

**Date:** March 18, 2026  
**To:** Board of Retirement  
**From:** F. Robert Reveles, Retirement Financial Investment Officer  
**Subject:** Fourth Quarter 2025 Real Estate Update and Manager Characteristics

**Recommended Action:**

Receive and file.

**Fiscal and Financial Impacts:**

There is no financial impact to receiving this informational item.

**Strategic Plan Importance and Risk Assessment:**

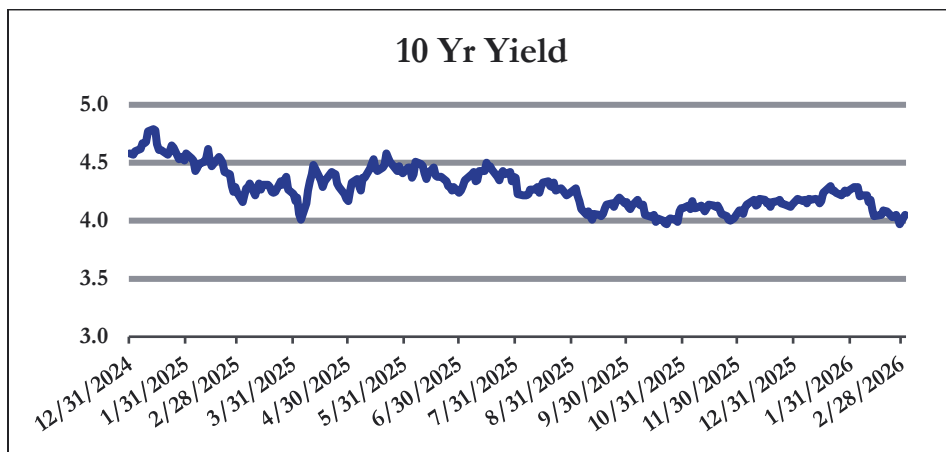
This report pertains to Goal 1 – Protect the Plan’s long-term financial health and Goal 2 – Strengthen Risk Oversight.

**Background and Discussion:**

The fourth quarter of 2025 saw the real estate composite outperform the benchmark by 23 basis points, returning a net positive 1.00%, while the NFI-ODCE return was a net positive 0.77%. On a rolling 1-year basis the real estate composite returned a net positive 4.75%, solidly outperforming the benchmark return of a net positive 2.93% by 182 basis points.

**10-Year Treasury Note Update**

Over the quarter the 10-Yr yield declined from 4.16% to 4.14%. The chart below shows yield changes for the period of December 31, 2024, to March 2, 2026, over which the yield declined 53 basis points.



## Barings Update

The Barings strategy returned a net 0.84% for the quarter and net 4.39% over the last one year. For the last seven quarters the strategy produced positive net returns and outperformed the index for the last eight quarters.

Trailing-twelve month same store Net Operating Income (NOI) is up 6.6% year-over-year. All sectors, except retail, are positive. The Industrial sector is up 19.3%, Self-Storage is up 13.8%, the Office sector is up 9.9%, and the Residential sector is up 2.0%. The Retail sector is down 2.2%. The Retail sector's NOI is down due to the two largest retail properties, located in Southern California, having lower occupancies.

The strategy sold one building during the quarter, receiving \$43M. The 110,600 square foot industrial property in Oakland was sold after a four-year hold period. The building was sourced off-market and stabilized with a long-term tenant. The building was sold because the lease was significantly below market lease rates so there was little opportunity to grow income. This sale generated a 15.3% leveraged IRR and a 1.6x equity multiple. Proceeds were used to repay property-level debt (of \$28M), fund capital projects, and reduce the redemption queue.

There were no acquisitions over the quarter.

Over the course of 2025 the fund returned almost \$300M in capital to investors, leaving \$446M in the redemption queue on January 2, 2026. We received just over \$1M in returned capital. The fund also accepted just over \$53M in new contributions at the start of 2026. According to the portfolio manager the fund is expecting to completely pay off the redemption queue by the middle of next year.

