The Golden State's Not-So-Golden Goose

The LandSource deal is not CalPERS' and MacFarlane's only real estate headache. The fund is invested in additional residential developments in Los Angeles that are newly built or still under construction. Through MacFarlane, for example, the fund owns half of the Mercury, a 240-unit condominium project that opened a year ago in Los Angeles' Koreatown neighborhood. In March of this year, the other partner, Cleveland developer Forest City Enterprises (FCEB), reported that only 38% of the units were sold and that it was taking an $8.2 million loss on its investment so far.

Through a separate but related program called the California Initiative, CalPERS has also invested $1 billion in private equity firms to invest in California businesses. The fund reported earlier this year that these firms are invested in more than 200 companies responsible for over 50,000 jobs. CalPERS says the first $500 million of those funds invested has earned 18% a year since 2001. Its real estate investments, both in and outside of California, returned 10% for the 12 months ended in February of this year, twice the overall return of the fund. CalPERS says its urban real estate investments have earned it 20% per year. There is usually a lag, however, in reporting real estate investment returns because values aren't updated as regularly as stocks and bonds.

A BIG HIT WITH UNIONS

In any event, CalPERS' exposure to California land is massive. In April, the fund reported it had 25% of its $20 billion invested in real estate assets in the state. That's a large position, considering that the fund overall has only 9% of its assets in California and the state makes up 12% of the U.S. population and 13% of the nation's economic output. Most pension funds do not have specific policies that dictate they invest their money in their home state.

Angelides did get one clear return on his initiative: a deluge of campaign contributions from real estate developers and money managers who did business with the state funds. These included $25,000 from MacFarlane and $13,500 from Forest City, the other partner in the Mercury, according to filings at the California Secretary of State's office. Angelides, a Democrat, also scored large contributions from unions, which were big proponents of limiting investments in emerging markets because those countries take U.S. manufacturing jobs.

The CalPERS board has 13 members; CalSTRS has 12. Board members are a mix of gubernatorial appointees, representatives chosen by state employees, and two statewide elected officials, the treasurer, and the controller. In response to continuing concerns in the investment industry about "pay to play," the CalSTRS board in October of last year prohibited money managers doing business with the fund from making campaign contributions of more than $1,000 individually or $5,000 per company to the state's governor, treasurer, or controller. The current state treasurer, John Lockyer, opposed the restrictions. State Controller John Chiang voted in favor of them.

Angelides has maintained he never allowed campaign contributions to influence his investment decisions. Where is Angelides today? In February of this year he joined Canyon Capital Realty Advisors, an investment firm that specializes in urban real estate and invests several hundred million dollars on behalf of CalPERS and CalSTRS.
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