsible Investment (PRI), the Task Force on Climate-related Financial Disclosures (TCFD), the Net Zero Asset Managers initiative (NZAMi), and the UK Stewardship Code. The firm has a dedicated sustainability team consisting of 15 members. The President of CBRE IM oversees the firm's sustainability efforts. Additionally, a portion of the fund's operations consist of implementing solar panels on the roofs of each of their buildings as well as implementing technology to support electric vehicle trucking.

- **DE&I:** CBRE has a dedicated DE&I team. The firm considers diversity as a component of the recruitment, retention, and promotion processes and continuously tracks the progress of their DE&I efforts. The firm is currently expanding their DE&I programs globally. CBRE has also committed \$3 billion to supplier diversity.

FEES: Fee terms are in-line with industry standards.

- **Management Fee & Carry:** CBRE USLP uses a tiered pricing model based on sizing and management fee is 1.3% on NAV on the first \$25 million. Carry is 10% over an 8% hurdle with a 3-year lookback period. As a Meketa client, ERSRI & OPEB will receive a 10% discount for the initial 3 years following first capital call date.

Appendix 1: ERSRI Prior Fund Exposure

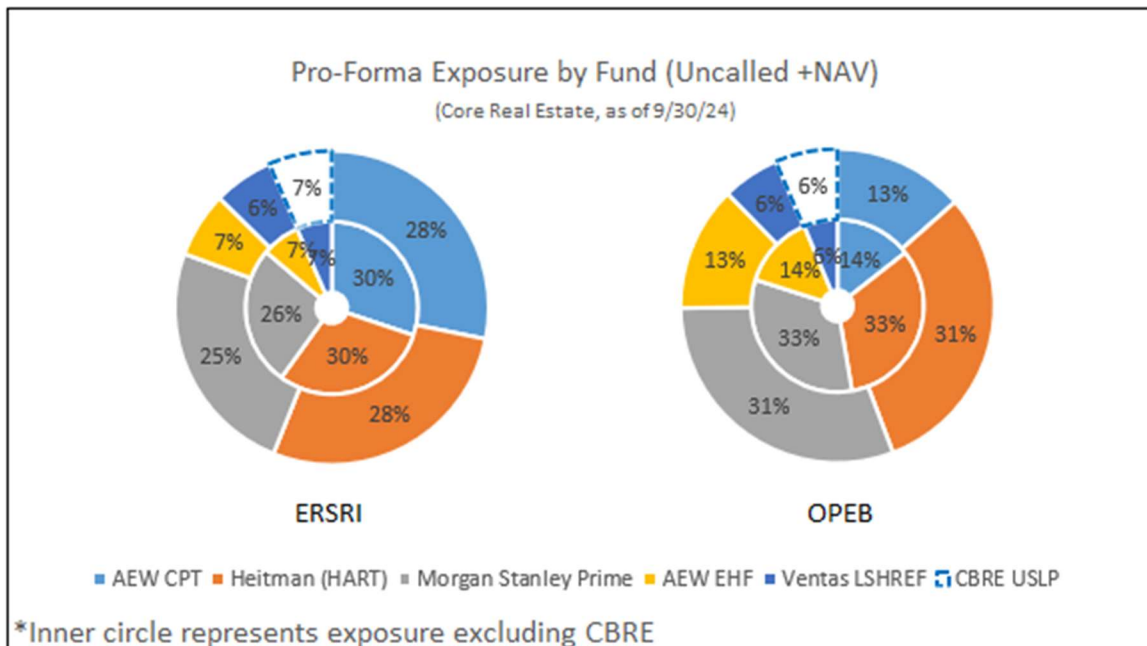
This section is left blank intentionally. ERSRI has no current exposure to CBRE.

Appendix 2: ERSRI Prior Fund Performance

This section is left blank intentionally. ERSRI has no current exposure to CBRE.

Appendix 3: ERSRI & OPEB Portfolio Fit

Manager**	Asset Class	Strategy	Structure	Property Type
AEW Core Property Trust	Real Estate	Core	Evergreen	Diversified
Heitman America Real Estate Trust	Real Estate	Core	Evergreen	Diversified
Morgan Stanley Prime Property Fund	Real Estate	Core	Evergreen	Diversified
AEW Essential Housing Fund	Real Estate	Core+	Evergreen	Residential Workforce/Essential/Affordable
Ventas Life Science and Healthcare Real Estate Fund	Real Estate	Core+	Evergreen	Life Science, Medical Office & Senior Housing
CBRE US Logistics Partners	Real Estate	Core+	Evergreen	Industrial - Modern Logistics



Appendix 4: Exposure by Property Type