In 2026 there are three property level loans, totaling \$87M, the fund expects to refinance or pay off entirely. Additionally, the fund expects to pay off almost \$48M in fund-level debt. 82.2% of the buildings have no property-level debt. The total weighted average interest rate for the fund dropped from 5.2% to 4.8% over the quarter.

The fund continues to look for opportunities in the residential, self-storage, industrial outdoor storage, and healthcare sectors. In the residential sectors the fund is closely looking at Seattle, Miami, and Boston. These areas are characterized by high density and significant affordability challenges. The fund is also deep in diligence on an industrial outdoor storage location in Southern California, and if the property is purchased it should produce very accretive income for the fund.

## RREEF Update

The RREEF strategy returned a net 1.08% for the quarter and a net 4.59% over the last one year. Six of the last eight quarters the strategy has positive net returns, while in five of the last eight quarters the strategy outperformed the benchmark.

Over calendar year 2025 same store NOI for the fund is up 0.2% from the prior year. Year-over-year NOI increases are led by retail at 3.9%, industrial at 3.6%, and residential at 1.4%. Office NOI is down 9.3% year-over-year.

In an encouraging sign for the Office sector, the strategy is reporting that office tenants are inquiring about longer term extensions. Instead of asking for three or four year extensions (common since 2020) tenants are asking for 10+ year terms. This would imply that the tenants are expecting lease prices are at or near the cycle bottom. With some of the largest tenants looking to stay at current locations for the next decade, this could help stabilize the fund's Office sector NOI.

During the quarter the fund completed the disposition of a single retail building in Redwood City, CA. The building was anchored by a large theater, which accounted for almost 50% of the net operating income. Though the theater was performing well, the rise of online viewing platforms is creating an uncertain outlook for movie theaters. The asset was stabilized at 97% occupancy, which provided a good opportunity to sell the building. The strategy received \$45 million in net proceeds.

The fund leverage rose over the quarter to 25.9%, still well below the ODCE limit of 35%. The total fund blended interest rate rose from 4.10% last quarter to 4.23% in the current quarter.

Contributing to the rise in the debt (and blended rate) are two loans, a loan of \$207M through a secured credit facility and a Private Placement (PP) offering of \$250M. The credit facility is for a 15 year term with Fannie Mae and is secured by four assets. Importantly, the fund can substitute the assets over the length of the term. The facility offers a borrowing limit of up to \$1B. Though the strategy hasn't been in the PP market for the last 4 years, the current offering had 22 lenders participate. The offering was oversubscribed 10x, which allowed the fund to drive down pricing. The loans executed at just over a 5% interest rate.

For 2026, the fund is targeting a 6.0% – 9.0% gross return, expecting a net return of between 5.1% - 8.1%. The fund plans to raise between \$600M - \$800M during 2026, while continuing to acquire and dispose of a similar amount of assets. Trustees should expect to see sales of industrial assets on the West Coast. Today the fund has roughly 45% NAV in industrial assets and is projecting to end 2026 at 39% NAV exposure. (Almost \$1B less) Residential and retail sector weightings are expected to increase from roughly 27% and 13% to 31% and 15% respectively. As trustees are aware, the fund has multiple residential properties under development, expecting substantially all the increase in residential exposure to come from new developments in Arizona, Wisconsin, Florida, and Southern California.

## **Kayne Update:**

After Board selection of Kayne Anderson in October 2025 as a real estate manager, MCERA made an initial commitment of \$20M dollars. On January 2, 2026, MCERA funded an \$8.6M tranche to KACORE. On April 1, 2026, staff plan to fund another \$11.4M. The target for investment dollars is one-third of our total real estate allocation, 3.67% of the total portfolio, or approximately \$30M.

Though the MCERA was not invested in the strategy over the final quarter of 2025, in the attached report we have provided sector/geographical exposures, occupancy, and income/appreciation statistics to provide a baseline for the strategy's inclusion in the next quarter.

## **LaSalle Update:**

MCERA is currently negotiating side-letter provisions with the LaSalle Property Fund and hope to have an agreement signed before the end of March. At the time of this narrative staff are expecting to initially fund \$5M in July, with a ramp up to a full allocation of about \$30M over the next year.

