



State of Rhode Island
Office of the General Treasurer

Greystar Equity Partners XI, L.P. - Staff Recommendation
March-2023

RECOMMENDATION:

- [Rhode Island Employees Retirement Systems Pooled Trust](#): Approve a commitment of up to \$20 million to Greystar Equity Partners XI, L.P. (“GEP XI”).
- [Rhode Island OPEB System Trust](#): Approve a commitment of up to \$600,000 to Greystar Equity Partners XI, L.P. (“GEP XI”).

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

SUB-STRATEGY: Value-Add Multifamily (Residential)

ALLOCATION:

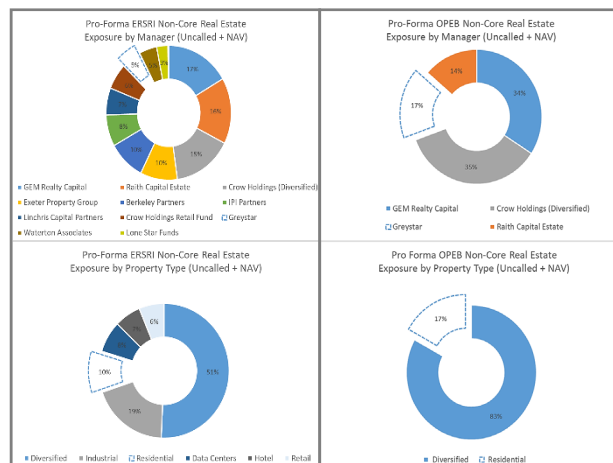
- [Rhode Island Employees Retirement Systems Pooled Trust](#): The target allocation for Non-Core Real Estate is 2.5% and the allocation as of 2/28/2023 is 2.4%. The preliminary pacing plan for the 2023 vintage is \$70 million committed to 3-4 funds at \$15-20 million per fund. Pending approval of this recommendation, ERSRI’s 2023 vintage commitments will be \$20 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 2/28/2023 is 0.02%. The preliminary pacing plan for the 2023 vintage is \$2 million committed to 3-4 funds at \$0.45-0.60 million per fund. Pending approval of this recommendation, OPEB’s 2023 commitments will be \$0.6 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. ERSRI allocates to sector focused funds that demonstrate specialized expertise and differentiated execution. Greystar’s value-add residential strategy fits well within this segment of the portfolio. The fund will target 70-75 properties with each investment expected to require \$35-45M of equity. GEP XI will primarily invest in institutional quality conventional multifamily rental properties. Additionally, up to 20% of the fund will be comprised of specialty rental property types, namely student housing, active adult, and purpose-built single family rental communities. Greystar expects 80-90% of the fund’s deals will be acquisitions of existing Class A and Class B properties which Greystar will reposition through value-add initiatives such as improving operations and investing in capital projects while maintaining or improving occupancy. Additionally, up to 20% of deals will be development opportunities concentrated in garden-style, mid-rise suburban properties. Greystar will seek to mitigate execution risk of development opportunities by warehousing land at cost on the firm’s balance sheet through most of the required pre-construction steps and only bringing shovel-ready properties into the fund. GEP XI will be broadly diversified across the U.S., targeting ~30% of properties to be in “gateway markets” (ex: Boston, Orange County, South Florida) with the remainder in “growth markets” (ex: Phoenix, Atlanta, Denver). Pending approval of the recommendation, Greystar would represent ~5% of the Non-Core Real Estate Portfolio and ~52% of the sector focused Value-Add Residential exposure within ERSRI.

- [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. To-date, OPEB’s exposure to Non-Core Real Estate has included two diversified value-add funds and one diversified opportunistic fund, totaling \$3.0 million of commitments. Pending approval of the recommendation, Greystar would represent ~17% of Private Growth’s Non-Core Real Estate allocation and 100% of sector-focused Value-Add Residential within OPEB.

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
Crow (Retail)	Value-Add	Retail - Food & Service
Waterton	Value-Add	Residential
Greystar	Value-Add	Residential
Linchris	Value-Add	Hotel
IPI	Value-Add/Opportunistic	Data Centers



MERITS:

