ODCE

ODCE PERFORMANCE ACCELERATES WITH END OF PANDEMIC IN SIGHT

During the first quarter of 2021, the NFI-ODCE returned 2.11% on a gross basis, comprising 98 basis points of income and 112 basis points of appreciation. The quarterly return represents continued quarter-over-quarter performance improvement since the start of the pandemic in early 2020 and the best quarterly performance since the first quarter of 2018. Investment portfolios were significantly aided by improving investor sentiment given the rapid pace of the successful vaccine roll-out coupled with strong liquidity in the debt and equity markets which fueled an uptick in quarterly transaction activity. Consistent with recent history, underlying performance by sector and geography continue to experience meaningful variability.

Industrial asset performance drove first quarter performance, delivering a quarterly unlevered total return of 4.8%, more than three times the second-best performing asset class, multifamily. Throughout the pandemic, industrial performance has improved as capital flows into the sector have grown precipitously. As of quarter-end, the trailing one-year unlevered industrial total return registered 13.5%, the highest since the first quarter of 2019. Strong tenant demand from industrial users has spurred above-inflation rent growth, while the intense competition for industrial investments has driven cap rates lower. Relative to other assets classes, all three industrial subsectors including Warehouse, R&D and Flex space posted strong results. Major population centers and port markets like Riverside, Oakland, New York and Los Angeles led performance. Also, interior markets with critical highway infrastructure performed well, including Indianapolis, Phoenix and Las Vegas, which all ranked among the top ten markets for the quarter.

The multifamily sector generated an unlevered quarterly total return of 140 basis points including 50 basis points of appreciation, the first positive appreciation performance by the sector in the past four quarters since the pandemic. Weak multifamily performance in the recent past resulted from occupancy softness, particularly in the urban core as office and amenity closures undermined the value proposition of urban living. However, apartment demand is rebounding with an end to the pandemic on the horizon. Overall apartment occupancy increased 158 basis points to 92.9% quarter-over-quarter, helped by a rebound in high-rise and low-rise apartments where occupancy increased by 170 basis points and 241 basis points respectively. Garden style apartments--benefitting from greater demand for more affordable, lower-density living--continued to lead all multifamily subsectors with an unlevered quarterly total return of 2.8% versus a 90 basis point and 1.5% total return for high-rise and low-rise apartments respectively.

The office sector experienced an unlevered total return of 80 basis points as income offset 30 basis points of negative appreciation. Consistent with each quarter since the start of the pandemic, suburban office investments outperformed, maintaining value with a zero percent unlevered appreciation return as CBD office investments lost 50 basis points of value. Write-downs in office investments are largely driven by a pullback in future cashflows expected due to softening demand related to work from home. Elevated non-renewal activity as some tenants deliberate their space needs, while others have experienced credit challenges, has caused office vacancy to increase 370 basis points during the pandemic, ending the quarter at 87.3%. As new and renewal leasing activity has slowed, performance among CBD office investments, particularly in higher-growth markets has been further undermined due to a precipitous increase in availabilities as aggressive pre-pandemic leasing resulted in elevated sublet space in the wake of the pandemic.

Retail investments lagged the other major assets classes in the first quarter, consistent with prior quarters. Negative 85 basis points of unlevered appreciation was offset by income to generate a slightly positive total return of 23 basis points. This quarter represented the first positive quarterly retail return since the fourth quarter of 2018. The retail contraction that has been well underway since 2017 intensified during the pandemic as restrictions and closures suppressed demand and accelerated delinquencies. Unfortunately, retail landlords have yet to find a bottom. Occupancy dropped nearly 110 basis points to 89.4% at the end of the quarter. Despite declining occupancies, retail landlords grow more optimistic with the approaching end to the pandemic.

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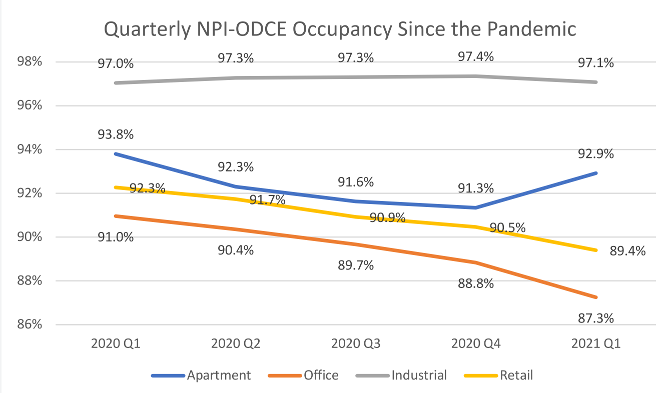
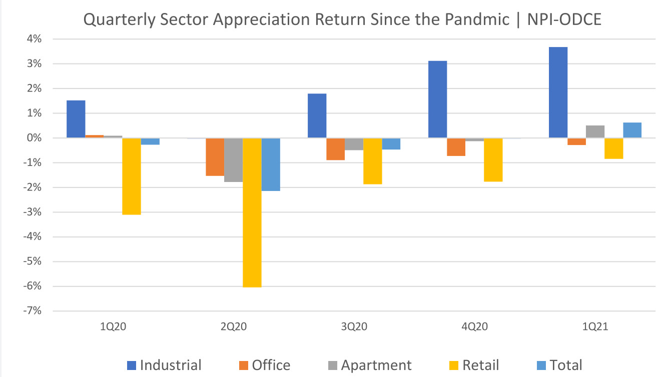


Source: NCREIF.



Source: NCREIF.

Quarterly Appreciation Return by Subsector (NPI-ODCE)

Sector	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1
Industrial: Flex Space	1.1%	-0.3%	0.8%	1.2%	4.2%
Industrial: Warehouse	1.5%	0.0%	1.9%	3.3%	3.7%
Industrial: R&D	0.7%	0.9%	1.7%	4.1%	2.5%
Apartment: Garden	0.5%	-1.3%	0.2%	1.3%	1.7%
Apartment: Low-Rise	-0.1%	-1.3%	-0.2%	0.0%	0.6%
Apartment: High-Rise	0.0%	-2.0%	-0.8%	-0.6%	0.1%
Office: Suburban	0.0%	-1.5%	-0.4%	-0.3%	0.0%
Retail: Neighborhood	-1.2%	-3.5%	-1.0%	-0.5%	-0.1%
Office: Central Business District	0.2%	-1.5%	-1.2%	-1.0%	-0.5%
Retail: Fashion/Specialty Center	-2.1%	-5.4%	-2.3%	-1.4%	-0.6%
Retail: Power Center	-2.0%	-3.7%	-1.8%	-1.6%	-0.7%
Retail: Super Regional	-4.0%	-9.2%	-2.0%	-2.0%	-0.7%
Retail: Single Tenant	-2.6%	-2.8%	-1.3%	-1.3%	-0.8%
Retail: Community	-2.2%	-4.4%	-2.0%	-1.7%	-1.5%
Retail: Regional	-5.5%	-4.7%	-1.8%	-3.3%	-2.3%
Hotel	-11.9%	-2.4%	-3.1%	-6.1%	-3.3%
All	**-0.3%**	**-2.1%**	**-0.5%**	**0.0%**	**0.6%**

Source: NCREIF. Note: Highlights are within each quarter