## **Additional Risk Statistics:**

<u>Ending Q4 2025</u>	<u>Barings</u>	<u>RREEF</u>
Net Asset Value (\$B)	\$ 1.6	\$ 11.4
Leverage	26.6%	25.5%
Trailing 12 Month Distribution Yield	3.1%	3.7%
<u>For the period Q1 2012 through Q4 2025</u>		
Tracking Risk	2.7%	2.2%
Annualized Standard Deviation	5.9%	5.6%
Correlation with S&P 500	(0.1826)	(0.1971)
Correlation with S&P 500 (prior to Fed rate hikes)	(0.0971)	0.0012

## **Attachment:**

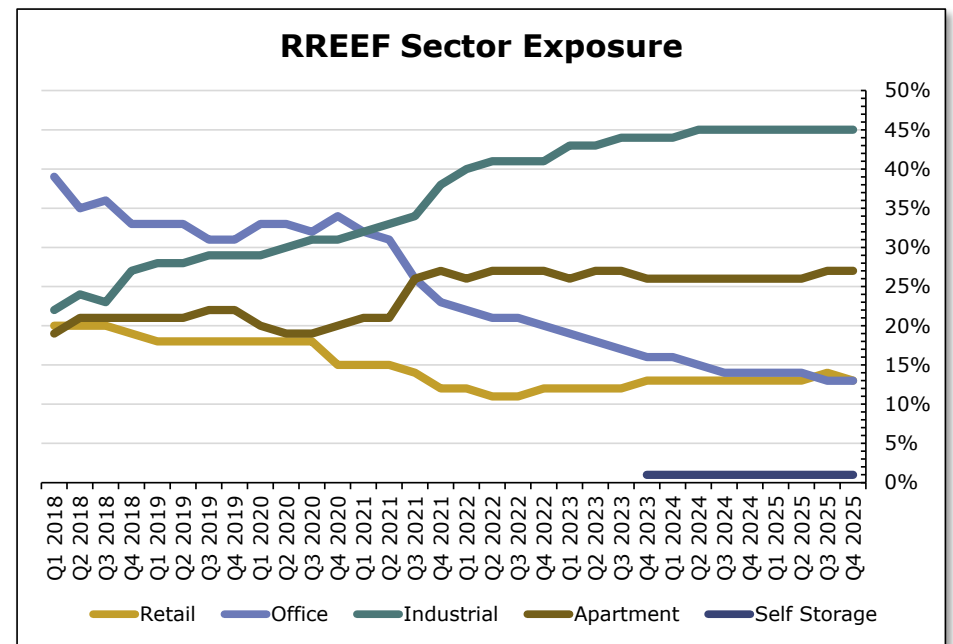
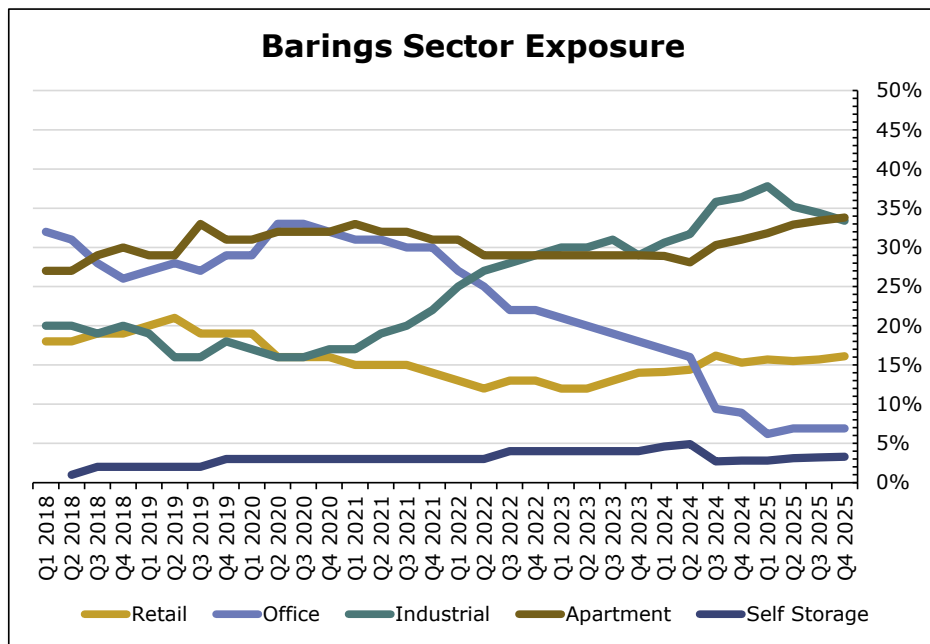
1. Real Estate Portfolio Characteristics – 12/31/25



