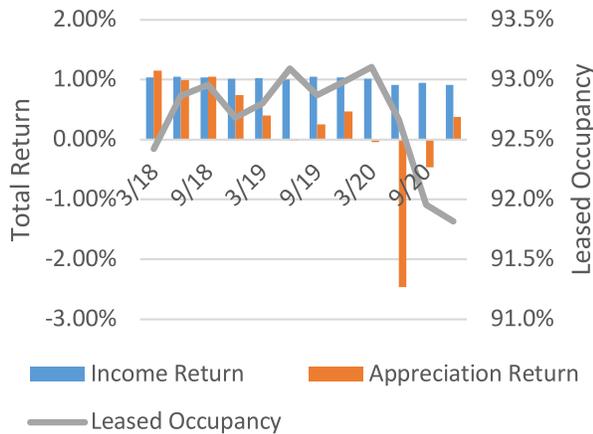


ODCE

NFI-ODCE CONTINUES TO RECOVER WHILE SECTOR PERFORMANCE TRENDS PERSIST

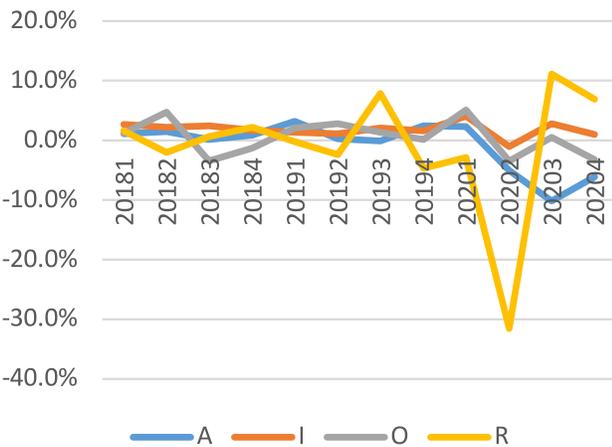
In the fourth quarter, the NFI-ODCE returned 1.30% on a gross basis, pushing the index into positive territory for the year with a total return of 1.19% over 2020. This current quarter total return included some recovery in pricing that declined over the first three quarters of the year, with 38 basis points of appreciation, and 92 basis points of income return. The final quarter was the first with positive appreciation since the onset of the COVID-19 global pandemic in the beginning of the year. Although the majority of the negative impact on pricing occurred during the second quarter, leasing percentages declined over the year from 93.0% in 4Q19 to 91.8% in 4Q20 as shown in Figure 1.

Figure 1: NFI ODCE Index Returns



At the property level, changes in revenue and expense components drive the Net Operating Income growth for the index. Hotel was not surprisingly the hardest hit property type within the ODCE, and had negative NOI from the second quarter onward. Both the lease term, and

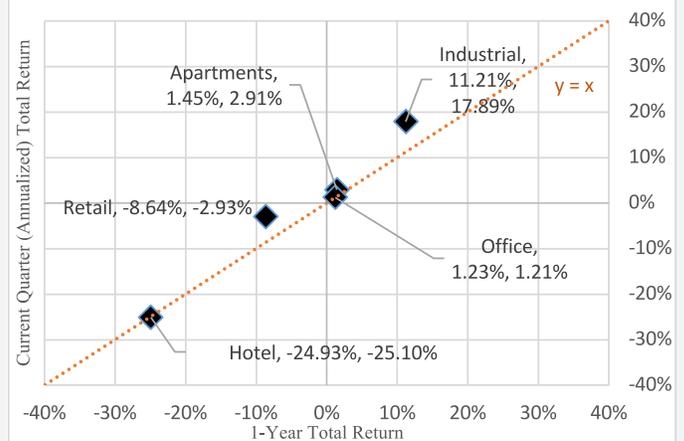
Figure 2: NPI-ODCE Same Store NOI Growth by Property Type



economic drivers vary from sector to sector, and have had a pronounced impact during the pandemic. The other sectors, outside of industrial, had positive but declining NOI over the year. Apartments, Retail, and Office had negative same store NOI growth during 2020, totaling -18.9%, -16.5%, and -1.1% respectively. Although Industrial had one quarter of negative NOI growth in 2Q20, the sector finished the year with a 6.8% same store increase. Despite the Retail sector's negative same store NOI growth overall, the second half of the year was positive, at 18.0%, as the sector began recovering from the first two negative quarters which totaled -34.5%.

At the property level, sector level trends in the quarter remained divergent and fairly consistent with the total return performance over the 1-Year for the NPI-ODCE. As shown in Figure 3, the fourth quarter total return (annualized)

Figure 3: Current Quarter (Annualized) vs. 1-Year Total Return



for Apartments, Industrial, and Retail exceeded the 1-Year total return moderately. Office and Hotel had annualized total returns that were slightly below the 1-Year total return. The proximity to the dotted line, and spread along the line illustrates the steady, but disparate performance of the sectors. Apartments and Office buildings within the ODCE had positive, but middling total returns. The Apartment sector returned 0.72% in the quarter, or 2.91% annualized; moderately higher but close to the 1-Year return of 1.45%. Office returned 0.30% in the quarter, or 1.21% on an annualized basis, slightly lower than the 1.23% 1-Year return. Industrial and Retail showed positive momentum during the quarter. The NPI-ODCE industrial sector accelerated in 4Q20 to an annualized total return of 17.89% (greater than the 11.21% trailing 1-Year return). NPI-ODCE retail total return was negative but improved in the fourth quarter, returning an annualized -2.93% in 4Q20, compared to the 1-Year average of -8.64%. Hotels, a small but volatile component of the NPI-ODCE, returned -6.97% in the fourth quarter, or -25.10% at an annual rate; a similar rate of decline compared to the 1-Year total return of -24.93%.

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