- [Unique Scale](#): Greystar is the largest operator of apartments in the U.S. with over 750,000 apartment units/beds under management. The firm’s scale gives it unique insights through its proprietary data and leads to valuable efficiencies from its extensive relationships. The firm’s dedicated investment strategy and research team utilizes its data to monitor conditions and trends in its many operating markets to provide a top-down view of macro conditions. This view is combined with insights from local investment teams to select the most attractive markets from which to source deals. The firm’s data also helps Greystar benchmark rents and understanding best practices after investment. Greystar’s scale provides purchasing power and cost efficiencies for its development and capital projects efforts through bulk purchases and because of its status as a key customer to suppliers and insurance providers. Finally, the firm’s large and diversified portfolio allows it flexibility on exit to combine properties and transact via portfolio sales that when historically executed have resulted in premium valuations compared to individual dispositions.
- [Vertical Integration](#): Greystar is vertically integrated with wholly owned subsidiaries providing property management, development, and capital projects services for its investment portfolio and for third parties. Greystar’s in-house capabilities help it quickly source and diligence opportunities and ramp up value-add initiatives. Greystar’s property management teams help the investments team quickly understand the dynamics of a target property’s local market and add-value by providing a more holistic resident service offering and optimizing controllable expenses after purchase. The firm’s capital projects teams assess key physical risks in due diligence, develop capital improvement budgets, and execute on improvement projects after acquisition. For development opportunities, Greystar can leverage its balance sheet to warehouse deals at cost until they are through permitting and entitlement. Greystar’s development teams are well-versed in all stages of the development process and acts as the general contractor for most deals it develops.
- [Experienced Sector Specialist](#): Greystar is a sector specialist within multifamily and has focused on this space since its founding in 1993. During the firm’s three-decades in the space, Greystar has invested over \$4 billion in conventional multifamily from its discretionary vehicles. Greystar has also become a leader in specialty residential property types. This includes student housing and active adult, both of which the firm has invested in since 2014. Greystar more recently began investing in purpose-built single-family rental in 2021 after building experience in the space through its property management arm. In addition to its repositioning capabilities, Greystar has deep experience developing multifamily properties having

completed its first such discretionary investment in 1995. The firm's broad expertise in the residential investment space allows it to act nimbly and look for pockets of relative opportunity compared to firms that focus exclusively on conventional multifamily.

CONCERNS:

- **Concern – Management of Other Funds:** In addition to the Greystar Equity Partners value-add multifamily strategy, Greystar also manages other discretionary vehicles and several JVs which have some overlap within conventional multifamily and specialty property types that may be eligible for GEP XI. This overlap may lead to conflicts of interest as the firm considers allocation of prospective investment opportunities.
 - **Mitigant – Thoughtful Allocation Policy and Minimal Overlap:** GEP XI has a clearly delineated priority in its primary focus area of value-add conventional multifamily. The fund has a first look on any acquisitions over \$37.5M with projected gross unlevered IRRs of over 7%. While GEP XI doesn't have priority for specialty segments such as student housing or development, Greystar's other strategies in these areas take different approaches to GEP XI, reducing the prospect of a conflict. For example, GEP XI will primarily consider development opportunities in garden-style suburban properties while other accounts would focus on urban core development opportunities.
- **Concern – Concentrated Ownership by Founder and 3rd Parties:** The majority of Greystar is owned by its founder Bob Faith and affiliated entities, creating key-person risk. Additionally, third parties hold minority stakes in the company and have representation on Greystar's board. While these third parties are not explicitly involved in investment decisions, they may influence the firm's strategic direction in a way that is ultimately unfavorable to GEP XI investors.
 - **Mitigant – Strong Leadership Team and Long-Standing Relationships:** Bob Faith remains actively engaged in running Greystar as its CEO and sits on the Global Investment Committee. Additionally, Mr. Faith is supported by six senior leaders within the firm with over 27 years of experience. The minority shareholders have long-standing relationships with Greystar and Bob Faith and their ownership stakes sit within vehicles with long-term time horizons.

ESG:

- **ESG:** Staff classifies Greystar as an ESG **Integrator**. Greystar has established formal sustainability objectives and operating policies as guidelines for employees. The firm is a member of the Global Real Estate Sustainability Board (GRESB) and has signed on to the Task Force on Climate Related Financial Disclosures (TCFD). It has five dedicated resources focusing on ESG and regularly trains employees to consider ESG factors. Greystar utilizes external service providers to assess factors such as energy efficiency, climate risk, and resident satisfaction during due diligence. Going forward, the firm will add a dedicated section to its investment committee memos to consolidate this analysis and other considerations. The firm collects monthly energy consumption, GHG emissions, water use, and landfill diversion for its properties and has set a target to reduce scope 1 and 2 emissions by 5% between 2020 and 2025.
- **DEI:** Greystar is committed to a culture of equity and inclusion in its firm. The firm created a DEI Advisory Council to help guide DEI strategy and has established a 5-year DEI Strategic Roadmap. As part of this roadmap, the firm targets a 15% increase in representation of POC at professional and managerial levels across the firm and a 15% increase in leadership roles held by POC and women in targeted business segments by 2025. Greystar requires vendors to self-report diversity for their organizations and target 40% diversity within vendors and suppliers by 2025.

FEES: Fees for GEP XI are in-line with industry standards.

- **Management Fees:** GEP XI will charge a 1.5% management fee on commitments during the investment period and a 1.5% fee on 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.