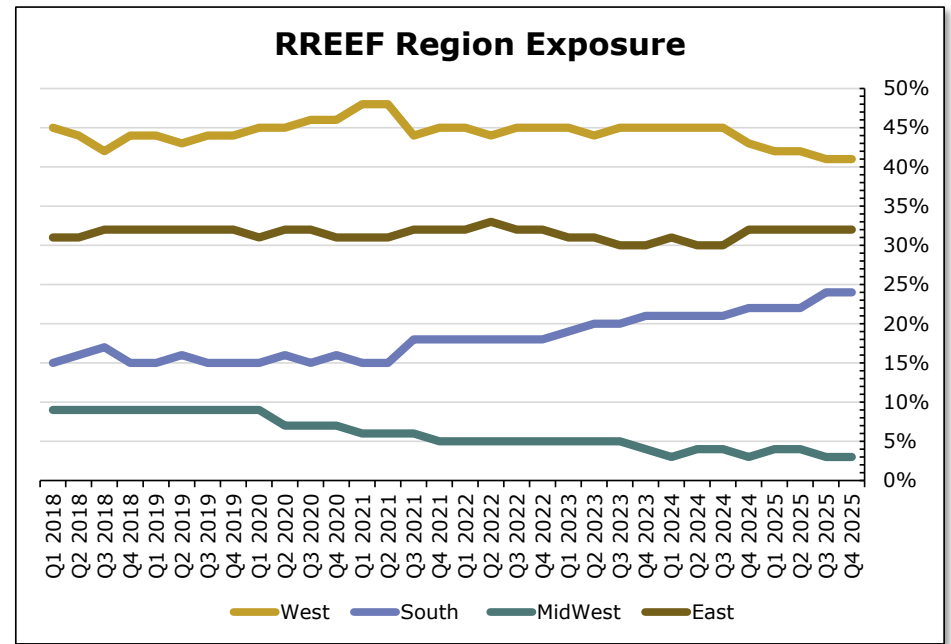
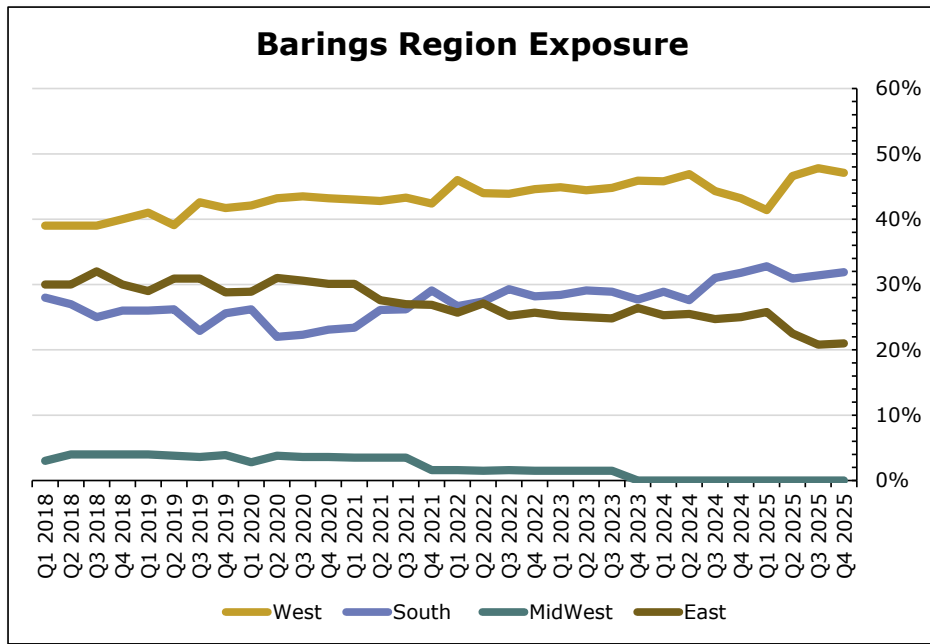
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# Real Estate Characteristics

