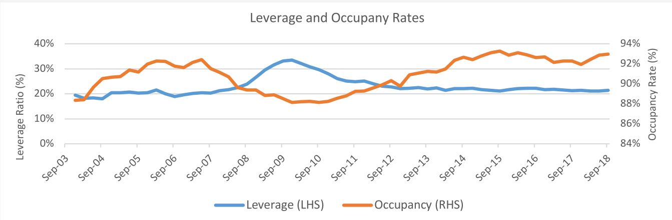
ODCE

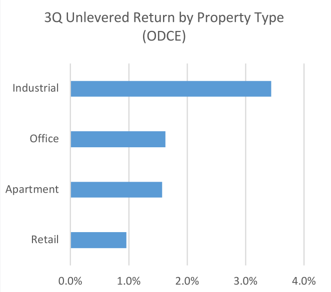
THE ODCE CONTINUES TO BE A WORKHORSE

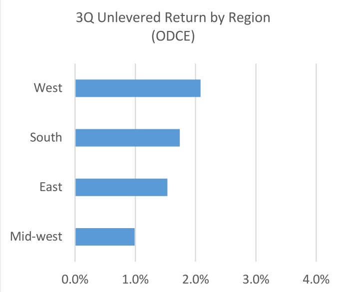
The NFI-ODCE Index edged higher by 4 basis points in the third quarter of 2018, posting a 2.09% gross total return with 1.04% attributable to income and 1.05% to appreciation. The trailing one-year gross return was 8.68% which again was essentially split between income and appreciation. Leverage has been beneficial for ODCE funds, contributing 0.46% to returns over the one-year period. NFI-ODCE Index returns exceeded returns of the NAREIT Equity REIT Index over the quarter and one-year period by 1.59% and 4.37%, respectively. This dispersion of returns supports the case for including both public and private real estate as part of a well-diversified real estate allocation.

ODCE funds continue to use leverage prudently and are experiencing above-average occupancy rates. Leverage ticked up by 30 bps to 21.4%, but still remains below the 15-year average of 22.9%. Additionally, occupancy rates increased by 10bps to 93.0% - well above the 15-year average of 90.9% and marking just the fourth time over the past 15 years in which the rate has met or exceeded 93%. Finally, development across ODCE funds was essentially flat quarter-over-quarter.

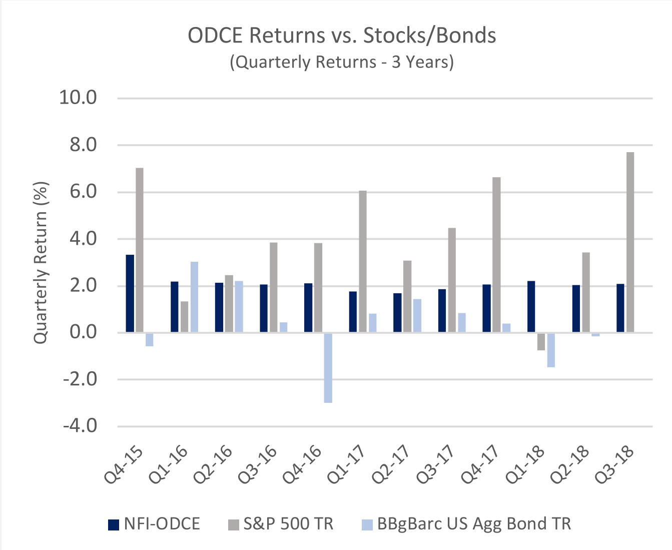


Of the four main property types, the industrial sector continues to lead the pack. Unlevered property returns of 3.4% during the quarter were at least double the returns of each of the other three primary sectors, which has been a consistent theme over the past three years. As a result of strong appreciation and acquisition/development activity, the Industrial property type now constitutes 17.4% of the NFI-ODCE Index – which is up 80bps over last quarter and 2.6% compared to the 14.8% allocation five years ago. Another notable change in property type allocations was a decrease in the Office allocation by 60 bps. This trend that has been noticeable over the past few quarters, likely another indication that the ODCE managers are taking a more defensive posture late in the cycle. By region, the West and South delivered the strongest returns – again consistent with the trend over the past three years.





As real estate investors, often times we become narrowly focused on our asset class. Of course, we follow the broader markets to the extent that they affect real estate, but as returns have moderated, it is easy to lose sight of the tremendous value that real estate delivers for long-term shareholders. The chart below compares the NFI-ODCE relative to stocks and bonds over the previous twelve quarters. As demonstrated by the chart below, the ODCE has delivered consistent returns – outpacing bonds and delivering respectable, yet stable, returns relative to broad-based equities. Although returns have moderated, the consistency and stability that commercial real estate offers makes a compelling case to include it in most investment portfolios.



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