

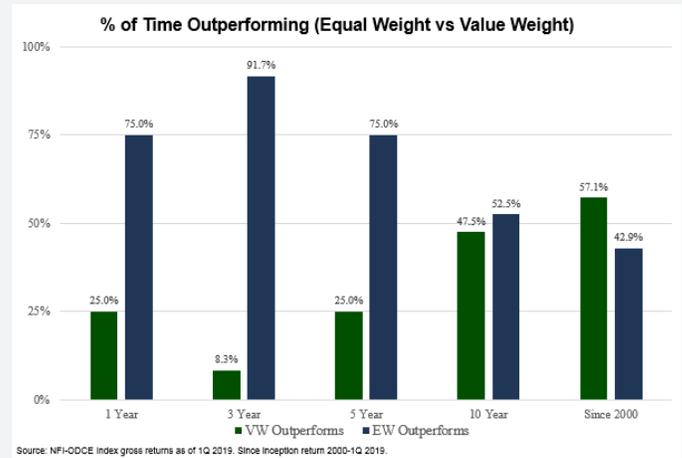
ODCE

NFI-ODCE: GROWTH IN ASSETS AS RETURN PERFORMANCE CYCLES

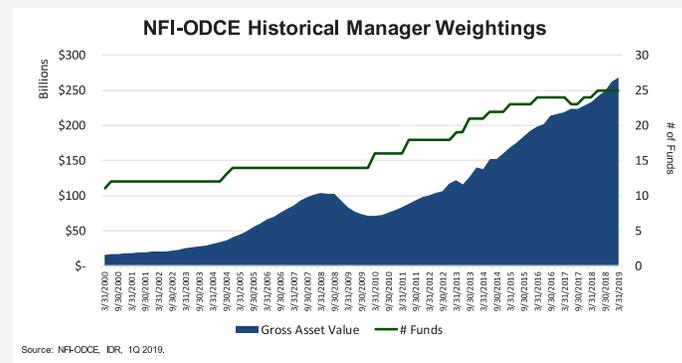
The NFI-ODCE generated positive returns in the first quarter of 2019, posting a 1.42% gross return (1.20% net of fees) comprised of a 1.02% income return and a 0.40% appreciation return. This marks the 35th consecutive quarter of positive appreciation and the 36th consecutive quarter of positive total returns. While real estate values continue to rise, the speed of growth continues to moderate. Average appreciation per quarter was roughly 2% from the GFC to 2017. Since then, appreciation has slowed down to 0.40% as of the first quarter. We would expect this trend to continue for the foreseeable future.

Using NPI data as a proxy, industrial assets (14.0% trailing 1-year) and assets in the west (8.83% trailing 1-year) continue to significantly outperform the rest of the market. More interestingly, the 1Q 2019 saw retail assets and the south region return from negative appreciation to positive appreciation (-1.60% to 0.58% and -0.09% to 0.71%, respectively in 4Q 2018 to 1Q 2019) and the midwest write downs appear to be slowing down with 1Q 2019 appreciation posting -0.09%. It appears that one of the largest drivers for appreciation continues to be NOI growth. As of 1Q 2019, NOI growth has slowed down the greatest for midwest (-1.29% on a rolling 4Q basis) and retail (-0.2% on a rolling 4Q basis), which is reflected in their 1-year return performance.

A more interesting observation is that between the NFI-ODCE value weight and equal weight index performance. Post GFC, the performance trend had generally been more favorable for the value weight index. As a result of larger NFI-ODCE funds outperforming the broader universe, the value weight index generally outperformed the equal weight index from 2010-2015. However, in 2015, the performance dynamic began to change. Smaller NFI-ODCE funds began to outperform their larger counterparts and the equal weight index has been outperforming the value weight index for the last several years. Over the past 3-year and 5-year periods, the value weight index has outperformed in 91.7% and 75.0% of quarters.



The performance dynamic between larger and smaller NFI-ODCE funds should be interesting to monitor on a go-forward basis. The NFI-ODCE has grown significantly since the year 2000 when it had \$19.2 billion of net assets in 11 funds. As of the 1Q 2019, NFI-ODCE has grown to \$200.9 billion in 25 funds. Given the recent inclusion notices in ODCE, we should expect one new fund to enter the index next quarter and potentially others over the next year. As the universe expands, the dynamic of smaller funds versus their larger established counterparts may provide insights into valuation trends and the impact of property types, asset size, leverage and the ability to more quickly change portfolio weightings on fund performance.



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