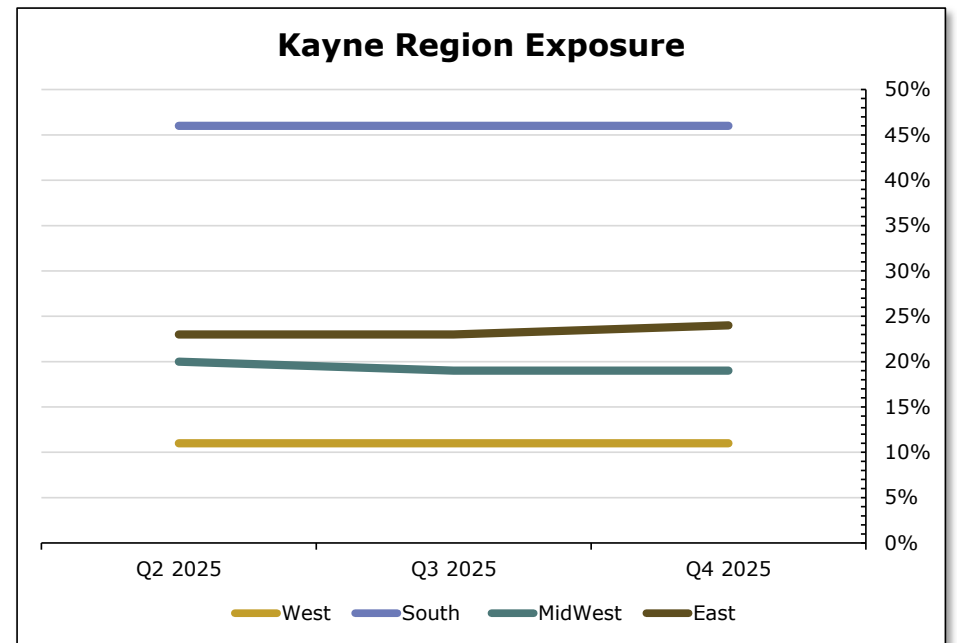
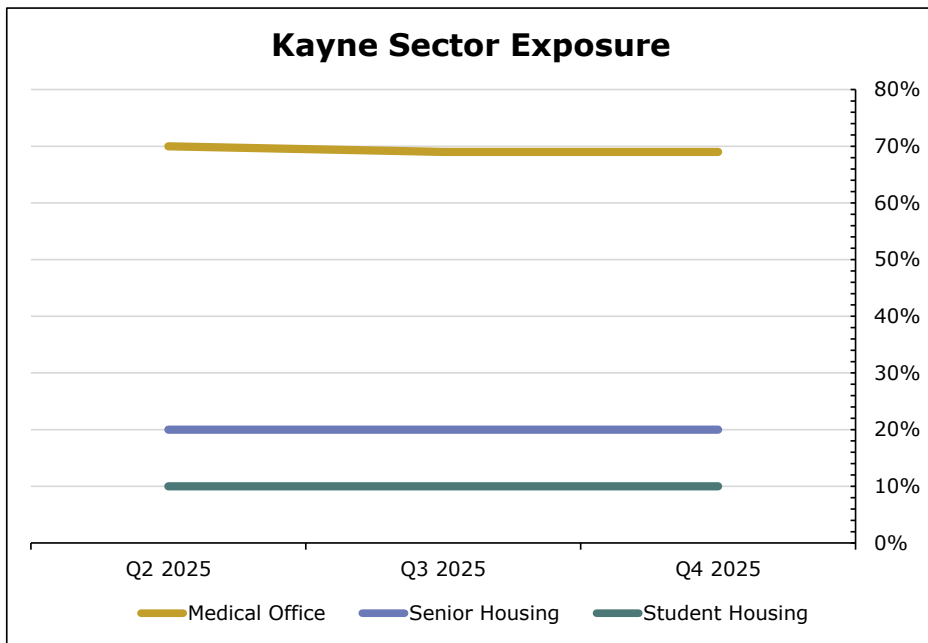
# Sectors - 12/31/25



