

OFFICE INDEX

OFFICE PERFORMANCE

Office generated a solid 6.59% total return in 2019, modestly outperforming the overall NPI. The 4-quarter NOI growth rate of 6% indicates a healthy supply-demand environment.

The end of a decade is an opportunity to use the NCREIF “look back” machine to highlight key changes in Office over the ten years. Office’s weight in the NPI was relatively unchanged: 36% at YE 2009 versus 35% at YE 2019. The number of Office properties decreased by 17 to 1,487, however, their average market value (AMV) increased substantially from \$57 million to \$156 million. The increase in AMV is partially due to appreciation, which was a cumulative 48.9% (or 4.06% annualized) for the decade and accounts for roughly \$28 million of the increase. Other reasons for increase include the preference of CBD (Central Business District) over Suburban locations, especially in Gateway markets.

CBD Office experienced a large increase with the number of properties moving from 216 to 471, conversely the number of Suburban properties dropped by 272. This rotation, as measured by market value, resulted in the Suburban Office weight dropping from 62% at YE 2009 to 41% at YE 2019 while CBD Office increased from 38% to 59%.

A key to this shifting from Suburban to CBD was the asset growth of open-end core real estate funds, which grew their net asset values from \$48 billion at YE 2009 to \$206 billion at YE 2019, as measure by the NFI-ODCE. Their growth enabled the Funds to acquire larger, higher-valued properties. Early in the decade, from 2010 through 2013, CBD Office out-performed Suburban each year. Interestingly, late in the decade, from 2016 through 2019, Suburban outperformed CBD. This could be due to the surviving Suburban properties, after the sell-off, being in markets that had favorable supply/demand characteristics.

An additional “lens” are the metropolitan statistical area (MSA) breakouts, presented on page 16. There are 39 MSAs that meet the sample requirements to generate Office returns; of those, 34 have 10 years of historical data. During the decade, the NY-NJ MSA had the largest gain in market value, moving from \$11 billion to \$43.8 billion; accordingly, its share of NPI Office moved from 13.3% to 19.3%, a gain of 6%. The AMV of the NY-area properties at YE 2019 was \$476 million. The next largest increase was Boston at 4%, San Francisco-area at 2.8% and Seattle-area at 1.9%. Among the markets with the largest relative declines, were the Washington DC-area, moving from 14.6% to 9.9%, and the Los Angeles-area moving from 10.7% to 8.1%. Basically, both are big markets but not as big as before.

Two of the three largest metro areas under-performed the NPI Office total return of 6.59%: the NY area (3.1%) and the DC area (2.1%). Greater capital improvement needs in those markets have cut growth expectations. On the positive side, the West Coast Gateway office markets have benefited from tech job growth and supply barriers. Those markets include San Jose (+12.6%), San Francisco (+10.7%) and Seattle (+9.6%).

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OFFICE TOTAL RETURNS

	Total NPI	Total Office	East	Midwest	South	West
4th Q 2019	1.55	1.70	1.09	1.11	1.78	2.45
3rd Q 2019	1.41	1.45	0.76	1.18	1.74	2.23
One Year	6.42	6.59	4.24	4.67	7.62	9.40
Three Years	6.70	6.49	4.50	5.15	7.54	8.76
Five Years	8.25	7.61	6.08	6.23	7.57	9.71
Ten Years	10.18	9.42	8.62	6.79	8.92	11.11
Twenty Years	8.73	8.01	8.33	5.63	7.20	8.80

OFFICE INCOME RETURNS

	Total NPI	Total Office	East	Midwest	South	West
4th Q 2019	1.10	1.06	1.00	1.16	1.19	1.08
3rd Q 2019	1.11	1.09	1.01	1.16	1.24	1.11
One Year	4.52	4.43	4.12	4.60	5.13	4.54
Three Years	4.59	4.52	4.15	5.15	5.40	4.56
Five Years	4.71	4.57	4.22	5.31	5.50	4.57
Ten Years	5.32	5.20	4.91	5.98	5.91	5.20
Twenty Years	6.20	6.20	6.05	6.80	6.71	6.07

OFFICE APPRECIATION RETURNS

	Total NPI	Total Office	East	Midwest	South	West
4th Q 2019	0.45	0.64	0.09	-0.05	0.59	1.37
3rd Q 2019	0.30	0.36	-0.25	0.02	0.50	1.12
One Year	1.84	2.09	0.13	0.07	2.40	4.69
Three Years	2.04	1.91	0.34	0.01	2.05	4.06
Five Years	3.42	2.94	1.80	0.88	1.98	4.97
Ten Years	4.67	4.06	3.59	0.78	2.89	5.69
Twenty Years	2.42	1.72	2.18	-1.12	0.46	2.61

OFFICE INDEX—QUARTILE RANGE OF RETURNS