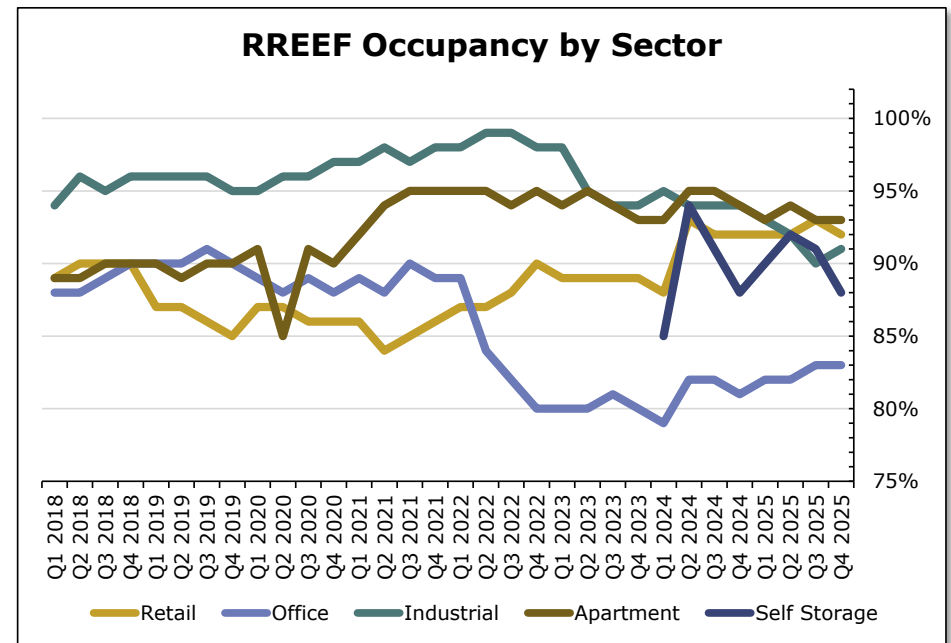
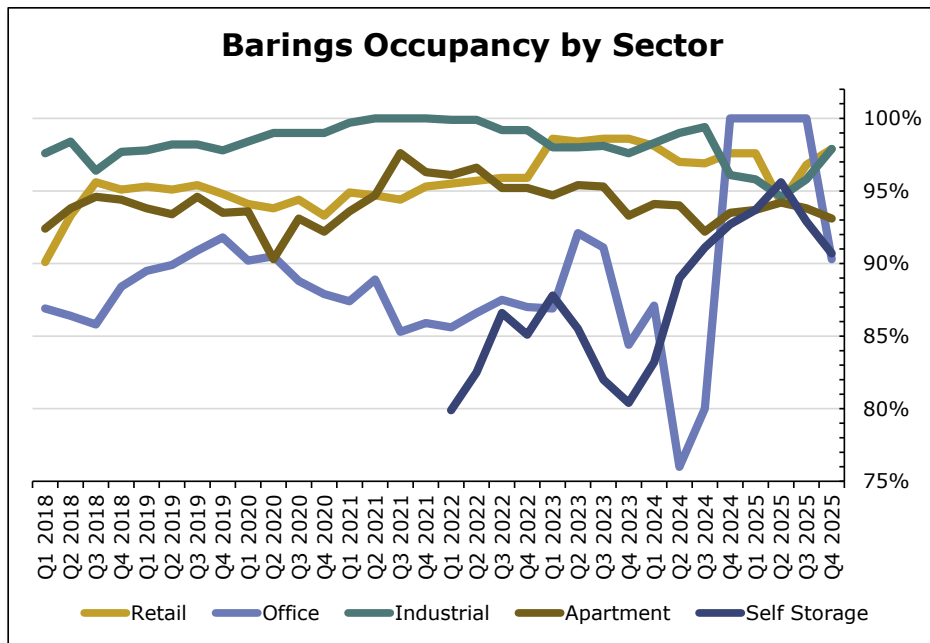
# Regions - 12/31/25



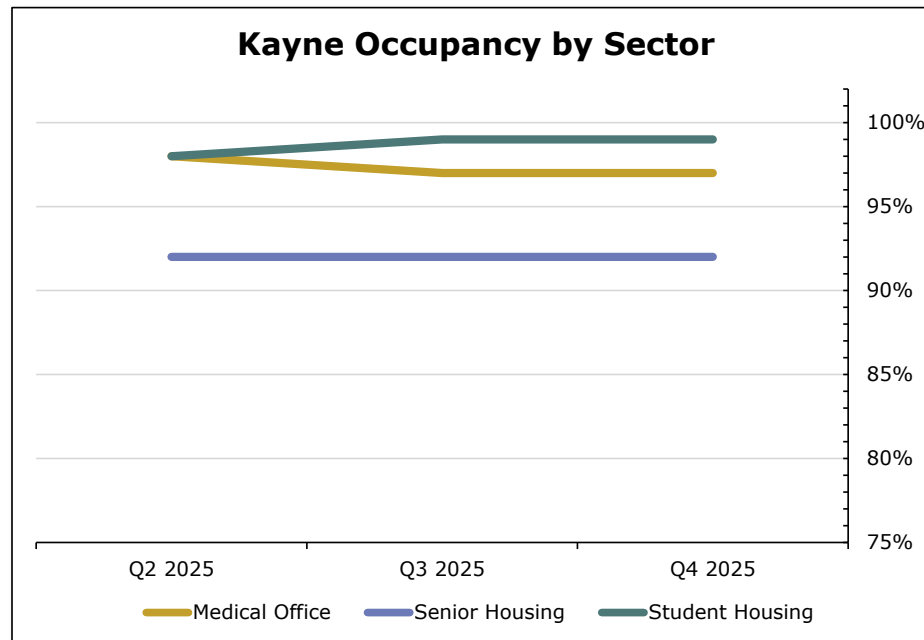
# Sectors and Regions - 12/31/25



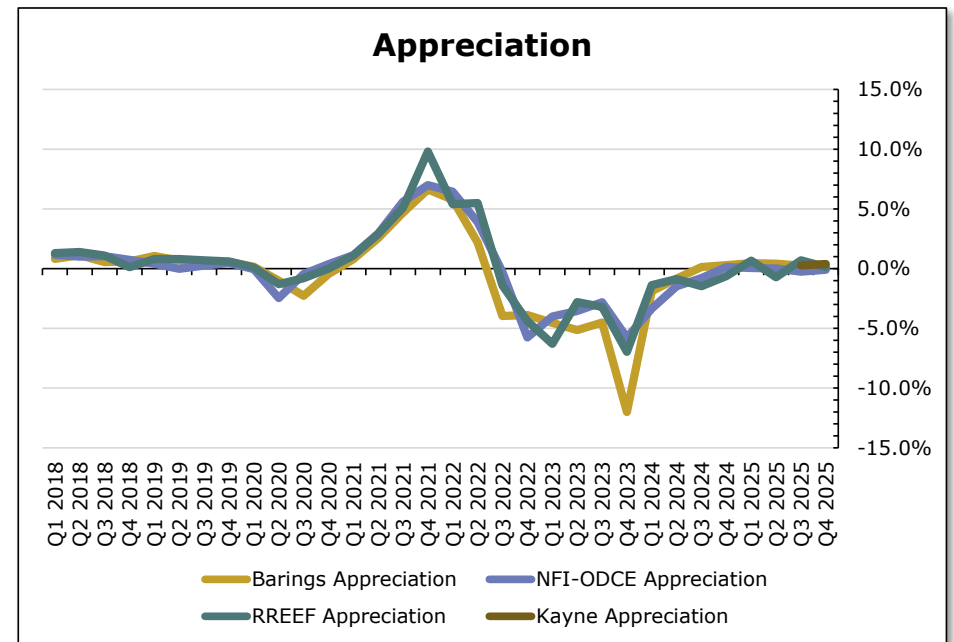
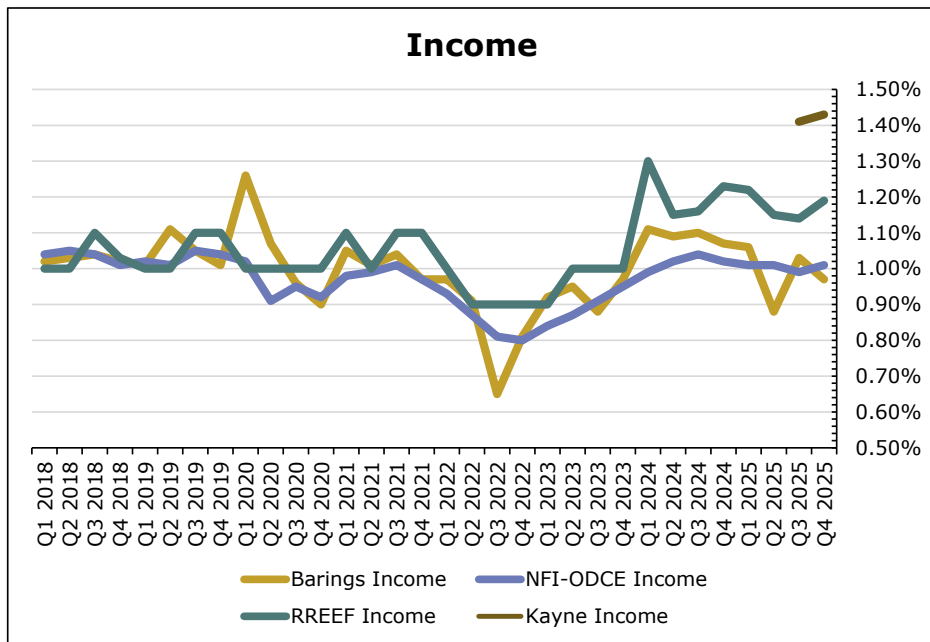
# Occupancy Rates – 12/31/25



# Occupancy Rates - 12/31/25



# Income and Appreciation Returns (Gross) – 12/31/25



# Net Returns – 12/31/25

## Barings Fund Level Net Returns - December 31, 2025

<u>Period</u>	<u>Income</u>	<u>Appreciation</u>	<u>Total</u>
Trailing 12 months	3.42%	1.13%	4.55%
Trailing 36 months	3.36%	-9.24%	-5.88%
Trailing 60 months	3.16%	-2.81%	0.35%
Trailing 120 months	3.24%	-0.27%	2.97%

## RREEF Fund Level Net Returns – December 31, 2025

<u>Period</u>	<u>Income</u>	<u>Appreciation</u>	<u>Total</u>
Trailing 12 months	3.80%	0.79%	4.59%
Trailing 36 months	3.60%	-7.74%	-4.14%
Trailing 60 months	3.36%	-0.09%	3.27%
Trailing 120 months	3.32%	1.23%	4.55%

## NFI-ODCE Net Returns - December 31, 2025

<u>Period</u>	<u>Income</u>	<u>Appreciation</u>	<u>Total</u>
Trailing 12 months	3.21%	-0.29%	2.92%
Trailing 36 months	2.92%	-7.17%	-4.25%
Trailing 60 months	2.96%	-0.45%	2.51%
Trailing 120 months	3.15%	0.73%	3.88%



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Thank you